

# Earnings preview (Apr-Jun 2008)

*Caving in...*



**IDFC - SSKI Research**

91-22-66383333

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# Highlights

Q4FY08 Sensex earnings holding up by registering a growth of 22.4% yoy, and 11.7% for IDFC-SSKI Universe in spite of uncertain macroeconomic scenario

Earnings growth mainly led by robust performance in commodities - Petrochemicals & Metals - Telecom and Financials Power Utilities contributing significantly

## *Q1FY09E earnings to be impacted by higher interest rates, rising input costs*

We expect Sensex earnings growth slump to 10.4%yoy; 5.4% for IDFC-SSKI universe, RATE SENSITIVES GIVE IN...

Operating Margins under pressure; Sensex (ex-Oil & Gas) EBITDA margin at 25.3%, 49% of the Sensex registering a margin decline

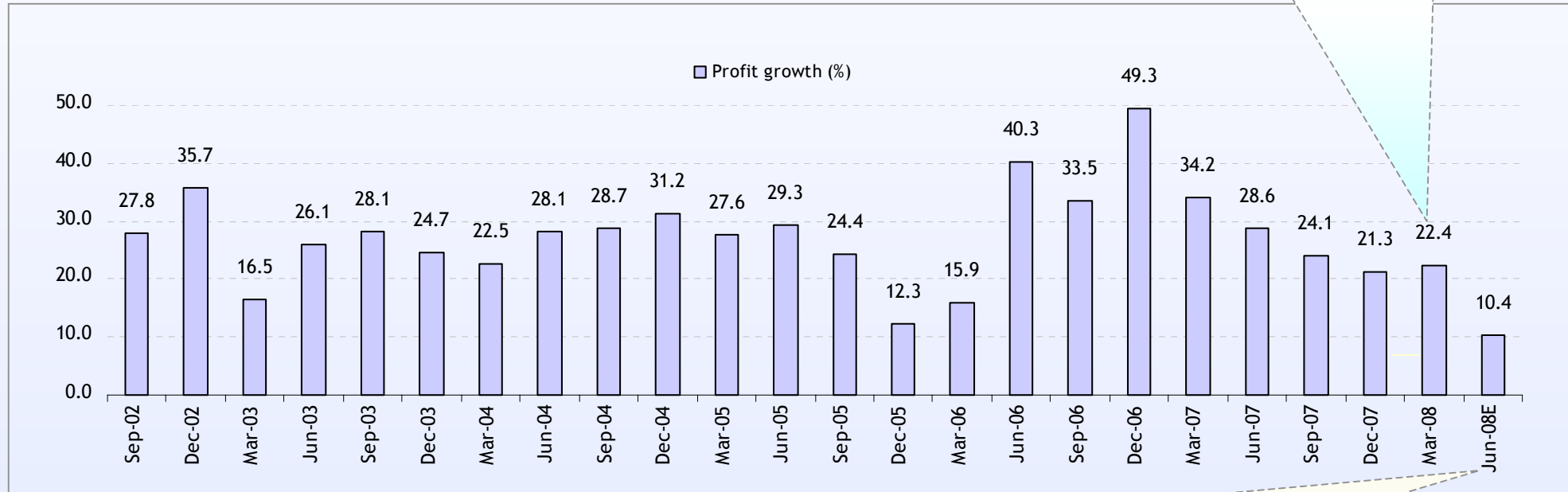
Sensex topline growth remains strong at 25% yoy driven by high oil prices, depreciating rupee (IT/pharma toplines)

## *Downgrade cycle of earnings in domestic cyclicals underway*

# Sensex earnings slump...

- ✓ Q4FY08 Earnings grew by a robust 22%
- ✓ High refining margins on Petrochemicals & Oil & Gas saw strong profit growth
- ✓ Financials earnings grew by 35.3%

## Rolling quarter Sensex earnings growth



- ✓ We expect Sensex earnings growth to slump in Q1FY09 to 10.5% on back of negative influence of rising interest rates/rising input costs.....denting margins
- ✓ Earnings depressed manly due to slump in domestic cyclicals (Automobiles and Cement to register negative growth) - Financials' earnings flat
- ✓ Consumer goods, Software and Telecom to support Sensex earnings

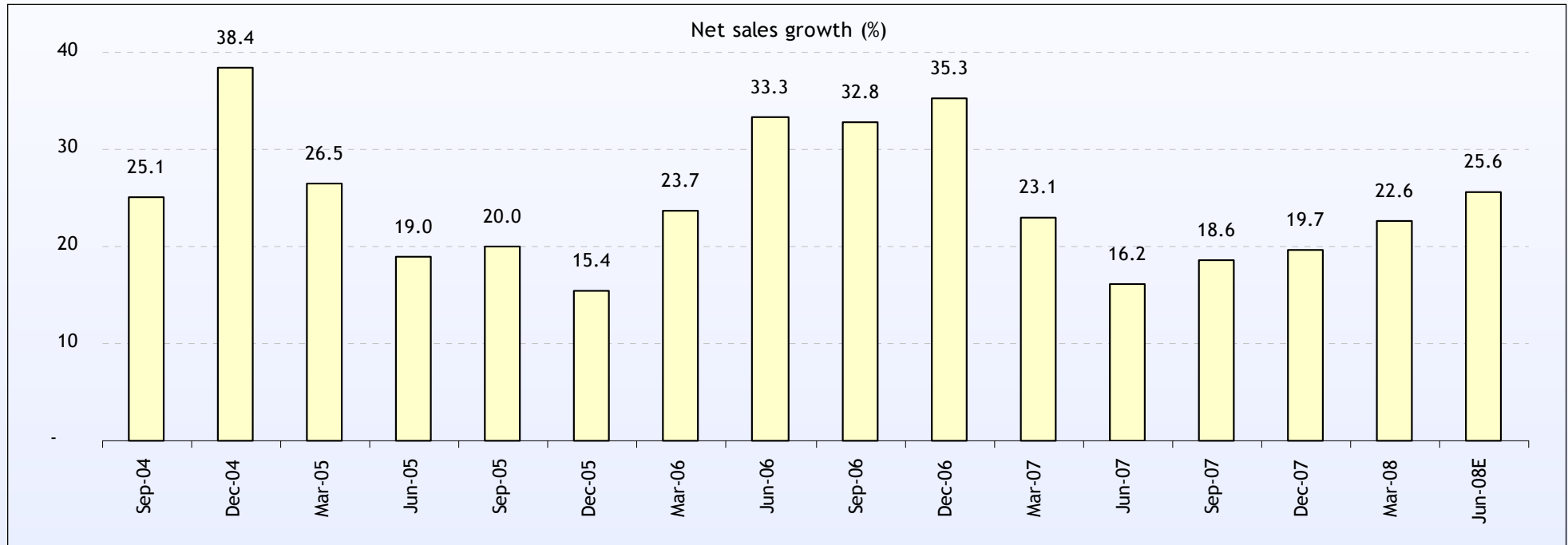
# ...At 10.4% profit growth, slowdown now evident!

## Sensex quarterly earnings summary (adjusted for free float)

(Rs m)	Net Sales			EBITDA			Profit After Tax		
Sector	Q1FY09E	Q1FY08	% chg yoy	Q1FY09E	Q1FY08	% chg yoy	Q1FY09E	Q1FY08	% chg yoy
Automobiles	88,745	76,897	15.4	8,818	8,369	5.4	5,250	5,902	(11.1)
Cement	37,846	37,598	0.7	9,801	12,207	(19.7)	6,298	7,995	(21.2)
Construction	59,557	46,109	29.2	6,655	5,241	27.0	4,190	3,445	21.6
Consumer goods	45,786	40,683	12.5	11,275	10,452	7.9	8,532	7,839	8.8
Metals	80,940	62,143	30.2	22,006	18,099	21.6	12,648	10,351	22.2
Oil & Gas*	29,884	27,375	9.2	18,014	17,522	2.8	10,829	9,221	17.4
Petrochemicals*	197,500	146,270	35.0	31,694	28,365	11.7	20,726	18,150	14.2
Pharmaceuticals	19,680	16,999	15.8	3,247	2,490	30.4	1,037	2,623	(60.5)
Power Equipment	13,356	11,319	18.0	1,536	1,276	20.3	1,425	1,200	18.8
Power Utilities	27,121	23,454	15.6	4,373	3,865	13.1	4,814	4,198	14.7
Software	94,200	70,831	33.0	24,782	18,209	36.1	20,318	16,699	21.7
Telecoms	50,142	35,729	40.3	21,328	14,912	43.0	12,630	9,561	32.1
Real Estate*	5,234	4,611	13.5	3,352	3,281	2.2	2,632	2,273	15.8
(Rs m)	Nil			Pre-provisioning profit			Profit After Tax		
Financial	63,521	47,888	32.6	49,751	37,479	32.7	20,906	20,354	2.7
<b>Sensex</b>	<b>813,512</b>	<b>647,905</b>	<b>25.6</b>	<b>216,633</b>	<b>181,767</b>	<b>19.2</b>	<b>132,233</b>	<b>119,812</b>	<b>10.4</b>
Commodities	346,170	273,386	26.6	81,515	76,192	7.0	50,500	45,717	10.5
Non-commodities	467,341	374,519	24.8	135,118	105,575	28.0	81,733	74,095	10.3

\*Estimates for Oil&Gas, Petrochemicals & Real Estate are Bloomberg consensus estimates

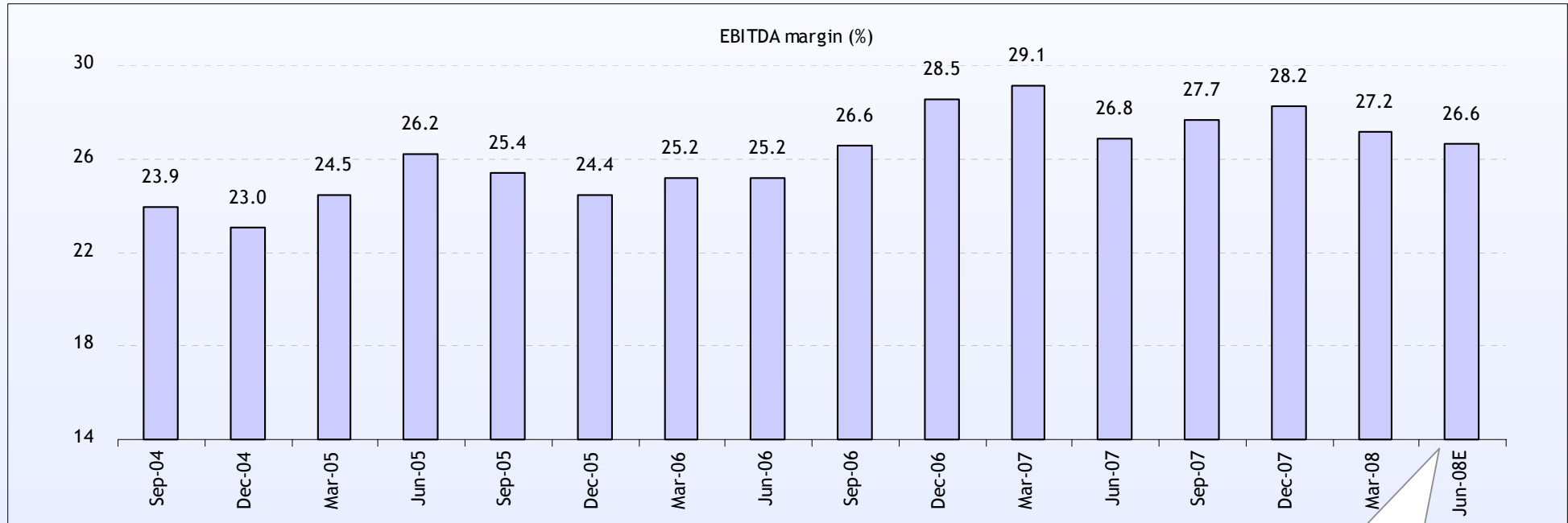
# Sensex topline remains stubborn...



- ✓ Sensex topline looking up; on back of soaring crude prices (petrochemical and oil & gas companies), higher metal prices (steel), depreciating rupee (software and pharma companies), increasing penetration for telecom cos. and execution of high margin order book (construction)

*Topline growth broad based at 25.6% and rising through the quarters*

# ...but operating margins shrink



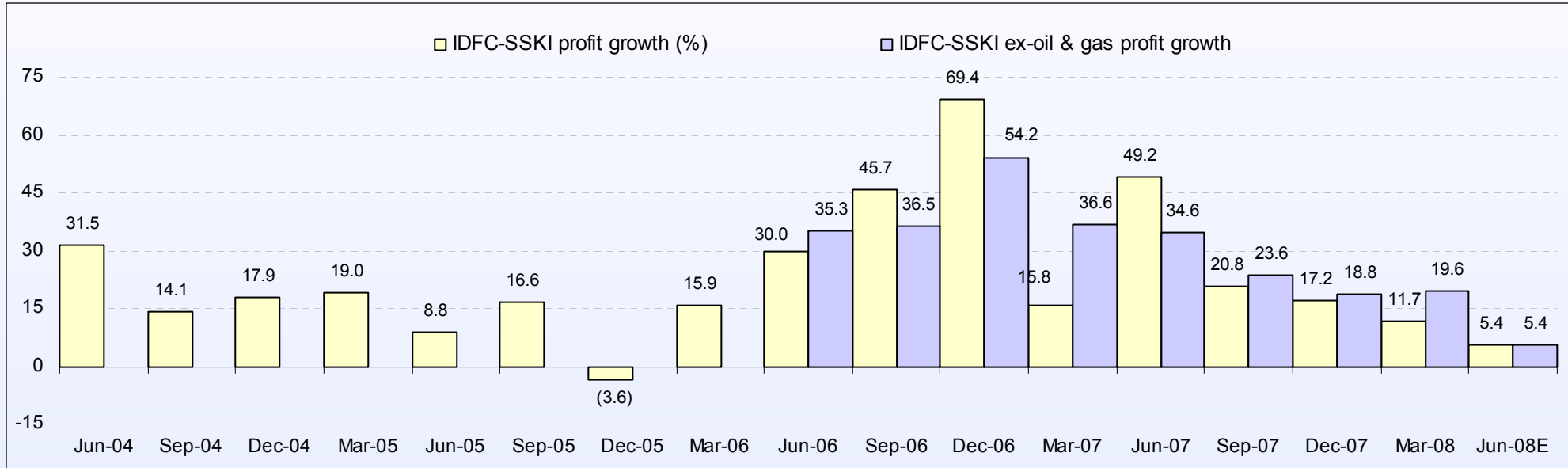
Ex-Oil & Gas Margin at 25.3% a dip of 140bps against Q4FY08

**Margins for Financials (higher deposit rates, slowing credit growth), and cement (correction in prices) and automobile stocks (costlier credit, lower truck sales, sluggish demand) see a dip**

**49% of the Sensex seeing an EBITDA margin shrinkage as compared to 40% in Q4FY08 (56% for IDFC-SSKI Universe as against 16% in Q4FY08)**

# IDFC-SSKI universe earnings face broad based slowdown...

IDFC-SSKI earnings - quarterly growth



**SSKI Universe earnings growth estimated to slide to 5.4% yoy (ex-Oil & Gas), commodities to see earnings de-growth of 4%**

**Earnings of non-commodity stocks to grow at mere 8.7% yoy .... Financials, Auto/Auto Components, Cement and Engineering.. Leading the downtrend**

# ...owing to automobile, metals & financials stocks

## IDFC-SSKI quarterly earnings summary

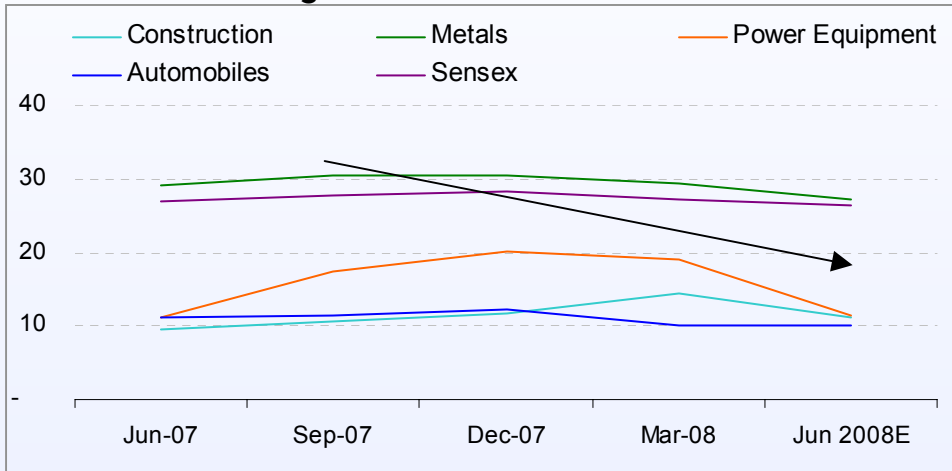
(Rs m)	Net Sales			EBITDA			Profit After Tax		
Sector	Q1FY09E	Q1FY08	% chg yoy	Q1FY09E	Q1FY08	% chg yoy	Q1FY09E	Q1FY08	% chg yoy
Alcoholic Beverages	15,617	12,933	20.8	3,061	2,685	14.0	1,464	1,314	11.4
Auto Components	46,999	41,876	12.2	7,882	7,821	0.8	3,599	3,816	(5.7)
Automobiles	222,709	174,529	27.6	22,763	18,354	24.0	13,920	12,730	9.3
Cement	71,951	71,424	0.7	19,329	23,154	(16.5)	12,219	14,950	(18.3)
Construction	107,477	82,842	29.7	12,159	9,568	27.1	6,654	5,514	20.7
Consumer goods	106,478	93,225	14.2	22,773	20,608	10.5	17,373	15,534	11.8
Engineering	24,352	19,876	22.5	2,753	2,304	19.5	1,795	1,546	16.1
Logistics	21,866	19,712	10.9	3,768	3,399	10.9	2,764	2,558	8.0
Infra Developers	10,221	5,966	71.3	4,136	1,873	120.8	1,821	550	230.8
Media	28,027	20,705	35.4	6,931	5,656	22.5	3,260	2,800	16.4
Metals	389,277	298,397	30.5	108,998	104,594	4.2	64,580	65,024	(0.7)
Others	85,602	67,172	27.4	6,856	7,959	(13.9)	2,495	5,305	(53.0)
Pharmaceuticals	91,724	74,292	23.5	19,724	14,213	38.8	12,227	12,340	(0.9)
Pipes	30,414	27,615	10.1	4,044	3,986	1.4	1,911	2,046	(6.6)
Power Equipment	84,401	68,233	23.7	9,304	7,349	26.6	6,925	5,743	20.6
Power Utilities	148,864	130,682	13.9	28,780	25,663	12.1	24,821	22,185	11.9
Retail	33,033	22,685	45.6	2,254	1,365	65.2	776	485	60.1
Software	247,358	187,920	31.6	57,857	44,416	30.3	45,971	40,517	13.5
Telecoms	165,285	116,856	41.4	68,329	47,735	43.1	38,988	30,403	28.2
Textiles	25,404	19,834	28.1	3,964	3,384	17.2	775	1,118	(30.7)
Tyre	26,596	21,322	24.7	2,244	2,195	2.3	704	802	(12.3)
	<b>NII</b>			<b>Pre-provisioning profit</b>			<b>Profit After Tax</b>		
Financial	187,135	157,421	18.9	132,724	112,436	18.0	58,388	59,592	(2.0)
<b>IDFC-SSKI Universe*</b>	<b>2,170,789</b>	<b>1,735,516</b>	<b>25.1</b>	<b>550,635</b>	<b>470,716</b>	<b>17.0</b>	<b>323,430</b>	<b>306,873</b>	<b>5.4</b>
Commodities	461,228	369,821	24.7	128,327	127,748	0.5	76,800	79,974	(4.0)
Non-commodities	1,709,560	1,365,695	25.2	422,308	342,967	23.1	246,631	226,898	8.7

\* Ex - Oil & Gas, Petrochemicals & Real Estate

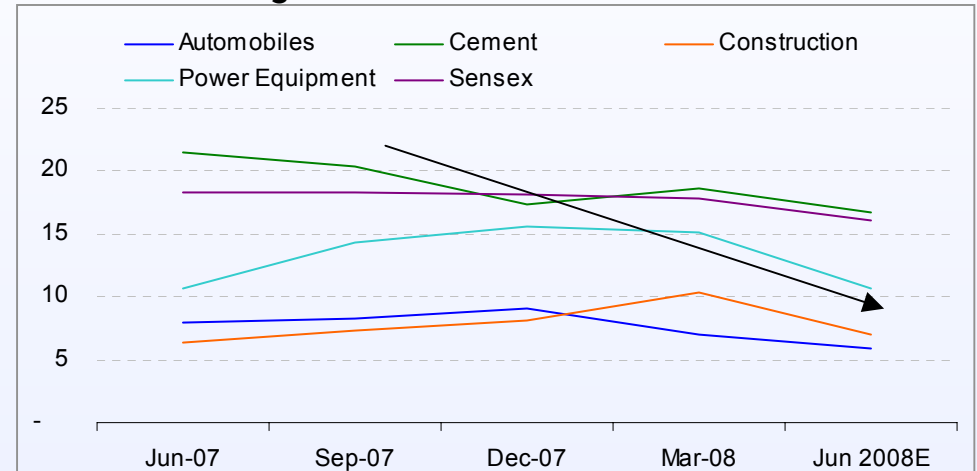


# Margin pressure evident on interest rate sensitives

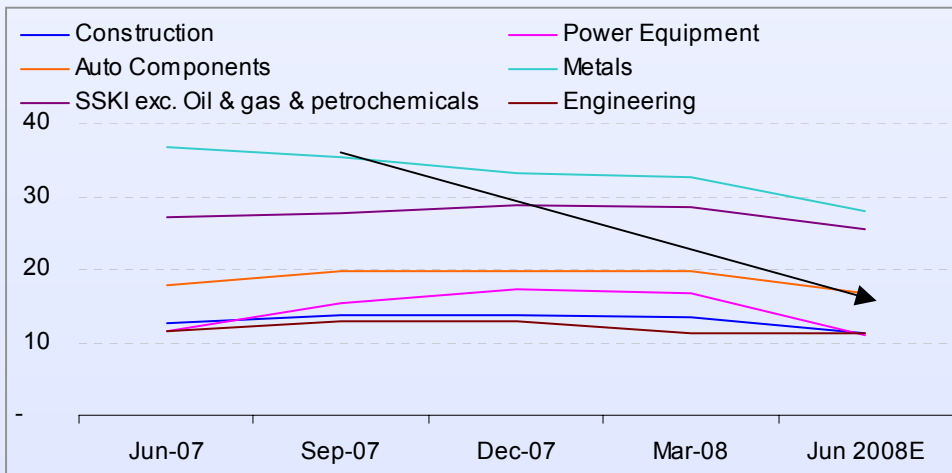
## Sensex EBITDA Margin



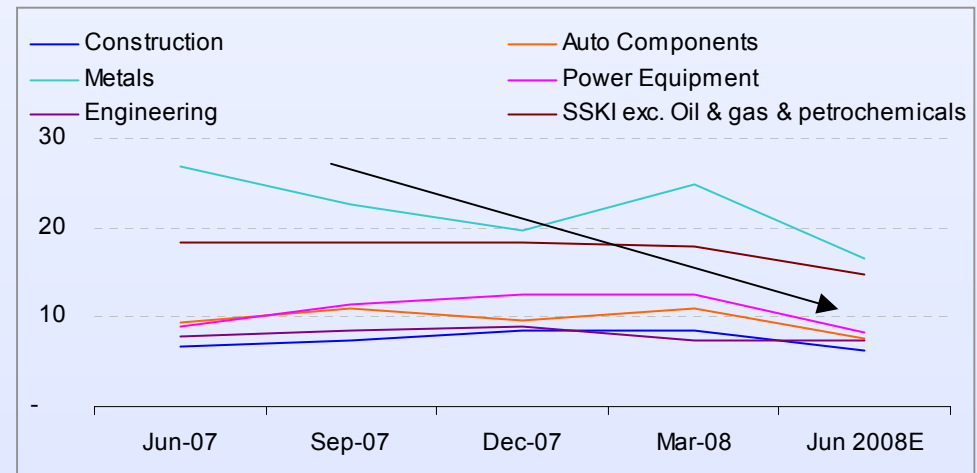
## Sensex PAT Margin



## IDFC-SSKI Universe EBITDA Margin

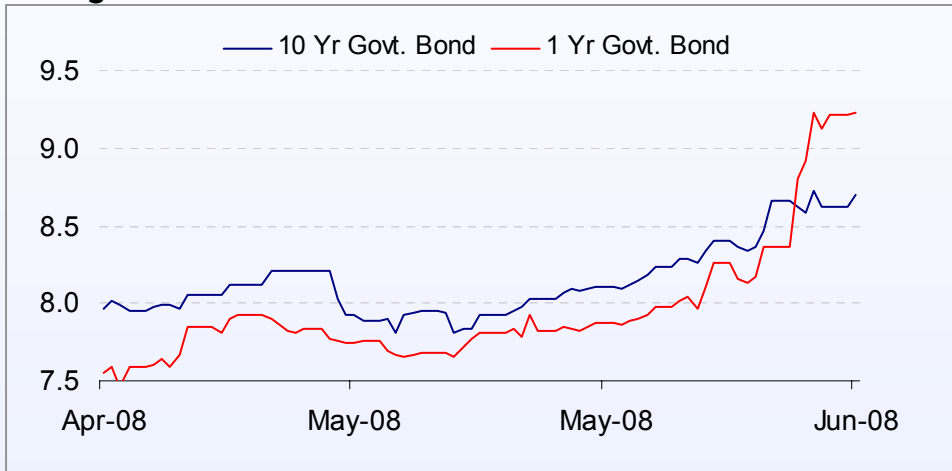


## IDFC-SSKI Universe PAT Margin

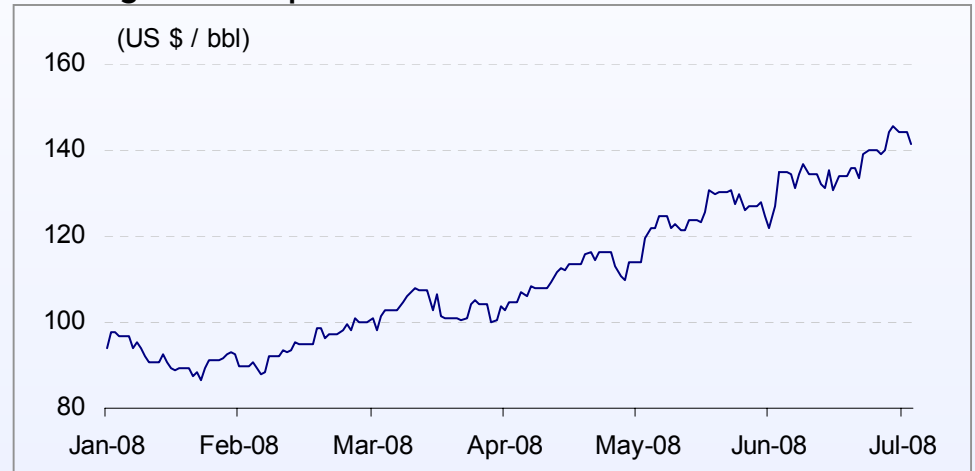


# Rising input costs/interest rates denting margins

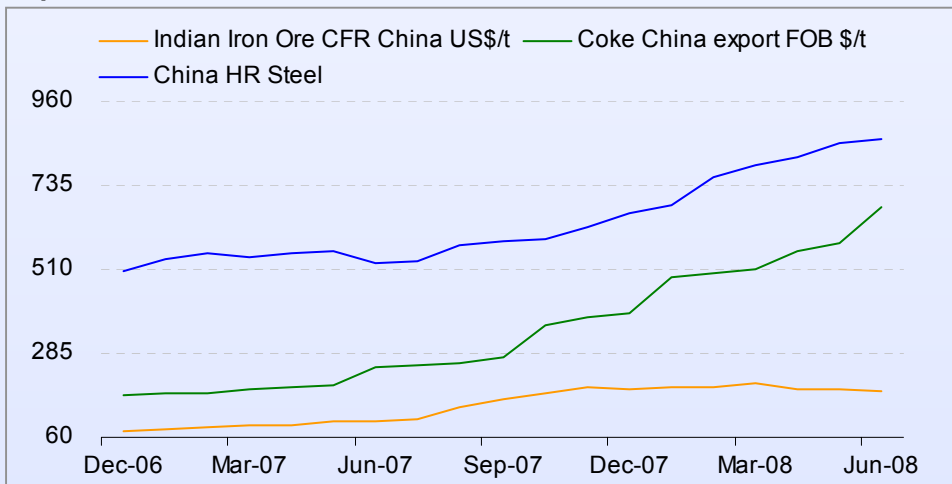
## Rising interest rates



## Soaring crude oil prices



## Input costs on a rise



### ✓ Rising interest rates have

- Hit financials earnings by depreciating the value of bond portfolios
- Dented corporate earnings by increasing interest outgo

### ✓ Increased global commodity prices have

compressed margins of construction companies

# Downgrade cycle ??...rate sensitives at the forefront

## Marginal impact on Sensex earnings - IDFC-SSKI estimates below consensus

(Rs m)	Current estimates			Revised estimates			% change	
Sector	FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY09E	FY10E
<b>Consumer goods</b>								
ITC	8.3	9.3	11.0	8.3	9.7	11.7	(4.9)	(6.0)
<b>Financial</b>								
ICICI Bank	37.3	43.9	54.4	37.3	44.8	55.5	(2.0)	(1.9)
State Bank of India	106.5	110.6	125.6	106.5	111.0	127.9	(0.3)	(1.8)

## IDFC-SSKI Universe downgrades

(Rs m)	Current estimates			Revised estimates			% change	
Sector	FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY09E	FY10E
<b>Auto Components</b>								
Sona Koyo Steering	2.4	2.3	4.0	2.4	3.4	4.3	(31.9)	(7.3)
<b>Automobiles</b>								
Bajaj Auto	60.1	58.6	64.0	60.1	63.5	69.2	(7.6)	(7.5)
<b>Construction**</b>								
HCC	2.8	5.1	7.0	2.8	5.6	7.6	(8.5)	(8.4)
IVRCL Infrastructures	16.9	20.3	26.2	16.9	22.2	30.1	(8.7)	(12.7)
Nagarjuna Construction	7.5	8.7	11.8	7.5	9.6	13.0	(10.0)	(9.1)
Madhucon Project	14.2	18.3	24.8	14.2	21.9	29.8	(16.3)	(16.6)
<b>Consumer</b>								
Marico	2.6	3.1	3.8	2.6	3.2	4.0	(4.0)	(4.0)

# Downgrade cycle ??...rate sensitives at the forefront

(Rs m)	Current estimates			Revised estimates			% change	
Sector	FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY09E	FY10E
<b>Financial</b>								
Allahabad Bank	21.8	22.4	23.8	21.8	26.1	30.4	(14.4)	(21.8)
Andhra Bank	11.9	12.7	14.7	11.9	13.8	16.5	(8.2)	(11.2)
Bank of Baroda	39.3	48.5	55.5	39.3	54.1	61.2	(10.4)	(9.4)
Canara Bank	37.5	39.4	43.2	37.5	40.9	46.9	(3.9)	(8.0)
Corporation Bank	51.2	54.0	61.6	51.2	56.8	66.5	(5.0)	(7.4)
Dena Bank	12.5	12.4	14.2	12.5	14.3	16.9	(13.8)	(16.0)
Union Bank of India	27.5	26.2	28.9	27.5	27.5	32.3	(4.7)	(10.7)
<b>Power Equipment</b>								
KEC International	34.9	40.0	48.9	34.9	44.1	53.3	(9.3)	(8.3)

## Other downgrades

(Rs m)	Current estimates			Revised estimates			% change	
Sector	FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY09E	FY10E
<b>Alcoholic Beverages</b>								
United Spirits	30.5	42.4	63.1	30.5	44.6	66.4	(9.0)	(7.0)
<b>Media</b>								
Prime Focus	26.5	30.8	49.9	26.5	33.9	53.7	(9.0)	(7.0)
PVR	11.1	17.3	30.0	11.4	18.6	31.6	(7.0)	(5.0)
Fame India	3.5	3.5	8.2	3.5	5.1	8.6	(31.0)	(5.0)
<b>Others</b>								
Jet Airways	3.5	-110.9	74.3	3.5	27.9	74.3	(496.8)	-
<b>Retail</b>								
Nilkamal Plastics	43.5	21.1	45.9	43.5	31.6	45.9	(33.2)	-

# IT Services... Weathering the storm

## Silver lining

(Rs m)	Current estimates			Revised estimates			% change	
Sector	FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY09E	FY10E
<b>Software</b>								
HCL Technologies	19.3	21.7	24.8	18.7	21.7	22.5	3.4	0.2
I-Flex Solutions	44.0	63.6	76.3	44.0	53.8	62.4	-	18.2
KPIT	6.6	8.1	9.6	7.8	9.0	9.6	(15.4)	(9.4)
Mindtree Consulting	26.7	34.1	40.9	26.7	32.2	36.0	-	6.1
MPhasis BFL	12.2	16.1	19.2	12.2	15.0	17.5	-	7.3
Patni Computer	33.0	29.2	33.7	33.0	29.1	32.3	-	0.1
Sasken Communication	12.8	19.1	21.5	11.4	13.0	13.0	12.5	46.5

# Maintain sector stance...current valuations attractive for entry into quality stocks...

Sector	Stance	IDFC - SSKI Portfolio (%)	Model portfolio stocks
Auto & Auto components	Underweight	0	-
Construction/Infra Developers	Overweight	7	Adani Enterprises, L&T
Financials	Neutral	19	Axis Bank, HDFC Bank, ICICI Bank, Reliance Capital, HDFC
FMCG	Overweight	9	HUL, Nestle India
IT Services	Overweight	16	Infosys, TCS
Metals	Underweight	3	JSPL, TATA Steel
Oil & Gas	Neutral	5	ONGC
Petrochem	Underweight	8	RIL
Pharma	Overweight	7	Ranbaxy, Dr. Reddy's Labs, Nicholas Piramal, Lupin
Telecom	Neutral	7	Bharti, RCOM
Capital Goods	Overweight	10	BHEL, KEC International, Crompton Greaves, Thermax
Media	Overweight	2	NDTV
Power Utilities	Neutral	3	Reliance Energy
Mid Caps/ Others	Overweight	4	Sintex, United Phosphorus, Shriram Transport, GE Shipping

# Key Result Picks

(Rs m)			EPS (Rs)			EPS CAGR (%)	PE (x)		
Companies	Price	Q1FY09E PAT growth (%)	FY08E	FY09E	FY10E	FY08-10 (%)	FY08E	FY09E	FY10E
Jindal Steel & Power	1,748	125.9	100.8	195.2	271.7	64.2	17.3	9.0	6.4
Pantaloon Retail (India)	376	77.9	7.5	13.3	21.7	70.6	50.4	28.2	17.3
Infosys	1,735	22.2	79.5	99.5	115.7	20.6	21.8	17.4	15.0
Satyam	469	33.2	24.7	31.7	37.6	23.4	19.0	14.8	12.5
Bharti Televentures	715	37.3	35.3	46.9	54.7	24.4	20.3	15.3	13.1
			EPS (Rs)				P/Adj BV (x)		
			FY08E	FY09E	FY10E		FY08E	FY09E	FY10E
Axis Bank	609	42.8	33.50	38.70	49.85		2.5	2.2	1.9
Bank of India	240	29.2	38.21	46.24	54.89		1.4	1.1	0.9

## Key result negatives

(Rs m)			EPS (Rs)			EPS CAGR (%)	PE (x)		
Companies	Price	Q1FY09E PAT growth (%)	FY08E	FY09E	FY10E	FY08-10 (%)	FY08E	FY09E	FY10E
JSW Steel	838	(39.0)	92.9	103.2	118.1	12.8	9.0	8.1	7.1
ITC	172	5.6	8.3	9.3	11.0	15.0	20.7	18.5	15.6
Jet Airways	369	NA*	3.5	(110.9)	74.3	358.9	104.6	n/a	5.0

\* Expected to make significant loss

**We also remain negative on PSU Banks**

# Sector-wise earnings preview (Q1FY09)



# Q1FY09 earnings preview

## Agri-related

### ✓ Jain Irrigation Systems (JISL)

- JISL's revenues expected to surge by 40%; MIS business growth estimated at over 70% and fruit processing by over 80%
- PE Pipes business to report subdued growth on account of lower orders from telecom business; PVC Sheets continues to decline
- Better product mix and scale helping margin expansion of 30bp, albeit increasing resin prices; PAT growth at 31%
- JISL could see translation losses of USD4-5m (not included in the PAT)
- Reiterate Outperformer

### ✓ Ruchi Soya Industries

- Ruchi Soya revenues expected to grow at 15%, partly benefited by higher edible oil prices
- Margins to improve by 40bp driving EBITDA growth at 30.5%
- However higher interest cost would restrict PAT growth at 19%
- Reiterate Outperformer

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q1FY09E	Q1FY08	% chg yoy	Q1FY09E	Q1FY08	% chg yoy	Q1FY09E	Q1FY08	% chg yoy
Jain Irrigation Systems Ltd	4,584	3,274	40.0	789	555	42.1	389	296	31.5
Ruchi Soya	26,834	23,334	15.0	968	742	30.5	327	276	18.6

\* Profit Adjusted to extraordinary forex gain of Rs92m

# Q1FY09 earnings preview

## Agrochemicals

- ✓ **United Phosphorus (UPL)**
  - Expect steady topline growth at ~14% yoy, largely organic.
  - Expect operating margins to be boosted by weaker rupee given UPL's predominantly export oriented model
  - Operating margins to expand 120bps yoy
  - Net profit growth to be impacted by Rs700-750mn hit on account of restatement of liabilities
  - Overall profits to grow decline 32% yoy

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q1FY09E	Q1FY08	% chg yoy	Q1FY09E	Q1FY08	% chg yoy	Q1FY09E	Q1FY08	% chg yoy
United Phosphorus Ltd	9,602	8,423	14.0	2,016	1,669	20.8	501	733	(31.7)

# Q1FY09 earnings preview

## Alcoholic beverages

- ✓ Alcoholic Beverages sector to sustain high growth momentum; USL to see volume growth at 18% and UBL to report volume growth at 11%
- ✓ Higher molasses prices and promotion spend to impact margins marginally. Revenue growth at 20% and PAT growth at 17%
- ✓ Full year numbers to be impacted by losses from Indian Premier League. This and higher interest cost - downgrade FY09E earnings by 9%
- ✓ Champagne Indage acquires UK based distribution company - Darlington Wines (GBP2m) and an Australia based Wine maker - Vine Crest (AUD3m)
- ✓ United Breweries completes Rs4.2bn of fund raise through rights issue
- ✓ We remain positive on United Spirits and Champagne Indage

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q1FY09E	Q1FY08	% chg yoy	Q1FY09E	Q1FY08	% chg yoy	Q1FY09E	Q1FY08	% chg yoy
Radico Khaitan	2,150	1,523	41.2	180	249	(27.7)	73	122	(40.2)
United Breweries	4,278	3,753	14.0	885	742	19.3	369	316	16.6
United Spirits	9,189	7,657	20.0	1,995	1,694	17.8	1,022	876	16.7

# Q1FY09 earnings preview

## Auto components

- ✓ Expect 12%yoy top line growth for our auto component universe led by Amtek Auto, Bosch Ltd; expect 13%yoy top line growth for tyre stocks
- ✓ Tyre companies to witness sharp qoq margin erosion due to high NR prices and inadequate price hikes
- ✓ Currency depreciation to benefit Bharat Forge, Amtek Auto, Sundram Fasteners due to higher export realizations
- ✓ Sona Koyo to witness continued margin pressure due to rupee depreciation vis-à-vis JPY which would lead to higher import costs

Company / Industry	Key monitorables
Bharat Forge Ltd	Positive revenue and margin benefits due to currency depreciation
Rico Auto Industries Ltd	will benefit from marginal price hikes granted by OEMs
Sona Koyo Steering Systems Ltd	Rupee depreciation against Yen to keep margins under pressure due to higher import costs
Sundaram Fast	Increase in export realization due to currency depreciation, high base effect to restrict top line growth

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q1FY09E	Q1FY08	% chg yoy	Q1FY09E	Q1FY08	% chg yoy	Q1FY09E	Q1FY08	% chg yoy
Amtek Auto	13,263	10,915	21.5	2,390	2,200	8.6	1,050	981	7.0
Amtek India	3,011	2,773	8.6	712	815	(12.5)	360	378	(4.8)
Bharat Forge	11,308	10,614	6.5	1,657	1,466	13.0	620	588	5.5
MICO	12,237	10,934	11.9	2,397	2,482	(3.4)	1,384	1,545	(10.5)
Rico Auto Industries Ltd	2,117	2,132	(0.7)	245	303	(19.0)	36	81	(55.5)
Sona Koyo Steering Systems	1,861	1,526	21.9	97	160	(39.7)	10	67	(85.4)
Sundaram Fast	3,202	2,983	7.3	384	395	(2.8)	140	176	(20.4)

# Q1FY09 earnings preview

## Automobiles

- ✓ Expect muted 14% top line growth for our auto universe; M&M, Maruti Suzuki to lead
- ✓ Hero Honda to post very strong performance due to low base effect and tax benefits from the Uttaranchal plant
- ✓ Higher Tractor sales to lead to M&M maintaining margins qoq despite cost pressures
- ✓ Higher overheads and higher input costs to lead to qoq dip in Tata Motors' margins; likely to report significant foreign currency translation losses on outstanding FCCBs
- ✓ Expect 6%yoy decline in PAT for our auto universe
- ✓ Top result picks - Hero Honda, M&M

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q1FY09E	Q1FY08	% chg yoy	Q1FY09E	Q1FY08	% chg yoy	Q1FY09E	Q1FY08	% chg yoy
Ashok Leyland	17,223	16,211	6.2	1,550	1,546	0.3	767	779	(1.6)
Bajaj Auto*	23,533	NA	NA	3,073	NA	NA	1,969	NA	NA
Hero Honda Motors Ltd	28,370	24,480	15.9	3,457	2,635	31.2	2,503	1,898	31.9
Mahindra & Mahindra Ltd	31,850	26,128	21.9	3,465	2,771	25.1	2,202	1,928	14.2
Maruti Udyog Ltd	47,229	39,308	20.2	5,570	5,748	(3.1)	3,812	4,996	(23.7)
Tata Motors Ltd	66,083	60,568	9.1	5,434	5,463	(0.5)	2,637	3,104	(15.0)
TVS Motor Company Ltd	8,421	7,833	7.5	214	191	12.1	31	26	20.6

\* Results not comparable due to demerger

# Q1FY09 earnings preview

## Automobiles

Company	Key monitorables
Bajaj Auto Ltd	margins to come off only marginally due to tight control on costs, good revenue growth
Hero Honda Motors Ltd	low base effect, tax benefit from Uttaranchal plant to lead to strong bottom line growth
Mahindra & Mahindra Ltd	Higher proportion of tractors in sales mix to aid in maintaining margins qoq
Maruti Udyog Ltd	qoq recovery in margins aided by price hikes, lower other expenses
Tata Motors Ltd	Margin pressure to escalate higher overheads; likely to report significant foreign currency translation losses on outstanding FCCBs

# Q1FY09 earnings preview

## Cement

- ✓ Revenues of cement companies to grow marginally by 1% in 1QFY09, led by lower volumes as well as decline in cement realizations
- ✓ EBITDA of our cement universe likely to decrease by 17% yoy, led mainly by the lower realizations and rising costs
- ✓ Pre-exceptional earnings for cement companies under our coverage to decline by 18%
- ✓ We reiterate our Underweight stance on the sector due to oversupply concerns by FY09 and rising cost pressures
  - Certain large capacities have already been commissioned, while visibility on other large projects is high
  - Rising prices of imported and domestic coal to put pressure on costs
- ✓ Retain Grasim as Outperformer on the back of the cushion to earnings from non-cement businesses

### Key sector monitorable

Industry capacity additions and price trends

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q1FY09E	Q1FY08	% chg yoy	Q1FY09E	Q1FY08	% chg yoy	Q1FY09E	Q1FY08	% chg yoy
ACC	17,159	18,680	(8.1)	4,256	5,444	(21.8)	2,867	3,512	(18.4)
Grasim Industries	25,687	24,448	5.1	6,224	7,921	(21.4)	3,905	5,117	(23.7)
Gujarat Ambuja Cements	15,064	14,644	2.9	4,690	5,453	(14.0)	2,999	3,727	(19.5)
UltraTech CemCo	14,041	13,653	2.8	4,159	4,336	(4.1)	2,449	2,594	(5.6)

\* Dec year-ending

@ Consolidated results

# Q1FY09 earnings preview

## Construction

- ✓ Construction companies to report revenue growth of 30% yoy for the quarter driven by strong order backlog
- ✓ Operating margin to decline for most companies, led by raw material price pressures
  - Gammon and Madhucon to see maximum contraction in margins led by high proportion of fixed price captive BOT contracts
- ✓ FY09 and FY10 earnings estimates of construction companies (NCC, IVRCL, HCC and MADhucon)downgraded by 8-16% on the back of lower margins
- ✓ Earnings growth (pre-exceptional) likely to grow at 21% yoy during the quarter
- ✓ Order booking growth for all companies to remain strong during the quarter
- ✓ We maintain our overweight stance on the sector with our top picks being HCC and Madhucon

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q1FY09E	Q1FY08	% chg yoy	Q1FY09E	Q1FY08	% chg yoy	Q1FY09E	Q1FY08	% chg yoy
Gammon India Ltd	7,186	5,403	33.0	683	577	18.4	304	263	15.5
HCC	9,109	7,287	25.0	981	785	25.0	202	142	42.6
IVRCL Infrastructures	9,144	6,773	35.0	849	583	45.6	397	363	9.6
Jaiprakash Associates*	11,410	9,270	23.1	2,965	2,390	24.1	1,585	1,400	13.2
Larsen & Toubro	58,568	45,052	30.0	5,418	4,231	28.1	3,599	2,894	24.3
Madhucon Project	2,151	1,434	50.0	282	208	35.3	130	92	41.1
NCC	9,909	7,622	30.0	980	794	23.5	437	360	21.2

\* Bloomberg consensus estimates



# Q1FY09 earnings preview

## Construction

Company	Key monitorables
Gammon India Ltd	Margins and OB growth
Hindustan Construction Company Ltd	Order backlog growth and margins
IVRCL Infrastructures & Projects Ltd	Order backlog growth and margins
Larsen & Toubro Ltd	Margin improvement and order backlog growth
Madhucon Project	Revenue growth and margins
Nagarjuna Construction Company Ltd	Order backlog growth and margins

# Q1FY09 earnings preview

## Engineering

- ✓ Engineering companies to report growth in revenues of 23% yoy driven by strong order inflows
- ✓ Operating margins are likely to fall marginally led by lower margins of Carborundum and Thermax
- ✓ Carborundum margins to be impacted due to consolidation of low margin VAW acquisition
- ✓ Thermax margins to fall by 60bps led by execution of fixed price contracts during the quarter
- ✓ Net earnings (pre-exceptionals) for companies to grow at 20% yoy
- ✓ Overall, we expect engineering companies to maintain their earnings growth trajectory on the back of strong order inflows
- ✓ We maintain our overweight stance on the sector with Thermax as our top pick

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q1FY09E	Q1FY08	% chg yoy	Q1FY09E	Q1FY08	% chg yoy	Q1FY09E	Q1FY08	% chg yoy
AIAE	1,919	1,371	40.0	384	272	41.1	288	217	33.0
Carborundum Universal	2,351	1,824	28.9	363	322	12.7	145	154	(6.1)
Elecon Engineering	1,707	1,296	31.7	270	209	28.9	115	104	10.3
Thermax India	8,421	7,136	18.0	851	765	11.2	600	556	7.9
Voltas	9,954	8,249	20.7	886	736	20.5	647	514	25.9

# Q1FY09 earnings preview

## Engineering

Company	Key monitorables
AIAE	Operating margins
Carborundum Universal	VAW margins
Elecon Engineering	Execution
Thermax India	Order inflow
Voltas	Execution of international orders

# Q1FY09 earnings preview

## Financials

- ✓ Margins in Q1FY09 are expected to evidence significant downward pressure due to:
  - Continued monetary tightening (75bps CRR & repo rate hike during the quarter), and concurrent delay in raising PLRs
  - Deteriorating CD ratio on slowing credit growth (a function of high interest rates)
- ✓ Bond yields (10 yr G-sec) were 15bps higher at 8.69% as of 30th June '08 over cut-off yield. As a result, banks (especially PSU banks) would suffer large MTM mark-downs on their AFS portfolios.
- ✓ Volatile capital market conditions would adversely impact bank's treasury income and advisory fee income

### PSU Banks

- ✓ Outsized MTM provisions on AFS bond portfolio and absence of extra-ordinary trading gains (booked in FY08) would dampen this quarter

*...given the low visibility on exposure and MTM impact, we are circumspect about PSU performance in Q109*

- ✓ NII performance would be lackluster across the board with sustained pressure on margins and CD ratio
- ✓ Cumulative impact would result in a declining bottom-line for most PSU banks.

### Private Banks

- ✓ NII is expected to remain robust on the back of improving CASA ratio and increasing penetration
- ✓ Fee income to slowdown due to: (1) Volatile capital markets (advisory & treasury) and; (2) Clients' MTM losses on derivatives...**however, our annual projections remain intact given the conservative growth built in**
- ✓ ICICI Bank to be impacted by high MTM hit on CDO/CDS/CLN exposures, leading us to further pare estimates
- ✓ With interest rates reining firm at elevated levels, higher credit losses specifically on the unsecured retail portfolio remains a key monitorable
- ✓ Top result picks: HDFC, Axis Bank, Bank of India

Contd...

# Q1FY09 earnings preview

## Financials

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q1FY09E	Q1FY08	% chg yoy	Q1FY09E	Q1FY08	% chg yoy	Q1FY09E	Q1FY08	% chg yoy
Allahabad Bank	4,360	4,511	(3.3)	2,665	2,889	(7.8)	1,369	2,004	(31.7)
Andhra Bank	3,543	3,621	(2.2)	2,604	2,234	16.6	1,167	1,411	(17.3)
Axis Bank	7,987	4,218	89.3	5,300	3,679	44.1	2,499	1,750	42.8
Bank of Baroda	9,778	9,586	2.0	7,349	6,445	14.0	3,324	3,308	0.5
Bank of India	11,786	9,472	24.4	9,296	6,778	37.1	4,072	3,152	29.2
Canara Bank	8,726	8,941	(2.4)	5,568	6,121	(9.0)	2,311	2,406	(3.9)
Corporation Bank	3,918	3,524	11.2	2,905	2,755	5.4	1,509	1,771	(14.8)
Dena Bank	2,245	2,247	(0.1)	1,245	1,401	(11.1)	574	556	3.2
HDFC	7,438	5,216	42.6	6,697	5,130	30.5	4,717	3,728	26.5
HDFC Bank Ltd	18,417	11,868	55.2	10,974	8,745	25.5	4,505	3,543	27.2
ICICI Bank Ltd	22,113	14,793	49.5	22,942	15,239	50.5	7,647	7,748	(1.3)
IDBI	1,433	629	127.8	1,709	2,573	(33.6)	800	1,531	(47.7)
Indian Bank	5,161	4,905	5.2	3,628	3,297	10.0	2,182	2,120	2.9
ING Vysya Bank	1,597	1,366	16.9	822	573	43.6	359	253	41.8
Mah. & Mah. Finance	1,717	1,415	21.4	1,112	917	21.3	276	214	28.7
Punjab National Bank	14,701	13,010	13.0	9,633	9,331	3.2	3,990	4,251	(6.1)
Shri Ram Transport	3,778	2,381	58.7	2,531	1,708	48.2	1,193	767	55.6
State Bank of India	44,400	42,014	5.7	26,673	23,615	12.9	12,021	14,258	(15.7)
Syndicate Bank	5,559	5,470	1.6	3,165	3,145	0.6	1,144	2,210	(48.2)
Union Bank of India	7,437	7,711	(3.6)	4,919	5,253	(6.4)	2,212	2,250	(1.7)
Yes Bank	1,041	524	98.7	987	608	62.3	516	360	43.3

# Q1FY09 earnings preview

## Financials

Company	Key monitorables
Allahabad Bank	CD ratio, CASA, NIMs, MTM depreciation
Andhra Bank	NIMs, share of bulk deposits
Axis Bank (Ex-UTI Bank)	CASA, derivative losses, fee income growth
Bank of Baroda	CD ratio, forex income , MTM provision, recoveries
Bank of India	Treasury income, CLN depreciation, Investment depreciation, NIMs
Canara Bank	NIMs, MTM depreciation
Corporation Bank	CD ratio, NIMs, CASA, MTM depreciation
Dena Bank	Treasury income, NIMs, MTM depreciation
HDFC	Disbursement growth, spreads, tax rate
HDFC Bank	NPA provisions, fee income growth
ICICI Bank	Provisioning expenses on credit derivatives, NPA levels, derivative losses, CASA, treasury
IDBI	Profit on sale of investments, recoveries
Indian Bank	MTM depreciation, recoveries, business growth
ING Vysya Bank	Provisions, NIMs, fee income growth
M&M Finance	Provision expenses , disbursement growth ,securitization
Punjab National Bank	Cost of funds, CASA, NPA up-gradation
Shriram Transport	Disbursement and product mix
State Bank of India	MTM provisions, treasury gains/losses, NIMs
Syndicate Bank	CASA, MTM provision, Yield on advances
Yes Bank	Cost of funds, fee income growth, CASA

# Q1FY09 earnings preview

## FMCG

- ✓ We expect revenues in the FMCG sector to grow at 14%, with HUL expected to grow at 16.5%, GCPL by 30% (acquisition of Kinky) and Marico by 19%
- ✓ With ITC discontinuing non filter cigarettes on account of higher taxes, ITC to report subdued set of numbers - revenue growth at 9% and PAT growth at 6%. We downgrade FY09E earnings by 5%
- ✓ HUL to sustain the momentum with soaps and detergents expected to grow at 16% and PP to grow at 20%
- ✓ Nestle to continue with its high growth track - domestic business growth at over 20%
- ✓ With copra prices higher by 40-50%, we downgrade our estimates for Marico by 4% in FY09
- ✓ FMCG sector - has not witnessed any slow down in off-take since increasing inflationary pressures for consumers
- ✓ However, managements across FMCG sector getting more cautious over impact on volume on account of price hikes. Margins surely under pressure for smaller companies
- ✓ Top picks: Hindustan Unilever, Nestle

# Q1FY09 earnings preview

## FMCG

Company	Key monitorables
Hindustan Unilever Ltd	Growth and margins in personal products business
ITC Ltd	Decline in volume for cigarettes and losses in other consumer businesses

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q1FY09E	Q1FY08	% chg yoy	Q1FY09E	Q1FY08	% chg yoy	Q1FY09E	Q1FY08	% chg yoy
Colgate-Palmolive (India)	3,998	3,507	14.0	619	615	0.7	673	619	8.7
Dabur India Ltd	6,137	5,709	7.5	856	792	8.1	681	622	9.4
Godrej Consumer Products	3,722	2,863	30.0	687	512	34.3	505	387	30.7
Hindustan Unilever	40,558	34,814	16.5	5,954	5,120	16.3	5,487	4,719	16.3
ITC	36,438	33,252	9.6	11,855	11,275	5.1	8,270	7,828	5.6
Marico Industries	5,583	4,691	19.0	768	660	16.3	459	402	14.3
Nestle India	10,042	8,389	19.7	2,034	1,634	24.5	1,298	957	35.7



# Q1FY09 earnings preview

## IT Services

- ✓ In Q1FY09 we expect tier-1 IT services companies to report a muted 1-4% qoq revenue growth in \$ terms broadly in line with guidance / outlook given by the companies. Rupee term revenue growth is expected to be 6-10% qoq helped by rupee depreciation of 4.6% qoq against \$ (average for the quarter).
- ✓ Street would keenly watch out for meaningful upgrade in \$ terms revenue growth guidance by Infosys and Satyam, while we expect marginal increase during Q1FY09 results. We expect Infosys to upgrade its FY09 rupee terms earning guidance to Rs100 (from Rs94), while Satyam is expected to raise its earning guidance to Rs32 (from Rs30) on account of rupee depreciation, which is already factored in by the street.
- ✓ Though clients are now taking decisions on IT spend (unlike delays a quarter ago) as indicated by Infosys during our recent meeting as well as by Accenture during quarterly results, management commentary on ramp ups in the deals will be keenly watched. TCS's commentary on banking and financial services clients and developments on free transitioning of the work on a large deal will be monitored.
- ✓ Managements of the tier-1 IT services companies had earlier informed that wage hike will be lower in FY09 compared to FY08; hence a lesser impact of wage hike (compared to last year) on margins could be expected during the quarter (for Infosys, TCS).
- ✓ We maintain our positive stance on the sector - Infosys and Satyam are our key result picks.

*Contd...*

# Q1FY09 earnings preview

## IT Services

(Rs m)	Revenues			EBITDA			PAT		
	AMJ-08	%yoy	%qoq	AMJ-08	%yoy	%qoq	AMJ-08	%yoy	%qoq
Geodesic	1,218	579	110.3	743	383	93.9	531	287	84.9
HCL Technologies	20,244	16,120	25.6	4,354	3,475	25.3	3,298	4,671	(29.4)
I-Flex Solutions	6,601	5,133	28.6	1,193	693	72.2	1,014	367	176.3
Infosys Tech	48,116	37,730	27.5	14,916	10,840	37.6	12,566	10,280	22.2
KPIT	1,752	1,353	29.5	243	215	13.1	123	127	(2.9)
Mindtree Consul.	2,281	1,615	41.3	447	259	72.4	317	206	53.7
MPhasis BFL	7,026	5,316	32.2	1,172	977	20.0	764	513	48.9
PATNI	7,625	6,628	15.0	1,068	1,203	(11.2)	972	1,348	(27.9)
SACT	1,639	1,284	27.7	306	99	209.2	148	64	131.6
Satyam Computer	26,530	18,302	45.0	6,206	4,103	51.3	5,039	3,783	33.2
Tata Consultancy	64,655	52,028	24.3	15,312	13,264	15.4	12,196	11,855	2.9
Wipro	59,670	41,832	42.6	11,896	8,905	33.6	9,002	7,016	28.3

# Q1FY09 earnings preview

## IT Services

Company	Key monitorables
Geodesic Information Systems Ltd	New client addition and response from retail customers for subscription services
HCL Technologies Ltd	Commentary on demand outlook for FY09, traction in large clients along with large deal pipeline and wins
I-Flex Solutions Ltd	License booking and margin improvement in products business are key monitorables
Infosys Technologies Ltd	Guidance for Q2FY09/FY09 and demand outlook in key customer accounts are key monitorables
KPIT	Management commentary on demand outlook and margin movement
Mindtree Consulting	Demand outlook, update on acquisition of Aztec and performance of Aztec, alongwith upgrade in \$ terms revenue guidance for FY09 are key monitorables.
MPhasis BFL Ltd	Management commentary on deal pipeline, order book and growth in applications business
PATNI	Management commentary on demand outlook, client budgets and growth visibility are key monitorables
SACT	Commentary on demand outlook in services business and performance, margin movement and breakthroughs in products business
Satyam Computer Services Ltd	Change in \$ terms FY09 guidance and guidance for Q2FY09 alongwith commentary on demand outlook, billing rates and expected wage inflation will be keenly watched
Tata Consultancy Ltd	Updates on large deal wins, deal pipeline, demand outlook on capital market clients , gross hiring target for FY09 and free the transitioning of contract are key monitorables.
Wipro Ltd	Management commentary on demand and guidance for Q2FY09

# Q1FY09 earnings preview

## Logistics

- ✓ Logistics companies to report revenue growth of 11% yoy for the quarter led by growth in volumes handled during the quarter
- ✓ Volumes of Allcargo and GDL to pick up sharply due to ramp up of new ICD's
- ✓ Volumes of Concor to be impacted due to disruption of operations (Gujjar agitation) during the quarter
- ✓ Operating margins to remain stable led by change in revenue mix
- ✓ Concor's margins to fall led by high base effect as well as the Gujjar agitation in Rajasthan which impacted operations
- ✓ GDL's margins to fall sharply by 1340bps led by losses in rail business operations
- ✓ Allcargo's margins to improve sharply by 440bps due to low base effect, wherein ECU Line margins were severely impacted in 2QCY07
- ✓ Arshiya's margins to expand led by better operating efficiencies and economies of scale
- ✓ Consequently, earnings (pre-exceptional) to grow at 7% yoy during the quarter
- ✓ We maintain our Overweight stance on the sector with Concor and Arshiya as our top pick

# Q1FY09 earnings preview

## Logistics

Company	Key monitorables
Arshiya International	Revenue growth and margin improvement
Allcargo	Margins of ECU line
Container Corporation	Volume growth and mix of import and export, Margins
Gateway Distripark	Margins and rail business profitability
Gati	Aircargo profitability
Sical	Margins
Transport Corporation	Growth in SCS division and performance of Seaways division

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q1FY09E	Q1FY08	% chg yoy	Q1FY09E	Q1FY08	% chg yoy	Q1FY09E	Q1FY08	% chg yoy
Arshiya International	1,331	783	70.0	173	84	106.1	164	69	138.4
Allcargo	4,788	4,024	19.0	527	264	99.7	361	205	76.3
Container Corporation	8,254	7,759	6.4	2,179	2,281	(4.5)	1,843	1,871	(1.5)
Gateway Distripark	961	494	94.7	319	230	38.6	166	186	(10.7)
Gati	1,572	1,458	7.8	151	126	19.7	82	75	8.6
Sical	1,828	2,539	(28.0)	201	222	(9.5)	62	95	(34.6)
Transport Corporation	3,132	2,655	18.0	219	191	14.5	85	57	49.4

# Q1FY09 earnings preview

## Entertainment & Media

- ✓ IEM industry expected to grow at 33% with ZEEL growing at 26% and TV18 growing at 51%
- ✓ Broadcasting business getting more competitive - closely fought battle between NDTV Imagine, 9X and Sony for number 3 slot and ZEEL and Star losing market share
- ✓ GECs also saw loss of viewership share and advertising to Indian Premier League (accounted for Rs3bn of ad revenues)
- ✓ ZEEL plans demerger of Zee Next and has forayed into filmed entertainment business with aggressive plans - 183 movie releases over next three years. Plans fund raise of USD200m
- ✓ Viacom18's GEC property *Colors* due for launch in July 2008 and business news paper launch in next couple of months
- ✓ Multiplex operators adversely impacted by poor movie line up and project delays - to report yoy de-growth in PAT during the quarter
- ✓ Print Media seeing increasing pressure from newsprint prices - upwards of USD750 per tonne; HT Media up its ante in Hindi speaking belt under its brand Hindustan, while Dainik Jagran slows down on new property launches.
- ✓ PVR raises Rs1.2bn by placement of 40% stake in its movies business - PVR Pictures to ICICI Ventures and JP Morgan
- ✓ Top pick - NDTV, TV18; top sell - Zee Entertainment, Dish TV and WWIL

# Q1FY09 earnings preview

## Entertainment & Media

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q1FY09E	Q1FY08	% chg yoy	Q1FY09E	Q1FY08	% chg yoy	Q1FY09E	Q1FY08	% chg yoy
Balaji Telefilms	901	745	20.9	292	295	(0.8)	193	184	5.0
Deccan Chronicle Hldgs	3,034	1,734	75.0	1,179	1,037	13.7	938	838	12.0
Dish TV	1,699	893	90.2	(530)	(488)	8.7	(1,090)	(898)	na
Entertainment Network	1,106	691	60.0	60	3	2,193.7	(90)	(77)	na
Global Broadcast News	410	220	86.3	55	(18)	(402.4)	(27)	(31)	na
HT Media	3,395	2,836	19.7	726	659	10.3	376	341	10.2
Inox Leisure	550	480	14.6	85	115	(26.1)	35	110	(68.2)
Jagran Prakashan	2,146	1,834	17.0	581	515	12.9	355	348	2.0
New Delhi Television	793	610	30.0	43	44	(1.4)	(17)	(22)	na
Prime Focus	823	576	43.0	208	178	16.9	97	95	2.5
PVR	513	546	(6.1)	43	119	(63.9)	7	60	(89.0)
Saregama India	400	287	39.4	50	38	31.6	36	30	20.0
Fame India	200	183	9.3	30	29	5.2	11	52	(78.9)
Sun TV Network	2,590	2,023	28.0	1,885	1,529	23.3	1,151	931	23.6
T.V. Today Network	603	515	17.0	123	119	3.6	91	80	14.5
Television Eighteen	1,030	681	51.3	188	134	40.1	54	45	21.6
UTV Software	1,120	560	100.0	217	118	84.0	170	91	87.0
Wire And Wireless India	848	616	37.7	82	(74)	(210.5)	(69)	(203)	na
Zee Entertainment	4,918	3,916	25.6	1,449	1,197	21.1	954	771	23.7
Zee News	949	759	25.0	165	110	50.0	85	55	55.4

# Q1FY09 earnings preview

## Entertainment & Media

Company	Key monitorables
Balaji Telefilms Ltd	Realization in commission programming
Dish TV	Subscriber acquisition cost & churn rate
Entertainment Network	Performance of airport advertising
HT Media	Newsprint prices
Jagran Prakashan Pvt Ltd	Newsprint prices
Sun TV Network Limited	Distribution revenue
Television Eighteen	Losses in internet business
Zee Entertainment	Operating margins



# Q1FY09 earnings preview

## Metals

- ✓ Hindalco and Nalco to benefit from rising Aluminum and Alumina prices
- ✓ Falling Zinc prices, subdued TC/RC margins to keep HZ, Sterlite margins under pressure; Higher realizations in Copper business (Sterlite) to be partially offset by maintenance shutdowns
- ✓ With high uncertainties hovering over avg. selling price, we won't rule away surprises in financials reported by steel companies.
- ✓ JSPL and MIEL continue to see benefits accruing from cost structure (EAF over BAF/Corex), with former expected to further benefit from power business.
- ✓ JSWS operating margins expected to see downward pressure, due to higher raw material costs and ceiling over selling prices
- ✓ Maintenance shutdown, lower production levels, cap over selling prices, to see SAIL's profits degrow by 13%yoy
- ✓ Top picks: JSPL

# Q1FY09 earnings preview

## Metals

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q1FY09E	Q1FY08	% chg yoy	Q1FY09E	Q1FY08	% chg yoy	Q1FY09E	Q1FY08	% chg yoy
Hindalco Industries	56,055	46,799	19.8	9,056	8,863	2.2	6,156	6,049	1.8
Hindustan Zinc	18,912	19,700	(4.0)	10,908	14,360	(24.0)	8,421	11,850	(28.9)
Jindal Steel & Power	22,998	12,231	88.0	10,152	4,792	111.9	5,650	2,501	125.9
JSW Steel	46,793	21,907	113.6	7,508	7,413	1.3	2,610	4,278	(39.0)
Monnet Ispat	3,799	2,345	62.0	1,007	619	62.6	615	460	33.7
NALCO	15,315	11,653	31.4	6,281	6,165	1.9	4,605	4,468	3.1
Sterlite Industries (India)	64,102	61,391	4.4	17,071	21,561	(20.8)	8,052	11,429	(29.5)
Tata Steel	59,574	41,976	41.9	22,381	16,992	31.7	11,913	8,738	36.3
SAIL	101,728	80,395	26.5	24,633	23,829	3.4	16,559	15,251	8.6

# Q1FY09 earnings preview

## Metals

Company	Key monitorables
Hindalco Industries	Higher Aluminum and Alumina prices, depreciating rupee, higher production at Hirakud smelter and shrinking TC/RC margins
Hindustan Zinc	Falling Zinc prices, concentrate sales, ramp-up due to 88,000t debottlenecking at Debari smelter
Jindal Steel & Power	Factoring in benefits from backward linkages, higher utilization levels at plate mill and contribution from power plant (750MW commissioned) operations
JSW Steel	Lower production numbers, higher raw material costs, flat steel prices, and inventory gains
Monnet Ispat	Benefits due to cost structure (EAF), raw material costs
National Aluminium Company	Higher Aluminium and alumina prices, production volumes due to disruption in coal supplies, higher power costs
Sterlite Industries (India)	Rising Copper and Aluminium prices, falling Zinc prices and TC/RC margins, lower copper production at Tuticorin smelter due to 22 day shutdown
Tata Steel	Flat steel prices, rising raw material costs (coking coal), higher depreciation and interest cost on account of 1.8mt blast furnace
SAIL	Impact of maintenance shutdown, steel prices realizations

# Q1FY09 earnings preview

## Mining

### ✓ Ashapura Minechem

- We expect a 39% fall in revenues in Q1FY09 to Rs2.9bn as the company's bauxite exports from Gujarat were barred pending a royalty dispute with the state government. Ashapura is expected to export only 1mn tonnes in Q1FY09
- While the company has been able to realize higher contract prices (\$65/tonne), a higher moisture content in the exports as well as the ban on exports will affect margins and profits. We expect Ashapura to report an EBITDA of Rs307m and a PAT of Rs221m (down 42% yoy)
- Key monitorable: The resolution of the royalty issue with the Gujarat government. We are in the process of revising our FY09 and FY10 estimates.
- Maintain Neutral

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q1FY09E	Q1FY08	% chg yoy	Q1FY09E	Q1FY08	% chg yoy	Q1FY09E	Q1FY08	% chg yoy
Ashapura Minechem	2,602	4,270	(39.1)	307	583	(47.3)	221	379	(41.9)

# Q1FY09 earnings preview

## Others

Company	Key monitorables
Sintex -- Consolidated*	Swift integration of the acquired businesses, execution of order books in prefabs (monolithic and BT Shelter) business

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q1FY09E	Q1FY08	% chg yoy	Q1FY09E	Q1FY08	% chg yoy	Q1FY09E	Q1FY08	% chg yoy
Sintex	6,933	3,435	101.8	997	581	71.6	601	338	77.8

*\*yoy numbers are not comparable, due to acquisitions company undertook over the year*

# Q1FY09 earnings preview

## Pharmaceuticals

- ✓ Results to be impacted by the sharp depreciation in rupee against USD and Euro. Losses on forex hedges and restatement of forex liabilities to neutralize profitability gains due to weaker rupee
- ✓ Most companies have opted for aggressive hedges at lower levels for atleast 40-50% of FY09 exports which will cap upsides from weaker rupee up till 2QFY09
- ✓ Ranbaxy - Expect steady revenue and margin expansion given no major launches during the quarter. Restatement of ~\$1bn forex debt portfolio to significantly impact reported profits.
- ✓ Sun Pharma to report strong numbers on the back of Protonix /Ethyol exclusivities. Given aggressive channel filling in Protonix last quarter, current quarter sales expected to be subdued despite lack of any new competition. Given Sun's zero leverage, other income to surprise on positive.
- ✓ DRL - Expect steady revenue growth across geographies. Yoy profit growth to be impacted by higher SG&A charges from Betapharm discounts. 20% yoy weakening of Euro against rupee combined with Indian manufacturing can produce positive surprises in Betapharm.
- ✓ Cipla's yoy profit growth to be boosted by low base effect. Growth in formulation exports and operating profitability will be key variables to monitor
- ✓ Lupin - Expect strong performance on the back of initiation of Ramipril sales, pickup in Cefdinir sales as well as consolidation of the Japanese acquisition
- ✓ NPIL - Expect strong yoy growth due to the low base effect. Adjusted for the low base, expect growth to be relatively muted, after a strong 2HFY08 performance. Growth to pickup in 2HFY09.
- ✓ Ipca - Muted performance yoy due to ~Rs150 forex losses on hedges and liabilities

Contd...

# Q1FY09 earnings preview

## Pharmaceuticals

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q1FY09E	Q1FY08	% chg yoy	Q1FY09E	Q1FY08	% chg yoy	Q1FY09E	Q1FY08	% chg yoy
Aventis Pharma Ltd	2,438	2,302	5.9	512	445	15.1	440	373	18.0
Biocon	2,817	2,710	3.9	817	760	7.5	577	530	8.8
Cipla Ltd	10,827	8,803	23.0	2,003	1,391	44.0	1,769	1,198	47.7
Dishman Pharmaceuticals	2,150	1,680	28.0	451	274	64.8	246	214	15.2
Dr Reddys Laboratories Ltd	13,932	12,018	15.9	1,945	2,132	(8.8)	1,359	1,825	(25.5)
Glaxosmithkline Pharma Ltd	4,352	3,956	10.0	1,480	1,223	21.0	1,168	964	21.1
IPCA Laboratories	2,959	2,466	20.0	651	437	49.1	297	347	(14.5)
Lupin	8,579	5,757	49.0	1,458	821	77.6	862	559	54.3
Nicholas Piramal India Ltd	6,969	6,035	15.5	1,144	795	43.9	691	401	72.6
Ranbaxy Laboratories Ltd	18,060	16,110	12.1	2,779	2,265	22.7	(161)	2,635	(106.1)
SUN Pharma	9,998	6,153	62.5	4,410	2,148	105.2	4,133	2,272	81.9
Wockhardt Ltd	8,643	6,303	37.1	2,074	1,522	36.3	846	1,024	(17.4)

# Q1FY09 earnings preview

## Pharmaceuticals

Company	Key monitorables
Aventis Pharma	Domestic formulation growth
Biocon	Revenue growth and forex losses
Cipla	EBITDA margin
Dishman Pharmaceuticals	EBITDA margin in core business
Dr Reddys Laboratories	Betapharm profitability
Glaxosmithkline Pharma	Domestic formulation growth
IPCA Laboratories	Operating margins and forex losses
Lupin	Operating margins and forex losses
Nicholas Piramal India	Topline growth in domestic form and forex losses
Ranbaxy Laboratories	Topline growth and operating margins
SUN Pharma	Pantoprazole sales contribution
Wockhardt	Forex losses



# Q1FY09 earnings preview

## Pipes

- ✓ Record high crude prices, smaller size of new reserves, rising rig count lend strong and favourable outlook for Pipe companies
- ✓ Robust order book positions rendering strong earnings visibilty over next few quarter
- ✓ Top picks: Welspun Gujarat

Company	Key monitorables
Jindal Saw	Improved utilization levels, margin improvement post hive off of US operations
Maharashtra Seamless	Higher utilization levels
PSL	Higher utilization levels on order book execution
Welspun Gujarat Stahl Rohren Ltd	Utiliization levels at 1.5mt plate mill

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q1FY09E	Q1FY08	% chg yoy	Q1FY09E	Q1FY08	% chg yoy	Q1FY09E	Q1FY08	% chg yoy
Jindal Saw	9,000	11,928	(24.5)	1,070	1,375	(22.2)	536	601	(10.9)
Maharashtra Seamless	4,007	3,519	13.9	721	820	(12.0)	516	581	(11.3)
PSL	7,343	4,101	79.1	661	450	46.9	265	171	55.2
Welspun Gujarat Stahl Rohren	10,064	8,067	24.8	1,591	1,341	18.7	594	693	(14.2)

\* Year ending December

# Q1FY09 earnings preview

## Power equipment

- ✓ Equipment companies to report growth in revenues of 24% yoy driven by strong order backlog
- ✓ Operating margins to improve marginally by 25bps
  - KEC's margins to be impacted by 250bps led by fixed price contracts international orders
  - Crompton's standalone margins to be impacted by fixed price export contracts, however the improvement in Ganz's performance will drive improvement in consolidated margins on a yoy basis
  - Net earnings (pre-exceptionals) for companies to grow by 21% on a yoy basis
- ✓ Power equipment companies to report strong order booking in 1QFY09
- ✓ We have downgraded KEC's consolidated earnings by 9% for FY09E and 8% for FY10E
  - Earnings have been downgraded led by fixed price export orders wherein the high steel prices and forex fluctuations will impact margins
- ✓ We maintain our overweight stance on the sector, with top picks being BHEL, Crompton & EMCO

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q1FY09E	Q1FY08	% chg yoy	Q1FY09E	Q1FY08	% chg yoy	Q1FY09E	Q1FY08	% chg yoy
ABB Ltd	18,632	14,009	33.0	2,180	1,638	33.1	1,438	1,086	32.5
Bharat Heavy Electricals Ltd	38,160	32,339	18.0	4,388	3,647	20.3	4,072	3,429	18.8
Crompton Greaves	18,286	15,226	20.1	1,737	1,224	41.9	977	885	10.4
EMCO Ltd	2,161	1,543	40.0	283	202	40.4	124	90	37.7
KEC International	7,162	5,116	40.0	716	639	12.1	314	253	24.1

\* Provisional nos. announced

# Q1FY09 earnings preview

## Power equipment

Company	Key monitorables
ABB Ltd	Margin and order backlog growth
Bharat Heavy Electricals Ltd	Execution, margin and order backlog growth
Crompton Greaves	Margins in Ganz & Pauwels
EMCO Ltd	Margin and order backlog growth
KEC International	Margins and order inflow

# Q1FY09 earnings preview

## Power utilities

- ✓ Utilities to witness 14% yoy revenue growth due to higher tariffs (fuel cost pass through) and higher demand
- ✓ EBITDA margins to decline marginally due to higher fuel costs and pass through of lower interest costs
- ✓ Net earnings (pre-exceptionals) for companies to witness a 14% growth in 1QFY09
- ✓ We maintain our overweight stance on the sector with our top picks being Reliance Infrastructure and Tata Power

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

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q1FY09E	Q1FY08	% chg yoy	Q1FY09E	Q1FY08	% chg yoy	Q1FY09E	Q1FY08	% chg yoy
CESC	7,600	7,170	6.0	1,292	1,300	(0.6)	759	680	11.6
NTPC	91,800	80,572	13.9	23,183	20,694	12.0	19,476	17,648	10.4
PTC	13,989	11,586	20.8	73	58	26.4	155	118	31.8
Reliance Infra	19,072	16,240	17.4	1,280	1,087	17.7	2,704	2,216	22.0
Tata Power Company Ltd	16,402	15,115	8.5	2,952	2,524	17.0	1,727	1,523	13.4

# Q1FY09 earnings preview

## Retail

- ✓ IOR to report revenue growth of 46% with Pantaloon Retail growing by 58% and Titan by 40%
- ✓ Pantaloon Retail reaches 9.8m sq. ft. of retail space under PRIL and Homes Solutions. Beginning to see gains fo scale - improving profitability
- ✓ Provogue raises Rs3.14bn through preferential issuance of 2.86m shares
- ✓ Titan - strong growth of 36% but profitability impacted by adverse product mix and increasing gold prices. EBITDA growth at 25%
- ✓ Nilkamal Limited opened 3 '@ home' stores in the quarter; The company now operates 16 '@ home' stores. We have revised our profit estimates for Nilkamal to Rs. 270m for FY09E on account of losses from the '@ home' venture.
- ✓ Top picks - Pantaloon Retail, Provogue

Company	Key monitorables
Titan Industries	Growth and margins in jewellery

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q1FY09E	Q1FY08	% chg yoy	Q1FY09E	Q1FY08	% chg yoy	Q1FY09E	Q1FY08	% chg yoy
Nilkamal Plastics	2,270	1,760	29.0	251	98	156.1	45	26	73.1
Pantaloon Retail	16,110	10,196	58.0	1,200	568	111.4	333	187	77.9
Provogue India	672	517	30.0	110	92	19.7	60	47	26.1
Shoppers' Stop	3,389	2,421	40.0	194	138	40.2	32	20	64.2
Titan Industries	8,995	6,575	36.8	450	369	22.1	178	126	40.4
Trent	1,400	1,216	15.1	40	101	(60.4)	90	78	15.4

# Q1FY09 earnings preview

## Telecoms

- ✓ Continued pace of subscriber addition would lead to 7-12% qoq revenue growth for Bharti, RCOM and Idea.
- ✓ Margins are expected to remain flattish for Bharti and Idea as positive impact of ADC cut (not passed through entirely) and lower SG&A sequentially as a % of revenues is expected to get offset by adverse impact of lower tariffs and higher license fees (six circles of Bharti and seven circles of Idea are moving out of concession). We expect 50bp expansion in RCOM's margins.
- ✓ Movement in ARPU, MoU, rev/min and margins in mobile business remain key monitorables.
- ✓ Impact of tower asset transfer on the financials of Idea and management commentary on 3G spectrum allocation policy (3G), competitive landscape and margin headwinds (given falling tariffs and likely cost inflation including regulatory costs), would be keenly watched. Bharti is our result pick.

Company	Key monitorables
Bharti Tele-Ventures Ltd	Impact of decline in tariff on margins, trends in MOU, ARPU and revenue / min and management commentary on regulatory issues (3G, likely increase in costs, etc.) and competitive landscape will be keenly watched.
Idea Cellular	Impact of decline in tariff on margins, trends in MOU, ARPU and revenue / min and management commentary on regulatory issues (3G, likely increase in costs, etc.) and competitive landscape will be keenly watched.
Reliance Communication	Impact of decline in tariff on margins, trends in MOU, ARPU and revenue / min and management commentary on regulatory issues (3G, likely increase in costs, etc.) and competitive landscape will be keenly watched.

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q1FY09E	Q1FY08	% chg yoy	Q1FY09E	Q1FY08	% chg yoy	Q1FY09E	Q1FY08	% chg yoy
Bharti Tele-Ventures	86,456	59,046	46.4	35,884	24,465	46.7	20,745	15,113	37.3
Idea Cellular	22,022	14,773	49.1	7,392	5,128	44.2	2,903	3,085	(5.9)
Reliance Communication	56,808	43,037	32.0	25,053	18,142	38.1	15,339	12,205	25.7

# Q1FY09 earnings preview

## Textiles

- ✓ Higher capacity utilization levels (on incremental capacities) and depreciating currency to aid topline growth
- ✓ Higher raw material costs (cotton), rising energy costs continue to exert downward pressure on operating margins
- ✓ Top picks: Vardhman Textiles

Company	Key monitorables
Alok Industries Ltd	Increased utilization on new capacities
Arvind Mills	Flat realizations, rising energy and raw material costs
Gokaldas Exports	Improved utilization levels
Vardhman Textiles	Improved utilization levels
Welspun India Ltd	Flat realization, higher utilization on towel business

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q1FY09E	Q1FY08	% chg yoy	Q1FY09E	Q1FY08	% chg yoy	Q1FY09E	Q1FY08	% chg yoy
Alok Industries Ltd	7,248	4,189	73.0	1,667	1,016	64.1	474	551	(14.0)
Arvind Mills	5,394	5,103	5.7	550	721	(23.7)	(44)	58	(176.6)
Gokaldas Exports	2,865	2,619	9.4	254	260	(2.5)	75	105	(28.7)
Vardhman Textiles	5,911	5,276	12.0	887	896	(1.0)	139	311	(55.3)
Welspun India Ltd	3,986	2,647	50.6	607	491	23.6	131	93	41.3

# Q1FY09 earnings preview

## Transportation

### ✓ Jet Airways

- We expect Jet to post ~52% yoy growth in revenues in Q1FY09 to Rs27.4bn primarily on the back of international operations;
- While revenue growth is robust, ATF prices have nearly doubled yoy, and fuel now contributes close to 50% of costs. We expect Jet to report an EBITDA loss of Rs2.04bn.
- With the company owning its international fleet, depreciation and interest costs continue to remain high and along-with the high fuel costs, we expect a loss of Rs4.1bn. For the year, we expect losses to be Rs12.5bn
- With most international launches on completed, Jet continues to gain market share and load factors have remained steady. System-wide load factors are expected to be around 70%, with domestic at 73% and international PLFs are in the high 60s. We see merit in the stock over the long term.

### ✓ Great Eastern Shipping

- We expect GESCO to post 20% yoy growth in revenues to Rs7.6bn on the back of continued firm demand for tankers and bulkers; we expect EBITDA of Rs3.8bn and a PAT of Rs4.3bn
- Going forward the demand for tankers and bulkers expected to remain strong on the back of lower global oil reserves and the demand for commodities especially from China
- GESCO has committed capex of ~ \$1.3bn for shipping and offshore and has high earnings visibility. Trading at a discount to its NAV (0.6x NAV); Maintain Outperformer

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q1FY09E	Q1FY08	% chg yoy	Q1FY09E	Q1FY08	% chg yoy	Q1FY09E	Q1FY08	% chg yoy
Jet Airways	27,402	18,066	51.7	(2,045)	703	(391.0)	(4,118)	(928)	na
Great Eastern Shipping	7,645	6,371	20.0	3,823	3,127	22.3	4,574	4,210	8.6



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