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India Equity Strategy

Revised Sensex Earnings Post-2Q Upgrades, DLF Entry

- **Revised Sensex earnings growth** — FY08 earnings growth for the Sensex is now expected at 33% vs. 22% earlier, primarily due to DLF replacing Dr. Reddy's on 19th Nov and consolidated earnings reflecting M&As. Ex-oil earnings growth for FY08 is now expected at 35% vs. 22% earlier. FY09 earnings growth estimate at 18% (vs. 18% earlier) is more representative of the trend, without one-offs.
- **Significant upgrades after 2QFY08** — Strong performance for Sep-07 quarter, where earnings grew 28.9% vs. 17.7% forecast, drove significant earnings upgrades. FY08 earnings growth estimate for the Citi India Universe (160 companies) was revised from 21.6% to 26.7%.
- **DLF's contribution** — With earnings expected to rise almost 218% in FY08 and 43% in FY09, DLF is a significant contributor to Sensex earnings growth for FY08 (15.7%) and FY09 (12.9%). Earnings for real estate companies in the Citi India universe are expected to grow by almost 150% in FY08 and 51% in FY09.
- **Changing Sensex earnings profile** — DLF and earnings upgrades after 2QFY08 have changed the Sensex earnings profile. Upstream oil & petrochemicals and Real Estate now contribute almost 45% of forecast profit growth for Sensex companies in FY09 (vs. 3.3% earlier). IT Services' share is now 12.3% (vs. 22.6% earlier).

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See Appendix A-1 for Analyst Certification and important disclosures.

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Revised Sensex Earnings Post-2Q Upgrades, DLF Entry

Figure 1. Sensex Valuation Summary @19738, incl. DLF, M&As, and 2Q Upgrades

Year to 31 March	FY05	FY06	FY07	FY08E	FY09E
EPS growth (%)	36.5%	20.9%	35.9%	33.6%	18.5%
P/E (x)	47.0	38.9	28.6	21.4	18.1
Div. yield (%)	1.0%	0.8%	0.9%	1.1%	1.3%
P/B (x)	9.9	8.4	6.5	5.1	4.3
ROAE (%)	24.8%	24.6%	26.0%	26.3%	25.1%
EV/EBITDA* (x)	27.0	24.0	18.1	13.6	11.4
Net Debt/Equity* (%)	9.4%	12.6%	9.7%	11.6%	3.9%
EPS	419.9	507.8	690.1	921.8	1,092.1
EPS growth ex-oil (%)	31.40%	25.9%	41.6%	35.6%	19.6%
P/E ex-oil	56.7	45.0	31.8	23.4	19.6
P/B ex-oil	10.8	9.2	7.0	5.4	4.5

Source: Citi Investment Research *ex-financials

Figure 2. Sensex Valuation Summary @18280, excl. DLF, M&As, and 2Q Upgrades

Year to 31 March	FY05	FY06	FY07	FY08E	FY09E
EPS growth (%)	36.50%	25.3%	35.2%	15.4%	12.9%
P/E (x)	42.9	34.2	25.3	21.9	19.4
Div. yield (%)	1.0%	0.9%	1.0%	1.2%	1.4%
P/B (x)	8.7	7.4	5.9	4.8	4.1
ROAE (%)	23.7%	24.5%	26.7%	24.6%	23.0%
EPS growth ex-oil (%)	31.40%	31.9%	37.4%	17.0%	16.7%
P/E ex-oil	52.7	39.9	29.1	24.8	21.3
P/B ex-oil	9.7	8.2	6.5	5.2	4.4

Source: Citi Investment Research *ex-financials

Figure 3. Sensex Sectoral Earnings Growth Share

Sector	Before ¹		Current	
	2008E	2009E	2008E	2009E
Autos, Ancillaries, Transportation	3.7%	6.0%	1.9%	3.7%
Engineering, Power, Construction	15.9%	15.3%	8.6%	10.3%
Metals, Mining	-0.9%	2.5%	16.8%	-3.5%
Building Materials	-0.8%	-6.0%	0.2%	-3.7%
Consumer, Retail	4.0%	6.5%	2.9%	4.6%
Pharmaceuticals, Healthcare	-2.2%	3.1%	0.0%	1.3%
IT Services	15.3%	22.6%	7.9%	12.3%
Telecom	30.7%	23.1%	15.3%	14.7%
Real Estate			15.7%	12.9%
Oil & Gas, Chemicals	16.4%	3.3%	21.5%	32.7%
Banks, Financial Services	18.0%	23.5%	9.1%	14.6%

Source: Citi Investment Research

¹ Sensex Earnings growth share before DLF's entry, M&As, and 2QFY08 upgrades.

Appendix A-1

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