Company	Sales (Rs mn)			OPM (%)			PAT (Rs mn)		
	Q2 FY12	yoy (%)	qoq (%)	Q2 FY12	yoy (bps)	qoq (bps)	Q2 FY12	yoy (%)	qoq (%)
Auto		**12.1**	**(1.2)**	**13.5**	**(93)**	**48**		**(3.8)**	**3.7**
Bajaj Auto	52,080	20.0	9.0	19.6	(106)	53	7,962	16.7	12.0
Hero Motocorp	57,381	26.1	1.0	12.0	(136)	73	5,721	13.1	2.5
Maruti	79,099	(13.5)	(7.3)	8.8	(170)	(75)	4,226	(29.4)	(23.1)
M&M	73,091	34.5	8.5	13.5	(297)	17	7,903	4.2	30.7
Tata Motors	324,014	12.6	(3.5)	13.9	(59)	66	20,066	(9.7)	0.3
Banks*		**20.6**	**6.7**					**22.7**	**29.5**
Axis Bank	18,869	16.8	9.4	3.4	(0.3)	0.2	9,645	31.2	2.4
HDFC	10,437	2.4	4.6	2.3	(0.1)	(0.1)	8,426	4.3	(0.2)
HDFC Bank	30,120	19.2	5.8	4.2	0.0	0.0	11,894	30.4	9.6
IDFC	4,976	33.1	3.0	2.2	(0.2)	0.0	3,404	(0.0)	8.4
ICICI Bank	25,304	14.8	5.0	2.7	0.1	0.1	14,978	21.1	12.4
Punjab National Bank	33,364	12.1	7.1	3.8	(0.2)	0.0	11,938	11.1	8.0
SBI	104,060	28.2	7.3	3.6	0.2	0.0	33,054	32.1	108.7
Cap Goods, Infra & Power		**6.2**	**8.3**	**21.1**	**(196)**	**(6)**		**0.6**	**7.1**
BHEL	97,983	17.6	37.5	18.5	85	492	12,736	11.5	56.2
JP Associates	32,710	6.5	2.9	21.2	(347)	(307)	775	(32.9)	(27.7)
LT	108,555	16.3	14.5	10.4	(33)	(143)	7,381	6.3	(1.1)
Siemens	34,516	12.8	23.4	11.7	(156)	272	2,573	0.3	66.2
Power Grid	22,922	4.1	7.8	84.8	100	81	6,635	8.1	(5.9)
NTPC	137,880	(8.8)	(5.1)	22.0	(362)	(16)	19,500	(7.5)	(8.5)
Tata Power	53,145	10.5	(8.4)	23.8	(168)	(38)	4,933	1.0	14.6
Cement		**16.0**	**(14.7)**	**19.7**	**356**	**(654)**		**32.6**	**(46.8)**
ACC	22,729	34.6	(6.6)	17.8	474	(600)	2,168	116.4	(35.6)
Ambuja Cem	18,724	18.3	(14.5)	22.3	320	(504)	2,257	48.4	(35.1)
Grasim	48,020	8.2	(18.2)	19.6	333	(725)	3,210	(0.7)	(57.3)
FMCG		**16.5**	**0.7**	**24.3**	**17**	**158**		**18.1**	**10.1**
HUL	53,839	15.0	(2.2)	11.8	(23)	(53)	5,774	9.8	1.6
ITC	59,698	18.0	3.5	35.6	25	294	15,157	21.6	13.7
Health care		**18.5**	**10.1**	**22.6**	**365**	**301**		**25.4**	**12.2**
Sun Pharma	18,308	33.6	11.9	34.0	(9)	53	5,807	46.8	14.5
Ranbaxy	21,500	13.9	4.4	12.0	465	318	1,470	37.6	(7.4)
Cipla	17,600	11.4	13.5	23.2	224	(63)	2,820	9.6	10.5
Dr Reddy	22,100	18.2	11.7	22.9	513	701	3,013	5.4	21.9
IT		**7.2**	**20.7**	**25.0**	**36**	**(154)**		**5.9**	**15.4**
Infosys	80,602	7.7	16.0	30.6	160	(265)	19,311	12.1	11.2
HCL Tech	46,323	7.6	28.3	17.1	(139)	82	4,868	(0.9)	62.0
TCS	116,495	7.9	25.4	28.6	57	(139)	25,274	6.2	20.0
Wipro	89,818	5.8	15.6	19.3	(22)	(182)	13,358	(0.3)	2.8
Metals		**19.4**	**(3.1)**	**16.6**	**(64)**	**(313)**		**(8.5)**	**(54.3)**
Hindalco	60,721	3.6	0.7	13.6	165	(81)	6,040	39.2	(6.3)
JSPL	39,083	26.8	(0.9)	42.7	(598)	152	9,015	0.8	(3.4)
Sesa Goa	9,366	2.0	(55.6)	29.6	(349)	(2478)	2,822	(26.7)	(66.6)
Sterlite	102,410	68.3	3.9	29.2	406	121	16,844	67.1	2.7
Tata Steel	320,700	12.0	(2.8)	9.7	(317)	(388)	8,290	(58.1)	(84.5)
Oil & Gas		**30.5**	**2.1**	**19.0**	**(292)**	**497**		**3.7**	**42.2**
BPCL	472,332	33.3	2.4	3.5	(350)	821	7,860	(63.3)	(130.7)
Cairn	36,171	34.6	(2.6)	85.0	407	(51)	7,546	(52.4)	(72.3)
GAIL	89,465	10.1	0.6	16.6	(134)	(116)	9,859	6.8	0.1
ONGC	205,559	11.5	25.3	68.0	653	1022	71,449	32.6	74.5
Reliance Ind	791,165	37.6	(2.3)	12.9	(347)	62	58,399	18.6	3.2

Company	Sales (Rs mn)			OPM (%)			PAT (Rs mn)		
	Q2 FY12	yoy (%)	qoq (%)	Q2 FY12	yoy (bps)	qoq (bps)	Q2 FY12	yoy (%)	qoq (%)
Real Estate		**(1.4)**	**(4.5)**	**46.5**	**731**	**110**		**(11.4)**	**1.9**
DLF	23,359	(1.4)	(4.5)	46.5	731	110	3,692	(11.4)	1.9
Telecom		**10.9**	**2.9**	**33.4**	**38**	**32**		**(13.0)**	**4.0**
Bharti Airtel	174,806	14.8	2.9	34.1	50	52	15,003	6.3	7.4
Rcom	49,810	(0.8)	2.7	30.8	(34)	(36)	1,168	(73.8)	(26.2)

Source: India Infoline Research
** For banks taken NII for sales and NIM for OPM*

Automobiles

- Automobile volume growth during Q2 FY12 was a mixed bag. Two wheeler companies reported very robust growth as they remained unfazed by higher interest rates (majority of the sales happen on cash) and rising petrol prices. On the passenger side, while Maruti reported a steep decline on account of strike and maintenance shutdown at its plants, M&M saw a sharp jump of 32% yoy for its automotive division. For Tata Motors though volumes plummeted 28% yoy in the passenger car segment. CV volumes for Tata Motors were strong with 21.6% yoy growth.
- With commodity prices remaining stable in Q2 FY12, not too much pricing action was witnessed during the quarter. Hence, realizations will now be a play on product mix. For Tata Motors, higher proportion of CVs would result in better realizations, while for Maruti we expect higher contribution from diesel variants which are dearer in comparison to petrol variants.
- Operating margins would remain weak on a yoy basis, but on a sequential basis most companies except Maruti would see a recovery.
- Higher interest rates, increased product prices, rising petrol prices and high base effect might restrict the volume growth. Our top picks in the sector are M&M and Bajaj Auto.

Banking

- System credit growth was stable near 20% during Q2 FY12. Slowing economic growth, lackluster investment activity and elevated interest rates may weaken loan demand in H2 FY12. Recent interactions with some PSU banks make us believe that credit growth for FY12 would be in the range of 16-18%. During Q2 FY12, sequential system loan growth was near 2%.
- After having improved in Q1 FY12, deposits growth remained fairly strong during Q2 FY12 driven by substantial mobilization of CASA and retail term deposits. The sequential growth in Q2 FY12 stood ahead of advances at above 3%. Resultantly, system LDR ratio declined to below 74% from 75% at the start of the quarter.
- With headline inflation persisting above 9%, RBI hiked policy rates aggressively (75 bps) during Q2 FY12. While almost all banks raised lending rates after the July policy, transmission of the September rate hike has been absent so far. Banks are unlikely to raise lending rates further marking the end of interest rate cycle.
- Liquidity situation was largely stable on sequential basis with the daily average borrowing under the LAF window being within RBI's comfort. Consistent with this, bulk deposits rates softened further during the quarter. This should benefit financial performance of ICICI Bank and Axis Bank who have higher reliance on wholesale funding.
- For most banks under our coverage, we expect a modest 2.5-4.5% sequential loan growth. Axis Bank and HDFC Bank are expected to grow at the higher end of this range. Deposits growth would be slightly better than advances for most banks thereby impacting their C/D ratio.
- Aided by strong monetary policy transmission; we expect most bank's NIM to be stable sequentially or marginally improve in Q2 FY12. Axis Bank is likely to post a material expansion (20bps qoq) in margin driven by favorable re-pricing of bulk deposits. SBI, ICICI Bank and HDFC Bank are expected to report flat NIM.
- Fee income growth is likely to improve with some revival in loan growth on sequential basis. Most banks are expected to continue to report weak trading gains as G-Sec yields firmed up on quarter-end basis.

- Trends in the asset quality would be the key watch-out. For PSU banks, though material deterioration is expected due to transition to system-recognition for NPLs, a negative surprise is case of few banks can't be ruled out. For private banks whose asset quality has been stable so far, any marked deterioration would confirm the start of a new NPL cycle. The credit cost of PSU Banks would be significantly higher than private banks.
- Overall, we expect strong results (meeting top-end of street estimates) from SBI, HDFC Bank, Axis Bank and ICICI Bank. Our top picks in the sector are ICICI Bank, Axis Bank and HDFC Bank.

Cement

- Good monsoons, slowdown in government infrastructure spending and pause in new construction activity led to lower cement consumption in Q2.
- Production discipline in Q2 led to stable prices (drop of Rs5-15/bag qoq against our expectation of Rs25-40/bag decline). In fact, post monsoon, prices have increased by Rs5-70/bag in northern, western & eastern regions (key markets for ACC & Ambuja). We expect ACC and Ambuja topline to witness 34.6% and 18.3% yoy growth in the July-Sept quarter.
- On margin front, ACC and Ambuja are likely to witness an expansion of 470bps and 320bps yoy respectively on back of lower international coal prices; going forward, benefits of lower international coal price may be restricted due to sharp depreciation in rupee.
- We expect profitability to improve for ACC and Ambuja by 116% yoy and 48% yoy respectively.
- India Cements remains the preferred bet in the sector; retain our negative stance on ACC and Ambuja.

FMCG

- We expect the FMCG sector to continue its volume growth momentum in Q2 FY12. Expansion in operating margin though will be curtailed due to firm input cost scenario. Players have implemented measures like selective price hikes, grammage cut and lower adspend to ease off the input cost pressure.
- The normal monsoons could see higher rural income, thereby improving demand for FMCG products in H2 FY12. Most of the players will benefit from this as rural markets contribute ~25-40% to their revenues.
- HUL is expected to register 15% yoy growth in revenues at Rs53.8bn during the quarter led by strong growth in its HPC business. OPM is likely to witness 20bps decline at 11.8% (lower adspend will partly offset the input cost impact). We expect HUL to register moderate 9.8% yoy growth in net profit at Rs5.8bn.
- ITC is likely to witness 18% yoy revenue growth at Rs59.7bn driven by strong performance in cigarette, other-FMCG and agri segments. Growth in the core cigarettes segment will be driven by a mix of healthy volume growth (>6%) and price hikes. OPM is expected to expand by 30bps yoy to 35.6% aided by lower tobacco prices. We expect ITC to record 21.6% yoy growth at Rs15.2bn in net profit during the quarter.

Health care

- Domestic pharma growth in Q2FY12 on a higher base is set to witness momentum slowing to 12-13%. Operating margins would continue to be under pressure for most of the companies on account of higher input cost and staff cost. Pharma companies having exposure to international market would face volatility in net earnings owing to sharp Rupee depreciated in the quarter (by ~10%), Rupee depreciation is positive for export. However, hedging and MTM losses will take hit on P&L.
- We expect the US business to remain buoyant for the companies. Though Sun pharma on a higher base of Q2FY11 (Oxaliplatin sales) would showcase flattish growth in the US whereas Dr Reddy is expected to witness strong growth traction in US led by its long awaited launch of Allegra D24 OTC and Fondaperinux. We expect domestic growth for Cipla and Sun Pharma to remain strong while Dr Reddy's and Ranbaxy will not be able to outperform the market growth.
- On the revenue front Sun pharma and Dr Reddy are expected to post healthy yoy growth. Sun pharma as a result of Taro integration will post strong results but margin performance (synergy from

Taro) is to be watched out. Dr Reddy's is likely to post 18% growth in sales attributed to the US sales (launch of limited competition products).

- We expect 14% growth in revenue for Ranbaxy with margin improvement led by productivity increase and renewed strategy. The factors to watch out for Ranbaxy would be the timeline for resolution of FDA issues and launch of Lipitor. Cipla would post moderate results. We expect margins pressure to smoothen with ramp up in the Indore SEZ production. The factor to watch out for Cipla would be domestic growth figure and strategy for export along with status of Inhalers approval in Europe and other countries.

IT Services

- Even with the weakening macro indicators in key markets, we expect the strength of volume growth to sustain for Q2 FY12 with Tier1 players posting 4-6% of volume growth (with an exception of Wipro). Mid-Tier companies in our coverage are also expected to post a decent 3-5% dollar revenue growth (barring Tech Mahindra) in this traditionally strong quarter. Pricing is expected to remain stable.

- Cross currencies (Euro, GBP and Australian Dollar) have depreciated by 1.2-2% against the US dollar hence pulling down the estimated reported dollar revenues by 40-80bps. Also, the strong rupee depreciation in last 4-6 weeks is expected to have a material positive impact on rupee revenues as well as operating margin (+80-100 bps)

- Operating margin performance is expected to be a mixed bag. Normalization of wage hikes at Infosys and TCS (promotion related margin impact to come in Q2 FY12) is estimated to lead to margin expansion by ~160bps/60bps respectively. Utilization improvement for Infosys is expected to contribute to the above improvement. Salary hikes (2-month impact) and SAIC integration are expected to negatively impact Wipro's IT services OPM by ~140bps. Salary hikes at HCLT is expected to pull down their OPM by ~160bps. Favourable US dollar/Rupee movement (~2.3% depreciation on quarterly average basis) is estimated have 80-100bps positive impact on OPM. Among our mid-cap coverage, operating margin of Persistent Systems and Tech Mahindra are expected to be impacted by the salary hikes during the quarter.

- We expect Infosys to deliver 5% dollar revenue growth in Q2 FY12 coming in at top end of its guidance. We estimate the company to reduce its FY12 dollar revenue guidance by 200bps to 16-18% growth (implying 4-5% CQGR over H2 FY12) from 18-20% stated earlier considering the weakening macro indicators of key markets as well as adverse cross currency movements during the quarter. Sharp rupee depreciation during the quarter (~2.3% on quarterly average basis and ~10% on quarter end basis) is estimated to lead to rupee EPS guidance upgrade from the current Rs128-130 to Rs134-136 for FY12.

- Key points to watch out in Q2 results are the management commentary on demand especially in key markets/areas like Europe & Financial services vertical. Additionally dollar revenue guidance for Q3 FY12 by Wipro and Infosys, hiring trends, client spending on discretionary projects, sales cycle and pricing commentary are also key monitorables

- Material deterioration of the macro-economic situation particularly in US and Europe had led us to reduce our growth assumptions and consequently the earning estimates for our large cap universe by 6-13% (FY13E). Subsequently, though demand slow-down possibility is increasingly getting reinforced (as seen in latest macro news flow), we believe valuations are still attractive for companies like Infosys, HCLT and TCS and hence remain our top picks.

Metals

- During the quarter steel prices were largely flat on a sequential basis. Domestic steel prices were trading at a discount to landed prices due to subdued demand and higher production. Long product prices rose marginally as demand from the infrastructure picked up by end of Q2 FY12. Domestic steel demand growth has been a dismal 1.3% yoy in Apr-Aug'11, much lower than both ours and market expectations. Historically, second quarter has been a weak quarter for most steel companies as the construction activity remains subdued due to rains. Sesa Goa's iron ore volume is expected to decline sharply on a yoy basis as Orissa operations were ceased and Karnataka volumes were impacted by the ban by the end of the quarter. On a yoy basis, revenue for the steel companies is expected to be higher led by strong steel prices.

- For the non-ferrous space, topline growth would be impacted due to decline in metal prices on a sequential basis. However, the impact of lower metal prices would be partly offset by the depreciation of the rupee against the dollar. In Q2 FY12, non-ferrous metal prices declined 2-7% qoq. Aluminium declined the most (-7%), followed by lead (-2.9%), zinc (-1.2%) and copper (-1.1%). Hindalco's copper volumes were impacted due to the bi-annual maintenance. Sterlite's topline would be boosted by higher zinc volumes and higher contribution from power business.
- Margins for all the steel companies would decline on a qoq basis on account of marginal decline in realizations and an increase in coking coal costs. The impact of the higher priced coking coal would be completely reflected during the quarter. Input cost pressures is expected to decline going forward as coking coal contracts declined from US$330/ton in Q1 FY12 to US$315/ton in Q2 FY12 and US$285/ton in Q3 FY12. Steel prices are expected to consolidate in the domestic market over the next two quarters.
- For the non-ferrous space too margins are expected to remain under pressure due to lower of metal prices and higher coal costs. The zinc operations of Sterlite and the aluminium operations of Hindalco would be impacted by the price hikes taken by Coal India.

Oil and Gas

- Gross under recoveries on yoy basis are expected to be lower in Q2 FY12 on a sequential basis following fall in crude oil prices and the pricing action taken in June 2011. Under-recoveries on petrol will not contribute to the total gross under recoveries as the prices have been de-regulated. However, losses on diesel, LPG and SKO have moderated causing total under recoveries to decrease. Uncertainty over subsidy sharing pattern continues with the government yet to decide on a particular formula. For our estimates, we have assumed 33% sharing by upstream companies, 60% by government and remaining to be borne by OMCs.
- Refining margins have been higher on a sequential basis on account of improvement in gasoline spreads, which will result in better performance of RIL's refining segment. Petrochemical spreads have been a mixed bag and integrated margins are expected to weaken moderately on sequential basis. Crude oil production from MA-1 field and gas production from KG-D6 field are likely to be tad lower on a qoq basis.
- While higher crude oil prices would result in higher revenues for Cairn India, but its performance will be impacted owing to one-time payout to ONGC with respect to royalty issue. APM gas price hike will further improve ONGC's performance. While Cairn would be a direct beneficiary of rising crude oil prices, ONGC's net realization will also be higher.
- GAIL should witness strong set of numbers on yoy basis as a result of higher transmission volumes on yoy basis.
- Our top pick in the sector is GAIL.

Power

- All India power generation grew by 11% yoy during July and August. Over the past 12-months India added around 13.6GW of capacity leading to only 65% of the revised Eleventh Plan capacity addition target of 62,374MW. In FY12, nine SEBs have hiked tariffs ranging from 1-30%. This quarter Merchant power rates have declined ~10% QoQ and 2% YoY (traditionally weak quarter for merchant rates).
- NTPC is expected to post 8.5% fall in yoy revenue. We expect margins to remain flat with decline net profit by 7.5% yoy. NTPC's generation was down by 2% in July and August 2011 led by lower PLFs at most of its plants. We expect NTPC to post a decline in the sales mainly due to a fall in production & back-down by SEBs. During the quarter NTPC commercialised only 500MW at Simhadri.
- We expect Tata Power will post better results on improved coal realisataions. However, lower realisations for its 20O MW merchant capacity will offset the growth. Tata power may show MTM loss on the back of FCCB and higher foreign debt due to sharp depreciation of rupee.
- Power Grid would showcase the same regular quarter. We expect there could be lumpiness in capitalisation of assets which can present some positive surprise in earnings growth. We expect Power Grid would post 4% increase in revenue. But, flattish net profit growth attributable to higher depreciation.

Telecom

- In a seasonally lean quarter, we expect wireless traffic growth in the range of 1.5%-2.5% qoq for Bharti, Idea and Rcom; Bharti India & S Asia wireless revenues expected to inch up by 2.7% qoq while overall ex-Africa revenues to move up 2.5% qoq. Also, impact of tariff hikes by telcos is unlikely to be felt in Q2
- Airtel Africa US$ revenue growth pegged at ~2% qoq, aided by higher traffic growth; expect Bharti blended OPM to rise ~50bps to 34.1%
- Bharti **pre-FX PAT** is estimated to rise 7.4% qoq to ~Rs15bn; however, depreciation of INR against US$ in Q2 to adversely impact reported PAT
- For Rcom, we built in 1.5% qoq traffic growth, flat RPM and 1.5% qoq rise in EBIDTA; pre-exceptional PAT is expected to be ~26% lower on sequential basis
- Idea is likely to sport 2.5% qoq rise in traffic which would drive a 3.6% qoq increase in EBIDTA; pre-FX PAT is forecast to grow at 5.8% qoq

In the year 2011 itself, we have received two reputed awards for being the Best Broker in India.

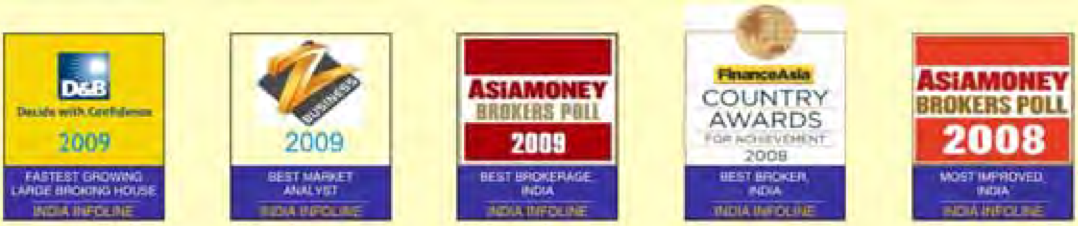
'Best Equity Broker of the Year' – Bloomberg UTV, 2011

IIFL was awarded the 'Best Equity Broker of the Year' at the recently held Bloomberg UTV Financial Leadership Award, 2011. The award presented by the Hon'ble Finance Minister of India, Shri Pranab Mukherjee. The Bloomberg UTV Financial Leadership Awards acknowledge the extraordinary contribution of India's financial leaders and visionaries from January 2010 to January 2011.

'Best Broker in India' – Finance Asia, 2011

IIFL has been awarded the 'Best Broker in India' by Finance Asia. The award is the result of Finance Asia's annual quest for the best financial services firms across Asia, which culminated in the Country Awards 2011

Other awards



Recommendation parameters for fundamental reports:

Buy – Absolute return of over +10%

Market Performer – Absolute return between -10% to +10%

Sell – Absolute return below -10%

IIFL, IIFL Centre, Kamala City, Senapati Bapat Marg, Lower Parel (W), Mumbai 400 013.

For Research related queries, write to: Amar Ambani, Head of Research at amar@indiainfoline.com or research@indiainfoline.com
For Sales and Account related information, write to customer care: info@5pmail.com or call on 91-44 4007 1000