

Dec-10 Review

- ✓ Aggregate PAT up 24%, in line
- ✓ FY12 Sensex EPS unchanged
- ✓ FY10-13 Sensex EPS CAGR 21%

India Strategy: Dec-10 Results Review

- **Aggregate performance in line with estimates; Sensex PAT up 22% YoY**

MOSL Universe (ex-RMs) 3QFY11 Sales grew 21% (est 20%), EBITDA 21% (est 21%), and PAT 24% (est 25%). Sensex aggregate performance was also in-line, with EBITDA growth of 20% (est 19%) and PAT growth of 22% (est 23%).

- **Several large caps outperform**

Outperformers: Tata Motors, SBI, BHEL, Sun Pharma, REC, Axis Bank, Siemens, Sun TV, Titan Inds and Bank of Baroda.

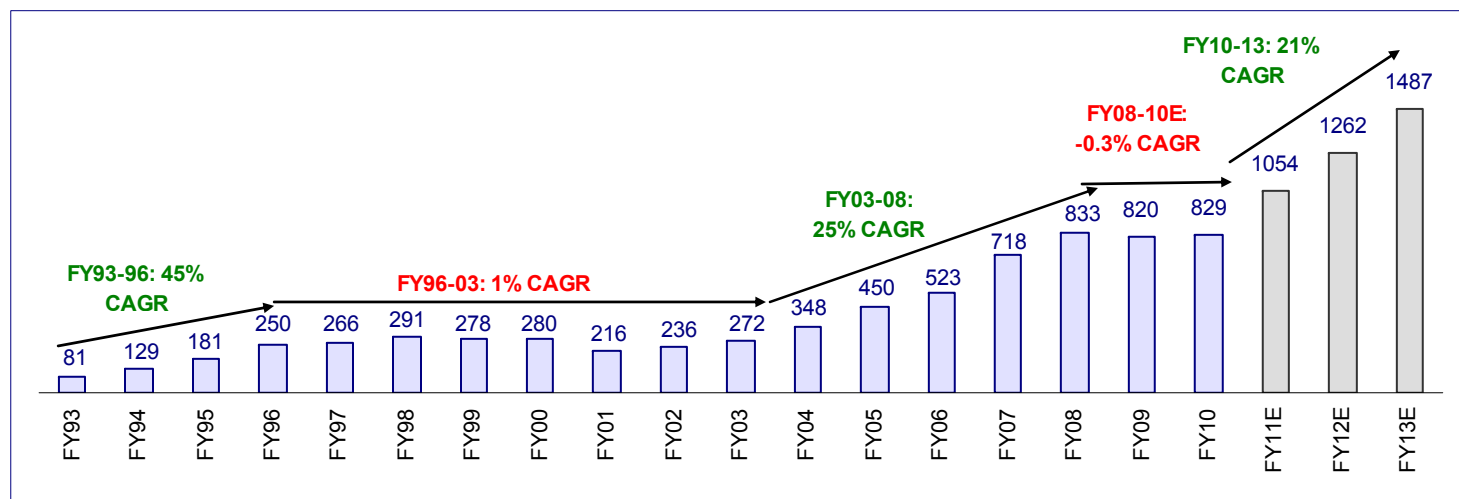
Underperformers: BPCL, Reliance Infra, SAIL, Sesa Goa, Zee Ent, Bharti Airtel, JP Associates, ACC, Tata Power and Colgate.

- **Rating downgrades far exceed upgrades**

Companies with downgrade in earnings / stock ratings were significantly higher than upgrades. 9 Sensex companies saw downgrade in FY12 EPS (of over 5%) while 3 stocks saw upgrade.

- **FY12 Sensex EPS remains unchanged at Rs1,262 (20% YoY)**

Also refer our Dec-10 Quarter Preview



Dec-10 Quarter Results Review

A) Aggregate performance in line with estimates

- Sales for MOSL Universe (ex-RMs) grew 21% (est 20%), EBITDA was up 21% (est 21%), PAT grew 24% (est 25%).
- 49 companies in our Universe reported PAT higher than estimate, 34 in line and 45 below estimate. On the EBITDA front, 40 companies reported above estimate, 43 in line and 45 below estimate.

B) Sector performance: PSU Banks, Engineering were above estimates; Cement, Infra, Metals below estimates

- Among large sectors, PAT of PSU Banks and Engineering were above estimates, whereas Private Banks, Pharma, IT were in line with estimates.
- Sectors where both EBITDA and PAT growth was disappointing include Cement (PAT de-growth 17% vs estimate of 12%), Infrastructure (PAT de-growth of 21% vs estimate growth of 3%), and Metals (6% PAT growth vs estimate of 35%)

C) Sensex performance in-line; Sales up 18% (est 17%), PAT up 22% (est 23%)

- 6 companies reported higher than estimated PAT; 11 fell short.
- Companies that surpassed estimates on all parameters – Tata Motors, SBI, HDFC, BHEL.
- Companies that fell short of expectations on all parameters – Maruti, HUL, JP Associates, Hindalco, Bharti, Reliance Infra, Tata Power.

D) Best and worst performing companies

- Companies that reported above estimated earnings were: Tata Motors, SBI, BHEL, Sun Pharma, REC, Axis Bank, Siemens, Sun TV, Titan Inds and Bank of Baroda.
- Companies that reported below estimated earnings were: BPCL, Reliance Infra, SAIL, Sesa Goa, Zee Ent, Bharti Airtel, JP Associates, ACC, Tata Power and Colgate.

Dec-10 Quarter: Key sectoral highlights

- **AUTOS:** Sector performance has been boosted single-handedly by Tata Motors, excluding which all others are below estimate or in-line. Tata Motors earnings have been upgraded by 12%, continuing the upgrade trend for the past several quarters. Hero Honda disappointed, leading to a 6% EPS downgrade for FY12.
- **BANKS:** In 3QFY11, earnings of our coverage group grew 22% YoY and 13% QoQ. NIMs surprised on a positive side as repricing of deposits lagged the increase in yield on loans. Loan growth continued to outpace deposit growth, leading to expansion in CD ratio. Asset quality also improved with fresh NPAs slowing down.
- **CEMENT:** The sector performance was below estimates (except ICEM & UTCEM), led by lower than estimated realizations. However, further recovery in cement prices has resulted in upgrades in our estimate for Amubja (+3%), Grasim (+2%) & Birla Corp (+7%). However, lowering of volumes drove downgrades in ACC (-8%), India Cement (-11%) & Shree Cement (-8%).
- **ENGINEERING:** Sector performance was significantly above estimates with only Cummins India reporting below estimate numbers. Execution was strong (revenue grew 35% YoY) though order-momentum has moderated in recent quarters due delay in project awards. Margin pressure has led to a lower profit growth. Order book momentum will be key to the sector's performance over the next few quarters.
- **FMCG:** FMCG performance has been largely in line; HUL, Asian Paints, United Spirits and Colgate are below estimates while Marico and GSK Consumer have reported better than expected numbers. Volume growth has softened QoQ; cut in ad spends is visible in an environment of high input costs. FY11-13 estimates of Colgate and United Spirits have seen downgrade of 17-25%.
- **INFRASTRUCTURE:** Hardening interest rates and liquidity crunch impacted profitability. The sector reported aggregate PAT degrowth of 10% vs expected 19% growth. Sluggish order intake and slow execution will continue to impact the earnings in the next few quarters. Our earnings estimates have seen meaningful downgrades led by rise in interest costs and lower revenue growth.

Key sectoral highlights (continued)

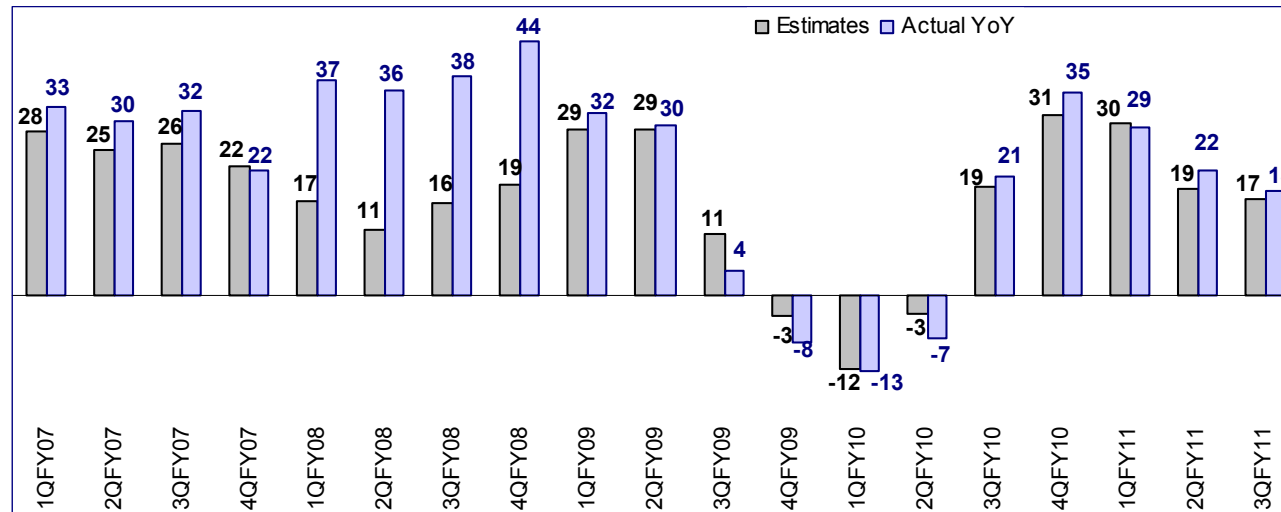
- **IT:** Operating performance was above expectations for IT majors; TCS, Tech Mahindra and Patni beat expectations. The quarter suggested improved demand, and signs of discretionary pick-up. Cognizant has guided for a strong revenue growth in CY11 (>26%). Pricing outlook is positive for the sector which will help offset the wage inflation. Currency can provide upsides from current estimates.
- **MEDIA:** Broadcasting companies recorded robust ad revenue growth. DTH remains a growth driver for subscription revenue. Strong ad revenue momentum also enabled margin protection for print companies despite increased newsprint costs. Further pressure on margins unlikely as newsprint prices have stabilized.
- **METALS:** Most of steel companies' margins were disappointing with the exception of Tata Steel's India business. Primary producers still did better, but the secondary producers were hit badly. Aluminum smelters are facing cost pressure.
- **OIL & GAS:** Sector performance excluding OMCs was in-line. (1) Downgrades in RIL, GAIL and GSPL estimates owing to lack of clarity from RIL on KG-D6 ramp-back (to 60mmscmd) and subsequent ramp-up (to 80mmscmd), (2) No clarity on subsidy sharing mechanism and (3) GRM performance supported by crude inventory gains. The Union Budget should provide clarity on subsidy sharing formula and any change in duty structure.
- **PHARMA:** EBITDA in-line for generics & below estimates for CRAMS players. Cipla & Glenmark disappoint while Sun & Divi's beat estimates. Emerging markets were the main growth drivers for generics. Most managements were defensive in the concalls. Sun & Divi's were the only companies to upgrade guidance.
- **TELECOM:** Bounce-back in traffic (5-10% QoQ) and lower decline in RPM (<1.5% QoQ) drove healthy revenue growth of 4-8% QoQ. EBITDA margins were largely stable QoQ. Potential inflection in RPM could be a structural positive for the sector though regulatory uncertainty persists. Revenue and EBITDA growth to rebound driven by 1) normalization of traffic growth, 2) RPM stability, and 3) launch of 3G services.
- **UTILITIES:** Earnings season showed a mixed trend with Powergrid leading in earnings growth given higher capitalization. Earnings for gencos were impacted due to backing down of demand by SEBs, lower merchant sales, etc. Coal India reported in-line operational performance; PAT was lower due to lower other income.

MOSL Universe: Dec-10 Quarter Performance (Rs b)

QUARTERLY PERFORMANCE - MOSL UNIVERSE (RS B)													
SECTOR (NO OF COMPANIES)	SALES				EBITDA				NET PROFIT				
	DEC	CHG.	CHG.	VAR. OVER	DEC	CHG.	CHG.	VAR. OVER	DEC	CHG.	CHG.	VAR. OVER	
	2010	% QOQ	% YOY	EXP. (%)	2010	% QOQ	% YOY	EXP. (%)	2010	% QOQ	% YOY	EXP. (%)	
Automobiles (5)	565	8.6	25.5	4.1	80	7.7	28.8	6.5	48	4.3	61.6	7.0	
Private Banks (8)	90	6.8	21.9	4.2	76	8.4	12.6	3.0	43	15.5	31.4	4.3	
PSU Banks (11)	245	9.0	41.1	5.8	184	7.9	33.8	9.9	91	11.5	17.2	9.1	
NBFC (7)	41	7.8	36.6	2.7	41	10.1	37.0	6.9	26	5.1	33.8	2.6	
Cement (7)	107	14.1	23.7	-3.5	20	43.5	-14.4	-9.4	11	58.8	-16.9	-6.0	
Engineering (7)	278	8.7	34.5	8.9	43	14.7	24.5	8.0	29	12.1	26.3	8.3	
FMCG (10)	197	9.3	23.1	2.9	41	6.4	12.4	-3.2	28	6.5	12.0	-2.6	
IT (6)	305	2.8	20.3	-0.6	77	2.3	15.2	0.6	61	7.3	19.2	2.4	
Infrastructure (5)	78	8.6	8.4	-9.2	13	16.1	7.7	-9.9	4	57.2	-20.9	-23.1	
Media (5)	23	9.9	31.4	-1.3	9	12.5	23.5	-5.4	5	1.0	10.1	-7.4	
Metals (8)	786	7.8	14.0	3.6	134	13.8	1.8	-9.4	68	12.3	6.6	-20.8	
Oil & Gas (12)	2,639	6.9	13.3	-1.1	305	-16.9	47.5	-8.6	168	-27.0	68.1	-6.3	
Pharma (12)	115	3.0	17.5	0.9	25	-4.0	5.0	0.3	17	-9.8	99.4	-0.5	
Real Estate (6)	39	7.3	14.3	-1.1	18	17.5	34.5	-0.6	9	4.0	2.7	-4.0	
Retail (4)	54	13.1	36.3	3.2	5	13.9	36.6	5.1	2	13.8	62.1	6.9	
Telecom (4)	253	3.0	31.4	-1.1	78	-0.7	13.5	-5.7	22	-10.6	-40.5	-9.2	
Textiles (4)	37	8.6	37.9	5.0	9	14.6	62.8	13.7	3	13.8	101.2	29.6	
Utilities (6)	225	-8.1	18.2	-3.5	65	0.8	19.3	-0.5	32	3.2	1.0	-11.9	
Others (1)	12	-2.5	7.8	1.3	2	-3.4	21.7	6.3	1	-26.8	33.5	-12.8	
MOSL Universe (128)	6,090	6.5	18.6	0.8	1,224	0.4	24.1	(1.7)	667	(3.6)	25.2	(3.1)	
MOSL Excl RMs (125)	4,579	6.1	21.1	1.2	1,183	7.0	21.3	(0.1)	647	8.5	23.9	(1.0)	
Sensex (30)	3,095	5.2	18.1	1.3	764	4.7	20.4	1.1	403	5.3	21.8	(1.1)	

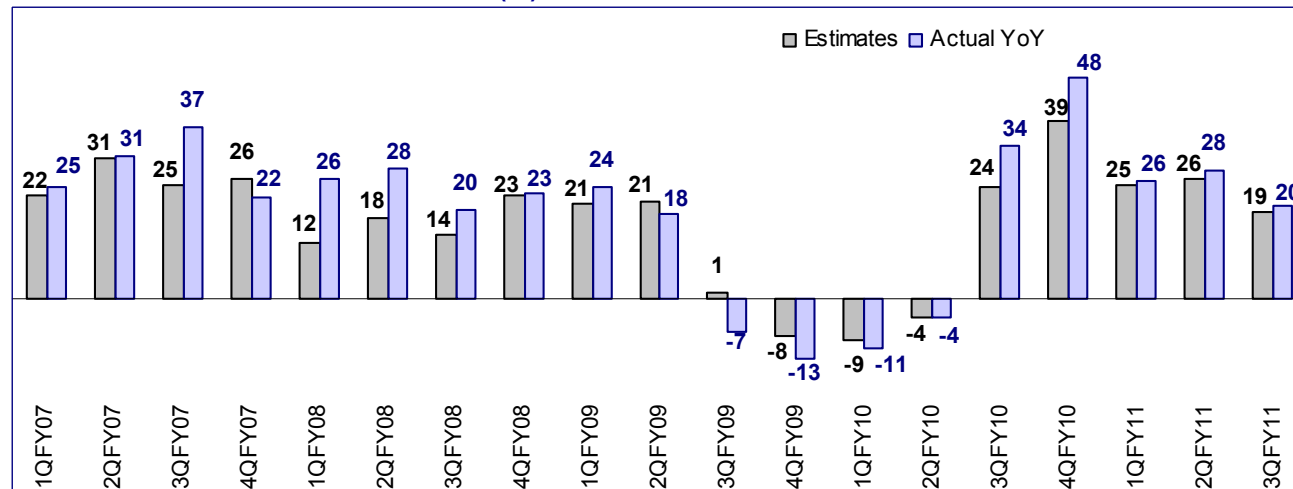
Sensex Performance: Actual v/s Estimates

TREND IN SENSEX SALES GROWTH (%): ACTUAL V/S ESTIMATES



3QFY11 sales grew 18%.
Sectors with strong growth
were Banking, Auto, Oil & Gas.

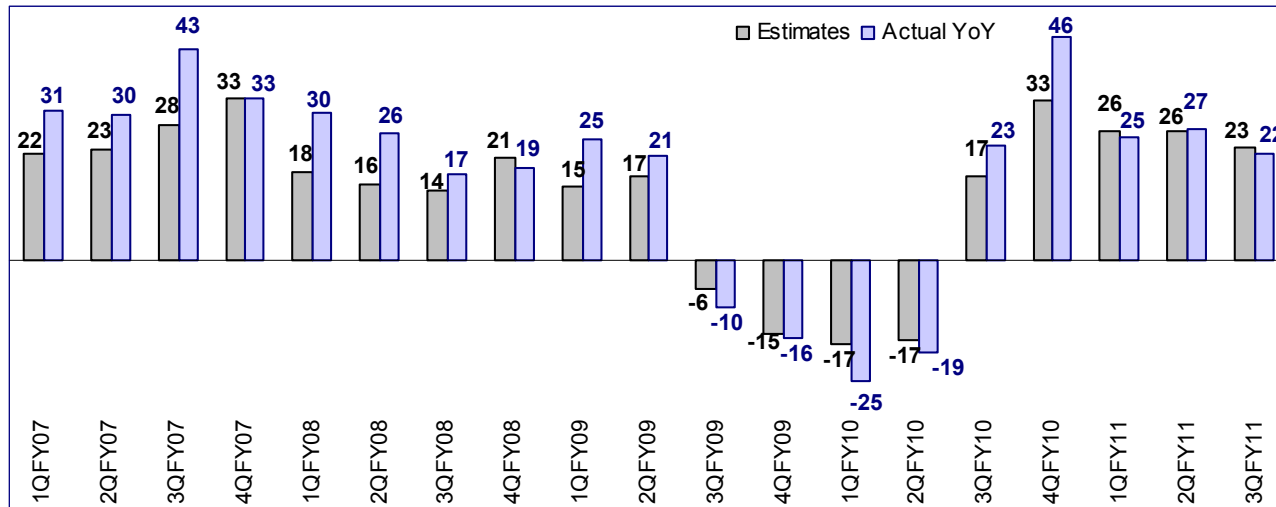
TREND IN SENSEX EBITDA GROWTH (%): ACTUAL V/S ESTIMATES



EBITDA grew 21%.
7 companies surprised
positively, 9 disappointed.

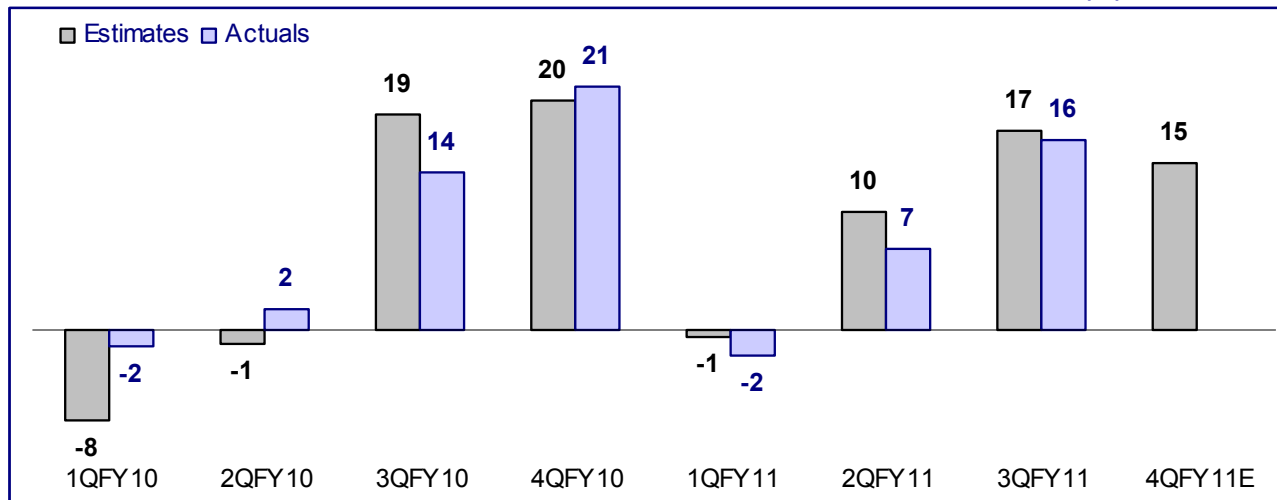
Sensex Performance: Actual v/s Estimates

TREND IN SENSEX PAT GROWTH (%): ACTUAL V/S ESTIMATES



3QFY11 PAT was in-line with estimate. 6 Sensex companies beat estimates, while 11 lagged. Companies that reported better than our estimates were Tata Motors, SBI, BHEL.

TREND IN SENSEX PAT GROWTH EXCL TATA MOTORS, TATA STEEL & HINDALCO (%)



Ex the impact of 3 global majors (Tata Motors, Tata Steel and Hindalco), Sensex PAT growth was 16%.

Sensex Companies' Performance

QUARTERLY PERFORMANCE OF SENSEX STOCKS (RS B)												
Company	Sales				EBITDA				PAT			
	Dec 2010	CHQ % QoQ	CHQ % YoY	VAR. OVER EXP. (%)	Dec 2010	CHQ % QoQ	CHQ % YoY	VAR. OVER EXP. (%)	Dec 2010	CHQ % QoQ	CHQ % YoY	VAR. OVER EXP. (%)
Bajaj Auto	42	-3.8	26.7	-1.1	8	-5.3	17.4	-0.5	7	-2.2	31.5	3.4
Bharti Airtel	158	3.6	52.9	-0.9	50	-2.7	22.0	-7.5	13	-21.6	-40.6	-23.2
BHEL	90	6.3	24.8	1.7	21	26.9	32.7	14.3	13	17.6	21.1	9.8
Cipla	16	-3.8	8.0	-2.7	3	-9.5	-21.2	-10.9	2	-11.5	-19.5	-7.6
DLF	25	4.7	22.4	2.1	12	26.8	39.7	2.5	5	11.3	-0.5	-2.6
HDFC	11	-1.0	20.0	-3.5	12	6.9	26.2	5.0	9	10.3	32.7	8.8
HDFC Bank	28	9.9	24.9	6.2	21	14.7	27.7	6.2	11	19.3	32.9	2.1
Hero Honda	51	13.5	34.2	4.7	5	-6.0	-16.2	-11.9	5	-2.2	-7.7	-3.0
Hind. Unilever	51	7.6	12.1	1.0	7	12.1	-7.9	-7.9	6	11.6	-2.1	-9.0
Hindalco	177	4.2	11.4	-1.1	20	-2.2	10.9	-8.9	7	-7.5	42.9	-20.1
ICICI Bank	23	4.9	12.3	3.3	23	5.9	-1.1	-0.6	14	16.2	30.5	4.6
Infosys	71	2.3	23.8	-0.4	24	2.1	15.9	0.7	18	2.5	12.4	-2.8
ITC	55	7.1	20.4	2.1	20	8.2	18.8	0.0	14	11.4	21.4	3.7
Jaiprakash Associates	29	-3.3	1.4	-16.1	8	16.2	2.3	-12.0	2	102.2	-25.7	-22.1
JSPL	32	3.0	18.1	1.0	16	6.5	10.2	5.0	9	6.1	8.4	3.1
Larsen & Toubro	113	22.3	40.3	16.7	11	15.1	19.9	-1.5	8	16.0	31.9	1.8
Mahindra & Mahindra	61	14.4	35.6	3.9	9	8.9	34.7	0.7	6	-15.1	45.5	-3.5
Maruti Suzuki	95	3.8	26.5	-0.1	9	-6.1	-20.5	-7.9	6	-5.5	-17.8	-7.6
NTPC	135	-8.5	20.7	-7.2	38	9.2	13.9	5.5	21	11.7	-1.1	-11.9
ONGC	186	2.2	21.4	2.5	114	2.5	24.3	-1.1	58	7.9	90.4	4.1
Reliance Comm	50	-2.2	-5.7	-4.4	17	0.5	-8.0	-4.2	5	7.2	-55.7	33.6
Reliance Inds.	598	4.0	5.2	-5.1	95	1.6	21.7	-4.0	51	4.3	28.1	-2.1
Reliance Infrastructure	26	8.1	15.3	-1.9	3	-35.8	13.4	-5.4	2	-15.8	-33.3	-38.3
State Bank	90	11.5	43.3	7.8	68	6.4	46.5	15.8	28	13.1	14.1	9.8
Sterlite Inds.	83	36.9	23.5	19.9	20	29.4	11.7	-0.6	11	9.6	10.0	-15.6
Tata Motors	317	10.1	22.0	6.1	48	15.3	57.7	15.2	25	17.5	201.8	18.1
Tata Power	17	1.0	5.4	2.4	3	-5.5	-8.8	-23.8	1	-31.5	9.7	-12.7
Tata Steel	291	1.5	11.0	9.5	34	-6.7	10.3	6.3	9	-32.8	35.1	-30.0
TCS	97	4.1	26.3	0.4	29	4.6	28.4	2.6	23	10.6	29.6	6.5
Wipro	78	0.6	12.7	-1.6	14	-1.3	8.6	-2.1	13	2.6	9.6	1.5
Sensex Universe	3,095	5.2	18.1	1.3	764	4.7	20.4	1.1	403	5.3	21.8	(1.1)

Note: JSPL Estimates are Bloomberg consensus.

Comparison of Earnings Based on Growth Rates

- For 3QFY11, 38% of the companies in MOSL Universe reported earnings growth of over 30%. This is better than the trend of the preceding 2 quarters where this proportion was 30-32%.
- 22% of MOSL universe companies reported negative earnings growth. This is the lowest in the last 12 quarters.
- 19% of MOSL Universe companies reported earnings growth of 15-30%.

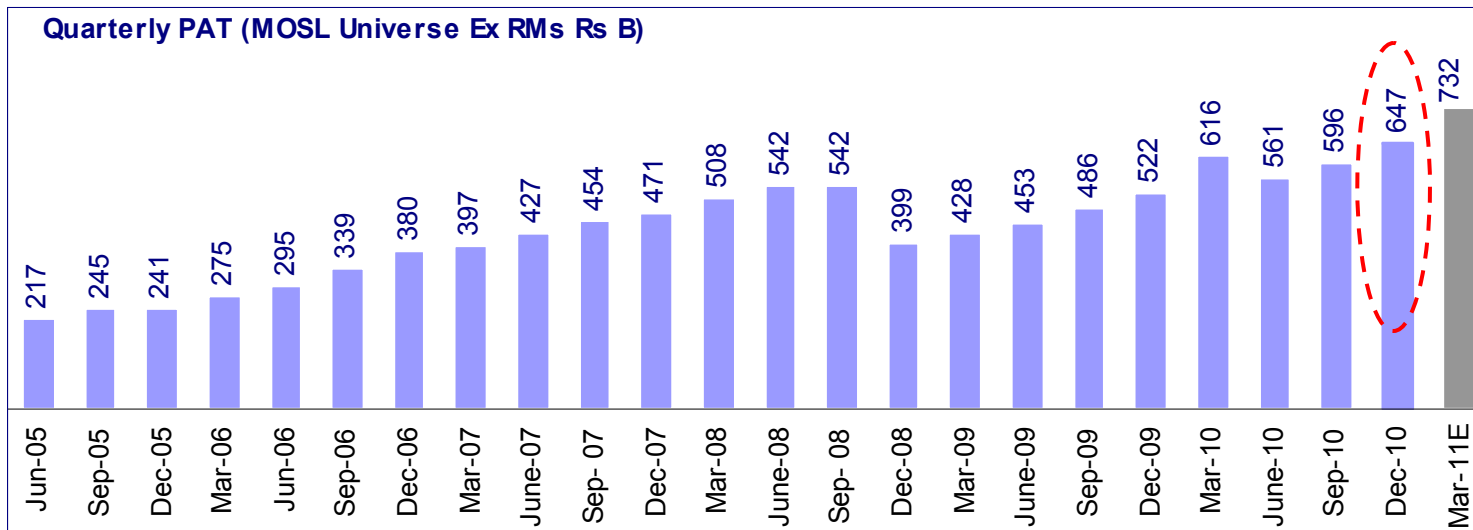
Range	PAT	Distribution of companies			
	Growth (%)	>30%	>15-30%	>0-15%	<0%
Mar 05	33.9	40	19	13	28
June 05	26.4	48	17	19	15
Sep 05	20.5	48	25	13	13
Dec 05	9.3	50	23	10	18
Mar 06	4.7	49	10	15	26
June 06	33.9	51	19	13	16
Sep 06	36.9	56	20	12	12
Dec 06	55.2	60	19	11	11
Mar 07	36.4	54	19	11	17
June 07	34.0	52	23	11	14
Sep 07	25.1	48	23	15	14
Dec 07	15.4	44	21	14	21
Mar 08	24.3	45	11	19	24
June 08	25.6	35	18	24	23
Sep 08	19.7	30	18	26	26
Dec 08	-8.4	26	10	22	42
Mar 09	-15.5	27	14	18	41
June 09	-14.9	32	22	14	32
Sep 09	-11.3	41	10	14	35
Dec 09	22.7	43	17	9	31
Mar 10	44.1	51	14	8	27
June 10	23.9	32	26	12	31
Sep 10	21.9	31	21	23	25
Dec 10	23.9	38	19	20	22

Sectoral quarterly PAT trend

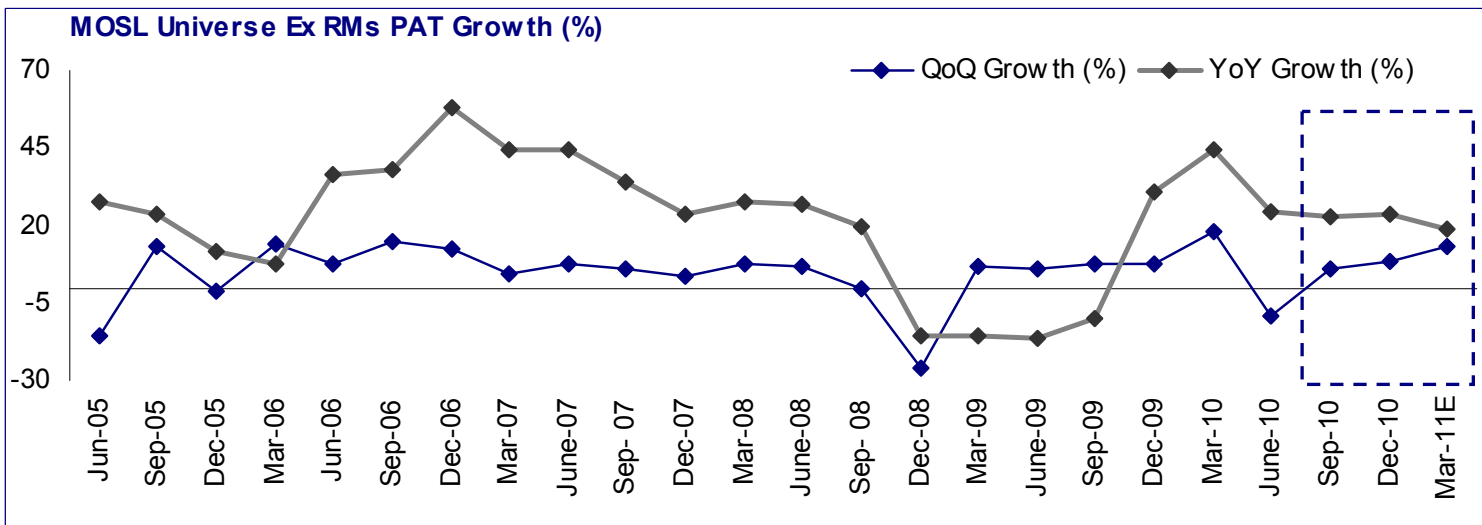
- Banking remains the largest contributor to the absolute PAT of MOSL Universe with 22% weight. The other large contributors are Oil & Gas (19%) and Metals (14%).
- Telecom posted its fifth consecutive quarter of earnings decline. We expect growth to resume from June 2011 onwards. Cement will see growth in 4QFY11 after 5 quarters of decline.

Quarterly PAT Trend (MOSL Universe) Rs B															
SECTOR	Sep-07	Dec-07	Mar-08	June-08	Sep-08	Dec-08	Mar-09	June-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11E
Auto	15.2	16.9	17.1	22.2	13.6	-9.4	3.6	7.2	22.2	29.7	38.5	41.8	46.0	48.0	54.0
Banking	76.2	89.9	91.4	73.3	97.9	119.9	116.6	109.8	119.6	129.7	125.9	142.7	143.4	159.8	162.5
Cement	16.9	16.9	16.3	17.1	14.3	14.7	18.7	23.5	22.3	13.2	15.3	17.7	6.9	11.0	18.1
Engineering	14.2	15.6	23.6	13.6	16.7	19.4	32.7	14.8	18.7	22.9	43.0	19.0	25.8	28.9	50.8
FMCG	17.2	18.8	15.8	18.3	18.6	19.7	18.5	21.3	23.0	25.0	21.9	24.2	26.3	28.0	25.9
IT	37.1	39.2	39.5	38.3	44.2	46.0	44.2	45.9	48.8	51.2	52.8	51.7	56.9	61.1	63.9
Infrastructure	1.9	2.9	4.1	2.7	3.3	3.4	5.2	3.4	2.6	4.5	5.0	2.4	2.3	3.6	5.0
Media	3.1	3.8	2.4	3.6	3.0	2.5	2.5	3.9	4.3	4.3	3.8	4.8	4.7	4.8	3.9
Metals	70.0	65.2	99.6	106.3	114.7	39.1	20.2	17.2	29.2	63.6	99.3	74.7	60.4	67.8	105.0
Oil & Gas Ex RMs	102.3	96.0	81.3	139.0	106.2	52.1	79.6	102.5	104.5	89.0	100.6	99.6	134.9	148.0	142.9
Pharma	11.9	11.2	12.0	12.1	11.7	11.2	3.0	13.0	15.6	8.6	16.5	16.6	19.1	17.2	16.6
Real Estate	27.9	30.9	35.1	26.3	27.4	10.8	3.1	7.2	8.8	9.1	8.7	9.0	9.0	9.4	10.8
Retail	0.8	0.6	0.8	0.4	1.1	0.8	0.6	0.5	1.2	1.4	1.7	1.2	2.1	2.3	2.1
Telecom	32.0	34.1	37.6	39.7	39.2	39.1	39.8	45.8	33.6	36.2	35.3	22.5	24.1	21.5	22.1
Textiles	1.2	1.1	1.2	0.2	0.9	0.2	0.9	0.4	1.4	1.5	1.5	1.2	2.6	3.0	2.1
Utilities	24.6	27.7	28.6	27.3	28.0	29.2	36.8	34.6	29.7	31.2	43.7	30.9	30.6	31.5	43.5
Others	0.9	0.5	1.9	1.5	1.2	0.6	1.6	1.8	1.0	0.6	2.1	1.4	1.1	0.8	2.5
MOSL Univ Excl RMS	454	471	508	542	542	399	428	453	486	522	616	561	596	647	732

3QFY11: PAT growth robust, to continue in 2HFY11



MOSL Universe (Excl RMs) reported its highest ever PAT of Rs647b in 3QFY11.



MOSL Universe (Excl RMs) PAT grew 24% YoY and 9% QoQ.

Changes in rating

Company	RECO		EPS - Pre-3QFY11 (Rs)			EPS - Post-3QFY11 (Rs)			% Upgrade/Downgrade		
	Pre-3QFY11	Post-3QFY11	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E
Tata Steel	Neutral	Buy	74.4	75.1	92.0	72.5	82.8	102.0	-3	10	11
Bajaj Auto	Neutral	Buy	91.1	101.3	113.2	91.6	106.2	117.8	1	5	4
IVRCL Infra.	Neutral	Buy	8.4	10.7	11.9	7.1	7.9	9.4	-16	-26	-21
Dishman Pharma	Neutral	Sell	11.9	12.4	16.2	7.5	4.5	8.9	-37	-64	-45
Deccan Chronicle	Buy	Neutral	11.0	13.6	15.6	8.5	8.2	8.2	-23	-40	-47
Reliance Comm	Under Review	Neutral	6.9	8.5	10.3	7.9	7.6	8.4	15	-10	-19
GAIL	Buy	Neutral	29.4	32.0	37.0	29.0	31.5	33.0	-1	-2	-11
Bank of India	Under Review	Neutral	52.2	64.2	80.3	51.4	63.9	79.3	-2	0	-1

During the earnings season, the number of stocks with downgrade in ratings were higher. The upgrade was in Bajaj Auto, Tata Steel and IVRCL Infra.

Dec-10 Quarter Results: The Best & The Worst (large caps)

TOP POSITIVE SURPRISES

Company	EBITDA					PAT				
	Actual (Rs m)	QoQ Chg (%)	Est. YoY Chg (%)	YoY Chg (%)	Var. Over Exp. (%)	Actual (Rs m)	QoQ Chg (%)	Est. YoY Chg (%)	YoY Chg (%)	Var. Over Exp. (%)
Siemens	3,627	-9	-24	-1	30	2,438	-3	-4	29	35
Sun TV	5,018	51	44	61	11	2,255	35	18	48	26
Titan Industries	1,950	12	51	82	20	1,408	10	49	80	21
Bank of Baroda	18,512	12	31	46	11	10,689	5	8	28	19
Tata Motors	48,223	15	37	58	15	24,533	17	156	202	18
Sun Pharma	4,405	-6	1	20	19	3,067	-25	5	19	13
State Bank	67,645	6	26	46	16	28,281	13	4	14	10
BHEL	20,717	27	16	33	14	13,432	18	10	21	10
Rural Electric. Corp.	9,015	8	29	40	9	6,641	7	28	40	9
Axis Bank	16,585	12	12	21	8	8,914	21	25	36	9

TOP NEGATIVE SURPRISES

Company	EBITDA					PAT				
	Actual (Rs m)	QoQ Chg (%)	Est. YoY Chg (%)	YoY Chg (%)	Var. Over Exp. (%)	Actual (Rs m)	QoQ Chg (%)	Est. YoY Chg (%)	YoY Chg (%)	Var. Over Exp. (%)
BPCL	7,284	-70	58	17	-26	1,874	-91	29	-51	-62
Colgate	931	-28	24	-23	-38	663	-34	10	-37	-43
Reliance Infrastructure	2,670	-36	20	13	-5	1,856	-16	8	-33	-38
SAIL	17,957	6	-4	-30	-27	11,075	2	-5	-34	-30
Sesa Goa	12,306	306	64	19	-27	10,634	204	80	29	-29
Zee Entertainment	1,541	-18	31	-2	-25	1,141	-10	24	-9	-27
Bharti Airtel	49,816	-3	32	22	-8	13,033	-22	-23	-41	-23
Jaiprakash Associates	7,915	16	16	2	-12	2,335	102	-5	-26	-22
ACC	2,089	23	-37	-56	-31	1,481	59	-41	-53	-20
Tata Power	3,319	-5	20	-9	-24	1,488	-32	26	10	-13

Dec-10 Quarter Results: The Best & The Worst (mid caps)

TOP POSITIVE SURPRISES

Company	EBITDA					PAT				
	Actual (Rs m)	QoQ Chg (%)	Est. YoY Chg (%)	YoY Chg (%)	Var. Over Exp. (%)	Actual (Rs m)	QoQ Chg (%)	Est. YoY Chg (%)	YoY Chg (%)	Var. Over Exp. (%)
Petronet LNG	3,456	27	31	66	26	1,709	30	50	105	37
BGR Energy	1,472	11	64	106	25	876	13	57	109	33
Opto Circuits	1,228	16	8	39	29	961	24	12	46	31
Marico	997	5	-12	1	15	695	4	-11	12	25
Indian Bank	8,119	10	7	18	10	4,913	18	-8	11	21

TOP NEGATIVE SURPRISES

Company	EBITDA					PAT				
	Actual (Rs m)	QoQ Chg (%)	Est. YoY Chg (%)	YoY Chg (%)	Var. Over Exp. (%)	Actual (Rs m)	QoQ Chg (%)	Est. YoY Chg (%)	YoY Chg (%)	Var. Over Exp. (%)
Dishman Pharma	253	-31	-2	-51	-49	17	-94	-35	-95	-92
Deccan Chronicle	754	-36	2	-40	-42	352	-57	3	-55	-56
Unitech	2,088	-17	50	12	-25	1,113	-36	3	-37	-38
Shree Cement	1,575	10	-49	-53	-8	71	-70	-82	-96	-77
Nagarjuna Construction	1,276	3	34	8	-19	444	-11	36	-7	-32

Highest Earnings Upgrade / Downgrade

TOP EARNINGS UPGRADES									
Company	EPS - Pre-3QFY11 (Rs)			EPS - Post-3QFY11 (Rs)			% Upgrade		
	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E
Vardhman Textiles	62.4	51.7	55.8	66.7	58.9	67.1	6.8	13.8	20.3
Tata Motors	127.8	147.2	157.8	142.0	165.6	186.0	11.1	12.5	17.8
Canara Bank	86.4	98.5	113.0	98.2	108.8	121.5	13.8	10.4	7.5
Tata Steel	74.4	75.1	92.0	72.5	82.8	102.0	-2.6	10.3	10.8
Bank of Baroda	103.5	120.5	146.0	110.2	126.7	153.9	6.4	5.1	5.5
Bajaj Auto	91.1	101.3	113.2	91.6	106.2	117.8	0.6	4.8	4.1
LIC Housing Fin	18.7	22.1	26.2	19.1	23.2	27.4	2.5	4.8	4.7
Sun TV	18.3	22.0	26.6	19.4	22.8	27.7	5.6	4.0	4.3
Ambuja Cements	7.7	8.4	10.9	8.1	8.7	11.3	6.1	3.4	3.6
Divis Labs	26.1	32.3	40.2	27.2	32.9	42.4	4.4	1.6	5.4

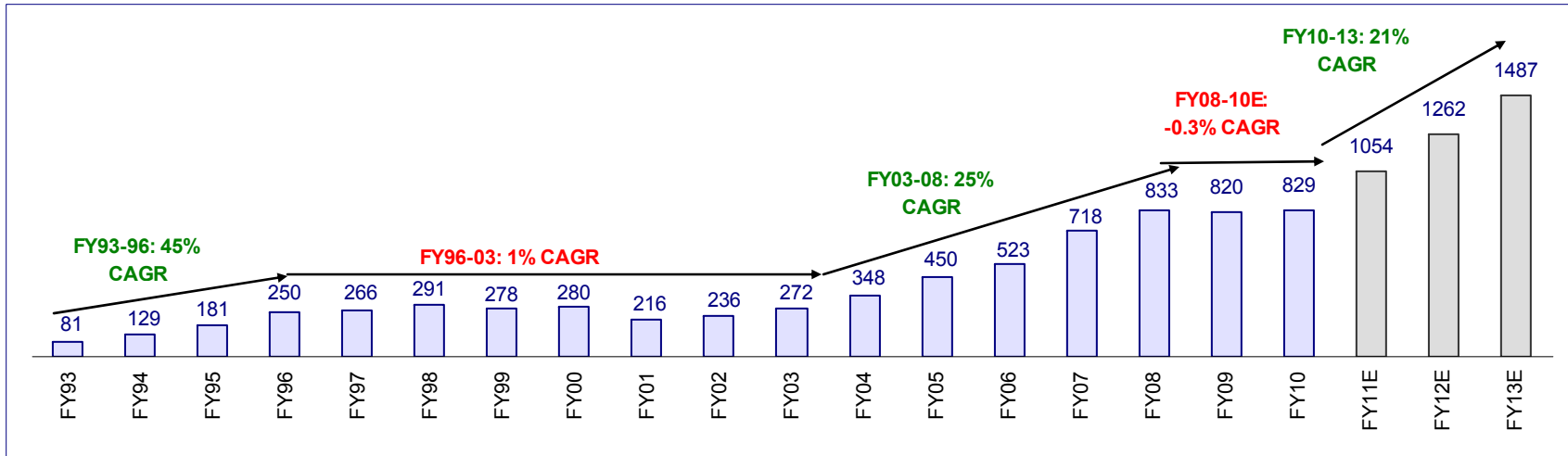
TOP EARNINGS DOWNGRADES									
Company	EPS - Pre-3QFY11 (Rs)			EPS - Post-3QFY11 (Rs)			% Downgrade		
	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY11E	FY12E	FY13E
United Spirits	36.1	52.4	69.8	29.0	38.7	52.7	-19.6	-26.1	-24.6
IVRCL Infra.	8.4	10.7	11.9	7.1	7.9	9.4	-16.0	-26.1	-20.7
Nagarjuna Construction	11.7	14.3	18.0	10.2	11.0	12.3	-12.8	-23.1	-31.4
Colgate	33.7	38.6	45.2	29.4	32.1	37.1	-12.8	-16.9	-17.9
Zee Entertainment	5.5	7.3	9.1	4.7	6.1	6.7	-13.6	-16.3	-26.9
DLF	11.9	14.8	18.0	10.8	12.6	16.6	-9.0	-14.9	-7.8
Sesa Goa	54.9	50.3	54.9	50.1	43.6	47.4	-8.7	-13.3	-13.6
Cummins India	33.5	45.0	52.4	31.3	40.0	48.6	-6.7	-11.2	-7.3
SAIL	14.7	15.4	15.9	12.3	13.9	14.6	-16.2	-9.8	-8.1
Hind. Unilever	9.9	11.2	12.9	9.5	10.5	11.9	-4.1	-6.6	-8.1
Mahindra & Mahindra	59.7	68.7	79.9	51.7	64.2	75.1	-13.5	-6.5	-6.0

Sensex Companies' EPS Upgrade/Downgrade

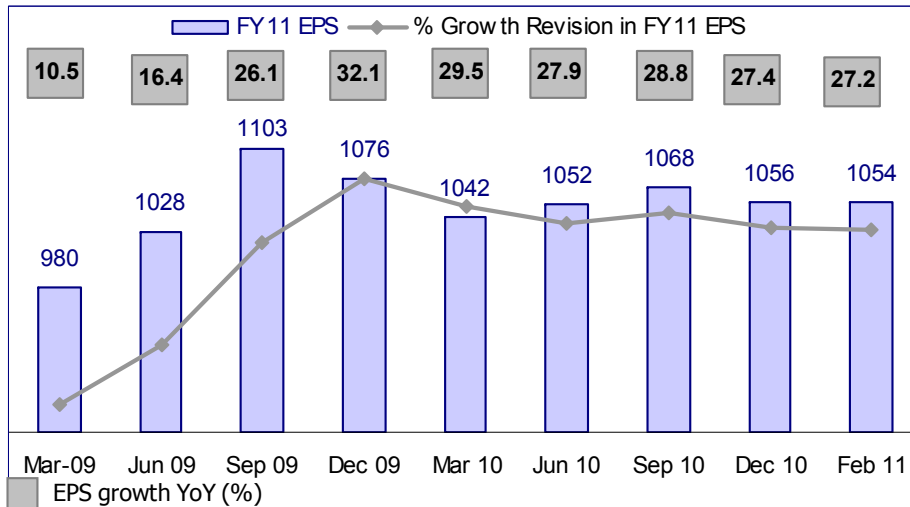
(Rs)	PRE-3QFY11 EPS				POST-3QFY11 EPS				EPS UPGRADE / DOWNGRADE (%)		
	FY10	FY11E	FY12E	FY13E	FY10	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E
Tata Motors	22.6	127.8	147.2	157.8	22.6	142.0	165.6	186.0	11.1	12	18
Tata Steel	-9.3	74.4	75.1	92.0	-9.3	72.5	82.8	102.0	-2.6	10	11
Bajaj Auto	62.8	91.1	101.3	113.2	62.8	91.6	106.2	117.8	0.6	5	4
State Bank	184.8	203.7	263.5	336.6	184.8	209.9	272.6	333.3	3.0	3	-1
TCS	35.1	43.2	51.2	60.5	35.1	44.2	52.0	61.3	2.2	2	1
ICICI Bank	36.1	44.2	56.6	68.1	36.1	45.2	57.4	68.1	2.3	1	0
Tata Power	62.4	74.7	94.9	87.7	62.4	77.7	96.0	87.6	4.1	1	0
HDFC Bank	64.4	83.9	109.5	137.4	64.4	84.4	110.2	137.7	0.6	1	0
HDFC	19.7	23.6	28.0	32.2	19.7	23.4	28.0	32.4	-0.6	0	1
ONGC	22.7	27.3	32.2	32.2	22.7	27.5	32.2	32.7	0.9	0	1
BHEL	95.7	119.0	146.4	173.0	95.7	119.2	146.4	173.0	0.2	0	0
ITC	5.3	6.4	7.5	8.7	5.3	6.4	7.5	8.7	0.2	0	0
NTPC	11.2	10.8	12.2	14.5	11.2	10.5	12.2	14.4	-2.9	0	0
Infosys	107.4	122.7	153.3	182.5	107.4	121.5	152.2	182.9	-1.0	-1	0
Bharti Airtel	23.7	17.6	22.3	28.5	23.7	16.6	21.8	28.2	-5.4	-2	-1
Reliance Inds.	54.8	67.9	73.6	89.2	54.8	69.4	71.7	84.9	2.1	-3	-5
Maruti Suzuki	90.8	90.9	107.5	127.4	90.8	88.2	104.6	124.4	-3.0	-3	-2
Sterlite Inds.	12.0	13.4	22.1	22.9	12.0	12.8	21.4	23.0	-4.8	-3	0
Larsen & Toubro	61.6	75.8	93.7	119.1	61.6	74.5	89.9	107.1	-1.8	-4	-10
Wipro	18.6	21.8	25.2	28.8	18.6	21.6	24.1	28.7	-0.6	-4	0
Hero Honda	112.2	103.5	120.9	137.2	112.2	99.7	113.7	128.5	-3.6	-6	-6
Hindalco	9.6	16.9	19.5	21.0	9.6	15.3	18.3	20.0	-9.0	-6	-5
Mahindra & Mahindra	42.6	59.7	68.7	79.9	41.3	51.7	64.2	75.1	-13.5	-6	-6
Hind. Unilever	9.4	9.9	11.2	12.9	9.4	9.5	10.5	11.9	-4.1	-7	-8
Cipla	12.5	12.9	16.2	18.0	12.5	12.0	15.0	16.8	-7.2	-8	-7
Reliance Infrastructure	39.6	42.6	60.0	67.8	39.6	34.8	53.8	60.8	-18.4	-10	-10
Reliance Comm	23.7	6.9	8.5	10.3	23.7	7.9	7.6	8.4	14.8	-10	-19
DLF	10.2	11.9	14.8	18.0	10.2	10.8	12.6	16.6	-9.0	-15	-8
Jaiprakash Associates	1.4	4.1	1.7	8.6	1.4	4.6	0.9	7.4	12.2	-44	-14
Sensex	829	1,056	1,263	1,492	829	1,054	1,262	1,487	-0.1	-0.1	-0.4

FY12 EPS remains unchanged at Rs1262; CAGR of 21% till FY13

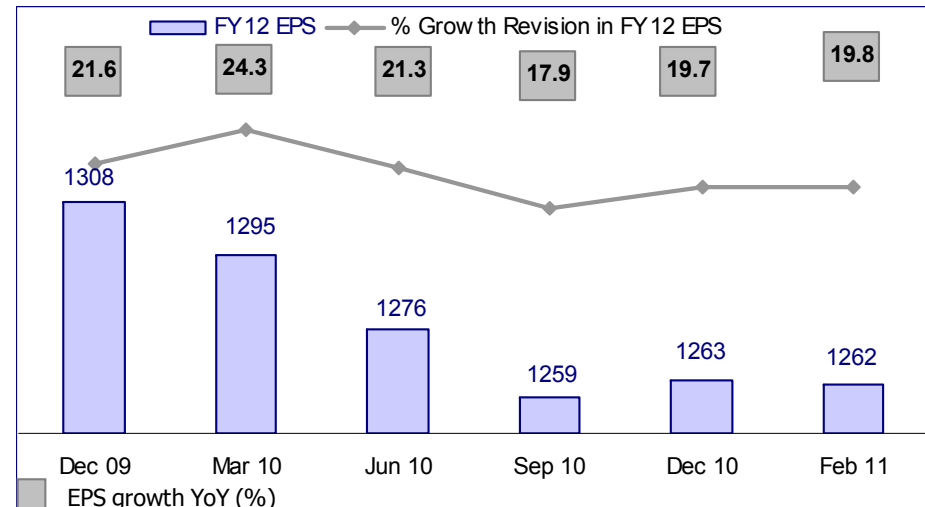
EARNINGS GROWTH REVIVAL FROM FY11 AFTER FY08-10 GROWTH HOLIDAY



TREND IN FY11E SENSEX EPS REVISION

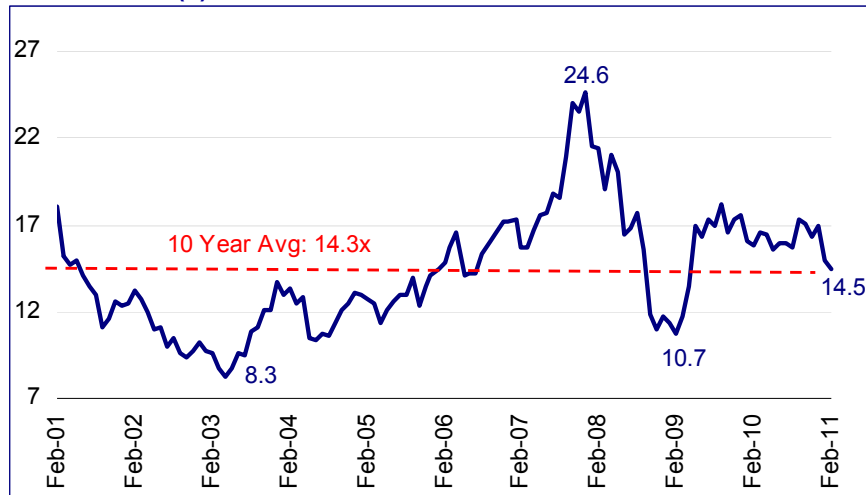


TREND IN FY12E SENSEX EPS REVISION

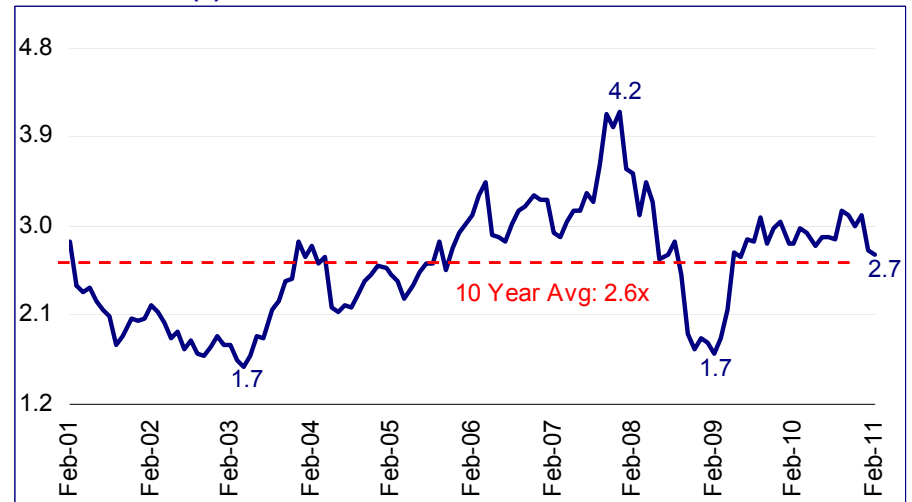


Current valuations at decadal average

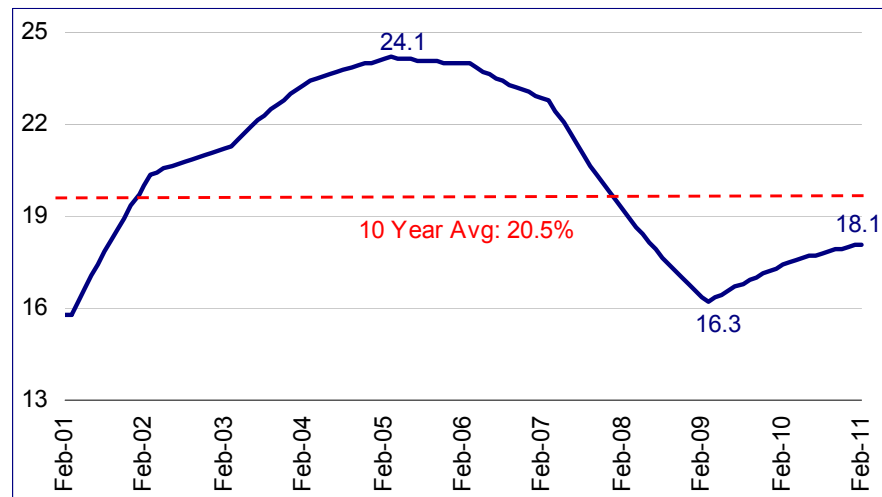
SENSEX P/E (x)



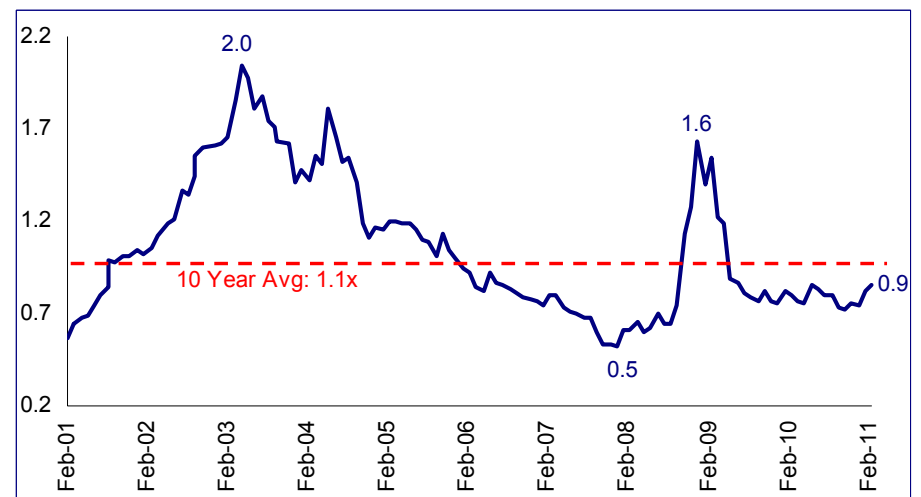
SENSEX P/B (x)



SENSEX ROE (%)

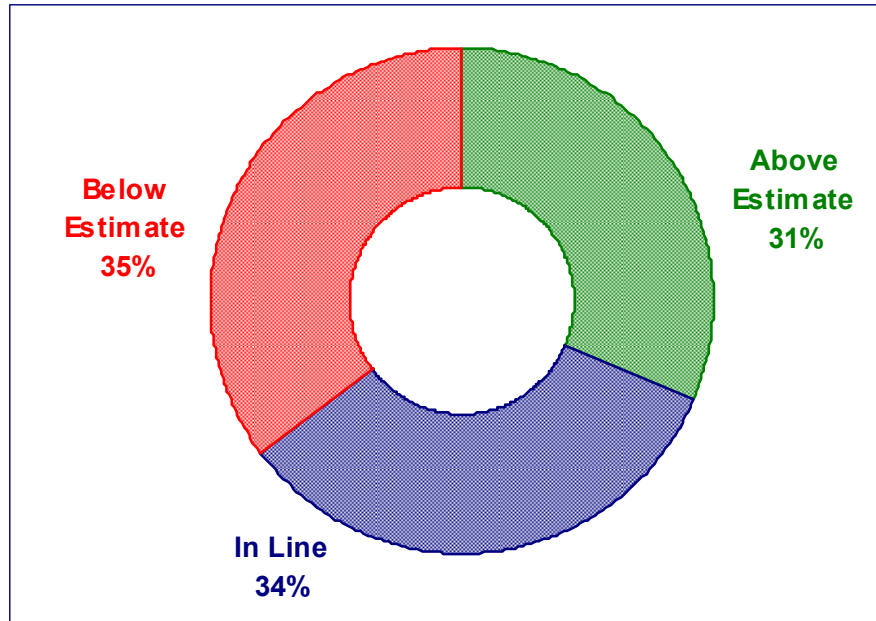


SENSEX EARNINGS YIELD Vs BOND YIELD (%)

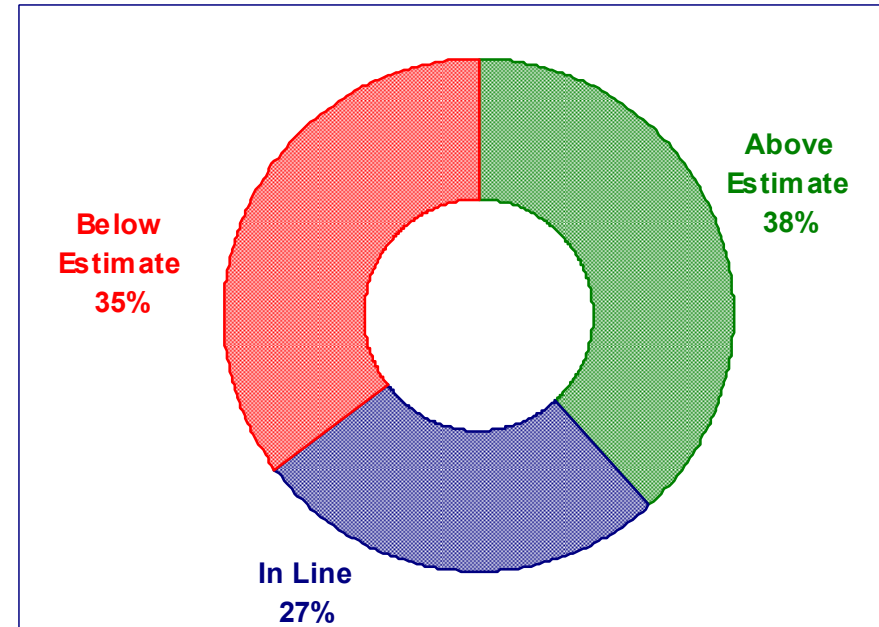


Dec-10 Quarter Results: Deviation from Est. (Companies)

EBITDA DEVIATION (128 COMPANIES)



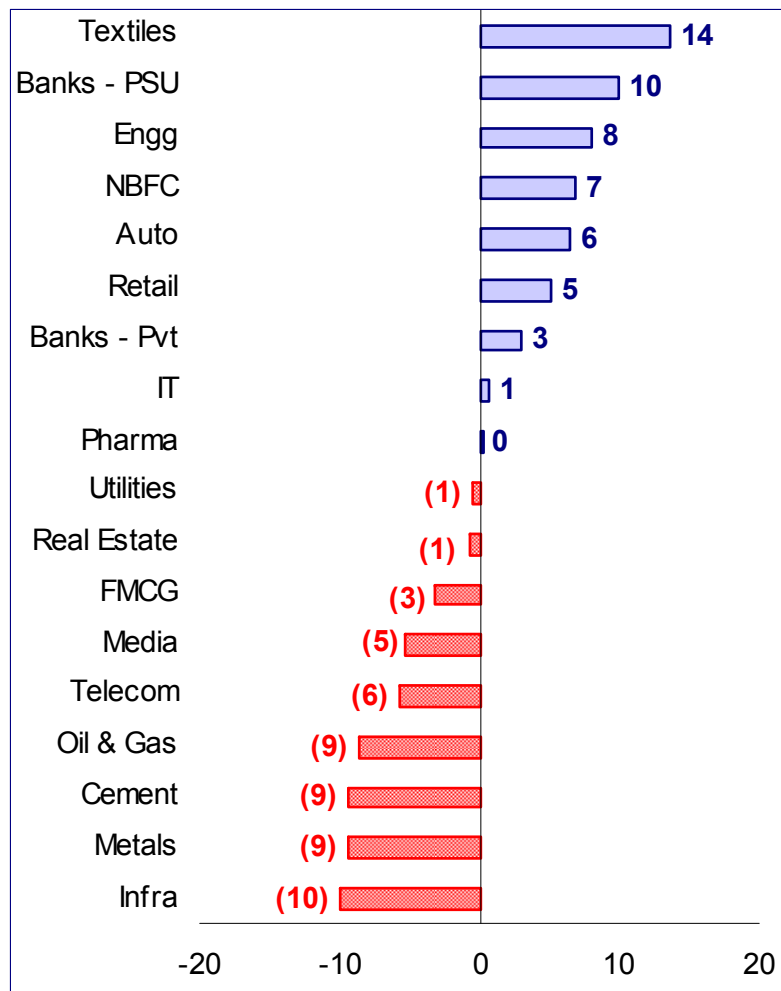
PAT DEVIATION (128 COMPANIES)



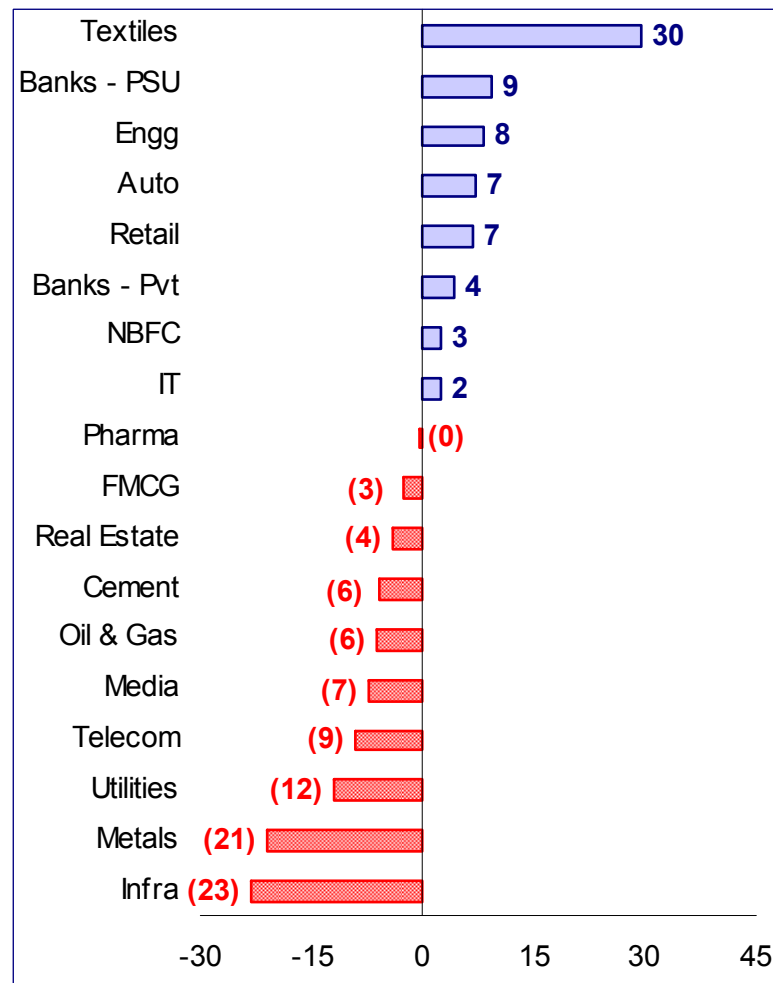
- On the EBITDA front, 40 companies surpassed estimates while 45 fell short.
- On the PAT front, 49 companies surpassed estimates while 45 fell short.

Dec-10 Quarter Results: Deviation from Estimate (Sectors)

EBITDA DEVIATION (SECTORS) – VARIANCE (%)

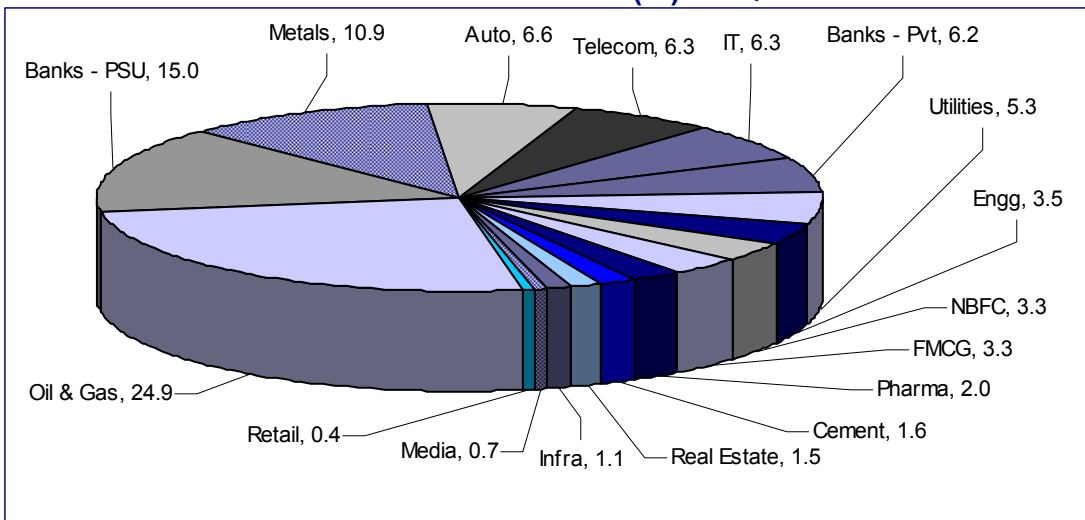


PAT DEVIATION (SECTORS) – VARIANCE (%)



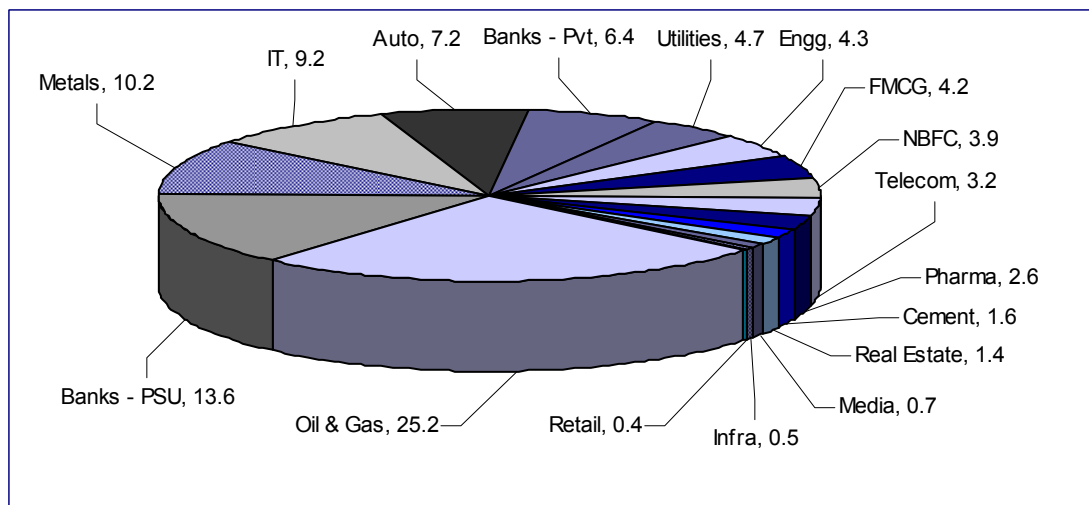
3QFY11 Results Review: Sectoral Contribution

SECTORAL CONTRIBUTION TO EBITDA (%) – 3QFY11



Oil & Gas (25%) and PSU Banks (15%) are the biggest contributors to EBITDA for 3QFY11.

SECTORAL CONTRIBUTION TO PAT (%) – 3QFY11



Oil & Gas (25%) and PSU Banks (14%) are the biggest contributors to PAT for 3QFY11.

Dec-10 Quarter Sector Margins: Actual v/s Estimates

QUARTERLY PERFORMANCE - EBITDA AND PAT MARGIN (%)								
SECTOR	EBITDA MARGIN				PAT MARGIN			
	ACTUAL	ACTUAL	EST.	ACTUAL	ACTUAL	ACTUAL	EST.	ACTUAL
	DEC 09	DEC 10	CHG	CHG	DEC 09	DEC 10	CHG	CHG
Automobiles	13.8	14.2	0.0	0.4	6.6	8.5	1.7	1.9
Private Banks	92.3	85.2	-6.1	-7.1	44.4	47.9	3.4	3.5
PSU Banks	79.2	75.1	-6.9	-4.1	44.7	37.1	-8.7	-7.6
NBFC	99.1	99.4	-3.6	0.3	64.9	63.6	-1.2	-1.3
Cement	26.6	18.4	-7.0	-8.2	15.3	10.3	-4.7	-5.0
Engineering	16.7	15.4	-1.1	-1.2	11.1	10.4	-0.6	-0.7
FMCG	22.5	20.6	-0.7	-2.0	15.6	14.2	-0.6	-1.4
Infrastructure	16.7	16.6	0.0	-0.1	6.3	4.6	-0.9	-1.7
IT	26.4	25.3	-1.4	-1.1	20.2	20.0	-0.8	-0.2
Media	42.0	39.5	-0.8	-2.5	24.6	20.6	-2.7	-4.0
Metals	19.1	17.0	0.4	-2.0	9.2	8.6	2.1	-0.6
Oil & Gas	8.9	11.6	3.6	2.7	4.3	6.4	2.4	2.1
Pharma	24.1	21.5	-2.4	-2.6	8.9	15.0	6.4	6.2
Real Estate	39.1	46.1	6.7	6.9	26.6	23.9	-2.0	-2.7
Retail	9.6	9.7	-0.2	0.0	3.7	4.4	0.5	0.7
Telecom	35.5	30.7	-3.4	-4.8	18.8	8.5	-9.5	-10.3
Textiles	21.2	25.0	1.9	3.8	5.5	8.0	1.0	2.5
Utilities	28.4	28.6	-0.6	0.2	16.4	14.0	-1.1	-2.4
Others	17.6	19.8	1.3	2.3	5.4	6.7	2.4	1.3
MOSL Universe	19.2	20.1	1.4	0.9	10.4	11.0	1.0	0.6
MOSL Excl RMs	25.8	25.8	0.4	0.1	13.8	14.1	0.6	0.3
Sensex Universe	23.9	24.4	0.6	0.5	12.4	12.9	0.7	0.4



AUTO: Mixed bag; Margins under pressure due to RM cost inflation

Summary

- Volume growth continues to be robust across segments, with volume growth of 28% YoY (4% QoQ) in 3QFY11.
- RM cost increase (~40bp QoQ, 300bp YoY) led by strengthening of commodity prices, translated into 50bp QoQ (~330bp YoY) decline in EBITDA margins. PAT declined by 5.6% QoQ (~8% YoY growth).
- FY12 EPS upgrade for Tata Motors (+12.5%) and Bajaj Auto (+4.8%), but downgrade in Hero Honda (-6%), Maruti (-2.6%) and M&M (-6%).
- Multiple headwinds in form of increasing cost of ownership (price hike, hardening interest rates), cost of operations (fuel prices hike) and probable hike in excise duty might impact demand in near term. Forex and commodity price volatility could impact profitability.
- Top Picks:** Bajaj Auto, M&M and Tata Motors.

MARGINS DECLINE BY 50BP QoQ (330BP YOY)

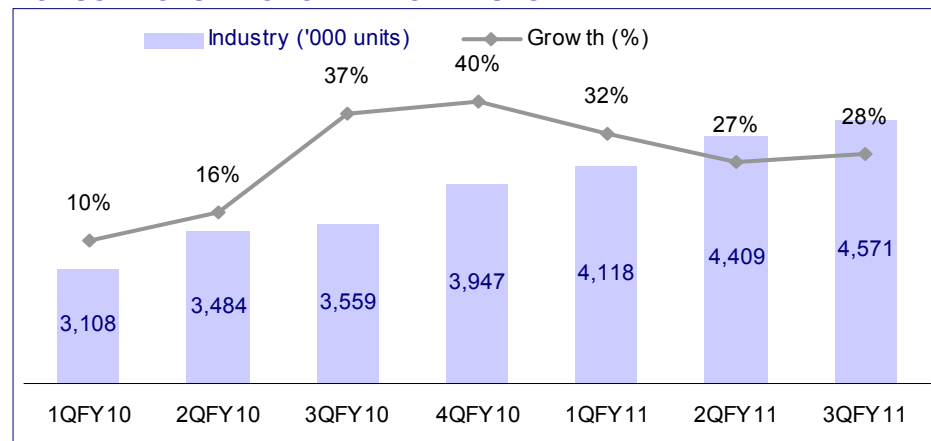
	Volumes ('000 units)			EBITDA Margins (%)			Adj PAT (Rs M)		
	3QFY11	YoY %	QoQ %	3QFY11	YoY bp	QoQ bp	3QFY11	YoY %	QoQ %
Bajaj Auto	947	17	-5	20.3	-160	-30	6,671	31	-2
Hero Honda	1,428	28	11	10.4	-630	-220	4,943	-8	-2
Maruti Suzuki	331	28	5	9.5	-560	-100	5,652	-18	-6
M&M	149	32	13	15.1	-20	-70	6,172	45	-15
Tata Motors (S/A)	194	17	-7	10.4	-250	70	4,336	4	1
Tata Motors (Cons)	0	0	0	15.2	340	70	24,533	202	17
Aggregate *	3,048	24	4	12.1	-330	-50	27,773	8	-6

* Aggregate includes Tata Motor's standalone performance only

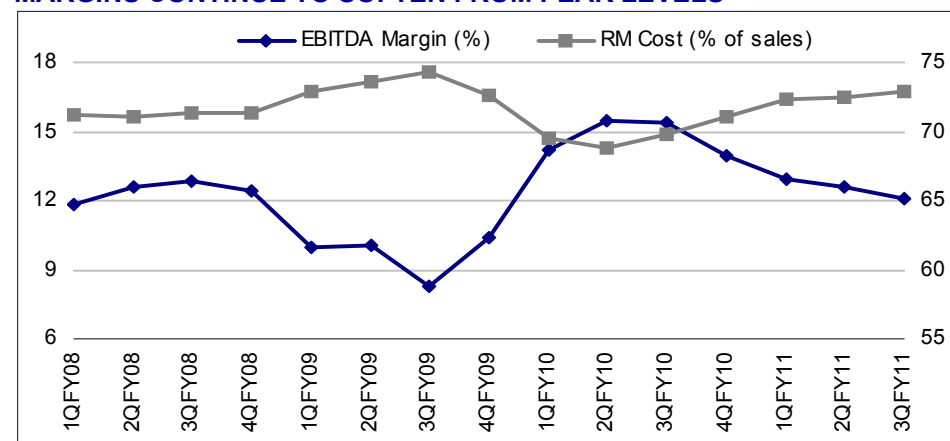
REVISED EPS ESTIMATES (Rs)

	FY12E			FY13E		
	New	Chg (%)	PE (x)	New	Chg (%)	PE (x)
Bajaj Auto	106.2	4.8	13.7	117.8	4.1	11.8
Hero Honda	113.7	-5.9	14.8	128.5	-6.3	13.0
Maruti	104.6	-2.6	14.7	124.4	-2.3	12.2
M&M	64.2	-6.5	15.4	75.1	-6.0	13.8
Tata Motors	165.6	12.5	8.1	186.0	17.8	6.9

ROBUST VOLUME GROWTH CONTINUES



MARGINS CONTINUE TO SOFTEN FROM PEAK LEVELS



BANKING: Strong core operating performance

- **Loan growth** for banks under our coverage was strong at 26% YoY and 6% QoQ (industry growth of 24% YoY, ~10% QoQ). Loan growth performance was balanced across PSU and private banks. Axis Bank's 12% QoQ loan growth was highest amongst our coverage universe.
- With higher deposit rates, **CASA growth is showing** signs of moderation. CASA deposits grew 2% QoQ compared to overall deposit growth of 3%. CD ratio for our universe increased 235bp QoQ to 78.3%.
- **Strong performance on margin, a positive surprise**, was driven by higher CD ratio and strong pricing power. Banks with strong liability franchise (SBI, PNB, BOB; HDFC Bank, Axis Bank) surprised positively while banks with high dependence on bulk deposits witnessing lower NIMs. NII growth was above expectation (36% YoY vs est 34%). As deposits get repriced with a lag and CD ratio moderates, we expect NIMs to trend downwards. We have built-in gradual decline in margins for our coverage universe starting from 4QFY11.

Operating Profit growth was higher than estimates backed by strong core income growth. CI ratio remained stable. PSU banks declared their liability towards pension and gratuity but accounting treatment remained different.

Asset quality was a mixed bag for PSU banks while private banks fared better. Some PSU banks reported higher slippages from restructured loans. Positive surprise came in from Indian Bank, Bank of India and SBI; UBoI, PNB, OBC and Corporation Bank disappointed.

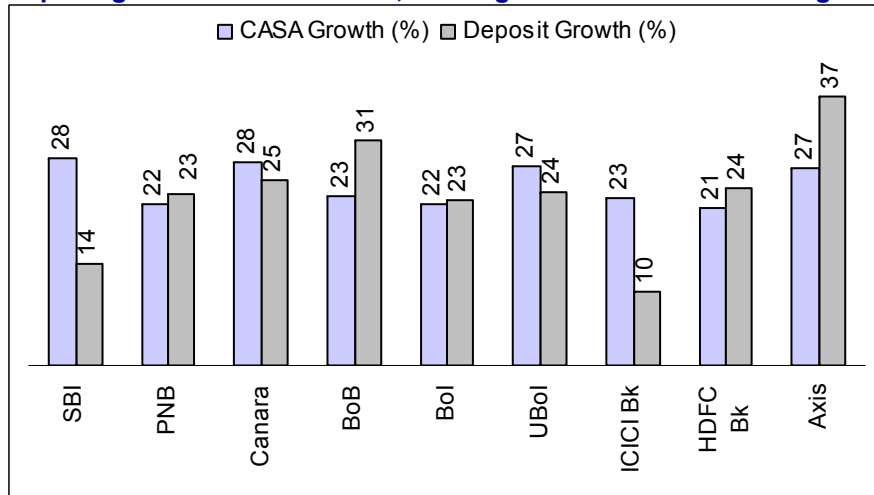
Asset quality to offset NIM moderation: FY11 NIM will be significantly higher than FY10 leading to strong core operating income growth. Expect NIMs to moderate in FY12, but better asset quality will lead to lower credit cost and drive earnings. Stressed liquidity, higher inflation and moderating IIP growth remain key headwinds for the sector. Valuations are attractive. Prefer **SBI, ICICI Bank, PNB** among large caps; **Yes Bank** in mid caps.

	NII		Fee Income		PAT		Deposits		Loans		Gross NPA		NIM %			
	% Growth	QoQ %	YoY %	QoQ %	YoY %	QoQ %	YoY %	QoQ %	YoY %	QoQ %	YoY %	QoQ %	YoY %	3QFY10	2QFY11	3QFY11
SBI		11.5	43.3	-15.9	13.1	13.1	14.1	2.8	14.0	6.7	21.3	1.0	24.3	2.82	3.43	3.61
PNB		7.6	44.8	-6.8	-2.2	1.4	7.8	5.7	23.5	6.0	29.8	12.8	43.9	3.64	4.06	4.13
Canara		5.8	43.4	-12.8	-1.2	9.7	5.0	5.7	25.4	7.8	28.8	4.4	5.1	2.71	3.16	3.21
BoB		12.3	43.2	-4.8	7.5	4.6	28.4	4.4	30.9	7.4	32.7	1.9	22.6	2.95	3.02	3.20
Bol		11.9	32.9	-2.7	21.5	5.9	61.0	4.8	22.6	4.5	22.8	-6.7	8.5	2.60	2.81	3.09
UBol		5.2	48.3	-2.1	7.2	91.0	8.5	5.0	23.5	5.8	25.6	1.6	71.1	2.77	3.35	3.44
Coverage PSU		9.0	41.1	-10.7	8.9	11.5	17.2	4.1	20.3	6.4	25.1	2.3	27.1	NA	NA	NA
Private Bank																
ICICI Bk		4.9	12.3	2.2	14.2	16.2	30.5	-2.4	10.2	6.4	15.3	0.0	12.8	2.60	2.60	2.60
HDFC Bk		9.9	24.9	14.4	25.2	19.3	32.9	-1.6	24.2	1.3	33.1	-3.2	-9.7	4.30	4.20	4.20
Axis		7.3	28.5	14.0	21.0	21.3	35.9	-0.7	36.9	11.7	45.7	8.8	26.4	4.00	3.68	3.81
Coverage PVT		6.4	22.1	8.5	19.4	16.0	32.6	-0.7	22.7	5.8	27.7	0.6	12.5	NA	NA	NA
Coverage Uni		8.3	35.7	-3.0	13.4	12.8	21.5	3.0	20.8	6.2	25.7	1.9	23.0	NA	NA	NA

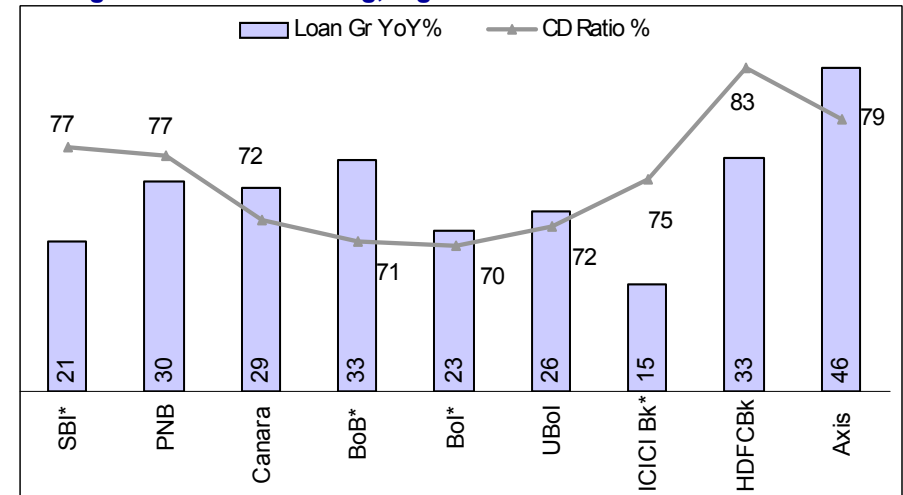
Note: Fee income is non-interest income (ex trading profits, recoveries and forex), * NIM on cumulative basis, rest on quarterly basis

BANKING: Strong core operating performance

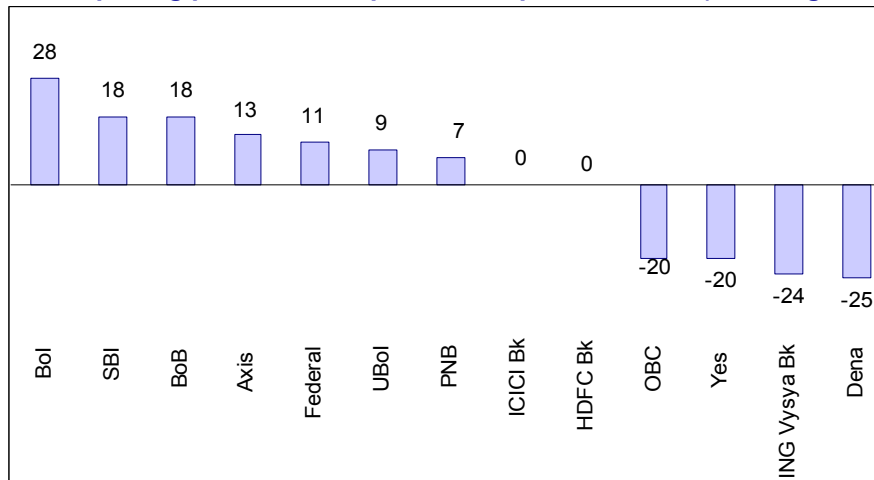
Deposit growth remains muted, CASA growth started moderating



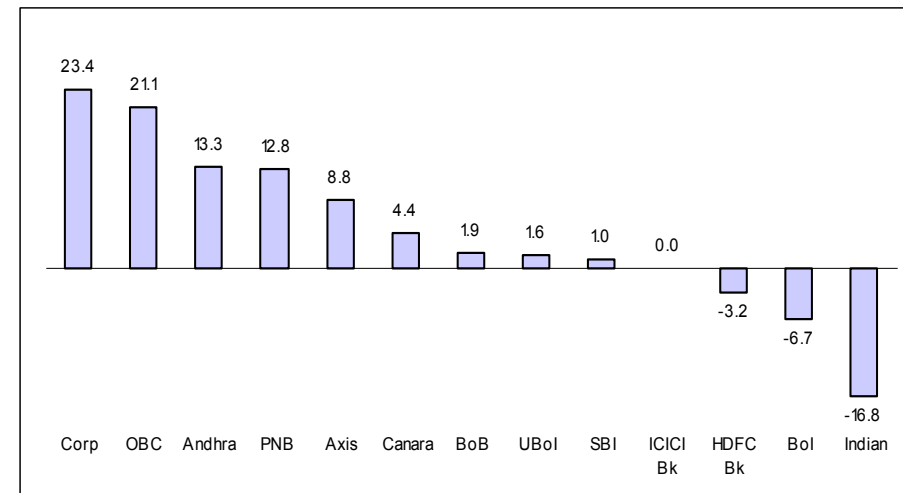
Loan growth remains strong, high CD ratio not sustainable



Better pricing power lead to positive surprise on NIMs (QoQ chg in bp)



Asset quality performance for pvt banks better than PSU (QoQ Growth %)



CEMENT: Disappointing; Lower realization recovery impacts EBITDA

Summary

- 3QFY11 volumes were below estimates with 2.7% YoY growth & 4.4% growth in 9MFY11. Cement realizations were below estimates with Rs7/bag QoQ improvement.
- EBITDA improved 35% QoQ (-43% YoY) to Rs602/ton, driven by higher realizations and operating leverage.
- Our EPS estimates have witnessed revision, with upgrades for Ambuja (+3%) and Birla Corp (+7%), but downgrades in ACC (-8%), India Cement (-11%) and Shree Cement (-89%).
- Cement prices are up significantly since December and will lead to strong earnings in 4QFY11. We believe worst is behind us and expect cement prices to remain buoyant atleast till Apr-May'11.
- Top Picks:** ACC, Grasim, Birla Corp and India Cement

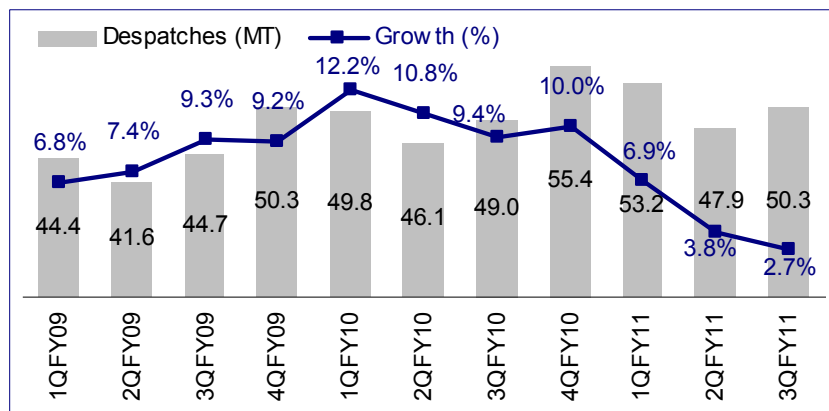
RS7/BAG QOQ IMPROVEMENT IN REALIZATIONS

	Volumes (MT)			Realization (Rs/ton)			EBITDA (Rs/Ton)		
	3QFY11	YoY %	QoQ %	3QFY11	YoY %	QoQ %	3QFY11	YoY %	QoQ %
ACC	5.6	4.7	16.1	3,490	-2.7	2.9	372	-58.3	5.8
Ambuja	5.0	5.6	15.9	3,549	-4.5	-1.3	624	-31.4	-4.1
UltraTech	9.8	0.1	6.6	3,158	1.7	7.4	712	-6.5	62.6
Birla Corp	1.5	-0.8	7.3	2,953	-14.4	-5.3	721	-37.8	15.8
India Cement	2.0	-26.1	-24.9	3,665	21.1	26.0	619	46.6	487.2
Shree Cement	2.6	2.1	14.8	2,851	-11.0	-5.3	556	-53.6	-5.8
Aggregate	26.6	-0.6	7.4	3,299	-1.3	4.5	602	-43.4	34.8

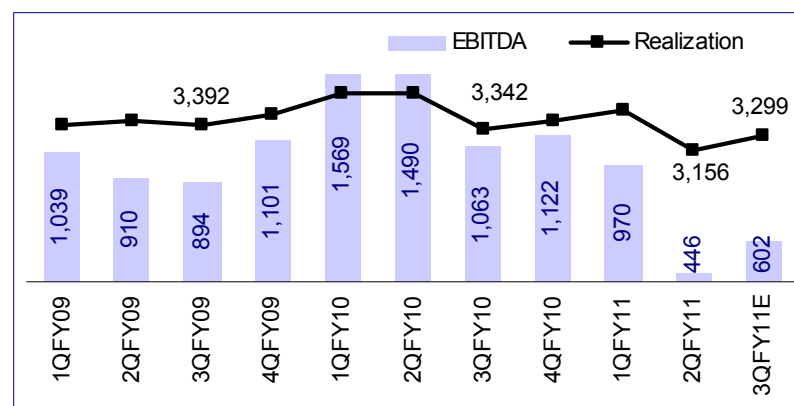
REVISED EPS ESTIMATES (RS)

	FY12E			FY13E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
ACC	56.5	61.7	-8.4	74.6	80.1	-6.9
Ambuja Cement	8.7	8.4	3.4	11.3	10.9	3.6
Grasim	266.8	261.6	2.0	340.7	329.3	3.5
UltraTech	62.4	62.6	-0.4	97.0	94.7	2.5
Birla Corp	59.8	55.9	6.9	72.5	69.6	4.2
India Cement	7.1	8.1	-11.4	8.6	9.3	-7.2
Shree Cement	9.5	87.3	-89.1	89.8	145.0	-38.0

3QFY11 INDUSTRY VOLUME GROWTH REMAINED MUTED TO 2.7%



PRICE RECOVERY DRIVES EBITDA IMPROVEMENT OF RS8/BAG QOQ



CONSTRUCTION: Profits hit by slow execution, interest cost

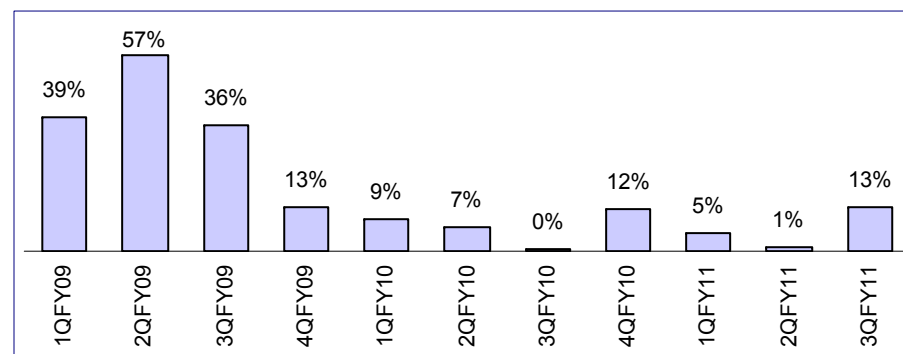
Summary

- Order intake was a mixed bag during the quarter: Simplex reported 75% YoY growth in order intake at Rs21b, and NCC reported order intake growth of 34% at Rs27b. Order intake remained muted for IVRCL (Rs32b, down 10%) and. HCC reported no new orders during the quarter.
- Slow decision making by Government agencies has resulted in delay in project awards in key sectors like roads. This in turn gas affected execution. Revenue growth remained muted during the quarter at 13% YoY.
- EBITDA margins improved YoY. However increasing interest rates have impacted PAT margins. Interest rates which stood at 3.7% of revenues in 3QFY10 has jumped to 4.1% in 3QFY11.
- Top picks:** IVRCL and NCC.

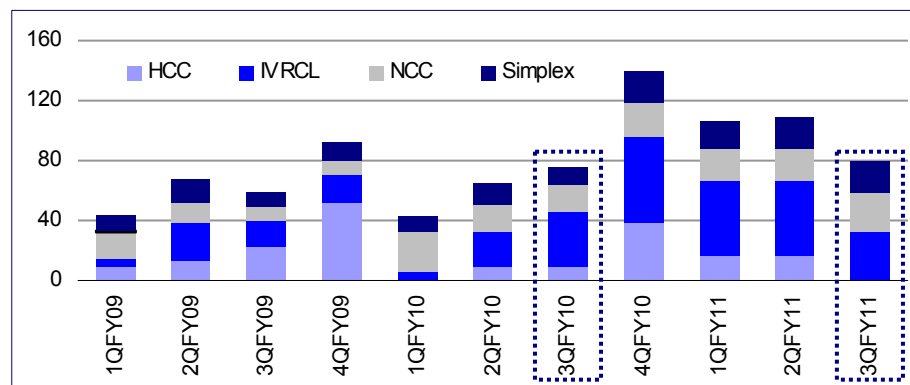
3QFY11: ACTUAL VS ESTIMATES

	Net sales (Rs m)			EBITDA (Rs m)			PAT (Rs m)		
	Actual	Est	Var %	Actual	Est	Var %	Actual	Est	Var %
HCC	10,025	11,007	-8.9	1,320	1,332	-0.9	147	222	-33.8
IVRCL	14,188	13,686	3.7	1,404	1,369	2.6	423	499	-15.2
NCC	13,355	15,201	-12.1	1,276	1,581	-19.3	444	653	-32.0
Simplex	11,667	11,970	-2.5	1,076	1,137	-5.4	232	284	-18.3

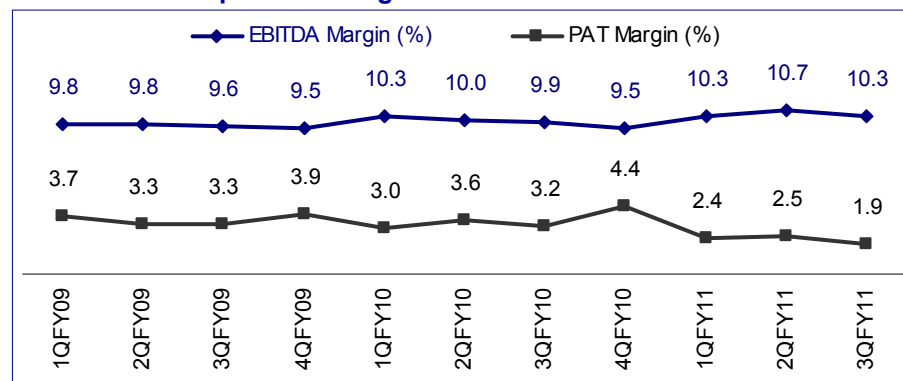
Aggregate sales growth remains subdued due to execution concerns



Muted order intake growth in 3QFY11; At Rs79b, up 6% YoY



EBITDA margins improved YoY; Deteriorating working capital and rising interest rates impact net margins

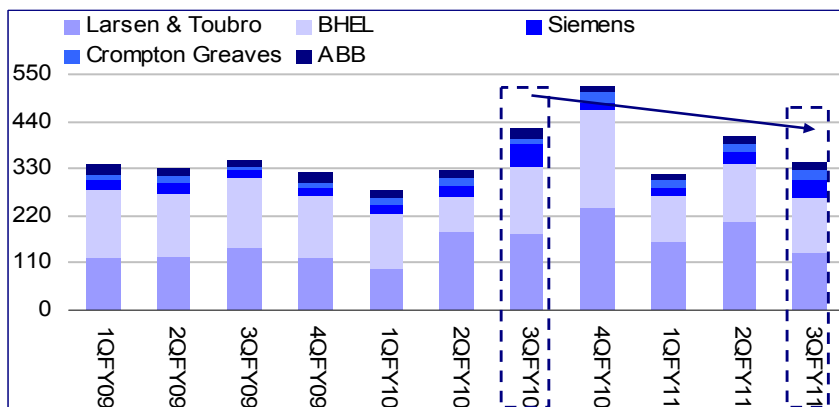


ENGINEERING: Revenues buoyant; costs rise

Summary

- Sector performance for the quarter was significantly above estimates with only Cummins India reporting below estimate numbers.
- 9MFY11 revenue growth of 27% reflects the improving order execution scenario as we build in FY11 sector revenue growth of 23% with OPMs of 15.5% (up 80bp YoY) and Adj.PAT growth of 24% YoY.
- Order intake for the sector in 3QFY11 declined 16% YoY at Rs370b. BHEL order intake was down 18% YoY while L&T was down 25% YoY.
- OPMs were at 14.8% down 110bp YoY for the universe. Material costs rose from 44% to 61% in 3QFY11 while for 9MFY11 they are up 623bp to 53%.
- **Top Picks:** BHEL, L&T, BGR, Cummins

ORDER INTAKE (RS B): INTAKE DOWN 16% YoY

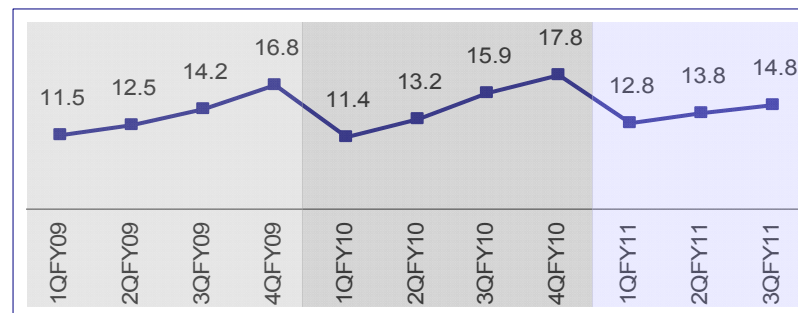


BHEL/L&T/CG/THERMAX ABOVE EST; CUMMINS BELOW EST

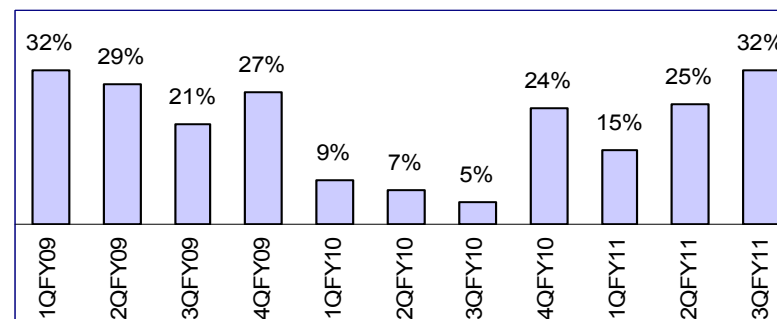
	Sales YoY (%)		EBITDA YoY (%)		PAT YoY (%)		Var*
	Actual	Est.	Actual	Est.	Actual	Est.	
BGR Energy	97	60	106	64	57	109	33
BHEL	25	23	33	16	10	21	10
Crompton Greaves	14	24	12	21	21	30	8
Cummins India	18	30	-5	18	13	-6	-17
Larsen & Toubro	40	20	20	22	30	32	2
Siemens	33	21	-1	-24	-4	29	35
Thermax	66	35	64	38	43	77	24
Sector	34	23	24	15	17	26	8

* Variance of actual PAT over estimate

EBITDA MARGINS DOWN 110BP YoY LED BY MATERIAL COSTS



REV.GROWTH (% YoY): 9MFY11 GROWTH BOUYANT AT 27%



FMCG: Volume growth steady; RM pressure partly offset by lower ad-spend

Summary

- Volume growth momentum sustained - HUL's volume grew 13%; ITC's cigarette volume grew ~2%.
- Sharp spike in cost of inputs like PFAD, Copra, TiO2, LAB and Milk. Gross margin pressure was partly absorbed by cut in ad-spend and operating leverage.
- HUL, Asian Paints, United Spirits and Colgate were major disappointments, while Marico and GSK Consumer reported better than expected numbers.
- Colgate and United Spirits have seen 17-25% EPS downgrade for FY11-13.
- Top Picks:** Prefer players with strong pricing power – ITC, Asian Paints, GSK Consumer.

SHARP DOWNGRADES IN COLGATE AND UNSP

	Reco	Earlier		Reco	New		% Change	
		FY11EPS	FY12EPS		FY11EPS	FY12EPS	FY11	FY12
Asian Paints	Buy	96.0	115.9	Buy	92.9	111.4	-3.2	-3.9
Britannia Inds	Neutral	11.1	16.2	Neutral	10.5	15.5	-5.0	-4.1
Colgate	Neutral	33.7	38.6	Neutral	29.4	32.1	-12.8	-16.9
Dabur	Neutral	3.3	3.9	Neutral	3.2	3.9	-2.1	0.9
GSK Cons	Buy	69.1	84.3	Buy	71.5	87.1	3.4	3.3
Godrej Cons	Neutral	13.9	17.5	Neutral	14.3	17.2	2.9	-1.9
Hind. Unilever	Neutral	9.9	11.2	Neutral	9.5	10.5	-3.7	-6.5
ITC	Buy	6.4	7.5	Buy	6.4	7.5	0.3	0.3
Marico	Neutral	4.2	5.1	Neutral	4.5	5.3	8.1	3.6
Hestle India	Buy	85.8	103.1	Buy	85.8	103.1	0.0	0.0
United Spirits	Neutral	36.1	52.4	Neutral	26.6	36.8	-26.3	-29.8

VOLUME GROWTH MOMENTUM SUSTAINED IN 3QFY11

Quarter Ending	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10
Asian Paints	25.0	16.0	24.0	0.0	27.0
Colgate (Toothpaste)	15.0	11.0	14.0	12.0	13.0
Dabur	14.5	12.0	17.0	13.5	10.0
Godrej Consumer					
Soaps	11.0	0.0	-9.0	-10.0	3.0
Hair Color	11.0	14.0	4.0	12.0	2.0
GSK Consumer	10.0	13.0	10.0	18.0	13.0
Hindustan Unilever	5.0	10.9	10.3	14.0	13.0
ITC (cigarette)	8.5	8.8	-3.0	-0.5	2.0
Marico					
Parachute	8.0	10.0	14.0	10.0	5.0
Hair Oil	10.0	27.0	27.0	18.0	13.0
Saffola	18.0	13.0	17.5	14.0	31.0
United Spirits	12.3	16.0	6.0	16.0	14.0

AD-SPEND CURTAILED TO OFFSET GROSS MARGIN PRESSURES

Company	Expansion/Contraction in (bp)		
	Gross Margin	Ad-spend	EBITDA Margin
Asian Paints	-340	N.A	-320
Britannia Inds	-130	-110	80
Colgate	290	630	-760
Dabur	-300	-210	30
GSK Consumer	-220	-290	200
Godrej Consumer*	-450	-200	-140
Hind. Unilever	-180	70	-310
ITC	-270	N.A	-50
Marico	-540	-180	-260
United Spirits	-70	180	50

* Standalone

IT Services – Inline results, Pricing uptick was the key positive

Summary

- Revenue growth inline, led by HCL Tech. Wipro and Infosys disappointed on volumes. Like-to-like pricing improvement across the top-tier (except HCL Tech) was the key positive (50-120bp across TCS and Infosys, 2.5% increase at Wipro (offshore)).
- Supply side pressures abated with reduced number of exits QoQ.
- Pricing surprise offset currency headwinds from Rupee appreciation; margins remained flat (+/-20bp QoQ deviation).
- Infosys guidance of 1-2% QoQ growth was inline; Wipro guidance of 3-5% was marginally below our estimate.
- Pricing up-tick, discretionary spend and FY12 guidance are key determinants of further upgrades.
- Expect US\$ revenue CAGR at top-4 IT players of 20.1-22.6% over FY11-13 and EPS CAGR of 14.5-26.1% during the period.
- **Top picks:** Infosys and HCL Tech.

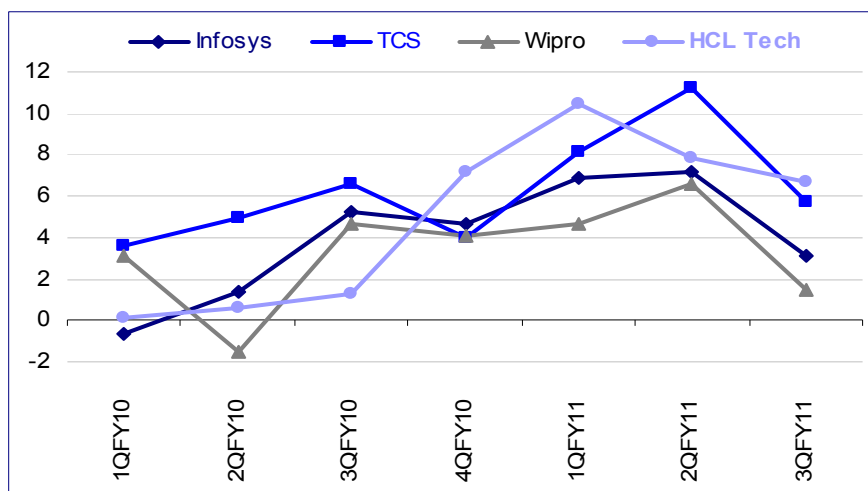
Actual vs Estimate

	US\$ Rev growth (%)		EBITDA margin (%)		PAT (Rs b)	
	Actual	Estimate	Actual	Estimate	Actual	Estimate
Infosys	5.9	6.0	33.3	32.9	17.8	18.3
TCS	7.0	7.0	30.2	29.5	23.3	21.9
Wipro	5.6	5.4	22.2	22.6	13.2	13.0
HCL Tech	7.5	7.4	15.7	15.6	3.7	3.9

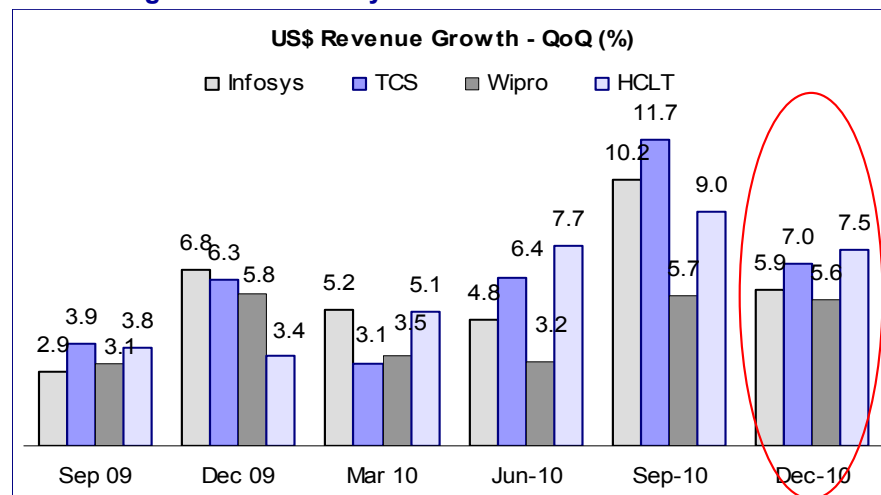
LTM attrition rates rise, but number of exits are actually lower QoQ

Company	9-Dec	10-Mar	10-Jun	10-Sep	10-Dec	Nov-10	Dec-10
						Exits	Exits
Infosys	11.60%	13.40%	15.80%	17.10%	17.50%	6,618	5,756
TCS	11.50%	11.80%	13.10%	14.10%	14.40%	8,576	8,422
Wipro	9.90%	12.10%	15.80%	19.40%	21.60%	N.A.	N.A.
HCL Tech	12.80%	13.90%	15.70%	16.70%	17.20%	3,006	2,730

Despite below-estimate volume growth ...



... revenue growth was mostly in line



Outlook: Infosys, HCL Positive; Pricing Tailwind

Infosys Outlook: Muted 4Q guidance in-line with est., industry outlook on FY12 positive

- FY11 US\$ rev. guidance of 25.7-26.1% was inline
- 2 consecutive quarters of pricing uptick. Volume growth at 3.1% was disappointing.
- IMS continues to lag company average growth. IMS contribution to revenues down to 6% from 7.1% same quarter last year. Product business was the standout with QoQ growth of 33.7%.
- Guidance of mid-high teens industry growth in FY12

Wipro Outlook: Cautious on continued under- performance and change in top management

- Revenue growth guidance of 3%-5% for 4QFY11 vs. 1-2% for Infosys
- Volume growth of just 1.5% was a big disappointment, though driven by some deal slippages into 4QFY11.
- Sub optimal vertical/service line mix and recent inferior execution to make catch up with peers challenging for the new management led by Mr. T K Kurien.
- Margin recovery difficult on high attrition and necessary investments towards growth pursuit.

TCS Outlook: Confident of sustaining ~20% growth over the next 3 years, margins to sustain at current levels

- Strong volume growth of 5.7% on broad-based demand
- 120bp QoQ increase in pricing (CC) driven by successful renegotiations and Products business
- Outperformance in IMS, the key growth driver, gives confidence over sustained growth
- Underperformance in discretionaries is a key concern.

HCL Tech Outlook: Best in class volumes, Margin bottomed out, Strong operating cash flows abate concerns

- Comparable performance to Infosys in discretionary segments and better growth than TCS in IMS indicate execution strength
- Multiple levers and management focus to facilitate margin recovery
- BPO revenue downside arrested, but ~US\$5-6m EBITDA losses to continue for the next 4-5 quarters
- Operating cash flows recover (guidance of ~100% of the Net Income on rolling quarter basis) post a blip in 1QFY11

3QFY11 revenue break-up

QoQ growth (%)	Revenue	Volume	Realization/Mix
Infosys	5.9	3.1	2.8
TCS	7.0	5.7	1.3
Wipro	5.6	2.1	3.5
HCL Tech	7.5	6.8	0.7

Note: Realization is in reported currency

Marginal upgrades on changed currency assumptions

Companies	Before Results		Post Results		Change %	
	FY12	FY13	FY12	FY13	FY12	FY13
Infosys	153.3	182.5	152.2	182.9	-0.7%	0.2%
TCS	51.2	60.5	52.0	61.3	1.6%	1.3%
Wipro	25.2	30	24.1	28.7	-4.4%	-4.3%
HCL Tech	31.4	35.3	31.8	36.6	1.3%	3.7%

MEDIA: Disappointments in a seasonally strong quarter

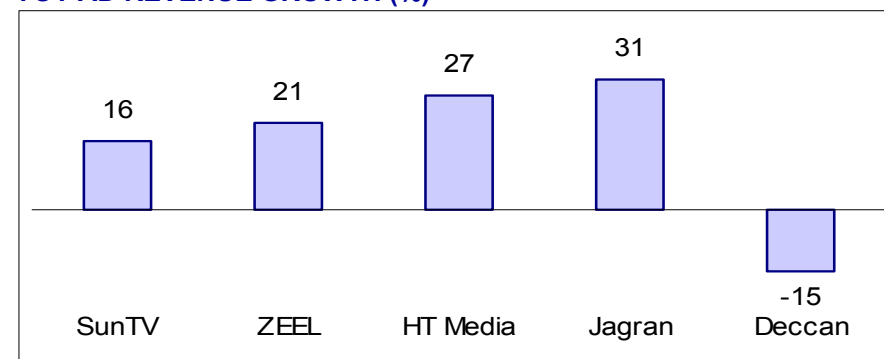
Summary

- ZEEL and Sun TV posted robust YoY ad-revenue growth driven by festive season which had shifted to 3Q this year. ZEEL reported 20-25% (like-to-like) ad revenue growth while Sun reported 16%.
- ZEEL continued to incur EBITDA losses (9MFY11 loss is Rs1.93b vs Rs576m in FY10) in the sports business; Sun TV's earnings surprise was led by higher contribution from 'Enthiran' (revenue of Rs1.51b was recognized in 3QFY11) and cost control.
- While Jagran and HT media's revenue/EBITDA were largely in-line, DCHL results were significantly below estimates led by local aberrations due to unrest and political uncertainty in AP. Most of the impact from increased newsprint prices has already been incurred; newsprint prices have stabilised at higher levels and are expected to be ranged in CY11.
- We expect continued traction in ad revenue momentum. DTH remains a growth driver for subs revenue of broadcasters.

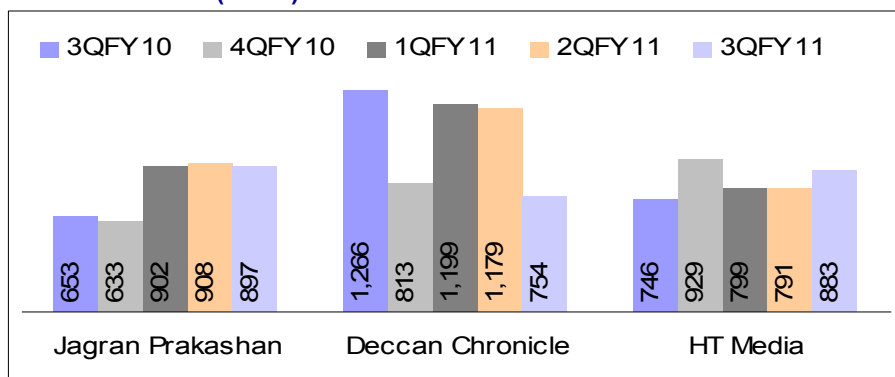
3QFY11: ACTUAL VS ESTIMATES

	Net Sales (Rs m)			EBITDA (Rs m)			PAT (Rs m)		
	Actual	Est	Var %	Actual	Est	Var %	Actual	Est	Var %
Sun TV	5,980	5,670	5	5,018	4,505	11	2,255	1,791	26
ZEEL	7,549	7,690	-2	1,541	2,067	-25	1,141	1,556	-27
Jagran Prakashan	2,860	2,835	1	897	917	-2	526	554	-5
Deccan Chronicle	1,996	2,511	-20	754	1,281	-41	352	791	-56
HT Media	4,651	4,633	0	883	831	6	478	432	11

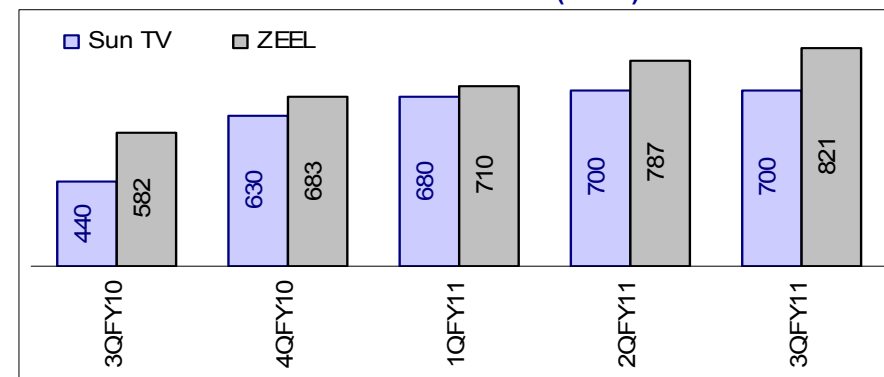
YOY AD REVENUE GROWTH (%)



PRINT: EBITDA (RS M)



TRACTION IN DTH REVENUE CONTINUES (RS M)



METALS: Demand was sluggish; midcaps hit harder

Summary

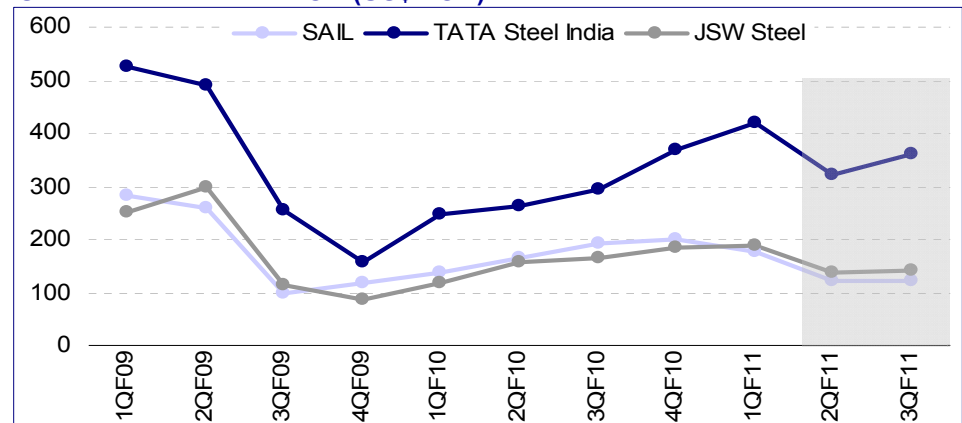
- Steel realizations for Tata Steel increased 5% QoQ, while it remained flat for JSW Steel and declined for SAIL.
- Months of October and November were sluggish from end demand point of view. Even Hindalco found it difficult to push through LME increase on its value added products. VAP sales declined. Margins of both Hindalco and Nalco disappointed due to cost pressure and slower than LME increase in prices.
- The **margins** of JSW Steel and SAIL remained subdued. Tata steel's margins expanded QoQ due to better product mix and higher realization of long products.
- **Smaller steel companies** really struggled to sell. Logistic bottleneck due to strict enforcement of rules and poor end demand affected margins. Sarda, Usha Martin, Adhunik's steel business reported very bad numbers. Godawari reported better numbers due to good performance of pellet plant and mines. Prakash Ind., Monnet reported decline in margins, still did better than peers.
- **Mining companies:** Sesa Goa and OMM reported better margins, but volumes disappointed. Transportation bottlenecks due to strict enforcement of time and weight restriction on trucks had impact on volumes and costs.
- **Top Picks:** Tata Steel's earnings will grow due to both margin expansion and volume growth, JSW Steel appears attractive after sharp correction though margins will remain under stress, but volume growth will be best.
- **Midcap picks:** Prakash Inds trades below book, while its balance sheet is best and business growth remains intact, Pellet plant performance and iron ore production will drive earnings of Godawari.

3QFY11 PERFORMANCE SNAPSHOT

	Net Sales		EBITDA		Adj PAT	
	Rs b	YoY (%)	Rs b	YoY (%)	Rs b	YoY (%)
Tata Steel	290.9	13	34.2	10	8.8	35
JSW Steel	58.1	26	10.0	-11	3.8	-7
SAIL	113.1	15	18.0	-30	11.1	-34
Nalco	14.4	2	3.9	32	2.6	65
Hindalco*	59.7	9	7.4	-8	4.6	-5
Sterlite	83.3	24	19.8	12	11.1	10
Hind Zinc	26.3	17	15.1	9	12.9	12
Sesa Goa	22.5	19	12.3	19	10.6	29
Adhunik*	3.4	13	0.6	-3	0.1	-63
Bhushan	19.4	36	5.4	38	2.8	34
Godawari	2.2	10	0.5	67	0.2	56
Jai Balaji	5.9	25	0.9	27	0.2	13
Monnet	3.5	-7	1.1	-1	0.7	3
Prakash	3.8	6	0.7	-19	0.6	-17
Sarda	2.1	39	0.2	-34	0.1	-67
TataSpong	1.7	31	0.3	1	0.2	9

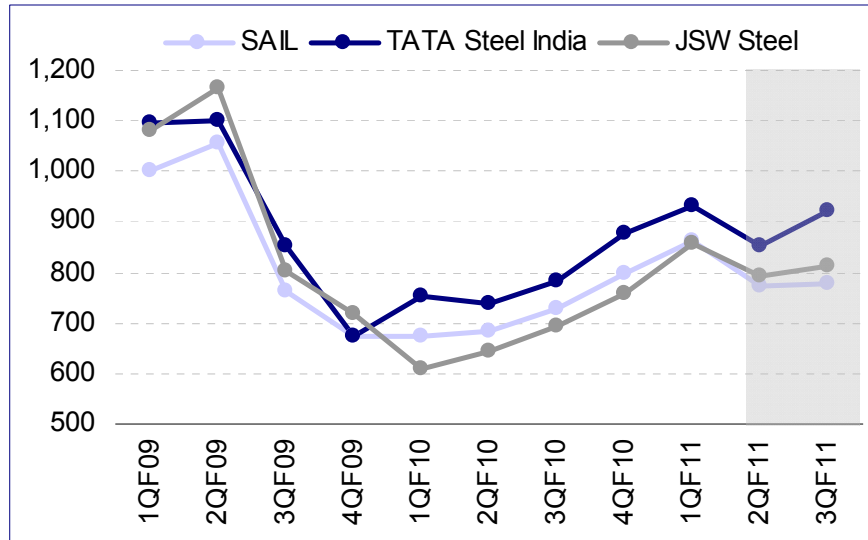
Note: * standalone

STEEL: EBITDA PER TON (US\$/TON)

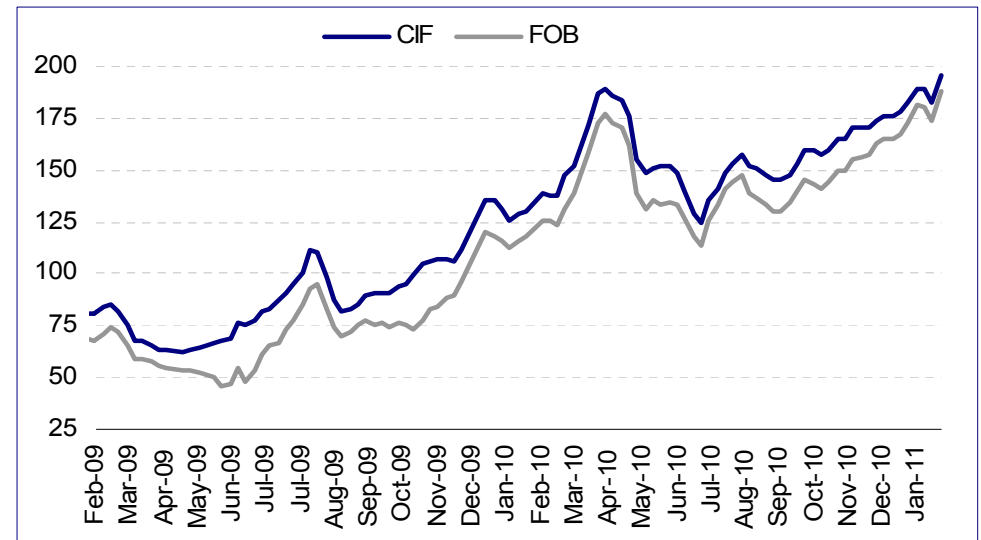


METALS: Steel prices up on raw material cost push

STEEL: REALISATION PER TON (US\$/TON)



CHINA CFR SPOT IRON ORE PRICES (US\$/TON)



QUARTERLY AVERAGE OF BASE METAL PRICES ON LME 3M CONTRACT (USD/TON)

Quarter	Zinc			Aluminium			Copper			Lead			Alumina			Nickel		
	Avg.	QoQ	YoY	Avg.	QoQ	YoY	Avg.	QoQ	YoY	Avg.	QoQ	YoY	Avg.	QoQ	YoY	Avg.	QoQ	YoY
4QFY11	2,417	4%	5%	2,482	5%	13%	9,660	12%	33%	2,547	6%	14%	380	8%	16%	26,432	12%	31%
3QFY11	2,333	14%	4%	2,365	12%	16%	8,614	18%	29%	2,406	17%	4%	353	11%	16%	23,619	11%	34%
2QFY11	2,043	0%	15%	2,110	-1%	15%	7,278	3%	24%	2,065	5%	6%	317	-5%	18%	21,271	-5%	21%
1QFY11	2,052	-11%	36%	2,122	-3%	39%	7,042	-3%	50%	1,972	-12%	30%	335	3%	61%	22,431	11%	71%
4QFY10	2,307	3%	91%	2,199	8%	57%	7,274	9%	108%	2,235	-3%	91%	327	7%	72%	20,163	15%	90%
3QFY10	2,241	26%	84%	2,037	11%	8%	6,677	14%	69%	2,313	19%	83%	306	13%	10%	17,593	0%	58%
2QFY10	1,780	18%	-1%	1,836	20%	-35%	5,856	24%	-23%	1,942	28%	1%	270	29%	-34%	17,576	34%	-8%
1QFY10	1,509	25%	-30%	1,530	9%	-49%	4,708	35%	-43%	1,520	30%	-35%	209	10%	-49%	13,147	24%	-49%
4QFY09	1,208	-1%	-51%	1,401	-26%	-50%	3,494	-11%	-55%	1,173	-7%	-60%	190	-32%	-51%	10,625	-4%	-64%
3QFY09	1,219	-32%	-54%	1,885	-34%	-25%	3,948	-48%	-46%	1,265	-34%	-61%	279	-32%	-19%	11,118	-42%	-63%
2QFY09	1,798	-16%	-44%	2,839	-5%	9%	7,571	-9%	-1%	1,915	-18%	-38%	408	-1%	17%	19,133	-26%	-37%
1QFY09	2,150	-13%	-42%	2,995	8%	7%	8,323	8%	10%	2,330	-20%	7%	411	5%	14%	25,859	-11%	-43%

OIL & GAS: GRM up QoQ; Polyester margins at historical high, Subsidy sharing ad-hoc

Summary

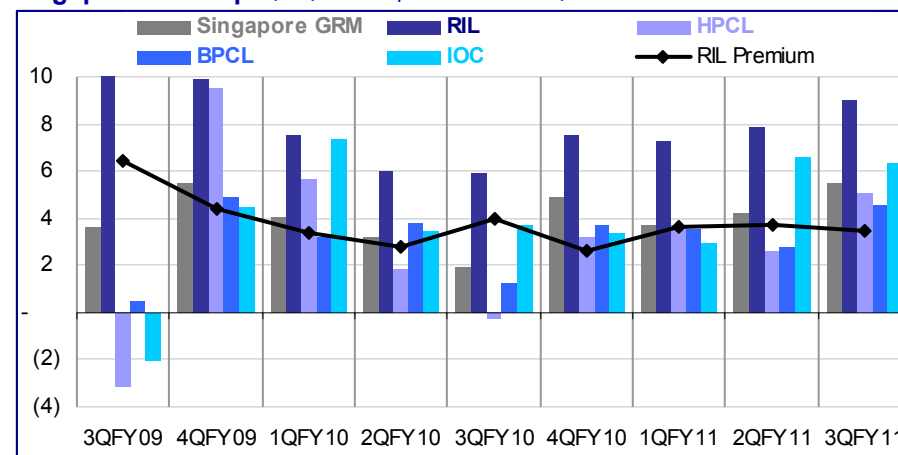
- Refining: GRM up QoQ and YoY; expect to remain range bound:** Benchmark Reuters Singapore GRM at US\$5.5/bbl (currently at US\$6.9/bbl) was up 31% QoQ and 2.9x YoY. In spite of overcapacity, GRM expected to be range bound (currently at ~US\$6.9/bbl) due to economic recovery and prevailing cold winters.
- Polyester margins strong; domestic polymer price premium to imports decline:** Led by strong cotton prices, and demand polyester margins continued to improve. However, in polymers, domestic price premium to imported declined 29-62%.
- RIL results in line, KGD6 volumes decline:** Continued lower E&P profitability is offset by strong petchem profits. KG-D6 volume decline from a peak of 60 to 51mmscmd and lack of update from management has lead to concerns over further ramp up. We believe that only refining segment could provide some solace in near-term given its strength in recent months.
- Ad-hoc subsidy sharing; awaiting policy decisions:** Post partial de-regulation 9 months back; govt. is yet to announce further policy reforms resulting in continuance of ad-hoc subsidy sharing.
- ONGC D,D&A in line:** ONGC's DD&A expenses were in line at Rs36.4b compared to its volatile nature guided by dry well write-offs over the past two years.
- Cairn awaiting regulatory approval to ramp up production from 125 to 150/kbpd:** Rajasthan production has been flat at 125kbpd, and management indicated that it is waiting for government approval for ramp-up, ground facilities ready
- Top Picks:** Petronet LNG

3QFY11: ACTUAL VS ESTIMATE

Rs b	EBITDA				PAT			
	Actual	Var*	YoY %	QoQ %	Actual	Var*	YoY %	QoQ %
Reliance Inds.	95.4	-4.0	22	2	51.4	-2.1	28	4
ONGC	113.6	-1.1	24	2	58.2	4.1	90	8
Cairn India	25.6	-9.9	638	18	20.1	0.8	591	27
OMC's: Govt. compensation helps OMCs to remain in black								
HPCL	6.3	-11.8	341	-73	2.1	-16.8	572	-90
BPCL	7.3	-25.9	17	-70	1.9	-61.8	-51	-91
IOC	27.3	-38.8	689	-58	16.3	-41.2	135	-69
Gas: Domestic gas ramp-up halts benefiting Petronet (LNG imports)								
GAIL	13.1	-13.7	4	-8	9.7	2.1	13	5
Gujarat State Petronet	2.6	0.2	4	13	1.6	48.7	38	74
Indraprastha Gas	1.3	1.0	23	3	0.7	6.0	14	1
Petronet LNG	3.5	26.1	66	27	1.7	37.1	105	30
Pure Refiners: GRMs ahead of expectations								
MRPL	5.4	37.9	92	46	3.1	53.5	24	11
Chennai Petroleum	3.5	-6.0	188	36	1.5	-7.2	-12	58

*Variance from estimates

Singapore GRM up QoQ to US\$5.5/bbl in 3QFY11

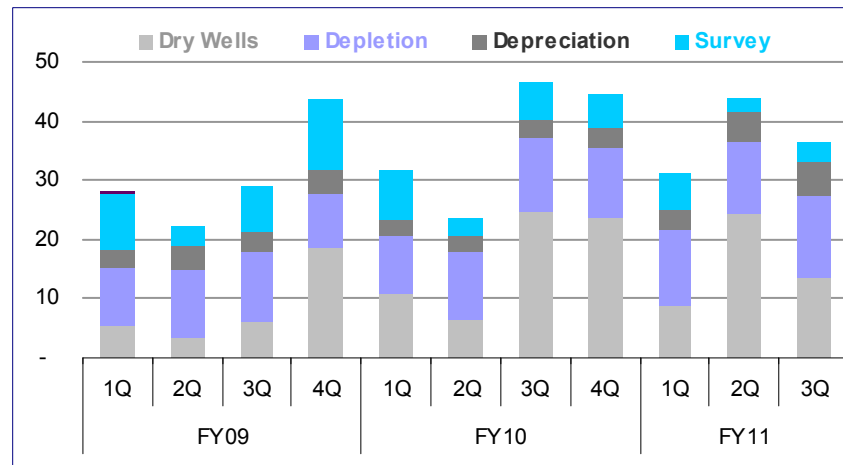


OIL & GAS: KG-D6 ramp-up halted; Cairn's production stuck at 125kbpd for lack of approval

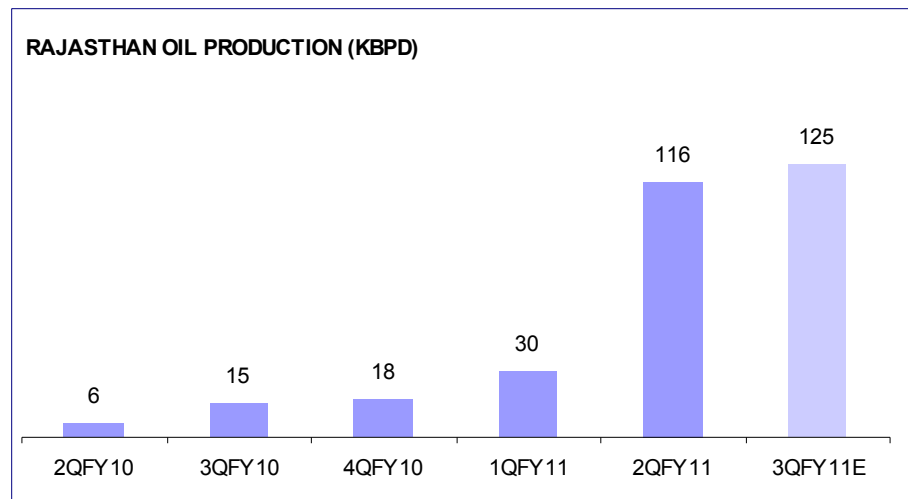
Subsidy sharing ad-hoc; expect upstream share at 1/3rd

(Rs B)	FY08	FY09	FY10	9MFY11	FY11E	FY12E
Fx Rate (Rs/US\$)	40.3	46.0	47.5	45.7	45.5	45.0
Brent (US\$/bbl)	82.3	84.8	69.6	80.2	82.7	80.0
Sharing (Rsb)						
Oil Bonds/Cash	353	713	260	210	396	354
Upstream	257	329	145	155	230	208
OMC's sharing	163	(9)	56	105	69	62
Total	773	1,033	461	470	695	624
Sharing (%)						
Oil Bonds	46	69	56	45	57	57
Upstream	33	32	31	33	33	33
OMC's sharing	21	(1)	12	22	10	10
Total	100	100	100	100	100	100

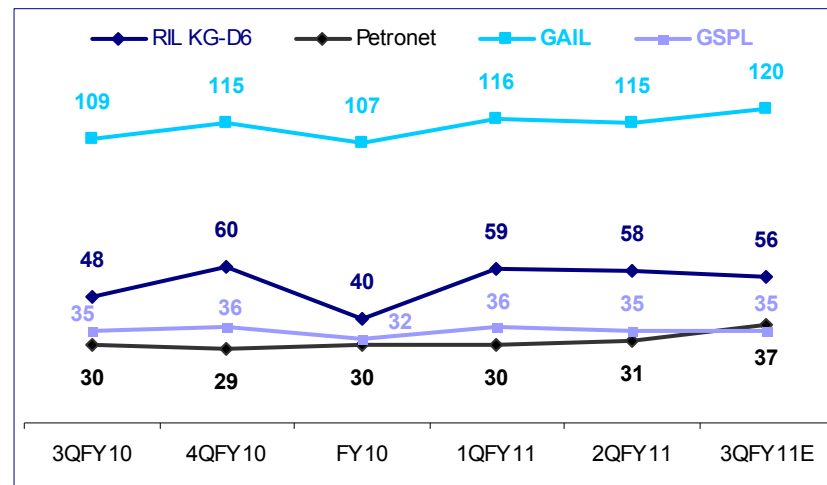
ONGC: D,D&A, in line, no negative surprise



Cairn production increase contingent on government approval



KG-D6 volumes to remain below 55mmcmd till FY12 (mmcmd)



PHARMA – Generics in-line with est; CRAMS below est

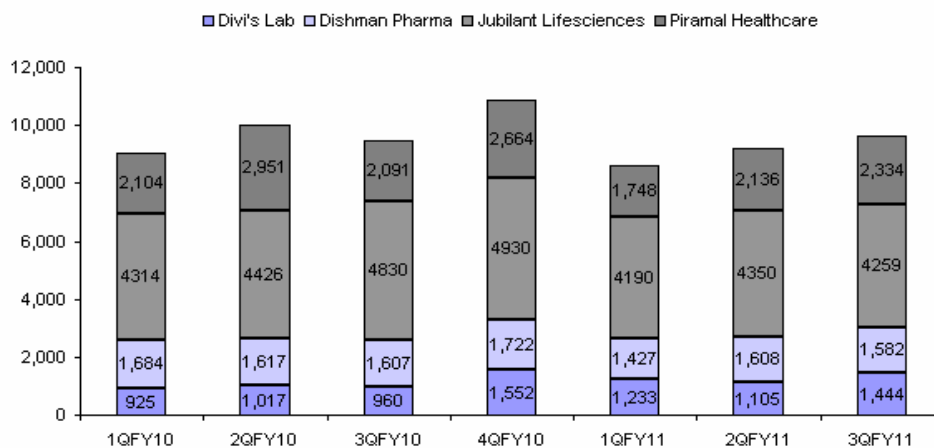
Summary

- **Sector** – Revenues in-line except for CRAMS players. Above estimates for Sun Pharma and Divi's Lab while below estimate for DRL and Jubilant. US & Emerging markets key drivers for generics. EBITDA in-line for generics & below estimates for CRAMS players.
- **Generics** – Adj PAT in-line for generics estimates. Cipla & Glenmark disappoint while Sun outperforms.
- **CRAMS** – Adj PAT below estimate due to decline in topline and adverse product mix. Above estimates for Divi's Lab while Dishman and Jubilant significantly below estimates.
- **Top Picks:** Sun Pharma, Cipla & Divi's Labs

KEY PLAYERS – ESTIMATE VS ACTUALS

(Rs M)	EBITDA			Adj PAT		
	Actual	Estimate	Var (%)	Actual	Estimate	Var (%)
Biocon	1,684	1,494	13	1,007	908	11
Cadila Health	2,561	2,607	(2)	1,620	1,641	(1)
Cipla	3,182	3,573	(11)	2,327	2,519	(8)
Dishman Pharma	253	501	(50)	17	209	(92)
Divi's Lab	1,170	1,033	13	984	854	15
Dr Reddy's Labs	3,043	2,866	6	2,385	2,379	0
GSK Pharma	1,473	1,556	(5)	1,157	1,252	(8)
Glenmark Pharma	1,664	1,849	(10)	972	1,135	(14)
Jubilant Organosys	1,297	1,715	(24)	441	836	(47)
Lupin	2,712	2,756	(2)	2,240	2,144	4
Opto Circuits	1,228	949	29	961	736	31
Sun Pharma	4,405	3,711	19	3,067	2,712	13

CRAMS - Muted performance due to de-stocking & lower prices (Rs m)



Note - Jubilant CRAMS revenue includes revenue from - Proprietary Products and Exclusive Synthesis, CMO and Drug Discovery & Development Services

PHARMA 3QFY11 REVIEW - EARNINGS IMPACT

Company	EPS change (%)			Reason for upgrade/downgrade
	FY11/CY10	FY12/CY11	FY13/CY12	
Biocon	(1.1)	(5.0)	(8.5)	Price cuts in Germany & higher tax
Cadila	-	-	-	NA
Cipla	(7.2)	(7.6)	(6.7)	Lower operational performance
Dishman	(49.0)	(74.5)	(45.1)	Poor operational performance
Divi's Labs	4.4	1.6	5.5	Better operational performance & lower depreciation
DRL	(3.9)	(4.0)	2.1	Lower operational performance
Glenmark	(1.1)	(9.4)	(7.9)	Lower operational performance & higher interest cost
GSK Pharma	-	(1.3)	(1.3)	Lower operational performance
Jubilant	(27.3)	(32.1)	(26.1)	Poor operational performance
Lupin	1.2	(4.2)	1.7	NA
Opto Circuits	10.0	13.0	3.0	Better operational performance
Sun Pharma	4.0	(2.6)	(6.5)	Lower profitability at Taro

REAL ESTATE: Stable quarter; Expect new launches to revive in 4Q

Summary

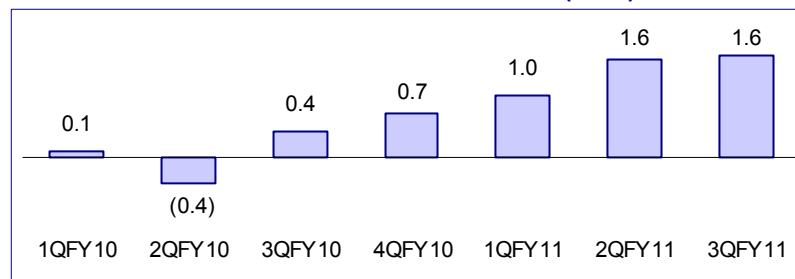
- Stable 3QFY11 performance:** 3QFY11 was a muted quarter for the RE sector. Residential vertical witnessed steady pre-sales from most of the key RE companies. However, there were no major new launches by any of the key RE companies, with the exception of HDIL (launched ~6msf).
- Positive 4QFY11 outlook for new launches:** Most of the companies such as DLF, Unitech, HDIL have guided for aggressive new launches from 4QFY11 onwards, which could lead to improved sales performance for these companies.
- Commercial recovery continues to be steady:** Commercial recovery gained further momentum in 3QFY11 and now market participants expect rentals to start strengthening from 2HFY12. DLF, against its annual guidance of ~3-4msf of leasing for FY11, achieved leasing of ~4.2msf till Dec-10.
- Net DER remains comfortable for the sector:** The net DER for the sector remained at a comfortable ~0.6x. Though most companies had shared aggressive de-leveraging plans earlier, none of the RE companies were able to achieve any major debt reduction.
- Top Picks:** The average discount to NAV for our universe of RE stocks is ~45%. **DLF** is our top large cap pick and **Oberoi Realty** our top mid-cap.

3QFY10 ACTUALS VS ESTIMATES

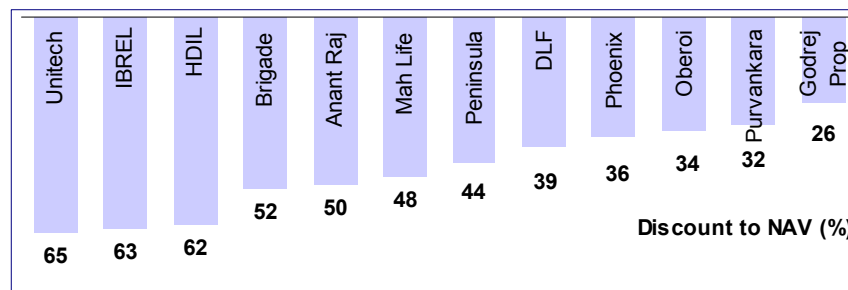
	Net Sales (Rs M)			EBITDA (Rs M)			PAT (Rs M)		
	Est.	Actual	Var %	Est.	Actual	Var %	Est.	Actual	Var %
Anant Raj Inds	1,061	1,244	17.2	541	772	42.7	444	503	13.4
DLF	24,301	24,799	2.1	11,492	11,780	2.5	4,783	4,657	-2.6
HDIL	4,355	4,554	4.6	2,632	2,665	1.3	2,223	2,519	13.3
Mahindra Lifespace	1,434	1,558	8.6	414	428	3.2	294	334	13.8
Phoenix Mills	459	451	-1.8	319	327	2.6	206	238	15.6
Unitech	8,033	6,598	-17.9	2,779	2,088	-24.9	1,808	1,113	-38.4
Retail	51,923	53,574	3.2	4,920	5,171	5.1	2,198	2,349	6.9

- HDIL – Residential sales of ~3.9msf
- UT – Lower than expected booking due to slow execution
- Anant Raj – Revenue from SPV level sale (not factored in our estimates)

DLF: UPSWING IN COMMERCIAL LEASING (MSF)



RE STOCKS TRADING AT SIGNIFICANT DISCOUNT TO NAV



TELECOM: Seasonal up-tick in traffic; RPM pressure abating

Summary

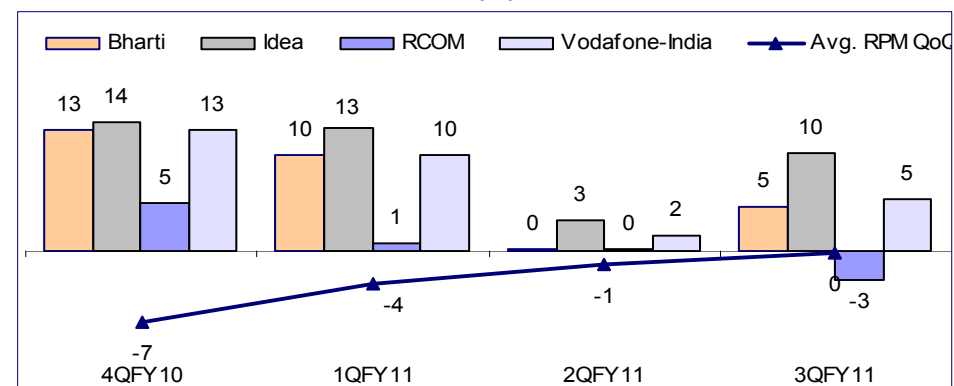
- **Traffic growth** rebounded in the seasonally favorable 3Q with 4.6-5.5% QoQ growth for Bharti/Vodafone and 10% increase for Idea; however, RCom's traffic de-grew 3.1% QoQ.
- **RPM trend** remains stable. While RPM declined 0.6-1.2% for Bharti/Idea, increased 0.6% for Vodafone; RCom's RPM remained stable for third straight quarter at Rs0.44
- **3G rollout:** Bharti, RCom, Tata DoCoMo have launched 3G services in select circles; other operators are expected to rollout 3G services in a phased manner by FY12.
- **Mobile Number Portability:** Initial data suggests MNP is unlikely to be a game-changer; However, 3G rollouts could change dynamics; RPM pressure is abating and potential inflection would be viewed as a significant positive.
- While Bharti (ex -Africa), Idea and Vodafone posted 3.5-8% QoQ revenue growth, RCom's revenue declined 2.2%.
- At consolidated level, Bharti's PAT declined to Rs13b led by brand re-launch expenses of Rs3.4b and forex loss of Rs1.5b.
- Leverage for RCom at alarming levels with net debt/annualised EBITDA of 4.9x.
- **Outlook:** Ongoing policy revamp (regulatory reforms) should be positive in the long-term but uncertainties persist. Revenue & EBITDA growth is expected to rebound in FY12 driven by robust traffic growth, lower RPM decline and launch of 3G services.
- **Top picks:** Bharti, Idea

QUARTERLY FINANCIALS (CONSOLIDATED)

	3QFY10	2QFY11	3QFY11	YoY (%)	QoQ (%)
REVENUE (RS B)					
Bharti (ex Africa)	97.7	113.3	117.2	19.9	3.4
Bharti (consolidated)	97.7	152.2	157.6	61.2	3.6
Idea**	31.5	36.6	39.6	25.6	8.1
RCom	53.1	51.2	50.0	-5.8	-2.2
Vodafone - India (implied)	54.6	59.6	63.3	15.9	6.2
EBITDA (RS B)					
Bharti (ex Africa)	39.1	42.2	43.7*	11.8	3.6
Bharti (consolidated)	39.1	51.2	49.8	27.4	-2.7
Idea**	8.1	8.8	9.5	16.5	7.9
RCom	18	17	16.7	-8.0	0.5
PAT (RS B)					
Bharti (ex Africa)	22.1	20.4	18.2	-17.7	-10.8
Bharti (consolidated)	22.1	16.6	13.0	-41.0	-21.6
Idea**	1.7	1.8	2.4	42.9	35.2
RCom	11.9	4.9	5.3	-55.7	7.2

*Before one time re-branding exps ** Idea numbers from 1QFY11 include full merger with Spice

QOQ WIRELESS TRAFFIC GROWTH (%)

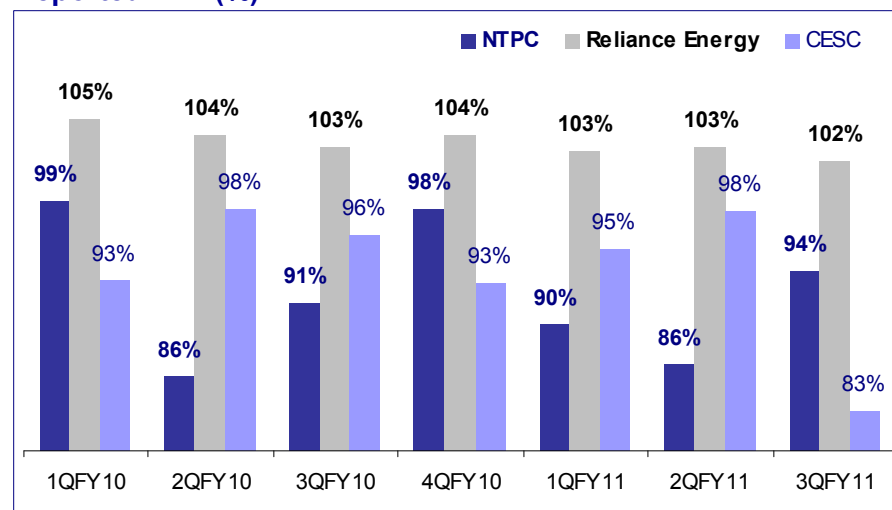


UTILITIES: Poor performance owing to monsoon/merchant realization

Summary

- During the quarter MOSL Utility Universe delivered mixed results. Revenue grew by 18% YoY, EBITDA grew by 19% YoY and PAT reported 1% YoY growth.
- Topline and EBITDA growth was led by higher capitalization/depreciation, tax, etc, while dip in demand and lower other income led to lower PAT.
- Lower demand was led by seasonality factor and power backdown by SEBs partially owing to poor financial position.
- Lower demand impacted PLF of Utility sector; however, improved coal availability (imported coal) led to higher PAF during the quarter.
- Merchant rates was lower, but realizations by IPPs were higher due to ST contracts entered into earlier.
- Top Picks:** Powergrid and NTPC.

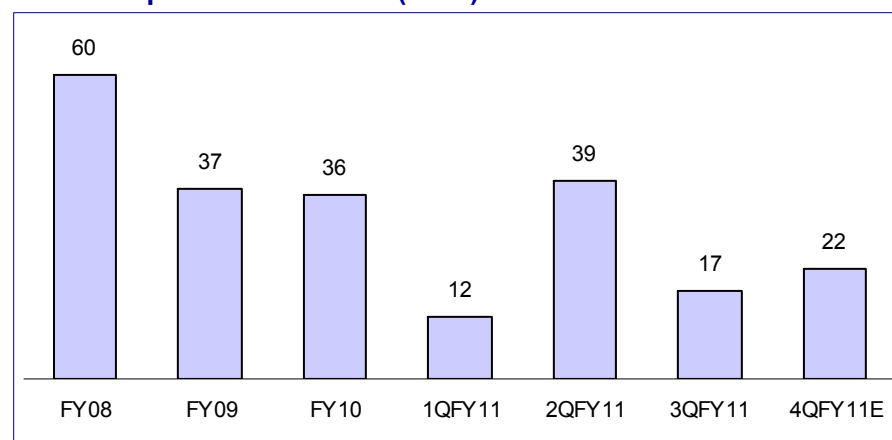
Reported PLF (%)



UTILITIES: Results depicts mixed trend

Rs m	Revenue	Chg (%)	EBIDTA	Chg (%)	PAT	Chg (%)
Coal India	138,607	-	35,427	-	32,814	-
NTPC	134,965	21	38,330	14	20,675	-1
Powergrid	20,521	35	17,274	39	6,046	20
Reliance Energy	26,376	15	2,670	13	1,856	-33
Tata Power*	16,519	5	3,319	-9	1,488	10
PTC India	17,576	4	407	294	379	140
CESC	9,390	18	2,530	35	1,100	8

PGCIL Capitalization Trend (Rs b)



UTILITIES: Performance variance & Key developments

3QFY11 EARNINGS VARIATIONS

	PAT (Rs m)			Remarks
	Estimates	Actual**	% Var	
NTPC	23,480	20,675	(11.9)	- Lower PAT is on account of Higher tax incidence at 30%, vs our estimate of 20%. - Availability higher (90%+) for both coal and gas plants, PLF impacted due to lower demand - NTPC continued to be under MAT, expect full tax rate in 4QFY11
PGCIL	6,226	6,046	(2.9)	- Reported profits in-line with our estimates - Flat QoQ STOA income is on account of lower overall volumes in ST market - Capitalization stood at Rs17.4b (1HFY11 at Rs51b), maintain guidance of Rs90b in FY11E
Tata Power*	1,704	1,488	(12.7)	- Standalone reported profit Largely in-line, YoY merchant realization lower - Consolidated performance impacted by lower performance of coal mining SPVs. - Mining companies cost of production higher (USD2/ton QoQ) due to heavy floods/rainfall
Reliance Infra	3,250	1,856	(42.9)	- Lower PAT is on account of lower other income at Rs1b v/s our estimates of Rs2.8b - EPC revenues up 70% YoY, Guidance of Rs45b in FY11E (4QFY11 growth of 60% YoY)
CESC	1,092	1,100	0.7	- Standalone profit in-line with estimates, Spencer revenues at Rs1048//sq.ft./month - 9MFY11 same stores revenue growth of 14-15%, with equal contribution of volume/price
PTC India	286	358	25.1	- Reported PAT boosted by Rs214m of rebate and surcharge - Traded volume increased YoY by 31% to 5.8BUs, higher than estimate of 4.7BUs - Adjusted trading margins were up at Ps.4.3 vs Ps.4.8/unit in 1HFY11
Coal India	34,039	26,260	(22.9)	- Lower other income and higher tax incidence led to lower PAT v/s our estimates - Production at 114m tons (up 2.5% YoY) and Despatches at 111m tons (up 3% YoY) - EBIDTA margin at 26.6% vs 16.0% in 2QFY11 on account of improved operating leverage/prices

**Adjusted; *Standalone results

KEY DEVELOPMENTS IN 3QFY11

Company	Developments in 3QFY11
Tata Power	- 72% and 92% of project work complete for Mundra and Maithon project respectively
R Infra	- Rs22.6b worth of warrants converted into shares by promoter at price of Rs929/sh - Rinfra board approved share buy back of upto Rs10b at price upto Rs725/sh
NTPC	- NTPC has signed cumulative PPA for 100GW of capacity - MoP allowed NTPC to sell 15% of power 500MW Korba and 500MW Farakka on merchant
PGCIL	- Capitalisation guidance revised up to Rs190b over FY11-12E, vs Rs180b earlier
PTC India	- PTC Financial Services (PTC owns 77% stake) has filed a DRHP for a proposed IPO to raise Rs7b

MERCHANT REALISATION DOWN YOY (Rs/unit)

	3QFY11	3QFY10	YoY (%)
Adani Power	3.90	3.86	1
Godwari Power	2.88	5.19	(45)
Jindal Power	3.97	5.08	(22)
JSW Energy	4.75	4.50	6
Sarda Energy	2.36	4.61	(49)
Sterlite Energy	2.72	4.80	(43)
IEX Avg Tariff	2.35	3.51	(33)

MOSL Universe: Annual Performance (Rs b)

ANNUAL PERFORMANCE - MOSL UNIVERSE															(RS BILLION)
	SALES					EBITDA					NET PROFIT				
	FY11E	FY12E	FY13E	CHG * (%)	CHG # (%)	FY11E	FY12E	FY13E	CHG * (%)	CHG # (%)	FY11E	FY12E	FY13E	CHG * (%)	CHG # (%)
Auto (5)	2,338	2,734	3,090	16.9	13.0	341	393	441	15.4	12.3	197	232	264	17.7	13.8
Banks (26)	1,546	1,802	2,142	16.5	18.9	1,219	1,456	1,762	19.4	21.0	628	768	925	22.2	20.5
Cement (8)	633	756	886	19.5	17.2	132	157	209	19.0	33.6	66	75	104	12.8	38.7
Engineering (8)	1,245	1,534	1,863	23.2	21.5	190	239	289	25.5	21.0	134	169	202	25.8	19.9
FMCG (11)	822	964	1,114	17.3	15.5	169	200	232	18.3	16.2	112	132	155	17.2	17.6
IT (7)	1,261	1,535	1,782	21.8	16.1	324	399	466	22.9	16.8	249	296	352	19.3	18.6
Infrastructure (7)	388	455	583	17.4	28.1	83	101	149	21.7	48.7	22	17	37	-24.3	120.2
Media (5)	82	92	103	11.7	11.4	33	36	40	10.2	11.7	18	21	25	18.0	15.6
Metals (8)	3,112	3,494	3,754	12.3	7.4	569	689	783	21.1	13.6	307	380	429	23.6	13.0
Oil Gas&Pet(12)	10,541	9,925	9,823	-5.8	-1.0	1,330	1,472	1,612	10.7	9.5	675	764	835	13.1	9.4
Pharma (15)	560	618	708	10.4	14.5	124	128	151	3.3	18.0	89	93	112	5.1	19.8
Real Estate (10)	190	237	289	24.8	22.0	83	101	119	21.6	17.4	47	56	70	17.9	24.7
Retail (4)	202	252	305	25.1	21.0	19	24	30	27.8	24.8	8	11	14	33.0	34.3
Telecom (4)	976	1,162	1,295	19.1	11.4	311	399	457	28.2	14.7	90	111	145	23.3	30.7
Textiles (4)	158	174	188	10.0	8.2	34	36	37	3.7	4.4	9	10	12	13.7	17.0
Utilities (7)	1,493	1,827	2,074	22.3	13.5	399	457	524	14.6	14.5	263	305	334	16.1	9.3
Others (1)	59	68	77	16.8	12.5	12	15	17	19.7	15.6	6	8	10	36.1	20.1
MOSL(142)	25,605	27,629	30,077	7.9	8.9	5,372	6,300	7,319	17.3	16.2	2,922	3,448	4,025	18.0	16.7
Excl. RMs(139)	19,948	22,696	25,315	13.8	11.5	5,145	6,042	7,022	17.4	16.2	2,809	3,318	3,882	18.1	17.0
Sensex(30)	6,826	7,639	8,392	11.9	9.9	1,573	1,842	2,145	17.1	16.5	848	1,015	1,196	19.8	17.8
Nifty(50)	7,739	8,580	9,421	10.9	9.8	1,750	2,054	2,403	17.4	17.0	959	1,142	1,346	19.1	17.8

* Growth FY12 over FY11; # Growth FY13 over FY12. For Banks : Sales = Net Interest Income, EBITDA = Operating Profits, Sensex & Nifty Numbers are Free Float.

MOSL Universe: Valuations

VALUATIONS - MOSL UNIVERSE														
SECTOR	P/E			EV/EBITDA			P/BV			ROE			DIV.	PAT
	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(%)	(%)	(%)	YLD (%)	CAGR
(NO. OF COMPANIES)	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY10	FY11-13
Auto (5)	11.5	9.8	8.6	6.4	5.3	4.3	4.2	3.1	2.4	36.5	32.2	28.5	2.0	15.7
Banks (26)	13.4	10.9	9.1	NM	NM	NM	2.5	2.1	1.8	18.6	19.4	20.0	1.1	21.3
Cement (8)	14.4	12.8	9.2	7.3	6.0	4.3	2.1	1.8	1.6	14.5	14.0	17.0	1.5	25.1
Engineering (8)	21.1	16.8	14.0	14.3	11.4	9.4	5.4	4.4	3.8	25.4	26.5	27.4	0.9	22.8
FMCG (11)	27.9	23.8	20.2	18.3	15.3	13.0	9.5	8.0	6.8	34.1	33.8	33.6	3.4	17.4
IT (7)	22.4	18.8	15.8	16.2	12.8	10.5	5.9	4.7	3.8	26.3	25.0	23.8	1.1	18.9
Infrastructure (7)	20.7	27.4	12.4	13.1	11.6	8.4	1.7	1.6	1.5	8.2	5.9	11.7	0.8	29.1
Media (5)	19.9	16.9	14.6	10.4	9.1	7.8	3.7	3.3	2.9	18.6	19.4	19.7	1.7	16.8
Metals (8)	11.5	9.3	8.3	6.7	5.4	4.5	1.8	1.5	1.3	15.5	16.1	15.7	1.0	18.2
Oil Gas & Petchem (12)	12.1	10.7	9.8	6.9	6.1	5.4	1.9	1.7	1.5	15.7	15.8	15.4	4.4	11.2
Pharma (15)	23.4	22.3	18.6	17.0	16.4	13.7	4.5	4.0	3.5	19.2	17.9	18.7	0.7	12.2
Real Estate (10)	15.3	13.0	10.4	12.1	9.3	7.3	1.0	1.0	0.9	6.7	7.6	8.8	0.6	21.2
Retail (4)	33.1	24.9	18.5	15.1	11.9	9.6	5.1	4.5	3.8	15.6	18.0	20.5	0.4	33.6
Telecom (4)	18.7	15.2	11.6	8.7	6.6	5.3	1.7	1.5	1.4	9.0	10.1	11.8	0.4	26.9
Textiles (4)	7.0	6.2	5.3	5.1	4.8	4.4	0.7	0.7	0.6	10.5	10.8	11.5	0.6	15.3
Utilities (7)	16.7	14.4	13.2	11.3	10.3	9.4	2.8	2.5	2.2	16.5	17.1	16.8	1.7	12.6
Others (1)	10.7	7.8	6.5	5.9	4.5	3.6	1.8	1.5	1.3	17.2	19.6	19.5	1.4	27.8
MOSL (142)	15.4	13.0	11.2	N.M	N.M	N.M	2.7	2.3	2.0	17.4	17.8	18.1	1.9	17.4
MOSL Excl. RMs (139)	15.6	13.2	11.3	N.M	N.M	N.M	2.8	2.4	2.1	17.7	18.0	18.3	1.9	17.6
Sensex (30)	17.3	14.5	12.3	N.M	N.M	N.M	3.1	2.7	2.3	17.9	18.5	18.8	1.5	18.8
Nifty (50)	17.1	14.4	12.2	N.M	N.M	N.M	3.0	2.6	2.3	17.7	18.2	18.5	1.4	18.4

N.M. - Not Meaningful

Source: MOSL

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