

# India Strategy

*We are downgrading our Sensex EPS estimates by 11% for FY09 and by 16% for FY10.*

*Our revised Sensex EPS estimate is Rs908 for FY09 (v/s Rs1,016 earlier) and Rs1,061 in FY10 (v/s Rs1,259).*

*Our current Sensex EPS estimates imply a growth of 8.6% in FY09 and a growth of 16.9% in FY10.*

*The earnings downgrade factors the revised estimates for companies post 2QFY09 results ...*

*...and the changes in key assumptions of commodity prices, currency impact and slowing business momentum.*



## Cutting estimates



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## India Strategy

BSE Sensex: 9,964

S&amp;P CNX: 2,973

7 November 2008

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This is the first significant downgrade in our estimates over the last few years. The downgrade factors the revised estimates for companies post 2QFY09 results, and the changes in key assumptions of commodity prices, currency impact and slowing business momentum. Given the increased uncertainty and the sharp decline in global commodity prices, we believe that earnings could see more risks over the next few quarters.

Key contributors to the downgrade in FY09 Sensex EPS are Tata Steel (downgrade of 53%), Reliance (downgrade of 7%) and Tata Motors (downgrade of 50%). SBI is the only stock where we have seen an earnings upgrade of 16%. For FY10, the Sensex EPS downgrade can be attributed to a larger number of stocks, though the top three downgrades have been in the commodity stocks - Tata Steel (downgrade of 52%), Reliance (downgrade of 10%) and Hindalco (downgrade of 68%).

We now estimate Sensex EPS growth at 8.6% in FY09 and at 16.9% in FY10, after factoring in the downgrades following 2QFY09 results. Key highlights of the earnings growth in FY09 and FY10 are:

- ✍ IT would be the largest contributor to growth in FY09, but would see a much lower contribution in FY10.
- ✍ Oil & Gas would be the leading contributor to Sensex EPS growth for FY10, largely driven by Reliance.
- ✍ Banking would be the second big contributor in FY10. Its contribution in the earnings would higher than the FY09 contribution.
- ✍ Metals would have a negative contribution in both FY09 and FY10. Other sectors with negative contribution in both the years are Cement and Real Estate.

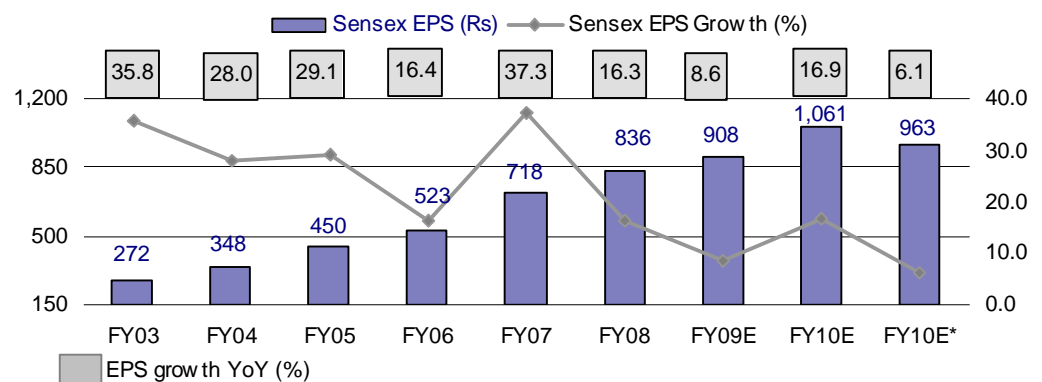
We expect Sensex EPS to grow 3.4% in 2HFY09 as compared to 16.9% in 1HFY09. The growth rate is impacted due to expected loss from Tata Steel and significant decline in earnings of Tata Motors (-54%), Ranbaxy (-59%), Hindalco (-34%). Other companies that would slow the earnings growth in 2HFY09 are ICICI Bank (-10%), Reliance (0%), Reliance Communications (-15%). Stocks with consistent earnings growth in both 1HFY09 and 2HFY09 are - Bharti (29%), HDFC Bank (~37%), SBI (21%).



## Downgrading Sensex EPS estimates for FY09 and FY10

We are downgrading our Sensex EPS estimates by 11% for FY09 and by 16% for FY10. Our revised Sensex EPS estimate is Rs908 for FY09 (v/s Rs1,016 earlier) and Rs1,061 in FY10 (v/s Rs1,259). Our current Sensex EPS estimates imply a growth of 8.6% in FY09 and a growth of 16.9% in FY10. Excluding the new businesses contribution from Reliance, the growth in FY10 Sensex EPS would be just 6%.

SENSEX EPS AND GROWTH

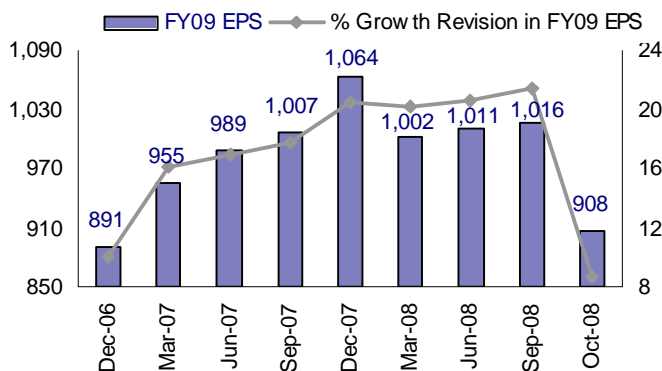


\* Excl RPL & new E&P of Reliance

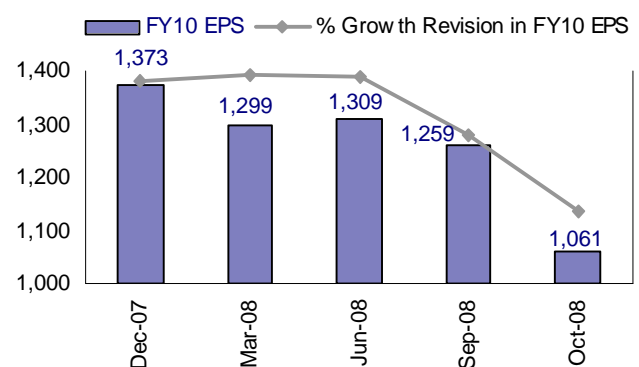
Source: MOSL

This is the first significant downgrade in our estimates over the last few years. The earnings downgrade factors the revised estimates for companies post 2QFY09 results, and the changes in key assumptions of commodity prices, currency impact and slowing business momentum. Given the increased uncertainty and the sharp decline in global commodity prices, we believe that earnings could see more risks over the next few quarters.

TREND IN FY09E SENSEX EPS AND REVISION



TREND IN FY10E SENSEX EPS AND REVISION



Source: MOSL

## TOP 5 CONTRIBUTORS TO SENSEX EARNINGS DOWNGRADE

| FY09E          |                    |              | FY10E          |                    |              |
|----------------|--------------------|--------------|----------------|--------------------|--------------|
| COMPANY        | CONTRIB. TO SENSEX | EPS          | COMPANY        | CONTRIB. TO SENSEX | EPS          |
|                | EPS CHG. %         | REVISION (%) |                | CHG. %             | REVISION (%) |
| Tata Steel     | -63.9              | -52.7        | Tata Steel     | -39.1              | -52.2        |
| Reliance Inds. | -9.5               | -7.3         | Reliance Inds. | -13.4              | -10.4        |
| ONGC           | -6.1               | -7.6         | Hindalco       | -11.5              | -68.0        |
| Tata Motors    | -5.7               | -50.2        | Tata Motors    | -4.0               | -52.5        |
| Hindalco       | -3.5               | -14.8        | Sterlite Inds. | -3.6               | -30.0        |

Source: MOSL

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## SUMMARY OF EARNINGS DOWNGRADES AND UPGRADES FOR FY09 AND FY10

|                  | FY09   | FY10   |
|------------------|--|--|
| <b>Upgrade</b>   |  |  |
| 0-5%             | HDFC Bank, Reliance Comm, HDFC, Sterlite Inds, NTPC  | SBI, Reliance Infra, NTPC  |
| 5%+              | SBI  | -  |
| <b>Downgrade</b> |  |  |
| 20% +            | Tata Steel, Tata Motors                              | Tata Steel, Hindalco, Tata Motors, Sterlite, Ranbaxy, Grasim, ACC and Tata Power |
| 10-20%           | Hindalco, Ranbaxy                                    | DLF, Jaiprakash Associates, TCS, Wipro, Satyam and Reliance                      |
| 5-10%            | Grasim, Reliance Inds., ONGC, L&T, BHEL, TCS and DLF | ONGC, Infosys, L&T, and Reliance Communication                                   |
| 0-5%             | Rest   | Rest   |

Source: MOSL

SBI and NTPC are the two stocks that witnessed upgrades for both the years.

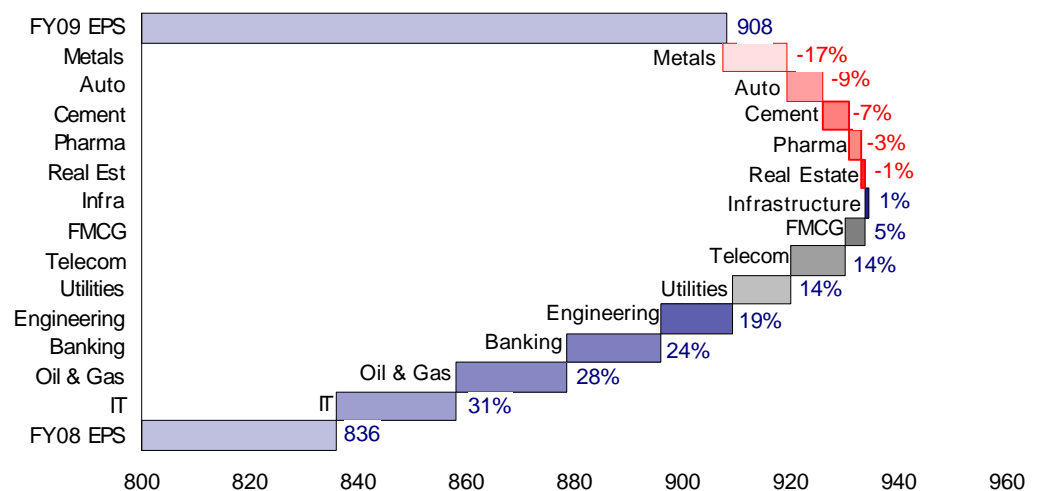
Global commodities dominate the downgrades for FY09 and FY10.

## Sensex EPS to grow 8.6% in FY09, 16.9% in FY10

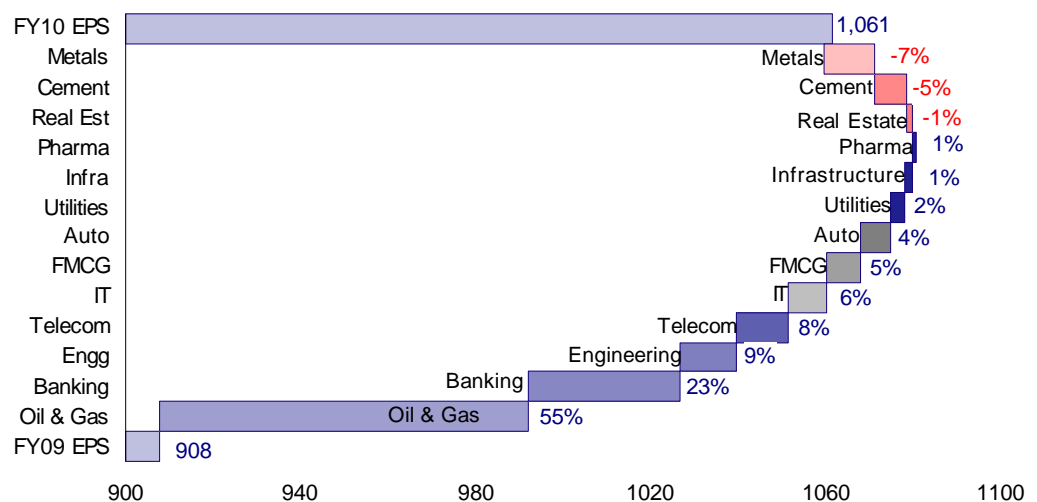
We now estimate Sensex EPS growth at 8.6% in FY09 and at 16.9% in FY10, after factoring in the downgrades following 2QFY09 results. Key highlights of the earnings growth in FY09 and FY10 are:

- ✍ IT would be the largest contributor to growth in FY09, but would see a much lower contribution in FY10.
- ✍ Oil & Gas would be the leading contributor to Sensex EPS growth for FY10, largely driven by Reliance.
- ✍ Banking would be the second big contributor in FY10. Its contribution in the earnings would higher than the FY09 contribution.
- ✍ Metals would have a negative contribution in both FY09 and FY10. Other sectors with negative contribution in both the years are Cement and Real Estate.

SECTORAL CONTRIBUTION TO SENSEX EPS OVER FY08-09 (RS)



SECTORAL CONTRIBUTION TO SENSEX EPS OVER FY09-10 (RS)



% indicates sector contribution to earnings growth

Source: MOSL

The composition of the BSE Sensex EPS has seen some interesting changes over the last few years:

- ✍ Autos and Cement have a much lower contribution to Sensex EPS in FY10 when compared to their contribution in FY05.
- ✍ Telecom's share has risen from 1.7% in FY05 to 7.8% in FY10, fourth highest share in the Sensex EPS.
- ✍ Metals will see a significant drop in their contribution to 9% in FY10, even lower compared to their contribution of 13.6% in FY05.
- ✍ Share of Banking and Oil & Gas has remained unchanged at ~45%.

#### SECTOR-WISE CONTRIBUTION TO SENSEX EPS

| SECTOR         | CONTRIBUTION (%) |      |      |      |       |       |
|----------------|------------------|------|------|------|-------|-------|
|                | FY05             | FY06 | FY07 | FY08 | FY09E | FY10E |
| Auto           | 7.8              | 8.0  | 7.0  | 5.8  | 4.4   | 4.4   |
| Banking        | 21.7             | 20.9 | 18.2 | 19.4 | 19.5  | 20.0  |
| Cement         | 5.0              | 4.6  | 6.8  | 5.9  | 3.6   | 2.4   |
| Engineering    | 3.4              | 4.6  | 5.4  | 5.1  | 6.2   | 6.5   |
| FMCG           | 6.9              | 7.1  | 5.8  | 5.3  | 5.2   | 5.2   |
| Infrastructure | -                | -    | -    | 0.6  | 0.6   | 0.7   |
| IT             | 9.0              | 11.7 | 12.8 | 12.8 | 14.1  | 12.9  |
| Media          | 0.6              | -    | -    | -    | -     | -     |
| Metals         | 13.6             | 12.2 | 11.0 | 10.9 | 11.8  | 9.0   |
| Oil & Gas      | 25.6             | 22.2 | 20.6 | 20.1 | 20.4  | 25.4  |
| Pharma         | 2.7              | 1.9  | 3.2  | 1.7  | 0.3   | 0.3   |
| Real Estate    | -                | -    | -    | 2.0  | 1.7   | 1.3   |
| Telecom        | 1.7              | 2.4  | 5.7  | 7.4  | 7.8   | 7.8   |
| Utilities      | 2.0              | 4.6  | 3.4  | 2.9  | 4.5   | 4.1   |

Source: MOSL

## KEY PERFORMANCE INDICATORS FOR SENSEX CONSTITUENTS

| COMPANY                 | PAT (RS B)   |              |              | EPS (RS)   |            |              | EPS GROWTH (%) |            |             | P/E (X)     |             |            |
|-------------------------|--------------|--------------|--------------|------------|------------|--------------|----------------|------------|-------------|-------------|-------------|------------|
|                         | FY08         | FY09E        | FY10E        | FY08       | FY09E      | FY10E        | FY08           | FY09E      | FY10E       | FY08        | FY09E       | FY10E      |
| ACC                     | 13           | 11           | 8            | 68.1       | 58.2       | 41.7         | 15.4           | -14.5      | -28.3       | 7.0         | 8.2         | 11.5       |
| Bharti Airtel           | 67           | 87           | 104          | 35.4       | 45.7       | 55.0         | 57.4           | 29.3       | 20.4        | 18.4        | 14.2        | 11.8       |
| BHEL                    | 25           | 34           | 44           | 51.3       | 69.6       | 89.9         | 3.9            | 35.8       | 29.1        | 27.4        | 20.2        | 15.6       |
| DLF                     | 78           | 75           | 68           | 45.8       | 43.8       | 40.0         | 262.8          | -4.5       | -8.7        | 6.1         | 6.4         | 7.0        |
| Grasim Industries       | 27           | 23           | 19           | 293.9      | 250.4      | 202.1        | 37.0           | -14.8      | -19.3       | 3.5         | 4.2         | 5.2        |
| HDFC                    | 19           | 24           | 29           | 85.8       | 84.7       | 99.7         | 38.2           | -1.3       | 17.8        | 19.8        | 20.1        | 17.1       |
| HDFC Bank               | 17           | 22           | 30           | 40.1       | 52.5       | 65.9         | 18.6           | 30.8       | 25.7        | 27.1        | 20.8        | 16.5       |
| Hind. Unilever          | 18           | 20           | 23           | 8.1        | 9.2        | 10.7         | 16.4           | 12.7       | 17.4        | 30.7        | 27.2        | 23.2       |
| Hindalco                | 20           | 21           | 11           | 16.1       | 11.9       | 6.1          | -33.2          | -26.3      | -48.5       | 3.7         | 5.1         | 9.9        |
| ICICI Bank              | 42           | 39           | 47           | 37.4       | 34.8       | 42.7         | 8.0            | -6.8       | 22.6        | 11.5        | 12.4        | 10.1       |
| Infosys                 | 46           | 58           | 63           | 81.3       | 100.4      | 109.1        | 18.8           | 23.6       | 8.7         | 15.5        | 12.6        | 11.6       |
| ITC                     | 31           | 34           | 39           | 8.3        | 9.0        | 10.5         | 15.4           | 8.8        | 16.2        | 21.1        | 19.4        | 16.7       |
| Jaiprakash Associates   | 6            | 7            | 9            | 5.2        | 5.5        | 6.9          | 37.5           | 5.4        | 26.1        | 16.9        | 16.0        | 12.7       |
| Larsen & Toubro         | 23           | 31           | 38           | 39.3       | 53.5       | 64.7         | 25.1           | 36.3       | 21.0        | 22.2        | 16.3        | 13.5       |
| Mahindra & Mahindra     | 17           | 17           | 21           | 64.5       | 66.4       | 81.0         | 17.1           | 3.0        | 21.9        | 5.8         | 5.6         | 4.6        |
| Maruti Suzuki           | 17           | 15           | 17           | 59.9       | 52.1       | 59.1         | 10.8           | -13.0      | 13.5        | 10.0        | 11.5        | 10.1       |
| NTPC                    | 76           | 84           | 84           | 9.2        | 10.2       | 10.2         | 15.2           | 10.6       | 0.4         | 16.5        | 14.9        | 14.8       |
| ONGC                    | 199          | 254          | 226          | 92.9       | 118.6      | 105.5        | 11.8           | 27.6       | -11.0       | 8.0         | 6.3         | 7.0        |
| Ranbaxy Labs            | 8            | 4            | 6            | 19.4       | 8.6        | 12.5         | 51.6           | -55.4      | 44.6        | 11.3        | 25.3        | 17.5       |
| Reliance Comm           | 55           | 58           | 65           | 26.7       | 28.3       | 31.5         | 71.0           | 6.0        | 11.2        | 8.5         | 8.1         | 7.3        |
| Reliance Inds.          | 153          | 163          | 295          | 105.0      | 103.7      | 186.3        | 27.7           | -1.2       | 79.7        | 11.6        | 11.7        | 6.5        |
| Reliance Infrastructure | 7            | 10           | 10           | 29.1       | 40.6       | 41.5         | -14.8          | 39.8       | 2.2         | 19.3        | 13.8        | 13.5       |
| Satyam Computer         | 17           | 22           | 23           | 25.2       | 33.3       | 34.2         | 17.7           | 31.7       | 2.9         | 11.0        | 8.4         | 8.1        |
| State Bank              | 90           | 108          | 121          | 141.9      | 170.9      | 192.0        | 17.3           | 20.4       | 12.3        | 8.8         | 7.3         | 6.5        |
| Sterlite Inds.          | 45           | 46           | 28           | 64.0       | 65.3       | 40.0         | -22.2          | 1.9        | -38.7       | 3.8         | 3.8         | 6.2        |
| Tata Motors             | 19           | 13           | 14           | 36.1       | 23.3       | 26.3         | -10.0          | -35.4      | 12.8        | 4.4         | 6.8         | 6.0        |
| Tata Power              | 7            | 15           | 18           | 32.7       | 62.4       | 76.8         | 25.4           | 91.1       | 23.0        | 22.6        | 11.8        | 9.6        |
| Tata Steel              | 77           | 62           | 71           | 94.2       | 75.7       | 86.2         | 34.1           | -19.6      | 13.8        | 2.0         | 2.5         | 2.2        |
| TCS                     | 50           | 55           | 58           | 51.3       | 56.1       | 59.5         | 23.1           | 9.5        | 6.0         | 10.2        | 9.3         | 8.8        |
| Wipro                   | 32           | 36           | 38           | 22.1       | 24.5       | 25.8         | 12.0           | 10.7       | 5.6         | 11.8        | 10.6        | 10.1       |
| <b>Sensex</b>           | <b>1,300</b> | <b>1,446</b> | <b>1,626</b> | <b>836</b> | <b>908</b> | <b>1,061</b> | <b>16.3</b>    | <b>8.6</b> | <b>16.9</b> | <b>11.9</b> | <b>11.0</b> | <b>9.4</b> |

Source: MOSL

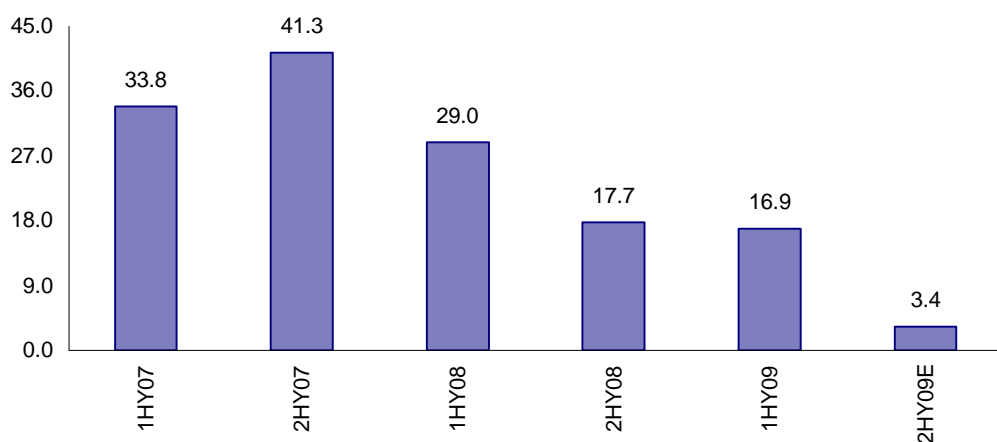
- ✍ Of the 30 Sensex companies, we expect EPS of 11 companies to decline in FY09, followed by 6 companies in FY10
- ✍ Companies with most consistent growth in FY09, FY10 are Bharti, BHEL, HDFC Bank and L&T.
- ✍ Companies with negative earnings growth in both the years are ACC, DLF, Grasim, Hindalco and Tata Motors.
- ✍ Earnings of all the IT companies are expected to grow in single digits in FY10.
- ✍ EPS of ONGC will see a decline in FY10 due to assumption of lower oil prices.
- ✍ FMCG will report an average growth of 16% in FY10, much higher than the Sensex average of 6% (ex-Reliance growth).



### 2HFY09 earnings growth to be muted at 3.4% v/s 16.9% in 1HFY09

We expect Sensex EPS to grow 3.4% in 2HFY09 as compared to 16.9% in 1HFY09. The growth rate is impacted due to expected loss from Tata Steel and significant decline in earnings of Tata Motors (-54%), Ranbaxy (-59%), Hindalco (-34%). Other companies that would slow the earnings growth in 2HFY09 are ICICI Bank (-10%), Reliance (0%), Reliance Communications (-15%). Stocks with consistent earnings growth in both 1HFY09 and 2HFY09 are - Bharti (29%), HDFC Bank (~37%), SBI (21%).

SLOWDOWN IN HALF-YEARLY SENSEX EPS GROWTH

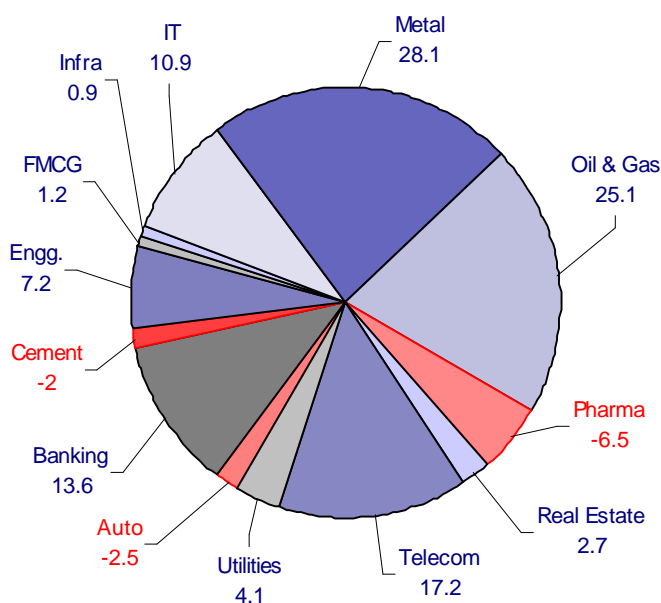


Note: 1HY09 & 2HY09E includes DLF, others excludes DLF

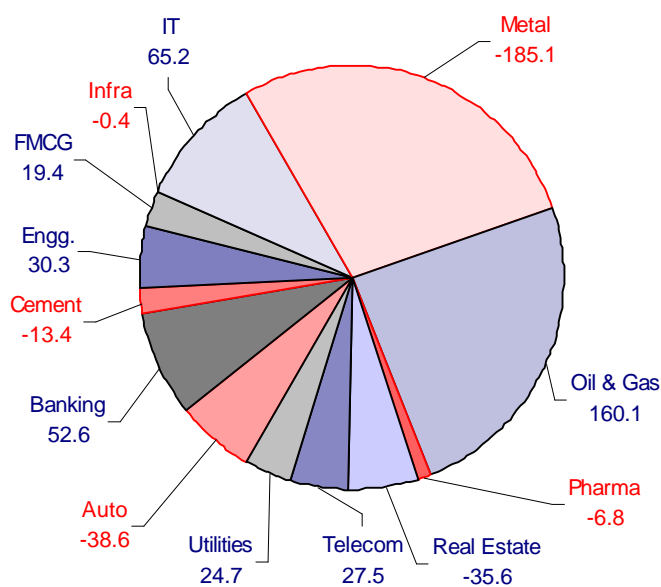
Source: MOSL

SECTORAL CONTRIBUTION TO GROWTH IN SENSEX EARNINGS (%)

1HY09



2HFY09E



Source: MOSL

## Key assumptions causing change in earnings estimates

Among the key assumptions that have led to changes in our earnings estimates for FY09 and FY10 are: (1) commodity prices, (2) oil price movement, (3) currency fluctuation, and (4) interest rates, in descending order of magnitude.

- 1) **Commodity prices:** Average blended realization will decline by Rs6,000/tonne QoQ in 3QFY09 and further by Rs4,000/tonne in 4QFY09 v/s flat prices earlier. During January to March 2009, steel prices should get stabilized. Thus, in-effect average prices during FY10 will be close to average prices in FY08 e.g. Rs28,000/tonne for HRC.

✍ **Positive** for Autos, Capital Goods, Construction

✍ **Negative** for Metals and Mining

### SAIL: REALIZATIONS

|          | (RS'000/TON) | CHG. % YOY |
|----------|--------------|------------|
| FY07     | 28.9         | 13.4       |
| FY08     | 32.6         | 12.8       |
| 1H FY09  | 43.9         | 41.1       |
| 2H FY09E | 38.1         | 12.6       |
| FY09E    | 40.7         | 24.9       |
| FY10E    | 36.2         | -11.1      |

Source: MOSL

- 2) **Oil price movement:** Crude oil prices have cooled off significantly in the recent past taking cues from the global meltdown. We have lowered our realization assumptions for upstream companies (with exchange rate providing a bit of a cushion). The OMCs and refineries have been benefited to the extent of lower subsidy burden. We have revised our Brent oil price assumptions downwards for FY09/FY10/FY11/long-term from US\$110/90/80/75 per barrel to US\$97/80/75/65 per barrel.

✍ **Positive** for Autos, Manufacturing, OMCs

✍ **Negative** for Upstream Oil companies, as gross realizations decline

### BRENT CRUDE PRICE

|          | (US/BBL) | CHG. % YOY |
|----------|----------|------------|
| FY07     | 64       | 11.1       |
| FY08     | 82       | 27.8       |
| 1H FY09  | 119      | 65.5       |
| 2H FY09E | 75       | -19.2      |
| FY09E    | 97       | 17.8       |
| FY10E    | 80       | -17.5      |

Source: MOSL

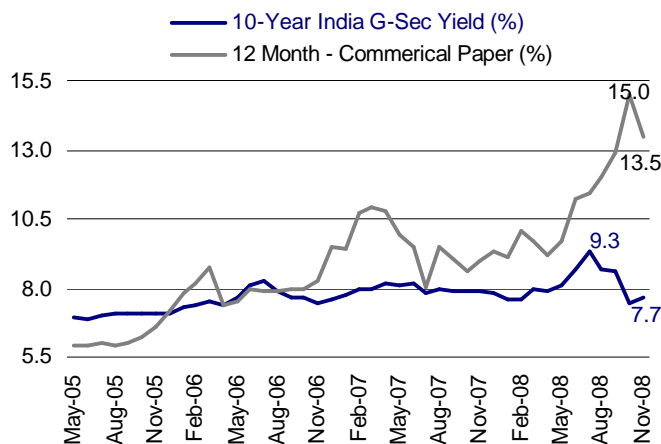
**3) Currency fluctuations:** The rupee has plunged to Rs50/US\$ from a high of Rs39/US\$ in January 2008. We have revised our exchange rate assumption to an average of Rs45.2/US\$ for FY09 and Rs44/US\$ for FY10 against our earlier assumption of Rs43/US\$ for FY09 and Rs42/US\$ for FY10.

✍ **Positive** for IT, Upstream Oil Companies, Capital Goods (Exports), etc

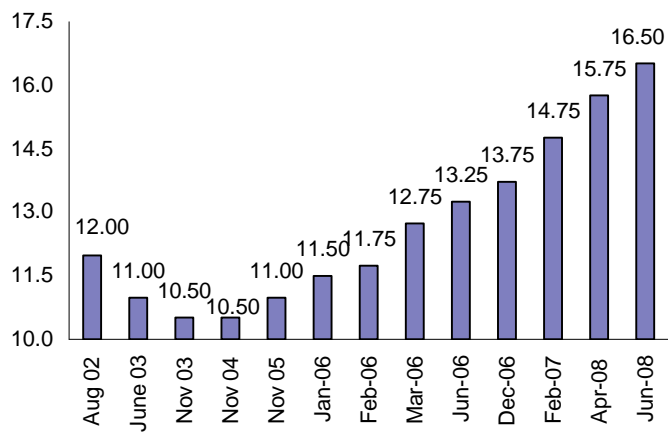
✍ **Negative** for almost all sectors/companies given forex loans, costlier imports, etc.

**4) Interest rates:** Higher interest rates and tight liquidity is impacting corporate activity. While the last few weeks has seen several measures by the RBI to ease liquidity and interest rates, risk premiums have still remained high. Retail lending has slowed down significantly from banks and NBFCs. On the corporate loans, we expect risk premiums to remain high despite benchmark rates declining. We have increased our interest cost assumptions for companies, in line with the trend of 2QFY09. We have also increased our growth assumptions for banks as they are expected to earn higher margins.

INTEREST RATE: 10-YEAR V/S 12-MONTH COMMERCIAL PAPER (%)



ICICI BANK PLR (%)



Source: MOSL

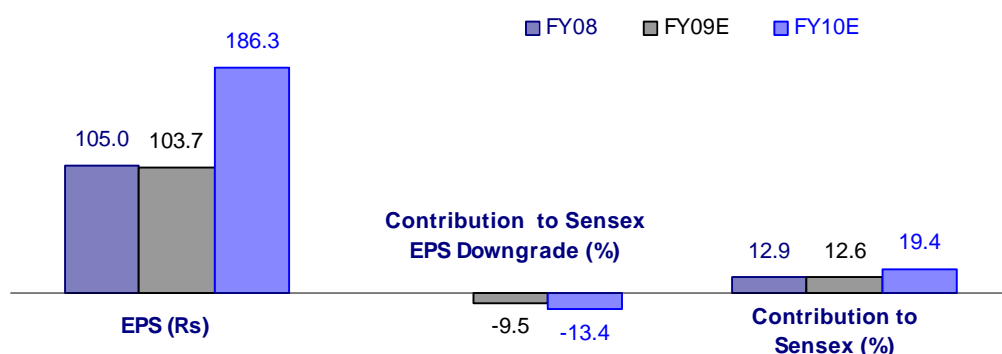
## Key risk to earnings remains from global commodities

Our earnings estimates have seen a significant downgrade, largely driven by the global commodities. We believe that the catalysts and key risk to these estimates remains from the commodity sector. Reliance Industries and Metals (mainly Tata Steel) can naturally influence our new estimates.

### 1) Sensitivity of FY10E Sensex EPS to RIL's earnings

Currently, we expect RIL to report a EPS growth of 79.7% in FY10, and it contributes 19% of FY10E Sensex EPS. Excluding the new business contribution from Reliance, the growth in FY10 Sensex EPS is only 6% to Rs963.

RELIANCE INDS EPS (RS) AND CONTRIBUTION TO SENSEX



Source: MOSL

RELIANCE INDUSTRIES (RS B)

|                            | FY07       | FY08       | FY09E      | FY10E      |
|----------------------------|------------|------------|------------|------------|
| RIL GRM (US\$/bbl)         | 11.7       | 15.0       | 13.3       | 11.8       |
| Singapore GRM (US\$/bbl)   | 6.1        | 7.7        | 6.0        | 6.0        |
| Premium (US\$/bbl)         | 5.6        | 7.3        | 7.3        | 5.8        |
| RPET GRM (US\$/bbl)        |            |            |            | 13.8       |
| KG- D6 Gas Volume (mmscmd) |            |            |            | 48         |
| <b>Segmental EBIT</b>      |            |            |            |            |
| Refining                   | 77         | 103        | 109        | 90         |
| RPET EBIT                  |            |            |            | 87         |
| Petchem                    | 66         | 71         | 65         | 46         |
| E&P & Others               | 13         | 15         | 28         | 139        |
| <b>Total EBIT</b>          | <b>156</b> | <b>190</b> | <b>202</b> | <b>362</b> |

Source: MOSL

### Key assumptions for RIL in FY10

✎ We have assumed refining margins for Reliance at US\$12/bbl in 2HFY09 v/s US\$14.6/bbl in 1HFY09. For FY10, we have estimated refining margins at US\$11.7/bbl. Any weakness in the margins will have a significant impact on Reliance's earnings.

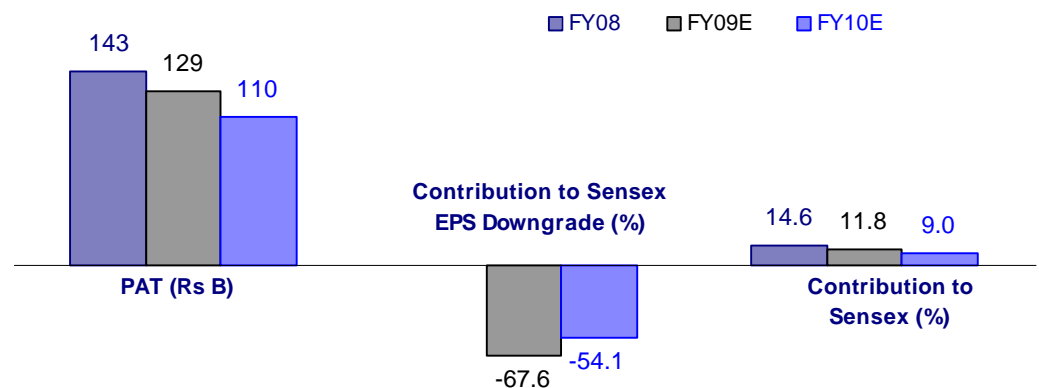
- ✍ Gas production is now expected to start in 4QFY09. Gas volume assumptions for FY10 at 48mmscmd v/s 57.5mmscmd, earlier. Any further delay is a key risk.

## 2) Sensitivity of FY10E Sensex EPS to Metals sector earnings

Metal sector contributes 12% to Sensex EPS in FY09 and further declines to 9% in FY10. Our revised earnings estimates for Metals have contributed to 68% of the downgrade in FY09. Our estimates factor in the sharp correction in the prices till date. Any further price declines or extension of production cuts would further result in lowering of earnings, which will also put pressure on the Sensex EPS.

A 10% change in the cumulative FY10 earnings of Metals companies would result in the Sensex EPS estimate for FY10 being changed by 1%.

METALS SECTOR: PAT (RS B) AND CONTRIBUTION TO SENSEX



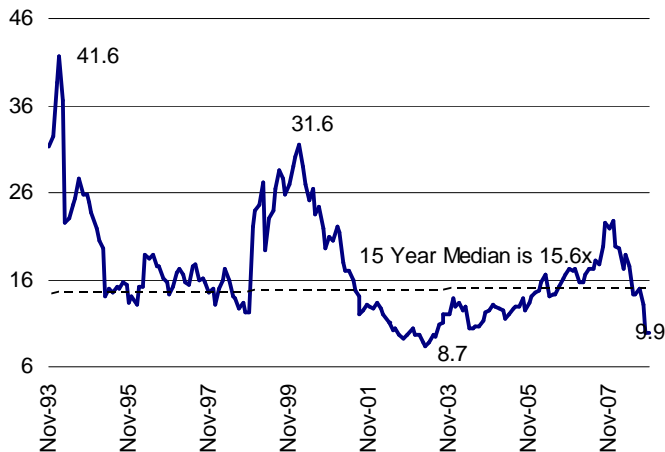
Source: MOSL

### Key assumptions

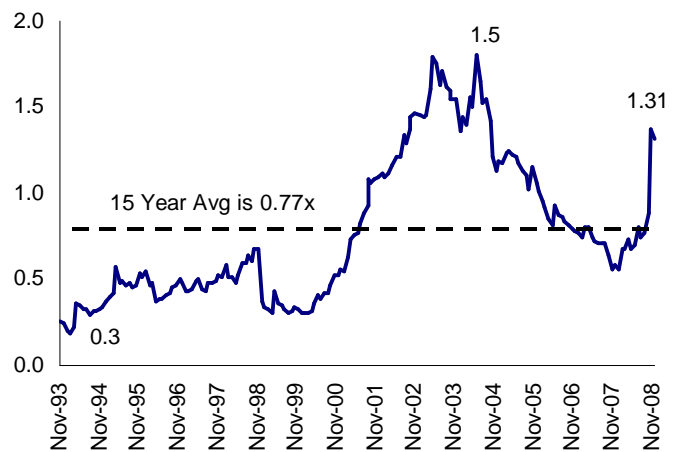
- Tata Steel:** Steel prices would decline by Rs6,000/ton QoQ in 3QFY09 and further by Rs4,000/ton in 4QFY09 on blended realization basis. Average prices during FY10 would be close to the average prices in FY08.
- Hindalco:** Our new aluminum price assumption is US\$2,000/ton for 2HFY09 and US\$2,000/ton (earlier US\$3,000/ton) for FY10.
- Sterlite Industries:** Our LME zinc price assumption has been revised from US\$2,000/ton to US\$1,850/ton for FY09 and to US\$1,200/ton (earlier US\$2,000/ton) for FY10.

## Valuations

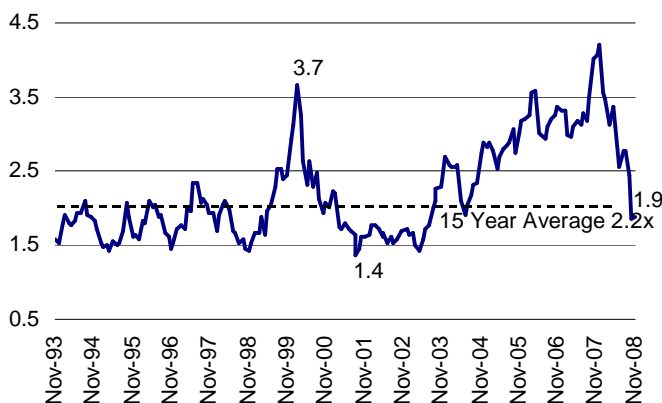
SENSEX P/E (X)



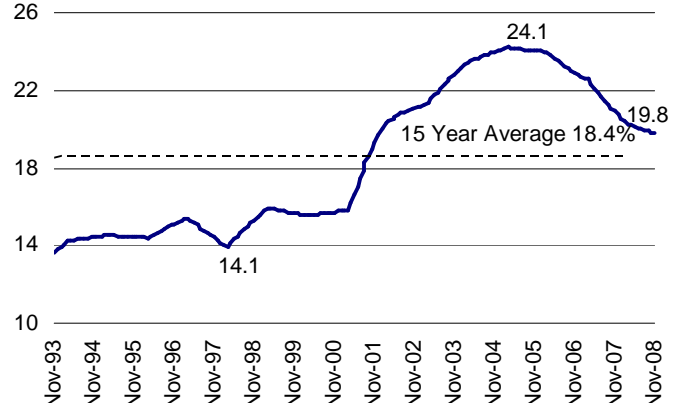
SENSEX EARNINGS YIELD V/S BOND YIELD



SENSEX P/BV (X)



SENSEX ROE (%)



Source: MOSL

- ✍ The BSE Sensex P/E is trading at 9.9x, much below its 15-year median P/E of 15.6x. This is close to its all time low P/E of 9.7x made in January 2003.
- ✍ Earnings yield to bond yield has corrected from low of 0.56 to 1.31. As we expect interest rates to further decline, current market levels will take this ratio to highest (most attractive) level in 15 years.
- ✍ RoE has declined from 24% in 2005 to 19.8% now. We expect the RoEs to further drop as earnings growth slows down over the next few quarters.

## ANNUAL PERFORMANCE - MOSL UNIVERSE

(RS BILLION)

| SECTOR<br>Y/E MARCH                   | SALES         |               |             |             | EBITDA       |              |             |             | NET PROFIT   |              |             |             |
|---------------------------------------|---------------|---------------|-------------|-------------|--------------|--------------|-------------|-------------|--------------|--------------|-------------|-------------|
|                                       | FY09E         | FY10E         | CH. (%)     | * CH. (%)#  | FY09E        | FY10E        | CH. (%)     | * CH. (%)#  | FY09E        | FY10E        | CH. (%)     | * CH. (%)#  |
| Auto (7)                              | 952           | 1,062         | 7.6         | 9.5         | 96           | 116          | -4.4        | 7.5         | 62           | 72           | -5.4        | 4.3         |
| Banks (20)                            | 890           | 1,055         | 26.5        | 22.5        | 710          | 863          | 24.0        | 22.7        | 352          | 411          | 15.2        | 15.9        |
| Cement (7)                            | 457           | 480           | 9.2         | 7.2         | 120          | 103          | -8.8        | -11.3       | 69           | 56           | -10.0       | -14.4       |
| Engineering (10)                      | 1,137         | 1,370         | 28.2        | 24.3        | 153          | 200          | 22.7        | 26.9        | 114          | 140          | 27.6        | 25.3        |
| FMCG (12)                             | 661           | 757           | 19.5        | 17.0        | 119          | 141          | 12.7        | 15.3        | 86           | 103          | 13.2        | 16.2        |
| IT (8)                                | 1,081         | 1,195         | 28.2        | 19.1        | 257          | 269          | 25.8        | 14.8        | 206          | 218          | 21.0        | 13.3        |
| Infrastructure (9)                    | 324           | 432           | 32.4        | 32.8        | 50           | 69           | 38.3        | 38.3        | 19           | 26           | 8.3         | 23.8        |
| Media (6)                             | 68            | 79            | 20.0        | 18.4        | 24           | 29           | 14.7        | 18.0        | 15           | 19           | 13.4        | 19.9        |
| Metals (8)                            | 3,340         | 3,118         | 16.4        | 4.2         | 530          | 483          | -9.2        | -9.1        | 278          | 246          | -12.3       | -11.9       |
| Oil Gas & Petchem (10)                | 9,694         | 9,468         | 28.3        | 11.9        | 944          | 1,263        | 3.6         | 17.8        | 514          | 701          | 1.8         | 17.8        |
| Pharma (15)                           | 466           | 537           | 21.9        | 18.5        | 96           | 116          | 16.8        | 19.0        | 58           | 82           | -11.1       | 12.4        |
| Real Estate (2)                       | 207           | 225           | 11.7        | 10.1        | 115          | 109          | -3.8        | -4.3        | 87           | 82           | -7.7        | -7.2        |
| Retail (3)                            | 128           | 161           | 39.7        | 32.7        | 11           | 15           | 44.6        | 38.8        | 4            | 6            | 35.1        | 43.1        |
| Telecom (3)                           | 708           | 885           | 34.0        | 29.5        | 279          | 363          | 28.0        | 29.0        | 154          | 184          | 16.5        | 17.8        |
| Textiles (5)                          | 118           | 142           | 15.2        | 17.9        | 18           | 21           | 14.1        | 17.5        | 3            | 5            | -17.7       | 11.6        |
| Utilities (5)                         | 675           | 770           | 17.2        | 15.7        | 154          | 175          | 14.5        | 13.9        | 112          | 116          | 20.2        | 11.8        |
| Others (8)                            | 150           | 185           | 29.2        | 26.3        | 29           | 38           | 31.6        | 31.0        | 16           | 21           | 25.2        | 27.9        |
| <b>MOSL (138)</b>                     | <b>21,055</b> | <b>21,922</b> | <b>23.9</b> | <b>13.6</b> | <b>3,706</b> | <b>4,375</b> | <b>9.3</b>  | <b>13.6</b> | <b>2,150</b> | <b>2,487</b> | <b>5.3</b>  | <b>10.4</b> |
| <b>MOSL Excl. Banks (118)</b>         | <b>20,166</b> | <b>20,867</b> | <b>23.7</b> | <b>13.2</b> | <b>2,995</b> | <b>3,512</b> | <b>6.3</b>  | <b>11.6</b> | <b>1,798</b> | <b>2,077</b> | <b>3.6</b>  | <b>9.4</b>  |
| <b>MOSL Excl. Oil &amp; Gas (128)</b> | <b>11,361</b> | <b>12,454</b> | <b>20.3</b> | <b>14.8</b> | <b>2,762</b> | <b>3,112</b> | <b>11.3</b> | <b>12.0</b> | <b>1,636</b> | <b>1,786</b> | <b>6.5</b>  | <b>7.8</b>  |
| <b>MOSL Excl. RMs (135)</b>           | <b>15,238</b> | <b>16,948</b> | <b>21.4</b> | <b>16.2</b> | <b>3,616</b> | <b>4,126</b> | <b>12.7</b> | <b>13.4</b> | <b>2,117</b> | <b>2,370</b> | <b>9.3</b>  | <b>10.6</b> |
| <b>Sensex (30)</b>                    | <b>10,044</b> | <b>11,227</b> | <b>19.1</b> | <b>15.4</b> | <b>2,489</b> | <b>2,834</b> | <b>13.8</b> | <b>13.8</b> | <b>1,446</b> | <b>1,626</b> | <b>11.3</b> | <b>11.8</b> |

\* Growth FY09 over FY08; # Growth FY10 over FY08. For Banks: Sales = Net Interest Income, EBITDA = Operating Profits; Tata Steel Figures are consolidated including Corus.

## VALUATIONS - MOSL UNIVERSE

| SECTOR                    | P/E  |       |       | EV/EBITDA |       |       | P/BV |       | ROE  |       |       | DIV.            | EARN. |
|---------------------------|------|-------|-------|-----------|-------|-------|------|-------|------|-------|-------|-----------------|-------|
|                           |      | (X)   |       |           | (X)   |       |      | (X)   |      | (%)   |       | YLD (%)         | CAGR  |
| (NO. OF COMPANIES)        | FY08 | FY09E | FY10E | FY08      | FY09E | FY10E | FY08 | FY09E | FY08 | FY09E | FY10E | FY09E (FY10-08) |       |
| Auto (7)                  | 9.0  | 9.5   | 8.3   | 4.7       | 5.1   | 4.3   | 2.1  | 1.9   | 23.4 | 19.8  | 20.1  | 4.1             | 4.3   |
| Banks (20)                | 10.8 | 9.4   | 8.1   | N.M       | N.M   | N.M   | 1.9  | 1.5   | 17.5 | 15.8  | 16.2  | 2.3             | 15.9  |
| Cement (7)                | 4.7  | 5.3   | 6.5   | 2.9       | 2.9   | 3.4   | 1.6  | 1.2   | 33.0 | 23.5  | 16.6  | 3.6             | -14.4 |
| Engineering (10)          | 19.4 | 15.2  | 12.3  | 13.1      | 11.0  | 8.3   | 4.9  | 3.8   | 25.2 | 24.9  | 25.6  | 1.4             | 25.3  |
| FMCG (12)                 | 23.3 | 20.6  | 17.2  | 16.2      | 14.2  | 11.8  | 8.0  | 6.7   | 34.2 | 32.8  | 33.3  | 2.4             | 16.2  |
| IT (8)                    | 11.8 | 9.7   | 9.2   | 8.8       | 6.5   | 5.8   | 3.9  | 3.1   | 33.2 | 31.6  | 27.2  | 4.0             | 13.3  |
| Infrastructure (9)        | 18.5 | 17.1  | 12.1  | 13.8      | 10.3  | 8.2   | 1.8  | 1.5   | 9.7  | 8.6   | 11.1  | 0.9             | 23.8  |
| Media (6)                 | 12.8 | 11.3  | 8.9   | 7.7       | 6.6   | 5.2   | 2.4  | 2.1   | 18.9 | 18.6  | 20.2  | 2.3             | 19.9  |
| Metals (8)                | 3.8  | 4.3   | 4.8   | 2.6       | 3.0   | 3.5   | 0.9  | 0.8   | 24.6 | 18.1  | 14.4  | 3.9             | -11.9 |
| Oil Gas & Petchem (10)    | 9.5  | 9.3   | 6.8   | 5.9       | 5.6   | 4.1   | 1.8  | 1.5   | 18.9 | 16.5  | 18.9  | 3.0             | 17.8  |
| Pharma (15)               | 14.6 | 16.4  | 11.6  | 12.3      | 10.3  | 8.2   | 3.7  | 2.8   | 25.1 | 16.9  | 20.5  | 1.1             | 12.4  |
| Real Estate (2)           | 6.0  | 6.5   | 6.9   | 6.2       | 6.4   | 6.0   | 2.4  | 1.9   | 40.7 | 28.9  | 23.4  | 1.4             | -7.2  |
| Retail (3)                | 30.3 | 22.4  | 14.8  | 13.1      | 9.3   | 7.0   | 4.1  | 3.0   | 13.4 | 13.5  | 16.4  | 0.7             | 43.1  |
| Telecom (3)               | 13.9 | 12.0  | 10.0  | 9.4       | 7.7   | 5.8   | 3.6  | 2.5   | 25.8 | 21.3  | 20.8  | 0.1             | 17.8  |
| Textiles (5)              | 4.4  | 5.4   | 3.5   | 7.2       | 7.0   | 6.1   | 0.3  | 0.3   | 6.2  | 4.8   | 6.8   | 6.0             | 11.6  |
| Utilities (5)             | 17.1 | 14.2  | 13.7  | 11.8      | 10.5  | 9.3   | 2.1  | 1.9   | 12.1 | 13.4  | 12.8  | 2.3             | 11.8  |
| Others (8)                | 7.3  | 5.9   | 4.5   | 5.3       | 4.6   | 3.4   | 1.8  | 1.4   | 24.7 | 24.0  | 25.8  | 3.0             | 27.9  |
| MOSL (138)                | 10.5 | 9.9   | 8.6   | N.M       | N.M   | N.M   | 2.3  | 1.9   | 21.5 | 18.7  | 18.6  | 2.4             | 10.4  |
| MOSL Excl. Banks (118)    | 10.4 | 10.0  | 8.7   | 6.8       | 6.4   | 5.4   | 2.3  | 1.9   | 22.5 | 19.3  | 19.2  | 2.4             | 9.4   |
| MOSL Excl.Oil & Gas (128) | 10.8 | 10.1  | 9.3   | N.M       | N.M   | N.M   | 2.4  | 2.0   | 22.6 | 19.4  | 18.5  | 2.3             | 7.8   |
| MOSL Excl. RMs (135)      | 10.7 | 9.8   | 8.8   | N.M       | N.M   | N.M   | 2.4  | 1.9   | 22.0 | 19.5  | 18.8  | 2.4             | 10.6  |
| Sensex (30)               | 11.9 | 11.0  | 9.4   | N.M       | N.M   | N.M   | 2.6  | 2.1   | 21.4 | 18.7  | 18.8  | 2.1             | 11.8  |

N.M. - Not Meaningful

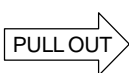
Source: Motilal Oswal Securities

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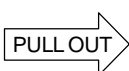
## Ready reckoner: valuations

|                         | CMP (RS) | RECO    | EPS (RS) |       |       | P/E (X)     |             |             | EV/EBITDA   |             |             | ROE (%)     |             |             |
|-------------------------|----------|---------|----------|-------|-------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
|                         |          |         | FY08     | FY09E | FY10E | FY08        | FY09E       | FY10E       | FY08        | FY09E       | FY10E       | FY08        | FY09E       | FY10E       |
|                         | 7.11.08  |         |          |       |       |             |             |             |             |             |             |             |             |             |
| <b>Automobiles</b>      |          |         |          |       |       |             |             |             |             |             |             |             |             |             |
| Ashok Leyland           | 17       | Buy     | 3.6      | 3.2   | 4.0   | 4.6         | 5.3         | 4.1         | 2.5         | 4.0         | 3.3         | 21.8        | 16.6        | 20.5        |
| Bajaj Auto              | 411      | Buy     | 54.8     | 62.5  | 72.0  | 7.5         | 6.6         | 5.7         | 4.2         | 3.8         | 3.0         | 47.8        | 46.9        | 44.1        |
| Hero Honda              | 754      | Buy     | 48.5     | 63.6  | 77.6  | 15.5        | 11.9        | 9.7         | 9.3         | 7.1         | 5.7         | 35.5        | 37.8        | 33.0        |
| Mahindra & Mahindra     | 372      | Buy     | 64.5     | 66.4  | 81.0  | 5.8         | 5.6         | 4.6         | 5.1         | 5.9         | 5.2         | 20.0        | 18.1        | 19.6        |
| Maruti Suzuki           | 598      | Buy     | 59.9     | 52.1  | 59.1  | 10.0        | 11.5        | 10.1        | 5.0         | 5.3         | 4.2         | 20.6        | 15.5        | 15.1        |
| Tata Motors             | 159      | Neutral | 36.1     | 23.3  | 26.3  | 4.4         | 6.8         | 6.0         | 2.7         | 4.0         | 3.8         | 21.6        | 15.1        | 14.3        |
| TVS Motor               | 28       | Neutral | 1.5      | 1.4   | 2.4   | 19.0        | 19.6        | 11.5        | 23.9        | 8.9         | 6.4         | 4.3         | 4.1         | 6.7         |
| <b>Sector Aggregate</b> |          |         |          |       |       | <b>9.0</b>  | <b>9.5</b>  | <b>8.3</b>  | <b>4.7</b>  | <b>5.1</b>  | <b>4.3</b>  | <b>23.4</b> | <b>19.8</b> | <b>20.1</b> |
| <b>Cement</b>           |          |         |          |       |       |             |             |             |             |             |             |             |             |             |
| ACC                     | 479      | Neutral | 68.1     | 58.2  | 41.7  | 7.0         | 8.2         | 11.5        | 4.1         | 4.1         | 6.7         | 30.8        | 22.2        | 14.5        |
| Ambuja Cements          | 56       | Neutral | 8.6      | 7.6   | 6.1   | 6.6         | 7.4         | 9.3         | 3.3         | 3.9         | 5.1         | 32.2        | 22.9        | 16.6        |
| Birla Corporation       | 89       | Buy     | 51.1     | 43.0  | 33.0  | 1.7         | 2.1         | 2.7         | 0.5         | 0.4         | 0.2         | 39.1        | 25.6        | 16.9        |
| Grasim Industries       | 1,043    | Buy     | 293.9    | 250.4 | 202.1 | 3.5         | 4.2         | 5.2         | 2.2         | 2.4         | 2.5         | 29.5        | 20.7        | 14.7        |
| India Cements           | 89       | Buy     | 24.7     | 24.7  | 21.7  | 3.6         | 3.6         | 4.1         | 3.6         | 2.8         | 2.7         | 34.0        | 23.6        | 17.4        |
| Shree Cement            | 428      | Buy     | 82.6     | 123.5 | 94.7  | 5.2         | 3.5         | 4.5         | 2.7         | 2.5         | 2.9         | 51.1        | 49.2        | 26.8        |
| UltraTech Cement        | 349      | Buy     | 80.9     | 72.1  | 68.8  | 4.3         | 4.8         | 5.1         | 3.4         | 3.2         | 2.8         | 45.2        | 28.8        | 21.8        |
| <b>Sector Aggregate</b> |          |         |          |       |       | <b>4.7</b>  | <b>5.3</b>  | <b>6.5</b>  | <b>2.9</b>  | <b>2.9</b>  | <b>3.4</b>  | <b>33.0</b> | <b>23.5</b> | <b>16.6</b> |
| <b>Engineering</b>      |          |         |          |       |       |             |             |             |             |             |             |             |             |             |
| ABB                     | 497      | Neutral | 23.2     | 25.3  | 28.9  | 21.4        | 19.7        | 17.2        | 13.6        | 11.9        | 10.0        | 34.8        | 28.7        | 25.7        |
| Alstom Projects         | 259      | Neutral | 10.6     | 17.4  | 23.9  | 24.4        | 14.8        | 10.8        | 13.6        | 8.3         | 4.8         | 20.9        | 30.8        | 34.5        |
| Bharat Electronics      | 662      | Buy     | 103.4    | 110.9 | 139.1 | 6.4         | 6.0         | 4.8         | 2.7         | 1.9         | 0.9         | 29.4        | 25.8        | 26.1        |
| BHEL                    | 1,405    | Buy     | 51.3     | 69.6  | 89.9  | 27.4        | 20.2        | 15.6        | 16.2        | 14.0        | 9.3         | 25.7        | 28.5        | 29.6        |
| Crompton Greaves        | 169      | Neutral | 10.0     | 13.8  | 16.6  | 16.9        | 12.3        | 10.2        | 12.6        | 10.5        | 8.7         | 34.3        | 34.1        | 30.9        |
| Cummins India           | 227      | Buy     | 16.4     | 20.6  | 25.8  | 13.8        | 11.0        | 8.8         | 9.2         | 7.1         | 5.4         | 28.8        | 29.8        | 30.4        |
| Larsen & Toubro         | 871      | Neutral | 39.3     | 53.5  | 64.7  | 22.2        | 16.3        | 13.5        | 18.1        | 14.2        | 11.4        | 27.0        | 24.3        | 24.3        |
| Siemens                 | 296      | Neutral | 16.2     | 20.9  | 27.9  | 18.2        | 14.1        | 10.6        | 13.7        | 10.6        | 7.5         | 30.1        | 30.9        | 33.0        |
| Suzlon Energy           | 71       | Neutral | 7.6      | 8.5   | 9.2   | 9.3         | 8.3         | 7.7         | 6.8         | 6.9         | 6.2         | 20.3        | 13.8        | 12.2        |
| Thermax                 | 315      | UR      | 24.1     | 28.4  | 36.3  | 13.0        | 11.1        | 8.7         | 9.1         | 7.2         | 5.3         | 42.4        | 39.7        | 39.9        |
| <b>Sector Aggregate</b> |          |         |          |       |       | <b>19.4</b> | <b>15.2</b> | <b>12.3</b> | <b>13.1</b> | <b>11.0</b> | <b>8.3</b>  | <b>25.2</b> | <b>24.9</b> | <b>25.6</b> |
| <b>FMCG</b>             |          |         |          |       |       |             |             |             |             |             |             |             |             |             |
| Asian Paints            | 955      | Buy     | 43.5     | 49.9  | 62.3  | 21.9        | 19.1        | 15.3        | 13.7        | 11.7        | 9.1         | 42.5        | 38.5        | 38.2        |
| Britannia               | 1,147    | Buy     | 79.1     | 92.0  | 111.7 | 14.5        | 12.5        | 10.3        | 10.4        | 8.4         | 6.5         | 25.9        | 24.5        | 24.8        |
| Colgate                 | 374      | Buy     | 17.0     | 20.2  | 23.5  | 21.9        | 18.5        | 15.9        | 21.3        | 18.4        | 15.6        | 104.6       | 153.2       | 148.3       |
| Dabur                   | 86       | Neutral | 3.9      | 4.3   | 5.0   | 22.2        | 20.0        | 17.0        | 17.7        | 16.1        | 13.4        | 54.1        | 46.5        | 43.3        |
| Godrej Consumer         | 109      | Buy     | 7.1      | 7.2   | 9.4   | 15.4        | 15.1        | 11.5        | 12.0        | 10.0        | 7.5         | 92.8        | 30.5        | 35.1        |
| GSK Consumer            | 557      | Buy     | 38.7     | 43.9  | 51.8  | 14.4        | 12.7        | 10.8        | 8.7         | 7.8         | 6.2         | 25.2        | 24.8        | 24.8        |
| Hind. Unilever          | 249      | Neutral | 8.1      | 9.2   | 10.7  | 30.7        | 27.2        | 23.2        | 28.0        | 24.5        | 20.2        | 122.9       | 106.1       | 102.5       |
| ITC                     | 175      | Buy     | 8.3      | 9.0   | 10.5  | 21.1        | 19.4        | 16.7        | 14.2        | 12.4        | 10.6        | 25.9        | 24.7        | 24.9        |
| Marico                  | 50       | Buy     | 2.6      | 3.0   | 3.6   | 19.5        | 16.7        | 14.1        | 13.6        | 11.1        | 9.1         | 50.5        | 41.0        | 35.3        |
| Nestle                  | 1,383    | Buy     | 44.7     | 56.4  | 71.7  | 30.9        | 24.5        | 19.3        | 19.0        | 15.7        | 12.3        | 73.7        | 83.7        | 83.0        |
| Tata Tea                | 514      | Neutral | 46.9     | 61.1  | 70.2  | 11.0        | 8.4         | 7.3         | 3.8         | 3.3         | 2.7         | 8.1         | 9.9         | 10.6        |
| United Spirits          | 803      | Buy     | 39.7     | 47.6  | 67.6  | 20.2        | 16.9        | 11.9        | 13.9        | 12.0        | 9.7         | 34.9        | 30.3        | 29.4        |
| <b>Sector Aggregate</b> |          |         |          |       |       | <b>23.3</b> | <b>20.6</b> | <b>17.2</b> | <b>16.2</b> | <b>14.2</b> | <b>11.8</b> | <b>34.2</b> | <b>32.7</b> | <b>33.3</b> |



## Ready reckoner: valuations

|                        | CMP (RS) | RECO    | EPS (RS) |       |       | P/E (X) |       |       | EV/EBITDA |       |       | ROE (%) |       |       |
|------------------------|----------|---------|----------|-------|-------|---------|-------|-------|-----------|-------|-------|---------|-------|-------|
|                        | 7.11.08  |         | FY08     | FY09E | FY10E | FY08    | FY09E | FY10E | FY08      | FY09E | FY10E | FY08    | FY09E | FY10E |
| Information Technology |          |         |          |       |       |         |       |       |           |       |       |         |       |       |
| HCL Technologies       | 165      | Buy     | 20.0     | 31.3  | 31.4  | 8.3     | 5.3   | 5.3   | 6.5       | 4.7   | 4.7   | 20.0    | 30.2  | 25.7  |
| Infosys                | 1,263    | Buy     | 81.3     | 100.4 | 109.1 | 15.5    | 12.6  | 11.6  | 12.5      | 8.8   | 7.7   | 37.2    | 37.5  | 32.4  |
| Mphasis                | 164      | Buy     | 12.2     | 21.5  | 22.9  | 13.4    | 7.6   | 7.1   | 6.2       | 3.5   | 2.5   | 31.0    | 42.1  | 34.4  |
| Patni Computer         | 139      | Neutral | 33.6     | 28.7  | 28.1  | 4.1     | 4.8   | 5.0   | 1.2       | 0.7   | 0.5   | 18.9    | 13.4  | 12.1  |
| Satyam Computer        | 278      | Buy     | 25.2     | 33.3  | 34.2  | 11.0    | 8.4   | 8.1   | 7.9       | 5.0   | 4.1   | 26.0    | 27.5  | 23.2  |
| TCS                    | 525      | Buy     | 51.3     | 56.1  | 59.5  | 10.2    | 9.3   | 8.8   | 8.1       | 6.4   | 5.6   | 46.1    | 38.0  | 31.9  |
| Tech Mahindra          | 325      | Neutral | 58.3     | 78.4  | 82.2  | 5.6     | 4.1   | 4.0   | 4.6       | 2.0   | 0.9   | 55.9    | 37.5  | 34.5  |
| Wipro                  | 260      | Buy     | 22.1     | 24.5  | 25.8  | 11.8    | 10.6  | 10.1  | 8.5       | 7.5   | 6.9   | 27.9    | 24.8  | 21.8  |
| Sector Aggregate       |          |         |          |       |       | 11.8    | 9.7   | 9.2   | 8.8       | 6.5   | 5.8   | 33.2    | 31.6  | 27.2  |
| Infrastructure         |          |         |          |       |       |         |       |       |           |       |       |         |       |       |
| B.L.Kashyap            | 299      | UR      | 52.6     | 57.0  | 76.4  | 5.7     | 5.2   | 3.9   | 3.3       | 2.7   | 1.8   | 33.1    | 26.9  | 29.0  |
| Gammon India           | 85       | Neutral | 10.5     | 11.8  | 14.2  | 8.1     | 7.2   | 6.0   | 6.3       | 4.8   | 4.4   | 7.5     | 10.0  | 10.8  |
| GMR Infrastructure     | 68       | Neutral | 1.2      | 0.8   | 2.3   | 58.5    | 81.3  | 29.9  | 32.0      | 20.5  | 13.0  | 3.4     | 2.4   | 6.2   |
| Hindustan Construction | 57       | Buy     | 2.8      | 3.3   | 4.4   | 20.7    | 17.4  | 13.0  | 8.3       | 7.1   | 6.4   | 7.4     | 8.0   | 9.8   |
| IVRCL Infra.           | 139      | Buy     | 15.8     | 17.3  | 23.8  | 8.8     | 8.0   | 5.8   | 7.4       | 6.1   | 4.3   | 14.0    | 13.6  | 16.1  |
| Jaiprakash Associates  | 88       | Buy     | 5.2      | 5.5   | 6.9   | 16.9    | 16.0  | 12.7  | 16.2      | 11.6  | 9.8   | 16.3    | 11.9  | 11.9  |
| Nagarjuna Construction | 66       | Neutral | 7.1      | 7.2   | 9.0   | 9.3     | 9.2   | 7.4   | 7.4       | 7.3   | 6.6   | 12.4    | 10.1  | 11.5  |
| Patel Engg.            | 146      | Neutral | 25.5     | 21.0  | 24.4  | 5.7     | 7.0   | 6.0   | 6.9       | 5.8   | 5.7   | 19.1    | 12.2  | 12.9  |
| Simplex Infra.         | 212      | Buy     | 18.2     | 27.2  | 44.5  | 11.6    | 7.8   | 4.8   | 6.7       | 5.0   | 4.0   | 13.6    | 14.2  | 18.6  |
| Sector Aggregate       |          |         |          |       |       | 18.5    | 17.1  | 12.1  | 13.8      | 10.3  | 8.2   | 9.7     | 8.6   | 11.1  |
| Media                  |          |         |          |       |       |         |       |       |           |       |       |         |       |       |
| Deccan Chronicle       | 45       | Buy     | 11.1     | 11.1  | 14.5  | 4.1     | 4.1   | 3.1   | 1.9       | 1.7   | 1.1   | 25.5    | 22.4  | 25.1  |
| HT Media               | 69       | Buy     | 6.2      | 6.6   | 8.2   | 11.2    | 10.4  | 8.5   | 6.3       | 5.6   | 4.3   | 15.8    | 14.7  | 15.7  |
| Jagran Prakashan       | 51       | Buy     | 3.3      | 3.6   | 4.9   | 15.6    | 14.1  | 10.4  | 8.8       | 7.8   | 5.6   | 18.2    | 18.8  | 22.5  |
| Sun TV                 | 158      | Neutral | 9.3      | 11.5  | 14.2  | 17.0    | 13.7  | 11.1  | 9.2       | 7.2   | 5.6   | 25.0    | 25.3  | 25.5  |
| TV Today               | 64       | Buy     | 7.5      | 9.8   | 12.8  | 8.5     | 6.5   | 5.0   | 4.6       | 3.9   | 2.9   | 15.1    | 16.2  | 18.0  |
| Zee Entertainment      | 142      | Neutral | 9.3      | 10.6  | 13.3  | 15.3    | 13.4  | 10.7  | 11.8      | 9.6   | 8.2   | 13.5    | 14.5  | 15.7  |
| Sector Aggregate       |          |         |          |       |       | 12.8    | 11.3  | 8.9   | 7.7       | 6.6   | 5.2   | 18.9    | 18.6  | 20.2  |
| Metals                 |          |         |          |       |       |         |       |       |           |       |       |         |       |       |
| Hindalco               | 60       | Sell    | 16.1     | 11.9  | 6.1   | 3.7     | 5.1   | 9.9   | 1.6       | 1.5   | 2.0   | 36.6    | 17.0  | 8.2   |
| Hindustan Zinc         | 315      | Buy     | 104.0    | 79.1  | 49.8  | 3.0     | 4.0   | 6.3   | 1.0       | 0.9   | 0.9   | 37.1    | 22.4  | 12.5  |
| Jindal Steel & Power   | 738      | Buy     | 88.6     | 178.9 | 186.8 | 8.3     | 4.1   | 3.9   | 7.5       | 3.9   | 4.0   | 35.4    | 44.1  | 31.8  |
| JSW Steel              | 285      | Neutral | 86.7     | 51.2  | 126.2 | 3.3     | 5.6   | 2.3   | 5.2       | 6.7   | 4.4   | 21.3    | 12.2  | 23.9  |
| Nalco                  | 166      | Sell    | 25.6     | 25.1  | 22.3  | 6.5     | 6.6   | 7.4   | 3.2       | 3.8   | 3.5   | 18.6    | 16.1  | 12.9  |
| SAIL                   | 84       | Sell    | 20.5     | 15.1  | 11.8  | 4.1     | 5.6   | 7.2   | 2.0       | 2.7   | 4.3   | 36.4    | 23.0  | 16.1  |
| Sterlite Inds.         | 246      | Buy     | 64.0     | 65.3  | 40.0  | 3.8     | 3.8   | 6.2   | 0.8       | 0.2   | 0.1   | 28.5    | 24.6  | 13.4  |
| Tata Steel             | 190      | Buy     | 94.2     | 75.7  | 86.2  | 2.0     | 2.5   | 2.2   | 3.5       | 4.2   | 4.1   | 48.4    | 29.7  | 30.4  |
| Sector Aggregate       |          |         |          |       |       | 3.8     | 4.3   | 4.8   | 2.6       | 3.0   | 3.5   | 24.6    | 18.1  | 14.4  |
| Oil & Gas              |          |         |          |       |       |         |       |       |           |       |       |         |       |       |
| BPCL                   | 332      | Neutral | 52.7     | 4.4   | 64.7  | 6.3     | 75.3  | 5.1   | 5.8       | 16.5  | 4.5   | 14.8    | 9.0   | 19.5  |
| Cairn India            | 143      | Buy     | -0.1     | 3.1   | 6.5   | -       | 46.5  | 22.1  | 39.9      | 30.3  | 10.7  | -0.1    | 1.9   | 3.7   |
| Chennai Petroleum      | 128      | Buy     | 73.1     | 80.1  | 52.0  | 1.7     | 1.6   | 2.5   | 2.3       | 2.2   | 2.8   | 37.2    | 24.5  | 17.7  |
| GAIL                   | 214      | Buy     | 20.1     | 26.0  | 26.0  | 10.7    | 8.2   | 8.2   | 6.1       | 5.1   | 5.1   | 20.0    | 21.6  | 19.3  |
| HPCL                   | 219      | Neutral | 21.4     | -60.3 | 14.0  | 10.2    | -3.6  | 15.7  | 16.4      | -66.6 | 11.9  | 7.2     | -21.5 | 5.5   |
| Indraprastha Gas       | 105      | Neutral | 12.5     | 13.3  | 10.6  | 8.4     | 7.9   | 9.9   | 4.5       | 4.0   | 4.3   | 33.4    | 29.2  | 20.3  |
| IOC                    | 367      | Neutral | 66.4     | 35.7  | 74.8  | 5.5     | 10.3  | 4.9   | 5.1       | 8.7   | 3.7   | 19.7    | 9.4   | 17.6  |



## Ready reckoner: valuations

|                               | CMP (RS) | RECO    | EPS (RS) |       |       | P/E (X)     |             |             | EV/EBITDA   |             |            | ROE (%)     |             |             |
|-------------------------------|----------|---------|----------|-------|-------|-------------|-------------|-------------|-------------|-------------|------------|-------------|-------------|-------------|
|                               |          |         | FY08     | FY09E | FY10E | FY08        | FY09E       | FY10E       | FY08        | FY09E       | FY10E      | FY08        | FY09E       | FY10E       |
|                               | 7.11.08  |         |          |       |       |             |             |             |             |             |            |             |             |             |
| <b>Oil &amp; Gas (Contd.)</b> |          |         |          |       |       |             |             |             |             |             |            |             |             |             |
| MRPL                          | 43       | Sell    | 6.7      | 8.5   | 5.1   | 6.4         | 5.0         | 8.4         | 4.9         | 4.3         | 6.8        | 38.9        | 30.2        | 17.3        |
| ONGC                          | 742      | Neutral | 92.9     | 118.6 | 105.5 | 8.0         | 6.3         | 7.0         | 3.2         | 2.5         | 2.5        | 27.7        | 29.8        | 22.7        |
| Reliance Inds.                | 1,218    | Buy     | 105.0    | 103.7 | 186.3 | 11.6        | 11.7        | 6.5         | 9.6         | 8.3         | 4.9        | 21.5        | 17.4        | 23.3        |
| <b>Sector Aggregate</b>       |          |         |          |       |       | <b>9.5</b>  | <b>9.3</b>  | <b>6.8</b>  | <b>5.9</b>  | <b>5.6</b>  | <b>4.1</b> | <b>18.9</b> | <b>16.5</b> | <b>18.9</b> |
| <b>Pharmaceuticals</b>        |          |         |          |       |       |             |             |             |             |             |            |             |             |             |
| Aventis Pharma                | 752      | Buy     | 62.7     | 63.5  | 67.6  | 12.0        | 11.8        | 11.1        | 7.5         | 6.4         | 5.1        | 21.5        | 19.6        | 18.9        |
| Biocon                        | 120      | Buy     | 11.3     | 9.6   | 15.9  | 10.6        | 12.4        | 7.5         | 7.4         | 7.1         | 4.8        | 15.3        | 11.9        | 17.1        |
| Cadila Health                 | 260      | Buy     | 20.5     | 26.2  | 31.8  | 12.7        | 9.9         | 8.2         | 7.5         | 6.1         | 4.7        | 27.3        | 27.7        | 29.3        |
| Cipla                         | 184      | Neutral | 9.0      | 9.1   | 12.9  | 20.5        | 20.2        | 14.3        | 16.9        | 12.9        | 11.0       | 18.5        | 16.3        | 19.4        |
| Dishman Pharma                | 140      | Buy     | 15.0     | 12.1  | 23.4  | 9.3         | 11.5        | 6.0         | 11.5        | 7.5         | 6.0        | 27.3        | 16.0        | 25.5        |
| Divis Labs                    | 1,258    | Neutral | 53.8     | 76.0  | 98.5  | 23.4        | 16.6        | 12.8        | 20.0        | 13.6        | 10.3       | 49.5        | 46.4        | 42.2        |
| Dr Reddy's Labs               | 407      | Buy     | 27.8     | 30.7  | 46.9  | 14.7        | 13.3        | 8.7         | 11.1        | 8.7         | 6.6        | 9.9         | 10.1        | 13.9        |
| GSK Pharma                    | 1,064    | Buy     | 47.2     | 53.1  | 63.4  | 22.5        | 20.0        | 16.8        | 15.1        | 13.3        | 11.1       | 29.4        | 27.5        | 27.1        |
| Jubilant Organosys            | 178      | Buy     | 22.3     | 10.8  | 33.7  | 8.0         | 16.5        | 5.3         | 9.1         | 7.1         | 5.2        | 38.2        | 13.4        | 31.3        |
| Lupin                         | 691      | Buy     | 37.8     | 49.7  | 63.8  | 18.3        | 13.9        | 10.8        | 15.1        | 10.2        | 8.0        | 31.0        | 30.4        | 31.0        |
| Piramal Healthcare            | 215      | Buy     | 17.4     | 18.7  | 25.6  | 12.3        | 11.5        | 8.4         | 9.5         | 7.7         | 6.2        | 34.0        | 32.2        | 35.1        |
| Pfizer                        | 501      | Neutral | 42.2     | 47.8  | 52.4  | 11.9        | 10.5        | 9.6         | 5.9         | 4.0         | 3.2        | 18.5        | 15.3        | 15.3        |
| Ranbaxy Labs                  | 218      | Neutral | 19.4     | 8.6   | 12.5  | 11.3        | 25.3        | 17.5        | 14.7        | 10.5        | 9.4        | 27.8        | 6.4         | 8.7         |
| Sun Pharma                    | 1,193    | Buy     | 71.8     | 51.9  | 63.0  | 16.6        | 23.0        | 18.9        | 13.7        | 18.5        | 14.9       | 38.3        | 19.8        | 20.3        |
| Wockhardt                     | 103      | Neutral | 29.0     | 18.7  | 35.2  | 3.6         | 5.5         | 2.9         | 5.6         | 4.8         | 3.9        | 29.6        | 16.2        | 25.2        |
| <b>Sector Aggregate</b>       |          |         |          |       |       | <b>14.6</b> | <b>16.4</b> | <b>11.6</b> | <b>12.3</b> | <b>10.3</b> | <b>8.2</b> | <b>25.1</b> | <b>16.9</b> | <b>20.5</b> |
| <b>Real Estate</b>            |          |         |          |       |       |             |             |             |             |             |            |             |             |             |
| DLF                           | 281      | Buy     | 45.8     | 43.8  | 40.0  | 6.1         | 6.4         | 7.0         | 6.0         | 6.2         | 5.9        | 39.7        | 28.6        | 22.7        |
| Unitech                       | 51       | UR      | 10.2     | 8.1   | 8.6   | 5.0         | 6.3         | 5.9         | 7.0         | 7.0         | 6.2        | 46.1        | 31.3        | 28.6        |
| <b>Sector Aggregate</b>       |          |         |          |       |       | <b>6.0</b>  | <b>6.5</b>  | <b>6.9</b>  | <b>6.2</b>  | <b>6.4</b>  | <b>6.0</b> | <b>40.7</b> | <b>28.9</b> | <b>23.4</b> |
| <b>Retailing</b>              |          |         |          |       |       |             |             |             |             |             |            |             |             |             |
| Pantaloon Retail              | 238      | Buy     | 7.9      | 10.9  | 17.0  | 29.9        | 21.9        | 14.0        | 11.5        | 7.8         | 5.9        | 9.6         | 9.7         | 12.4        |
| Shopper's Stop                | 185      | Neutral | 0.8      | -5.8  | 1.2   | 243.4       | -32.0       | 154.3       | 12.3        | 11.8        | 7.3        | -0.2        | -7.3        | 1.5         |
| Titan Industries              | 917      | Neutral | 33.4     | 47.0  | 59.9  | 27.4        | 19.5        | 15.3        | 16.2        | 11.8        | 9.5        | 34.0        | 35.0        | 33.6        |
| <b>Sector Aggregate</b>       |          |         |          |       |       | <b>30.3</b> | <b>22.4</b> | <b>14.8</b> | <b>13.1</b> | <b>9.3</b>  | <b>7.0</b> | <b>13.4</b> | <b>13.5</b> | <b>16.4</b> |
| <b>Telecom</b>                |          |         |          |       |       |             |             |             |             |             |            |             |             |             |
| Bharti Airtel                 | 650      | Buy     | 35.4     | 45.7  | 55.0  | 18.4        | 14.2        | 11.8        | 11.2        | 8.3         | 6.5        | 36.9        | 32.0        | 28.7        |
| Idea Cellular                 | 48       | Neutral | 4.0      | 3.1   | 4.7   | 12.0        | 15.2        | 10.2        | 9.1         | 7.1         | 5.2        | 30.2        | 12.1        | 11.7        |
| Reliance Comm                 | 228      | Buy     | 26.7     | 28.3  | 31.5  | 8.5         | 8.1         | 7.3         | 6.9         | 6.9         | 4.8        | 22.7        | 19.6        | 19.1        |
| <b>Sector Aggregate</b>       |          |         |          |       |       | <b>13.9</b> | <b>12.0</b> | <b>10.0</b> | <b>9.4</b>  | <b>7.7</b>  | <b>5.8</b> | <b>25.8</b> | <b>21.3</b> | <b>20.8</b> |
| <b>Textiles</b>               |          |         |          |       |       |             |             |             |             |             |            |             |             |             |
| Alok Ind                      | 18       | Buy     | 8.4      | 7.9   | 9.1   | 2.2         | 2.3         | 2.0         | 7.3         | 7.6         | 7.3        | 15.2        | 10.6        | 11.0        |
| Arvind Mills                  | 16       | Neutral | 1.3      | 0.6   | 1.7   | 12.5        | 25.1        | 9.6         | 7.6         | 8.6         | 6.4        | 1.5         | 0.7         | 1.8         |
| Raymond                       | 89       | Neutral | 10.6     | 9.4   | 16.9  | 8.4         | 9.5         | 5.3         | 4.2         | 3.2         | 2.7        | 4.5         | 3.9         | 6.9         |
| Vardhman Textiles             | 56       | Buy     | 21.2     | 13.1  | 18.6  | 2.7         | 4.3         | 3.0         | 8.1         | 7.2         | 6.4        | 10.6        | 6.2         | 8.3         |
| Welspun Ind                   | 24       | Neutral | 3.4      | 3.1   | 7.9   | 7.1         | 7.7         | 3.1         | 8.2         | 7.3         | 6.0        | 4.2         | 3.8         | 9.3         |
| <b>Sector Aggregate</b>       |          |         |          |       |       | <b>4.4</b>  | <b>5.4</b>  | <b>3.5</b>  | <b>7.2</b>  | <b>7.0</b>  | <b>6.1</b> | <b>6.2</b>  | <b>4.8</b>  | <b>6.8</b>  |

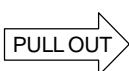


## Ready reckoner: valuations

|                         | CMP (RS) | RECO    | EPS (RS) |       |       | P/E (X) |       |       | EV/EBITDA |       |       | ROE (%) |       |       |
|-------------------------|----------|---------|----------|-------|-------|---------|-------|-------|-----------|-------|-------|---------|-------|-------|
|                         | 7.11.08  |         | FY08     | FY09E | FY10E | FY08    | FY09E | FY10E | FY08      | FY09E | FY10E | FY08    | FY09E | FY10E |
| Utilities               |          |         |          |       |       |         |       |       |           |       |       |         |       |       |
| CESC                    | 220      | Neutral | 26.4     | 27.3  | 30.7  | 8.3     | 8.0   | 7.1   | 9.6       | 9.2   | 8.4   | 13.0    | 12.0  | 12.1  |
| NTPC                    | 151      | Neutral | 9.2      | 10.2  | 10.2  | 16.5    | 14.9  | 14.8  | 10.9      | 10.2  | 9.0   | 15.0    | 15.2  | 14.1  |
| PTC India               | 62       | Buy     | 2.1      | 3.8   | 4.3   | 28.8    | 16.3  | 14.4  | 47.8      | 18.8  | 16.6  | 5.6     | 5.7   | 6.2   |
| Reliance Infrastructure | 561      | Buy     | 29.1     | 40.6  | 41.5  | 19.3    | 13.8  | 13.5  | 14.4      | 7.2   | 8.3   | 11.0    | 11.0  | 11.0  |
| Tata Power              | 737      | Buy     | 32.7     | 62.4  | 76.8  | 22.6    | 11.8  | 9.6   | 21.5      | 15.9  | 11.5  | 7.7     | 8.3   | 9.0   |
| Sector Aggregate        |          |         |          |       |       | 17.1    | 14.2  | 13.7  | 11.8      | 10.5  | 9.3   | 12.1    | 13.4  | 12.8  |
| Others                  |          |         |          |       |       |         |       |       |           |       |       |         |       |       |
| Ashapura Minchem        | 29       | UR      | 20.5     | 10.9  | 13.0  | 1.4     | 2.7   | 2.2   | 2.1       | 1.3   | 1.3   | 33.7    | 14.5  | 15.1  |
| Blue Star               | 193      | Buy     | 16.3     | 20.4  | 26.3  | 11.8    | 9.5   | 7.3   | 7.5       | 6.4   | 4.9   | 73.1    | 58.0  | 54.2  |
| Bombay Rayon            | 177      | Buy     | 18.2     | 28.7  | 39.0  | 9.7     | 6.2   | 4.5   | 8.5       | 7.2   | 5.1   | 22.7    | 26.4  | 26.3  |
| Everest Kanto           | 182      | Buy     | 10.5     | 14.7  | 21.5  | 17.3    | 12.4  | 8.5   | 13.2      | 7.3   | 5.1   | 27.2    | 25.0  | 26.3  |
| Great Offshore          | 346      | Buy     | 44.4     | 48.9  | 55.2  | 7.8     | 7.1   | 6.3   | 5.8       | 7.0   | 4.7   | 27.6    | 29.7  | 30.9  |
| Greaves Cotton          | 100      | Buy     | 19.5     | 20.5  | 24.9  | 5.1     | 4.9   | 4.0   | 2.8       | 2.6   | 2.1   | 31.7    | 25.3  | 26.0  |
| TajGVK Hotels           | 52       | Buy     | 11.2     | 13.6  | 15.9  | 4.6     | 3.8   | 3.3   | 3.2       | 2.7   | 2.1   | 32.7    | 31.8  | 30.1  |
| United Phosphorous      | 100      | Buy     | 7.7      | 11.4  | 15.6  | 13.0    | 8.8   | 6.4   | 3.5       | 2.4   | 1.6   | 21.2    | 23.5  | 25.9  |
| Sector Aggregate        |          |         |          |       |       | 7.3     | 5.9   | 4.5   | 5.3       | 4.6   | 3.4   | 24.7    | 24.0  | 25.8  |

UR - Under Review

|                      | CMP (RS) | RECO    | EPS (RS) |       |       | P/E (X) |       |       | P/BV (X) |       |       | ROE (%) |       |       |
|----------------------|----------|---------|----------|-------|-------|---------|-------|-------|----------|-------|-------|---------|-------|-------|
|                      | 7.11.08  |         | FY08     | FY09E | FY10E | FY08    | FY09E | FY10E | FY08     | FY09E | FY10E | FY08    | FY09E | FY10E |
| Banks                |          |         |          |       |       |         |       |       |          |       |       |         |       |       |
| Andhra Bank          | 51       | Buy     | 11.9     | 12.6  | 15.8  | 4.3     | 4.0   | 3.2   | 0.8      | 0.7   | 0.6   | 18.0    | 17.8  | 19.7  |
| Axis Bank            | 581      | Buy     | 29.9     | 44.7  | 53.6  | 19.4    | 13.0  | 10.8  | 2.4      | 2.1   | 1.8   | 17.6    | 17.0  | 17.8  |
| Bank of Baroda       | 293      | Buy     | 39.3     | 46.5  | 56.1  | 7.5     | 6.3   | 5.2   | 1.1      | 1.0   | 0.8   | 15.6    | 16.3  | 17.3  |
| Bank of India        | 272      | Buy     | 38.2     | 50.2  | 54.7  | 7.1     | 5.4   | 5.0   | 1.6      | 1.3   | 1.1   | 27.6    | 26.5  | 23.4  |
| Canara Bank          | 193      | Neutral | 38.2     | 38.1  | 48.8  | 5.1     | 5.1   | 4.0   | 1.0      | 0.8   | 0.7   | 19.1    | 17.7  | 19.7  |
| Corporation Bank     | 214      | Neutral | 51.2     | 52.5  | 60.5  | 4.2     | 4.1   | 3.5   | 0.7      | 0.6   | 0.6   | 18.4    | 16.7  | 16.9  |
| Federal Bank         | 147      | Buy     | 21.5     | 27.5  | 33.7  | 6.8     | 5.4   | 4.4   | 0.6      | 0.6   | 0.5   | 13.6    | 11.5  | 12.8  |
| HDFC                 | 1,701    | Buy     | 85.8     | 84.7  | 99.7  | 19.8    | 20.1  | 17.1  | 4.0      | 3.5   | 3.1   | 22.2    | 18.9  | 19.5  |
| HDFC Bank            | 1,089    | Buy     | 40.1     | 52.5  | 65.9  | 27.1    | 20.8  | 16.5  | 3.4      | 3.1   | 2.3   | 15.8    | 15.6  | 16.6  |
| ICICI Bank           | 431      | Buy     | 37.4     | 34.8  | 42.7  | 11.5    | 12.4  | 10.1  | 1.0      | 1.0   | 0.9   | 11.7    | 8.1   | 9.5   |
| Indian Bank          | 136      | Buy     | 23.5     | 27.4  | 31.0  | 5.8     | 5.0   | 4.4   | 1.3      | 1.1   | 0.9   | 25.8    | 23.3  | 22.1  |
| Indian Overseas Bank | 84       | Buy     | 22.0     | 22.9  | 21.8  | 3.8     | 3.7   | 3.9   | 1.0      | 0.8   | 0.7   | 27.8    | 23.9  | 19.2  |
| J&K Bank             | 338      | Buy     | 74.2     | 85.0  | 100.6 | 4.6     | 4.0   | 3.4   | 0.7      | 0.6   | 0.5   | 16.7    | 16.7  | 17.4  |
| Karnataka Bank       | 91       | Buy     | 19.9     | 20.2  | 21.8  | 4.6     | 4.5   | 4.2   | 0.8      | 0.7   | 0.6   | 18.5    | 16.7  | 16.1  |
| Oriental Bank        | 149      | Neutral | 33.6     | 30.4  | 34.9  | 4.4     | 4.9   | 4.3   | 0.6      | 0.6   | 0.5   | 14.8    | 12.5  | 13.1  |
| Punjab National Bank | 496      | Buy     | 65.0     | 81.0  | 93.8  | 7.6     | 6.1   | 5.3   | 1.5      | 1.2   | 1.0   | 19.6    | 21.7  | 21.3  |
| State Bank           | 1,249    | Buy     | 106.6    | 132.6 | 146.3 | 11.7    | 9.4   | 8.5   | 1.6      | 1.4   | 1.3   | 16.8    | 16.0  | 15.7  |
| Syndicate Bank       | 55       | Neutral | 16.2     | 15.3  | 16.8  | 3.4     | 3.6   | 3.2   | 0.7      | 0.6   | 0.6   | 23.8    | 19.2  | 18.4  |
| Union Bank           | 155      | Buy     | 27.5     | 30.5  | 35.7  | 5.7     | 5.1   | 4.4   | 1.4      | 1.1   | 1.0   | 26.8    | 24.7  | 23.9  |
| Vijaya Bank          | 28       | Neutral | 8.3      | 5.6   | 8.9   | 3.4     | 5.1   | 3.2   | 0.5      | 0.4   | 0.4   | 16.6    | 9.0   | 12.1  |
| Sector Aggregate     |          |         |          |       |       | 10.8    | 9.4   | 8.1   | 1.9      | 1.5   | 1.3   | 17.5    | 15.8  | 16.2  |



## Automobiles

BSE Sensex: 9,964

S&amp;P CNX: 2,973

7 November 2008

## Key assumptions/Changes in assumptions

## Impact

- # 1 **Raw material prices:** All key commodity prices have corrected significantly. Auto companies would be major beneficiaries, as raw material constitutes a major portion of their costs (~70% of sales), although with a lag due to inventories and contracts. We expect the benefits of lower commodity prices to be realized only from 4QFY09 and the full benefits would be realized only in FY10. We estimate margins to improve by 20-200bp led by savings in RM cost in FY10. Our margin expansion assumptions are conservative and there is an upside risk to our margin estimates.



**Company impact:** All auto companies would benefit from lower raw material cost. Hero Honda purchases steel on spot basis and henceforth would benefit from lower steel prices.

- # 2 **Auto volumes:** We are maintaining our volume growth assumptions for FY09 for all segments. Easing liquidity and softening interest rates will be the key catalysts.

**Company impact:** Our volumes growth assumption for Bajaj Auto is 4.3% in FY09, and 7.5% in FY10, for Hero Honda is 13.5% in FY09 and 7.6% in FY10 and for Maruti is 5.9% in FY09 and 14.4% in FY10.



- # 3 **Maruti Suzuki:** Maruti's royalty payout to its parent is estimated to increase due to changing product mix, higher realizations and appreciating Yen. We have increased royalty by 60bp (to 3.5% of sales) in our FY09 estimates and by 80bp (to 3.7% of sales) in our FY10 estimates. However, the impact of higher royalty is diluted by higher realizations on account of improving product mix and price increases by the company.



- # 4 **Mahindra & Mahindra:** Our assumptions for standalone operations remain by and large unchanged; we have only lowered raw material cost. However, on consolidated basis, we have lowered our earnings estimates for Tech Mahindra (due to concerns on demand visibility, cross-currency volatility and global slowdown), Mahindra Systech (on account of slowdown in global auto industry) and M&M Financial Services (due to business slowdown and increasing NPAs).



## REVISED EARNINGS AND RATINGS

| COMPANY       | CMP<br>(RS) | MCAP<br>(RS B) | OLD EPS (RS) |      | REV. EPS (RS) |      | REV. EPS GR. (%) |      | P/E (X) |      | RATING  |         |
|---------------|-------------|----------------|--------------|------|---------------|------|------------------|------|---------|------|---------|---------|
|               |             |                | FY09         | FY10 | FY09          | FY10 | FY09             | FY10 | FY09    | FY10 | OLD     | NEW     |
| Bajaj Auto    | 411         | 60             | 55.7         | 65.0 | 62.5          | 72.0 | 13.9             | 15.3 | 6.6     | 5.7  | Buy     | Buy     |
| Hero Honda    | 754         | 151            | 61.8         | 74.5 | 63.6          | 77.6 | 31.1             | 22.0 | 11.9    | 9.7  | Buy     | Buy     |
| Mah. & Mah.   | 372         | 95             | 67.8         | 83.4 | 66.4          | 81.0 | 3.0              | 21.9 | 5.6     | 4.6  | Buy     | Buy     |
| Maruti Suzuki | 598         | 173            | 53.1         | 61.3 | 52.1          | 59.1 | -13.0            | 13.5 | 11.5    | 10.1 | Buy     | Buy     |
| Tata Motors   | 159         | 85             | 46.9         | 55.4 | 23.3          | 26.3 | -35.4            | 12.8 | 6.8     | 6.0  | Neutral | Neutral |

Source: MOSL

## Banking

BSE Sensex: 9,964

S&amp;P CNX: 2,973

7 November 2008

## Key assumptions/Changes in assumptions

## Impact

- # 1 **Loan growth:** Loan growth is likely to be higher than expected earlier, as overseas credit is replaced by domestic credit. We are now expecting a growth of 22% for our coverage universe (24% for state-owned banks and 25% for our universe ex ICICI Bank) in FY09. However for FY10, credit growth is likely to decline to 18%. Our earlier expectations were 20% growth in FY09 and 19% growth in FY10.



**Company impact:** State-owned banks are likely to report higher growth due to higher liquidity available with them. Except for ICICI Bank, we expect private banks to maintain their growth. We expect ICICI Bank to grow loans at 5-10% over the next two years, as the management works on improving its deposit franchise.

- # 2 **Margins:** Despite the recent PLR cuts, we expect improvement in margins due to strong pricing power and CRR/SLR reduction benefits flowing to the banks. Banks having higher CASA and lower wholesale deposits are likely to be the key beneficiaries.



**Company impact:** We estimate an average 10bp increase in margins of state-owned banks for FY09, followed by 5-10bp decline in FY10. We expect margins of private banks to improve 10-15bp in each of FY09 and FY10.

- # 3 **Asset quality:** Risks have increased due to slowing economy. Exposure to sectors such as real estate, metals, NBFCs could see NPAs. We believe FY10 would be a testing year on the NPA front; we have increased our delinquency estimates and provisioning requirements significantly. We expect average delinquency rate to increase to ~2.2% in FY10 from ~1.5% in FY08; credit costs would rise from ~75bp in FY08 to ~105bp in FY10 (in addition to standard asset prov) and net NPA would rise from ~1% in FY08 to ~1.3% in FY10 (despite higher provisions and loan waiver benefits).



**Company impact:** Banks that have grown fast over the last few quarters/years are at greater risk in terms of likely defaults. On a relative basis, we have raised delinquency and credit cost estimates for SBI, BoI and Axis Bank the most and for PNB, Union Bank and BoB the least.

- # 4 **Bond gains:** Banks had taken a large hit in 1QFY09 due to the upward movement in yields. Given the current trend in interest rates, we are reducing our estimates for bond losses. However, we are still building in some MTM hits, largely on account of corporate bonds.



## REVISED EARNINGS AND RATINGS

| COMPANY          | CMP   | MCAP   | OLD EPS (RS) |       | REV. EPS (RS) |       | REV. EPS GR. (%) |      | P/E (X) |      | RATING  |         |
|------------------|-------|--------|--------------|-------|---------------|-------|------------------|------|---------|------|---------|---------|
|                  | (RS)  | (RS B) | FY09         | FY10  | FY09          | FY10  | FY09             | FY10 | FY09    | FY10 | OLD     | NEW     |
| Andhra Bank      | 51    | 24     | 11.6         | 14.2  | 12.6          | 15.8  | 6.6              | 25.1 | 4.0     | 3.2  | Buy     | Buy     |
| Axis Bank        | 581   | 208    | 40.0         | 53.0  | 44.7          | 53.6  | 49.4             | 19.8 | 13.0    | 10.8 | Buy     | Buy     |
| Bank of Baroda   | 293   | 107    | 45.7         | 54.4  | 46.5          | 56.1  | 18.5             | 20.5 | 6.3     | 5.2  | Buy     | Buy     |
| Bank of India    | 272   | 143    | 45.9         | 53.4  | 50.2          | 54.7  | 31.4             | 8.9  | 5.4     | 5.0  | Buy     | Buy     |
| Canara Bank      | 193   | 79     | 35.0         | 46.0  | 38.1          | 48.8  | -0.2             | 28.1 | 5.1     | 4.0  | Neutral | Neutral |
| HDFC             | 1,701 | 489    | 84.2         | 100.1 | 84.7          | 99.7  | -1.3             | 17.8 | 20.1    | 17.1 | Buy     | Buy     |
| HDFC Bank        | 1,089 | 490    | 51.9         | 66.1  | 52.5          | 65.9  | 30.8             | 25.7 | 20.8    | 16.5 | Buy     | Buy     |
| ICICI Bank       | 431   | 480    | 35.3         | 44.6  | 34.8          | 42.7  | -6.8             | 22.6 | 12.4    | 10.1 | Buy     | Buy     |
| Indian Bank      | 136   | 59     | 24.0         | 29.2  | 27.4          | 31.0  | 16.6             | 13.3 | 5.0     | 4.4  | Buy     | Buy     |
| Ind. Overs. Bank | 84    | 46     | 22.7         | 24.7  | 22.9          | 21.8  | 4.4              | -5.1 | 3.7     | 3.9  | Buy     | Buy     |
| Kotak Mah. Bank  | 412   | 148    | 27.0         | 36.4  | 23.5          | 30.1  | -22.5            | 28.1 | 17.5    | 13.7 | Buy     | Buy     |
| Pun. Nat. Bank   | 496   | 156    | 76.6         | 92.0  | 81.0          | 93.8  | 24.6             | 15.9 | 6.1     | 5.3  | Buy     | Buy     |
| State Bank       | 1,249 | 789    | 123.4        | 147.8 | 132.6         | 146.3 | 24.5             | 10.3 | 9.4     | 8.5  | Buy     | Buy     |
| Union Bank       | 155   | 78     | 29.2         | 33.9  | 30.5          | 35.7  | 11.1             | 16.9 | 5.1     | 4.4  | Buy     | Buy     |

Source: MOSL

## Cement

BSE Sensex: 9,964

S&amp;P CNX: 2,973

7 November 2008

## Key assumptions/Changes in assumptions

## Impact

**# 1 Cement demand:** We expect cement demand to grow 8% in FY09, as against our earlier expectation of 10%. However, for FY10, we estimate demand growth of about 10%. There would be downside risk to our volume estimates if there is no pickup in activities in real estate, infrastructure and economy.



**# 2 Cement prices:** We expect cement prices to remain stable at current levels during FY09. However, prices would come under pressure in FY10, as the impact of new capacities is felt. We factor in Rs10/bag decline in cement prices over FY09 average prices (Rs5/bag decline earlier) in FY10.



**Company impact:** ACC would be severely impacted due to its very high operating leverage (~4.2% change in EPS for Re1/bag change in cement price). Grasim and Jaiprakash Associates would be relatively less impacted due to diversified businesses.

**# 3 Coal prices:** Domestic linkage coal prices are expected to remain stable at current levels, whereas domestic open market coal prices could soften a bit. Imported coal prices have corrected significantly, and our estimates now factor in imported coal cost at current levels of about US\$120/ton CIF (Australia).



**Company impact:** India Cements would benefit the most, as it sources ~60% of its coal requirement from international markets. Also, Ambuja and Grasim group would benefit as their dependence is about 33%. For every US\$10/ton change in imported coal prices, EBITDA would change by Rs3-3.5/bag.

**# 4 Other input costs:** For other input costs, we have factored in about 3.5% cost inflation.



**# 5 Grasim's VSF business:** We have lowered our volume estimates for FY09 to 10.5% decline (v/s 6.3% decline earlier) and for FY10 to 6% growth (v/s 11.4% growth earlier). However, Grasim would benefit from decline in global sulphur prices. Our estimates factor in sulphur prices of US\$180/ton (v/s US\$800/ton earlier), thereby diluting the impact of lower volumes.



## REVISED EARNINGS AND RATINGS

| COMPANY          | CMP<br>(RS) | MCAP<br>(RS B) | OLD EPS (RS) |       | REV. EPS (RS) |       | REV. EPS GR. (%) |       | P/E (X) |      | RATING  |         |
|------------------|-------------|----------------|--------------|-------|---------------|-------|------------------|-------|---------|------|---------|---------|
|                  |             |                | FY09         | FY10  | FY09          | FY10  | FY09             | FY10  | FY09    | FY10 | OLD     | NEW     |
| ACC*             | 479         | 90             | 58.5         | 53.2  | 58.2          | 41.7  | -14.5            | -28.3 | 8.2     | 11.5 | Neutral | Neutral |
| Ambuja Cements*  | 56          | 86             | 7.8          | 7.4   | 7.6           | 6.1   | -11.7            | -19.6 | 7.4     | 9.3  | Neutral | Neutral |
| Grasim Inds.     | 1,043       | 96             | 271.5        | 260.7 | 250.4         | 202.1 | -14.8            | -19.3 | 4.2     | 5.2  | Buy     | Buy     |
| India Cements    | 89          | 25             | 24.6         | 24.5  | 24.7          | 21.7  | 0.1              | -12.3 | 3.6     | 4.1  | Buy     | Buy     |
| UltraTech Cement | 349         | 43             | 79.0         | 84.0  | 72.1          | 68.8  | -11.0            | -4.6  | 4.8     | 5.1  | Buy     | Buy     |

\*Calendar years 2008 and 2009

Source: MOSL



## Engineering

BSE Sensex: 9,964

S&amp;P CNX: 2,973

7 November 2008

## Key assumptions/Changes in assumptions

## Impact

- # 1 Order intake growth:** Order intake from various infrastructure/industrial segments is likely to be impacted during 2HFY09/FY10, as funding issues and credit squeeze would restrict fund availability. Industrial capex is already slowing down in sector like metals, petrochemicals, cement, paper, power projects, etc .



**Company impact:** ABB witnessed order intake growth of 13.2% YoY in 3QCY08, amongst the lowest since 1QCY03. We have reduced our order intake estimates for CY08 and CY09 combined by 23% from Rs238b to Rs185b. This has impacted CY08 earnings by 13.4% and CY09 earnings by 20.8%. Similarly, slower order intake and margin pressure will impact Suzlon's FY09 and FY10 earnings by 22% and 29% respectively.

- # 2 Execution delays:** Execution delays have been particularly visible in areas like power generation, infrastructure, etc. Increasing share of projects (as against products) in the business mix is leading to elongation of execution cycle for companies like ABB, Areva, Siemens, etc, which is reflected in lower revenue growth.



**Company impact:** We have reduced our revenue CAGR estimate over CY07-09 for ABB from 25% to 16% to factor in possible delays/elongation of execution cycle and slowdown in order intake.

- # 3 Input costs:** Decline in the commodity prices during 2QFY09 is likely to yield benefits for fixed-price contracts in 4QFY09 and FY10, as most of the players have inventory for 3-6 months.



**Company impact:** BHEL / L&T, which have longer execution cycle / larger order book would be the large beneficiaries of the decline in commodity prices.

## REVISED EARNINGS AND RATINGS

| COMPANY         | CMP<br>(RS) | MCAP<br>(RS B) | OLD EPS (RS) |      | REV. EPS (RS) |      | REV. EPS GR. (%) |      | P/E (X) |      | RATING  |         |
|-----------------|-------------|----------------|--------------|------|---------------|------|------------------|------|---------|------|---------|---------|
|                 |             |                | FY09         | FY10 | FY09          | FY10 | FY09             | FY10 | FY09    | FY10 | OLD     | NEW     |
| ABB*            | 497         | 105            | 29.2         | 36.4 | 25.3          | 28.9 | 9.0              | 14.0 | 19.7    | 17.2 | Neutral | Neutral |
| BHEL            | 1,405       | 688            | 73.8         | 94.3 | 69.6          | 89.9 | 35.8             | 29.1 | 20.2    | 15.6 | Buy     | Buy     |
| Crompt. Greaves | 169         | 62             | 12.7         | 16.4 | 13.8          | 16.6 | 38.1             | 20.3 | 12.3    | 10.2 | Neutral | Neutral |
| Larsen & Toubro | 871         | 509            | 56.7         | 69.1 | 53.5          | 64.7 | 36.3             | 21.0 | 16.3    | 13.5 | Neutral | Neutral |
| Siemens#        | 296         | 100            | 20.9         | 27.9 | 20.9          | 27.9 | 28.8             | 33.3 | 14.1    | 10.6 | Neutral | Neutral |
| Suzlon Energy   | 71          | 106            | 11.0         | 14.9 | 8.5           | 9.2  | 12.3             | 7.4  | 8.3     | 7.7  | Neutral | Neutral |

\* Calendar years 2008 and 2009; # Years ending September 2008 and September 2009

Source: MOSL

## FMCG

BSE Sensex: 9,964

S&amp;P CNX: 2,973

7 November 2008

## Key assumptions/Changes in assumptions

## Impact

- # 1 **Lower volume growth:** We have lowered volume growth estimates in some product categories like toilet soaps, detergents, paints etc due to reduction in consumer upgradation at the bottom end. Slowdown in construction activity would impact paints demand growth.



**Company impact:** Hindustan Unilever (HUL) would be the worst impacted. We have lowered our volume growth for CY09 from 7.2% to 5%. HUL's profits have been downgraded by 1% for CY08 and 2.7% for CY09. Volume growth of Asian Paints has been reduced to 14% for FY10.

- # 2 **Decline in raw material price:** Prices of key inputs like palm oil, LAB, packaging have corrected from their highs. Sugar and copra prices have also begun to correct. We have factored in lower prices of these key inputs.



**Company impact:** HUL would benefit due to decline in raw material prices. In CY09, we estimate a 12% decline (earlier 5% increase) in prices of oil and fats (6.8% of sales) and 1% decline (earlier 5% increase) in prices of chemicals and perfumes (14% of sales). HUL's EBITDA margins are expected to expand 100bp in CY09 after 80bp decline in CY08. Asian Paints EBITDA margins are expected to expand 90bp in FY10 after 50bp decline in FY09.

- # 3 **Increase in interest cost:** Higher interest rate and weaker rupee have resulted in higher interest cost for companies with overseas operations and net debt in the balance sheet.



**Company impact:** United Spirits would be impacted due to rising interest rate and depreciation in rupee. We have increased the interest cost estimate for United Spirits by 5% in FY09 and 7% in FY10 to Rs4.3b.

## REVISED EARNINGS AND RATINGS

| COMPANY        | CMP<br>(RS) | MCAP<br>(RS B) | OLD EPS (RS) |      | REV. EPS (RS) |      | REV. EPS GR. (%) |      | P/E (X) |      | RATING  |         |
|----------------|-------------|----------------|--------------|------|---------------|------|------------------|------|---------|------|---------|---------|
|                |             |                | FY09         | FY10 | FY09          | FY10 | FY09             | FY10 | FY09    | FY10 | OLD     | NEW     |
| Asian Paints   | 955         | 92             | 50.7         | 62.0 | 49.9          | 62.3 | 14.6             | 24.9 | 19.1    | 15.3 | Buy     | Buy     |
| Hind. Unilever | 249         | 543            | 9.3          | 11.0 | 9.2           | 10.7 | 12.7             | 17.4 | 27.2    | 23.2 | Neutral | Neutral |
| Nestle         | 1,383       | 133            | 59.0         | 75.3 | 56.4          | 71.7 | 26.0             | 27.2 | 24.5    | 19.3 | Buy     | Buy     |
| United Spirits | 803         | 87             | 56.0         | 77.6 | 47.6          | 67.6 | 19.8             | 42.0 | 16.9    | 11.9 | Buy     | Buy     |

\*Calendar years 2008 and 2009

Source: MOSL

## Information Technology

BSE Sensex: 9,964

S&amp;P CNX: 2,973

7 November 2008

## Key assumptions/Changes in assumptions

## Impact

# 1 **Billed volume:** We have revised volume estimates downward to factor in demand headwinds of US recession and global slowdown.

**Company impact:** For frontline IT companies, we have lowered our FY10 volume growth estimates by 550-720bp. Topline growth would be impacted by a similar magnitude.



# 2 **Blended billing rate:** Pricing pressure would be seen across the sector emanating out of (a) client pressure for billing rate cuts, and (b) cross currency volatility. We have factored in flat growth in FY10 billing rate v/s our earlier expectation of 100-200bp improved realization.

**Company impact:** Every percentage point fall in realization growth rate negatively impacts EBIT margin of frontline IT companies by 75-100bp.



# 3 **Utilization:** We expect utilization to inch up given lower hiring, reduced bench size and lower attrition. Our FY10 utilization estimate for frontline IT companies has been revised upward by 100bp.

**Company impact:** Higher utilization would favorably impact frontline IT companies' EBIT margin by 25-40bp.



# 4 **Wage hikes:** We have factored in lower offshore wage hikes for FY10 at 8-11% v/s FY09 wage hikes at 11-14%, considering the softness in labor markets.

**Company impact:** Lower wage hikes would help buoy margins of frontline IT companies to the extent of 50-100bp.



# 5 **Exchange rate:** US\$/Rs rate has been revised to an average of Rs45.2 for FY09 and Rs44 for FY10 against earlier estimate of Rs43 for FY09 and Rs42 for FY10.

**Company impact:** FY10 EBIT margins of frontline IT companies would be impacted positively by 150bp.



# 6 **Cost rationalization:** We expect cost cuts across companies, which would result in relatively lower COGS and SG&A.

**Company impact:** Frontline IT companies would witness a positive impact on operating margins.



## REVISED EARNINGS AND RATINGS

| COMPANY         | CMP<br>(RS) | MCAP<br>(RS B) | OLD EPS (RS) |       | REV. EPS (RS) |       | REV. EPS GR. (%) |      | P/E (X) |      | RATING  |         |
|-----------------|-------------|----------------|--------------|-------|---------------|-------|------------------|------|---------|------|---------|---------|
|                 |             |                | FY09         | FY10  | FY09          | FY10  | FY09             | FY10 | FY09    | FY10 | OLD     | NEW     |
| HCL Tech.       | 165         | 110            | 23.2         | 25.6  | 31.3          | 31.4  | 56.1             | 0.5  | 5.3     | 5.3  | Buy     | Buy     |
| Infosys         | 1,263       | 723            | 103.8        | 117.7 | 100.4         | 109.1 | 23.6             | 8.7  | 12.6    | 11.6 | Buy     | Buy     |
| Mphasis         | 164         | 27             | 16.5         | 20.9  | 21.5          | 22.9  | 75.8             | 6.5  | 7.6     | 7.1  | Buy     | Buy     |
| Patni Computer  | 139         | 19             | 26.7         | 30.5  | 28.7          | 28.1  | -14.6            | -2.2 | 4.8     | 5.0  | Neutral | Neutral |
| Satyam Computer | 278         | 187            | 34.3         | 38.4  | 33.3          | 34.2  | 31.7             | 2.9  | 8.4     | 8.1  | Buy     | Buy     |
| TCS             | 525         | 513            | 60.4         | 69.1  | 56.1          | 59.5  | 9.5              | 6.0  | 9.3     | 8.8  | Buy     | Buy     |
| Tech Mahindra   | 325         | 40             | 76.8         | 89.9  | 78.4          | 82.2  | 34.3             | 4.9  | 4.1     | 4.0  | Neutral | Neutral |
| Wipro           | 260         | 382            | 25.4         | 29.7  | 24.5          | 25.8  | 10.7             | 5.6  | 10.6    | 10.1 | Buy     | Buy     |

Source: MOSL

## Infrastructure

BSE Sensex: 9,964

S&amp;P CNX: 2,973

7 November 2008

## Key assumptions/Changes in assumptions

## Impact

- # 1 Order intake:** Order intake could be impacted during 2HFY09/FY10, as funding issues and credit squeeze would restrict fund availability for infrastructure, industrial capex, etc. For the construction basket, we now expect order intake CAGR of 5% over FY08-10, v/s our earlier estimate of 10%.



**Company impact:** Gammon has been the worst impacted, given poor trend in order intake during 1HFY09. We believe that focus on transportation and energy segments, which account for 75%+ of order book, would enable moderate growth in order intake, going forward. The earnings CAGR over FY08-FY10 has been revised downward to 16% from 33% earlier.

- # 2 Increase in debt/interest cost:** During 1HFY09, the average interest cost moved up by 200-300bp to 12-14%. Also, the debt levels have increased as compared to March 2008, given the commitments towards fixed assets, increased working capital.



**Company impact:** We have revised interest cost CAGR (FY08-FY10) for our construction basket from 40% to 46%. The worst impacted is HCC, where the increase in interest cost has impacted FY09E earnings by 21% and FY10E earnings by 19%. Even for IVRCL, interest cost during FY09 is expected at 2.6% of revenues, v/s earlier estimate of 1.9%.

- # 3 Input costs:** Decline in commodity prices (TMT bars, oil, bitumen, etc) during 2QFY09 is likely to benefit construction companies from 4QFY09. The benefits would be more visible for companies with higher fixed price contracts.



**Company impact:** Nagarjuna and Gammon would benefit more due to higher proportion of fixed price contracts in order book. We expect Gammon's EBITDA margin to expand 80bp in FY10 to 8.9% partially due to benefits of lower commodity prices.

- # 4 Execution delays:** Players like HCC, Gammon and Patel, who have higher exposure to transportation and hydropower would continue to face relatively higher project delays due to intrinsic nature of the business mix.



**Company impact:** We have reduced our FY08-FY10 revenue CAGR estimates for Gammon and HCC by 9% and 6%, respectively.

## REVISED EARNINGS AND RATINGS

| COMPANY           | CMP<br>(RS) | MCAP<br>(RS B) | OLD EPS (RS) |      | REV. EPS (RS) |      | REV. EPS GR. (%) |       | P/E (X) |      | RATING  |         |
|-------------------|-------------|----------------|--------------|------|---------------|------|------------------|-------|---------|------|---------|---------|
|                   |             |                | FY09         | FY10 | FY09          | FY10 | FY09             | FY10  | FY09    | FY10 | OLD     | NEW     |
| GMR Infra.        | 68          | 123            | 0.4          | 1.5  | 0.8           | 2.3  | -28.1            | 171.8 | 81.3    | 29.9 | Neutral | Neutral |
| Gammon India      | 85          | 10             | 13.5         | 18.7 | 11.8          | 14.2 | 12.9             | 20.0  | 7.2     | 6.0  | Neutral | Neutral |
| Hind. Constr.     | 57          | 15             | 3.8          | 6.4  | 3.3           | 4.4  | 19.2             | 33.8  | 17.4    | 13.0 | Buy     | Buy     |
| IVRCL Infra.      | 139         | 18             | 17.8         | 23.3 | 17.3          | 23.8 | 9.9              | 37.1  | 8.0     | 5.8  | Buy     | Buy     |
| Jaipr. Associates | 88          | 110            | 5.6          | 8.1  | 5.5           | 6.9  | 5.4              | 26.1  | 16.0    | 12.7 | Buy     | Buy     |
| Nagar. Constr.    | 66          | 15             | 7.1          | 9.3  | 7.2           | 9.0  | 2.1              | 24.4  | 9.2     | 7.4  | Neutral | Neutral |
| Patel Engg.*      | 146         | 9              | 21.0         | 24.4 | 21.0          | 24.4 | -17.5            | 16.1  | 7.0     | 6.0  | Neutral | Neutral |
| Simplex Infra.    | 212         | 12             | 30.0         | 48.8 | 27.2          | 44.5 | 49.3             | 63.7  | 7.8     | 4.8  | Buy     | Buy     |

\* Assuming full tax for FY09 and FY10

Source: MOSL

## Metals

BSE Sensex: 9,964

S&amp;P CNX: 2,973

7 November 2008

## Changes in assumptions

**# 1 Steel prices:** Average blended realization will decline by Rs6,000/tonne QoQ in 3QFY09 and further by Rs4,000/tonne in 4QFY09 v/s flat prices earlier. During January to March 2009, steel prices should get stabilized. Thus, in-effect average prices during FY10 will be close to average prices in FY08 e.g. Rs28,000/tonne for HRC.



**Company impact:** Margins would be squeezed in 3Q and 4QFY09. JSW Steel and Corus would report losses in these quarters. SAIL and Tata Steel (India operations) will still remain profitable.

**# 2 Coking coal prices:** We expect coking coal prices to be negotiated lower to US\$150/tonne for FY10 (US\$300/tonne for FY09), and margins will start recovering from 2QFY10.



**Company impact:** Corus & SAIL will benefit most. JSW steel & JSPL will benefit partially. Tata steel Indian operations will have small benefit.

**# 3 Other input costs:** Spot iron ore, sea freights, alloying materials, etc, to be lower for steel producers.



**Company impact:** Only JSW steel will benefit from softening spot iron ore prices.

**# 4 Production cuts:** JSW Steel & Corus have announced production cut of 20% and 30% respectively.



**Company impact:** JSW steel 3Q production cut to 0.88m tonnes (earlier 1.3m tonnes) Corus 3Q and 4Q production cut to 3.5m tonnes (earlier 4.6m tonnes)

**# 5 Sesa Goa:** We are changing our assumption of iron ore price realization on spot sales from US\$95/tonne to US\$70/tonne for FY09. In FY10, we expect iron ore prices to soften further to US\$60/tonne.



**# 6 Aluminium prices:** Our new aluminum price assumption is US\$2,000/tonne (earlier US\$3,000/tonne) for 2HFY09 and FY10.



**# 7 Zinc prices:** Our LME zinc price assumption has been revised from US\$2,000/tonne to US\$1,850/tonne for FY09 and to US\$1,200/tonne (earlier US\$2,000/tonne) for FY10



## REVISED EARNINGS AND RATINGS

| COMPANY          | CMP<br>(RS) | MCAP<br>(RS B) | OLD EPS (RS) |       | REV. EPS (RS) |       | REV. EPS GR. (%) |       | P/E (X) |      | RATING  |         |
|------------------|-------------|----------------|--------------|-------|---------------|-------|------------------|-------|---------|------|---------|---------|
|                  |             |                | FY09         | FY10  | FY09          | FY10  | FY09             | FY10  | FY09    | FY10 | OLD     | NEW     |
| Hindalco         | 60          | 106            | 13.5         | 18.4  | 11.9          | 6.1   | -26.3            | -48.5 | 5.1     | 9.9  | Neutral | Sell    |
| Hindustan Zinc   | 315         | 133            | 81.5         | 83.0  | 79.1          | 49.8  | -24.0            | -37.1 | 4.0     | 6.3  | Buy     | Buy     |
| Jin. Steel&Power | 738         | 114            | 152.8        | 218.9 | 178.9         | 186.8 | 102.1            | 4.4   | 4.1     | 3.9  | Buy     | Buy     |
| JSW Steel        | 285         | 53             | 98.2         | 116.9 | 51.2          | 126.2 | -40.9            | 146.5 | 5.6     | 2.3  | Neutral | Neutral |
| Nalco            | 166         | 107            | 27.4         | 22.3  | 25.1          | 22.3  | -1.7             | -11.3 | 6.6     | 7.4  | Neutral | Sell    |
| SAIL             | 84          | 349            | 21.4         | 21.9  | 15.1          | 11.8  | -26.4            | -21.9 | 5.6     | 7.2  | Neutral | Sell    |
| Sterlite Inds.   | 246         | 174            | 65.0         | 57.2  | 65.3          | 40.0  | 1.9              | -38.7 | 3.8     | 6.2  | BUY     | Buy     |
| Tata Steel       | 190         | 156            | 159.9        | 180.2 | 75.7          | 86.2  | -19.6            | 13.8  | 2.5     | 2.2  | Buy     | Buy     |

Source: MOSL

## Oil and Gas, Petchem

BSE Sensex: 9,964

S&amp;P CNX: 2,973

7 November 2008

## Key assumptions/Changes in assumptions

## Impact

- # 1 **Oil prices:** We have revised our Brent oil price assumptions downwards for FY09/FY10/FY11/long-term from US\$110/90/80/75 per barrel to US\$97/80/75/65 per barrel.



**Company impact:** Cairn India and ONGC – negative as both are oil producers. However, ONGC is also sensitive to subsidy sharing.

- # 2 **Exchange rate:** We have revised the exchange rate to Rs47/US\$ for the next two quarters and from Rs42/US\$ to Rs44/US\$ for FY10.



**Company impact:** RIL – Positive; ONGC – Positive, but exchange rate gains offset by increase in under-recoveries, Cairn – Positive, as crude is priced in dollar terms.

- # 3 **Under-recoveries and their sharing:** With new oil price and exchange rate assumptions, our FY09 and FY10 subsidy sharing is at Rs1,141b (previous Rs1,465b) and Rs765b (previous Rs933b), respectively. For FY09, we now assume sharing at 1/3rd for upstream (previously fixed at Rs450b). For FY10, we assume upstream burden at 1/3rd.



**Company impact:** ONGC – Positive with reduced subsidy burden.

- # 4 **New gas production from RIL's KG-D6 fields:** Gas production is now expected to start in 4QFY09 (earlier 3QFY09). We have reduced our gas volume assumptions to factor in delay and also expect a slower ramp-up than earlier expected.



**Company impact:** RIL – Negative, reduced FY10 gas volumes from 57.5mmcmd to 48mmcmd. GAIL – Negative, now expect FY10 gas volume of 30mmcmd from RIL (previous 40mmcmd); GSPL – Negative; delay in gas volumes to be transmitted through its new pipeline.

## REVISED EARNINGS AND RATINGS

| COMPANY          | CMP<br>(RS) | MCAP<br>(RS B) | OLD EPS (RS) |       | REV. EPS (RS) |       | REV. EPS GR. (%) |       | P/E (X) |      | RATING       |         |
|------------------|-------------|----------------|--------------|-------|---------------|-------|------------------|-------|---------|------|--------------|---------|
|                  |             |                | FY09         | FY10  | FY09          | FY10  | FY09             | FY10  | FY09    | FY10 | OLD          | NEW     |
| Cairn India      | 141         | 268            | 2.2          | 8.4   | 3.1           | 6.5   | -2,346.3         | 109.7 | 45.6    | 21.7 | Under Review | Buy     |
| Chennai Petro.   | 137         | 20             | 90.2         | 54.0  | 80.1          | 52.0  | 9.6              | -35.1 | 1.7     | 2.6  | Buy          | Buy     |
| GAIL             | 201         | 254            | 27.5         | 27.5  | 26.0          | 26.0  | 29.6             | 0.0   | 7.7     | 7.7  | Buy          | Buy     |
| GSPL             | 30          | 17             | 2.3          | 3.6   | 1.7           | 2.2   | -6.2             | 32.9  | 17.8    | 13.4 | Buy          | Buy     |
| Indraprastha Gas | 109         | 15             | 12.7         | 10.2  | 13.3          | 10.6  | 6.4              | -19.8 | 8.2     | 10.2 | Neutral      | Neutral |
| MRPL             | 42          | 74             | 8.2          | 5.1   | 8.5           | 5.1   | 27.3             | -40.0 | 4.9     | 8.2  | Sell         | Sell    |
| ONGC             | 755         | 1,614          | 128.3        | 114.4 | 118.6         | 105.5 | 27.7             | -11.0 | 6.4     | 7.2  | Neutral      | Neutral |
| Reliance Inds.   | 1,269       | 1,845          | 111.8        | 208.0 | 103.7         | 186.3 | -1.2             | 79.7  | 12.2    | 6.8  | Buy          | Buy     |

Source: MOSL

## Pharmaceuticals

BSE Sensex: 9,964

S&amp;P CNX: 2,973

7 November 2008

**Key assumptions/Changes in assumptions****Impact**

**# 1 Currency:** We have revised our exchange rate assumption to Rs45.17/US\$ for FY09 and Rs44/US\$ for FY10, from Rs43/US\$ and Rs42/US\$, respectively. Currency depreciation will have multifold impact on pharmaceutical companies:



- a) **Sales Realization:** Rupee depreciation to have positive impact on sales realization
- b) **MTM forex losses on forward covers:** Many companies had taken forward covers (expecting rupee appreciation); they would now have to book MTM forex losses, as most of these covers have been taken at Rs39-42/US\$.
- c) **MTM forex losses on foreign debt:** Many companies have taken foreign debt to fund acquisitions. All these companies will have to provide for MTM forex losses.
- d) **Increase in US\$-denominated costs:** Companies having ground presence in the US would witness higher costs when translated into rupee terms due to depreciation of the rupee v/s the dollar.

Overall, rupee depreciation would adversely impact reported FY09E EPS but would boost reported FY10E EPS.

**Company impact:** Companies which would record large MTM forex losses in FY09 include Ranbaxy, Cipla, Jubilant Organosys, Biocon and Piramal Healthcare. Companies with large ground presence in the US include Ranbaxy, Sun Pharma, and Jubilant Organosys. Companies which would gain operationally on overall basis in FY10 due to rupee depreciation include Ranbaxy, Cipla, DRL, Biocon, Dishman, Divi's Labs and Jubilant Organosys.

**# 2 Interest costs:** Interest costs for domestic loans as well as foreign debt have increased of late. We note that for most of the companies, interest cost on foreign debt (LIBOR-linked) would have to be revised every six months and hence the full impact of higher interest costs would be reflected in FY10.



**Company impact:** Companies which are likely to witness significant increase in interest costs include DRL, Jubilant Organosys, Lupin, and Piramal Healthcare. Ranbaxy has US\$1.2b of debt but has also received US\$736m from Daiichi for preferential allotment.

**# 3 Credit squeeze impact on customers:** While it is difficult to predict the impact of the recent credit squeeze on customers of pharmaceutical companies, one segment which is likely to be adversely impacted globally will be small and mid-sized biotech and start-up research companies. Indian CRAMS companies have many such companies as their customers (revenue contribution ranging from 0-15% of CRAMS sales). The impact on customers for generic companies is not yet clear.



**Company impact:** While details are not available, we believe that Indian CRAMS companies are likely to have some exposure to such customers. DRL's CPS business in India is also exposed to such customers.



## OVERALL IMPACT FOR FY10E

|                                      |  |
|--------------------------------------|--|
| Companies with EPS upgrade of >5%    | Divi's Labs (10%), Jubilant Organosys (6.5%)                       |
| Companies with EPS upgrade of 1-5%   | Cadila (3.1%), Cipla (3.65%), Dishman (3.35%) and Wockhardt (2.4%) |
| Companies with EPS downgrade of >5%  | Glenmark (18.8%), Ranbaxy (23.7%), Sun Pharma (8.8%)               |
| Companies with EPS downgrade of 1-5% | DRL (2%), Piramal Healthcare (2%)                                  |

## REVISED EARNINGS AND RATINGS

| COMPANY         | CMP<br>(RS) | MCAP<br>(RS B) | OLD EPS (RS) |      | REV. EPS (RS) |      | REV. EPS GR. (%) |      | P/E (X) |      | RATING  |         |
|-----------------|-------------|----------------|--------------|------|---------------|------|------------------|------|---------|------|---------|---------|
|                 |             |                | FY09         | FY10 | FY09          | FY10 | FY09             | FY10 | FY09    | FY10 | OLD     | NEW     |
| Cipla           | 183         | 142            | 10.1         | 12.4 | 9.1           | 12.9 | 1.1              | 40.6 | 20.1    | 14.2 | Neutral | Neutral |
| Divi's Labs     | 1,254       | 81             | 72.1         | 89.6 | 76.0          | 98.5 | 41.1             | 29.7 | 16.5    | 12.7 | Buy     | Buy     |
| Dr.Reddy's Labs | 406         | 68             | 36.2         | 47.9 | 30.7          | 46.9 | 10.6             | 52.7 | 13.2    | 8.7  | Buy     | Buy     |
| GSK Pharma      | 1,028       | 87             | 53.1         | 63.4 | 53.3          | 63.6 | 13.0             | 19.3 | 19.3    | 16.2 | Buy     | Buy     |
| Glenmark        | 307         | 76             | 17.7         | 28.5 | 15.5          | 23.2 | 29.6             | 49.4 | 19.8    | 13.3 | Neutral | Neutral |
| Lupin           | 691         | 57             | 47.7         | 63.6 | 49.7          | 63.8 | 31.5             | 28.3 | 13.9    | 10.8 | Buy     | Buy     |
| Piramal Health. | 215         | 49             | 20.7         | 26.2 | 18.7          | 25.6 | 7.3              | 37.1 | 11.5    | 8.4  | Buy     | Buy     |
| Ranbaxy Labs    | 218         | 97             | 11.9         | 18.8 | 8.6           | 12.5 | -55.4            | 44.6 | 25.3    | 17.5 | Neutral | Neutral |
| Sun Pharma      | 1,193       | 231            | 56.3         | 69.1 | 51.9          | 63.0 | -27.7            | 21.3 | 23.0    | 18.9 | Buy     | Buy     |

Source: MOSL



## Real Estate

BSE Sensex: 9,964

S&amp;P CNX: 2,973

7 November 2008

## Key assumptions/Changes in assumptions

## Impact

**# 1 Delay in new launches:** Most of the real estate (RE) companies have indicated that they have decided to hold back or go slow on new project launches, while some companies such as Omaxe and Puravankara have indicated that they have frozen all new launches indefinitely. Given the current slump in volumes in the RE industry across verticals, we have considered lag in development for all projects across segments and companies. This in turn would result in delay in the cash flows and revenues from these projects.



**Company impact:** Puravankara and IBREL are the worst hit, with FY09E net profit being lowered by 37% and 56%, respectively. Unitech takes the next big hit, with FY09E net profit lowered 11%.

**# 2 Realization assumptions:** We expect list prices of residential and commercial properties to drop across the country. While this would negatively impact the valuations and revenues from new projects, we feel list prices of existing projects are also vulnerable.



**Company impact:** Almost all companies would be affected by lower realizations across cities and verticals.

**# 3 Construction cost assumptions:** We expect construction cost for RE companies to moderate, primarily due to decline in raw material prices such as steel (down by 30% YTD) and cement. Several RE companies have indicated a possibility of lower employee cost as a result of salary cuts and moderation in employee base.



**Company impact:** Almost all companies would be impacted.

**# 4 Others:** We expect leverage for RE companies to increase in the medium term, due to weak sales/demand. Further, we expect the cost of borrowing for RE companies to remain high in the medium term, in spite of proactive measures by RBI. As a result, the profitability of RE companies could be negatively impacted on account of higher interest cost.



**Company Impact:** Highly leveraged companies like Unitech and HDIL would be most affected as major portion of their debt has been raised in the recent past.

## REVISED EARNINGS AND RATINGS

| COMPANY         | CMP<br>(RS) | MCAP<br>(RS B) | OLD EPS (RS) |      | REV. EPS (RS) |      | REV. EPS GR. (%) |       | P/E (X) |      | RATING  |         |
|-----------------|-------------|----------------|--------------|------|---------------|------|------------------|-------|---------|------|---------|---------|
|                 |             |                | FY09         | FY10 | FY09          | FY10 | FY09             | FY10  | FY09    | FY10 | OLD     | NEW     |
| DLF             | 281         | 484            | 46.1         | 49.1 | 42.2          | 38.5 | -7.9             | -8.7  | 6.7     | 7.3  | Buy     | Buy     |
| Unitech         | 51          | 83             | 9.6          | 16.4 | 8.6           | 8.0  | -16.1            | -6.9  | 5.9     | 6.4  | Neutral | UR      |
| IBREL           | 157         | 43             | 16.4         | 19.9 | 7.3           | 8.7  | -45.6            | 18.7  | 21.6    | 18.2 | Buy     | Buy     |
| Mah. Lifespaces | 188         | 8              | 24.3         | 73.0 | 24.3          | 73.0 | 51.7             | 200.3 | 7.7     | 2.6  | Buy     | Buy     |
| HDIL            | 117         | 32             | 47.6         | 55.0 | 43.0          | 45.5 | -34.7            | 5.8   | 2.7     | 2.6  | Neutral | Neutral |
| Bombay Dyeing   | 186         | 7              | 38.3         | 33.7 | 38.3          | 33.7 | 785.8            | -11.9 | 4.9     | 5.5  | Buy     | Buy     |
| Puravankara     | 56          | 12             | 13.8         | 19.7 | 8.8           | 10.5 | -22.0            | 20.0  | 6.4     | 5.3  | Buy     | Buy     |

Source: MOSL

## Retail

BSE Sensex: 9,964

S&amp;P CNX: 2,973

7 November 2008

## Changes in assumptions

- # 1 **Titan Industries:** (1) 20% increase in realization in jewelry (5% earlier) with volume growth of 18% (earlier 25%). (2) Gold coin volumes to decline by 10% (15% growth earlier). (3) Watch volumes to grow at 9.7% (earlier 12.5%), and realization to increase 7.6% (5% earlier).



**Company impact:** Titan Industries sales estimate up 2.7% due to higher realization.

- # 2 **Pantaloon:** Same store sales growth lowered to 7% in Hypermarkets and Fashion retailing, and to low single digit (3%) in grocery.



**Company impact:** Pantaloon's sales estimates down from Rs80.3b to Rs73.6b.

- # 3 **Overheads:** Reduction in employees on benches and economies of scale to lower operational overheads.



**Company impact:** 40bp margin expansion in Pantaloon on the back of 160bp decline in employee costs and control over overheads despite changed inventory valuation (70bp) and decline in gross margins (50bp)

- # 4 **Interest rate:** We have assumed higher interest rate of 12.5% (average) for FY09. Titan Inds will face higher charge for Gold lease.



**Company impact:** Interest burden estimates for Titan up from Rs172m in FY08 to Rs254m in FY09. FY09 interest burden for Pantaloon up from Rs2.6b to Rs2.9b.

## REVISED EARNINGS AND RATINGS

| COMPANY          | CMP<br>(RS) | MCAP<br>(RS B) | OLD EPS (RS) |      | REV. EPS (RS) |      | REV. EPS GR. (%) |      | P/E (X) |      | RATING  |         |
|------------------|-------------|----------------|--------------|------|---------------|------|------------------|------|---------|------|---------|---------|
|                  |             |                | FY09         | FY10 | FY09          | FY10 | FY09             | FY10 | FY09    | FY10 | OLD     | NEW     |
| Pantaloon Retail | 238         | 38             | 14.2         | 21.0 | 10.9          | 17.0 | 36.9             | 56.2 | 21.9    | 14.0 | Buy     | Buy     |
| Titan Industries | 917         | 39             | 43.5         | 57.4 | 47.0          | 59.9 | 40.7             | 27.5 | 19.5    | 15.3 | Neutral | Neutral |

Source: MOSL

## Telecom

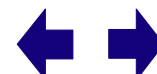
BSE Sensex: 9,964

S&amp;P CNX: 2,973

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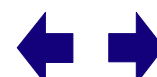
## Changes in assumptions

**# 1 Subscriber additions:** 2QFY09 subscriber additions averaged ~9.5m/month and were in line with expectations. We maintain our estimate of 9.5m/month net adds for the industry during 2HFY09 and 9m/month during FY10.



**Company impact:** We maintain our FY10 monthly netadds estimates for Bharti (2.2m), Idea (1.1m), and RCOM (1.8m) given in-line performance.

**# 2 Wireless ARPU, MOU and RPM:** 2QFY09 wireless ARPU declined ~4-6% QoQ, largely in line with estimates. MOU declined QoQ for Bharti and Idea but remained stable for RCOM.



**Company impact:** We broadly maintain our FY10 ARPU estimates for Bharti (Rs293, down 10% YoY), Idea (Rs229, down 8% YoY), and RCOM (Rs255, down 6% YoY) given in-line performance.

**# 3 EBITDA margin:** EBITDA margin during 2QFY09 were inline for Bharti but below expectations for Idea and RCOM. We expect margin divergence to continue given aggressive rollouts and continued high capex intensity for Idea and RCOM.



**Company impact:** We maintain our margin assumptions for Bharti but downgrade for Idea and RCOM by ~2pp for FY09 and 1-1.5pp for FY10.

**# 4 Net finance cost:** While Bharti's reported earnings were depressed due to forex and derivative loss, RCOM's earnings were boosted by net finance income. Idea's net debt was higher than est. due to sharp decline in current liabilities.



**Company impact:** We have increased our finance cost estimate for Bharti by 70% for FY09 to account for the forex loss but keep FY10 estimate broadly unchanged. For RCOM, we consider reported net finance income as non-recurring given its net debt of Rs152b and continue to model for a 4% net finance cost on its net debt for 2HFY09 and FY10. We have significantly increased our net debt forecasts for Idea to factor-in additional rollouts and investment in working capital. Our net finance cost estimates for Idea have increased by 27% for FY09 and 160% for FY10 and continue to reflect ~9% net interest cost.

**# 5 Tax rate:** Tax rates have been below estimates due to deferred tax write-backs. Bharti also triggered 80IA benefits in some circles.



**Company impact:** We decrease our FY09 tax rate assumption for Bharti (from 16% to 12%), Idea (from 10% to 7.5%) and RCOM (from 1% to 0%). We keep our FY10 assumptions unchanged, which implies ~500bp tax rate increase for Idea and RCOM and ~900bp increase for Bharti.

## REVISED EARNINGS AND RATINGS

| COMPANY       | CMP<br>(RS) | MCAP<br>(RS B) | OLD EPS (RS) |      | REV. EPS (RS) |      | REV. EPS GR. (%) |      | P/E (X) |      | RATING |         |
|---------------|-------------|----------------|--------------|------|---------------|------|------------------|------|---------|------|--------|---------|
|               |             |                | FY09         | FY10 | FY09          | FY10 | FY09             | FY10 | FY09    | FY10 | OLD    | NEW     |
| Bharti Airtel | 650         | 1,232          | 47.7         | 57.3 | 45.7          | 55.0 | 29.3             | 20.4 | 14.2    | 11.8 | Buy    | Buy     |
| Idea Cellular | 48          | 148            | 4.1          | 6.1  | 3.1           | 4.7  | -20.8            | 48.9 | 15.2    | 10.2 | Buy    | Neutral |
| Reliance Comm | 228         | 467            | 28.1         | 33.5 | 28.3          | 31.5 | 6.0              | 11.2 | 8.1     | 7.3  | Buy    | Buy     |

Source: MOSL

## Textiles

BSE Sensex: 9,964

S&amp;P CNX: 2,973

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## Key assumptions/Changes in assumptions

## Impact

- # 1 **Demand pull missing:** During 2QFY09, the global demand for textiles continued to remain sluggish due to slowdown in the United States and European Union. The domestic retail demand has also been lower than expected. Industry participants do not expect global demand for textiles to revive significantly for at least another year, but are hopeful that the growth in the domestic demand would to a large extent mitigate the impact of lower global demand.



**Company impact:** We have lowered revenue estimates for Alok, Arvind and Vardhman Textiles.

- # 2 **Rs/US\$ rate:** We have revised our exchange rate assumption to Rs45.17/US\$ for FY09 and Rs44/US\$ for FY10 as compared to Rs43/US\$ and Rs42/US\$, respectively. A weak rupee would be positive for textile companies with high percentage of exports. While the benefit of weaker rupee may not be visible in FY09, as most textile companies had already hedged their export receivables for 3-6 months, we expect the exchange rate benefit to start getting reflected from FY10 onwards.



**Company impact:** Key beneficiary would be Alok. While Welspun would also benefit from weaker rupee, bulk of its gains would be negated due to higher cotton prices and weak end-product demand.

- # 3 **Cotton price:** International cotton prices have dropped by 33% from the recent high of US\$80/pound to US\$54/pound. However, the benefits of lower cotton prices are not trickling down to the domestic textile companies, as the government has increased the minimum statutory price for cotton in India.



**Company impact:** Most of the textile companies would have high cotton cost for FY09, which would negatively impact their margins. Arvind would be worst impacted due to its high dependence on denim.

- # 4 **Other input costs:** The prices of other raw material inputs such as dyes and chemicals have moderated from their recent highs.



**Company impact:** Likely to benefit most of the textile companies.

## REVISED EARNINGS AND RATINGS

| COMPANY     | CMP<br>(RS) | MCAP<br>(RS B) | OLD EPS (RS) |      | REV. EPS (RS) |      | REV. EPS GR. (%) |       | P/E (X) |      | RATING  |         |
|-------------|-------------|----------------|--------------|------|---------------|------|------------------|-------|---------|------|---------|---------|
|             |             |                | FY09         | FY10 | FY09          | FY10 | FY09             | FY10  | FY09    | FY10 | OLD     | NEW     |
| Alok        | 18          | 4              | 7.8          | 9.0  | 7.9           | 9.1  | -6.5             | 15.4  | 2.3     | 2.0  | Buy     | Buy     |
| Arvind      | 16          | 4              | 1.6          | 4.0  | 0.6           | 1.7  | -50.4            | 160.4 | 24.7    | 9.5  | Neutral | Neutral |
| Raymond     | 89          | 6              | 11.3         | 18.6 | 9.4           | 16.9 | -11.0            | 80.2  | 9.5     | 5.3  | Neutral | Neutral |
| Vardhman    | 56          | 3              | 9.4          | 22.4 | 13.1          | 18.6 | -38.3            | 41.8  | 4.3     | 3.0  | Buy     | Buy     |
| Welspun Ind | 24          | 2              | 3.4          | 9.2  | 3.1           | 7.9  | -8.4             | 153.2 | 7.7     | 3.0  | Neutral | Neutral |

Source: MOSL

## Utilities

BSE Sensex: 9,964

S&amp;P CNX: 2,973

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**Key assumptions/Changes in assumptions****Impact**

**# 1 Tata Power:** The downgrades are largely to factor in the lower profit contribution from KPC / Arutmin mines given lower production volumes and coal prices. Bumi has indicated sales volumes of 50m tons v/s earlier guidance of 55m tons and lower realizations for coal. For CY08, we have factored in sales volume of 60m tons v/s 63m tons guidance by management and realization of US\$75/ton.



## REVISED EARNINGS AND RATINGS

| COMPANY    | CMP<br>(RS) | MCAP<br>(RS B) | OLD EPS (RS) |      | REV. EPS (RS) |      | REV. EPS GR. (%) |      | P/E (X) |      | RATING |     |
|------------|-------------|----------------|--------------|------|---------------|------|------------------|------|---------|------|--------|-----|
|            |             |                | FY09         | FY10 | FY09          | FY10 | FY09             | FY10 | FY09    | FY10 | OLD    | NEW |
| Tata Power | 737         | 172            | 70.6         | 96.0 | 62.4          | 76.8 | 91.1             | 23.0 | 11.8    | 9.6  | Buy    | Buy |

Source: MOSL

## Others

BSE Sensex: 9,964

S&amp;P CNX: 2,973

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## Key assumptions/Changes in assumptions

## Impact

- # 1 **Blue Star:** (1) FY09 revenue growth rate lowered to 29% (41% earlier), following weak 2Q (FY10 growth rate maintained at 29%); (2) EBITDA margin for FY09 lowered to 10.3% (10.6%), and for FY10 to 10.6% (11.2%); (3) Debtor days raised to 90 (80), leading to higher working capital and interest cost.



**Company impact:** 15% downgrade in FY09E EPS and 19% downgrade in FY10E EPS.

- # 2 **Great Offshore:** (1) Loss of revenue in 2QFY09 for 2 PSVs and 1 MSV; (2) Visibility of lower utilization level for OSVs – cut from 95% to 85% for 2H FY09 and FY10; (3) Change in exchange rate for FY09 to Rs45/US\$ (Rs41.5/US\$) and for FY10 to Rs44/US\$ (Rs40/US\$); (4) Early adoption of Accounting Standard 30 by Great Offshore, creating hedge reserve for unrealized forex losses/gains.



**Company impact:** 7% downgrade in EPS for FY09 and 14% downgrade in EPS for FY10.

- # 3 **Greaves Cotton:** (1) Lower infrastructure equipment growth rate: (a) in FY09 to 10% (35% earlier), (b) in FY10, to 25% (from 30%). (2) Lower EBITDA margin in FY09 of 12.9% (13.4%), and for FY10 13.2% (13.7%).



**Company impact:** 8% downgrade in FY09E EPS and 10% downgrade in FY10E EPS.

## REVISED EARNINGS AND RATINGS

| COMPANY        | CMP<br>(RS) | MCAP<br>(RS B) | OLD EPS (RS) |      | REV. EPS (RS) |      | REV. EPS GR. (%) |      | P/E (X) |      | RATING |     |
|----------------|-------------|----------------|--------------|------|---------------|------|------------------|------|---------|------|--------|-----|
|                |             |                | FY09         | FY10 | FY09          | FY10 | FY09             | FY10 | FY09    | FY10 | OLD    | NEW |
| Blue Star      | 193         | 17             | 23.9         | 32.6 | 20.4          | 26.3 | 25.0             | 29.1 | 9.5     | 7.3  | Buy    | Buy |
| Great Offshore | 346         | 13             | 52.6         | 63.9 | 48.9          | 55.2 | 10.1             | 12.8 | 7.1     | 6.3  | Buy    | Buy |
| Greaves Cotton | 100         | 5              | 22.4         | 27.8 | 20.5          | 24.9 | 5.3              | 21.5 | 4.9     | 4.0  | Buy    | Buy |

Source: MOSL

## **N O T E S**



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