MOTILAL OSWAL

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India Strategy

Hurdles to cross

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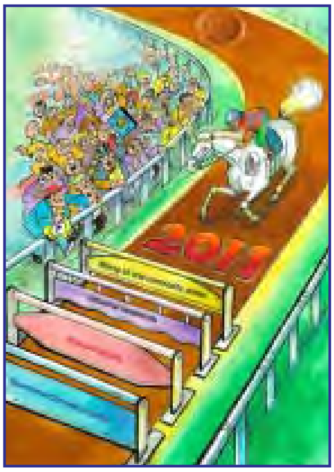
Contents

Note: All stock prices and indices for India Strategy as on 31 December 2010, unless otherwise stated

India Strategy



2011: Hurdles to cross

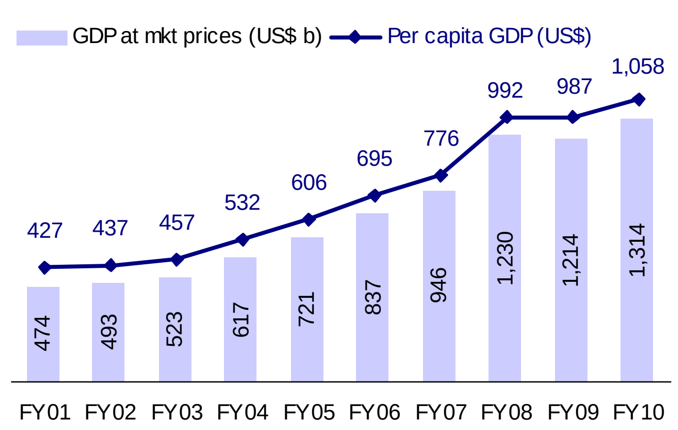
The 2000-2010 decade was a dazzling one for India, with nominal GDP nearly trebling and per capita GDP rising 2.5x. Robust economic growth created a huge opportunity for the Indian corporate sector. The stock markets too responded well, delivering 18% CAGR returns, among the best performing global markets. Fresh from a dazzling decade, the Indian economy and the stock markets face key challenges in 2011: sustained rise in oil prices, industrial growth headwinds, and stressed liquidity.

We introduce FY13 estimates, which suggest Sensex EPS CAGR of 22% over FY10-13, confirming that corporate sector earnings are in a new growth cycle. However, if the current trend of rising commodity prices persists, the PAT mix will tilt in favor of global cyclicals rather than domestic plays. This is already reflecting in 3QFY11 earnings estimates for the MOSL Universe – Oil & Gas (ex RMs) PAT up 62% YoY and Metals PAT up 35% YoY, higher than aggregate PAT growth of 24% YoY. Expect sectors dependent on domestic markets to be affected by current headwinds. Global commodities and export-oriented sectors are better placed in near term.

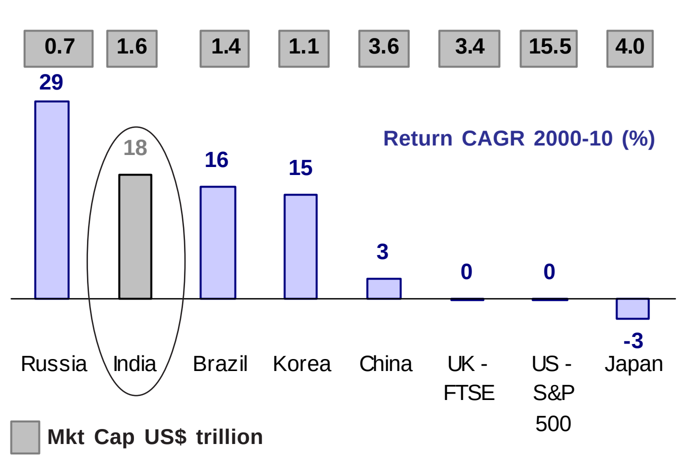
2000-2010: India's Dazzling Decade

The 2000-2010 decade was a dazzling one for India. During this decade, India's nominal GDP nearly trebled from less than US$0.5b to US$1.3t, and per capita GDP rose 2.5x from US$427 to US$1,058. Robust economic growth created a huge opportunity for the Indian corporate sector, and the decade saw the emergence of several Indian global-size companies and mid-size challengers across sectors. The stock markets too responded well, delivering 18% CAGR returns, the second best performing emerging market. Market cap expanded 14x over the decade, improving India's global rank from 17 to 8.

Led by steady growth in GDP over 2000-10 ...



... Indian markets were among the top performers



2011: Hurdles to cross

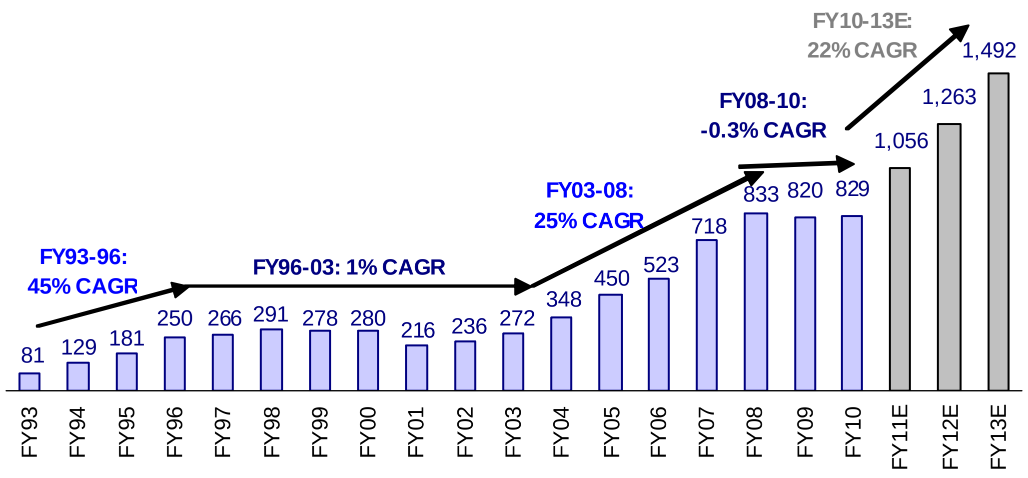
Sources of exhibits in this section include RBI, CMIE, Bloomberg, Industry, Companies and MOSL's own database

Fresh from a dazzling decade, the Indian economy and in turn the stock markets face key challenges in 2011: (1) Sustained rise in oil prices will fuel inflation and also worsen current account deficit, (2) Industrial growth is facing headwinds by way of environmental issues, resource crunch, infrastructure deficit, and political/corporate governance, and (3) Stressed liquidity caused by lagging deposit growth is pushing up rates.

Introducing FY13 estimates: FY10-13 Sensex EPS CAGR of 22%

Based on a bottom-up PAT aggregation of Sensex constituents, we arrive at FY13E Sensex EPS of Rs1,492, up 18% YoY. FY10-13E EPS CAGR at 22% is marginally lower than the FY10-12E EPS CAGR of 24%, but does not materially alter our hypothesis that Indian corporate sector earnings have entered into a new growth cycle following a two-year growth holiday.

Sensex EPS trend: Hypothesis of new cycle of earnings growth intact



3QFY11 results: Sensex PAT growth of 23% YoY despite no low-base effect

We expect 3QFY11 aggregate PAT to grow 24% YoY for MOSL Universe (excluding RMs-refining and marketing companies) and 23% YoY for Sensex. This is on the back of sales growth of 19% YoY for MOSL Universe and 17% YoY for Sensex. The key highlights of this quarter's results would be:

- Healthy growth despite break-out of low-base effect
- Broadbasing of earnings growth
- Low impact of profit swings in Tata Steel and Tata Motors
- Commodities, Autos and Private financials drive Sensex PAT growth
- Telecom and Cement the only two sectors with PAT de-growth YoY

Investment strategy: Export-oriented sectors better placed in near term

We believe near-term challenges will impact performance of several sectors, particularly those dependent on domestic markets. We expect rising input costs, fuel prices and interest rates to impact discretionary consumption spends including Autos. Utilities will be impacted by resource crunch, environmental issues and tight liquidity, as will Infrastructure projects. Financials will get impacted by tight liquidity, hurting margins, especially for those without a low-cost deposit franchise. In this backdrop, global commodities and export-oriented sectors like Technology and Pharma would continue to outperform. **Our top picks are Tata Steel, Bharti Airtel, ICICI Bank, M&M and Powergrid.**

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2000-2010: India's Dazzling Decade

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The decade of 2000-2010 marked a transformation of India on several fronts including macro economy, corporate sector and the stock markets.

Macro economy: Resilient growth

Over 2000-10, India's nominal GDP nearly trebled from less than US$0.5b to US$1.3t

- Over 2000-10, India's nominal GDP nearly trebled from less than US$0.5b to US$1.3t, and per capita GDP rose 2.5x from US$427 to US$1,058. India's real GDP clocked a robust CAGR of 7.2%, led by service sector (up from 49% of GDP to 57% over the decade).
- Growth in large part was internally financed, with savings and investment rate increasing from ~24% to over 34% over the decade. Investments played a key role as a growth driver while government spend ensured resilience during crisis years. Share of infrastructure rose from 4.5% of GDP to 7.5%.

Inflation for the decade averaged at just 5.3%, the lowest since 1970s

- Inflation for the decade averaged at just 5.3%, the lowest since 1970s. This was despite the monetary policy challenges presented by huge and volatile capital flows.
- The decade saw a dramatic improvement in government finances led by fiscal legislation. Combined (center + states) fiscal deficit more than halved from 9.9% of GDP in FY02 to 4.1% in FY08. This gave the government some leeway to impart fiscal stimulus to mitigate the impact of 2008 global crisis.
- Merchandise trade (imports+exports) as percentage of GDP nearly doubled from 22% to 40%. Imports grew faster than exports and trade deficit increased nearly 10x. However, surge in invisibles and capital flows resulted in overall BoP surplus for most years. India's forex reserves expanded ~7x to US$280b. The rupee appreciated in nominal terms for much of the decade, but REER was largely stable.

Corporate sector: Bold new face of India Inc

The past decade witnessed the emergence of several global size world-class Indian transnationals

- The past decade witnessed the emergence of several global size world-class Indian transnationals, which now have global ambitions, including Infosys, TCS, Wipro, Tata Steel, Tata Motors, Bharti, etc.
- Several mid-size companies have successfully challenged the leadership position of incumbent players and garnered meaningful market shares e.g. HDFC Bank has transformed the way in which banking is performed while JSW Steel has emerged the largest domestic private steel producer.
- Increased per capita income, higher discretionary spending, growing aspirations of the Indian consuming class, growth of retail credit, etc has led to the emergence of several new businesses - Wireless (Bharti / Vodafone), IT (Infosys, TCS, Wipro), NBFCs / Insurance, Real Estate (DLF, Unitech), Infrastructure (GMR, Mundra Port, IRB).

- The most significant trend has been the phenomenal increase in net profit margins to ~9% in 2010, up 5pp. This is mainly driven by lower interest costs (from 5.8% of revenues to 2.6%), through a combination of lower borrowing costs and improved balance sheet structures. Thus, companies now increasingly work for equity holders (v/s bond holders in the past).

Stock markets: Among best performing global markets with 18% return CAGR

India improved its global market cap ranking by 9 positions to number 8

- The Sensex delivered a return CAGR of 18%; India was among the best performing global markets during the decade. Indian market cap clocked 27% CAGR to US$1.6t, improving its global rank to 8 from 17 in December 2003.
- FII holding in Sensex companies increased by 5pp to 19% while DII holdings have dropped by ~4pp to 13%. The total value of FII holding in Indian markets (excluding GDRs/ADRs) is US$231b against cumulative nominal net inflows of US$102b.
- The number of companies with market cap exceeding US$1b increased from 28 to 207, while the number of companies with market cap exceeding US$25b increased from none as late as 2003 to 13 by 2010.
- The 10th largest market cap company in December 2010 (ICICI Bank at US$29b) is almost 2.5x the largest market cap company in December 2000 (Wipro at US$12b). Six of the top-10 market cap companies in December 2000 were not among the top-10 in 2010.
- In 2010, market cap of the largest company (Reliance Industries) was higher than the market cap of the entire Sensex in 2000.

Sensex one-year forward P/E at 17x is at 17% premium to the decadal average of ~14.5x

- In 2000, the Consumer sector had the biggest weight in Sensex at 26%, which has dropped to 7% in 2010. The weight of Financials, in contrast, has increased from 6% in 2000 to 17% in 2010.
- Currently, Sensex one-year forward P/E at 17x is at 17% premium to the decadal average of ~14.5x.

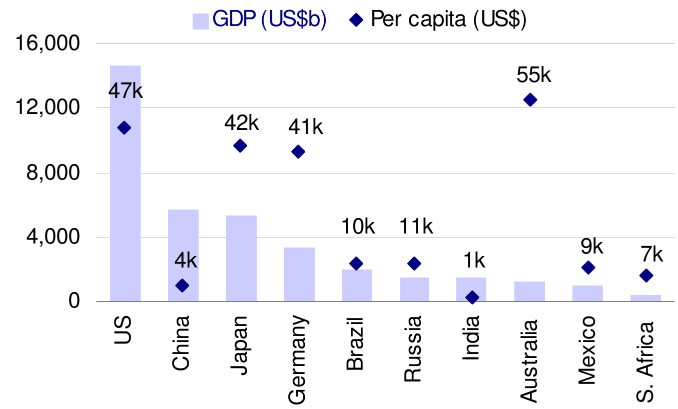
2000-10: India's Dazzling Decade

Macroeconomy: Resilient growth

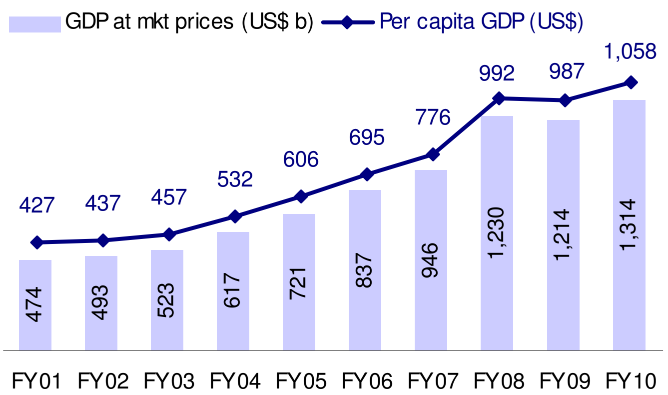
GDP and growth

- The first decade of the millennium was marked by high and rising growth in India.
- In 2000, India's share in world GDP stood at 1.5%. Over the decade, India contributed 3.2% of incremental GDP of the world, taking its share to 2.3% in 2010.
- This has taken India's rank from 13th in 2000 to 11th in 2010, tipping off Mexico, Spain and Korea in the process while Russia marginally moved ahead.
- However, India's rank in per capita income remained fairly low and unchanged at 135 over the decade.
- During the decade, India's GDP nearly tripled while per capita income grew by two and half times.
- Growth accelerated to above 9% between FY06-FY08. Growth remained resilient in the crisis year of FY09 at 6.7%.
- Growth was led by services, whose contribution increased from 49% to 57% over the decade while industry broadly maintained its share at 27-28%.
- The sources of growth from the demand side haven't been consistent but investments had a large role to play in beefing up growth to 9%. Government supported the economy during crisis years and investments are coming back again. Net exports usually have been a leakage due to higher import demand on account of oil and capital goods.

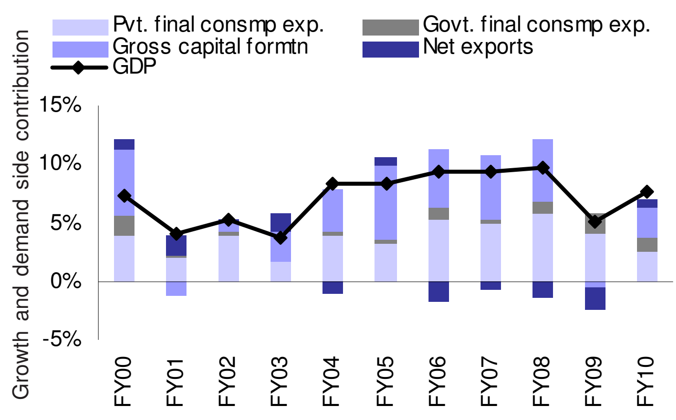
India is among the top-10 highest GDP but ranks much below in per capita income



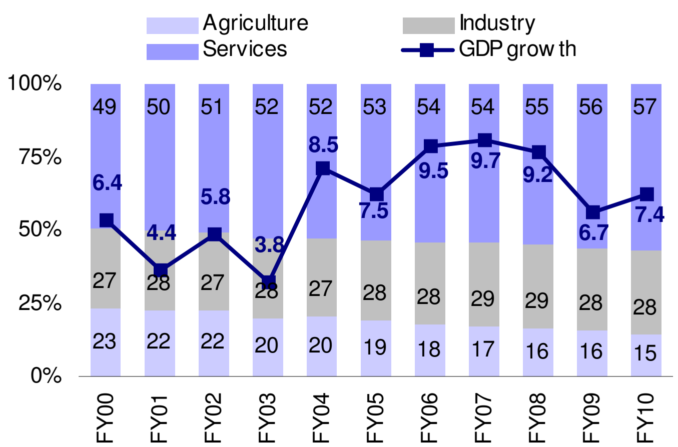
Nominal GDP has tripled in the decade while per capita income has become two and half times



A lot of growth acceleration was due to investments



High growth was mainly driven by services while industry maintained its share



2000-10: India's Dazzling Decade

Macroeconomy: Resilient growth (continued)

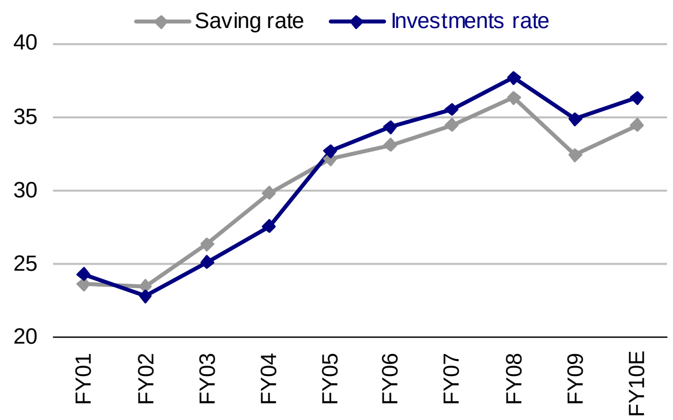
Saving and investment

- Growth in large part is internally financed, making it less prone to external shocks.
- India's saving and investment rate increased from ~24% to over 34%, a phenomenal rise of 10% over a decade.
- The fairly linear increase received some setback during the crisis year but is expected to bounce back again.
- Notably, while the household saving has remained fairly steady at ~22% of GDP, the steep jump in overall saving was led by two factors

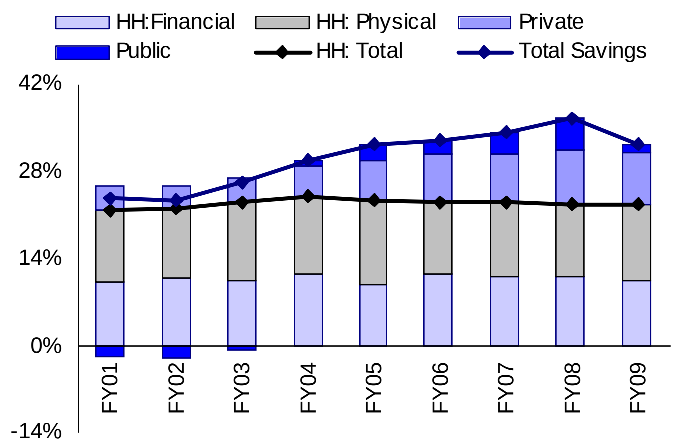
  A spurt in corporate profitability since mid-nineties explained in large part the incremental saving.

  Also, Public sector saving turned significantly positive from dissaving at the beginning of the decade on the back of fiscal legislation.
- The decade witnessed major emphasis on infrastructure, whose share has increased from 4.5% of GDP to 7.5%. The most notable feature was the increased participation of the private sector, that is on course to contribute to nearly half of the infra spend.
- Outstanding projects including infrastructure increased by five and half times during the decade according to data compiled by CMIE. A phenomenal US$2.2t of projects were in the pipeline at the end of the decade.
- The share of government, Indian private, and foreign sector in total outstanding projects changed from 55:35:15 to 40:54:6 by the end of the decade.

A phenomenal rise of 10% in saving and investments rate

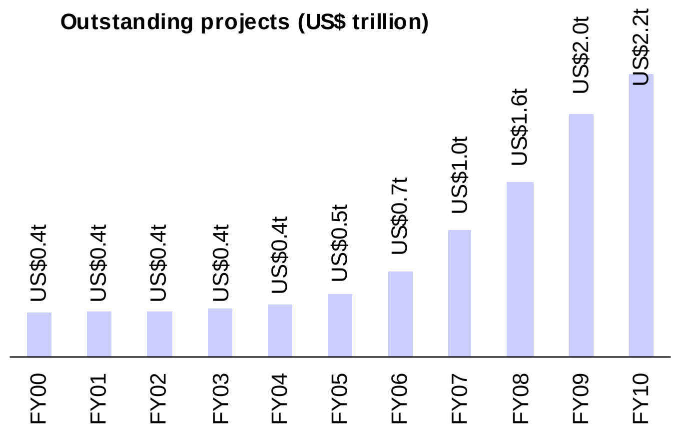


Private corporate sector and public sector contributed to the sharp rise in saving (as % of GDP)

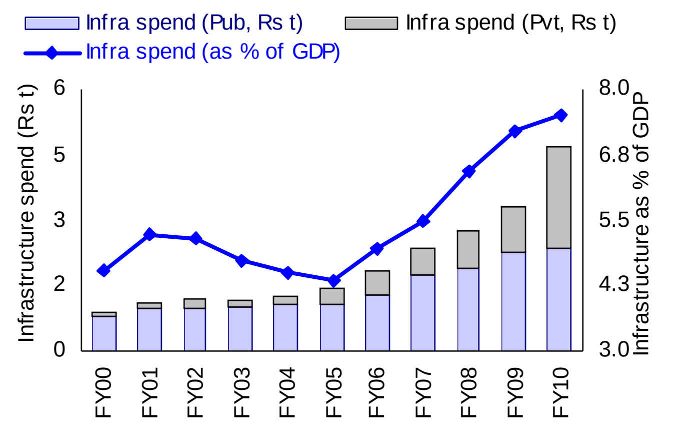


HH: Households

Growth led by capex boom: Phenomenal US$2.2t of projects still in the pipeline



Emphasis on infrastructure was the highlight of the decade - private sector came up in a big way



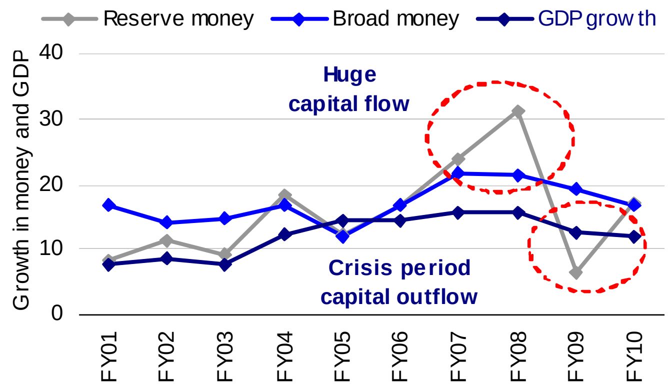
2000-10: India's Dazzling Decade

Macroeconomy: Resilient growth (continued)

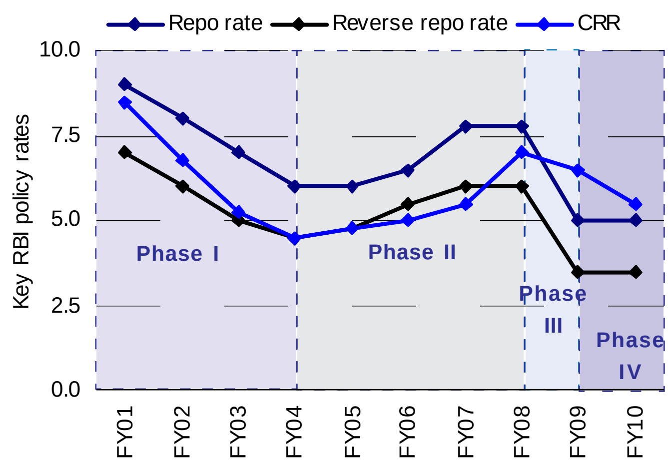
Money and prices

- During the latter half of the decade, capital flows – both direct investment and portfolio flows – witnessed manifold increase. Forex reserves accumulation became the primary source of creation of reserve money (high powered money).
- Reserve Bank had to resort to market stabilization scheme (MSS) to neutralize the monetary impact of capital flows. Broad money growth remained somewhat above the level warranted by nominal GDP growth.
- RBI's policy responses could be categorized into four phases, with major monetary easing ushered in Phase–I ending FY04. However, Phase–II was a sustained period of tightening. Due to excess capital flow, RBI kept raising policy rates and reserve ratios to contain inflationary expectations. Extraordinary monetary easing was undertaken during the crisis period of Phase–III which was followed by a normalization of rates in Phase–IV.
- While policy rates were broadly reflected in the trend in interest rates in the private sector during first two phases, monetary transmission proved difficult during crisis phase, prompting RBI to introduce base rate.
- Barring the stoking of inflation during FY09 due to spillover of international prices, inflation during the decade was one of the lowest for India. However, in recent times food articles and oil have put considerable stress on the inflationary situation. Manufacturing (demand side) inflationary pressures have somewhat ebbed following the crisis.

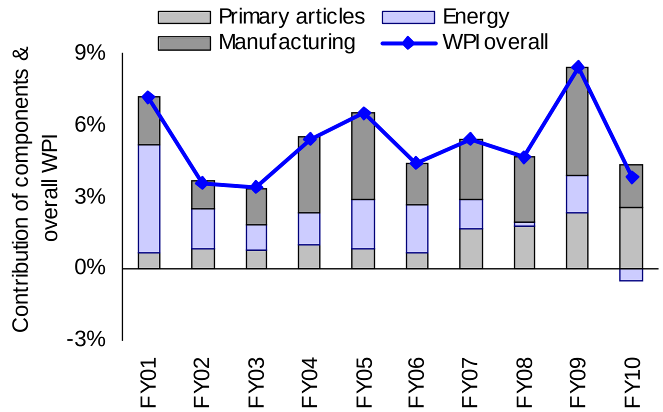
Capital flows and their volatility provided significant challenge to monetary policy



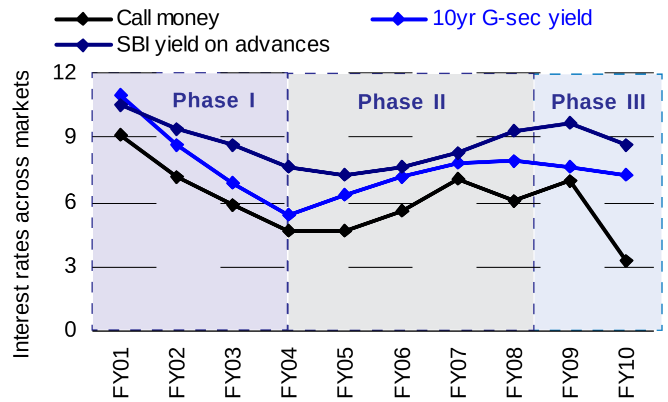
RBI's policy rates can be classified in four phases during the decade



Inflation was broadly under control and responded to the international price trend



Monetary transmission was delayed during crisis phase of easing



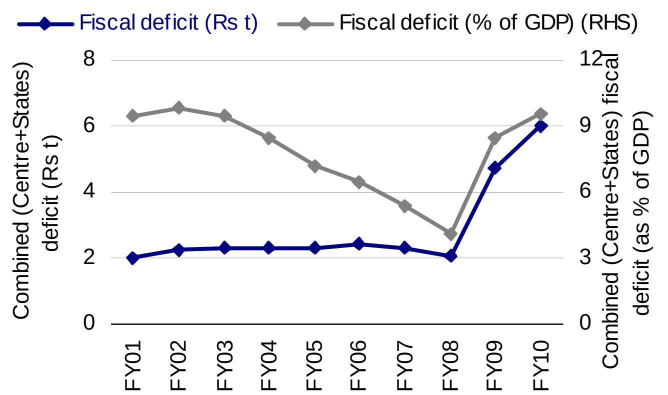
2000-10: India's Dazzling Decade

Macroeconomy: Resilient growth (continued)

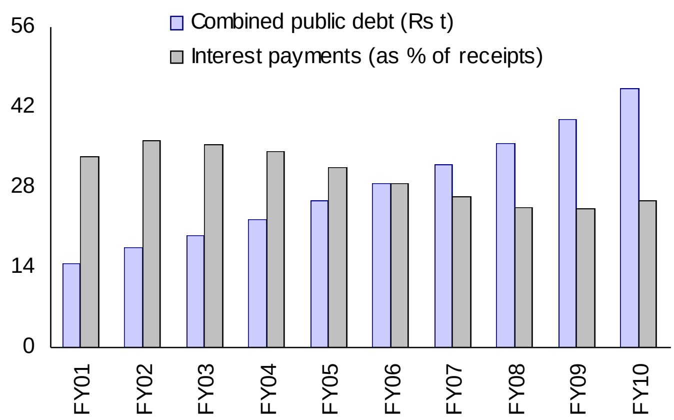
Public finance

- The decade witnessed major legislative breakthrough for fiscal consolidation in the form of Fiscal Responsibility and Budget Management Act, 2003. Individual states also enacted their respective state fiscal responsibility acts.
- As a result, combined (center + states) fiscal deficit did not increase over FY01 – FY08, while deficit as a percentage of GDP more than halved from 9.9% in FY02 to 4.1% in FY08.
- However, the process was inverted as part of a stimulus to mitigate the impact of crisis. Combined deficit increased five fold in two years while as a percentage of GDP, deficit was back to FY03 levels. However, the stimulus was of far lower magnitude (also as % of GDP) in comparison with major economies and accorded a degree of resilience to growth.
- Public debt has grown consistently during the decade despite interest burden reducing substantially on easing interest rates. Only now government has put in a plan to arrest the growth of public debt.
- While expenditure of the government continued to grow, the quality of expenditure did not improve significantly as interest payments, subsidies and defense took up large part of revenue and capital outlays remained small.
- Revenues improved correspondingly to enable fiscal correction. A significant rise in corporate tax on the back of improved profitability and increased capital receipts led the improvement.

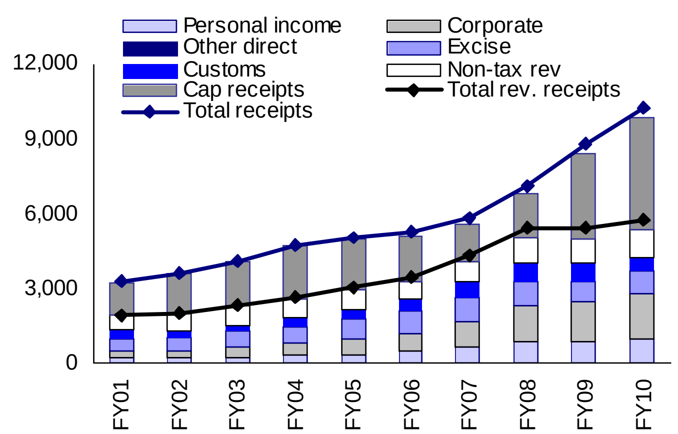
A decade of fiscal correction marred by stimulus response of the crisis years



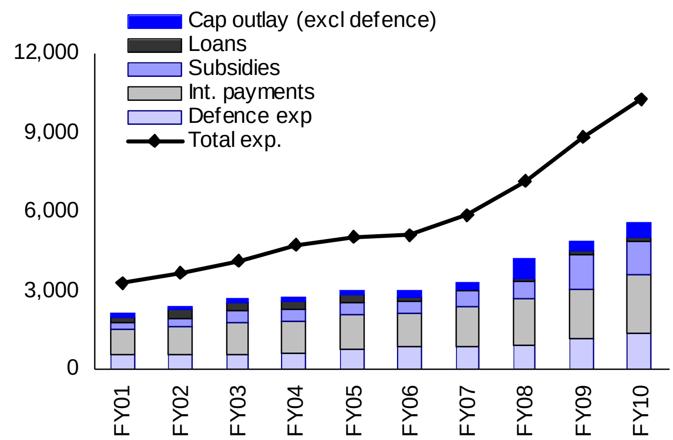
Public debt, however, tripled despite interest burden coming down on easing interest rates



Corporate tax and capital receipts led the improvement in revenue of the center (Rs b)



While central government expenditure increased, its quality did not (Rs b)



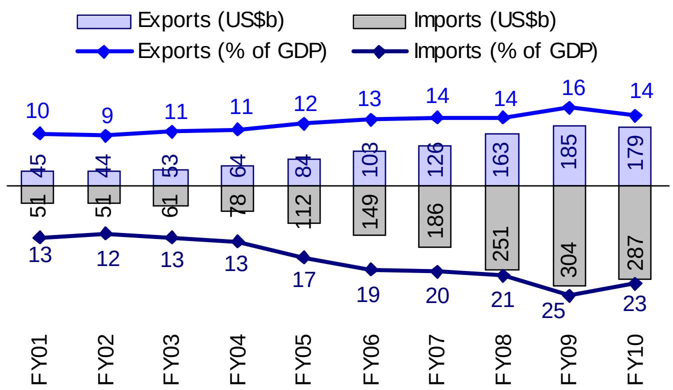
2000-10: India's Dazzling Decade

Macroeconomy: Resilient growth (continued)

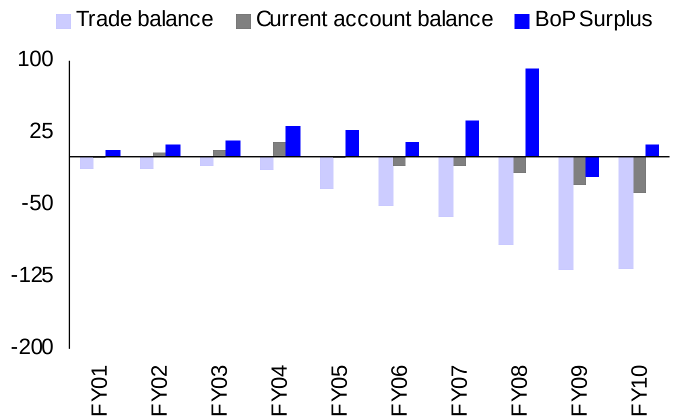
External sector

- The decade was also marked by increased openness of the Indian economy, as total trade as percentage of GDP nearly doubled from 22% in FY01 to 40% in FY09.
- However, imports grew faster than exports, as dependence on oil and capital goods remained. These constituted ~50% of the total imports. However, India's trade destinations became more diversified.
- Trade deficit increased by nearly 10 times, reversing the current account surplus of earlier years to significant deficit for later years. This was despite significant increase in invisible surplus on the back of IT and business services. However, capital flows resulted in overall BoP surplus for most years although it remained highly volatile.
- Excess capital flow resulted in seven times the forex reserves at the beginning of the decade. Import cover reached a high of 17 months during FY04. Although it declined thereafter on increased imports, forex reserves remained comfortable even during the crisis period of FY09 when import cover fell to 10 months.
- Indian rupee largely tracked the extent of capital flows that was instrumental in much of the current market movement. It largely appreciated till the crisis but sharply depreciated thereafter. The more generic measures of nominal effective exchange rate (NEER) and real effective exchange rate (REER) remained resilient against a basket of currencies especially after adjusting for inflation differential.

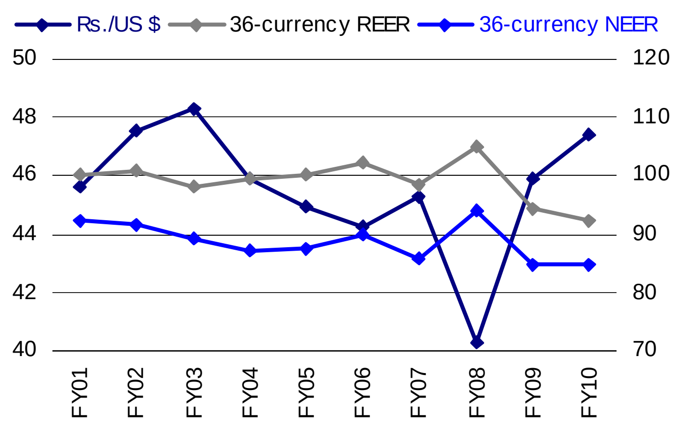
Increased openness of the economy although imports grew faster due to oil and capital goods



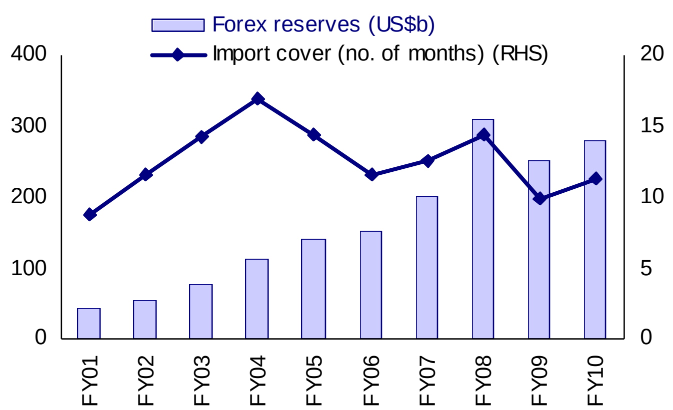
Trade balance deteriorated but invisible surplus and capital flows ensured overall BoP surplus (US$b)



Capital flows determined the course of Rupee but remained fairly valued in real terms till the crisis



Forex reserves increased manifold while import cover remained comfortable

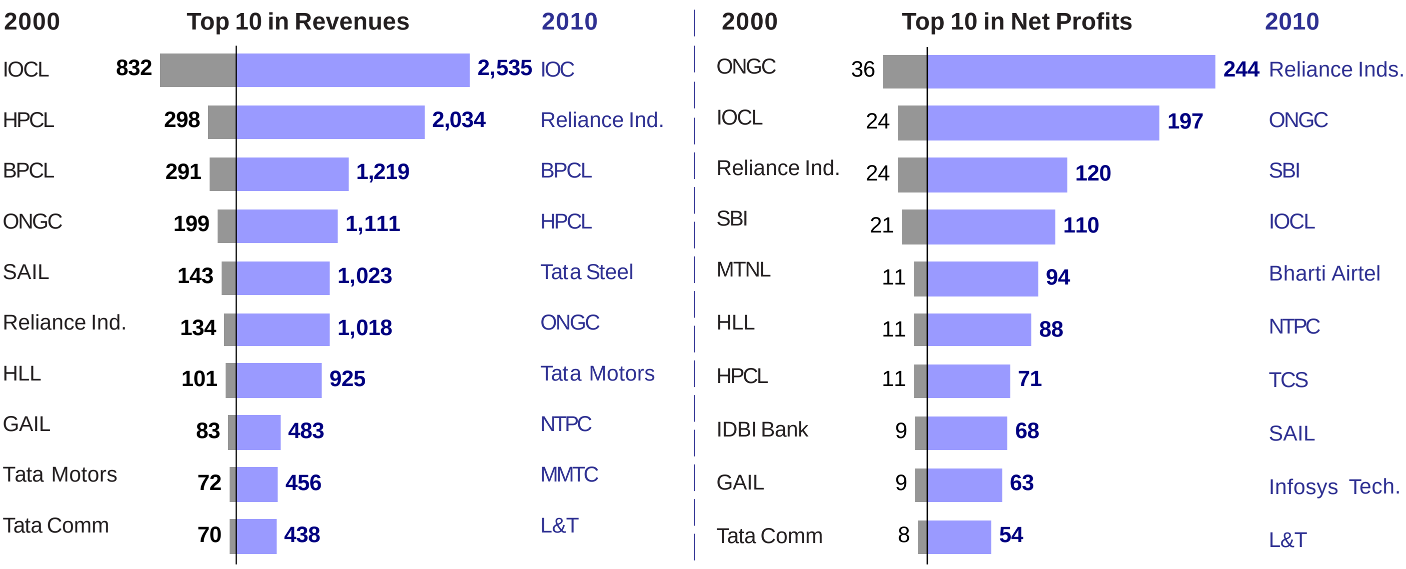


2000-10: India's Dazzling Decade

Corporate sector: An inflexion point; a transformational era

India's corporate sector has evolved meaningfully over the past one decade. Given the backdrop of economic liberalization in the early 1990s, and an era when capital was easily available, the past decade witnessed emergence of several global sized world-class Indian transnationals, which now have global ambitions. As the growth opportunity of the previous 50 years unfolded in the past 10 years, several new sectors and also new companies have emerged. The past decade also witnessed resurgence in terms of corporate profitability, and decline in interest rates entailed that corporates could increasingly work for equity holders (v/s bond holders in the past).

Evolution of the Indian corporate sector over the past decade (in 2000 and 2010) (Rs b)

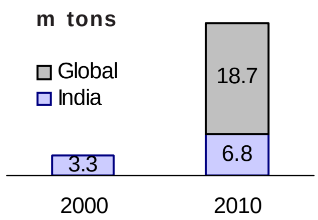


#1 Emergence of global–size Indian companies

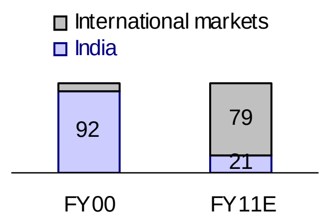
Globalization has given a new meaning and dimension to corporate India. Over the past decade, Indian industry has crossed domestic frontiers and established a credible presence in overseas markets. The evolution of the Indian multinational spans across diverse sectors, from IT, Telecom, Metals, Automotives, etc. Size of M&A deals has also increased manifold and several US$1b+ acquisitions have been successfully completed by Indian companies. While most companies have gone through the acquisition route, several others have raised their scale of operations to warrant a global footprint.

- TCS, Infosys, Wipro, etc are amongst the largest IT services companies globally
- Coal India is the most profitable and largest coal miner globally in terms of market capitalization
- Large sized M&A transactions have led to companies achieving global scale: Tata Steel's acquisition of Corus, Tata Motors acquisition of Jaguar - Land Rover, Hindalco's acquisition of Novelis, Bharti's acquisition of Zain, Shree Renuka Sugar's acquisition of Equipav, ONGC's acquisition of Imperial Energy, etc.

Tata Steel's global footprint



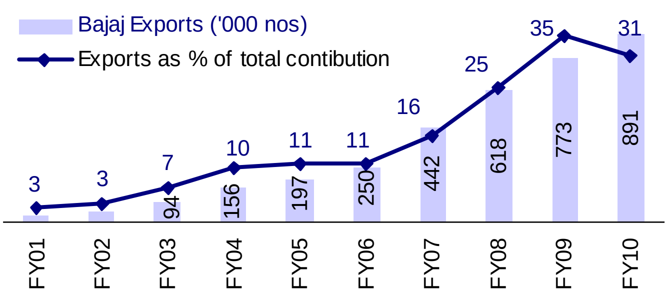
Tata Motors PAT mix (%)



Infosys has diversified geographical footprint

	1QFY01 (%)	4QFY10 (%)
North America	74.8	66.1
Europe	16.5	22.5
India	1.9	1.4
RoW	6.8	10.0

Bajaj Auto has successfully tapped the export market



2000-10: India's Dazzling Decade

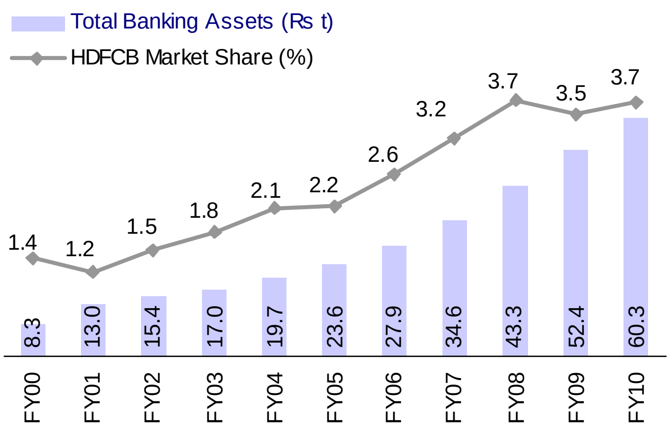
Corporate sector: An inflexion point; a transformational era (continued)

#2. Mid–size challengers have garnered disproportionate incremental market share from incumbents

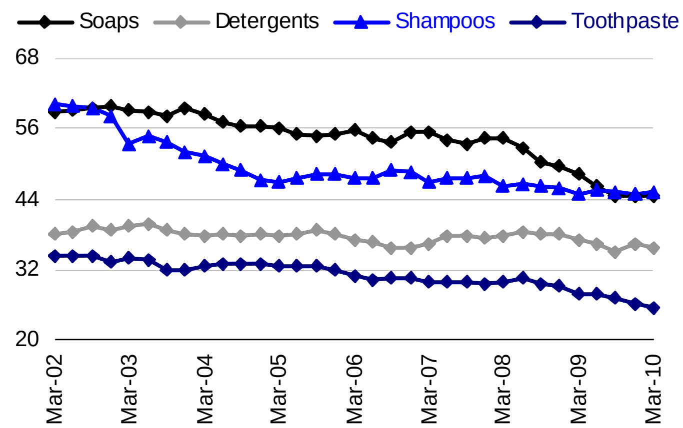
Over the past decade, several mid–size companies in specific sectors have successfully challenged the leadership position of incumbent players and garnered a meaningful part of the aggregate market. Also, in many ways, these challengers have redefined the competitive landscape and also changed the way the business was being conducted; and in the process have created superior shareholder value.

- HDFC Bank has transformed the way in which banking is conducted
- JSW Steel has emerged to become the largest domestic steel producer
- JSPL has led the evolution of the merchant power market
- Bajaj Auto has successfully tapped export markets.

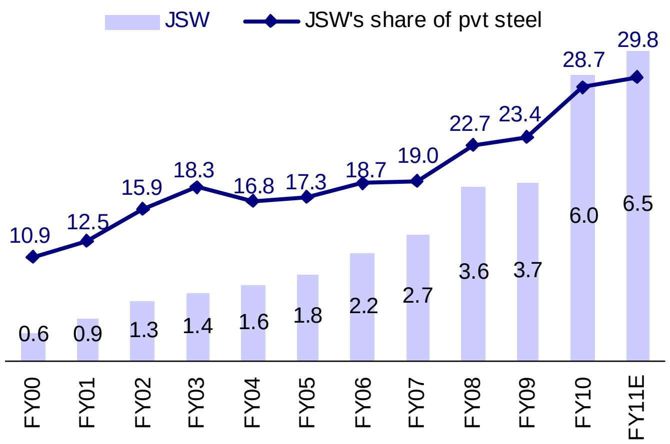
HDFC Bank has transformed the way banking is being conducted



HUL has lost market share across categories (%)



JSW Steel has gradually become the largest private sector steel producer in India (% share)



2000-10: India's Dazzling Decade

Corporate sector: An inflexion point; a transformational era (continued)

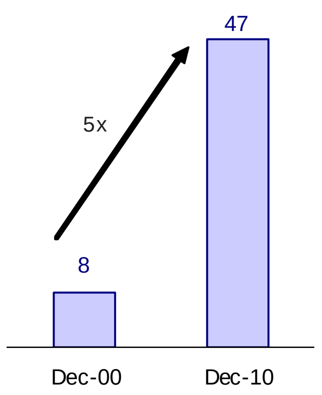
#3. New sectors have emerged and now contribute meaningfully to corporate profitability

Increased per capita income, higher discretionary spending, growing aspirations of the Indian consuming class, growth of retail credit, etc has led to emergence of several leading business models and companies which were virtually marginal constituents in 2000.

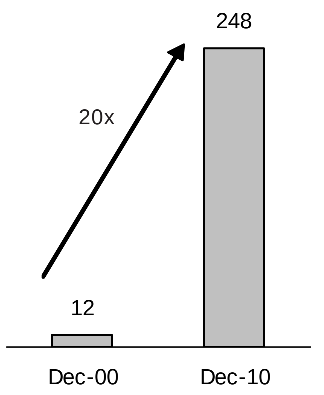
- The wireless revolution (Bharti / Vodafone)
- IT revolution (Infosys, TCS, Wipro)
- Emergence of NBFCs / Insurance business models as part of traditional banking
- Global commodity / resource plays (Coal India / NMDC)
- Real Estate (DLF, Unitech)
- Infrastructure (GMR, Mundra Port, IRB)

Several of these companies have over the past decade also emerged as the face of India Inc, and are today amongst the largest market capitalizations in the country.

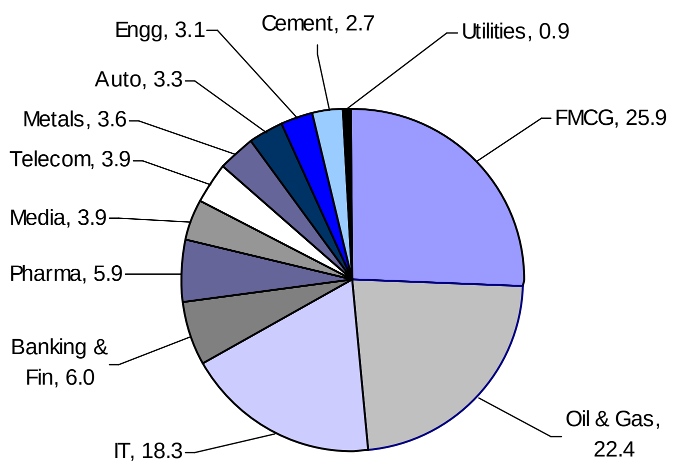
Mkt cap of Telecom (US$ b)



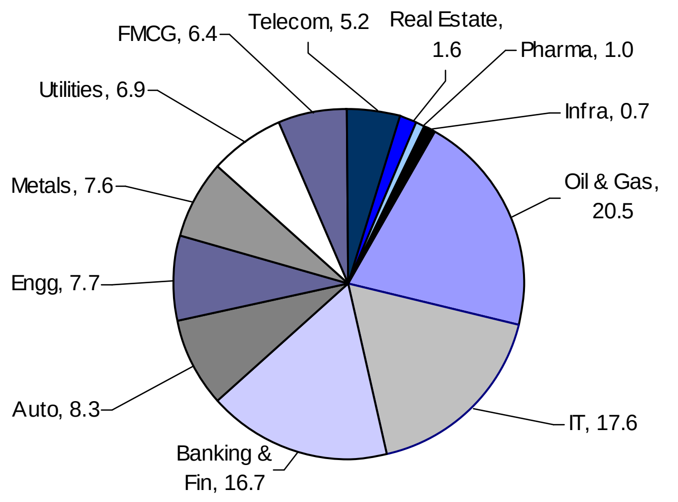
Mkt cap of Financials (US$ b)



Sensex earnings composition - December 2000 (%)



Sensex earnings composition - December 2010 (%)



2000-10: India's Dazzling Decade

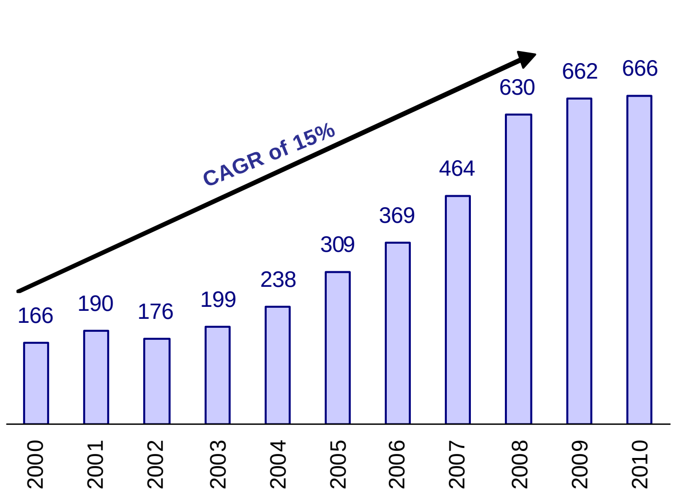
Corporate sector: An inflexion point; a transformational era (continued)

Resurgence in corporate profitability

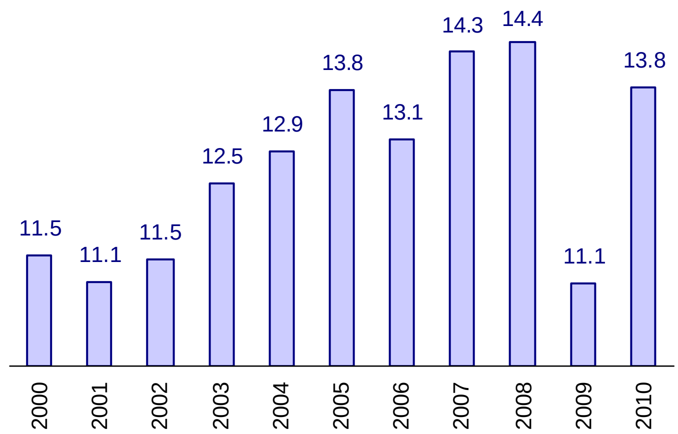
The past decade also witnessed resurgence in terms of corporate profitability, which is considered to be one of the strongest barometers of economic health.

The most significant trend has been the phenomenal increase in NPMs to ~9% in 2010, up 5.1pp from 3.7% in 2000. This is to a large extent driven by decline in interest costs from 5.8% of revenues in 2000 to 2.6% in 2010 through a combination of lower borrowing costs and improved balance sheet structures. The sharp collapse in interest rates marked a paradigm shift in corporate profitability, as companies could now increasingly work for equity holders (v/s bond holders in the past).

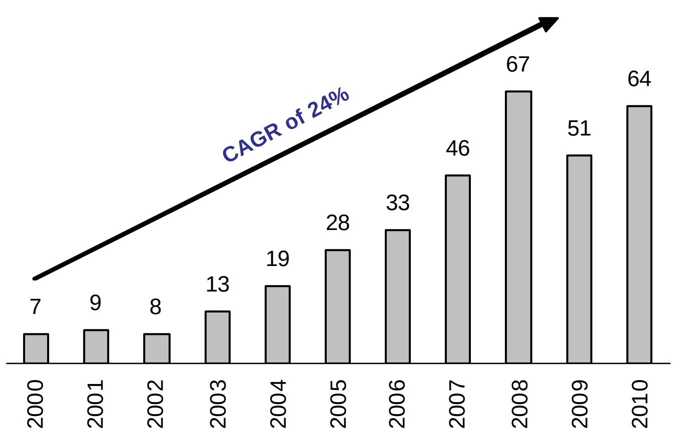
Trend in corporate sector revenue (US$ b)



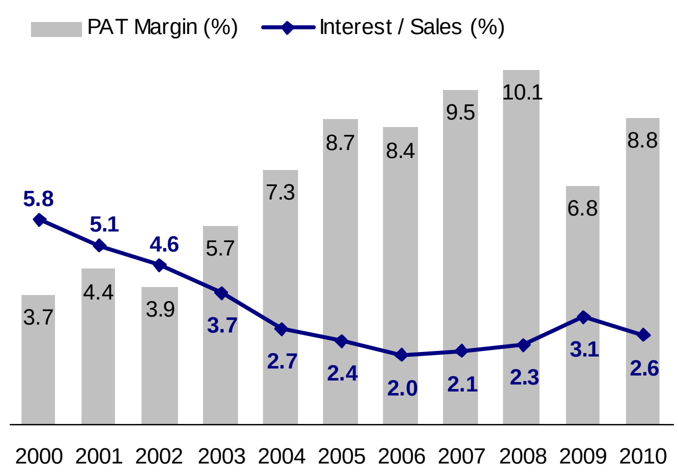
EBITDA margins have improved (%)



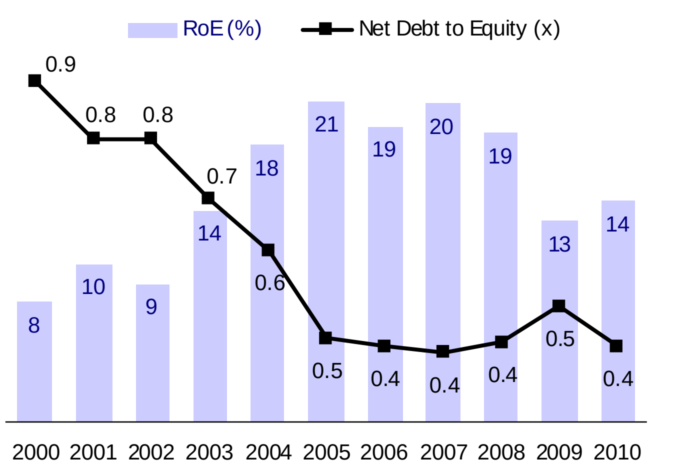
Trend in corporate sector net profit (US$ b)



PAT margins have expanded meaningfully, largely driven by lower interest costs



Balance sheets have improved, and RoEs have become healthy (%)



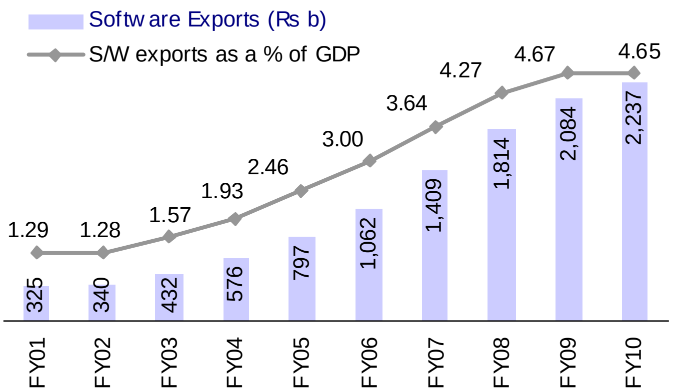
Note: All exhibits on this page pertain to aggregates of listed companies

2000-10: India's Dazzling Decade

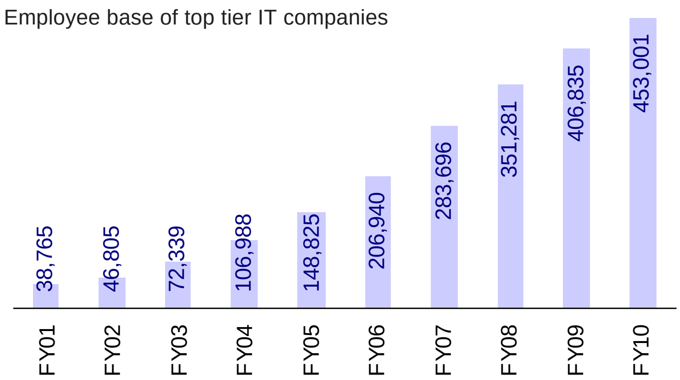
Corporate sector: An inflexion point; a transformational era (continued)

Sectoral analysis: Several winners, few losers

Increasing contribution of software exports to GDP

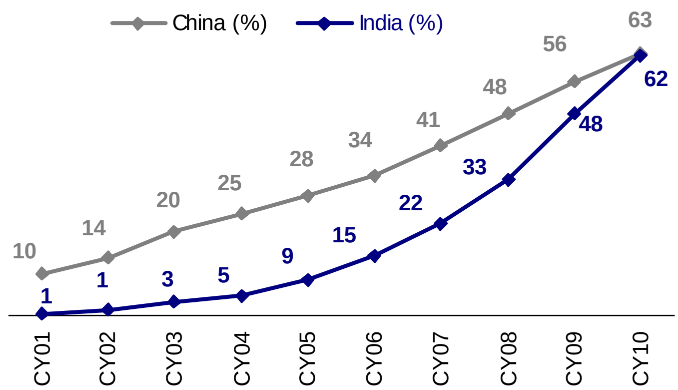


IT companies have emerged one of the largest employers

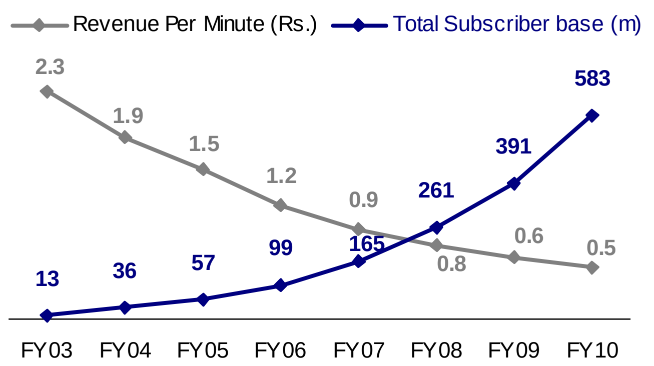


This massive white collar employment generation has led to resurgence of consumer spending, driving segments like Automobiles, Real Estate, Telecom, FMCG, etc

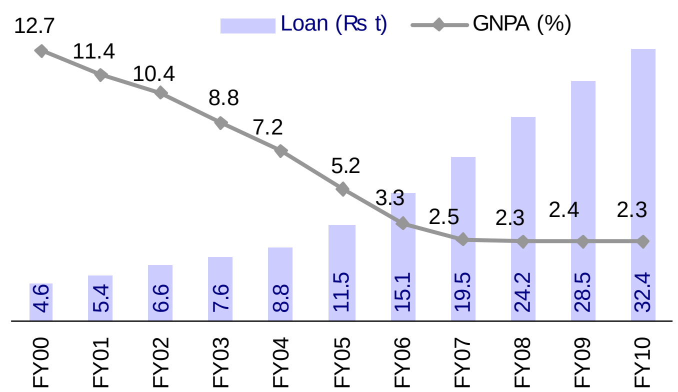
India has caught up with China in wireless penetration



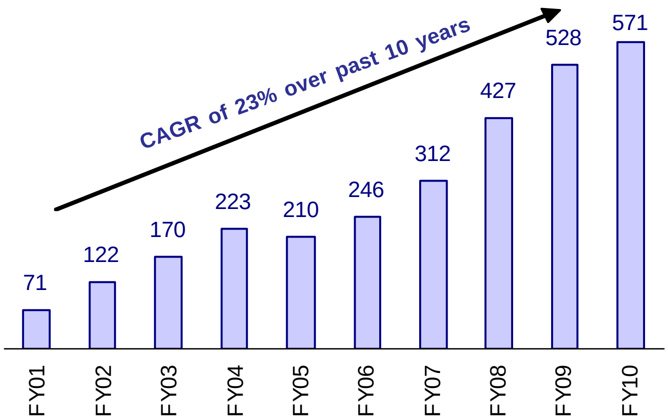
Economies of scale led to India having one of the lowest wireless RPMs globally



Banking: Meaningful increase in asset size and improved asset quality…



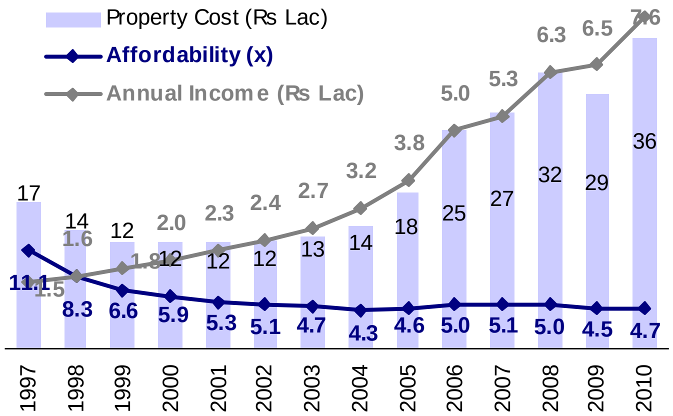
…has led to earnings increase of 8x, CAGR of 23% (Rsb)



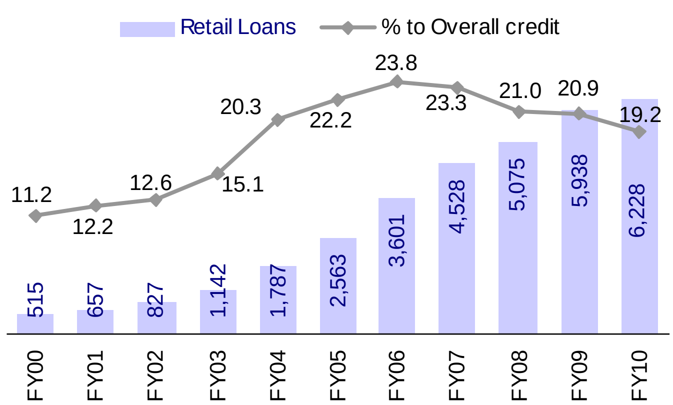
2000-10: India's Dazzling Decade

Corporate sector: An inflexion point; a transformational era (continued)

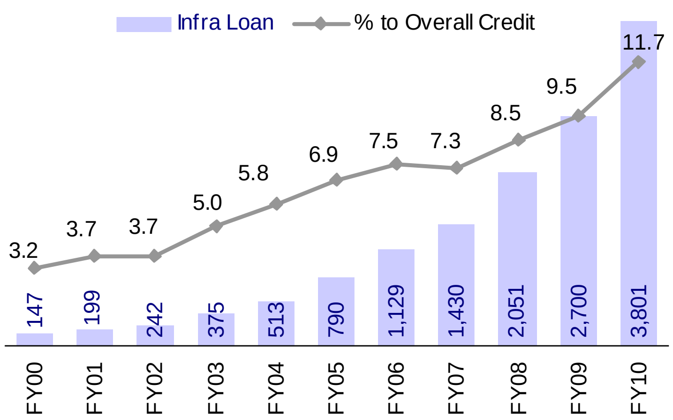
Housing Finance and Real Estate witnessed an inflexion point



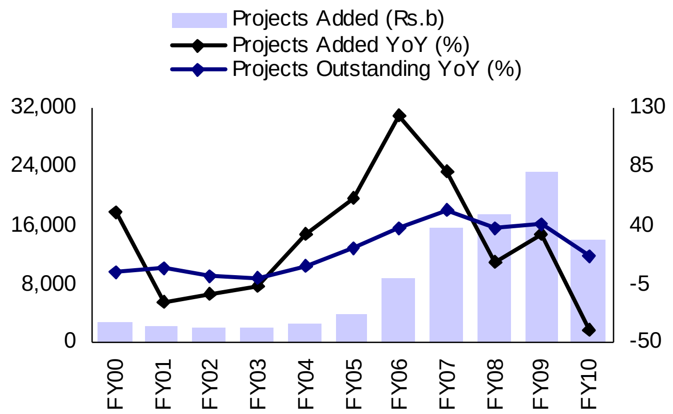
Consumer facing sectors: 10x increase in retail credit acted as a catalyst (Rs b)



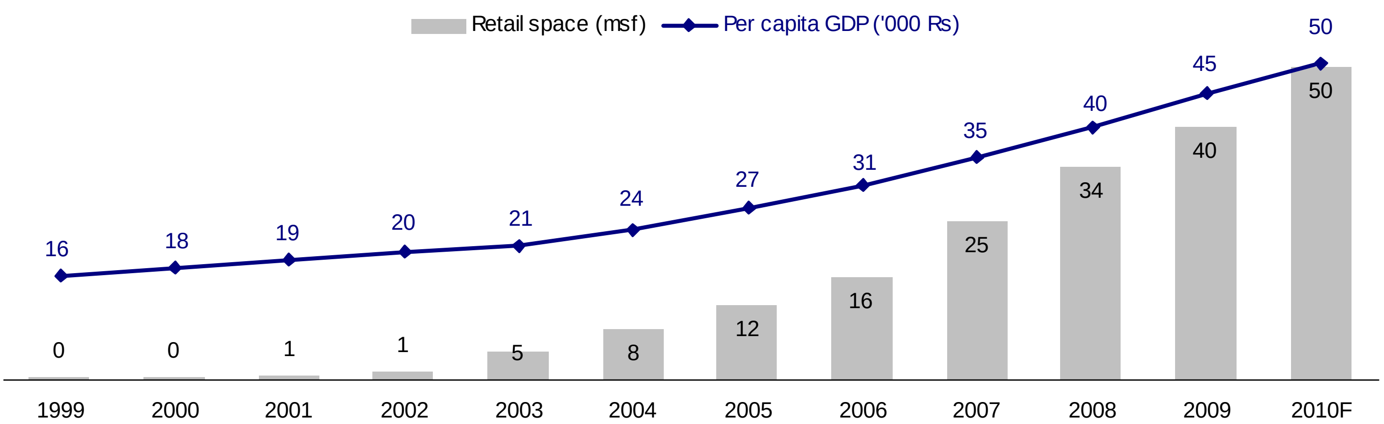
Engineering & Construction: 15x increase in infra credit led to robust growth rates



Impressive increase in projects added, driving capex and infra build out



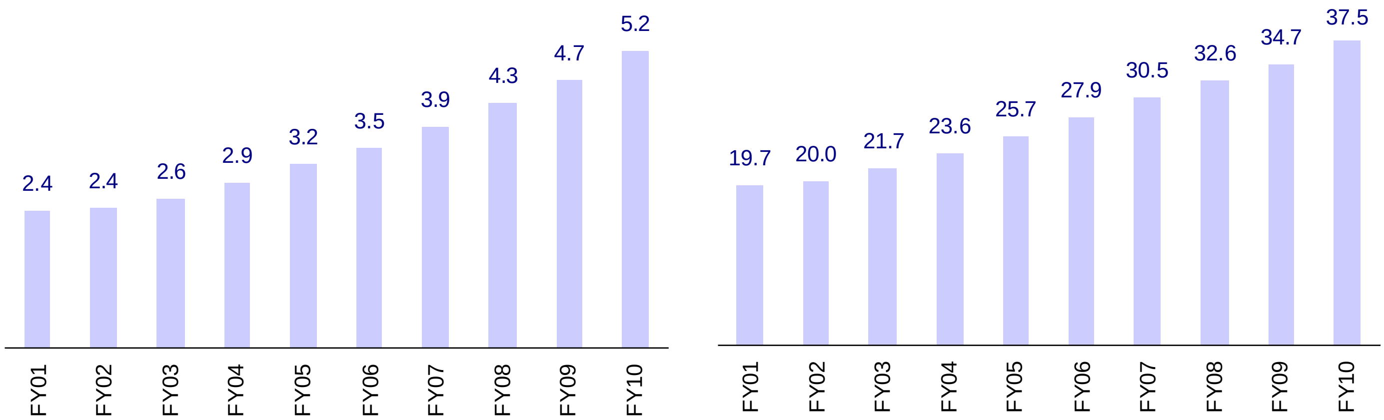
Organized retail has evolved (per capita GDP v/s retail space)



2000-10: India's Dazzling Decade

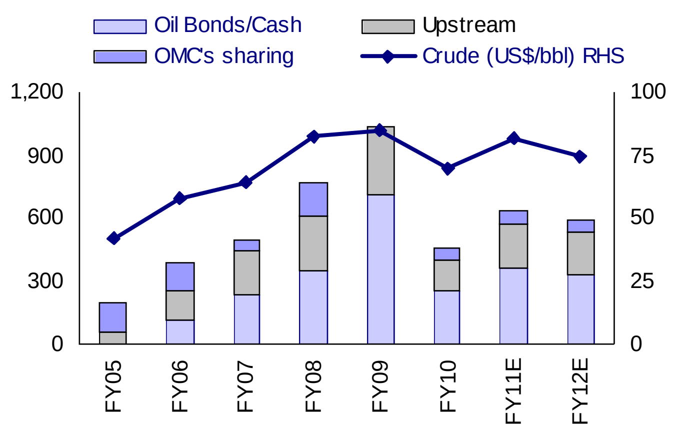
Corporate sector: An inflexion point; a transformational era (continued)

Penetration levels of cars and two-wheelers have witnessed an inflexion point (ownership by % of households)

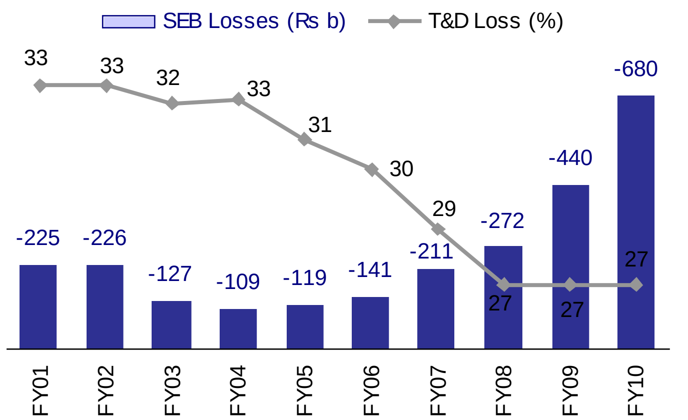


Laggards

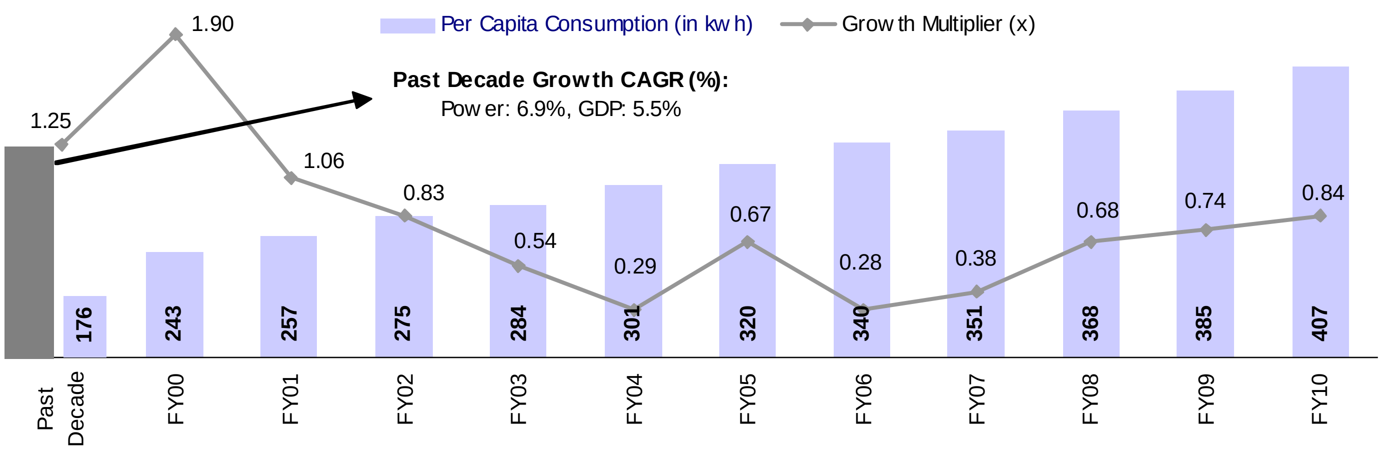
Oil & Gas: Increased crude oil price led to increased subsidy sharing and impacted cash flows/investments (Rs b)



Power Utilities: SEB losses have increased to unacceptable levels



Power Utilities: Growth multiplier to GDP declined to 0.7x, v/s 1.25x in past decade

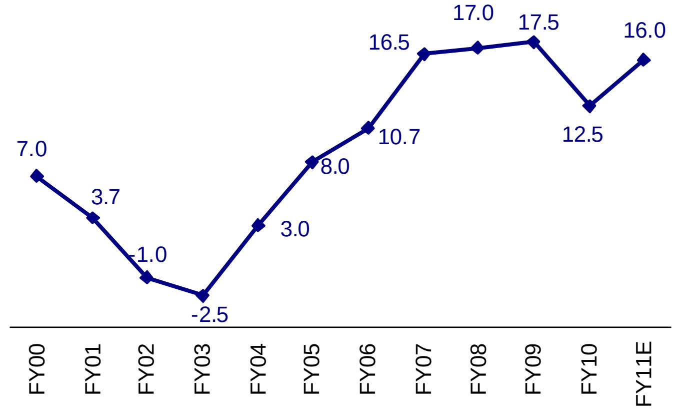


2000-10: India's Dazzling Decade

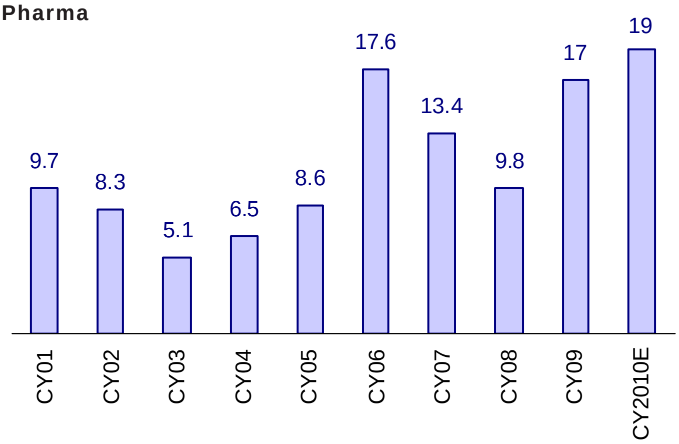
Corporate sector: An inflexion point; a transformational era (continued)

FMCG, Pharma growth has accelerated, but continued to be modest (%)

FMCG

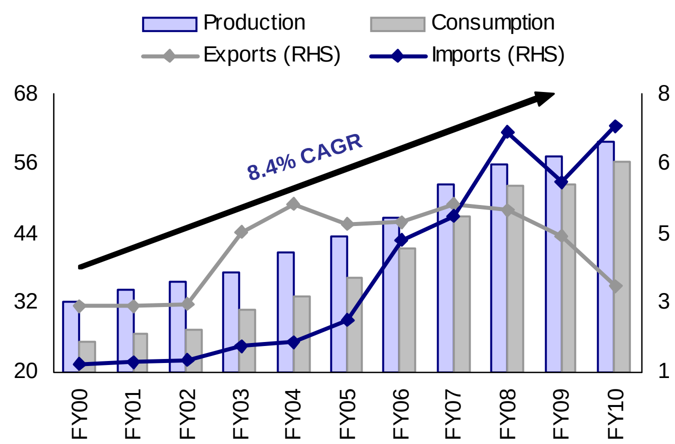


Pharma

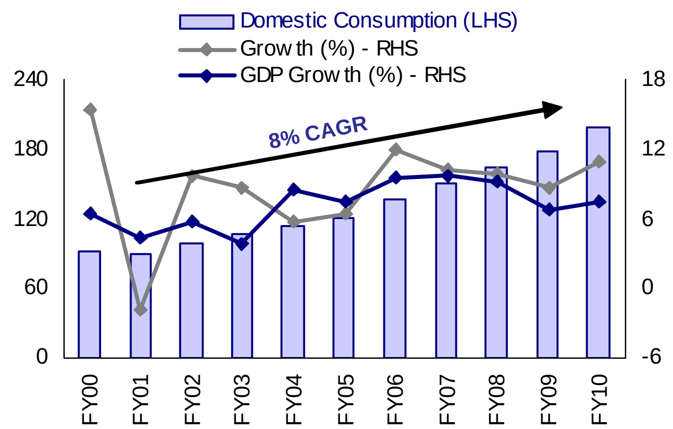


Finished steel production, Cement production has grown largely in line with GDP growth (m tons)

Steel



Cement



2000-10: India's Dazzling Decade

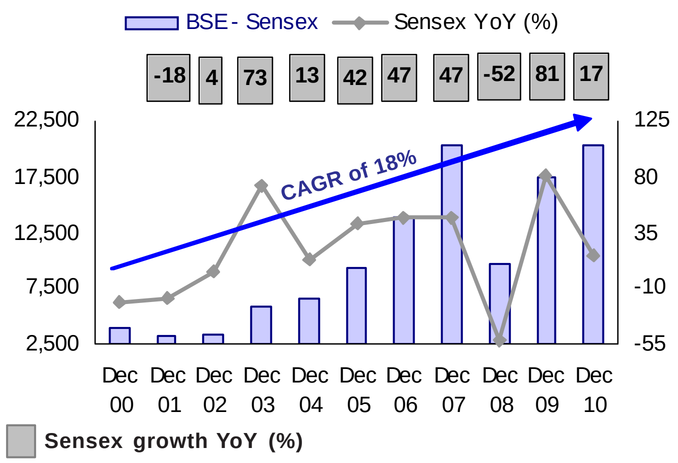
Markets: Among best performing global markets; 18% return CAGR

During the decade, India improved its global market cap ranking by 9 positions from 17 in 2003 to 8 in 2010. This was due to a combination of appreciation of existing stocks plus a spate of fresh capital issues

Global ranking: India v/s Others

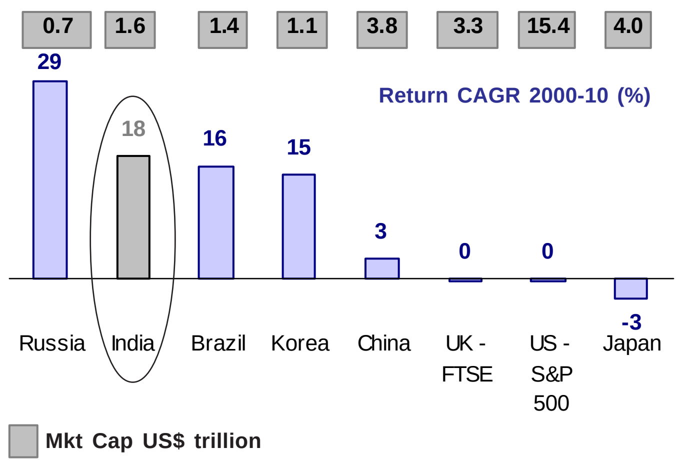
Country	Rank Dec-03	Dec-04	Dec-05	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	MCap (US$ t)	Rank Chg
United States	1	1	1	1	1	1	1	1	15.5	0
Japan	2	2	2	2	2	2	2	2	4.0	0
China	11	13	19	9	3	4	3	3	3.6	8
United Kingdom	3	3	3	3	4	3	4	4	3.4	-1
Hong Kong	7	7	7	6	6	6	5	5	2.5	2
Canada	6	6	6	7	9	8	7	6	2.1	0
France	4	4	4	4	5	5	6	7	1.8	-3
India	**17**	**17**	**14**	**14**	**8**	**12**	**10**	**8**	**1.6**	**9**
Brazil	18	18	17	16	11	14	9	9	1.4	9
Germany	5	5	5	5	7	7	8	10	1.5	-5
Australia	10	11	10	13	10	11	11	11	1.5	-1
Switzerland	8	9	9	8	12	9	12	12	1.2	-4
South Korea	15	14	11	15	14	16	13	13	1.1	2
Taiwan	13	12	16	17	18	17	15	14	0.9	-1

BSE Sensex delivered 8-years of positive return



Indian benchmark indices returned 18% CAGR during the decade; market cap CAGR was higher at 29% due to fresh capital issues

Relative performance of India v/s regional peers



Sensex has delivered 2nd highest return CAGR over CY00-10 among key global markets

Key sectors that have seen significant outperformance in CY10 are: Auto, Healthcare, Financials, FMCG and IT. Power and Realty underperformed sharply

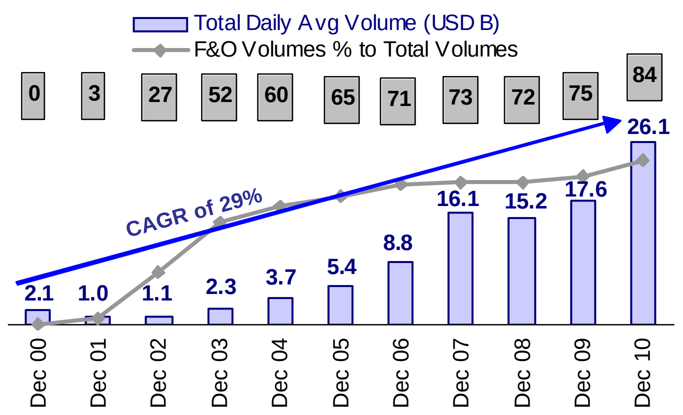
Sectoral performance (% return)

	Return YoY (%) Dec 01	Dec 02	Dec 03	Dec 04	Dec 05	Dec 06	Dec 07	Dec 08	Dec 09	Dec 10
Auto	5	34	149	12	50	30	3	-57	204	38
Health Care	-10	3	96	23	2	22	17	-33	69	34
Financials			108	33	37	39	61	-52	84	33
FMCG	-11	-12	35	-5	56	17	20	-14	40	32
IT	-39	4	23	26	43	41	-14	-51	133	32
Sensex	**-18**	**4**	**73**	**13**	**42**	**47**	**47**	**-52**	**81**	**17**
Cement	-1	1	126	42	38	106	14	-60	87	13
Capital Goods	-20	48	168	28	94	56	117	-65	104	9
Telecom			359	105	64	82	59	-48	-10	6
Oil	-14	72	127	0	40	40	115	-55	73	1
Metal	-17	62	212	14	4	39	121	-74	234	1
Power	28	5	175	25	27	19	117	-39	42	-13
Realty								-82	70	-26

2000-10: India's Dazzling Decade

Markets: Among best performing global markets; 18% return CAGR (continued)

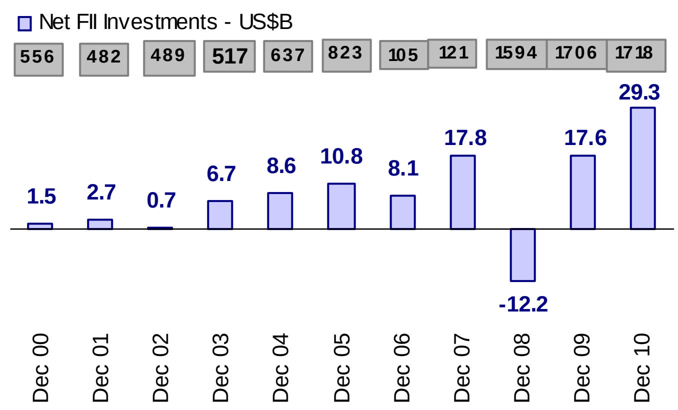
Indian market volumes



F&O volumes as percentage of total volumes

While market volumes have exploded by 29% CAGR, cash volumes have grown only by 8% CAGR. Share of F&O (Futures and Options) has increased from zero in 2000 to as high as 84% in 2010

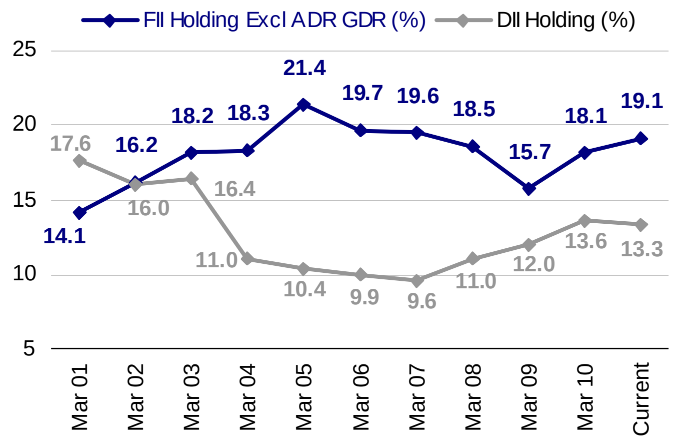
Yearly trend in net FII investments and registered FIIs



Number of registered FII

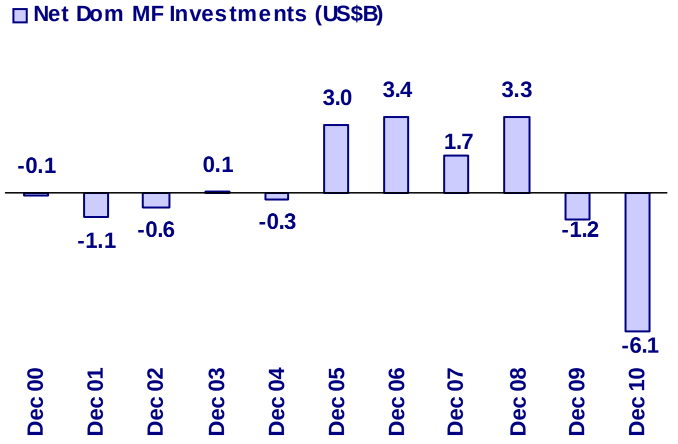
FII inflow at over US$29b in CY10 is the highest annual inflow so far, and equal to the combined inflow of the last 4 years

Trend in FII & DII holding in Sensex



FII holding in Indian equities has increased in last few years, nearly to the same extent that domestic holding has fallen

Yearly trend in net domestic mutual fund investments

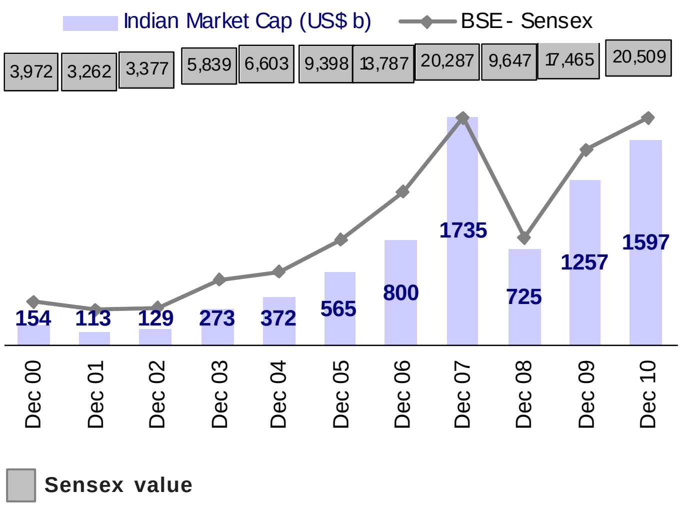


In sharp contrast to FII activity, domestic mutual funds were virtually absent from markets, and were actually big net sellers to the tune of over US$6b in CY10

2000-10: India's Dazzling Decade

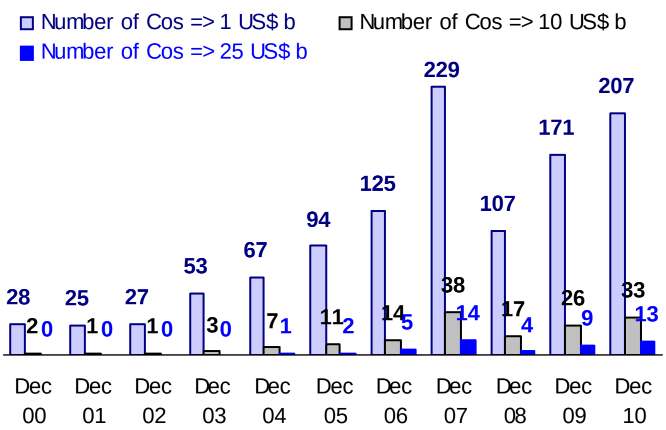
Markets: Among best performing global markets; 18% return CAGR (continued)

Trend in Indian market cap and Sensex



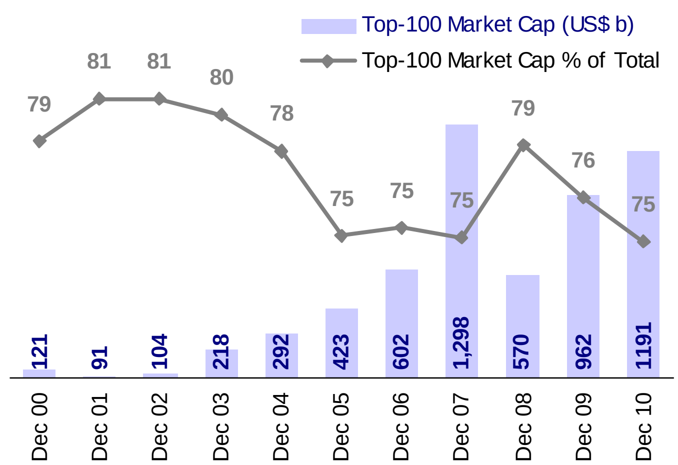
Market cap in 2010 is lower than the previous high in 2007; this is despite high fresh primary market offerings in the interim (e.g. 2010 offerings at US$15.6b v/s US$10.8b in 2007)

Trend in companies with over US$1b market cap



Market cap of 28 billion-dollar market cap companies in 2000 was US$91b; the number of billion-dollar market cap companies has ballooned to 207 with market cap of US$1,364b

Trend in top-100 companies' market cap share



Share of top-100 companies' market cap to overall market cap has been very stable at 75-80%

Top-10 companies by market cap

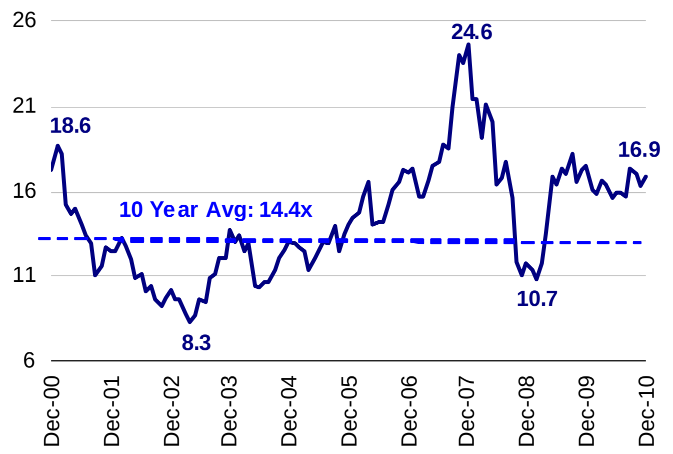
Company	MCap US$ B (Dec-00)	Company	MCap US$ B (Dec-10)
Wipro	12.4	Reliance Inds.	75.7
Hind. Unilever	10.1	O N G C	60.5
Infosys Tech.	8.4	**TCS**	**49.9**
Reliance Inds.	7.9	**Coal India**	**43.4**
Rel. Petro (Merged)	5.4	Infosys Tech.	43.2
ITC	4.9	St Bk of India	39.0
O N G C	3.8	**NTPC**	**36.2**
HCL Technologies	3.4	**Bharti Airtel**	**29.8**
Pentamedia Graph	2.6	ITC	29.4
Zee Entertainmen	2.5	**ICICI Bank**	**28.7**

Of the top-10 market cap companies in December 2010, 5 are new listings during the decade

2000-10: India's Dazzling Decade

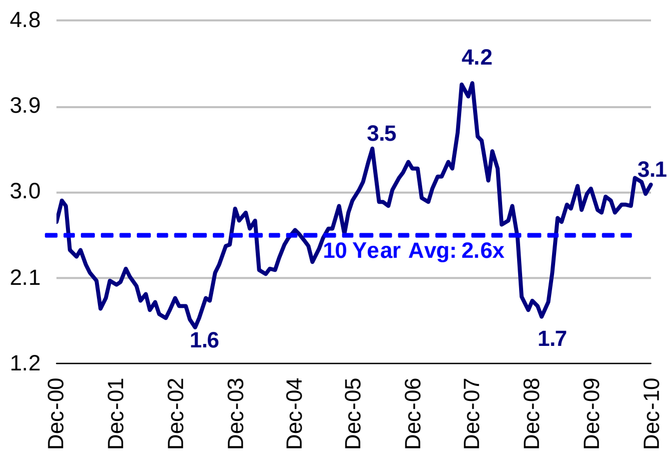
Markets: Among best performing global markets; 18% return CAGR (continued)

Sensex P/E (x)



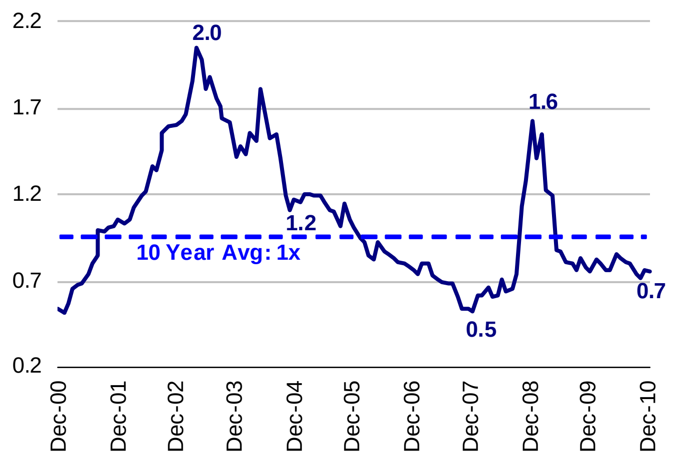
Sensex's current one-year forward P/E is 16.9x, 17% premium to the last 10-year average

Sensex P/B (x)



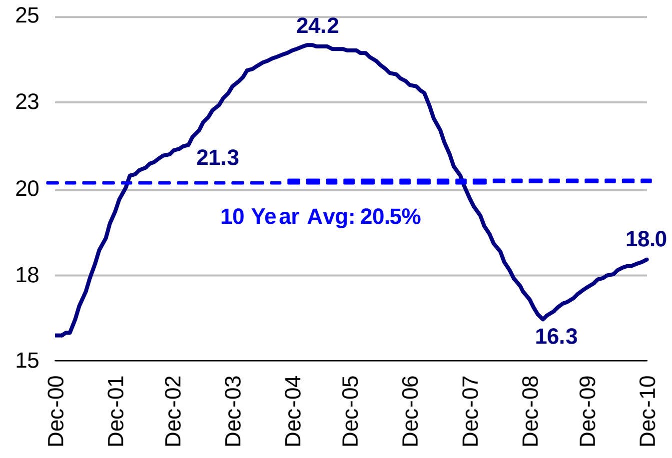
Sensex's current one-year forward P/B is 3.1x, 18% premium to the 10-year average

Sensex earnings yield vs bond yield (%)



Sensex earnings yield to bond yield is currently at 0.7x, about 28% lower than the 10-year average

Sensex RoE (%)



Sensex RoE at 18% is 250bp lower than 10-year average of 20.5%

2000-10: India's Dazzling Decade

Markets: Among best performing global markets; 18% return CAGR (continued)

Sensex composition change December 2000 v/s December 2010

	% to total Market Cap		
Sector	**Dec 00**	**Dec 05**	**Dec 10**
Auto	**3.3**	**6.6**	**8.1**
Banking & Finance	**6.0**	**12.4**	**16.8**
Cement	**2.7**	**2.7**	
Engineering	3.1	4.8	7.5
FMCG	**25.9**	**8.0**	**6.6**
Infrastructure			0.7
IT	18.3	20.8	17.6
Media	3.9		
Metals	3.6	3.1	7.6
Oil & Gas	22.4	24.0	20.2
Pharma	**5.9**	**2.8**	**1.0**
Real Estate			1.6
Telecom	3.9	5.4	5.3
Utilities	0.9	9.3	7.0
Total	**100**	**100**	**100**

Key sectors that have seen significant increase in Sensex market cap share are Auto, Financials, Engineering, Metals, Utilities. Sectors which have declined are FMCG, Pharma and Cement (currently zero)

Price CAGR of companies which were in Sensex both in 2000 and 2010

	Price (Rs)		
Company	**Dec 00**	**Dec 10**	**CAGR (%)**
Larsen & Toubro	49	1,979	44.8
B H E L	82	2,325	39.8
M & M	37	778	35.6
St Bk of India	182	2,811	31.5
Tata Motors	85	1,306	31.4
Tata Steel	77	679	24.4
Reliance Inds.	138	1,058	22.6
ITC	30	175	19.3
Sensex	**3,972**	**20,509**	**17.8**
Infosys Tech.	713	3,445	17.1
Reliance Infra.	198	842	15.6
Hindalco Inds.	63	246	14.6
Hind. Unilever	206	312	4.2

Of the Sensex survivors, more companies have outperformed the Sensex. Top gainers are L&T, BHEL, M&M, SBI, Tata Motors, Tata Steel, RIL and ITC

Price CAGR of companies that are new entrants to Sensex since 2000

	Adjusted Price (Rs)		
Company	**Dec-00**	**Dec-10**	**CAGR (%)**
Jindal Steel	3	713	72.7
Sterlite Inds.	4	187	46.6
O N G C	80	1,293	32.1
Bharti Airtel *	23	358	31.9
Tata Power Co.	98	1,366	30.1
H D F C	54	728	29.7
Maruti Suzuki *	125	1,421	27.5
Hero Honda Motor	175	1,986	27.5
HDFC Bank	223	2,347	26.6
ICICI Bank	151	1,145	22.5
JP Associates *	15	106	21.5
Sensex	**3,972**	**20,509**	**17.8**
Bajaj Auto *	302	1,542	17.7
TCS *	244	1,165	16.9
Cipla	84	370	16.0
NTPC *	62	201	12.5
Wipro	241	490	7.4
DLF *	525	292	-5.7
Rel. Comm. *	291	145	-6.7

* Stock price under the Dec-00 column is as on date of inception

Price CAGR of companies that are dropouts from the Sensex since 2000

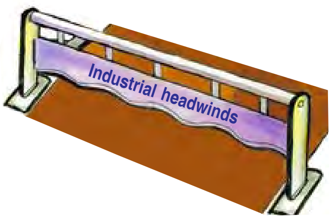
	Adjusted Price (Rs)		
Company	**Dec-00**	**Dec-10**	**CAGR (%)**
Grasim Inds	289	2,341	23.3
Nestle India	549	3,795	21.3
Ambuja Cem.	21	143	21.1
ACC	159	1,076	21.1
Dr Reddy's Labs	318	1,663	18.0
Colgate-Palm.	167	868	17.9
Sensex	**3,972**	**20,509**	**17.8**
Glaxosmit Pharma	454	2,343	17.8
Bajaj Holdings	226	872	14.5
Castrol India	137	459	12.9
Ranbaxy Labs.	210	599	11.0
H P C L	141	391	10.8
Novartis India	524	654	2.2
Zee Entertainmen	139	147	0.6
Satyam Computer	162	66	-8.5
M T N L	179	55	-11.2
NIIT	212	55	-12.7
ICICI Ltd (Merged)	94	NA	NA
Rel. Petro (Merged)	57	NA	NA

2011: Hurdles to cross

Fresh from a dazzling decade, the Indian economy and in turn the stock markets face key challenges in 2011. Sustained rise in oil prices will fuel inflation and also worsen current account deficit. Industrial growth is facing headwinds by way of environmental issues, resource crunch, infrastructure deficit, and political/corporate governance. Stressed liquidity caused by lagging deposit growth is pushing up rates. Expect sectors dependent on domestic markets to be affected more. Global commodities and export-oriented sectors are better placed in the near term.

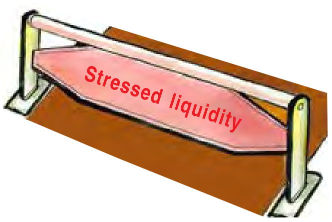
Hurdle #1: Oil and commodity prices are a key concern

Prices of oil and other international commodities are on an uptrend due to reasons ranging from rising consumption in emerging market economies to high global liquidity. Indian economy remains highly vulnerable to rising crude oil prices. If current prices prevail for the rest of FY11, gross annual under-recoveries of the oil sector will mount to Rs685b, almost 50% higher than Rs460b in FY10. In the absence of price protection, a 10% increase in international oil prices would have a 1% direct impact on overall inflation and another 60bp indirect impact within 3-6 months. It would also increase India's current account deficit by US$8b (over FY11E US$40b), as oil imports constitute ~30% of India's total imports.



Hurdle #2: Industrial growth facing headwinds

IIP data has been volatile in recent months; there is no discernible trend. NHAI awards have slowed down. SBI has cut its disbursement growth guidance for FY11 from ~22% to 18-20%. Environment issues have also impacted projects in metals, hydro power, etc. Resource crunch (largely for coal), infrastructure deficiency, and widespread corruption in the political, bureaucratic and corporate circles are all adding up to make India's business landscape murkier.



Hurdle #3: Liquidity situation has expectedly remained stressed in 3QFY11

During the last quarter, deposit growth (~15%) has significantly lagged credit growth (~23%). This funding gap is the primary reason for the liquidity stress, further aggravated by higher currency holding by the public and huge cash balances held by the government with RBI. Sustained period of liquidity shortage may hamper industrial growth; there is negative correlation between money market rates and industrial production. The sustained liquidity stress has also permeated to the other segments of the financial sector, pushing up rates in the credit market and yields of government securities.

Investment strategy: Export-oriented sectors better placed in near term

We believe the above challenges are likely to impact the performance of several sectors, particularly those dependent on domestic markets. We expect rising input costs, fuel prices and interest rates to impact discretionary consumption spends including Autos. Utilities will be impacted by resource crunch, environmental issues and tight liquidity, as will Infrastructure projects. Financials will get impacted by tight liquidity hurting margins, especially for those without a low-cost deposit franchise. In this backdrop, export-oriented sectors like Technology, Pharmas, Global Commodities would continue to outperform.

Hurdle #1: Oil and commodity price increases return to haunt

Prices of oil and other international commodities are on an uptrend due to reasons ranging from rising consumption in emerging market economies to high global liquidity. While Indian consumers enjoy some price protection, this comes at a cost to the fiscal deficit and financial health of oil companies. In the absence of price protection, a 10% increase in international oil prices would result in a 1% increase in overall inflation through direct impact. Indirect impact could take inflation up by another 60bp within 3-6 months. It would also increase India's current account deficit by US$8b as oil imports constitute ~30% of India's total imports.

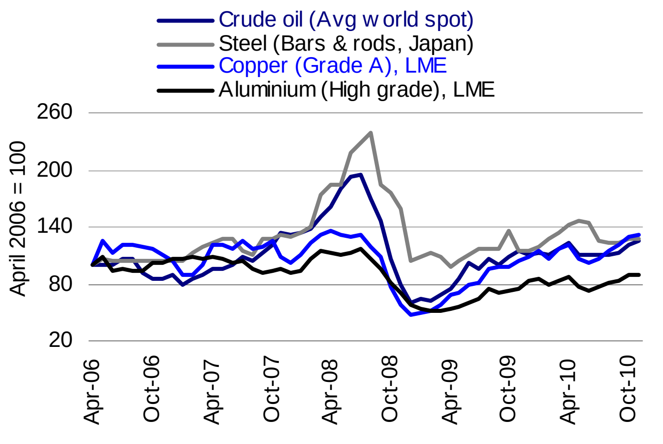
International commodity price trend indicates clear headwind

Global commodity prices are on a clear uptrend

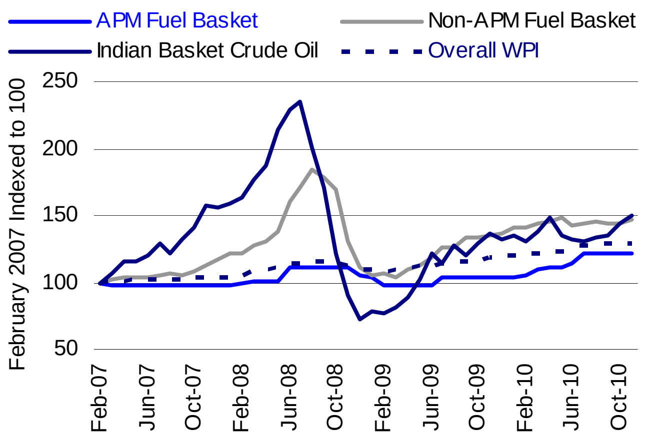
Global commodity prices are on a clear uptrend. Rising consumption in emerging economies, better than expected economic data in advanced countries, decline in the dollar and rising global liquidity have all contributed to this trend. Definitely the first and also the second now appear to fuel a sustained rise in commodity prices. This reverses the gains accrued to India so far in controlling inflation, that of sobering international prices.

Oil prices impact India directly, more so because of increased energy intensity of the economy as well as high import dependence. The administered price mechanism (APM) provided a degree of resilience to domestic oil prices from international fluctuations – within the broader energy group, the APM basket was much less volatile throughout the recent booms and busts.

International commodity prices are firming up again; some commodity prices have reached their all-time highs



Administered price mechanism has so far shielded domestic prices from volatility of international oil prices



Shielding domestic prices has fiscal and financial health consequences

While APM enabled stability in domestic oil prices, this came at a heavy cost to the fiscal deficit and the health of the oil companies

While APM enabled stability in domestic oil prices, this came at a heavy cost to the fiscal deficit and the health of the oil companies. During the peak year of FY08, the government's oil subsidy burden was of the order of Rs713b, a magnitude similar to the cost of implementing a food security bill or the entire spending in roads/bridges and telecom investment for that year. Despite deregulation of petrol prices, for FY11, the fiscal burden is expected to be as high as Rs364b. As an almost equivalent part of the burden is shared by oil companies (both upstream and downstream), hike/decontrol in oil prices is a necessity from the point of the government's fiscal health and the oil companies' financial health.

Government oil subsidy increased to a staggering Rs713b in FY09, and is rising again

(Rs b)	FY08	FY09	FY10	FY11E
Fx Rate (Rs/US$)	40.3	46.0	47.5	45.4
Brent (US$/bbl)	82.3	84.8	69.6	81.4
Gross Under recoveries (Rsb)	773	1,033	461	639
Sharing (Rs b)				
Oil Bonds/Cash	353	713	260	364
Upstream	257	329	145	211
OMC's sharing	163	(9)	56	64
Total	**773**	**1,033**	**461**	**639**

Despite petrol deregulation, under recovery will burgeon beyond crude price of US$85/bbl

Per unit under recovery (Rs/liter)

Oil (US$/bbl)	75	80	85	90	95	100	105	110
Diesel	1	3	4	6	8	10	11	13
Kerosene	14	16	17	18	20	21	23	24
LPG (Rs/Cyl)	198	236	274	311	349	387	425	462

Product-wise under recovery (Rs b)

Oil (US$/bbl)	75	80	85	90	95	100	105	110
Diesel	105	236	368	499	631	762	894	1,025
Kerosene	164	181	199	217	234	252	269	287
LPG	171	171	207	242	278	314	350	386
Total	**439**	**588**	**773**	**958**	**1,143**	**1,328**	**1,513**	**1,698**

All calculations based on INR/USD of 45

Impact of oil price hike on inflation and current account deficit

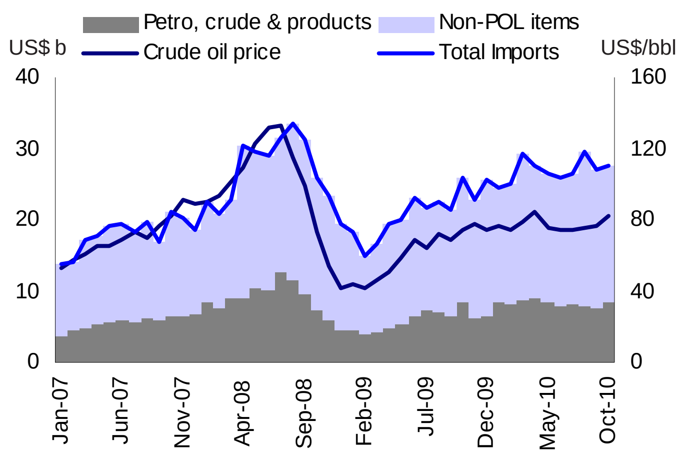
Domestic oil price hike/ decontrol is bound to have a direct and indirect impact on inflation

Domestic oil price hike/decontrol is bound to have a direct and indirect impact on inflation. We estimate that the direct impact of a 10% (~US$10/bbl) increase in international oil prices (if fully passed on by domestic oil companies) would be a 1% jump in headline WPI inflation. The indirect impact of knock-on effect on commodity prices spread over 3-6 months could be another 60bp increase. The impact would be considerably lower if there is only partial pass through of international price changes.

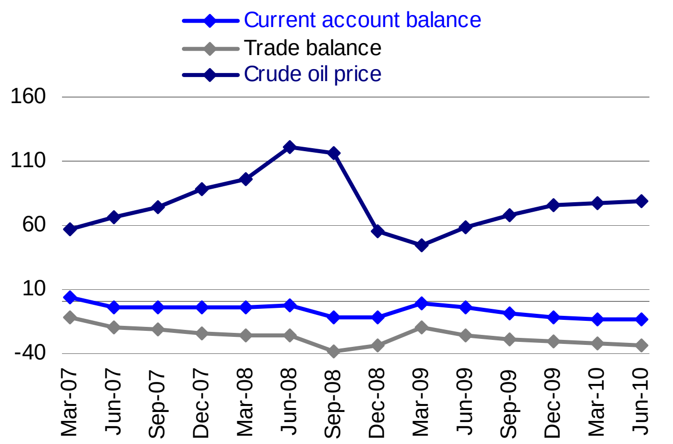
A US$5/bbl increase in oil price would lead to a US$4b increase in current account deficit for the year

As oil constitutes a sizable portion (~30%) of total imports, it has implications for the current account balance. We estimate that a US$5/bbl increase in oil price would lead to a US$4b increase in current account deficit for the year. The estimated US$40b current account deficit for FY11 will increase to US$52b if oil price rises from US$85/bbl to US$100/bbl.

Oil constitutes ~30% of India's total imports



A US$5/bbl increase in oil price increases current account deficit by US$4b



Hurdle #2: Industrial growth facing headwinds

There are initial signs of headwinds to industrial growth. IIP data has been volatile in recent months; there is no discernible trend. NHAI awards have slowed down, with project awards of 3,500-4,000km till date v/s the target to award 18,000km in FY11. SBI has cut its disbursement growth guidance for FY11 from ~22% to 18-20%.

Doing business in India may well be getting more difficult and complex. A spate of recent corruption cases has already engulfed many of India's high profile names. Meanwhile, there are other challenges in India's business landscape: (1) environmental clampdown, (2) bureaucratic hurdles, and (3) infrastructure deficit. Resource crunch (largely for coal) is also a reality and increased reliance on imports results in exposure to availability and pricing risks in addition to widening current account deficit. Banking, real estate and telecom sectors are already under the scanner. Metals / mining and infrastructure sectors are also facing strong headwinds.

We believe that E&C companies could face headwinds in order intakes, as projects get deferred. The financial sector could have asset quality issues, given that project economics are impacted by resource deficiencies. Power utilities will be impacted by coal shortage, impacting project returns. Resource plays like Coal India, Sesa Goa, and Tata Steel stand to gain.

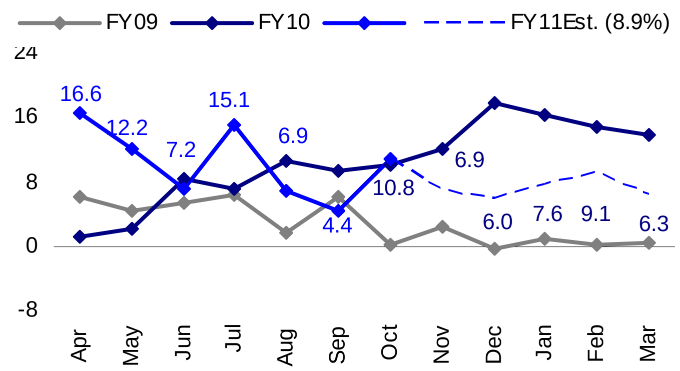
IIP growth has been volatile; interpretation difficult

IIP growth rates in FY11 YTD have been volatile – 4.4% in September 2010 and 16.6% in April 2010

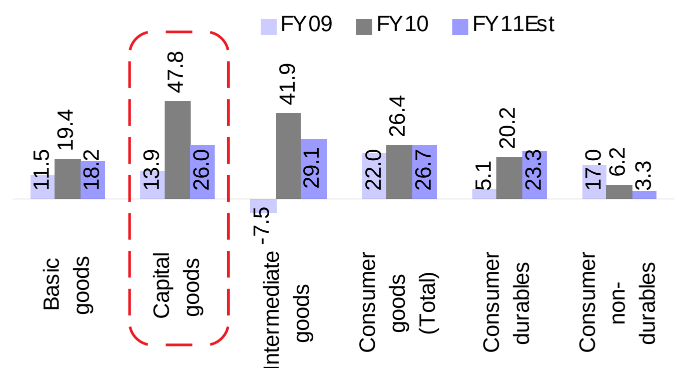
IIP growth rates in FY11 YTD have been volatile – 4.4% in September 2010 and 16.6% in April 2010. This makes interpretation of the data challenging and trend analysis does not address the fundamental question – has industrial momentum picked up in a sustainable manner? Recent instances and ground reality checks indicate that several headwinds are building up:

- SBI has cut its disbursement growth guidance for FY11 from ~22% to 18-20%.
- Coal linkage committee meetings have been postponed for a long time, and this is impacting new project pipeline.
- Coal India's production could be lower by 16m tonnes in FY11 (down 4%) and 39m tonnes in FY12 (down 8%), given the strict implementation of environment norms.
- Environment issues have also impacted projects in metals, hydro power, etc.
- L&T could miss its guidance of 25% growth in order intake for FY11, given project deferments, increased competitive intensity, etc.

Volatile IIP makes interpretation and forecast of industrial momentum difficult (%)



Disproportionate share of capital goods and durables in fuelling overall IIP (% contribution to IIP growth)



India is already reeling under severe resource crunch, the most prominent being shortfall in coal availability

Coal imports will contribute ~46% of India's incremental coal requirements till FY15

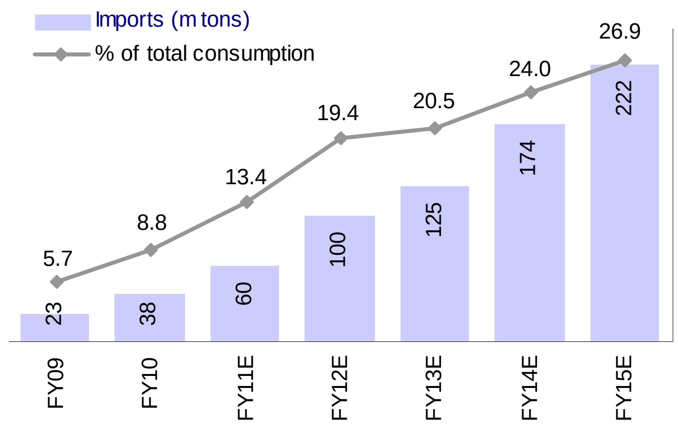
Resource deficiency: implications for the investment chain

The business environment in India is already reeling under severe resource crunch, the most prominent being shortfall in coal availability, infrastructure constraints, etc. Recent classification of coal producing areas as 'Go' and 'No Go' areas, implementation of Comprehensive Environment Pollution Index, etc have further constrained availability.

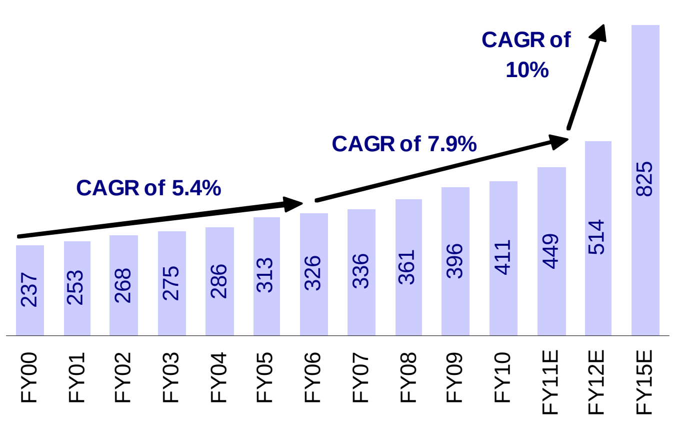
Coal India's actual production shortfall in FY12 could be lower by 73m tonnes (14% of targeted production), 39m tonnes over and above the 34m tonnes shortfall already indicated in the mid-term appraisal of the Eleventh Plan. Incremental captive blocks will now be awarded to the private sector on bidding basis. Imposition of mining tax will also impact profitability of mining operations. Recently, Planning Commission estimated possible coal imports of 100m tonnes+ in FY12 for the power sector, representing ~20% of total fuel basket as compared to 38m tonnes (~9% of the fuel basket) in FY10. Coal imports will contribute ~46% of India's incremental coal requirements till FY15. This exposes the country to risks in terms of pricing and availability of imported coal in addition to widening current account deficit.

These deficiencies will have implications on the investment chain. The Twelfth Plan (FY13-17) coal linkage committee meeting has been postponed several times. The current logjam needs to be addressed, as existing capacities already under construction face shortfalls.

Coal imports to rise given domestic shortfall (m tons)



India's coal requirement to increase meaningfully (m tons)



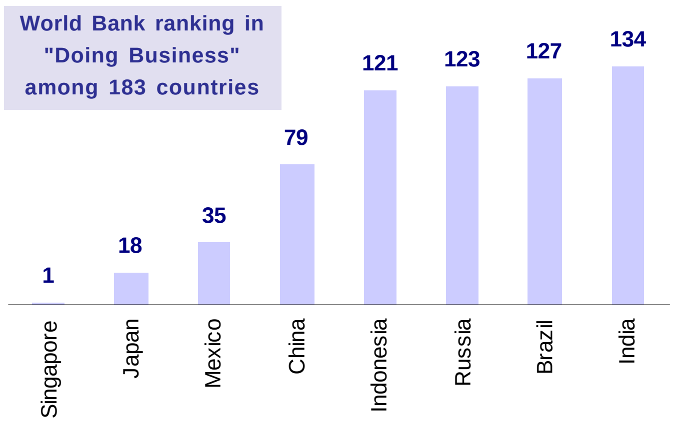
CFA/Planning Commission/MOSL

There are other pressure points including land acquisition, constraints in evacuation infrastructure, etc. Infrastructure deficiency is well known and the situation is becoming worse, reaching a stage where growth could be meaningfully impacted. NHAI awards have witnessed a meaningful slowdown, with project awards of 3,500-4,000km till date, v/s a target to award 16,000km+ in FY11.

Doing business in India: New challenges

Doing business in India may well be getting more difficult and complex. The recent spate of high profile corruption cases involved senior cabinet ministers, chief ministers, leading businesses, bankers and public figures spanning across sports, defense, telecom, banking, real estate, media and public relations, and indeed, the government. Undeniably, an environment of uncertainty has been created by these revelations that have a bearing on the investment climate. Meanwhile, there are other challenges in India's business landscape (1) environmental clampdown, (2) bureaucratic hurdles, and (3) infrastructure deficit. Banking, real estate and telecom sectors are already under the scanner. Metals / mining and infrastructure sectors also face strong headwinds.

Businesses in India face many challenges ranging from bureaucratic hurdles to enforcement of contracts



A series of high impact governance issues and environmental roadblocks

Date	Governance issues
Nov 9, 2010	Adarsh Housing Society
Nov 9, 2010	Common Wealth Games
Nov 14, 2010	Telecom 2G Scam
Nov 19, 2010	Karnataka Land Scam
Nov 20, 2010	Radia tapes
Nov 24, 2010	Loans for bribe
Nov 27, 2010	Judicial corruption

State	High profile projects affected
Orissa	Vedanta Aluminum - bauxite mining
Maharashtra	Lavasa - township construction
Andhra Pradesh	Nagarjuna Construction - 1320 MW Power
Uttarakhand	NTPC - 600 MW Hydro

The budget speech for FY11 highlighted three central challenges 1) quickly revert to the high GDP growth path of 9%, (2) inclusive development, and (3) governance

Budget speech had highlighted three central challenges

In the very first few passages, the budget speech for FY11 highlighted three central challenges facing India in the medium term: (1) quickly revert to the high GDP growth path of 9%, (2) inclusive development, and (3) governance.

The third appeared most formidable and we quote: "The *third* challenge relates to the weaknesses in government systems, structures and institutions at different levels of governance. Indeed, in the coming years, if there is one factor that can hold us back in realizing our potential as a modern nation, it is the bottleneck of our public delivery mechanisms. There have been many initiatives in this regard, in different sectors, at different points of time. Some of them have been effective in reforming the way the Government works in those areas. But we have a long way to go before we can rest on this count."

The seemingly innocuous lines that were submerged in the business as usual deliberations post budget now appear as an inevitable moment of truth whose deferment is no longer possible. It seems that while India has delivered on the first challenge (GDP growth), and is meaningfully addressing the second (inclusive development), the third pillar of the reform (governance) has barely been initiated.

Hurdle #3: Stressed liquidity for prolonged period

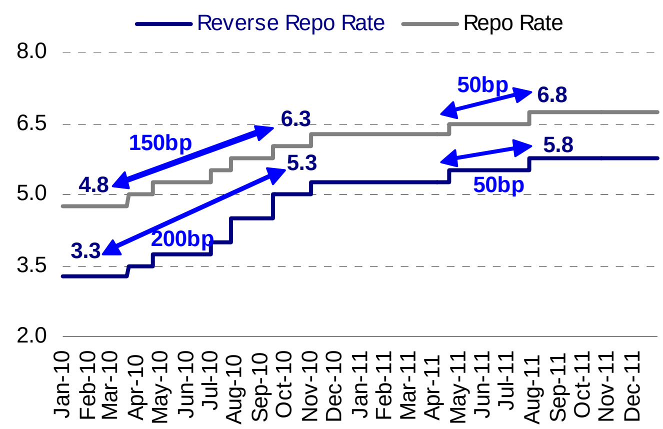
Lower growth in bank deposits than in bank loans has created a structural liquidity shortage that has been accentuated by high currency demand from the public and cash balances by the government. A reversion of inflation worries could propel RBI to raise policy rates by 50bp in 2011. A cut in CRR to enhance structural liquidity may go in parallel. However, if liquidity shortage persists, it could start hurting growth and industrial production, as short-term rates percolate towards the longer end of the market. RBI would need to step up its open market and foreign exchange operations in case capital flow falls short of requirement.

Banking sector funding gap has created a structural liquidity shortage

The liquidity situation has expectedly remained stressed in 3QFY11

The liquidity situation has expectedly remained stressed in 3QFY11. While the basic funding gap of deposit growth (~15%) falling behind credit growth (~23%) is the primary reason for the liquidity stress, the situation is aggravated by higher currency holding by the public and huge cash balances held by the government with RBI. Money market rates have breached the corridor for a large part of the quarter while recourse to LAF window remained in the range of Rs1.2t-1.5t in recent times, far above the comfort levels of +/- 1% of NDTL (broadly deposits) announced by RBI. RBI has initiated a series of measures including infusion of primary liquidity through open market operations.

Expect up to ~50bp increase in LAF rates to fight inflation



Measures initiate by RBI to ease liquidity

16-Sep-10	Policy rates hiked but explicit recognition of near accomplishment of the process of "normalization"
29-Oct-10	Re-in\troduction of second LAF Reduction of SLR by 1% for borrowing from RBI Extension of these measures uptill Nov 4
2-Nov-10	25bp hike in policy but clear guidance of no more hike Announced first OMO of Rs120b for FY11
29-Nov-10	Extended the second LAF to Jan 2011 Waived the penal interest on SLR shortfall upto 2%
6-Dec-10	Second tranche of Rs.120b OMO announced December 6-10 borrowing pruned by Rs 50b to Rs60b
13-Dec-10	Third tranche of OMO of Rs120b announced
16-Dec-10	Key policy rates unchanged SLR reduced by 1% Calendar of Rs480b OMO announced

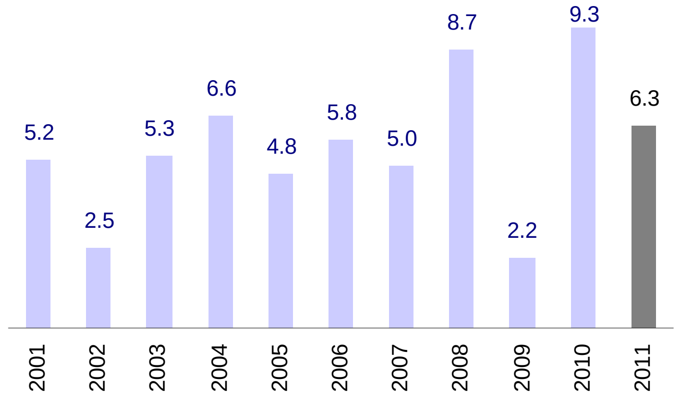
Source: RBI/MOSL

Inflation worries coming back, led by increases in food and oil prices

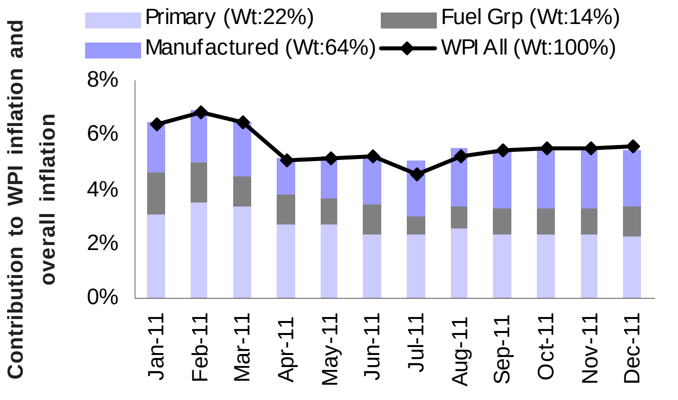
Inflationary impulses have surfaced again in December 2010, inflation would remain a worry in 2011

Inflationary impulses have surfaced again in December 2010, with a reversal of the sobering trend in primary articles (mainly food) and fuel & energy group. With unseasonal rains spoiling crops in some parts of the country and oil prices firming up, inflation would remain a worry in 2011. We expect RBI to increase LAF rates by 50bp to be effected during the relatively lean season of April-August. An outside chance of 25bp hike in remaining FY11 has become a possibility on the back of sudden firming of primary commodities inflation. The extent of excess capital flows would continue to determine the broad liquidity situation, but so far the signal that has emanated indicates that RBI would be ready to provide genuine liquidity needs but at higher rates.

Expect inflation to moderate in CY11 but not a great deal (%)



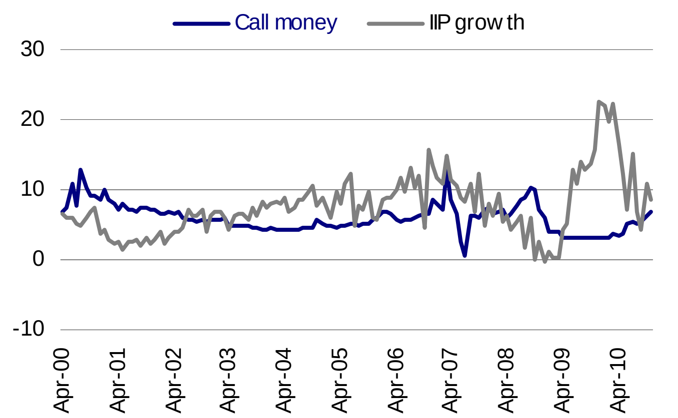
Food and fuel price would continue to provide headwinds



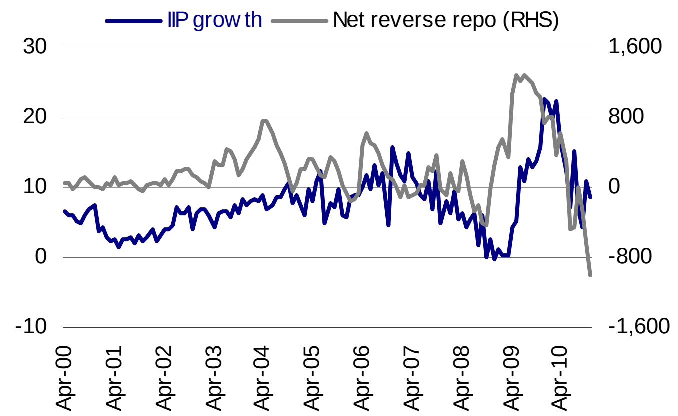
Prolonged liquidity stress to hurt growth

Sustained period of liquidity shortage may hamper industrial growth; there is negative correlation between money market rates and industrial production. The sustained liquidity stress has also permeated in the other segments of the financial sector, pushing up rates in the credit market and the yields of government securities.

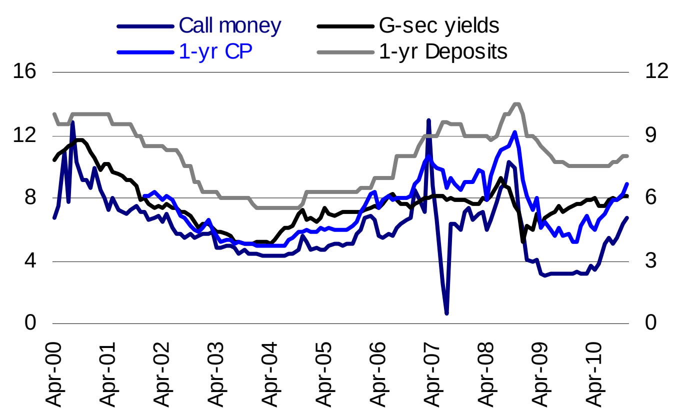
There is a negative relation between stress in liquidity and growth (%)



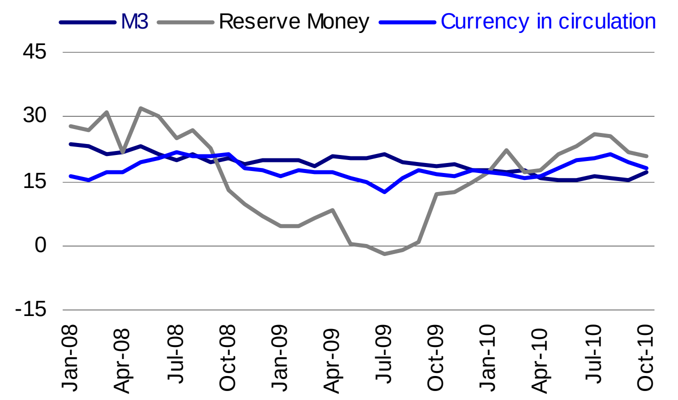
While RBI's liquidity support has mitigated the situation, sustained liquidity deficit can impact growth (%)



Stress in the money market has permeated to the credit and government securities market as well (%)



RBI's efforts to push base (reserve) money has somewhat been negated by higher demand for currency (%)



Introducing FY13 estimates

The dilemma of global cyclicals or domestic plays

We have formally introduced FY13 estimates for the MOSL Universe. We distill the numbers to arrive at one insight and one dilemma:
Insight: New cycle of corporate sector earnings growth is intact
Dilemma: What to bet on - global cyclicals or domestic plays?

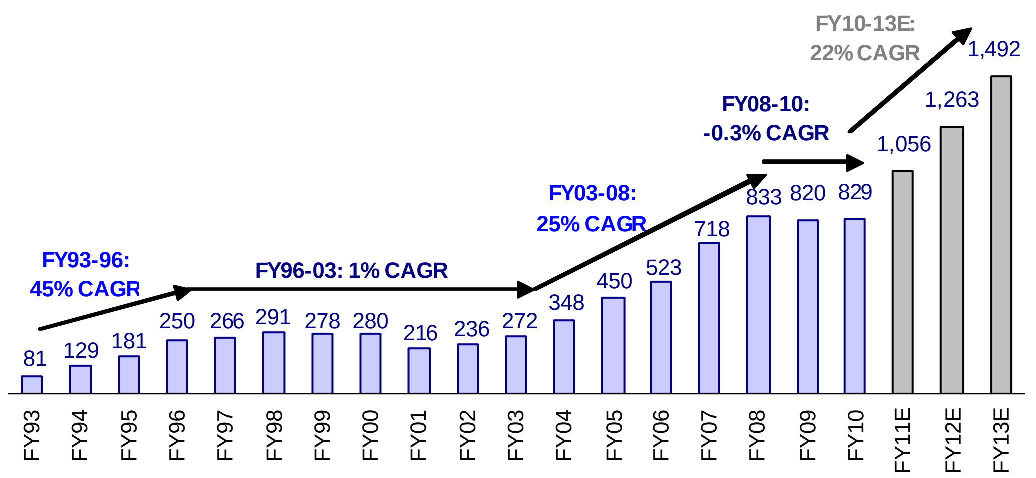
New cycle of Indian corporate sector earnings growth intact

Aggregate FY13E PAT growth of MOSL Universe is 17%, which is in line with the trend of marginally declining growth rates, 23% in FY11 and 20% for FY12. A key reason is lower growth in heavyweight Oil & Gas due to flat profits of sector heavyweight ONGC.

Likewise, based on a bottom-up PAT aggregation of Sensex constituents, we arrive at FY13E Sensex EPS of 1,492, up 18% YoY (20% YoY for FY12 and 27% YoY for FY11). FY10-13E EPS CAGR at 22% is marginally lower than the FY10-12E EPS CAGR of 24%, but does not materially alter our hypothesis that Indian corporate sector earnings have entered into a new growth cycle following a two-year growth holiday.

Our hypothesis that Indian corporate sector earnings have entered into a new growth cycle following a two-year growth holiday remains intact

Sensex EPS trend: Hypothesis of new cycle of earnings growth intact



What to bet on - global cyclicals or domestic plays?

We approach this question in two ways:

1. Analysis of sector aggregates; and
2. Company segregates using the growth grid.

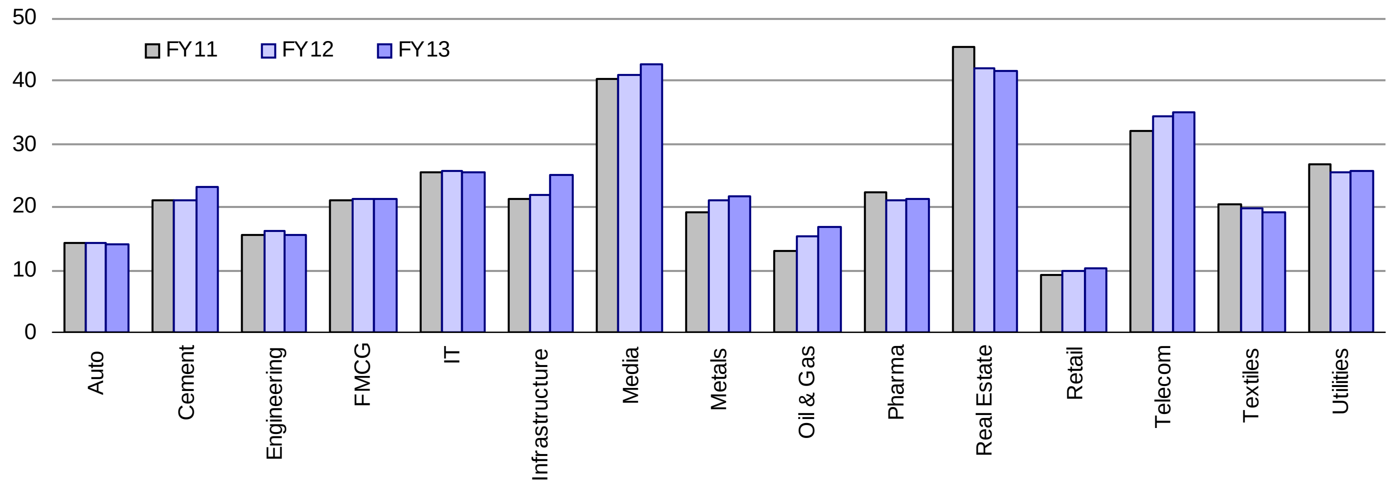
1. Analysis of sector aggregates: The major trigger for the above question comes from observing the contribution to PAT growth in FY12 and FY13 vis-à-vis FY11. Contribution of heavyweight Oil & Gas is expected to decline from 21% in FY11 to 12% in FY13. The fall is even sharper in Metals, from 24% in FY11 to a mere 7% in FY13. Share of Auto is expected to fall from 17% in FY11 to 4% in FY13, again led by earnings normalization of global cyclical, JLR.

In contrast to these Global Cyclicals, contribution of Telecom is expected to see a positive swing of 18pp, from -12% in FY11 to +6% in FY13. Likewise, Cement could see a positive swing of 9pp from -4% to +5%. And most solidly, Banks should continue their dominance, increasing their already high growth contribution of 21% by a further 7pp to 28%. IT too is marginally increasing its share, as are Engineering, Infrastructure, FMCG and Utilities.

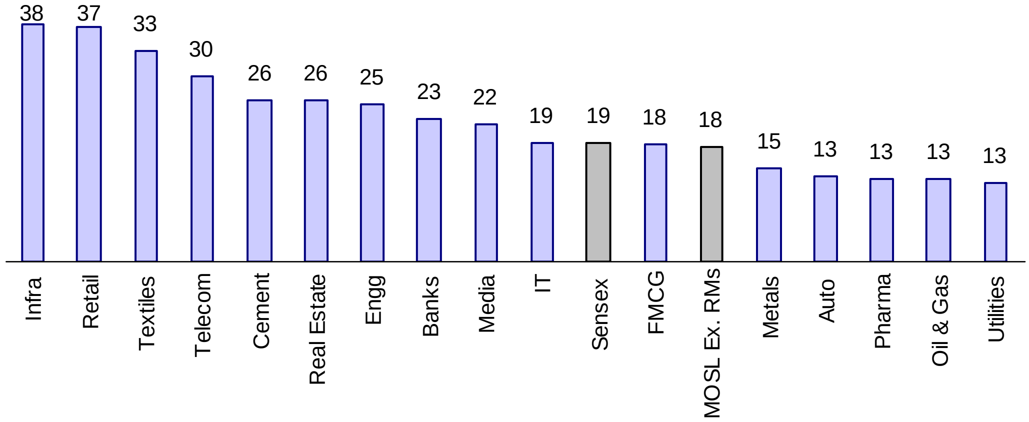
Introducing FY13 estimates for the MOSL Universe: Expect big positive delta in Telecom, Cement and Banks over FY11-13

	Sales						PAT						Contbn to PAT growth (%)		
	FY13E (Rs b)	FY11 YoY (%)	FY12 YoY (%)	FY13 YoY (%)	FY10-12 CAGR (%)	FY11-13 CAGR (%)	FY13E (Rs b)	FY11 YoY (%)	FY12 YoY (%)	FY13 YoY (%)	FY10-12 CAGR (%)	FY11-13 CAGR (%)	FY11	FY12	FY13
Auto (5)	3,004	25	17	13	21	15	248	81	15	12	44	13	17	5	4
Banks (26)	**2,159**	**33**	**19**	**19**	**26**	**19**	**925**	**21**	**23**	**22**	**22**	**23**	**21**	**26**	**28**
Cement (8)	**884**	**13**	**19**	**17**	**16**	**18**	**105**	**-22**	**17**	**34**	**-4**	**26**	**-4**	**2**	**5**
Engineering (8)	1,942	20	26	29	23	27	212	23	27	23	25	25	5	6	7
FMCG (11)	1,102	17	17	15	17	16	160	16	19	18	18	18	3	4	4
IT (7)	1,758	20	21	15	21	18	350	18	21	17	19	19	7	9	9
Infrastructure (7)	638	30	22	29	26	25	45	82	-2	94	33	38	2	0	4
Media (5)	107	23	14	12	19	13	28	17	23	21	20	22	1	1	1
Metals (8)	3,557	14	10	7	12	9	429	59	19	11	37	15	24	11	7
Oil, Gas & Petchem (12)	9,715	18	-5	-1	6	-3	855	19	17	9	18	13	21	20	12
Excl. RMs (9)	5,039	24	3	1	13	2	709	30	18	9	24	13	25	17	10
Pharma (15)	718	17	11	14	14	13	116	54	8	19	29	13	6	1	3
Real Estate (10)	321	29	40	23	35	31	77	27	28	23	28	26	2	2	2
Retail (4)	301	29	25	21	27	23	15	60	39	36	49	37	1	1	1
Telecom (4)	**1,300**	**25**	**19**	**11**	**22**	**15**	**151**	**-40**	**28**	**31**	**-13**	**30**	**-12**	**4**	**6**
Textiles (4)	189	17	11	8	14	10	13	30	38	29	34	33	0	0	0
Utilities (7)	2,071	17	21	15	19	18	342	10	14	11	12	13	5	7	6
Others (1)	78	7	18	12	12	15	10	12	30	21	20	25	0	0	0
MOSL (142)	**29,842**	**20**	**9**	**9**	**14**	**9**	**4,079**	**21**	**19**	**17**	**20**	**18**			
MOSL Excl. RMs (139)	**25,166**	**21**	**14**	**12**	**18**	**13**	**3,934**	**23**	**20**	**17**	**21**	**18**			
Sensex (30)	**8,296**	**23**	**12**	**11**	**17**	**11**	**1,196**	**34**	**20**	**18**	**26**	**19**			
Nifty (50)	**9,322**	**18**	**11**	**11**	**15**	**11**	**1,355**	**34**	**19**	**18**	**27**	**19**			

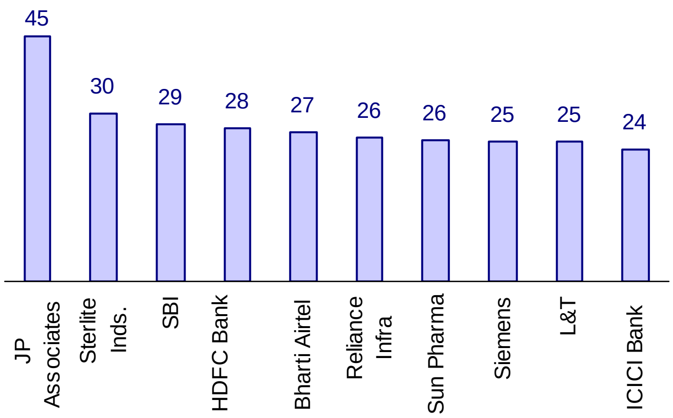
FY11-13 EBITDA margin trend: Meaningful positive delta in domestic plays Cement, Infrastructure and Telecom

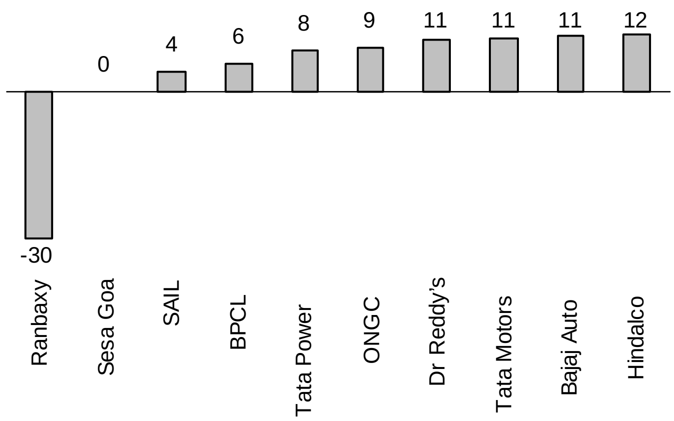


Positive delta in EBITDA margin driving PAT FY11-13 CAGR (%)



FY11-13E: Top 10 and bottom 10 earnings CAGR companies in Nifty (%)





Our model portfolio has 8 of these 10 names. Of the 8, we are overweight on 7 stocks

Our model portfolio has only 2 of these 10 names, Sesa Goa and Dr Reddy's

2. Company segregates using the growth grid: In this approach, we segregated major companies into growth buckets of Low (< 10%), Medium (10-20%) and High (20%+) for both years FY12 and FY13, and placed them in the appropriate quadrant in the Growth Grid as shown on next page.

Growth Grid: Longer term outlook still favors the domestic seculars

Persistent uptrend in global commodity prices could dramatically change the picture

FY13 PAT Growth (%) \ FY12 PAT Growth (%)	Low (<10%)	Medium (10-20%)	High (>20%)
High (>20%)	Ambuja Cements, Jaiprakash, Ranbaxy Labs, Reliance Inds., Tata Steel	ACC	**Financials:** HDFC Bank, ICICI Bank, PNB, SBI **Telecom:** Bharti, RCom **Others:** L & T, DLF, Siemens, Sun Pharma
Medium (10-20%)	GAIL	**Auto:** Bajaj Auto, Hero Honda, M & M, Maruti **Consumer:** HUL, ITC **Others:** HDFC, NTPC, TCS, SENSEX	**Financials:** Axis Bank, IDFC, Kotak Mahindra **IT and Export oriented:** Infosys, Wipro, HCL Tech, Cipla **Others:** BHEL, Power Grid, Reliance Infra
Low (<10%)	BPCL , SAIL, Sesa Goa	Dr Reddy' s Labs, Hindalco, ONGC, Tata Motors	Cairn India, Reliance Power, Sterlite Industries, Tata Power

Our analysis suggests that there is a case to actively consider domestic plays

Companies in the top four right corner quadrants – HH (high-high) to MM (medium-medium)- offer the best earnings growth, going forward. **Interestingly, of the 33 companies featured in these quadrants, not even one of them is a global cyclical, a sharp contrast to the near term prospects**.

How the above conclusion could go wrong

The risk to the above conclusion lies in two events:

1. Persistence of current uptrend in global commodity prices driven by rising global liquidity e.g. QE-II. (This hurdle in the near term makes us biased towards global cylicals and export-oriented businesses.)
2. Domestic growth headwinds such as rampant inflation, tightening liquidity, resource crunch, infrastructure bottlenecks, policy holiday, etc.

In such a scenario, profits of global commodity companies will rise even as those of domestic plays take a hit. Aggregate corporate profitability may balance out, but the growth grid will be dramatically altered, with global cyclicals moving up and domestic plays going down.

The impact of global commodity price boom is already reflecting in 3QFY11 earnings estimates for the MOSL Universe with Oil & Gas (ex RMs) PAT up 62% YoY and Metals PAT up 35% YoY.

3QFY11 earnings preview

Break-out of low-base effect; yet Sensex PAT growth robust at 23% YoY

We expect 3QFY11 aggregate PAT to grow 24% YoY for MOSL Universe (excluding RMs, refining and marketing companies) and 23% YoY for Sensex. This is on the back of sales growth of 19% YoY for MOSL Universe and 17% YoY for Sensex.

The key highlights of this quarter's results would be
- Telecom and Cement the only two sectors with PAT de-growth YoY
- Commodities, Autos and Private Banks drive Sensex PAT growth
- Healthy growth despite break-out of low-base effect
- Low impact of profit swings in Tata Steel and Tata Motors
- Broadbasing of earnings growth

Telecom and Cement are the only two sectors with PAT de-growth YoY

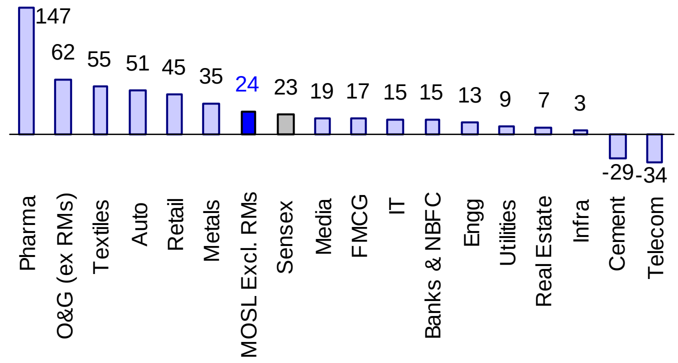
Oil & Gas is expected to clock the highest PAT growth of 62% YoY in 3QFY11

In an otherwise healthy quarter, Telecom and Cement remain the only two sectors with YoY PAT de-growth, now for the fourth quarter in a row since 4QFY10. Among the large profit contributing sectors, Oil & Gas is expected to clock the highest growth of 62% YoY (excl RMs), followed by Auto (+51% YoY), Metals (+35% YoY) and Private banks (+26% YoY).

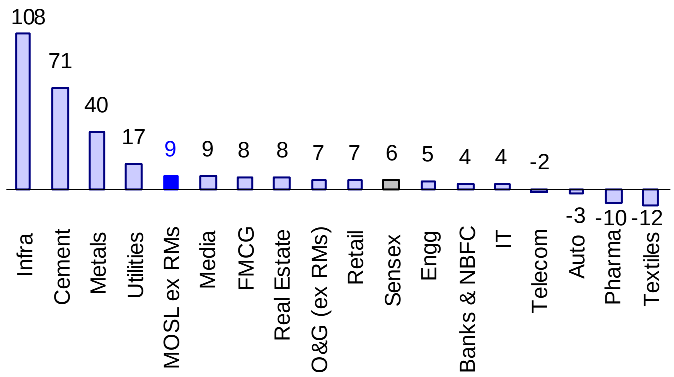
Quarterly performace - MOSL Universe (Rs b)

Sector	Sales			EBITDA			Net profit		
(No of compaines)	Dec-10	Var % YoY	Var % QoQ	Dec-10	Var % YoY	Var % QoQ	Dec-10	Var % YoY	Var % QoQ
Auto (5)	543	20.3	4.3	75	20.7	1.1	45	51.1	-2.5
Banking & NBFC (26)	357	28.8	3.1	280	18.5	0.6	150	15.0	4.4
Private Banks (8)	86	17.0	2.5	74	9.0	5.2	41	25.9	10.7
PSU Banks (11)	231	33.2	3.0	167	21.1	-1.8	83	6.6	2.2
NBFC (7)	40	32.8	5.0	38	28.1	2.9	25	30.5	2.4
Cement (7)	111	3.9	18.2	22	-23.7	58.3	12	-29.0	71.1
Engineering (8)	274	22.4	1.7	41	13.9	9.0	27	12.9	5.5
FMCG (11)	208	20.0	5.9	45	18.4	8.9	31	17.3	8.4
IT (7)	321	20.9	3.5	80	13.7	1.4	62	15.1	3.9
Infrastructure (5)	86	19.4	19.6	14	19.5	28.9	5	2.9	108.1
Media (5)	23	33.2	11.4	10	30.5	18.9	5	18.8	9.0
Metals (8)	759	10.1	3.6	148	12.4	25.3	86	34.7	39.9
Oil Gas & Petchem (12)	2,667	14.5	8.0	334	61.4	-9.0	180	79.5	-21.9
Excl. RMs (9)	1,149	17.8	7.7	272	39.1	7.4	144	62.3	7.1
Pharma (15)	141	12.2	2.8	27	0.2	-2.7	19	147.0	-9.7
Real Estate (6)	40	15.5	8.5	18	35.4	18.3	10	7.0	8.3
Retail (4)	52	38.9	9.7	5	33.5	8.3	2	45.4	6.5
Telecom (4)	256	32.9	4.1	82	20.3	5.3	24	-34.4	-1.5
Textiles (4)	35	31.3	3.4	8	43.2	0.9	2	55.3	-12.2
Utilities (7)	234	22.6	-4.4	65	19.9	2.4	36	8.7	17.2
Others (1)	12	6.4	-3.8	2	14.6	-9.1	1	50.1	-16.1
MOSL (135)	**6,120**	**17.1**	**5.7**	**1,255**	**25.2**	**2.3**	**695**	**28.1**	**-0.5**
MOSL Excl. RMs (132)	**4,602**	**18.9**	**4.9**	**1,194**	**20.4**	**7.2**	**660**	**24.1**	**9.3**
Sensex (29)	**3,024**	**16.6**	**3.8**	**741**	**19.4**	**3.7**	**399**	**23.0**	**6.3**

3QFY11 Sectoral PAT growth YoY (%)



3QFY11 Sectoral PAT growth QoQ (%)



Autos, Global Commodities, Private Financials drive Sensex PAT growth

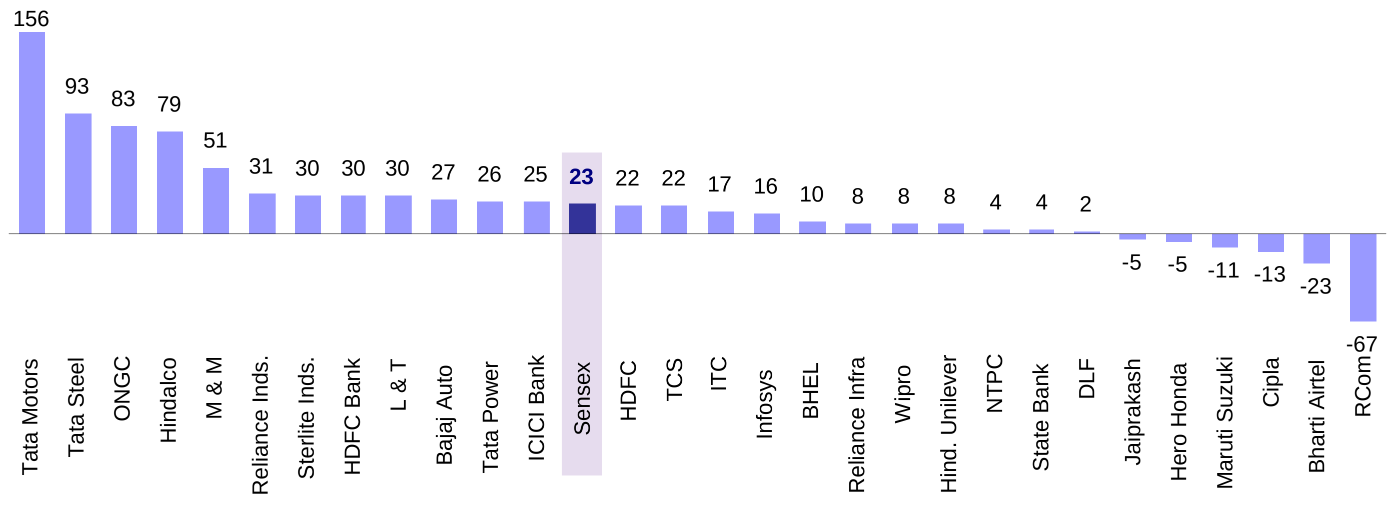
Telecom is the biggest drag on Sensex PAT growth

Nine of the top 10 earnings growth companies in the Sensex are expected to be from Autos (Tata Motors, M&M), Commodities (Tata Steel, ONGC, Hindalco, Reliance Industries, Sterlite), and Private banks (HDFC Bank, ICICI Bank). L&T is the only exception.Telecom is the biggest drag on Sensex PAT growth with Reliance Communications PAT expected to be down 67% YoY and Bharti's PAT down 23%. Cipla, Hero Honda and Maruti are the other companies with PAT de-growth YoY.

Sensex 3QFY11 PAT up 23% YoY; big growth in Tata Motors, Tata Steel, ONGC, Hindalco

	Sales			EBDITA			Net profit			Contribution to	
	Dec-10	Var % YoY	Var % QoQ	Dec-10	Var % YoY	Var % QoQ	Dec-10	Var % YoY	Var % QoQ	PAT (%)	PAT Gr. (%)
Bajaj Auto	42.2	28	-3	8.5	18	-5	6.5	27	-5	2	2
Bharti Airtel	159.0	54	5	53.9	32	5	17.0	-23	2	4	-7
BHEL	88.7	25	4	18.1	16	11	12.2	10	7	3	2
Cipla	16.0	11	-1	3.6	-12	2	2.5	-13	-4	1	0
DLF	24.3	20	3	11.5	36	24	4.8	2	14	1	0
HDFC	11.1	24	3	11.7	20	2	8.2	22	1	2	2
HDFC Bank	26.2	18	4	19.5	20	8	10.7	30	17	3	3
Hero Honda	48.9	28	8	6.1	-7	7	5.1	-5	1	1	0
Hind. Unilever	50.8	11	7	7.9	0	22	6.5	8	23	2	1
Hindalco	178.8	13	3	22.4	22	6	8.9	79	5	2	5
ICICI Bank	22.4	9	2	23.6	0	7	13.7	25	11	3	4
Infosys	71.4	24	3	23.5	15	1	18.3	16	5	5	3
ITC	54.0	18	5	20.3	19	8	13.4	17	7	3	3
Jaiprakash Associates	34.5	21	15	9.0	16	32	3.0	-5	160	1	0
Larsen & Toubro	97.0	20	5	11.6	22	17	7.9	30	14	2	2
Mahindra & Mahindra	58.5	31	10	9.2	34	8	6.4	51	-12	2	3
Maruti Suzuki	95.0	27	4	9.8	-14	2	6.1	-11	2	2	-1
NTPC	145.4	30	-1	36.3	8	4	23.5	4	27	6	1
ONGC	181.3	18	0	114.8	26	4	55.9	83	4	14	34
Reliance Comm	52.4	-1	2	17.4	-4	5	3.9	-67	-20	1	-11
Reliance Inds.	629.9	11	10	99.4	27	6	52.5	31	7	13	17
Reliance Infrastructure	26.9	18	10	2.8	20	-32	3.0	8	37	1	0
State Bank	83.9	33	3	58.4	26	-8	25.8	4	3	6	1
Sterlite Inds.	69.5	3	14	19.9	12	30	13.1	30	30	3	4
Tata Motors	298.5	15	4	41.9	37	0	20.8	156	-1	5	17
Tata Power	16.1	3	3	4.4	20	52	1.7	26	-21	0	0
Tata Steel	265.6	1	-7	32.2	4	-12	12.6	93	-4	3	8
TCS	96.3	26	4	28.4	25	2	21.9	22	4	5	5
Wipro	79.5	15	2	14.6	11	1	13.0	8	1	3	1
Sensex (29)	**3,024**	**17**	**4**	**741**	**19**	**4**	**399**	**23**	**6**		

Sensex companies' PAT growth YoY: 12 companies higher than aggregate growth of 23% YoY

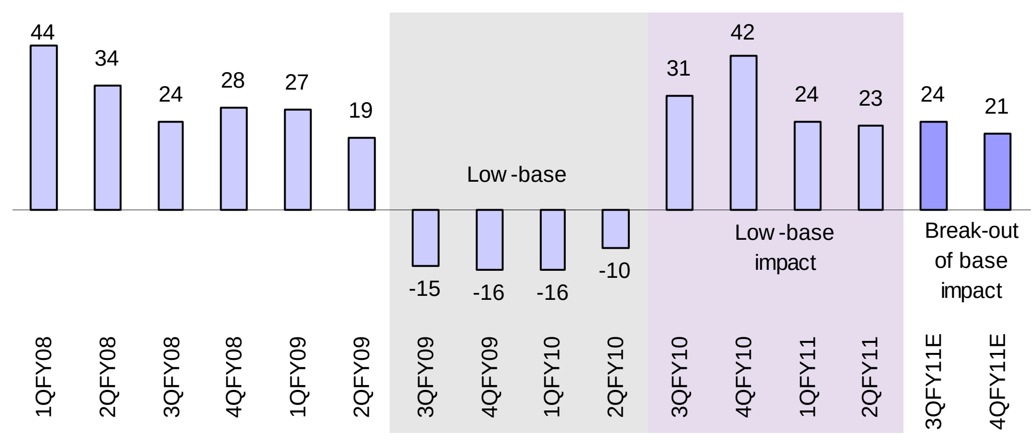


Healthy growth despite break-out of low-base effect

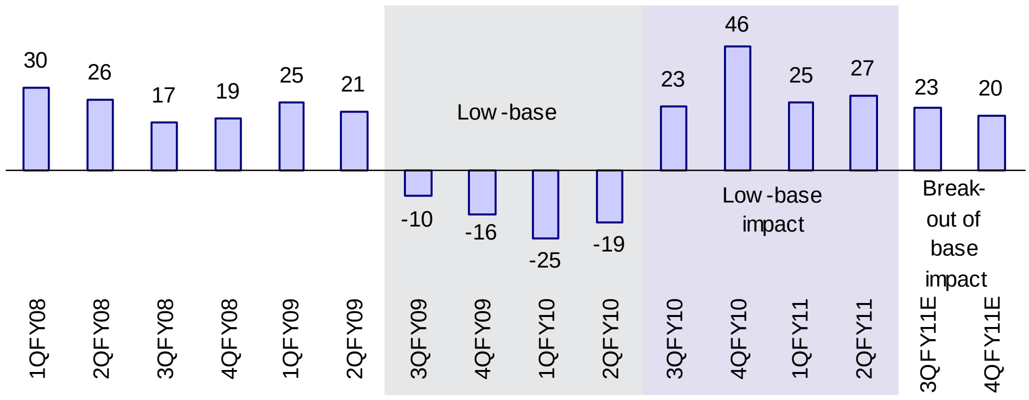
Healthy growth despite break-out of low-base effect is a confirmation of a new earnings growth cycle for the markets

At first glance, aggregate PAT growth of 24% YoY (23% YoY for Sensex) seems in line with the first two quarters of FY11 — 1QFY11 at 24% YoY (25% YoY for Sensex) and 2QFY11 at 23% YoY (27% YoY for Sensex). But what is materially different is that the growth in 1Q and 2Q was on the low base of 1Q and 2Q of FY10, when PAT actually de-grew. In fact, as shown below, 3QFY11 profit is the first quarter of growth on positive growth base, after four quarters of growth on negative growth base. We believe this is a confirmation of a new earnings growth cycle for the markets.

Break-out of the low-base effect: Aggregate PAT growth trend (%)



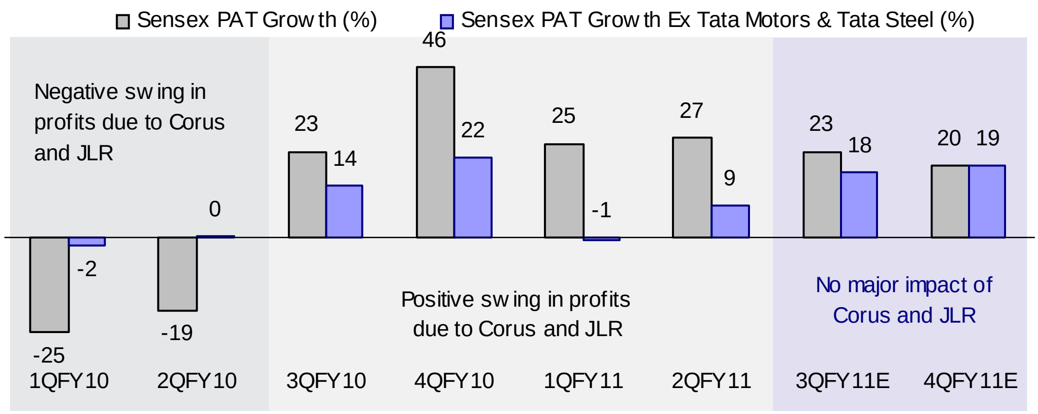
Sensex PAT growth (%)



Low impact of profit swings in Tata Steel and Tata Motors

For the last six quarters, Sensex profits have been materially affected by the swinging fortunes of two large global subsidiaries, Corus for Tata Steel and JLR for Tata Motors. Their losses earlier dragged down aggregate profit growth, while for the last four quarters, their turnaround to profits significantly boosted aggregate profit growth. Beginning 3QFY11, we expect difference in Sensex profit growth including and excluding these companies to be only marginal.

Profit swings of Tata Corus and JLR leveling out



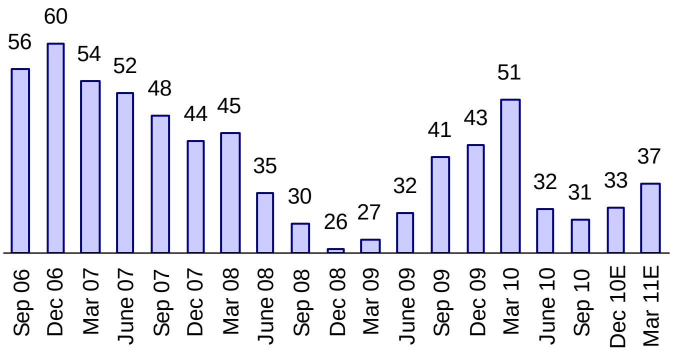
Broadbasing of earnings growth

We have analyzed the quarterly earnings growth since FY06 and distributed our Universe of companies into four growth buckets: (1) > 30%, (2) 15-30%, (3) 0-15%, and (4) < 0%. As tabled below, FY11 is witnessing the most broadbased earnings growth as suggested by the low standard deviation of the distribution in each of the four quarters.

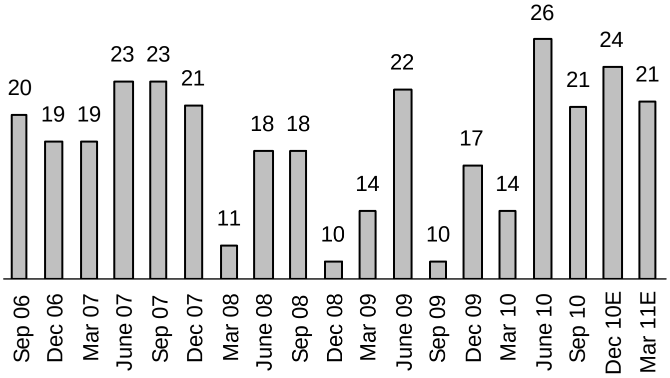
Distribution of earnings growth

Quarter ending	PAT Growth (%)	% of cos with PAT growth of >30%	>15-30%	>0-15%	<0%	Std Dev of distbn
Mar 05	33.9	40	19	13	28	**11**
June 05	26.4	48	17	19	15	**15**
Sep 05	20.5	48	25	13	13	**16**
Dec 05	9.3	50	23	10	18	**17**
Mar 06	4.7	49	10	15	26	**17**
June 06	33.9	51	19	13	16	**18**
Sep 06	36.9	56	20	12	12	**21**
Dec 06	55.2	60	19	11	11	**24**
Mar 07	36.4	54	19	11	17	**20**
June 07	34.0	52	23	11	14	**18**
Sep 07	25.1	48	23	15	14	**16**
Dec 07	15.4	44	21	14	21	**13**
Mar 08	24.3	45	11	19	24	**15**
June 08	25.6	35	18	24	23	**7**
Sep 08	19.7	30	18	26	26	**5**
Dec 08	-8.4	26	10	22	42	**13**
Mar 09	-15.5	27	14	18	41	**12**
June 09	-14.9	32	22	14	32	**9**
Sep 09	-11.3	41	10	14	35	**15**
Dec 09	22.7	43	17	9	31	**15**
Mar 10	42.0	51	14	8	27	**19**
June 10	23.9	32	26	12	31	**9**
Sep 10	22.1	31	21	23	25	**4**
Dec 10E	24.1	33	24	24	20	**6**
Mar 11E	20.8	37	21	23	19	**8**

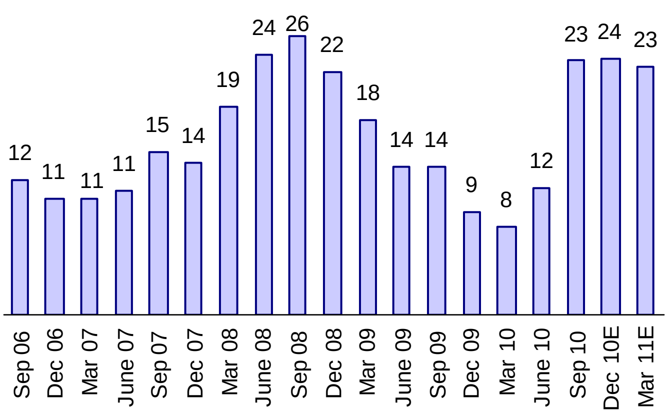
% Companies with earnings growth > 30%



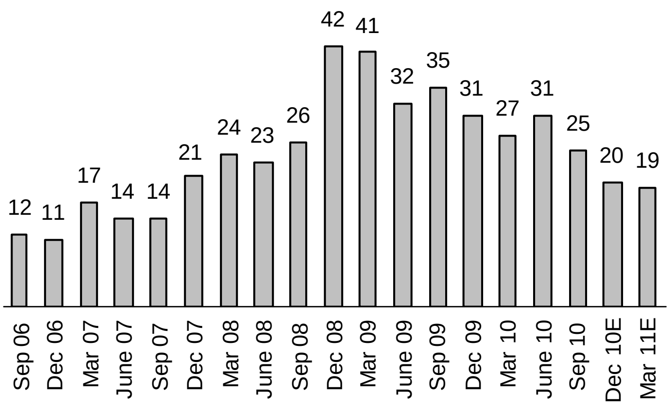
% Companies with earnings growth of 15-30%



% Companies with earnings growth of 0-15%



% Companies with earnings growth < 0%



Intra-sector 3QFY11 earnings divergence (all numbers are %)

Sectors	Sector Growth (%)	+25% Growth	15-25% growth	0-15% growth	-ve earnings growth (%)	Earnings momentum
Autos	51	Tata Motors: 156, M&M: 51, Bajaj Auto: 27			Hero Honda: -5 Maruti: -11	3 0 0 2
Banking	15	BoI: 72, Yes Bank: 48, Shriram Trans: 41,OBC: 39 M & M Financial: 36, IDFC: 31, HDFC Bank: 30	ICICI Bank: 25, ING Vysya Bank: 25 Axis Bank: 25 HDFC: 22, PNB: 18	Kotak Mahindra: 14, Dena:12, BoB: 8, SBI: 4, Union Bank: 3	Indian Bank: -19, Canara Bank: -25	11 6 7 2
Cement	-29	Ultratech Cement: 66	India Cements: 17		Ambuja Cem.: -11, ACC: -39 Grasim Ind.: -48, Shree Cem.: -82	1 1 0 5
Engg	13	BGR Energy: 57, Thermax: 43, L&T: 30	Crompton Greaves: 21	Cummins India: 13, BHEL: 10	Siemens: -24, ABB: -25	3 1 2 2
FMCG	17	Nestle: 59, Godrej Consumer: 38, GSK Consumer: 31	Asian Paints: 24, United Spirits: 18, ITC: 17	Dabur: 14, Britannia: 11, Colgate: 10, Hind. Unilever: 8	Marico: -11	3 3 4 1
IT	15	HCL Tech.: 42	TCS: 22, Infosys: 16	Wipro: 8%,	MphasiS: -8, Patni Computer: -9	1 2 2 2
Infra.	3	Nagarjuna Const.: 36	Simplex Infra.: 23	IVRCL Infra.: 9, Hindustan Const.: 2	Jaiprakash Associates: -5	1 1 2 1
Media	19	Jagran Prakashan: 39	Zee Entert.: 24, Sun TV: 18, HT Media: 16	Deccan Chronicle: 3		1 3 1 0
Metals	35	Nalco: 166, Tata Steel: 93, Sesa Goa: 80 Hindalco:79, Sterlite Inds.:30		JSW Steel: 6, Hindustan Zinc: 5	SAIL: -5	5 0 2 1
Oil & Gas	62	Cairn India: 585, ONGC: 83, Petronet LNG: 50, Reliance Inds.: 31		GAIL: 10, Indraprastha Gas: 8	Chennai Petro.: -6, MRPL: -20	4 0 2 3
Pharma	147	Dr Reddy' s Labs: **LP**, Ranbaxy Labs: **LP**, Strides Arcolab: 50 Lupin: 33, Divis Labs: 26	Glenmark Pharma: 21, GSK Pharma: 17	Opto Circuits: 12, Biocon: 12, Sun Pharma: 5	Cipla: -13,	7 2 3 3
Real Estate	7	Phoenix Mills:102, HDIL: 37		Mahindra Life.: 5, Unitech: 3, DLF: 2	Anant Raj Inds: -34	2 0 3 1
Retail	45	Shopper's Stop: 107, Jubilant Foodworks: 72, Titan Industries: 49	Pantaloon Retail: 21			3 1 0 0
Telecom	-34		Tulip Telecom: 25, Idea Cellular: 15		Bharti Airtel: -23, Reliance Comm: -67	0 1 1 2
Textiles	55	Vardhman Textiles: 132, Arvind Mills: 85	Alok Ind: 16		Raymond: -1	2 1 0 1
Utilities	116	PTC India: 82, Tata Power: 26	Power Grid Corp.: 24	Reliance Infra.: 8, CESC: 7, NTPC: 4		2 1 4 0
Others	50	United Phosphorus: 50				

Autos

3QFY11: What to expect

- Momentum in volumes to remain strong with 24.6% YoY growth (~0.6% QoQ) in auto volumes, strong growth across segments, driven by strong economic growth, availability of credit and new product launches.
- EBITDA margins are estimated to decline 10bp QoQ (~300bp YoY decline) to 12.5% due to an increase in RM cost, which will be partly off-set by an increase in selling price.
- While margins are expected to comeoff their peak, we do not expect reversion to be meaningful due to (a) strong volume growth, (b) higher pricing power, and (c) higher contribution from plants having fiscal incentives.
- Though volume outlook looks positive, hardening of interest rates, increase in fuel prices and increase in selling prices could act as short term impediments.
- Our top pick is **M&M**.

FY11-13: Major trends & outlook

- Strong economic growth to drive volume CAGR of 14-20%, across all segments. Market leaders with a wider product basket and market reach to outperform industry.
- Volume growth for two wheelers is estimated at 13.5%, Passenger vehicles at 18% and CV volume growth at 15%.
- Despite RM cost inflation putting pressure, EBITDA margins to sustain above historical average in two-wheelers, CVs, UVs and tractors due to higher operating leverage and increasing contribution from plants enjoying fiscal incentives.
- Earnings growth is estimated at 12-18% CAGR, with highest earnings CAGR in Maruti, M&M and Hero Honda.
- Prefer M&M due to a relatively benign competitive environment for these and attractive valuations compared to theirs peers.

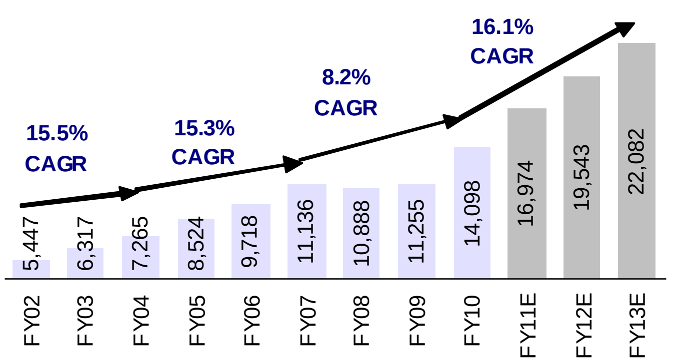
Autos: Introducing FY13 estimates

	MCap	Rating	FY11-13E CAGR (%)				EPS (Rs)				P/E (x)			
	(US$ b)		Sales	EBITDA	PAT	EPS	FY10	FY11E	FY12E	FY13E	FY10	FY11E	FY12E	FY13E
Bajaj Auto	9.3	Neutral	14.1	10.3	11.5	11.5	63	91	101	113	23.2	16.0	14.4	12.9
Hero Honda	8.6	Buy	12.4	13.3	15.1	15.1	112	104	121	137	17.4	18.9	16.2	14.3
Maruti Suzuki	9.1	Buy	17.7	21.6	18.9	18.4*	91*	91*	107*	127*	15.4	15.3	13.0	10.9
M&M	9.5	Buy	15.1	14.9	11.7	14.7*	43*	59*	69*	78*	17.7	12.7	11.0	9.7
Tata Motors(S/A)		Buy	17.4	15.8	30.5	30.5	23	25	36	43	58.6	53.4	38.2	31.4
Tata Motors(Cons)	19.9	Buy	14.1*	9.7*	11.1*	11.1*	23*	128*	147*	158*	51.6*	9.9*	8.6*	8.3*

* Indicates consolidated numbers

Autos: Key insights

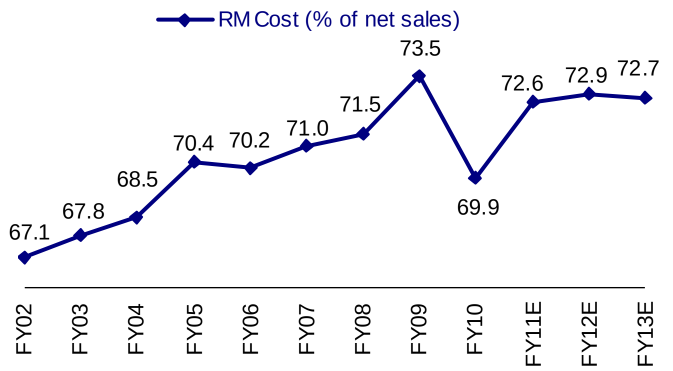
Trend in auto volumes since FY02



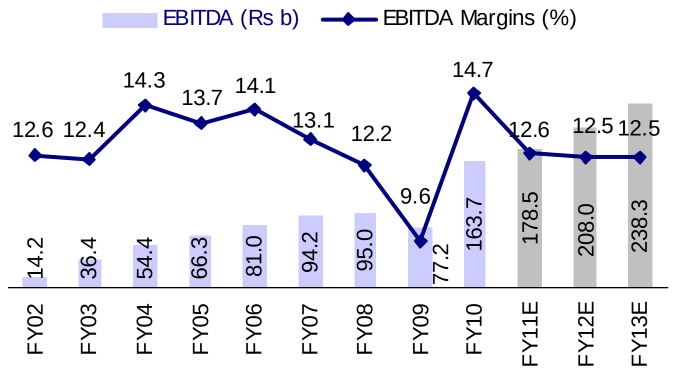
Volume and margin estimates

	FY10	FY11E	FY12E	FY13E
Volume growth (%)				
Bajaj Auto	30.0	39.2	14.2	14.0
Hero Honda	23.6	16.7	12.5	8.0
Maruti Suzuki	28.6	24.9	16.6	15.0
M&M	40.2	19.0	14.7	11.2
Tata Motors (S/A)	31.9	23.1	24.3	15.8
EBITDA margins (%)				
Bajaj Auto	21.7	20.3	19.4	19.0
Hero Honda	16.9	12.7	12.8	12.9
Maruti Suzuki	13.3	10.4	10.7	11.1
M&M	16.2	15.4	15.2	15.3
Tata Motors (Cons)	9.3	14.1	13.8	13.1

Trend in RM costs (% of sales)



Trend in EBITDA and EBITDA margins



BFSI

3QFY11: What to expect

- Credit growth for the system remains robust at 5%+ QoQ whereas deposit growth lags at ~3%.
- NII growth of ~3% QoQ would be lower than credit growth due to rising cost of funds. NIMs are expected to decline marginally. The impact of PLR increase can surprise us positively.
- Key things to watch for: (1) trends in margins, (2) clarity on quantum and accounting for pension and gratuity related liability and (3) trend in asset quality.
- Overall, we estimate 15% YoY growth (~4% QoQ growth) in PAT.
- Inflation and stressed liquidity remains a major headwind for the sector performance. On back of sharp rise in cost of funds, margins have peaked out in 2QFY11 in our view and expect it to decline gradually.
- We prefer selective buying and like banks with a strong core deposit franchise, higher tier-1 capital and high provision coverage ratio.

FY11-13: Major trends & outlook

- Healthy macroeconomic trends, increased financial penetration, focus on strengthening liability franchise and a strong risk-management system would drive business growth for banks.
- Earnings in FY11 will be driven by improvment margins however, for FY12-13 momentum will be led by healthy credit growth, lower credit cost due to expected fall in slippages, higher up-gradations and recoveries.
- We expect C/I ratio to improve, led by higher revenue and asset growth v/s operating costs. Branch expansion would lead to acceleration in overheads. For PSU bank, provisions towards pension liability would inflate operating expenses.
- We prefer **ICICI Bank** and **SBI** among large-caps given their relative strength. Among mid-caps we like **Yes Bank**.

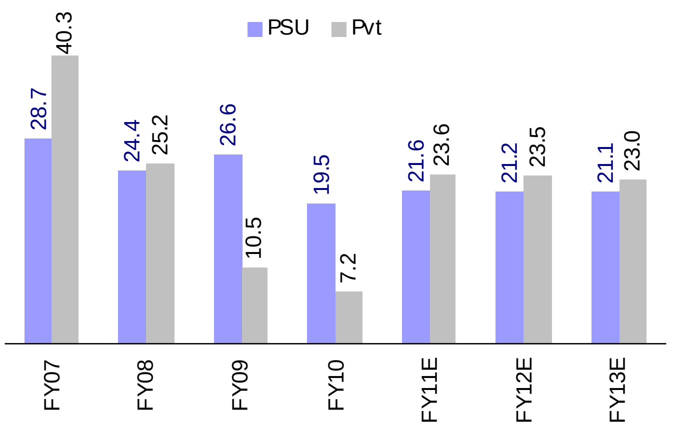
BFSI: Introducing FY13 estimates

	Mcap	Rating	FY11-13E CAGR (%)				BV (Rs)				P/BV (x)			
	(US$ b)		NII	OP	PAT	EPS	FY10	FY11	FY12	FY13	FY10	FY11	FY12	FY13
PSU Banks														
Andhra Bank	1.6	Buy	17.3	23.4	21.0	21.0	91	111	135	164	1.7	1.4	1.1	0.9
BoB	7.2	Neutral	17.5	20.6	18.7	18.7	383	465	560	675	2.3	1.9	1.6	1.3
BoI	5.1	UR	20.1	22.3	24.0	24.0	243	285	336	400	1.8	1.6	1.3	1.1
Canara	5.9	Buy	16.9	19.5	14.4	14.4	306	376	456	548	2.1	1.7	1.4	1.2
Corp Bank	2.0	Neutral	17.1	18.8	17.7	17.7	403	477	565	668	1.6	1.4	1.1	1.0
Dena Bank	0.7	Buy	16.8	16.0	17.4	17.4	83	101	123	149	1.4	1.1	0.9	0.8
Indian	2.4	Buy	17.6	17.9	14.5	14.5	155	182	214	250	1.7	1.4	1.2	1.0
OBC	2.3	Buy	13.9	15.3	14.9	14.9	292	342	399	464	1.4	1.2	1.0	0.9
PNB	8.5	Buy	18.1	24.8	22.9	22.9	515	629	771	943	2.4	1.9	1.6	1.3
SBI	38.8	Buy	18.9	21.7	25.4	25.4	1,039	1,168	1,327	1,537	NA	NA	NA	NA
SBI (Cons)*	38.8	Buy	18.6	21.7	28.5	28.5	1,268	1,431	1,641	1,920	2.1	1.8	1.6	1.4
UBoI	3.6	Buy	19.2	22.3	23.3	23.3	174	206	246	294	1.9	1.6	1.3	1.1
Private Banks														
Axis	11.9	Buy	21.2	19.7	21.8	21.8	396	459	537	630	3.3	2.9	2.5	2.1
Federal	1.5	Buy	13.3	13.1	18.3	18.3	272	298	330	367	1.4	1.3	1.2	1.1
HDFC Bank	22.7	Neutral	21.3	24.5	28.0	28.0	470	543	629	738	4.7	4.1	3.5	3.0
ICICI Bank*	28.5	Buy	20.1	20.6	24.1	24.1	348	365	401	446	2.6	2.4	2.1	1.9
ING Vysya Bank	1.0	Buy	18.8	21.5	30.7	30.7	185	207	235	274	2.0	1.8	1.6	1.4
J&K Bank	0.8	Buy	13.8	15.4	19.5	19.5	621	723	841	988	1.2	1.1	0.9	0.8
Kotak Bank	7.3	Neutral	21.3	17.2	19.4	19.4	114	150	174	201	4.0	3.0	2.6	2.2
SIB	0.6	Buy	21.5	26.3	22.0	22.0	13	15	17	20	1.9	1.6	1.4	1.2
Yes Bank	2.2	Buy	32.8	30.4	27.3	27.3	91	110	134	164	3.4	2.8	2.3	1.9
NBFC														
DHFL	0.6	Buy	39.3	37.3	35.0	35.0	101	145	173	210	2.6	1.8	1.5	1.3
HDFC*	22.6	Neutral	19.3	19.2	19.0	16.8	80	94	110	120	6.8	5.5	4.5	4.1
IDFC*	5.0	Neutral	23.5	21.9	20.1	20.1	42	68	79	91	3.6	2.2	1.9	1.7
LIC HF	2.0	Neutral	20.5	20.0	18.5	18.5	71	88	105	124	2.7	2.2	1.8	1.5
MMFSL	1.5	Buy	25.2	24.1	17.3	17.3	170	208	253	306	4.2	3.4	2.8	2.3
REC	6.4	Buy	17.7	18.1	18.0	18.0	112	127	145	165	2.6	2.3	2.0	1.8
STFC	3.9	Buy	20.3	19.6	19.2	19.2	170	217	273	339	4.6	3.6	2.9	2.3

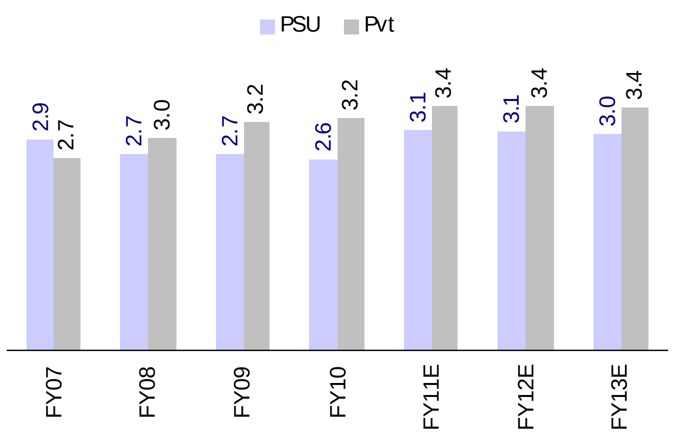
UR: Under Review; *Mulitiples adjusted for value of key ventures/investments; For ICICI Bk, HDFC Ltd. BV is adjusted for investments in subsidiaries, for IDFC goodwill and subsidiaries

BFSI: Key insights

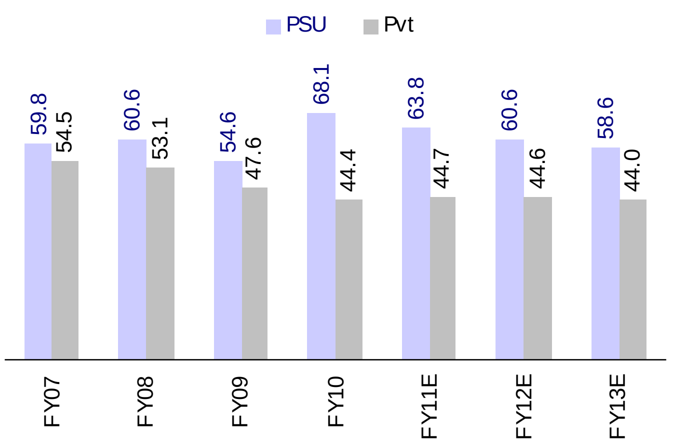
Loan growth to sustain at 20%+



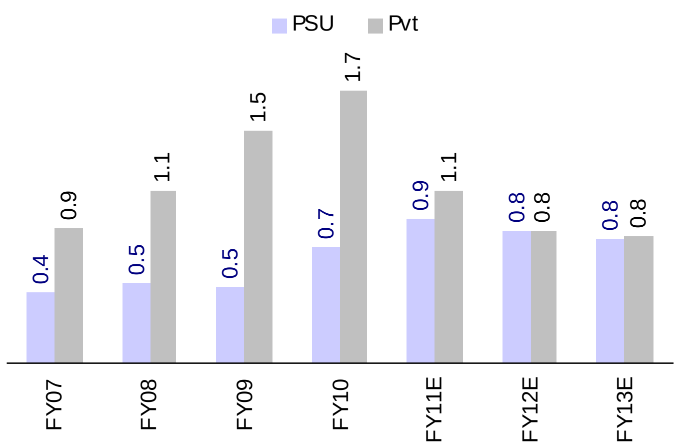
NIMs to decline gradually (%)



Core cost to income ratio to improve (%)



Credit cost is expected to fall with improving asset quality (%)



Cement

3QFY11: What to expect

- Demand momentum is muted with volume growth of 7.3% YoY (~9.8% QoQ), except very strong growth of 18% in October 2010.
- Domestic prices expected to be higher by 7.3% QoQ and 4.5% YoY, a reflection of significant price recovery between September and November, despite pressure on prices since end November.
- 3QFY11 aggregate EBITDA margins estimated to improve by 490bp QoQ (~760bp YoY decline) benefiting from improvement in realizations.
- We believe that we have already witnessed bottom-of-the-cycle utilization, and it should gradually improve from hereon.
- Among large-cap stocks, **ACC** is our top pick, and we prefer **Birla Corp** and **India Cement** among mid-caps.

FY11-13: Major trends & outlook

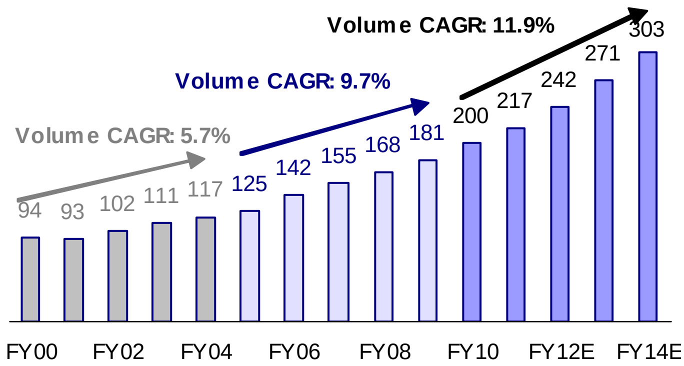
- Volume growth estimated at 10%-12% driven by infrastructure and rural housing.
- Limited capacity addition (~22mt in FY12) would result in gradual recovery, with pick-up in capacity utilization from 2HFY12. We estimate capacity utilization to increase from 82% in FY12 to 85% in FY13.
- Expect cement prices to recover from 2HFY12, thereby driving improvement in margins and profit growth. We estimate cement prices will rise by Rs5/bag in FY12 and Rs10/bag in FY13.
- The cement sector would witness strong earnings growth over FY11-13, driven by robust demand and price increases. This coupled with limited capex, would generate very strong cashflows.
- Prefer **ACC**, **UltraTech**, **Birla Corp** and **India Cement**.

Cement: Introducing FY13 estimates

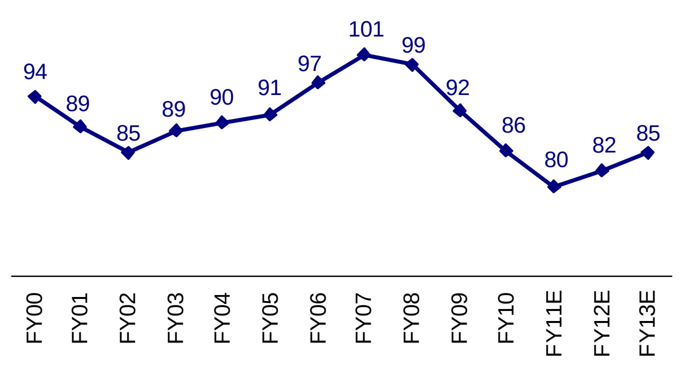
	MCap	Rating	FY11-13E CAGR (%)				EPS (Rs)				P/E (x)			
	(US$ b)		Sales	EBITDA	PAT	EPS	FY10	FY11E	FY12E	FY13E	FY10	FY11E	FY12E	FY13E
ACC	4.4	Buy	15.2	19.7	20.9	20.9	86.7	54.8	61.7	80.1	12.7	20.1	17.2	13.3
Ambuja Cement	4.7	Neutral	16.6	18.4	19.3	19.3	7.8	7.7	8.4	10.9	18.0	18.3	16.6	12.8
Grasim	4.8	Buy	13.8	19.2	16.5	16.5	298.2	242.8	261.6	329.3	7.9	9.7	9.0	7.2
UltraTech Cement	6.6	Neutral	24.6	37.5	43.2	43.2	87.8	46.2	62.6	94.7	12.1	23.1	17.0	11.3
Birla Corp	0.6	Buy	15.7	21.8	16.7	16.7	72.4	51.1	55.9	69.6	4.7	6.6	6.0	4.8
India Cement	0.7	Buy	17.5	37.2	49.8	52.7	10.9	4.0	8.1	9.3	9.8	26.9	13.3	11.5
Shree Cement	1.6	Neutral	26.2	29.7	45.2	45.2	203.7	68.8	87.3	145.0	10.2	30.3	23.8	14.4

Cement: Key insights

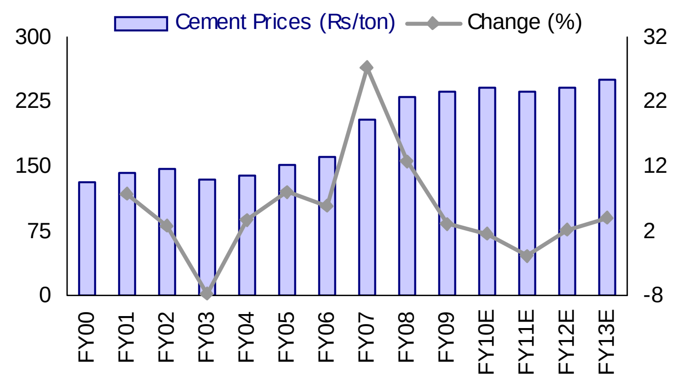
Trend in cement dispatches



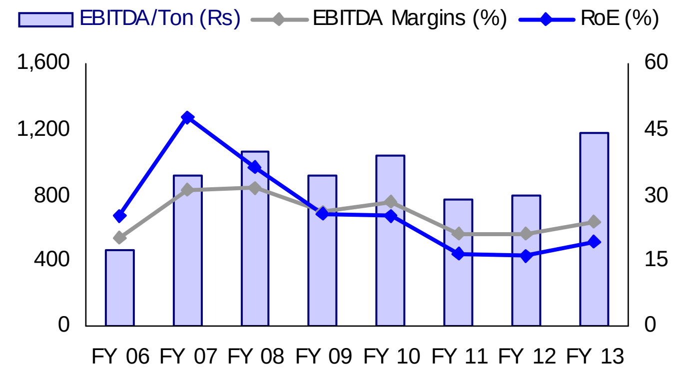
Trend in capacity utilization (%)



Trend in cement prices



Trend in EBITDA & RoE



Construction

3QFY11: What to expect

- The construction sector is expected to post improved revenue growth during the quarter, of 13%YoY, against 5.7% YoY in 1HFY11. Execution was impacted in the first half of the year by an extended monsoon and slow progress on several large projects.
- We believe order flows from NHAI and the building segment will pick up in 3QFY11.
- In spite of construction costs and interest rates going up, we expect EBITDA and NPM margins to stabilize with growing composition of higher margin contracts in the order book.
- We prefer **NCC** and **Simplex**. We expect strong earnings growth for these companies in 2H FY11, which will significantly improve valuations, resulting in a meaningful upside to stock prices.

FY11-13: Major trends & outlook

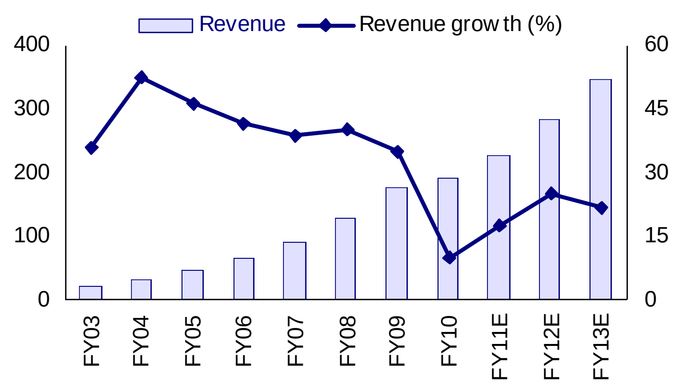
- We expect order flow CAGR of 20% based on strong infrastructure development expected in the economy. Despite near-term issues, the road sector will drive growth over FY11-13, followed by the building construction segment. New sectors such as power and urban infrastructure will provide additional stimulus to industry growth.
- We estimate revenue CAGR of 23% over FY11-13 and PAT CAGR of 27% over FY11-13 in our construction universe.
- Increasing key input prices might impact EBITDA margins going forward. We factor in a 10-20bp decline in margins.
- The road sector will see a large number of BOT awards over the next few months. This may result in construction companies aggressively tapping capital markets to raise funds.

Construction: Introducing FY13 estimates

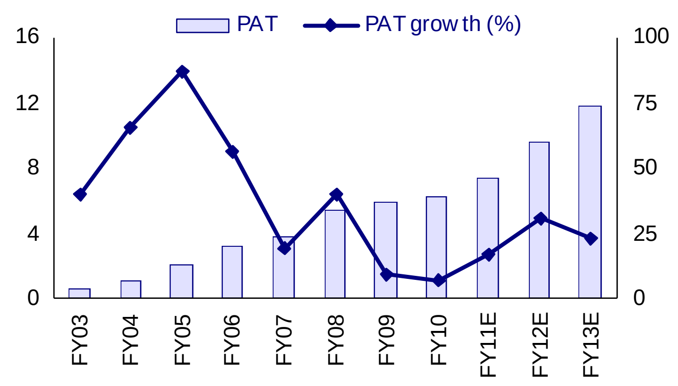
	MCap	Rating	FY11-13E CAGR (%)				EPS (Rs)				P/E (x)			
	(US$ b)		Sales	EBITDA	PAT	EPS	FY10	FY11E	FY12E	FY13E	FY10	FY11E	FY12E	FY13E
HCC	0.3	Neutral	23	23	40	40	1.7	1.6	2.3	3.2	24.8	26.6	18.2	13.5
NCC	0.7	Buy	23	28	24	24	9.2	11.7	14.3	18.0	13.9	11.0	9.0	7.2
IVRCL	0.7	Neutral	22	20	19	19	7.9	8.4	10.7	11.9	15.7	14.8	11.7	10.5
Simplex Infra	0.5	Buy	25	23	27	27	24.8	34.3	45.5	55.3	16.6	12.0	9.1	7.5

Construction: Key insights

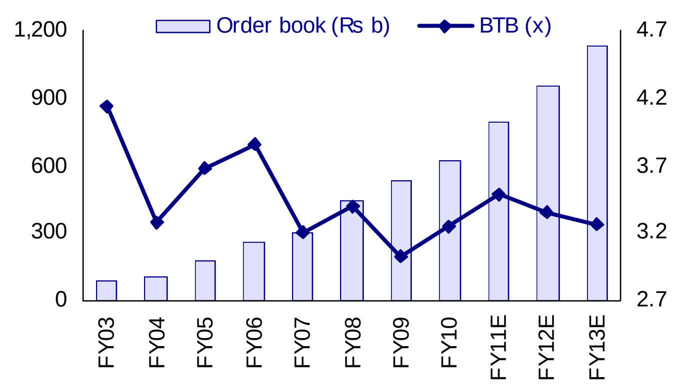
Expected revenue CAGR 23% over FY11-13



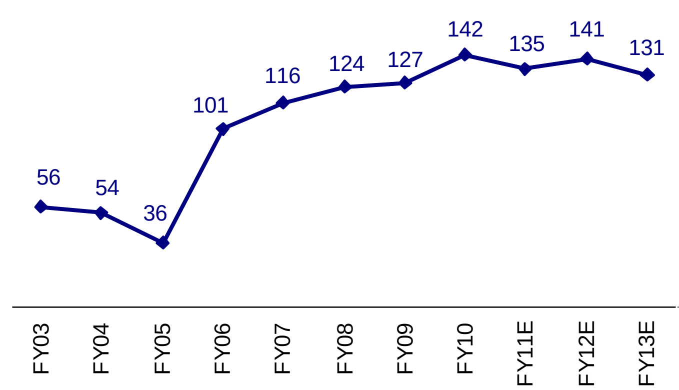
Expected PAT CAGR 27% over FY11-13



Expected order book CAGR of 20% over FY11-13



Adjusted net working capital expected to improve in FY13



Engineering

3QFY11: What to expect

- IIP growth for October came in at 10.8% with the Capital Goods Index growing at 22%, indicative of a robust turnaround in industrial activity and a benign industrial capex scenario.
- With a BTB ratio of 3x at the end of 2QFY11 for the industry, we expect revenue growth to remain robust and consistent. 3QFY11 revenue growth for the industry is expected at 23% v/s 21% in 1HFY11 and 13% in FY10.
- Expect EBITDA margins of 14.8% for 3QFY11 v/s 13.3% in 1HFY11 and 14.7% in FY10. Stable material prices and consistent project execution enabled a stable margin scenario in YTD FY11.
- PAT growth for 3QFY11 is expected at 8%. Expect BGR (+57%), Thermax (+43%) to lead the pack.

FY11-13: Major trends & outlook

- Estimate revenue CAGR of 27% over FY11-13 as L&T and BGR record the highest CAGRs of 33% and 34% respectively. BHEL will be consistent with 22% improvement.
- EPC players like BHEL, L&T and Thermax will localise super-critical technology over FY11-13. Expect stable industry margins of 15-16% as volume growth remains benign in spite of rising input costs over the recent months.
- Despite strong long term outlook; policy hurdles may impede infra-spending hence orderflow in near term.
- Power BTG space will see entry of new players but we expect power demand supply dynamics to remain favourable for domestic players thereby benefiting BHEL.

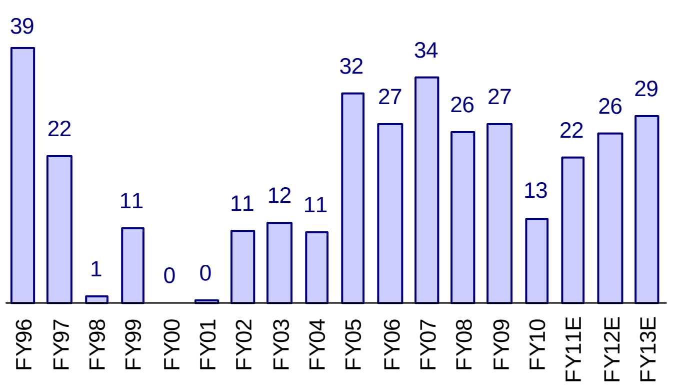
Engineering: Introducing FY13 estimates

	MCap	Rating	FY11-13E CAGR (%)				EPS (Rs)			P/E (x)			
	(US$ b)		Sales	EBITDA	PAT	FY10	FY11E	FY12E	FY13E	FY10	FY11E	FY12E	FY13E
ABB	170.5	Neutral	20.3	172.9	136.9	16.7	5.7	23.9	32.2	48.1	140.3	33.7	25.0
BHEL	24.8	Buy	22.1	21.7	20.6	95.7	119.0	146.4	173.0	23.9	19.2	15.6	13.2
BGR Energy	1.1	Buy	32.4	30.5	30.5	28.0	41.0	53.2	69.9	24.8	16.9	13.1	9.9
Crompton	4.6	Neutral	20.4	20.1	21.1	12.6	14.1	17.3	20.7	26.0	23.2	19.0	15.8
Cummins	3.3	Buy	23.6	24.5	25.0	22.4	33.5	45.0	52.4	34.1	22.8	17.0	14.6
L&T	26.1	Buy	33.3	28.2	25.3	61.6	75.8	93.7	119.1	31.8	25.8	20.9	16.4
Siemens	6.2	Buy	25.0	27.1	27.1	22.5	30.1	38.6	48.7	33.8	27.5	21.5	17.0
Thermax	2.3	Neutral	24.9	24.9	26.9	21.8	30.7	41.0	49.5	36.3	25.7	19.3	15.9

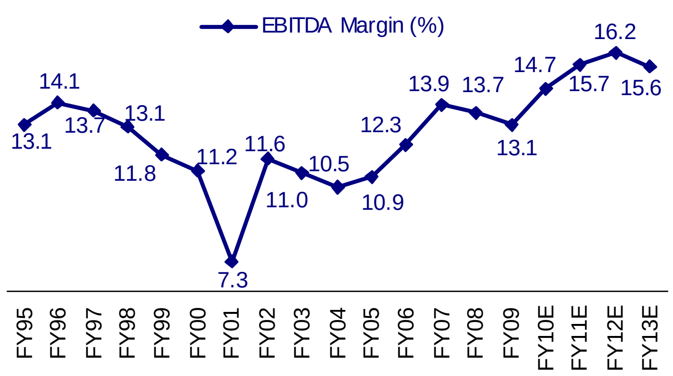
PER is based on FY12E; # Year end December; ## Year end September

Engineering: Key insights

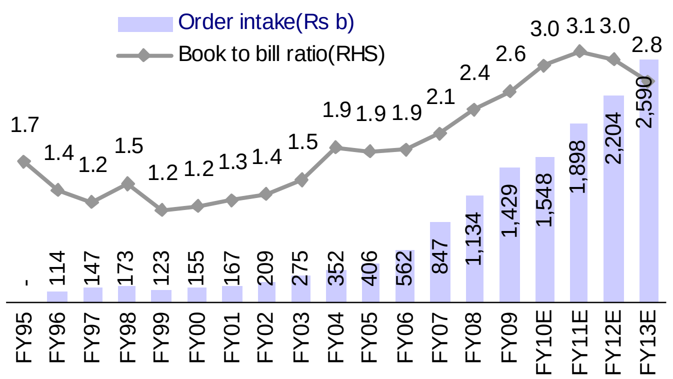
Revenue CAGR of 27% (FY11-13)



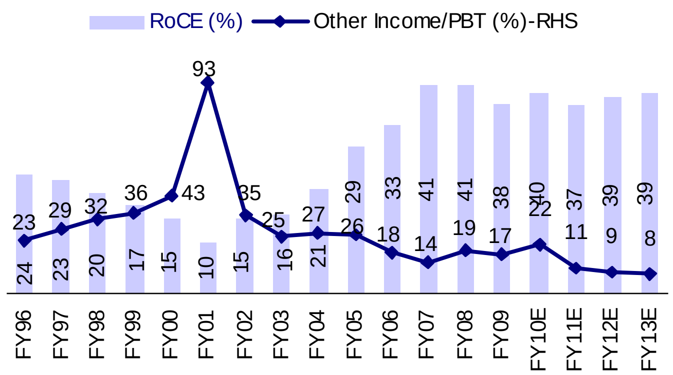
OPM (%) : Industry margins range bound



Industry intake CAGR of 17% (FY11-13); BTB of 2.8x



Stable RoCE; low yields/higher capex shrinks other income



FMCG

3QFY11: What to expect

- We expect our FMCG universe to post 20% sales growth (18% excluding acquisitions) in 3QFY11. Sales growth is likely to be largely volume led as price increases have been few in the FMCG space.
- Despite an input cost surge, most players have been cautious in passing on the cost push fully as the pursuit of volume growth takes a priority.
- We believe pressure on EBITDA margins is likely to be cushioned for most players due to cost containment (ad-spends, other expenses).
- We are cautious about the sector given the premium valuations, rising MNC competition and input cost pressure.
- Prefer **ITC** and **Asian Paints** in the near term due to likely surprise in volume growth traction and relatively better pricing power.

FY11-13: Major trends & outlook

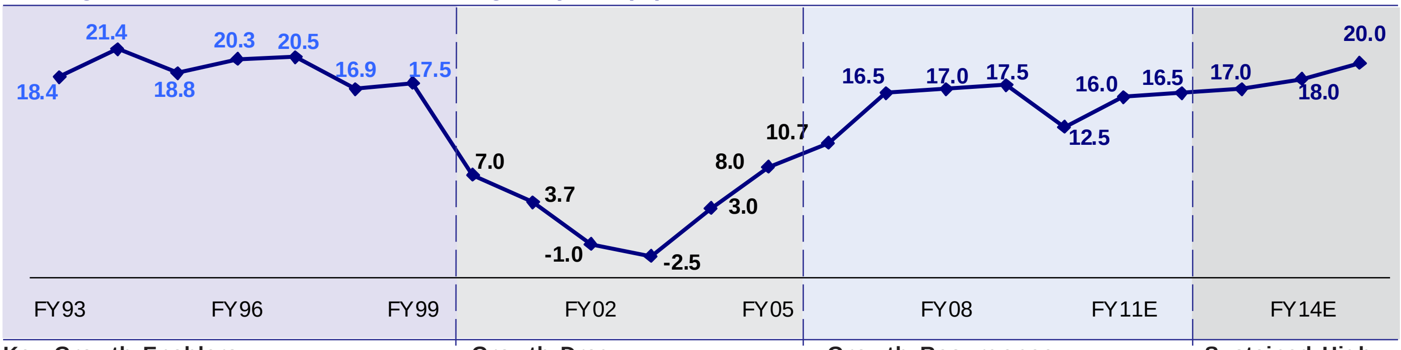
- The FMCG sector is likely to benefit from the twin impact of higher penetration and/or premiumization. We expect categories like processed food, skin care, IMFL and paints to report robust growth over the coming years.
- We see competition intensifying in the coming years as global players warm up to the huge opportunity offered by Indian demographics and lifestyle. In addition, we see domestic players vying for new categories/geographies in their search for growth drivers.
- Structural reforms like the implementation of GST, FDI in retail, and rationalization of personal tax can alter the growth trajectory materially.
- Prefer **ITC**, **Nestle** and **Asian Paints** due to strong visibility of volumes over the long term.

FMCG: Introducing FY13 estimates

	MCap (US$ b)	Rating	FY11-13E CAGR (%)				EPS (Rs)				P/E (x)			
			Sales	EBITDA	PAT	EPS	FY10	FY11E	FY12E	FY13E	FY10	FY11E	FY12E	FY13E
Asian Paints	5.7	Buy	19.2	18.2	19.4	19.4	80.5	96.0	115.9	137.9	33.7	28.2	23.4	19.7
Britannia Industries	1.1	Neutral	19.8	27.8	15.1	15.1	14.2	11.1	16.2	21.7	28.4	36.3	24.9	18.6
Colgate	2.5	Neutral	16.0	17.5	14.9	14.9	29.7	33.7	38.6	45.2	28.3	24.9	21.8	18.6
Dabur	3.9	Neutral	15.9	16.8	18.1	18.1	2.9	3.3	3.9	4.8	35.5	31.4	26.3	21.4
Glaxo Smithkline*	1.9	Buy	17.8	20.1	22.5	22.5	55.4	69.1	84.3	102.3	38.0	30.5	25.0	20.6
Godrej Consumer	2.7	Neutral	35.3	31.3	21.6	19.7	11.7	13.9	17.5	20.2	32.1	27.1	21.4	18.6
Hind. Unilever	14.3	Neutral	11.3	8.9	10.9	10.9	9.4	9.9	11.2	12.9	31.6	30.0	26.6	23.1
ITC	27.9	Buy	15.0	16.4	17.6	17.6	5.3	6.4	7.5	8.7	31.3	26.0	22.1	19.2
Marico	1.7	Neutral	18.6	14.0	17.0	16.8	4.0	4.2	5.1	6.4	31.2	29.9	24.5	19.5
Nestle*	7.7	Buy	22.7	21.6	19.9	19.9	72.4	85.8	103.1	125.5	50.3	42.4	35.3	29.0
United Spirits	3.9	Buy	16.2	23.2	46.9	46.9	25.8	43.5	61.4	82.8	55.0	32.6	23.1	17.1

FMCG: Key insights

FMCG growth to accelerate over the coming five years (%)



Key Growth Enablers (1993-1999)	Growth Drag (2000-2006)	Growth Resurgence (2007-2012)	Sustained High Growth (2013-15)
Reduction in excise duty from 70% to 30%	Agri-degrowth/drought	Agri GDP growth of 3%	Decline in rural poverty
Pent-up demand post liberalization	3-5% CAGR in agri prices	10-15% increase in crop prices	Emergence of urban middle class
Entry of P&G, Revlon, L'Oreal, Sara Lee, etc	Shift in consumer wallet share	10x increase in NREGA allocation	Improved availability
New brands (HUL - Organics & Le Sancy, Colgate-Protex, Optima, Axion, Palmolive, etc)	Fall in interest rates, durable prices	Emergence of new categories (skin care, juices, noodles, paints, snacks)	Rising awareness
	HLL-P&G price war; End of P&G-Godrej JV	Rising aspiration levels	

*Sales growth of HUL (adjusted for acquisitions), Nestle, GSK and Colgate taken as a proxy for FMCG growth prior to FY00

Information Technology

3QFY11: What to expect

- Continued traction in broad based demand to drive robust growth across top-tier companies, with the big-three growing at 5.4-7.1% QoQ, led by TCS.
- Expect the commentary on near-term prospects to be bullish while outlook may remain cautious over the long term trend given prevailing macro uncertainties.
- A 30-50bp decline in EBITDA margins QoQ led by ~3.3% appreciation in the rupee v/s the US dollar.
- Sector outlook remains positive, driven by continued economic recovery, strength in the deal pipeline and hiring activity by companies.
- Prefer **Infosys** and **HCL Tech** among top-tier companies and **Mphasis** among mid-cap IT stocks.

FY11-13: Major trends & outlook

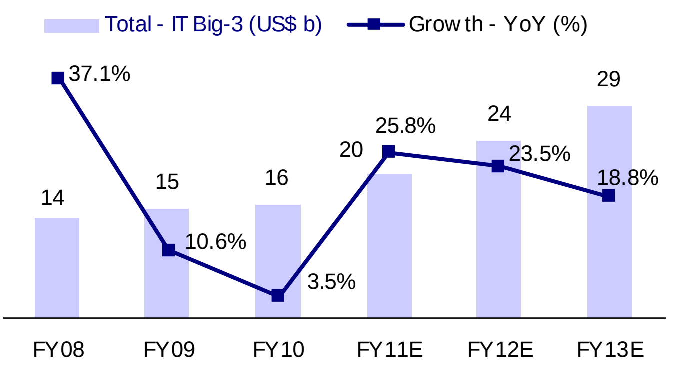
- Volume growth to be strong as the economy is in stable to gradual recovery mode. Greater outsourcing to sustain demand traction despite no material up-shifts in YoY technology budgets.
- Discretionary spend, shades of which were apparent in the BFSI and Retail sectors, to pick up, yielding better pricing realization. This may be augmented by a like-to-like pricing increase on continued high demand for services.
- Non-UK European countries like France, Germany and Spain will drive growth as Europe's proportion of revenue increases.
- Wage inflation to moderate going forward as the talent pool remains abundant and attrition rates return to normal from the high levels seen over the past three quarters.
- Prefer **Infosys, TCS** and **HCL Tech** among the large caps over the long term, **Mphasis** among the mid-caps.

Information Technology: Introducing FY13 estimates

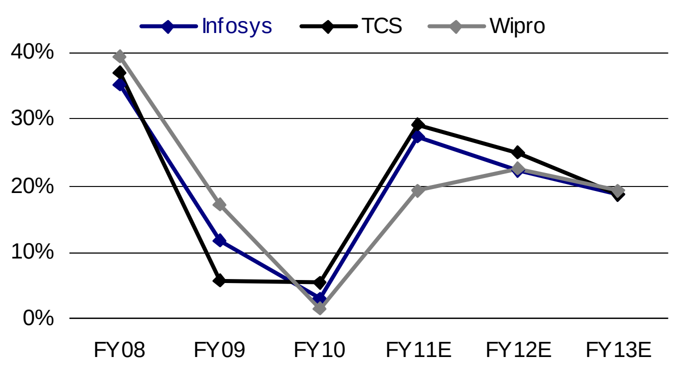
	MCap	Rating	FY11-13E CAGR (%)				EPS (Rs)				P/E (x)			
	(US$ b)		Sales	EBITDA	PAT	EPS	FY10	FY11E	FY12E	FY13E	FY10	FY11E	FY12E	FY13E
HCL Tech	6.9	Buy	20	24	22	22	17	24	31	35	26	19	15	13
Infosys	43.4	Buy	18	18	22	22	107	123	153	183	31	27	22	19
Mphasis	3	Neutral	24	17	8	8	52	53	60	70	13	13	11	9
Patni	1.4	Neutral	14	12	6	6	36	41	41	46	14	12	12	10
TCS	49.2	Neutral	19	18	18	18	35	43	51	61	33	26	22	19
Tech Mahindra	1.9	Neutral	13	4	4	18	45	49	57	74	15	14	12	9
Wipro	25.2	Neutral	17	17	15	15	19	22	25	29	26	22	19	17

Information Technology: Key insights

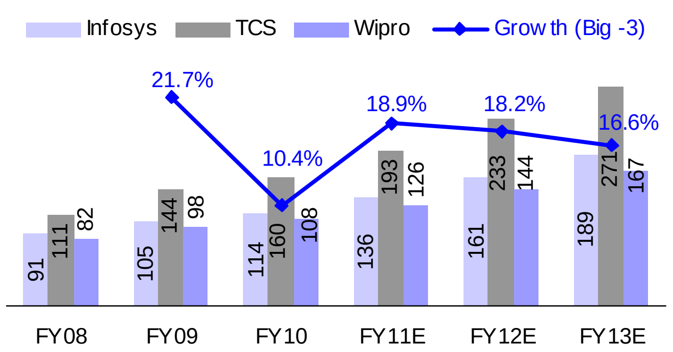
Revenue growth picks up again after the slump



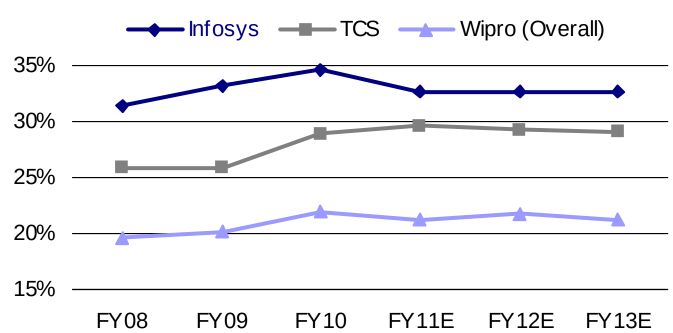
Big-three to continue to grow at comparable rates



Headcount additions to stay high, in line with demand trends



EBITDA margins to sustain at current levels - (%)



Metals

3QFY11: What to expect

- Domestic steel demand was sluggish in the beginning of quarter. Indian steel producers rolled back price hikes implemented in the later part of 2QFY11.
- Steel prices and demand picked up gradually in December. The shut down of Ispat Industries in November helped in a supply side correction. Improved price sentiment globally helped in recovery of prices in the domestic market.
- Cost of production of steel is likely to witness marginal inflation due to higher iron ore prices/royalties. A slight improvement in margins is expected.
- Stronger zinc and aluminum LME are likely to drive earnings for non-ferrous companies.
- Soft merchant power rates may drag the earnings of Godawari, Monnet, Sarda and Sterlite Industries.

FY11-13: Major trends & outlook

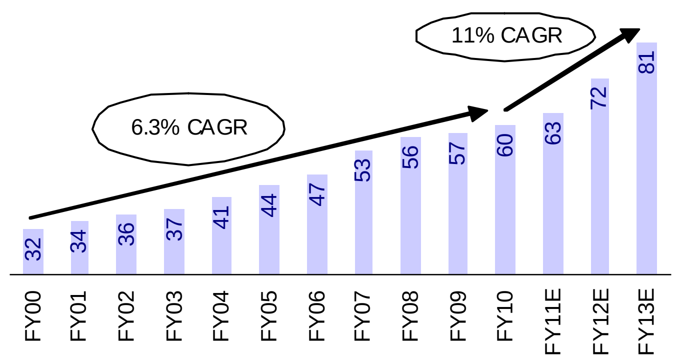
- Indian steel production growth is likely to accelerate to 11% over the next couple of years v/s 6% in the past 10 years. JSW Steel, Tata Steel, SAIL, Essar and RINL will add 3-4mtpa capacity each over the coming 12-15 months through brownfield expansion.
- Shortage of coal will stifle sponge iron production. As a result, secondary steel producers may lose market share to primary producers.
- Though the demand outlook is robust, large new supplies from primary steel producers will try to compete with secondary producers and imports will lead to margin compression for them.
- Aluminum production growth will decelerate due to shortage of bauxite. Though India has one of the finest bauxite reserves, mining growth has suffered due to environment issues.

Metals: Introducing FY13 estimates

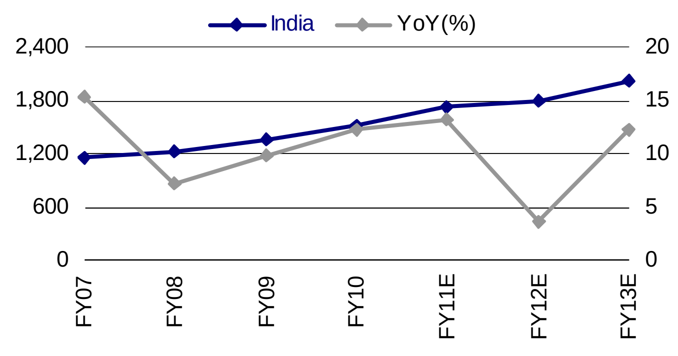
	MCap (US$ b)	Rating	FY11-13E CAGR (%)				EPS (Rs)				P/E (x)			
			Sales	EBIT	PAT	EPS	FY10	FY11E	FY12E	FY13E	FY10	FY11E	FY12E	FY13E
Tata Steel	13.0	Neutral	4.6	8.4	11.9	11.2	-9.3	74.4	75.1	92.0	-	8.9	8.9	7.2
SAIL	17.8	Neutral	10.5	12.9	3.8	3.8	16.5	14.7	15.4	15.9	11.6	13.0	12.4	12.1
JSW Steel	6.7	Buy	30.0	34.6	60.6	49.0	59.4	70.2	110.6	156.0	20.2	17.1	10.9	7.7
Sesa Goa	5.7	Buy	1.0	2.1	0.0	0.0	31.6	54.9	50.3	54.9	9.4	5.4	5.9	5.4
Sterlite Inds.	12.5	Buy	0.2	0.4	0.3	0.3	12.0	13.4	22.1	22.9	14.0	12.5	7.6	7.4
Hindustan Zinc	11.6	Buy	5.9	8.0	10.2	10.2	95.6	100.6	123.0	134.7	12.7	12.1	9.9	9.0
Nalco	5.5	Sell	3.5	5.7	6.3	6.3	12.5	20.4	26.5	24.5	30.2	18.5	14.2	15.4
Hindalco	10.0	Buy	2.6	13.0	11.6	11.6	9.6	16.9	19.5	21.0	23.2	13.3	11.5	10.6

Metals: Key insights

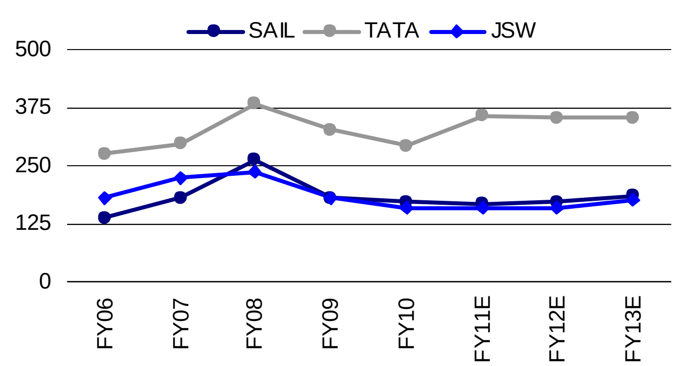
Steel production to accelerate (m tons)



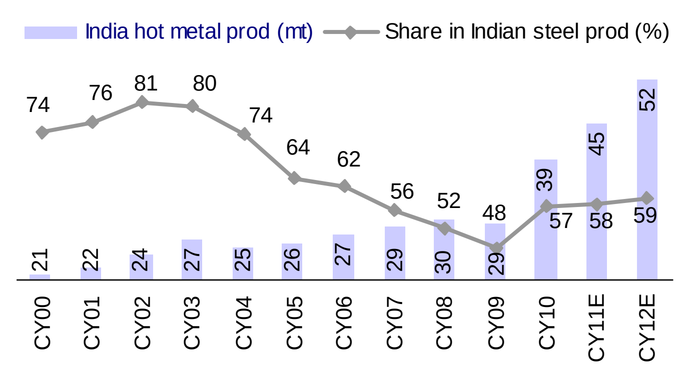
Aluminum production growth will decelerate (k tons)



Steel margins will compress (US$/t)



Indian crude steel production will be driven by hot metal



Oil and Gas

3QFY11: What to expect

- Strong GRMs (up 31% QoQ) led by naphtha cracks (up 200% QoQ) and sustained auto fuel cracks. We expect refiners to post inventory gains in this quarter with US$10/bbl increase in crude price.
- Strong polyester margins (up >15% QoQ) marginally offset by weaker polymer margins (down 2% QoQ). RIL and GAIL to benefit.
- Adhocism in subsidy sharing to continue. Profitability of the OMCs will depend on actual subsidy sharing than business fundamentals.
- Expect gas availability to sustain led by RLNG imports at Hazira and Dahej and the restart of PMT fields.

FY11-13: Major trends & outlook

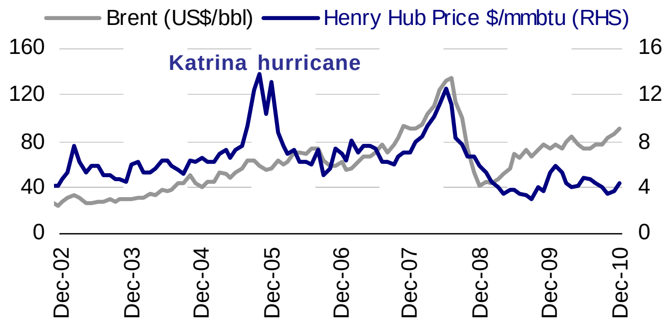
- Expect refining and petchem margins to improve from FY09 lows.
- Post partial deregulation in June 2010, we expect government to provide clarity on diesel deregulation and subsidy sharing on under recoveries in coming months.
- RIL's KGD6 ramp up expected in FY13 and Cairn's Rajasthan production will continue to increase at a steady rate.
- Mega projects to come on line: (1) BPCL's Bina, HPCL's Bhatinda and IOC's Paradip refinery (2) RIL: offgas cracker, IGCC, PX and (3) GAIL: Doubling pipeline and petchem capacity.
- Expect new policies on shale gas exploration and gas price pooling to increase gas availability in India.

Oil and Gas: Introducing FY13 estimates

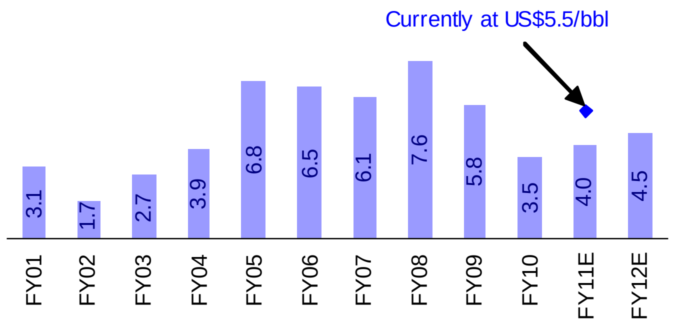
	MCap (US$ b)	Rating	FY11-13E CAGR (%)				EPS (Rs)				P/E (x)			
			Sales	EBITDA	PAT	EPS	FY10	FY11E	FY12E	FY13E	FY10	FY11E	FY12E	FY13E
BPCL	5.4	Buy	1.9	23.9	12.5	13.2	45.2	58.5	60.2	65.5	14.9	11.5	11.2	10.3
Cairn India	13.8	Neutral	111.1	136.7	103.9	103.9	5.5	30.6	46.6	46.9	59.2	10.7	7.0	7.0
Chennai Petroleum	0.8	Buy	6.4	15.6	(6.5)	0.3	32.7	22.0	29.4	33.0	7.5	11.2	8.4	7.5
GAIL	14.4	Buy	14.6	21.1	14.4	14.4	24.8	29.4	32.0	37.0	20.8	17.5	16.1	13.9
Gujarat State Pet.	1.4	UR	5.3	5.5	0.3	0.3	7.4	7.2	6.2	7.4	15.8	16.1	18.8	15.6
HPCL	3.0	Buy	(0.6)	11.5	0.5	0.5	38.4	37.4	39.4	39.0	10.4	10.7	10.1	10.3
IOC	19.1	Buy	(2.9)	16.4	0.2	0.6	44.1	34.3	39.6	44.9	8.0	10.3	8.9	7.9
Indraprastha Gas	1.0	Neutral	31.5	22.4	16.6	16.6	15.4	17.5	20.5	24.4	21.3	18.7	16.0	13.4
MRPL	2.8	Sell	8.4	8.7	(2.6)	(2.6)	6.0	3.7	4.8	5.6	12.0	19.6	15.2	13.0
ONGC	61.4	Buy	10.8	8.3	12.4	12.4	90.7	109.0	128.8	129.0	14.3	11.9	10.1	10.0
Petronet LNG	2.1	Buy	20.9	33.8	28.0	28.0	5.4	7.0	9.4	11.3	23.3	17.9	13.3	11.1
Reliance Inds.	77.2	Neutral	4.6	16.2	17.9	17.6	54.8	67.9	73.6	89.2	19.3	15.6	14.4	11.9

Oil and Gas: Key insights

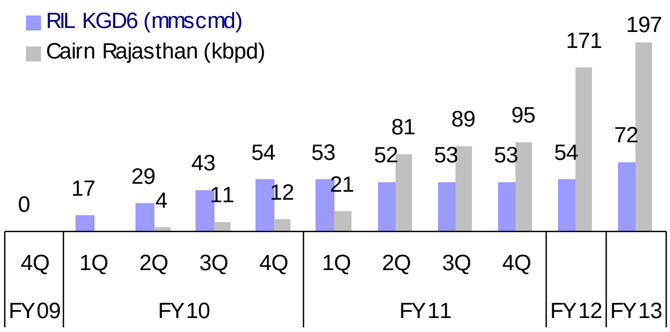
Oil rebounds above US$90/bbl, gas yet to recover



GRM rebounds from its recent lows (US$/bbl)



Domestic production of oil and gas to surge in FY11



One-third subsidy sharing by upstream, 10% by OMC

	(Rs b)	FY09	FY10	FY11E	FY12E
	Brent (US$/bbl)	84.8	69.6	81.4	80.0
Under recoveries	Petrol	52	52	27	-
	Diesel	523	93	238	207
	PDS Kerosene	282	174	180	177
	Domestic LPG	176	143	195	201
	Total	**1,033**	**461**	**639**	**585**
Sharing	Oil Bonds/Cash	713	260	364	331
	Upstream	329	145	211	195
	OMCs sharing	(9)	56	64	58
	Total	**1,033**	**461**	**639**	**585**

Pharmaceuticals

3QFY11: What to expect

- EBITDA growth of 14.5% led by Sun Pharma (due to the Taro acquisition), Divis Lab and second tier generic companies performance.
- Large generic players, like Dr Reddy's Lab and Ranbaxy, are likely to report profits in 3QFY11 v/s losses in 3QFY10 (due to intangible write-offs and adverse currency movements). Cipla will report decline in profits due to muted top-line growth and an adverse product mix.
- CRAMS companies excluding Divis Lab are likely to report poor performance due to a tough business environment and sell-off/ demerger of business segments.
- Prefer **Cipla**, **Sun Pharma** in the generic segment and **Divis Labs** in the CRAMS segment. **GSK Pharma** is our top pick in MNC space.

FY11-13: Major trends & outlook

- Generic companies are likely to benefit from the launch of Para IV/low competition products in the US and continued momentum in the domestic market. Product differentiation will be a key focus area for marketing in the US.
- CRAMS sector outlook is positive over a longer term as the economics of outsourcing is compelling. Players are expected to revert to normalcy from FY12 after 6-8 quarters of poor performance due to inventory de-stocking by customers and overall slow-down.
- MNC companies are poised to do well, given the strong growth expected in domestic formulations led by favorable demographics, strong product pipeline of parent companies and the launch of patented products.
- Prefer **Cipla** and **Sun Pharma** in the generic segment, **Divis Labs** in the CRAMS space and **GSK Pharma** among MNCs.

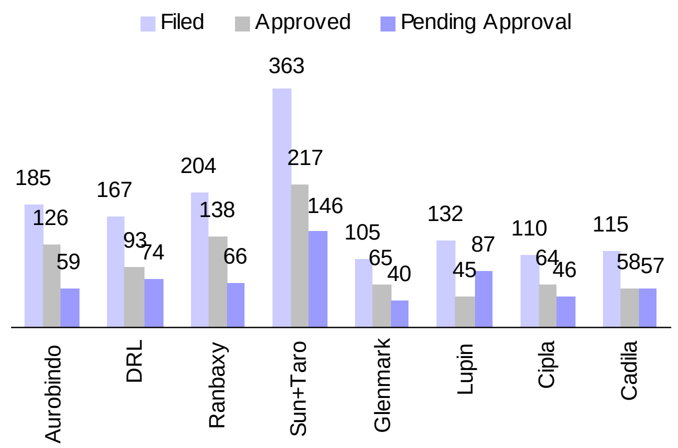
Pharmaceuticals: Introducing FY13 estimates

	MCap (US$ b)	Rating	FY11-13E CAGR (%)				EPS (Rs)				P/E (x)			
			Sales	EBIT	PAT	EPS	FY10	FY11E	FY12E	FY13E	FY10	FY11E	FY12E	FY13E
Aventis	0.9	Neutral	12.5	22.1	19.2	19.2	68.4	69.2	82.4	98.3	26.4	26.1	21.9	18.4
Biocon	1.8	Buy	14.7	9.6	16.0	16.0	14.2	17.5	20.6	23.6	28.4	23.0	19.6	17.1
Cadila	3.6	Buy	15.3	16.0	23.8	23.8	24.9	30.5	37.6	46.7	31.1	25.4	20.6	16.5
Cipla	6.4	Buy	14.8	14.5	18.3	18.3	12.5	12.9	16.2	18.0	28.8	28.0	22.3	20.0
Dishman	0.3	Neutral	15.1	23.1	16.5	16.5	14.2	11.9	12.4	16.2	9.8	11.7	11.3	8.6
Divi's Lab	1.8	Buy	19.7	26.4	24.2	24.2	25.8	26.1	32.3	40.2	24.0	23.7	19.1	15.4
Dr. Reddy's Lab	6.3	Buy	13.0	9.3	10.5	10.5	6.3	67.5	75.9	82.5	266.5	25.0	22.2	20.4
Glenmark	2.1	Neutral	13.7	14.1	27.3	27.3	11.6	13.3	18.4	21.5	30.4	26.7	19.2	16.5
GSK Pharma	4.2	Buy	15.0	17.4	16.6	16.6	69.0	80.3	93.8	109.6	31.9	27.4	23.4	20.1
Jubilant	1.0	Neutral	7.9	18.4	21.0	21.0	26.5	19.9	22.2	29.1	10.4	13.9	12.5	9.5
Lupin	4.5	Buy	12.9	12.9	10.8	10.8	15.3	19.5	23.6	24.0	29.7	23.4	19.3	19.0
Opto Circuits	1.1	Neutral	29.8	25.1	27.4	27.4	13.4	16.4	18.6	26.7	19.0	15.5	13.7	9.5
Ranbaxy	5.4	Sell	3.6	-17.4	31.5	31.5	3.6	32.2	10.1	15.9	131.9	14.8	47.2	29.9
Strides Arcolab	0.5	Buy	20.4	19.9	24.4	24.4	11.2	30.0	41.1	46.4	36.8	13.8	10.1	8.9
Sun Pharma	10.2	Buy	15.7	9.2	25.4	25.4	9.2	12.7	16.4	20.1	34.0	34.9	27.0	22.1

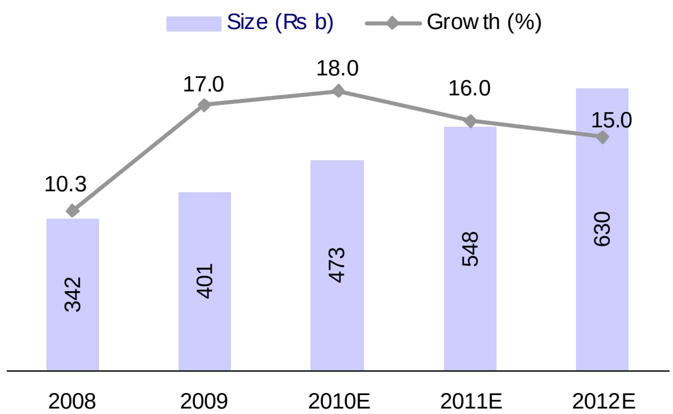
Note - Estimates exclude Para-IV & low-competition upsides for generic companies

Pharmaceuticals: Key insights

Strong ANDA pipeline to drive growth in the US over 2-3 years



Domestic formulation market to grow in double digits



Real Estate

3QFY11: What to expect

- Strong momentum of new launches during the festive season. However, due to (1) high price appreciation in some key markets such as Mumbai and (2) cautious approach by buyers with an apprehension of tighter project finance could lead to lower than expected sales momentum.
- We expect the revenue for our RE universe to grow 16% YoY and net profit to increase by 7% YoY.
- Sector outlook remains positive, driven by strong demand in the residential vertical and ongoing recovery in commercial and retail vertical.
- Our top picks in the RE sector are **Unitech** and **DLF** in the large caps and **Anant Raj** in the mid caps, based on strong earning CAGR and current valuations being at a steep discount to NAV.

FY11-13: Major trends & outlook

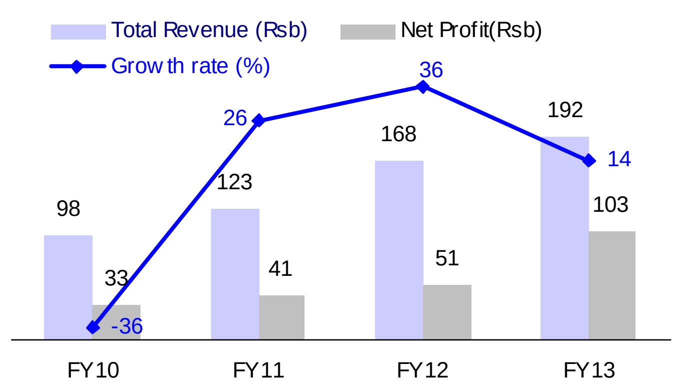
- Sales growth to remain buoyant driven by strong macro-level demand supply gap in housing segments.
- Broad-based recovery in the commercial and retail verticals to continued with steady traction with leasing momentum and rental value picking up in key cities.
- RE companies are set to witness a transformational ramp up in delivery and execution. We expect key RE companies to deliver ~147msf of RE projects over FY11-13, which is almost equal to the cumulative deliveries by these companies since their inception.
- With an improving sector outlook and financial health of the RE companies, we expect increase in land acquisitions and PE activities.
- Prefer **Unitech** and **DLF** in the large caps and **Anant Raj** and **Mahindra Lifespaces** among mid caps.

Real Estate: Introducing FY13 estimates

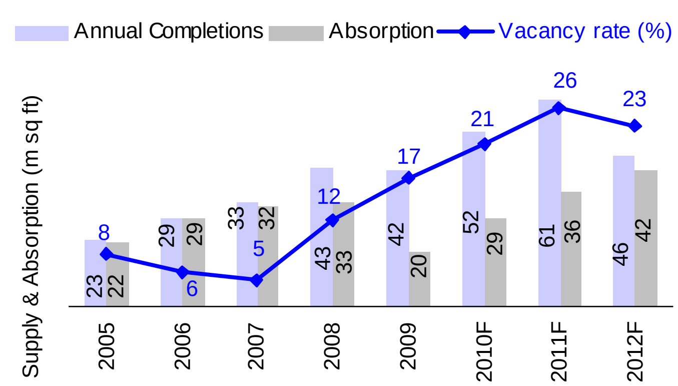
	MCap	Rating	FY11-13E CAGR (%)				EPS (Rs)				P/E (x)			
	(US$ b)		Sales	EBIT	PAT	EPS	FY10	FY11E	FY12E	FY13E	FY10	FY11E	FY12E	FY13E
Anant Raj Inds	0.7	Buy	61.5	70.8	60.7	60.7	8.1	6.4	10.3	16.4	13.9	17.6	10.9	6.8
DLF	10.9	Buy	16.6	15.7	23.0	23.0	10.2	11.9	14.8	18.0	27.6	23.7	19.0	15.6
HDIL	1.7	Buy	43.2	19.5	12.2	12.2	15.8	21.2	25.1	26.7	12.0	9.0	7.6	7.1
Mahindra Lifespace	0.3	Buy	34.2	38.5	43.3	43.6	19.0	29.5	40.1	60.9	20.3	13.0	9.6	6.3
Phoenix Mills	0.7	Buy	74.3	72.0	38.8	38.8	4.2	6.0	7.4	11.5	52.0	36.8	29.7	19.1
Unitech	3.3	Buy	37.2	41.6	36.2	36.2	2.8	3.1	4.3	5.7	22.3	20.1	14.5	10.8

Real Estate: Key insights

Revenue and net profit growth trend of our RE universe

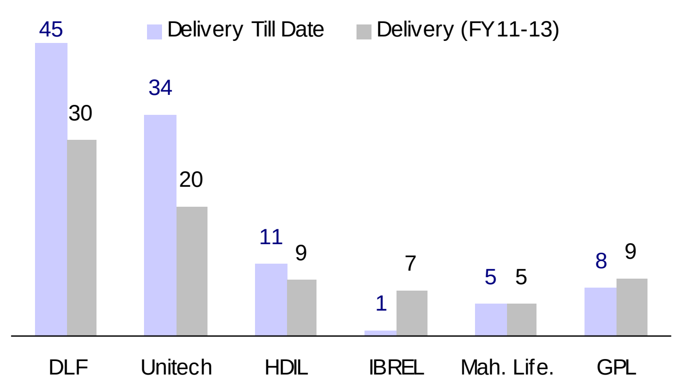


Commercial vertical to witness reduction in vacancy rate

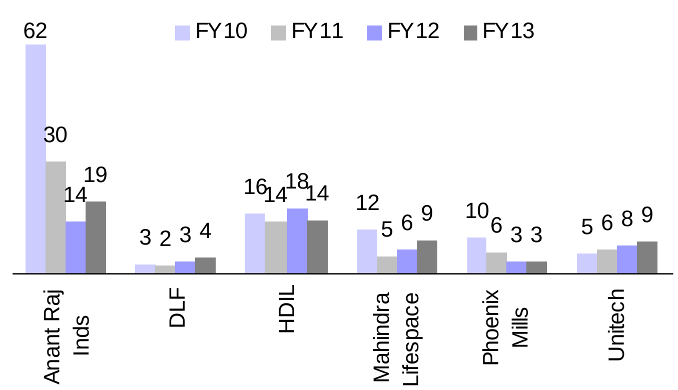


JLLM (REIS)

Strong execution ramp-up by key RE players (msf)



Trend of interest coverage ratio (x) for key RE players



Telecom

3QFY11: What to expect

- We expect revival of revenue and EBITDA growth in 3QFY11 (v/s flattish 2QFY11) driven by a seasonal volume up-tick and relatively stable pricing environment.
- Robust operating environment should result in ~5-6% EBITDA growth for Bharti/Idea/RCom.
- We are factoring in an RPM decline of 2-4% in 3QFY11 for Bharti (Indian operations)/Idea/RCom.
- For Bharti Africa we build-in 6% QoQ revenue growth driven by ~10% growth in average subscribers and ~3% ARPU decline. We expect EBITDA margin to be flat QoQ at ~23%.
- Potential policy revamp should be positive for GSM incumbents.
- Prefer **Bharti** (trades at 7.2x FY12E proportionate EV/EBITDA) and **Idea** (trades at 6.8x FY12E EV/EBITDA).

FY11-13: Major trends & outlook

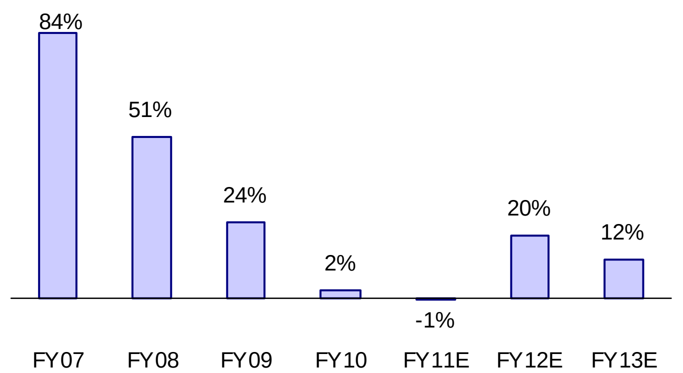
- We expect EBITDA growth to rebound to 16% CAGR over FY11-13 driven by operating leverage, lower tariff pressure and incremental growth from 3G services.
- We expect YoY traffic growth of ~30% in FY11, 20% in FY12 and 13% in FY13 and RPM pressure to ease as new entrants could not reach critical scale even after price under-cutting.
- 3G to be a growth driver in the medium term. We estimate incremental 3G revenue will constitute 5-7% of mobile revenue by FY13, contributing to ARPU uplift.
- Capex intensity to decline driven by lack of coverage capex requirement, higher spectrum post 3G allocations, and relatively slower traffic growth.
- Prefer **Bharti** and **Idea** due to stronger growth outlook, contained leverage, likely improvement in the regulatory environment for GSM incumbents and FCF generation.

Telecom: Introducing FY13 estimates

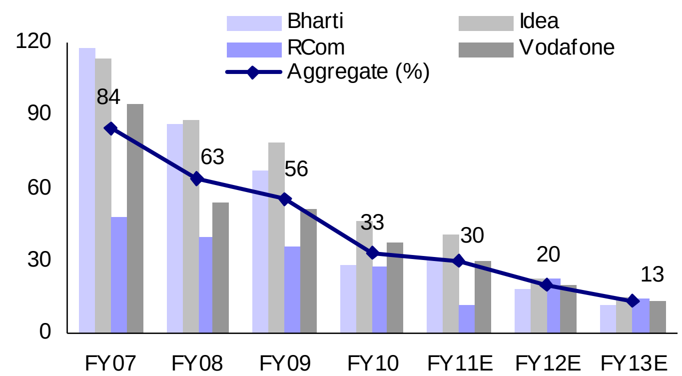
	MCap	Rating	FY11-13E CAGR (%)				EPS (Rs)				P/E (x)			
	(US$ b)		Sales	EBIT	PAT	EPS	FY10	FY11E	FY12E	FY13E	FY10	FY11E	FY12E	FY13E
Bharti	28.8	Buy	16	21	27	27	23.7	17.6	22.3	28.5	14.5	19.6	15.4	12.1
Idea	5.0	Buy	16	27	69	69	3.1	1.8	2.7	5.1	22.1	37.7	25.4	13.3
RCom	6.5	UR	12	14	23	23	23.7	6.9	8.5	10.3	6.0	20.6	16.8	13.7
Tulip	0.6	Buy	20	17	20	20	17.0	19.8	26.8	28.5	10.2	8.8	6.5	6.1

Telecom: Key insights

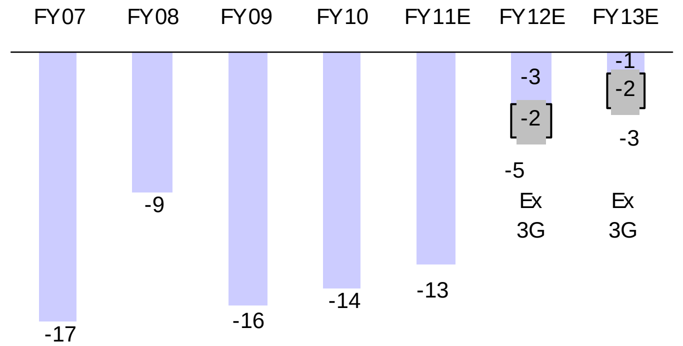
Aggregate EBITDA growth (%)



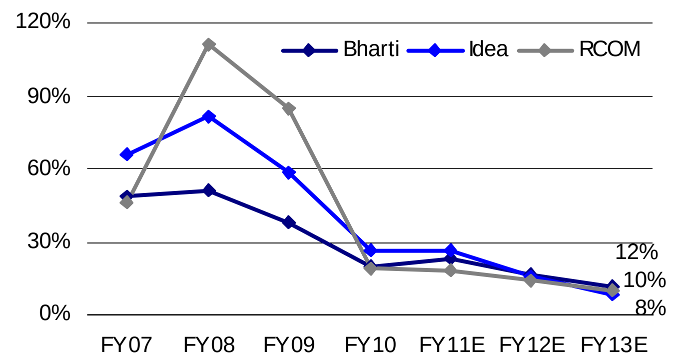
YoY wireless traffic growth (%)



Blended RPM decline for wireless majors (%)



Capex/sales (%)



Utilities

3QFY11: What to expect

- Capacity addition continues to be delayed. NTPC has commissioned/synchronized 1GW capacity in 3QFY11.
- Imported Coal prices moved up. The RB Index average US$90/ton+ in 3QFY11 and would negatively impact companies with fixed fuel charge recovery and merchant projects.
- Merchant prices continue to be lower in 3QFY11, with IEX prices falling 34% YoY. Trading volumes in the bilateral segment have been impacted given the meaningful price differential when compared with power exchange.
- Overall, we estimate 9% YoY growth (~18% QoQ growth) in PAT.
- The sector outlook is positive given the accelerated pace of capacity additions and reasonable valuations.

FY11-13: Major trends & outlook

- Capacity addition is expected to be strong. We expect NTPC to add ~9.2GW and Tata Power to add ~5GW over FY11-13.
- Capitalization for Powergrid will increase by Rs100b each over FY11-12, leading to strong growth in core/reported earnings.
- Fuel cost and availability may continue to impact profitability, as the near term supply outlook from domestic sources is constrained. We expect the share of imports to go up from ~9% of total fuel basket to ~17% by FY13.
- Merchant prices will continue to be under pressure, given the poor finances of SEBs, increased capacity additions and higher available merchant capacity (from ~3GW currently to 10GW by FY13).

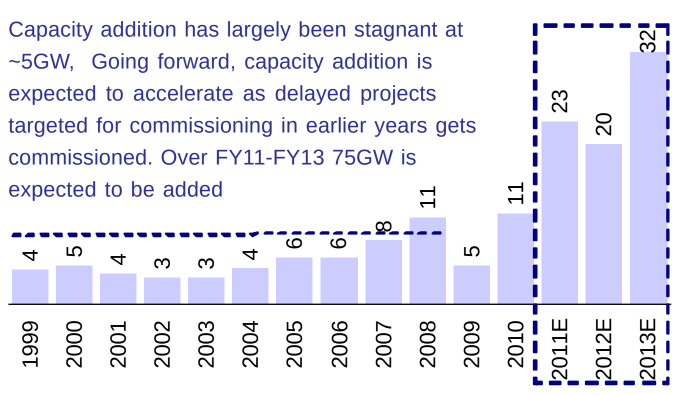
Utilities: Introducing FY13 estimates

	MCap (US$ b)	Rating	FY11-13E CAGR (%)				EPS (Rs)				P/E (x)			
			Sales	EBIT	PAT	EPS	FY10	FY11E	FY12E	FY13E	FY10	FY11E	FY12E	FY13E
NTPC	35.4	Buy	19.1	21.8	15.7	15.7	11.2	10.8	12.2	14.5	17.1	17.8	15.7	13.3
PGCIL	9.9	Buy	21.4	22.5	18.7	18.7	5.5	5.7	7.0	8.0	17.8	17.0	13.9	12.1
Tata Power *	6.8	Neutral	4.8	7.8	8.4	8.4	62.4	74.7	94.9	87.7	20.6	17.2	13.5	14.6
Reliance Infra	4.8	Buy	3.4	18.8	26.1	26.1	43.3	42.6	60.0	67.8	18.7	19.0	13.5	11.9
CESC	1.0	Buy	6.7	0.8	3.4	3.4	34.5	37.0	38.8	39.6	10.8	10.0	9.6	9.4
PTC India *	0.8	Buy	55.6	64.6	69.1	69.1	3.9	5.6	11.3	16.0	31.8	22.2	11.0	7.8
CIL	43.3	Buy	11.6	8.4	10.0	10.0	15.6	18.6	21.1	22.6	20.1	16.8	14.8	13.9

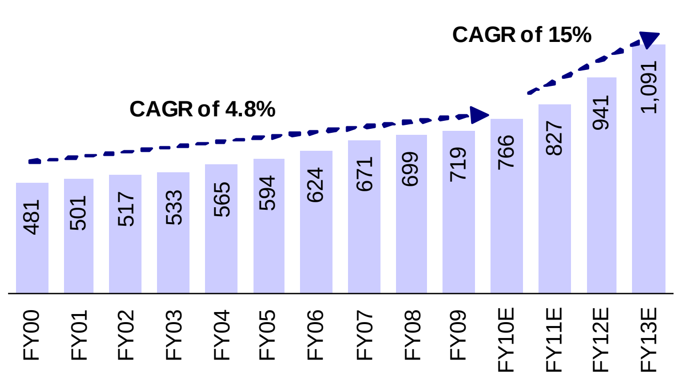
* PAT, EPS and PE on Consolidated basis

Utilities: Key insights

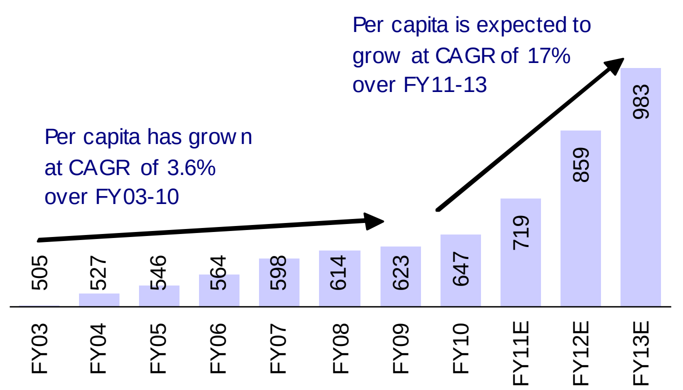
Bunching up of capacity addition over FY11-FY13 (GW)



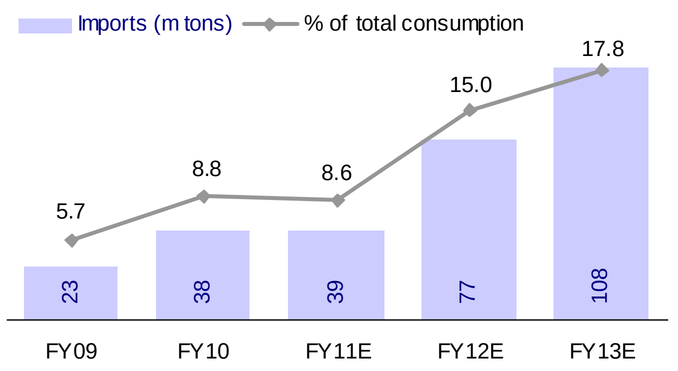
All-India generation growth in double digit (BUs)



Per capita availability to rise ~1.5x by FY13E, v/s FY10 (MUs)



Share of imported coal to increase



Investment strategy and model portfolio

India ended 2010 as one of the top performing markets globally...

2010 has ended on a positive note for Indian equities with several new records created. The BSE Sensex closed at its highest year-end level of 20,500 (up 17% YoY), FIIs poured in a record US$29.3b (previous high US$17.8b in 2007), primary market issuance was at a new high of US$15.6b in 2010 and corporate earnings resumed their strong growth path. All these have led to India ending 2010 as amongst the top performing markets globally. However, we would like to highlight here that the market performance lagged earnings growth in 2010 (Sensex CY10 PAT growth of 31%), resulting in a de-rating of the market.

… but is entering 2011 with India-specific headwinds

Indian market performance would have been better in 2010 but for 4QCY10, which saw emergence of India-specific headwinds. As we enter 2011, these headwinds would be the key determinants of the performance of Indian equities. Interestingly, our bottom-up compilation of earnings growth still shows a robust growth of 21% in 2HFY11 and further 20% in FY12. Importantly, the distribution of earnings growth in FY12 is superior compared to FY11, where dominance of global cyclicals is low.

The two primary headwinds for equities performance would be re-emergence of inflationary trends and indications of slowdown in industrial activity

In earlier sections, we have discussed the various challenges that Indian markets face in 2011. Of these, the two primary headwinds for equities performance would be re-emergence of inflationary trends and indications of slowdown in industrial activity. These factors will have a direct bearing on earnings growth as well as valuations of sectors with domestic bias. India's outperformance over global equities and its increased share in global equity allocation has usually been accompanied by a positive outlook on domestic economy. Current market valuations of ~16x FY12E earnings are also a result of expectations of broad-basing of earnings growth in FY12, in our view.

Two important events to watch:
(1) RBI's monetary policy action, and
(2) Union Budget for FY12

The two important events to drive equities in 1QCY11 would be (1) RBI's monetary policy action, and (2) Government's Union Budget for FY12. As the RBI meets twice every quarter now (v/s twice every year till few years back), it will continue to monitor inflation trends and respond accordingly. Tight liquidity has already led to deposit rate hikes of up to 200bp and lending rate hikes of over 100bp. Further hikes in rates from current levels will impact growth and lead to earnings downgrades, particularly of sectors with domestic orientation. The Union Budget in February 2011 will be another important event as the government will have to work around its fiscal deficit targets for FY12. With absence of telecom bounty and overhang of higher oil subsidy, rollback of fiscal stimulus made in FY09 is an imminent possibility. This will also impact earnings adversely.

In this backdrop, we view 1QCY11 / 1HCY11 as a challenging period for Indian equities. This also needs to be considered in context of an FY12 P/E of ~16x, which is a 12% premium to long-term averages. Overall, we would believe that markets holding at current levels in 1QCY11/1HCY11 will be a positive. As confidence in earnings growth improves in 2HCY11, markets would look to move higher, albeit slower than earnings growth, implying continued de-rating to valuations in-line with historic averages at least.

Markets are likely to be range-bound in the near-term

With expectations of range-bound markets in the near term, our model portfolio has several large sectors with weights closer to index. Given the headwinds to several domestic-oriented sectors and stocks in the near-term and likely upgrades in global plays, we shift

We have shifted weight from Financials, Infra, Autos, etc to Commodities, Reliance Industries and other global plays

our bias to the latter. **We have shifted weight from Financials, Infra, Autos, etc to Commodities, Reliance Industries and other global plays**. We present rationale for some of these changes:

1. **Financials:** After a significant outperformance in CY10, Financials are starting CY11 with headwinds of strained liquidity resulting in sharp rise in deposit costs. While near-term margins will remain protected due to lending rate hikes, margins will start tapering off from 4QFY11. Our nil allocation to NBFCs (margin outlook coupled with best valuations) has led to an Underweight in Financials. **Within Banks, we have a bigger weight on private sector banks over public sector banks, a change in our stance**. Among PSU Banks, we retain our bias in favor of strong CASA franchises like SBI. **ICICI Bank** remains the top bet in Financials.

2. **Infrastructure & Engineering:** We have reduced some weight of Infrastructure & Engineering sectors in Model Portfolio given the initial signs of headwinds to capex pick-up. All the three capex drivers – industrial, infrastructure, power – are witnessing delays driven by environmental issues, resource crunch, infrastructure bottlenecks, and policy paralysis. Stressed liquidity is leading to higher interest rates. While these issues may not immediately impair near term earnings growth given the robust order book positions, order intake will be impacted.

3. **Autos:** Auto sector has been the toast of 2010 with sector outperformance of ~20% during the year. **Our sole exposure in Autos is to M&M**. We note several headwinds for Autos in CY11 – interest rate hikes, commodity price rise, likely withdrawal of stimulus, and rising competitive intensity. M&M should remain a beneficiary of rural growth, no change in competitive landscape and attractive valuations.

4. **Oil & Gas:** After keeping a large underweight throughout CY10, **we raise our exposure to Reliance Industries** now. Reliance witnessed continuous earnings disappointment led by downgrades in gas volumes and cyclically low GRMs. However, we expect CY11 to be better with higher GRMs likely driving upgrades in earnings. **We have nil allocation to oil PSUs** due to uncertainty driven by higher oil prices and large pipeline of offerings through PSU disinvestment.

5. **IT:** We retain Neutral weight on IT. While the stocks have done well, business prospects remain good driven by the following factors: [1] Deal pipelines remain strong and deal activity has reverted back to pre-recession levels. [2] We believe pick-up in discretionary spend, the prospect of quicker and higher standalone price increases (we model price increases of ~1.5% from 2QFY12), resurgence of large transformational deals, and revival of spending from the Telecom vertical can all drive upgrades in earnings estimates. [3] An added element of growth can be provided by ~US$40-45b worth of deals which are set to get renegotiated over a period of 3 years, where top-tier Indian vendors can gain at the cost of MNCs. [4] Margin concerns are abating with attrition peaking and gradually improving on a month on month basis. Currency has also been range-bound over the past 5 quarters (between Rs44.9-46.6/US$).

6. **Metals:** Positive cues on global economy and strong volume growth will drive earnings for most of the Metal companies over FY12 & FY13. **We have Sterlite and Tata Steel as the top bets** (both have been laggards of 2010).

7. **Consumer:** We retain our Underweight on FMCG as we remain concerned about the competitive landscape, margin outlook and rich valuations.

8. **Telecom:** We are **Overweight on Telecom in 2011** as we expect domestic business to rebound led by strong volume growth and stable pricing and regulatory environment.

MOSL model portfolio

Sector weight / Portfolio Picks	BSE-100	MOSL Weight	Weight relative to BSE-100	Effective Sector Stance
Banks	**24.6**	**21.0**	**-3.6**	**Underweight**
Private	**12.1**	**14.0**	**1.9**	**Overweight**
ICICI Bank	5.7	7	1.3	Buy
HDFC Bank	3.8	5	1.2	Neutral
Yes Bank	0.4	2	1.6	Buy
PSU	**6.9**	**7.0**	**0.1**	**Neutral**
SBI	3.5	5	1.5	Buy
Canara Bank	0.0	2	2.0	Buy
NBFCs	**5.6**	**0**	**-5.6**	**Underweight**
Oil & Gas	**13.6**	**14.0**	**0.4**	**Neutral**
Reliance Inds.	8.2	7	-1.2	Neutral
GAIL	1.1	4	2.9	Buy
Cairn India	0.7	3	2.3	Neutral
Information Technology	**12.2**	**13.0**	**0.8**	**Neutral**
Infosys Tech	7.3	7	-0.3	Buy
TCS	3.0	4	1.0	Neutral
HCL Tech	0.5	2	1.5	Buy
Infrastructure & Related sectors	**12.1**	**13.0**	**0.9**	**Neutral**
Larsen & Toubro	4.7	4	-0.7	Buy
BHEL	1.7	3	1.3	Buy
DLF	0.5	2	1.5	Buy
Siemens	0.5	2	1.5	Buy
JaiPrakash	0.5	2	1.5	Buy
Metals	**6.5**	**10.0**	**3.5**	**Overweight**
Sterlite	1.4	3	1.6	Buy
Tata Steel	1.9	3	1.1	Buy
JSW Steel	0.7	2	1.3	Buy
Sesa Goa	0.6	2	1.4	Buy
FMCG / Media	**7.9**	**6.0**	**-1.9**	**Underweight**
ITC	4.1	4.0	-0.1	Buy
Zee Entertainment	0.0	2.0	2.0	Buy
Utilities	**6.0**	**5.0**	**-1.0**	**Underweight**
Power Grid Corp.	0.7	3	2.3	Buy
Coal India	0.0	2	2.0	Buy
Pharmaceuticals	**4.4**	**5.0**	**0.6**	**Overweight**
Cipla	0.8	3	2.2	Buy
Dr Reddys	0.9	2	1.1	Buy
Telecom	**2.8**	**5.0**	**2.2**	**Overweight**
Bharti Airtel	2.1	3	0.9	Buy
IDEA	0.2	2	1.8	Buy
Auto	**6.6**	**3.0**	**-3.6**	**Underweight**
Mahindra & Mahindra	1.5	3	1.5	Buy
Others	**3.3**	**7.0**	**3.7**	**-**
BGR Energy	0.0	1	1.0	Buy
GVK Power	0.0	1	1.0	Buy
Anant Raj Industries	0.0	1	1.0	Buy
United Phos	0.3	1	0.7	Buy
Strides Arcolab	0.0	1	1.0	Buy
Sintex	0.0	1	1.0	Buy
Shree Renuka Sugar	0.0	1	1.0	Buy
Cash	**0.0**	**0.0**	**0.0**	
Total	**100.0**	**100.0**		

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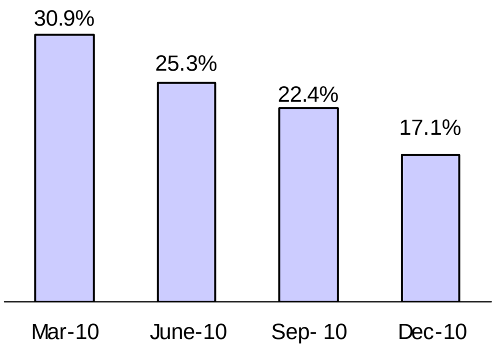
BSE Sensex: 20,074 **S&P CNX:** 6,012 **As on:** 24 December 2010

MOSL Universe: 3QFY11 Highlights & Ready Reckoner

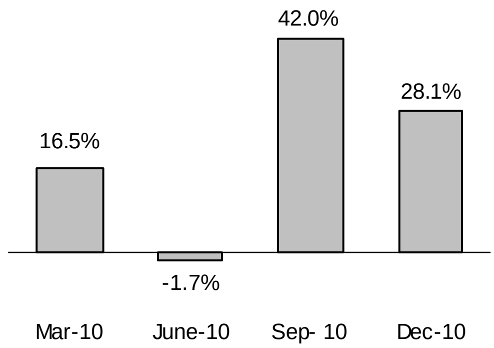
Note: In our quarterly performance tables, our four-quarter numbers may not always add up to the full-year numbers. This is because of differences in classification of account heads in the company's quarterly and annual results or because of differences in the way we classify account heads as opposed to the company. **All stock prices and indices as on 24 December 2010, unless otherwise stated.**

MOSL Universe: 3QFY11 aggregate performance highlights

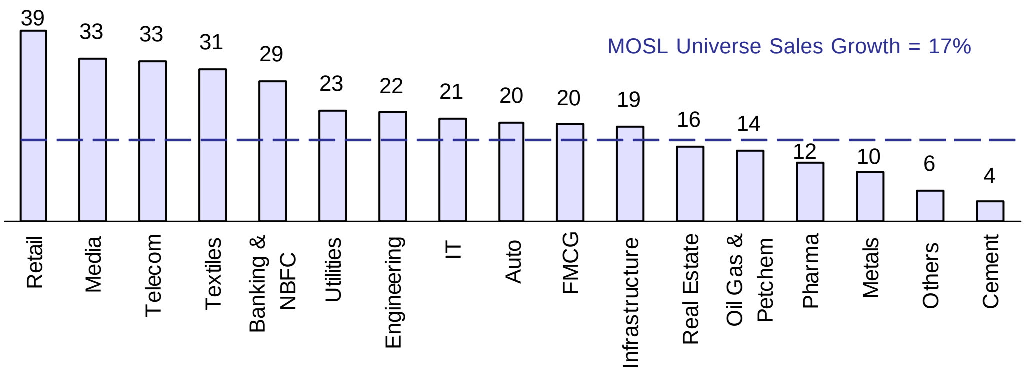
Quarter-wise sales growth (% YoY)



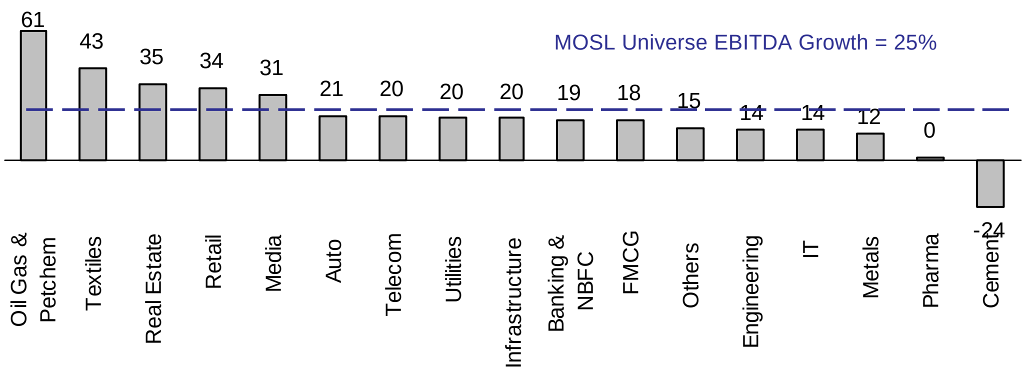
Quarter-wise net profit growth (% YoY)



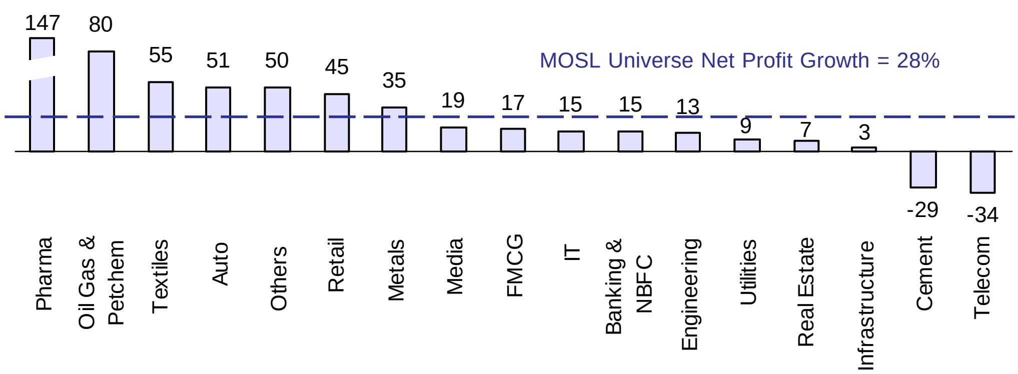
Sectoral sales growth - quarter ended December 2010 (%)



Sectoral EBITDA growth - quarter ended December 2010 (%)



Sectoral net profit growth - quarter ended December 2010 (%)

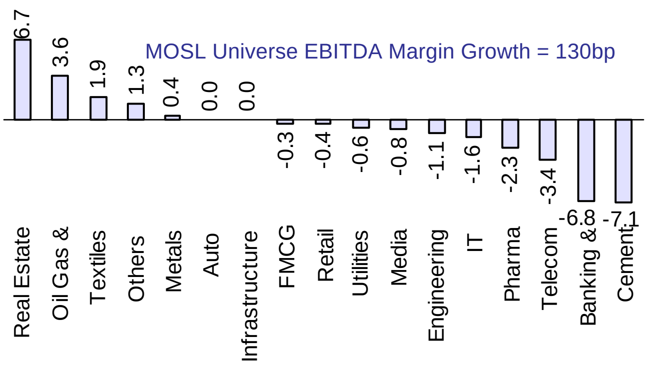


Quarterly performance - MOSL universe

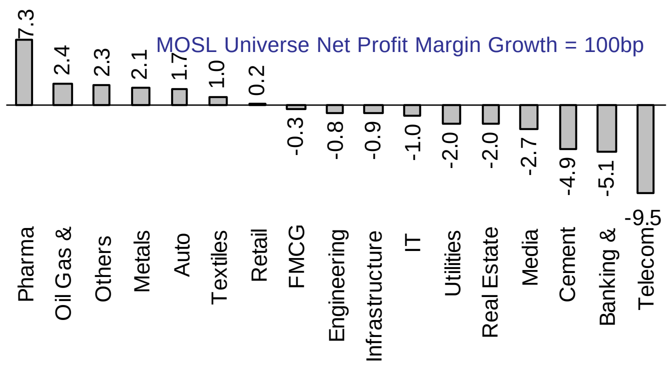
Sector (No. of Companies)	EBITDA Margin (%) Dec.09	EBITDA Margin (%) Dec.10	EBITDA Margin (%) Chg. (%)	NET PROFIT Margin (%) Dec.09	NET PROFIT Margin (%) Dec.10	NET PROFIT Margin (%) Chg. (%)
Auto (5)	13.8	13.9	0.0	6.6	8.3	1.7
Banking & NBFC (26)	85.1	78.2	-6.8	47.0	41.9	-5.1
Private Banks (8)	92.5	86.2	-6.3	44.4	47.8	3.4
PSU Banks (11)	79.5	72.3	-7.2	45.0	36.0	-9.0
NBFC (7)	98.9	95.4	-3.5	64.8	63.7	-1.1
Cement (7)	26.7	19.6	-7.1	15.4	10.5	-4.9
Engineering (8)	15.9	14.8	-1.1	10.8	10.0	-0.8
FMCG (11)	21.9	21.6	-0.3	15.2	14.8	-0.3
IT (7)	26.4	24.8	-1.6	20.3	19.4	-1.0
Infrastructure (5)	16.7	16.7	0.0	6.3	5.4	-0.9
Media (5)	42.0	41.2	-0.8	24.6	22.0	-2.7
Metals (8)	19.1	19.5	0.4	9.2	11.3	2.1
Oil Gas & Petchem (12)	8.9	12.5	3.6	4.3	6.7	2.4
Pharma (15)	21.8	19.4	-2.3	6.1	13.4	7.3
Real Estate (6)	39.1	45.9	6.7	26.6	24.6	-2.0
Retail (4)	9.9	9.5	-0.4	4.0	4.2	0.2
Telecom (4)	35.5	32.2	-3.4	18.8	9.3	-9.5
Textiles (4)	21.2	23.1	1.9	5.5	6.5	1.0
Utilities (7)	28.4	27.8	-0.6	17.3	15.3	-2.0
Others (1)	17.6	18.9	1.3	5.5	7.8	2.3
MOSL (135)	**19.2**	**20.5**	**1.3**	**10.4**	**11.4**	**1.0**
MOSL Excl. RMs (132)	**25.6**	**25.9**	**0.3**	**13.7**	**14.3**	**0.6**
Sensex (29)	**23.9**	**24.5**	**0.6**	**12.5**	**13.2**	**0.7**

Source: MOSL

EBITDA margin growth - quarter ended December 2010 (%)



Net profit margin growth-quarter ended December 2010 (%)



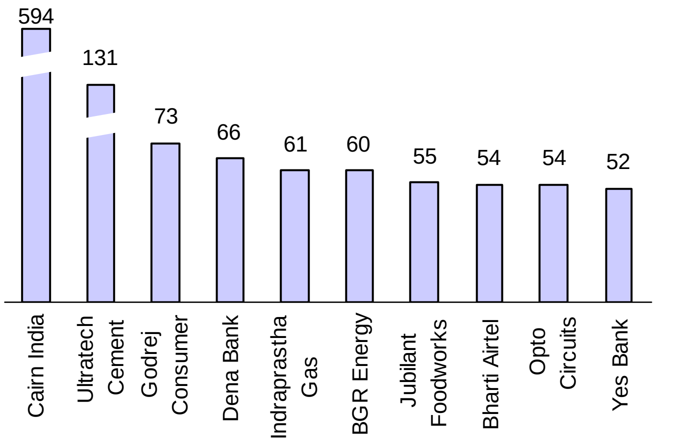
Sectoral contribution to growth in sales, EBITDA and net profit (%)

Sector	Contribution to Sales Gr.	Sector	Contribution to EBITDA Gr.	Sector	Contribution to NP Gr.
Oil Gas & Petchem (12)	37.7	Oil Gas & Petchem (12)	50.2	Oil Gas & Petchem (12)	52.2
Auto (5)	10.3	Banking & NBFC (26)	17.3	Metals (8)	14.5
Banking & NBFC (26)	8.9	Metals (8)	6.4	Banking & NBFC (26)	12.8
Metals (8)	7.8	Telecom (4)	5.5	Auto (5)	9.9
Telecom (4)	7.1	Auto (5)	5.1	Pharma (15)	7.4
IT (7)	6.2	Utilities (7)	4.3	IT (7)	5.4
Engineering (8)	5.6	IT (7)	3.8	FMCG (11)	3.0
Utilities (7)	4.8	FMCG (11)	2.8	Engineering (8)	2.0
FMCG (11)	3.9	Engineering (8)	2.0	Utilities (7)	1.9
Pharma (15)	1.7	Real Estate (6)	1.9	Textiles (4)	0.5
Retail (4)	1.6	Textiles (4)	1.0	Media (5)	0.5
Infrastructure (5)	1.6	Infrastructure (5)	0.9	Retail (4)	0.5
Textiles (4)	0.9	Media (5)	0.9	Real Estate (6)	0.4
Media (5)	0.7	Retail (4)	0.5	Others (1)	0.2
Real Estate (6)	0.6	Others (1)	0.1	Infrastructure (5)	0.1
Cement (7)	0.5	Pharma (15)	0.0	Cement (7)	-3.1
Others (1)	0.1	Cement (7)	-2.7	Telecom (4)	-8.2

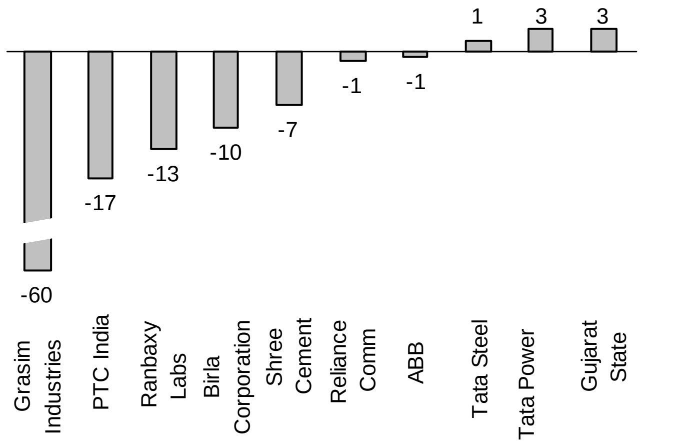
Source: MOSL

Scoreboard (quarter ended December 2010)

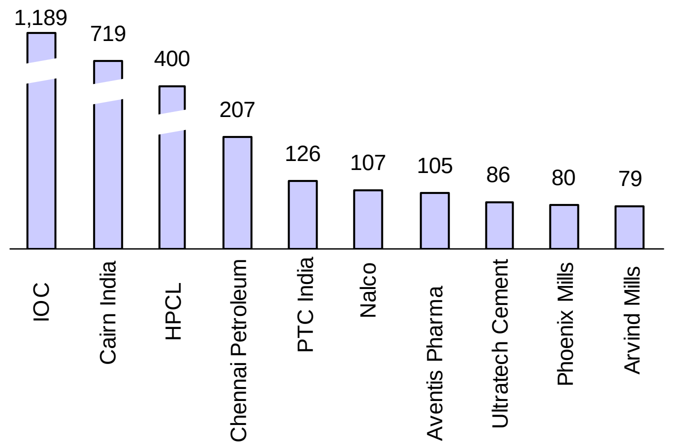
Top 10 by sales growth (%)



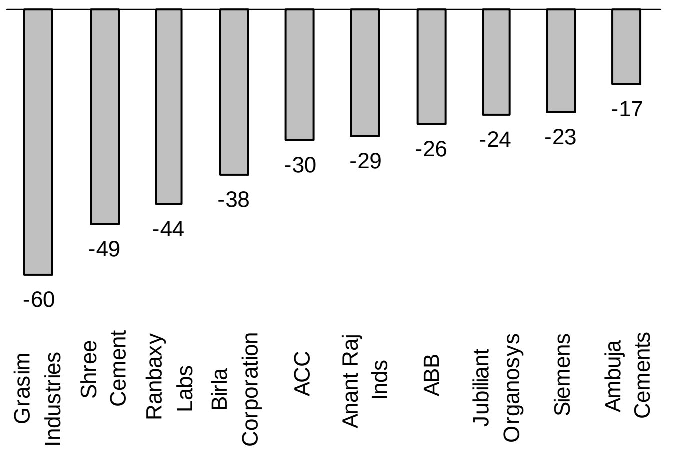
Worst 10 by sales growth (%)



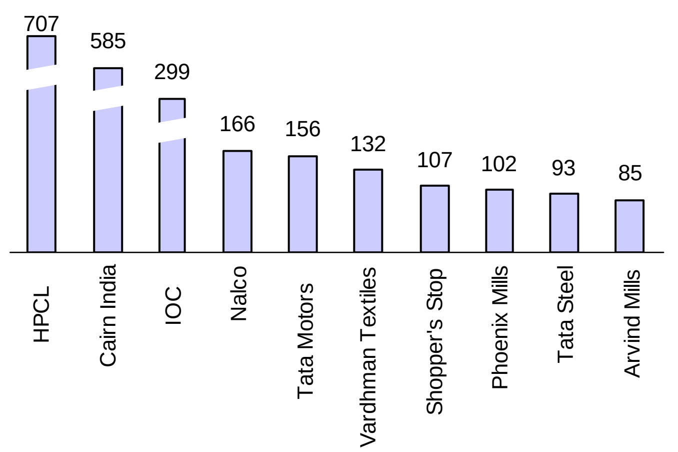
Top 10 by EBITDA growth (%)



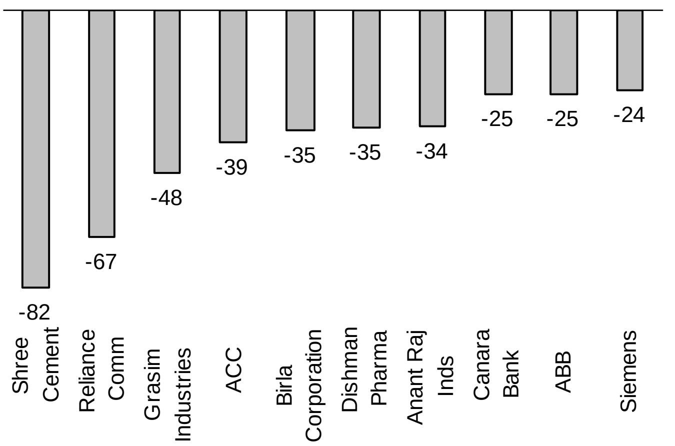
Worst 10 by EBITDA growth (%)



Top 10 by net profit growth (%)



Worst 10 by net profit growth (%)



Source: MOSL

Annual performance - MOSL universe **(Rs billion)**

	Sales					EBITDA					Net profit				
	FY11E	FY12E	FY13E	CHG * (%)	CHG # (%)	FY11E	FY12E	FY13E	CHG * (%)	CHG # (%)	FY11E	FY12E	FY13E	CHG * (%)	CHG # (%)
Auto (5)	2,282	2,662	3,004	16.6	12.8	329	378	418	14.9	10.4	193	222	248	15.2	11.7
Banks (26)	1,522	1,817	2,159	19.3	18.8	1,213	1,473	1,776	21.4	20.6	615	759	925	23.5	21.9
Cement (8)	638	756	884	18.6	16.9	133	159	206	19.0	30.0	66	78	105	17.2	34.5
Engineering (8)	1,201	1,510	1,942	25.7	28.6	188	243	301	28.9	23.7	136	172	212	26.8	23.2
FMCG (11)	817	955	1,102	16.9	15.4	171	203	236	18.8	16.2	114	135	160	19.0	17.9
IT (7)	1,265	1,531	1,758	21.0	14.8	323	396	450	22.4	13.8	247	298	350	20.7	17.3
Infrastructure (7)	406	495	638	22.0	28.9	86	109	160	26.5	46.6	24	23	45	-2.3	94.1
Media (5)	84	96	107	13.9	11.8	34	40	46	15.6	15.9	19	23	28	22.7	20.8
Metals (8)	3,020	3,321	3,557	10.0	7.1	580	694	775	19.6	11.7	326	387	429	18.7	10.8
Oil Gas&Pet (12)	10,321	9,848	9,715	-4.6	-1.3	1,337	1,495	1,631	11.9	9.1	669	781	855	16.8	9.3
Pharma (15)	564	629	718	11.5	14.2	126	133	153	5.3	15.2	90	98	116	8.3	18.5
Real Estate (10)	187	262	321	39.9	22.6	85	110	134	30.0	21.2	49	63	77	28.3	22.9
Retail (4)	199	248	301	25.1	21.1	19	24	31	30.1	26.3	8	11	15	39.0	35.9
Telecom (4)	983	1,166	1,300	18.6	11.5	317	401	457	26.4	13.8	90	115	151	27.9	31.2
Textiles (4)	157	175	189	11.3	8.0	32	35	36	8.3	4.9	7	10	13	38.4	28.7
Utilities (7)	1,494	1,807	2,071	20.9	14.6	399	459	532	15.1	16.0	270	308	342	14.3	10.8
Others (1)	59	69	78	17.7	12.5	12	15	17	21.1	15.6	6	8	10	29.8	20.6
MOSL (142)	**25,200**	**27,347**	**29842**	**8.5**	**9.1**	**5,386**	**6,366**	**7359**	**18.2**	**15.6**	**2,929**	**3,493**	**4079**	**19.2**	**16.8**
Excl.RMs (139)	**19,706**	**22,464**	**25166**	**14.0**	**12.0**	**5,160**	**6,108**	**7063**	**18.4**	**15.6**	**2,812**	**3,362**	**3934**	**19.5**	**17.0**
Sensex (30)	**6,704**	**7,479**	**8296**	**11.6**	**10.9**	**1,569**	**1,845**	**2139**	**17.6**	**15.9**	**846**	**1,012**	**1196**	**19.7**	**18.1**
Nifty (50)	**7,597**	**8,429**	**9322**	**11.0**	**10.6**	**1,753**	**2,067**	**2406**	**17.9**	**16.4**	**962**	**1,148**	**1355**	**19.3**	**18.0**

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

Valuations - MOSL universe

SECTOR	P/E (x)			EV/EBITDA (x)			P/BV (x)			RoE (%)			Div. yld (%)	PAT CAGR
(No. of companies)	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY10	FY11-13
Auto (5)	13.0	11.3	10.1	7.4	6.2	5.3	4.7	3.6	2.8	36.2	31.7	28.0	1.8	13.4
Banks (26)	14.4	11.7	9.6	NM	NM	NM	2.6	2.2	1.9	18.2	19.3	20.1	1.1	22.7
Cement (8)	15.9	13.6	10.1	8.0	6.4	4.9	2.3	2.0	1.7	14.6	14.5	17.0	1.3	25.5
Engineering (8)	23.9	18.8	15.3	16.5	12.8	10.4	6.2	5.2	4.4	26.1	27.4	29.0	0.8	25.0
FMCG (11)	29.7	25.0	21.2	19.6	16.3	13.8	10.4	8.7	7.3	34.9	34.7	34.3	3.1	18.5
IT (7)	24.0	19.9	17.0	17.2	13.6	11.5	5.9	4.8	3.9	24.7	24.0	22.8	1.1	19.0
Infrastructure (7)	23.9	24.5	12.6	13.6	11.4	8.3	2.1	1.9	1.7	8.6	7.9	13.5	0.7	37.7
Media (5)	23.2	18.9	15.6	12.2	10.3	8.5	4.5	4.0	3.5	19.6	21.2	22.4	1.5	21.7
Metals (8)	11.7	9.9	8.9	6.9	5.7	5.0	1.9	1.6	1.4	16.6	16.5	15.8	0.9	14.7
Oil Gas & Petchem (12)	13.7	11.7	10.7	7.7	6.7	5.9	2.1	1.9	1.7	15.6	16.1	15.6	1.6	13.0
Pharma (15)	25.2	23.3	19.7	18.1	17.1	14.6	4.9	4.3	3.8	19.5	18.5	19.1	0.7	13.3
Real Estate (10)	18.5	14.4	11.7	13.7	10.1	7.8	1.3	1.2	1.1	7.0	8.5	9.7	0.5	25.5
Retail (4)	37.4	26.9	19.8	17.2	13.2	10.5	5.9	5.1	4.3	15.8	18.8	21.5	0.3	37.5
Telecom (4)	20.8	16.3	12.4	9.1	6.9	5.6	1.8	1.7	1.5	8.9	10.3	12.0	0.3	29.5
Textiles (4)	10.0	7.2	5.6	5.8	5.3	4.8	0.9	0.8	0.7	8.6	10.9	12.5	0.5	33.4
Utilities (7)	17.3	15.1	13.7	12.0	10.9	9.8	2.9	2.6	2.3	16.9	17.2	17.0	1.6	12.5
Others (1)	11.4	8.8	7.3	6.5	5.0	4.0	2.1	1.7	1.4	18.0	19.4	19.5	1.2	25.1
MOSL (142)	**16.8**	**14.1**	**12.0**	**N.M**	**N.M**	**N.M**	**2.9**	**2.5**	**2.2**	**17.5**	**18.0**	**18.2**	**1.3**	**18.0**
MOSL Excl. RMs (139)	**17.0**	**14.2**	**12.2**	**N.M**	**N.M**	**N.M**	**3.0**	**2.6**	**2.2**	**17.7**	**18.2**	**18.4**	**1.3**	**18.3**
Sensex (30)	**19.0**	**15.9**	**13.5**	**N.M**	**N.M**	**N.M**	**3.4**	**2.9**	**2.5**	**17.8**	**18.5**	**18.8**	**1.5**	**18.9**
Nifty (50)	**18.7**	**15.6**	**13.3**	**N.M**	**N.M**	**N.M**	**3.3**	**2.9**	**2.5**	**17.7**	**18.2**	**18.6**	**1.4**	**18.7**

N.M. - Not Meaningful *Source: MOSL*

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Ready reckoner: quarterly performance

	CMP (Rs)	Rating	Sales			EBITDA			Net profit		
	24.12.10		Dec.10	Var. % YoY	Var. % QoQ	Dec.10	Var. % YoY	Var. % QoQ	Dec.10	Var. % YoY	Var. % QoQ
Automobiles											
Bajaj Auto	1,446	Neutral	42,220	28.1	-2.8	8,536	18.0	-4.9	6,453	27.2	-5.4
Hero Honda	1,929	Buy	48,879	28.1	8.3	6,054	-6.6	6.7	5,097	-4.9	0.8
Mahindra & Mahindra	761	Buy	58,492	30.6	10.1	9,174	33.8	8.1	6,398	50.8	-12.0
Maruti Suzuki	1,392	Buy	95,009	26.6	3.9	9,791	-13.7	2.0	6,120	-11.0	2.3
Tata Motors	1,306	Buy	298,547	14.6	3.7	41,864	36.9	0.1	20,775	155.6	-0.5
Sector Aggregate			**543,147**	**20.3**	**4.3**	**75,419**	**20.7**	**1.1**	**44,843**	**51.1**	**-2.5**
Cement											
ACC	1,075	Buy	19,966	3.9	22.0	3,025	-29.6	78.1	1,852	-38.9	99.0
Ambuja Cements	141	Neutral	18,625	5.1	19.1	3,600	-17.1	27.1	2,141	-11.2	40.8
Birla Corporation	367	Buy	5,011	-10.3	3.5	1,014	-37.6	32.3	725	-35.5	5.1
Grasim Industries	2,286	Buy	12,086	-60.4	29.6	3,957	-59.9	50.0	3,079	-48.3	10.1
India Cements	105	Buy	9,058	4.8	7.7	1,283	10.1	348.0	318	17.2	LP
Shree Cement	1,991	Neutral	8,016	-7.4	11.7	1,718	-48.8	20.4	307	-81.8	107.3
Ultratech Cement	1,053	Neutral	38,231	131.4	18.9	7,131	85.9	74.9	3,259	66.3	181.5
Sector Aggregate			**110,992**	**3.9**	**18.2**	**21,728**	**-23.7**	**58.3**	**11,680**	**-29.0**	**71.1**
Engineering											
ABB	804	Neutral	18,727	-0.7	38.8	946	-26.1	LP	650	-24.7	465.0
BGR Energy	695	Buy	10,162	60.0	-10.4	1,174	64.3	-11.3	657	56.6	-15.6
BHEL	2,285	Buy	88,727	25.0	4.5	18,118	16.0	11.0	12,238	10.3	7.1
Crompton Greaves	313	Neutral	15,128	23.6	4.7	2,458	20.7	6.5	1,634	20.7	3.1
Cummins India	749	Buy	10,928	32.0	0.1	2,240	18.0	3.1	1,673	12.7	-0.3
Larsen & Toubro	1,957	Buy	96,976	20.1	4.7	11,637	21.7	16.9	7,906	29.6	13.9
Siemens	810	Buy	22,950	22.9	-25.0	2,787	-23.3	-30.6	1,806	-23.6	-28.7
Thermax	836	Neutral	10,101	35.0	-7.5	1,232	37.9	-4.2	808	43.0	-9.8
Sector Aggregate			**273,699**	**22.4**	**1.7**	**40,592**	**13.9**	**9.0**	**27,373**	**12.9**	**5.5**
FMCG											
Asian Paints	2,887	Buy	20,412	26.0	12.7	3,797	19.4	14.5	2,463	24.1	14.7
Britannia	397	Neutral	11,458	30.0	4.7	630	65.9	19.2	402	11.5	21.2
Colgate	851	Neutral	5,667	15.5	2.7	1,499	23.7	15.6	1,165	10.0	16.1
Dabur	100	Neutral	10,836	17.0	11.4	2,081	17.3	2.6	1,572	14.1	-2.0
Godrej Consumer	392	Neutral	8,950	72.9	-6.1	1,674	65.0	-1.0	1,178	38.4	-9.5
GSK Consumer	2,169	Buy	4,947	18.3	-19.2	426	15.8	-55.2	441	31.0	-43.9
Hind. Unilever	295	Neutral	50,763	11.0	6.5	7,868	-0.1	21.6	6,450	7.7	22.7
ITC	170	Buy	54,000	17.9	4.9	20,300	18.9	8.3	13,396	17.1	7.4
Marico	121	Neutral	8,102	21.0	4.0	867	-12.2	-8.6	555	-10.8	-17.4
Nestle	3,676	Buy	16,790	24.2	2.5	3,125	57.7	-2.9	2,121	59.1	-2.2
United Spirits	1,460	Neutral	16,550	22.9	22.2	2,797	26.5	27.7	1,145	18.2	53.5
Sector Aggregate			**208,475**	**20.0**	**5.9**	**45,063**	**18.4**	**8.9**	**30,888**	**17.3**	**8.4**

PULL OUT

Ready reckoner: quarterly performance

	CMP (Rs) 24.12.10	Rating	Sales Dec.10	Sales Var. % YoY	Sales Var. % QoQ	EBITDA Dec.10	EBITDA Var. % YoY	EBITDA Var. % QoQ	Net profit Dec.10	Net profit Var. % YoY	Net profit Var. % QoQ
Information Technology											
HCL Technologies	455	Buy	38,754	27.8	7.3	6,062	-1.3	7.6	3,877	42.1	29.0
Infosys	3,369	Buy	71,372	24.3	2.7	23,460	15.1	1.3	18,315	15.7	5.4
MphasiS	665	Neutral	14,100	18.3	4.8	3,041	-3.1	-5.1	2,461	-8.4	-13.4
Patni Computer	489	Neutral	8,275	4.8	3.9	1,529	-8.7	1.6	1,247	-8.5	-2.6
TCS	1,141	Neutral	96,262	25.8	3.7	28,427	25.1	1.9	21,879	21.7	3.9
Tech Mahindra	688	Neutral	12,506	5.3	1.3	2,515	-10.4	-6.2	1,301	0.1	-2.3
Wipro	482	Neutral	79,497	14.6	2.3	14,568	10.8	0.8	12,996	8.0	1.1
Sector Aggregate			**320,766**	**20.9**	**3.5**	**79,602**	**13.7**	**1.4**	**62,076**	**15.1**	**3.9**
Infrastructure											
Hindustan Construction	45	Neutral	11,007	16.5	22.5	1,332	31.0	17.6	222	2.0	83.3
IVRCL Infra.	127	Neutral	13,686	15.6	27.3	1,369	18.4	43.5	499	8.9	114.3
Jaiprakash Associates	103	Buy	34,510	21.0	15.3	8,999	16.3	32.1	2,999	-4.5	159.6
Nagarjuna Construction	142	Buy	15,201	28.1	26.5	1,581	33.9	28.1	653	36.5	42.1
Simplex Infra.	414	Buy	11,970	12.2	13.8	1,137	17.3	7.5	284	23.1	5.7
Sector Aggregate			**86,372**	**19.4**	**19.6**	**14,417**	**19.5**	**28.9**	**4,658**	**2.9**	**108.1**
Media											
Deccan Chronicle	106	Buy	2,521	8.0	6.5	1,291	2.0	9.5	798	2.7	-3.4
HT Media	143	Neutral	4,633	26.5	4.0	831	11.4	5.0	432	15.9	11.2
Jagran Prakashan	128	Neutral	2,835	24.9	2.4	917	40.5	1.0	554	39.4	-0.2
Sun TV	527	Neutral	5,670	43.5	33.5	4,505	44.2	35.6	1,791	17.9	7.0
Zee Entertainment	139	Buy	7,690	44.8	8.1	2,067	31.5	9.7	1,556	24.3	23.3
Sector Aggregate			**23,349**	**33.2**	**11.4**	**9,612**	**30.5**	**18.9**	**5,130**	**18.8**	**9.0**
Metals											
Hindalco	239	Buy	178,818	12.6	3.4	22,399	21.7	5.9	8,855	79.0	4.6
Hindustan Zinc	1,273	Buy	24,417	8.6	10.9	14,356	3.6	27.6	12,016	4.6	23.9
JSW Steel	1,170	Buy	59,312	28.6	2.7	10,894	-2.6	9.8	4,271	5.6	30.1
Nalco	381	Sell	15,791	11.4	6.8	6,129	107.0	76.3	4,129	166.1	84.3
SAIL	185	Neutral	119,341	20.8	10.4	24,681	-4.3	45.6	15,851	-5.4	45.4
Sesa Goa	316	Buy	25,859	36.9	181.6	16,972	63.8	459.5	14,915	80.2	325.9
Sterlite Inds.	185	Buy	69,517	3.0	14.3	19,909	12.3	30.2	13,088	30.2	29.8
Tata Steel	673	Neutral	265,564	1.4	-7.3	32,225	3.8	-12.3	12,585	93.0	-4.0
Sector Aggregate			**758,619**	**10.1**	**3.6**	**147,565**	**12.4**	**25.3**	**85,709**	**34.7**	**39.9**
Oil & Gas											
BPCL	672	Buy	377,179	17.3	6.8	9,823	57.7	-60.2	4,900	29.3	-77.1
Cairn India	328	Neutral	34,381	593.9	28.0	28,456	719.4	30.9	19,946	585.4	25.8
Chennai Petroleum	247	Buy	87,293	27.4	7.5	3,694	206.7	44.8	1,669	-5.7	70.7
GAIL	514	Buy	76,597	23.8	-5.5	15,227	19.9	6.3	9,475	10.2	2.6
Gujarat State Petronet	116	Under Review	2,766	3.0	9.3	2,614	3.3	12.6	1,070	-7.2	16.9
HPCL	400	Buy	322,388	10.3	14.6	7,108	400.1	-69.4	2,536	706.8	-87.9
IOC	355	Buy	818,304	10.5	6.6	44,577	1189.4	-31.6	27,816	299.3	-47.5
Indraprastha Gas	328	Neutral	4,569	60.5	2.7	1,256	21.5	2.2	634	7.6	-4.3
MRPL	72	Sell	103,015	13.7	23.3	3,944	39.2	5.8	2,043	-19.5	-27.8
ONGC	1,295	Buy	181,350	18.4	-0.3	114,813	25.7	3.6	55,886	83.0	3.7
Petronet LNG	126	Buy	29,544	31.6	-3.4	2,742	31.3	0.9	1,246	49.8	-5.0
Reliance Inds.	1,060	Neutral	629,850	10.8	9.6	99,386	26.7	5.8	52,455	30.9	6.6
Sector Aggregate			**2,667,237**	**14.5**	**8.0**	**333,640**	**61.4**	**-9.0**	**179,677**	**79.5**	**-21.9**

PULL OUT

Ready reckoner: quarterly performance

	CMP (Rs) 24.12.10	Rating	Sales Dec.10	Sales Var. % YoY	Sales Var. % QoQ	EBITDA Dec.10	EBITDA Var. % YoY	EBITDA Var. % QoQ	Net profit Dec.10	Net profit Var. % YoY	Net profit Var. % QoQ
Pharmaceuticals											
Aventis Pharma	1,862	Neutral	2,694	13.6	-2.3	332	104.6	-21.8	336	25.7	-28.9
Biocon	408	Buy	7,371	16.1	8.6	1,494	17.9	4.1	908	11.6	1.7
Cadila Health	758	Buy	11,593	17.0	3.8	2,607	24.1	6.5	1,641	25.6	-3.9
Cipla	364	Buy	15,964	11.0	-1.2	3,573	-11.5	1.6	2,519	-12.8	-4.2
Dishman Pharma	139	Neutral	2,353	5.8	10.6	501	-2.3	35.7	209	-34.7	-28.9
Divis Labs	636	Buy	2,764	40.8	8.3	1,033	56.7	22.6	854	25.9	18.7
Dr Reddy' s Labs	1,682	Buy	19,106	10.5	2.2	2,866	0.2	-13.8	2,379	LP	-3.2
Glenmark Pharma	357	Neutral	7,245	17.1	3.4	1,849	31.8	8.8	1,135	20.6	14.9
GSK Pharma	2,206	Buy	4,930	10.9	-15.3	1,556	12.5	-25.4	1,252	17.2	-20.9
Jubiliant Organosys	272	Neutral	10,000	4.0	1.3	1,715	-23.8	10.7	836	-17.1	1.8
Lupin	454	Buy	14,676	16.9	4.4	2,756	11.9	2.2	2,144	33.5	-0.3
Opto Circuits	255	Buy	3,947	53.5	19.1	949	7.7	-10.2	736	11.7	-5.0
Ranbaxy Labs	573	Sell	19,017	-13.3	-1.7	1,690	-44.1	21.9	806	LP	-20.9
Strides Arcolab	427	Buy	5,756	46.2	39.6	817	15.3	16.5	394	50.1	49.4
Sun Pharma	473	Buy	13,858	35.8	1.2	3,711	0.7	-20.5	2,712	5.3	-34.0
Sector Aggregate			**141,273**	**12.2**	**2.8**	**27,450**	**0.2**	**-2.7**	**18,860**	**147.0**	**-9.7**
Real Estate											
Anant Raj Inds	106	Buy	1,061	28.4	-20.1	541	-29.1	-13.7	444	-33.9	-7.7
DLF	283	Buy	24,301	20.0	2.6	11,492	36.3	23.7	4,783	2.2	14.3
HDIL	191	UR	4,355	6.5	16.9	2,632	39.4	11.0	2,223	36.6	4.0
Mahindra Lifespace	392	Buy	1,434	31.7	61.2	414	35.9	77.5	294	5.0	19.1
Phoenix Mills	219	Buy	459	52.0	3.5	319	80.0	0.5	206	101.9	-7.0
Unitech	63	Buy	8,033	3.7	24.6	2,779	49.7	9.9	1,808	2.7	4.0
Sector Aggregate			**39,643**	**15.5**	**8.5**	**18,178**	**35.4**	**18.3**	**9,756**	**7.0**	**8.3**
Retail											
Jubilant Foodworks	631	Neutral	1,819	55.0	11.3	333	68.6	12.0	196	71.8	6.2
Pantaloon Retail	360	Buy	27,500	43.8	6.5	2,503	23.0	17.7	612	20.8	43.2
Shopper's Stop	727	Neutral	4,600	22.6	1.2	465	22.2	21.7	223	107.5	28.2
Titan Industries	3,467	Neutral	18,004	35.0	17.2	1,620	51.1	-6.6	1,167	49.0	-8.7
Sector Aggregate			**51,923**	**38.9**	**9.7**	**4,920**	**33.5**	**8.3**	**2,198**	**45.4**	**6.5**
Telecom											
Bharti Airtel	349	Buy	159,028	54.3	4.5	53,877	32.0	5.2	16,967	-22.7	2.2
Idea Cellular	70	Buy	38,487	22.2	5.2	9,326	14.6	6.1	1,964	15.5	9.3
Reliance Comm	142	UR	52,368	-1.3	2.3	17,404	-4.0	4.9	3,937	-66.8	-19.8
Tulip Telecom	179	Buy	6,085	21.5	4.0	1,757	30.1	7.6	861	25.4	10.2
Sector Aggregate			**255,968**	**32.9**	**4.1**	**82,365**	**20.3**	**5.3**	**23,732**	**-34.4**	**-1.5**
Textiles											
Alok Ind	26	Neutral	14,721	36.0	1.4	4,020	24.5	-3.3	671	15.5	-15.9
Arvind Mills	65	Neutral	7,096	30.5	8.4	999	78.7	9.2	227	85.0	-19.8
Raymond	361	Buy	4,009	7.7	0.6	784	45.5	-3.7	303	-1.3	-22.7
Vardhman Textiles	290	Buy	9,606	37.4	4.2	2,370	71.7	6.9	1,110	132.3	-4.3
Sector Aggregate			**35,432**	**31.3**	**3.4**	**8,172**	**43.2**	**0.9**	**2,311**	**55.3**	**-12.2**

PL: Profit to Loss; LP: Loss to Profit; UR = Under Review

PULL OUT

Ready reckoner: quarterly performance

	CMP (Rs) 24.12.10	Rating	Sales Dec.10	Sales Var. % YoY	Sales Var. % QoQ	EBITDA Dec.10	EBITDA Var. % YoY	EBITDA Var. % QoQ	Net profit Dec.10	Net profit Var. % YoY	Net profit Var. % QoQ
Utilities											
CESC	371	Buy	9,086	14.0	-16.6	2,271	20.8	-25.0	1,092	7.0	-19.1
Coal India	312	Buy	138,607	n.a.	18.8	37,177	n.a.	98.6	34,039	n.a.	118.7
NTPC	198	Buy	145,388	30.0	-1.4	36,347	8.0	3.5	23,480	4.0	26.9
Power Grid Corp.	98	Buy	22,118	45.0	4.0	18,856	51.2	5.6	6,226	23.9	4.1
PTC India	124	Buy	14,025	-17.4	-43.2	234	126.0	-38.6	286	81.6	-20.0
Reliance Infrastructure	815	Buy	26,878	17.5	10.2	2,822	19.9	-32.2	3,010	8.2	36.5
Tata Power	1,301	Neutral	16,135	3.0	2.7	4,356	19.7	52.4	1,704	25.6	-20.6
Sector Aggregate			**233,631**	**22.6**	**-4.4**	**64,887**	**19.9**	**2.4**	**35,799**	**8.7**	**17.2**
Others											
United Phosphorous	161	Buy	12,319	6.4	-3.8	2,331	14.6	-9.1	962	50.1	-16.1
Sector Aggregate			**12,319**	**6.4**	**-3.8**	**2,331**	**14.6**	**-9.1**	**962**	**50.1**	**-16.1**

	CMP (Rs) 24.12.10	Rating	Net interest income Dec.10	Net interest income Var. % YoY	Net interest income Var. % QoQ	Operating profit Dec.10	Operating profit Var. % YoY	Operating profit Var. % QoQ	Net profit Dec.10	Net profit Var. % YoY	Net profit Var. % QoQ
Banking & Finance											
Private Banks											
Axis Bank	1,321	Buy	16,525	22.5	2.3	15,367	11.8	3.4	8,175	24.6	11.2
Federal Bank	393	Buy	4,245	11.4	-3.2	3,574	7.8	-7.2	1,446	31.1	3.0
HDFC Bank	2,216	Neutral	26,151	17.6	3.5	19,516	20.2	8.0	10,658	30.2	16.8
ICICI Bank	1,119	Buy	22,382	8.8	1.5	23,572	-0.5	6.6	13,743	24.8	11.2
ING Vysya Bank	371	Buy	2,622	19.5	3.1	1,522	4.4	-17.4	756	24.8	0.5
Kotak Mahindra Bank	450	Neutral	8,865	19.8	5.1	6,281	0.8	10.5	3,782	14.1	3.9
South Indian Bank	24	Buy	2,054	19.6	4.1	1,319	11.6	5.7	715	14.5	-7.1
Yes Bank	308	Buy	3,211	52.2	2.5	3,021	39.8	7.4	1,859	47.7	5.5
Pvt. Sector Aggregate			**86,057**	**17.0**	**2.5**	**74,172**	**9.0**	**5.2**	**41,135**	**25.9**	**10.7**
PSU Banks											
Andhra Bank	151	Buy	8,011	37.5	2.3	5,819	20.8	3.1	3,076	11.7	1.5
Bank of Baroda	889	Neutral	21,032	31.3	3.1	16,606	31.3	0.1	9,008	8.2	-11.9
Bank of India	442	UR	18,395	23.1	3.6	13,784	22.0	-0.1	6,977	72.1	13.1
Canara Bank	653	Buy	20,790	40.7	3.8	14,706	0.0	3.9	7,917	-24.8	-21.4
Corporation Bank	649	Neutral	7,479	24.8	4.6	6,031	9.3	5.2	3,539	16.0	0.6
Dena Bank	115	Buy	4,689	65.7	0.8	2,959	49.7	-9.1	1,508	12.1	-6.1
Indian Bank	256	Buy	10,082	15.5	2.5	7,382	-1.4	-0.1	4,058	-18.7	-2.4
Oriental Bank of Commerce	412	Buy	11,022	26.3	2.3	8,414	35.1	4.4	4,030	39.2	1.3
Punjab National Bank	1,214	Buy	31,175	40.9	4.7	22,758	25.2	8.4	11,950	18.2	11.2
State Bank	2,755	Buy	83,916	32.9	3.4	58,391	26.4	-8.1	25,756	3.9	3.0
Union Bank	325	Buy	14,836	39.3	-3.4	10,528	15.2	-6.9	5,505	3.1	81.4
PSU Sector Aggregate			**231,426**	**33.2**	**3.0**	**167,379**	**21.1**	**-1.8**	**83,324**	**6.6**	**2.2**
NBFC											
Dewan Housing	275	Buy	1,327	48.5	12.5	895	69.3	14.7	645	60.6	11.1
HDFC	699	Neutral	11,128	24.3	2.6	11,693	20.1	1.8	8,189	22.0	1.4
IDFC	176	Neutral	4,218	51.2	12.8	5,378	31.1	2.1	3,535	31.0	4.5
LIC Housing Fin	940	Neutral	3,673	34.7	1.3	3,150	35.7	-1.4	2,241	46.2	-4.3
M & M Financial	711	Buy	3,541	37.4	11.4	2,326	22.1	12.0	1,288	35.7	10.6
Rural Electric. Corp.	292	Buy	8,067	29.0	3.4	8,287	28.6	-0.9	6,085	28.4	-1.6
Shriram Transport Fin.	781	Buy	7,826	35.7	4.0	6,231	35.4	8.8	3,337	40.9	11.6
NBFC Sector Aggregate			**39,779**	**32.8**	**5.0**	**37,959**	**28.1**	**2.9**	**25,321**	**30.5**	**2.4**
Sector Aggregate			**357,261**	**28.8**	**3.1**	**279,510**	**18.5**	**0.6**	**149,779**	**15.0**	**4.4**

PULL OUT

Ready reckoner: valuations

	CMP (Rs)	Rating	EPS (Rs)			P/E (x)			EV/EBITDA			RoE (%)		
	24.12.10		FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E
Automobiles														
Bajaj Auto	1,446	Neutral	91.1	101.3	113.2	15.9	14.3	12.8	10.6	9.1	7.6	67.8	49.4	39.7
Hero Honda	1,929	Buy	103.5	120.9	137.2	18.6	16.0	14.1	13.2	10.5	8.9	50.2	37.9	33.3
Mahindra & Mahindra	761	Buy	59.7	68.7	79.9	12.7	11.1	9.5	5.9	4.9	4.1	24.0	22.3	21.1
Maruti Suzuki	1,392	Buy	90.9	107.5	127.4	15.3	13.0	10.9	8.3	6.7	5.2	16.9	17.4	17.3
Tata Motors	1,306	Buy	127.8	147.2	157.8	10.2	8.9	8.3	6.2	5.4	4.8	45.0	36.0	29.1
Sector Aggregate						**13.0**	**11.3**	**10.1**	**7.4**	**6.2**	**5.3**	**36.2**	**31.7**	**28.0**
Cement														
ACC	1,075	Buy	54.8	61.7	80.1	19.6	17.4	13.4	11.4	9.2	6.7	16.4	16.3	18.7
Ambuja Cements	141	Neutral	7.7	8.4	10.9	18.3	16.7	12.9	11.0	9.2	6.7	17.2	17.1	19.6
Birla Corporation	367	Buy	51.1	55.9	69.6	7.2	6.6	5.3	3.4	3.7	2.7	18.5	17.3	18.1
Grasim Industries	2,286	Buy	242.8	261.6	329.3	9.4	8.7	6.9	4.0	3.2	2.4	15.5	14.7	16.0
India Cements	105	Buy	4.0	8.1	9.3	26.4	13.0	11.3	10.9	7.1	6.0	2.8	5.4	6.0
Kesoram Ind	243	Buy	43.1	55.2	81.8	5.6	4.4	3.0	5.1	4.9	4.1	12.1	13.9	17.9
Shree Cement	1,991	Neutral	68.8	87.3	145.0	29.0	22.8	13.7	9.9	7.6	6.0	12.4	14.3	20.4
Ultratech Cement	1,053	Neutral	46.2	62.6	94.7	22.8	16.8	11.1	11.5	8.3	6.5	16.4	14.8	19.2
Sector Aggregate						**15.9**	**13.6**	**10.1**	**8.0**	**6.4**	**4.9**	**14.6**	**14.5**	**17.0**
Engineering														
ABB	804	Neutral	5.7	23.9	32.2	140.3	33.7	25.0	122.5	21.8	15.5	4.9	18.4	20.8
BGR Energy	695	Buy	41.0	53.2	69.9	16.9	13.1	9.9	9.2	7.1	5.0	35.5	33.9	33.1
BHEL	2,285	Buy	119.0	146.4	173.0	19.2	15.6	13.2	11.4	9.1	7.6	32.6	32.2	30.8
Crompton Greaves	313	Neutral	14.1	17.3	22.6	22.2	18.1	13.9	18.5	14.7	10.6	34.2	32.9	34.3
Cummins India	749	Buy	33.5	45.0	52.4	22.3	16.6	14.3	16.0	11.8	11.0	38.2	40.5	36.8
Larsen & Toubro	1,957	Buy	75.8	93.7	119.1	25.8	20.9	16.4	21.3	17.0	13.5	19.4	20.3	22.3
Siemens	810	Buy	24.5	30.1	38.6	33.0	26.9	21.0	19.4	16.1	12.2	25.6	25.9	27.4
Thermax	836	Neutral	30.4	40.6	49.2	27.5	20.6	17.0	17.6	13.2	10.9	29.9	31.5	29.7
Sector Aggregate						**23.9**	**18.8**	**15.3**	**16.5**	**12.8**	**10.4**	**26.1**	**27.4**	**29.0**
FMCG														
Asian Paints	2,887	Buy	96.0	115.9	137.9	30.1	24.9	20.9	18.8	15.7	13.1	42.0	40.5	38.8
Britannia	397	Neutral	11.1	16.2	21.7	35.7	24.5	18.3	23.6	16.4	12.3	27.5	32.8	35.2
Colgate	851	Neutral	33.7	38.6	45.2	25.3	22.1	18.8	18.3	15.5	13.1	124.6	114.9	109.9
Dabur	100	Neutral	3.3	3.9	4.8	30.8	25.8	21.1	23.1	19.6	16.0	40.8	38.7	38.0
Godrej Consumer	392	Neutral	13.9	17.5	20.2	28.3	22.4	19.4	23.0	17.4	14.3	27.6	30.3	30.3
GSK Consumer	2,169	Buy	69.1	84.3	102.3	31.4	25.7	21.2	23.0	18.2	14.4	26.8	27.3	27.5
Hind. Unilever	295	Neutral	9.9	11.2	12.9	29.7	26.3	22.9	22.2	19.3	16.6	71.9	68.9	67.1
ITC	170	Buy	6.4	7.5	8.7	26.5	22.6	19.6	16.5	13.8	11.9	31.8	31.6	28.5
Marico	121	Neutral	4.2	5.1	6.4	29.0	23.8	19.0	20.1	15.8	12.8	30.6	28.5	27.3
Nestle	3,676	Buy	85.8	103.1	125.5	42.8	35.6	29.3	28.6	23.5	19.2	102.5	86.1	76.5
United Spirits	1,460	Neutral	36.1	52.4	69.8	40.4	27.8	20.9	19.0	15.4	13.0	10.2	13.1	15.1
Sector Aggregate						**29.7**	**25.0**	**21.2**	**19.6**	**16.3**	**13.8**	**34.9**	**34.7**	**34.3**

Ready reckoner: valuations

	CMP (Rs)	Rating	EPS (Rs)			P/E (x)			EV/EBITDA			RoE (%)		
	24.12.10		FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E
Information Technology														
HCL Technologies	455	Buy	23.9	31.4	35.3	19.0	14.5	12.9	11.7	8.3	6.9	21.3	23.1	21.6
Infosys	3,369	Buy	122.7	153.3	182.5	27.4	22.0	18.5	18.9	15.2	12.8	26.9	27.3	26.7
MphasiS	665	Neutral	53.3	60.0	70.5	12.5	11.1	9.4	10.0	8.2	6.8	29.7	26.0	24.1
Patni Computer	489	Neutral	41.1	41.1	45.9	11.9	11.9	10.6	7.9	6.3	5.0	17.5	17.4	16.6
TCS	1,141	Neutral	43.2	51.2	60.5	26.4	22.3	18.9	19.5	15.7	13.3	34.4	31.0	28.5
Tech Mahindra	688	Neutral	48.9	57.0	73.7	14.1	12.1	9.3	6.7	5.9	5.1	24.7	22.4	22.6
Wipro	482	Neutral	21.8	25.2	28.8	22.1	19.2	16.7	17.1	13.2	11.2	23.7	23.3	21.8
Sector Aggregate						**24.0**	**19.9**	**17.0**	**17.2**	**13.6**	**11.5**	**24.7**	**24.0**	**22.8**
Infrastructure														
GMR Infrastructure	45	Neutral	1.2	1.4	2.4	38.8	32.9	18.6	12.2	11.2	7.6	6.0	6.7	10.8
GVK Power & Infra	41	Buy	1.7	2.7	3.3	23.9	14.9	12.5	15.5	12.4	8.3	8.0	11.6	12.4
Hindustan Construction	45	Neutral	1.6	2.3	3.2	28.1	19.3	14.3	8.7	7.3	6.8	5.2	7.1	9.0
IVRCL Infra.	127	Neutral	8.4	10.7	11.9	15.0	11.9	10.6	7.3	6.1	5.5	11.6	13.2	13.3
Jaiprakash Associates	103	Buy	4.1	1.7	8.6	25.0	62.1	12.0	18.3	14.5	10.0	9.7	3.7	17.1
Nagarjuna Construction	142	Buy	11.7	14.3	18.0	12.1	9.9	7.9	8.1	6.9	5.8	10.4	12.1	14.1
Simplex Infra.	414	Buy	34.3	45.5	55.3	12.1	9.1	7.5	6.5	5.2	4.6	16.2	18.3	18.8
Sector Aggregate						**23.9**	**24.5**	**12.6**	**13.6**	**11.4**	**8.3**	**8.6**	**7.9**	**13.5**
Media														
Deccan Chronicle	106	Buy	11.0	13.6	15.6	9.6	7.8	6.8	4.2	3.4	2.8	19.6	22.2	23.5
HT Media	143	Neutral	7.8	9.0	10.8	18.4	15.8	13.2	10.5	9.2	7.7	15.1	15.6	16.5
Jagran Prakashan	128	Neutral	6.6	7.0	8.0	19.5	18.4	16.0	11.2	10.2	8.8	30.4	31.8	35.2
Sun TV	527	Neutral	18.3	22.0	26.6	28.8	24.0	19.8	12.9	11.1	9.4	28.5	27.5	26.9
Zee Entertainment	139	Buy	5.5	7.3	9.1	25.3	19.0	15.2	16.8	12.8	10.0	13.5	16.6	18.8
Sector Aggregate						**23.2**	**18.9**	**15.6**	**12.2**	**10.3**	**8.5**	**19.6**	**21.2**	**22.4**
Metals														
Hindalco	239	Buy	16.9	19.5	21.0	14.2	12.3	11.4	7.5	6.7	6.2	20.5	19.5	17.6
Hindustan Zinc	1,273	Buy	100.6	123.0	134.7	12.7	10.3	9.4	7.8	5.7	4.5	19.3	19.4	17.7
JSW Steel	1,170	Buy	70.2	110.6	156.0	16.7	10.6	7.5	7.0	4.8	4.2	9.7	12.8	15.4
Nalco	381	Sell	20.4	26.5	24.5	18.7	14.4	15.6	10.0	7.2	7.4	11.5	13.4	11.3
SAIL	185	Neutral	14.7	15.4	15.9	12.6	12.0	11.7	7.9	8.0	8.3	15.8	14.6	13.4
Sesa Goa	316	Buy	54.9	50.3	54.9	5.7	6.3	5.8	3.4	2.7	1.7	36.7	25.7	22.3
Sterlite Inds.	185	Buy	13.4	22.1	22.9	13.8	8.3	8.1	6.9	3.7	2.9	11.0	15.6	14.1
Tata Steel	673	Neutral	74.4	75.1	92.0	9.0	9.0	7.3	6.4	6.2	4.9	42.9	31.2	28.8
Sector Aggregate						**11.7**	**9.9**	**8.9**	**6.9**	**5.7**	**5.0**	**16.6**	**16.5**	**15.8**
Oil & Gas														
BPCL	672	Buy	58.5	60.2	65.5	11.5	11.2	10.3	10.4	9.1	7.6	14.2	13.3	13.2
Cairn India	328	Neutral	30.6	46.6	46.9	10.7	7.0	7.0	7.5	4.7	4.1	16.1	21.2	18.3
Chennai Petroleum	247	Buy	22.0	29.4	33.0	11.2	8.4	7.5	8.1	7.0	5.9	9.3	11.8	12.4
GAIL	514	Buy	29.4	32.0	37.0	17.5	16.1	13.9	15.0	14.6	13.6	19.4	18.6	18.9
Gujarat State Petronet	116	Under Review	7.2	6.2	7.4	16.1	18.8	15.6	8.6	8.0	6.9	23.4	17.1	17.9
HPCL	400	Buy	37.4	39.4	39.0	10.7	10.1	10.3	8.6	7.8	7.3	10.6	10.4	9.7
Indraprastha Gas	328	Neutral	17.5	20.5	24.4	18.7	16.0	13.4	9.4	7.9	6.5	27.0	26.5	26.5
IOC	355	Buy	34.3	39.6	44.9	10.3	8.9	7.9	6.9	5.6	4.5	15.2	16.0	16.3
MRPL	72	Sell	3.7	4.8	5.6	19.6	15.2	13.0	13.3	11.9	8.8	11.1	13.3	14.0
ONGC	1,295	Buy	109.0	128.8	129.0	11.9	10.1	10.0	4.7	4.4	4.1	21.6	22.4	19.8
Petronet LNG	126	Buy	7.0	9.4	11.3	17.9	13.3	11.1	11.3	8.9	6.5	21.9	25.2	25.6
Reliance Inds.	1,060	Neutral	67.9	73.6	89.2	15.6	14.4	11.9	10.1	8.8	7.3	14.6	13.9	14.8
Sector Aggregate						**13.7**	**11.7**	**10.7**	**7.7**	**6.7**	**5.9**	**15.6**	**16.1**	**15.6**

PULL OUT

Ready reckoner: valuations

	CMP (Rs)	Rating	EPS (Rs)			P/E (x)			EV/EBITDA			RoE (%)		
	24.12.10		FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E
Pharmaceuticals														
Aventis Pharma	1,862	Neutral	69.2	82.4	98.3	26.9	22.6	18.9	23.3	18.7	14.9	15.8	17.2	18.6
Biocon	408	Buy	17.5	20.6	23.6	23.3	19.9	17.3	13.7	12.2	10.5	17.3	17.6	17.5
Cadila Health	758	Buy	30.5	37.6	46.7	24.9	20.2	16.2	15.8	13.6	11.3	33.2	31.6	30.7
Cipla	364	Buy	12.9	16.2	18.0	28.2	22.5	20.2	20.2	16.9	15.1	15.5	17.0	16.6
Dishman Pharma	139	Neutral	11.9	12.4	16.2	11.6	11.2	8.6	10.0	7.9	6.6	11.6	10.9	12.8
Divis Labs	636	Buy	26.1	32.3	40.2	24.4	19.7	15.8	20.5	15.2	12.8	19.4	20.5	21.5
Dr Reddy' s Labs	1,682	Buy	67.5	75.9	82.5	24.9	22.1	20.4	24.3	22.3	20.3	23.0	25.1	23.9
Glenmark Pharma	357	Neutral	13.3	18.4	21.5	26.9	19.3	16.6	14.0	13.1	11.6	13.3	15.8	15.6
GSK Pharma	2,206	Buy	69.0	80.3	93.8	32.0	27.5	23.5	22.3	18.8	15.8	30.2	31.7	33.2
Jubiliant Organosys	272	Neutral	19.9	22.2	29.1	13.7	12.2	9.3	10.0	8.6	7.1	14.2	14.4	17.3
Lupin	454	Buy	19.5	23.6	24.0	23.3	19.2	18.9	18.7	15.5	14.3	30.2	29.6	24.8
Opto Circuits	255	Buy	16.4	18.6	26.7	15.5	13.7	9.5	11.7	9.6	8.1	25.6	23.3	27.8
Ranbaxy Labs	573	Sell	32.2	10.1	15.9	17.8	56.8	35.9	14.2	28.8	20.6	22.2	6.5	9.3
Strides Arcolab	427	Buy	30.0	41.1	46.4	14.3	10.4	9.2	10.6	8.7	7.7	14.6	14.8	14.8
Sun Pharma	473	Buy	12.7	16.4	20.1	37.2	28.9	23.6	24.1	23.6	19.5	15.5	17.3	18.5
Sector Aggregate						**25.2**	**23.3**	**19.7**	**18.1**	**17.1**	**14.6**	**19.5**	**18.5**	**19.1**
Real Estate														
Anant Raj Inds	106	Buy	6.4	10.3	16.4	16.7	10.3	6.4	14.6	8.4	5.0	5.0	7.6	10.8
Brigade Enterpr.	110	Buy	11.9	17.6	4.1	9.2	6.2	26.6	7.3	4.8	3.7	12.4	16.4	16.1
DLF	283	Buy	11.9	14.8	18.0	23.8	19.1	15.7	14.4	11.8	10.3	6.9	8.4	9.4
HDIL	191	UR	21.2	25.1	26.7	9.0	7.6	7.1	8.8	6.5	5.9	9.8	10.9	10.9
Indiabulls Real Estate	130	Buy	7.1	11.7	24.4	18.2	11.1	5.3	24.7	11.7	3.8	1.8	2.9	5.8
Mahindra Lifespace	392	Buy	29.5	40.1	60.9	13.3	9.8	6.4	9.8	6.9	1.3	11.2	13.3	17.0
Peninsula Land	61	Neutral	11.9	13.2	4.7	5.1	4.6	12.9	3.7	3.4	4.6	24.0	22.9	8.1
Phoenix Mills	219	Buy	6.0	7.4	11.5	36.7	29.6	19.0	28.7	15.8	10.5	5.2	6.1	8.7
Puravankara Projects	114	Neutral	8.2	9.8	10.3	13.9	11.5	11.0	14.0	9.1	-3.4	10.8	11.8	11.2
Unitech	63	Buy	3.1	4.3	5.7	20.5	14.9	11.1	16.4	10.1	8.0	6.7	8.6	10.4
Sector Aggregate						**18.5**	**14.4**	**11.7**	**13.7**	**10.1**	**7.8**	**7.0**	**8.5**	**9.7**
Retail														
Jubilant Foodworks	631	Neutral	11.3	14.8	22.0	55.7	42.5	28.7	32.5	22.0	15.3	38.1	35.5	37.9
Pantaloon Retail	360	Buy	10.9	15.2	21.1	33.1	23.7	17.0	9.9	8.1	6.7	7.1	9.3	11.6
Shopper's Stop	727	Neutral	15.8	25.2	35.4	46.0	28.8	20.5	19.8	13.7	10.1	11.0	15.3	18.5
Titan Industries	3,467	Neutral	98.0	131.9	173.0	35.4	26.3	20.0	25.5	19.3	15.2	43.4	42.5	41.1
Sector Aggregate						**37.4**	**26.9**	**19.8**	**17.2**	**13.2**	**10.5**	**15.8**	**18.8**	**21.5**
Telecom														
Bharti Airtel	349	Buy	17.6	22.3	28.5	19.8	15.6	12.2	9.2	7.0	5.7	13.7	14.9	16.5
Idea Cellular	70	Buy	1.8	2.7	5.1	39.0	26.3	13.7	9.6	7.0	5.1	5.1	7.1	12.3
Reliance Comm	142	UR	6.9	8.5	10.3	20.6	16.8	13.7	8.8	7.1	6.0	3.6	4.3	5.1
Tulip Telecom	179	Buy	19.8	26.8	28.5	9.0	6.7	6.3	5.4	4.0	3.0	29.9	30.6	22.8
Sector Aggregate						**20.8**	**16.3**	**12.4**	**9.1**	**6.9**	**5.6**	**8.9**	**10.3**	**12.0**
Textiles														
Alok Ind	26	Neutral	3.6	7.1	9.5	7.1	3.6	2.7	5.6	5.1	4.9	8.5	14.9	17.0
Arvind Mills	65	Neutral	3.0	4.0	6.4	21.5	16.2	10.1	6.4	5.7	4.7	3.3	4.2	6.4
Raymond	361	Buy	5.6	15.7	22.3	64.7	23.0	16.2	11.6	8.6	7.0	1.3	3.7	5.0
Vardhman Textiles	290	Buy	62.4	51.7	55.8	4.6	5.6	5.2	3.9	3.8	3.3	18.3	13.4	12.8
Sector Aggregate						**10.0**	**7.2**	**5.6**	**5.8**	**5.3**	**4.8**	**8.6**	**10.9**	**12.5**

UR = Under Review

PULL OUT

Ready reckoner: valuations

	CMP (Rs)	Rating	EPS (Rs)			P/E (x)			EV/EBITDA			RoE (%)		
	24.12.10		FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E
Utilities														
CESC	371	Buy	37.0	38.8	39.6	10.0	9.6	9.4	5.9	6.3	6.4	13.0	12.2	11.2
Coal India	312	Buy	18.8	20.4	21.8	16.7	15.3	14.3	11.4	9.9	8.6	28.5	25.1	22.1
NTPC	198	Buy	10.8	12.2	14.5	18.3	16.2	13.7	12.5	11.7	10.4	13.7	14.3	15.6
Power Grid Corp.	98	Buy	5.7	7.0	8.0	17.1	13.9	12.1	10.6	9.5	9.0	14.0	14.2	14.8
PTC India	124	Buy	4.3	5.6	8.6	29.2	22.2	14.4	23.3	16.1	9.1	6.1	7.4	10.9
Reliance Infrastructure	815	Buy	42.6	60.0	67.8	19.1	13.6	12.0	14.6	11.5	9.4	7.2	9.0	9.3
Tata Power	1,301	Neutral	74.7	94.9	87.7	17.4	13.7	14.8	20.8	19.1	19.2	7.8	7.1	6.4
Sector Aggregate						**17.3**	**15.1**	**13.7**	**12.0**	**10.9**	**9.8**	**16.9**	**17.2**	**17.0**
Others														
United Phosphorous	161	Buy	13.4	17.3	20.9	12.0	9.3	7.7	6.5	5.0	4.0	18.0	19.4	19.5
Sector Aggregate						**12.0**	**9.3**	**7.7**	**6.5**	**5.0**	**4.0**	**18.0**	**19.4**	**19.5**

	CMP (Rs)	Rating	EPS (Rs)			P/E (x)			P/BV (x)			RoE (%)		
	24.12.10		FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E
Banks														
Andhra Bank	151	Buy	25.8	31.1	37.8	5.8	4.8	4.0	1.4	1.1	0.9	25.6	25.3	25.3
Axis Bank	1,321	Buy	77.9	96.3	115.6	16.9	13.7	11.4	2.9	2.5	2.1	18.2	19.4	19.8
Bank of Baroda	889	Neutral	103.5	120.5	146.0	8.6	7.4	6.1	1.9	1.6	1.3	24.4	23.5	23.6
Bank of India	442	UR	52.2	64.2	80.3	8.5	6.9	5.5	1.6	1.3	1.1	19.8	20.7	21.8
Canara Bank	653	Buy	86.4	98.5	113.0	7.6	6.6	5.8	1.7	1.4	1.2	25.3	23.7	22.5
Corporation Bank	649	Neutral	97.5	114.4	135.0	6.7	5.7	4.8	1.4	1.1	1.0	22.2	21.9	21.9
Dena Bank	115	Buy	20.6	24.4	28.4	5.6	4.7	4.0	1.1	0.9	0.8	22.4	21.7	21.0
Dewan Housing	275	Buy	23.5	33.3	42.8	11.2	7.9	6.2	1.8	1.5	1.3	20.6	20.7	22.1
Federal Bank	393	Buy	32.9	38.8	46.1	11.9	10.1	8.5	1.3	1.2	1.1	11.5	12.3	13.2
HDFC	699	Neutral	23.6	28.0	32.2	22.2	17.7	15.4	5.5	4.5	4.1	27.0	27.0	28.1
HDFC Bank	2,216	Neutral	83.9	109.5	137.4	26.4	20.2	16.1	4.1	3.5	3.0	16.6	18.7	20.1
ICICI Bank	1,119	Buy	44.2	56.6	68.1	20.2	15.2	12.7	2.4	2.1	1.9	11.7	13.9	15.1
IDFC	176	Neutral	8.9	10.9	12.8	19.7	16.2	13.7	2.2	1.9	1.7	14.5	13.4	14.2
Indian Bank	256	Buy	37.3	42.8	48.6	6.9	6.0	5.3	1.4	1.2	1.0	21.6	21.1	20.5
ING Vysya Bank	371	Buy	25.1	32.7	42.9	14.7	11.4	8.6	1.8	1.6	1.4	12.8	14.8	16.9
Kotak Mahindra Bank	450	Neutral	20.2	24.4	28.9	22.2	18.4	15.6	3.0	2.6	2.2	15.8	15.2	15.5
LIC Housing Fin	188	Neutral	18.7	22.1	26.2	10.2	8.6	7.3	2.2	1.8	1.5	23.5	23.0	22.9
M & M Financial	711	Buy	48.9	56.9	67.3	14.5	12.5	10.6	3.4	2.8	2.3	24.5	23.6	23.2
Oriental Bank	412	Buy	62.6	72.2	82.6	6.6	5.7	5.0	1.2	1.0	0.9	19.7	19.5	19.1
Punjab National Bank	1,214	Buy	143.2	178.4	216.4	8.5	6.8	5.6	1.9	1.6	1.3	25.0	25.5	25.3
Rural Electric. Corp.	292	Buy	24.7	29.4	34.4	11.8	9.9	8.5	2.3	2.0	1.8	20.6	21.6	22.1
Shriram Transport Fin.	781	Buy	57.1	68.6	81.1	13.7	11.4	9.6	3.6	2.9	2.3	29.5	28.0	26.5
State Bank	2,755	Buy	203.7	263.5	336.6	12.9	9.9	7.9	1.8	1.6	1.4	15.5	17.0	18.7
South Indian Bank	24	Buy	2.4	2.9	3.6	10.1	8.4	6.8	1.6	1.4	1.2	17.3	18.0	19.5
Union Bank	325	Buy	39.5	49.4	60.0	8.2	6.6	5.4	1.6	1.3	1.1	20.8	21.9	22.3
Yes Bank	308	Buy	21.0	27.1	34.1	14.6	11.3	9.0	2.8	2.3	1.9	21.0	22.3	22.8
Sector Aggregate						**14.4**	**11.7**	**9.6**	**2.6**	**2.2**	**1.9**	**18.2**	**19.3**	**20.1**
Private Banks						**22.1**	**17.5**	**14.3**	**3.3**	**2.9**	**2.6**	**15.1**	**16.7**	**17.8**
PSU Banks						**9.8**	**8.0**	**6.5**	**1.9**	**1.6**	**1.4**	**19.3**	**20.3**	**21.1**
NBFC						**18.7**	**15.6**	**13.1**	**3.9**	**3.2**	**2.7**	**20.6**	**20.6**	**20.8**

PULL OUT

Sectors & Companies

BSE Sensex: 20,074 **S&P CNX:** 6,012 **As on:** 24 December 2010

Note: In our quarterly performance tables, our four-quarter numbers may not always add up to the full-year numbers. This is because of differences in classification of account heads in the company's quarterly and annual results or because of differences in the way we classify account heads as opposed to the company. **All stock prices and indices as on 24 December 2010, unless otherwise stated.**

Automobiles

COMPANY NAME

Bajaj Auto

Hero Honda

Mahindra & Mahindra

Maruti Suzuki India

Tata Motors

Strong volume momentum: 3QFY11 volume momentum is expected to be strong with 24.6% YoY growth (~0.6% QoQ), driven by economic growth, easy availability of credit and new products. Growth continues to remain strong for all the segments with Two wheelers are expected to have grown by 25.7% YoY (~1% QoQ), cars by 20% YoY (~0.7% QoQ), commercial vehicles by 21.1% YoY (~2.7% QoQ de-growth) and UVs by 27% YoY (~2.2% QoQ de-growth).

RM cost inflation to contain EBITDA margins: EBITDA margins are estimated to decline 10bp QoQ (down ~300bp YoY) to 12.5% due to higher raw material (RM) costs. Recent price increases by auto makers (all except Hero Honda) will dilute the impact of the higher RM costs and ensure stable operating margins in 4QFY11.

Headwinds gather momentum, may impact short-term outlook: There are headwinds that will impair the performance in the sector for the next 1-2 quarters. However, the industry's long-term volume outlook is positive due to improved economic activity, easy availability of finance and an improved export outlook. Besides, new product launches will help volume growth. Hardening of interest rates, an increase in fuel prices and pricing action to mitigate RM costs could act as short-term impediments.

Valuation and view: Auto stocks have outperformed the benchmark over the past year due to recovery in volumes and margin expansion. While volume outlook is positive, operating margins are expected to moderate from peak levels but are expected to be higher than historical average margins. Valuations are attractive. Our top pick is **M&M**.

Key operating indicators

	Volumes ('000 units)					EBITDA margins (%)				
	3QFY11E	3QFY10	YoY (%)	2QFY11	QoQ (%)	3QFY11E	3QFY10	YoY (bp)	2QFY11	QoQ (bp)
Bajaj Auto	965	809	19.3	1,001	-3.6	20.2	22.0	-170	20.7	-40
Hero Honda	1,387	1,111	24.8	1,286	7.9	12.4	17.0	-460	12.6	-20
Maruti Suzuki	329	258	27.7	314	5.0	10.3	15.1	-480	10.5	-20
M&M	142	113	26.2	131	8.2	15.6	15.2	30	15.8	-30
Tata Motors (S/A)	185	164	12.8	208	-10.7	9.6	12.8	-320	9.7	-10
Tata Motors (Cons)						14.0	11.7	230	14.5	-50
Aggregate *	**3,009**	**2,455**	**22.5**	**2,939**	**2.4**	**12.5**	**15.5**	**-300**	**12.6**	**-10**

* Aggregate includes Tata Motor's standalone performance only

Source: SIAM/ MOSL

Expected quarterly performance summary

(Rs million)

	CMP (Rs) 24.12.10	Rating	Sales Dec.10	Sales Var. % YoY	Sales Var. % QoQ	EBITDA Dec.10	EBITDA Var. % YoY	EBITDA Var. % QoQ	Net profit Dec.10	Net profit Var. % YoY	Net profit Var. % QoQ
Automobiles											
Bajaj Auto	1,446	Neutral	42,220	28.1	-2.8	8,536	18.0	-4.9	6,453	27.2	-5.4
Hero Honda	1,929	Buy	48,879	28.1	8.3	6,054	-6.6	6.7	5,097	-4.9	0.8
Mahindra & Mahindra	761	Buy	58,492	30.6	10.1	9,174	33.8	8.1	6,398	50.8	-12.0
Maruti Suzuki	1,392	Buy	95,009	26.6	3.9	9,791	-13.7	2.0	6,120	-11.0	2.3
Tata Motors	1,306	Buy	298,547	14.6	3.7	41,864	36.9	0.1	20,775	155.6	-0.5
Sector Aggregate			**543,147**	**20.3**	**4.3**	**75,419**	**20.7**	**1.1**	**44,843**	**51.1**	**-2.5**

Jinesh Gandhi (Jinesh@MotilalOswal.com)

3QFY11: robust volume growth expected

Volume growth across segments will be robust in 3QFY11, supported by improvement in economic activity, easy availability of credit and new product launches. Retail demand will be robust, resulting in overall inventory in the system being below normal levels. However, capacity constraints at OEMs and vendors will cap the industry's volume growth.

- Two-wheeler volumes are estimated to grow by 25.7% YoY (up 1.1% QoQ). Hero Honda will benefit most with 24.8% YoY (7.9% QoQ) growth in two-wheeler volumes and Bajaj Auto's volumes will grow by 19.3% YoY (3.6% QoQ de-growth).
- Car volumes are estimated to grow by 20% YoY (~0.7% QoQ), driven by strong growth in domestic markets. While Maruti Suzuki's volumes will grow by 27.7% YoY (~5% QoQ), Tata Motors' car volumes (ex-Fiat) will fall by 3% YoY (up 29.4% QoQ) due to declining sales of the Nano.
- Demand will improve in the commercial vehicle segment with demand growing 21.1% YoY (~2.7% QoQ de-growth), driven by 16% YoY growth (~9% QoQ de-growth) in M&HCV volumes and 25.6% YoY growth (~3.3% QoQ) in LCV volumes. Tata Motor's CV volumes will grow by 17.9% YoY (~0.9% QoQ) and M&HCV volumes by 12.8% YoY (~7% QoQ de-growth) and LCV volumes will grow by 21.7% YoY (~1.7% QoQ).

Auto volumes snapshot for 3QFY11 ('000 units)

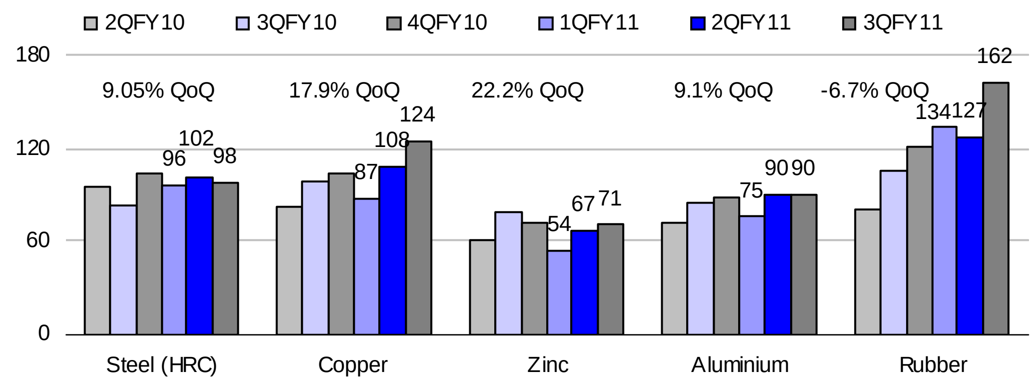
	3QFY11E	3QFY10	YOY (%)	2QFY11	QOQ (%)
Two wheelers	3,325	2,645	25.7	3,289	1.1
Three wheelers	204	166	22.9	209	-2.6
Passenger cars	599	499	20.0	595	0.7
UVs & MPVs	132	104	27.0	135	-2.2
M&HCV	79	68	16.1	87	-9.1
LCV	97	77	25.6	94	3.3
Total CVs	**176**	**145**	**21.1**	**181**	**-2.7**
Total	**4,435**	**3,559**	**24.6**	**4,409**	**0.6**

Source: SIAM/ MOSL

RM costs to inch up in 3QFY11

Most commodity prices will harden in 3QFY11. Consequently, we estimate ~30bp QoQ (~290bp YoY) increase in RM costs. Auto companies raised prices by ~1% to dilute the impact of the RM cost push. Our estimates factor in a 270bp increase in RM costs in FY11 and a 30bp increase in FY12, the impact of which would be diluted by 1-1.5% increase in selling prices.

Trend in commodity prices (Indexed)



Source: Bloomberg/MOSL

Margins to moderate due to raw material cost inflation

We estimate margins for the auto industry to decline from their peak of 2QFY10 and 3QFY10, driven by the RM cost push. However, the impact would be partly offset as automakers partly passed on the cost increase and higher operating leverage. We estimate EBITDA margins for the MOSL automobile universe will decline by 10bp QoQ (down ~300bp YoY) to 12.5% in 3QFY11, and ~210bp in FY11. While margins are expected to come off their peaks, we do not expect the drop to be meaningful due to (a) strong volume growth, (b) relatively higher pricing power, (c) cost controls and (d) increasing contribution from plants with fiscal incentives.

Margins expected to moderate from their peaks

	3QFY11E	3QFY10	YOY (BP)	2QFY11	QOQ (BP)
Bajaj Auto	20.2	22.0	-170	20.7	-40
Hero Honda	12.4	17.0	-460	12.6	-20
Maruti Suzuki	10.3	15.1	-480	10.5	-20
M&M	15.6	15.2	30	15.8	-30
Tata Motors (S/A)	9.6	12.8	-320	9.7	-10
Tata Motors (Cons)	14.0	11.7	230	14.5	-50
Aggregate *	**12.5**	**15.5**	**-300**	**12.6**	**-10**

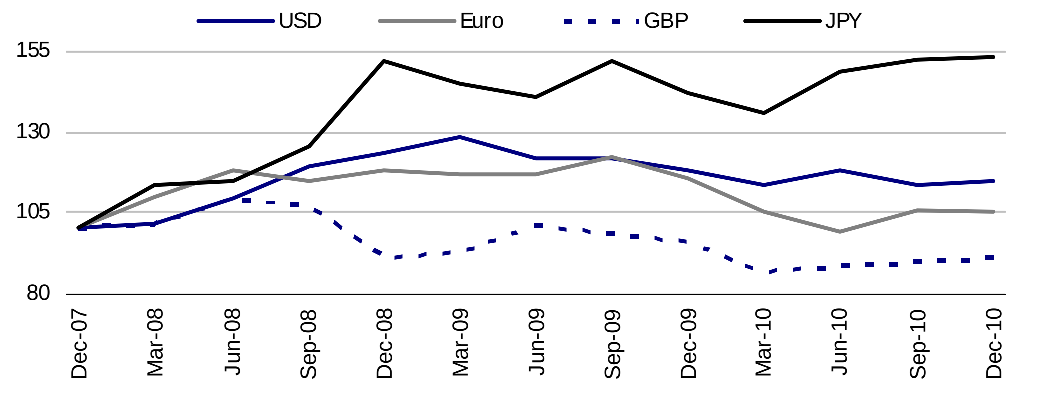
** Aggregate includes Tata Motors' standalone performance only* *Source: MOSL*

Forex fluctuation could have a destabilizing effect

Exchange rate fluctuations have led to concerns about export revenue realizations, the cost of imported inputs, and the effectiveness of hedging practices followed by companies. In 3QFY11 the rupee is expected to have appreciated against US dollar by 2.4% YoY, against the euro by 9.3%, the GBP by 5.3% and depreciated by 8% against the Japanese yen. The impact of rupee depreciation would vary depending on companies' forex exposure and hedging strategies.

	YoY	QoQ
USD	-2.4	1.0
JPY	8.0	0.4
EUR	-9.3	-0.6
GBP	-5.3	1.8

Trend in Rupee movement (Index)



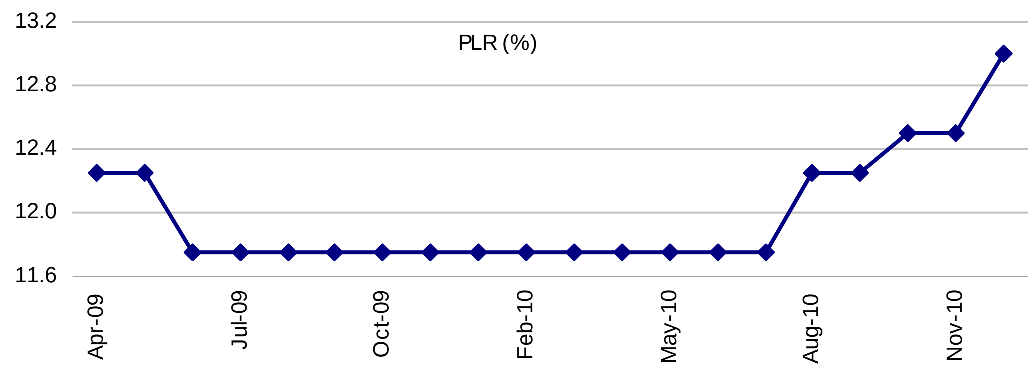
Source: Bloomberg

Near-term outlook clouded by headwinds…

Headwinds are gaining momentum, which could impact demand in the short term. Events to watch out for are:

- Hardening in monetary policy would result in an increase in interest rates for automobiles and thereby an increase in cost of ownership/operating a vehicle. However, we expect availability of finance to be unaffected.

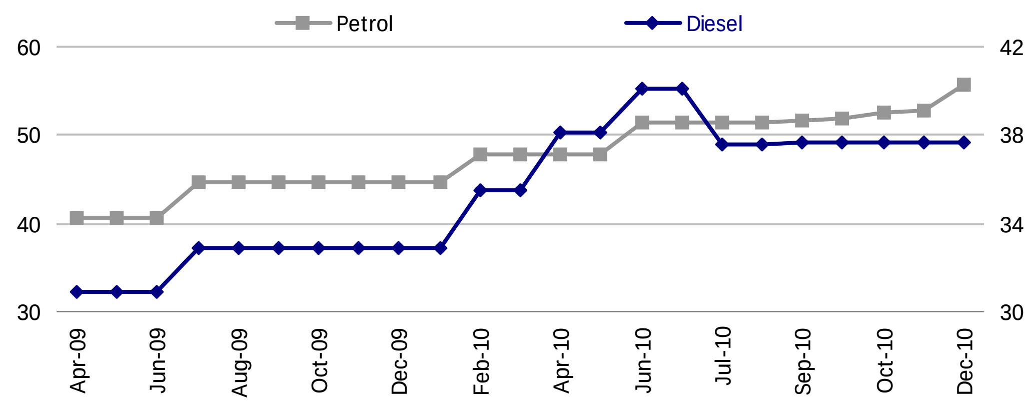
Trend in interest costs



Source: SBI's PLR; December 2010 is estimate based on recent increase by other banks

- The recent increase in fuel costs will increase the cost of ownership/operating a vehicle. While the petrol price increase is disconcerting for passenger vehicles, a diesel price increase would be a concern for fleet operators as their profitability would be impacted. Current freight demand is robust, which will help to partly pass-on fuel cost inflation to consumers.

Trend in fuel costs



Source: SIAM/MOSL

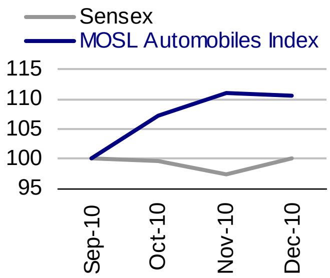
- Increased selling prices will partly offset RM cost inflation. This coupled with other factors could result in a meaningful increase in the cost of vehicle ownership.
- A full roll-back in the excise duty cut (after a partial roll-back in the 2010 Budget, offered as part of a stimulus package in December 2008). The higher duty would be passed on, which would have a short-term impact on demand.

...long term sector outlook remains positive

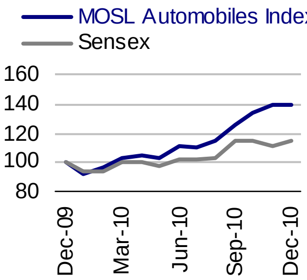
Volumes in the auto sector recovered after the financial crisis. While two-wheeler, passenger vehicles and LCV volumes resumed growth after a brief pause, M&HCVs, tractors and three-wheelers have completely recovered from the downturn. We are bullish on the auto sector because:

- We expect continued volume growth, driven by an economic recovery, pent-up demand, better financing conditions and new product launches expanding the market. Deeper rural penetration will add to growth.

Relative Performance-3m (%)



Relative Performance-1Yr (%)



- Continued volume growth will enable pricing power for the industry and support a high operating leverage. Besides, the leading companies have undertaken cost cut and productivity improvement programs, which would dilute the impact of RM cost inflation, thereby supporting margins at higher levels. Ramping-up of operations in tax-free zones like Uttaranchal will help to counter cost pressure through a lower tax burden.
- Global economic recovery augurs well for export demand. Indian auto makers have yet to fully tap foreign markets and the segment may drive the industry's growth further. Companies like Bajaj Auto, Maruti, Tata Motors and M&M can increase exports by tapping new geographies and increasing penetration in existing markets.

Valuation and view

Most automobile stocks have outperformed the benchmark over the past one year due to a recovery in volumes and margin expansion. While volume outlook is positive, operating margins are expected to moderate from their FY10 peaks but are expected to remain higher than historical average margins. Valuations in the sector are attractive. Our top pick is **M&M**.

Comparative valuation

	CMP (Rs)	Rating	EPS (Rs)			P/E (x)			EV/EBITDA			RoE (%)		
	24.12.10		FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E
Automobiles														
Bajaj Auto	1,446	Neutral	91.1	101.3	113.2	15.9	14.3	12.8	10.6	9.1	7.6	67.8	49.4	39.7
Hero Honda	1,929	Buy	103.5	120.9	137.2	18.6	16.0	14.1	13.2	10.5	8.9	50.2	37.9	33.3
Mahindra & Mahindra	761	Buy	59.7	68.7	79.9	12.7	11.1	9.5	5.9	4.9	4.1	24.0	22.3	21.1
Maruti Suzuki	1,392	Buy	90.9	107.5	127.4	15.3	13.0	10.9	8.3	6.7	5.2	16.9	17.4	17.3
Tata Motors	1,306	Buy	127.8	147.2	157.8	10.2	8.9	8.3	6.2	5.4	4.8	45.0	36.0	29.1
Sector Aggregate						**13.0**	**11.3**	**10.1**	**7.4**	**6.2**	**5.3**	**36.2**	**31.7**	**28.0**

Bajaj Auto

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	BJAUT IN
Equity Shares (m)	289.4
52 Week Range (Rs)	1,665 / 810
1,6,12 Rel Perf (%)	-14 / 7 / 54
Mcap (Rs b)	418.3
Mcap (USD b)	9.3

CMP: Rs1,446 — Neutral

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/CE (X)	P/BV (X)	EV/ EBITDA	ROE (%)	ROCE (%)
3/10A	119,210	18,175	62.8	128.3	23.0	21.4	7.1	7.0	78.8	68.5
3/11E	171,966	26,347	91.1	45.0	15.9	15.1	8.6	10.6	67.8	70.8
3/12E	196,236	29,310	101.3	11.2	14.3	13.5	6.0	9.1	49.4	56.9
3/13E	223,779	32,742	113.2	11.7	12.8	12.1	4.4	7.6	39.7	48.3

- 3QFY11volumes are expected to improve by 19.3% YoY (~3.6 QoQ de-growth) to 965,047 units. The recovery will be driven by robust demand for recently launched products and three-wheelers. Two-wheeler volumes are estimated to improve 19.9% YoY and three-wheeler volumes are estimated to improve 14.6% YoY.
- We estimate 3QFY11 net sales of Rs42.2b, up 28.1% YoY. Realizations are estimated to improve by 7.4% YoY (~0.8% QoQ), due to a price increase of 2% in October 2010.
- EBITDA margins are expected to decline by 50bp QoQ (~180bp YoY) to 20.2%, due to increased marketing spend and lower operating leverage. EBITDA is estimated at Rs.8.5b (up ~18% YoY) and adjusted PAT at Rs6.4b (up 27% YoY).
- Bajaj's 3QFY11 volumes are expected to improve, driven by easing supply-side constraints for two-wheelers and a strong order book for three-wheelers. It expects to boost motorcycle volumes to 350,000 units a month and three-wheeler volumes to 45,000 units by January 2011.
- We maintain our EPS estimates for FY11 at Rs91.1 and for FY12 at Rs101.3. Our estimates factor in 39.2% volume growth in FY11 and 320bp YoY increase in RM costs, translating into a 140bp decline in EBITDA margins to 20.3%. The stock trades at 15.9x FY11E and 14.3x FY12E EPS. Maintain **Neutral**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Volumes (nos)	547,640	686,823	809,218	808,929	928,336	1,000,570	965,047	1,076,196	2,852,579	3,970,477
Change (%)	-11.7	7.3	63.9	83.7	69.5	45.7	19.3	33.0	30.0	39.2
Realization	42,701	42,042	40,725	42,024	41,904	43,393	43,749	44,069	41,790	43,311
Change (%)	13.2	6.8	-4.4	-1.8	-1.9	3.2	7.4	4.9	4.1	3.6
Net Sales	**23,385**	**28,875**	**32,956**	**33,995**	**38,901**	**43,418**	**42,220**	**47,427**	**119,210**	**171,966**
Change (%)	-0.1	14.6	56.7	80.5	66.4	50.4	28.1	39.5	35.3	44.3
Total Cost	18,831	22,510	25,720	26,224	31,131	34,447	33,684	37,830	93,284	137,092
EBITDA	**4,554**	**6,365**	**7,235**	**7,771**	**7,769**	**8,972**	**8,536**	**9,597**	**25,926**	**34,873**
EBITDA Margins (%)	19.5	22.0	22.0	22.9	20.0	20.7	20.2	20.2	21.7	20.3
Other Income	231	217	351	425	817	837	830	864	1,225	3,348
Extraordinary Expenses	458	458	458	458	0	0	0	0	1,833	0
Interest	60	0	0	0	6	7	10	11	60	33
Depreciation	331	336	357	341	318	300	330	390	1,365	1,338
PBT	**4,155**	**5,788**	**6,771**	**7,397**	**8,262**	**9,503**	**9,026**	**10,060**	**24,111**	**36,850**
Tax	1,220	1,760	2,020	2,075	2,360	2,682	2,572	2,888	7,075	10,502
Effective Tax Rate (%)	29.4	30.4	29.8	28.1	28.6	28.2	28.5	28.7	29.3	28.5
Rep. PAT	**2,935**	**4,028**	**4,751**	**5,322**	**5,902**	**6,821**	**6,453**	**7,172**	**17,036**	**26,347**
Change (%)	43.6	117.9	185.9	308.7	101.1	69.3	35.8	34.8	160.3	54.7
Adj. PAT	**3,105**	**4,347**	**5,073**	**5,651**	**5,902**	**6,821**	**6,453**	**7,172**	**18,177**	**26,347**
Change (%)	51.9	91.2	143.6	201.8	90.1	56.9	27.2	26.9	128.3	44.9

E: MOSL Estimates

Jinesh Gandhi (Jinesh@MotilalOswal.com)

Hero Honda

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	HHIN
Equity Shares (m)	199.7
52 Week Range (Rs)	2,094 / 1,497
1,6,12 Rel Perf (%)	-3 / -19 / -4
Mcap (Rs b)	385.3
Mcap (USD b)	8.5

CMP: Rs1,929 **Buy**

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/CE (X)	P/BV (X)	EV/ EBITDA	ROE (%)	ROCE (%)
3/10A	157,582	22,402	112.2	72.2	17.2	15.8	11.1	12.3	61.7	72.8
3/11E	188,496	20,671	103.5	-7.7	18.6	16.7	8.1	13.2	50.2	58.7
3/12E	216,163	24,136	120.9	16.8	16.0	14.4	6.1	10.5	37.9	45.7
3/13E	238,151	27,401	137.2	13.5	14.1	12.6	4.7	8.9	33.3	39.7

- Hero Honda's volumes are estimated to grow by 24.8% YoY (~7.9% QoQ) to 1.39m in 3QFY11. Realizations are expected to improve by 2.7% YoY (~0.5% QoQ) due to higher contribution from Haridwar (~34.6% of volumes expected in 3QFY11 v/s 33.3% in 3QFY10 and 33.5% in 2QFY11) and price increases during the quarter.
- Net sales are estimated to grow by 28.1% YoY to Rs48.9b. Operating margins are estimated to decline by ~20bp QoQ (~460bp YoY), due to higher RM costs though they will be diluted by price increases during the quarter. EBITDA is estimated to decline by 6.6% YoY (~6.7% QoQ growth) translating into a 4.9% YoY decline (up ~0.8% QoQ) in PAT to Rs5.1b.
- The new arrangement, after Honda's 26% stake sale to the Hero group, ensures continuity in Hero Honda operations until June 2014, as nothing changes meaningfully for the company. It would continue to get support from Honda until June 2014, including new products and use of the Hero Honda brand. While it didn't disclose new royalty rates, the management indicated royalty rates would start declining from January 2011.
- We downgrade our EPS estimates for FY11 by 2.7% to Rs103.5 and for FY12 by 5.6% to Rs120.9, to factor in higher RM costs and an increase in marketing spends after Honda's exit. Our estimates factor in royalty to stay stable at 2.6%. We await more clarity to model in (a) a decrease in royalty, (b) investment in R&D and (c) exports. The stock trades at 18.6x FY11E EPS and 16x FY12E EPS. Maintain **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Total Volumes (nos)	1,118,987	1,183,235	1,111,372	1,186,536	1,234,039	1,285,944	1,386,919	1,459,749	4,600,130	5,366,651
Change (%)	25.1	21.7	29.6	18.9	10.3	8.7	24.8	23.0	23.6	16.7
Net Realization	34,058	34,145	34,322	34,492	34,558	35,082	35,243	35,525	34,256	35,124
Change (%)	7.1	4.1	2.4	0.9	1.5	2.7	2.7	3.0	3.5	2.5
Net Sales	**38,111**	**40,401**	**38,144**	**40,926**	**42,646**	**45,113**	**48,879**	**51,858**	**157,582**	**188,496**
Change (%)	34.0	26.7	32.7	20.0	11.9	11.7	28.1	26.7	27.9	19.6
RM Cost (% sales)	68.0	68.4	68.5	67.6	71.7	73.4	73.6	73.5	68.1	73.1
Staff Cost (% sales)	3.6%	3.4%	3.6%	3.6%	3.4%	3.3%	3.2%	3.1%	3.6%	3.2%
Other Exp (% sales)	11.7	10.5	10.9	12.1	11.5	10.7	10.8	10.8	11.4	11.0
EBITDA	**6,387**	**7,147**	**6,483**	**6,820**	**5,705**	**5,673**	**6,054**	**6,504**	**26,646**	**23,936**
As % of Sales	16.8	17.7	17.0	16.7	13.4	12.6	12.4	12.5	16.9	12.7
Other Income	539	982	676	992	854	1,190	850	1,076	3,380	3,970
Interest	-55	-61	-46	-45	-27	-21	-30	-43	-206	-120
Depreciation	456	503	469	487	483	608	610	693	1,915	2,393
PBT	**6,525**	**7,686**	**6,736**	**7,370**	**6,103**	**6,276**	**6,324**	**6,929**	**28,317**	**25,632**
Tax	1,524	1,715	1,378	1,382	1,187	1,220	1,227	1,328	5,999	4,962
Effective Tax Rate (%)	23.4	22.3	20.5	18.8	19.4	19.4	19.4	19.2	21.2	19.4
PAT	**5,001**	**5,971**	**5,358**	**5,988**	**4,917**	**5,056**	**5,097**	**5,601**	**22,318**	**20,671**
Adj. PAT	**5,001**	**5,971**	**5,358**	**5,988**	**4,917**	**5,056**	**5,097**	**5,601**	**22,318**	**20,671**
Change (%)	83.3	95.0	78.3	48.9	-1.7	-15.3	-4.9	-6.5	74.1	-7.4

E: MOSL Estimates

Jinesh Gandhi (Jinesh@MotilalOswal.com)

Mahindra & Mahindra

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	MM IN
Equity Shares (m)	573.5
52 Week Range (Rs)	826 / 475
1,6,12 Rel Perf (%)	-6 / 7 / 28
Mcap (Rs b)	436.3
Mcap (USD b)	9.7

CMP: Rs761 **Buy**

YEAR END	N. SALES (RS M)	S/A PAT (RS M)	S/A EPS (RS)	CONS. EPS (RS)	CON EPS GR (%)	CONS, P/E (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	185,296	20,451	35.7	42.6	62.2	17.9	26.1	26.2	2.1	12.6
3/11E	224,329	25,624	44.7	59.7	40.4	12.7	24.0	24.8	1.7	10.8
3/12E	261,230	28,607	49.9	68.7	15.0	11.1	22.3	24.5	1.4	9.0
3/13E	297,423	31,996	55.8	79.9	16.4	9.5	21.1	24.1	1.2	7.5

- M&M is expected to post overall volume growth of 26.2% YoY (~8.2% QoQ) in 3QFY11, driven by 33% YoY (~28.1% QoQ) growth in tractor volumes, 23.6% YoY growth (~2.9% QoQ) in UV volumes and 14.5% YoY growth (~21.3% QoQ decline) in three-wheelers. Realization is expected to improve by 3.9% YoY (~1.7% QoQ) due to price increases.
- Net sales are estimated to grow 30.6% YoY to Rs58.5b. EBITDA margins are expected to decline by 20bp QoQ (~40bp YoY savings) to 15.6%, due to RM cost inflation. EBITDA is estimated at Rs9.2b (~33.8% YoY growth) and adjusted PAT at Rs6.4b (up ~50.8% YoY).
- Supply-side constraints due to shortage of tyres, fuel injection equipment and castings have begun to ease and will drive volumes in 2HFY11. The management has guided for 14-15% growth in the auto and tractor industry in FY11.
- We maintain our FY11 consolidated EPS estimates at Rs59.7 and for FY12 at Rs68.7, backed by strong volume growth in the auto and tractor division, and improvement in subsidiary performance. Our estimates factor in 19% volume growth in FY11 and 220bp YoY increase in RM cost, translating into an 80bp decline in EBITDA margins to 15.4%. On a consolidated basis, the stock trades at 12.7x FY11E and 11.1x FY12E EPS. Maintain **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Total Volumes (nos)	102,281	109,292	112,506	132,620	127,299	131,285	141,987	144,981	458,319	545,552
Change (%)	23.8	29.3	59.6	49.2	24.5	20.1	26.2	9.3	40.2	19.0
Net Realization	414,797	410,394	399,723	399,987	405,353	408,407	415,475	414,666	404,295	411,197
Change (%)	3.9	3.4	-2.2	-2.5	-2.3	-0.5	3.9	3.7	0.9	1.7
Net Sales	**42,295**	**44,650**	**44,787**	**52,789**	**51,242**	**53,113**	**58,492**	**59,633**	**183,795**	**222,479**
Change (%)	28.7	35.1	56.3	45.8	21.2	19.0	30.6	13.0	41.5	21.0
Operating Other Income	131	203	184	258	359	505	500	486	1,501	1,850
Total Cost	35,557	37,159	38,116	44,554	43,845	45,135	49,818	51,008	155,334	189,806
EBITDA	**6,869**	**7,694**	**6,855**	**8,492**	**7,756**	**8,483**	**9,174**	**9,111**	**29,962**	**34,524**
EBITDA Margins (%)	16.2	17.2	15.2	16.0	15.0	15.8	15.6	15.2	16.2	15.4
Change (%)	108.3	143.5	157.2	103.5	12.9	10.3	33.8	7.3	125.3	15.2
Other income	236	1,333	244	181	205	1,998	200	548	1,994	2,950
Interest	60	128	82	9	-227	-91	-50	102	278	-266
Depreciation	885	892	984	947	976	970	1,050	1,282	3,708	4,278
EO Expense	779	-1,526	160	36	0	-467	0	0	-498	467
PBT	**5,381**	**9,533**	**5,873**	**7,681**	**7,211**	**10,068**	**8,374**	**8,274**	**28,468**	**33,928**
Tax	1,373	2,504	1,736	1,978	1,588	2,483	1,976	1,960	7,590	8,007
Effective Tax Rate (%)	25.5	26.3	29.6	25.8	22.0	24.7	23.6	23.7	26.7	23.6
Reported PAT	**4,009**	**7,029**	**4,137**	**5,703**	**5,624**	**7,585**	**6,398**	**6,314**	**20,878**	**25,921**
Change (%)	158.1	185.0	NA	36.4	40.3	7.9	54.7	10.7	140.7	24.2
Adj PAT	**4,580**	**5,917**	**4,243**	**5,726**	**5,624**	**7,273**	**6,398**	**6,314**	**20,451**	**25,564**
Change (%)	109.5	98.2	159.2	104.9	22.8	22.9	50.8	10.3	121.9	25.0

E: MOSL Estimates; Quarterly results don't add-up to full year results due to restatement

Jinesh Gandhi (Jinesh@MotilalOswal.com)

Maruti Suzuki India

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	MSIL IN
Equity Shares (m)	289.0
52 Week Range (Rs)	1,600 / 1,171
1,6,12 Rel Perf (%)	-5 / -13 / -27
Mcap (Rs b)	402.4
Mcap (USD b)	8.9

CMP: Rs1,392 **Buy**

YEAR END	NET SALES (RS M)	PAT (RS M)	CONS. EPS (RS)	EPS GR. (%)	CONS. P/E (X)	P/CE (X)	P/BV (X)	EV/ EBITDA	ROE (%)	ROCE (%)
3/10A	296,231	25,062	90.8	113.8	15.3	12.1	3.4	8.6	21.1	28.4
3/11E	370,951	24,008	90.9	0.1	15.3	11.8	2.9	8.6	16.9	23.0
3/12E	441,467	28,789	107.5	18.2	13.0	9.7	2.4	6.9	17.4	23.5
3/13E	513,964	33,941	127.4	18.5	10.9	8.2	2.0	5.3	17.3	23.6

- Maruti's volumes are expected to grow by 27.7% YoY (~5% QoQ) in 3QFY11 to 329,462 units, driven by 36.2% YoY growth in domestic sales. Realizations are expected to decline by 0.7% YoY (~0.9% QoQ), impacted by the appreciation of the rupee against the euro and the US dollar.
- Net revenues are estimated to grow by 26.6% YoY (~3.9% QoQ) to Rs95b. EBITDA margins is estimated to decline by 20bp QoQ (~480bp YoY) to 10.3% due to higher RM costs. EBITDA is estimated to decline by 13.7% YoY (up 1.9% QoQ) to Rs9.7b, translating into an 11% YoY decline (up 2.3% QoQ) in recurring PAT to Rs6.1b. Our EBITDA margins could see downside risk of 30-50bp due to adverse forex movement and higher than estimated RM cost.
- The company plans to increase its selling price in January 2011 by 1-1.5%. This should help to ease the margin pressure from 4QFY11. However, unhedged forex exposure for 4QFY11 and FY12 could result in volatile operating margins.
- We are downgrading our EPS estimate by 1% for FY11 to Rs83.1 and for FY12 by 2.3% to Rs99.6 to factor in RM cost inflation and the impact of forex movements.
- Our FY11 earnings estimate factors in 24.9% volume growth in FY11 and 170bp increase in RM costs, translating into a 290bp decline in EBITDA margins to 10.4%. The stock trades at 13x FY12E consolidated EPS and 9.7x FY12E cash EPS. Maintain **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Total Volumes (nos)	226,729	246,188	258,026	287,422	283,324	313,654	329,462	345,857	1,018,365	1,272,297
Change (%)	17.7	29.9	48.7	21.5	25.0	27.4	27.7	20.3	28.6	24.9
Realizations (Rs/car)	279,640	286,349	284,226	286,508	284,151	284,935	282,367	287,243	284,363	284,723
Change (%)	13.8	12.9	8.0	7.5	1.6	-0.5	-0.7	0.3	10.4	0.1
Net Op. Revenues	**64,930**	**72,038**	**75,029**	**84,246**	**83,062**	**91,473**	**95,009**	**101,407**	**296,230**	**370,951**
Change (%)	33.6	44.3	60.3	31.0	27.9	27.0	26.6	20.4	41.7	25.2
Total Cost	56,998	62,877	63,689	73,135	74,485	81,870	85,218	90,657	256,687	332,230
EBITDA	**7,932**	**9,161**	**11,339**	**11,111**	**8,577**	**9,603**	**9,791**	**10,751**	**39,543**	**38,722**
As % of Sales	12.2	12.7	15.1	13.2	10.3	10.5	10.3	10.6	13.3	10.4
Change (%)	39.4	77.6	222.3	147.3	8.1	4.8	-13.7	-3.2	109.5	-2.1
Non-Operating Income	2,165	1,100	913	790	1,002	1,340	1,300	1,421	4,968	5,063
Extraordinary Expense	0	0	0	0	652	0	0	0	0	652
Interest	63	60	84	129	80	97	95	96	335	368
Depreciation	1,961	2,031	2,028	2,230	2,417	2,382	2,425	2,510	8,250	9,734
PBT	**8,073**	**8,171**	**10,140**	**9,542**	**6,430**	**8,464**	**8,571**	**9,566**	**35,925**	**33,031**
Tax	2,238	2,471	3,265	2,976	1,777	2,481	2,451	2,737	10,949	9,447
Effective Tax Rate (%)	27.7	30.2	32.2	31.2	27.6	29.3	28.6	28.6	30.5	28.6
PAT	**5,835**	**5,700**	**6,875**	**6,566**	**4,654**	**5,982**	**6,120**	**6,828**	**24,976**	**23,584**
Adjusted PAT	**5,835**	**5,700**	**6,875**	**6,566**	**5,125**	**5,982**	**6,120**	**6,828**	**24,976**	**24,049**
Change (%)	25.3	92.5	221.6	170.0	-12.2	5.0	-11.0	4.0	105.9	-3.7

E: MOSL Estimates

Jinesh Gandhi (Jinesh@MotilalOswal.com)

Tata Motors

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	TTMT IN
Equity Shares (m)	664.6
52 Week Range (Rs)	1,381 / 645
1,6,12 Rel Perf (%)	4 / 53 / 52
Mcap (Rs b)	868.0
Mcap (USD b)	19.2

CMP: Rs1,306 **Buy**

YEAR END	SALES (RS M)	ADJ/ PAT (RS M)	ADJ EPS (RS)	NORMAL EPS (RS)	CONS. P/E (X)	NORMAL P/E (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	925,193	15,051	22.6	-21.4	57.7	-61.1	18.3	10.7	1.1	11.5
3/11E	1,195,212	84,948	127.8	76.2	10.2	17.1	45.0	23.1	0.8	5.8
3/12E	1,393,300	97,846	147.2	97.0	8.9	13.5	36.0	22.9	0.7	5.0
3/13E	1,554,843	104,881	157.8	109.0	8.3	12.0	29.1	21.6	0.6	4.6

** Consolidated EPS; ^ Normalized for capitalized expenses*

- On a consolidated basis, we estimate net operating income to grow by 14.6% YoY (~3.7% QoQ) to Rs298.5b, driven by standalone (up 17% YoY) and JLR (up 25% YoY) performance. We expect EBITDA to grow by 36.9% YoY (~0.1% QoQ) to Rs41.8b, translating into a 230bp YoY increase (down ~50bp QoQ) in margins to 14%. This will boost recurring PAT to Rs20.8b.
- Tata Motors' standalone volumes are estimated to grow 12.8% YoY (down 10.7% QoQ) in 3QFY11, driven by a 12.8% YoY growth in M&HCV and 21.7% YoY growth in LCVs. Standalone net sales are estimated to grow by 16.9% YoY to Rs104.9b. Margins are estimated to decline by 320bp YoY (~10bp QoQ) to 9.6%, due to RM cost inflation. EBITDA is expected to decline by 12.7% YoY (~10% QoQ) to Rs10b, translating into 34.8% YoY decline in recurring PAT to Rs2.7b. Our EBITDA margins would have downside risk due to lower absorption of fixed cost on lower Nano volumes.
- For JLR, we estimate volume growth of 6.7% YoY (~9.7% QoQ) to 60,500 units and realizations to improve 17.3% YoY (flat QoQ), resulting in revenue growth of 25.1% YoY. EBITDA margins are estimated at 15.7% (down ~90bp QoQ) and EBITDA of GBP386m (v/s GBP373m in 2QFY11) due to increases RM costs, translating into recurring PAT of GBP235m (v/s GBP230m in 2QFY11).
- The stock trades at 8.9x FY12E consolidated EPS and 13.5x FY12E normalized EPS. Maintain **Buy**. Tata Motors DVR shares are trading at 8.1x FY12E normalized EPS. We prefer DVR shares over ordinary shares.

QUARTERLY PERFORMANCE (CONSOLIDATED) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Total Op Income	**163,970**	**210,885**	**260,443**	**289,896**	**270,556**	**287,820**	**298,547**	**338,289**	**925,193**	**1,195,212**
Growth (%)	13.2	-8.3	47.1	84.7	65.0	36.5	14.6	16.69	30.5	29.2
EBITDA	**5,959**	**15,916**	**30,575**	**33,691**	**39,533**	**41,839**	**41,864**	**45,714**	**86,142**	**168,950**
EBITDA Margins (%)	3.6	7.5	11.7	11.6	14.6	14.5	14.0	13.5	9.3	14.1
Depreciation	8,442	8,479	13,072	8,878	10,115	10,949	11,200	11,472	38,871	43,736
Product Dev. Exp	930	858	857	2,337	979	1,823	1,962	2,004	4,982	6,768
Other Income	22	348	47	-1	346	186	1,050	1,465	416	3,047
Interest Expenses	5,835	5,590	5,458	5,514	5,616	5,313	6,075	6,536	22,397	23,540
PBT before EO Exp	**-9,227**	**1,337**	**11,235**	**16,962**	**23,168**	**23,941**	**23,677**	**27,166**	**20,307**	**97,952**
EO Exp/(Inc)	-6,528	-1,536	2,342	-9,198	414	-1,286	0	0	-14,919	-873
PBT after EO Exp	**-2,699**	**2,873**	**8,893**	**26,159**	**22,754**	**25,227**	**23,677**	**27,166**	**35,226**	**98,824**
Tax	643	2,894	2,429	4,092	2,960	3,131	3,039	4,430	10,058	13,561
Tax Rate (%)	-23.8	100.7	27.3	15.6	13.0	12.4	12.8	16.31	28.6	13.7
PAT	**-3,341**	**-22**	**6,464**	**22,067**	**19,794**	**22,096**	**20,638**	**22,736**	**25,169**	**85,264**
Minority Interest	51	42	155	-552	-63	-112	-113	-212	-303	-500
Share in profit of Associate	3	197	-194	839	156	25	250	506	845	937
Reported PAT	**-3,288**	**218**	**6,426**	**22,355**	**19,887**	**22,008**	**20,775**	**23,030**	**25,711**	**85,700**
Adj PAT	**-11,370**	**229**	**8,128**	**14,596**	**20,247**	**20,882**	**20,775**	**23,030**	**15,051**	**84,948**
Growth (%)	-207.0	-90.2	LTP	LTP	LTP	9007.0	155.6	57.78	LTP	464.4

E: MOSL Estimates

Jinesh Gandhi (Jinesh@MotilalOswal.com)

Banking

COMPANY NAME

Andhra Bank
Axis Bank
Bank of Baroda
Bank of India
Canara Bank
Corporation Bank
Dena Bank
Dewan Housing
HDFC
HDFC Bank
Federal Bank
ICICI Bank
IDFC
Indian Bank
ING Vysya
Kotak Mahindra Bank
LIC Housing
M&M Financial Services
Oriental Bank
Punjab National Bank
Rural Electrification
Shriram Transport
South Indian Bank
State Bank
Union Bank
Yes Bank

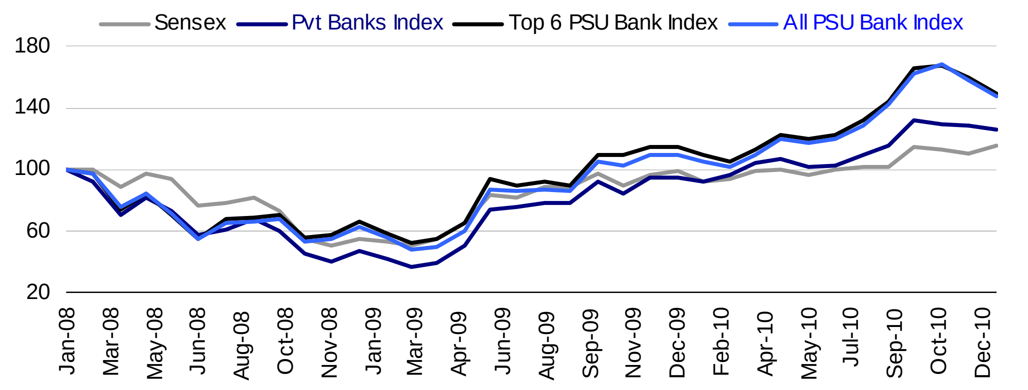
- **Inflation and stressed liquidity a major headwind:** All indicators like car sales, cement dispatches, and order books of construction and engineering companies point towards strong economic growth. However, high inflation and stressed liquidity (leading to sharp rise in borrowing cost) remain key concerns. On a YoY basis, core operating performance should remain strong in 3QFY11, driven by higher loan growth, margin expansion and abating asset quality concerns following strong economic revival.

- **Margins to moderate, albeit at a gradual pace:** In 3QFY11, liquidity conditions aggravated, leading to sharp increase in wholesale borrowing cost. Short-term borrowing cost in bulk markets, which had hit the bottom in September 2009, has increased by ~300bp YTD and ~165bp QTD. This is a key concern for margins, as banks will have to rely on bulk deposits till retail deposit growth picks up with rise in interest rates. While we believe that margins have peaked in 2QFY11, we rule out a sharp fall in margins - the decline is likely to be gradual. As incremental CD ratio is 100%+; banks have sufficient pricing power. Banks have been proactive in increasing their BPLRs and base rates, which should help mitigate pressure on margins.

- **Strong operating performance to continue:** While we expect margins to expand on a YoY basis, we expect some moderation QoQ. NII growth is likely to be ~33% for state-owned banks and ~17% for private banks. Despite overall NII growth of ~29% YoY, we expect operating profit to grow ~19% YoY, as (1) trading profits are likely to decline YoY, and (2) operating expenses are expected to increase, with state-owned banks accounting for pension provisions and gratuity shortfalls.

- **Buy selectively:** Our Economist expects current tightness in liquidity to ease considerably in 4QFY11, with increase in GoI spending, lower GoI borrowings, RBI's open market operations (OMO) and lag impact of OMO already concluded. Given the sharp rise in borrowing costs (wholesale and retail), we expect maximum interest rate increase of 50bp. With expected improvement in liquidity condition and increase in PLR by banks; concerns over sharp compression in margins are overstated in our view. Our top picks are **ICICI Bank**, **SBI** and **Yes Bank**.

Relative price performance



Source: MOSL

Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com)/Abhishek Agarwal (Abhishek.Agarwal@motilaloswal.com)

Expect strong operating performance

While we expect margins to expand on a YoY basis, we expect some moderation QoQ. NII growth is likely to be ~33% for state-owned banks and ~17% for private banks. Despite overall NII growth of ~29% YoY, we expect operating profit to grow ~19% YoY, as (1) trading profits are likely to decline YoY, and (2) operating expenses are expected to increase, with state-owned banks accounting for pension provisions and gratuity shortfalls.

We expect aggregate earnings growth of ~15% YoY, with state-owned banks' earnings growing 7% and private banks' earnings growing 26% YoY. Strong outperformance is likely from BoI, OBC, Yes Bank, and STF. BoI is likely to post the strongest PAT growth at 70%+ YoY, partly due to base effect.

We expect fairly muted growth of 4% YoY for SBI despite strong NII growth of 33% as we factor in (a) higher operating expenses (Up 27% YoY) due to gratuity related provisions and (b) higher provisions (Up 2.3x) factoring in higher credit cost. Despite flat operating profit YoY for ICICI bank, we expect 25% net profit growth led by lower credit cost.

Expected quarterly performance summary **(Rs million)**

	CMP (Rs)	Rating	Net interest income			Operating profit			Net profit		
	24.12.10		Dec.10	Var. % YoY	Var. % QoQ	Dec.10	Var. % YoY	Var. % QoQ	Dec.10	Var. % YoY	Var. % QoQ
Private Banks											
Axis Bank	1,321	Buy	16,525	22.5	2.3	15,367	11.8	3.4	8,175	24.6	11.2
Federal Bank	393	Buy	4,245	11.4	-3.2	3,574	7.8	-7.2	1,446	31.1	3.0
HDFC Bank	2,216	Neutral	26,151	17.6	3.5	19,516	20.2	8.0	10,658	30.2	16.8
ICICI Bank	1,119	Buy	22,382	8.8	1.5	23,572	-0.5	6.6	13,743	24.8	11.2
ING Vysya Bank	371	Buy	2,622	19.5	3.1	1,522	4.4	-17.4	756	24.8	0.5
Kotak Mahindra Bank	450	Neutral	8,865	19.8	5.1	6,281	0.8	10.5	3,782	14.1	3.9
South Indian Bank	24	Buy	2,054	19.6	4.1	1,319	11.6	5.7	715	14.5	-7.1
Yes Bank	308	Buy	3,211	52.2	2.5	3,021	39.8	7.4	1,859	47.7	5.5
Sector Aggregate			**86,057**	**17.0**	**2.5**	**74,172**	**9.0**	**5.2**	**41,135**	**25.9**	**10.7**
PSU Banks											
Andhra Bank	151	Buy	8,011	37.5	2.3	5,819	20.8	3.1	3,076	11.7	1.5
Bank of Baroda	889	Neutral	21,032	31.3	3.1	16,606	31.3	0.1	9,008	8.2	-11.9
Bank of India	442	UR	18,395	23.1	3.6	13,784	22.0	-0.1	6,977	72.1	13.1
Canara Bank	653	Buy	20,790	40.7	3.8	14,706	0.0	3.9	7,917	-24.8	-21.4
Corporation Bank	649	Neutral	7,479	24.8	4.6	6,031	9.3	5.2	3,539	16.0	0.6
Dena Bank	115	Buy	4,689	65.7	0.8	2,959	49.7	-9.1	1,508	12.1	-6.1
Indian Bank	256	Buy	10,082	15.5	2.5	7,382	-1.4	-0.1	4,058	-18.7	-2.4
Oriental Bank of Commerce	412	Buy	11,022	26.3	2.3	8,414	35.1	4.4	4,030	39.2	1.3
Punjab National Bank	1,214	Buy	31,175	40.9	4.7	22,758	25.2	8.4	11,950	18.2	11.2
State Bank	2,755	Buy	83,916	32.9	3.4	58,391	26.4	-8.1	25,756	3.9	3.0
Union Bank	325	Buy	14,836	39.3	-3.4	10,528	15.2	-6.9	5,505	3.1	81.4
Sector Aggregate			**231,426**	**33.2**	**3.0**	**167,379**	**21.1**	**-1.8**	**83,324**	**6.6**	**2.2**
NBFC											
Dewan Housing	275	Buy	1,327	48.5	12.5	890	69.3	14.9	645	60.6	11.1
HDFC	699	Neutral	11,128	24.3	2.6	11,693	20.1	1.8	8,189	22.0	1.4
IDFC	176	Neutral	4,218	51.2	12.8	5,378	31.1	2.1	3,535	31.0	4.5
LIC Housing Fin	940	Neutral	3,673	34.7	1.3	3,150	35.7	-1.4	2,241	46.2	-4.3
M & M Financial	711	Buy	3,541	37.4	11.4	2,326	22.1	12.0	1,288	35.7	10.6
Rural Electric. Corp.	292	Buy	8,067	29.0	3.4	8,287	28.6	-0.9	6,085	28.4	-1.6
Shriram Transport Fin.	781	Buy	7,826	35.7	4.0	6,231	35.4	8.8	3,337	40.9	11.6
NBFC Sector Aggregate			**39,779**	**32.8**	**5.0**	**37,959**	**28.1**	**2.9**	**25,321**	**30.5**	**2.4**
Banking Sector Aggregate			**357,261**	**28.8**	**3.1**	**279,510**	**18.5**	**0.6**	**149,779**	**15.0**	**4.4**

Economic outlook strong, but high inflation remains a concern

All indicators like car sales, cement dispatches, and order books of construction and engineering companies point towards strong economic growth. RBI's focus remains on controlling inflation. Our economist expects inflation to moderate (due to a good monsoon and a higher base) and RBI to maintain status quo in key rates for FY11 barring unexpected firming up of inflation.

Liquidity conditions stressed in 3QFY11…

Liquidity stress aggravated (average net repo borrowing of Rs1t+) in 3QFY11, led by (1) strong credit growth, (2) lack of government spending, (3) lag impact of RBI's monetary tightening, and (4) net FII outflows. Tight liquidity led to a sharp increase in wholesale borrowing cost, leading to fears of pressure on banks' margins.

…likely to ease in 4QFY11

Our Economist expects the liquidity situation to ease in 4QFY11, with (1) the impact of four rounds of RBI's open market operations (OMO) of Rs120b each being felt, (2) further OMO of Rs360b in the rest of FY11, (3) improvement in real interest rates driving up deposit growth, and (4) increased government spending (o/s balance of Rs1tn as on 17 December with RBI). On the back of improving liquidity situation, lower government borrowing and expectation of fall in inflation, 10-year G-Sec yield is likely to fall to 7.7% by March 2011 from 7.9% currently.

Strong loan growth; expect traction to continue

Systemic loan growth has improved further to ~24% (although on a lower base). Incremental loans QTD (till 17th December) stood at ~Rs2.2t as against Rs199b in 2QFY11 and Rs676b in the corresponding period last year. We view that strong economic outlook and improved business confidence will lead to continued momentum in loan growth.

Our interaction with bankers suggests that loan growth so far is largely driven by the infrastructure segment and increased demand for working capital. However, early signs of broadbased pick-up in demand for loans are visible. So far, retail (led by auto and home loans) and SME loan growth is very strong, but with capex-related activities gathering pace, corporate loans would be the key growth driver.

Expect loan growth of 20%+ over FY11-12

We expect loan growth momentum to remain strong, led by (1) improved sales and higher inflation, which will lead to higher working capital requirements, (2) a drawdown of sanctions made to the infrastructure sector, and (3) improved business confidence, which will lead to higher capex and investment-related loan growth.

Moderate deposit growth a concern

While loan growth has picked up, relatively low deposit growth remains a concern. With adequate liquidity on the balance sheet, banks retired high cost deposits and negative real interest rates led deposit growth to moderate (~15% as on 17th December 2010). As of 17th December 2010, YTD loan growth was at ~12%, whereas deposit growth stood at 7%. Incremental CD ratio is 100%, with CD ratio at 75%+; up-tick in deposit growth is crucial to drive loan growth.

In our view, deposit growth would pick up in 4QFY11. With fall in inflation and rise in interest rates, real interest rate is becoming attractive. This will provide a push to deposit growth. Most banks have increased term deposit rates by 50-150bp across maturities to garner more fixed deposits amidst tight liquidity conditions and expectation of strong loan growth in 2HFY11.

Margin improvement to continue YoY…

On a YoY basis, we expect margins to improve for state-owned banks (on a lower base) and be largely stable/marginal decline for private banks. In 3QFY10, though state-owned banks showed gradual improvement, excess liquidity on the balance sheet, lower pricing power and increased cost of funds kept their margins relatively low. With an improvement in margins YoY, we expect aggregate NII growth of ~29% YoY (on a lower base) for banks under our coverage. We expect NII growth of ~33% for state-owned banks and ~17% for private banks (~20% excluding ICICI Bank).

…though we expect some moderation QoQ

In 2QFY11, banks had positively surprised us with improvement in margins, despite increasing cost of deposits, as banks were able to pass on the higher cost. Increase in yield on investments supported margins. In 3QFY11, liquidity conditions aggravated, leading to sharp increase in wholesale borrowing cost. Short-term borrowing cost in bulk markets, which had hit the bottom in September 2009, has increased by ~300bp YTD and ~165bp QTD. This is a key concern for margins, as banks will have to rely on bulk deposits till retail deposit growth picks up with rise in interest rates. While we believe that margins peaked in 2QFY11, we rule out a sharp fall in margins and expect the decline to be gradual. Incremental CD ratio is 100%+; banks have sufficient pricing power. Banks have been proactive in increasing their BPLRs and base rates, which should help mitigate margin pressure.

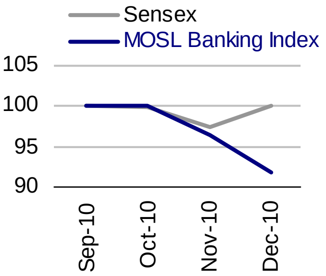
Trading profits likely to be muted

While 10-year G-Sec yield increased by just ~10bp during the quarter, 1-year G-Sec yield increased by ~80bp and 2-year G-Sec yield increased by ~50bp. With equity market not being too buoyant and short-term rates rising sharply, we expect trading profits to be muted. With increasing G-Sec yield, we expect banks to report some MTM losses, though the impact is expected to be limited.

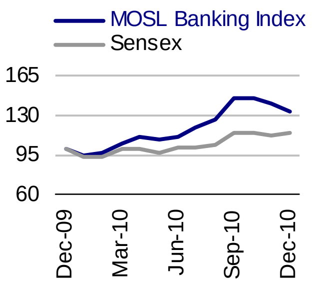
Operating expense - key thing to watch, especially for state-owned banks

Under the new wage agreement, option to join the defined benefit pension scheme was extended to all existing employees who did not opt earlier and also to those who have retired or died after pension regulations 1995-96. The new agreement will lead to substantial increase in liability on account of deficit for second pension option. While the final liabilities are yet to be ascertained, our interaction suggests it would run up to Rs0.9-1.1m per employee or ~10% of the net worth. Banks have requested for approval to amortize the liability arising on this account over a period of five years. We expect opex to increase ~27% YoY and 7% QoQ for state-owned banks on the back of higher pension and gratuity-related expenses. For private banks, we model opex growth of 26% YoY and 4% QoQ, led by increasing branch expansion.

Relative Performance-3m (%)



Relative Performance-1Yr (%)



Asset quality improvement to continue

On the back of strong improvement in economic scenario, asset quality concerns are abating. Large corporate and retail delinquencies have peaked out. However, SME and company-specific issues and CBS-recognized NPAs (for state-owned banks) may throw negative surprises. While we expect higher slippages for state-owned banks, we believe NPAs have peaked for private banks. However, higher upgrades and cash recoveries by state-owned banks can provide positive surprises.

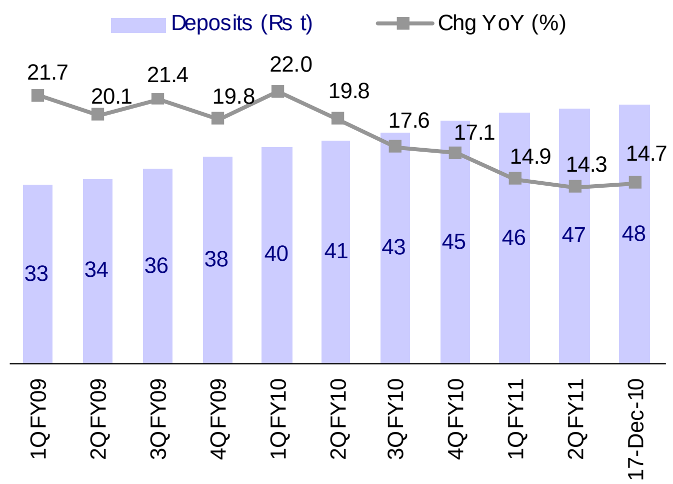
Buy selectively

Our Economist expects current tightness in liquidity to ease considerably in 4QFY11, with increase in GoI spending, lower GoI borrowings, RBI's open market operations (OMO) and lag impact of OMO already concluded. Given the sharp rise in borrowing costs (wholesale and retail), we expect maximum interest rate increase of 50bp. As banks have increased PLRs and the liquidity situation is expected to improve; concerns over sharp compression in margins are overstated in our view. Our top picks are **ICICI Bank**, **SBI** and **Yes Bank**.

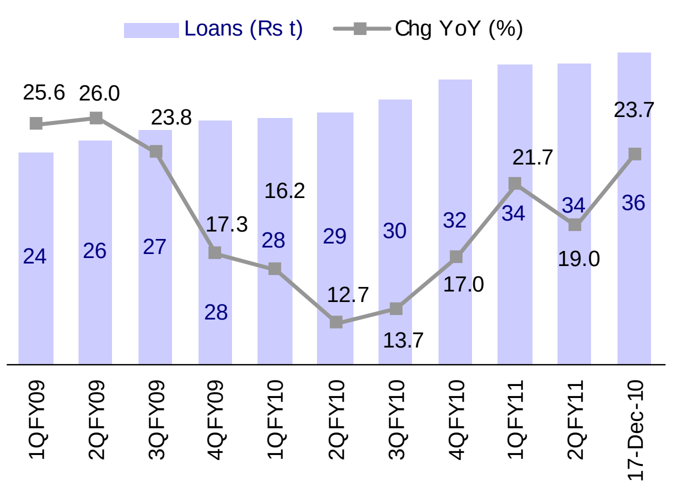
Comparative valuation

	CMP (Rs)	Rating	EPS (Rs)			P/E (x)			P/BV (x)			RoE (%)		
	24.12.10		FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E
Banks														
Andhra Bank	151	Buy	25.8	31.1	37.8	5.8	4.8	4.0	1.4	1.1	0.9	25.6	25.3	25.3
Axis Bank	1,321	Buy	77.9	96.3	115.6	16.9	13.7	11.4	2.9	2.5	2.1	18.2	19.4	19.8
Bank of Baroda	889	Neutral	103.5	120.5	146.0	8.6	7.4	6.1	1.9	1.6	1.3	24.4	23.5	23.6
Bank of India	442	UR	52.2	64.2	80.3	8.5	6.9	5.5	1.6	1.3	1.1	19.8	20.7	21.8
Canara Bank	653	Buy	86.4	98.5	113.0	7.6	6.6	5.8	1.7	1.4	1.2	25.3	23.7	22.5
Corporation Bank	649	Neutral	97.5	114.4	135.0	6.7	5.7	4.8	1.4	1.1	1.0	22.2	21.9	21.9
Dena Bank	115	Buy	20.6	24.4	28.4	5.6	4.7	4.0	1.1	0.9	0.8	22.4	21.7	21.0
Dewan Housing	275	Buy	23.5	33.3	42.8	11.2	7.9	6.2	1.8	1.5	1.3	20.6	20.7	22.1
Federal Bank	393	Buy	32.9	38.8	46.1	11.9	10.1	8.5	1.3	1.2	1.1	11.5	12.3	13.2
HDFC	699	Neutral	23.6	28.0	32.2	22.2	17.7	15.4	5.5	4.5	4.1	27.0	27.0	28.1
HDFC Bank	2,216	Neutral	83.9	109.5	137.4	26.4	20.2	16.1	4.1	3.5	3.0	16.6	18.7	20.1
ICICI Bank	1,119	Buy	44.2	56.6	68.1	20.2	15.2	12.7	2.4	2.1	1.9	11.7	13.9	15.1
IDFC	176	Neutral	8.9	10.9	12.8	19.7	16.2	13.7	2.2	1.9	1.7	14.5	13.4	14.2
Indian Bank	256	Buy	37.3	42.8	48.6	6.9	6.0	5.3	1.4	1.2	1.0	21.6	21.1	20.5
ING Vysya Bank	371	Buy	25.1	32.7	42.9	14.7	11.4	8.6	1.8	1.6	1.4	12.8	14.8	16.9
Kotak Mahindra Bank	450	Neutral	20.2	24.4	28.9	22.2	18.4	15.6	3.0	2.6	2.2	15.8	15.2	15.5
LIC Housing Fin	188	Neutral	18.7	22.1	26.2	10.2	8.6	7.3	2.2	1.8	1.5	23.5	23.0	22.9
M & M Financial	711	Buy	48.9	56.9	67.3	14.5	12.5	10.6	3.4	2.8	2.3	24.5	23.6	23.2
Oriental Bank	412	Buy	62.6	72.2	82.6	6.6	5.7	5.0	1.2	1.0	0.9	19.7	19.5	19.1
Punjab National Bank	1,214	Buy	143.2	178.4	216.4	8.5	6.8	5.6	1.9	1.6	1.3	25.0	25.5	25.3
Rural Electric. Corp.	292	Buy	24.7	29.4	34.4	11.8	9.9	8.5	2.3	2.0	1.8	20.6	21.6	22.1
Shriram Transport Fin.	781	Buy	57.1	68.6	81.1	13.7	11.4	9.6	3.6	2.9	2.3	29.5	28.0	26.5
State Bank	2,755	Buy	203.7	263.5	336.6	12.9	9.9	7.9	1.8	1.6	1.4	15.5	17.0	18.7
South Indian Bank	24	Buy	2.4	2.9	3.6	10.1	8.4	6.8	1.6	1.4	1.2	17.3	18.0	19.5
Union Bank	325	Buy	39.5	49.4	60.0	8.2	6.6	5.4	1.6	1.3	1.1	20.8	21.9	22.3
Yes Bank	308	Buy	21.0	27.1	34.1	14.6	11.3	9.0	2.8	2.3	1.9	21.0	22.3	22.8
Sector Aggregate						**14.4**	**11.7**	**9.6**	**2.6**	**2.2**	**1.9**	**18.2**	**19.3**	**20.1**
Private Banks						**22.1**	**17.5**	**14.3**	**3.3**	**2.9**	**2.6**	**15.1**	**16.7**	**17.8**
PSU Banks						**9.8**	**8.0**	**6.5**	**1.9**	**1.6**	**1.4**	**19.3**	**20.3**	**21.1**
NBFC						**18.7**	**15.6**	**13.1**	**3.9**	**3.2**	**2.7**	**20.6**	**20.6**	**20.8**

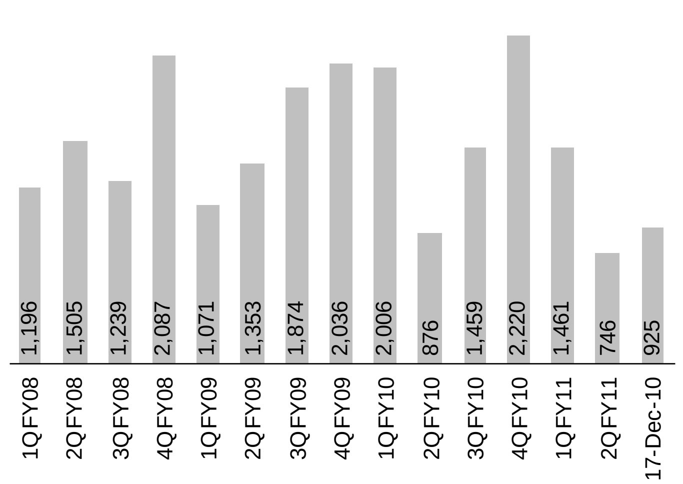
Low deposit growth (%) - a key concern



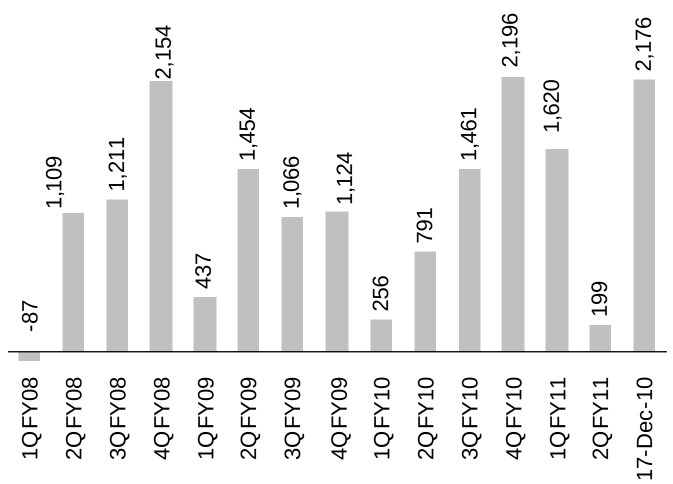
Loan growth YoY continues to be strong



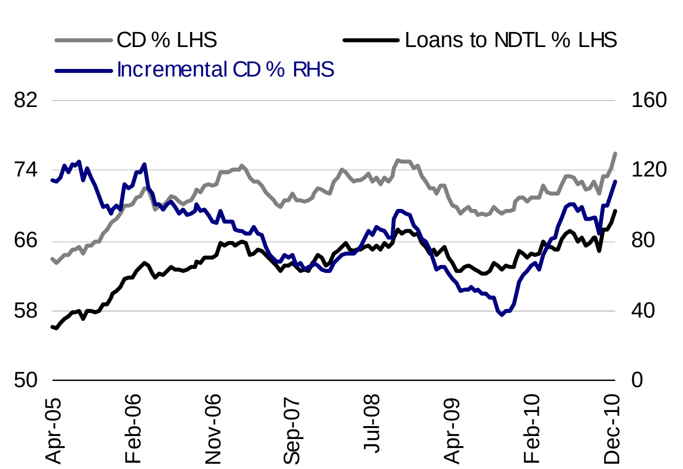
Quarterly deposits mobilization remains muted (Rs b)



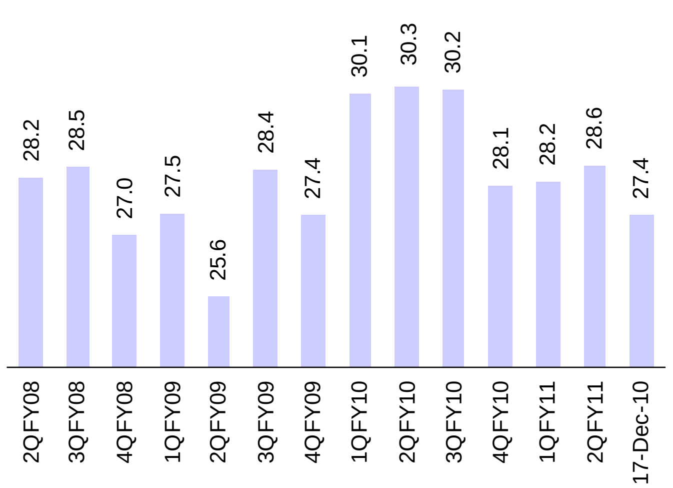
Pick up in Loan growth during the quarter (Rs b)



Incremental CD ratio at ~100%, providing pricing power

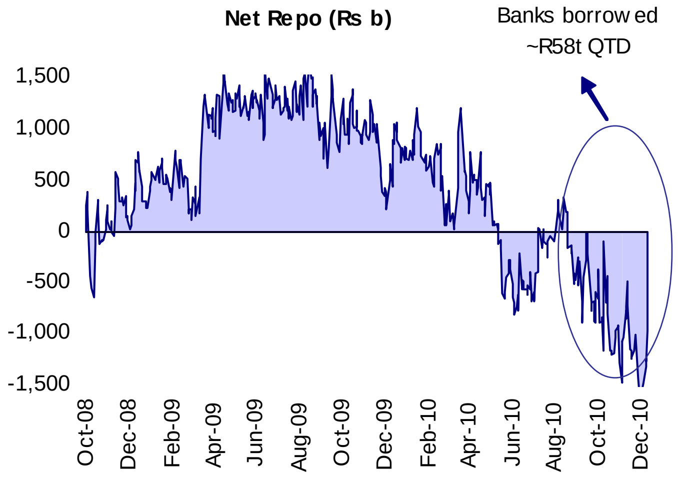


SLR ratio came down during the quarter (%)

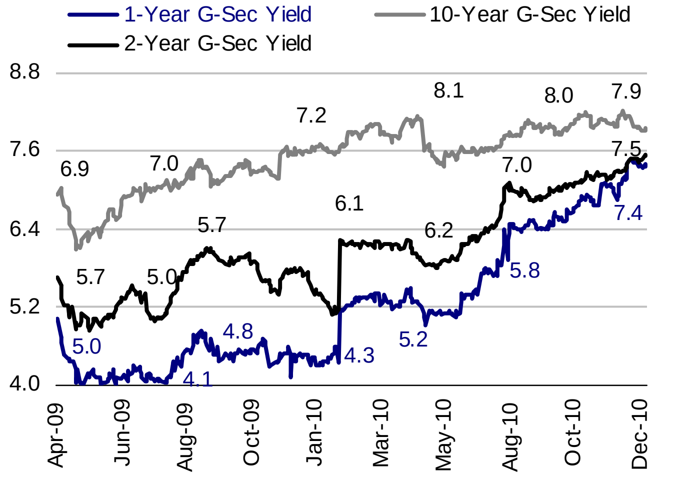


Source: Company/MOSL

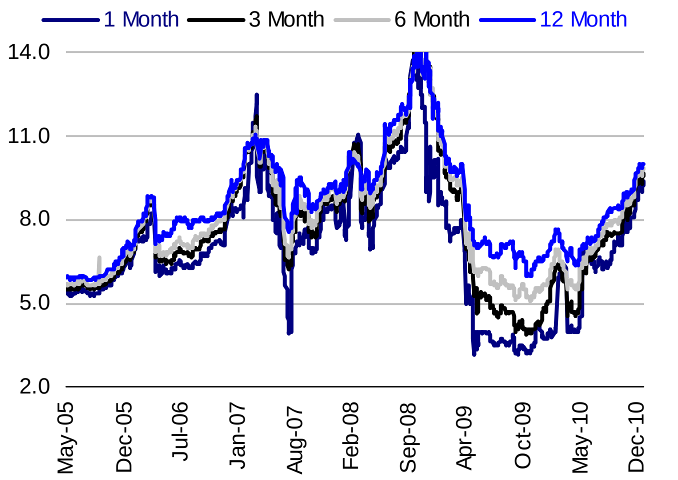
Liquidity remains tight



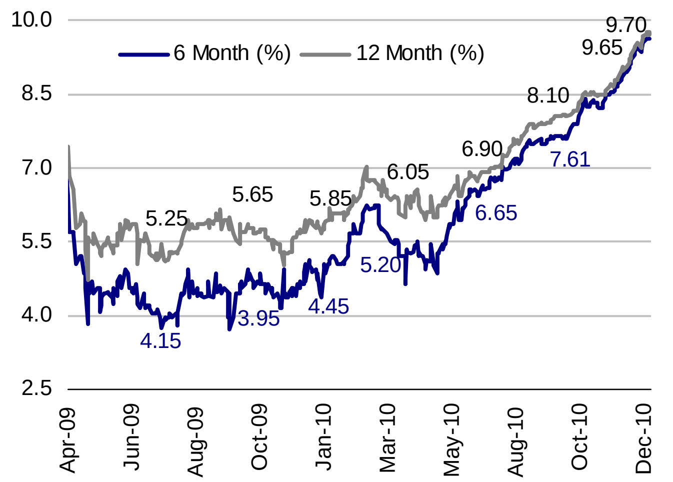
Movement in G-Sec yield



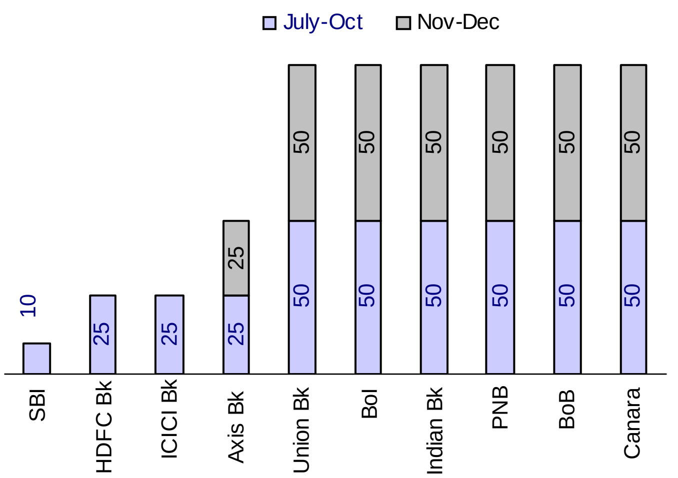
CP rates increased by 150-185bp in 3QFY11 across maturity



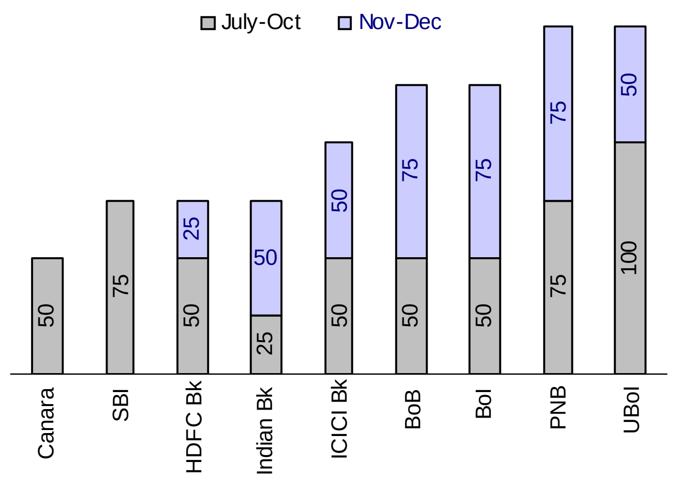
Liquidity crunch results in upward rising CoD curve



Movement in base rate (bp)



Movement in PLR (bp)



Source: Company/MOSL

Andhra Bank

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	ANDB IN
Equity Shares (m)	485.0
52 Week Range (Rs)	190 / 95
1,6,12 Rel Perf (%)	-14 / -2 / 25
Mcap (Rs b)	73.0
Mcap (USD b)	1.6

CMP: Rs151 **Buy**

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GR. (%)	P/E (X)	BV (RS)	P/BV (X)	P/ABV (X)	ROAA (%)	ROAE (%)
3/10A	31,594	10,459	21.6	60.2	7.0	90.9	1.7	1.7	1.3	26.0
3/11E	39,914	12,520	25.8	19.7	5.8	110.9	1.4	1.4	1.3	25.6
3/12E	46,781	15,075	31.1	20.4	4.8	135.0	1.1	1.2	1.3	25.3
3/13E	55,193	18,316	37.8	21.5	4.0	163.9	0.9	1.0	1.3	25.3

- On a lower base, we expect business growth of 25%+ to continue in 3QFY11 as well. We expect QoQ loan and deposit growth to be in line with industry.
- Margin expansion coupled with strong loan growth YoY would drive 35%+ NII growth. We expect margins to moderate ~10bp QoQ from an elevated level of 3.9%.
- Non-interest income (ex-treasury) is likely to grow ~15% YoY; however, other income would decline ~5% YoY due to lower treasury gains. Trading gains in 3QFY10 were Rs475m.
- We expect operating expenses to grow 33% YoY, as the bank would continue to provide towards gratuity and pension liability. So far, it has provided Rs520m per quarter in FY11.
- We estimate 12% YoY PAT growth, as higher provisions towards NPAs and increase in employee cost would pressurize profitability. Upside risk to our estimate could emanate from lower than expected provisions.
- The stock trades at 1.1x FY12E BV and 4.8x FY12E EPS. Maintain **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Interest Income	15,046	15,577	16,026	17,079	18,650	19,412	21,153	23,149	63,729	82,364
Interest Expense	10,633	10,431	10,200	10,518	11,288	11,579	13,142	14,970	41,781	50,979
Net Interest Income	**4,414**	**5,147**	**5,825**	**6,562**	**7,362**	**7,833**	**8,011**	**8,179**	**21,948**	**31,385**
% Change (Y-o-Y)	27.5	18.7	28.9	66.0	66.8	52.2	37.5	24.6	34.9	43.0
Other Income	2,381	2,332	2,242	2,691	2,082	1,912	2,105	2,431	9,646	8,529
Net Income	**6,794**	**7,479**	**8,068**	**9,253**	**9,444**	**9,744**	**10,116**	**10,610**	**31,594**	**39,914**
Operating Expenses	3,314	2,950	3,250	3,981	4,340	4,099	4,298	4,569	13,495	17,306
Operating Profit	**3,480**	**4,528**	**4,818**	**5,272**	**5,103**	**5,646**	**5,819**	**6,040**	**18,099**	**22,608**
% Change (Y-o-Y)	69.5	62.6	29.3	22.1	46.6	24.7	20.8	14.6	40.5	24.9
Other Provisions	-32	578	964	2,229	519	1,196	1,425	1,582	3,740	4,722
Profit before Tax	**3,512**	**3,950**	**3,854**	**3,043**	**4,584**	**4,450**	**4,394**	**4,458**	**14,359**	**17,885**
Tax Provisions	950	1,210	1,100	640	1,380	1,420	1,318	1,248	3,900	5,366
Net Profit	**2,562**	**2,740**	**2,754**	**2,403**	**3,204**	**3,030**	**3,076**	**3,210**	**10,459**	**12,520**
% Change (Y-o-Y)	230.1	69.6	29.5	19.4	25.1	10.6	11.7	33.6	60.2	19.7
Interest Exp/Interest Income (%)	70.7	67.0	63.6	61.6	60.5	59.6	62.1	64.7	65.6	61.9
Other Income/Net Income (%)	35.0	31.2	27.8	29.1	22.0	19.6	20.8	22.9	30.5	21.4
Cost/Income Ratio (%)	48.8	39.5	40.3	43.0	46.0	42.1	42.5	43.1	42.7	43.4
Provisions/Operating Profits (%)	-0.9	12.8	20.0	42.3	10.2	21.2	24.5	26.2	20.7	20.9
Tax Rate (%)	27.0	30.6	28.5	21.0	30.1	31.9	30.0	28.0	27.2	30.0

E: MOSL Estimates

Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com)/Abhishek Agarwal (Abhishek.Agarwal@MotilalOswal.com)

Axis Bank

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	AXSB IN
Equity Shares (m)	405.2
52 Week Range (Rs)	1,608 / 967
1,6,12 Rel Perf (%)	-8 / -9 / 18
Mcap (Rs b)	535.1
Mcap (USD b)	11.9

CMP: Rs1,321 **Buy**

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GR. (%)	P/E (X)	BV (RS)	P/BV (X)	P/ABV (X)	ROAA (%)	ROAE (%)
3/10A	89,503	25,145	62.1	22.7	21.3	396.0	3.3	3.4	1.5	19.2
3/11E	109,456	31,579	77.9	25.6	16.9	458.9	2.9	2.9	1.6	18.2
3/12E	132,036	39,033	96.3	23.6	13.7	536.7	2.5	2.5	1.6	19.4
3/13E	159,183	46,834	115.6	20.0	11.4	630.1	2.1	2.1	1.5	19.8

- We expect loan and deposit growth of 40%+ in 3QFY11 v/s ~35% in 1HFY11. However, on a higher base (4QFY10 loans grew 23% QoQ) growth is expected to moderate to 25% YoY in FY11 on a reported basis.
- In 3QFY10, benefit of capital raising had led to sharp NIM improvement to 4% (up ~50bp QoQ). We expect NIM to contract in 3QFY11 and NII to grow ~23% YoY.
- Despite sharp rise in cost of liabilities, margins are unlikely to contract significantly QoQ, due to increase in PLR and base rate. In 1HFY11, NIM was 3.67% and we believe that the bank would be able to maintain NIM at 3.5-3.6%.
- On a reported basis, fee income growth is likely to moderate to ~15% YoY. However, adjusted for change in accounting treatment for guarantee related fees, we expect fee income to grow 25%+. Trading profit is likely to fall sequentially and YoY.
- We have modeled credit cost of ~1% v/s 1.2% in 2QFY11 (1.73% in 3QFY10). Movement in asset quality is the key thing to watch out for.
- The stock trades at 2.5x FY12E BV and 13.7x FY12E EPS. Maintain **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Interest Income	29,056	28,604	28,837	29,885	33,256	36,243	39,229	44,039	116,380	152,766
Interest Expense	18,599	17,107	15,345	15,284	18,118	20,092	22,703	26,921	66,335	87,834
Net Interest Income	**10,456**	**11,497**	**13,491**	**14,601**	**15,138**	**16,151**	**16,525**	**17,118**	**50,045**	**64,932**
% Change (Y-o-Y)	29.0	25.9	45.1	41.4	44.8	40.5	22.5	17.2	35.8	29.7
Other Income	9,586	10,656	9,881	9,335	10,008	10,332	11,194	12,989	39,458	44,523
Net Income	**20,042**	**22,153**	**23,372**	**23,936**	**25,146**	**26,483**	**27,719**	**30,107**	**89,503**	**109,456**
Operating Expenses	8,278	9,095	9,626	10,098	10,645	11,620	12,352	13,324	37,097	47,941
Operating Profit	**11,764**	**13,058**	**13,746**	**13,838**	**14,501**	**14,864**	**15,367**	**16,783**	**52,406**	**61,514**
% Change (Y-o-Y)	46.6	49.3	51.1	21.5	23.3	13.8	11.8	21.3	40.7	17.4
Other Provisions	3,153	4,989	3,731	2,019	3,330	3,788	3,000	3,730	13,892	13,847
Profit before Tax	**8,611**	**8,069**	**10,015**	**11,819**	**11,171**	**11,076**	**12,367**	**13,053**	**38,514**	**47,667**
Tax Provisions	2,990	2,752	3,455	4,171	3,752	3,725	4,192	4,419	13,368	16,088
Net Profit	**5,620**	**5,316**	**6,560**	**7,649**	**7,419**	**7,351**	**8,175**	**8,634**	**25,145**	**31,579**
% Change (Y-o-Y)	70.2	32.0	31.0	31.5	32.0	38.3	24.6	12.9	38.5	25.6
Interest Exp/Interest Income (%)	64.0	59.8	53.2	51.1	54.5	55.4	57.9	61.1	57.0	57.5
Other Income/Net Income (%)	47.8	48.1	42.3	39.0	39.8	39.0	40.4	43.1	44.1	40.7
Cost/Income Ratio (%)	41.3	41.1	41.2	42.2	42.3	43.9	44.6	44.3	41.4	43.8
Provisions/Operating Profits (%)	26.8	38.2	27.1	14.6	23.0	25.5	19.5	22.2	26.5	22.5
Tax Rate (%)	34.7	34.1	34.5	35.3	33.6	33.6	33.9	33.9	34.7	33.8

E: MOSL Estimates

Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com)/Abhishek Agarwal (Abhishek.Agarwal@MotilalOswal.com)

Bank of Baroda

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	BOB IN
Equity Shares (m)	365.5
52 Week Range (Rs)	1,050 / 493
1,6,12 Rel Perf (%)	-7 / 15 / 58
Mcap (Rs b)	325.0
Mcap (USD b)	7.2

CMP: Rs889 **Neutral**

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GR. (%)	P/E (X)	BV (RS)	P/BV (X)	P/ABV (X)	ROAA (%)	ROAE (%)
3/10A	87,458	30,583	83.7	37.3	10.6	383.1	2.3	2.4	1.2	23.8
3/11E	109,688	37,837	103.5	23.7	8.6	464.9	1.9	2.0	1.2	24.4
3/12E	126,640	44,060	120.5	16.4	7.4	560.0	1.6	1.6	1.2	23.5
3/13E	150,196	53,350	146.0	21.1	6.1	675.2	1.3	1.4	1.2	23.6

- We expect loan and deposit growth to remain strong at 30%+ YoY. On a QoQ basis, we expect the bank to grow above the industry and maintain CD ratio at 73-74%.
- We expect cost of deposits to increase, as the bank has increased its deposit rates by 100-125bp, but proactive increase in PLR would largely mitigate the impact and provide cushion to margins. NII growth is likely to be 30%+ YoY.
- Strong traction in fee income should continue, but we expect other income to grow by just ~7% YoY due to lower treasury gains. Trading gains in 3QFY10 were Rs1.4b.
- We expect 8% growth in operating expenses sequentially, driven by higher employee expenses (15% QoQ). Though the management has started making provision for the second pension option and gratuity liability, it has not given any guidance.
- We do not expect significant pressure on asset quality. However, being conservative, we have built in higher NPA provision. Upside to our estimate could emanate from lower provision.
- The stock trades at 1.6x FY12E BV and 7.4x FY12 EPS. **Neutral**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Interest Income	40,321	41,354	41,770	43,538	47,270	51,614	55,982	61,363	166,983	216,228
Interest Expense	28,274	27,468	25,757	26,089	28,690	31,205	34,950	39,647	107,589	134,492
Net Interest Income	**12,047**	**13,886**	**16,012**	**17,450**	**18,580**	**20,408**	**21,032**	**21,716**	**59,395**	**81,737**
% Change (Y-o-Y)	14.0	22.5	9.5	18.6	54.2	47.0	31.3	24.5	15.9	37.6
Other Income	7,030	5,953	6,597	8,483	6,172	6,813	7,027	7,939	28,064	27,951
Net Income	**19,077**	**19,839**	**22,609**	**25,933**	**24,752**	**27,221**	**28,059**	**29,656**	**87,458**	**109,688**
Operating Expenses	8,978	9,523	9,959	9,645	9,474	10,627	11,453	12,430	38,106	43,984
Operating Profit	**10,099**	**10,316**	**12,650**	**16,288**	**15,279**	**16,594**	**16,606**	**17,225**	**49,353**	**65,704**
% Change (Y-o-Y)	17.4	22.0	-10.6	24.9	51.3	60.9	31.3	5.8	14.6	33.1
Other Provisions	-390	1,163	2,425	3,773	2,513	1,855	3,550	2,950	6,972	10,868
Profit before Tax	**10,489**	**9,153**	**10,225**	**12,515**	**12,765**	**14,740**	**13,056**	**14,275**	**42,381**	**54,836**
Tax Provisions	3,635	2,811	1,900	3,452	4,174	4,520	4,047	4,259	11,797	16,999
Net Profit	**6,854**	**6,342**	**8,325**	**9,063**	**8,592**	**10,220**	**9,008**	**10,017**	**30,583**	**37,837**
% Change (Y-o-Y)	84.8	60.4	17.5	20.4	25.4	61.2	8.2	10.5	37.3	23.7
Interest Exp/Interest Income (%)	70.1	66.4	61.7	59.9	60.7	60.5	62.4	64.6	64.4	62.2
Other Income/Net Income (%)	36.9	30.0	29.2	32.7	24.9	25.0	25.0	26.8	32.1	25.5
Cost/Income Ratio (%)	47.1	48.0	44.1	37.2	38.3	39.0	40.8	41.9	43.6	40.1
Provisions/Operating Profits (%)	-3.9	11.3	19.2	23.2	16.4	11.2	21.4	17.1	14.1	16.5
Tax Rate (%)	34.7	30.7	18.6	27.6	32.7	30.7	31.0	29.8	27.8	31.0

E: MOSL Estimates

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Bank of India

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	BOI IN
Equity Shares (m)	525.9
52 Week Range (Rs)	588 / 309
1,6,12 Rel Perf (%)	-4 / 14 / 1
Mcap (Rs b)	232.4
Mcap (USD b)	5.1

CMP: Rs442 — Under Review

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GR. (%)	P/E (X)	BV (RS)	P/BV (X)	P/ABV (X)	ROAA (%)	ROAE (%)
3/10A	83,726	17,411	33.1	-42.1	13.3	243.4	1.8	2.0	0.7	14.2
3/11E	97,473	27,457	52.2	57.7	8.5	284.9	1.6	1.7	0.9	19.8
3/12E	116,673	33,783	64.2	23.0	6.9	336.0	1.3	1.4	0.9	20.7
3/13E	138,085	42,247	80.3	25.1	5.5	399.9	1.1	1.2	1.0	21.8

- On a YoY basis, we expect loan and deposit growth of ~25%. On a QoQ basis, we expect the bank to grow in line with the industry.
- In 2QFY11, on back of higher slippages, the bank had de-recognized interest of Rs700m. Stable asset quality may provide upside to our NII estimate. We expect NII growth of ~23% YoY in 3QFY11.
- On account of expected lower trading gains, other income is likely to grow ~10% YoY despite continued traction in fee income.
- The bank has not guided for liability related to second pension option. However, it has clarified that it holds Rs1.7b of extra provision on account of wage hike, which can be used for pension provisions. We expect operating expenses to grow 11% QoQ.
- While operating profit is likely to grow 22% YoY, we expect net profit growth of 70%+, with NPA and MTM provisions declining sharply. Asset quality has been under pressure for the past few quarters. However, higher upgrades and lower slippages could result in positive surprises.
- The stock trades at 1.3x FY12E BV and 6.9x FY12E EPS. **Under Review**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Interest Income	43,777	44,890	44,862	45,251	48,217	51,556	56,775	62,077	178,780	218,625
Interest Expense	30,771	30,801	29,915	29,734	30,813	33,795	38,380	43,206	121,220	146,194
Net Interest Income	**13,006**	**14,089**	**14,948**	**15,517**	**17,405**	**17,761**	**18,395**	**18,871**	**57,559**	**72,431**
% Change (Y-o-Y)	10.1	3.4	-1.8	8.3	33.8	26.1	23.1	21.6	4.7	25.8
Other Income	6,459	6,760	5,716	7,232	5,859	5,845	6,239	7,098	26,166	25,042
Net Income	**19,465**	**20,849**	**20,664**	**22,749**	**23,264**	**23,606**	**24,634**	**25,969**	**83,726**	**97,473**
Operating Expenses	8,529	8,789	9,366	9,997	9,158	9,810	10,850	11,714	36,678	41,531
Operating Profit	**10,936**	**12,060**	**11,298**	**12,752**	**14,106**	**13,796**	**13,784**	**14,255**	**47,048**	**55,941**
% Change (Y-o-Y)	2.0	-0.7	-35.9	-9.4	29.0	14.4	22.0	11.8	-13.8	18.9
Other Provisions	2,234	6,021	5,764	8,090	3,859	5,274	3,050	3,380	22,109	15,563
Profit before Tax	**8,702**	**6,038**	**5,534**	**4,662**	**10,247**	**8,522**	**10,734**	**10,875**	**24,938**	**40,378**
Tax Provisions	2,859	2,805	1,479	385	2,995	2,355	3,757	3,814	7,528	12,921
Net Profit	**5,843**	**3,233**	**4,055**	**4,277**	**7,251**	**6,168**	**6,977**	**7,061**	**17,411**	**27,457**
% Change (Y-o-Y)	4.0	-57.6	-53.5	-47.2	24.1	90.8	72.1	65.1	-42.1	57.7
Interest Exp/Interest Income (%)	70.3	68.6	66.7	65.7	63.9	65.6	67.6	69.6	67.8	66.9
Other Income/Net Income (%)	33.2	32.4	27.7	31.8	25.2	24.8	25.3	27.3	31.3	25.7
Cost/Income Ratio (%)	43.8	42.2	45.3	43.9	39.4	41.6	44.0	45.1	43.8	42.6
Provisions/Operating Profits (%)	20.4	49.9	51.0	63.4	27.4	38.2	22.1	23.7	47.0	27.8
Tax Rate (%)	32.9	46.5	26.7	8.3	29.2	27.6	35.0	35.1	30.2	32.0

E: MOSL Estimates

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Canara Bank

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	CBK IN
Equity Shares (m)	410.0
52 Week Range (Rs)	844 / 345
1,6,12 Rel Perf (%)	-12 / 39 / 46
Mcap (Rs b)	267.6
Mcap (USD b)	5.9

CMP: Rs653 **Buy**

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GR. (%)	P/E (X)	BV (RS)	P/BV (X)	P/ABV (X)	ROAA (%)	ROAE (%)
3/10A	85,384	30,214	73.7	45.8	8.9	305.8	2.1	2.4	1.2	26.8
3/11E	102,813	35,409	86.4	17.2	7.6	376.0	1.7	1.9	1.2	25.3
3/12E	119,181	40,375	98.5	14.0	6.6	456.1	1.4	1.6	1.1	23.7
3/13E	138,871	46,326	113.0	14.7	5.8	547.9	1.2	1.3	1.1	22.5

- Sequentially, we expect business growth to be in line with industry. On a YoY basis, we expect loan growth of ~28% and deposit growth of ~26%.
- Sharp improvement in margins YoY and strong loan growth will drive NII growth of 40%+ YoY. On a QoQ basis, we expect margins to contract marginally from 3.16%.
- Other income is likely to decline ~32% YoY on the back of lower trading gains. Canara Bank reported trading gains of Rs3b in 3QFY10.
- While operating profits are likely to be flat YoY, we expect PAT to decline 25%. On a conservative basis, we have modeled provisioning to increase to Rs4.2b as against Rs1.6b in 3QFY10. We have also modeled tax rate of 25% v/s 19% in 3QFY10. Lower provisions will provide upside to our earnings estimates.
- The stock trades at 1.4x FY12E BV and 6.6x FY12E EPS. Maintain **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Interest Income	45,584	47,092	46,878	47,966	51,609	55,774	60,105	66,644	187,520	234,132
Interest Expense	32,669	33,955	32,100	31,990	34,331	35,741	39,316	45,250	130,714	154,637
Net Interest Income	**12,915**	**13,137**	**14,778**	**15,976**	**17,278**	**20,033**	**20,790**	**21,394**	**56,805**	**79,495**
% Change (Y-o-Y)	26.7	14.3	18.8	22.4	33.8	52.5	40.7	33.9	20.4	39.9
Other Income	4,736	8,929	7,813	7,101	7,340	4,996	5,295	5,688	28,579	23,319
Net Income	**17,651**	**22,066**	**22,591**	**23,077**	**24,618**	**25,029**	**26,084**	**27,082**	**85,384**	**102,813**
Operating Expenses	7,237	7,875	7,891	8,772	9,785	10,872	11,378	12,073	34,776	44,108
Operating Profit	**10,413**	**14,191**	**14,700**	**14,305**	**14,833**	**14,158**	**14,706**	**15,008**	**50,608**	**58,706**
% Change (Y-o-Y)	48.0	83.5	21.1	12.4	42.4	-0.2	0.0	4.9	27.7	16.0
Other Provisions	3,360	3,086	1,674	7,274	2,200	1,579	4,150	5,380	12,394	13,309
Profit before Tax	**7,053**	**11,105**	**13,026**	**7,031**	**12,634**	**12,579**	**10,556**	**9,628**	**38,214**	**45,397**
Tax Provisions	1,500	2,000	2,500	2,000	2,500	2,500	2,639	2,348	8,000	9,987
Net Profit	**5,553**	**9,105**	**10,526**	**5,031**	**10,134**	**10,079**	**7,917**	**7,280**	**30,214**	**35,409**
% Change (Y-o-Y)	352.7	72.0	50.0	-30.0	82.5	10.7	-24.8	44.7	45.8	17.2
Interest Exp/Interest Income (%)	71.7	72.1	68.5	66.7	66.5	64.1	65.4	67.9	69.7	66.0
Other Income/Net Income (%)	41.0	35.7	34.9	38.0	39.7	43.4	43.6	44.6	40.7	42.9
Cost/Income Ratio (%)	26.8	40.5	34.6	30.8	29.8	20.0	20.3	21.0	33.5	22.7
Provisions/Operating Profits (%)	32.3	21.7	11.4	50.8	14.8	11.2	28.2	35.8	24.5	22.7
Tax Rate (%)	21.3	18.0	19.2	28.4	19.8	19.9	25.0	24.4	20.9	22.0

E: MOSL Estimates

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Corporation Bank

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	CRPBK IN
Equity Shares (m)	143.4
52 Week Range (Rs)	815 / 405
1,6,12 Rel Perf (%)	-11 / 10 / 41
Mcap (Rs b)	93.1
Mcap (USD b)	2.1

CMP: Rs649 **Neutral**

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GR. (%)	P/E (X)	BV (RS)	P/BV (X)	P/ABV (X)	ROAA (%)	ROAE (%)
3/10A	33,967	11,703	81.6	31.1	8.0	402.6	1.6	1.6	1.2	21.9
3/11E	39,569	13,985	97.5	19.5	6.7	477.3	1.4	1.4	1.1	22.2
3/12E	45,760	16,405	114.4	17.3	5.7	564.9	1.1	1.2	1.1	21.9
3/13E	53,524	19,365	135.0	18.0	4.8	668.3	1.0	1.0	1.1	21.9

- Strong business growth would drive NII growth of ~25% YoY. During the quarter, the bank hiked deposit rates twice by a total of 75-100bp. However, it also raised lending rates by 25-50bp. We expect the rate hikes to impact its margins with a 1-2 quarter lag. During the quarter, we expect NIMs to remain flat or decline marginally.

- Non-interest income ex-trading gains is likely to grow ~15% YoY. Trading gains in 3QFY10 were Rs368m.

- We expect asset quality to remain stable and provisioning expense to decline by 23% YoY and remain stable on a QoQ basis.

- The stock trades at 1.1x FY12E BV and 5.7x FY12E EPS. **Neutral**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Interest Income	17,422	17,695	18,606	19,222	20,278	21,581	23,579	26,449	72,946	91,886
Interest Expense	12,747	12,660	12,612	12,824	13,302	14,429	16,100	18,681	50,843	62,511
Net Interest Income	**4,675**	**5,035**	**5,994**	**6,398**	**6,976**	**7,152**	**7,479**	**7,768**	**22,103**	**29,375**
% Change (Y-o-Y)	23.7	23.8	25.4	49.4	49.2	42.1	24.8	21.4	30.7	32.9
Other Income	3,593	3,028	2,517	2,727	2,661	2,261	2,435	2,838	11,864	10,194
Net Income	8,269	8,063	8,511	9,124	9,637	9,414	9,913	10,605	33,967	39,569
Operating Expenses	2,556	2,707	2,995	3,674	3,433	3,679	3,882	4,227	12,600	15,220
Operating Profit	**5,712**	**5,356**	**5,516**	**5,450**	**6,204**	**5,735**	**6,031**	**6,379**	**21,367**	**24,349**
% Change (Y-o-Y)	78.0	52.4	22.7	-19.2	8.6	7.1	9.3	17.0	22.0	14.0
Other Provisions	1,550	940	1,271	1,651	1,266	976	975	1,152	4,744	4,370
Profit before Tax	**4,162**	**4,417**	**4,245**	**3,799**	**4,938**	**4,759**	**5,056**	**5,226**	**16,623**	**19,979**
Tax Provisions	1,550	1,500	1,195	676	1,600	1,241	1,517	1,636	4,921	5,994
Net Profit	**2,612**	**2,917**	**3,050**	**3,123**	**3,338**	**3,517**	**3,539**	**3,591**	**11,703**	**13,985**
% Change (Y-o-Y)	41.8	52.3	18.9	19.9	27.8	20.6	16.0	15.0	31.1	19.5
Interest Exp./Interest Income (%)	73.2	71.5	67.8	66.7	65.6	66.9	68.3	70.6	69.7	68.0
Other Income/Net Income (%)	43.5	37.6	29.6	29.9	27.6	24.0	24.6	26.8	34.9	25.8
Cost/Income Ratio (%)	30.9	33.6	35.2	40.3	35.6	39.1	39.2	39.9	37.1	38.5
Provisions/Operating Profits (%)	27.1	17.5	23.0	30.3	20.4	17.0	16.2	18.1	22.2	17.9
Tax Rate (%)	37.2	34.0	28.2	17.8	32.4	26.1	30.0	31.3	29.6	30.0

E: MOSL Estimates

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Dena Bank

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	DBNK IN
Equity Shares (m)	286.8
52 Week Range (Rs)	151 / 71
1,6,12 Rel Perf (%)	-16 / 8 / 21
Mcap (Rs b)	33.0
Mcap (USD b)	0.7

CMP: Rs115 **Buy**

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GR. (%)	P/E (X)	BV (RS)	P/BV (X)	P/ABV (X)	ROAA (%)	ROAE (%)
3/10A	16,887	5,112	17.8	20.1	6.4	83.4	1.4	1.6	1.0	23.5
3/11E	22,168	5,923	20.6	15.8	5.6	101.2	1.1	1.3	0.9	22.4
3/12E	25,308	6,989	24.4	18.0	4.7	123.0	0.9	1.1	0.9	21.7
3/13E	29,020	8,160	28.4	16.8	4.0	148.6	0.8	0.9	0.9	21.0

- We expect loan growth of 25%+ YoY and deposit growth of ~20% YoY. Dena Bank had reported NIM of 3.5% in 2QFY11, which we believe will moderate QoQ.
- Sequentially, we expect NII to be flat. On a YoY basis, we expect NII to grow ~66% on a lower base, led to by sharp improvement in margins.
- Other income is likely to decline YoY, largely on account of lower trading profits. In 3QFY10, the bank had reported trading income of Rs281m.
- We expect PAT growth of 12% YoY; we have built in higher provisioning expenses of Rs725m compared to Rs293m in 3QFY10.
- The stock trades at 0.9x FY12E BV and 4.7x FY12E EPS. Maintain **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Interest Income	9,685	9,628	10,159	10,632	11,147	12,215	13,423	14,631	40,104	51,416
Interest Expense	7,180	7,223	7,329	7,371	7,542	7,562	8,734	10,104	29,103	33,942
Net Interest Income	**2,505**	**2,405**	**2,830**	**3,261**	**3,605**	**4,653**	**4,689**	**4,527**	**11,000**	**17,473**
% Change (Y-o-Y)	14.5	-5.4	-19.7	36.5	43.9	93.5	65.7	38.8	3.1	58.8
Other Income	1,554	1,253	1,331	1,749	1,071	1,189	1,145	1,289	5,886	4,694
Net Income	**4,059**	**3,658**	**4,161**	**5,010**	**4,676**	**5,842**	**5,834**	**5,816**	**16,887**	**22,168**
Operating Expenses	2,045	2,043	2,185	2,208	2,290	2,585	2,875	3,123	8,481	10,874
Operating Profit	**2,013**	**1,615**	**1,977**	**2,801**	**2,386**	**3,256**	**2,959**	**2,693**	**8,406**	**11,294**
% Change (Y-o-Y)	62.2	8.2	-25.5	49.2	18.5	101.6	49.7	-3.9	15.2	34.4
Other Provisions	406	15	293	824	428	729	725	702	1,538	2,584
Profit Before tax	**1,607**	**1,600**	**1,684**	**1,977**	**1,958**	**2,528**	**2,234**	**1,991**	**6,868**	**8,710**
Tax Provisions	457	354	339	606	570	922	726	570	1,755	2,787
Net Profit	**1,150**	**1,246**	**1,345**	**1,371**	**1,388**	**1,606**	**1,508**	**1,421**	**5,112**	**5,923**
% Change (Y-o-Y)	68.4	21.2	-4.2	23.3	20.7	28.9	12.1	3.7	20.1	15.8
Interest Exp./Interest Income (%)	74.1	75.0	72.1	69.3	67.7	61.9	65.1	69.1	72.6	66.0
Other Income/Net Income (%)	38.3	34.3	32.0	34.9	22.9	20.4	19.6	22.2	34.9	21.2
Cost to Income Ratio (%)	50.4	55.9	52.5	44.1	49.0	44.3	49.3	53.7	50.2	49.1
Provisions/Operating Profits (%)	20.2	0.9	14.8	29.4	18.0	22.4	24.5	26.1	18.3	22.9
Tax Rate (%)	28.4	22.1	20.1	30.7	29.1	36.5	32.5	28.6	25.6	32.0

E: MOSL Estimates

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Dewan Housing Finance

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	DEWH IN
Equity Shares (m)	104.0
52 Week Range (Rs)	347 / 178
1,6,12 Rel Perf (%)	-13 / 6 / 30
Mcap (Rs b)	28.6
Mcap (USD b)	0.6

CMP: Rs275 **Buy**

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GR. (%)	P/E (X)	BV (RS)	P/BV (X)	P/ABV (X)	ROAA (%)	ROAE (%)
3/10A	3,227	1,507	18.4	28.8	14.4	100.7	2.6	2.8	1.9	22.7
3/11E	4,931	2,441	23.5	27.7	11.2	145.2	1.8	1.9	2.0	20.6
3/12E	6,920	3,468	33.3	42.1	7.9	173.4	1.5	1.6	2.0	20.7
3/13E	8,989	4,449	42.8	28.3	6.2	209.6	1.3	1.3	1.8	22.1

- We expect buoyancy in loan growth to continue at ~50% YoY. This in turn would drive net income growth of ~48% YoY.
- During the quarter, DHFL has acquired Deutsche Postbank Housing Finance (DPBHF). The acquisition will be largely funded through debt, resulting in higher interest expenses, going forward.
- We expect DHFL to maintain its momentum in fee income growth. It had earned ~Rs123m in 2QFY11 through fee income initiatives.
- Overall, we expect strong profit growth of 60%+, led by healthy operating parameters.
- The stock trades at 1.5x FY12E BV and 7.9x FY12E EPS. Maintain **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Operating Income	2,135	2,456	2,603	2,713	2,984	3,302	4,013	4,782	9,906	15,081
Other Income	4	6	4	6	5	6	5	5	20	22
Total income	**2,139**	**2,462**	**2,607**	**2,719**	**2,989**	**3,309**	**4,018**	**4,788**	**9,926**	**15,103**
Y-o-Y Growth (%)	50.5	53.1	42.3	31.4	39.8	34.4	54.1	76.1	43.3	52.2
Interest expenses	1,492	1,721	1,709	1,776	1,976	2,123	2,685	3,388	6,698	10,172
Net Income	**647**	**741**	**898**	**942**	**1,013**	**1,186**	**1,332**	**1,400**	**3,227**	**4,931**
Y-o-Y Growth (%)	55.8	59.7	82.9	49.4	56.6	60.1	48.4	48.6	61.7	52.8
Operating Expenses	219	236	373	377	347	412	443	431	1,205	1,632
Profit before Tax	**428**	**505**	**525**	**565**	**666**	**774**	**890**	**968**	**2,022**	**3,298**
Tax Provisions	115	129	123	148	154	194	245	265	515	858
PAT before extraordinary item	**313**	**376**	**402**	**418**	**512**	**580**	**645**	**703**	**1,507**	**2,441**
Y-o-Y Growth (%)	59.3	70.2	73.0	95.1	63.9	54.5	60.6	68.4	64.3	61.9
Extraordinary Gain	0.0	0.0	0.0	0.0	0.0	354	0	0.0	0.0	354
PAT after extraordinary item	**313**	**376**	**402**	**418**	**512**	**935**	**645**	**703**	**1,507**	**2,795**
Int Exp/ Int Earned (%)	69.9	70.1	65.7	65.5	66.2	64.3	66.9	70.8	67.6	67.4
Cost to Income Ratio (%)	33.9	31.8	41.6	40.0	34.2	34.7	33.2	30.8	37.3	33.1
Tax Rate (%)	26.9	25.6	23.4	26.1	23.1	25.0	27.5	27.4	25.5	26.0

E: MOSL Estimates

Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com)/Abhishek Agarwal (Abhishek.Agarwal@MotilalOswal.com)

Federal Bank

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	FB IN
Equity Shares (m)	171.0
52 Week Range (Rs)	501 / 234
1,6,12 Rel Perf (%)	-15 / 8 / 47
Mcap (Rs b)	67.2
Mcap (USD b)	1.5

CMP: Rs393 **Buy**

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GR. (%)	P/E (X)	BV (RS)	P/BV (X)	P/ABV (X)	ROAA (%)	ROAE (%)
3/10A	19,417	4,645	27.2	-7.2	14.5	272.5	1.4	1.5	1.1	10.3
3/11E	22,682	5,632	32.9	21.2	11.9	298.4	1.3	1.4	1.2	11.5
3/12E	25,558	6,628	38.8	17.7	10.1	329.5	1.2	1.2	1.2	12.3
3/13E	29,330	7,879	46.1	18.9	8.5	366.8	1.1	1.1	1.3	13.2

- We expect loan growth to remain muted, as the bank is moving towards a centralized credit sanctioning process.
- Margins are likely to moderate from the reported level of 4.3% in 1HFY11 on the back of a sharp rise in cost of funds and moderating asset growth.
- We expect asset quality to remain stable, as recoveries and upgradations are likely to be strong.
- On a lower base, we expect PAT growth of ~31% YoY. In 3QFY10, tax rate for the bank was 51%.
- The stock trades at 1.2x FY12E BV and 10.1x FY12E EPS, with RoA of 1.3%+. However, RoE is likely to stay low due to lower leverage. Maintain **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Interest Income	8,744	9,011	9,446	9,531	9,518	9,783	10,455	11,236	36,732	40,992
Interest Expense	5,843	5,711	5,635	5,435	5,385	5,400	6,210	6,990	22,624	23,984
Net Interest Income	**2,901**	**3,300**	**3,811**	**4,097**	**4,133**	**4,384**	**4,245**	**4,246**	**14,108**	**17,008**
% Change (Y-o-Y)	4.3	-0.6	-0.9	27.7	42.5	32.9	11.4	3.6	7.3	20.6
Other Income	1,474	1,364	1,165	1,306	1,099	1,440	1,490	1,644	5,309	5,674
Net Income	**4,375**	**4,664**	**4,976**	**5,403**	**5,232**	**5,824**	**5,735**	**5,890**	**19,417**	**22,682**
Operating Expenses	1,592	1,631	1,661	1,885	1,879	1,974	2,161	2,344	6,769	8,359
Operating Profit	**2,783**	**3,032**	**3,315**	**3,518**	**3,353**	**3,850**	**3,574**	**3,546**	**12,648**	**14,323**
% Change (Y-o-Y)	9.8	0.1	-13.8	10.3	20.5	27.0	7.8	0.8	0.4	13.2
Other Provisions	520	1,501	1,053	979	1,334	1,703	1,400	1,353	4,053	5,790
Profit before Tax	**2,263**	**1,531**	**2,262**	**2,539**	**2,020**	**2,147**	**2,174**	**2,193**	**8,595**	**8,533**
Tax Provisions	900	520	1,160	1,370	701	743	728	729	3,950	2,901
Net Profit	**1,364**	**1,011**	**1,103**	**1,169**	**1,319**	**1,404**	**1,446**	**1,464**	**4,645**	**5,632**
% Change (Y-o-Y)	100.1	-11.6	-45.9	2.3	-3.3	38.9	31.1	25.3	-7.2	21.2
Interest Exp/Interest Income (%)	66.8	63.4	59.7	57.0	56.6	55.2	59.4	62.2	61.6	58.5
Other Income/Net Income (%)	33.7	29.3	23.4	24.2	21.0	24.7	26.0	27.9	27.3	25.0
Cost/Income Ratio (%)	36.4	35.0	33.4	34.9	35.9	33.9	37.7	39.8	34.9	36.9
Provisions/Operating Profits (%)	18.7	49.5	31.8	27.8	39.8	44.2	39.2	38.2	32.0	40.4
Tax Rate (%)	39.7	34.0	51.3	54.0	34.7	34.6	33.5	33.2	46.0	34.0

E: MOSL Estimates

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HDFC

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	HDFC IN
Equity Shares (m)	1460.1
52 Week Range (Rs)	780 / 460
1,6,12 Rel Perf (%)	-1 / 3 / 16
Mcap (Rs b)	1,020.5
Mcap (USD b)	22.6

CMP: Rs699 **Neutral**

Year End	Net Income (Rs m)	PAT (Rs m)	Adj EPS (Rs)	EPS Gr. (%)	AP/E* (x)	ABV* (Rs)	P/BV (x)	AP/ABV* (x)	RoAA (%)	Core RoE (%)
3/10A	42,978	28,265	19.7	22.7	27.7	79.6	6.6	6.8	2.7	26.5
3/11E	52,020	34,441	23.6	19.8	22.2	94.3	5.7	5.5	2.8	27.0
3/12E	61,385	40,859	28.0	18.6	17.7	110.0	5.0	4.5	2.8	27.0
3/13E	73,126	48,757	32.2	15.0	15.4	120.3	4.0	4.1	2.8	28.1

** Price is adjusted for value of key ventures. Book Value is adjusted by deducting investments in key ventures from net worth*

- We expect loan growth of ~23% YoY and ~5% QoQ in 3QFY11. HDFC Bank would continue to buy out home loans from HDFC, hampering HDFC's own loan growth.
- Spread would decline marginally QoQ due to rise in cost of funds. To offset the rise in cost of funds, HDFC has hiked its PLR by 75bp from December 2010. It has also stopped lending under teaser rates.
- HDFC is likely to book treasury gains from the sale of its IL&FS stake. Overall, we expect strong profit growth of ~20%+, led by strong loan growth.
- The stock trades at 4.5x FY12E AP/ABV and 17.7x FY12 AP/EPS (price adjusted for value of other businesses and book value adjusted for investments made in those businesses). Maintain **Neutral**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E March	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Interest Income	26,894	26,209	25,994	27,307	26,549	28,020	30,178	34,906	106,404	119,654
Interest Expense	19,628	18,365	17,042	15,595	17,196	17,176	19,050	21,716	70,631	75,138
Net Interest Income	**7,266**	**7,844**	**8,952**	**11,712**	**9,353**	**10,845**	**11,128**	**13,190**	**35,773**	**44,517**
YoY Change (%)	7.6	1.8	9.7	23.3	28.7	38.3	24.3	12.6	11.4	24.4
Profit on Sale of Investments	513	613	514	454	0	590	1,150	1,105	2,094	2,844
Other Operating income	1,035	1,627	1,061	1,162	1,422	1,045	400	1,542	4,885	4,409
Net Operating Income	**8,814**	**10,083**	**10,527**	**13,328**	**10,775**	**12,480**	**12,678**	**15,836**	**42,752**	**51,770**
YoY Change (%)	18.3	17.5	20.1	23.1	22.3	23.8	20.4	18.8	20.0	21.1
Other Income	49	54	53	70	48	47	70	85	226	250
Total Income	**8,863**	**10,137**	**10,580**	**13,398**	**10,824**	**12,527**	**12,748**	**15,921**	**42,978**	**52,020**
Operating Expenses	944	868	847	579	1,008	1,041	1,055	608	3,238	3,712
Pre Provisioning Profit	7,919	9,269	9,733	12,819	9,816	11,485	11,693	15,313	39,740	48,307
YoY Change (%)	20.0	19.5	22.6	23.3	24.0	23.9	20.1	19.5	21.6	21.6
Provisions	120	140	160	160	150	150	160	178	580	638
PBT	**7,799**	**9,129**	**9,573**	**12,659**	**9,666**	**11,335**	**11,533**	**15,135**	**39,160**	**47,669**
YoY Change (%)	20.0	20.1	22.5	23.2	23.9	24.2	20.5	19.6	21.7	21.7
Provision for Tax	2,150	2,490	2,860	3,395	2,720	3,260	3,345	3,904	10,895	13,228
PAT (Excl exceptional)	**5,649**	**6,639**	**6,713**	**9,264**	**6,946**	**8,075**	**8,189**	**11,231**	**28,265**	**34,441**
YoY Change (%)	20.7	24.3	22.8	26.3	23.0	21.6	22.0	21.2	23.8	21.9

E: MOSL Estimates

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HDFC Bank

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	HDFCB IN
Equity Shares (m)	462.6
52 Week Range (Rs)	2,518 / 1,550
1,6,12 Rel Perf (%)	-7 / -3 / 14
Mcap (Rs b)	1,025.2
Mcap (USD b)	22.7

CMP: Rs2,216 — Neutral

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GR. (%)	P/E (X)	BV (RS)	P/BV (X)	P/ABV (X)	ROAA (%)	ROAE (%)
3/10A	121,942	29,487	64.4	22.1	34.4	470.3	4.7	4.8	1.5	16.1
3/11E	144,298	38,816	83.9	30.3	26.4	542.7	4.1	4.1	1.6	16.6
3/12E	175,067	50,665	109.5	30.5	20.2	629.1	3.5	3.6	1.7	18.7
3/13E	210,975	63,558	137.4	25.4	16.1	737.6	3.0	3.0	1.7	20.1

- We expect robust business trend to continue for HDFC Bank. We estimate NII growth of ~18% YoY. Margins would decline marginally on a sequential basis, led by increase in cost of deposits.
- Other income is likely to grow 27% YoY, driven by increase in fee income. We expect the bank to maintain cost to core income ratio at ~50%.
- We expect provisions to decline sequentially, as asset quality would continue to show improvement. On operating profit growth of 20% YoY, we expect PAT growth of 30%, led by YoY decline in provisions.
- The stock trades at 3.5x FY12E BV and 20.2x FY12E EPS. Given the rich valuations, we maintain our **Neutral** view.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Interest Income	40,931	39,919	40,348	40,531	44,202	48,100	52,346	57,748	161,729	202,396
Interest Expense	22,375	20,361	18,109	17,018	20,190	22,837	26,195	30,705	77,863	99,927
Net Interest Income	**18,556**	**19,558**	**22,239**	**23,514**	**24,011**	**25,263**	**26,151**	**27,043**	**83,866**	**102,468**
% Change (Y-o-Y)	7.7	4.8	12.4	27.0	29.4	29.2	17.6	15.0	13.0	22.2
Other Income	10,437	10,074	8,530	9,036	9,399	9,607	10,857	11,966	38,076	41,829
Net Income	**28,992**	**29,632**	**30,769**	**32,549**	**33,410**	**34,870**	**37,008**	**39,010**	**121,942**	**144,298**
Operating Expenses	13,806	13,702	14,532	15,605	15,923	16,799	17,492	19,136	57,645	69,351
Operating Profit	**15,187**	**15,930**	**16,237**	**16,944**	**17,487**	**18,071**	**19,516**	**19,873**	**64,297**	**74,947**
% Change (Y-o-Y)	47.8	41.9	11.4	7.9	15.1	13.4	20.2	17.3	24.2	16.6
Other Provisions	6,588	5,941	4,477	4,399	5,550	4,545	3,843	3,927	21,400	17,865
Profit before Tax	**8,598**	**9,989**	**11,760**	**12,545**	**11,937**	**13,526**	**15,673**	**15,946**	**42,897**	**57,082**
Tax Provisions	2,537	3,114	3,575	4,178	3,820	4,405	5,015	5,026	13,410	18,266
Net Profit	**6,061**	**6,875**	**8,185**	**8,366**	**8,117**	**9,121**	**10,658**	**10,920**	**29,487**	**38,816**
% Change (Y-o-Y)	30.5	30.2	31.6	32.6	33.9	32.7	30.2	30.5	31.3	31.6
Interest Exp/Interest Income (%)	54.7	51.0	44.9	42.0	45.7	47.5	50.0	53.2	48.1	49.4
Other Income/Net Income (%)	36.0	34.0	27.7	27.8	28.1	27.6	29.3	30.7	31.2	29.0
Cost/Income Ratio (%)	47.6	46.2	47.2	47.9	47.7	48.2	47.3	49.1	47.3	48.1
Provisions/Operating Profits (%)	43.4	37.3	27.6	26.0	31.7	25.1	19.7	19.8	33.3	23.8
Tax Rate (%)	29.5	31.2	30.4	33.3	32.0	32.6	32.0	31.5	31.3	32.0

E: MOSL Estimates

Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com)/Abhishek Agarwal (Abhishek.Agarwal@MotilalOswal.com)

ICICI Bank

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	ICICIBC IN
Equity Shares (m)	1150.8
52 Week Range (Rs)	1,277 / 773
1,6,12 Rel Perf (%)	-4 / 13 / 14
Mcap (Rs b)	1,287.8
Mcap (USD b)	28.5

CMP: Rs1,119 **Buy**

YEAR END	NET INC. (RS M)	PAT (RS M)	EPS (RS)	EPS GR. (%)	P/E (X)	AP/E* (X)	ABV* (RS)	AP/ABV* (X)	ROAA (%)	CORE ROAE (%)
3/10A	155,920	40,250	36.1	6.9	31.0	25.3	348.2	2.6	1.1	9.7
3/11E	158,006	50,867	44.2	22.4	25.3	20.2	365.4	2.4	1.3	11.7
3/12E	192,045	65,160	56.6	28.1	19.8	15.2	401.0	2.1	1.4	13.9
3/13E	229,696	78,315	68.1	20.2	16.4	12.7	445.7	1.9	1.5	15.1

*Price is adjusted for value of key ventures; Book value adjusted for investment in subsidiaries

- We expect domestic loan growth to trend towards the industry average, driven primarily by corporate loans in the form of project finance, short-term financing and working capital loans. In the retail segment, mortgages remain the bank's preferred product. However, moderate growth in the international book would result in overall loan growth of 13-14% YoY.
- Deposit growth should track loan growth; we expect deposit growth of 17% YoY. As of 2QFY11, the bank had built up excess liquidity in the balance sheet, with domestic CD ratio of 69% and SLR of ~30%. Excess liquidity in the rising interest rate environment will provide cushion to margins.
- On the back of improving loan growth, we expect NII to grow 9% YoY, even as margins contract due to rising cost of funds.
- We expect fee income growth to pick up. We factor in ~20% YoY and 7-8% QoQ growth in fee income. We model operating expense growth of 25% YoY and 8% QoQ, as the full impact of branch addition over the last two quarters and merger-related expenses will be visible.
- With provision coverage ratio (PCR) at 69% and asset quality on an improving trend, we expect NPA provisions to decline going ahead. Despite the expected flat operating profits, fall in provisions would drive PAT growth of 25% YoY.
- Excluding subsidiaries, the stock trades at 2.1x FY12E AP/ABV (BV adjusted for NPA and investment in subsidiaries) and 15.2x AP/EPS. We maintain **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Interest Income	71,334	66,569	60,896	58,270	58,125	63,091	67,124	74,171	257,069	262,511
Interest Expense	51,482	46,209	40,315	37,920	38,215	41,047	44,741	50,618	175,926	174,622
Net Interest Income	**19,853**	**20,361**	**20,581**	**20,349**	**19,911**	**22,044**	**22,382**	**23,553**	**81,144**	**87,889**
% Change (Y-o-Y)	-5.0	-5.2	3.4	-4.9	0.3	8.3	8.8	15.7	-3.0	8.3
Other Income	20,899	18,238	16,731	18,908	16,805	15,779	18,222	19,310	74,777	70,116
Net Income	**40,751**	**38,599**	**37,312**	**39,258**	**36,716**	**37,823**	**40,604**	**42,863**	**155,920**	**158,006**
Operating Expenses	15,460	14,245	13,624	15,269	14,835	15,704	17,032	18,311	58,598	65,882
Operating Profit	**25,291**	**24,353**	**23,688**	**23,989**	**21,881**	**22,119**	**23,572**	**24,552**	**97,322**	**92,124**
% Change (Y-o-Y)	47.5	6.6	-14.5	11.3	-13.5	-9.2	-0.5	2.3	9.0	-5.3
Other Provisions	13,237	10,713	10,022	9,898	7,978	6,411	5,000	4,912	43,869	24,301
Profit before Tax	**12,055**	**13,640**	**13,667**	**14,091**	**13,903**	**15,708**	**18,572**	**19,640**	**53,453**	**67,823**
Tax Provisions	3,273	3,239	2,656	4,036	3,643	3,345	4,829	5,139	13,203	16,956
Net Profit	**8,782**	**10,401**	**11,011**	**10,056**	**10,260**	**12,363**	**13,743**	**14,501**	**40,250**	**50,867**
% Change (Y-o-Y)	20.6	2.6	-13.4	35.2	16.8	18.9	24.8	44.2	7.1	26.4
Interest Exp/Interest Income (%)	72.2	69.4	66.2	65.1	65.7	65.1	66.7	68.2	68.4	66.5
Other Income/Net Income (%)	51.3	47.3	44.8	48.2	45.8	41.7	44.9	45.1	48.0	44.4
Cost/Income Ratio (%)	37.9	36.9	36.5	38.9	40.4	41.5	41.9	42.7	37.6	41.7
Provisions/Operating Profits (%)	52.3	44.0	42.3	41.3	36.5	29.0	21.2	20.0	45.1	26.4
Tax Rate (%)	27.1	23.7	19.4	28.6	26.2	21.3	26.0	26.2	24.7	25.0

E: MOSL Estimates

Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com)/Abhishek Agarwal (Abhishek.Agarwal@motilaloswal.com)

IDFC

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	IDFC IN
Equity Shares (m)	1,295.3
52 Week Range (Rs)	218 / 141
1,6,12 Rel Perf (%)	-9 / -10 / -4
Mcap (Rs b)	227.4
Mcap (USD b)	5.0

CMP: Rs176 — Neutral

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	ABV (RS)	AP/ABV (X)	ROAA (%)	ROAE (%)
3/10A	21,067	10,623	8.2	41.1	21.5	42.2	3.6	3.4	16.1
3/11E	27,300	13,429	8.9	9.0	19.7	68.2	2.2	3.1	14.5
3/12E	34,123	16,389	10.9	22.0	16.2	78.5	1.9	2.8	13.4
3/13E	40,682	19,357	12.8	18.1	13.7	90.7	1.7	2.7	14.2

** Adjusted for Goodwill and Investment in subsidaries , Prices adjusted for other ventures*

- On the back of strong demand for loans in the infrastructure sector, we expect ~8% QoQ (~58% YoY) growth in loan book.
- IDFC's management had highlighted at the end of 2QFY11 that it may sell down some of its large-ticket loans in subsequent quarters. The quantum of sell-down and resultant profit needs to be watched for.
- In the current rising rate scenario, we expect cost of funds to increase sharply, directly impacting its spread. However, strong growth in loan book will lead to NII growth of ~50% YoY.
- With asset quality likely to remain stable, provisioning cost would remain low.
- The stock trades at 16.2x FY12E AP/EPS and 1.9x FY12E AP/ABV. Maintain **Neutral**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
NII	**2,495**	**2,770**	**2,790**	**3,170**	**3,370**	**3,740**	**4,218**	**4,491**	**11,225**	**15,819**
% Change (Y-o-Y)	16	37	8	24	35	35	51	42	20	41
- Infra Loans	2,190	2,520	2,600	2,900	3,040	3,590	3,993	4,291	10,210	14,914
- Treasury	305	250	190	270	330	150	225	200	1,015	905
Fees	**1,535**	**1,698**	**1,350**	**1,717**	**1,492**	**2,620**	**2,270**	**2,433**	**6,299**	**8,814**
- Asset management	720	690	680	810	650	750	846	980	2,900	3,226
- SSKI	390	590	670	510	360	740	515	565	2,160	2,180
- Loan related/others	425	418	(0)	397	482	1,130	909	887	1,239	3,408
Principal investments	**680**	**610**	**1,050**	**990**	**1,200**	**120**	**500**	**626**	**3,330**	**2,446**
Other Income	23	145	5	95	58	24	60	78	268	220
Net Income	**4,734**	**5,223**	**5,194**	**5,971**	**6,120**	**6,503**	**7,048**	**7,628**	**20,855**	**27,080**
% Change (Y-o-Y)	24	20	55	44	29	25	36	28	34	30
Operating Expenses	1,026	1,097	1,091	2,268	1,232	1,239	1,670	2,696	5,482	6,836
Operating profit	**3,708**	**4,126**	**4,103**	**3,704**	**4,888**	**5,265**	**5,378**	**4,932**	**15,373**	**20,243**
% Change (Y-o-Y)	21	21	53	30	32	28	31	33	29	32
Provisions	(66)	242	424	697	445	515	600	635	1,298	2,196
PBT	**3,774**	**3,884**	**3,679**	**3,007**	**4,443**	**4,750**	**4,778**	**4,297**	**14,343**	**18,268**
Tax	973	975	979	738	1,098	1,375	1,242	1,129	3,666	4,844
PAT	**2,800**	**2,908**	**2,700**	**2,269**	**3,345**	**3,375**	**3,535**	**3,168**	**10,677**	**13,423**
Less: Consol Adjustments	76	(10)	1	(13)	0	(9)	0	3	54	(6)
Consol PAT	**2,724**	**2,918**	**2,699**	**2,281**	**3,345**	**3,384**	**3,535**	**3,165**	**10,623**	**13,429**
% Change (Y-o-Y)	26	26	46	96	23	16	31	39	42	26

E: MOSL Estimates

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Indian Bank

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	INBK IN
Equity Shares (m)	429.8
52 Week Range (Rs)	317 / 154
1,6,12 Rel Perf (%)	-13 / 0 / 32
Mcap (Rs b)	110.1
Mcap (USD b)	2.4

CMP: Rs256 — Buy

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GR. (%)	P/E (X)	BV (RS)	P/BV (X)	P/ABV (X)	ROAA (%)	ROAE (%)
3/10A	44,776	15,550	36.2	24.9	7.1	154.7	1.7	1.7	1.7	24.9
3/11E	51,757	16,023	37.3	3.0	6.9	182.3	1.4	1.4	1.4	21.6
3/12E	60,806	18,396	42.8	14.8	6.0	214.1	1.2	1.2	1.3	21.1
3/13E	69,967	20,901	48.6	13.6	5.3	250.4	1.0	1.0	1.3	20.5

- We expect loan growth to outpace deposit growth - while deposits would grow 21% YoY, loans would grow ~29% YoY (on a lower base). CD ratio should improve marginally to 72%. We expect NII to grow 15%+, but margins would moderate YoY.
- Other income is likely to decline 5% YoY due to lower treasury gains. Fee income would grow 20%+. In 3QFY10, Indian Bank reported treasury gains of Rs770m.
- We expect operating expenses to increase 30%+ YoY, driven by higher employee expenses. The bank has not yet started providing for the second pension and has sought approval to amortize additional gratuity-related cost of Rs1.6b over five years. Higher than estimated provision on pension liability and gratuity remains a key risk.
- Asset quality is likely to improve further in 3QFY11, as the bank has already moved to system-based recognition of NPAs from 1QFY11. We expect NPA provisions to to decline, with concerns on asset quality subsiding. However, being conservative, we continue to model in higher NPA provisions.
- The stock trades at 1.2x FY12E BV and 6x FY12E EPS. Maintain **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Interest Income	18,511	18,918	20,148	20,249	21,218	22,756	24,815	27,382	78,571	96,171
Interest Expense	11,426	11,780	11,418	10,908	11,951	12,924	14,733	17,084	45,532	56,693
Net Interest Income	**7,086**	**7,138**	**8,730**	**9,341**	**9,266**	**9,832**	**10,082**	**10,298**	**33,039**	**39,478**
% Change (Y-o-Y)	31.3	4.7	21.3	39.9	30.8	37.7	15.5	10.2	26.7	19.5
Other Income	3,792	2,826	2,935	2,929	3,555	2,837	2,800	3,087	11,737	12,278
Net Income	**10,878**	**9,964**	**11,665**	**12,270**	**12,821**	**12,669**	**12,882**	**13,385**	**44,776**	**51,757**
Operating Expenses	4,573	4,425	4,178	3,545	4,443	5,279	5,500	5,954	17,302	21,176
Operating Profit	**6,304**	**5,539**	**7,487**	**8,724**	**8,378**	**7,389**	**7,382**	**7,431**	**27,473**	**30,581**
% Change (Y-o-Y)	44.4	4.0	20.0	37.2	32.9	33.4	-1.4	-14.8	22.9	15.6
Other Provisions	1,209	293	320	2,136	3,439	1,330	1,500	1,422	3,957	7,691
Profit before Tax	**5,096**	**5,246**	**7,166**	**6,589**	**4,939**	**6,060**	**5,882**	**6,009**	**23,516**	**22,890**
Tax Provisions	1,780	1,526	2,172	2,488	1,258	1,902	1,823	1,884	7,966	6,867
Net Profit	**3,316**	**3,720**	**4,994**	**4,101**	**3,681**	**4,158**	**4,058**	**4,125**	**15,550**	**16,023**
% Change (Y-o-Y)	52.4	31.5	42.4	4.1	11.0	11.8	-18.7	0.6	24.9	3.0
Interest Exp/Interest Income (%)	61.7	62.3	56.7	53.9	56.3	56.8	59.4	62.4	58.0	58.9
Other Income/Net Income (%)	34.9	28.4	25.2	23.9	27.7	22.4	21.7	23.1	26.2	23.7
Cost/Income Ratio (%)	42.0	44.4	35.8	28.9	34.7	41.7	42.7	44.5	38.6	40.9
Provisions/Operating Profits (%)	19.2	5.3	4.3	24.5	41.0	18.0	20.3	19.1	14.4	25.1
Tax Rate (%)	34.9	29.1	30.3	37.8	25.5	31.4	31.0	31.4	33.9	30.0

E: MOSL Estimates

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ING Vysya Bank

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	VYSB IN
Equity Shares (m)	120.0
52 Week Range (Rs)	444 / 235
1,6,12 Rel Perf (%)	-13 / -1 / 9
Mcap (Rs b)	44.5
Mcap (USD b)	1.0

CMP: Rs371 **Buy**

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GR. (%)	P/E (X)	BV (RS)	P/BV (X)	P/ABV (X)	ROAA (%)	ROAE (%)
3/10A	14,501	2,423	18.5	0.6	20.0	185.3	2.0	2.1	0.7	11.6
3/11E	16,621	3,015	25.1	35.8	14.7	206.9	1.8	1.9	0.8	12.8
3/12E	18,954	3,917	32.7	29.9	11.4	235.5	1.6	1.6	0.9	14.8
3/13E	22,518	5,150	42.9	31.5	8.6	273.7	1.4	1.4	1.0	16.9

- We expect business growth to be in line with industry trend. Loans are likely to grow by 24% YoY and deposits by 18% YoY.
- NIM is likely to contract in 2HFY11; however, the full impact of rising cost of funds would be visible during 4QFY11.
- We expect fee-based income to remain strong. However, non-interest income will decline QoQ due to trading gains of Rs630m booked in the previous quarter.
- IVB has already provided for proportionate gratuity and pension-related expenses for FY11. However, increase in number of branches would keep cost to income ratio sequentially stable.
- Asset quality is expected to remain stable and model YoY decline of ~35% in provisioning expenses, as 70% PCR is already achieved.
- The stock trades at 1.6x FY12E BV and 11.4x FY12E EPS. Maintain **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Interest Income	5,831	5,389	5,430	5,679	5,876	6,388	6,920	7,715	22,329	26,900
Interest Expense	4,112	3,475	3,235	3,208	3,496	3,846	4,297	5,013	14,030	16,652
Net Interest Income	**1,719**	**1,914**	**2,194**	**2,471**	**2,380**	**2,542**	**2,622**	**2,703**	**8,299**	**10,248**
% Change (Y-o-Y)	8.8	22.2	27.3	52.2	38.5	32.9	19.5	9.4	27.8	23.5
Other Income	1,597	1,516	1,303	1,479	1,244	1,933	1,500	1,696	6,202	6,373
Net Income	**3,316**	**3,430**	**3,497**	**3,950**	**3,624**	**4,475**	**4,122**	**4,399**	**14,501**	**16,621**
Operating Expenses	1,894	1,994	2,039	2,153	2,138	2,633	2,600	2,763	8,081	10,134
Operating Profit	**1,422**	**1,436**	**1,458**	**1,797**	**1,486**	**1,842**	**1,522**	**1,635**	**6,420**	**6,486**
% Change (Y-o-Y)	35.9	56.7	37.0	47.2	4.5	28.3	4.4	-9.0	51.1	1.0
Other Provisions	487	626	528	1,063	439	698	350	360	2,704	1,847
Profit before Tax	**935**	**810**	**930**	**734**	**1,047**	**1,145**	**1,172**	**1,275**	**3,716**	**4,639**
Tax Provisions	332	275	324	362	356	392	416	459	1,293	1,624
Net Profit	**603**	**535**	**606**	**372**	**691**	**753**	**756**	**816**	**2,423**	**3,015**
% Change (Y-o-Y)	48.3	13.8	16.6	-24.3	14.6	40.8	24.8	119.4	28.3	24.5
Extra Ordinary Item	0	0	0	0	0	0	0	0	203	0
Adj.Net Profit	**603**	**535**	**606**	**372**	**691**	**753**	**756**	**816**	**2,220**	**3,015**
% Change (Y-o-Y)	48.3	13.8	16.6	-24.3	14.6	40.8	24.8	119.4	17.6	35.8
Interest Exp/Interest Income (%)	70.5	64.5	59.6	56.5	59.5	60.2	62.1	65.0	62.8	61.9
Other Income/Net Income (%)	48.2	44.2	37.3	37.4	34.3	43.2	36.4	38.6	42.8	38.3
Cost/Income Ratio (%)	57.1	58.1	58.3	54.5	59.0	58.8	63.1	62.8	55.7	61.0
Provisions/Operating Profits (%)	34.3	43.6	36.2	59.2	29.6	37.9	23.0	22.0	42.1	28.5
Tax Rate (%)	35.5	34.0	34.8	49.3	34.0	34.2	35.5	36.0	34.8	35.0

E: MOSL Estimates

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Kotak Mahindra Bank

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	KMB IN
Equity Shares (m)	729.1
52 Week Range (Rs)	530 / 350
1,6,12 Rel Perf (%)	-9 / 5 / -4
Mcap (Rs b)	328.4
Mcap (USD b)	7.3

CMP: Rs450 **Neutral**

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GR. (%)	P/E (X)	BV (RS)	P/BV (X)	P/ABV (X)	ROAA (%)	ROAE (%)
3/10A	49,017	12,402	17.8	88.1	25.3	113.6	4.0	4.1	2.7	17.9
3/11E	49,732	14,760	20.2	13.7	22.2	150.0	3.0	3.1	2.4	15.8
3/12E	60,389	17,799	24.4	20.6	18.4	173.9	2.6	2.6	2.2	15.2
3/13E	72,272	21,049	28.9	18.3	15.6	201.2	2.2	2.3	2.0	15.5

- We expect Kotak bank to grow marginally above the industry QoQ. While risk aversion continues for Personal loans, other loan products are showing strong traction QoQ. For FY11, we expect consolidated loan growth of ~38% vs management guidance of 35-40%.
- During the quarter, the bank hiked its deposit rates by 75-100bp. With high proportion of bulk deposits (45-50%), NIM is likely to contract. However, full benefit of capital raising would limit margin contraction. Consolidated NII is likely to grow ~20% YoY and ~5% QoQ.
- Asset quality has started showing improvement, and with PCR at ~70%, provisioning expenses are likely to decline QoQ.
- We expect standalone PAT to grow 45% YoY, led by strong loan growth and sharp decline in provisioning. Sharp rise in wholesale borrowing cost is likely to put pressure on profitability QoQ. We expect lending business profits to grow 40%+ YoY.
- Capital market related subsidiaries remain a mixed bag, with Investment Banking doing much better than last year in terms of number of deals; profitability remains a concern due to stiff competition.
- We expect overall PAT growth of ~15% YoY, with lending business contribution remaining high at 72-73%.
- Adjusted for value of Insurance business (Rs76/share), the stock trades at 2.6x FY12E BV and 18.4x FY12E EPS (ex Insurance). Maintain **Neutral**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Kotak Mahindra Bank (Standalone)	903	1,259	1,424	2,025	1,869	1,947	2,067	2,143	5,611	8,026
Kotak Mahindra Prime	189	395	494	586	760	613	625	667	1,664	2,665
Kotak Mahindra Investments	130	87	61	68	76	80	100	128	347	383
Lending Business	**1,222**	**1,741**	**1,980**	**2,679**	**2,705**	**2,640**	**2,792**	**2,938**	**7,622**	**11,075**
YoY Growth (%)	22	92	96	73	121	52	41	10	71	45
Kotak Mahindra Capital Company	48	41	16	133	69	73	90	101	239	333
Kotak Securities	743	759	592	508	474	517	540	577	2,601	2,109
Capital Market Business	**791**	**800**	**608**	**641**	**543**	**591**	**630**	**678**	**2,840**	**2,442**
YoY Growth (%)	49	60	2,835	352	-31	-26	4	6	138	-14
International subsidiaries	231	208	226	139	157	123	115	130	804	524
Kotak Mahindra AMC & Trustee Co	153	195	229	148	89	-24	75	107	725	247
Kotak Investment Advisors	118	95	115	70	108	105	120	138	398	471
Asset Management Business	**501**	**499**	**569**	**357**	**355**	**204**	**310**	**375**	**1,926**	**1,243**
YoY Growth (%)	116	171	114	77	-29	-59	-45	5	118	-35
Kotak Life Insurance	11	44	193	444	-69	134	50	20	692	135
Total	**2,524**	**3,082**	**3,348**	**4,120**	**3,534**	**3,568**	**3,782**	**4,011**	**13,074**	**14,894**
Reported PAT	**2,573**	**2,998**	**3,314**	**4,186**	**3,277**	**3,641**	**3,782**	**4,011**	**12,890**	**14,862**
YoY growth	71.7	86.2	153.2	98.7	27.4	21.5	14.1	-4.2	92.8	15.3

E: MOSL Estimates

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LIC Housing Finance

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	LICHF IN
Equity Shares (m)	475.0
52 Week Range (Rs)	299 / 141
1,6,12 Rel Perf (%)	-15 / -22 / 3
Mcap (Rs b)	89.3
Mcap (USD b)	2.0

CMP: Rs188 **Neutral**

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GR. (%)	P/E (X)	BV (RS)	P/BV (X)	ROAA (%)	ROAE (%)
3/10A	10,740	6,612	13.9	11.1	13.7	71.3	2.7	2.0	23.5
3/11E	14,364	8,860	18.7	34.0	10.2	87.7	2.2	2.1	23.5
3/12E	17,250	10,515	22.1	18.7	8.6	104.6	1.8	2.0	23.0
3/13E	20,612	12,437	26.2	18.3	7.3	124.4	1.5	1.9	22.9

- While growth in individual loans is likely to remain robust, there could be some run-down in the builder loan portfolio. We expect overall loans to grow 5% QoQ and 33% YoY in 3QFY11.
- We expect spreads to contract on account of rising cost of funds and the company continuing its lending scheme "Advantage-5", wherein lending rate is fixed at 9.25% for five years.
- To offset the rising cost of funds, LIC Housing Finance hiked its PLR by 50bp during the first week of October 2010.
- Asset quality would be under watch, especially the builder loan portfolio.
- The stock trades at P/BV of 1.8x FY12E and P/E of 8.6x FY12E. Maintain **Neutral**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Operating Income	7,802	8,349	8,782	9,629	10,125	11,002	12,047	12,460	34,563	45,633
Other Income	17	42	22	53	25	72	45	43	135	185
Total Income	**7,819**	**8,391**	**8,805**	**9,683**	**10,149**	**11,074**	**12,092**	**12,502**	**34,697**	**45,818**
Y-o-Y Growth (%)	25.5	18.6	14.8	20.1	29.8	32.0	37.3	29.1	19.5	32.0
Interest Expenses	5,709	5,979	6,057	6,214	6,772	7,378	8,374	8,929	23,957	31,454
Net Income	**2,110**	**2,413**	**2,748**	**3,469**	**3,377**	**3,696**	**3,718**	**3,573**	**10,740**	**14,364**
Y-o-Y Growth (%)	17.9	13.4	18.3	31.8	60.0	53.2	35.3	3.0	21.1	33.7
Operating Expenses	322	552	428	613	394	503	568	637	1,920	2,102
Operating Profit	**1,788**	**1,861**	**2,320**	**2,856**	**2,983**	**3,193**	**3,150**	**2,937**	**8,820**	**12,262**
Y-o-Y Growth (%)	17.4	4.5	26.8	30.8	66.8	71.6	35.7	2.8	20.5	39.0
Provisions and Cont.	100	-417	158	-126	89	3	15	18	-283	125
Profit before Tax	**1,688**	**2,278**	**2,162**	**2,982**	**2,893**	**3,190**	**3,135**	**2,919**	**9,103**	**12,137**
Tax Provisions	450	566	629	847	773	848	893	762	2,491	3,277
Net Profit	**1,238**	**1,712**	**1,533**	**2,135**	**2,120**	**2,342**	**2,241**	**2,157**	**6,612**	**8,860**
Y-o-Y Growth (%)	18.3	26.8	14.1	35.5	71.2	36.8	46.2	1.0	24.4	34.0
Int Exp/ Int Earned (%)	73.2	71.6	69.0	64.5	66.9	67.1	69.5	71.7	69.3	68.9
Other Income / Net Income (%)	0.8	1.8	0.8	1.5	0.7	2.0	1.2	1.2	1.3	1.3
Cost to Income Ratio (%)	15.3	22.9	15.6	17.7	11.7	13.6	15.3	17.8	17.9	14.6
Tax Rate (%)	26.6	24.8	29.1	28.4	26.7	26.6	28.5	26.1	27.4	27.0

E: MOSL Estimates

Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com)/Abhishek Agarwal (Abhishek.Agarwal@Motilaloswal.com)

M & M Financial Services

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	MMFS IN
Equity Shares (m)	95.3
52 Week Range (Rs)	913 / 308
1,6,12 Rel Perf (%)	-13 / 43 / 106
Mcap (Rs b)	67.7
Mcap (USD b)	1.5

CMP: Rs711 **Buy**

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GR. (%)	P/E (X)	BV (RS)	P/BV (X)	P/ABV (X)	ROAA (%)	ROAE (%)
3/10A	10,671	3,444	35.9	60.1	19.8	170.0	4.2	4.3	3.8	21.5
3/11E	13,947	4,693	48.9	36.3	14.5	208.3	3.4	3.5	3.4	24.5
3/12E	17,812	5,457	56.9	16.3	12.5	252.9	2.8	3.0	3.2	23.6
3/13E	21,906	6,462	67.3	18.4	10.6	306.2	2.3	2.5	3.2	23.2

- We expect business growth to remain strong in 3QFY11 on the back of healthy growth in vehicle sales and higher demand on account of festive season.
- With 85% of the borrowings on a fixed rate basis, we do not foresee immediate impact of rising cost of funds on spreads. We believe spreads would remain fairly stable QoQ and NII would grow 35%+ YoY.
- We expect asset quality to continue showing healthy improvement and credit cost to decline on YoY basis. PCR at the end of 2QFY11 was ~83%.
- During the quarter, the board passed a resolution to raise up to Rs5.7b through QIP issue.
- The stock trades at P/BV of 3x FY12E and P/E of 12.5x FY12E. We have not factored in dilution in our earnings estimates. Maintain **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Operating Income	3,202	3,530	3,939	4,636	3,924	4,696	5,400	6,359	15,308	20,379
Other Income	91	95	81	114	90	93	95	97	380	375
Total income	**3,293**	**3,625**	**4,020**	**4,750**	**4,014**	**4,789**	**5,495**	**6,456**	**15,688**	**20,754**
Y-o-Y Growth (%)	10.0	9.5	12.7	19.4	21.9	32.1	36.7	35.9	13.3	32.3
Interest expenses	1,210	1,205	1,362	1,240	1,315	1,518	1,860	2,115	5,017	6,807
Net Income	**2,083**	**2,420**	**2,659**	**3,509**	**2,699**	**3,271**	**3,636**	**4,341**	**10,671**	**13,947**
Operating Expenses	703	790	754	1,002	1,046	1,194	1,310	1,491	3,250	5,041
Operating Profit	**1,380**	**1,629**	**1,905**	**2,507**	**1,653**	**2,077**	**2,326**	**2,851**	**7,421**	**8,907**
Y-o-Y Growth (%)	6.3	31.0	29.2	21.5	19.8	27.5	22.1	13.7	22.0	20.0
Provisions	778	596	503	339	543	335	400	598	2,215	1,876
Profit before Tax	**602**	**1,034**	**1,402**	**2,168**	**1,110**	**1,742**	**1,926**	**2,253**	**5,206**	**7,031**
Tax Provisions	202	342	453	765	368	577	637	755	1,762	2,338
Net Profit	**400**	**692**	**950**	**1,402**	**742**	**1,165**	**1,288**	**1,498**	**3,444**	**4,693**
Y-o-Y Growth (%)	49.5	96.5	113.4	29.8	85.5	68.3	35.7	6.8	60.5	36.3
Cost to Income Ratio (%)	33.8	32.7	28.3	28.6	38.8	36.5	36.0	34.3	30.5	36.1
Provisions/Operating Profits (%)	56.4	36.6	26.4	13.5	32.8	16.1	17.2	21.0	29.9	21.1
Tax Rate (%)	33.5	33.1	32.3	35.3	33.2	33.1	33.1	33.5	33.8	33.3

E: MOSL Estimates

Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com)/Abhishek Agarwal (Abhishek.Agarwal@MotilalOswal.com)

Oriental Bank of Commerce

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	OBC IN
Equity Shares (m)	250.5
52 Week Range (Rs)	545 / 225
1,6,12 Rel Perf (%)	-10 / 12 / 43
Mcap (Rs b)	103.3
Mcap (USD b)	2.3

CMP: Rs412 **Buy**

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GR. (%)	P/E (X)	BV (RS)	P/BV (X)	P/ABV (X)	ROAA (%)	ROAE (%)
3/10A	41,075	11,347	45.3	25.3	9.1	292.2	1.4	1.5	0.9	16.5
3/11E	53,041	15,683	62.6	38.2	6.6	341.9	1.2	1.3	1.0	19.7
3/12E	60,949	18,081	72.2	15.3	5.7	399.5	1.0	1.1	1.0	19.5
3/13E	69,967	20,689	82.6	14.4	5.0	464.5	0.9	0.9	0.9	19.1

- We expect business growth to be in line with industry trend. NII is likely to grow 25%+ YoY.
- Sustenance of NIM at 2QFY11 levels of 3.3% would be a key challenge for OBC, given relatively low CASA mix and high proportion of bulk depoists. We expect margins to moderate, as the rise in cost of funds would be higher.
- Fee income growth would track loan growth but non-interest income is likely to remain muted YoY due to lower trading profit. In 3QFY10, OBC's trading gains were Rs510m.
- Operating expenses are likely to grow 6% YoY on a higher base (had provided Rs1.1b on account of wage revision in 3QFY10). The bank would continue to provide Rs500m on account of increase in gratuity limit (FY11 liability of Rs2b). It has not yet guided for final liability towards second pension option but is carrying ad-hoc provision of Rs3.6b (being excess provisions made for wage arrears).
- We have factored in higher provision of Rs2.4b to account for pressure emanating from higher slippages in restructured accounts and MTM loss on AFS book (~25% mix with duration of 4.1 years).
- The stock trades at 1x FY12E BV and 5.7x FY12E EPS. Maintain **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Interest Income	24,042	24,958	26,716	26,855	28,308	29,919	32,468	35,600	102,571	126,295
Interest Expense	19,201	19,347	17,987	16,961	17,736	19,148	21,446	24,336	73,497	82,665
Net Interest Income	**4,842**	**5,611**	**8,729**	**9,894**	**10,572**	**10,771**	**11,022**	**11,264**	**29,074**	**43,629**
% Change (Y-o-Y)	8.4	8.0	53.7	114.9	118.4	92.0	26.3	13.9	45.6	50.1
Other Income	3,919	3,051	2,377	2,654	2,147	2,141	2,500	2,624	12,000	9,412
Net Income	**8,760**	**8,662**	**11,106**	**12,548**	**12,720**	**12,912**	**13,522**	**13,888**	**41,075**	**53,041**
Operating Expenses	3,591	3,612	4,878	4,779	4,497	4,853	5,107	5,290	16,860	19,747
Operating Profit	**5,169**	**5,049**	**6,228**	**7,769**	**8,223**	**8,060**	**8,414**	**8,597**	**24,215**	**33,294**
% Change (Y-o-Y)	46.1	24.1	61.2	44.3	59.1	59.6	35.1	10.7	43.7	37.5
Other Provisions	1,514	551	1,921	4,174	2,280	2,263	2,400	2,589	8,176	9,531
Profit before Tax	**3,656**	**4,498**	**4,307**	**3,595**	**5,943**	**5,796**	**6,014**	**6,009**	**16,039**	**23,763**
Tax Provisions	1,082	1,789	1,413	425	2,310	1,820	1,985	1,964	4,692	8,079
Net Profit	**2,574**	**2,709**	**2,894**	**3,170**	**3,633**	**3,977**	**4,030**	**4,044**	**11,347**	**15,683**
% Change (Y-o-Y)	16.7	14.3	14.8	61.9	41.1	46.8	39.2	27.6	25.3	38.2
Interest Exp/Interest Income (%)	79.9	77.5	67.3	63.2	62.7	64.0	66.1	68.4	71.7	65.5
Other Income/Net Income (%)	44.7	35.2	21.4	21.2	16.9	16.6	18.5	18.9	29.2	17.7
Cost/Income Ratio (%)	41.0	41.7	43.9	38.1	35.4	37.6	37.8	38.1	41.0	37.2
Provisions/Operating Profits (%)	29.3	10.9	30.8	53.7	27.7	28.1	28.5	30.1	33.8	28.6
Tax Rate (%)	29.6	39.8	32.8	11.8	38.9	31.4	33.0	32.7	29.3	34.0

E: MOSL Estimates

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Punjab National Bank

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	PNB IN
Equity Shares (m)	315.3
52 Week Range (Rs)	1,395 / 842
1,6,12 Rel Perf (%)	-7 / 1 / 18
Mcap (Rs b)	382.8
Mcap (USD b)	8.5

CMP: Rs1,214 **Buy**

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GR. (%)	P/E (X)	BV (RS)	P/BV (X)	P/ABV (X)	ROAA (%)	ROAE (%)
3/10A	120,882	39,054	123.9	26.4	9.8	514.8	2.4	2.5	1.4	26.6
3/11E	152,037	45,150	143.2	15.6	8.5	628.7	1.9	2.0	1.4	25.0
3/12E	178,340	56,257	178.4	24.6	6.8	770.5	1.6	1.7	1.4	25.5
3/13E	209,516	68,238	216.4	21.3	5.6	942.7	1.3	1.4	1.4	25.3

- We expect PNB to continue with its strong growth momentum, with loans growing ~30% YoY and deposits growing 25% YoY. On the back of strong loan growth and healthy margins, we expect NII growth to be ~40% YoY.
- We expect other income to decline 3% YoY on account of lower trading profits. In 3QFY10, the bank had reported trading profit of Rs1.6b.
- Operating expenses are likely to grow 35% YoY, as the bank would continue to provide for employee related expenses. In 2QFY11, PNB had provided Rs2.5b towards pension and gratuity (equivalent amount in 1QFY11).
- The management has guided Rs4.8b gratuity-related liability (to be fully provided in FY11) and Rs25b towards second pension option. However, final disclosure relating to liability towards second pension option would be made in 3QFY11.
- We expect provisions to remain elevated at ~Rs3.8b, as slippages to remain in line with the trend of 1HFY11.
- The stock trades at 1.6x FY12E BV and 6.8x FY12E EPS. Maintain **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Interest Income	51,441	53,045	53,885	56,076	59,716	64,554	70,393	74,250	214,669	268,914
Interest Expense	33,456	33,123	31,764	31,097	33,733	34,787	39,218	42,736	129,440	150,474
Net Interest Income	**17,985**	**19,922**	**22,121**	**24,980**	**25,983**	**29,767**	**31,175**	**31,514**	**85,229**	**118,440**
% Change (Y-o-Y)	24.5	16.4	12.4	31.0	44.5	49.4	40.9	26.2	24.8	39.0
Other Income	10,334	7,713	8,480	9,346	8,917	7,183	8,329	9,168	35,653	33,597
Net Income	**28,320**	**27,636**	**30,601**	**34,326**	**34,901**	**36,950**	**39,504**	**40,683**	**120,882**	**152,037**
Operating Expenses	12,626	11,573	12,419	11,001	13,919	15,949	16,746	17,516	47,619	64,130
Operating Profit	**15,693**	**16,063**	**18,182**	**23,325**	**20,982**	**21,001**	**22,758**	**23,166**	**73,263**	**87,907**
% Change (Y-o-Y)	59.7	17.4	0.7	46.9	33.7	30.7	25.2	-0.7	28.7	20.0
Other Provisions	3,018	2,160	2,819	6,219	5,341	5,160	5,475	5,534	14,215	21,511
Profit before Tax	**12,676**	**13,903**	**15,363**	**17,106**	**15,640**	**15,841**	**17,283**	**17,632**	**59,048**	**66,397**
Tax Provisions	4,355	4,634	5,250	5,756	4,958	5,095	5,334	5,860	19,994	21,247
Net Profit	**8,321**	**9,270**	**10,113**	**11,350**	**10,683**	**10,746**	**11,950**	**11,772**	**39,054**	**45,150**
% Change (Y-o-Y)	62.4	31.1	0.5	31.1	28.4	15.9	18.2	3.7	26.4	15.6
Interest Exp/Interest Income (%)	65.0	62.4	58.9	55.5	56.5	53.9	55.7	57.6	60.3	56.0
Other Income/Net Income (%)	36.5	27.9	27.7	27.2	25.6	19.4	21.1	22.5	29.5	22.1
Cost/Income Ratio (%)	44.6	41.9	40.6	32.0	39.9	43.2	42.4	43.1	39.4	42.2
Provisions/Operating Profits (%)	19.2	13.4	15.5	26.7	25.5	24.6	24.1	23.9	19.4	24.5
Tax Rate (%)	34.4	33.3	34.2	33.6	31.7	32.2	30.9	33.2	33.9	32.0

E: MOSL Estimates, Yearly numbers vary with full year number on account of reclassification

Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com)/Abhishek Agarwal (Abhishek.Agarwal@MotilalOswal.com)

Rural Electrification Corp

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	RECL IN
Equity Shares (m)	987.5
52 Week Range (Rs)	410 / 205
1,6,12 Rel Perf (%)	-19 / -16 / 9
Mcap (Rs b)	288.2
Mcap (USD b)	6.4

CMP: Rs292 **Buy**

YEAR END	NET INCOME (RS M)	ADJ PAT (RS M)	EPS (RS)	EPS GR. (%)	P/E (X)	BV (RS)	P/BV (X)	ROAA (%)	ROAE (%)
3/10A	28,115	20,014	20.3	23.3	14.4	112	2.6	3.4	22.0
3/11E	34,604	24,361	24.7	21.7	11.8	127	2.3	3.3	20.6
3/12E	41,113	29,030	29.4	19.2	9.9	145	2.0	3.3	21.6
3/13E	47,940	33,949	34.4	16.9	8.5	165	1.8	3.3	22.1

Assuming dilution of 15% in FY10 at Rs203/share

- We expect loan growth to remain strong at 24-25% YoY in 3QFY11.
- Strong loan growth coupled with stable spreads on a YoY basis (spreads to decline marginally on a sequential basis, due to rising interest rates) will lead to NII growth of ~29% YoY.
- While the increase in cost of funds would not have meaningful impact on spreads in 3QFY11, persistent tight liquidity scenario and resultant increase in cost of wholesale borrowings would lead to decline in spreads going forward.
- Exchange fluctuation gains of Rs273m booked in 2QFY11 may be absent in 3QFY11. Overall, we expect profit growth of ~28% YoY.
- The stock trades at 1.9x FY12E BV and 9.5x FY12E EPS. Maintain **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Interest Income	14,494	15,324	16,532	17,959	18,771	19,877	21,169	22,029	64,309	81,845
Interest Expenses	8,735	9,413	10,279	10,685	11,012	12,076	13,102	13,997	38,961	50,187
Net Interest Income	**5,759**	**5,911**	**6,254**	**7,274**	**7,758**	**7,801**	**8,067**	**8,032**	**25,348**	**31,658**
YoY Gr %	41.8	36.0	40.2	51.0	34.7	32.0	29.0	10.4	42.6	24.9
Other Operational Income	115	512	185	377	225	390	375	458	1,189	1,448
Net Operational Income	**5,874**	**6,423**	**6,438**	**7,651**	**7,984**	**8,191**	**8,442**	**8,490**	**26,537**	**33,106**
YoY Gr %	42.6	43.4	40.3	40.9	35.9	27.5	31.1	11.0	41.9	24.8
Other Income	480	393	345	360	292	555	280	371	1,578	1,497
Total Net Income	**6,354**	**6,816**	**6,783**	**8,011**	**8,275**	**8,746**	**8,722**	**8,861**	**28,115**	**34,604**
YoY Gr %	44.8	35.6	39.1	35.3	30.2	28.3	28.6	10.6	37.6	23.1
Operating Expenses	**300**	**351**	**338**	**482**	**343**	**385**	**435**	**496**	**1,620**	**1,659**
YoY Gr %	20.2	-10.7	20.7	131.9	14.3	9.7	28.7	3.0	34.1	2.4
% to Income	4.7	5.1	5.0	6.0	4.1	4.4	5.0	5.6	5.8	4.8
Operating Profit	**6,054**	**6,466**	**6,445**	**7,529**	**7,933**	**8,361**	**8,287**	**8,365**	**26,495**	**32,945**
YoY Gr %	46.3	39.5	40.2	31.8	31.0	29.3	28.6	11.1	37.8	24.3
Provisions	1	1	0	0	0	1	8	16	2	25
PBT	**6,053**	**6,465**	**6,445**	**7,529**	**7,933**	**8,360**	**8,279**	**8,349**	**26,493**	**32,920**
YoY Gr %	46.6	39.5	35.9	32.4	31.1	29.3	28.4	10.9	38.0	24.3
Tax	**1,340**	**1,521**	**1,705**	**1,917**	**2,059**	**2,178**	**2,194**	**2,129**	**6,478**	**8,559**
Tax Rate %	22.1	23.5	26.4	25.5	26.0	26.0	26.5	25.5	24.5	26.0
PAT	**4,713**	**4,944**	**4,741**	**5,612**	**5,874**	**6,182**	**6,085**	**6,220**	**20,014**	**24,361**
YoY Gr %	72.9	69.6	48.8	44.6	24.6	25.1	28.4	10.8	57.3	21.7

E:MOSL Estimates; Quarterly and annual numbers would not match due to differences in classification

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Shriram Transport Finance

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	SHTF IN
Equity Shares (m)	225.5
52 Week Range (Rs)	900 / 427
1,6,12 Rel Perf (%)	-10 / 17 / 51
Mcap (Rs b)	176.2
Mcap (USD b)	3.9

CMP: Rs781 **Buy**

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GR. (%)	P/E (X)	BV (RS)	P/BV (X)	P/ABV (X)	ROAA (%)	ROAE (%)
3/10A	22,528	8,731	38.7	28.7	20.2	170.0	4.6	4.6	2.8	28.6
3/11E	31,867	12,881	57.1	47.5	13.7	216.8	3.6	3.7	3.5	29.5
3/12E	38,734	15,465	68.6	20.1	11.4	272.9	2.9	2.9	3.4	28.0
3/13E	46,113	18,292	81.1	18.3	9.6	339.3	2.3	2.3	3.3	26.5

- Net income including securitization income is likely to grow 35%+ YoY, led by robust AUM growth and YoY improvement in margins.
- Increase in bulk borrowing rates would impact cost of funds. However, STF would continue to securitize part of its assets to limit the impact on margins.
- We model in operating profit growth of 37% YoY, led by higher net income growth and stable C/I ratio on a YoY basis.
- We estimate PAT growth of 40%+ YoY. Improved outlook on asset quality and comfortable provision coverage ratio of ~81% would limit provisioning requirement.
- The stock trades at 2.9x FY12E BV and 11.4x FY12E EPS, with FY10-12E RoE of 28%+. Maintain **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Interest Income	9,038	9,476	10,264	8,742	8,740	9,562	10,996	12,938	37,520	42,236
Interest Expenses	5,384	5,248	5,708	5,522	5,450	5,578	6,554	7,989	21,862	25,571
Net Interest Income	**3,654**	**4,227**	**4,557**	**3,221**	**3,289**	**3,984**	**4,442**	**4,949**	**15,658**	**16,665**
Y-o-Y Growth (%)	13.2	14.8	34.7	-15.2	-10.0	-5.8	-2.5	53.7	11.1	6.4
Securitization Income	1,037	1,044	1,208	3,242	3,725	3,543	3,383	3,291	6,531	13,942
Net Income (Inc. Securitization)	**4,691**	**5,272**	**5,765**	**6,462**	**7,014**	**7,527**	**7,826**	**8,240**	**22,189**	**30,607**
Y-o-Y Growth (%)	14.3	19.1	36.2	43.5	49.5	42.8	35.7	27.5	28.5	37.9
Fees and Other Income	182	140	154	189	360	232	284	385	666	1,260
Net Operating Income	**4,873**	**5,412**	**5,919**	**6,651**	**7,374**	**7,759**	**8,109**	**8,625**	**22,855**	**31,867**
Y-o-Y Growth (%)	16.6	20.0	37.2	42.2	51.3	43.4	37.0	29.7	29.3	39.4
Operating Expenses	1,454	1,227	1,318	1,513	1,748	2,034	1,878	1,921	5,512	7,581
Operating Profit	**3,418**	**4,185**	**4,601**	**5,139**	**5,626**	**5,725**	**6,231**	**6,704**	**17,343**	**24,286**
Y-o-Y Growth (%)	17.8	34.4	52.3	62.1	64.6	36.8	35.4	30.5	42.1	40.0
Provisions	949	1,122	1,014	1,012	1,281	1,264	1,250	1,266	4,096	5,060
Profit before Tax	**2,469**	**3,063**	**3,588**	**4,127**	**4,345**	**4,461**	**4,981**	**5,438**	**13,247**	**19,225**
Tax Provisions	825	988	1,219	1,482	1,456	1,472	1,644	1,773	4,515	6,344
Net Profit	**1,644**	**2,075**	**2,369**	**2,645**	**2,889**	**2,990**	**3,337**	**3,665**	**8,732**	**12,881**
Y-o-Y Growth (%)	14.5	25.3	58.6	71.9	75.7	44.1	40.9	38.5	42.6	47.5
Int Exp/ Int Earned (%)	59.6	55.4	55.6	63.2	62.4	58.3	59.6	61.7	58.3	60.5
Securitization Income/Net Income (%)	21.3	19.3	20.4	48.7	50.5	45.7	41.7	38.2	28.6	43.8
Cost to Income Ratio (%)	29.8	22.7	22.3	22.7	23.7	26.2	23.2	22.3	24.1	23.8
Tax Rate (%)	33.4	32.3	34.0	35.9	33.5	33.0	33.0	32.6	34.1	33.0

E: MOSt Estimates; * Quaterly nos and full year nos will not tally due to different way of reporting financial nos

Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com)/Abhishek Agarwal (Abhishek.Agarwal@MotilalOswal.com)

South Indian Bank

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	SIB IN
Equity Shares (m)	1,130.1
52 Week Range (Rs)	30 / 13
1,6,12 Rel Perf (%)	-11 / 36 / 53
Mcap (Rs b)	27.6
Mcap (USD b)	0.6

CMP: Rs24 — Buy

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GR. (%)	P/E (X)	BV (RS)	P/BV (X)	P/ABV (X)	ROAA (%)	ROAE (%)
3/10A	7,768	2,338	2.1	20.0	11.8	13.1	1.9	1.9	1.0	16.8
3/11E	9,653	2,747	2.4	17.5	10.1	15.0	1.6	1.7	1.0	17.3
3/12E	11,713	3,278	2.9	19.3	8.4	17.2	1.4	1.5	0.9	18.0
3/13E	14,195	4,086	3.6	24.7	6.8	19.9	1.2	1.3	0.9	19.5

- On a reported basis, we expect NII to grow ~20% YoY. However, adjusted for the technical error on interest expense counting in 3QFY10 (interest expense was under-stated by Rs242m), NII would grow ~40% YoY. Strong loan growth (~30% YoY) and improvement in margins would drive strong NII growth.
- We expect fee-based income to grow 25%+ YoY. However, due to lower trading gains, non-interest income would grow 10% YoY.
- While we expect asset quality to remain strong, being conservative, we have built in higher NPA provision. Upside to our estimate could emanate from lower provision.
- Reported profit is likely to grow ~15% YoY. Adjusted for the technical error in interest expense counting (Rs160m post tax), we expect PAT to grow ~50%+ YoY.
- The stock trades at 1.4x FY12E BV and 8.4x FY12E EPS, with RoE at ~18%. Maintain **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Interest Income	4,653	4,689	4,878	5,138	5,401	5,795	6,411	7,178	19,357	24,786
Interest Expense	3,128	3,037	3,160	4,349	3,728	3,822	4,357	5,056	13,674	16,963
Net Interest Income	**1,524**	**1,652**	**1,718**	**789**	**1,674**	**1,973**	**2,054**	**2,122**	**5,683**	**7,823**
% Change (Y-o-Y)	48.3	28.5	17.5	-46.7	9.8	19.4	19.6	169.0	8.7	37.6
Other Income	560	655	431	439	417	449	470	495	2,085	1,830
Net Income	**2,084**	**2,307**	**2,149**	**1,227**	**2,090**	**2,422**	**2,524**	**2,617**	**7,768**	**9,653**
% Change (Y-o-Y)	52.1	39.9	11.6	-36.2	0.3	5.0	17.4	113.2	13.0	24.3
Operating Expenses	1,015	968	967	711	1,046	1,174	1,205	1,232	3,662	4,657
Operating Profit	**1,069**	**1,339**	**1,182**	**516**	**1,044**	**1,248**	**1,319**	**1,385**	**4,106**	**4,996**
% Change (Y-o-Y)	54.1	44.0	18.0	-46.4	-2.3	-6.8	11.6	168.5	14.5	21.7
Other Provisions	104	165	195	-31	167	68	235	364	433	834
Profit before Tax	**965**	**1,174**	**987**	**547**	**877**	**1,180**	**1,084**	**1,021**	**3,673**	**4,162**
Tax Provisions	364	448	363	161	293	410	369	344	1,336	1,415
Net Profit	**601**	**726**	**625**	**386**	**584**	**770**	**715**	**677**	**2,338**	**2,747**
% Change (Y-o-Y)	55.6	40.3	15.2	-23.2	-2.8	6.1	14.5	75.3	20.0	17.5
Interest Exp./Interest Income (%)	67.2	64.8	64.8	84.6	69.0	66.0	68.0	70.4	70.6	68.4
Other Income/Net Income (%)	26.9	28.4	20.1	35.7	19.9	18.5	18.6	18.9	26.8	19.0
Cost to Income Ratio (%)	48.7	42.0	45.0	58.0	50.1	48.5	47.7	47.1	47.1	48.2
Provisions/Operating Profits (%)	9.8	12.3	16.5	-6.0	16.0	5.5	17.8	26.3	10.5	16.7
Tax Rate (%)	37.7	38.2	36.7	29.4	33.4	34.7	34.0	33.7	36.4	34.0

E: MOSL Estimates

Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com)/Abhishek Agarwal (Abhishek.Agarwal@MotilalOswal.com)

State Bank of India

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	SBIN IN
Equity Shares (m)	634.9
52 Week Range (Rs)	3,515 / 1,863
1,6,12 Rel Perf (%)	-7 / 4 / 9
Mcap (Rs b)	1,749.0
Mcap (USD b)	38.8

CMP: Rs2,755 **Buy**

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	CONS. EPS (RS)	CONS. P/E (X)*	CONS. BV (RS)	CONS. P/BV (X)*	CONS. P/ABV (X)*	ROAA (%)	ROAE (%)
3/10A	386,396	91,661	144.4	184.8	14.3	1,267.8	2.1	2.3	0.9	14.8
3/11E	486,658	108,254	170.5	203.7	12.9	1,430.6	1.8	2.0	0.9	15.5
3/12E	572,686	134,360	211.6	263.5	9.9	1,641.5	1.6	1.7	1.0	17.0
3/13E	677,280	170,347	268.3	336.6	7.9	1,919.5	1.4	1.5	1.1	18.7

** valuation multiples are adjusted for SBI Life*

- We expect sequential loan growth to be in line with industry. On a YoY basis, we expect loan growth of 20%+ and deposit growth of 17%+. Global CD ratio is likely to remain at 80%+ and domestic CD ratio at ~75%.
- Margins are likely to moderate from 2QFY11 levels of ~3.4%, as the bank has not raised lending rates to compensate for the rise in cost of liabilities. Continued traction in CASA ratio may lead to better than expected NII growth. On a lower base, we expect NII to grow ~33% YoY.
- We expect overall non-interest income to grow 15% YoY, though fee income traction is likely to remain strong. In 1HFY11, the bank reported fee income growth of 35% YoY. In 3QFY10, it reported trading profits of Rs4.4b, which should decline sharply.
- Asset quality is likely to remain stable in 3QFY11, but we expect bank to make higher provisioning to meet with 70% PCR as stipulated by RBI. Lower than expected slippages and higher upgradation and recoveries could provide upside to our earnings estimates.
- PCR including technical write-off was 62.8% and shortfall of Rs23b to reach 70% limit would be spread over next four quarters. Additionally, the bank would be required to provide for increase in standard asset provisioning on dual rate housing loans to 2% v/s 0.4%.
- Adjusted for value of Insurance business (Rs140/share), the stock trades at 1.6x FY12E consolidated BV and 9.9x FY12E consolidated EPS. Maintain **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Interest Income	174,728	177,759	177,797	179,656	184,522	198,081	212,146	226,840	709,939	821,589
Interest Expense	124,479	121,671	114,634	112,442	111,484	116,932	128,230	139,095	473,225	495,741
Net Interest Income	**50,249**	**56,088**	**63,163**	**67,214**	**73,038**	**81,149**	**83,916**	**87,745**	**236,714**	**325,848**
% Change (Y-o-Y)	4.3	2.8	9.7	38.8	45.4	44.7	32.9	30.5	13.4	37.7
Other Income	35,688	35,252	33,657	45,085	36,900	40,052	38,652	45,206	149,682	160,810
Net Income	**85,936**	**91,340**	**96,820**	**112,300**	**109,938**	**121,201**	**122,568**	**132,951**	**386,396**	**486,658**
% Change (Y-o-Y)	-10.1	6.3	6.0	16.0	-2.1	10.2	1.1	8.5	15.1	25.9
Operating Expenses	49,198	42,990	50,639	60,361	48,593	57,631	64,177	68,967	203,187	239,367
Operating Profit	**36,739**	**48,350**	**46,181**	**51,939**	**61,345**	**63,570**	**58,391**	**63,985**	**183,209**	**247,291**
% Change (Y-o-Y)	-7.3	15.3	3.0	-1.6	67.0	31.5	26.4	23.2	2.3	35.0
Other Provisions	1,727	10,161	8,566	23,494	15,514	26,215	19,950	21,592	43,948	83,270
Profit before Tax	**35,011**	**38,190**	**37,615**	**28,445**	**45,831**	**37,355**	**38,441**	**42,393**	**139,261**	**164,020**
Tax Provisions	11,708	13,289	12,825	9,779	16,688	12,342	12,686	14,052	47,600	55,767
Net Profit	**23,304**	**24,900**	**24,791**	**18,666**	**29,143**	**25,014**	**25,756**	**28,341**	**91,661**	**108,254**
% Change (Y-o-Y)	42.0	10.2	0.0	-31.9	25.1	0.5	3.9	51.8	0.5	18.1
Interest Exp/Interest Income (%)	71.2	68.4	64.5	62.6	60.4	59.0	60.4	61.3	66.7	60.3
Other Income/Net Income (%)	41.5	38.6	34.8	40.1	33.6	33.0	31.5	34.0	38.7	33.0
Cost/Income Ratio (%)	57.2	47.1	52.3	53.7	44.2	47.5	52.4	51.9	52.6	49.2
Provisions/Operating Profits (%)	4.7	21.0	18.5	45.2	25.3	41.2	34.2	33.7	24.0	33.7
Tax Rate (%)	33.4	34.8	34.1	34.4	36.4	33.0	33.0	33.1	34.2	34.0

E: MOSL Estimates

Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com)/Abhishek Agarwal (Abhishek.Agarwal@MotilalOswal.com)

Union Bank of India

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	UNBK IN
Equity Shares (m)	505.1
52 Week Range (Rs)	427 / 237
1,6,12 Rel Perf (%)	-13 / -9 / 6
Mcap (Rs b)	164.3
Mcap (USD b)	3.6

CMP: Rs325 — Buy

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GR. (%)	P/E (X)	BV (RS)	P/BV (X)	P/ABV (X)	ROAA (%)	ROAE (%)
3/10A	61,672	20,749	41.1	20.2	7.9	174.4	1.9	2.0	1.2	26.2
3/11E	78,077	20,048	39.5	-3.8	8.2	206.0	1.6	1.7	0.9	20.8
3/12E	91,361	25,045	49.4	25.0	6.6	245.6	1.3	1.4	1.0	21.9
3/13E	106,991	30,408	60.0	21.5	5.4	293.6	1.1	1.2	1.0	22.3

- Business growth is likely to remain strong. We expect better than industry loan growth on a QoQ basis and 25%+ loan growth on a YoY basis.
- NII is likely to grow ~40% YoY, led by margin expansion and strong loan growth. On a sequential basis, we expect NII to decline ~3%, with margin contraction. In 2QFY11, the bank had reported interest income on IT refund of Rs1.2b and reversed Rs600m for higher NPAs.
- We model flat non-interest income on a YoY basis. The bank had reported higher forex gain in 3QFY10, which should moderate in 3QFY11. Operating expenses would increase 45% YoY, as the bank continues to provide for gratuity and pension liabilities.
- In 3QFY11, we expect pressure on asset quality to ease off and slippages to decline QoQ basis. Accordingly, we estimate provisioning expenses of Rs2.5b compared to Rs6b in 2QFY11.
- Due to higher operating and provisioning expenses on a YoY basis, we expect PAT to remain flat YoY. Higher upgradations and better than expected margin performance could provide upside to our estimates.
- The stock trades at 1.3x FY12E BV and 6.6x FY12E EPS. Maintain **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Interest Income	31,908	32,056	32,936	35,617	36,857	39,522	41,200	45,716	133,027	163,295
Interest Expense	23,737	23,420	22,289	21,656	23,376	24,164	26,364	30,438	91,103	104,343
Net Interest Income	**8,172**	**8,636**	**10,647**	**13,961**	**13,480**	**15,358**	**14,836**	**15,278**	**41,924**	**58,952**
% Change (Y-o-Y)	3.6	-11.2	-5.4	50.7	65.0	77.8	39.3	9.4	9.9	40.6
Other Income	5,132	5,553	4,648	4,925	4,350	5,096	4,592	5,087	19,747	19,125
Net Income	**13,303**	**14,189**	**15,294**	**18,887**	**17,830**	**20,455**	**19,428**	**20,364**	**61,672**	**78,077**
Operating Expenses	5,429	6,086	6,152	7,411	7,393	9,149	8,900	9,196	25,078	34,638
Operating Profit	**7,875**	**8,103**	**9,142**	**11,475**	**10,437**	**11,306**	**10,528**	**11,168**	**36,593**	**43,439**
% Change (Y-o-Y)	27.8	15.8	7.0	25.9	32.5	39.5	15.2	-2.7	18.7	18.7
Other Provisions	1,903	1,350	1,611	3,400	1,973	5,989	2,550	3,445	8,264	13,957
Profit before Tax	**5,972**	**6,753**	**7,531**	**8,075**	**8,464**	**5,317**	**7,978**	**7,723**	**28,329**	**29,482**
Tax Provisions	1,550	1,700	2,190	2,140	2,450	2,284	2,473	2,228	7,580	9,434
Net Profit	**4,422**	**5,053**	**5,341**	**5,935**	**6,014**	**3,034**	**5,505**	**5,495**	**20,749**	**20,048**
% Change (Y-o-Y)	93.7	39.8	-20.5	27.6	36.0	-40.0	3.1	-7.4	20.2	-3.4
Interest Exp/Interest Income (%)	74.4	73.1	67.7	60.8	63.4	61.1	64.0	66.6	68.5	63.9
Other Income/Net Income (%)	38.6	39.1	30.4	26.1	24.4	24.9	23.6	25.0	32.0	24.5
Cost/Income Ratio (%)	40.8	42.9	40.2	39.2	41.5	44.7	45.8	45.2	40.7	44.4
Provisions/Operating Profits (%)	24.2	16.7	17.6	29.6	18.9	53.0	24.2	30.9	22.6	32.1
Tax Rate (%)	26.0	25.2	29.1	26.5	28.9	42.9	31.0	28.8	26.8	32.0

E: MOSL Estimates

Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com)/Abhishek Agarwal (Abhishek.Agarwal@MotilalOswal.com)

Yes Bank

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	YES IN
Equity Shares (m)	339.7
52 Week Range (Rs)	388 / 223
1,6,12 Rel Perf (%)	-6 / 0 / -2
Mcap (Rs b)	104.6
Mcap (USD b)	2.3

CMP: Rs308 — Buy

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GR. (%)	P/E (X)	BV (RS)	P/BV (X)	P/ABV (X)	ROAA (%)	ROAE (%)
3/10A	13,635	4,777	14.1	37.5	21.9	91.0	3.4	3.4	1.6	20.3
3/11E	18,698	7,147	21.0	49.6	14.6	109.7	2.8	2.8	1.6	21.0
3/12E	25,236	9,221	27.1	29.0	11.3	133.9	2.3	2.3	1.4	22.3
3/13E	32,879	11,574	34.1	25.5	9.0	164.4	1.9	1.9	1.3	22.8

- We expect strong momentum in business growth to continue (increase of 80%+ YoY). NII growth would, however, be lower at ~52% YoY on account of expected compression in margins.
- Low CASA mix and higher proportion of wholesale funds would result in higher pressure on cost of funds for Yes Bank.
- Non-interest income is likely to grow 20%+ YoY on a higher base. Strong improvement in capital markets and pick-up in economic activities augurs well for various streams of fee income.
- GNPA ratio of 22bp and provision coverage ratio of 75% are among the best in the industry. However, asset quality concerns emerging from exposure towards telecom, MFI and commercial real estate needs to be watch for.
- The stock trades at 2.3x FY12E BV and 11.3x FY12E EPS. Maintain **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Interest Income	5,358	5,430	6,264	6,646	7,392	9,538	11,603	14,039	23,697	42,573
Interest Expense	3,789	3,670	4,154	4,204	4,771	6,406	8,392	10,772	15,818	30,342
Net Interest Income	**1,568**	**1,760**	**2,109**	**2,442**	**2,621**	**3,132**	**3,211**	**3,267**	**7,880**	**12,231**
% Change (Y-o-Y)	38.8	43.6	69.5	62.9	67.1	77.9	52.2	33.8	54.7	55.2
Other Income	1,521	1,355	1,278	1,601	1,438	1,310	1,550	2,168	5,755	6,467
Net Income	**3,089**	**3,115**	**3,387**	**4,043**	**4,059**	**4,442**	**4,761**	**5,436**	**13,635**	**18,698**
Operating Expenses	1,111	1,197	1,226	1,467	1,570	1,628	1,740	1,859	5,002	6,796
Operating Profit	**1,978**	**1,918**	**2,162**	**2,576**	**2,490**	**2,814**	**3,021**	**3,577**	**8,633**	**11,902**
% Change (Y-o-Y)	116.4	95.8	17.2	67.3	25.9	46.7	39.8	38.9	63.6	37.9
Other Provisions	455	234	254	426	126	174	225	629	1,368	1,154
Profit before Tax	**1,523**	**1,684**	**1,908**	**2,150**	**2,364**	**2,640**	**2,796**	**2,948**	**7,265**	**10,748**
Tax Provisions	522	567	649	750	800	877	937	986	2,487	3,601
Net Profit	**1,001**	**1,117**	**1,259**	**1,400**	**1,564**	**1,763**	**1,859**	**1,962**	**4,777**	**7,147**
% Change (Y-o-Y)	84.0	75.6	19.0	74.8	56.3	57.8	47.7	40.1	57.2	49.6
Interest Exp./Interest Income (%)	70.7	67.6	66.3	63.3	64.5	67.2	72.3	76.7	66.7	71.3
Other Income/Net Income (%)	49.2	43.5	37.7	39.6	35.4	29.5	32.6	39.9	42.2	34.6
Cost to Income Ratio (%)	36.0	38.4	36.2	36.3	38.7	36.6	36.5	34.2	36.7	36.3
Provisions/Operating Profits (%)	23.0	12.2	11.7	16.5	5.0	6.2	7.4	17.6	15.9	9.7
Tax Rate (%)	34.3	33.7	34.0	34.9	33.9	33.2	33.5	33.5	34.2	33.5

E: MOSL Estimates

Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com)/Abhishek Agarwal (Abhishek.Agarwal@MotilalOswal.com)

Cement

COMPANY NAME

ACC

Ambuja Cements

Birla Corporation

Grasim Industries

India Cements

Shree Cement

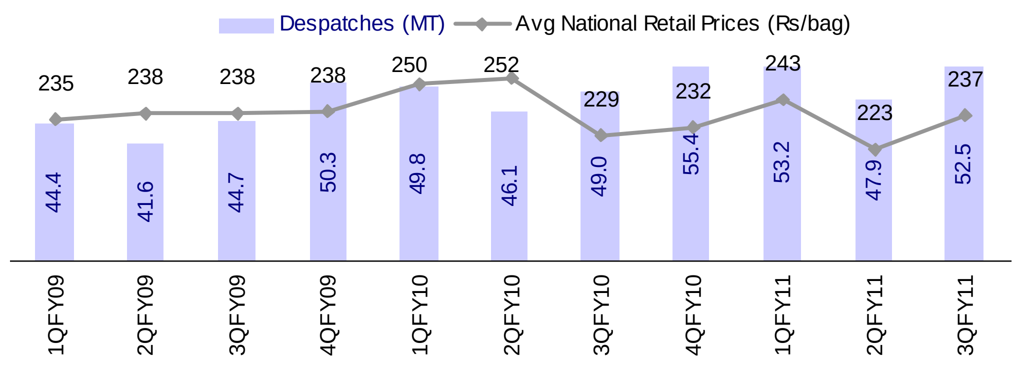
UltraTech Cement

Snapshot of 3QFY11 Cement Sector Preview

- 3QFY11 demand momentum was muted except for 18% growth in October 2010, and volume growth of 5.3% YoY (up 7.7% QoQ), implying 5.4% YTD growth.
- Domestic prices are expected to be higher by 6.2% QoQ and 3.4% YoY, reflecting significant price recovery since September 2010. The recovery is driven by cement producers' disciplined approach.
- Capacity utilization will improve QoQ to 74% (v/s 71% in 2QFY11 v/s 84% in 3QFY10), impacted by ~50mt capacity added in the past one year.
- 3QFY11 aggregate EBITDA margins are estimated to improve by 490bp QoQ (down 760bp YoY) benefiting from improved realizations.
- Cement prices have been under pressure since the end of November 2010, with an average drop in cement prices of Rs7-8/bag, impacted by muted demand and lack of production discipline except South India.
- While cement prices are expected to improve in 4QFY11, given lack of production discipline would impact short-term outlook. We believe we have witnessed bottom-of-the-cycle utilization, and utilization should gradually improve, going forward laying foundation for next upcycle. Among large-cap stocks, **ACC** is our top pick, and we prefer **Birla Corp** and **India Cements** among mid-caps.

Change (%)	Dispatches YoY	Dispatches QoQ	Prices YoY	Prices QoQ
3QFY11E	5.3	7.7	3.4	6.2
FY11YTD	5.4		-3.4	
FY11E	8.1		-2.1	
FY10	10.4		1.7	

Cement Industry Dynamics: Demand and price trends



Source: CMA/MOSL

Expected quarterly performance summary

(Rs million)

	CMP (Rs) 24.12.10	Rating	Sales Dec.10	Sales Var. % YoY	Sales Var. % QoQ	EBITDA Dec.10	EBITDA Var. % YoY	EBITDA Var. % QoQ	Net profit Dec.10	Net profit Var. % YoY	Net profit Var. % QoQ
Cement											
ACC	1,075	Buy	19,966	3.9	22.0	3,025	-29.6	78.1	1,852	-38.9	99.0
Ambuja Cements	141	Neutral	18,625	5.1	19.1	3,600	-17.1	27.1	2,141	-11.2	40.8
Birla Corporation	367	Buy	5,011	-10.3	3.5	1,014	-37.6	32.3	725	-35.5	5.1
Grasim Industries	2,286	Buy	12,086	-60.4	29.6	3,957	-59.9	50.0	3,079	-48.3	10.1
India Cements	105	Buy	9,058	4.8	7.7	1,283	10.1	348.0	318	17.2	LP
Shree Cement	1,991	Neutral	8,016	-7.4	11.7	1,718	-48.8	20.4	307	-81.8	107.3
Ultratech Cement	1,053	Neutral	38,231	131.4	18.9	7,131	85.9	74.9	3,259	66.3	181.5
Sector Aggregate			**110,992**	**3.9**	**18.2**	**21,728**	**-23.7**	**58.3**	**11,680**	**-29.0**	**71.1**

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MOSL Cement Universe: 3QFY11 performance at a glance

	Vol (m ton)	Growth (%)			Real (Rs/bag)	Change (%)		
	3QFY11E	YoY	YTD	FY11E	3QFY11E	YoY	QoQ	FY11E
ACC	5.6	4.9	-0.4	-1.0	177	-1.0	4.7	-2.4
Ambuja Cement	5.0	5.6	7.5	6.4	185	-0.5	2.8	-0.9
UltraTech	10.1	-30.3	-31.1	5.6	160	-1.8	8.5	-6.6
Birla Corp	1.5	-3.2	8.2	7.9	158	-8.4	1.3	-8.0
India Cement	2.5	-9.4	-1.7	0.2	172	13.9	18.5	0.0
Shree Cement	2.5	-4.4	-5.0	-1.0	155	-3.3	3.0	-6.5
Industry	**51.5**	**5.3**	**5.3**	**8.1**	**237**	**3.4**	**6.2**	**-2.1**

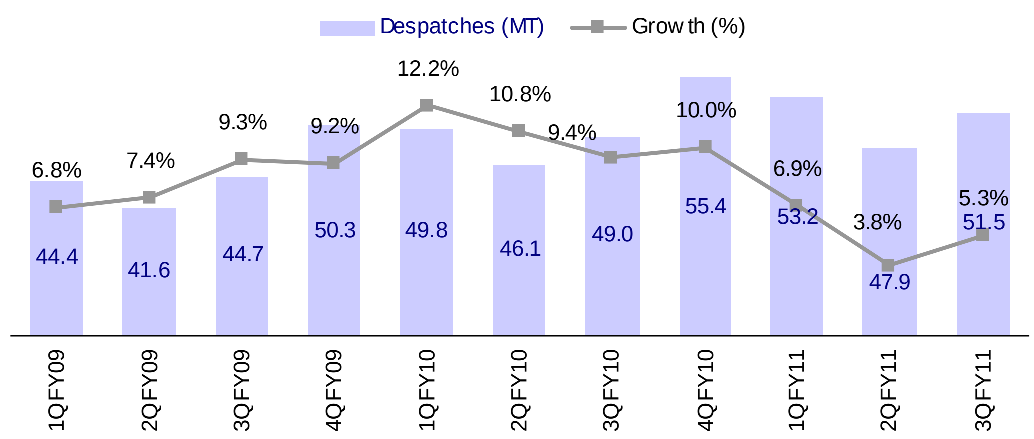
Source: CMA/MOSL

Demand muted, spurt in October drives 3QFY11 growth to 5.3%

3QFY11 demand momentum was sluggish, except for 18% growth in October 2010, which led to 5.3% growth for the quarter. Demand growth has been impacted by unseasonal rains, a slowdown in the southern region and lack of meaningful pick up from the organized real estate sector. With above-average monsoons, rural demand is expected to be strong. Overall, we are hopeful of demand momentum picking up from January.

Period	MT	Growth (%)
FY10	200	10.4
3QFY11	51.5	5.3
FY11YTD	152.6	5.3
FY11E	216.5	8.1

Volume growth muted at 5.3% in 3QFY11



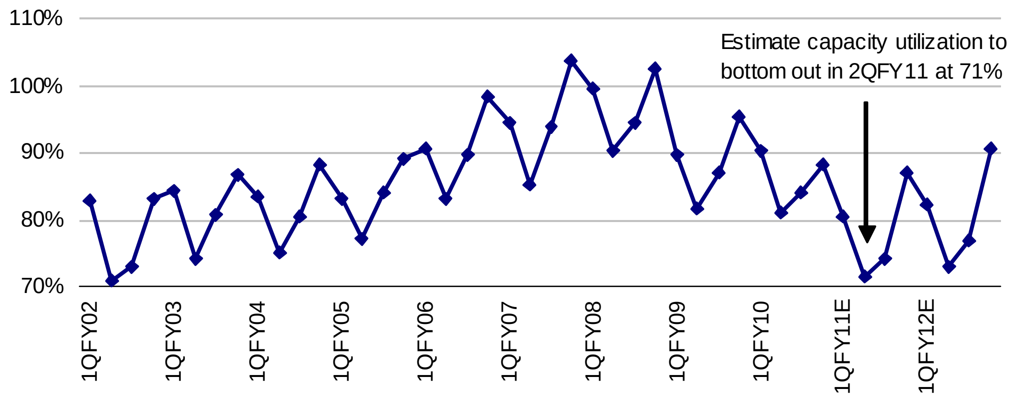
Source: CMA/MOSL

Cap utilization	%
FY09	92
FY10	86
3QFY11E	74
FY11YTD	75
FY11E	80

Seasonality, new capacity addition restrict capacity utilization to 74%

3QFY11 capacity utilization is estimated to be 74% (v/s 84% in 3QFY10 and 71% in 2QFY11), impacted by new capacity additions (~50mt in TTM) and low demand. The industry's capacity utilization is expected to ease from ~92% in FY09 to ~80% in FY11, due to a 46mt capacity addition over two years. However, we estimate 2QFY11 to be the bottom-of-the cycle utilization and expect gradual improvement in utilization from thereon.

Quarterly capacity utilization to recover from their lows of 2QFY11

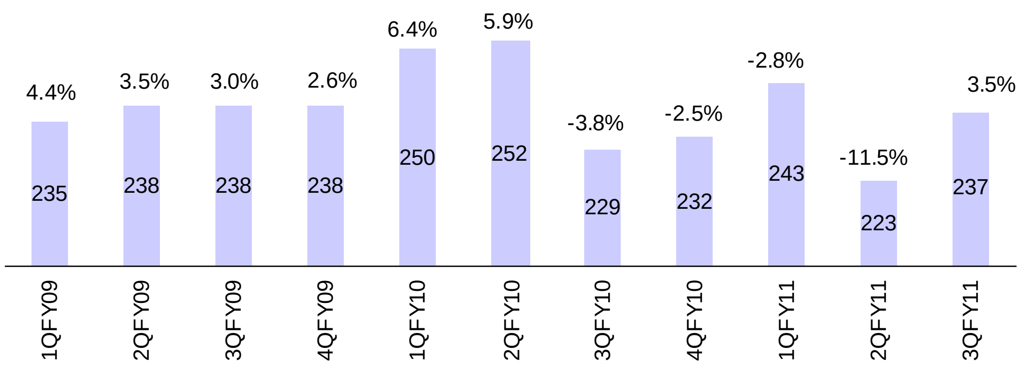


Source: CMA/MOSL

Strong price recovery over September-November...

3QFY11 domestic prices are expected to improve by 6.2% QoQ (from their bottom of 2QFY11) and by 3.4% YoY, driven by production discipline. However, muted demand put pressure on cement prices since the end of November, resulting in Rs7-8/bag decline in prices. Cement prices are expected to be highly volatile over 6-9 months, as demand improves gradually. We factor in Rs14/bag QoQ improvement in 3QFY11 and ~Rs5/bag QoQ recovery in 4QFY11, translating into ~Rs4/bag decline for FY11.

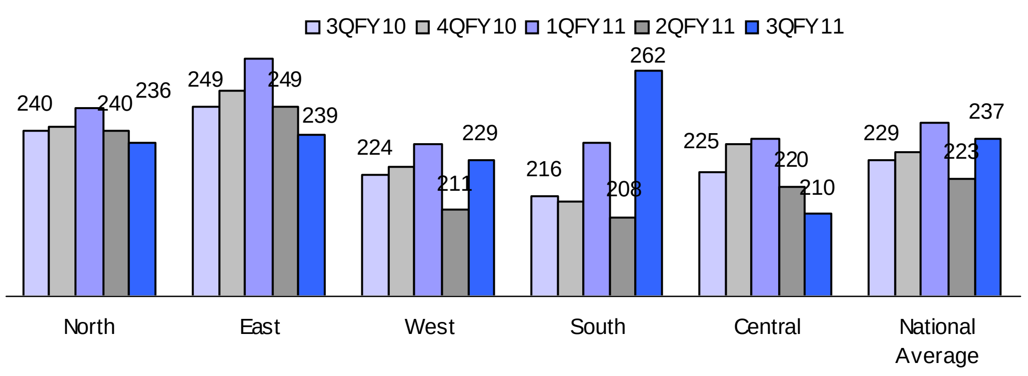
Cement prices recover in 3QFY11



Figures on top indicate YoY change

Source: CMA/MOSL

Trend in regional prices (Rs/bag)



Source: CMA/MOSL

... but muted demand puts pressure on production discipline and prices

The breakdown in production discipline (except in South India) due to weak demand has resulted in pricing pressure from end-November. While 3QFY11 average cement prices in southern region will recover by ~Rs55/bag QoQ and in western India they will recover by ~Rs13/bag QoQ, however prices in North India are expected to decline by Rs4/bag QoQ and by Rs10/bag QoQ in Central and East India.

Strong realizations, operating leverage to drive EBITDA by Rs197/ton QoQ

We estimate ~Rs197/ton QoQ improvement (~Rs330/ton YoY decline) in EBITDA/ton to ~Rs644/ton, driven by a recovery in realizations and operating leverage. A ~7.7% QoQ improvement in volumes for the industry due to seasonality would offset any impact of increased energy prices. Overall, we estimate ~Rs216/ton QoQ improvement in aggregate realizations and ~Rs197/ton QoQ improvement in EBITDA.

Trend in 3QFY11 key operating parameters

	Volume (m ton)			Realization (Rs/ton)			EBITDA (Rs/ton)		
	3QFY11	YoY (%)	QoQ (%)	3QFY11	YoY (Rs/t)	QoQ (Rs/t)	3QFY11	YoY (Rs/t)	QoQ (Rs/t)
ACC	5.6	4.9	16.5	3,550	-35	160	538	-264	186
Ambuja Cements	5.0	5.6	15.9	3,695	-18	100	714	-196	63
UltraTech *	10.1	3.5	10.2	3,192	-59	251	695	-483	257
Birla Corp	1.5	-3.2	4.7	3,159	-289	40	683	-476	60
India Cements	2.5	-9.4	-8.0	3,447	419	538	513	91	408
Shree Cement	2.5	-4.4	7.5	3,100	-104	90	642	-553	52
Sector Aggregate	**27.2**	**1.7**	**9.9**	**3,373**	**-11**	**216**	**644**	**-334**	**197**

* like to like basis Source: CMA/MOSL

Trend in 3QFY11 key financial parameters

	Net Sales (Rs m)			EBITDA Margin (%)			Net Profit (Rs m)		
	3QFY11	YoY (%)	QoQ (%)	3QFY11	YoY (bp)	QoQ (bp)	3QFY11	YoY (%)	QoQ (%)
ACC	19,966	3.9	22.0	15.2	-720	480	1,852	-38.9	99.0
Ambuja Cements	18,625	5.1	19.1	19.3	-520	120	2,141	-11.2	40.8
UltraTech *	38,231	3.8	18.9	18.7	-820	600	3,259	66.3	181.5
Birla Corp	5,011	-10.3	3.5	20.2	-880	440	725	-35.5	5.1
India Cements	9,058	4.8	7.7	14.2	70	1,080	318	17.2	-176.2
Shree Cement	8,016	-7.4	11.7	21.4	-1,730	150	307	-81.8	107.3
Sector Aggregate*	**98,905**	**2.3**	**16.9**	**18.0**	**-760**	**490**	**8,601**	**-17.9**	**113.4**

* like to like basis Source: CMA/MOSL

Revising estimates

We are revising our estimates to factor in the pricing environment and muted demand. Our estimates factor in ~Rs5/bag QoQ improvement in 4QFY11 and ~Rs5/bag increase in FY12 (over the FY11 average). We also factor in higher energy costs. Our estimates for ACC (~2.4%), Birla Corp (~3.9%) and Shree Cement (~11.5%) will witness downgrade, whereas Ambuja Cement (~2.1%), UltraTech (~3.3%) and India Cement (~7%) have witnessed an upgrade. While the Shree Cement downgrade is driven by a cut in volume estimates for cement and the merchant power business, the India Cement upgrade is driven by higher than estimated improvement in realizations despite a cut in volume estimates.

Revising Estimates (Rs)

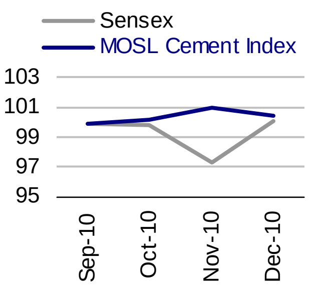
	FY11E			FY12E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
ACC	54.8	55.2	-0.8	61.7	63.2	-2.4
Ambuja Cements	7.7	7.6	1.4	8.4	8.3	2.1
Grasim	242.7	234.3	3.6	258.9	258.3	0.2
UltraTech	46.2	43.6	5.9	62.6	60.7	3.3
Birla Corp	51.1	55.0	-7.1	55.9	58.2	-3.9
India Cements	4.0	4.0	-1.0	8.1	7.5	7.0
Shree Cement	68.8	91.4	-24.7	87.3	98.6	-11.5

Source: MOSL

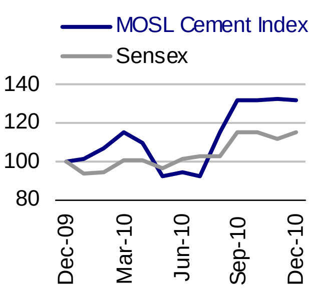
Valuation and view

We believe we have witnessed bottom-of-the-cycle utilization, and utilization should gradually improve. While cement prices are expected to be volatile over the next 6-9 months, the presence of sustainable demand drivers and expected gradual recovery in utilization from 3QFY11 would lay the foundation for the next up-cycle. Among large cap stocks, **ACC** is our top pick and we prefer **Birla Corp** and **India Cements** among mid-caps.

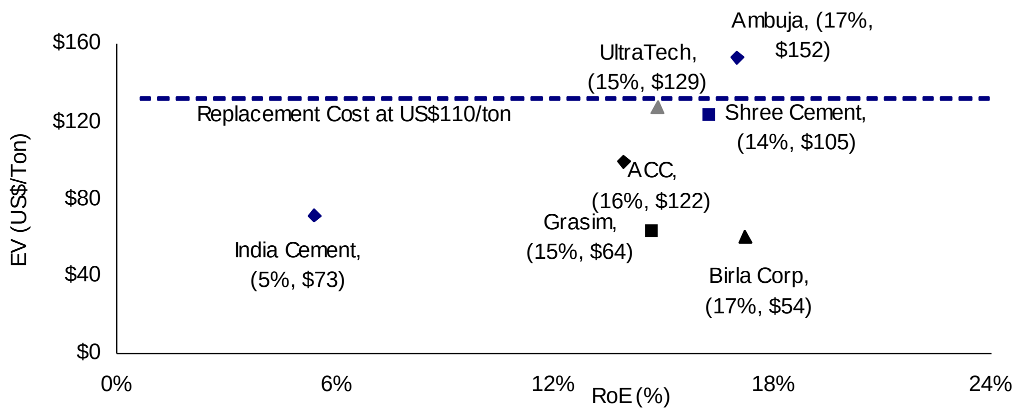
Relative Performance - 3m (%)



Relative Performance-1Yr (%)



Valuations attractive despite the recent run up (FY12)



Source: MOSL

Comparative valuation

	CMP (Rs) 24.12.10	Rating	EPS (Rs) FY11E	EPS (Rs) FY12E	EPS (Rs) FY13E	P/E (x) FY11E	P/E (x) FY12E	P/E (x) FY13E	EV/EBITDA FY11E	EV/EBITDA FY12E	EV/EBITDA FY13E	RoE (%) FY11E	RoE (%) FY12E	RoE (%) FY13E
Cement														
ACC	1,075	Buy	54.8	61.7	80.1	19.6	17.4	13.4	11.4	9.2	6.7	16.4	16.3	18.7
Ambuja Cements	141	Neutral	7.7	8.4	10.9	18.3	16.7	12.9	11.0	9.2	6.7	17.2	17.1	19.6
Birla Corporation	367	Buy	51.1	55.9	69.6	7.2	6.6	5.3	3.4	3.7	2.7	18.5	17.3	18.1
Grasim Industries	2,286	Buy	242.8	261.6	329.3	9.4	8.7	6.9	4.0	3.2	2.4	15.5	14.7	16.0
India Cements	105	Buy	4.0	8.1	9.3	26.4	13.0	11.3	10.9	7.1	6.0	2.8	5.4	6.0
Kesoram Ind	243	Buy	43.1	55.2	81.8	5.6	4.4	3.0	5.1	4.9	4.1	12.1	13.9	17.9
Shree Cement	1,991	Neutral	68.8	87.3	145.0	29.0	22.8	13.7	9.9	7.6	6.0	12.4	14.3	20.4
Ultratech Cement	1,053	Neutral	46.2	62.6	94.7	22.8	16.8	11.1	11.5	8.3	6.5	16.4	14.8	19.2
Sector Aggregate						**15.9**	**13.6**	**10.1**	**8.0**	**6.4**	**4.9**	**14.6**	**14.5**	**17.0**

ACC

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	ACC IN
Equity Shares (m)	187.9
52 Week Range (Rs)	1,133 / 700
1,6,12 Rel Perf (%)	5 / 11 / 9
Mcap (Rs b)	202.0
Mcap (USD b)	4.5

CMP: Rs1,075 **Buy**

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS* (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ EBITDA	EV/TON (US$)
12/09A	80,272	16,292	86.7	38.2	12.8	3.4	29.8	33.7	7.5	157
12/10E	77,563	10,293	54.8	-36.8	20.3	3.1	16.4	17.3	11.4	135
12/11E	88,779	11,595	61.7	12.6	17.4	2.8	16.3	17.3	9.2	123
12/12E	102,907	15,046	80.1	29.8	13.4	2.5	18.7	21.1	6.7	114

- Dispatches during 4QCY10 are estimated to grow again after four quarters. ACC is expected to post growth of 4.9% YoY (~16.5% QoQ) to 5.6mt, benefiting from recently commissioned new capacities. Average realizations are expected to improve by 4.7% QoQ (down ~1% YoY) to Rs3,550/ton.
- Net sales are expected to grow by 22% QoQ (~3.9% YoY) to Rs20b. EBITDA margins are expected to improve by 480bp QoQ (down ~18.7pp YoY) to 15.2%, benefiting from a sequential improvement in realizations and operating leverage.
- As a result, EBITDA is expected to improve by 78% QoQ (~55% YoY) to Rs3b and PAT to improve by 99% QoQ (~39% YoY) to Rs1.85b.
- ACC's volumes are expected to improve after having disappointed over the past four quarters. We estimate volumes will grow by 11% CAGR over CY10-12.
- During the quarter, Holcim increased its stake in ACC by 2.6% to 48.2% through creeping acquisition route.
- We are marginally downgrading our CY11 EPS estimates by 2.4% to Rs61.7 to factor in higher energy costs. Valuations at 17.4x CY11E EPS and 9.2x CY11E EV/EBITDA, are attractive, considering bottom-of-the-cycle earnings. Maintain **Buy**.

QUARTERLY PERFORMANCE (STANDALONE) (RS MILLION)

Y/E DECEMBER	CY09				CY10				CY09	CY10E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Cement Sales (m ton)	5.73	5.42	5.01	5.36	5.58	5.27	4.83	5.62	21.5	21.3
YoY Change (%)	6.1	2.4	3.1	-1.8	-2.6	-2.8	-3.6	4.9	2.4	-1.0
Cement Realization	3,587	3,840	3,931	3,585	3,767	3,834	3,390	3,550	3,730	3,641
YoY Change (%)	7.9	13.8	10.1	2.4	5.0	-0.1	-13.8	-1.0	7.6	-2.4
QoQ Change (%)	2.5	7.1	2.4	-8.8	5.1	1.8	-11.6	4.7		
Net Sales	**20,551**	**20,813**	**19,694**	**19,215**	**21,018**	**20,207**	**16,372**	**19,966**	**80,272**	**77,563**
YoY Change (%)	14.4	16.5	10.0	0.6	2.3	-2.9	-16.9	3.9	10.2	-3.4
EBITDA	**6,474**	**7,344**	**6,679**	**4,300**	**6,222**	**5,530**	**1,699**	**3,025**	**24,797**	**16,476**
Margins (%)	31.5	35.3	33.9	22.4	29.6	27.4	10.4	15.2	30.9	21.2
Depreciation	789	784	796	1,052	935	962	911	1,196	3,421	4,004
Interest	368	159	135	-44	127	141	162	140	619	571
Other Income	508	563	509	831	609	497	709	935	2,411	2,750
PBT before EO Item	**5,825**	**6,963**	**6,257**	**4,123**	**5,769**	**4,924**	**1,335**	**2,624**	**23,168**	**14,652**
EO Income/(Expense)	0	0	0	0	0	0	100	0	0	0
PBT after EO Item	**5,825**	**6,963**	**6,257**	**4,123**	**5,769**	**4,924**	**1,435**	**2,624**	**23,168**	**14,652**
Tax	1,777	2,107	1,900	1,092	1,717	1,435	435	772	6,877	4,359
Rate (%)	30.5	30.3	30.4	26.5	29.8	29.1	30.3	29.4	29.7	29.8
Reported PAT	**4,048**	**4,856**	**4,356**	**3,031**	**4,051**	**3,489**	**1,000**	**1,852**	**16,292**	**10,293**
Adjusted PAT	**4,048**	**4,856**	**4,356**	**3,031**	**4,051**	**3,489**	**931**	**1,852**	**16,292**	**10,293**
Margins (%)	19.7	23.3	22.1	15.8	19.3	17.3	5.7	9.3	20.3	13.3
YoY Change (%)	22.2	84.7	53.7	-9.4	0.1	-28.1	-78.6	-38.9	38.2	-36.8

E: MOSL Estimates

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Ambuja Cements

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	ACEM IN
Equity Shares (m)	1,523.7
52 Week Range (Rs)	167 / 95
1,6,12 Rel Perf (%)	-3 / 6 / 26
Mcap (Rs b)	214.1
Mcap (USD b)	4.7

CMP: Rs141 **Neutral**

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ EBITDA	EV/TON (US$)
12/09A	70,769	11,872	7.8	2.1	18.0	3.3	19.6	28.4	10.7	177
12/10E	74,642	11,675	7.7	-1.7	18.3	3.0	17.2	24.0	11.0	163
12/11E	86,064	12,831	8.4	9.9	16.7	2.7	17.1	23.9	9.2	152
12/12E	101,409	16,603	10.9	29.4	12.9	2.4	19.6	27.9	6.7	139

- Dispatches are expected to grow by 5.6% YoY (~16% QoQ) to 5mt, and volume growth would have been better but for a transporters strike for over a month at its Himachal Pradesh plant.
- Average realizations are expected to improve by 2.8% QoQ (down ~0.5% YoY) to Rs3,695/ton. Ambuja's realization improvement is estimated to be lower than the industry due to lower price recovery in two of its key markets of the North and East.
- Net sales are expected to grow by 19% QoQ (up ~5% YoY) to Rs18.6b. EBITDA margins are expected to improve by 120bp QoQ (down ~520bp YoY) to 19.3%, benefiting from a recovery in realizations and operating leverage.
- EBITDA is expected to grow by 27% QoQ (down ~17% YoY) to Rs3.6b and recurring PAT is estimated to grow by 41% QoQ (up ~11% YoY) to Rs2.14b.
- We maintain our earnings estimates for CY10 at Rs7.7 and for CY11 at Rs8.4. Valuations at 16.7x CY11E earnings, 9.2x CY11E EV/EBITDA and US$152/ton are a fair reflection of business fundamentals. Maintain **Neutral**.

QUARTERLY PERFORMANCE (STANDALONE) (RS MILLION)

Y/E DECEMBER	CY09				CY10				CY09	CY10E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Sales Volume (m ton)	5.10	4.83	4.10	4.77	5.27	5.34	4.35	5.04	18.80	20.00
YoY Change (%)	6.3	10.3	4.6	1.5	3.3	10.6	6.1	5.6	5.6	6.4
Realization (Rs/ton)	3,619	3,828	3,929	3,714	3,776	3,834	3,595	3,695	3,764	3,732
YoY Change (%)	5.0	7.1	11.1	7.7	4.4	0.2	-8.5	-0.5	7.7	-0.9
QoQ Change (%)	5.0	5.8	2.6	-5.5	1.7	1.5	-6.2	2.8		
Net Sales	**18,456**	**18,474**	**16,110**	**17,729**	**19,902**	**20,476**	**15,640**	**18,625**	**70,769**	**74,642**
YoY Change (%)	11.5	18.2	16.2	9.3	7.8	10.8	-2.9	5.1	259.6	186.4
EBITDA	**5,228**	**4,797**	**4,300**	**4,344**	**5,701**	**6,032**	**2,832**	**3,600**	**18,669**	**18,164**
Margins (%)	28.3	26.0	26.7	24.5	28.6	29.5	18.1	19.3	26.4	24.3
Depreciation	686	704	719	860	767	1,001	1,018	1,101	2,970	3,887
Interest	52	52	52	68	108	81	89	80	224	359
Other Income	416	692	433	556	546	667	495	641	2,097	2,350
PBT before EO Item	**4,905**	**4,732**	**3,962**	**3,972**	**5,372**	**5,618**	**2,220**	**3,060**	**17,571**	**16,269**
Extraordinary Inc/(Exp)	0	0	462	0	726	0	0	0	462	726
PBT after EO Exp/(Inc)	**4,905**	**4,732**	**4,423**	**3,972**	**6,098**	**5,618**	**2,220**	**3,060**	**18,033**	**16,995**
Tax	1,565	1,486	1,238	1,560	1,476	1,705	699	919	5,849	4,799
Rate (%)	31.9	31.4	28.0	39.3	24.2	30.4	31.5	30.0	32.4	28.2
Reported Profit	**3,341**	**3,247**	**3,185**	**2,412**	**4,622**	**3,912**	**1,521**	**2,141**	**12,184**	**12,196**
Adj PAT	**3,341**	**3,247**	**2,852**	**2,412**	**3,896**	**3,912**	**1,521**	**2,141**	**11,872**	**11,675**
YoY Change (%)	1.2	6.7	21.3	-17.4	16.6	20.5	-46.7	-11.2	2.2	-1.7

E: MOSL Estimates

Jinesh K Gandhi (Jinesh@MotilalOswal.com)

Birla Corporation

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	BCORP IN
Equity Shares (m)	77.0
52 Week Range (Rs)	448 / 300
1,6,12 Rel Perf (%)	-9 / -12 / 2
Mcap (Rs b)	28.3
Mcap (USD b)	0.6

CMP: Rs367 Buy

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ EBITDA	EV/TON (US$)
03/10A	21,570	5,572	72.4	72.2	5.1	1.6	31.1	30.5	2.9	75
03/11E	21,835	3,937	51.1	-29.3	7.2	1.3	18.5	21.1	3.4	52
03/12E	24,867	4,308	55.9	9.4	6.6	1.1	17.3	20.5	3.7	60
03/13E	29,255	5,358	69.6	24.4	5.3	1.0	18.1	23.4	2.7	43

- In 3QFY11, Birla Corp's revenues are expected to de-grow by 10% YoY (up 3% QoQ) to Rs5b. Cement volumes are estimated to de-grow by 3% YoY (up ~4.7% QoQ) to 1.45mt and cement realizations are likely to decline by 8% YoY (up ~1.3% QoQ) to Rs3,159/ton.
- Birla Corp's realization improvement is estimated to be lower than the industry due to lower price recovery in its key markets in Central, East and North India.
- Recovery in realizations would translate into 440bp QoQ improvement (down ~18.1pp YoY) in EBITDA margins to 20.2%. As a result, EBITDA is estimated to grow by 32% QoQ (up ~38% YoY) to Rs1b, translating into PAT growth of 5% QoQ (~35% YoY de-growth) to Rs725m.
- We are downgrading our EPS estimates for FY11 by 7% to Rs51.1 and FY12 by 3.9% to Rs55.9, to factor in poor volume off-take. The stock trades at 6.6x FY12E EPS, 3.7x EV/EBITDA and US$60/ton, which is at a discount to comparable peers. We believe the discount is not justified and valuations, based on earnings and replacement costs, are compelling. Maintain **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Cement Sales (m ton)	1.21	1.29	1.50	1.66	1.49	1.39	1.45	1.78	5.65	6.10
YoY Change (%)	1.8	15.7	7.0	3.6	23.0	7.6	-3.2	7.3	6.9	7.9
Cement Realization	3,717	3,621	3,448	3,468	3,510	3,119	3,159	3,262	3,551	3,266
YoY Change (%)	20.0	17.4	17.6	6.4	-5.6	-13.9	-8.4	-5.9	14.3	-8.0
QoQ Change (%)	14.0	-2.6	-4.8	0.6	1.2	-11.1	1.3	3.3		
Net Sales	**4,904**	**5,057**	**5,589**	**6,020**	**5,749**	**4,843**	**5,011**	**6,233**	**21,570**	**21,835**
YoY Change (%)	23.9	36.0	23.6	5.5	17.2	-4.2	-10.3	3.5	20.5	1.2
Total Expenditure	3,148	3,122	3,964	4,284	4,102	4,077	3,996	4,442	14,519	16,617
EBITDA	**1,756**	**1,935**	**1,624**	**1,736**	**1,647**	**766**	**1,014**	**1,791**	**7,051**	**5,218**
Margins (%)	35.8	38.3	29.1	28.8	28.6	15.8	20.2	28.7	32.7	23.9
Depreciation	133	137	144	143	140	157	175	192	556	664
Interest	60	64	60	86	139	119	135	134	270	527
Other Income	519	249	215	400	285	370	275	345	1,383	1,275
Profit before Tax	**2,082**	**1,983**	**1,636**	**1,907**	**1,653**	**861**	**979**	**1,810**	**7,608**	**5,303**
Tax	528	463	513	532	470	171	255	470	2,036	1,365
Rate (%)	25.4	23.3	31.4	27.9	28.4	19.9	26.0	26.0	26.8	25.8
Reported PAT	**1,553**	**1,521**	**1,123**	**1,375**	**1,183**	**690**	**725**	**1,340**	**5,572**	**3,937**
Adjusted PAT	**1,553**	**1,521**	**1,123**	**1,375**	**1,183**	**690**	**725**	**1,340**	**5,572**	**3,937**
Margins (%)	31.7	30.1	20.1	22.8	20.6	14.2	14.5	21.5	25.8	18.0
YoY Change (%)	69.2	154.7	38.0	52.2	-23.9	-54.6	-35.5	-2.5	72.2	-29.3

E: MOSL Estimates

Jinesh K Gandhi (Jinesh@MotilalOswal.com)

Grasim Industries

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	GRASIM IN
Equity Shares (m)	91.7
52 Week Range (Rs)	2,952 / 1,740
1,6,12 Rel Perf (%)	0 / 14 / -21
Mcap (Rs b)	209.6
Mcap (USD b)	4.6

CMP: Rs2,286 **Buy**

YEAR END*	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ EBITDA	EV/TON (US$)
03/10A	199,334	27,342	298.2	25.0	7.7	1.7	22.7	23.9	3.8	-
03/11E*	206,075	22,262	242.8	-18.6	9.4	1.5	16.6	17.4	4.7	88
03/12E*	230,956	23,991	261.6	7.8	8.7	1.3	15.6	17.3	4.0	63
03/13E*	267,086	30,195	329.3	25.9	6.9	1.3	17.1	20.6	2.9	47

** Consolidated; Demerger of cement business assumed w.e.f 1 October 2009*

- Grasim (standalone) results are not comparable YoY due to the de-merger of the cement business, but they are sequentially comparable.
- VSF business volumes are estimated to grow by 27% QoQ (~5% YoY) to 85,500 tons, benefiting from normalization in operations (2QFY11 operations were impacted by a water shortage at the Nagda plant). VSF realizations are estimated to improve by Rs5.5/kg (up ~Rs12/kg YoY) benefiting from two price increases in 3QFY11.
- Grasim's 3QFY11 revenues are estimated to grow by 30% QoQ to Rs12.1b, driven by a recovery in VSF volumes and realizations. EBITDA margins are estimated to improve by 440bp QoQ to 32.7%, benefiting from higher realizations and higher operating leverage.
- EBITDA is estimated to grow by 50% QoQ to Rs3.95b. However, lower other income (as 2QFY11 has dividend from subsidiaries and group companies) will restrict PAT growth to 10% QoQ to Rs3.1b.
- We are upgrading our consolidated estimates by 4.7% for FY11 to Rs242.8, but maintain FY12 EPS at Rs261.6. The stock quotes at very attractive valuations of 8.7x FY12E consolidated EPS, 4x EV/EBITDA and 1.3x P/BV. Implied valuation of the cement business is US$50/ton. Maintain **Buy**.

QUARTERLY PERFORMANCE (STANDALONE) (RS MILLION)

Y/E MARCH	FY10				FY11*				FY10	FY11E
	1Q	2Q	3Q	4Q*	1Q	2Q	3QE	4QE		
Net Sales	**30,453**	**29,838**	**30,519**	**11,037**	**9,449**	**9,326**	**12,086**	**11,802**	**81,721**	**42,663**
YoY Change (%)	18.1	11.0	14.8	-61.9	-69.0	-68.7	-60.4	6.9	-24.5	-47.8
EBITDA	**8,853**	**10,162**	**9,860**	**3,037**	**3,012**	**2,638**	**3,957**	**3,916**	**25,966**	**13,522**
Margins (%)	29.1	34.1	32.3	27.5	31.9	28.3	32.7	33.2	31.8	31.7
Depreciation	1,370	1,359	1,424	408	445	453	470	482	3,511	1,850
Interest	475	505	504	112	102	103	112	124	1,204	441
Other Income	620	1,432	888	925	593	1,623	800	984	3,758	4,000
PBT before EO Items	**7,628**	**9,729**	**8,820**	**3,443**	**3,058**	**3,705**	**4,175**	**4,294**	**25,008**	**15,231**
Extraordinary Inc/(Exp)	3,447	0	0	0	0	0	0	0	3,447	3,447
PBT after EO Items	**11,075**	**9,729**	**8,820**	**3,443**	**3,058**	**3,705**	**4,175**	**4,294**	**28,455**	**18,678**
Tax	2,322	2,986	2,861	549	820	908	1,096	1,136	9,339	3,960
Rate (%)	21.0	30.7	32.4	15.9	26.8	24.5	26.3	26.5	32.8	21.2
Reported PAT	**8,752**	**6,743**	**5,959**	**2,894**	**2,238**	**2,796**	**3,079**	**3,158**	**19,116**	**14,718**
Adj. PAT	**5,392**	**6,743**	**5,959**	**2,894**	**2,238**	**2,796**	**3,079**	**3,158**	**15,756**	**11,358**
YoY Change (%)	4.9	60.7	80.8	-24.8	-58.5	-58.5	-48.3	9.1	-4.4	-27.9

*E: MOSL Estimates; * Not comparable due to demerger of cement business*

Jinesh K Gandhi (Jinesh@MotilalOswal.com)

India Cements

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	ICEM IN
Equity Shares (m)	307.2
52 Week Range (Rs)	143 / 95
1,6,12 Rel Perf (%)	-7 / -18 / -28
Mcap (Rs b)	32.3
Mcap (USD b)	0.7

CMP: Rs105 **Buy**

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ EBITDA	EV/TON (US$)
03/10A	37,711	3,253	10.9	-38.5	9.6	0.8	8.4	10.6	6.3	82
03/11E	37,776	1,186	4.0	-63.5	26.4	0.7	2.8	3.9	10.7	76
03/12E	44,782	2,315	8.1	102.7	13.0	0.7	5.4	6.5	6.8	72
03/13E	52,172	2,663	9.3	15.0	11.3	0.7	6.0	8.6	5.8	69

- India Cement's volumes are expected to de-grow by 8% QoQ (~9.4% YoY) to 2.5mt, hit by a slowdown in the southern markets. However, the cement price recovery due to production cuts will drive realization improvement of 18.5% QoQ (~14% YoY) to Rs3,447/ton.
- India Cement's 3QFY11 revenues are estimated to grow by 4.8% YoY (~7.7% QoQ) to Rs9b. We estimate revenue of Rs300m from IPL for its share in the central pool.
- We estimate EBITDA of Rs1.28b in 3QFY11 and EBITDA margin improvement of 10.8pp QoQ (~70bp YoY) to 14.2%, translating into PAT of Rs318m (up ~17% YoY).
- While cement prices in South India recovered sharply from September 2010, demand is muted. Demand recovery is expected from January 2011.
- We maintain our earnings estimates for FY11 at Rs4, but are upgrading our FY12 estimates by 7% to Rs8.1. Valuations at 13x FY12E EPS, 6.8x FY12E EBITDA and US$72/ton are attractive. Maintain **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales Dispatches (m ton)	2.46	2.79	2.76	2.95	2.66	2.72	2.50	3.11	10.96	10.98
YoY Change (%)	3.9	15.0	38.1	26.9	8.0	-2.7	-9.4	5.2	20.2	0.2
Realization (Rs/ton)	3,736	3,438	3,028	3,125	3,211	2,909	3,447	3,610	3,304	3,303
YoY Change (%)	8.6	-4.1	-16.6	-16.1	-14.0	-15.4	13.9	15.5	-8.1	0.0
QoQ Change (%)	0.2	-8.0	-11.9	3.2	2.8	-9.4	18.5	4.7		
Net Sales	**9,535**	**9,894**	**8,641**	**9,643**	**8,807**	**8,412**	**9,058**	**11,500**	**37,713**	**37,776**
YoY Change (%)	13.9	4.6	14.8	8.5	-7.6	-15.0	4.8	19.3	10.1	0.2
EBITDA	**2,863**	**2,977**	**1,165**	**1,260**	**1,001**	**286**	**1,283**	**2,397**	**8,266**	**4,967**
Margins (%)	30.0	30.1	13.5	13.1	11.4	3.4	14.2	20.8	21.9	13.1
Depreciation	571	572	573	616	599	610	620	626	2,331	2,454
Interest	385	374	299	369	298	280	280	287	1,426	1,144
Other Income	68	55	119	129	27	23	25	30	370	105
PBT before EO expense	**1,976**	**2,086**	**412**	**404**	**132**	**-580**	**408**	**1,514**	**4,878**	**1,474**
Extra-Ord expense	-210	13	-117	-122	-142	-113	0	0	-436	-255
PBT	**2,186**	**2,074**	**528**	**526**	**274**	**-467**	**408**	**1,514**	**5,313**	**1,728**
Tax	745	704	180	143	24	-131	90	354	1,770	337
Rate (%)	34.1	34.0	34.1	27.1	8.8	28.0	22.0	23.4	33.3	19.5
Reported PAT	**1,441**	**1,369**	**348**	**383**	**250**	**-336**	**318**	**1,160**	**3,543**	**1,391**
Adj PAT	**1,302**	**1,378**	**271**	**294**	**120**	**-417**	**318**	**1,160**	**3,253**	**1,186**
YoY Change (%)	-16.7	-10.9	-61.3	-71.8	-90.8	-130.3	17.2	294.1	-32.9	-63.5
Margins (%)	13.7	13.9	3.1	3.1	1.4	-5.0	3.5	10.1	8.6	3.1

E: MOSL Estimates

Jinesh K Gandhi (Jinesh@MotilalOswal.com)

Shree Cement

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	SRCM IN
Equity Shares (m)	34.8
52 Week Range (Rs)	2,542 / 1,773
1,6,12 Rel Perf (%)	-7 / -14 / -10
Mcap (Rs b)	69.4
Mcap (USD b)	1.5

CMP: Rs1,991 **Buy**

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ EBITDA	EV/TON (US$)
03/10A	36,321	7,097	203.7	18.6	9.8	3.8	46.6	31.9	4.7	113
03/11E	34,736	2,395	68.8	-66.2	29.0	3.4	12.4	11.3	8.7	107
03/12E	45,273	3,043	87.3	27.0	22.8	3.1	14.3	13.1	6.8	99
03/13E	55,282	5,050	145.0	66.0	13.7	2.6	20.4	17.4	5.4	91

- Cement volumes are expected to grow by 8% QoQ (shrinking ~4% YoY) to 2.45mt and realizations are expected to improve by 3% QoQ (down ~3.3% YoY) to Rs3,100/ton. Merchant power sale is estimated at 100m units (~43% YoY and up 30% QoQ) at ~Rs4.2/unit (v/s Rs6.45 in 3QFY10 and Rs4.12 in 2QFY11).
- 3QFY11 sales are expected to grow by 12% QoQ (~7% YoY de-growth) to Rs8b. Merchant power revenues are estimated to de-grow by 7% YoY (up ~33% QoQ).
- Recovery in realizations and operating leverage will drive 150bp QoQ improvement (down ~17.3pp YoY) in EBITDA margins to 21.4%. The cement business' EBITDA/ton is expected to improve by ~Rs50/ton QoQ (down ~Rs550/ton YoY) to Rs642/ton, as the benefit of higher realizations will be offset by strengthening pet-coke prices.
- Higher depreciation and interest will impact PAT, which will decline 82% YoY (up ~107% QoQ) to Rs307m.
- We are downgrading our FY11 earnings estimates by 24.7% to Rs68.8 and for FY12 by 11.5% to Rs87.3, to factor in lower-than-estimated volumes in cement and merchant power. The stock quotes at valuations of 22.8x FY12E EPS, 6.8x FY12E EBITDA and US$102/ton. Maintain **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales Dispatches (m ton)	2.55	2.48	2.56	2.67	2.49	2.28	2.45	2.93	10.25	10.15
YoY Change (%)	32.8	23.1	21.7	10.8	-2.4	-8.2	-4.4	10.0	21.3	-1.0
Realization (Rs/ton)	3,479	3,447	3,205	3,355	3,272	3,010	3,100	3,208	3,373	3,153
YoY Change (%)	8.7	13.0	5.2	6.2	-5.9	-12.7	-3.3	-4.4	8.4	-6.5
QoQ Change (%)	10.2	-0.9	-7.0	4.7	-2.5	-8.0	3.0	3.5		
Net Sales	**9,224**	**8,996**	**8,660**	**9,440**	**9,445**	**7,176**	**8,016**	**10,099**	**36,321**	**34,736**
YoY Change (%)	50.2	43.2	30.3	17.2	2.4	-20.2	-7.4	7.0	34.0	-4.4
EBITDA	**4,258**	**4,149**	**3,353**	**3,255**	**2,895**	**1,427**	**1,718**	**2,481**	**15,025**	**8,521**
Margins (%)	46.2	46.1	38.7	34.5	30.6	19.9	21.4	24.6	41.4	24.5
Depreciation	973	998	947	2,786	1,509	1,285	1,280	1,284	5,704	5,358
Interest	160	222	115	662	420	311	350	371	1,291	1,452
Other Income	473	316	160	212	287	429	300	265	1,284	1,280
PBT before EO Exp	**3,599**	**3,245**	**2,451**	**20**	**1,253**	**260**	**388**	**1,090**	**9,313**	**2,990**
Extra-Ord Expense	42	29	14	549	9	75	15	-28	634	70
PBT	**3,557**	**3,215**	**2,436**	**-529**	**1,244**	**185**	**373**	**1,118**	**8,679**	**2,920**
Tax	645	326	762	185	185	80	78	252	1,918	595
Rate (%)	18.1	10.1	31.3	-34.9	14.9	43.0	21.0	22.6	22.1	20.4
Reported PAT	**2,911**	**2,889**	**1,674**	**-714**	**1,059**	**105**	**295**	**866**	**6,761**	**2,325**
Adj PAT	**2,946**	**2,915**	**1,684**	**26**	**1,067**	**148**	**307**	**844**	**7,097**	**2,381**
YoY Change (%)	153.0	153.2	31.8	-98.9	-63.8	-94.9	-81.8	3100.7	18.6	-66.4
Margins (%)	31.9	32.4	19.4	0.3	11.3	2.1	3.8	8.4	19.5	6.9

E:MOSL Estimates

Jinesh K Gandhi (Jinesh@MotilalOswal.com)

UltraTech Cement

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	UTCEM IN
Equity Shares (m)	274.2
52 Week Range (Rs)	1,175 / 820
1,6,12 Rel Perf (%)	-10 / -2 / 2
Mcap (Rs b)	288.6
Mcap (USD b)	6.4

CMP: Rs1,053 **Buy**

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ EBITDA	EV/TON (US$)
03/10A	70,497	10,932	87.8	11.9	12.0	2.8	26.6	28.5	14.6	126
03/11E *	135,671	12,660	46.2	-47.4	22.8	2.7	16.4	20.2	11.5	137
03/12E *	178,755	17,178	62.6	35.7	16.8	2.3	14.8	18.4	8.3	130
03/13E *	210,657	25,956	94.7	51.1	11.1	2.0	19.2	24.5	6.5	141

** Consolidated; Merger of cement business assumed w.e.f 1 July 2010*

- UltraTech results are not comparable YoY due to its merger of Grasim's cement business, but they are comparable sequentially.
- Cement volumes are estimated to grow by 10% QoQ (~3.5% YoY growth on a like-to-like basis). Realizations are estimated to improve by 8.5% QoQ (down 1.5% YoY) to Rs3,192/ton benefiting from a recovery in cement prices in its key South India market. As a result, net revenue is expected to grow by 19% QoQ to Rs38.2b.
- Recovery in realizations and operating leverage would result in a 600bp QoQ improvement in EBITDA margins to 18.7%. As a result, EBITDA is estimated to improve by 75% QoQ to Rs7.1b and PAT to grow by ~182% QoQ to Rs3.26b.
- The company has announced capacity addition of ~9mt in Karnataka (~4mt) and Chhattishgarh (~4.8mt), which is expected to be commissioned by 4QFY13.
- We are upgrading our FY11 earnings estimates by 5.9% to Rs46.2 and for FY12 by 3.3% to Rs62.6. The stock trades at 16.8x FY12E EPS, 8.3x FY12E EV/EBITDA and US$130/ton. Maintain **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11*				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales (m ton) *	10.2	8.7	9.8	11.0	10.3	9.2	10.1	12.4	20.2	41.9
YoY Change (%)	138.6	119.7	114.0	106.3	0.6	5.1	3.5	12.1	11.3	5.6
Realization (Rs/ton) *	3,635	3,613	3,251	3,273	3,353	2,941	3,192	3,298	2,912	3,208
YoY Change (%)	9.4	7.8	-4.2	-1.9	-7.7	-18.6	-1.8	0.8	-13.2	10.2
QoQ Change (%)	9.0	-0.6	-10.0	0.7	2.5	-12.3	8.5	3.3		
Net Sales	**19,528**	**15,408**	**16,518**	**19,094**	**39,898**	**32,147**	**38,231**	**47,395**	**70,497**	**157,671**
YoY Change (%)	30.5	10.4	1.3	2.6	104.3	108.6	131.4	148.2	10.4	123.7
EBITDA	**7,168**	**4,700**	**3,836**	**4,027**	**9,997**	**4,078**	**7,439**	**10,917**	**19,711**	**32,431**
Margins (%)	36.7	30.5	23.2	21.1	25.1	12.7	19.5	23.0	28.0	20.6
Depreciation	936	967	985	993	2,132	2,184	2,225	2,248	3,881	8,788
Interest	330	299	262	285	787	845	850	860	1,175	3,342
Other Income	342	308	300	259	858	684	600	750	1,227	2,892
PBT after EO Expense	**6,244**	**3,743**	**2,888**	**3,007**	**7,936**	**1,733**	**4,964**	**8,559**	**15,882**	**23,192**
Tax	2,067	1,234	928	721	2,359	575	1,489	2,568	4,949	6,991
Rate (%)	33.1	33.0	32.1	24.0	29.7	33.2	30.0	30.0	31.2	30.1
Reported PAT	**4,178**	**2,509**	**1,960**	**2,286**	**5,577**	**1,158**	**3,475**	**5,991**	**10,932**	**16,201**
Adj PAT	**4,178**	**2,509**	**1,960**	**2,286**	**5,577**	**1,158**	**3,475**	**5,991**	**10,932**	**16,201**
YoY Change (%)	57.6	52.8	-17.8	-26.1	33.5	-53.9	77.3	162.1	10.0	48.2

E: MOSL Estimates; * Including Samruddhi Cement

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Engineering

COMPANY NAME

ABB

BGR Energy

BHEL

Crompton Greaves

Cummins India

Larsen & Toubro

Siemens

Thermax

3QFY11: Execution strong, valuations attractive, Buy

In 3QFY11 we expect engineering companies under our coverage to post revenue growth of 23% YoY, adjusted EBITDA growth of 14% YoY and reported profit growth of 8% YoY. Key takeaways are:

Capital Goods Index reflects pick up in project execution: The Capital Goods Index resumed its upward trajectory in October with 22% YoY growth after a pause in August and September, when it grew by 2% and -4% respectively.

Execution on track: 2QFY11 revenue growth was 25% YoY. In 3QFY11 we expect revenue growth of 23% YoY, given BHEL's expanded capacities (15GW) and the industry's healthy order backlog with BTB of 3x TTM revenue. 2QFY11 order intake rose 20% YoY, for our engineering universe to Rs442b. Growth in order intake excluding BHEL was 7% YoY. For 1HFY11 order intake excluding BHEL was 13% YoY, indicating broad-based intake growth.

3QFY11 industry EBITDA margins expected at 14.8% (down 120bp YoY), material prices up: In 3QFY11 we expect EBITDA margins to be 14.8%, down 120bp YoY. We expect Siemen's margins to decline (down 732bp YoY) due to the base effect, and ABB's 4QCY10 margins to slide (down 180bp YoY) as project related escalations/write-offs weigh on power system margins. Steel and copper prices rose by over 50% from their 1QFY10 levels and in YTD FY11, both metals rose 30% and hence will have an impact on margins going forward.

Near term slowdown in order flow due to project delays likely: While execution seems to be on track at present, there are apparent headwinds for industrial growth due to lack of clarity on policy frameworks in key sectors like mining, coal and road sector. We believe that these are short-term aberrations and the capex cycle will continue it strong growth momentum.

Valuations attractive, Buy: Our engineering universe trades at FY11E P/E of 21x and P/BV of 6x. We expect earnings and revenue CAGR of 27% and 25% respectively over FY11-13. We are positive on the sector and have **Buy** ratings on **BHEL**, **L&T**, **Siemens**, **Cummins** and **BGR Energy**.

Expected quarterly performance summary (Rs million)

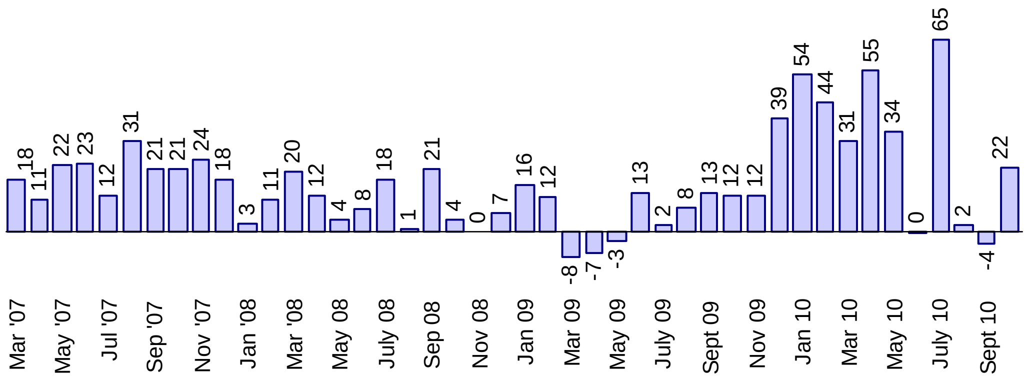
	CMP (Rs) 24.12.10	Rating	Sales Dec.10	Sales Var. % YoY	Sales Var. % QoQ	EBITDA Dec.10	EBITDA Var. % YoY	EBITDA Var. % QoQ	Net profit Dec.10	Net profit Var. % YoY	Net profit Var. % QoQ
Engineering											
ABB	804	Neutral	18,727	-0.7	38.8	946	-26.1	LP	650	-24.7	465.0
BGR Energy	695	Buy	10,162	60.0	-10.4	1,174	64.3	-11.3	657	56.6	-15.6
BHEL	2,285	Buy	88,727	25.0	4.5	18,118	16.0	11.0	12,238	10.3	7.1
Crompton Greaves	313	Neutral	15,128	23.6	4.7	2,458	20.7	6.5	1,634	20.7	3.1
Cummins India	749	Buy	10,928	32.0	0.1	2,240	18.0	3.1	1,673	12.7	-0.3
Larsen & Toubro	1,957	Buy	96,976	20.1	4.7	11,637	21.7	16.9	7,906	29.6	13.9
Siemens	810	Buy	22,950	22.9	-25.0	2,787	-23.3	-30.6	1,806	-23.6	-28.7
Thermax	836	Neutral	10,101	35.0	-7.5	1,232	37.9	-4.2	808	43.0	-9.8
Sector Aggregate			**273,699**	**22.4**	**1.7**	**40,592**	**13.9**	**9.0**	**27,373**	**12.9**	**5.5**

Dhirendra Tiwari (Dhirendra.Tiwari@MotilalOswal.com)/Navneet Iyengar (Navneet.Iyengar@MotilalOswal.com)

Capital Goods Index picks up after the monsoon lull

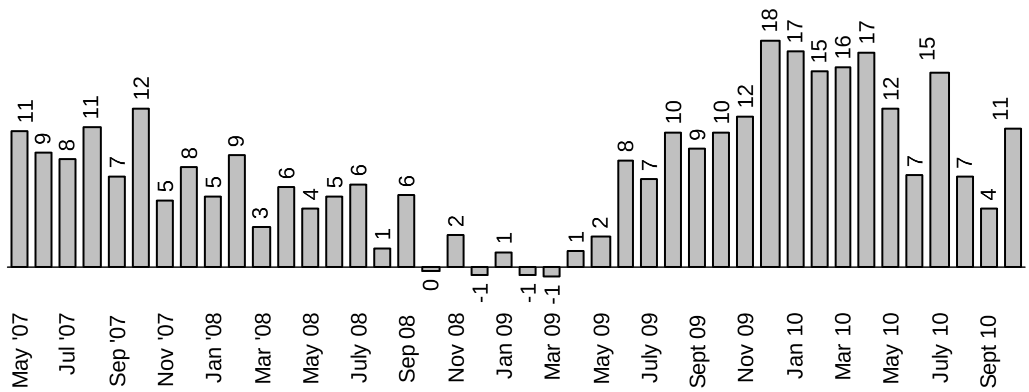
The index grew 2% & -4% in August and September respectively but resumed its upwards trajectory in October, with 22% growth, reflective of demand for capital goods needed for project execution in infrastructure verticals of power, roads and ports

Capital Good Index (% YoY) reflects pick up in project execution



From April to September IIP growth rates averaged 10.4% and for October they were 10.8%, indicating revival in industrial capex

1HFY11 IIP growth (% YoY) at 10.4%, sets tone for capex upturn

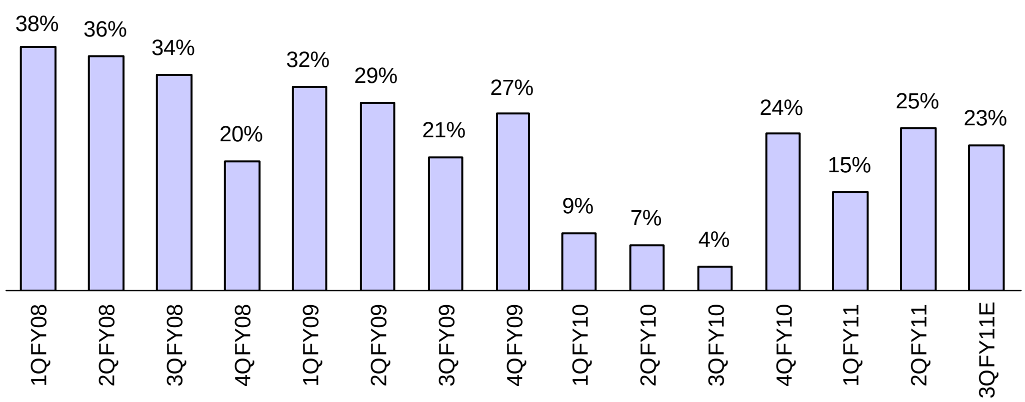


Source: MOSPI/Bloomberg

Execution on track

In 3QFY11 we expect the industry to post revenue growth of 23%. Project execution was strong in YTD FY11. For the nine-month period the base effect also comes into play as revenue grew by 9%, 7% and 4% for the industry in 1QFY10, 2QFY10 and 3QFY10

YTD FY11 execution rate benign



Source: Company/MOSL

In 3QFY11 we expect the best performers in our universe to be Thermax, Cummins and Siemens while BHEL and L&T will stay consistent. Considering that the BTB ratios of most of the project companies in our coverage are 2x-4x TTM speedy execution is the key challenge to superior earnings growth

Thermax, Cummins lead revenue chart, BHEL, L&T consistent (%, YoY)

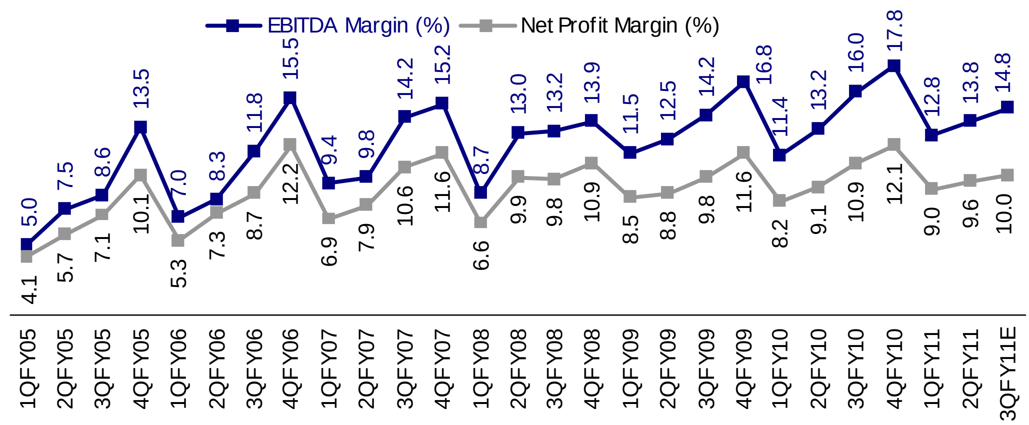
	3QFY10	3QFY11E	FY10
ABB	-13	-1	-6
BHEL	18	22	25
BGR Energy	34	60	60
Crompton	13	24	15
Cummins	10	32	-14
L&T	-6	20	9
Siemens	13	25	3
Thermax	-6	35	-2
Industry	**4**	**22**	**12**

Source: Company/MOSL

3QFY11 EBITDA margins at 14.8% (down 120bp YoY)

In 3QFY11 we expect a margin decline for Siemens (-732bpYoY) due to a high base and ABB's margins will continue to slide (-180bp YoY) in 4QCY10 as project related escalations/write-offs weigh on power system margins.

Expect industry EBITDA margins in 3QFY11 to be 14.8% (down 120bp YoY)

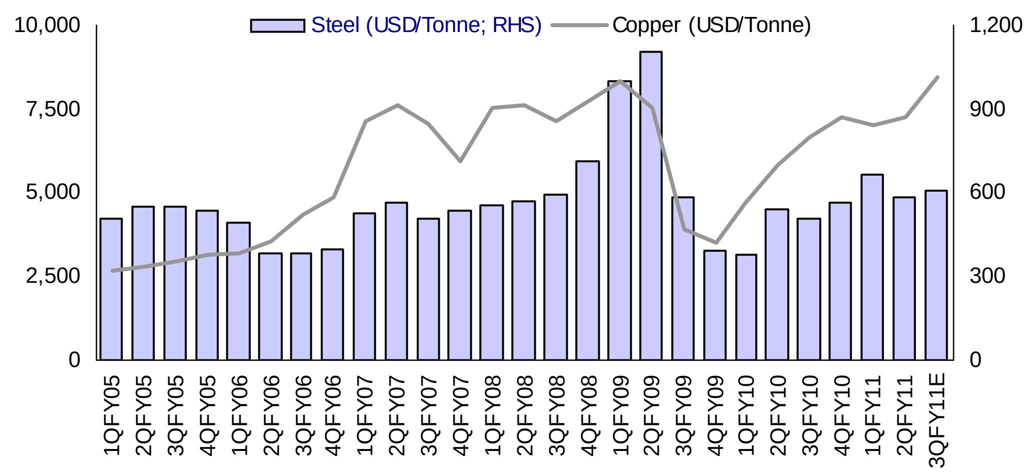


Source: Company/MOSL

Commodity prices more than double since 1QFY10 lows (US$/ton)

Steel and copper prices rose more than 50% from their 1QFY10 levels. In YTDFY11 both metals rose by 30%. Steel and copper rose 4% and 16% respectively, sequentially. Material prices, which have been rising since the start of FY11, have remained a key concern and will cap margins despite strong volume growth across companies

Steel, copper prices up 30% in YTDFY11

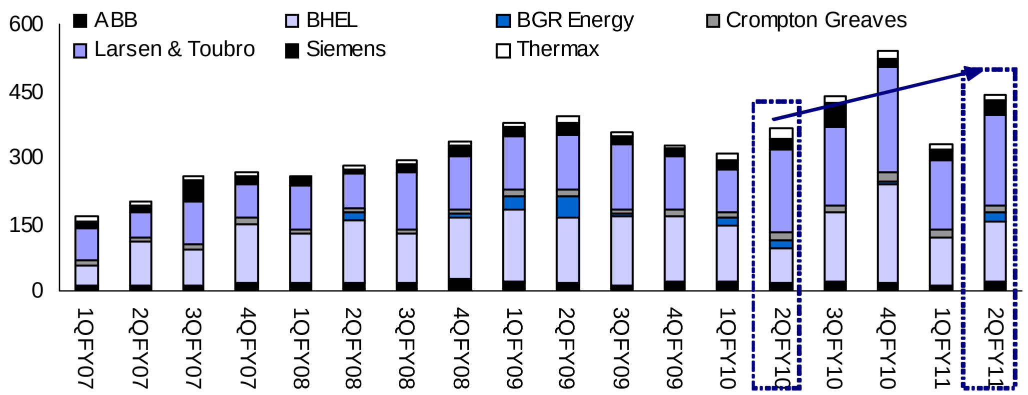


Source: Company/MOSL

2QFY11 industry intake improves 20% YoY, BTB at 3x TTM revenue

2QFY11 order intake improved 20% YoY for our engineering universe at Rs442b. The growth, excluding BHEL was 7% YoY. In 1HFY11 order intake excluding BHEL was 13% YoY, indicating broad based intake growth. In FY10 the growth was 16%. Bulk tendering of 11 units of 660MW by NTPC/DVC amounting to US$6b-7b will boost year end FY11 inflows for the universe.

2QFY11 order intake trend (Rs b): better business environment boosts firm awards



Source: Company/MOSL

BHEL offers the best earnings visibility in the universe (BTB of 4.3x). The bulk tendering award of 1X660MW over the year end will push up BTB ratios for new and established players like BHEL, L&T and BGR Energy

Order backlog (Rs b) and book to bill (x)

Company	Order Backlog (Sept 2010)	BTB (x)
ABB	92	1.5
BHEL	1,540	4.3
BGR Energy	105	2.4
Crompton Greaves	71	0.8
Larsen & Toubro	1,154	3.0
Siemens	136	1.5
Thermax	73	1.9

Source: Company/MOSL

Revenue trend (Rs b) and CAGR (%)

BHEL and L&T, due to their strength in earnings visibility (BTB of 4.2x and 3x respectively), will be able to deliver better revenue CAGR of 22% and 31% respectively over FY11-13. The full impact of BHEL's capacity expansion to 15GW will kick in from 2HFY11. BGR's revenue CAGR of 32% puts it in a strong position in the BTG space, making it a front runner along with BHEL and L&T, for bulk tendering of 11x 660MW totaling US$6b-7b

Revenue trend (Rs b) and CAGR (%)

	Revenues (Rs b)									% CAGR	
	FY05	FY06	FY07	FY08	FY09	FY10	FY11E	FY12E	FY13E	FY05-FY10	FY11-FY13E
ABB*	23	30	43	59	62	61	72	89	106	22	21
BHEL	100	137	176	198	329	335	403	496	601	27	22
BGR Energy			8	15	19	31	47	65	83	NA	32
Crompton Greaves	20	25	34	39	53	63	76	91	109	26	20
Cummins	12	15	18	23	33	28	42	54	65	19	24
L&T	133	149	179	252	367	441	562	785	957	27	31
Siemens**	27	45	77	83	84	93	120	151	188	28	25
Thermax	13	16	23	35	35	34	47	61	73	22	25

*December year ending(FY08=CY07) **September year ending (Sep'07= FY07)

PAT trend and CAGR

BGR's order book of Rs105b with a BTB of 2.4x enables it to deliver superior earnings CAGR of 31% over FY11-13 and ABB's PAT growth is due to the reversal in margins from currently negative to positive and a base effect. We have Buy ratings on BHEL, BGR Energy, Cummins, L&T and Siemens as business visibility and earnings quality are superior in the medium to long term

PAT trend (Rs b) and CAGR (%)

	Net profit (Rs b)									% CAGR	
	FY05	FY06	FY07	FY08	FY09	FY10	FY11E	FY12E	FY13E	FY05-FY10	FY11-FY13E
ABB*	1.5	2.2	3.4	4.9	5.3	3.5	1.2	5.1	6.8	18	137
BHEL	9.7	16.8	24.1	25.1	35.6	46.8	58.2	71.6	84.7	37	21
BGR Energy	NA	NA	0.4	0.9	1.2	2.0	3.0	3.8	5.0	NA	31
Crompton Greaves	1.4	1.9	1.8	2.8	4.0	5.8	6.9	8.6	11.5	33	29
Cummins	1.4	1.8	2.4	2.8	4.1	4.4	6.6	8.9	10.4	26	25
L&T	5.8	7.8	13.6	20.7	27.0	30.4	38.2	45.9	58.7	39	24
Siemens**	2.5	3.6	5.2	4.7	6.5	8.3	10.2	13.0	16.4	27	27
Thermax	0.7	1.0	1.9	2.9	2.9	1.4	3.6	4.8	5.9	16	27

*December year ending(FY08=CY07) **September year ending (Sep'07= FY07)

Industrial business: improving capex scenario aids growth

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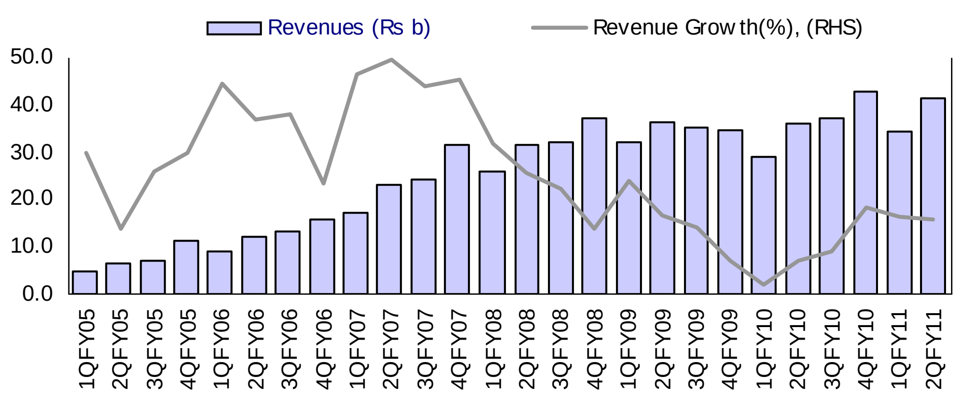
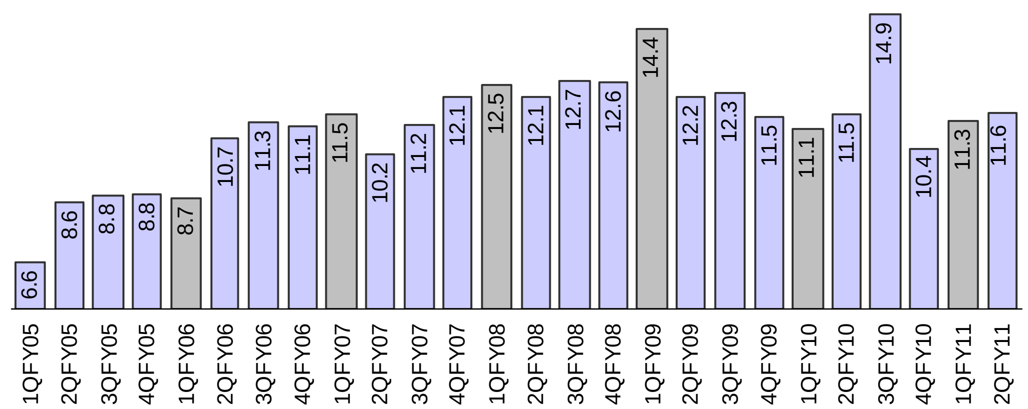
Industrial business revenue grew16% YoY in 2QFY11 and it was 17% for 1HFY11, compared with growth of 5% in FY10. With IIP growth averaging more than 10.5% in YTD FY11 strong demand traction from end user segments is pushing up revenue and improving the business environment for this segment

Industrial segment: Revenue growth of 17% in 1HFY11



EBIT margins for the industry at the end of 2QFY11 were 11.6% (flat YoY) but in 1HFY11 they expanded 540bp YoY to 13.5% due to improved revenue growth of 17%. The segment is exposed to industrial slowdown in other geographies like the Middle East (L&T MIP) where inadequate demand has resulted in price driven competition

2QFY11 industrial EBIT margins flat at 11.6%, up 540bp in 1HFY11

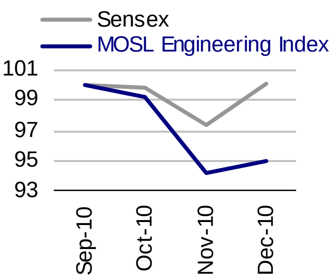


Source: Company/MOSL

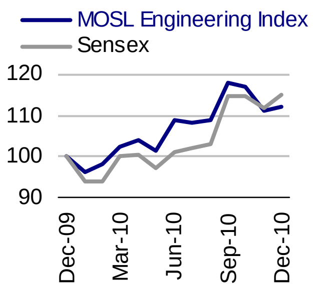
Valuations attractive, Buy

Our engineering sector universe trades at an FY11E P/E of 21x and P/BV of 6x. We expect earnings and revenue CAGR of 27% and 25% respectively over FY11-13. Strong growth in the Capital Goods Index implies a thrust on investment by the manufacturing sector. As capacity utilizations in key sectors picks up, order-books of capital goods companies will rise, resulting in accelerated revenue and profit growth. We are positive about the sector and have **Buy** ratings on **BHEL**, **BGR Energy**, **Cummins**, **L&T** and **Siemens**.

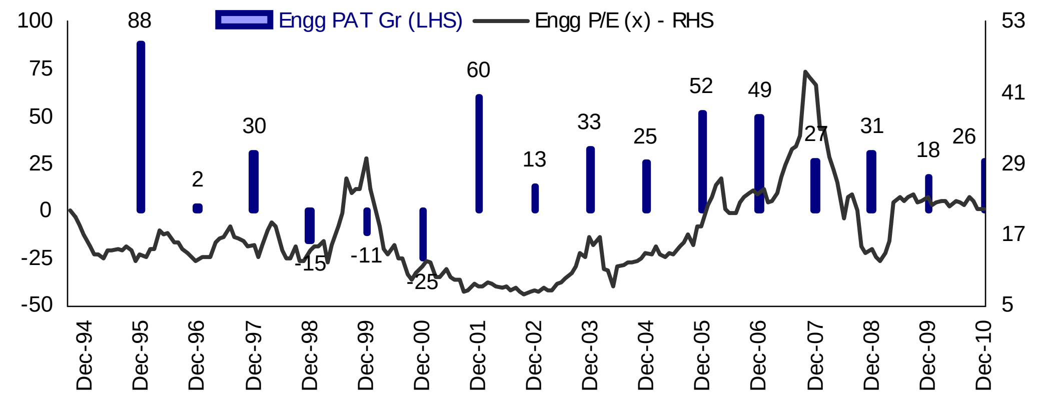
Relative Performance-3m (%)



Relative Performance-1Yr (%)



Engineering sector universe trades at FY11 P/E of 23x



Source: Company/MOSL

Comparative valuation

	CMP (Rs) 24.12.10	Rating	EPS (Rs) FY11E	EPS (Rs) FY12E	EPS (Rs) FY13E	P/E (x) FY11E	P/E (x) FY12E	P/E (x) FY13E	EV/EBITDA FY11E	EV/EBITDA FY12E	EV/EBITDA FY13E	RoE (%) FY11E	RoE (%) FY12E	RoE (%) FY13E
Engineering														
ABB	804	Neutral	5.7	23.9	32.2	140.3	33.7	25.0	122.5	21.8	15.5	4.9	18.4	20.8
BGR Energy	695	Buy	41.0	53.2	69.9	16.9	13.1	9.9	9.2	7.1	5.0	35.5	33.9	33.1
BHEL	2,285	Buy	119.0	146.4	173.0	19.2	15.6	13.2	11.4	9.1	7.6	32.6	32.2	30.8
Crompton Greaves	313	Neutral	14.1	17.3	22.6	22.2	18.1	13.9	18.5	14.7	10.6	34.2	32.9	34.3
Cummins India	749	Buy	33.5	45.0	52.4	22.3	16.6	14.3	16.0	11.8	11.0	38.2	40.5	36.8
Larsen & Toubro	1,957	Buy	75.8	93.7	119.1	25.8	20.9	16.4	21.3	17.0	13.5	19.4	20.3	22.3
Siemens	810	Buy	24.5	30.1	38.6	33.0	26.9	21.0	19.4	16.1	12.2	25.6	25.9	27.4
Thermax	836	Neutral	30.4	40.6	49.2	27.5	20.6	17.0	17.6	13.2	10.9	29.9	31.5	29.7
Sector Aggregate						**23.9**	**18.8**	**15.3**	**16.5**	**12.8**	**10.4**	**26.1**	**27.4**	**29.0**

ABB

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	ABB IN
Equity Shares (m)	211.9
52 Week Range (Rs)	975 / 669
1,6,12 Rel Perf (%)	-8 / -22 / -11
Mcap (Rs b)	170.5
Mcap (USD b)	3.8

CMP: Rs804 **Neutral**

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
12/09A	62,372	3,546	16.7	-33.4	48.1	7.0	15.6	24.3	2.6	31.2
12/10E	61,241	1,215	5.7	-65.7	140.3	6.7	4.9	8.1	2.7	122.5
12/11E	72,273	5,060	23.9	316.6	33.7	5.7	18.4	28.6	2.2	21.8
12/12E	88,560	6,818	32.2	34.7	25.0	4.8	20.8	32.2	1.8	15.5

- Order backlog at the end of 3QCY10 was Rs92b, up 14% YoY, book to bill ratio was 1.5x TTM revenue, which increased from 0.9x in CY08. This is driven by a higher share of projects in the order book, entailing comparatively longer execution period.
- In 4QCY10, orders worth Rs2.61b were received in the automation business. The orders were from SAIL (Rs1b) and Samsung Korea (Rs1.5b) However, ABB announces orders selectively and thus order announcements do not provide an indication of the actual intake. Order intake in 3QCY10 was worth Rs20b, up 7% YoY. Order intake in the 9MCY10 was Rs50b, down 21% YoY.
- 3QCY10 revenue growth was down 7% YoY and QoQ. Sluggish growth in the power systems, (9MCY10 revenue down 8%), process automation (9MCY10 revenue down 11%) and power products (9MCY10 revenue down 9%) hampered growth in YTD CY10. For 4QCY10 we expect flat revenue (down 1% YoY). Poor order intake, project withdrawals and extended threshold levels of revenue and margin recognition have led to flat revenue and a PAT decline of 77% YoY in 9MCY10.
- In 3QFY11 EBITDA margins were negative 1%. This steep contraction was due to a decline in the power systems, in which EBIT margins were negative 1% v/s 1.2% a year earlier and for power products they were negative 1%. Cost escalations, project related write-offs, price driven competition in the product business have been some of the reasons for the decline in margins in the power group. In 4QCY10, we expect EBITDA margins of 5%, down 180bp YoY.
- In 3QCY10 PAT fell 86% YoY and for 9MCY10 it was down 77% YoY. For 4QCY10 we expect PAT to decline 25% YoY as profitability in the power systems (20% of revenue) continues to be a drag. For CY10, we expect PAT to decline 66% due to a 2% decline in revenue. We expect EBITDA margins to be 2.2% (down 6pp YoY) in CY10.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E DECEMBER	CY09				CY10				CY09	CY10E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Sales	**13,931**	**15,050**	**14,538**	**18,852**	**14,559**	**14,466**	**13,490**	**18,727**	**62,372**	**61,241**
Change (%)	(9.3)	(6.9)	(4.3)	(13.0)	4.5	(3.9)	(7.2)	(0.7)	-8.8	-1.8
EBITDA	**1,271**	**1,281**	**1,223**	**1,279**	**29**	**500**	**-134**	**946**	**5,287**	**1,340**
Change (%)	-26.4	-32.7	-9.3	-52.3	-97.7	-60.9	-111.0	-26.1	-31.0	-74.6
As % of Sales	9.1	8.5	8.4	6.8	0.2	3.5	(1.0)	5.0	8.5	2.2
Depreciation	109	125	127	125	120	122	126	151	485	519
Interest	103	80	44	26	38	43	45	49	254	175
Other Income	143	209	159	215	212	220	513	249	726	1,194
PBT	**1,202**	**1,284**	**1,212**	**1,343**	**83**	**555**	**208**	**994**	**5,274**	**1,841**
Tax	419	448	381	480	17	172	93	344	1,728	626
Effective Tax Rate (%)	34.8	34.9	31.4	35.7	20.4	31.0	44.7	34.6	32.8	34.0
Repoted PAT	**783**	**836**	**831**	**864**	**66**	**383**	**115**	**650**	**3,546**	**1,215**
Adj. PAT	**783**	**836**	**831**	**864**	**66**	**383**	**115**	**650**	**3,546**	**1,215**
Change (%)	-33.4	-35.1	-10.4	-55.3	-91.5	-54.2	-86.1	-24.7	-33.4	-65.7

E: MOSL Estimates

Dhirendra Tiwari (Dhirendra.Tiwari@MotilalOswal.com)/Navneet Iyengar (Navneet.Iyengar@MotilalOswal.com)

BGR Energy

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	BGRL IN
Equity Shares (m)	72.0
52 Week Range (Rs)	871 / 438
1,6,12 Rel Perf (%)	-4 / -16 / 28
Mcap (Rs b)	50.0
Mcap (USD b)	1.1

CMP: Rs695 — Buy

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/10A	30,779	2,016	28.0	74.2	24.8	7.1	31.7	22.8	1.6	14.1
03/11E	47,099	2,955	41.0	46.6	16.9	5.2	35.5	25.3	1.0	9.1
03/12E	64,663	3,830	53.2	29.6	13.1	3.8	33.9	25.8	0.8	6.9
03/13E	82,556	5,035	69.9	31.4	9.9	2.9	33.1	27.3	0.6	5.4

- In 3QFY11, we expect revenue of Rs10b, up 60% YoY, EBITDA of Rs1.1b, up 64% with margins of 11.5% (up 30bp YoY) and net profit of Rs657m, up 57% YoY. In FY11 we expect revenue growth of 53% with margins of 11.4% (flat YoY) and PAT growth of 47%.

- BGR's order book at the end of 2QFY11 was Rs105b (down 14% YoY, up 4% QoQ) and BTB ratio was 2.4x TTM revenue. BGR is technically qualified for two super-critical projects of the Rajasthan Electricity Board, each with 2x660MW configuration of Rs65b of order-value. BGR expects to bag at least one of them. There has been a delay in price bid submission for the projects (earlier it was expected in September 2010). However, the management expects bid-opening will be complete in December. Success in the project will ensure order-inflow of Rs120b, 3.5x FY10 order-intake, providing earnings visibility over FY12-13.

- BGR Energy expects bids to be invited for a 1x 600MW power project, in Tamil Nadu. It is also executing a 600MW power project in the state. The company has bid for the boiler package of NTPC bulk tender (11 x 660MW). We expect BGR's order-book to double to Rs200b by the end of FY11 from its current level of Rs105b (at the end of 2QFY11. The company recently received an order worth Rs21.68b for BoP works for a 2 x 660MW super-critical project in Andhra Pradesh. This contract was awarded by Gayatri Projects (Andhra Pradesh) and Sembcorp (Singapore) consortium.

- We expect BGR to report revenue and PAT CAGR of 33% and 31% respectively over FY11-13.

QUARTERLY PERFORMANCE (STANDALONE) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales	**3,111**	**4,660**	**6,351**	**16,571**	**9,054**	**11,337**	**10,162**	**16,505**	**30,692**	**47,058**
Change (%)	1.4	9.7	34.4	130.7	191.1	143.3	60.0	-0.4	59.7	53.3
EBITDA	**422**	**596**	**714**	**1,752**	**1,038**	**1,323**	**1,174**	**1,860**	**3,480**	**5,377**
Change (%)	35.5	36.2	44.2	112.6	145.7	122.0	64.3	6.1	63.3	54.5
As of % Sales	13.6	12.8	11.2	10.6	11.5	11.7	11.5	11.3	11.3	11.4
Depreciation	21	23	24	31	31	33	38	40	98	141
Interest	163	164	93	118	116	138	191	509	538	954
Other Income	67	53	37	39	26	26	50	88	202	190
PBT	**307**	**463**	**635**	**1,642**	**917**	**1,178**	**995**	**1,398**	**3,047**	**4,471**
Tax	104	157	216	559	312	400	338	475	1,037	2,951
Effective Tax Rate (%)	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0	66.0
Reported PAT	**202**	**306**	**419**	**1,083**	**605**	**778**	**657**	**923**	**2,010**	**2,951**
Change (%)	17.4	29.0	54.0	130.6	199.2	154.5	56.6	-14.8	74.7	46.8
Adj PAT	**202**	**306**	**419**	**1,083**	**605**	**778**	**657**	**923**	**2,010**	**2,951**
Change (%)	17.4	29.0	54.0	130.6	199.2	154.5	56.6	(14.8)	74.7	46.8

E: MOSL Estimates

Dhirendra Tiwari (Dhirendra.Tiwari@MotilalOswal.com)/Navneet Iyengar (Navneet.Iyengar@MotilalOswal.com)

BHEL

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	BHEL IN
Equity Shares (m)	489.5
52 Week Range (Rs)	2,695 / 2,060
1,6,12 Rel Perf (%)	1 / -20 / -19
Mcap (Rs b)	1,118.4
Mcap (USD b)	24.8

CMP: Rs2,285 **Buy**

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/10A	334,757	46,839	95.7	31.3	23.9	7.0	32.5	51.4	3.1	17.2
03/11E	403,304	58,248	119.0	24.4	19.2	5.6	32.6	54.7	2.5	11.4
03/12E	496,027	71,648	146.4	23.0	15.6	4.5	32.2	53.5	2.0	9.1
03/13E	601,472	84,695	173.0	18.2	13.2	3.7	30.8	50.1	1.6	7.6

- In 3QFY11, we expect revenue of Rs88b, up 25% YoY led by steady execution as the 2QFY11 order backlog was Rs1,540b up 22% YoY. We expect the backlog at the end of FY11 to be Rs1,655b, up 15% YoY and revenue growth of 20% YoY.
- In 3QFY11 EBITDA margins are expected to be 20.4% (down 160bp YoY) and PAT is expected to be Rs12b, up 10.3% YoY. For 9MFY11 we expect revenue and PAT growth of 23% and 26% respectively.
- In 3QFY11, large orders received amount to Rs37b. The orders received were for Unit-III of a 700MW super-critical BTG from Karnataka SEB at Bellary Karnataka.
- BHEL is the front runner for receiving a significant share of the bulk tendering order of 11 sets of 660MW worth Rs250b for complete turnkey in FY11. 2QFY11 intake was Rs135b (up 68% YoY) and in 1HFY11 it was Rs243b, up 17% YoY. FY10 order intake was Rs590b, down 4%.
- In 3QFY11 BHEL and GE formed a water treatment solutions JV. According to the agreement BHEL and GE will jointly engineer and supply water treatment solutions to utilities. The membrane based technology will help to treat saline/brackish water for boilers and washeries.
- We expect PAT and revenue CAGR of 21% and 22% respectively over FY11-13.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales (Net)	**55,957**	**66,252**	**71,003**	**135,591**	**64,797**	**84,907**	**88,727**	**163,660**	**328,803**	**394,785**
Change (%)	29.3	24.0	17.9	28.6	15.8	28.2	25.0	20.7	25.3	20.1
EBITDA	**5,920**	**12,318**	**15,617**	**28,728**	**9,670**	**16,324**	**18,118**	**41,708**	**62,583**	**85,820**
Change (%)	28.8	51.6	36.1	43.2	63.4	32.5	16.0	45.2	41.4	37.1
As a % Sales	10.6	18.6	22.0	21.2	14.9	19.2	20.4	25.5	19.0	21.7
Adjusted EBITDA	**5,920**	**12,318**	**15,617**	**35,074**	**9,670**	**16,324**	**18,118**	**41,708**	**68,929**	**85,820**
Change (%)	9.3	35.6	24.5	47.3	63.4	32.5	16.0	18.9	35.5	24.5
As a % Sales	10.6	18.6	22.0	25.9	14.9	19.2	20.4	25.5	21.0	21.7
Interest	43	45	69	178	38	59	144	240	335	482
Depreciation	961	934	1,038	1,647	1,269	1,341	1,350	1,349	4,580	5,309
Other Income	2,271	1,955	1,933	2,080	1,635	1,620	2,204	4,125	8,239	9,583
PBT	**7,187**	**13,294**	**16,443**	**28,983**	**9,998**	**16,544**	**18,828**	**44,244**	**65,907**	**89,613**
Tax	2,481	4,715	5,717	9,887	3,301	5,121	6,590	16,353	22,800	31,364
Effective Tax Rate (%)	34.5	35.5	34.8	34.1	33.0	31.0	35.0	37.0	34.6	35.0
Reported PAT	**4,706**	**8,579**	**10,726**	**19,096**	**6,697**	**11,423**	**12,238**	**27,891**	**43,106**	**58,248**
Change (%)	22.4	39.3	35.7	41.7	42.3	33.2	14.1	46.1	37.4	35.1
Adj. PAT	**4,533**	**8,579**	**11,096**	**22,633**	**6,697**	**11,423**	**12,238**	**27,891**	**46,839**	**58,248**
Change (%)	3.5	26.6	29.0	42.2	47.7	33.2	10.3	23.2	31.3	24.4

E: MOSL Estimates

Dhirendra Tiwari (Dhirendra.Tiwari@MotilalOswal.com)/Navneet Iyengar (Navneet.Iyengar@MotilalOswal.com)

Crompton Greaves

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	CRG IN
Equity Shares (m)	641.5
52 Week Range (Rs)	349 / 219
1,6,12 Rel Perf (%)	-11 / 8 / 15
Mcap (Rs b)	200.9
Mcap (USD b)	4.5

CMP: Rs313 **Neutral**

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS* (RS)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	52,840	8,098	12.6	44.6	24.8	11.4	38.4	55.0	3.7	22.8
3/11E	62,965	9,055	14.1	11.8	22.2	8.8	34.2	50.2	3.1	18.5
3/12E	75,644	11,126	17.3	22.9	18.1	6.9	32.9	49.0	2.5	14.7
3/13E	91,157	14,485	22.6	30.2	13.9	5.3	34.3	51.5	2.0	10.6

** Consolidated; pre-exceptionals*

- In 3QFY11 we expect Crompton Greaves to post standalone revenue of Rs15b, up 24% YoY and in FY11 we expect it to Rs63b, up 19% YoY. We expect PAT to be Rs1.6b up 19% YoY and in FY11, Rs6.8b, up 18%.
- The consolidated order backlog at the end of 2QFY11 was Rs71b with BTB of 0.8x, and was up 11% YoY. The international business has a backlog of Rs38b and forms 53% of the consolidated backlog. The standalone order book at the end of 2QFY11 was Rs33b, flat YoY and forms 46% of the overall backlog. The management has guided for standalone revenue growth of 13-15% YoY and for international business, the FY11 growth guidance is flattish. In FY10, Crompton emerged as the biggest player in the 765kV market with a 45% share in transformers and reactor orders from PGCIL.
- In 2QFY11 international business revenue rose 4% YoY and PAT fell 4% YoY. EBITDA margins were 10.7% (flat YoY). In FY11 we expect this business to post 7% revenue and a 9% PAT decline due to a lack of volume growth in the EU and the US, leading to limited operational leverage to expand margins.
- EBITDA margins for the standalone business in 2QFY11 were 16%, flat YoY. In 3QFY11 we expect margins to be 16.3% (flat YoY) and for FY11 we expect them to be 16.5% (up 30bp YoY).
- We expect Crompton to post consolidated earnings of Rs9b (up 12% YoY) for FY11 and Rs11b (up 24% YoY) for FY12. Consolidated PAT CAGR will be 27% over FY11-13.

QUARTERLY PERFORMANCE (STANDALONE) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales	**11,735**	**12,686**	**12,238**	**16,182**	**13,429**	**14,448**	**15,128**	**19,960**	**52,840**	**62,965**
Change (%)	8.4	16.8	13.3	18.8	14.4	13.9	23.6	23.3	14.6	19.2
EBITDA	**1,740**	**2,094**	**2,036**	**2,707**	**2,094**	**2,309**	**2,458**	**3,497**	**8,578**	**10,358**
Change (%)	26.1	46.7	46.9	24.9	20.3	10.3	20.7	29.2	34.8	20.8
As of % Sales (Adj)	14.8	16.5	16.6	16.7	15.6	16.0	16.3	17.5	16.2	16.5
Depreciation	128	129	132	129	172	195	180	195	519	743
Interest	-6	0	11	38	-6	-7	23	15	44	25
Other Income	84	99	167	337	148	193	225	333	688	898
PBT	**1,702**	**2,064**	**2,060**	**3,281**	**2,075**	**2,314**	**2,480**	**3,619**	**9,106**	**10,488**
Tax	555	703	705	970	654	729	868	1,420	2,933	3,671
Effective Tax Rate (%)	32.6	34.1	34.2	29.6	31.5	31.5	35.0	39.2	32.2	35.0
Reported PAT	**1,147**	**1,361**	**1,354**	**2,311**	**1,422**	**1,585**	**1,612**	**2,199**	**6,173**	**6,817**
Adj PAT	**1,147**	**1,361**	**1,354**	**1,907**	**1,422**	**1,585**	**1,612**	**2,199**	**5,770**	**6,817**
Change (%)	29.1	47.1	59.8	45.7	23.9	16.5	19.0	15.3	46.0	18.2

E: MOSL Estimates

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Cummins India

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	KKC IN
Equity Shares (m)	198.0
52 Week Range (Rs)	810 / 399
1,6,12 Rel Perf (%)	-5 / 15 / 69
Mcap (Rs b)	148.3
Mcap (USD b)	3.3

CMP: Rs749 **Buy**

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS* (RS)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	28,449	4,439	22.4	7.1	33.4	9.6	30.4	39.5	4.9	26.6
3/11E	42,341	6,641	33.5	49.6	22.3	7.7	38.2	47.6	3.3	16.0
3/12E	54,240	8,913	45.0	34.2	16.6	6.0	40.5	49.2	2.5	11.8
3/13E	64,632	10,377	52.4	16.4	14.3	4.7	36.8	44.9	2.0	9.7

** Consolidated; pre-exceptionals*

- In 3QFY11 we expect revenue of Rs10b, up 32% YoY, EBITDA of Rs2.2b, up 18% and margins of 20.5% (down 242bp YoY) and net profit of Rs1.7b, up 13% YoY. In FY11 we expect revenue growth of 49% with margins of 21% (up 192bp) and PAT growth of 50%.
- After sluggish demand in FY09 and in 1HFY10, the domestic engine market has recovered over the past 6-8 months. With a growing power shortage, demand for diesel generator sets will continue to be strong. We expect domestic sales to post 24% CAGR over FY11-13. We expect project exports to grow to Rs15b by FY12, from a low of Rs4.8b in FY10, buoyed by strong recovery in American and Asian markets.
- Cummins India has surprised markets by improved margins over the past two years. In FY10, EBITDA margins improved by 410bp to 18.5%. The company posted margins of 20.5%, (up 130bp YoY) in 1HFY11. We believe a better product mix, healthy pricing environment, stable commodity prices and continuous cost-cutting initiatives will keep margins strong.
- Cummins India will spend US$300m on its new mega-site at Phaltan near Pune. In FY11 Cummins will commission four facilities, including a parts distribution center and reconditioning factory at the megasite, on which it began work about two years ago.
- We expect Cummins India to post earnings of 25% CAGR over FY11-13. Earnings will be driven by strong revenue growth and a 260bp margin improvement to 21.1% in FY12. Our EPS estimates are Rs34 (up 50%) for FY11 and Rs45 for FY12 (up 34%).

QUARTERLY PERFORMANCE (STANDALONE) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales	**6,398**	**6,191**	**8,279**	**7,883**	**9,279**	**10,914**	**10,928**	**11,219**	**28,449**	**42,341**
Change (%)	-9.5	-21.6	10.5	-27.1	45.0	76.3	32.0	42.3	-13.9	48.8
EBITDA	**1,174**	**1,135**	**1,898**	**1,609**	**1,975**	**2,172**	**2,240**	**2,278**	**5,275**	**8,665**
Change (%)	25.2	8.4	35.1	-11.6	68.3	91.5	18.0	41.6	10.5	64.3
As of % Sales	18.3	18.3	22.9	20.4	21.3	19.9	20.5	20.3	18.5	20.5
Depreciation	89	99	76	98	93	93	95	114	361	395
Interest	6	8	0	3	4	4	5	7	21	20
Other Income	166	165	206	138	97	205	250	421	1,216	972
PBT	**1,245**	**1,193**	**2,028**	**1,646**	**1,974**	**2,281**	**2,390**	**2,578**	**6,109**	**9,223**
Tax	350	316	543	463	572	602	717	692	1,670	2,582
Effective Tax Rate (%)	28.1	26.4	26.8	28.1	29.0	26.4	30.0	26.8	27.3	28.0
Reported PAT	**896**	**878**	**1,485**	**1,183**	**1,403**	**1,679**	**1,673**	**1,886**	**4,439**	**6,641**
Change (%)	1.5	-6.6	11.4	0.1	56.6	91.3	12.7	59.4	2.4	49.6

E: MOSL Estimates

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Larsen & Toubro

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	LT IN
Equity Shares (m)	602.2
52 Week Range (Rs)	2,212 / 1,371
1,6,12 Rel Perf (%)	-6 / -4 / 1
Mcap (Rs b)	1,178.4
Mcap (USD b)	26.1

CMP: Rs1,957 **Buy**

YEAR END	NET SALES (RS M)	PAT * (RS M)	EPS* (RS)	EPS GR. (%)	P/E* (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	370,348	37,110	61.6	20.1	31.8	6.4	19.8	23.1	3.3	25.8
3/11E	443,970	45,675	75.8	23.1	25.8	5.6	19.4	22.1	2.8	21.3
3/12E	565,145	56,436	93.7	23.6	20.9	4.8	20.3	22.2	2.2	17.0
3/13E	789,255	71,708	119.1	27.1	16.4	4.1	22.3	24.0	1.6	13.5

** Consolidated; EPS is fully diluted*

- 3QFY11 order intake, announced so far stands at Rs74b. Order intake in 2QFY11 was Rs204b (up 11.4% YoY) and in 1HFY11 at Rs360b (up 29% YoY). Order backlog at the end 2QFY11 was Rs1,153b (up 41% YoY) with a book/ bill ratio of 3x TTM revenue. We project FY11 backlog of Rs1,448b (up 45%) and intake at Rs891b (up 28%).
- Major orders announced in 3QFY11 include (a) a BOP package, in Chhatisgarh, for 2X600MW TPS from the Dainik Bhaskar group, (b) construction of a new airport terminal and related electronic/automation systems inclusive of air traffic control tower (Rs22b) and (c) construction of residential and commercial establishments (Rs22b).
- In 3QFY11 we expect adjusted EBITDA margins of 12% up 20bp YoY and for FY11 we expect them to be 12.6%, up 50bp. Given the large power projects under execution and L&T's margin-recognition norm of 25% project completion (project execution greater than two years) we feel FY11 and FY12 will account for most of the costs being booked for the power sector orders.
- In FY10 the EBG and MIP division reported lackluster revenue growth of 7.2% and -7.3% respectively. In 2QFY11 they grew by -5% and 37% respectively. Demand for industrial automation is weak in developed markets including the Middle East, which has resulted in price driven competition.
- The management has guided for 20% revenue growth and 25% intake growth in FY11. We estimate revenue and PAT CAGR of 33% and 25% respectively over FY11-13.

QUARTERLY PERFORMANCE (STANDALONE) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	**73,627**	**78,662**	**80,714**	**133,749**	**78,351**	**92,608**	**96,976**	**172,844**	**366,752**	**440,779**
Change (%)	6.7	2.3	-6.1	27.8	6.4	17.7	20.1	29.2	9.0	20.2
EBITDA	**7,863**	**7,846**	**9,561**	**18,406**	**9,568**	**9,357**	**11,637**	**24,519**	**44,559**	**55,082**
Margin (%)	10.7	10.0	11.8	13.8	12.2	10.1	12.0	14.2	12.1	12.5
Adjusted EBITDA	**7,863**	**7,846**	**9,561**	**18,406**	**9,568**	**9,957**	**11,637**	**24,519**	**44,559**	**55,682**
Adjusted Margin (%)	10.7	10.0	11.8	13.8	12.2	10.8	12.0	14.2	12.1	12.6
Depreciation	937	1,001	1,045	1,162	1,142	1,212	1,310	1,492	4,146	5,155
Interest	1,096	1,310	1,339	1,356	1,423	1,932	1,400	935	5,053	5,690
Other Income	2,683	2,702	2,844	5,401	2,770	4,522	2,700	1,583	12,699	11,574
Extraordinary Inc/(Exp)	10,199	120	626	961	0	708	0	0	10,748	708
Reported PBT	**18,712**	**8,357**	**10,646**	**22,249**	**9,773**	**11,444**	**11,627**	**23,675**	**58,807**	**56,519**
Tax	2,730	2,707	3,058	7,914	3,112	3,794	3,721	6,946	16,409	17,571
Effective Tax Rate (%)	14.6	32.4	28.7	35.6	31.8	33.2	32.0	29.3	27.9	31.1
Reported PAT	**15,982**	**5,650**	**7,589**	**14,335**	**6,662**	**7,650**	**7,906**	**16,730**	**42,398**	**38,948**
Adjusted PAT	**5,783**	**5,530**	**6,103**	**13,374**	**6,662**	**6,941**	**7,906**	**16,730**	**30,790**	**38,239**
Change (%)	17.9	10.5	-4.7	25.6	15.2	25.5	29.6	25.1	14.2	24.2

E: MOSL Estimates

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Siemens

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	SIEM IN
Equity Shares (m)	337.0
52 Week Range (Rs)	857 / 550
1,6,12 Rel Perf (%)	0 / -4 / 24
Mcap (Rs b)	272.8
Mcap (USD b)	6.0

CMP: Rs810 **Buy**

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS* (RS)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
9/10A	94,001	8,270	24.5	49.1	33.0	7.7	25.6	40.3	2.7	19.4
9/11E	120,787	10,158	30.1	22.8	26.9	6.4	25.9	39.8	2.1	16.5
9/12E	151,813	13,007	38.6	28.1	21.0	5.3	27.4	41.9	1.7	12.8
9/13E	188,727	16,413	48.7	26.2	16.6	4.3	28.4	43.2	1.3	10.2

**Consolidated*

- In 1QFY11 (year ending September), we expect Siemens to report revenue of Rs23b, up 23% YoY, EBIDTA of Rs2.8b (down 23% YoY), and net profit of Rs1.8b (down 24% YoY). In FY10 the industry and energy segments' revenue grew 10.3% and 8.4% respectively and EBIT margins were 8.1% (up 262bp) and 15% (up 137bp).
- The order book at the end of FY10 was Rs135b (up 32%). In 4QFY10, order intake was Rs20b (up 15% YoY, up 50% QoQ). In 3QFY10 Siemens signed an agreement with the Delhi Metro Rail to build coaches and complete signaling systems for the line-2. The BTB ratio is 1.6x TTM revenue.
- In FY10, EBIT margins for the industry segment improved 262bp to 8.1% and the energy segment had margins of 15% up 137bp. Material costs in FY10 dropped 180bp and hence EBITDA margins improved 170bp to 13.8%.
- Siemens has gained a chunk of the market share in the 765kV substation orders and it remains to be seen how the execution of these orders pans out in FY11. Our data suggests PGCIL orders totaling Rs5.7b in FY10 in the 765kV sub-station space have been awarded to Siemens.
- We expect Siemens to report FY11 consolidated EPS of Rs30 (up 23%) and for FY12, Rs37 (up 28%). We estimate revenue and PAT CAGR of 25% and 27% respectively over FY11-13.

QUARTERLY PERFORMANCE (STANDALONE) (RS MILLION)

Y/E SEPTEMBER	FY10				FY11E				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Total Revenues	**18,666**	**22,261**	**22,464**	**30,610**	**22,950**	**28,989**	**28,989**	**39,860**	**94,001**	**120,787**
Change (%)	13.8	-6.6	17.1	21.6	22.9	30.2	29.0	30.2	11.1	28.5
EBITDA	**3,633**	**2,861**	**2,420**	**4,018**	**2,787**	**3,615**	**3,315**	**5,549**	**12,932**	**15,265**
Change (%)	113.4	-18.0	-5.9	62.8	-23.3	26.3	37.0	38.1	26.4	18.0
As % of Revenues	19.5	12.9	10.8	13.1	12.1	12.5	11.4	13.9	13.8	12.6
Depreciation	212	237	249	316	250	300	300	354	1,015	1,204
Interest Income	157	117	181	215	200	300	300	300	670	1,204
PBT	**3,579**	**2,741**	**2,351**	**3,917**	**2,737**	**3,615**	**3,315**	**5,495**	**12,587**	**15,161**
Tax	1,214	930	790	1,384	930	1,157	1,061	1,855	4,317	5,003
Effective Tax Rate (%)	33.9	33.9	33.6	35.3	34.0	32.0	32.0	33.8	34.3	33.0
Reported PAT	**2,365**	**1,811**	**1,561**	**2,533**	**1,806**	**2,458**	**2,254**	**3,640**	**8,270**	**10,158**
Adjusted PAT	**2,365**	**1,811**	**1,561**	**2,533**	**1,806**	**2,458**	**2,254**	**3,640**	**8,270**	**10,158**
Change (%)	98.2	-19.7	-9.5	67.1	-23.6	35.7	44.4	43.7	39.9	22.8

E: MOSL Estimates

Dhirendra Tiwari (Dhirendra.Tiwari@MotilalOswal.com)/Navneet Iyengar (Navneet.Iyengar@MotilalOswal.com)

Thermax

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	TMX IN
Equity Shares (m)	119.2
52 Week Range (Rs)	927 / 560
1,6,12 Rel Perf (%)	-9 / 4 / 25
Mcap (Rs b)	99.6
Mcap (USD b)	2.2

CMP: Rs836 **Neutral**

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS* (RS)	EPS GR.* (%)	P/E* (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	33,703	2,592	21.8	-9.9	36.3	8.6	25.0	38.2	2.5	21.1
3/11E	46,535	3,622	30.4	39.8	26.0	6.9	29.9	45.2	1.9	15.9
3/12E	61,054	4,842	40.6	33.7	19.4	5.4	31.5	47.9	1.4	11.9
3/13E	72,568	5,857	49.2	21.0	16.1	4.2	29.7	45.2	1.2	9.8

** Consolidated*

- In 3QFY11 we expect revenue of Rs10b, up 35% YoY, EBITDA of Rs1.2b, up 38%, margins of 12.2% (up 40bp YoY) and net profit of Rs808m, up 43% YoY. In FY11 we expect revenue growth of 41% with margins of 12.2% (up 10bp) and PAT growth of 41%.

- Thermax's consolidated order book at the end of 2QFY11 was Rs72b (up 43% YoY, up 4% QoQ) with a BTB ratio 2x. The energy division contributed Rs62b (86%) and the environment contributed Rs10b (14%) to the order backlog. A JV with B&W (51:49) will have a peak production capacity of 3GW to be set up over 18 months and will employ about 500 people at a site, which the company has yet to finalize. In 3QFY11 Thermax announced its 100% stake acquisition of Danstoker A/S of Denmark, which has significant expertise in selling boilers using bio-mass and waste heat as feed stock (85% share of revenue) in Europe. The acquisition cost of 30m euros will be funded through internal accruals.

- Thermax's JVs with SPX Corp, USA for air pollution control systems in power plants and other commercial establishments and its other JV with Lambion for waste to energy conversion will propel the growth of its environment division. Water and waste management solutions under the JNNURM schemes occupy a 25% share of projects, representing an opportunity of Rs150b over the next two-three years.

- We expect Thermax to post revenue and PAT CAGR of 25% and 27% respectively over FY11-13. We expect consolidated PAT of Rs3.7b in FY11 (up 41%) and Rs4.9b in FY12 (up 33%).

QUARTERLY PERFORMANCE (STANDALONE) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales	**5,441**	**6,804**	**7,483**	**12,193**	**7,898**	**10,916**	**10,101**	**15,963**	**31,855**	**44,879**
Change (%)	-24.1	-15.4	-5.9	28.6	45.2	60.4	35.0	30.9	-2.3	40.9
EBITDA	**689**	**792**	**894**	**1,466**	**960**	**1,286**	**1,232**	**1,997**	**3,841**	**5,475**
Change (%)	-24.4	-15.0	-7.6	10.0	39.3	62.3	37.9	36.3	-7.3	42.5
As of % Sales	12.7	11.6	11.9	12.0	12.2	11.8	12.2	12.5	12.1	12.2
Depreciation	95	104	104	101	106	105	105	119	404	435
Interest	5	1	6	3	6	5	5	5	15	20
Other Income	103	142	74	179	140	133	120	110	498	503
PBT	**692**	**829**	**858**	**392**	**988**	**1,309**	**1,243**	**1,983**	**3,919**	**5,524**
Tax	227	288	292	549	326	414	435	730	1,356	1,906
Effective Tax Rate (%)	32.8	34.7	34.1	140.0	33.0	31.6	35.0	36.8	34.6	34.5
Reported PAT	**465**	**541**	**565**	**-157**	**662**	**895**	**808**	**1,253**	**1,414**	**3,618**
Change (%)	-27.0	-5.0	-21.8	-116.6	42.4	65.4	43.0	-899.3	-50.8	155.8
Adj PAT	**465**	**541**	**565**	**992**	**662**	**895**	**808**	**1,253**	**2,563**	**3,618**
Change (%)	(27.0)	(5.0)	(21.8)	6.7	42.4	65.4	43.0	26.3	(10.4)	41.2

E: MOSL Estimates

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FMCG

COMPANY NAME

- Asian Paints
- Britannia Industries
- Colgate Palmolive
- Dabur India
- GSK Consumer
- Godrej Consumer Products
- Hindustan Unilever
- ITC
- Marico
- Nestle India
- United Spirits

FMCG universe to post 20% sales growth; margin contraction to restrict PAT growth: We expect our FMCG coverage universe to post ~20% growth in 3QFY11. EBITDA is likely to grow 18.4%, as we see margin pressure for companies like HUL, Marico and Godrej Consumer. PAT growth is likely to be lower at 17.3%. We expect ITC to post 17.9% sales growth (2.5% cigarette volume growth) and 17% PAT growth, while HUL is likely to report 11% sales growth and 180bp margin contraction.

Sharp surge in raw material prices to impact margins: The input costs index for major FMCG companies is firm, as both agri and crude-linked input prices have been northbound. Major inputs that have spiked in recent months include PFAD (up 40% in the past three months), copra (up 30% in the last three months) and titanium dioxide (up 9% in the last three months). Sugar and ENA prices have corrected (down 30% and 15%, respectively from the peak), although significant decline from these levels appears unlikely. Prices of tea, milk and wheat are steady. We believe that input cost trend will impact margins of select companies like HUL, Asian Paints, Marico, Dabur and GCPL.

Competitive intensity rising; pricing power visible in select players: Recognizing the huge growth potential that the Indian FMCG space offers, new MNCs are joining the fray and existing domestic FMCG players are entering new categories in search of new growth drivers. We see the competitive intensity being reflected in realizations (price corrections) as well as increased ASP (advertising and sales promotion). Nevertheless, we note that pricing power is likely to sustain for Asian Paints (Decorative Paints), ITC (Cigarettes), Nestle (Instant Coffee and Infant Nutrition) and GSK Consumer.

Downgrading estimates of United Spirits and Marico; sector view cautious: We are lowering our FY11 and FY12 EPS estimates by 12% for Marico due to 40% increase in copra prices in the last three months and by 15-17% for United Spirits due to lower than anticipated decline in ENA cost. We are downgrading our rating on United Spirits from Buy to **Neutral**. FMCG companies are trading near their peak valuations even as competition is intensifying and input costs are rising. We continue to prefer niche plays that face low competition. ITC and Asian Paints are our top picks in the sector.

Expected quarterly performance summary (Rs million)

	CMP (Rs) 24.12.10	Rating	Sales Dec.10	Sales Var. % YoY	Sales Var. % QoQ	EBITDA Dec.10	EBITDA Var. % YoY	EBITDA Var. % QoQ	Net profit Dec.10	Net profit Var. % YoY	Net profit Var. % QoQ
FMCG											
Asian Paints	2,887	Buy	20,412	26.0	12.7	3,797	19.4	14.5	2,463	24.1	14.7
Britannia	397	Neutral	11,458	30.0	4.7	630	65.9	19.2	402	11.5	21.2
Colgate	851	Neutral	5,667	15.5	2.7	1,499	23.7	15.6	1,165	10.0	16.1
Dabur	100	Neutral	10,836	17.0	11.4	2,081	17.3	2.6	1,572	14.1	-2.0
Godrej Consumer	392	Neutral	8,950	72.9	-6.1	1,674	65.0	-1.0	1,178	38.4	-9.5
GSK Consumer	2,169	Buy	4,947	18.3	-19.2	426	15.8	-55.2	441	31.0	-43.9
Hind. Unilever	295	Neutral	50,763	11.0	6.5	7,868	-0.1	21.6	6,450	7.7	22.7
ITC	170	Buy	54,000	17.9	4.9	20,300	18.9	8.3	13,396	17.1	7.4
Marico	121	Neutral	8,102	21.0	4.0	867	-12.2	-8.6	555	-10.8	-17.4
Nestle	3,676	Buy	16,790	24.2	2.5	3,125	57.7	-2.9	2,121	59.1	-2.2
United Spirits	1,460	Neutral	16,550	22.9	22.2	2,797	26.5	27.7	1,145	18.2	53.5
Sector Aggregate			**208,475**	**20.0**	**5.9**	**45,063**	**18.4**	**8.9**	**30,888**	**17.3**	**8.4**

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Our FMCG coverage universe is likely to post ~20% growth in 3QFY11. Sales growth is not comparable YoY due to the following: (1) GCPL – inclusion of household insecticides business and recent acquisition, (2) Dabur – acquisitions. EBITDA is likely to grow 18.4% as we see margin pressure for companies like HUL, Marico and Godrej Consumer. PAT growth is likely to be lower at 17.3%. We expect ITC to post 17.9% sales growth (2.5% cigarette volume growth) and 17% PAT growth, while HUL is likely to report 11% sales growth and 180bp margin contraction. Nestle India is likely to report strong growth in profit due to low base (3.4% decline in 4QCY09).

Volume growth: consumer demand sustains despite inflation

Consumer demand is sustaining despite the inflationary environment. A normal monsoon has boosted crop output and prices of select crops (sugarcane, cotton, pulses and oilseeds) have increased, resulting in higher farm incomes. Sustained spend under NREGA (National Rural Employment Guarantee Act) schemes would further boost wages of rural laborers. Higher incomes and limited increase in prices of consumer products have enhanced consumer purchasing power. We expect ITC to report ~2% volume growth in cigarettes. HUL's volume growth might decelerate marginally (11.5% in 3QFY11E v/s 14% in 2QFY11). Asian Paints, Nestle and United Spirits should report robust volume growth.

FMCG: Volume growth traction maintained for most companies

Quarter Ending	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10
Asian Paints	17.5	25.0	16.0	24.0	0.0	20.0
Colgate (Toothpaste)	18.0	15.0	11.0	14.0	12.0	13.5
Dabur	13.0	14.5	12.0	17.0	13.5	14.0
GSK Consumer	9.0	10.0	13.0	10.0	18.0	7.5
Hindustan Unilever	1.0	5.0	10.9	10.3	14.0	11.5
ITC (cigarette)	7.5	8.5	8.8	-3.0	-0.5	2.5
Marico						
Parachute	10.0	8.0	10.0	14.0	10.0	9.0
Hair Oil	17.0	10.0	27.0	27.0	18.0	18.0
Saffola	22.0	18.0	13.0	17.5	14.0	15.0
United Spirits	11.1	12.3	16.0	6.0	16.0	15.5

Source:Companies/MOSL

Competitive intensity rising; pricing power visible in select players

We believe the Indian FMCG sector is witnessing heightened competition across segments. Recognizing the huge growth potential that the Indian FMCG space offers, new MNCs are joining the fray and existing domestic FMCG players are entering new categories in search of new growth drivers.

Specifically, we highlight the following:

- P&G has launched *Tide Naturals* (mid/low-priced detergent), cut shampoo and feminine hygiene product prices by 15-20%, reduced *Mach3* prices by 40% and launched *Gillette Guard* at Rs15. In skin care, it has launched *Olay White* in Rs15 sachets and Rs69 small packs.
- GSK has launched instant noodles (*Foodles*), energy drink (*Lucozade*), health snack (*Nutribar*) and value-added biscuits.
- PepsiCo, Danone and Kelloggs have ventured into new categories, in many cases nurturing categories from scratch.
- Kraft's entry could be a major development, as its portfolio will compete with Britannia, Nestle and Amul.

Domestic players like Marico (functional foods, hair oils), Dabur (skin care, CHD) and Emami (hair color, personal care) are increasingly considering new categories to expand their product portfolio.

Renewed aggression by MNCs…

…while domestic players are searching for new growth levers

Source:Companies/MOSL

We see the competitive intensity being reflected in realizations (price corrections) as well as increased ASP (advertising and sales promotion). Nevertheless, we note that pricing power is unlikely to deteriorate for select monopolies like Asian Paints (decorative paints), ITC (cigarettes), Nestle (instant coffee and infant nutrition) and GSK Consumer (MFD).

New launches in premium end of spectrum; slew of winter focused products

We see a common thread running through the launches in the last 2-3 months – most launches were in the premium/value-added segment. With revival in discretionary spend and likely improvement in employment opportunities, FMCG players seem confident of an encouraging response. Importantly, we see this trend extending beyond the metros, with robust demand for value-added products in tier-I and tier-II cities as well.

Most recent launches have been at the premium end

Company	Brand	Category
ITC	Players	Cigarettes
	Yipee!	Instant Noodles
P&G	Wella	Hair Color (cream)
Britannia	Timepass Snack	Baked Snack
	Nutrichoice Ragi	Biscuits
Dabur	Nutrigo	OTC Healthcare
HUL	Ponds Gold radiance	Premium Skin care
	Vaseline Body cream	Winter care cream
Marico	Saffola Oats	Oats
Nestle	Yorkie, Aero, Black Magic, Toffee Crisp	Chocolates and Confectionary
	Maggi Romantic Capsicum	Instant Noodles

Source:Companies/MOSL

There have been a slew of launches targeting needs specific to the winter season. Emami has launched *Vasocare Petroleum*, while Dabur has launched flavored variants of *Chywanprash* (mango and orange) to increase acceptability amongst children. HUL has launched *Vaseline Winter Cream*.

M&A activity rising: Reckitt, Dabur and GCPL acquire brands/companies

The FMCG sector has witnessed a slew of acquisitions over the last two years, led by mid-tier FMCG majors like GCPPL, Dabur and Marico. We see M&A activity as a corollary to heightened competition in domestic market, forcing players to venture out into new categories and/or geographies. Further, to increase their global footprint, FMCG companies are increasingly looking at emerging geographies like Africa, Latin America, East Europe and South East Asia.

During the quarter, Dabur acquired Namaste group, which is based in America and is increasing presence in Africa. GCPL continued its streak of acquisitions, with recent acquisition of two brands – *Genteel* (liquid detergent) and *Swastik* (shikakai soap). However, the most material acquisition in FMCG space in recent months has been that of Paras Pharma. It has created new benchmarks in the domestic OTC and FMCG space, with valuations of 30.2x EV/EBITDA.

Recent acquisitions

Target	Acquirer	Deal Size	Basis
Paras Pharma	Reckitt Benckiser	Rs32.6b	30.2xTrailing EV/EBITDA
Dabur	Namaste	Rs4.5b	1.1x EV/Sales, 8.3xEV/EBITDA
Godrej Consumer	Genteel, Swastik	NA	NA

Source:Companies/MOSL

We note that overseas acquisitions in the consumer space have not been a success in the past. Hence, we are cautious on acquisitions, more so in the overseas markets.

Input cost environment unfavorable; adds to margin pressure

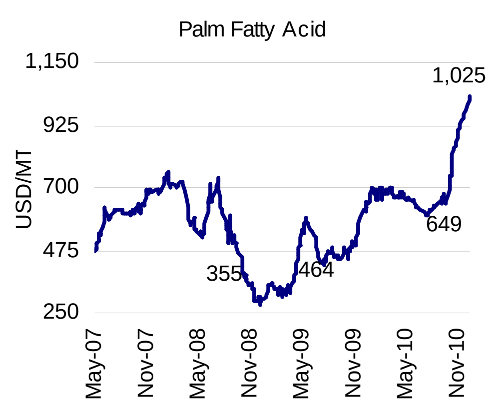
The input costs index for major FMCG companies is firm, as both agri and crude-linked input prices have been northbound. Contrary to earlier expectations of softer input costs during post monsoon period, agri linked input prices have inched up or are steady. Major inputs that have spiked in recent months include PFAD (up 40% in the past three months), copra (up 30% in the last three months) and titanium dioxide (up 9% in the last three months). We believe crude-linked inputs will track oil price movements with some aberrations. Rising domestic demand will prevent any major softening of agri-input prices, despite strong monsoon. Sugar and ENA prices have corrected (down 30% and 15%, respectively from the peak), although significant decline from these levels appears unlikely. Prices of tea, milk and wheat are steady. We believe that input cost trend will impact margins of select companies like HUL, Asian Paints, Marico, Dabur and GCPL.

Impact of Input price changes

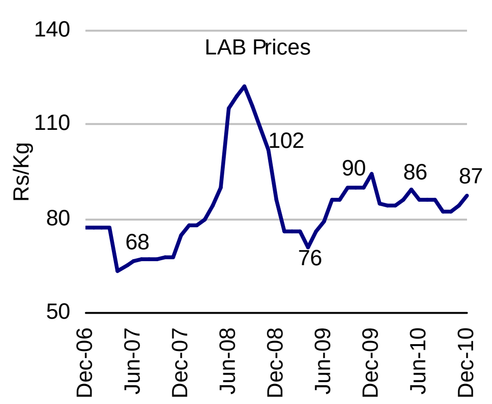
Input	Price Trend (Y-o-Y)	Unit	52 Week H/L	Current Price	Impact	Companies
LAB	Up	Rs/Kg	90/84	Rs87/Kg	Negative	HUL
Palm Fatty Acid	Up	US$/MT	1,027/445	US$ 1,027/MT	Negative	HUL, Godrej Consumer
Sugar	Down	Rs/Qtl	4,105/2,525	Rs2,991/Qtl	Negative	Britannia, Nestle, GSK Cons
Wheat	Up	Rs/Qtl	1,355/1,189	Rs1,270/Qtl	Negative	Nestle, ITC and Britannia
Milk	Up	Index	285/235	285 (Index)	Negative	Nestle, GSK Consumer
Copra	Up	Rs/Qtl	5,500/2,900	Rs5,391/Qtl	Negative	Marico

Source:Companies/MOSL

Palm Fatty Acid: Up ~60% since September

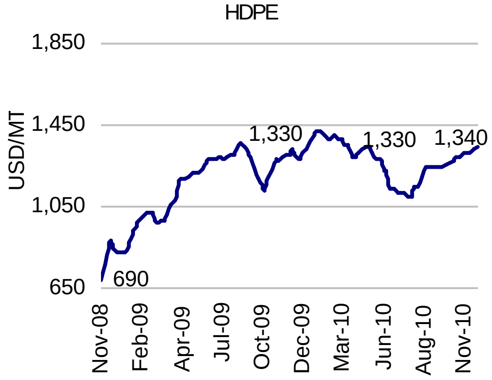


LAB prices: Likely to trend crude

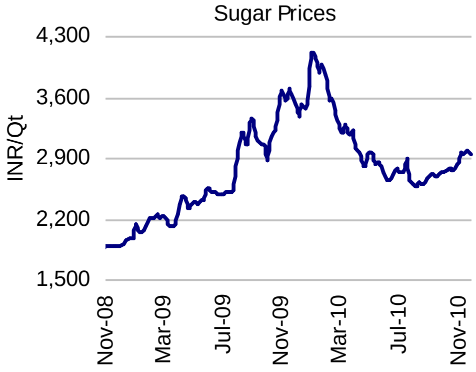


Source:Companies/MOSL

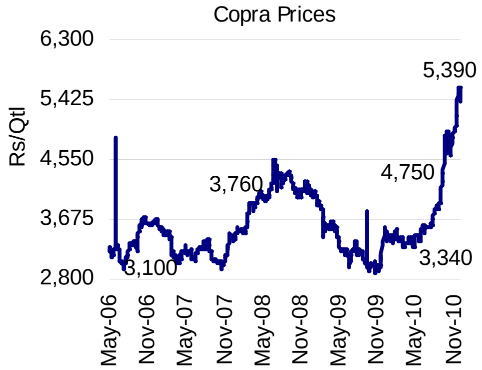
HDPE: Trending crude



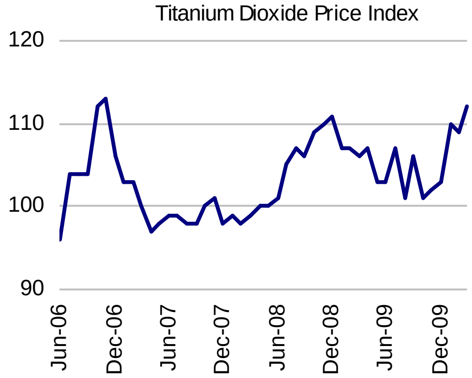
Sugar prices: 35% decline in 4 months



Copra prices: Sharp surge in past 3 months



Titanium dioxide: Inching up



Source:Companies/MOSL

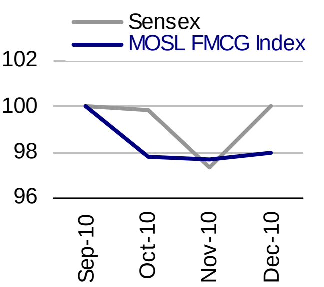
Cutting EPS estimates for United Spirits by 15-17%; downgrading to Neutral

ENA price reduction lower than expected: We are reducing our estimates for United Spirits by 15-17% for FY11 and FY12. This follows lower than expected decline in ENA prices in the current sugar season. ENA prices have declined 6-7% YoY but have increased by 3% in the past couple of months. Our industry interaction suggests that decline in prices, if any, will materialize only after mid-February, which rules out any further gains in FY11. Further decline in ENA prices in FY12 would be a function of sugar crop in the next season and the government's ethanol policy. We are reducing our ENA price decline estimates from 12% to 7% in FY11 and from 5% to 3% in FY12. We are introducing FY13 numbers and factor in price increase of 5%.

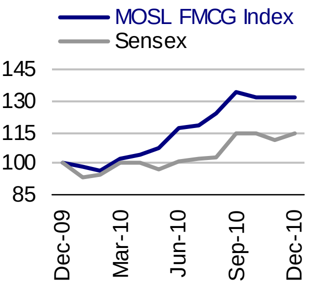
Industry operating environment has deteriorated: We note that the operating environment has deteriorated in the last couple of years. We have seen several states (UP, Punjab, Haryana, etc) move away from free pricing to the auction system, which has impaired the industry's pricing power. The auction system hurts the industry as it increases the time lag for increasing prices and also entails longer credit period. United Spirits' debtor days have increased from 47 in FY07 to 70. We believe that accretion to cash flows would be significantly lower than to reported profits.

Cutting FY11 and FY12 estimates by 15-17%; downgrading to Neutral: We estimate volume growth of 13.4% in FY11 and 13.8% in FY12. We are reducing our margin estimates from 18.8% to 16.9% for FY11 (120bp increase v/s 310bp earlier) and from 20.1% to

Relative Performance-3m (%)



Relative Performance-1Yr (%)



18.3% in FY12 (140bp increase v/s 130bp earlier). We are reducing our consolidated EPS estimates from Rs43.5 to Rs36.1 for FY11 and from Rs61.4 to Rs52.4 for FY12. We are also introducing our FY13 EPS estimate at Rs69.8. We believe that increase in ENA prices in FY12 and lower than expected success of Whyte and Mackay in the branded business are key risks to our forecast. The stock trades at 21.5x FY13E EPS, which factors in the expected margin expansion. Downgrade to **Neutral**.

Cutting EPS estimates for Marico by 12%; maintain Neutral

Copra prices up 30% in three months: We are reducing our FY11 and FY12 EPS estimates for Marico Industries by 12%. This follows 30% increase in copra prices in the past three months and delay by the company in increasing prices of *Parachute Coconut Oil*. *Parachute*, which accounts for 33% of Marico's sales, yields EBITDA margin of 17-18% v/s the company's overall EBITDA margin of 13-14%. Marico's margins are very sensitive to copra prices; low input costs had resulted in margins being at all-time high of 14% in FY10. We are factoring another round of 10% price increase by Marico, which will take YTD price increase to 22%. However, the price increase will still be lower than the increase in input costs. We expect copra prices to soften during the flush season but by just 10-15%.

Cutting EPS estimates by 12%: We are reducing our EBITDA margin estimates by 100bp to 12.1% for FY11 and by 110bp to 12.3% for FY12. We are not factoring in any decline in volume growth as of now and do not rule out further hit to profit growth in the event of decline in volume growth. We are reducing our FY11 and FY12 EPS estimates by 12%. We now estimate EPS at Rs4.2 (Rs4.7 earlier) for FY11, which will increase to Rs5.1 in FY12 (Rs5.7 earlier). We are introducing our FY13 EPS estimate at Rs6.4. The stock trades at 20x FY13E EPS of Rs6.4. **Neutral**.

Sector view cautious; prefer players with strong pricing power

FMCG companies are trading near their peak valuations even as competition is intensifying (more so in personal care and processed foods) and input costs are rising. We expect profit margins to come under pressure due to rising input prices and competitive intensity. Companies with strong pricing power and entry barriers are likely to report above average growth. **ITC** and **Asian Paints** are our top bets in the sector.

Comparative valuation

	CMP (Rs) 24.12.10	Rating	EPS (Rs)			P/E (x)			EV/EBITDA			RoE (%)		
			FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E
FMCG														
Asian Paints	2,887	Buy	96.0	115.9	137.9	30.1	24.9	20.9	18.8	15.7	13.1	42.0	40.5	38.8
Britannia	397	Neutral	11.1	16.2	21.7	35.7	24.5	18.3	23.6	16.4	12.3	27.5	32.8	35.2
Colgate	851	Neutral	33.7	38.6	45.2	25.3	22.1	18.8	18.3	15.5	13.1	124.6	114.9	109.9
Dabur	100	Neutral	3.3	3.9	4.8	30.8	25.8	21.1	23.1	19.6	16.0	40.8	38.7	38.0
Godrej Consumer	392	Neutral	13.9	17.5	20.2	28.3	22.4	19.4	23.0	17.4	14.3	27.6	30.3	30.3
GSK Consumer	2,169	Buy	69.1	84.3	102.3	31.4	25.7	21.2	23.0	18.2	14.4	26.8	27.3	27.5
Hind. Unilever	295	Neutral	9.9	11.2	12.9	29.7	26.3	22.9	22.2	19.3	16.6	71.9	68.9	67.1
ITC	170	Buy	6.4	7.5	8.7	26.5	22.6	19.6	16.5	13.8	11.9	31.8	31.6	28.5
Marico	121	Neutral	4.2	5.1	6.4	29.0	23.8	19.0	20.1	15.8	12.8	30.6	28.5	27.3
Nestle	3,676	Buy	85.8	103.1	125.5	42.8	35.6	29.3	28.6	23.5	19.2	102.5	86.1	76.5
United Spirits	1,460	Neutral	36.1	52.4	69.8	40.4	27.8	20.9	19.0	15.4	13.0	10.2	13.1	15.1
Sector Aggregate						**29.7**	**25.0**	**21.2**	**19.6**	**16.3**	**13.8**	**34.9**	**34.7**	**34.3**

Asian Paints

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	APNT IN
Equity Shares (m)	95.9
52 Week Range (Rs)	3,027 / 1,715
1,6,12 Rel Perf (%)	8 / 4 / 49
Mcap (Rs b)	276.9
Mcap (USD b)	6.1

CMP: Rs2,887 **Buy**

YEAR END	NET SALES (RS M)	ADJ. PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	66,809	7,720	80.5	92.4	35.9	14.9	45.1	58.5	3.7	20.3
3/11E	80,115	9,210	96.0	19.3	30.1	11.6	42.0	52.9	3.1	17.3
3/12E	96,176	11,122	115.9	20.8	24.9	9.3	40.5	52.5	2.6	14.4
3/13E	113,625	13,227	137.9	18.9	20.9	7.5	38.8	51.5	2.2	12.0

- We expect Asian Paints to report net sales of Rs20.4b, a growth of 26% YoY. We expect ~20% volume growth in domestic decorative paints, led by strong demand in tier-I and tier-II cities as well as base impact of Diwali (Diwali in 2QFY10 v/s 3QFY11).
- We estimate 50bp decline in gross margin to 43.2%; EBITDA margin is likely to decline 100bp to 18.6%.
- Prices of major inputs like titanium dioxide and MTO (mineral turpentine oil) are steadily moving up. However, rational pricing environment ensures margin stability. We highlight that Asian Paints has raised prices by ~3% in December.
- We expect EBITDA to grow 19.4% to Rs 3.8b; PAT is likely to be Rs2.4b (up 24.1%).
- We believe ad-spend for paint majors is likely to increase given the competitive intensity and spate of new launches.
- Asian Paints remains one of our preferred picks in the consumer space due to strong brand, mid-teen volume growth and lack of price-based competition. The stock is trading at 24.9x FY12E and 20.9x FY13E earnings. **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q*	1Q	2Q	3Q	4QE		
Volume Growth % *	11.5	17.5	25.0	16.0	24.0	0.0	20.0	18.0	16.4	15.5
Net Sales	**14,602**	**17,239**	**16,200**	**18,768**	**18,302**	**18,108**	**20,412**	**23,292**	**66,809**	**80,115**
Change (%)	17.6	16.9	22.6	31.7	25.3	5.0	26.0	24.1	22.3	19.9
Raw Material/Packing Material	8,191	9,798	9,127	10,464	10,487	10,197	11,594	13,151	37,580	45,430
Gross Profit	**6,411**	**7,441**	**7,073**	**8,304**	**7,815**	**7,911**	**8,818**	**10,141**	**29,230**	**34,684**
Gross Margin (%)	43.9	43.2	43.7	44.2	42.7	43.7	43.2	43.5	43.8	43.3
Operating Expenses	3,653	4,213	3,892	5,195	4,344	4,596	5,021	6,403	16,954	20,363
% of Sales	25.0	24.4	24.0	27.7	23.7	25.4	24.6	27.5	25.4	25.4
EBITDA	**2,758**	**3,228**	**3,181**	**3,109**	**3,471**	**3,315**	**3,797**	**3,738**	**12,276**	**14,321**
Margin (%)	18.9	18.7	19.6	16.6	19.0	18.3	18.6	16.0	18.4	17.9
Change (%)	60.2	54.6	191.0	73.6	25.8	2.7	19.4	20.3	83.2	16.7
Interest	72	64	79	69	42	46	75	98	285	261
Depreciation	198	200	197	241	269	284	295	304	836	1,152
Other Income	156	247	167	208	184	249	280	326	778	1,039
PBT	**2,645**	**3,211**	**3,072**	**3,006**	**3,344**	**3,234**	**3,707**	**3,662**	**11,934**	**13,947**
Tax	844	1,065	955	868	1,013	984	1,149	1,178	3,731	4,324
Effective Tax Rate (%)	31.9	33.2	31.1	28.9	30.3	30.4	31.0	32.2	31.3	31.0
PAT before Minority	**1,801**	**2,146**	**2,117**	**2,138**	**2,331**	**2,250**	**2,558**	**2,485**	**8,203**	**9,623**
Minority Interest	40	89	133	221	109	103	95	106	483	413
Adjusted PAT	**1,761**	**2,057**	**1,985**	**1,917**	**2,222**	**2,147**	**2,463**	**2,379**	**7,720**	**9,210**
Change (%)	64.9	55.4	232.8	86.8	26.2	4.4	24.1	24.1	92.4	19.3

E: MOSL Estimates; * 4QFY10 Numbers include 6months consolifation of International operations

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Britannia Industries

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	BRIT IN
Equity Shares (m)	119.5
52 Week Range (Rs)	535 / 300
1,6,12 Rel Perf (%)	-4 / -7 / 6
Mcap (Rs b)	47.4
Mcap (USD b)	1.0

CMP: Rs397 **Neutral**

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/10A	34,014	1,634	14.2	-15.8	28.0	12.3	42.7	27.0	1.4	26.8
03/11E	42,728	1,326	11.1	-21.7	35.7	10.1	27.5	28.4	1.1	21.9
03/12E	51,539	1,935	16.2	45.9	24.5	8.2	32.8	34.2	0.9	15.1
03/13E	59,134	2,591	21.7	33.9	18.3	6.6	35.2	57.6	0.8	12.1

- We expect Britannia to report sales of Rs11.5b – a growth of 30% YoY. Volume growth is likely to be ~20%; grammage reduction and selective price increases would help achieve realization growth of 7-8%.
- We estimate EBITDA margin at 5.5% (120bp expansion YoY), as benefits of lower sugar prices (YoY) will restore margins partially.
- Rising interest burden (bonus debenture) and higher tax rate is likely to put further pressure on profitability. We estimate PAT growth of 11.5% to Rs402m.
- We believe margins for Britannia (and the biscuits industry in general) have taken a structural hit due to intense competition from Parle, ITC and new entrants like UNIBIC and United Biscuits. Fragmentation of the premium biscuits market has eroded the positioning edge that Britannia has enjoyed in the past.
- We note that prices of major inputs like sugar have increased by 15-20% from the bottom and are unlikely to decline to 2Q levels. We expect steady trend in the prices of other inputs like wheat flour and vegetable oils, which will make margin recovery all the more difficult.
- The stock trades at 24.5x FY12E EPS and 18.3x FY13E EPS. **Neutral**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	**7,312**	**8,585**	**8,814**	**9,303**	**9,128**	**10,948**	**11,458**	**11,194**	**34,014**	**42,728**
YoY Change (%)	5.5	2.4	7.7	22.1	24.8	27.5	30.0	20.3	8.8	25.6
Raw Material Cost	5,070	5,918	6,418	7,168	6,698	8,124	8,307	8,019	24,573	31,149
Gross Profit	**2,243**	**2,668**	**2,396**	**2,134**	**2,430**	**2,824**	**3,151**	**3,175**	**9,441**	**11,580**
Margins (%)	30.7	31.1	27.2	22.9	26.6	25.8	27.5	28.4	27.8	27.1
Total Exp	6,713	7,848	8,434	9,418	8,722	10,419	10,828	10,591	32,413	40,560
EBITDA	**599**	**737**	**380**	**-116**	**407**	**529**	**630**	**603**	**1,601**	**2,169**
Margins (%)	8.2	8.6	4.3	-1.2	4.5	4.8	5.5	5.4	4.7	5.1
Depreciation	91	94	95	96	100	103	104	103	376	410
Interest	8	9	8	17	94	97	100	118	42	409
Other Income	153	126	113	161	106	125	110	78	553	418
PBT	**653**	**762**	**390**	**-67**	**319**	**453**	**536**	**460**	**1,736**	**1,768**
Tax	109	101	29	-136	73	122	134	113	103	442
Rate (%)	16.7	13.3	7.4	201.9	23.0	26.8	25.0	24.6	5.9	25.0
Adjusted PAT	**544**	**660**	**361**	**69**	**246**	**332**	**402**	**346**	**1,634**	**1,326**
YoY Change (%)	18.7	10.7	-31.4	-84.0	-62.8	-49.8	11.5	403.5	-18.7	-18.8

E: MOSL Estimates

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Colgate Palmolive

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	CLGT IN
Equity Shares (m)	136.0
52 Week Range (Rs)	996 / 632
1,6,12 Rel Perf (%)	-5 / -13 / 13
Mcap (Rs b)	115.8
Mcap (USD b)	2.6

CMP: Rs851 Neutral

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/10A	19,625	4,038	29.7	39.1	29.7	36.8	156.0	154.0	5.9	23.2
03/11E	22,620	4,582	33.7	13.5	26.2	29.3	124.6	123.7	5.1	19.0
03/12E	26,432	5,246	38.6	14.5	22.9	23.8	114.9	114.3	4.3	16.1
03/13E	30,796	6,151	45.2	17.3	19.5	19.5	109.9	109.4	3.6	13.6

- We expect sales to grow 15.5% YoY to Rs 5.7b; toothpaste volume growth is estimated at 13.5%.
- We estimate 380bp YoY expansion in gross margin to 61%. EBITDA margin should expand 180bp to 25.5%. Margins are not comparable due to merger of subsidiaries.
- Ad-spend will increase YoY, given the OHM campaign and increased investment in brand building.
- PBT is likely to increase by 21.8% YoY; however 840bp increase in tax rate to 22% will curtail PAT growth to 10%.
- P&G has increased focus on the *Oral-B* brand in the past fortnight, with promotions centered on dentist checkups. We see this as a precursor to the launch of toothpaste in India. Though we expect Colgate to respond aggressively to protect its market share, ensuing competition (price or advertising led) will impact profit margins.
- Our current estimates do not factor in potential P&G entry and its impact on Colgate's profit margins. The stock trades at 22.9x FY12E EPS and 19.5x FY13E EPS. **Neutral**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Toothpaste Volume Gr %	14.0	18.0	15.0	11.0	14.0	12.0	13.5	15.0	14.0	13.0
Net Sales	**4,680**	**4,873**	**4,906**	**5,166**	**5,288**	**5,518**	**5,667**	**6,148**	**19,625**	**22,620**
YoY Change (%)	14.8	18.1	17.0	13.4	13.0	13.2	15.5	19.0	15.8	15.3
COGS	2,050	2,076	2,100	1,543	1,967	2,201	2,210	2,371	7,768	8,749
Gross Profit	**2,630**	**2,797**	**2,806**	**3,623**	**3,321**	**3,316**	**3,457**	**3,777**	**11,856**	**13,872**
Gross Margin (%)	56.2	57.4	57.2	70.1	62.8	60.1	61.0	61.4	60.4	61.3
Other operating Expenses	1,579	1,847	1,798	2,376	1,932	2,195	2,167	2,299	7,599	8,593
% to Sales	33.7	37.9	36.6	46.0	36.5	39.8	38.3	37.4	38.7	38.0
Other operating Income	174	156	203	194	209	175	210	162	727	756
EBITDA	**1,226**	**1,106**	**1,212**	**1,441**	**1,598**	**1,297**	**1,499**	**1,640**	**4,985**	**6,034**
Margins (%)	25.3	22.0	23.7	26.9	29.1	22.8	25.5	26.0	24.5	25.8
Depreciation	56	58	56	206	79	84	90	101	376	354
Interest	5	1	5	4	3	6	6	5	15	20
Financial other Income	86	66	74	28	54	81	90	104	254	330
PBT	**1,251**	**1,113**	**1,225**	**1,259**	**1,569**	**1,288**	**1,493**	**1,640**	**4,848**	**5,990**
Tax	223	216	166	204	350	285	328	444	810	1,408
Rate (%)	17.8	19.4	13.6	16.2	22.3	22.1	22.0	27.1	16.7	23.5
PAT	**1,028**	**897**	**1,059**	**1,055**	**1,219**	**1,003**	**1,165**	**1,196**	**4,038**	**4,582**
YoY Change (%)	42.9	41.3	36.2	36.9	18.6	11.8	10.0	13.3	39.1	13.5

E: MOSL Estimates

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Dabur India

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	DABUR IN
Equity Shares (m)	1,730.0
52 Week Range (Rs)	112 / 73
1,6,12 Rel Perf (%)	3 / -14 / 7
Mcap (Rs b)	173.3
Mcap (USD b)	3.8

CMP: Rs100 **Neutral**

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/10A	33,657	5,015	2.9	27.2	34.8	7.9	45.8	46.9	2.6	13.6
03/11E	39,322	5,623	3.3	13.0	30.8	12.5	40.8	47.1	4.3	23.0
03/12E	45,794	6,717	3.9	19.5	25.8	9.9	38.7	45.6	3.6	19.5
03/13E	52,550	8,233	4.8	22.6	21.0	7.9	38.0	45.5	3.1	15.9

- We expect Dabur India to report net sales of Rs10.8b, up 17% YoY, with 14% volume growth.
- We estimate 10bp expansion in EBITDA margin as lower ad spends will neutralize the impact of lower gross margin. EBITDA is likely to grow 17.3% to Rs2b.
- We estimate 14.1% PAT growth to Rs1.6b, partly impacted by higher tax rate (up 240bp). We expect international business to remain the key profit driver.
- Launch of flavored variants of *Chyawanprash* and OTC brand *Nutrigo* ahead of the winter season augurs well; strong winter will increase skin care sales.
- We expect strong headwinds in key categories of shampoo, skin care, oral care and hair oils. We believe Dabur will face rising competition from players like HUL, L'Oreal and P&G in high growth skin and hair care segments. We note that these categories account for 30% of Dabur's standalone sales.
- We are negative on the overseas acquisition of Namaste due to low growth in US market (72% of sales), incremental investments required in Africa to drive growth and huge payout of US$40m in the event of 100% jump in sales in four years (nearly 42% of incremental sales).
- The stock is trading at 25.8x FY12E EPS and 21x FY13E EPS. **Neutral**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Volume Growth (%)	16.0	13.0	14.0	12.0	17.0	13.5	14.0	16.0	15.0	14.5
Net Sales	**7,683**	**8,480**	**9,262**	**8,488**	**9,165**	**9,728**	**10,836**	**9,593**	**33,657**	**39,322**
YoY Change (%)	27.2	22.7	18.9	16.0	19.3	14.7	17.0	13.0	20.0	16.8
Total Exp	6,523	6,726	7,489	6,868	7,798	7,699	8,756	7,708	27,327	31,960
EBITDA	**1,159**	**1,754**	**1,773**	**1,620**	**1,367**	**2,028**	**2,081**	**1,885**	**6,330**	**7,361**
Margins (%)	15.1	20.7	19.1	19.1	14.9	20.9	19.2	19.7	18.8	18.7
YoY Growth (%)	33.0	40.6	37.5	25.0	18.0	15.6	17.3	16.4	34.5	16.3
Depreciation	130	139	146	149	145	190	182	167	557	684
Interest	32	33	37	25	8	46	35	45	132	134
Other Income	80	107	59	143	122	167	80	111	387	480
PBT	**1,078**	**1,690**	**1,650**	**1,589**	**1,337**	**1,960**	**1,944**	**1,783**	**6,028**	**7,024**
Tax	189	286	271	258	263	356	365	387	1,006	1,371
Rate (%)	17.6	16.9	16.4	16.2	19.7	18.2	18.8	21.7	16.7	19.5
Minority Interest	-5	11	1	0	6	1	6	17	8	30
Adjusted PAT	**894**	**1,392**	**1,378**	**1,331**	**1,068**	**1,604**	**1,572**	**1,379**	**5,015**	**5,623**
YoY Change (%)	26.5	29.1	27.0	27.6	19.5	15.2	14.1	3.7	27.5	13.4

E: MOSL Estimates

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GlaxoSmithKline Consumer

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	SKB IN
Equity Shares (m)	42.1
52 Week Range (Rs)	2460 / 1255
1,6,12 Rel Perf (%)	-9 / 3 / 50
Mcap (Rs b)	91.3
Mcap (USD b)	2.0

CMP: Rs2,169 **Buy**

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
12/09A	19,213	2,328	55.4	23.6	39.2	10.0	25.7	39.6	4.3	26.3
12/10E	22,931	2,906	69.1	24.8	31.4	8.3	26.8	40.6	3.6	22.6
12/11E	27,038	3,546	84.3	22.0	25.7	6.9	27.3	41.4	2.9	17.9
12/12E	31,547	4,302	102.3	21.3	21.2	5.8	27.5	41.7	2.4	14.2

- We expect GSK Consumer to report net sales of Rs4.9b, a YoY growth of 18.3%. Volume growth is likely to be lower on account of high base (16% in 4QCY10).
- We estimate 20bp decline in EBITDA margin due to high input costs of milk and milk solids. Higher ad spends on new launches like *Foodles* will also impact margins.
- EBITDA is likely to grow 15.8% to Rs426m while higher other income (up 58%) would enable 31% growth in PAT to Rs441m.
- New launches have had mixed response; *Foodles* has attained 4-5% market share in the South and the East, *Nutribar* and *Chilled Dood* have not been a success. Full impact of new range of biscuits will be known in the coming months.
- We expect GSK to sustain double-digit volume growth in core business of MFD (malted food drinks); success of non-MFD products will determine the medium term growth prospects.
- We note that GSK has seen sharp re-rating in the past couple of years; further gains will be a function of success of new launches.
- The stock currently trades at 25.7x CY11E EPS and 21.2x CY12E EPS. **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E DECEMBER	CY09				CY10				CY09	CY10E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
MFD Volume Growth (%)	14.0	12.0	6.0	16.0	12.5	10.0	18.0	7.5	10.0	12.0
Net Sales	**5,394**	**4,694**	**4,951**	**4,181**	**6,484**	**5,374**	**6,126**	**4,947**	**19,213**	**22,931**
YoY Change (%)	31.3	24.7	17.2	25.4	20.2	14.5	23.7	18.3	24.5	19.4
Total Exp	4,207	3,939	4,165	3,814	5,154	4,480	5,175	4,522	16,127	19,330
EBITDA	**1,187**	**755**	**786**	**368**	**1,331**	**894**	**951**	**426**	**3,086**	**3,601**
Margins (%)	22.0	16.1	15.9	8.8	20.5	16.6	15.5	8.6	16.1	15.7
YoY Change (%)	46.7	38.2	24.6	-8.6	12.1	18.4	21.0	15.8	29.2	16.7
Depreciation	106	105	105	104	96	93	100	104	420	392
Interest	13	11	10	9	6	6	7	11	43	30
Other Income	256	226	213	218	236	281	334	344	916	1,194
PBT	**1,324**	**865**	**884**	**473**	**1,465**	**1,076**	**1,178**	**655**	**3,539**	**4,373**
Tax	485	307	283	136	503	358	392	214	1,211	1,467
Rate (%)	36.6	35.4	32.1	28.8	34.4	33.3	33.3	32.7	34.2	33.6
PAT	**839**	**558**	**600**	**337**	**962**	**718**	**786**	**441**	**2,328**	**2,906**
YoY Change (%)	48.4	21.0	13.2	3.4	14.6	28.5	30.9	31.0	23.6	24.8

E: MOSL Estimates

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Godrej Consumer Products

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	GCPL IN
Equity Shares (m)	323.6
52 Week Range (Rs)	480 / 225
1,6,12 Rel Perf (%)	-8 / -1 / 35
Mcap (Rs b)	126.8
Mcap (USD b)	2.8

CMP: Rs392 **Neutral**

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/10A	20,412	3,603	11.1	97.6	35.2	12.3	37.7	47.3	5.6	28.9
03/11E	33,892	4,485	13.9	24.5	28.3	7.6	27.6	20.0	4.1	24.1
03/12E	43,522	5,672	17.5	26.5	22.4	6.6	30.3	23.8	3.2	18.2
03/13E	50,974	6,522	20.2	15.0	19.4	5.7	30.3	26.1	2.7	13.9

- We expect consolidated net sales to be Rs8.9b, implying a YoY growth of 73%; sales include the benefits of recent acquisitions like Megasari, Godrej Home Care (earlier GSL), Issue Group, Tura and Argencos.
- We estimate 90bp decline in EBITDA margin due to higher palm oil prices (up 60% YoY) and low margins in new acquisitions in Latin America and Africa. Higher interest burden (due to acquisitions) will curtail PAT growth to 38%.
- Soaps are likely to revert to positive volume growth, as dealer inventory de-stocking is over. Hair color business should continue its mid-teen growth on volume growth as well as price increase in 2Q.
- We highlight that the household insecticides business in India continues to do well on the back of activation campaigns and new launches. Megasari (Indonesian business) is likely to sustain its growth and margin guidance.
- Argentine business is likely to report steady growth; however, margins are unlikely to revert to the pre-acquisition level as the SBU is investing in brand building.
- GCPL has also acquired *Genteel* and *Swastik* brands; *Genteel* will further consolidate its position in the liquid detergent market (estimated share of 85%).
- We believe that integration of new acquisitions is a key risk. Deterioration in balance sheet and higher working capital requirements in new acquisitions will impact free cash flow generation. The stock trades at 22.4x FY12E EPS and 19.4x FY13E EPS. **Neutral**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	**4,389**	**5,756**	**5,176**	**5,092**	**6,431**	**9,528**	**8,950**	**8983**	**20,412**	**33,892**
YoY Change (%)	21.4	65.4	51.3	48.1	24.3	87.1	72.9	76.4	46.2	66.0
EBITDA	**864**	**1,119**	**1,014**	**1,075**	**1,191**	**1,690**	**1,674**	**1,709**	**4,290**	**6,264**
Margins (%)	19.7	19.4	19.6	21.1	18.5	17.7	18.7	19.0	21.0	18.5
Depreciation	52	68	56	61	84	155	165	180	236	583
Interest	38	26	20	27	105	89	135	146	111	474
Other Income	101	139	111	122	106	194	135	146	464	581
PBT	**876**	**1,164**	**1,049**	**1,110**	**1,108**	**1,641**	**1,509**	**1,530**	**4,406**	**5,787**
Tax	179	234	198	192	268	338	330	366	803	1,302
Rate (%)	20.5	20.1	18.8	17.3	24.1	20.6	21.9	23.9	18.2	22.5
PAT	**697**	**930**	**851**	**918**	**841**	**1,302**	**1,178**	**1,164**	**3,603**	**4,485**
YoY Change (%)	78.2	112.3	112.4	54.5	20.7	40.0	38.4	26.8	97.6	24.5
Extraordinaries	0	0	0	0	-323	-8	0	0	0	-331
Reported PAT	**697**	**930**	**851**	**918**	**1,164**	**1,311**	**1,178**	**1,164**	**3,603**	**4,816**

E: MOSL Estimates

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Hindustan Unilever

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	HUVR IN
Equity Shares (m)	2,177.5
52 Week Range (Rs)	321 / 218
1,6,12 Rel Perf (%)	-4 / -4 / -4
Mcap (Rs b)	643.0
Mcap (USD b)	14.2

CMP: Rs295 **Neutral**

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/10A	177,253	20,587	9.4	-0.4	31.3	25.0	79.7	105.1	3.5	22.3
03/11E	196,288	21,688	9.9	5.3	29.7	21.4	71.9	91.0	3.2	22.3
03/12E	219,701	24,465	11.2	12.8	26.3	18.2	68.9	88.4	2.8	19.4
03/13E	245,486	28,154	12.9	15.1	22.9	15.4	67.1	86.6	2.5	16.7

** EPS for 12 months (April 2008-March 2009)*

- We expect HUL to report 11% YoY increase in sales to Rs50.7b, with volume growth at ~11.5% (14% in 2QFY10)
- Gross margin is likely to decline 40bp YoY on account of higher input costs and competitive intensity. Prices of major inputs like palm oil and tea have increased sharply; crude derivatives like LAB and HDPE may follow with a lag.
- EBITDA margin contraction is likely to be higher on account of increased ad-spend and royalty. We model 170bp decline in EBITDA margin; EBITDA is likely to be flat YoY at Rs7.8b.
- We expect adjusted PAT growth of 7.7%, partly aided by lower tax rate (down 430bp).
- We expect laundry, skin care and foods business to report double-digit sales growth, while soaps business is likely to benefit from the sustained up-trading.
- We understand that competitive intensity in key personal product categories like shampoo, skin care and oral care continues unabated; we do not rule out structural contraction in personal care margins in the coming quarters, as has happened in the laundry segment in the last five years.
- We note that HUL has not increased prices in key categories despite sharp increase in input costs, as price increases had eroded its market share in 2008/09. Aggressive pricing strategy can impact profit margins in the near term.
- The stock is currently trading 26.3x FY12E and 22.9x FY13E earnings. Structural decline in personal care margins is a key risk to our estimates**. Neutral.**

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Volume Growth (%)	2.0	1.0	5.0	11.0	11.0	14.0	11.5	9.0	4.8	11.5
Net Sales (incl service inc)	**45,026**	**42,692**	**45,732**	**43,802**	**48,762**	**47,647**	**50,763**	**49,116**	**177,253**	**196,288**
YoY Change (%)	6.3	3.9	4.4	8.5	8.3	11.6	11.0	12.1	5.4	10.7
COGS	23,117	21,512	22,111	22,175	24,466	23,830	24,722	25,036	88,779	98,053
Gross Profit	**21,910**	**21,181**	**23,622**	**21,627**	**24,296**	**23,817**	**26,041**	**24,081**	**88,474**	**98,235**
Margin (%)	48.7	49.6	51.7	49.4	49.8	50.0	51.3	49.0	49.9	50.0
Operating Exp	14,760	14,661	15,747	15,672	17,487	17,348	18,173	17,757	60,975	70,765
% to Sales	32.8	34.3	34.4	35.8	35.9	36.4	35.8	36.2	34.4	36.1
EBITDA	**7,150**	**6,520**	**7,875**	**5,955**	**6,809**	**6,469**	**7,868**	**6,323**	**27,500**	**27,470**
YoY Change (%)	12.5	16.6	3.1	-0.1	-4.8	-0.8	-0.1	6.2	7.6	-0.1
Margins (%)	15.9	15.3	17.2	13.6	14.0	13.6	15.5	12.9	15.5	14.0
Depreciation	425	462	450	503	535	554	545	536	1,840	2,170
Interest	52	15	2	1	1	1	10	9	70	20
Other Income	335	473	389	284	421	768	650	334	1,481	2,173
PBT	**7,009**	**6,515**	**7,812**	**5,735**	**6,695**	**6,683**	**7,963**	**6,112**	**27,071**	**27,453**
Tax	1,643	1,520	1,822	1,513	1,485	1,426	1,513	1,341	6,481	5,765
Rate (%)	23.4	23.3	23.3	26.4	22.2	21.3	19.0	21.9	23.9	21.0
Adjusted PAT	**5,367**	**4,995**	**5,990**	**4,221**	**5,210**	**5,257**	**6,450**	**4,771**	**20,590**	**21,688**
YoY Change (%)	-0.6	9.4	-1.8	-7.6	-2.9	5.2	7.7	13.0	0.7	5.3
Extraordinary Inc/(Exp)	65	-710	501	1,591	122	404	0	0	1,430	527
Reported Profit	**5,432**	**4,285**	**6,491**	**5,812**	**5,332**	**5,661**	**6,450**	**4,771**	**22,020**	**22,215**
YoY Change (%)	-2.7	-21.6	5.4	47.1	-1.8	32.1	-0.6	-17.9	4.1	0.9

E: MOSL Estimates, PFAD - 1QFY08 as 100 with 3month lag

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ITC

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	ITC IN
Equity Shares (m)	7,636.4
52 Week Range (Rs)	185 / 115
1,6,12 Rel Perf (%)	-5 / -2 / 17
Mcap (Rs b)	1,297.0
Mcap (USD b)	28.7

CMP: Rs170 **Buy**

Year End	Net Sales (Rs m)	PAT (Rs m)	EPS (Rs)	EPS Growth (%)	P/E (x)	P/BV (x)	ROE (%)	ROCE (%)	EV/ Sales	EV/ EBITDA
03/10A	183,810	40,610	5.3	24.4	31.9	9.3	29.2	40.9	6.8	19.6
03/11E	214,348	48,924	6.4	20.5	26.5	7.8	31.8	44.7	5.9	16.6
03/12E	246,437	57,498	7.5	17.5	22.6	6.6	31.6	45.0	5.0	13.9
03/13E	280,573	66,305	8.7	15.3	19.6	5.6	28.5	41.4	4.3	12.0

- We expect ITC to post 17.9% YoY growth in revenue to Rs54b. EBITDA is likely to increase 18.9% YoY, enabling 30bp margin expansion. 21% decline in other income (one-time income in 3QFY10) would restrict PAT growth at 17.1% to Rs13.4b.
- We expect cigarette volumes to grow 2%; this follows a 2% decline in 1HFY11 post the sharp increase in excise duty (16.5%) and ~15% price increase by ITC. We estimate 15% increase in EBIT, enabling 50bp margin expansion.
- We estimate 25% increase in New FMCG sales and 24% decline in EBIT loss. ITC has launched *Yipee Instant Noodles* under two variants (Classic and Magic Masala) during the quarter, marking its entry into the high growth (~Rs15b, 25% CAGR) segment.
- Paper and paperboard unit is likely to witness some margin contraction, following reduced supply for packaging and cigarette paper on account of lower production of cigarettes (pending clarity on pictorial warnings).
- Agri business is likely to sustain its growth, although margins are likely to be lower on account of higher contribution from low margin products. Hotel occupancies have improved to 65%+ (v/s 62-63% in 2QFY11); we estimate 25% increase in sales and 34% increase in EBIT on a low base.
- The stock is currently trading at FY12E EPS of Rs7.5 and FY13E EPS of Rs8.7. **Buy.**

QUARTERLY PERFORMANCE (RS MILLION)

Y/E March	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Cigarette Vol Gr (%)	5.5	7.5	8.5	8.8	-3.5	-0.5	2.0	4.0	8.3	0.5
Net Sales	**41,978**	**43,453**	**45,802**	**51,316**	**48,473**	**51,472**	**54,000**	**60,403**	**183,822**	**214,348**
YoY Change (%)	6.7	12.5	18.7	28.7	15.5	18.5	17.9	17.7	16.3	16.6
Total Exp	28,105	27,552	28,725	35,137	32,103	32,723	33,700	40,648	120,792	139,174
EBITDA	**13,873**	**15,901**	**17,076**	**16,180**	**16,371**	**18,749**	**20,300**	**19,755**	**63,031**	**75,174**
Growth (%)	19.5	30.8	23.9	24.6	18.0	17.9	18.9	22.1	24.7	19.3
Margins (%)	33.0	36.6	37.3	31.5	33.8	36.4	37.6	32.7	34.3	35.1
Depreciation	1,516	1,484	1,549	1,539	1,597	1,640	1,720	1,912	6,087	6,869
Other Income	876	684	1,591	592	985	1,245	1,250	657	3,743	4,137
PBT	**13,175**	**14,920**	**17,010**	**15,048**	**15,701**	**18,300**	**19,700**	**18,246**	**60,153**	**71,947**
Tax	4,388	4,821	5,569	4,766	4,998	5,833	6,304	5,888	19,543	23,023
Rate (%)	33.3	32.3	32.7	31.7	31.8	31.9	32.0	32.3	32.5	32.0
Reported PAT	**8,787**	**10,099**	**11,442**	**10,282**	**10,703**	**12,467**	**13,396**	**12,358**	**40,610**	**48,924**
YoY Change (%)	17.4	25.8	26.7	27.1	21.8	23.5	17.1	20.2	24.4	20.5

E: MOSL Estimates

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Marico

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	MRCO IN
Equity Shares (m)	609.0
52 Week Range (Rs)	153 / 96
1,6,12 Rel Perf (%)	-14 / -17 / 1
Mcap (Rs b)	73.8
Mcap (USD b)	1.6

CMP: Rs121 **Neutral**

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/10A	26,608	2,454	4.0	20.4	30.1	11.6	36.9	40.8	2.9	20.8
03/11E	31,570	2,534	4.2	3.6	29.0	9.2	30.6	37.6	2.5	20.7
03/12E	37,974	3,095	5.1	22.1	23.8	7.0	28.5	42.0	2.0	16.3
03/13E	44,600	3,884	6.4	25.4	19.0	5.4	27.3	42.9	1.7	13.2

- We expect Marico to report net sales of Rs8.1b, up 21% YoY. Volume growth is estimated at 15%; value growth would be positive on account of price increases in *Parachute* and *Saffola*.
- *Parachute* volume growth is likely to remain in high single digit, while *Saffola* should sustain its high teen growth. We note that *Parachute* volume growth is intact despite ~12% price increase in the last six months.
- International business is likely to sustain its growth traction, while performance in *Kaya* is likely to improve QoQ.
- Marico is facing significant input cost pressure on account of sharp surge in copra prices (up ~50% YoY). Price increases taken till date would cover the surge only partially; we see further price increases of ~10% in coming months.
- We estimate 450bp YoY decline in gross margin to 48.2% (~200bp QoQ). Cost containment would restrict EBITDA margin decline to 410bp (150bp QoQ). Adjusted PAT is likely to decline 11% to Rs555m.
- We have lowered our FY11 and FY12 EPS estimates by 12% to factor in higher cost of inputs; sharp increase in prices and resultant impact on volume growth is a key risk to our estimates. The stock trades at 23.8x FY12E EPS and 19x FY13E EPS. **Neutral**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Volume Growth (%)	14.0	15.0	14.0	14.0	16.0	15.0	15.0	13.5	14.0	14.8
Net Sales	**6,967**	**6,922**	**6,696**	**6,023**	**7,901**	**7,788**	**8,102**	**7,780**	**26,608**	**31,570**
YoY Change (%)	16.8	14.4	7.8	7.3	13.4	12.5	21.0	29.2	11.4	18.7
COGS	3,501	3,275	3,167	2,646	4,033	3,880	4,197	3,990	12,577	16,099
Gross Profit	**3,466**	**3,647**	**3,528**	**3,377**	**3,868**	**3,908**	**3,905**	**3,790**	**14,031**	**15,471**
Gross Margin (%)	49.7	52.7	52.7	56.1	49.0	50.2	48.2	48.7	52.7	49.0
Other Expenditure	2,501	2,695	2,540	2,527	2,813	2,960	3,038	2,854	10,240	11,665
% to Sales	35.9	38.9	37.9	42.0	35.6	38.0	37.5	36.7	38.5	37.0
EBITDA	**965**	**953**	**988**	**849**	**1,055**	**949**	**867**	**936**	**3,791**	**3,806**
Margins (%)	13.8	13.8	14.8	14.1	13.3	12.2	10.7	12.0	14.2	12.1
Depreciation	99	182	166	157	120	140	160	197	601	617
Interest	86	55	64	50	70	65	90	104	257	329
Other Income	31	42	56	53	44	71	45	31	183	192
PBT	**811**	**757**	**814**	**695**	**909**	**816**	**662**	**666**	**3,116**	**3,052**
Tax	210	133	183	117	162	126	99	101	643	488
Rate (%)	25.9	17.5	22.5	16.9	17.8	15.5	15.0	15.2	20.6	16.0
Minority Interest	0	1	9	0	10	18	8	-5	19	30
Adjusted PAT	**600**	**624**	**622**	**578**	**737**	**672**	**555**	**570**	**2,454**	**2,534**
YoY Change (%)	29.6	32.3	22.2	-2.7	22.8	7.7	-10.8	-1.3	20.4	3.3

E: MOSL Estimates

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Nestle India

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	NEST IN
Equity Shares (m)	96.4
52 Week Range (Rs)	4,199 / 2,456
1,6,12 Rel Perf (%)	-6 / 12 / 31
Mcap (Rs b)	354.4
Mcap (USD b)	7.9

CMP: Rs3,676 **Buy**

YEAR END	NET SALES (RS M)	ADJ. PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
12/09A	51,294	6,976	72.4	23.5	50.8	60.3	120.0	165.2	6.8	33.5
12/10E	62,628	8,275	85.8	18.6	42.8	43.4	102.5	141.6	5.6	28.3
12/11E	77,427	9,945	103.1	20.2	35.6	30.4	86.1	89.4	4.6	23.3
12/12E	95,330	12,098	125.5	21.6	29.3	22.2	76.5	78.5	3.7	19.0

- Nestle is expected to post 3QCY10 net sales of Rs15.5b, up 19% YoY, and we expect it to sustain volume growth in the mid-teens. Sales growth will reflect the impact of a late Diwali this year.
- EBITDA is likely to increase 14.9% to Rs3b and margins are expected to fall 70bp. Higher costs of inputs like milk, price increases with a lag and higher ad spends will impact margins. We estimate 18.5% PAT growth to Rs2.1b.
- Nestle would benefit from lower input costs in the coming quarter as major agriculture-led inputs like milk, wheat and sugar are likely to be benign.
- We note increasing competition in the Instant Noodles segment (~60% of incremental volume growth) with the entry of GSK (Foodles) and HUL (Knorr). We expect Nestle to increase the pace of innovation and brand building initiatives.
- Nestle's chocolates grew sharply in 1HCY10 due to a low base and growing demand in tier-2 and tier-3 cities. The entry of Kraft can increase competition in the chocolates and confectionery market.
- The stock trades at 35.6x CY11E EPS. Maintain **Buy.**

QUARTERLY PERFORMANCE (RS MILLION)

Y/E DECEMBER	CY09				CY10				CY09	CY10E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Sales	**12,659**	**12,095**	**13,022**	**13,518**	**14,798**	**14,667**	**16,373**	**16,790**	**51,294**	**62,628**
YoY Change (%)	16.0	16.8	17.6	24.0	16.9	21.3	25.7	24.2	18.6	22.1
Total Exp	9,562	9,478	10,380	11,537	11,758	11,728	13,154	13,666	40,956	50,305
EBITDA	**3,097**	**2,618**	**2,642**	**1,981**	**3,040**	**2,940**	**3,219**	**3,125**	**10,338**	**12,324**
Margins (%)	24.5	21.6	20.3	14.7	20.5	20.0	19.7	18.6	20.2	19.7
YoY Growth (%)	24.4	34.2	27.5	-6.7	-1.8	12.3	21.8	57.7	19.7	19.2
Depreciation	256	264	286	307	310	304	306	348	1,113	1,267
Interest	2	6	2	5	6	4	1	4	14	14
Other Income	103	88	88	106	91	101	95	84	385	371
PBT	**2,943**	**2,436**	**2,443**	**1,775**	**2,816**	**2,733**	**3,008**	**2,856**	**9,596**	**11,414**
Tax	864	654	659	442	845	718	840	735	2,620	3,139
Rate (%)	29.4	26.9	27.0	24.9	30.0	26.3	27.9	25.7	27.3	27.5
Adjusted PAT	**2,078**	**1,782**	**1,784**	**1,333**	**1,971**	**2,015**	**2,168**	**2,121**	**6,976**	**8,275**
YoY Change (%)	22.2	43.5	34.6	-3.4	-5.2	13.1	21.5	59.1	23.5	18.6
Extraordinary Inc/(Exp)	-105	-161	44	-204	48	-67	18	-274	-426	-275
Reported PAT	**1,973**	**1,620**	**1,828**	**1,129**	**2,019**	**1,948**	**2,186**	**1,847**	**6,550**	**8,000**
YoY Change (%)	23.2	33.8	38.8	-6.7	2.3	20.3	19.6	63.6	22.7	22.1

E: MOSL Estimates

Amnish Aggarwal (AmnishAggarwal@MotilalOswal.com) / Nikhil Kumar N (Nikhil.N@MotilalOswal.com)

United Spirits

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	UNSP IN
Equity Shares (m)	125.6
52 Week Range (Rs)	1684 / 1058
1,6,12 Rel Perf (%)	2 / 0 / -3
Mcap (Rs b)	183.3
Mcap (USD b)	4.1

CMP: Rs1,460 — Neutral

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/10A	63,623	3,026	25.8	12.3	56.5	4.7	8.0	11.5	3.2	20.8
03/11E	70,447	4,234	36.1	39.9	40.4	4.3	10.2	11.9	2.9	18.7
03/12E	82,807	6,146	52.4	45.1	27.8	3.8	13.1	14.3	2.5	14.9
03/13E	97,203	8,185	69.8	33.2	20.9	3.3	15.1	15.8	2.1	12.6

- We expect Untied Spirits to register 23% growth in topline to Rs16.5b in 3QFY11. EBIDTA margin is likely to expand by 50bp to 16.9% as operating leverage will only partly neutralize the impact of increase in ENA prices on QoQ basis (~1.5%) and Rs200-250m additional ad spend on new launches. We estimate 15.5% volume growth (16% in 2Q) enabled by growth across brands and segments.
- EBITDA should increase 26% to Rs2.8b, however 48% higher interest burden (working capital and conversion of W&M acquisition debt to rupee debt) will curtail operational PBT growth to 14%. Higher other income will enable 18.2% PAT growth.
- We estimate ENA prices at Rs142/case for 3QFY11 (Rs140/case in 2Q and Rs151/case in 3QFY10). ENA prices have not softened so far and a decline if any is expected to materialize only by mid-February. The benefit of decline, if any, will be available for hardly a month in the current year. We are reducing our ENA price reduction estimate from 12% to 7% in FY11 and from 5% to 3% in FY12.
- We estimate volume growth of 13.4% in FY11 and 13.8% in FY12. We are reducing our margin assumption from 18.8% to 16.9% for FY11 (120bp increase v/s 310bp earlier) and from 20.1% to 18.3% for FY12 (140bp increase v/s 130bp earlier). Our consolidated EPS estimate stands reduced from Rs43.5 to Rs36.1 for FY11 and from Rs61.4 to Rs52.4 for FY12. We are also introducing our FY13 EPS estimate at Rs69.8. The stock trades at 20.9x FY13E EPS. Downgrade to **Neutral**.

QUARTERLY PERFORMANCE (STANDALONE) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Volume Growth (%)	17.0	10.0	12.3	16.0	6.0	16.0	15.5	14.5	13.5	13.4
ENA Price/Case	150	150	151	152	143	140	142	140	151	135
Net Sales	**12,417**	**10,801**	**13,468**	**12,521**	**14,630**	**13,542**	**16,550**	**14,875**	**49,207**	**59,597**
YoY Change (%)	22.5	19.7	30.8	37.9	17.8	25.4	22.9	18.8	27.9	21.1
Total Exp	10,198	8,980	11,256	10,708	11,818	11,351	13,753	12,578	52,500	49,501
EBITDA	**2,219**	**1,821**	**2,212**	**1,813**	**2,811**	**2,191**	**2,797**	**2,297**	**8,065**	**10,096**
Margins (%)	17.9	16.9	16.4	14.5	19.2	16.2	16.9	15.4	16.4	16.9
Depreciation	80	83	93	114	91	104	122	134	370	452
Interest	592	751	747	1,023	965	983	1,110	1,199	3,112	4,257
PBT from Operations	**1,547**	**987**	**1,372**	**677**	**1,755**	**1,104**	**1,565**	**965**	**4,583**	**5,388**
Other Income	82	109	85	146	68	29	170	353	422	620
PBT	**1,629**	**1,097**	**1,456**	**822**	**1,823**	**1,133**	**1,735**	**1,317**	**5,004**	**6,008**
Tax	553	401	488	254	613	387	590	478	1,695	2,067
Rate (%)	34.0	36.5	33.5	30.9	33.6	34.1	34.0	36.3	33.9	34.4
PAT	**1,076**	**696**	**968**	**569**	**1,211**	**746**	**1,145**	**839**	**3,309**	**3,941**
YoY Change (%)	-8.1	-25.9	216.6	2.2	12.5	7.2	18.2	47.7	11.3	19.1
Extraordinary Inc/(Exp)	700	0	0	0	0	0	0	0	700	0
Reported PAT	**1,776**	**696**	**968**	**569**	**1,211**	**746**	**1,145**	**839**	**4,009**	**3,941**

E: MOSL Estimates

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Information Technology

COMPANY NAME
HCL Technologies
Infosys
MphasiS
Patni Computer
TCS
Tech Mahindra
Wipro

Sequential volume growth to continue: We expect top-tier IT companies to continue their sequential volume growth given continued broad-based demand traction. We estimate 5.4-6.5% QoQ volume growth across top-tier companies, resulting in US dollar revenue growth of 5.4-7% QoQ. TCS is expected to outperform. The BFSI and Retail verticals will continue to lead demand revival in the sector.

30-50bp fall in EBITDA margins mainly due to currency headwinds: The rupee appreciated ~3.3% sequentially in 3QFY11, playing a key role in our expectation of a 30-50bp drop in EBITDA margins across top-tier companies. We do not expect any up-take in HCL Tech's EBITDA margins sequentially, however we believe the company has maixmum margin levers in the top tier going forward.

Stable pricing environment, like-to-like price rise a few quarters away: The pricing environment is expected to stay largely stable, with no material change in unit-based pricing increases. Given prevailing uncertainties, commanding like-to-like price increases from clients may be a few quarters away. The mix is expected to impact realizations only slightly in 3QFY11, and have a 0.2% positive impact on Infosys and TCS.

Expect 1% upgrade in Infosys' US dollar revenue guidance: We expect Infosys to raise its FY11 US dollar revenue guidance by 1%, to 26% at the higher end, due to the expected out-performance of its 3QFY11 US dollar revenue. While this may imply a mere 2% sequential growth in 4QFY11, we expect the management to be conservative given the seasonal deceleration in the fourth quarter and uncertainty about budgets. We expect a 1.6% upgrade in FY11 EPS estimates to Rs119 at the higher end.

Prefer Infosys, HCL Tech, Mphasis: We expect an IT demand revival in FY11 to continue with 21-23.2% volume growth in FY12 across top tier companies. We prefer playing the sector through companies that gain from (1) a pick-up in discretionary demand, (2) better operational scope and (3) greater MNC offshoring. We like Infosys, HCL Tech and Mphasis on these parameters. Our pecking order of preference among top-tier IT companies is **Infosys**, **TCS** and **Wipro**.

Expected quarterly performance summary (Rs million)

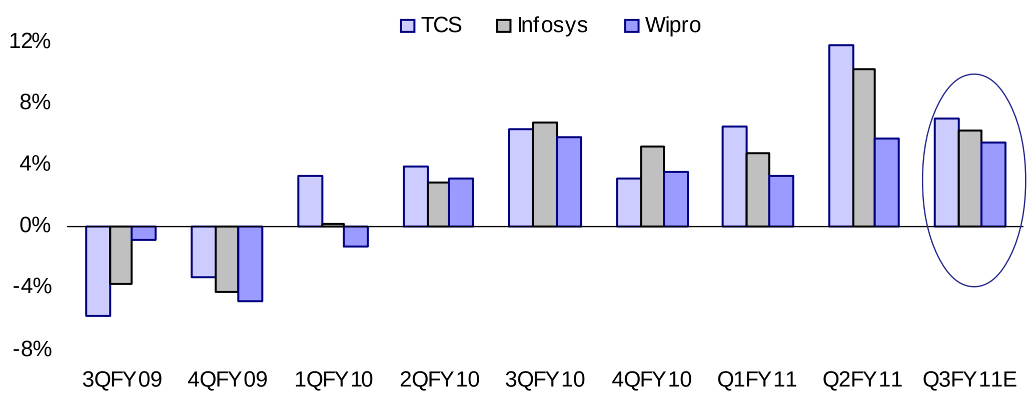
	CMP (Rs) 24.12.10	Rating	Sales Dec.10	Var. % YoY	Var. % QoQ	EBITDA Dec.10	Var. % YoY	Var. % QoQ	Net profit Dec.10	Var. % YoY	Var. % QoQ
Information Technology											
HCL Technologies	455	Buy	38,754	27.8	7.3	6,062	-1.3	7.6	3,877	42.1	29.0
Infosys	3,369	Buy	71,372	24.3	2.7	23,460	15.1	1.3	18,315	15.7	5.4
MphasiS	665	Neutral	14,100	18.3	4.8	3,041	-3.1	-5.1	2,461	-8.4	-13.4
Patni Computer	489	Neutral	8,275	4.8	3.9	1,529	-8.7	1.6	1,247	-8.5	-2.6
TCS	1,141	Neutral	96,262	25.8	3.7	28,427	25.1	1.9	21,879	21.7	3.9
Tech Mahindra	688	Neutral	12,506	5.3	1.3	2,515	-10.4	-6.2	1,301	0.1	-2.3
Wipro	482	Neutral	79,497	14.6	2.3	14,568	10.8	0.8	12,996	8.0	1.1
Sector Aggregate			**320,766**	**20.9**	**3.5**	**79,602**	**13.7**	**1.4**	**62,076**	**15.1**	**3.9**

Kuldeep Koul (Kuldeep.Koul@MotilalOswal.com)/Ashish Chopra (Ashish.Chopra@MotilalOswal.com)

Expect 3QFY11 volume growth of 5.4-6.5% QoQ in the top-tier

Despite concerns over the macro situation, demand traction for IT services is undisturbed, with deal pipelines looking strong. We expect top-tier IT companies to continue their sequential volume growth into 3QFY11, given continued demand traction across verticals and geographies, led by BFSI and Retail. We estimate a 5.4-6.5% QoQ volume growth across the top-tier, resulting in US dollar revenue growth of 5.4-7% QoQ, with TCS expected to outperform. HCL Tech is expected to outperform top-tier players with 7.4% sequential growth in US dollar revenue in 3QFY11.

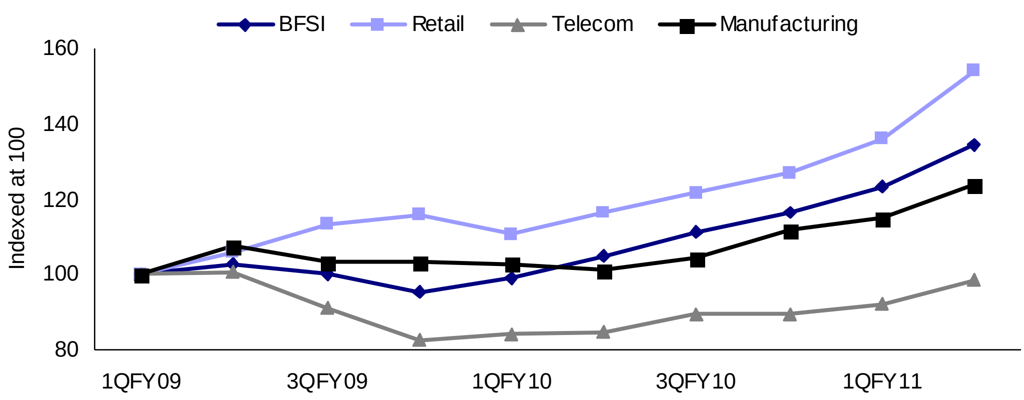
Sequential growth to moderate but demand traction intact (US$ revenue growth - QoQ)



Source: Companies/MOSL

The BFSI and Retail verticals continue to lead demand revival in the sector. Telecom demand is still subdued and Manufacturing is picking up from subdued levels. BFSI, Retail, Manufacturing and Telecom, in aggregate contribute about 80% of demand for Indian IT service majors.

BFSI, Retail sustain growth, Manufacturing traction, Telecom recovery key to upside



Source:Companies/MOSL

Geographically, Europe shows strength, with increased offshoring from Germany and France acting as a fillip, though the dynamics vary from company to company.

3QFY11 estimates

Revenue (US$)						Revenue (Rs b)				
Company	3QFY11	3QFY10	Yoy (%)	2QFY11	QoQ (%)	3QFY11	3QFY10	Yoy (%)	2QFY11	QoQ (%)
TCS	2,144	1,635	31.1	2,004	7.0	96	77	25.8	93	3.7
Infosys	1,590	1,232	29.0	1,496	6.3	71	57	24.3	69	2.7
Wipro	1,342	1,127	19.1	1,273	5.4	79	69	14.6	78	2.3
HCLT	863	652	32.4	804	7.4	39	30	27.8	36	7.3
Aggregate	**5,938**	**4,646**	**27.8**	**5,577**	**6.5**	**286**	**234**	**22.4**	**276**	**3.5**
EBIT margin (%)						PAT (Rs b)				
TCS	27	27	11	28	-60	22	18	21.7	21	3.9
Infosys	30	31	-156	30	-28	18	16	15.8	17	5.4
Wipro	18	19	-62	19	-26	13	12	8.0	13	1.1
HCLT	13	16	-327	12	28	4	3	42.1	3	29.0
Aggregate	**23**	**24**	**-86**	**23.8**	**(35)**	**57**	**49**	**17.5**	**54**	**5.1**

Source:Companies/MOSL

Headcount additions to be ahead of 2QFY11 commentary

In line with growing demand, headcount additions in 3QFY11 are expected to be comparable to those in 2QFY11. TCS added 30,142 employees (gross) in 1HFY11 (including 19,293 in 2QFY11). That, combined with our expectation of gross additions in 3QFY11 being comparable with those in 2QFY11, implies total FY11 additions would be higher than the 50,000 (TCS guided at 50,000+ in 2QFY11; we expect the number to be closer to 60,000).

At Infosys, 3Q is expected to be a stronger quarter in terms of headcount addition. It added 23,123 employees in 1HFY11, and should be able to exceed its headcount addition guidance of 40,000 employees (we expect FY11 gross additions of ~46,000).

Currency headwinds to drive cut in top-tier margins by 30-50bp

In 3QFY11 the rupee appreciated ~3.3% sequentially, and is expected to play key role in a 30-50bp drop in margins for top-tier companies. Companies like Infosys and TCS have a near 40bp EBIT sensitivity to a one percentage point change in the rupee/US dollar. We expect no revival in HCL Tech's EBITDA margins, though it has maximum upside on margins due to levers like utilization, SGA and employee pyramid.

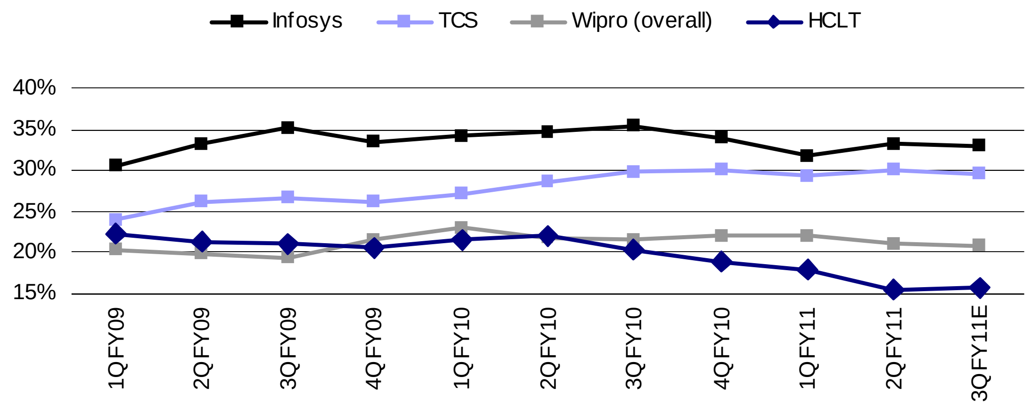
Infosys: We expect Infosys' 3QFY11 EBITDA margins to decline 40bp QoQ to 32.9%, with the impact of a 3.3% appreciation of the rupee cushioned by lower SGA costs (assumption of 12.3% in 3QFY11 v/s 12.6% in 2QFY11). The currency, however, has behaved better (average of Rs44.9 QTD) against the company's estimate of Rs44.5 in its guidance.

TCS: We expect TCS' EBITDA margins to decline 50bp QoQ to 29.5% and EBIT margins to decline 60bp to 27.4% QoQ. TCS' continued cost aggression over the past six quarters leaves it with limited cushion for margin upsides. However, TCS will look to sustain its EBIT margin at ~27% going forward.

Wipro: Wipro's overall EBITDA margins are expected to fall 30bp QoQ to 20.8%. Wipro's IT services EBIT margin, which declined 230bp QoQ to 22.2% in 2QFY11, is expected to recover 40bp this quarter to 22.6%, led by controlled SGA (assumed at 11.4% in 3QFY11 v/s 12.3% in 2QFY11).

HCL Tech: Our HCL Tech EBITDA margin estimate of 15.6% is flat QoQ, with minimal impact of the rupee (little change on a closing basis, given the convenience translation methodology followed in financial reporting). Improved utilization and flattening of the employee pyramid on increased fresher hiring are levers that we expect will help to improve HCL Tech's EBITDA margins to over 18% by 4QFY11 (year-end June).

Margins to dip 30-50bp in the top-tier, led mainly by rupee appreciation



Source:Companies/MOSL

70-120bp cross currency impact on US$ revenue negated by rupee rise

1. As on QTD, the euro appreciated 5.3% against the US dollar on average v/s the full quarter average for 2QFY11, and the GBP appreciated 2.1% against the US dollar. These cross currency movements are expected to have a positive impact of 70-120bp QoQ on US dollar revenues, with Tech Mahindra benefiting most and Wipro, the least.
2. However, in terms of rupee revenue, the sequential growth number will lag the US dollar growth number due to a 3.3% appreciation by the rupee on average v/s the US dollar. Rupee revenues are expected to grow 2.7-3.7% sequentially in 3QFY11 across the top-tier.

3QFY11 currency highlights (in rupees)

	Rates (INR)				Change (QoQ)			
	US$	EUR	GBP	AUD	US$ (%)	EUR (%)	GBP (%)	AUD (%)
Average	44.9	61.2	71.0	44.2	-3.3	1.9	-1.4	5.0
Closing	45.2	59.5	70.1	45.0	1.7	-2.6	-0.2	4.2

3QFY11 currency highlights (in US$)

	Rates (INR)			Change (QoQ)		
	EUR	GBP	AUD	EUR	GBP	AUD
Average	1.36	1.58	0.99	5.3%	2.1%	8.7%
Closing	1.32	1.55	1.00	-4.6%	-2.1%	2.4%

Source:Companies/MOSL

Expect upgrades to Infosys' FY11 US dollar revenue, EPS guidance

The guidance and outlook for 4QFY11 and beyond will be largely driven by the cues obtained from budgets by the second half of January. We expect Infosys to upgrade its FY11 US dollar revenue growth guidance to 25-26% (v/s 24-25% guidance in 2QFY11). Our expectation of higher FY11 guidance comes because of our expectation of better-than-guided US dollar revenue growth in 3QFY11 (our estimate of 6.3% QoQ v/s guidance of 4.4% QoQ at the higher end).

Guidance of 26% at the higher end based on our 3QFY11 estimates would imply only 2% sequential growth in 4QFY11. However, we expect the management to be conservative given the seasonal deceleration in the fourth quarter (the fourth quarter usually posts a deceleration in growth from the third quarter; however, barring 4QFY05 and 4QFY07, the magnitude of the decline has not been more than 100bp over the past five years) and uncertainty over budgets.

We also expect Infosys to increase its EPS guidance by 1.7% to Rs119 at the higher end due to: (1) higher revenue growth in 3QFY11 and (2) better expectation of operating margins after the QTD performance of the rupee against the US dollar was better than Infosys' guidance (average rate of Rs44.9 v/s Infosys' assumption of Rs44.5 in its guidance).

After our interaction with the Wipro management, we expect the company to guide for 4QFY11 US dollar revenue growth of 4-6%.

Infosys: guidance v/s expectations

	3QFY11G	FY11G	FY11RG	3QFY11E	FY11E	Comments
INR revenue (b)	68.84-69.53	269.51-271.65	271.8-274	71.3719	277.76	
Sequential growth (%)	-0.9-0	18.5-19.4	19.5-20.5	2.74	22.14	Marginal upgrade in rupee growth guidance in line with increase in US dollar revenue upgrade
INR EPS	29.37-29.89	115.05-117.07	117-119	32.06	122.72	1.7% upgrade due to increased revenue guidance and favorable currency movement
US dollar revenue	1,547m-1,562m	5.95b-6b	6.00b-6.05b	1,590m	6,128m	
Sequential growth (%)	3.4%-4.4	24%-25	25%-26	6.30	27.60	Expect increase of 1% in US dollar FY11 revenue growth guidance
US dollar EPS guidance	0.66-0.67	2.54-2.58	2.44-2.54	0.71393	2.70731	
INR/US$ rate	44.5	45.30	45.3	44.9	45.3295	

Note: RG implies revised guidance after 1QFY11

Source:Companies/MOSL

3QFY11 guidance exchange rate assumptions

Guided at	EUR	GBP	AUD	INR/US$
Infosys	1.23	1.5	0.86	44.5
Wipro	1.29	1.56	0.94	46.31
Actual (Average)	1.36	1.58	0.99	44.90

Key things to look for

- **Commentary on budget** trends in CY11 and the likely increase in the proportion of outsourcing/offshoring.
- Performance of **discretionary** service lines like Consulting/Package Implementation/ Product Engineering. Signs of traction in the Telecom vertical. Telecom drives 13-14% of IT outsourcing budgets.
- Trend in quarterly annualized **attrition**. We expect attrition to move down to 15-18% over the next few quarters from the current 22-25%.
- Commentary around the contribution of **pent-up demand**/M&A integration (BFSI) to overall growth in FY11. This has been an area of some debate, with companies like TCS claiming minimal help from such factors and others, like HCL Tech and Cognizant, pointing to the factors as material contributors.
- Market share gains on impending **deal renegotiations**, with US$40b-45b of TCV up for bidding over three years.

The stocks will react positively if: (1) sequential growth in top-tier US dollar revenue exceeds 7%; (2) Infosys upgrades its US dollar revenue guidance for FY11 beyond 26%; and (3) positive commentary on budgets reflects the possibility of comparable growth in FY12 as in FY11.

Prefer Infosys, HCL Tech, Mphasis

We are fundamentally bullish on most IT large-caps as long term trends towards offshoring are positive. Though arguably valuations look full at 20-23x, the risk to earnings numbers, especially consensus, is still on the upside (we are 3% ahead of consensus, on average, on EPS, and see potential for upside to our numbers, especially for Infosys). We would be buyers into intermittent disappointments in the sector. Discretionary pick up, the prospect of quicker and higher standalone price increases (we are modeling price increases of about 1.5% from 2QFY12), resurgence of large transformational deals, revival of spending from the Telecom vertical could drive an upward bias to estimates. A double-dip in the US is the biggest risk for the sector, apart from significant appreciation of the rupee.

We believe given that the visibility on long term fundamentals and growth is high, these stocks will grow into their valuation and can still return 15%+ for patient investors with a 12month+ horizon, even with some contraction in the multiples.

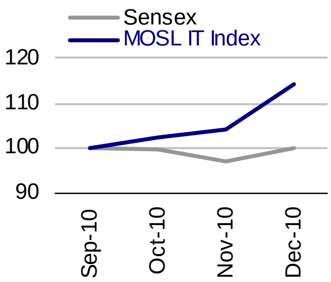
In this light, we prefer **Infosys** and **HCL Tech** among large caps.

EPS estimates (Rs), MOSL v/s consensus

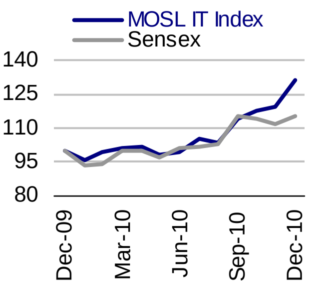
	3QFY11		FY11		FY12		Upside/downside to consensus		
	MOSL	Consensus	MOSL	Consensus	MOSL	Consensus	3QFY11 (%)	FY11 (%)	FY12 (%)
INFY	32.11	31.36	122.5	122.7	153.3	147.98	2.4	0.1	2.9
TCS	11.1	11.08	43	42.78	51.1	49.41	0.2	0.5	3.4
WIT	5.3	5.46	21.7	21.93	25.1	24.61	-2.9	-1.0	2.0
HCL	5.57	5.477	23.9	24.074	31.4	30.56	1.7	-0.7	2.7

Source:Companies/MOSL

Relative Performance-3m (%)



Relative Performance-1Yr (%)



To ward off market share losses to Indian offshorers, we expect aggressive MNC offshoring to continue as a trend and see Mphasis as a clear beneficiary of that trend.

- **Infosys is our preferred IT pick as:** (1) it is best suited to capitalize on discretionary demand (41% contribution from Package Implementation and Application Development), and (2) it has the best operational scope across utilization, fixed bid, a skew towards higher margin discretionary segments, lowest European exposure and lowest tax increases. We expect the company to post US dollar revenue CAGR of 25% over FY10-12 and EPS CAGR of 19.5%. Maintain **Buy**, with a target price of Rs3,366, based on 22x FY12E earnings.

- Besides the top three, we are positive about HCL Tech due to (1) continued traction in IMS (22% of revenue), (2) pick-up in lagging segments like Engineering Services (ERS), Enterprise Application Services (EAS) (40% of revenue), (3) HCL Tech's large deal prowess in a returning deals scenario and expected successes in impending contract renegotiations, and (4) better-than-peer group EPS CAGR of 31.4% over FY10-12. Maintain **Buy** with a target price of Rs470.

- Mphasis is our preferred pick among mid-cap IT companies due to (1) limited risk of pricing cut recurrence, (2) increasing volumes due to a strong MNC offshoring trend, substantiated by 11% QoQ headcount addition in ITO in 4QFY10 and 61% in the full year and a 24% increase in the Applications segment, and (3) expected revenue CAGR of 25% over FY10-12, in line with its large-cap peers. Maintain **Neutral**, target price of Rs700.

- Our pecking order of preference among top-tier IT companies is Infosys, followed by TCS and Wipro. We are positive about TCS given: (1) continued broad-based traction in the demand environment giving confidence of 20%+ growth in US dollar revenues over the next three years; (2) impressive delivery on operating performance and (3) expectation of EBIT margins sustaining at current levels of ~27%. We expect Wipro to bridge its underperformance to peers while margin recovery after a 230bp decline in IT services EBIT in 2QFY11 may be gradual.

Comparative valuation

	CMP (Rs)	Rating	EPS (Rs)			P/E (x)			EV/EBITDA			RoE (%)		
	24.12.10		FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E
Information Technology														
HCL Technologies	455	Buy	23.9	31.4	35.3	19.0	14.5	12.9	11.7	8.3	6.9	21.3	23.1	21.6
Infosys	3,369	Buy	122.7	153.3	182.5	27.4	22.0	18.5	18.9	15.2	12.8	26.9	27.3	26.7
MphasiS	665	Neutral	53.3	60.0	70.5	12.5	11.1	9.4	10.0	8.2	6.8	29.7	26.0	24.1
Patni Computer	489	Neutral	41.1	41.1	45.9	11.9	11.9	10.6	7.9	6.3	5.0	17.5	17.4	16.6
TCS	1,141	Neutral	43.2	51.2	60.5	26.4	22.3	18.9	19.5	15.7	13.3	34.4	31.0	28.5
Tech Mahindra	688	Neutral	48.9	57.0	73.7	14.1	12.1	9.3	6.7	5.9	5.1	24.7	22.4	22.6
Wipro	482	Neutral	21.8	25.2	28.8	22.1	19.2	16.7	17.1	13.2	11.2	23.7	23.3	21.8
Sector Aggregate						**24.0**	**19.9**	**17.0**	**17.2**	**13.6**	**11.5**	**24.7**	**24.0**	**22.8**

** FY10 corresponds to CY09 and so on.*

HCL Technologies

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	HCLT IN
Equity Shares (m)	692.1
52 Week Range (Rs)	459 / 318
1,6,12 Rel Perf (%)	13 / 14 / 6
Mcap (Rs b)	314.8
Mcap (USD b)	7.0

CMP: Rs455 — Buy

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS* (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
6/10E	125,650	11,766	17.1	-3.8	26.6	4.3	18.5	12.8	2.4	12.4
6/11E	158,354	16,620	23.9	39.7	19.0	3.6	21.3	17.5	1.9	11.5
6/12E	196,690	21,974	31.4	31.3	14.5	3.0	23.1	20.7	1.5	8.2
6/13E	227,593	24,919	35.3	12.5	12.9	2.5	21.6	20.3	1.2	6.9

** After ESOP charges; # Axon consolidated in December 2008*

- We expect HCL Tech to post revenue of US$863m, up 7.4% QoQ, ahead of the top-tier pack, driven by 7.3% QoQ growth in software services (US$617m) and 7.9% QoQ growth in Infrastructure Management Services (US$194m).
- In rupee terms, we expect HCL Tech to post revenue of Rs39b, up 7.3% QoQ, given a flattish rupee rate on a closing basis for 2QFY11 v/s 1QFY11.
- We expect EBITDA margins (after ESOP charges) to be sequentially flat, with SGA costs remaining high (15.5% v/s 15.4% in 1QFY11).
- HCL Tech's forward cover amounted to US$300m as on 1QFY11. We expect forex losses of Rs4m in 2QFY11, indicating that losses may be behind the company.
- HCL Tech is expected to post net profit (including ESOP charge) of Rs3.9b against Rs3b in 1QFY11, up 29% QoQ on reduced forex losses.
- The stock trades at 19x FY11E and 14.5x FY12E earnings. Maintain **Buy** with a target price of Rs470.
- **What to look for:** Large deal flows, SGA costs' impact on margins, performance of discretionary lines.
- **Key risks:** Slower ramp-up of large deals, missing discretionary traction, currency volatility.

QUARTERLY PERFORMANCE (US GAAP) (RS MILLION)

Y/E JUNE	FY10				FY11E				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Revenues	**30,314**	**30,325**	**30,757**	**34,254**	**36,116**	**38,754**	**40,440**	**43,044**	**125,650**	**158,354**
Q-o-Q Change (%)	4.2	0.0	1.4	11.4	5.4	7.3	4.4	6.4	18.5	26.0
Direct Expenses	19,349	19,749	20,619	23,166	24,931	26,668	27,316	28,430	24,802	26,509
Sales, General & Admin. Expenses	4,279	4,432	4,304	4,950	5,553	6,024	6,276	6,647	19.7	16.7
Operating Profit	**6,686**	**6,144**	**5,834**	**6,138**	**5,632**	**6,062**	**6,848**	**7,967**	**24,802**	**26,509**
Margins (%)	22.1	20.3	19.0	17.9	15.6	15.6	16.9	18.5	19.7	16.7
Other Income	-63	-133	-141	-208	4	4	6	52	-545	65
Forex Gain / (Loss)	-1,504	-1,257	-626	-1,370	-638	-4	-93	0	-4,757	-736
Depreciation & Amort.	1,418	1,361	1,099	1,131	1,218	1,216	1,251	1,354	5,009	5,039
PBT bef. Extra-ordinary	**3,701**	**3,393**	**3,968**	**3,429**	**3,780**	**4,846**	**5,510**	**6,664**	**14,491**	**19,732**
Provision for Tax	687	665	754	618	776	969	1,102	1,333	2,724	4,180
Rate (%)	18.6	19.6	19.0	18.0	20.5	20.0	20.0	20.0	18.8	21.2
PAT after ESOP chrg	**3,013**	**2,728**	**3,214**	**2,811**	**3,004**	**3,877**	**4,408**	**5,331**	**11,766**	**15,552**
Q-o-Q Change (%)	-2.6	-9.5	17.8	-12.5	6.8	29.0	13.7	21.0	-2.0	32.2
Reported PAT excl ESOP Chrg	**3,199**	**2,956**	**3,438**	**3,418**	**3,224**	**4,055**	**4,584**	**5,444**	**13,011**	**17,307**
Q-o-Q Change (%)	-3.3	-7.6	16.3	-0.6	-5.7	25.8	13.1	18.7	1.8	33.0
Diluted EPS (Rs)	4.4	4.0	4.6	4.1	4.3	5.6	6.3	7.6	17.1	23.9
US$ Revenues	630	652	685	738	804	863	909	967	2,704	3,543
Q-o-Q Change (%)	3.8	3.4	5.1	7.7	9.0	7.4	5.3	6.4	23.6	31.0
Volumes Growth QoQ (%)	0.6	1.3	7.2	10.5	7.9	7.4	5.8	7.1	11.4	33.2

E: MOSL Estimates; Axon is consolidated since December 2008

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Infosys

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	INFO IN
Equity Shares (m)	571.3
52 Week Range (Rs)	3378 / 2333
1,6,12 Rel Perf (%)	9 / 6 / 14
Mcap (Rs b)	1,924.5
Mcap (USD b)	42.6

CMP: Rs3,369 — Buy

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	227,420	61,340	107.4	4.7	31.4	8.4	29.7	33.7	7.8	22.7
3/11E	277,760	70,114	122.7	14.3	27.4	6.6	26.9	31.8	6.2	18.9
3/12E	334,801	87,575	153.3	24.9	22.0	5.5	27.3	31.4	5.0	15.3
3/13E	384,817	104,246	182.5	19.0	18.5	4.5	26.7	29.9	4.2	12.8

- We expect Infosys to post revenue of US$1,590m, up 6.3% QoQ. Infosys had guided 3QFY11 US dollar revenue growth of 3.4-4.4% QoQ. In rupee terms, revenue is expected to grow by 2.7% QoQ to Rs71.4b.
- Our revenue growth estimates factor in 6% QoQ volume growth and a flattish pricing environment (0.2% mix-based up-tick).
- We expect Infosys' EBITDA margins to decline 40bp QoQ to 32.9%, led by a 3.3% sequential appreciation of the rupee against the US dollar.
- Infosys had outstanding hedges worth US$555m as on 30 September 2010. We expect Infosys to book other income of Rs3.1b in 3QFY11 v/s Rs2.7b in 2QFY11.
- Our PAT estimate of Rs18.3b implies a 5.4% QoQ increase and our EPS estimate for the quarter is Rs32.1. Infosys guided 3QFY11 EPS of Rs29.9 at the higher end.
- We expect Infosys' full year revenue guidance to increase by a percentage point to 25-26% (v/s 24-25% earlier), EPS guidance to increase to Rs119 (v/s Rs117.05 earlier).
- The stock trades at 27.4x FY11E and 22x FY12E earnings. Maintain **Buy.**
- **What to look for:** Commentary on CY11 budget trends, discretionary traction, commentary on a possible pricing up-tick.
- **Key risks:** Macro uncertainty in Europe, delay in discretionary spends, increased attrition, currency volatility.

QUARTERLY PERFORMANCE (INDIAN GAAP) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Revenues	**54,720**	**55,850**	**57,410**	**59,440**	**61,980**	**69,470**	**71,372**	**74,939**	**227,420**	**277,760**
Q-o-Q Change (%)	-2.9	2.1	2.8	3.5	4.3	12.1	2.7	5.0	4.8	22.1
Direct Expenses	29,150	29,630	30,090	31,840	34,410	37,540	39,133	40,970	120,710	152,053
SG&A	6,890	6,890	6,940	7,380	7,950	8,780	8,779	8,993	28,100	34,501
Operating Profit	**18,680**	**19,330**	**20,380**	**20,220**	**19,620**	**23,150**	**23,460**	**24,975**	**78,610**	**91,206**
Margins (%)	34.1	34.6	35.5	34.0	31.7	33.3	32.9	33.3	34.6	32.8
Other Income	2,690	2,360	2,310	2,080	2,390	2,670	3,068	3,214	9,430	11,341
Depreciation	2,220	2,320	2,310	2,200	2,070	2,170	2,108	2,123	9,050	8,471
PBT bef. Extra-ordinary	**19,150**	**19,370**	**20,380**	**20,100**	**19,940**	**23,650**	**24,420**	**26,066**	**78,990**	**94,076**
Provision for Tax	3,880	3,970	4,550	5,250	5,060	6,280	6,105	6,517	17,650	23,962
Rate (%)	20.3	20.5	22.3	26.1	25.4	26.6	25.0	25.0	22.3	25.5
Adjusted PAT	**15,270**	**15,400**	**15,830**	**16,170**	**14,880**	**17,370**	**18,315**	**19,550**	**62,660**	**70,114**
Q-o-Q Change (%)	-5.3	0.9	2.8	2.1	-8.0	16.7	5.4	6.7	4.6	11.9
Diluted EPS	26.6	26.8	27.7	26.0	26.0	30.4	32.1	34.2	107.4	122.7
US$ Revenues	1,122	1,154	1,232	1,296	1,358	1,496	1,590	1,684	4,804	6,128
Q-o-Q Change (%)	0.1	2.9	6.8	5.2	4.8	10.2	6.3	5.9	3.0	27.6
Volume Growth - Q-o-Q (%)	-0.7	1.4	5.3	4.6	6.9	7.1	6.0	6.0	6.2	25.4

E: MOSL Estimates

Kuldeep Koul (Kuldeep.Koul@MotilalOswal.com)/Ashish Chopra (Ashish.Chopra@MotilalOswal.com)

Mphasis

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	MPHL IN
Equity Shares (m)	210.0
52 Week Range (Rs)	752 / 545
1,6,12 Rel Perf (%)	7 / 4 / -25
Mcap (Rs b)	139.6
Mcap (USD b)	3.1

CMP: Rs665 — Neutral

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
10/09A	42,638	9,086	43.2	79.4	15.4	5.9	48.1	48.8	3.1	11.5
10/10E	50,366	10,911	51.7	19.6	12.9	4.2	38.7	38.7	2.5	9.8
10/11E	61,968	11,251	53.3	3.1	12.5	3.3	29.7	32.0	1.9	8.4
10/12E	77,291	12,671	60.0	12.6	11.1	2.6	26.0	30.2	1.4	6.4

**Financial year end changed to YE Oct from March in FY08 (corresponds to 7month period)*

- We expect Mphasis' 1QFY11 (year ending October) US dollar revenue growth of 4.7% QoQ to US$310m, despite subdued growth in the Applications segment (due to a pricing cut), driven largely by growth in ITO (15% QoQ).
- Mphasis is expected to post rupee revenues of Rs14.1b, up 4.8% QoQ.
- EBITDA margins are expected to decline 220bp QoQ to 21.6% and we expect EBITDA in absolute terms to decline 5.1% QoQ to Rs3b (v/s Rs3.2b in 4QFY10).
- We expect net profit to decline 9.3% QoQ to Rs2.5b on a higher tax rate (assumed at 13% v/s 9.6% in 4QFY10) and forex losses.
- The stock trades at 12.9x FY11E and 12.5x FY12E earnings. Maintain **Neutral** with a target price of Rs700.
- **What to look for:** Quantum of price cuts on the HP channel, impact of price cut and increased SGA on operating margins, traction in business from the HP channel.
- **Key risks:** Adverse pricing renegotiations with HP, slower-than-expected ramp-up in HP offshoring and attrition.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E OCTOBER	FY10				FY11E				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Revenues	**11,916**	**12,205**	**12,791**	**13,454**	**14,100**	**14,971**	**15,942**	**16,955**	**50,366**	**61,968**
Q-o-Q Change (%)	5.3	2.4	4.8	5.2	4.8	6.2	6.5	6.4	18.1	23.0
Direct Expenses	7,794	8,077	8,598	9,051	9,776	10,187	10,952	11,442	33,519	42,357
Sales, General & Admin. Exp.	983	978	1,034	1,199	1,284	1,332	1,422	1,515	4,195	5,553
Operating Profit	**3,139**	**3,150**	**3,159**	**3,204**	**3,041**	**3,452**	**3,568**	**3,997**	**12,652**	**14,058**
Margins (%)	26.3	25.8	24.7	23.8	21.6	23.1	22.4	23.6	25.1	22.7
Other Income	330	275	174	310	192	213	366	402	1,089	1,172
Depreciation	458	402	404	374	405	429	458	488	1,638	1,780
PBT bef. Extra-ordinary	**3,011**	**3,023**	**2,929**	**3,140**	**2,828**	**3,235**	**3,475**	**3,911**	**12,103**	**13,450**
Provision for Tax	325	350	217	300	368	502	626	704	1,192	2,199
Rate (%)	10.8	11.6	7.4	9.6	13.0	15.5	18.0	18.0	9.8	16.3
PAT bef. Extra-ordinary	**2,686**	**2,673**	**2,712**	**2,840**	**2,461**	**2,733**	**2,850**	**3,207**	**10,911**	**11,251**
Q-o-Q Change (%)	9.7	-0.5	1.5	4.7	-9.3	11.1	4.3	12.5	20.1	3.1
Diluted EPS (Rs)	12.7	12.7	12.8	13.5	11.7	12.9	13.5	15.2	51.7	53.3
US$ Revs	257	271	276	296	310	333	355	378	1,099	1,376
Q-o-Q Change (%)	10.5	5.4	1.8	7.5	4.672	7.276	6.748	6.561	25.6	25.2

E: MOSL Estimates

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Patni Computer Systems

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	PATNI IN
Equity Shares (m)	130.4
52 Week Range (Rs)	624 / 413
1,6,12 Rel Perf (%)	3 / -17 / -12
Mcap (Rs b)	63.8
Mcap (USD b)	1.4

CMP: Rs489 — Neutral

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
12/09A	31,620	4,660	36.1	26.3	13.6	1.9	15.7	15.2	1.4	6.8
12/10E	31,764	5,498	41.1	13.9	11.6	2.2	17.5	17.0	1.6	7.9
12/11E	36,454	5,502	41.1	0.1	11.6	1.9	17.4	16.9	1.2	6.3
12/12E	41,004	6,143	45.9	11.7	10.4	1.6	16.6	16.1	1.0	5.0

** Reflects adjusted PAT*

- We expect Patni to post revenue of US$184m in 4QCY10, up 3.1% QoQ, v/s guidance of US$180m-181m, implying 0.7-1.2% growth.
- We expect its rupee revenue to be Rs8.3b, up 3.9% QoQ.
- EBITDA margins are expected to decline 40bp QoQ to 18.5%. We expect a marginal up-tick in EBITDA in absolute terms QoQ to Rs1.53b (up 1.6% QoQ from Rs1.51b in 3QCY10).
- We expect other income to drop to Rs281m (v/s Rs329m in 3QCY10) due to reduced cash and cash equivalents after a payout of special dividend of Rs63 per share (Rs9.9b including tax on dividend).
- PAT is expected to decline 2.6% QoQ to Rs1.25b. Diluted EPS in 4QCY10 is estimated at Rs9.32, implying full year EPS of Rs41.1.
- The stock trades at 11.6x CY11E and 11.6x CY12E earnings. Maintain **Neutral**, with a target price of Rs477.
- **What to look for:** Milestone based ramp-ups in projects, large deal wins, attrition trend and 1QCY11 guidance.
- **Key risks:** Persistent stake sale rumors could affect growth, client concentration, attrition, currency volatility and delays in project starts.

QUARTERLY PERFORMANCE (US GAAP) (RS MILLION)

Y/E DECEMBER	CY09				CY10				CY09	CY10E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Revenues	**7,955**	**7,729**	**8,040**	**7,896**	**7,745**	**7,776**	**7,967**	**8,275**	**31,620**	**31,764**
Q-o-Q Change (%)	-7.2	-2.8	4.0	-1.8	-1.9	0.4	2.4	3.9	-1.2	0.5
Direct Expenses	5,143	4,851	4,922	4,697	4,596	4,855	5,071	5,339	19,612	19,860
Sales, General & Admin. Expenses	1,380	1,229	1,456	1,524	1,457	1,354	1,391	1,407	5,589	5,608
Operating Profit	**1,432**	**1,649**	**1,662**	**1,675**	**1,693**	**1,568**	**1,505**	**1,529**	**6,418**	**6,296**
Margins (%)	18.0	21.3	20.7	21.2	21.9	20.2	18.9	18.5	20.3	19.8
Other Income	-202	339	74	272	413	520	329	281	482	1,542
Depreciation	288	294	308	278	280	304	285	290	1,169	1,159
PBT bef. Extra-ordinary	**941**	**1,694**	**1,428**	**1,669**	**1,825**	**1,784**	**1,549**	**1,521**	**5,732**	**6,679**
Provision for Tax	180	326	260	305	328	310	268	274	1,072	1,180
Rate (%)	19.1	19.2	18.2	18.3	18.0	17.4	17.3	18.0	18.7	17.7
Net Income bef. Extra-ordinary	**761**	**1,368**	**1,168**	**1,363**	**1,497**	**1,473**	**1,281**	**1,247**	**4,660**	**5,498**
Q-o-Q Change (%)	-2.5	79.9	-14.7	16.8	9.8	-1.6	-13.1	-2.6	27.0	18.0
Extra-ordinary items	0	0	-548	-515	0	0	0	0	0	0
Net Income aft. Extra-ordinary	**761**	**1,368**	**1,716**	**1,879**	**1,497**	**1,473**	**1,281**	**1,247**	**4,660**	**5,498**
Q-o-Q Change (%)	-2.5	79.9	25.4	9.5	-20.3	-1.6	-13.1	-2.6	2.6	18.0
Diluted EPS (Rs)	5.9	10.6	9.1	10.6	11.2	11.0	9.6	9.3	36.3	41.1
US$ Revenues	156	162	167	170	172.3	167.6	179	184	656	703
% Chg (QoQ)	-11.4	3.5	3.3	1.8	1.3	-2.8	6.7	3.1	-8.8	7.2

E: MOSL Estimates

Kuldeep Koul (Kuldeep.Koul@MotilalOswal.com)/Ashish Chopra (Ashish.Chopra@MotilalOswal.com)

Tata Consultancy Services

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	TCS IN
Equity Shares (m)	1,957.2
52 Week Range (Rs)	1,175 / 692
1,6,12 Rel Perf (%)	10 / 34 / 37
Mcap (Rs b)	2,232.6
Mcap (USD b)	49.5

CMP: Rs1,141 **Neutral**

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	300,289	68,647	35.1	33.6	32.5	10.6	37.3	40.9	7.3	25.3
3/11E	371,956	84,570	43.2	23.2	26.4	7.9	34.4	39.6	5.8	19.5
3/12E	456,827	100,198	51.2	18.5	22.3	6.1	31.0	36.9	4.6	15.7
3/13E	523,393	118,332	60.5	18.1	18.9	4.8	28.5	33.1	3.9	13.3

- We expect TCS to post 3QFY11 revenue of US$2,144m, up 7% QoQ, driven by a 6.5% growth in volumes.
- In rupee terms, we expect revenues of Rs96.3b, up 3.7% QoQ.
- EBITDA margins are expected to decline 50bp QoQ to 29.5% due to the appreciation of the rupee. We expect EBITDA in absolute terms to grow 1.9% QoQ to Rs28.4b.
- TCS' effective hedges were US$570m. We expect TCS' other income to be Rs982m against Rs337m in 2QFY11.
- PAT is expected to grow 3.9% sequentially to Rs21.9b.
- The stock trades at 26.4x FY11E and 22.3x FY12E earnings. Maintain **Neutral.**
- **What to look for:** Outlook on CY11 budgets, change in hiring guidance, BFSI traction and performance of discretionary segments.
- **Key risks**: Macro uncertainty, slower growth in BFSI, sluggishness in Manufacturing and currency volatility.

QUARTERLY PERFORMANCE (US GAAP) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Revenues	**72,070**	**74,351**	**76,503**	**77,365**	**82,173**	**92,864**	**96,262**	**100,658**	**300,289**	**371,956**
Q-o-Q Change (%)	0.5	3.2	2.9	1.1	6.2	13.0	3.7	4.6	8.0	23.9
Direct Expenses	38,208	39,215	39,841	39,897	43,978	49,448	51,502	53,901	157,243	198,830
Sales, General & Admin. Exp.	14,243	13,794	13,945	14,264	14,107	15,522	16,332	16,829	56,246	62,790
Operating Profit	**19,619**	**21,342**	**22,717**	**23,204**	**24,088**	**27,894**	**28,427**	**29,928**	**86,800**	**110,337**
Margins (%)	27.2	28.7	29.7	30.0	29.3	30.0	29.5	29.7	28.9	29.7
Other Income	194	-144	570	1,636	831	337	982	1,185	2,255	3,335
Depreciation	1,727	1,811	1,829	1,924	1,781	1,886	2,042	2,134	7,209	7,843
PBT bef. Extra-ordinary	**18,086**	**19,387**	**21,458**	**22,916**	**23,138**	**26,345**	**27,367**	**28,979**	**81,846**	**105,829**
Provision for Tax	2,655	2,909	3,241	3,284	4,423	4,992	5,200	5,506	12,088	20,120
Rate (%)	14.7	15.0	15.1	14.3	19.1	18.9	19.0	19.0	14.8	19.0
Minority Interest	228	239	242	320	272	289	289	289	1,029	1,138
Net Income after. EO	**15,203**	**16,239**	**17,975**	**19,312**	**18,442**	**21,064**	**21,879**	**23,185**	**68,729**	**84,570**
Q-o-Q Change (%)	15.7	6.8	10.7	7.4	-4.5	14.2	3.9	6.0	33.8	23.0
Diluted EPS (Rs)	7.8	8.3	9.2	9.9	9.4	10.8	11.2	11.8	38,616.0	39,833.3
US$ Revenues	1,480	1,538	1,635	1,686	1,794	2,004	2,144	2,262	6,339	8,204
% Chg (QoQ)	3.3	3.9	6.3	3.1	6.4	11.7	7.0	5.5	5.4	29.4
Volume Growth QoQ (%)	3.6	5.0	6.6	4.0	8.1	11.2	6.5	5.4	17.4	27.6

E: MOSL Estimates

Kuldeep Koul (Kuldeep.Koul@MotilalOswal.com)/Ashish Chopra (Ashish.Chopra@MotilalOswal.com)

Tech Mahindra

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	TECHM IN
Equity Shares (m)	130.7
52 Week Range (Rs)	1,158 / 600
1,6,12 Rel Perf (%)	0 / -20 / -47
Mcap (Rs b)	89.9
Mcap (USD b)	2.0

CMP: Rs688 | **Neutral**

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	46,254	7,546	45.0	-42.0	15.3	2.9	31.6	31.5	2.9	5.8
3/11E	48,993	8,039	48.9	8.7	14.1	2.4	24.7	20.4	2.4	6.3
3/12E	54,732	8,992	57.0	16.5	12.1	2.0	22.4	20.2	2.0	5.6
3/13E	59,218	11,170	73.7	29.2	9.3	1.6	22.6	21.3	1.6	4.8

** EPS incl. profits from Satyam and adjusted for restructuring charge,# reported PAT incl. Satyam*

- Tech Mahindra is expected to post revenue at US$281m, up 6.2% QoQ, boosted partially by the appreciation of the GBP against the US dollar.
- Rupee revenue is expected to increase 1.3% QoQ to Rs12.5b, subdued due to the appreciation of the rupee against the US dollar.
- Reported EBITDA margins are expected to decline 160bp QoQ to 20.1%. In absolute terms, we expect EBITDA to decline 6.2% QoQ to Rs2.5b.
- Our estimate for other income is Rs153m v/s Rs83m in 2QFY11.
- We expect PAT to be Rs1.72b, sequentially flattish despite lower EBITDA due to higher other income and lower taxation assumption (17% in 3QFY11 v/s 19.5% effective tax rate in 2QFY11).
- The stock trades at 14.1x FY11E and 12.1x FY12E earnings including Satyam, excluding restructuring charges. Maintain **Neutral.**
- **What to look for:** Performance of Mahindra Satyam, growth in the non-BT portfolio and wage inflation.
- **Key risks**: Dependence on BT (35% of revenue including hardware pass-throughs), growth skew towards low margin BPO and telco rollouts, legal issues pertaining to Satyam and currency volatility.

QUARTERLY PERFORMANCE (INDIAN GAAP) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Revenues	**11,130**	**11,418**	**11,873**	**11,833**	**11,337**	**12,350**	**12,506**	**12,800**	**46,254**	**48,993**
Q-o-Q Change (%)	5.9	2.6	4.0	-0.3	-4.2	8.9	1.3	2.4	3.6	5.9
Direct Cost	6,838	6,986	7,514	7,373	7,458	7,850	8,178	8,278	28,711	31,764
Other Operating Exps	1,487	1,507	1,552	1,672	1,752	1,820	1,813	1,830	6,218	7,216
Operating Profit	**2,805**	**2,925**	**2,807**	**2,788**	**2,127**	**2,680**	**2,515**	**2,692**	**11,325**	**10,013**
Margins (%)	25.2	25.6	23.6	23.6	18.8	21.7	20.1	21.0	24.5	20.4
Other Income	-261	270	6	739	253	83	153	255	754	744
Interest	571	843	459	311	264	270	241	230	2,184	1,005
Depreciation	296	312	331	399	354	347	350	358	1,338	1,410
PBT bef. Extra-ordinary	**1,677**	**2,040**	**2,023**	**2,817**	**1,762**	**2,146**	**2,076**	**2,359**	**8,557**	**8,343**
Provision for Tax	268	345	285	542	312	418	353	401	1,440	1,484
Rate (%)	16.0	16.9	14.1	19.2	17.7	19.5	17.0	17.0	16.8	17.8
Net Income aft. Extra-ordinary	**1,317**	**1,690**	**1,729**	**2,269**	**1,456**	**1,735**	**1,716**	**1,951**	**7,005**	**6,844**
Q-o-Q Change (%)	-42.9	28.3	2.3	31.2	-35.8	19.2	-1.1	13.7	-31.0	-2.3
Effect of Restructuring Fees	420	415	430	404	411	403	415	415	1,669	1,644
Adj. Net Inc. (ex prior period)	**897**	**1,275**	**1,299**	**1,865**	**1,045**	**1,332**	**1,301**	**1,536**	**5,336**	**5,200**
Q-o-Q Change (%)	-61.1	42.2	2.0	43.5	-44.0	27.6	-2.3	18.0	-47.4	-2.6
Diluted EPS (Rs)	10.7	12.9	13.2	17.4	11.1	13.2	13.1	14.9	54.2	52.4
US$ Revenues	228	237	254	259	251	265	281	288	977	1,084
Q-o-Q Change (%)	7.7	3.9	7.3	1.9	-2.9	5.4	6.2	2.4	-0.9	11.1

E: MOSL Estimates

Kuldeep Koul (Kuldeep.Koul@MotilalOswal.com)/Ashish Chopra (Ashish.Chopra@MotilalOswal.com)

Wipro

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	WPRO IN
Equity Shares (m)	2,434.1
52 Week Range (Rs)	500 / 321
1,6,12 Rel Perf (%)	15 / 7 / 0
Mcap (Rs b)	1,173.1
Mcap (USD b)	26.0

CMP: Rs482 — Neutral

Year End	Net Sales (Rs m)	PAT (Rs m)	EPS (Rs)	EPS Growth (%)	P/E (x)	P/BV (x)	ROE (%)	ROCE (%)	EV/ Sales	EV/ EBITDA
3/10A	271,957	45,638	18.6	17.4	25.9	6.0	26.6	21.8	4.2	19.1
3/11E	314,568	51,258	21.8	16.8	22.1	4.9	23.7	20.0	3.5	17.1
3/12E	374,386	61,529	25.2	15.6	19.2	4.0	23.3	21.8	2.9	13.2
3/13E	430,576	70,457	28.8	14.5	16.7	3.3	21.8	20.9	2.4	11.2

- Wipro's IT services revenue is expected to grow 5.4% QoQ to US$1,342m, which is at the higher end of its guidance of US$1,317m-1,343m revenue, driven by 5.4% sequential growth in volume.
- We expect consolidated revenue to be Rs79.5b, up 3.2% QoQ.
- Wipro is expected to guide 3QFY11 revenue growth of 4-6% QoQ.
- Consolidated EBIT margin is expected to decline 30bp QoQ to 18.3%. We expect IT services EBIT margin to pick up by 40bp QoQ to 22.6% due to a lower SGA (11.4% v/s 12.3% in 2QFY11).
- Expected EBIT for IT services is Rs13.6b, up 7% QoQ.
- We expect Wipro's other income to be Rs1.1b (v/s Rs0.7b in 2QFY11) given reduced forex losses.
- Consolidated net profit is expected to increase marginally by 1.1% QoQ to Rs13b on higher tax rate assumption (16.3% v/s 14.4% in 2QFY11).
- At CMP the stock trades at 22.1x FY11E and 19.2x FY12E. Maintain **Neutral.**
- **What to look for:** Impact of promotions on IT margins, attrition and next quarter's guidance.
- **Key risks**: Fixed-price project overruns, delay in the recovery of the Telecom sector, currency volatility.

CONSOLIDATED QUARTERLY PERFORMANCE (IFRS) (RS MILLION)

Y/E March	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
IT Services and Products#	55,603	61,835	61,762	61,496	63,322	68,164	70,504	76,535	240,696	278,525
Other Businesses	8,265	7,102	7,618	8,276	8,584	9,555	8,992	8,912	31,261	36,043
Revenues	**63,868**	**68,937**	**69,380**	**69,772**	**71,906**	**77,719**	**79,497**	**85,446**	**271,957**	**314,568**
Q-o-Q Change (%)	-2.2	7.9	0.6	0.6	3.1	8.1	2.3	7.5		
Direct Expenses	43,247	47,522	47,766	47,764	48,647	53,270	54,833	59,282	186,299	216,032
SG&A	7,791	8,466	8,472	8,701	9,225	10,002	10,096	10,396	33,430	39,719
EBIT	**12,830**	**12,949**	**13,142**	**13,307**	**14,034**	**14,447**	**14,568**	**15,768**	**52,228**	**58,816**
Margins (%)	20.1	18.8	18.9	19.1	19.5	18.6	18.3	18.5	19.2	18.7
Other Income	355	681	721	1,612	948	955	1,039	1,334	3,369	4,276
Forex Gain/(Loss)	-1,406	240	394	57	458	-414	-95	-51	-715	-102
Income from Equity Investees	114	112	128	176	157	192	192	192	530	733
PBT	**11,893**	**13,982**	**14,385**	**15,152**	**15,597**	**15,180**	**15,704**	**17,243**	**55,412**	**63,723**
Provision for Tax	1,740	2,217	2,321	3,015	2,527	2,183	2,559	2,899	9,293	10,168
Rate (%)	14.6	15.9	16.1	19.9	16.2	14.4	16.3	16.8	16.8	16.0
Minority Interest	49.0	58.0	31.0	46.0	67.0	148.0	148.0	148.0	184.0	511.0
Net Income	**10,104**	**11,707**	**12,033**	**12,091**	**13,003**	**12,849**	**12,996**	**14,196**	**45,935**	**53,044**
Q-o-Q Change (%)	0.9	15.9	2.8	0.5	7.5	-1.2	1.1	9.2	18.5	15.5
Diluted EPS (Rs)	4.1	4.8	4.9	4.9	5.4	5.3	5.3	5.8	18.8	21.8
US$ Revenues (IT Services)	1,033	1,065	1,127	1,166	1,204	1,273	1,342	1,412	4,391	5,230
Q-o-Q Change (%)	-1.2	3.1	5.8	3.5	3.2	5.7	5.4	5.2	1.6	19.1
Volume Growth QoQ (%)	3.1	-1.5	4.7	4.1	4.7	6.6	5.4	5.3	1.8	20.1

E: MOSL Estimates; # reclassified in FY09

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Infrastructure

COMPANY NAME

Hindustan Construction

IVRCL

Jaiprakash Associates

Nagarjuna Construction

Simplex Infrastructure

Uncertain policy environment impacting order flows; funding, interest rates, commodity prices may put pressure on margins

Construction companies expected to post revenue growth of 13% in 3QFY11 due to improved execution

- We expect 3QFY11 revenue growth of 13% YoY against 1.3% in 2QFY11. Execution in 2QFY11 was impacted by slow progress on large projects and an extended monsoon.
- We expect Nagarjuna Construction Co (NCC) and Simplex to report 3QFY11 revenue growth of 28% and 12% respectively. NCC's limited exposure to Andhra Pradesh, of about 7% of the order book and receivables from the state of just Rs370m, will help it to execute better than its peers.
- For the construction sector, 2QFY11 book-to-bill was 3.7x, against 3.5x in FY10. We believe a strong book-to-bill ratio will result in better execution in 3QFY11.

High commodity prices, interest costs to cap margin upside

- In 2QFY11, EBITDA margins for most construction companies declined (industry margins were down 100bp) due to (a) increasing commodity prices and (b) execution delays. We expect 3QFY11 EBITDA margins to drop 10-20bp YoY and profitability to fall, driven by interest expenses. 3QFY11 PAT margins are expected to drop 10-15bp YoY, given a 20-30bp increase in interest costs (as percentage of revenue).

Road sector - uncertain policy environment hurts road sector

- The NHDP program has hit a roadblock due to policy changes and lack of administrative support by the government. This impacted contract awards in FY11. Nearly 3,500km of new roads were awarded in FY11. About 44 proposals to construct 8,500km of roads are at the DPR (Detailed Project Report) stage. For FY11, total awards are expected to be 6,500-7,000km. Although this is sharply higher than the FY10 level of 3,000km, it is below the initial expectation of about 10,000km.
- Despite concerns about the road sector, the macro environment is encouraging in the long term with strong order intake expected from multiple infrastructure sectors. We expect ordering to improve meaningfully in FY12-13.

Expected quarterly performance summary (Rs million)

	CMP (Rs)	Rating	Sales			EBITDA			Net profit		
	24.12.10		Dec.10	Var. % YoY	Var. % QoQ	Dec.10	Var. % YoY	Var. % QoQ	Dec.10	Var. % YoY	Var. % QoQ
Infrastructure											
Hindustan Construction	45	Neutral	11,007	16.5	22.5	1,332	31.0	17.6	222	2.0	83.3
IVRCL Infra.	127	Neutral	13,686	15.6	27.3	1,369	18.4	43.5	499	8.9	114.3
Jaiprakash Associates	103	Buy	34,510	21.0	15.3	8,999	16.3	32.1	2,999	-4.5	159.6
Nagarjuna Construction	142	Buy	15,201	28.1	26.5	1,581	33.9	28.1	653	36.5	42.1
Simplex Infra.	414	Buy	11,970	12.2	13.8	1,137	17.3	7.5	284	23.1	5.7
Sector Aggregate			**86,372**	**19.4**	**19.6**	**14,417**	**19.5**	**28.9**	**4,658**	**2.9**	**108.1**

Dhirendra Tiwari (Dhirendra.Tiwari@MotilalOswal.com)/Pooja Kachhawa (Pooja.Kachhawa@MotilalOswal.com)

Order book (Rs b)

	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	YoY (%)
HCC	91	102	102	108	122	164	154	155	157	188	193	190	15
IVRCL	110	127	124	138	143	145	139	150	173	212	233	230	46
NCC	98	114	122	124	124	122	139	143	148	154	161	161	26
Patel	55	60	60	60	71	72	74	70	63	85	110	110	18
Simplex	89	100	100	107	102	101	100	105	106	115	123	120	14
Aggregate	**442**	**502**	**507**	**537**	**562**	**604**	**606**	**623**	**648**	**753**	**819**	**811**	**25**
% Growth (QoQ)	**8.7**	**13.7**	**1.0**	**5.7**	**4.8**	**7.3**	**0.4**	**2.8**	**4.0**	**16.3**	**8.7**	**-1.1**	**(97)**

Source: Companies

Revenue (Rs b)

	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	YoY (%)
HCC	8	11	9	6	8	10	10	9	9	11	10	9	6.0
IVRCL	10	13	9	11	12	16	11	12	12	19	11	11	16.2
NCC	8	13	10	11	10	11	10	11	12	15	11	12	38.7
Patel	3	5	4	3	3	8	5	0	4	11	7	0	38.7
Simplex	7	8	10	10	13	14	11	10	11	13	12	11	(9.8)
Aggregate	**35**	**49**	**42**	**42**	**46**	**59**	**46**	**42**	**48**	**68**	**51**	**42**	**3.6**

Source: Companies

EBITDA margins (%)

	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	YoY (%)
HCC	12.9	12.6	10.2	12.0	12.1	14.7	13.0	12.5	12.2	11.3	12.5	12.6	-338
IVRCL	11.1	10.5	8.8	8.0	9.1	8.7	9.2	9.4	9.8	7.7	9.1	8.9	-100
NCC	11.1	8.7	9.4	10.3	8.8	7.6	10.3	10.2	9.9	10.0	9.7	10.3	240
Patel	17.9	16.5	14.3	18.5	20.8	11.1	15.2	15.2	18.6	12.0	16.9	16.5	92
Simplex	10.0	8.5	10.8	9.8	9.1	8.1	10.1	10.4	9.1	10.3	10.2	11.4	219
Industry	**11.4**	**10.4**	**10.3**	**10.4**	**10.4**	**9.7**	**0.0**	**11.8**	**10.6**	**9.9**	**11.2**	**10.7**	**23**

Source: Companies

PAT (Rs m)

	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	YoY (%)
HCC	197	359	195	-47	300	515	268	280	218	342	283	121	(56.6)
IVRCL	558	733	435	601	466	799	351	488	458	850	279	233	(52.3)
NCC	396	526	371	423	363	382	382	439	479	622	414	460	4.7
Patel	350	538	234	238	264	406	250	260	300	512	256	295	13.5
Simplex	220	415	421	303	303	299	257	279	231	459	362	269	(3.8)
Aggregate	**1,722**	**2,570**	**1,656**	**1,518**	**1,695**	**2,402**	**1,508**	**1,746**	**1,685**	**2,784**	**1,594**	**1,378**	**(21.1)**

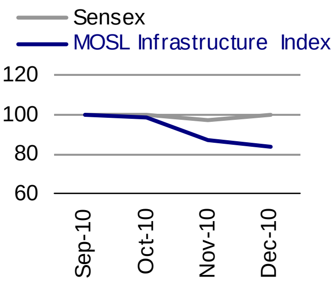
Source: Companies

Quarterly interest cost (Rs m, percentage of revenue)

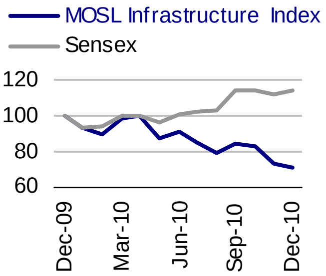
	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	YoY (%)
HCC	407.9	452.3	390.6	492.0	572.7	649.8	613.0	499.1	496.5	443.0	577.4	670.7	
% Revenues	5.5	4.4	4.4	7.1	6.5	6.3	6.4	5.8	5.3	4.1	5.7	7.5	
IVRCL	176.8	207.7	193.9	304.2	419.1	391.8	389.4	353.7	368.4	525.4	452.9	480.5	
% Revenues	1.8	1.6	2.1	2.7	3.5	2.4	3.6	2.9	3.1	2.8	4.1	4.5	
NCC	166.9	174.0	238.5	274.6	237.6	212.8	346.3	322.3	305.7	348.1	293.5	374.6	
% Revenues	2.1	1.4	2.5	2.6	2.3	1.9	3.5	3.0	2.6	2.3	2.7	3.1	
Patel Engg	29.5	131.9	145.0	162.5	195.0	150.0	241.5	252.9	210.2	390.1	324.9	324.0	
% Revenues	1.1	2.6	3.7	5.3	6.1	2.0	5.1	5.1	5.0	3.7	4.6	4.8	
Simplex Infra	295.6	213.7	274.5	324.2	435.8	392.3	347.6	288.6	262.1	29.7	281.1	281.1	
% Revenues	4.2	2.2	2.7	3.2	3.4	2.8	3.1	2.8	2.5	0.2	2.4	2.7	
Total	**1,077**	**1,180**	**1,242**	**1,557**	**1,860**	**1,797**	**1,938**	**1,717**	**1,643**	**1,736**	**1,930**	**1,807**	
% Revenues	**2.7**	**2.0**	**3.0**	**3.7**	**4.0**	**3.0**	**4.2**	**4.1**	**3.4**	**2.5**	**3.8**	**4.3**	

Source: Company/MOSL

Relative Performance-3m (%)



Relative Performance-1Yr (%)



Key risks in 3QFY11

Increased commodity prices, higher interest rates, funding constraints

- We believe the key risks for the construction sector are: increased commodity prices, increasing interest rates and funding constraints. Commodity prices have corrected from their recent peaks but average prices in FY11 are expected to be higher than in FY10.
- Interest costs as a percentage of revenue were 3.7%, which compares with an NPM of 3.4%. Earnings will be at risk with the possibility of a further rise in interest rates.
- Most construction companies including HCC and IVRCL plan to raise funds in FY11 as part of project SPVs/holding companies. The equity fund raising could be through PE investments, QIP and structured transactions. Fund raising delays could impact execution as in-house projects account for a meaningful part of the order book.

We are Neutral on the sector

We are Neutral on the construction sector despite the attractive valuations. We believe long-term execution constrains, rising commodity prices and interest rates will pose a risk to earnings expectations, capping valuations.

Comparative valuation

	CMP (Rs)	Rating	EPS (Rs)			P/E (x)			EV/EBITDA			RoE (%)		
	24.12.10		FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E
Infrastructure														
GMR Infrastructure	45	Neutral	1.2	1.4	2.4	38.8	32.9	18.6	12.2	11.2	7.6	6.0	6.7	10.8
GVK Power & Infra	41	Buy	1.7	2.7	3.3	23.9	14.9	12.5	15.5	12.4	8.3	8.0	11.6	12.4
Hindustan Construction	45	Neutral	1.6	2.3	3.2	28.1	19.3	14.3	8.7	7.3	6.8	5.2	7.1	9.0
IVRCL Infra.	127	Neutral	8.4	10.7	11.9	15.0	11.9	10.6	7.3	6.1	5.5	11.6	13.2	13.3
Jaiprakash Associates	103	Buy	4.1	1.7	8.6	25.0	62.1	12.0	18.3	14.5	10.0	9.7	3.7	17.1
Nagarjuna Construction	142	Buy	11.7	14.3	18.0	12.1	9.9	7.9	8.1	6.9	5.8	10.4	12.1	14.1
Simplex Infra.	414	Buy	34.3	45.5	55.3	12.1	9.1	7.5	6.5	5.2	4.6	16.2	18.3	18.8
Sector Aggregate						**23.9**	**24.5**	**12.6**	**13.6**	**11.4**	**8.3**	**8.6**	**7.9**	**13.5**

Hindustan Construction

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	HCC IN
Equity Shares (m)	606.6
52 Week Range (Rs)	81 / 38
1,6,12 Rel Perf (%)	-22 / -37 / -56
Mcap (Rs b)	27.3
Mcap (USD b)	0.6

CMP: Rs45 **Neutral**

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GR. (%)	ADJ. P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	36,442	1,044	1.7	23.8	12.0	2.3	8.3	9.0	1.6	13.3
3/11E	42,476	971	1.6	-6.9	12.9	0.7	5.7	8.0	0.9	7.7
3/12E	51,911	1,418	2.3	46.0	8.8	0.7	7.3	8.9	0.7	6.1
3/13E	64,095	1,912	3.2	34.8	6.6	0.6	9.3	10.6	0.7	5.8

** Fully Diluted*

- In 3QFY11 we expect Hindustan Construction Co (HCC) to report revenue of Rs11b, (up 16.5% YoY), EBITDA of Rs1.3b (up 31%) and net profit of Rs222m (up 2%). Revenue growth during the quarter was impacted by subdued order flows and execution delays. We expect a decline in PAT margins given rising fixed expenses, interest and depreciation costs.
- The order book at the end of 2QFY11 was Rs197b (up 27% YoY and up 2.01% QoQ) and L1 orders were worth Rs15b. The company made no order announcements in 3QFY11.
- In 2QFY11 Lavasa Corporation Ltd, a subsidiary of HCC filed a DRHP with SEBI to float an IPO to mop up Rs20b. The IPO was expected to be floated in the last week of December. However due to a controversy involving the proposed IPO, it is unlikely to float it in FY11. The court has stayed the environment ministry's direction to stop construction work at Lavasa for alleged violation of environmental norms. The court hearing has been postponed to the end of January 2011, for the authorities to review the location and club together the litigation against the company.
- HCC has to repay FCCB of US$130m on 1 April 2011, which it plans to repay through long-term debt. This will increase debt and interest in FY12, impacting net margins. We see upside risk to our debt and interest cost assumptions.
- At its CMP the stock trades at a adjusted P/E of 8.8x FY12E and 6.6x FY13E. However, given steep rise in interest cost expected; we see downside risk to our estimates.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales (Excl JV)	**8,725**	**7,825**	**9,026**	**10,867**	**9,924**	**8,888**	**10,407**	**13,258**	**36,442**	**42,476**
Change (%)	0.8	20.6	10.2	10.9	13.7	13.6	15.3	22.0	10.0	16.6
Gross Sales	**9,641**	**8,622**	**9,450**	**10,917**	**10,082**	**8,985**	**11,007**	**14,738**	**38,630**	**44,812**
Change (%)	7.7	23.6	7.9	6.0	4.6	4.2	16.5	35.0	10.4	16.0
EBITDA	**1,151**	**881**	**1,017**	**1,230**	**1,258**	**1,133**	**1,332**	**1,451**	**4,279**	**5,186**
Change (%)	26.3	5.0	-4.1	-22.7	9.3	28.6	31.0	18.0	-2.8	21.2
As of % Sales	13.0	12.5	12.2	11.3	12.5	12.6	12.1	10.9	12.2	12.21
Depreciation	301	315	322	201	347	359	365	306	1,139	1,376
Interest	613	499	496	443	577	671	675	617	2,052	2,540
Other Income	19	28	41	42	31	61	40	48	130	180
PBT	**256**	**95**	**240**	**628**	**364**	**165**	**332**	**576**	**1,218**	**1,450**
Tax	74	40	92	198	81	43	110	190	404	478
Effective Tax Rate (%)	28.8	42.0	38.5	31.6	22.3	26.3	33.0	33.0	33.2	33.0
Reported PAT	**182**	**55**	**147**	**430**	**283**	**121**	**222**	**386**	**814**	**971**
Adj PAT	**268**	**280**	**218**	**342**	**283**	**121**	**222**	**386**	**1,044**	**971**
Change (%)	37.2	-701.1	32.8	-42.9	5.6	-56.6	2.0	13.0	14.5	-6.9

E: MOSL Estimates

Dhirendra Tiwari (Dhirendra.Tiwari@MotilalOswal.com)/Pooja Kachhawa (Pooja.Kachhawa@MotilalOswal.com)

IVRCL Infrastructure

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	IVRC IN
Equity Shares (m)	267.0
52 Week Range (Rs)	198 / 110
1,6,12 Rel Perf (%)	-9 / -44 / -45
Mcap (Rs b)	33.8
Mcap (USD b)	0.7

CMP: Rs127 **Neutral**

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GR. (%)	ADJ. P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	54,923	2,111	7.9	-6.9	8.9	2.4	11.5	14.7	1.1	11.0
3/11E	60,825	2,251	8.4	6.6	8.4	1.7	11.6	14.7	0.9	8.6
3/12E	77,340	2,846	10.7	26.4	6.6	1.5	13.2	16.4	0.7	7.1
3/13E	91,138	3,172	11.9	11.4	5.9	1.3	13.3	16.9	0.6	6.5

- In 3QFY11, we expect IVRCL to report revenue of Rs13.6b, (up 15.6% YoY), EBITDA of Rs1.3b (up 18.4%) and net profit of Rs499m (up 8.9% YoY). Revenue growth is expected to pick up in 3QFY11 primarily due to a pick up in order flows and execution improvement, thereby improving EBITDA margins by 10-20bp.
- The order book as at 2QFY11 was Rs236b including L1 orders worth Rs12b, representing book-to-bill ratio of 4.3x TTM revenue.
- IVRCL bagged orders worth Rs1.6b in 3QFY11 from divisions like water, irrigation and building, in the domestic market. Project details include (a) a plant water system package for the Kakrapar atomic power project, for which the company will be responsible for supplies, civil work, operations and maintenance, (b) a turnkey river water system project comprising civil structure and mechanical work for a coal based thermal power project, awarded by the Rajasthan Rajya Vidyut Utpadan Nigam Ltd., (c) construction of a sub-station, transmission and distribution lines for the Tapi Irrigation Development Corp, Jalgaon, (d) the Hogenakkal water supply and fluorosis mitigation project for the Tamil Nadu Water Supply and Drainage Board.
- In 3QFY11 IVRCL accepted international orders, having obtained two orders from Saudi Arabia worth Rs1.8b and one from the Nepal Electricity Authority worth Rs1.9b.
- For FY11 management guided revenue of Rs67.5b-72.5b (up 23-32%) and EBITDA margin of 9.5-10% (v/s 9.7% in FY10), despite muted revenue growth of 4.3% YoY in 1HFY11. To achieve the target, the company will have to grow 2HFY11 revenue by 40% YoY.
- We expect EPS and revenue CAGR of 18.7% and 22.4% respectively over FY11-13. At its CMP, the stock trades at a adjusted P/E of 6.6x FY12E and 5.9x FY13E.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales	**10,860**	**12,565**	**11,840**	**18,904**	**11,064**	**10,750**	**13,686**	**25,325**	**54,923**	**60,825**
Change (%)	17.0	10.5	-0.5	16.2	1.9	-14.4	15.6	34.0	12.5	10.7
EBITDA	**996**	**1,241**	**1,156**	**1,982**	**1,006**	**953**	**1,369**	**2,680**	**5,313**	**6,007**
Change (%)	21.5	35.9	6.5	36.7	1.0	-23.2	18.4	35.2	24.5	13.1
As of % Sales	9.2	9.9	9.8	10.5	9.1	8.9	10.0	10.6	9.7	9.9
Depreciation	129	133	139	141	157	184	170	173	543	685
Interest	389	354	368	525	453	480	530	604	1,637	2,068
Other Income	39	34	39	20	9	57	65	44	155	174
PBT	**516**	**788**	**688**	**1,335**	**404**	**345**	**734**	**1,946**	**3,289**	**3,429**
Tax	165	309	229	486	125	112	235	705	1,177	1,178
Effective Tax Rate (%)	32.0	39.2	33.4	36.4	31.0	32.6	32.0	36.2	35.8	34.3
Reported PAT	**351**	**479**	**458**	**850**	**279**	**233**	**499**	**1,241**	**2,111**	**2,251**
Adj PAT	**351**	**479**	**458**	**850**	**279**	**233**	**499**	**1,241**	**2,111**	**2,251**
Change (%)	-19.3	-20.3	-1.5	6.4	-20.6	-51.4	8.9	46.1	-7.8	6.6

E: MOSL Estimates

Dhirendra Tiwari (Dhirendra.Tiwari@MotilalOswal.com)/Pooja Kachhawa (Pooja.Kachhawa@MotilalOswal.com)

Jaiprakash Associates

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	JPA IN
Equity Shares (m)	2,127.7
52 Week Range (Rs)	168 / 98
1,6,12 Rel Perf (%)	-19 / -34 / -44
Mcap (Rs b)	218.3
Mcap (USD b)	4.8

CMP: Rs103 **Buy**

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS* (RS)	EPS GR.* (%)	P/E* (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	100,889	8,933	4.2	-0.4	24.4	2.6	11.8	14.4	3.6	15.5
3/11E	137,721	8,412	4.0	-6.0	26.0	2.3	9.3	12.3	2.6	11.4
3/12E	169,671	13,772	6.5	63.7	15.9	2.1	13.6	12.6	2.2	9.2
3/13E	194,573	19,246	9.0	39.7	11.3	1.8	16.9	15.1	1.9	7.5

** Not Fully Diluted; FCCB outstanding of Rs14b at conversion price of Rs166/sh (dilution of ~5%)*

- In 3QFY11 we expect Jaiprakash Associates (JPA) to post revenue of Rs34.5b, up 21% YoY, EBITDA of Rs9b (up 16% YoY) and net profit of Rs3b, down 5% YoY.
- JPA's 3QFY11 performance will be driven by higher volumes in the cement division (factored at 4mt v/s 2.7mt) and the contribution from the EPC division is expected to be marginally better given a pick-up in execution from its own projects.
- CY11/FY12 will be an eventful game changer year for the JPA group, given large scale project commissioning: (i) cement capacity will increase from 23mt currently to 37mt, (ii) the Karcham Wangtoo 1GW hydro power project in March-June 2011, (iii) the Yamuna Expressway by June/July 2011, (iv) an F1 race circuit by June 2011 at a capex of Rs17b and (v) the Bina 500MW project by October 2011. The projects entail a cumulative cost of over Rs250b.
- Jaiprakash Power Ventures (JPVL), JPA's 88% subsidiary, raised US$200m through an FCCB issue to part fund its equity contribution towards power projects and is comfortably positioned to fund equity investments over the next year. JPVL plans to raise equity of US$500m to meet a future shortfall. Standalone DER was 1.8x as at September 2010.
- JPA announced plans to ramp-up its cement capacity to 50mt from 33mt earlier. A large part of the increase in capacity could be brown field in nature, entailing lower capex.
- The Jaypee group comprising Jaiprakash Associates, Jaypee Infratech and JPSK Sports crossed cumulative real estate (RE) bookings (pre-sales) of Rs143b as at September 2010 (40.6msf).
- We expect JPA to post standalone net profit of Rs8.4b in FY11 (down 6% YoY) and Rs13.8b in FY12 (up 63% YoY). The stock trades at a reported PER of 26x FY11E and 15.9x FY12E. **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales	**20,671**	**18,243**	**28,524**	**33,452**	**31,742**	**29,933**	**34,510**	**41,537**	**100,889**	**137,721**
Change (%)	79.9	54.3	115.8	60.5	53.6	64.1	21.0	24.2	74.7	36.5
EBITDA	**5,417**	**4,558**	**7,739**	**8,535**	**6,421**	**6,811**	**8,999**	**9,694**	**26,248**	**31,924**
Change (%)	73.5	31.1	213.0	21.1	18.5	49.4	16.3	13.6	62.8	21.6
As of % Sales	26.2	25.0	27.1	25.5	20.2	22.8	26.1	23.3	26.0	23.2
Depreciation	1,017	1,100	1,109	1,334	1,503	1,528	1,700	1,843	4,561	6,574
Interest	2,219	2,588	2,762	2,989	3,279	3,234	3,500	3,774	10,558	13,787
Other Income	3,229	10,298	1,153	126	436	820	1,000	1,079	14,805	3,334
Extra-ordinary income	0	0	-2,110	-10	5,125	27	0	-27	-2,119	5,125
PBT	**5,410**	**11,168**	**2,911**	**4,327**	**7,199**	**2,896**	**4,799**	**5,128**	**23,816**	**20,022**
Tax	498	2,466	1,879	1,890	2,039	1,741	1,799	1,928	6,733	7,508
Effective Tax Rate (%)	9.2	22.1	64.6	43.7	28.3	60.1	37.5	37.6	28.3	37.5
Reported PAT	**4,912**	**8,702**	**1,032**	**2,438**	**5,160**	**1,155**	**2,999**	**3,200**	**17,083**	**12,514**
Adj PAT	**2,181**	**1,161**	**3,141**	**2,447**	**1,058**	**1,155**	**2,999**	**3,227**	**8,931**	**8,412**
Change (%)	71.4	-42.8	49.2	-22.4	-51.5	-0.5	-4.5	31.9	4.3	-5.8

E: MOSL Estimates

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Nagarjuna Construction

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	NJCC IN
Equity Shares (m)	256.6
52 Week Range (Rs)	197 / 115
1,6,12 Rel Perf (%)	3 / -39 / -30
Mcap (Rs b)	36.4
Mcap (USD b)	0.8

CMP: Rs142 **Buy**

YEAR END	NET SALES* (RS M)	PAT* (RS M)	EPS (RS)	EPS GROWTH (%)	ADJ. P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	57,120	2,370	9.2	32.6	11.6	1.6	9.8	12.6	1.1	11.3
3/11E	69,987	3,003	11.7	26.7	9.2	1.5	10.4	11.5	1.1	10.4
3/12E	86,667	3,678	14.3	22.5	7.5	1.4	12.1	12.6	0.9	8.8
3/13E	106,605	4,614	18.0	25.5	6.0	1.2	14.1	14.0	0.8	7.4

** For construction segment (consolidated, including international business)*

- We expect Nagarjuna Construction (NCC) to report 3QFY11 revenue growth of Rs15.2b (up 28.1% YoY), EBITDA of Rs1.5b (up 33.9%) and net profit of Rs653b (up 36.5%). We expect robust revenue growth based on the FY11 order flow guidance of Rs100b. To achieve the target, the company will have to add new orders worth Rs65b in 2HFY11, growth of nearly 55%. Orders added in October and November were worth Rs22b and NCC expects to add orders worth Rs43b through the rest of the financial year.
- NCC's order book as on 2QFY11 was Rs160b (up 12.7% YoY, up 0.15% QoQ). In 3QFY11 NCC announced orders worth Rs5.4b from the water and drainage segments including (a) construction of the Hogenakkal water supply and fluorosis mitigation project in Dharmapuri, executable over 24 months, (b) UP Jal Nigam Agra for Agra water supply, Gangajal Package No4 in Agra to be completed in 18 months, (c) a water supply scheme from the Salem city municipal corporation. All the projects are executable within 22-24 months.
- NCC also emerged as the lowest bidder for a road (BOT) - annuity based project worth Rs15b from NHAI. The project entails four laning of a 163km stretch of highway between Ranchi and Jamshedpur. The project includes an EPC value of Rs12b.
- NCC has also reduced its exposure to Andhra Pradesh, with the state accounting for a mere 6-7% of the order book and receivables standing at just Rs370m.
- At the CMP, the stock trades at a adjusted P/E of 7.5x FY12E and 6x FY13E.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales	**10,004**	**10,670**	**11,870**	**15,227**	**10,865**	**12,013**	**15,201**	**20,386**	**47,778**	**58,465**
Change (%)	3.0	1.1	15.6	38.7	8.6	12.6	28.1	33.9	15.1	22.4
EBITDA	**1,032**	**1,089**	**1,181**	**1,527**	**1,058**	**1,234**	**1,581**	**2,168**	**4,834**	**6,040**
Change (%)	12.7	0.4	31.4	82.3	2.5	13.3	33.9	42.0	29.4	24.9
As of % Sales	10.3	10.2	9.9	10.0	9.7	10.3	10.4	10.6	10.1	10.3
Depreciation	127	129	133	136	156	168	160	184	525	669
Interest	346	322	306	348	293	375	465	630	1,322	1,763
Other Income	20	8	14	12	13	54	19	9	48	95
Extra-ordinary income	0	0	0	496	0	0	0	0	496	0
PBT	**579**	**646**	**756**	**1,551**	**621**	**745**	**975**	**1,363**	**3,530**	**3,703**
Tax	196	206	277	525	207	285	322	463	1,204	1,277
Effective Tax Rate (%)	33.9	32.0	36.7	33.8	33.3	38.3	33.0	34.0	34.1	34.5
Reported PAT	**382**	**439**	**479**	**1,026**	**414**	**460**	**653**	**900**	**2,326**	**2,427**
Adj PAT	**382**	**439**	**479**	**622**	**414**	**460**	**653**	**900**	**1,922**	**2,427**
Change (%)	3.1	3.8	31.8	62.7	8.3	4.7	36.5	44.8	24.9	26.3

E: MOSL Estimates

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Simplex Infrastructure

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	SINF IN
Equity Shares (m)	49.5
52 Week Range (Rs)	563 / 386
1,6,12 Rel Perf (%)	-4 / -28 / -40
Mcap (Rs b)	20.5
Mcap (USD b)	0.5

CMP: Rs414 **Buy**

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	44,427	1,227	24.8	-6.9	17.9	2.3	13.1	13.3	0.8	7.9
3/11E	53,675	1,698	34.3	38.4	12.1	1.8	16.2	15.2	0.6	6.5
3/12E	67,764	2,251	45.5	32.6	9.1	1.5	18.3	17.1	0.5	5.3
3/13E	83,834	2,734	55.3	21.5	7.5	1.3	18.8	18.7	0.4	4.6

- In 3QFY11 we expect Simplex to report revenue of Rs11.9b, up 12% YoY, EBITDA of Rs1.3, up 17.3% YoY and net profit of Rs284m, up 23.1% YoY.
- 2QFY11 order book was Rs129b (up 23.3% YoY and up 5.7% QoQ), and the book-to-bill ratio was 2.7x TTM revenue. In the quarter Simplex entered the power and transmission business by bagging a contract to set up a 756kV transmission system associated with the Krishnapattanam ultra mega power project. A consortium comprising Simplex Infrastructure, BS TransComm Ltd and Patel Engineering won the contract, worth an estimated Rs3b.
- 3QFY11 has been slow-moving in terms of order intake and execution, which will impact overall revenue and profitability. However the management has guided revenue growth of 15-20% in FY11, sustained EBITDA margins, and 20-30bp improvement in net profit margins.
- Given the subdued order flow and poor execution in FY11, we see downside risk to our estimates of revenue CAGR at 25% and PAT CAGR at 27% over FY11-13. The management guided for revenue growth of 15-20% in FY11, sustained EBITDA margins, and 20-30bp improvement in net profit margins. We believe the management will miss its guidance by a wide margin in FY11.
- The stock trades at 9.1x FY12E and 7.5x FY13E earnings.

QUARTERLY PERFORMANCE (STANDALONE) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Income	**11,097**	**10,252**	**10,668**	**12,521**	**11,768**	**10,515**	**11,970**	**19,423**	**44,538**	**53,675**
Change (%)	9.0	2.0	(16.0)	(9.8)	6.0	2.6	12.2	55.1	(5.0)	20.5
Total Expenses	9,980	9,187	9,699	11,234	10,567	9,458	10,832	17,504	9,980	9,699
EBITDA	**1,118**	**1,065**	**969**	**1,287**	**1,201**	**1,057**	**1,137**	**1,919**	**4,440**	**5,314**
Change (%)	0.2	7.8	(16.2)	14.6	7.4	(0.7)	17.3	49.1	3.8	19.7
As % of sales	10.2	10.7	9.5	10.5	10.3	10.4	10.0	10.5	10.2	10.3
Other Income	14	30	44	30	9	34	55	126	116	224
Interest	348	289	262	214	281	295	340	392	1,112	1,309
Depreciation	381	383	391	379	390	400	415	451	1,534	1,656
PBT	**404**	**423**	**359**	**724**	**539**	**396**	**437**	**1,201**	**1,911**	**2,573**
As % of sales	3.6	4.1	3.4	5.8	4.6	3.8	3.7	6.2	4.3	4.8
Change (%)	(33.0)	9.8	10.7	107.7	25.8	(8.8)	8.4	6.9	13.4	11.7
Tax	147	144	129	265	177	127	153	418	685	875
Tax / PBT	36.4	34.0	35.8	36.6	32.8	32.1	35.0	34.8	35.8	34.0
PAT	**257**	**279**	**231**	**459**	**362**	**269**	**284**	**783**	**1,226**	**1,698**
Adjusted PAT	**257**	**279**	**231**	**459**	**362**	**269**	**284**	**783**	**1,226**	**1,698**
As % of sales	2.3	2.7	2.2	3.7	3.1	2.6	2.4	4.0	2.8	3.2
Change (%)	(39.0)	(7.7)	(23.7)	53.8	41.1	(3.8)	23.1	70.5	(7.4)	38.5

E: MOSL Estimates

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Media

COMPANY NAME

Deccan Chronicle

H T Media

Jagran Prakashan

Sun TV Network

Zee Entertainment

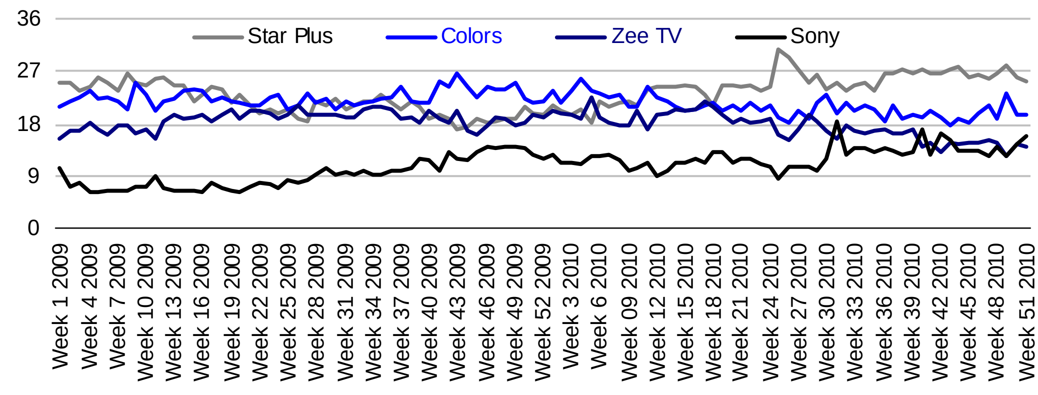
Ad revenue growth to remain strong; favorable YoY comparison

Continued strength in ad revenue momentum and favorable YoY comparison (full festive season in 3Q in FY11 v/s partial contribution in FY10) should drive strong numbers for media companies. We expect broadcasting companies (Sun TV and Zee) to post EPS growth of 10-18% YoY driven by 14-22% ad revenue growth, and 12-50% subscription revenue growth. For print companies, we expect ad revenue growth (10-35% YoY) to be offset by upward pressure on newsprint prices (up 33% at US$665 from bottom of US$500 reached in 2QFY10). However, industry sources point towards stabilization/decline in newsprint prices from January 2011.

Hindi GEC: Star Plus continues to lead at ~27%; Zee TV, Sony compete for third spot at ~14%

Star Plus has maintained its number-1 slot and consolidated its leadership position in the Hindi GEC space. During 3QFY11, Star Plus maintained its 25%+ channel share in the Hindi GEC space v/s average ~20% for Colors and ~14% for Zee TV. Zee TV has been facing stiff competition from Sony for the third spot. Star Plus recorded the highest average GRP of 370 followed by 273 for Colors during 3QFY11. Zee TV and Sony clocked ~200 GRP during 3Q. While Sony was able to garner the extra GRP's from shows like "Kaun Banega Crorepati", Colors' reality show "Big Boss" helped it maintain its number-2 position.

Hindi GEC channel share (~30% of viewership)



Source: Company/MOSL

Abbreviations and acronyms

GEC: General entertainment channel

DTH: direct to home

Expected quarterly performance summary (Rs million)

	CMP (Rs) 24.12.10	Rating	Sales Dec.10	Sales Var. % YoY	Sales Var. % QoQ	EBITDA Dec.10	EBITDA Var. % YoY	EBITDA Var. % QoQ	Net profit Dec.10	Net profit Var. % YoY	Net profit Var. % QoQ
Media											
Deccan Chronicle	106	Buy	2,521	8.0	6.5	1,291	2.0	9.5	798	2.7	-3.4
HT Media	143	Neutral	4,633	26.5	4.0	831	11.4	5.0	432	15.9	11.2
Jagran Prakashan	128	Neutral	2,835	24.9	2.4	917	40.5	1.0	554	39.4	-0.2
Sun TV	527	Neutral	5,670	43.5	33.5	4,505	44.2	35.6	1,791	17.9	7.0
Zee Entertainment	139	Buy	7,690	44.8	8.1	2,067	31.5	9.7	1,556	24.3	23.3
Sector Aggregate			**23,349**	**33.2**	**11.4**	**9,612**	**30.5**	**18.9**	**5,130**	**18.8**	**9.0**

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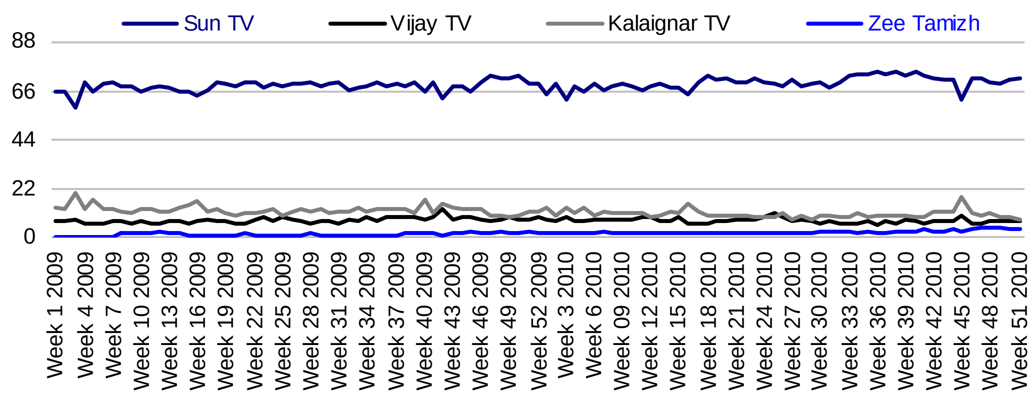
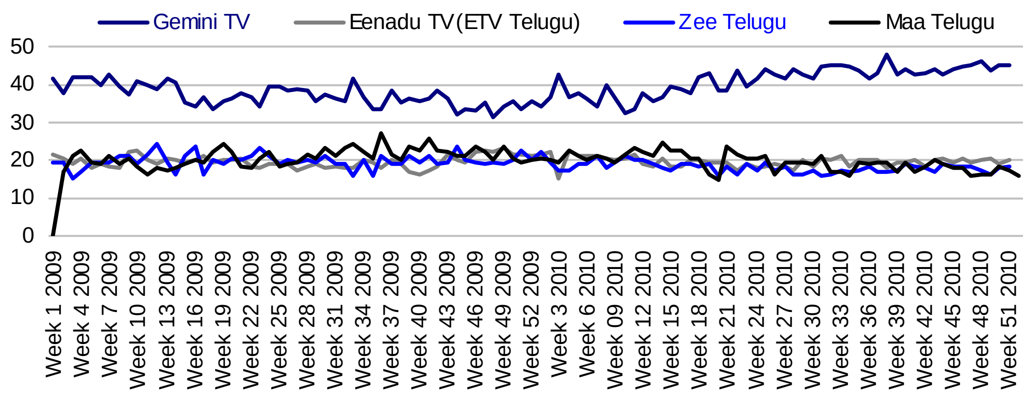
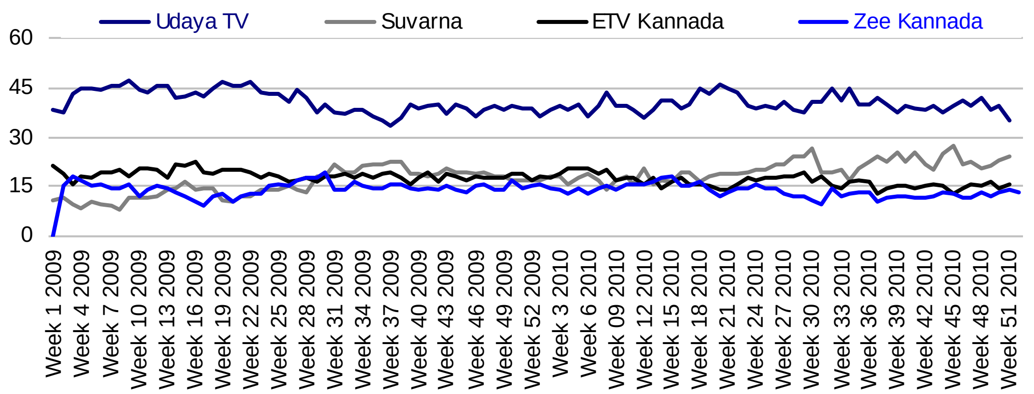
Tamil GEC channel share (~7% of viewership)



Telugu GEC channel share (~5% of viewership)

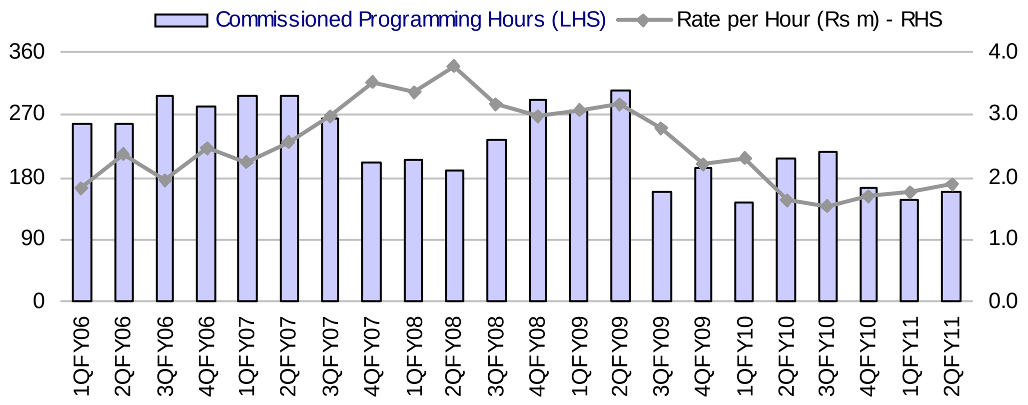


Kannada GEC channel share (~3% of viewership)



Source: Company/MOSL

Balaji Telefilms: Trend in programming rates

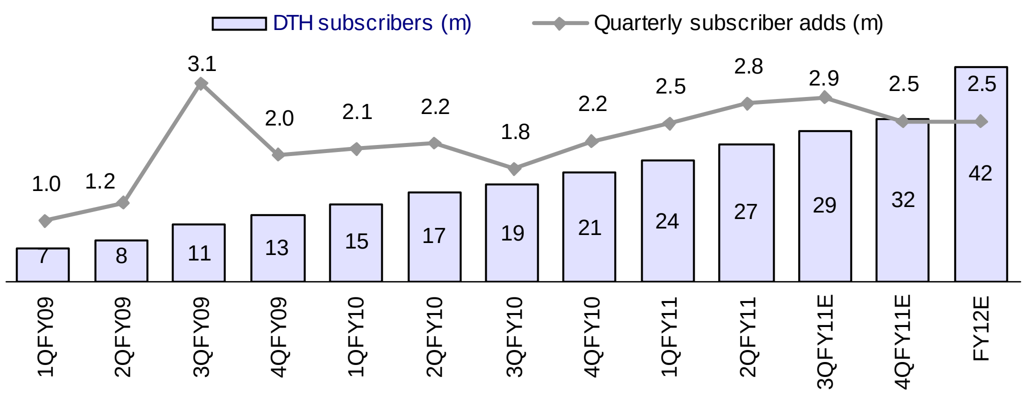


Source: Company/MOSL

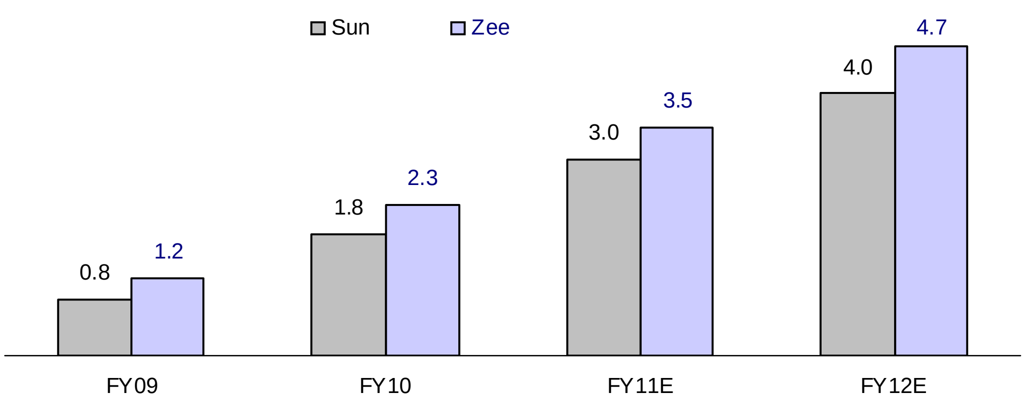
Advertising growth to remain strong

We expect ad revenue growth of 22% for Zee (proforma growth including regional GECs for comparable quarter last year) and 14% for Sun TV. The difference in YoY growth expectation for Zee and Sun TV is largely attributed to base effect. For print companies, we expect ad revenue growth of 20-35% for Jagran/HT Media and 8% for Deccan Chronicle.

Industry DTH subscriber base and additions trend

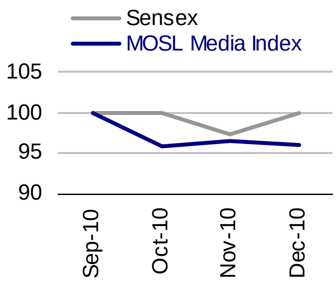


DTH revenue trend for Zee and Sun TV (Rs b)

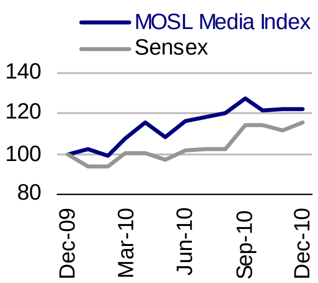


Source: Company/MOSL

Relative Performance-3m (%)



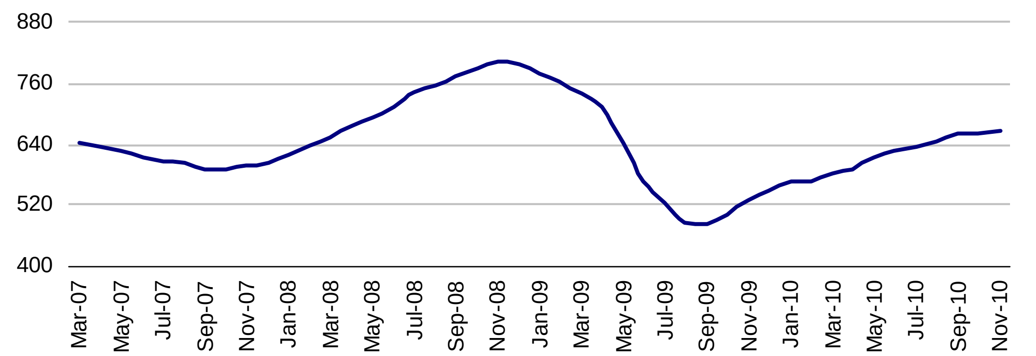
Relative Performance-1Yr (%)



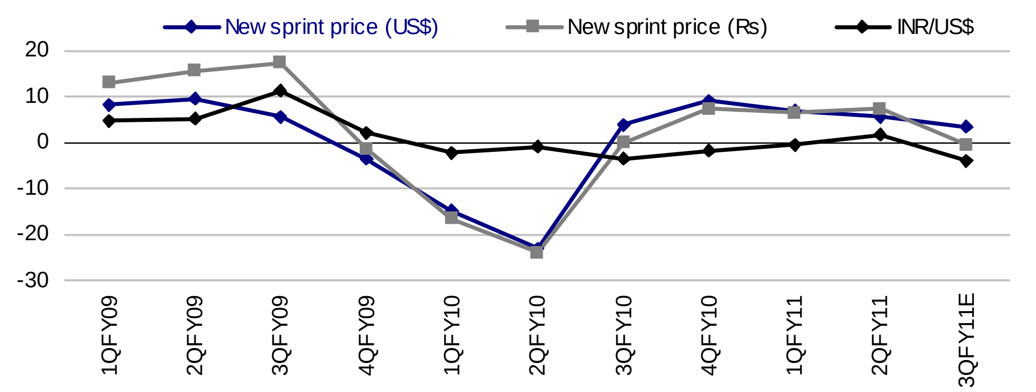
Print media: Newsprint cost inflation, higher competition impacting margins

Newsprint prices have increased ~33% from the bottom in August 2009 and are currently ~US$665/tonne. Full impact of higher prices would impact earnings with a lag given contracts/inventory maintained by the print media companies. We believe that the best margins for print media companies are behind, given increased competition and firming newsprint prices.

Newsprint prices continue to inch up (US$/tonne)



Trend in QoQ growth (%)



Source: Bloomberg/MOSL

Sector outlook

We expect advertising growth to remain strong driven largely by volumes in the seasonally strong 3Q. The broadcasting space looks attractive due to rising subscription revenues from DTH, digitization drive from cable companies and improving outlook on advertising. Zee Entertainment and Sun TV are the best stocks to play the broadcasting space. For print companies, while ad revenue growth is likely to sustain, declining circulation revenue due to increased competition (lower cover prices) and newsprint cost inflation continue to remain overhangs.

Comparative valuation

	CMP (Rs)	Rating	EPS (Rs)			P/E (x)			EV/EBITDA			RoE (%)		
	24.12.10		FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E
Media														
Deccan Chronicle	106	Buy	11.0	13.6	15.6	9.6	7.8	6.8	4.2	3.4	2.8	19.6	22.2	23.5
HT Media	143	Neutral	7.8	9.0	10.8	18.4	15.8	13.2	10.5	9.2	7.7	15.1	15.6	16.5
Jagran Prakashan	128	Neutral	6.6	7.0	8.0	19.5	18.4	16.0	11.2	10.2	8.8	30.4	31.8	35.2
Sun TV	527	Neutral	18.3	22.0	26.6	28.8	24.0	19.8	12.9	11.1	9.4	28.5	27.5	26.9
Zee Entertainment	139	Buy	5.5	7.3	9.1	25.3	19.0	15.2	16.8	12.8	10.0	13.5	16.6	18.8
Sector Aggregate						**23.2**	**18.9**	**15.6**	**12.2**	**10.3**	**8.5**	**19.6**	**21.2**	**22.4**

Deccan Chronicle

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	DECH IN
Equity Shares (m)	243.5
52 Week Range (Rs)	180 / 87
1,6,12 Rel Perf (%)	-13 / -28 / -54
Mcap (Rs b)	25.8
Mcap (USD b)	0.6

CMP: Rs106 — Buy

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/10A	8,925	2,590	10.7	86.9	9.9	2.0	20.6	26.1	2.6	5.1
03/11E	9,371	2,660	11.0	2.7	9.6	1.9	19.6	26.4	2.3	4.6
03/12E	10,545	3,292	13.6	23.8	7.8	1.7	22.2	30.7	1.9	3.7
03/13E	11,593	3,781	15.6	14.9	6.8	1.6	23.5	31.8	1.6	3.1

- We expect Deccan Chronicle to post ~8% YoY growth in revenue to Rs2.5b. The growth will be primarily led by increase in ad revenues.
- We estimate an EBITDA of Rs1.3b and PAT of Rs798m. We assume 30% tax rate in 3QFY11, similar to 3QFY10.
- Deccan Chronicle continues to be a pure English print media play in South Indian markets of Hyderabad, Chennai and Bangalore.
- Deccan's three year lock-in contract expires on 31st Dec-10 after which it intends to unlock value from its IPL team 'Deccan Chargers'.
- Deccan has approved a buy-back upto Rs2.7b for 10-34.5m shares at a maximum buy-back price of Rs180.
- The stock trades at 9.6x FY11E and 7.8x FY12E EPS. **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales	**2,166**	**2,509**	**2,334**	**1,917**	**2,318**	**2,367**	**2,521**	**2,166**	**8,925**	**9,371**
Change (%)	11.9	10.8	8.7	6.3	7.0	-5.7	8.0	13.0	9.5	5.0
EBITDA	**1,059**	**1,387**	**1,266**	**813**	**1,199**	**1,179**	**1,291**	**920**	**4,525**	**4,589**
Change (%)	12.4	79.3	132.8	92.6	13.2	-15.0	2.0	13.1	68.7	1.4
As of % Sales	48.9	55.3	54.3	42.4	51.7	49.8	51.2	42.5	50.7	49.0
Depreciation	99	102	102	126	109	111	114	117	431	451
Interest	111	111	113	116	118	133	135	136	472	521
Other Income	71	75	75	73	90	93	97	101	296	381
PBT	**920**	**1,249**	**1,127**	**644**	**1,062**	**1,029**	**1,140**	**768**	**3,919**	**3,999**
Tax	150	250	350	579	150	203	342	644	1,329	1,339
Effective Tax Rate (%)	16.3	20.0	31.1	89.9	14.1	20.0	30.0	84.0	33.9	33.5
Reported PAT	**770**	**999**	**777**	**65**	**912**	**826**	**798**	**124**	**2,590**	**2,660**
Change (%)	26.3	120.7	202.6	-20.2	18.4	-17.3	2.7	90.3	84.9	2.7

E: MOSL Estimates

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H T Media

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	HTML IN
Equity Shares (m)	235.0
52 Week Range (Rs)	186 / 125
1,6,12 Rel Perf (%)	-10 / -20 / -15
Mcap (Rs b)	33.5
Mcap (USD b)	0.7

CMP: Rs143 — Neutral

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/10A	14,379	1,435	6.1	50.3	23.3	3.5	14.5	16.3	2.3	11.7
03/11E	15,376	1,823	7.8	16.6	18.4	3.1	15.1	18.4	2.0	9.6
03/12E	17,036	2,123	9.0	16.5	15.8	2.7	15.6	19.3	1.7	8.1
03/13E	18,796	2,546	10.8	19.9	13.2	2.3	16.5	21.0	1.4	1.4

- We expect HT Media to post revenue of Rs4.6b (up 27% YoY). Strong traction in *Hindustan* will be key driver of ad revenues.
- Cost rationalization will boost EBITDA to Rs831m (up 11% YoY) on a consolidated basis. We estimate adjusted PAT at Rs432m, up 16% YoY.
- *Hindustan* (the third largest read newspaper in India) is the only large Hindi daily that is registering readership growth in India. HT continues to face strong competition in Mumbai and Delhi markets.
- We believe HT will benefit with the high economic growth in Bihar/Jharkhand, given its leadership position. The company is managing competition well despite DB Corp's launch in Jharkhand (Ranchi).
- The stock trades at 18.4x FY11E and 15.8x FY12E EPS. **Neutral**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10*				FY11				FY10*	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales	**3,351**	**3,481**	**3,661**	**3,851**	**4,042**	**4,455**	**4,633**	**4,405**	**14,379**	**17,535**
Change (%)	2.4	4.2	5.9	12.5	20.6	28.0	26.5	14.4	5.8	21.9
EBITDA	**691**	**657**	**746**	**929**	**799**	**791**	**831**	**897**	**2,804**	**3,318**
Change (%)	0.5	64.7	241.8	270.1	15.6	20.5	11.4	-3.4	179.6	18.3
As of % Sales	20.6	18.9	20.4	24.1	19.8	17.8	17.9	20.4	19.5	18.9
Depreciation	163	175	165	180	194	211	190	194	707	790
Interest	78	75	72	71	64	55	56	64	295	239
Other Income	65	29	19	45	58	61	66	63	159	249
Extra-ordinary Expense	45	40	14	15	0	0	0	0	76	0
PBT	**470**	**396**	**514**	**708**	**599**	**586**	**650**	**702**	**1,885**	**2,538**
Tax	146	82	160	223	197	165	214	231	537	807
Effective Tax Rate (%)	31.1	20.6	31.2	31.5	32.9	28.2	32.9	32.9	28.5	31.8
PAT	**324**	**314**	**354**	**485**	**402**	**421**	**437**	**471**	**1,348**	**1,731**
Exceptional Items	45	40	14	15	0	0	0	0	76	0
Minority Interest	0	0	5	-5	-12	33	5	10	11	36
Reported PAT	**324**	**314**	**359**	**480**	**414**	**388**	**432**	**461**	**1,359**	**1,695**
Adj PAT	**369**	**354**	**373**	**495**	**414**	**388**	**432**	**461**	**1,435**	**1,695**
Change (%)	-14.1	93.1	LP	531.6	12.2	9.5	15.9	-6.8	617.5	18.1

E: MOSL Estimates; * Consolidated Nos from 3QFY10

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Jagran Prakashan

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	JAGP IN
Equity Shares (m)	301.2
52 Week Range (Rs)	148 / 104
1,6,12 Rel Perf (%)	-5 / -10 / -17
Mcap (Rs b)	38.6
Mcap (USD b)	0.9

CMP: Rs128 **Neutral**

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/10A	9,419	1,759	5.8	92.0	21.9	6.3	28.7	33.4	3.9	12.9
03/11E	10,966	1,984	6.6	12.8	19.5	5.9	30.4	34.8	3.3	10.9
03/12E	12,709	2,198	7.0	5.5	18.4	5.9	31.8	35.8	3.0	10.4
03/13E	14,095	2,540	8.0	15.6	16.0	5.6	35.2	38.7	2.7	9.0

- Jagran Prakashan is likely to post revenue of Rs2.8b (up ~25% YoY) driven by higher advertising revenues (up 35% YoY).
- We estimate ~45bp QoQ decline in EBITDA margin to 32.4%.
- We estimate ~39% YoY increase in adjusted PAT to Rs554m.
- Circulation revenue is likely to remain under pressure in pockets, but is being offset by diligent cover price increases in other regions.
- The stock trades at 19.5x FY11E and 18.4x FY12E EPS. **Neutral**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Revenue	**2,319**	**2,468**	**2,269**	**2,363**	**2,698**	**2,769**	**2,835**	**2,769**	**9,419**	**11,070**
Change (%)	12.3	18.3	9.6	17.4	16.4	12.2	24.9	17.2	14.4	17.5
EBITDA	**705**	**832**	**653**	**633**	**902**	**908**	**917**	**790**	**2,823**	**3,518**
Change (%)	42.0	119.1	117.1	62.2	27.9	9.1	40.5	25.0	80.1	24.6
As of % Sales	30.4	33.7	28.8	26.8	33.4	32.8	32.4	28.5	30.0	31.8
Depreciation	124	130	119	135	125	133	153	172	507	583
Interest	14	15	13	24	12	14	13	17	66	56
Other Income	157	50	70	66	57	64	67	73	343	262
PBT	**724**	**738**	**590**	**540**	**822**	**826**	**819**	**674**	**2,592**	**3,140**
Tax	229	235	193	176	266	271	265	218	833	1,020
Effective Tax Rate (%)	31.7	31.9	32.7	32.6	32.4	32.8	32.4	32.4	32.1	32.5
Adj PAT	**495**	**503**	**397**	**364**	**556**	**555**	**554**	**456**	**1,759**	**2,121**
Change (%)	56.4	121.5	156.9	66.8	12.3	10.4	39.4	25.3	92.0	20.6

E: MOSL Estimates

Shobhit Khare (Shobhit.Khare@MotilalOswal.com)/Nirav Poddar (Nirav.Poddar@MotilalOswal.com)

Sun TV Network

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	SUNTV IN
Equity Shares (m)	394.1
52 Week Range (Rs)	550 / 333
1,6,12 Rel Perf (%)	4 / 16 / 41
Mcap (Rs b)	207.8
Mcap (USD b)	4.6

CMP: Rs527 **Neutral**

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	13,950	5,674	14.4	36.3	36.6	10.3	28.2	52.8	14.6	18.3
3/11E	19,321	7,228	18.3	27.4	28.8	8.2	28.5	59.2	10.3	12.9
3/12E	21,649	8,656	22.0	19.8	24.0	6.6	27.5	54.3	8.8	11.1
3/13E	24,369	10,475	26.6	21.0	19.8	5.3	26.9	50.7	7.5	9.4

- We expect Sun TV to post revenue of Rs5.7b (up ~44% YoY), EBITDA of Rs4.5b (up ~44% YoY) and PAT of Rs1.79b (up ~18% YoY).
- Advertising revenue is likely to grow 14% YoY and 10% QoQ to Rs2.97b.
- We expect DTH subscription revenue to increase 74% YoY and 9% QoQ to Rs765m.
- We expect film segment to record revenue of Rs1.2b, recognizing revenues of *'Endhiran'*.
- We believe that Sun TV continues to be one of the best broadcasting plays due to its strong presence in South India (part of faster growth regional advertising pie).
- The stock trades at 28.8x FY11E and 24x FY12E EPS. **Neutral**.

QUARTERLY PERFORMANCE (STANDALONE) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Revenue	**2,877**	**3,204**	**3,951**	**3,919**	**4,404**	**4,248**	**5,670**	**4,999**	**13,950**	**19,321**
Change (%)	28.7	34.7	45.9	42.0	53.1	32.6	43.5	27.6	38.4	38.5
EBITDA	**2,236**	**2,436**	**3,125**	**3,308**	**3,599**	**3,323**	**4,505**	**4,008**	**11,105**	**15,435**
Change (%)	32.9	38.1	55.3	46.6	60.9	36.4	44.2	21.2	43.9	39.0
As of % Sales	77.7	76.0	79.1	84.4	81.7	78.2	79.5	80.2	79.6	79.9
Depreciation	550	571	885	848	1,147	908	1,886	998	2,854	4,939
Interest	6	2	2	2	1	3	3	3	12	10.0
Other Income	142	115	84	85	113	93	97	103	425	406
PBT	**1,822**	**1,978**	**2,322**	**2,542**	**2,563**	**2,505**	**2,714**	**3,111**	**8,664**	**10,892**
Tax	624	672	803	892	854	830	923	1,058	2,990	3,664
Effective Tax Rate (%)	34.3	34.0	34.6	35.1	33.3	33.1	34.0	34.0	34.5	33.6
Reported PAT	**1,198**	**1,306**	**1,519**	**1,651**	**1,710**	**1,674**	**1,791**	**2,053**	**5,674**	**7,228**
Adj PAT	**1,198**	**1,306**	**1,519**	**1,651**	**1,710**	**1,674**	**1,791**	**2,053**	**5,674**	**7,228**
Change (%)	16.8	37.3	35.4	44.7	42.7	28.2	17.9	24.4	36.2	27.4

E: MOSL Estimates

Shobhit Khare (Shobhit.Khare@MotilalOswal.com)/Nirav Poddar (Nirav.Poddar@MotilalOswal.com)

Zee Entertainment Enterprises

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	Z IN
Equity Shares (m)	978.1
52 Week Range (Rs)	163 / 122
1,6,12 Rel Perf (%)	-6 / -19 / -11
Mcap (Rs b)	135.7
Mcap (USD b)	3.0

CMP: Rs139 **Buy**

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	21,966	4,686	5.2	4.1	26.5	3.6	13.0	17.8	6.0	21.5
3/11E	29,225	5,371	5.5	5.0	25.3	3.4	13.5	20.0	4.4	16.8
3/12E	34,001	7,127	7.3	32.7	19.0	3.1	16.6	23.8	3.7	12.8
3/13E	38,367	8,911	9.1	25.0	15.2	2.8	18.8	27.1	3.2	10.0

- On a proforma basis, we expect advertising revenue growth of ~22% YoY and subscription growth of ~12% YoY. Reported numbers would be higher due to consolidation of regional GEC channels.
- DTH revenue would continue to drive growth in subscription revenue. We estimate share of subscription revenue at ~37% of total revenue in 3QFY11.
- We expect EBITDA margin to expand ~40bp to 26.9%.
- Adjusted PAT is likely to grow 24.3% YoY to Rs1.56b.
- Zee TV has clocked an average channel share of ~14.3% (v/s 17.1% in 2QFY11) in the Hindi GEC space, with a GRP of 200 (v/s 227 in 2QFY11) in 3QFY11. However, Star Plus has maintained leadership in channel share and GRP since 1QFY11.
- The stock trades at 25.3x FY11E and 19x FY12E EPS. **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11E				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Advertsing Revenue	1,980	2,476	2,707	3,517	3,769	4,122	4,452	4,274	10,680	16,616.5
Subscription Revenue	2,410	2,435	2,467	2,513	2,614	2,737	2,869	3,003	9,824	11,223.1
Other Sales and Services	370	494	135	463	387	257	370	372	1,462	1,385.9
Net Sales	**4,759**	**5,405**	**5,309**	**6,493**	**6,770**	**7,116**	**7,690**	**7,649**	**21,966**	**29,225.4**
Change (%)	-12.2	-5.5	-2.7	26.4	42.2	31.7	44.8	17.8	1.1	33.0
EBITDA	**1,170**	**1,508**	**1,573**	**1,836**	**1,870**	**1,885**	**2,067**	**1,801**	**6,087**	**7,623.5**
Change (%)	-18.9	1.3	31.0	52.8	59.8	25.0	31.5	-1.9	14.2	25.3
As of % Sales	24.6	27.9	29.6	28.3	27.6	26.5	26.9	23.5	27.7	26.1
Depreciation	75	77	76	56	62	56	43	45	284	205.6
Interest	91	84	65	110	51	5	5	5	350	65.84
Other Income	325	291	323	291	126	240	205	207	1,230	778.0
Extraordinary items			313	-11	328				302	327.7
PBT	**1,329**	**1,638**	**2,067**	**1,950**	**2,211**	**2,064**	**2,224**	**1,959**	**6,985**	**8,457.7**
Tax	416	529	603	662	710	801	667	586	2,210	2,765
Effective Tax Rate (%)	31.3	32.3	32.0	33.9	32.1	38.8	30.0	30.0	31.6	32.7
PAT	**913**	**1,109**	**1,464**	**1,288**	**1,501**	**1,263**	**1,557**	**1,372**	**4,775**	**5,693**
Minority Interest	-105.8	-32	-100	25	-38	1	1.0	1.0	-212.2	-35.0
Adj PAT after Minority Interest	**1,019**	**1,141**	**1,251**	**1,274**	**1,211**	**1,262**	**1,556**	**1,371**	**4,685**	**5,400**
Change (%)	-17.8	-6.7	22.5	37.4	18.8	10.6	24.3	7.7	6.2	15.3

E: MOSL Estimates

Shobhit Khare (Shobhit.Khare@MotilalOswal.com)/Nirav Poddar (Nirav.Poddar@MotilalOswal.com)

Metals

COMPANY NAME
Hindalco
Hindustan Zinc
JSW Steel
Nalco
Sesa Goa
SAIL
Sterlite Industries
Tata Steel

Steel up on stronger scrap, iron ore, coal prices

- Domestic hot rolled coil (HRC) prices trended downwards in October and November due to sluggish demand. Steel makers rolled back most of the price hikes taken in early September to align prices with global peers. Demand from end-user industries picked up gradually in early December. The shutdown of Ispat Industries' 3.3mtpa plant in November aided domestic supply-side correction and a slow, steady recovery in the global economy improved price sentiment.
- Chinese steel prices were holding up and seen gradual upward movement throughout the quarter as a result of lower supply from domestic producers led by maintenance shutdowns and curtailment in production to meet emission targets.
- There will be a moderate increase in prices of key raw materials such as iron ore and coking coal in 1QCY11. The March quarter contract for coking coal settled at US$225 (up 8% QoQ) and for iron ore up 6.3% QoQ. Spot iron ore prices increased steadily through out the quarter from US$145 to US$175/dmt (cfr China basis for 63.5% grade) on tight supply, continued strong demand from China and slow recovery in developed economies. Spot coke (China export) prices also increased 5-7% during the quarter to US$390/t. Thus with increasing cost of steel production, producers will tend to pass on the increase to customers if demand sustains. We expect steel prices to rise in the near term, which will augur well for domestic integrated steel makers.
- We expect steel volumes by key Indian producers to increase 11% YoY to 6.6mt (up 5% QoQ). With steel demand gradually picking up, we expect 3QFY11 sales volumes of 1.6mt (up 12% YoY) for JSW, 3.3mt (up 14% YoY) for SAIL and 1.7mt (up 5% YoY) for Tata Steel.

Expected quarterly performance summary (Rs million)

	CMP (Rs)	Rating	Sales			EBITDA			Net profit		
	24.12.10		Dec.10	Var. % YoY	Var. % QoQ	Dec.10	Var. % YoY	Var. % QoQ	Dec.10	Var. % YoY	Var. % QoQ
Metals											
Hindalco	239	Buy	178,818	12.6	3.4	22,399	21.7	5.9	8,855	79.0	4.6
Hindustan Zinc	1,273	Buy	24,417	8.6	10.9	14,356	3.6	27.6	12,016	4.6	23.9
JSW Steel	1,170	Buy	59,312	28.6	2.7	10,894	-2.6	9.8	4,271	5.6	30.1
Nalco	381	Sell	15,791	11.4	6.8	6,129	107.0	76.3	4,129	166.1	84.3
SAIL	185	Neutral	119,341	20.8	10.4	24,681	-4.3	45.6	15,851	-5.4	45.4
Sesa Goa	316	Buy	25,859	36.9	181.6	16,972	63.8	459.5	14,915	80.2	325.9
Sterlite Inds.	185	Buy	69,517	3.0	14.3	19,909	12.3	30.2	13,088	30.2	29.8
Tata Steel	673	Neutral	265,564	1.4	-7.3	32,225	3.8	-12.3	12,585	93.0	-4.0
Sector Aggregate			**758,619**	**10.1**	**3.6**	**147,565**	**12.4**	**25.3**	**85,709**	**34.7**	**39.9**

Sanjay Jain (SanjayJain@MotilalOswal.com)/Tushar Chaudhari (Tushar.Chaudhari@MotilalOswal.com)

Saleable steel ('000 Tons) **(Rs Million)**

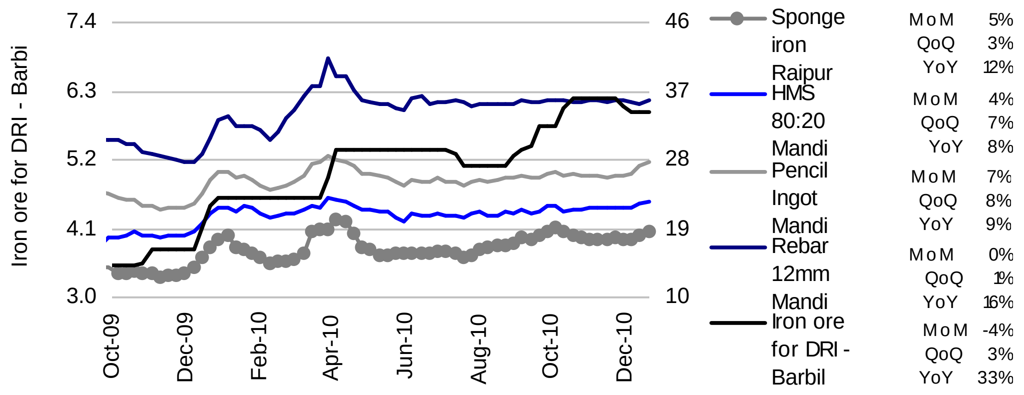
Y/E March	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Tata Steel India										
Production	1,542	1,519	1,688	1,732	1,590	1,610	1,772	1,819	6,481	6,791
Change (YoY %)	30.0	14.2	36.7	6.7	3.1	6.0	5.0	5.0		4.8
Sales	1,418	1,457	1,596	1,698	1,399	1,660	1,676	1,782	6,169	6,518
Change (YoY %)	22.3	19.4	49.0	-5.2	-1.3	14.0	5.0	5.0		5.7
SAIL										
Production	3,060	3,140	3,100	3,300	3,000	3,100	3,300	3,700	12,600	13,100
Change (YoY %)	3.8	-1.3	3.3	1.3	-2.0	-1.3	6.5	12.1		4.0
Sales	2,790	3,030	2,900	3,400	2,300	3,030	3,300	3,700	12,120	12,330
Change (YoY %)	5.3	14.3	20.8	-5.6	-17.6		13.8	8.8		1.7
JSW Steel										
Production	1,376	1,540	1,469	1,615	1,574	1,566	1,600	1,750	6,000	6,490
Change (YoY %)	41.0	53.8	87.9	67.2	14.4	1.7	8.9	8.4		8.2
Sales	1,321	1,454	1,425	1,520	1,190	1,582	1,600	1,750	5,720	6,122
Change (YoY %)	61.7	73.7	100.4	63.8	-9.9	8.8	12.3	15.1		7.0
3 Key Producers Total										
Production	**5,978**	**6,199**	**6,257**	**6,647**	**6,164**	**6,276**	**6,672**	**7,269**	**25,081**	**26,381**
Change (YoY %)	17.0	12.5	24.7	13.7	3.1	1.2	6.6	9.4		5.2
Sales	5,529	5,941	5,921	6,618	4,889	6,272	6,576	7,232	24,009	24,970
Change (YoY %)	19.5	26.2	41.6	4.7	-11.6	5.6	11.1	9.3		4.0

E: MOSL Estimates

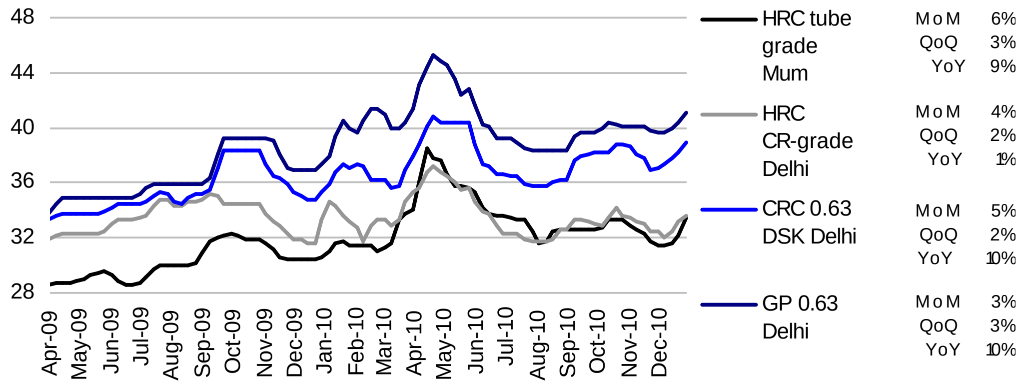
Sponge iron prices up due to tight iron ore supply

- According to SteelPrices-India, prices of sponge iron in Raipur increased 9% MoM to Rs19,400/ton in the week to 31 December 2010. Prices rose due to tightening iron ore supply and increasing scrap prices. Iron ore prices for DRI from Barbil fell 4% MoM in early December (Rs5,950/ton) as few small scale sponge iron producers stopped production due to tighter iron ore supply and shrinking margins. Coal India reduced quantities supplied under linkage to about half the requirement for many mid-sized steel companies, which increased costs. The hike in iron ore and coal prices increased the cost of sponge iron production to almost Rs16,000/ton.
- Scrap prices surged globally in 3QFY11 due to higher demand from southeast Asia and the EU. This is expected to push up steel prices as producers will try to maintain margins.
- Indian railways increased base freight by 3-4% with effect from 27th December 2010 to compensate for wage and other cost inflation. The impact on iron ore inland transportation cost will be marginal 1% due to Rs1,000 fixed surcharge on rail freight for exports.
- Domestic steel prices are also on the up-tick with HRC prices improving 6% MoM to Rs33,998/ton though prices of long products were flat.
- China's crude steel production for October and November was stable at 50mt each. (up 5-6% YoY) despite curtailed production. In YTD CY10, China produced 575mt (up 11% YoY).

Indian steel prices (Rs/kg): long products, inputs

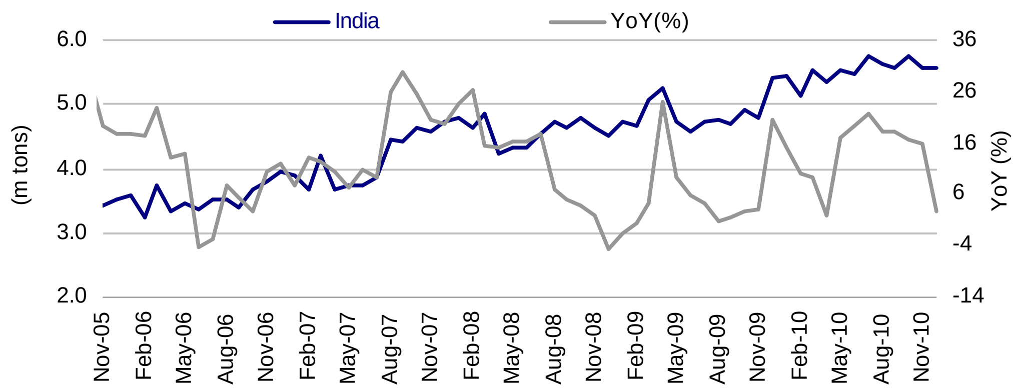


Indian steel prices (Rs/kg): flat products



Source: Company/MOSL

India: monthly crude steel production



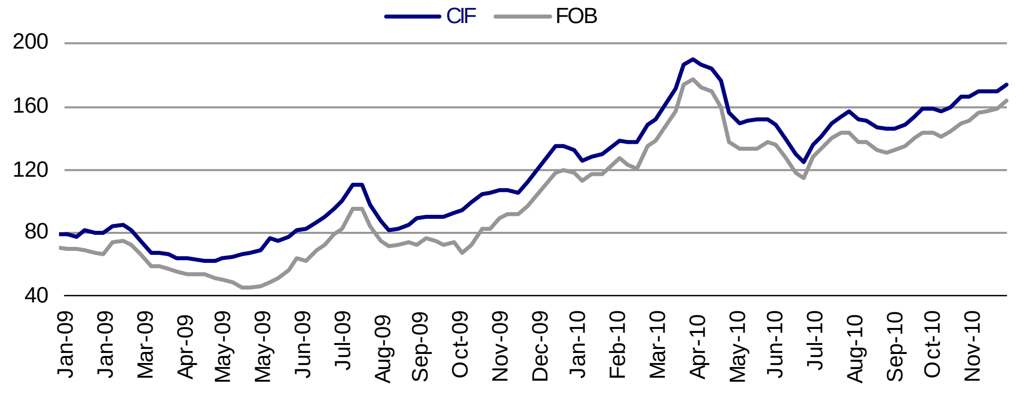
Source: Company/MOSL

Iron ore prices up on tight supply, expected growth in steel production

Spot iron ore prices rose steadily from their September lows of US$145 to reach a seven-month high of US$177/dmt (cfr China for 63.5% grade) due to tight supply, strong Chinese demand and slow recovery in developed economies. China's iron ore imports rebounded to 57.4mt (up 12% YoY) in November, reaching their highest level since March 2010. With steel mills in China expected to resume production post curtailment and planned shutdown, iron ore demand is expected keep the prices on higher side. Many steel mills were forced to cut production or shut down in 3QFY11 as local authorities raced to help Beijing achieve its five-year energy savings and emission targets by the end of December.

China is overtly dependent on iron ore imports. It imported 561mt in YTD CY10 (-1% YoY). Imports meet nearly two-thirds of China's annual iron ore requirements.

Indian iron ore (63% FE) prices for shipment to China (US$/ton)



Source: Company/MOSL

Non-ferrous – LME prices to drive earnings growth

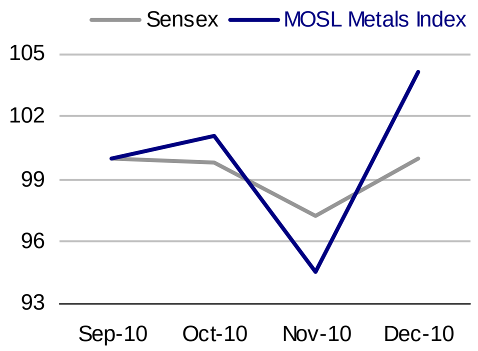
- Average 3QFY11 non-ferrous metal prices increased 14-18% QoQ led by robust Chinese GDP growth, a weaker US dollar and steady recovery in developed economies. Stronger zinc and aluminum LME is likely to drive earnings for non-ferrous companies. Hindustan Zinc's margins will improve due to higher realizations and better volumes because of expanded zinc smelting capacity. A 12% sequential increase in aluminum prices (to US$2,361) will benefit Nalco and Hindalco.
- Volume growth is expected to be positive in 3QFY11. Hindustan Zinc's volumes of refined zinc and lead are expected to be 4% higher QoQ at 198k tons (up 18% YoY). After maintenance shutdown in 2QFY11, Sterlite will post 8% QoQ growth in copper cathode production. Hindalco's copper production will be lower due to a breakdown of the cooling towers of its sulfuric acid plant. Aluminum volumes are expected to increase (after the restarting of the Hirakud smelter) to deliver 11% QoQ growth at 142k tons, while copper volumes will fall 15% QoQ to 80k tons. Nalco will benefit from higher alumina export realizations as it sold at US$348-372/t during recent months.
- Margins of non-ferrous metal companies are expected to improve sequentially due to higher LME and better volumes.

Quarterly average of base metal on LME (3M contract) (USD/Ton)

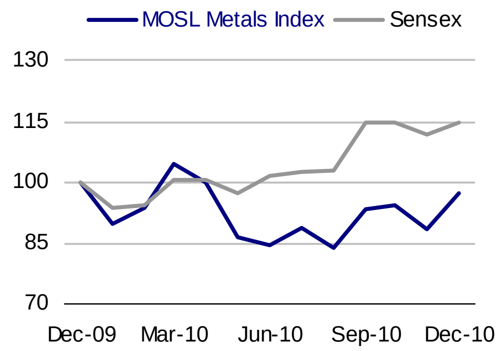
Quarter	Zinc			Aluminium			Copper			Lead			Alumina		
	Avg.	QoQ %	YoY %	Avg.	QoQ %	YoY %	Avg.	QoQ %	YoY %	Avg.	QoQ %	YoY %	Avg.	QoQ %	YoY %
3QFY11	2,329	14	4	2,361	12	16	8,570	18	28	2,400	16	4	353	11	16
2QFY11	2,043	0	15	2,110	-1	15	7,278	3	24	2,065	5	6	317	-5	18
1QFY11	2,052	-11	36	2,122	-3	39	7,042	-3	50	1,972	-12	30	335	3	61
4QFY10	2,307	3	91	2,199	8	57	7,274	9	108	2,235	-3	91	327	7	72
3QFY10	2,241	26	84	2,037	11	8	6,677	14	69	2,313	19	83	306	13	10
2QFY10	1,780	18	-1	1,836	20	-35	5,856	24	-23	1,942	28	1	270	29	-34
1QFY10	1,509	25	-30	1,530	9	-49	4,708	35	-43	1,520	30	-35	209	10	-49
4QFY09	1,208	-1	-51	1,401	-26	-50	3,494	-11	-55	1,173	-7	-60	190	-32	-51
3QFY09	1,219	-32	-54	1,885	-34	-25	3,948	-48	-46	1,265	-34	-61	279	-32	-19
2QFY09	1,798	-16	-44	2,839	-5	9	7,571	-9	-1	1,915	-18	-38	408	-1	17
1QFY09	2,150	-13	-42	2,995	8	7	8,323	8	10	2,330	-20	7	411	5	14

Source: LME

Relative Performance - 3m (%)



Relative Performance - 1Yr (%)



Comparative valuation

	CMP (Rs) 24.12.10	Rating	EPS (Rs)			P/E (x)			EV/EBITDA			RoE (%)		
			FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E
Metals														
Hindalco	239	Buy	16.9	19.5	21.0	14.2	12.3	11.4	7.5	6.7	6.2	20.5	19.5	17.6
Hindustan Zinc	1,273	Buy	100.6	123.0	134.7	12.7	10.3	9.4	7.8	5.7	4.5	19.3	19.4	17.7
JSW Steel	1,170	Buy	70.2	110.6	156.0	16.7	10.6	7.5	7.0	4.8	4.2	9.7	12.8	15.4
Nalco	381	Sell	20.4	26.5	24.5	18.7	14.4	15.6	10.0	7.2	7.4	11.5	13.4	11.3
SAIL	185	Neutral	14.7	15.4	15.9	12.6	12.0	11.7	7.9	8.0	8.3	15.8	14.6	13.4
Sesa Goa	316	Buy	54.9	50.3	54.9	5.7	6.3	5.8	3.4	2.7	1.7	36.7	25.7	22.3
Sterlite Inds.	185	Buy	13.4	22.1	22.9	13.8	8.3	8.1	6.9	3.7	2.9	11.0	15.6	14.1
Tata Steel	673	Neutral	74.4	75.1	92.0	9.0	9.0	7.3	6.4	6.2	4.9	42.9	31.2	28.8
Sector Aggregate						**11.7**	**9.9**	**8.9**	**6.9**	**5.7**	**5.0**	**16.6**	**16.5**	**15.8**

Tata Steel and Sterlite numbers are consolidated

Hindalco

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	HNDL IN
Equity Shares (m)	1,984.4
52 Week Range (Rs)	240 / 129
1,6,12 Rel Perf (%)	12 / 46 / 36
Mcap (Rs b)	475.0
Mcap (USD b)	10.5

CMP: Rs239 **Buy**

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	607,221	19,132	9.6	-19.0	24.8	3.5	14.0	8.3	1.0	9.0
3/11E	691,437	33,440	16.9	74.8	14.2	2.9	20.5	10.9	0.9	7.5
3/12E	690,226	38,667	19.5	15.6	12.3	2.4	19.5	11.3	1.0	6.7
3/13E	727,567	41,685	21.0	7.8	11.4	2.0	17.6	10.8	0.9	6.2

Consolidated

- **LME prices to drive revenue:** 3QFY11 net sales are expected to grow 4% QoQ to Rs61.1b (up 12% YoY) due to higher LME and better aluminum performance. Aluminium volumes are expected to increase 11% QoQ to 142k tons while copper will decline 15% QoQ to 80k tons. Copper production has been affected due to a breakdown of cooling towers of its sulfuric acid plant. Blended realization of aluminum per ton is expected to improve 8% QoQ (Rs160,459/ton) as average LME was 12% higher during the quarter and that of copper will be up 14% QoQ at Rs480,059/ton.
- **EBITDA to post 27% growth QoQ:** EBITDA is expected grow 27% QoQ to Rs9.1b (up 13% YoY) in 3QFY11 due to better aluminum performance, rise of product premiums and an up-tick in TcRc charges.
- **Adjusted PAT to grow 26% QoQ:** Profit after tax will grow 26% QoQ to Rs5.7b (up 18% YoY) due to higher LME prices and higher aluminum volumes.
- **Timely execution of green-field projects the key, maintain Buy:** Hindalco's focus has shifted to high RoE green-field projects as Novelis is self sustaining. Novelis has re-negotiated its key product contracts over past few quarters. Aluminum production at the Indian operations is poised to increase 3x to 1.7mtpa over five years. The Utkal refinery project is expected to be commissioned in July 2011. Other green-field smelter projects are progressing well. The stock trades at EV/EBITDA of 6.7x FY12E. Maintain **Buy**.

QUARTERLY PERFORMANCE (STANDALONE) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	**38,905**	**49,124**	**54,743**	**54,434**	**51,783**	**58,599**	**61,198**	**58,813**	**197,206**	**230,393**
Change (YoY %)	-16.3	-13.6	33.0	44.3	33.1	19.3	11.8	8.0	8.2	16.8
Total Expenditure	32,757	42,912	46,697	45,790	43,458	51,396	52,085	51,018	168,156	197,957
EBITDA	**6,148**	**6,213**	**8,046**	**8,644**	**8,325**	**7,204**	**9,113**	**7,795**	**29,050**	**32,436**
Change (YoY %)	-35.2	-37.5	3.3	175.1	35.4	15.9	13.3	-9.8	-4.3	11.7
As % of Net Sales	15.8	12.6	14.7	15.9	16.1	12.3	14.9	13.3	14.7	14.1
Interest	682	663	729	705	593	526	707	708	2,780	2,535
Depreciation	1,653	1,659	1,676	1,684	1,691	1,718	1,659	1,667	6,672	6,735
Other Income	753	573	496	777	689	821	506	792	2,599	2,808
PBT (before EO item)	**4,566**	**4,464**	**6,136**	**7,031**	**6,730**	**5,781**	**7,252**	**6,212**	**22,197**	**25,974**
Extra-ordinary Income	1,430	-121	-570	-290		-220			449	-220
PBT (after EO item)	**5,996**	**4,343**	**5,566**	**6,741**	**6,730**	**5,561**	**7,252**	**6,212**	**22,646**	**25,754**
Total Tax	1,190	903	1,295	102	1,386	1,222	1,523	1,305	3,489	5,435
% Tax	26.1	20.2	21.1	1.4	20.6	21.1	21.0	21.0	15.4	21.1
Reported PAT	**4,806**	**3,441**	**4,271**	**6,639**	**5,344**	**4,338**	**5,729**	**4,907**	**19,156**	**20,319**
Adjusted PAT	**3,376**	**3,562**	**4,841**	**6,929**	**5,344**	**4,558**	**5,729**	**4,907**	**18,707**	**20,539**
Change (YoY %)	-51.6	-50.5	-11.1	157.8	58.3	28.0	18.3	-29.2	-16.1	9.8
Consolidated Financials										
Net Sales	**120,330**	**151,793**	**158,845**	**176,254**	**166,066**	**172,930**	**178,818**	**173,622**	**607,221**	**691,437**
EBITDA	**16,503**	**16,567**	**18,400**	**18,998**	**20,587**	**21,154**	**22,399**	**22,409**	**70,468**	**86,549**
Adjusted PAT	**3,482**	**3,668**	**4,947**	**7,035**	**6,525**	**8,465**	**8,855**	**9,596**	**19,132**	**33,440**
Avg LME Aluminium (USD/T)	**1,505**	**1,827**	**2,037**	**2,189**	**2,122**	**2,110**	**2,357**	**2,200**	**1,904**	**2,197**

E: MOSL Estimates

Sanjay Jain (SanjayJain@MotilalOswal.com)/Tushar Chaudhari (Tushar.Chaudhari@MotilalOswal.com)

Hindustan Zinc

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	HZ IN
Equity Shares (m)	422.5
52 Week Range (Rs)	1,328 / 900
1,6,12 Rel Perf (%)	7 / 17 / -10
Mcap (Rs b)	537.7
Mcap (USD b)	11.9

CMP: Rs1,273 **Buy**

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	80,170	40,414	95.6	48.2	13.3	3.0	22.3	22.9	5.2	9.0
3/11E	90,455	42,504	100.6	5.2	12.7	2.4	19.3	19.7	4.3	7.8
3/12E	102,252	51,982	123.0	22.3	10.3	2.0	19.4	19.7	3.3	5.7
3/13E	107,500	56,929	134.7	9.5	9.4	1.7	17.7	17.3	2.6	4.5

Consolidated

- **Metal prices to drive top line:** 3QFY11 net sales are expected to increase by 11% QoQ to Rs24.4b (up 9% YoY) due to 4% volume growth and 10% increase in zinc and lead realizations. LME prices for zinc increased 14% QoQ and lead grew 16% QoQ in 3QFY11. Zinc and lead realization per ton is expected to improve to Rs110,462/ton and Rs115,895 respectively. Silver realization should improve ~33% QoQ as prices surged (to Rs39,463). Refined zinc and lead production is expected to be 4% higher QoQ at 198k tons (up 18% YoY).

- **EBITDA to grow 28% QoQ:** EBITDA is expected to grow by 27.6% QoQ to Rs14.3b (up 4% YoY) and margins are expected to improve by 770bp QoQ due to higher volumes and a better operating performance.

- **PAT to grow 24% QoQ:** 3QFY11 adjusted PAT is expected to grow 24% QoQ to Rs12b (up 5% YoY). HZL's earnings are likely to be driven by volume growth. Zinc capacity has been expanded to 879ktpa, which will drive the production of refined metal in 2HFY11. A 100ktpa lead smelter is expected to be commissioned in FY11, which will take zinc and lead capacity to 1.06mtpa. Maintain **Buy**.

QUARTERLY PERFORMANCE (STANDALONE) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Zn & Pb (000 tons)	155	152	167	169	179	191	198	209	643	643
Net Sales	**15,122**	**18,183**	**22,491**	**25,449**	**19,734**	**22,010**	**24,417**	**24,294**	**80,170**	**90,455**
Change (YoY %)	-8.0	1.6	110.4	101.5	30.5	21.0	8.6	-4.5	41.1	12.8
Total Expenditure	7,443	7,428	8,630	9,967	9,516	10,758	10,060	10,329	33,469	40,663
EBITDA	**7,679**	**10,755**	**13,861**	**15,482**	**10,218**	**11,253**	**14,356**	**13,966**	**46,701**	**49,792**
As % of Net Sales	50.8	59.1	61.6	60.8	51.8	51.1	58.8	57.5	58.3	55.0
Interest	32	54	77	277	66	-5	49	49	439	158
Depreciation	748	771	817	1,006	1,123	1,158	1,170	1,182	3,343	4,633
Other Income	1,946	1,537	1,319	1,345	1,584	1,840	1,883	2,116	7,222	7,423
PBT (before EO item)	**8,845**	**11,467**	**14,286**	**15,543**	**10,614**	**11,940**	**15,020**	**14,850**	**50,141**	**52,424**
Extra-ordinary Income	0	0	0	0	0	-212	0	0	0	0
PBT (after EO item)	**8,845**	**11,467**	**14,286**	**15,543**	**10,614**	**11,728**	**15,020**	**14,850**	**50,141**	**52,424**
Total Tax	1,657	2,118	2,799	3,153	1,705	2,241	3,004	2,970	9,727	9,920
% Tax	18.7	18.5	19.6	20.3	16.1	19.1	20.0	20.0	19.4	18.9
Reported PAT	**7,188**	**9,349**	**11,487**	**12,390**	**8,909**	**9,487**	**12,016**	**11,880**	**40,414**	**42,504**
Adjusted PAT	**7,188**	**9,349**	**11,487**	**12,390**	**8,909**	**9,699**	**12,016**	**11,880**	**40,414**	**42,504**
Change (YoY %)	-15.2	-2.6	211.4	124.7	23.9	3.7	4.6	-4.1	48.2	5.2
Avg LME Zinc (USD/T)	**1,509**	**1,780**	**2,241**	**2,311**	**2,052**	**2,043**	**2,330**	**2,200**	**1,594**	**2,156**
Avg LME Lead (USD/T)	**1,520**	**1,942**	**2,313**	**2,254**	**1,972**	**2,065**	**2,398**	**2,200**	**1,671**	**2,159**

E: MOSL Estimates

Sanjay Jain (SanjayJain@MotilalOswal.com)/Tushar Chaudhari (Tushar.Chaudhari@MotilalOswal.com)

JSW Steel

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	JSTL IN
Equity Shares (m)	254.3
52 Week Range (Rs)	1,400 / 932
1,6,12 Rel Perf (%)	-6 / -2 / -1
Mcap (Rs b)	297.5
Mcap (USD b)	6.6

CMP: Rs1,170 **Buy**

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	189,572	11,117	59.4	9.3	19.7	2.4	12.4	10.1	2.1	10.0
3/11E	244,305	15,383	70.2	18.2	16.7	1.6	9.7	9.4	1.8	9.3
3/12E	370,738	28,123	110.6	57.5	10.6	1.4	12.8	14.1	1.2	6.1
3/13E	412,900	39,654	156.0	41.0	7.5	1.2	15.4	16.9	0.9	4.5

Consolidated

- **Volumes to be sequentially flat:** We expect JSW to deliver sequentially flat volumes at 1.6mt (up 12% YoY) as steel demand was sluggish at the start of 3QFY11. Average steel price realization is expected to improve 2% QoQ to Rs37,070/ton (up 15% YoY) as the company rolled back price hikes implemented in the later part of 2QFY11. Steel prices picked up gradually in December led by lower steel production from many small non-integrated players as conversion margins contracted. Standalone net sales are expected to grow 3% QoQ to Rs59.3b (up 29% YoY).
- **EBITDA to grow 10% QoQ:** EBITDA is expected grow 10% QoQ to Rs10.9b as JSW benefits from an iron ore export ban from Karnataka and a better product mix. Margins are expected to improve sequentially by 110bp to 18.4% due to lower semis and higher realizations.
- **Adjusted PAT to grow 30% QoQ:** We expect the company to deliver 30% QoQ growth in adjusted PAT. We also expect higher steel realizations, an improved product mix and savings due to interest from the repayment of debt after the JFE deal, and a ban on iron ore exports from Karnataka. With JFE's technical support, anticipated deliveries from coking coal and iron ore mines in the Americas and the timely completion of ongoing capacity expansion in Vijaynagar, we expect the stock to outperform in the ferrous space. We expect steel volumes to increase 42% YoY to 9.1mt in FY12. The stock trades at attractive EV/EBITDA of 6.1x FY12E. Maintain **Buy**.

QUARTERLY PERFORMANCE (STANDALONE) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Production ('000 tons)	1,376	1,540	1,469	1,615	1,574	1,582	1,600	1,750	6,000	6,400
Change (YoY %)	41.0	53.8	87.9	67.2	14.4	2.7	8.9	8.4	61.1	6.7
Sales ('000 tons)	1,321	1,454	1,425	1,520	1,190	1,582	1,600	1,750	5,720	6,122
Realization (Rs per ton)	29,650	31,080	32,372	34,243	39,329	36,510	37,070	37,834	31,912	37,583
Net Sales	**39,168**	**45,190**	**46,130**	**52,050**	**46,802**	**57,759**	**59,312**	**66,209**	**182,538**	**230,082**
Change (YoY %)	6.7	5.9	65.6	56.4	19.5	27.8	28.6	27.2	29.9	26.0
Total Expenditure	31,701	34,121	34,950	38,742	36,458	47,838	48,418	53,262	139,514	185,975
EBITDA	**7,467**	**11,070**	**11,180**	**13,308**	**10,345**	**9,922**	**10,894**	**12,947**	**43,024**	**44,108**
Change (YoY %)	-79.7	-74.1	-59.9	-60.0	38.5	-10.4	-2.6	-2.7	-69.4	2.5
As % of Net Sales	19.1	24.5	24.2	25.6	22.1	17.2	18.4	19.6	23.6	19.2
EBITDA (Rs per ton)	**5,652**	**7,613**	**7,846**	**8,755**	**8,693**	**6,271**	**6,809**	**7,399**	**7,522**	**7,205**
Interest	2,206	2,298	2,178	1,944	2,142	1,993	1,650	1,683	8,627	7,468
Depreciation	2,718	2,805	2,860	2,851	3,172	3,324	3,250	3,241	11,234	12,988
Other Income	54	615	16	0	31	64	210	109	685	415
PBT (before EO Item)	**2,597**	**6,582**	**6,157**	**8,513**	**5,062**	**4,668**	**6,204**	**8,133**	**23,849**	**24,067**
EO Items	2,360	0	1,026	962	0	1,570	0	0	43,710	1,570
PBT (after EO Item)	**4,957**	**6,582**	**7,183**	**9,475**	**5,062**	**6,238**	**6,204**	**8,133**	**67,558**	**25,637**
Total Tax	1,556	2,066	2,041	2,306	1,560	1,783	1,861	2,440	7,969	7,644
% Tax	31.4	31.4	28.4	24.3	30.8	28.6	30.0	30.0	11.8	29.8
Reported PAT	**3,400**	**4,515**	**5,142**	**7,169**	**3,503**	**4,454**	**4,343**	**5,693**	**59,589**	**17,993**
Preference Dividend	72	72	72	72	72	72	72	72	290	290
Adjusted PAT	**968**	**4,443**	**4,044**	**6,135**	**3,430**	**2,812**	**4,271**	**5,621**	**15,590**	**16,133**
Change (YoY %)	-98.7	-95.0	-93.2	-91.8	254.5	-36.7	5.6	-8.4	-94.8	3.5

E: MOSL Estimates

Sanjay Jain (SanjayJain@MotilalOswal.com)/Tushar Chaudhari (Tushar.Chaudhari@MotilalOswal.com)

Nalco

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	NACL IN
Equity Shares (m)	644.3
52 Week Range (Rs)	526 / 334
1,6,12 Rel Perf (%)	-1 / -25 / -18
Mcap (Rs b)	245.8
Mcap (USD b)	5.4

CMP: Rs381 **Sell**

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	50,557	8,032	12.5	-36.3	30.6	2.4	7.7	6.1	4.0	20.6
3/11E	59,492	13,138	20.4	63.6	18.7	2.2	11.5	12.9	3.2	10.0
3/12E	68,248	17,058	26.5	29.8	14.4	1.9	13.4	16.1	2.7	7.2
3/13E	66,002	15,775	24.5	-7.5	15.6	1.8	11.3	13.0	2.6	7.4

Consolidated

- **Revenue to grow 7% QoQ:** 3QFY11 net sales are expected to grow 7% QoQ to Rs15.7b due to higher alumina and metal realizations and better volumes. LME aluminum prices are hovering 12% higher QoQ (up 16% YoY) at US$2,361 and alumina is up 11% at US$353. We expect average metal realizations to grow 8% QoQ to Rs111,804 per ton and that of alumina is expected rise 15% QoQ to Rs16,876/ton. Metal sales volume is expected to increase by 1% QoQ to 111,400 tons.
- **EBITDA to grow 76% QoQ:** EBITDA is expected to increase 76% QoQ to Rs6.1b due to higher alumina and aluminum prices. Nalco exported alumina at contracted prices of US$348-372/t during recent months. Margins are expected to improve sequentially by 15pp to 38% in 3QFY11 led by a higher premium over LME prices and lower coal costs.
- **Refinery expansion benefits expected in 2HFY11:** The benefit of alumina expansion is likely to materialize in 2HFY11 and metal production is expected to improve by 3% to 446,000 tons in FY11. Nalco is working several green-field projects in India and abroad but it will take significant time for the projects to contribute to earnings. Maintain **Sell**.

QUARTERLY PERFORMANCE (CONSOLIDATED) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Alumina Production ('000 tons)	352	380	405	455	363	380	409	459	1,592	1,610
Aluminium Prod. ('000 tons)	105	103	111	113	112	110	111	113	431	446
Aluminium Sales ('000 tons)	93	106	118	119	109	109	111	113	436	441
Avg LME Aluminium (USD/ton)	1,505	1,827	2,037	2,189	2,150	2,110	2,357	2,200	1,890	2,204
Alumina Exports (USD/ton)	208	250	266	339	375	316	377	375	270	361
Net Sales	**9,353**	**11,791**	**14,176**	**16,260**	**13,081**	**14,792**	**15,791**	**15,829**	**50,557**	**59,492**
Change (YoY %)	-36.3	-23.3	36.8	44.4	39.9	25.4	11.4	-2.7	-2.0	17.7
Total Expenditure	7,679	10,374	11,215	10,849	9,143	11,314	9,662	10,065	40,635	40,184
EBITDA	**1,674**	**1,417**	**2,961**	**5,411**	**3,938**	**3,477**	**6,129**	**5,764**	**9,922**	**19,308**
Change (YoY %)	-77.3	-77.9	11.5	466.2	135.2	145.4	107.0	6.5	-13.4	94.6
As % of Net Sales	17.9	12.0	20.9	33.3	30.1	23.5	38.8	36.4	19.6	32.5
Interest	11	8	1	1	0	0	0	0	23	0
Depreciation	756	764	789	878	916	952	932	950	3,194	3,750
Other Income	1,012	1,402	617	658	897	854	875	963	4,688	3,589
PBT (before EO Item)	**1,918**	**2,046**	**2,787**	**5,189**	**3,919**	**3,379**	**6,072**	**5,776**	**11,392**	**19,146**
Extra-ordinary Income	0	0	0	0	0	0	0	0	156	0
PBT (after EO Item)	**1,918**	**2,046**	**2,787**	**5,189**	**3,919**	**3,379**	**6,072**	**5,776**	**11,549**	**19,146**
Total Tax	654	451	1,236	1,275	1,079	1,139	1,943	1,848	3,406	6,009
% Tax	34.1	22.1	44.3	24.6	27.5	33.7	32.0	32.0	29.5	31.4
Reported PAT	**1,265**	**1,595**	**1,552**	**3,915**	**2,841**	**2,240**	**4,129**	**3,928**	**8,142**	**13,138**
Adjusted PAT	**1,265**	**1,595**	**1,552**	**3,915**	**2,841**	**2,240**	**4,129**	**3,928**	**8,032**	**13,138**
Change (YoY %)	-75.9	-64.1	-29.3	371.5	124.6	40.5	166.1	0.3	-4.1	63.6

E: MOSL Estimates

Sanjay Jain (SanjayJain@MotilalOswal.com)/Tushar Chaudhari (Tushar.Chaudhari@MotilalOswal.com)

Sesa Goa

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	SESA IN
Equity Shares (m)	889.7
52 Week Range (Rs)	494 / 287
1,6,12 Rel Perf (%)	-6 / -30 / -37
Mcap (Rs b)	280.8
Mcap (USD b)	6.2

CMP: Rs316 — Buy

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	58,583	26,291	31.6	25.3	10.0	3.3	33.2	30.8	3.6	6.7
3/11E	85,908	48,845	54.9	73.5	5.7	2.1	36.7	39.7	2.1	3.4
3/12E	82,527	44,757	50.3	-8.4	6.3	1.6	25.7	30.1	1.7	2.7
3/13E	87,554	48,813	54.9	9.1	5.8	1.3	22.3	25.2	1.1	1.7

Consolidated

- **Realizations to drive the revenue:** Sesa Goa's realization per ton is expected to increase 51% YoY to US$82/ton (up 9% QoQ) in 3QFY11, led by higher iron ore prices. Average spot prices of iron ore in China CIF for 3QFY11 were ~US$160/ton. We expect sales volumes to decline 3% YoY to 6.6mt (up 226% QoQ due to the monsoons in 2QFY11). We expect its 3QFY11 net sales to grow 37% YoY (up 182% QoQ) to Rs25.8b.
- **Robust EBITDA growth YoY:** EBITDA is expected to increase 64% YoY to Rs16.9b (up 459% QoQ) due to higher realizations and lower costs. As the export ban continues in Karnataka, Sesa is selling small quantities in the domestic market, saving on inland transport. The closing of third party mining in Orissa will also lead to lower costs. Sesa Goa's export realization is expected to be higher due to lower sea freight rates and higher ore prices.
- **Strong iron ore prices to deliver earnings growth:** We expect PAT to grow 80% YoY to Rs14.9b due to higher ore prices. Although volume growth has become a challenge for Sesa, its competitive cost structure in Goa and strong iron ore prices will drive earnings. Spot iron ore prices (China CFR) are well above our estimate of US$120/ton. The stock trades at 2.6x FY12E EV/EBITDA. Maintain **Buy** with a target price of Rs404 based on EV/EBITDA of 5x FY12E.

QUARTERLY PERFORMANCE (CONSOLIDATED) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	**10,115**	**5,387**	**18,892**	**24,189**	**24,131**	**9,183**	**25,859**	**26,735**	**58,583**	**85,908**
Change (YoY %)	-21.7	-37.6	38.9	67.6	138.6	70.5	36.9	10.5	18.1	46.6
EBITDA	**4,531**	**1,527**	**10,360**	**15,030**	**15,507**	**3,034**	**16,972**	**18,794**	**31,448**	**54,307**
Change (YoY %)	-44.5	-62.6	85.1	99.5	242.2	98.7	63.8	25.0	23.7	72.7
As % of Net Sales	44.8	28.3	54.8	62.1	64.3	33.0	65.6	70.3	53.7	63.2
Interest	20	20	251	227	137	140	220	218	517	715
Depreciation	152	202	225	166	191	194	266	196	745	847
Other Income	752	893	1,325	1,291	1,609	1,004	1,305	1,318	4,260	5,237
PBT (before XO item)	**5,110**	**2,198**	**11,210**	**15,928**	**16,787**	**3,704**	**17,792**	**19,699**	**34,446**	**57,982**
EO					-911	364				-546
PBT (after XO item)	**5,110**	**2,198**	**11,210**	**15,928**	**15,877**	**4,068**	**17,792**	**19,699**	**34,446**	**57,436**
Total Tax	869	503	2,906	3,777	2,832	189	2,847	3,152	8,056	9,019
% Tax	17.0	22.9	25.9	23.7	17.8	4.6	16.0	16.0	23.4	15.7
Reported PAT before MI	**4,241**	**1,694**	**8,304**	**12,151**	**13,045**	**3,879**	**14,945**	**16,547**	**26,390**	**48,416**
Minority Interest	18	30	29	22	27	30	30	30	99	117
Adjusted PAT	**4,223**	**1,665**	**8,275**	**12,129**	**13,766**	**3,502**	**14,915**	**16,517**	**26,291**	**48,759**
Change (YoY %)	-34.5	-48.7	75.8	121.5	226.0	110.4	80.2	36.2	32.2	85.5

E: MOSL Estimates

Sanjay Jain (SanjayJain@MotilalOswal.com)/Tushar Chaudhari (Tushar.Chaudhari@MotilalOswal.com)

Steel Authority of India

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	SAIL IN
Equity Shares (m)	4,130.4
52 Week Range (Rs)	259 / 167
1,6,12 Rel Perf (%)	1 / -20 / -37
Mcap (Rs b)	765.6
Mcap (USD b)	17.0

CMP: Rs185 — Neutral

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	405,726	68,153	16.5	9.3	11.2	2.3	20.2	20.3	1.8	7.6
3/11E	456,617	60,806	14.7	-10.8	12.6	2.0	15.8	16.6	1.6	7.9
3/12E	502,107	63,744	15.4	4.8	12.0	1.8	14.6	16.3	1.7	8.0
3/13E	557,872	65,551	15.9	2.8	11.7	1.6	13.4	15.6	1.7	8.1

Consolidated

- **Volumes to improve 9% QoQ:** 3QFY11 net sales are expected to increase 10% QoQ to Rs119.3b (up 21% YoY) due to higher sales volumes. Volumes are expected to increase 9% QoQ to 3.3mt (up 14% YoY) and realization per ton is expected to improve by 1% QoQ to Rs36,164 (up 6% YoY). The domestic steel market was sluggish at the start of the quarter but demand started improving gradually by the end of November.

- **Margins to improve sequentially despite higher costs:** We expect EBITDA per ton to increase 34% QoQ to Rs7,479 due to higher operating leverage and slightly lower coal costs. Although average 3QFY11 realizations are expected to be only 1% higher QoQ, EBITDA per ton is expected to increase 34% YoY.

- **Project execution slow; maintain Neutral:** We expect adjusted PAT to grow 45% QoQ to Rs15.8b (down 5% YoY). SAIL's project execution is slow and the next significant capacity addition, a 2.5mtpa blast furnace at ISP, Burnpur, is expected to be commissioned by December 2011. Despite full integration of iron ore and low debt on the balance sheet, steel prices are the sole trigger for earnings growth in the near term. Although steel prices have been improving gradually over the past few weeks, a significant supply from domestic companies is expected to cap prices in the medium term. Maintain **Neutral**.

QUARTERLY PERFORMANCE (STANDALONE) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Production (m tons)	3.06	3.14	3.10	3.30	3.00	3.10	3.30	3.70	12.60	13.10
Change (YoY %)	3.8	-1.3	3.3	1.3	-2.0	-1.3	6.5	12.1	1.7	4.0
Sales (m tons)	2.79	3.03	2.90	3.40	2.30	3.03	3.30	3.70	12.12	12.33
Change (YoY %)	5.3	14.3	20.8	-5.6	-17.6	-	13.8	8.8	7.3	1.7
Realization (Rs per ton)	32,806	33,132	34,064	35,970	39,710	35,664	36,164	37,164	34,076	37,003
Change (YoY %)	-21.2	-28.3	-8.4	7.4	21.0	7.6	6.2	3.3	-13.0	8.6
Net Sales	**91,528**	**100,391**	**98,787**	**122,298**	**91,333**	**108,062**	**119,341**	**137,507**	**413,003**	**456,242**
Change (%)	-17.0	-18.0	10.7	1.4	-0.2	7.6	20.8	12.4	-6.7	10.5
EBITDA	**18,756**	**23,884**	**25,784**	**30,971**	**18,429**	**16,948**	**24,681**	**33,161**	**99,394**	**93,219**
As % of Net Sales	20.5	23.8	26.1	25.3	20.2	15.7	20.7	24.1	24.1	20.4
EBITDA per ton	**6,723**	**7,882**	**8,891**	**9,109**	**8,012**	**5,593**	**7,479**	**8,962**	**8,201**	**7,560**
Interest	828	735	1,101	1,347	1,296	1,090	1,056	1,026	4,011	4,469
Depreciation	3,269	3,322	3,390	3,384	3,505	3,688	3,725	3,789	13,366	14,707
Other Income	5,400	5,362	4,068	4,429	3,862	3,754	3,757	3,795	19,259	15,167
PBT	**20,059**	**25,189**	**25,361**	**30,668**	**17,489**	**15,923**	**23,657**	**32,140**	**101,277**	**89,210**
Total Tax	6,798	8,554	8,605	9,819	5,723	5,023	7,807	10,606	33,777	29,159
% Tax	33.9	34.0	33.9	32.0	32.7	31.5	33.0	33.0	33.4	32.7
Reported PAT	**13,261**	**16,635**	**16,756**	**20,849**	**11,767**	**10,900**	**15,851**	**21,534**	**67,500**	**60,051**
Adjusted PAT	**13,261**	**16,635**	**16,756**	**20,849**	**11,767**	**10,900**	**15,851**	**21,534**	**67,500**	**60,051**
Change (YoY %)	-36.9	-18.9	99.3	37.2	-11.3	-34.5	-5.4	3.3	3.6	-11.0

E: MOSL Estimates

Sanjay Jain (SanjayJain@MotilalOswal.com)/Tushar Chaudhari (Tushar.Chaudhari@MotilalOswal.com)

Sterlite Industries

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	STLT IN
Equity Shares (m)	3,361.6
52 Week Range (Rs)	232 / 149
1,6,12 Rel Perf (%)	6 / -7 / -30
Mcap (Rs b)	621.2
Mcap (USD b)	13.8

CMP: Rs185 — Buy

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	244,103	40,407	12.0	-2.2	15.4	1.7	10.9	9.5	2.1	12.8
3/11E	262,672	45,177	13.4	11.8	13.8	1.5	11.0	9.2	1.9	9.7
3/12E	338,624	74,449	22.1	64.8	8.3	1.3	15.6	14.3	1.3	5.0
3/13E	361,150	76,915	22.9	3.3	8.1	1.1	14.1	13.9	1.1	4.0

Consolidated

- **Higher metal prices to drive top line:** Consolidated net sales in 3QFY11 are expected to grow 14% QoQ to Rs69.5b (up 3% YoY) due to higher LME metal prices and better volumes from the zinc and copper businesses. LME prices for base metals increased 14-18% sequentially in 3QFY11. Copper cathode production is expected to increase 8% QoQ to 75,000 tons after a maintenance shutdown in 2QFY11. Refined zinc and lead production expected to be 4% higher at 198,000 tons. VAL's aluminum production is expected to fall 8% and Balco is expected to produce 65,000 tons. Sterlite Energy’s 600MW unit has been stabilized but it did not capitalize it in 3QFY11.
- **EBITDA to grow 30% QoQ:** EBITDA is expected to grow 30% QoQ to Rs19.9b (up 12% YoY) due to strong performance from zinc, copper and aluminum businesses. We expect the EBIT of the zinc business to grow 31% QoQ to Rs13.1b and the aluminum (Balco) EBIT is expected to grow 44% QoQ to Rs1.8b.
- **Adjusted PAT to grow 30% QoQ:** Adjusted profit after tax is expected to increase 30% QoQ and YoY to Rs13.1b helped by better operating performance from zinc and higher other income.
- **Strong volume growth in metals and power:** Sterlite’s earnings are likely to be driven by volume growth in the metals and energy businesses. Zinc and lead will post 10% CAGR to 636,000 tons over the next few years. Balco will have ~800MW of surplus power from its CPP for merchant sale, which is likely to boost FY12 EPS. We value the stock at Rs221, based on SOTP valuation. The stock trades at attractive valuations of 5x FY12E EV/EBITDA. Maintain **Buy**.

QUARTERLY PERFORMANCE (CONSOLIDATED) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	**45,789**	**61,291**	**67,467**	**72,278**	**59,703**	**60,844**	**69,517**	**72,610**	**246,825**	**262,672**
Change (YoY %)	-20.6	-10.0	48.7	64.0	30.4	-0.7	3.0	0.5	14.7	6.4
Total Expenditure	35,580	47,637	49,746	50,423	44,729	45,554	49,608	51,962	183,386	191,854
EBITDA	**10,209**	**13,654**	**17,722**	**21,855**	**14,974**	**15,289**	**19,909**	**20,647**	**63,439**	**70,819**
As % of Net Sales	22.3	22.3	26.3	30.2	25.1	25.1	28.6	28.4	25.7	27.0
Interest	712	576	929	1,206	1,409	-3	1,050	1,131	3,424	3,586
Depreciation	1,736	1,734	1,782	2,246	2,170	2,123	1,938	2,224	7,498	8,456
Other Income	3,783	3,887	3,715	5,486	5,455	5,567	5,935	6,002	16,872	22,960
PBT (before XO item)	**11,544**	**15,231**	**18,726**	**23,890**	**16,850**	**18,736**	**22,856**	**23,295**	**69,390**	**81,736**
Extra-ordinary Exp.	0	-234	-2,735	0	1,460	212	0	0	-2,970	1,672
PBT (after XO item)	**11,544**	**14,997**	**15,991**	**23,890**	**18,310**	**18,948**	**22,856**	**23,295**	**66,420**	**83,408**
Total Tax	2,305	2,593	2,903	4,528	3,685	4,555	4,567	4,782	12,330	17,589
% Tax	20.0	17.3	18.2	19.0	20.1	24.0	20.0	20.5	18.6	21.1
Reported PAT	**9,239**	**12,403**	**13,087**	**19,361**	**14,625**	**14,392**	**18,289**	**18,513**	**54,091**	**65,819**
Minority interest	3,219	3,677	4,803	5,541	3,756	3,853	5,003	4,970	17,241	17,582
Loss/(profit) of Associates	-707	-863	971	11	785	247	198	158	-588	1,388
Adjusted PAT	**6,727**	**9,823**	**10,049**	**13,809**	**8,624**	**10,080**	**13,088**	**13,385**	**40,407**	**45,177**
Change (YoY %)	-41.6	-23.7	107.0	253.4	28.2	2.6	30.2	-3.1	21.9	11.8
Avg LME Aluminium (USD/T)	1,530	1,836	2,037	2,199	2,122	2,110	2,357	2,200	1,901	2,197
Avg LME Copper (USD/T)	4,640	5,856	6,637	7,274	7,042	7,180	8,531	8,000	6,102	7,688
Avg LME Zinc (USD/T)	1,509	1,780	2,241	2,307	2,052	2,043	2,330	2,200	1,959	2,156

E: MOSL Estimates

Sanjay Jain (SanjayJain@MotilalOswal.com)/Tushar Chaudhari (Tushar.Chaudhari@MotilalOswal.com)

Tata Steel

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	TATA IN
Equity Shares (m)	887.4
52 Week Range (Rs)	737 / 449
1,6,12 Rel Perf (%)	6 / 22 / -6
Mcap (Rs b)	597.5
Mcap (USD b)	13.2

CMP: Rs673 **Neutral**

Year End	Net Sales (Rs M)	PAT (Rs M)	EPS (Rs)	EPS Growth (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ Sales	EV/ EBITDA
3/10A	1,023,931	-8,255	-9.3	-n/a-	-72.4	7.0	-9.7	4.5	1.0	12.9
3/11E	1,129,411	67,175	74.4	-n/a-	9.0	3.9	42.9	13.5	0.9	6.5
3/12E	1,166,209	68,654	75.1	0.9	9.0	2.8	31.2	12.3	0.8	6.4
3/13E	1,236,040	84,136	92.0	22.6	7.3	2.1	28.8	14.4	0.8	5.0

Consolidated

- **Standalone net revenue to rise 3% QoQ:** Net revenue is expected to increase 3% QoQ to Rs73.1b due to higher realizations from steel. We expect 3QFY11 sales volume to stay flat QoQ at 1.67mt (5% YoY). Average steel realizations are expected to improve only 3% QoQ to Rs40,353/ton because Tata Steel raised prices in September but rolled back the hike in November. Iron ore and coking coal costs are expected to fall moderately. We expect EBITDA per ton to increase by US$12 QoQ to US$333 (up 13% YoY) in the Indian operations.
- **Corus:** For Corus and other foreign subsidiaries, we expect EBITDA per ton to decline from US$55/ton in 2QFY11 to US$32/ton in 3QFY11 as steel prices and demand has been subdued during the quarter and costs increased. The lag effect of higher raw material prices contracted in 2QFY11 will increase average raw material costs in 3QFY11. However, margins are expected to improve in 4QFY11 on expectations of better prices and lower raw material costs. We expect consolidated EBITDA to fall 12% QoQ to Rs32.2b. EBITDA per ton is expected to fall to US$122.
- **Maintain Neutral:** We expect standalone adjusted PAT to grow 15% QoQ to Rs15.7b and consolidated PAT to decline 4% QoQ to Rs12.6b. The recently proposed acquisition of Riversdale by Rio Tinto and expected counter bidding may result in sooner-than-expected value unlocking for Tata Steel. Although valuations are not demanding and we are positive about domestic operations, meaningful volume growth will come only in FY13. Maintain **Neutral**.

QUARTERLY PERFORMANCE (STANDALONE) (RS MILLION)

Y/E March	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Production ('000 tons)	1,542	1,519	1,688	1,732	1,590	1,610	1,772	1,819	6,481	6,791
Change (YoY %)	30.0	14.2	36.7	6.7	3.1	6.0	5.0	5.0	20.6	4.8
Sales ('000 tons)	1,418	1,457	1,596	1,698	1,399	1,660	1,676	1,782	6,169	6,518
Change (YoY %)	22.3	19.4	49.0	-5.2	-1.3	14.0	5.0	5.0	17.7	5.7
Avg Realization (Rs/tss)	36,717	35,652	36,534	39,649	42,871	39,139	40,353	40,853	37,225	40,721
Net Sales	**56,156**	**56,921**	**63,749**	**73,394**	**65,515**	**71,068**	**73,133**	**78,986**	**250,220**	**288,702**
Change (YoY %)	-8.9	-16.9	32.8	12.9	16.7	24.9	14.7	7.6	2.9	15.4
EBITDA	**17,422**	**19,222**	**23,106**	**29,770**	**29,165**	**26,290**	**26,126**	**30,313**	**89,521**	**111,894**
Change (YoY %)	-42.4	-39.6	56.3	105.3	67.4	36.8	13.1	1.8	-2.0	25.0
(% of Net Sales)	31.0	33.8	36.2	40.6	44.5	37.0	35.7	38.4	35.8	38.8
EBITDA(Rs/tss)	**12,135**	**12,664**	**13,725**	**16,688**	**19,537**	**14,758**	**14,887**	**16,327**	**13,993**	**16,415**
Interest	3,422	3,920	4,157	3,585	3,277	3,425	3,356	3,289	15,084	13,347
Depreciation	2,532	2,564	2,622	3,115	2,802	2,815	2,899	2,986	10,832	11,502
Other Income	463	761	936	1,378	484	327	1,029	1,516	3,538	3,356
PBT (after EO Inc.)	**11,932**	**13,499**	**17,426**	**29,286**	**23,570**	**27,378**	**20,899**	**25,554**	**72,143**	**97,402**
Total Tax	4,034	4,470	5,508	7,663	7,776	6,726	5,134	6,278	21,675	25,915
Reported PAT	**7,898**	**9,029**	**11,918**	**21,623**	**15,794**	**20,652**	**15,765**	**19,276**	**50,468**	**71,487**
Adjusted PAT	**7,898**	**9,029**	**11,755**	**16,786**	**15,794**	**13,651**	**15,765**	**19,276**	**45,468**	**64,486**
Change (YoY %)	-55.9	-57.7	98.2	145.5	100.0	51.2	34.1	14.8	-9.8	41.8
Consolidated Financials										
Net Sales	**232,923**	**253,950**	**262,020**	**275,038**	**271,948**	**286,462**	**265,564**	**305,437**	**1,023,931**	**1,129,411**
EBITDA	**-299**	**3,718**	**31,043**	**45,964**	**44,326**	**36,723**	**32,225**	**45,238**	**80,427**	**158,512**
Reported PAT	**-22,385**	**-27,198**	**4,323**	**24,052**	**17,902**	**19,683**	**12,553**	**22,661**	**-21,208**	**72,800**
Adjusted PAT	**-19,899**	**-17,959**	**6,521**	**23,083**	**18,851**	**13,104**	**12,585**	**22,634**	**-8,255**	**67,175**

E: MOSL Estimates; tss=ton of steel sales

Sanjay Jain (SanjayJain@MotilalOswal.com)/Tushar Chaudhari (Tushar.Chaudhari@MotilalOswal.com)

Oil & Gas

COMPANY NAME

- BPCL
- Cairn India
- Chennai Petroleum
- GAIL
- Gujarat State Petronet
- HPCL
- IOC
- Indraprastha Gas
- MRPL
- ONGC
- Petronet LNG
- Reliance Industries

GRM rise in 3QFY11; up 31% QoQ, 90% YoY: The regional benchmark Reuters Singapore GRMs are up 31% QoQ and up 90% YoY for 3QFY11at US$5.5/bbl. The increased GRM was led mainly by (1) higher gasoline and naphtha cracks, (2) strikes in France leading to a shutdown of 2.2mmbbl/d of refining capacity and (3) winter demand. However, considering the large refining capacity addition of ~2mmbpd in CY11 and CY12, we expect GRMs to be range bound at ~US$5/bbl.

Polymer spreads down, polyester up sequentially: Polymer spreads were down 2-3% QoQ in 3QFY11 and integrated polyester spreads were up by over 15% QoQ. We believe most of the new capacities in the Middle East (ME) were commissioned (currently operating at less than 80% utilization) and are ramping up gradually. Going forward, with increased utilization, we expect low cost ME producers to marginally dampen margins. Strong domestic demand growth and anti-dumping duties to provide respite to RIL and GAIL.

Awaiting clarity on diesel deregulation, subsidy rationalization: FY11 has turned out to be a historic year for the Indian oil industry with the government's announcement on deregulation. It deregulated petrol and increased prices of diesel (Rs2/liter), kerosene (33%) and LPG (11%) in June 2010. The government plans to divest 10% in IOC and 5% in ONGC. We await clarity on (1) diesel deregulation and (2) the subsidy sharing mechanism in the run up to divestment/FPO in ONGC and IOC.

Valuation and view: Subsidy sharing and timing of diesel deregulation is an overhang on OMCs and upstream PSU companies. We believe GRMs will be range-bound in the near term and petrochemical margins will stay strong. We believe the adverse impact of RIL's E&P profitability will be offset by improved margins in the refining and petchem segments. Clarity on sale of Cairn Plc stake to Vedanta is expected by 4QFY11. Refining margins could provide upside to RIL's earnings.

Expected quarterly performance summary **(Rs million)**

	CMP (Rs) 24.12.10	Rating	Sales Dec.10	Sales Var. % YoY	Sales Var. % QoQ	EBITDA Dec.10	EBITDA Var. % YoY	EBITDA Var. % QoQ	Net profit Dec.10	Net profit Var. % YoY	Net profit Var. % QoQ
Oil & Gas											
BPCL	672	Buy	377,179	17.3	6.8	9,823	57.7	-60.2	4,900	29.3	-77.1
Cairn India	328	Neutral	34,381	593.9	28.0	28,456	719.4	30.9	19,946	585.4	25.8
Chennai Petroleum	247	Buy	87,293	27.4	7.5	3,694	206.7	44.8	1,669	-5.7	70.7
GAIL	514	Buy	76,597	23.8	-5.5	15,227	19.9	6.3	9,475	10.2	2.6
Gujarat State Petronet	116	Under Review	2,766	3.0	9.3	2,614	3.3	12.6	1,070	-7.2	16.9
HPCL	400	Buy	322,388	10.3	14.6	7,108	400.1	-69.4	2,536	706.8	-87.9
IOC	355	Buy	818,304	10.5	6.6	44,577	1189.4	-31.6	27,816	299.3	-47.5
Indraprastha Gas	328	Neutral	4,569	60.5	2.7	1,256	21.5	2.2	634	7.6	-4.3
MRPL	72	Sell	103,015	13.7	23.3	3,944	39.2	5.8	2,043	-19.5	-27.8
ONGC	1,295	Buy	181,350	18.4	-0.3	114,813	25.7	3.6	55,886	83.0	3.7
Petronet LNG	126	Buy	29,544	31.6	-3.4	2,742	31.3	0.9	1,246	49.8	-5.0
Reliance Inds.	1,060	Neutral	629,850	10.8	9.6	99,386	26.7	5.8	52,455	30.9	6.6
Sector Aggregate			**2,667,237**	**14.5**	**8.0**	**333,640**	**61.4**	**-9.0**	**179,677**	**79.5**	**-21.9**

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GRM improves led by gasoline, naphtha cracks

Singapore complex GRM at US$5.5/bbl; petchem margins mixed; oil averages US$86/bbl, up 13% QoQ

YoY comparison (v/s 3QFY10)

- Average 3QFY11 Brent price was up 15% at US$86/bbl v/s US$76/bbl and Dubai crude was up 11% at US$84/bbl v/s US$75/bbl a year earlier.
- The benchmark Singapore complex average 3QFY11 refining margins were up 90% at US$5.5/bbl (v/s US$1.9/bbl).
- PE and PP prices were up 5% and 18% respectively. POY and PSF prices were up 18% and 25% respectively.

Polymer margins mixed: PE down 1%, PP up 24%.
Polyester intermediates margins up: PTA 19%, MEG up 26%.
Integrated polyesters margins up: POY 22%, PSF 35%.

QoQ comparison (v/s 2QFY11)

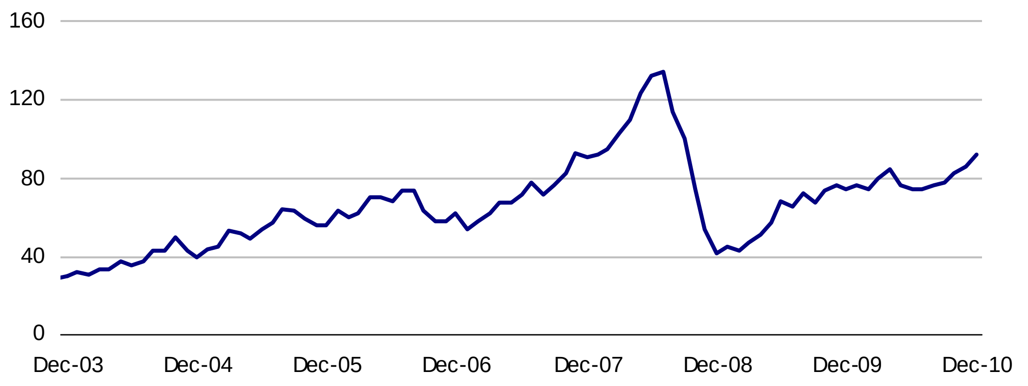
- Average 3QFY11 Brent was up 13% from US$76/bbl and Dubai was up 13% from ~US$74/bbl.
- Singapore complex margins averaged US$5.5/bbl, up 31% from US$4.2/bbl in 2QFY11.
- Polymer prices were up 5%, POY and PSF prices were up 14% and 17% respectively.

Polymer margins down: PE by 3%, PP by 2%.
Polyester intermediates margins up: PTA 16%, MEG 28%.
Integrated polyester margins up: POY 15%, PSF 19%.

Oil at US$80-90/bbl, demand outlook positive

Crude price continued its upward move in 3QFY11, led by fundamental and speculative inflows. An improved economic outlook and strong auto fuel product outlook helped crude to breach US$90/bbl. US inventories came off their highs, led by factors like refinery utilization rates, demand for distillates and disruption due to strikes in France. A severe winter supported crude towards the end of the quarter, leading to an expected 3QFY11 Brent crude price average of US$86/bbl. The IEA expects oil demand to increase by 2.9% in 2010 (87.4mmbbl/d) and 1.5% in 2011(88.8mmbbl/d) against a decline of 1.3% in 2009.

Oil moves out of range-bound movement of US$70-82/bbl (US$/bbl)

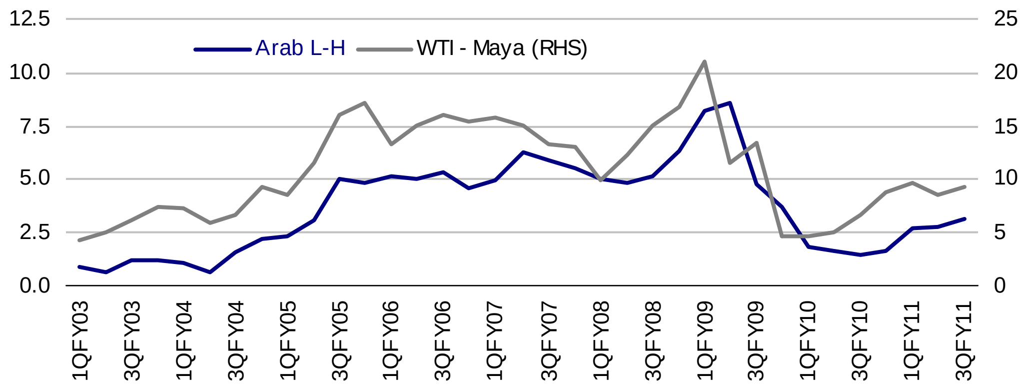


Source: Bloomberg; MOSL

Improved light-heavy crude differentials

In 3QFY11 WTI-Maya and Arab light-heavy differentials are expected to be up significantly by 41% and 105% YoY respectively. The Arab light-heavy differential is expected to average US$3.1/bbl (v/s US$2.8/bbl in 2QFY11 and US$1.5/bbl in 3QFY10) and the WTI-Maya differential stood at US$9.4/bbl (v/s US$8.6/bbl in 2QFY11 and US$6.7/bbl in 3QFY10). Improving light-heavy spreads augur well for complex refiners like RIL.

Arab light-heavy differentials marginally up QoQ



Source: Bloomberg; MOSL

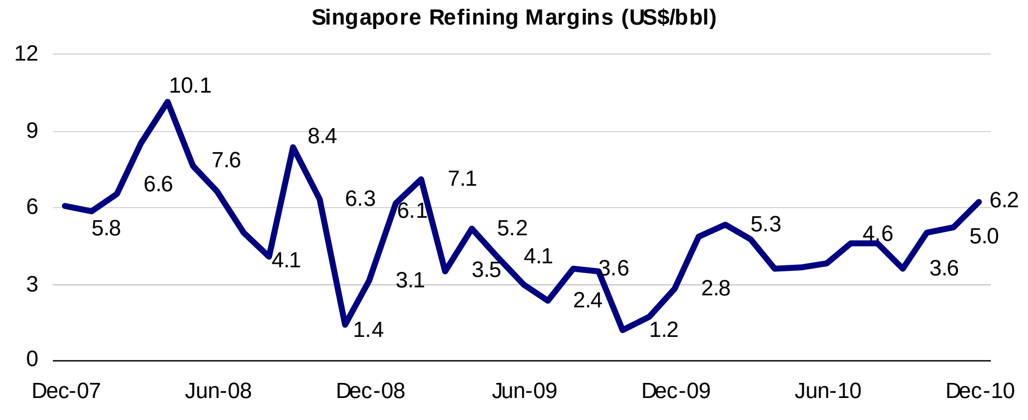
Average GRMs up YoY, QoQ

The regional benchmark Singapore GRM averaged US$5.5/bbl in 3QFY11 v/s US$4.2/bbl in 2QFY11 and US$1.9/bbl in 3QFY10.

The refining business is facing overcapacity led by large new capacity coming on line against slower-than-expected growth. Many economically unviable refiners (~2.2mmbbl/d) have shut down over the past two years, but further closures face political pressure and energy security issues in some countries.

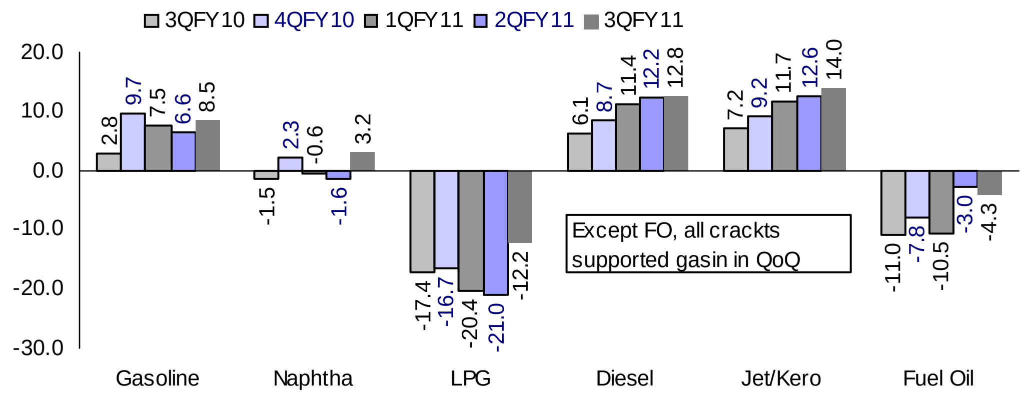
GRMs recently surged, led by multiple reasons on different occasions such as the French refineries' strike and Chinese gasoline imports. We expect refining margins to trend at ~US$5/bbl led by further refinery closures and steady global economic growth.

Singapore GRM averaged US$5.5/bbl in 3QFY11



Source: Reuters; MOSL

Naphtha, LPG lead in supporting QoQ GRM up-tick



Source: Bloomberg; MOSL

Polymer spreads down, polyester up sequentially

In 3QFY11 polymer spreads were down 2-3% QoQ and integrated polyester spreads were up over 15% QoQ. We believe most new capacities in the ME have been commissioned (currently operating at less than 80% utilization) and are ramping up. Going forward, with increased utilization, we expect low-cost ME producers to marginally dampen margins. Strong domestic demand growth and anti-dumping duties will provide RIL and GAIL respite.

In 3QFY11 petchem margins were under pressure vis-à-vis 2QFY11 due to a 10% increase in naphtha prices in rupee terms. Since most of the plants in ME and China are commissioned and operating at over 70% utilization rates, there would be little surplus capacity in the system.

Polyester spreads strong QoQ, YoY

	Simple Spreads					Integrated Spreads	
	PE	PP	PVC	PTA	MEG	POY	PSF
1QFY10	42.2	40.0	21.2	28.3	12.1	45.3	41.4
2QFY10	41.9	37.2	20.5	26.6	15.6	45.6	41.9
3QFY10	38.1	32.8	16.7	22.8	17.1	42.3	39.0
4QFY10	43.6	40.9	20.5	25.8	25.9	47.6	43.6
1QFY11	41.5	40.2	20.7	25.3	21.8	48.0	45.9
2QFY11	38.9	41.3	20.8	23.3	16.9	45.2	44.3
3QFY11	37.9	40.6	17.8	27.0	21.6	51.8	52.7
QoQ (%)	-2.6	-1.6	-14.5	16.1	28.0	14.6	19.0
YoY (%)	-0.6	23.8	6.6	18.6	25.9	22.3	35.2

Naphtha prices for 3QFY11 are till date Source: Industry/Bloomberg/MOSL

Under-recoveries to rise by over 38%

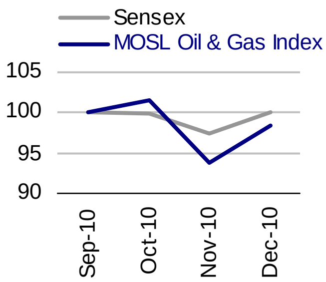
In spite of the government's price hikes of petroleum products, under-recoveries in the system will rise by over 38% QoQ due to increased crude prices. In 2QFY11, the government reimbursed OMCs by paying them Rs130b towards its share of subsidy for 1HFY11. We built in total government sharing for FY11 at Rs364b and expect the rest to be given to OMCs in 4QFY11. In our estimates we assume the upstream sector will share a third of the total under-recoveries and downstream will share 10% of the total. The rest will be compensated by the government.

We model downstream sharing at 10%, FY11 loss estimated at Rs639b

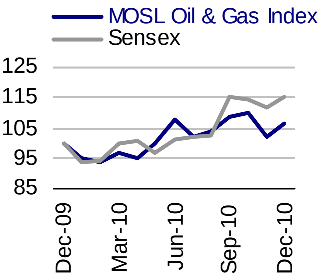
(Rs b)	FY08	FY09	FY10	1QFY11	2QFY11	3QFY11	FY11E	FY12E
Fx Rate (Rs/US$)	**40.3**	**46.0**	**47.5**	**45.7**	**46.6**	**44.8**	**45.4**	**44.5**
Brent (US$/bbl)	**82.3**	**84.8**	**69.6**	**78.5**	**76.1**	**86.0**	**81.4**	**80.0**
Gross Under-recoveries (Rs b)								
Petrol	73	52	52	26	1	-	27	-
Diesel	353	523	93	75	33	65	238	207
PDS Kerosene	191	282	174	49	40	46	180	177
Domestic LPG	156	176	143	51	38	46	195	201
Total	**773**	**1,033**	**461**	**201**	**113**	**157**	**639**	**585**
Sharing (Rs b)								
Oil Bonds/Cash	353	713	260	0	130	89	364	331
Upstream	257	329	145	65	38	52	211	195
OMC sharing	163	(9)	56	135	(55)	16	64	58
Total	**773**	**1,033**	**461**	**201**	**113**	**157**	**639**	**585**
Sharing (%)								
Oil Bonds	46	69	56	0	115	57	57	57
Upstream	33	32	31	32	33	33	33	33
OMC sharing	21	(1)	12	68	(48)	10	10	10
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source: Company/MOSL

Relative Performance-3m (%)



Relative Performance-1Yr (%)



Valuation and view

Subsidy sharing and timing of diesel deregulation is an overhang on OMCs and upstream PSU companies. We expect GRMs to be range-bound in the near term and petrochemical margins to be strong. We believe the adverse impact of RIL's E&P profitability will be offset by improved margins in the refining and petchem segments. Clarity on the sale of Cairn Plc stake to Vedanta is expected by 4QFY11 and will determine the near-term movement of Cairn India's stock. Refining margins could provide upside to RIL's earnings.

Key assumptions

- Our crude price assumption for FY11 and FY12 is US$81 and US$80/bbl respectively and US$75/bbl over the long term.
- We expect the regional benchmark, Singapore Reuters GRM to be range bound at ~US$5/bbl. We model Singapore GRM at US$4.5/bbl in FY11 and US$5/bbl in FY12.

Comparative valuation

	CMP (Rs)	Rating	EPS (Rs)			P/E (x)			EV/EBITDA			RoE (%)		
	24.12.10		FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E
Oil & Gas														
BPCL	672	Buy	58.5	60.2	65.5	11.5	11.2	10.3	10.4	9.1	7.6	14.2	13.3	13.2
Cairn India	328	Neutral	30.6	46.6	46.9	10.7	7.0	7.0	7.5	4.7	4.1	16.1	21.2	18.3
Chennai Petroleum	247	Buy	22.0	29.4	33.0	11.2	8.4	7.5	8.1	7.0	5.9	9.3	11.8	12.4
GAIL	514	Buy	29.4	32.0	37.0	17.5	16.1	13.9	15.0	14.6	13.6	19.4	18.6	18.9
Gujarat State Petronet	116	Under Review	7.2	6.2	7.4	16.1	18.8	15.6	8.6	8.0	6.9	23.4	17.1	17.9
HPCL	400	Buy	37.4	39.4	39.0	10.7	10.1	10.3	8.6	7.8	7.3	10.6	10.4	9.7
Indraprastha Gas	328	Neutral	17.5	20.5	24.4	18.7	16.0	13.4	9.4	7.9	6.5	27.0	26.5	26.5
IOC	355	Buy	34.3	39.6	44.9	10.3	8.9	7.9	6.9	5.6	4.5	15.2	16.0	16.3
MRPL	72	Sell	3.7	4.8	5.6	19.6	15.2	13.0	13.3	11.9	8.8	11.1	13.3	14.0
ONGC	1,295	Buy	109.0	128.8	129.0	11.9	10.1	10.0	4.7	4.4	4.1	21.6	22.4	19.8
Petronet LNG	126	Buy	7.0	9.4	11.3	17.9	13.3	11.1	11.3	8.9	6.5	21.9	25.2	25.6
Reliance Inds.	1,060	Neutral	67.9	73.6	89.2	15.6	14.4	11.9	10.1	8.8	7.3	14.6	13.9	14.8
Sector Aggregate						**13.7**	**11.7**	**10.7**	**7.7**	**6.7**	**5.9**	**15.6**	**16.1**	**15.6**

BPCL

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	BPCL IN
Equity Shares (m)	361.5
52 Week Range (Rs)	815 / 489
1,6,12 Rel Perf (%)	-7 / 9 / -6
Mcap (Rs b)	243.1
Mcap (USD b)	5.4

CMP: Rs672 Buy

YEAR END *	NET SALES (RS B)	ADJ. PAT (RS B)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/10A	1,238	16.3	45.2	157.6	14.9	1.7	11.9	3.9	0.4	16.8
03/11E	1,429	21.1	58.5	29.6	11.5	1.6	14.2	6.7	0.3	10.4
03/12E	1,384	21.7	60.2	2.8	11.2	1.4	13.3	8.6	0.3	9.1
03/13E	1,312	23.7	65.5	8.9	10.3	1.3	13.2	10.5	0.3	7.6

** Consolidated*

- Similar to previous quarters, BPCL's profitability will depend on subsidy sharing rather than business fundamentals. The government's subsidy compensation typically comes with a delay.
- For the full year, we factor in OMCs bearing 10% of total under-recoveries. We have built in a third of the under-recoveries to be borne by the upstream sector and the rest of the losses to be compensated by the government.
- We estimate BPCL will post net profit of Rs4.9b against Rs3.8b in 3QFY10 and Rs21b in 2QFY11. EBITDA is estimated at Rs9.8b against Rs6.2b in 3QFY10 and Rs24.7b in 2QFY11.
- The government deregulated petrol prices and increased prices of diesel, kerosene and LPG on 25 June 2010. After the deregulation, BPCL increased petrol prices, though with a delay. However there is no clarity on sharing of net under-recoveries among government and public sector companies. We expect the government to clarify diesel deregulation and subsidy sharing in a few months.
- BPCL trades at FY12E P/E of 11.2 and P/B of 1.4. We believe the E&P potential upside will be a key positive surprise in the stock. Maintain **Buy.**

QUARTERLY PERFORMANCE (STANDALONE) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	**254,928**	**270,710**	**321,612**	**375,513**	**342,415**	**353,168**	**377,179**	**343,627**	**1,222,763**	**1,416,389**
Change (%)	-34.7	-28.4	0.9	41.7	34.3	30.5	17.3	-8.5	-9.6	15.8
EBITDA	**7,454**	**-1,163**	**6,228**	**11,275**	**-14,265**	**24,679**	**9,823**	**18,093**	**23,794**	**38,330**
Change (%)	nm	-94.6	-59.1	-72.9	nm	nm	57.7	60.5	-13.1	61.1
Depreciation	2,311	3,088	3,816	3,208	4,007	4,019	4,125	4,174	12,423	16,325
Interest	2,866	2,673	2,513	2,059	2,324	2,780	2,561	2,595	10,110	10,259
Other Income	7,028	4,424	4,873	6,078	3,415	5,522	4,200	3,850	22,402	16,987
PBT	**9,306**	**-2,500**	**4,771**	**12,087**	**-17,181**	**23,402**	**7,338**	**15,174**	**23,664**	**28,733**
Tax	3,165	-912	980	5,052	0	1,980	2,437	5,266	8,284	9,684
Rate (%)	34.0	36.5	20.5	41.8	0.0	8.5	33.2	34.7	35.0	33.7
PAT	**6,141**	**-1,588**	**3,791**	**7,035**	**-17,181**	**21,422**	**4,900**	**9,908**	**15,379**	**19,049**
Change (%)	nm	-94.0	-52.6	-80.6	nm	nm	29.3	40.8	118.6	23.9
Key Assumption (Rs b)										
Gross under recovery	11	22	30	38	46	25	36	40	101	147
Upstream sharing	2	9	12	15	15	8	12	13	36	49
Oil Bonds	0	0	15	38	0	29	21	34	53	84
Net Under/(Over) recovery	9	14	3	-14	31	-13	4	-8	12	14
As a % of Gross	85.5	61.8	11.0	nm	66.5	nm	10.1	nm	12.2	10

E: MOSL Estimates

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Cairn India

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	CAIR IN
Equity Shares (m)	1,894.4
52 Week Range (Rs)	368 / 248
1,6,12 Rel Perf (%)	0 / -7 / 1
Mcap (Rs b)	621.3
Mcap (USD b)	13.8

CMP: Rs328 — Neutral

Year End	Net Sales (Rs M)	PAT (Rs M)	EPS (Rs)	EPS Growth (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ Sales	EV/ EBITDA
03/10A	16,230	10,511	5.5	30.0	59.2	1.8	3.2	2.6	40.1	66.4
03/11E	105,442	58,038	30.6	452.1	10.7	1.6	16.1	18.2	6.1	7.5
03/12E	148,624	88,405	46.6	52.3	7.0	1.4	21.2	24.6	4.1	4.7
03/13E	152,759	89,062	46.9	0.7	7.0	1.2	18.3	21.5	3.5	4.1

Consolidated

- We estimate Cairn India will report net sales of Rs34.4b (v/s Rs26.9b in 2QFY11), led by additional revenue from Rajasthan crude sales. We estimate EBITDA at Rs28.5b v/s Rs3.5b in 3QFY10 and Rs21.7b in 2QFY11. Rajasthan crude sales started from 3QFY10 and hence YoY numbers would not be meaningfully comparable.
- We estimate net oil sales of 89kbpd from the Rajasthan field and total net sales of 103kboepd (v/s 25kboepd in 2QFY10 and 94kboepd in 2QFY11).
- We model Brent crude price of US$80/bbl in FY12 and long term price of US$75/bbl in our estimates and take a discount of 12.5% (~US$9.4/bbl) for quality and customs duty on crude at 2.5%.
- Cairn's earnings will jump substantially over sequential quarters as production from the Rajasthan block ramps up.
- Cairn India's parent Cairn Energy has announced its stake sale to Vedanta. The sale price between Cairn Energy and Vedanta for Cairn's 51-60% stake has been agreed at Rs405/share, which includes Rs50/share as non-compete fees. Thus, Vedanta will pay shareholders Rs355/share and it will pay Cairn Energy Rs405/share. Clarity on the transaction on government approval is expected soon.
- The stock trades at 7x FY12E EPS of Rs46.6. Maintain **Neutral**.

QUARTERLY PERFORMANCE (CONSOLIDATED) (RS MILLION)

Y/E March	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	**2,050**	**2,298**	**4,955**	**6,928**	**8,406**	**26,864**	**34,381**	**35,791**	**16,230**	**105,442**
Change (%)	-35.1	-43.1	54.5	228.6	-41.3	1,210.8	1,396.2	622.4	13.3	549.7
EBITDA	**1,321**	**1,333**	**3,473**	**3,678**	**6,472**	**21,742**	**28,456**	**29,636**	**9,805**	**86,305**
% of Net Sales	64.5	58.0	70.1	53.1	77.0	80.9	82.8	82.8	60.4	81.9
D,D & A (inc. w/off)	722	508	740	1,601	1,981	3,178	3,820	4,898	3,570	13,878
Interest	7	9	260	19	493	1,281	1,300	1,356	295	4,429
Other Income (Net)	572	1,056	999	879	281	282	410	551	3,505	1,523
Forex Fluctuations	718	0	0	0	-413	-236	0	0	718	-648
Exceptional Items	-1,637	1,637			0	0			0	0
PBT	**244**	**3,510**	**3,472**	**2,938**	**3,866**	**17,329**	**23,746**	**23,933**	**10,164**	**68,874**
Tax	-210	-1,185	562	486	1,052	1,478	3,799	4,507	-348	10,836
Rate* (%)	nm	-33.8	16.2	16.5	27.2	8.4	16.0	18.8	-3.4	15.7
PAT	**454**	**4,695**	**2,910**	**2,452**	**2,814**	**15,851**	**19,946**	**19,426**	**10,511**	**58,038**
Adj. PAT	**2,092**	**1,873**	**2,910**	**2,452**	**2,814**	**15,851**	**19,946**	**19,426**	**9,326**	**58,038**
Key Assumptions										
Brent Price (US$/bbl)	59.1	68.4	75.0	76.4	78.5	76.1	86.0	85.0	69.7	81.4
Sales - Cairn's Share (kboepd)										
Ravva and Cambay	15.9	14.4	13.8	14.1	13.7	13.1	13.1	13.1	14.6	13.2
Rajasthan	0.0	4.2	10.8	12.3	26.0	77.2	87.5	94.5	6.8	71.3

E: MOSL Estimates; * Excluding forex fluctuations

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Chennai Petroleum Corporation

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	MRL IN
Equity Shares (m)	149.0
52 Week Range (Rs)	299 / 213
1,6,12 Rel Perf (%)	4 / -12 / -3
Mcap (Rs b)	36.7
Mcap (USD b)	0.8

CMP: Rs247 — Buy

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/10A	246,251	4,879	32.7	NM	7.5	1.06	18.5	12.5	0.3	9.7
03/11E	318,477	3,318	22.3	-32.7	11.1	1.02	9.4	8.7	0.2	8.1
03/12E	320,222	4,379	29.4	33.5	8.4	0.96	11.8	10.5	0.3	7.0
03/13E	296,573	4,924	33.0	12.5	7.5	0.89	12.4	10.8	0.9	5.9

- We expect CPCL to report 3QFY11 PAT of Rs1.7b (v/s adjusted PAT of Rs1.8b in 3QFY10 and Rs978m in 2QFY11).
- A significant jump in EBITDA at Rs3.7b (v/s Rs1.2b in 3QFY11 and Rs2.6b in 2QFY10) is led by higher expected GRM at US$5.5/bbl in 3QFY11 v/s US$4.1/bbl in 2QFY11. The regional benchmark Singapore GRM is up 31% YoY at US$5.5/bbl.
- On the operational front, we expect refinery throughput of 2.8mmt (flat QoQ, up 2% YoY).
- We expect refining margins to be range-bound in the short term as ~2mmbbl/d new refining capacity is expected to come on line in 1-2 years, which can be partially offset by the global economic recovery. For CPCL we have built GRM of US$4.7/bbl for FY11 and US$5/bbl for FY12. The stock trades at 8.4x FY12E EPS of Rs29.4 and EV/ EBITDA of 7. Maintain **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	**56,604**	**69,971**	**68,498**	**54,653**	**63,604**	**81,222**	**87,293**	**86,357**	**249,726**	**318,477**
Change (%)	-49.7	-32.0	21.9	13.6	12.4	16.1	27.4	58.0	-21.9	27.5
EBITDA	**4,677**	**3,218**	**1,204**	**-568**	**181**	**2,552**	**3,694**	**2,981**	**8,532**	**9,406**
% of Sales	8.3	4.6	1.8	-1.0	0.3	3.1	4.2	3.5	3.4	3.0
Change (%)	-60.0	-702.6	-106.7	-110.9	-96.1	-20.7	206.7	nm	-59.6	10.3
Depreciation	665	679	683	644	741	731	745	757	2,671	2,974
Interest	279	316	354	425	348	469	650	651	1,374	2,118
Other Income	884	-115	891	690	80	114	200	260	2,351	654
PBT	**4,617**	**2,109**	**1,059**	**-947**	**-828**	**1,465**	**2,499**	**1,833**	**6,838**	**4,969**
Tax	1,570	717	-1,145	-336	-275	487	830	608	805	1,651
Rate (%)	34.0	34.0	nm	35.5	nm	33.3	33.2	33.2	11.8	33.2
PAT	**3,047**	**1,392**	**2,204**	**-611**	**-553**	**978**	**1,669**	**1,225**	**6,032**	**3,318**
Change (%)	-56.7	nm	nm	-122.5	nm	-29.8	-24.3	nm	-46.3	-45.0
Adj PAT*	**2,515**	**1,545**	**1,769**	**-951**	**-187**	**978**	**1,669**	**1,225**	**4,879**	**3,685**
Key Assumptions										
GRM (US$/bbl)	6.9	4.2	3.4	4.3	1.8	4.1	5.5	4.7	4.7	4.0
Throughput (mmt)	2.7	2.7	2.7	1.9	2.3	2.8	2.8	2.8	10.0	10.8

E: MOSL Estimates;

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GAIL (India)

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	GAIL IN
Equity Shares (m)	1,268.5
52 Week Range (Rs)	520 / 383
1,6,12 Rel Perf (%)	3 / -5 / 7
Mcap (Rs b)	651.7
Mcap (USD b)	14.4

CMP: Rs514 — Buy

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E* (X)	P/BV (X)	ROE (%)	ROCE (%)	*EV/ SALES	EV/ EBITDA
03/10A	249,337	31,398	24.8	12.0	17.5	3.3	18.7	23.6	2.2	10.3
03/11E	305,329	37,240	29.4	18.6	14.8	2.9	19.4	22.5	2.0	9.4
03/12E	338,201	40,549	32.0	8.9	13.6	2.5	18.6	17.8	2.0	9.5
03/13E	375,250	46,951	37.0	15.8	11.7	1.9	18.9	15.9	2.1	9.0

Adjustment for investments

- We expect GAIL to report 3QFY11 net profit of Rs9.5b (up 3% QoQ; up 10% YoY). The YoY increase will be led by increased contribution from transmission (higher volumes and tariffs), LPG business and trading businesses (GAIL now gets marketing margins allowed on APM volumes).
- GAIL's transport volumes are expected to be 117mmscmd on average against 109mmscmd in 3QFY10 and 115mmscmd in 2QFY11. Near term volume growth is expected from RLNG imports due to a delay in the KG-D6 ramp-up.
- We have built in subsidy sharing of Rs4.7b in 3QFY11 (v/s Rs4.5b in 3QFY10, Rs3.5b in 2QFY11).
- Adjusted for investments, the stock trades at 13.6x FY12E EPS of Rs32. Maintain **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	**60,214**	**62,022**	**61,880**	**65,221**	**70,960**	**81,041**	**76,597**	**76,732**	**249,337**	**305,329**
Change (%)	5.1	1.2	6.5	6.8	17.8	30.7	23.8	17.6	4.9	22.5
EBITDA	**10,655**	**10,173**	**12,696**	**13,168**	**14,348**	**14,329**	**15,227**	**16,753**	**46,691**	**60,657**
% of Net Sales	17.7	16.4	20.5	20.2	20.2	17.7	19.9	21.8	18.7	19.9
Change (%)	-23.9	-28.9	377.3	37.5	34.7	40.9	19.9	27.2	15.2	29.9
Depreciation	1,404	1,416	1,409	1,389	1,600	1,626	1,825	1,860	5,618	6,910
Interest	179	179	142	200	205	117	650	931	700	1,904
Other Income	798	1,689	1,438	1,486	676	1,740	1,436	503	5,411	4,354
PBT	**9,870**	**10,268**	**12,582**	**13,064**	**13,218**	**14,326**	**14,187**	**14,465**	**45,784**	**56,197**
Tax	3,312	3,135	3,983	3,956	4,349	5,090	4,713	4,805	14,386	18,957
Rate (%)	33.6	30.5	31.7	30.3	32.9	35.5	33.2	33.2	126.0	33.7
PAT	**6,558**	**7,132**	**8,599**	**9,108**	**8,869**	**9,235**	**9,475**	**9,660**	**31,398**	**37,240**
Change (%)	-26.9	-30.3	239.3	44.6	35.2	29.5	10.2	6.1	12.0	18.6
Key Assumptions										
Gas Trans.Volume (mmsmd)	97	107	109	115	116	115	117	119	107	117
Petchem Sales ('000MT)	92	88	120	109	88	107	109	110	409	414
Segmental EBIT Breakup (Rs m)										
Transmission										
Natural Gas	5,222	6,157	5,954	5,061	6,406	7,206	7,352	7,450	22,394	28,414
LPG	682	589	639	872	734	787	787	787	2,782	3,094
Natural Gas Trading	1,063	1,105	1,179	385	1,579	1,602	1,600	1,597	3,732	6,377
Petrochemicals	2,643	2,753	3,414	4,468	2,846	2,716	3,357	3,447	13,279	12,365
LPG & Liq.HC (pre-subsidy)	2,247	3,854	5,803	7,451	6,788	5,215	6,457	7,212	19,355	25,673
Unallocated; GAILTEL	(1,181)	(302)	(149)	(1,866)	(138)	(479)	(20)	(10)	(3,497)	(646)
Total	**10,677**	**14,156**	**16,839**	**16,371**	**18,214**	**17,048**	**19,533**	**20,482**	**58,043**	**75,277**
Less: Subsidy	(747)	(4,585)	(4,551)	(3,384)	(4,455)	(3,464)	(4,695)	(5,086)	(13,267)	(17,700)
Total	**9,929**	**9,571**	**12,288**	**12,987**	**13,759**	**13,584**	**14,837**	**15,396**	**44,776**	**57,577**

E: MOSL Estimates

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Gujarat State Petronet

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	GUJS IN
Equity Shares (m)	562.0
52 Week Range (Rs)	128 / 82
1,6,12 Rel Perf (%)	0 / 5 / 3
Mcap (Rs b)	65.2
Mcap (USD b)	1.4

CMP: Rs116 **Under Review**

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/10A	9,920	4,138	7.4	235.2	15.8	4.2	29.8	26.5	7.8	10.0
03/11E	10,597	4,052	7.2	-2.1	16.1	3.4	23.4	21.1	8.1	8.6
03/12E	10,531	3,475	6.2	-14.2	18.8	3.0	17.1	16.8	7.6	8.0
03/13E	11,568	4,178	7.4	20.2	15.6	2.6	17.9	18.4	6.6	7.0

- We expect GSPL to report 3QFY11 net sales of Rs2.8b and PAT of Rs1b (up 17% QoQ, down 7% YoY).
- GSPL is expected to deliver gas volumes of 38.4mmscmd (up 8% QoQ and YoY). Though volumes are up 8%YoY, EBITDA of Rs2.6b will be up 3% YoY due to a 6% reduction in average tariff estimates.
- PNGRB regulations require application from GSPL for authorization, after which the board will approve the tariff. We believe there could be a reduction in GSPL's network tariff by 10-20%.
- GSPL raised an EOI for four major cross-country pipelines. PNGRB awarded two pipelines to GSPL and other bids are yet to be opened. GSPL will need to raise funds since each of the approved pipelines cost over Rs50b.
- We build gas transmission volumes of 37.4mmscmd in FY11 and 44mmscmd in FY12. We model average tariff at Rs777/mscm in FY11 and Rs650/mscm in FY12 in our estimates. GSPL trades at 18.8x FY12E EPS of Rs6.2.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	**2,108**	**2,548**	**2,685**	**2,579**	**2,518**	**2,530**	**2,766**	**2,784**	**9,920**	**10,597**
Change (%)	76.4	114.8	128.6	95.4	19.4	-0.7	3.0	7.9	103.5	6.8
EBITDA	**1,948**	**2,443**	**2,531**	**2,371**	**2,381**	**2,321**	**2,614**	**2,694**	**9,293**	**10,011**
% of Net Sales	92.4	95.9	94.3	91.9	94.6	91.8	94.5	96.8	93.7	94.5
Change (%)	81.1	138.5	149.0	110.1	22.2	-5.0	3.3	13.7	118.9	7.7
Depreciation	550	587	596	632	687	760	762	771	2,365	2,980
Interest	245	250	218	225	224	242	320	462	938	1,248
Other Income	68	59	33	121	57	83	70	74	280	284
PBT	**1,221**	**1,665**	**1,750**	**1,634**	**1,527**	**1,403**	**1,602**	**1,535**	**6,270**	**6,068**
Tax	415	564	597	555	476	488	532	520	2,131	2,016
Rate (%)	34.0	33.9	34.1	34.0	31.2	34.8	33.2	33.8	34.0	33.2
PAT	**806**	**1,101**	**1,154**	**1,079**	**1,051**	**915**	**1,070**	**1,016**	**4,138**	**4,052**
Change (%)	146.8	287.8	317.4	210.9	30.4	-16.8	-7.2	-5.8	235.5	-2.1
EPS (Rs)	**1.4**	**2.0**	**2.1**	**1.9**	**1.9**	**1.6**	**1.9**	**1.8**	**7.4**	**7.2**
Transmission Vol. (mmscmd)	25.3	31.1	35.1	36.4	36.4	35.3	38.4	39.4	32.0	37.4
Implied tariff (Rs/mscm)	915	891	831	787	761	776	783	785	856	776

E: MOSL Estimates

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HPCL

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	HPCL IN
Equity Shares (m)	339.0
52 Week Range (Rs)	555 / 293
1,6,12 Rel Perf (%)	-11 / 0 / -13
Mcap (Rs b)	135.5
Mcap (USD b)	3.0

CMP: Rs400 — Buy

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/10A	1,092,084	13,014	38.4	198.8	10.4	1.2	11.7	8.7	0.2	9.8
03/11E	1,229,595	12,664	37.4	-2.7	10.7	1.1	10.6	8.1	0.2	8.6
03/12E	1,128,387	13,354	39.4	5.4	10.1	1.0	10.4	8.4	0.2	7.8
03/13E	1,072,788	13,218	39.0	-1.0	10.3	1.0	9.7	8.9	0.2	7.3

- Similar to previous quarters, HPCL's profitability will depend on subsidy sharing rather than business fundamentals. The government's subsidy compensation typically comes with a delay.
- For the full year we factor in OMCs to bear 10% of under-recoveries. We have built in a third of the under-recoveries to be borne by the upstream sector and the rest of the losses to be compensated by the government.
- We expect HPCL to report net profit of Rs2.5b against Rs314m in 3QFY10 and Rs20.9b in 2QFY11. EBITDA is estimated at Rs7.1b v/s Rs1.4b in 3QFY10 and Rs23.2b in 1QFY11.
- The government deregulated petrol prices and increased prices of diesel, kerosene and LPG on 25 June 2010. After the deregulation, BPCL increased petrol prices, though with a delay. However there is no clarity on sharing of net under-recoveries among government and public sector companies. We expect the government to clarify diesel deregulation and subsidy sharing in a few months.
- HPCL trades at FY12E P/E of 10.1 and P/B of 1. Post partial de-regulation in June 2010, expectations remain high on the positive govt. policy change. Maintain **Buy.**

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	**241,976**	**244,566**	**292,329**	**313,213**	**292,264**	**281,385**	**322,388**	**333,558**	**1,092,084**	**1,229,595**
Change (%)	-30.3	-31.0	-0.5	24.5	20.8	15.1	10.3	6.5	-12.4	12.6
EBITDA	**10,876**	**-4**	**1,421**	**13,139**	**-16,155**	**23,224**	**7,108**	**17,407**	**25,432**	**31,584**
% of Net Sales	4.5	0.0	0.5	4.2	-5.5	8.3	2.2	5.2	2.3	2.6
Change (%)	-364.6	-100.0	-69.9	-75.8	-248.5	nm	400.1	32.5	-12.1	24.2
Depreciation	2,629	2,833	3,007	3,175	3,174	3,234	3,500	4,065	11,644	13,973
Interest	2,702	2,493	2,202	1,640	1,968	2,200	2,048	2,434	9,038	8,649
OI (incl. Oper. other inc)	4,403	3,237	4,373	4,450	2,469	3,817	2,237	1,493	16,463	10,016
Exceptional Item	0	2	0	37	-14	-2			38	-16
PBT	**9,948**	**-2,094**	**585**	**12,774**	**-18,843**	**21,608**	**3,798**	**12,400**	**21,213**	**18,963**
Tax	3,457	-727	271	5,236	0	712	1,262	4,326	8,237	6,299
Rate (%)	34.8	34.7	46.3	41.0	0.0	3.3	33.2	34.9	38.8	33.2
PAT	**6,491**	**-1,367**	**314**	**7,538**	**-18,843**	**20,896**	**2,536**	**8,074**	**12,977**	**12,664**
Change (%)	nm	-95.8	nm	-85.2	nm	nm	706.8	7.1	126.0	-2.4
Key Assumptions (Rs b)										
Gross under recovery	12	22	29	37	44	24	35	38	100	142
Upstream sharing	2	8	10	14	15	8	12	13	33	47
Oil Bonds/Cash subsidy	0	0	19	37	0	28	20	33	56	81
Net Under recovery	10	15	1	-13	29	-12	3	-7	12	13
Net Sharing (%)	85.1	65.7	2.8	nm	66.7	nm	9.7	nm	12.2	9

E: MOSL Estimates

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Indian Oil Corporation

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	IOCL IN
Equity Shares (m)	2,428.0
52 Week Range (Rs)	459 / 274
1,6,12 Rel Perf (%)	-5 / -10 / 0
Mcap (Rs b)	860.7
Mcap (USD b)	19.1

CMP: Rs355 **Buy**

YEAR END	NET SALES (RS B)	ADJ. PAT (RS B)	ADJ. EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/10A	2,501	107.1	44.1	304.8	8.0	1.5	21.9	16.0	0.5	9.9
03/11E	2,835	83.3	34.3	-22.2	10.3	1.5	15.2	13.7	0.5	7.6
03/12E	2,370	96.2	39.6	15.5	8.9	1.4	16.0	16.0	0.5	6.2
03/13E	2,292	108.9	44.9	13.2	7.9	1.2	16.3	18.2	0.5	5.0

**Consolidated*

- Similar to previous quarters, IOCL's profitability will depend on subsidy sharing rather than business fundamentals. The government's subsidy compensation typically comes with a delay.
- For the full year we factor in OMCs to bear 10% of under-recoveries. We have built in a third of under-recoveries to be borne by the upstream sector and the rest of the losses to be compensated by the government.
- We expect IOC to report net profit of Rs27.8b against Rs7b in 3QFY10 and Rs52.9b in 2QFY11. EBITDA is estimated at Rs45b v/s Rs3.5b in 3QFY10 and Rs65.2b in 2QFY11.
- The government deregulated petrol prices and increased prices of diesel, kerosene and LPG on 25 June 2010. After the deregulation, BPCL increased petrol prices, though with a delay. However there is no clarity on sharing of net under-recoveries among government and public sector companies. We expect the government to clarify diesel deregulation and subsidy sharing in a few months.
- IOC trades at FY12E P/E of 8.9 and P/B of 1.4. Post partial de-regulation in June 2010, expectations remain high on the positive govt. policy change. Maintain **Buy.**

QUARTERLY PERFORMANCE (STANDALONE) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	**621,966**	**607,461**	**740,595**	**821,571**	**716,889**	**767,568**	**818,304**	**798,784**	**2,791,594**	**3,101,546**
Change (%)	-29.6	-29.6	5.2	37.9	15.3	26.4	10.5	-2.8	-8.4	11.1
EBITDA	**41,409**	**4,314**	**3,457**	**72,986**	**-29,175**	**65,210**	**44,577**	**57,829**	**122,165**	**138,441**
% of Net Sales	6.7	0.7	0.5	8.9	-4.1	8.5	5.4	7.2	4.4	4.5
Change (%)	331.2	nm	-89.3	-15.3	-170.5	1,411.7	1,189.4	-20.8	195.0	13.3
Depreciation	7,598	7,805	7,996	8,872	10,346	11,178	11,200	11,237	32,271	43,961
Interest	3,340	3,477	4,091	4,357	5,712	5,079	4,935	4,571	15,265	20,297
Other Income	23,625	10,306	13,798	18,703	11,349	12,309	13,210	10,654	66,432	47,522
PBT	**54,096**	**3,337**	**5,168**	**78,460**	**-33,884**	**61,262**	**41,652**	**52,676**	**141,061**	**121,705**
Tax	17,267	493	-1,798	22,893	0	8,323	13,836	18,269	38,855	40,427
Rate (%)	31.9	14.8	-34.8	29.2	0.0	13.6	33.2	34.7	27.5	33.2
PAT	**36,828**	**2,844**	**6,966**	**55,567**	**-33,884**	**52,940**	**27,816**	**34,406**	**102,206**	**81,278**
Change (%)	787.2	nm	-76.5	-16.1	-192.0	1,761.5	299.3	-38.1	177.5	-20.5
Key Assumptions (Rs b)										
Gross under recovery	32	60	76	92	110	64	85	91	259	351
Upstream sharing	2	18	23	32	37	21	28	30	75	117
Oil Bonds	0	0	45	107	0	72	48	78	152	199
Net Under recovery	30	42	8	-48	73	-29	9	-17	32	35
As a % of Gross	92.8	69.9	10.6	nm	66.7	nm	10.1	nm	12.2	10

E: MOSL Estimates

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Indraprastha Gas

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	IGL IN
Equity Shares (m)	140.0
52 Week Range (Rs)	374 / 190
1,6,12 Rel Perf (%)	-1 / 17 / 50
Mcap (Rs b)	45.9
Mcap (USD b)	1.0

CMP: Rs328 **Neutral**

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/10A	10,781	2,155	15.4	24.9	21.3	5.6	28.6	39.7	4.2	11.9
03/11E	17,007	2,451	17.5	13.8	18.7	4.6	27.0	37.0	2.7	9.4
03/12E	20,348	2,871	20.5	17.2	16.0	3.9	26.5	35.7	2.3	7.9
03/13E	24,537	3,416	24.4	19.0	13.4	3.3	26.5	35.6	1.8	6.5

- IGL is expected to report gas volumes of 2.8mmscmd in 3QFY11, reporting PAT of Rs634m (v/s Rs589m in 3QFY10 and Rs663m in 2QFY11).
- IGL receives 0.24mmscmd of RLNG, 0.3mmscmd from KG-D6 and the rest from APM allocation. We expect 3QFY11 CNG volumes to grow by 18% YoY to 2.3mmscmd and PNG volumes to grow by 38% YoY to 0.5mmscmd.
- The government approved an APM gas price hike by 100% to US$4.2/mmbtu, which was passed on to customers by the IGL by raising CNG prices by Rs5.6/kg in 2QFY11. It increased the PNG price by Rs0.93/kg and CNG by Rs0.4/kg recently, proving its ability to pass on increases in its expenditure and protecting EBITDA margins.
- We build total volumes of 2.7/3.2mmscmd in FY11 and FY12. The stock trades at 16x FY12E EPS of Rs20.5. Maintain **Neutral**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	**2,326**	**2,731**	**2,846**	**2,878**	**3,350**	**4,451**	**4,569**	**4,638**	**10,781**	**17,007**
Change (%)	21.9	26.9	29.7	26.5	44.1	63.0	60.5	61.1	26.4	57.8
EBITDA	**849**	**1,000**	**1,034**	**925**	**1,067**	**1,230**	**1,256**	**1,321**	**3,808**	**4,875**
% of Net Sales	36.5	36.6	36.3	32.1	31.9	27.6	27.5	28.5	35.3	28.7
Change (%)	12.4	17.5	52.6	28.9	25.7	23.0	21.5	42.9	26.9	28.0
Depreciation	186	194	197	198	231	239	310	433	775	1,213
Interest	0	0	0	0		20	25	35	0	80
Other Income	64	50	53	45	19	23	28	20	211	89
PBT	**727**	**856**	**890**	**771**	**855**	**993**	**949**	**873**	**3,244**	**3,671**
Tax	244	288	301	256	283	331	315	290	1,089	1,220
Rate (%)	33.6	33.7	33.8	33.2	33.2	33.3	33.2	33.2	33.6	33.2
PAT	**483**	**568**	**589**	**515**	**571**	**663**	**634**	**583**	**2,155**	**2,450**
Change (%)	10.5	13.1	53.9	27.6	18.4	16.7	7.6	13.2	24.9	13.7
Gas Volumes (mmscmd)										
CNG	1.74	1.91	1.94	1.98	2.04	2.22	2.29	2.37	1.89	2.23
PNG	0.19	0.18	0.18	0.21	0.39	0.46	0.46	0.48	0.19	0.45
Total	1.93	2.10	2.12	2.18	2.43	2.67	2.75	2.85	2.08	2.68

E: MOSL Estimates

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MRPL

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	MRPL IN
Equity Shares (m)	1,752.6
52 Week Range (Rs)	91 / 64
1,6,12 Rel Perf (%)	-5 / -11 / -23
Mcap (Rs b)	126.8
Mcap (USD b)	2.8

CMP: Rs72 **Sell**

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/10A	315,210	10,585	6.0	-27.3	12.0	2.3	20.5	14.2	0.4	8.2
03/11E	341,126	6,458	3.7	-39.0	19.6	2.1	11.1	8.2	0.4	13.3
03/12E	355,581	8,367	4.8	29.6	15.2	1.9	13.3	8.8	0.5	11.9
03/13E	439,041	9,767	5.6	16.7	13.0	1.7	14.0	8.7	0.4	8.8

- We expect MRPL to report 3QFY11 net profit of Rs2b (v/s Rs2.5b in 3QFY10, Rs2.8b in 2QFY11).
- We expect MRPL to report GRM of US$5.5/bbl v/s reported GRM of US$4.5/bbl in 3QFY10 and US$6.1/bbl in 2QFY11.
- On the operational front, we expect refinery throughput of 3.25mmtpa (up 13% QoQ, down 4% YoY). MRPL upgraded facilities to make Euro IV compliant fuels and plans to revamp capacity to 15mmtpa in FY13.
- We have built GRM of US$4.6/bbl for FY11 and US$5.5/bbl for FY12. The stock trades at 15.2x FY12E EPS of Rs4.8 and 11.9x FY12E EV/EBITDA. Maintain **Sell**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	**59,114**	**78,495**	**90,605**	**86,996**	**78,685**	**83,545**	**103,015**	**100,853**	**315,210**	**366,098**
Change (%)	-45	-42	20	33	33	6	14	16	-17.6	16.1
EBITDA	**5,955**	**3,210**	**2,834**	**2,705**	**801**	**3,729**	**3,944**	**3,426**	**14,704**	**11,899**
% of Net Sales	10.1	4.1	3.1	3.1	1.0	4.5	3.8	3.4	4.7	3.3
Change (%)	-57	128	nm	-71	-87	16	39	27	-30.4	-19.1
Depreciation	963	975	990	966	990	1,003	1,050	1,071	3,893	4,114
Interest	302	302	289	262	252	265	285	340	1,155	1,143
Exceptional items	0	0	0	0	-30	13	0	0	0	-16
Other Income	1,291	737	2,293	2,402	541	1,682	450	338	6,723	3,011
PBT	**5,981**	**2,671**	**3,848**	**3,880**	**129**	**4,130**	**3,059**	**2,353**	**16,380**	**9,671**
Tax	2,095	1,033	1,308	1,350	-156	1,344	1,016	1,053	5,786	3,258
Prior year tax adjustment	0	9	0	0	0	-45	0	0	9	-45
MAT Credit entitlement adjusted	0	0	0	0	0	0	0	0		
Rate (%)	35.0	38.7	34.0	34.8	nm	32.6	33.2	44.7	35.3	33.7
PAT	**3,885**	**1,630**	**2,539**	**2,531**	**285**	**2,831**	**2,043**	**1,300**	**10,585**	**6,458**
Change (%)	-54.0	553.7	nm	-58.4	-92.7	73.7	-19.5	-48.6	-11.2	-39.0
Key Assumptions										
EPS (Rs)	2.2	0.9	1.4	1.4	0.2	1.6	1.2	0.7	6.0	3.7
GRM (US$/bbl)	8.0	3.6	4.5	5.3	1.9	6.1	5.5	5.0	5.3	4.6
Throughut (mmt)	2.85	3.19	3.40	3.06	2.91	2.87	3.25	3.25	12.5	12.3

E: MOSL Estimates

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ONGC

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	ONGC IN
Equity Shares (m)	2,138.9
52 Week Range (Rs)	1,472 / 997
1,6,12 Rel Perf (%)	0 / -4 / -8
Mcap (Rs b)	2,769.0
Mcap (USD b)	61.4

CMP: Rs1,295 — **Buy**

Year End	Net Sales (Rs b)	PAT (Rs b)	EPS (Rs)	EPS Growth (%)	P/E (x)	P/BV (x)	ROE (%)	ROCE (%)	EV/ Sales	EV/ EBITDA
03/10A	1,018	194	90.7	-2.0	14.3	2.8	20.2	19.4	2.5	5.7
03/11E	1,190	233	109.0	20.2	11.9	2.4	21.6	20.9	2.1	4.7
03/12E	1,256	276	128.8	18.1	10.1	2.1	22.4	21.5	2.0	4.4
03/13E	1,383	276	129.0	0.1	10.0	1.9	19.8	18.8	1.7	4.1

Consolidated

- We expect ONGC to report 3QFY11 net profit of Rs55.9b (v/s adjusted PAT of Rs30.5b in 3QFY10 and Rs53.9b in 2QFY11). We estimate EBITDA of Rs115b (up 4% QoQ and 26% YoY).
- We estimate gross realization at US$88.2bbl v/s US$76/bbl in 3QFY10 and US$79/bbl in 2QFY11 and net realization at US$64.8/bbl v/s US$57.7/bbl in 3QFY10 and US$62.8/bbl in 2QFY11.
- We expect EBITDA at Rs115b (+26% YoY and +4% QoQ). Large QoQ jump is led by (1) higher net oil price realization (+12%) and (2) hike in APM gas prices in June 2010 (hiked by 113% from Rs3,200/mscm to Rs6,818/mscm).
- We build upstream sharing at a third of gross under-recoveries and expect ONGC to share 80% of it. We build ONGC's share at Rs41.7b (US$23.4/bbl) in 3QFY11.
- Government is planning to divest 5% of its stake in ONGC by March 2010. In a runup to this FPO, ONGC recently announced bonus issue of 1:1 and split the shares into two units and approved a special interim dividend of Rs32/share.
- Our Brent price assumption is US$81.1/bbl in FY11 and US$80/bbl in FY12. The stock trades at 10.1x FY12E consolidated EPS of Rs128.8. **Buy.**

QUARTERLY PERFORMANCE (STANDALONE) (RS BILLION)

Y/E March	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	**148.8**	**150.8**	**153.1**	**147.1**	**136.7**	**181.9**	**181.3**	**173.3**	**599.9**	**673.3**
Change (%)	-25.8	-13.4	23.1	7.4	-8.2	20.6	18.4	17.8	-5.7	12.2
EBITDA	**95.0**	**86.8**	**91.3**	**81.8**	**80.4**	**110.8**	**114.8**	**114.5**	**355.0**	**420.4**
% of Net Sales	63.9	57.6	59.6	55.6	58.8	60.9	63.3	66.0	59.2	62.4
Change (%)	-19.2	3.2	82.7	41.6	-15.4	27.7	25.7	39.9	14.7	18.4
D,D & A	31.8	23.6	46.8	44.5	31.1	44.0	37.9	39.9	146.6	152.9
Interest	0.1	0.0	0.0	0.6	0.0	0.0	0.0	0.1	0.7	0.1
Other Income	10.4	12.5	1.6	17.6	5.6	11.4	21.8	6.6	42.1	45.5
PBT	**73.6**	**75.7**	**46.2**	**54.4**	**54.8**	**78.2**	**98.7**	**81.1**	**249.9**	**312.9**
Tax	25.1	25.2	15.7	16.1	18.2	28.3	32.8	24.5	82.2	103.9
Rate (%)	34.1	33.3	34.0	29.6	33.2	36.2	33.2	30.2	32.9	33.2
PAT	**48.5**	**50.5**	**30.5**	**38.3**	**36.6**	**49.9**	**65.9**	**56.6**	**167.7**	**209.0**
Change (%)	-26.5	4.9	39.1	73.5	-24.5	-1.1	116.4	47.8	6.1	24.6
Adjusted PAT	**48.5**	**50.9**	**30.5**	**37.8**	**36.6**	**53.9**	**55.9**	**56.6**	**161.3**	**203.0**
Change (%)	-26.9	5.8	23.4	71.1	-24.5	5.9	83.0	49.9	0.0	25.9
Key Assumptions (US$/bbl)										
Fx rate (Rs/US$)	48.8	48.5	46.6	46.0	45.7	46.7	44.8	44.5	47.5	45.4
Gross Oil Realization	60.6	70.5	76.7	79.2	80.8	79.2	88.2	87.3	71.7	83.9
Subsidy	2.3	14.1	19.0	27.7	32.8	16.5	23.4	26.4	15.8	24.8
Net Oil Realization	58.3	56.4	57.7	51.4	48.1	62.8	64.8	60.9	55.9	59.1
Subsidy (Rs b)	4.3	26.3	35.0	50.0	55.2	30.2	41.7	45.2	115.6	172.3

E: MOSL Estimates; 3QFY11 other income includes one-time gas-pool account credit of Rs15b

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Petronet LNG

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	PLNG IN
Equity Shares (m)	750.0
52 Week Range (Rs)	131 / 69
1,6,12 Rel Perf (%)	5 / 49 / 59
Mcap (Rs b)	94.3
Mcap (USD b)	2.1

CMP: Rs126 **Buy**

YEAR END	NET SALES (RS B)	PAT (RS B)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/10A	106,491	4,045	5.4	(22.0)	23.3	4.2	19.2	16.3	1.1	14.1
03/11E	119,339	5,269	7.0	30.3	17.9	3.7	21.9	17.3	1.1	11.6
03/12E	145,736	7,078	9.4	34.3	13.3	3.1	25.2	19.2	0.9	9.1
03/13E	188,359	8,486	11.3	19.9	11.1	2.6	25.6	21.3	0.7	6.7

Consolidated

- We expect Petronet to report net profit of Rs1.25b (v/s Rs1.3b in 2QFY11 and Rs832m in 3QFY10). We estimate EBITDA of Rs2.7b (flat QoQ and up 31% YoY).
- We have built in volume of 2.1mmtpa in 3QFY11. We model 10mmtpa volume in FY12, of which 7.5 is on a long-term contract and 2.5mmtpa on spot/short-term basis.
- Petronet has been increasing its re-gasification charges by 5% every year in January. We model the increase till FY13 only and then assume flat charges.
- We model Rs34.1/mmbtu as re-gasification charges for FY12. The stock trades at 13.3x FY12E consolidated EPS of Rs9.4 **Buy.**

QUARTERLY PERFORMANCE (STANDALONE) (RS BILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	**26,124**	**34,067**	**22,446**	**23,855**	**25,260**	**30,577**	**29,544**	**33,958**	**106,491**	**119,339**
Change (%)	59%	106%	-9%	-10%	-3%	-10%	32%	42%	26.3	12.1
Raw Material (incl. inv chg)	24,020	31,189	20,026	21,413	22,333	27,547	26,218	29,909	96,648	106,007
Staff Cost	41	41	41	81	73	53	55	56	204	237
Other Expenditure	245	299	291	339	376	261	529	665	1,174	1,831
EBITDA	**1,818**	**2,537**	**2,088**	**2,022**	**2,477**	**2,716**	**2,742**	**3,328**	**8,465**	**11,264**
% of Net Sales	7.0	7.4	9.3	8.5	9.8	8.9	9.3	9.8	7.9	9.4
Change (%)	-5	39	13	-41	36	7	31	65	-6.1	33.1
Depreciation	256	430	466	456	461	466	500	525	1,609	1,952
Interest	283	511	534	511	498	495	510	559	1,839	2,062
Other Income	288	191	167	332	126	186	110	117	978	539
PBT	**1,567**	**1,787**	**1,255**	**1,386**	**1,644**	**1,941**	**1,842**	**2,361**	**5,995**	**7,788**
Tax	534	580	423	414	530	630	596	763	1,950	2,519
Rate (%)	34.1	32.5	33.7	29.8	32.2	32.5	32.3	32.3	32.5	32.3
PAT	**1,033**	**1,207**	**832**	**973**	**1,114**	**1,311**	**1,246**	**1,598**	**4,045**	**5,269**
Change (%)	-2.2	16.8	-20.8	-52.4	7.8	8.6	49.8	64.2	97.9	30.3
Gas Volume (TBTU)	98.0	113.5	95.2	91.8	95.2	99.8	103.6	118.2	398.5	416.8

E: MOSL Estimates

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Reliance Industries

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	RIL IN
Equity Shares (m)	3,286.2
52 Week Range (Rs)	1,187 / 841
1,6,12 Rel Perf (%)	3 / -12 / -17
Mcap (Rs b)	3,481.9
Mcap (USD b)	77.2

CMP: Rs1,060 **Neutral**

YEAR END	NET SALES (RS B)	PAT (RS B)	EPS (RS)	P/E (X)	ADJ. EPS (RS)	ADJ.P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ EBITDA
03/10A	1,925	162	49.6	21.3	54.8	19.3	2.3	13.4	11.3	12.9
03/11E	2,395	202	61.5	17.2	67.9	15.6	2.0	14.6	13.0	10.1
03/12E	2,347	220	66.7	15.9	73.6	14.4	2.0	13.9	13.1	8.9
03/13E	2,206	266	80.8	13.1	89.2	11.9	1.7	14.8	14.1	7.3

All adjusted per share info and valuation ratios are adjusted for treasury shares held by company

- We expect RIL to report 3QFY11 net profit of Rs52.5b (v/s Rs40.1b in 3QFY10 and Rs49.2b in 2QFY11). Strong YoY performance will be led by (1) higher GRM, (2) a ramp up of KG-D6 volumes and (3) improved petchem margins.
- KG-D6 volumes decreased to 55mmscmd gradually from 60 mmscmd over the past couple of quarters. The company indicated it would maintain current production and the timing for ramp-up would be decided post the study of reservoir characteristics.
- We build-in GRM of US$8.3/bbl for FY11 and US$9/bbl for FY12. We expect polymer and polyester spreads (over naphtha) to be fairly constant in 4QFY11 as new capacities in the ME and China ramp up.
- RIL trades at 14.4x FY12E adjusted EPS of Rs73.6. Maintain **Neutral**.

QUARTERLY PERFORMANCE (STANDALONE) (RS BILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	**311.9**	**468.5**	**568.6**	**575.7**	**582.3**	**574.8**	**629.9**	**608.1**	**1,924.6**	**2,395.0**
Change (%)	-25.0	4.6	80.1	103.0	86.7	22.7	10.8	5.6	31.6	24.4
EBITDA	**63.8**	**72.2**	**78.4**	**91.4**	**93.4**	**94.0**	**99.4**	**99.5**	**305.8**	**386.2**
% of Net Sales	20.5	15.4	13.8	15.9	16.0	16.3	15.8	16.4	15.9	16.1
Change (%)	4.3	11.5	46.3	68.0	46.3	30.2	26.7	8.9	30.7	26.3
Depreciation	18.8	24.3	28.0	33.9	34.9	33.8	34.9	35.5	105.0	139.0
Interest	4.6	4.6	5.5	5.3	5.4	5.4	5.7	5.9	20.0	22.4
Other Income	7.1	6.3	5.1	6.2	7.2	6.7	6.8	6.7	24.6	27.5
PBT	**47.6**	**49.5**	**50.1**	**58.3**	**60.4**	**61.5**	**65.7**	**64.8**	**205.5**	**252.3**
Tax	10.9	11.0	10.0	11.2	11.9	12.3	13.2	13.2	43.1	50.6
Rate (%)	22.9	22.2	20.0	19.3	19.7	19.9	20.1	20.4	21.0	20.0
Adj. PAT	**36.7**	**38.5**	**40.1**	**47.1**	**48.5**	**49.2**	**52.5**	**51.6**	**162.4**	**201.8**
Change (%)	-10.8	-6.6	14.5	20.3	32.3	27.8	30.9	9.6	3.8	24.3
Reported PAT	**36.7**	**38.5**	**40.1**	**47.1**	**48.5**	**49.2**	**52.5**	**51.6**	**162.4**	**201.8**
EPS (Rs)	**12.3**	**12.9**	**13.5**	**15.8**	**16.3**	**16.5**	**17.6**	**17.3**	**54.5**	**67.8**
Key Assumptions (US$/bbl)										
Fx Rate (Rs/US$)	48.8	48.5	46.5	46.5	45.7	46.5	44.8	44.5	47.6	45.4
GRM	7.5	6.0	5.9	7.5	7.3	7.9	9.5	8.5	6.7	8.3
Singapore GRM	4.1	3.2	1.9	5.0	3.7	4.2	5.5	4.5	3.6	4.5
Premium/(disc) to Singapore	3.4	2.8	4.0	2.5	3.6	3.7	4.0	4.0	3.2	3.8
KG-D6 Gas Prodn (mmscmd)	19.3	32.0	48.0	59.8	59.1	57.9	55.0	55.0	39.8	56.7
Segmental EBIT Breakup (Rs b)										
Refining	13.0	13.5	13.8	19.9	20.4	21.9	24.6	23.1	60.1	90.0
Petrochemicals	21.1	22.0	20.6	22.2	20.5	22.0	22.3	22.6	85.8	87.4
E&P, others	10.2	12.4	14.9	17.1	19.3	17.1	16.6	16.9	54.6	69.9
Total	**44.3**	**47.8**	**49.2**	**59.2**	**60.2**	**61.0**	**63.5**	**62.6**	**200.5**	**247.3**

E: MOSL Estimates

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Pharmaceuticals

COMPANY NAME
- Aventis Pharma
- Biocon
- Cadila Healthcare
- Cipla
- Dishman Pharma
- Divi's Laboratories
- Dr Reddy's Labs.
- GSK Pharma
- Glenmark Pharma
- Jubilant Organosys
- Lupin
- Opto Circuits
- Ranbaxy Labs.
- Strides Arcolab
- Sun Pharmaceuticals

Top-line expected to grow by 17.2%, EBITDA by 14.5%

In 3QFY11 we expect companies in our universe in the pharmaceuticals sector to post top-line growth of 17.2% YoY (excluding one-offs) and EBITDA growth of 14.5% YoY. Adjusted PAT is expected to grow by 147% YoY. EBITDA growth will be led mainly by strong performances by Sun Pharma, Divis Lab and second-tier generic companies. Dr Reddy's Lab and Ranbaxy are likely to post profits after losses a year earlier due to write-offs related to intangible and adverse currency movements. Excluding Ranbaxy and Dr Reddy's, adjusted PAT is likely to grow by only 8.9% impacted by poor performance from CRAMS companies partially due to sell-offs/de-merger of business segments.

3QFY11 aggregates excluding one-offs

Pharma Universe	YoY growth (%)				EBITDA margin (%)		
Aggregates	Sales	EBITDA	Rep PAT	ADJ PAT	Dec'10	Dec'09	CHG (BP)
MNC Pharma	11.9	22.1	21.7	18.9	24.8	22.7	208
Big 4 Generics	16.3	16.4	225.6	-749.2	17.4	17.4	1
CRAMS	9.5	-5.1	-7.1	-5.4	21.5	24.8	-331
Second Tier generics	19.8	19.9	23.6	26.2	20.4	20.4	2
Sector Aggregate	**17.2**	**14.5**	**65.1**	**147.0**	**19.4**	**19.9**	**-45**

Note - The numbers exclude one-offs to facilitate comparison of core operations

3QFY11 aggregates including one-offs

Pharma Universe	YoY growth (%)				EBITDA margin (%)		
Aggregates	Sales	EBITDA	Rep PAT	ADJ PAT	Dec'10	Dec'09	CHG (BP)
MNC Pharma	11.9	22.1	21.7	18.9	24.8	22.7	208
Big 4 Generics	15.9	10.8	179.0	658.1	20.4	21.3	-93
CRAMS	9.5	-5.1	-7.1	-5.4	21.5	24.8	-331
Second Tier generics	20.4	22.0	26.0	28.9	20.7	20.4	28
Sector Aggregate	**17.1**	**12.6**	**63.1**	**106.6**	**20.9**	**21.8**	**-84**

Expected quarterly performance summary (Rs million)

	CMP (Rs)	Rating	Sales			EBITDA			Net profit		
	24.12.10		Dec.10	Var. % YoY	Var. % QoQ	Dec.10	Var. % YoY	Var. % QoQ	Dec.10	Var. % YoY	Var. % QoQ
Pharmaceuticals											
Aventis Pharma	1,862	Neutral	2,694	13.6	-2.3	332	104.6	-21.8	336	25.7	-28.9
Biocon	408	Buy	7,371	16.1	8.6	1,494	17.9	4.1	908	11.6	1.7
Cadila Health	758	Buy	11,593	17.0	3.8	2,607	24.1	6.5	1,641	25.6	-3.9
Cipla	364	Buy	15,964	11.0	-1.2	3,573	-11.5	1.6	2,519	-12.8	-4.2
Dishman Pharma	139	Neutral	2,353	5.8	10.6	501	-2.3	35.7	209	-34.7	-28.9
Divis Labs	636	Buy	2,764	40.8	8.3	1,033	56.7	22.6	854	25.9	18.7
Dr Reddy' s Labs	1,682	Buy	19,106	10.5	2.2	2,866	0.2	-13.8	2,379	LP	-3.2
Glenmark Pharma	357	Neutral	7,245	17.1	3.4	1,849	31.8	8.8	1,135	20.6	14.9
GSK Pharma	2,206	Buy	4,930	10.9	-15.3	1,556	12.5	-25.4	1,252	17.2	-20.9
Jubiliant Organosys	272	Neutral	10,000	4.0	1.3	1,715	-23.8	10.7	836	-17.1	1.8
Lupin	454	Buy	14,676	16.9	4.4	2,756	11.9	2.2	2,144	33.5	-0.3
Opto Circuits	255	Buy	3,947	53.5	19.1	949	7.7	-10.2	736	11.7	-5.0
Ranbaxy Labs	573	Sell	19,017	-13.3	-1.7	1,690	-44.1	21.9	806	LP	-20.9
Strides Arcolab	427	Buy	5,756	46.2	39.6	817	15.3	16.5	394	50.1	49.4
Sun Pharma	473	Buy	13,858	35.8	1.2	3,711	0.7	-20.5	2,712	5.3	-34.0
Sector Aggregate			**141,273**	**12.2**	**2.8**	**27,450**	**0.2**	**-2.7**	**18,860**	**147.0**	**-9.7**

Note: Historic numbers include one-offs and hence YoY comparison may not give the correct picture

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Key highlights for core 3QFY10 performance include:

- **Lackluster performance by CRAMS companies** – CRAMS companies except for Divis Lab are likely to post poor performance due to the tough business environment, impacted by inventory de-stocking and sell-off/de-merger of some business segments.
- **Tier-two generic pharma to run the show** – Tier-two generic players like Biocon, Cadila, Glenmark, Strides and Lupin are likely to post good growth in adjusted PAT led by top-line growth and a better product mix. Cipla is likely to post a decline in profits due to muted top-line growth and lower EBITDA margins due to an adverse product mix and higher expenses related to the Indore SEZ.

Core business performance (Rs m)

Sector	Sales			EBITDA			Net Profit		
Companies	Dec-09	Dec-10	Var %	Dec-09	Dec-10	% Var	Dec-09	Dec-10	% Var
Aventis Pharma	2,371	2,694	13.6	162	332	104.6	268	336	25.7
Biocon	6,351	7,371	16.1	1,267	1,494	17.9	813	908	11.6
Cadila Health	9,910	11,593	17.0	2,100	2,607	24.1	1,307	1,641	25.6
Cipla	14,385	15,964	11.0	4,039	3,573	-11.5	2,890	2,519	-12.8
Dishman Pharma	2,223	2,353	5.8	513	501	-2.3	321	209	-34.7
Divis Labs	1,963	2,764	40.8	659	1,033	56.7	678	854	25.9
Dr Reddy' s Labs	17,296	19,106	10.5	2,860	2,866	0.2	-5,217	2,379	-145.6
Glenmark Pharma	6,184	7,245	17.1	1,404	1,849	31.8	941	1,135	20.6
GSK Pharma	4,444	4,930	10.9	1,384	1,556	12.5	1,068	1,252	17.2
Jubiliant Organosys	9,615	10,000	4.0	2,251	1,715	-23.8	1,008	836	-17.1
Lupin	12,554	14,676	16.9	2,464	2,756	11.9	1,606	2,144	33.5
Ranbaxy Labs	17,870	19,017	6.4	174	1,690	871.5	-1,545	806	-152.2
Strides Arcolabs	3,936	5,756	46.2	709	817	15.3	263	394	50.1
Sun Pharma	8,852	13,858	56.6	3,098	3,711	19.8	2,575	2,712	5.3
Pharma Aggregate	**117,955**	**137,327**	**16.4**	**23,083**	**26,502**	**14.8**	**6,976**	**18,124**	**159.8**
Opto Circuits	2,570	3,947	53.5	881	949	7.7	659	736	11.7

Source: Company/MOSL

MNC association with Indian companies continues

Over the past few quarters, MNC pharmaceutical companies increased their engagement with India. Large global pharma companies like Pfizer and GSK have tied up with Indian companies to market generic products in regulated and semi-regulated markets. Indian companies offer advantages such as:

1. Strong chemistry and regulatory skills, which are pre-requisites to build a strong generic business;
2. Access to low-cost manufacturing, which is an important determinant of profitability in the global generic business.

MNC association with Indian companies

MNC	Indian Partner	Geographies	Products (No.)	Nature of the products
Pfizer	Aurobindo	Regulated & Emerging Markets	100+	Largely generic solid oral products in segments like Anti-infectives, CVS, CNS etc
	Strides	Regulated markets	67	Largely Sterile Injectables
	Claris	Regulated markets	48	Sterile Injectables
	Biocon	Regulated & Emerging Markets	4	Biosimilars; Insulin and its analogues
GSK	DRL	Emerging Markets	100+	Products in segments like CVS, Diabetes, Oncology, GI, Pain management etc
	Strides	Emerging Markets	10	Sterile Injectables in oncology segment
AstraZeneca	Aurobindo	Emerging Markets	20-30	Both solid oral dosage and sterile products in segments like Anti-infectives, CVS, CNS etc
	Torrent	NA	18	

Source: Company/MOSL

Biocon, Pfizer in global deal for insulin products

1. Biocon entered into an agreement with Pfizer for global commercialization of Biocon's biosimilar versions of insulin and insulin analog products such as Recombinant Human Insulin, Glargine, Aspart and Lispro.
2. Pfizer will pay Biocon US$200m upfront with additional development and regulatory milestone payment of up to US$150m over the next few years. Biocon will use the money to develop and register products in various markets and expand existing manufacturing facilities. Biocon will also receive income linked to Pfizer's sale of the products globally. Besides, Biocon will be responsible for the clinical development, manufacture and supply of the biosimilar insulin products and for regulatory activity to secure approval for the products in various geographies.
3. The alliance targets the US$14b insulin opportunity. By 2015, several insulin analogs are expected to lose patent, offering a large opportunity for biosimilar products. Biocon expects revenue from emerging markets under this agreement to start in the near future with Biocon having approval for Recombinant Human Insulin in 27 countries. But the entry in Europe and the US is a few years away as the products will be launched after patent expiry in these markets. Both companies expect an approval for Recombinant Human Insulin in Europe by 2012 followed by the US in 2015-16.
4. We believe the large upside for both companies will come from product launches in regulated markets, which constitute ~80% of the overall market size. Given the branded nature of biosimilars in regulated markets, Pfizer with its strong marketing prowess, will be able to leverage this opportunity better. We estimate DCF value of Rs54/share from this deal for Biocon.

Indian pharma companies on acquisition spree

Sun increases Taro stake by buying Templeton's 12%

1. Sun Pharma acquired Templeton Asset Management's (TAM) 12% stake in Taro for US$82m (Rs3.64b). Sun paid TAM US$16/share for the stake compared with US$7.75/share paid to Taro promoters (as contracted in the merger agreement) to acquire majority stake in Taro in September 2010. Sun completed the acquisition of controlling stake in Taro Pharma after a favorable ruling by the Israeli Supreme Court some weeks ago. With the acquisition of TAM's stake, Sun holds 65% economic interest and 77% voting rights in Taro.
2. Taro reported US$290m in revenue for 9MCY10 (up 5.4% YoY), EBITDA of US$60.9m (up 18.4%) and adjusted PAT of US$49.6m (up 22%). In CY09, Taro posted revenue of US$360m, EBITDA of US$66.4m and adjusted PAT of US$51.9m.
3. Sun invested US$170m on Taro's shares so far (including Taro promoters' shares). With TAM's 12% stake acquisition, Sun's investment in Taro is US$252m.

Dr Reddy acquires GSK's penicillin manufacturing facility

1. Dr Reddy's Labs acquired GSK's penicillin manufacturing site and rights for its Augmentin and Amoxil brands in the US. According to an agreement, DRL will acquire GSK's penicillin manufacturing site in Bristol Tennessee, in the US, as well and GSK will retain the rights of the brands outside the US. Financial terms of the agreement were not disclosed.
2. The brands Augmentin (Amoxicillin and Calvulanate Potassium) and Amoxil (Amoxicillin) are antibiotics in a group of drugs called penicillins. The drugs are used

to treat bacterial infection and the plant manufactures only these two products. Since the brands are generic in the US, many generic companies sell the products in the US. We estimate revenue from the products at US$25m-30m a year and EBITDA margins at 15-20%. Although the management has not disclosed the consideration for the acquisition, we believe it is not very high (~1x revenue).

3. With the acquisition of this facility, DRL will enter the penicillin-containing antibacterial segment in the US where DRL had no presence. We believe that over time, DRL will source the products from India to be more cost competitive.

Strides acquires 70% stake in Inbiopro, enters biosimilar space

1. Strides Arcolab announced the acquisition of 70% stake in Inbiopro Solutions, a Bangalore-based biotechnology company. Strides will not make an upfront payment for the stake but the acquisition entails an investment of Rs650m over three years to develop and commercialize the products.
2. This acquisition enables Strides to enter the biologics space. Strides will get immediate access to eight biosimilar products with a global market size of US$28b. The products include five monoclonal antibodies, used to treat cancer. Strides plans to monetize the eight products through its front-end operations in India, Africa and Australasia and for the regulated markets Strides will monetize the pipeline by licensing it to pharma majors.
3. Commercialization of Inbiopro's products is expected to begin in 2013 in semi-regulated and unregulated markets, including India, followed by high-value regulated markets. In the short to medium term, Strides can generate licensing income from this product pipeline by licensing it to global pharma majors, and over a longer term, when the products get commercialized in high-value regulated markets, Strides can get sustainable income through product supplies/royalty.

Opto Circuits acquires Cardiac Science Corp. in the US

1. Opto Circuits acquired Cardiac Science Corporation (CSC), a US-based medical device maker, for ~US$55m. However, apart from this consideration, Opto will have to incur additional expenses of US$25m-30m due to factors such as employee severance, taking the acquisition cost to US$80m-85m. The all-cash deal valued CSC at ~0.5x sales (including one-time expenses to be incurred by Opto).
2. CSC makes and markets advanced diagnostic and therapeutic cardiology devices and systems, including automated external defibrillators (AED), electrocardiograph devices (ECG), cardiac stress treadmills and systems.
3. The acquisition of CSC will help to expand Opto's product portfolio in the non-invasive business segment, which is essential for access to large distributors. Besides, CSC has access to large hospitals in the US through its distributors. Opto can leverage this access to market its own non-invasive products and leverage its own distribution network in Europe and RoW to sell CSC's products where CSC has very little presence. However, concerns remain regarding CSC's financial health as it incurred operating losses of US$34m in CY09 which is ~46% of Opto's FY10 EBITDA. CSC incurred a net loss of US$77m in CY09. Intangible assets on the books were US$28m as on 31 December 2009.
4. CSC undertook field corrective action of certain defibrillators and initiated a worldwide recall of ~12,200 automated external defibrillators due to technical issues. The company provided US$32m for this. In 2008, CSC undertook impairment of goodwill of US$108m due to the overall downturn in the economy and the resultant impact on the business.

Dr Reddy's, Ranbaxy continue to launch Para IV products in the US

Dr Reddy's launches generic Accolate

1. Dr. Reddy's Labs launched Zafirlukast tablets in the US. The tablets are a generic version of AstraZeneca's Accolate tablets. On 15 November 2010 the US District Court of New Jersey granted Dr. Reddy's motion for summary judgment of non-infringement against AstraZeneca, clearing the way for the product launch.
2. Accolate has sales of US$50m in the US. This is a low competition product opportunity for DRL as no other generic company has filed ANDA so far. We believe a new filer would be subject to a 30-month stay, which will keep competition away for at least the next 30 months. However the innovator, AstraZeneca, may launch an authorized generic version of the product. We estimate DRL will earn one-time profits of Rs122m and Rs362m in FY11 and FY12 respectively from this opportunity.
3. The DRL management has been guiding for the launch of at least one patent challenge/low-competition product in the US every year for the next few years. Overall, DRL has a pipeline of 12 FTFs targeting the innovator market size of ~US$9b. A scale-up in existing patent challenge/low-competition products and new opportunities will help DRL to achieve revenue of US$1b by FY13 in the US.

DRL US portfolio - one-time PAT contribution (RS M)

Product	Launch Status	FY11E	FY12E
Omeprazole OTC	Launched	642	1,051
Generic Arixtra	Awaiting US FDA approval	275	1,081
Generic Allegra D-24	Launch possible only post favourable court verdict	-	-
Generic Lotrel	Launched	478	-
Generic Prograf	Launched	487	-
Generic Accolate	Launched	123	362
Generic Zyprexa	Likely launch on 23-Oct-2011	-	2,893
Generic Prevacid	Launched on 15-Oct-2010	245	1,051
Total		**2,250**	**6,438**

Source: Company/MOSL

Ranbaxy launches generic Aricept

1. Ranbaxy launched the generic version of Esai's US$1.9b Aricept (an anti-Alzheimer drug) in the US. Being the FTF Para-IV, Ranbaxy will enjoy a 180-day exclusivity on the product. Pfizer's generic subsidiary, Greenstone, launched the authorized generic version of the drug.
2. This is the first Para-IV FTF from the Paonta facility (we believe the product was filed from Paonta facility) to be successfully shifted to the US facility. We expect Ranbaxy to post one-time revenue of Rs12.7b and PAT of Rs5b from this opportunity in the 180-day exclusivity period. Ranbaxy will make the product at its Ohm Labs facility in the US. The launch from the US facility will be the first monetization of large FTFs from the Paonta facility by transfer to its US facility.
3. This raises the probability of similar success with the generic Lipitor launch (scheduled in November 2011) which we believe, was also filed from the Paonta facility.

Ranbaxy FTF opportunities - DCF valuation

Product	Launch Date	NPV (US$ m)	NPV (RS/share)	Filed from
Nexium	CY10-CY14	430	43	**
Aricept	Nov-10	113	12	Paonta
Lipitor (US + 7 other markets)	Nov-11	248	27	Paonta
Caduet	Nov-11	19	2	**
Actos	Aug-12	28	3	**
Diovan	Sep-12	72	7	**
Valcyte	Mar-13	32	3	**
Total		**942**	**97**	

Source: Company/MOSL

CRAMS companies guide for better performance in 2HFY11 as customers commence inventory re-stocking

Over the past 6-8 quarters, the performance of the global CRAMS industry suffered due to:

1. Inventory de-stocking by large innovator companies, leading to lower contract manufacturing revenue for CRAMS companies.
2. After the 2008 credit crisis, mid-sized and small-sized research companies faced a liquidity crunch, resulting in a cut-down in many of their research projects. This partly impacted custom synthesis contracts for CRAMS players.

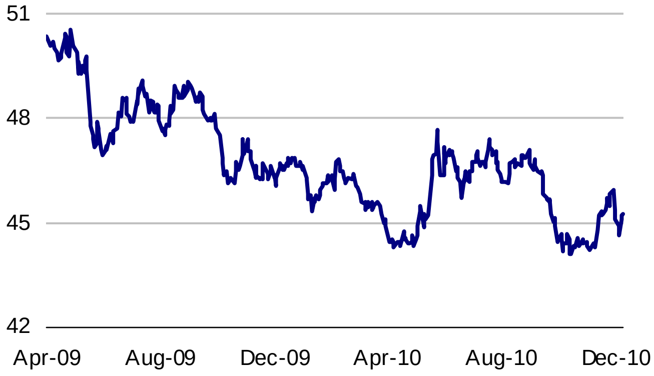
In line with the global industry trend, Indian companies' CRAMS business was adversely impacted. However, this is likely to reverse in FY11 due to:

1. **Growing pharmaceutical demand:** The overall end-consumer demand for pharmaceutical products is growing steadily. Hence, inventory de-stocking will get aligned with demand, after which innovators will have to outsource again. We believe this reversal is likely to be visible partly in FY11 and fully by FY12.
2. **Improving credit situation:** While mid and small-sized research companies face funding issues, over the past few quarters the global credit situation has been improving. This will open up funding channels for these companies. While the custom synthesis business from such companies is under pressure, we expect gradual improvement over two years.

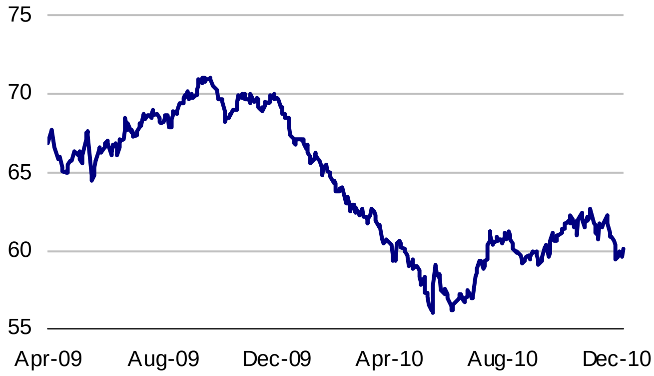
Currency appreciation to partly temper sector's top-line growth

The rupee appreciated by ~3.9% YoY against the US dollar and ~11% against the euro. This is likely to temper top-line growth for larger Indian players with high exposure to the currencies. Among larger Indian companies, DRL (hedges of US$414m) and Cipla (hedges of over US$200m) are inadequately hedged given the significant net US dollar exposure. Ranbaxy, which has hedges of US$1b, is adequately hedged (although some of the hedges are at unfavorable rates). Sun Pharma's net US dollar exposure is not very high.

INR v/s US$ (Rs/US$)



INR v/s Euro (Rs/Euro)



Source: Bloomberg

Sun Pharma, Divis Lab, tier-two generic companies to improve operations

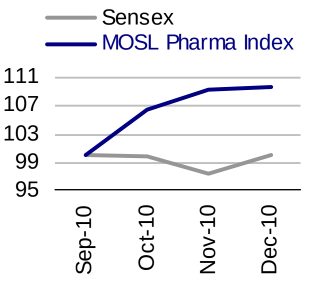
We expect Sun Pharma, Divis Lab and tier-two generic companies to record strong 3QFY11 EBITDA growth. Ranbaxy and Aventis are likely to report strong EBITDA growth largely due to a low base. We attribute the following company-specific reasons for this performance:

1. **Cipla:** muted operational performance due to lower exports and other operating income, higher staff costs and start-up expenses related to the Indore SEZ and the rupee's appreciation.
2. **Sun Pharma:** we expect strong operating performance, led mainly by the acquisition of Taro.
3. **Lupin:** higher top-line growth, better product-mix will lead to higher EBITDA.
4. **Glenmark:** strong EBITDA growth led by top-line and a better product mix.
5. **Divis Lab:** strong operational performance led by top-line growth reflecting an end to inventory de-stocking, an improved product mix and higher operating leverage.
6. **Dr Reddy's Labs:** expect stagnant EBITDA due to lower revenue and the rupee's appreciation against the euro and the US dollar.
7. **Ranbaxy Labs:** core EBITDA likely to be under pressure due to the severe impact of the US FDA action on the company's US business.

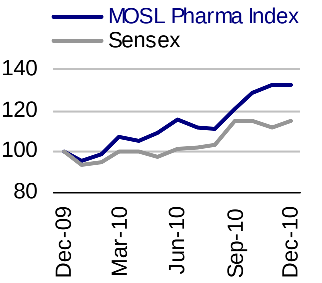
MNC Pharma: GSK to sustain double-digit top-line growth

We expect our MNC pharmaceutical universe (Aventis and GSK) to post 11.9% YoY top-line growth in 3QFY11. GSK's EBITDA is likely to grow in line with top-line growth and we expect adjusted PAT growth of 17.2%. Aventis is likely to post 104.6% EBITDA growth largely due to a low base.

Relative Performance-3m (%)



Relative Performance-1Yr (%)



Sector view

Generics

- Emerging markets to help to improve profitability gradually from 2010;
- New launches imperative to drive growth in core US business;
- Differentiation imperative – low competition/patent challenge products, brands, NCE research to be key differentiators;
- Increasing MNC interest in the generics space may lead to acquisitions/supply arrangements with Indian companies;
- Top picks – **Cipla** and **Sun Pharma**.

CRAMS (Contract Research & Manufacturing Services)

- Favorable macro trends – India on the threshold of a significant opportunity, contract manufacturing opportunity to grow ~3.7x over 2007-12;
- Inventory de-stocking impacted performance over the past 4-5 quarters; expect recovery from FY11;
- Top pick – **Divis Labs**.

MNC Pharma

- Portfolio realignment in favor of lifestyle products to drive growth in the short-to-medium term;
- Branded generics, patented products and in-licensing to drive long-term growth;
- Parents' commitment to listed entity is imperative;
- Top pick – **GSK Pharma.**

Comparative valuation

	CMP (Rs)	Rating	EPS (Rs)			P/E (x)			EV/EBITDA			RoE (%)		
	24.12.10		FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E
Pharmaceuticals														
Aventis Pharma	1,862	Neutral	69.2	82.4	98.3	26.9	22.6	18.9	23.3	18.7	14.9	15.8	17.2	18.6
Biocon	408	Buy	17.5	20.6	23.6	23.3	19.9	17.3	13.7	12.2	10.5	17.3	17.6	17.5
Cadila Health	758	Buy	30.5	37.6	46.7	24.9	20.2	16.2	15.8	13.6	11.3	33.2	31.6	30.7
Cipla	364	Buy	12.9	16.2	18.0	28.2	22.5	20.2	20.2	16.9	15.1	15.5	17.0	16.6
Dishman Pharma	139	Neutral	11.9	12.4	16.2	11.6	11.2	8.6	10.0	7.9	6.6	11.6	10.9	12.8
Divis Labs	636	Buy	26.1	32.3	40.2	24.4	19.7	15.8	20.5	15.2	12.8	19.4	20.5	21.5
Dr Reddy' s Labs	1,682	Buy	67.5	75.9	82.5	24.9	22.1	20.4	24.3	22.3	20.3	23.0	25.1	23.9
Glenmark Pharma	357	Neutral	13.3	18.4	21.5	26.9	19.3	16.6	14.0	13.1	11.6	13.3	15.8	15.6
GSK Pharma	2,206	Buy	69.0	80.3	93.8	32.0	27.5	23.5	22.3	18.8	15.8	30.2	31.7	33.2
Jubiliant Organosys	272	Neutral	19.9	22.2	29.1	13.7	12.2	9.3	10.0	8.6	7.1	14.2	14.4	17.3
Lupin	454	Buy	19.5	23.6	24.0	23.3	19.2	18.9	18.7	15.5	14.3	30.2	29.6	24.8
Opto Circuits	255	Buy	16.4	18.6	26.7	15.5	13.7	9.5	11.7	9.6	8.1	25.6	23.3	27.8
Ranbaxy Labs	573	Sell	32.2	10.1	15.9	17.8	56.8	35.9	14.2	28.8	20.6	22.2	6.5	9.3
Strides Arcolab	427	Buy	30.0	41.1	46.4	14.3	10.4	9.2	10.6	8.7	7.7	14.6	14.8	14.8
Sun Pharma	473	Buy	12.7	16.4	20.1	37.2	28.9	23.6	24.1	23.6	19.5	15.5	17.3	18.5
Sector Aggregate						**25.2**	**23.3**	**19.7**	**18.1**	**17.1**	**14.6**	**19.5**	**18.5**	**19.1**

Aventis Pharma

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	AVEN IN
Equity Shares (m)	23.0
52 Week Range (Rs)	2,059 / 1,523
1,6,12 Rel Perf (%)	-5 / -12 / 4
Mcap (Rs b)	42.9
Mcap (USD b)	1.0

CMP: Rs1,862 — Neutral

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
12/09A	9,744	1,574	68.4	-5.3	27.2	4.7	17.1	26.3	3.8	25.1
12/10E	10,679	1,594	69.2	1.3	26.9	4.3	15.8	23.7	3.4	23.3
12/11E	11,918	1,898	82.4	19.1	22.6	3.9	17.2	25.8	3.0	18.7
12/12E	13,514	2,264	98.3	19.3	18.9	3.5	18.6	27.9	2.6	14.9

- We expect 4QCY10 topline to grow 13.6% YoY to Rs2.7b, led by 15% YoY growth in the domestic formulations business to Rs2.1b.
- EBITDA is likely to double YoY to Rs332m on a low base; we expect EBITDA margin to expand by 550bp YoY to 12.3%.
- We estimate PAT at Rs336m, up 25.7% YoY, led by better operational performance but tempered by higher tax expenses.

We believe that APL will be one of the key beneficiaries of the patent regime in the long term. The parent has a strong R&D pipeline, with a total of 62 products undergoing clinical trials, of which 26 are in Phase-III or pending approvals. Some of these are likely to be launched in India. Focus on growing strategic brands and strong support from the parent augurs well for APL. However, APL's profitability has declined significantly in the last three years, with EBITDA margin declining from 25% for CY06 to 15.2% for CY09, mainly impacted by discontinuation of Rabipur sales in the domestic market, lower export growth, and higher staff & promotional expenses. RoE has declined from 28.6% to 17.1% in the same period. The stock is currently valued at 22.6x CY11E and 18.9x CY12E EPS. We believe that stock price performance is likely to remain muted in the short-term until clarity emerges on future growth drivers. Maintain **Neutral**.

QUARTERLY PERFORMANCE (STANDALONE) (RS MILLION)

Y/E DECEMBER	CY09				CY10				CY09	CY10E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Sales	**2,289**	**2,499**	**2,585**	**2,371**	**2,514**	**2,715**	**2,756**	**2,694**	**9,744**	**10,679**
YoY Change (%)	5.5	0.5	4.3	-12.2	9.8	8.6	6.6	13.6	-0.9	9.6
Total Expenditure	1,899	1,970	2,189	2,209	2,150	2,280	2,331	2,362	8,267	9,123
EBITDA	**390**	**529**	**396**	**162**	**364**	**435**	**425**	**332**	**1,477**	**1,556**
Margins (%)	17.0	21.2	15.3	6.9	14.5	16.0	15.4	12.3	15.2	14.6
Depreciation	42	43	44	44	43	47	53	55	173	198
Interest	0	0	0	1	0	0	0	0	1	0
Other Income	320	249	289	253	226	253	313	237	1,111	1,029
PBT before EO Items	**668**	**735**	**641**	**371**	**547**	**641**	**685**	**514**	**2,415**	**2,387**
Extra-Ord Expense	0	0	0	0	0	0	0	0	0	0
PBT after EO Items	**668**	**735**	**641**	**371**	**547**	**641**	**685**	**514**	**2,415**	**2,387**
Tax	263	264	203	103	186	217	212	178	833	793
Effective tax Rate (%)	39.4	35.9	31.7	27.8	34.0	33.9	30.9	34.6	34.5	33.2
Reported PAT	**405**	**471**	**438**	**268**	**361**	**424**	**473**	**336**	**1,582**	**1,594**
Adj PAT	**405**	**471**	**438**	**268**	**361**	**424**	**473**	**336**	**1,582**	**1,594**
YoY Change (%)	17.4	12.7	-1.8	-37.7	-10.9	-10.0	8.0	25.7	-3.3	0.8
Margins (%)	17.7	18.8	16.9	11.3	14.4	15.6	17.2	12.5	16.2	14.9

E: MOSL Estimates

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Biocon

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	BIOS IN
Equity Shares (m)	200.0
52 Week Range (Rs)	465 / 253
1,6,12 Rel Perf (%)	0 / 13 / 29
Mcap (Rs b)	81.6
Mcap (USD b)	1.8

CMP: Rs408 — Buy

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/10A	23,678	2,837	14.2	230.3	28.8	3.6	16.1	15.6	3.4	17.2
03/11E	28,465	3,507	17.5	23.6	23.3	3.1	17.3	17.5	2.8	13.7
03/12E	32,728	4,111	20.6	17.2	19.9	3.5	17.6	17.6	2.3	12.2
03/13E	37,432	4,720	23.6	14.8	17.3	3.0	17.5	18.0	1.9	10.5

- We expect 3QFY11 topline to grow 16.1% YoY to Rs7.4b, led by Biopharma division and AxiCorp (German subsidiary). Biopharma revenues are likely to record 19.4% YoY growth, led by domestic formulations, statins, insulin and immunosuppressants. AxiCorp's revenues are likely to grow by 14% YoY to Rs2.9b, led by strong growth in the generic tender business supported by products like Metformin, Simvastatin, Metoprolol, Amoxicillin and Fluconazole. Contract research revenues are likely to grow 9.2% YoY.
- EBITDA would grow 17.9% YoY, led by strong growth in revenues. EBITDA margin would expand by 40bp YoY on the back of better product mix.
- Adjusted PAT is likely to grow by 11.6% YoY to Rs908m despite good growth in operating profit due to higher tax rate and interest expenses.

Key growth drivers for FY11 and FY12 will be: (1) traction in the company's insulin initiative in emerging markets, (2) ramp-up in contract research business, and (3) incremental contribution from immunosuppressant API supplies. However, increased depreciation and higher expenses linked to the scale-up of the domestic formulations business will continue to temper earnings growth. Option values for the future include separate listing of Syngene and potential out-licensing of the oral insulin NCE. We estimate EPS of Rs17.5 for FY11 (up 23.6%) and Rs20.6 for FY12 (up 17.2%), leading to 20% earnings CAGR over FY10-12. Our estimates exclude the upsides from the upfront and milestone payment from Pfizer, as these are valued separately on a DCF basis. The stock trades at 23.3x FY11E and 19.9x FY12E earnings adjusted for DCF value of Rs54/share for the Pfizer deal. Maintain **Buy**.

QUARTERLY PERFORMANCE (CONSOLIDATED) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	**4,959**	**5,800**	**6,351**	**6,568**	**6,623**	**6,788**	**7,371**	**7,684**	**23,678**	**28,465**
YoY Change (%)	87.9	31.0	45.6	40.9	33.6	17.0	16.1	17.0	47.2	20.2
Total Expenditure	3,946	4,668	5,084	5,265	5,310	5,352	5,876	6,156	18,963	22,694
EBITDA	**1,013**	**1,132**	**1,267**	**1,303**	**1,313**	**1,436**	**1,494**	**1,528**	**4,715**	**5,771**
Margins (%)	20.4	19.5	19.9	19.8	19.8	21.2	20.3	19.9	19.9	20.3
Depreciation	324	351	360	366	375	390	422	500	1,401	1,688
Interest	56	52	27	34	70	65	72	81	169	287
Other Income	94	124	64	88	95	89	93	127	370	405
PBT	**727**	**853**	**944**	**991**	**963**	**1,070**	**1,094**	**1,075**	**3,515**	**4,201**
Tax	142	94	107	144	164	156	186	187	487	693
Rate (%)	19.5	11.0	11.3	14.5	17.0	14.6	17.0	17.4	13.8	16.5
Minority Interest	14	17	24	41	31	22	0	0	96	0
PAT	**571**	**742**	**813**	**806**	**767**	**892**	**908**	**887**	**2,932**	**3,507**
YoY Change (%)	283.5	194.4	191.3	219.0	34.3	20.2	11.6	10.1	215.1	19.6
Margins (%)	11.5	12.8	12.8	12.3	11.6	13.1	12.3	11.5	12.4	12.3

E: MOSL Estimates

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Cadila Healthcare

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	CDH IN
Equity Shares (m)	204.7
52 Week Range (Rs)	809 / 413
1,6,12 Rel Perf (%)	-6 / 3 / 56
Mcap (Rs b)	155.3
Mcap (USD b)	3.4

CMP: Rs758 **Buy**

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/10A	36,868	5,092	24.9	57.7	30.5	9.6	36.0	26.7	4.4	20.2
03/11E	44,186	6,239	30.5	22.5	24.9	7.3	35.2	29.9	3.7	15.9
03/12E	50,725	7,696	37.6	23.3	20.2	5.7	31.6	29.7	3.2	13.8
03/13E	58,760	9,565	46.7	24.3	16.2	4.5	30.7	31.6	2.7	11.3

- Cadila's 3QFY11 topline is likely to record 17% YoY growth to Rs11.6b, led by 22.3% YoY growth in export sales (contributing 52% of revenues). Domestic business would grow by 13.9% YoY to Rs5.5b. We expect the company's consumer business in India to record 21.4% YoY growth and its domestic formulation revenues to grow 12% YoY to Rs4.1b.
- We expect EBITDA to grow 24.1% YoY; EBITDA margin is likely to expand by 130bp YoY to 22.5% due to improving profitability of foreign subsidiaries.
- PAT is likely to record 25.6% YoY growth to Rs1.6b, led by healthy topline growth and improvement in operating margins.

Cadila's future growth will be led by increased traction in its international businesses, ramp-up in supplies to Hospira and recovery in the domestic formulations business. This coupled with a de-risked business model should ensure good long-term potential for the company. We estimate 17.3% revenue and 22.9% earnings CAGR over FY10-12, led by 23% CAGR in US operations and 26% CAGR in domestic consumer revenues, coupled with ramp-up in supplies to Hospira. We expect RoE of more than 30% over the next two years. We forecast EPS of Rs30.5 for FY11 (up 22.5%) and Rs37.6 for FY12 (up 23.3%), translating into 22.9% EPS CAGR over FY10-12. Cadila is currently valued at 24.9x FY11E and 20.2x FY12E consolidated earnings. Our estimates do not include any upsides from the supply agreement with Abbott. **Buy**.

QUARTERLY PERFORMANCE (CONSOLIDATED) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Revenues	**9,036**	**9,458**	**9,910**	**8,465**	**11,338**	**11,166**	**11,593**	**10,088**	**36,868**	**44,186**
YoY Change (%)	29.4	25.0	32.3	17.0	25.5	18.1	17.0	19.2	25.9	19.8
Total Expenditure	6,998	7,401	7,810	6,572	8,364	8,718	8,987	7,851	28,782	33,920
EBITDA	**2,037**	**2,057**	**2,100**	**1,893**	**2,974**	**2,448**	**2,607**	**2,238**	**8,087**	**10,266**
Margins (%)	22.5	21.7	21.2	22.4	26.2	21.9	22.5	22.2	21.9	23.2
Depreciation	296	311	334	398	314	304	402	469	1,339	1,489
Interest	229	206	217	170	224	179	187	174	821	765
Other Income	28	16	63	52	-63	57	74	37	159	106
PBT before EO Income	**1,540**	**1,556**	**1,612**	**1,378**	**2,373**	**2,022**	**2,091**	**1,632**	**6,085**	**8,118**
EO Exp/(Inc)	9	26	11	0	0	0	0	0	46	0
PBT after EO Income	**1,531**	**1,530**	**1,601**	**1,378**	**2,373**	**2,022**	**2,091**	**1,632**	**6,039**	**8,118**
Tax	242	176	255	68	338	254	376	250	741	1,218
Rate (%)	15.8	11.5	15.9	4.9	14.2	12.6	18.0	15.3	12.3	15.0
Minority Int/Adj on Consol	40	35	49	123	43	60	74	119	247	296
Reported PAT	**1,248**	**1,319**	**1,297**	**1,187**	**1,992**	**1,708**	**1,641**	**1,264**	**5,051**	**6,604**
Adj PAT	**1,256**	**1,342**	**1,307**	**1,187**	**1,627**	**1,708**	**1,641**	**1,264**	**5,092**	**6,239**
YoY Change (%)	40.0	39.0	115.8	18.5	29.6	27.3	25.6	6.4	57.7	22.5
Margins (%)	13.9	14.2	13.2	14.0	14.3	15.3	14.2	12.5	13.8	14.1

E: MOSL Estimates; Quarterly numbers don't add up to full year numbers due to restatement

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Cipla

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	CIPLA IN
Equity Shares (m)	802.9
52 Week Range (Rs)	380 / 300
1,6,12 Rel Perf (%)	4 / -6 / -10
Mcap (Rs b)	292.1
Mcap (USD b)	6.5

CMP: Rs364 **Buy**

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/10A	56,057	10,050	12.5	25.0	29.1	4.9	17.0	20.6	5.2	21.2
03/11E	62,830	10,346	12.9	2.9	28.2	4.4	15.5	17.3	4.7	20.2
03/12E	71,953	13,000	16.2	25.4	22.5	3.8	17.0	18.4	4.0	16.9
03/13E	82,804	14,478	18.0	11.3	20.2	3.3	16.6	18.0	3.5	15.1

- We expect Cipla's 3QFY11 topline to grow 11% YoY to Rs15.9b, driven by 14.7% YoY growth in domestic formulations business and 15.3% YoY growth in export sales. However, other operating income would decline 45.3% YoY on a high base, tempering topline growth.
- While EBITDA is likely to decline 11.5% YoY, EBITDA margin would contract by 570bp YoY to 22.4%, primarily due to higher staff cost, lower OOI (which adds directly to EBITDA) and higher start-up expenses linked to the company's Rs10b Indore SEZ.
- PAT is likely to decline by 12.8%YoY to Rs2.5b due to muted operational performance.

Cipla has one of the strongest generic pipelines amongst Indian companies. After a long delay, we expect Cipla's CFC-free inhaler pipeline to gradually get commercialized in Europe and upsides from high-margin opportunities like Seretide can potentially come through over the next two years (our estimates do not include these upsides). Its large manufacturing infrastructure, strong chemistry skills and huge inhaler capacity make it a partner of choice for global MNCs that are ramping up their generics and emerging market presence. This coupled with its low-risk strategy and one of the strongest capex in the company's history (currently unutilized) should ensure good long-term potential. Temporary slowdown in overall growth and increasing working capital requirements remain our key concerns. We expect Cipla to record EPS of Rs12.9 for FY11 and Rs16.2 for FY12, translating into 14% EPS CAGR for FY10-12. The stock trades at 28.2x FY11E and 22.5x FY12E earnings. Maintain **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Revenues	**13,760**	**14,408**	**14,385**	**13,504**	**14,798**	**16,154**	**15,964**	**15,914**	**56,057**	**62,830**
YoY Change (%)	14.0	6.4	7.2	1.5	7.5	12.1	11.0	17.9	7.1	12.1
Total Expenditure	10,075	10,695	10,346	11,198	11,152	12,638	12,392	12,122	42,315	48,304
EBITDA	**3,685**	**3,713**	**4,039**	**2,305**	**3,646**	**3,516**	**3,573**	**3,792**	**13,742**	**14,526**
Margins (%)	26.8	25.8	28.1	17.1	24.6	21.8	22.4	23.8	24.5	23.1
Depreciation	458	478	457	278	548	639	665	705	1,671	2,558
Interest	105	84	44	-3	1.1	2.8	3.3	14.7	230	22
Other Income	-150	203	-62	478	28	316	168	159	469	671
Profit before Tax	**2,972**	**3,354**	**3,477**	**2,508**	**3,124**	**3,190**	**3,072**	**3,231**	**12,311**	**12,617**
EO Expense				-950					-950	0
PBT after EO Expense	**2,972**	**3,354**	**3,477**	**3,458**	**3,124**	**3,190**	**3,072**	**3,231**	**13,261**	**12,617**
Tax	555	618	587	676	550	560	553	608	2,435	2,271
Rate (%)	18.7	18.4	16.9	27.0	17.6	17.6	18.0	18.8	19.8	18.0
Reported PAT	**2,417**	**2,737**	**2,890**	**2,782**	**2,574**	**2,630**	**2,519**	**2,623**	**10,826**	**10,346**
Adj PAT	**2,417**	**2,737**	**2,890**	**2,155**	**2,574**	**2,630**	**2,519**	**2,623**	**10,199**	**10,346**
YoY Change (%)	72.6	80.7	29.4	-17.7	6.5	-3.9	-12.8	21.7	31.3	1.4
Margins (%)	17.6	19.0	20.1	16.0	17.4	16.3	15.8	16.5	18.2	16.5

E: MOSL Estimates

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Dishman Pharma

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	DISH IN
Equity Shares (m)	81.3
52 Week Range (Rs)	275 / 126
1,6,12 Rel Perf (%)	-6 / -52 / -57
Mcap (Rs b)	11.3
Mcap (USD b)	0.2

CMP: Rs139 — Neutral

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/10A	9,154	1,157	14.2	-21.0	9.7	1.4	15.3	11.4	2.0	9.1
03/11E	9,228	970	11.9	-16.1	11.6	1.3	11.6	9.2	2.0	10.0
03/12E	10,595	1,011	12.4	4.2	11.2	1.2	10.9	9.6	1.8	7.9
03/13E	12,232	1,317	16.2	30.3	8.6	1.0	12.8	11.2	1.5	6.6

- We expect muted topline growth of 5.8% YoY for Dishman in 3QFY11 to Rs2.4b. Absence of certain contract research projects and high base, pricing pressure in QUATs segment, and ~11% appreciation of Rupee v/s Euro would lead to a decline in CRAMS business revenues from India. Carbogen AMCIS is likely to report strong 38% YoY growth to Rs925m on a low base. MM business is likely to report flat revenues at Rs607m due to ongoing pricing pressure in QUATs segment.
- EBITDA is expected to decline by 2% YoY to Rs501m while EBITDA margin is likely to decline by 180bp YoY to 21.3% due to reduction in high margin contract research business from India and appreciation of Rupee v/s Euro and US dollar.
- We expect the bottomline to decline by 34.7% YoY to Rs212m reflecting the muted growth in topline, contraction in EBITDA margin, and higher tax expenses.

The macro environment for the CRAMS business remains favorable, given India's inherent cost advantages and chemistry skills. We believe Dishman will benefit from increased outsourcing from India, given its strengthening MNC relations. However, the adverse business environment for Carbogen and Euro depreciation will continue to impact earnings growth in FY11. We expect revenue CAGR of 7.6%, EBITDA CAGR of 8.1% and earnings CAGR of -6.5% over FY10-12. Based on our estimates, the stock currently trades at 11.6x FY11E and 11.2x FY12E earnings. RoE will continue to be at 15% till new facilities and CRAMS contracts ramp up. We maintain our **Neutral** rating.

QUARTERLY PERFORMANCE (CONSOLIDATED) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	**2,277**	**2,174**	**2,223**	**2,479**	**2,019**	**2,128**	**2,353**	**2,728**	**9,154**	**9,228**
YoY Change (%)	-3.5	-13.7	-21.2	-15.2	-11.3	-2.1	5.8	10.0	-13.8	0.8
Total Expenditure	1,745	1,677	1,710	1,984	1,574	1,759	1,851	2,099	7,116	7,390
EBITDA	**532**	**498**	**513**	**495**	**445**	**369**	**501**	**629**	**2,038**	**1,838**
Margins (%)	23.4	22.9	23.1	20.0	22.0	17.4	21.3	23.1	22.3	19.9
Depreciation	145	174	141	135	161	168	177	189	594	695
Interest	104	99	85	100	82	95	103	117	388	397
Other Income	155	59	32	25	104	203	17	21	270	345
PBT after EO Income	**438**	**284**	**319**	**285**	**305**	**308**	**238**	**345**	**1,326**	**1,090**
Tax	9	25	30	-10	17	14	29	61	54	120
Deferred Tax	37	14	-32	96	17	0	0	-17	115	0
Rate (%)	10.5	14.0	-0.6	29.9	11.2	4.4	12.0	12.7	12.8	11.0
Prior Period Adjustment	1	5	-10	-12	-1	12	0	0	-17	0
Reported PAT	**391**	**240**	**331**	**212**	**272**	**283**	**209**	**301**	**1,174**	**970**
Adj PAT	**392**	**244**	**321**	**200**	**271**	**295**	**209**	**301**	**1,157**	**970**
YoY Change (%)	41.5	725.7	-19.3	-73.7	-30.8	20.7	-34.7	51.0	-21.0	-16.1
Margins (%)	17.2	11.2	14.4	8.0	13.4	13.9	8.9	11.0	12.6	10.5

E: MOSL Estimates

Nimish Desai (NimishDesai@MotilalOswal.com) / Amit Shah (Amit.Shah@MotilalOswal.com)

Divi's Laboratories

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	DIVI IN
Equity Shares (m)	132.1
52 Week Range (Rs)	798 / 558
1,6,12 Rel Perf (%)	-2 / -30 / -20
Mcap (Rs b)	84.0
Mcap (USD b)	1.9

CMP: Rs636 **Buy**

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/10A	9,416	3,403	25.8	-19.9	24.7	5.5	24.7	27.3	8.9	20.8
03/11E	11,058	3,443	26.1	1.2	24.4	4.7	20.9	23.2	7.6	20.4
03/12E	13,241	4,273	32.3	24.1	19.7	4.0	22.2	26.8	6.3	15.1
03/13E	15,834	5,314	40.2	24.4	15.8	3.4	23.3	27.6	5.3	12.7

- We expect revenue growth of 40.8% YoY for Divi's in 3QFY11 to Rs2.8b on a low base which was impacted by inventory de-stocking undertaken by customers and lack of funding to small and biotech companies. We are expecting a strong recovery in CRAMS and API revenues in 2HFY11. The company commissioned its Carotenoids facility in June 2009 and we expect a gradual scale-up in revenues from this initiative over the next two years.
- While EBITDA is likely to grow by 61%YoY to Rs1.1b while EBITDA margins are likely to expand by 380bp led by operating leverage.
- Adjusted PAT is expected to grow by 25.9%YoY to Rs854m reflecting the strong revenue growth and reduction in interest cost.

While we expect the stock price to correct in the immediate future (based on lower-than estimated 2QFY11 performance), we are positive about the prospects of pharmaceutical outsourcing from India, given the unique combination of low costs and chemistry skills that India offers. We expect Divi's to be a key beneficiary of the increased pharmaceutical outsourcing from India, given its strong relationships with global innovator pharmaceutical companies. It has undertaken Rs2b capex to set up an SEZ, implying positive prospects for the outsourcing business (generally Divi's does not undertake capex without adequate revenue visibility from customers). We estimate 19% revenue CAGR over FY10-12, led mainly by the recovery in the CRAMS business and 13% EPS CAGR excluding significant upsides from the new Rs2b SEZ. The stock trades at 24.4x FY11E earnings and 19.7x FY12E earnings. Maintain **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Op Revenue	**2,058**	**2,253**	**1,963**	**3,141**	**2,635**	**2,553**	**2,764**	**3,105**	**9,416**	**11,058**
YoY Change (%)	-22.6	-31.8	-25.9	-1.5	28.0	13.3	40.8	-1.2	-20.2	17.4
Total Expenditure	1,392	1,200	1,304	1,628	1,645	1,711	1,731	1,780	5,364	6,943
EBITDA	**667**	**1,053**	**659**	**1,513**	**990**	**842**	**1,033**	**1,325**	**4,052**	**4,115**
Margins (%)	32.4	46.7	33.6	48.2	37.6	33.0	37.4	42.7	43.0	37.2
Depreciation	129	131	133	123	131	133	162	211	515	637
Interest	8	30	18	7	6	5	7	10	28	27
Other Income	143	55	262	43	59	92	106	160	343	418
PBT before EO Income	**673**	**947**	**771**	**1,427**	**912**	**797**	**970**	**1,265**	**3,853**	**3,868**
EO Income	-540	0	0	540	0	0	0	0	0	0
PBT after EO Income	**132**	**947**	**771**	**1,967**	**912**	**797**	**970**	**1,265**	**3,853**	**3,868**
Tax	87	83	104	135	71	77	116	161	408	426
Deferred Tax	2	17	-11	34	3	0	0	-3	42	0
Rate (%)	67.5	10.5	12.0	8.5	8.2	9.7	12.0	12.4	11.7	11.0
Reported PAT	**43**	**848**	**678**	**1,799**	**837**	**719**	**854**	**1,108**	**3,403**	**3,443**
Adj PAT	**594**	**848**	**678**	**1,305**	**837**	**719**	**854**	**1,108**	**3,403**	**3,443**
YoY Change (%)	-38.4	-37.8	-14.7	25.2	40.9	-15.2	25.9	-15.1	-18.3	1.2
Margins (%)	28.9	37.6	34.6	41.5	31.8	28.2	30.9	35.7	36.1	31.1

E: MOSL Estimates

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Dr Reddy's Laboratories

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	DRRD IN
Equity Shares (m)	168.4
52 Week Range (Rs)	1,855 / 1,051
1,6,12 Rel Perf (%)	-9 / 2 / 26
Mcap (Rs b)	283.3
Mcap (USD b)	6.3

CMP: Rs1,682 Buy

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	ADJ. P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/10A	68,179	334	2.0		835.5	6.6	2.5	2.6	4.1	25.0
03/11E	73,165	11,397	67.5		24.5	5.7	23.0	16.5	3.9	24.3
03/12E	81,753	12,819	75.9	12.5	21.8	5.6	25.1	19.4	3.6	22.3
03/12E*	88,361	16,770	99.6	49.7	16.6					
03/13E	93,421	13,921	82.5	8.6	20.1	4.9	23.9	18.9	3.1	20.3

** Includes one-off upsides. Adj P/E for core estimate is adjusted for DCF value of FTFs & bonus debentures*

- We expect DRL's core revenues (ex one-off sales) to grow by 10.5% YoY to Rs19.1b in 3QFY11, led by strong 18% YoY growth in the branded generics business. Regulated market generics business is likely to report growth of 14.5% YoY while PSAI business is expected to decline by 3% YoY. Including revenues from Para-IV/low competition product opportunities in US, overall revenue is likely to grow by 17.1% YoY to Rs20.3b.
- Core EBITDA is likely to remain stagnant at Rs2.9b while EBITDA margin is likely to contract by 150bp YoY to 15% partially due to rupee appreciation v/s US dollar.
- We expect the company to report adjusted PAT of Rs2.4b v/s loss of Rs5.2b in 3QFY11, impacted by write-off of intangibles related to Germany business. Including contribution from low competition products, PAT is likely to be Rs2.7b.

Traction in the branded formulations and US businesses, and focus on improving profitability will be key growth drivers for the company over the next two years. We estimate core EPS of Rs67.4 for FY11 and Rs75.9 for FY12, adjusting for interest costs of proposed bonus debentures. We expect core EPS CAGR of 29% over FY08-12 (EPS in FY09 and FY10 suffered due to Betapharm write-offs). Our core estimates exclude upsides from patent challenges/low-competition opportunities in the US (current DCF value of Rs45/share for visible opportunities). The stock trades at 24.5x FY11E and 21.8x FY12E core earnings. Maintain **Buy**.

GLOBAL QUARTERLY PERFORMANCE (US GAAP) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Gross Sales	**18,189**	**18,368**	**17,296**	**16,424**	**16,831**	**18,704**	**19,106**	**18,523**	**70,277**	**73,165**
YoY Change (%)	21.0	13.7	-6.0	-17.3	-7.5	1.8	10.5	12.8	1.2	4.1
EBITDA	**3,767**	**2,749**	**2,860**	**2,145**	**2,727**	**3,324**	**2,866**	**2,972**	**11,521**	**11,889**
Margins (%)	20.7	15.0	16.5	13.1	16.2	17.8	15.0	16.0	16.4	16.3
Depreciation & Amortization	507	329	8,977	269	288	317	275	220	10,082	1,100
Other Income	-89	348	123	232	14	186	207	147	614	554
Profit before Tax	**3,171**	**2,768**	**-5,994**	**2,108**	**2,453**	**3,193**	**2,798**	**2,899**	**2,052**	**11,342**
Tax	726	595	-777	441	357	327	420	314	985	1,418
Rate (%)	22.9	21.5	13.0	20.9	14.6	10.2	15.0	10.8	48.0	12.5
Reported PAT	**2,445**	**2,173**	**-5,217**	**1,667**	**2,096**	**2,866**	**2,379**	**2,585**	**1,067**	**9,925**
Net Profit	**2,445**	**2,173**	**-5,217**	**1,667**	**2,096**	**2,866**	**2,726**	**3,284**	**1,067**	**10,971**
One Time & EO (Exp)/Inc	734	0	0	0	563	410	348	699	734	2,019
Adjusted PAT	**1,711**	**2,173**	**-5,217**	**1,667**	**1,533**	**2,456**	**2,379**	**2,585**	**333**	**8,952**
YoY Change (%)	26.9	79.1	-681.6	-115.1	-10.4	13.0		55.1	-104.5	-
Margins (%)	9.4	11.8	-30.2	10.1	9.1	13.1	12.4	14.0	0.5	12.2

E: MOSL Estimates; Note-DRL commcenced IFRS reporting wef 2QFY09. Past financials are as per US GAAP. Estimates do not include one-off upsides.

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GlaxoSmithKline Pharmaceuticals

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	GLXO IN
Equity Shares (m)	84.7
52 Week Range (Rs)	2,391 / 1,490
1,6,12 Rel Perf (%)	-3 / -10 / 18
Mcap (Rs b)	186.9
Mcap (USD b)	4.1

CMP: Rs2,206 **Buy**

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
12/09A	18,708	5,049	59.6	12.6	37.0	10.6	28.7	43.0	9.0	25.7
12/10E	21,140	5,842	69.0	15.7	32.0	9.7	30.2	44.5	7.9	22.3
12/11E	24,311	6,800	80.3	16.4	27.5	8.7	31.7	46.9	6.8	18.8
12/12E	27,957	7,947	93.8	16.9	23.5	7.8	33.2	49.1	5.8	15.8

- We expect GSK's 4QCY10 topline to grow 10.9% YoY to Rs4.9b, led by double-digit growth in Priority Products (60-70% of sales). DPCO products (~27% of sales) are likely to record single-digit revenue growth.
- EBITDA is likely to grow 12.5% YoY to Rs1.6b while EBITDA margin is likely to expand by 50bp YoY to 31.6%.
- PAT should grow 17.2% YoY, led by topline growth and lower tax expenses.

We believe GSK is one of the best plays on the IPR regime in India, with aggressive plans to launch new products in the high-growth lifestyle segments. These launches are likely to bring in long term benefits. We believe GSK's topline growth is gradually improving, with revenue CAGR of 14% over CY09-11. Growth trajectory should improve in the long-term and after CY13, as new launches start contributing meaningfully to the topline. Given the high profitability of operations, we expect this growth to lead to sustainable double-digit earnings growth and RoE of ~30%. This growth is likely to be funded through miniscule capex (Rs400m/year) and negative net working capital. GSK deserves premium valuations due to its strong parentage (giving access to a large product pipeline), brand-building ability and likely positioning in the post patent era. It is one of the very few companies with the ability to drive reasonable growth without any major capital requirement, leading to high RoCE of over 45%. The stock is valued at 32x CY10E and 27.5x CY11E earnings. Maintain **Buy** with a target price of Rs2,410 (30x CY11E EPS).

QUARTERLY PERFORMANCE (RS MILLION)

Y/E DECEMBER	CY09				CY10				CY09	CY10E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Sales	**4,572**	**4,574**	**5,118**	**4,444**	**5,411**	**4,979**	**5,820**	**4,930**	**18,708**	**21,140**
YoY Change (%)	8.5	9.9	11.8	21.9	18.4	8.9	13.7	10.9	12.7	13.0
Total Expenditure	2,926	2,945	3,230	3,060	3,410	3,163	3,733	3,374	12,162	13,679
EBITDA	**1,645**	**1,629**	**1,888**	**1,384**	**2,001**	**1,817**	**2,087**	**1,556**	**6,546**	**7,461**
Margins (%)	36.0	35.6	36.9	31.1	37.0	36.5	35.9	31.6	35.0	35.3
Depreciation	37	40	40	48	38	41	41	50	164	169
Other Income	300	419	233	253	438	298	328	290	1,206	1,355
PBT before EO Expense	**1,908**	**2,009**	**2,081**	**1,587**	**2,402**	**2,074**	**2,374**	**1,796**	**7,585**	**8,646**
Tax	644	696	684	737	790	678	792	545	2,762	2,804
Deferred Tax	11	-4	-14	-219	0	0	0	0	-226	0
Rate (%)	34.3	34.5	32.2	32.7	32.9	32.7	33.3	30.3	33.4	32.4
Adjusted PAT	**1,253**	**1,317**	**1,411**	**1,068**	**1,612**	**1,396**	**1,583**	**1,252**	**5,049**	**5,842**
YoY Change (%)	3.5	14.8	6.9	19.4	28.6	6.0	12.2	17.2	12.6	15.7
Margins (%)	27.4	28.8	27.6	24.0	29.8	28.0	27.2	25.4	27.0	27.6
Extra-Ord Expense	-178	73	0	31	0	106	4	0	-74	111
Reported PAT	**1,432**	**1,243**	**1,411**	**1,037**	**1,612**	**1,290**	**1,578**	**1,252**	**5,123**	**5,732**

E: MOSL Estimates

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Glenmark Pharmaceuticals

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	GNP IN
Equity Shares (m)	269.8
52 Week Range (Rs)	390 / 230
1,6,12 Rel Perf (%)	-2 / 15 / 10
Mcap (Rs b)	96.2
Mcap (USD b)	2.1

CMP: Rs357 — Neutral

Year End	Net Sales (Rs M)	PAT (Rs M)	EPS (Rs)	EPS Growth (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ Sales	EV/ EBITDA
03/10A	24,616	3,310	11.6	174.9	30.6	4.1	14.1	12.7	4.6	19.1
03/11E	29,520	3,768	13.3	13.8	26.9	3.4	13.3	14.1	3.7	14.0
03/12E	33,591	5,244	18.4	39.2	19.3	2.9	15.8	15.7	3.2	13.1
03/13E	38,151	6,106	21.5	16.4	16.6	2.5	15.6	16.5	2.8	11.6

- We expect Glenmark's 3QFY11 core revenues (excluding Para-IV products) to grow 17.1% YoY to Rs7.2b, primarily led by the generics segment in US and Europe and the formulations segment in India and Latin America. Including the contribution from Para-IV product, generic Tarka, which is likely to contribute revenue of Rs224m for the quarter, we expect topline to grow 20.8% YoY.
- Core EBITDA is likely to grow by 31.8% YoY to Rs1.8b while EBITDA margin is likely to expand by 280bp to 25.5% due to low base.
- We expect the company to report adjusted PAT of Rs1.1b – a growth of 20.6% YoY, led by better operational performance but tempered by higher tax expenses YoY. Including the profit contribution from "at risk" launch of generic Tarka, we expect PAT to grow 34% YoY to Rs1.3b.

We expect Glenmark to post 16.8% topline CAGR over FY10-12, led by 23% CAGR in the generics business. The branded generics business is likely to grow at a more gradual 14% CAGR. Glenmark has differentiated itself from Indian pharmaceutical companies through its success in NCE research (resulting in licensing income of US$137m so far). Given this success, Glenmark has been aggressive in adding new NCEs to its pipeline, which will put pressure on its operations in the short to medium term, as it will have to fund R&D for these NCEs on its own. High net debt of Rs15.68b implies that fundraising may be needed to de-leverage the balance sheet (the management has indicated that it has no plans to dilute equity to cut debt). The stock trades at 26.9x FY11E and 19.3x FY12E EPS, with 14-16% RoE. Maintain **Neutral** with a target price of Rs295 (16x FY12E EPS).

QUARTERLY PERFORMANCE (RS MILLION)

Y/E March	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Revenues (Core)	**5,437**	**5,903**	**6,184**	**7,091**	**5,924**	**7,009**	**7,245**	**8,214**	**24,616**	**28,392**
YoY Change (%)	18.0	5.2	6.4	51.3	9.0	18.7	17.1	15.8	19.3	15.3
Net Revenues (incl one-offs)	**5,437**	**5,903**	**6,184**	**7,091**	**6,819**	**7,243**	**7,245**	**8,214**	**24,616**	**29,520**
EBITDA	**1,214**	**1,563**	**1,404**	**1,783**	**2,195**	**1,699**	**1,849**	**2,140**	**5,963**	**7,884**
Margins (%)	22.3	26.5	22.7	25.1	37.1	24.2	25.5	26.1	24.2	27.8
Depreciation	312	362	363	169	327	343	381	441	1,206	1,492
Interest	438	456	368	378	277	308	303	324	1,640	1,213
Other Income	76	262	312	72	260	353	253	107	722	973
PBT before EO Expense	**540**	**1,007**	**985**	**1,308**	**1,851**	**1,401**	**1,419**	**1,482**	**3,839**	**6,152**
Tax	85	198	44	202	296	284	284	367	529	1,230
Deferred Tax	-80	0	0	80	0	0	0	0	0	0
Rate (%)	0.9	19.6	4.5	21.5	16.0	20.3	20.0	24.7	13.8	20.0
Reported PAT (incl one-offs)	**535**	**809**	**941**	**1,026**	**1,555**	**1,116**	**1,258**	**1,229**	**3,310**	**5,159**
Adj PAT (excl one-offs)	**535**	**809**	**941**	**1,026**	**777**	**988**	**1,135**	**868**	**3,310**	**3,768**
YoY Change (%)	-42.1	-14.2	61.2		45.3	22.1	20.6	-15.4	194.3	13.8
Margins (%)	9.8	13.7	15.2	14.5	13.1	14.1	15.7	10.6	13.4	13.3

E: MOSL Estimates; Adj PAT excludes one-off upsides. Financials for 4Q will not tally with reported nos due to re-statement of pre. quarters

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Jubilant Organosys

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	JOL IN
Equity Shares (m)	170.0
52 Week Range (Rs)	413 / 265
1,6,12 Rel Perf (%)	-13 / -35 / -37
Mcap (Rs b)	46.3
Mcap (USD b)	1.0

CMP: Rs272 **Neutral**

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/10A	37,813	4,215	26.5	38.3	10.2	2.0	24.4	12.7	1.9	9.2
03/11E	40,501	3,386	19.9	-25.0	13.7	1.8	14.2	8.8	1.7	10.0
03/12E	41,999	3,783	22.2	11.7	12.2	1.7	14.4	11.2	1.7	8.6
03/13E	47,194	4,956	29.1	31.0	9.3	1.5	17.3	13.7	1.4	7.1

- We expect Jubilant's 3QFY11 topline to record muted growth of 4% YoY, primarily due to demerger of APP business into a separate entity with effect from 15 November 2010. PLSPS business is likely to grow 10% YoY, led by specialty pharmaceuticals, generic formulations and API business. However, growth would partly be tempered due to muted growth of 7% YoY in proprietary products and exclusive synthesis segment on account of low end product prices.
- EBITDA would decline 24% YoY to Rs1.7b due to demerger of APP business, benign end-product prices, higher input cost and high base. EBITDA margin is likely to contract 625bp YoY to 17.2%.
- We expect PAT to decline by 17.1% YoY to Rs836m, reflecting the poor operational performance.

We believe that the demerger of the APP business is a positive step, as it reflects the management's intention to have a focused approach for the PLSPS business. The demerger would also lead to higher RoCE for Jubilant as the APP business accounted for only 2% of its FY10 EBITDA but 6% of capital employed. We believe Jubilant is well positioned to exploit the expected increase in outsourcing from India. Customer inventory destocking for CRAMS companies is coming to an end and we expect growth to rebound in 2HFY11, as customers commence re-stocking. We also believe that some of the past acquisitions (like Draxis) have been made at expensive valuations, resulting in extended payback periods. High debt, large FCCB redemption (US$202m in May 2011 including YTM) and low RoCE (11-13%) remain an overhang. The stock trades at 13.7x FY11E EPS and 12.2x FY12E EPS. Maintain **Neutral**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	**8,964**	**9,331**	**9,615**	**9,903**	**9,815**	**9,876**	**10,000**	**10,810**	**37,813**	**40,501**
YoY Change (%)	8.4	-0.8	5.7	17.7	9.5	5.8	4.0	9.2	7.5	7.1
Total Expenditure	7,342	7,480	7,364	7,740	8,249	8,326	8,284	8,820	29,926	33,679
EBITDA	**1,622**	**1,851**	**2,251**	**2,163**	**1,567**	**1,549**	**1,715**	**1,991**	**7,887**	**6,822**
Margins (%)	18.1	19.8	23.4	21.8	16.0	15.7	17.2	18.4	20.9	16.8
Depreciation	308	308	313	318	496	505	507	520	1,247	2,027
Interest	407	363	390	345	198	249	283	281	1,505	1,010
Other Income	562	-362	-280	125	-147	81	55	55	44	44
PBT	**1,469**	**818**	**1,268**	**1,624**	**726**	**877**	**981**	**1,245**	**5,179**	**3,829**
Tax	223	240	225	271	109	61	137	125	959	433
Rate (%)	15.2	29.3	17.8	16.7	15.1	7.0	14.0	10.0	18.5	11.3
PAT	**1,245**	**578**	**1,043**	**1,353**	**617**	**816**	**843**	**1,121**	**4,220**	**3,396**
Minority Interest	-13	1	35	-19	-11	-5	8	18	5	10
Adjusted PAT	**1,258**	**577**	**1,008**	**1,372**	**627**	**821**	**836**	**1,102**	**4,215**	**3,386**
YoY Change (%)	886.1			-61.1	-50.1	42.3	-17.1	-19.6	79.6	-19.7
Margins (%)	14.0	6.2	10.5	13.8	6.4	8.3	8.4	10.2	11.1	8.4

E: MOSL Estimates; Numbers for 4QFY09 & full-year FY09 will be different from reported nos due to re-statement.

Nimish Desai (NimishDesai@MotilalOswal.com) / Amit Shah (Amit.Shah@MotilalOswal.com)

Lupin

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	LPC IN
Equity Shares (m)	444.7
52 Week Range (Rs)	520 / 262
1,6,12 Rel Perf (%)	-10 / 5 / 39
Mcap (Rs b)	202.0
Mcap (USD b)	4.5

CMP: Rs454 Buy

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/10A	47,405	6,816	15.3	34.8	29.6	7.9	34.1	27.5	4.5	24.8
03/11E	57,343	8,678	19.5	27.3	23.3	6.3	30.2	26.4	3.6	18.7
03/12E	65,351	10,513	23.6	21.1	19.2	5.1	29.6	27.1	3.1	15.5
03/13E	73,091	10,660	24.0	1.4	18.9	4.3	24.8	25.3	2.7	14.3

- We expect Lupin's 3QFY11 topline to grow 16.9% YoY, driven primarily by 22% YoY growth in formulation revenues from advanced markets (excluding Japan) to Rs6b and 21% YoY growth in formulation revenues from semi-regulated markets including India.
- EBITDA is likely to grow 11.9% YoY; EBITDA margin is likely to contract 80bp YoY due to higher other expenditure.
- We expect PAT to grow 33.5% YoY to Rs2.1b, despite lower growth in EBITDA, due to lower tax expense and higher other income.

Lupin is likely to improve gradually in the underlying fundamentals, led by an expanding US generics pipeline, niche/Para-IV opportunities in the US, strong performance from Suprax and a ramp-up in Antara revenues (branded products in the US), and traction in formulation revenues from its European initiative. We expect Lupin's core operations (excluding one-off upsides) to post 17.4% revenue CAGR over FY10-12, led by 23% CAGR for the US and 19% CAGR for the domestic formulations businesses, leading to 24% EBITDA and EPS CAGR. While our estimates factor in generic competition for Suprax from 2HFY12. Any out-of-court settlement for the Suprax patent litigation is likely to raise our earnings estimates for FY12/13. The stock trades at 23.3x FY11E and 19.2x FY12E EPS, with a sustained ~30% RoE. Our estimates do not include one-time upsides for the company's FTF pipeline in the US. Maintain **Buy**.

QUARTERLY PERFORMANCE (CONSOLIDATED) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	**10,856**	**11,147**	**12,554**	**12,848**	**13,121**	**14,051**	**14,676**	**15,496**	**47,405**	**57,343**
YoY Change (%)	25.9	22.7	30.5	23.1	20.9	26.0	16.9	20.6	25.5	21.0
Total Expenditure	8,914	9,506	10,090	10,359	10,499	11,353	11,919	12,568	38,869	46,340
EBITDA	**1,942**	**1,641**	**2,464**	**2,490**	**2,622**	**2,698**	**2,756**	**2,928**	**8,536**	**11,004**
Margins (%)	17.9	14.7	19.6	19.4	20.0	19.2	18.8	18.9	18.0	19.2
Depreciation	231	242	358	408	401	435	441	453	1,239	1,730
Interest	107	91	109	78	82	88	90	102	385	361
Other Income	211	541	155	539	230	303	302	479	1,445	1,314
PBT	**1,815**	**1,848**	**2,152**	**2,542**	**2,370**	**2,478**	**2,527**	**2,852**	**8,357**	**10,227**
Tax	364	200	504	293	350	271	329	380	1,360	1,330
Rate (%)	20.0	10.8	23.4	11.5	14.7	10.9	13.0	13.3	16.3	13.0
Reported PAT	**1,451**	**1,647**	**1,648**	**2,250**	**2,020**	**2,207**	**2,199**	**2,472**	**6,997**	**8,898**
Minority Interest	50	43	42	45	57	57	55	51	180	220
Recurring PAT	**1,401**	**1,604**	**1,606**	**2,205**	**1,963**	**2,150**	**2,144**	**2,421**	**6,816**	**8,678**
YoY Change (%)	25.0	38.8	37.9	40.1	40.1	34.1	33.5	9.8	35.9	27.3
Margins (%)	12.9	14.4	12.8	17.2	15.0	15.3	14.6	15.6	14.4	15.1

E: MOSL Estimates

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Opto Circuits

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	OPTC IN
Equity Shares (m)	182.9
52 Week Range (Rs)	328 / 203
1,6,12 Rel Perf (%)	-11 / -8 / -4
Mcap (Rs b)	46.6
Mcap (USD b)	1.0

CMP: Rs255 **Neutral**

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/10A	10,776	2,452	13.4	55.0	19.0	4.5	33.9	28.5	4.4	13.0
03/11E	15,288	3,005	16.4	22.6	15.5	3.6	25.6	22.0	3.4	13.4
03/12E	22,471	3,399	18.6	13.1	13.7	2.9	23.3	19.3	2.3	11.7
03/13E	25,770	4,883	26.7	43.7	9.5	2.5	27.8	23.1	2.0	8.7

- We expect 3QFY11 revenue to grow 53.5% YoY to Rs3.9b, led by acquisition of Cardiac Science, strong 79% YoY growth in the invasive segment on a low base, and new product launches. Non-invasive segment revenue is likely to grow 24.4% YoY to Rs2.6b.
- EBITDA is likely to grow 8% YoY to Rs949m; EBITDA margin would contract 1,030bp due to high base, Cardiac Science losses, and increasing marketing & other expenses.
- Net profit should grow 12% YoY to Rs736m, in line with operating performance.

Opto has delivered strong revenue and earnings growth over the last few years. Also, it has consistently maintained its high return ratios. Further, despite rapid growth, the company still remains a marginal player in the global medical devices industry, which gives Opto the opportunity to sustain its high revenue growth rate for the next couple of years. We believe that Opto would see strong growth in both the invasive and non-invasive businesses on the back of large market opportunity, expanding distribution network and geographical spread, new product launches and low base. Based on our estimates for CSC, we have downgraded Opto's FY11E consolidated EPS by 10% to Rs16.4 and FY12E EPS by 17% to Rs18.6 while our FY13E EPS has remained unchanged at Rs26.7. Our estimates factor in the short-term adverse impact of the CSC acquisition for Opto (based on our assumption of a gradual recovery in CSC's financials). We have downgraded the stock to **Neutral**.

QUARTERLY PERFORMANCE (CONSOLIDATED) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Revenues	**2,304**	**2,557**	**2,570**	**3,345**	**2,920**	**3,314**	**3,947**	**5,108**	**10,776**	**15,288**
YoY Change (%)	29.9	17.8	21.8	56.9	26.7	29.6	53.5	52.7	31.7	41.9
Total Expenditure	1,533	1,650	1,689	2,235	1,949	2,257	2,998	4,239	7,107	11,442
EBITDA	**770**	**908**	**881**	**1,110**	**971**	**1,057**	**949**	**869**	**3,669**	**3,845**
Margins (%)	33.4	35.5	34.3	33.2	33.2	31.9	24.0	17.0	34.0	25.2
Depreciation	44	69	65	99	91	115	106	96	278	407
Interest	135	104	72	71	52	62	62	80	382	255
Other Income	4	3	-61	-23	94	-82	3	90	-76	106
PBT before EO Income	**596**	**737**	**683**	**917**	**922**	**799**	**784**	**783**	**2,933**	**3,289**
EO Exp/(Inc)	0	0	0	0	-4	1	0	-1	32	4
PBT after EO Income	**596**	**737**	**683**	**917**	**926**	**798**	**784**	**785**	**2,901**	**3,293**
Tax	3	47	25	221	92	23	48	120	296	284
Rate (%)	0.5	6.4	3.7	24.1	10.0	2.9	6.2	15.3	10.2	8.6
Minority Int/Adj on Consol	0	0	-1	0	3	1	0	-4	1	0
Reported PAT	**593**	**690**	**658**	**696**	**831**	**774**	**736**	**669**	**2,603**	**3,009**
Adj PAT	**593**	**690**	**659**	**696**	**828**	**774**	**736**	**668**	**2,632**	**3,006**
YoY Change (%)	30.7	21.5	25.1	20.2	39.7	12.3	11.7	-4.1	24.1	14.2
Margins (%)	25.7	27.0	25.6	20.8	28.3	23.4	18.6	13.1	24.4	19.7

E: MOSL Estimates

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Ranbaxy Laboratories

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	RBXY IN
Equity Shares (m)	420.4
52 Week Range (Rs)	625 / 364
1,6,12 Rel Perf (%)	-2 / 13 / -5
Mcap (Rs b)	240.8
Mcap (USD b)	5.3

CMP: Rs573 — Sell

YEAR END*	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
12/09A	74,688	1,517	3.6	-50.9	131.9	4.6	3.5	8.1	3.5	45.3
12/10E	86,861	13,543	32.2	792.9	14.8	3.3	22.2	17.7	2.8	14.2
12/11E	79,375	4,240	10.1	-68.7	47.2	3.0	6.5	7.3	3.1	28.8
12/12E	90,806	6,704	15.9	58.1	29.8	2.8	9.3	11.6	2.6	20.6

** All valuation ratios adjusted for Rs123/sh DCF value of FTFs*

- We expect Ranbaxy's core revenue for 4QCY10 to grow by 6% YoY to Rs19b, mainly led by 53% YoY growth in Africa, 28.6% YoY growth in Canada and 77.6% YoY growth in the Asia Pacific and Middle East region, on a low base. Core US generics business is likely to report 7% YoY growth to US$75m, while domestic formulations business is likely to grow 7% YoY.
- EBITDA margin at 8.9% would reflect the positive impact of the ongoing restructuring and cost cutting measures but would be tempered by increased manpower cost and appreciating currency.
- Adjusted PAT is likely to be Rs806m v/s loss of Rs1.5b in 4QCY09 due to forex related losses. Taking into account the contribution by Para-IV/low competition products, adjusted PAT is likely to almost double to Rs2.3b.

Sustaining current valuations is mainly dependent on upsides from Lipitor and Nexium. It is imperative for Ranbaxy to salvage the upsides from these two opportunities which account for 60-70% of overall Para-IV upsides. We expect core EPS of Rs10.1 for CY11 and Rs15.9 for CY12 (assuming part recovery in the US). Our estimates exclude MTM forex gains and one-off upsides from Para-IV opportunities. Ranbaxy is currently valued at 47.2x CY11E core EPS and 29.8x CY12E core EPS. Our current DCF value of all potential Para-IV upsides is Rs91/share. We believe that current valuations discount the best-case scenario for both the core business as well as the Para-IV upsides. We maintain **Sell** with a target price of Rs490 (25x CY12E EPS + FTF DCF value of Rs91/share).

QUARTERLY PERFORMANCE (RS MILLION)

Y/E DECEMBER	CY09				CY10				CY09	CY10E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Income	**14,926**	**18,958**	**18,858**	**21,946**	**26,993**	**21,505**	**19,347**	**19,017**	**74,688**	**86,861**
YoY Change (%)	-12.1	-1.7	1.8	13.9	80.8	13.4	2.6	-13.3	0.8	16.3
EBITDA	**-822**	**1,215**	**2,427**	**3,022**	**9,839**	**4,168**	**1,386**	**1,690**	**5,842**	**17,084**
Margins (%)	-5.5	6.4	12.9	13.8	36.5	19.4	7.2	8.9	7.8	19.7
Depreciation	639	644	654	739	1,005	695	987	835	2,676	3,522
Interest	246	197	121	146	248	111	110	109	710	577
Other Income	-816	2,308	-51	2,988	1,697	114	2,030	627	4,429	4,467
PBT before EO Expense	**-2,523**	**2,682**	**1,601**	**5,124**	**10,283**	**3,477**	**2,319**	**1,374**	**6,884**	**17,453**
Extra-Ord Expense	9,188	-8,137	0	-4,265	-3,872	159	-1,257	-450	-3,214	-5,420
PBT after EO Expense	**-11,711**	**10,819**	**1,601**	**9,389**	**14,155**	**3,318**	**3,576**	**1,824**	**10,098**	**22,873**
Tax	-4,101	3,888	435	6,769	4,524	-2	448	272	6,991	5,241
Rate (%)	35.0	35.9	27.2	72.1	32.0	-0.1	12.5	14.9	69.2	22.9
Reported PAT	**-7,610**	**6,931**	**1,166**	**2,620**	**9,631**	**3,320**	**3,128**	**1,552**	**3,107**	**17,632**
Minority Interest	0	38	35	68	26	63	49	43	142	180
Reported PAT after Minority	**-7,610**	**6,893**	**1,131**	**2,552**	**9,606**	**3,257**	**3,079**	**1,509**	**2,965**	**17,452**
Adj PAT	**-385**	**200**	**523**	**-1,545**	**533**	**1,516**	**1,020**	**806**	**-1,207**	**3,875**
YoY Change (%)	-137.8	-85.6	235.6	-390.0	-238.7	658.4	95.0	-152.2	-139.0	-421.1
Margins (%)	-2.6	1.1	2.8	-7.0	2.0	7.0	5.3	4.2	-1.6	4.5
Adj PAT incl one-offs	**-385**	**200**	**523**	**1,178**	**6,822**	**3,414**	**1,020**	**2,286**	**1,517**	**13,543**

E: MOSL Estimates

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Strides Arcolab

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	STR IN
Equity Shares (m)	55.7
52 Week Range (Rs)	478 / 230
1,6,12 Rel Perf (%)	-2 / -14 / 65
Mcap (Rs b)	23.8
Mcap (USD b)	0.5

CMP: Rs427 **Buy**

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
12/09A	13,048	611	11.2	-314.4	38.0	4.9	9.9	8.1	2.4	16.5
12/10E	18,158	1,627	30.0	166.5	14.3	3.1	14.6	12.9	1.8	9.6
12/11E	23,493	2,231	41.1	37.1	10.4	2.7	14.8	12.0	1.4	7.9
12/12E	26,315	2,520	46.4	13.0	9.2	2.5	14.8	12.5	1.3	7.0

- We expect Strides' 4QCY10 revenue to grow 46.2% YoY to Rs5.8b, led by 6x rise in revenue from specialty segments on the back of new product commercialization, revenue from acquired facility in Brazil and low base. Pharma business is likely to report growth of 33.7% YoY to Rs3.8b, led by traction in various markets like Australasia, India, etc. We estimate licensing income at Rs361m for the quarter.
- EBITDA is likely to grow 15% YoY to Rs817m; EBITDA margin would contract 380bp due to high base and higher expenditure related to four new facilities that are awaiting USFDA approval.
- We expect net profit to grow 50.1% YoY to Rs394m, despite large contraction in operating margins, due to lower tax expenses.

Strides is set to catapult into a specialty company, with revenue contribution from this segment set to rise from 27% in CY09 to 45% in CY12. The company has an impressive product pipeline in the specialty segment: it has 104 ANDA filings and 73 ANDAs awaiting approval. Besides, large manufacturing capacities (Rs15b capex over CY06-09) are in place to support a revenue scale-up and best-in-class marketing partners like Pfizer and GSK will lead to sustainable revenue growth. We expect Strides to clock earnings CAGR of 60% over CY09-12, led by ramp-up in revenues from the SI (sterile injectables) segment and core EBITDA margin expansion in line with changing product mix and higher capacity utilization. Return ratios are set to improve over CY09-12 and gearing will decline from 2.6x in CY09 to 1.1x in CY12. The stock trades at 10.4x CY11E and 9.2x CY12E earnings. Given the expected growth in earnings and improving business fundamentals, we believe the stock will offer impressive returns. **Buy** with a target price of Rs557 (12x CY12E EPS).

QUARTERLY PERFORMANCE (RS MILLION)

Y/E DECEMBER	CY10				CY11				CY10	CY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Revenues	**2,843**	**3,098**	**3,171**	**3,936**	**3,736**	**4,545**	**4,122**	**5,756**	**13,048**	**18,158**
YoY Change (%)	-46.9	-50.8	-44.6	-44.4	31.4	46.7	30.0	46.2	-43.8	39.2
Total Expenditure	2,420	2,765	2,765	3,227	2,956	3,532	3,420	4,938	11,177	14,847
EBITDA	**422**	**333**	**406**	**709**	**779**	**1,012**	**702**	**817**	**1,870**	**3,311**
Margins (%)	14.9	10.7	12.8	18.0	20.9	22.3	17.0	14.2	14.3	18.2
Depreciation	101	116	120	156	159	148	156	185	492	649
Interest	194	181	208	176	260	363	393	384	759	1,400
Other Income	74	12	20	130	80	293	182	143	236	698
PBT before EO Income	**201**	**48**	**99**	**507**	**440**	**793**	**336**	**391**	**855**	**1,960**
EO Exp/(Inc)	91	-462	-73	-130	-63	207	-182	38	-574	0
PBT after EO Income	**110**	**510**	**172**	**637**	**503**	**586**	**518**	**353**	**1,429**	**1,960**
Tax	8	67	-49	193	71	87	110	64	219	333
Rate (%)	7.4	13.1	-28.2	30.2	14.2	14.9	21.3	18.2	15.3	17.0
Minority Int/Adj on Consol	-3	25	0	91	33	41	0	-74	114	0
Reported PAT	**105**	**418**	**221**	**354**	**398**	**458**	**407**	**363**	**1,097**	**1,627**
Adj PAT	**189**	**17**	**127**	**263**	**344**	**634**	**264**	**394**	**611**	**1,627**
YoY Change (%)	-46.5	-96.3	-66.3	-58.4	82.4	3,707.1	108.2	50.1	-76.8	166.5
Margins (%)	6.6	0.5	4.0	6.7	9.2	13.9	6.4	6.9	4.7	9.0

E: MOSL Estimates; Quarterly numbers don't add up to full year numbers due to restatement

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Sun Pharmaceuticals Industries

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	SUNP IN
Equity Shares (m)	1,035.6
52 Week Range (Rs)	476 / 280
1,6,12 Rel Perf (%)	1 / 18 / 36
Mcap (Rs b)	489.6
Mcap (USD b)	10.8

CMP: Rs473 **Buy**

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/10A*	41,028	13,511	13.0	-25.7	36.2	6.3	12.8	18.7	11.1	33.3
03/11E	55,830	13,149	12.7	38.4	37.2	5.4	15.5	20.9	8.0	24.1
03/11E*	60,684	17,308	16.7	28.1						
03/12E	65,523	16,966	16.4	29.0	28.9	4.7	17.3	19.5	6.8	23.6
03/13E	75,042	20,765	20.1	20.0	23.6	4.1	18.5	21.2	5.8	19.5

** Includes Para-IV upsides*

- Sun Pharma's core revenue for 3QFY11 is likely to grow 56.5% YoY to Rs13.9b primarily due to acquisition of Taro, which we believe will contribute ~Rs4b to the topline. Including revenue from low competition products, the topline is likely to grow 41% YoY. Domestic formulations business is likely to grow 13% YoY while formulation exports to markets other than US are likely to grow 13% YoY.
- Core EBITDA (ex-Para IV/low competition products) is likely to grow 20% YoY to Rs3.7b. We expect core EBITDA margin to contract by 800bp due to unfavorable revenue mix on account of acquisition of Taro and lower contribution by domestic formulation revenues.
- Adjusted PAT is likely to grow by 5.3% YoY to Rs2.7b, despite strong operational performance because of lower other income, higher tax outgo and higher share of minority interest. Including the contribution from low competition products, reported PAT is likely to decline by 7.2% YoY to Rs3.14b.

An expanding generics portfolio coupled with change in product mix in favor of high-margin exports is likely to bring in long-term benefits for Sun Pharma. Its ability to sustain superior margins even on a high base is a clear positive. Key drivers for future include: (1) ramp-up in US business and resolution of Caraco's cGMP issues, (2) monetization of the Para-IV pipeline in the US, (3) Taro's integration with potential for improvement in its profitability, and (4) launch of controlled substances in the US. We estimate core EPS at Rs12.7 for FY11 and Rs16.4 for FY12 including the Taro acquisition. Our estimates for Taro budget for 100bp expansion in EBITDA margin per year for the next two years. The stock trades at 38.4x FY11E and 29x FY12E core earnings. Earnings growth is likely to improve post the resolution of Caraco's problems. Maintain **Buy** with a target of Rs498 (30x FY12E EPS + Rs4/share DCF value of FTFs).

QUARTERLY PERFORMANCE (CONSOLIDATED) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Revenues	**7,876**	**11,852**	**10,209**	**11,092**	**13,997**	**13,701**	**13,858**	**14,274**	**41,028**	**55,830**
YoY Change (%)	-23.1	0.6	11.2	4.3	77.7	15.6	35.8	28.7	-1.9	36.1
EBITDA	**1,684**	**4,833**	**3,684**	**3,432**	**6,160**	**4,670**	**3,711**	**3,944**	**13,633**	**18,485**
Margins (%)	21.4	40.8	36.1	30.9	44.0	34.1	26.8	27.6	33.2	33.1
Depreciation	376	379	359	419	402	352	428	496	1,533	1,678
Net Other Income	190	613	325	921	116	924	289	208	2,049	1,537
PBT	**1,499**	**5,067**	**3,650**	**3,933**	**5,873**	**5,242**	**3,572**	**3,656**	**14,149**	**18,344**
Tax	31	400	261	843	97	172	572	412	679	1,264
Rate (%)	2.1	7.9	7.1	21.4	1.7	3.3	16.0	11.3	4.8	6.9
Profit after Tax	**1,468**	**4,668**	**3,389**	**3,090**	**5,776**	**5,070**	**3,000**	**3,244**	**13,471**	**17,080**
Share of Minority Partner	-156	145	0	-28	133	34	288	266	-40	721
Reported PAT	**1,624**	**4,523**	**3,390**	**3,119**	**5,643**	**5,037**	**3,146**	**3,493**	**13,511**	**17,308**
One-off upsides	638	2,128	814	821	2,280	930	434	515	4,401	4,159
Adj Net Profit	**986**	**2,395**	**2,575**	**2,298**	**3,363**	**4,107**	**2,712**	**2,978**	**9,110**	**13,149**
YoY Change (%)	-70.2	-19.9	-26.3	-26.5	241.2	71.5	5.3	29.6	-29.5	44.3
Margins (%)	12.5	20.2	25.2	20.7	24.0	30.0	19.6	20.9	22.2	23.6

E: MOSL Estimates; Note - Estimates exclude Taro

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Real Estate

COMPANY NAME
- Anant Raj Industries
- DLF
- HDIL
- Mahindra Lifespaces
- Phoenix Mills
- Unitech

Siginificant under performance of BSE Realty Index to Sensex: In 3QFY11 the BSE Realty Index declined by 28.6% (as on 22 December 2010) and under-performed the broader Sensex by 27%. Since January 2010 the BSE Realty Index has under-performed the Sensex by ~45%. The under-performance and decline in 3QFY11 can be attributed mainly to (1) RBI measures such as increasing the risk-weight/provisioning for housing loans, (2) the impact of revelations in the housing scam and (3) slowdown in residential sales in key micro-markets of Mumbai due to sharp price appreciation. The sector has also been under pressure due to factors such as constant equity raising and fund-raising plans by RE companies.

Focus shifts from growth acceleration to growth sustainability: In 3QFY11 there has been a visible shift in focus from growth acceleration to growth sustainability. While the residential vertical is strong across key cities, apart from a visible volume slowdown particularly in Mumbai, the anticipated growth acceleration in the commercial and retail vertical was slower than expected. However, expectation of growth acceleration in commercial and retail verticals remain high in 4QFY11.

Expect RE universe to post 16% YoY revenue growth: We expect the execution velocity to gain momentum after a seasonal slowdown in 2QFY11 due to heavy monsoons. Since most RE companies follow a percentage of completion method of revenue booking, we anticipate faster construction will lead to higher revenue recognition in 3QFY11. We expect our RE universe to increase revenue by ~16% YoY (9% QoQ), increase EBITDA by ~35% YoY (18% QoQ) and to increase net profit by ~7% YoY (8.3% QoQ).

Valuation discount offers attractive entry point: In 3QFY11 the RE stock index under-performed benchmark indices by ~28.6% (as on 22 December 2010). Key RE stocks are available at a significant discount to NAV. While the average discount to NAV for our universe of RE stocks is ~33%, large cap companies such as DLF, Unitech and HDIL are available at 27%, 35% and 45% discount to NAV respectively. The limited history of trading data on RE stocks indicates a high discount to NAV is a good entry point for investors who want for long-term gains. Our top picks in the RE sector are **Unitech** and **DLF** among large caps and **Anant Raj** among mid caps.

Expected quarterly performance summary **(Rs million)**

	CMP (Rs)	Rating	Sales			EBITDA			Net profit		
	24.12.10		Dec.10	Var. % YoY	Var. % QoQ	Dec.10	Var. % YoY	Var. % QoQ	Dec.10	Var. % YoY	Var. % QoQ
Real Estate											
Anant Raj Inds	106	Buy	1,061	28.4	-20.1	541	-29.1	-13.7	444	-33.9	-7.7
DLF	283	Buy	24,301	20.0	2.6	11,492	36.3	23.7	4,783	2.2	14.3
HDIL	191	UR	4,355	6.5	16.9	2,632	39.4	11.0	2,223	36.6	4.0
Mahindra Lifespace	392	Buy	1,434	31.7	61.2	414	35.9	77.5	294	5.0	19.1
Phoenix Mills	219	Buy	459	52.0	3.5	319	80.0	0.5	206	101.9	-7.0
Unitech	63	Buy	8,033	3.7	24.6	2,779	49.7	9.9	1,808	2.7	4.0
Sector Aggregate			**39,643**	**15.5**	**8.5**	**18,178**	**35.4**	**18.3**	**9,756**	**7.0**	**8.3**

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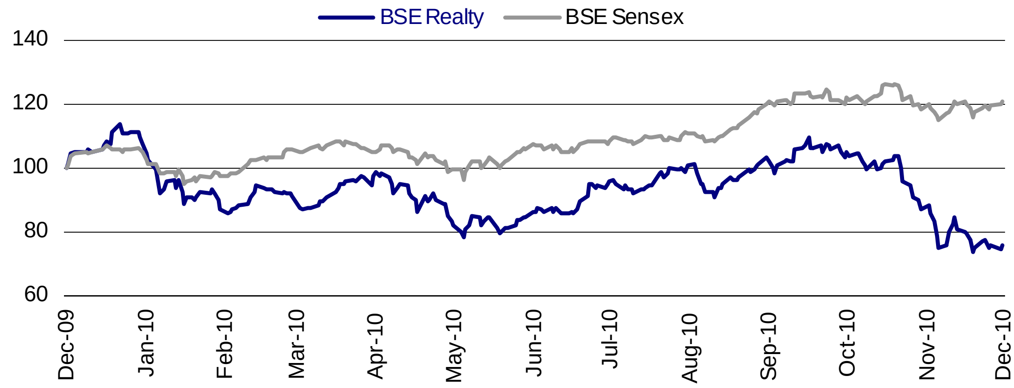
The BSE Realty Index under-performs the Sensex

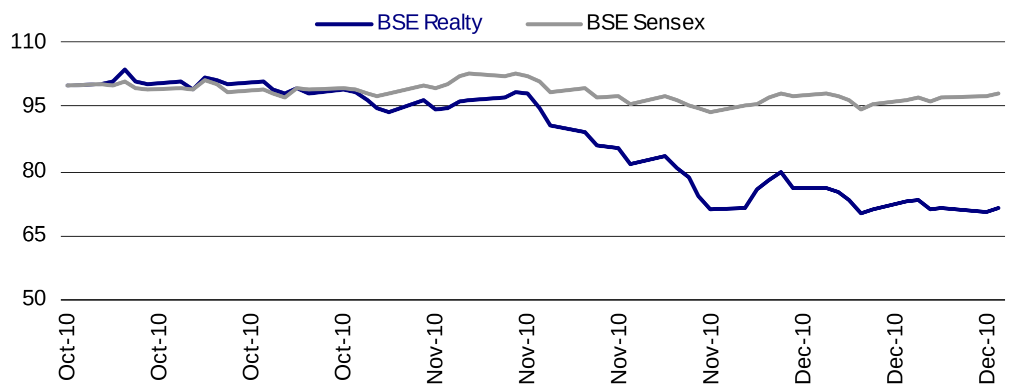
In 3QFY11, the BSE Realty Index was down 28.6% (as on 22 December 2010) and under-performed the broader Sensex by 27%. Since January 2010 the BSE Realty Index has under-erformed the Sensex by ~45%. The under-performance and decline can be attributed mainly to (1) RBI measures such as increasing the risk-weight/provisioning for housing loans, (2) the impact of revelations in the housing scam and (3) a slowdown in residential sales in key micro-markets such as Mumbai due to price appreciation. The sector has also been under pressure due to factors like the constant equity raising and the fund-raising plans by RE companies.

Under-performance of the BSE realty sector

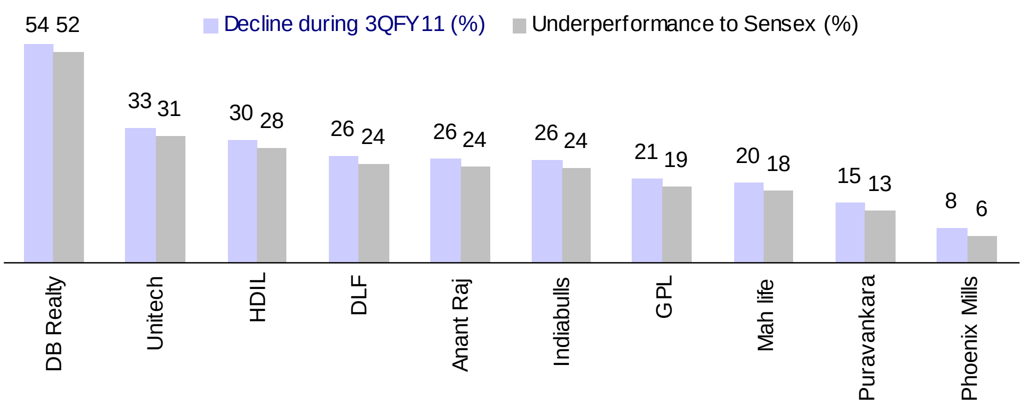
The Realty Index under-performed the Sensex by 45% since January



The Realty Index under-performed the Sensex by 27% in 3QFY11



Under-performance by RE stocks in 3QFY11



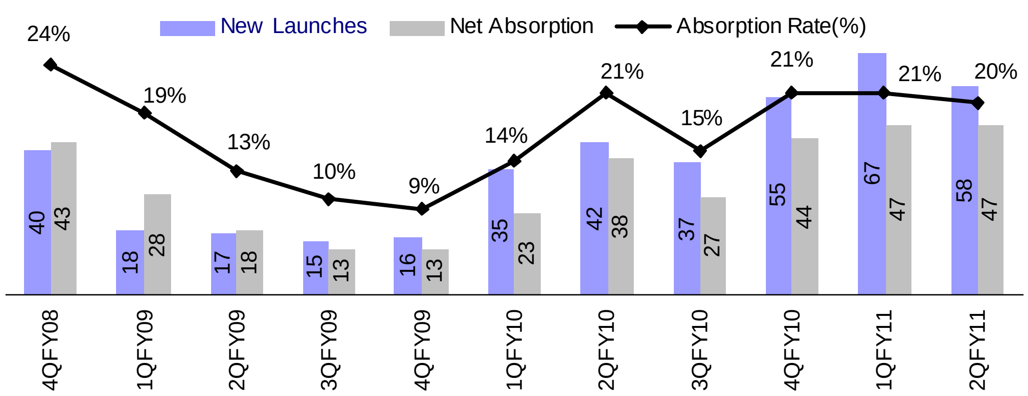
Source: Company/MOSL

Focus shifts from growth acceleration to growth sustainability

In 3QFY11 there was a visible shift in focus from growth acceleration to growth sustainability. While the residential vertical was strong in key cities, apart from a visible slowdown in Mumbai, growth was slower than expected in the commercial/retail verticals. Expectation of growth acceleration in commercial and retail verticals in 4QFY11 is high.

While a sharp jump in residential prices in pockets of Delhi-NCR and Mumbai resulted in sluggish sales volumes in these micro-markets, the overall sales momentum is expected to be buoyant in 3QFY11 due new launches in the back drop of the festive season. However, the volume of new launches from key real estate developers has been below expectation. While DLF launched only its plotted development project in 3QFY11 and got a strong response, not many launches have been seen from Unitech and Anantraj. However, in affordability segment HDIL's mega township project named Paradise City at Palgarh (extended suburbs of Mumbai) has witnessed a strong booking momentum with ~4500 units sold in a month time. We expect the property prices in key markets of Mumbai, NCR and Bangalore are unlikely to witness significant appreciation. Nonetheless, with improved buyer sentiment and a decline in inventory levels in most micro-markets, the outlook for the rightly priced residential projects is strong.

Demand and supply in the residential vertical across India (Nos of units '000)



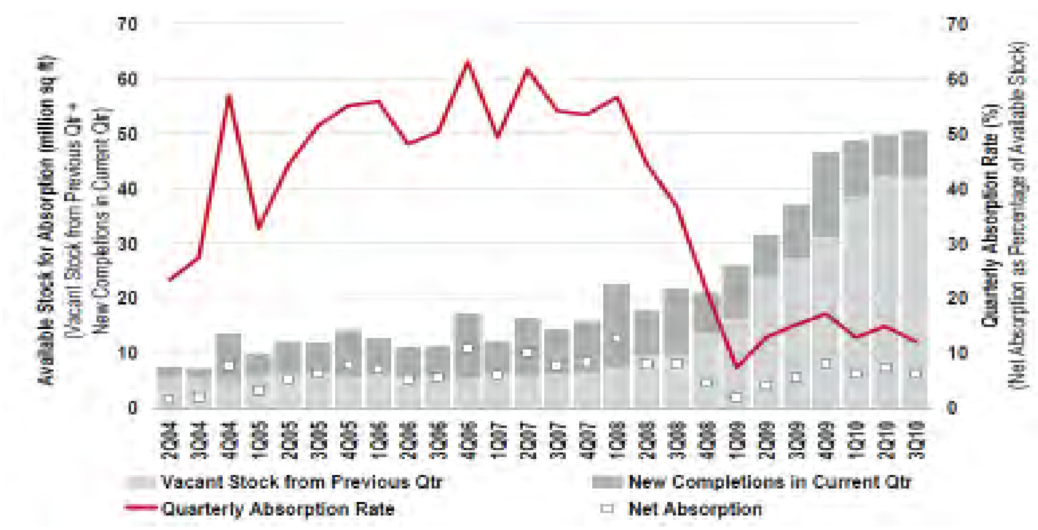
Source: JLLM, Real Estate Intelligence Service, October 2010 data

While most RE developers are re-iterating about improvement in outlook of commercial verticals with increase in enquiries, the anticipated growth acceleration in these verticals was slower than expected during 3QFY11. JLLM report (REIS –Oct-2010) suggests till last quarter (2QFY11) the absorption rate has declined to 12% (vs.16% 1QFY11). Almost 6.1msf of office space was absorbed in 2QFY11 compared to ~7.3msf msf in 1QFY10. However, our outlook for commercial/retail vertical remains strong on the backdrop of increasing expansion plans by corporate. While IT sector is expected to lead transaction volume (~48% of overall transaction came from IT/ITES during 2QFY11) with strong hiring guidance by IT majors, other manufacturing sectors like telecom, banking and pharmaceutical are also likely to contribute substantially. The demand of office space is anticipated to be driven by the opportunistic tenants taking up space at lower rentals which would be a huge positive for the SBDs and emerging new business destinations of key cities. While concern over a bloated supply pipeline in commercial vertical would be exerting pressure on the absorption rates and lease rentals, the vacancy levels are likely to decline from CY11 onwards, due to the sharp supply curtailment and steady traction in demand.

A sharp recovery in the residential vertical also implies consumers regained the confidence to make high value purchases. This bodes positively for other real estate verticals such as retail, which is highly dependent on consumer spending and consumer confidence. However, we expect moderate recovery due to a supply glut in key RE markets in India.

With strong growth guidance from IT majors, an improving business outlook and a growing consumer base, we expect a gradual recovery in the commercial and retail vertical. We anticipate accelerating momentum in the commercial and retail verticals from 4QFY11. This should be a key positive for players, like DLF, Phoenix and Anant Raj, which have significant presence in the segments.

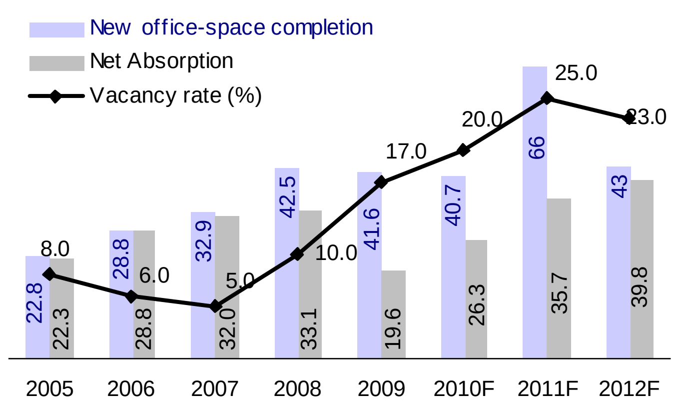
QoQ absorption trend in the commercial vertical



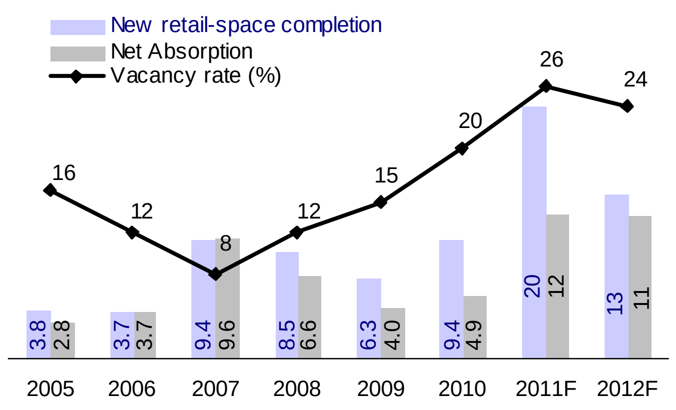
Source: JLLM, Real Estate Intelligence Service, October 2010 data

Vacancy rates in commercial /retail verticals expected to fall in CY11 (msf)

Commercial verticals



Retail verticals

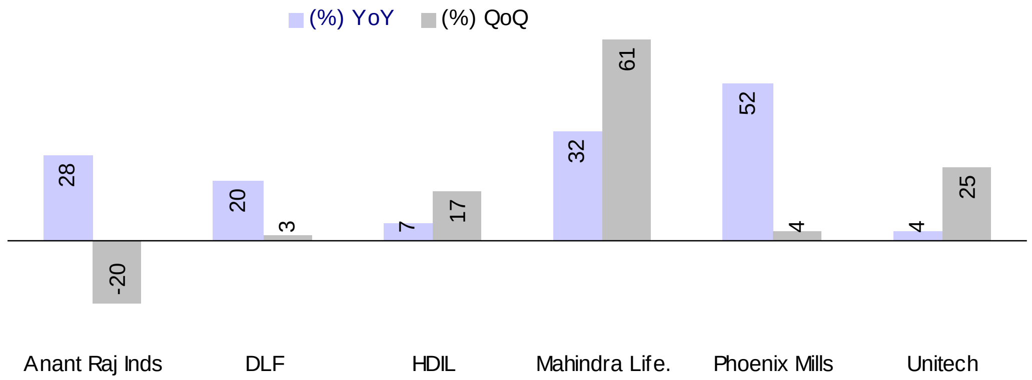


Source: JLLM, Real Estate Intelligence Service, October 2010 data

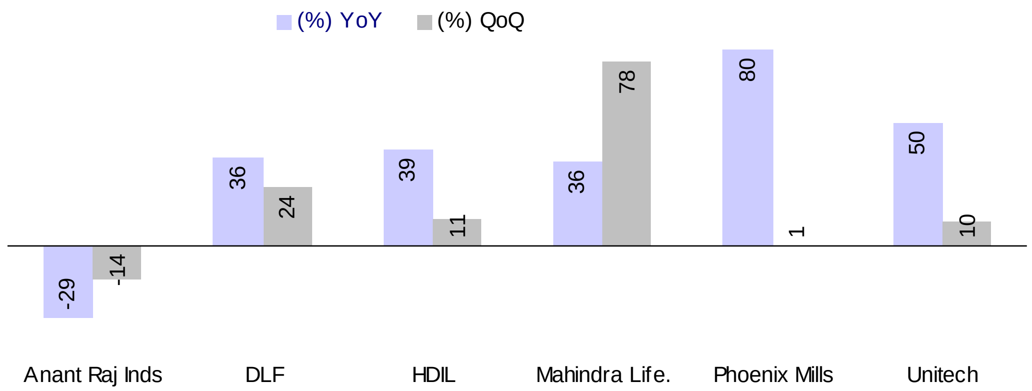
Traction in execution to boost revenue booking

The real estate market has been gaining momentum in 3QFY11. In the past 12 months, key RE developers have improved execution. A strong shift in focus from land banking to execution is visible in case of most developers. We expect the execution velocity to gain traction, after a seasonal slowdown in 2QFY11 due to heavy monsoons. Since most companies follow a percentage of completion method of revenue booking, faster construction would reflect in their 3QFY11 revenue recognition. We expect our RE universe to increase revenue by ~16% YoY, to grow EBITDA by ~35% YoY and increase net profit by ~7% YoY.

Expect RE universe to post 16% YoY revenue growth



Expect RE universe to post 35% YoY EBITDA growth



Source: Company/MOSL

Demand for land is back

With the RE industry outlook looking positive, demand for land has resurged. This is reflected in higher land transactions by RE developers and better liquidity. Some of the land transactions by key RE companies since 2QFY11 are:

1. Anantraj acquired ~Rs7b worth of land in the NCR;
2. Unitech acquired contiguous land in Gurgaon;
3. Mahindra Lifespaces acquired two projects in Ghatkopar and Kandivali;
4. Parsvnath Developers won a bid for a 38.3-acre (15.5 hectares) land parcel in New Delhi, auctioned by the Rail Land Development Authority (RLDA) for Rs16.5b.

Other key land transactions in CY10

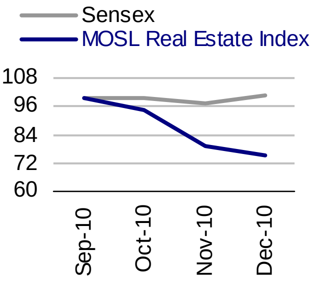
Developer	Date	Land Area (acres)	Deal Size (Rs b)	Rates/ acres (Rsm)	Location
IBREL-Poddar Mills	Aug-10	8.4	15.1	1,798	Worli
IBREL-Poddar Mills	Jul-10	2.4	4.7	1,983	Worli
Lodha-Wadala	May-10	7.0	40.5	5,786	WTT central Mumbai
Seth Developer	Feb-10	14.0	5.9	421	Golden Tobaco Mill in Vile Parle (west)
Wadhwa Group	Jan-10	18.2	5.7	313	Hindustan Composite Mills in Ghatkopar

Source: Industry/MOSL

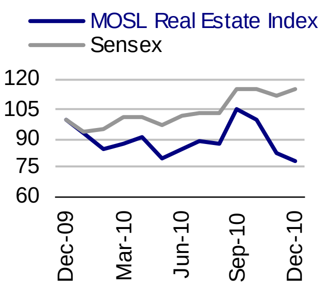
Valuation discount offers attractive entry point

In 3QFY11 the RE stock index under-performed the benchmark indices by ~28.6% as on 22 December 2010. Given the nascent nature of the RE sector in the equity market, the valuation benchmark is still evolving. We value RE stocks on a premium/discount to NAV basis. Key RE stocks are available at a significant discount to NAV. While the average discount to NAV for our universe of RE stocks is ~36%, large-cap companies such as DLF, Unitech and HDIL are available at 27%, 33% and 45% discount to NAV respectively. The limited history of trading data on RE stocks indicates high discount to NAV as good entry points for investors who want long term gains. Our top picks in the RE sector are Unitech and DLF among large caps and Anant Raj among mid caps.

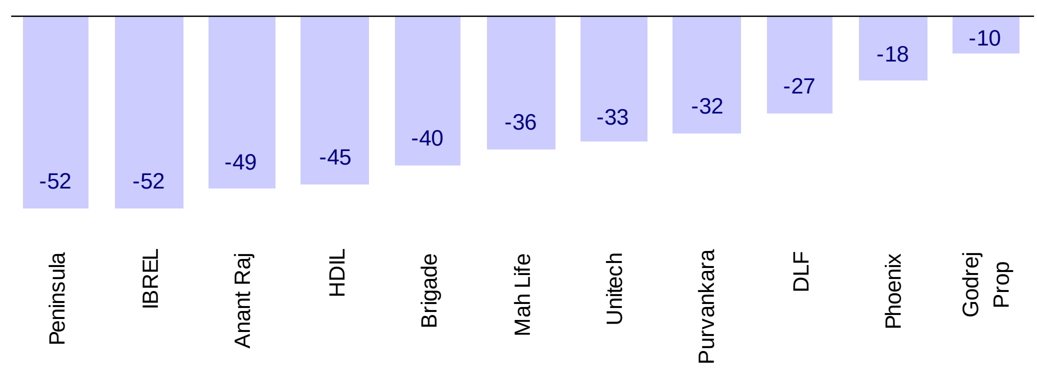
Relative Performance-3m (%)



Relative Performance-1Yr (%)



RE companies are trading at a steep discount to NAV



Source: Company/MOSL

Comparative valuation

	CMP (Rs) 24.12.10	Rating	EPS (Rs) FY11E	EPS (Rs) FY12E	EPS (Rs) FY13E	P/E (x) FY11E	P/E (x) FY12E	P/E (x) FY13E	EV/EBITDA FY11E	EV/EBITDA FY12E	EV/EBITDA FY13E	RoE (%) FY11E	RoE (%) FY12E	RoE (%) FY13E
Real Estate														
Anant Raj Inds	106	Buy	6.4	10.3	16.4	16.7	10.3	6.4	14.6	8.4	5.0	5.0	7.6	10.8
Brigade Enterpr.	110	Buy	11.9	17.6	4.1	9.2	6.2	26.6	7.3	4.8	3.7	12.4	16.4	16.1
DLF	283	Buy	11.9	14.8	18.0	23.8	19.1	15.7	14.4	11.8	10.3	6.9	8.4	9.4
HDIL	191	UR	21.2	25.1	26.7	9.0	7.6	7.1	8.8	6.5	5.9	9.8	10.9	10.9
Indiabulls Real Estate	130	Buy	7.1	11.7	24.4	18.2	11.1	5.3	24.7	11.7	3.8	1.8	2.9	5.8
Mahindra Lifespace	392	Buy	29.5	40.1	60.9	13.3	9.8	6.4	9.8	6.9	1.3	11.2	13.3	17.0
Peninsula Land	61	Neutral	11.9	13.2	4.7	5.1	4.6	12.9	3.7	3.4	4.6	24.0	22.9	8.1
Phoenix Mills	219	Buy	6.0	7.4	11.5	36.7	29.6	19.0	28.7	15.8	10.5	5.2	6.1	8.7
Puravankara Projects	114	Neutral	8.2	9.8	10.3	13.9	11.5	11.0	14.0	9.1	-3.4	10.8	11.8	11.2
Unitech	63	Buy	3.1	4.3	5.7	20.5	14.9	11.1	16.4	10.1	8.0	6.7	8.6	10.4
Sector Aggregate						**18.5**	**14.4**	**11.7**	**13.7**	**10.1**	**7.8**	**7.0**	**8.5**	**9.7**

Anant Raj Industries

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	ARCP IN
Equity Shares (m)	294.6
52 Week Range (Rs)	160 / 99
1,6,12 Rel Perf (%)	-16 / -24 / -34
Mcap (Rs b)	31.2
Mcap (USD b)	0.7

CMP: Rs106 **Buy**

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	3,111	2,383	8.1	15.0	13.1	0.9	6.6	8.1	8.9	10.7
3/11E	4,706	1,878	6.4	-21.2	16.7	0.8	5.0	6.0	7.5	14.6
3/12E	7,964	3,038	10.3	61.8	10.3	0.8	7.6	9.0	4.5	8.4
3/13E	12,269	4,852	16.4	59.7	6.4	0.7	10.8	13.6	2.9	5.0

- We expect Anant Raj (ARIL) to post a revenue increase of 28% YoY at Rs1,061m its EBITDA to decline by ~29% YoY to Rs541m and net profit to drop by 34% YoY to Rs444m. The EBITDA margin is expected to be 51%. We expect the key contributor to revenue to be (1) residential projects at Manesar, (2) the Kapasera project and (3) rental income from commercial and hotel projects.
- In 1HFY11 ARIL launched two key residential projects in Kapasera (~0.29msf) and Manesar (~0.28msf). The company completely sold its Kapasera project (112 units) and ~35% in its Manesar (560 units) project in the six months. It sold an additional 300 units in the Manesar project in 3QFY11 at an average realization of Rs2,800psf (v/s Rs2,400psf in 1HFY11), with this ~90% of the project has been sold.
- ARIL guided a strong launch pipeline with (1) Sector 91 of Gurgaon (~1.8msf mid-income residential project), (2) Phase-II of the Manesar project (~0.7msf), (3) affordable housing project in Rajasthan (~2msf), (4) a housing project in Rai and (5) Hauz Khas in 3-6 months. However, we expect most of these launches to take place in 4QFY11.
- ARIL's net debt increased to ~Rs3.6b from a net cash position of ~Rs3.5b in Mar-10 due to its acquisition of land worth Rs7b in 1HFY11. We expect ARIL's interest cost to rise due to this and the impact to come after 3QFY11.
- Since ARIL has not witnessed a significant increase in lease momentum, in 3QFY11, rental income from its leased out properties will be sequentially flat at ~Rs187m.
- ARIL has a robust business model, with multiple revenue streams and high monetization visibility. We expect revenue of 58% CAGR and net profit of 26.7% CAGR over FY10-13. Our FY12 NAV for ARIL is Rs210/share. The stock trades at ~0.8x FY12E BV of Rs136 and ~49% discount to its FY12 NAV of Rs210, which is very attractive compared with its industry peers. Maintain **Buy.**

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales - Ceramic	20	26	13	19	18	7	13	12	79	50
Rental Income	92	113	135	150	181	187	187	188	490	743
RE Sales/Investments (Net)	938	753	678	298	836	1,134	861	1,082	2,542	3,913
Total Sales	**1,050**	**892**	**826**	**341**	**1,034**	**1,329**	**1,061**	**1,282**	**3,111**	**4,706**
Change (%)	901.7	-43.0	17.0	52.4	-1.5	48.9	28.4	276.1	16.6	51.3
EBITDA	**760**	**799**	**764**	**262**	**569**	**627**	**541**	**658**	**2,586**	**2,396**
Change (%)	-	-47	17.1	83.4	-25.2	-21	-29.1	151.1	9	-7
As of % Sales	72	89	92	77	55	47	51	51	83	51
Depreciation	35	45	43	-16	36	38	44	58	107	176
Interest	0	0	0	48	15	9	17	43	49	84
Other Income	155	137	117	126	94	64	70	75	535	303
PBT	**880**	**890**	**837**	**369**	**612**	**645**	**550**	**632**	**2,965**	**2,439**
Tax	180	176	166	59	154	166	107	135	581	561
Effective Tax Rate (%)	20	20	20	16	25	26	19	21	20	23
Reported PAT	**700**	**714**	**671**	**309**	**459**	**479**	**444**	**497**	**2,384**	**1,878**
Change (%)	777.9	-44	1.3	92.5	-34.5	-33	-33.9	60.5	6	-21
Adj PAT	**689**	**713**	**671**	**297**	**458**	**481**	**444**	**497**	**2,383**	**1,878**
Change (%)	788.3	-44	1.4	95.3	-33.5	-33	-33.9	67.0	7	-21

E: MOSL Estimates

Siddharth Bothra (SBothra@MotilalOswal.com)/Sandipan Pal (Sandipan.Pal@MotilalOswal.com)

DLF

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	DLFU IN
Equity Shares (m)	1,714.4
52 Week Range (Rs)	403 / 252
1,6,12 Rel Perf (%)	-10 / -15 / -39
Mcap (Rs b)	485.9
Mcap (USD b)	10.8

CMP: Rs283 — Buy

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	74,209	17,300	10.2	-61.3	27.8	1.6	5.7	7.7	9.3	19.7
3/11E	93,465	20,197	11.9	16.7	23.8	1.7	6.9	8.5	7.1	14.4
3/12E	119,851	25,127	14.8	24.4	19.1	1.7	8.4	10.2	5.3	11.8
3/13E	127,006	30,573	18.0	21.7	15.7	1.5	9.4	11.4	5.0	10.3

- We expect revenue to grow 20% YoY to Rs24.3b, EBITDA to increase by 36% YoY to Rs11.5b and net profit to increase 2.2% to Rs4.8b. We anticipate margin improvement to ~47% (v/s 39% in 2QFY11) due to higher contribution from plotted development (Alameda) at Gurgaon sector 73.
- The management hinted at sales of ~150 plots (out of 300 plots) in the first 70 days of 3QFY11 and it expects total sale during the quarter to be ~1.3msf (v/s total size of 1.9msf) with an average realization of Rs55,000-60,000 per square yard (Rs6,000-6,600psf). DLF is expected to post margins of 60-70% in the plotted development and to recognize ~60% of the sold plot in 3QFY11.
- In 3QFY11, DLF is expected to book ~1.5msf of real estate sales, mainly in its mid-income residential projects and Capital Green phase-3 projects. Its premium projects like Belaire and Park Place are almost complete and hence revenue from the projects will decline sharply.
- Initially the management issued strong operational guidance of 12-15msf sales for residential and 3-4msf lease for the commercial vertical. While the company is in line with its leasing guidance with 2.5msf lease transaction in 1HFY11, it achieved only 4msf of residential sales until the end of 1HFY11.
- While the management has guided for FY11 non-core asset sales of ~Rs18b and achieved ~Rs7b in 1HFY11, we expect Rs3b-4b of asset sales in 3QFY11.
- DLF is well placed to benefit from the recovery in the commercial and retail verticals. Our FY12 NAV is Rs384/ share. DLF trades at P/B ~1.7x its FY12 adjusted BV of Rs169/share and 27% discount to its NAV. We are revising our earnings estimate for FY11 to Rs20.2b from Rs21b mainly due to lower sales volume and higher interest costs. Progress on debt leveraging and subsequent revival in the commercial and retail verticals could lead to improved valuation multiples and lower NAV discount for DLF. **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales	**16,499**	**17,509**	**20,258**	**19,944**	**20,285**	**23,690**	**24,301**	**25,189**	**74,210**	**93,465**
Change (%)	(56.7)	-53.2	48.2	77.7	22.9	35.3	20.0	26.3	-26.1	25.9
Total Expenditure	9,058	8,371	11,825	9,944	10,490	14,401	12,809	9,918	39,198	47,617
EBITDA	**7,441**	**9,138**	**8,433**	**10,000**	**9,796**	**9,289**	**11,492**	**15,271**	**35,012**	**45,848**
Change (%)	-68.3	-58.8	9.2	546.9	31.6	1.7	36.3	52.7	-37.5	30.9
As % of Sales	45.1	52.2	41.6	50.1	48.3	39.2	47.3	60.6	47.2	49.1
Depreciation	734	766	800	947	1,498	1,540	1,506	1,481	3,246	6,369
Interest	2,874	2,486	2,568	3,147	3,884	4,338	4,422	4,234	11,075	16,878
Other Income	961	594	1,260	1,518	1,321	1,509	770	251	4,334	3,851
PBT	**4,794**	**6,481**	**6,325**	**7,424**	**5,734**	**4,920**	**6,333**	**9,807**	**25,024**	**26,794**
Tax	993	1,918	1,684	2,362	1,679	734	1,550	2,635	6,957	6,598
Effective Tax Rate (%)	20.7	17.5	26.6	31.8	29.3	14.9	24.5	26.9	27.8	24.6
Reported PAT	**3,801**	**4,563**	**4,641**	**5,062**	**4,056**	**4,186**	**4,783**	**7,172**	**18,067**	**20,197**
Change (%)	(79.9)	-76.4	(31.9)	198.3	6.7	-8.3	3.1	41.7	-60.0	16.6
Adj. PAT	**3,960**	**4,397**	**4,679**	**4,264**	**4,110**	**4,184**	**4,783**	**7,172**	**17,300**	**20,197**
Change (%)	(78.8)	(77.3)	(30.2)	168.1	3.8	(4.9)	2.2	68.2	-61.3	21.8

E: MOSL Estimates

Siddharth Bothra (SBothra@MotilalOswal.com)/Sandipan Pal (Sandipan.Pal@MotilalOswal.com)

HDIL

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	HDIL IN
Equity Shares (m)	415.1
52 Week Range (Rs)	392 / 160
1,6,12 Rel Perf (%)	-11 / -38 / -63
Mcap (Rs b)	79.2
Mcap (USD b)	1.8

CMP: Rs191 — Under Review

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	15,021	5,666	15.8	-35.8	12.1	1.0	8.1	5.5	4.9	9.4
3/11E	16,967	8,805	21.2	34.3	9.0	0.9	9.8	7.3	3.1	5.1
3/12E	28,538	10,429	25.1	18.4	7.6	0.8	10.9	8.4	1.7	3.6
3/13E	34,778	11,075	26.7	6.2	7.1	0.8	10.9	8.9	1.4	3.3

- We expect 3QFY11 revenue to grow 6.5% YoY to Rs4.4b, EBITDA to increase 39% YoY to Rs2.6b and net profit to increase by 36.6% YoY to Rs2.2b. EBITDA margins will decline to 60% from 46% in 3QFY10, mainly due to higher realization from TDR sales.
- In 3QFY11, TDR prices in Mumbai suburbs were strong at Rs3,100-3,300/sf. However, in the past few months there has been a sharp decline in TDR volumes due to deceleration in construction activity in the backdrop of slow RE demand in key micro-markets of Mumbai.
- HDIL is the among the largest TDR players in Mumbai with potential inventory of ~35msf from its MIAL project. The company guided for 4-5msf of TDR sales in FY11, of which it sold ~2.1msf in 1HFY11. We expect the company to achieve TDR sales of ~1msf during 3QFY11.
- In 3QFY11, HDIL launched mega township projects in 160-acre Paradise City at Palghar (W) at an average sale price of Rs1,900-2,200psf and has witnessed a strong booking momentum with ~4,500 units sold in a month time. However, since the company follows a project completion method of revenue booking, we don't expect the revenue from its residential and commercial projects to contribute before 2HFY12.
- HDIL has been relatively less impacted even in the slowing Mumbai real estate market due to its focus on affordable housing. Our FY12 NAV estimate for HDIL is Rs348/share. The stock trades at 0.8x FY12E adjusted BV of Rs25.4 and at 45% discount to its FY12E NAV. **Under review.**

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10*	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales	**2,954**	**3,537**	**4,089**	**4,341**	**4,509**	**3,727**	**4,355**	**4,376**	**15,021**	**16,967**
Change (%)	-48.2	-38.0	30.3	21.3	52.7	5.4	6.5	0.8	-13.1	13.0
Total Expenditure	1,792	1,740	2,201	2,070	1,835	1,354	1,723	1,740	7,129	6,638
EBITDA	**1,161**	**1,797**	**1,888**	**2,271**	**2,674**	**2,372**	**2,632**	**2,636**	**7,893**	**10,328**
Change (%)	-75.1	-33.6	98.7	135.3	130.3	32.0	39.4	16.1	1.4	30.9
As % of Sales	39.3	50.8	46.2	52.3	59.3	63.7	60.4	60.2	52.5	60.9
Depreciation	9	9	12	22	19	16	25	49	724	110
Interest	169	185	190	245	215	212	200	208	462	835
Other Income	233	274	266	304	342	339	347	360	345	1,388
PBT	**1,217**	**1,876**	**1,952**	**2,309**	**2,782**	**2,483**	**2,754**	**2,739**	**7,052**	**10,771**
Tax	142	390	324	474	439	355	531	642	1,386	1,967
Effective Tax Rate (%)	11.6	21	16.6	20.5	16	14	19	23	20	18
Reported PAT	**1,075**	**1,486**	**1,628**	**1,835**	**2,343**	**2,129**	**2,223**	**2,097**	**5,666**	**8,805**
Change (%)	-66.2	-53.3	115.1	196.3	118.0	43.2	36.6	14.3	-16.4	55.4
Adjusted PAT	**1,075**	**1,486**	**1,628**	**1,778**	**2,343**	**2,138**	**2,223**	**2,097**	**5,666**	**8,805**
Change (%)	-66.2	-53.3	-12.0	187.2	118.0	43.9	36.6	17.9	-28.0	55.4

E: MOSL Estimates; * Consolidated Results

Siddharth Bothra (SBothra@MotilalOswal.com)/Sandipan Pal (Sandipan.Pal@MotilalOswal.com)

Mahindra Lifespaces

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	MLIFE IN
Equity Shares (m)	40.8
52 Week Range (Rs)	561 / 335
1,6,12 Rel Perf (%)	-8 / -28 / -1
Mcap (Rs b)	16.0
Mcap (USD b)	0.4

CMP: Rs392 **Buy**

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	4,179	785	19.0	22.7	20.3	1.6	7.9	8.9	4.5	16.1
3/11E	6,197	1,216	29.5	54.7	13.1	1.5	11.2	12.8	3.1	9.8
3/12E	8,182	1,646	40.1	35.4	9.7	1.3	13.3	15.6	2.2	6.9
3/13E	11,154	2,496	60.9	51.7	6.4	1.1	17.0	20.7	0.5	1.3

- We expect standalone revenue to increase by 32% YoY to Rs1.4b, EBITDA to grow by 36% YoY to Rs414m and net profit to increase by 5% YoY to Rs294m. We expect EBITDA margins to expand to 29% in 3QFY11.
- MLL developed residential projects covering 5.9msf. It is developing 2.7msf and projects covering ~6.5msf are in the planning stage. We expect MLL to recognize incremental revenue from its residential projects Mahindra Splendor (Bhandup), Eminente phase-2 and 3 (Goregaon), Rayale (Pune) and Chloris and Aura (NCR) since the projects are progressing per schedule.
- MLL has two ongoing SEZ projects at Chennai and Jaipur. The Chennai SEZ is in the late monetization stage with focus on monetizing the residential (Acqualily projects) and institutional areas, and the Jaipur SEZ is in the early monetization phase with the sale of the processing area underway.
- MLL has (1) a sound business model, (2) strong brand equity, (3) established client relationships, and (4) a strong balance sheet. Our SOTP value for MLL is Rs600/share. Our NAV does not include two planned DTA/SEZs aggregating 4,000 acres in Chennai and along the Mumbai-Pune Expressway. We expect earnings CAGR of 44% over FY11-13 due to strong contribution from the Chennai SEZ, sale of the processing area in the Jaipur SEZ and increased contribution from premium residential projects. The stock trades at a 36% discount to its SOTP value of Rs600/share, which is our target price. **Buy**.

QUARTERLY PERFORMANCE (STANDALONE) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales	**473**	**635**	**1,089**	**1,010**	**679**	**890**	**1,434**	**1,943**	**3,207**	**4,946**
Change (%)	-2.0	109.5	95.7	223.4	43.7	40.1	31.7	92.4	-6.2	54.3
Total Expenditure	369	488	784	713	517	656	1,020	1,386	2,398	3,579
EBITDA	**104**	**147**	**305**	**296**	**163**	**234**	**414**	**557**	**808**	**1,367**
As % of Sales	22.0	23.2	28.0	29.4	23.9	26.2	28.9	28.7	25.2	27.6
Depreciation	6	5	5	7	6	6	10	13	23	34
Interest	0	0	0	0	0	0	2	5	0	7
Other Income	43	131	66	51	49	114	35	34	290	232
PBT	**140**	**229**	**366**	**340**	**206**	**342**	**438**	**573**	**1,075**	**1,558**
Tax	36	56	86	103	61	95	144	214	281	514
Effective Tax Rate (%)	25.8	24.2	23.5	30.3	29.6	27.9	32.9	33.0	26.2	33.0
Reported PAT	**104**	**173**	**280**	**237**	**145**	**247**	**294**	**359**	**773**	**1,044**
Change (%)	6.9	55.2	147.7	68.0	39.0	42.2	5.0	51.4	17.8	35.0
Adj. PAT	**104**	**203**	**280**	**237**	**145**	**247**	**294**	**359**	**794**	**1,044**
Change (%)	6.9	81.3	147.7	74.6	39.0	21.7	5.0	51.4	23.9	31.5

E: MOSL Estimates

Siddharth Bothra (SBothra@MotilalOswal.com)/Sandipan Pal (Sandipan.Pal@MotilalOswal.com)

Phoenix Mills

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	PHNX IN
Equity Shares (m)	144.8
52 Week Range (Rs)	269 / 176
1,6,12 Rel Perf (%)	-2 / -9 / -1
Mcap (Rs b)	31.7
Mcap (USD b)	0.7

CMP: Rs219 **Buy**

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	1,230	612	4.2	-20.2	51.8	2.0	3.8	3.6	30.6	48.6
3/11E	2,140	865	6.0	41.3	36.7	1.9	5.2	4.8	18.2	28.7
3/12E	3,711	1,071	7.4	23.8	29.6	1.8	6.1	7.5	11.1	15.8
3/13E	6,500	1,667	11.5	55.5	19.0	1.7	8.7	10.9	6.5	10.5

- We expect revenue to grow 52% YoY to Rs459m, led by contributions from High Street Phoenix (HSP), which is expected to improve in 3QFY11 on the backdrop on better festive season sales for retailers, a majority of who have revenue sharing with PML. EBITDA is expected to increase by 80% to Rs319m, implying an EBITDA margin of 69.5% and net profit will grow by 102% YoY to Rs206m.
- Palladium at High Street Phoenix in Lower Parel is now fully operational with latest lease transactions concluded at rentals of Rs280-300psf/month (minimum guarantee). In 3QFY11, a couple of new stores such as Veda, FIFA store and a few kiosks opened up.
- There was steady lease momentum at PML's Market City projects in 1HFY11. However, the company shifted its focus on finalizing lease and license agreement. While the Pune retail mall is likely to be operational by January 2011, malls at Kurla, Chennai and Bangalore are expected to be completed in 1HFY12.
- PML has started monetizing a part of its commercial projects at Market City Kurla and Pune. It sold ~0.3msf in Pune (total sale value of ~Rs1.8b) at an average realization of Rs6,000psf. However, revenue from such sales is expected to get recognized in 4QFY11 or 1QFY12.
- We believe PML is a unique play on the booming domestic consumption story. Our FY12 NAV estimate for the company is 266/share. The stock trades at 1.8x its FY12E adjusted book value of Rs121.5/share and 18% discount to our NAV. Maintain **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE	CONSOL	CONSOL
Sales	**248**	**264**	**302**	**345**	**404**	**443**	**459**	**487**	**1,230**	**2,140**
Change (%)	19.7	12.6	36.7	61.0	63.1	68.0	52.0	41.1	23.5	74.0
Total Expenditure	59	82	125	147	111	126	140	160	455	782
EBITDA	**189**	**182**	**177**	**198**	**294**	**317**	**319**	**327**	**775**	**1,358**
% Change	21.3	1.5	14.2	51.7	55.5	74.5	80.0	64.9	28.8	75.2
As % of Sales	76.2	68.9	58.7	57.4	72.6	71.6	69.5	67.1	63.0	63.4
Depreciation	24	27	53	59	69	70	70	70	172	296
Interest	10	10	31	35	35	29	23	22	86	209
Other Income	53	83	47	58	44	66	38	35	243	183
PBT	**208**	**228**	**140**	**162**	**234**	**285**	**264**	**270**	**759**	**1,036**
Tax	55	53	39	4	52	64	58	59	147	232
Effective Tax Rate (%)	26.3	17.5	19.5	2.8	22.0	22.3	22.0	22.0	19.4	22.4
Reported PAT	**153**	**175**	**102**	**157**	**183**	**221**	**206**	**210**	**612**	**803**
Change (%)	38.9	-54.6	(30.9)	11.8	19.1	26.1	101.9	34.0	-20.1	31.2
Adj. PAT	**153**	**175**	**102**	**157**	**183**	**221**	**206**	**210**	**612**	**865**
Change (%)	38.9	(54.6)	(30.9)	11.8	19.1	26.1	101.9	34.0	-20.2	41.3

E: MOSL Estimates

Siddharth Bothra (SBothra@MotilalOswal.com)/Sandipan Pal (Sandipan.Pal@MotilalOswal.com)

Unitech

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	UT IN
Equity Shares (m)	2,438.8
52 Week Range (Rs)	98 / 46
1,6,12 Rel Perf (%)	-9 / -28 / -39
Mcap (Rs b)	154.1
Mcap (USD b)	3.4

CMP: Rs63 **Buy**

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	29,313	6,751	2.8	-53.6	22.8	1.7	6.5	6.4	7.2	19.8
3/11E	33,347	7,662	3.1	11.2	20.5	1.6	6.7	6.6	5.9	16.8
3/12E	51,302	10,619	4.3	38.1	14.9	1.5	8.6	9.5	3.6	10.3
3/13E	62,759	14,256	5.7	34.3	11.1	1.3	10.4	11.7	3.0	8.1

- We expect revenue to increase by 3.7% YoY to Rs8b, EBITDA to drop by 49.7% to Rs2.8b and net profit to decline by 2.7% YoY to Rs1.8b. EBITDA margin is anticipated to be 35%.
- We expect improved construction activity across projects after a temporary slow down due to the monsoons and labor-related issues in 2QFY11, to drive ~25% improvement in revenue booking.
- While the company has not come up with significant new launches in 3QFY11, we expect the sale run-rate to continue at the existing pace, driven mainly by its launches (later phases of existing projects) in NCR, Chennai and Mohali. The company has alunched "The Residences" at Sector 117, Noida during 3QFY11.
- In 2QFY11, Unitech's gross debt increased by Rs7b to Rs67b. Therefore, we are revising our interest cost estimation for FY11 to Rs1.8b from an earlier estimate of Rs1.4b, resulting in an 8% downgrade of its FY11 net profit to Rs7.7b.
- During 3QFY11, Unitech promoters have subscribed to the remaining 98.4m warrants by investing Rs3.7b in the company (remaining 75% of the value of warrants) , raising their holding to 48.57%. With this allotment, the promoters have exercised the conversion right with respect to all 227.5m warrants. Successful warrant conversion and increase in promoter holding in the company is a key sentiment positive for UT and also further improves UT's liquidity. Post this warrant conversion, UT's equity capital has increased to Rs5.2b. This has also lowered our FY12 NAV marginally from Rs96/share to Rs94/share.
- Unitech is available at attractive valuations of ~33% discount to its FY12 NAV of Rs94/share. It is available at 14.9x its FY12 EPS of Rs4.3 and 1.5x its FY12E BV of Rs44/share. Among large cap RE stocks, it has one of the most comfortable balance sheets with a low leverage of ~0.53x and strong earnings visibility of 35.3% CAGR, over FY11-13. **Buy.**

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales	**5,149**	**5,095**	**7,745**	**11,325**	**8,286**	**6,445**	**8,033**	**10,583**	**29,313**	**33,347**
Change (%)	-50.1	-48.2	58.3	190.2	60.9	26.5	3.7	-6.6	1.3	13.8
Total Expenditure	1,998	2,117	5,888	8,598	5,348	3,917	5,254	7,136	18,601	21,655
EBITDA	**3,151**	**2,978**	**1,857**	**2,727**	**2,938**	**2,528**	**2,779**	**3,447**	**10,712**	**11,692**
Change (%)	-48.2	-51.1	-24.0	107.2	-6.8	-15.1	49.7	26.4	-32.8	9.1
As of % Sales	48.5	58.4	24.0	24.1	35.5	39.2	34.6	32.6	36.5	35.1
Depreciation	42	114	79	106	88	89	99	114	341	389
Interest	926	603	148	323	340	439	516	535	2,000	1,830
Other Income	333	172	139	196	150	304	269	272	840	995
PBT	**2,516**	**2,432**	**1,769**	**2,494**	**2,660**	**2,305**	**2,433**	**3,071**	**9,189**	**10,468**
Tax	539	654	373	835	834	564	625	755	2,402	2,778
Effective Tax Rate (%)	21.4	18.5	21.1	33.5	31.4	24.5	25.7	24.6	26.1	26.5
Reported PAT	**1,578**	**1,779**	**1,395**	**2,036**	**1,826**	**1,740**	**1,808**	**2,316**	**6,788**	**7,690**
Change (%)	-62.7	-50.5	1.1	-26.1	15.7	-2.2	29.6	13.8	-43.3	13.3
Minority	399	-2	-365	3	26	3	0	0	36	28
Adj PAT	**1,178**	**1,777**	**1,760**	**2,011**	**1,800**	**1,738**	**1,808**	**2,316**	**6,751**	**7,662**
Change (%)	-72.2	-50.5	29.4	313.3	52.8	-2.2	2.7	15.2	-30.3	13.5

E: MOSL Estimates

Siddharth Bothra (SBothra@MotilalOswal.com)/Sandipan Pal (Sandipan.Pal@MotilalOswal.com)

Retail

COMPANY NAME
Jubilant Food

Pantaloon Retail

Shoppers Stop

Titan Industries

We estimate our retail universe will post 38.6% sales growth and PAT growth is likely to be 46%. We expand our coverage universe to include Jubilant Foodworks and Shoppers Stop after their recent initiation.

Festive season sales encouraging, double-digit SSS growth expected

Consumer sentiment was strong during the 3QFY11 festive season and an extended marriage season boosted sales. We expect our retail universe to post same-store-sales growth in the low to mid-teens. The trend of consumer up-trading was sustained in 3QFY11 though growth rates might soften YoY due to a higher base effect. The winter collection has begun on an upbeat note and is likely to flow into 4QFY11.

Gold breaches Rs20,000/10g, Titan's jewelry volume growth sustained

The steady increase in gold prices in 3QFY11 (up ~20% YoY and up 7% QoQ) has had little impact on jewelry retailers' volume growth. In 3QFY11 gold prices breached Rs20,000/10g. However, jewelry and coin demand (Diwali sales) was robust partly due to an extended marriage season and strong consumer sentiment.

Valuations steep, decision on FDI could be a near-term trigger

We expect sustained sales growth for major retailers though near term margin expansion would be slow. For major players valuations are rich. Pantaloon Retail seems most attractive in the near term after a 30% correction from its peak. We believe a decision to open multi-brand retailing to FDI would be a key medium-term trigger for the sector. We have a Buy rating on Pantaloon Retail and Neutral on Shoppers Stop, Titan Industries and Jubilant Foodworks.

Expected quarterly performance summary **(Rs million)**

	CMP (Rs)	Rating	Sales			EBITDA			Net profit		
	24.12.10		Dec.10	Var. % YoY	Var. % QoQ	Dec.10	Var. % YoY	Var. % QoQ	Dec.10	Var. % YoY	Var. % QoQ
Retail											
Jubilant Foodworks	631	Neutral	1,819	55.0	11.3	333	68.6	12.0	196	71.8	6.2
Pantaloon Retail	360	Buy	27,500	43.8	6.5	2,503	23.0	17.7	612	20.8	43.2
Shopper's Stop	727	Neutral	4,600	22.6	1.2	465	22.2	21.7	223	107.5	28.2
Titan Industries	3,467	Neutral	18,004	35.0	17.2	1,620	51.1	-6.6	1,167	49.0	-8.7
Sector Aggregate			**51,923**	**38.9**	**9.7**	**4,920**	**33.5**	**8.3**	**2,198**	**45.4**	**6.5**

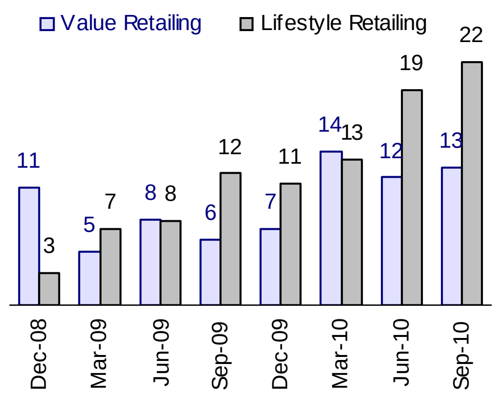
Amnish Aggarwal (AmnishAggarwal@MotilalOswal.com)/Nikhil Kumar(Nikhil.N@MotilalOswal.com)

We estimate our retail universe will post 38.6% sales growth and PAT growth is likely to be 46%. In the case of Pantaloon Retail, the numbers are not comparable YoY due to the inclusion of the home retailing business in its estimates. We expand our coverage universe to include Jubilant Foodworks and Shoppers Stop after their recent initiation.

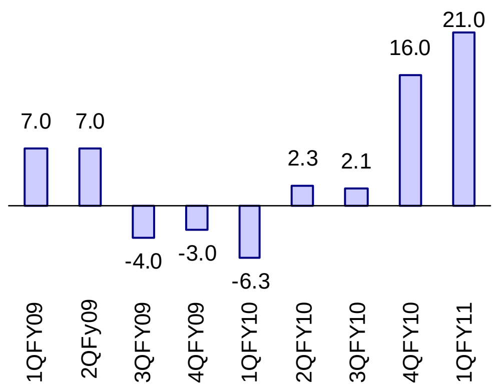
Festive season sales encouraging, double-digit SSS growth expected

The 3QFY11 festive season drew a strong response to new collections across formats and categories. Categories like apparel and accessories, consumer durables, home furnishing and improvements had an upbeat outlook due to sustained discretionary demand. We expect major retailers to post double-digit same-store-sales growth, helped partly by up-trading.

Pantaloon SSS growth (%)



Shoppers Stop LTL sales growth (%)



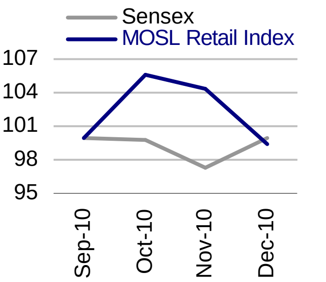
Source: Company/MOSL

The retail sector's revival, over the past 8-12 months, is linked to economic revival, overall consumption sentiment and pent-up demand. Given the discretionary/quasi-discretionary nature of spends, the positive rub-off on retail has been resounding. We believe retail will be a key beneficiary of a higher discretionary spend among Indian consumers. However, growth rates might soften in the coming quarters due to a high base effect.

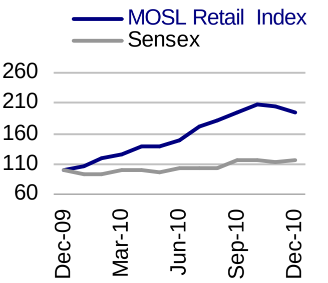
Faster store openings

Double-digit same-store-sales growth instilled confidence of a faster breakeven, resulting in faster store rollouts. Besides, an encouraging response to stores across formats in tier-II cities has opened up fresh avenues of growth for formats like department stores and hypermarkets. Pantaloon Retail aims to add 2m-2.5m square feet a year over the next three years. Shoppers Stop plans to add ~14 department stores over 18 months, increasing its area under operation from 2m square feet to 3.7m square feet by 2013. We see Jubilant Foodworks adding 50/60 new stores every year over the next few years as it increases its presence in tier-II and tier-III cities. Titan Industries is aggressively increasing its Titan Eye+ stores and we expect faster store additions in Tanishq.

Relative Performance-3m (%)



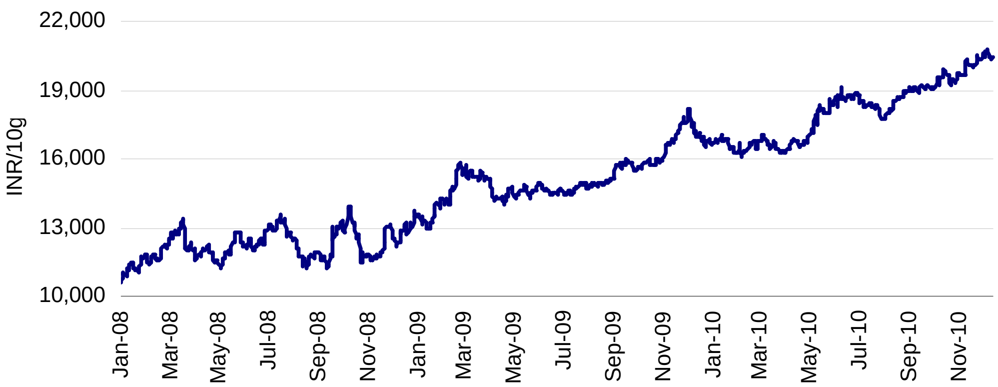
Relative Performance-1Yr (%)



Gold breaches Rs20,000/10g, Titan jewelry volume growth sustained

A steady increase in gold prices in 3QFY11 (up ~20% YoY and up 7% QoQ) has had little impact on jewelry retailers' volume growth. In 3QFY11 gold prices breached Rs20,000/10g. However, the demand for jewelry and coins (Diwali sales) was robust during the festive season. An extended marriage season and strong consumer sentiment are also driving demand.

Gold prices surge



Source: Company/MOSL

Valuations steep, decision on FDI in retail could be near-term trigger

We expect major retailers to have sustained sales growth though near-term margin expansion will be slow. Although valuations are rich for major players, Pantaloon Retail seems most attractive in the near term after a 30% correction from its peak. We believe a decision on opening up of multi-brand retail to FDI would be a key medium term trigger for the sector. We have a **Buy** rating on **Pantaloon Retail** and **Neutral** on **Shoppers Stop**, **Titan Industries** and **Jubilant Foodworks**.

Comparative valuation

	CMP (Rs)	Rating	EPS (Rs)			P/E (x)			EV/EBITDA			RoE (%)		
	24.12.10		FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E
Retail														
Jubilant Foodworks	631	Neutral	11.3	14.8	22.0	55.7	42.5	28.7	32.5	22.0	15.3	38.1	35.5	37.9
Pantaloon Retail	360	Buy	10.9	15.2	21.1	33.1	23.7	17.0	9.9	8.1	6.7	7.1	9.3	11.6
Shopper's Stop	727	Neutral	15.8	25.2	35.4	46.0	28.8	20.5	19.8	13.7	10.1	11.0	15.3	18.5
Titan Industries	3,467	Neutral	98.0	131.9	173.0	35.4	26.3	20.0	25.5	19.3	15.2	43.4	42.5	41.1
Sector Aggregate						**37.4**	**26.9**	**19.8**	**17.2**	**13.2**	**10.5**	**15.8**	**18.8**	**21.5**

Jubilant Foodworks

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	JUBI IN
Equity Shares (m)	63.5
52 Week Range (Rs)	671 / 162
1,6,12 Rel Perf (%)	-/-/-
Mcap (Rs b)	40.1
Mcap (USD b)	0.9

CMP: Rs631 **Neutral**

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/10A	4,242	334	5.3	318.3	120.2	33.1	28.5	78.2	9.2	58.2
03/11E	6,652	722	11.3	115.9	55.7	20.5	38.1	77.7	5.8	31.5
03/12E	9,296	944	14.8	30.9	42.5	14.6	35.5	80.3	4.0	21.3
03/13E	12,592	1,398	22.0	48.1	28.7	10.5	37.9	78.7	2.9	14.8

- We expect Jubilant to post 55% sales growth to Rs1.82b, SSS growth is likely to peter out to ~30% (v/s 44% in 2QFY11) due to a base effect.
- We expect Jubilant to add 18 stores and enter 2-3 new cities during 3QFY11.
- We estimate a 140bp YoY margin expansion to 18.2% (18.3% in 2QFY11) led by operating leverage despite an increase in employee costs. We expect PAT of Rs196m (up 71.8% YoY).
- In 3QFY11 the company launched Double Burst Pizza (with additional cheese layers), and the initial response has been encouraging.
- We believe QSR as a format holds immense potential in India and the increasing acceptance of pizza among consumers will enable Jubilant Foodworks to benefit from the trend.
- We believe the current valuations of 42.5x FY12E and 28.7x FY13E factor in the positives. **Neutral.**

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10E	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
No of Stores	265	280	296	306	320	338	356	376	306	376
SSS Growth (%)	13.6	13.2	23.1	38.0	37.0	43.8	30.0	22.0	22	30
Cities Covered	53	58	65	69	74	77	80	84	69	84
Net Sales	**850**	**978**	**1,174**	**1,241**	**1,356**	**1,634**	**1,819**	**1,843**	**4,242**	**6,652**
YoY Change (%)			50.4	67.1	59.5	67.1	55.0	48.6	51.0	56.8
Gross Profit	**643**	**736**	**884**	**929**	**1,023**	**1,229**	**1,364**	**1,383**	**3,192**	**5,000**
Gross Margin (%)	75.7	75.3	75.3	74.8	75.5	75.2	75.0	75.0	75.3	75.2
Other Expenses	522	584	687	736	772	932	1,031	1,048	2,524	3,783
% of Sales	61.5	59.8	58.5	59.3	56.9	57.0	56.7	56.9	59.5	56.9
EBITDA	**121**	**152**	**197**	**193**	**251**	**297**	**333**	**335**	**669**	**1,216**
Margins (%)	14.2	15.6	16.8	15.5	18.5	18.2	18.3	18.2	15.8	18.3
Depreciation	54	58	62	69	63	69	85	102	243	320
Interest	31	19	21	20	2	1	4	7	91	14
Other Income	0	0	0	1	1	3	4	11	1	19
PBT	**37**	**75**	**115**	**104**	**187**	**229**	**248**	**237**	**335**	**902**
Tax	2.5	-2.4	0.6	0.1	34	45	52	49	0.8	180
Rate (%)	6.8	-3.1	0.5	0.1	18.3	19.7	21.0	20.6	0.2	20.0
Adjusted PAT	**34**	**78**	**114**	**104**	**153**	**184**	**196**	**189**	**334**	**722**
YoY Change (%)			543.6	172.7	346.2	137.3	71.8	81.2	357.6	115.9
Reported PAT	**34**	**78**	**114**	**104**	**153**	**184**	**196**	**189**	**334**	**722**

E: MOSL Estimates

Amnish Aggarwal (AmnishAggarwal@MotilalOswal.com)/Nikhil Kumar(Nikhil.N@MotilalOswal.com)

Pantaloon Retail

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	PF IN
Equity Shares (m)	217.1
52 Week Range (Rs)	531 / 339
1,6,12 Rel Perf (%)	-17 / -27 / -19
Mcap (Rs b)	78.0
Mcap (USD b)	1.7

CMP: Rs360 **Buy**

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
06/10A	89,261	1,680	8.2	25.8	44.0	3.0	6.0	14.2	1.2	12.8
06/11E	112,278	2,356	10.9	33.0	33.1	2.6	7.1	14.8	0.9	10.8
06/12E	138,173	3,391	15.2	39.8	23.7	2.5	9.3	16.8	0.8	8.8
06/13E	165,987	4,724	21.1	39.3	17.0	2.2	11.6	18.9	0.7	7.3

- We expect Pantaloon Retail's 2QFY11 core retail sales to grow by 43.8% YoY to Rs27.5b. The numbers are not comparable YoY due to the inclusion of its home retailing business.
- 2QFY11 EBITDA margin is likely to be 9.1% (down 150bp YoY, up 90bp QoQ) due to pressure in the fashion business (cotton price rise) and inclusion of the lower margin home retailing business. EBITDA is estimated at Rs2.5b.
- Festive season sales have been encouraging with good demand in fashion and electronics. In 3QFY11 the company added ~0.5m square feet.
- We expect margins to be under pressure due to higher input costs in the fashion segment and an increasing contribution by lower margin foods to the overall pie. We are cautious about margin expansion in home retailing.
- Higher interest costs (due to increasing interest rates) are likely to limit PAT growth to 20.8%.
- We expect Pantaloon Retail to be a key beneficiary if FDI is allowed in the multi-brand retail sector.
- The stock trades at 23.7x FY12E EPS and 17x FY13E EPS. Maintain **Buy.**

QUARTERLY PERFORMANCE (RS MILLION)

Y/E JUNE	FY10				FY11				FY10*	FY11E
	1Q*	2Q	3Q	4Q*	1Q	2QE	3QE	4QE		
Net Sales	**19,542**	**19,128**	**20,576**	**31,786**	**25,814**	**27,500**	**28,800**	**30,164**	**89,261**	**112,278**
YoY Change (%)	29.3	25.4	25.3	91.2	32.1	43.8	40.0	-5.1	40.8	25.8
Total Exp	17,698	17,094	18,420	29,686	23,687	24,998	26,150	27,562	81,070	102,397
EBITDA	**1,845**	**2,034**	**2,156**	**2,099**	**2,127**	**2,503**	**2,650**	**2,602**	**8,191**	**9,881**
Growth (%)	19.1	29.3	24.6	26.4	15.3	23.0	22.9	23.9	40.8	20.6
Margins (%)	9.4	10.6	10.5	6.6	8.2	9.1	9.2	8.6	9.2	8.8
Depreciation	481	452	465	774	630	640	650	678	2,123	2,598
Interest	1,029	835	859	1,350	933	960	975	1,000	3,913	3,868
Other Income	51	20	14	24.5	81	25	15	23	106	144
PBT	**386**	**768**	**847**	**-1**	**645**	**928**	**1,040**	**947**	**2,261**	**3,559**
Tax	123	261	288	-176	218	315	350	320	582	1,203
Rate (%)	31.8	34.0	34.0		33.7	34.0	33.7	33.8	25.7	33.8
Adjusted PAT	**263**	**507**	**559**	**176**	**428**	**612**	**689**	**627**	**1,680**	**2,356**
YoY Change (%)		51.1	62.7	-9.3	62.4	20.8	23.3	256.9	36.0	40.3
Exceptional Income	0	0	0	622	0	0	0	0	622	0
Repoorted PAT	**263**	**507**	**559**	**797**	**428**	**612**	**689**	**627**	**2,302**	**2,356**

E: MOSL Estimates; * Core Retailing Nos in FY10, 4QFY10 estimates include 12month working of Home Solutions; FY11 Nos are of Core Retailing

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Shoppers Stop

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	SHOP IN
Equity Shares (m)	41.0
52 Week Range (Rs)	776 / 320
1,6,12 Rel Perf (%)	-3 / 25 / 76
Mcap (Rs b)	29.8
Mcap (USD b)	0.7

CMP: Rs727 — Neutral

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/10A	13,989	418	12.0	207.6	61.2	9.7	13.5	14.8	2.2	29.5
03/11E	16,920	648	15.8	31.8	46.4	5.1	11.0	14.2	1.7	20.0
03/12E	22,702	1,034	25.2	59.6	29.1	4.5	15.3	19.0	1.2	13.8
03/13E	27,823	1,453	35.4	40.4	20.7	3.8	18.5	24.2	1.0	10.2

- We expect Shoppers Stop to post sales of Rs4.6b (up 22.6%). We expect LTL growth to be in mid-teens. Strong consumption sentiment benefits Shoppers Stop as consumers up-grade to premium offerings.
- Margins are likely to be flat YoY at 10.1% as the benefits of mix improvement are likely to be offset by rentals and employee costs. We expect PAT of Rs223m (up 107.5% YoY).
- The company added one department store in 3QFY11 (in Aurangabad) and plans to add three stores in FY11.
- In the hypercity format, the company did not add any store in 3QFY11. We expect store launches to pick up in 4QFY11 (two stores expected in March).
- The success of department stores in tier-II cities like Bhopal and Aurangabad is a big positive for long-term business scalability. Shoppers Stop has large and medium sized formats in department stores and hypermarkets, which will enable a fast scale up in the coming years.
- The stock trades at 29.1x FY12E EPS and 20.7x FY13E EPS. Long-term prospects look encouraging, but valuations are at a significant premium. **Neutral.**

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	**2,766**	**3,715**	**3,751**	**3,783**	**3,435**	**4,545**	**4,500**	**4,440**	**13,989**	**16,920**
YoY Change (%)	0.3	9.6	11.9	20.1	24.2	22.3	20.0	17.4	10.6	21.0
Total Exp	2,614	3,448	3,371	3,512	3,185	4,163	4,019	4,112	12,946	15,479
EBITDA	**152**	**267**	**380**	**271**	**250**	**382**	**482**	**328**	**1,043**	**1,441**
Margins (%)	5.5	7.2	10.1	7.2	7.3	8.4	10.7	7.4	7.5	8.5
Depreciation	61	62	122	65	64	73	82	99	310	318
Interest	55	54	44	33	33	40	40	43	161	156
PBT	**36**	**150**	**214**	**172**	**153**	**269**	**360**	**186**	**572**	**967**
Tax	10	29	107	8	54	95	126	45	154	319
Rate (%)	29.1	19.5	49.9	4.7	35.0	35.4	35.0	24.0	27.0	33.0
PAT	**25**	**121**	**107**	**164**	**100**	**174**	**234**	**141**	**418**	**648**
YoY Change (%)	-116.5	-209.4	143.5	-197.1	295.0	44.1	117.7	-14.2	246.2	55.2
Exceptionals	0	0	-85	0	0	0	0	0	85	0
Reported PAT	**25**	**121**	**192**	**164.309**	**100**	**174**	**234**	**141**	**502**	**648**

E: MOSL Estimates

Amnish Aggarwal (AmnishAggarwal@MotilalOswal.com)/Nikhil Kumar(Nikhil.N@MotilalOswal.com)

Titan Industries

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	TTAN IN
Equity Shares (m)	44.4
52 Week Range (Rs)	4,244 / 1,365
1,6,12 Rel Perf (%)	-10 / 42 / 129
Mcap (Rs b)	153.9
Mcap (USD b)	3.4

CMP: Rs3,467 **Neutral**

Year End	Net Sales (Rs m)	PAT (Rs m)	EPS (Rs)	EPS Growth (%)	P/E (x)	P/BV (x)	ROE (%)	ROCE (%)	EV/ Sales	EV/ EBITDA
03/10A	46,744	2,615	58.9	24.7	58.9	22.6	36.1	53.6	3.5	43.0
03/11E	62,688	4,348	98.0	66.3	35.4	16.4	43.4	62.1	2.6	27.2
03/12E	78,200	5,853	131.9	34.6	26.3	11.9	42.5	63.2	2.1	20.5
03/13E	94,480	7,681	173.0	31.2	20.0	8.8	41.1	59.5	1.7	16.2

- We expect Titan to post sales of Rs18b, up 35% YoY, led by strong growth in the jewelry segment. We estimate a 51% increase in EBITDA enabled by a 100bp margin expansion and PAT is expected to increase 49% to Rs1.2b.
- We expect the watch division to post 15% sales growth, which is likely to trend lower than in the previous quarter due to a high base effect. Margins, however, are likely to expand ~400bp due to mix improvement.
- The jewelry division is likely to post strong volume growth (~20%) and expand margins by 100bp YoY to 8%. Margins are likely to be sequentially lower due to a higher proportion of gold jewelry and coin sales because of the festive and wedding season.
- Titan Eye+ is in investment mode, with its store numbers crossing 100 in 3QFY11. However we expect higher QoQ losses due to higher store openings and increased spends on brand promotion.
- We estimate 33% PAT CAGR over FY11-13. Titan is among the best plays on urban consumption in the specialty retail segment. Valuations at 20x FY13E EPS are rich. **Neutral.**

QUARTERLY PERFORMANCE (RS MILLION)

Y/E March	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Jewelry Volume Gr (%)	-15	-7	5	49	28	17	20	15	8.0	20
Gold Price chg YoY (%)	20	22	31	14	23	20	19	15	22	19
Net Sales	**8,828**	**11,468**	**13,336**	**13,112**	**12,528**	**15,360**	**18,004**	**16,798**	**46,744**	**62,688**
YoY Change (%)	8.9	5.4	30.3	48.9	41.9	33.9	35.0	28.1	22.9	34.1
Total Exp	8,336	10,387	12,264	11,943	11,415	13,624	16,383	15,241	42,929	56,663
EBITDA	**493**	**1,081**	**1,073**	**1,169**	**1,113**	**1,736**	**1,620**	**1,557**	**3,815**	**6,025**
Margins (%)	5.6	9.4	8.0	8.9	8.9	11.3	9.0	9.3	8.2	9.6
Depreciation	90	89	91	91	82	86	102	114	360	384
Interest	76	50	29	99	26	24	43	62	254	156
Other Income	10	32	30	47	81	82	85	80	119	327
PBT	**337**	**974**	**983**	**1,026**	**1,085**	**1,707**	**1,560**	**1,460**	**3,319**	**5,813**
Tax	111	198	199	196	274	430	393	368	704	1,465
Rate (%)	32.9	20.3	20.3	19.2	25.2	25.2	25.2	25.2	21.2	25.2
Adjusted PAT	**226**	**776**	**784**	**829**	**812**	**1,278**	**1,167**	**1,091**	**2,615**	**4,348**
YoY Change (%)	-31.2	-11.0	86.0	88.2	258.9	64.7	49.0	31.6	-96.5	66.3
Reported PAT	**460**	**776**	**754**	**512**	**812**	**1277.7**	**1,167**	**1,091**	**2,503**	**4,348**

E: MOSL Estimates

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Telecom

COMPANY NAME

Bharti Airtel

Idea Cellular

Reliance Communication

Tulip Telecom

Seasonal strength: We expect 3QFY11 to be a strong quarter due to seasonal uptick in traffic growth and continued stability in competitive activity resulting in limited RPM pressure. We would watch out for (1) RPM trend, (2) wireless margins, and (3) subscriber churn as the key indicators of competitive intensity in the wireless market. 3G launch and MNP implementation continue to be major events to watch out for in 2HFY11 and FY12.

No significant tariff cuts; traffic growth to improve: We expect blended RPM decline of 2-4% QoQ v/s 1-3% decline for GSM incumbents in 1QFY11 and an average decline of 7-8% QoQ in the preceding three quarters. We expect Bharti (ex-African operations) to report revenue growth of 4% QoQ, driven by 6% mobile traffic growth. On a consolidated basis, we expect 4.5% QoQ revenue growth. We expect QoQ revenue growth of 2% for RCom and 5% for Idea.

Margins to remain stable, with higher revenues being offset by increased network/ad spends: We expect EBITDA margins to remain largely stable QoQ, as the positive impact of revenue growth would be offset by increased spending on network rollout (2G as well as 3G) and higher advertisement and promotional spend. Operators increased rollout intensity from 2QFY11, as the issues related to security clearance of imported equipment were resolved. We expect network costs to inch up due to full impact of increased rollout activity for 2G as well as 3G networks. Bharti and Idea are likely to report EBITDA margin increase of 20-30bp QoQ. For RCom, we expect margin expansion of ~80bp QoQ on higher margins in the non-wireless business.

QoQ PAT to be stable for Bharti; increase for Idea; decline for RCom: We expect QoQ PAT to remain flat for Bharti due to lack of forex gains being offset by growth in operating profit. For Idea, we expect PAT growth of 9% QoQ, led by EBITDA growth. We expect RCom's proforma net profit to decline 20% QoQ, mainly due to assumption of normalized tax rate v/s tax credit during 2QFY11. On a YoY basis, we expect Bharti's PAT to decline 23% (consolidated) and 10% (ex-Africa). RCom's PAT is likely to decline 67% YoY while Idea's PAT should grow 15.5% YoY.

Abbreviations and acronyms

RPM: revenue per minute
MNP: mobile number portability
VLR: visitor location register
TRAI: Telecom Regulatory Authority of India
ARPU: average revenue per user
MOU: minutes of use

Expected quarterly performance summary **(Rs million)**

	CMP (Rs) 24.12.10	Rating	Sales Dec.10	Sales Var. % YoY	Sales Var. % QoQ	EBITDA Dec.10	EBITDA Var. % YoY	EBITDA Var. % QoQ	Net profit Dec.10	Net profit Var. % YoY	Net profit Var. % QoQ
Telecom											
Bharti Airtel	349	Buy	159,028	54.3	4.5	53,877	32.0	5.2	16,967	-22.7	2.2
Idea Cellular	70	Buy	38,487	22.2	5.2	9,326	14.6	6.1	1,964	15.5	9.3
Reliance Comm	142	UR	52,368	-1.3	2.3	17,404	-4.0	4.9	3,937	-66.8	-19.8
Tulip Telecom	179	Buy	6,085	21.5	4.0	1,757	30.1	7.6	861	25.4	10.2
Sector Aggregate			**255,968**	**32.9**	**4.1**	**82,365**	**20.3**	**5.3**	**23,732**	**-34.4**	**-1.5**

UR = Under Review

Shobhit Khare (Shobhit.Khare@MotilalOswal.com)/Nirav Poddar (Nirav.Poddar@MotilalOswal.com)

Subscriber additions back on track: After being impacted by seasonality and security verification norms in 2Q, subscriber additions are back to normalized levels in October/ November 2010, led by better seasonality and lower impact of security verification norms. Subscriber net additions for GSM incumbents have been improving since October 2010 after the extension of deadline for verification of existing subscribers to December. Our estimates for 2HFY11 incorporate monthly net addition of 2.6m (v/s average of 3.05m in October and November 2010) for Bharti and 1.7m (v/s average of 2.31m in October and November 2010) for Idea.

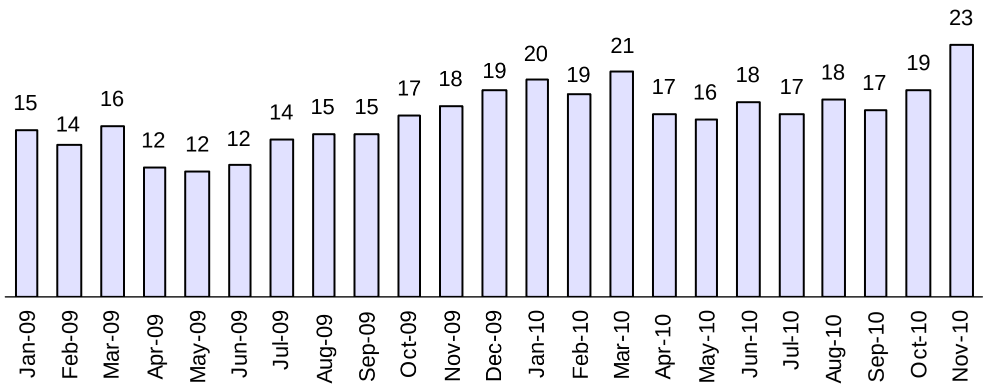
Low proportion of active subscribers reaffirm market potential: TRAI disclosed active wireless subscribers based on visitor location register (VLR), which corresponds to the subscribers "switched-on". VLR is a better indicator of actual subscriber base as it is adjusted for "SIM duplication" and does not include dormant subscribers. According to TRAI, only ~70% of the reported subscriber base was active as on 30 September 2010. Active subscriber base was ~481m, implying a real wireless penetration of ~40% v/s reported penetration of ~58%. Lower level of real penetration implies higher headroom for growth in wireless user base. Bharti and Idea reported the highest percentage of active subscribers (~90%) v/s <50% for new entrants. RCom had active subscriber base of ~67%, which is in line with the industry average. This indicates that Bharti and Idea have more accurate subscriber reporting and stringent policy.

Limited impact of MNP introduction in Haryana: We believe that there has been limited impact of MNP introduction in Haryana (on 25 November 2010) since porting requests (as a percentage of subscriber base) have not been very significant. Pan India roll-out of MNP is expected from January 2011. We continue to believe that MNP implementation is likely put pressure on post-paid RPM. The post-paid segment constitutes ~4% of subscribers and 17% of revenue in the GSM market. Increased advertising and subscriber retention costs are likely to put pressure at the EBITDA level.

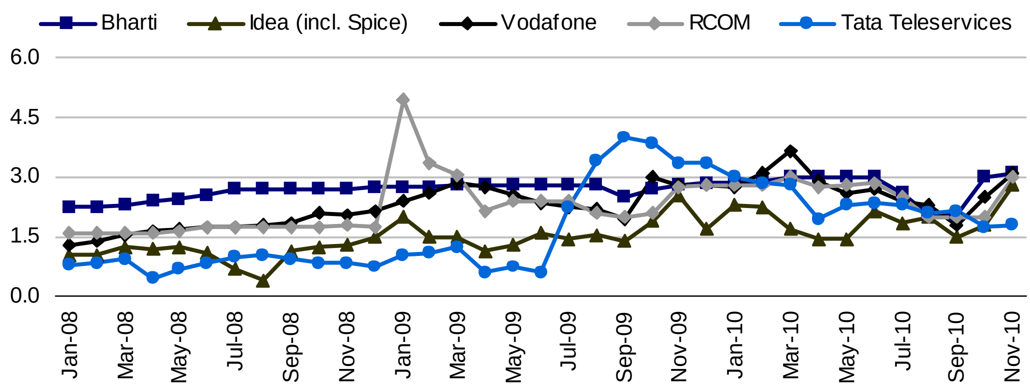
Tata Teleservices and RCom launch 3G in select circles: RCom (launched in metros of Mumbai, Delhi and Kolkata) and Tata Teleservices (launched in non-metros) are the only operators that have launched 3G services in select circles. Bharti plans to launch 3G services in four cities (including Delhi and Mumbai) by January 2011 and scale up to 50 cities by March 2011. We expect 3G to contribute 3-4% of incremental mobile revenues from India in FY12.

Valuation and view: Tough regulatory environment for new licencees would result in lower competition in the sector. Economically unviable operations and continued regulatory pressure on new entrants implies that the current fragmented industry structure is unlikely to sustain. Lower competitive intensity is positive for incumbent's market share, revenue growth and margins. We expect revenue and EBITDA growth to rebound, driven by (1) normalization of traffic growth, (2) abating tariff pressure, and (3) launch of 3G services. We continue to believe that a potential policy revamp would be positive for GSM incumbents like Bharti (trades at 7.3x FY12E proportionate EV/EBITDA) and Idea (trades at 7x FY12E EV/EBITDA).

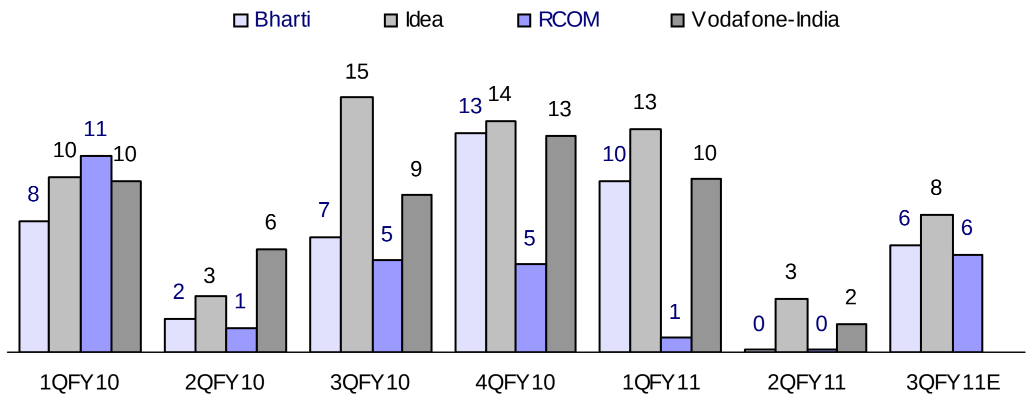
Wireless subscriber net additions (m)



Monthly subscriber additions for major operators (m)

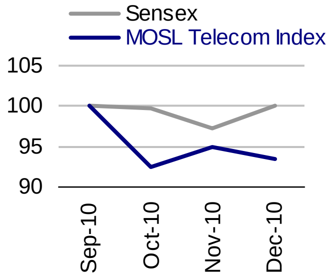


QoQ wireless traffic growth (%)

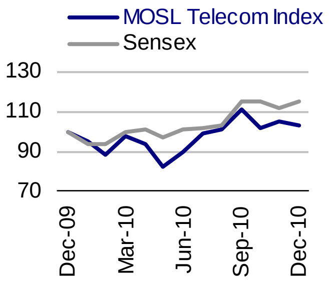


Source: Company/MOSL

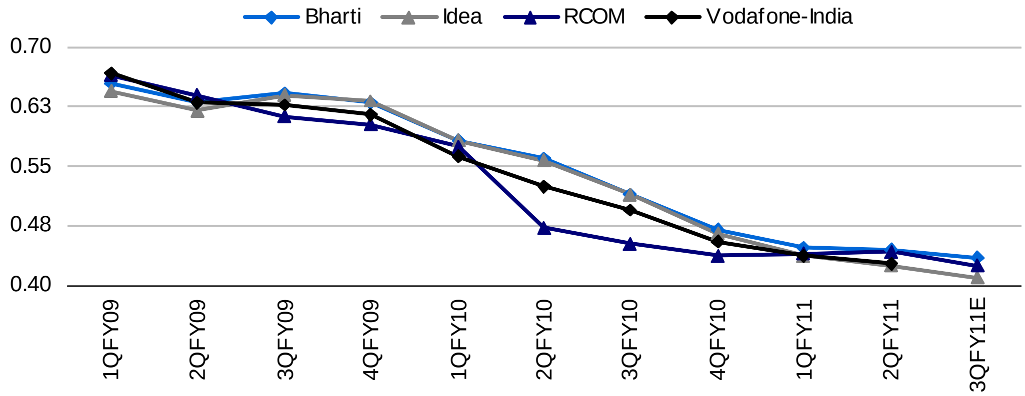
Relative Performance-3m (%)



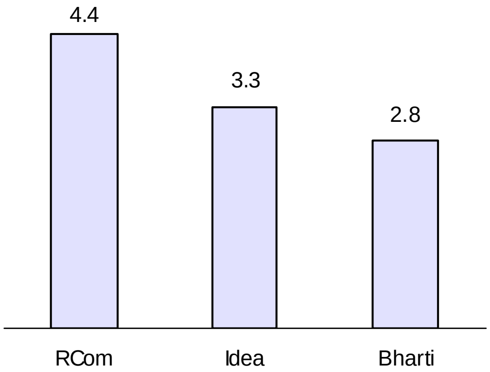
Relative Performance-1Yr (%)



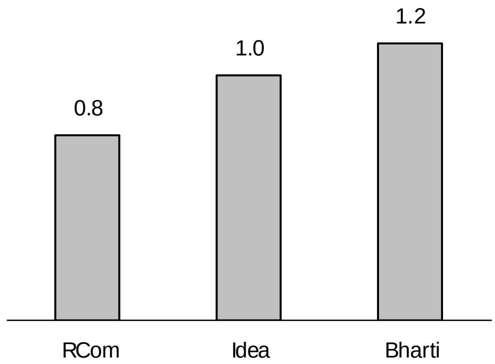
Trend in wireless RPM (Rs)



Net debt/EBITDA (FY11)



Net Debt/Equity (FY11)



Source: Company/MOSL

Comparative valuation

	CMP (Rs) 24.12.10	Rating	EPS (Rs) FY11E	FY12E	FY13E	P/E (x) FY11E	FY12E	FY13E	EV/EBITDA FY11E	FY12E	FY13E	RoE (%) FY11E	FY12E	FY13E
Telecommunication														
Bharti Airtel	349	Buy	17.6	22.3	28.5	19.8	15.6	12.2	9.2	7.0	5.7	13.7	14.9	16.5
Idea Cellular	70	Buy	1.8	2.7	5.1	39.0	26.3	13.7	9.6	7.0	5.1	5.1	7.1	12.3
Reliance Comm	142	UR	6.9	8.5	10.3	20.6	16.8	13.7	8.8	7.1	6.0	3.6	4.3	5.1
Tulip Telecom	179	Buy	19.8	26.8	28.5	9.0	6.7	6.3	5.4	4.0	3.0	29.9	30.6	22.8
Sector Aggregate						**20.8**	**16.3**	**12.4**	**9.1**	**6.9**	**5.6**	**8.9**	**10.3**	**12.0**

UR = Under Review

3QFY11: Summary Expectations

WIRELESS KPIS (CONSOLIDATED)

	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11E	YOY (%)	QOQ (%)
EOP Wireless Subs (m)													
Bharti (India)	69	77	86	94	102	111	119	128	137	143	151	27.4	5.7
Idea*	27	30	34	39	43	47	52	64	69	74	79	51.8	6.9
RCOM	51	56	61	73	80	86	94	102	111	117	124	32.1	5.6
AV. WIRELESS SUBS (M)													
Bharti (India)	66	73	82	90	98	106	115	123	132	140	147	28.5	5.3
Idea*	26	29	32	37	41	45	50	58	66	72	77	55.0	7.3
RCOM	48	53	59	67	76	83	90	98	107	114	121	34.1	5.8
ARPU (RS/MONTH)													
Bharti (India)	350	331	324	305	278	252	230	220	215	202	200	-13.2	-1.0
Idea*	278	261	266	254	232	209	200	185	182	167	164	-18.2	-2.0
RCOM	282	271	251	224	210	161	149	139	130	122	117	-21.4	-4.0
MOU PER SUB													
Bharti (India)	534	526	505	485	478	450	446	468	480	454	458	2.8	1.0
Idea*	431	421	416	402	399	375	389	398	415	394	398	2.3	1.0
RCOM	424	423	410	372	365	340	330	318	295	276	276	-16.3	0.0
REVENUE PER MIN (RS)													
Bharti (India)	0.66	0.63	0.64	0.63	0.58	0.56	0.52	0.47	0.45	0.44	0.44	-15.5	-2.0
Idea*	0.65	0.62	0.64	0.63	0.58	0.56	0.51	0.46	0.44	0.42	0.41	-20.0	-3.0
RCOM	0.67	0.64	0.61	0.60	0.58	0.47	0.45	0.44	0.44	0.44	0.42	-6.1	-4.0
WIRELESS TRAFFIC (B MIN)													
Bharti (India)	105	116	124	131	141	144	153	173	190	191	203	32.0	6.3
Idea*	33	36	40	44	49	50	58	68	82	85	92	43#	8.1
RCOM	61	68	72	75	83	85	89	94	94	94	100	12.2	5.8

* Idea 4QFY10 numbers include one month consolidation with Spice; full merger from 1QFY11

Like-to-like growth including Spice

QUARTERLY FINANCIALS (CONSOLIDATED)

	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11E	YOY (%)	QOQ (%)
REVENUE (RS B)													
Bharti (ex Africa)	84.8	90.2	96.3	98.2	104.1	98.5	97.7	107.5	112.7	113.3	117.9	20.6	4.0
Bharti (consolidated)	84.8	90.2	96.3	98.2	104.1	98.5	97.7	107.5	122.3	152.2	159.0	62.7	4.5
Idea*	21.8	23.0	27.3	29.4	29.8	29.7	31.5	33.5	36.5	36.6	38.5	22.2	5.2
RCOM	53.2	56.4	58.5	61.2	61.5	57.0	53.1	50.9	51.1	51.2	52.4	-1.4	2.3
EBITDA (RS B)													
Bharti (ex Africa)	35.2	37.0	39.5	40.0	43.0	41.4	39.1	41.8	42.4	42.2	44.3	13.3	5.0
Bharti (consolidated)	35.2	37.0	39.5	40.0	43.0	41.4	39.1	41.8	44.1	51.2	53.9	37.8	5.2
Idea*	7.2	6.0	6.9	8.1	8.6	8.1	8.1	9.2	8.9	8.8	9.3	14.6	6.1
RCOM	22.5	23.0	23.5	23.8	24.5	20.2	18.1	16.0	16.3	16.6	17.4	-4.0	4.9
EBITDA MARGIN (%)													
Bharti (ex Africa)	41.5	41.0	41.0	40.7	41.3	42.1	40.0	38.9	37.6	37.3	37.6	-243bp	34bp
Bharti (consolidated)	41.5	41.0	41.0	40.7	41.3	42.1	40.0	38.9	36.1	33.7	33.9	-614bp	22bp
Idea*	32.9	26.2	25.5	27.6	28.9	27.2	25.8	27.6	24.3	24.0	24.2	-161bp	22bp
RCOM	42.3	40.8	40.2	38.9	39.9	35.4	34.1	31.5	31.9	32.4	33.2	-91bp	81bp
PAT (RS B)													
Bharti (ex Africa)	20.3	20.5	21.6	22.4	24.7	23.2	22.1	20.4	19.0	20.4	19.8	-10.3	-2.8
Bharti (consolidated)	20.3	20.5	21.6	22.4	24.7	23.2	22.1	20.4	16.8	16.6	16.9	-22.7	2.1
Idea*	2.6	1.4	2.2	2.7	3.0	2.2	1.7	2.7	2.0	1.8	2.0	15.5	9.3
RCOM	16.4	16.8	14.8	13.6	17.3	8.2	11.9	11.4	3.0	4.9	3.9	-66.9	-19.8
EPS (RS)													
Bharti	5.3	5.4	5.7	5.9	6.5	6.1	5.8	5.4	4.4	4.4	4.5	-23.2	2.1
Idea	1.0	0.5	0.7	0.9	1.0	0.7	0.5	0.9	0.6	0.5	0.6	8.5	9.3
RCOM	7.9	8.1	7.2	6.6	8.4	4.0	5.8	5.5	1.5	2.4	1.9	-66.8	-19.8
CAPEX (RSB)													
Bharti	40.7	31.9	38.8	28.9	27.1	22.8	16.9	15.1	18.4	33.0	45.4	168.6	37.3
Idea	19.8	12.0	13.5	13.7	9.1	9.6	9.0	5.3	3.6	3.0	17.1	90.0	472.6
RCOM	69.7	47.7	43.6	33.1	9.8	9.8	13.3	8.8	7.9	9.3	10.5	-20.5	13.4

* Idea 4QFY10 numbers include one month consolidation with Spice; full merger from 1QFY11

Source: Company/MOSL

Bharti Airtel

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	BHARTI IN
Equity Shares (m)	3,793.9
52 Week Range (Rs)	377 / 254
1,6,12 Rel Perf (%)	2 / 19 / -7
Mcap (Rs b)	1,322.2
Mcap (USD b)	29.3

CMP: Rs349 **Buy**

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	418,472	89,767	23.7	5.9	14.7	3.0	23.6	18.9	3.2	8.0
3/11E	599,360	66,653	17.6	-25.7	19.8	2.5	13.7	9.4	3.2	9.2
3/12E	720,284	84,499	22.3	26.8	15.6	2.2	14.9	8.9	2.6	7.0
3/13E	801,616	108,099	28.5	27.9	12.2	1.9	16.5	9.9	2.1	5.7

- We expect consolidated revenue to grow 54.3% YoY (4.5% QoQ) to Rs159b, driven by 14% YoY (4% QoQ) growth in India and South Asia revenues. We estimate revenue of ~Rs117.8b from India and South Asia, ~Rs41.2b (US$917m) from Africa.
- Consolidated EBITDA margin is likely to decline ~570bp YoY but expand ~20bp QoQ to 33.9%. Africa margins should remain steady at 23%. We expect EBITDA margin for India and South Asia to expand by ~30bp to ~37.6%.
- India and South Asia mobile revenue is likely to grow ~13% YoY and 4.2% QoQ to Rs91.8b, driven by 6.3% QoQ traffic growth, partially offset by ~2% RPM decline. We expect mobile ARPU to decline 13.2% YoY and 1% QoQ to Rs200/month. We estimate EBITDA margin for mobile business at ~35.3%, flat QoQ.
- We are modeling revenue and EBITDA growth of ~6% QoQ for the Africa business. We estimate an ARPU of US$7.3/month and subscriber base of 44m.
- We expect consolidated net profit to decline ~22.7% YoY and 2.2% QoQ to Rs16.97b. PAT for India and South Asia is likely to decline ~10% YoY and ~3% QoQ to Rs19.8b.
- Bharti trades at an EV/EBITDA (proportionate) of 9.5x FY11E and 7.3x FY12E. Maintain **Buy**.

QUARTERLY PERFORMANCE - (EX-ZAIN, CONSOLIDATED) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Revenue	**104,143**	**103,785**	**103,053**	**107,491**	**122,308**	**152,150**	**159,028**	**165,873**	**418,472**	**599,360**
YoY Growth (%)	22.8	15.1	7.0	9.4	17.4	46.6	54.3	54.3	13.2	43.2
QoQ Growth (%)	6.0	-0.3	-0.7	4.3	13.8	24.4	4.5	4.3		
Total Operating Expenses	61,169	60,778	62,231	66,662	78,168	100,938	105,151	109,123	250,839	393,381
EBITDA	**42,974**	**43,007**	**40,823**	**40,829**	**44,140**	**51,212**	**53,877**	**56,750**	**167,633**	**205,980**
Margin (%)	41.3	41.4	39.6	38.0	36.1	33.7	33.9	34.2	40.1	34.4
Net Finance Costs	-1,284	2,084	-266	-356	4,198	3,320	5,790	7,404	178	20,712
Non-Operating Income	-21	181	128	179	244	166	256	260	467	926
Depreciation & Amortization	14,753	15,246	15,883	16,953	19,467	25,790	27,207	29,420	62,832	101,884
Profit before Tax	29,484	25,858	25,334	24,412	20,719	22,268	21,136	20,187	105,091	84,310
Income Tax Expense / (Income)	4,305	2,753	2,980	3,415	3,750	5,678	4,218	3,995	13,453	17,641
Profit after Tax	**25,179**	**23,105**	**22,354**	**20,997**	**16,969**	**16,590**	**16,918**	**16,192**	**91,638**	**66,669**
Profit / (Loss) to Min. Shareholders	-433	-477	-407	-553	-153	23	49	65	-1,870	-16
Reported Net Profit / (Loss)	**24,746**	**22,628**	**21,947**	**20,444**	**16,816**	**16,613**	**16,967**	**16,257**	**89,768**	**66,653**
YoY Growth (%)	22.2	10.6	1.6	-8.7	-32.0	-26.6	-22.7	-20.5	6.0	-25.7
India - Mobile ARPU (Rs/month)	278	252	230	220	215	202	200	198	243	204
QoQ Growth (%)	-8.8	-9.4	-8.6	-4.6	-2.0	-6.4	-1.0	-1.0		
India - Mobile MOU/sub/month	478	450	446	468	480	454	458	463	459	465
QoQ Growth (%)	-1.5	-5.9	-0.9	4.9	2.7	-5.5	1.0	1.0		
India - Mobile RPM (Rs/min)	0.58	0.56	0.52	0.47	0.45	0.44	0.44	0.43	0.53	0.44
QoQ Growth (%)	-7.5	-3.7	-7.8	-9.1	-4.6	-0.9	-2.0	-2.0		
Africa - Subscribers (m)					36	40	44	48		48
Africa - ARPU (US$/month)					7.4	7.6	7.3	7.0		7.2
Africa - EBITDA Margin (%)					27.5	23.1	23.2	24.0		24.6

E: MOSL Estimates

Shobhit Khare (Shobhit.Khare@MotilalOswal.com)/Nirav Poddar (Nirav.Poddar@MotilalOswal.com)

Idea Cellular

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	IDEA IN
Equity Shares (m)	3,299.8
52 Week Range (Rs)	80 / 49
1,6,12 Rel Perf (%)	-2 / 13 / 5
Mcap (Rs b)	231.6
Mcap (USD b)	5.1

CMP: Rs70 **Buy**

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	124,476	9,540	3.1	2.0	22.8	1.9	7.6	5.5	2.3	8.3
3/11E	152,049	5,947	1.8	-41.4	39.0	1.9	5.1	4.5	2.3	9.6
3/12E	179,900	8,821	2.7	48.3	26.3	1.8	7.1	6.0	1.9	7.0
3/13E	205,167	16,912	5.1	91.7	13.7	1.6	12.3	9.2	1.5	5.1

- Idea is expected to report 5.2% consolidated QoQ revenue growth to Rs38.5b. We expect Idea to report mobile traffic growth of ~8.1% and RPM decline of ~3%.
- ARPU is expected to decline by 2% QoQ to Rs164, impacted by the RPM decline.
- Consolidated EBITDA margin is expected to increase by ~20bp QoQ to 24.2% primarily due to higher revenues. We expect margins in established circles 29.6% (up 50bp QoQ). EBITDA loss in new circles is estimated to remain at ~Rs1.4b.
- Net Profit is expected to increase ~15.5% YoY and 9.3% QoQ to Rs1.96b.
- The stock trades at an EV/EBITDA of 9.6x FY11E and 7x FY12E. Maintain **Buy**.

QUARTERLY PERFORMANCE (CONSOLIDATED) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Gross Revenue	**29,759**	**29,739**	**31,501**	**33,477**	**36,537**	**36,592**	**38,487**	**40,432**	**124,476**	**152,049**
YoY Growth (%)	36.6	29.1	15.3	14.0	22.8	23.0	22.2	20.8	22.7	22.2
QoQ Growth (%)	1.4	-0.1	5.9	6.3	9.1	0.2	5.2	5.1		
EBITDA	**8,599**	**8,095**	**8,141**	**9,235**	**8,884**	**8,788**	**9,326**	**10,053**	**34,070**	**37,050**
YoY Growth (%)	19.4	33.4	16.7	13.9	3.3	8.6	14.6	8.9	20.2	8.7
QoQ Growth (%)	6.1	-5.9	0.6	13.4	-3.8	-1.1	6.1	7.8		
Margin (%)	28.9	27.2	25.8	27.6	24.3	24.0	24.2	24.9	27.4	24.4
Net Finance Costs	869	740	938	621	1,142	1,028	1,249	2,832	3,168	6,274
Depreciation & Amortization	4,555	4,796	5,130	5,667	5,656	5,820	5,942	7,009	20,148	24,426
Profit before Tax	**3,175**	**2,559**	**2,073**	**2,947**	**2,086**	**1,940**	**2,135**	**212**	**10,754**	**6,350**
Income Tax Expense / (Income)	204	357	372	281	72	143	171	17	1,214	403
Net Profit / (Loss)	**2,971**	**2,202**	**1,701**	**2,666**	**2,014**	**1,797**	**1,964**	**195**	**9,540**	**5,947**
YoY Growth (%)	12.9	52.8	-22.5	-2.8	-32.2	-18.4	15.5	-92.7	5.9	-37.7
QoQ Growth (%)	8.3	-25.9	-22.8	56.7	-24.5	-10.8	9.3	-90.1		
Margin (%)	10.0	7.4	5.4	8.0	5.5	4.9	5.1	0.5	7.7	3.9
Mobile ARPU (Rs/month)	232	209	200	185	182	167	164	160	207	169
QoQ Growth (%)	-8.7	-9.9	-4.3	-7.5	-1.6	-8.2	-2.0	-2.0		
Mobile MOU/sub/month	399	375	389	398	415	394	398	402	388	395
QoQ Growth (%)	-0.7	-6.0	3.7	2.3	-0.4	-4.0	1.0	1.0		

E: MOSL Estimates

Shobhit Khare (Shobhit.Khare@MotilalOswal.com)/Nirav Poddar (Nirav.Poddar@MotilalOswal.com)

Reliance Communication

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	RCOM IN
Equity Shares (m)	2,063.0
52 Week Range (Rs)	205 / 120
1,6,12 Rel Perf (%)	-4 / -38 / -34
Mcap (Rs b)	292.7
Mcap (USD b)	6.5

CMP: Rs142 — Under Review

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	222,457	48,812	23.7	-20.7	6.0	0.7	12.6	5.8	2.2	6.2
3/11E	208,145	14,211	6.9	-70.9	20.6	0.7	3.6	3.0	2.9	8.8
3/12E	236,430	17,452	8.5	22.8	16.8	0.7	4.3	3.3	2.4	7.1
3/13E	258,798	21,348	10.3	22.3	13.7	0.7	5.1	3.7	2.0	6.0

- We expect revenue to decline 1.3% YoY but grow 2.3% QoQ to Rs52.4b.
- Wireless ARPU is likely to decline ~4% QoQ to Rs117/month. We expect RPM to decline by 4% QoQ to Rs0.42 and MOU to remain flat QoQ at 276.
- We expect EBITDA margin to expand by ~80bp QoQ to 33.2%.
- Pre-minority interest net profit is likely to decline 66.8% YoY and 19.8% QoQ to Rs3.9b.
- RCom trades at an EV/EBITDA of 8.8x FY11E and 7.1x FY12E. **Under review**.

QUARTERLY PERFORMANCE (CONSOLIDATED) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Gross Revenue	**61,452**	**57,026**	**53,052**	**50,928**	**51,092**	**51,183**	**52,368**	**53,088**	**222,457**	**208,145**
YoY Growth (%)	15.5	1.0	-9.3	-16.8	-16.9	-10.2	-1.3	4.2	-3.0	-6.4
QoQ Growth (%)	0.4	-7.2	-7.0	-4.0	0.3	0.2	2.3	1.4		
EBITDA	**24,525**	**20,199**	**18,126**	**16,020**	**16,320**	**16,595**	**17,404**	**17,367**	**78,869**	**67,687**
YoY Growth (%)	9.0	-12.2	-22.9	-32.8	-33.5	-17.8	-4.0	8.4	-15.1	-14.2
QoQ Growth (%)	2.9	-17.6	-10.3	-11.6	1.9	1.7	4.9	-0.2		
Margin (%)	39.9	35.4	34.2	31.5	31.9	32.4	33.2	32.7	35.5	32.5
Net Finance Costs	-6,205	6,551	-4,075	-8,134	4,396	2,797	2,868	4,098	-11,863	14,159
Depreciation & Amortization	11,144	7,144	8,331	10,847	9,648	9,553	9,959	10,509	37,466	39,669
Profit before Tax	**19,586**	**6,504**	**13,870**	**13,307**	**2,276**	**4,245**	**4,577**	**2,760**	**53,266**	**13,859**
Income Tax Expense / (Income)	2,267	-1,739	2,003	1,923	-719	-661	641	386	4,454	-353
Adjusted Net Profit / (Loss)	**17,319**	**8,243**	**11,867**	**11,384**	**2,995**	**4,906**	**3,937**	**2,374**	**48,812**	**14,211**
YoY Growth (%)	5.6	-50.8	-19.8	-16.3	-82.7	-40.5	-66.8	-79.1	-20.7	-70.9
QoQ Growth (%)	27.4	-52.4	44.0	-4.1	-73.7	63.8	-19.8	-39.7		
Margin (%)	28.2	14.5	22.4	22.4	5.9	9.6	7.5	4.5	21.9	6.8
Extraordinary Exp/Minority Interest	953	840	790	-811	486	447	329	348	1,772	1,610
Reported Net Profit / (Loss)	**16,366**	**7,403**	**11,077**	**12,195**	**2,509**	**4,459**	**3,608**	**2,026**	**47,040**	**12,602**
Wireless ARPU (Rs/month)	210	161	149	139	130	122	117	111	161	120
QoQ Growth (%)	-6.3	-23.3	-7.5	-6.7	-6.5	-6.2	-4.0	-4.9		
Wireless MOU/sub/month	365	340	330	318	295	276	276	270	334	280
QoQ Growth (%)	-1.9	-6.8	-2.9	-3.6	-7.2	-6.4	0.0	-2.0		

E: MOSL Estimates

Shobhit Khare (Shobhit.Khare@MotilalOswal.com)/Nirav Poddar (Nirav.Poddar@MotilalOswal.com)

Tulip Telecom

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	TTSL IN
Equity Shares (m)	145.0
52 Week Range (Rs)	214 / 158
1,6,12 Rel Perf (%)	-1 / -9 / -24
Mcap (Rs b)	25.9
Mcap (USD b)	0.6

CMP: Rs179 — Buy

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	19,664	2,755	17.0	15.0	10.5	3.1	34.2	16.4	1.7	6.5
3/11E	23,650	3,217	19.8	16.8	9.0	2.4	29.9	15.9	1.5	5.4
3/12E	29,436	4,351	26.8	35.2	6.7	1.8	30.6	18.0	1.2	4.0
3/13E	34,151	4,629	28.5	6.4	6.3	1.2	22.8	16.7	0.8	3.0

- We expect consolidated revenue to grow 21.5% YoY and 4% QoQ to Rs6.09b. QoQ growth is likely to moderate after strong QoQ growth in 2Q.
- We expect EBITDA margin to expand ~100bp QoQ to 28.9%. EBITDA is likely to grow 30.1% YoY and 7.6% QoQ to Rs1.76b
- We expect reported PAT to grow 25.4% YoY and 10.2% QoQ to Rs861m.
- Tulip trades at an EV/EBITDA of 5.4x FY11E and 4x FY12E. Maintain **Buy**.

QUARTERLY PERFORMANCE (CONSOLIDATED) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Gross Revenue	**4,429**	**4,910**	**5,009**	**5,307**	**5,252**	**5,850**	**6,085**	**6,463**	**19,664**	**23,650**
YoY Growth (%)	33.2	27.7	15.0	15.0	18.6	19.1	21.5	21.8	21.8	20.3
QoQ Growth (%)	-4.0	10.9	2.0	5.9	-1.0	11.4	4.0	6.2		
Total Operating Expenses	3,343	3,642	3,659	3,762	3,834	4,217	4,328	4,563	14,409	16,943
EBITDA	**1,086**	**1,268**	**1,350**	**1,545**	**1,417**	**1,634**	**1,757**	**1,900**	**5,255**	**6,708**
YoY Growth (%)	66.0	56.5	48.0	56.0	30.5	28.8	30.1	23.0	56.1	27.6
QoQ Growth (%)	9.6	16.8	6.5	14.4	-8.3	15.3	7.6	8.1		
Margin (%)	24.5	25.8	27.0	29.1	27.0	27.9	28.9	29.4	26.7	28.4
Net Finance Costs	158	187	186	185	185	190	218	237	716	829
Non-Operating Income	271	37	104	57	-13	14	50	61	468	111
Depreciation & Amortization	353	436	409	155	375	420	442	464	1,353	1,700
Profit before Tax	**846**	**682**	**858**	**1,262**	**844**	**1,038**	**1,147**	**1,260**	**3,654**	**4,290**
Income Tax Expense / (Income)	96	164	172	467	203	258	287	325	899	1,072
Reported Net Profit / (Loss)	**750**	**518**	**686**	**795**	**642**	**781**	**861**	**934**	**2,755**	**3,217**
YoY Growth (%)	63.2	3.2	41.0	-24.8	-14.5	50.8	25.4	17.6	10.0	16.8
QoQ Growth (%)	-29.0	-31.0	32.6	15.9	-19.3	21.7	10.2	8.6		
Margin (%)	16.9	10.5	13.7	15.0	12.2	13.3	14.1	14.5	14.0	13.6

E: MOSL Estimates

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Textiles

COMPANY NAME

Alok Industries

Arvind Mills

Raymond

Vardhman Textiles

Government imposes yarn export quota: In 3QFY11 the government banned cotton yarn exports, a move aimed at exerting pressure on cotton yarn prices, a raw material for garment exporters. Industry experts expect the move to lead to stronger international yarn prices and pressure on domestic prices when yarn availability in the domestic market is expected to increase.

Yarn margins could come under pressure from 4QFY11: We expect yarn margins to come under pressure from 4QFY11 due to (1) the impact of higher cotton prices and (2) pressure on cotton yarn prices. Textile companies in India typically buy cotton during the harvest period (November-March). Hence until mid 3QFY11 most key textile mills had the advantage of a low cotton inventory, which would be absent from 4QFY11.

For fabric players, margins are under stress: Downstream players such as fabric makers faced a squeeze in margins, as they were unable to pass on the sharp increase in yarn prices entirely. Typically, it takes about six months for fabric manufacturers to pass on price increases to end users entirely, and another 3-4 months for garment manufacturers to pass on higher raw material costs.

Indian exporters favorably placed: Labor cost inflation in China and the appreciation of the yuan are key positives for Indian exporters. Chinese dominance of the global textile industry is declining and Indian textile and garment exporters are well placed to increase their global market share.

Valuation and view: Key Indian textile companies undertook capacity expansion over FY06-09, which allowed them to achieve critical scale and most capacities are slated to reach full utilization from FY11. Key Indian textile companies are in a sweet spot as they do not have major near-term capital expenditure plans and could enjoy significant free cash flows over the next few years. Our top pick is **Vardhman Textiles**.

Expected quarterly performance summary **(Rs million)**

	CMP (Rs)	Rating	Sales			EBITDA			Net profit		
	24.12.10		Dec.10	Var. % YoY	Var. % QoQ	Dec.10	Var. % YoY	Var. % QoQ	Dec.10	Var. % YoY	Var. % QoQ
Textiles											
Alok Ind	26	Neutral	14,721	36.0	1.4	4,020	24.5	-3.3	671	15.5	-15.9
Arvind Mills	65	Neutral	7,096	30.5	8.4	999	78.7	9.2	227	85.0	-19.8
Raymond	361	Buy	4,009	7.7	0.6	784	45.5	-3.7	303	-1.3	-22.7
Vardhman Textiles	290	Buy	9,606	37.4	4.2	2,370	71.7	6.9	1,110	132.3	-4.3
Sector Aggregate			**35,432**	**31.3**	**3.4**	**8,172**	**43.2**	**0.9**	**2,311**	**55.3**	**-12.2**

Siddharth Bothra (SBothra@MotilalOswal.com)

Government imposes yarn export quota

In 3QFY11 the government banned cotton yarn exports, which aimed at exerting pressure on cotton yarn prices, an important raw material for garment exporters.

The annual quota for FY11 cotton exports was 0.72m tons. With many exporters having reached the limit, further cotton yarn exports in FY11 were banned. Industry experts expect this move to lead to stronger international yarn prices. Besides, they expect pressure on domestic prices due to increased yarn availability.

The profitability of select cotton spinners that have been carrying a low cotton inventory has improved. We believe Vardhman Textiles, India's largest cotton spinning company, is the best proxy to play this trend.

India’s competitive advantage in the yarn segment is likely to sustain in the medium term

	2009-10	2010-11	% CHG.
Producers			
China	6.85	6.95	1.46
India	5.01	5.52	10.17
United States	2.65	4.07	53.39
Pakistan	2.03	1.92	-5.51
Brazil	1.15	1.45	26.09
Uzbekistan	0.85	1.05	23.53
African Franc Zone	0.50	0.58	21.09
Turkey	0.38	0.52	38.16
Australia	0.36	0.77	112.67
Others	2.09	2.31	10.57
World Production	**21.87**	**25.14**	**15.05**
Consumers			
China	10.15	10.48	3.33
Indian Subcontinent	7.67	8.00	4.24
Turkey	1.25	1.30	4.00
Brazil	0.97	1.00	2.56
United States	0.74	0.78	5.95
Others	4.15	4.26	2.65
World Consumption	**24.93**	**25.83**	**3.63**

Source: Cotton Outlook

Cotton demand/ supply outlook (ICAC): World cotton supply and distribution seasons 2008-09 to 2010-11 (August-July) August 2010 Forecast)

Million Tons	2009-2010	2010-2011 10-Aug. Forecast	2010-2011 Annual Chg. (%)
Production	21.9	25.2	15.1
Consumption	24.5	24.9	1.6
Exports	7.7	8.0	3.9
Ending Stocks	9.4	9.8	4.26
Stock-to-use (%)	38.4	39.4	2.6
Cotlook A	78.0	85.0	9.0

Source: Cotton Outlook

Cotlook A Cotton (US cents/ pound)

Indian cotton prices Shankar - 6 (Rs/candy)

Source: Cotton Outlook

Fabric players' margins under stress

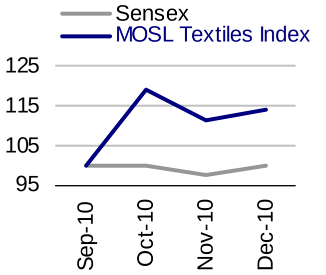
Downstream players such as fabric manufacturers face a squeeze in margins as they were unable to pass on the sharp increase in yarn prices entirely. Typically, it takes about six months for fabric manufacturers to pass on price increases to end users entirely and another 3-4 months for garment manufacturers to pass on raw material cost increases.

Indian exporters favorably placed

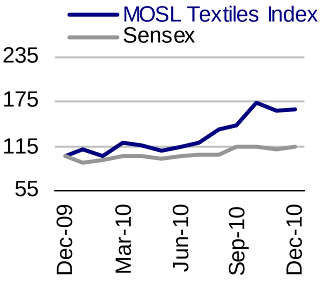
Higher labor costs in China and the appreciation of the yuan are key positives for Indian exports. Chinese dominance of the global textile industry is declining and Indian exporters are well placed to boost their market share because:

- Recent studies on the Chinese textile industry indicate that China's comparative advantage is declining.
- China's share of the global market jumped from 38.8% in 2001 to 47.1% in 2005 but has not increased since. This is because China's share of the textile and clothing markets other than the US and the EU did not rise. In fact, it declined from 71.3% in 2006 to 66.8% in 2008.
- Threats of renewed sanctions on Chinese textile exports to the US have resurfaced after the introduction of statistical monitoring of Chinese shipments to the US. The US Congress subsequently passed the Appropriations Bill. While imposing textile quotas is against WTO rules, the agreement on China's accession to the WTO includes a "product specific safeguard", which allows sanctions on imports from China until 11 December 2013. The related US legislation is known as Section 421.
- A shift of the global textile trade away from China is likely to benefit its key competitors such as India, Bangladesh and Sri Lanka.

Relative Performance-3m (%)



Relative Performance-1Yr (%)

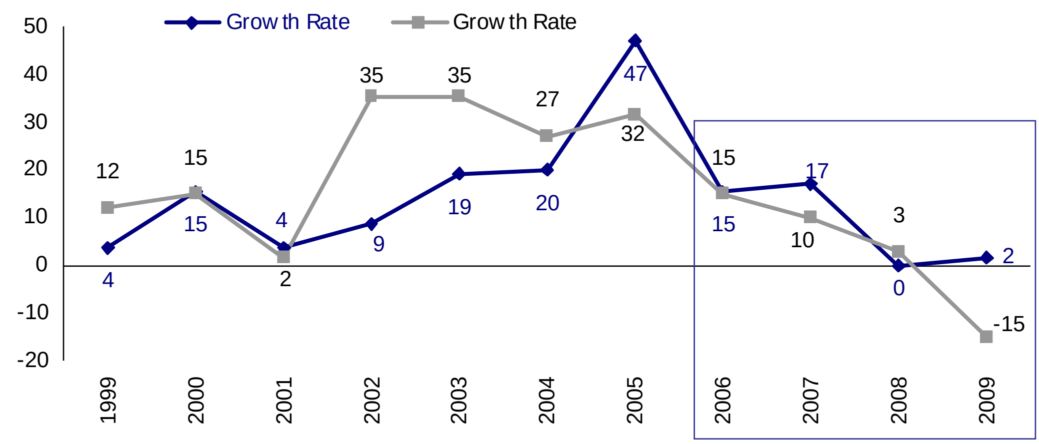


China's market share of global textile & apparel market (%)

Year	World	US+EU	Others
1999	36.3	18.1	67.0
2000	38.6	19.2	68.9
2001	38.8	19.5	69.4
2002	39.7	21.2	70.0
2003	40.9	23.1	70.7
2004	42.4	25.3	70.4
2005	**47.1**	32.3	**70.9**
2006	**48.2**	34.1	**71.3**
2007	**49.5**	37.1	**69.7**
2008	**47.4**	39.5	**66.8**

Source: Company/MOSL

China's textile and apparel growth rate to the US (%)



Source: Company/MOSL

Valuation and view

FY09 was one of the worst years for the Indian textile industry. It was impacted by negative factors such as: (1) the appreciating rupee, (2) slow export demand, (3) inventory de-stocking by domestic retailers and (4) higher depreciation and interest costs. In FY10, most of these factors were reversed and we expect the industry's fortunes to improve in FY11.

Key Indian textile companies undertook capacity expansion over FY06-09, allowing them to achieve critical scale and most of the capacities are slated to reach full utilization from FY11. Key Indian textile companies are in a sweet spot as they do not have major near-term capital expenditure plans and are likely to enjoy significant free cash flows over the next few years. Besides, emerging trends of consolidation are good for the industry.

Our top pick is **Vardhman Textiles**.

Comparative valuation

	CMP (Rs)	Rating	EPS (Rs)			P/E (x)			EV/EBITDA			RoE (%)		
	24.12.10		FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E
Textiles														
Alok Ind	26	Neutral	3.6	7.1	9.5	7.1	3.6	2.7	5.6	5.1	4.9	8.5	14.9	17.0
Arvind Mills	65	Neutral	3.0	4.0	6.4	21.5	16.2	10.1	6.4	5.7	4.7	3.3	4.2	6.4
Raymond	361	Buy	5.6	15.7	22.3	64.7	23.0	16.2	11.6	8.6	7.0	1.3	3.7	5.0
Vardhman Textiles	290	Buy	62.4	51.7	55.8	4.6	5.6	5.2	3.9	3.8	3.3	18.3	13.4	12.8
Sector Aggregate						**10.0**	**7.2**	**5.6**	**5.8**	**5.3**	**4.8**	**8.6**	**10.9**	**12.5**

Alok Industries

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	ALOK IN
Equity Shares (m)	705.8
52 Week Range (Rs)	35 / 18
1,6,12 Rel Perf (%)	-13 / 13 / 1
Mcap (Rs b)	18.1
Mcap (USD b)	0.4

CMP: Rs26 — Neutral

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS* (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	43,147	2,425	3.4	29.0	7.0	0.7	9.8	8.2	2.0	7.0
3/11E	55,551	2,554	3.6	5.4	6.6	0.6	8.5	9.3	1.5	5.5
3/12E	62,218	3,675	5.2	43.9	4.6	0.5	11.3	9.8	1.4	5.4
3/13E	68,439	4,569	6.5	24.3	6.5	0.5	12.8	10.0	1.3	5.0

Fully Diluted EPS

- We expect revenue to grow 36% YoY to Rs14.7b, aided by higher capacities across textile segments. EBITDA margins are likely to drop 252bp to 27.3% from 29.8% in 3QFY10 mainly due to high yarn prices.

- The management has drawn up restructuring plans, which include creating dedicated verticals for the textile and retail businesses. It has been working on early monetization of its real estate portfolio, which could be a key positive for the stock.

- The company has ambitious expansion plans for its domestic retail business, which entail introducing international brands in India and opening 500 H&A retail outlets over three years. After restructuring, we expect Alok to emerge as a large retail play.

- The stock trades at 6.6x FY11E EPS of Rs3.6 and 4.6x FY12E EPS of Rs5.2. **Neutral**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales	**7,863**	**9,748**	**10,825**	**14,711**	**10,990**	**14,515**	**14,721**	**15,325**	**43,147**	**55,551**
Change (%)	44.7	39.6	32.6	61.9	39.8	48.9	36.0	4.2	45.5	28.8
Total Expenditure	5,713	6,840	7,596	10,430	7,722	10,357	10,701	11,300	30,579	40,080
EBITDA	**2,150**	**2,908**	**3,228**	**4,281**	**3,268**	**4,158**	**4,020**	**4,025**	**12,568**	**15,471**
Change (%)	61.3	69.3	50.6	78.0	52.0	43.0	25	-6.0	65.4	23.1
As % of Sales	27.3	29.8	29.8	29.1	29.7	28.6	27.3	26.3	29.1	27.9
Depreciation	784	846	904	1,028	993	1,201	1,202	1,319	3,562	4,715
Interest	886	1,222	1,455	1,816	1,571	1,782	1,803	1,859	5,379	7,014
Other Income	3	10	16	17	1	12	18	41	45	71
PBT	**483**	**851**	**885**	**1,454**	**705**	**1,188**	**1,032**	**888**	**3,673**	**3,813**
Tax	164	280	304	501	239	389	361	269	1,248	1,258
Effective Tax Rate (%)	33.1	33.2	34.3	34.4	33.9	32.7	35.0	30.3	34.0	33.0
Repoted PAT	**319**	**571**	**581**	**953**	**466**	**799**	**671**	**619**	**2,425**	**2,554**
Change (%)	6.9	35.5	22.8	33.9	46.1	39.9	15.5	-35.1	29.0	5.4
Adj. PAT	**320**	**570**	**581**	**953**	**467**	**798**	**671**	**619**	**2,425**	**2,554**
Change (%)	7.3	25.9	16.6	36.0	45.9	40.0	15.5	-35.1	23.6	5.4

E: MOSL Estimates

Siddharth Bothra (SBothra@MotilalOswal.com)

Arvind Mills

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	ARVND IN
Equity Shares (m)	218.9
52 Week Range (Rs)	69 / 30
1,6,12 Rel Perf (%)	16 / 79 / 49
Mcap (Rs b)	14.1
Mcap (USD b)	0.3

CMP: Rs65 **Neutral**

Year End	Net Sales (Rs M)	PAT (Rs M)	EPS (Rs)	EPS Growth (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ Sales	EV/ EBITDA
3/10A	32,795	531	2.4	-153.4	26.4	0.7	2.7	6.8	1.0	7.6
3/11E	34,107	952	4.3	79.4	14.7	0.7	4.7	8.8	0.8	5.8
3/12E	38,200	1,275	5.8	33.9	11.0	0.6	6.0	9.7	0.7	5.0
3/13E	41,256	1,399	6.4	9.8	10.0	0.6	6.2	9.6	0.6	4.5

- We expect revenue to increase 30.5% YoY to Rs7.1b.
- EBITDA margins are likely to increase 380bp YoY to 14.1%
- We expect the company to post net profit of Rs227m in 3QFY11 v/s Rs123m in 3QFY10.
- In 3QFY11 Arvind started to move forward on monetization of its surplus land bank in Ahmedabad, where it has 800 acres of surplus land.
- Arvind has restructuring plans, which could involve relocating part of its commodity grade denim capacity to other countries and sharpening focus on branded apparel and garment manufacturing.
- The stock trades at 0.7x FY11E book value. We maintain **Neutral**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E March	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales	**6,768**	**5,977**	**5,439**	**5,757**	**5,777**	**6,545**	**7,096**	**7,875**	**23,942**	**27,294**
Change (%)	24.1	2.9	-9.3	-1.9	-14.6	9.5	30.5	36.8	3.2	14.0
Total Expenditure	5,888	5,162	4,881	5,094	4,844	5,631	6,098	6,791	21,024	23,363
EBITDA	**880**	**816**	**559**	**663**	**933**	**914**	**999**	**1,084**	**2,917**	**3,930**
Change (%)	60.2	75.5	-31.6	17.8	6.1	12.1	78.7	63.4	13.6	34.7
As % of Sales	13.0	13.6	10.3	11.5	16.2	14.0	14.1	13.8	12.2	14.4
Depreciation	326	283	292	272	300	298	335	356	1,172	1,289
Interest	473	463	381	267	536	470	493	434	1,584	1,932
Other Income	5	82	237	28	94	136	79	-10	352	299
PBT	**86**	**152**	**123**	**154**	**191**	**283**	**250**	**285**	**514**	**1,009**
Tax	0	0	0	0	0	0	23	66	0	90
Effective Tax Rate (%)	0.0	0.0	0.0	0.0	0.0	0.0	9.3	23.3	0.0	8.9
Reported PAT	**86**	**152**	**123**	**154**	**191**	**283**	**227**	**218**	**514**	**919**
Change (%)	107.5	826.8	-136.9	-175.3	-84.0	230.0	49.1	78.2	-207.4	78.7
Adj. PAT	**86**	**152**	**123**	**154**	**191**	**283**	**227**	**218**	**514**	**919**
Change (%)	3,328.0	310.8	-139.8	-202.8	122.9	86.1	85.0	41.8	-188.0	78.7

E: MOSt Estimates, * Restated Quarterly Numbers

Siddharth Bothra (SBothra@MotilalOswal.com)

Raymond

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	RW IN
Equity Shares (m)	61.4
52 Week Range (Rs)	458 / 190
1,6,12 Rel Perf (%)	-9 / 53 / 74
Mcap (Rs b)	22.2
Mcap (USD b)	0.5

CMP: Rs361 **Buy**

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	25,288	82	1.3	-106.4	330.0	2.2	-2.0	2.9	1.6	42.0
3/11E	29,795	1,079	17.6	1,222.5	25.0	2.1	4.2	8.8	1.4	10.2
3/12E	32,775	1,235	20.1	14.4	21.8	1.9	4.5	9.2	1.2	9.4
3/13E	35,397	1,516	24.7	22.8	17.8	1.8	5.1	9.9	1.1	8.2

** Consolidated*

- We expect standalone revenue of Rs4b in 3QY11 up 7.7% YoY v/s Rs3.7b in 3QFY10.
- EBITDA is likely to be Rs784m against Rs539m in 3QFY10. We estimate EBITDA margins of 19.6%.
- The company plans to focus on the cost-competitive Romanian and Indian denim operations.
- Raymond's decision to close its loss-making denim operations in the US and Belgium will lower its denim business losses. Besides, with the commissioning of its 7m meter worsted fabric plant at Vapi, chances of faster monetization of its real estate (120 acres in Thane) have increased significantly.
- The stock trades at 2.1x FY11E book value. We value Raymond's Thane land at a minimum of Rs107/share. **Buy**.

QUARTERLY PERFORMANCE (CONSOLIDATED) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	**2,348**	**3,985**	**3,723**	**3,365**	**2,443**	**3,985**	**4,009**	**4,863**	**13,421**	**15,300**
Change (%)	-0.4	-8.1	3.7	-7.3	-81.6	0.0	7.7	44.5	-2.7	14.0
Total Expenditure	2,413	3,411	3,184	2,917	2,452	3,171	3,224	3,898	11,926	12,745
EBITDA	**-66**	**575**	**539**	**447**	**-9**	**815**	**784**	**965**	**1,495**	**2,555**
Change (%)	-83.2	14.4	101.5	174.7	86.3	41.8	45.5	115.9	404.5	70.9
As % of Sales	-2.8	14.4	14.0	13.3	-0.4	20.4	19.6	19.9	11.1	16.7
Depreciation	270	281	281	282	254	256	284	342	1,113	1,135
Interest	232	228	211	174	210	225	222	229	844	886
Other Income	215	155	164	104	113	173	133	82	637	501
Extra-ordinary Items	50	152	-169	-44	19	1	0	0	-12	20
PBT	**-401**	**69**	**380**	**140**	**-379**	**506**	**412**	**476**	**187**	**1,014**
Tax	-85	-6	-45	73	-131	114	108	117	-63	208
Effective Tax Rate (%)	21.2	-8.5	-11.9	52.3	34.6	22.5	26.3	24.6	25.5	20.5
Reported PAT	**-316**	**74**	**426**	**67**	**-248**	**392**	**303**	**359**	**251**	**806**
Adj. PAT	**-266**	**181**	**307**	**36**	**-229**	**393**	**303**	**359**	**257**	**827**
Change (%)	87.6	6.0	316.5	-97.3	-14.0	117.5	1.3	905.2	-178.6	221.3

E: MOSL Estimates

Siddharth Bothra (SBothra@MotilalOswal.com)

Vardhman Textiles

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	VTEX IN
Equity Shares (m)	56.6
52 Week Range (Rs)	377 / 205
1,6,12 Rel Perf (%)	-10 / -6 / 20
Mcap (Rs b)	16.4
Mcap (USD b)	0.4

CMP: Rs290 — Buy

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	33,777	2,407	37.8	52.7	8.9	1.3	15.0	10.5	1.3	6.2
3/11E	38,862	3,986	62.6	65.6	5.4	1.0	18.0	14.7	1.0	4.0
3/12E	40,591	3,283	51.6	-17.6	6.6	0.9	13.1	12.6	0.9	3.9
3/13E	40,591	3,491	54.8	6.3	6.2	0.8	12.4	12.0	0.7	3.5

Consolidated

- Vardhman is likely to post 3QFY11 revenue growth of 37.4% YoY to Rs9.6b. We expect EBITDA margins to increase 493bp YoY to 24.7%. Adjusted PAT is likely increase 132% YoY to Rs1.1b, boosted by high cotton yarn margins.
- Despite a good domestic cotton crop, cotton yarn margins rule strong due to high demand for yarn, particularly from China.
- Vardhman's Rs26b capex plans were largely completed in FY10, while utilization improved towards the end of FY11. We expect FY12 to be the first year of full capacity utilization.
- After capacity expansion, Vardhman's spinning capacity increased from 0.5m to 0.75m spindles and its processing fabric plant capacity increased from 40m to 80m meters.
- The stock trades at 5.4x FY11E EPS of Rs62.6 and 6.6x FY12E EPS of Rs51.6. **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales	**6,201**	**6,752**	**6,992**	**7,565**	**8,112**	**9,217**	**9,606**	**9,728**	**27,510**	**36,662**
Change (%)	-4.7	3.8	8.4	27.8	30.8	36.5	37.4	28.6	12.1	33.3
Total Expenditure	5,105	5,401	5,612	5,875	6,321	7,001	7,236	7,575	21,992	28,133
EBITDA	**1,096**	**1,351**	**1,380**	**1,690**	**1,791**	**2,216**	**2,370**	**2,153**	**5,517**	**8,530**
Change (%)	27.7	21.6	48.0	102.2	63.4	64.0	71.7	27.4	47.6	54.6
As % of Sales	17.7	20.0	19.7	22.3	22.1	24.0	24.7	22.1	20.1	23.3
Depreciation	539	538	554	577	575	580	679	778	2,209	2,613
Interest	220	182	223	242	255	235	292	436	867	1,217
Other Income	156	3	62	0	18	56	39	34	221	147
Extra-ordinary items	112	0	0	208	23	0	0	0	320	23
PBT	**492**	**634**	**665**	**871**	**980**	**1,457**	**1,437**	**973**	**2,662**	**4,847**
Tax	93	130	188	323	193	298	327	323	733	1,140
Effective Tax Rate (%)	18.8	20.5	28.2	37.0	19.6	20.4	22.8	33.2	27.5	23.5
Reported PAT	**399**	**504**	**478**	**549**	**787**	**1,160**	**1,110**	**650**	**1,930**	**3,706**
Adj. PAT	**287**	**504**	**478**	**403**	**764**	**1,160**	**1,110**	**650**	**1,706**	**3,683**
Change (%)	-8.5	290.9	187.5	161.7	166.1	130.0	132.3	61.2	169.7	115.9

E: MOSL Estimates

Siddharth Bothra (SBothra@MotilalOswal.com)

Utilities

COMPANY NAME
- CESC
- Coal India
- NTPC
- Power Grid
- PTC India
- Reliance Infrastructure
- Tata Power

In 3QFY11, we expect companies in our universe to post revenue growth of 23% YoY and net profit growth of 9% YoY. Net profit growth is muted on account of high base effect and lower operating rates/incentives, while higher fuel costs/opex will boost revenue growth.

Short –term spot prices down, to impact merchant power projects: In 3QFY11 the average spot rate at exchanges is Rs2.3/unit (down 34% YoY, down 24% MoM). ST prices are impacted by lower demand (earlier from agriculture due to a better monsoon and now a relatively cold winter). ST prices touched lows of Rs1.5/unit (11 December 2010). November data for bilateral markets suggest muted prices for power to be delivered over the next three months. Prices in the futures market fell from highs of Rs5.9/unit in June/July to Rs4.37/unit.

YTD FY11 capacity addition at 54% of the target: In YTD FY11, 6.7GW of capacity was added against a target of 12.4GW, an achievement of 54%. For FY11, the CEA set a capacity addition goal of 21GW, comprising central (7.4GW), state (6.9GW) and private (7.3GW). Of this, YTD FY11, the target stood at Central – 3.1GW, State – 4.4GW and Private – 4.9GW, while achievement were Central – 1.7GW (56%), State – 2.3GW (53%) and Private - 3GW (61%).

Due to delays in capacity the Eleventh Plan capacity addition target is expected to be revised to 55GW from 62GW and 78GW earlier. However, a large part of the capacity will spill over for commissioning in FY13 and FY14. NTPC commissioned 1.5GW of projects so far, JSW Energy 735MW, Lanco Infratech, 733MW and Adani Power 1,260MW. Going forward, the highest capacity addition is expected from Lanco Infratech (1.3GW), followed by JSW Energy (1.1GW) and NTPC (1GW).

October-November generation up 5.2% YoY: In October-November 2010, all India generation from thermal projects grew 5.2% YoY to 93BUs and gas-based generation projects posted a increase of 4% YoY. Hydro power generation was up 11.1% YoY at 18.2BUs. The all-India base deficit for November was 6.5%, down 142bp YoY and 54bp MoM. November is the fourth successive month of a fall in the base deficit in India.

Valuations and view: We are **Positive** on the sector given the expected accelerated pace of capacity additions and reasonable valuations. Our top picks in the sector are **Powergrid, NTPC, CESC and PTC.**

Expected quarterly performance summary (Rs million)

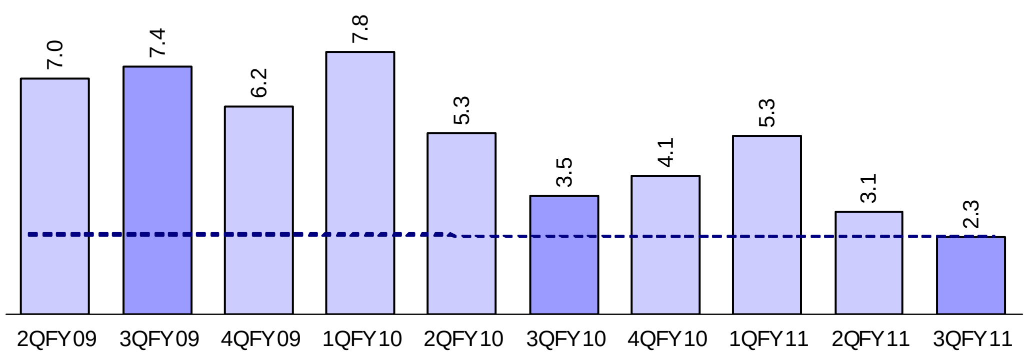
	CMP (Rs)	Rating	Sales			EBITDA			Net profit		
	24.12.10		Dec.10	Var. % YoY	Var. % QoQ	Dec.10	Var. % YoY	Var. % QoQ	Dec.10	Var. % YoY	Var. % QoQ
Utilities											
CESC	371	Buy	9,086	14.0	-16.6	2,271	20.8	-25.0	1,092	7.0	-19.1
Coal India	312	Buy	138,607		18.8	37,177		98.6	34,039		118.7
NTPC	198	Buy	145,388	30.0	-1.4	36,347	8.0	3.5	23,480	4.0	26.9
Power Grid Corp.	98	Buy	22,118	45.0	4.0	18,856	51.2	5.6	6,226	23.9	4.1
PTC India	124	Buy	14,025	-17.4	-43.2	234	126.0	-38.6	286	81.6	-20.0
Reliance Infrastructure	815	Buy	26,878	17.5	10.2	2,822	19.9	-32.2	3,010	8.2	36.5
Tata Power	1,301	Neutral	16,135	3.0	2.7	4,356	19.7	52.4	1,704	25.6	-20.6
Sector Aggregate			**233,631**	**22.6**	**-4.4**	**64,887**	**19.9**	**2.4**	**35,799**	**8.7**	**17.2**

Satyam Agarwal (AgarwalS@MotilalOswal.com)/Nalin Bhatt (NalinBhatt@MotilalOswal.com)/Vishal Periwal (Vishal.Periwal@MotilalOswal.com)

Short-term prices at all time low

Given the ongoing winter season in India, short-term prices at IEX remained low. In 3QFY11 prices reached lows of Rs1.5/unit (on 11 December 2010). For 3QFY11, the average spot rate at exchanges is Rs2.3/unit (down 34% YoY and down 24% MoM).

Quarterly prices on the IEX (Rs/unit)



Source: IEX

The OTC market release for November suggests muted bilateral prices for delivery over three months. Even contracted volumes have been adversely impacted at 1BUs in November 2010 against ~2BUs in the past two months

Forward curve sustains at Rs4.30-4.50/unit (Rs/unit)

		Contract for the month ended				
		JULY	AUG	SEPT	OCT	NOV
Delivery	July	5.33				
	August	5.52				
	September	5.98	5.24			
	October		4.30	4.62		
	November		4.28	4.65	4.22	
	December			4.75	4.40	4.30
	January				4.38	4.38
	February					4.37

Source: Market Monitoring Cell Report for the month of October 2010/ CERC

Power exchange contributed 19% of power trade in October; utilities are shifting procurement to cheaper sources

	Oct-10		Oct-09		YTDFY11		YTDFY10	
	Volume (MUs)	% ST trading	Volume (MUs)	% ST trading	Volume (MUs)	% ST trading	Volume (MUs)	% ST trading
Bilateral	**2,574**	**41**	**2,772**	**49**	**24,297**	**50**	**19,568**	**52**
- Through traders	2,025	32	2,211	39	18,150	37	16,161	43
- Direct	550	9	561	10	6,147	13	3,407	9
Power Exchanges	1,202	19	639	11	7,095	15	3,398	9
UI Trade	2,470	40	2,251	40	17,203	35	14,611	39
Total Trading	**6,246**	**100**	**5,662**	**100**	**48,595**	**100**	**37,577**	**100**
As a % of generation	**8.9**		**8.7**		**10.4**		**8.4**	

Source: Market Monitoring Cell Report for the month of October 2010/ CERC

NTPC is expected to add 1GW of projects over the next quarter of FY11

Generation growth due to capacity additions, PLF shows declining trend

YTD FY11 capacity addition at 54% of the target

In YTD FY11, 6.7GW of capacity was added against a target of 12.4GW, an achievement of 54%. For FY11, the CEA set a capacity addition goal of 21GW, comprising central (7.4GW), state (6.9GW) and private (7.3GW). Of this, YTD FY11, the target stood at Central – 3.1GW, State – 4.4GW and Private – 4.9GW, while achievement were Central – 1.7GW (56%), State – 2.3GW (53%) and Private - 3GW (61%).

Due to delays in capacity the Eleventh Plan capacity addition target is expected to be revised to 55GW from 62GW and 78GW earlier. However, a large part of the capacity will spill over for commissioning in FY13 and FY14. NTPC commissioned 1.5GW of projects so far, JSW Energy 735MW, Lanco Infratech, 733MW and Adani Power 1,260MW. Going forward, the highest capacity addition is expected from Lanco Infratech (1.3GW), followed by JSW Energy (1.1GW) and NTPC (1GW).

Expected player-wise capacity addition in FY11 (MW)

	Actual till Dec FY11	Jan	Feb	Mar	Total Jan-Mar,11	FY11E
NTPC	1,490	1,000	-	-	1,000	2,490
JSW Energy	735	570	435	135	1,440	2,010
Lanco Infratech	733	635	35	600	1,270	2,003
Sterlite Energy	600	600	-	-	600	1,200
Adani Power	660	330	-	-	330	990
KSK	270	43	135	-	178	448
Tata Power	-	-	-	-	-	-
Total	**4,488**	**3,178**	**605**	**735**	**4,818**	**9,141**

Source: CEA/MOSL

October-November 2010 all India generation up ~6.9% YoY

In October-November 2010, the all-India generation from thermal projects grew 5.2% YoY to 93BUs and gas-based generation projects posted a generation increase of 4% YoY. Hydro power project generation was up 11.1% YoY at 18.2BUs. A good monsoon led to higher water availability and higher generation.

Generation (BUs) up ~6.9% YoY in October, November 2010

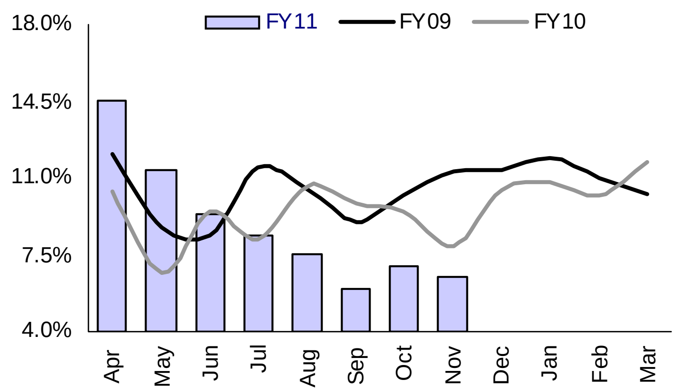
	Nov-10		Nov-09		Oct-Nov, 10	Oct-Nov, 09	Chg
All India PLF	Generation	PLF (%)	Generation	PLF (%)	Generation	Generation	(%)
Thermal-Coal & Lignite	45.2	72.12	43.5	75.47	93.1	88.5	5.2
Thermal-Gas	7.2	57.15	7.4	65.94	16.1	15.5	4.0
Nuclear	2.3	68.84	1.4	46.81	4.5	3.1	46.0
Hydro	7.4	27.22	6.8	24.34	18.2	16.4	11.1
Bhutan IMP	0.4	NA	0.3	NA	1.1	1.1	2.1
Total*	**62.2**	**58.7**	**59.1**	**59.3**	**132.0**	**123.4**	**6.9**

Source: CEA/MOSL

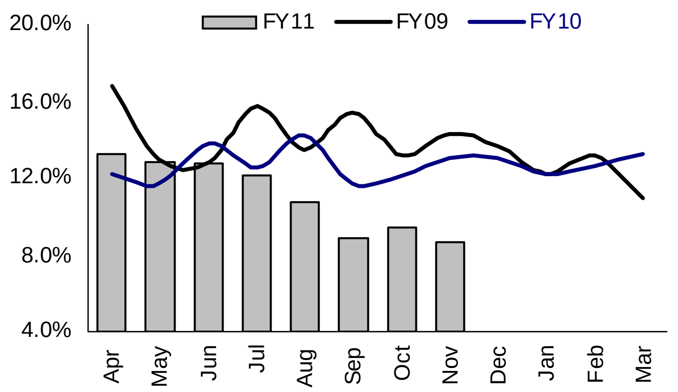
Deficit: the fourth consecutive month of fall in the base deficit

The all-India base deficit for November was 6.5%, down 142bp YoY and down 54bp MoM. This is the fourth successive month of falls in the base deficit in India. This is due to lower overall demand due to a favorable monsoon, which drove down agricultural demand and a relatively cold winter.

All India base deficit (%)



All India peak deficit (%)



Source: CEA/MOSL

The northern region has consistently seen a fall in the base deficit

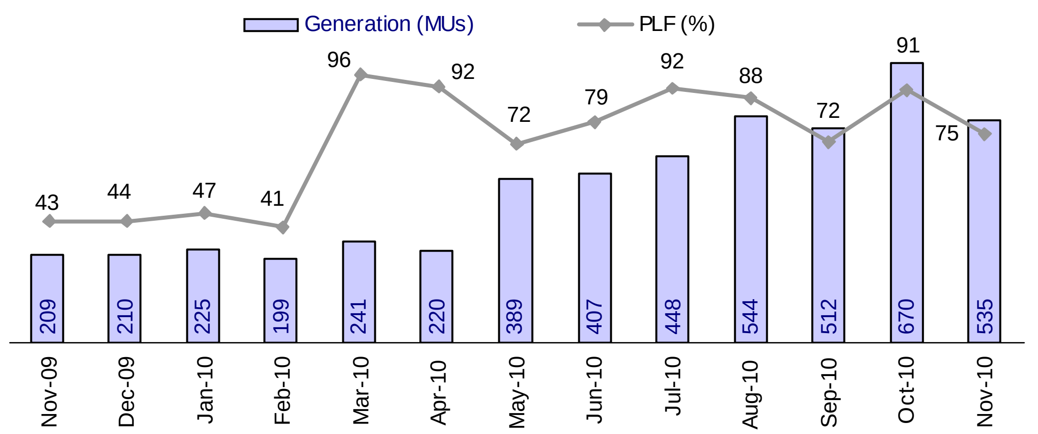
Regional watch: increase/decrease in the base deficit (%)

	May-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10
Northern Region	(977)	(558)	232	225	599	618	530	303
Western Region	(316)	(787)	(196)	(365)	192	382	(111)	(58)
Southern Region	(157)	(216)	(105)	(27)	74	155	347	255
Eastern Region	(95)	25	95	44	215	51	273	85

Source: CEA/MOSL

APL synchronized its fourth unit of 330MW in the last week of November. After this APL capacity is 1.3GW. For its commissioned capacity of 990MW APL reported PLF of 75%.

Adani Power: PLF at 75% for 990MW Mundra

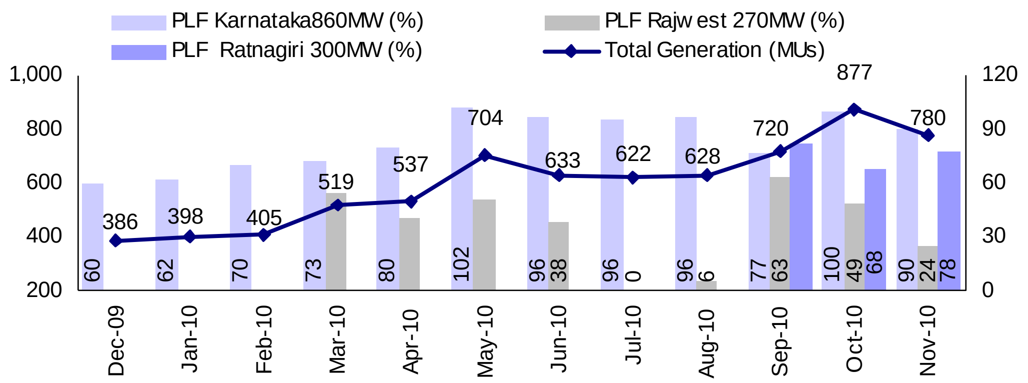


*PLF from March is as reported by the CEA. For the remaining months, PLF is calculated based on reported generation

Source: CEA/MOSL

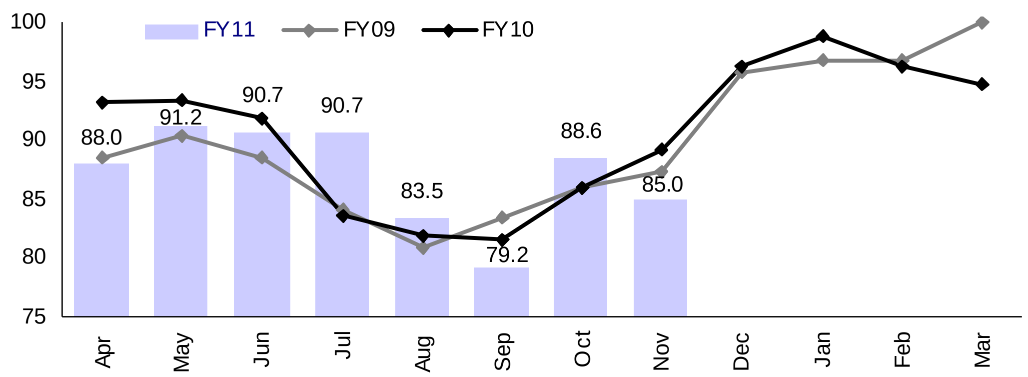
The Ratnagiri plant's PLF improved to 123% and JSW's Karnataka plant reported PLF of 90%. For the first two months of 3QFY11 JSWEL generated 1.8BUs

JSW Energy: Ratnagiri plant reports PLF of 78%, Karnataka PLF 90%



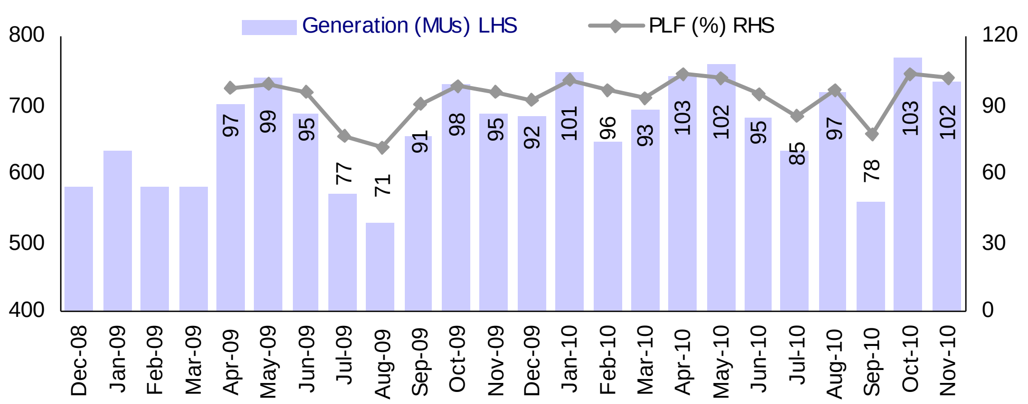
A dip in the PLF for NTPC plants led to muted generation for November 2010, when generation of NTPC plants fell by 0.1% YoY to ~17BUs. A dip in generation is mainly due to lower generation from NTPC's gas-based plants

NTPC: PLF dipped by 415bp YoY to 85% (%)



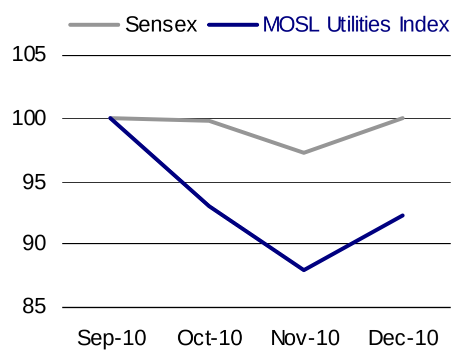
JPL's PLF in November was 102%, up 667bp YoY. After a dip in PLF owing to the monsoons, November 2010 was the second consecutive month of 100-plus PLF for JPL

Jindal Power: generation up 7% YoY at 734MUs

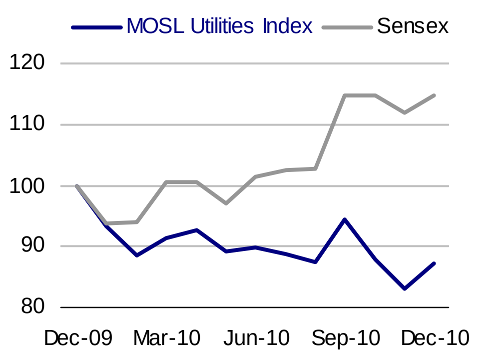


Source: Company/MOSL

Relative Performance-3m (%)



Relative Performance-1Yr (%)



Generation for key players: Generation growth from capacity addition

	Capacity	Nov-10		Nov-09		Generation		Chg
	(MW)*	Generation	PLF (%)	Generation	PLF (%)	Oct-Nov,09	Oct-Nov,10	(%)
Adani Power								
- Mundra Phase 1	990.0	535.3	75.1	209.3	43.4	387.3	1,205.4	NA
GVK								
- JP 1 & 2	455.4	226.5	68.1	292.5	88.0	581.6	488.1	-16.1
- Gautami	464.0	215.8	63.7	306.4	90.5	520.7	445.3	-14.5
GMR								
- Barge Mounted	220.0	0.0	0.0	42.2	26.3	102.2	0.0	
- Chennai	200.0	56.4	38.6	61.8	42.3	151.3	113.4	-25.1
- Vemagiri	370.0	194.6	72.1	220.9	81.8	490.0	444.6	-9.3
JPL								
- Chattisgarh	1,000.0	734.4	102.0	686.4	95.3	1,416.9	1,503.7	6.1
Rel Infra								
- Dahanu	500.0	324.1	90.0	277.7	77.1	668.0	692.7	3.7
Rel Power								
- Samalkot (AP)	220.0	77.0	48.0	140.8	87.6	146.2	213.6	46.1
- Goa	48.0	25.5	72.7	19.7	56.2	40.5	25.5	-37.1
- Kochi	174.0	0.0	0.0	8.4	6.6	8.4	0.0	NA
- Rosa	600.0	241.8	55.2	0.0	0.0	0.0	466.9	NA
Tata Power								
- Trombay	1,580.0	778.0	64.2	892.6	75.6	1,776.2	1,653.0	-6.9
- TISCO (Jamshedpur)	441.3	184.4	69.8	148.3	56.4	342.0	420.2	22.9
Torrent Power								
- Existing	500.0	213.1	58.6	303.9	79.7	627.5	561.3	-10.5
- Sugen	1,147.5	501.4	59.9	657.9	78.5	1,466.5	1,301.7	-11.2
JSW Energy								
- Rajwest Unit-I	270.0	46.7	24.0	0.0	0.0	0.0	150.4	NA
-Karnataka	860.0	562.6	89.6	420.7	68.0	824.8	1,187.4	44.0
- Ratnagiri	300.0	170.8	78.0	0.0	0.0	0.0	319.0	n.a.
CESC	**1,225.0**	**710.4**	**76.8**	**621.0**	**83.4**	**1,305.0**	**1,491.7**	**14.3**
Lanco Infratech								
- Kondapali	716.0	385.6	73.8	239.0	56.2	415.0	812.2	95.7
- Amarkantak (LANCO)	600.0	305.1	69.6	155.4	71.0	339.3	665.6	96.2

Source: CEA

Comparative valuation

	CMP (Rs)	Rating	EPS (Rs)			P/E (x)			EV/EBITDA			RoE (%)		
	24.12.10		FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E
Utilities														
CESC	371	Buy	37.0	38.8	39.6	10.0	9.6	9.4	5.9	6.3	6.4	13.0	12.2	11.2
Coal India	312	Buy	18.8	20.4	21.8	16.7	15.3	14.3	11.4	9.9	8.6	28.5	25.1	22.1
NTPC	198	Buy	10.8	12.2	14.5	18.3	16.2	13.7	12.5	11.7	10.4	13.7	14.3	15.6
Power Grid Corp.	98	Buy	5.7	7.0	8.0	17.1	13.9	12.1	10.6	9.5	9.0	14.0	14.2	14.8
PTC India	124	Buy	4.3	5.6	8.6	29.2	22.2	14.4	23.3	16.1	9.1	6.1	7.4	10.9
Reliance Infrastructure	815	Buy	42.6	60.0	67.8	19.1	13.6	12.0	14.6	11.5	9.4	7.2	9.0	9.3
Tata Power	1,301	Neutral	74.7	94.9	87.7	17.4	13.7	14.8	20.8	19.1	19.2	7.8	7.1	6.4
Sector Aggregate						**17.3**	**15.1**	**13.7**	**12.0**	**10.9**	**9.8**	**16.9**	**17.2**	**17.0**

CESC

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	CESC IN
Equity Shares (m)	125.6
52 Week Range (Rs)	452 / 330
1,6,12 Rel Perf (%)	-2 / -15 / -21
Mcap (Rs b)	46.6
Mcap (USD b)	1.0

CMP: Rs371 — Buy

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS* (RS)	EPS* GROWTH (%)	P/E* (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/10A	32,928	4,333	34.5	17.7	10.8	1.5	13.8	10.8	1.9	8.5
03/11E	39,427	4,645	37.0	7.2	10.0	1.4	13.0	12.6	1.5	5.9
03/12E	41,335	4,875	38.8	4.9	9.6	1.2	12.2	11.8	1.5	6.3
03/13E	44,923	4,968	39.6	1.9	9.4	1.1	11.2	11.2	1.4	6.4

** Excl Spencers; fully diluted*

- In 3QFY11 we expect CESC to post revenue of Rs9b (up 14% YoY) and net profit of Rs1.1b, up 7% YoY.
- For October-November 2010, the PLF for total capacity of 1,225MW was 83.4% (against 73% a year earlier) and generation was 1.5BUs.
- CESC plans to raise Rs12b through subsidiary Haldia Energy (which manages??? houses each of the 600MW Haldia and Chandrapur projects and the 1.3GW Orissa project), to part finance construction of a thermal power plant. An article in the media stated that the company planned to raise money through the PE route by January 2011.
- Spencer achieved EBITDA breakeven at store level in 1HFY11 and posted revenue of over Rs1,100/sq foot in August 2010.
- CESC signed an MoU with the Arunachal Pradesh government to build a 90MW hydro power plant in West Siang district at a project cost of Rs6.3b. The project is expected to become operational in FY16 and the company plans to sell power in the merchant market.
- We expect CESC to post standalone net profit of Rs4.7b in FY11 (up 7.2%) and Rs4.9b in FY12 (up 4.9%), excluding Spencer. The stock trades at a reported PER of 10x FY11E and 9.6x FY12E. Maintain **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales	**8,090**	**9,490**	**7,970**	**7,540**	**10,820**	**10,900**	**9,086**	**8,621**	**32,910**	**39,427**
Change (%)	3.3	25.7	6.0	1.8	33.7	14.9	14.0	14.3	8.6	19.8
EBITDA	**1,900**	**2,100**	**1,880**	**1,840**	**2,420**	**3,030**	**2,271**	**2,140**	**7,540**	**9,861**
Change (%)	55.7	12.3	24.5	21.1	27.4	44.3	20.8	16.3	23.2	30.8
As of % Sales	23.5	22.1	23.6	24.4	22.4	27.8	25.0	24.8	22.9	25.0
Depreciation	480	490	490	520	670	640	680	776	1,980	2,766
Interest	430	460	420	470	670	770	650	663	1,780	2,753
Other Income	280	360	260	360	290	320	390	392	1,440	1,392
PBT	**1,270**	**1,510**	**1,230**	**1,210**	**1,370**	**1,940**	**1,331**	**1,093**	**5,220**	**5,735**
Tax	220	250	210	210	270	390	240	190	890	1,090
Effective Tax Rate (%)	17.3	16.6	17.1	17.4	19.7	20.1	18.0	17.4	17.0	19.0
Reported PAT	**1,050**	**1,260**	**1,020**	**1,000**	**1,100**	**1,550**	**1,092**	**904**	**4,330**	**4,645**
Adjusted PAT	**1,050**	**1,260**	**1,020**	**1,000**	**1,100**	**1,350**	**1,092**	**1,104**	**4,330**	**4,645**
Change (%)	27.3	34.0	4.1	6.4	4.8	7.1	7.0	10.4	17.5	7.3

E: MOSL Estimates, Standalone Numbers (excl Spencers Retail)

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Coal India

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	COAL IN
Equity Shares (m)	6,316.4
52 Week Range (Rs)	358 / 287
1,6,12 Rel Perf (%)	-/-/-
Mcap (Rs b)	1,973.5
Mcap (USD b)	43.7

CMP: Rs312 **Buy**

YEAR END	NET SALES* (RS M)	PAT* # (RS M)	EPS# (RS)	EPS GR (%)	P/E (X)	P/BV (X)	ROE$ (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
FY10A	466,843	98,294	15.6	76.7	20.1	7.6	31.6	59.8	-0.8	15.3
FY11E	532,401	118,510	18.8	20.6	16.7	5.8	28.5	57.1	-0.8	11.4
FY12E	597,728	129,158	20.4	9.0	15.3	4.6	25.1	47.7	-0.9	9.9
FY13E	658,893	137,793	21.8	6.7	14.3	3.8	22.1	41.4	-1.0	8.6

** Consolidated; # Adjusted; $ RoE is adjusted for OB reserves accounts, as appplicable under IFRS*

- In 3QFY11 we expect Coal India (CIL) to post revenue of Rs139b and net profit of Rs34b and expect CIL to deliver 112mt. The company has considered its realization for e-auction at Rs1,900/ton, lower than its reported realization for September 2010 (global coal prices have risen by more than 20% since then).
- In FY11, CIL's production growth may be constrained and MCL, which is the second largest subsidiary of CIL, produced ~60mt of coal until December 2010 v/s its FY11 target of 110mt.
- International Coal Ventures (a JV of CIL, BTPC, SAIL and RINL) plans to make a counter-bid to Rio Tinto with a A$3.9b takeover offer for Riversdale Mining. ICL is also considering the opportunity to pick up 10-15% stake in Peabody Energy. ICL has an equity base of Rs30b and can fund the acquisition of up to Rs100b, in cash.
- About 18,000 officers of CIL and Singreni Coal Companies are planning an indefinite strike from 21 January 2011 due to the management's failure to give its officers due promotion and other benefits. Their main demands are immediate payment of performance-related pay, due from 2007, career growth pay and perquisites and post-retirement medical benefits.
- We expect Coal India to post consolidated net profit of Rs118.5b in FY11 (up 21%) and Rs129.2b in FY12 (up 9%). The stock trades at a reported PER of 16.7x FY11E and 15.3x FY12E. Maintain **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH		FY11				FY10	FY11E
	1HFY10	1Q	2Q	3QE	4QE		
Sales	**202,068**	**119,403**	**116,677**	**138,607**	**157,714**	**466,843**	**532,401**
EBITDA	**33,183**	**30,351**	**18,721**	**37,177**	**50,144**	**104,725**	**135,939**
As of % Sales	16.4	25.4	16.0	26.8	31.8	22.4	25.5
Depreciation	6,669	4,094	3,718	4,100	4,411	13,138	16,323
Interest	259	567	176	450	596	1,560	1,790
Other Income	21,335	11,777	11,576	16,000	17,101	52,408	56,454
Extraordinary Income/(Expense)	0	-41	614	0	0	0	0
PBT	**47,591**	**37,508**	**25,789**	**48,627**	**62,237**	**142,436**	**174,280**
Tax	15,921	12,098	10,841	14,588	18,242	43,425	55,770
Effective Tax Rate (%)	33.5	32.3	42.0	30.0	29.3	30.5	32.0
Reported PAT	**31,670**	**25,410**	**14,947**	**34,039**	**43,995**	**99,011**	**118,510**
Adjusted PAT (Pre Exceptional)	**31,670**	**25,217**	**15,561**	**34,039**	**43,995**	**98,294**	**118,510**

E: MOSL Estimates

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NTPC

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	NATP IN
Equity Shares (m)	8,245.5
52 Week Range (Rs)	242 / 175
1,6,12 Rel Perf (%)	8 / -12 / -30
Mcap (Rs b)	1,632.2
Mcap (USD b)	36.2

CMP: Rs198 — Buy

YEAR END*	NET SALES (RS M)	PAT* (RS M)	EPS* (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/10A	463,226	92,493	11.2	14.6	17.6	2.6	15.4	15.4	0.5	15.2
03/11E	574,628	89,070	10.8	-3.7	18.3	2.4	13.7	13.7	0.4	13.1
03/12E	740,230	100,605	12.2	12.9	16.2	2.2	14.3	14.3	0.6	12.1
03/13E	814,524	119,227	14.5	18.5	13.7	2.0	15.6	15.6	0.8	10.7

** Pre Exceptional Earnings*

- In 3QFY11 we expect National Thermal Power Corp (NTPC) to post revenue of Rs145b (up 30% YoY) and net profit of Rs23.5b, up 4% YoY.
- NTPC generation in October-November increased by 3.7% YoY to 36BUs. For its thermal plants, generation increased by 5.4% YoY and for its gas plants, generation declined by ~9% YoY.
- NTPC commissioned 1GW of plants comprising the 500MW Korba and 500MW Jhajjar projects in 3QFY11 and installed capacity stands at 33.2GW. Over the past 12 months NTPC's capacity addition has been 2GW.
- The MoP has allowed NTPC to sell 15% of power from the commissioned plants (500MW Korba and 500MW Farakka) on merchant terms. Previously, the expectation was ~650MW would be available on a merchant basis against 150MW currently.
- In further progress on the coal mining front, NTPC has appointed mine developer and operator, Thiess Minecs India Pvt Ltd for its Pakri Barwidh mine. Mine production is expected by the end of CY12.
- We expect NTPC to post net profit of Rs89b in FY11 (down 4%) and Rs100.7b in FY12 (up 13%). The stock trades at a reported PER of 18.3x FY11E and 16.2x FY12E. Maintain **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales	**120,027**	**107,828**	**111,837**	**123,534**	**129,445**	**147,526**	**145,388**	**152,269**	**463,226**	**574,628**
Change (%)	25.8	11.6	-0.8	7.9	7.8	36.8	30.0	23.3	10.5	24.0
EBITDA	**31,757**	**32,137**	**33,653**	**26,657**	**29,867**	**35,107**	**36,347**	**42,568**	**124,204**	**143,890**
Change (%)	31.1	26.1	4.9	20.1	-5.9	9.2	8.0	59.7	19.5	15.9
As of % Sales	26.5	29.8	30.1	21.6	23.1	23.8	25.0	28.0	26.8	25.0
Depreciation	6,128	6,438	6,614	7,322	6,827	5,063	6,550	7,316	26,501	25,756
Interest	4,447	5,407	3,418	4,818	5,358	5,902	6,575	6,769	18,089	24,604
Other Income	7,763	7,410	7,791	6,277	5,849	6,147	6,500	6,920	29,241	25,416
PBT	**28,945**	**27,703**	**31,412**	**20,794**	**23,532**	**30,290**	**29,722**	**35,403**	**108,855**	**118,947**
Tax	7,009	6,183	8,862	618	5,113	9,216	6,242	7,322	21,573	27,893
Effective Tax Rate (%)	24.2	22.3	28.2	3.0	21.7	30.4	21.0	20.7	19.8	23.4
Reported PAT	**21,936**	**21,520**	**22,550**	**20,177**	**18,419**	**21,074**	**23,480**	**28,081**	**87,282**	**91,054**
Adj. PAT (Pre Exceptional)	**22,580**	**18,340**	**22,580**	**22,772**	**19,000**	**18,510**	**23,480**	**28,080**	**92,493**	**89,070**
Change (%)	23.0	0.4	13.3	-5.2	-15.9	0.9	4.0	23.3	14.6	-3.7

E: MOSL Estimates

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Power Grid Corporation of India

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	PWGR IN
Equity Shares (m)	4,629.7
52 Week Range (Rs)	121 / 92
1,6,12 Rel Perf (%)	-2 / -17 / -26
Mcap (Rs b)	452.3
Mcap (USD b)	10.0

CMP: Rs98 **Buy**

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	71,275	23,031	5.5	18.6	17.9	2.6	15.1	8.6	10.1	12.3
3/11E	90,837	26,401	5.7	4.2	17.1	2.1	14.0	9.8	9.0	10.6
3/12E	111,226	32,439	7.0	22.9	13.9	1.9	14.2	10.1	8.2	9.5
3/13E	132,831	37,247	8.0	14.8	12.1	1.7	14.8	10.1	7.7	9.0

- In 3QFY11 we expect Power Grid Corp (PGCIL) to post revenue of Rs22.1b (up 45% YoY) and net profit of Rs6.2b, up 23%YoY.
- In FY11, PGCIL lowered its budget capex guidance by Rs10b to Rs119b from Rs129b earlier due to delays in commissioning hydro power projects.
- In FY10 the PGCIL board accorded investment approval of projects worth Rs133b and in YTDFY11 (the second week of December) PGCIL was accorded investment approval for Rs144b. The number of projects under construction is now worth ~Rs900b.
- The PGCIL board has granted investment approval to projects with a total cost of Rs38b during the 3QFY11, until the second week of December. For 1HFY11 it approved projects worth Rs87.1b (against Rs17b in 1HFY10).
- PGCIL received interest from Viom and Microqual towards tower leasing bids invited by it and the final award is likely to be placed by March 2011.
- We expect PGCIL to post net profit of Rs26.4b in FY11 (up 14.7%) and Rs32.4b in FY12 (up 22.7%). The stock trades at a reported PER of 17.1x FY11E and 13.9x FY12E. Maintain **Buy.**

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales	**16,230**	**17,486**	**15,254**	**22,305**	**19,991**	**21,266**	**22,118**	**26,717**	**71,275**	**90,093**
Change (%)	19.3	10.1	3.2	-0.9	23.2	21.6	45.0	19.8	6.8	26.4
EBITDA	**13,299**	**14,723**	**12,467**	**18,205**	**16,811**	**17,858**	**18,856**	**22,993**	**58,694**	**76,518**
Change (%)	17.2	8.5	2.0	-2.1	26.4	21.3	51.2	26.3	5.3	30.4
As of % Sales	81.9	84.2	81.7	81.6	84.1	84.0	85.3	86.1	82.3	84.9
Depreciation	4,670	5,819	5,360	3,949	5,024	5,456	5,800	6,497	19,797	22,777
Interest	3,834	4,162	4,119	3,318	4,049	4,017	5,000	6,348	15,432	19,414
Other Income	1,993	751	2,246	-1,229	1,506	963	1,100	1,273	3,761	4,842
EO Income / (Expense)	-14	8	-4	973	-12	35	0	0	963	-11
PBT	**6,802**	**5,485**	**5,239**	**8,737**	**9,256**	**9,313**	**9,156**	**11,420**	**26,263**	**39,168**
Tax	1,336	885	361	3,271	2,224	2,799	2,930	3,667	5,854	11,620
Effective Tax Rate (%)	19.6	16.1	6.9	37.4	24.0	30.1	32.0	32.1	22.3	29.7
Reported PAT	**5,466**	**4,600**	**4,877**	**5,466**	**7,032**	**6,514**	**6,226**	**7,753**	**20,409**	**27,548**
Adj. PAT (Pre Exceptional)	**5,403**	**5,151**	**5,026**	**7,244**	**5,907**	**5,980**	**6,226**	**7,753**	**23,031**	**26,423**
Change (%)	40.9	17.2	19.5	3.3	9.3	16.1	23.9	7.0	18.6	14.7

E: MOSL Estimates

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PTC India

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	PTCIN IN
Equity Shares (m)	294.5
52 Week Range (Rs)	145 / 87
1,6,12 Rel Perf (%)	-2 / 9 / -9
Mcap (Rs b)	36.6
Mcap (USD b)	0.8

CMP: Rs124 — Buy

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/10A	76,490	1,150	3.9	-6.9	31.8	1.7	5.2	7.2	0.4	44.9
03/11E	79,537	1,647	5.6	43.3	22.2	1.7	6.1	8.6	0.3	23.8
03/12E	112,934	3,316	11.3	101.3	11.0	1.6	7.4	10.3	0.2	15.8
03/13E	192,510	4,710	16.0	42.0	7.8	1.5	10.9	14.6	0.1	9.0

- In 3QFY11 we expect PTC to post revenue of Rs14b (down 17% YoY) and net profit of Rs286m, up 81%YoY.
- While we expect revenues to be lower due to lower short-term prices, we expect PTC's volumes to post growth of 5% YoY, despite deceleration in bi-lateral volumes since July-August 2010.
- PTC Financial Services (in which PTC has 77% stake) has filed a DRHP for a proposed IPO to raise Rs7b. Based on media reports, PTC's stake would fall below 60% after the issue.
- PFS has been accorded the status of Infrastructural Finance Company (IFC) by the RBI, which would lower debt cost for the company, as it would allow PFS to issue tax-free infrastructure bonds, raise ECB up to 50% of its net worth and lessen the risk weight on lending to infrastructure finance companies.
- PTC is expected to add 0.5GW (300MW Lanco Amarkantak, 100MW Torrent Sugen and 70MW Lanco Himachal) to its long-term portfolio in FY11 and 4GW (1.2GW Teesta, 0.7GW Karcham Wangtoo (under litigation), 0.5GW IndBharath Utkal, 0.3GW GMR Kamalanga, 0.7GW RKM and 0.6GW Tolling projects) to its long-term portfolio in FY12. In FY11 we expect PTC to sell 40% of volume on long term PPA, leading to lower earnings volatility.
- PTC in JV with Ashmore launched US$750m Energy Infra Fund, to provide equity funding generation, transmission, distribution, fuel extraction and fuel transport infrastructure assets in India. The first tranche of US$300m-400m is expected to close by 3QFY11.
- We expect PTC to post consolidated net profit of Rs1.3b in FY11 (up 33%) and Rs3.3b in FY12 (up 154%). The stock trades at a reported PER of 22.2x FY11E and 11x FY12E. Maintain **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Power Traded (MUs)	4,204	6,388	4,444	3,202	5,747	7,730	4,675	4,164	18,236	22,316
Sales	**23,717**	**24,582**	**16,975**	**12,430**	**27,576**	**24,693**	**14,025**	**13,243**	**76,490**	**79,537**
Change (%)	97.1	21.0	-19.8	5.5	16.3	0.5	-17.4	6.5	17.2	4.0
EBITDA	**147**	**297**	**103**	**90**	**269**	**381**	**234**	**214**	**371**	**1,097**
Change (%)	151.0	111.0	280.0	285.2	82.7	28.3	126.0	136.7	48.5	195.8
As of % Sales	0.6	1.2	0.6	0.7	1.0	1.5	1.7	1.6	0.5	1.4
Depreciation	14	14	16	14	12	12	12	13	55	49
Interest	1	0	2	1	1	2	1	1	0	5
Other Income	280	175	142	136	147	180	200	273	742	799
PBT	**413**	**459**	**229**	**216**	**403**	**546**	**421**	**472**	**1,057**	**1,843**
Tax	79	149	72	77	125	147	135	146	377	553
Effective Tax Rate (%)	19.1	32.5	31.3	35.7	31.0	26.9	32.0	31.0	35.6	30.0
Reported PAT	**334**	**310**	**158**	**139**	**278**	**399**	**286**	**326**	**681**	**1,290**
Adjusted PAT	**345**	**276**	**158**	**120**	**284**	**358**	**286**	**326**	**941**	**1,254**
Change (%)	82.6	-17.2	-42.7	-31.2	-17.7	29.4	81.6	172.5	3.4	33.2

E: MOSL Estimates

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Reliance Infrastructure

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	RELI IN
Equity Shares (m)	268.2
52 Week Range (Rs)	1,225 / 751
1,6,12 Rel Perf (%)	-16 / -43 / -42
Mcap (Rs b)	218.5
Mcap (USD b)	4.8

CMP: Rs815 **Buy**

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS* (RS)	EPS GROWTH (%)	P/E* (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	100,273	10,617	39.6	16.9	20.6	1.4	8.2	8.2	2.4	23.1
3/11E	107,633	11,438	42.6	7.7	19.1	1.3	7.2	8.6	1.8	14.6
3/12E	132,639	16,084	60.0	40.6	13.6	1.2	9.0	10.1	1.5	11.5
3/13E	151,379	18,176	67.8	13.0	12.0	1.1	9.3	10.4	1.2	9.4

** Fully Diluted*

- For 3QFY11, we expect Reliance Infrastructure (RELI) to post revenue of Rs26.8b (up 18% YoY) and net profit of Rs3.3b, up by 17% YoY.
- RELI is consolidating its 11 road projects worth Rs120b under one subsidiary, Reliance Roads. RELI has infrastructure assets (Rs400b worth of assets in the development stage) in roads, metro, transmission lines, sea links and airports and its EPC order book was worth Rs240b as on 2QFY11. The company has targeted EPC revenue of Rs45b in FY11 (up 33%).
- MERC floated an EOI (expression of interest) inviting tenders for its Mumbai distribution business and RELI has asked for renewal of its license and terms of the Electricity Act, 2003 does not have provision of putting distribution circle for bidding, unless otherwise due to gross negligence of operator.
- RELI has sought three more months from the regulator (MSRDC) to source debt funding for a sea link project.
- We expect RELI to post net profit of Rs11.5b in FY11 (up 7.7%) and Rs16b in FY12 (up 41%). The stock trades at a reported PER of 19.1x FY11E and 13.6x FY12E. Maintain **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales	**24,463**	**26,496**	**22,875**	**26,439**	**22,280**	**24,391**	**26,878**	**34,084**	**100,273**	**107,633**
Change (%)	6.8	7.1	-15.8	10.7	-8.9	-7.9	17.5	28.9	1.6	7.3
EBITDA	**2,995**	**3,129**	**2,354**	**2,614**	**2,534**	**4,162**	**2,822**	**3,934**	**10,282**	**13,453**
Change (%)	4.8	12.9	-24.6	67.6	-15.4	33.0	19.9	50.5	-0.3	30.8
As of % Sales	12.2	11.8	10.3	9.9	11.4	17.1	10.5	11.5	10.3	12.5
Depreciation	722	740	830	807	769	825	810	766	3,188	3,170
Interest	1,037	740	565	581	613	600	700	786	2,922	2,700
Other Income	2,442	1,633	2,156	1,668	1,804	-508	2,750	2,668	7,898	6,714
PBT	**3,678**	**3,283**	**3,114**	**2,895**	**2,957**	**2,229**	**4,062**	**5,049**	**12,070**	**14,297**
Tax (incl contingencies)	513	214	333	384	494	524	812	1,029	1,453	2,859
Effective Tax Rate (%)	13.9	6.5	10.7	13.3	16.7	23.5	20.0	20.4	12.0	20.0
Reported PAT	**3,166**	**3,069**	**2,781**	**2,511**	**2,463**	**1,705**	**3,250**	**4,020**	**10,617**	**11,438**
PAT (Pre Exceptionals)	**3,166**	**3,069**	**2,781**	**2,511**	**2,463**	**2,205**	**3,250**	**4,020**	**10,617**	**11,438**
Change (%)	26.5	44.6	-1.5	-33.0	-22.2	-28.2	16.8	60.1	2.0	7.7

E: MOSL Estimates

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Tata Power

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	TPWR IN
Equity Shares (m)	237.3
52 Week Range (Rs)	1519 / 1193
1,6,12 Rel Perf (%)	-2 / -14 / -20
Mcap (Rs b)	308.7
Mcap (USD b)	6.8

CMP: Rs1,301 **Neutral**

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS* (RS)	EPS GROWTH (%)	P/E* (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/10A	70,983	14,799	62.4	18.9	20.9	3.1	7.9	9.2	5.0	19.0
03/11E	69,557	18,463	74.7	19.7	17.4	2.7	7.8	6.7	5.3	21.4
03/12E	70,786	23,475	94.9	27.1	13.7	2.6	7.1	7.0	5.5	19.2
03/13E	76,357	21,694	87.7	-7.6	14.8	2.5	6.4	6.5	5.2	19.8

** Consolidated including share of profit from Bumi Resources, Pre Exceptionals, Fully Diluted*

- In 3QFY11, we expect Tata Power to post revenue of Rs16.1b (up 3% YoY) and net profit of Rs1.7b, up 26% YoY.
- Tata Power's JV (Tata Power's stake is 47.5%) won the project to develop a 240MW geothermal generation project in Indonesia. The JV will provide Tata Power with know-how on the geothermal project and is expected to be commissioned in June 2015.
- Tata Power has completed 90% of the project work on the 1,050MW Maithon project, expected to be commissioned in FY11, and it completed 65% of work on the Mundra UMPP.
- The upside from merchant earnings for capacity available from regulated business out of its fallout with RELI is still sub-judice and thus, to that extent the upside would be limited in 3QFY11.
- Tata Power received state approval for land acquisition and the MoEF's environment clearance for a 1,600MW coastal Maharashtra project.
- We expect Tata Power to post consolidated net profit of Rs18.4b in FY11 (up 24.8%) and Rs23.4b in FY12 (up 27%). The stock trades at a reported PER of 17.4x FY11E and 13.7x FY12E. Maintain **Neutral**.

QUARTERLY PERFORMANCE (STANDALONE) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Total Operating Income	**20,156**	**17,211**	**15,665**	**17,951**	**18,025**	**15,708**	**16,135**	**19,689**	**70,983**	**69,557**
Change (%)	-0.5	-12.1	-11.8	21.8	-10.6	-8.7	3.0	9.7	-1.9	-2.0
EBITDA	**6,323**	**4,168**	**3,641**	**4,491**	**3,854**	**2,858**	**4,356**	**6,308**	**18,623**	**17,376**
Change (%)	107.4	57.5	42.2	53.1	-39.0	-31.4	19.7	40.5	66.4	-6.7
As of % Sales	31.4	24.2	23.2	25.0	21.4	18.2	27.0	32.0	26.2	25.0
Depreciation	1,118	1,184	1,208	1,270	1,267	1,327	1,375	1,410	4,779	5,380
Interest	1,177	1,018	922	950	796	1,084	1,225	1,259	4,066	4,364
Other Income	1,076	755	452	533	1,930	2,588	750	339	2,816	5,607
PBT	**5,104**	**2,721**	**1,963**	**2,805**	**3,722**	**3,034**	**2,506**	**3,977**	**12,593**	**13,239**
Tax	1,333	889	484	499	1,032	517	802	1,421	3,205	3,772
Effective Tax Rate (%)	26.1	32.7	24.6	17.8	27.7	17.0	32.0	35.7	25.5	28.5
Reported PAT	**3,771**	**1,832**	**1,479**	**2,306**	**2,690**	**2,517**	**1,704**	**2,556**	**9,388**	**9,467**
Adjusted PAT	**2,020**	**1,589**	**1,357**	**2,183**	**2,195**	**2,147**	**1,704**	**2,556**	**7,148**	**8,602**
Change (%)	27.5	-19.3	38.7	131.8	8.6	35.1	25.6	17.1	30.6	20.3

E: MOSL Estimates

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United Phosphorus

BSE Sensex	S&P CNX
20,074	6,012
Bloomberg	UNTP IN
Equity Shares (m)	439.6
52 Week Range (Rs)	220 / 143
1,6,12 Rel Perf (%)	-15 / -31 / -19
Mcap (Rs b)	70.6
Mcap (USD b)	1.6

CMP: Rs161 **Buy**

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/10A	54,945	5,527	12.0	-5.8	13.4	2.2	18.8	15.8	1.4	7.7
03/11E	58,644	6,179	13.4	11.8	12.0	1.9	18.0	16.4	1.3	6.9
03/12E	69,035	8,020	17.3	29.8	9.3	1.6	19.4	17.7	1.1	5.3
03/13E	77,658	9,671	20.9	20.6	7.7	1.4	19.5	18.9	0.9	4.3

- United Phosphorus (UPL) is expected to post 6.5% YoY growth in 3QFY11 consolidated revenue to Rs12.3b. We estimate 7% growth in domestic revenue impacted by unseasonal rains and 6.2% growth in international revenue, impacted by adverse climatic patterns in almost all geographies. Revenues benefited from acquisition of a non-mixture Mancozeb business from DuPont (from 3 June 2010).
- EBITDA margin is expected to improve by 130bp YoY to 18.9%, benefiting from lower RM costs, the last leg of the Cerexagri restructuring and the Mancozeb acquisition.
- While the operating environment in developed markets is gradually improving, demand could be impacted by an adverse climatic pattern in 4QFY11, though the extent of the impact would depend on the severity and length of winters in the US and the EU.
- UPL acquired US-based RiceCo Llc along with certain assets of its worldwide affiliates. RiceCo specializes in rice herbicide propanil and does business in more than 20 countries with major markets being the US, Mexico, Thailand, Nigeria and Sri Lanka.
- We are downgrading our EPS estimates for FY11 by 10% to Rs13.4 and for FY12 by 3.4% to Rs17.3, to factor in adverse climatic patterns impacting short-term business. However, valuations at 12x FY11E EPS and 9.3x FY12E EPS fully factor in the short term headwinds, but do not reflect UPL's growth potential (organic and inorganic). Maintain **Buy**.

QUARTERLY PERFORMANCE (CONSOLIDATED) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Gross Revenues	**16,442**	**11,610**	**11,580**	**15,314**	**14,872**	**12,807**	**12,319**	**18,644**	**54,946**	**58,644**
YoY Change (%)	25.1	-0.3	5.8	9.4	-9.5	10.3	6.4	21.7	10.5	6.7
Total Expenditure	13,306	9,606	9,545	12,155	11,794	10,243	9,988	14,479	44,612	46,504
EBITDA	**3,135**	**2,005**	**2,035**	**3,159**	**3,078**	**2,564**	**2,331**	**4,165**	**10,334**	**12,141**
Margins (%)	19.1	17.3	17.6	20.6	20.7	20.0	18.9	22.3	18.8	20.7
Depreciation	501	547	541	558	472	515	550	598	2,147	2,134
Interest	578	405	596	360	1,004	652	500	534	1,938	2,690
PBT before EO Expense	**2,056**	**1,053**	**898**	**2,241**	**1,603**	**1,397**	**1,281**	**3,033**	**6,249**	**7,317**
Extra-Ord Expense	0	0	0	0	0	0	0	0	267	0
PBT after EO Expense	**2,056**	**1,053**	**898**	**2,241**	**1,603**	**1,397**	**1,281**	**3,033**	**5,982**	**7,317**
Tax	268	165	247	134	156	250	359	406	814	1,171
Rate (%)	13.0	15.7	27.5	6.0	9.8	17.9	28.0	13.4	13.6	16.0
Reported PAT	**1,789**	**888**	**651**	**2,107**	**1,447**	**1,147**	**922**	**2,628**	**5,168**	**6,146**
Income from Associate Co	-26	135	-10	30	-23	0	40	16	188	96
Adjusted PAT	**1,762**	**1,023**	**641**	**2,137**	**1,424**	**1,147**	**962**	**2,644**	**5,586**	**6,242**
YoY Change (%)	19.3	-16.2	-0.8	32.4	-19.2	12.0	50.1	23.7	12.9	11.7
Margins (%)	10.7	8.8	5.5	14.0	9.6	9.0	7.8	14.2	10.2	10.6

E: MOSL Estimates

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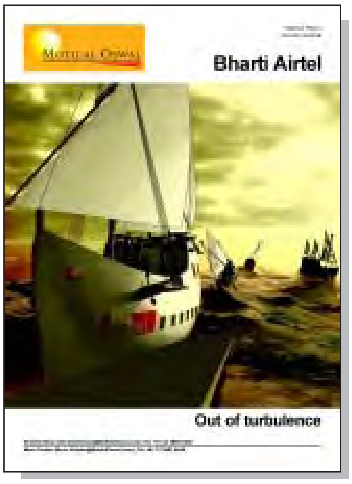
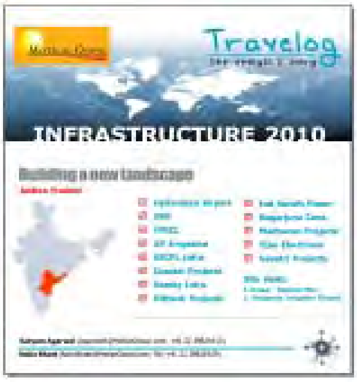
NOTES





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Disclosure of Interest Statement

The MOSt group and its Directors own shares in the following companies covered in this report: Bharti Airtel, Birla Corporation, Coal India, GSK Pharma, Hero Honda, IDFC, IOC, Marico, Nestle India, Oriental Bank, Siemens, South Indian Bank, State Bank, Tata Steel

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