Investment Strategy

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Earnings strong — but peaking?

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Strong quarter but is this the peak?

Corporate India is set to report another strong quarter with forecast headline growth in earnings of around 32.5%. Excluding the extraordinary effect of Reliance Communications, EPS is expected to grow just over 25%. Growth is spread over most sectors, with software and cement being the outstanding ones. Banks and PSU oil companies (assuming there are no bonds) will likely disappoint.

Interest rates, oil prices to slow earnings growth

We expect rising interest rates and higher oil prices (India raised prices just recently) to slow earnings growth going forward. In addition, slowing global commodity prices will put pressure on aggregate earnings (see *India Snapshot,* dated 30 June 2006).

What can investors do ahead of results?

- **Buy:** Software (Infosys, Satyam), cement (Gujarat Ambuja, ACC), telecom (Bharti), and industrials (BHEL).
- **Avoid:** Financials (eg, ICICI), PSU banks (including SBI), and airlines (Jet Airways).
- **Switch:** In pharmaceuticals, we would switch from Ranbaxy and GSK Pharma to Dr Reddy's. In autos, we would switch from M&M to Tata Motors and Bajaj Auto.
- **Mid caps:** Buy Dabur, IVRCL, Nagarjuna, IDBI, BoI, and Shree Cement.

Table 1: Growth forecast by sector: June quarter

Industry	Sector weight	Sales % growth	EBITDA % growth	Net profit % growth
Consumer Discretionary - Autos	9.2%	29.6%	33.1%	26.3%
Consumer Discretionary - Media/Hotels	1.7%	9.6%	-16.3%	-17.0%
Consumer Staples	9.4%	14.0%	20.9%	23.4%
Energy	18.1%	15.3%	15.4%	9.1%
Financials	16.8%	23.7%	N.A.	12.8%
Healthcare	5.0%	21.7%	28.4%	20.6%
Industrials	6.4%	24.7%	18.9%	20.9%
IT	22.3%	38.3%	38.9%	41.1%
Cement	3.7%	25.2%	65.0%	85.0%
Materials - Others	4.2%	57.0%	33.9%	36.6%
Telecom	4.4%	18.0%	258.4%	NA
Utilities	2.5%	6.5%	-8.9%	1.9%
Weighted Grand Total	104%	22.1%	32.6%	31.5%

Source: Merrill Lynch Research

Table 2: Results forecast summary, 30 Jun 06

	BSE	MSCI
All Companies:		
Sales Growth	25.8%	22.1%
Profit Growth	32.5%	31.5%
Excl. Financial Cos:		
Sales Growth	26.9%	22.0%
EBITDA Growth	35.8%	32.6%
Profit Growth	38.4%	35.9%
Excl Reliance Comm. Ventures		
Sales Growth	25.9%	22.1%
Profit Growth	25.3%	22.3%

Source: Merrill Lynch Research

Table 3: Top 10 leaders and laggards

Leaders	YoY %	Laggards	YoY %
i-Flex	699%	Jet Airways	-102%
Shree Cement	237%	Nicolas	-52%
Nalco	150%	OBC	-42%
Ultratech Cem	144%	Canara Bank	-29%
Dr Reddy's	131%	Neyveli Lign	-29%
Gujarat Ambuj	120%	IDFC	-27%
ACC	115%	Zee	-17%
Hindalco	104%	GSK Pharma	-16%
BoI	58%	Patni	-14%
Satyam	56%	SAIL	-13%

Source: Merrill Lynch Research

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Refer to important disclosures on page 19 to 21. Analyst Certification on page 18.

Table 4: Model portfolio

	Symbol	Rating	03 Jul 2006	MSCI Wt	Recommended ML Wt.	% Overweight
Consumer Discretionary				9.4%	9.0%	-4.3%
Tata Motors	TENJF/TTM	C-1-7/C-1-7	786		6.5%	
Maruti Udyog	MUDGF	C-1-7	792		2.5%	
Consumer Staples				9.4%	6.0%	-36.2%
ITC	ITCTF/ITCTY	C-1-7/C-1-7	184		6.0%	
Energy				14.4%	15.5%	7.6%
Reliance	RLNIY/XRELF	C-1-7	1,071		15.5%	
Financials				16.9%	17.0%	0.6%
ICICI Bank	ICIJF/IBN	C-1-7/C-1-7	489		7.5%	
SBI	SBINF/SBKFF	C-1-7/C-1-7	742		7.0%	
IDBI	XDBIF	C-1-7	57		2.5%	
Industrials/Cement				9.1%	14.0%	53.8%
ACC	ADCLF	C-1-7	780		4.0%	
GACL	XBRIF	C-1-7	99		2.0%	
BHEL	BHRVF	C-1-7	1,946		4.0%	
L&T	LTOUF/LTORF	C-1-7/C-1-7	2,263		4.0%	
Pharma				5.9%	5.0%	-15.3%
Dr. Reddy's	DRRDF/RDY	C-1-7/C-1-7	1,285		2.5%	
Cipla	XCLAF	C-1-7	214		2.5%	
Software				21.0%	24.0%	14.3%
Infosys	INFYF/INFY	C-1-7/C-1-7	3,152		16.0%	
Satyam	SAYPF/SAY	C-1-7/C-1-7	719		8.0%	
Metals				4.3%	0.0%	-100.0%
Telecom				5.0%	7.0%	40.0%
Bharti Tele	BHTIF	C-1-9	370		5.0%	
Reliance Communication	RLCMF	C-1-7	254		2.0%	
Others				4.6%	2.5%	-45.7%
NTPC	NTHPF	C-1-7	111		2.5%	

Source: Merrill Lynch Research

Sector growth: Software and cement positive, banks and PSU oil companies to disappoint

- **Autos:** Strong growth expected among the OEMs, ie, both four and two wheelers, but muted performance by auto components. Four wheelers should show strong growth given the relatively weak base during the comparable period last year.

- **Financials:** Earnings expected to be volatile for three reasons: (1) the sharp rise in bond yields (around 60bp QoQ), (2) higher provisioning requirement for private sector banks due to change in RBI guidelines (hike in provisioning on specified standard assets from 0.4% to 1.0%), and (3) lower treasury gains due to volatile equity and debt markets.

- **Cement:** Expected to deliver strong profits led by increased cement prices.

- **Consumers:** Expected to witness another quarter of healthy growth led by Dabur and HLL (low base effect for both companies in June Q last year). The slowest-growing companies are likely to be Nestle and Tata Tea.

- **Energy:** Reliance is expected to deliver strong earnings growth driven by buoyancy in regional refining margins and rise in gas price (a boost for E&P earnings). R&M companies, such as BPCL and HPCL, are likely to report losses caused by surging subsidies.

- **Pharmaceuticals:** Expect a quarter of mixed performances. Among the big cap companies, Dr. Reddy's and Cipla should show strong growth whereas Ranbaxy is expected to disappoint.

- **Industrials:** Expected to continue its strong performance, thanks to likely improvement in execution and EBITDA margins as new-priced orders flow in for execution and operating leverage kicks in. However, we expect muted growth in order backlog for most companies as they focus on acquiring better-priced orders.

- **Metals:** Should be a mixed bag with non-ferrous metals outperforming the steel. Aluminum should excite with a sharp rise in sales and profit numbers, whereas steel is expected to continue to disappoint despite showing improvement on a QoQ basis.

- **Software:** Expect June quarter to be ahead of guidance, albeit seasonally weak, given (1) annual salary hikes (except for Wipro, which gives its salary increase in October), and (2) Visa application costs. A sharp depreciation of the rupee will help operating performance but not the bottom line because of the forex hedges.

- **Telecom:** Bharti is expected to continue to show impressive growth driven by strong top-line growth, though the rupee depreciation will dampen bottom-line growth.

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Sector highlights

Automobiles

Pre-result Buys in sector: None

- We expect strong growth among the OEMs, ie, both four and two wheelers, and a muted performance by auto components. Four wheelers should show strong growth given the relatively weak base during the comparable period last year.

- The strong performance notwithstanding, we cannot identify a notable winner, ie, a company that could positively surprise. In fact, we fear disappointments are more likely, especially with regard to companies like Maruti, whose sales have increased on account of price discounts. Bajaj Auto and Hero Honda among the two wheelers, and commercial vehicle makers Tata Motors and Ashok Leyland are expected to register the strongest operating performance.

- Among the auto component companies, we believe Bharat Forge will be the lone performer. We expect the company to regain its former trend of heady growth rates, driven by strong demand in the user segment as well as improved utilization of new capacities. Automotive Axles will likely post a weak quarter, as the company will be in the initial stages of ramp-up. Rico Auto's performance will likely be better, with key customers from Honda group posting much stronger sales.

- Within the two wheeler space, we expect Bajaj Auto to remain the best performer, thanks to higher motorcycle volumes and a surge in three wheeler sales. Hero Honda, too, should benefit from a strong top line. However, we expect margins to be subdued (QoQ) given the rising input cost. We believe that TVS Motor will continue to deliver another weak quarterly performance, with benefits of scale and operating efficiencies panning out in subsequent quarters.

- We expect four wheelers to exhibit strong performance, led by commercial vehicles. Thus, Ashok Leyland and Tata Motors should register a sharp increase in profits, albeit, over the low base of last year. Eicher Motors' figures are not comparable since the tractor business was part of the company's operations until May 2005. Maruti will likely show reasonable growth, although there is downside risk on the back of price discounts. M&M will likely be a laggard due to the modest growth in its sales.

Airlines

Pre-result Sells in sector: Jet Airways

- We expect Jet Airways to post another weak quarter, given the sharp decline in yields, increase in cost of fuel and other operating costs. Based on our estimates, we expect the airline to post a modest loss for the quarter.

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Banks

Pre-result Buys: HDFC Bank, Bank of India (mid cap)

- We expect bank earnings for 1Q FY07 to be volatile for three reasons: (1) the sharp rise in bond yields (around 60bp QoQ), (2) higher provisioning requirement for private sector banks due to change in RBI guidelines (hike in provisioning on specified standard assets from 0.4% to 1.0%), and (3) lower treasury gains due to volatile equity and debt markets.

- In our view, many of the government banks' 1Q FY07 earnings could remain flat or show a contraction owing to a sharp hit on their G-sec book as a result of the steep rise in bond yields. Only a few banks, eg, BOI and Vijaya, are likely to deliver high growth in earnings, largely owing to the base effect.

- Among the private sector banks, HDFC Bank is once again likely to top the charts with a 27-28% growth. In contrast, ICICI Bank could disappoint, with growth in single digits owing to higher provisioning, absence of equity profits and margin compression of about 15bp QoQ as the impact of the lending rate hike (effective 1 July 2006) lags the rise in funding costs by a quarter.

- We expect top line (net interest income) growth to start picking up from the next quarter (July 2006 onwards) as banks reap the benefits of the rise in lending rates over the past three months. Strong credit growth (around 26-27% for the system) and relatively stable margins are likely to result in top-line growth of 10-15% YoY for most of the government banks. For private sector banks, we estimate growth to be around 40-45% owing to healthier loan growth.

- As in earlier quarters, we expect fee income for private sector banks to grow much stronger at 30-40%, though lower than before owing to the impact of lower distribution fees. Within the government banks, however, growth would be faster (15-20%) for those that are ahead on the technology implementation curve, eg, PNB, Union and Corporation. But the main highlight would be the rebound in fee income for SBI (estimated to grow 15% YoY) owing to the increase in rates on its government business.

- Pre-provision profit growth is expected to be relatively lower (vs previous quarter) for private sector banks owing to a sharp decline in treasury gains. In contrast, for most government banks, pre-provision profit growth is likely to improve in the absence of cost pressures.

- Investment hit will be a mixed bag as bond yields have risen by around 60bp over their March 2006 levels. Banks that have eroded their hedge, eg, Canara, OBC and, to some extent, PNB, would report rise in MTM hits, while investment provisions for banks like Union Bank of India and BOI would largely consist of amortization of premium on their HTM portfolio. Banks like PNB, BOB, SBI and OBC could also report significant one-time hits on account of the transfer of G-Sec from AFS to HTM.

- Reported earnings are also likely to be all over the place, ranging from an estimated decline of 40% for OBC to estimated increases of 50% for banks like Bank of India and IDBI owing to a low base effect. In our view, most banks will likely report net income growth significantly lower than PPP growth owing to the MTM hits on the AFS portfolio as well as transfer hits.

- Among the mid-caps, HDFC Bank and BOI could be the positive surprise, in our view. HDFC Bank should benefit from high volume growth and the high % of low-cost deposits (although the % may have declined QoQ owing to lower float from capital market). BOI benefits from lower vulnerability to rising bond yields, as well as a low base effect.

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Cement

Pre-result Buys in sector: Shree Cement, Gujarat Ambuja

- For the April-June 2006 quarter, we expect the cement sector to post EBITDA growth of nearly 100% YoY and 45% QoQ, led primarily by higher cement prices.
- We estimate that for most of the majors, EBITDA will rise by almost Rs15/bag QoQ because of higher cement prices and volumes will likely grow by 7-9% YoY but stay flat-to-weak QoQ.
- In our view the upcoming quarterly results could trigger profit upgrades across the sector. We like major names, but recommend Gujarat Ambuja and Shree Cement as pre-result Buys on account of their relatively attractive valuation at an EV/EBITDA of 7-9x FY07E.
- In 1Q FY07 (April-June 2006), we expect Grasim's profit growth to lag the other cement majors due to lower VSF profits. VSF and chemical profits for Grasim will likely be down both YoY and QoQ as a result of the shutdown of the Nagda-VSF unit for nearly 45 days because of water shortage. The Nagda unit accounts for ~50% of Grasim's VSF capacity. We expect normal VSF production from 2Q FY07 and remain long-term Buyers of Grasim.

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Consumers

Pre-result Buys in sector: ITC, Colgate

- We expect consumer companies to continue to enjoy healthy growth in the June quarter. We forecast aggregate top-line growth of 15% for the sector, EBITDA growth of 21% and PAT growth of 24%. This compares to 31% profit growth in the December quarter and high teens growth in the earlier quarters.
- At the net profit level, we expect the fastest-growing companies to be Dabur (46%) and HLL (28%), led primarily by margin expansion given the low base effect for both companies in June last year.
- The slowest-growing companies are likely to be Nestle and Tata Tea. We expect Nestle's profit to grow by 13% owing to high raw material costs (coffee, milk and sugar). In the case of Tata Tea, we expect profit growth of 17%, which is lower than the sector average but in line with its growth trend.
- Key issues that we would look out for this quarter are:
  - **HLL:** Top-line growth in household products. We are forecasting growth of 15% (vs 20% in March quarter) but we believe there is a downside risk given the recent weak retail sales data as reported by AC Nielsen.
  - **ITC:** Cigarette volume growth. We are forecasting 9% growth, slightly higher than the 8.4% growth in FY06.
  - **Colgate:** Forecast top-line growth of 18% and we believe there is upside risk led by stronger volume growth in toothpaste and toothbrushes, and perhaps also product mix upgrade.

- **Nestle:** Expect EBITDA margin contraction of 40bp led by higher raw material costs. This is better than the 240bp contraction in the March quarter as we expect excise savings from Maggi noodles to compensate to some extent.
- **Tata Tea:** Tetley top-line growth. We expect growth of 5% led by increased marketing initiatives.
- **Asian Paints:** Top-line growth. We forecast 15% growth led by 12-13% volume growth.
- **Dabur:** EBITDA margin expansion of 210bp led by a number of factors – improving profitability in the Balsara division, product mix upgrade through higher Chyawanprash sales, and also base effect.
- **Britannia:** Healthy top-line growth of 15% via new product launches, but margin contraction of 100bp led by higher raw material costs.

Energy

Pre-result Buys in sector: Reliance

- RIL is forecast to report the strongest earnings growth in the sector of 17% YoY, driven by buoyancy in regional refining margins. E&P earnings would also be boosted by the rise in gas price from PMT by 23% YoY to US$4.75/mmbtu. Petrochemical outlook is, however, not good due to weakening margins. But RIL should gain from volume growth in petrochemicals driven by capacity additions in FY06.
- R&M companies BPCL and HPCL are likely to report losses arising from surging subsidies. The government has announced an issuance of Rs283bn worth of oil bonds but indications are that these bonds will be received only in 2QFY07 as Parliament’s approval is required for the issuance.
- IOC is also likely to have a loss before extraordinary items. It is expected, however, to report Rs27bn of net profit, boosted by a Rs31.7bn profit from the sale of part of its stake in ONGC.
- GAIL’s 1Q profit is likely to be 6% YoY lower. The rise in gas prices consumed by its petrochemical and LPG business by 170% YoY to US$4.75/mmbtu from just US$1.76/mmbtu in 1Q FY06 will hit GAIL. GAIL’s earnings decline could have been steeper but for the 41% YoY fall in depreciation following a cut in depreciation rate on pipelines from 2Q FY06. Our forecast assumes that GAIL will continue to bear the subsidy on LPG and kerosene on the same terms as in FY06. However, there is a possibility that the company may have to stop bearing subsidy on kerosene from 1Q FY07. If so, its 1Q FY07E EPS would be 17% YoY higher.
- We estimate ONGC’s 1Q profit will rise by 16% YoY, driven by higher oil and gas prices and despite the likely surge in subsidy by 88% YoY.

Operating parameters

- Upstream: Oil and gas prices are higher YoY. The price of ONGC’s marker crude oil at US$70.4/bbl is 35% YoY higher. The regulated price of gas, which was raised in July 2005, will be 45% YoY higher in 1Q FY07.
- Downstream: Buoyant refining margins. Singapore refining margins have

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averaged US$13/bbl (43% YoY higher), which is the highest quarterly margin in recent times.

- Surging subsidies. Under-recoveries are likely to surge to their highest-ever quarterly level of Rs160bn in 1Q FY07 (63% YoY higher from Rs97.7bn in 1Q FY06)

Healthcare

Pre-result Buys in sector: Dr. Reddy's Laboratories, Cipla
Pre-result Sells in sector: Ranbaxy

We expect sector performance to be robust for the June quarter, with average sales growth of 16.9% YoY, EBITDA growth of 15.7% YoY and PAT growth of 11.0% YoY. 1Q sector highlights are as follows.

- **Muted domestic market growth due to high base effect:** Our expectation of muted domestic market growth for most pharmaceutical players in 1Q is largely driven by the high base in the previous corresponding quarter which saw a sharp bounce-back from the VAT-led de-stocking during January-March 2005.

- **Three US generic product drivers – Allegra, Proscar, Zocor:** In 1Q, Ranbaxy, Reddy's and Cipla will likely benefit from one and/or all of the three generic blockbuster drugs.

- **No change in generic pricing environment:** The gross margin trend of three major companies – Ranbaxy, Dr. Reddy's and Caraco (Sun Pharma) – will likely be a strong indicator of any change in the US generic pricing environment for the quarter. We expect similar level of price pressure in the US in 1Q as in 4Q.

Company-wise key expectations for the quarter

- **Ranbaxy Laboratories** will likely deliver marginal 2% YoY growth in net profit (Rs1.03bn) on the back of a muted 3% growth in overall revenues. For 2Q, we estimate OPM of 14% vs 11% in 1Q. We have assumed a similar level of price pressure in the US in 1Q as well. We estimate US revenues for the quarter to be US$85mn, which includes about US$5mn revenues from generic Zocor (one-week impact). Going forward, investors could expect greater clarity on (1) the timing of the kick-start of US ANDA approvals in light of the recent FDA warning letter at Paonta Sahib site, (2) the impact of recent cost-saving initiatives, and (3) the pricing of generic Zocor (80mg) and potential for improving growth in European operations.

- **Dr. Reddy's Laboratories** is expected to report net profit of Rs800mn in 1Q (131% growth YoY), reflecting the full impact of (1) the integration of Betapharm acquisition and Roche manufacturing facility, and (2) the three generic launches in the US, Allegra, Proscar and Zocor, which we expect could contribute about US$15mn in revenue. Our estimates for the current quarter do not include any significant money received from ICICI Ventures. Hence, we believe that 1Q results could well be higher than expected. In absolute terms, Reddy's gross margin in the quarter is expected to be about 52% (vs 42% in 4Q FY06). We expect both R&D and SG&A spending to be muted in 1Q.

- **Sun Pharmaceuticals** will likely deliver 15% PAT growth for the quarter driven by (1) 15% growth in revenue, (2) maintenance of high OPM due to limited competition in generic Ultracet, and (3) income from FCCB proceeds.

- For **Wockhardt,** we expect net profit of Rs783mn (flat on YoY basis) which is a sharp bounce-back from the Rs37mn loss in 1Q (due to write-offs in the US). Operating margin is expected to remain high (20% range) owing to the impact of (1) contract manufacturing of exanitide formulations to Lilly, (2) new launches in the US, and (3) synergies from European acquisitions. We believe that Wockhardt will also benefit from higher interest income from the US$100mn FCCB proceeds as well as forex gains.

- Our expectation of **Glenmark's** robust 31% PAT growth for the quarter on the back of 20% YoY revenue growth is on a stand-alone basis and does not reflect any R&D-related milestones or US generic and Brazilian business revenues. Glenmark's improved growth rate in 1Q is on the back of strong order book position in both the API and formulation exports business, as well as more directed marketing efforts following its recent restructuring.

- In the case of **Nicholas Piramal**, our expectation of Rs242mn profit in 1Q is a sharp 52% de-growth (YoY) due to the high base in the previous 1Q, which enjoyed high domestic sales due to bounce-back from VAT-led de-stocking. As in 4Q, we expect 1Q to be affected by the low growth of its largest brand, Phensedyl (cough product), as well as modest take-off in custom manufacturing revenues and losses from the Avecia acquisition.

- We expect **Cipla** to record 26% growth in 1Q net profit (YoY) on the back of 20% growth in revenues. While domestic growth is expected to be muted due to the high base (YoY), we expect strong exports driven by supply of Proscar API (finasteride) and Zoloft API (sertraline) to Ivax during the six-month exclusivity period.

- In the case of **Biocon,** we expect 1Q net profit of Rs392mn (flat on YoY basis) on the back of 15% growth in revenues (YoY). Although we expect EBITDA margin to be maintained at 29% YoY, higher depreciation charge on account of commissioning of Biocon Park facility will likely result in flat net profit.

- For **Cadila,** our expectation of a sharp 16% PAT growth (YoY basis) is driven by (1) robust growth in all aspects of exports – Altana JV exports (about 50% growth YoY), French generics (40% growth YoY) and US generics, (2) muted growth in domestic formulations, noting the high base in the previous 1Q which reflected the bounce-back from VAT-led de-stocking effect in January-March 2005, and (3) about 100bp higher EBITDA margin.

- **Matrix's** 50% profit growth for the quarter (YoY) is on a consolidated basis and takes into account the impact of the DocPharma acquisition; hence, this is not comparable to the previous corresponding quarter. We expect strong revenues in ARVs for the quarter due to API supplies from the Aspen JV. Further, Matrix's 1Q will also reflect the impact of significant cost synergies from the DocPharma acquisition.

- Our expectation of 14% YoY net profit growth for **Panacea Biotec** in 1Q is driven by its robust 27% revenue growth and maintenance of higher EBITDA margin. However, high depreciation and tax charge is expected to take a toll on profit growth. Domestic vaccine revenues are expected to be muted given the low immunization program schedule for oral polio vaccines in 1Q.

- We expect **GlaxoSmithkline's** net profit to drop by 16% YoY in 2Q on the back of a 12% revenue de-growth (YoY) as a result of the high domestic formulations base in the previous 2Q which reflected the bounce-back from VAT-led de-stocking effect in January-March 2005.

- **Divi's Labs** is expected to post 19.5% YoY net profit growth in 1Q on the back of a 15% revenue growth, largely driven by (1) maintenance of EBITDA margin (YoY basis) and (2) lower tax rate given the EOU status for its recent capex addition.

Industrials

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Pre-result Buys in sector: L&T, BHEL, NCC and IVRCL

- A 30% YoY top-line growth and a 47% growth in bottom line of Indian engineering & construction (E&C) majors during the April-June quarter should reinforce our bullish stance on the sector and reassure the markets.

- We expect muted growth in order backlog for most companies as they focus on acquiring better-priced orders. The key issue to watch out for in the E&C sector is the likely improvement in execution and EBITDA margins as new-priced orders flow in for execution and operating leverage kicks in.

- We expect the Indian E&C sector, represented by BHEL, L&T, ABB, IVRCL and NCC, to report sales growth of 30% YoY, EBITDA growth of 49% YoY and recurring PAT growth of 47% YoY.

- We expect L&T's strong growth in order inflow to continue in 1Q FY07 as the company has booked a series of big-ticket orders in the recent past from domestic as well as export markets, a clear indication of the improving trend. Overall, L&T should experience 22% sales growth, 35% EBITDA growth and 34% PAT growth.

- Meanwhile, ABB's strong results should be driven by continued strong sales growth of 32% YoY, led by strong order backlog. Improved labor productivity and stable O&M costs will result in estimated 50% YoY earnings growth.

- BHEL remains our preferred pick in the sector as it sorted out technology issues such as advanced class gas turbines and super-critical plants. This would not only complete its product offering but also drive order backlog beyond the current 2.6x annual sales. Moreover, the Indian government's focus on indigenizing super-critical technology through BHEL and the likely implementation of ultra-mega power projects will aid in future order inflows. Overall, BHEL should experience 35% sales growth, 63% EBITDA growth and a 53.5% PAT growth.

- Nagarjuna (NJCC) and IVRCL remain our preferred picks in the mid-cap E&C space. Expect NJCC's PAT to grow 52% YoY in 1Q FY07 led by 55% YoY growth in sales and margin improvement by 36bp YoY. We expect IVRCL to report 43% YoY growth in sales during 1Q FY07, led by good growth in power and transmission, as well as water business. We expect the improved pricing and operational efficiency to drive margin and 44% YoY growth in earnings.

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Media

Pre-result Buys in sector: Balaji Telefilms

- We expect divergent PAT growth trend among media companies in 1Q FY07 but overall, an improving outlook.
- We expect the Indian media sector, represented by Zee and Balaji, to report sales growth of 11.5% YoY but PAT decline of 10.4% YoY.
- For Zee, we expect 1Q FY07 to be the last quarter of negative bottom-line growth before strong double-digit growth starts to kick in from 2Q FY07. The drivers behind such results would be 30% growth in ad revenues to Rs1.7bn and 4.5% YoY growth in subscription revenues to Rs1.8bn.
- However, Zee's strategy to invest in new content (Zee Sports) and delivery platform (DTH) should result in losses of Rs260mn in the new businesses. This should lead to 17% YoY fall in reported PAT. However, we believe this decline is largely factored into the stock price and do not expect much impact on the stock. After all, most of these losses are likely to reverse as these businesses approach breakeven. Recovery could be gauged from our forecast QoQ growth in EBIDTA by 9.8% in 1Q FY07E.
- Balaji should show improvement with sales growth of 22% YoY, EBITDA growth of 27% YoY and recurring PAT growth of 30%, led by improved operating matrix in terms of higher realization and lower cost of production.

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Metals

Pre-result Buys in sector: SAIL

We expect metals companies to show mixed results this quarter with non-ferrous metals clearly outperforming steel. Aluminum should excite with a sharp rise in sales and profit numbers, whereas steel is expected to continue to disappoint despite showing improvement on a QoQ basis. In aggregate on a YoY basis, we expect sector profit to rise by 21% led by a 124% jump in non-ferrous metals profits.

- **SAIL:** We expect improvement on all variables on a QoQ basis on the back of higher steel prices. But on a YoY basis, steel prices are still about 8% lower and hence we expect profit to fall by 13%. The key highlight in the June quarter is likely to be volume growth of 16%.
- **Nalco:** We expect June to be an all-time-best quarter led by higher alumina and aluminum prices. On a YoY basis, we expect profit to grow 150% YoY, led by aluminum prices increasing 50% and alumina prices up 123%.
- **Hindalco:** As in the case of Nalco, June is expected to be the best-ever quarter for Hindalco with profit growing by an estimated 104%. We expect aluminum profits to grow 121% YoY but copper smelter once again will be unexciting. Even though TCRC have increased, lower volumes (owing to maintenance shutdown) and high fixed cost from the recent expansion will likely lead to copper smelter EBIT declining.
- **Tata Steel:** We expect the June quarter to be another indifferent quarter for Tata Steel despite higher volumes from increased capacity and sequential improvement in realizations. We expect revenue growth of 10% YoY, led by 25% increase in sales volumes but moderated by 9% YoY decline in average realizations from the peak seen in early FY06. We expect net profit will

decline by 4% YoY due to higher depreciation and coal costs. The only positive we see in this quarter is improvement in profit margins over the March quarter on the back of rising steel prices.

Software

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Pre-result Buys in sector: Infosys, Satyam

- **IT stocks could perk up as seasonally strong period starts:** In this quarter's earnings season, discussions on the outlook for the September quarter will be the key. The September quarter is seasonally the strongest, after project starts in the first half of the calendar and wage hikes for most companies are behind them in the June quarter. This could be a positive trigger for IT stocks.

- **Annual guidance could be tweaked up:** There could be upside to the annual guidance from likely better volumes and 3% rupee depreciation vs the USD and 9% against the GBP.

- **Consolidation theme could figure on earnings calls:** EDS completed the acquisition of MphasiS BFL in the quarter. There has been strong speculation that IBM could be scouting around for an acquisition and could be wooing Satyam. Wipro continues with its "string of pearls" acquisition strategy. Finally, there have been media reports that TCS could be considering an over US$800m acquisition in the BPO space.

- **Salary pressures will also be a key theme during results:** The results season will likely continue to focus on the supply-side challenges, with FY08 entry-level wages raised by 10% by TCS and 17% by Infosys. We believe the impact on the margin will be offset by improving mix of services, investments in newer services like BPO breaking even, and focus on raising productivity.

- **June 2006 results likely ahead of guidance, seasonally weak:** We expect the June quarter to be ahead of guidance, albeit seasonally weak, given (1) annual salary hikes (except for Wipro which gives its salary increase in October) and (2) Visa application costs. A sharp depreciation of the rupee will help operating performance but not the bottom line because of the forex hedges.

Company-wise highlights of June quarter results

- **Anticipate better-than-expected results for Infosys and Satyam:** We expect Infosys and Satyam to report ahead of expectations, with Satyam likely to outperform by almost 6%.

- **Mastek's** reported PAT could be up 17% QoQ, though on an adjusted basis (excluding Rs36mn tax provision last quarter) it is about flat QoQ, at the higher end of its PAT guidance. We believe the stock looks attractive at 11x FY07.

- **Strong results from HCL Technologies, helped by lumpy other income:** HCL Tech is likely to report strong 14.5% QoQ growth in US$ profits, helped by lumpy other income. At the EBIT level we forecast 7% QoQ growth (US$ terms). PAT rupee growth is estimated at 18% QoQ, helped by the company's policy of convenience translation at period rate.

- **Weak results expected from MphasiS BFL, Patni, Infotech and i-flex; Would buy into Infotech:**
- **MphasiS BFL** could disappoint QoQ on likely muted revenue growth. We see a downside to our estimates.
- Visibility on **Patni** is poor as yet and concerns about operational issues remain. We estimate Patni's profits to be in line with guidance — a QoQ drop of 17%.
- We estimate a QoQ decline of about 11% in profits from **Infotech** off a high base and continuing weakness in one of its US subsidiaries. We would regard any weakness as a buying opportunity.
- **i-flex** typically sees seasonal weakness in 1Q. We expect a QoQ decline of 11.5% in revenue and 61% decline in EPS. During the last quarter, it reported strong numbers, with 109% QoQ growth in PAT and healthy license fee recognition.
- **Steady results for TCS and Wipro:** Results could be flattish QoQ for TCS and Wipro, whose domestic revenues are usually affected by seasonal weakness. Also, there could be some margin impact related to acquisitions/large deals and client.

Telecom

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Pre-result Buys in sector: Bharti, Reliance Communication

- We forecast Bharti's 1Q FY07E net profit at Rs7.1bn, up 40% YoY and 4% QoQ. Strong top line (52% YoY and 13% QoQ) will be the key growth driver but rupee depreciation will dampen bottom-line growth. Overall margins will likely be flattish (20bp QoQ); mobility margins are forecast to tick up (30bp), while long-distance margins are expected to decline (44bp QoQ) due to the cut in ceiling carriage charge. Mobility ARPU is forecast to stay flat QoQ and mobile sub base is estimated to rise 16% QoQ.
- For Reliance Communication (RCVL), we forecast 1Q FY07E net profit at Rs4.6bn, vs a loss of Rs2.5bn in 1Q FY06; QoQ profit growth should be ~5%. Compared with Bharti, RCVL will likely post stronger improvement in mobility margin (70bp QoQ) but weaker subscriber growth (10-11% QoQ). Margins in the global/long-distance business are estimated to decline ~130bp QoQ on the back of the cut in ceiling carriage charge.
- MTNL's 1Q FY07E earnings are forecast at Rs1.7bn, flat YoY but down 6% QoQ after adjusting for non-recurring items in 4Q FY06. Our conversations with MTNL indicate that in 1Q FY07 it may bill BSNL for call arrears/revenues since inception and our estimates do not capture any one-time upside on this count. We estimate flat QoQ EBITDA margin for MTNL in 1Q FY07 despite the recent cut in long-distance calling charges between Delhi and Mumbai.
- For VSNL, we expect top line to be flattish QoQ but EBITDA will likely grow 9% QoQ, reflecting sustained cost reduction. Despite the QoQ EBITDA growth, recurring net profit at Rs1.3bn is forecast to be down 14% QoQ due to higher taxes.

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Utilities

Pre-result Buys in sector: NTPC

Pre-result Sells in sector: JP Hydro

- In the utilities sector, markets will likely be more focused on increase in generation at NTPC with improving coal supplies and progress on future plans, such as expansion in generation capacity, update on open access in distribution and AT&C loss reduction in New Delhi JVs of Reliance and Tata Power.

- We expect the Indian utilities sector, represented by NTPC, Reliance Energy, Tata Power, Neyveli, GIPCL and JHPL, to report sales growth of 9.1% YoY, EBITDA growth of 2.2% YoY and PAT growth of 6.7% YoY.

- The primary reason for the growth would be volume growth (NTPC and Tata Power), and improved efficiency (Reliance Energy and NTPC).

- We expect NTPC to spend 1Q FY07 addressing investor concerns about fuel shortages affecting the company's production as it is likely to report double-digit YoY growth in generation. Sales in the high-margin spot market and fuel cost savings also remain on track in 1Q. On a recurring basis, we expect 14% YoY growth in 1Q FY07E PAT, led by 14% YoY growth in sales revenue.

- We expect a 7.6% YoY growth in sales for Reliance Energy, led by growth in E&C revenue. We expect recurring PAT to increase by 16.5% YoY, mainly driven by power business, higher margin in E&C business and investment income.

- Tata Power should see its recurring PAT rising by 12.6% YoY, thanks to 4.4% sales growth for 1Q FY07E.

- Among the other IPPs, GIPCL should report better results (8.1% YoY growth in 1Q FY07 PAT) while NLC's results should be affected by lower generation and tariff uncertainties.

- NTPC and Reliance Energy remain our preferred picks in the sector based on their expanded generating capacity and distribution franchise, and reduction in Rel Energy's T&D losses at its Delhi JVs

- Maintain Sell on JHPL, as the stock remains expensive in terms of valuation, and Neutral on Neyveli and GIPCL.

Table 5: Results forecast for the quarter ended 30 June 2006

	ML	QRQ	Price	Sales		% change		EBITDA		% change		Net profit		% change	
(Rs mn)	Symbol	Rating	30-Jun-06	30-Jun-05	30-Jun-06	YoY	QoQ	30-Jun-05	30-Jun-06	YoY	QoQ	30-Jun-05	30-Jun-06	YoY	QoQ
Automobile/Airlines															
Ashok Leyland	XDBVF	C-2-7	38.05	10,632	13,688	28.7%	-21.1%	891	1,369	53.6%	-37.4%	449	783	74.3%	-42.0%
Automotive Axles	XATOF	C-1-7	436.4	923	1,108	20.0%	10.6%	170	201	18.8%	12.0%	99	108	9.8%	7.0%
Bajaj Auto Ltd	BJJAF	C-1-7	2736.9	16,342	21,127	29.3%	-2.5%	2,575	3,718	44.4%	-12.5%	2,090	3,029	44.9%	-8.2%
Bharat Forge	XRRGF	C-1-7	313.6	3,635	5,085	39.9%	16.0%	885	1,220	37.9%	15.9%	489	617	26.1%	16.3%
Eicher Motors	XEICF	C-1-7	237.7	3,875	3,396	-12.4%	-34.0%	98	195	100.1%	-44.8%	11	48	356.6%	-82.6%
Hero Honda	XHROF	C-3-7	791.5	19,771	23,818	20.5%	5.6%	2,923	3,644	24.7%	0.3%	2,045	2,542	24.3%	-4.9%
Jet Airways	JTAIF	C-2-7	589.2	13,105	14,408	9.9%	-11.3%	2,891	1,336	-53.8%	-28.1%	1,015	-15	NA	NA
Mahindra & Mahindra	MAHHF	C-2-7	621.1	18,119	19,816	9.4%	-13.4%	1,929	2,140	11.0%	-21.3%	1,465	1,560	6.5%	-18.0%
Maruti Udyog	MUDGF	C-1-7	797.6	26,271	30,088	14.5%	-8.2%	3,248	3,806	17.2%	-27.0%	2,265	2,778	22.7%	-27.8%
Rico Auto Ind	RCATF	C-2-7	71.0	1,632	1,901	16.5%	10.2%	205	257	25.2%	12.0%	94	109	16.8%	36.3%
Tata Motors	TENJF	C-1-7	794.5	38,781	57,519	48.3%	-16.4%	4,878	7,219	48.0%	-17.1%	2,735	3,627	32.6%	-16.9%
TVS Motors	XFKMF	C-2-7	97.8	7,351	9,154	24.5%	9.1%	497	549	10.6%	14.0%	249	290	16.5%	-0.3%
Cement															
ACC	ADCLF	C-1-7	783.9	12,109	14,395	18.9%	7.3%	2,450	4,449	81.6%	39.0%	1,381	2,966	114.8%	23.0%
Grasim Industries	GRSJF	C-1-7	1933.3	15,533	17,142	10.4%	-5.6%	3,744	4,827	28.9%	18.7%	2,056	2,729	32.7%	13.0%
Gujarat Ambuja Cements Ltd	XBRIF	C-1-7	99.5	7,205	10,921	51.6%	18.2%	2,219	4,370	96.9%	36.0%	1,452	3,188	119.6%	36.9%
Shree Cement	SREEF	C-1-7	746.4	1,425	3,172	122.6%	40.7%	443	1,314	196.6%	61.0%	260	876	236.9%	44.3%
Ultratrech Cemco	XDJNF	C-2-7	750.0	8,150	11,598	42.3%	13.4%	1,597	3,150	97.2%	64.2%	705	1,717	143.5%	110.7%
Consumer															
Asian Paints	XAPNF	C-1-7	597.1	6,631	7,625	15.0%	-0.3%	814	961	18.2%	4.4%	436	538	23.5%	16.1%
Britannia Industries, Ltd	BTIAF	C-1-7	1207.0	4,054	4,658	14.9%	2.6%	580	643	10.8%	185.7%	326	396	21.6%	68.7%
Colgate Palmolive (India) Ltd	CPIYF	C-1-7	389.0	2,583	3,048	18.0%	0.9%	416	523	25.9%	14.6%	355	436	22.9%	17.9%
Dabur India Ltd	DBUIF	C-1-7	142.5	4,147	4,852	17.0%	1.1%	492	679	38.0%	-13.3%	349	510	46.1%	-18.7%
Hindustan Lever Ltd	HINLF	C-1-7	229.1	28,363	30,929	9.0%	10.5%	3,457	4,330	25.3%	31.0%	3,005	3,850	28.1%	29.0%
ITC	ITCTF	C-1-7	182.3	22,669	28,109	24.0%	1.0%	8,268	10,086	22.0%	25.7%	5,403	6,616	22.5%	16.6%
Nestle	XNTEF	C-1-7	996.1	6,158	6,969	13.2%	3.1%	1,303	1,462	12.2%	-1.9%	813	920	13.2%	4.0%
Tata Tea	TTAIF	C-1-7	765.5	7,167	7,667	7.0%	-2.9%	1,382	1,557	12.6%	65.1%	625	733	17.3%	91.5%
Healthcare															
Biocon Ltd	BCLTF	C-1-7	354.8	1,740	2,000	14.9%	-6.5%	500	570	14.0%	-5.0%	390	392	0.5%	-18.3%
Cadila Healthcare	CDLHF	C-1-7	568.4	3,800	4,256	12.0%	21.6%	604	766	26.8%	16.8%	385	448	16.4%	30.2%
Cipla	XCLAF	C-1-7	215.8	7,009	8,410	20.0%	-8.1%	1,583	1,892	19.5%	-5.4%	1,184	1,490	25.8%	-21.9%
Divi's Laboratories	XXQPF	C-2-7	1303.6	646	743	15.0%	-41.5%	240	260	8.3%	-35.3%	128	153	19.5%	-30.5%
Dr Reddy's Laboratories Ltd	DRRDF	C-1-7	1274.0	5,587	8,500	52.1%	21.9%	292	960	228.8%	-582.4%	347	800	130.5%	-440.4%
Glenmark Pharmaceuticals	XVQWF	C-1-7	300.9	1,249	1,498	19.9%	-16.8%	148	225	52.0%	-33.6%	111	145	30.6%	-42.2%
GSK Pharma	GXOLF	C-1-7	1036.9	4,936	4,350	-11.9%	-4.8%	1,573	1,349	-14.2%	-4.4%	1,035	870	-15.9%	-14.0%
Matrix Laboratories	MXLBF	C-1-7	261.1	1,543	3,950	156.0%	0.6%	170	599	252.4%	22.0%	253	380	50.2%	5.0%
Nicholas Piramal India Ltd	XNIGF	C-2-7	191.0	3,950	3,950	0.0%	-6.4%	755	474	-37.2%	29.5%	508	242	-52.4%	35.2%
Panacea Biotech	XPEAF	C-1-7	292.7	1,609	2,044	27.0%	48.7%	389	511	31.4%	81.2%	214	244	14.0%	112.2%
Ranbaxy Laboratories Ltd	XANBF	C-2-7	356.4	13,479	13,860	2.8%	8.7%	1,722	1,871	8.7%	26.2%	1,013	1,032	1.9%	44.5%
Sun Pharma	SPCEF	C-3-7	790.8	4,143	4,765	15.0%	11.1%	1,278	1,460	14.2%	-12.4%	1,363	1,572	15.3%	10.0%
Wockhardt Ltd	XDUVF	C-1-7	380.1	3,771	4,148	10.0%	18.2%	959	879	-8.3%	27.6%	775	783	1.0%	-2216.2%
Industrials/ Construction															
ABB	ABVFF	C-1-7	2496.0	6,589	8,698	32.0%	8.3%	604	887	46.9%	27.7%	436	655	50.2%	27.7%
Bharat Heavy Electricals Limited	BHRVF	C-1-7	1951.9	19,365	26,145	35.0%	-52.6%	1,715	2,798	63.1%	-76.6%	1,279	1,963	53.5%	-77.4%
Larsen & Toubro	LTOUF	C-1-7	2243.1	31,111	37,914	21.9%	-17.5%	1,765	2,375	34.6%	-65.8%	903	1,213	34.3%	-73.6%
Nagarjuna Construction	NGRJF	C-1-7	256.0	3,594	5,570	55.0%	-13.0%	278	451	62.3%	-15.2%	192	291	51.9%	-16.7%
IVRCL Infrastructure	IIFRF	C-1-7	227.5	3,007	4,310	43.3%	-27.0%	235	353	50.5%	-36.6%	171	245	43.7%	-44.0%

Table 5: Results forecast for the quarter ended 30 June 2006

(Rs mn)	ML Symbol	QRQ Rating	Price 30-Jun-06	Sales 30-Jun-05	Sales 30-Jun-06	% change YoY	% change QoQ	EBITDA 30-Jun-05	EBITDA 30-Jun-06	% change YoY	% change QoQ	Net profit 30-Jun-05	Net profit 30-Jun-06	% change YoY	% change QoQ
Software															
HCL Technologies	HCLTF	C-2-7	502.1	9,276	12,263	32.2%	9.3%	2,111	2,771	31.3%	10.9%	1,620	2,277	40.6%	18.0%
Hexaware Tech	XFTCF	C-1-7	135.2	1,650	1,898	15.0%	7.8%	248	300	21.0%	2.1%	195	258	32.6%	-0.9%
I-Flex Solutions	IFXXF	C-2-7	1124.9	2,701	4,052	50.0%	-11.5%	135	633	368.2%	-51.8%	59	468	698.7%	-59.9%
Infosys Technologies Ltd	INFYF	C-1-7	3077.6	20,716	28,529	37.7%	8.7%	6,638	8,862	33.5%	6.4%	5,319	7,040	32.4%	4.6%
Infotech India	IFKEF	C-1-7	482.5	782	1,132	44.7%	5.0%	136	201	47.9%	1.4%	97	147	51.4%	-11.3%
Mastek	MSKDF	C-1-7	350.0	1,528	1,850	21.1%	4.3%	237	320	35.2%	-0.7%	147	202	37.0%	16.7%
Mphasis BFL	MPSSF	C-1-7	151.6	2,197	2,598	18.2%	3.7%	382	508	33.1%	-3.1%	337	301	-10.6%	-14.5%
Patni Computers Services	PATIF	C-3-7	336.4	4,742	6,264	32.1%	9.0%	825	781	-5.4%	-19.7%	623	534	-14.4%	-16.5%
Satyam Computers	SAYPF	C-1-7	711.4	10,587	14,120	33.4%	7.5%	2,407	3,496	45.2%	4.5%	1,902	2,961	55.7%	4.0%
TCS	TACSF	C-1-7	1735.7	27,094	40,688	50.2%	9.0%	7,958	10,636	33.6%	4.9%	6,187	8,466	36.8%	1.7%
Wipro	WIPRF	C-2-7	513.8	22,718	30,607	34.7%	-0.4%	5,465	7,669	40.3%	7.5%	4,280	6,146	43.6%	-0.5%
Media/Hotels															
Balaji Telefilms	BLJIF	C-1-7	108.5	633	773	22.0%	0.5%	207	262	26.9%	6.0%	125	162	29.9%	4.7%
Zee Telefilms	XZETF	C-1-7	241.4	3,471	3,805	9.6%	-4.1%	998	835	-16.3%	9.8%	760	631	-17.0%	-7.7%
Metals															
Hindalco	HDEIF	C-2-7	175.0	22,078	46,044	108.6%	25.9%	6,044	11,551	91.1%	24.2%	3,249	6,614	103.6%	5.6%
NALCO	NAUDF	C-1-7	227.2	9,419	16,183	71.8%	5.2%	4,528	10,327	128.1%	6.4%	2,578	6,446	150.1%	6.0%
SAIL	SLAUF	C-1-7	81.2	53,986	58,035	7.5%	-37.0%	19,912	17,545	-11.9%	15.7%	11,238	9,805	-12.8%	19.9%
TISCO	TAELF	C-2-7	533.3	34,645	37,974	9.6%	-8.0%	15,882	15,387	-3.1%	18.3%	9,241	8,894	-3.8%	13.6%
Oil & Gas															
BPCL	XBPCF	C-2-7	334.5	160,157	177,774	11.0%	-16.6%	-3,203	-7,579	NA	NA	-4,313	-8,999	NA	NA
GAIL	GAILF	C-2-7	33.5	36,242	38,779	7.0%	6.0%	9,480	7,978	-15.8%	383.5%	4,835	4,562	-5.6%	11.5%
HPCL	XHTPF	C-1-7	235.5	163,621	184,531	12.8%	-11.4%	-3,934	-4,409	NA	NA	-5,079	-5,649	NA	NA
Indian Oil Corporation Ltd	IOCOF	C-1-7	400.0	386,235	424,859	10.0%	-3.9%	4,661	-1,095	NA	NA	-542	-6,475	NA	NA
ONGC	ONGCF	C-2-7	1108.1	108,697	128,426	18.2%	7.9%	61,051	75,683	24.0%	12.5%	33,189	38,601	16.3%	57.9%
Reliance Industries	RLNIY/XRELF	C-1-7	1058.8	177,840	210,207	18.2%	-14.3%	35,660	41,770	17.1%	3.2%	23,100	26,920	16.5%	7.6%
Telecom															
Bharti Televenture	BHTIF	C-1-9	370.0	25,173	38,379	52.5%	12.5%	9,406	14,467	53.8%	13.2%	5,099	7,120	39.6%	4.4%
MTNL	MHTNF	C-3-7	154.6	12,641	13,047	3.2%	-1.7%	2,364	2,872	21.5%	-2.2%	1,726	1,684	-2.4%	-6.3%
Reliance Communication	RLCMF	C-1-7	249.0	25,400	31,372	23.5%	5.6%	1,670	11,340	579.0%	8.8%	-2,500	4,610	NA	4.8%
VSNL	VSLSF	C-2-8	400.5	9,149	9,734	6.4%	1.4%	2,473	2,534	2.5%	8.8%	1,270	1,284	1.1%	15.2%
Utilities															
GIPL	GUJIF	C-2-7	53.2	1,882	1,959	4.1%	8.2%	746	760	1.9%	36.9%	271	293	8.1%	77.3%
JP Hydro	XJSHF	C-3-7	25.5	771	784	1.7%	165.9%	676	690	2.1%	250.1%	168	169	0.4%	NA
Neyveli Lignite	NEYVF	C-2-7	63.0	8,460	7,258	-14.2%	17.3%	5,120	3,115	-39.2%	17.9%	3,197	2,285	-28.5%	1.2%
NTPC	NTHPF	C-1-7	111.1	60,567	68,825	13.6%	-3.1%	15,426	17,714	14.8%	11.2%	13,087	14,886	13.7%	9.9%
Reliance Energy	RCTDF	C-1-7	453.8	9,497	10,221	7.6%	-1.5%	1,615	1,828	13.2%	-3.8%	1,567	1,825	16.5%	-27.0%
Tata Power	TPWFF	C-1-7	480.1	10,988	11,473	4.4%	-2.0%	2,410	2,459	2.0%	56.3%	1,096	1,234	12.6%	42.9%

Source: Merrill Lynch Research

Table 6: Results forecast for the quarter ended 30 June 2006

	ML	QRQ	Price	Net interest income				Pre-provision profits				Net income			
	Symbol	Rating	30-Jun-06	30-Jun-05	30-Jun-06	YoY	QoQ	30-Jun-05	30-Jun-06	YoY	QoQ	30-Jun-05	30-Jun-06	YoY	QoQ
Financials															
Bank of Baroda	BBRDF	C-1-7	198.8	7,587	8,190	7.9%	-5.8%	4,556	5,878	29.0%	-2.6%	1,569	1,700	8.4%	-18.6%
Bank of India	XDIIF	C-1-7	101.9	5,590	8,448	51.1%	0.8%	3,666	6,376	73.9%	1.2%	1,717	2,720	58.4%	6.9%
Canara Bank	CNRKF	C-3-7	200.8	8,328	9,176	10.2%	-6.7%	5,603	5,742	2.5%	-25.6%	1,868	1,323	-29.2%	-73.2%
Corporation Bank	XCRRF	C-2-7	221.4	2,809	3,163	12.6%	1.7%	2,770	2,838	2.4%	5.4%	1,235	1,246	0.9%	24.3%
Federal Bank	XFDRF	C-1-7	166.3	1,442	1,691	17.3%	-1.8%	951	1,257	32.2%	-11.9%	487	498	2.3%	-1.8%
HDFC Bank	HDDCF	C-1-7	791.1	5,237	7,468	42.6%	1.0%	4,292	5,959	38.8%	6.2%	1,835	2,351	28.1%	-10.7%
HDFC Ltd.	HGDFF	C-1-7	1130.0	3,657	4,290	17.3%	-23.2%	3,657	3,690	0.9%	-28.5%	2,473	2,948	19.2%	-30.9%
IDBI Ltd.	XDBIF	C-1-7	57.0	907	2,572	183.6%	-23.2%	1,584	2,498	57.7%	-38.0%	1,085	1,678	54.7%	-16.6%
IDFC Ltd.	IFDFF	C-2-7	54.1	1,447	1,193	-17.6%	4.8%	1,372	1,078	-21.5%	9.8%	1,084	789	-27.3%	7.2%
ICICI Bank	ICIJF	C-1-7	487.4	8,513	11,707	37.5%	-3.7%	9,708	12,853	32.4%	-13.2%	5,300	5,722	8.0%	-27.6%
Oriental Bank of Commerce	ORBCF	C-1-7	170.4	4,030	4,551	12.9%	13.0%	2,850	3,188	11.9%	12.9%	1,048	613	-41.5%	-77.1%
Punjab National Bank	PUJBF	C-1-7	325.6	10,884	12,403	14.0%	5.1%	6,445	7,207	11.8%	-27.8%	3,582	3,249	-9.3%	12.5%
State Bank of India	SBINF	C-1-7	727.4	42,532	41,132	-3.3%	15.7%	34,385	32,873	-4.4%	0.3%	12,228	12,776	4.5%	49.7%
Union Bank	UBOIF	C-1-7	90.4	5,347	6,061	13.3%	1.4%	3,531	4,054	14.8%	-11.6%	2,404	2,290	-4.8%	58.3%
UTI Bank	UTBKF	C-1-7	266.8	2,225	3,234	45.3%	3.3%	2,035	2,549	25.2%	-14.5%	926	1,130	22.1%	-25.5%
Vijaya Bank	VJYAF	C-3-7	39.5	2,372	2,623	10.6%	7.7%	2,023	1,888	-6.7%	4.0%	275	340	23.8%	-198.6%
Yes Bank	XLWOF	C-1-7	78.1	134	247	84.7%	-1.8%	169	324	91.8%	-3.5%	113	151	33.8%	-1.2%

Source: Merrill Lynch Research

Analyst Certification

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Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	77	33.92%	Buy	45	58.44%
Neutral	123	54.19%	Neutral	69	56.10%
Sell	27	11.89%	Sell	13	48.15%

Investment Rating Distribution: Building Group (as of 31 Mar 2006)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	25	45.45%	Buy	3	12.00%
Neutral	26	47.27%	Neutral	4	15.38%
Sell	4	7.27%	Sell	0	0.00%

Investment Rating Distribution: Chemicals Group (as of 31 Mar 2006)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	25	39.68%	Buy	4	16.00%
Neutral	34	53.97%	Neutral	5	14.71%
Sell	4	6.35%	Sell	0	0.00%

Investment Rating Distribution: Consumer Products Group (as of 31 Mar 2006)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	26	48.15%	Buy	7	26.92%
Neutral	26	48.15%	Neutral	7	26.92%
Sell	2	3.70%	Sell	0	0.00%

Investment Rating Distribution: Engineering & Construction Group (as of 31 Mar 2006)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	11	64.71%	Buy	4	36.36%
Neutral	6	35.29%	Neutral	1	16.67%
Sell	0	0.00%	Sell	0	0.00%

Investment Rating Distribution: Health Care Group (as of 31 Mar 2006)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	95	43.78%	Buy	26	27.37%
Neutral	106	48.85%	Neutral	28	26.42%
Sell	16	7.37%	Sell	0	0.00%

Investment Rating Distribution: Industrials/Multi-Industry Group (as of 31 Mar 2006)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	32	58.18%	Buy	8	25.00%
Neutral	19	34.55%	Neutral	5	26.32%
Sell	4	7.27%	Sell	0	0.00%

Investment Rating Distribution: Media & Entertainment Group (as of 31 Mar 2006)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	50	35.21%	Buy	14	28.00%
Neutral	86	60.56%	Neutral	22	25.58%
Sell	6	4.23%	Sell	4	66.67%

Investment Rating Distribution: Steel Group (as of 31 Mar 2006)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	13	40.63%	Buy	2	15.38%
Neutral	17	53.13%	Neutral	3	17.65%
Sell	2	6.25%	Sell	0	0.00%

Investment Rating Distribution: Technology Group (as of 31 Mar 2006)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	94	39.33%	Buy	22	23.40%
Neutral	135	56.49%	Neutral	20	14.81%
Sell	10	4.18%	Sell	2	20.00%

Investment Rating Distribution: Telecommunications Group (as of 31 Mar 2006)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	61	42.66%	Buy	31	50.82%
Neutral	71	49.65%	Neutral	20	28.17%
Sell	11	7.69%	Sell	4	36.36%

Investment Rating Distribution: Transport/Infrastructure Group (as of 31 Mar 2006)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	57	50.00%	Buy	19	33.33%
Neutral	39	34.21%	Neutral	9	23.08%
Sell	18	15.79%	Sell	2	11.11%

Investment Rating Distribution: Utilities Group (as of 31 Mar 2006)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	44	36.97%	Buy	22	50.00%
Neutral	65	54.62%	Neutral	32	49.23%
Sell	10	8.40%	Sell	3	30.00%

Investment Rating Distribution: Global Group (as of 31 Mar 2006)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1145	40.29%	Buy	393	34.32%
Neutral	1474	51.86%	Neutral	430	29.17%
Sell	223	7.85%	Sell	44	19.73%

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