

Morgan Stanley India Company
Private Limited+

Ridham Desai
Ridham.Desai@morganstanley.com
+91 22 2209 7790

Sheela Rathi
Sheela.Rathi@morganstanley.com
+91 22 2209 7730

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India Strategy

QE Sep-09 Earnings Season thus Far

Quick Comment: So far, eight companies in our coverage universe have reported results. Aggregate earnings are up 13% YoY, a tad ahead of our analyst expectations of 12%. In terms of surprise breadth, three of these eight companies reported net profit that exceeded expectations by 5% or more, while two trailed our expectations by 5% or less (see page 2 for company-wise details). Four companies in the BSE Sensex have reported 20% growth in earnings, ahead of MS analysts' expectations of 15% growth. It is still early days to analyze the earnings at the sector level. Nevertheless, Industrials is the best-performing sector while Materials is the worst-performing sector in terms of profit growth thus far.

EBITDA Margins Rise: EBITDA margins for the sample are up 3.5ppt. Excluding the materials sector, EBITDA margins are up 4.3ppt. Out of the four sectors that have reported earnings, three have seen margin expansion, with Industrials leading the list. Revenue growth for the sample is up 8% YoY and for the Sensex companies it is up 4%.

Broader Market Earnings Lead the Narrow Market: So far, 212 companies have reported. Aggregate earnings for the broad market are up 24%. The sharp recovery in margins, up 5.8ppt YoY, is the key driver for the strong earnings growth. However, revenues for the sample are up 4% YoY. Of these 212 companies, only 31 companies or 15% have reported losses for the quarter while almost 30% or 62 companies have reported earnings growth in excess of 50% for the quarter ended June 2009. We maintain our view that earnings are likely to surprise on the upside, ahead of our analyst expectations (as has been the case for the past two quarters) with the broader market outpacing the narrow market in terms of growth.

QE Sep-09 Earnings thus Far: Early Signals

No. of Cos	Sector	Year-on-Year change			Net Profit	
		Sales	EBITDA	Chg in EBITDA Margin (bps)	MS Est	Actual
3	Financials	24%	38%	610	26%	29%
1	Industrials	9%	48%	810	93%	53%
1	Materials	-39%	-65%	(2,034)	-43%	-56%
3	Technology	5%	11%	168	7%	11%
8	Total	8%	18%	346	12%	13%
7	Total ex-materials	10%	23%	426	16%	18%
4	Sensex	8%	19%	374	15%	20%
212	Broad market	4%	24%	577	7%	24%

Source Company data, Capitaline, Morgan Stanley Research

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October 21, 2009

India Strategy

Exhibit 1

Snapshot of Company-wise Reported Earnings for the Quarter Ended Sep-09

Company	Sector	QE Sep-08			QE Sep-09A			YoY			Net Profit
		Revenues	EBITDA	Net Profit	Revenues	EBITDA	Net Profit	Revenues	EBITDA	Net Profit	Above / (below) estimates
Infosys Technologies	Industrials	54,180	17,940	14,320	55,850	19,330	15,400	3%	8%	8%	2%
Tata Consultancy Services	Industrials	69,534	18,197	12,615	74,351	21,342	16,239	7%	17%	29%	5%
HDFC	Consumer Discretionary	8,633	7,760	5,342	10,137	9,269	6,639	17%	19%	24%	7%
AXIS Bank	Healthcare	16,079	8,744	4,029	22,153	13,058	5,316	38%	49%	32%	-5%
HDFC Bank	Financials	25,096	11,229	5,280	29,632	15,930	6,875	18%	42%	30%	5%
Sesa Goa	Financials	8,692	4,105	3,398	5,341	1,436	1,494	-39%	-65%	-56%	-23%
Tech Mahindra Limited	Financials	11,648	3,261	3,027	11,418	2,925	1,690	-2%	-10%	-44%	2%
Ultratech Cement Ltd	Consumer Discretionary	14,169	3,174	1,642	15,408	4,700	2,509	9%	48%	53%	-21%

Source: Company data, Morgan Stanley Research. For the Financial sector, revenues, EBITDA and EBITDA margins are equivalent to total income, operating profit and operating profit margins respectively

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October 21, 2009

India Strategy

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Not-Rated/Hold	26	1%	3	0%	12%
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October 21, 2009

India Strategy

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The Americas

1585 Broadway
New York, NY 10036-8293

United States

Tel: +1 (1) 212 761 4000

Europe

20 Bank Street, Canary Wharf
London E14 4AD

United Kingdom

Tel: +44 (0) 20 7 425 8000

Japan

4-20-3 Ebisu, Shibuya-ku
Tokyo 150-6008

Japan

Tel: +81 (0) 3 5424 5000

Asia/Pacific

1 Austin Road West
Kowloon

Hong Kong

Tel: +852 2848 5200