Company	Sales (Rs mn) Q3 FY11	Sales yoy (%)	Sales qoq (%)	OPM (%) Q3 FY11	OPM yoy (bps)	OPM qoq (bps)	PAT (Rs mn) Q3 FY11	PAT yoy (%)	PAT qoq (%)
Auto		**29.1**	**3.7**	**12.7**	**(261)**	**1**		**16.9**	**(1.3)**
Bajaj Auto	41,087	24.7	(5.4)	20.0	(195)	(66)	6,286	32.3	(7.8)
Hero Honda	51,004	33.3	12.0	13.3	(397)	(6)	5,624	5.0	11.2
Maruti	94,176	25.5	3.0	10.4	(471)	(10)	5,861	(14.8)	(2.0)
M&M	62,033	37.9	14.1	16.5	161	3	7,238	75.0	(4.6)
Tata Motors	114,608	27.6	(0.4)	9.8	(278)	28	4,365	9.1	0.9
Banks and NBFC		**22.0**	**2.5**					**7.3**	**(2.5)**
Axis Bank	17,355	28.6	7.5	-	-	-	7,801	18.9	6.1
HDFC	12,549	19.2	0.6	-	-	-	8,119	20.9	0.5
HDFC Bank	25,628	15.2	1.4	-	-	-	8,693	6.2	(4.7)
IDFC	6,803	31.0	4.6	-	-	-	3,518	30.3	4.0
ICICI Bank	22,815	10.9	3.5	-	-	-	12,930	17.4	4.6
Kotak Bank	24,753	26.1	6.0	-	-	-	4,186	26.3	15.0
Punjab National Bank	30,166	29.5	1.3	-	-	-	9,967	6.1	(7.2)
Reliance Cap	14,214	(4.4)	9.4	-	-	-	1,187	87.8	22.8
SBI	81,098	28.4	(0.1)	-	-	-	22,276	(10.1)	(10.9)
Capital Goods & Power		**17.5**	**6.4**	**19.9**	**(158)**	**90**		**3.8**	**36.1**
BHEL	88,399	24.5	6.1	20.2	2	255	13,112	22.2	14.8
JP Associates	37,081	30.0	20.7	22.0	(513)	(271)	2,683	(14.5)	138.1
LT	101,069	24.4	8.3	11.8	(60)	102	8,400	10.7	9.8
Reliance Infra	28,570	24.9	25.5	9.0	(129)	(216)	2,937	8.0	245.9
Siemens	23,298	24.8	(13.5)	13.8	(566)	136	2,094	(11.5)	(1.1)
Power Grid	20,598	35.6	(3.1)	82.6	96	(120)	6,086	24.8	(6.6)
NTPC	135,878	21.5	6.1	22.5	(763)	37	20,386	(13.8)	43.0
Suzlon	43,982	(21.6)	4.4	7.7	280	636	909	544.7	(128.3)
Tata Power	15,921	1.6	(2.7)	24.8	160	338	2,196	54.8	(11.7)
Cement		**6.2**	**22.4**	**24.2**	**(59)**	**824**		**3.9**	**113.0**
ACC	20,927	5.5	23.9	23.1	(174)	997	2,538	(9.6)	153.6
Ambuja Cement	19,114	6.9	20.7	25.5	68	643	2,833	20.0	86.3
FMCG		**12.0**	**3.8**	**25.6**	**(67)**	**150**		**7.3**	**5.9**
HUL	49,332	9.5	5.4	13.5	(250)	142	5,705	(5.7)	8.5
ITC	51,835	14.4	2.4	37.3	63	190	13,060	14.1	4.7
Health care		**14.3**	**8.6**	**24.1**	**(144)**	**509**		**11.5**	**9.7**
Dr Reddy	19,452	12.5	4.0	19.4	399	211	3,046	34.2	6.3
Cipla	16,204	11.6	(0.2)	24.0	(216)	143	2,763	(4.4)	5.1
Ranbaxy	24,321	7.9	25.7	22.4	(583)	1527	3,488	40.8	76.3
Sun Pharma	13,838	35.5	1.0	34.0	(209)	(8)	4,425	(5.2)	(12.2)
IT		**22.3**	**3.4**	**26.5**	**(121)**	**(30)**		**15.1**	**2.7**
Infosys	71,815	25.1	3.4	33.3	(220)	1	18,018	13.9	3.7
HCL Tech	37,705	24.3	4.4	17.0	(405)	(107)	3,389	23.7	8.1
TCS	96,458	26.1	3.9	29.2	(49)	(84)	21,256	18.3	0.9
Wipro	79,553	14.8	2.4	21.5	(39)	40	13,387	10.0	3.0
Metals		**17.3**	**14.0**	**27.0**	**(133)**	**371**		**26.5**	**20.0**
Hindalco	61,943	13.2	5.7	14.0	(66)	212	5,534	29.6	27.6
JSPL	25,374	43.4	10.3	37.6	258	34	5,552	70.5	16.1
SAIL	118,833	20.3	10.0	18.4	(773)	269	13,797	(17.7)	26.6
Sesa Goa	24,218	28.2	163.7	56.7	191	2371	11,888	43.2	208.9
Sterlite	72,141	6.9	18.6	25.0	(131)	(17)	11,314	54.7	12.2
Tata Steel	74,522	16.9	4.9	40.4	427	338	17,442	46.4	(15.5)

Company	Sales (Rs mn) Q3 FY11	Sales yoy (%)	Sales qoq (%)	OPM (%) Q3 FY11	OPM yoy (bps)	OPM qoq (bps)	PAT (Rs mn) Q3 FY11	PAT yoy (%)	PAT qoq (%)
Oil & Gas		**19.5**	**8.8**	**17.5**	**(1)**	**(449)**		**44.2**	**(17.2)**
BPCL	383,340	19.1	8.2	(5.2)	(717)	(1218)	(14,404)	(479.9)	(167.2)
Cairn	32,904	564.1	22.5	83.1	1297	213	19,381	566.1	22.2
GAIL	80,521	29.8	(0.9)	16.4	(436)	(154)	8,707	1.3	(5.7)
ONGC	190,350	22.8	3.3	60.2	0	(123)	58,893	92.9	9.3
Reliance Inds.	642,512	13.0	11.8	15.1	131	(124)	51,308	28.0	4.2
Real Estate		**21.2**	**3.6**	**43.4**	**172**	**415**		**2.3**	**15.3**
DLF	24,548	21.2	3.6	43.4	172	415	4,747	2.3	15.3
Telecom		**33.8**	**2.8**	**32.7**	**(493)**	**(22)**		**(43.7)**	**(11.8)**
Bharti Airtel	156,614	52.0	2.9	33.4	(621)	(25)	14,507	(33.9)	(12.7)
Rcom	52,351	(1.4)	2.3	30.4	(324)	(16)	4,074	(63.2)	(8.6)

Automobiles

- Automobile volume growth on yoy basis continued to remain strong in Q3 FY11, driven by improved economic environment and better availability of finance. However, sequentially it was a mixed bag, with Hero Honda and Maruti registering growth (capacity constraints getting eased), while Bajaj Auto, M&M and Tata Motors registering declines.
- Price hikes implemented during the previous quarter will result in higher realizations for all players on yoy basis. Further improved product mix for players such as Tata Motors, Maruti, M&M and Bajaj Auto will provide fillip to realizations.
- Operating margins for most companies are expected to decline yoy on the back of higher commodity prices. However, M&M is expected to report a yoy increase in OPM as on account of better product mix.
- Higher interest rates, increased product prices and high base effect might restrict the volume growth. Pressure of higher commodity prices on margins may be arrested through price hikes by manufacturers.
- Our top picks in the sector include Bajaj Auto, M&M and Ashok Leyland

Banking

- Liquidity significantly tightened during the quarter with banks' daily average borrowing from RBI under LAF increasing to Rs1.2tn in December as compared to Rs250bn in September. The short-term rates (call rates and 3m/6m CPs) spiked by +200bps between September-December 2010.
- In its second quarter monetary policy review in November, RBI raised key policy rates by 25bps to anchor inflationary expectations while in the latest mid-quarter review in December, the central bank kept rates unchanged and focused more on increasing liquidity in the system.
- System credit growth has improved significantly on revival in private investments - Qoq loan growth in Q3 at 6.4% v/s 3.4 in Q2. Yoy credit growth momentum has increased to 23.7% and Ytd credit expansion stands at 12.3%. To achieve RBI's full-year credit growth target of 20% yoy, the system requires Rs2.5tn credit expansion in Q4 (6.8% qoq growth). We expect FY11 credit growth target to be achieved driven by further acceleration in corporate credit demand and banks rushing to meet their PSL target (a seasonal tailwind).
- On the flipside, deposits have been growing at muted pace. In Q3, it grew by just 2% qoq. Both, yoy growth momentum and YTD accretion in deposits have been significantly behind advances at 14.7% and 7% respectively. To achieve RBI's full-year deposit growth target of 18% yoy, the system requires Rs5tn mobilization in Q4 (10.3% qoq growth). Though banks are raising deposit rates quickly to capitalize on the improving credit demand, we think annual deposit growth would be lower at near 15%. Due to high inflation, retail customers have been preferring higher return yielding assets over deposits.
- We expect 4-7% qoq loan growth for the banks under our coverage. In-line with the system, deposit growth could be lower than advances thereby improving the C/D ratio on sequential basis. In Q4, the C/D ratio is likely to come-off though.

- With more frequent and significant deposit rate hikes than lending rate hikes during the past five months, we expect NIMs (currently at multi-quarter high for many banks) to contract by 10-30bps qoq in Q3. A probable decline in CASA due to substantial increase in term deposit rates (as witnessed during Q2 FY09-Q1 FY10) would also increase cost of deposits on sequential basis. We expect NII growth to be in the range of 25-30% yoy.
- The 25-30bps increase in the G-Sec yields could mean sequentially lower treasury income. However, the growth in the core fee income is likely to be strong driven by robust loan growth. The C/I ratio could deteriorate qoq on account of continued investments in network expansion and flattish NII growth.
- Asset quality of PSU banks may further show some strain while that of private banks would remain stable. Loan-loss provisioning by SBI and PNB is expected to be significantly higher thereby depressing profit growth.

Cement

- Domestic cement consumption continued to remain subdued in last 3 months clocking ~6% yoy growth as extended monsoon resulted in tepid construction in October and November.
- However, price and production discipline led to pricing stability in all the regions except North; we believe such a discipline, not seen in Q2, would lead to a margin revival on qoq basis.
- Ambuja Cements volume is expected to cross 5mtpa (5.5% growth) during Q3 translating into a 7% revenue growth.
- Higher international coal prices would lead to margin pressure across the sector; ACC to report 175bps decline in margins.
- PAT growth would exhibit a mixed performance with ACC likely to report a 9.6% drop in profit.

FMCG

- We expect FMCG sector to continue its strong growth momentum in Q3 FY11. Higher input prices and adspends are likely to restrict margin expansion.
- HUL is expected post revenues worth Rs49.3bn, a growth of 9.5% yoy during Q3 FY11. New product launches by HUL across various categories are likely to drive volume growth in the long term. Adspends are likely to remain higher due to increased competitive intensity in most categories. OPM will remain under pressure (down 250bps at 13.5%) due to higher raw material and advertising cost. We expect HUL to witness 8.5% qoq growth and 5.7% yoy decline (due to margin pressure) in net profit.
- We expect ITC to report 14.4% yoy revenue growth at Rs51.8bn in Q3 FY11 driven by strong performance in cigarette, agri and other-FMCG business. ITC's cigarette sales remain unaffected by the Marlboro's launch of lower-price cigarette in Mumbai and Delhi. The management's confidence of ending FY11 with a flattish volume growth implies return of volume growth in H2 FY11. OPM is expected to witness 60bps expansion aided by lower tobacco prices. We expect ITC to record 14.1% yoy growth at Rs13.1bn in net profit during the quarter.

IT Services

- After our recent conversations with the Tier-1 IT companies we expect the demand momentum seen in H1 FY11 to continue in Q3FY11 (adjusted for seasonality). Volume growth is expected to be in the range of 5-6.5% for Tier-1 players with pricing being stable in constant currency terms. A relatively slower revenue growth is expected from the mid-cap players.
- Due to favorable cross currency movements (US$ depreciation v/s GBP and Euro) the reported US$ revenue growth numbers are expected to show an uptick of 80-90bps for most players.
- Operating margin of Tier-1 companies is expected to take a hit from strong rupee appreciation (3.5% qoq) and peak utilization in specific cases (TCS, Infosys). We estimate the margin picture to be a mixed bag with that of Infosys being flat, TCS(-80bps) showing a decline and Wipro(+40bps) & HCL Tech(+70bps) reporting improvements. Favorable cross currency, SG&A leverage and offshore shift would act as key margin supports.

- We expect Infosys to beat the top end of its revenue and earnings guidance by a healthy margin. This out-performance and strong near-term demand visibility could prompt company to raise its FY11 US$ revenue growth guidance to 25-27% from 24-25% and EPS guidance to Rs118-120 from Rs115-117. Also, for Q4 FY11 we expect Infosys & Wipro to guide for 3-5% sequential US$ growth.
- Employee addition is expected to moderate a bit after the robust addition in H1 FY11 and attrition is expected to stabilize as retention measures take effect.
- Key points to watch out in Q3 results commentary would be CY11 budget outlook, pricing situation, discretionary spend scenario and attrition.
- Recent run-up have made valuations rich but with the discounting shifting to FY13, value still remains at least in Tier-1 players.

Metals

- During the quarter, we expect topline for the complete metal universe, to increase both on a qoq and yoy basis. Led by an increase in sales volume and marginally higher steel realizations we expect topline of ferrous companies to jump 15% on a qoq basis. Steel companies were not able to hold on to the hikes announced by the end of Q2 FY11. We expect average steel realizations to increase by 2-3% qoq after a dip in the previous quarter. Volume growth would be higher for SAIL due to the liquidation of previous quarter inventory. Sesa Goa's volume is expected to be lower on a yoy basis due to the loss of volumes from the Karnataka and Orrisa region.
- For the non-ferrous space, topline is expected to jump 12.3% qoq led by a rise in LME prices. Base metal prices have jumped 12-18% qoq led by copper (18.6%), lead (16.7%), zinc (14.1%) and aluminium (12.3%). The growth in Hindalco's topline was restricted due to a decline in copper production.
- Margin for the steel universe is expected to expand on a qoq basis as companies would be benefited from marginally higher realizations and lower input costs. Contracts for both, iron ore and coking contract, were agreed at lower rates on a qoq basis. We expect OPM for the ferrous companies to expand 500bps qoq. However on a yoy basis, OPM is expected to contract 187bps as the increase in raw material costs is higher than the increase in steel realizations. For the non-ferrous space, operating profit is expected to increase 19.9% qoq.
- After registering a dip in earnings in the previous quarter, the metal universe is expected to continue with its earnings momentum in Q3 FY11. Only standalone Tata Steel in the ferrous space is expected to report a decline in PAT, as previous quarter profit was aided by sales of investments. Hindalco is expected to report the highest growth in bottomline led by higher earnings from its aluminium division.

Oil and Gas

- Gross under recoveries are expected to be higher in Q3 FY11 following rise in crude oil prices. Under-recoveries on petrol will not contribute to the total gross under recoveries as the prices have been de-regulated. However, losses on diesel, LPG and SKO have increased considerably causing total under recoveries to increase. Uncertainty over subsidy sharing pattern continues with the government yet to decide on a particular formula. For our estimates, we have assumed 33% sharing by upstream companies and remaining to be borne by OMCs.
- Refining margins have been higher on a sequential basis on account of improvement in gasoline spreads, which will result in better performance of RIL's refining segment to be neutralized by lower throughput on account of maintenance shutdown. Petrochemical spreads are likely to be lower considering the out performance of feedstock prices vis-à-vis product prices. Crude oil production from MA-1 field and gas production from KG-D6 field are likely to be lower on a sequential basis.
- Higher production from Rajasthan field would lead to robust results for Cairn India and will translate into higher total production for ONGC. APM gas price hike will further improve ONGC's performance.
- GAIL should witness strong set of numbers on yoy basis as a result of higher transmission volumes on yoy basis.
- Our top picks in the sector are Reliance and ONGC.

Power

- In the first two months of Q3FY11, India's installed capacity increased by 2,242MW to attain the total capacity 167GW. On yoy basis, the country's generation capacity increased by 7% from 156GW in Q3FY10.
- Capacity addition target for FY11 stands at 21GW, of which 15GW was scheduled for the first 3 quarters of FY11. 7,059MW capacity was added till November 2010 followed by commissioning of 500MW Korba unit-7 and 300MW Ratnagiri unit-2 in December 2010. We expect capacity addition to accelerate in balance FY11 and FY12.
- During the quarter, generation increased to 199.5BU, 5.3% up from 189.4BU in Q3FY10. The increase in generation is largely on account of capacity addition during the year. PLF dropped by 331bps to 72.8% YTD.
- Short term power prices continued to remain low in Q3FY11. Average price of electricity traded on the power exchanges ranged between Rs1.9/Kwh to Rs3.0/Kwh during the quarter. Average price on exchange dropped 36% from Rs3.7/Kwh in Q3FY10 to Rs2.3/Kwh in Q3FY11. Merchant power rates for transactions through traders were around Rs4.0/Kwh, higher than the prices prevailing in the exchanges.
- NTPC's generation during the quarter remained flat yoy at 54.7BU, although the capacity increased by 5% during the same period. Generation was lower due to poor coal supply. Going forward NTPC will benefit from its operational efficiencies. As per tariff policy, NTPC has to step into the competitive regime of bidding based tariff, moving out from the shell of cost plus earning. Ministry of Power has also allowed NTPC to sell 150MW on non PPA basis.
- In Q3FY11, power generation was lower from Tata Power's hydro and thermal power plants. The company's coal business is expected to grow with higher volume and increased realization.
- Power Grid's execution of under construction projects will speed up with increased fund availability after the FPO. We expect asset capitalisation to increase and the earnings to follow.

Telecom

- Q3 marks a seasonally healthy demand quarter for wireless telcos; MOUs likely to grow 3.5%/1.4% qoq for Bharti and Rcom
- Bharti ex-Africa wireless revenue growth pegged at 2.2% qoq while Africa likely to clock 2% rise in revenues
- Absent any headline tariff cuts, ARPUs likely to trend marginally lower by 0.5%/1.6% on a sequential basis; rev/min for both the frontline operators estimated to be lower by 1p each to 43p/min
- Bharti to report EBIDTA margin drop as it undertook rebranding exercise during the quarter
- Bharti PAT ex-FX fluctuations estimated at Rs14.5bn, up 2.7% qoq

Recommendation parameters for fundamental reports:

Buy – Absolute return of over +10%

Market Performer – Absolute return between -10% to +10%

Sell – Absolute return below -10%

IIFL, IIFL Centre, Kamala City, Senapati Bapat Marg, Lower Parel (W), Mumbai 400 013.

For Research related queries, write to: Amar Ambani, Head of Research at amar@indiainfoline.com or research@indiainfoline.com
For Sales and Account related information, write to customer care: info@5pmail.com or call on 91-44 4007 1000