



Q1FY2007 earnings review

Domestic demand driven stocks continue to drive Sensex earnings

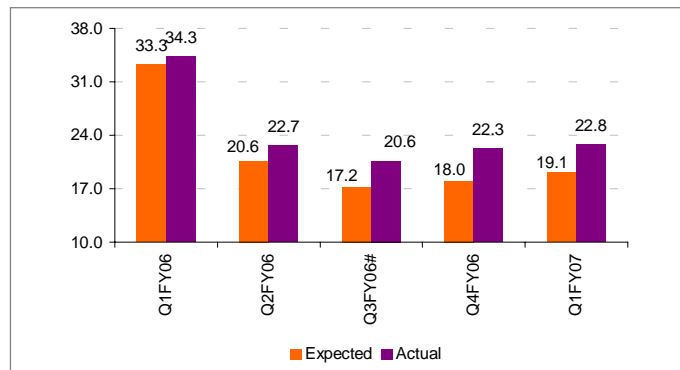
- The earnings of the Sensex companies for Q1FY2007 grew by 22.8% year on year (yoy) and 6.6% quarter on quarter (qoq) compared with the consensus expectations of 19.1% and 3.7% growth respectively.
- While the sales of the non-banking companies in the Sensex grew by 33.4% yoy, their operating profit grew by a slower 31.3% as their operating profit margin (OPM) contracted by 42 basis points yoy to 26.2%.
- Automobile, capital goods, cement, and information and technology (IT) companies led the growth in the Sensex' earnings.
- The earnings of the Mid-cap 200 Index grew by 40% yoy. While the sales of the non-banking companies grew by 20% yoy, their operating profit grew by a faster 29% as their OPM expanded by 103 basis points. Cement companies like Shree Cement and India Cements led the expansion in the OPM.
- The earnings of the Sensex companies are slated to grow by 21% for FY2007, implying an earnings growth of 20% yoy for M9FY2007.
- At the current level of 10,811, the Sensex is trading at 14.4x its one-year forward earnings.

Sensex' earnings grow by 22.8% yoy for Q1FY2007

The earnings of the Sensex companies grew by 22.8% yoy and 6.6% qoq compared to consensus estimates of 19.1% and 3.7% respectively. The sectors leading the pack were automobiles, capital goods, cement and IT.

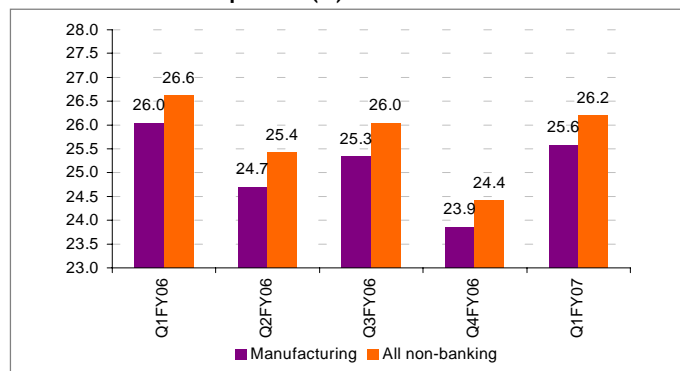
Sector-wise growth in Sensex' earnings for Q1FY2007

	% yoy growth Expected	% yoy growth Actual	Implied growth for M9FY2007	Comments
Auto	36.8	37.7	19.6	Encouraging performance on the back of good volume growth across segments. The high sales volume, and productivity and efficiency improvement measures have helped the companies manage the increase in the raw material prices.
Bank	6.6	-10.5	19.1	While the private sector banks led the earnings growth backed by a strong growth in core earnings and lower provisioning, state-owned behemoth SBI disappointed.
Capital goods	45.0	69.2	38.9	Strong growth in order booking and expansion in margins helped both capital goods majors BHEL and L&T report 40%+ growth in earnings.
Cement	96.0	117.6	38.9	Stupendous performance on the back of a strong volume growth and hefty increase in cement realisation. This has led to a sharp upgrade in their earnings for FY2007 and FY2008.
FMCG	22.8	22.8	24.9	While Hindustan Lever reported a strong growth in earnings riding the buoyancy in the FMCG growth, ITC showed an all-round performance backed by strong growth in all divisions.
IT	39.6	48.1	30.7	Backed by a strong volume growth and the depreciation in the rupee the IT majors positively surprised with their results, scoring a growth of 48.1% yoy and of 8.8% qoq. Upward revision in earnings guidance by majors like Infosys and Satyam was icing on the cake.
Metals	10.0	24.5	33.0	Ferrous metal major Tisco surprised positively with a 3.2% growth in earnings yoy compared with an expected decline of 12.1%. Hindalco reported a strong 84.5% growth in earnings yoy riding the buoyancy in aluminium and copper prices.
Oil	13.1	18.7	9.4	Oil behemoth ONGC positively surprised with a 24.5% growth in earnings yoy despite sharing higher subsidies. Earnings growth for Reliance Industries was lower due to shut-down at refinery as well as petrochemical plant.
Pharma	49.2	60.0	74.1	Improved performance for the quarter based on marketing exclusivity deals for products going off patent. With the increasing competition in the US generic market, the 180-day exclusive arrangement following patent expiry would help the companies report better profitability going forward.
Power	1.2	5.9	11.3	NTPC reported a sedate growth driven by higher tariffs and higher demand for power.
Total	19.1	22.8	20.0	

% yoy growth in earnings of Sensex companies

Source: Capitaline, Sharekhan Research

The revenues of the non-banking Sensex companies grew by 33.4% yoy and that of the manufacturing Sensex companies grew by 31.3% yoy. However, the OPM of the non-banking and manufacturing companies declined by 42 basis points yoy and 45 basis points yoy respectively as the fuel and non-ferrous metal prices rose. Consequently their operating profit grew by 31.3% and 29.0% respectively.

OPM of Sensex companies (%)

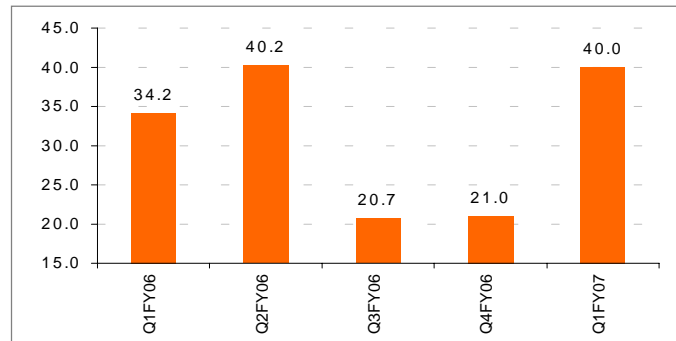
Source: Capitaline, Sharekhan Research

	Non-banking companies	Only manufacturing companies
Sales growth	33.4	31.3
Operating profit growth	31.3	29.0
OPM	26.2	25.6

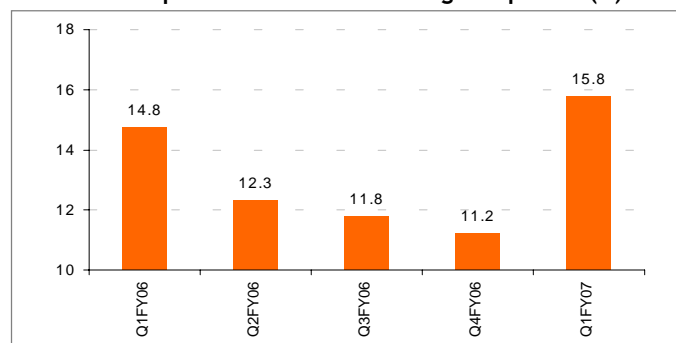
Mid-cap earnings grow by 40% yoy driven by cement companies

The earnings of the Mid-cap 200 Index companies grew by 40.0% yoy. The non-banking companies of the index reported a revenue growth of 20%. The OPM of the non-banking companies expanded by 100 basis points. The expansion in the OPM was sharper even on a sequential basis driven mainly by the expansion in the OPM of the cement companies like Shree Cement and India Cements. Consequently, the operating profit of the non-banking companies in the Midcap 200 Index grew by 29%.

The author doesn't hold any investment in any of the companies mentioned in the article.

% yoy growth in earnings of Mid-cap 200 companies

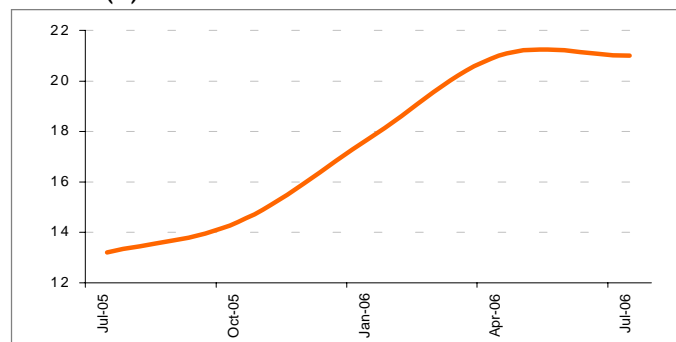
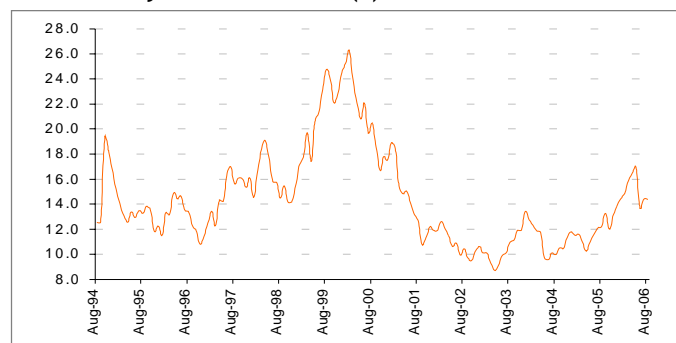
Source: Capitaline, Sharekhan research

OPM of Midcap 200 Index—non banking companies (%)

Source: Capitaline, Sharekhan research

Sensex' FY2007E earnings to grow by 21% for FY2007

The expected growth for FY2007 stands at 21% to be driven by automobile, cement, capital goods and IT companies. At 10,811, the Sensex is trading at 14.4x its one-year forward earnings.

Upgrades in earnings estimate of Sensex companies for FY2007 (%)**Sensex one-year forward PER (x)**

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