Investment Strategy | India
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A Reality Check?

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Slowing earnings may lead to market correction

We expect Sensex earnings growth for the June Q at 19% yoy. This represents a substantial slowdown versus the over 30% growth in the 4 quarters of FY07. The slower growth is largely driven by weaker sales (growth at under 20%) compared with over 30% in FY07, as rising interest rates and high base effect start feeding into the numbers. We believe the slowing earnings could act as a trigger for the markets to correct, especially if earnings do not provide an upward surprise.

Re appreciation impact on forex loan can provide surprise

The translation gains on forex loans accruing from the Re appreciation (7% over the last quarter) could lead to profit surprises for companies such as Ranbaxy, Tata Motors and Bharat Forge. This is because gains from forex loan are fully accounted in this quarter while the negative impact on revenues would be spread over the 4 quarters of FY08 evenly.

Sectoral stock movements reflecting earnings swings

Over the past quarter, the sectoral movement in stock prices partly reflects the forthcoming earnings season. Thus, software and autos have lagged and capital goods have done well. We still remain O/W on capital goods (BHEL, L&T) and U/W autos (Sell Tata Motors, Bajaj Auto). We think result weakness is a buying opportunity in software (TCS).

Ideas ahead of results

Buy Bharti: strong earnings growth & stock has been a relative laggard

Sell Hindalco: poor results & strong stock performance

Switch from Guj Ambuja to ACC: based on earnings growth

Buy Sun TV: stock has u/p, results strong (even stripping merger impact)

Mid-cap ideas: Buy Rolta, Rico Auto, Biocon

Table 1: Summary of result estimates

	BSE 30			MSCI		
	Jun-07	Jun-06	Growth %	Jun-07	Jun-06	Growth %
Sales Turnover	616,467	528,810	16.6%	581,011	513,393	13.2%
EBITDA	145,557	124,498	16.9%	98,577	85,811	14.9%
Other Income	14,476	10,155	42.5%	11,578	7,614	52.1%
Depreciation	27,968	23,325	19.9%	20,555	17,569	17.0%
Interest	5,207	5,521	-5.7%	3,931	3,710	6.0%
Tax	30,116	24,869	21.1%	20,356	17,115	18.9%
Net Profit	96,227	80,460	19.6%	65,262	54,994	18.7%
Net Profit (incl. Fin Cos)	113,240	94,840	19.4%	77,629	65,105	19.2%

Source: Merrill Lynch Research

Table 2: Results summary for Q ended 30 June'07

	BSE	MSCI
All Companies:		
Sales Growth	17.1%	13.9%
Profit Growth	19.4%	19.2%
Excl. Financial Cos:		
Sales Growth	16.6%	13.2%
EBITDA Growth	16.9%	14.9%
Profit Growth	19.6%	18.7%
Excl. Oil Cos:		
Sales Growth	17.7%	15.2%
Profit Growth	20.2%	18.9%
Excl Reliance Comm. Ventures		
Sales Growth	16.8%	13.6%
Profit Growth	17.6%	16.9%

Source: Merrill Lynch Research

Table 3: Top leaders andlaggards (yoy profit growth)

Leaders	YoY (%)	Laggards	YoY (%)
Aban Offshore	1436%	TVS Motors	-76%
Educomp Sol	357%	Sify	-69%
Glenmark Pharma	208%	NALCO	-16%
Idea Cellular	162%	Bajaj Auto	-14%
Firstsource Sol	150%	Hero Honda	-12%
Mphasis BFL	143%	Nagarjuna Const	-8%
Reliance Comm	112%	Ashok Leyland	-8%
Sun TV	100%	Hindalco	-7%
Bharti Tele	94%	Infotech India	-5%
Patni Comp	88%	Tata Motors	-2%

Source: Merrill Lynch Research

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Telecom, industrials and cement will lead the earnings growth

Autos and metals likely to disappoint

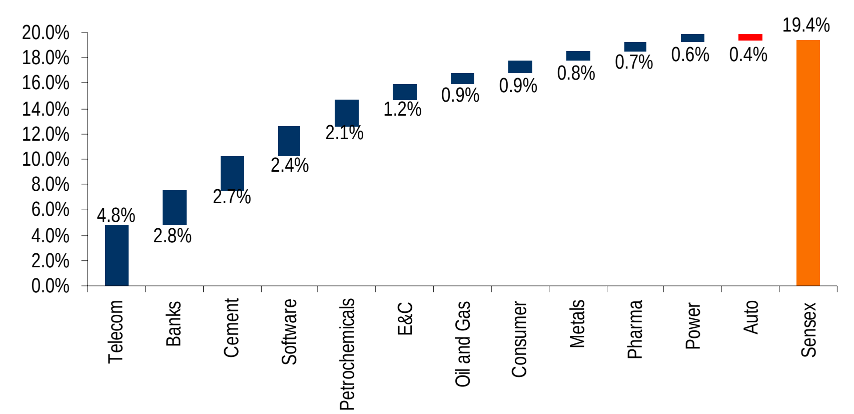
Table 4: Sector-wise growth forecast for June Q

Industry	Sector Weights	Sales % Growth	EBITDA % Growth	Net Profit % Growth
Cement	2.9%	21.6%	24.6%	30.5%
Consumer Discretionary - Autos	5.0%	6.0%	-8.4%	-2.0%
Consumer Discretionary - Media	1.8%	-7.1%	59.2%	43.8%
Consumer Staples	4.5%	15.4%	12.2%	13.9%
Energy	15.7%	9.7%	17.4%	17.6%
Financials	19.8%	28.9%	N.A.	22.3%
Healthcare	3.7%	5.6%	3.4%	22.8%
Industrials	7.8%	24.6%	38.8%	39.2%
IT	27.7%	25.2%	18.2%	16.9%
Materials- Metals	3.1%	23.2%	9.4%	4.1%
Real Estate	1.5%	NA	NA	NA
Telecom	4.3%	21.7%	36.8%	89.5%
Utilities	2.1%	11.2%	3.7%	17.1%
Weighted Grand Total	100%	13.9%	14.9%	19.2%

Source: Merrill Lynch Research

Telecom will contribute significantly to Sensex earnings growth.

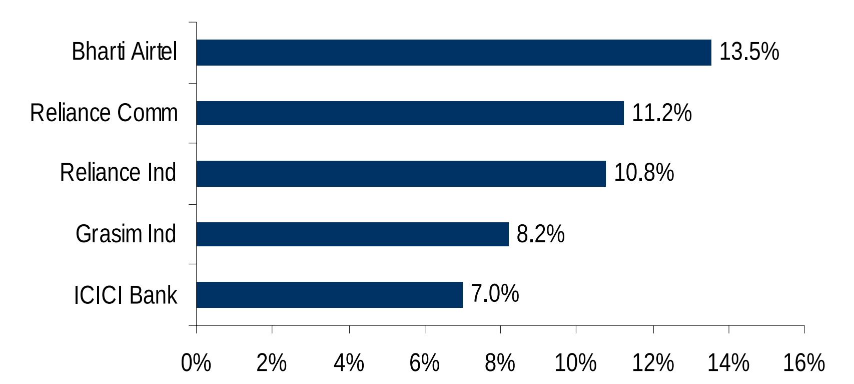
Chart 1: Sector contribution to Sensex profit growth



Source: Merrill Lynch Research

Bharti and RCom are expected to be the biggest contributors to Sensex growth

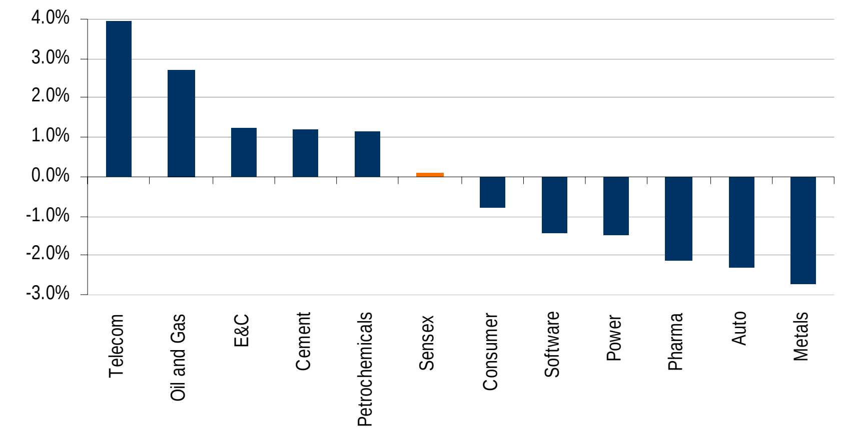
Chart 2: Top earnings contributors



Source: Merrill Lynch Research

Aggregate EBITDA margins are expected to remain flat, despite impact of Re appreciation and higher interest costs on volumes.

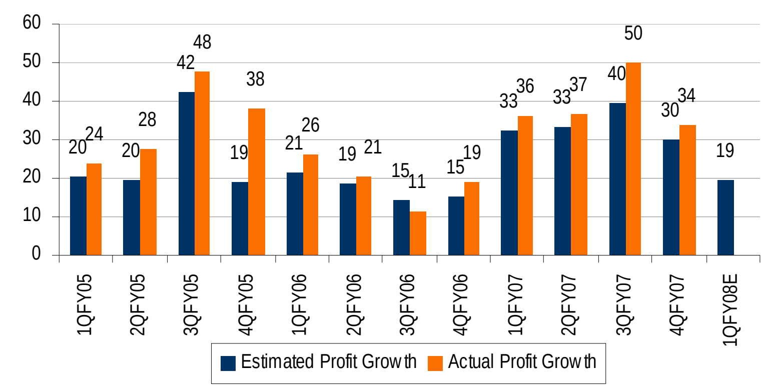
Chart 3: Expected YoY change in EBITDA margin (%)



Source: Merrill Lynch Research

Sensex profit growth is expected to slow to 19%- lowest in the last 5 quarters.

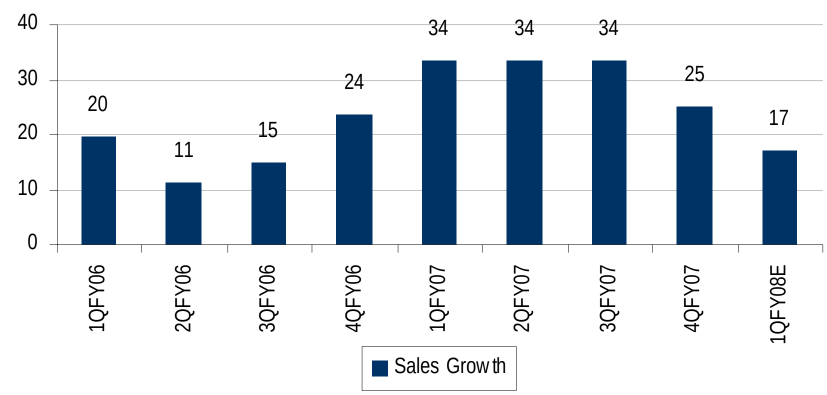
Chart 4: Sensex Profit Growth (%)



Source: Merrill Lynch Research

Profit slowdown is led by slowing sales as rising interest rates and high base effect start feeding into the numbers.

Chart 5: Sensex Sales Growth (%)



Source: Merrill Lynch Research

Sector	Potential Result Outperformer	Potential Result Underperformer	Comments
Automobile	-	-	• We expect the sector performance to be dismal, with only auto component companies faring well. • Expect two wheelers to fare worse than four-wheelers led by muted demand, pricing and continuing cost pressures. • Forex gains will likely prop profits of companies like Tata Motors, TVS Motor and Bharat Forge, partially offsetting impact of lower margins.
Banking	ICICI Bank	Corporation Bank	• 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. • Govt banks, in contrast, could report relatively weaker earnings owing to a more modest fee growth at +15-18% and higher credit costs.
Cement	ACC, Shree Cement, Grasim	UltraTech Cement, Ambuja Cement	• We expect cement sector's profits to remain strong, though growth will likely moderate from +70-80% YoY in previous quarters to ~30-35% YoY in 1Q FY08E. YoY profit growth will be led by ~10% growth in volumes & 90bps improvement in EBITDA margins. • We expect earnings for ACC & Shree Cement to outperform the sector led by stronger-than-industry volume growth. We also expect Grasim to post strong earnings led by near doubling of VSF profits in addition to continued strong cement earnings.
Consumer	Dabur	HLL, ITC	• We expect consumer sector profit to grow 15% in the June Q. This will be led by sales growth of 16% and EBITDA growth of 13% (lowest over the last few quarters). • We forecast weaker EBITDA margins owing to rising input costs for HLL and Nestle and in the case of ITC owing to falling cigarette volume and business mix deterioration.
Energy	Reliance, GSPL	-	• Reliance- We expect Reliance's 1Q FY08 net profit to rise by 16% YoY to Rs29bn. We estimate refining EBIT to rise 12% YoY to Rs23bn driven by 8% rise in margins and crude throughput. Petrochemical EBIT may also increase 28% YoY to Rs14bn mainly due to increase in petrochemical margins in the products in which RIL operates. • R&M companies- R&M companies are likely to report losses in 1Q FY08E pending clarity on oil bonds.
Healthcare	Ranbaxy, Biocon	Cipla	• Ranbaxy- We expect Ranbaxy to deliver robust 60% YoY growth in net profit (Rsbn) despite the high base from generic simvastatin exclusivity in previous 2Q. This will likely be driven by generic pravastatin exclusivity and forex gains in current quarter. • Cipla- For Cipla, our expectation of muted 3% YoY PAT growth is on the back of reasonable revenue growth (15% YoY) but sharp drop in EBITDA margin to 20% from over 26% margin in previous 1Q due to continuing poor product-mix and lower export realizations on account op Re appreciation.
Industrials	BHEL, L&T, IVRCL	-	• We expect the Indian E&C sector to register a 39% YoY sales growth and 49% profit growth. • L&T- We expect L&T to experience a slower quarter in order intake, but strong topline growth at 25%YoY, combined with expanding margins (48%YoY EBITDA growth) leading to the bottom-line growth at 53%YoY. • Suzlon: 1QFY08 is likely to be big quarter for Suzlon's international business due to un-finished project inventory in 4QFY08 (222 MW). We estimate 94% rise in YoY volume led by low international base.
Media	Sun TV	-	• We expect a strong 1QFY08 for the media companies but caution investors that YoY growth in not comparable for both ZEEL & Sun TV due to corporate action - merger (Sun) & de-merger (Zee).
Metals	Tata Steel	Hindalco, Nalco	• We expect aggregate metals sector profit to grow merely 3.5% in the June Q. This will be led by sales growth of 11% and EBITDA growth of 5%. The disappointing growth forecast is owing to our expectation of declining profit in aluminum companies and flat volume growth in SAIL.
Retail	-	-	• We expect aggregate retail sector profit to grow 25% led by sales growth of 92% and EBITDA growth of 69%. Aggressive new store openings especially in the case of Pantaloon are driving topline growth. However, margins are under pressure led by lower efficiencies in new stores and higher salaries, rent and interest costs.
Software	Rolta	-	• Forecast sequential EPS decline of 8 to 9% in the front-liners i.e. Infosys and TCS given annual wage hike, visa application costs and steep sequential Rupee appreciation of 6% in avg. Rupee/USD for the quarter. • While the demand environment remains strong, we expect USD revenue growth guidance to be raised only marginally, as companies would be cautious in giving revenue guidance early in the year.
Telecom	Idea, VSNL, Bharti, Reliance Comm.	MTNL	• Bharti Airtel- We forecast Bharti's 1Q FY08E net profit at Rs14.7bn, up 94% YoY and 8% QoQ (ignoring possible upside from rupee appreciation). Consolidated EBITDA margin is forecast at 42.1%, up 310bps YoY & 60bps QoQ. The QoQ margin expansion will be primarily led by the long-distance biz; on a YoY basis, margins will be higher across businesses. • Reliance Communication- For RCom we forecast 1Q FY08E net profit at Rs11.2bn, up 112% YoY and 9% QoQ. Consolidated EBITDA margin is forecast to expand 490bps YoY & 50bps QoQ.
Textile & Apparel	-	Raymond, Arvind Mills	• We expect the 1Q results to be disappointing for textile companies with most companies likely to report flat profit growth. • Overall, modest to strong volume growth is likely to be set off by a significant drop in margins mainly due to rupee appreciation (such as for Welspun, Gokaldas) and also due to cost pressures (as in case of Arvind, Raymond).
Utilities	NTPC, Neyveli Lignite	-	• We expect the Indian Utility Sector, represented by NTPC, Reliance Energy, Tata Power, Neyveli, GIPCL and JHPL to report sales growth of 17%YoY, EBITDA growth of 17%YoY and PAT growth of 18% YoY. • Growth would be driven by volume growth (NTPC, Neyveli), improved efficiency (NTPC) and change in depreciation policy (Neyveli Lignite & JHPL).

Sector Highlights

Automobiles

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- We expect the sector performance to be dismal, with only auto component companies faring well, thanks to exports. We expect two wheelers to fare worse than four-wheelers. This is a reflection of muted demand, pricing and continuing cost pressures. Forex gains will likely prop profits of companies like Tata Motors, TVS Motor and Bharat Forge, partially offsetting impact of lower margins.

- Within commercial vehicles, we expect both Tata Motors and Ashok Leyland to register YoY declines, on the back of muted margins and higher depreciation provisioning. Passenger vehicle makers M&M and Maruti are expected to stay in positive growth territory, despite pressure on margins, primarily due to strong top-line.

- Within the two-wheeler space, we expect Bajaj Auto and TVS Motor to post dismal results, impacted both by margins compression and top-line contraction. Hero Honda too is expected to register YoY decline in profits, but fare slightly better than the industry, given its relatively better sales performance.

- Amongst the auto components companies under coverage, we expect Bharat Forge to register a reasonably strong profit growth, but largely due to forex gains, more than offsetting currency losses on exports. Automotive Axles too should likewise register a high-teens growth. Rico Auto will likely reverse negative trends, driven by surge in exports, and improved margins on better utilisation.

Airlines

- We expect Jet Airways' financial performance to improve YoY but decline sequentially. Domestic yields are expected to suffer with heavy discounting by its competitor *Indian,* and international load factors would be lower due to seasonal demand. Fuel prices in this quarter have also moved up by ~4% from last quarter leading to higher costs, while increase in fuel surcharge was effective only from May. Accordingly, we expect Jet Airways (excl. Sahara) to report loss of Rs370mn lower than Rs450mn loss of last year.

Banks and Financial Services

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Potential Result Outperformers: ICICI Bank
Potential Result Underperformers: Corporation Bank

- The banks' 1QFY08 results are likely to be a mixed bag with private sector banks still showing strong growth in earnings at +25% led principally by stronger loan growth and sustained buoyancy in fee revenues.

- Govt banks, in contrast, could report relatively weaker earnings owing to a more modest fee growth at +15-18% and higher credit costs. In addition, many of these banks may provide for the AS-15 pension related provisions negating some of the benefits expected on the wage front.

- At the sector level, loan growth could continue to surprise on the upside at +25-26%; however margins may be under pressure, especially qoq resulting in top line (net interest income) growth being in the mid-teens despite strong loan growth. Banks like OBC and Canara could even show single digit top line growth. In contrast, private banks are still forecast to show a +30% growth, though it is moderating from growth seen in previous quarters. This quarter should, however, in our view, mark the trough for margins for most banks.

- Banks reported earnings are also likely to be impacted by one off items such as booking of profits from stake sales by players such as HDFC or BOB. In contrast, transfer of G-secs to the HTM category during this quarter could result in SBI's reporting earnings growth of only 7% (though it would have been a whopping 34% yoy if it had not done the transfers).

- Apart from margins, the other key aspect to watch closely in the coming quarter would be the movement in NPL's, especially the fresh delinquencies. We are penciling in an uptick in the NPL cycle and are building in a +30% growth in credit costs in our earnings.

- Amongst the govt. banks, BOB is likely to report the strongest growth at +50% owing to absence of the one time transfer provision hits taken last year. In contrast, bank like Corporation Bank could report flattish earnings growth owing to weaker top line. Private banks would continue to report +25-30% growth in earnings led by UTI Bank at 37% followed by HDFC Bk at 30% and ICICI Bank at only 21% owing to a substantial margin compression qoq (almost 15bps).

Cement

Potential Result Outperformers: ACC, Shree, Grasim
Potential Result Underperformers: UltraTech, Ambuja Cements

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Result Expectations – Key Highlights

- The cement sector's profits will remain strong but growth will likely moderate from +70-80% YoY in previous quarters to ~30-35% YoY in 1Q FY08E. The YoY profit growth will be led by ~10% growth in volumes & 90bps improvement in EBITDA margins. In 1Q FY08E, realizations are forecast to be up ~13% YoY but costs are also likely up ~11% on an average.

- On a QoQ basis, 1Q FY08E profit growth for the sector is estimated ~15% led by ~10% growth in EBITDA. We expect realizations to improve ~1% QoQ despite high noise levels during the quarter with regard to government intervention. Operating costs should fall ~2% QoQ due to easing of year-end adjustments usually witnessed in the March-quarter. In 1Q FY08E, volume growth for the majors put together will likely be modest at ~2% QoQ reflecting peaked capacity utilization.

- Among the pure cement plays, we recommend ACC & Shree Cements as key pre-result buys; their earnings will likely outperform the sector led by stronger-than-industry volume growth. We also expect Grasim to post strong earnings led by near doubling of VSF profits in addition to continued strong cement earnings. On a relative basis, UltraTech & Ambuja Cements may be underperformers on results due to lower-than-industry volume growth. India Cements' QoQ profit growth will likely be dragged by higher costs but profits will rise strongly YoY led by a combination of better volumes & prices.

Consumers

Potential Result Outperformers: Dabur
Potential Result Underperformers: HLL, ITC

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We expect aggregate consumer sector (ex-retail) profit to grow 15% in the June Q. This will be led by sales growth of 16% and EBITDA growth of 13%. Sales and profit growth forecasts are in line with past trends but our EBITDA growth forecast is the lowest over the last few quarters.

We forecast weaker EBITDA margins owing to rising input costs for HLL and Nestle and in the case of ITC owing to falling cigarette volume and business mix deterioration.

Key issues to watch for in this quarter – HLL – topline growth in the key household and personal (HPC) products , EBITDA margins in light of rising palm oil prices; ITC – cigarette volume growth especially in context of sharp retail price hikes and Nestle – EBITDA margins in lights of higher milk prices.

HLL – We forecast HPC sales to grow 12% but EBIT growth to be merely 7%. For the full company we forecast sales growth of 13.5%, EBITDA growth of 13% and profit growth of 15%

ITC – We forecast gross cigarette sales to grow 16% led by price increase of 22% and volume decline of 6%. This leads to profit growth of 13%, lower than historic trend of ~20% growth.

Energy

Potential Result Outperformers: RIL, GSPL

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- **Oil prices:** Price of ONGC's marker crude Bonny Light is flat YoY. However on a QoQ basis, Bonny light is up 19%. The recovery since mid May 2007 has boosted the average price for the quarter.
- **Refining margins:** Singapore refining margins based on Dubai crude were flat on a YoY basis at US$11.4/bbl. However margins actually showed a sequential growth of 46%. Merrill Lynch Indian benchmark margins based on Dubai crude were up 4% YoY and 28% QoQ
- **Subsidies:** We expect under-recoveries (ie subsidies) in 1Q at Rs129bn to be 26% YoY lower due to a steep decline in auto fuel under-recoveries. Under-recoveries on LPG/ SKO in 1Q are however up 6% YoY.
- **Subsidy upstream companies bear in 1Q uncertain:** The extent of subsidy upstream oil companies like ONGC will bear in 1Q is still uncertain. We have assumed that upstream companies will bear Rs43bn of subsidy in 1Q (ie one-third of subsidy).

Company-wise expectations for the quarter

Reliance Industries

We expect RIL's 1Q FY08 net profit to rise by 16% YoY to Rs29bn. We estimate refining EBIT to rise 12% YoY to Rs23bn driven by 8% rise in margins and crude throughput. Petrochemical EBIT may also increase 28% YoY to Rs14bn mainly due to increase in petrochemical margins in the products in which RIL operates.

We estimate RIL's net profit in 1Q, after considering the impact of IPCL merger, at Rs33bn implying a YoY growth of 18%. With respect to the status of the merger, RIL has obtained the sanction of the Mumbai High court for the merger and is currently awaiting the nod of the Gujarat High court.

R&M companies

R&M companies are likely to report losses in 1Q FY08E pending clarity on oil bonds. Till date there has been no official communiqué to the R&M companies from the oil ministry on the amount of oil bonds that the government may issue to them in 1Q.

However, our discussions with company officials indicate that the government is likely to take a decision on the issue of oil bonds by the third week of this month. In the event oil bonds are issued and are accounted for in 1Q, R&M companies may report profits in 1Q.

Based on our existing estimates (assuming NIL oil bonds), BPCL may report the highest loss of Rs5.2bn in 1Q while HPCL and IOC may report losses of Rs4.6bn and Rs2.8bn respectively.

ONGC

We expect ONGC to achieve YoY growth of 11% in net profit to Rs46bn. This is despite 30% YoY reduction in ONGC's subsidy burden to Rs36bn (assuming upstream share at one-third).

ONGC would be mainly hit by rupee appreciation in the quarter. We expect ONGC's net realization to decline 11% YoY this quarter due to rupee appreciation.

GAIL

We expect GAIL's 1Q net profit to be up 11% YoY to Rs6.5bn. We expect GAIL's EBIT to increase 5% YoY to Rs8.4bn driven by growth in its LPG and petrochemical businesses. The growth in LPG and petrochemicals EBIT is mainly a result of higher product prices. The growth in LPG EBIT is despite 14% YoY rise in subsidy to Rs2.9bn. Pipeline EBIT may however decline 18% YoY to Rs3.4bn mainly due to 19% YoY decline in per unit EBIT margins.

Gas utilities

GSPL

We expect GSPL to report 46% YoY growth in its 1Q FY08E profit to Rs282mn. This would be mainly driven by 42% YoY growth in volumes to 18mmscmd. Transmission tariff may also rise 13% YoY driven by operation of newly commissioned high tariff pipelines.

Petronet LNG

Petronet LNG may report a robust 69% YoY growth in 1Q net profit to Rs949mn. Key drivers for this growth are:

- 27% YoY increase in volumes driven by spot cargoes of LNG
- 15% YoY increase in regasification charges, which is mainly a result of higher regasification charges earned on spot LNG.

Gujarat Gas

We estimate Gujarat Gas' 2Q CY07 net profit to increase 24% YoY Rs273mn. This would be mainly driven by 24% YoY increase in gas distribution volumes. We expect Gujarat Gas' average volumes in 2Q to be around 3.5mmscmd. Distribution margins may also rise 2% YoY driven by decline in gas cost. The key factor driving the decline in gas cost would be the appreciation of the rupee this quarter.

Indraprastha Gas (IGL)

We estimate IGL's 1Q net profit at Rs343mn, up 24% YoY. The growth in net profit would be mainly driven by 16% YoY growth in volumes and 5% YoY improvement in realizations.

Aban Offshore

We estimate Aban's 1Q FY08 consolidated net profit at Rs2.9bn. The results of this quarter are not comparable on a YoY basis as this quarter would also reflect the impact of ASPL's (Aban's Singapore based subsidiary) operations. Aban would benefit from both the increase in fleet size and higher day rates on ASPL's rigs.

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Healthcare

Potential Result Outperformers: Ranbaxy, Biocon
Potential Result Underperformers: Cipla

Mixed 1Q performance expected

We expect sector performance for the quarter to be mixed in 1Q with robust performance likely from Ranbaxy, Biocon, Glenmark while Cipla, Glaxo and Panacea will likely register muted PAT growth for the quarter. We expect average sales growth of 5.6% YoY, EBITDA growth of 3.4% YoY and PAT growth of 22.8% YoY.

One-off generic upsides for both DRL and Ranbaxy

We expect the quarter to witness impact of exclusivity opportunities like generic Zofran for DRL (MLe: US$20mn revenues and US$10mn profits) and generic Pravachol for Ranbaxy (US$6-7mn revenues and about US$3-4mn profits).

Possible positive and negative surprises

A negative surprise is possible if there are higher than expected write-offs in Germany led to lower drug pricing due to healthcare reforms(Reddy's, Ranbaxy) as well as higher than expect impact of Re appreciation. A positive surprise is possible if margins from generics exceed expectation.

Ranbaxy – Benefits from Pravastatin & forex gains

We expect Ranbaxy to deliver robust 60% YoY growth in net profit (Rsbn) despite the high base from generic simvastatin exclusivity in previous 2Q. This will likely be driven by generic pravastatin exclusivity and forex gains in current quarter. We estimate nearly Rs1bn forex gains during the quarter on account of FCCBs and forex loans. Excluding one-offs, (generic Pravastatin in 2Q'07 and generic simvastatin in 2Q'06), we estimate YoY EBITDA growth around 22%.

Dr. Reddy's – continuing generic Zofran impact

Our expectation of Rs1.56 bn net profit for DRL (12% growth YoY) reflects impact of generic Zofran marketing exclusivity upside (US$20mn revenues and about US$10mn profits). We estimate Betapharma revenues to be muted but marginally better than 4Q. DRL's gross margin in the quarter is expected to be about 49-50% and we estimate R&D and SG&A spend to be lower than 4Q.

Cipla – uncertain margin outlook

For Cipla, our expectation of muted 3% YoY PAT growth is on the back of reasonable revenue growth (15% YoY) but sharp drop in EBITDA margin to 20%

from over 26% margin in previous 1Q due to continuing poor product-mix and lower export realizations on account op Re appreciation.

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Industrials

Potential Result Outperformers: BHEL, L&T & IVRCL

- A 39%YoY top-line growth and a 49% growth in bottom-line of Indian Engineering & Construction (E&C) majors during Apr-June 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 likely improvement in execution & EBITDA margins as new priced orders come-in for execution & operating leverage kick-in ex-Suzlon.
- We expect the Indian E&C Sector, represented by BHEL, L&T, Suzlon, ABB, IVRCL and NJCC to report sales growth of 39%YoY, EBITDA growth of 53%YoY and Recurring PAT growth of 49%YoY.
- **L&T**: We expect L&T's growth in order inflow to be muted in the 1QFY08 as the company focuses on improving execution and expect strong sales growth at 25%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 25%YoY, combined with expanding margins (48%YoY EBITDA growth) leading to the bottom-line growth at 53%YoY.
- Meanwhile, **ABB's** strong 2QCY07 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 earnings growth.
- **BHEL** remains our preferred pick on robust order intake (88%YoY) and backlog (46%YoY) for FY07. 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 3.1x FY07 sales. Also, the Indian Government's focus on indigenizing super-critical technology through BHEL & likely implementation of sub-critical / ultra mega power projects at NTPC will aid in future order inflows. Overall BHEL should experience 31% Sales growth, 42% EBITDA growth and a 47%YoY PAT growth.
- **Suzlon**: 1QFY08 is likely to be big quarter for Suzlon's international business due to un-finished project inventory in 4QFY08 (222 MW). We estimate 94% rise in YoY volume led by low international base. Further the consolidation of Hansen would drive YoY growth; however, we note that the numbers are not strictly comparable to the extent that the impact of Hansen financials was only for the period of mid-May-June'06 in 1QFY07. Expect continued pressure of margins but note that YoY comparison may be mis-leading due to change in sales mix & front-loading of global development costs. Consequently, we estimate 100%, 82% and 80% growth in Suzlon's Sales, Ebitda and PAT respectively (on YoY basis).
- **IVRC & Nagarjuna (NJCC)** remain our preferred picks in the Mid-cap E&C space. Expect NJCC's EBITDA to grow 46%YoY in 1QFY08 led by 40% YoY

growth in sales. However, we estimate an 8.2%YoY decline in its net profits as the company will be paying full tax in 1QFY08 on account of the non-availability of the 80-IA tax benefit, vs. 13.3% in 1Q last year and therefore note that YoY growth in PAT is not comparable.

- We expect IVRCL to report 40%YoY growth in sales during 1QFY08 led by good growth in power & transmission as well as water business. We expect the improved pricing & operational efficiency to drive margin and 47%YoY growth in EBITDA. However, we estimate a 26%YoY growth in recurring profits and note that profit growth is not comparable as we estimate the company to pay 25% tax in 1QFY08 on account of the withdrawal of 80-IA tax benefit, vs 14% in 1Q last year.

Media

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Potential Result Outperformers: Sun TV

We expect a strong 1QFY08 for the media companies but caution investors that YoY growth in not comparable for both ZEEL & Sun TV due to corporate action - merger (Sun) & de-merger (Zee).

- **Zee Entertainment Enterprises (ZEEL)**: 1QFY08 for the demerged entity ZEEL (from the erstwhile Zee Telefilms) is not comparable on YoY basis. We expect ZEEL's 1QFY08 to record strong topline of Rs3.6bn despite the cricket series' on competing channels during the quarter. Driver of the strong topline would be the monetization of the advertisement rate hike announced last year. We expect EBITDA of Rs1.16bn translating into margin expansion by 13% given its start-up investments are approaching break-even and lower content cost as compared to 1QFY07. This should lead to Rs790mn of 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** 1QFY08 is not comparable to 1Q last year on account of the recently concluded merger of Gemini and Udaya with Sun TV. We expect strong topline of Rs2bn 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 Rs1.27bn and Recurring PAT of Rs845mn for 1QFY08.

- We expect **Balaji Telefilms** results to be a mixed bag – while there is impact on core business due to cut in 2 of its flagship programs from 5 days to 4 days/week, film business should compensate. MLe sales growth of 13%YoY on the back of a) modest growth in television programming business which in turn would be led by higher realization (Star Price hike effective 2QFY07) and b) overflows from its successful movie co-production *"Shootout at Lokhandwala"* released in May'07. We expect EBITDA growth of 18%YoY led by lower cost of production and Recurring PAT growth of 18%YoY.

- We expect **SIFY** to witness strong 22%YoY growth in its topline led by its consumer businesses of cyber cafes and cable TV led broadband. However, we believe its margins would remain under pressure and the provisions for doubtful debts would continue in 1QFY08. Consequently, we expect EBITDA to decline by 42%YoY and Recurring profits to decline by 69%YoY.

Metals

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Potential Result Outperformers: Tata Steel
Potential Result Underperformers: Hindalco, Nalco

We expect aggregate metals sector profit to grow merely 3.5% in the June Q. This will be led by sales growth of 11% and EBITDA growth of 5%. The disappointing growth forecast is owing to our expectation of declining profit in aluminum companies and flat volume growth in SAIL.

SAIL – We expect June to be the slowest quarter for the SAIL in the recent past with profit growth of only 11% to Rs11.2. This is owing primarily to flat steel volumes. Steel prices have been strong but on a Y-o-Y basis we look for only 4-5% growth in realizations.

Tata Steel – Excluding Corus we forecast profit of Rs11bn, an increase of 16%. This will be led by volume growth of 7% and average realization increase of 13%. In Corus we forecast profit of £133m, in line with operating results of March Q.

Hindalco – We forecast profit to fall 7% to Rs6.1bn led by copper EBIT declining 63% owing to weaker TCRC. In aluminum, we look for flat EBIT.

Nalco – We forecast profit to fall 16% to Rs5.2bn. This is led by Alumin EBIT declining 73% owing to lower realizations.

Retail

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We expect aggregate retail sector profit to grow 25% led by sales growth of 92% and EBITDA growth of 69%. Aggressive new store openings especially in the case of Pantaloon are driving topline growth. However, margins are under pressure led by lower efficiencies in new stores and higher salaries, rent and interest costs.

Pantaloon – we forecast profit to grow 23% to Rs185mn. Though sales have doubled, we forecast EBIDTA margin to contract 110bp. Key issue to watch is same store sales growth which have plummeted to just 2-3% in the last few months.

Shoppers Stop – we forecast profit to grow 30% to Rs70mn. June Q benefits from two new stores in Delhi & Noida but gestation costs will likely lead to margin pressure.

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Software

Potential Result Outperformers: Rolta

Seasonally weak quarter compounded by Rupee woes

Forecast sequential EPS decline of 8 to 9% in the front-liners i.e. Infosys and TCS given annual wage hike, visa application costs and steep sequential Rupee appreciation of 6% in avg. Rupee/USD for the quarter.

Focus on annual guidance revision

Believe the focus will be on outlook for the rest of the year as implied in the annual guidance revision. The demand environment IT consulting and Systems Integration services remains robust as indicated anecdotally and in the result commentary by Accenture last week. Accenture had its strongest bookings ever likely as a result of ongoing merger related IT projects. Moreover, offshore IT services continues to gain market share.

While the demand environment remains strong, we expect USD revenue growth guidance to be raised only marginally, as companies would be cautious in giving revenue guidance early in the year. The EPS guidance in both USD and INR terms is likely to be impacted at least 3 to 5% due to the steep INR/USD appreciation of over 5% since Infosys gave guidance. This implies a 200 to 250bps incremental EBITDA margin impact, that we believe companies will be able to only partly offset by likely better than assumed bill rates, utilization increase and SG&A tightening.

Relatively strong results: Rolta, Satyam, HCLT, Educomp

We expect results from Rolta to stand out at over 10% qoq growth given they derive 60% of revenues from India and hence are immune to the INR appreciation. Moreover, their annual wage hike takes place in the Sep. quarter. Similarly, Satyam will report a lower sequential decline than peers at 2-3%, given its annual wage hike would be in the Sep. quarter.

Educomp is likely to show revenue growth of 227% yoy and profit growth of 357% yoy. They could announce a few significant school wins for Smart class. Q1 is a seasonally weak quarter and typically accounts for only 10% of full year revenues.

We expect strong results from HCLT led by large hedging gains.

Likely weak reported earnings: Wipro, MphasiS BFL, Firstsource, Sasken, Tech Mahindra & Infotech

Apart from the impact of the Rupee and wage hike, we expect the following factors to impact earnings of the following companies in the June quarter, resulting in 13 and 25% sequential PAT decline.

Company	Comment
Wipro	Expect 18% qoq decline in profits, Seasonal weakness in domestic hardware business, base effect with March quarter having higher other income and tax write-back
MphasiS BFL	Expect profit to decline 19% qoq during 1Q. Lack of hedging likely to impact profitability. However, volume growth and outlook likely to be strong.
Firstsource	Expect ~12% sequential decline in profits due to seasonal weakness in collections business, jump in tax rate post a subdued rate in 4Q and the ramp-up costs of the Hutch account
Tech Mahindra	Expect 13% qoq decline in profits. Estimate margin to decline by 307bps to 22.3%, largely driven by cost build up in BT Global Services deal and rupee appreciation.
Sasken	Services revenues to drag even during 1Q impacting overall revenues and profitability.

Company	Comment
	Expect revenues to grow at 2% qoq and profits to decline by 13% qoq. Management guidance on services outlook and product shipments key to re-rating in short term.
Infotech Enterprises	Expect a 25% qoq decline in profit on a high base given the subsidy on Peurto Rican subsidiary reflects in 4Q and low USD hedging
Wipro	Expect 18% qoq decline in profits, Seasonal weakness in domestic hardware business, base effect with March quarter having higher other income and tax write-back

Buy post results: Large caps- TCS, Infosys;Mid-caps- Rolta, MphasiS and Firstsource

We believe the near 15% underperformance of the BSE IT index largely prices in the likely bleak Q1 results and the reduction in annual EPS guidance, due to the appreciation of the Rupee. Given the seasonal strength in next two quarters as the projects signed in calendar Q1 ramp-up and the wage hike gets absorbed, we would be Buyers post results. Large deal closures where Infosys and TCS have indicated a robust large deal pipeline (more than USD50m) in size could also be positive triggers.

Top picks are TCS and Infosys in large caps, given broad based revenue growth and strong margin levers in TCS and sustained growth prospects and reasonable valuation in Infosys. Amongst mid-caps we like Rolta, MphasiS BFL and Firstsource given strong growth in their niches. However, other than Rolta, we would Buy post Jun-quarter results due to a likely weak June quarter for all the others.

Telecom

Potential Result Outperformers: Idea, VSNL, Bharti, RCom
Potential Result Underperformers: MTNL

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Result Expectations – Key Highlights

- **Bharti Airtel:** We forecast Bharti's 1Q FY08E net profit at Rs14.7bn, up 94% YoY and 8% QoQ (ignoring possible upside from rupee appreciation). At the operating level, we expect strong performance to continue & forecast EBITDA growth to outpace topline. Topline is expected to grow 54% YoY & 10% QoQ while EBITDA growth is forecast at 67% YoY & 12% QoQ. Consolidated EBITDA margin is forecast at 42.1%, up 310bps YoY & 60bps QoQ. The QoQ margin expansion will be primarily led by the long-distance biz; on a YoY basis, margins will be higher across businesses. In the dominant wireless biz, Bharti's sub base is forecast to rise 85% YoY & 15% QoQ; wireless ARPU is estimated to fall ~2.5% QoQ & wireless EBITDA margin is forecast to remain stable ~39.1%.

- **Reliance Communication**: For Reliance Communication (RCom) we forecast 1Q FY08E net profit at Rs11.2bn, up 112% YoY and 9% QoQ. Topline is expected to grow 32% YoY & 9% QoQ while EBITDA growth is forecast at 49% YoY & 10% QoQ. Consolidated EBITDA margin is forecast to expand 490bps YoY & 50bps QoQ. As for Bharti, the QoQ expansion in RCom's EBITDA margin will also be led by the long distance biz. In the dominant wireless biz, RCom's EBITDA margin is forecast to remain stable ~38.8%; we do not foresee any sharp escalation in handset subsidies despite recent strong promotion efforts by the company. RCom's wireless sub base is forecast to rise 43% YoY & 15% QoQ; wireless ARPU is estimated to fall ~5% QoQ.

- **Idea Cellular**: We forecast Idea's 1Q FY08E net profit at Rs2.3bn, up 162% YoY and 17% QoQ. Topline is expected to grow 60% YoY & 10% QoQ while EBITDA growth is forecast at 59% YoY & 11% QoQ. EBITDA margin for 1Q FY08E is forecast to remain stable ~33.5% (-/+20 bps YoY/QoQ). Idea's wireless sub base is forecast to grow 86% YoY & 14% QoQ; ARPU is forecast to drop ~2.5% QoQ, in line with the drop for Bharti.

- **MTNL:** MTNL's 1Q FY08E profit is forecast at Rs1.5bn, up 15% YoY and flat QoQ. The YoY growth will be led primarily by higher other income; EBITDA is forecast to drop 16% YoY due to 6% decline in revenues. On a QoQ basis, stable revenues and likely QoQ decline in overheads will help to maintain profits.

- **VSNL**: We forecast VSNL's standalone 1Q FY08E net profit at Rs1.4bn, up 56% YoY and 12% QoQ. The YoY growth will be led by strong revenue & EBITDA growth in the enterprise/data biz. On a QoQ basis, growth will likely be stable. Our estimates continue to factor the retail biz as the demerger is pending statutory approvals.

Textiles & Apparel

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Potential Result Underperformers: Raymond, Arvind Mills

We expect the 1Q results to be disappointing for textile companies with most companies likely to report flat profit growth. Overall, modest to strong volume growth is likely to be set off by a significant drop in margins mainly due to rupee appreciation (such as for Welspun, Gokaldas) and also due to cost pressures (as in case of Arvind, Raymond).

- **Raymond** is likely to report consolidated quarterly results for the first time which is positive from the corporate governance perspective. However, the earnings (not comparable with previous period) are likely to be subdued due to margin pressure in the worsted fabric business on the back of rise in wool prices to 17 year high levels during the quarter. Further, we expect the performance of the denim JV to remain subdued and margins for the retail business to remain under pressure, limiting profit growth on a like to like basis, to single digits.

- **Arvind Mills's** earnings are likely to remain subdued due to continued denim downturn and rising power, salary and interest costs.

- **Welspun India** is likely to report a strong sales growth of ~30% driven by volumes. However, margins are likely to drop significantly on the back of Re appreciation resulting in a flat profit growth.

- **Himatsingka** is likely to report a marginal profit growth for the quarter mainly due to gestation costs for the new bed linen business which has started trial production. However, margins for silk fabric business are likely to expand due to drop in raw silk prices.

- **Gokaldas** is likely to report flat profit growth due to appreciating Re.

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Utilities

Potential Result Outperformers: NTPC & Neyveli Lignite

In the Utility sector, markets would be more focused on increase in generation at NTPC on improving coal supplies helping utilization and progress on future plans such as expansion in generation capacity, update on open access in distribution and AT&C loss reduction in New Delhi JVs of Reliance and Tata Power.

We expect the Indian Utility Sector, represented by NTPC, Reliance Energy, Tata Power, Neyveli, GIPCL and JHPL to report sales growth of 17%YoY, EBITDA growth of 17%YoY and PAT growth of 18% YoY.

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

- We expect **NTPC's** 1QFY08 to address investor concerns of how higher its utilization can go as company is likely to report double digit YoY growth in generation. Fuel cost savings also remain on-track in 1Q 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.

- On recurring basis, we expect 16%YoY growth in NTPC's 1QFY08 PAT. However, we note that the reported PAT growth may be lower at 14%YoY as there was a net extraordinary income mostly from the prior period adjustments in 1QFY07.

- We expect a 32%YoY growth in sales for Reliance Energy led by growth in E&C revenues. We expect recurring PAT to increase by 15%YoY, mainly driven by investment income.

- We expect Tata Power to witness recurring PAT growth of 48%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 20%YoY on EBITDA growth of 15%YoY; while JHPL is likely to report PAT growth at 15%YoY on EBITDA growth of 7%YoY; as they lowered the rate of depreciation in-line with tariff v/s Companies Act rate earlier.

- NTPC & Reliance Energy remain our preferred picks in the sector 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 5: Results forecast for the quarter ended June 30' 07

(Rs mn)	ML Symbol	Q-R-Q Rating	Price 4-Jul-07	Sales 30-Jun-06	Sales 30-Jun-07	% change YoY	% change QoQ	EBITDA 30-Jun-06	EBITDA 30-Jun-07	% change YoY	% change QoQ	Net Profit 30-Jun-06	Net Profit 30-Jun-07	% change YoY	% change QoQ
Automobile															
Ashok Leyland	XDBVF	C-3-7	38	14,239	15,719	10.4%	-31.4%	1,187	1,297	9.3%	-51.1%	720	666	-7.5%	-61.7%
Automotive Axles	XATOF	C-1-7	478.0	1,248	1,379	10.5%	-12.4%	205	238	16.1%	-11.9%	101	121	19.1%	-16.0%
Bajaj Auto Ltd	BJJAF	C-3-7	2098.3	22,027	20,966	-4.8%	-9.4%	3,607	2,705	-25.0%	-17.1%	2,730	2,338	-14.4%	-26.3%
Bharat Forge	XUUVF	C-2-7	308.7	4,206	4,756	13.1%	-7.8%	1,017	1,070	5.2%	-13.9%	560	682	21.8%	6.1%
Eicher Motors	XEICF	C-3-7	350.9	3,831	3,789	-1.1%	-38.8%	183	180	-1.5%	-53.1%	84	84	-0.2%	-59.8%
Hero Honda	HRHDF	C-2-7	688.6	23,644	26,265	11.1%	-0.5%	3,190	2,889	-9.4%	7.5%	2,377	2,090	-12.1%	7.2%
Mahindra & Mahindra	MAHHF	C-2-7	734.0	22,172	24,231	9.3%	-11.8%	2,512	2,653	5.6%	-15.3%	1,915	2,035	6.3%	-11.5%
Maruti Udyog	MUDGF	C-1-7	784.1	31,255	37,953	21.4%	-14.3%	4,566	4,858	6.4%	-11.8%	3,696	3,803	2.9%	-15.2%
Tata Motors	TENJF	C-2-7	688.0	57,834	58,307	0.8%	-29.0%	7,505	6,414	-14.5%	-29.2%	4,094	4,032	-1.5%	-30.1%
TVS Motors	XFKMF	C-3-7	60.3	9,218	7,655	-17.0%	-18.1%	416	249	-40.2%	-16.4%	213	52	-75.7%	-20.7%
Airlines															
Jet Airways	JTAIF	C-1-8	801.9	16,465	18,775	14.0%	-5.1%	2,064	2,982	44.5%	-35.1%	-450	-370	NA	NA
Cement															
ACC	ADCLF	C-2-7	938.3	14,775	18,604	25.9%	11.1%	4,657	5,814	24.8%	14.6%	2,986	3,988	33.5%	16.0%
India Cement	INIAF	C-2-9	207.7	4,852	6,076	25.2%	5.5%	1,655	2,024	22.3%	6.2%	1,126	1,556	38.2%	11.3%
Grasim Industries	GRSJF	C-2-7	2702.6	31,959	39,984	25.1%	-2.6%	9,231	12,335	33.6%	6.2%	4,353	6,370	46.4%	14.0%
Gujarat Ambuja Cements Ltd	AMBUF	C-2-7	124.4	13,341	15,132	13.4%	5.5%	5,154	6,043	17.2%	7.3%	3,481	4,101	17.8%	6.5%
Shree Cement	SREEF	C-2-7	1291.0	3,094	4,245	37.2%	12.2%	1,375	1,836	33.5%	21.4%	904	1,015	12.2%	314.8%
Ultratrech Cemco	XDJNF	C-2-7	884.3	11,803	13,750	16.5%	-6.2%	3,746	4,051	8.1%	-0.8%	2,108	2,332	10.6%	0.7%
Consumer															
Asian Paints	XAPNF	C-2-7	832.2	6,034	7,090	17.5%	-2.5%	939	1,106	17.8%	3.8%	580	697	20.2%	-2.9%
Colgate Palmolive (India) Ltd	CPIYF	C-1-7	382.3	3,096	3,498	13.0%	1.9%	401	505	26.0%	-5.7%	361	438	21.4%	-13.5%
Dabur India Ltd	DBUIF	C-1-7	103.1	4,755	5,579	17.3%	-3.2%	639	809	26.5%	-8.2%	474	607	28.1%	-21.1%
Hindustan Lever Ltd*	HINLF	C-3-7	194.7	30,832	34,994	13.5%	9.9%	4,146	4,689	13.1%	29.5%	3,793	4,354	14.8%	30.4%
ITC	ITCTF	C-2-7	156.1	28,498	33,506	17.6%	-3.3%	9,706	10,863	11.9%	16.8%	6,523	7,362	12.9%	13.1%
Nestle	XNTEF	C-3-7	1142.7	6,812	8,067	18.4%	-6.5%	1,384	1,517	9.6%	-15.2%	810	942	16.3%	-48.8%
Healthcare															
Biocon Ltd	BCLTF	C-1-7	455.3	2,120	2,683	26.5%	-3.5%	540	805	49.0%	-5.5%	390	535	37.3%	-11.4%
Cadila Healthcare	CDLHF	C-1-7	368.8	4,565	5,379	17.8%	20.2%	898	1,038	15.6%	46.0%	584	692	18.5%	77.8%
Cipla	XCLAF	C-3-7	213.6	8,869	10,160	14.6%	5.8%	2,508	2,187	-12.8%	29.4%	1,704	1,752	2.8%	39.4%
Divi's Laboratories	XXQPF	C-3-7	6196.6	1,650	2,124	28.7%	-17.0%	490	637	30.0%	-45.7%	256	438	71.0%	-56.7%
Dr Reddy's Laboratories Ltd	DRYBF	C-1-7	665.1	14,049	12,745	-9.3%	-18.2%	1,818	1,854	2.0%	-45.9%	1,398	1,569	12.3%	-51.7%
Glenmark Pharmaceuticals	XVQWF	C-2-7	670.3	1,916	3,406	77.8%	-2.3%	321	893	178.1%	-11.6%	187	576	208.1%	-8.9%
GSK Pharma	GXOLF	C-1-7	1257.3	4,390	4,520	3.0%	-1.3%	1,251	1,254	0.2%	-13.5%	911	939	3.1%	-15.6%
Matrix Laboratories	MXLBF	C-2-7	262.7	4,489	5,284	17.7%	19.0%	602	740	22.9%	7.4%	356	420	18.0%	68.4%
Nicholas Piramal India Ltd	XNIGF	C-2-7	306.2	5,226	6,271	20.0%	-2.8%	877	1,003	14.4%	18.2%	539	672	24.6%	22.4%
Panacea Biotech	XPEAF	C-1-7	419.7	2,334	2,689	15.2%	18.5%	848	780	-8.1%	83.8%	498	500	0.3%	113.5%
Ranbaxy Laboratories Ltd	XIZZF	C-1-7	364.3	14,562	16,550	13.7%	4.6%	2,648	2,400	-9.4%	25.8%	1,211	1,936	59.9%	44.8%
Sun Pharma	SPCEF	C-1-7	1027.0	5,348	6,119	14.4%	6.9%	2,085	2,486	19.2%	0.0%	1,767	2,061	16.6%	-2.8%
Wockhardt Ltd	XDUVF	C-2-7	391.5	4,127	7,291	76.7%	39.5%	897	1,531	70.7%	32.1%	634	886	39.8%	33.7%
Industrials/ Construction															
ABB	ABVFF	C-1-7	1126.6	9,742	13,639	40.0%	3.9%	1,020	1,549	51.9%	20.9%	719	1,054	46.6%	21.7%
Bharat Heavy Electricals Limited	BHRVF	C-1-7	1546.8	26,564	34,873	31.3%	-49.6%	3,182	4,508	41.7%	-71.6%	2,367	3,469	46.6%	-69.8%
Larsen & Toubro	LTOUF	C-1-7	2259.0	34,689	43,255	24.7%	-31.0%	2,360	3,501	48.3%	-58.1%	1,571	2,399	52.7%	-65.8%
Nagarjuna Construction	NGRJF	C-1-7	196.0	6,517	9,124	40.0%	5.1%	550	801	45.7%	14.0%	384	352	-8.2%	-25.7%
IVRCL Infrastructure	IIFRF	C-1-7	394.9	4,266	5,966	39.9%	-39.9%	406	599	47.4%	-44.2%	260	327	26.0%	-55.3%
Suzlon	SZEYF	C-1-7	1494.9	10,689	21,417	100.4%	-26.6%	1,858	3387	82.3%	-31.6%	952	1,716	80.2%	-52.2%

Table 5: Results forecast for the quarter ended June 30' 07

(Rs mn)	ML Symbol	Q-R-Q Rating	Price 4-Jul-07	Sales 30-Jun-06	Sales 30-Jun-07	% change YoY	% change QoQ	EBITDA 30-Jun-06	EBITDA 30-Jun-07	% change YoY	% change QoQ	Net Profit 30-Jun-06	Net Profit 30-Jun-07	% change YoY	% change QoQ
Software															
Educomp Solutions Ltd	EUSOF	C-1-7	2255.5	94	306	226.6%	-38.7%	35	147	320.0%	-36.9%	19	86	357.4%	-34.5%
Firstsource Solutions	FSSOF	C-1-7	84.7	1,609	2,677	66.4%	-2.6%	313	529	68.6%	-4.3%	123	308	149.7%	-11.9%
HCL Technologies	HCLTF	C-2-7	335.2	12,538	16,152	28.8%	2.4%	2,815	3,489	24.0%	-4.9%	2,331	4,105	76.1%	23.7%
Hexaware Tech	XFTCF	C-1-7	167.2	2,069	2,685	29.8%	1.6%	311	336	8.0%	-15.1%	298	305	2.3%	-13.5%
Infosys Technologies Ltd	INFYF	C-1-7	1947.1	30,150	37,406	24.1%	-0.8%	8,890	10,605	19.3%	-11.4%	7,940	9,429	18.8%	-7.6%
Infotech India	IFKFF	C-1-7	403.3	1,170	1,547	32.2%	2.3%	219	288	31.2%	-6.6%	198	188	-5.0%	-24.5%
Mastek	MSKDF	C-1-7	291.0	1,890	1,890	0.0%	-10.6%	313	311	-0.6%	-14.8%	206	220	7.1%	-7.2%
Mphasis BFL	MPSSF	C-1-7	326.6	2,607	3,469	33.1%	2.8%	315	603	91.4%	-6.8%	152	369	142.8%	-19.0%
Patni Computers Services	PATIF	C-1-7	516.1	5,820	6,802	16.9%	0.0%	986	1,552	57.5%	7.7%	647	1,214	87.6%	7.0%
Rolta	RLTAF	C-1-7	469.6	1,445	1,991	37.8%	7.3%	633	844	33.4%	7.9%	353	503	42.4%	10.4%
Sasken Communication	SKNCF	C-1-7	513.7	911	1,388	52.3%	2.5%	131	217	65.6%	3.1%	87	102	17.9%	-12.8%
Satyam Computers	SAYPF	C-1-7	471.5	14,429	18,011	24.8%	1.2%	3,550	4,048	14.0%	-1.3%	3,541	3,838	8.4%	-2.5%
TCS	TACSF	C-1-7	1127.8	41,443	52,068	25.6%	1.2%	10,016	12,865	28.5%	-11.7%	8,626	10,360	20.1%	-8.6%
Tech Mahindra	TMHAF	C-1-7	1427.3	5,871	9,213	56.9%	5.4%	1,307	2,054	57.1%	-7.4%	1,066	1,702	59.7%	-13.2%
Wipro	WIPRF	C-2-7	515.2	31,456	40,791	29.7%	-5.6%	7,599	8,424	10.9%	-10.6%	8,626	10,360	20.1%	-8.6%
Media															
Balaji Telefilms	BLJIF	C-2-7	232.6	735	835	13.5%	7.8%	260	307	17.8%	0.8%	174	206	18.5%	-3.3%
Sify (US$mn)	SIFY	C-2-9	8.8	29	35	22.0%	6.1%	4	2	-42.2%	365.0%	1	0	-68.8%	NA
Sun TV	SUTVF	C-1-7	1632.9	894	1,966	119.8%	-48.1%	693	1,269	83.3%	-49.7%	422	845	100.0%	-28.9%
Zee Telefilms	XZETF	C-1-7	293.8	3,884	3,608	-7.1%	-6.1%	726	1,156	59.2%	21.5%	549	790	43.8%	30.8%
Metals															
Hindalco	HNDFF	C-3-7	157.6	43,257	53,855	24.5%	13.4%	9,854	9,442	-4.2%	-15.3%	6,535	6,099	-6.7%	-23.6%
NALCO	NAUDF	C-3-7	259.4	14,855	13,005	-12.5%	-17.0%	9,344	7,815	-16.4%	-11.2%	6,223	5,214	-16.2%	-11.7%
SAIL	SLAUF	C-1-7	130.1	68,583	69,310	1.1%	-33.3%	17,803	18,794	5.6%	-37.8%	10,124	11,209	10.7%	-41.0%
TISCO	TAELF	C-1-7	600.7	39,159	47,664	21.7%	-4.3%	15,813	19,530	23.5%	2.6%	9,535	11,042	15.8%	0.1%
Oil & Gas															
Aban Offshore	XBWTF	C-1-7	3067.1	1,238	6,791	448.6%	472.3%	681	5,524	711.2%	1057.8%	191	2,931	1436.3%	892.4%
BPCL	XBPCF	C-2-7	339.8	227,107	249,818	10.0%	3.5%	-2,609	-3,287	NA	NA	-4,265	-5,166	NA	NA
Cairn India	XCANF	B-1-7	147.1	NA	2,525	NA	6.8%	NA	1,448	NA	8.5%	NA	432	NA	15.0%
GAIL	GAILF	C-2-7	45.5	47,303	52,034	10.0%	34.0%	9,416	9,857	4.7%	63.6%	5,921	6,548	10.6%	92.1%
Gujarat Gas Company Ltd	GJGCF	C-3-8	290.0	2,251	2,943	30.7%	-13.1%	380	470	23.7%	-23.9%	221	273	23.7%	-15.4%
Gujarat State Petronet Ltd	GJRSF	C-1-7	58.1	715	1,134	58.6%	36.4%	558	973	74.2%	36.9%	193	282	45.8%	46.1%
HPCL	XHTPF	C-1-7	265.5	206,741	227,415	10.0%	4.1%	-5,166	-2,822	NA	NA	-6,077	-4,642	NA	NA
Indian Oil Corporation Ltd	IOCOF	C-2-7	453.6	531,033	573,515	8.0%	5.3%	-12,975	-662	NA	NA	-19,030	-2,785	NA	NA
Indraprastha Gas Ltd	IAGSF	C-3-7	122.9	1,358	1,649	21.4%	0.3%	541	659	21.8%	-7.3%	276	343	24.2%	-14.3%
ONGC	ONGCF	C-2-7	887.9	146,028	153,934	5.4%	24.2%	81,163	89,698	10.5%	82.6%	41,190	45,691	10.9%	107.1%
Petronet LNG Ltd	POLNF	C-3-7	58.7	10,191	15,636	53.4%	1.6%	1,309	1,993	52.3%	0.1%	561	949	69.2%	-10.5%
Reliance Industries	XRELF	B-1-7	1705.5	245,220	269,742	10.0%	4.2%	42,370	49,637	17.2%	5.6%	25,470	29,429	15.5%	3.2%
Retail															
Pantaloon Retail	PFIAF	C-3-7	517.0	5,752	12,153	111.3%	41.1%	373	656	76.0%	8.9%	158	195	23.5%	4.5%
Shoppers Stop	SHPSF	C-3-7	590.2	1,844	2,418	31.2%	4.9%	119	176	47.8%	16.3%	54	70	29.5%	3.3%
Telecom															
Bharti Televenture	BHTIF	C-1-9	866.6	38,564	59,369	54.0%	10.1%	15,022	25,020	66.6%	11.7%	7,550	14,663	94.2%	8.4%
Idea Cellular	IDEAF	C-1-9	123.7	9,002	14,429	60.3%	10.3%	3,030	4,830	59.4%	10.7%	863	2,258	161.5%	16.8%
MTNL	XMTNF	C-3-7	163.1	12,782	12,057	-5.7%	0.5%	2,859	2,391	-16.4%	8.8%	1,313	1,513	15.2%	1.9%
Reliance Communication	RLCMF	C-1-7	536.6	32,500	42,849	31.8%	8.8%	12,060	17,994	49.2%	10.0%	5,280	11,180	111.7%	9.4%
VSNL	VSLSF	C-2-8	497.7	9,240	11,534	24.8%	6.4%	2,130	2,947	38.4%	9.2%	910	1,423	56.4%	12.1%
Textile/Apparels															
Arvind Mills	ARVZF	C-3-7	45.1	3,546	4,787	35.0%	-0.9%	838	718	-14.3%	6.8%	67	82	22.6%	52.1%

Table 5: Results forecast for the quarter ended June 30' 07

(Rs mn)	ML Symbol	Q-R-Q Rating	Price 4-Jul-07	Sales 30-Jun-06	Sales 30-Jun-07	% change YoY	% change QoQ	EBITDA 30-Jun-06	EBITDA 30-Jun-07	% change YoY	% change QoQ	Net Profit 30-Jun-06	Net Profit 30-Jun-07	% change YoY	% change QoQ
Gokaldas	GKLDF	C-2-7	259.9	2,216	2,548	15.0%	-7.9%	225	260	15.5%	-29.2%	135	135	0.1%	-25.4%
Himatsingka	HMKFF	C-2-7	122.0	432	491	13.7%	30.0%	58	123	111.7%	-2.4%	89	147	64.7%	1.8%
Welspun	WPNIF	C-1-9	64.8	1,989	2,600	30.7%	4.6%	413	377	-8.7%	7.2%	75	76	0.8%	-26.2%
Utilities															
GIPL	GUJIF	C-2-7	66.7	1,921	2,014	4.8%	17.1%	698	729	4.5%	32.9%	359	369	2.8%	55.2%
JP Hydro	XJSHF	C-3-7	35.9	873	938	7.5%	19.7%	778	832	7.0%	15.5%	360	412	14.6%	29.4%
Neyveli Lignite	NEYVF	C-2-7	63.0	6,397	7,418	15.9%	45.4%	3,085	3,555	15.2%	87.5%	2,238	2,683	19.8%	75.3%
NTPC	NTHPF	C-1-7	152.1	71,326	85,486	19.9%	-3.5%	19,750	24,012	21.6%	2.6%	15,318	17,729	15.7%	2.2%
Reliance Energy	RCTDF	C-1-7	614.3	11,549	15,234	31.9%	-5.6%	1,334	1,339	0.4%	124.0%	1,766	2,031	15.0%	9.9%
Tata Power	XTAWF	C-2-7	667.4	13,766	12,709	-7.7%	34.1%	2,581	2,655	2.9%	5157.0%	1,219	1,804	48.1%	94.6%

Source: Merrill Lynch Research

Table 6: Results forecast for the quarter ended June 30' 07

	ML Symbol	Q-R-Q Rating	Price 4-Jul-07	Net Interest Income 30-Jun-06	Net Interest Income 30-Jun-07	% change YoY	% change QoQ	Pre Provision Profits 30-Jun-06	Pre Provision Profits 30-Jun-07	% change YoY	% change QoQ	Net Income 30-Jun-06	Net Income 30-Jun-07	% change YoY	% change QoQ
Financials															
Bank of Baroda	BKBAF	C-1-7	275.0	8,823	10,284	16.6%	-2.2%	5,559	6,686	20.3%	-15.9%	1,633	2,499	53.0%	1.8%
Bank of India	XDIIF	C-1-7	228.6	7,644	8,693	13.7%	-10.2%	4,676	5,759	23.2%	-35.7%	2,087	2,637	26.3%	-41.1%
Canara Bank	CNRKF	C-2-7	277.4	9,478	10,214	7.8%	-3.6%	5,902	6,967	18.0%	-33.8%	1,909	2,212	15.9%	-56.2%
Corporation Bank	XCRRF	C-3-7	336.1	3,168	3,782	19.4%	-6.2%	3,160	3,196	1.1%	-6.9%	1,362	1,417	4.0%	19.6%
Federal Bank	XFDRF	C-1-7	312.3	1,586	2,007	26.5%	-12.0%	1,137	1,536	35.1%	-31.7%	402	739	84.1%	-25.6%
HDFC Bank	XHDFF	C-1-7	1150.6	8,176	11,441	39.9%	2.4%	6,157	8,326	35.2%	0.5%	2,393	3,105	29.8%	-9.6%
IDFC Ltd.	IFDFF	C-2-7	131.7	1,568	2,300	46.7%	9.7%	1,462	2,089	42.9%	23.3%	1,212	1,558	28.5%	36.3%
ICICI Bank	ICIJF	C-1-7	966.2	14,753	18,953	28.5%	1.1%	12,314	15,595	26.6%	-24.1%	6,200	7,487	20.8%	-9.3%
Punjab National Bank	PUJBF	C-1-7	543.4	12,929	14,400	11.4%	1.2%	9,483	10,633	12.1%	20.5%	3,675	4,027	9.6%	69.4%
State Bank of India	SBINF	C-1-7	1582.5	38,841	43,973	13.2%	1.8%	28,365	30,209	6.5%	-23.9%	7,986	8,522	6.7%	-42.9%
Union Bank	UBOIF	C-1-7	133.9	6,345	7,312	15.2%	-13.2%	4,265	5,380	26.1%	-29.1%	1,669	2,099	25.8%	-7.9%
UTI Bank	UTBKF	C-1-7	623.5	3,218	4,395	36.6%	-5.3%	3,072	3,835	24.8%	-9.2%	1,206	1,650	36.8%	-22.2%
Vijaya Bank	VJYAF	C-3-7	51.6	2,583	2,898	12.2%	0.3%	1,951	2,089	7.0%	8.1%	726	858	18.1%	34.7%

Source: Merrill Lynch Research

Table 7: Results forecast for the quarter ended June 30' 07 (including exceptional)

	ML Symbol	QRQ Rating	Price	Net Interest Income 30-Jun-06	Net Interest Income 30-Jun-07	% change YoY	% change QoQ	Pre Provision Profits 30-Jun-06	Pre Provision Profits 30-Jun-07	% change YoY	% change QoQ	Net Income 30-Jun-06	Net Income 30-Jun-07	% change YoY	% change QoQ	Remarks
Financials																
SBI	SBINF	C-1-7	1582.5	38,841	45,724	17.7%	5.8%	28,365	31,299	10.3%	-21.1%	7,986	10,665	33.6%	-28.6%	Rs3.5bn of invst transfer hit
BOB	BKBAF	C-1-7	275.0	8,823	10,284	16.6%	-2.2%	5,559	7,586	36.5%	-4.6%	1,633	2,941	80.1%	19.8%	Rs900mn pre-tax gain from sale of stake in NSE 0.9%
Corp. Bank	XCRRF	C-3-7	336.1	3,168	3,782	19.4%	-6.2%	3,160	3,416	8.1%	-0.5%	1,362	1,538	12.9%	29.8%	Rs270mn pre-tax gain from sale of stake in NSE 0.4%

Source: Merrill Lynch Research

Analyst Certification

We, Jyotivardhan Jaipuria, Vandana Luthra, Rajeev Varma, Reena Verma Bhasin, CFA, Bharat Parekh, Mitali Ghosh, S. Arun, Visalakshi Chandramouli, Siddharth Gupta and Vidyadhar Ginde, 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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Important Disclosures

Investment Rating Distribution: Autos Group (as of 01 Jul 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	39	40.63%	Buy	6	18.18%
Neutral	45	46.88%	Neutral	5	13.51%
Sell	12	12.50%	Sell	1	9.09%

Investment Rating Distribution: Building Group (as of 01 Jul 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	57	52.78%	Buy	11	21.15%
Neutral	46	42.59%	Neutral	8	18.60%
Sell	5	4.63%	Sell	0	0.00%

Investment Rating Distribution: Health Care Group (as of 01 Jul 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	102	47.44%	Buy	26	27.66%
Neutral	103	47.91%	Neutral	34	34.34%
Sell	10	4.65%	Sell	1	11.11%

Investment Rating Distribution: Media & Entertainment Group (as of 01 Jul 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	62	38.04%	Buy	18	32.14%
Neutral	94	57.67%	Neutral	22	25.88%
Sell	7	4.29%	Sell	2	28.57%

Investment Rating Distribution: Non-Ferrous Metals/Mining & Minerals Group (as of 01 Jul 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	58	50.88%	Buy	16	34.04%
Neutral	43	37.72%	Neutral	10	27.78%
Sell	13	11.40%	Sell	0	0.00%

Investment Rating Distribution: Technology Group (as of 01 Jul 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	121	42.61%	Buy	25	23.15%
Neutral	148	52.11%	Neutral	32	23.02%
Sell	15	5.28%	Sell	1	7.14%

Investment Rating Distribution: Telecommunications Group (as of 01 Jul 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	82	44.09%	Buy	17	24.64%
Neutral	82	44.09%	Neutral	18	26.09%
Sell	22	11.83%	Sell	5	31.25%

Investment Rating Distribution: Global Group (as of 01 Jul 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1675	47.16%	Buy	435	29.21%
Neutral	1633	45.97%	Neutral	438	29.67%
Sell	244	6.87%	Sell	47	21.66%

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