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Q3 FY11 Preview
Dec 2010

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Q3FY11 Earnings Preview: Festive season and revival of investment cycle to drive earnings

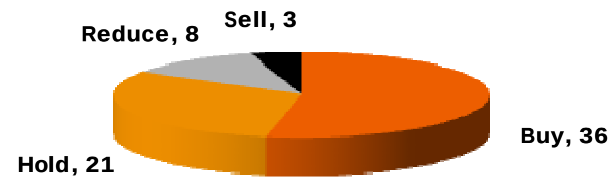
The top line ex-banking businesses are expected to grow by 18.3% Y-o-Y while the bottom line is expected to grow by 20.5%. On the profitability front, we expect the operating margin (excl. banking) to remain flat at 18.9%. Including the banking sector the profits are expected to increase by 24.2% on year on year basis. Auto, Cement, Media & Entertainment sectors and Pharma are expected to report profit growth in excess of 40% in the current quarter.

KR Choksey Universe : Sectoral Growth Trend - Y-o-Y

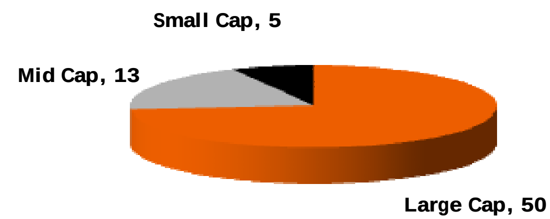
Sectors	Sales Growth	EBITDA Growth	PAT Growth
Auto	18.5%	23.3%	61.3%
Banking & NBFC	20.8%	21.7%	19.1%
Cement	25.9%	46.9%	40.9%
Diversified	6.3%	22.3%	32.1%
Fertilizers	22.6%	16.8%	5.0%
FMCG	11.7%	8.6%	5.3%
Infrastructure	4.8%	62.2%	68.3%
IT	21.8%	14.7%	13.4%
Media & Entertainment	39.9%	61.2%	76.6%
Pharma	15.4%	55.3%	176.7%
Power & Cap. Goods	26.9%	9.8%	0.4%
Real Estate	30.1%	38.2%	22.2%

Source: KRChoksey Research

KR Choksey Universe Ratings



KR Choksey Universe



Q3 Earning Preview: Festive season and revival of investment cycle to drive earnings

Q3FY11 has been eventful for both Indian economy and corporate India. On oneside, the economy is growing at very healthy pace ~ 8.9% and equity market has been reflecting underlying growth momentum by touching 52 week highs, and on the other hand a sequence of scams coupled with corporate governance issues pulled down market by 10% from the recent peak. However, we believe scams and corporate governance issues are individual cases and not an institutional concern.

Sensex moved up 2.2% q-o-q (point to point) on the back of continuous improvement in the macro economic environment and strong foreign portfolio flows.

Economy and Market Trend:

- GDP continues to demonstrate strong growth momentum to 8.9% in second quarter of the fiscal. Farm sector rebounded strongly to 4.4% against 0.9% in the corresponding quarter of the previous year. GDP growth is expected to be in the range of 8.5-8.7% for the current fiscal as compared to 7.4% in FY10.
- Festival season and pick up in investment demand helped in rebounding of industrial production from 10.8% in Oct. 2010 vis-a-vis 4.4% in Sept 2010. A broad based recovery across the segments triggered industrial output.
- Inflation has moderated due to favorable base effect. However, surge in global crude oil prices is a key upward risk to inflation moderation theme.
- Direct tax and indirect tax collection s have been robust as it has achieved ~ 67% of their budget estimate trending upward for consumer disposable income and factory output going forward.
- Better Monsoon and increased MSP is expected to boost the agricultural sector and rural income levels.
- RBI has raised Repo rate by 25bps and Reverse Repo rate by 50 bps during the quarter. RBI's monetary policy stance has shifted to pause the rate hike cycle. However, we believe continuous surge in oil prices posing upward risk to inflation may result into pressing rate hike button again by the RBI.
- FII portfolio flows have been relatively lower sequentially to $10.9bn during the quarter as compared to $15.6bn in Q2FY11.

Key Sectoral Expectation:

- Auto – Growth continues to remain strong however, margins are likely to come under pressure sequentially but remain robust on y-o-y basis.
- Banks – NII growth and fee income likely to remain strong on the back of robust loan growth and healthy fee income generation environment. Moderation in margin coupled with slippage from stressed sectors like MFI, real estate and telecom could act as earning dampers.
- Infrastructure – better execution drives volume growth but earnings remain under pressure due to increase in financing cost
- Cement – Improved realizations and pick up in cement demand due to revival in infrastructure spending and corporate capex cycle.
- Fertilizer – Better monsoon and domestic demand for agro-chemical drive volume growth and earnings. Margins likely to be stable on sequentially basis.
- FMCG – Strong growth on the back of increased demand in festive season. Crude oil based product segments see higher margin pressure than the agro-based products.
- Pharma – Strong product launches in US and healthy R&D pipeline will help to show impressive operating performance during the quarter. Margins likely to improve sequentially due to better operating leverage.
- Capital goods & Power – Revival of capex cycle in core industries i.e. Cement and Steel, and huge investments in power sector will drive sales growth for the sector at 18-20% y-o-y. Rising ferrous and non ferrous metal prices and increased competition from Chinese players will put pressure on margins of capital goods companies. Power sector company's topline will grow by 7-8 % on a Y-o-Y basis largely on back of capacity additions. Profitability likely to be under pressure on account of moderation in merchant prices and lower PLF. Power generation capacity addition will gain momentum as we believe MOEF will take soft stance on environment clearance going forward.

At the current level of 20498, Sensex is trading at 15.7x FY12E earnings of Rs 1305 with a peg ratio 0.77. The valuation looks attractive considering the historical mean multiples. Domestic investment and consumption driven sectors are likely to perform well in the current high growth environment. Capital goods, Banks, Infrastructure & cement sectors are likely to outperform the market benchmark.

Market will be eagerly waiting to see Q3 numbers before it takes fresh direction.

We believe strong growth outlook, surplus global liquidity due to QE2 and attractive valuations will compel global institutional investors to allocate sizable funds to the emerging markets like India to generate alpha on their global portfolio. However, Steep recovery in US economy coupled with rising crude oil and commodities prices may result into reversal in capital flows to US markets and subsequently correction in the domestic market.

Top Picks

Tata Motors, Axis Bank, ICICI Bank,Glenmark Pharma, Praj Industries, Sterlite Technologies.

KR Choksey Universe Q3FY11 Estimate

All Figures except CMP and EPS in the report are in Rs. crores

Sectors	No of Companies	Market Cap	Sales	%y-o-y	EBITDA	%y-o-y	Net Income	%y-o-y	OPM (%)	NPM (%)
Auto	5	212,324	50,108	18.5%	6,727	23.3%	3,958	61.3%	13.4%	7.9%
Cement	2	41,953	4,650	25.9%	1,538	46.9%	882	40.9%	33.1%	19.0%
Diversified	4	389,095	69,653	6.3%	10,890	22.3%	5,783	32.1%	15.6%	8.3%
Fertilizers	3	4,448	827	22.6%	153	16.8%	92	5.0%	18.4%	11.1%
FMCG	7	272,470	14,806	11.7%	3,455	8.6%	2,397	5.3%	23.3%	16.2%
Infrastructure	4	25,295	7,317	4.8%	1,018	62.2%	259	68.3%	13.9%	3.5%
IT	5	614,913	29,227	21.8%	7,601	14.7%	5,765	13.4%	26.0%	19.7%
Media & Entertainment	7	48,566	3,036	39.9%	1,182	61.2%	608	76.6%	39.0%	20.0%
Pharma	5	80,994	6,374	15.4%	1,442	55.3%	1,659	176.7%	22.6%	26.0%
Power & Cap. Goods	10	468,204	40,573	26.9%	7,960	9.8%	4,690	0.4%	19.6%	11.6%
Real Estate	4	76,487	4,043	30.1%	1,511	38.2%	837	22.2%	37.4%	20.7%
	56	Market Cap	Total Income	%y-o-y	EBITDA	%y-o-y	Net Income	%y-o-y	OPM (%)	NPM (%)
Banking & NBFC	12	744,201.6	37,262	20.8%	21,218	21.7%	11,095	19.1%	56.9%	29.8%
KRChoksey Universe	68	2,978,951.5	267,875.9	16.4%	64,694.7	21.1%	38,024.7	24.0%	24.2%	14.2%

Source: KRC*hoksey* Research

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KRC*hoksey* Universe - Snapshot

Sector	Company	Size	Reco	CMP (Rs.)	Target Price (Rs.)	Potential Upside (%)	Market Cap (Rs. Crore)	Sales (Rs Cr)		PAT (Rs Cr)		P/E FY11E
								FY11E	FY12E	FY11E	FY12E	
Auto	Tata Motors	Large Cap	BUY	1298	1520	17.1%	81,353	109,903	123,640	8,445	9,086	9.6
	Maruti Suzuki	Large Cap	HOLD	1431	1568	9.6%	41,327	35,946	40,919	2,369	2,795	17.4
	Ashok Leyland	Large Cap	BUY	67	85	27.2%	8,893	9,511	10,757	576	667	15.5
	Bajaj Auto	Large Cap	BUY	1429	1780	24.5%	41,310	16,237	19,005	2,503	2,835	16.5
	Hero Honda	Large Cap	HOLD	1975	2200	11.4%	39,441	18,173	20,535	2,006	2,440	19.7
	Auto						**212,324**	189,769	214,857	15,899	17,822	
Banking & NBFC	SBI	Large Cap	BUY	2742	3,420	24.7%	174,086	47,090	55,872	11,369	15,847	15.3
	ICICI Bank	Large Cap	BUY	1103	1,391	26.1%	122,972	16,291	20,306	4,880	6,466	25.2
	HDFC Bank	Large Cap	HOLD	2343	2,466	5.2%	107,778	14,252	17,115	3,821	4,624	28.2
	Axis Bank	Large Cap	BUY	1350	1,738	28.8%	54,704	6,700	8,110	3,161	3,958	17.3
	PNB	Large Cap	BUY	1220	1,542	26.4%	38,432	14,454	17,058	4,416	5,515	8.7
	Bank of Baroda	Large Cap	BUY	880	1,212	37.8%	32,190	10,986	13,552	3,984	4,938	8.1
	Bank of India	Large Cap	HOLD	439	491	11.9%	23,042	9,834	12,264	2,747	4,122	8.4
	Kotak Mahindra Bank	Large Cap	BUY	460	540	17.5%	33,715	3,009	3,776	840	1,113	40.1
	Andhra Bank	Large Cap	BUY	146	216	47.9%	7,081	2,793	3,513	1,253	1,463	5.7
	Union Bank of India	Large Cap	BUY	332	391	17.8%	16,760	7,600	9,083	2,218	3,021	7.6
	HDFC	Large Cap	HOLD	729	744	2.1%	106,441	5,114	6,059	3,338	3,981	31.9
	IDFC	Large Cap	BUY	179	254	41.7%	27,001	2,877	3,882	1,477	1,967	18.3
	Banking & NBFC						**744,202**	141,000	170,591	43,502	57,014	

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Sector	Company	Size	Reco	CMP (Rs.)	Target Price (Rs.)	Potential Upside (%)	Market Cap (Rs. Crore)	Sales (Rs Cr)		PAT (Rs Cr)		P/E FY11E
								FY11E	FY12E	FY11E	FY12E	
Cement	ACC*	Large Cap	HOLD	1069	1140	6.7%	20,065	8,133	10,129	1,186	1,561	16.9
	Ambuja Cements Ltd*	Large Cap	REDUCE	144	135	-6.0%	21,888	7,035	8,568	1,371	1,804	16.0
	Cement						**41,953**	23,225	27,527	3,471	4,444	
Diversified	Reliance Ind	Large Cap	HOLD	1075	1,189	10.6%	351,623	233,847	280,967	20,771	28,906	16.9
	Adani Enterprises	Large Cap	HOLD	650	681	4.8%	34,905	35,302	43,477	2,470	3,763	14.1
	Solar Industries India Ltd.	Mid Cap	BUY	550	782	42.2%	952	677	876	75	96	12.7
	Praj Inds	Mid Cap	BUY	87	116	32.9%	1,615	585	750	68	143	23.9
	Diversified						**389,095**	270,411	326,070	23,384	32,907	
FMCG	GSKCHL*	Large Cap	HOLD	2281	2320	1.7%	9,593	2,357	2,621	300	337	32.0
	Nestle*	Large Cap	REDUCE	3877	3500	-9.7%	37,383	6,250	7,549	872	1,052	42.9
	Hindustan Unilever	Large Cap	REDUCE	323	315	-2.6%	70,567	19,012	20,778	2,235	2,367	31.6
	Tata Tea	Large Cap	HOLD	113	120	5.9%	7,010	6,345	7,042	365	410	19.2
	Colgate	Large Cap	SELL	870	870	0.0%	11,832	2,276	2,669	427	494	27.7
	Riddhi Siddhi Gluco Biols Ltd.	Small Cap	BUY	404	550	36.1%	444	964	1,264	100	134	4.5
	ITC	Large Cap	HOLD	177	190	7.3%	135,641	20,700	23,598	4,903	5,691	27.7
	FMCG						**272,470**	57,903	65,520	9,202	10,485	
Fertilizers	Rallis India	Mid Cap	HOLD	1411	1600	13.4%	2,738	1,043	1,320	143	183	19.1
	Deepak Fertilizers	Mid Cap	BUY	171	210	23.2%	1,504	1,624	2,009	191	259	7.9
	Sabero Organics	Small Cap	BUY	61	80	31.8%	206	508	599	40	54	5.2
	Fertilizers						**4448.0**	3,174	3,927	374	496	

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								FY11E	FY12E	FY11E	FY12E	
IT	Infosys	Large Cap	HOLD	3469	3,555	2.5%	199,095	27,802	35,297	7,016	8,899	28.4
	3i Infotech	Mid Cap	REDUCE	62	57	-9.2%	1,225	2,587	2,894	249	287	4.9
	TCS	Large Cap	HOLD	1148	1,215	5.8%	224,687	37,021	47,264	8,675	10,338	25.9
	Wipro	Large Cap	SELL	775	474	-38.8%	189,907	31,441	38,802	5,359	6,115	35.4
	HCL Technologies	Large Cap	HOLD	458	483	5.4%	31,144	15,799	19,683	1,741	2,345	17.9
	IT						**614,913**	98,850	124,257	21,299	25,640	
Infrastructure	IRB Infrastructure	Large Cap	BUY	230	270	17.6%	7,631	3,397	3,808	976	1,094	7.5
	Suzlon	Large Cap	HOLD	56	57	2.4%	9,713	21,366	24,051	(263)	508	0.0
	Patel Engineering	Mid Cap	BUY	309	365	18.1%	2,157	3,727	4,383	188	239	11.5
	IL&FS Transportation Ltd	Large Cap	BUY	298	354	18.7%	5,794	3,741	6,277	442	546	13.1
	Infrastructure						**25,295**					
Media & Entertainment	Sun TV	Large Cap	REDUCE	542	526	-3.0%	21,360	1,877	2,133	700	823	30.5
	Jagran Prakashan Ltd.	Mid Cap	BUY	128	160	25.1%	3,850	1,083	1,246	205	237	18.8
	PVR Ltd.	Small Cap	BUY	147	236	60.5%	398	530	633	26	38	15.3
	Zee Entertainment	Large Cap	BUY	143	295	106.1%	6,996	2,855	3,269	580	703	12.1
	HT Media	Mid Cap	BUY	148	198	33.8%	3,478	1,683	1,947	180	238	19.3
	DB Corp	Mid Cap	BUY	265	344	29.8%	4,810	1,277	1,472	262	311	18.4
	Dish TV India	Large Cap	REDUCE	72	72	-0.6%	7,674	1,294	1,797	(149)	39	
	Media & Entertainment						**48,566**	10,599	12,497	1,804	2,389	

Sector	Company	Size	Reco	CMP (Rs.)	Target Price (Rs.)	Potential Upside (%)	Market Cap (Rs. Crore)	Sales (Rs Cr)		PAT (Rs Cr)		P/E FY11E
								FY11E	FY12E	FY11E	FY12E	
Power & Cap. Goods	Sterlite Tech	Mid Cap	BUY	79	126	59.2%	2,814	2,214	3,290	234	371	12.0
	L&T	Large Cap	HOLD	1974	2,160	9.4%	119,982	44,143	53,527	3,573	4,532	33.6
	Adani Power	Large Cap	HOLD	130	145	11.5%	28,340	2,095	6,295	837	2,533	33.9
	EMCO	Small Cap	BUY	66	97	47.4%	429	1,028	1,202	(12)	63	NA
	NTPC	Large Cap	HOLD	200	218	9.1%	164,828	52,416	61,510	8,981	10,154	18.4
	BHEL	Large Cap	BUY	2329	2890	24.1%	114,009	40,449	48,660	4,846	5,693	23.5
	ABB	Large Cap	REDUCE	810	790	-2.5%	17,165	6,841	7,744	328	410	52.3
	Crompton Greaves	Large Cap	BUY	310	370	19.2%	19,915	10,028	11,733	850	1,033	23.4
	Elecon Engineering	Mid Cap	BUY	78	116	48.9%	724	1,162	1,396	67	81	10.8
	TRIL	Small Cap	BUY	325	620	90.8%	419	595	720	57	70	7.4
	Power & Cap. Goods						**468,204**	**160,971**	**196,077**	**19,761**	**24,941**	
Pharma	**Cadila Healthcare**	Large Cap	HOLD	768	810	5.4%	15,751	4,324	5,109	663	801	23.8
	Dishman	Mid Cap	BUY	153	217	42.2%	1,221	1,007	1,158	110	145	11.1
	Ranbaxy (CY)	Large Cap	BUY	609	750	23.3%	25,618	8,925	9,489	1,385	1,752	18.5
	Glenmark Pharma	Large Cap	BUY	364	430	18.1%	9,822	2,975	3,450	485	570	20.3
	Dr. Reddys	Large Cap	REDUCE	1691	1620	-4.2%	28,582	7,700	9,050	1,100	1,510	26.0
	Pharma						**80,994**	24,931	28,256	3,743	4,778	
Real Estate	DLF	Large Cap	BUY	292	353	20.9%	49,563	8,956	11,829	1,785	2,485	27.8
	Unitech	Large Cap	HOLD	66	72	9.1%	16,955	3,784	4,977	946	1,281	17.9
	Sobha Developers	Mid Cap	BUY	322	467	45.2%	3,152	1,777	1,979	319	388	9.9
	Real Estate						**76,487**	14,518	18,785	3,049	3,766	

Sector	Company	Size	Reco	CMP (Rs.)	Target Price (Rs.)	Potential Upside (%)	Market Cap (Rs. Crore)	Sales (Rs Cr)		PAT (Rs Cr)		P/E FY11E
								FY11E	FY12E	FY11E	FY12E	
Shipping & Logistics	Mundra Port - (Check Row 65)			146	185	27.1%	29,149	1,878	2,477	987	1,336	29.5
	Shipping & Logistics						**29,149**	1,878	2,477	987	1,336	

Source: KRChoksey Research

** Dec ending*

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Automobiles and Auto Ancillary Sector **Rs in crore**

Company	Q3FY11 E	Q3FY10	y-o-y	Q2FY11	q-o-q	Remarks
Ashok Leyland						**BUY** CMP 67 TP 85 Upside Potential 27% P/E (FY11E) 15.5x
Sales	1,986	1,816	9%	2,714	-27%	Minimal growth seen in Q3 due to low sales volume mainly because of prebuying in Q2 due to implementaton of emmision norms in Q3
EBIDTA	221	206	7%	306	-28%	High sales volumes were recorded in Q2 hence drop on Q-o-Q basis
Net Profit	114	105	9%	167	-32%	
EPS	0.9	0.8	9%	1.3	-32%	
OPM (%)	11%	11%	-26 bps	11%	-18 bps	Margins being stressed on account of slow growth in sales during the quarter
NPM (%)	6%	6%	-3 bps	6%	-43 bps	
Bajaj Auto						**BUY** CMP 1,429 TP 1,780 Upside Potential 25% P/E (FY11E) 16.5x
Sales	4,229	3,166	34%	4,181	1%	Significant growth in Sales driven by volumes growth of about 26% Y-o-Y
EBIDTA	889	718	24%	897	-1%	Strong growth in top line resulting in growth in EBITDA as well
Net Profit	656	475	38%	682	-4%	
EPS	23	16	38%	24	-4%	
OPM (%)	21%	23%	-166 bps	21%	-43 bps	Drop in OPM on y-o-y basis due to increase in RM prices and employee expenses
NPM (%)	16%	15%	50 bps	16%	-80 bps	
Hero Honda						**HOLD** CMP 1,975 TP 2,200 Upside Potential 11% P/E (FY11E) 19.7x
Sales	4,782	3,827	25%	4,552	5%	Highest volumes posted, resulting in growth in topline by 25% Y-o-Y
EBIDTA	622	661	-6%	608	2%	
Net Profit	514	536	-4%	506	2%	
EPS	26	27	-4%	25	2%	
OPM (%)	13%	17%	-426 bps	13%	-35 bps	Impact on magins mainly due increase in other expenses and RM prices
NPM (%)	11%	14%	-326 bps	11%	-37 bps	

Company	Q3FY11 E	Q3FY10	y-o-y	Q2FY11	q-o-q	Remarks											
Maruti Suzuki						**HOLD**	CMP	1,431		TP	1,568		Upside Potential	10%		P/E (FY11E)	17.4x
Sales	9,196	7,503	23%	9,147	1%	Festive season buying resulted in highest sales volume leading to growth in sales											
EBIDTA	966	1,134	-15%	960	1%												
Net Profit	587	688	-15%	598	-2%												
EPS	20	24	-15%	21	-2%												
OPM (%)	11%	15%	-461 bps	10%	1 bps	Stess on margins due to increase in expenses (mainly RM prices)											
NPM (%)	6%	9%	-278 bps	7%	-15 bps												
Tata Motors						**BUY**	CMP	1,298		TP	1,520		Upside Potential	17%		P/E (FY11E)	9.6x
Sales	29,915	25,980	15%	28,573	5%	Growth seen from growing sales of JLR and growth in the CV segment											
EBIDTA	4,029	2,738	47%	4,129	-2%												
Net Profit	2,087	650	221%	2,210	-6%												
EPS	33	10	221%	35	-6%												
OPM (%)	13%	11%	293 bps	14%	-98 bps	Decline in margins by 98 bps Q-o-Q due to increasing RM costs, employee expenses and production constraints											
NPM (%)	7%	3%	447 bps	8%	-76 bps												

Preview on Auto

- Festive season buying helped OEM's to record high sales numbers with many reaching all time high sales volumes in the quarter accounting in higher sales
- OPM are likely to be impacted by the rise in key raw material prices, which have dampened margins despite high sales volumes.
- Due to strong demand from cutomers all major Indian OEM's are facing supply constraints resulting in orders going to their counterparts
- The Government announced a subsidy scheme for makers of electric vehicles but the manufacturers are not keen to launch their products since the country does not have effective infrastructure in place
- The RBI had raised its benchmark lending rates to control inflation. Private banks were quick to follow suit

Factors to watch in the Q3FY11 result

- **Commodity Prices:** Increasing raw material prices have been a major concern for all major OEM's. With the prices of rubber and steel constantly on their way up, margins are likely to be impacted. This will lead to passing on the price burden to the customers although with a lag. Going forward all OEM's will increasing the prices of their products
- **Increasing Interest Rates:** With the growth in the economy hike in interest rate is evident. With some lending banks already having done so. This will impact volumes since 65% of vehicles are purchased on finance.
- **Manufacturing Hub:** With the increase in demand for small cars with good fuel economy OEM's have started to manufacture and sell in domestic as well as export markets making India their manufacturing hub.
- **Higher Demand:** The demand for vehicles has increased in both the rural as well as the urban markets resulting in long waiting list for most vehicles especially passenger cars.
- **Increased Competition:** Many global player have announced their foray into the India auto space and those alerady present have announced capacity additions to meet the growth domestic demand

Top Pick

Tata Motors, Hero Honda

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Banking and NBFCs **Rs in crore**

Company	Q3FY11 E	Q3FY10	y-o-y	Q2FY11	q-o-q	Remarks								
Axis Bank						**BUY**	CMP	1,350	TP	1,738	Upside Potential	29%	P/E (FY11E)	17.3x
Interest Income	3,825	2,884	33%	3,624	6%	Loan book to grow 35.7% y-o-y and 4% q-o-q resulting in 170 bps improvement in CD ratio.								
Interest Expended	2,155	1,535	40%	2,009	7%	NII growth to moderate to 24% y-o-y factoring moderation in NIM on sequential basis.								
NII	1,670	1,349	24%	1,615	3%									
Other Income	1,097	988	11%	1,033	6%	Strong growth of fee income continue, asset quality likely to remain comfortable with lower deliquencies.								
Total Income	2,767	2,337	18%	2,648	4%									
Net Profit	785	656	20%	735	7%	Stable cost to income ratio and declining loan loss provision lead to net profit growth at								
EPS	19	16	20%	18	7%	20% y-o-y and 6.8% q-o-q.								
Bank of Baroda						**BUY**	CMP	880	TP	1,212	Upside Potential	38%	P/E (FY11E)	8.1x
Interest Income	5,443	4,177	30%	5,159	5%	NII to grow 33% y-o-y and 4.7% q-o-q driven by loan book growth. Sequentially NIM sees								
Interest Expended	3,308	2,576	28%	3,121	6%	moderation due to normalisation of CD ratio and rise in cost of funds.								
NII	2,134	1,601	33%	2,038	5%									
Other Income	735	660	11%	681	8%	Fee income grows at healthy pace of 24% y-o-y. Trading gains remain flatitsh on sequential								
Total Income	2,870	2,261	27%	2,719	6%	basis due to rising bond yield.								
Net Profit	1,002	832	20%	1,019	-2%	Pension provision likely to increase cost to income ratio.								
EPS	27	23	20%	28	-2%	Strong NII growth, healthy fee income to boost net profit growth.								
Bank of India						**HOLD**	CMP	439	TP	491	Upside Potential	12%	P/E (FY11E)	8.4x
Interest Income	5,478	4,486	22%	5,156	6%	NII to grow 24% y-o-y & 5% q-o-q driven by loan growth 20% y-o-y with marginal improvement in NIM sequentially.								
Interest Expended	3,617	2,992	21%	3,380	7%									
NII	1,861	1,495	24%	1,776	5%									
Other Income	550	572	-4%	584	-6%	Healthy fee income growth, recovery from written off accounts continue drive other income.								
Total Income	2,410	2,066	17%	2,360	2%	Additionlly for pension liability likely to increase quarterly employee cost run rate. .								
Net Profit	634	405	57%	617	3%	Expect stable LLP on qoq basis reflecting improving asset quality. Strong NII growth, modest fee income								
EPS	12	8	57%	12	3%	progression couped with stable loan loss provisioning result into 57% y-o-y growth in earnings.								

Company	Q3FY11 E	Q3FY10	y-o-y	Q2FY11	q-o-q	Remarks
HDFC						**HOLD** CMP 729 TP 744 Upside Potential 2% P/E (FY11E) 31.9x
Interest Income	3,034	2,706	12%	2,907	4%	Retail business will continue to be strong, driven by strong macro environment
Interest Expended	1,811	1,704	6%	1,718	5%	Loan to grow 23% y-o-y r driven retail housing loan business.
NII	1,223	1,001	22%	1,189	3%	Spread likely to moderate yet remain strong
Other Income	5	51	-90%	5	6%	
Total Income	1,288	1,058	22%	1,253	3%	Strong NII growth , healthy cost to income ratio and stable credit cost help to grow earnings 23% y-o-y.
Net Profit	826	671	23%	808	2%	
EPS	6	5	23%	6	2%	
HDFC Bank						**HOLD** CMP 2,343 TP 2,466 Upside Potential 5% P/E (FY11E) 28.2x
Interest Income	5,061	4,035	25%	4,810	5%	Short term loans to run down from the book resulting into 34% y-o-y growth and 2.25% q-o-q growth.
Interest Expended	2,515	1,811	39%	2,284	10%	
NII	2,546	2,224	14%	2,526	1%	NII to grow 14% y-o-y due to moderation in NIM from Q2FY11 levels.
Other Income	1,023	853	20%	961	7%	Fee income contine to grow at heathy pace 19% y-o-y.
Total Income	3,569	3,076	16%	3,487	2%	
Net Profit	1,009	818	23%	912	11%	OPEX to grow 12% y-o-y vs 16% y-o-y in operating income. Loan loss provision to flat sequentially.
EPS	22	18	23%	20	11%	Earnings growth 23% y-o-y mainly due to strong NII growth and stable cost and provisioning.
ICICI Bank						**BUY** CMP 1,103 TP 1,391 Upside Potential 26% P/E (FY11E) 25.2x
Interest Income	6,603	6,090	8%	6,309	5%	Net interest margin continues to improve on the back of improving liability franchise and hike in
Interest Expended	4,235	4,031	5%	4,105	3%	lending rates to factor rise in cost of funds.
NII	2,367	2,058	15%	2,204	7%	NII to grow 23% y-oy driven by loan volume growth and structural improvement in margin.
Other Income	1,886	1,673	13%	1,578	20%	C/I ratio remians stable at 42% . Loan loss provision to increase to meet 70% PCR norm.
Total Income	4,254	3,731	14%	3,782	12%	
Net Profit	1,323	1,101	20%	1,237	7%	Revival loan growth coupled improving margin drive net profit growth 20% y-o-y and 7% q-o-q.
EPS	12	10	20%	11	7%	

Company	Q3FY11 E	Q3FY10	y-o-y	Q2FY11	q-o-q	Remarks
IDFC						**BUY** CMP 179 TP 254 Upside Potential 42% P/E (FY11E) 18.3x
Interest Income	398	279	42%	359	11%	NII growth mainly driven by loan volume growth. NIM sees pressure due to raising wholesale rates.
Interest Expended	14	19	-25%	15	-5%	
NII	412	260	58%	374	10%	
Other Income	290	239	21%	272	6%	Capital linked businesses like institutional broking, investment banking and asset management
Total Income	701	499	41%	646	9%	are expected to perform well during the quarter
Net Profit	357	270	32%	339	5%	Core operation coupled with postive earnings progression from capital linked businesses
EPS	2	2	32%	2	5%	linked businesses drive earnings 32% y-o-y.
Kotak Mahindra Bank						**BUY** CMP 460 TP 540 Upside Potential 17% P/E (FY11E) 40.1x
Interest Income	1,103	832	33%	1,015	9%	
Interest Expended	506	346	46%	471	7%	NII growth remians strong 23% y-o-y mainly driven by loan growth; Net interest margin sees decline
NII	598	487	23%	544	10%	on qoq basis.
Other Income	168	145	16%	139	21%	Fee income and cash recoveries from stressed portfolio to drive other income. Trading gains remain subdued.
Total Income	766	631	21%	683	12%	OPEX will grow faster than operating income on account of aggressive branch expansion.
Net Profit	209	142	47%	195	7%	Core operation drives net profit growth at 47% y-o-y and 7% q-o-q.
EPS	3	2	47%	3	7%	
PNB						**BUY** CMP 1,220 TP 1,542 Upside Potential 26% P/E (FY11E) 8.7x
Interest Income	7,127	5,506	29%	6,455	10%	
Interest Expended	4,190	3,176	32%	3,479	20%	NII to grow 26% y-o-y and (-) 1% q-o-q. Net interest margin will be under pressure from a elevated level
NII	2,937	2,329	26%	2,977	-1%	of 3.72% (calc) in Q2FY11
Other Income	728	848	-14%	718	1%	Fee income continues maintain growth momumtem. Trading gains will be muted on qoq basis.
Total Income	3,665	3,177	15%	3,695	-1%	Provide pension liability which may increase empployee cost higher than quarterly run rate.
Net Profit	1,103	1,128	-2%	1,074	3%	Expect moderation in deliquencies and lower loan loss provisioning expense
EPS	35	36	-2%	34	3%	

Company	Q3FY11 E	Q3FY10	y-o-y	Q2FY11	q-o-q	Remarks
SBI						**BUY** CMP 2,742 TP 3,420 Upside Potential 25% P/E (FY11E) 15.3x
Interest Income	20,858	17,780	17%	19,808	5%	Loan book to grow 21.5% y-o-y driven by infrastructure, SME and retail.
Interest Expended	12,650	11,463	10%	11,693	8%	NII igrowth is seen at 30% y-o-y and 1% q-o-q. Net interest margin sees pressure from elevated 2.87% (calc)
NII	8,208	6,316	30%	8,115	1%	in Q2FY11 due to rise in cost of funds.
Other Income	3,799	3,366	13%	4,005	-5%	Fee growth remains robust at 39% y-o-y. Trading gains are expected to be subdued duing the quarter.
Total Income	12,007	9,682	24%	12,120	-1%	LLP is expected to decline on the back of improving asset quality and one off items in Q2FY11.
Net Profit	2,915	2,479	18%	2,501	17%	Core operation and decline in loan loss provision would be major drivers of earning growth. Net
EPS	46	39	18%	39	17%	profit to grow 18% y-o-y and 17% q-o-q.
Union Bank of India						**BUY** CMP 332 TP 391 Upside Potential 18% P/E (FY11E) 7.6x
Interest Income	3,964	3,293	20%	3,952	0%	
Interest Expended	2,520	2,229	13%	2,416	4%	NII is expected to grow 36% y-o-y on the back of loan growth 23% y-o-y. Sequentially NIM sees
NII	1,444	1,064	36%	1,536	-6%	pressure due to aggressive deposit moblisation in anticipation of credit growth.
Other Income	524	465	13%	510	3%	Fee income grow at modest pace, recovery from written off accounts expected to improve.
Total Income	1,967	1,529	29%	2,046	-4%	The bank has been providing fully for pension provision for last two quarters, so don't expect any negtaive surprise
Net Profit	621	534	16%	303	105%	on this tront.
EPS	12	11	16%	6	105%	Earnings are likely see 105% q-o-q growth due to one off increase in LLP on account of debt waiver in Q2FY11.
Andhra Bank						**BUY** CMP 146 TP 216 Upside Potential 48% P/E (FY11E) 5.7x
Interest Income	2,098	1,603	31%	1,941	8%	NII growing 33% y-o-y mainly driven by loan growth at 24.8 YoY.
Interest Expended	1,325	1,020	30%	1,158	14%	Net interest margin sees pressure sequentially due to rise in cost of funds and agressively deposit moblisation.
NII	773	583	33%	783	-1%	
Other Income	226	224	1%	191	18%	Fee income growth 16% y-o-y, recovery from written off accounts and muted trading gains result into 1% y-o-y.
Total Income	999	807	24%	974	3%	Pension and grauity provision have been providing for last two quarters, don't see negative on this front.
Net Profit	310	275	13%	303	2%	Opex growth at 22% y-o-y and loan loss provisioning to increase to maintain healthy PCR.
EPS	6.4	5.7	13%	6.2	2%	Net profit to grow 13% y-o-y driven by core operating performance.

Preview on Banking

- Loan growth has picked up considerably over last two months driven by infrastructure and corporate CAPEX. System credit growth has been growing at 23% y-o-y (Dec.3, 2010)
- Most of the banks have raised deposit rates by 50-150 bps in various maturity bracket, followed by increase in BPLR and base rates by 25-50 bps during the quarter. However, increase in front loaded deposit
- leads to moderation in net interest margin of the sector.
- Deposit moblization has increased after the deposit rate hike, resulting into the improvement in system deposit growth from 14.3% y-o-y (Sept 24, 2010) to 15% y-o-y (Dec. 3, 2010).
- System liquidity has remained negative due to sluggishness in deposit growth and slow government spending. However, liquidity scenario is likely to ease on the
- back of higher government spending and pick in deposit growth.
- Tight liquidity conditions pushed the short end of the yield curves higher from sept 2010 levels, leading to a further flattening of the yield curve. We expect marginal MTM hits on earnings.
- Government announced capital infusion in select PSU banks (BoB, OBC, Dena Bank, Central Bank, SBI rights issue, Central Bank right Issue); it will boost Tier I and allow
- banks to further dilute equity according to their growth strategy.
- Net Interest Income (NII) of the banks under our coverage is likely to grow by 25.8% y-o-y
- Healthy fee income growth, higher traction in cash recoveries from written off accounts drive non interest income
- Net interest margins are likely to moderate for the most of the private sector banks and select PSBs
- Our banking coverage earnings likely to increase 18.4% y-o-y and 11.4% q-o-q.

Factors to watch in the Q3FY11 result

- Net interest margin movement in a raising interest rate environment.
- Fee income growth and cash recoveries from written off accounts are likely to see improvement on q-o-q basis.
- Most of the banks will annouce pension liability which could have a minor impact on its earnings .
- NPA formation from stressed sectors like Microfinance, telecom and real estate property developers
- Slippage trend from restructured assets of PSU banks and loan loss provisioning level sequentially.

TOP Picks

Private Banks - Axis Bank & ICICI Bank

PSU Banks - BoB, PNB and SBI

NBFCs - IDFC

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Cement

Company	Company	Q3FY11 E	Q3FY10	y-o-y	Q2FY11	Remarks
ACC*						**HOLD** CMP 1,069 TP 1,140 Upside Potential 7% P/E (FY11E) 16.9x
Sales	2,461	1,921	28%	1,759	40%	Better dispatch of Cement from ACC and improved prices leading to better sales
EBIDTA	641	598	7%	217	195%	
Net Profit	357	385	-7%	86	314%	Net Profit expected to decline on a Y-oY basis because of higher cost of coal & transport
EPS	19	21	-7%	5	314%	
OPM (%)	26%	31%	-509 bps	12%	1370 bps	Increase in cement prices in the month of October, helps in improving the OPM & NPM (Q-o-Q)
NPM (%)	15%	20%	-552 bps	5%	962 bps	
Ambuja Cements Ltd*						**REDUCE** CMP 144 TP 135 Upside Potential -6% P/E (FY11E) 16.0x
Sales	2,189	1,772	24%	1,564	40%	Sales for Ambuja Cement were affected by strike at its HP plant, otherwise sales could have been higher
EBIDTA	897	449	100%	302	197%	
Net Profit	525	241	118%	152	245%	Presence in markets where cement demand is robust would lead to better profitability
EPS	3	2	118%	1	245%	
OPM (%)	41%	25%	1564 bps	19%	2167 bps	
NPM (%)	24%	14%	1037 bps	10%	1426 bps	

Preview on Cement

- Cement prices were hiked across all region esspecially in the southern markets in the month of October
- **October dispatch figures for the Cement industry were way above expectations, despite higher cement prices**

Factors to watch in the Q3FY11 result

Intervention of Government if any, on the price hike and the quasi-cartel formed by Cement players

Stabalisation of the expanded capacity that happened in the Q1FY11

Pick up in infrastrucutre spending by the Government

Dawn after a long Black night in the Cement sector seems to have set in

Top Picks: ACC

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Diversified

Company	Q3FY11 E	Q3FY10	y-o-y	Q2FY11	q-o-q	Remarks
Adani Enterprises						**HOLD** CMP 650 TP 681 Upside Potential 5% P/E (FY11E) 14.1x
Sales	7,929	6,372	24%	5,750	38%	Consloidation of Mundra Port and increased contribution from Adani Power leads to 24% growth
EBIDTA	1,044	502	108%	726	44%	
Net Profit	832	325	156%	585	42%	Higher coal volumes and commissioning of 330MW in the quarter to further improve margins
EPS	16	6	156%	11	42%	
OPM (%)	13%	8%	528 bps	13%	54 bps	Higher contribution from high margin segments including port and power to improve EBITDA margins
NPM (%)	10%	5%	539 bps	10%	32 bps	
Praj Inds						**BUY** CMP 83 TP 116 Upside Potential 40% P/E (FY11E) 23.9x
Sales	155	147	5%	109	43%	Net sales to improve on the back of improved order executions
EBIDTA	29	29	0%	7	340%	
Net Profit	26	29	-11%	9	192%	Improvement in OPM Q-o-Q due to better operating leverage.
EPS	1	2	-11%	0	193%	Capex related spending will lead to reduction in other income
OPM (%)	19%	20%	-111 bps	6%	1271 bps	Improvement in business scenario in US and rising crude oil prices will further add to orderbook.
NPM (%)	17%	20%	-308 bps	8%	853 bps	We are expecting positive announcement on water business this quarter.
Reliance Ind						**HOLD** CMP 1,075 TP 1,189 Upside Potential 11% P/E (FY11E) 16.9x
Sales	61,403	58,848	4%	59,962	2%	We estimate Gas production from KG D6 basin to be at 53mmscmd. Avg. realization of crude to be at $ 81.
EBIDTA	9,788	8,351	17%	10,068	-3%	Singapore refining margins average at $4 per barrel and RIL GRM at $ 8 per barrel
Net Profit	4,912	4,008	23%	4,923	0%	Petchem margin to improve after increase in polymer and polyester prices
EPS	15	12	23%	15	0%	
OPM (%)	16%	14%	175 bps	17%	-85 bps	
NPM (%)	8%	7%	119 bps	8%	-21 bps	

Company	Q3FY11 E	Q3FY10	y-o-y	Q2FY11	q-o-q	Remarks
Solar Industries India Ltd.						**BUY** CMP 550 TP 782 Upside Potential 42% P/E (FY11E) 12.7x
Sales	165	146	14%	150	10%	Normally sales figure move up during third quarter of the year due to enhanced demand from mining
EBIDTA	29	23	25%	23	25%	companies after monsoon is over. Operationalisation of Zambia facility has also led to sales enhancement.
Net Profit	19	16	16%	18	5%	There is enhancement in operating margin due to better operating leverage.
EPS	11	9	16%	10	5%	Higher depreciation and lower other income has led to Q-o-Q decline of 58 bps in net profit margin.
OPM (%)	17%	16%	163 bps	15%	206 bps	quarter.
NPM (%)	11%	11%	25 bps	12%	-58 bps	Any positive announcement of overseas acquisition or stake dilution in coal blocks will provide trigger for stock.

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Fertilizers

Company	Q3FY11 E	Q3FY10	y-o-y	Q2FY11	q-o-q	Remarks
Rallis India						**HOLD** CMP 1,411 TP 1,600 Upside Potential 13% P/E (FY11E) 19.1x
Sales	261	203	29%	363	-28%	Good rabi crop to boost domestic agrochemical sales
EBIDTA	51	39	31%	83	-39%	Strong topline to boost operating profit
Net Profit	38	24	59%	59	-35%	
EPS	20	12	59%	30	-35%	
OPM (%)	20%	19%	34 bps	23%	-346 bps	Margins to be impacted by higher input cost & other expenses
NPM (%)	15%	12%	282 bps	16%	-149 bps	Strong operating profit & lower tax rate to improve NPM
Deepak Fertilizers						**BUY** CMP 171 TP 210 Upside Potential 23% P/E (FY11E) 7.9x
Sales	430	362	19%	406	6%	Topline growth driven by chemical segment with higher offtake of TAN post monsoons
EBIDTA	84	68	22%	77	9%	Robust demand for fertiliser in rabi season to boost topline
Net Profit	44	53	-17%	41	6%	Net profit to improve on the back of operating leverage
EPS	5	6	-17%	5	6%	
OPM (%)	19%	19%	56 bps	19%	55 bps	Margins to be impacted by higher RM cost(ammonia,propylene)
NPM (%)	10%	15%	-443 bps	10%	-2 bps	Margin(excl exceptional item) to improve on y-o-y basis
Sabero Organics						**BUY** CMP 61 TP 80 Upside Potential 32% P/E (FY11E) 5.2x
Sales	136	109	24%	130	4%	Good monsoon season,strong rabi crop to drive domestic agrochemical volumes
EBIDTA	18	23	-23%	18	3%	Robust volumes in branded sales to drive operating profit offset by higher input costs
Net Profit	10	10	-8%	9	2%	
EPS	3	3	-8%	3	2%	
OPM (%)	13%	21%	-811 bps	13%	-18 bps	Higher RM cost to impact margins
NPM (%)	7%	9%	-240 bps	7%	-14 bps	

Preview on Fertilizers

- Domestic demand for agrochemicals to improve on the back of well distributed monsoons & better rabi season
- With industrial activity picking up,demand for industrial chemicals also expected to be robust

Factors to watch in the Q3Y11 result

- Volume growth in Domestic markets
- Volatility in input cost

TOP Picks

Rallis,Deepak fertiliser

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FMCG

Company	Q3FY11 E	Q3FY10	y-o-y	Q2FY11	q-o-q	Remarks									
GSKCHL*						**HOLD**	CMP	2,281	TP	2,320	Upside Potential	2%	P/E (FY11E)	32.0x
Sales	495	433	14%	633	-22%	Launch of new variants,brand extensions & strong performance in biscuits & noodles segment to drive volumes								
EBIDTA	67	52	29%	116	-42%	EBITDA to improve on the back of robust topline partially offset by rise in RM cost & ASP expenses								
Net Profit	54	34	59%	79	-32%	Net Profit to improve y-o-y on the back of better operating leverage								
EPS	13	8	59%	19	-32%									
OPM (%)	14%	12%	152 bps	18%	-471 bps	Marings to improve y-o-y due to decline in other expenses,partially offset by ASP expenses								
NPM (%)	11%	8%	303 bps	12%	-161 bps									
Hindustan Unilever						**REDUCE**	CMP	323	TP	315	Upside Potential	-3%	P/E (FY11E)	31.6x
Sales	4,926	4,573	8%	4,765	3%	Higher contribution from Personal products,food segment to drive topline,Soap & laundry category to remain under pressure								
EBIDTA	789	788	0%	647	22%	Operating profit driven by robust topline,offset by increase in RM cost								
Net Profit	623	649	-4%	566	10%									
EPS	3	3	-4%	3	10%									
OPM (%)	16%	17%	-120 bps	14%	244 bps	OPM likely to remain under pressure prices have increased , higher ASP expenses								
NPM (%)	13%	14%	-154 bps	12%	77 bps	Exceptional gain in Q3FY10 led to higher NPM								
ITC						**HOLD**	CMP	177	TP	190	Upside Potential	7%	P/E (FY11E)	27.7x
Sales	5,342	4,580	17%	5,147	4%	Robust sales growth in cigarette segment,robust performance by Hotels & FMCG others to drive topline								
EBIDTA	1,942	1,707	14%	1,875	4%									
Net Profit	1,294	1,144	13%	1,247	4%	Net Profit to improve on the back of better operating leverage								
EPS	2	1	13%	2	4%									
OPM (%)	36%	37%	-91 bps	36%	-7 bps	OPM to decline y-o-y on the back of increase in other expenditure,offset by lower RM cost								
NPM (%)	24%	25%	-76 bps	24%	-20 bps									

Company	Q3FY11 E	Q3FY10	y-o-y	Q2FY11	q-o-q	Remarks
Nestle*						**REDUCE** CMP 3,877 TP 3,500 Upside Potential -10% P/E (FY11E) 42.9x
Sales	1,669	1,445	16%	1,637	2%	Topline to grow backed by Strong volume growth across its key brands Maggi,Nescafe,Baby foods,Choclates
EBIDTA	336	292	15%	326	3%	
Net Profit	224	221	1%	219	2%	
EPS	23	23	1%	23	2%	
OPM (%)	20%	20%	-9 bps	20%	20 bps	Margins to remain under pressure due to high milk prices
NPM (%)	13%	15%	-190 bps	13%	7 bps	NPM impacted by higher tax provisioniing
Riddhi Siddhi Gluco Biols Ltd.						**BUY** CMP 404 TP 550 Upside Potential 36% P/E (FY11E) 4.5x
Sales	241	194	25%	205	17%	Strong demand from FMCG,pharma,confectinary industry to drive volumes
EBIDTA	40	25	56%	39	2%	Strong volumes & lower RM cost to drive operating profitability
Net Profit	21	9	118%	25	-17%	
EPS	19	9	118%	22	-17%	
OPM (%)	16%	13%	332 bps	19%	-247 bps	OPM to improve y-o-y on the back of decline in Raw material consumed as a % to sales
NPM (%)	9%	5%	365 bps	12%	-348 bps	
Tata Tea						**HOLD** CMP 113 TP 120 Upside Potential 6% P/E (FY11E) 19.2x
Sales	1,573	1,540	2%	1,439	9%	Net sales to improve on the back of growth in branded sales & improved performance in canada,UK & Russia
EBIDTA	146	196	-26%	129	13%	EBITDA impacted by increasing raw material costs
Net Profit	77	104	-26%	84	-9%	
EPS	1	2	-26%	1	-9%	
OPM (%)	9%	13%	-347 bps	9%	27 bps	OPM to remain under pressure on the back of higher tea & coffee prices
NPM (%)	5%	7%	-185 bps	6%	-96 bps	

Company	Q3FY11 E	Q3FY10	y-o-y	Q2FY11	q-o-q	Remarks
Colgate						**SELL** CMP 870 TP 870 Upside Potential 0% P/E (FY11E) 27.7x
Sales	560	491	14%	552	1%	Strong volume growth in toothpaste & Toothbrush segment & rising penetration levels to drive topline
EBIDTA	136	121	12%	130	5%	EBITDA to improve on the back of y-o-y decline in RM consumed & ASP expenses,partially offset by higher other expenses
Net Profit	105	117	-10%	100	5%	Net Profit to decline on q-o-q basis on the back of higher tax provision
EPS	8	9	-10%	7	5%	
OPM (%)	24%	25%	-37 bps	24%	85 bps	
NPM (%)	19%	24%	-493 bps	18%	64 bps	

*** December year end companies.**

Preview on FMCG

- We expect the sector to grow at healthy 15%-18% in FY11
- We believe companies to register strong volume growth on the back of increased demand in festive season
- Rural demand will continue to outpace the urban markets on the back of rising MSP's,improved rural income & good monsoons
- ASP expenses to remain high as competitive intensity would increase with festive season coming up
- OPM to remain under pressure as the raw material prices for crude linked inputs remain high& also higher palm oil prices
- Increased prices of Milk,Tea & coffee to put pressure on margins of beverage & dairy segments

Factors to watch in the Q3Y11 result

- ASP Expenses
- Agri Commodity prices (Wheat,barley,Milk)
- Prices of crude linked raw material,palm oil prices
- Volume growth by individual companies
- Rural Demand & Impact of normal monsoons going forward

TOP Picks

ITC

Analysts: Mehul Desai (mehul.desai@krchoksey.com)

Media & Entertainment

Company	Q3FY11 E	Q3FY10	y-o-y	Q2FY11	q-o-q	Remarks
Jagran Prakashan Ltd.						**BUY** CMP 128 TP 160 Upside Potential 25% P/E (FY11E) 18.8x
Sales	288	227	27%	277	4%	Topline growth of 27% y-o-y is a combination of advertisement colume and yeild improvement.
EBIDTA	97	65	48%	91	6%	Advertisement segment to register y-o-y growth of 36% and q-o-q to 4% to Rs 201 crore
Net Profit	60	40	50%	56	7%	
EPS	2	1	50%	2	7%	Effective tax rate at ~33%
OPM (%)	33%	29%	470 bps	33%	68 bps	Margins improvement mainly on account of robust advertisement growth. Double digit growth in advertising is largely offset by raw material cost which will increase by 22%.
NPM (%)	21%	18%	316 bps	20%	63 bps	
PVR Ltd.						**BUY** CMP 147 TP 236 Upside Potential 61% P/E (FY11E) 15.3x
Sales	110	90	22%	98	12%	We believe y-o-y growth will come from higher Exhibition revenue on account of quality content in october.
EBIDTA	21	18	21%	18	19%	EBITDA to increase on account of higher occupancy and ATP.
Net Profit	9	7	26%	7	30%	Effective tax rate at ~33%
EPS	3	2	26%	2	30%	
OPM (%)	20%	20%	-23 bps	18%	112 bps	Margins improve on account of better occupancy and higher ATP
NPM (%)	8%	8%	20 bps	7%	108 bps	
Sun TV						**REDUCE** CMP 542 TP 526 Upside Potential -3% P/E (FY11E) 30.5x
Sales	696	395	76%	425	64%	Topline to register robust growth on back of movie segment and advertisement revenue.
EBIDTA	586	313	87%	332	76%	We expect movie segment to register triple digit growth on back of Endhiran - The robot, where we expect it to register a topline of Rs 220 crore
Net Profit	284	152	87%	167	69%	Effective tax rate of ~34.6%
EPS	7	4	87%	4	69%	
OPM (%)	84%	79%	506 bps	78%	594 bps	Margins to expand on back of advertisement segment and improvement in analogue segment
NPM (%)	41%	38%	232 bps	39%	136 bps	

Company	Q3FY11 E	Q3FY10	y-o-y	Q2FY11	q-o-q	Remarks
Zee Entertainment						**BUY** CMP 143 TP 295 Upside Potential 106% P/E (FY11E) 12.1x
Sales	769	531	45%	712	8%	Y-o-Y not comparable because of restructuring exercise in CY10
EBIDTA	223	157	42%	189	18%	Q-o-Q growth would be driven mainly on account of advertisement growth of 10.5% on back of
Net Profit	182	136	33%	126	44%	festive seasons.
EPS	4	3	43%	3	44%	Effective tax rate of ~33%
OPM (%)	29%	30%	-62 bps	26%	251 bps	Margins are expected to improve mainly on account of higher subscription revenues along with higher advertising volumes
NPM (%)	24%	26%	-203 bps	18%	592 bps	
HT Media						**BUY** CMP 148 TP 198 Upside Potential 34% P/E (FY11E) 19.3x
Sales	495	366	35%	446	11%	Top-line to register a robust growth on back of HT Burda and advertiseng segment
EBIDTA	93	73	27%	79	17%	Higher advertising revenues both from English and Hindi segment is expected to drive revenue performance.
Net Profit	46	35	29%	39	17%	
EPS	2	2	29%	2	17%	
OPM (%)	19%	20%	-120 bps	18%	100 bps	Despite robust growth in top-line there is no improvement in margins on back of higher newsprint
NPM (%)	9%	10%	-45 bps	9%	48 bps	prices and lower cover prices in Hindi segment
DB Corp						**BUY** CMP 265 TP 344 Upside Potential 30% P/E (FY11E) 18.4x
Sales	318	284	12%	301	6%	Top-line to register a robust growth on back of improvement advertisement yield and better run rate in radio business
EBIDTA	109	96	14%	95	15%	Increase in topline in double digit whereas marginal improvement on OPM on account of newsprint prices,
Net Profit	60	51	19%	55	9%	entry into newer market led increase employee and other expenditure
EPS	3	3	19%	3	9%	
OPM (%)	34%	34%	51 bps	32%	268 bps	Margins improvement on back of reduction in interest cost and better advertisement yields
NPM (%)	19%	18%	107 bps	18%	56 bps	

Company	Q3FY11 E	Q3FY10	y-o-y	Q2FY11	q-o-q	Remarks								
Dish TV India						**REDUCE**	CMP	72	TP	72	Upside Potential	-1%	P/E (FY11E)	-51.5x
Sales	360	257	40%	304	18%	Dish TV is expected to report robust growth y-o-y driven by 1) growth in subscribers 2) higher ARPU.								
EBIDTA	54	23	134%	32	67%	EBITDA is expected to increase on the back of lower content cost per subscriber and higher ARPU level.								
Net Profit	(31)	(56)	-45%	(63)	-51%	Effective tax rate of ~33%								
EPS	0	(1)	-100%	(1)	-100%									
OPM (%)	15%	9%	603 bps	11%	440 bps	Margin is expected to increase mainly on account decrease in content cost and higher ARPU level.								
NPM (%)	-9%	-22%	1318 bps	-21%	1217 bps									

Preview on Media

Broadcasting

- Q3FY11 to register robust advertising growth q-o-q and y-o-y on back of a) festive quarters, b) improved fundamentals at macro level c) Q2FY11 low in advertising growth owing to a seasonally weak quarter and high base effect. News broadcasting companies continued to disappoint with cost escalations erasing gains of cost cutting."
- For weeks 46-50, Star Plus retained its top position, with a viewership share of 26.3%, followed by Colors at 20.3% and Zee TV at 14.0%. Also, Star Plus retained its lead spot on prime-time, accounting for a viewership share of 26.5%, followed by Colors and Zee TV, with viewership shares of 22.4% and 16.0%, respectively."
- The FMCG sector was the predominant contributor to Hindi GEC ad volumes. FMCG ads contributed 70.5% to Zee TV's ad volumes and 65.5% to Colors'. FMCG ads for GECs saw a sharp rebound during the month after having reported their lowest contribution for the current fiscal in October. "
- CNBC TV18 saw 17.7% of ad volumes coming from the BFSI segment. Within BFSI ads, IPO advertisements remain the key clientele (spot buyers) for the channel. In November 2010, the contribution of ad volumes from IPO issues was 5.1% of the total BFSI ad volumes (8.8% in October 2010), whereas insurance ads accounted for 21.1% of the total BFSI ad volumes (24.0% in October 2010)."

Print & Media

- Increasing focus of corporates in Tier 2 and Tier 3 cities would lead vernacular newspapers to register higher growth than industry for next couple of years. "
- In the Q3IRS report, Dainik Jagran retained its poll position among all Hindi dailies and attained an average issue readership (AIR) of 15.95 million, followed by Dainik Bhaskar (13.48 million) and Hindustan (10.84 million Vs as against 10.1 million in IRS Q2CY10). In the English dailies, The Times of India topped the charts with an AIR of 7.25 million, followed by Hindustan Times (3.52 million) and The Hindu (2.11million)."

- A large number of English dailies reported a decline in AIR in the Delhi market (HT - AIR - 2.4% and TOI - AIR - 1.5%). Mint has been the only English (business) daily to have reported a double-digit increase in AIR. Contrary to the Delhi market, the Mumbai market continues to see a rise in AIR for major English dailies. Most importantly, the survey showcased the results of Hindustan Times' rebranding exercises and aggressive penetration strategies (through discounted schemes), as the daily surpassed DNA to claim the second position in Mumbai."
- Among key Hindi markets, Jharkhand saw a readership growth (IRS Q3CY10 over Q2CY10) of 10.2%, followed by Madhya Pradesh at 7.7%. AIR for Hindi dailies in Bihar, Delhi NCR and Rajasthan continue to grow at low single digits at 3.0%, 1.3% and 1.0%, respectively."
- Newsprint the key rawmaterial for print companies has increaeed by 1% q-o-q and 21% y-o-y to US$ 626/ tonne. We believe the impact y-o-y margins would not be seen because there is in improvement in advertisement yield. The improvement has been driven mainly on account of macro fundamentals and increase spending by consumer goods companies

Print & Media

- As per IRS 3Q 2010, radio has been the only medium which has seen a decline in reach (down 2.3% 3Q 2010 versus 2Q 2010). However, the decline is largely attributed to a fall in the listenership recorded for the public broadcaster, All India Radio, while most of the major private radio. The latest IRS 3Q2010 survey showed that Radio Mirchi retained its top spot in FM radio listenership. The brand attained a listenership of 42.2 million (23.2 million in the last week recall), placing it far ahead of its closest competitor, BIG FM, which attained a listenership of 23.2 million. "
- We believe multiplex to post a robust results for the quarter on back quality content with festive seasons and improved macro environment led higher occupancy. October was the month where gross collection stands at Rs 431 crore which is highest in CY10 on back good quality content like Endhiran - the Robot, Action Replay and Golmmal 3 figure in highest in CY10. "

Factors to watch Q3FY11 results

- Advertising growth for overall sector. Yield of print media players in English and Hindi Sector
- Average occupancy of multiplex.
- Subscription revenue growth through DTH and Analogue."

Top Picks

PVR, SUN TV and DBCORP

Analysts: Rohit Maheshwari (rohit.maheshwari@krchoksey.com)

Infrastructure

Company	Q3FY11E	Q3FY10	y-o-y	Q2FY11	q-o-q	Remarks
IRB Infrastructure						**BUY** CMP 230 TP 270 Upside Potential 18% P/E (FY11E) 7.5x
Sales	539	433	24%	490	10%	Sales will grow by 24% primarily led by increse in construction income
EBIDTA	263	227	16%	236	11%	Substantial construction income will lead to decline by 363 bps
Net Profit	111	95	17%	102	9%	
EPS	3	3	17%	3	9%	
OPM (%)	49%	52%	-363 bps	48%	61 bps	
NPM (%)	21%	22%	-136 bps	21%	-13 bps	Proft margin to take a hit on account of lower operating margin (Y-o-Y)
IL&FS Transportation Ltd						**BUY** CMP 298 TP 354 Upside Potential 19% P/E (FY11E) 13.1x
Sales	990	NA	NA	883	12%	QoQ topline will grow by 12% due to lower execution of order books in hand
EBIDTA	274	NA	NA	261	5%	Higher sub contracts cost results into 190 bps decline in margins
Net Profit	118	NA	NA	111	6%	
EPS	6	NA	NA	6	6%	
OPM (%)	28%	NA	NA	30%	-190 bps	Operating margin to shrink due to increse in sub contract costs
NPM (%)	12%	NA	NA	13%	-65 bps	Profit margin to decline bec of addition ofmore debt in balance sheet
Suzlon						**HOLD** CMP 56 TP 57 Upside Potential 2% P/E (FY11E) 0.0x
Sales	5,020	5,590	-10%	3,772	33%	Sales will improve by 33% on QoQ basis, primarily led by more execution of Suzlon WTG order book
EBIDTA	361	275	31%	139	160%	Increse in sales results into 227bps improvement on YoY basis
Net Profit	(10)	14	-170%	(369)	-97%	Still in negative zone due to higher interest cost
EPS	(0)	0	-170%	0	NA	
OPM (%)	7%	5%	227 bps	4%	350 bps	
NPM (%)	0%	0%	-45 bps	-10%	959 bps	

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Company	Q3FY11E	Q3FY10	y-o-y	Q2FY11	q-o-q	Remarks
Patel Engineering						**BUY** CMP 309 TP 365 Upside Potential 18% P/E (FY11E) 11.5x
Sales	769	961	-20%	771	0%	Quartely contibution expected at 22% of full year revenues
EBIDTA	121	126	-4%	121	0%	Operating margin to decline on the back of increase in raw material prices and decline in hydro power share
Net Profit	40	44	-11%	44	-9%	PAT margin to improve marginally on account of decline in interest cost
EPS	6	6	-11%	6	-9%	
OPM (%)	16%	13%	257 bps	16%	-1 bps	
NPM (%)	5%	5%	53 bps	6%	-51 bps	

Preview on Infrastructure

- Quartely sales anticiapted at 27-29% of full year sales
- Operating margin are expected to be under pressure on account of higher raw material and sub-contractor charges;
- Interest costs to take a toll on the profitability
- Huge investments in infrastructure space to improve the revenue visibilty

Factors to watch in the Q3FY11 result

- Working capital cycle of the companies
- Capex plans of the company
- Interest Rate movement in the economy

Top Picks

IRB Infrastructure, IL&FS Transportation Ltd.

Analyst

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IT

Company	Q3FY11E	Q3FY10	y-o-y	Q2FY11	q-o-q	Remarks
Infosys						**HOLD** CMP 3,469 TP 3,555 Upside Potential 2% P/E (FY11E) 28.4x
Sales	7,137	5,741	24%	6,947	3%	The management has guided for 4.4% QoQ revenue growth in 3Q FY11 (in US Dollar). However, we believe the stability in business envrionment will enable the company to register revenue growth of 6% (in USD terms).
EBIDTA	2,366	2,038	16%	2,315	2%	
Net Profit	1,809	1,560	16%	1,737	4%	The management has guided for 2.8% QoQ net profit growth in 3Q FY11 (in US Dollar). However, we believe higher revenue growth than the management guidance will enable the company to outperform its guidance
EPS	32	27	16%	30	4%	
OPM (%)	33%	35%	-235 bps	33%	-18 bps	We expect operating profit margin to come down marginally primarily led by appreciation of INR against USD in Q3FY11.
NPM (%)	25%	27%	-183 bps	25%	34 bps	We expect net profit margin to improve marginally led by forex gain as against forex loss in Q2FY11 and lower tax rate of ~25% in Q3FY11.
3i Infotech						**REDUCE** CMP 62 TP 57 Upside Potential -9% P/E (FY11E) 4.9x
Sales	641	596	8%	643	0%	Overall revenue growth is expected to be adversely impacted because of the de-growth in transaction processing business
EBIDTA	128	120	7%	130	-1%	
Net Profit	64	61	4%	64	-1%	Revenue de-growth and decline in operating margin will result in net profit decline on QoQ basis.
EPS	3	3	4%	3	-1%	
OPM (%)	20%	20%	-11 bps	20%	-18 bps	De-growth in revenue will bring down overall operating margins.
NPM (%)	10%	10%	-30 bps	10%	-2 bps	
TCS						**HOLD** CMP 1,148 TP 1,215 Upside Potential 6% P/E (FY11E) 25.9x
Sales	9,512	7,649	24%	9,286	2%	Lower number of working days in the quarter will result in relatively modest growth in revenue (on QoQ basis) compared to the previous quarter.
EBIDTA	2,753	2,273	21%	2,776	-1%	
Net Profit	2,179	1,824	19%	2,169	0%	
EPS	11	9	19%	11	0%	
OPM (%)	29%	30%	-77 bps	30%	-95 bps	We expect operating profit margin to come down primarily led by appreciation of INR against USD in Q3FY11.
NPM (%)	23%	24%	-93 bps	23%	-44 bps	Forex gain as compared to forex loss led to relatively lower decline in net margin as compared to operating profit margin.

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Company	Q3FY11E	Q3FY10	y-o-y	Q2FY11	q-o-q	Remarks
Wipro						**SELL** CMP 750 TP 474 Upside Potential -37% P/E (FY11E) 35.4x
Sales	8,124	6,971	17%	7,706	5%	The management has guided for IT services revenue growth of 3.5%-5.5% in 3Q FY11. We expect, the company to grow in line with its peers (i.e. 5.5% in USD) after underperforming them in the recent past.
EBIDTA	1,714	1,556	10%	1,573	9%	
Net Profit	1,319	1,217	8%	1,285	3%	Increase in tax rate in Q3FY11 will impact overall net margin and hence growth rate on QoQ basis.
EPS	5	5	8%	5	3%	
OPM (%)	21%	22%	-122 bps	20%	68 bps	The one time increase in operatiing expenses and relatively lower realized rate in Q2FY11 will support improvement in OPM
NPM (%)	16%	17%	-123 bps	17%	-44 bps	
HCL Technologies						**HOLD** CMP 458 TP 483 Upside Potential 5% P/E (FY11E) 17.9x
Sales	3,812	3,041	25%	3,708	3%	We expect revenue growth to slowdown due to lower number of working days and INR appreciatoin against USD in Q3FY11.
EBIDTA	640	641	0%	603	6%	
Net Profit	394	423	-7%	331	19%	Lower forex losses (on QoQ basis) and improvement in OPM will support strong growth in net profit on QoQ basis.
EPS	6	6	-7%	5	19%	
OPM (%)	17%	21%	-428 bps	16%	51 bps	Improvement in utilziation rate and operating leverage will assist improvement in OPM on QoQ basis.
NPM (%)	10%	14%	-355 bps	9%	143 bps	

Preview on IT

- Lower number of working days will impact QOQ volume growth rate
- INR appreciation against USD by ~3% QoQ will further imapct revenue growth rate in INR terms
- Lower volume growth, INR appreciation against USD and fresher additon will negatively impact operating profit margin

Factors to watch in the Q3FY11 result

- Preliminary discussion with clients regarding CY11 IT budget
- Pick up in discretionary spend
- Pricing outlook in coming quarters
- Easing of supply side pressure

Top Picks
HCL Tech, Infosys

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Pharma

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Company	Q3FY11 E	Q3FY10	y-o-y	Q2FY11	q-o-q	Remarks
Dr. Reddys						**REDUCE** CMP 1,691 TP 1,620 Upside Potential -4% P/E (FY11E) 26.0x
Sales	2,050	1,850	11%	1,870	10%	Key product launches in US and aggressive sales in domestic markets & Russia will drive the growth
EBIDTA	485	270	80%	384	26%	Better product mix in the US market, lower amortization costs, control over staff
Net Profit	285	240	19%	286	0%	
EPS	17	14	19%	17	0%	
OPM (%)	24%	15%	906 bps	21%	312 bps	
NPM (%)	14%	13%	93 bps	15%	-139 bps	
Glenmark Pharma						**BUY** CMP 364 TP 430 Upside Potential 18% P/E (FY11E) 20.3x
Sales	781	603	30%	724	8%	Sales to improve on robust domestic demand and recovering international scenario, new product launches
EBIDTA	212	168	26%	187	13%	Strong revenue growth, lower interest cost, consistent EBITDA margin
Net Profit	105	81	30%	112	-6%	Reduction in debt will improve the net profits
EPS	4	3	30%	4	-6%	
OPM (%)	27%	28%	-74 bps	26%	132 bps	
NPM (%)	13%	13%	2 bps	15%	-203 bps	
Cadila Healthcare						**HOLD** CMP 768 TP 810 Upside Potential 5% P/E (FY11E) 23.8x
Sales	1,125	965	17%	1,106	2%	Strong sales growth from domestic formulation business, regulated market mainly from US, France. New product launches
EBIDTA	232	197	18%	245	-5%	
Net Profit	157	129	22%	171	-8%	
EPS	8	6	22%	8	-8%	
OPM (%)	21%	20%	18 bps	22%	-153 bps	
NPM (%)	14%	13%	57 bps	15%	-150 bps	

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Company	Q3FY11E	Q3FY10	y-o-y	Q2FY11	q-o-q	Remarks								
Ranbaxy (CY)						**BUY**	CMP	609	TP	750	Upside Potential	23%	P/E (FY11E)	18.5x
Sales	2,141	1,885	14%	1,935	11%	Robust sales growth from domestic formulation, also from Russian CIS, african market, Aricept opportunity								
EBIDTA	447	243	84%	139	223%	New product launches, better product mix								
Net Profit	1,078	117	825%	102	957%	Aricept (one time) opportunity								
EPS	26	3	825%	2	957%									
OPM (%)	21%	13%	800 bps	7%	1372 bps									
NPM (%)	50%	6%	4416 bps	5%	4508 bps									
Dishman						**BUY**	CMP	153	TP	217	Upside Potential	42%	P/E (FY11E)	11.1x
Sales	277	222	25%	213	30%	Inventory re-stocking by MNCs, HIPO facility (China) start contributing. Overall growth in MM & Vit business								
EBIDTA	66	51	30%	37	80%	Strong revenue growth on high margin contract								
Net Profit	34	33	3%	9	299%									
EPS	4	4	3%	1	299%									
OPM (%)	24%	23%	99 bps	17%	664 bps									
NPM (%)	12%	15%	-261 bps	4%	826 bps									

Preview on Pharma

- We expect domestic formulation business will show robust growth i.e. ~18-19% yoy on the back of new product launches and significant prenetration in rural market.
- We remain positive on pharma sector because of USD 193 bn patent expiry between 2010-15 in US market which leads to robust revenue growth for Indian generic pharma
- Emerging pharma market will show double digit growth driven by new product launches, high per capita income, branded business.

Factors to watch in the Q3Y11 result

- Key product launches in US
- Domestic sales growth
- Product pipeline, ANDA approvals in US
- Forex loss/gain

Top Picks

Glenmark, Dishman, Ranbaxy

Analyst

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Power & Capital Goods

Company	Q3FY11 E	Q3FY10	y-o-y	Q2FY11	q-o-q	Remarks
BHEL						**BUY** CMP 2,329 TP 2,890 Upside Potential 24% P/E (FY11E) 23.5x
Sales	9,976	7,229	38%	8,463	18%	Revenue will grow by 38 % on a y-o-y basis driven by higher execution in both Industrial and Power segments.
EBIDTA	1,876	1,562	20%	1,788	5%	
Net Profit	1,217	1,073	13%	1,142	7%	Net profit will increase by 11% on a y-o-y basis as higher revenue is party offset by the higher raw material cost
EPS	25	22	13%	23	7%	
OPM (%)	19%	22%	-280 bps	21%	-233 bps	Margins will dip sharply on y-o-y basis on account of lower realisation in power segment and higher raw material and employee costs.
NPM (%)	12%	15%	-264 bps	13%	-130 bps	Net profit margin will decline in line with operating profit margin
L&T						**HOLD** CMP 1,974 TP 2,160 Upside Potential 9% P/E (FY11E) 33.6x
Sales	10,627	8,122	31%	9,331	14%	Net sales to jump by 31% yoy due to pick up in execution cycle after a slowdown last year
EBIDTA	1,251	1,007	24%	1,006	24%	
Net Profit	825	759	9%	765	8%	Net profit will increase by 9% on a yoy basis as higher interest and tax rate to lessen net profit growth
EPS	14	12	9%	13	8%	
OPM (%)	12%	12%	-63 bps	11%	99 bps	Operating margins expected to decline marginally as a result of increase in raw material cost
NPM (%)	8%	9%	-158 bps	8%	-43 bps	Excluding the impact of extraordinary items PATM likely to be 33 bps higher qoq and 81 bps lower yoy
Elecon Engineering						**BUY** CMP 78 TP 116 Upside Potential 49% P/E (FY11E) 10.8x
Sales	289	250	16%	279	3%	Better volumes in both segment lead to 16% y-o-y growth
EBIDTA	40	39	3%	40	0%	
Net Profit	15	14	8%	14	8%	Flat depreciation and interest expense lead to 8% growth in net profits against 3% growth in EBITDA
EPS	2	2	8%	2	8%	
OPM (%)	14%	16%	-174 bps	14%	-45 bps	Higher raw material cost would bring down the margins
NPM (%)	5%	6%	-39 bps	5%	22 bps	

Company	Q3FY11 E	Q3FY10	y-o-y	Q2FY11	q-o-q	Remarks
Sterlite Tech						**BUY** CMP 79 TP 126 Upside Potential 59% P/E (FY11E) 12.0x
Sales	542	466	16%	492	10%	Execution pick up with flat realisation lead to 16% growth on y-o-y basis
EBIDTA	83	89	-6%	83	0%	Higher raw material cost and other expenses impacting the EBITDA
Net Profit	52	55	-5%	56	-7%	
EPS	1	2	-5%	2	-7%	
OPM (%)	15%	19%	-371 bps	17%	-152 bps	Higher activities in low margin conductor segment and order drain out lead to fall in EBITDA margins
NPM (%)	10%	12%	-219 bps	11%	-175 bps	
NTPC						**HOLD** CMP 200 TP 218 Upside Potential 9% P/E (FY11E) 18.4x
Sales	13,818	11,184	24%	12,989	6%	24% y-o-y growth on account of capacity addition of 980MW
EBIDTA	3,855	3,891	-1%	3,872	0%	EBITDA to fall on account of lower PAF due to super-critical coal stock position at Talcher & Kahalgaon
Net Profit	2,110	2,365	-11%	1,961	8%	Decline in net profits by 11% on account of higher interest expense and taxes
EPS	3	3	-11%	2	8%	
OPM (%)	28%	35%	-689 bps	30%	-191 bps	Fall in EBITDA margin on account of lower realisation due to lower PAF
NPM (%)	15%	21%	-587 bps	15%	18 bps	
TRIL						**BUY** CMP 325 TP 620 Upside Potential 91% P/E (FY11E) 7.4x
Sales	162	132	23%	114	42%	Sales expected to grow by 23% Y-o-Y & 42% Q-o-Q on back of higher volume growth
EBIDTA	24	18	36%	17	41%	
Net Profit	15	11	35%	10	48%	Order book of Rs 480 cr plus provides future visibility & profitability
EPS	12	9	35%	8	48%	
OPM (%)	15%	14%	139 bps	15%	-7 bps	Higher Copper Prices and lower CRGO sheet prices help maintain the margins for TRIL
NPM (%)	9%	9%	80 bps	9%	38 bps	

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wealth enhancement solutions

Company	Q3FY11 E	Q3FY10	y-o-y	Q2FY11	q-o-q	Remarks
ABB						**REDUCE** CMP 810 TP 790 Upside Potential -2% P/E (FY11E) 52.3x
Sales	1,740	1,902	-8%	1,349	29%	Revenue will grow sharply by 29% on a Q-o-Q basis on back of improved execution in power segment
EBIDTA	131	173	-24%	34	279%	EBIDTA will decline sharply by 24 % on a y-o-y basis marred by cost overruns in ongoing projects and higher raw material costs.
Net Profit	59	110	-46%	12	414%	
EPS	3	5	-46%	1	414%	
OPM (%)	8%	9%	-158 bps	3%	494 bps	EBIDTA margins will decline on account of higher raw material costs and continuing cost of exit from rural electrification business
NPM (%)	3%	6%	-236 bps	1%	255 bps	
Crompton Greaves						**BUY** CMP 310 TP 370 Upside Potential 19% P/E (FY11E) 23.4x
Sales	2,578	2,246	15%	2,398	8%	Revenue will grow on account of improved business sentiments in both domestic and european markets .
EBIDTA	354	320	11%	333	6%	EBIDTA will grow in line with sales and will benefit from cost efficieny measures undertaken in both domestic and european operations.
Net Profit	206	200	3%	213	-3%	
EPS	3	3	3%	3	-3%	
OPM (%)	14%	14%	-49 bps	14%	-15 bps	EBIDTA margins will decline marginally on y-o-y basis on account of rising raw material costs.
NPM (%)	8%	9%	-91 bps	9%	-89 bps	Net profit margins will decline by 91 bps on a Y-o-Y basis on account of higher interest cost
Adani Power						**HOLD** CMP 130 TP 145 Upside Potential 12% P/E (FY11E) 33.9x
Sales	542	234	132%	395	37%	Revenue will grow 132% y-o-y on account of 990MW of capacity addition post Q3FY10
EBIDTA	307	127	142%	210	47%	Higher generation and favourable currency exchange movement on imported coal will boost EBITDA
Net Profit	169	72	133%	126	34%	
EPS	1	0	133%	1	34%	
OPM (%)	57%	54%	228 bps	53%	373 bps	Margins to improve on the back of higher average realisation due to increase in merchant rates
NPM (%)	31%	31%	11 bps	32%	-71 bps	

Company	Q3FY11E	Q3FY10	y-o-y	Q2FY11	q-o-q	Remarks
EMCO						**BUY** CMP 66 TP 97 Upside Potential 47% P/E (FY11E) -36.0x
Sales	299	208	44%	290	3%	Revenue will grow 44% y-o-y on account of higher revenue from project business
EBIDTA	39	27	45%	(27)	-241%	EBITDA will increase by 45% on a Y-o-Y basis because ccompany has made provision for cost over runs in Q2F11 for the projects having visibility in H2FY11
Net Profit	21	10	105%	(29)	-172%	
EPS	3	2	105%	(4)	-172%	
OPM (%)	13%	13%	13 bps	-9%	2234 bps	Margins to remain largely flat on a Y-o-Y basis
NPM (%)	7%	5%	207 bps	-10%	1675 bps	

Preview on Power

- XI plan target of 78000MW likely to fall short by 15000-20000MW, only ~65-70% acheivement rate for 2010-11 target
- Base deficit at ~8% level and peak demand deficit close to 11% due to better monsoon and higher hydro based generation
- Power deficit scenario to improve marginally on the back of capacity additions
- Environmental clearance to play key role after few coal blocks falling in "No-Go" area of MoEF
- Average merchant realisation to remain flat on account of moderate demand during winters

Preview on Capital Goods

- Demand for capital goods have gone up on back of revival in capex cycle particulary in steel and cement industry
- Significant uptick in industrial activity and a economy growing between 8-9 % ensures the revenue visibility for the sector
- Operating margins have witnessed downward pressure on account of rising raw material costs.
- PGCIL to start inviting tenders for its Rs. 58,000 crore high capcity power transmission corridor in Q4FY11
- NTPC to start bulk tendering of Rs. 18000 crore in Q4FY11

Factors to watch in the Q3Y11 result

- Increased import of T&D products from China and korea might depress the realisitions and thus margins
- Lower than expected execution of orderbook and cost over run poses the downwared risk to the operating performance of capital good industry
- Lower than expected PLF and higer fuel cost pose the downward risk to our estimates of power companies

Top Picks

BHEL, Crompton Greaves, Sterlite Technologies

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Real Estate

Company	Q3FY11 E	Q3FY10	y-o-y	Q2FY11	q-o-q	Remarks
Unitech						**HOLD** CMP 66 TP 72 Upside Potential 9% P/E (FY11E) 17.9x
Sales	915	775	18%	426	115%	
EBIDTA	241	186	30%	261	-8%	Sales to be further boosted by revival in the residential segment
Net Profit	204	176	16%	129	58%	Margins improve with better sales in the quarter
EPS	1	1	16%	1	58%	Interest cost to decline due to repayment of debt from the funds raised from two QIP's
OPM (%)	26%	24%	237 bps	61%	-3489 bps	
NPM (%)	22%	23%	-46 bps	30%	-793 bps	
DLF						**BUY** CMP 292 TP 353 Upside Potential 21% P/E (FY11E) 27.8x
Sales	2,613	2,026	29%	2,369	10%	We expect 4 msf of sales to be booked in residential segment
EBIDTA	1,127	843	34%	929	21%	Realization to are expected to decline marginally over previous quarter
Net Profit	534	468	14%	418	28%	Margins to sustain due to focus on mid and luxury housing
EPS	3	3	14%	2	28%	Interest cost to remain steady as we do not expect significant debt reduction in this quarter
OPM (%)	43%	42%	151 bps	39%	393 bps	
NPM (%)	20%	23%	-265 bps	18%	279 bps	
Sobha Developers						**BUY** CMP 322 TP 467 Upside Potential 45% P/E (FY11E) 9.9x
Sales	515	307	68%	426	21%	We expect 1 msf to be booked 1n Q3FY11
EBIDTA	142	65	120%	97	47%	We expect avg. realization to be at Rs. 4,000 psf
Net Profit	99	41	142%	59	67%	We have assumed the copmnay to launch ~0.7 msf of new projetcs in the quarter
EPS	10	4	142%	6	67%	
OPM (%)	28%	21%	662 bps	23%	485 bps	
NPM (%)	19%	13%	586 bps	14%	532 bps	

Preview on Real Estate

- Sales are expected to improve both q-o-q and y-o-y
- As developers are aggressively planning low affordable housing margins are expected to remain under pressure as compared to last year
- About 15% -20% correction expetcted in prices in the near future
- Residential housing prices have revived ~20-30% as compared to last year
- Lower interest cost as compared to last year
- Various debt restructring plans have been taken by developers as loans are now available at low interest rates
- Sale of non-core assets by major developers so as to ease their funding woes

Factors to watch in the Q3Y11 result

- Area booked during the quarter
- Pricing trend seen in Super metros, metros, Tier I and II cities
- No. of new launches by the developers and their price points
- Funding plans of developers for existing and proposed projects
- Disbursement of funds raised in QIP's
- Leveraging strategy for future plans

TOP Picks

DLF, Sobha Developers

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Shipping & Logistics **Rs in crore**

Company	Q3FY11 E	Q3FY10	y-o-y	Q2FY11	q-o-q	Remarks
Mundra Port						**HOLD** CMP 146 TP 185 Upside Potential 27% P/E (FY11E) 29.5x
Sales	421	338	25%	414	2%	We expect the Q3FY11 volumes to be flat sequentially as the 60 Mn Tonnes coal terminal commenced
EBIDTA	288	235	23%	283	2%	operations in the second half of December 2010 the impact of which will be reflected in Q4 FY11.
Net Profit	220	163	34%	212	4%	SEZ income is expected to be consistant QoQ ranging between Rs 6-8 Crs
EPS	1.1	0.8	34%	1.1	4%	
OPM (%)	68%	70%	-107 bps	68%	-2 bps	We expect the Operating margins in Q3FY11 to be flat with a drop of 100bps
NPM (%)	52%	48%	379 bps	51%	94 bps	Net Margins are expected to be flat with a positive bias

View :

- We expect the Q3FY11 volumes to be flat sequentially as the 60 Mn Tonnes coal terminal commenced operations in second half of December 2010.
- Mundra Port's total handling capacity stands at more than 115 Mn Tonnes, making it one of the largest ports in terms of handling capacities in India. We expect the company to record comparatively stronger numbers in Q4FY11.
- The company has handled total volume of 25.2Mn tonnes in H1FY11; we expect it to handle around 51.6 Mn Tonnes of cargo for the current fiscal.

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