INDIA

Apr-Jun'08 Earnings Preview

Earnings slowdown to continue

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Contents

(Prices as on July 4, 2008)

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Earnings slowdown to continue

The net profit growth of companies under our coverage is expected to be 10.5% YoY. Revenue is likely to grow at 33.9% YoY. EBITDA margin (ex-oil & gas) is expected to decline 74bps YoY. There are several competing pressures on margins during the quarter. On the one hand rising raw material prices will take a toll on margins of industrial companies, on the other a sharply depreciated INR will save the day for technology companies to some extent. High oil prices will devastate the financials of all aviation companies, and high steel prices will benefit the integrated steel producers.

We expect high growth from telecom, capital goods, technology, ship building and pharmaceuticals. Expect poor performance from cement, auto & auto ancillaries, aviation and, surprisingly, media. In several cases we will also see the negative mark-to-market FX losses on account of hedges and also FX liabilities (such as FCCBs, ECBs, etc.). The figures are likely to be substantial in companies such as Rolta and Suzlon.

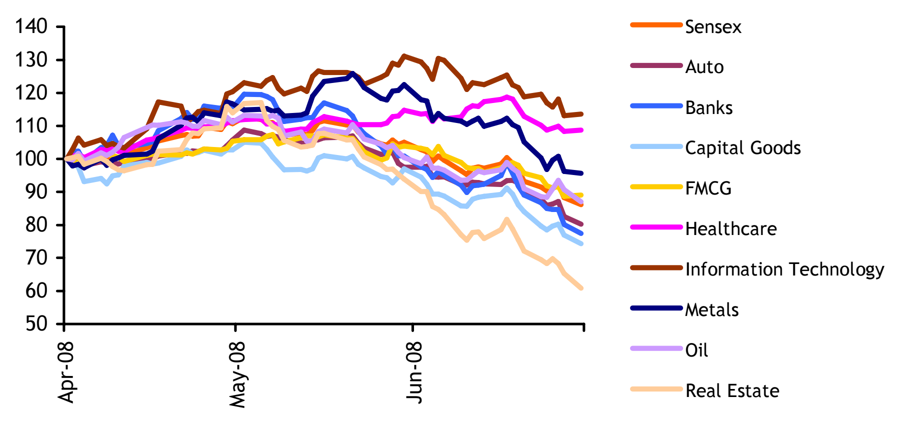
The expected weak earnings growth is only blowing further wind to the already raging storm of inflation, fuel prices and interest rates. Foreign institutions have already sold stocks worth over US$6.5bn YTD and there still are no signs of them lifting the finger off the sell button. Having declined 56.5% YTD, we believe a lot of the near-term bad news is now in the price. Thus a near-term upward correction is likely. Over the long-term we believe the effects of monetary tightening and weak global environment will result in slowing down of the Indian economy and keep equity markets weak.

In such an environment, our favoured sectors include non-interest rate sensitive and non-cyclical sectors, plus those where there is deep long-term value. We like consumers, pharmaceuticals, technology, telecom, ship building and infrastructure-spending dependent capital goods.

Top Picks

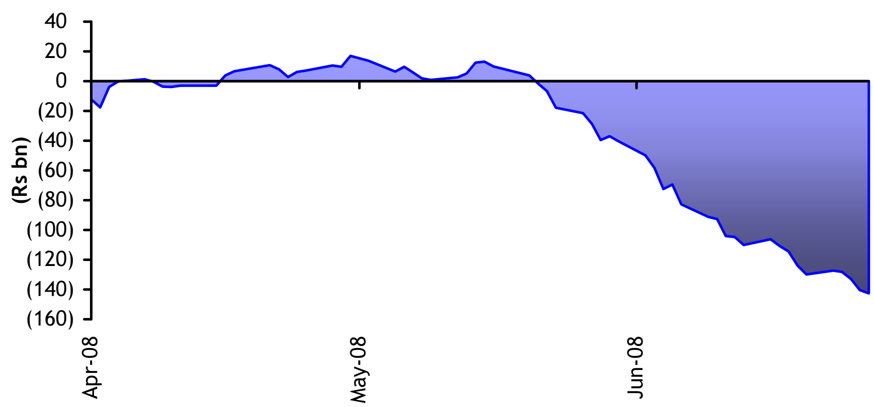
- Reliance Communication
- Hindustan Unilever
- HDFC Bank
- BHEL
- Bombay Rayon
- Tulip IT Services
- UTV Software
- Infosys Technologies
- Jindal Steel & Power
- Ranbaxy Lab.
- IDFC
- Axis Bank
- Hindustan Construction Co.
- Bharati Shipyard
- Satyam Computers
- Crompton Greaves
- IVRCL
- Voltas
- Lupin
- Jyoti Structures

Sectoral indicies in Q1FY09



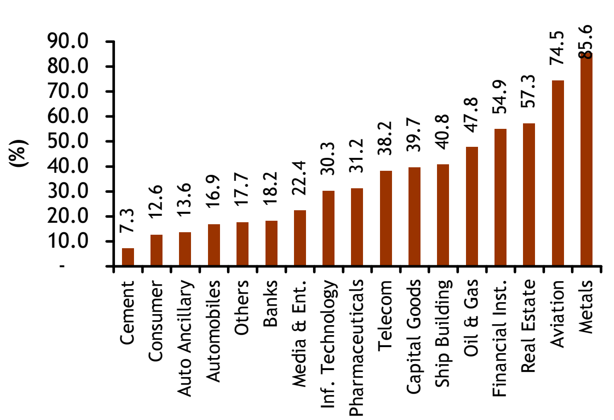
Source: Bloomberg, PL Research

Cumulative FII inflows in Q1FY09



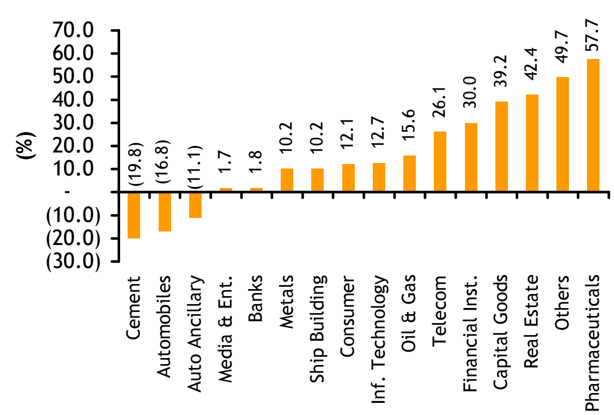
Source: SEBI, PL Research

Q1FY09 revenue growth estimate (YoY)



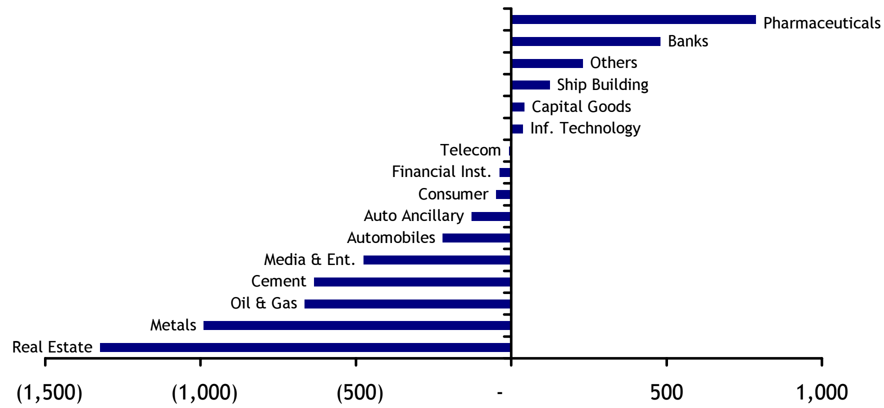
Source: PL Research

Q1FY09 profit growth estimate (YoY)



Source: PL Research

EBITDAM YoY change (bps)



Source: PL Research

Sectorwise growth and margin expectations (YoY) - Q1FY09 PL estimates

	Revenue growth (%)	PAT growth (%)	EBITDAM change (bps)
Automobiles	16.9	(16.8)	(221.1)
Auto Ancillary	13.6	(11.1)	(128.4)
Aviation	74.5	PTL	PTL
Banks	18.2	1.8	481.2
Capital Goods	39.7	39.2	42.6
Cement	7.3	(19.8)	(634.7)
Consumer	12.6	12.1	(49.3)
Financial Institution	54.9	30.0	(37.2)
Information Technology	30.3	12.7	36.9
Media & Entertainment	22.4	1.7	(474.7)
Metals	85.6	10.2	(989.7)
Oil & Gas	47.8	15.6	(665.8)
Pharmaceuticals	31.2	57.7	787.4
Real Estate	57.3	42.4	(1,323.6)
Ship Building	40.8	69.4	124.7
Telecom	38.2	26.1	(7.6)
Others	17.7	49.7	230.2
PL Universe	**33.9**	**26.1**	**(240)**
PL Universe (ex Oil & Gas)	**28.6**	**10.5**	**(74)**

Source: PL Research

Consensus estimates and valuations

Sector	Price	EPS (Rs)		PER (x)	
		FY10E	FY09E	FY10E	FY09E
DLF	415	64.2	56.6	6.5	7.3
Reliance Communication	438	36.8	30.2	11.9	14.5
Maruti Suzuki	550	77.8	65.5	7.1	8.4
ICICI Bank	601	54.4	45.0	11.1	13.3
State Bank of India	1,128	132.9	117.9	8.5	9.6
Hindalco	138	15.9	17.1	8.7	8.1
Tata Steel	640	129.9	108.5	4.9	5.9
Reliance Industries	2,099	177.0	116.4	11.9	18.0
ACC	478	65.5	70.0	7.3	6.8
Ambuja Cements	75	8.5	9.0	8.8	8.3
Grasim Industries	1,693	255.6	272.9	6.6	6.2
Jaiprakash Associates	153	9.3	7.5	16.5	20.5
ONGC	876	114.7	114.6	7.6	7.6
HDFC	2,055	106.4	90.2	19.3	22.8
HDFC Bank	1,000	74.2	54.4	13.5	18.4
Cipla	208	11.6	10.0	17.9	20.8
Ranbaxy	538	22.1	17.9	24.4	30.1
BHEL	1,500	95.1	73.8	15.8	20.3
Larsen & Toubro	2,380	137.6	105.9	17.3	22.5
Mahindra & Mahindra	475	42.1	38.8	11.3	12.3
Tata Motors	401	49.4	43.1	8.1	9.3
Hindustan Unilever	202	10.9	9.4	18.4	21.4
ITC	171	11.2	9.6	15.3	17.9
Tata Consultancy Services	844	67.0	59.4	12.6	14.2
Infosys Technologies	1,755	113.4	95.7	15.5	18.3
Satyam Computers	462	35.5	30.7	13.0	15.1
Wipro	429	31.7	26.9	13.6	16.0
Bharti Airtel	716	56.2	44.8	12.7	16.0
NTPC	155	11.0	10.0	14.1	15.5
Reliance Infrastructure	774	47.5	47.4	16.3	16.3
Sensex	13,454	1,096.6	922.7	12.3	14.6

Source: FactSet

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Automobiles

Auto sales sustain momentum in Q1FY09

Domestic auto sales displayed resilience in Q1FY08 despite the negative macro-economic factors (rising inflation, high interest rates) surrounding the industry. All the auto majors have registered decent growth in their respective segments. Car market leader Maruti Suzuki registered 13.5% growth, while the motorcycle segment leader, Hero Honda registered 11.4% growth in the first quarter.

Q1FY09 automobile volume growth

	Q1FY09	*YoY gr (%)*	*QoQ gr (%)*
Ashok Leyland	18,425	*1.4*	*(32.5)*
Bajaj Auto	620,095	*8.5*	*12.2*
Hero Honda	894,244	*11.4*	*1.2*
Maruti Suzuki	192,584	*13.5*	*(4.8)*
M&M (without Logan)	85,565	*20.7*	*5.0*
M&M (with Logan)	90,160	*18.5*	*0.6*
Tata Motors	131,733	*3.4*	*(24.9)*

Source: Company Data, PL Research

Huge discounts help sustain demand

With rising inflation and high interest rates, demand for automobiles is slowly seeing a slowdown. Most of the growth in vehicle sales is coming from the huge discounts offered by manufacturers, dealers and financiers. While newer launches like SX4, Spark, City, Logan, have a waiting periods of 3-4 months, some of the older models like Indica and Santro are now available with huge manufacturer and dealer subventions. Some of the car manufacturers, along with dealers, offer exchange bonuses, while others offer competitive finance rates.

Soaring input costs continue to hurt

Besieged by rising input costs, all the automobile manufacturers have raised their prices in the range of Rs6,000 to Rs30,000 across models. The price of alloy steel has gone up by about 10% during the quarter. The prices of other key ingredients - copper, aluminium and rubber - have also been rising.

Manufacturers have not been able to pass on the entire cost increase, forcing them to absorb some of the cost pressures. With prices of these commodities continuing to go up, automobile manufacturers are gearing up to raise prices again. Tata Motors has already hiked its CV prices by 3% w.e.f. July 2008.

Government policy further hurts sentiments

The price rise has been proposed at a time when the industry is grappling with the recent government's decision to hike excise duty by Rs15,000 on cars with engines bigger than 1500CC but up to 1999CC and Rs20,000 with engines more than 2,000CC.

The government's decision to increase petrol prices by 10% and diesel prices by 7% would further impact the industry that is already plagued with rising interest on consumer finance. Interest rates have been hiked thrice in the last few months, which is expected to impact volumes going forward.

Challenging times ahead

Automobile manufacturers have been able to keep up the demand by offering huge dealer-level discounts on their vehicles. However, with input costs continuing to rise, manufacturers are contemplating another round of price hike. With soaring inflationary pressures, there will be a limit to which the market will be able to absorb the hike and consequently the bottomline of automobile companies would increasingly be under pressure. These are clearly challenging times for the industry.

Top picks: Maruti Suzuki

Companies

Ashok Leyland: The company has posted only a 1.4% volume growth in Q1FY09. It has affected a price hike of about 2.5% in April and about 3% in June 2008. Margins are expected to continue to be under pressure resulting in a PAT decline of 18% to Rs751m.

Bajaj Auto: Reported 8.5% volume growth, driven primarily by exports. The company has hiked prices across its products in the range of Rs500-1,000 to combat rising input costs. We expect the company to post 13% topline growth, while PAT is expected to decline by about 19%.

Hero Honda: The company's Haridwar plant has commenced operations in April 2008 with an initial capacity of 0.5 million units, to be ramped up to 1.5 million units by 2010.

Hero Honda continues to outperform the industry and has reported 11.4% growth in Q1FY09. We expect the company to post 14% topline growth to Rs27.8bn. Margins are expected to improve by 74bps YoY over a lower base quarter. We expect the company to post a PAT growth of 20% YoY to Rs228m.

Maruti Suzuki: Maruti Suzuki recently launched a variant of its flagship model, *Maruti 800*. The new model called, *Maruti 800 Duo*, will run on LPG and petrol. Its newly launched sedan *Dzire* has been well accepted in the market and has a waiting period of about five months.

The car market leader has reported a robust 13.5% growth backed by 38% growth in its exports. The company has hiked prices across its models in the range of Rs1,000-18,000 in May 2008. It is expected to post 21% topline growth to Rs47.5bn and 29% decline in PAT to Rs3.5bn.

M&M: The government's decision to hike excise duty in the range of Rs15,000-20,000 on cars with engine capacity greater than 1500cc - which included primarily most of the utility vehicles, mid-size and premium sedans was expected to impact M&M the most. Notwithstanding the decision, the company continued its robust performance and reported 22% growth in its UV volumes in Q1FY09. The tractor segment also reported 10% volume growth in Q1FY09.

While margins are expected to be under pressure, the company is expected to report a PAT growth of 23% to Rs2.4bn over a low base quarter.

Tata Motors: Tata Motor's has reported a modest 3.4% volume growth in Q1FY09. However, its car segment has been down 12% during the quarter with its flagship model *Indica* witnessing product fatigue. The refurbished new *Indica* is expected to be launched in Q2FY09. The company had raised its CV prices by about 3.5% in April 2008 and further raised them by 3% in June 2008.

We expect the company to post a 12% topline growth and 34% decline in PAT to Rs3.1bn.

Quarterly estimates

	Revenue			EBITDA margin			PAT		
	Apr-Jun (Rs m)	*YoY gr. (%)*	*QoQ gr. (%)*	*Apr-Jun (%)*	*YoY chng. (bps)*	*QoQ chng. (bps)*	Apr-Jun (Rs m)	*YoY gr. (%)*	*QoQ gr. (%)*
Ashok Leyland	17,803	*9.8*	*(30.5)*	*9.0*	*(175)*	*(254)*	751	*(18.1)*	*(58.9)*
Bajaj Auto	23,744	*12.6*	*14.5*	*12.2*	*(86)*	*(41)*	1,834	*(19.0)*	*52.0*
Hero Honda	27,877	*13.9*	*(0.0)*	*11.5*	*74*	*(327)*	2,275	*19.8*	*(23.8)*
Maruti Suzuki	47,569	*21.0*	*(0.1)*	*10.5*	*(416)*	*(16)*	3,529	*(29.4)*	*18.6*
M&M	34,762	*33.0*	*10.4*	*10.6*	*1*	*(26)*	2,371	*23.4*	*14.4*
Tata Motors	67,859	*12.0*	*(22.4)*	*8.7*	*(376)*	*103*	3,091	*(33.6)*	*(33.4)*
Total	**219,614**	***16.9***	***(8.8)***	***10.1***	***(221)***	***(19)***	**13,851**	***(16.8)***	***(11.9)***

Full year estimates

(Rs bn)	Revenue			EBITDA			PAT		
	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E
Ashok Leyland	77.3	89.6	108.0	8.0	9.3	11.5	4.8	4.9	5.8
Bajaj Auto	90.5	100.8	118.1	12.9	14.0	16.7	7.6	8.6	10.5
Hero Honda	103.3	123.5	144.1	13.5	15.1	18.5	9.7	11.5	14.2
Maruti Suzuki	178.6	227.8	282.6	22.2	26.8	34.5	17.7	18.9	23.2
M&M	237.7	282.8	330.7	33.1	38.2	45.6	18.7	18.5	20.9
Tata Motors	356.5	403.3	483.3	42.1	46.6	54.9	21.7	21.9	27.1
Total	**1,043.9**	**1,227.7**	**1,466.8**	**131.8**	**150.0**	**181.8**	**80.1**	**84.3**	**101.7**
YoY gr. (%)	*—*	*17.6*	*19.5*	*—*	*13.8*	*21.2*	*—*	*5.3*	*20.6*

Valuations

				2009E			2010E		
	Rating	Price (Rs)	M.Cap (Rs bn)	P/S (x)	EV/EBITDA (x)	P/E (x)	P/S (x)	EV/EBITDA (x)	P/E (x)
Ashok Leyland	MP	29	38	0.4	4.8	7.7	0.4	4.2	6.6
Bajaj Auto	MP	447	65	0.6	3.7	7.5	0.5	2.9	6.1
Hero Honda	OP	669	134	1.1	6.8	11.6	0.9	4.8	9.4
Maruti Suzuki	OP	550	159	0.7	4.3	8.4	0.6	3.4	6.8
M&M	OP	475	125	0.4	5.3	7.2	0.4	4.4	6.0
Tata Motors	MP	401	173	0.4	4.8	10.0	0.4	4.3	8.1
Sector			**693**	**0.6**	**5.0**	**8.8**	**0.5**	**4.1**	**7.2**

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Auto Ancillary

The auto ancillary industry is struggling with the current slowdown in the auto OEM segment and rising raw material prices. Additionally, OEMs are increasingly looking at alternative component sourcing from low cost destinations like China. With such sourcing alternatives available for OEMs, ancillary players may not get the desired price increase from the OEMs to adequately compensate them for the high input costs. Many ancillary players are also in the midst of capacity expansions in line with their OEMs, which is further adding up to their cost burden.

The current slowdown in the US would continue to impact ancillary companies having a major exposure to the US market. The lower volume off-take may offset any benefit provided by the appreciating USD vs. INR in Q1FY09.

Thus, while costs are rising at one end, margins are expected to be squeezed as realisations may not increase proportionately. Further, the slower off-take may result in lower capacity utilisation.

Auto ancillary players under our coverage are expected to report modest growth of about 13.6% in Q1FY09, as they battle a slowdown in auto sales and high input costs. With margins under pressure, PAT for these companies is expected to decline by 11% during the quarter.

Top picks: Amtek India, Ahmednagar Forgings and Ceat

Companies

Ahmednagar Forgings: With the CV industry in a cyclical downturn, AFL is expected to report a modest 6% topline growth. Margins are expected to decline 211bps YoY to 18.8%. Recently added capacity of about 15,000 tonne would lead to a higher depreciation charge. PAT is expected to decline by 20% to Rs133m.

Amtek India: The company derives almost 50% of its revenue from the domestic passenger car segment. The car segment has sustained its growth momentum in the quarter. As a result, we expect Amtek India to post 12% topline growth to Rs3bn. With pressure on margins, PAT is expected to decline 14% to Rs324m.

Bharat Forge: During the quarter, Bharat Forge is reported to have acquired 89% stake in a French company Group Sifcor (with revenue of Rs11.5bn), which will give the company an entry into the French automotive sector and access to clients like PSA Citroen and Renault.

We expect the company will post a 10% topline growth to Rs5.5bn. Bharat Forge generally gets a pass-through for any raw material price increase. However, considering the rapid increase in raw material prices, the impact, if any, is expected to be marginal.

Ceat: Ceat will invest Rs10bn in the next two to three years on expanding capacity, increasing focus on R&D, market expansion, and improving customer interface. The total investment would include a radial truck and car facility, and an OTR tyre facility worth about Rs9bn.

Raw material prices, especially rubber, have increased by almost 30% during the quarter. The company has taken a price hike of about 3-5% across products to partially compensate cost pressures.

Everest Kanto Cylinders: The company's China plant has commenced operations in May 2008. Topline is expected to be boosted by EKC's second Dubai unit, which would now be ramped up, and by the additional contribution from the newly acquired CP Industries and China plant. However, we expect the company to report only a marginal PAT growth, during the quarter, of about 4% as capacity ramp-up from new units will take some time.

Motherson Sumi Systems: MSSL is expected to post 13% topline growth in Q1FY09 backed by a similar growth by the passenger car segment to which it caters. We expect PAT to decline by about 22.6% to Rs232m during the quarter.

Rico Auto: Rico Auto caters primarily to the two-wheeler segment, which has seen a revival in this quarter. We expect the company to post a modest 7% topline growth to Rs1.9bn. While margins would continue to be under pressure, PAT is expected to decline by 25% to Rs32m.

Sona Koyo Steering Systems: The company had recently received orders worth Rs1bn from Maruti, M&M and TML to be executed in one year which would boost topline. The Singur plant would also commence operations soon.

SKSSL is expected to post 12% topline growth to Rs1.7bn, while PAT is expected to decline by 42% to Rs46m on account of margin pressure.

Quarterly estimates

	Revenue			EBITDA margin			PAT		
	Apr-Jun (Rs m)	*YoY gr. (%)*	*QoQ gr. (%)*	*Apr-Jun (%)*	*YoY chng. (bps)*	*QoQ chng. (bps)*	Apr-Jun (Rs m)	*YoY gr. (%)*	*QoQ gr. (%)*
Amtek India*	3,085	*12.1*	*4.3*	*20.8*	*(400)*	*(124)*	324	*(14.3)*	*(4.8)*
Ahmednagar Forgings*	1,595	*5.9*	*(8.6)*	*18.8*	*(211)*	*20*	133	*(19.8)*	*(15.3)*
Bharat Forge	5,473	*10.1*	*(5.6)*	*23.5*	*308*	*(133)*	601	*(7.3)*	*(27.5)*
Ceat	6,171	*15.0*	*(4.5)*	*5.4*	*(379)*	*(55)*	118	*(42.2)*	*(25.7)*
EKC	1,670	*50.0*	*1.7*	*22.6*	*(511)*	*268*	231	*3.7*	*(4.7)*
Motherson Sumi	3,413	*13.0*	*(10.1)*	*14.8*	*92*	*(275)*	232	*12.3*	*12.3*
Rico Auto	1,925	*6.9*	*3.5*	*9.8*	*(234)*	*332*	32	*25.2*	*(33.0)*
Sona Koyo	1,710	*12.0*	*(12.0)*	*8.9*	*(188)*	*359*	46	*(41.8)*	*322.0*
Total	**25,042**	***13.6***	***(4.4)***	***15.1***	***(128)***	***(22)***	**1,718**	***(11.1)***	***(13.8)***

** Y/e June*

Full year estimates

(Rs m)	Revenue			EBITDA			PAT		
	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E
Amtek India*	11,832	14,147	17,345	2,687	3,254	4,076	1,438	1,788	2,358
Ahmednagar Forgings*	6,591	7,619	9,785	1,252	1,455	1,898	599	657	955
Bharat Forge	21,965	26,862	33,199	5,222	6,390	8,076	2,736	3,035	4,202
Ceat	23,300	28,166	31,864	1,842	2,021	2,379	687	983	1,231
EKC	5,287	10,508	14,484	1,527	2,595	3,395	1,078	1,555	1,947
Motherson Sumi	13,031	14,986	17,683	2,098	2,263	2,889	1,042	1,242	1,719
Rico Auto	7,087	7,588	8,700	745	759	913	221	92	202
Sona Koyo	6,836	8,143	10,127	635	879	1,151	252	370	533
Total	**95,929**	**118,020**	**143,187**	**16,007**	**19,615**	**24,778**	**8,051**	**9,722**	**13,147**
YoY gr. (%)	–	*23.0*	*21.3*	–	*22.5*	*26.3*	–	*20.7*	*35.2*

** Y/e June*

Valuations

	Rating	Price (Rs)	M.Cap (Rs bn)	2009E P/S (x)	2009E EV/EBITDA (x)	2009E P/E (x)	2010E P/S (x)	2010E EV/EBITDA (x)	2010E P/E (x)
Amtek India*	BUY	91	12	0.8	3.7	6.5	0.7	2.9	4.9
Ahmednagar Forgings*	OP	90	3	0.5	3.7	5.3	0.4	2.9	3.6
Bharat Forge	UP	228	55	2.0	9.3	18.0	1.6	6.9	13.0
Ceat	BUY	72	2	0.1	2.6	3.3	0.1	2.2	2.5
EKC	MP	261	26	2.5	8.3	17.7	1.8	8.7	14.2
Motherson Sumi	MP	75	27	1.8	11.6	21.4	1.5	9.0	15.4
Rico Auto	MP	18	2	0.3	4.9	24.7	0.3	4.4	11.2
Sona Koyo	MP	29	3	0.3	5.3	7.6	0.3	4.2	5.3
Sector			**130**	**1.1**	**7.1**	**13.8**	**0.9**	**5.7**	**10.2**

** Y/e June*

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Aviation

The first quarter typically marks the start of business for the tourism industry. The aviation industry also witnesses higher load factors in this quarter. However, this quarter could prove to be an exception. With crude hovering at all time high levels, domestic ATF prices have gone up by as much as 47% QoQ only in Q1FY09 to about Rs71.8/ltr. Accordingly, the airline companies have hiked their fuel surcharge to cover up their costs. Airline companies for the first time this quarter have gone for differential fuel hike based on distance travelled, penalising longer route travellers.

Fuel surhcarge vis-a-vis ATF price movements

	ATF (Rs / kltr)	Fuel surcharge (Rs / pax)	Fuel surcharge (Rs / pax)
Distance		**<750kms**	**>750kms**
Jan-08	47,045	1,650	1,650
Feb-08	46,233	1,650	1,650
Mar-08	48,655	1,650	1,650
Average Q4	**47,311**	**1,650**	**1,650**
Distance		**<750kms**	**>750kms**
Apr-08	55,192	1,800	2,000
May-08	60,468	1,950	2,350
Jun-08	71,759	2,250	2,900
Average Q1	**62,473**	**2,000**	**2,417**

Source: IOCL, Company Data

In addition to the above, most of the FSCs have hiked their base fares. Now, the minimum base fare for a distance less than 750kms stands at Rs1,000, while the base fare for a distance more than 750kms stands at Rs3,000.

While the industry is once again trying to put an end to irrational pricing, such a steep increase in air fares will now start impacting load factors. We expect LCCs to be impacted the most as they have the most price sensitive customers. We expect load factors for LCCs to decline by about 5-10% in this quarter, while load factors of FSCs are expected to be impacted only marginally.

The industry is also plagued with the rampant capacity additions by all players in the last couple of years which has also led to surplus capacity. Many players are now reconsidering their expansion plans as well as route rationalisation strategies to improve their seat factors. Some players like SpiceJet have already started vacating unviable routes.

The aviation industry is currently facing a dual challenge of controlling their costs and pruning their expansion strategies. If the current trend continues, the industry may suffer losses to the tune of US$2bn (US$1bn in FY08E) in FY09E.

Top picks: SpiceJet

Companies

Jet Airways: Jet has recently launched flights to Hong Kong, Abu Dhabi and Bangkok from Mumbai. It has also introduced the Mumbai-San Francisco via Shanghai route from June 2008.

We expect the company to post 73% load factor in the domestic sector and 64% load factor in the international sector in Q1FY09. Losses during the quarter are expected to be at Rs4bn.

SpiceJet: SpiceJet is curtailing its operations and has already reduced its destinations to 97 per day from the earlier 117 per day. In order to boost its topline, the company has commenced its cargo operations from April 2008, which are expected to generate revenues of about Rs30m per month.

With rising air fares, we expect load factors to drop to about 71% in Q1FY09 (77% in Q1FY08). Losses for the quarter are expected to be at Rs875m.

Quarterly estimates

	Revenue			EBITDA margin			PAT		
	Apr-Jun (Rs m)	*YoY gr. (%)*	*QoQ gr. (%)*	*Apr-Jun (%)*	*YoY chng. (bps)*	*QoQ chng. (bps)*	Apr-Jun (Rs m)	*YoY gr. (%)*	*QoQ gr. (%)*
Jet Airways	31,694	*75.4*	*14.8*	*(3.2)*	–	–	(4,019)	*PTL*	*PTL*
Spice Jet	4,457	*68.0*	*11.6*	*(21.5)*	–	–	(875)	–	–
Total	**36,151**	***74.5***	***14.4***	***(5.5)***	***(766)***	***(335)***	**(4,894)**	***(1,089.8)***	***41.9***

Full year estimates

(Rs m)	Revenue			EBITDA			PAT		
	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E
Jet Airways	102,456	142,067	157,308	(1,629.0)	(7,569.4)	2,612.0	(6,539)	(8,650)	(3,138)
Spice Jet	12,950	17,172	21,574	(2,567.2)	(5,768.8)	(4,018.1)	(1,335)	(4,255)	(2,401)
Total	**115,406**	**159,239**	**178,882**	**(4,196)**	**(13,338)**	**(1,406)**	**(7,874)**	**(12,905)**	**(5,539)**
YoY gr. (%)	–	*38.0*	*12.3*	–	–	–	–	–	–

Valuations

	Rating	Price (Rs)	M.Cap (Rs bn)	2009E P/S (x)	2009E EV/Sales (x)	2009E P/E (x)	2010E P/S (x)	2010E EV/Sales (x)	2010E P/E (x)
Jet Airways	MP	336	29	0.2	1.1	—	0.2	1.1	—
Spice Jet	OP	25	8	0.4	0.7	—	0.3	0.6	—
Sector			**37**	**0.2**	**1.1**	**—**	**0.2**	**1.1**	**—**

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Banks

Key developments

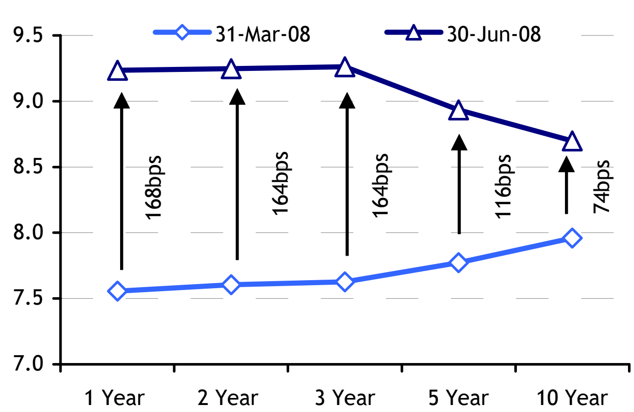
Bank earnings are likely to be weak and mixed during this quarter. Earnings of private banks are likely to be more stable as compared to their PSU counterparts, as the presence of high MTM provisions on the AFS investment book and lower interest income (impacted by interest reversal on farm loans, full impact of PLR cuts and 75bps CRR hike) are likely to keep earnings growth restricted. Some PSU banks are likely to report YoY decline in earnings.

Loan growth stood at 26% YoY, while deposit growth was at 23% YoY. Higher working capital demand from oil marketing companies (OMC) is most likely to have led to the pick-up in credit demand during the lean season.

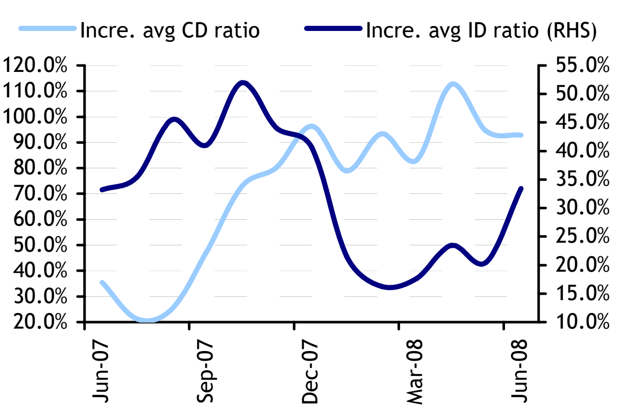
Incremental average credit deposit (IACD) ratio stood at 93% for Q1FY09 as compared to 83% in Q4FY08 and 35% in Q1FY08. Despite the strong pick-up in credit demand, we don't expect margins to benefit sequentially, as asset yields are likely to remain depressed due to interest reversal on farm loans, full impact of PLR cuts and 75bps CRR hike.

Total provision figures for most banks are likely to remain highly volatile during Q1FY09. All banks are likely to report significantly high MTM provisions on their AFS book during Q1FY09. Benchmark yields have shot up 165bps in the 1-3 years of maturity, while 10-year gilts have only moved up by 75bps. Again, if the banks choose to account for the restructuring of farm loans during Q1FY09, then release in NPA provisions due to farm loan waiver could positively influence the provisions figure. We have not accounted for any benefits accruing from release in provisions in our Q1FY09 preview numbers.

Movement in yield curve across maturity



Incremental average non-food CD and ID ratio



Source: Bloomberg, PL Research

Result snapshot

For major banks under our coverage, we expect net interest income to grow by 18.2% YoY and decline by 4% QoQ, operating profit likley to go up by 26.6% YoY but decline by 23.1% QoQ, and net profit to go up by 1.8% YoY but decline by 31.9% QoQ. The dismal earnings growth is heavily influenced by PSU heavyweights like SBI, UBI and BOB.

Outlook

Margins are likely to show some weakness on a QoQ basis as interest income growth is likely to get impacted by the full quarterly effect of the 50bps PLR cut affected in February and low yielding working capital advances made to OMCs. Again, banks will have to reverse interest related to farm loans accounted for in the month of March 2008 and exclude interest for April-June on the amount of farm loans waived. Hike of 75bps in the CRR will also restrict interest income growth.

Non-interest income growth is likely to moderate across all banks, with both treasury segment equity and bond markets experiencing difficult times. However, banks having good foreign exchange business are likely to report stable income from the forex segment.

Provisions are likely to remain high due to high MTM provisions on the AFS investment book, details of which are as follows.

Details on MTM provisions during the quarter

Bond yields have surged by 165bps at the shorter end; this is likely to result in higher MTM losses during the quarter. We expect yields to subside by March 2009 to about 8.5% levels, and hence are not factoring in the entire MTM provisions at this juncture. We have provided below the MTM impact for banks under our coverage.

MTM provision details

	AFS (%)	Duration (years)	AFS MTM (Rs m)	AFS MTM as % of FY09E PPP
Axis Bank	14.0	1.80	660	2.3
Bank of Baroda	22.0	1.20	1,510	4.8
Bank of India	14.0	0.60	470	1.2
HDFC Bank	17.0	2.00	1,930	4.1
ICICI Bank	19.0	1.60	3,200	3.3
PNB	12.0	1.90	1,680	3.9
SBI	20.0	2.25	10,170	7.5
Union Bank	27.0	2.20	2,400	9.4

Source: PL Research

Asset quality levels are key factors to look for; in case of private sector banks, retail and SME portfolios will be under the scanner, while for PSU banks it is the incremental agricultural delinquencies that the market is worried about coupled with the retail and SME portfolios.

Valuations are extremely attractive for a long-term investor; however, given the near-term uncertainty in the equity markets (led by oil prices, inflation expectations, further RBI policy action and the evolving political scenario in the country) we remain neutral on the banking sector's near-term prospects, though we maintain our Outperformer rating for the sector from a 12-18 month perspective.

Top picks: Axis Bank and Bank of India

Companies

Axis Bank: Operating performance is likely to remain strong, driven by strong core income growth. Non-interest income and the provision component could be major surprise elements. We don't expect the bank's non-interest income growth to slowdown significantly during Q1FY09. Growth rate in key segments like fees, advances and asset quality levels remains the key factors to be noted.

Bank of Baroda: Margins are likely to show sequential weakness; non-interest income component is also likely to slowdown as the equity and bond market gains are going to be minimal. Absence of one-time gains from NSE stake sale (Rs900m in Q1FY08) is also not going to help the upfront reported numbers. MTM provisions of Rs1,510m on the investment book is expected to keep the provision figure high. The bank has also shifted Rs10bn worth of securities from AFS to HTM category during Q1FY09. We expect YoY decline in net earnings for the bank.

Bank of India: Business growth is likely to remain stable; it is expected to report the best earnings in terms of quality and quantity (read growth) among PSU banks. Margins are likely to decline sequentially in line with the industry. However, its MTM hit is likely to be the least damaging at Rs470m. Non-interest income is likely to be driven by fee income and forex gains.

HDFC Bank: HDFC Bank is expected to report merged numbers post its merger with Centurion Bank of Punjab. We expect HDFC Bank to clean up CBoP books and realign the asset quality levels with its own standards, which is likely to result in a one-time provision of around Rs1,500-2,000m. Due to the merger, margins are likely to decline by 20-25bps to about 4-4.2% and also the steady 30% profit growth could be impacted due to the one-time provision required, which is in excess of the earnings contribution made by CBoP at this juncture.

ICICI Bank: Domestic loan growth is likely to remain subdued, margins likely to have a marginal downward bias. Non-interest income, excluding treasury, is likely to report steady growth. The MTM impact on its domestic G-Sec, corporate and equity book is likely to be significant at about Rs3,000-4,000m. However, MTM provision requirements for credit derivatives on its standalone book, is expected to be nominal if required at all, as globally yields on these type of investments have not moved up meaningfully from March 2008 levels. Provisions are likely to remain high with sequential increase in NPLs.

PNB: Margins are likely to show some weakness; however, NII growth is likely to remain better than its peer group. Asset quality remains a concern especially on the farm loan portfolio. Despite a low AFS book, MTM provisions are expected to be at Rs1,680m.

SBI: The bank is likely to report higher business growth than the industry. Margins are likely to report some weakness on a sequential basis. Treasury income is expected to slowdown and absence of one-time gains from NSE stake sale of Rs1,500m is further likely to show lower treasury contribution. MTM provisions are likely to remain high at Rs10.2bn. We expect YoY and QoQ decline in net earnings for the bank.

Union Bank: NII growth is likely to remain stable YoY but decline QoQ. Non-interest income component is likely to slowdown due to insignificant contribution from bonds and equities. MTM provisions are likely to be significant at Rs2,400m. We expect YoY and QoQ decline in net earnings for the bank.

Quarterly estimates

	Net interest income			Operating profit			PAT		
	Apr-Jun (Rs m)	*YoY gr. (%)*	*QoQ gr. (%)*	Apr-Jun (Rs m)	*YoY gr. (%)*	*QoQ gr. (%)*	Apr-Jun (Rs m)	*YoY gr. (%)*	*QoQ gr. (%)*
Axis Bank	7,824	*85.9*	*(5.6)*	6,142	*66.9*	*(15.0)*	2,979	*70.2*	*(17.6)*
Bank of Baroda	10,284	*7.3*	*(0.0)*	6,472	*0.4*	*(20.5)*	2,842	*(14.1)*	*2.8*
Bank of India	11,368	*20.0*	*(6.6)*	8,441	*24.5*	*(30.4)*	3,959	*25.6*	*(47.7)*
HDFC Bank*	16,970	*72.2*	*3.3*	10,883	*38.9*	*(0.0)*	3,976	*23.7*	*(15.6)*
ICICI Bank	20,157	*17.5*	*(3.1)*	20,069	*31.6*	*(12.4)*	8,686	*12.1*	*(24.5)*
PNB	14,818	*13.9*	*(2.3)*	9,901	*6.1*	*(19.3)*	4,801	*12.9*	*(11.7)*
State Bank of India	44,263	*5.3*	*(7.8)*	29,836	*34.9*	*(31.8)*	11,489	*(19.4)*	*(39.0)*
Union Bank of India	7,924	*2.7*	*(5.0)*	5,349	*1.8*	*(39.9)*	1,908	*(15.2)*	*(63.4)*
Total	**133,608**	***18.2***	***(4.2)***	**97,093**	***26.6***	***(23.1)***	**40,640**	***1.8***	***(31.9)***

** Proforma merged nos. for Q1FY09*

Full year estimates

(Rs bn)	Net interest income			Operating profit			PAT		
	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E
Axis Bank	25.9	33.6	44.0	22.3	27.9	36.4	10.7	13.2	17.6
Bank of Baroda	39.1	40.7	47.6	30.3	31.1	38.6	14.4	15.6	18.7
Bank of India	42.3	48.5	56.5	37.0	41.0	50.0	20.1	22.9	27.4
HDFC Bank	52.3	69.2	89.5	37.7	47.2	61.7	15.9	21.2	28.1
ICICI Bank	73.0	86.9	105.8	79.6	97.9	121.3	41.6	49.5	60.3
PNB	55.3	62.8	74.0	40.1	43.2	55.0	20.5	22.7	27.4
State Bank of India	170.2	191.1	214.4	131.1	135.8	161.3	67.3	68.7	79.9
Union Bank of India	30.9	32.1	36.0	25.8	25.6	30.4	13.9	13.5	15.3
Total	**489.0**	**565.0**	**667.9**	**403.8**	**449.7**	**554.8**	**204.3**	**227.4**	**274.7**
YoY gr. (%)	–	*15.5*	*18.2*	–	*11.4*	*23.4*	–	*11.3*	*20.8*

Valuations

	Rating	Price (Rs)	M.Cap (Rs bn)	2009E P/E (x)	2009E P/ABV (x)	2009E *Div. Yield (%)*	2010E P/E (x)	2010E P/ABV (x)	2010E *Div. Yield (%)*
Axis Bank	BUY	600	214	16.2	2.2	1.2	12.2	1.9	1.4
Bank of Baroda	BUY	209	76	4.9	0.7	4.3	4.1	0.6	4.8
Bank of India	BUY	231	122	5.3	1.1	2.0	4.4	0.9	2.3
HDFC Bank	BUY	1,000	354	16.7	2.8	1.2	12.6	2.4	1.6
ICICI Bank	BUY	601	668	13.5	1.4	2.0	11.1	1.3	2.2
PNB	BUY	388	122	5.4	1.0	3.5	4.5	0.9	3.6
State Bank of India	MP	1,128	712	10.4	1.5	1.5	8.9	1.3	1.8
Union Bank of India	OP	111	56	4.1	0.8	3.5	3.7	0.7	4.0
Total			**2,325**	**10.2**	**1.5**	**1.9**	**8.5**	**1.3**	**2.1**

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Capital Goods

With crude trading at an all time high level, interest rates peaking and inflation going through the roof, corporate expenditure could reduce. This could result in a reduction of fresh orders for several capital goods companies. Considering that elections are likely in the next few months, we feel that government spending could witness a slowdown once the elections are announced till the time the new government comes into power. But all is not gloomy for the sector; we believe companies that are dependent on infrastructure spending rather than on corporate spending will outperform the rest. We expect order flows to continue from PGCIL. Companies like Jyoti Structures, Areva, ABB, KEC will benefit from these order flows. Our top picks are Jyoti Structures, Voltas and Crompton Greaves.

We expect our coverage universe in the capital goods sector to grow by close to 40% in Q1FY09. This might seem to be on the higher side, mainly due to Suzlon reporting a dismal first quarter in FY08. Adjusting for this, growth rate for Q1FY09 stands at 31%, which is in line with our annual expectation for the sector. On the EBITDA margin side, an improvement of 43bps might seem misleading owing to the fact that most companies in the sector are facing margin pressure. This misleading number is mainly due to Siemens and Suzlon. Adjusting for this, the sector could actually witness a 75bps drop in margin.

Top picks: Jyoti Structures, Voltas and Crompton Greaves

Companies

ABB: ABB has witnessed strong inflow of orders both from the domestic and international markets. Growth momentum is expected to continue to be strong during the quarter, but operating margins could be affected due to increased price of raw materials.

Action Construction Equipment: Dispatches during the quarter have been robust; operating margins should be better than the previous quarter, but one might not see them cross 10% in Q1FY09 due to volatility in steel and other raw material prices.

Asian Electronics: Asian Electronics did not publish its annual and fourth quarter results this year. The company has asked BSE for an extension as they have spun off the energy venture into a separate SPV. Unique Waste Management, which holds marketing rights for the technology, was to be allotted shares of Asian, but instead it will now be a subsidiary. We do not expect any action on the energy front for the next one quarter at least.

Areva T&D: Areva continues its strategy of bidding for high margin orders, given its expansion plans and strong order position we expect areva to maintain if not improve margins goings ahead.

BHEL: BHEL doesn't consider Chinese competition to be a major threat as the price differential has been reduced to 5%. Owing to its strong order position and market share, there is ample visibility for the company to surpass its topline target. BHEL seems to be in a position to maintain if not improve its margins going ahead.

Crompton Greaves: Order inflow during the quarter continues to be strong from domestic as well as international markets. We expect growth to continue during the quarter, although there might be a slight drop in margins due to increase in raw material cost.

Elecon Engineering: We expect elecon to report growth of 26% during the quarter. We expect the company to continue facing margin pressure, as less than 50% of contracts are undertaken on price variation clause.

EMCO: EMCO has witnessed significant order inflows during the quarter, especially in the transmission and sub-station business. We expect robust growth in the topline of the company.

Hindustan Dorr Oliver: HDO has been successful in bagging a Rs1.25bn order from Vedanta during the quarter. The current order book provides a reliable outlook on the growth targets set by the company management.

Jyoti Structures: Jyoti Structures has an order book of Rs3.4bn. This is 2.5 times FY08 sales. Jyoti earns more than 80% of its orders from the domestic market and most of these orders have a built in price variable clause. This would help the company insulate itself from any major margin volatility. The strong order book and price variation clause provide a very positive outlook on the company.

KEC International: KEC recently won a Rs1.6bn rural electrification order in Jharkhand. We expect KEC to show strong topline growth during the quarter, but there could be a dip in margins due to lower margins from fixed-price based international orders.

KEI Industries: As with most companies in the sector, we expect KEI to experience margin pressures. But with the strong order position, capacity addition and cheap valuation, we maintain a positive outlook on the firm.

Siemens: After its dismal Q2FY08 results, we expect Siemens to bounce back and show a topline growth of 38% and an EBITDA margin improvement of 294bps to 8% for Q3FY08.

Suzlon Energy: We believe that Edison cancelling the order should not have any major impact on Suzlon owing to its strong order book of 3,100MW, but whether the company can sell the cancelled 315MW is to be seen.

We have incorporated the FCCB translation loss of Rs1.5bn in other expenses. This has resulted in EBITDA margin to fall to 9% for the quarter.

Voltamp Transformers: Although Voltamp reported EBITDA margin of 24.7% in Q4FY08, we expect the margins to normalise between 18% to 20%. The company has started construction work for adding another 4,000MW to the current 9,000MW. This capacity should be up and running in the next 12-15 months.

Voltas: We expect the MEP division to pick-up after the last two quarters showed very slow growth. We expect the unitary division to have a larger contribution to the overall sales mix, as sales in this division is heavily skewed in the first quarter.

Quarterly estimates

	Revenue			EBITDA margin			PAT		
	Apr-Jun (Rs m)	*YoY gr. (%)*	*QoQ gr. (%)*	*Apr-Jun (%)*	*YoY chng. (bps)*	*QoQ chng. (bps)*	Apr-Jun (Rs m)	*YoY gr. (%)*	*QoQ gr. (%)*
*ABB**	*18,111*	*29.3*	*18.0*	*11.6*	*(5)*	*39*	1,429	*31.7*	*21.5*
Action Const. Equip.	1,260	*53.3*	*3.1*	*9.0*	*(170)*	*113*	101	*34.0*	*2.7*
Areva T&D*	5,444	*32.7*	*8.3*	*16.3*	*97*	*55*	532	*38.2*	*16.2*
Asian Electronics	407	*(51.5)*	*(52.3)*	*27.0*	*(1,963)*	*(170)*	35	*(87.6)*	*(72.2)*
BHEL	43,411	*34.2*	*(39.7)*	*10.7*	*113*	*(819)*	3,896	*34.9*	*(64.9)*
Crompton Greaves	10,298	*14.9*	*(11.2)*	*11.3*	*(36)*	*(220)*	774	*12.6*	*(24.9)*
Elecon Engineering	1,638	*26.3*	*(50.1)*	*13.9*	*(226)*	*48*	100	*(3.9)*	*(56.4)*
EMCO	2,081	*34.9*	*(39.2)*	*12.6*	*(46)*	*(162)*	112	*24.9*	*(61.0)*
Hindustan Dorr Oliver	797	*46.2*	*(24.5)*	*10.9*	*267*	*(347)*	56	*59.0*	*(41.0)*
Jyoti Structures	3,971	*33.9*	*(3.2)*	*12.0*	*(38)*	*(57)*	199	*24.2*	*3.4*
KEC International	7,477	*46.2*	*(27.5)*	*10.7*	*(178)*	*(29)*	349	*37.7*	*(42.5)*
KEI Industries	2,225	*20.9*	*(13.9)*	*11.8*	*(122)*	*134*	114	*(4.1)*	*76.5*
Siemens**	24,734	*38.2*	*14.8*	*8.0*	*294*	*732*	1,369	*67.2*	*8,166.2*
Sujana Towers	1,797	*-*	*18.3*	*14.1*	*-*	*(169)*	148	*-*	*20.6*
Suzlon Energy (cons)	35,952	*84.9*	*(27.0)*	*8.7*	*153*	*(600)*	1,153	*510.1*	*(75.2)*
Voltamp Transformers	1,583	*22.5*	*17.2*	*18.6*	*(1)*	*(611)*	202	*18.4*	*(6.6)*
Voltas	10,260	*24.4*	*21.8*	*7.6*	*(131)*	*7*	563	*9.5*	*14.5*
Total	**171,447**	***39.7***	***(19.5)***	***10.3***	***43***	***(366)***	**11,133**	***39.2***	***(46.9)***

** Y/e Dec*

*** Y/e Sept*

Full year estimates

(Rs m)	Revenue			EBITDA			PAT		
	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E
ABB*	59,303	78,063	99,526	7,246	9,368	12,242	4,917	6,330	8,257
Action Const. Equip.	4,012	5,628	7,834	395	565	788	363	511	716
Areva T&D*	20,063	27,221	35,740	3,575	4,736	6,290	2,168	2,921	3,892
Asian Electronics	3,101	2,701	4,765	908	621	1,509	495	224	881
BHEL	193,655	249,488	326,619	33,668	45,209	62,585	28,593	36,430	48,512
Crompton Greaves	68,323	84,366	103,175	7,439	8,671	10,851	4,098	5,201	6,587
Elecon Engineering	8,264	10,917	13,815	1,305	1,646	2,083	672	795	1,025
EMCO	9,443	13,173	18,207	1,292	1,691	2,323	644	783	1,029
Hindustan Dorr Oliver	3,060	4,555	6,738	346	528	788	229	337	496
Jyoti Structures	13,704	18,912	25,739	1,719	2,314	3,088	724	996	1,389
KEC International	28,145	40,415	51,194	3,543	4,729	5,713	1,721	2,330	2,827
KEI Industries	8,747	12,717	17,931	1,092	1,481	2,093	435	621	932
Siemens**	93,556	113,690	147,797	9,218	8,981	12,711	6,929	6,393	8,038
Sujana Towers	5,974	8,627	11,358	938	1,330	1,687	511	734	940
Suzlon Energy	136,794	195,389	273,809	19,245	28,631	41,335	11,813	17,386	25,925
Voltamp Transformers	5,553	7,196	9,642	1,179	1,360	1,765	799	932	1,191
Voltas	32,029	44,735	60,830	2,531	3,694	5,125	2,076	2,608	3,555
Sector	**752,828**	**990,064**	**1,305,290**	**103,958**	**135,814**	**186,086**	**72,902**	**92,409**	**124,848**
YoY gr. (%)	–	*31.5*	*31.8*	–	*30.6*	*37.0*	–	*26.8*	*35.1*

** Y/e Dec*

*** Y/e Sept*

Valuations

	Rating	Price (Rs)	M.Cap (Rs bn)	2009E P/S (x)	2009E EV/EBITDA (x)	2009E P/E (x)	2010E P/S (x)	2010E EV/EBITDA (x)	2010E P/E (x)
ABB*	OP	835	177	2.3	18.3	28.0	1.8	13.9	21.4
Action Const. Equip.	OP	62	6	1.0	9.4	10.9	0.7	6.6	7.8
Areva T&D*	OP	1,420	68	2.5	14.3	23.2	1.9	10.8	17.4
Asian Electronics	OP	72	4	1.6	10.6	19.7	0.9	4.5	5.0
BHEL	OP	1,500	734	2.9	14.7	20.2	2.2	10.6	15.1
Crompton Greaves	OP	241	88	1.0	10.7	17.0	0.9	8.7	13.4
Elecon Engineering	MP	87	8	0.7	8.0	10.1	0.6	5.6	7.8
EMCO	OP	140	9	0.7	6.9	12.1	0.5	5.4	9.2
Hindustan Dorr Oliver	OP	77	3	0.6	4.8	8.2	0.4	3.1	5.6
Jyoti Structures	OP	104	8	0.4	4.9	8.5	0.3	3.7	6.1
KEC International	OP	397	20	0.5	5.5	8.4	0.4	4.8	6.9
KEI Industries	OP	38	3	0.2	2.2	4.8	0.2	1.5	3.2
Siemens**	MP	428	144	1.3	14.4	22.5	1.0	10.1	17.9
Sujana Towers	OP	74	3	0.4	3.3	4.7	0.3	2.7	3.7
Suzlon Energy	OP	192	294	1.5	13.6	16.9	1.1	9.2	11.3
Voltamp Transformers	OP	763	8	1.1	5.4	8.3	0.8	4.0	6.5
Voltas	BUY	123	41	0.9	10.8	15.6	0.7	7.8	11.4
Sector			**1,707**	**1.7**	**12.8**	**18.5**	**1.3**	**9.2**	**13.7**

** Y/e Dec*

*** Y/e Sept*

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Cement

All India cement demand continued to remain weak during the quarter, primarily on account of inventory build-up during the previous quarter, further fuelled by early arrival of monsoon in some regions. All India cement consumption grew by 7.4% during April-May 2008, led by strong growth in southern (10.6% growth) and eastern regions (8.8%), partially offset by lacklustre growth in northern (3.6%) and western regions (5.7%). Capacity utilisation declined to 93% in April-May 2008 against 103% in the corresponding period on account of sharp capacity addition compared to production growth. During the period, capacity grew by 16.5% to 32 million tonnes, while production grew by 5.6% to 30 million tonnes.

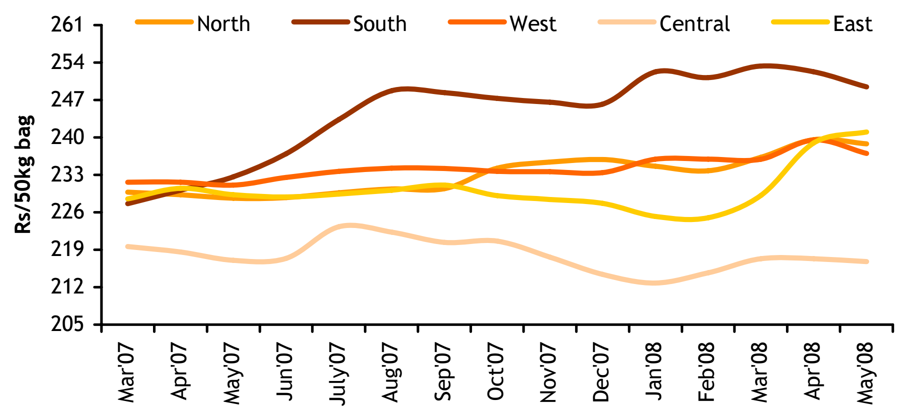
Cement prices remained sluggish across the country during April-May 2008, except the eastern region, despite the busy season and sharp rise in input prices. Prices picked momentum in the northern region in mid April 2008, resulting in Rs3-5 per bag rise in the prices during the month, but prices declined in May 2008 on account of lacklustre demand. Prices are expected to remain weak on account of slackening demand from real estate and infrastructure sectors. Prices in the southern region declined in mid May 2008 following concerns of government intervention; however, prices moved up by Rs5 at the end of June 2008. Prices are expected to move up further on the back of strong demand and rising input costs.

Cement prices in the Gujarat region declined by Rs3-5 per bag on account of ban on cement and clinker exports. It recovered in the region post removal of the ban on exports. Prices reflected smart recovery in the eastern region on the back of encouraging demand from government projects under employment guarantee schemes; prices are now expected to remain firm in the region.

We maintain underweight outlook on the sector, given the persistent government intervention to control inflation, consistent capacity addition and sharp rise in coal prices.

Top picks: None

Region-wise cement price trends



Source: CMA

Companies

ACC: Impacted by stable realisations, flat sales volume and rising power & fuel cost, the company is expected to report decline of 18.1% in EBITDA. EBITDA per tonne would decline by 20% YoY and 6% QoQ to Rs820. PAT is expected to decline by 19.4% YoY to Rs2.8bn.

Ambuja Cement: Stable realisation and sharp rise in imported coal prices coupled with flat sales volume would result in decline of 15% in EBITDA. EBITDA per tonne is expected to decline by 18% YoY and 5% QoQ to Rs1,018. The company would book profit of Rs2.7bn on sale of its remaining holding in ACIL. Adjusting for that, PAT is expected to decline by 28% to Rs2.9bn.

Grasim: Earnings could be badly impacted by lacklustre performance in both its businesses. Cement business would witness decline of 15% YoY and 5% QoQ in EBITDA per tonne to Rs1,047, primarily on account of sharp rise in pet coke and domestic coal prices. Cement business EBITDA would decline by 12%, factoring volume growth of 3%. VSF's EBITDA is expected to decline by 40% on account of sharp rise in sulphur prices, poor realisations and decline in sales volume. PAT is expected to decline by 20% to Rs4.1bn.

India Cements: The company's EBITDA is expected to decline by 1% to Rs2.6bn despite 10% growth in realisation. This could be mainly due to flat sales volume and sharp rise of 32% in power & fuel cost. EBITDA per tonne is expected to decline by 2% YoY to Rs1,127. PAT is expected to decline by 23% to Rs1.42bn due to taxation at normal rates compared to MAT in the corresponding quarter.

Shree Cement: Earnings could be severely hit by sharp rise in pet coke prices despite strong volume growth of 32% YoY. EBITDA per tonne would decline by 12% YoY to Rs1,107, primarily due to rise of 35.3% YoY in power & fuel cost and stable realisations. Accordingly, EBITDA would grow by 16% YoY to Rs2.1bn, including the impact of withdrawal of sales tax incentives for Rajasthan sales amounting to Rs60m. PAT is expected to grow by 8% to Rs1.25bn.

UltraTech Cement: Blended sales volume would decline by 4.7% on account of sharp decline of 44% in clinker exports and increase in RMC sales. We expect decline of Rs30 per tonne in realisations for the quarter. EBITDA is expected to decline by 6% YoY to Rs4.1bn, impacted by fall in realisation and higher coal prices. EBITDA per tonne is expected to decline by 2% YoY and 6% QoQ to Rs960. PAT would decline by 11% YoY to Rs2.3bn.

Quarterly estimates

	Revenue			EBITDA margin			PAT		
	Apr-Jun (Rs m)	*YoY gr. (%)*	*QoQ gr. (%)*	*Apr-Jun (%)*	*YoY chng. (bps)*	*QoQ chng. (bps)*	Apr-Jun (Rs m)	*YoY gr. (%)*	*QoQ gr. (%)*
ACC*	18,291	*(2.1)*	*1.9*	*24.7*	*(449)*	*(155)*	2,856	*(18.7)*	*(13.8)*
Ambuja Cements*	15,700	*7.2*	*(5.1)*	*29.5*	*(772)*	*(166)*	2,922	*(27.6)*	*(11.5)*
Grasim	26,215	*7.2*	*(4.4)*	*24.4*	*(796)*	*29*	4,105	*(19.8)*	*(7.0)*
India Cement	7,925	*13.0*	*(6.1)*	*33.0*	*(472)*	*182*	1,419	*(22.6)*	*(7.0)*
Shree Cement	5,938	*39.4*	*(8.7)*	*35.4*	*(712)*	*(367)*	1,246	*7.9*	*203.3*
Ultratech Cement	14,296	*4.7*	*(10.7)*	*28.5*	*(324)*	*(199)*	2,306	*(11.1)*	*(18.5)*
Total	**74,069**	***7.3***	***(3.6)***	***27.4***	***(635)***	***(81)***	**12,548**	***(19.8)***	***(3.2)***

** Y/e Dec*

Full year estimates

(Rs bn)	Revenue			EBITDA			PAT		
	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E
ACC*	70.1	77.2	83.5	19.2	18.5	17.6	12.8	12.4	11.2
Ambuja Cements*	57.0	62.1	64.6	20.5	18.0	15.2	12.6	11.4	8.7
Grasim	170.4	197.4	199.0	50.2	49.5	46.8	26.1	25.3	22.8
India Cement	30.4	34.6	39.1	10.8	9.2	8.5	6.9	4.3	3.9
Shree Cement	20.7	24.5	25.6	8.6	7.2	6.6	2.9	4.2	3.2
Ultratech Cement	56.2	64.0	71.0	17.3	17.3	16.9	10.1	9.6	9.0
Total	**348.6**	**395.7**	**411.7**	**109.3**	**102.5**	**94.6**	**61.2**	**57.6**	**49.8**
YoY gr. (%)	*–*	*13.5*	*4.0*	*–*	*(6.2)*	*(7.6)*	*–*	*(5.9)*	*(13.4)*

** Y/e Dec*

Valuations

	Rating	Price (Rs)	M.Cap (Rs bn)	2009E P/S (x)	2009E EV/EBITDA (x)	2009E P/E (x)	2010E P/S (x)	2010E EV/EBITDA (x)	2010E P/E (x)
ACC*	UP	478	90	1.2	4.4	7.3	1.1	4.8	8.0
Ambuja Cements*	Sell	75	114	1.8	5.7	10.0	1.8	6.8	13.1
Grasim	UP	1,693	155	0.8	3.9	6.1	0.8	4.2	6.8
India Cement	UP	131	37	1.0	3.8	8.5	0.9	3.6	9.6
Shree Cement	MP	529	18	0.8	2.6	4.4	0.7	2.3	5.7
Ultratech Cement	MP	538	67	1.1	4.8	6.9	0.9	4.4	7.4
Sector			**414**	**1.0**	**4.2**	**7.2**	**1.0**	**4.5**	**8.3**

** Y/e Dec*

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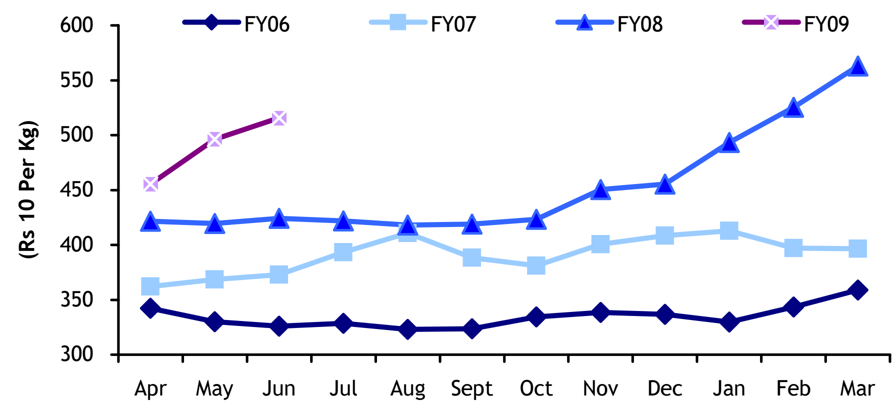
Consumer

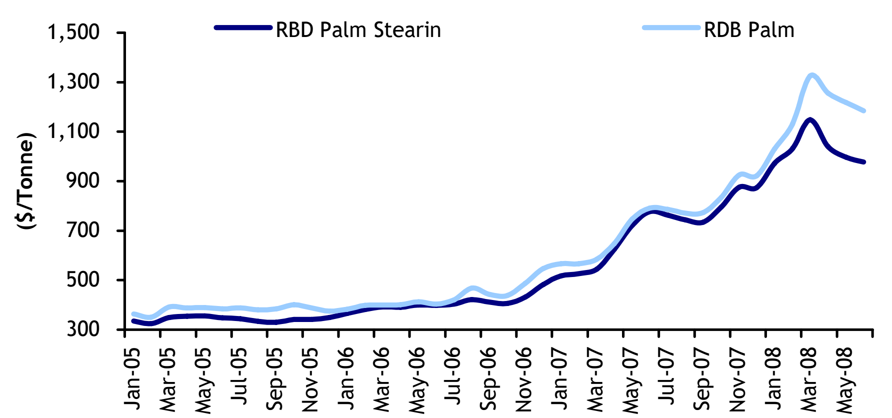
The quarter is marked by rising raw material prices, high inflation, declining rupee and a few price hikes. We believe that volume growth has been moderate, resulting in 12.6% YoY growth in sales and 12.1% YoY growth in profits this quarter. However, operating margin is expected to decline marginally by 49bps. Companies under our coverage continued with new launches and business forays like extension of personal care portfolio by ITC, expansion of H&B retail stores by Dabur, etc. The quarter results would indicate to trends that impact the inflationary environment on consumers' demand and company's operating margin.

Crude palm oil prices



Source: NCDEX, PL Research

Palm oil and palm stearin export prices (Malaysia)



Source: PL Research

Top picks: Hindustan Unilever and Marico

Companies

Colgate: Colgate, driven by volume growth, is expected to post a profit growth of 10.7% and sales growth of 13.3% YoY. We expect the company to improve gross margin by 110bps YoY, however, operating margin might decline marginally by 56bps YoY due to higher advertisement and other expenses. We believe that the company will continue to grow its market share in the oral care category.

Dabur: The company is expected to report profit growth of 15.5% and sales growth of 13% YoY. We believe the company will maintain its operating margins. Growth in volume is expected from both rural and semi-urban areas. The company has expanded H&B store *new-u* to six during the quarter.

HUL: During the quarter, the company took significant price hikes to pass on rising raw material cost. Down trading in certain categories might be visible, however, we believe the company would post marginally higher operating margin. We expect net sales to grow by 18.2% and PAT before extraordinary to grow by 16.0% YoY this quarter.

ITC: As a consequence of the restructuring of excise duty on cigarettes, the company has stopped production of non-filter cigarettes and has taken price hikes on a few brands aggregating to about 2% on all cigarettes. We believe after anecdotal evidences of good conversion, overall volumes will increase; however, margins will decline despite price hikes. Hotels business should benefit from the IPL contract, while agri business would suffer on account of higher exports sales in the corresponding quarter last year. ITC is expected to post sales growth of 7.0% and PAT growth of 10.2% in Q1FY09 YoY.

Kansai Nerolac Paints: Kansai Nerolac has increased the prices of solvent-based paints by 3- 5% due to a spurt in crude oil prices. Crude oil is an important raw material for the paints industry. The upcoming price hikes in June will come within a gap of only three months. The slowdown in the auto segment is likely to affect sales growth during the quarter.

Marico: Edible oil prices including copra continued the increasing bias, which the company has passed on by affecting price hikes on a few SKUs, including *Parachute*. Rupee depreciation might lead the company to show mark-to-market loss on its USD denominated foreign loans. The company prototyped cooling hair oil and *Parachute Night Crème* during the quarter. We believe despite high price hikes, volume growth would be moderate, resulting in sales growth of 16.4%, marginal decline in operating margin, and a PAT growth of 24.3%.

Quarterly estimates

	Revenue			EBITDA margin			PAT		
	Apr-Jun (Rs m)	*YoY gr. (%)*	*QoQ gr. (%)*	*Apr-Jun (%)*	*YoY chng. (bps)*	*QoQ chng. (bps)*	Apr-Jun (Rs m)	*YoY gr. (%)*	*QoQ gr. (%)*
Colgate Pamolive	*3,972*	*13.3*	*1.5*	*19.1*	*(56)*	*618*	685	*10.7*	*23.2*
Dabur India	6,452	*13.0*	*6.4*	*13.9*	*2*	*(224)*	717	*15.5*	*(13.9)*
Hindustan Unilever*	42,401	*18.2*	*9.5*	*17.3*	*7*	*477*	5,476	*16.0*	*44.7*
ITC	35,588	*7.0*	*(9.5)*	*33.5*	*(36)*	*700*	8,631	*10.2*	*17.3*
Kansai Nerolac Paints	3,230	*1.7*	*4.7*	*12.8*	*(136)*	*(28)*	257	*(20.8)*	*7.2*
Marico	5,459	*16.4*	*16.8*	*13.9*	*(12)*	*420*	499	*24.3*	*65.4*
Total	**97,101**	***12.6***	***1.4***	***22.8***	***(49)***	***435***	**16,266**	***12.1***	***24.4***

Full year estimates

(Rs m)	Revenue			EBITDA			PAT		
	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E
Colgate Pamolive	14,734	16,687	19,030	2,286	2,763	3,073	2,317	2,634	2,917
Dabur India	23,963	29,316	36,772	4,093	4,765	5,629	3,339	3,852	4,609
Hindustan Unilever*	137,178	156,552	179,482	18,857	22,020	25,894	17,674	20,956	24,697
ITC	139,475	158,852	190,467	44,039	50,317	56,292	31,201	35,496	39,614
Kansai Nerolac Paints	13,197	14,407	15,719	1,866	2,097	2,365	1,198	1,368	1,551
Marico	19,067	22,842	27,272	2,464	2,924	3,491	1,585	1,978	2,428
Total	**347,614**	**398,656**	**468,742**	**73,604**	**84,885**	**96,744**	**57,313**	**66,283**	**75,817**
YoY gr. (%)	*—*	*14.7*	*17.6*	*—*	*15.3*	*14.0*	*—*	*15.6*	*14.4*

Valuations

	Rating	Price (Rs)	M.Cap (Rs bn)	2009E P/S (x)	2009E EV/EBITDA (x)	2009E P/E (x)	2010E P/S (x)	2010E EV/EBITDA (x)	2010E P/E (x)
Colgate Pamolive	OP	367	50	3.0	17.9	19.0	2.6	15.9	17.1
Dabur India	OP	79	68	2.3	14.1	17.6	1.8	12.1	14.7
Hindustan Unilever	OP	202	439	2.8	19.8	20.9	2.4	16.4	17.8
ITC	MP	171	644	4.1	12.3	18.1	3.4	10.7	16.2
Kansai Nerolac Paints	OP	629	17	1.2	8.3	12.4	0.9	7.1	10.9
Marico	OP	55	33	1.5	11.7	16.9	1.2	9.5	13.7
Sector			**1,251**	**3.1**	**14.4**	**18.9**	**2.6**	**12.4**	**16.5**

** Y/e Dec*

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Financial Services

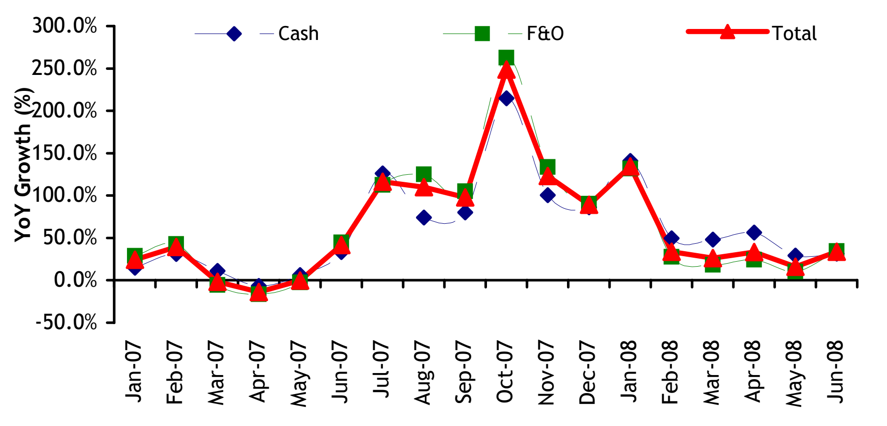
Q1FY09 is likely to be one of the worst in recent times for all capital market companies. Overall, equity market volumes dipped by a further 16.7% QoQ on top of the 27.9% QoQ decline in Q4FY08. The AUM of the mutual fund industry weathered the storm much better than expected with only modest redemptions. Most of the 5.9% QoQ decline in AUM came in due to fall in the market and liquid fund redemptions due to advance tax payments. NFOs came down substantially and even the few that did hit the market garnered significantly less-than-expected funds from investors. However, on YoY basis, AUMs have still grown by 38.2% essentially due to the base effect.

Investment banking and distribution revenue of capital market firms are likely to be severely affected during the quarter. Equity issuances (both public and private) came to a grinding halt during the quarter. This will also impact the distribution revenue of brokerages. We are building in over 60% QoQ drop in these revenue segments.

We believe that while the NBFC sector in general and capital market companies in particular are going through a tough period, valuations are now at attractive levels. We remain neutral on the near-term outlook for the sector, but believe it offers good bargains for the long-term investor.

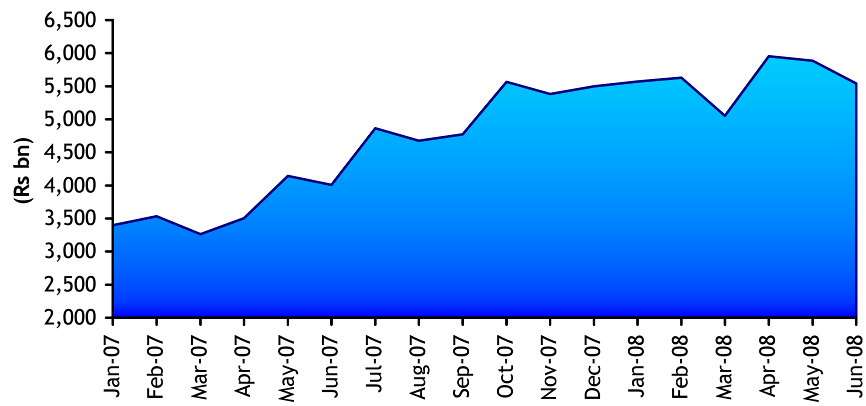
Top picks: HDFC and IDFC

Trading volume growth on NSE + BSE (cash and F&O)



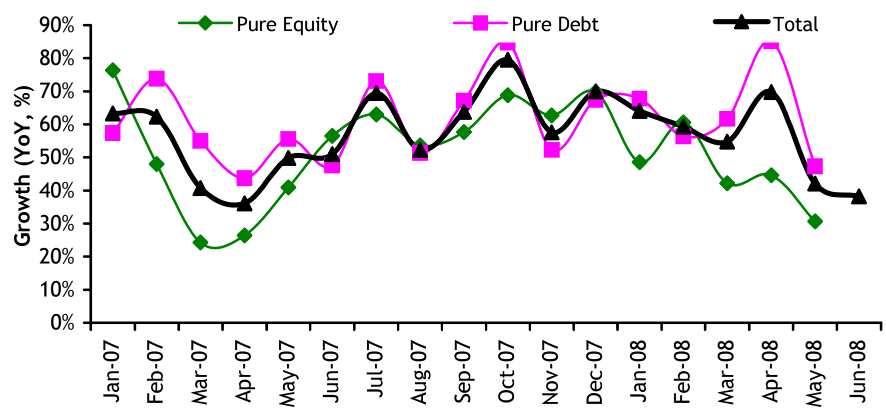
Source: BSE & NSE

Domestic mutual funds - assets under management



Source: AMFI

Asset under management growth



Source: AMFI

Companies

Edelweiss Capital: Edelweiss is expected to see a sharp QoQ decline in investment banking (due to lack of IPOs and delays in closures of PE/structured deals) and financing (due to modest growth in advances book and base of Reliance Power IPO funding in Q4FY08). Broking revenue is likely to drop by about 20% largely in line with the market. We expect Rs1,146m QoQ decline in revenue to result in Rs824m decline in EBITDA, given the partially variable nature of the cost structure.

HDFC: We expect HDFC to report 20-22% growth in disbursements and deliver robust operating numbers. Based on past trends, the fourth quarter has always been the best for HDFC; hence sequential developments are not material. Asset quality levels will be a key factor to note, however, we don't expect any meaningful deviation in asset quality from past trends. HDFC remains one of our top picks in the financial services space.

IDFC: NII is expected to grow by 59.6% YoY, which is lower than 87.0% YoY achieved in Q4FY08. Non-Interest Income is expected to decline 22.5% YoY despite inclusion of Stanchart MF's financials for the quarter. Without it, the decline would have been about 27.2% YoY, essentially led by decline in its broking and investment banking revenue. We expect PAT growth to be largely flat at just 2.4% YoY.

India Infoline: IIFL's broking revenue will decline by 14.9% QoQ, which is less than the market decline of about 16.6% QoQ due to greater proportion of cash volumes and growing institutional business. It will also see a decline in insurance commissions, largely in line with the market decline. We expect PAT to decline 34.8% QoQ.

Motilal Oswal Financial Services: MOFSL will see a sharp QoQ reduction in broking, investment banking and asset management revenue. Broking will fall largely in line with market volumes. The fall in IB revenue, while being severe, will be cushioned to some extent by the fact that MOFSL gets about half its revenue from debt. Asset management revenue will fall QoQ since Q4FY08 included year-end carry income from its PMS product. PAT is expected to drop by 43.1% QoQ and 3.9% YoY.

Reliance Capital: Operating income/revenue is expected to grow by 41.1% YoY, mainly due to growth in consumer finance interest income (which was not present in Q1FY08). Without it the growth would be 14.2% YoY. General insurance is expected to slowdown YoY given the decline in premiums due to competition. Overall EBITDA margin is expected to remain at about 40.1% in Q1FY09, as the sharp increase in claims in Q4FY08 is expected to come down.

Quarterly estimates

	Net operating income			Operating Profit / PPP			PAT		
	Apr-Jun (Rs m)	*YoY gr. (%)*	*QoQ gr. (%)*	Apr-Jun (Rs m)	*YoY gr. (%)*	*QoQ gr. (%)*	Apr-Jun (Rs m)	*YoY gr. (%)*	*QoQ gr. (%)*
IDFC	3,574	*19.5*	*10.0*	2,549	*2.3*	*8.1*	1,859	*2.8*	*22.1*
HDFC	8,402	*44.4*	*(14.2)*	7,352	*44.3*	*(19.6)*	5,043	*35.3*	*(15.0)*
Total	**11,976**	***36.0***	***(8.2)***	**9,901**	***30.5***	***(14.0)***	**6,902**	***24.7***	***(7.4)1***

	Revenue			EBITDA			PAT		
	Apr-Jun (Rs m)	*YoY gr. (%)*	*QoQ gr. (%)*	*Apr-Jun (%)*	*YoY chng. (bps)*	*QoQ chng. (bps)*	Apr-Jun (Rs m)	*YoY gr. (%)*	*QoQ gr. (%)*
Edelweiss	2,895	–	*(28.4)*	*51.4*	–	*(582)*	488	–	*(40.9)*
India Infoline	2,698	*108.0*	*(29.6)*	*34.4*	*280*	*(912)*	430	*92.7*	*(34.8)*
Motilal Oswal	1,451	*20.5*	*(22.3)*	*30.4*	*(658)*	*(1,045)*	252	*(1.1)*	*(43.0)*
Reliance Capital	16,731	*42.2*	*2.4*	*40.1*	*434*	*17*	3,976	*22.1*	*8.8*
Total	**23,775**	***66.6***	***(8.9)***	***40.3***	***475***	***(296)***	**5,146**	***37.8***	***(7.8)***

Full year estimates

(Rs m)	Net operating income			Operating Profit / PPP			PAT		
	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E
IDFC	13,122	19,712	24,318	10,590	15,784	19,674	7,523	11,128	14,050
HDFC	81,961	102,074	127,215	27,372	35,740	42,636	24,363	26,149	31,181
Total	**95,083**	**121,786**	**151,533**	**37,963**	**51,525**	**62,310**	**31,886**	**37,276**	**45,231**
YoY gr. (%)	–	*28.1*	*24.4*	–	*35.7*	*20.9*	–	*16.9*	*21.3*

(Rs m)	Revenue			EBITDA			PAT		
	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E
Edelweiss	10,868	12,786	17,194	6,531	7,402	10,422	2,732	2,869	4,117
India Infoline	10,200	12,359	16,995	3,987	4,836	7,664	1,598	1,764	2,215
Motilal Oswal	6,898	6,811	8,695	2,584	2,438	3,207	1,561	1,402	1,728
Reliance Capital	49,191	70,729	97,068	16,668	26,891	41,019	10,090	13,708	17,302
Total	**77,157**	**102,685**	**139,952**	**29,770**	**41,566**	**62,312**	**15,981**	**19,743**	**25,362**
YoY gr. (%)	–	*33.1*	*36.3*	–	*39.6*	*49.9*	–	*23.5*	*28.5*

Valuations

				2009E			2010E		
	Rating	Price (Rs)	M.Cap (Rs bn)	P/BV (x)	P/ABV (x)	*RoE (%)*	P/BV (x)	P/ABV (x)	*RoE (%)*
IDFC	OP	107	138	12.5	2.1	18.3	9.9	1.8	19.9
HDFC	BUY	2,055	589	22.5	4.1	19.9	18.9	3.5	19.9
Sector			**727**	**19.5**	**3.5**	**19.4**	**16.1**	**3.0**	**19.9**

				2009E			2010E		
	Rating	Price (Rs)	M.Cap (Rs bn)	P/S (x)	EV/EBITDA (x)	P/E (x)	P/S (x)	EV/EBITDA (x)	P/E (x)
Edelweiss	OP	554	42	3.3	8.1	14.5	2.4	6.5	10.2
India Infoline	MP	598	44	3.6	10.4	20.1	2.6	8.9	17.4
Motilal Oswal	MP	545	15	2.3	5.3	11.0	1.8	4.7	9.0
Reliance Capital	OP	993	244	3.5	14.2	17.8	2.5	11.9	14.1
Sector			**346**	**3.4**	**12.2**	**17.1**	**2.5**	**10.2**	**13.5**

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Information Technology

Mixed bag

The IT index since 2008 YTD has fallen by about 10% as compared to the 30% fall in the benchmark Nifty/Sensex indices. Our neutral stance on the sector went wrong during this period essentially due to the sharp and unexpected depreciation in the rupee against the USD and Euro. Going forward, we expect the sector to continue its outperformance to the broader market in the medium term, given the weak outlook for the rupee.

In the current environment, the twin variables that merit monitoring given their impact on the sector are the state of the US/global economy and forex (INR) volatility.

Uncertain demand environment

Notwithstanding news of write-offs/layoffs in the US (especially in BFSI) which continue to flow in, management commentary from top tier IT companies indicates muted impact on deal flows and business momentum. However, we believe that discretionary spends within clients IT budgets will decline (exerting pressure on the sector) even as the offshoring component in clients' IT budgets pick up momentum, thereby cushioning the impact of the former.

While our interactions with managements indicate no major slowdown in the off-shoring momentum, the body language remains cautious.

Silver lining: weak rupee

The silver lining for the sector is the steady depreciation of the rupee. INR currently quotes at Rs43 to the USD. While this is undoubtedly a positive, we note that the hedging policy (instrument/tenor, etc.) and accounting thereof could well determine the extent and timing whereby this would reflect in the numbers. Thus, the broader beneficial impact of a weaker rupee could well vary across companies and take a quarter or so to play out fully.

Average performance of rupee in the last 5 quarters (QoQ)

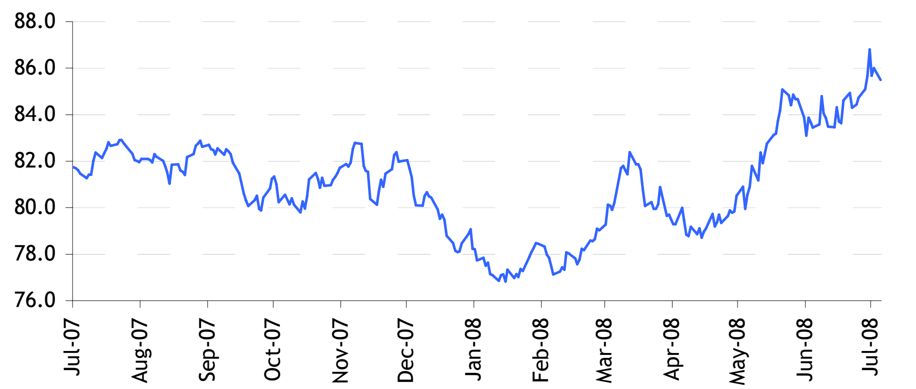
	Q109	Q408	Q308	Q208	Q108
USD-INR	-4.38%	-0.80%	2.60%	1.80%	-6.42%
BP-INR	-4.07%	2.50%	1.40%	0.02%	-4.94%

Source: Oanda.com, PL Research

USE / rupee exchange rates

Source: Bloomberg

GBP / rupee exchange rates



Source: Bloomberg

Our view

We expect the worst for the sector to be over by H1FY09. Further, given the inflationary pressures on the Indian economy and projected slowdown in other sectors coupled with a weaker rupee environment, we expect the IT sector to attract greater investor interest in the medium term.

Top picks: Rolta, Satyam and Infosys

Companies

Infosys: We expect Infosys to report steady volume growth. Given the macro environment, pricing power is expected to remain flattish. Our estimates for Infosys indicate a 8.5% QoQ revenue growth (to Rs49.28bn) with 34bps decline in operating margin to 32.2%. Management outlook/guidance in view of weaker rupee would be keenly watched.

TCS: TCS is expected to report 3.8% sequential revenue growth this quarter (to Rs63.28bn) after a sluggish performance last quarter. We also expect an EBITDA margin decline of 17bps to 25.3%. Amongst the top tier IT companies, we believe TCS with its high dependence on US/BFSI revenue, is most vulnerable to the current volatile macro-economic conditions. With its last reported hedge position at US$2.9bn (possibly the highest amongst all IT companies), it will be interesting to see the impact of the recent rupee depreciation on Q1FY09 numbers.

Satyam: Continuing with its past momentum, we expect Satyam to deliver Q4FY08 performance superior to its peer group. We expect revenue to grow 8.9% QoQ (to Rs26.31bn) driven mainly by volume growth, while pricing growth is expected to remain flat. We also expect operating margin to decline by 11bps to 22.7%. Managements views on future growth outlook and take on legal liability in UPaid legal case will be issues to watch for.

HCL Tech: This quarter is the fourth quarter for HCL Tech (i.e. Q4FY08). We expect 7.5% QoQ revenue growth (to Rs20.9bn) with 66bps improvement in operating margin to 22.9%. Key issues to watch for will be forex gains/losses from treasury operations on account of hedging activities (last quarter reported hedge US$2.7bn).

Tata Elxsi: After reporting strong revenue growth last quarter (16% QoQ), we expect Tata Elxsi to report a more modest 8% revenue growth this quarter (QoQ), with operating margin improving by 55bps QoQ to 22.4%. The management's take on ramp-up in VCL segment in general and 3D animation in particular will be keenly watched.

Rolta: Roltas' financial year ends in June marking this quarter as the fourth quarter for the company. Rolta is expected to report revenue of Rs3.29bn, which includes revenue of Rs480m from TUSC. EBITDA margin in this quarter is expected to decline 94bps to 34.0%. However, net profit will decline 29.5% due to provisioning for MTM losses on FCCB.

Tanla Solutions: Tanla announced the acquisition of Openbit this quarter. However, Openbit's acquisition will not have a huge impact on its quarterly numbers as the acquisition was done in the first week of June.

We expect Tanla Solutions to report revenue and net profit growth of 11.0% and 10.0% sequentially. EBITDA margin is expected to be stable at 48.2% (a minor 20bps decline).

Geometric Software: Geometric is expected to report revenue of Rs1.35bn, implying a sequential growth of 6.5% and an EBITDA of Rs199m. We expect improvement of 230bps in the EBITDA margin to 14.8%. Also, due to normalisation of tax rate (14.0% of PBT as compared to 28.4% in Q4FY08), we expect its PAT to increase by 45.9% sequentially.

KPIT Cummins: The company is expected to report revenue of Rs1.71bn, up 4.0% sequentially and its EBITDA margin is likely to improve by 196bps to 16.3%. Net profit before extraordinary (i.e. excluding last quarter's bad debts) items is expected to improve by 30.3% to Rs153m. (47% QoQ growth after extra ordinary)

Prithvi Solutions: Prithvi is yet to report its fourth quarter and annual numbers for FY08. In Q1FY09, we expect Prithvi to report revenue growth of 6.0% and an EBITDA margin of 11.8%.

Tech Mahindra: We expect Tech Mahindra to report revenue of Rs11.03bn, 8.0% sequential growth. We expect EBITDA margin to move up by 123bps to 23.0%, however, its net profit margin (before extraordinaries) is expected to slide down by 185bps to 19.5%. Slide in margins is due to higher tax provision (10.0% of PBT as compared to just 7.0% in Q4FY08) and lower other income (Rs100m v/s Rs364m in Q4FY08). The managements update on talks with the "mystery client" mentioned last quarter, will be eagerly anticipated.

Wipro: This quarter onwards, Wipro will consolidate revenue from Wipro Infotech's services business with Global IT revenue. We expect Global IT revenue to increase by 5.5% sequentially to Rs43.59bn. The company's EBITDA margin is expected to improve by 25bps to 16.14%. Performance of recently acquired subsidiaries, Infocrossing and Unza, will be keenly monitored.

Quarterly estimates

	Revenue			EBITDA margin			PAT		
	Apr-Jun (Rs m)	*YoY gr. (%)*	*QoQ gr. (%)*	*Apr-Jun (%)*	*YoY chng. (bps)*	*QoQ chng. (bps)*	Apr-Jun (Rs m)	*YoY gr. (%)*	*QoQ gr. (%)*
Geometric Software	1,347	*19.3*	*6.5*	*14.8*	*779*	*230*	81	*(33.0)*	*73.4*
HCL Tech*	20,907	*29.7*	*7.5*	*22.9*	*138*	*66*	3,533	*(24.3)*	*3.1*
Infosys Technologies	49,281	*30.6*	*8.5*	*32.2*	*347*	*(34)*	13,142	*21.8*	*5.2*
KPIT Cummins	1,714	*26.7*	*4.0*	*16.3*	*39*	*196*	153	*20.4*	*47.0*
Prithvi Inf. Solutions	3,324	*39.4*	*6.0*	*11.8*	*(197)*	*(5)*	323	*70.2*	*5.0*
Rolta India	3,299	*62.4*	*14.4*	*34.0*	*(538)*	*(94)*	463	*(5.2)*	*(29.5)*
Satyam Computers	26,310	*43.8*	*8.9*	*22.7*	*26*	*(11)*	4,609	*21.8*	*(1.3)*
Tanla Solutions	1,594	*78.2*	*11.0*	*48.2*	*389*	*(20)*	550	*65.3*	*10.0*
Tata Elxsi	1,212	*31.2*	*8.2*	*22.4*	*481*	*55*	204	*68.6*	*16.0*
TCS	63,280	*21.6*	*3.8*	*25.3*	*(20)*	*(17)*	12,597	*6.3*	*0.3*
Tech Mahindra	11,035	*25.9*	*8.0*	*23.0*	*94*	*123*	2,136	*25.6*	*(2.4)*
Wipro	43,596	*34.1*	*5.5*	*21.4*	*(298)*	*(17)*	8,726	*22.8*	*(0.3)*
Total	**226,898**	***30.3***	***6.5***	***25.3***	***37***	***1***	**46,518**	***12.7***	***1.4***
Total (Ex Wipro)	**183,302**	**29.4**	**6.8**	**26.3**	**117**	**4**	**37,791**	***10.6***	***1.8***

** Y/e June*

Full year estimates

(Rs m)	Revenue			EBITDA			PAT		
	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E
Geometric Software	4,858	5,791	7,092	506	776	957	326	353	492
HCL Tech*	75,613	92,971	113,121	16,650	21,231	24,893	13,452	17,654	20,745
Infosys Technologies	166,920	216,679	263,885	52,380	71,848	84,885	46,590	60,192	69,733
KPIT Cummins	6,005	7,389	9,203	923	1,174	1,439	511	651	832
Prithvi Inf. Solutions	11,078	14,542	18,359	1,325	1,709	2,203	1,052	1,414	1,815
Rolta India	10,810	15,810	21,370	3,897	5,613	8,067	2,260	3,540	5,261
Satyam Computers	84,735	112,764	140,376	18,348	24,926	29,741	16,879	21,360	26,597
Tanla Solutions	4,598	9,097	13,355	2,153	3,670	5,343	1,631	2,618	3,818
Tata Elxsi	4,016	5,486	7,638	746	1,145	1,586	527	847	1,247
TCS	228,614	281,838	345,456	59,397	74,427	86,759	50,183	59,380	68,088
Tech Mahindra	37,661	47,564	57,814	8,258	10,392	12,575	3,300	8,849	10,617
Wipro	197,428	260,557	313,348	33,970	44,370	55,222	32,241	40,958	50,370
Total	**832,336**	**1,070,489**	**1,311,016**	**198,553**	**261,281**	**313,670**	**168,952**	**217,814**	**259,615**
YoY gr. (%)	–	*28.6*	*22.5*	–	*31.6*	*20.1*	–	*28.9*	*19.2*

** Y/e June*

Valuations

	Rating	Price (Rs)	M.Cap (Rs bn)	2009E P/S (x)	2009E EV/EBITDA (x)	2009E P/E (x)	2010E P/S (x)	2010E EV/EBITDA (x)	2010E P/E (x)
Geometric Software	OP	46	3	0.5	4.2	8.0	0.4	3.2	5.8
HCL Tech*	MP	236	160	1.7	6.5	9.1	1.4	6.4	7.7
Infosys Technologies	MP	1,755	1,011	4.7	12.6	16.8	3.8	10.3	14.6
KPIT Cummins	MP	56	4	0.6	3.9	6.8	0.5	3.0	5.3
Prithvi Inf. Solutions	BUY	134	2	0.2	1.9	1.7	0.1	1.5	1.3
Rolta India	BUY	266	45	2.8	6.0	12.6	2.1	3.7	8.5
Satyam Computers	OP	462	309	2.7	10.0	14.9	2.2	7.8	12.0
Tanla Solutions	BUY	193	19	2.1	3.3	7.4	1.4	1.8	5.1
Tata Elxsi	UR	203	6	1.2	5.1	7.5	0.8	2.8	5.1
TCS	MP	844	826	2.9	10.8	13.9	2.4	9.1	12.1
Tech Mahindra	OP	705	86	1.8	8.0	9.7	1.5	6.1	8.1
Wipro	MP	429	627	2.4	13.3	15.3	2.0	10.4	12.5
Sector			**3,099**	**2.9**	**10.8**	**14.3**	**2.4**	**8.8**	**12.0**

** Y/e June*

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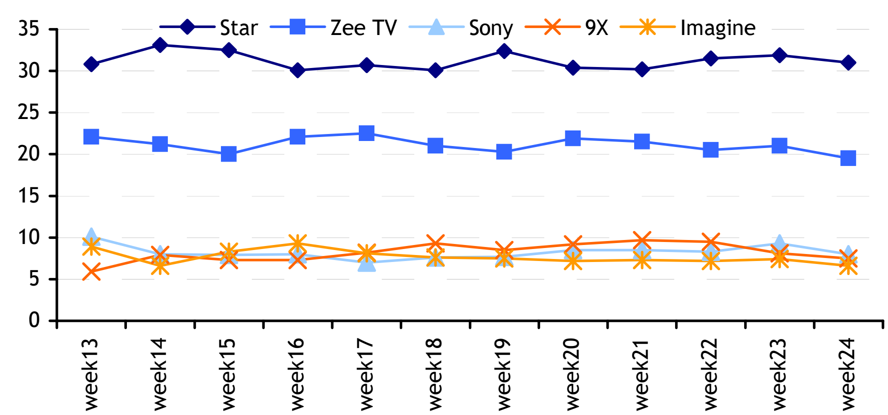
Media & Entertainment

Q1FY09 is expected to be a sesonally lean quarter for most of the media and entertainment companies. During the quarter (Q1FY09) our universe of media and entertainment stocks are expected to post 22% growth in revenue and 2% growth in earnings YoY. However, with the recent decline in the stock market, our universe of media stocks declined on an average by 19% vis-à-vis the benchmark index (Sensex) and by 14% against the previous quarter.

Television

The quarter saw a revolution in Indian entertainment in the form of IPL (Indian Premiere League). The IPL did have an impact on television ratings of many incumbent (*Star* and *Zee*) broadcasters, which should be reflected in the coming results. Ratings for incumbents have been under pressure during the quarter with stiff competition coming from success of IPL, and new GECs (*Imagine* and *9X*) with innovative content offerings seeking to increase their share in the lucrative GEC space.

Hindi GEC channel share in Q1FY09

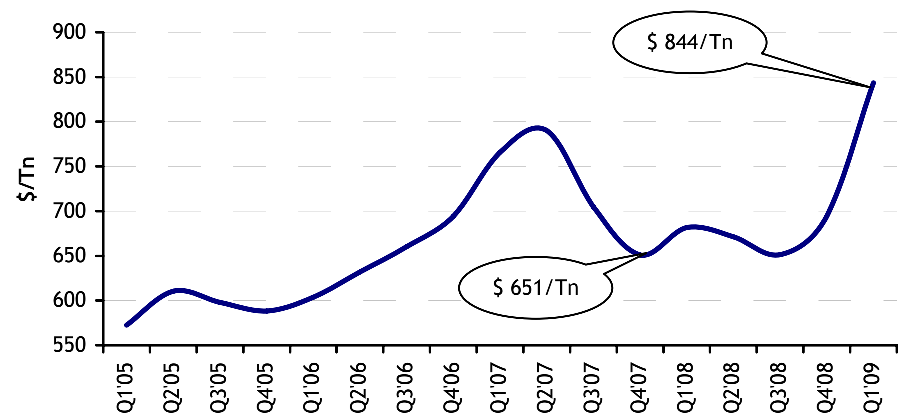


Source: Telepedia, Market HSM, TG:CS4+

Print

Print sector is reeling under pressure from increasing newsprint prices. Newsprint cost, has increased by 45% YTD from US$675/tonne to US$975/tonne. This is on the back of global events such as increase in demand on account of the Olympics, US Presidential elections, new capacity in China getting delayed and also due to consolidation in the Canadian markets, which resulted in closure of units. Operating margin for print companies will be under pressure as they are highly sensitive to any increase in newsprint costs.

Newsprint prices



Source: CrisInfac

Films

April to June is regarded as one of the better quarter for the Indian film industry. However, this year has been an exception, as most of the major movies are set for release during the second half of the year. Many production houses differed their release dates as producers anticipated 44 days of stiff competition from IPL. This consequently resulted in poor occupancy in multiplexes.

During the quarter, the industry had some mid to small budget movie releases viz., *Aamir, Summer 2007, Woodstock Villa, Tashan* and *Mere Baap Pahle Aap*, which unfortunately did not quiet make any major impact on the overall box office collections.

Box office performance of major movie releases this quarter

Film	Week	Domestic net total (Rs in m)	Total domestic gross (Rs in m)	USA gross ($ in '000)	UK gross (£ in '000)
Mere Baap Pahle Aap	1	134	202	114	102
Sarkar Raj	2	330	479	855	332
Aamir	2	19	26		
Summer 2007	1	4	5		2
Jannat (2008)	5	246	387	35	155
Tashan	8	272	405	457	348
Woodstock Villa	3	26	40		

Source: IBOS, As on 22/6/08

Top picks: UTV and PVR

Companies

Balaji Telefilms: BTL is likely to post revenue growth of 7% YoY from Rs745m to Rs785m, this growth is largely driven by increase in programming hours of 15% YoY from 347 to 397 hours, realisations however are expected to decline by 7% from Rs2.15m/hr to Rs2.03m/hr. As a result of which we expect operating margins to decline from 40% to 34%.

Deccan Chronicle: Revenues are expected to grow at 18% from Rs1.73bn to Rs2.04bn; operating margin is expected to decline by 280bps on account of increased newsprint costs and also due to launch expenses of its Bangalore edition. Earnings are to grow at 13% to Rs944m.

ENIL: April to June is regarded to be a seasonally lean quarter for the company. This, coupled with increase in employee cost and escalation of license fee for the Mumbai airport, will put pressure on the company's overall operating margin. On consolidated basis, we expect the company to report revenue of Rs1,096m and loss of Rs65m for the quarter.

HT Media: For this quarter we expect 16% YoY growth in revenue from Rs2.73bn to Rs3.16bn on the back of advertisement revenue growth of 15%. The company continues to be aggressive on its Hindi edition launches, despite high newsprint prices. We expect operating margins at 19%, a contraction of 130bps YoY, earnings as a result is likely to be flat at Rs353m.

IBN-18: During the quarter, the company launched its Marathi news channel *IBN Lokmat*; it is also expected to launch its GEC *Colors* in July. However, we have currently only modelled for its news operations (*CNN-IBN* & *IBN 7*), which are expected to clock a revenue growth of 116% YoY from Rs220m to Rs476m, with operating margins at 14% and earnings of Rs18m.

Jagran Prakashan: JPL is expected to post 11% growth in revenue from Rs1.83bn to Rs2.03bn, margins on account of higher newsprint costs, loss making edition and also losses on OOH will contract margins to 19% from 28%. Earnings as a result are expected to decline by 39% YoY from Rs347m to Rs210m.

Saregama India: For the quarter under review, Saregama India is expected to report 1.3% YoY as the physical sales continue to decline. However, we expect profitability to sustain with growing contribution from non-physical revenue. During the quarter, SIL had some film music releases like *Via Darjeeling* and *Chalo Lets Go*; also it launched music for its forthcoming movie production release - *Khella*. During the quarter, the company also launched, Rahul Sharma and Richard Clayderman's second collaboration *Confluence II*.

Sun TV: We expect Sun to post 10% revenue growth YoY from Rs2.02bn to Rs2.2bn; this will be on the back of ad. rate hike that the company took during the quarter. Earnings are expected to remain flat at Rs961m.

TV 18: We expect TV18 to maintain robust growth during the quarter with revenue expected to grow by 48% YoY from Rs682m to Rs1,007m; however, on account of losses in its web and newswire business, we expect operating margins to contract from 15% to 9.5%. As a result we expect a loss of Rs51m on consolidated basis.

TV Today: The April to June quarter will see a sequentially lower utilisation level; consequently revenues are expected to be subdued. However, it would be the first quarter reporting domestic subscription revenues since it went 'pay' in December last year. This, along with international revenues from newer geographies (Middle East and Canada), will lead to an overall revenue growth of 10.5% YoY to Rs569m for the quarter. We expect profits for the quarter to grow by 1.2% YoY to Rs81m.

PVR: The exhibition sector as a whole had a lean quarter, characterised by lower occupancy due to lack of quality movies (having no major impact on the box office). Also, the quarter saw relatively less number of movie releases with producers deferring their plans on movie releases. We expect occupancy in the exhibition sector to be on similar lines as was witnessed in Q4FY08. Factoring the same, we expect PVR to report a revenue growth of 3.2% YoY. However, operating margin should be under pressure at 16.5% due to new screen launches and increase in employee cost. Consequently, earnings are expected to decline by 63.1% YoY at Rs22m.

UTV Software: Despite a single low budget movie release *Aamir* and booking of domestic theatrical revenue for *The Happening* (55 prints), we expect the company to report robust revenue and earnings aided by satellite right exploitation for *Jodhaa Akbar* and *Race*. We expect the company to clock revenues of Rs1,155m, growth of 106.3% YoY. Consequently, consolidated earnings for the quarter are expected to grow by 93.2% to Rs145m.

Quarterly estimates

	Revenue			EBITDA margin			PAT		
	Apr-Jun (Rs m)	*YoY gr. (%)*	*QoQ gr. (%)*	*Apr-Jun (%)*	*YoY chng. (bps)*	*QoQ chng. (bps)*	Apr-Jun (Rs m)	*YoY gr. (%)*	*QoQ gr. (%)*
Balaji Telefilms	795	*6.7*	*(17.6)*	*34.0*	*(558)*	*(204)*	183	*(1.0)*	*(23.5)*
Deccan Chronicle	2,038	*17.5*	*(0.6)*	*57.0*	*(282)*	*(308)*	944	*12.7*	*3,461.9*
Ent. Network	1,096	*58.6*	*(11.1)*	*5.0*	*460*	*(993)*	(65)	*(15.8)*	*(279.6)*
HT Media	3,158	*15.5*	*0.8*	*19.0*	*(133)*	*(19)*	353	*3.4*	*(15.1)*
IBN 18 Broadcast	476	*116.1*	*9.2*	*14.0*	*2,222*	*(639)*	18	*(152.6)*	*51.1*
Jagran Prakashan	2,031	*10.7*	*6.9*	*19.0*	*(908)*	*320*	210	*(39.5)*	*35.7*
PVR	563	*3.2*	*3.7*	*16.5*	*(525)*	*345*	22	*(63.1)*	*(17.7)*
Saregama India	284	*(1.3)*	*(27.8)*	*6.7*	*(684)*	*180*	23	*(21.2)*	*(26.0)*
Sun TV	2,218	*9.6*	*(10.0)*	*74.0*	*(158)*	*986*	961	*3.3*	*5.2*
TV Today	569	*10.5*	*(10.7)*	*19.6*	*(341)*	*(932)*	81	*1.2*	*(40.1)*
TV-18	1,007	*47.8*	*(24.0)*	*9.4*	*(583)*	*(1,617)*	(51)	*(1,219.0)*	*(140.6)*
UTV Software	1,155	*106.3*	*(38.2)*	*15.2*	*(590)*	*937*	145	*93.2*	*(22.6)*
Total	**15,390**	***22.4***	***(9.2)***	***30.4***	***(475)***	***54***	**2,826**	***1.7***	***22.6***

Full year estimates

(Rs m)	Revenue			EBITDA			PAT		
	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E
Balaji Telefilms	3,290	3,216	3,104	1,239	1,021	1,032	874	700	682
Deccan Chronicle	8,950	9,703	11,634	5,477	5,506	6,849	3,039	3,317	4,318
Ent. Network	4,135	6,692	8,810	321	1,218	2,090	(171)	514	1,045
HT Media	11,862	13,731	15,690	2,229	2,612	3,018	1,445	1,534	1,735
IBN 18 Broadcast	1,312	2,068	2,715	159	232	498	(69)	23	173
Jagran Prakashan	7,498	8,832	10,037	1,640	1,750	2,105	983	966	1,187
PVR	2,659	3,733	5,752	489	738	1,234	216	278	487
Saregama India	1,423	1,607	2,327	74	144	275	82	122	182
Sun TV	8,699	10,070	11,609	5,975	6,923	8,039	3,267	3,808	4,359
TV Today	2,311	2,823	3,271	624	818	977	436	545	665
TV-18	4,017	5,348	7,134	996	1,444	2,233	255	512	980
UTV Software	4,375	6,558	11,258	640	1,333	2,220	569	788	1,242
Total	**60,531**	**74,380**	**93,341**	**19,864**	**23,739**	**30,570**	**10,927**	**13,107**	**17,053**
YoY gr. (%)	–	*22.9*	*25.5*	–	*19.5*	*28.8*	–	*20.0*	*30.1*

Valuations

	Rating	Price (Rs)	M.Cap (Rs bn)	2009E P/S (x)	2009E EV/EBITDA (x)	2009E P/E (x)	2010E P/S (x)	2010E EV/EBITDA (x)	2010E P/E (x)
Balaji Telefilms	UP	168	11	3.4	10.0	15.6	3.5	9.5	16.1
Deccan Chronicle	MP	100	24	2.5	4.3	7.4	2.1	3.0	5.7
Entertainment Network	OP	342	16	2.4	13.1	31.7	1.9	7.4	15.6
HT Media	MP	97	23	1.7	8.8	14.8	1.4	7.5	13.1
IBN 18 Broadcast	BUY	100	13	6.5	63.2	569.8	4.9	29.3	77.4
Jagran Prakashan	MP	63	19	2.2	11.3	19.7	1.9	9.1	16.0
PVR	BUY	175	4	1.1	7.3	14.5	0.7	4.8	8.7
Saregama India	OP	99	1	0.9	10.4	11.9	0.6	5.4	8.0
Sun TV	MP	253	100	9.9	12.8	26.3	8.6	10.5	22.9
TV Today	OP	86	5	1.8	4.9	10.1	1.5	3.8	8.3
TV-18	OP	207	25	4.6	18.0	48.3	3.5	11.6	25.2
UTV Software	BUY	753	17	2.6	8.9	38.0	1.5	3.8	24.1
Sector			**259**	**3.5**	**10.3**	**19.8**	**2.8**	**7.6**	**15.2**

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Metals

Crude steel (CS) production remained strong during the first two months of Q1FY09 across the globe. World crude steel production grew by 6.5% (4.3% ex-China) to 236 million tonnes during April-May 2008, while steel production in China grew by 10.4%, moderating from a growth of 18% in the corresponding period of the previous year.

With the recent rise in long-term agreement prices for coking coal and iron ore, cost of production would rise by US$234-250 per tonne for fully non-captive producers. In such an inflationary scenario, we expect steel prices to sustain at current levels across the globe, except the US market, where the demand drivers are deteriorating sharply leading to sharp rise in exports.

Iron ore and coking coal yearly settlement prices

US $/tonne	Apr-Mar'08	Apr-Mar'09	*Change %*
Australian iron ore fines (Rio tinto)	49	88	79.9
Brazilian iron ore fines (Vale)	45	78	*72.4*

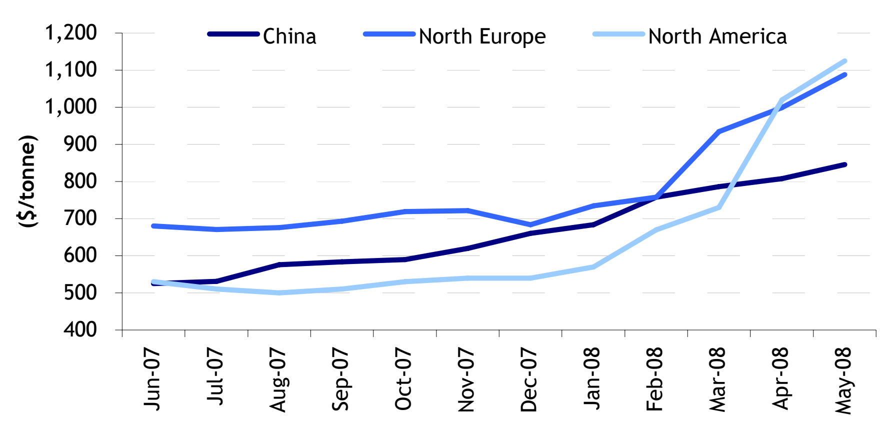
Source: Company Data, PL Research

Coaking coal

US $/tonne	Apr-Mar'08	Apr-Mar'09	*Change %*
Prime coking coal	98	305	*211*

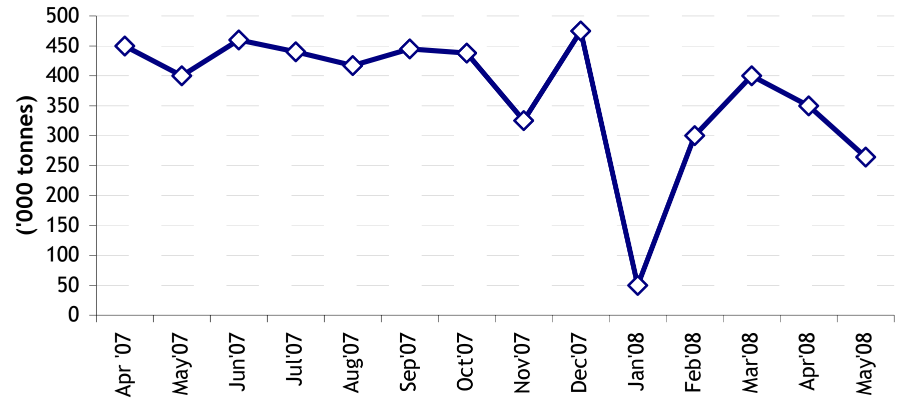
Source: Company Data, PL Research

Price movement across key regions



Source: Bloomberg

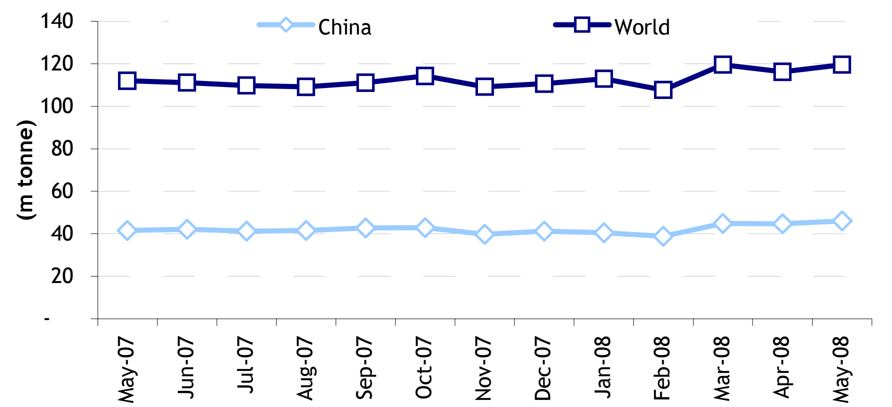
Exports from India



Source: Bloomberg

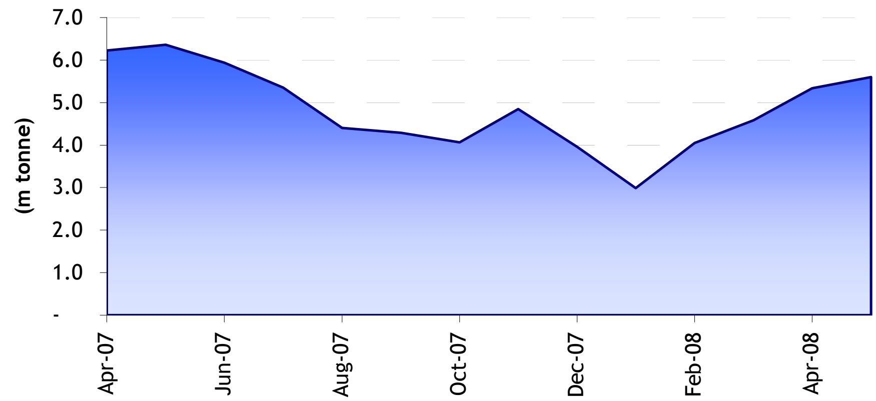
Exports declined sharply in April-May 2008, signalling strong demand in the domestic market

Production - World v/s China



Source: Bloomberg

China exports



Source: Bloomberg

Export of iron & steel products from China declined by 13.5% during April-May 2008 to 10.9 million tonnes; it is expected to go down further on the back of shutdown of various capacity and emergence of demand from earthquake affected Shinua region.

We maintain our overweight recommendation on the sector, primarily on the integrated players, considering the strong demand outlook, supply deficit and sharp escalation in input prices.

Top picks: JSPL

Companies

Jindal Steel and Power: Having benefited from strong sales volume and better realisation, the company net sales from the steel business is expected to rise by 45.1%. EBITDA could grow by 66% (excluding the impact of forex translation loss) to Rs7.97bn. Backed by stable ramp-up of 500MW plants at Jindal Power, the company is expected to clock revenue of Rs2.1bn and EBITDA of Rs1.58bn. We expected consolidated EBITDA of Rs7.6bn and PAT of Rs4.33bn.

JSW Steel: Strong volume growth on account of SISCOL's merger with the company and higher realisation willl drive topline of the company. We expect sales volume growth of 45.5% and realisation growth of 10%. Standalone topline is expected to grow by 60% to Rs35.1bn, while EBITDA is expected to remain flat at Rs7.4bn due to rise in long-term coking coal and iron ore prices. EBITDA per tonne is expected at US$190 as compared to US$265 in Q1FY08.

Quarterly estimates

	Revenue			EBITDA margin			PAT		
	Apr-Jun (Rs m)	*YoY gr. (%)*	*QoQ gr. (%)*	*Apr-Jun (%)*	*YoY chng. (bps)*	*QoQ chng. (bps)*	Apr-Jun (Rs m)	*YoY gr. (%)*	*QoQ gr. (%)*
Jindal Steel & Power	19,814	*62.0*	*30.1*	*38.4*	*(76.2)*	*38.4*	4,332	*73.2*	*11.0*
JSW Steel	43,538	*98.7*	*3.9*	*20.1*	*(1,370)*	*122*	3,139	*(26.6)*	*(31.9)*
Total	**63,351**	***85.6***	***10.9***	***25.9***	***(990)***	***184***	**7,471**	***10.2***	***(12.2)***

Full year estimates

(Rs m)	Revenue			EBITDA			PAT		
	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E
Jindal Steel & Power	54,890	98,953	122,864	22,197	46,409	59,546	12,655	28,042	38,041
JSW Steel	123,455	226,522	293,409	33,302	43,083	61,185	16,149	17,575	25,062
Total	**178,345**	**325,475**	**416,273**	**55,499**	**89,491**	**120,731**	**28,804**	**45,617**	**63,102**
YoY gr. (%)	*–*	*82.5*	*27.9*	*–*	*61.2*	*34.9*	*–*	*58.4*	*38.3*

Valuations

	Rating	Price (Rs)	M.Cap (Rs bn)	2009E P/S (x)	2009E EV/EBITDA (x)	2009E P/E (x)	2010E P/S (x)	2010E EV/EBITDA (x)	2010E P/E (x)
Jindal Steel & Power	Buy	1,684	268	2.7	6.9	9.5	2.2	7.1	7.0
JSW Steel	OP	752	152	0.7	7.1	8.6	0.5	8.0	6.0
Sector			**419**	**1.3**	**7.0**	**9.2**	**1.0**	**7.5**	**6.6**

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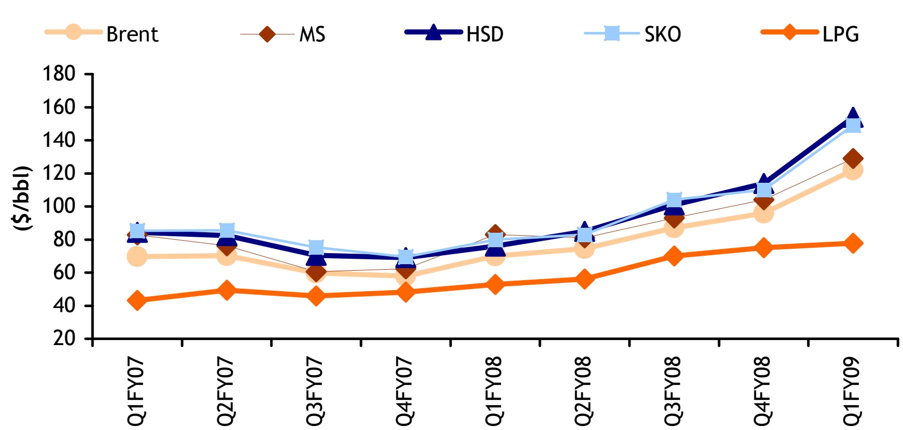
Oil, Gas & Petrochemicals

Crude and product prices continued to charter unseen territories despite the declining trend in key product (gasoline) demand since September 2007, although the decline was only 0.5%. The rise in crude and product prices can mainly be attributed to tight supply conditions citing very little new spare capacity available and increasing demand from China and India. Speculators were also widely responsible for keeping prices high citing geo-political tensions and other extraneous factors.

Another surprising fact in this high price scenario is the relatively low refinery utilisation in the US to around 84-85% as compared to 88-89%. This speaks of the fact that gasoline prices have lagged the rise in crude price due to weak demand in the US, and gasoline constitutes almost 50% of the US fuel demand. While diesel prices have run-up sharply, increasing the spread to US$35-40/bbl as compared to US$20-25/bbl due to shortage of production capacity.

We believe at these levels crude prices will become very volatile depending on the news flow from change in inventory levels and any geo-political developments. Moreover, over the next two months the US is expected to face hurricanes, which may further fuel speculator interest. The only trigger for crude to come down over medium term will be the emergence of some serious demand concerns at these high prices.

Prices chartering new territories



Source: Bloomberg, PL Research

Indian scenario

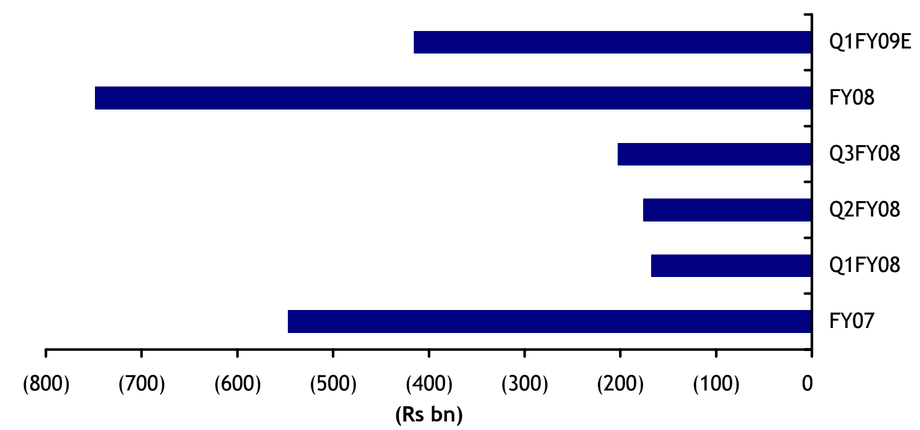
Govt relents on price increase

On June 06, 2008, the government allowed oil companies to increase the price of auto fuel by Rs5.0/litre and Rs3.0/litre for petrol (MS) and diesel (HSD) respectively, while LPG price was increased by Rs50/cylinder. But margins remained in the red as price increase was marginal and moreover international prices kept on moving northwards. For Q1FY09, average under recovery for petrol and diesel could be Rs13.0/litre and Rs17/litre respectively.

Moreover, GoI decided to lower excise duty on auto fuels by Rs1.0/litre, while the state governments lowered sales tax on LPG and auto fuels to cushion the impact of retail price increases. This overall reduced the annualised under recovery by Rs450bn.

The picture on upstream sharing was not very clear after GoI announced price increase and duty cut, as it seemed that sharing by upstream has reduced to 20% from 33% in FY08. However, there is no possibility of this happening, as upstream companies continue to make the most out of crude prices and we expect sharing to remain at 33%, lest there is increase in FY09.

Under recoveries continue unabated



Source: Company Data, PL Research

Refining spread strengthened

Indian Refinery Crack spreads strengthened as HSD-Brent delta widened to US$30-34/bbl as it forms more than 30-35% production yield of refineries. While MS-Brent delta weakened to US$7-9/bbl due to weakening demand of gasoline in the US. We expect Indian refinery spreads to widen by US$0.5-1.0//bl QoQ in Q1FY09E.

Petrochemicals

Prices of polymers, polyester and intermediates continued their upward trend on back of higher feedstock prices led by crude oil and touched their new highs. But margins remained under pressure for polymers at around Rs36/kg as compared to Rs37/kg in Q4FY08.

Top picks: Reliance Industries

Companies

ONGC: The company is in a sweet spot as crude prices continue to touch new highs and is close to the US$150/bbl mark. Cash flows remain very strong, although 80-90% of the upside is taken back in the form of subsidising the losses of marketing companies. During the quarter, GoI increased product prices and reduced duties, thus instilling the confidence that upstream sharing in FY09 is expected to remain at 33%.

Reliance Industries: Refining margins continue to touch new highs as it is expected to hit US$17/bbl in Q1FY09. The expansion in margin is due to increased delta in HSD (because of shortage in world markets) and this forms almost 35-37% of its distillate yield. This is expected to drive profitability in the quarter with 25% growth in PAT.

Quarterly estimates

	Revenue			EBITDA margin			PAT		
	Apr-Jun (Rs m)	*YoY gr. (%)*	*QoQ gr. (%)*	*Apr-Jun (%)*	*YoY chng. (bps)*	*QoQ chng. (bps)*	Apr-Jun (Rs m)	*YoY gr. (%)*	*QoQ gr. (%)*
Reliance Ind.	428,345	*52.7*	*14.9*	*15.9*	*(258)*	*(28)*	42,195	*29.3*	*7.9*
ONGC	188,721	*37.9*	*20.8*	*44.8*	*(1,305)*	*785*	48,864	*6.0*	*86.0*
Total	**617,066**	***47.8***	***16.6***	***24.7***	***(666)***	***243***	**91,059**	***15.6***	***39.3***

Full year estimates

(Rs bn)	Revenue			EBITDA			PAT		
	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E
Reliance Ind.	1,334.4	1,668.0	2,452.0	233.1	300.0	396.0	152.6	195.9	263.1
ONGC	598.5	683.3	651.0	300.8	338.0	354.6	167.0	186.4	204.3
Total	**1,932.9**	**2,351.3**	**3,103.0**	**533.9**	**638.0**	**750.6**	**319.6**	**382.4**	**467.3**
YoY gr. (%)	–	*21.6*	*32.0*	–	*19.5*	*17.6*	–	*19.6*	*22.2*

Valuations

	Rating	Price (Rs)	M.Cap (Rs bn)	2009E P/S (x)	2009E EV/EBITDA (x)	2009E P/E (x)	2010E P/S (x)	2010E EV/EBITDA (x)	2010E P/E (x)
Reliance Ind.	OP	2,099	3,302	2.0	11.7	16.9	1.3	8.9	12.6
ONGC	OP	876	1,874	2.7	5.1	10.1	2.9	4.9	9.2
Sector			**5,177**	**2.2**	**8.2**	**13.5**	**1.7**	**7.0**	**11.1**

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Pharmaceuticals

Domestic market

The domestic pharma market is estimated to have grown around 14.5% during Q1FY09. The domestic growth rate is healthy and is likely to be maintained in FY09 due to the introduction of new products, line extensions, increase in consumption of lifestyle drugs and in-licensing deals. The domestic pharma market is growing at a steady pace of 13-14% over last 2-3 years, and is likely to maintain this growth rate unless the government brings more drugs under price control.

Domestic pharma market *(Rs bn)*

	Market size (MAT)	*YoY gr. (%)*
Oct'07	303	*13.2*
Nov'07	306	*12.3*
Dec'07	310	*13.4*
Jan'08	314	*13.6*
Feb'08	319	*14.8*
Mar'08	321	*14.8*
Apr'08	324	*14.7*
May'08	326	*14.1*
Average	**315**	**13.9**

Source: ORG- MAT data

The domestic pharma market was placed at Rs326.04bn (IMS-ORG MAT May 2008) and grew at 14.1%. On month-on-month basis, it declines by 0.6%. The growth rate of 14.1% is quite encouraging and is likely to improve further due to the rapid introduction of new products, combination products and line extensions.

Currency movements - increased revenue

The rupee has depreciated by 6.9% against the dollar in Q1FY09 (compared to 1% depreciation in Q4FY08 and 1% appreciation in Q3FY08). This is likely to enhance the revenue of major pharma companies, as they derive over 50% of their revenues from exports. However, there will be forex losses on FCCB and the stocks lying at the overseas subsidiaries due to depreciation of the rupee.

Weakening of the rupee against the dollar by 6.9% during the quarter has affected importers, who were benefited in the past due to the rapid appreciation of the rupee against the dollar. Most of the API and intermediates are imported from China and import cost has gone up. Correspondingly, customs duty on the same has also gone up.

Government regulations - detrimental to growth

The government issued a notification for setting a separate department of Pharmaceuticals from July, 2008 due to growth of Indian Pharma Industry. Currently, Pharma is a part of Chemicals and Fertilizers department. The process is likely to be completed in three months.

The Goa government has scrapped eight SEZs due to strong anti-SEZ movement by the local people. One of the three main controversial SEZs in Goa is Meditab Specialties, a group company of Cipla which has invested over Rs2.0bn in the SEZ. The Goa government is likely to compensate Meditab for the investment made in the SEZ project.

National Pharmaceutical Pricing Authority (NPPA) will be given free hand to control prices of medicines, including out-of-price control drugs. The government has capped the increase in price of non-scheduled formulations up to 10% in any 12-month period.

The proposed pharma policy is in circulation for the last two years and will take considerable time to finalise. The proposed policy recommends increasing the number of drugs under price control from 74 to 354.

The proposed policy recommends fixing trade margin at 15% for wholesalers and 35% for retailers. There is also a move to cap wholesaler margin at 10% and retailer margin at 20% for non-price control drugs.

Regional developments

Gujarat government has sanctioned pharma parks and SEZs. This is likely to attract many MNC pharma companies to set-up manufacturing facilities in India. Gujarat-based pharma companies, namely Cadila Healthcare and Dishman Pharma, are setting up huge manufacturing facilities in SEZ.

Investments of over Rs17.3bn is likely to be made in Andhra Pradesh by leading biotech companies over next 3-5 years. Some of the companies have already invested (Rs1.0bn by Biocon, Rs5.0bn by Avesthagen and Rs3.0bn by DuPont) in Andhra Pradesh.

Global developments

Daiichi Sankyo, Japan (DIS) has acquired 34.8% stake in Ranbaxy Labs (RLL) from its promoters at Rs737 per share aggregating to Rs10.64bn. DIS is also subscribing to preferential issue and warrants. Simultaneously, it has come out with an open offer to acquire 20% shares of RLL at Rs737 per share. After all these events, DIS is likely to hold around 51% stake in RLL.

Sun Pharma has filed an action in the Supreme Court of state of New York (as per the jurisdiction mentioned in the merger document) against Taro Pharma and its full board of directors. The action asserts fraud claims against Taro and its directors to honour their promises under the option agreement.

Indian pharma companies have received over 45 ANDA approvals from US FDA during the quarter (against 36 in Q4FY08). These approvals are likely to translate in to additional export of formulations to the US.

The prices of API imported from China have gone up considerably due to the closure of several API units due to environmental issues and withdrawal of export incentives. Moreover, the low margin on products is compelling a price rise.

Teva Pharma, Israel, the world's largest manufacturer of generic drugs has plans to invest over US$1bn (Rs43.0bn) over next 24 months in India to acquire drug companies and to set-up greenfield projects. Of this, Rs10.0bn will be for the manufacturing facility and about Rs33.0bn for acquisitions.

Stocks under our coverage - healthy growth

The seven pharma companies under our coverage are likely to report aggregate sales growth of 37% on YoY basis and 4% on QoQ basis. The major growth is likely to come from Sun Pharma (due to three FTF opportunities), Cipla, Lupin and Dishman Pharma. The companies under our coverage are likely to report aggregate EBIDTA margin of 27% during the quarter, which is quite healthy. The EBIDTA margin is likely to improve by 787bps on YoY basis and decline by 19bps on QoQ basis. Net profit of these companies is expected to improve by 58% on YoY basis and nil on QoQ basis. Pharma companies under our coverage have a market cap of Rs866bn (Rs711bn in Q4FY08) indicating a 21% improvement on QoQ basis. These companies are trading at 19.2x FY09E earnings and 14.8x FY10E earnings.

Mid-term growth prospects of Indian pharma companies are intact, following a sharp rise in exports of generic products, healthy growth rate of around 14% in the domestic market and the scale-up of CRAMS contracts by Indian companies. Moreover, the opening of generic market in Japan is likely to benefit Indian pharma companies. Export-oriented pharma companies are likely to benefit from the 6.9% depreciation of rupee against the dollar during Q1FY09.

A majority of pharma companies have commenced initiatives to market their mature products in the rural market through contract field force. This is likely to enhance the domestic market.

Top picks: Ankur Drugs, Dishman Pharma, Lupin and Ranbaxy Labs.

Companies

Ankur Drugs: The production of majority formulations of the company has already commenced at its greenfield Baddi facility. Rapid film manufacturing is likely to commence in Q2FY09. Novartis India has commenced sourcing six products from Ankur for the domestic market. Wyeth, US has also inspected this facility and the company is likely to receive approval in Q2FY09. The company has now long-term supply agreements with major players like Ranbaxy Labs and Cipla on hand and can deliver steady and sustainable growth. Ankur has not lost any of its existing customers after the reduction in excise duty in the budget.

Cipla: The company is likely to report 29% growth in sales for the quarter due to higher exports. We expect export growth of 69% during the quarter, mainly driven by export of API. Raw material from China has become costly due to withdrawal of export benefits by the Chinese government. Cipla has commenced selling generic version of Tarceva, anti-cancer product, in the domestic market. Cipla Medpro JV has received Rs384m order from South African government for the supply of anti-HIV drugs.

Dishman Pharma: The company is likely to receive additional contracts from Astra Zeneca. It has successfully integrated the vitamin D3 and analogue business, which was acquired from Solvay in Q1FY08 and has shifted part of its production to India. Dishman has increased the prices of Quats upto 10% to mitigate the rise in prices of crude-based chemicals. The group company, Dishman Infrastructure, has received approval from the government for setting up an SEZ near Ahmedabad. Dishman Pharma will be setting up a manufacturing facility in this SEZ. The company's US$10m (Rs430m) China facility for low-end Quats is likely to go on stream in Q3FY09.

Glaxo Smith Kline Pharma: GSK Pharma has launched Tykerb and is likely to launch Rotarix vaccine in CY08. The company has signed an in-licensing agreement with Astellas Pharma, Japan to market anti-fungal drug Mycamine (Micafungin) in India. The company has entered into in-licensing deal with Daiichi Sankyo for Olmesartan. GSK is currently carrying out clinical trials in India covering 10% of its worldwide patients. It is likely to report EBIDTA margin of over 36.6% during the quarter.

Lupin: Lupin has reported strong growth of around 26% in FY08 the domestic pharma market. It has received approval to market 10 generic products in Japan with market size of US$2.65bn (Rs 114bn) . The company has recently launched generic Ramipril in the US market. It has also launched Suprax tablets and DS tablets as line extension in the US market. Lupin has plans to launch generic Topiramate tablets in September 2008.

Ranbaxy Laboratories: Ranbaxy promoters have sold their entire 34.8% stake to Daiichi Sankyo, Japan for Rs10.68bn. Ranbaxy has settled the patent litigation with Pfizer for Lipitor and with Astra Zeneca for Nexium. With both these settlements, the litigation expenses are likely to decline considerably. It has acquired 14.7% stake in Orchid Chemicals during the quarter. Ranbaxy has received Rs864m order through its JV partner Sonke Pharma, for the supply of anti-HIV drugs in South Africa. The company is putting up a SEZ at Mohali over 80 acres of land.

Sun Pharmaceutical Industries: Sun Pharma has filed a suit against Taro Pharma and its board of directors for not honouring the merger agreement. The acquisition of Taro has been considerably delayed due to the objections raised by Templeton. The R&D cost would decline due to demerger of R&D business as SPARC. The company is likely to report a huge export growth during the quarter from three FTF opportunities namely: generic Protonix, Ethyol and Trileptal.

Quarterly estimates

	Revenue			EBITDA margin			PAT		
	Apr-Jun (Rs m)	*YoY gr. (%)*	*QoQ gr. (%)*	*Apr-Jun (%)*	*YoY chng. (bps)*	*QoQ chng. (bps)*	Apr-Jun (Rs m)	*YoY gr. (%)*	*QoQ gr. (%)*
Ankur Drugs	2,300	–	*10.8*	*17.0*	–	*45*	234	–	*17.2*
Cipla	11,638	*29.1*	*3.7*	*18.6*	*82*	*56*	1,863	*55.5*	*3.8*
Dishman Pharma	2,100	*25.0*	*(13.2)*	*19.0*	*274*	*40*	270	*25.3*	*(32.4)*
Glaxo SmithKline*	4,273	*8.0*	*2.2*	*36.6*	*572*	*26*	1,211	*25.6*	*(0.1)*
Lupin	7,717	*34.0*	*2.8*	*16.3*	*201*	*32*	964	*72.5*	*0.6*
Ranbaxy Labs*	18,568	*10.2*	*9.3*	*15.3*	*186*	*28*	1,050	*(60.6)*	*61.0*
Sun Pharma	12,819	*104.3*	*2.0*	*58.0*	*2,377*	*(92)*	7,053	*210.4*	*(5.0)*
Total	**59,416**	***31.2***	***4.3***	***27.0***	***787***	***(19)***	**12,644**	***57.7***	***0.0***

** Y/e Dec*

Full year estimates

(Rs m)	Revenue			EBITDA			PAT		
	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E
Ankur Drugs	6,739	9,863	12,182	1058	1,663	2,146	628	1,073	1,446
Cipla	42,268	48,651	56,297	8,496	10,581	12,889	7,005	8,838	10,684
Dishman Pharma	8,031	10,556	14,004	1,529	2,330	3,150	1,216	1,747	2,227
Glaxo SmithKline*	15,771	16,670	18,099	5375	5,835	6,432	3,997	4,491	5,062
Lupin	27,064	36,909	50,152	4359	6,183	8,730	3,208	4,578	6,462
Ranbaxy Labs*	69,823	81,912	105,052	9147	13,249	19,604	7,743	8,156	14,719
Sun Pharma	34,205	41,189	47,421	16,151	18,355	20,803	14,870	16,563	18,628
Total	**203,900**	**245,750**	**303,207**	**46,115**	**58,198**	**73,754**	**38,668**	**45,446**	**59,227**
YoY gr. (%)	*—*	*20.5*	*23.4*	*—*	*26.2*	*26.7*	*—*	*17.5*	*30.3*

** Y/e Dec*

Valuations

	Rating	Price	M.Cap	2009E			2010E		
				P/S	EV/EBITDA	P/E	P/S	EV/EBITDA	P/E
		(Rs)	(Rs bn)	(x)	(x)	(x)	(x)	(x)	(x)
Ankur Drugs	BUY	195	5	0.5	5.6	4.7	0.4	3.9	3.5
Cipla	MP	208	162	3.3	15.5	18.3	2.9	12.8	15.1
Dishman Pharma	OP	284	23	2.2	12.7	13.3	1.7	8.9	10.4
Glaxo SmithKline	MP	1,139	96	5.8	14.1	21.5	5.3	12.4	19.1
Lupin	BUY	682	60	5.7	28.5	31.9	4.3	20.6	25.0
Ranbaxy Labs	OP	538	244	14.7	39.5	10.2	13.5	35.4	9.0
Sun Pharma	OP	1,326	275	6.7	14.5	16.6	5.8	12.7	14.7
Sector			**866**	**3.5**	**14.4**	**19.2**	**2.9**	**10.9**	**14.8**

** Y/e Dec*

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Real Estate

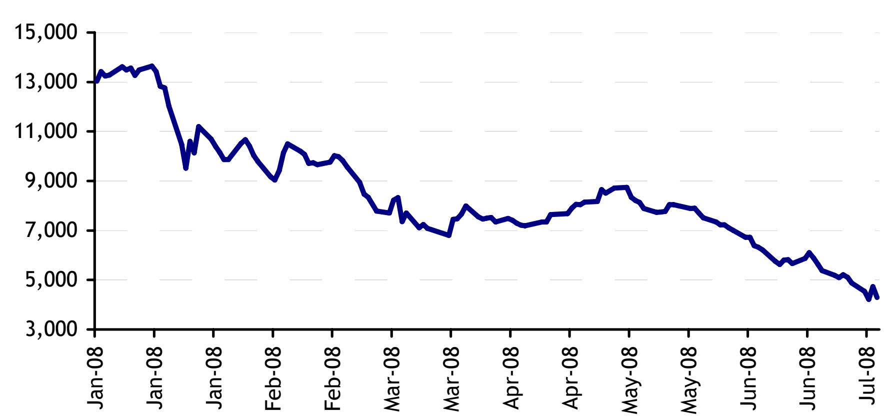
Over the last few months, real estate developers have been caught in a viscous circle of sluggish demand and rising cost of capital. Availability of finance has been a problem with rising cost of debt and drying up of equity funding. There have been instances of developers borrowing at interest rates ranging between 24-36% against 500% collaterals. The lack of liquidity is likely to impact deliveries, leading to project delays as well as postponement of new launches.

With the rising home loan rates, transaction volumes in the residential segment have been impacted. In the commercial segment, however, signs of a slowdown in demand have been minimal. The retail real estate segment may prove to be a laggard on account of large supply expected in 2009 and 2010 with demand not keeping pace.

Value bubbles formed in certain geographies like NCR and certain tier II and III cities have witnessed the maximum slowdown. Within the NCR, areas like Gurgaon, Noida and Ghaziabad have been the worst hit.

The real estate sector has been the scapegoat of the recent turmoil in the stock market. The realty index has witnessed a decline of 68.5% from its peak in January to till date.

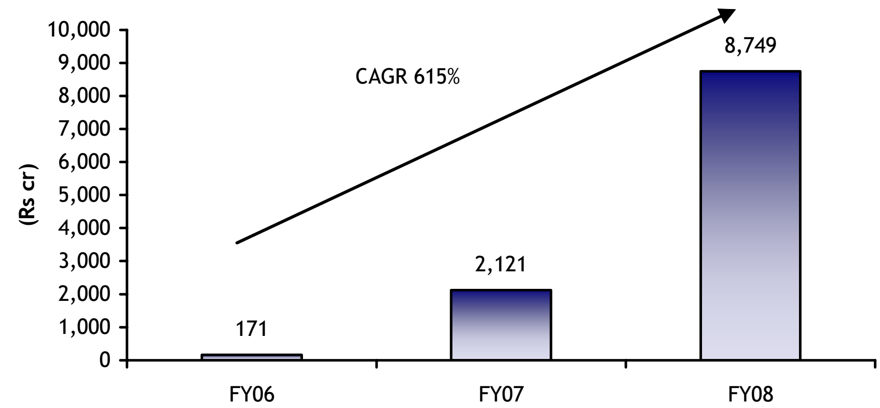
BSE realty index



Source: Bloomberg

On a positive note, FDI inflows witnessed a CAGR growth of 615% from FY06-08, with inflow for FY08 at Rs87.5bn. Some of the leading investors who have invested include names like Blackstone Group, Goldman Sachs, Emmar Properties, Pegasus Realty, Citigroup Property Investors, Lee Kim Tah Holdings, Salim Group, Morgan Stanley and GE Commercial Finance Real Estate.

FDI inflows



Source: RBI

In a situation where availability of finance is a key concern, we remain positive on companies that are sitting on large cash balances and have their funding requirements in place. This would enable them to complete projects on schedule as well as take advantage of declining land prices.

Top picks: Anant Raj

Companies

Anantraj: The main highlight of the quarter has been the sale of 26% stake in the company's subsidiary Anantraj Projects, which owns 0.5 million sq.ft. of the Kirtinagar mall project (total project size: 0.74 million sq.ft.) in Delhi for a total consideration of Rs2.16bn. The stake was sold to Acacia Real Estate Ltd., a Bahrain-based real estate development fund. However, the project is slightly delayed and is likely to be ready for fit outs over the next 2-3 months.

The company's IT Park at Manesar has been fully leased out at an average rental of Rs52/sq.ft./month. Lease rentals from this project are expected to accrue from August 2008.

Anantraj is sitting on a cash balance of over Rs12bn, which will enable it to complete projects on time as well acquire land in depressed markets. We expect strong results for Q1FY09 with topline and PAT growth of 49% and 41% YoY respectively.

We are reducing our target price on the stock by 22% to Rs232 based on a 30% discount to NAV, as against a discount of 15% earlier. We rate the stock Outperformer.

Peninsula Land: The company has commenced work on its projects in Mumbai following the stop-work notice being vacated on its mill land projects on April 2, 2008. This has enabled the company three full months of construction activity with the initial period of April being slightly slow.

We expect revenue for the quarter to grow by 70% YoY with EBIDTA margin of 54%. The growth in revenue will largely be backed by commencement of construction at Peninsula Business Park, where 50% has been pre-sold. PAT growth for the quarter is likely to be 47% YoY.

We are reducing our target price on the stock as we are increasing the discount to NAV from 15% to 30% based on peer group valuations. Our revised target price on the stock stands at Rs84 derived from 30% discount to NAV of Rs101 in addition to Rs13 accruing from the realty fund. We rate the stock Outperformer.

Quarterly estimates

	Revenue			EBITDA margin			PAT		
	Apr-Jun (Rs m)	*YoY gr. (%)*	*QoQ gr. (%)*	*Apr-Jun (%)*	*YoY chng. (bps)*	*QoQ chng. (bps)*	Apr-Jun (Rs m)	*YoY gr. (%)*	*QoQ gr. (%)*
Anantraj Inds.	2,200	*49.4*	*88.0*	*75.0*	*(1,791)*	*(1,284)*	1,433	*40.5*	*33.0*
Peninsula Land	1,600	*69.5*	*43.9*	*54.0*	*(430)*	*3,133*	555	*47.3*	*88.4*
Total	**3,800**	***57.3***	***66.5***	***66.2***	***(1,324)***	***1,007***	**1,988**	***42.4***	***44.9***

Full year estimates

(Rs m)	Revenue			EBITDA			PAT		
	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E
Anantraj Inds.	6,038	11,766	25,895	5,622	8,086	16,832	4,368	5,961	12,622
Peninsula Land	3,574	10,858	16,842	1,509	5,400	8,939	1,321	3,526	6,302
Total	**9,611**	**22,624**	**42,738**	**7,131**	**13,486**	**25,771**	**5,689**	**9,487**	**18,924**
YoY gr. (%)	—	*135.4*	*88.9*	—	*89.1*	*91.1*	—	*66.8*	*99.5*

Valuations

	Rating	Price (Rs)	M.Cap (Rs bn)	2009E P/S (x)	2009E EV/EBITDA (x)	2009E P/E (x)	2010E P/S (x)	2010E EV/EBITDA (x)	2010E P/E (x)
Anantraj Inds.	OP	131	39	3.3	4.6	6.5	1.5	2.5	3.1
Peninsula Land	OP	61	17	1.6	2.4	4.8	1.0	1.3	2.7
Sector			**56**	**2.5**	**3.7**	**5.9**	**1.3**	**2.1**	**3.0**

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Ship Building

Valuations of Indian shipbuilding companies have been impacted negatively with certain concerns plaguing the sector, especially in countries like China and Korea. One important issue is that of increasing prices of steel, while the other is the cancellation of certain speculative orders in China due to increasing finance costs.

Demand for bulk carriers has seen some weakening, however, the offshore vessels and rig market remains buoyant.

Indian ship building companies -ABG Shipyard and Bharati Shipyard - have largely been focusing on their expansion plans directed towards building large-sized vessels. These companies claim to see no weakening in demand in the segments that they operate in.

Increase in prices of steel is likely to have a lesser impact on ABG and Bharati Shipyard, as a portion of their steel requirements are tied up. In case of Bharati Shipyards, the impact will be minimal as almost 75-80% of its steel requirements are tied up. In ABG's case, 20-30% of the steel has been tied up.

On the subsidy front, there has been no clarity on the renewal of the policy as well as on the disbursements of subsidy already booked till date.

Top picks: Bharati Shipyard and MPSEZ

Companies

ABG Shipyard: Has received orders to the tune of Rs8.9bn during the current quarter, taking its order book to Rs90.8bn and unexecuted order book to Rs74.1bn. The company has commenced operations at its new Dahej facility.

We expect topline growth of 42% for Q1FY09 with EBIDTA margin of 22%. The company's PAT is likely to grow by 39% YoY.

The stock currently trades at 6.6x FY09 and 3.8x FY10 earning including subsidy and 11.3x FY09 and 5.6x FY10 earnings excluding subsidy. We are revising our target price downwards based on market valuations. Our target price stands at Rs411 based on 7.5x FY10 earnings without subsidy. We rate the stock an Outperformer.

Bharati Shipyard: Is currently in the process of building a rig for Great Offshore at its new Dabhol facility. Besides, Bharati Shipyard's main focus is to install Swan Hunter equipment at its new facilities and get them fully operational. The company's order book stands at Rs46.3bn and its unexecuted order book stands at Rs32bn, translating into 4.1x FY09 total order book/sales and 2.8x FY09 unexecuted order book/sales.

We expect the company to report topline growth of 37% YoY accompanied by 18.6% EBIDTA margin. PAT growth is likely to be 27% YoY.

Based on current market valuations, we are downgrading our price target on the stock. The stock currently trades at 5.5x FY09 and 3.8x FY10. Valuations, excluding subsidy, stand at 8.5x FY09 and 5.3x FY10. Our target price of Rs437 is based on 8x FY10 earnings without subsidy. We rate the stock a BUY.

Mundra Port & SEZ: The company's port operations have largely been on track. It commenced operations at its second container terminal on account of which volumes have been growing steadily at the port.

Development work was on at the SEZ until July 1, 2008, when the Supreme Court issued an ex-parte stay on the construction activities on account of a Public Interest Litigation. The company will revert to the court within four weeks.

We expect 42% revenue growth for MPSEZ in Q1FY09. On account of an increase in percentage of container and crude oil traffic as well sale of SEZ land, we expect the company's EBIDTA margin to improve by 620bps to 63.6%. Expansion in EBIDTA margin and a reduction in tax rate are likely to result in robust PAT growth of 167% YoY.

We are increasing our discount rate for our DCF from 11.7% to 12.6% on account of an increase in the risk free rate. Our target price, which is based on a SOTP valuation, therefore declines by 10%, giving a value of Rs809. We maintain BUY rating on the stock.

Quarterly estimates

	Revenue			EBITDA margin			PAT		
	Apr-Jun (Rs m)	*YoY gr. (%)*	*QoQ gr. (%)*	*Apr-Jun (%)*	*YoY chng. (bps)*	*QoQ chng. (bps)*	Apr-Jun (Rs m)	*YoY gr. (%)*	*QoQ gr. (%)*
ABG Shipyard	2,750	*42.2*	*14.3*	*22.0*	*(129)*	*(71)*	463	*38.7*	*0.6*
Bharati Shipyard	1,970	*37.5*	*7.2*	*18.6*	*(13)*	*(53)*	283	*27.2*	*(13.4)*
Mundra Port & SEZ	1,757	*42.4*	*(46.5)*	*63.6*	*626*	*(785)*	538	*167.1*	*(40.9)*
Total	**6,477**	***40.8***	***(14.0)***	***32***	***125***	***(1,086)***	**1,284**	***69.4***	***(24.4)***

Full year estimates

(Rs m)	Revenue			EBITDA			PAT		
	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E
ABG Shipyard	8,852	15,430	28,967	2,101	3,425	6,025	1,607	2,534	4,441
Bharati Shipyard	6,319	11,270	17,338	1,252	2,039	3,103	1,073	1,688	2,451
Mundra Port & SEZ	8,182	11,312	15,681	5,341	7,927	11,448	2,134	5,536	8,025
Total	**23,353**	**38,012**	**61,985**	**8,693**	**13,391**	**20,577**	**4,814**	**9,757**	**14,917**
YoY gr. (%)	–	*62.8*	*63.1*	–	*54.0*	*53.7*	–	*102.7*	*52.9*

Valuations

	Rating	Price (Rs)	M.Cap (Rs bn)	2009E P/S (x)	2009E EV/EBITDA (x)	2009E P/E (x)	2010E P/S (x)	2010E EV/EBITDA (x)	2010E P/E (x)
ABG Shipyard	OP	348	19	2.2	9.7	7.5	0.7	6.0	4.3
Bharati Shipyard	BUY	301	10	0.9	4.5	5.7	0.6	3.4	3.9
Mundra Port & SEZ	BUY	451	181	16.0	24.0	32.6	11.5	16.6	22.5
Sector			**209**	**6.7**	**19.0**	**21.4**	**3.4**	**11.3**	**14.0**

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Telecom

Subscriber additions continued to remain strong in the first two months of Q1FY09, with net additions of 8.2 million and 8.6 million respectively. Bharti Airtel continued to maintain leadership position in terms of overall market share at 24.5% at the end of May 2008. Expansion in coverage area and fall in tariffs have resulted in significant subscriber addition from the B&C circles in the past six months.

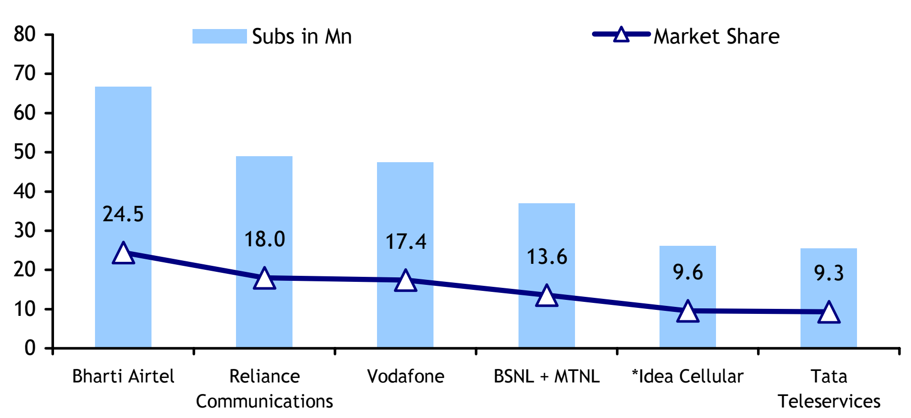
Bharti Airtel has passed the ADC cut from April 1, 2008 by reducing the STD tariffs to Rs1.0/min from Rs1.5/min earlier. Following which, other incumbents have also matched this price point. With entry of new operators, both new and existing in some circles, price wars are expected to aggravate in the already competitive Indian markets. Higher minutes of use and increasing subscriber base could enable wireless operators to benefit from economies of scale and sustain margins.

Operator-wise subscriber trends

	Wirless net subscribers at end of (in million)			Net additions between Mar'08-May'08 (in million)	% market share of net addition
	Mar'08	Apr'08	May'08		
Bharti	62.0	64.4	66.8	7.1	26.8
Rcom	45.8	47.4	49.0	4.9	18.2
Hutch + BPL	44.1	45.8	47.5	4.9	16.4
Idea	24.0	25.0	26.1	3.2	12.2
BSNL	36.2	36.7	37.0	2.4	9.1
Tata Tele	24.3	24.8	25.5	2.1	7.8

Source: COAI, AUSPI, PL Estimates

Six operator market in most of the circles-Highly competetive



Source: AUSPI, COAI
** Not considered Spice Telecoms subscriber nos, else market share would be higher by 1.65%*

Operator-wise & circle-wise break-up of subscribers (end May '08) **(in million)**

	Operators						Technology			
As at end Feb'08	Bharti	Rcom	Vodafone Essar	BSNL + MTNL	Idea	Tata Tele	CDMA	GSM	Total Sub	Penet-ration
METROS	**10.2**	**8.5**	**10.3**	**5.3**	**2.0**	**7.0**	**15.1**	**31.6**	**46.7**	**78.9%**
Mumbai	2.5	2.9	3.6	1.8	0.0	1.9	4.8	9.2	14.0	76.0%
Delhi	4.1	2.5	3.3	1.5	2.0	3.5	6.0	10.9	16.9	101.5%
Kolkatta	1.9	1.9	2.1	1.0	0.0	1.3	2.8	5.4	8.2	49.2%
Chennai	1.8	1.2	1.3	0.9	0.0	0.4	1.5	6.0	7.5	102.9%
CIRCLE A	**25.4**	**15.1**	**18.6**	**11.7**	**11.6**	**8.3**	**23.4**	**74.3**	**97.8**	**28.4%**
Maharashtra	4.3	3.1	2.9	3.1	5.2	3.1	6.2	15.6	21.9	24.4%
Andhra Pradesh	6.5	4.0	2.8	2.3	3.6	2.5	6.5	15.2	21.7	26.3%
Karnataka	7.3	2.6	3.0	1.8	0.0	1.1	3.8	13.9	17.7	30.7%
Gujarat	3.0	2.5	6.3	2.1	2.8	1.0	3.5	14.3	17.8	31.4%
Tamilnadu	4.2	2.8	3.5	2.4	0.0	0.6	3.5	15.4	18.8	`
CIRCLE B	**21.0**	**17.8**	**18.6**	**17.7**	**12.4**	**8.5**	**24.3**	**75.6**	**99.9**	**18.5%**
Haryana	1.1	1.0	1.4	1.3	1.1	0.9	1.9	4.8	6.7	27.7%
Rajasthan	4.2	1.8	3.2	2.3	0.9	1.8	3.7	10.6	14.3	22.2%
UP East	3.9	3.1	4.0	4.4	1.2	1.1	4.2	13.4	17.6	13.5%
UP West	1.6	2.4	3.1	2.1	2.8	1.6	3.9	9.6	13.5	19.4%
West Bengal	2.1	2.1	3.1	1.5	0.0	0.7	1.9	8.2	10.1	14.4%
Kerala	1.7	2.2	2.2	2.2	3.0	0.6	2.8	9.1	11.9	35.2%
Punjab	3.2	1.1	1.7	2.1	0.0	1.0	2.4	9.7	12.1	45.4%
MP	3.1	4.3	0.0	1.9	3.5	0.8	3.5	10.2	13.7	11.2%
CIRCLE C	**10.3**	**7.6**	**0.0**	**5.6**	**0.1**	**1.6**	**4.4**	**24.3**	**28.7**	**14.8%**
Himachal Pradesh	0.8	0.7	0.0	0.5	0.1	0.1	0.3	2.0	2.3	34.8%
Bihar	4.9	4.0	0.0	1.7	0.0	1.0	3.0	9.4	12.4	13.2%
Orissa	1.9	1.5	0.0	1.0	0.0	0.5	1.0	4.4	5.4	13.6%
Assam	0.9	1.0	0.0	0.9	0.0	0.0	0.0	4.1	4.1	14.0%
North Eastern States	0.6	0.4	0.0	0.6	0.0	0.0	0.0	2.2	2.2	16.3%
Jammu & Kashmir	1.1	0.0	0.0	0.8	0.0	0.0	0.0	2.3	2.3	20.1%
Total	**66.8**	**49.0**	**47.5**	**40.3**	**26.1**	**25.5**	**67.2**	**205.8**	**273.1**	**24.0%**
Market Share	*24.5%*	*18.0%*	*17.4%*	*14.8%*	*9.6%*	*9.3%*	*24.6%*	*75.4%*		

Source: COAI, AUSPI, PL Research

Key Developments

MTN deal: Bharti out, Rcom in exclusive talks till July 9, 2008

Bharti Airtel has backed out from negotiations with MTN stating that the new structure presented by MTN was not agreeable to them. The new structure proposed was envisaging Bharti Airtel becoming a subsidiary of MTN and exchange of majority shares of Bharti Airtel held by the Bharti family and Singtel, in exchange for a controlling stake in MTN. Further, MTN entered into a 45 days exclusivity arrangement with Rcom. The deal structuring with Rcom has greater flexibility on the count that Rcom has only 16% FII holding vis-à-vis a cap of 74% in the telecom sector.

Idea Cellular buys out Modi's stake in Spice Telecom

Idea Cellular has bought 40.8% stake held by the BK Modi group in Spice Telecom at Rs77.3/share. Telekom Malaysia, which holds 39.6% stake in Spice Telecom, will be doing a share-swap deal in the ratio 49 shares of Idea for 100 shares held in Spice. Idea will buy back the remaining minority holders in Spice Telecom in an open offer. Further, Telekom Malaysia will be allotted 464 million shares in Idea Cellular for Rs156.9, thus raising Rs73bn. Telekom Malaysia, post the share-swap deal and preferential allotment, will hold just under 20% in Idea cellular.

Reliance Infratel gets IPO nod

Reliance Communications has got a nod for the proposed IPO of Reliance Infratel, its tower subsidiary, which has around 37,000 towers. Rcom is planning to offload 10% via the public issue and is looking to raise anywhere between Rs50-60bn. Earlier, the company had placed 5% stake for Rs14bn to a clutch of foreign investors, including Fortress Capital, George Soros, New Silk Galleon, HSBC, DA Capital & GLG Capital.

TRAI has announced ADC phase out from April 1, 2008

- TRAI has announced the phasing out of Access Deficit Charge (ADC) from April 1, 2008. Currently, it is 0.75% of total revenue.
- ADC on international incoming minutes will continue at Re0.50 from April 1, 2008 to September 30, 2008. It has come down from Rs1 to Re0.5 per min.

Top picks: Reliance Communications and Tulip Telecom

Companies

Bharti Airtel: Bharti Airtel continued to add robust subscribers in the first two months of Q1FY09 with a monthly run-rate of 2.4 million subscribers. During the quarter, the company slashed its tariffs on STD by 33% to Rs1.0/min on back of passing the ADC phase-out benefit to end users. We expect the company to sustain its market leadership in net additions for the next 6-9 months, till significant competition emerges from Rcom's GSM foray and other new entrants.

Reliance Communications: Has maintained its monthly run-rate of 1.6 million subscribers for the first two months of Q1FY09. During the quarter, the company announced a strategic tie-up with Alcatel-Lucent for offering managed services, and has awarded US$400m outsourcing contract for both CDMA and GSM network to the JV. It has also acquired UK-based wimax operator eWave World, clearly signifying the divergence towards wimax-based services. We expect the company to leverage its global assets and offer seamless connectivity solutions to enterprise customers.

Tulip Telecom: Tulip Telecom is expected to report subdued numbers for the quarter on back of lower number of connects and due to seasonality in business. We expect the company to add 13,500 connects for the quarter and expect the ARPU on account of installation charges to be flat. However, the key risk for Tulip remains the growing focus of large telecom operators in the enterprise VPN space.

Quarterly estimates

	Revenue			EBITDA margin			PAT		
	Apr-Jun (Rs m)	*YoY gr. (%)*	*QoQ gr. (%)*	*Apr-Jun (%)*	*YoY chng. (bps)*	*QoQ chng. (bps)*	Apr-Jun (Rs m)	*YoY gr. (%)*	*QoQ gr. (%)*
Bharti Airtel	83,549	*41.5*	*6.9*	*40.9*	*(57)*	*(72)*	19,441	*28.7*	*4.9*
Reliance Comm.	57,085	*32.6*	*7.5*	*42.9*	*73*	*(73)*	14,784	*21.1*	*(1.6)*
Tulip Telecom	3,404	*59.9*	*(17.9)*	*22.1*	*189*	*223*	574	*101.5*	*(13.2)*
Total	**144,038**	***38.2***	***6.3***	***41.2***	***(8)***	***(49)***	**34,799**	***26.1***	***1.7***

Full year estimates

(Rs bn)	Revenue			EBITDA			PAT		
	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E
Bharti Airtel	270.3	329.3	425.5	113.7	139.6	168.2	67.0	80.5	94.9
Reliance Comm.	190.7	256.0	328.1	82.0	110.9	139.4	54.0	66.7	83.4
Tulip Telecom	12.2	16.8	20.4	2.5	3.7	4.6	1.9	2.8	3.5
Total	**473.1**	**602.1**	**774.1**	**198.2**	**254.2**	**312.3**	**122.9**	**150.0**	**181.7**
YoY gr. (%)	*—*	*27.3*	*28.6*	*—*	*28.3*	*22.8*	*—*	*22.1*	*21.1*

Valuations

				2009E			2010E		
	Rating	Price (Rs)	M.Cap (Rs bn)	P/S (x)	EV/EBITDA (x)	P/E (x)	P/S (x)	EV/EBITDA (x)	P/E (x)
Bharti Airtel	OP	716	1,380	4.2	10.4	17.1	3.2	8.5	14.5
Reliance Comm.	BUY	438	953	3.7	9.5	14.3	2.9	7.8	11.4
Tulip Telecom	BUY	915	31	1.9	10.7	11.2	1.5	7.2	9.0
Sector			**2,364**	**3.9**	**10.0**	**15.8**	**3.1**	**8.1**	**13.0**

Others

Companies

Bombay Rayon Fashions: BRFL is expected to post 50% YoY revenue growth from Rs2bn to Rs3bn. On the back of increasing volume, operating margin is expected to expand by 130bps to 21%, and earnings are likely to grow by 25% to Rs277m.

Country Club: The company has been on an acquisition spree in this quarter also. They have acquired properties in various new locations as well as locations already present in, to strengthen their footprint. We believe this will lead to good growth in new membership subscription across the country. Country Club's revenue is expected to grow by about 59.1% YoY to Rs877m. The company is expected to achieve EBITDA margin of about 33.5%, a decline of 422bps YoY due to increase in advertisement spends aimed at providing visibility to its acquisitions. PAT is expected to increase by about 15.8% YoY to Rs152m.

Ess Dee Aluminium: Won a regulatory approval to bail out India Foils, which is owned by Vedanta Group, ahead of a possible takeover. EDAL and Vedanta's Madras Aluminium (Malco), the holding company of India Foils, will form a SPV to turnaround India Foils, which is saddled with liabilities of over Rs3.0bn. The SPV will invest in about Rs500m immediately to upgrade the three manufacturing facilities to US FDA standards, eye exports to developed markets with value-added products and contract manufacturing options. India Foils employs about 400 people and has turnover of about Rs3.0bn. It has capacity of 19,000tpa for aluminium foils. The total capacity would be 37,000tpa.

FAG Bearings: The slowdown in auto and industrial segment is likely to affect the overall performance of the company. Moreover, given a high interest rate scenario, the recent price hike in petrol and diesel is likely to affect demand for auto segment. Also sharp rise in steel and metal prices are likely to increase its material cost. This would affect sales and margins of Fag Bearings.

Koutons Retail India: We expect the company to post a turnover of Rs1,513m and profit of Rs107m for Q1FY09 with the number of stores at 1,260 crossing one million sq.ft. The quarter witnessed rollout of womenswear, kids wear and family stores. The company's EBITDA and PAT margins are expected to be 20.5% and 7.1% respectively.

Parekh Aluminex: The company is expanding its manufacturing capacity from 11,500MT to 28500MT (2.5x) at a capital outlay of Rs2.4bn. It has already placed an order for machinery and moulds, and plans to manufacture high value, high margin products. The trial runs are expected to start by the end of this quarter. It is also looking at acquiring companies in the US and Europe. It is closely examining two bakery and food processing companies in the area. This will give access to the manufacturing facility and client base.

Phillips Carbon Black: Has doubled its investment commitment in the Vietnam joint venture to Rs3.0bn from Rs1.5bn, as the capacity for the plant has been raised to 100,000tpa from 50,000tpa planned earlier along with a 16MW captive power plant. The Vietnam facility will be operational by Q2FY11.

PCBL's 30MW Durgapur power plant is likely to go on stream in Q2FY09. The company has taken a 20% price hike from July 1, 2008 for all products. This action is taken to minimise the effect of price rise in crude oil.

Rajesh Exports: The company is expected to report sales of Rs20,618m and PAT of Rs627m, registering 48.9% PAT growth YoY during the quarter. EBITDA margin is expected to be 5.2%, an improvement from 4.8% in Q1FY08. The company closed the quarter with six *Shubh* stores, as the high volatility in gold prices compelled the company go slow in rolling out new stores.

XL Telecom & Energy: XL Telecom is expected to impress by its solar dispatched in this quarter also. We expect the dispatches to touch 8MW in this quarter, and have built in revenues of Rs1.35bn. The total backlog order book for the export of solar panels stands at Rs4.8bn. The company has indicated to secure multiple repeat orders on completion of existing orders. It has indicated the proposed 120MW cell line and 40MW automated module line to be on stream by September 2008.

Quarterly estimates

	Revenue			EBITDA margin			PAT		
	Apr-Jun (Rs m)	*YoY gr. (%)*	*QoQ gr. (%)*	*Apr-Jun (%)*	*YoY chng. (bps)*	*QoQ chng. (bps)*	Apr-Jun (Rs m)	*YoY gr. (%)*	*QoQ gr. (%)*
Bombay Rayon	3,011	*49.6*	*15.1*	*21.0*	*134*	*(569)*	277	*25.5*	*(18.2)*
Country Club	877	*59.1*	*4.8*	*33.5*	*(422.0)*	*205.4*	152	*15.8*	*9.3*
Ess Dee Aluminium	1,200	*65.3*	*19.1*	*28.6*	*214*	*(81)*	289	*77.4*	*18.5*
FAG Bearing**	1,735	*11.9*	*1.2*	*22.8*	*57*	*90*	236	*11.5*	*(7.1)*
Koutons Retail	1,513	-	*(59.3)*	*20.5*	-	*127.4*	107	-	*(70.0)*
Parekh Aluminex	900	*53.1*	*6.2*	*15.9*	*157*	*(47)*	93	*220.1*	*8.7*
Phillips Carbon	2,832	*20.6*	*3.3*	*14.5*	*(13)*	*(1)*	204	*(7.0)*	*6.9*
Rajesh Exports	20,618	*1.6*	*(18.4)*	*5.2*	*43.8*	*187.6*	627	*48.9*	*28.2*
XL Telecom & Energy*	1,980	*44.3*	*14.9*	*14.2*	*800*	*(66)*	176	*277.7*	*24.3*
Total	**34,666**	***17.7***	***(14.3)***	***11.2***	***230***	***136***	**2,159**	***49.7***	***(3.5)***

** Y/e June* *** Y/e Dec*

Full year estimates

(Rs m)	Revenue			EBITDA			PAT		
	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E
Bombay Rayon	10,891	16,727	26,160	2,315	3,711	7,146	1,235	1,915	3,678
Country Club	3,062	5,540	8,898	1,124	2,166	3,461	653	1,107	1,849
Ess Dee Aluminium	3,169	4,809	5,470	884	1,515	1,772	734	1,374	1,597
FAG Bearing**	6,413	7,645	9,321	1,309	1,452	1,800	795	881	1,123
Koutons Retail	7,935	12,101	17,328	1,526	2,340	3,536	691	1,092	1,846
Parekh Aluminex	2,986	3,770	5,450	483	640	953	261	315	537
Phillips Carbon	10,332	12,081	14,172	1,462	1,887	2,351	893	1,057	1,345
Rajesh Exports	86,670	89,645	103,006	3,817	4,932	6,658	2,066	2,686	3,827
XL Telecom & Energy*	6,712	10,332	11,262	699	2,068	2,470	435	1,278	1,628
Total	**138,170**	**162,650**	**201,068**	**13,620**	**20,711**	**30,148**	**7,762**	**11,706**	**17,431**
YoY gr. (%)	*—*	*17.7*	*23.6*	*—*	*52.1*	*45.6*	*—*	*50.8*	*48.9*

** Y/e June* *** Y/e Dec*

Valuations

	Rating	Price (Rs)	M.Cap (Rs bn)	2009E P/S (x)	2009E EV/EBITDA (x)	2009E P/E (x)	2010E P/S (x)	2010E EV/EBITDA (x)	2010E P/E (x)
Bombay Rayon	BUY	296	20.5	1.2	8.1	10.7	0.8	4.8	5.6
Country Club	BUY	382	7.1	1.3	3.7	6.4	0.8	2.3	3.8
Ess Dee Aluminium	BUY	301	8.4	1.7	5.5	6.1	1.4	4.5	5.2
FAG Bearing**	OP	366	6.1	0.8	4.0	6.9	0.7	3.2	5.4
Koutons Retail	BUY	735	22.4	1.9	11.6	20.5	1.3	7.6	12.9
Parekh Aluminex	BUY	109	1.6	0.4	3.8	5.2	0.3	2.5	3.0
Phillips Carbon	BUY	154	4.3	0.4	4.8	4.1	0.3	3.9	3.2
Rajesh Exports	BUY	54	15.7	0.2	(2.0)	5.8	0.2	(1.9)	4.1
XL Telecom & Energy*	BUY	190	5.0	0.5	3.0	3.9	0.4	2.5	3.1
Sector		**-**	**91.1**	**0.6**	**4.2**	**7.8**	**0.5**	**2.9**	**5.2**

** Y/e June* *** Y/e Dec*

Notes

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PL's Recommendation Nomenclature

BUY	: > 15% Outperformance to BSE Sensex	**Out Performer** (OP)	: 5 to 15% Outperformance to Sensex
Market Performer (MP)	: -5 to 5% of Sensex Movement	**Under Performer** (UP)	: -5 to -15% of Underperformace to Sensex
Sell	: <-15% Relative to Sensex		
Not Rated (NR)		**Under Review** (UR)	