



WITHERING FUNDAMENTALS

Will Earnings follow prices ?

Q2 FY09 RESULT PREVIEW

| | Net Sales | | QoQ | Net Profit | | QoQ | EPS | | QoQ | CMP |
|---------------|-----------|--------|-----|------------|--------|-----|-------------|--------|-----|------|
| | Q1FY09 E | Q4FY08 | % | Q1 FY09 E | Q4FY08 | % | Q1FY09 E | Q4FY08 | % | |
| Infosys (\$) | 1196 | 1155 | 3.5 | 316 | 306 | 3.3 | 0.56 | 0.54 | 3.3 | |
| Guidance | 1215-1225 | | | | | | 0.55-0.56 | | | |
| Infosys (Rs.) | 5256 | 4854 | 8.3 | 1392 | 1302 | 6.9 | 24.27 | 22.7 | 6.9 | 1265 |
| Guidance | 5229-5272 | | | | | | 23.52-23.95 | | | |

| Name | Net Sales | | YoY | EBIDTA | | YoY | Net Profit | | YoY | CMP |
|------------------|-----------|--------|-------|----------|--------|-------|------------|--------|--------|-------|
| | Q2FY09 E | Q2FY08 | % | Q2FY09 E | Q2FY08 | % | Q2FY09 E | Q2FY08 | % | |
| Maruti Suzuki | 4802.3 | 4545.9 | 5.6 | 491.4 | 580.1 | -15.0 | 353.9 | 466.5 | -24.1 | 688.8 |
| Bajaj Auto | 2557.5 | 2362.3 | 8.3 | 319.7 | 370.8 | -14.0 | 219.7 | 342.0 | -35.7 | 542.7 |
| HCC | 700.0 | 548.7 | 27.6 | 75.3 | 60.1 | 25.2 | 5.3 | 11.6 | -54.9 | 54.1 |
| NCC | 910.0 | 677.2 | 34.4 | 87.4 | 84.8 | 3.0 | 32.4 | 33.7 | -3.8 | 71.0 |
| Sadbhav Engi | 132.0 | 101.8 | 29.7 | 14.9 | 12.3 | 21.7 | 4.9 | 5.6 | -12.3 | 600.0 |
| Simplex Infra | 865.0 | 571.1 | 51.5 | 91.8 | 57.2 | 60.5 | 29.3 | 19.1 | 53.3 | 291.0 |
| Voltas | 886.2 | 712.7 | 24.3 | 64.3 | 63.7 | 1.0 | 57.3 | 53.6 | 6.9 | 72.4 |
| HUL | 4012.0 | 3364.6 | 19.2 | 517.6 | 447.6 | 15.6 | 476.6 | 408.1 | 16.8 | 238.1 |
| Pantaloon Retail | 1593.8 | 1086.4 | 46.7 | 148.5 | 95.6 | 55.4 | 35.1 | 29.7 | 18.4 | 230.5 |
| Tata Steel | 6587.0 | 4785.0 | 37.7 | 2770.0 | 1969.0 | 40.7 | 1570.0 | 1190.0 | 31.8 | 338.2 |
| SAIL | 12145.0 | 9163.0 | 32.5 | 3324.0 | 2629.0 | 26.4 | 1947.0 | 1700.0 | 14.5 | 116.2 |
| JSW Steel | 4481.0 | 2494.0 | 79.7 | 1081.0 | 836.0 | 29.3 | 504.6 | 511.3 | -1.3 | 292.6 |
| Visa Steel | 435.0 | 153.0 | 184.3 | 114.0 | 14.0 | 714.3 | 65.0 | 3.4 | 1784.1 | 28.5 |
| GSPL | 116.5 | 95.4 | 22.1 | 103.1 | 81.0 | 27.3 | 31.9 | 16.3 | 96.0 | 39.1 |
| NTPC | 8542.7 | 8016.9 | 6.6 | 2562.8 | 2749.0 | -7.0 | 1696.7 | 1626.9 | 4.3 | 175.2 |

| (Rs crores) | Net Sales | | QoQ | EBIDTA | | QoQ | Net Profit | | QoQ | CMP |
|---------------|-----------|--------|------|----------|--------|------|------------|--------|-------|-------|
| | Q2FY09 E | Q1FY09 | % | Q2FY09 E | Q1FY09 | % | Q2FY09 E | Q1FY09 | % | |
| Vishal Retail | 419.9 | 376.6 | 11.5 | 52.4 | 49.1 | 6.8 | 15.0 | 14.0 | 7.1 | 172.9 |
| RCOM | 5490.4 | 5322.2 | 3.2 | 2333.5 | 2250.2 | 3.7 | 1356.8 | 1512.3 | -10.3 | 300.6 |
| Idea | 2323.1 | 2173.5 | 6.9 | 712.0 | 715.7 | -0.5 | 244.8 | 263.1 | -7.0 | 65.8 |

Note: Pantaloon Retail- June year ending, HUL- Q2 CY08, Tata Steel result on standalone basis. Bottomline for Bajaj Auto and Maruti Suzuki not comparable due to demerger and change in depreciation policy respectively.

| Company/ Sector | Rating | Comments |
|-------------------------------|--------------|---|
| Information Technology | | |
| INFOSYS | Neutral | <ul style="list-style-type: none"> ➤ Rs. depreciation will lead to lesser losses on currency hedges. ➤ Operating margins to improve to beyond 33%. ➤ We have assumed Rs.- \$ rate at 43.95 for the quarter and 34% fixed price contracts. ➤ Forester – a leading IT firm has indicated that Global IT spend may see major slow down & the Spending in the BFSI segment might fall by 20%. Infosys derive 63% of the revenues from the North American and BFSI contributes 34% of the revenues this slow down in the spending is likely to impact the growth of the company. |
| Auto | | |
| Maruti | Neutral | <ul style="list-style-type: none"> ➤ Volume growth on decline due to higher financing cost. ➤ We expect rupee depreciation to improve export realisation and thereby improve margins on a sequential basis. |
| Bajaj Auto | Neutral | <ul style="list-style-type: none"> ➤ Average realisation of Maruti to improve by 4% due to higher mix of A3 segment. A-star, hatchback launched this month, to be a major volume driver going ahead. ➤ We expect volume growth for Bajaj at 4% margins to improve on a sequential basis. |
| Construction | | |
| Hindustan Construction | Outperformer | <ul style="list-style-type: none"> ➤ HCC's revenue growth to be affected due to Amarnath Land transfer standoff and heavy rain in UP and insurgency in Assam. ➤ On YoY basis, operating margins are likely to suffer by 20 basis points and the bottom line to come under pressure due to hike in interest rates. |
| Nagarjuna Construction | Neutral | <ul style="list-style-type: none"> ➤ NCC to report 34% growth on YoY basis in top line and slightly negative growth in the bottom line owing to lower operating margins and increasing interest payments. ➤ The operating margins are likely to contract by 290 basis points to 9.6%. |
| Sadbhav Engineering | Neutral | <ul style="list-style-type: none"> ➤ Though the top line is expected to register a decent growth, bottom line will reflect rising interest rate environment and to contract by 12% YoY. |
| Simplex Infrastructure | Outperformer | <ul style="list-style-type: none"> ➤ We expect Simplex to witness strongest topline growth of 51%. ➤ Company's overseas business to register strong topline growth aided by increased order intake in countries like Muscat and Oman. |

| Company/ Sector | Rating | Comments |
|--------------------|-----------------|---|
| Engineering | | |
| Voltas | Outperformer | <ul style="list-style-type: none"> ➤ Increased Realisations from projects initiated in 2HFY08 and strong order book. Huge order inflow from international market to limit further intake. Company remains upbeat on orders from Construction segment. ➤ With the acquisition of a controlling stake in Rohini Electric, Voltas has entered into industrial MEP projects, the missing link in its existing offerings. ➤ Margins are likely to remain under pressure as Unitary cooling segment extraordinary seasonal margins normalize. ➤ At Q2FY09E annualized EPS of Rs6.93, stock is trading at P/E ratio of 10.4 |
| FMCG | | |
| HUL | Under performer | <ul style="list-style-type: none"> ➤ We expect HUL to report 19.2% YoY growth in sales at 4012 Cr. and 16.8% rise in the Net Profit. ➤ Despite of the cooling of raw material prices and the recent price hikes we see margin declining in Q2FY09. The effect of the falling prices of the key raw materials will be seen from Q3FY09 and we expect the margins to improve thereafter. ➤ Even though the company has shown impressive growth, looking at the current market and economic conditions the valuations seems to be stretched. ➤ At CMP of 238 rs. The company is trading at 27x its Q2FY09E annualized earnings of 8.75 rs. |
| Retail | | |
| Pantaloon | Outperformer | <ul style="list-style-type: none"> ➤ Given the extended discount season we expect Pantaloon Retail to post revenue growth of 46.7% yoy. Value segment is likely to boost overall growth in revenues ➤ Same store sales growth is slowing down specifically in high margin lifestyle segment thus margins to ease this quarter on higher share of low margin Value retailing segment. ➤ Lease rentals have started cooling off and the company has booked a few properties in the last six months. Medium term focus seems to be on established formats like Food Bazaar, Big Bazaar, Pantaloon, and Central. ➤ By the end of FY09, company is expected to add up to 14 million sq ft of retail space. Company plans to infuse Rs1060 crs through the issue of warrants to promoters at price of Rs.500. ➤ At Q2FY09E annualized EPS of Rs8.8, stock is trading at P/E ratio of 26.1. |

| Company/ Sector | Rating | Comments |
|-----------------|---------------|---|
| Retail | | |
| Vishal | Neutral | <ul style="list-style-type: none"> ➤ Aggressive new store roll out continue to be the main growth driver in case of Vishal Retail. ➤ Revenue growth will be higher as new opened stores mature and footfalls increase. Company rolled out 154 new stores by quarter ended September 2008 ➤ Higher debt and subsequently higher interest cost will keep margins under pressure ➤ At Q2FY09E annualized EPS of Rs26.70, stock is trading at P/E ratio of 6.47 |
| Steel | | |
| Tata Steel | Out performer | <ul style="list-style-type: none"> ➤ We expect Tata Steel standalone net sales to grow 38% YoY to Rs65.8 bn, largely led by a 35% increase in realizations. It has the highest domestic average realizations through its high share of value-added products. We expect earnings growth, driven by the 1.8-mtpa brownfield expansion at Jamshedpur. Tata Steel has been substantially cheap, inline with global peers. At CMP 340, stock trades at P/E of 2.8x of FY09 EPS of 125. |
| SAIL | Neutral | <ul style="list-style-type: none"> ➤ We believe that SAIL offers stable earnings growth on the back of steady volume ramp-up, iron ore integration, net cash positive status and operational improvement. |
| JSW Steel | Neutral | <ul style="list-style-type: none"> ➤ Improvement in volumes and product mix will help maintain topline margins of JSW Steel. JSW remains fully exposed to international coking coal prices and Depreciating rupee will further raise its import bills hitting its bottomline figures. |
| VISA | Out performer | <ul style="list-style-type: none"> ➤ Visa Steel is at inflection point, where it is poised to achieve marvelous volume growth in coming years. Its 225,000 ton pig iron facility has also started and stabilized after its planned closure for a refractory relining, which would start contributing towards financial performance from second quarter 2009. |

| Company/ Sector | Rating | Comments |
|------------------|--------------|---|
| Telecom | | |
| Rcom | Neutral | <ul style="list-style-type: none"> ➤ Reliance communication is expected to report subdued quarterly performance ➤ Topline is expected to grow at 3.2% qoq. Global Business is expected to report ➤ Flat growth while broadband business is expected to grow by 8.5% qoq. ➤ ARPU is expected to decline by 5 % to Rs268. ➤ At CMP of Rs301, the stock is trading at 11.5 x its Q2FY09E annualized EPS of Rs26.31. |
| Idea | Neutral | <ul style="list-style-type: none"> ➤ We expect Idea to report topline growth of 6.9% qoq to Rs2323 cr on back of 12% addition in subscriber base but ARPUs are expected to decline by 4.5% to Rs266. ➤ Net Profit is expected to decline by 6.95% qoq to Rs245 cr |
| Utilities | | |
| GSPL | Outperformer | <ul style="list-style-type: none"> ➤ GSPL is expected to report growth of 22% yoy to Rs117 cr due to rising volumes & higher tariffs. ➤ Net Profit is expected to be Rs32 cr up by 96% yoy due to higher volumes and improving margins. ➤ AT CMP of Rs39, the stock is trading at 17 x its Q2FY09E annualized EPS of Rs2.3. |
| NTPC | Outperformer | <ul style="list-style-type: none"> ➤ We expect revenues to grow at 6.6% YoY for Q2 FY09. PLF to improve on a YoY basis, but to decline on sequential basis due to seasonal factors. Net profits estimated to rise by 4% YoY. |

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