

October 20, 2011

## QUARTERLY EARNINGS SEASON

## India Strategy

## Quick Comment: QE Sep-11 Earnings Season Thus Far

## Still early days for earnings

Initial signals indicate strong revenue and earnings growth with margin compression. Aggregate revenue and earnings are up 32% and 17% YoY, respectively, a tad behind Morgan Stanley analysts' expectations. Seven Sensex companies have reported an earnings growth of 15% - 3ppt behind MS analyst expectations.

## MS Coverage beat ratio @ 69%

So far, 11 out of 16 companies have beaten MS analyst expectations – the beat ratio is generally higher at the start of the earnings season.

## Broad market earnings growth

Thus far, 176 companies in the broad market have reported. The aggregate revenue and earnings are up 28% and 17% YoY, respectively.

## Quarterly Earnings for QE Sep-11 Snapshot

YoY Earnings growth	Q32F11	Q4F11	Q1F12	Q2F12E	Q2F12E*	Q2F12A
MS coverage	25%	10%	11%	-9%	18%	17%
MS coverage Ex-Energy	15%	12%	3%	3%	19%	17%
Broad Market	25%	14%	15%	-	-	17%
Broad Market Ex-Energy	17%	14%	12%	-	-	18%
BSE Sensex	26%	4%	9%	3%	18%	15%

Source: Company data, Capitaline, Morgan Stanley Research

E = MS Analyst Estimate for MS coverage universe

E\* = MS Analyst estimate for 16 companies that have reported thus far

A = Actual earnings for the quarter for 16 companies that have reported thus far

Please note Sensex estimate for quarter does not include Coal India.

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## QE Sep-11 Earnings Season Thus Far (MS Coverage Universe)

**Total MS Coverage:**

Accounts for 70% of India's market cap

**Revenue Growth:**

32% YoY for MS Coverage

**Sector Profit Growth:**

Still Early Days

**EBITDA Margins:**

Weak trends

# Cos Rptd earnings	#Cos beating earnings expectations	YoY change MS Coverage	MS Estimates				Actuals					Chg in EBITDA Mrgn (bps)	NP Growth vs. MS estimates
			Sales	EBITDA	Net Profit	EBITDA Margins	Sales	EBITDA	Net Profit	EBITDA Margins			
3	2	Cons. Disc.	26%	14%	17%	14%	26%	23%	22%	15%	(34)	5%	
1	0	Energy	44%	4%	17%	12%	37%	5%	16%	13%	(382)	-1%	
5	5	Financials	17%	17%	23%	60%	19%	18%	28%	59%	(76)	4%	
1	0	Materials	27%	17%	20%	45%	43%	13%	0%	38%	(1,036)	-20%	
6	4	Technology	25%	20%	17%	27%	22%	17%	15%	27%	(107)	-2%	
16	11	<b>Total (MS Cov)</b>	<b>36%</b>	<b>12%</b>	<b>18%</b>	<b>19%</b>	<b>32%</b>	<b>12%</b>	<b>17%</b>	<b>19%</b>	<b>(345)</b>	<b>-1%</b>	
15	11	<b>Total ex-Energy</b>	<b>24%</b>	<b>18%</b>	<b>19%</b>	<b>31%</b>	<b>24%</b>	<b>17%</b>	<b>17%</b>	<b>31%</b>	<b>(178)</b>	<b>-2%</b>	
10	6	<b>Total ex-fin and energy</b>	<b>25%</b>	<b>19%</b>	<b>17%</b>	<b>26%</b>	<b>25%</b>	<b>17%</b>	<b>13%</b>	<b>26%</b>	<b>(173)</b>	<b>-4%</b>	
7	3	<b>Sensex</b>	<b>37%</b>	<b>12%</b>	<b>18%</b>	<b>18%</b>	<b>33%</b>	<b>11%</b>	<b>15%</b>	<b>19%</b>	<b>(379)</b>	<b>-2%</b>	
5	3	<b>Sensex ex-Energy</b>	<b>25%</b>	<b>19%</b>	<b>19%</b>	<b>34%</b>	<b>24%</b>	<b>16%</b>	<b>15%</b>	<b>33%</b>	<b>(247)</b>	<b>-4%</b>	
176		<b>Broad market</b>					<b>28%</b>	<b>17%</b>	<b>17%</b>	<b>21%</b>	<b>(197)</b>		
172		<b>Broad market Ex-energy</b>					<b>23%</b>	<b>24%</b>	<b>18%</b>	<b>30%</b>	<b>34</b>		

**Broad Market:**

Accounting for 6% of India's market cap have reported earnings so far

**Sensex Profit Growth:**

up 15% YoY, 2ppt behind of expectations

**Broad Market:**

growth of 28% and 17% YoY in revenues and profits

**Aggregate Earnings:**

up 17% YoY, 1ppt behind expectations

Source: Company data, Capitaline, Morgan Stanley Research  
Please note Sensex estimate for quarter does not include Coal India.

## Tracking Breadth and Depth of Earnings (MS Coverage Universe)

### Quarterly: YoY Earnings Growth

YoY Earnings growth	Q32F11	Q4F11	Q1F12	Q2F12E	Q2F12E*	Q2F12A
MS coverage	25%	10%	11%	-9%	18%	17%
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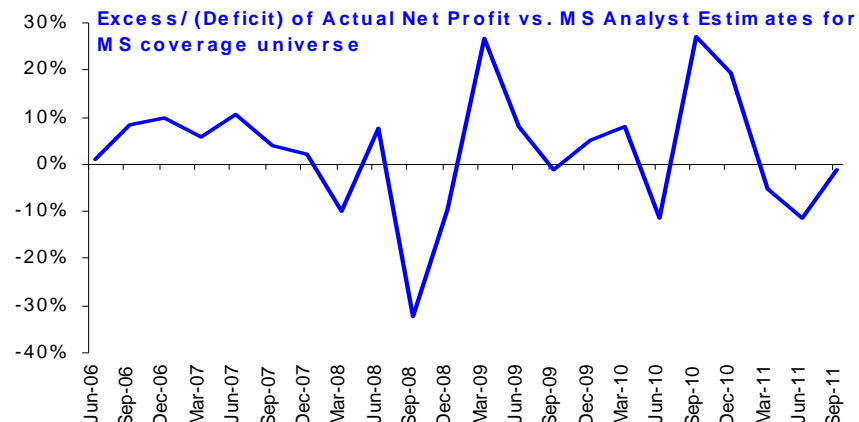
E = MS Analyst Estimate for MS coverage universe

E\* = MS Analyst estimate for 16 companies that have reported thus far

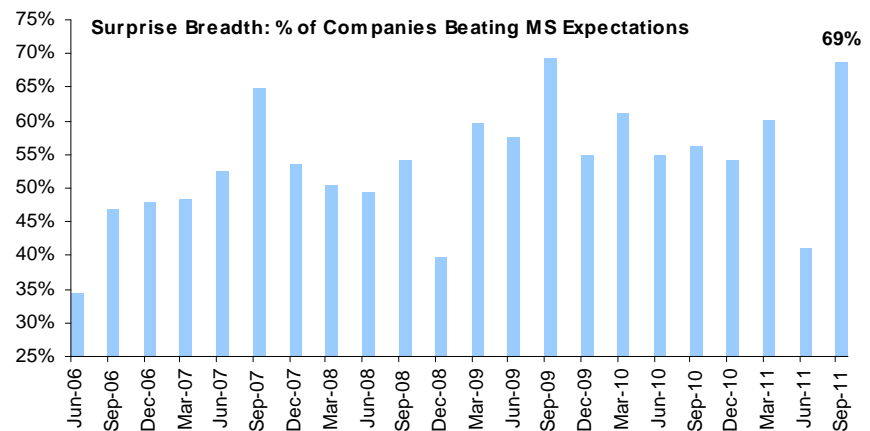
A = Actual earnings for the quarter for 16 companies that have reported thus far

Please note Sensex estimate for quarter does not include Coal India.

### MS Coverage: Surprise Depth



### MS Coverage: Surprise Breadth



### Sector Wise: Surprise Breadth

MS Coverage	# Cos reported so far	Number of companies beating MS analyst estimates				
		2QF12	1QF12	4QF11	3QF11	2QF11
Cons. Disc.	3	67%	47%	56%	41%	59%
Cons. Staples	0	NA	38%	75%	29%	38%
Energy	1	0%	50%	56%	50%	75%
Financials	5	100%	33%	56%	80%	70%
Healthcare	0	NA	14%	71%	29%	71%
Industrials	0	NA	42%	56%	42%	54%
Materials	1	0%	62%	62%	54%	46%
Technology	6	67%	50%	64%	67%	40%
Telecom	0	NA	0%	80%	67%	50%
Utilities	0	NA	63%	50%	43%	43%

Source: Company Data, Capitaline, Morgan Stanley Research

Sector Wise Surprise Breadth Tracker shows the percentage of companies beating the MS analyst expectation in each sector

## Snapshot of Companies' Reported Earnings for the Quarter Ended Sep-11

MS Coverage	Sector	QE Sep-10			QE Sep-11A			YoY			Miss/Beat expectations
		Revenues	EBITDA	Net Profit	Revenues	EBITDA	Net Profit	Revenues	EBITDA	Net Profit	
Dish TV	Consumer Disc	3,262	497	-452	4,823	1,218	(486)	48%	145%	NM	NM
Hero Honda	Consumer Disc	45,520	6,079	5,056	58,293	7,107	6,036	28%	17%	19%	6%
ZEE	Consumer Disc	7,116	1,886	1,264	7,184	2,076	1,600	1%	10%	27%	20%
Reliance Industries	Energy	574,790	93,960	49,230	785,690	98,440	57,030	37%	5%	16%	-1%
HDFC	Financials	12,527	11,485	8,075	14,786	13,547	9,707	18%	18%	20%	1%
HDFC Bank	Financials	34,870	18,071	9,121	41,562	21,258	11,994	19%	18%	31%	1%
Indusind Bank	Financials	5,049	2,619	1,332	6,584	3,330	1,931	30%	27%	45%	7%
ING	Financials	4,475	1,842	753	4,661	1,894	1,154	4%	3%	53%	23%
Oberoi Realty	Financials	1,701	1,006	955	2,226	1,156	1,114	31%	15%	17%	35%
Jindal Steel	Materials	30,780	14,975	8,942	44,066	16,872	8,918	43%	13%	0%	-17%
HCL Technologies	Technology	37,081	5,808	3,087	46,513	7,778	4,797	25%	34%	55%	4%
Infosys Tech	Technology	69,470	23,170	17,370	80,990	25,160	19,060	17%	9%	10%	-5%
MindTree	Technology	3,844	447	232	4,567	588	545	19%	31%	135%	58%
Patni	Technology	7,967	1,505	1,281	9,453	1,661	842	19%	10%	-34%	27%
TCS	Technology	92,864	27,894	21,065	116,335	33,829	24,390	25%	21%	16%	-1%
Infotech Ent	Technology	2,955	453	330	3,726	586	307	26%	29%	-7%	6%

Source: Company data, Morgan Stanley Research



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	Count	% of Total	Count	% of Total IBC	% of Rating Category
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<b>Not-Rated/Hold</b>	<b>112</b>	<b>4%</b>	<b>23</b>	<b>2%</b>	<b>21%</b>
<b>Underweight/Sell</b>	<b>400</b>	<b>14%</b>	<b>104</b>	<b>10%</b>	<b>26%</b>
<b>Total</b>	<b>2,810</b>		<b>1003</b>		

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