Equity Research

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BSE Sensex: 9406

INDIA

Market strategy

Dec ’08 Quarter: Earnings downgrade cycle not complete

Reason for report: Dec ’08 earnings preview

I-Sec universe of 110 companies (ex Telecom and Capital goods) on an aggregate basis will likely deliver decline in Sales, EBITDA and PAT - together for the first time in the current cycle – of 1-2% in the Dec 08 quarter. While Autos (19%), metals (14%) and real estate (14%) sectors will show a decline, the aggregate revenue will largely be led down by the Oil& gas sector (12% down due to lower crude oil prices). IT (32%), Banking (26%), FMCG (16%) and Utilities (14%) and will lead in revenue growth. Aggregate EBITDA margins (ex-banks) will likely come off by 100 bps YoY led by metals, cement, pharma, real estate and auto sectors due to volume, pricing and cost pressures. However an offsetting factor would likely be increase in EBITDA margins for the Oil sector due to markedly better performance by the OMCs. PAT growth will likely be held up by Banking (26%), IT (19%), FMCG (11%) and Oil & Gas (10%) sectors while most others will show either declines or single digit growth. PAT for metals, real estate and auto sectors will likely decline by ~40%.Among the large cap companies, HPCL and BPCL (which are likely to deliver big EBITDA expansions YoY) will likely be the key winners of Dec 08 results season. The key Dec 08 result losers would likely be CV manufacturers and steel companies. But we believe most of the negatives are largely in the price for the latter two sectors.

- **Margin declines to continue in FY10:** In the Dec ’08 quarter compared to a year ago EBITDA margins are expected to decline in 9 out of 12 sectors with Real estate and Metals expected to report the largest sectoral declines. FMCG (small) and Oil & Gas (largely because of better performance of the OMCs) are the only sectors that are expected to increase margins while IT sector margins are likely to remain flat (rupee depreciation led). We feel that the down trend in margins is going to continue to afflict most sectors through out FY10 as they come to terms with consequences of lower demand. Such a downtrend may be most severe in global sensitive Industries like Metals, IT services and Oil & gas.
- **Earnings downgrade cycle not complete:** We believe that the Dec 08 quarter earnings season will likely lead to our current estimates being brought down further. We think management commentary/data might likely be bad for globally sensitive sectors like IT services, metals and Oil & gas which might likely prompt further downgrades. Among the domestic sectors we believe the threat of downgrades is the highest in auto and real estate.
- **I-Sec Market View: Overweight stance on domestic, capital efficient and interest rate sensitive sectors.** Our UW stance on Oil & gas driven by risk to refining and petrochemical margins, UW on IT Services driven by likely reversal in rupee, volume, pricing and margin pressures from deeper-than-expected OECD slowdown. UW on Capital Goods driven by valuations, risk to P/E and EPS from lower order inflow growth from Infrastructure and Commodities sectors due to poor capital and debt market conditions and poor demand conditions for industrial commodities. Positive view on Indian Financials underpinned by relative insulation from global credit problems, valuations, an interest rate cycle that is turning down and healthy corporate sector. Expect earnings upgrade from higher demand (due to lower interest rates in the next 12-18 months) in Autos and lower pressure from raw materials. Overweight on Consumer sector driven by steady earnings prospects and possibility of surprises from lower soft commodity prices.

Sector stance	
Auto	OW
Banking	OW
Engineering	UW
FMCG	OW
Metals	UW
Oil&Gas and Petro	UW
Pharma	OW
Real Estate	N
Technology	UW
Telecom	OW
Utilities	N

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Table 1: Summary Dec 08 Qtr Sales

(Rs mn)

Sector	Dec-08E	Dec-07	% YoY
Real Estate	18,295	21,332	(14)
Autos	191,820	236,456	(19)
Oil and Gas	930,955	1,054,182	(12)
IT	286,578	217,738	32
FMCG	134,778	115,710	16
Pharma	90,980	74,068	23
Construction	29,247	22,770	28
Cement	96,244	89,622	7
Fertiliser	48,173	37,930	27
Media	16,986	15,183	12
Metals	279,208	324,952	(14)
Utilities	130,454	113,948	14
Infrastructure	13,506	8,382	61
Total (Ex Banking)	**2,267,223**	**2,332,274**	**(3)**
Banks NII	165,671	131,199	26
Total	**2,432,894**	**2,463,473**	**(1)**

Source: I-Sec Research

Table 2: Summary Dec 08 Qtr EBITDA

(Rs mn)

Sector	Dec-08E	Dec-07	% YoY
Real Estate	11,333	16,305	(30)
Autos	16,629	28,835	(42)
Oil and Gas	173,716	156,222	11
IT	70,328	52,933	33
FMCG	31,253	25,866	21
Pharma	19,510	19,345	1
Construction	2,947	2,444	21
Cement	23,974	27,883	(14)
Fertiliser	5,087	4,701	8
Media	5,573	5,087	10
Metals	58,479	110,231	(47)
Utilities	35,150	33,923	4
Infrastructure	1,866	1,915	(3)
Total (Ex Banking)	**455,844**	**485,690**	**(6)**
Banks PPP	136,454	111,672	22
Total	**592,297**	**597,362**	**(1)**

Source: I-Sec Research

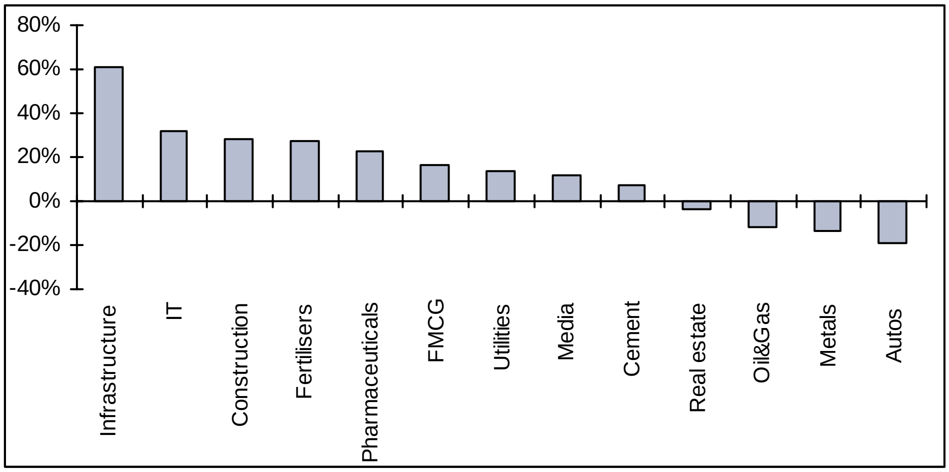
Table 3: Summary Dec 08 Qtr PAT

(Rs mn)

Sector	Dec-08E	Dec-07	% YoY
Real Estate	7,530	12,090	(38)
Autos	10,783	18,523	(42)
Oil and Gas	97,632	88,873	10
IT	52,980	44,439	19
FMCG	20,671	18,701	11
Pharma	13,071	13,492	(3)
Construction	1,144	1,155	(1)
Cement	14,278	16,388	(13)
Fertiliser	2,071	1,614	28
Media	3,300	3,237	2
Metals	39,199	67,398	(42)
Utilities	21,075	20,454	3
Infrastructure	674	958	(30)
Total (Ex Banking)	**284,409**	**307,324**	**(7)**
Banks PPP	75,214	59,883	26
Total	**359,623**	**367,207**	**(2)**

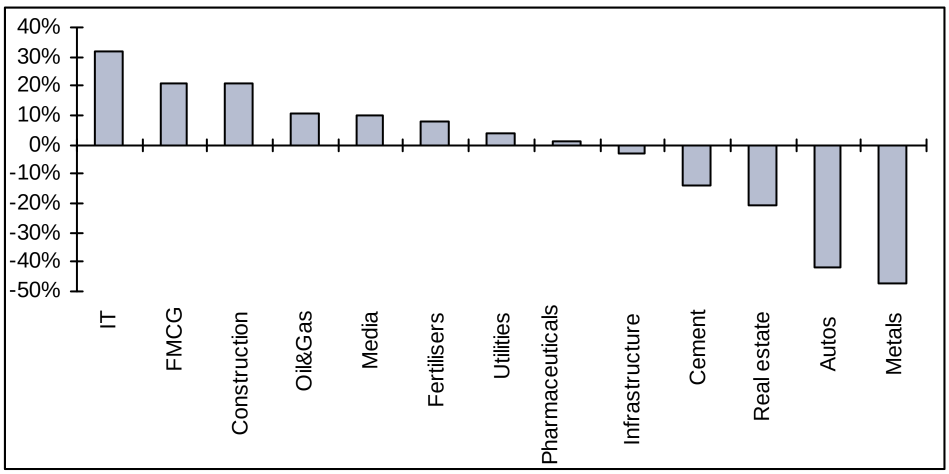
Source: I-Sec Research

Chart 1: Dec 08 Qtr Sales Growth



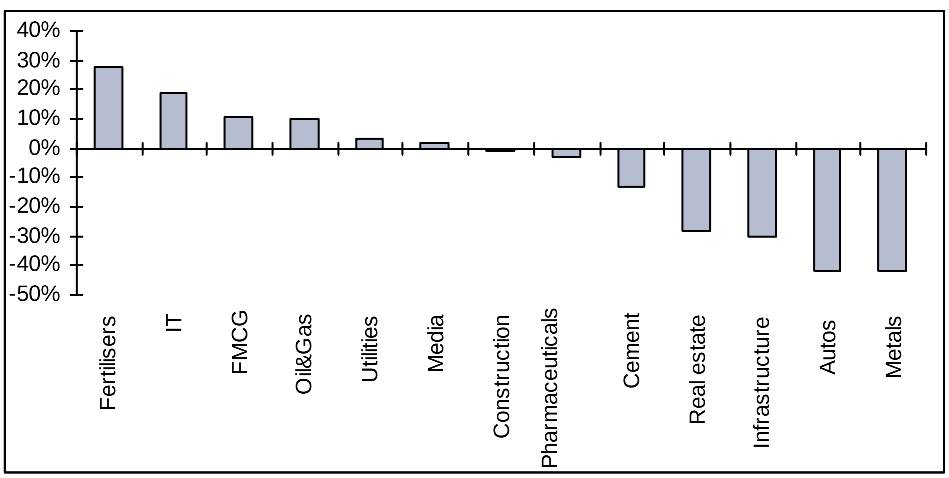
Source: I-Sec Research

Chart 2: Dec 08 Qtr EBITDA Growth



Source: I-Sec Research

Chart 3: Dec 08 Qtr PAT Growth



Source: I-Sec Research

Most sectors are showing a deteriorating growth picture over the last 4 quarters.

Banking, FMCG and IT have defied the trend thus far…

Table 4: Sector Quarterly Growth Trend

(%)	Mar-08	Jun-08	Sep-08	Dec-08E
Autos				
Sales	6	18	13	(19)
EBITDA	(1)	(3)	(17)	(42)
Interest Cost	50	35	67	33
PAT	(10)	3	(23)	(42)
Banking				
NII	23	23	40	26
Total Income	17	29	30	22
PPP	25	43	40	22
PAT	56	22	32	26
Cement				
Sales	13	8	13	7
EBITDA	-	(8)	(13)	(14)
Interest Cost	(16)	4	3	(33)
PAT	(12)	(10)	(19)	(13)
Construction				
Sales	37	25	48	28
EBITDA	36	13	30	21
Interest Cost	155	133	111	113
PAT	165	30	23	(1)
Fertiliser				
Sales	25	62	74	27
EBITDA	(5)	13	54	8
Interest Cost	2	1	46	51
PAT	(48)	21	100	28
FMCG				
Sales	18	21	21	16
EBITDA	20	10	14	21
Interest Cost	(95)	(1)	(38)	(9)
PAT	18	7	7	11
Infrastructure				
Sales	149	56	97	61
EBITDA	116	32	35	(3)
Interest Cost	(16)	36	89	98
PAT	285	17	(8)	(30)
IT				
Sales	24	33	31	32
EBITDA	16	33	28	33
Interest Cost	46	80	68	88
PAT	14	8	22	19
Media				
Sales	13	27	31	12
EBITDA	(2)	12	8	10
Interest Cost	215	79	120	1
PAT	16	17	(3)	2
Metals				
Sales	19	23	28	(14)
EBITDA	23	29	32	(47)
Interest Cost	64	59	29	(10)
PAT	27	46	47	(42)
Oil and Gas				
Sales	29	41	37	(12)
EBITDA	18	11	(24)	11
Interest Cost	32	80	183	110
PAT	22	(2)	(55)	10
Pharma				
Sales	18	28	27	23
EBITDA	29	43	26	1
Interest Cost	63	60	51	24
PAT	35	33	13	(3)
Real Estate				
Sales	112	22	-	(14)
EBITDA	132	42	9	(30)
Interest Cost	70	240	52	(8)
PAT	149	24	(5)	(38)
Utilities				
Sales	26	10	17	14
EBITDA	27	(8)	(13)	4
Interest Cost	29	(5)	40	131
PAT	(30)	(17)	(2)	3
Total Ex Banking				
Sales	24	31	30	(3)
EBITDA	20	16	2	(6)
Interest Cost	17	49	76	44
PAT	20	11	(7)	(7)
Total				
Sales	23	31	31	(1)
EBITDA	21	20	8	(1)
PAT	24	13	(1)	(2)

Source: I-Sec Research

Table 5: Quarterly Margin Trends

	EBITDA Margin (%)							PAT Margin (%)						
	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08
Autos	11	12	12	11	9	9	9	8	8	8	7	7	5	6
Cement	33	32	31	28	28	25	25	18	18	18	13	15	13	15
Construction	10	10	11	10	9	9	10	5	4	5	4	5	4	4
Fertilisers	13	10	12	9	9	9	11	2	3	4	0	1	4	4
FMCG	21	21	22	19	19	20	23	16	15	16	13	14	14	15
Infrastructure	20	19	23	22	17	13	14	9	10	11	17	7	5	5
IT	24	24	24	24	24	23	25	22	20	20	19	18	19	18
Media	33	31	34	29	29	26	33	20	20	21	20	19	15	19
Metals	33	32	34	37	35	33	21	19	20	21	23	23	22	14
Oil&Gas	18	17	15	14	14	9	19	11	10	8	8	8	3	10
Pharmaceuticals	22	22	26	27	25	22	21	16	16	18	21	16	14	14
Real estate	63	62	72	60	60	57	60	45	53	59	47	45	46	44
Utilities	27	33	30	24	23	24	27	12	17	18	5	9	14	16
Aggregate	23	22	22	21	20	17	21	14	14	14	13	12	10	13

Source: I-Sec Research

Table 6: Top 10 Companies - Net sales Growth

		Dec-07 (Rs mn)			Dec-08 (Rs mn)			YoY Growth (%)		
Company Name	Sector	Net sales	EBITDA	PAT	Net sales	EBITDA	PAT	Net sales	EBITDA	PAT
Peninsula	Real estate	224	132	379	1,200	582	432	437	341	14
IBREL	Real estate	378	4,411	3,033	870	3,078	1,970	130	(30)	(35)
ADSL	IT	793	163	121	1,727	345	261	118	111	116
3I INFOTECH	IT	3,172	668	484	6,041	1,149	640	90	72	32
EDUCOMP	IT	715	334	190	1,306	720	352	83	116	85
Marg	Infrastructure	601	164	133	1,045	250	128	74	52	(4)
Lanco	Infrastructure	7,782	1,750	825	12,461	1,616	546	60	(8)	(34)
Zee News Ltd.	Media	955	219	128	1,388	284	161	45	30	25
MPHASIS	IT	6,323	1,104	663	9,151	1,716	1,107	45	55	67
Sun Pharma	Pharmaceuticals	8,040	3,547	3,184	11,383	4,808	4,723	42	36	48

Source: I-Sec Research

Table 7: Top 10 Companies - EBITDA Growth

		Dec-07 (Rs mn)			Dec-08 (Rs mn)			YoY Growth (%)		
Company Name	Sector	Net sales	EBITDA	PAT	Net sales	EBITDA	PAT	Net sales	EBITDA	PAT
HPCL	Oil&Gas	252,180	1,481	-157	225,702	21,214	10,908	(10)	1,332	(7,039)
BPCL	Oil&Gas	268,495	4,371	1634	238,592	20,314	10,317	(11)	365	531
Peninsula	Real estate	224	132	379	1,200	582	432	437	341	14
EDUCOMP	IT	715	334	190	1,306	720	352	83	116	85
ADSL	IT	793	163	121	1,727	345	261	118	111	116
3I Infotech	IT	3,172	668	484	6,041	1,149	640	90	72	32
Entertainment Network	Media	681	138	81	735	218	104	8	58	29
MPhasiS	IT	6,323	1,104	663	9,151	1,716	1107	45	55	67
Marg	Infrastructure	601	164	133	1,045	250	128	74	52	(4)

Source: I-Sec Research

Table 8: Top 10 Companies - PAT Growth

		Dec-07 (Rs mn)			Dec-08 (Rs mn)			YoY Growth (%)		
Company Name	Sector	Net sales	EBITDA	PAT	Net sales	EBITDA	PAT	Net sales	EBITDA	PAT
BPCL	Oil&Gas	268,495	4,371	1,634	238,592	20,314	10,317	(11)	365	531
Shree Cements	Cement	5,236	2,237	335	6,423	2,102	1,197	23	(6)	257
Dr. Reddy's Labs	Pharma	11,895	1,774	539	16,017	2,632	1,640	35	48	204
ADSL	IT	793	163	121	1,727	345	261	118	111	116
Educomp	IT	715	334	190	1,306	720	352	83	116	85
Nagarjuna Fertilizers	Fertilisers	6,242	741	40	6,710	840	74	8	13	84
MPHASIS	IT	6,323	1,104	663	9,151	1,716	1,107	45	55	67
Sun Pharma	Pharma	8,040	3,547	3,184	11,383	4,808	4,723	42	36	48
Aventis	Pharma	2,040	290	270	2,274	397	387	11	37	43

Source: I-Sec Research

Table 9: I-Sec Universe Dec-08E (Ex Banks)

Company Name	Dec-07			Dec-08			YoY (%)		
(Rs mn)	Net sales	EBITDA	PAT	Net sales	EBITDA	PAT	Net sales	EBITDA	PAT
Auto									
Ashok Leyland	18,001	1,679	903	10,322	712	161	(43)	(58)	(82)
Bajaj auto	25,017	3,736	2,361	20,851	3,002	1,908	(17)	(20)	(19)
Bharat Forge	5,567	1,364	582	4,635	786	258	(17)	(42)	(56)
Hero Honda	27,431	3,826	2,750	27,964	3,704	2,755	2	(3)	-
M&M	29,402	3,315	2,495	24,230	1,890	1,692	(18)	(43)	(32)
Maruti Suzuki	46,741	6,133	4,670	41,917	3,276	3,093	(10)	(47)	(34)
Punjab Tractors	3,029	379	254	3,334	365	326	10	(4)	28
Tata Motors	72,518	8,253	4,449	50,456	2,672	546	(30)	(68)	(88)
TVS Motor	8,750	150	58	8,109	222	45	(7)	48	(23)
Total	**236,456**	**28,835**	**18,523**	**191,820**	**16,629**	**10,783**	**(19)**	**(42)**	**(42)**
Cement									
A C C	17,641	4,173	2,903	19,461	3,993	2,623	10	(4)	(10)
Ambuja Cements	15,347	4,614	2,814	16,408	4,488	3,005	7	(3)	7
Grasim Industries	26,299	8,563	5,499	25,986	5,561	3,309	(1)	(35)	(40)
India Cements	7,379	2,449	1,240	7,785	2,412	1,169	6	(2)	(6)
J K Cement	3,899	1,162	802	3,593	684	,305	(8)	(41)	(62)
Shree Cement	5,236	2,237	335	6,423	2,102	1,197	23	(6)	257
Ultratech Cement	13,821	4,685	2,795	16,588	4,734	2,671	20	1	(4)
Total	**89,622**	**27,883**	**16,388**	**96,244**	**23974**	**14,278**	**7**	**(14)**	**(13)**
Construction									
IVRCL Infrastructure	9,749	1,114	567	12,274	1,350	589	26	21	4
Nagarjuna Construction	7,795	862	396	10,779	1,132	422	38	31	7
Gammon India	5,227	468	192	6,194	465	133	19	(1)	(31)
Total	**22,770**	**2,444**	**1,155**	**29,247**	**2,947**	**1144**	**28**	**21**	**(1)**
Fertilisers									
Chambal Fertilisers	8,073	1,432	466	10,576	1,800	643	31	26	38
GSFC	9,955	1,398	638	13,539	1,298	772	36	(7)	21
Nagarjuna Fertilizers	6,242	741	40	6,710	840	74	8	13	84
RCF	13,660	1,131	470	17,348	1,148	583	27	2	24
Total	**37,930**	**4,701**	**1,614**	**48,173**	**5,087**	**2071**	**27**	**8**	**28**
FMCG									
Asian Paints	11,776	1,856	1,189	13,543	1,979	1251	15	7	5
Britannia	6,564	651	481	8,320	810	558	27	24	16
Colgate-Palmolive	3,675	839	605	4,190	903	693	14	8	15
GSK Consumer	2,841	357	275	3,500	303	298	23	(15)	8
Godrej Consumer	2,291	509	415	2,849	462	432	24	(9)	4
Hindustan Unilever	38,024	6,792	5,540	44,708	7,648	6238	18	13	13
I T C	34,580	11,997	8,307	37,704	15,721	8866	9	31	7
Marico	5,062	643	459	6,353	749	485	26	17	6
Nestle India	8,957	1,576	968	11,182	1,898	1205	25	20	25
Procter & Gamble	1,941	646	463	2,429	779	643	25	21	39
Total	**115,710**	**25,866**	**18,701**	**134,778**	**31,253**	**20671**	**16**	**21**	**11**
Infrastructure									
Lanco	7,782	1,750	825	12,461	1,616	546	60	(8)	(34)
Marg	601	164	133	1,045	250	128	74	52	(4)
Total	**8,382**	**1,915**	**958**	**13,506**	**1,866**	**674**	**61**	**(3)**	**(30)**
IT									
Infosys	42,710	14,234	12,114	56,917	18,881	15,440	33	33	27
TCS	59,241	15,789	13,308	73,282	19,581	13,781	24	24	4
Satyam	21,956	4,712	4,336	30,113	6,950	6,031	37	48	39
Wipro	52,360	10,022	8,263	67,466	13,219	9,797	29	32	19
HCL Technologies	18,166	3,885	3,328	25,624	5,420	3,853	41	40	16
MphasiS	6,323	1,104	663	9,151	1,716	1,107	45	55	67
Patni Computer	6,862	1,134	997	8,469	1,399	1,129	23	23	13
Infotech enterprises	1,769	320	198	2,277	422	228	29	32	15
3i InfoTech	3,172	668	484	6,041	1,149	640	90	72	32
Infoedge	548	154	142	601	150	147	10	(3)	4
Nucleus	736	185	155	800	120	82	9	(35)	(47)
Educomp	715	334	190	1,306	720	352	83	116	85
NIIT	2,388	228	139	2,803	255	133	17	12	(5)
ADSL	793	163	121	1,727	345	261	118	111	116
Onmobile	805	393	257	975	274	184	21	(30)	(29)
Total	**218,543**	**53,326**	**44,696**	**287,552**	**70,601**	**53,164**	**32**	**32**	**19**

Company Name	Dec-07			Dec-08			YoY (%)		
(Rs mn)	Net sales	EBITDA	PAT	Net sales	EBITDA	PAT	Net sales	EBITDA	PAT
Media									
Balaji Telefilms	800	266	188	570	71	70	(29)	(73)	(63)
Entertainment Network	681	138	81	735	218	104	8	58	29
H T Media	3,194	592	369	3,537	592	309	11	-	(16)
Ibn18 Broadcast	388	58	18	457	69	25	18	18	37
New Delhi Television	892	177	71	892	58	-16	-	(67)	(122)
Prime Focus	220	115	59	238	117	46	8	2	(22)
Sun T V Network	2,178	1,710	1,023	2,739	2,029	1,205	26	19	18
T V Today Network	694	243	167	581	217	144	(16)	(11)	(14)
Zee Entertainment	5,182	1,569	1,135	5,850	1,916	1,253	13	22	10
Zee News	955	219	128	1,388	284	161	45	30	25
Total	**15,183**	**5,087**	**3,237**	**16,986**	**5,573**	**3,300**	**12**	**10**	**2**
Metals									
Hindalco Industries	45,317	8,006	5,427	34,039	4,050	2,702	(25)	(49)	(50)
Hindustan Zinc	16,580	10,440	7,850	9,939	3,740	3,834	(40)	(64)	(51)
J S W Steel	28,419	7,858	3,824	25,076	4,483	928	(12)	(43)	(76)
Jindal Steel & Power	13,956	5,442	3,190	13,708	4,374	2,360	(2)	(20)	(26)
Nalco	11,093	4,401	3,294	11,136	3,043	2,209	-	(31)	(33)
Sesa Goa	12,182	7,569	5,056	11,138	5,613	4,463	(9)	(26)	(12)
Steel Authority Of India	95,333	29,834	19,347	80,145	9,857	7,035	(16)	(67)	(64)
Sterlite Industries	52,332	15,717	8,553	40,047	6,606	7,046	(23)	(58)	(18)
Tata Steel	49,739	20,966	10,857	53,979	16,713	8,621	9	(20)	(21)
Total	**324,952**	**110,231**	**67,398**	**279,208**	**58,479**	**39,199**	**(14)**	**(47)**	**(42)**
Oil&Gas									
BPCL	268,495	4,371	1,634	238,592	20,314	10,317	(11)	365	531
Cairn India	2,667	1,577	852	2,167	1,230	1,169	(19)	(22)	37
G A I L (India)	42,983	8,723	6,213	57,330	10,791	7,352	33	24	18
Gujarat Gas Co.	3,459	641	392	3,512	584	378	2	(9)	(4)
HPCL	252,180	1,481	(157)	225,702	21,214	10,908	(10)	1,332	(7,039)
Indraprastha Gas	1,827	781	450	2,201	924	536	20	18	19
ONGC	136,670	80,318	40,607	120,305	63,534	33,679	(12)	(21)	(17)
Reliance Industries	345,900	58,330	38,882	281,146	55,124	33,293	(19)	(5)	(14)
Total	**1,054,182**	**156,222**	**88,873**	**930,955**	**173,716**	**97,632**	**(12)**	**11**	**10**
Pharma									
Alembic	2,555	295	195	2,883	391	176	13	33	(10)
Aventis	2,040	290	270	2,274	397	387	11	37	43
Cadila	5,614	1,035	509	6,641	1,112	568	18	7	12
Cipla	10,065	2,793	2,277	12,548	2,849	1,800	25	2	(21)
Dr. Reddy's	11,895	1,774	539	16,017	2,632	1,640	35	48	204
GSK Pharma	3,393	1,094	829	3,718	1,116	859	10	2	4
Glenmark	5,001	3,609	2,820	5,852	1,877	1,365	17	(48)	(52)
Ranbaxy	17,845	3,007	1,800	20,492	2,038	757	15	(32)	(58)
Sun Pharma	8,040	3,547	3,184	11,383	4,808	4,723	42	36	48
Wockhardt	7,620	1,901	1,069	9,172	2,290	796	20	20	(26)
Total	**74,068**	**19,345**	**13,492**	**90,980**	**19,510**	**13,071**	**23**	**1**	**(3)**
Real Estate									
DLF	35,980	25,010	21450	36,623	21,455	16,718	2	(14)	(22)
Unitech	11,421	7,344	5258	9,322	5,054	3,329	(18)	(31)	(37)
HDIL	4,966	3,336	2707	3,835	1,924	1,416	(23)	(42)	(48)
IBREL	378	4,411	3033	870	3,078	1,970	130	(30)	(35)
Sobha	3,553	961	611	2,288	619	330	(36)	(36)	(46)
Peninsula	224	132	379	1,200	582	432	437	341	14
DSK	790	121	103	780	76	52	(1)	(37)	(49)
Total	**57,312**	**41,315**	**33540**	**54,918**	**32,788**	**24,248**	**(4)**	**(21)**	**(28)**
Utilities									
C E S C	6,760	1,550	930	6,857	1,376	779	1	(11)	(16)
N T P C	92,994	29,691	17,799	106,857	30,845	18,778	15	4	5
Tata Power Co.	14,194	2,682	1,725	16,740	2,929	1,518	18	9	(12)
Total	**113,948**	**33,923**	**20,454**	**130,454**	**35,150**	**21,075**	**14**	**4**	**3**
Grand Total (Ex banks)	**2,369,059**	**511,093**	**329,031**	**2,304,821**	**477,572**	**301,310**	**(3)**	**(7)**	**(8)**

Source: I-Sec Research

Table 10: I-Sec Universe Dec-08E (Banks)

	Dec-07				Dec-08				% YoY			
(Rs mn)	NII	Total Income	PPP	PAT	NII	Total Income	PPP	PAT	NII	Total Income	PPP	PAT
Bank of Baroda	9,975	16,155	9,324	5,011	11,768	18,395	10,485	5,517	18	14	12	10
Bank of India	10,795	16,336	9,714	5,119	13,689	20,338	12,392	6,794	27	25	28	33
Canara Bank	9,344	14,808	7,578	4,588	11,741	17,630	9,678	6,152	26	19	28	34
Corporation Bank	3,337	5,007	2,776	1,909	4,174	6,077	3,489	2,267	25	21	26	19
H D F C Bank Ltd.	14,376	21,165	10,664	4,294	20,301	29,788	14,246	5,772	41	41	34	34
Oriental Bank Of Commerce	4,024	5,697	2,967	1,997	5,072	7,635	4,331	2,612	26	34	46	31
Punjab National Bank	14,244	19,078	9,913	5,414	17,134	22,757	12,126	6,516	20	19	22	20
State Bank Of India	42,563	69,534	36,597	18,086	54,327	84,030	44,505	24,753	28	21	22	37
Union Bank Of India	7,881	11,355	6,359	3,650	9,760	14,308	8,461	4,803	24	26	33	32
Development Credit Bank	426	779	187	257	602	977	297	97	42	26	59	-62
HDFC	6,763	9,661	8,872	6,489	7,953	9,019	8,009	5,682	18	-7	-10	-12
Total	131,199	201,927	111,672	59,883	165,671	246,708	136,454	75,214	26	22	22	26

Source: I-Sec Research

ANALYST CERTIFICATION

We /I, *Girish Pai, MBM, BTech and Sunil Teluja, MBA (Finance)* analyst and the author of this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts aren't registered as research analysts by FINRA and might not be an associated person of the ICICI Securities Inc.

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Equity Research
January 7, 2009

INDIA

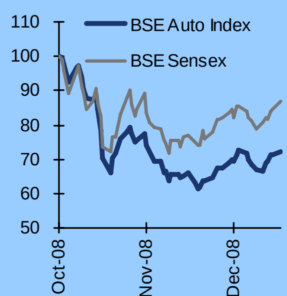
Automobiles

In the negative zone

Top picks
Hero Honda
Mahindra & Mahindra

We estimate the I-Sec Auto universe to register aggregate revenue decline of 13.8% YoY to Rs141bn in Q3FY09E. Excluding three-wheeler volumes, which grew 2.5% YoY, volumes of other segments declined with deteriorating macroeconomic fundamentals and tight liquidity. Two-wheelers posted 15.6% YoY volume decline; passenger vehicle (PVs) volumes dipped 17% YoY and commercial vehicles (CVs) fared the worst, registering 43.9% overall decline (M/HCVs down 58.2% YoY, LCVs down 24.3% YoY). For the I-Sec Auto universe, we expect EBITDA margin to drop 270bps YoY to 9.9%, resulting in 32.2% YoY dip in EBITDA to Rs13.9bn and 27.3% YoY drop in recurring net profits to Rs10.2bn. Hero Honda (HHML) and Mahindra & Mahindra (M&M) are our top picks in the sector.

Auto index vs. Sensex



- **Revenues likely to decline 13.8% YoY.** We estimate 13.8% YoY aggregate revenue decline for the I-Sec Auto universe to Rs141bn in Q3FY09E. On the volume front, three-wheelers posted 2.5% YoY growth and other segments posted decline – two-wheelers declined 15.6% YoY (motorcycles down 17.9% YoY; mopeds up 4.8% YoY and scooters up 2% YoY) and PVs dipped 17% YoY (passenger cars down 11% YoY; UVs & MPVs down 30.4% YoY). CV volumes sharply declined 43.9% (M/HCVs down 58.2% YoY, LCVs down 24.3% YoY). Among companies, revenue growth would be led by Punjab Tractors (PTL; up 10.1% YoY) and HHML (marginally up 1.9% YoY).
- **Margins to decline 270bps YoY to 9.9%.** Higher raw material cost and lack of economies of scale due to sharp volume decline would pressurise margins, which are expected to dip 270bps YoY to 9.9%. This would be largely driven by Bharat Forge (BFL, 760bps YoY margin decline to 16.9%) and Maruti Suzuki (MSIL, 530bps YoY decline to 7.8%); other companies that are likely to register over 200bps margin decline are Ashok Leyland (ALL) and M&M. Companies that would fare relatively well on the margin front are TVS Motor (TVSM, margins up 100 bps YoY on low base), Bajaj Auto (BAL, margin contraction limited to 50bps YoY on product mix shifting in favour of three-wheelers) and HHML (margin contraction limited to 70bps YoY on improved product mix and Uttaranchal plant benefits).
- **In the negative zone.** We expect recurring net profits for the I-Sec Auto universe to decline 27.3% YoY to Rs10.2bn. This would be led by ALL (down 82% YoY), BFL (down 55.6% YoY) and MSIL (down 33.8% YoY). PTL (up 28.5% YoY) and HHML (marginal 0.2% YoY growth) are expected to register increase in recurring net income.
- **Top picks.** We maintain HHML and M&M as the top picks in the sector. Summarised below are our recommendation changes in Q3FY09.

Summary of recommendation change in Q3FY09

Stock	Date of recommendation change	Reco change	Price at the time of reco change (Rs)	Price Today (Rs)
Bharat Forge	October 7	Downgrade- BUY to HOLD	173	93
Ashok Leyland	October 23	Downgrade- BUY to HOLD	21	16
Ashok Leyland	November 10	Downgrade-HOLD to SELL	17	16
Maruti Suzuki	December 24	Downgrade-BUY to HOLD	513	561

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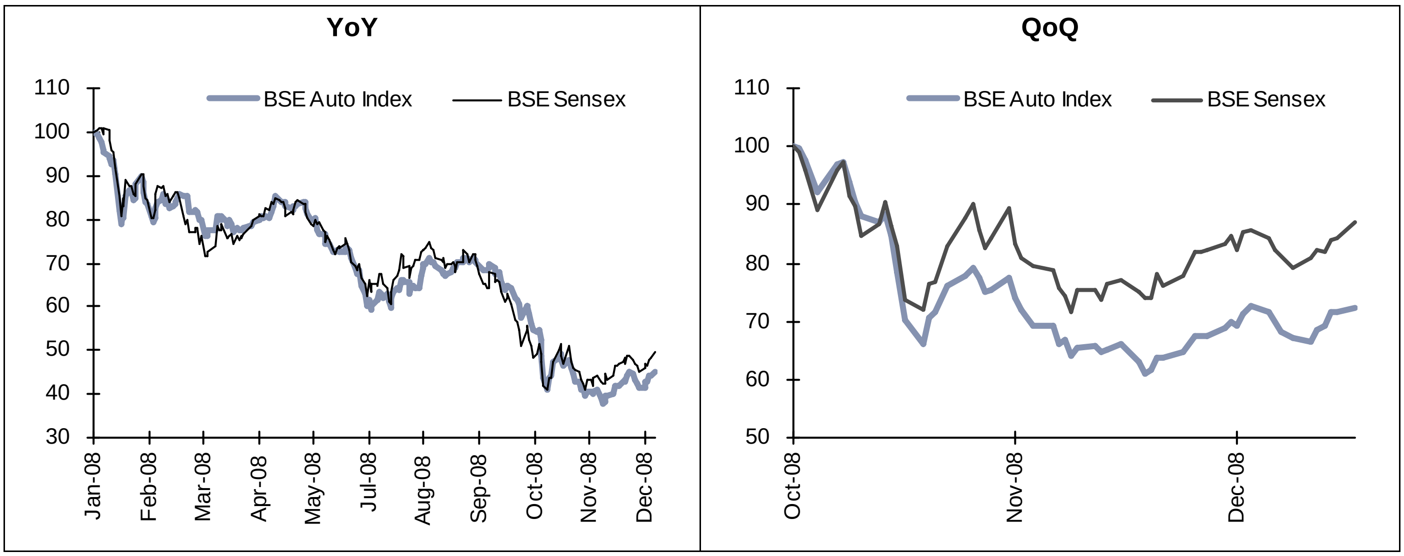
Table 1: Quarterly summary

Company	Sales			EBITDA			PAT		
		% Chg			% Chg			% Chg	
	OND'08*	(YoY)	(QoQ)	OND'08*	(YoY)	(QoQ)	OND'08*	(YoY)	(QoQ)
Ashok Leyland	10,322	(42.7)	(44.7)	712	(57.6)	(53.8)	161	(82.2)	(73.5)
Bajaj Auto	20,851	(16.7)	(18.2)	3,002	(19.6)	(12.7)	1,908	(19.2)	(16.1)
Bharat Forge	4,635	(16.7)	(31.4)	786	(42.4)	(33.7)	258	(55.6)	(37.7)
M&M	24,230	(17.6)	(22.8)	1,890	(43.0)	(23.7)	1,692	(32.2)	(31.0)
Hero Honda	27,964	1.9	(12.7)	3,704	(3.2)	(14.8)	2,755	0.2	(10.1)
MSIL	41,917	(10.3)	(13.2)	3,276	(46.6)	(7.0)	3,093	(33.8)	4.4
Punjab Tractors	3,334	10.1	8.3	365	(3.6)	19.5	326	28.5	19.6
TVS Motor	8,109	(7.3)	(20.1)	222	48.0	(29.8)	45	(23.1)	(56.8)
Total	**141,364**	**(13.8)**	**(13.6)**	**13,957**	**(32.2)**	**(12.7)**	**10,238**	**(27.3)**	**(8.5)**

* October-December '08
Source: I-Sec Research

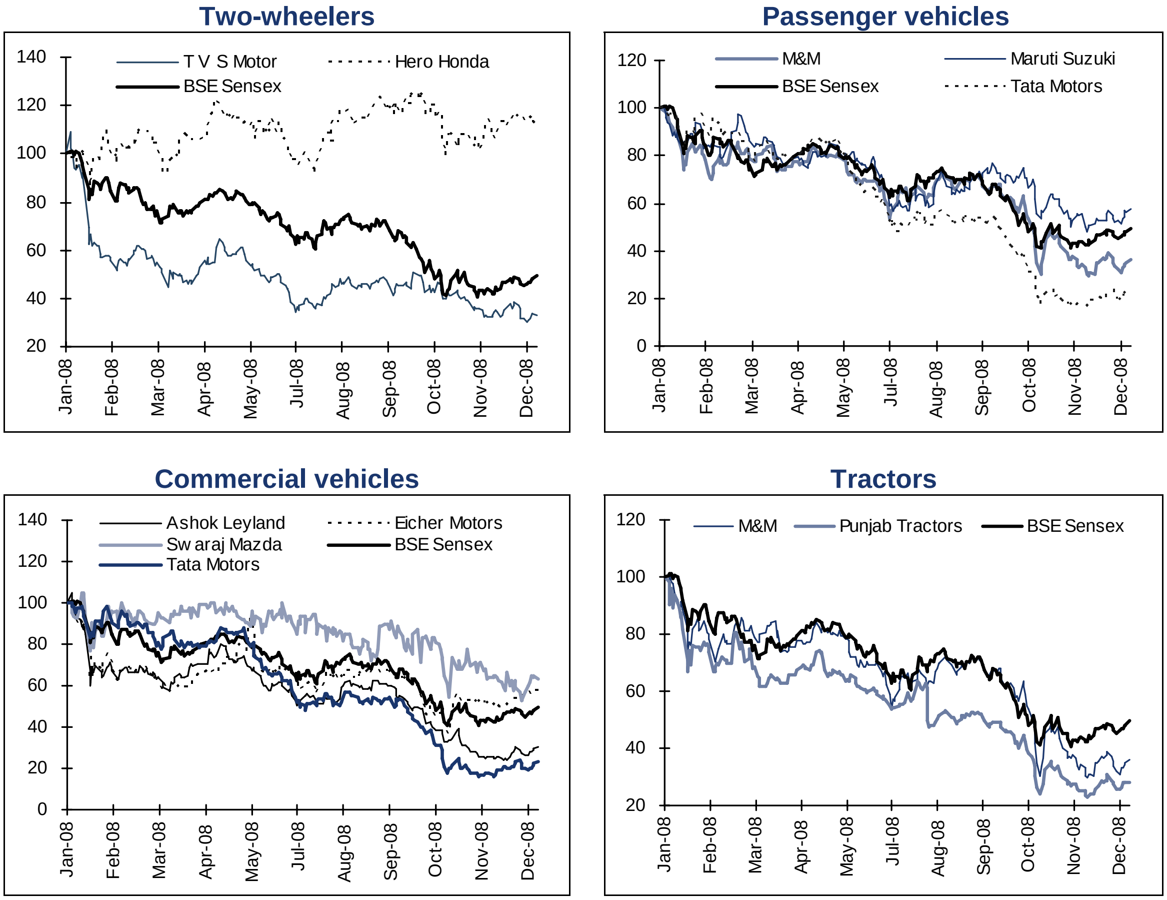
Price performance of automobile sector

Chart 1: BSE Auto Index underperforms Sensex QoQ



Source: CMIE

Chart 2: Share price performance in various categories of auto companies



Source: BSE, NSE, I-Sec Research

Ashok Leyland (Sell)

(QoQ chg: -38.8%; YTD chg: 4.8%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Revenues	10,322	18,001	(42.7)	(44.7)	37,503	33,670	11.4
EBITDA	712	1,679	(57.6)	(53.8)	3,050	3,185	(4.2)
PBT	212	1,226	(82.7)	(76.0)	1,761	2,360	(25.4)
PAT	161	903	(82.2)	(73.5)	1,221	1,635	(25.4)

* Apr - Sept

Source: Company data, I-Sec Research

- Sharp slowdown in CVs considerably affected ALL, which posted 58.5% YoY decline in total volumes to 7,869 units – M/HCV segment declined 58.9% YoY to 7,741 units (passenger and goods sub-segment dipped 66.8% YoY and 37.7% YoY respectively) and LCV segment was down 15.2% to 128 units. The total revenue decline would be limited at 42.7% YoY to Rs10.3bn on account of better realisation and strong engines & spares sales.
- We expect margin to shrink 240bps YoY to 6.9% (120bps QoQ decline) as sharp volume decline would reduce operating leverage benefits. Interest expense would rise, leading to sharp 82.2% YoY decline in recurring net income to Rs161mn.

Bajaj Auto (Hold)

(QoQ chg: -25.4%; YTD chg: 4.8%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08E	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Revenues	20,851	25,017	(16.7)	(18.2)	48,592	44,705	8.7
EBITDA	3,002	3,736	(19.6)	(12.7)	6,106	6,650	(8.2)
PBT	2,847	3,524	(19.2)	(12.9)	5,881	6,321	(7.0)
PAT	1,908	2,361	(19.2)	(16.1)	4,018	4,216	(4.7)

* Apr - Sept

Source: Company data, I-Sec Research

- BAL's revenues will likely decline 16.7% YoY to Rs20.8bn on account of 30.8% YoY dip in total volumes to 493,750 units – this was despite three-wheelers posting 3% YoY growth to 76,637 units as two-wheeler sales sharply declined 34.7% YoY to 417,113 units. We expect blended realisations to improve on account of sharp 510bps YoY increase in volume share of three-wheelers to 15.5%. Overall, exports grew a strong 41% YoY to 215,233 units in Q3FY09.
- Despite sharp 30.8% YoY dip in volumes we expect EBITDA margin contraction to be limited to 50bps YoY to 14.4% on account of shift in product mix toward high-margin three-wheeler sales. Overall, BAL would post 19.2% YoY decline in recurring net profits to Rs1.9bn. Reported profit is expected to decline 25.6% YoY to Rs1.5bn on account of amortisation of voluntary retirement scheme compensation for Akurdi plant employees.

Bharat Forge (Hold)

(QoQ chg: -43.8%; YTD chg: 7.2%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Revenues	4,635	5,567	(16.7)	(31.4)	13,129	10,601	23.8
EBITDA	786	1,364	(42.4)	(33.7)	2,353	2,395	(1.8)
PBT	386	872	(55.8)	(41.8)	1,378	1,774	(22.3)
PAT	258	582	(55.6)	(37.7)	877	1,179	(25.6)

* Apr - Sept
Source: Company data, I-Sec Research

- We expect BFL to post 16.7% YoY decline in standalone revenues on account of 25% YoY increase in domestic revenues and 5% YoY decline in exports.
- We expect EBITDA margin to decline 760bps YoY to 16.9% on account of increase in raw material, adverse currency movement and dip in volumes. Overall, we estimate recurring net income to decline 55.6% YoY to Rs258mn.

Hero Honda (Buy)

(QoQ chg: -9.3%; YTD chg: -2.7%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Revenues	27,964	27,431	1.9	(12.7)	60,456	48,001	25.9
EBITDA	3,704	3,826	(3.2)	(14.8)	7,759	5,549	39.8
PBT	3,774	4,026	(6.3)	(16.2)	8,010	5,761	39.0
PAT	2,755	2,750	0.2	(10.1)	5,792	3,942	46.9

* Apr-Sept
Source: Company data, I-Sec Research

- We expect HHML's total revenues to rise 1.9% YoY to Rs28bn on account of higher blended realisations – owing to improved product mix and price hikes – despite 4% YoY decline in total volumes to 857,806 units.
- We expect 70bps YoY decline in margins to 13.2%, mainly on account of higher raw material cost. Similarly, softening of commodity prices is likely to be beneficial Q4FY09 onwards. HHML is likely to take ~Rs200mn hit due to inventory valuation post 4% CENVAT reduction. Overall, we expect flat recurring net profits at Rs2.8bn.
- HHML has launched four new variants of its models, which would create excitement in the market. Further, onset of the marriage season from February, bumper *Rabi* crop and Sixth Pay Commission pay-outs are likely to act as key triggers for the stock.

Mahindra & Mahindra (Buy)

(QoQ chg: -32.9%; YTD chg: 12.4%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Revenues	24,230	29,402	(17.6)	(22.8)	63,483	54,316	16.9
EBITDA	1,890	3,315	(43.0)	(23.7)	5,047	6,734	(25.0)
PBT	1,880	3,053	(38.4)	(33.5)	5,148	6,398	(19.5)
PAT	1,692	2,495	(32.2)	(31.0)	4,154	4,756	(12.7)

* Apr - Sept
Source: Company data, I-Sec Research

- We expect M&M to post 17.6% YoY decline in total revenues owing to 21.6% YoY decline in total volumes, with both automotive and farm equipment being under pressure – automotive segment volumes have declined 24.5% YoY to 40,263 units and tractors volumes dipped 15.7% YoY to 22,105 units.
- On account of lower volumes and higher raw material prices, we expect EBITDA margin to contract 350bps YoY to 7.8%. Interest cost is expected to rise on account of the ongoing capex activity, but other income is expected to sharply rise post the amalgamation of Mahindra Holding and Finance Company with itself. Overall, the company is expected to post 32.2% YoY decline in recurring net profit to Rs1.7bn.

Maruti Suzuki (Hold)

(QoQ chg: -16.5%; YTD chg: 2.1%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Revenues	41,917	46,741	(10.3)	(13.2)	95,838	84,782	13.0
EBITDA	3,276	6,133	(46.6)	(7.0)	8,476	11,520	(26.4)
PBT	4,179	6,828	(38.8)	(1.7)	10,347	13,848	(25.3)
Recurring PAT	3093	4,670	(33.8)	4.4	7,620	9,661	(21.1)

* Apr - Sept
Source: Company data, I-Sec Research

- MSIL is expected to post 10.3% YoY decline in total revenues to Rs41.9bn on account of 14% YoY decrease in total volumes – Domestic volumes down 15.5% YoY to 158,790 units, while exports grew 6.4% YoY.
- Higher input cost and sharp appreciation of Japanese yen would significantly impact profitability. We expect 530bps YoY compression in margins to 7.8%. Higher interest and depreciation would result in 33.8% YoY fall in recurring net profits to Rs3.1bn. Inventory valuation loss post 4% CENVAT cut is estimated at ~Rs400mn (to be booked as one-time item), resulting in reported profits dipping 40.1% YoY to Rs2.8bn.

Punjab Tractors (Hold)

(QoQ chg: -30.7%; YTD chg: 4.0%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Revenues	3,334	3,029	10.1	8.3	6,221	3,808	63.4
EBITDA	365	379	(3.6)	19.5	591	220	168.5
PBT	466	393	18.6	19.5	710	193	268.0
PAT	326	254	28.5	19.6	497	131	279.6

* Apr - Sept
Source: Company data, I-Sec Research

- PTL is expected to post 10.1% YoY growth in total revenues to Rs3.3bn on account of 3.7% YoY growth in total tractor volumes in Q3FY09 and higher realisations.
- EBITDA margin in expected to contract 150bps YoY to 11% on account of higher raw material cost and other expenditure. However, decline in interest expense and sharp rise in other income would boost profits; recurring net profits are expected to increase 28.5% YoY to Rs326mn.

TVS Motors (Sell)

(QoQ chg: -32.6%; YTD chg: -1.3%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Revenues	8,109	8,750	(7.3)	(20.1)	19,261	16,087	19.7
EBITDA	222	150	48.0	(29.8)	625	410	52.6
PBT	62	72	(13.8)	(55.1)	239	104	130.3
PAT	45	58	(23.1)	(56.8)	174	73	139.7

* Apr - Sept
Source: Company data, I-Sec Research

- We expect TVSM to post 7.3% YoY decline in total revenues to Rs8.1bn on account of 10.3% YoY volume decline to 304,788 units – Motorcycles declined 17.9% YoY to 144,550 units, while scooters & mopeds sales dipped 2.2% YoY and adverse shift in product mix towards mopeds. Total exports improved 44.9% YoY to 54,854 units in Q3FY09.
- We expect 100bps YoY margin expansion to 2.7% on low base on the back of benefits of price hike and rupee appreciation on the exports which posted robust growth. Overall, we estimate 23.1% YoY decline in recurring net profits to Rs45mn.

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Equity Research
January 7, 2009

Banking

Harvesting gains

Top picks

State Bank of India
Bank of Baroda
Punjab National Bank
Union Bank of India
HDFC
IDFC

We expect the I-Sec Banking universe to post bumper Q3FY09 earnings growth, with estimated PAT growth of 30% YoY. Owing to decline in inflation, aggressive cuts in reserve requirements & policy rates and the resultant crash in bond yields (especially at the shorter end of the yield curve), banks (particularly PSUs) had an opportunity to harvest gains in Q3FY09. Despite the spate of BPLR cuts, we expect minimal impact on NIMs due to reductions in CRR; NIMs would remain stable as banks have commenced deposit rate cuts. Sharp fall in bond yields would imply huge gains in G-Sec portfolios of banks. Asset quality concerns linger beneath the surface; restructuring will likely defer NPLs to H2FY10 and bond gains should help offset NPL provisions to some extent. Maintain our Overweight stance on the sector, with top picks being State Bank of India (SBI), Bank of Baroda (BoB), Punjab National Bank (PNB) & Union Bank of India (UBI) in the PSU space and IDFC & HDFC among private players.

- **Business growth to remain strong, though CASA likely to decline.** Aggregate credit and deposits grew a robust 24.5% YoY and 20.8% YoY respectively in Q3FY09, both much above RBI's target. The high credit growth, to an extent, is on account of substitution effect, given that other avenues for raising funds are virtually unavailable. We believe high pricing power in the sector and aggressive cuts in CRR and SLR have allowed banks to sharply cut BPLRs without significantly impacting NIMs. We expect NII growth for I-Sec Banking universe to be 26.7% YoY. Banks will likely find it challenging to hold on to their CASA levels owing to higher interest rates being offered on term deposits.

- **Likely write-back of provisions on banks' AFS portfolios.** Driven by swift policy action, yields on 10-year G-Secs fell a significant 325bps in Q3FY09; fall in bond yields at the shorter end of the yield curve was even sharper. We expect significant reversal of provisions in investment portfolios of banks, which would help offset NPL-related provisions, to some extent. SBI, Oriental Bank of Commerce (OBC), Canara Bank and UBI are likely to be the key beneficiaries of the reversal in yields.

- **Other income growth likely to be strong, driven by high trading gains.** We expect other income for the I-Sec Banking universe to grow 18% YoY. Fee income growth will likely remain steady owing to high credit growth; however, distribution of third-party products will witness pressure. Overall, other income growth is likely to be boosted by strong trading gains generated due to sharp fall in yields.

- **Expect relatively strong reported earnings.** Strong credit growth coupled with steady NIMs is likely to result in healthy 26.7% YoY NII growth for the I-Sec Banking universe. Further, operating profit growth is expected to be robust at 24.9% YoY and net profit growth strong at 30% YoY in Q3FY09. High PAT growth can be attributed to strong 37% YoY growth in SBI's net profits. Maintain our Overweight stance on the sector, with our top picks being SBI, BoB, PNB and UBI in the PSU space and IDFC and HDFC among private players.

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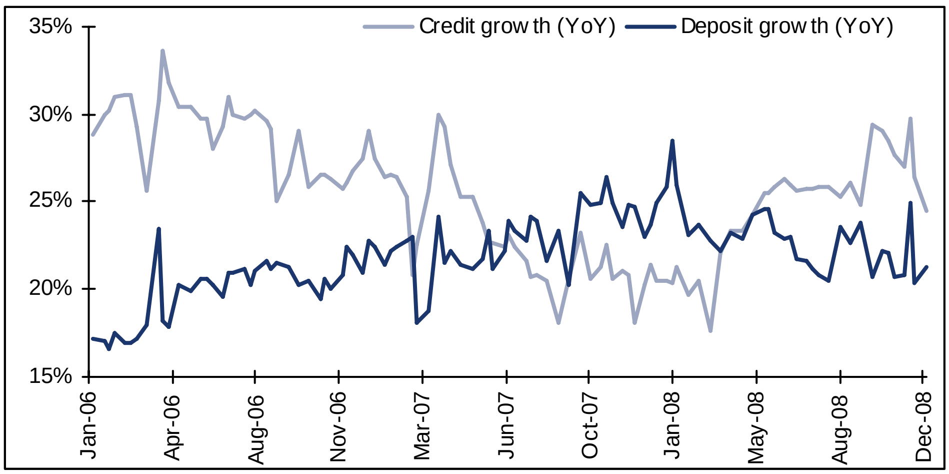
Table 1: Quarterly summary

(Rs mn)

Company	NII			PPP			PAT		
		% Chg			% Chg			% Chg	
	OND-09*	(YoY)	(QoQ)	OND-09*	(YoY)	(QoQ)	OND-09*	(YoY)	(QoQ)
BoB	11,768	18.0	3.8	10,485	12.5	24.0	5,517	10	39.6
BoI	13,689	26.8	0.4	12,392	27.6	2.0	6,794	33	(10.9)
Canara Bank	11,741	25.7	2.2	9,678	27.7	25.1	6,152	34	16.2
Corporation Bank	4,174	25.1	2.6	3,489	25.7	(0.7)	2,267	19	18.4
HDFC Bank	20,301	41.2	8.8	14,246	33.6	26.9	5,772	34	9.3
OBC	5,072	26.1	(2.8)	4,331	46.0	6.5	2,612	31	10.3
PNB	17,134	20.3	0.1	12,126	22.3	(11.3)	6,516	20	(7.8)
SBI	54,327	27.6	(0.4)	44,505	21.6	6.1	24,753	37	9.5
DCB	602	41.6	4.1	297	58.9	55.1	97	(62)	865.4
UBI	9,760	23.8	0.1	8,461	33.1	20.9	4,803	32	32.9
HDFC	7,953	17.6	3.3	8,009	(10)	3	5,682	(12)	6
Sector aggregate	**157,717**	**26.7**	**1.4**	**128,445**	**24.9**	**8.2**	**69,532**	**30**	**9.1**

Note: Sector aggregate does not contain numbers for HDFC; OND = October to December
Source: I-Sec Research

Chart 1: Strong credit & deposits mobilisation leads to strong business growth



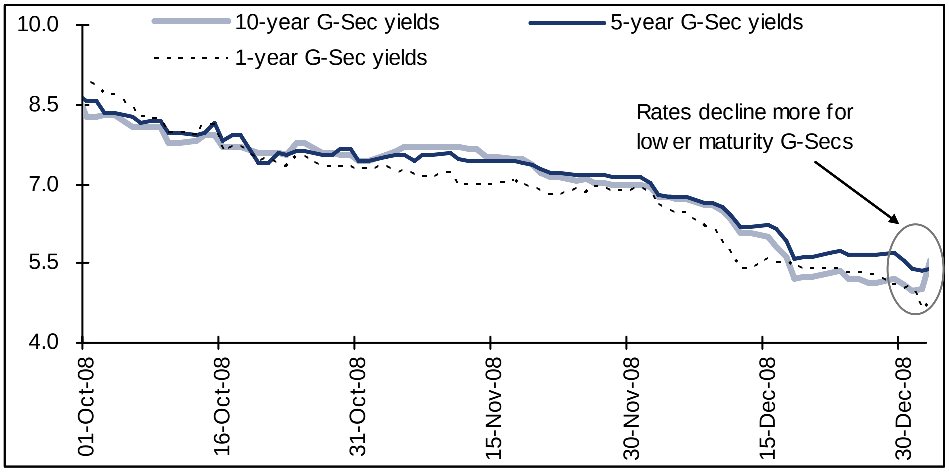
Source: I-Sec Research

Table 2: Margins to remain steady despite BPLR cuts during the quarter

	Bank(s)	BPLR movements during Q3FY09
31-Oct-08	PNB	Cuts BPLR 50bps to 13.5% per annum
03-Nov-08	UBI	Cuts BPLR 50bps to 13.5% per annum
05-Nov-08	BoI	Cuts BPLR 75bps to 13.25% per annum from November 7
06-Nov-08	BoB, OBC, Canara Bank, Corporation Bank	Cuts BPLR 75bps to 13.25% per annum, effective November 10, '08
	SBI	Cuts BPLR 75bps to 13% per annum from November 10, '08
07-Nov-08	UBI	Cuts BPLR 25bps to 13.25% per annum
26-Nov-08	PNB	Cuts lending rates 100bps to 12.5% per annum
09-Dec-08	UBI, HDFC Bank	UBI – Cuts PLR 75bps to 12.5% per annum; HDFC Bank – Cuts PLR 50bps to 16% per annum
15-Dec-08	PSU banks	PSU banks announce lending rates at 8.5% per annum for housing loans below Rs0.5mn; 9.25% per annum for housing loans of Rs0.5-2mn
19-Dec-08	HDFC	Cuts lending rate 50bps each to 10.25% per annum for housing loans below Rs2mn; 11.25% per annum for housing loans above Rs2mn
21-Dec-08	SBI	Cuts PLR 75bps to 12.25% per annum
23-Dec-08	BoB, Canara Bank, BoI, Corporation Bank	Cut PLR 75bps each to 12.5% per annum, effective January 1, '09

Source: RBI, I-Sec Research

Chart 2: Sharp decline in bond yields, especially at shorter-end of yield curve



Source: RBI, I-Sec Research

Table 3: Asset quality issues likely to be deferred to H2FY10E

Q2FY09	GNPAs (%)	NNPAs (%)	Coverage ratios (%)
BoB	1.62	0.43	73.9
BoI	1.53	0.48	69.3
Canara Bank	1.31	0.89	32.3
Corporation Bank	1.36	0.40	70.7
HDFC Bank	1.57	0.57	65.1
OBC	1.93	0.86	55.6
PNB	2.37	0.42	82.6
SBI	2.51	1.34	47.3
DCB	2.92	1.32	56.0
UBI	1.93	0.14	93.1

Source: Company data, I-Sec Research

Bank of Baroda (Buy)

(QoQ chg: -2.7%; YTD chg: -3.7%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
NII	11,768	9,975	18.0	3.8	21,908	18,858	16.2
PPP	10,485	9,324	12.5	24.0	17,058	12,817	33.1
PBT	8,235	7,755	6.2	36.4	11,836	10,422	13.6
PAT	5,517	5,011	10.1	39.6	7,662	6,580	16.4

* April-September
Source: Company data, I-Sec Research

- Strong 28% YoY growth in advances to keep NII growth at a healthy 18% YoY. Non-interest income growth to be tepid at 7.2% YoY in Q3FY09E, despite high treasury gains from partial profit booking on the AFS book primarily due to high profits booked in Q3FY08
- Despite provision reversals due to fall in bond yields, overall provisions growth is likely to remain high at 43.3% due to low Q3FY08 base
- Overall profitability likely to be sedate with operating profit growth expected at 12.5% YoY and net profit growth at 10.1% YoY.

Bank of India (Buy)

(QoQ chg: 4.2%; YTD chg: -4.1%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
NII	13,689	10,795	26.8	0.4	25,439	19,330	31.6
PPP	12,392	9,714	27.6	2.0	22,872	15,176	50.7
PBT	9,992	7,400	35.0	7.7	16,514	10,191	62.0
PAT	6,794	5,119	32.7	(10.9)	13,248	7,405	78.9

* April-September
Source: Company data, I-Sec Research

- NII growth should be healthy at 26.8% YoY, driven by robust credit growth at 26% YoY. Margins are likely to remain at Q2FY09 levels as BPLR cuts were undertaken towards end-quarter and reductions in CRR and SLR compensated for the impact on margins.
- Other income growth seen at 20% YoY as high treasury gains are offset by high base of Q3FY08.
- Provisions to grow only 4% YoY, aided by reversals from the AFS book due to low bond yields.
- Expect robust net profit growth of 33% YoY, driven by healthy NII growth, partial profit booking on the AFS book and lower provisioning.

Canara Bank (Hold)

(QoQ chg: 20.3%; YTD chg: 4.3%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
NII	11,741	9,344	25.7	2.2	21,682	16,810	29.0
PPP	9,678	7,578	27.7	25.1	14,771	12,624	17.0
PBT	8,428	5,588	50.8	33.9	7,921	7,821	1.3
PAT	6,152	4,588	34.1	16.2	6,521	6,421	1.6

* April-September
Source: Company data, I-Sec Research

- Expect robust quarterly results, with NII growth at a healthy 25.7% YoY aided by strong 24% YoY growth in advances.
- Other income growth to be tepid at 7.8%, while operating expenses growth to be sedate at 10% YoY leading to a robust growth in operating profit at 27.7% YoY.
- Strong decline of 37.2% YoY in total provisioning (driven by reversal of provisions on the AFS book) and lower effective tax rate will likely lead to robust 34.1% YoY growth in net profits in Q3FY09.

Corporation Bank (Buy)

(QoQ chg: -18.5%; YTD chg: 1.1%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
NII	4,174	3,337	25.1	2.6	7,847	7,212	8.8
PPP	3,489	2,776	25.7	(0.7)	6,725	5,843	15.1
PBT	3,239	2,678	20.9	9.5	5,159	5,102	1.1
PAT	2,267	1,909	18.8	18.4	3,758	3,527	6.6

* April-September
Source: Company data, I-Sec Research

- Healthy core performance with NII growth likely at 25.1% YoY, driven by strong advances growth at 27.5% YoY and sustained margins QoQ.
- Other income growth at 14% YoY to be led by strong core fee income growth of 18% YoY as growth in trading gains will be muted, given high base of Q3FY08. Provisions lower on an absolute basis vis-à-vis past three quarters.
- Overall performance robust, with operating profit growth estimated at 25.7% YoY and net profit growth at 18.8% YoY.

Development Credit Bank (Buy)

(QoQ chg: -29.6%; YTD chg: -9.9%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
NII	602	426	41.6	4.1	1,066	741	43.8
PPP	297	187	58.9	55.1	442	403	9.6
PBT	97	133	(27.4)	(685.1)	17	140	(87.8)
PAT	97	257	(62.4)	865.4	64	202	(68.2)

* April-September
Source: Company data, I-Sec Research

- NII growth to be robust at 41.6% YoY despite steep decline in advances growth to 20% (given increasing asset quality concerns)
- Other income growth to be tepid at 6.2% YoY given lower growth in core fee income as third party distribution and loan-against-shares functions are hit. Trading gains to be lower on a percentage basis given high base of Q3FY08
- Strong operating profit growth of 58.9% YoY, higher provisions to reflect defaults and increasing concerns on the SME and retail loan books likely to mar profits, net profit decline foreseen at 62.4% YoY.

HDFC Bank (Hold)

(QoQ chg: -8.8%; YTD chg: -0.4%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
NII	20,301	14,376	41.2	8.8	35,899	21,482	67.1
PPP	14,246	10,664	33.6	26.9	21,504	16,103	33.5
PBT	8,745	6,432	36.0	12.6	14,599	10,138	44.0
PAT	5,772	4,294	34.4	9.3	9,923	6,897	43.9

* April-September
Source: Company data, I-Sec Research

- Strong NII growth of 41.2% likely on the back of strong growth in advances and steady margins (numbers are based on merged basis for Q3FY09).
- Growth in non-interest income to be strong as well, at 39.7% YoY, driven by high growth in non-interest income (ex-treasury). Expenses growth to remain elevated at 48% YoY.
- Expect pre-provisioning profit to grow 33.6% YoY, while net profit growth is likely to be 34.4% YoY in Q3FY09.

Housing Development Finance Corporation (Buy)

(QoQ chg: -13.7%; YTD chg: 8.2%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
NII	7,953	6,763	17.6	3.3	14,379	11,229	28.1
PPP	8,009	8,872	(9.7)	3.2	14,358	14,207	1.1
PBT	7,784	8,812	(11.7)	2.4	14,098	14,007	0.7
PAT	5,683	6,489	(12.4)	6.4	10,023	10,192	(1.7)

Note: Figures include pre-tax extraordinary income of Rs1209.4mn in Q3FY08
* April-September
Source: Company data, I-Sec Research

- Advances growth to slowdown from 31% levels in Q2FY09, likely to grow at 25% YoY in Q3FY09 on account of slowdown in housing segment; nevertheless, NII growth to be healthy at 17.6% YoY
- BPLR cuts in end-Q3FY09 and some pressure on spreads will likely result in sedate 4.5% YoY growth in operating profits (ex-extraordinaries) and muted 7.6% YoY rise in net profits (ex-extraordinaries).

Oriental Bank of Commerce (Buy)

(QoQ chg: 8.1%; YTD chg: 7.4%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
NII	5,072	4,024	26.1	(2.8)	9,684	8,426	14.9
PPP	4,331	2,967	46.0	6.5	7,604	5,973	27.3
PBT	3,731	2,710	37.7	70.2	3,658	5,658	(35.4)
PAT#	2,612	1,997	30.8	10.3	4,574	4,367	4.8

Figures are pre-amalgamation
* April-September
Source: Company data, I-Sec Research

- Strong NII growth at 26.1% YoY to be driven by healthy 23% YoY growth in advances and sustained margins at current levels.
- Non-interest income to grow at 53% YoY as a result of buoyant treasury profits in the quarter. Non-interest income (ex-treasury) to clock-in healthy growth of 20% YoY as well.
- We expect no significant deterioration in asset quality, with provision reversals on the AFS book to help lower provisions on an absolute basis. On a percentage basis, however, we expect overall provisioning to increase 133% YoY due to low Q3FY08 base
- Sound pre-provisioning profit growth, estimated at 46% YoY; with net profit growth (pre-amalgamation) likely to be 31% YoY, given buoyant trading gains and healthy NII growth.

Punjab National Bank (Buy)

(QoQ chg: -0.3%; YTD chg: -8.2%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
NII	17,134	14,244	20.3	0.1	31,570	25,925	21.8
PPP	12,126	9,913	22.3	(11.3)	23,503	17,881	31.4
PBT	9,726	8,338	16.7	(7.4)	18,220	14,031	29.9
PAT	6,516	5,414	20.4	(7.8)	12,195	9,636	26.6

* April-September
Source: Company data, I-Sec Research

- Expect healthy NII growth at 20.3% YoY driven by high advances growth of ~25% YoY and steady margins.
- Strong other income growth of 16.3% YoY due to high trading gains expected in the quarter.
- We expect high provisions to take care of asset quality concerns (the bank typically maintains a high coverage ratio); provisioning growth estimated at 52.3% YoY off a low base.
- Pre-provisioning profit growth likely to be robust at 22.3% YoY with healthy PAT growth of 20.4% YoY.

State Bank of India (Buy)

(QoQ chg: -5.9%; YTD chg: -5.8%)

Quarterly estimates

(Rs bn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
NII	54.3	42.6	27.6	(0.4)	102.7	79.6	29.0
PPP	44.5	36.6	21.6	6.1	81.6	50.7	60.7
PBT	37.5	28.6	31.4	4.7	60.0	48.3	24.1
PAT	24.8	18.1	36.9	9.5	39.0	30.4	28.4

* April-September
Source: Company data, I-Sec Research

- Robust NII growth at 27.6%YoY, given strong advances growth of 31% YoY. Sequentially, NIMs will likely be under some pressure due to aggressive BPLR cuts.
- We expect other income to grow at 10% YoY. Operating expenses expected to rise 20% YoY as the bank further enhances its branch network and rolls out expansion plans.
- Provisions should be lower on an absolute basis due to write-backs on the treasury book as well as on the securities issued as regards the rights issue. We estimate cumulative provisioning reversal of ~Rs9bn in the quarter.
- Expect operating profit growth of 22% with increase in net profit at 36.9% YoY, driven by strong core operating performance, trading gains and tepid YoY growth in provisions.

Union Bank of India (Buy)

(QoQ chg: 6.4%; YTD chg: -5.7%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
NII	9,760	7,881	23.8	0.1	17,853	13,906	28.4
PPP	8,461	6,359	33.1	20.9	13,157	10,538	24.9
PBT	6,961	5,250	32.6	40.2	8,168	8,009	2.0
PAT	4,803	3,650	31.6	32.9	5,898	5,009	17.7

* April-September
Source: Company data, I-Sec Research

- Robust growth in NII at 23.8%YoY, given advances growth of 20% YoY. Other income growth to be buoyant at 31% YoY, driven by high trading gains due to falling 10-year bond yields and healthy growth in core fee income.
- Operating expenses growth to be relatively sedate at 17% YoY, leading to pre-provisioning profit growth of 33% YoY.
- Expect strong 32% YoY growth in net profit due to healthy core performance.

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Equity Research

January 6, 2009

INDIA

Cement

Falling costs brighten outlook

Cement despatches grew 8.1% for the first two months of Q3FY09, partly aided by a favourable base. However, our interaction with cement dealers suggests a demand slowdown across the country. Cement prices largely remained stable, increasing 4% YoY in the first two months of the quarter. Cement players have cut prices ~Rs3-5/bag following the excise rate reduction in December, thereby retaining ~50% of the benefits from the excise cut. While the industry has witnessed some relief on the fuel cost front, the benefit is likely to accrue only in Q4FY09. We expect aggregate revenues to rise 7.1% YoY, but aggregate PAT to dip 13% for the I-Sec Cement universe. While we do not envisage pricing pressure in FY09, sector fundamentals are likely to remain weak due to an impending oversupply scenario from start-FY10. However, we believe some cement stocks offer strong value at the current levels. Grasim and Shree Cement (SCL) are our top picks in the sector.

Top picks

Grasim

Shree Cement

- **Despatches rebound on the back of low base.** Despatches grew 8.1% for the first two months of the quarter even as the sector faced some demand slowdown. Despatches exclude ~1mnte cement imported from Pakistan through the Wagah border every month. Consequently, while October growth was muted at 4.5% YoY, November despatch growth was impressive at 12% YoY, primarily aided by a favourable base (November '07 despatch growth was just 3.1%). We estimate demand to grow >8% in Q3FY09E. Going forward, withdrawal of CVD exemption on cement imports is likely to discourage further imports through Wagah, thereby benefitting north-based local players.

- **Prices largely stable.** Average cement prices rose ~4% YoY for the first two months of the quarter. Cement prices largely remained stable in most regions till November '08. Our interaction with cement dealers indicate that following the reduction in excise rates from 12% to 8% (in the beginning of December), prices have been cut ~Rs3-5/bag in most regions. While the benefit from excise cut amounts to ~Rs10/bag, cement producers have chosen to pass on only a part of it. Further, prices in Kolkata and Punjab have not been touched even after the excise cut. While we do not envisage any pricing pressure in FY09, Q1FY10 could see pricing weakness owing to fresh supplies from new capacities commissioned.

- **Stimulus package to benefit cement in the short term.** Cement companies are expected to post unimpressive results due to volume constraints, higher input costs and limited upside on the pricing front. While international coal and pet coke prices have seen substantial softening in Q3FY09, cement companies would witness significant gains only in Q4FY09. Further, reduction in excise, the benefits of which have been partially retained by cement companies, would also accrue to cement companies in Q4FY09. The likely fall in cement imports from Pakistan would also help domestic North-based companies to improve their volumes.

- **Valuations.** While softening of international coal prices coupled with Government stimulus package is likely to help cement companies post better results in Q4FY09, the likely oversupply in the beginning of FY10 will indicate weak sectoral fundamentals. However, we believe some cement stocks offer strong value at the current levels. Grasim and SCL are our top picks in the sector.

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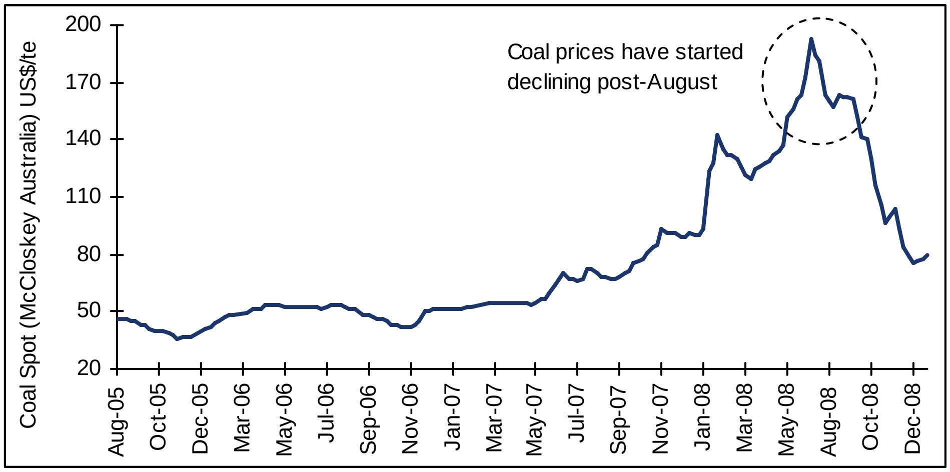
Table 1: Quarterly summary

(Rs mn)

Company	Sales			EBITDA			PAT		
		% Chg			% Chg			% Chg	
	OND '08*	(YoY)	(QoQ)	OND '08*	(YoY)	(QoQ)	OND '08*	(YoY)	(QoQ)
ACC	19,461	9.0	7.8	3,993	(4.3)	(8.9)	2,623	(9.7)	(7.5)
Ambuja Cement	16,408	6.9	18.3	4,488	(2.7)	13.8	3,005	6.8	20.1
Grasim	25,986	(1.2)	(3.2)	5,561	(35.1)	(4.0)	3,309	(39.8)	(21.1)
India Cements	7,785	5.5	(17.7)	2,412	(1.5)	(16.9)	1,169	(8.0)	(28.6)
JK Cement	3,593	(7.9)	(0.4)	684	(41.1)	35.6	305	(62.0)	71.8
Shree Cement	6,423	22.7	2.1	2,102	(6.0)	15.0	1,197	257.5	2.1
UltraTech Cement	16,588	20.0	18.8	4,734	1.0	59.5	2,671	(4.4)	62.7
Total	**96,244**	**7.1**	**4.5**	**23,974**	**(14.0)**	**7.4**	**14,278**	**(13.0)**	**0.8**

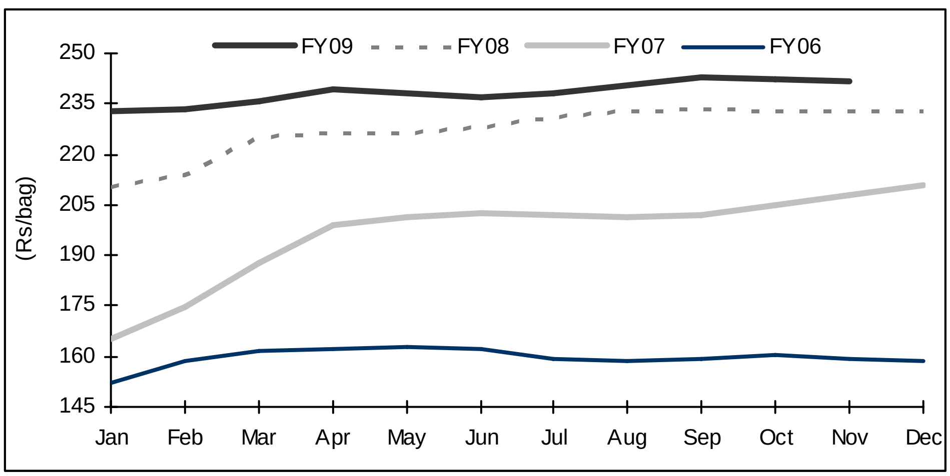
* October-December '08
Source: I-Sec Research

Chart 1: Coal price trend



Source: Bloomberg

Chart 2: Cement price trend



Source: CMA

ACC (Sell)

(QoQ chg: -8.1%; YTD chg: 9.7%)

Quarterly estimates (Standalone)

(Rs mn, year ending December 31)

	Q4CY08E	Q4CY07	YoY (%)	QoQ (%)	YTDCY08*	YTDCY07*	YoY (%)
Net sales	19,461	17,856	9.0	7.8	54,221	52,216	3.8
EBITDA	3,993	4,173	(4.3)	(8.9)	13,223	15,001	(11.8)
PBT	3,877	5,489	(29.4)	(7.5)	13,047	13,814	(5.5)
PAT (Recurring)	2,623	2,903	(9.7)	(7.5)	8,635	9,735	(11.3)

* Jan-Sept
Source: Company data, I-Sec Research

- Volumes are likely to grow 7.6% YoY, mainly aided by a favourable base. Realisations will increase 5.4% in Q3FY09. The company is expected to post just 9% revenue growth, despite the RMC division hive-off.
- Margin expected to decline 285bps YoY, mainly due to higher fuel costs. ACC's ~90% dependence on domestic coal will force it to increasingly rely on open market purchases at high rates (with linkage coal in short supply), thereby pressurising margins.
- We expect PAT to dip 9.7% YoY to R2.62bn.

Ambuja Cements (Sell)

(QoQ chg: 2.5%; YTD chg: 8.0%)

Quarterly estimates (Standalone)

(Rs mn, year ending December 31)

	Q4CY08E	Q4CY07	YoY (%)	QoQ (%)	YTDCY08*	YTDCY07*	YoY (%)
Net sales	16,408	15,347	6.9	18.3	46,119	41,574	10.9
EBITDA	4,488	4,614	(2.7)	13.8	13,848	15,612	(11.3)
PBT	4,206	4,329	(2.9)	13.3	13,124	14,640	(10.4)
PAT (Recurring)	3,005	2,814	6.8	20.1	8,953	10,097	(11.3)

* Jan - Sept
Source: Company data, I-Sec Research

- Volumes are likely to rise ~3% YoY, mainly on account of capacity constraints. This coupled with 3.9% YoY improvement in average realisations should lead to net revenues rising 6.9% YoY.
- Operating margins to decline 271bps on account of firm imported coal prices and the company's inability to pass on cost pressure to consumers (ACL imports ~30% of its coal requirements). While imported coal prices have seen a substantial drop since September '08, we expect the benefit to accrue Q1CY09 onwards.
- ACL's recurring PAT will likely rise a moderate 7% YoY to Rs3bn.

Grasim Industries (Buy)

(QoQ chg: -17.5%; YTD chg: 8.8%)

Quarterly estimates (Standalone)

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Net sales	25,986	26,299	(1.2)	(3.2)	52,776	49,224	7.2
EBITDA	5,561	8,563	(35.1)	(4.0)	13,312	15,769	(15.6)
PBT	4,503	8,115	(44.5)	(17.1)	12,419	14,940	(16.9)
PAT (Recurring)	3,309	5,499	(39.8)	(21.1)	9,337	10,114	(7.7)

* Apr-Sept
Source: Company data, I-Sec Research

- VSF revenues to decline 32.6% YoY. Poor demand is likely to result in substantial 25.6% YoY volume decline. Given the continuing sluggish demand, Grasim also resorted to some price cuts. Consequently, average realisations are expected to decline 9.4% YoY. Margins will likely contract to 19% from 41.5% YoY, despite softening of pulp and sulphur prices, mainly on account of lower volumes and price cuts.
- We expect the cement division to post 14% YoY revenue growth on 9.2% realisation growth and 4% YoY improvement in volumes. Cement division's margins are expected to decline 690bps to 24%, mainly on firm prices of imported coal and pet coke.
- Sponge iron revenues are likely to improve 10.2% YoY. While volumes are likely to decline ~13.5% YoY, strong sponge iron prices will ensure 45% YoY improvement in average realisations. Though sponge iron prices have fallen from their peak, contracted sales at higher prices have helped sustain realisations. Operating margins are expected to decline 500bps YoY to 15%.
- Overall, revenues are expected to rise 1.2% YoY, while PAT will likely see a sharp dip of 39.8% YoY to Rs3.31bn.

India Cements (Hold)

(QoQ chg: 12.3%; YTD chg: 18.6%)

Quarterly estimates (Standalone)

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Net sales	7,785	7,379	5.5	(17.7)	17,829	14,624	21.9
EBITDA	2,412	2,449	(1.5)	(16.9)	5,882	5,717	2.9
PBT	1,707	1,895	(9.9)	(12.5)	4,125	4,698	(12.2)
PAT (Recurring)	1,169	1,271	(8.0)	(28.6)	3,277	4,013	(18.3)

* Apr - Sept
Source: Company data, I-Sec Research

- Revenues are expected to rise 5.5%. While we estimate average net realisations to rise 9% YoY, volumes could dip 3.5% YoY on account of plant shutdowns.
- India Cements (ICL) will benefit from the sharp fall in prices of imported coal with ~70% of its coal requirements being imported. However, since the company normally maintains two months of coal inventory, Q3FY09 results are not likely to reflect the benefit of fuel cost savings. ICL's margins are expected to dip 221bps YoY.
- PAT is likely to decline 8% YoY to Rs1.17bn.

JK Cement (Hold)

(QoQ chg: -48.6%; YTD chg: 4.9%)

Quarterly estimates (Standalone)

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Net sales	3,612	3,899	(7.4)	0.2	7,042	6,828	3.1
EBITDA	687	1,162	(40.9)	36.1	1,268	1,969	(35.6)
PBT	465	982	(52.7)	66.5	830	1,637	(49.3)
PAT (Recurring)	307	802	(61.8)	72.6	539	1,252	(57.0)

* Apr - Sept
Source: Company data, I-Sec Research

- Topline growth likely to decline 7.4% YoY. While average realisations are likely to remain flat, volumes are expected to dip 7.1% YoY, partly due to import of Pakistani cement through the Wagah border. JK Cement's (JKCL) high share of bulk cement sales (40%) will lead to lower growth in average realisation versus peers.
- Operating margins are expected to decline 1075bps, mainly due to lower net realisations on bulk cement, higher cost of pet coke (~70% of the total fuel requirement) and unavailability of linkage coal. While the cost of pet coke has sharply decreased, the benefit will be visible largely in Q4FY09.
- PAT will likely dip 62% YoY to Rs307mn.

Shree Cement (Buy)

(QoQ chg: 2.6%; YTD chg: 3.8%)

Quarterly estimates (Standalone)

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Net sales	6,465	5,236	23.5	2.7	12,435	9,170	35.6
EBITDA	2,098	2,237	(6.2)	14.8	3,933	3,835	2.6
PBT	1,613	420	283.6	18.3	2,879	3,079	(6.5)
PAT (Recurring)	1,193	335	256.6	1.8	2,357	2,231	5.6

* Apr - Sept
Source: Company data, I-Sec Research

- Topline growth to be impressive at 23.5% YoY, primarily aided by commissioning of 1.5mnte unit VI in March '08. Consequently, volumes are likely to rise 27% YoY, while average realisations are expected to decline 3.7% YoY.
- Sharp rise in pet coke price (SCL 100% dependent on pet coke) will strain margins, which are likely to contract 1000bps to 32.7%. The company should see significant savings in fuel costs, with pet coke prices falling ~45% from September '08.
- Depreciation is expected to be lower 74% as SCL follows the accelerated method of depreciation. As a result, PAT is expected to jump 257% YoY to Rs1.19bn.

UltraTech Cement (Buy)

(QoQ chg: -6.7%; YTD chg: 8.5%)

Quarterly estimates (Standalone)

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Net sales	16,588	13,821	20.0	18.8	28,922	25,276	14.4
EBITDA	4,734	4,685	1.0	59.5	7,426	7,688	(3.4)
PBT	3,815	4,129	(7.6)	79.2	5,895	6,630	(11.1)
PAT (Recurring)	2,671	2,795	(4.4)	62.7	4,292	4,452	(3.6)

* Apr - Sept
Source: Company data, I-Sec Research

- Volumes are expected to grow 9.4% YoY, aided by the commissioning of the clinkerisation unit at Tadipatri and 1.3mnte split grinding unit in Karnataka. A 9.7% growth in average realisations, partly driven by higher RMC sales, will boost revenues 20% YoY.
- EBITDA margin is likely to decline 536bps YoY to 28.5%, mainly on account of contracts for purchase of imported coal at higher rates. UltraTech Cement (UTCL) imports 40% of its coal requirements and consequently, will see substantial reduction in fuel costs in Q4FY09.
- Recurring PAT to dip 4.4% YoY to Rs2.67bn.

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Construction

Orderbook on strong footing

Top picks

IVRCL Infrastructure
Nagarjuna Construction

The I-Sec Construction universe is expected to witness a topline growth of 28.4% YoY in Q3FY09E, mainly due to strong existing orderbook – IVRCL Infrastructure at Rs138bn, Nagarjuna Construction (NCC) at Rs128bn and Gammon India (GIL) at Rs73bn, with an orderbook-to-bill ratio of 3.7-2.8x FY08 turnover. At the EBITDA level, the I-Sec Construction universe is expected to grow 20.6% due to 40bps YoY, 60bps YoY & 150bps YoY dip in EBITDA margin of IVRCL, NCC & GIL respectively. The margin decline is expected partially on account of cost escalations (adding to revenues) and partly due to YoY increase in commodity prices. Lower EBITDA margin and higher interest costs (on higher interest rates and increased borrowings from stretched working capital) in Q3FY09E will likely lead to subdued recurring net profit, which is expected to grow 3.8% YoY, 6.5% YoY & (37.3%) YoY for IVRCL, NCC & GIL respectively. The strong orderbook of IVRCL and NCC will help achieve a topline CAGR of 23% and 19% respectively in FY09E-11E despite factoring in lower growth in order intake in FY09-10. We have factored in benefits of lower interest costs for FY10-11 earnings. Based on sum-of-the-parts (SOTP) valuations, we continue to maintain BUY on IVRCL and NCC with 67% & 37% upside from the current levels.

- **Companies with strong orderbook better placed in difficult macro environment** owing to '10 being an election year and huge fiscal deficit. IVRCL and NCC are better placed given Rs138bn & Rs128bn orderbook respectively (as on September '08) versus GIL's Rs72.5bn. Greater share of short cycle projects (<2.5 years) – 54% for IVRCL and 71% for NCC versus 34% of GIL – will enable IVRCL & NCC to achieve better topline growth of 25.9% & 38.3% in Q3FY09E versus GIL's 18.5%.
- **Stimulus package to provide better credit access to construction companies.** The Government's stimulus package will ease credit for infrastructure. The access to Rs400bn special window through India Infrastructure Finance Company (IIFCL) will help private sector borrowing for road projects with strong viability. However, likely deterioration of traffic and judicial use of equity in bad capital markets are likely to prolong the awards of ~60 road projects from March '09 earlier. With state and central elections imminent and adverse fiscal scenario, we have factored in sluggish order intake growth in FY10. Despite this, companies with strong orderbook such as IVRCL & NCC are likely to grow their topline 23% & 19% in FY09E-11E.
- **Interest rate decline; positive surprise at EBITDA level on sharp dip in commodity prices.** We have factored in lower interest costs in FY10-11 estimates. We estimate FY10-11 EBITDA margin to sustain at FY09 levels as margin contraction in new orders (H2FY09-H2FY10) will largely be neutralised by the possible dip in commodity prices. However, positive surprise as regards EBITDA margin cannot be ruled out in the event of sharp decline in commodity prices.
- **Valuations.** Our SOTP valuations suggest a fair price of Rs204 for IVRCL, Rs98 for NCC and Rs93 for GIL. FY09E-11E EPS CAGR is at 18%, 10% & 6% and core RoE at 17.5%, 18.7% & 13.1% for IVRCL, NCC & GIL (post merger) respectively. We have assigned P/E of 7.5x, 7.5x & 5x to the core construction businesses of IVRCL, NCC & GIL respectively. Maintain HOLD on GIL and BUY on NCC and IVRCL.

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Table 1: Quarterly summary

Company	Sales			EBITDA			PAT		
		% Chg			% Chg			% Chg	
(Rs mn)	OND09*	(YoY)	(QoQ)	OND09*	(YoY)	(QoQ)	OND09*	(YoY)	(QoQ)
IVRCL	12,274	25.9	8.0	1,350	21.2	47.9	589	3.8	33.7
NCC	10,779	38.3	2.1	1,132	31.3	4.3	422	6.5	(0.2)
Gammon	6,194	18.5	20.7	465	(0.7)	27.0	120	(37.3)	16.9
Sector aggregate	**29,247**	**28.4**	**8.1**	**2,947**	**20.6**	**24.7**	**1,131**	**(2.1)**	**17.1**

OND-October to December
Source: I-Sec Research

Strong orderbook to protect revenue growth in difficult macro environment

In ’10, owing to central and state elections, we expect order inflow to slow down for construction companies. During the past election in FY05, there was a spurt in the awards of contracts after elections (as projects usually get bunched up during the election period). Due to adverse fiscal scenario and liquidity, this phenomenon may not repeat in FY10. We have therefore assumed a slowdown in order inflow growth in FY10 in contrast to significant order inflow growth in FY05. We expect moderate recovery in order inflow from late-FY10 as fiscal deficit is likely to improve in FY11E to 4.5% (average fiscal deficit during FY05-08 was ~3.6% versus 5.4% & 5.5% expected in FY09E and FY10E).

Table 2: New orders won and estimated growth in new orders

(Rs mn)

	FY04	FY05	FY06	FY07	FY08	FY09E	FY10E	FY11E
IVRCL Standalone								
New orders	9,362	25,428	41,616	35,786	93,690	76,826	69,143	81,589
Growth in new orders (%)		172	64	(14)	162	(18)	(10)	18
NCC Standalone								
New orders	11,084	32,884	36,764	47,435	55,273	63,564	60,386	69,444
Growth in new orders (%)		197	12	29	17	15	(5)	15
Gammon Standalone								
New orders	13,390	15,348	34,627	40,833	33,288	19,973	26,964	31,278
Growth in new orders (%)		15	126	18	(18)	(40)	35	16

Source: I-Sec Research

Table 3: Orderbook, orderbook-to-sales ratio and key orderbook components

(Rs mn)

Company	Order book – Sept ’08	Book-Bill (FY08 turnover)	Share of key segments in orderbook (%)	Share of Short cycle projects (%)
IVRCL Standalone	138,000	3.7	Water-69	54
NCC Standalone	98,102	2.8	Buildings 22, Water-15	71
Gammon Standalone	72,500	2.8	Transport-45	34

Source: I-Sec Research

In the current adverse scenario, companies with strong orderbook are likely to secure their future revenue growth in the next two years. The orderbook (as on September ’08) was at Rs138bn for IVRCL standalone and Rs98bn for NCC standalone, implying a book-bill ratio of 3.7-2.8x FY08 turnover, which will lead to topline YoY growth of 25.9% & 38.3% in Q3FY09E and 23% & 19% through FY09E-11E for IVRCL and NCC respectively, despite lower growth assumed in order intake through FY09E-10E. GIL (excluding Associated Transrail Structures) on the other hand is expected to record a topline CAGR of 8% through FY09E-11E due to poor orderbook of ~Rs72.5bn, which has more than 60% coming from long-gestation projects.

Stimulus package to provide better credit access to construction companies

Stimulus package I & II relevant for infrastructure sector

- Extra direct spending of Rs200bn announced
- IIFCL allowed to raise a total of Rs400bn through tax free bonds to fund private participation projects worth Rs1,000bn in the next 18 months
- Rs300bn worth additional market borrowings by state Governments have been allowed for capex in Q4FY09
- Non banking finance companies (NBFCs) dealing exclusively with infrastructure financing would be permitted to access external commercial borrowings (ECB) from multilateral or bilateral financial institutions, under the approval route of the Reserve Bank of India (RBI).
- Interest rate ceiling on ECBs scrapped under RBI approval route
- No further fiscal stimulus is likely until a new Government is elected in June '09

Government measures will certainly ease credit availability to the infrastructure space. However, there is little that has been done on direct Government spending in the infrastructure space. In case of private participation projects, especially in roads (which is the focus of I-Sec Construction universe), the confidence on traffic has depleted owing to adverse macro conditions. Hence, the interest on some projects up for awards has died.

According to National Highway Authority of India (NHAI), out of 31 bids opened so far, 19 projects have received no response from the companies and are likely to be re-bided for. Poor project viability, poor visibility over capital markets leading to judicial use of the equity, tight credit scenario and restrictions on number of bids have been the main reasons for dismal participation in the road projects. Though it seems that the awards of ~60 projects will be delayed from the earlier March '09, the following positive steps will reduce the delay: i) increasing the project cost 20% (for which detailed project reports have been prepared before '07) and ii) not applying the cap to projects that received no bids – the cap restricts the number of projects in which a company can participate. The Government is even contemplating to provide 20% (maximum limit) of the viability gap funding that comes in the operational period, during the construction phase. Steps such as these are likely to increase the participation interest among construction companies.

EBITDA margin to be low at FY09 level despite dip in commodity price

Although steel prices have declined ~16% in the current quarter, on YoY basis, the prices have actually increased ~12.5% (we have used Tor Steel 12mm prices). We believe that EBITDA margin of the companies will continue to remain under pressure in the current quarter. Over FY10-11, new orders won in H2FY09-H1FY10 (when order inflows are expected to be slow and bidding is likely to be aggressive) will start contributing to the turnover of the companies and pressurise margins. However, we believe that such downward pressure on margins is likely to be neutralised by the expected decline in the commodity prices.

Table 4: EBITDA margin

(%)

	FY04	FY05	FY06	FY07	FY08	FY09E	FY10E	FY11E
IVRCL Standalone	8.9	8.4	9.1	9.9	9.6	9.5	9.4	9.6
NCC Standalone	8.1	8.1	9.4	9.8	10.8	10.0	9.9	9.8
GIL Standalone	10.0	10.9	12.1	9.7	9.9	8.2	8.4	8.4

Source: I-Sec Research

Decline in FY10-11 interest costs factored in

In our last update, we had assumed an increase of 120-150bps in interest rates in FY09E and further 100bps rise in FY10E. While we have maintained FY09 interest rates, we have slashed FY10E interest rates 150bps, anticipating a decline in interest rates in FY10 and further 50bps dip in FY11E.

Table 5: Change in interest cost assumptions

(Rs mn)

Interest costs	FY10E			FY11E		
	Last update	Revised nos	% Revision	Last update	Revised nos	% Revision
IVRCL Standalone	2,134	1,970	(7.7)	2,223	2,019	(9.2)
NCC Standalone	2,112	1,803	(14.6)	2,093	1,847	(11.7)
GIL Standalone	1,033	895	(13.3)	1,044	759	(27.3)

Source: I-Sec Research

Table 6: Earnings revision

(Rs mn)

	FY09E			FY10E			FY11E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
IVRCL									
Sales	50,054	50,054	-	59,615	59,399	(0.4)	68,466	67,781	(1.0)
EBITDA	4,759	4,759	-	5,665	5,585	(1.4)	6,574	6,508	(1.0)
PAT	2,185	2,198	0.6	2,572	2,568	(0.2)	3,069	3,086	0.5
EPS	16.4	16.5	0.6	19.3	19.2	(0.2)	23.0	23.1	0.5
NCC									
Sales	43,797	43,797	0.0	48,437	49,723	2.7	57,245	56,663	(1.0)
EBITDA	4,296	4,378	1.9	4,749	4,900	3.2	5,610	5,574	(0.6)
PAT	1,692	1,656	(2.1)	1,697	1,858	9.5	2,307	2,187	(5.2)
EPS	7.4	7.2	(2.1)	7.4	8.1	9.5	10.1	9.6	(5.2)
GIL									
Sales	35,133	34,249	(2.5)	41,003	37,394	(8.8)	47,958	41,423	(13.6)
EBITDA	3,323	3,272	(1.5)	3,960	3,569	(9.9)	4,600	3,938	(14.4)
PAT	1,174	1,252	6.7	1,588	1,423	(10.4)	1,993	1,747	(12.3)
EPS	10.4	11.1	6.7	14.1	12.6	(10.4)	17.7	15.5	(12.3)

Source: Company data, I-Sec Research

Valuations and view

Our SOTP valuations suggest a fair price of Rs204 for IVRCL, Rs98 for NCC and Rs90 for GIL. FY09E-11E EPS CAGR is at 18%, 10% & 6% and core RoE at 17.5%, 18.7% & 13.1% for IVRCL, NCC & GIL (post merger) respectively. We have assigned P/E of 7.5x, 7.5x & 5x to the core construction businesses of IVRCL, NCC & GIL respectively. Maintain HOLD on GIL and BUY on NCC and IVRCL. The stocks are currently trading at 6.4x, 8.8x & 6.5x FY10E EPS and 5.3x, 7.5x & 5.3x FY11E EPS.

Table 7: Valuation matrix

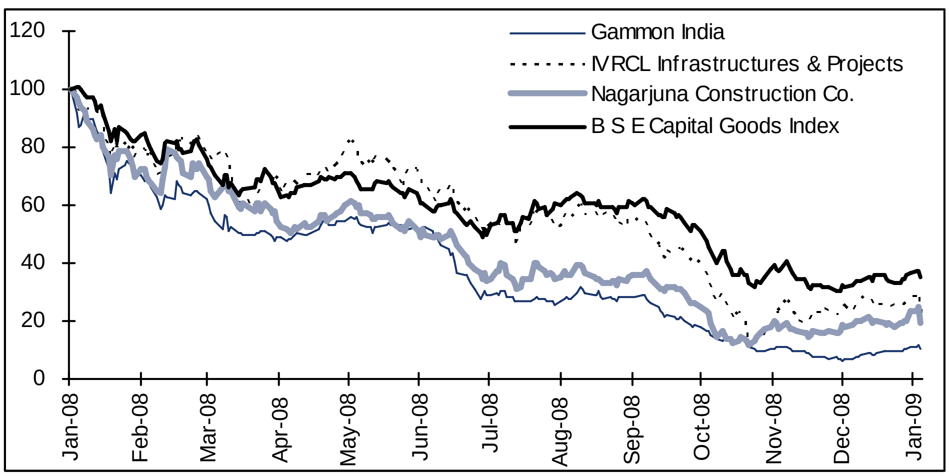
(Rs/Share)

Date	EPS (Rs) FY11	P/E* (x) FY11	Rating	Construction business	Investment value	Target price (Rs)	Market price (Rs)	Upside %
IVRCL	22.9	7.5	Buy	171	33	204	122	67.2
NCC	9.6	7.5	Buy	72	26	98	71	36.9
Gammon	15.5	5.0	Hold	77	13	90	82	10.1

Source: I-Sec Research

During the past one year, the stock prices of IVRCL, NCC & GIL have declined 79%, 80% and 90% versus a dip of 65% in the BSE Capital Goods index.

Chart 1: Price movement versus BSE Capital Goods index



Source: I-Sec Research, CMIE

IVRCL Infrastructures & Projects (Buy)

(QoQ chg: 33.7%; YTD chg: 34.6%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Revenues	12,274	9,749	25.9	8.0	20,651	13,658	51.2
EBITDA	1,350	1,114	21.2	47.9	1,733	1,153	50.2
PBT	892	859	3.8	33.7	1,217	904	34.6
PAT (Adj)	589	567	3.8	33.7	803	597	34.6

*April-September;
Source: Company data, I-Sec Research

- Revenues to grow 26% YoY, driven by strong orderbook of ~Rs138bn (as on September ’08), at ~3.8x FY08 turnover, recording a strong annual growth of 43.8% as on September ’08. The orderbook is dominated by water segment (WSS) and irrigation projects, which contribute ~69% to the total orderbook. At least 50% of the orderbook consists of projects with gestation period less than 2.5 years.
- EBITDA margin to decline ~40bps to 11% versus 11.4% in Q3FY08. About 93% of the orderbook has cost escalation clauses.
- Net interest cost is expected to rise ~99% to Rs351mn versus Rs177mn in Q3FY08. The increase in borrowings is mainly due to rise in working capital, likely to be ~Rs24.8bn by FY09E end versus ~Rs19.6bn as on March ’08.
- Recurring PAT margin to dip 100bps YoY in Q3FY09. The decline in EBITDA margin and strong ~81.3% YoY increase in capital charges in Q3FY09 will lead to 3.8% YoY growth in recurring PAT, despite topline growth of ~26%.
- Based on SOTP, IVRCL offers 67% upside from the current levels.

Nagarjuna Construction Company (Buy)

(QoQ chg: -0.2%; YTD chg: 13.9%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Revenues	10,779	7,795	38.3	2.1	20,268	14,394	40.8
EBITDA	1,132	862	31.3	4.3	2,000	1,642	21.8
PBT	640	584	9.6	(4.6)	1,215	1,049	15.8
PAT (Adj)	422	396	6.5	(0.2)	794	697	13.9

*April-September;
Source: Company data, I-Sec Research

- Revenues to grow 38.3% YoY in Q3FY09E – the strongest growth in I-Sec Construction universe driven by strong orderbook (standalone) of ~Rs98bn as on September ’08, at 2.8x FY08 turnover. Around 71% of the orderbook consists of low gestation projects (<2.5 years of order execution time), implying higher execution rate versus IVRCL and GIL.
- EBITDA margin likely to be ~10.5% in Q3FY09E, 60bps below 11.1% in Q3FY08. The current orderbook has a high proportion of fixed-price contracts (~30%), which do not allow complete pass-through of steel price escalations.

- Net interest costs are expected to increase to Rs341mn in Q3FY09E versus Rs167mn in Q3FY08, thus growing 105% YoY. In Q3FY08, the company had managed to mobilise Rs4.1bn through a private placement with Blackstone Group, which helped cut interest costs
- Recurring PAT is expected to grow 6.5% YoY, mainly on account of higher capital charges, which will likely grow 73.5% YoY in Q3FY09E.
- Based on SOTP, we arrive at target price of Rs98/share; maintain Buy.

Gammon India (Hold)

(QoQ chg: 16.9%; YTD chg:-46.9%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Revenues	6,194	5,227	18.5	20.7	10,984	10,006	9.8
EBITDA	465	468	(0.7)	27.0	858	989	(13.3)
PBT	197	310	(36.5)	16.9	802	713	12.5
PAT (Adj)	120	192	(37.3)	16.9	242	457	(46.9)

*April-September;
Source: Company data, I-Sec Research

- Revenues expected to grow ~18.5% YoY in Q3FY09E. The company's orderbook stands at Rs72.5bn, excluding suspended transportation orders of Rs15bn. Around 66% of the orderbook comprises higher gestation projects (with gestation period of >2.5 years)
- EBITDA margin expected to decline ~150bps on account of high proportion (~14%) of fixed-price contracts (received from Gammon Infrastructure Projects) in the current orderbook. GIL has indicated that it plans to book nil margins for two BOT projects, from which ~Rs3bn revenues are expected in the current year.
- Recurring PAT to de-grow ~37.3% on substantial increase in YoY capital charges of ~88.7%. Interest expenses to rise ~235.1% YoY in Q3FY09E.
- Based on SOTP, we arrive at a target price of Rs90/share; maintain HOLD.

Financial Summary – IVRCL

Table 8: Profit and Loss Statement

(Rs mn, year ending March 31)

	FY08	FY09E	FY10E	FY11E
Operating Income (Sales)	**36,508**	**50,054**	**59,399**	**67,781**
Operating Expenses	**32,989**	**45,295**	**53,813**	**61,273**
EBITDA	**3,519**	**4,759**	**5,585**	**6,508**
% margins	*9.6*	*9.5*	*9.4*	*9.6*
Depreciation & Amortisation	328	479	575	656
Gross Interest	1,094	1,806	1,970	2,019
Other Income	745	856	849	841
Recurring PBT	**2,842**	**3,329**	**3,890**	**4,675**
Add: Extraordinaries	(71)	-	-	-
Less: Taxes	666	1,132	1,322	1,589
- Current tax	600	1,068	1,247	1,499
- Deferred tax	51	41	47	57
Net Income (Reported)	**2,105**	**2,198**	**2,568**	**3,086**

Source: Company data, I-Sec Research

Table 9: Balance Sheet

(Rs mn, year ending March 31)

	FY08	FY09E	FY10E	FY11E
Assets				
Total Current Assets	30,166	37,588	43,322	48,180
of which cash & cash eqv.	*1,772*	*1,600*	*1,650*	*1,700*
Total Current Liabilities & Provisions	10,467	12,783	15,459	17,907
Net Current Assets	**19,699**	**24,805**	**27,863**	**30,273**
Investments	**3,409**	**3,660**	**3,910**	**4,160**
of which				
Strategic/Group	*3,409*	*3,659*	*3,910*	*4,160*
Other Marketable	-	-	-	-
Net Fixed Assets	**3,163**	**4,043**	**3,964**	**4,529**
of which				
Capital Work-in-Progress	*541*	*541*	*541*	*541*
Total Assets	**26,813**	**33,048**	**36,278**	**39,503**
Liabilities				
Borrowings	10,678	14,560	15,441	15,844
Deferred Tax Liability	103	144	191	248
Equity Share Capital	267	270	270	270
Face Value per share (Rs)	*2*	*2*	*2*	*2*
Reserves & Surplus*	15,760	18,070	20,371	23,137
Net Worth	**16,031**	**18,345**	**20,646**	**23,411**
Total Liabilities	**26,813**	**33,048**	**36,278**	**39,503**

Source: Company data, I-Sec Research

Table 10: Cash Flow Statement

(Rs mn, year ending March 31)

	FY08	FY09E	FY10E	FY11E
Operating Cash flow	**2,497**	**2,606**	**4,038**	**4,546**
Working Capital Changes	(6,175)	(4,141)	(2,662)	(1,866)
Capital Commitments	(2,207)	(1,609)	(746)	(1,471)
Free Cash Flow	**(5,885)**	**(3,144)**	**629**	**1,209**
Cash flow from Investing Activities	**786**	**773**	**729**	**720**
Issue of Share Capital	867	344	0	0
Buyback of shares	-	-	-	-
Inc (Dec) in Borrowings	5,046	3,842	881	403
Dividend paid	(151)	(219)	(228)	(267)
Extraordinary Items	**11**	**-**	**-**	**-**
Chg. in Cash & Bank balance	**(467)**	**(172)**	**50**	**50**

Source: Company data, I-Sec Research

Table 11: Key Ratios

(Year ending March 31)

	FY08	FY09E	FY10E	FY11E
Per Share Data (in Rs.)				
Reported PAT (EPS)	15.8	16.3	19.0	22.9
Diluted Recurring EPS	16.3	16.3	19.0	22.9
Recurring Cash EPS	18.2	19.8	23.3	27.7
Dividend per share (DPS)	1.6	1.7	2.0	2.4
Book Value per share (BV)	120.1	135.9	153.0	173.5
Growth Ratios (%)				
Operating Income	58.7	37.1	18.7	14.1
EBITDA	55.0	35.2	17.4	16.5
Recurring Net Income	50.3	1.0	16.8	20.2
Diluted Recurring EPS	46.0	(0.1)	16.8	20.2
Diluted Recurring CEPS	61.8	8.8	17.4	19.1
Valuation Ratios (% YoY)				
P/E	7.5	7.5	6.4	5.3
P/CEPS	6.7	6.2	5.2	4.4
P/BV	1.0	0.9	0.8	0.7
EV / EBITDA	7.2	6.2	5.5	4.7
EV / Operating Income	0.7	0.6	0.5	0.5
EV / Operating FCF	(6.9)	(19.3)	22.1	11.5
Operating Ratio				
Admin & Other exp/ Revenue	4.3	4.3	4.3	4.3
Operating expenses / Revenue	86.0	86.2	86.3	86.1
Other Income / PBT (%)	26.2	25.7	21.8	18.0
Effective Tax Rate (%)	24.0	34.0	34.0	34.0
NWC / Total Assets (%)	66.9	70.2	72.3	72.3
Inventory Turnover (days)	26.4	20.9	19.1	18.8
Receivables (days)	64.6	74.0	75.0	75.0
Payables (days)	59.9	60.0	62.0	63.0
D/E Ratio (x)	0.7	0.8	0.8	0.7
Return/Profitability Ratio (%)				
Recurring Net Income Margins C	5.8	4.3	4.3	4.5
RoCE	13.2	11.3	11.2	11.7
Core RoCE	19.2	15.1	14.3	14.7
RoNW	14.9	12.8	13.2	14.0
Core RoNW	21.0	17.3	17.2	17.9
Dividend Payout Ratio	10.3	10.5	10.4	10.4
Dividend Yield	1.3	1.4	1.6	1.9
EBITDA Margins	9.6	9.5	9.4	9.6

Source: Company data, I-Sec Research

Financial Summary – NCC

Table 12: Profit and Loss Statement

(Rs mn, year ending March 31)

	FY08	FY09E	FY10E	FY11E
Operating Income (Sales)	**33,883**	**43,797**	**49,723**	**56,663**
Operating Expenses	**30,225**	**39,419**	**44,823**	**51,088**
EBITDA	**3,658**	**4,378**	**4,900**	**5,574**
% margins	*10.8*	*10.0*	*9.9*	*9.8*
Depreciation & Amortisation	482	632	713	820
Gross Interest	1,116	1,621	1,803	1,847
Other Income	391	384	431	405
Recurring PBT	**2,452**	**2,509**	**2,814**	**3,313**
Add: Extraordinaries	(22)	-	-	-
Less: Taxes	811	853	957	1,126
- Current tax	740	773	867	1,021
- Deferred tax	52	65	72	85
Net Income (Reported)	**1,619**	**1,656**	**1,858**	**2,187**

Source: Company data, I-Sec Research

Table 13: Balance Sheet

(Rs mn, year ending March 31)

	FY08	FY09E	FY10E	FY11E
Assets				
Total Current Assets	30,135	34,131	38,307	42,330
of which cash & cash eqv.	*2,330*	*1,600*	*1,700*	*1,750*
Total Current Liabilities & Provisions	17,642	19,884	22,828	26,274
Net Current Assets	**12,493**	**14,248**	**15,478**	**16,056**
Investments	**6,997**	**8,434**	**9,634**	**10,134**
of which				
Strategic/Group	*6,997*	*8,434*	*9,634*	*10,134*
Net Fixed Assets	**5,197**	**5,930**	**5,804**	**6,476**
of which				
Capital Work-in-Progress	*143*	*143*	*143*	*143*
Total Assets	**24,829**	**28,754**	**31,059**	**32,808**
Liabilities				
Borrowings	8,938	11,502	12,274	12,221
Deferred Tax Liability	167	232	304	389
Equity Share Capital	458	458	458	458
Face Value per share (Rs)	*2*	*2*	*2*	*2*
Reserves & Surplus*	15,266	16,562	18,024	19,741
Net Worth	**15,724**	**17,020**	**18,481**	**20,198**
Total Liabilities	**24,829**	**28,754**	**31,059**	**32,808**

Source: Company data, I-Sec Research

Table 14: Cash Flow Statement

(Rs mn, year ending March 31)

	FY08	FY09E	FY10E	FY11E
Operating Cash flow	**2,549**	**3,328**	**3,915**	**4,210**
Working Capital Changes	(3,616)	(2,520)	(1,016)	(280)
Capital Commitments	(3,692)	(2,802)	(1,788)	(1,991)
Free Cash Flow	**(4,759)**	**(1,994)**	**1,110**	**1,939**
Cash flow from Investing Activities	**(624)**	**663**	**375**	**410**
Issue of Share Capital	4,051	(0)	0	(0)
Buyback of shares	-	-	-	-
Inc (Dec) in Borrowings	2,569	2,564	772	(53)
Dividend paid	(228)	(348)	(356)	(399)
Extraordinary Items	**-**	**-**	**-**	**-**
Chg. in Cash & Bank balance	**(104)**	**(730)**	**100**	**50**

Source: Company data, I-Sec Research

Table 15: Key Ratios

(Year ending March 31)

	FY08	FY09E	FY10E	FY11E
Per Share Data (in Rs.)				
Reported EPS	7.1	7.2	8.1	9.6
Diluted Recurring EPS	7.1	7.2	8.1	9.6
Recurring Cash EPS	9.2	10.0	11.2	13.1
Dividend per share (DPS)	1.5	1.6	1.7	2.1
Book Value per share (BV)	68.7	74.4	80.8	88.3
Growth Ratios (%)				
Operating Income	21.2	29.3	13.5	14.0
EBITDA	33.3	19.7	11.9	13.8
Recurring Net Income	28.2	1.2	12.2	17.7
Diluted Recurring EPS	16.8	1.2	12.2	17.7
Diluted Recurring CEPS	34.2	8.9	12.4	16.9
Valuation Ratios (% YoY)				
P/E	10.0	9.9	8.8	7.5
P/CEPS	7.8	7.1	6.4	5.4
P/BV	1.0	1.0	0.9	0.8
EV / EBITDA	6.3	6.0	5.6	4.9
EV / Operating Income	0.7	0.6	0.5	0.5
EV / Operating FCF	(21.7)	32.8	9.4	6.9
Operating Ratio				
Admin & Other exp / Revenue	8.1	8.2	8.2	7.7
Operating expenses / Revenue	81.1	81.8	82.0	82.4
Other Income / PBT (%)	16.0	15.3	15.3	12.2
Effective Tax Rate (%)	32.5	33.6	33.6	33.6
NWC / Total Assets (%)	40.9	44.0	44.4	43.6
Inventory Turnover (days)	23.9	21.0	19.3	19.2
Receivables (days)	76.2	86.0	86.0	80.0
Payables (days)	55.3	58.0	60.0	62.0
D/E Ratio (x)	0.6	0.7	0.7	0.6
Return/Profitability Ratio (%)				
Recurring Net Income Margins C	4.8	3.7	3.7	3.8
RoCE	11.5	10.2	10.2	10.7
Core RoCE	19.8	17.6	17.3	18.5
RoNW	12.5	10.1	10.5	11.3
Core RoNW	21.4	17.5	18.6	19.9
Dividend Payout Ratio	23.3	21.5	21.5	21.5
Dividend Yield	2.1	2.2	2.4	2.9
EBITDA Margins	10.8	10.0	9.9	9.8

Source: Company data, I-Sec Research

Financial Summary – Gammon (Standalone)

Table 16: Profit and Loss Statement

(Rs mn, year ending March 31)

	FY08	FY09E	FY10E	FY11E
Operating Income (Sales)	**22,788**	**25,725**	**26,996**	**28,425**
Operating Expenses	**20,483**	**23,556**	**24,668**	**25,973**
EBITDA	**2,306**	**2,170**	**2,328**	**2,452**
% margins	*10.1*	*8.4*	*8.6*	*8.6*
Depreciation & Amortisation	462	558	596	591
Gross Interest	596	870	895	759
Other Income	146	740	282	293
Recurring PBT	**1,393**	**1,481**	**1,119**	**1,395**
Add: Extraordinaries	(22)	-	-	-
Less: Taxes	510	453	380	474
- Current tax	501	407	341	425
- Deferred tax	(8)	34	29	36
Less: Minority Interest	-	-	-	-
Net Income (Reported)	**861**	**1,028**	**738**	**921**

Source: Company data, I-Sec Research

Table 17: Balance Sheet

(Rs mn, year ending March 31)

	FY08	FY09E	FY10E	FY11E
Assets				
Total Current Assets	17,565	19,758	19,869	20,709
of which cash & cash eqv.	*381*	*650*	*600*	*600*
Total Current Liabilities & Provisions	10,768	9,302	9,657	10,159
Net Current Assets	**6,796**	**10,456**	**10,212**	**10,551**
Investments	**1,718**	**1,688**	**1,688**	**1,688**
of which Strategic/Group	*1,708*	*1,674*	*1,674*	*1,674*
Other Marketable	*14*	*14*	*14*	*14*
Net Fixed Assets	**7,733**	**7,814**	**7,718**	**7,427**
of which intangibles	-	-	-	-
Capital Work-in-Progress	*182*	*182*	*182*	*182*
Goodwill	**-**	**-**	**-**	**-**
Total Assets	**16,429**	**20,140**	**19,800**	**19,847**
Liabilities				
Borrowings	3,771	6,470	5,415	4,560
Deferred Tax Liability	372	406	435	471
Equity Share Capital	177	177	177	177
Face Value per share (Rs)	*2*	*2*	*2*	*2*
Reserves & Surplus*	12,110	13,086	13,773	14,639
Less: Misc. Exp. n.w.o.	-	-	-	-
Net Worth	**12,287**	**13,263**	**13,950**	**14,816**
Total Liabilities	**16,429**	**20,140**	**19,800**	**19,847**

Source: Company data, I-Sec Research

Table 18: Cash Flow Statement

(Rs mn, year ending March 31)

	FY08	FY09E	FY10E	FY11E
Operating Cash flow	**1,065**	**1,041**	**2,266**	**1,850**
Working Capital Changes	(552)	(2,805)	(91)	(107)
Capital Commitments	(840)	(224)	(500)	(300)
Free Cash Flow	**(326)**	**(1,989)**	**1,675**	**1,443**
Cash flow from Investing Activities	**353**	**218**	**201**	**212**
Increase/(Decrease) in Net Worth	(27)	(0)	(0)	(0)
Buyback of shares	-	-	-	-
Inc (Dec) in Borrowings	(3)	2,782	(1,056)	(854)
Dividend paid	(45)	(51)	(51)	(52)
Extraordinary Items	**-**	**-**	**-**	**-**
Chg. in Cash & Bank balance	**(383)**	**(579)**	**269**	**(50)**

Source: Company data, I-Sec Research

Table 19: Key Ratios

(Year ending March 31)

	FY08	FY09E	FY10E	FY11E
Per Share Data (in Rs.)				
EPS(Basic Recurring)				
Diluted Recurring EPS	10.2	7.4	8.5	10.6
Recurring Cash EPS	15.3	18.3	15.4	17.4
Dividend per share (DPS)	0.6	0.6	0.6	0.6
Book Value per share (BV)	141.6	152.9	160.8	170.8
Growth Ratios (%)				
Operating Income	26.3	12.9	4.9	5.3
EBITDA	28.8	(5.9)	7.3	5.3
Recurring Net Income	(5.9)	(27.1)	14.8	24.7
Diluted Recurring EPS	(5.9)	(27.1)	14.8	24.7
Diluted Recurring CEPS	66.0	19.9	(15.9)	13.3
Valuation Ratios (% YoY)				
P/E	8.1	11.1	9.6	7.7
P/CEPS	5.4	4.5	5.3	4.7
P/BV	0.6	0.5	0.5	0.5
EV / EBITDA	4.7	6.1	5.3	4.7
EV / Operating Income	0.5	0.5	0.5	0.4
EV / Operating FCF	21.1	(7.6)	5.7	6.6
Operating Ratio				
Admin & Other expenses / Revenue	7.0	7.0	7.0	7.0
Operating expenses / Revenue	82.9	84.6	84.4	84.4
Other Income / PBT (%)	10.4	50.0	25.2	21.0
Effective Tax Rate (%)	35.9	30.0	33.4	33.4
NWC / Total Assets (%)	39.0	48.7	48.5	50.1
Inventory Turnover (days)	33.4	30.4	32.1	32.1
Receivables (days)	64.0	84.0	80.0	76.0
Payables (days)	59.4	60.0	60.0	60.0
D/E Ratio (x)	0.3	0.5	0.4	0.3
Return/Profitability Ratio (%)				
Recurring Net Income Margins C	3.8	2.4	2.7	3.2
RoCE	7.9	6.8	6.7	7.2
Adjusted ROCE	12.4	9.8	9.2	9.9
RoNW	7.4	5.0	5.4	6.4
Adjusted RoNW	11.9	7.6	7.9	9.1
Dividend Payout Ratio	5.8	8.0	5.4	4.6
Dividend Yield	0.7	0.6	0.6	0.6
EBITDA Margins	10.1	8.4	8.6	8.6

Source: Company data, I-Sec Research

Financial Summary – Gammon (Merged with ATSL)

Table 20: Profit and Loss Statement

(Rs mn, year ending March 31)

	FY08	FY09E	FY10E	FY11E
Operating Income (Sales)	**22,788**	**34,249**	**37,394**	**41,423**
Operating Expenses	**20,483**	**30,977**	**33,825**	**37,484**
EBITDA	**2,306**	**3,272**	**3,569**	**3,938**
% margins	*10.1*	*9.6*	*9.5*	*9.5*
Depreciation & Amortisation	462	588	633	636
Gross Interest	596	1,011	1,053	938
Other Income	146	740	282	293
Recurring PBT	**1,393**	**2,412**	**2,165**	**2,658**
Add: Extraordinaries	(22)	-	-	-
Less: Taxes	510	775	742	911
Less: Minority Interest	-	-	-	-
Net Income (Reported)	**861**	**1,637**	**1,423**	**1,747**
Recurring Net Income	**882**	**1,252**	**1,423**	**1,747**

Source: Company data, I-Sec Research

Table 21: Balance Sheet

(Rs mn, year ending March 31)

	FY08	FY09E	FY10E	FY11E
Assets				
Total Current Assets	17,565	25,711	27,157	29,972
of which cash & cash eqv.	*381*	*715*	*685*	*695*
Total Current Liabilities & Provisions	10,768	12,844	13,993	15,670
Net Current Assets	**6,796**	**12,867**	**13,164**	**14,302**
Investments	**1,718**	**1,722**	**1,722**	**1,722**
Net Fixed Assets	**7,733**	**8,892**	**9,043**	**9,011**
Capital Work-in-Progress	*182*	*288*	*288*	*288*
Total Assets	**16,429**	**23,769**	**24,218**	**25,324**
Liabilities				
Borrowings	3,771	7,104	6,152	5,530
Deferred Tax Liability	372	507	536	572
Equity Share Capital	177	229	229	229
Face Value per share (Rs)	*2*	*2*	*2*	*2*
Reserves & Surplus*	12,110	15,930	17,301	18,993
Less: Misc. Exp. n.w.o.	-	-	-	-
Net Worth	**12,287**	**16,159**	**17,530**	**19,222**
Total Liabilities	**16,429**	**23,769**	**24,218**	**25,324**

Source: Company data, I-Sec Research

Table 22: Cash Flow Statement

(Rs mn, year ending March 31)

	FY08	FY09E	FY10E	FY11E
Operating Cash flow	**1,919**	**3,237**	**3,109**	**3,321**
Working Capital Changes	(1,033)	(5,737)	(327)	(1,128)
Capital Commitments	(900)	(1,265)	(152)	32
Free Cash Flow	**508**	**(3,769)**	**2,630**	**2,225**
Cash flow from Investing Activities	**-**	**-**	**-**	**-**
Increase/(Decrease) in Net Worth	(540)	1,646	(685)	(691)
Buyback of shares	-	-	-	-
Inc (Dec) in Borrowings	48	3,468	(923)	(586)
Extraordinary Items	**-**	**-**	**-**	**-**
Chg. in Cash & Bank balance	**(579)**	**334**	**(30)**	**10**

Source: Company data, I-Sec Research

Table 23: Key Ratios

(Year ending March 31)

	FY08	FY09E	FY10E	FY11E
Per Share Data (in Rs.)				
EPS(Basic Recurring)	9.9	14.5	12.6	15.5
Diluted Recurring EPS	7.8	11.1	12.6	15.5
Recurring Cash EPS	15.3	19.7	18.2	21.1
Dividend per share (DPS)	0.6	0.7	0.6	0.8
Book Value per share (BV)	141.6	143.3	155.5	170.5
Growth Ratios (%)				
Operating Income	26.3	50.3	9.2	10.8
EBITDA	28.8	41.9	9.1	10.4
Recurring Net Income	(5.9)	41.9	13.6	22.8
Diluted Recurring EPS	(27.6)	41.9	13.6	22.8
Diluted Recurring CEPS	66.0	29.4	(7.6)	15.9
Valuation Ratios (% YoY)				
P/E	10.5	7.4	6.5	5.3
P/CEPS	5.4	4.2	4.5	3.9
P/BV	0.6	0.6	0.5	0.5
EV / EBITDA	4.7	4.9	4.3	3.7
EV / Operating Income	0.5	0.5	0.4	0.4
EV / Operating FCF	21.1	(9.1)	7.0	8.4
Operating Ratio				
Operating expenses / Revenue	78.1	80.2	80.4	80.7
Other Income / PBT (%)	10.4	30.7	13.0	11.0
Effective Tax Rate (%)	36.6	32.1	34.3	34.3
NWC / Total Assets (%)	39.0	51.1	51.5	53.7
Inventory Turnover (days)	3.7	4.2	3.9	4.0
Receivables (days)	65.7	79.8	99.9	99.4
Payables (days)	73.8	71.1	81.9	83.2
D/E Ratio (x)	0.3	0.5	0.4	0.3
Return/Profitability Ratio (%)				
Recurring Net Income Margins C	3.8	3.6	3.8	4.2
ROCE	7.9	9.6	8.8	9.5
Core RoCE	12.3	13.2	11.4	12.2
RoNW	7.4	8.8	8.4	9.5
Core RoNW	13.7	13.8	12.2	13.2
Dividend Payout Ratio	7.5	5.9	4.5	5.4
Dividend Yield	0.7	0.6	0.7	1.0
EBITDA Margins	10.1	9.6	9.5	9.5

Source: Company data, I-Sec Research

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Equity Research
January 6, 2009

INDIA

Fertilisers

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We expect the fertiliser sector to post modest Q3FY09 earnings owing to falling DAP prices leading to inventory losses and lower-than-expected topline. Also, the trading segment is likely to have been impacted by the falling international fertiliser prices. International prices have significantly corrected owing to ongoing economic slowdown, fear of demand contraction and inventory glut. Globally, 12% of urea capacity has gone off-production, leading to fall in supply.

Fall in naphtha prices is beneficial for improvement in utilisation. At urea realisations of US$250/te provided by the new urea investment policy as a floor for incremental output, naphtha-based production would be viable even with naphtha cost at US$10/mmbtu as against US$7/mmbtu at present.

In the quarter, bond yields witnessed a significant fall, which augurs well for fertiliser bonds. Discount on fertiliser bonds narrowed, leading to likely reversal in mark-to-market (MTM) losses. Also, the Government issued further bonds with 7% and 6.2% coupons and 14-year duration in Q3FY09. Lower discount and allowance of repo transactions against fertiliser bonds has eased liquidity concerns for fertiliser companies.

- **Falling international fertiliser prices may lead to inventory loss in DAP.** In Q3FY09, international DAP prices fell significantly from US$1000/te to sub-400 levels. As the new DAP policy provides realisations based on international prices, we expect DAP manufacturing companies to report inventory losses in the quarter.
- **Cheaper naphtha prices augur well for debottlenecking viability.** Falling energy prices have improved viability of naphtha-based urea production. With naphtha at ~US$7/mmbtu at present, cost of urea production is expected to be ~US$185/te, providing EBITDA contribution of US$65/te (26%) for incremental capacity. Hence, this would act as a major relief for incremental capacity.
- **Falling yields positive; expect MTM loss reversal.** In the quarter, the 10-year G-Sec yields fell below 6% levels, leading to appreciation for fertiliser bonds, inline with other bonds. We expect companies such as Chambal Fertilisers & Chemicals holding fertiliser bonds to reverse MTM losses in the quarter.
- **Liquidity concerns ease** with lower discount and repo transactions being allowed on fertiliser bonds. Repo transactions are expected to have positive carry as coupon rate of fertiliser bonds is higher than repo rate, leading to improving liquidity for fertiliser companies.
- **I-Sec fertiliser universe** is expected to post 27 % growth in revenue; EBITDA is likely to grow 8.2% and adjusted PAT would increase a modest 5.4%.

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Table 1: Quarterly summary

Company (Rs mn)	Sales		EBITDA		PAT	
	OND08*	% Chg (YoY)	OND08*	% Chg (YoY)	OND08*	% Chg (YoY)
Chambal	10,576	31.0	1,800	25.8	643	13.6
GSFC	13,539	36.0	1,298	(7.1)	772	3.9
Nagarjuna	6,710	7.5	840	13.4	74	35.5
RCF	17,348	27.0	1,148	1.5	583	(3.1)
Sector aggregate	**48,173**	**27.0**	**5,087**	**8.2**	**2,071**	**5.4**

OND – October to December
Source: I-Sec Research

Gujarat State Fertilizers & Chemicals (Buy)

(QoQ chg: -20.5%; YTD chg: 5.3%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	H1FY09E	H1FY08	YoY (%)
Revenue	13,539	9,955	36	30,306	17,643	72
EBITDA	1,298	1,398	(7)	3,935	2,437	61
PBT	1,118	1,075	4	3,387	2,052	65
PAT (Adjusted)	772	743	4	2,297	1,356	69

Source: Company data, I-Sec Research

- Despite significant price drop in DAP prices owing to previous-year low prices and average DAP prices being higher in the quarter as against previous year, we estimate revenues to post 36% YoY growth. Further, we expect significant inventory losses in fertiliser DAP business on account of sharp fall in DAP prices in the quarter.
- The new DAP policy was a substantial change and provides IPP for indigenous production. However, this change has coincided with the ongoing global slowdown, leading to transient losses. We believe that the policy would be beneficial in the long term.
- Slowdown in the auto sector is expected to impact caprolactum prices as the raw material is used in production of tyres; however, margins are likely to be resilient owing to sharper fall in benzene prices.
- EBITDA is likely to decline 7% YoY over Q3FY09 vis-à-vis Q3FY08 due to inventory losses in DAP business.

Chambal Fertilisers & Chemicals (Hold)

(QoQ chg: -3.4%; YTD chg: 5.9%)

Quarterly estimates#

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	H1FY09	H1FY08	YoY (%)
Revenues	10,576	8,073	31	25,343	13,159	93
EBITDA	1,800	1,432	26	2,936	2,278	29
PBT	918	870	6	1,747	982	78
PAT (Reported)	743	634	17	713	1,211	(41)
PAT (Adjusted)	643	566	14	1,233	649	90

Standalone numbers
Source: Company data, I-Sec Research

- Chambal is expected to reverse MTM losses of up to Rs100mn on fertiliser bonds. Notably, yields on fertiliser bonds have fallen, inline with G-Sec yield, resulting in sharp rise in fertiliser bond prices.

- The company is likely to ramp up urea production to 2.1mnte in FY09 from 2mnte in FY08, given the IPP benefit on extra production. Though international urea prices have fallen, we believe that owing to lower naphtha prices, debottlenecking is an attractive proposition.
- We believe that as per the conservative accounting policy, the company would account for the urea policy benefit in Q4FY09, given that it is eligible for benefit only if it exceeds the notified cut-off production, which is ~1.85mnte.
- Interest cost of two double-hull Aframax ships to rise post acquisition vis-à-vis Q3FY08, offset by rise in revenue of the shipping business.
- Owing to change in accounting policy in Q1FY09, from booking profit/loss arising from foreign exchange fluctuation on borrowings towards acquisition of fixed assets to adjusting such fluctuation in the carrying value of assets, the company's profit & loss account is insulated from rupee depreciation going forward. Notably, the company has US dollar-denominated external commercial borrowing in its shipping business.

Nagarjuna Fertilisers & Chemicals (Sell)

(QoQ chg: -25.3%; YTD chg: 4.7%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	H1FY09E	H1FY08	YoY (%)
Revenue	6,710	6,242	8	12,894	9,804	32
EBITDA	840	741	13	1,628	1,524	7
PBT	111	81	37	282	212	33
PAT (Reported)	74	55	35	152	143	6
PAT (Adjusted)	74	55	35	208	143	46

Source: Company data, I-Sec Research

- Revenue growth is likely to be driven by the trading business and we expect the company to post growth of 8% YoY in the topline.
- We expect 13% YoY growth in EBITDA; however, EBITDA margin is likely to improve owing to falling energy prices.
- Adjusted PAT would grow 35% YoY despite a 13% YoY jump in EBITDA owing to low profitability base and stable interest cost.

Rashtriya Chemicals & Fertilizers (Hold)

(QoQ chg: -7.6%; YTD chg: 5.5%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	H1FY09E	H1FY08	YoY (%)
Revenues	17,348	13,660	27	41,749	23,706	76
EBITDA	1,148	1,131	2	2,153	1,052	105
PBT	883	919	(4)	1,584	722	119
PAT (Reported)	583	601	(3)	1,034	467	121
PAT (Adjusted)	583	601	(3)	1,035	467	122

Source: Company data, I-Sec Research

- Revenues are likely to grow 27% YoY on the back of increased trading volume despite lower realisations in Rashtriya Chemicals & Fertilizers' (RCF) existing chemicals business.

- Falling international fertiliser prices are likely to lead to sharp inventory losses for RCF in NPK business. However, these losses would be transient.
- Methanol prices have dropped significantly in the Mumbai market, inline with global falling natural gas prices and average prices being down 20% QoQ and 28.7% YoY. We believe this would be a significant negative for the company, which partially utilises regulated gas for manufacture of chemicals.

Equity Research

January 9, 2009

BSE Sensex: 9406

INDIA

FMCG

Striding ahead

Indian FMCG is likely to register robust growth of 16.6% YoY aided by increased price realisations across most categories. However, we expect volume growth to decelerate, especially in categories that are discretionary. Lower raw material costs will be a boon. However, due to inventory of raw materials & forward contracts, benefits of lower prices will only start fully reflecting from the March quarter. In the current quarter, we expect the sector to post PAT growth of 10.7% YoY. While we believe that commodity prices cooling down would be a relief, significant margin expansion may not be an actuality for all companies in the sector. We prefer ITC, Marico, Nestlé and GlaxoSmithKline Consumer Healthcare (GSKCH).

- **Sustaining robust growth.** The FMCG industry is likely to sustain robust growth, driven by increased realisations across most categories. However, volume growth is expected to decelerate in categories that are discretionary in nature (such as Paints) and those that have witnessed high inflation (such as Toilet Soaps). High sales growth in this environment indicates resilience of consumer spend on FMCG. Overall sector sales are likely to grow 16.6% YoY. We expect Hindustan Unilever (HUL) to continue its strong performance and post YoY sales growth of 17.6%. We expect ITC to post muted sales growth of ~10% due to downturn in Hotels.
- **Discretionary categories could be under stress.** With expected slowdown in GDP growth (especially in manufacturing & services) in FY09E and FY10E, we expect significant negative consumer sentiment and, thereby, discretionary categories such as Paints, Jewellery and top-end skin creams being impacted.
- **Margins still under pressure…**In spite of softening of commodity prices, most companies will still face input cost pressure in the December quarter, mainly due to higher inventory of raw materials and forward contracts. Despite increased realisations, we expect margins to decline YoY (while improving QoQ).
- **…but expected to improve, going forward.** While commodity prices cooling down will be a relief to the sector, significant margin expansion may not be an actuality for all companies. While categories facing intense competition (Toilet Soaps, Biscuits, Shampoo etc) will resort to higher sales promotion & ad expenses, other categories such as Paints and Edible Oil may reduce prices. Highly brand-loyal categories (such as Coconut Oil, Oral Care, Tobacco, Alcohol, Skin Creams and Baby Foods) with little competition may benefit with reversal in commodity prices.
- **We prefer ITC, Marico, Nestlé & GSKCH.** We favour companies present in categories with a mix of favourable parameters such as: i) high volume growth (Biscuits, Noodles, Edible Oil & Shampoo), ii) strong entry barriers (Cigarettes, Alcohol & Baby Food), iii) high brand loyalty (Cigarettes, Alcohol, Baby Food, Health Food Drinks, Sanitary Napkins & Oral Care), iv) lower competitive intensity (Cigarettes, Alcohol, Baby Food & Coconut Oil), v) niche positioning (*Saffola* in Edible Oil, *Navratna* in Hair Oil). Based on these and current valuations, we prefer ITC, Marico, Nestlé & GSKCH.

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Table 1: Quarterly summary

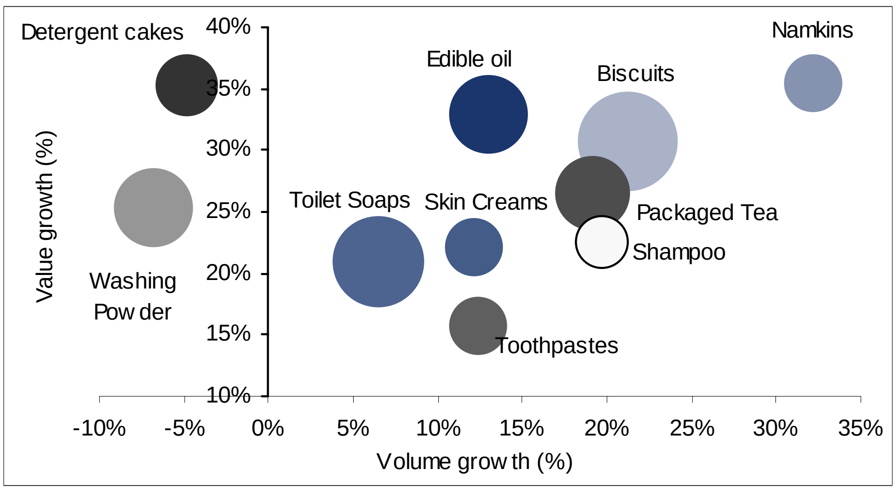
(Rs mn)

Company	Sales			EBITDA			PAT		
		% Chg			% Chg			% Chg	
	OND'08*	(YoY)	(QoQ)	OND'08*	(YoY)	(QoQ)	OND'08*	(YoY)	(QoQ)
Asian Paints (Consolidated)	13,543	15.0	(8.2)	1,979	6.6	(5.2)	1,251	5.2	(5.5)
Britannia (Standalone)	8,345	26.9	(0.8)	730	22.1	(3.3)	558	16.0	(4.4)
Colgate-Palmolive	4,190	14.0	1.6	623	1.9	21.8	693	14.6	9.1
Godrej Consumer Products (Consolidated)	3,378	23.8	(3.0)	594	4.5	43.8	489	13.7	40.9
GSKCH	3,500	23.2	(17.8)	303	(15.3)	(54.4)	298	8.4	(43.8)
HUL	44,708	17.6	8.8	7,648	12.6	36.7	6,238	12.6	42.5
ITC	38,354	9.3	(0.7)	15,721	10.4	29.4	8,853	6.6	10.5
Marico (Consolidated)	6,353	25.5	5.3	749	16.6	1.4	485	5.7	3.0
Nestlé	11,182	24.8	0.7	1,898	20.4	(9.6)	1210	24.8	(8.9)
P&G Health & Hygiene	2,429	25.1	28.6	779	20.7	34.2	643	38.9	30.8
Total	**135,981**	**16.6**	**1.7**	**31,025**	**11.2**	**20.4**	**20,720**	**10.7**	**14.4**

*October-December '08

Source: I-Sec Research

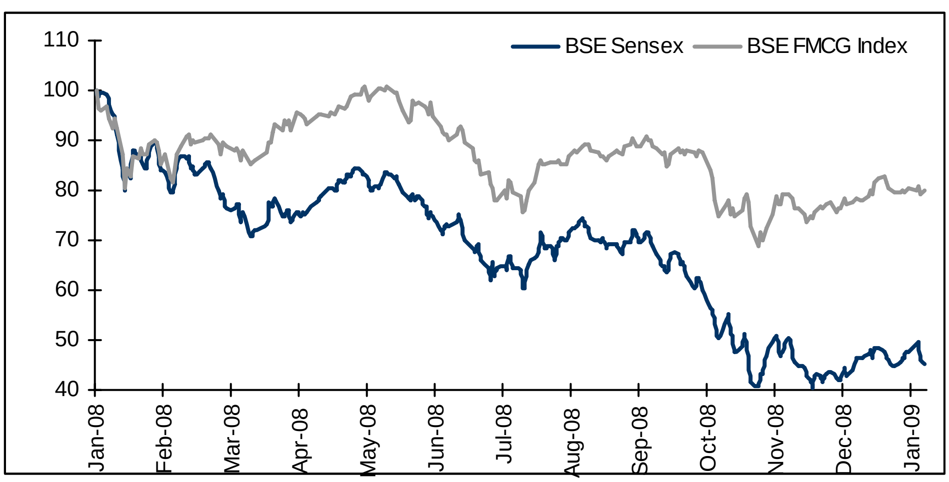
Chart 1: Top ten categories – Volume versus value growth (Oct-Nov '08)



Note: Size of bubble indicates size of category

Source: ACNielsen

Chart 2: FMCG index versus BSE Sensex



Source: I-Sec Research

Asian Paints (Buy)

(QoQ chg: -11.7%; YTD chg: 0.5%)

Quarterly estimates (Consolidated)

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	9MFY09E	9MFY08	YoY (%)
Revenues	13,543	11,776	15.0	(8.2)	40,716	32,713	24.5
EBITDA	1,979	1,856	6.6	(5.2)	5,789	5,025	15.2
PBT	1,892	1,783	6.1	(6.0)	5,521	4,901	12.6
PAT	1,251	1,189	5.2	(5.5)	3,781	3,364	12.4

Source: Company data, I-Sec Research

- Volume growth in Q3FY09E expected to be significantly lower on account of higher inventory stocking in the previous quarter and weak consumer sentiment. However, due to sharp price increases in previous quarters (although the company reduced prices in Q3FY09), we expect Asian Paints to post 15% increase in sales in the quarter.
- Expect material cost-to-sales to decrease 280bps QoQ. However, due to a much lower base, expect PAT growth to be muted at 5.2% YoY.
- Going forward, we believe that the company would face volume pressure, albeit with a lag, affected by slowdown in real estate and construction. Being a discretionary category, we expect volume growth to sharply plunge in FY10E.
- We continue to be positive on the company (although we expect the stock to be under pressure in the near term) as it has an extremely robust business model (high entry barriers, well-known brands and no significant competition) backed by high-quality management.

Britannia Industries (Buy)

(QoQ chg: 1.7%; YTD chg: -2.0%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	9MFY09E	9MFY08	YoY (%)
Revenues	8,345	6,574	26.9	(0.8)	23,766	18,948	25.4
EBITDA	730	598	22.1	(3.3)	2,080	1,747	19.0
PBT	675	548	23.2	(5.2)	1,929	1,671	15.4
PAT	558	481	16.0	(4.4)	1,585	1,377	15.1

Source: Company data, I-Sec Research

- Britannia has been riding the strong growth in Biscuits, which is the largest FMCG category and among the fastest-growing, with volume CAGR of 15.5% over FY06-08. While Britannia's market share may not increase, it is expected to ride on high-category growth and sales likely to accelerate 27% YoY in Q3FY09E.
- The company has taken steps to improve realisations across entire portfolio via directly raising prices or reducing weight of packs. YTDFY09 weighted price realisations stands at ~9%. This would enable the company offset increase in prices of key inputs. We expect operating margins to marginally improve going forward.
- Competitive pressure has mellowed from ITC, which is now increasing focus on profitability vis-à-vis market share growth. With launch of personal products, ITC will attempt to make older categories in the Foods business profitable at the earliest. In fact, with lowering of promotional spends, ITC's market share in Biscuits has dropped to 8.6% in November '08 from 9.8% in March '08.

Colgate-Palmolive (Buy)

(QoQ chg: 4.2%; YTD chg:-5.3%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	9MFY09E	9MFY08	YoY (%)
Revenues	4,190	3,675	14.0	1.6	12,820	11,120	15.3
EBITDA	623	611	1.9	21.8	2,253	2,078	8.4
PBT	840	787	6.8	16.5	2,474	2,259	9.5
PAT	693	605	14.6	9.1	2,047	1,761	16.3

Source: Company data, I-Sec Research

- On the back of robust growth of the Toothpaste category and market share gains in Toothbrush and Toothpowder segments, we expect Colgate's revenues to grow 14% YoY in Q3FY09E.
- As per ACNielsen Retail Audit, market share in the Toothbrush category marginally improved 248bps YoY to 38.4% over October-November '08. Over the same period, Colgate's market share in Toothpowders increased a sharp 152bps YoY to 47.0%.
- Driven by ~10% volume growth, we expect the company to grow top-line and bottom-line of over 15% each through FY09-11E. We do not expect any increased competitive activity from HUL in the near term; entry of GSKCH in the category will also not be of any significance. However, the key threats to the company remain entry of P&G or ITC in the category and slowdown in the rural economy.

GlaxoSmithKline Consumer Healthcare (Buy)

(QoQ chg: -7.5%; YTD chg: -1.1%)

Quarterly estimates

(Rs mn, year ending December 31)

	Q4CY09E	Q4FY08	YoY (%)	QoQ (%)	CY08	CY07	YoY (%)
Revenues	3,500	2,841	23.2	(17.8)	15,695	12,848	22.2
EBITDA	303	357	(15.3)	(54.4)	2,377	2,313	2.8
PBT	439	412	6.4	(43.6)	2,772	2,450	13.1
PAT	298	275	8.4	(43.8)	1,856	1,626	14.2

Source: Company data, I-Sec Research

- We expect GSKCH to clock-in robust sales growth of 23.2% YoY in Q4CY08E on the back of a lower base (when inventory was reduced before price hike).
- The company's market share declined a marginal 100bps YoY to 63% in the Beverages category. Growth in the Biscuits segment is expected to be robust.
- Lower prices of barley and milk powder will result in material cost-to-sales reducing 170bps QoQ. However, due to significantly lower prices of raw material previous year, we expect EBITDA margin to decline 392 bps YoY.

Godrej Consumer Products (Hold)

(QoQ chg: 17.1 %; YTD chg: -9.8 %)

Quarterly estimates (Consolidated)

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	9MFY09E	9MFY08	YoY (%)
Revenues	3,378	2,728	23.8	(3.0)	10475	8331	25.7
EBITDA	594	568	4.5	43.8	1,503	1,581	(4.9)
PBT	604	506	19.3	41.0	1,519	1,389	9.4
PAT	489	430	13.7	40.9	1,228	1,187	3.4

Source: Company data, I-Sec Research

- GCPL's sales are likely to grow 23.8% in Q3FY09E. However, this will mainly be price-led as volume growth is expected to be muted due to loss in market share in Hair Colour and flat category growth in Toilet Soaps.
- The company is expected to benefit from falling prices of key raw materials such as Palm Oil. However, we believe this benefit will be marginal as Toilet Soaps is an extremely competitive category and the company would require passing a significant part of the benefits to trade & consumers.
- The Hair Colour category continues to lose market share, which dipped 256bps YoY to 32.2% in October-November '08.

Hindustan Lever (Hold)

(QoQ chg: 5.5%; YTD chg: 0.16%)

Quarterly estimates

(Rs mn, year ending December 31)

	Q4CY09E	Q4FY08	YoY (%)	QoQ (%)	CY08	CY07	YoY (%)
Revenues	44,708	38,024	17.6	8.8	167,525	139,244	20.3
EBITDA	7,648	6,792	12.6	36.7	24,447	20,863	17.2
PBT	7,798	6,844	13.9	39.0	24,792	21,603	14.8
PAT	6,238	5,540	12.6	42.5	19,803	17,397	13.8

Source: Company data, I-Sec Research

- HUL is expected to sustain its strong growth registered in the past four quarters. On the back of strong price-led growth in Toilet Soaps and Detergents, the company is expected to post 17.6% YoY increase in sales.
- As per ACNielsen Retail Audit, HUL's value market share in the Toilet Soaps category declined 458bps YoY to 49.7% in October-November '08.
- As per ACNielsen Retail Audit, HUL lost market share in Skin Creams (down 300bps YoY to 51.1%) largely due to *Fair & Lovely*, which declined 304bps YoY to 32% in October-November '08
- While prices of key raw materials have dipped, we expect significant benefits to accrue only from Q1CY09E.

ITC (Buy)

(QoQ chg: 1.39%; YTD chg: -2.1%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	9MFY09E	9MFY08	YoY (%)
Revenues	38,354	35,080	9.3	(0.7)	116,321	101,410	14.7
EBITDA	15,721	14,245	10.4	29.4	43,299	41,346	4.7
PBT	13,116	12,256	7.0	10.3	36,146	34,876	3.6
PAT	8,853	8,307	6.6	10.5	24,380	23,845	2.2

Source: Company data, I-Sec Research

- Cigarette volumes are expected to decline 3% YoY in Q3FY09E. However, due to the complete change in product mix and recent price hikes, we expect the Cigarette business to grow 16.6% YoY, mainly on account of weighted price hike of ~7.5% and change in product mix.
- The Non-tobacco FMCG business losses at Rs1.1bn will be inline with the past three quarters'.
- Due to slowdown in Hotels, we expect the business PBIT to decline 32%.
- Due to lower exports of soya, we expect sales growth in the Agri division to be muted. However, due to sharp rise in margins of tobacco exports, we expect robust profit growth in the Agri division.

Marico (Buy)

(QoQ chg: 5.2%; YTD chg: -22.2%)

Quarterly estimates (Consolidated)

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	9MFY09E	9MFY08	YoY (%)
Revenues	6353	5062	25.5	5.3	18,398	14,392	27.8
EBITDA	749	643	16.6	1.4	2,245	1,950	15.1
PBT	599	542	10.5	2.8	1,794	1,604	11.8
PAT	485	459	5.7	3.0	1,420	1,284	10.6

Source: Company data, I-Sec Research

- Expect the company to register robust consolidated sales growth of 25.5% in Q3FY09.
- As per the ACNielsen Retail Sales Audit, market share of Coconut Oil category increased 432bps YoY to 54.7% in October-November '08. Market share of Hair Oils increased 29bps to 17.1% in October-November '08.
- Due to higher input prices and high base effect, we expect operating margins to decline 90bps YoY, resulting in muted net profit growth of 5.7% YoY in Q3FY09E.

Nestlé India (Buy)

(QoQ chg: -11.0%; YTD chg: -1.8%)

Quarterly estimates

(Rs mn, year ending December 31)

	Q4CY09E	Q4FY08	YoY (%)	QoQ (%)	CY08	CY07	YoY (%)
Revenues	11,182	8,957	24.8	0.7	43,602	35,101	24.2
EBITDA	1,898	1,576	20.4	(9.6)	8,490	7,020	20.9
PBT	1,753	1,465	19.7	(8.8)	1,753	1,465	19.7
PAT	1210	970	24.8	(8.9)	1,205	970	24.3

Source: Company data, I-Sec Research

- We expect Nestlé's net domestic sales growth to continue at an accelerated pace, with YoY growth of 24.8% in Q4CY09E. Further, we expect strong growth in Milk Powder and Noodles with some deceleration of growth in Chocolates.
- As per the ACNielsen Retail Audit Report, Milk Powder registered 443bps YoY increase in market share to 48.3% in October-November '08.
- Also, Noodles' market share increased 198bps YoY to 62.6% in October-November '08.
- While raw material prices are expected to remain firm in the current quarter (due to existing inventory), we expect them to benefit from falling prices of Milk Powder and Coffee.

P&G Health and Hygiene (Buy)

(QoQ chg: 3.5%; YTD chg: -6.1%)

Quarterly estimates

(Rs mn, year ending June 31)

	Q2FY09E	Q2FY08	YoY (%)	QoQ (%)	H1FY09E	H1FY08	YoY (%)
Revenues	2,429	1,941	25.1	28.6	4,317	3,454	25.0
EBITDA	779	646	20.7	34.2	1,360	1,124	21.0
PBT	794	653	21.7	30.2	1,404	1,149	22.2
PAT	643	463	38.9	30.8	1,135	808	40.4

Source: Company data, I-Sec Research

- We expect P&G Health and Hygiene's net sales growth to continue at an accelerated pace, with YoY growth of 25.1% in Q2CY09E. Further, we expect strong growth in both key categories – Sanitary Napkins and Rubefacients.
- As per the ACNielsen Retail Audit Report, Sanitary Napkins' registered 234bps YoY increase in market share to 48.5% in October-November '08.
- Lower effective tax rate (from 29% in Q2FY08 to 19% in Q2FY09) due to benefits from the Baddi plant will result in PAT sharply increasing (38.9% YoY) to Rs643mn in Q2FY09E.

ANALYST CERTIFICATION

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Equity Research

January 7, 2009

Media

Weak link

Top picks

Zee News
Sun TV Network
TV Today Network

We expect Q3FY09 to be the worst quarter in FY09 for Media companies as advertisements slow down owing to uncertainty, but costs continue to escalate. The I-Sec Media universe is expected to report a revenue growth of 17.7%, whereas EBITDA is expected to decline 4.4% owing to rise in costs. Print companies will witness the maximum increase in raw material costs in Q3FY09 as inventory bought at peak prices gets accounted for in Q3FY09. Print companies are expected to witness significant slowdown in ad revenue in Q3FY09. Broadcasting companies will continue to witness costs pressures owing to programming and carriage fee. Zee Entertainment Enterprises' (ZEEL) margin will slightly improve owing to the strike by Federation of Western India Cine Employees (FWICE), whereas Zee News (ZNL) and Sun TV Network will likely report strong results on the back of strong ad growth. We maintain ZNL, Sun TV Network and TV Today Network (TVTN) as our top picks in the sector.

- **Newsprint prices decline.** Domestic newsprint prices declined 25% in Q3FY09 from Rs40k/MT in September '08 to Rs30k/MT in December '08. Internationally, newsprint prices remained stable at ~US$960/MT due to the quarterly contracts signed. However, prices are expected to decline further in Q4FY09 due to lower demand and further dip in energy prices.
- **FWICE strike impact.** The three weeks long strike by TV production workers of FWICE, which led to black-out of fresh content, will result in lower ad growth for general entertainment channels (GECs). However, the support from advertisers for two of the three weeks will lead to expansion of EBITDA margin. The increase in FWICE employee's pay package is likely to lead to 2-3% rise in programming costs for Hindi GECs.
- **Factors to watch out for in Q3 results are:** i) average realised newsprint price by print companies, ii) impact of the three-week black-out on quarterly results of broadcasting companies, iii) monetisation of share gains in new business segment of ZNL and iv) growth in DTH-led pay TV revenues for broadcasters.

Quarterly summary

(Rs mn)

Company	Sales			EBITDA			PAT		
	OND*-08	% Chg		OND*-08	% Chg		OND*-08	% Chg	
		(YoY)	(QoQ)		(YoY)	(QoQ)		(YoY)	(QoQ)
Balaji Telefilms	570	(28.7)	(44.9)	71	(73.3)	(69.3)	70	(62.8)	(61.3)
ENIL	1,353	0.0	23.1	185	(9.7)	NM	32	(23.8)	NM
HT Media	3,537	10.7	5.8	592	0.0	48.6	309	(16.2)	89.8
IBN 18 Broadcast	631	NM	105.1	38	NM	NM	(38)	NM	NM
Jagran Prakashan	2,163	8.7	3.7	314	(27.4)	(17.3)	174	(32.7)	(23.2)
NDTV	1,632	60.0	35.7	(751)	NM	NM	(892)	NM	NM
Prime Focus	891	60.7	(0.1)	189	45.4	2.4	46	(23.0)	(14.0)
Sun TV Network	2,739	25.8	15.2	2,029	18.7	15.1	1,205	17.8	11.2
TV Today	798	15.0	19.3	217	(11.0)	78.3	144	(13.9)	82.3
Zee Entertainment	5,850	12.9	2.3	1,916	22.2	28.8	1,173	6.9	18.3
Zee News	1,388	45.2	8.7	284	29.8	34.5	161	25.4	39.8

*October November December '08; NM – Not meaningful
Source: I-Sec Research

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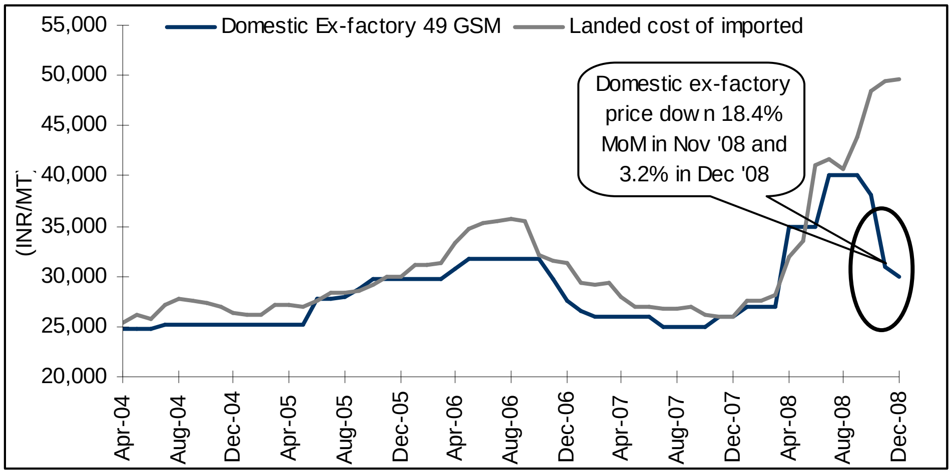
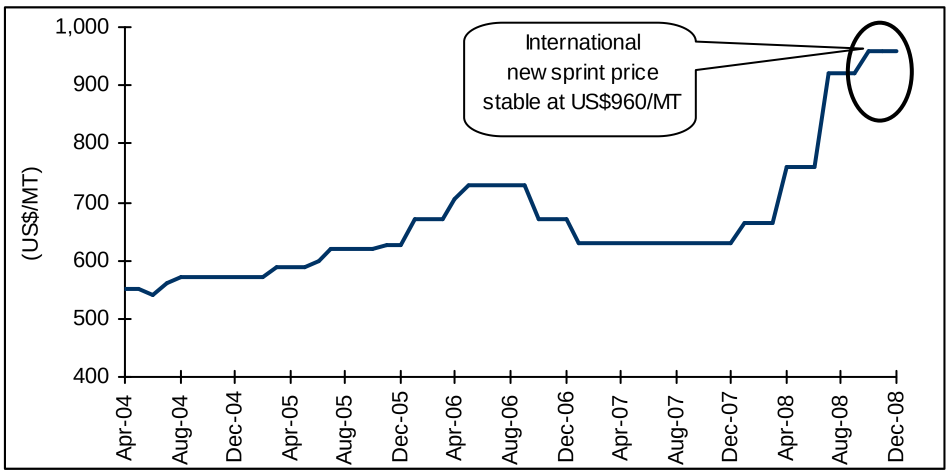
Chart 1: Domestic newsprint prices dip 25% in Q3FY09



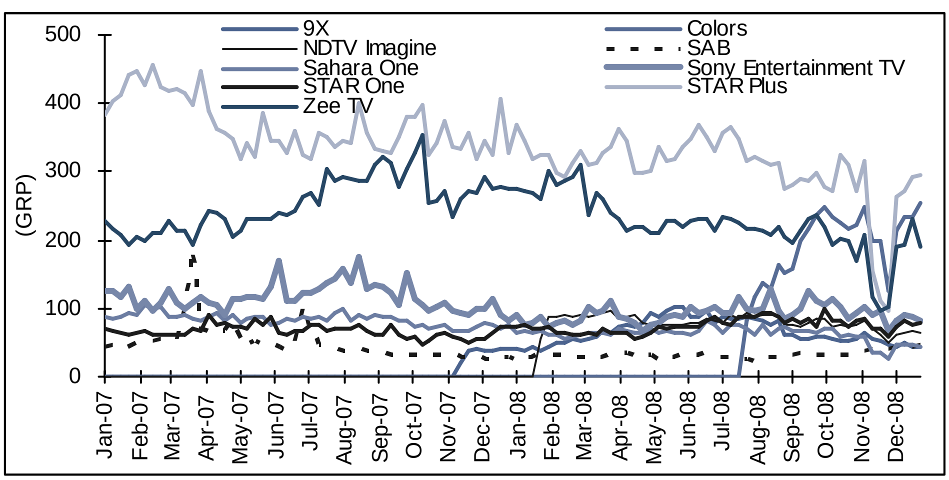
Source: I-Sec Research

Chart 2: International newsprint prices – Signs of stabilising



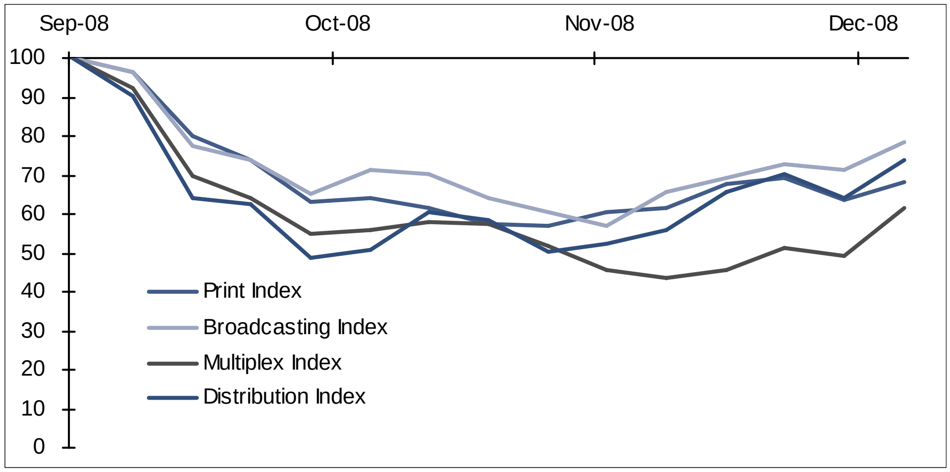
Source: I-Sec Research
* For Canadian newsprint

Chart 3: GRPs of Hindi GECs – Increasing fragmentation



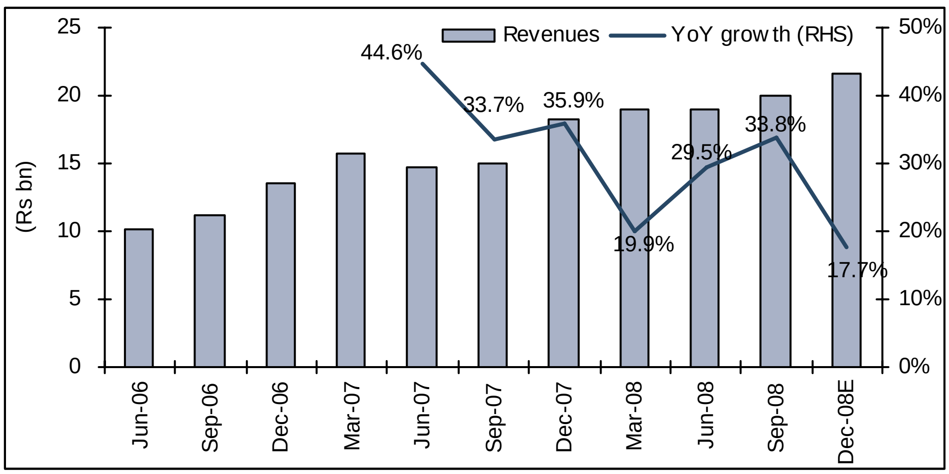
Source: TAM, CS4+; Market HSM, I-Sec Research

Chart 4: Share price performance in Q3FY09 – Across-the-board decline



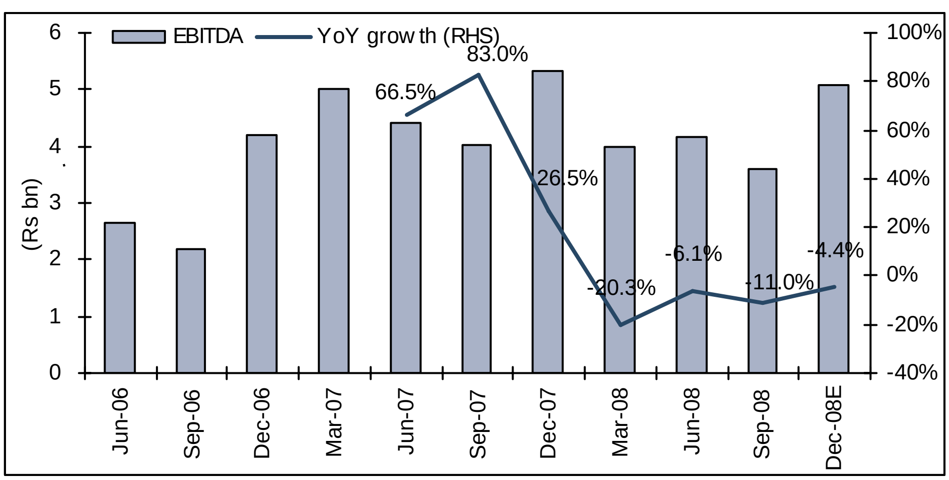
Source: Bloomberg, I-Sec Research

Chart 5: I-Sec Media universe – YoY revenue growth lowest in past seven quarters



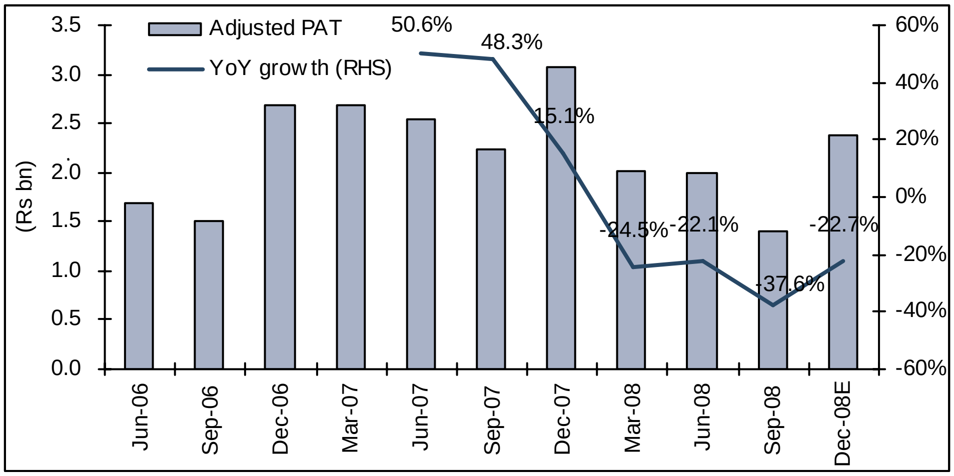
Source: Company data, I-Sec Research

Chart 6: I-Sec Media universe – YoY EBITDA decline to continue in Q3FY09



Source: Company data, I-Sec Research

Chart 7: I-Sec Media universe – Q3FY09 PAT to decline 22.7% YoY



Source: Company data, I-Sec Research

Balaji Telefilms (Hold)

(QoQ chg: -44.7%; YTD chg: 11.2%)

Quarterly estimates - Standalone

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Revenues	570	800	(28.7)	(44.9)	1,950	1,525	27.9
EBITDA	71	266	(73.3)	(69.3)	549	625	(12.3)
PBT	100	273	(63.3)	(61.5)	587	651	(9.8)
PAT	70	188	(62.8)	(61.3)	404	447	(9.7)

*April – September; Source: Company data, I-Sec Research

- Balaji Telefilms' (BTL) Q3FY09 revenues are expected to decrease 28.7% YoY and 44.9% QoQ due to reduction in number of programming hours, mostly owing to the three-week blackout of fresh programming on Hindi GECs.
- We estimate the number of Hindi programming hours in Q3FY09 to be ~170hrs versus 305.5hrs in Q2FY09. This decline was due to: i) black-out of fresh programming on Hindi GECs for three weeks, ii) end of *Kyunki Saas Bhi Kabhi Bahu Thi* (on *STAR Plus*) and *Kahaani Hamaray Mahabhart Ki* (on *9X)* during the quarter and iii) Q2FY09 featured other programmes such as reality show *Kaun Jeetega Bollywood ka Ticket.*
- As a result of the decline in number of programming hours, EBITDA is likely to dip 73.3% YoY and 69.3% QoQ.
- We expect Q3FY09E PAT to dip 62.8% YoY and 61.3% QoQ to Rs85mn.

Entertainment Network India (Buy)

(QoQ chg: -11.3%; YTD chg: 21.3%)

Quarterly estimates – Standalone

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Revenues	735	680	8.0	19.4	1,186	940	26.2
EBITDA	218	189	15.8	157.6	188	148	26.8
PBT	95	79	19.8	NM	(50)	10	(585.6)
PAT	104	81	28.7	NM	(32)	11	(404.9)

*April – Sep; Source: Company data, I-Sec Research

Quarterly estimates – Consolidated

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Revenues	1,353	1,352	0.0	23.1	2,168	1,549	40.0
EBITDA	185	205	(9.7)	NM	(31)	(67)	NM
PBT	9	45	(81.3)	NM	(333)	(258)	NM
PAT	32	42	(23.8)	NM	(262)	(249)	NM

*April – Sep; Source: Company data, I-Sec Research

- We expect Entertainment Network India's (ENIL) Q3FY09 standalone (radio) revenues to increase 8% YoY and 19.4% QoQ. Consolidated revenues are estimated to remain flat YoY, with out-of-home (OOH) revenues expected to increase 11.2% YoY.
- Standalone EBITDA is likely to grow 15.8% YoY and 157.6% QoQ to Rs218mn. We expect sharp improvement in profitability in the radio business with PAT estimated at Rs104mn.
- Consolidated EBITDA is estimated at Rs185mn, while losses from OOH business will continue to depress profitability at the consolidated level.

HT Media (Hold)

(QoQ chg: -33.6%; YTD chg: 1.9%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Revenues	3,537	3,194	10.7	5.8	6,589	5,543	18.9
EBITDA	592	592	0.0	48.6	1,062	1,040	2.1
PBT	455	521	(12.7)	83.1	814	927	(12.2)
PAT	309	369	(16.2)	89.8	540	661	(18.3)

*April – Sep; Source: Company data, I-Sec Research

- We estimate HT Media's Q3FY09 revenue growth to slow down to 10.7% YoY and 5.8% QoQ. Ad revenues are expected to grow at 12% YoY, driven by 35% YoY growth in Hindi ad revenues, while English ad revenues are expected to grow at 8% YoY.
- We expect EBITDA to grow 48.6% QoQ due to lower ad spends, but it will likely remain flat YoY. Raw material (newsprint) costs are expected to increase 26.2% YoY and 6% QoQ.
- We estimate Q3FY09E PAT to dip 16.2% YoY, but increase 89.8% QoQ to Rs309mn.

IBN18 Broadcast (Hold)

(QoQ chg: 6.8%; YTD chg: 7.6%)

Quarterly estimates – Standalone

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Revenues	457	388	18.0	50.1	602	476	26.6
EBITDA	69	61	11.6	NM	(97)	(45)	NM
PBT	28	23	18.9	NM	(185)	(89)	NM
PAT	25	18	37.5	NM	(203)	(99)	NM

*April – Sep; Source: Company data, I-Sec Research

Quarterly estimates – Consolidated

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09E*	YTDFY08*	YoY (%)
Revenues	631	388	NM	105.1	609	476	NM
EBITDA	38	61	NM	NM	(157)	(45)	NM
PBT	(33)	23	NM	NM	(261)	(89)	NM
PAT	(38)	18	NM	NM	(279)	(99)	NM

*April – Sep; Source: Company data, I-Sec Research

- We expect IBN18 Broadcast's standalone Q3FY09E revenues (only *CNN-IBN*) to increase 18% YoY and 50.1% QoQ. On a standalone basis, we expect EBITDA to rise 11.6% YoY to Rs69mn and PAT to increase 37.5% YoY to Rs25mn.
- We expect *IBN7* to be consolidated with IBN18 Q3FY09 onwards. On a consolidated basis (including *CNN-IBN*, *IBN7* and *IBN Lokmat*), we estimate revenues of Rs631mn, EBITDA of Rs38mn and a net loss of Rs28mn.
- The consolidated numbers are not comparable YoY or QoQ.

Jagran Prakashan (Buy)

(QoQ chg: -9.0%; YTD chg: 0.4%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Revenues	2,163	1,990	8.7	3.7	4,151	3,606	15.1
EBITDA	314	433	(27.4)	(17.3)	876	905	(3.2)
PBT	259	386	(32.9)	(22.6)	800	843	(5.1)
PAT	174	259	(32.7)	(23.2)	543	567	(4.2)

*April - Sep
Source: Company data, I-Sec Research

- We expect Jagran Prakashan to register 8.7% YoY and 3.7% QoQ revenue growth in Q3FY09E. Advertising has significantly slowed down in Q3FY09.
- EBITDA is expected to decline 27.4% YoY and 17.3% QoQ due to higher newsprint costs. We expect EBITDA margin to decline 370bps QoQ.
- We estimate PAT to dip 32.7% YoY and 23.2% QoQ to Rs174mn.

ICICI Securities Limited has been mandated for rendering advisory services to Jagran Prakashan Limited. This report is prepared on the basis of publicly available information.

NDTV (Buy)

(QoQ chg: -33.0%; YTD chg: -1.4%)

Quarterly estimates – Standalone

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Revenues	892	892	-	20.7	1,589	1,287	23
EBITDA	58	213	(72.7)	NM	(43)	68	(163)
PBT	(11)	148	(107.1)	NM	60	(22)	NM
PAT	(16)	71	(122.4)	NM	5	27	(81)

*April – Sep; Source: Company data, I-Sec Research

Quarterly estimates – Consolidated

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Revenues	1,632	1,020	60.0	35.7	2,827	1,419	99.2
EBITDA	(751)	(109)	NM	NM	(1,670)	(241)	NM
PBT	(880)	(193)	NM	NM	(1,929)	(328)	NM
PAT	(892)	(320)	NM	NM	4,375	(400)	NM

*April – Sep; Source: Company data, I-Sec Research

- NDTV's Q3FY09E standalone revenues are expected to increase 20.7% QoQ and remain flat YoY. We expect NDTV to turn EBITDA positive as a standalone entity in Q3FY09, but to generate a net loss of Rs16mn.
- On a consolidated basis, NDTV is expected to report 60% YoY growth and 35.7% QoQ growth in revenues.
- NDTV's revenues from the entertainment business are expected to grow 59.7% QoQ, while EBITDA losses in the entertainment business are expected to decline from ~Rs900mn in Q2FY09 to ~Rs800mn in Q3FY09.
- NDTV is likely to register negative consolidated EBITDA of Rs751mn and a net loss of Rs892mn, as a result of continued losses in the entertainment business.

Prime Focus (Hold)

(QoQ chg: -51.9%; YTD chg: 36.8%)

Quarterly estimates - Consolidated

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Revenues	891	555	60.7	(0.1)	1,742	1,160	50.1
EBITDA	189	130	45.4	2.4	382	369	3.5
PBT	65	80	(19.4)	(7.2)	188	258	(27.3)
Minority interest	(0.4)	0.3	(227.3)	NA	6	20	(70.5)
PAT	46	59	(23.0)	(14.0)	156	191	(18.4)

*April – Sep; Source: Company data, I-Sec Research

- We estimate Prime Focus's Q3FY09 consolidated revenues to increase 60.7% YoY and to remain flat QoQ. Revenues in the UK subsidiary, VTR Plc, are expected to grow 95% YoY, but decline 1% sequentially.
- We expect consolidated EBITDA to grow 45.4% YoY and 2.4% QoQ.
- Consolidated PAT is estimated to dip 14% QoQ and 23% YoY to Rs45.5mn due to higher interest costs and lower other income.

Sun TV Network (Buy)

(QoQ chg: -3.3%; YTD chg: 1.3%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Revenues	2,739	2,178	25.8	15.2	4,615	3,968	16.3
EBITDA	2,029	1,710	18.7	15.1	3,446	2,928	17.7
PBT	1,865	1,565	19.1	13.0	3,219	2,709	18.8
PAT	1,205	1,023	17.8	11.2	2,109	1,732	21.7

*April - Sep
Source: Company data, I-Sec Research

- Sun TV Network's Q3FY09 revenues are expected to increase 25.8% YoY and 15.2% QoQ on the back of 70% QoQ growth in income from pay channels, driven by increasing DTH subscription revenues. Pay TV revenues, which sequentially declined ~10% in H1FY09, will likely rebound in H2FY09.
- EBITDA is likely to grow 18.7%% YoY and 15.1% QoQ, while EBITDA margin is expected to remain stable at ~74%.
- We expect Q3FY09 PAT to grow 17.8% YoY and 11.2% QoQ to Rs1,205mn.

TV Today (Buy)

(QoQ chg: 23.8%; YTD chg: 0.3%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Revenues	798	694	15.0	19.3	1,310	979	33.8
EBITDA	217	244	(11.0)	78.3	252	197	27.8
PBT	215	257	(16.4)	82.3	252	203	24.3
PAT	144	167	(13.9)	82.3	171	134	27.6

*April – Sep; Source: Company data, I-Sec Research

- TVTN's Q3FY09 revenues are likely to grow 15% YoY and 19.3% QoQ due to seasonality. TVTN had reported 33.8% growth in revenues in H1FY09 owing to robust ad growth and pay TV revenues starting to flow in.
- EBITDA is likely to dip 11% YoY, but rise 78.3% QoQ to ~Rs217mn. Higher placement fees continue to be the key concern on the costs side.
- PAT is expected to dip 13.9% YoY and increase 82.3% QoQ to Rs144mn.

Zee Entertainment Enterprises (Hold)

(QoQ chg: -20.8%; YTD chg: 4.3%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Revenues	5,850	5,182	12.9	2.3	11,136	7,902	40.9
EBITDA	1,916	1,569	22.2	28.8	2,930	2,517	16.4
PBT	1,870	1,592	17.4	26.4	2,930	2,630	11.4
PAT	1,173	1,097	6.9	18.3	2,019	1,696	19.0

*April – Sep; Source: Company data, I-Sec Research

- We expect ZEEL's Q3FY09 revenues to increase 12.9% YoY and 2.3% QoQ. Ad revenues are expected to decline 3.7% QoQ, due to the three-week black-out of fresh programming on Hindi GECs and lower sports ad revenues (India-SL cricket series were held in Q2FY09). Subscription revenue growth is expected to remain strong, increasing 6% QoQ and 22% YoY.
- ZEEL's flagship channel, *Zee TV's* average GRP share declined from 18.4% in Q2FY09 to 16.2% in Q3FY09. At the end of the quarter (week 52, CY08), Zee TV had no programmes in the top-20 shows, while it had an average of 31.4 programmes in the top-100 shows in Q3FY09.
- The FWICE strike is expected to lead to 250bps YoY EBITDA margin expansion for ZEEL, because the black-out of fresh content in their flagship channel *Zee TV* led to lower programming costs, while advertisers continued to support advertising revenues for two of the three weeks of black-out. EBITDA margin for ZEEL during H1FY09 declined 550bps over H1FY08. EBITDA is estimated to be Rs1,916mn, increasing 22.2% YoY and 28.8% QoQ.
- We expect adjusted PAT to increase 6.9% YoY and 18.3% QoQ to Rs1,173mn.

Zee News (Strong Buy)

(QoQ chg: 1.3%; YTD chg: 3.4%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Revenues	1,388	955	45.2	8.7	2,373	1,521	56.0
EBITDA	284	219	29.8	34.5	386	224	72.6
PBT	252	201	25.1	39.7	335	193	74.1
PAT	161	128	25.4	39.8	211	121	74.1

*April – Sep; Source: Company data, I-Sec Research

- ZNL's Q3FY09 revenues are expected to increase 45.2% YoY on the back of increased traction from the new business segments, specifically *Zee Telugu* and *Zee Kannada*. Also, we expect subscription revenue to grow 50.8% YoY, driven by increasing DTH revenue contribution.
- EBITDA is likely to grow 29.8% YoY and 34.5% QoQ to Rs284mn, mainly due to reduction in EBITDA losses in new business segments (excluding Tamil GEC and proposed channels) to Rs16mn. We expect ZNL to incur losses of Rs170mn in the Tamil GEC and proposed channels (*Zee 24 Ghantalu* and *Zee News UP*)
- We expect Q3FY09 PAT to increase 25.4% YoY and 39.8% QoQ to Rs161mn. We expect higher interest costs for ZNL in Q3FY09 due to increase in debt.

ANALYST CERTIFICATION

We /I, *Vikash Mantri, PGDM, CFA; Suchitra W L, BE, MBA,* research analyst and the author of this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts aren't registered as research analysts by FINRA and might not be an associated person of ICICI Securities Inc.

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Equity Research

January 6, 2009

ICICI Securities

Metals

Moving away from ill winds

In Q3FY09, the metals sector witnessed: i) distressed trade volumes on account of liquidity crunch and subdued demand, ii) freefall in global commodity prices hastened by the strengthening dollar and siphoning liquidity flows, paring recent gains and reaching 4-year lows, iii) capex deferment with delays in US$1.14trn investment in the domestic steel industry, iv) 30% production cutback announced by global steel majors with subdued response from their non-ferrous counterparts, and v) China posting single-digit GDP growth and its Government initiative to spend US$589bn to revive the economy. Subdued demand and liquidity strains accelarated the sector towards the trough of a cyclical downturn, which is reflected in consolidated sector topline, EBITDA and PAT decline of 34%, 68% and 89% QoQ respectively. While rapid production cutback will help mitigate the ongoing destocking process, scrap-based minimills will be major consumers of economic benefits in the steel industry as miners and smelters compete in the non-ferrous space. Even though the technical rebound in commodity prices has given respite to sector multiples, near-term demand outlook remains uncertain. Given high cash reserves and margin sustainability (cost competitiveness), Hindustan Zinc (HZL), Sterlite Industires and Sesa Goa remain our top picks in the sector.

- **Freefall in steel prices coupled with decreased volumes.** As globally, dealers engaged in inventory destocking, apparent consumption fell below real consumption (for the first time in FY09). With China too witnessing economic downturn, reduced export orders and slump in domestic manufacturing and automotive sales resulted in build-up of 75mnte iron-ore inventory at its ports. Cheaper Ukrainian exports and lenient Chinese export policies accelerated the price freefall in Europe and Asia. With scrap prices falling to ~US$125/te levels, ~30% of global steelmaking capacity (EAF-based players) sustained profitability at the HRC export price band of US$500-600/te, with the remaining (BF-based majors) initiating 30% production cutback Q3FY09 onwards. With little inventory accretion by dealers, inventory gaps were witnessed at end-November, resulting in a technical rally in spot steel (flat & long products) and iron-ore prices (post declining 50-60%) with iron-ore inventory at Chinese ports declining to 59mnte at end-December '08. While the short-term technical rally in prices may continue, stickiness of steel demand to fixed asset investment (FAI) will impede real growth prior to H2FY10E (approximate timeframe, during which Chinese policy actions would turn effective). Reiterate our cautious stance on the sector.
- **Raw materials prices (ferrous) to soon follow suit, impacting margins of unintegrated players.** While spot iron-ore prices have declined (with 63% fe India to China CIF at US$50/te end-October from US$200/te in June), contract prices are likely to be re-negotiated by end-March '09, with coking coal contracts at US$350/te to be renewed in July '09, thereby leading to H1CY10E being margin dilutive for un-integrated BF players. Given Rs38/share of cash, a well-entrenched presence of five decades in Chinese markets and attractive core FY10E P/E of 3.6x, Sesa Goa remains our top pick in ferrous mining space.
- **Non-ferrous capacities increasingly being squeezed out as prices reach distressed levels.** With aluminium & zinc at US$1,500/te & US$1,100/te (down 67% & 58% from peak levels), globally, ~95 % of aluminium smelters & 30% of zinc miners have turned unprofitable. 1.8mnte (15% of global demand) of zinc mining & smelting capacity and ~3.9mnte (9% of global demand) of aluminium-smelting capacity have already seen closure. While reduced smelting capacities are pushing up spot copper TcRcs in China (power shift from miners to smelter), reducing concentrate availability is pressuring zinc TcRcs (power shift from smelters to miners), indicating opportunity for global investors. While domestically, HZL (~38% margins in Q3) & NALCO (~27% margins in Q3) remain in the lowest cost-curve decile of zinc & aluminium respectively, debt-financed expansions and Novelis acquisition have queered the pitch for Hindalco. HZL (FY10E core P/E & EV/E of 3.6x & 3.9x respectively) and Sterlite (sum-of-the-parts valuations of Rs317/share) remain our top picks in the non-ferrous space.

Top picks

Hindustan Zinc
Sterlite
Sesa Goa

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Table 1: Quarterly summary

Company	Sales			EBITDA			PAT		
		% Chg			% Chg			% Chg	
(Rs mn)	Q3FY09E	(YoY)	(QoQ)	Q3FY09E	(YoY)	(QoQ)	Q3FY09E	(YoY)	(QoQ)
Tata Steel (Consolidated)	294,801	(7.6)	(33.3)	16,126	(59.1)	(80.5)	(2,167)	(116.4)	(104.2)
Steel Authority of India (SAIL)	80,145	(15.9)	(34.5)	9,857	(67.0)	(73.2)	7,035	(63.6)	(73.7)
JSW Steel	29,486	3.8	(36.5)	5,237	(30.9)	(54.7)	696	(78.0)	(86.5)
Jindal Steel & Power (Ex JPL)	13,708	(1.8)	(38.1)	4,225	(20.6)	(50.6)	2,360	(26.0)	(57.9)
Sesa Goa	11,138	(8.6)	27.2	5,613	(25.8)	33.5	4,431	(12.3)	31.6
Sterlite Industries	40,047	(23.5)	(41.2)	6,606	(58.0)	(64.3)	5,704	(40.1)	(59.1)
Hindustan Zinc	9,939	(40.1)	(44.5)	3,740	(64.2)	(61.9)	3,834	(51.2)	(60.0)
Hindalco (Standalone)	34,039	(24.9)	(40.1)	4,050	(49.4)	(59.2)	2,702	(50.2)	(62.5)
Novelis	92,819	(14.0)	(28.7)	3,546	(30.9)	(12.4)	(13,748)	(178.6)	(90.5)
NALCO	11,136	0.4	(29.1)	3,043	(30.8)	(55.0)	2,209	(32.9)	(50.3)
Total	**617,258**	**(12.1)**	**(33.7)**	**62,042**	**(53.5)**	**(67.8)**	**13,058**	**(79.7)**	**(89.0)**

Source: I-Sec Research

Table 2: Valuations

Company	Target price (Rs)	Rating	EPS (Rs)			P/E (x)			EV/EBITDA (x)		
			FY09E	FY10E	FY11E	FY09E	FY10E	FY11E	FY09E	FY10E	FY11E
Tata Steel	180	HOLD	40.5	63.3	66.3	6.1	3.9	3.7	6.1	5.3	5.3
SAIL	58	HOLD	15.9	10.5	12	5.6	8.6	7.5	2.6	3.4	3.3
JSW Steel	210	HOLD	69.3	75.0	108.4	3.5	3.3	2.3	4.9	4.3	3.5
Jindal Steel & Power	847	BUY	160.7	174	171.6	6.2	5.7	5.8	6.1	7.5	9.8
Sesa Goa*	105	BUY	25.9	14.1	13.4	2.2	3.6	2.7	1.5	2.2	1.6
Sterlite Industries*	317	BUY	47.1	33.7	58.3	6.5	9.0	5.2	1.5	3.1	1.7
Hindustan Zinc*	412	BUY	60.0	39.3	46.2	2.7	3.6	3.0	2.4	3.9	3.1
Hindalco	41	SELL	9.3	5.6	6	6.3	10.5	9.8	5.2	7.1	7.2
NALCO	180	HOLD	27.3	18.0	19.2	7.6	11.5	10.8	4.2	6.0	5.1

* P/E represents core P/E
Source: I-Sec Research

Table 3: Steel production cuts announced (annualised)

Company	Region/country	Extent of cut	Capacity closures (mnte)
Hebei Iron and Steel	China	20%	6.3
Shougang Group	China	20%	2.6
Shangdong Iron and Steel	China	20%	4.8
Anyang	China	20%	1.8
Baosteel	China		1.0
Magang (Maanshan Iron & Steel)	China		-
Laigang (Laiwu Iron and steel)	China		0.1
Handan City (Hebei, Northern China)	China		1.9
Ferro China (Changshu-Eastern China)	China		1.3
Chinese smaller mills			9.0
Nucor	US	10%	2.0
Magnitogorsk	Russia	15%	2.0
Arcelor Mittal	Globally	15-20%	20.4
Colakoglu, Turkey	Turkey		0.1
Severstal	Russia, Italy, US	25-30%	5.2
Nippon Steel	Japan	30-40%	12.5
Corus	UK & Holland	20%	4.1
Zaporozhstal	Ukraine		0.2
Azovstal	Ukraine	20%	1.2
Emirates Steel Industries	UAE		0.6
Baoshan Iron and steel	China		1.5
POSCO	Korea		1.8
POSCO	Korea		3.1
Arcelor Mittal	Europe		11.0
Corus	Europe		2.0
Thyssenkrup	Germany		1.0
JSW Steel	India		1.3
Essar	India		0.8
Ispat	India		1.2
Total			**101.0**

Source: Company data, I-Sec Research

Table 4: Announced aluminium capacity closures (annualised)

Company	Announced cutback (te)
Chinese smelters	2,940,000
Century Aluminium	42,500
Alcoa	615,000
MALCO	40,000
Norsk Hydro	120,000
Rusal	113,000
Total capacity shutdown	**3,870,500**

Source: Industry, I-Sec Research

Table 5: Announced global zinc mine closures (at current zinc prices of US¢54.5/lb)

	Country	Comments	Zinc capacity (ktpa)	Zinc capacity cut (ktpa)	Cash cost (2008E) (¢/lb)
Q1CY08					
Balmat	USA	Put on care and maintenance	60	60	71.8
Blaiken	Sweden	Closed	23	23	77.6
Zyryanovsk	Kazakhstan	Closed	20	20	
Q2CY08					
Duddar	Pakistan	Delayed start up now late '08			
Broken Hill	Australia	Production downsized in response to lower prices	91	55	57.5
Endeavour	Australia	High grading but unchanged production			64.9
Hellyer	Australia	Taillings recovery put on care and maintenance	30	30	87.7
Pillara (Lenard Shelf)	Australia	Put on care and maintenance	70	70	61.5
Monte Cristo	Brazil	Put on care and maintenance	12	12	
El Brocal	Peru	Put on care and maintenance	16	16	
Galmoy	Eire	Closure planned till '11	70	20	73.9
Aljustrel	Portugal	Production plan revised down 30%		14	
Q3CY08					
Rau-Rapu	Philippines	Production halted, Chapter-11 protection		14	
Iscaycruz	Peru	Closure in '11, one year earlier			53.8
Rosaura	Peru	Closure in '09, one year earlier			
Golden Grove	Australia	Reduced production		15	36.2
Q4CY08					
Tennessee zinc mines	USA	Put on care and maintenance	57	57	83.6
Caribou	Canada	Put on care and maintenance			50.8
Aljustrel	USA				
Project deferred					
Perkoa	Burkina Faso				72.8
Black Angel	Greenland				97.2
Vazante	Brazil	Approved expansion has been cancelled	50		36.9
Total capacity closures				**456**	

Source: Nyrstar, I-Sec Research

Table 6: Chinese zinc smelter closures

Players	Capacity ('000 te)	Date of commencement	Remark	Total capacity ('000 te)
Yuntong Xinging	60	November 3, '08	Reduce two-thirds	40
Sichuan Hongda	220	September '08	The operating rate of Sichuan factory: 50-60%	110
Xiangyun Feilong	130	Mid-October, '08	Operating rate: ~25%	98
Chifeng Hongye	110	End-October, '08	Reduce: one-third	37
Bayan Zhuoer Zijin	100	October, '08	Reduce: around 30%	30
Liaoning Huludao Zinc	390	Beginning-Oct '08	operating rate 70% caused by tight supply of raw material	117
Yuguang Gloden & Lead	200	September '08	Operating rate: 50%	100
Shuikoushan Non-Ferrous	70	October, '08	Reduce: around 20%	14
Hunan Sanli	80	October, '08	Operating rate: around 40%	48
Shan'xi Hanzhong Bayi Zinc	120	November '08	inadequate operating rate	120
Luopin Xindian	80	August '08	The operating rate: around 70%	24
West Mining	60	October, '08	The operating rate: around 70%	18
Shanxi Dongling	210	October, '08	150,000tpa, reduce 25%	60
Shanxi Shangluo	100	Beginning-Oct, '08	Reduce: around 50%	50
Hunan Twinkling Star Hsikwangshan	35	Beginning-Nov '08	Reduce: 60-70%	23
Sichuan Sihuan	60	8 October, '08	Stopped caused by Material problem	60
Gansu Chengzhou	50	Mid-October, '08	Stop	50
Hunan Jinshi	50	Beginning-Nov '08	Stop	50
Mengzi Mining	50	Mid-October, '08	Stop	50
Shanxi Xiangfen	115	October 1, '08	Stop	115
Guangxi Chengyuan Mining	20	October 8, '08	Production shut In Hechi City due to arsenic poisoning	20
Hechi Nanfang	80	October 8, '08	Stop In Hechi City due to arsenic poisoning accident	80
Total				**1,313**

Source: Industry

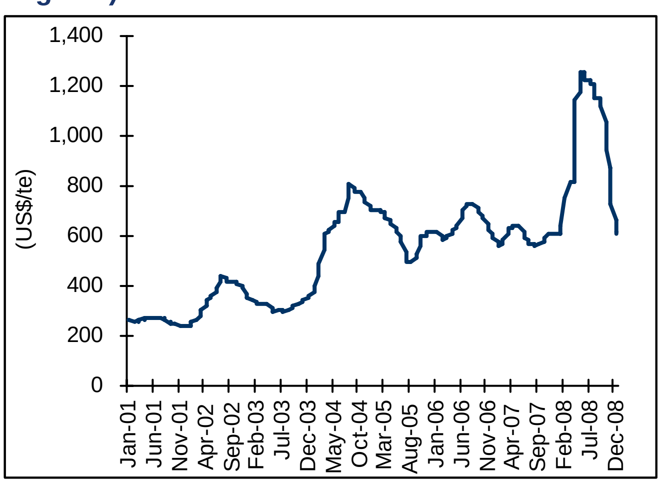
Table 7: Base metal tracker

(US$/te)

	Zinc			Aluminium			Copper			Lead			Alumina		
	Avg	QoQ (%)	YoY (%)	Avg	QoQ (%)	YoY (%)	Avg	QoQ (%)	YoY (%)	Avg	QoQ (%)	YoY (%)	Avg	QoQ (%)	YoY (%)
Q3FY09	1,199	(32.7)	(54.9)	1,837	(34.2)	(25.0)	3,943	(48.7)	(45.6)	1,257	(34.3)	(61.5)	450	(6.2)	(4.4)
Q2FY09	1,781	(20.5)	(45.0)	2,790	(5.4)	9.3	7,684	(9.2)	(0.4)	1,913	(17.3)	(39.0)	479	(5.4)	0.6
Q1FY09	2,239	(8.3)	(39.2)	2,949	7.7	6.6	8,460	8.6	10.7	2,314	(20.2)	6.0	506	(10.9)	0.3
Q4FY08	2,441	(8.2)	(29.4)	2,738	11.8	(2.1)	7,786	7.4	30.5	2,900	(11.2)	62.6	569	21.0	27.5
Q3FY08	2,660	(17.8)	(36.5)	2,449	(4.1)	(10.1)	7,252	(6.0)	2.3	3,266	4.1	102.1	470	(1.4)	46.6
Q2FY08	3,237	(12.2)	(3.4)	2,553	(7.7)	2.7	7,719	1.0	0.5	3,136	43.7	162.9	476	(5.6)	NA
Q1FY08	3,685	6.5	12.4	2,766	(1.1)	4.2	7,645	28.2	5.2	2,182	22.4	99.3	505	13.2	NA

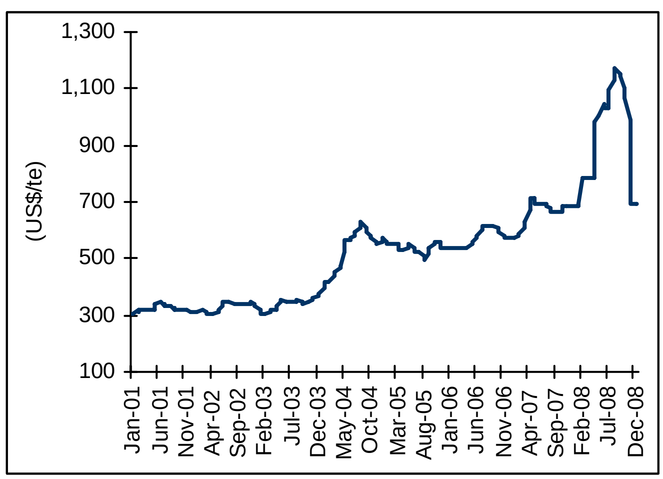
Source: Bloomberg, I-Sec Research

Chart 1: North American HRC prices (Retracing all its gains)



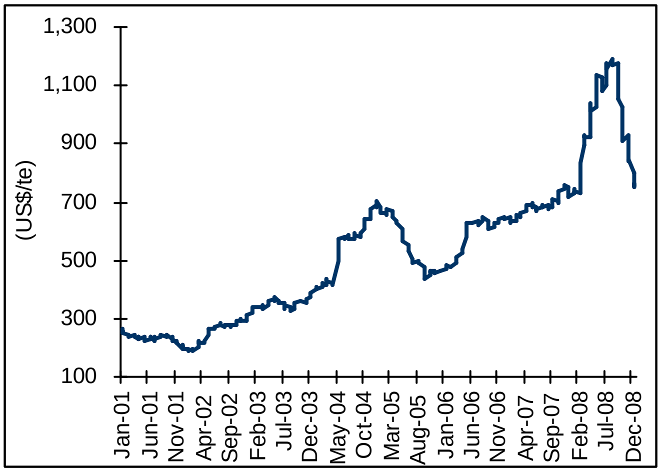
Source: Steelbb, I-Sec Research

Chart 2: North American rebar prices



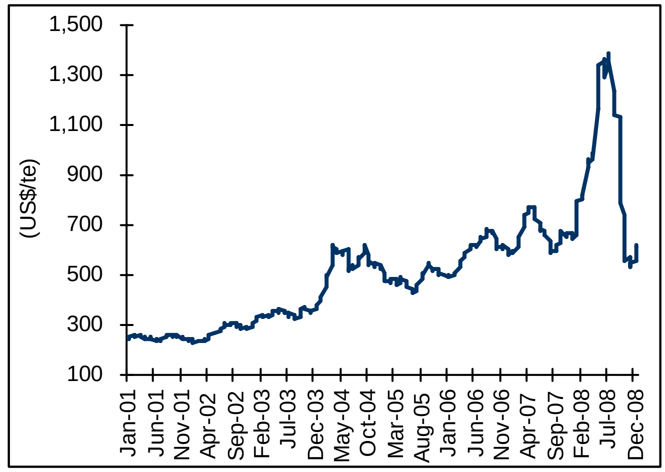
Source: Steelbb, I-Sec Research

Chart 3: European HRC prices



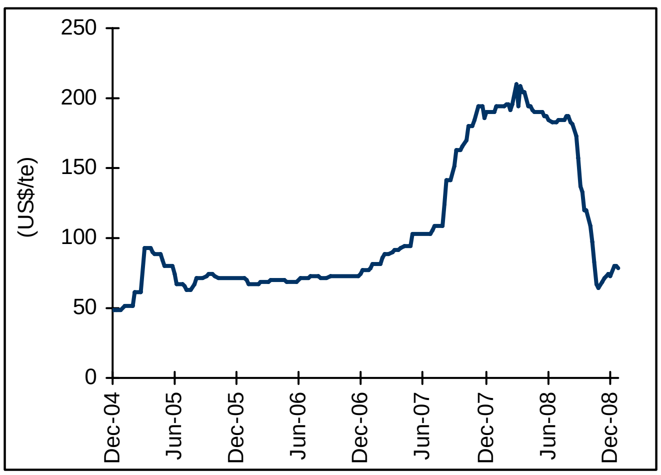
Source: Steelbb, I-Sec Research

Chart 4: European rebar prices (rebound from US$533/te)



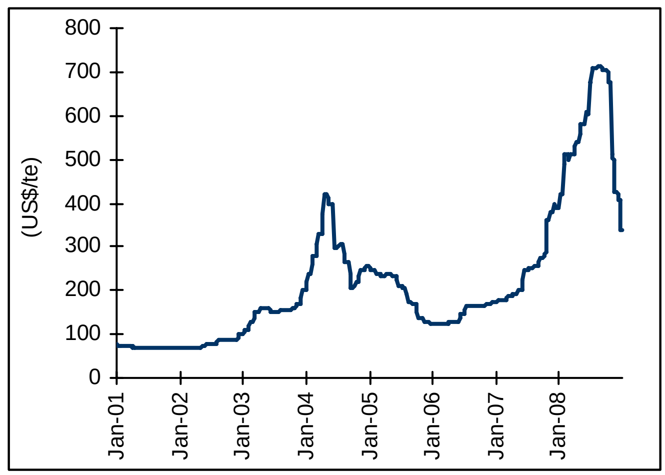
Source: Steelbb, I-Sec Research

Chart 5: Chinese iron ore import prices from India (FOB)



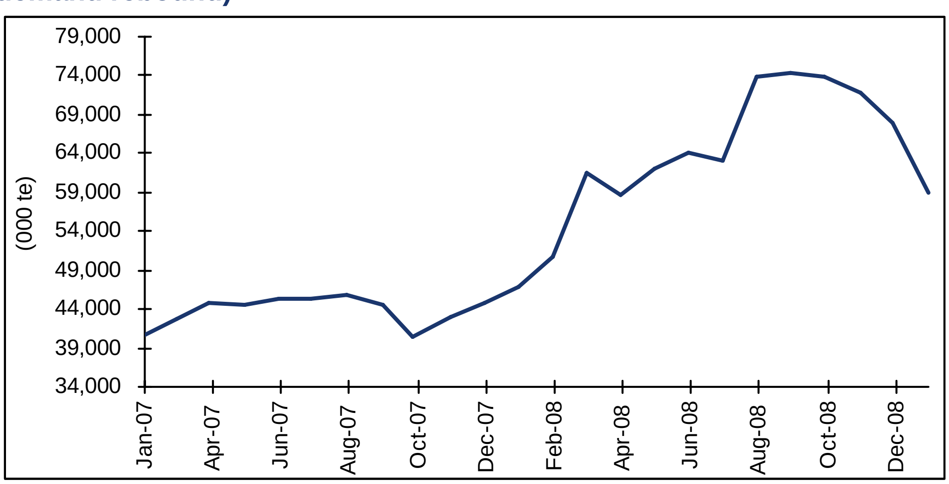
Source: Steelbb, I-Sec Research

Chart 6: Chinese coke export prices (FOB)



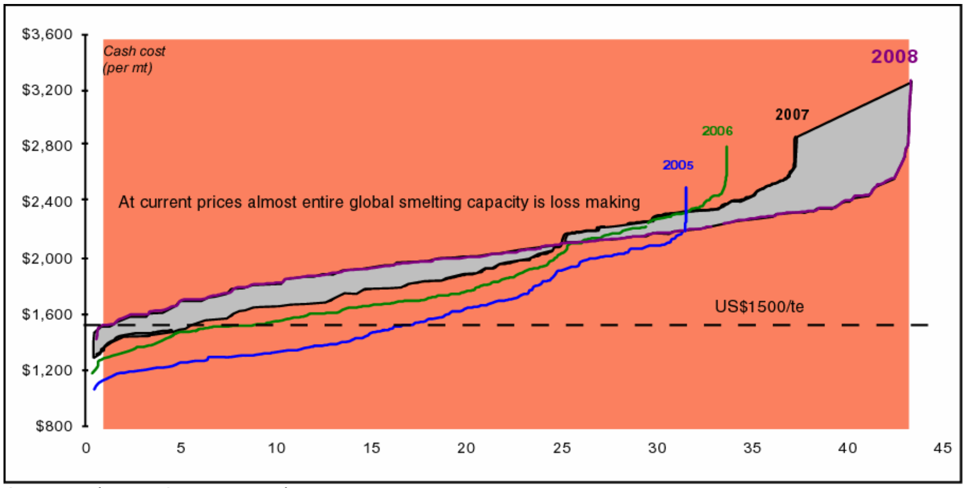
Source: Steelbb, I-Sec Research

Chart 7: Chinese iron ore port inventory (sharp decrease implies technical demand rebound)



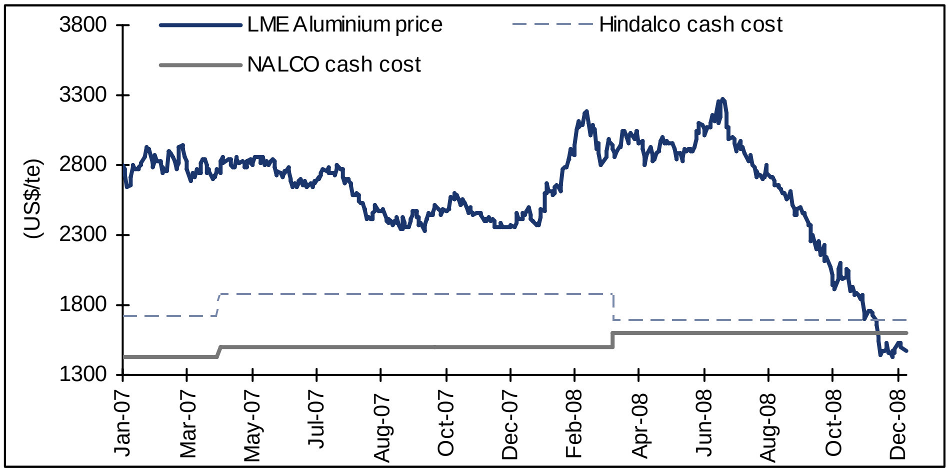
Source: Steelbb, I-Sec Research

Chart 8: Aluminium prices versus global cash cost



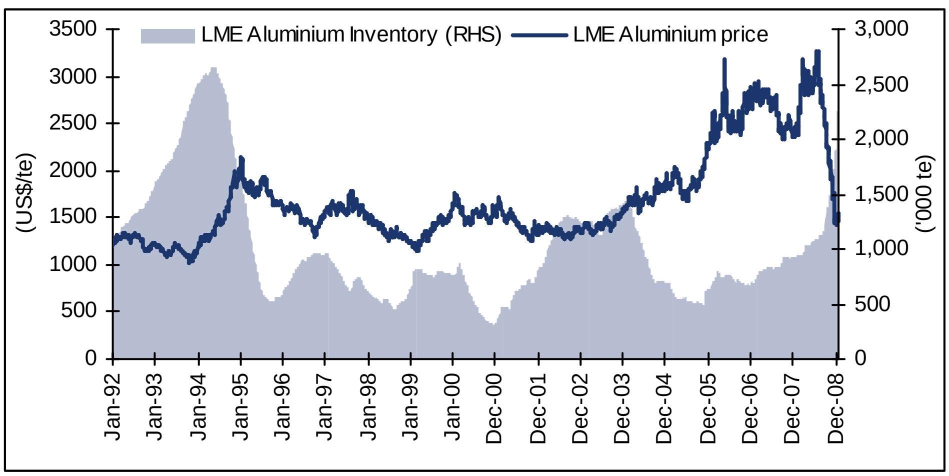
Source: Alcoa, I-Sec Research

Chart 9: Aluminium prices versus cash cost of domestic players



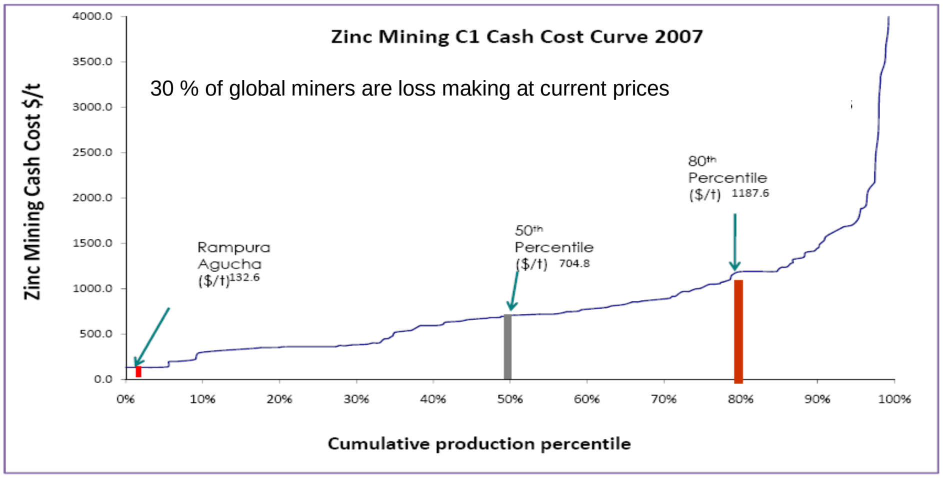
Source: Bloomberg, Company data, I-Sec Research

Chart 10: Increasing LME aluminium Inventory – A concern



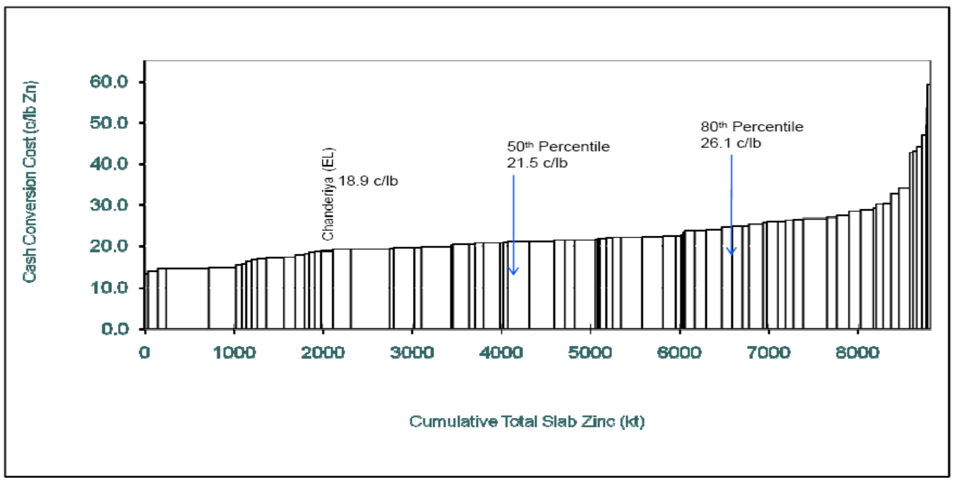
Source: Bloomberg, I-Sec Research

Chart 11: Zinc – Mining cash cost



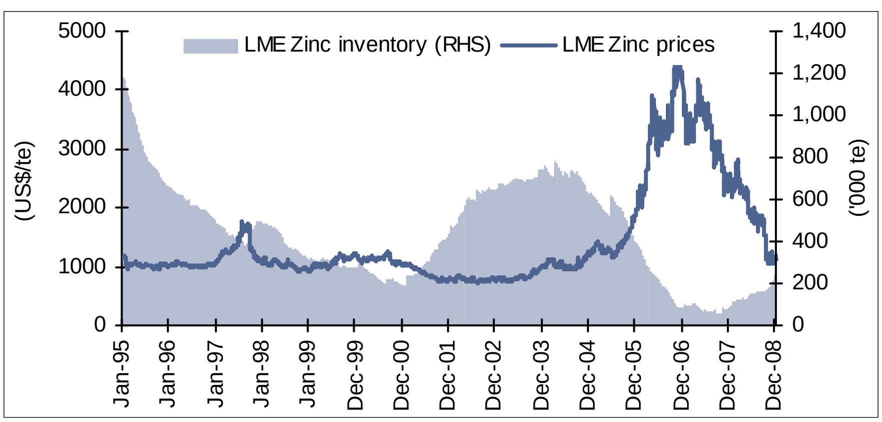
Source: Industry, I-Sec Research

Chart 12: Zinc – Smelting cash cost



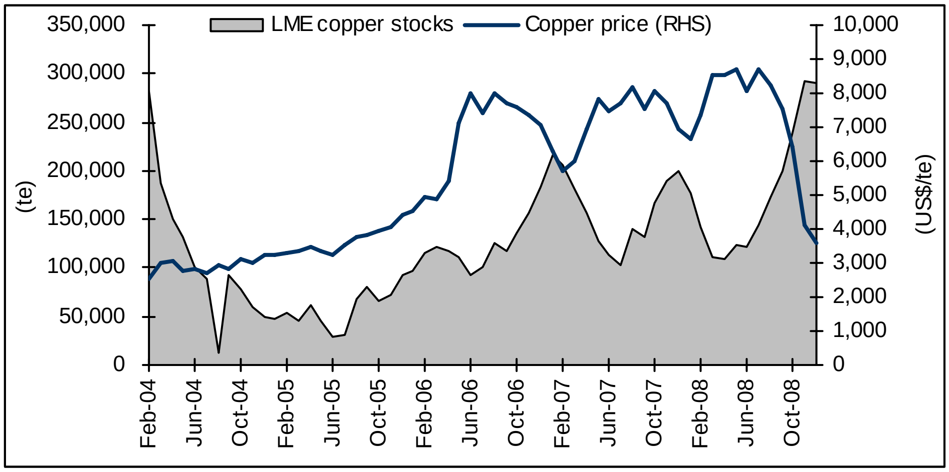
Source: Industry, I-Sec Research

Chart 13: LME zinc prices & inventory



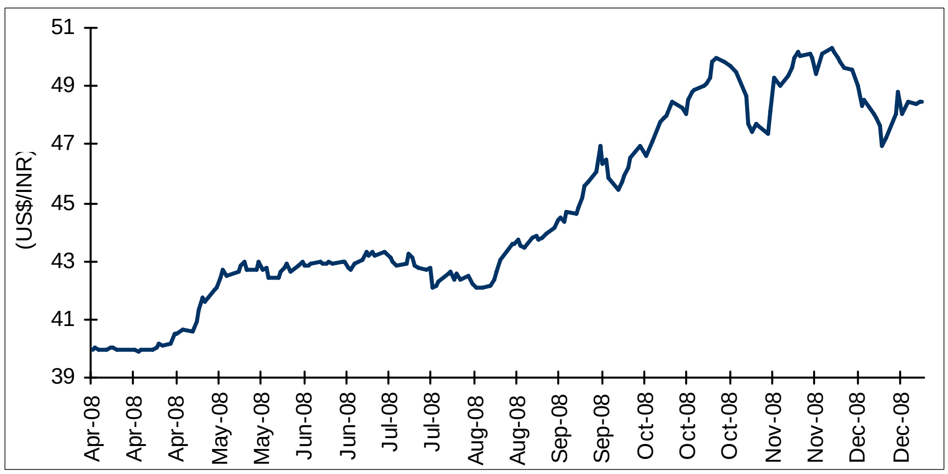
Source: Bloomberg, I-Sec Research

Chart 14: Copper prices and inventory



Source: Bloomberg, I-Sec Research

Chart 15: USD-INR exchange rate



Source: Bloomberg, I-Sec Research

Tata Steel (Hold)

(QoQ chg: -29.8%; YTD chg: 7.4%)

Quarterly estimates (Standalone)

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	9MFY09E	9MFY08	YoY (%)
Net sales	53,979	49,739	8.5	(18.1)	188,399	139,566	35.0
EBITDA	16,713	20,966	(20.3)	(45.5)	79,236	58,212	36.1
PBT	12,316	15,747	(21.8)	(53.5)	64,510	52,238	23.5
Adj PAT	6,109	10,857	(43.7)	(66.2)	48,041	31,162	54.2
Reported PAT	**8,621**	**10,686**	**(19.3)**	**(52.3)**	**44,587**	**34,815**	**28.1**

Source: Company data, I-Sec Research

Quarterly estimates (Consolidated)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	9MFY09E	9MFY08	YoY (%)
Net sales	294,801	318,985	(7.6)	(33.3)	1,172,357	955,572	22.7
EBITDA	16,126	39,428	(59.1)	(80.5)	168,982	134,123	26.0
PBT	(2,709)	21,730	(112.5)	(104.5)	105,068	75,941	38.4
Adj PAT	(2,167)	13,217	(116.4)	(104.2)	91,012	47,068	93.4
Reported PAT	**(2,167)**	**14,023**	**(115.5)**	**(104.6)**	**84,016**	**48,565**	**73.0**

Source: Company data, I-Sec Research

Corus (Standalone)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	9MFY09E	9MFY08	YoY (%)
Net sales	209,631	238,670	(12.2)	(28.1)	839,217	729,595	15.0
EBITDA	(2,134)	18,610	(111.5)	(106.0)	70,096	81,272	(13.8)
PBT	(14,581)	6,911	(311.0)	(146.3)	40,964	103,585	(60.5)
Adj PAT	(12,977)	3,262	(497.9)	(181.1)	25,072	21,534	16.4
Reported PAT	**(12,977)**	**4,339**	**(399.1)**	**(145.8)**	**37,956**	**85,947**	**(55.8)**

Source: Company data, I-Sec Research

- **Reduced steel demand and prices impact domestic margins.** We expect domestic margins to drop to 31% in Q3FY09 (vis-à-vis 46% QoQ) on account of 30% decline in realisations and increased coking coal prices (for 40% imports). We do not expect domestic volumes to drop much owing to 65-70% contract sales and 30-40% demand revival seen in the domestic steel industry mid-November '08 onwards. Tata Steel plans to achieve Rs3bn domestic operational improvements in H2FY09E.

- **Expect Corus to be EBITDA negative** (for the first time post '03) owing to: i) high spot exposure (70%), ii) reduced spot volumes, iii) high corporate overheads, and iv) increased coking-coal costs, despite 30% production cutback announced and part of £325mn operational improvement targeted for H2FY09E, which we have aproportioned to Q3FY09. Given finished steel inventories of 4.19mnte in Q2FY09, the company may witness inventory writedowns in Q3FY09. With expected EBITDA at (Rs2,134mn), a poor Q4 can trigger debt covenants for US$5bn debt on Corus books. Union negotiations at Ijmuidden (for paid leave of employees to be on Government payroll) crucial for maintaining profitability.

- **0.8mnte saleable steel to accrue in production – May not translate into sales.** Investment in the 1.9-mnte Jamshedpur facility is complete and has commenced production from Q2FY09E, accruing 0.8mnte of saleable steel in FY09.

- **Domestic capex plans deferred.** Based on huge debt (US$9-10bn) on its consolidated books, constrained cashflows and declining metal prices, Tata Steel has decided to delay its greenfield in Jharkhand; however, it has plans to increase brownfield expansion at its Jamshedpur facility to 10mnte.

Steel Authority of India (SAIL) (Hold)

(QoQ chg: -17.9%; YTD chg: 8.5%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	9MFY09E	9MFY08	YoY (%)
Net sales	80,145	95,333	(15.9)	(34.5)	312,825	267,303	17.0
EBITDA	9,857	29,834	(67.0)	(73.2)	76,697	69,488	10.4
PBT	10,500	29,219	(64.1)	(71.9)	77,566	67,571	14.8
Adj PAT	7,035	19,347	(63.6)	(86.9)	53,720	41,135	30.6
Reported PAT	**7,035**	**19,347**	**(63.6)**	**(65.0)**	**45,483**	**51,600**	**(11.8)**

Source: Company data, I-Sec Research

- **Muted volumes with falling prices suppress numbers.** With saleable steel volume at 2.4mnte and blended realisations declining 20% QoQ, topline dipped 34% QoQ and EBITDA dropped 73% QoQ to ~Rs9.86bn. Warranted offtake from Indian Railways (from SAIL's Bhilai steel plant) and public-sector construction & infrastructure will prevent deceleration of steel volumes by over 10% QoQ.
- **Expect Q3FY09 margins at 12-13%, in line with FY03.** Reducing prices, increased costs, sustained production and declining sales will impact Q3FY09 margins. Sales reduction and sustained production has led to accumulation of inventory of 2mnte, which will be difficult to clear. While the management has indicated that definite cost reduction initiatives have been intimated to plants, results will only be achieved in Q4FY09E.

JSW Steel (Hold)

(QoQ chg: -29.4%; YTD chg: 3.0%)

Quarterly estimates – JSW Steel & SISCOL

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08*	YoY (%)	QoQ (%)	9MFY09E	9MFY08	YoY (%)
Net sales	25,076	28,419	(11.8)	(41.3)	104,483	79,216	31.9
EBITDA	4,483	7,858	(42.9)	(58.9)	23,981	22,929	4.6
PBT	1,326	4,678	(71.7)	(71.9)	9,254	19,090	(51.5)
Adj PAT	928	3,824	(75.7)	(84.2)	11,246	10,618	5.9
Reported PAT	**928**	**3,340**	**(72.2)**	**(70.8)**	**6,296**	**13,367**	**(52.9)**

* Proforma numbers including Southern Iron & Steel Company (SISCOL)
Source: Company data, I-Sec Research

Quarterly estimates – JSW Steel (Consolidated)

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	9MFY09E	9MFY08	YoY (%)
Net sales	29,486	28,419	3.8	(36.5)	120,462	77,563	55.3
EBITDA	5,237	7,575	(30.9)	(54.7)	27,230	23,988	13.5
PBT	980	4,142	(76.3)	(76.8)	9,090	17,904	(49.2)
Adj PAT	696	3,165	(78.0)	(86.5)	10,632	12,495	(14.9)
Reported PAT	**696**	**2,858**	**(75.6)**	**(72.2)**	**5,661**	**12,331**	**(54.1)**

Source: Company data, I-Sec Research

- **Low operating leverage to arrest margin slide.** We expect standalone revenues to decline 41% QoQ due to 25% production cut announced for Q3FY09 and weak prices (with domestic blended realisations declining ~20% QoQ). While topline is expected to dip US$188/te QoQ, we believe EBTDA would decline US$116/te (despite 11% QoQ rupee depreciation) on account of: i) declining spot iron-ore prices (contributing ~40% of total requirement), ii) increasing proportion of scrap in BFs (~10% of charge mix from erstwhile 5%), iii) increased usage of semi-soft coking coal, iv) reduced overheads via reduction in employees and other expenses (with reducing ferro chrome and zinc prices). We expect Q3FY09E EBITDA/te of US$153/te, with margins at ~18% (down 30% QoQ).

- **US operations turning cashflow negative.** Initial resilience by the US OCTG markets has given in to deteriorating demand, with recent plate prices at ~US$850/te (from the peak of US$1,300/te). With delay in investments by global and Indian pipe manufacturers (such as Arcelor Mittal and Jindal Saw) in US markets, we expect volumes of plates and pipes to decline ~30%, with possible downside risks. While we expect US operations to clock-in 17.5% margins on the back of improved yields and reducing freight & slab prices, high fixed overheads (with ~Rs700mn interest costs) will impede cashflows. We expect US operations to register losses of Rs232mn in Q3FY09.

- **Expect consolidated revenue & EBITDA to decline 37% QoQ & 55% QoQ respectively.** 9% rupee depreciation could lead to extraordinary mark-to-market (MTM) forex losses.

Jindal Steel & Power (Buy)

(QoQ chg: 0.5%; YTD chg: 5.8%)

Quarterly estimates (Standalone)

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	9MFY09E	9MFY08	YoY (%)
Net sales	13,708	13,956	(1.8)	(38.1)	54,822	38,878	41.0
EBITDA	4,225	5,324	(20.6)	(50.6)	20,602	15,488	33.0
PBT	2,777	3,754	(26.0)	(60.7)	16,206	10,590	53.0
Adj PAT	2,360	3,190	(26.0)	(57.9)	12,760	8,433	51.3
Reported PAT	**2,360**	**3,191**	**(26.0)**	**(47.6)**	**10,883**	**8,466**	**28.5**

Source: Company data, I-Sec Research

Quarterly estimates – Jindal Power

(Rs mn, year ending March 31)

	Q3FY09E	Q2FY09E	QoQ (%)	9MFY09E
Net sales	7,762	6,538	18.7	17,236
EBITDA	5,433	4,986	9.0	12,264
PBT	4,336	3,616	19.9	8,427
Reported PAT	**3,772**	3,146	**19.9**	**7,331**

Source: Company data, I-Sec Research

- **Expect steel revenue and EBITDA to fall 38% QoQ and 51% QoQ.** While the company did not witness any domestic volume pickup in the first half of October, long product prices fell 50-60% mid-October onwards, thereby impacting the rails & structurals (~33% of volume sales) division. Also, with increased coking-coal costs, we expect steel margins to decline to 30.8% (vis-à-vis 38.6% QoQ). While declining prices have released working capital for most steelmakers, JSPL continues to carry high inventory (of plates & rails; I-Sec estimate of end-product inventory: ~300kte), which will constrain cashflows for a few impending quarters. Also, given the uncertain pricing outlook, phased expansions in Jharkhand and Chhattisgarh have been delayed.

- **Power – Jewel in the crown.** With full 1,000MW capacity operating for entire Q3FY09, we expect JPL to post revenues of Rs7.7bn (up 19%QoQ) and EBITDA of Rs5.4bn (up 9% QoQ). We expect average PLF of 83%, with realisations declining ~11% QoQ, indicating reduced merchant sales to steel minimill and ferrochrome players, resulting in EBITDA margin of 70% (vis-à-vis 76% QoQ). Further, JPL plans a ~Rs8-bn brownfield expansion of 2,640MW by FY13E, for which orders have already been placed to BHEL.

- Given the prevailing uncertainty in steel price outlook, JSPL is strategically well placed, given its continued investment in the high RoE, less cyclical merchant-power business (power has already produced cashflow of Rs12bn in 9MFY09 that can be churned for expanding power capacity to 3,640MW) and delay in planned capex for steel. Reiterate BUY.

Sesa Goa (Buy)

(QoQ chg: -6.7%; YTD chg: 3.5%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	9MFY09E	9MFY08	YoY (%)
Net sales	11,138	12,182	(8.6)	27.2	32,695	21,176	54.4
EBITDA	5,613	7,569	(25.8)	33.5	17,869	10,826	65.1
PBT	5,951	7,618	(21.9)	31.0	19,039	10,956	73.8
PAT	**4,431**	**5,056**	**(12.3)**	**31.6**	**14,128**	**7,300**	**93.5**

Source: Company data, I-Sec Research

- **Sharp destocking witnessed in Chinese port inventories** with end-December '08 inventories at ~59mnte (down from 68mnte in November '08). Also, total Chinese iron-ore imports increased 6% in November, post dropping 22% in October. While we expect Q3FY09 Chinese imports from Indian miners to decline or remain flat QoQ (contrary to normal trend of increasing in Q3), Sesa Goa will gain market share at the expense of small private miners turning unprofitable, with high logistics overhead and declining iron-ore prices. We expect Sesa Goa to sell ~3.5mnte of iron ore in Q3FY09 (with ~66% of exports to China).

- **Increased spot exposure – A concern.** We expect Q3FY09 revenue and EBITDA to decline 9% and 26% QoQ respectively due to declining volumes and prices, primarily on account of high dependence on Chinese spot markets (with 55% of total volumes in spot). Declining spot prices with reduced demand, increased offload by BHP and Rio in spot and entry of FMG in the low-quality fines segment are likely to pressurise company's volume and margins. We expect FY09E volumes of 13.5mnte vis-à-vis management guidance of 15-17mnte.

- **Reduced export duties will help margins.** With reduced Chinese offtake, declining prices induced iron-ore export duty cuts (first reduced to Rs200/te and then to 8% *ad valorem* for fines only). This is likely to give respite to the company's margins. At current market price of Rs92/share, the stock is trading at FY10E P/E and EV/EBTDA of 3.6x and 2.2x respectively. Reiterate BUY.

Hindustan Zinc (Buy)

(QoQ chg: 2.7%; YTD chg: 6.9%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	9MFY09E	9MFY08	YoY (%)
Net sales	9,939	16,580	(40.1)	(44.5)	44,279	56,119	(21.1)
EBITDA	3,740	10,440	(64.2)	(61.9)	23,337	38,993	(40.2)
PBT	4,793	10,950	(56.2)	(55.8)	26,761	42,832	(37.5)
PAT	**3,834**	**7,850**	**(51.2)**	**(60.0)**	**21,907**	**31,442**	**(30.3)**

Source: Company data, I-Sec Research

- **Weak zinc prices prevail.** We expect Q3FY09 topline to decrease 40% YoY and 45% QoQ due to falling zinc prices (37)% QoQ and (63)% YoY) with ~30% global mining capacity seeing losses at current prices. US$746/te of production cash cost places Hindustan Zinc (HZL) in the lowest decile of the cost curve as the company is likely to garner 38% margins in Q3FY09 (54% QoQ). With declining zinc TcRc, we expect concentrate sales to increase in the quarters going forward. Lower offtake by domestic steel manufacturers have been replaced by exports, keeping zinc volumes stable in Q3FY09.
- **Expansion underway.** The US$900mn ongoing expansion to increase total zinc-lead capacity to ~1.05mnte (making it the second-largest integrated zinc-lead smelter globally) would be completed by FY11E, thereby preparing the company for increased demand. High cash of Rs246/share (~60% of market cap), historically low cash-adjusted P/E of 3.6 and high cash-adjusted RoE of 13% even at FY10E zinc prices of US$1000/te promises to make HZL a safe bet on the mining sector.

NALCO (Hold)

(QoQ chg: -37.0%; YTD chg: 4.7%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	9MFY09E	9MFY08	YoY (%)
Net sales	11,136	11,093	0.4	(29.1)	41,526	35,827	15.9
EBITDA	3,043	4,401	(30.8)	(55.0)	17,170	16,249	5.7
PBT	3,347	5,118	(34.6)	(51.4)	18,190	18,551	(1.9)
PAT	**2,209**	**3,294**	**(32.9)**	**(50.3)**	**11,910**	**12,170**	**(2.1)**

Source: Company data, I-Sec Research

- **Period of declining prices and rising inventories.** Sharp drop in prices (34% QoQ) coupled with falling industry demand will see NALCO's margins shrink to 6-year lows at ~27%. At current aluminium prices of US$1,500/te, over 90% of global smelting capacity (including NALCO) is unprofitable. However, strong cash reserves of Rs42/share allows NALCO to maintain increased inventory levels to be destocked once demand revives.
- **Power.** NALCO has ~0.5mnte of imported, high-priced thermal-coal inventory, ensuring no further imports. However, increased cost of power will impede profitability of the division in Q3FY09.
- **Brownfield expansion complete.** NALCO has completed its previously announced brownfield expansion through an investment of Rs50bn; this will ramp-up existing aluminium smelting capacity from 0.36mnte to 0.48mnte, alumina capacity from 1.6mnte to 2.1mnte. The expansion is entirely funded via internal accruals. The company has been granted the Utkal E coal block, which will take care of NALCO's additional thermal coal requirements.

Sterlite Industries (Buy)

(QoQ chg: -10.1%; YTD chg: 9.3%)

Quarterly estimates (Consolidated)

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	9MFY09E	9MFY08	YoY (%)
Net sales	40,047	52,332	(23.5)	(41.2)	165,858	179,395	(7.5)
EBITDA	6,606	15,717	(58.0)	(64.3)	43,394	56,936	(23.8)
PBT	8,240	15,904	(48.2)	(59.1)	48,125	58,182	(17.3)
PAT (before minority interest)	**7,046**	**11,766**	**(40.1)**	**(59.1)**	**40,208**	**44,332**	**(9.3)**
PAT after minority interest	**5,704**	**8,553**	**(33.3)**	**(55.3)**	**29,984**	**30,810**	**(2.7)**

Source: Company data, I-Sec Research

- **Weak zinc prices hit margins.** LME zinc fell 37%QoQ and 63% YoY to Q3FY09 average of US$1,199/te, thereby impacting EBITDA and margins 64.3% QoQ and 39% QoQ respectively.
- **While spot TcRcs improve, 75% of contract purchases will pressurise copper margins.** While spot TcRcs increase on reduced smelter demand in China, low contract TcRcs (~¢15/lb) coupled with declining by-product realisations (with sulphur declining ~ 60% QoQ) will result in EBITDA declining 47% QoQ, with margins at 11.4%.
- **BALCO at breakeven, with aluminium prices at US$1,853/te.** With cash manufacturing cost of ~US$1,800/te, BALCO is unprofitable at current aluminium price of US$1,500/te. We expect closure of line I (100ktpa) if prices persist at this level in Q4FY09. We expect BALCO to contribute Rs576mn EBITDA in Q3FY09.
- **Vedanta Aluminium (VAL) – NPV negative at aluminium price of US$1500/te.** We believe that at current price of US$1,500/te Sterlite's 29.5% stake in VAL yields negative NPV, given the ~US$7bn capex plan envisaged till FY14E (with ~1.8mtpa aluminium and ~5mtpa alumina capacity). The company has already deferred capex of 1,980MW power plant for its Jharsuguda smelter expansion (1.25mtpa) and plans to source power (maximum of 600MW) from Sterlite Energy.
- **Sterlite Energy (100% subsidiary of Sterlite) to be key growth driver.** Sterlite Energy has invested its entire equity contribution of 30% for the 2,400-MW merchant power plant at Jharsuguda; the project has achieved financial closure. With captive coal blocks (110mnte at Sterlite Energy and 211mnte at BALCO), the high, domestic merchant power demand and complete commissioning by FY11E will help generate steady state RoE of 30%. The company has also bid for the Tillaiyya UMPP in Q3FY09E.

Hindalco (Sell)

(QoQ chg: -39.7%; YTD chg: 7.3%)

Hindalco – Quarterly estimates (Standalone)

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	9MFY09E	9MFY08	YoY (%)
Net sales	34,039	45,317	(24.9)	(40.1)	137,346	141,693	(3.1)
EBITDA	4,050	8,006	(49.4)	(59.2)	23,508	26,066	(9.8)
PBT	3,465	7,067	(51.0)	(62.6)	22,062	23,403	(5.7)
PAT	**2,702**	**5,427**	**(50.2)**	**(62.5)**	**16,903**	**17,884**	**(5.5)**

Source: Company data, I-Sec Research

Novelis – Quarterly estimates (Standalone)

(US$ mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	9MFY09E	9MFY08	YoY (%)
Reported net sales	92,819	107,950	(14.0)	(28.7)	349,321	338,630	3.2
Net sales ex accretion of fair value reserves	89,891	104,951	(14.3)	(29.5)	341,191	330,350	3.3
Normalised EBITDA	3,546	5,131	(30.9)	(12.4)	11,465	16,721	(31.4)
PBT	(20,830)	(4,776)	(336.1)	42.2	(48,817)	(12,844)	(280.1)
Normalised PAT	**(13,748)**	**(4,934)**	**(178.6)**	**(90.5)**	**(27,236)**	**(13,692)**	**(98.9)**
Reported PAT	**(13,748)**	**513**	**(2,779.3)**	**(203.3)**	**(16,068)**	**(5,574)**	**188.3**

Source: Company data, I-Sec Research

- **Aluminium capacity loss-making, at current price of US$1,500/te.** We expect alumina production in Q3FY09 to increase 10% QoQ and 8% YoY, post commissioning phase I (0.21mnte) of Muri expansion. We expect alumina sales to increase (68% QoQ) on the back of shrinking aluminium price (US$1,837/te in Q3FY09) and margins. We expect the aluminium business to clock-in Rs15.3bn revenues and Rs3.6bn EBITDA in Q3FY09. Hindalco has planned domestic capex of Rs290bn, to be completed by FY14E.

- **Low contract TcRcs a deterrent.** We expect copper revenues to decline 40% QoQ and 33% YoY on account of 49% QoQ and 46% YoY drop in copper prices. Declining by-product realisations coupled with low contract TcRcs would lead to weak margin outlook for the domestic copper business (Q3FY09 EBITDA at Rs1.3bn, with margins at ~7%).

- **Novelis – Declining prices spell more trouble.** While declining aluminium prices will help Novelis reduce under-recoveries from aluminium price ceilings contracts as well as free-up working capital via reduced inventory, aluminium forwards and options entered (not classified as hedges) will impact P&L US$330mn in Q3FY09. Also, declining metal premium (muting effect of reducing raw material prices) will keep margins at 4%. However, cashflow impact will be positive in the period of declining prices.

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Equity Research

December 31, 2008

INDIA

Oil&Gas and Petrochemicals

OMCs on the forefront

Top picks

Cairn India
HPCL

We expect the I-Sec oil & gas universe to post 9.9% YoY earnings growth, led by Hindustan Petroleum Corporation (HPCL) & Bharat Petroleum Corporation (BPCL) posting significant earnings growth due to impressive retail margins. Reliance Industries' (RIL) to post 14.4% YoY earnings decline due to lower refining & petchem margins and lower crude realisations. Earnings of ONGC and Cairn expected to dip on lower crude realisations and lower production. GAIL to benefit from 29.6% YoY decline in subsidy burden, leading to 18.3% YoY earnings growth. Gujarat Gas Company (GGCL) to post marginal drop in earnings due to lower gas sales volumes and higher gas costs. Indraprastha Gas (IGL) to register impressive earnings growth on higher PNG & CNG sales volumes. Gross under-recoveries expected to decrease 66% YoY, led by 37% YoY drop in crude prices.

- **Super retail margins.** With fall in crude prices and the resulting impressive retail margins, OMCs' fundamentals would improve owing to profitable retail operations. MS and HSD retail margins have averaged at Rs6.6/litre and Rs2.5/litre in Q3FY09 versus Rs4.3/litre and Rs6.1/litre losses respectively in Q3FY08.
- **GRMs, petchem margins to remain under pressure.** GRMs and petchem margins would remain subdued on account of concerns on demand as well as significant capacity additions in India, China and Saudi Arabia within a year. Q3FY09 refining margins for India are US$1.6/bl versus US$5/bl in Q3FY08.
- **Gross under-recoveries to decline, in line with crude prices.** Q3FY09 witnessed average crude prices correcting 37.5% YoY to US$55.9/bl owing to concerns on demand, given the global financial meltdown; this resulted in gross under-recoveries declining 66.2% YoY to Rs72.9bn.
- **We are positive on OMCs and prefer HPCL** on the back of the company's higher marketing leverage and cheaper valuations. HPCL is currently trading at FY10E P/E of 7.4x, which is at significant 31% discount to BPCL's FY10E P/E of 10.7x
- **Favour Cairn in upstream space.** We are positive on Cairn due to the impending production commencement from the company's oil blocks in Rajasthan and significant free cash-flow generation going forward. At present, Cairn's stock price implies long-term crude price of US$53/bl vis-à-vis US$62/bl for ONGC. ONGC would remain under pressure due to worries on subsidy sharing, falling crude prices. RIL & Reliance Petroleum would also post weak results due to fall in refining & petchem margins and lower crude prices.
- **PNGRB policy favourable for Gujarat State Petronet**, which trades at 16.5% discount to fair value of Rs40/sh. Current prices imply 30% sharing towards corporate social responsibility (CSR) and ignored upside from possible removal of CSR.
- **Uncertainties impacting gas stocks.** GAIL would remain under pressure due to uncertainties over subsidy sharing, falling crude & petchem prices and HVJ pipeline tariffs. IGL would be under pressure on regulatory concerns. Although we are positive on GGCL, the company's would witness gas supply concerns till availability of RIL's KG Basin gas.

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Table 1: Quarterly summary

Company	Sales			EBITDA			PAT		
		% Chg			% Chg			% Chg	
(Rs mn)	OND-08*	(YoY)	(QoQ)	OND-08	(YoY)	(QoQ)	OND-08	(YoY)	(QoQ)
BPCL	238,592	(11.1)	(27.8)	20,314	364.8	NM	10,317	531.4	NM
Cairn	2,167	(18.8)	(32.4)	1,230	(22.0)	(50.5)	1,169	37.2	(62.8)
GAIL	57,330	33.4	(7.1)	10,791	23.7	(26.8)	7,352	18.3	(28.2)
GGCL	3,512	1.5	8.2	584	(8.8)	(1.4)	378	(3.5)	(3.8)
HPCL	225,702	(10.5)	(27.9)	21,214	1,332.3	NM	10,908	NM	NM
IGL	2,201	20.5	2.3	924	18.4	8.6	536	19.1	6.9
ONGC	120,305	(12.0)	(18.9)	63,534	(20.9)	(25.3)	33,679	(17.1)	(30.0)
RIL	281,146	(18.7)	(37.2)	55,124	(5.5)	(14.9)	33,293	(14.4)	(19.2)
Sector aggregate	930,955	(11.7)	(28.9)	173,716	11.2	42.9	97,632	9.9	116.3

NM: not meaningful as base numbers are negative; * October-December '08
Source: I-Sec Research

Key factors to watch

- Subsidy sharing formula for FY09 among OMCs, upstream companies and the Government
- Decision of Mumbai High Court on pricing and gas supply from KG Basin
- News on oil & gas finds
- Decision of Imperial Energy shareholders, as regards the takeover bid by ONGC Videsh (OVL)
- Retail MS and HSD price cuts
- Commencement of gas production for KG Basin; details of buyers
- Decision of the Tribunal on tax benefits for gas production from NELP blocks, as per Section 80 I(b)

Table 2: Industry under-recoveries

(Rs bn)

	Q3FY09E	Q3FY08	H1FY09
Gross under-recoveries	**72.9**	**215.8**	**928.5**
Sharing of under-recoveries			
Upstream	53.5	70.9	259.3
Oil bonds issued by Govt. of India	81.6	90.8	449.7
Downstream marketing companies	(62.2)	54.1	219.6
Total	**72.9**	**215.8**	**928.5**

Source: I-Sec Research

Table 3: Margin summary

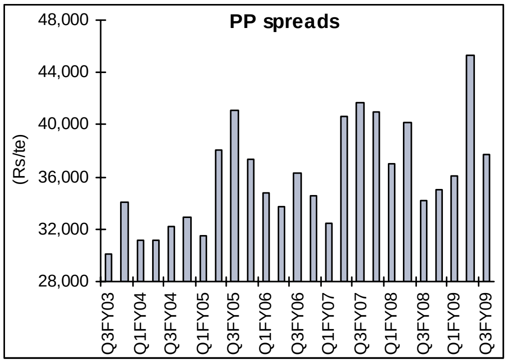
(% change)

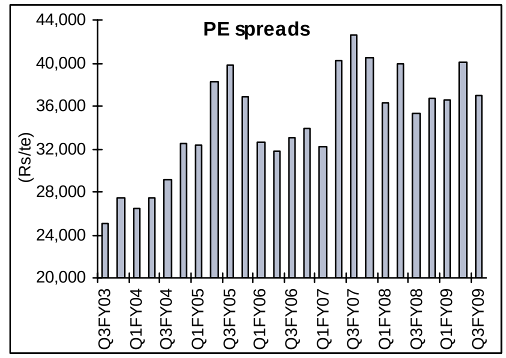
	Q3FY09E Margin/Price	% chg (YoY)	% chg (QoQ)	Key companies
PP - Naphtha spread (Rs/te)	37,752	10.4	(16.7)	RIL
PE - Naphtha spread (Rs/te)	36,941	4.5	(7.9)	RIL
MEG - Naphtha spread (Rs/te)	11,783	(64.7)	373.0	RIL
PTA - Naphtha spread (Rs/te)	23,886	37.4	6.5	RIL
HSD retail margins (Rs/litre)	2.5	NM	NM	HPCL, BPCL, RIL
MS retail margins (Rs/litre)	6.6	NM	NM	HPCL, BPCL, RIL
Gross refining margins (US$/bl)	1.6	(67.5)	(75.0)	HPCL, BPCL, RIL
Oil price (IPE Brent) (US$/bl)	55.9	(37.5)	(51.9)	ONGC

NM – Not meaningful as the base period numbers are negative
Source: RIL, Bloomberg, I-Sec Research

Chart 1: PP-Naphtha and PE-Naphtha spreads trend

PP-Naphtha spreads decline 17% QoQ, while PE-Naphtha spreads dip 8% QoQ on account of decline in demand

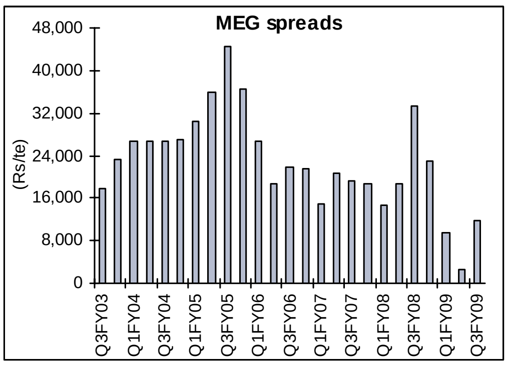


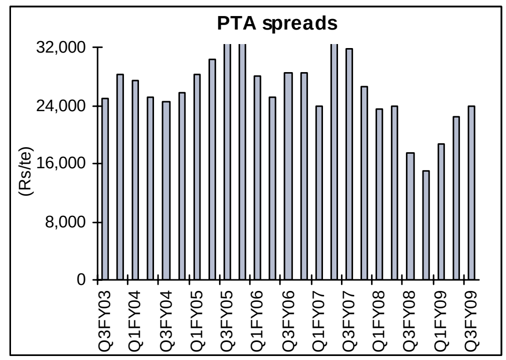


Source: RIL, Bloomberg, I-Sec Research

Chart 2: MEG-Naphtha and PTA-Naphtha spreads trend

MEG-Naphtha spreads significantly improve 372% QoQ due to sharp correction in naphtha prices. PTA-Naphtha spreads improve 7% QoQ

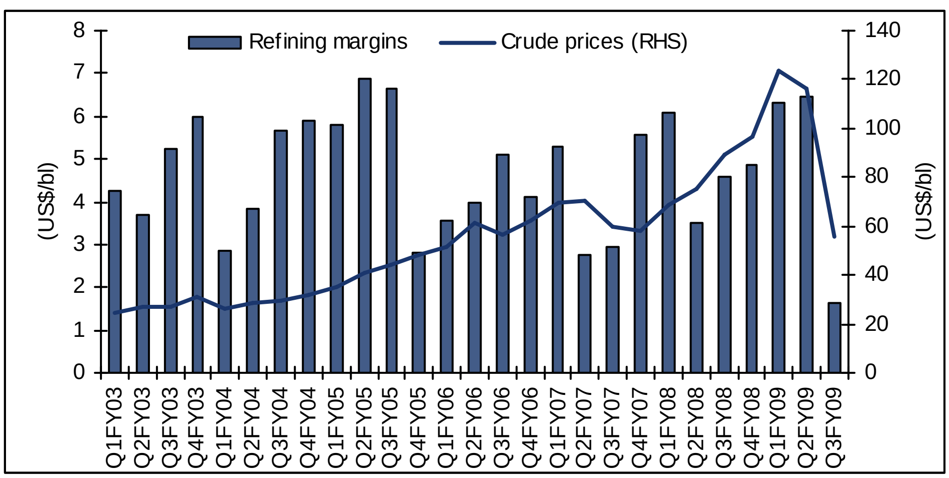




Source: RIL, Bloomberg, I-Sec Research

Chart 3: Refining margins, crude prices trend

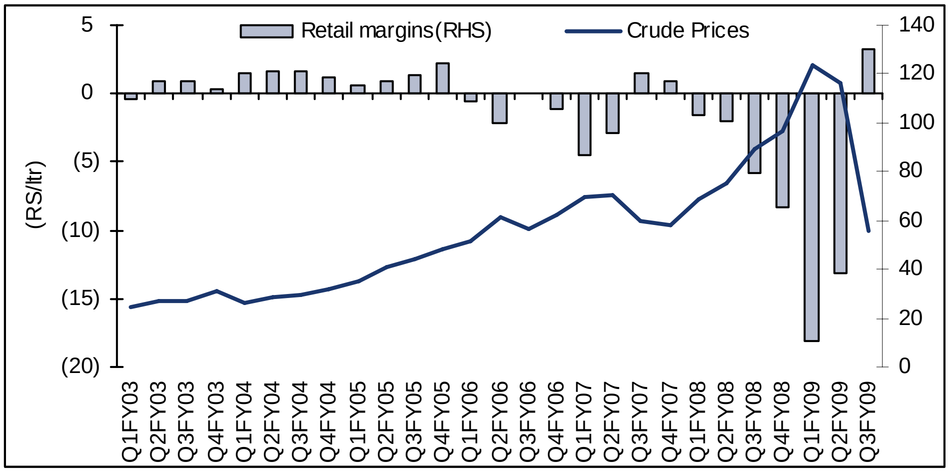
Average Q3FY09 GRMs sharply decline 65% YoY on account of sharp correction in gasoline, diesel and SKO (superior kerosene oil) spreads with crude



Source: IEA, BPCL, Bloomberg, I-Sec Research

OMCs' retail margins have become profitable on the back of sharp correction in crude price as well as relatively stable retail prices

Chart 4: Blended auto-fuel retail margin trend



Source: I-Sec Research

Table 4: Assumptions

BPCL	Mumbai GRM – US$1.0/bl; Kochi GRM – US$2.0/bl; Throughput – Mumbai (3.2mnte), Kochi (2mnte); Inventory losses – Rs7.9bn; Oil bonds – Rs17.7bn; Upstream sharing – Rs11.6bn; Gross under-recoveries – Rs16.3bn
Cairn India	Crude oil production (net) – 1.0mmbl; Natural gas production (net) – 2.8bcf
GAIL	Subsidy – Rs2.6bn, Gas transmission volume – 86mmscmd
GGCL	Total gas volumes (inc. CNG) – 262mmscm; CNG volumes – 29mmscm
HPCL	Mumbai GRM – US$1.0/bl; Vishakhapatnam GRM – US$2.0/bl; Throughput – Mumbai (1.8mnte), Vishakhapatnam (2.4mnte); Inventory losses – Rs6.5bn; Oil bonds – Rs15.5bn; Upstream sharing – Rs10.1bn; Gross under-recoveries – Rs13.8bn
IGL	CNG volumes – 158mmscm; CNG realisations – Rs12.5/scm; PNG volumes – 12.7mmscm; PNG realisations – Rs17.6/scm
ONGC	Crude sales– 5.8mnte; Natural gas sales – 5.2bcm; Subsidy – US$22.6/bl; Net realisations – US$34.2/bl, Total Subsidy – Rs46.5bn
RIL	Refining margins – US$5.2/bl; Refining throughput – 8.2mnte

Source: I-Sec Research

BPCL (Hold)

(QoQ chg: 6.1%; YTD chg: -25.9%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTD FY09*	YTD FY08	YoY (%)
Revenues	238,592	268,495	(11.1)	(27.8)	663,243	465,007	42.6
Bonds	17,693	20,789	(14.9)	(63.0)	105,484	25,391	315.4
EBITDA before bonds	2,621	(16,418)	NM	NM	(134,606)	(7,682)	NM
EBITDA after bonds	20,314	4,371	364.8	NM	(29,122)	17,709	NM
PBT	15,514	1,590	875.7	NM	(36,850)	15,601	NM
Recurring PAT	10,317	1,634	531.4	NM	(36,920)	10,321	NM
Reported PAT	10,317	2,913	254.2	NM	(36,920)	12,309	NM

* April-September
Source: Company data, I-Sec Research

- Revenues expected to decline 11.1% YoY to Rs239bn on account of 37% YoY decrease in global crude prices
- EBITDA, adjusted for bonds and upstream sharing, is expected to significantly improve 364.8% YoY to Rs20bn led by profitable retail operations, despite inventory losses and subdued GRMs. Q3FY09E net over-recoveries are expected to be Rs13bn compared with net under-recoveries of Rs11bn in Q3FY08
- Recurring standalone net income is expected to increase 254.2% YoY to Rs10bn due to higher EBITDA, despite 174.4% YoY increase in interest expenses
- Key swing factors are inventory gains, bonds, upstream subsidy, refining margins and international product prices (of LPG, kerosene, HSD and MS)

Cairn India (Buy)

(QoQ chg: -18.9%; YTD chg: -30.6%)

Quarterly estimates

(Rs mn, year ending December 31)

	Q4CY08E	Q4CY07	YoY (%)	QoQ (%)	YTDCY08*	YTDCY07*	YoY (%)
Revenues	2,167	2,667	(18.8)	(32.4)	10,401	7,455	39.5
EBITDA	1,230	1,577	(22.0)	(50.5)	7,465	5,094	46.5
PBT	1,771	1,196	48.1	(54.4)	8,350	4,695	77.8
Recurring PAT	1,169	852	37.2	(62.8)	6,142	3,535	73.7

*January-September
Source: Company data, I-Sec Research

- Revenues are expected to decline 18.8% YoY owing to 37% YoY decrease in crude prices and 5.4% YoY decline in crude production, despite 23.5% YoY increase in INR/USD exchange rates
- EBITDA is expected to decrease 22% YoY due to lower crude realisations, despite 14% fall in operating expenses
- Net income is expected to grow 37.2% YoY on the back of 356.9% increase in other income (Rs1.2bn) from investments and gain from foreign exchange fluctuations, despite lower EBITDA
- Key swing factors are production volumes, realisations, exploratory write-offs and exchange rates

GAIL (Buy)

(QoQ chg: -26.7%; YTD chg: -43.9%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTD FY09*	YTD FY08	YoY (%)
Revenues before subsidy	59,915	46,658	28.4	(8.9)	126,926	93,066	36.4
Subsidy	2,586	3,675	(29.6)	(35.5)	7,893	5,320	48.4
Revenue after subsidy	57,330	42,983	33.4	(7.1)	119,033	87,746	35.7
EBITDA	10,791	8,723	23.7	(26.8)	29,612	19,170	54.5
PBT	10,796	8,988	20.1	(28.2)	29,421	18,585	58.3
PAT	7,352	6,213	18.3	(28.2)	19,783	12,578	57.3

* April-September
Source: Company data, I-Sec Research

- Revenues are expected to increase 33.4% YoY led by higher LPG revenues due to decline in subsidies, higher petchem volumes, gas transportation volumes and LNG/gas trading volumes
- EBITDA is expected to improve 23.7% YoY due to higher LPG business
- Net income likely to increase 18.3% YoY on the back of higher EBITDA
- Key swing factors are a*d hoc* surprises on subsidies and gas trading

Gujarat Gas Company (Buy)

(QoQ chg: -27.1%; YTD chg: -66.5%)

Quarterly estimates

(Rs mn, year ending December 31)

	Q4CY08E	Q4CY07	YoY (%)	QoQ (%)	YTD CY08*	YTD CY07*	YoY (%)
Revenues	3,512	3,459	1.5	8.2	9,704	8,691	11.6
EBITDA	584	641	(8.8)	(1.4)	1,882	1,575	19.4
PBT	565	589	(4.1)	(1.4)	1,781	1,417	25.7
Recurring PAT	378	392	(3.5)	(3.8)	1,215	919	32.2

* January-September
Source: Company data, I-Sec Research

- Despite 20.1% YoY decline in gas sales volumes, revenues likely to rise 1.5% YoY driven by: i) growth in the high-value retail and CNG segments, ii) 20% and 4% price hikes for domestic and industrial customers respectively, effective April '08
- EBITDA margin to shrink ~190bps YoY to 16.6% owing to higher personnel expenses as well as higher gas cost (in rupee terms) due to weakening of the rupee against the US dollar
- Net income likely to decline a marginal 3.5% YoY due to 8.8% YoY decrease in EBITDA, despite 78% increase in other income
- Key swing factors are retail, CNG volumes, shift in gas sourcing basket, exchange rates and gas allocation policy

HPCL (Buy)

(QoQ chg: -16.1%; YTD chg: -23.9%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTD FY09*	YTD FY08	YoY (%)
Revenues	225,702	252,180	(10.5)	(27.9)	609,354	437,611	39.2
Bonds	15,511	18,990	(18.3)	(63.3)	93,360	23,550	296.4
EBITDA before bonds	5,703	(17,509)	NM	NM	(122,908)	(11,660)	NM
EBITDA after bonds	21,214	1,481	1,332.3	NM	(29,548)	11,891	NM
PBT	16,404	(219)	NM	NM	(41,010)	11,502	NM
Recurring PAT	10,908	(157)	NM	NM	(41,070)	7,661	NM
Reported PAT	10,908	(157)	NM	NM	(41,070)	7,661	NM

* April-September

Source: Company data, I-Sec Research

- Revenues are expected to decline 10.5% YoY to Rs226bn due to 37% YoY decrease in global crude prices
- EBITDA, adjusted for bonds and upstream sharing, is expected to significantly improve 1,332.3% YoY to Rs21bn led by profitable retail operations, despite inventory losses and subdued GRMs. Q3FY09E net over-recoveries are expected to be Rs12bn compared with net under-recoveries of Rs11bn in Q3FY08
- We expect recurring net income of Rs11bn in Q3FY09 vis-à-vis Rs157mn net losses in Q3FY08 due to higher EBITDA, despite 119.1% YoY increase in interest expenses
- Key swing factors are inventory gains, bonds, upstream subsidy, refining margins and international product prices (of LPG, kerosene, diesel and gasoline)

Indraprastha Gas (Buy)

(QoQ chg: -14.4%; YTD chg: -43.4%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTD FY09*	YTD FY08	YoY (%)
Revenues	2,201	1,827	20.5	2.3	4,059	3,358	20.9
EBITDA	924	781	18.4	8.6	1,606	1,437	11.8
PBT	814	678	20.2	8.4	1,405	1,211	16.1
PAT	536	450	19.1	6.9	939	813	15.5

* April-September

Source: Company data, I-Sec Research

- Revenues are expected to improve 20.5% YoY due to 20% & 19% increase in CNG & PNG sales volumes respectively
- EBITDA is expected to grow 18.4% YoY to Rs924mn; EBITDA margin is likely to remain flat YoY at 42%
- Net income is expected to surge 19.1% YoY to Rs536mn
- Key swing factors are CNG & PNG volumes and depreciation

ONGC (Buy)

(QoQ chg: -35.4%; YTD chg: -46.2%)

Quarterly estimates (Standalone)

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTD FY09*	YTD FY08	YoY (%)
Revenues before subsidies	166,826	197,470	(15.5)	(39.3)	548,352	336,790	62.8
Subsidy	46,521	60,800	(23.5)	(63.3)	224,730	74,480	201.7
Revenue after subsidy	120,305	136,670	(12.0)	(18.9)	323,622	262,310	23.4
EBITDA	63,534	80,318	(20.9)	(25.3)	202,608	163,376	24.0
PBT	53,383	66,716	(20.0)	(30.0)	176,263	146,094	20.7
PAT	33,679	40,607	(17.1)	(30.0)	114,013	96,272	18.4

* April-September
Source: Company data, I-Sec Research

- Revenues (adjusted for subsidy) are expected to decline 12% YoY due to 39% decrease in net realisations of crude and 3.5% fall in crude production, despite lower subsidy burden and 24% rise in INR/USD exchange rates
- EBITDA is expected to decrease 20.9% YoY on account of lower crude realisations, lower crude production and higher other expenses
- Net income is expected to decrease 17.1% YoY due to lower EBITDA margins, despite 70% increase in other income to Rs14.7bn
- Key swing factors are levies, subsidy, personnel expenses and recouped costs

Reliance Industries (Buy)

(QoQ chg: -34.4%; YTD chg: -56.1%)

Quarterly estimates (Standalone)

If RIL registers refining margin of US$9.5/bl (versus I-Sec estimate of US$8.5/bl), net income would increase to Rs35.8bn

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTD FY09*	YTD FY08	YoY (%)
Revenues	281,146	345,900	(18.7)	(37.2)	863,660	615,670	40.3
EBITDA	55,124	58,330	(5.5)	(14.9)	125,950	114,540	10.0
PBT	39,770	46,080	(13.7)	(19.2)	98,260	90,130	9.0
PAT (Recurring)	33,293	38,882	(14.4)	(19.2)	82,320	74,670	10.2
PAT (Reported)	33,293	80,790	(58.8)	(19.2)	82,320	74,670	10.2

* April-September
Source: Company data, I-Sec Research

- Revenues are expected to decline 18.7% YoY due to 37% YoY decrease in crude prices and lower petrochemical products prices
- EBITDA is expected to reduce 5.5% YoY to Rs55.1bn on account of lower GRMs, lower petchem margins and lower crude prices
- Net income is expected to decrease 14.4% YoY due to lower EBITDA and 77% increase in interest expenses
- Key swing factors are refining, petchem margins and crude prices

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Equity Research
January 6, 2009

Pharmaceuticals

In sweet spot

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Glenmark Pharma
Sun Pharma

Post the massive collapse in global financial markets in '08, the Street is expecting significant economic slowdown in '09. Hence, investors are more risk averse and are preferring defensive businesses. The Indian Pharma sector is well placed given stable growth and margins at lower attendant risks. Strong growth in the US generics market (driven by launches), more visibility on Para IVs, robust growth in emerging branded generics markets and healthy growth in the domestic market would help the sector post strong ~27% YoY earnings growth in the base business in FY10E. Issues related to the US FDA are the biggest risk to the sector. Q3FY09E PAT for the I-Sec Pharma universe is likely to be flat YoY at Rs14.7bn. Based on our 'pick & choose' investment strategy we reiterate Glenmark and Sun Pharma (SPIL) as our top BUYs in the sector. Dishman Pharma is our top mid-cap BUY in the sector.

- **Pharma to be in a sweet spot in '09.** With the sub-prime mortgage crisis leading to massive collapse in the financial markets globally in '08, the sharp slowdown in global economic growth is now a consensus. The once-in-a-century crisis shocked the investors globally by the speed at which the financial markets collapsed. In this light, investors have become highly risk averse and are largely interested in businesses with certainty and high earnings predictability such as FMCG and Pharma. Key growth drivers for '09 are accelerated ANDA launches, more visibility for Para IVs, robust growth in branded generics markets such as LatAm and East Europe and healthy growth in the domestic market. EBITDA margin is likely to remain stable at 22-24% with upward bias given the improving revenue mix. Issue related to the US FDA is the biggest risk to the sector, through it is more company specific with Ranbaxy hit the hardest, followed by SPIL's Caraco.

- **SPIL to report the highest PAT.** We expect the I-Sec Pharma universe to deliver a subdued performance (flat PAT at Rs14.7bn versus 14% YoY in Q2FY09) in Q3FY09. SPIL will report the highest PAT of Rs4.7bn (up 48% YoY powered by exclusivity for generics *Protonix*) and Dr. Reddy's (DRL) will post the highest PAT growth of 205% YoY to Rs1.64bn, mainly due to the launch of authorised generics version of *Imitrex*. Ranbaxy will likely report the worst performance with 58% dip in PAT to Rs757mn owing to US FDA issues. Glenmark's PAT will likely dip 52% to Rs1.36bn; however, excluding R&D income, growth will be 18% YoY. Even Cipla and Wockhardt are expected to post 20-25% YoY decline in PAT given the pressure on EBITDA margin.

- **Glenmark & SPIL, our top buys in the sector based on 'pick & choose' strategy.** We continue to reiterate our time-tested 'pick & choose' strategy with Glenmark and SPIL being top two BUYs among large-caps in the sector. The two companies are best in the business with superior operating discipline and track record, leading to consistent, market-beating RoI – Glenmark's stock has risen 13x & SPIL's 4x versus Sensex's 2x in the past five years. Dishman Pharma (we have recently initiated coverage) is our top mid-cap BUY in the sector.

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Key issues for '09

US generics – Key to growth

With pricing stabilising, we believe the US generics market will continue to offer attractive opportunities for disciplined players such as SPIL and Glenmark Pharma. With the competition likely to be intense, the only way to ensure sustainable long-term profitable growth would be building an ANDA pipeline with an appropriate mix of pure commodity generics products (easy to develop but with low margin) and niche generics such as Para IV, new drug delivery-based products, controlled substance and dermatology products. Over US$100bn worth drugs are slated to lose patent protection in the next decade. Based on this and with Governments (especially in regulated markets) rationalising healthcare cost, we expect the generics market to continue to grow 12-14% per annum. With India's established strengths – low cost and strong chemistry skill-set – we believe the country's share will further rise in the US generics market. Among the top-tier Indian pharma companies, SPIL and Glenmark enjoy stronger differentiated ANDA pipelines.

Table 1: ANDA pipeline at a glance

	Ranbaxy	SPIL	DRL	Glenmark	Total
No of ANDAs awaiting approval	98	96	65	40	299
Para IV s	19	15	26	6	66
No of Para IV settled*	5	3	3	1	12
% of niche ANDA in total	15-20	20-25	10-15	25-30	18-20
Intrinsic value of Para IV settled*					
US$mn	829	688	90	-	1,607
Rs per share	78	168	21	NA	
% of CMP	31	16	4	NA	16

* Certain to launch/launched
Source: Company data, I-Sec Research

More newsflow with respect to Para IVs

The key first-to-file (FTFs) ANDAs to watch for in '09 would be SPIL's generic *Protonix* (how long will SPIL continue to sell it given the litigation risk?), Ranbaxy's generic *Valtrex* (launch in December '09 as patent litigation has already been settled and the US FDA ban is likely to be resolved by then) and DRL-Alchemia's generic *Arixtra* (launch in Q4CY09).

Table 2: Para IV pipeline with upside

Indian Company	Brand name	Innovator	US Sales (US$mn)	Launch time	Settlement/ AG/LAR*	Sales (US$mn)	PAT (US$mn)	Upside to base EPS (%)
Sun Pharma	*Protonix*	Wyeth/Altana	2,000	Jan '08	LAR	275	200	57
	Ethyol	Medimmune	80	Mar '08	LAR	22	14	4
	Exelon	Novartis	210	End '12	Settlement	31	21	3
Ranbaxy	*Nexium*	AstraZeneca	3,380	May '14	Settlement	2,232	665	NA
	Valtrex	GSK	1,340	Dec '09	Settlement	174	91	12
	Flomax	Astellas/Boehringer Ingelheim	910	Mar '10	Settlement	117	70	89
	Caduet	Pfizer	500	Nov'11	Settlement	108	52	16
	Lipitor	Pfizer	7,200	Nov '11	Settlement	719	431	130
Dr. Reddy's	*Immitrex*	GSK	1,110	Nov '08	AG	138	25	20
	Exelon	Novartis	210	End '12	Settlement	24	13	5
	Arixtra	Sanofi/GSK	~300	Dec '09	-	100	25	13
Total			**17,240**			**3,940**	**1,607**	

* LAR – Launched at risk
Source: Company data, I-Sec Research

Strong 27% YoY growth in base earnings in FY10E

We expect the I-Sec Pharma universe to witness 13% YoY rise in sales to Rs430bn in FY10E, mainly led by international business. EBITDA margin will likely decline 80bps to 23.4% and aggregate PAT will rise a muted 14% YoY, mainly due to the absence of Para IVs – generic *Protonix* of SPIL and authorised generic *Imitrex* for DRL. However, base earnings (excluding Para IVs) will likely surge 27% YoY in FY10E. We expect the I-Sec Pharma universe to witness healthy 18% earnings CAGR through FY08-11E.

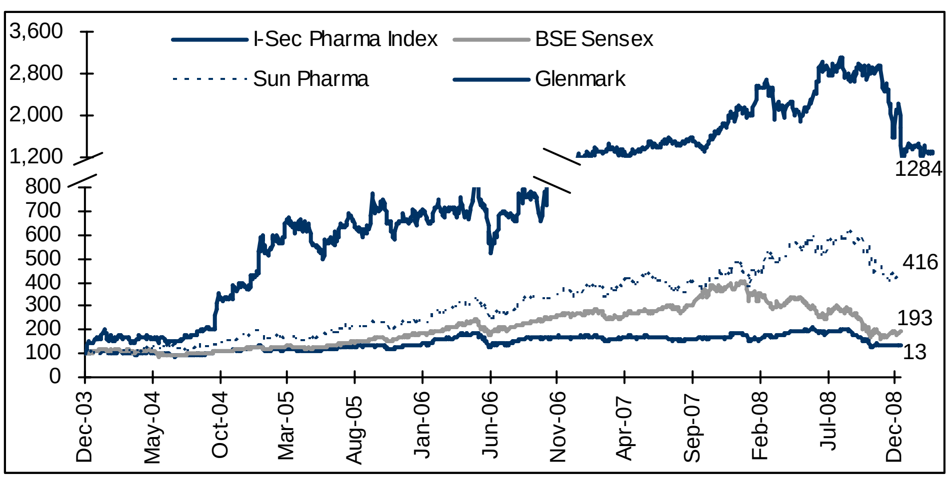
US FDA issues –Biggest risk

Reportedly, the US FDA has become stricter in the aftermath of ~250 deaths in the US owing to the blood thinner drug heparin, which is largely imported from China. This combined with the US FDA planning to set up its first ever office in India (New Delhi) later this month (subject to Government approval) imply stricter monitoring by the agency for Indian pharma manufacturing plants. In this light, the US FDA's actions have affected Ranbaxy the most (with the ban on 30 drugs) followed by Caraco. Clearly, this is a concern for the Indian Pharma sector, which is world's most competitive player in the US generics market. We believe Indian pharma companies would take appropriate and timely measures to solve current issues and avoid potential future lapses.

Pharma in better shape in current sluggish environment

Historically, defensive sectors such as Pharma have fared better in a bearish environment. This hypothesis has held in '08 – the I-Sec Pharma index lost 26% YoY versus 51% for the Sensex. With the expected economic slowdown in India and likely global recession in '09, investors will be averse to risk, and hence pharma should continue with its outperformance in '09 as well.

Chart 1: Our top BUYs comprehensively beat indices



Source: Company data, I-Sec Research

Based on this, high certainty, attractiveness of underlying earnings growth (27% YoY in FY10E for base business and 18% CAGR through FY11E) and inexpensive valuations (at FY10E P/E of 12x), we believe that Indian pharma sector will be in sweet spot in '09. This does not mean that all the stocks will perform well. We believe that companies with strong management, business models, higher growth certainty and newsflow visibility would fare better than most. In this context, we continue to favour Glenmark (fair value Rs441) and SPIL (fair value Rs1,482) as our top two large-cap BUYs. These companies have been our top buys during the bull market of ’03-07, performing significantly better than the Sensex and I-Sec Pharma index (Chart 1). Dishman (18-month fair value of Rs214) is our top mid-cap BUY in the sector.

Table 3: Quarterly summary

Company	Sales			EBITDA			Recurring PAT		
		% change			% change			% change	
(Rs mn)	OND ’08*	YoY	QoQ	OND ’08*	YoY	QoQ	OND ’08*	YoY	QoQ
Alembic	2,883	12.8	(15.6)	391	32.8	(35.4)	176	(9.6)	(53.1)
Aventis	2,274	11.5	(8.3)	397	36.7	(17.2)	387	43.2	(13.3)
Cadila	6,641	18.3	(10.0)	1,112	7.4	(27.1)	568	11.6	(46.8)
Cipla	12,548	24.7	(3.7)	2,849	2.0	(9.7)	1,800	(20.9)	18.8
Dishman Pharma	**2,480**	**20.0**	**(3.0)**	**546**	**37.1**	**2.2**	**297**	**57.5**	**(12.6)**
Divi's Lab	3,467	22.0	4.1	1,553	38.6	(3.2)	1,319	31.0	(2.6)
Dr. Reddy's	16,017	34.6	1.6	2,632	48.3	8.0	1,640	204.6	47.3
Glenmark	**5,852**	**(13.9)**	**4.3**	**1,877**	**(48.0)**	**10.8**	**1,365**	**(51.6)**	**22.6**
GSK Pharma	3,718	9.6	(18.6)	1,116	2.0	(37.7)	859	3.6	(34.9)
Ranbaxy	20,842	9.4	12.5	2,038	(32.2)	41.5	757	(58.0)	(1,649.6)
Sun Pharma	**11,383**	**41.6**	**(3.4)**	**4,808**	**35.6**	**(10.6)**	**4,723**	**48.4**	**(7.9)**
Wockhardt	9,172	20.4	(0.7)	2,290	20.5	8.7	796	(25.5)	22.5
Total	**97,277**	**18.7**	**(0.4)**	**21,608**	**3.6**	**(5.0)**	**14,686**	**0.0**	**2.2**

* October-December ’08
Source: I-Sec Research

Alembic (Buy)

(QoQ chg: -8.1%; YTD chg: 4.1%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Revenues	2,883	2,555	12.8	(15.6)	5,663	4,656	21.6
EBITDA	391	295	32.8	(35.4)	828	903	(8.3)
PBT	183	199	(7.7)	(52.9)	441	635	(30.6)
PAT	176	195	(9.6)	(53.1)	423	626	(32.4)

* Apr - Sept
Source: Company data, I-Sec Research

- Alembic's total revenues are expected to grow 13% YoY to Rs2.9bn. Domestic dosage form business is likely to remain flat YoY at Rs1.7bn on account of major restructuring undertaken by the company recently. Exports are expected to grow a strong 31% YoY to Rs1.1bn on the back of significant increase in exports to regulated markets.
- EBITDA margin is likely to improve 209bps to 13.2% on low base and better revenue mix. However, sharp 45% surge in interest cost and higher depreciation will lead to 10% YoY decline in net income to Rs176mn.

Aventis Pharma (Buy)

(QoQ chg: 16.2%; YTD chg: -5.2%)

Quarterly estimates

(Rs mn, year ending December 31)

	Q4CY08E	Q4CY07	YoY (%)	QoQ (%)	YTDCY08*	YTDCY07*	YoY (%)
Revenues	2,274	2,040	11.5	(8.3)	7,134	6,695	6.6
EBITDA	397	290	36.7	(17.2)	1,388	1,385	0.2
PBT	590	426	38.6	(14.3)	1,888	1,752	7.8
PAT	387	270	43.2	(13.3)	1,209	1,124	7.6

* Jan-Sep
Source: Company data, I-Sec Research

- Domestic dosage form gross sales are likely to grow a modest 4% YoY to Rs1.9bn dragged by continued poor sales of *Rabipur*, the company's top brand. Exports are expected to grow a strong 50% YoY to Rs497mn on low base.
- EBITDA margin is likely to improve 320bps to 17.4% led by favourable sales mix and better cost management during the quarter. Consequently, net profits will surge 43% YoY to Rs387mn.

Cadila Healthcare (Buy)

(QoQ chg: -13.8%; YTD chg: -1.1%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Revenues	6,641	5,614	18.3	(10.0)	14,236	11,577	23.0
EBITDA	1,112	1,035	7.4	(27.1)	3,142	2,429	29.4
PBT	645	646	(0.1)	(44.7)	2,393	1,748	36.9
PAT	568	509	11.6	(46.8)	2,081	1,473	41.3

* Apr-Sept
Source: Company data, I-Sec Research

- Total exports are expected to grow a robust 26% YoY to Rs2.9bn on the back of strong performance in dosage form exports, which are likely to increase 23% YoY to Rs2.2bn led by strong growth in the US and Europe. API exports are expected to grow 37% YoY to Rs696mn. Gross domestic sales are expected to grow 9% YoY to Rs3.9bn.
- EBITDA margin is likely to dip 147bps to 13.8%, mainly on account of 20% price reduction for pantoprazole, Cadila's most profitable product with ~70% NPM. The price reduction is as per the new contract, which provides for higher volume. Even price adjustment for H1FY09 will likely be factored in Q3FY09. Recurring net income is expected to grow 12% YoY to Rs568mn.

Cipla (Hold)

(QoQ chg: -12.6%; YTD chg: -1.0%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Revenues	12,548	10,065	24.7	(3.7)	24,732	19,182	28.9
EBITDA	2,849	2,793	2.0	(9.7)	5,856	3,847	52.2
PBT	2,174	2,667	(18.5)	19.6	3,522	3,789	(7.0)
PAT	1,800	2,277	(20.9)	18.8	2,915	3,104	(6.1)

* Apr-Sept
Source: Company data, I-Sec Research

- Cipla's total gross revenues will likely grow 24% YoY to Rs12.7bn, primarily on the back of strong 40% YoY surge in dosage form exports to Rs5.2bn. Gross domestic revenues are likely to grow a healthy 14% YoY to Rs5.9bn.
- EBITDA margin is expected to decline 358bps to 22%, mainly on account of pricing pressure given the rising competition and higher operating expenses. Consequently, recurring PAT will likely decline 21% YoY to Rs1.8bn. Given the poor show in H1FY09, it appears almost impossible for Cipla to achieve its FY09 guidance of 12-15% sales and PAT growth each.

Dishman Pharma (Buy)

(QoQ chg: -46.5%; YTD chg: 2.6%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Revenues	2,480	2,066	20.0	(3.0)	4,915	3,546	38.6
EBITDA	546	399	37.1	2.2	1,197	679	76.3
PBT	306	211	45.4	(11.9)	797	417	91.1
PAT	297	189	57.5	(12.6)	782	368	112.2

* Apr-Sept
Source: Company data, I-Sec Research

- Dishman Pharma is expected to report total revenue growth of 20% YoY to Rs2.5bn, primarily driven by strong 20% YoY growth in CRAMS. QUATS/ APIs are expected to grow 3% YoY to Rs529mn in the quarter.
- EBITDA margin is likely to expand 270bps to 22% led by better pricing, favourable sales mix and better cost efficiencies. Recurring net profit is expected to surge 58% YoY to Rs297mn. However, reported net profit will increase 4% YoY due to Rs98mn forex gain a year ago.
- Given significant market opportunity for contract manufacturing of API/intermediates in the next decade and rock-bottom valuations (at FY10E P/E of 6x), Dishman remains our top mid-cap BUY.

Divi's Laboratories (Buy)

(QoQ chg: 15.5%; YTD chg: -0.1%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Revenues	3,467	2,842	22.0	4.1	6,001	4,750	26.4
EBITDA	1,553	1,121	38.6	(3.2)	2,714	1,905	42.5
PBT	1,434	1,057	35.6	(3.9)	2,489	1,679	48.2
PAT	1,319	1,007	31.0	(2.6)	2,297	1,559	47.4

* Apr-Sept
Source: Company data, I-Sec Research

- Divi's Lab is expected to report total revenue growth of 22% YoY to Rs3.5bn, primarily driven by its custom synthesis business.
- EBITDA margin is likely to expand 535bps to 44.8%, primarily on the back of improving revenue mix. Recurring net profit will likely surge 31% YoY to Rs1.3bn.

Dr. Reddy's Laboratories (Buy)

(QoQ chg: -0.1%; YTD chg: 0.8%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Revenues#	14,743	11,895	23.9	1.6	30,572	24,351	25.5
EBITDA	2,632	1,774	48.3	8.0	4,597	4,512	1.9
PBT	1,378	924	49.0	32.7	2,283	2,708	(15.7)
PAT#	1,640	539	204.6	47.3	1,925	2,522	(23.7)

* Apr-Sept # excludes revenues from authorised generics version of *Imitrex* but PAT includes it
Source: Company data, I-Sec Research

- DRL's total gross revenues (excluding authorised generics version of *Imitrex*) are expected to grow 23% YoY to Rs14.8bn. Revenues from pharmaceutical services & active ingredients (PSAI) are expected to grow a strong 49% YoY to Rs4.4bn. The generics business is expected to grow 11% YoY to Rs10.4bn.
- EBITDA margin is likely to improve 105bps to 13.5% on the back of improving performance of betapharma on account of sourcing of products from Indian facilities and aggressive cost efficiencies. With the launch of authorised generic version of *Imitrex* on November 24, '08 in the US, the product is estimated to contribute ~Rs530mn to PAT. Consequently, total consolidated recurring PAT is expected to grow 205% to Rs1.6bn.

GlaxoSmithKline Pharma (Buy)

(QoQ chg: -0.6%; YTD chg:-0.1%)

Quarterly estimates

(Rs mn, year ending December 31)

	Q4CY08E	Q4CY07	YoY (%)	QoQ (%)	YTDCY08*	YTDCY07*	YoY (%)
Revenues	3,718	3,393	9.6	(18.6)	12,920	12,379	4.4
EBITDA	1,116	1,094	2.0	(37.7)	5,031	4,477	12.4
PBT	1,287	1,261	2.1	(34.9)	5,535	4,866	13.7
PAT	859	829	3.6	(34.9)	3,681	3,184	15.6

* Jan - Sept
Source: Company data, I-Sec Research

- Revenues are expected to rise 10% YoY to Rs3.7bn on the back of healthy growth in top brands and vaccine portfolio.
- EBITDA margin is likely to dip 280bps to 27.4%, primarily due to rising staff costs and higher other expenditure during the quarter. Recurring net income is expected to grow 4% YoY to Rs859mn during the quarter.

Glenmark Pharmaceuticals (Buy)

(QoQ chg: -31.0%; YTD chg: 1.7%)

Quarterly estimates#

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Revenues	5,852	6,794	(13.9)	4.3	10,217	7,263	40.7
EBITDA	1,877	3,609	(48.0)	10.8	3,104	2,312	34.2
PBT	1,483	3,292	(54.9)	14.6	2,443	1,783	37.0
PAT	1,365	2,820	(51.6)	22.6	2,267	1,426	59.0

* April - Sept
Source: Company data, I-Sec Research

- We expect Glenmark's consolidated product revenues to grow 17% YoY to Rs5.9bn. Gross domestic sales are likely to increase 18% YoY to Rs1.7bn, driven by product launches. Dosage form exports are expected to grow 16% YoY to Rs3.8bn on the back of strong revenue growth in LatAm, RoW and Europe. However, total operating revenues are likely to decline 14% YoY due to absence of Rs1.8bn (or US$45mn) R&D income (received from Eli Lilly as upfront milestone for outlicencing GRC6211).
- EBITDA margin (excluding R&D income) will likely decline 424bps to 32.1%, primarily due to above-normal margin (~60% EBITDA margin) earned a year ago from the launch of generic *Trileptal*, which enjoyed limited competition in the US. Recurring PAT is expected to decline 52% YoY to Rs1.37bn in the quarter. However, excluding R&D income, recurring PAT would grow a healthy 18% YoY despite the absence of any exclusivity products. The stock is currently trading at FY10E P/E of 7x on a consolidated basis and remains our top large-cap BUY in the sector.

Ranbaxy Laboratories (BUY)

(QoQ chg: 1.4%; YTD chg: 0.0%)

Quarterly estimates

(Rs mn, year ending December 31)

	Q4CY08E	Q4CY07	YoY (%)	QoQ (%)	YTDCY08*	YTDCY07*	YoY (%)
Revenues	20,842	19,053	9.4	12.5	54,629	50,974	7.2
EBITDA	2,038	3,007	(32.2)	41.5	7,078	7,574	(6.5)
PBT	860	2,216	(61.2)	244.0	3,930	4,919	(20.1)
PAT	757	1,800	(58.0)	(1,649.6)	2,755	4,269	(35.5)

*Jan-Sept
Source: Company data, I-Sec Research

- Consolidated revenues are expected to grow 9% YoY to Rs20.8bn on the back of strong growth in branded formulation exports markets such as CIS, Latin America, & Africa. However, the ongoing ban on 30 products in the US and absence of any launches will lead to meagre 3% sales growth in North America.
- EBITDA margin likely to crash 6pps to 9.8% due to the impact of US FDA issues, lower operating income and higher operating cost. Sharp surge in interest cost and falling margin will lead to 58% fall in consolidated recurring PAT to Rs757mn.

Sun Pharmaceutical (Buy)

(QoQ chg: -26.7%; YTD chg: -1.1%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Revenues	11,383	8,040	41.6	(3.4)	22,196	12,954	71.3
EBITDA	4,808	3,547	35.6	(10.6)	10,759	4,558	136.1
PBT	4,972	3,481	42.8	(11.8)	11,213	4,819	132.7
PAT	4,723	3,184	48.4	(7.9)	10,142	4,457	127.5

* April - Sept
Source: Company data I-Sec Research

- SPIL's net revenues are expected to grow a robust 42% YoY to Rs11.3bn, primarily on account of stellar 57% growth in exports to Rs6.8bn. This is powered by the marketing exclusivity for generics *Protonix* and *Ethyol*. Excluding these, exports will likely grow 11% YoY to Rs4.9bn. Gross domestic dosage form business revenues is expected to grow a strong 22% YoY to Rs4.8bn.
- EBITDA margin is likely to decline 190 bps to 42.2% due to high base and higher costs of acquired plants and larger infrastructure. We expect consolidated recurring net income to grow 48% YoY to Rs4.7bn. SPIL remains our #2 large-cap BUY in the sector.

Wockhardt (Hold)

(QoQ chg: -25.1%; YTD chg: 4.4%)

Quarterly estimates

(Rs mn, year ending December 31)

	Q4CY08E	Q4CY07	YoY (%)	QoQ (%)	YTDCY08*	YTDCY07*	YoY (%)
Revenues	9,172	7,620	20.4	(0.7)	26,442	18,912	39.8
EBITDA	2,290	1,901	20.5	8.7	6,153	4,490	37.0
PBT	1,588	1,210	31.3	15.3	4,115	3,532	16.5
PAT	796	1,069	(25.5)	22.5	2,961	2,770	6.9

* Jan-Sept
Source: Company data, I-Sec Research

- Wockhardt's revenues will likely grow 20% YoY to Rs9.2bn in Q4CY08E on the back of strong 22% YoY growth in dosage form exports to Rs6.7bn. Excluding the acquisition of Morton Grove Pharma, revenues will increase 19% YoY. Domestic revenues are expected to grow 16% YoY to Rs2.1bn on the back of strong 20% YoY growth in dosage form business.
- Wockhardt's EBITDA is likely to grow 21% YoY to Rs2.3bn, with EBITDA margin remaining stable at 24.9%. Recurring net profit is expected to crash 26% YoY to Rs796mn.

Earnings watch

		Key Data		Year	Valuation				Growth Rates (% YoY)				Forecasts (Rs mn)						Ratios			
					P/E (x)	P/ CEPS (x)	*EV/E (x)	Div. Yield (%)	Rec. EPS	Rep. EPS	EBITDA	Rev.	Rev.	EBITDA	Rec. PAT	Rep. PAT	Op. FCF (post-capex)	Rec. EPS (Rs)	EBITDA Margin (%)	RoE (%)	RoCE (%)	Net D/E (%)
PHARMA																						
Alembic	**BUY**																					
Price (Rs)	34	MCap (Rs mn)	4,735	FY07	5.7	4.2	5.6	3.4	25.4	(10.0)	7.6	10.1	6,946	1,167	824	707	145	5.9	16.8	23.0	13.6	97.5
52 week Hi/Lo (Rs)	98/21	MCap (US$ mn)	97.5	FY08	5.2	3.9	5.4	4.7	11.1	70.2	31.3	44.3	10,025	1,532	915	1,203	(984)	6.6	15.3	25.2	16.3	122.6
Free float (%)	39	*BVPS (Rs)	28	FY09E	5.0	3.0	4.2	5.0	3.9	(28.9)	18.1	16.6	11,689	1,809	951	856	521	6.9	15.5	25.6	16.1	108.5
Shares out (mn)	138.5	*Returns (%): 1 mo	9.8	FY10E	4.1	2.4	3.5	5.4	21.8	35.3	16.8	18.9	13,894	2,113	1,158	1,158	(102)	8.4	15.2	25.9	17.0	89.1
Year ending	March	12 mo	(64.0)	FY11E	3.2	1.9	2.5	5.9	26.5	26.5	19.8	19.4	16,588	2,532	1,465	1,465	649	10.6	15.3	26.7	18.3	72.1
Aventis	**BUY**																					
Price (Rs)	915	MCap (Rs mn)	21,078	CY06	12.3	11.2	7.8	4.0	7.2	16.7	(2.1)	10.0	8,821	2,220	1,707	1,693	1,279	74.1	25.2	31.1	31.6	(2.2)
52 week Hi/Lo (Rs)	1190/650	MCap (US$ mn)	434.0	CY07	14.6	12.9	10.2	2.0	(15.4)	(14.7)	(24.5)	(2.0)	8,640	1,675	1,444	1,444	(245)	62.7	19.4	22.5	23.0	(1.8)
Free float (%)	40	*BVPS (Rs)	257	CY08E	13.2	11.9	8.5	2.3	10.5	10.5	6.6	8.9	9,408	1,785	1,597	1,597	1,539	69.3	19.0	21.4	21.7	(1.6)
Shares out (mn)	23.0	*Returns (%): 1 mo	7.0	CY09E	11.1	10.1	6.7	2.4	19.0	19.0	18.4	14.0	10,728	2,113	1,899	1,899	716	82.5	19.7	21.8	22.1	(1.3)
Year ending	December	12 mo	(21.9)	CY10E	9.7	8.8	5.1	2.7	14.7	14.7	17.8	14.2	12,248	2,490	2,178	2,178	1,003	94.6	20.3	21.3	21.6	(1.1)
Cadila	**BUY**																					
Price (Rs)	274	MCap (Rs mn)	37,257	FY07	17.8	11.8	11.6	1.8	19.5	59.7	25.0	23.7	18,288	3,521	2,104	2,338	740	15.4	17.3	26.9	17.1	65.5
52 week Hi/Lo (Rs)	324/186	MCap (US$ mn)	767.1	FY08	15.0	11.8	9.8	1.9	18.8	10.2	29.7	26.9	23,213	4,566	2,500	2,576	(3,406)	18.3	17.7	25.9	15.9	90.5
Free float (%)	28	*BVPS (Rs)	85	FY09E	11.3	11.8	8.4	2.2	32.0	19.0	23.5	21.1	28,104	5,640	3,300	3,066	(32)	24.2	18.0	28.0	17.2	102.0
Shares out (mn)	136	*Returns (%): 1 mo	6.7	FY10E	9.7	11.8	6.9	2.9	17.2	26.1	21.9	18.1	33,187	6,878	3,867	3,867	1,276	28.3	18.7	27.0	17.8	84.6
Year ending	March	12 mo	(4.0)	FY11E	8.0	11.8	5.8	3.3	21.1	21.1	16.2	14.9	38,135	7,989	4,683	4,683	2,442	34.3	18.9	26.9	18.2	69.9
Cipla	**HOLD**																					
Price (Rs)	191	MCap (Rs mn)	148,424	FY07	22.5	19.4	18.3	1.2	8.6	9.9	4.8	19.5	35,620	8,115	6,598	6,678	(1,460)	8.5	22.8	24.3	22.1	7.1
52 week Hi/Lo (Rs)	245/145	MCap (US$ mn)	3,056	FY08	21.3	17.9	18.1	1.2	5.8	5.0	4.3	18.4	42,158	8,465	6,981	7,010	(4,546)	9.0	20.1	19.2	17.8	18.7
Free float (%)	60.64	*BVPS (Rs)	50	FY09E	22.2	17.8	13.5	1.1	(4.1)	(4.5)	34.4	23.2	51,956	11,379	6,695	6,695	1,360	8.6	21.9	16.1	14.5	16.5
Shares out (mn)	777.3	*Returns (%): 1 mo	2.8	FY10E	17.4	14.3	13.1	1.2	27.4	27.4	2.7	18.1	61,339	11,689	8,529	8,529	4,213	11.0	19.1	18.0	16.3	14.3
Year ending	March	12 mo	(10.2)	FY11E	15.0	12.5	11.3	1.2	16.1	16.1	16.3	17.9	72,324	13,590	9,902	9,902	5,815	12.7	18.8	18.0	16.7	12.4
Dishman Pharma	**BUY**																					
Price (Rs)	146	MCap (Rs mn)	11,748	FY07	14.4	10.8	14.8	0.7	67.1	80.4	81.5	109.6	5,786	1,151	824	917	(3,896)	10.1	19.9	33.7	14.1	185.0
52 week Hi/Lo (Rs)	454/119	MCap (US$ mn)	242	FY08	14.2	9.0	11.7	0.8	1.5	30.5	32.8	38.8	8,031	1,529	837	1,197	(2,921)	10.3	19.0	19.1	10.7	119.1
Free float (%)	39.3	*BVPS (Rs)	69.4	FY09E	8.1	5.6	7.6	0.8	76.6	(17.0)	57.0	26.3	10,140	2,401	1,477	993	82	18.2	23.7	24.1	14.5	101.5
Shares out (mn)	80.3	*Returns (%): 1 mo	18.0	FY10E	6.0	4.3	5.6	1.0	34.5	100.0	27.2	23.5	12,522	3,052	1,987	1,987	906	24.4	24.4	25.7	16.8	67.5
Year ending	March	12 mo	(62.5)	FY11E	4.5	3.3	4.2	1.3	32.4	32.4	22.8	22.1	15,289	3,750	2,631	2,631	1,285	32.3	24.5	26.0	19.2	39.3
Divi's Lab	**BUY**																					
Price (Rs)	1334	MCap (Rs mn)	86,202	FY07	40.7	36.9	31.9	0.2	197.6	167.3	119.8	88.9	7,347	2,746	2,115	1,859	128	32.7	36.5	48.6	35.9	33.9
52 week Hi/Lo (Rs)	1899/890	MCap (US$ mn)	1,775	FY08	24.6	21.8	20.1	0.3	65.4	87.0	57.5	42.0	10,435	4,324	3,597	3,476	1,499	54.2	40.8	51.5	43.4	14.4
Free float (%)	46.6	*BVPS (Rs)	133.3	FY09E	17.7	15.7	14.3	0.4	39.1	43.9	36.4	25.4	13,086	5,898	5,003	5,003	3,059	75.3	44.6	45.7	41.8	8.6
Shares out (mn)	64.6	*Returns (%): 1 mo	8.8	FY10E	14.0	12.5	11.0	0.4	26.1	26.1	25.1	23.7	16,193	7,380	6,310	6,310	3,607	95.0	45.2	38.8	36.5	6.7
Year ending	March	12 mo	(29.1)	FY11E	11.4	10.0	8.3	0.6	23.6	23.6	25.7	23.3	19,963	9,280	7,800	7,800	4,199	117.4	46.0	34.1	32.4	5.7
Dr. Reddy's	**BUY**																					
Price (Rs)	471	MCap (Rs mn)	79,024	FY07	8.4	6.0	5.2	0.9	497.9	558.3	412.2	176.6	65,139	16,555	9,434	9,659	4,302	56.3	25.4	31.1	17.9	64.7
52 week Hi/Lo (Rs)	740/380	MCap (US$ mn)	1,627	FY08	21.2	10.2	10.1	0.6	(60.6)	(54.6)	(49.3)	(23.8)	49,630	8,389	3,720	4,381	(1,070)	22.2	16.9	8.9	7.0	40.6
Free float (%)	72.5	*BVPS (Rs)	238	FY09E	13.9	8.0	7.8	0.8	52.8	29.8	26.8	18.9	58,990	10,641	5,685	5,685	986	33.9	18.0	12.2	10.0	31.9
Shares out (mn)	168	*Returns (%): 1 mo	(2.4)	FY10E	13.1	7.4	6.5	1.0	6.2	6.2	6.8	5.0	61,927	11,369	6,038	6,038	8,599	36.0	18.4	11.7	10.0	24.2
Year ending	March	12 mo	(33.8)	FY11E	10.6	6.3	5.2	0.9	24.0	24.0	17.6	11.6	69,125	13,368	7,485	7,485	2,817	44.6	19.3	13.0	11.4	17.6
GSK Pharma	**BUY**																					
Price (Rs)	1148	MCap (Rs mn)	97,273	CY06	27.0	25.5	18.4	3.1	16.7	8.6	12.9	4.9	16,193	5,274	3,607	5,510	2,791	42.6	31.0	33.4	34.2	0.5
52 week Hi/Lo (Rs)	1218/692	MCap (US$ mn)	2,003	CY07	24.0	22.9	15.8	3.7	12.2	(0.6)	14.6	2.4	16,574	6,044	4,046	5,475	5,263	47.8	34.5	31.3	31.7	0.4
Free float (%)	50.9	*BVPS (Rs)	163	CY08E	21.4	20.7	15.8	2.0	12.2	(17.1)	1.7	2.8	17,037	6,146	4,541	4,541	2,425	53.6	34.5	30.1	30.2	0.1
Shares out (mn)	84.7	*Returns (%): 1 mo	(0.3)	CY09E	18.9	18.3	13.8	2.3	13.3	13.3	13.4	10.7	18,857	6,968	5,146	5,146	4,609	60.8	35.5	28.8	28.7	0.1
Year ending	December	12 mo	12.3	CY10E	16.5	16.0	12.0	2.6	14.9	14.9	14.3	12.0	21,120	7,967	5,912	5,912	4,941	69.8	36.2	28.1	27.8	0.1
Glenmark	**BUY**																					
Price (Rs)	301	MCap (Rs mn)	74,974	FY07	25.3	20.9	19.5	0.2	279.7	252.2	210.6	74.1	12,220	4,262	3,039	3,100	(2,021)	11.9	34.9	57.3	23.6	147.0
52 week Hi/Lo (Rs)	736/211	MCap (US$ mn)	1,544	FY08	12.8	10.8	10.4	0.3	98.1	103.9	87.8	61.7	19,757	8,005	5,996	6,321	(2,580)	23.6	40.5	54.4	30.8	71.5
Free float (%)	46	*BVPS (Rs)	63	FY09E	9.3	8.0	7.7	0.4	36.8	30.0	30.7	33.4	26,350	10,460	8,216	8,216	1,983	32.3	39.7	46.1	31.6	47.7
Shares out (mn)	249	*Returns (%): 1 mo	7.0	FY10E	7.3	6.3	5.7	0.6	28.0	28.0	26.4	31.4	34,619	13,226	10,514	10,514	5,204	41.3	38.2	41.4	33.0	24.7
Year ending	March	12 mo	(47.6)	FY11E	5.4	4.8	4.0	0.8	35.1	35.1	30.6	32.0	45,705	17,279	14,204	14,204	6,299	55.8	37.8	38.3	34.3	9.5
Note: EPS on fully diluted basis																						
Ranbaxy	**BUY**																					
Price (Rs)	250	MCap (Rs mn)	112,863	CY06	22.0	16.1	16.7	2.8	147.9	95.0	246.0	17.3	61,268	8,956	5,132	5,103	(14,671)	11.4	14.6	20.5	11.0	156.7
52 week Hi/Lo (Rs)	660/164	MCap (US$ mn)	2,324	CY07	21.0	15.0	16.4	2.8	4.6	51.7	2.1	13.9	69,756	9,147	5,370	7,743	7,280	11.9	13.1	20.1	9.6	154.0
Free float (%)	65	*BVPS (Rs)	62	CY08E	32.2	18.5	12.8	-	(34.6)	(120.6)	(0.2)	9.3	76,235	9,127	3,510	(1,592)	6,963	7.8	12.0	8.0	6.9	58.5
Shares out (mn)	451.0	*Returns (%): 1 mo	17.2	CY09E	21.1	13.8	9.1	1.2	52.7	(436.6)	14.2	2.4	78,062	10,427	5,359	5,359	9,769	11.9	13.4	7.5	6.6	35.0
Year ending	December	12 mo	(40.5)	CY10E	17.3	11.4	7.2	1.8	21.9	21.9	21.3	16.0	90,547	12,643	6,535	6,535	9,762	14.5	14.0	7.8	7.0	28.2
Note: EPS on fully diluted basis																						
Sun Pharma	**BUY**																					
Price (Rs)	1044	MCap (Rs mn)	216,087	FY07	29.8	25.0	(0.4)	0.7	37.3	36.8	37.1	30.3	21,321	6,724	7,275	7,843	(1,387)	35.1	31.5	33.4	19.1	43.4
52 week Hi/Lo (Rs)	1558/870	MCap (US$ mn)	4,449	FY08	14.7	13.8	(0.8)	1.2	102.7	89.6	130.7	57.4	33,565	15,511	14,742	14,869	4,224	71.1	46.2	38.0	31.5	3.1
Free float (%)	30.4	*BVPS (Rs)	241.0	FY09E	12.0	11.3	(1.5)	1.3	21.9	20.9	19.9	28.1	42,988	18,592	17,974	17,974	6,742	86.7	43.2	28.9	27.2	2.2
Shares out (mn)	207	*Returns (%): 1 mo	0.8	FY10E	13.5	12.5	(2.2)	1.5	(11.1)	(11.1)	(12.5)	9.6	47,110	16,275	15,986	15,986	10,000	77.1	34.5	19.7	18.7	2.3
Year ending	March	12 mo	(6.9)	FY11E	11.2	10.4	(2.3)	1.6	20.9	20.9	19.9	22.9	57,895	19,512	19,330	19,330	8,314	93.2	33.7	20.3	19.2	2.3
Note: EPS on fully diluted basis																						
Wockhardt	**HOLD**																					
Price (Rs)	118	MCap (Rs mn)	12,874	CY06	4.4	3.6	5.7	4.2	10.0	(6.2)	21.8	22.4	17,290	4,003	2,918	2,413	(7,538)	26.7	23.1	31.0	12.3	1.9
52 week Hi/Lo (Rs)	440/88	MCap (US$ mn)	265	CY07	3.6	3.0	6.0	9.6	21.5	59.9	59.6	53.5	26,532	6,390	3,544	3,858	(16,108)	32.4	24.1	30.3	12.7	2.3
Free float (%)	26	*BVPS (Rs)	116	CY08E	3.4	2.7	4.8	8.5	6.0	(9.1)	32.1	34.2	35,614	8,443	3,757	3,509	1,498	34.3	23.7	27.1	12.2	2.0
Shares out (mn)	109	*Returns (%): 1 mo	22.0	CY09E	2.8	2.2	4.2	8.5	20.3	34.4	9.2	18.6	42,227	9,221	4,520	4,716	2,646	41.3	21.8	28.2	13.9	1.8
Year ending	December	12 mo	(72.7)	CY10E	2.3	1.9	3.4	10.2	22.9	17.8	18.9	15.9	48,960	10,962	5,554	5,554	2,633	50.8	22.4	29.0	15.5	1.5
Note: EPS on fully diluted basis																						

Prices as on January 5, '09; * BVPS - Book value per share; Returns - Absolute returns; Rec. - Recurring; Rep. - Reported; Rev. - Revenue

Source: I-Sec Research

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Equity Research
January 7, 2009

Power-Transmission/Equipment

Cautious outlook

Top picks
Jyoti Structures
KEC International

The I-Sec Transmission & Distribution (T&D) universe is expected to register healthy revenue growth of 21% YoY in Q3FY09 on the back of healthy orderbook; however, PAT growth would decline 15% YoY mainly on account of higher interest costs. Domestic order inflow mainly from Power Grid Corporation (PGCIL) is likely to remain strong through H2FY09 (including tenders already floated for some UMPPs); however, orders from state electricity boards (SEBs) would be impacted by their worsening financial health. On the exports front, order inflow is likely to be slow for the next few quarters, given the ongoing global recession and falling oil & commodity prices. Transformer manufacturing companies with high dependence on the private sector would see volatile quarterly performance, given holdback of corporate capex.

- **Order inflow to be impacted through H2FY09.** Domestic order inflow mainly from Power Grid Corporation (PGCIL) is likely to remain strong through H2FY09 (including tenders already floated for some UMPPs). However, overall order flow to transmission companies from SEBs and the exports market is likely to be impacted, given worsening financial health and ongoing slowdown, falling oil & commodity prices respectively. Transformer companies with high dependence on the private sector would see volatile quarterly performance during H2FY09 mainly due to pricing pressure, given new supply and holdback of capex by corporates.

- **Higher interest cost to impact profitability.** Jyoti Structures (JSL) and Kalpataru Transmission (KPTL) would post strong sales growth of 28% and 26% respectively on the back of robust orderbooks and better execution; but, margin pressure and increased interest cost would cap the profit growth. Kalpataru Transmission (KPTL) would be the laggard in transmission space, with net profits declining 42% YoY to Rs177mn owing to margin pressure and higher interest cost. Transformers & Rectifiers (T&R) would register strong profit growth of 19% owing to robust sales.

- **Inexpensive valuations.** In transmission space, we prefer companies with a judicious balance of domestic & exports markets and diversified business models with low risk profiles. However, based on superior earnings growth and higher upside potential, JSL remains our top pick in transmission; in transformers, margin-driven earnings growth will drive valuations.

Table 1: Comparative metrics

(Rs mn)	Sales			EBITDA			Recurring PAT		
		% change			% change			% change	
	OND'08*	YoY	QoQ	OND'08*	YoY	QoQ	OND'08*	YoY	QoQ
KEC international #	8,226	16.0	2.0	842	(17.9)	3.4	428	(18.1)	0.5
Kalpataru Power #	4,442	26.2	2.7	515	(1.4)	(1.5)	177	(41.6)	(20.6)
Jyoti Structures	4,418	27.9	5.0	525	20.0	4.9	209	3.7	3.9
VTL	1,564	9.5	(8.0)	346	5.8	(8.9)	231	1.5	(15.6)
T&R#	887	29.7	(21.0)	140	11.6	(23.5)	88	19.1	(25.7)
Sector aggregate	**19,538**	**20.8**	**0.6**	**2,368**	**(2.9)**	**(1.3)**	**1,132**	**(14.7)**	**(8.8)**

*October-December '08; # Standalone
Source: I-Sec Research

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KEC International (Buy)

(QoQ chg: -39.6%; YTD chg: 11.2%)

Quarterly estimates#

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	H1FY09	H1FY08	YoY (%)
Revenues	8,226	7,089	16.0	2.0	14,065	10,745	30.9
EBITDA	842	1,025	(17.9)	3.4	1,618	1,187	36.3
PBT	535	802	(33.3)	(1.5)	1,101	711	54.9
PAT	428	523	(18.1)	0.5	871	394	120.8

Standalone

Source: Company data, I-Sec Research

- KEC's net revenues would register a healthy 16% YoY growth to Rs8.22bn on the back of strong order of Rs47bn and pick up in execution.
- EBITDA margin would decline 423bps to 10.2% YoY on a high base. This combined with higher interest cost would lead to net profit declining at 18% YoY.
- We believe that KEC is well positioned, given earnings growth visibility owing to likelihood of pick-up in order inflows from PGCIL in H2FY09 and huge opportunities in global T&D. However order inflow from exports market is likely to remain slow in the coming few quarters. Besides, diversification in other growth areas of Railways (KEC already present in railway electrification) and Telecom offers potential upside.

Kalpataru Power Transmission (Hold)

(QoQ chg: -56.3%; YTD chg: 10.4%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	H1FY09	H1FY08	YoY (%)
Revenues	4,442	3,519	26.2	2.7	9,076	7,562	20.0
EBITDA	515	522	(1.4)	(1.5)	1,148	1,132	1.4
PBT	249	411	(39.3)	4.9	823	965	(14.7)
PAT	177	303	(41.6)	(20.6)	633	693	(8.6)

#standalone

Source: Company data, I-Sec Research

- Kalpataru Power Transmission's (KPTL) net revenues would register a strong 26% YoY growth to Rs4.4bn on the back of strong order book.
- EBITDA margin would decline 325bps to 11.6% YoY .This combined with higher interest cost would lead to net profit decline of 42% YoY to Rs177mn.
- We believe that KPTL has a well-balanced, diversified order book across the infrastructure space; however, order inflows, increasing competition across segments and rising input costs are key factors to watch through remaining FY09.

Jyoti Structures (Buy)

(QoQ chg: -11.6%; YTD chg: 0.0%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	H1FY09	H1FY08	YoY (%)
Revenues	4,418	3,455	27.9	5.0	8,224	6,148	33.8
EBITDA	525	438	20.0	4.9	981	766	28.2
PBT	325	320	1.5	(1.3)	645	537	20.3
PAT	209	202	3.7	3.9	407	330	23.2

Source: Company data, I-Sec Research

- JSL's net revenues would register a strong 28% YoY growth to Rs4.4bn on the back of strong order book.
- EBITDA margin is likely to decline 78bps to 11.9% YoY.
- We believe that JSL is currently trading at attractive, given earnings growth visibility of the domestic market on likelihood of pick-up in order inflow from PGCIL in H2FY09. Besides, focus on expanding presence in key emerging international markets via joint ventures augurs well for the company.

Voltamp Transformers (Buy)

(QoQ chg: -21.3%; YTD chg: 16.3%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	H1FY09	H1FY08	YoY (%)
Revenues	1,564	1,429	9.5	5.0	3,401	2,773	22.6
EBITDA	346	327	5.8	4.9	724	517	39.9
PBT	349	332	5.1	4.9	773	563	37.4
PAT	231	227	1.5	3.9	505	355	42.1

Source: Company data, I-Sec Research

- VTL's net revenues would witness a healthy 10% YoY growth to Rs1.56bn.
- EBITDA margin to decline 78bps to 22.1% YoY mainly due to pricing pressure in some sub-segments of power and dry-type transformers.
- We believe that VTL has competitive advantage owing to presence in niche segments and better product mix (of high-margin dry-type transformers that contribute 22% to the total order book). However, concerns on pricing pressure would keep stock price under pressure until oversupply risk eases.

Transformers & Rectifiers (India) (Buy)

(QoQ chg: -16.1%; YTD chg: 8.4%)

Quarterly estimates#

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	H1FY09	H1FY08	YoY (%)
Revenues	887	685	29.7	5.0	1,946	1,263	54.0
EBITDA	140	125	11.6	4.9	301	239	25.8
PBT	131	112	17.2	4.9	299	199	49.9
PAT	88	74	19.1	3.9	196	125	57.4

standalone

Source: Company data, I-Sec Research

- T&R's net revenues would witness a strong 30% YoY growth to Rs887mn on the back higher sales.
- EBITDA margin is likely to decline 255bps at 15.7% YoY on a high base.
- We believe that planned capacity expansion for expected transformer demand (245KV and above) and focus on exports are the key valuation growth drivers.

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Equity Research
January 2, 2009

ICICI Securities

Real Estate

Lean patch

Top picks

HDIL
Lanco Infratech

The I-Sec Real Estate universe is expected to report dismal Q3FY09 as we estimate revenues to remain flat on both YoY and QoQ basis, though PAT will likely dip 28% YoY and 9% QoQ. Real estate companies have struggled in Q3FY09 given the difficult operating macro environment led by tight liquidity and shrinking transaction volumes. Historically, H2 has always been the peak season, but dwindling sales in Q3FY09 will severely dent developers' hopes for any revival, leading to faster drop in property prices Q4FY09 onwards. Liquidity has started improving given that the debt refinancing window is open till June '09 (implying reduced short-term bankruptcy risk). We also expect PE transactions to pick up. Drop in home loan rates and financing cost of developers is a welcome respite. Also, we expect a shift in project portfolio of property companies towards affordable housing with less focus on commercial & retail developments. At the current price, stocks are fairly valued, with most concerns priced in. However, we do not anticipate significant up-movement from these levels. Our top picks in the sector are Housing Development Infrastructure (HDIL) & Lanco Infratech.

- **Continued negative trend in transaction volumes & prices.** The sector witnessed continued drop in transactions & selling prices. Monetary & fiscal measures clubbed with sharp 30%+ drop in property prices could provide impetus to the sector in terms of increased transaction volume (prices will take more time to stabilise).

- **Revenues & margins decline.** We expect earnings of real estate companies to remain under pressure due to lower transaction volume and margins. On a YoY basis, we expect revenues to remain flat; but, PAT will likely drop 28% YoY. Companies could report a drop in margins due to rising input and financing costs. We expect EBITDA and PAT margins to drop 13% YoY and 14% YoY respectively.

- **Significant execution risk.** Q3FY09 witnessed marginal project launches as developers deferred launches and extended timelines of ongoing projects. We expect further execution delay in office and retail space as demand slows down – two years delay in DLF's NTC Mill (in Mumbai) and Mall of India projects (in NCR) highlight the same. We expect developers to trudge the tightrope of funding their execution based on incremental cashflows from ongoing projects.

- **Valuations.** Real estate stocks have corrected significantly, underperforming the broader market 30% with companies trading at 20-40% discount to their NAVs. Bleak macro environment rules out significant up-movement. However, short-term sentiment could improve depending on incremental monetary and fiscal stimulus packages. At the current price, stocks are fairly valued, with most concerns priced in. However, we do not anticipate significant up-movement from these levels. Our top picks in the sector are HDIL and Lanco Infratech.

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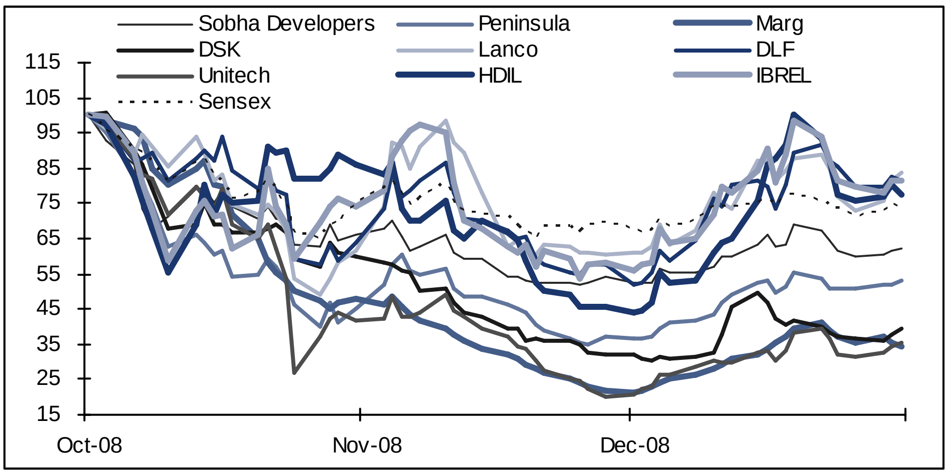
Table 1: Quarterly summary

Company	Sales			EBITDA			PAT		
		% Chg			% Chg			% Chg	
	OND'09*	(YoY)	(QoQ)	OND'09*	(YoY)	(QoQ)	OND'09*	(YoY)	(QoQ)
DLF	36,623	2.0	(2.0)	21,455	(14)	(3)	16,718	(22)	(14)
Unitech	9,322	(18.0)	(5.0)	5,054	(31)	(17)	3,329	(37)	(7)
HDIL	3,835	(23.0)	(20.0)	1,924	(42)	(29)	1,416	(48)	(47)
IBREL	3,761	(24.0)	162.0	3,078	(30)	484	1,970	(35)	2,363
Lanco	12,461	60.0	(3.0)	1,616	(8)	2	546	(34)	6
Sobha Developers	2,288	(36.0)	(22.0)	619	(36)	(34)	330	(46)	(33)
Peninsula Land	1,200	437.0	9.0	582	341	13	432	14	(21)
Marg	1,045	74.0	15.0	250	52	18	128	(4)	21
D. S. Kulkarni	780	(1.0)	(10.0)	76	(37)	26	52	(49)	15

* October-December '08

Source: I-Sec Research

Chart 1: Real estate stocks' quarterly performance



Source: Bloomberg

DLF (HOLD)

(QoQ chg: -18.3%; YTD chg: -73.6%)

Quarterly estimates (Consolidated)

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Revenues	36,623	35,980	1.8	(2.2)	75,550	63,240	19.5
EBITDA	21,455	25,010	(14.2)	(3.2)	45,615	44,680	2.1
PBT	21,102	24,600	(14.2)	(4.7)	44,868	44,750	0.3
PAT	16,718	21,450	(22.1)	(13.6)	37,993	35,340	7.5

* April - September
Source: Company data, I-Sec Research

- Q3FY09 revenues and EBITDA expected to be Rs36.6bn and Rs21.5bn, up 1.8% YoY and down 14.2% YoY respectively. Net income is expected to decline 22% YoY to Rs16.7bn.
- We expect DLF's Q3FY09 EBITDA margin to contract 11% YoY due to rising input costs and portfolio shift towards mid-income housing.
- DLF has a land-bank of ~751mn sqft and is involved in construction of ~70mn sqft. Our NAV estimate for DLF is Rs474/share with target price of Rs327.
- Funding of DLF Assets (DAL) and cash inflows from DAL to DLF are critical. We expect DLF to announce further delays in its aggressive office development plans.
- Over the past quarter, no incremental acquisition has happened in Bidadi (Bangalore); the land acquisition at Dankuni (West Bengal) has also been delayed, particularly owing to the political environment in Dankuni.

Unitech (Hold)

(QoQ chg: -64.8%; YTD chg: -92%)

Quarterly estimates (Consolidated)

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Revenues	9,322	11,421	(18.4)	(5.2)	20,148	18,791	7.2
EBITDA	5,054	7,344	(31.2)	(17.0)	12,176	10,282	18.4
PBT	4,135	6,539	(36.8)	(15.5)	10,060	9,472	6.2
PAT	3,329	5,258	(36.7)	(7.3)	7,822	7,758	0.8

* April - September
Source: Company data, I-Sec Research

- Revenues and EBITDA expected to be Rs9.3bn and Rs5.1bn, down 18.4% YoY and 31% YoY respectively. Net income likely to decline 36.7% YoY to Rs3.3bn.
- We expect Unitech's Q3FY09 EBITDA margin to contract 10% YoY due to rising input costs and shift from commercial to residential developments.
- Unitech has sufficient low-cost (~Rs200/sqft) land-bank of 706mn sqft across residential (532mn sqft), office (92mn sqft), retail (34mn sqft) and hospitality (11mn sqft). Our NAV for Unitech is at Rs113/share with target price of Rs57.
- Unitech has been aggressively pursuing assets sales across its hotel and office properties. It is also looking to sell stake in its telecom venture (40%). Further, the company has passed an enabling resolution (pending shareholder approval) to raise additional Rs50bn via equity or mezzanine structures. We believe any development on these capital raising exercises will be positive for the company. With Rs85bn of debt and negative operating cashflows, the company is dependent on asset sales to survive the downturn.

HDIL (Buy)

(QoQ chg: -22.3%; YTD chg: -85.4%)

Quarterly estimates (Consolidated)

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Revenues	3,835	4,966	(22.8)	(19.7)	10,476	9,082	15.4
EBITDA	1,924	3,336	(42.3)	(28.9)	7,361	4,925	49.5
PBT	1,546	3,079	(49.8)	(45.0)	6,184	4,854	27.4
PAT	1,416	2,707	(47.7)	(46.7)	5,836	4,321	35.1

* April - September
Source: Company data, i-SEC Research

- Revenues and EBITDA expected to be Rs3.8bn and Rs1.9bn, down 19% YoY and 42% YoY respectively. Net income is expected to decline 48% YoY to Rs2bn.
- We expect HDIL's Q3FY09 EBITDA margin to contract 17% YoY, though still remain healthy at 50%.
- Q3FY09 earnings will be dismal, primarily driven by sluggish sales of TDR. Work on phase I of the MIAL SRS project is ongoing, albeit at a slow pace. TDR prices have corrected sharply ~50%, reducing the profitability of the project; also sales of TDRs have decreased significantly.
- HDIL has been looking to sell stake in Versova (2mnsqft), Kurla (6mnsqft), Carmichael road in South Mumbai (0.06mnsqft) and in the ongoing SRS project (3mnsqft). These are high value properties with good short-term visibility. We expect the company to be successful in selling stake, thereby creating liquidity for its long gestation Mumbai airport project.
- Our NAV for HDIL is at Rs392/share with target price of Rs274/share.

Indiabulls Real Estate (Buy)

(QoQ chg: -18.7%; YTD chg: -83.4%)

Quarterly estimates (Consolidated)

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Revenues	3,761	4,918	(23.5)	161.5	2,564	1,201	113.5
EBITDA	3,078	4,411	(30.2)	483.7	1,100	821	34.0
PBT	3,035	4,234	(28.3)	621.1	822	734	12.0
PAT	1,970	3,033	(35.0)	2,363.0	211	544	(61.2)

* April - September
Source: Company data, I-Sec Research

- Revenues and EBITDA expected to be Rs3.8bn and Rs3bn, down 24% YoY and 30% YoY respectively. Net income is expected to decline 35% YoY to Rs1.9bn.
- We expect Indiabulls Real Estate (IBREL) to book stake sale (Rs2.9bn) in its Jupiter Mill and Elphinstone Mill projects to Indiabulls Property Investment Trust (IPIT) in this quarter.
- We expect the anchor tenants to occupy Jupiter Mill in Q4FY09. Work at Elphinstone Mill has been further delayed with the company looking for key anchor tenants before execution ramp-up.
- IBREL has a land bank of 94mnsqft (additional 157mnsqft SEZs); however, construction work is ongoing in only two residential properties in NCR and Chennai, while the remaining are seeing launch delays. Our NAV for IBREL is at Rs341/share with target price of Rs170.

Lanco (Buy)

(QoQ chg: -16.2%; YTD chg: -81.4%)

Quarterly estimates (Consolidated)

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Revenues	12,461	7,782	60.1	(2.6)	21,929	12,382	77.1
EBITDA	1,616	1,750	(7.7)	1.6	3,104	2,356	31.7
PBT	1,009	1,506	(33.0)	(0.2)	2,152	1,933	11.3
PAT	546	825	(33.9)	5.9	1,106	1,122	-1.4

* April - September
Source: Company data, i-SEC Research

- Revenues and EBITDA expected to be Rs12.5bn and Rs1.6bn, up 60.1% YoY and down 7.7% YoY respectively. Net income is expected to decline 33.9% YoY to Rs546mn.
- We expect Lanco's Q3FY09 EBITDA margin to contract 9.5% YoY from 22% to 13%, primarily on account of higher contribution to revenues from Lanco's power trading entity (low-margin) and the decline in revenues from high-margin real estate segment.
- Lanco has emerged as the sole bidder for 1,200MW coal-based power project in Rajpura, Punjab. Though the power project has higher land cost and higher landed cost of coal, the bid of Rs3.38/unit is lucrative. The bid is awaiting clearance from Punjab State Electricity Board.
- Lanco has divested 100% equity in its 18MW bio-mass power projects to Agri Gold Projects at Rs6bn. In case the transaction is booked this quarter, it could provide an upside to our earnings estimate.
- Lanco, currently, has 500MW capacity of operational power plant and a pipeline of 8,433MW (~2,480MW merchant and rest through power purchase agreements with state boards) to be operational by April '13. The company has sufficient fuel linkage tie-ups for its upcoming power plant projects.
- Amarkantak-I is expected to be commissioned by January '09. The power plant has achieved boiler light; however, the operations have still not stabilised. We expect the same to be achieved soon.
- We estimate Lanco's NAV at Rs296/share and are upbeat on the company owing to bright growth prospects and steep discounted valuations.

Sobha Developers (Buy)

(QoQ chg: -38%; YTD chg: -88.6%)

Quarterly estimates (Consolidated)

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Revenues	2,288	3553	(35.6)	(22.0)	6,402	5,952	7.6
EBITDA	619	961	(35.5)	(33.8)	1,952	1,495	30.6
PBT	385	707	(45.6)	(33.8)	1,261	1,181	6.8
PAT	330	611	(46.0)	(32.6)	995	970	2.6

* April - September
Source: Company data, i-SEC Research

- We expect Q3FY09 to be dismal for Sobha – Revenues expected to fall 36% to Rs2.3bn and PAT to decline 46% YoY to Rs330mn on account of slowdown in transaction volumes, higher input costs and increase in interest cost.
- We expect significant decline in transaction volumes. Sobha has seen slow ramp-up in project launches and is finding it particularly difficult to launch projects in the soft Bangalore market.
- Sobha is currently involved in ~36 projects of 12mn sqft. Our NAV for Sobha is at Rs282/share with target price of Rs169.

Peninsula Land (Hold)

(QoQ chg: -46.7%; YTD chg: -82.9%)

Quarterly estimates (Consolidated)

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Revenues	1,200	224	436.8	8.6	2,344	2,117	10.7
EBITDA	582	132	340.8	13.0	925	1,164	(20.5)
PBT	553	100	452.1	(9.1)	1,108	1,141	(2.9)
PAT	432	379	14.1	(20.8)	858	755	13.6

* April - September
Source: Company data, i-SEC Research

- We expect revenues and EBITDA to rise 437% to Rs1.2bn and 341% to Rs582mn respectively. The steep rise is due to marginal sales booked in Q3FY08 on account of stoppage of work at its Parel properties. Net income is expected to rise 14% YoY to Rs432mn.
- We expect Ashok Gardens and Dawn Mills projects to contribute to this quarter's revenue. Our NAV estimate for Peninsula land is Rs59/share with a target price of Rs29.5.

Marg (Buy)

(QoQ chg: -65.6%; YTD chg: -91.9%)

Quarterly estimates (Standalone)

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Revenues	1,045	601	74.0	15.0	1,716	934	83.8
EBITDA	250	164	52.3	17.9	402	269	49.6
PBT	199	189	5.2	18.7	323	201	60.6
PAT	128	133	(3.6)	20.8	210	147	42.8

* April - September
Source: Company data, i-SEC Research

- In Q3FY09, we expect Marg's revenue to rise 74% to Rs1bn and EBITDA to increase 52% YoY at Rs250mn. However, net income will remain flat YoY at Rs128mn.
- Revenue and PAT for the ongoing quarters will likely be driven by construction work at the SEZ and Kariakkal port project. Work is on track at the port project – we expect the port to become operational by March '09.
- We estimate Marg's sum-of-the-parts valuation to be Rs7.5bn or Rs291/share.

D. S. Kulkarni (Buy)

(QoQ chg: -60.4%; YTD chg: -93.9%)

Quarterly estimates (Consolidated)

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Revenues	780	790	(1.4)	(10.0)	1,925	2,337	(17.6)
EBITDA	76	121	(37.0)	26.4	168	287	(41.3)
PBT	75	122	(38.7)	27.4	166	299	(44.4)
PAT	52	103	(49.1)	14.7	123	260	(52.5)

* April - September
Source: Company data, i-SEC Research

- D. S. Kulkarni's (DSK) YoY performance is likely to be muted. We expect revenues to remain flat at Rs780mn and PAT to decline 49% YoY to Rs52mn.
- Revenues and valuations will depend on DSK's Fursangi SEZ project, for which the company is awaiting final approval. Our NAV estimate for DSK is Rs216/share with a target price of Rs108.

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Equity Research
January 6, 2009

INDIA

Technology

Rupee to rescue

On account of worsening macro environment and extended holidays in Q3FY09, volumes are likely to dip 0.25-1% QoQ for most large-caps. With challenging global macro and cross-currency volatility, we expect Infosys to even miss its lower-end dollar revenue guidance for the first time (on constant currency, guidance will be met) and report the first ever QoQ dip in dollar revenues (we expect large-caps to report 1-4% QoQ dip in dollar revenues). We expect management commentary for most companies to be weak even on pricing (versus the earlier flat billing outlook), which is a major margin headwind for FY10. However, with 11.4% QoQ average rupee depreciation, Q3FY09 results (rupee denominated) will likely be strong (especially on PAT front), which would offset margin blues via lower utilisation and cross-currency revenue impact. Companies such as Tech Mahindra (Unrated) & Infotech Enterprises (both with higher invoicing in Euro and pound) will likely underperform.

- **Cross-currency volatility to affect Q3FY09 dollar revenue growth ~4-5% QoQ.** With US dollar appreciating 23%, 16% & 11% versus Australian dollar, GBP & Euro (on an average) in Q3FY09, we believe reported dollar revenue growth will be affected 4-5% (Table 2), leading to significant dip in reported billing rates. We believe that Infosys' lowered dollar revenue growth guidance for FY09 (especially the higher end at 15%) will be at risk if cross-currency spot rate (as on December 31, '08) continue in Q4FY09. Thus, we do not rule out further lowering of Infosys' FY09 dollar guidance, though rupee EPS guidance may be raised.
- **Lowering FY10 outlook.** With the slowdown beyond BFSI, we believe that project ramp-up/starts will take more time (beyond Q4FY09) for most verticals. Even YoY cross-currency volatility is a risk to FY10 dollar revenues (affecting growth 2-3% YoY, Table 3). We lower FY10E dollar organic revenue growth to 3-7% for large-caps (except Satyam, for which we expect revenues to decline) from 9-12%. This would result in rupee EPS dipping or growing marginally (low single digit) in FY10 (Tables 4 & 5).
- **Cautious outlook maintained; we upgrade HCL Tech to HOLD & downgrade Info Edge to HOLD.** Sector valuations are inexpensive, but demand uncertainty will rule over low valuations and any major re-rating is unlikely in the short term. We do not have any BUY rating for large-caps. However, with >35% QoQ correction in HCL Tech, the valuation downside is limited; hence, we upgrade HCL Tech to HOLD from Sell. We reiterate SELL on Satyam given unfavourable risk-reward at current valuations and deteriorating corporate governance. We reiterate Infosys as our sectoral outperformer followed by Tata Consultancy Services (TCS). Our mid-cap top picks in the sector are Educomp & Allied Digital Services (ADSL). We expect lower growth in recruitment revenue to continue till H1FY10 for Info Edge and hence, downgrade it to HOLD from Buy.

Sector Outperformer (large-caps)

Infosys Technologies
TCS

Top picks (mid-caps)

Educomp
Allied Digital

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Recommendation change

Upgrade HCL Tech to HOLD

With >35% QoQ correction in HCL Tech's stock price in Q3FY09, the stock is now trading at FY09E & FY10E P/E of 6.4x & 7x (June ending) respectively. Despite hedging loss and integration of Axon with high discretionary revenues, which are the key risks to EPS estimates, we believe that the valuation downside is limited. At the current market price, the dividend yield of 7-10% is also likely to limit the downside. We maintain that Axon would benefit HCL Tech in the long term. However, in the short term, risks related to integration and slowdown in discretionary revenues (88% of Axon revenues come from consulting and package implementation) are likely. As current valuations factor in some of these risks, we upgrade HCL Tech to HOLD with Rs140/share target price.

Downgrade Info Edge to HOLD with reduced target price of Rs430

We believe continued slowdown in the Indian economy would directly affect Info Edge's recruitment revenues (forming 85% of total revenues), especially of its online portal naukri.com. Higher utilisation of existing resources and increase in efficiency and productivity across sectors would lead to lower hiring by most corporates, thereby directly affecting recruitment revenues. Accordingly, we expect Info Edge to post single-digit revenue growth of 9.7% YoY in Q3FY09E, the lowest ever.

We expect lower growth in recruitment revenue to continue till H1FY10 and hence lower FY09E & FY10E revenue estimates 7.2% and 14.7% respectively. We believe current valuation at FY09E P/E of 19.8x is not cheap given mere 12% EPS CAGR over FY08-11E (still factoring in higher 17% EPS CAGR over FY09E-11E). We downgrade Info Edge to HOLD from Buy with reduced DCF-based target price of Rs430/share from Rs582/share earlier. In the prevalent challenging environment, the stock may trade at a discount to our DCF-based target price and we expect the stock to remain under pressure in the short term. However, we continue to remain positive on the business model, which provides significant operating leverage and huge cashflows.

Table 1: Info Edge – Earnings revision

	Old estimates			Revised estimates			% chg		
	FY09	FY10	FY11	FY09	FY10	FY11	FY09	FY10	FY11
Revenues	2,750	3,381	4,096	2,552	2,884	3,452	(7.2)	(14.7)	(15.7)
EBITDA	741	960	1,209	660	759	938	(10.9)	(21.0)	(22.4)
EPS	21.8	27.2	33.7	21.0	23.9	28.8	(3.7)	(12.2)	(14.5)

Source: I-Sec Research

Table 2: Impact of cross-currency volatility on Q3FY09 dollar revenues (Infosys as case study)

		GBP	Euro	AUD
Invoicing proportion	Q2FY09	13.3	7.2	4.4
	Q3FY09E	12.8	7.5	4.3
Average rates per (US$)	Q2FY09	1.9	1.5	0.9
	Q3FY09E	1.6	1.3	0.7
% QoQ change in rates	Q2FY09	(5.6)	(4.5)	(8.4)
	Q3FY09E	(16.1)	(11.4)	(22.7)
Weighted average impact on US$ revenues (%)	Q2FY09		(1.7)	
	Q3FY09E		(3.9)	

Source: Company data, I-Sec Research

Table 3: Impact of cross-currency volatility on FY10 dollar revenues (Infosys as case study)

		GBP	Euro	AUD
Invoicing proportion	Q4FY10E	12.0	7.8	4.0
	FY10E	12.0	7.8	4.0
Average rates per (US$)	FY09E	1.7	1.4	0.8
	Q3FY09 end	1.5	1.4	0.7
	FY10E	1.5	1.4	0.7
% YoY change in rates	FY10E	(15.2)	(3.2)	(11.8)
Weighted average impact on US$ revenues (%)	FY10E		(2.5)	

Source: Company data, I-Sec Research

Table 4: Revised dollar revenue estimates of large-caps

Company $ revenue	FY08	FY09E old	FY09E new	FY10E old	FY10E new	CQoQ FY10E new	FY11E old	FY11E new	Comments
Infosys	**4,178**	**4,852**	**4,717**	**5,336**	**4,893**	**1.5%**	**6,372**	**5,751**	Downgrades largely on the back of demand slowdown and cross-currency volatility
Revision (%)			*(2.8)*		*(8.3)*			*(9.7)*	
YoY (%)		*16.1*	*12.9*	*10.0*	*3.7*			*17.5*	
TCS (with CGSL)	**5,698**	**6,352**	**6,202**	**6,988**	**6,588**	**1.5%**	**8,349**	**7,727**	Revised estimates include the recently acquired CGSL. Organic growth downgrades largely on the back of demand slowdown and cross-currency volatility. Excluding CGSL, downgrade revision would be 3.5%, 9.7% and 10.7% for FY09E-FY11E respectively
Revision (%)			*(2.4)*		*(5.7)*			*(7.4)*	
YoY (%)		*11.5*	*8.9*	*10.0*	*6.2*			*17.3*	
Satyam	**2,138**	**2,620**	**2,556**	**2,849**	**2,547**	**0.3%**	**3,411**	**2,923**	Downgrades largely on the back of demand slowdown and cross-currency volatility. We are conservative on risk relating to vendor consolidation and its impact on Satyam's growth post issues on corporate governance
Revision (%)			*(2.4)*		*(10.6)*			*(14.3)*	
YoY (%)		*22.5*	*19.6*	*8.7*	*(0.4)*			*14.8*	
Wipro-IT services only (with CITOS)	**3,647**	**4,451**	**4,372**	**4,891**	**4,568**	**1.7%**	**5,796**	**5,364**	Revised estimates are including the recently acquired company CITOS. Organic growth downgrades largely on the back of demand slowdown and cross-currency volatility. Excluding CITOS, downward revision would be 1.8%, 8.3% and 8.9% for FY09E-FY11E respectively
Revision (%)			*(1.8)*		*(6.6)*			*(7.5)*	
YoY (%)		*22.0*	*19.9*	*9.9*	*4.5*			*17.4*	
HCL Tech (with Axon)	**1,878**	**2,161**	**2,259**	**2,430**	**2,585**	**1.6%**	**2,908**	**3,042**	Revised estimates include the recently acquired Axon (~20% of organic sales). Organic growth downgrades largely on the back of demand slowdown and cross-currency volatility. Excluding Axon, downward revision would be 4.8%, 9.3% and 9.9% for FY09-FY11E respectively
Revision (%)			*4.5*		*6.4*			*4.6*	
YoY (%)		*15.1*	*20.3*	*12.4*	*14.4*			*17.7*	

Source: Company data, I-Sec Research

Table 5: Valuation summary

Company	Rating	Price (Rs)	EPS (Rs) FY09E	EPS (Rs) FY10E	EPS (Rs) FY11E	P/E (x) FY09E	P/E (x) FY10E	P/E (x) FY11E	EV/EBITDA (x) FY09E	EV/EBITDA (x) FY10E	EV/EBITDA (x) FY11E
HCL Technologies*	HOLD	126	19.6	18.1	22.0	6.4	7.0	5.7	4.1	4.0	3.3
Infosys Technologies	HOLD	1,173	101.3	99.9	108.6	11.6	11.7	10.8	8.2	7.6	6.1
Infotech Enterprises	HOLD	106	20.4	20.3	22.5	5.2	5.2	4.7	1.9	1.4	1.1
MphasiS $	BUY	168	20.9	22.0	22.5	8.0	7.6	7.5	4.6	3.9	3.2
Patni Computer Systems**	HOLD	139	27.5	28.0	29.5	5.1	5.0	4.7	0.9	0.8	0.1
Satyam Computer	SELL	167	33.9	28.5	29.7	4.9	5.9	5.6	2.3	2.0	1.4
Tata Consultancy Services	HOLD	515	55.3	54.9	59.0	9.3	9.4	8.7	6.3	6.1	5.3
Wipro	HOLD	246	26.0	26.5	28.2	9.5	9.3	8.7	6.3	5.6	4.8
3i Infotech#	U.R.	40	14.3	15.5	17.0	2.8	2.6	2.4	5.6	4.9	4.4
Nucleus Software	HOLD	52	9.5	11.9	11.4	5.5	4.4	4.5	1.0	0.9	0.9
NIIT Ltd	HOLD	29	4.1	4.3	5.4	7.1	6.8	5.4	6.7	5.7	4.5
Educomp Solutions	BUY	2,645	76.9	136.3	214.3	34.4	19.4	12.3	16.6	8.9	6.5
Infoedge	HOLD	413	21.0	23.9	28.8	19.7	17.3	14.3	11.7	9.3	6.6
OnMobile	BUY	239	14.1	21.2	26.6	16.9	11.3	9.0	10.8	7.3	5.8
Allied Digital India	BUY	366	55.0	77.0	91.2	6.7	4.8	4.0	4.9	3.2	2.5

*Year-ending June and EPS after ESOP charges; **Year-ending December; #EPS on equity base of 174mn shares and rating under review; $ estimates based on March year end and before October '08 month results, new estimates are under review.
Source: Company data, I-Sec Research

Table 6: EPS and target price revision

Company	New EPS (Rs)			EPS revision (%)			Target price (Rs)	
	FY09E	FY10E	FY11E	FY09E	FY10E	FY11E	New	Revision %
HCL Technologies*	19.6	18.1	22.0	(7.9)	(15.3)	(12.9)	140	(15.2)
Infosys Technologies	101.3	99.9	108.6	(0.8)	(8.1)	(8.4)	1,250	(11.3)
Infotech Enterprises	20.4	20.3	22.5	(1.0)	(1.1)	(1.3)	130	-
Patni Computer Systems**	27.5	28.0	29.5	2.2	(5.0)	(5.3)	NA	NA
Satyam Computer	33.9	28.5	29.7	0.6	(18.4)	(19.6)	160	(51.5)
Tata Consultancy Services	55.3	54.9	59.0	(6.1)	(12.8)	(14.0)	550	(10.6)
Wipro	26.0	26.5	28.2	(0.6)	(8.8)	(12.3)	265	(15.9)
3i Infotech#	14.3	15.5	17.0	(0.4)	(0.1)	0.1	NA	NA
Nucleus Software	9.5	11.9	11.4	0.1	(0.1)	0.4	NA	NA
NIIT	4.1	4.3	5.4	(0.8)	(7.6)	(7.3)	34	(12.8)
Educomp Solutions	76.9	136.3	214.3	0.0	0.0	0.0	3,990	-
Infoedge	21.0	23.9	28.8	(3.8)	(12.2)	(14.5)	430	(26.1)
OnMobile	14.1	21.2	26.6	0.0	0.0	0.0	425	-
Allied Digital India	55.0	77.0	91.2	(2.5)	(0.1)	(0.0)	525	-

*Year-ending June and EPS after ESOP charges; **Year-ending December; #EPS on equity base of 174mn shares and rating under review
Source: Company data, I-Sec Research

Table 7: Quarterly summary

Company (Rs mn)	Sales			EBITDA			PAT		
	OND '08*	% YoY	% QoQ	OND'08*	% YoY	% QoQ	OND '08*	% YoY	% QoQ
HCL Technologies	25,624	41.1	8.1	5,420	39.5	2.1	3,660	17.8	8.5
Infosys Technologies	56,917	33.3	5.1	18,881	32.6	5.2	15,440	27.5	7.8
Infotech Enterprises	2,277	28.8	2.8	422	31.6	(7.6)	228	14.9	(34.7)
Patni Computer Systems	8,469	23.4	(0.6)	1,397	23.2	(0.1)	830	(16.8)	(26.5)
Satyam Computer	30,113	37.2	6.8	6,950	47.5	6.8	6,031	39.1	3.8
Tata Consultancy	73,282	23.7	5.4	19,581	24.0	7.6	13,781	3.6	9.2
Wipro	67,466	28.9	5.3	13,219	32.5	5.5	9,797	18.6	3.5
3i Infotech	6,041	90.4	0.4	1,149	71.9	0.6	640	32.1	(6.4)
Nucleus Software	800	8.6	6.0	120	(35.0)	43.1	82	(47.2)	100.8
NIIT	2,803	17.4	(9.4)	255	12.1	(37.1)	133	(4.0)	(32.8)
Educomp Solutions	1,306	82.6	33.1	720	115.7	42.0	352	85.3	38.7
Info Edge	601	9.7	(8.0)	150	(2.7)	(2.4)	147	12.2	(5.0)
Allied Digital	1,727	117.8	16.0	345	111.5	22.9	271	123.9	12.7
OnMobile	1,109	37.8	13.8	403	2.7	47.4	240	(6.4)	31.1

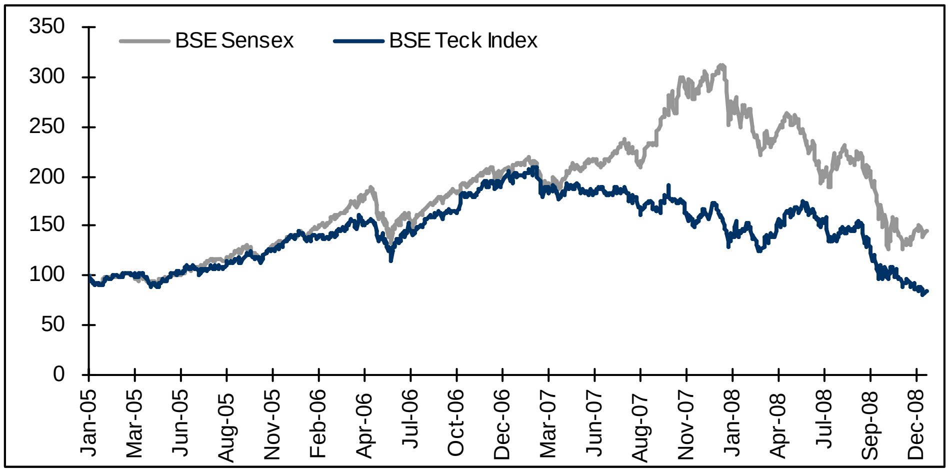
OND = October-December
Source: I-Sec Research

Table 8: Stock performance

	Absolute performance (%)			Relative to Sensex (%)		
	MoM	QoQ	YoY	MoM	QoQ	YoY
3i Infotech	19.6	(28.7)	(71.6)	7.5	(15.8)	(20.9)
Allied Digital Services	43.0	(38.1)	(66.0)	30.9	(25.2)	(15.4)
Educomp Solutions	25.1	(4.8)	(40.3)	12.9	8.2	10.3
HCL Technologies	7.9	(35.3)	(57.9)	(4.3)	(22.3)	(7.3)
Info Edge (India)	3.4	(16.4)	(69.7)	(8.8)	(3.4)	(19.1)
Infosys Technologies	1.3	(11.1)	(28.4)	(10.9)	1.9	22.2
Infotech Enterprises	8.5	(45.2)	(64.1)	(3.6)	(32.3)	(13.5)
NIIT	22.8	(26.3)	(79.7)	10.6	(13.4)	(29.1)
Nucleus Software Exports	6.9	(47.6)	(85.9)	(5.2)	(34.7)	(35.3)
OnMobile Global	17.1	(44.8)	NA	4.9	(31.8)	NA
Patni Computer Systems	4.4	(20.9)	(55.2)	(7.8)	(8.0)	(4.6)
Satyam Computer	(25.2)	(43.2)	(59.6)	(37.4)	(30.3)	(8.9)
Tata Consultancy Service	(1.3)	(16.8)	(47.2)	(13.5)	(3.8)	3.4
Wipro	3.1	(22.8)	(49.2)	(9.1)	(9.8)	1.5

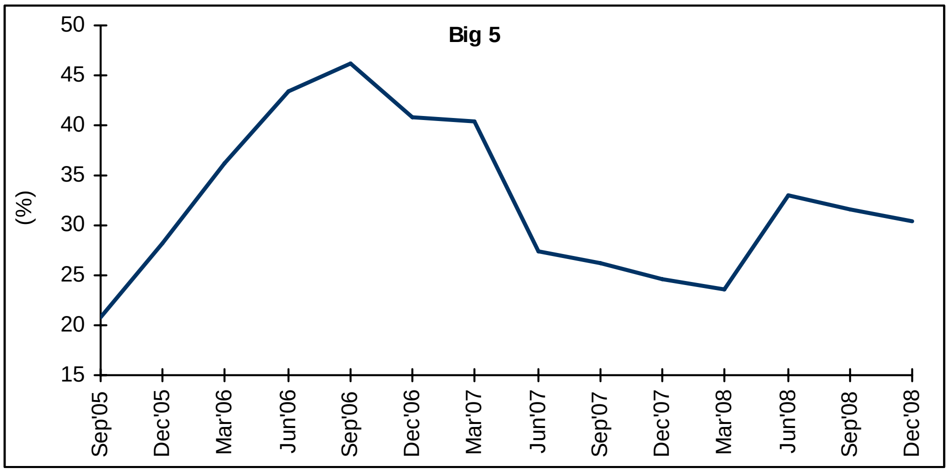
Source: Bloomberg

Chart 1: BSE IT versus Sensex



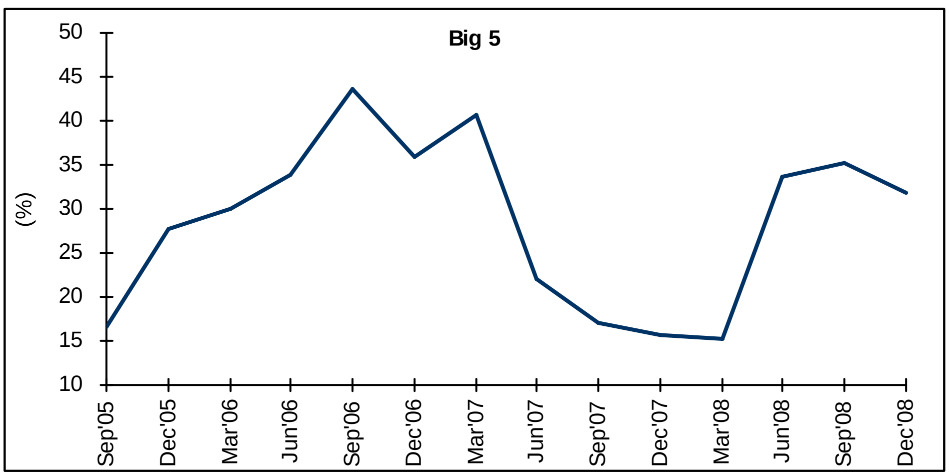
Source: Bloomberg

Chart 2: Revenue growth (YoY)*



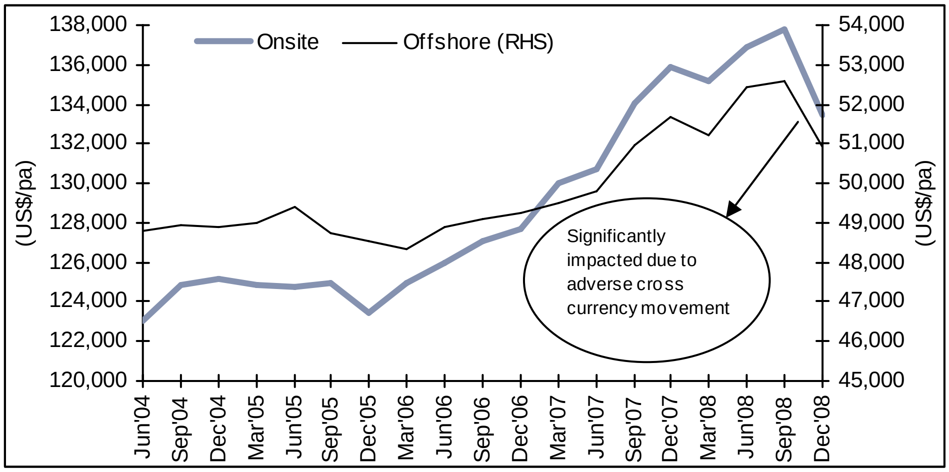
*The Big Five – Infosys, Wipro, TCS, Satyam, HCL Tech
Source: Company data, i-SEC Research

Chart 3: EBITDA growth (YoY)*



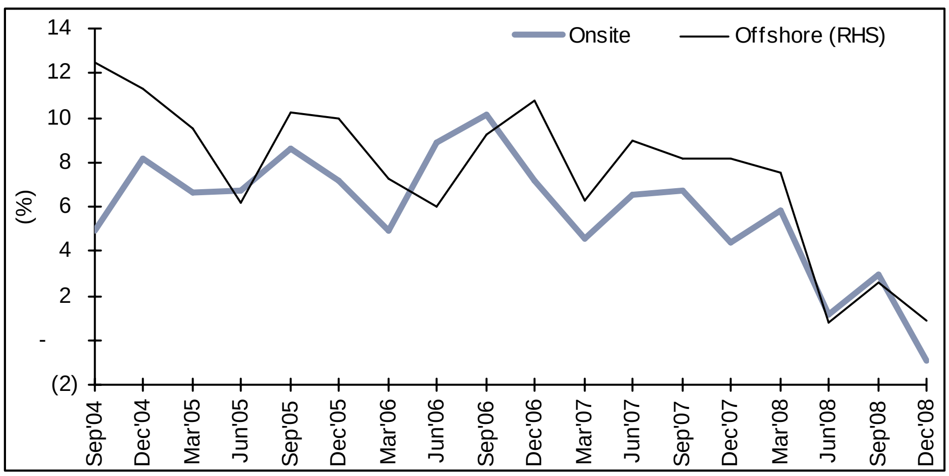
*The Big Five – Infosys, Wipro, TCS, Satyam, HCL Tech
Source: Company data, i-SEC Research

Chart 4: Billing rates*



* Infosys, Wipro and Satyam
Source: Company data, i-SEC Research

Chart 5: Billed man-months growth (QoQ)*

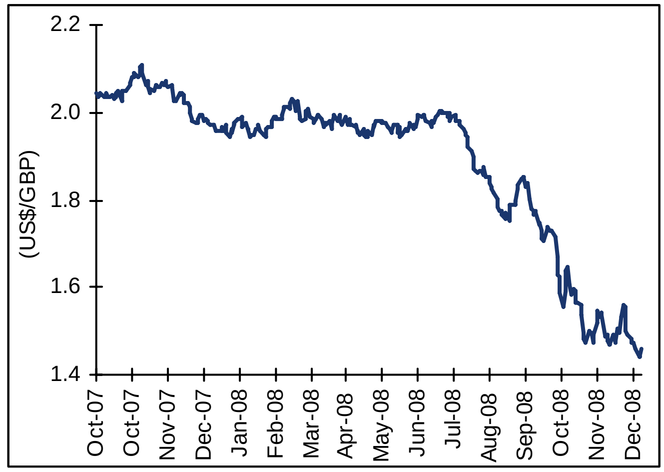


*Aggregate of Infosys, Wipro and Satyam
Source: Company data, i-SEC Research

Chart 6: Rupee versus US dollar

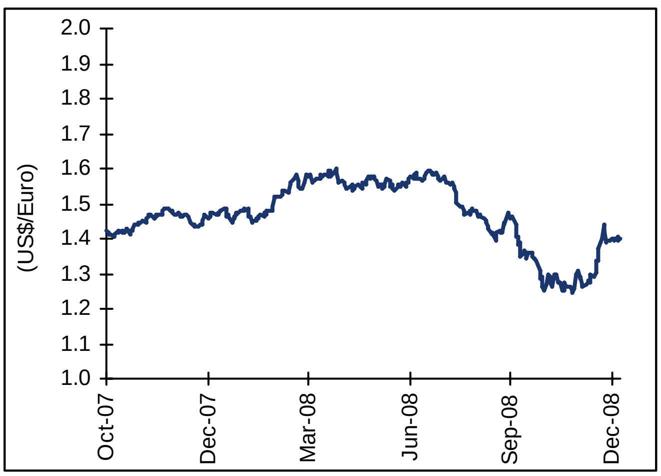
Source: Bloomberg

Chart 7: US dollar versus pound



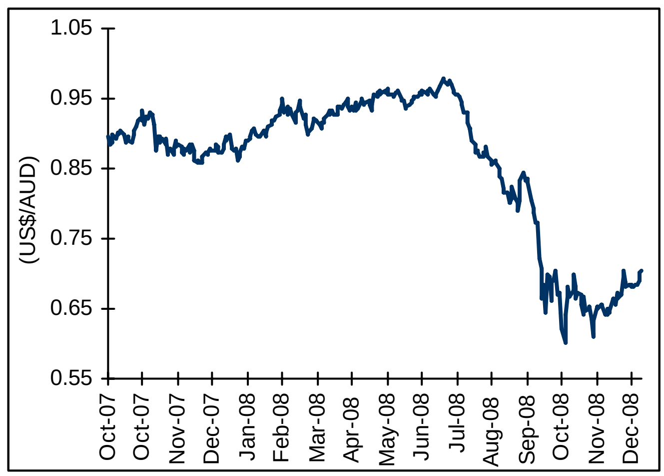
Source: Bloomberg

Chart 8: US dollar versus Euro



Source: Bloomberg

Chart 9: US dollar versus Australian dollar



Source: Bloomberg

HCL Technologies (HOLD)

(QoQ chg: -35.3%; YTD chg: 2.7%)

Quarterly estimates

(Rs mn, year ending June 30)

	Q2FY09E	Q2FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Revenues	25,624	18,166	41.1	8.1	23,693	17,094	38.6
EBITDA	5,420	3,885	39.5	2.1	5,311	3,642	45.8
PBT	4,363	3,704	17.8	9.5	3,985	3,460	15.2
PAT (after ESOP charges)	3,660	3,106	17.8	8.5	3,373	2,859	18.0

*July-September
Source: Company data, I-Sec Research

- **Expect 4% QoQ consolidated dollar revenue growth.** Besides cross-currency volatility affecting dollar revenue growth, deteriorating IT spend from two BFSI clients in the top-5 will lead to decline in organic consolidated revenues excluding Axon and Liberata. We expect 3.4% QoQ decline in organic IT services revenues to US$356mn (including Axon, we expect US$372.4mn IT services revenues). After the consolidation of Liberata Financial Services effective September '08, we estimate 25% QoQ surge in BPO revenues (Liberata consolidation for two more months in Q2FY09 will lead to ~2.7% growth in consolidated revenues). Infrastructure services are expected to grow at 3% QoQ (HCL Tech follows convenience translation method by applying quarter end rupee-dollar rate for translating dollar P/L to rupee P/L).
- **Reported EBITDA margin to dip.** With wage hike effective for the senior management during the quarter and consolidation of the low-margin Liberata BPO (two more months in Q2FY09) and Axon (though only for half of December '08), we estimate reported consolidated EBITDA margin to dip 130bps in Q2FY09.
- **Hedging loss may reduce QoQ.** With lower rupee depreciation versus dollar in Q2FY09 versus Q1FY09, no major change in hedging and maturity of contracts QoQ, we expect forex loss to reduce QoQ. However, given that more contracts will mature in coming quarters after Q2FY09, hedging loss may strain EPS.
- **I-Sec view.** With more than 35% QoQ correction in HCL Tech's stock price in Q3FY09, we believe that the valuation downside is limited despite hedging loss. Integration of Axon and high discretionary revenues are key risks to EPS estimates. We upgrade HCL Tech to HOLD from Sell.
- **Key factors to watch for** are: i) growth in the top BFSI clients, ii) any change in hedge position and its impact, iii) large deal pipeline and iv) pricing pressure, especially in BFSI.

Infosys Technologies (HOLD)

(QoQ chg: -11.1%; YTD chg: 2.2%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Revenues	56,917	42,710	33.3	5.1	102,720	78,790	30.4
EBITDA	18,881	14,234	32.6	5.2	32,730	23,680	38.2
PBT	18,111	14,284	26.8	7.6	31,100	24,870	25.1
PAT (Adj)	15,440	12,114	27.5	7.8	27,030	21,280	27.0

*April-September;
Source: Company data, I-Sec Research

- **Cross-currency movement & holiday season to lead to first ever QoQ dip in dollar revenues.** We expect Infosys' consolidated revenues to dip 4% QoQ to US$1,167mn (versus US$1,175-1,220mn guidance), largely due to 3.9% negative impact of cross-currency volatility (based on constant currency, we expect Infosys to meet its YoY guidance of 11.9-16.2% growth). Also, owing to the December holiday season and forced holidays by some clients in the industry, Q3FY09 volumes will witness flat-to-marginal dip. However, in rupee terms, we expect robust growth of 5.1% QoQ.
- **EBITDA margin to marginally increase (10bps) despite >7-8% QoQ rise in average rupee depreciation.** We estimate utilisation rate to dip 40bps QoQ due to 4,000-4,500 gross additions and flat-to-marginal volume dip in Q3FY09. We also estimate Infosys to invest some benefits from rupee depreciation into the business. With negative cross-currency movement of 390bps, we expect reported billing rate to dip more than 250-300bps QoQ.
- **Recurring PAT to increase 7.8% QoQ.** With significant rupee depreciation and lower QoQ forex loss, we expect recurring PAT to rise 7.8% QoQ to Rs15.44bn.
- **We reiterate HOLD** with Rs1,250/share target price, down from Rs1,410/share, but continue to believe that Infosys will outperform the sector given superior cost management, no major negative surprise from hedging, superior balance sheet quality and higher earnings visibility.
- **Key factors to watch for** are: i) business sentiments in non-BFSI verticals and Europe, ii) business commentary for telecom clients, especially British Telecom, iii) Q4FY09 guidance – with adverse cross-currency movement, we expect FY09 guidance to be lowered, iv) pricing commentary to be subdued in our view and v) our estimates exclude any inducement fees from Axon and Axon-acquisition related expenses.

Infotech Enterprises (HOLD)

(QoQ chg: -45.2%; YTD chg: 4.2%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Revenues	2,277	1,769	28.8	2.8	4,220	3,099	36.2
EBITDA	422	320	31.6	(7.6)	825	558	48.1
PBT	287	241	18.8	(35.6)	729	459	58.9
PAT (Adj)	228	198	14.9	(34.7)	595	383	55.4

*April-September
Source: Company data, I-Sec Research

- **Q3FY09 dollar revenues likely to dip.** Our earlier interaction with the management during Q3FY09 suggests slowdown in client ramp-up owing to decision delays affecting Engineering Design (ED) and Geospatial Information Services (GIS) revenue growth. Besides, cross-currency volatility, higher invoicing in Euro and GBP (at >40% together) will pressurise dollar revenue growth more as opposed to peers. We estimate Q3FY09 consolidated revenues to dip 1% to US$50mn.

- **FY09 guidance lowered.** As per our earlier interaction with the management, FY09 consolidated revenues will likely be US$210-215mn (including US$5mn from the recently acquired Time To Market) versus the earlier guidance of US$215-225mn on the back of decision making delays, slowdown in ramp-up from clients and increased uncertainty among clients (refer our note *'Apprehensions Intensify'* dated December 15, '08).

- **Utilisation to affect EBITDA margin in Q3FY09; PAT to decline.** We expect margins to contract ~2.1% QoQ in Q3FY09, primarily on the back of dip in utilisation rates in both ED and GIS. Global slowdown with higher project-based revenues will likely lead to margin headwinds as it would significantly affect utilisation rates. However, the company has tightened its recruitment and bench. With significant decline in other income due to one-time dividend income in Q2FY09 and forex losses, we expect 35% QoQ decline in PAT.

- **I-Sec view.** With significant correction in large-cap IT companies, resulting in substantial narrowing of valuation gap of mid-caps versus large-caps, we believe relative risk-reward has become unfavourable for Infotech. We are bullish on Infotech's business profile in the next 18-24 months; however, high project-based revenues are likely to have a toll on Infotech's growth profile in coming quarters. HOLD.

- **Key factors to watch** are: i) guidance for FY09, ii) hedging position, iii) management commentary on FY09 guidance and growth in FY10 and iv) progress of Hindustan Aeronautics JV & update on the offset clause opportunity.

Patni Computers (HOLD)

(QoQ chg: -20.9%; YTD chg: 4.2%)

Quarterly estimates

(Rs mn, year ending December 31)

	Q4CY08E	Q4CY07	YoY (%)	QoQ (%)	YTDCY08*	YTDCY07*	YoY (%)
Revenues	8,469	6,862	23.4	(0.6)	23,421	20,088	16.6
EBITDA	1,397	1,134	23.2	(0.1)	3,660	3,769	(2.9)
PBT	965	1,176	(18.0)	(25.6)	3,345	4,356	(23.2)
PAT	830	997	(16.8)	(26.5)	2,890	3,646	(20.7)

* January-September

Source: Company data, I-Sec Research

- **Revenues likely to miss even the weak guidance.** We expect dollar revenues to dip 5.4% to US$173.5mn vis-à-vis US$176-177mn guidance for Q4CY08 owing to volume-led decline on account of lesser working days in Q4CY08, decision delays and adverse cross-currency movements. Also in rupee terms, we expect revenues to decline marginally 0.6% to Rs8.47bn (based on convenience translation at quarter end rupee-dollar rate).
- **Reported EBITDA margin to increase marginally 10bps.** Despite significant decline in revenues, we expect EBITDA margin to increase marginally 10bps to 16.5% driven by rupee depreciation during the quarter.
- **PAT continues to be volatile.** With dip in revenues and higher forex losses (US$10mn forex loss guidance for the quarter), we expect PAT to drop 26.5% QoQ to Rs830mn. This follows 8.8% QoQ & 43.1% QoQ rise and 27.3% QoQ dip in PAT in the past three quarters respectively. However, excluding forex income, we expect Patni to post US$22.1mn PAT versus US$22-23mn guidance.
- **I-Sec view.** We do not expect any major upside for Patni despite cheap valuations given the uncertain macro environment and declining valuation gap between Patni and other large-cap peers. We also expect Patni to lose in vendor rationalisation. Maintain HOLD. However, we believe that ongoing restructuring in senior management could improve the growth profile of Patni.
- **Key factors to watch** are: i) Q1CY09 guidance, ii) outlook and plans from the new management team of Patni (recently Mr Jeya Kumar, ex CEO, MphasiS moved to Patni as the new CEO) and iii) volatile treasury income.

Satyam Computers (SELL)

(QoQ chg: -43.2%; YTD chg: -8.0%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Revenues	30,113	21,956	37.2	6.8	54,401	38,619	40.9
EBITDA	6,950	4,712	47.5	6.8	12,832	8,130	57.8
PBT	6,854	4,912	39.5	5.0	12,658	9,015	40.4
PAT	6,031	4,336	39.1	3.8	11,286	7,874	43.3

*April-September
Source: Company data, I-Sec Research

- **Cross-currency volatility to lead to 2.7% dip in consolidated dollar revenues.** With increasing macro challenges, consequent decision making lag and adverse cross-currency movement, we expect Satyam to post 2.7% QoQ dip in revenues to US$635mn versus US$634-652.2mn guidance (standalone revenues to dip 4.3% with estimated volume decline of 0.75% QoQ). However, after consolidation of the recently acquired Caterpillar unit and Analytics effective Q3FY09, we estimate 3.8% QoQ dip in consolidated organic dollar revenues.
- **EBITDA margin to remain flat.** Despite expected decline in standalone utilisation on the back of volume dip and acquisition-related cost, we estimate consolidated margins to be flat as significant rupee depreciation will limit the margin downside.
- **PAT to increase 3.8%.** With 5.7% increase in EBITDA and no major change in other income QoQ, we expect PAT to rise 3.8% to Rs6.03bn.
- **I-Sec view.** We expect Satyam's quarterly results to take a back seat till clarity emerges on future operations and corporate governance issues. We maintain SELL on the back of irrational corporate development. We maintain that change in Satyam's management (new management with controlling interest) could be the only long-term shareholder value driver, despite cheap valuations.
- **Key things to watch for** are: i) the course of action to address corporate governance issues, ii) treasury yield during the quarter as concerns are raised on the cash positions in the books and iii) any key employee or client loss.

Tata Consultancy Services (HOLD)

(QoQ chg: -16.8%; YTD chg: 3.7%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Revenues	73,282	59,241	23.7	5.4	133,641	110,813	20.6
EBITDA	19,581	15,789	24.0	7.6	33,511	27,629	21.3
PBT	16,452	15,362	7.1	9.2	29,543	28,059	5.3
PAT	13,781	13,308	3.6	9.2	25,051	24,036	4.2

*April-September

Source: Company data, I-Sec Research

- **Cross-currency movement and muted BFSI performance to affect revenue growth.** Though the free transition is behind for TCS in Q2FY09, we do not factor in any recovery from BFS in coming quarters. With sub-prime crisis affecting insurance companies (some are TCS' clients), delays in ramp-up are also expected. Though the situation has not worsened in non-BFSI verticals in Q3FY09, autos have emerged as a new concern for TCS (refer our note '*Spotlight on margins'* dated December 8, '08). We expect 3.6% QoQ drop in consolidated revenues to US$1.52bn during the quarter (with cross-currency volatility, international revenues to post higher decline of 4% in dollar terms).

- **EBITDA margin to increase 50bps QoQ in Q3FY09**, largely on the back of sharp rupee depreciation and tight cost management. We also believe that lower provisions for doubtful debts will also lead to savings in margin QoQ. However, with increased intake of freshers during the quarter, we estimate utilisation to come down. With difficult macroeconomic environment, TCS may limit the gross recruitment to 27,000-28,000 versus its FY09 guidance of 30,000-35,000.

- **Higher forex losses; PAT to increase 9.2% QoQ.** In Q3FY09, TCS' forex contracts worth ~US$300mn and US$180mn matured with strike rate significantly lower than Q3FY09 rupee-dollar average. Therefore, we believe that higher hedging loss will continue in Q3FY09 (Q2FY09: Rs2.61bn). We estimate PAT to increase 9.2% to Rs13.78bn.

- **I-Sec view.** We maintain HOLD on TCS given the challenging demand outlook with target price of Rs550/share. The worst as regards client-specific risks in BFSI may be over. However, non-BFSI client related risk, especially in Auto, may lead to additional pressure on sales, though EPS visibility is improving with increasing management focus on margins.

- **Key factors to watch for** are: i) management comments on the business prospects from BFSI and key non BFSI clients, ii) outlook on CY09/FY10 IT spend and billing rates and iii) forex hedging.

Wipro (HOLD)

(QoQ chg: -22.8%; YTD chg: -1.0%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Revenues (IT Services)	50,161	38,899	29.0	6.0	91,268	66,339	37.6
Revenues (Consolidated)	67,466	52,360	28.9	5.3	123,717	89,113	38.8
EBITDA	13,219	9,980	32.5	5.5	24,639	18,337	34.4
PBT	11,095	9,356	18.6	5.3	20,674	15,908	30.0
PAT (Non-GAAP)	9,797	8,263	18.6	3.5	18,309	14,372	27.4

*April-September

Source: Company data, I-Sec Research

- **IT services revenues likely to miss guidance.** We expect Wipro to post US$1,099mn revenues, lower than US$1,121mn guidance on the back of cross-currency volatility leading to lower price realisations during Q3FY09. However, Wipro's volumes will likely grow 1% on the back of earlier won deals and lower base versus peers. Wipro's gains from favourable rupee depreciation would be capped on the back of higher hedges outstanding at lower levels.
- **EBITDA margin to remain flat for IT services.** With BPO wage hike effective this quarter and the full impact of offshore wage hike in Q2FY09 coming in Q3FY09, we expect flat EBIT margin for IT services business despite tight control on utilisation rates and higher realised rupee-dollar rate QoQ.
- **Flat margins and forex loss to result in lower PAT growth.** With expected higher forex loss on hedging and flat margin QoQ, we estimate non-GAAP PAT to increase marginally 3.5% to Rs9.8bn.
- **Key factors to watch for** are: i) any change in hedge position during the quarter – major risk to estimates, ii) CY09/FY10 outlook on IT spend and billing rates, iii) employee addition during the quarter and iv) revenue growth in Infocrossing and management comments on integration after four quarters of consolidation.

OnMobile Global (BUY)

(QoQ chg: -44.8%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Revenues	1,109	805	37.8	13.8	1,753	1,125	55.8
EBITDA	403	393	2.7	47.4	483	485	(0.6)
PBT	340	316	7.5	34.5	454	424	7.2
PAT	240	257	(6.4)	31.1	335	308	8.9

*April-September

Source: Company data, I-Sec Research

- **Standalone YoY revenue growth to bounce back.** We expect standalone revenues to increase 57.5% YoY with ramp-up from new clients in India and internationally. However, with VoxMobili's Q3FY08 being seasonally strong (with the earlier accounting policy of complete contracted method), we expect consolidated revenues to increase 37.8% YoY.
- **Reported EBITDA margin to improve QoQ.** With uniformity in most cost items and healthy sequential revenue growth expected, consolidated EBITDA margin will likely increase to 36.4% from 28.1% QoQ (though EBITDA growth of just 2.7%

YoY due to higher licence revenue booking in VoxMobili in Q3FY08). Similarly, standalone margin will likely improve 7.4ppt to 44.3% QoQ on the back of strong growth in standalone revenues.

- **PAT to decline YoY.** Muted YoY growth in EBITDA and seasonally better quarter for VoxMobili in Q3FY08 (due to higher licence revenue booking) will lead to PAT dipping 6.4% YoY (with 31.1% rise QoQ).
- **Key factors to watch for** are: i) new client addition, ii) development regarding phone back up and Ad-RBT products, iii) product launches and iv) any pressure on revenue share/tariff.

3i Infotech (Under review)

(QoQ chg: -28.7%; YTD chg: 0.4%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Revenues	6,041	3,172	90.4	0.4	10,701	5,381	98.8
EBITDA	1,149	668	71.9	0.6	2,054	1135	81.0
PBT	758	536	41.4	-6.0	1,450	902	60.8
PAT#	640	484	32.1	-6.4	1,270	793	60.3

* April-September; #after minority interest
Source: Company data, I-Sec Research

- **Flat sequential revenue growth expected.** We expect 3i Infotech to post flat sequential revenue growth to Rs6.04bn. Excluding one-time sale of IP amounting to Rs174mn (reported in Q2FY09), products and services (including Regulus) are expected to grow 3% QoQ and 5% QoQ respectively.
- **EBITDA margin may remain flat at 19%**.
- **PAT may decline 6.4% QoQ.** With higher interest cost and depreciation, we expect PAT after minority interest to decline 6.4% QoQ to Rs640mn.
- **Key things to watch for** are: i) traction in existing offerings, especially BPO, IMS and e-governance, ii) integration and client continuity in Regulus, iii) impact of MTM of FCCBs and implied interest cost of FCCBs, especially when FCCBs are deep out-of-money, and iv) DSO position, including unbilled revenues.

Nucleus Software (HOLD)

(QoQ chg: -47.6%; YTD chg: 4.7%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Revenue	800	736	8.6	6.0	1,583	1,370	15.6
EBITDA	120	185	(35.0)	43.1	226	341	(33.7)
PBT	101	167	(39.1)	73.2	155	332	(53.2)
PAT	82	155	(47.2)	100.8	121	302	(59.9)

*April-September
Source: Company data, I-Sec Research

- **Rupee revenue growth likely to be 6% QoQ.** We estimate Nucleus to post 6% QoQ growth (rupee denominated) to Rs800mn, driven by 6% QoQ growth in products and services revenues. Some delayed projects in H1FY09 are expected to have commenced. Services revenues may witness ramp-up owing to deals won in Q2FY09. We expect orderbook to remain static at Rs3.6bn.
- **EBITDA margin may improve 390bps QoQ.** With better utilisation and tight cost control, we expect EBITDA margin to improve 390bps QoQ to 15%, which would still be lower 1000bps YoY.
- **Hedges to get reduced.** We expect outstanding hedges to reduce to US$19mn from US$34mn in Q2FY09. We understand that the company may have redeemed FMPs prematurely and invested in FD, which may result in higher other income.
- **PAT to rise 100% QoQ, but still decline 47% YoY.** With better operating margin, we expect PAT to increase 100% QoQ to Rs82mn, though still decline 47% YoY.
- **Key things to watch for** are: i) ramp-up in delayed projects, ii) orderbook position, iii) comment on large implementation of ACOM, GMAC, Shinsei etc, iv) introduction of new product, upgrades, new version etc and v) margins and DSO position.

Info Edge India (HOLD)

(QoQ chg: -16.4%; YTD chg: -0.9%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Revenues	601	548	9.7	-8.0	1,284	991	29.5
EBITDA	150	154	-2.7	-2.4	321	280	14.6
PBT	210	194	8.2	2.9	396	368	7.4
PAT	147	131	12.2	-5.0	284	268	6.2

*April-September
Source: Company data, I-Sec Research

- **Revenues may decline 8.0% QoQ to Rs601mn** on the back of 12.5% QoQ dip in recruitment revenue due to slowdown in the Indian economy. However, we expect healthy YoY growth of 60% and 86% for jeevansathi.com and 99acres.com respectively.
- **EBITDA margin may improve 140bps QoQ.** We expect some rationalisation in advertisement and general admin costs and hence, EBITDA margin may improve 140bps QoQ to 25.0% (still lower than 28.2% registered in Q3FY08).

- **Higher Other Income to cushion decline in PAT.** We understand that the company has prematurely redeemed FMPs and invested in FD. This may result in higher other income. With higher taxes, we expect reported PAT to decline 10.8% QoQ to Rs138mn.
- **I-Sec view.** We expect lower growth in recruitment revenue to continue till H1FY10E and hence have lowered FY09E & FY10E revenue estimates 7.2% and 14.7% respectively. We believe current valuation at FY09E P/E of 19.8x is not cheap given mere 12% EPS CAGR over FY08-11E (still factoring in higher 17% EPS CAGR over FY09E-11E). We downgrade Info Edge to HOLD from Buy with reduced DCF-based target price of Rs430/share from Rs582/share earlier.
- **Key things to watch for** are: i) outlook on naukri.com, both IT and non-IT clients, ii) traction in other portals such as jeevansathi.com and 99acres.com, iii) utilisation of huge cash surplus, which is expected to be in excess of Rs3.25bn, iv) initial traction for shiksha.com and v) comments on margins.

Educomp Solutions (BUY)

(QoQ chg: -4.8%; YTD chg: 4.6%)

Quarterly estimates- Standalone

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Revenues	1,306	715	82.6	33.1	1,675	724	131.3
EBITDA	720	334	115.7	42.0	879	363	142.3
PBT	542	289	87.6	39.7	638	303	110.8
PAT	352	190	85.3	38.7	415	196	111.8

*April-September
Source: Company data, I-Sec Research

- **Robust growth to continue.** We expect Educomp to post robust 83% YoY standalone revenue growth to Rs1.3bn, driven by 130% YoY growth in Smart_Class to Rs798mn and 25% YoY growth in ICT projects to Rs298mn. We expect the company to raise its guidance for Smart_Class school additions.
- **EBITDA margin may expand 340bps.** With higher growth in Smart_Class and ICT and lower forex losses, we expect margin to expand 340bps YoY to 55.1% as more annuity-based content related services in Smart_Class and ICT are offered rather than mere IT infrastructure. EBITDA may increase 116% to Rs720mn.
- **PAT may increase 85%.** With higher depreciation and interest, we expect PAT to increase 85% to Rs352mn.
- **Key things to watch for** are: i) investment in K-12 initiatives, ii) school additions in Smart_Class ICT and K-12 initiatives, iii) progress in K-12 initiatives, pre-school additions, offline tutoring and JV with Raffles and iv) margin outlook, capex, forex hedges, DSO.

NIIT (HOLD)

(QoQ chg: -26.3%; YTD chg: 3.2%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Revenue	2,803	2,388	17.4	(9.4)	5,691	4,956	14.8
EBITDA	255	228	11.6	(36.8)	590	504	17.1
PBT	39	69	(43.5)	(78.4)	247	132	87.1
PAT	133	139	(4.7)	(32.6)	366	366	-

*April-September
Source: Company data, I-Sec Research

- **Revenue to increase 17.4% YoY.** Revenues in Individual Learning solutions (ILS) may grow 21% YoY, one of the lowest since the past 10 quarters. School Learning Solutions and new initiatives (NIIT IFBI and NIIT Imperia) are expected to post 65% and 45% YoY growth respectively; revenues in corporate learning solutions (including Element K) is expected to grow a modest 4% YoY on the back of rupee depreciation Overall, net revenues for NIIT are expected to increase 17.4% YoY to Rs2.8bn.
- **EBITDA margin expected to contract 40bps YoY.** With lower growth in ILS, we expect EBITDA margin to contract 40bps YoY to 9.1%. NIIT Uniqua, the JV with Genpact, is expected to post an EBITDA loss of Rs15mn.
- **PBT may decline 44% YoY.** With higher interest cost and lower operating margin, we expect PBT to decline 44% YoY to Rs39mn.
- **PAT to witness a modest decline of 4.7% YoY.** With lower tax provisions, we expect PAT to witness a modest decline of 4.7% YoY to Rs133mn.
- **Key things to watch for** are: i) impact of slowdown in US on corporate learning solutions, ii) impact of slowdown in IT services on individual learning solutions, iii) progress in new initiatives (NIIT IFBI, NIIT Imperia and NIIT Uniqua) and iv) margin outlook, taxation, capex, DSO.

Allied Digital Services (BUY)

(QoQ chg: -38.1%; YTD chg: -2.7%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Revenues	1,727	793	117.8	16.0	2,400	1,360	76.5
EBITDA	345	163	111.5	22.9	504	297	69.7
PBT	327	165	97.5	13.1	504	284	77.5
PAT	271	121	123.9	12.7	398	192	107.6

*April-September
Source: Company data, I-Sec Research

- **Revenues to increase 16% QoQ.** We expect ADSL to report 16% QoQ revenue growth to Rs1.73bn, including Rs480mn (US$10mn) revenues from the recently acquired EnPointe Global Services (EGS). Solutions and services (including EGS) revenues may grow 11.8% and 20.3% QoQ respectively.
- **EBITDA margin expected to expand 120bps QoQ.** With margin improvement in EGS and higher proportion of services revenues, we expect EBITDA margin to expand 120bps QoQ to 20.0%. EBITDA may increase 22.9% QoQ to Rs345mn.

- **PAT to witness 12.7% QoQ growth.** With lower forex gain, we expect PAT to grow 12.7% QoQ (lower than EBITDA) to Rs271mn.
- **Key things to watch for** are: i) traction in NOC/SOC, ii) integration of EGS, iii) any further acquisitions, iv) impact of slowdown in domestic SI business and v) margin outlook, capex, taxation, DSO.

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Equity Research

January 7, 2009

INDIA

Utilities

Gathering steam

Top picks

CESC

We expect the I-Sec universe to post revenue growth of 14% YoY and 6% QoQ in Q3FY09. QoQ growth will be driven by: i) increase in PLF (most companies saw maintenance shutdown in Q2FY09), ii) rise in fuel costs as domestic shortages led to increase in coal import and iii) capacity additions. However, YoY EBITDA growth is likely to be muted, given low PLF over October-November owing to shortage of quality coal and impact of the Sixth Pay Commission report, especially on NTPC. We believe Tata Power will witness revenue de-growth QoQ due to lower fuel costs; however, EBITDA would increase ~10.7% on the back of higher PLF in the Mumbai region. While CESC is likely to post marginal revenue growth, higher cost of coal coupled with increase in dependence on the West Bengal State Electricity Board (WBSEB) and other sources for additional power is likely to drag down margins and profits.

- **Coal availability concerns govern through October-November,** thereby impacting PLF of coal-based plants – PLF of thermal plants was down 3% YoY. NTPC's PLF dropped ~4% YoY in November '08. Though December saw some improvement in PLF, we believe NTPC may have to forego incentive earnings of ~Rs157mn for November '08. Tata Power may not be affected by domestic coal supply issues as its generation capacity depends on either imported or captive coal. Nevertheless, further slowdown in the metals space leading to production cuts is likely to impact captive generation for Tata Steel. While demand in Kolkata is likely to remain firm, marginal decline in CESC's generation (down 1.7%YoY) would result in higher share of power imports from WBSEB.
- **High December PLF & coal stock position indicate improving coal linkages.** While NTPC is likely to achieve a life-time high PLF of ~97% for its coal-based plants in December, daily coal stock position for the month has improved over September '08. We believe this indicates higher coal availability, to NTPC in particular and the power sector in general. Further, we believe the new fuel supply agreement (FSA), which is likely to be signed between NTPC and Coal India (guaranteeing 90% coal requirement as against current requirement of 60%), will help allay coal security concerns.
- **Imported coal ensured minimal loss in generation.** Despite coal availability issues, we expect NTPC to generate ~52.2bn units of electricity in Q3FY09 (up 2.9% YoY and 11% QoQ). We believe this increase in generation was aided by ~131,000te of imported coal that was received by NTPC through October-November, which may also be the reason for the company to post improved PLF for December. Moreover, declining gas and naptha prices are likely to increase generation from gas-based plants (electricity generation through October-November was up 9% YoY).
- **No impact of back-ended capacity addition.** NTPC added the 500-MW Unit VI to its commercial capacity at Kahalgaon on December 30, '08. Thus, this back-ended capacity addition will not influence Q3FY09 results. Tata Power is in the process of synchronising the 250-MW Unit VIII at Trombay, where commercial production has not yet commenced; thus, we do not expect any major upshot of Unit VIII in Q3FY09.

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Table 1: Quarterly summary

Company	Sales			EBITDA			PAT		
		% Chg			% Chg			% Chg	
(Rs mn)	Q3-FY09	(YoY)	(QoQ)	Q3FY09	(YoY)	(QoQ)	Q3FY09	(YoY)	(QoQ)
NTPC	106,857	14.9	11.0	30,845	3.9	21.1	18,778	5.5	19.0
Tata Power	16,740	17.9	(14.5)	2,929	9.2	10.7	1,518	(12.0)	(18.1)
CESC	6,857	1.4	(9.2)	1,376	(11.3)	(26.4)	779	(16.2)	(37.2)

NM: not meaningful as base numbers are negative
Source: I-Sec Research

NTPC (Buy)

(QoQ chg: 0.3%; YTD chg: -3.0%)

Quarterly estimates

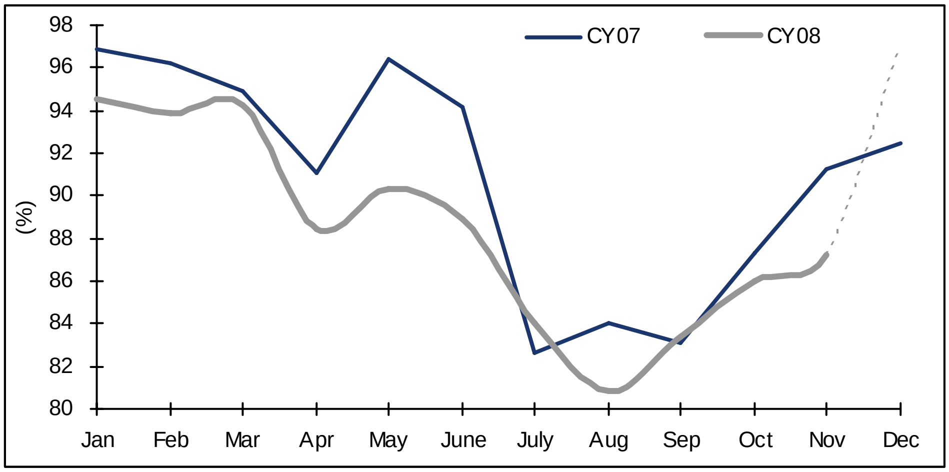
(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Revenues	106,857	92,994	14.9	11.0	192,009	169,757	13.1
EBITDA	30,845	29,691	3.9	21.1	49,694	54,325	(8.5)
PBT	27,286	27,384	(0.4)	21.8	44,041	53,649	(17.9)
Recurring PAT	18,778	17,799	5.5	19.0	32,925	42,954	(23.3)

* Apr-Sept
Source: Company data, I-Sec Research

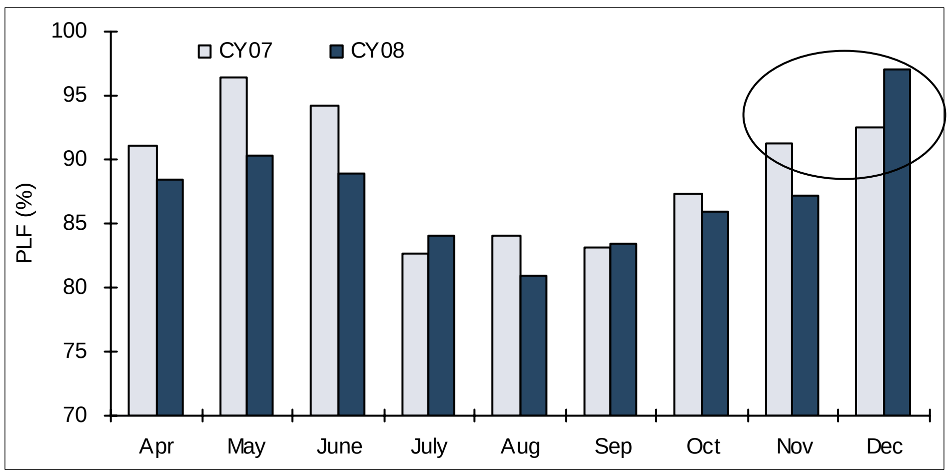
- Revenue expected to increase 14.9% YoY mainly on account of ~3% increase in generation, higher fuel costs and operations of the 500-MW Kahalgaon Unit V and 500-MW of Sipat-II Unit I, both of which commenced commercial operations over Q1-Q2FY09.
- Higher fuel costs (~20.7% YoY) to contribute to the boost in revenues as NTPC increases coal imports (~2.63mnte for FY08 versus proposed 8.1mnte for only H2FY09) to overcome shortfall in domestic coal supplies. This would increase proportion of imported coal that, at ~US$84/te, is substantially higher priced than domestic coal.
- We believe EBITDA will marginally increase (~3.9% YoY) due to substantial increase in employee costs brought on by the Sixth Pay Commission.
- We expect substantial improvement in EBITDA (~21.2% QoQ) owing to: i) high PLF, which would lead to increase in incentives and ii) full quarter operations of the Kahalgaon 500-MW Unit V, which commenced commercial generation in August '08.
- Key developments to watch are: i) December is likely to post the highest-ever PLF – expected to be ~97% – owing to arrival of imported coal and improvement in domestic coal supplies, ii) bidding of the Tillaiya UMPP and iii) capacity additions of 1,000MW (500-MW Kahalgaon Unit VI and 500-MW Sipat-II Unit II) – commercial operations for both commenced end-December/beginning January.

Chart 1: NTPC – PLF to improve QoQ as plant maintenance in Q2 is completed



Source: CEA, I-Sec Research

Chart 2: Coal availability improves PLF in December '08



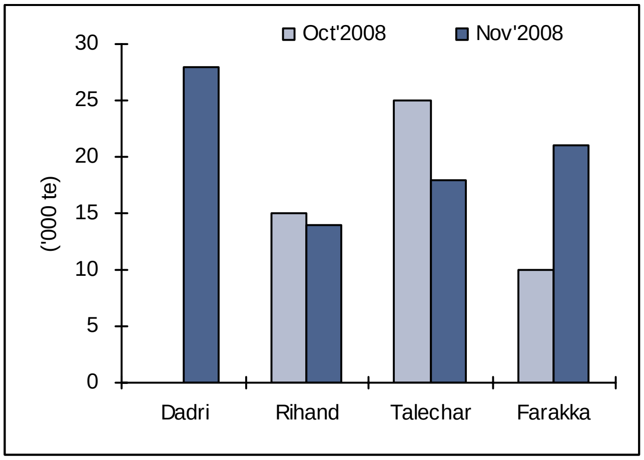
Source: CEA, I-Sec Research

Table 2: Supply of domestic coal to NTPC is improving, as seen from December coal stock levels

Plant	Capacity	State	Mines	State	Type	Sept 30, '08	Nov 27, '08	Dec 31, '08
Singrauli	2,000	Uttar Pradesh	Bina mines	Uttar Pradesh	Pithead	2	1	4
Rihand	2,000	Uttar Pradesh	Amlori, Dudhichua, Amloric Exp	Madhya Pradesh	Pithead	1	1	4
Unchahar	1,050	Uttar Pradesh	North Karanpura	Jharkhand	Linkage-Rail	1	2	0
Tanda	440	Uttar Pradesh	North Karanpura	Jharkhand	Linkage-Rail	3	3	10
Badarpur	705	Haryana	Jharia	Jharkhand	Linkage-Rail	3	7	9
Dadri	840	Uttar Pradesh	Piparwar	Jharkhand	Linkage-Rail	10	2	3
Vindhyachal	3,260	Madhya Pradesh	Nigahi Mines	Madhya Pradesh	Pithead	1	1	3
Korba	2,100	Chhattisgarh	Kusumundra Block, Kewra Mines	Chhattisgarh	Pithead	22	23	4
Talcher-Kaniha	3,000	Orissa	Talcher	Orissa	Pithead	1	1	1
Farakka	1,600	West Bengal	Rajmahal, ECL	Jharkhand	Pithead	1	1	1
Kahalgaon	1,840	Bihar	Rajmahal, ECL	Jharkhand	Pithead	1	0	2
Talcher-Thermal	460	Orissa	Jagannath Mines, MCL	Orissa	Pithead	9	2	2
Ramagundam	2,600	Andhra Pradesh	South Godavari Coal Fields+Korba Coal Fields	Andhra Pradesh	Pithead	2	8	7
Simhadri	1,000	Andhra Pradesh	Talcher - Kalinga	Orissa	Linkage-Rail	2	3	10

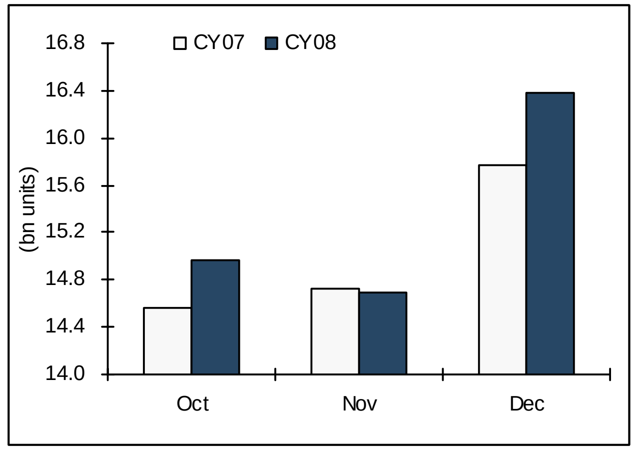
Source: CEA, I-Sec Research

Chart 3: Imported coal arrivals commence in Q3FY09



Source: India Infraline, CEA, I-Sec Research

Chart 4: Generation in December is higher owing to improving coal supply



Source: India Infraline, CEA, I-Sec Research

Tata Power (Hold)

(QoQ chg: 4.9%; YTD chg: 2.5%)

Quarterly estimates

(Rs mn, year ending March 31)

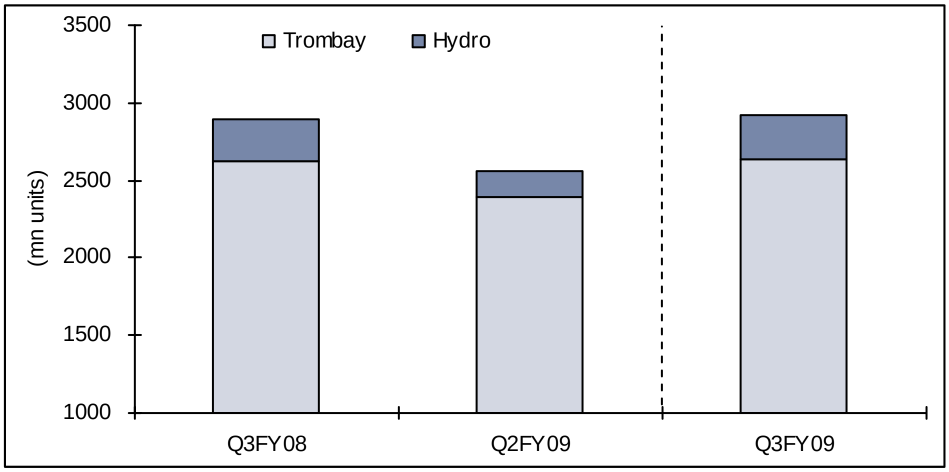
	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08*	YoY (%)
Revenues	16,740	14,194	17.9	(14.5)	39,850	28,620	16,740
EBITDA	2,929	2,682	9.2	10.7	5,696	5,138	2,929
PBT	1,901	2,006	(5.2)	(18.1)	4,600	4,705	1,901
Recurring PAT	1,518	1,725	(12.0)	(18.1)	3,369	4,008	1,518

* Apr-Sept

Source: Company data, I-Sec Research

- Revenues are expected to increase 17.9% YoY owing to higher fuel costs and capacity additions from Wind as well as Hooghly Met Coke projects. However, QoQ revenues may decline as much as ~14.5% mainly due to substantial decline in fuel costs as 1,330MW of Tata Power capacity is based on imported coal and oil. Thereby, drop in international prices will lead to decrease in fuel costs, which will, in turn, reduce overall revenues.
- However, we do expect Tata Power to sell ~3,529mn units – an increase of ~5% QoQ – on account of higher output from hydro stations, high PLF from Trombay Station in Mumbai and commercial operations of 90MW of the Hooghly Met Coke project.
- Slowdown in the metals space leading to production cuts is likely to impact captive generation for Tata Steel. We believe this will result in lower utilisation of Tata Power's captive plants.

Chart 5: Tata Power – EBITDA to improve on high generation in Mumbai



Source: CEA, I-Sec Research

CESC (Buy)

(QoQ chg: 1.6%; YTD chg: 0.4%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY09E	Q3FY08	YoY (%)	QoQ (%)	YTDFY09*	YTDFY08	YoY (%)
Revenues	6,857	6,760	1.4	(9.2)	15,380	14,580	5.5
EBITDA	1,376	1,550	(11.3)	(26.4)	3,090	2,740	12.8
PBT	876	1,060	(17.4)	(37.5)	2,470	1,730	42.8
PAT	779	930	(16.2)	(37.2)	2,180	1,500	45.3

* Apr-Sept

Source: Company data, I-Sec Research

- We expect total units sold to grow ~5% in Q3FY09. However, CESC's generation is likely to decline 1.7% YoY; consequently, the company would require resorting to higher power purchase from WBSEB. Total revenues are expected to marginally rise 1.4% YoY.
- EBITDA is expected to decline 287bps YoY due to increase in cost of coal along with higher share of power sourced through WBSEB.
- Net income likely to decline 16% to Rs779mn.

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