Earnings Preview (Apr-Jun 2009)

IDFC - SSKI Research

91-22-66383333

July 2009

Q1FY10E Highlights

Sensex earnings likely to decline by 5.7% for the third consecutive quarter; IDFC-SSKI Universe earnings to grow 10.2% (buoyed by OMC profitability) but ~1% decline ex-Oil & Gas

Commodities drive overall earnings decline on a high base achieved in Q1FY09; muted topline growth (4.8% for Sensex and 13.5% for IDFC-SSKI Universe)

End of margin compression cycle;
Sensex operating margins remain steady, IDFC-SSKI Universe witnesses margin expansion of 60bp

Robust earnings growth expected for Construction (up 26.7%), Financials (~28%) & Power equipment (~17%); Consumer Goods and Pharmaceuticals earnings remain healthy

Automobiles, IT Services and Telecom expected to report muted earnings growth;
Auto Components, Logistics and Media to witness earnings decline

With Union Budget behind us, focus to return to earnings;
Sensex earnings to decline in H1FY10 before reviving in H2FY10,
25% yoy growth expected in FY11

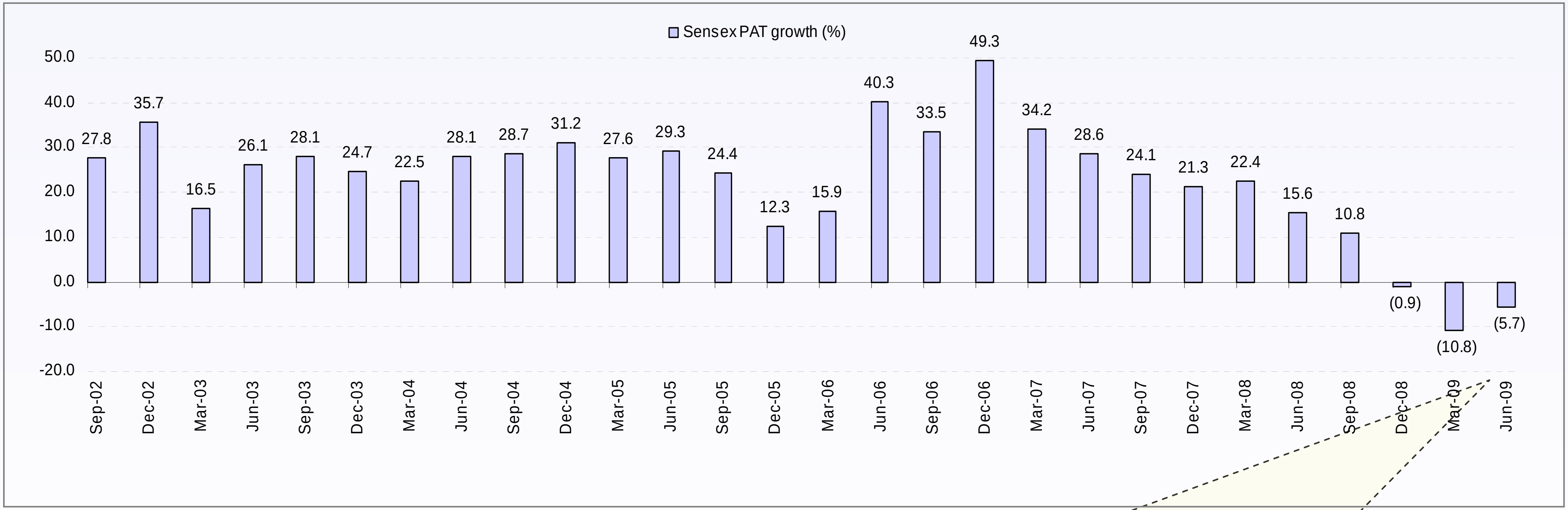
Sensex earnings likely to be lower 5.7% yoy in Q1FY10

- Commodities earnings estimated to decline 20.6% yoy on a high base
- Power Equipment (up 28.7%) and Construction (27.2%) to report highest earnings growth
- We expect Consumer Goods (up 16.8%) and Financials (13.8%) to report modest earnings growth
- Automobiles, Cement, Utilities earnings to remain muted
- Real Estate likely to be the worst performer (a 75% decline yoy)

(Rs m)	Net Sales			EBITDA			Profit After Tax#		
Sector	**Q1FY10E**	**Q1FY09**	**% chg yoy**	**Q1FY10E**	**Q1FY09**	**% chg yoy**	**Q1FY10E**	**Q1FY09**	**% chg yoy**
Automobiles	115,076	100,793	14.2	12,284	9,993	22.9	7,944	8,005	(0.8)
Cement	31,135	29,615	5.1	8,100	8,067	0.4	5,304	5,444	(2.6)
Construction	84,954	67,856	25.2	10,472	7,477	40.0	6,356	4,999	27.2
Consumer Goods	52,172	48,376	7.8	13,301	11,067	20.2	9,273	7,942	16.8
Metals	87,257	96,445	(9.5)	20,580	34,647	(40.6)	10,522	19,552	(46.2)
Oil & Gas	33,251	40,104	(17.1)	17,540	17,917	(2.1)	8,802	13,273	(33.7)
Petrochemicals	207,488	207,895	(0.2)	38,860	24,850	56.4	22,061	20,550	7.4
Pharmaceuticals	4,248	4,167	1.9	1,712	2,152	(20.4)	1,597	2,149	(25.7)
Power Equipment	18,940	15,152	25.0	1,882	1,308	43.9	1,731	1,345	28.7
Power Utilities	46,482	42,120	10.4	7,933	6,639	19.5	7,355	6,894	6.7
Software	74,313	69,210	7.4	20,235	18,708	8.2	16,893	15,804	6.9
Telecoms	58,609	48,319	21.3	23,692	20,203	17.3	11,979	11,717	2.2
Real Estate	3,197	9,527	(66.4)	1,601	5,861	(72.7)	1,148	4,760	(75.9)
(Rs m)	**NII**			**Pre-provisioning profit**			**Profit After Tax**		
Financials	66,979	63,629	5.3	52,791	49,643	6.3	25,984	22,823	13.8
Commodities	*359,131*	*374,059*	*(4.0)*	*85,079*	*85,481*	*(0.5)*	*46,689*	*58,819*	*(20.6)*
Non-commodities	*524,970*	*469,150*	*11.9*	*145,903*	*133,051*	*9.7*	*90,261*	*86,440*	*4.4*
Sensex	884,102	843,209	4.8	230,982	218,532	5.7	136,951	145,258	(5.7)

...a third consecutive quarter of decline

Rolling quarter Sensex earnings growth



- ✓ We expect Sensex earnings to decline 5.7%yoy in Q1FY10 on a high base of Q1FY09
- ✓ Earnings decline significant in commodities and real estate
- ✓ Automobiles, cement showing signs of improvement

IDFC-SSKI Universe earnings set to grow 10.2% yoy...

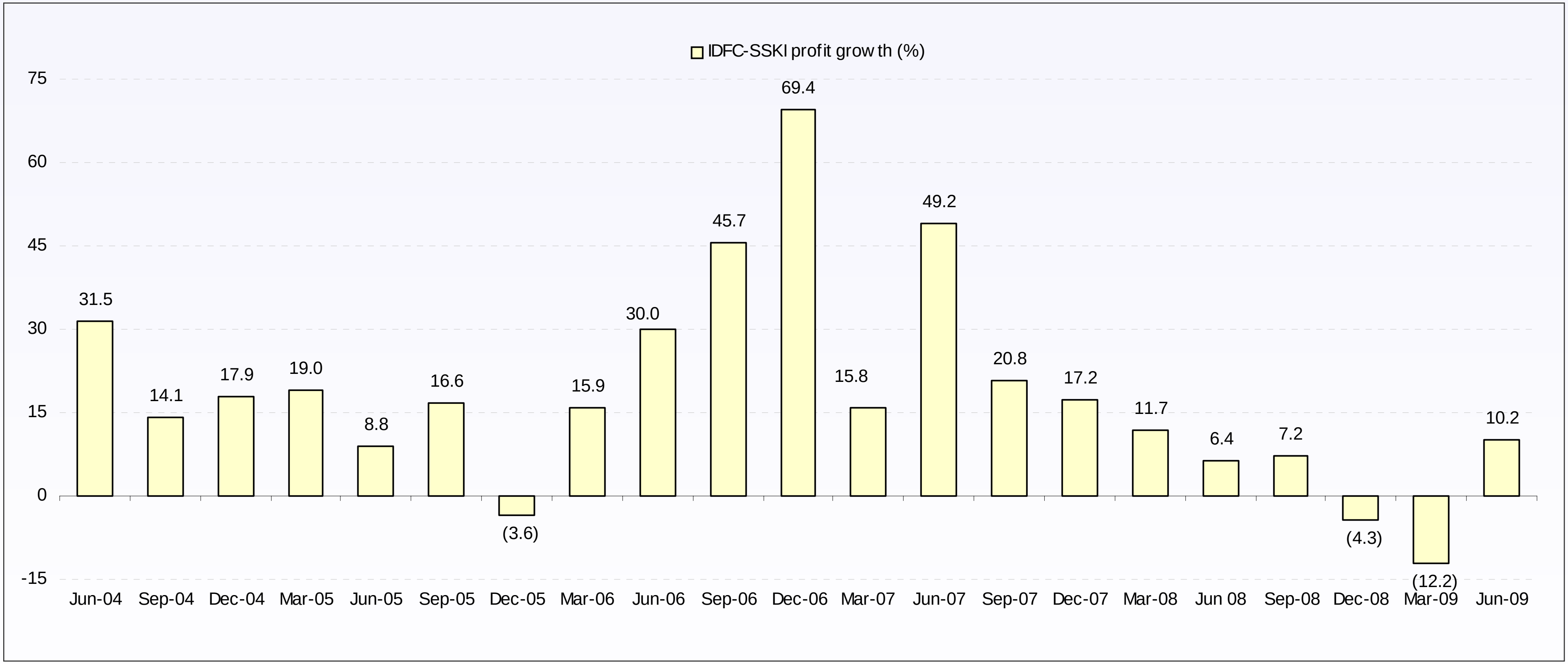
(Rs m)	Net Sales			EBITDA			Profit After Tax#		
Sector	Q1FY10E	Q1FY09	% chg yoy	Q1FY10E	Q1FY09	% chg yoy	Q1FY10E	Q1FY09	% chg yoy
Alcoholic Beverages	16,907	14,880	13.6	2,932	2,792	5.0	1,288	1,397	(7.8)
Auto Components	34,327	46,334	(25.9)	3,971	7,156	(44.5)	677	3,189	(78.8)
Automobiles	244,761	229,247	6.8	27,140	22,324	21.6	16,845	17,034	(1.1)
Cement	81,157	75,076	8.1	23,269	21,134	10.1	14,839	13,832	7.3
Construction	149,932	120,713	24.2	19,036	13,738	38.6	9,692	7,652	26.7
Consumer goods	122,309	111,323	9.9	27,047	22,433	20.6	19,299	16,380	17.8
Education	4,302	3,512	22.5	1,114	726	53.4	396	368	7.7
Exchanges	800	440	81.8	290	91	218.0	313	73	330.4
Engineering	26,442	23,849	10.9	3,240	3,129	3.5	2,073	2,131	(2.7)
Logistics	15,992	16,041	(0.3)	3,357	3,513	(4.4)	2,471	2,719	(9.1)
Infra Developers	14,844	11,392	30.3	5,377	4,159	29.3	1,845	1,968	(6.3)
Media	27,234	26,347	3.4	4,386	4,952	(11.4)	(229)	1,818	(112.6)
Metals	327,622	362,899	(9.7)	76,647	118,532	(35.3)	43,575	71,660	(39.2)
Oil & Gas	1,162,156	1,574,229	(26.2)	61,752	843	7,227.0	22,157	(15,094)	(246.8)
Others	91,965	94,888	(3.1)	9,427	3,972	137.3	1,478	(402)	(467.8)
Pharmaceuticals	102,856	90,347	13.8	20,456	20,993	(2.6)	26,126	13,669	91.1
Pipes	40,016	31,119	28.6	5,148	4,863	5.9	2,301	2,277	1.1
Power Equipment	105,504	87,637	20.4	10,982	8,772	25.2	8,020	6,872	16.7
Power Utilities	182,327	153,777	18.6	34,140	28,260	20.8	28,983	26,223	10.5
Retail	29,922	25,678	16.5	2,550	2,006	27.1	565	464	21.8
Software	229,230	212,794	7.7	54,294	50,781	6.9	41,223	38,373	7.4
Telecoms	199,070	159,836	24.5	76,335	64,926	17.6	37,103	36,108	2.8
Tyre	14,502	13,731	5.6	1,828	1,809	1.1	772	829	(6.9)
Real Estate	20,562	48,433	(57.5)	11,086	29,538	(62.5)	7,303	23,275	(68.6)
(Rs m)	**NII**			**Pre-provisioning profit**			**Profit After Tax**		
Financial	214,982	186,837	15.1	173,824	147,478	17.9	83,636	65,405	27.9
Commodities	**1,570,936**	**2,012,204**	**(21.9)**	**161,668**	**140,509**	**15.1**	**80,570**	**70,398**	**14.4**
Non-commodities	**1,888,786**	**1,709,156**	**10.5**	**497,961**	**448,409**	**11.1**	**292,180**	**267,821**	**9.1**
SSKI Universe	**3,459,723**	**3,721,360**	**(7.0)**	**659,629**	**588,918**	**12.0**	**372,750**	**338,219**	**10.2**

IDFC-SSKI Universe earnings buoyed by Oil & Gas (OMCs expected to return to profitability); ex-Oil & Gas, earnings to decline ~1% yoy

IDFC SSKI

...the signs of recovery

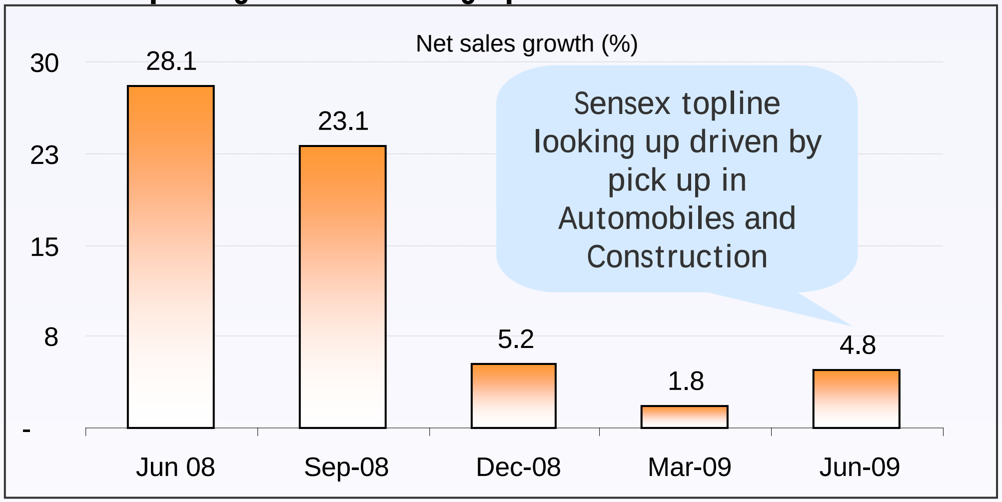
Rolling quarter IDFC-SSKI Universe earnings growth



Financials (mix of treasury gains and healthy NII growth), Construction and Power Equipment (robust momentum driven by election impact) continue to register healthy growth

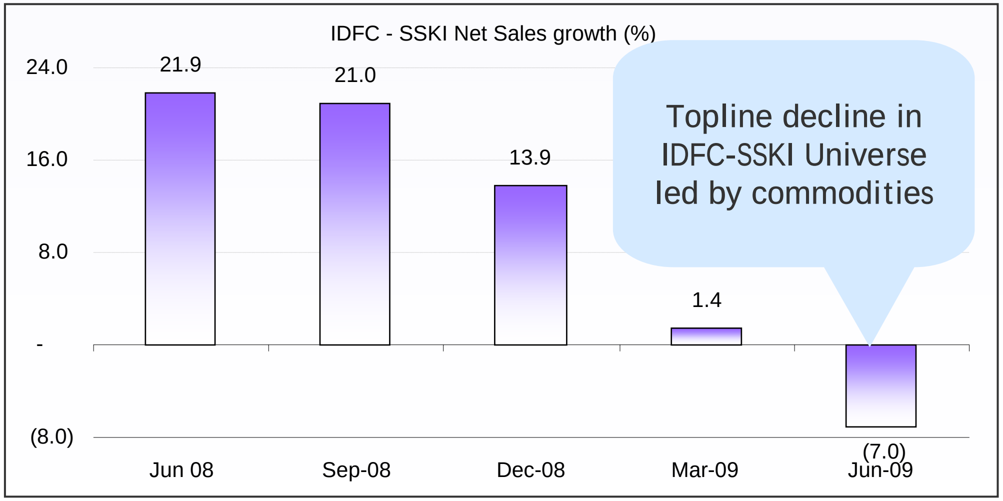
Topline slowdown continues

Sensex topline growth - looking up



- Commodities - ~4%yoy decline estimated in revenues for Q1FY10
- Power equipment and construction to witness ~25% yoy revenue growth driven by strong order execution
- Sustained subscriber growth to drive Telecom revenues (+21.3% yoy)
- Financials (+5.3% yoy) to remain subdued due to lower credit off-take in the quarter

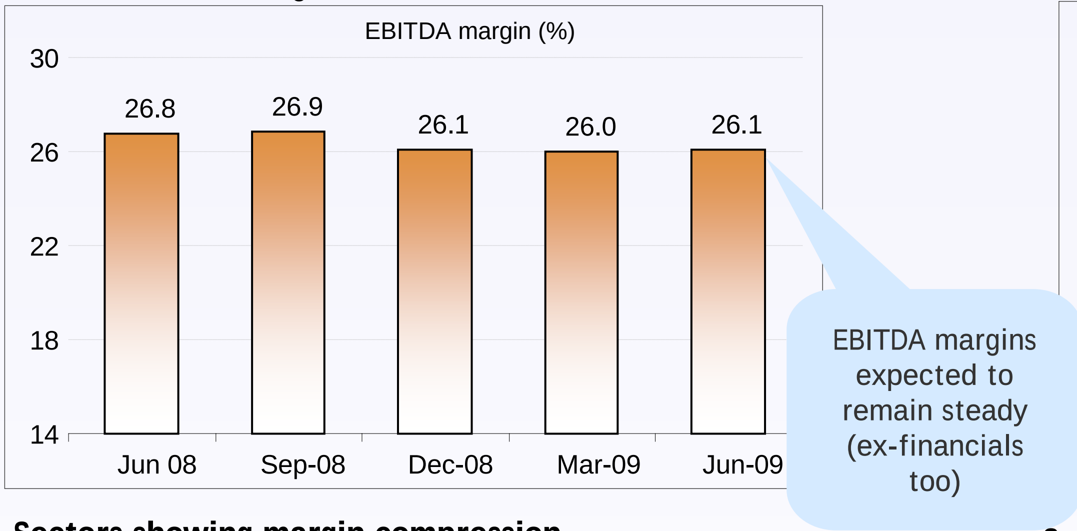
IDFC-SSKI Universe topline - a sharp decline



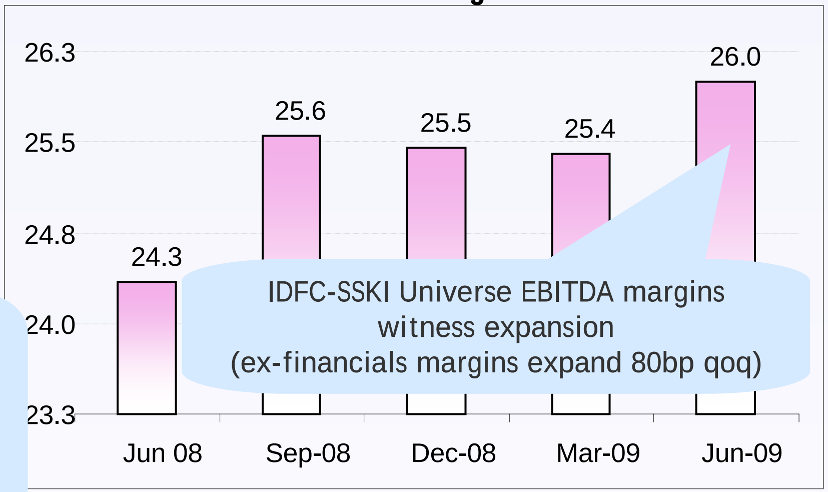
- Strong revenue expansion likely for power equipment (20% yoy) and construction (24%)
- Auto components remain in the negative zone (decline of 26%yoy), while automobiles witness muted growth (+6.8% yoy)
- Pharmaceuticals (13.8% yoy), consumer goods(10% yoy) & retail (16.5% yoy) to report healthy growth
- Cement, Media & IT services revenues to remain subdued
- Metals, Oil & Gas expected to report revenue decline

Margin compression cycle – coming to an end

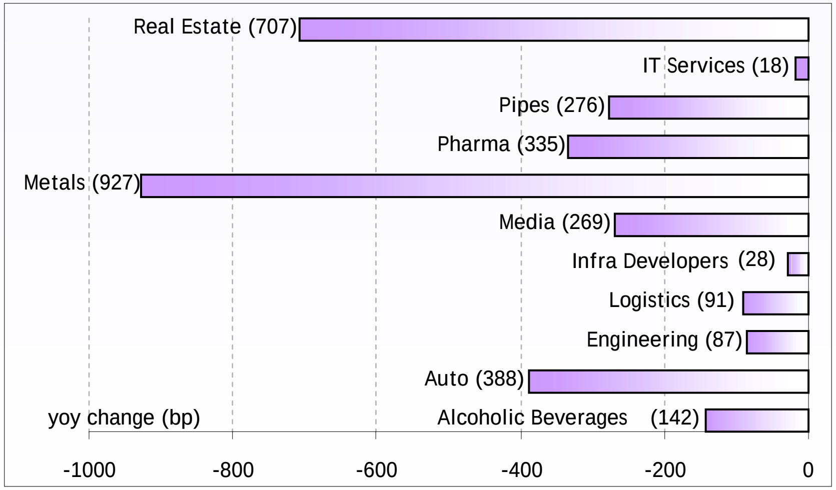
Sensex EBITDA margins



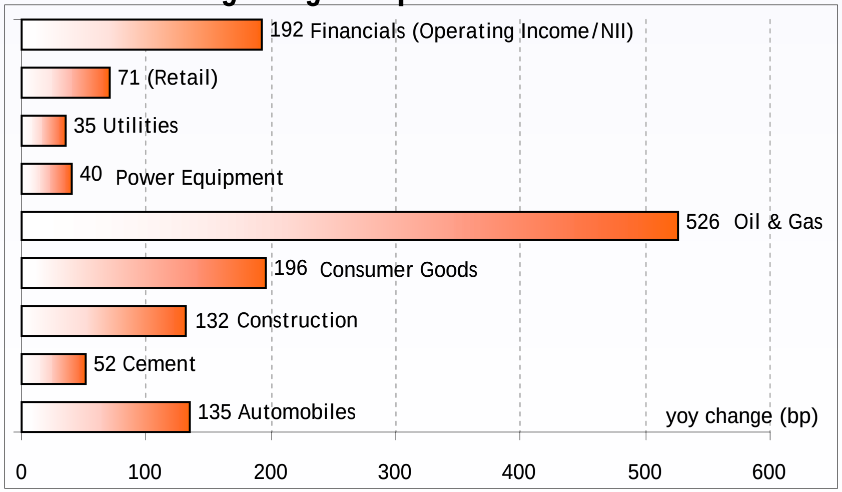
IDFC-SSKI Universe EBITDA Margins



Sectors showing margin compression



Sectors showing margin improvement



Margin expansion to set in driven by lower commodity prices and a semblance of operating leverage

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IDFC-SSKI Winners & Losers

Winners

- **Power equipment :** High-visibility on order backlogs and expansion in operating margins to ensure strong earnings growth
- **Construction:** Robust order momentum (impact of fiscal stimulus) and expansion in operating margins
- **Financials:** robust treasury gains for PSU banks, and healthy growth in NII and non-trading income for private banks
- **Consumer Goods:** Strong volume momentum in rural India to drive earnings of mid-tier companies

Losers

- **Auto ancillaries:** Weak outlook on exports continues to impact business significantly
- **Logistics:** Impacted by lower freight rates and muted volumes
- **Media:** Declining ad spends (barring some gains from election advertising and IPL), high competition to exert continued pressure on business
- **Real Estate:** Though volumes have improved, high leverage and reduction in prices will keep earnings growth some time away

FY10E earnings - muted growth likely

% yoy growth	FY10E			FY11E		
	Sales	EBITDA	PAT	Sales	EBITDA	PAT
Automobiles	10.2	34.9	82.9	13.2	32.2	87.0
Cement	3.8	5.8	1.5	9.9	0.7	0.8
Construction	25.4	34.3	8.5	23.5	26.8	36.0
Consumer goods	2.3	17.7	18.9	14.5	14.6	14.7
Financial	13.8	16.9	14.0	15.7	18.1	20.8
Metals	(33.6)	(39.8)	(70.9)	17.1	49.1	225.2
Oil & Gas	11.9	14.1	2.1	(10.8)	(7.9)	(6.5)
Petrochemicals	34.2	47.3	4.8	15.4	27.5	29.0
Pharmaceuticals	3.7	(6.5)	(11.2)	19.9	9.9	9.9
Power Equipment	19.2	42.9	34.2	20.4	28.0	33.0
Power Utilities	15.2	24.8	19.3	18.2	16.5	13.4
Real Estate	(33.5)	(46.0)	(52.0)	27.4	32.0	32.9
Software	(1.4)	(11.4)	(8.9)	5.8	6.2	5.2
Telecoms	22.3	19.5	7.9	15.1	14.3	11.4
Sensex	**0.7**	**8.8**	**0.5**	**14.4**	**20.1**	**25.3**

Sensex PAT growth to remain muted in FY10E; expect FY11E Sensex earnings growth at 25.3%, Sensex EPS for FY10 & FY11 expected to be Rs813 and Rs1,019 respectively

Sector-wise earnings preview (Q1FY10)

Q1FY10 earnings preview

Agri-related

Jain Irrigation Systems (JISL)

- ✓ JISL revenue growth expected at 18% - while MIS growth remains strong at 35%+, piping business to get impacted by lower realization and slow down in telecom projects
- ✓ While fruit processing expected to show 25%+ of growth, onion dehydration would see a decline on account of lower exports
- ✓ Better mix to continue to help margin improvement – EBIDTA margin expansion of 30bp
- ✓ PBT growth expected at 19% however, operational PAT lower on account of full tax provisioning
- ✓ Expected to report Rs100m of MTM gains as against Rs220m of MTM losses in Q1FY09
- ✓ Jain Irrigation has received Rs1.5bn of order from Coca Cola for FY10
- ✓ Reiterate Outperformer

Ruchi Soya Industries

- ✓ While edible oil prices improve qoq, prices remain lower by 40% on yoy basis
- ✓ Overall revenue growth expected to be at 9% led by significantly higher refining volumes
- ✓ With crushing spread turning negative (Soya Seed prices lower by 13%yoy), we see higher dependence on palm oil refining
- ✓ This would reflect in EBITDA margins – expected to be lower by 170bp at 2.1%; however, better that Q4FY09 margins
- ✓ Maintain Underperformer

Q1FY10 earnings preview

Agri-related

Company	Key monitorables
Jain Irrigation Systems	MIS business growth
Ruchi Soya	EBITDA margins

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q1FY10E	Q1FY09	% chg yoy	Q1FY10E	Q1FY09	% chg yoy	Q1FY10E	Q1FY09	% chg yoy
Jain Irrigation Systems*	5,597	4,743	18.0	1,105	924	19.6	516	296	74.1
Ruchi Soya	30,481	27,965	9.0	637	1,063	(40.1)	226	426	(47.1)

**Reported PAT including MTM gains of Rs100m vs Rs220m losses*

Q1FY10 earnings preview

Agri-inputs

United Phosphorus

- ✓ UPL expected to report healthy earnings growth of 17.3% yoy on a high-base achieved in Q1FY09.

Advanta

- ✓ Expect Advanta to report a earnings growth of 15.2% yoy. Q2 is a key quarter for Advanta due to sowing season in India

Company	Key monitorables
Advanta	Margins, impact on monsoon delay
United Phosphorus	Impact of monsoon delay in India; pricing outlook, ,margins

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q1FY10E	Q1FY09	% chg yoy	Q1FY10E	Q1FY09	% chg yoy	Q1FY10E	Q1FY09	% chg yoy
Advanta	2,139	1,824	17.3	523	450	16.2	261	226	15.2
United Phosphorus	14,552	12,993	12.0	2,838	2,509	13.1	1,705	1,454	17.3

Q1FY10 earnings preview

Alcoholic Beverages

- ✓ Alcoholic Beverages sector expected to witness healthy volume led growth, however general elections during the quarter have delayed price hikes
- ✓ We expect industry volume growth at 10% with United Spirits' volumes growing by 13-14%
- ✓ United Breweries' revenue to be impacted by discontinuation of sales to Andhra Pradesh during the quarter; AP accounts for 40% of the revenues during the quarter.
- ✓ United Spirits to continue to witness margin contraction as molasses prices move up further to Rs6000+/tonne
- ✓ On the other hand, United Breweries would see margin expansion with barley prices lower by 50% yoy (at USD120/tonne)
- ✓ United Spirits has placed 10.3m of the total 18.6m treasury stocks through a secondary market transaction; has raised Rs9bn
- ✓ Maintain our Neutral stance on United Spirits and United Breweries

Company	Key monitorables
United Spirits	Gross margins & EBITDA margins

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q1FY10E	Q1FY09	% chg yoy	Q1FY10E	Q1FY09	% chg yoy	Q1FY10E	Q1FY09	% chg yoy
United Breweries	5,221	4,746	10.0	896	639	40.2	331	226	46.6
United Spirits	11,686	10,134	15.3	2,037	2,152	(5.4)	944	1,171	(19.4)

Q1FY10 earnings preview

Automobiles

- ✓ Expect strong operating level performance by 2W / PV majors; performance of CV majors likely to remain under pressure due to muted volume offtake in Q1FY10
- ✓ Expect substantial margin improvement for Bajaj Auto (even on sequential basis) primarily on account of higher export realisation, benefit from softening Aluminium prices and improved product mix
- ✓ Hero Honda to write-off IPL expenses of ~Rs0.3bn in Q1FY10, however, strong volume growth and softening raw material prices would aid margin expansion
- ✓ Expect robust operating performance (up 290bps qoq) from Maruti Suzuki (MSIL) led by strong volume growth and favorable currency movement
- ✓ Tata Motors likely to post better earnings primarily led by higher other income from profit (of ~Rs3bn) on sale of Tata Steel shares to Tata Sons
- ✓ Automobile companies within our coverage universe (excluding performance of CV majors) likely to post 21%yoy PAT growth led by 24%yoy topline growth and margin expansion. Due to the sustained pressure on margins on CVs, the overall automobile sector is likely to witness a marginal 1%yoy decline in PAT

Q1FY10 earnings preview

Automobiles

Company	Key monitorables
Two wheeler majors	Expect margin expansion led by softening raw material prices
Ashok Leyland / Tata Motors	Lower M&HCV volumes likely to impact margins
Mahindra & Mahindra	Strong volume growth (both in UVs and tractors) likely to lead to margin expansion
Maruti Udyog	Sharp volume recovery and favorable currency movement likely to lead to 290bps qoq margin expansion

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q1FY10E	Q1FY09	% chg yoy	Q1FY10E	Q1FY09	% chg yoy	Q1FY10E	Q1FY09	% chg yoy
Ashok Leyland	9,200	18,839	(51.2)	708	1,511	(53.2)	25	765	(96.8)
Bajaj Auto	22,905	23,108	(0.9)	4,100	2,671	53.5	2,515	1,752	43.6
Hero Honda Motors	38,380	28,435	35.0	6,348	3,410	86.2	4,633	2,728	69.8
Mahindra & Mahindra	42,687	32,934	29.6	4,875	3,248	50.1	2,930	2,175	34.7
Maruti Suzuki	60,473	47,536	27.2	6,019	5,867	2.6	3,625	4,784	(24.2)
Tata Motors	61,154	69,284	(11.7)	4,445	5,305	(16.2)	2,942	4,760	(38.2)
TVS Motor Company	9,962	9,111	9.3	645	312	106.6	176	70	150.6

Q1FY10 earnings preview

Auto Ancillaries

- ✓ For most of the component majors, while domestic volumes are likely to pick-up on sequential basis, sharp decline in export volumes would continue to impact earnings
- ✓ Expect component majors within our coverage space to post 21%yoy decline in topline
- ✓ Lower volume offtake would likely negate the benefit from softening raw material prices and hence keep margins under pressure
- ✓ For tyre companies, strong demand from the replacement segment and lower raw material prices (especially rubber and crude oil) would likely boost margins
- ✓ Overall, expect 57%yoy PAT decline for our coverage space primarily due to lower offtake

Company / Industry	Key monitorables
Amtek Auto / Bharat Forge	Sharp fall in export volumes & muted offtake from its subsidiaries would likely keep margins under pressure
Rico Auto	Higher volume offtake (especially from Hero Honda & Maruti) would help improve margins on a sequential basis, however, subsidiary performance likely to keep earnings muted
Tyre companies	Likely to benefit from sharp decline in raw material prices and strong replacement demand
Sundram Fasteners	Lower CV offtake would lead to sustained margin pressure

Q1FY10 earnings preview

Auto Ancillaries

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q1FY10E	Q1FY09	% chg yoy	Q1FY10E	Q1FY09	% chg yoy	Q1FY10E	Q1FY09	% chg yoy
Amtek Auto	8,115	13,284	(38.9)	1,501	2,058	(27.1)	217	765	(71.6)
Bharat Forge	8,798	13,113	(32.9)	563	2,045	(72.5)	(177)	874	(120.2)
BOSCH	10,360	12,251	(15.4)	1,356	2,086	(35.0)	657	1,236	(46.8)
Rico Auto Industries	2,554	2,345	8.9	151	281	(46.4)	(59)	53	(213.0)
Sona Koyo Steering Systems	1,833	1,704	7.6	110	95	15.6	(32)	(1)	3,920.4
Sundram Fasteners	2,667	3,637	(26.7)	290	590	(50.9)	72	263	(72.7)
Apollo Tyres	11,428	10,759	6.2	1,218	1,098	10.9	531	486	9.2
Balkrishna Industries	3,074	2,972	3.4	610	711	(14.2)	241	343	(29.7)

Q1FY10 earnings preview

Cement

- ✓ Revenues of cement companies to grow by 8.1% in Q1FY10 due to strong volume growth and stable realizations
- ✓ EBITDA of our cement universe likely to increase by 10.1% yoy, led mainly by higher volumes
- ✓ Pre-exceptional earnings for cement companies under our coverage to grow by only 7.3%, mainly due to fall in Grasim's earnings led by lower VSF volumes and sale of sponge iron business
- ✓ We reiterate our Underweight stance on the sector due to oversupply concerns in FY10
  - Certain large capacities have already been commissioned, while visibility on other large projects is high
- ✓ Retain Grasim as Outperformer on the back of the cushion to earnings from non-cement businesses

Q1FY10 earnings preview

Cement

Company	Key monitorables
ACC	Industry capacity additions and price trends
Grasim	Industry capacity additions and price trends
Gujarat Ambuja	Industry capacity additions and price trends
Ultratech Cement	Industry capacity additions and price trends

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q1FY10E	Q1FY09	% chg yoy	Q1FY10E	Q1FY09	% chg yoy	Q1FY10E	Q1FY09	% chg yoy
ACC*	19,611	18,495	6.0	5,796	4,413	31.3	3,791	2,887	31.3
Grasim Industries	27,132	25,923	4.7	6,549	7,520	(12.9)	4,292	5,142	(16.5)
Ambuja Cement*	17,717	15,698	12.9	5,781	4,743	21.9	3,722	3,153	18.0
Ultratech Cement	16,698	14,960	11.6	5,143	4,458	15.4	3,034	2,650	14.5

** 2QCY09 estimates*

Q1FY10 earnings preview

Construction

- ✓ Construction companies to report revenue growth of 24.2% yoy for the quarter driven by strong order backlogs
- ✓ Operating margin to improve by +132bps, mainly due to growth in revenues and stable input costs
- ✓ Interest costs to remain high due to higher levels of debt for funding working capital and higher average cost of borrowing on a yoy basis
- ✓ Earnings (pre-exceptional) likely to improve 26.7% yoy during the quarter
  - High growth coupled with improvement in margins of Jaiprakash Associates more than compensates for decline in earnings for IVRCL (new MAT rate effect)
- ✓ We maintain our overweight stance on the sector with our top picks being Jaiprakash, IVRCL, NCC

Q1FY10 earnings preview

Construction

Company	Key monitorables
L&T	Order inflows and margin improvement
Jaiprakash	Commissioning of cement capacities, Construction business margins
HCC	Order backlog growth and margins
Madhucon	Revenue growth and margins
NCC	Revenues and Order backlog growth; margins
IVRCL	Revenue growth and margins
Simplex	Order execution of private sector orders; Order backlog growth and margins

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q1FY10E	Q1FY09	% chg yoy	Q1FY10E	Q1FY09	% chg yoy	Q1FY10E	Q1FY09	% chg yoy
HCC	10,213	8,655	18.0	1,282	907	41.3	242	195	24.1
IVRCL Infrastructures	12,070	9,285	30.0	1,110	820	35.4	411	435	(5.6)
Jaiprakash Associates	17,226	11,487	50.0	5,370	3,123	72.0	2,248	1,273	76.6
Larsen & Toubro	84,824	69,014	22.9	8,652	6,574	31.6	5,814	4,847	19.9
Madhucon Project	2,780	2,397	16.0	369	336	9.9	161	148	8.8
Nagarjuna Construction	10,875	9,709	12.0	1,000	916	9.3	415	371	12.0
Simplex Infrastructures	11,946	10,167	17.5	1,252	1,064	17.7	401	383	4.7

Q1FY10 earnings preview

Education

- ✓ The education stocks had witnessed a sharp ~30% run up amidst prebudget expecations. While the budget for education was not upto the mark (only a Rs9bn allocation for ICT which is factored in our earnings), we expect the growth in private spends ($50bn; expected to go to $80bn tin 2012) to continue.
- ✓ At a standalone level, we expect Educomp Solutions to post a 'Smart Class' led growth - a 69% growth in revenues at Rs1.1bn, a 56% growth in EBITDA at Rs710m and a 44% growth in PAT at Rs241m.
- ✓ With no significant ICT orders in the quarter (as in the last 2 quarters) Everonn Systems is expected to post a 35.2% growth in revenues at Rs301m and a flat growth in PAT at Rs31m
- ✓ NIIT Ltd is expected to post a 42.7% decline in core profits at Rs46.4m and a 27% decline in PAT after associate at Rs124m

Company	Key monitorables
Educomp Solution	Margins and debtor days in the ICT segment
NIIT	Margins in the CLS (Corporate Learning Solutions) business and losses in the new initiatives
Everonn Systems	Ability to close ICT contracts; Margins and debtor days in the ICT segment

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q1FY10E	Q1FY09	% chg yoy	Q1FY10E	Q1FY09	% chg yoy	Q1FY10E	Q1FY09	% chg yoy
Educomp Solution	1,173	694	68.9	710	455	56.1	241	168	43.7
NIIT	2,829	2,595	9.0	311	187	66.4	124	169	(26.8)
Everonn Systems	301.1	223	35.2	92	84	9.9	31.0	30.7	1.0

Q1FY10 earnings preview

Engineering

- ✓ Engineering companies to report growth in revenues of 11% yoy driven by execution of orders (Elecon and Voltas) and addition of capacities (AIA and CUMI)
  - Thermax to have muted revenues on back of lower order backlog and slower execution during the quarter
- ✓ Operating margins to fall led by change in revenue mix (Voltas and Elecon) as also higher RM costs (CUMI)
  - Margins to improve for Thermax (+60bps) led by operating efficiencies
  - Elecon (-100bps) and Voltas (-90bps) margins to fall on back of change in revenue mix towards low margin revenues
  - AIA margins to fall by 260bps led by high base effect and higher costs

Company	Key monitorables
Thermax	Order inflow
Voltas	Execution of international orders
Elecon engg	Execution
AIA	Realizations and margins
Carborundum	VAW margins

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q1FY10E	Q1FY09	% chg yoy	Q1FY10E	Q1FY09	% chg yoy	Q1FY10E	Q1FY09	% chg yoy
AIAE	2,300	1,999	15.1	557	535	4.0	382	398	(3.9)
Carborundum Universal	3,212	2,926	9.8	475	464	2.6	223	225	(0.8)
Elecon Engineering	2,024	1,686	20.0	324	287	12.8	79	122	(35.4)
Thermax India	6,883	7,170	(4.0)	1,067	1,067	(0.0)	728	746	(2.5)
Voltas	12,023	10,067	19.4	818	776	5.3	661	640	3.3

Q1FY10 earnings preview

Entertainment & Media

- ✓ Overall IEM space continues to remain under pressure, barring some gains from election advertising and IPL; overall IEM coverage expected to grow by a mere 3.4%yoy
- ✓ Unlike earlier, gains of political advertising would not be flowing in as much to the print companies as much to the GEC and news broadcasting space
- ✓ Zee Entertainment to see decline of 25% in advertising revenues as revised contracts come into effect as also impact of IPL
- ✓ Fight for the top slot in GEC space is intensifying with reducing gap between Colors, Zee and Star. In the last week of June, Colors and Zee shared the top slot, while Star got relegated to third spot
- ✓ In the print media, gains from elections would get offset by decline in advertising spends by other advertisers. While Jagran would see substantial gains of lower newsprint prices, gains for HT Media is limited as it carries higher priced inventory
- ✓ Multiplex industry is hit the most by the dispute between film producers and multiplex operators over revenue sharing arrangements and poor movie line up; PVR expected to incur Rs100m of losses
- ✓ Maintain negative bias on entire media space

Company	Key monitorables
Zee Entertainment	Advertising revenue decline
TV18	Business news broadcasting performance

Q1FY10 earnings preview

Entertainment & Media

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q1FY10E	Q1FY09	% chg yoy	Q1FY10E	Q1FY09	% chg yoy	Q1FY10E	Q1FY09	% chg yoy
Balaji Telefilms	408	916	(55.5)	(35)	318	(111.1)	(27)	223	(112.3)
Dish TV India	2,237	1,645	36.0	87	(666)	-	(770)	(1,254)	-
Entertainment Network	941	1,070	(12.0)	(34)	29	(216.0)	(205)	(92)	-
IBN18 Broadcast	500	301	66.1	(75)	(62)	20.9	(148)	(118)	-
HT Media	3,494	3,342	4.6	624	758	(17.6)	238	390	(39.1)
Jagran Prakashan	2,209	2,065	7.0	594	496	19.7	358	316	13.3
New Delhi Television	1,230	1,194	3.0	(880)	(919)	-	(1,070)	(1,114)	-
Prime Focus	824	849	(3.0)	25	197	(87.5)	(76)	102	(173.9)
PVR	434	602	(27.9)	(33)	97	(134.3)	(103)	39	(366.0)
Sun TV Network	2,526	2,236	13.0	1,976	1,683	17.4	1,103	1,025	7.6
T.V. Today Network	641	641	-	146	131	12.1	116	92	26.7
Television Eighteen	1,223	930	31.5	(195)	167	(216.8)	(460)	(53)	-
UTV Software	915	1,358	(32.6)	(105)	165	(163.5)	(225)	199	(21.3)
Wire And Wireless India	746	716	4.2	48	1	-	(227)	(183)	23.8
Zee Entertainment	5,104	5,420	(5.8)	1,379	1,442	(4.4)	857	973	(11.9)
Zee News	1,416	1,127	25.6	222	173	28.8	82	93	(11.4)

Q1FY10 earnings preview

Exchanges

Financial Technologies (FTIL)

- ✓ FTIL is expected to garner strong revenue growth of 82% on the back of higher booking of exchange solutions to group exchanges as also increasing penetration of trading solutions for exchange participants.
- ✓ With revenue mix skewed towards exchange solutions (>60% of revenues), EBITDA margins are expected to expand from 21% in Q1FY09 to 36% in Q1FY10.
- ✓ Thus, net profits on an operational basis is expected to register a 330% increase.
- ✓ Incrementally, 18% has been divested in MCX-SX in the current quarter of which FTIL's share is 9%. This implies capital gains to the tune of ~Rs1.2bn, which would accrue post fresh equity issuance by MCX-SX (process is on).
- ✓ Reiterate Outperformer with an SoTP based price target of Rs2,000.

Company	Key monitorables
Financial Technologies	Incremental divestment in MCX-SX

(Rs m)	Net Sales			EBITDA			Adjusted Profit after tax		
	Q1FY10E	Q1FY09	% chg yoy	Q1FY10E	Q1FY09	% chg yoy	Q1FY10E	Q1FY09	% chg yoy
Financial Technologies	800	440	81.8	290	91	218.0	313	73	330.4

Q1FY10 earnings preview

FMCG

- ✓ While overall FMCG sector expected to grow at 10% during the quarter, growth excluding HUL and ITC is at 15%
- ✓ Underlying volume growth for all the second tier consumer companies is 10%+ and entire growth is organic growth
- ✓ With de-stocking completed in March quarter and prices stabilizing for HUL, volumes are beginning to improve qoq, though remain in flattish zone. We expect 8% revenue growth for HUL
- ✓ HUL's margins expected to improve on the back of lower edible oil prices and correction in surfacants prices
- ✓ ITC's cigarettes business expected to witness 3% volume growth (completely filter portfolio) and FMCG business to grow at <20%
- ✓ ITC's hotel business continues to be witness decline, whereas ITC would continue to rationalize agri portfolio
- ✓ GCPL's revenues expected to grow at 18% with soaps business growing at 25%+; margins to improve by 330bp on the back of sharp correction in palm oil prices
- ✓ GCPL acquires 49% stake in Godrej Sara Lee from Godrej Industries, may further acquire 51% stake from Sara Lee

Q1FY10 earnings preview

FMCG

Company	Key monitorables
Godrej Consumer	Hair colour business volume growth, EBITDA margins
Hindustan Unilever	Volume growth
ITC	Cigarettes business volume growth, FMGC losses

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q1FY10E	Q1FY09	% chg yoy	Q1FY10E	Q1FY09	% chg yoy	Q1FY10E	Q1FY09	% chg yoy
Colgate-Palmolive	4,687	4,076	15.0	832	661	25.9	842	719	17.0
Dabur India	7,090	6,112	16.0	1,145	943	21.3	823	707	16.5
Godrej Consumer	4,267	3,616	18.0	710	496	43.2	565	391	44.4
Hindustan Unilever	45,529	42,157	8.0	7,287	6,354	14.7	6,107	5,401	13.1
ITC	42,010	38,997	7.7	13,796	11,272	22.4	8,828	7,488	17.9
Marico Industries	6,760	6,009	12.5	917	757	21.1	574	463	23.9
Nestle India	11,965	10,356	15.5	2,360	1,950	21.0	1,480	1,211	22.2

Q1FY10 earnings preview

Financials

We expect financials in our coverage to witness 28% yoy growth in Q1FY10, driven primarily by robust treasury gains for PSU banks and healthy growth in NII and non-trading income for private banks.

- ✓ **NII remains a mixed bag:** NII growth for our banking universe is seen at 14% yoy, buoyed by 22% yoy growth for private banks (ex-ICICI Bank) and ~28% yoy for NBFCs
  - **Declining wholesale borrowing costs:** Sharp decline in wholesale funding costs is likely to translate into robust NIMs and thereby NII performance for private banks and NBFCs. We are building in stable-to-improving NIMs on a qoq basis
  - **PSU banks face pressure points:** NII growth for our PSU universe is pegged at ~15% yoy
  - **Sluggish credit off-take to depress CD ratios:** Systemic credit growth has come-off to ~16% yoy in Q1FY10 from 25%+ in Q3FY09. Muted credit and strong deposit flow (at ~22% yoy) is likely to lead to low incremental CD ratios. The trend is likely to be more marked for PSU banks
  - **PLR reductions accentuate the stress:** PLR cuts affected during the quarter and the benefit of lower deposit rates accruing with a lag is likely to exert further pressure on margins
- ✓ **Uptick in CASA:** CASA ratio is expected to witness an uptick owing to declining term deposit rates
- ✓ **Other income to bolster earnings:** Overall non-interest income growth to remain robust on a yoy basis
  - Lower credit off-take is likely to dampen the fee income growth, specifically for PSU banks. Private banks may see healthy traction.
  - **Treasury gains to remain robust** on the back of volatile bond yields and transfer of securities from AFS to HTM. Buoyancy in equity markets is likely to aid treasury and drive MTM provision write-backs
  - Our numbers factor in conservative treasury gains, which offer an upside to our estimates
- ✓ **Incremental asset quality deterioration to be limited:** Applications pending for restructuring in FY09 are likely to have been completed in Q1FY10, and incremental deterioration is expected to be limited. As in Q4FY09, P&L impact is expected to be minimal
- ✓ **Provisions to remain elevated:** Provisions are expected to remain high at Q4FY09 levels as banks utilize treasury gains to make excess provisions. On the other hand, yoy increase is likely to be limited owing to high MTM provisions made in Q1FY09

Q1FY10 earnings preview

Financials

(Rs m)	NII			Operating profit			Profit After Tax		
	Q1FY10E	Q1FY09	% chg yoy	Q1FY10E	Q1FY09	% chg yoy	Q1FY10E	Q1FY09	% chg yoy
Allahabad Bank	5,458	4,955	10.2	4,220	3,067	37.6	1,683	934	80.3
Axis Bank	10,711	8,105	32.2	10,041	8,023	25.1	4,555	3,301	38.0
Bank of Baroda	13,571	10,570	28.4	10,566	8,602	22.8	5,104	3,709	37.6
Bank of India	13,587	11,808	15.1	12,443	10,724	16.0	6,148	5,620	9.4
Canara Bank	12,938	10,192	26.9	10,610	7,036	50.8	5,288	1,227	331.1
Corporation Bank	4,150	3,780	9.8	4,796	3,210	49.4	2,175	1,843	18.0
HDFC	8,953	7,114	25.8	8,475	6,598	28.4	5,757	4,681	23.0
HDFC Bank	20,066	17,235	16.4	14,232	10,275	38.5	5,758	4,644	24.0
ICICI Bank	20,611	20,898	(1.4)	23,074	17,140	34.6	7,924	7,280	8.8
IDBI	4,666	920	407.0	4,063	2,016	101.5	2,456	1,598	53.7
Indian Bank	6,206	5,395	15.0	5,675	4,366	30.0	2,587	2,176	18.9
ING Vysya Bank	1,716	1,580	8.6	1,321	1,047	26.2	510	406	25.4
MMFS	2,113	1,844	14.6	1,502	1,298	15.7	364	268	35.9
LIC Housing	2,214	1,497	47.9	2,177	1,543	41.1	1,446	1,047	38.2
PNB	18,473	14,448	27.9	13,691	9,824	39.4	7,004	5,124	36.7
Shri Ram Transport	5,268	4,059	29.8	3,748	2,849	31.6	1,754	1,436	22.2
State Bank of India	47,230	48,177	(2.0)	39,155	39,623	(1.2)	17,742	16,408	8.1
Syndicate Bank	6,090	5,033	21.0	3,974	2,938	35.3	1,478	879	68.1
Union Bank of India	9,322	8,100	15.1	7,022	6,160	14.0	3,152	2,283	38.0
Yes Bank	1,640	1,130	45.2	1,513	1,138	33.0	751	543	38.3

Q1FY10 earnings preview

Financials

Company	Key monitorables
Allahabad Bank	Treasury gains, NIMs, NPA provisions
Axis Bank	Fee income growth, NPA provisions
Bank of Baroda	Credit growth, fee income , MTM provision write-back
Bank of India	Loan growth, NIMs, CASA, NPA slippages
Canara Bank	NIMs, MTM depreciation write-back, NPA slippages
Corporation Bank	Loan growth, NIMs, CASA, MTM depreciation write-back
HDFC	Disbursement growth, spreads, NPA levels
HDFC Bank	NIMs, CASA, fee income growth, NPA provisions
ICICI Bank	NPA levels, CASA, asset growth, NIMs, Operating expenses
IDBI	Loan growth, profit on sale of investments, margins
Indian Bank	Business growth, MTM depreciation write-back, recoveries, restructured assets
ING Vysya Bank	NIMs, fee income growth, provisions
M&M Finance	Recoveries, provision expenses, disbursement growth, securitization
LIC Housing Finance	Disbursements, NPA levels, cost of funds
Punjab National Bank	Margins, NII growth, treasury gains
Shriram Transport	Disbursements, NPA levels, cost of funds
State Bank of India	NIMs, credit off-take, treasury gains, NPA provisions
Syndicate Bank	CASA, MTM provision write-back, loan growth
Union Bank of India	Asset growth, NPA provisions, MTM write-backs, treasury gains
Yes Bank	Cost of funds, credit growth, fee income growth

Q1FY10 earnings preview

India Organized Retail

- ✓ Retail industry seeing some respite – while new store roll out slows down, same store growth is improving gradually
- ✓ Pantaloon Retail expected to see 21% of revenue growth with same store growth at ~8%
- ✓ Titan expected to see improvement with sales growth expected at 12.5% (7% in Q4FY09). Watches business would be partially impacted by continuation of de-stocking of Sonata in April
- ✓ While relatively lesser volatility in gold prices is has improved the off-take scenario from Q4FY09 (9% volume decline), overall volumes remain in negative zone
- ✓ Maintain Neutral stance on the sector

Company	Key monitorables
Pantaloon Retail	Margins
Titan Industries	Watches business growth

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q1FY10E	Q1FY09	% chg yoy	Q1FY10E	Q1FY09	% chg yoy	Q1FY10E	Q1FY09	% chg yoy
Pantaloon Retail	16,715	13,814	21.0	1,831	1,412	29.7	362	325	11.1
Provogue India	698	678	3.0	107	105	2.3	62	60	2.0
Shoppers' Stop	3,392	3,084	10.0	83	(71)	-	(134)	(244)	-
Titan Industries	9,118	8,103	12.5	529	561	(5.7)	277	322	(14.2)

Q1FY10 earnings preview

Infrastructure developers

- ✓ Infrastructure developers likely to report a 30% yoy rise in revenues
  - Growth in revenues led by GMR (higher power division revenues due to gas availability for Vemagiri)
- ✓ EBITDA likely to increase by 29%, led mainly by strong profitability of GMR's power plants
- ✓ Earnings growth (pre-exceptional) likely to decline by 6% yoy during the quarter
  - MPSEZ earnings to remian flat due to absence of SEZ land leases
  - GMR's road assets to report losses during the initial period of commissioning

Company	Key monitorables
GMR	Pax growth at Delhi and Hyderabad airport; Traffic on road assets
Mundra Port & SEZ	Potential upside from SEZ land sales

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q1FY10E	Q1FY09	% chg yoy	Q1FY10E	Q1FY09	% chg yoy	Q1FY10E	Q1FY09	% chg yoy
Mundra Port & SEZ	2,986	2,537	17.7	1,736	1,771	(2.0)	1,100	1,092	0.8
GMR Infrastructure	11,858	8,855	33.9	3,641	2,388	52.5	744	876	(15.0)

Q1FY10 earnings preview

IT Services

Q1FY10 is likely to be another challenging quarter

- ✓ Tier1 companies to report 2-4% qoq decline in USD revenues and 4-7% qoq decline in INR revenues
- ✓ Decline would be combination of flat-to-declining volume and pricing decline of ~2% qoq

Margins to remain under pressure

- ✓ We expect 1.5-3% qoq decline in operating margin for tier1 names
- ✓ Margin decline lead by demand issues and INR strength

Focus on market commentary

- ✓ We expect cautiously optimistic commentary
- ✓ Infosys FY10 guidance for USD revenue to be maintained; Other figures to be downward revised for strong INR
- ✓ Expect Wipro and Infosys to guide to 2-3% qoq growth in Q2FY10

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q1FY10E	Q1FY09	% chg yoy	Q1FY10E	Q1FY09	% chg yoy	Q1FY10E	Q1FY09	% chg yoy
HCL Technologies	27,698	21,688	27.7	5,853	5,084	15.1	2,804	1,179	137.8
Infosys Technologies	52,592	48,540	8.3	16,081	14,790	8.7	13,770	13,020	5.8
Tech Mahindra	10,105	11,164	(9.5)	2,293	2,869	(20.1)	1,033	2,585	(60.0)
Patni Computer	7,825	7,673	2.0	1,427	1,183	20.6	1,066	1,015	5.0
Tata Consultancy	68,153	64,107	6.3	16,761	15,314	9.5	13,568	12,436	9.1
Wipro	62,856	59,622	5.4	11,879	11,541	2.9	8,983	8,138	10.4

Q1FY10 earnings preview

Logistics

- ✓ Logistics companies to report flat revenue growth for the quarter primarily led by lower freight rates (Arshiya and Allcargo)
  - Concor's revenues to grow by 5% led by lower volumes during the quarter driven by slower exports
  - GDL's revenues to grow at a robust rate of 29% yoy due to the scale up in rail operations over the past year
- ✓ Operating margins to be muted
  - GDL's margins to fall sharply by 710bps led by low margins in rail business operations
  - Concor's margins to be muted on back of higher empty running (lower exports and higher imports)
  - Arshiya and Allcargo margins to expand by 100bps led by higher value added revenues and operational efficiencies
- ✓ Earnings (pre-exceptional) to fall by 9% yoy during the quarter led by higher interest costs and lower other income.
- ✓ We maintain our Overweight stance on the sector with Concor as our top pick

Q1FY10 earnings preview

Logistics

Company	Key monitorables
Arshiya International*	Revenue growth and margin improvement
Concor	Volume growth & margins
Gateway Distriparks*	Volumes and rail business profitability
Allcargo Global ^*	Margins of ECU line

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q1FY10E	Q1FY09	% chg yoy	Q1FY10E	Q1FY09	% chg yoy	Q1FY10E	Q1FY09	% chg yoy
Arshiya Tech	1,000	1,402	(28.7)	160	211	(24.3)	105	195	(46.3)
Allcargo	5,171	5,443	(5.0)	595	569	4.6	330	296	11.5
Container Corporation	8,571	8,228	4.2	2,246	2,389	(6.0)	1,896	2,018	(6.1)
Gateway Distripark	1,250	968	29.1	356	343	3.8	140	209	(33.0)

Q1FY10 earnings preview

Metals

- ✓ Impact of high cost coking coal inventories expected to impact profitability of ferrous companies under our coverage
- ✓ Tata Steel consolidated profitability to be dent on account of high operating and financial leverage of UK operations
- ✓ Jindal Steel & Power profitability to be cushioned by power business contributing 70% of its Q1FY10 profitability
- ✓ Impact of high priced coking coal inventory expected to govern SAIL's profitability in Q1FY10
- ✓ JSWS to benefit from high volume growth and low conversion costs. Utilization levels at US operations expected to improve at the margin
- ✓ Lower non-ferrous metal prices (down 30-50%yoy) to keep operating margins of non-ferrous metal companies under pressure, though depreciating rupee (+17%yoy) to partially negate the impact

Company	Key monitorables
Hindalco	Base metal premium, product mix in Aluminium business, TC-RC margins in Copper business
Hindustan Zinc	Base metal premium, Concentrate sales
Jindal Steel & Power Ltd	PLF and per unit realizations for 1000MW PP, Plate mill utilization level
JSW Steel^	Impact of high cost coking coal inventory
Nalco	Base metal premium, production/sales volumes
SAIL	Impact of high cost coking coal inventory
Sterlite	Base metal premium, byproduct realizations, concentrate sales
Tata Steel	Impact of roll over of coking coal volumes on raw material costs

Q1FY10 earnings preview

Metals

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q1FY10E	Q1FY09	% chg yoy	Q1FY10E	Q1FY09	% chg yoy	Q1FY10E	Q1FY09	% chg yoy
Hindalco	35,929	46,475	(22.7)	4,459	9,490	(53.0)	2,265	6,967	(67.5)
Hindalco (Consol.)	129,764	NA	NA	8,158	NA	NA	(1,483)	NA	NA
Hindustan Zinc	13,500	16,436	(17.9)	6,633	9,777	(32.2)	5,794	8,478	(31.7)
Jindal Steel & Power Ltd	17,028	18,953	(10.2)	5,243	7,056	(25.7)	2,673	4,023	(33.6)
Jindal Steel & Power Ltd (Consol.)	27,720	NA	NA	14,367	NA	NA	9,085	NA	NA
JSW Steel	41,242	36,715	12.3	8,572	8,594	(0.3)	2,647	2,193	20.7
JSW Steel (Consol.)	46,182	44,562	3.6	9,387	10,489	(10.5)	2,354	2,528	(6.9)
Nalco	10,745	14,675	(26.8)	3,275	7,368	(55.5)	2,513	5,253	(52.2)
SAIL	95,615	110,294	(13.3)	18,789	27,735	(32.3)	12,098	18,351	(34.1)
Sterlite (Consol.)	51,972	57,701	(9.9)	10,306	18,266	(43.6)	6,199	11,511	(46.1)
Tata Steel	61,592	61,650	(0.1)	19,370	30,246	(36.0)	9,386	14,884	(36.9)
Tata Steel (Consol.)	272,412	NA	NA	24,762	NA	NA	1,427	NA	NA

**factors only Standalone numbers*

Q1FY10 earnings preview

Oil & Gas

- ✓ Revenues are lower due to lower crude prices yoy
- ✓ The lower crude prices and no inventory losses drive better GRMs for the quarter on a yoy basis
- ✓ GRMs at US$5.5-6/bbl for OMCs, while the better sourcing slate and sales tax benefit drives Essar to derive US$8.5/bbl
- ✓ Volumes expected to remain robust for the OMCs and Essar, who are focused on the domestic market where demand for petroleum products has remained robust

Company / Industry	Key monitorables
OMCs	GRMs, Inventory movement and under recovery levels (Our estimates suggest ~Rs450bn for FY10, at Indian basket of crude at US$60-62/bbl
Essar Oil	GRMs and volumes, We estimate GRMs at lower levels than Q4FY09, due to weak economic environment as well as inventory gains being much lower than in Q4FY09

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q1FY10E	Q1FY09	% chg yoy	Q1FY10E	Q1FY09	% chg yoy	Q1FY10E	Q1FY09	% chg yoy
Essar Oil	84,484	87,790	(3.8)	11,473	3,043	277.0	4,915	303	1,521.4
BPCL	247,325	390,220	(36.6)	9,146	(7,693)	NM	2,386	(10,667)	NM
HPCL	242,865	347,493	(30.1)	6,435	(4,110)	NM	959	(8,881)	NM
Indian Oil Corporation	587,482	748,726	(21.5)	34,698	9,603	261.3	13,897	4,151	234.8

Q1FY10 earnings preview

Pharmaceuticals

- ✓ Appreciation of INR against the USD to impact companies negatively. Expect most companies to report gains on forex liabilities as well as hedges
- ✓ Sun Pharma to report muted revenue growth on the back of high base created in Q1FY09 (due to Protonix sales). Impact of Caraco ban to be visible only Q2FY10 onwards. Revised guidance by the management to be watched out for
- ✓ Ranbaxy – Expected to report huge gains on outstanding forex contracts as also forex liabilities. However, business fundamentals continue to remain weak. Expect sales decline to continue
- ✓ DRL – Imitrex contribution will continue to lead to strong numbers. Business performance in Germany (post AOK shipments) to remain key monitorable
- ✓ Cipla to be impacted negatively by INR appreciation.
- ✓ Lupin – Expect strong performance due to steady growth across all geographies. Outlook on FDA warning letter for Mandideep facility to be watched out.
- ✓ Glenmark – Base business revenues for US remain the key monitorable. Interest costs to dent profits significantly. Update on Melogliptin outlicensing will be watched out
- ✓ Ipca – Expect strong operating performance in Q1FY10
- ✓ Piramal – Expect modest CRAMS growth due to muted global outlook. Margins to be the key

Q1FY10 earnings preview

Pharmaceuticals

Company	Key monitorables
Aventis Pharma	Pick-up in sales post loss of Rabipur sales
Biocon	Margins; CR revenues; outlook on Insulin
Cipla	EBITDA margins; Impact of INR appreciation
Dishman Pharmaceuticals	EM offtake by Solvay; outlook on CRAMS business
Dr Reddys Laboratories	US business momentum
Glenmark Pharma	US base business revenues; Outlook on Oglemilast
Glaxosmithkline Pharma	Revenue growth; new product launches
IPCA Laboratories	Favorable INR impact
Lupin	US business momentum; Update on FDA warning letter
Nicholas Piramal India	Domestic market momentum; CRAMS business outlook
Ranbaxy Laboratories	US business outlook; update on FDA issue
SUN Pharma	Update on Caraco; revised FY10 guidance

Q1FY10 earnings preview

Pharmaceuticals

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q1FY10E	Q1FY09	% chg yoy	Q1FY10E	Q1FY09	% chg yoy	Q1FY10E	Q1FY09	% chg yoy
Aventis Pharma	2,497	2,486	0.4	474	504	(6.0)	481	418	15.1
Biocon	4,900	2,640	85.6	1,042	667	56.2	789	153	415.7
Cipla	13,649	11,708	16.6	2,730	2,337	16.8	2,320	1,401	65.6
Dishman Pharmaceuticals	2,785	2,358	18.1	682	663	2.9	315	277	13.7
Dr Reddys Laboratories	19,403	15,038	29.0	3,752	1,736	116.1	2,968	1,477	100.9
Glenmark Pharma	5,527	4,662	18.6	1,271	1,409	(9.8)	577	1,159	(50.2)
Glaxosmithkline Pharma	4,628	4,169	11.0	1,689	1,511	11.8	1,319	1,148	14.9
IPCA Laboratories	3,452	2,950	17.0	690	597	15.6	400	236	69.3
Lupin	10,123	8,623	17.4	1,822	1,527	19.3	1,371	1,120	22.4
Nicholas Piramal India	8,249	7,083	16.5	1,633	1,403	16.4	841	679	23.9
Ranbaxy Laboratories	17,024	18,212	(6.5)	390	3,260	(88.0)	10,752	228	4,615.8
SUN Pharma	10,619	10,418	1.9	4,281	5,379	(20.4)	3,993	5,373	(25.7)

Q1FY10 earnings preview

Pipes

- ✓ Lower crude prices and declining rig count, indicate lower exploration and development capex impairing future revenue visibility of pipe companies. Global rig count continues to decline sequentially (down 36%yoy for Q1FY10)
- ✓ Order book position of pipe companies continue to decline sequentially; limiting earning visibility over a few quarters
- ✓ Sharp decline in Baltic freight index, protectionist measures announced globally, and low utilization levels at pipe mills to hurt pricing power of Indian pipe mills. Maintain our Neutral rating on the sector

Company	Key monitorables
Jindal Saw*	"Operating margins (full impact of coking price), volume growth, fixed costs on incremental capacities being commissioned"
Maharashtra Seamless	Operating margins, volume growth
PSL	Higher utilization levels on order book execution
Welspun Gujarat	Utilization level of plate cum coil mill, forex write back

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q1FY10E	Q1FY09	% chg yoy	Q1FY10E	Q1FY09	% chg yoy	Q1FY10E	Q1FY09	% chg yoy
Jindal Saw	11,887	10,175	17.0	1,517	1,634	(7.1)	641	702	(8.7)
Maharashtra Seamless	4,153	3,517	18.1	732	830	(11.8)	507	603	(15.9)
PSL	9,732	6,523	49.2	876	660	32.7	285	260	9.6
Welspun Gujarat Stahl	14,227	10,903	30.5	2,092	1,739	20.3	806	712	13.2

**year ending December; Source: IDFC-SSKI Research*

Q1FY10 earnings preview

Power equipment

- ✓ Equipment companies to report growth in revenues of 20% yoy driven by high-visibility order backlog
- ✓ Operating margins to rise marginally (+45bps)
  - Effect of lower commodity prices
- ✓ Earnings growth (pre-exceptional) likely to be at 16.7% yoy during the quarter
- ✓ We maintain our overweight stance on the sector, with top pick being KEC

Company	Key monitorables
ABB	Margin and order backlog growth
BHEL	Execution, margin and capacity addition
Crompton	Margins in both standalone & int'l subsidiaries; order backlog
Emco	Margin and order backlog growth
KEC	Margins and execution

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q1FY10E	Q1FY09	% chg yoy	Q1FY10E	Q1FY09	% chg yoy	Q1FY10E	Q1FY09	% chg yoy
ABB*	17,941	16,163	11.0	1,912	1,902	0.5	1,237	1,318	(6.2)
Bharat Heavy Electricals	54,116	43,292	25.0	5,377	3,737	43.9	4,946	3,844	28.7
Crompton Greaves	24,010	20,348	18.0	2,641	2,083	26.8	1,506	1,226	22.8
EMCO	2,237	1,833	22.0	296	239	23.8	73	100	(27.4)
KEC International	6,901	6,001	15.0	773	811	(5.0)	261	383	(32.3)

** Q2CY09 estimates*

Q1FY10 earnings preview

Power utilities

- ✓ Utilities to witness 19% yoy revenue growth, mainly due to higher tariffs (fuel cost pass through) and volume growth for NTPC due to higher utilisation levels
- ✓ Net earnings (pre-exceptional) for companies to witness a 11% growth in Q1FY10
  - ✓ Tata Power expected to report a 23.3% yoy growth in earnings led by merchant sales from Trombay Unit 8
- ✓ We maintain our overweight stance on the sector with our top pick being Reliance Infrastructure

Company	Key monitorables
CESC	Volume growth, new capacity additions
NTPC	Cost of purchased power, volume growth
PTC	Cost of purchased power, volume growth
REL	Volume growth, traded surplus power
Tata power	Volume growth and margin

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q1FY10E	Q1FY09	% chg yoy	Q1FY10E	Q1FY09	% chg yoy	Q1FY10E	Q1FY09	% chg yoy
CESC	8,222	7,830	5.0	1,644	1,220	34.8	957	865	10.6
NTPC	114,059	90,996	25.3	25,676	21,719	18.2	21,121	18,581	13.7
PTC	15,204	12,031	26.4	76	59	29.4	200	189	6.1
KSK Energy Ventures	1,084	678	60.0	767	295	159.5	432	406	6.4
Reliance Infrastructure	25,138	21,981	14.4	2,062	1,918	7.5	4,070	4,395	(7.4)
Tata Power Company	18,620	20,261	(8.1)	3,915	3,049	28.4	2,202	1,787	23.3

Q1FY10 earnings preview

Real estate

- ✓ Expect 57%yoy decline in top line of our sector universe due to lower revenue recognized based on POCM
- ✓ Consequently PAT of our sector universe would decline by 76%
- ✓ Unitech has raised Rs6.7bn from monetization of assets – Rs4.5bn sale of Saket property, Rs1.9bn from sale of hotel property Country inn and Rs250mn sale of school plots
- ✓ DLF has raised Rs6.5bn from monetization of assets – Rs3.3bn from receipts of Dankuni land and Rs3.1bn from stake sale of commercial property in Mumbai

Company / Industry	Key monitorables
Unitech	Increase in asset monetization would help Unitech to reduce leverage
DLF	Sale of wind energy business and hotel properties would improve cash flow of DLF. Also, either merger of DAL with DLF or REIT listing of DAL would reduce receivables from DAL to DLF

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q1FY10E	Q1FY09	% chg yoy	Q1FY10E	Q1FY09	% chg yoy	Q1FY10E	Q1FY09	% chg yoy
DLF	12,790	38,106	(66.4)	6,403	23,445	(72.7)	4,590	19,042	(75.9)
Unitech	7,772	10,327	(24.7)	4,683	6,094	(23.1)	2,712	4,237	(36.0)

Q1FY10 earnings preview

Telecom (Unrated)

- ✓ Expect revenues to grow at 4-8%qoq led by sustained subscriber additions
- ✓ Revenues to be adversely impacted by Rs0.1 cut in termination charges
- ✓ EBIDTA impact to be marginal as cost savings from lower termination charges have not been passed on
- ✓ Expect EBIDTA margins to remain steady qoq
- ✓ Expect 2-9%qoq drop in adjusted PAT for Bharti, Rcom (ex-forex gains/loss impact); 5% growth for Idea

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q1FY10E	Q1FY09	% chg yoy	Q1FY10E	Q1FY09	% chg yoy	Q1FY10E	Q1FY09	% chg yoy
Bharti Airtel	101,691	84,833	19.9	41,178	35,221	16.9	24,183	21,728	11.3
IDEA Cellular	31,617	21,781	45.2	8,645	7,203	20.0	2,877	2,631	9.4
Reliance Communication	65,762	53,222	23.6	26,512	22,502	17.8	10,043	11,749	(14.5)

Q1FY10 earnings preview

Transportation

Jet Airways

- ✓ At a consolidated level, we expect Jet Airways to post a 19% decline in revenues at Rs26.7bn, EBITDA at Rs937m and net loss at Rs3.4bn.
- ✓ Amidst ~20% overcapacity, we expect the domestic business to lead the bleed. The international business has some support from the 9 aircrafts leased to various international airlines (revenues at ~Rs2.5bn in the current quarter)
- ✓ Ability to fund losses under the stress of an over-leveraged balance sheet (debt at Rs165bn; debt:equity >5X) remains our key concern

Great Eastern Shipping

- ✓ At a standalone level, we expect GESCO to post a 28% decline in revenues at Rs5bn, 40% decline in EBITDA at Rs2.3bn and a 57% decline in PAT at Rs1.6bn
- ✓ While the dry bulk market seemed to have found the bottom, we expect the pressures around the tanker markets (~80% of the fleet are tankers) to erode earnings in the quarter
- ✓ With the delivery of 3 vessels in the quarter, we expect sale of assets to report a profit at Rs650m

Company	Key monitorables
Jet Airways	Oversupply in the domestic market and volatility in fuel prices
Great Eastern Shipping	Demand for crude and its bi-products such as gasoline in July (holiday and hence driving season in the US). Increase in supply with respect to dry bulk carriers remains a key moniterable

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q1FY10E	Q1FY09	% chg yoy	Q1FY10E	Q1FY09	% chg yoy	Q1FY10E	Q1FY09	% chg yoy
Jet Airways	26,699	32,932	(18.9)	937	(5,851)	(116.0)	(3,441)	(9,073)	(62.1)
Great Eastern Shipping	5,047	7,024	(28.1)	2,274	3,832	(40.6)	1,642	3,875	(57.6)

Q1FY10 earnings preview

Others

Sintex

- ✓ Government's sustained focus on rural infrastructure development along with improving domestic demand visibility, to enhance revenue visibility of Sintex's domestic operations
- ✓ Synergy benefits and management's continuous focus on cost savings to see gradual improvement in operating margins at consolidated level

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q1FY10E	Q1FY09	% chg yoy	Q1FY10E	Q1FY09	% chg yoy	Q1FY10E	Q1FY09	% chg yoy
Sintex	7,450	7,408	0.6	1,219	1,045	16.7	684	567	20.6

Disclaimer