3Q FY08 Results Preview

Investment Strategy

Investment Strategy | India
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Earnings slow-down to continue

Merrill Lynch

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Earnings growth healthy but slowest in 8 quarters

We expect earnings for the Sensex companies to grow at 17.5% (EPS growth 14%) which is the slowest in last 8 quarters. This is largely in line with the sales growth (16.3%) with a slight fall likely in EBITDA margins (~60bps) for the non financial Sensex companies. Aggregate profit growth for the Sensex companies has been boosted by the inclusion of DLF (which has a very low base for last year) in the Sensex. Excluding DLF the earnings growth for the Sensex is a modest 14.3%.

Growth to be led by Industrials, Telecom and Financials

Sectors that are expected to show a strong growth in earnings are industrials, financials and telecom. These sectors also show an increase in margins. Laggards are autos, pharma, energy and Metals. Margins are likely to fall in sectors like IT, autos and energy.

Earnings spread across sectors; energy has generally surprised

There is low concentration of earnings that is spread across sectors with banks being the largest followed by software and telecom. Real estate is of course led by the low base of last year. Over past few quarters earnings surprise has been led by energy. Reliance has typically beaten analyst estimates – every 5% surprise in Reliance vs our estimates adds 80 bps to our Sensex profit growth.

Key Potential Result Outperformers: Hero Honda, BHEL, ICICI, Asian Paints, Titan

Key Potential Result Under-performers: Dr Reddy's, Hindalco, MTNL, Bajaj Auto, Jet Airways

Table 1: Summary of Result estimates

	BSE 30			MSCI		
	Dec-07	Dec-06	Growth %	Dec-07	Dec-06	Growth %
Sales Turnover	710,700	613,654	15.8%	589,838	524,425	12.5%
EBITDA	166,263	146,751	13.3%	114,801	103,505	10.9%
Other Income	17,035	13,706	24.3%	13,128	9,909	32.5%
Depreciation	27,917	26,399	5.8%	19,231	18,962	1.4%
Interest	4,661	3,650	27.7%	3,845	3,723	3.3%
Tax	33,742	29,506	14.4%	22,868	19,645	16.4%
Net Profit	112,937	97,055	16.4%	78,735	67,957	15.9%
Net Profit (incl. Fin Cos)	136,749	116,335	17.5%	96,029	81,471	17.9%

Source: Merrill Lynch Research

Table 2: Result Summary for Q ended 31st Dec 2007

	BSE	MSCI
All Companies:		
Sales Growth	16.3%	13.6%
Profit Growth	17.5%	17.9%
Excl. Financial Cos:		
Sales Growth	15.8%	12.5%
EBITDA Growth	13.3%	10.9%
Profit Growth	16.4%	15.9%
Excl. Oil Cos:		
Sales Growth	19.5%	14.3%
Profit Growth	21.9%	18.0%
Excl DLF		
Sales Growth	15.5%	12.8%
Profit Growth	14.3%	14.2%

Source: Merrill Lynch Research

Table 3: Profit Growth Leaders and laggards (YoY)

Leaders	YoY (%)	Laggards	YoY (%)
HPCL	517%	Jet Airways	-1103%
Jaiprakash Hydro	373%	TVS Motors	-55%
IOCL	206%	Shoppers Stop	-45%
Educomp Sol	176%	WNS	-42%
India Cements Ltd	144%	SIFY	-41%
BPCL	119%	Patni	-37%
Divi's Labs	118%	MTNL	-36%
Glenmark Pharma	115%	Tata Motors	-36%
Idea Cellular	106%	Nalco	-31%
Mphasis Limited	93%	Gujarat State Petronet	-31%

Source: Merrill Lynch Research

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Industrials, financials, utilities and cement would lead the earnings growth

Autos, healthcare, and materials to disappoint

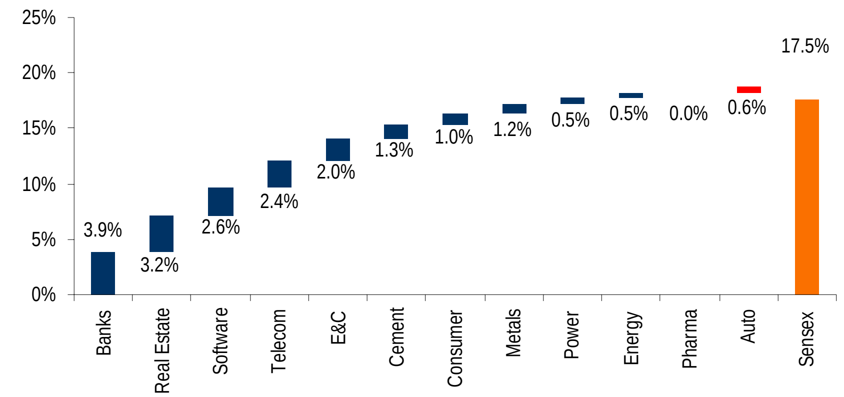
Table 4: Sector-wise growth forecast for December-07 Quarter

Industry	Sector Weights	Sales % Growth	EBITDA % Growth	Net Profit % Growth
Cement	2.4%	18.6%	16.2%	22.1%
Consumer Discretionary - Autos	3.9%	9.1%	-0.4%	-7.9%
Consumer Discretionary - Media	0.8%	7.2%	11.9%	19.6%
Consumer Staples	4.1%	15.0%	16.9%	15.4%
Energy	21.1%	7.7%	-1.4%	6.7%
Financials	25.7%	33.3%	N.A.	28.0%
Healthcare	2.8%	-2.8%	-0.2%	-1.0%
Industrials	10.8%	32.4%	36.5%	39.7%
IT	10.4%	22.5%	11.8%	18.6%
Materials- Metals	5.5%	4.5%	3.3%	3.6%
Real Estate	2.5%	NA	NA	NA
Telecom	4.6%	16.7%	18.8%	18.9%
Utilities	5.3%	8.4%	46.4%	22.7%
Weighted Grand Total	100%	13.6%	10.9%	17.9%

Source: Merrill Lynch Research Estimates

Banks and software would contribute to the Sensex earnings growth, while real estate is a new addition to the Sensex.

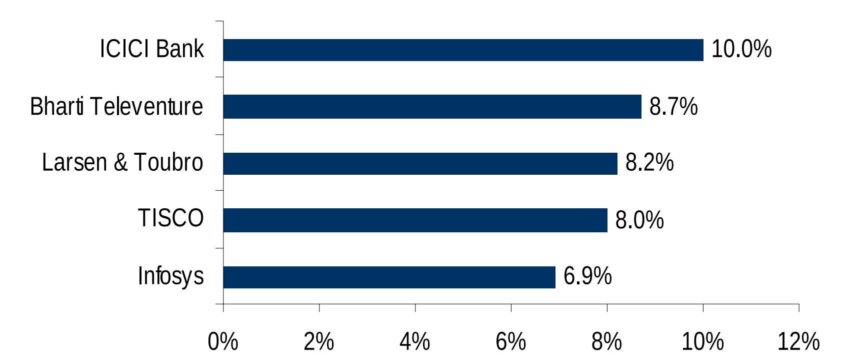
Chart 1: Sector contribution to profit growth



Source: Merrill Lynch Research Estimates

ICICI Bank and Bharti are expected to be the biggest contributors to Sensex growth

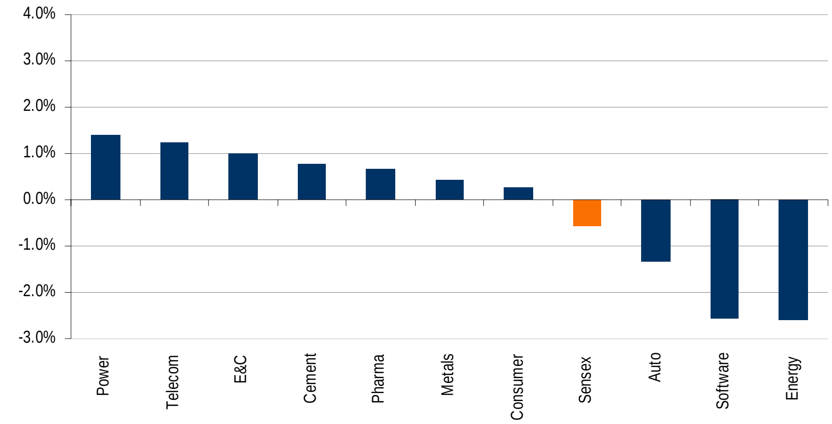
Chart 2: Top Earnings contributors



Source: Merrill Lynch Research Estimates

Aggregate EBITDA margins are expected to decline due to pressure on margins in Software, autos and energy sector.

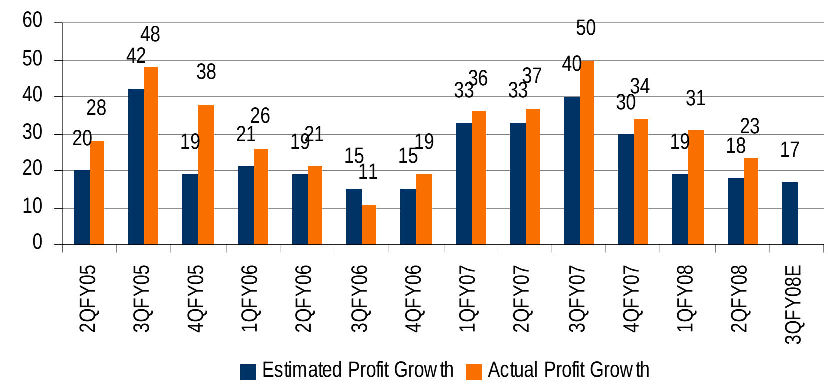
Chart 3: Expected YoY change in EBITDA margin (%)



Source: Merrill Lynch Research Estimates

Sensex profit growth is expected to slow down though still remain healthy at 17% - slowest in last 7 quarters

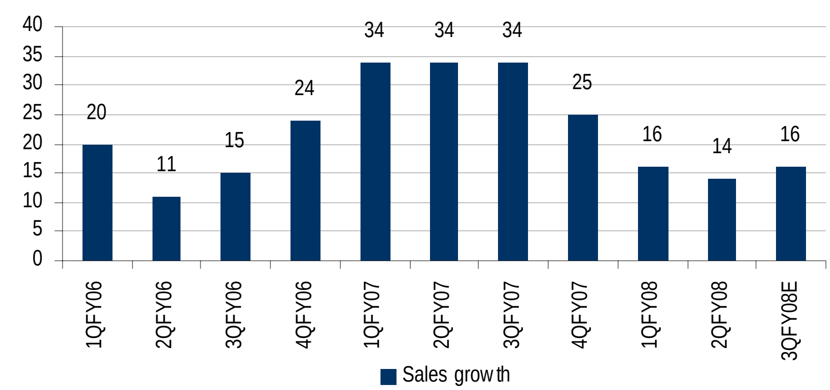
Chart 4: Sensex Profit Growth (%)



Source: Merrill Lynch Research Estimates

Sales growth is expected to be flat at 16%.

Chart 5: Sensex Sales Growth (%)



Source: Merrill Lynch Research Estimates

Table 5: Summary of each sector

Sector	Potential Result Outperformer	Potential Result Underperformer	Comments
Automobile	Hero Honda	Bajaj Auto	• We expect another quarter of disappointing results, margin pressure expected across the sector. • Commercial vehicle majors would continue to register YoY profit declines, on the back of muted margins. • Auto component companies are expected to register moderate performance.
Banking	ICICI Bank	Canara Bank, Vijaya Bank, OBC	• We expect private sector banks to show strong growth in earnings at +25% led principally by stronger loan growth and sustained buoyancy in fee revenues. • Top line growth could surprise on the upside as loan growth during the 3Q has seen a rebound.
Cement	ACC, Ultratech	Shree	• We expect industry profits to remain healthy but growth will likely moderate versus earlier due to rising costs. Profit growth is expected to be at ~25% YoY for the coverage universe. • YoY profit growth would be led by ~3% growth in volumes &~70bps YoY improvement in EBITDA margin. • We recommend UltraTech that will likely post the strongest QoQ profit growth (+38% QoQ). This profit recovery will reflect a combination of higher volumes and lower maintenance costs in 3Q.
Consumer	Nestle, Asian Paints, Titan	HUL, ITC	• We expect aggregate consumer (ex retail and spirits) profit to grow 17% in the Dec Q. This is an improvement from the 13% growth in the Sep Q and is owing primarily to HUL and Colgate. • We forecast aggregate sales growth of 16% and EBITDA growth of 17.5%.
Energy	-	-	• Reliance- We expect RIL's 3Q FY08 net profit to rise marginally by 2% YoY to Rs33bn. • RIL's 3Q FY08 earnings would be impacted by the steep decline in naphtha cracking margins. We expect refining EBIT to rise 40% YoY to Rs27bn driven by 39% YoY growth in refining margins • R&M companies are likely to be in black in 3Q FY08E if additional oil bonds are not issued.
Healthcare	Divi's, Glenmark	Cipla, Dr. Reddy	• We expect 3Q performance to be lackluster for most of the frontline pharma companies except Sun. • While operating performance for the core business is on an uptrend for the major companies, the poor profitability is largely due to several factors like high base of authorized generics (Dr. Reddy's), lower forex gains (Ranbaxy), and high SG&A/other expenses (Cipla, Dr. Reddy's).
Industrials	BHEL, L&T, JPA Suzlon,	-	• We expect the Indian E&C sector to register a 36% YoY sales growth and 40% profit growth. • We expect L&T to experience a slower quarter in order intake but strong topline growth combined with 46%YoY EBITDA growth of 69% will lead to bottom-line growth at 60%YoY. • We reiterate our Buy rating on BHEL on robust order intake (45%YoY) & backlog (59%YoY) for 3QFY08. • 3QFY08 is likely to be big quarter for Suzlon's international business as orders get executed. We estimate 128%YoY rise in international volumes led by low international base.
Media	Zee TV	-	• We expect a strong 3QFY08 for the media companies but caution investors that YoY growth in not comparable for Sun TV due to corporate action - merger of Udaya & Gemini into Sun TV.
Metals	Steel stocks	Aluminum stocks	• We expect metals sector profit to decline 4% led by flat sales and EBITDA decline of 12%. Poor profit outlook is due to lower metal prices & Rupee appreciation. • Though we forecast steel will deliver strong growth as steel prices have been marginally higher while input costs remain stable
Real Estate	-	-	• DLF – We expect net profit growth of 23% QoQ from Rs20.2bn to Rs24.8bn in 3Q FY08. We expect the company to maintain EBITDA margins of 70%. • Ansal Properties- We expect net profit at Rs623mn, an increase of 55% YoY and 6% QoQ in 3QFY08. We expect stable QoQ EBITDA margin of 30%.
Retail	-	-	• We expect aggregate retail sector profit to grow 43% led by sales growth of 70%, EBITDA growth of 41%. However the trends are very different among the companies.
Software	Satyam, Wipro	Subex	• Seasonally weak Quarter, though margins expected to be steady • Risk to revs to pressure stocks, but valuations near bottom. • Strong results: Satyam, Educomp, Wipro; Weak: Subex.
Telecom	Bharti,	MTNL	• Bharti- We forecast Bharti's 3Q FY08E net profit at Rs17.2bn, up 42% YoY and 7% QoQ. Consolidated EBITDA margin is forecast at 43%. • Reliance Communication- For RCom we forecast 3Q FY08E net profit at Rs12.1bn, up 31% YoY and 8% QoQ. Consolidated EBITDA margin is forecast to remain stable QoQ at ~40.5%.
Textile & Apparel	-	Raymond, Arvind Mills	• We expect the 1Q results to be disappointing for textile companies with most companies likely to report a flat profit growth or decline in profits on a YOY basis. • While sales growth is likely to be decent, companies are likely to witness severe margin pressure on the back of rising raw material costs and stronger Re.
Utilities	-	-	• We expect the Utility Sector, represented by NTPC, Reliance Energy, Tata Power, Neyveli, GIPCL and JHPL to report sales growth of 10%YoY, EBITDA growth of 15%YoY and PAT growth of 13% YoY. • In our view, markets would be more focused on only 3% growth in generation at NTPC on delay in capacity and progress on future plans. Growth would be driven by volume growth, improved efficiency (NTPC) and change in depreciation policy (Neyveli Lignite & JHPL).

Source: Merrill Lynch Research Estimates

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Sector Highlights

Automobiles

Potential Result Outperformer: Hero Honda

- We expect another quarter of disappointing results from auto majors, reflecting weak growth trends in trucks, two wheelers and tractors. We also expect margin pressures across the sector, with the rise in incentives.

- Hero Honda, we believe, will surprise positively on margins, on the back of cut back of ad-spend. As such, despite flattish volumes, we expect the strongest YoY performance. Bajaj Auto is expected to register weak results, on weaker sales, and discounts on key models. TVS Motor's performance, albeit poor, will better previous quarter, due to stronger volumes.

- Maruti is expected to continue strong performance, but could disappoint on margins, given the discounts offered through the quarter, and higher input cost i.e. power. As such, results could disappoint markets.

- M&M is expected to register flattish profits, on higher depreciation and financial outgo. At the operating level, we expect double-digit growth on strong Utility vehicle sales.

- Commercial vehicle majors will continue to register YoY profit declines, on the back of muted margins, and weak performance in truck sales. Tata Motors would register a significant profit decline of 38%, due to sharp reduction in other income, and higher depreciation provisioning. Ashok Leyland's profit decline of 22% will reflect higher depreciation on ongoing capex. Eicher Motors, however, is expected to beat this trend. QoQ performances will likely be positive on better volumes.

- Auto components companies will likely register moderate performance, with Bharat Forge outperforming with 19% profit growth. Automotive Axles growth is expected to be restricted by high comparable base. Rico Auto's flattish profits could be impacted by YoY top-line contraction, despite higher margins.

Airlines

Potential Result Underperformers: Jet Airways

- We expect Jet Airways' to register quarterly loss of Rs 890mn, as compared to profit last year, which is largely due to high fixed and start-up costs impacting profitability of its international operations, as well as high fuel expenses.

Container Transportation

- Gateway Distriparks is expected to report a strong quarter, though YoY and QoQ comparisons may not be valid due to acquisitions during the period. EBITDA growth of 52% would appear positive as fall in margins would be limited to 220bps to 40.9%. PAT is expected to rise at a much lower 18% due to higher depreciation taking the charge.

- Concor is expected to report moderate performance with 6% EBITDA growth. Margins are expected to fall by 250bps YoY due to high base of last year and bulk volume discounts initiated this year. Other income would be higher due to cash reserves of more than Rs10bn, resulting in 12% PAT growth.

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Banks and Financial Services

Potential Result Outperformer: ICICI Bank
Potential Result Underperformers: Canara Bank, Vijaya Bank and OBC

- The banks' 3QFY08 results are likely to be a mixed bag with private sector banks still showing strong growth in earnings at +25% led principally by strong loan growth, margin expansion, partly aided by capital raising and sustained buoyancy in fee revenues. Govt. bank earnings, could report earnings growth of +20% owing to lag effect of deposit cost increase due build-up of high proportion of wholesale deposits.

- Top line growth (net interest income) could surprise on the upside as loan growth during the 3Q has seen a rebound; with incremental LDR rising to +100% (end- Sep'07-early-Dec'07) v/s 65% (Jun'07-Sep'07). We also hope to see margins improving sequentially (q-o-q) though they are still likely to be down on a y-o-y basis owing to the higher deposit costs impact of money raised during the earlier part of this year.

- We expect private banks to report a +35% growth in top line led by Axis Bank (+50% yoy). Govt. banks could see a huge disparity in top line owing to high deposit costs and falling investment yields. In particular, Vijaya Bank and Canara Bank could also show a contraction. Reported top line could, however, could vary widely as banks are likely to show amortization expenses as part of their top line owing to the new RBI norms resulting in skewed yoy comparisons.

- Any positive reaction in these stock (on results) would, in our view be a strong Buying opportunity as we expect the subsequent quarters to be very strong on emerging favorable interest rate environment.

- Another key aspect to watch for would be the extent of credit costs. We are penciling in an uptick in the NPL cycle and are building in a +30% growth in credit costs in our earnings.

- Private banks would continue to report +20-45% growth in earnings led by Axis at 45% followed by HDFC Bank at 37% and ICICI Bank at 23%. The bank which could surprise on the upside may be ICICI Bank if is able to manage its margins better than expected.

- HDFC, the parent is likely to report another strong quarter of core earnings with a YoY growth of +21%. However with value unlocking in: 1) CAMS-Computer Associates, wherein it is likely to book a Rs1bn profit; 2) and sale of its 7.2% stake in life insurance venture to Standard Life, which could add another Rs1.5-2.0bn, earnings including exceptional items could exceed to over +45% YoY.

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Cement

Potential Result Outperformers: ACC, UltraTech
Potential Result Underperformer: Shree

- In 3Q FY08E (Oct-Dec '07), we expect industry profits to remain healthy but growth will likely moderate versus earlier due to rising costs. We estimate 3Q FY08 profit growth at ~25% YoY and 12% QoQ, for our coverage universe. On an average, EBITDA per ton for the industry is forecast to remain stable; +3% QoQ in 3Q FY08E.

- The YoY profit growth would be led by ~3% growth in volumes & ~70bps YoY improvement in EBITDA margin. In 3Q FY08E, realizations are estimated to be up ~13% YoY reflecting continued tight supply-demand balance in the industry. However, forecast 12% YoY rise in costs will mostly offset the price improvements.

- On a QoQ basis, 3Q FY08E profits would rise ~12% led by seasonal volume recovery at ~8% QoQ. EBITDA margin is also estimated to improve ~53bps QoQ, as rise in direct costs may be offset by post-monsoon scale economies & lower discretionary costs for some of the majors.

To leverage on the upcoming quarterly results, we recommend UltraTech that will likely post the strongest QoQ profit growth (+38% QoQ) in our coverage universe. UltraTech's profit recovery would reflect a combination of higher volumes and lower maintenance costs in 3Q. Shree Cement's profits may underperform the sector due to higher depreciation charges on a YoY basis & sharp rise in pet coke costs on a QoQ basis.

Consumers

Potential Result Outperformers: Nestle, Asian Paints, Titan
Potential Result Underperformers: HUL, ITC

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We expect aggregate consumer staples (ex retail and spirits) profit to grow 17% in Dec. This is an improvement from Sept Q's growth rate of 13% and is led by HUL and Colgate both of which were hit by extraordinary issues in Sept. We forecast aggregate sales to grow 16% and EBITDA to grow 17.5% in Dec Q.

- **HUL –** We forecast profit growth of 16.5% led by sales growth of 13% and EBITDA growth of 17%. Key highlight in this quarter should be the strong base effect in its personal products business – poor winters last year had affected skin care sales. On the negative side we expect soap margins to be under pressure owing to steep increase in palm oil prices.

- **ITC –** We forecast profit growth of 14.5% led by sales growth of 17.4% and EBITDA growth of 16.8%. Key data to watch out for is cigarette volume trends. We expect the rate of decline to be lower than trends witnessed in the first half of the year.

- **Asian Paints –** We expect A Paints to be the second fastest growing company in Dec Q. We forecast profit growth of 29% led by sales growth of 19% and EBITDA growth of 31%. This is led by healthy volume growth in the domestic market, easing raw material costs as a result of appreciating Rupee and improved profitability in international operations.

- **Nestle –** We expect Nestle to be the fastest growing company this Q with profit growth of 43% led by sales growth of 24% and EBITDA growth of 26%. We expect margins to improve due to increase in retail prices which more than offset the higher agri commodity prices such as milk, wheat and vegetable oils which are beginning to flatten out.

Retail – We expect aggregate retail sector profit to grow 43% led by sales growth of 70% and EBITDA growth of 41%. However, trends differ dramatically among the three stocks that we track.

- **Titan-** We expect 3Q to be a strong quarter for Titan given Diwali was late this year. We forecast pre tax profit growth of 48% led by margin expansion in watches and strong sales growth in jewelry. Lower tax rate will likely boost post tax profit growth to 68%.

- **Pantaloon-** We expect profits (standalone) to grow 65% YoY to Rs355mn. Key drivers are 76% sales growth led by larger retail space and margin expansion by 110bp to 8.6%. Management's attempts to focus on margins are likely to get reflected in these results though we remain concerned about unexciting same store sales growth.

- **Shoppers Stop-** We expect profits to decline 45% to Rs78mn. While sales growth is likely to be strong at 34%, we expect margins to decline 250bp on the back of continued cost pressures and gestation cost for new stores and new formats.

Alcohol beverages – We expect aggregate sector profits to grow 17% YoY driven by 16% sales growth. Again trends differ dramatically between the two liquor stocks that we track.

- **United Spirts -** We forecast sales to grow 18% YoY in 3Q driven by volume growth of 12% and avg realization growth of 5%. Margins are likely to expand strongly driven by lower raw material cost and richer product mix leading to EBITDA growth of 33%. Profits are however forecast to grow slower at 18% YoY owing to higher interest expense for the announced Whtye & Mackay acquisition.

- **Radico Khaitan –** After four quarters of declining profit trend, we forecast Dec Q profit to grow of 16% YoY. We believe the change will be driven by higher volumes of 8PM and more importantly lower yoy increase in advertising costs.

Oil & Gas, Petrochemicals

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- **Oil prices:** ONGC's marker crude Bonny Light is up 47% YoY and 16% QoQ. Prices across all grades of oil rallied this quarter with few grades (eg: Tapis) even crossing the US$100/bbl barrier

- **Refining margins:** 3Q to date Singapore refining margins based on Dubai crude (US$9.87/bbl) surged 72% YoY and 26% QoQ. 3Q to date Merrill Lynch Indian benchmark margins based on Dubai crude were up 84% YoY and 22% QoQ

- **Subsidies:** We expect under-recoveries (ie subsidies) in 3Q to surge by 164% YoY to Rs204bn. This is mainly on increase in under-recoveries on auto fuels from just Rs7bn in 3Q FY07 to Rs105bn in 3Q FY08. LPG/ kerosene under-recoveries may rise 42% YoY to Rs99bn in 3Q FY08. Even on a sequential basis, under-recoveries are higher by 49%

- **Subsidy sharing as per government approved formula:** We have assumed 3Q FY08 subsidy sharing formula in line with the earlier government approved formula. Accordingly, 42.7% of overall 3Q FY08 subsidy would be compensated by the government by way of oil bonds (Rs87bn). One-third would be compensated by upstream companies (Rs68bn) and the balance (Rs49bn) would be borne by the downstream companies

Company-wise expectations for the quarter

Reliance Industries

We estimate RIL's 3Q FY08 net profit at Rs33bn, implying a marginal 2% YoY growth. RIL's 3Q FY08 earnings would be adversely impacted by the steep decline in naphtha cracking margins. Average 3Q FY08 to date naphtha cracking margins at US$457/tonne are down 53% YoY and 37% QoQ. Average 3Q FY08 to date integrated PE margins (US$606/tonne) too are down 41% YoY and 36% QoQ.

Refining margins are however expected to be stronger on both YoY and QoQ basis. We expect refining EBIT to rise 40% YoY to Rs27bn driven by 39% YoY growth in refining margins (3Q FY08 estimate – US$16.3/bbl). The strength in refining margins would offset the adverse impact of 12% appreciation of the rupee.

R&M companies

We expect R&M companies to be in the black in 3Q FY08. However this is possible only if the government issues adequate oil bonds to compensate them for the under-recoveries incurred in 3Q FY08. We have assumed oil bonds to share 42.7% of 3Q subsidy and upstream share at one-third. Consequently, R&M companies are expected to share the balance 24% of the subsidy.

R&M companies' 3Q net profit however will be down 15-36% sequentially as increase in subsidy is expected to more than offset impact of higher refining margins.

HPCL may report EPS of Rs19/share. IOC and BPCL may report consolidated EPS of Rs20.5-29/share.

ONGC

We expect ONGC's 3Q FY08 net profit to be relatively flat YoY at Rs47bn. This is mainly on 163% YoY increase in subsidy that may offset the impact of higher realizations on crude oil. We have estimated ONGC's 3Q FY08E subsidy at Rs58bn compared to just Rs22bn in 3Q FY07.

GAIL

We expect GAIL's 3Q net profit to be up 21% YoY to Rs8bn. The growth in net profit is driven by higher LPG EBITDA. We estimate GAIL's per unit LPG EBITDA to increase 80% YoY to Rs20,379/tonne. This is mainly a result of 59% YoY increase in international LPG prices (US$778/tonne in 3Q FY08 v/s US$489/tonne in 3Q FY07).

GAIL's 3Q EBITDA may increase by 38% YoY despite 28% YoY increase in subsidy. We estimate GAIL's 3Q subsidy at Rs4bn compared to Rs3bn last year. GAIL's 3Q gas transmission EBITDA may increase 9% YoY led by 2% YoY increase in volumes (82mmscmd) and 5% YoY increase in gas pipeline EBITDA. Petrochemicals EBITDA may rise 5% YoY to Rs3bn led by 2% increase in volumes and 5% increase in per unit EBITDA.

Gas utilities

GSPL

We expect GSPL to report 31% YoY decline in its 3Q FY08E profit to Rs197mn led by higher depreciation and interest expense. We estimate average transmission volumes to be flat YoY at 16mmscmd. Tariffs may increase 18% YoY to Rs695/tcm which would in turn drive 15% YoY growth in EBITDA.

Petronet LNG

Petronet LNG may report 40% YoY growth in 3Q net profit to Rs1192mn. Key drivers for this growth are:

- 15% YoY increase in regasification charges, which is mainly a result of higher regasification charges earned on spot LNG
- 5% YoY increase in volumes to 83tbtu driven by higher spot cargoes of LNG

Gujarat Gas

We estimate Gujarat Gas' 3Q CY07 net profit to increase 41% YoY Rs251mn driven by 18% YoY increase in volumes to 3.94mmscmd.

Indraprastha Gas (IGL)

We estimate IGL's 3Q net profit at Rs437mn, up 23% YoY. This would be mainly driven by 10% YoY increase in volumes to 138mscm. Other income may rise 98% YoY to Rs47mn.

Healthcare

Potential Result Outperformers: Glenmark, Divi's, Sun
Potential Result Underperformers: Cipla, Dr. Reddy's

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Lackluster 3Q for most frontline players except Sun

We expect 3Q performance to be lackluster for most of the frontline pharma companies – Ranbaxy, Dr. Reddy's, Cipla which are expected to deliver YoY profit variance ranging from -30% to modest +6%. While operating performance for the core business is on an uptrend for the major companies, the poor profitability is largely due to several factors like high base of authorized generics (Dr. Reddy's), lower forex gains (Ranbaxy), and high SG&A/other expenses (Cipla, Dr. Reddy's). We however expect Sun Pharma to deliver reasonably robust 22% YoY profit growth driven by impact of generic Trileptal exclusivity. Overall we expect average sales growth of 14% YoY, EBITDA growth of 16% YoY and PAT growth of 14% YoY for our coverage universe.

Glenmark, Divi's to deliver the best 3Q performance

Our expectation of strong 115% YoY core profit growth for Glenmark is largely driven by generic Trileptal exclusivity in which the company has already garnered over 50% market share. For Divi's our expectation of 118% YoY profit growth will likely be driven by continuing high contribution from CMS (custom manufacturing services) business resulting in sharp margin expansion to ~40% in 3Q (vs. 28.5% in previous corresponding 3Q).

Ranbaxy: expect details on 2008 outlook and P-IV upsides

For Ranbaxy, our expectation of 7% YoY profit drop in 4Q is largely due to lower forex gains during the quarter compared to 4Q2006. We however expect higher EBITDA margin in 4Q at 17% vs. 15% in previous corresponding quarter. While the 4Q performance is expected to be uneventful, we expect management to discuss 2008 outlook (including guidance for 2008), details about the NCE R&D spin-off process and provide visibility on potential Para IV and other generic product upsides for the year.

Marginal rupee appreciation impact

With the appreciation of rupee contained to ~1% in 3Q, impact of currency appreciation would be lower compared to previous quarters. Hence the quantum of forex gains would be lower for Ranbaxy and Sun (due to net forex liabilities) while for DRL, Biocon, Matrix and Cipla the impact of rupee appreciation too would be lower during the quarter.

Robust domestic market growth outlook

We expect mid to high double digit domestic market growth (YoY basis) for most players during the quarter. This improvement is already being witnessed in the 12.3% industry growth for Nov 07 (MAT) as reported by ORG. Companies like Cipla, Sun, Glenmark, Ranbaxy continue to outperform on the market growth.

Possible positive and negative surprises

In our view a negative surprise is possible if there are higher than expected write-offs in Germany where healthcare reforms have led to lower drug pricing while positive surprise is possible if margins form the core business exceed expectation.

Industrials

Potential Result Outperformers: BHEL, L&T, JPA, Suzlon

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A 36%YoY top-line growth and a 40%YoY growth in bottom-line of Indian Engineering & Construction (E&C) majors during Oct-Dec quarter should clearly reinforce our bullish stance on the sector and re-assure the markets.

We expect double digit growth in order backlog for most companies despite focus on acquiring better priced orders. The key issue to watch-out for in the E&C sector is the likely improvement in execution & EBITDA margins as new priced orders come-in for execution & operating leverage kick-in.

We expect the Indian E&C Sector, represented by BHEL, L&T, Suzlon, GMR Infrastructure, ABB, JPA, IVRCL and NJCC to report sales growth of 36%YoY, EBITDA growth of 40%YoY and Recurring PAT growth of 40%YoY.

- **L&T**: We expect L&T's growth in order inflow to be muted in the 3QFY08 as the company focuses on improving execution and expect strong sales growth at 46%YoY. We expect margin expansion as L&T focuses on improved efficiency & better priced orders. Overall, L&T should experience a slower quarter in order intake, but strong topline growth at 46%YoY, combined with expanding margins (69%YoY EBITDA growth) leading to the bottom-line growth of 60%YoY.

- Meanwhile, **ABB's** strong 4QCY07 results should be driven by continued strong sales growth of 40%YoY led by strong order backlog. Improved labor productivity and declining O&M costs will result in 47%YoY EBITDA growth and 41%YoY growth in earnings.

- We reiterate our Buy rating on **BHEL** on robust order intake (45%YoY) and backlog (59%YoY) for 2QFY08. We like BHEL as it fixed technology issues such as advance class gas turbines & super critical plants. This would not only complete its product offering but also drive order backlog beyond the current 3.4x FY08E sales. Labor cost rise would be the key number to look for in 3Q. Overall, BHEL should experience 19% sales growth, 24% EBITDA growth and a 29%YoY PAT growth.

- **Suzlon**: 3QFY08 is likely to be big quarter for Suzlon's international business as orders get executed. We estimate 128%YoY rise in international volumes led by low international base. We expect margin pressures to ease and operating leverage to kick-in, led by a 59%YoY increase in overall volumes which should help boost EBITDA margins to 14.3%. We estimate 64%, 76% and 59% growth in Suzlon's Sales, EBITDA and PAT respectively (on YoY basis).

- **GMR Infrastructure**: We expect GMR's 3QFY08 sales to grow 25%YoY led by growth in its airport segment (Delhi Airport); while EBITDA is expected to grow 26%YoY. We estimate the Recurring PAT to grow by 29%YoY; however, we note that the Recurring PAT growth is muted to the extent of the booking of depreciation & interest expenses of Vemagiri Power plant given the continued unavailability of gas for the plant.

- **IVRC & Nagarjuna (NJCC)**: We expect **NJCC's** EBITDA to grow 34%YoY in 3QFY08 led by 28%YoY growth in sales. However, we estimate a muted 13%YoY growth in its net profits as the company will be paying full tax in 3QFY08 on account of the non-availability of the 80-IA tax benefit, vs 17.8% in 3Q last year and therefore note that YoY growth in PAT is not comparable.

- We expect **IVRCL** to report 56%YoY growth in sales during 3QFY08 led by good growth in power & transmission as well as the water business. We expect the improved pricing & operational efficiency to drive margin and 57%YoY growth in EBITDA leading to 70%YoY growth in recurring profits.

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Media

Potential Result Outperformers: Zee TV

We expect a strong 3QFY08 for the media companies but caution investors that YoY growth in not comparable for Sun TV due to corporate action - merger of Udaya & Gemini into Sun TV.

- **Zee Entertainment Enterprises (ZEEL)**: We expect 7%YoY growth in ZEEL's 3QFY08 topline despite the cricket series' on competing channels during the quarter. Drivers of the strong topline would be the monetization of the advertisement rate hike announced last year followed by another rate hike announced during the last quarter. We expect 12%YoY growth in EBITDA translating into margin expansion to 33.9% given its start-up investments are approaching break-even and lower content cost as compared to 3QFY07. This should lead to 20%YoY growth in Recurring PAT which, we believe, is largely factored-in the stock price and hence, we do not see much impact on the stock.

- **Sun TV's** 3QFY08 is not comparable to 3Q last year on account of the merger of Gemini and Udaya with Sun TV in this financial year. We expect strong topline of Rs2.17bn for Sun TV driven by strong advertisement revenues, Sun TV (its flagship channel) turning pay in Dec'06 and the contribution from Gemini and Udaya. We expect the company to post an EBITDA of Rs1.6bn and Recurring PAT of Rs967mn for 3QFY08.

- **Balaji Telefilms.** We expect 8%YoY growth in Balaji's 3QFY08 sales driven by the addition of new programmes on *Sony TV* and the newly launched channel, *9X*. MLe EBITDA growth of 15%YoY led by lower cost of production as compared to 3Q of last year. This combined with the higher other income should drive Recurring PAT growth of 21%YoY.

- We expect **SIFY** to witness strong 15%YoY growth in its topline and 23%YoY growth in EBITDA led by its consumer businesses of cyber cafes and cable TV led broadband. However, we believe the provisions for doubtful debts would continue in 3QFY08 resulting in Recurring profits to decline by 41%YoY.

Metals

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Potential Result Outperformers: Steel Stocks

Potential Result Underperformers: Aluminum Stocks

We expect aggregate metals sector profit to decline by 4% in the Dec Q. This will be led by virtually flat sales and EBITDA decline of 12%. Decline in profits is owing to lower base metal prices and Rupee appreciation. Steel, on the other hand, we forecast will deliver strong growth as steel prices have been marginally higher, while input costs remain stable in Dec Q.

- **SAIL –** We expect Dec to be a good quarter with profit growth of 24% to Rs18.3bn. This would be driven by Y-o-Y volume growth of 7% and average realization increase of 4.8%. While we expect FY09 to be difficult year owing to sharp increase in coking coal prices, the hit will begin to come through only when new contracts are signed in June 2008.
- **Sterlite –** We forecast profit to fall 18% to Rs10.5bn. This is owing to weaker zinc and aluminum prices, stronger rupee and sharp decline in Copper TCRC.
- **Hindalco –** We forecast profit to fall 14% to Rs5.5bn led by copper EBIT collapsing 56% owing to weaker TCRC. We also forecast aluminum EBIT to decline 16% owing to weaker aluminium prices and stronger Rupee.
- **Nalco –** We forecast profit to fall 31% to Rs3.9bn. This is led by both alumina and aluminum prices being lower Y-o-Y.

Real Estate

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- **DLF –** We expect net profit growth of 23% QoQ from Rs. 20.18 bn to Rs.24.8 bn in 3Q FY08. The net profit in 3QFY08 includes pre tax gain of Rs.5.75 bn from sale of 49% stake in 8 projects. Revenue growth is expected to be around 8% QoQ, driven by volume growth in residential and commercial sales. We expect company to maintain EBIDTA margins of 70%.Since DLF was listed in June 07, the 3Q FY07 are not available.
- **Ansal Properties -** We expect net profit at Rs.623mn, an increase of 55%YoY and 6% QoQ in 3Q FY08. The growth is expected to be driven by the plot sales in Lucknow and plots and residential apartment sales in Panipat and Sonepat. We expect an EBIDTA margin of 30% stable QoQ but and a little lower YoY (31% in 3Q FY07**).**

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Software

Potential Result Outperformers: Satyam, Wipro
Potential Result Underperformers: Subex

Seasonally weak quarter

Expect weak Dec quarterly results with unexciting profit growth driven by seasonally modest growth in revenues and sequentially lower forex gains during the quarter. Margins are likely to be steady given lower Re/$ appreciation and likely absorption of seasonally higher trainee costs in Sept qrt. Re appreciated by 2.6% and 1.4% against the USD & Pound and depreciated by 2.7% against the Euro during this quarter. Both Satyam and Wipro had their annual wage hike in the Sep q. Satyam would show margin expansion and Wipro would show relatively strong organic rev growth and inorgnaic rev growth too.

Focus on 2008 demand outlook

While results are likely to be unexciting, commentary on 2008 volumes and pricing, in the light of US eco risks, to take centre stage. We expect company management to sound positive as highlighted in our tech trip note “Road trip: No slow down, but no complacency, dated 17th Dec07." Barring uncertainty in the banking/ financial services clients, recent customer conversations held by IT vendors and our interaction with outsourcing consultants/informal industry contacts, have not thrown any signs of offshore demand softness for 2008.

Strong results: Educomp, Rolta, Satyam & Wipro; Weak results: Subex

Amongst the large IT vendors Satyam to report relatively strong results helped by margin expansion post wage hike last quarter. Wipro is also likely to report revenue led strong growth. It has guided for 7% qoq organic revenue growth and 13% growth including Infocrossing.

Amongst mid caps, we expect Educomp to report strong numbers and increase its guidance for Smart Class additions. Also, expect a strong 9% qoq PAT growth for Rolta backed by 6% qoq rev gr and given wage hikes are behind. Subex in our view would continue to disappoint as revenue recognition and cost reduction measures could be lower than management guidance.

Risk to revs to pressure stocks, but valuations near bottom

We maintain our view that in near term stocks are likely to be weak on negative news flow and risk of a couple of cyclically weak quarters, as client’s battle business pressures before accelerating offshore initiatives. However, in our view, a large part of the bad news is in the price. We would watch for demand data points in Jan before aggressively buying. We prefer vendors with relatively visible or sticky revs.

Telecom

Potential Result Outperformers: Bharti
Potential Result Underperformers: MTNL

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- **Bharti Airtel:** We forecast Bharti's 3Q FY08E net profit at Rs17.2bn, up 42% YoY and 7% QoQ. Topline and EBITDA growth will likely be similar at ~9-10% QoQ and consolidated EBITDA margin is forecast to remain stable QoQ at ~43%. The company's wireless sub base is expected to be up ~13% QoQ & wireless ARPU is forecast to drop ~3% QoQ. Expected improvement in usage trend will moderate the 3Q ARPU drop versus ~6% QoQ drop witnessed in 2Q FY08. Profit margins in the non-wireless businesses are forecast to be stable, but we watch for possible upside from integration of the i2i cable system in 2Q FY08.

- **Reliance Communication**: For Reliance Communication (RCom) we forecast 3Q FY08E net profit at Rs12.1bn, up 31% YoY and 8% QoQ after adjusting for one-offs in 2Q. RCom's wireless sub base & wireless revenue is forecast to grow 13% QoQ & 10% QoQ, respectively, as for Bharti. Consolidated EBITDA margin is forecast to remain stable QoQ at ~40.5%.

- **Idea Cellular**: We forecast Idea's 3Q FY08E net profit at Rs2.34bn, up 106% YoY and 6% QoQ. Topline is estimated to grow ~8% QoQ, versus forecast 13% growth in wireless sub base. We expect Idea's 3Q ARPU to drop ~5% QoQ; the decline will likely be lower versus Idea's 2Q performance but steeper than the ARPU decline of ~3% QoQ forecast for the majors. EBITDA margin is forecast to remain stable QoQ as network costs & selling expenses are unlikely to ease much QoQ.

- **MTNL:** We forecast 3Q FY08E profit at Rs1.06bn, down ~36% YoY but up 12% QoQ. Continuing revenue pressures and rise in operating costs will likely drag YoY performance. The muted QoQ recovery reflects expected easing in overheads.

- **VSNL**: We forecast 3Q FY08E profit at Rs1.1bn, down 23% YoY but up 79% QoQ. Pressure on voice revenues & margins will drag YoY performance. The sharp QoQ rebound will reflect normalization of earnings post the billing integration that hurt 2Q results.

Textiles & Apparel

Pre-Result underperformers: Raymond, Arvind Mills

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We expect the 3Q results to be disappointing for the textile sector. All companies our under coverage universe are likely to report either a flat profit growth or a decline in profits on a YoY basis. While sales growth is likely to be decent, companies are likely to witness severe margin pressure on the back of rising raw material costs (both cotton & wool prices up significantly) and stronger Re.

- **Arvind Mills** is likely to report a flat profit growth on a very lower base. Margins, which have been under pressure from stronger Re and downturn in denim, will get impacted further by higher cotton and power costs.

- **Raymond's** consolidated performance will continue to get impacted by losses incurred by the denim JV. However, this being a Diwali quarter, performance of the worsted fabric division is likely to be significantly better than 2Q.

- **Welspun India** is likely to report a flat profit growth as well, impacted by strong Re. Sales growth is likely to decent driven by higher volumes (up 20%+). Margins should improve on a sequential basis as bed linen capacity utilization improves.

- **Himatsingka's** new bed linen business is in gestation phase and hence the profits are likely to remain subdued.

- **Gokaldas** is likely to report a 14% decline in profits on the back of margin erosion due to stronger Rupee.

Utilities

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In the Utility sector, markets would be more focused on only 3% growth in generation at NTPC on delay in capacity, progress on future plans such as expansion in generation capacity, update on open access in distribution AT&C loss reduction in New Delhi JVs of Reliance & Tata Power and the success of the potential Reliance Power's listing.

We expect the Indian Utility Sector, represented by NTPC, Reliance Energy, Tata Power, Neyveli, GIPCL and JHPL to report sales growth of 10%YoY, EBITDA growth of 15%YoY and PAT growth of 13%YoY.

The primary reason for the growth would be volume growth, improved efficiency (NTPC) and change in depreciation policy (Neyveli Lignite & JHPL).

- We expect **NTPC's** 3QFY08 to report only 3% YoY growth in generation on delayed capacity. Fuel cost savings remain on-track in 3Q but the sales from its high margin spot market may slow due to commissioning of Tala hydro project leading to improved grid frequency in northern India. MLe 3QFY08 sales growth of 6%YoY, EBITDA growth of 14%YoY and Recurring PAT growth of 11%YoY.

- We expect a 31%YoY growth in sales for Reliance Energy led by growth in E&C revenues and expect recurring PAT to increase by 27%YoY, supported by the investment income.

- We expect Tata Power to witness recurring PAT growth of 18%YoY mainly on tax breaks from wind parks being set-up by Suzlon & Enercon.

- Change in depreciation should provide support to Neyveli & JHPL results. Among the other IPPs, Neyveli Lignite is likely to report PAT growth at 19%YoY on EBITDA growth of 6%YoY; while JHPL is likely to report PAT growth at 4.7x on EBITDA growth of 13%YoY; as they lowered the rate of depreciation in-line with tariff v/s Companies Act rate earlier.

- We maintain Buy on NTPC & Reliance Energy based on expansion in its generating capacity and distribution franchise, and reduction in T&D losses at its Delhi JVs (Reliance). Maintain Sell on JHPL, as the stock remains expensive on valuations and Neutral on Tata Power, Neyveli & GIPCL.

Table 6: Result forecast for the quarter ended December 2007

(Rs mn)	ML Symbol	Q-R-Q Rating	Price 7-Jan-08	Sales Dec-06	Dec-07	% change YoY	QoQ	EBITDA Dec-06	Dec-07	% change YoY	QoQ	Net Profit Dec-06	Dec-07	% change YoY	QoQ
Automobile															
Ashok Leyland	XDBVF	C-3-7	54	17,776	16,583	-6.7%	-5.0%	1,841	1,658	-9.9%	1.2%	1,074	841	-21.7%	2.4%
Automotive Axles	XATOF	C-1-7	643.8	1,453	1,661	14.3%	2.9%	250	282	12.8%	4.4%	136	148	9.4%	8.3%
Bajaj Auto Ltd	BJJAF	C-2-7	2585.7	25,682	27,080	5.4%	14.6%	3,636	3,778	3.9%	3.6%	3,540	3,480	-1.7%	6.1%
Bharat Forge	XUUVF	C-1-7	369.2	4,771	6,055	26.9%	7.5%	1,239	1,484	19.7%	7.3%	630	747	18.6%	10.3%
Eicher Motors	XEICF	C-1-7	415.8	4,938	5,840	18.3%	8.8%	326	362	10.9%	18.4%	178	211	18.6%	26.3%
Hero Honda	HRHDF	C-2-7	700.7	26,661	27,952	4.8%	18.8%	3,019	3,682	22.0%	26.3%	2,092	2,583	23.5%	26.4%
Mahindra & Mahindra	MAHHF	C-1-7	823.1	25,761	30,151	17.0%	11.3%	3,096	3,407	10.0%	16.5%	2,422	2,458	1.5%	8.8%
Maruti Udyog	MUDGF	C-1-7	964.5	36,795	47,178	28.2%	3.7%	5,072	6,086	20.0%	1.8%	3,764	4,501	19.6%	-3.5%
Rico Auto	XINAF	C-1-7	52.0	1,967	1,875	-4.7%	12.4%	217	232	6.8%	24.1%	41	43	4.3%	-65.0%
Tata Motors	TENJF	C-2-7	784.3	68,252	70,158	2.8%	8.4%	8,206	6,665	-18.8%	12.0%	5,135	3,312	-35.5%	-7.4%
TVS Motors	XFKMF	C-3-7	70.8	9,354	9,192	-1.7%	11.6%	296	234	-20.9%	18.1%	115	52	-54.6%	10.0%
Airlines															
Jet Airways	JTAIF	C-2-8	995.5	19,356	24,378	25.9%	34.0%	3,082	3,165	2.7%	1186.7%	88	-884	-1102.5%	-61.7%
Cement															
ACC	ADCLF	C-2-7	1001.2	16,199	18,519	14.3%	10.3%	4,685	5,282	12.7%	17.8%	3,296	3,530	7.1%	22.4%
India Cement	INIAF	C-2-9	296.4	4,724	7,058	49.4%	-7.3%	1,331	2,729	105.1%	-17.7%	798	1,944	143.7%	-21.3%
Ambuja Cements Ltd	AMBUF	C-2-7	143.7	13,291	15,238	14.6%	17.2%	4,791	5,099	6.4%	17.7%	3,303	3,721	12.7%	18.7%
Shree Cement	SREEF	C-2-7	1357.6	3,645	5,076	39.3%	8.8%	1,601	2,102	31.3%	4.5%	1,041	1,126	8.1%	6.0%
Ultratrech Cemco	XDJNF	C-2-7	978.5	12,605	13,352	5.9%	13.8%	3,802	4,377	15.1%	32.8%	2,125	2,574	21.1%	38.5%
Consumer															
Asian Paints	XAPNF	C-1-7	1126.1	9,356	11,115	18.8%	-1.9%	1,234	1,616	30.9%	-11.0%	750	985	31.3%	-22.4%
Colgate Palmolive (India) Ltd	CPIYF	C-1-7	457.2	3,223	3,674	14.0%	1.0%	544	644	18.2%	14.0%	503	621	23.4%	13.5%
Dabur India Ltd	DBUIF	C-1-7	121.3	6,176	7,265	17.6%	14.5%	1,004	1,213	20.8%	4.6%	776	953	22.9%	-0.5%
Hindustan Unilever Ltd	HINLF	C-3-7	231.4	31,561	35,730	13.2%	6.2%	5,000	5,845	16.9%	30.6%	4,791	5,582	16.5%	36.4%
ITC	ITCTF	C-2-7	219.6	31,656	37,154	17.4%	13.5%	10,828	12,651	16.8%	22.6%	7,174	8,212	14.5%	6.5%
Nestle	XNTEF	C-1-7	1460.1	7,689	9,497	23.5%	0.6%	1,203	1,512	25.7%	-21.1%	625	896	43.4%	-22.8%
United Spirits	UDSRF	C-1-7	1963.3	7,734	9,126	18.0%	21.3%	1,274	1,700	33.4%	9.8%	769	903	17.5%	12.6%
Radico Khaitan	RKHAF	C-2-7	174.7	1,900	2,090	10.0%	-2.7%	174	200	14.9%	8.6%	88	101	15.9%	9.7%
Healthcare															
Biocon Ltd	BCLTF	C-1-7	607.3	2,470	2,678	8.4%	-4.0%	780	790	1.3%	-2.5%	560	605	8.0%	12.0%
Cadila Healthcare	CDLHF	C-1-7	308.7	4,724	5,511	16.7%	-9.6%	823	1,047	27.2%	-20.5%	489	600	22.6%	-25.1%
Cipla	XCLAF	C-3-7	212.7	8,805	10,233	16.2%	-6.8%	2,193	2,251	2.7%	0.5%	1,844	1,952	5.8%	2.4%
Divi's Laboratories	XXQPF	C-1-7	1890.9	1,518	2,078	36.9%	-15.3%	433	831	92.2%	-21.0%	314	685	118.3%	-24.7%
Dr Reddy's Laboratories Ltd	DRYBF	C-1-7	728.6	15,331	12,700	-17.2%	0.2%	2,106	1,437	-31.8%	9.9%	1,880	1,313	-30.2%	-50.8%
Glenmark Pharmaceuticals	XVQWF	C-1-7	598.8	3,066	4,272	39.3%	11.3%	933	1,495	60.3%	26.3%	495	1,066	115.3%	41.9%
GSK Pharma	GXOLF	C-1-7	1035.4	3,203	3,405	6.3%	-19.1%	814	851	4.6%	-37.7%	682	780	14.5%	-28.5%
Matrix Laboratories	MXLBF	C-2-7	242.2	4,020	3,822	-4.9%	-0.8%	289	459	58.8%	27.2%	-9	119	NA	NA
Nicholas Piramal India Ltd	XNIGF	C-2-7	349.6	6,495	7,794	20.0%	1.9%	971	1,442	48.6%	8.5%	587	974	65.8%	11.6%
Panacea Biotech	XPEAF	C-1-7	413.9	1,971	2,258	14.5%	28.9%	447	519	16.2%	4.4%	271	309	14.1%	-3.6%
Ranbaxy Laboratories Ltd	XIZZF	C-1-7	425.5	17,769	17,064	-4.0%	-3.8%	2,665	2,901	8.8%	2.5%	1,833	1,711	-6.6%	-9.7%
Sun Pharma	SPCEF	C-1-7	1108.3	5,400	6,611	22.4%	-1.0%	2,369	2,746	15.9%	9.0%	1,989	2,421	21.7%	10.8%
Wockhardt Ltd	XDUVF	C-2-7	426.7	5,264	8,489	61.3%	15.0%	1,221	1,868	53.0%	3.2%	871	1,078	23.8%	-0.4%
Industrials/ Construction															
ABB	ABVFF	C-1-7	1508.6	14,263	19,968	40.0%	45.0%	1,947	2,867	47.3%	66.3%	1,350	1,903	41.0%	64.5%
Bharat Heavy Electricals Limited	BHHEF	C-1-7	2545.8	43,397	51,715	19.2%	30.4%	9,292	11,552	24.3%	66.2%	6,677	8,630	29.3%	55.2%
Larsen & Toubro	LTOUF	C-1-7	4244.4	41,213	60,244	46.2%	9.5%	4,284	7,243	69.1%	23.3%	3,112	4,964	59.5%	23.0%
Nagarjuna Construction	NGRJF	C-1-7	364.6	6,998	8,957	28.0%	32.3%	802	1,074	33.9%	26.6%	449	509	13.4%	51.3%
IVRCL Infrastructure	IIFRF	C-1-7	568.9	5,223	8,128	55.6%	18.1%	556	873	57.0%	39.0%	321	547	70.2%	27.9%
Suzlon	SZEYF	C-1-7	2031.7	19,139	31,391	64.0%	-13.8%	2,546	4,486	76.2%	-23.6%	1,744	2,774	59.1%	-29.8%

Table 6: Result forecast for the quarter ended December 2007

(Rs mn)	ML Symbol	Q-R-Q Rating	Price 7-Jan-08	Sales Dec-06	Dec-07	% change YoY	QoQ	EBITDA Dec-06	Dec-07	% change YoY	QoQ	Net Profit Dec-06	Dec-07	% change YoY	QoQ
Software															
Educomp Solutions Ltd	EUSOF	C-1-7	4465.8	276	715	159.3%	59.1%	142	443	212.3%	93.6%	82	226	175.7%	66.3%
ExlService Holdings (USD mn)	EXLS	C-3-7	18.8	39	49	24.0%	4.5%	9	7	-19.3%	1.9%	6	7	13.4%	8.0%
Firstsource Solutions	FSSOF	C-1-7	80.6	2,148	3,746	74.4%	33.5%	425	714	68.0%	23.7%	302	210	-30.6%	-56.5%
HCL Technologies	HCLTF	C-2-7	314.4	14,651	17,838	21.8%	4.4%	3,241	3,806	17.4%	4.6%	2,863	3,223	12.6%	3.7%
Hexaware Tech	XFTCF	C-1-7	85.0	2,402	2,552	6.2%	0.2%	357	305	-14.8%	0.2%	338	270	-20.1%	0.1%
Infosys Technologies Ltd	INFYF	C-2-7	1694.8	36,550	42,586	16.5%	3.7%	11,960	13,175	10.2%	2.6%	9,830	11,493	16.9%	4.5%
Infotech India	IFKFF	C-1-7	294.4	1,430	1,799	25.8%	11.7%	323	329	2.1%	12.3%	188	261	38.8%	3.3%
Mastek	MSKDF	C-3-7	344.8	2,064	2,130	3.2%	4.3%	371	346	-6.7%	17.0%	218	260	19.2%	3.7%
Mphasis BFL	MPSSF	C-1-7	290.3	3,060	6,084	98.8%	1.1%	588	1,093	85.8%	1.3%	358	691	93.3%	4.3%
Patni Computers Services	PATIF	C-3-7	319.9	6,944	6,679	-3.8%	-0.8%	1,470	983	-33.1%	-29.2%	1,158	731	-36.9%	-33.4%
Rolta	RLTAF	C-1-7	733.0	1,681	2,336	38.9%	5.7%	677	898	32.7%	6.9%	409	586	43.0%	8.8%
Sasken Communication	SKNCF	C-2-7	348.6	1,310	1,476	12.6%	3.0%	194	201	3.8%	-14.2%	119	83	-29.9%	-41.9%
Subex Ltd	SBXSF	C-2-7	358.9	1,062	1,610	51.6%	56.3%	220	262	19.5%	-177.0%	191	146	-23.8%	-141.9%
Satyam Computers	SAYPF	C-1-7	422.3	16,611	21,756	31.0%	7.1%	4,100	4,650	13.4%	15.5%	3,372	4,276	26.8%	4.5%
TCS	TACSF	C-1-7	1005.1	48,605	59,805	23.0%	6.0%	13,752	15,489	12.6%	4.5%	11,047	13,159	19.1%	5.5%
Tech Mahindra	TMHAF	C-1-7	1120.3	7,698	9,662	25.5%	7.6%	2,073	2,148	3.6%	8.9%	1,668	1,995	19.6%	9.9%
Wipro	WIPRF	C-2-7	496.9	39,726	52,252	31.5%	9.8%	8,827	10,330	17.0%	8.7%	7,654	8,736	14.1%	6.1%
WNS (USD mn)	WNS	C-1-7	15.6	57	74	29.8%	3.5%	10	9	-9.5%	10.3%	7	4	-42.2%	-18%
Media															
Balaji Telefilms	BLJIF	C-2-7	348.1	850	915	7.7%	17.4%	341	391	14.6%	18.2%	215	260	21.0%	-1.1%
Sify (US$mn)	SIFY	C-2-9	5.0	32	36	15.0%	-2.1%	3	4	22.6%	-1.7%	1	1	-41.5%	-0.6%
Sun TV	SUTVF	C-1-7	419.8	1,140	2,166	90.0%	11.4%	884	1,602	81.3%	14.6%	598	967	61.7%	20.6%
Zee Telefilms	XZETF	C-1-7	316.4	4,177	4,479	7.2%	12.4%	1,357	1,519	11.9%	15.0%	875	1,047	19.6%	13.2%
Metals															
Hindalco	HNDFF	C-3-7	220.0	46,562	46,269	-0.6%	-6.7%	10,453	9,061	-13.3%	-1.7%	6,439	5,558	-13.7%	-13.5%
NALCO	NAUDF	C-3-7	518.8	14,486	14,865	2.6%	13.6%	8,449	5,682	-32.8%	0.0%	5,726	3,933	-31.3%	-10.6%
SAIL	SLAUF	C-3-7	274.2	85,371	95,945	12.4%	4.7%	24,316	28,642	17.8%	8.9%	14,714	18,310	24.4%	7.7%
Sterlite Industries	XTNDF	C-1-7	1059.5	68,143	63,500	-6.8%	-3.3%	27,628	19,000	-31.2%	-3.3%	12,955	10,588	-18.3%	-2.2%
Multi-Industry															
Grasim Industries	GRSJF	C-1-7	3595.1	36,882	41,736	13.2%	5.1%	11,150	13,504	21.1%	14.1%	5,554	6,998	26.0%	12.5%
Aditya Birla Nuvo	ADYAF	C-1-7	2224.4	22,888	31,066	35.7%	3.5%	2,994	3,044	1.6%	9.3%	565	850	50.5%	77.9%
Oil & Gas															
BPCL	XBPCF	C-2-7	535.9	242,056	254,159	5.0%	1.0%	8,092	10,280	27.0%	-34.3%	3,035	6,649	119.1%	-36.0%
Cairn India	XCANF	B-1-7	261.3	NA	2,489	NA	-6.4%	NA	1,922	NA	3.1%	NA	848	NA	59.1%
GAIL	GAILF	C-2-7	82.0	51,062	50,041	-2.0%	10.5%	8,641	11,898	37.7%	35.5%	6,655	8,052	21.0%	40.6%
Gujarat Gas Company Ltd	GJGCF	C-3-8	355.1	2,736	3,857	41.0%	39.4%	335	488	45.6%	-14.6%	177	251	41.6%	3.9%
Gujarat State Petronet Ltd	GJRSF	C-1-7	110.0	871	1,023	17.5%	7.3%	754	870	15.4%	7.5%	284	197	-30.6%	21.2%
HPCL	XHTPF	C-1-7	394.7	221,502	232,577	5.0%	-4.0%	1,940	10,233	427.5%	-22.3%	1,043	6,440	517.2%	-24.5%
Indian Oil Corporation Ltd	IOCOF	C-2-7	782.1	544,378	571,596	5.0%	1.8%	17,912	45,731	155.3%	-10.9%	10,590	32,398	205.9%	-15.1%
Indraprastha Gas Ltd	IAGSF	C-3-7	173.5	1,599	1,765	10.4%	1.4%	654	763	16.7%	1.7%	355	437	23.1%	1.9%
ONGC	ONGCF	C-1-7	1343.8	162,360	160,304	-1.3%	4.0%	89,093	87,156	-2.2%	3.6%	46,683	47,422	1.6%	-7.0%
Petronet LNG Ltd	POLNF	C-3-7	117.2	15,760	16,795	6.6%	0.5%	1,733	2,211	27.6%	3.2%	851	1,192	40.1%	3.2%
Reliance Industries	XRELF	B-1-7	2985.9	295,280	324,808	10.0%	1.4%	53,900	51,693	-4.1%	-10.6%	32,040	32,795	2.4%	-14.5%
Retail															
Pantaloon Retail	PFIAF	C-3-7	833.1	7,527	13,274	76.4%	22.2%	570	1,146	101.0%	19.8%	215	355	65.4%	19.7%
Titan	TTNIF	C-1-7	1534.1	5,291	7,391	39.7%	3.9%	606	805	32.8%	-1.1%	296	496	67.7%	1.4%
Shoppers Stop	SHPSF	C-3-7	579.6	2,571	3,445	34.0%	17.7%	248	243	-1.9%	81.8%	141	78	-44.6%	3305.1%
Telecom															
Bharti Televenture	BHTIF	C-1-9	948.3	49,129	69,272	41.0%	9.3%	20,055	29,798	48.6%	10.0%	12,151	17,245	41.9%	6.9%

Table 6: Result forecast for the quarter ended December 2007

(Rs mn)	ML Symbol	Q-R-Q Rating	Price 7-Jan-08	Sales Dec-06	Dec-07	% change YoY	QoQ	EBITDA Dec-06	Dec-07	% change YoY	QoQ	Net Profit Dec-06	Dec-07	% change YoY	QoQ
Idea Cellular	IDEAF	C-1-9	135.5	11,482	16,948	47.6%	8.5%	3,706	5,566	50.2%	9.0%	1,138	2,338	105.5%	6.1%
MTNL	XMTNF	C-3-7	207.3	12,603	11,894	-5.6%	-0.8%	2,308	1,961	-15.0%	10.5%	1,661	1,058	-36.3%	11.6%
Reliance Communication	RLCMF	C-1-7	760.1	37,553	48,043	27.9%	9.4%	15,271	19,442	27.3%	9.5%	9,274	12,080	30.3%	5.7%
VSNL	VSLSF	C-2-8	721.7	10,660	10,368	-2.7%	9.4%	2,540	2,233	-12.1%	46.7%	1,103	1,099	-0.3%	50.4%
Textile/Apparels															
Arvind Mills	ARVZF	C-3-7	86.6	4,479	5,598	25.0%	-0.7%	768	778	1.3%	-0.6%	39	40	3.0%	13.4%
Gokaldas	GKLDF	C-2-7	267.6	2,553	2,808	10.0%	12.4%	290	267	-8.1%	18.5%	178	154	-13.7%	36.7%
Himatsingka	HMKFF	C-2-7	126.9	NA	2,773	NA	10.0%	NA	222	NA	35.0%	NA	122	NA	11.3%
Raymond	XRAMF	C-3-7	449.1	NA	6,903	NA	15.0%	NA	690	NA	16.8%	NA	402	NA	15.8%
Welspun	WPNIF	C-1-9	103.1	2,554	2,938	15.0%	0.0%	469	485	3.4%	3.6%	143	147	2.9%	43.8%
Utilities															
GIPL	GUJIF	C-2-7	177.7	2,287	2,398	4.8%	24.5%	746	773	3.7%	45.1%	387	394	1.8%	87.1%
JP Hydro	XJSHF	C-3-7	137.0	495	510	3.1%	-56.9%	393	444	13.0%	-60.7%	25	118	372.9%	-83.9%
Neyveli Lignite	NEYVF	C-2-7	262.9	5,102	6,001	17.6%	-17.5%	1,894	2,001	5.7%	-23.3%	1,526	1,810	18.6%	-22.4%
NTPC	NTHPF	C-1-7	271.8	80,125	84,984	6.1%	20.4%	21,252	24,176	13.8%	20.9%	18,167	20,104	10.7%	23.6%
Reliance Energy	RCTDF	C-1-7	2510.4	15,337	20,150	31.4%	30.7%	827	1,709	106.7%	-5.8%	2,010	2,545	26.6%	20.3%
Tata Power	XTAWF	C-2-7	1626.8	12,428	13,811	11.1%	2.3%	2,108	2,193	4.0%	-16.1%	1,161	1,366	17.6%	-24.3%
Real Estate															
Ansal Properties	ANSFF	C-1-7	416.1	1,924	3,123	62.3%	10.0%	602	943	56.6%	9.9%	402	623	55.0%	6.5%
DLF	XVDUF	C-1-7	1112.5	NA	35,099	NA	8.0%	NA	24,437	NA	8.0%	NA	24,820	NA	23.0%
Others															
Container Corp	CIDFF	C-3-7	1872.9	7,472	8,665	16.0%	5.8%	2,224	2,360	6.1%	11.2%	1,657	1,852	11.8%	6.4%
Gateway Distrip	GYDPF	C-1-7	167.6	414	663	60.3%	3.5%	178	271	52.1%	6.0%	167	197	17.5%	4.1%
United Phosphoru	UPHHF	C-1-7	382.4	5,677	10,266	80.8%	16.0%	1,779	2,002	12.5%	15.9%	1,041	1,087	4.4%	23.1%
Exide Indus Ltd	XEDRF	C-1-7	79.5	4,577	6,811	48.8%	2.0%	682	1,124	64.7%	-4.1%	349	613	75.9%	-1.5%
Motherson Sumi	XMSUF	C-1-7	112.1	3,448	4,776	38.5%	1.0%	559	764	36.7%	2.5%	300	416	38.6%	7.8%

Source: Merrill Lynch Research Estimates

Table 7: Result forecast for financials for the quarter ended December 2007

	ML Symbol	Q-R-Q Rating	Price 7-Jan-08	Net Interest Income Dec-06	Dec-07	%Change YoY	%Change QoQ	Pre Provision Profits Dec-06	Dec-07	%Change YoY	%Change QoQ	Net Income Dec-06	Dec-07	%Change YoY	%Change QoQ
Financials															
Bank of Baroda	BKBAF	C-1-7	481.6	9,609	10,758	12.0%	9.6%	6,571	7,352	11.9%	15.4%	3,293	3,778	14.7%	15.5%
Bank of India	XDIIF	C-1-7	380.2	8,588	10,193	18.7%	3.4%	5,532	7,341	32.7%	-12.6%	2,549	3,273	28.4%	-23.0%
Canara Bank	CNRKF	C-2-7	399.6	10,386	9,414	-9.4%	19.6%	7,010	6,757	-3.6%	3.9%	3,630	4,695	29.3%	16.9%
Corporation Bank	XCRRF	C-3-7	453.0	3,333	3,881	16.5%	9.5%	2,931	3,306	12.8%	12.2%	1,464	1,779	21.5%	10.3%
Federal Bank	XFDRF	C-1-7	345.2	1,783	2,193	23.0%	6.3%	1,355	1,819	34.2%	3.0%	838	972	16.0%	1.9%
HDFC Bank	XHDFF	C-1-7	1697.5	9,286	12,542	35.1%	7.9%	6,969	9,089	30.4%	9.9%	2,956	4,041	36.7%	9.7%
HDFC Ltd.	HGDFF	C-1-7	3111.3	5,070	6,263	23.5%	-5.8%	4,488	5,626	25.4%	-6.0%	3,555	4,304	21.1%	29.2%
IDFC Ltd.	IFDFF	C-2-7	228.7	1,572	3,406	116.6%	5.0%	1,424	2,873	101.7%	4.0%	1,152	1,993	73.1%	0.8%
ICICI Bank	ICIJF	C-1-7	1285.4	17,088	23,198	35.8%	29.9%	19,761	23,021	16.5%	22.0%	9,101	11,148	22.5%	11.2%
Oriental Bank of Commerce	ORBCF	C-1-7	309.6	4,213	4,512	7.1%	12.9%	3,067	3,410	11.2%	25.3%	2,437	2,528	3.8%	7.0%
Punjab National Bank	PUJBF	C-1-7	699.1	14,459	15,363	6.3%	19.0%	9,567	11,145	16.5%	30.4%	4,299	5,539	28.8%	2.9%
State Bank of India	SBINF	C-1-7	2390.8	39,513	41,781	5.7%	11.0%	23,550	27,938	18.6%	3.0%	10,651	12,829	20.5%	-20.4%
Union Bank	UBOIF	C-1-7	228.9	6,859	7,427	8.3%	10.5%	5,051	5,621	11.3%	6.6%	2,558	3,108	21.5%	13.1%
Axis Bank	UTBKF	C-1-7	1056.5	4,158	6,260	50.5%	6.3%	3,586	4,891	36.4%	5.7%	1,846	2,674	44.9%	17.4%
Vijaya Bank	VJYAF	C-1-7	93.0	2,650	2,473	-6.7%	12.8%	1,722	1,728	0.3%	19.5%	927	1,171	26.2%	11.2%

Source: Merrill Lynch Research Estimates

Analyst Certification

We, Jyotivardhan Jaipuria, Vandana Luthra, Rajeev Varma, Reena Verma Bhasin, CFA, Bharat Parekh, Mitali Ghosh, S. Arun, Visalakshi Chandramouli, Prasad Deshmukh, Vidyadhar Ginde, Manish Sarawagi, Pratish Krishnan and Amit Agarwal, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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ML is acting as financial advisor and provided a fairness opinion to Taro Pharmaceuticals in its sale to Sun Pharmaceuticals, which was announced on May 21, 2007.

Merrill Lynch acted as exclusive financial advisor to Idea Cellular Ltd in the formation of a independent tower company, Indus Towers Ltd, by Bharti Infratel Ltd, Idea Cellular Ltd and Vodafone Essar Ltd which was announced on December 11, 2007

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