Investment Strategy | India
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Slowest growth expectations in 5 years

Merrill Lynch

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Earnings slow-down is finally here!

We expect earnings to slow to a 5-year low with forecast net profit growth for Sensex companies at only 10.8% (EPS growth will be lower at around 7%) for the quarter ended June, 2008. While sales growth is strong at near 25%, margins are under pressure dropping near 100 bps. 9 of the 30 Sensex companies are likely to report drop in profits on a yoy basis. Slowing earnings and likely earnings downgrades is likely to continue to pressure the market.

Earnings partly clouded by forex losses, MTM hits …

Earnings are partly clouded by mark-to-market (MTM) losses on forex loans or the MTM losses of State Bank on its investment books. These won't be repeated in the rest of the quarters if currency/bond yield remains stable.

… but earnings downgrades likely to our FY09 EPS estimates

While earnings may surprise on the upside again and even factoring an exaggerated slow-down in Q1 earnings due to the non-recurring factors above, our full year FY09 EPS growth of 18% looks set to be downgraded in the earnings season. Engineering and banks could drive the downgrades.

Energy, software, telecom drive growth; auto, cement lag

Autos and cement companies are likely to report drop in profits led by slowing sales and margin pressure. Energy (Reliance and ONGC) lead profit growth followed by software and telecom.

Key Result Out-performer: Bharti, Reliance Comm, United Spirits, Satyam
Key Result Under-performer: ITC, Tata Motors, Ambuja, Hindalco, Sterlite

Table 1: Summary of result estimates

	BSE 30			MSCI		
	Jun-08	Jun-07	Growth %	Jun-08	Jun-07	Growth %
Sales Turnover	1,003,124	803,942	24.8%	765,388	616,176	24.2%
EBITDA	200,833	169,412	18.5%	146,072	122,486	19.3%
Other Income	15,237	20,727	-26.5%	12,073	17,384	-30.6%
Depreciation	37,971	32,068	18.4%	26,198	21,908	19.6%
Interest	13,208	10,173	29.8%	7,837	6,711	16.8%
Tax	38,155	37,984	0.4%	28,131	26,538	6.0%
Net Profit	124,856	111,990	11.5%	93,949	83,151	13.0%
Net Profit (incl. Fin Cos)	145,527	131,388	10.8%	109,396	96,537	13.3%

Source: Source: Merrill Lynch Research Estimates

Table 2: Result summary for Q ended 30th Jun'08

	BSE	MSCI
All Companies:		
Sales Growth	24.8%	24.7%
Profit Growth	10.8%	13.3%
Excl. Financial Cos:		
Sales Growth	24.8%	24.2%
EBITDA Growth	18.5%	19.3%
Profit Growth	11.5%	13.0%
Excl. Oil Cos:		
Sales Growth	23.4%	23.7%
Profit Growth	7.7%	12.3%

Source: Source: Merrill Lynch Research Estimates

Table 3: Profit growth leaders & laggards (YoY)

Leaders	YoY(%)	Laggards	YoY(%)
Pantaloon Retail	359%	HPCL	-256%
Cairn India Ltd	150%	Firstsource Sol.	-195%
Educomp	119%	Subex	-151%
ABG Shipyard	87%	Himatsingka	-92%
Nicholas Piramal	69%	Vijaya Bank	-70%
Suzlon	67%	Ranbaxy Labs	-68%
TVS Motors	58%	BPCL	-65%
DLF Ltd	52%	Shoppers Stop	-63%
Reliance Comm	47%	Tata Motors	-62%
Cipla	44%	Welspun	-60%

Source: Merrill Lynch Research Estimates

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Refer to important disclosures on page 26 to 28. Analyst Certification on Page 24. Price Objective Basis/Risk on page 22.

Telecom, Software and Energy would lead the earnings growth.

Autos and Cements to disappoint.

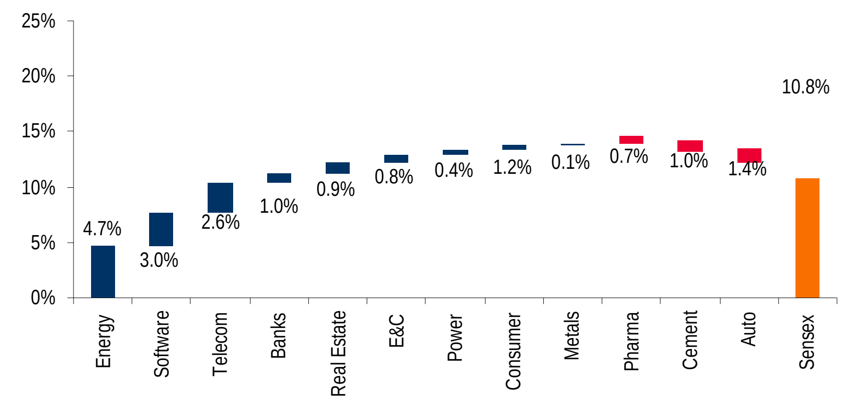
Table 4: Sector-wise growth forecast for March-08 Quarter

Industry	Sector Weights	Sales % Growth	EBITDA % Growth	Net Profit % Growth
Cement	2.4%	1.1%	-7.0%	-9.5%
Consumer Discretionary - Autos	3.0%	11.6%	8.4%	-23.8%
Consumer Discretionary - Media	0.8%	17.4%	7.6%	16.1%
Consumer Staples	5.4%	15.5%	10.4%	8.9%
Energy	23.5%	30.3%	24.1%	20.7%
Financials	19.9%	34.2%	N.A.	15.4%
Healthcare	4.5%	18.8%	27.5%	7.6%
Industrials	6.8%	24.8%	30.3%	21.0%
IT	16.9%	33.4%	39.2%	23.8%
Materials- Metals	6.7%	22.6%	6.7%	1.2%
Real Estate	2.2%	44.3%	35.1%	52.4%
Telecom	3.4%	31.7%	43.8%	41.8%
Utilities	4.6%	21.3%	6.1%	6.3%
Weighted Grand Total	100%	24.7%	19.3%	13.3%

Source: Merrill Lynch Research Estimates

Energy, software and Telecom would continue to be major contributors of Sensex earnings growth.

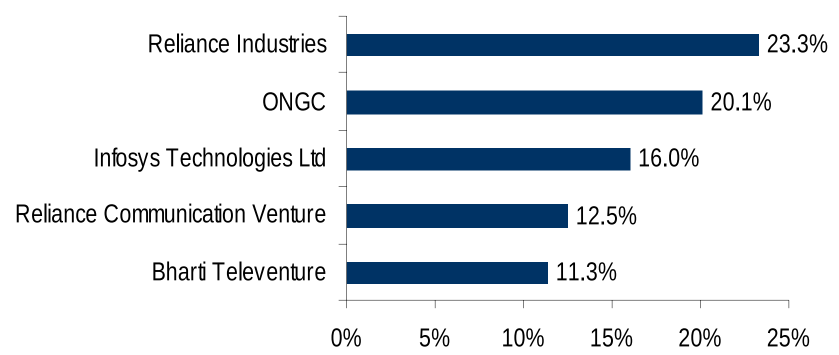
Chart 1: Sector contribution to profit growth



Source: Merrill Lynch Research Estimates

Energy companies (RIL and ONGC), Telecom companies (Rcom and Bharti) and Infosys are expected to be the biggest contributors to Sensex growth.

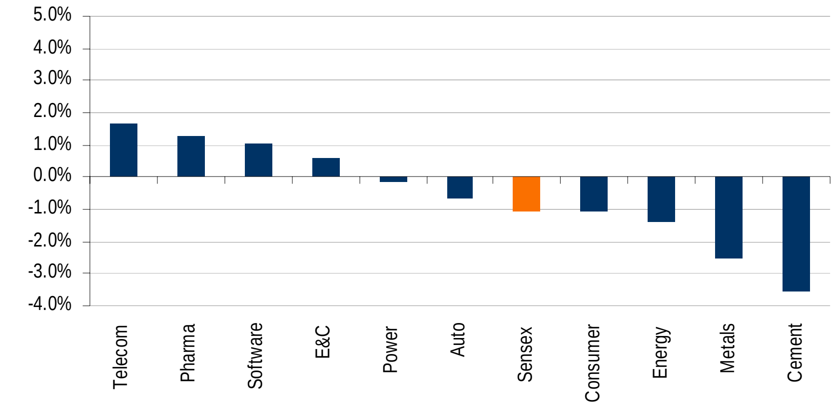
Chart 2: Top Earnings contributors



Source: Merrill Lynch Research Estimates

Aggregate EBITDA margins are expected to fall by at least 100 bps due to pressure on margins in Metal, Auto, Consumers and Cement sectors.

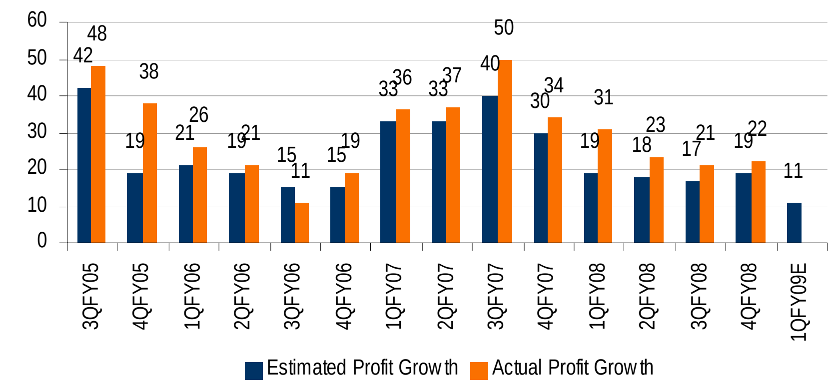
Chart 3: Expected YoY change in EBITDA margin (%)



Source: Merrill Lynch Research Estimate

Sensex profit growth is expected to dip to 11% - slowest in last 5 years.

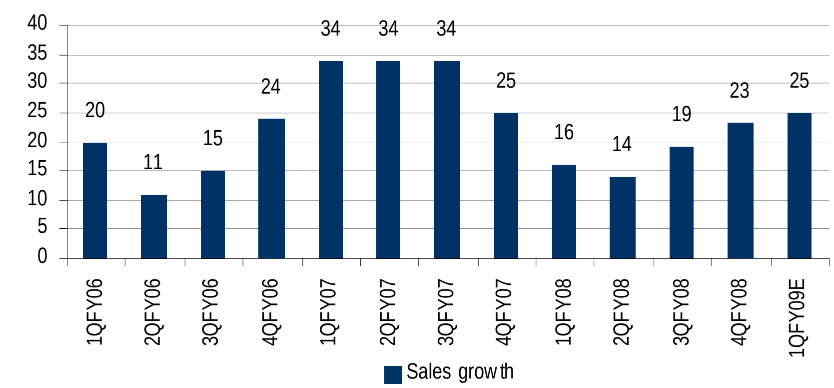
Chart 4: Sensex Profit growth (%)



Source: Merrill Lynch Research Estimate

Sales growth is expected to improve to 25% YoY.

Chart 5: Sensex sales growth (%)



Source: Merrill Lynch Research Estimates

Table 5: Sector Summary

Sector	Potential Result Outperformer	Potential Result Underperformer	Comments
Automobile	Bharat Forge, Hero Honda	Tata Motors	• We expect muted results from auto majors, despite reasonable sales growth across segments due to margin pressures on the back of rising commodity prices. • Hero Honda will be the only strong performer, driven by 16% sales growth. However Bajaj Auto is expected to register weaker results • Auto component firms are expected to register strong operating performance aided by higher margins.
Banking	ICICI Bank, Bank of India	OBC, Canara Bank, Vijaya Bank	• 1QFY09 earnings are likely to be very weak for majority of the banks owing to high MTM hits on their G-sec portfolio owing to inversion of the yield curve. • We think loan growth is likely to moderate as banks higher lending rates follow the CRR and repo hikes by RBI. Margin pressure might continue as most govt. banks have hiked lending rates by only 50bps, while deposit rates have been hiked by 50-100bps across maturities.
Cement		Ambuja	• We think the cement industry will struggle to post profit growth in 1Q FY09E. We expect profits to be flat QoQ and down ~15% YoY for our coverage universe. • YoY profit decline is due to margin pressure and volume slowdown. Cement volumes are likely to be flattish YoY. • We expect EBITDA margin to fall ~300-400bps YoY owing to ~10% YoY increase in costs.
Consumer	Nestle, Titan, United Spirits	ITC, Colgate	• We expect YoY profit growth of 9% in staples, 90% in retailers and 17% in liquor companies. • Profit growth for staples is pulled down by ITC whereas for the liquors its due to rising molasses cost, however the profit growth in retailers is due to base effects in Pantaloon.
Energy	RIL, ONGC	Gujarat Gas	• ONGC- We expect ONGC's 1Q FY09E net profit to rise 31% YoY. We expect the gain of Rs91bn YoY on higher oil price realization to more than make up for Rs60bn YoY rise in subsidy • Reliance- We expect RIL's 1Q FY09E net profit to rise by 18% YoY to Rs43bn on the back of 27% YoY rise in refining margins. We expect refining EBIT to rise 42% YoY to Rs36bn. • R&M companies- We expect R&M cos to be in black mainly driven by issuance of Rs237bn oil bonds
Healthcare	Sun, Glenmark	Ranbaxy	• We expect 1Q performance to be lackluster for Ranbaxy and several of the second line pharma companies. • The depreciation of rupee against the dollar during the 1Q has taken aback many companies by surprise. USD appreciated ~7% against the rupee during the quarter, but the positive impact of this is unlikely to be felt by many companies like Ranbaxy, Biocon etc who have already hedged their currency exposure at an earlier level.
Industrials	L&T	-	• We expect the Indian E&C sector to register a 28% YoY sales growth and 23% profit growth. • L&T: We expect strong sales / PAT growth at 29%YoY on a higher base. Markets would also be more focused on the reporting on commodity hedging / forex losses for 1QFY09, where we expect some reduction in MTM losses.. • BHEL remains our preferred pick on robust order intake of >Rs160bn +50%YoY and backlog (~56%YoY) for 1QFY09E. We like BHEL as it fixed technology issues such as advance class gas turbines & super critical plants.
Media		-	• We expect a muted 1QFY09 for the media companies but caution investors that YoY growth may not show shape of things to come in future at Zee due to corporate action – de-merger of loss making Zee Next from 2Q onwards.
Metals	SAIL, Tata Steel, Nalco	Hindalco, Sterlite	• We expect metals sector profit to grow 7% YoY led by 26% YoY growth in sales and 11% in EBITDA • SAIL, Nalco and Tata Steel will witness robust profit growth, Hindalco and Sterlite will likely disappoint.
Real Estate	DLF, HDIL	-	• DLF – We expect net profit growth of 7% QoQ from Rs.21.7bn in 4QFY08 to Rs.23.2bn in 1QFY09. The growth is primarily driven by higher EBIDTA margin of 67%, up 200bps QoQ as proportion of comemrcial sales increase. • HDIL – We expect net profit growth of 7% YoY led by 23% increase in sale. We expect EBIDTA margin to be around 57% though higher interest cost of Rs.818mn will reduce margin.
Software	Satyam,	Subex	• We expect Rupee rev & EPS guidance to be raised; USD rev guidance to be maintained. • Margins (ex-forex hedge losses) to look up; hedging losses to partly offset. • Rupee to boost flat sequential revenue growth in USD terms; • Strong results: Satyam, Infosys, Hexaware, Tech Mahindra
Telecom	RCom, Bharti		• Four key changes that could impact earnings include: 1) expiry of the 100-200bps licence fee concession awarded in CY04 to the 1st & 2nd wireless licencee across circles, except metros; 2) phasing out of ADC charge that was ~75bps of (adjusted) revenues; 3) sharp cuts in domestic long distance (DLD) and in-roaming tariffs mostly by GSM operators; and 4) hike in long-distance carriage charges by select operators, like Bharti. • We also watch for 1) any easing in selling expenses (that shot up sharply in the March qtr) and 2) potential hit from sharp rupee depreciation.
Textile & Apparel	-	Raymond, Arvind Mills	• We expect the 1Q results to be disappointing for the textile sector. The recent sharp Re depreciation is positive for export focused textile companies. • We expect the pressure on earnings to continue on rising input costs and high interest costs.
Utilities	-	Neyveli Lignite	• We expect the Indian Utility Sector, represented by NTPC, Reliance Energy, Tata Power, Neyveli, GIPCL and JHPL to report sales growth of 13%YoY, EBITDA and PAT growth of 7%YoY. • The primary reason for the weak growth would be lack of volume growth and limited improved efficiency (NTPC).

Source: Merrill Lynch Research

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Sector Highlights

Automobiles

Potential Result Outperformers: Bharat Forge, Hero Honda
Potential Result Underperformers: Tata Motors

- We expect muted results from auto majors, despite reasonable sales growth across segments. This is largely due to margin pressures, reflecting rising commodity prices.
- We believe that Hero Honda will be the only strong performer, driven by 16% sales growth, low comparable base of margins (11.7% from 10.8% last year), and lower tax rates. This is despite expected hit on cricket sponsorship.
- Bajaj Auto is expected to register weaker results, on slower sales growth, and adverse mix. Also, forex derivative losses, estimated at Rs 840mn will likely hit profits. Also, numbers are not comparable since the wind power business has been transferred to Holding company;
- Four wheeler companies are expected to report similar, low single digit EBITDA growth rates, restricted by lower margins; we estimate YoY declines in operational net profit, on the back of higher interest and depreciation due to ongoing capex;
- Maruti's 2% profit decline also reflects lower other income, and accelerated depreciation policy. We have adjusted comparable depreciation outgo for previous year.
- Commercial vehicle majors will report similar trends on EBITDA. However, Tata Motors reported profit decline is expected to be sharper due to an estimated Rs 2bn forex loss.
- Auto component companies will likely register strong operating performance, aided by higher margins (on low base). Both Bharat Forge and Automotive Axles' will be impacted by forex losses of Rs 500mn and Rs 16mn respectively, which will bring down reported profits.

Airlines

Potential Result Underperformers: Jet Airways

- We expect Jet Airways' to register quarterly loss of Rs 3.5bn (excl forex loss of Rs1.5bn and losses in Jetlite) as compared to last year's loss of Rs356mn. This is largely due to sharp rise in fuel prices and start-up costs in international operations. This, we believe, will be the trough, if fuel prices do not rise further.

Container Transportation

- Gateway Distriparks is expected to report a strong revenue and turnover growth of 81% and 21% respectively. However margins will fall sharply by 11 percentage points due to change in business mix to container rail segment. EBITDA growth is expected to be 37%. However lower other income and higher depreciation, on account of capex in rail transportation segment, would result in decline in PAT by 1.5%.
- Concor is expected to report relatively moderate performance with disruption of operations in May with traffic congestions and riots. Revenue growth is expected to be at 13.7% while margins could fall by 240bps from high base. Other income will be higher due to cash reserves of more than Rs10bn, resulting in 6.8% PAT growth.

India Financials

Potential Result Outperformers: ICICI, BoI
Potential Result Underperformers: OBC, Canara, Vijaya

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- 1QFY09 earnings are likely to be very weak for majority of the banks owing to high mark to market hits on their G-sec portfolio owing to inversion of the yield curve. Ironically, this happened despite many banks having +70-80% of their G-secs in the HTM category and running a short duration on their non-HTM book – which worked against them!

- We expect only 4 banks (in our universe of 15 banks) to show double digit earnings growth; with majority reporting earnings contraction. Private banks likely (HDFC Bank, Axis) to lead. BOI is only govt. bank likely to report 25% growth.

- While all banks would take mark to market hits, private banks are still, in our view, better positioned to report strong operating (pre-provision) earnings led by +25% top line growth, +20% fee growth and flat C-I ratio. The growth is helped in part by the banks' ability to leverage their expanding distribution (ICICI Bank and HDFC bank have almost doubled their branch network in past 1 year).

- Net profit growth would, however, be very modest for ICICI Bank (<10%) owing to high investment hits. HDFC bank and Axis bank should report +26-32% growth. HDFC is likely to grow its net profit by 25% yoy led by volume growth of +22-25% and margin expansion yoy as it continues to gain market share.

- At the operating level, we could see a mixed bag from govt. banks. While SBI and BOI are likely to report +25% operating profit growth, Canara, Vijaya, and even BoB are likely to disappoint with flat to negative growth. The rest of the banks like PNB, Union and Indian Bank are likely to have modest top line (6-10% growth); but could show more buoyancy at the operating level (10-16% growth) owing to better cost control. On balance, BOI is likely to be the frontrunner amongst govt. banks while OBC, Canara and Vijaya Bank could disappoint. SBI could be the other positive surprise despite it having to take large bond losses.

- Loan growth has been running at 24-25% (22% in FY08) partly driven by higher credit to oil companies (owing to the spurt in oil prices) and also supported by strong capex related financing. We, however, think loan growth is likely to moderate as banks higher lending rates follow the CRR and repo hikes by RBI.

- Margin pressure might continue as most govt. banks have hiked lending rates by only 50bps, while deposit rates have been hiked by 50-100bps across maturities.

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Cement

Potential Result Underperformers: Ambuja

Result Expectations - Key Highlights

- We think the cement industry will struggle to post profit growth in 1Q FY09E (Apr-Jun '08). We expect profits to be flat QoQ and down ~15% YoY for our coverage universe. 1Q FY09-EBITDA per ton for the industry is forecast to be flat QoQ and down 6% YoY.

- The YoY profit decline will be owing to margin pressure and volume slowdown. We expect EBITDA margin to fall ~300-400bps YoY owing to ~10% YoY increase in costs vs 5% YoY rise in prices. Cement volumes are likely to be flattish YoY.

- On a QoQ basis, profits are forecast to be stable as overall EBITDA margin will likely move up ~40bps. The margin improvement will be owing to easing of (March) year-end pressures on overheads although key input costs continue to trend up. Cement prices are forecast to be flat QoQ and volumes are forecast to drop 7% QoQ.

- Post their recent collapse, share prices of cement majors seem priced for bad news in the upcoming earnings season. However, lack of any positive catalysts and risk of further earnings downgrades may keep stock valuations low. Nearly all stocks are trading near or below historical trough multiples in terms of EV/EBITDA; we highlight Ambuja as a pre-result underperformer since the stock appears relatively vulnerable on a replacement cost comparison, vs other Indian cement majors.

Consumers

Potential Outperformers: Nestle, Titan, United Spirits
Potential Underperformers: ITC, Colgate

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Staples

We forecast June Q to be the weakest quarter with profit growth of merely 9%. This is the lowest in many years and is being pulled down primarily by ITC. We forecast sales growth of 15% and EBITDA growth of 11%.

Key data points to look for: HUL – robust sales growth especially in HPC but margin pressure from higher palm oil; ITC – decline in cigarette sales led by discontinuation of non filter cigarettes; Asian Paints – margin pressures due to rising crude oil prices and falling Rupee and Nestle – robust sales growth of 20% plus.

- HUL – We forecast June profit growth of 14% led by sales growth of 17% and EBITDA growth of 15%.

- ITC – We forecast net cig sales to decline by 5% on discontinuation of non filter cigarettes. In addition, the benefit of recent price increases came in at the fag end of the quarter. We forecast cigarette EBIT growth of 3% and FMCG losses to almost double. As a result, total company profit will also be meager at 3%.

- Asian Paints – June Q will likely herald the era of slowing profit growth owing to rising raw material costs. We forecast profit growth of 15% led by sales growth of 18% and EBITDA growth of 16%.

- Nestle – We expect Nestle to be yet again the fastest growing company in this Q. We expect profit growth of 27% led by sales growth of 21% and EBITDA growth of 21%. It continues to benefit from strong sales growth and good pricing power is enabling pass through of rising input costs.

- Colgate – We expect steep earnings slowdown. Profit will likely grow merely 1% owing to rising input costs. Sales growth continues to be moderate at 14% but EBITDA growth will sharply decline to 2%.

- Dabur – We expect profit acceleration in Jun Q – 14% up from the 5% in March. Improvement in consumer health care and foods will likely drive the acceleration.

Liquor

We forecast profit growth of 17% led by sales growth of 23% and EBITDA growth of 13%. Profit growth is likely to be slower than in the previous quarters owing to rising molasses cost.

- United Spirits - We forecast sales to grow 25% led by volume growth of 20% and price/mix of 5%. However EBITDA growth will lag at 16% owing to higher input costs – molasses and glass bottles. We expect profit growth of 18%.

- Radico Khaitan - We forecast profit growth of merely 6%. This is despite sales growth recovering to 15%. We expect sharp margin contraction owing to higher input prices.

Retailers

We forecast profit growth of 90% led by sales growth of 44% and EBITDA growth of 63%. The accelerated profit growth is primarily led by huge base effect in Pantaloon.

- Pantaloon – We forecast profit growth of 359% to Rs223mn. The high growth number is mainly due to base effect as the June Q last year was impacted by gestation costs for non retail businesses. Hence the sequential trend is more important to track. We forecast sequential profit to decline 31% owing to higher interest costs.

- Shoppers Stop – Earnings will remain subdued in June Q on falling margins and higher interest costs. We expect sales growth of 42% and EBITDA growth of only 7%.

- Titan - We expect sharp earnings growth of 34% in June Q led by margin expansion in watches on mix gains and helped by a low base. Jewelry performance may yet remain subdued with volume growth at 20% levels as in the previous two qtrs. Overall sales growth is expected at 50%.

Tea

- Mcleod Russel – We expect McLeod to benefit from a 15% YoY rise in tea prices. This should drive a 85% rise in EBIDTA. However, higher interest cost will result in muted with recurring profit of Rs7.5mn.

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Oil & Gas, Petrochemicals

Potential Result Outperformers: RIL, ONGC
Potential Result Underperformers: Gujarat Gas

- **Oil prices:** ONGC's marker crude Bonny Light is up 73% YoY and 25% QoQ to US$123/bbl
- **Refining margins:** 1Q Merrill Lynch Singapore complex refining margin at US$13/bbl is 15% YoY and 39% QoQ higher. 1Q Merrill Lynch Indian complex refining margin is 55% YoY and 56% QoQ higher
- **Subsidies:** We expect under-recoveries (ie subsidies) in 1Q to more than treble to Rs412bn v/s just Rs129bn in 1Q FY08. We estimate LPG/kerosene under-recoveries to rise 96% YoY to Rs132bn and auto fuel losses to rise 4.5x YoY to Rs280bn.
- **Subsidy sharing as per government approved formula:** We have assumed upstream subsidy of Rs113bn (Rs450bn announced for full year pro-rated for one quarter) in 1Q. We have also assumed oil bonds of Rs237bn (Rs946bn oil bonds for full year pro-rated for one quarter)

Company-wise expectations for the quarter

Reliance Industries (RIL)

We estimate RIL's 1Q FY09E net profit at Rs43bn to be 18% YoY and 10% QoQ higher. We expect main driver of earnings to be 27% YoY rise in refining margins to US$19.5/bbl. Refining margins have been assumed to be boosted by inventory gains of US$3.5/bbl and also attain another US$3/bbl premium to Singapore margins. We expect refining EBIT to rise 42% YoY to Rs36bn .

We expect RIL's petrochemical EBIT to decline 29% YoY to Rs13.1bn. This is mainly due to weakness in regional petrochemical margins. Average 1Q FY09 asian naphtha cracking margins are down 25% YoY to US$534/tonne

ONGC

We expect ONGC's 1Q FY09E net profit to rise 31% YoY to Rs60bn. We expect the gain of Rs91bn YoY on higher oil price realization to more than make up for Rs60bn YoY rise in subsidy. We expect ONGC's 1Q oil revenues to rise by Rs32bn YoY, net of rise in subsidy.

Cairn India (CIL)

We expect CIL's 2Q 2008E net profit to rise by 140% YoY driven mainly by sharply higher oil price realization. We expect CIL's average oil/ gas realisation in2Q 2008E to rise to US$67/boe from just US$33/boe in 2Q 2007 (up 104% YoY). This is mainly driven by rise in Tapis oil prices (benchmark for Ravva crude). Cairn is highly leveraged to oil prices as oil currently constitutes 67% of its production volumes. EPS rise will be lower at 135% YoY due to 6% equity dilution following private placement made in March 2008.

R&M companies

We expect R&M companies to be in the black in 1Q FY09E mainly driven by issuance of Rs237bn oil bonds. We expect R&M to post strong refining margins in 1Q 2009E mirroring the trend in regional refining margins. However higher subsidy is likely to offset gains from strong refining margins.

GAIL

We expect GAIL's 4Q recurring earnings to decline 6% YoY to Rs6.5bn. GAIL's 1Q earnings would be negatively impacted by hit on increase in gas cost from US$4.75/mmbtu to US$5.7/mmbtu. We expect GAIL's 1Q gas transmission volumes to rise 16% YoY to 92mmscmd mainly driven by incremental 11mmscmd volumes from PMT. Incremental PMT volumes would mean lower pipeline tariffs. However impact of lower tariffs would be visible only in 2Q FY09E when the downward adjustment to 1Q FY09 tariffs is done.

GAIL's 1Q net profit would also be hit by prior period expense of Rs868mn. GAIL had accounted a lower subsidy in 4Q FY08 on a provisional basis. Shortfall thereof is likely to be accounted in 1Q FY09E

Gas utilities

GSPL

We expect GSPL to report 18% YoY rise in its 1Q FY09E earnings. We estimate tariffs to be 12% YoY higher and volumes to be flattish YoY at 17mmscmd.

Petronet LNG

We expect Petronet LNG's 1Q FY09E earnings to rise by 15% YoY driven mainly by 7% YoY rise in regassification charge to Rs32/mmbtu and 2% YoY rise in regassification volumes

Gujarat Gas

We expect Gujarat Gas' 2Q 2008 consolidated earnings to rise modestly by 3% YoY to Rs433mn (net of minority interest of Rs2mn). We have assumed volumes to decline 9% YoY to 2.7mmscmd mainly due to decline in PMT volumes. Realizations may however increase 19% YoY buoyed by higher oil prices

Indraprastha Gas (IGL)

We estimate IGL's 1Q FY09E earnings to rise 29% YoY driven mainly by 17% YoY rise in CNG volumes. We have assumed realizations to be flat YoY.

Healthcare

Potential Result Outperformers: Glenmark, Sun
Potential Result Underperformers: Ranbaxy

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Mixed Quarter; Weak for Ranbaxy and second line plays

We expect 1Q performance to be lackluster for Ranbaxy and several of the second line pharma companies – Biocon, Cadila, Wockhardt, Panacea which are expected to deliver YoY profit variance ranging from -24% to modest +14%. While operating performance for the core business is on an uptrend for the major companies, the poor profitability is largely due to several factors like high base of one-time marketing exclusivity upside (Ranbaxy) and forex translation losses (Ranbaxy, Wockhardt). We however expect Cipla to deliver strong 44% YoY profit growth driven primarily by the low base effect of Jun'07 quarter while for Sun we estimate 72% YoY growth in profits driven by exclusivities. Overall we expect average sales growth of 12% YoY, EBITDA growth of 20% YoY and PAT growth of 16% YoY for our coverage universe.

Ranbaxy: 2Q lower due to translation losses; robust operating performance

For Ranbaxy, our expectation of 68% YoY profit drop in 2Q is largely due to forex translation losses on account of rupee depreciation (~7% depreciation vs US$) and impact of exclusivity income from Pravastatin launch last year. We however expect higher EBITDA margin in 2Q at 16% vs. 15% in previous corresponding quarter. We expect management to reiterate their guidance for 2008 and provide incremental visibility on potential Para IV and other generic product upsides for the year.

1Q highlights for major companies in our universe

1. **Sun Pharma.** Strong 1Q (72% YoY profit growth) largely factors revenues from generic Ethyol and generic Protonix exclusivities which we estimate at US$70mn revenues and ~US$50mn profits in 1Q. Excluding one-offs, we estimate 37% EBITDA margin for the base business.
2. **Glenmark Pharma.** Robust 31% YoY profit growth reflects the impact of scale up in generics business and overall base business growth.
3. **Dr. Reddy's.** Modest 15% YoY profit growth is largely due to improving base business performance. Await more clarity on growth prospects for Betapharm (Germany) and the CPS business
4. **Cipla.** Strong 44% profit growth YoY is largely due to the improvement in base margins (23% vs 20% last year) as well as stable momentum in domestic business.
5. **Divi's Labs.** Possible upward bias to our Rs834mn (29% growth YoY) profit forecast for 1Q.
6. **Wockhardt.** Potential forex related losses for the quarter could lead to a negative surprise (not factored in MLe)

Impact of forex fluctuation for the quarter

The depreciation of rupee against the dollar during the 1Q has taken aback many companies by surprise. USD has appreciated ~7% against the rupee during the quarter, but the positive impact of this is unlikely to be felt by many companies like Ranbaxy, Biocon, Panacea, etc who have already hedged their currency exposure at an earlier level. Also, this might signal high translational losses for companies with foreign currency debt exposure. For Ranbaxy in specific, we estimate ~Rs900mn translational losses for 2QCY08. The impact of rupee depreciation would be marginally positive (1-7%) for the other companies on a QoQ basis. Moreover, adoption of AS-30 norms for derivative transactions might also result in few negative surprises for companies that report high mark to market losses (or a significant exposure).

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Metals

Potential Result Outperformers: SAIL, Tata Steel, Nalco
Potential Result Underperformers: Hindalco, Sterlite

We expect aggregate metals sector profit to grow by 7%YoY in the June Q. This will be driven by 26% YoY growth in sales and an EBITDA growth of 11%YoY. SAIL, Nalco and Tata Steel will witness robust profit growth, Hindalco and Sterlite will likely disappoint.

- SAIL – We expect June to be a good quarter with profit growth of 27% to Rs19.4bn. This will be driven by Y-o-Y volume growth of 11.4% and average realization increase of 15.8%. While we expect FY09 to be difficult year owing to sharp increase in coking coal prices, the hit will begin to come through only from next qtr post the implementation of new contracts.
- Tata Steel – We forecast consolidated EBITDA growth of 10% led by domestic business growth of 27% and flat growth in Corus. Pre tax growth is forecast at 14%. Net profit growth will likely be subdued at only 4% owing to higher taxes. Investors are however likely to focus on sequential growth which we forecast to be strong at 66%.
- Sterlite – We forecast profit to fall 5%. This is owing to weaker zinc, stronger rupee and decline in Copper TCRC. Aluminum prices are stronger but not sufficient to cover for decline in other base metals.
- Hindalco – We forecast domestic profit to fall 13% led by lower Aluminum EBIT. Even though aluminum prices have risen, we forecast cost increases to be even higher.
- Nalco – We forecast profit to grow 15%. Key growth driver is 36% increase in alumina realizations. Cost increases erode some of this benefit and hence bottomline growth is slower.

Real Estate

Potential Result Outperformers: DLF, HDIL

DLF – We expect net profit growth of 7% QoQ from Rs.21.7bn in 4QFY08 to Rs.23.2bn in 1QFY09. The growth is primarily driven by higher EBIDTA margin of 67%, up 200bps QoQ as proportion of comemrcial sales (to DLF Assets Ltd.) increase. We expect revenue growth of 3% QoQ and 44% YoY.

Unitech – Unitech is expected to show net profit growth of 10% QoQ and 9% YoY. We expect the EBIDTA margin to increase from 42% in last quarter to 47% (still below 57% in 1QFY08) as proportion of sales from NCR increase where margins are higher. We expect revenue growth of 2% QoQ and 37% YoY.

HDIL – We expect net profit decline of 69% QoQ and increase of 7% YoY. The QoQ decline is primarily due to profit booked from sale of commercial building in 4QFY08. HDIL follows project completion method for recognizing profits, therefore its earnings could be lumpy. The YoY growth is driven by 23% increase in sale. We expect EBIDTA margin to be around 57% though higher interest cost of Rs.818mn will reduce profit margin.

Puravankara – We expect Puravankara to post a decline in net profit of 22% QoQ essentially due to tax write back in the last quarter. Adjusted for the write back the earnings will grow 3% QoQ. The top line is expected to grow 10% with EBIDTA margins coming down by 200bps.

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Omaxe – The net profit is likely to decline by 22% QoQ and increase by modest 1% YoY. The modest increase YoY is due to sharp decline in EBIDTA margin from 33% to 19%.

APIL – APIL is facing cost pressures; therefore we expect net profit at Rs.284mn, a decline of 13% YoY and 5% QoQ in 1Q FY09. The decline is expected to be driven by EBIDTA margin compression as construction cost and other costs increase. We expect EBIDTA margin of 17% in 1QFY09.

Software

Potential Result Outperformers: Satyam
Potential Result underperformers: Subex

Expect Rupee rev & EPS guidance to be raised; USD rev guidance to be maintained; Re upside largely in price

We expect Infosys and Satyam could raise annual guidance by 5-6 and 7-9%, depending on the extent to which they invest back Re/USD depreciation gains in the business. However, this is largely in the price and we believe the focus will be to assess any inflexion in demand. Our view is while companies will likely sound more comfortable with the April USD terms annual guidance given, they are unlikely to raise it, given considerable persisting uncertainty. Infy may narrow the USD rev guidance range, at best.

Nevertheless, the results season should be positive from the point of view that companies will sound more comfortable and a strong 2Q guidance may make the outlook less back-ended. So far data points have been mixed with Accenture and Oracle reporting strong results, but our European CIO survey indicated some softening in growth expectation. Offshore IT services are however expected to continue to gain market share.

Jun Q: Rupee to boost flat sequential revenue growth in USD terms

We expect little positive surprise in the flattish USD revenue growth guidance given by vendors in April, due to the business pressures at clients' end. However, with the Rupee/USD having depreciated by about 5% on average during the quarter, we expect sequential Rupee revenue growth upwards of 5%.

Margins (ex-forex hedge losses) to look up; hedging losses to partly offset

The 5% Rupee/USD depreciation during the quarter is likely to aid sequential expansion of margins by approximately 150 to 200bps. Thereby, we expect EBITDA margins to be in the -100 to +50 bps range depending on whether companies have the annual wage hike this quarter or not. Infosys, TCS, Tech Mahindra and Patni amongst the larger players have their annual wage hike this quarter. Additionally the June quarter typically sees visa application costs for most players. However, the hedging losses in other income, net of translation gains are likely to partly offset the operating level gains. Hedging losses on cash flow hedges for TCS and Wipro will reflect at the revenue and margin level itself while translation gains and non-cash flow hedge related losses will show in other income.

Strong results: Satyam, Infosys, Hexaware, Tech Mahindra

We expect results from Satyam and Infosys to be strong with Infy likely reflecting confidence in future quarters. Hexaware could surprise on volumes. Educomp could indicate strong school adds in Smart Class. Tech Mahindra could surprise on strong volumes.

Likely disappointments: TCS, Wipro, MphasiS BFL, Firstsource, Rolta, Subex

TCS management has indicated a flat USD rev quarter and likely decline in margins despite Rupee depreciation due to wage hike, visa costs and investments in the business and we expect flat earnings qoq. Similarly Q1 is typically weak for Wipro and the visa charges and RSU charges will hit global IT margins. Moreover escalating costs could hit their domestic consumer care and infrastructure businesses, resulting in flat margins. Rolta, Subex and Firstsource will take large hits on the mark-to market on their forex convertibles.

Telecom

Potential Result Outperformers: Reliance Communications, Bharti

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Result Expectations – Key Highlights

- **Much to digest this quarter**: 1Q FY09E (Apr-Jun '08) has been eventful with various counteracting events. Four key changes that could impact earnings include: 1) expiry of the 100-200bps licence fee concession awarded in CY04 to the 1^{st} & 2^{nd} wireless licencee across circles, except metros; 2) phasing out of ADC charge that was ~75bps of (adjusted) revenues; 3) sharp cuts in domestic long distance (DLD) and in-roaming tariffs mostly by GSM operators; and 4) hike in long-distance carriage charges by select operators, like Bharti. Besides the above, we watch for 1) any easing in selling expenses (that shot up sharply in the March qtr) and 2) potential hit from sharp rupee depreciation.

- **Bharti Airtel:** We forecast Bharti's 1Q FY09E net profit at Rs19.7bn, up 30% YoY and 6% QoQ. Topline and EBITDA growth will likely be similar at ~8% QoQ but net profit growth may be dragged by higher (notional) interest. Consolidated EBITDA margin is forecast to remain stable QoQ at ~41.8%. Wireless margin will likely drop QoQ to ~34% due to full-quarter impact of tower separation and offset of scale economies by tariff cuts. Gains from ADC phase-out will likely be neutralized by licence-fee reversal. In the enterprise services (carriers) business, margins will likely rise as Bharti raised carriage charges in May '08.

- **Reliance Communication**: For Reliance Communication (RCom) we forecast 1Q FY09E recurring net profit at Rs15.8bn, up 46% YoY and 10% QoQ. Profit growth will likely be stronger than for Bharti since RCom's wireless margins are expected to improve QoQ. RCom appears to be a net gainer from the ADC cut after adjusting for licence fee reversal. The improvement in RCom's global-segment margins may lag Bharti's Carriers'/long-distance margins as RCom likely did not hike long-distance carrier charges.

- **Idea Cellular**: We forecast Idea's 1Q FY09E net profit at Rs2.8bn, flat both YoY and QoQ. On a YoY basis, we expect robust (+39%) EBITDA growth but higher interest cost, owing to launch of new circles, will drag profits. On a QoQ basis, we expect EBITDA to grow ~8% dragged by expected attrition (~40bps) in wireless margins.

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Textiles & Apparel

Pre-Result underperforms in Sector: Raymond, Arvind Mills

We expect the 1Q results to be disappointing for the textile sector. The recent sharp Re depreciation is positive for export focused textile companies. However, its benefit will start to flow only in 2H as most of the companies have their dollar exposures hedged for at least first half of the year. We expect the pressure on earnings to continue on rising input costs and high interest costs.

- **Raymond's** consolidated performance will continue to get impacted by losses incurred by the denim JV. Further, 1Q is seasonally a weak quarter for worsted business. However, we do expect a revival in worsted volume growth.
- **Arvind Mills** is likely to report strong sales growth helped by branded retail business but a flat EBIDTA due to rising input costs.
- **Welspun India** is likely to report a substantial drop in profits as margins remain impacted by strong Re and lower other income. **Gokaldas** performance too will remain impacted by the Re.
- **Himatsingka's** new bed linen business is in gestation phase and hence the profits are likely to remain subdued.

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Industrials

Pre-Result Outperformer in Sector: L&T

- A 28%YoY top-line growth and a 23%YoY growth in bottom-line of Indian Engineering & Construction (E&C) majors during April-June quarter should clearly reinforce our bullish stance on the sector and re-assure the markets.
- We expect double digit growth in order backlog for most companies despite focus on acquiring better priced orders. The key issue to watch-out for in the E&C sector is likely improvement in execution & no major fall in EBITDA margins as new priced orders come-in for execution & operating leverage kick-in.
- We expect the Indian E&C Sector, represented by BHEL, L&T, Suzlon, ABB, JPA, IVRCL and NJCC to report sales growth of 28%YoY, EBITDA growth of 35%YoY and Recurring PAT growth of 23%YoY.
- **L&T**: We expect L&T's growth in order inflow to be muted in the 1QFY09 as the company focuses on improving execution on big ticket projects. We expect strong sales / PAT growth at 29%YoY on a higher base. Markets would also be more focused on the reporting on commodity hedging / forex losses for 1QFY09, where we expect some reduction in MTM losses.
- Meanwhile, **ABB's** strong 2QCY08 results should be driven by continued strong sales growth of 27%YoY led by strong order backlog. Improved labor productivity and declining O&M costs will result in 32%YoY growth in earnings.
- **BHEL** remains our preferred pick on robust order intake of >Rs160bn +50%YoY and backlog (~56%YoY) for 1QFY09E. We like BHEL as it fixed technology issues such as advance class gas turbines & super critical plants.

This would not only complete its product offering but also drive order backlog beyond the current 3.6x FY09E sales. Rebound in sales growth, rise in the labor cost & provision for contracts would be the key number to look for in 1Q.

- **Suzlon**: In 1QFY09E Suzlon could report a loss of Rs1.3bn mainly on MTM loss of Rs1.6bn on FCCB. We estimate 37%YoY rise in overall volumes led by international sales. Further the consolidation of Hansen would drive YoY growth. We expect margin pressures to abate on low base last year. We estimate 48%, 69% and 67% growth in Suzlon’s Sales, EBITDA and PAT respectively (on YoY basis).
- **JPA**: Expect 18% growth in sales led by good performance of all key divisions and 25% growth in EBITDA. However, rise in fixed costs on commissioning of cement expansion would mute the bottom-line growth to 14%YoY growth in PAT.
- **IVRC** remain our preferred picks in the Mid-cap E&C space. We expect IVRCL to report 30%YoY growth in sales during 1QFY09 led by good growth in power & transmission as well as the water business. We expect the improved pricing & operational efficiency to support margin and 32%YoY growth in EBITDA. However, its profit growth is estimated at muted 14%YoY on higher tax rate (27% v/s 22%).
- Expect NJCC’s sales to grow at 25%YoY and EBITDA to grow at a slower – 18%YoY in 1QFY09 on high base last year (expanded 200bps). PAT growth likely at 22%YoY .

Media

Pre-Result Underperformer in Sector: None

We expect a muted 1QFY09 for the media companies but caution investors that YoY growth may not show shape of things to come in future at Zee due to corporate action – de-merger of loss making Zee Next from 2Q onwards.

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- **Zee Entertainment Enterprises (ZEEL)**: We expect ZEEL’s 1QFY09 to record strong topline of Rs4.6bn despite the cricket series’ (IPL) on competing channels during the quarter. Drivers of the strong topline would be the monetization of the advertisement rate hike announced last year. We expect flat EBITDA of Rs1.2bn on booking of Rs500mn loss on Zee Next. This should lead to Rs860mn of Recurring PAT up 12%YoY. However, led by Rs570mn tax refund, reported PAT could spike reported PAT to Rs1.4bn +82YoY%.
- **Both Sun TV and Balaji** should have a strong topline of 20-21%YoY; EBITDA growth of 16-18%YoY and PAT growth of ~20%YoY for 1QFY09. However, this may be the last quarter at Balaji to should growth in realization and higher margins as it faces potential fall in realization at Star Plus serials from July 2008.

Utilities

Pre-Result Underperformer in Sector: Neyveli Lignite

In the Utility sector, markets would be more concerned on increase in generation at NTPC on weak coal supplies not helping utilization and progress on future plans such as expansion in generation capacity, update on new IPP projects and AT&C loss reduction in New Delhi JVs of Reliance and Tata Power.

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We expect the Indian Utility Sector, represented by NTPC, Reliance Energy, Tata Power, Neyveli, GIPCL and JHPL to report sales growth of 13%YoY, EBITDA and PAT growth of 7%YoY on many truing-up situations like at Tata Power & Reliance.

The primary reason for the weak growth would be lack of volume growth and limited improved efficiency (NTPC).

- We expect **NTPC's 1**QFY09 to again bring to the front the investor concerns of coal availability hitting its utilization rates driving likely flat YoY growth in generation. Fuel cost savings remain on-track in 1Q but the sales from its high margin spot market may slow due to cap on realization from UI market.
- On recurring basis, we expect 6%YoY growth in NTPC's 1QFY09 PAT.
- We expect a 19%YoY growth in sales for Reliance Energy led by higher cost of power purchased / produced and growth in E&C revenues. We expect recurring PAT to increase by 17%YoY as past recovery in license area drive PAT.
- We expect Tata Power to witness recurring PAT growth of 25%YoY mainly on tax breaks from wind parks being set-up by Suzlon & Enercon and low base last year.
- 20% fall in generation should hit Neyveli Lignite shares.
- JHPL has had a flat generation, so bottom-line should be driven by investment inclome.

NTPC & Reliance Infra remain our preferred picks in the sector based on expansion in its generating capacity and distribution franchise, and reduction in T&D losses at its Delhi JVs (Reliance). Maintain Under-perform on JHPL, as the stock remains expensive on valuations and Neutral on Tata Power, Neyveli & GIPCL.

Table 6: Result estimate for the Q ended 30th June 2008

	ML	Q-R-Q	Price	Sales		% change		EBITDA		% change		Net Profit			% change
(Rs mn)	Symbol	Rating	04 Jul 2008	Jun-07	Jun-08	YoY	QoQ	Jun-07	Jun-08	YoY	QoQ	Jun-07	Jun-08	YoY	QoQ
Automobile															
Ashok Leyland	XDBVF	C-3-7	28.75	16,211	17,794	9.8%	-30.5%	1,546	1,601	3.6%	-47.6%	907	841	-7.3%	-53.9%
Automotive Axles	XATOF	C-1-7	202.9	1,474	1,872	27.0%	-10.3%	216	306	41.5%	12.0%	120	144	20.2%	0.2%
Bajaj Auto Ltd	BJJAF	C-2-7	443.4	21,091	22,660	7.4%	9.2%	2,894	2,889	-0.2%	10.5%	1,578	1,219	-22.8%	-20.6%
Bharat Forge	XUUVF	C-1-7	230.5	4,969	5,679	14.3%	-2.0%	1,012	1,335	31.8%	-7.1%	648	274	-57.7%	-54.3%
Hero Honda	HRHDF	C-1-7	666.6	24,480	28,489	16.4%	2.2%	2,635	3,319	26.0%	-19.4%	1,898	2,476	30.4%	-17.1%
Mahindra & Mahindra	MAHHF	C-3-7	475.1	26,128	30,537	16.9%	-3.0%	2,771	2,947	6.3%	-13.9%	1,922	1,910	-0.6%	-7.6%
Maruti Udyog	MUDGF	C-3-7	548.8	39,308	46,340	17.9%	-3.8%	5,748	5,931	3.2%	5.8%	4,465	4,376	-2.0%	-18.6%
Tata Motors	TENJF	C-3-7	400.3	60,568	64,010	5.7%	-26.8%	5,463	5,761	5.5%	-27.4%	4,652	1,768	-62.0%	-63.1%
TVS Motors	XFKMF	C-3-7	26.2	7,833	9,884	26.2%	34.0%	191	198	3.3%	9.0%	26	40	57.9%	-53.8%
Airlines															
Jet Airways	JTAIF	C-2-8	333.7	18,067	30,261	67.5%	9.6%	2,460	332	-86.5%	-84.4%	-356	-3,517	NA	NA
Cement															
ACC	ADCLF	C-3-7	477.4	18,680	18,361	-1.7%	2.2%	5,444	4,652	-14.5%	-1.1%	3,712	3,219	-13.3%	0.3%
Grasim Industries	GRSJF	C-3-7	1690.9	40,647	41,032	0.9%	-13.0%	12,677	11,754	-7.3%	-1.8%	6,688	5,928	-11.4%	-0.9%
India Cement	INIAF	C-3-9	130.8	7,012	7,923	13.0%	-6.1%	2,643	2,774	5.0%	5.5%	1,834	1,520	-17.1%	-0.4%
Ambuja Cements Ltd	AMBUF	C-3-7	74.8	14,644	15,923	8.7%	-3.8%	5,453	4,794	-12.1%	-7.1%	4,036	3,215	-20.3%	-3.2%
Shree Cement	SREEF	C-3-7	530.5	4,258	6,155	44.5%	-5.3%	1,823	2,142	17.5%	-15.5%	1,169	878	-24.9%	113.7%
Ultratrech Cemco	XDJNF	C-2-7	537.6	13,653	14,411	5.6%	-10.0%	4,335	4,486	3.5%	-8.2%	2,594	2,661	2.6%	-5.9%
Consumer															
Asian Paints	XAPNF	C-3-7	1032.2	9,605	11,342	18.1%	0.1%	1,354	1,567	15.8%	0.6%	815	935	14.6%	-3.1%
Colgate Palmolive (India) Ltd	CPIYF	C-2-7	367.2	3,510	4,001	14.0%	2.3%	608	620	2.1%	22.7%	612	617	0.8%	11.0%
Dabur India Ltd	DBUIF	C-2-7	77.8	5,709	6,565	15.0%	8.2%	792	919	16.0%	-6.0%	622	712	14.4%	-11.5%
Hindustan Unilever Ltd	HINLF	C-3-7	201.5	34,814	40,750	17.1%	7.4%	5,120	5,906	15.4%	44.8%	4,720	5,398	14.4%	42.6%
ITC	ITCTF	C-3-7	171.2	33,252	36,661	10.3%	-6.8%	11,276	11,979	6.2%	14.7%	7,828	8,058	2.9%	9.5%
Nestle	XNTEF	C-1-7	1608.5	8,693	10,541	21.3%	-7.1%	1,614	1,957	21.3%	-18.1%	957	1,219	27.4%	-23.9%
United Spirits	UDSRF	C-1-7	1083.8	7,657	9,571	25.0%	26.1%	1,694	1,962	15.8%	45.0%	876	1,036	18.3%	59.2%
Radico Khaitan	RKHAF	C-3-7	91.4	2,055	2,363	15.0%	6.3%	249	236	-5.0%	29.8%	121	128	6.2%	6321.8%
Healthcare															
Biocon Ltd	BCLTF	C-1-7	377.2	2,670	3,316	24.2%	22.4%	830	779	-6.1%	1.2%	650	504	-22.5%	-4.9%
Cadila Healthcare	CDLHF	C-1-7	312.7	5,609	6,656	18.7%	21.7%	1,112	1,225	10.2%	8.0%	739	697	-5.6%	34.1%
Cipla	XCLAF	C-3-7	208.1	9,018	10,584	17.4%	-5.7%	1,792	2,414	34.7%	-0.8%	1,198	1,720	43.7%	-4.1%
Divi's Laboratories	XXQPF	C-1-7	1344.8	2,301	2,859	24.3%	1.2%	857	1,087	26.8%	-9.2%	649	834	28.6%	-11.6%
Dr Reddy's Laboratories Ltd	DRYBF	C-3-7	645.2	12,018	14,481	20.5%	9.3%	2,065	2,350	13.8%	87.1%	1,826	2,094	14.7%	103.7%
Glenmark Pharmaceuticals	XVQWF	C-1-7	612.4	3,514	4,089	16.4%	-28.6%	1,025	1,166	13.8%	-47.8%	572	748	30.9%	-65.8%
GSK Pharma	GXOLF	C-2-7	1138.7	3,956	4,375	10.6%	4.6%	1,223	1,378	12.7%	-4.0%	964	1,145	18.7%	-5.6%
Nicholas Piramal India Ltd	XNIGF	C-2-7	293.9	6,081	6,924	13.9%	-9.8%	841	1,177	40.0%	-42.2%	434	732	68.7%	-45.5%
Panacea Biotech	XPEAF	C-1-7	303.0	2,334	2,720	16.5%	39.1%	703	680	-3.3%	106.4%	473	464	-1.8%	86.2%
Ranbaxy Laboratories Ltd	XIZZF	C-1-7	538.4	16,853	18,007	6.8%	6.0%	2,665	2,881	8.1%	12.9%	2,635	841	-68.1%	29.0%
Wockhardt Ltd	XDUVF	C-3-7	182.0	6,303	7,563	20.0%	-3.7%	1,522	1,815	19.3%	4.5%	1,024	892	-12.8%	13.2%
Industrials/ Construction															
ABB	ABVFF	C-2-7	835.9	14,009	17,791	27.0%	15.9%	1,638	2,117	29.2%	22.6%	1,086	1,433	32.0%	21.7%
Bharat Heavy Electricals Limited	BHHEF	C-1-7	1500.2	32,339	38,284	18.4%	-46.8%	3,457	4,237	22.6%	-73.6%	3,118	3,546	13.7%	-73.4%
Larsen & Toubro	LTOUF	C-1-7	2381.5	45,066	58,284	29.3%	-31.3%	4,244	5,911	39.3%	-47.8%	2,888	3,691	27.8%	-58.0%
Nagarjuna Construction	NGRJF	C-1-7	125.4	7,622	9,560	25.4%	-23.8%	793	939	18.5%	-14.1%	360	443	22.9%	-19.1%
IVRCL Infrastructure	IIFRF	C-1-7	304.1	6,773	8,808	30.0%	-33.4%	583	766	31.4%	-44.8%	367	422	15.1%	-42.4%
Jaiprakash Ass	JPRKF	C-1-7	153.5	9,270	10,975	18.4%	-15.3%	2,390	2,981	24.7%	-28.0%	1,400	1,601	14.3%	-23.8%
Suzlon	SZEYF	C-1-7	191.9	19,446	28,750	47.8%	-41.6%	1,398	2,345	67.7%	-67.6%	189	315	66.8%	-94.2%

Table 6: Result estimate for the Q ended 30th June 2008

(Rs mn)	ML Symbol	Q-R-Q Rating	Price 04 Jul 2008	Sales Jun-07	Sales Jun-08	% change YoY	% change QoQ	EBITDA Jun-07	EBITDA Jun-08	% change YoY	% change QoQ	Net Profit Jun-07	Net Profit Jun-08	Net Profit YoY	% change QoQ
Software															
Educomp Solutions Ltd	EUSOF	C-1-7	2783.6	275	913	232.0%	-22.7%	134	300	123.9%	-45.6%	60	131	119.4%	-58.4%
Firstsource Solutions	FSSOF	C-3-9	30.8	2,537	4,012	58.1%	8.7%	585	601	2.7%	-3.5%	443	-422	-195.3%	-300.9%
HCL Technologies	HCLTF	C-2-7	236.1	16,120	20,615	27.9%	6.0%	3,475	4,783	37.6%	10.4%	4,869	3,497	-28.2%	2.1%
Hexaware Tech	XFTCF	C-3-7	47.4	2,616	3,011	15.1%	12.8%	321	280	-12.5%	6.7%	261	227	-13.3%	8.6%
Infosys Technologies Ltd	INFYF	C-2-7	1755.8	37,730	49,069	30.1%	8.0%	10,840	15,545	43.4%	5.2%	10,280	12,962	26.1%	5.5%
Infotech India	IFKFF	C-1-7	234.1	1,488	1,981	33.1%	5.7%	264	345	30.5%	1.0%	130	215	65.7%	-16.7%
KPIT Cummins Infosystems	KPTCF	C-3-7	55.6	1,353	1,758	29.9%	6.6%	215	241	12.3%	2.3%	127	123	-2.8%	4.7%
Mastek	MSKDF	C-3-7	355.9	1,806	2,466	36.5%	5.7%	265	467	76.5%	8.9%	237	364	53.9%	10.1%
Mphasis BFL	MPSSF	C-1-7	202.2	5,316	7,037	32.4%	7.0%	977	1,160	18.7%	12.3%	513	666	29.8%	-6.7%
Patni Computers Services	PATIF	C-3-7	232.8	6,628	7,139	7.7%	1.1%	1,554	785	-49.5%	-11.5%	1,348	765	-43.2%	5.6%
Rolta	RLTAF	C-1-7	265.5	2,031	3,169	56.0%	9.9%	800	1,073	34.2%	6.5%	488	405	-17.2%	-38.4%
Sasken Communication	SKNCF	C-3-7	135.5	1,284	1,605	25.0%	2.0%	99	264	167.0%	-11.5%	64	87	36.2%	-36.1%
Subex Ltd	SBXSF	C-3-7	84.7	1,317	1,580	20.0%	45.6%	-25	262	NA	NA	216	-111	-151.4%	NA
Satyam Computers	SAYPF	C-1-7	461.1	18,302	26,666	45.7%	10.4%	4,103	6,226	51.7%	13.1%	3,783	5,062	33.8%	8.4%
TCS	TACSF	C-1-7	844.5	52,028	63,917	22.9%	4.9%	13,264	15,589	17.5%	0.4%	11,602	12,613	8.7%	0.4%
Tech Mahindra	TMHAF	C-1-7	706.8	8,763	11,335	29.4%	10.9%	1,933	2,344	21.3%	5.4%	1,698	2,009	18.3%	-8.2%
Wipro	WIPRF	C-1-7	427.7	42,360	58,977	39.2%	3.2%	8,796	11,449	30.2%	-0.2%	7,255	8,457	16.6%	-3.9%
Media															
Balaji Telefilms	BLJIF	C-3-7	168.3	745	900	20.8%	-6.8%	295	342	15.9%	-1.7%	184	224	21.5%	-8.2%
Sun TV	SUTVF	C-2-7	253.6	2,023	2,428	20.0%	-1.5%	1,529	1,805	18.0%	14.1%	931	1,118	20.2%	22.3%
Zee Telefilms	XZETF	C-1-7	198.2	3,916	4,598	17.4%	-12.6%	1,197	1,287	7.6%	-1.2%	771	895	16.1%	-18.2%
Metals															
Hindalco	HNDFF	C-3-7	138.3	47,322	46,898	-0.9%	-6.4%	8,843	8,443	-4.5%	6.0%	6,029	5,256	-12.8%	-2.1%
NALCO	NAUDF	C-3-7	340.3	11,652	15,923	36.6%	13.3%	6,164	7,200	16.8%	27.0%	4,467	5,132	14.9%	25.5%
SAIL	SLAUF	C-2-7	127.9	80,395	103,702	29.0%	-23.1%	23,829	30,049	26.1%	-10.1%	15,251	19,410	27.3%	-5.9%
Sterlite Industries	XTNDF	C-2-8	640.6	61,391	65,921	7.4%	-2.6%	21,561	21,640	0.4%	-0.5%	11,429	10,882	-4.8%	0.8%
TISCO	TAELF	C-1-7	640.4	311,546	412,476	32.4%	14.4%	49,043	53,963	10.0%	22.0%	23,698	24,659	4.1%	66.4%
Oil & Gas															
BPCL	XBPCF	C-2-7	229.7	238,694	312,689	31.0%	-4.0%	2,060	4,720	129.1%	-45.1%	1,927	673	-65.1%	15.2%
Cairn India	XCANF	B-1-9	251.7	2,433	4,558	NA	44.3%	1,895	3,647	92.5%	60.0%	691	1,728	150.0%	68.2%
GAIL	XGLAF	C-2-7	312.5	42,457	55,194	30.0%	11.8%	10,387	10,198	-1.8%	-12.1%	6,852	6,459	-5.7%	-10.6%
Gujarat Gas Company Ltd	GJGCF	C-3-8	228.8	2,835	2,784	-1.8%	-16.8%	682	691	1.2%	-3.7%	422	435	3.1%	-4.1%
Gujarat State Petronet Ltd	GJRSF	C-1-7	56.4	958	1,083	13.0%	0.2%	834	944	13.2%	0.4%	179	210	17.8%	-5.2%
HPCL	XHTPF	C-1-7	184.9	218,817	229,758	5.0%	-27.0%	-1,285	4,950	-485.1%	128.3%	-869	1,358	-256.3%	-64.7%
Indian Oil Corporation Ltd	IOCOF	C-1-7	341.6	528,620	623,771	18.0%	-13.2%	14,186	18,546	30.7%	198.2%	14,651	6,998	-52.2%	-841.5%
Indraprastha Gas Ltd	IAGSF	C-3-7	108.2	1,618	1,922	18.8%	2.6%	687	809	17.8%	3.4%	384	494	28.7%	2.6%
ONGC	ONGCF	C-1-7	876.5	136,877	176,628	29.0%	13.0%	79,223	102,606	29.5%	77.6%	46,105	60,381	31.0%	94.4%
Petronet LNG Ltd	POLNF	C-3-7	53.8	15,510	17,607	13.5%	0.5%	2,049	2,205	7.6%	2.6%	1,080	1,241	14.9%	3.4%
Reliance Industries	XRELF	B-1-7	2097.9	295,240	383,812	30.0%	2.9%	56,730	67,402	18.8%	12.0%	36,300	42,921	18.2%	9.7%
Retail															
Pantaloon Retail	PFIAF	C-3-7	360.8	10,196	14,354	40.8%	6.0%	547	1,155	111.4%	1.2%	49	223	359.0%	-30.6%
Titan	TTNIF	C-1-7	1024.0	6,575	9,880	50.3%	20.1%	394	450	14.3%	-46.3%	180	240	33.6%	-60.3%
Shoppers Stop	SHPSF	C-3-7	312.1	2,315	3,283	41.8%	4.4%	138	148	6.8%	7.5%	20	7	-63.5%	-285.1%
Telecom															
Bharti Televenture	BHTIF	C-1-9	717.2	59,046	84,272	42.7%	7.8%	24,467	35,209	43.9%	8.3%	15,116	19,711	30.4%	6.4%
Idea Cellular	IDEAF	C-1-9	88.5	14,773	21,535	45.8%	9.2%	5,128	7,131	39.1%	7.9%	2,756	2,806	1.8%	1.4%
MTNL	XMTNF	C-3-7	87.0	11,943	11,748	-1.6%	1.6%	2,410	2,220	-7.9%	-4.2%	1,000	1,092	9.1%	-50.4%
Reliance Communication	RLCMF	C-1-7	436.8	41,657	57,846	38.9%	8.9%	16,762	25,346	51.2%	9.4%	10,828	15,911	46.9%	10.3%
VSNL	VSLSF	C-2-8	365.2	10,081	8,813	-12.6%	3.7%	2,327	1,494	-35.8%	2.1%	1,035	625	-39.6%	6.2%

Table 6: Result estimate for the Q ended 30th June 2008

(Rs mn)	ML Symbol	Q-R-Q Rating	Price 04 Jul 2008	Sales Jun-07	Sales Jun-08	% change YoY	% change QoQ	EBITDA Jun-07	EBITDA Jun-08	% change YoY	% change QoQ	Net Profit Jun-07	Net Profit Jun-08	Net Profit YoY	% change QoQ
Textile/Apparels															
Arvind Mills	ARVZF	C-3-7	29.5	5,103	6,379	25.0%	-3.1%	721	734	1.7%	3.6%	-20	72	-468.0%	38.4%
Gokaldas	GKLDF	C-3-7	174.1	2,619	3,012	15.0%	8.2%	209	301	44.0%	-5.6%	105	103	-1.7%	-38.8%
Himatsingka	HMKFF	C-2-7	44.4	831	3,140	277.7%	10.0%	96	204	111.6%	158.5%	73	6	-92.1%	-103.5%
Raymond	XRAMF	C-3-7	209.5	4,609	5,531	NA	-23.6%	231	277	NA	-4.4%	15	18	18.5%	NA
Welspun	WPNIF	C-1-9	36.2	2,647	3,442	30.0%	-10.2%	546	413	-24.4%	2.8%	92	36	-60.5%	-226.3%
Utilities															
GIPL	GUJIF	C-2-7	72.5	2,151	2,144	-0.3%	-14.6%	706	733	3.9%	149.8%	378	385	1.8%	-369.2%
JP Hydro	XJSHF	C-3-7	43.3	940	932	-0.9%	106.2%	884	872	-1.3%	131.8%	504	512	1.6%	131.4%
Neyveli Lignite	NEYVF	C-2-7	96.4	7,776	6,652	-14.5%	-22.0%	3,855	2,902	-24.7%	-33.4%	2,813	2,608	-7.3%	-46.6%
NTPC	NTHPF	C-1-7	153.9	84,586	96,834	14.5%	-10.5%	24,722	27,594	11.6%	-16.7%	17,648	18,768	6.3%	-13.8%
Reliance Energy	RCTDF	C-1-7	771.8	16,240	19,328	19.0%	17.7%	1,203	1,603	33.3%	78.6%	2,893	3,385	17.0%	8.7%
Tata Power	XTAWF	C-2-7	1104.8	15,115	17,283	14.3%	5.7%	2,638	2,692	2.0%	81.9%	1,625	2,037	25.4%	477.1%
Real Estate															
Ansal Properties	ANSFF	C-1-7	86.8	1,827	2,702	47.9%	1.0%	532	464	-12.8%	0.4%	325	284	-12.6%	-5.0%
Unitech	UTKIF	C-2-7	166.6	8,656	11,833	36.7%	2.0%	5,005	5,544	10.8%	15.1%	3,657	3,971	8.6%	10.2%
HDIL	XGHSF	C-1-7	412.4	4,433	5,463	23.2%	-44.0%	2,365	3,139	32.7%	-63.7%	2,027	2,163	6.7%	-69.5%
Puravankara Projects Ltd	XPJVF	C-1-7	170.8	1,410	1,693	20.1%	10.0%	482	536	11.2%	1.7%	440	567	28.9%	-22.0%
Omaxe Ltd	XOMXF	C-3-8	127.5	3,417	5,795	69.6%	2.0%	1,133	1,120	-1.1%	20.8%	734	744	1.4%	-11.0%
DLF	XVDUF	C-1-7	415.5	30,740	44,357	44.3%	3.0%	22,040	29,786	35.1%	7.0%	15,240	23,228	52.4%	6.7%
Others															
Container Corp	CIDFF	C-3-7	759.7	7,759	8,821	13.7%	-2.4%	2,281	2,386	4.6%	-8.0%	1,871	1,999	6.8%	-11.0%
Gateway Distrip	GYDPF	C-3-7	71.0	483	876	81.3%	4.8%	220	302	37.0%	10.2%	186	183	-1.5%	11.0%
United Phosphoru	UPHHF	C-1-7	263.6	8,423	11,371	35.0%	-5.5%	1,669	2,047	22.6%	-10.3%	733	1,102	50.3%	92.1%
Exide Indus Ltd	XEDRF	C-1-7	64.8	6,639	8,705	31.1%	10.0%	1,311	1,540	17.5%	37.1%	701	848	20.9%	34.9%
Motherson Sumi	XMSUF	C-1-7	76.0	4,517	5,436	20.3%	-7.4%	570	846	48.3%	-14.3%	370	470	26.8%	-24.0%
ABG Shipyard	ABSHF	C-1-7	346.2	2,033	4,080	100.6%	47.5%	550	1,118	103.1%	23.3%	334	624	86.8%	35.5%
Bharati Shipyard	BSYDF	C-1-7	304.8	1,560	2,200	41.0%	6.6%	384	574	49.6%	1.8%	222	332	49.3%	1.7%
Mcleod Russel	XCVFF	C-1-7	67.2	736	893	21.3%	-48.4%	106	197	85.1%	-126.6%	-3	10	NA	NA

Source: Merrill Lynch Research

Table 7: Result estimate for Financials for the Q ended 30th June 2008

	ML	Q-R-Q	Price	Net Interest Income		%Change		Pre Provision Profits		%Change		Net Income		%Change	
	Symbol	Rating	04 Jul 2008	Jun-07	Jun-08	YoY	QoQ	Jun-07	Jun-08	YoY	QoQ	Jun-07	Jun-08	YoY	QoQ
Financials															
Bank of Baroda	BKBAF	C-1-7	208.3	9,586	10,631	10.9%	3.4%	6,445	6,442	0.0%	-20.9%	3,308	2,799	-15.4%	1.2%
Bank of India	XDIIF	C-1-7	231.1	9,472	11,254	18.8%	-7.5%	6,778	8,473	25.0%	-30.1%	3,152	3,942	25.1%	-47.9%
Canara Bank	CNRKF	C-3-7	167.6	8,941	8,666	-3.1%	-6.1%	6,121	5,669	-7.4%	-39.6%	2,406	1,717	-28.6%	-63.0%
Corporation Bank	XCRRF	C-1-7	261.7	3,525	3,927	11.4%	-2.5%	2,756	3,327	20.7%	-17.6%	1,771	1,629	-8.0%	-20.9%
Federal Bank	XFDRF	C-2-7	183.8	1,928	2,491	29.2%	-8.8%	1,884	2,309	22.5%	-11.7%	669	726	8.5%	-29.4%
HDFC Bank	XHDFF	C-1-7	1000.3	10,422	16,158	55.0%	-1.6%	7,837	11,324	44.5%	4.0%	3,212	4,237	31.9%	-10.1%
HDFC Ltd.	HGDFF	C-1-7	2057.4	5,818	6,981	20.0%	-26.7%	5,087	6,228	22.4%	-43.3%	3,728	4,665	25.1%	-39.3%
IDFC Ltd.	IFDFF	C-2-7	106.9	2,985	4,092	37.1%	77.4%	2,487	3,296	32.5%	65.6%	1,842	2,134	15.9%	73.2%
ICICI Bank	ICIJF	C-1-7	603.6	16,634	21,036	26.5%	1.2%	14,734	19,651	33.4%	-14.2%	7,242	7,921	9.4%	-31.1%
Oriental Bank of Commerce	ORBCF	C-3-7	127.8	4,431	4,566	3.0%	4.5%	3,251	3,382	4.0%	4.1%	2,004	1,187	-40.8%	-42.0%
Punjab National Bank	PUJBF	C-1-7	388.5	13,782	15,104	9.6%	-0.5%	9,331	10,080	8.0%	-17.8%	4,251	4,606	8.3%	-15.3%
State Bank of India	SBINF	C-1-7	1124.9	42,014	46,479	10.6%	-3.2%	23,615	30,686	29.9%	-29.8%	14,259	11,990	-15.9%	-36.3%
Union Bank	UBOIF	C-1-7	110.6	7,713	8,090	4.9%	-3.0%	5,255	6,125	16.6%	-31.2%	2,251	1,838	-18.4%	-64.7%
Axis Bank	UTBKF	C-1-7	600.5	4,468	7,679	71.9%	-7.3%	3,679	5,406	46.9%	-25.2%	1,750	2,215	26.6%	-38.7%
Vijaya Bank	VJYAF	C-3-7	33.2	2,636	2,332	-11.5%	4.5%	1,713	1,489	-13.1%	-20.1%	1,114	338	-69.6%	90.2%
Yes Bank	YESBF	C-1-7	109.7	524	1,011	92.9%	-6.8%	608	1,023	68.2%	-15.4%	360	504	40.1%	-21.8%
Indian Bank	INDIF	C-1-7	88.1	4,905	5,242	6.9%	2.1%	3,297	3,661	11.0%	-30.0%	2,120	1,412	-33.4%	-41.6%

Source: Merrill Lynch Research

Price objective basis & risk

Ambuja Cements (AMBUF)

We have a price objective of Rs95 (GDR of US$2.4) for Ambuja based on an EV/EBITDA of 8x CY09E and PE of 13x CY09E. Forecast valuations are comparable with trough multiples in CY95-96 at the commencement of the previous cyclical downturn. Our target price implies a valuation of US$150/ton for ACC versus replacement cost of about US$100/ton. Given our forecast RoE at about 17% for CY09E (vs. cost of equity at about 15%), we think valuations may not trade below replacement cost in a hurry. Downside risks to our PO are possible introduction of price controls by the government and consequent inducement of lower-than-forecast returns. Upside risks are unexpected delays in commissioning of new capacities and unforeseen easing in energy prices especially coal. High visibility of stable earnings for next 2-3 quarters may also provide downside support until the downturn in cements prices becomes visible in 1Q CY09. Market expectations of stake increases by Holcim (the global cement major that owns 50% of Ambuja) may also lend downside support.

Bharti (BHTIF)

We have a price objective of Rs1100/sh for Bharti. Our PO is based on a PE of 21x FY10E and EV/EBITDA of 11x FY10E, and is supported by DCF using 11% WACC and 5% terminal growth. Our target PE & EV/EBITDA multiples broadly reflect the mid-points of Bharti's long-term valuation bands. Bharti has traded in the range of 18-24x on a PE basis and 8-15x on EV/EBITDA. Valuations will continue to be uplifted by 20-25% earnings & EBITDA growth but are unlikely to revert to peak levels due to expected increase in competitive intensity and YoY slowdown in market growth. Our PO does not factor any separate value for Bharti's tower business, stronger-than-anticipated tower-sharing would be present upside. Possible dramatic regulatory changes viz potential sharp increase in spectrum charges or sharp cut in mobile termination charges are a key risk. Also, there is risk of irrational bidding for 3G licences.

Hindalco (HNDFF)

Our PO of Rs148 is based on DCF valuation. Our DCF incorporates WACC of 11.1% and perpetuity growth of 0%. We assume aluminium prices of US$2960/t in FY09E, US$2949/t in FY10E and long term price of US$2646/t. Risks to our PO: Upside - higher aluminium prices and improvement in Novelis fundamentals. Downside: lower aluminum prices, further deterioration in Novelis performance due to US slowdown and inability to refinance the acquisition debt.

ITC Limited (ITCTF)

Our preferred valuation methodology is PEG given that ITC is a growth stock. We base our valuation on a target PEG of 1.3x for FY10E using EPS CAGR of two years over FY08-10E. Based on this methodology, we arrive at our PO of Rs160. We forecast EPS to grow at an average of 12pct over the next two years. At our PO, the stock would trade at P/Es of 18x FY09E and 15.4x FY10E. We believe using a target PEG of 1.3x is justified given that ITC is a virtual monopoly in the Indian cigarette market. It possesses perhaps the strongest distribution network in India and is among the most liquid stocks in the country's FMCG sector. Downside risks: Sharp margin decline led by recent steep excise duty increase in non-filter cigarettes. Upside risks: Stronger-than-expected uptrading to the higher margin filter cigarettes.

RCVL (RLCMF)

We have a price objective of Rs725/sh for RCom. Our PO is based on a PE of 20x FY10E and EV/EBITDA of 11x FY10E, and is supported by DCF using 11% WACC & 5% terminal growth. Our target multiples derive from the long-term valuation bands of Bharti that trades in a PE range of 18-24x and EV/EBITDA range of 8-13x 1-year forward. Given the close competitive positions of RCom & Bharti, we expect the two stocks to trade in a similar valuation range. The company's relative insulation from policy risks likely counter-balance higher execution risks due to its dual technology strategy. Overall, valuations will continue to be supported by 20-30% earnings & EBITDA growth. Unforeseen push back in nationwide GSM rollout, possible dramatic regulatory changes viz potential sharp increase in spectrum charges, and irrational bidding for 3G licences are risks.

Satyam (SAYPF)

Our PO of Rs580 (US$30 for ADR) is at 15x FY10E PE at a PEG of 0.9x, which is lower than its 1-yr median PEG of over 1x, and higher than its 5-yr median PEG, given its re-rating on strengthened management and tightened operations. Key risks: Cuts in discretionary IT spending in the US could impact enterprise solutions revenue - a high proportion of Satyam's revenues. Industry specific risks include increasing competition from global vendors, risk of Rupee appreciation and sharper than expected macro slowdown.

Sterlite Industr (XTNDF)

Our PO of Rs800 (USD 18.7) is based on sum of parts for the metals and merchant power business. We value the metals business at 12 month DCF value of Rs695. This includes minority stake hikes in FY10. Our DCF builds in long term metal prices from FY16E onwards and we take a WACC of 11% and perpetuity growth of 0%. We forecast long term zinc prices of $1654/t and long term aluminum prices of $2646/ton. Near term our zinc price forecast is $2288/t for FY09E and $1957/t for FY10E. We value the merchant power business at Rs105. This is based on capacity of 2400MW by June 2010, capex of $2.2bn and gearing of 60%. Key upside risks to our PO are - higher than forecast metal prices and higher than forecast power capacity over the next two years. Downside risks includes lower metals prices and continuing hurdles in minority stake increase.

Tata Motors Ltd. (TENJF)

Our SOTP-based PO is Rs580 (US$13.7 for ADR). The core autos business is valued at 6x FY10E EV/EBITDA, 20pct below the stock's five-year historical average based on slower growth (17pct CAGR compared to 22pct CAGR). JLR is valued at EV/EBITDA of 5x, a marginal discount to European peers due to lower scale, compared to in-line multiples earlier. We have imputed a 30pct holding company discount to operating subsidiaries. Upside risks: Moderation of commodity prices during the year. Downside Risks: Economic slowdown which would adversely volume growth, and rising input costs.

United Spirits (UDSRF)

We set our price objective for UNSP at Rs1,350/share. This is a combination of the base business at Rs1,150 and treasury stock at Rs200. For the base business, we use PEG since UNSP is a growth stock. We take a target PEG of 1.1x for FY10 using EPS CAGR of two years over FY08-10. We forecast EPS to grow at an average of 18pct over the next two years and our target PEG of 1.1x is lower than the sector average of 1.2x to capture the higher regulatory risks associated with alcohol business in India. Based on this methodology, we arrive at the base business value of Rs1,150. At Rs1,150, the base business would trade at FY10E P/E of 21x. Treasury stock accounts for 13pct of shares outstanding and we assume that these will be sold at market value of Rs1,300/share which implies per share price of Rs200. Upside risks: Stronger-than-expected demand and higher-than-expected value of treasury stock. Downside risks: Sharp input cost increases and consumers downtrading in the India business and lower commodity scotch prices in the case of Whyte and Mackay.

Analyst Certification

We, Jyotivardhan Jaipuria, Vandana Luthra, Rajeev Varma, Reena Verma Bhasin, CFA, Bharat Parekh, Mitali Ghosh, S.Arun, Prasad Deshmukh, Vidyadhar Ginde, Manish Sarawagi, Pratish Krishnan, Amit Agarwal and Sanjaya Satapathy, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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Investment Rating Distribution: Autos Group (as of 01 Jul 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	36	43.90%	Buy	6	18.18%
Neutral	19	23.17%	Neutral	5	35.71%
Sell	27	32.93%	Sell	8	36.36%

Investment Rating Distribution: Beverages - Alcoholic Group (as of 01 Jul 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	16	45.71%	Buy	3	25.00%
Neutral	8	22.86%	Neutral	3	42.86%
Sell	11	31.43%	Sell	3	33.33%

Investment Rating Distribution: Building Group (as of 01 Jul 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	37	37.00%	Buy	6	17.14%
Neutral	25	25.00%	Neutral	3	14.29%
Sell	38	38.00%	Sell	2	5.41%

Investment Rating Distribution: Industrials/Multi-Industry Group (as of 01 Jul 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	63	60.58%	Buy	14	24.56%
Neutral	16	15.38%	Neutral	4	28.57%
Sell	25	24.04%	Sell	4	18.18%

Investment Rating Distribution: Non-Ferrous Metals/Mining & Minerals Group (as of 01 Jul 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	71	52.99%	Buy	13	20.63%
Neutral	30	22.39%	Neutral	9	39.13%
Sell	33	24.63%	Sell	5	19.23%

Investment Rating Distribution: Technology Group (as of 01 Jul 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	120	46.15%	Buy	24	22.64%
Neutral	57	21.92%	Neutral	14	26.42%
Sell	83	31.92%	Sell	12	15.58%

Investment Rating Distribution: Telecommunications Group (as of 01 Jul 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	92	50.83%	Buy	20	26.32%
Neutral	49	27.07%	Neutral	13	35.14%
Sell	40	22.10%	Sell	8	24.24%

Investment Rating Distribution: Global Group (as of 01 Jul 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1664	47.42%	Buy	441	29.46%
Neutral	803	22.88%	Neutral	224	31.46%
Sell	1042	29.70%	Sell	217	22.84%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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