Quarterly Preview

April – June 2008

Religare Research

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Table of Contents

Top Picks

Company	Mkt cap (Rs bn)	P/E (x) FY09E	P/E (x) FY10E	Target (Rs)	Appreciation (%)	Comment
Axis Bank	207	2.2	1.9	805	39.0	Profit growth expected to continue; stock available at decent valuations post-correction
Bharti Airtel	1,344	15.6	12.9	1,150	62.0	Leadership in the mobile segment on the back of strong subscriber additions. Available at reasonable valuations for a long-term perspective.
HCC	17	28.1	17.2	219	222.0	Worst is over for the core business which has started gaining momentum. At CMP, market is not factoring any value for its real estate ventures.
HDIL	78	4.6	3.3	1,334	265.0	Largest MMR realty player with immense SRS experience. Airport project offers scope to move up value chain. NAV to CMP is at significant discount.
KS Oils	14	7.3	5.4	111	158.0	Brownfield expansion, high retail focus, and backward integration plans by way of palm plantations are key growth triggers.
L&T	678	26.0	19.0	3,339	28.0	Corrected by 50%; valuations look attractive on FY10 basis.
Maruti	159	8.0	6.8	1,046	91.0	Set to log strong growth in domestic sales and exports due to new product launches. Least affected by rising interest rates and input costs.
Reliance Industries	3,011	16.8	11.4	3,147	52.0	Start up of RPL, gas production from KG Basin by Q3FY09 along with higher gas prices and GRMs to boost growth.
Sun Pharma	286	14.2	16.1	1,664	20.4	Well placed to deliver strong growth from key geographies like US and India; strong product mix to help deliver robust earnings growth.
Tata Steel	527	4.7	5.0	977	56.0	Leverage to global steel prices, increasing volume growth in domestic operations and significant steps taken to increase raw material security.

Stocks to SELL	Ambuja Cements, Wipro, KPIT Cummins, TVS Motor, Tata Motors

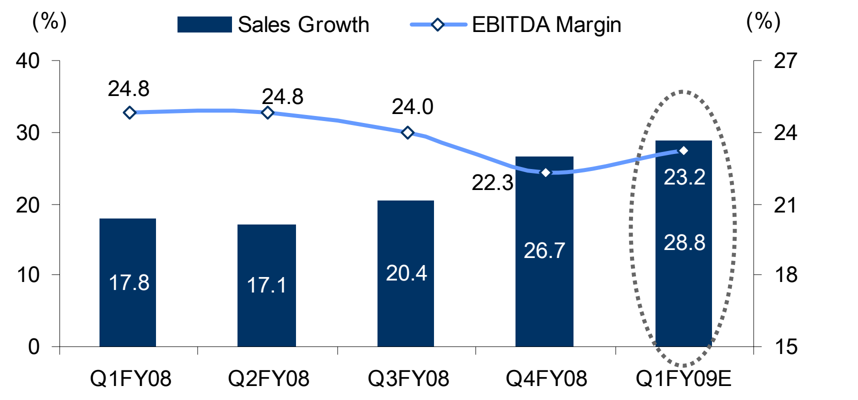
Executive Summary

- Q1FY09 sales growth of the Religare coverage universe to remain stable at 28.8% YoY, but EBITDA margin to shrink 160bps as input costs move up. Higher interest cost and lower other income would subdue profit growth at 17.2% YoY.
- Real pain of ballooning inflation and hardening interest rates to be experienced from Q3FY09 onwards. Likelihood of a further 10–12% downside in our PAT growth estimate for FY09.
- Muted 10.7% growth anticipated in Sensex earnings for Q1FY09 owing to margin pressures; hence, our EPS estimate of Rs 970 for FY09 (15% growth) faces a high risk of downgrade.
- Sensex currently trading at 14x FY09E earnings and at 16x trailing EPS. Over the next 6–9 months, we expect the Sensex to trade in a P/E band of 11–15x on FY09E, ranging from 10,500–14,500.
- Valuations have corrected from 25x one-year forward to 14x currently. Analysis of past bear phases indicates that markets are in a consolidation phase and scope for a further price and valuation downside is restricted to 10–15%.
- We thus recommend a stock-specific investment strategy but with a long-term horizon.

Visible signs of a slowdown

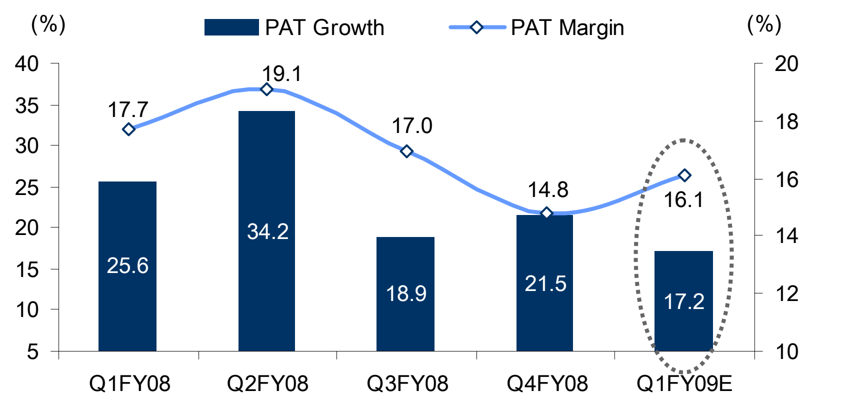
- Our coverage universe comprising 115 companies is expected to register stable sales growth of 28.8% YoY. However, barring oil & gas, pharmaceuticals, construction and capital goods, all major sectors are expected to report a sharp growth deceleration, wherein interest-sensitive verticals such as auto, banking and realty would be the hardest hit.
- Burgeoning input costs driven by rising commodity prices are expected to shrink the EBITDA margin of our coverage universe by 160bps YoY, with metal, media and oil & gas players recording the biggest fall. Select sectors, though, will witness margin expansion including pharmaceuticals, IT and telecom.
- A drop in other income is likely to hamper PAT growth for Q1FY09. Other income is estimated to decline by 15% YoY as against the 69% growth recorded in Q1FY08. Deteriorating market conditions, risk of forex losses on outstanding foreign borrowings and a tight interest rate scenario have depleted other income. Consequently, PAT growth for our universe is likely to be muted at 17.2% YoY as against 25.6% in Q1FY08.

Religare universe: Quarterly sales and margin trend



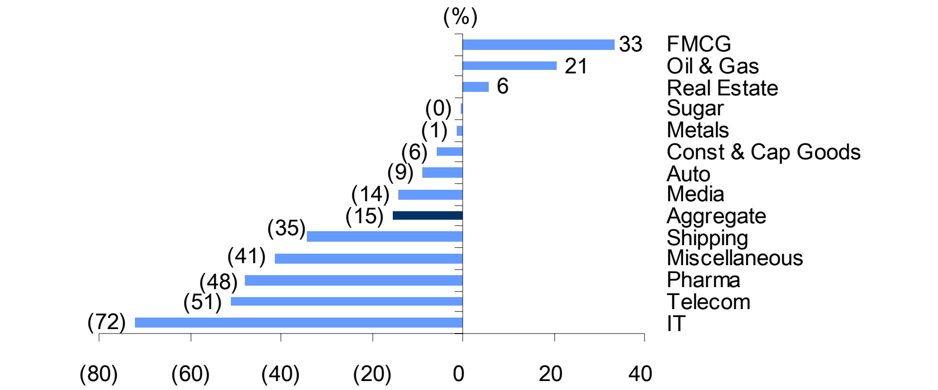
Source: Religare Research **Excludes Tata Steel (Corus), HDIL & DLF due to absence of comparable data*

Net profit trend



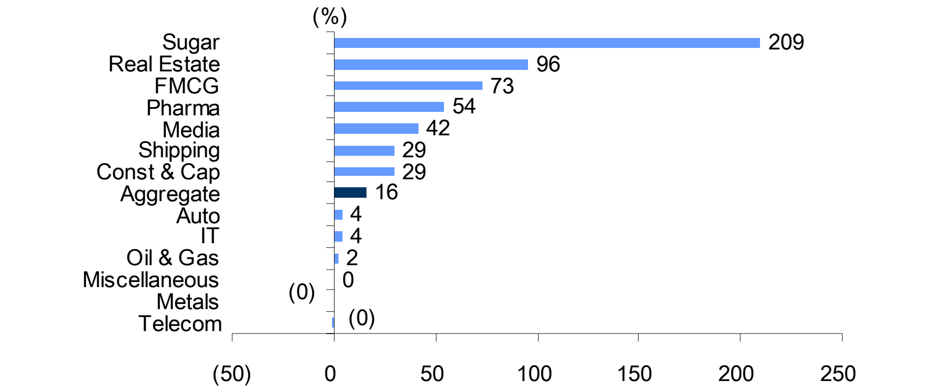
Source: Religare Research **Excludes Tata Steel (Corus), HDIL & DLF due to absence of comparable data*

Other income growth for Q1FY09



Source: Religare Research

Increase in interest cost for Q1FY09



Source: Religare Research

- The full impact of recent interest rate hikes is yet to be felt; we expect only a nominal 16% rise in interest costs for our universe in Q1FY09. While the recent spike in commodity prices, runaway inflation and tightening interest rates have dampened first quarter expectations, we expect the real pain of ballooning inflation and hardening interest rates to be experienced from Q3FY09 onwards.

- The latest IPP numbers indicate that economic growth has hit a speed breaker. We see possibilities of a further 10–12% downside in our PAT growth estimates for FY09 – the Q1 performance will provide direction in this regard.

Sector aggregates: April-June 2008E

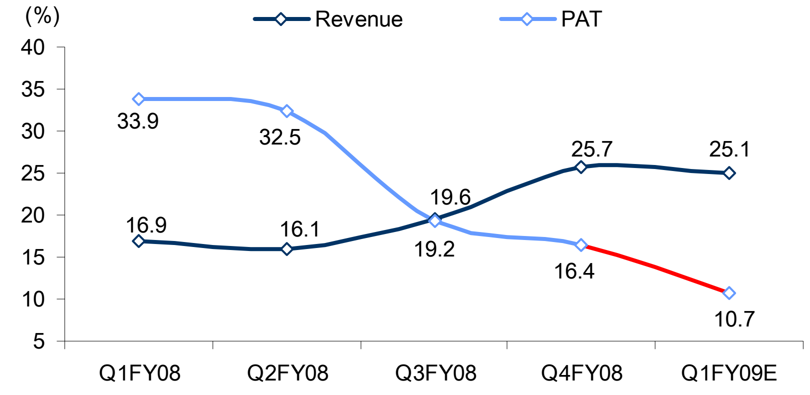
	Sales (Rs mn)		EBITDA (Rs mn)		EBITDA margin (%)		PAT (Rs mn)	
Sector	April-June 2008	% Chg YoY	April-June 2008	% Chg YoY	April-June 2008	Inc/Dec YoY	April-June 2008	% Chg YoY
Auto & Auto Ancillaries	247,944	13.8	30,155	14.3	12.2	5bps	18,965	2.0
Capital Goods & Construction	109,494	22.5	11,193	22.3	10.2	2bps	6,879	16.8
FMCG	15,070	108.5	2,412	75.2	16.0	(304bps)	1,201	78.8
IT	210,822	30.4	50,864	31.6	24.1	20bps	40,592	14.5
Media	6,669	69.3	1,280	30.4	19.2	(570bps)	905	31.0
Metals	508,465	21.1	82,579	(6.4)	16.2	(490bps)	44,429	(13.2)
Oil & Gas	582,575	33.8	158,767	18.9	27.3	(341bps)	93,350	17.9
Pharmaceuticals	83,548	31.4	21,512	52.0	25.7	340bps	16,685	44.7
Realty	50,649	22.3	31,581	19.0	62.4	(170bps)	24,019	26.6
Shipping	15,710	20.6	7,651	16.7	48.7	(163bps)	6,043	(9.3)
Sugar	11,396	(4.1)	1,864	NM	16.4	NM	230	NM
Telecom	164,539	38.3	67,455	40.1	41.0	51bps	38,123	24.2
Miscellaneous	47,923	36.0	10,423	15.2	21.7	(390bps)	6,821	19.3
Aggregate ex-Banking	2,054,802	26.9	477,737	19.0	23.2	(150bps)	298,243	12.9

Sector	NII (Rs mn)	% Chg YoY	PPP (Rs mn)	% Chg YoY	EBITDA margin (%)	Inc/Dec YoY	PAT (Rs mn)	% Chg YoY
Banking	160,382	15.3	121,790	29.8	-	-	51,498	4.9
Aggregate incl. Banking	2,215,185	26.0	599,528	21.1	23.2	(150bps)	349,742	11.6

Sensex earnings face downgrade risk

- Our estimates point to a muted 10.7% growth in the earnings of Sensex companies for Q1FY09, owing to margin pressures arising from higher interest costs and lower other income.
- Thus, our Sensex EPS estimate of Rs 970 for FY09 (consensus estimate at Rs 988) faces a high risk of downgrade following the quarterly results.
- Even if Q1FY09 estimates are met, Sensex earnings will have to grow at 16.4% YoY in the remaining quarters to meet our FY09 EPS target of Rs 970.
- Though Q1 is a seasonally weak quarter, we believe that a growth of 16.4% in the coming months would prove difficult considering the rising inflationary pressures and escalation in global crude oil prices.

Sensex earnings growth YoY



Source: Bloomberg, Religare Research **For some companies we have considered standalone numbers*

Macro concerns to continue

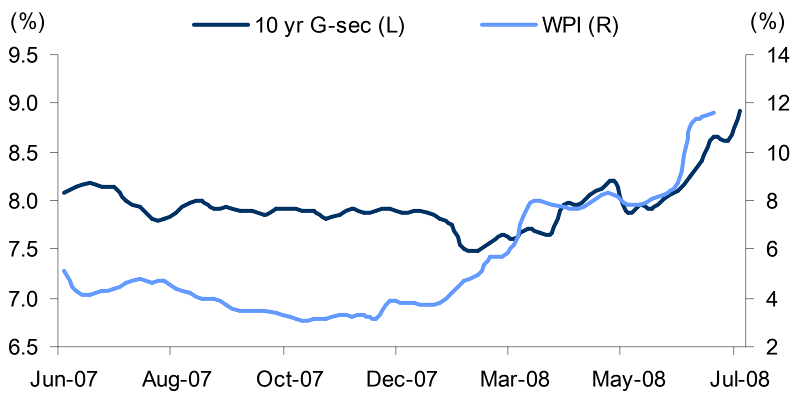
Strong inflationary pressures

- Inflation has flared to a high of 11.63%, stoked by increased prices of all the key commodity components, namely primary articles, fuel and manufactured products. We expect inflationary pressures to persist as global crude prices and commodity rates show no signs of a cool-down. Good monsoons could ease prices of primary articles, thereby providing some respite, though the relief would be minimal considering their low weigthage on the WPI. Further, the low base of inflation last year till December 2007 would keep inflation levels high for the next few months.
- In a bid to contain the price escalation, the government effected a customs duty cut of 5% and excise duty cut of Re 1 on crude and petroleum products, while the RBI has increased CRR and repo rates by 125bps and 75bps respectively since the beginning of FY09. We expect a further tightening of the monetary policy to rein in inflation.
- The monetary measures introduced over the recent months have led to a 97bps YTD increase in the benchmark 10-year G-sec interest rate. Increasing interest cost is likely to have a significant impact on the profitability of companies. Further cash accruals would also be affected.

Commodity prices on the boil

Wholesale price index (WPI)	Weights	23/06/07	21/06/08	(%)
All commodities	100	212.4	237.1	11.63
Primary Articles	22.0	221	244.3	10.54
Food articles	15.4	219.8	233.6	6.28
Fuel Power & Lubricants	14.2	322.1	374.4	16.24
Manufactured Products	63.7	184.9	203.9	10.28
Cement	1.7	214.3	219.4	2.38
Basic metal alloys & metal prd	8.3	244.6	299.1	22.28
Iron steel	3.6	267.7	362.3	35.34

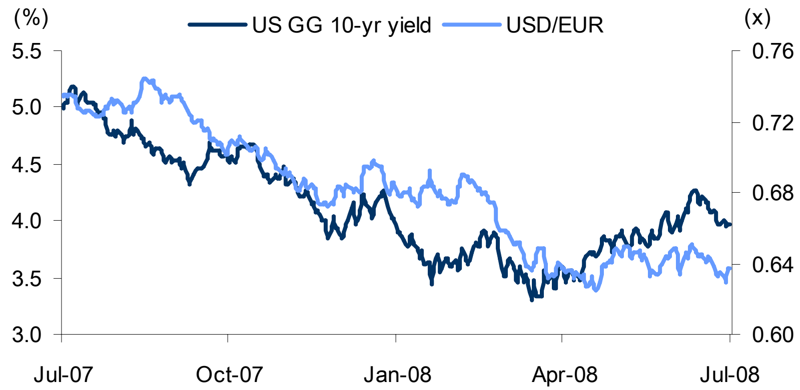
Rise in G-sec rate



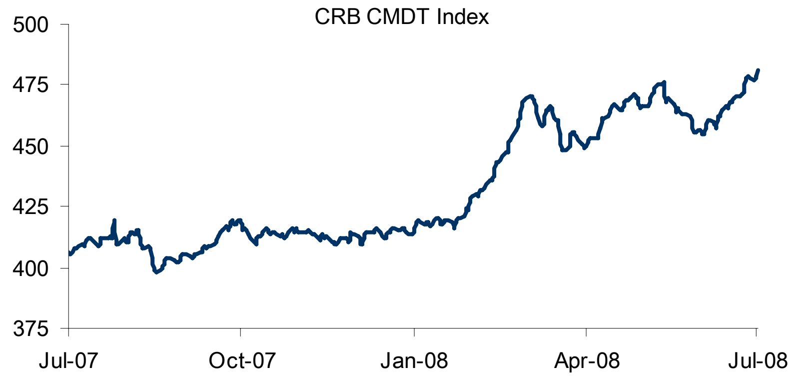
Source: Bloomberg, Religare Research

Global inflationary trends

Weak US dollar



Global commodity index

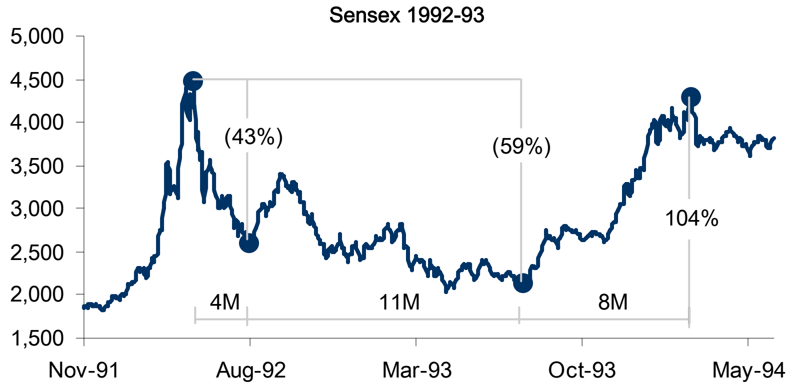


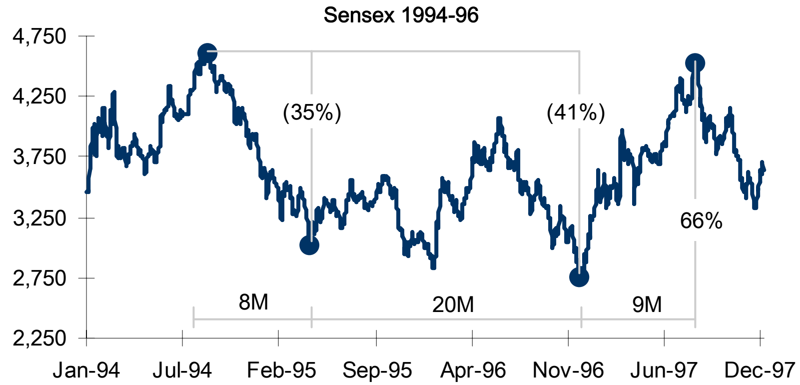
Source: Bloomberg, Religare Research

- Hobbled by the subprime crisis, the US economy has slowed down considerably over the last one year. In order to soften the economic downslide, the US Federal Reserve introduced a series of interest rate cuts. Consequently, the US dollar has depreciated against major global currencies.
- This apart, since January 2008, we have seen a strong spike in commodity prices. Hence, much would depend on the outlook of the US economy and supply-related commodity issues. Strong global commodity prices will heighten overall inflationary pressures for economies the world over.
- **With slowing domestic earnings growth amid a turbulent global environment and tightening liquidity, we expect markets to remain subdued for a while. Future growth would depend on global macro-economic factors and is hence vulnerable to greater risks.**

Lessons from past bear market phases

90s bear market

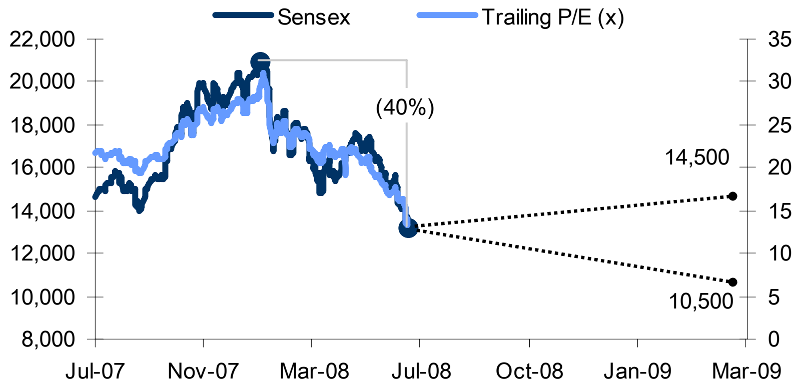




Source: Bloomberg, Religare Research

- On an average, the bear market in India has lasted for 15–28 months.
- Initially, the market witnesses a sharp fall of 35–43% over a short period of 4–8 months, followed by a longer consolidation phase of 11–20 months.
- The rally back to peak is much stronger and faster, taking 8–9 months.
- The first two phases are characterised by high market volatility.

Most recent bear market

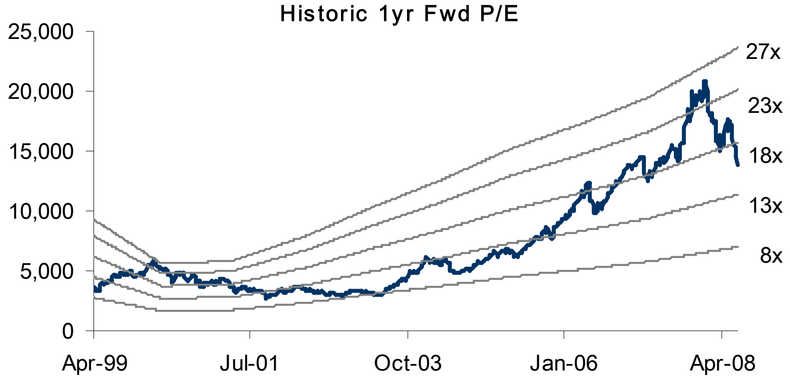


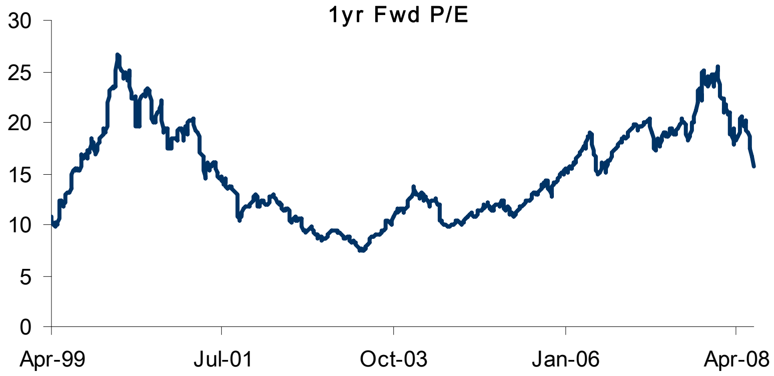
Source: Bloomberg, Religare Research

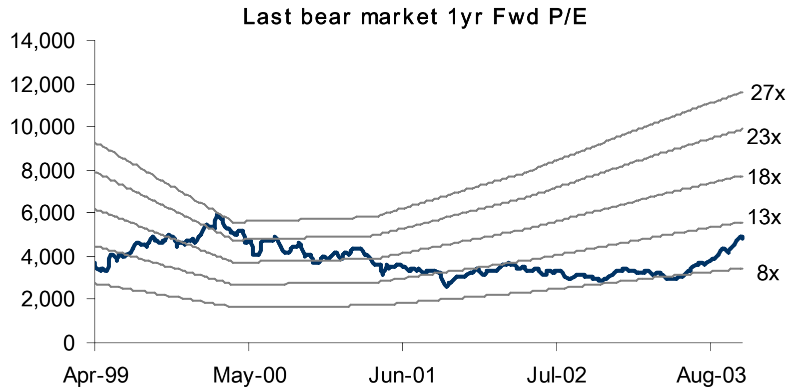
- The February 2000–September 2001 bear market saw a fall of 56% over a period of 22 months; thereafter the consolidation phase lasted for 16 months. This phase saw negative earnings growth for FY00 and a flat performance for FY01.
- Current market conditions are not exactly comparable with that of the last bear phase, primarily because growth is not expected to turn negative, but rather to moderate. In the 2000-01 bear phase, Sensex P/E fell from a peak of 23x to a low of 10x on a trailing basis; during the consolidation phase, it remained in the range of 10–16x forward earnings.
- **This time around, the positive earnings growth should restrict the market fall. We estimate that the Sensex EPS would grow at 15% in FY09 as compared to 17% in FY08, whereas Bloomberg consensus estimates point to a 17.7% growth.**
- Indian markets are currently trading at 14x FY09E earnings based on our estimate of a 15% growth in FY09 Sensex earnings and at 16x trailing basis. Given the uncertainty in earnings growth, we expect the Sensex to trade in a P/E band of 11–15x on FY09E for the next 6–9 months, whereby the downside would be limited to ~10,500; on the upside, the market could reach ~14,500. In a worst case scenario, a 10% growth in Sensex earnings for FY09 would translate to an EPS of Rs 930.

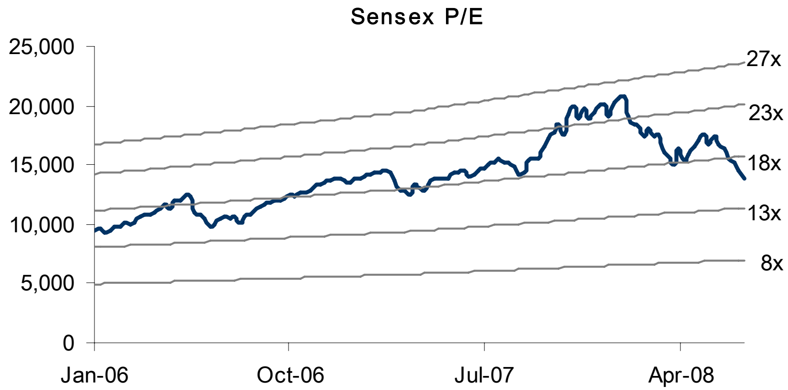
Sensex to remain rangebound over next 6–9 months

Further risk of valuation downside









Source: Bloomberg, Religare Research

From the charts above, we see that valuations have corrected from 25x one-year forward to 14x currently. Drawing inferences from the recent bear run in 2000–01, we believe there is scope for a further price and valuation downside, but this will be restricted to 10–15%. At the same time, we are only six months into the bear phase, and going by past experience, there is still a long way to go before the down cycle runs its course.

FCCB conversion risk

Company	Outstanding FCCB (US$ mn)	Conversion price (Rs)	CMP (Rs)	Year of maturity	Possibility of conversion	Target price of companies under coverage (Rs)
Ashok Leyland	1	30	27	2010	Yes	43
Bharat Forge						
Tranche I FCCB, due 2010	60	336	408	2010	Yes	331
Tranche II FCCB, due 2010	60	384	408	2010	Yes	331
Tranche A	40	604	408	2010	No	331
Tranche B	40	690	408	2010	No	331
Tata Motors						
1% FCCN, due 31 July 2008	1	251	549	2008	Yes	411
0% FCCN, due 27 April 2009	100	573	549	2008	Yes	411
1% FCCN, due 27 April 2011	100	780	549	2011	Yes	411
0% FCCN, due 21 March 2011	JPY 11,760	1,001	549	2011	Yes	411
HCC	100	248	72	2011	No	249
IVRCL	65	234	284	2010.0	Yes	522
Punj Lloyd	125	273	199	2011	Yes	411
Fame India	3	90	45	2011	Yes	75
	4	107	45	2011	Yes	75
Tata Steel	900	877	696	2011	Yes	977
Surana Industries	25	140	77	2012	Yes	93
Sintex Industries	225	580	300	2013	Yes	587
Ranbaxy Labs	1000	550	507	2010	Yes	567
Jubilant Organosys	60	273	315	2010	Yes	452
	200	413	315	2011	Yes	452
Aurobindo	60	522	263	2010	Yes	-
	150	1,014	263	2011	No	-

FCCB conversion risk

Company	Outstanding FCCB (US$ mn)	Conversion price (Rs)	CMP (Rs)	Year of maturity	Possibility of conversion	Target price of companies under coverage (Rs)
	50	879	263	2011	No	-
Glenmark	15	158	660	2010	Yes	728
	20	431	660	2010	Yes	728
	50	250	660	2010	Yes	728
Lupin	100	567	666	2010	Yes	-
Wockhardt	110	486	175	2009	No	-
Orchid Chemicals	35	245	237	2010	Yes	-
	200	348	237	2012	Yes	-
Panacea Biotec	37	358	290	2010	Yes	-
Strides Arcolab	140	461	120	2012	No	-
Nava Bharat Ventures	31	133	235	2011	Yes	395
Suzlon	200	360	190	2012	Yes	-
	300	372	190	2012	Yes	-
Aban Offshore	100	2,789	2,597	2012	Yes	4,114
Great Offshore	42	875	511	2012	Yes	781
Bajaj Hindusthan	110	465	176	2011	No	159
Reliance Communication	100	476	449	2012	Yes	850
Bharti Airtel	114	233	744	2009	Yes	1,150
Tulip Telecom	150	1,137	1,020	2012	Yes	1,558

Source: Company, Religare Research

Recommendation Synopsis

Company	CMP (Rs)	Target (Rs)	Reco	P/E (x)	
				FY09E	FY10E
AUTOMOBILES					
Amtek Auto	217	405	BUY	6.6	5.6
Apollo Tyres	30	40	BUY	6.0	6.0
Ashok Leyland	28	43	BUY	4.7	4.3
Bajaj Auto	408	510	BUY	7.5	6.7
Bharat Forge	230	331	BUY	13.1	10.0
Hero Honda	662	711	HOLD	12.2	11.2
Mahindra & Mahindra	468	783	BUY	6.4	5.8
Maruti Suzuki	549	1,046	BUY	8.0	6.8
Tata Motors	390	411	SELL	8.8	7.9
TVS Motor	25	26	SELL	7.8	6.6
BANKING & FINANCIAL SERVICES				P/ABV (x)	
Allahabad Bank	55	101	HOLD	0.6	0.6
Axis Bank	580	805	BUY	2.2	1.9
Bank of Baroda	211	308	BUY	0.8	0.7
Bank of India	225	331	BUY	1.1	0.9
Bank of Maharashtra	34	57	HOLD	0.9	0.7
Dena Bank	41	72	BUY	0.7	0.6
Federal Bank	184	273	BUY	0.8	0.7
HDFC Bank (merged)	984	1,331	BUY	2.7	2.4
ICICI Bank	581	840	BUY	1.5	1.5
Indian Bank	88	132	HOLD	0.7	0.6

Recommendation Synopsis

Company	CMP (Rs)	Target (Rs)	Reco	P/E (x)	
				FY09E	FY10E
Indian Overseas Bank	75	160	HOLD	0.8	0.7
Punjab National Bank	384	561	BUY	0.9	0.8
Rural Electrification Corp	75	120	BUY	1.4	1.2
South Indian Bank	96	156	BUY	0.9	0.8
State Bank of India	1,101	1,547	BUY	1.5	1.4
Union Bank of India	112	177	BUY	0.7	0.6
CAPITAL GOODS					
ABB	788	1,395	BUY	24.8	18.2
Ahluwalia Contracts	130	181	BUY	10.4	7.6
BHEL	1,397	2,021	BUY	20.1	16.6
C&C Constructions	111	376	BUY	4.7	2.5
Emco	137	240	BUY	9.3	7.2
HCC	77	219	BUY	31.6	19.4
IVRCL	292	522	BUY	14.6	10.4
Madhucon Projects	289	550	BUY	13.7	9.8
Punj Lloyd	200	411	BUY	16.2	12.2
Sadbhav Engineering	688	1,061	BUY	12.7	10.1
Sterlite Technologies	192	322	BUY	7.3	5.0
Unity Infrastructure	373	897	BUY	6.1	4.4
FMCG					
Champagne Indage	356	1,223	BUY	9.6	7.5
Karuturi Global	22	35	BUY	6.8	5.0
KS Oils	43	111	BUY	7.3	5.4

Recommendation Synopsis

Company	CMP (Rs)	Target (Rs)	Reco	P/E (x)	
				FY09E	FY10E
REI Agro	1,193	1,528	BUY	6.5	4.6
INFORMATION TECHNOLOGY					
Infosys	1,747	1,715	HOLD	17.3	16.3
KPIT Cummins	54	65	SELL	7.2	6.8
MindTree	381	579	BUY	9.8	8.6
Satyam	451	554	BUY	13.6	11.8
Tata Consultancy Services	855	1,011	HOLD	14.1	12.7
Tech Mahindra	692	959	HOLD	10.9	9.7
Wipro	430	434	SELL	16.3	14.4
MEDIA					
Balaji Telefilms	167	240	BUY	10.6	9.3
Cinemax India	89	183	BUY	7.3	5.7
Fame India	45	75	BUY	12.6	9.5
Inox Leisure	69	170	BUY	7.8	6.1
PVR	164	391	BUY	13.2	6.7
Pyramid Saimira	173	480	BUY	3.8	3.3
UTV Software	751	1,068	BUY	25.5	15.7
METALS					
Adhunik Metaliks	112	209	BUY	10.8	7.7
Hindustan Zinc	503	846	BUY	5.1	5.1
Rohit Ferro Tech	112	253	BUY	3.3	3
SAIL	128	242	BUY	6.1	5.8
Sarda Energy & Minerals	251	404	BUY	5.4	3.7

Recommendation Synopsis

Company	CMP (Rs)	Target (Rs)	Reco	P/E (x)	
				FY09E	FY10E
Surana Industries	80	93	HOLD	5.2	4.3
Tata Metaliks	126	236	HOLD	3.7	3.4
Tata Steel	658	977	BUY	5.0	5.3
OIL & GAS					
Asian Oilfield Services	123	232	BUY	8.6	5.0
Cairn India (Y/E Dec)	258	314	BUY	17.3	6.8
Deep Industries	128	285	BUY	16.8	13.7
ONGC	859	1,077	BUY	6.6	8.3
Petronet LNG	52	94	BUY	7.2	5.3
Reliance Industries	2,071	3,147	BUY	16.8	11.4
PHARMACEUTICALS					
Aventis Pharma*	690	890	HOLD	10.2	9.3
Biocon	381	573	BUY	15.6	12.2
Cadila Healthcare	308	381	BUY	12.5	10.3
Cipla	212	220	HOLD	19.4	16.5
Dishman Pharma	280	418	BUY	15.4	11.7
Divi's Labs	1,333	1,833	BUY	18.7	14.5
Dr Reddy's Labs	655	777	BUY	17.8	15.1
GlaxoSmithKline Pharma*	1,135	1,192	BUY	22.2	19.1
Glenmark Pharma	607	717	BUY	17.9	14
Indoco Remedies	260	341	HOLD	5.7	4.1
Jubilant Organosys	314	452	BUY	14.6	11.0
Jupiter Bioscience	110	236	BUY	5.9	3.7

Recommendation Synopsis

Company	CMP (Rs)	Target (Rs)	Reco	P/E (x)	
				FY09E	FY10E
Opto Circuits (India)	295	501	BUY	13.5	9.5
Piramal Healthcare	300	412	BUY	15.3	12.3
Sun Pharma Industries	1,382	1,664	BUY	14.9	16.1
Venus Remedies	325	708	BUY	3.9	2.9
REALTY					
DLF	382	648	BUY	6.8	5.9
DS Kulkarni Developers	91	251	BUY	2.9	2.3
Ganesh Housing	230	547	BUY	4.3	3.2
HDIL	365	1,334	BUY	4.6	3.3
Parsvnath Developers	114	245	BUY	3.9	2.7
Peninsula Land	55	121	BUY	6.1	4.1
SHIPPING					
Aban Offshore	2,542	4,114	BUY	6.5	6.1
Garware Offshore Services	142	221	BUY	7.5	4.5
GE Shipping	351	570	BUY	6.0	3.9
Great Offshore	472	781	BUY	7.9	7.2
Mercator Lines	83	169	BUY	4.0	3.2
SUGAR					
Bajaj Hindusthan	167	159	HOLD	-	-
Balrampur Chini Mills	76	82	HOLD	-	-
Triveni Engineering	79	83	HOLD	-	-
TELECOMMUNICATIONS					
Bharti Airtel	709	1,150	BUY	15.6	12.9

Recommendation Synopsis

Company	CMP (Rs)	Target (Rs)	Reco	P/E (x)	
				FY09E	FY10E
Idea Cellular	87	110	HOLD	18.2	14.1
Reliance Communications	390	850	BUY	12.7	10.3
Tulip Telecom	890	1,558	BUY	11.8	9.8
OTHERS					
ACC	472	632	HOLD	8.4	7.5
Bihar Tubes	156	240	BUY	9.2	5.9
Deepak Fertilisers	83	183	BUY	5.1	4.4
Garware Wall Ropes	82	202	BUY	14.5	11.7
GIPCL	71	123	BUY	8.2	4.9
Greenply Industries	161	214	BUY	5.9	5.3
India Glycols	225	433	BUY	2.6	2.0
Nava Bharat Ventures	240	395	BUY	5.4	NA
Riddhi Siddhi Gluco Biols	190	301	BUY	4.2	3.2
Sujana Towers	73	202	BUY	14.0	9.9
Sintex Industries	308	587	BUY	12.2	7.9
Time Technoplast	785	857	BUY	14.7	11.3

Quarterly expectations

Company	Sales (Rs mn)	% Chg YoY	EBITDA (Rs mn)	% Chg YoY	EBITDA margin (%)	Inc/Dec (bps)	PAT (Rs mn)	% Chg YoY	FDEPS (Rs)
Amtek Auto	3,359	18.6	873	12.8	26.0	(134)	617	(2.3)	4.4
Apollo Tyres	10,860	24.2	1,137	13.2	10.5	(102)	570	21.8	0.5
Ashok Leyland	16,298	0.5	1,349	(21.0)	8.3	(226)	685	(22.3)	11.8
Bajaj Auto	23,218	10.1	2,851	3.5	12.3	(78)	1,706	(24.7)	2.5
Bharat Forge	11,463	8.0	1,547	5.5	13.5	(31)	557	(30.8)	13.7
Hero Honda	28,544	16.6	4,073	54.6	14.3	351	2,744	44.5	10.9
Mahindra & Mahindra	33,000	26.3	4,199	51.6	12.7	212	2,616	36.8	16.9
Maruti Suzuki	46,848	19.2	6,333	10.2	13.5	(110)	4,886	(2.2)	11.8
Tata Motors	66,116	9.2	7,535	2.8	11.4	(70)	4,530	(3.0)	0.2
TVS Motors	8,240	5.2	256	34.0	3.1	67	56	(25.9)	3.0
AGGREGATE	247,944	13.8	30,155	14.3	12.2	5	18,965	2.0	-

Key highlights

- Auto sale volumes saw a revival in Q1FY09 following the excise duty cuts. But this growth is expected to be short-lived in a high inflation, high interest rate scenario.
- Input costs have increased significantly and are expected to affect margins in Q1FY09. The quarter has already seen two rounds of price hikes as the industry battles input cost pressures.
- Exports continued to ramp up with most automotive players reporting double digit growth during Q1FY09.

Sector outlook

- Volume revival may not be sustained as the increase in excise rates for executive, premium and SUV vehicles will impact four-wheeler demand.
- Firm interest rates and fuel cost hikes will take a toll on two-wheeler and CV demand; thus, stocks dependent on these segments should be avoided.
- Raw material cost pressure will continue to trouble manufacturers. A further revision in prices cannot be ruled out, which too would weaken demand.
- Some solace can be drawn from the robust performance of exports and new product launches. Implementation of the Sixth Pay commission might arrest the slowdown in demand.
- For Q2FY09, we expect interest-sensitive segments like entry level motorbikes and M&HCVs to witness demand erosion. New product launches in the executive segment would help two-wheeler companies to contain the slowdown. A similar trend might emerge in the M&HCV space, which is expected to witness product launches in Q2FY09. Tata Motor's *Nano* is the most awaited launch this year; we expect it to drive passenger car demand in H2FY09.

Recommendation snapshot

Company	CMP (Rs)	Target (Rs)	Reco
Amtek Auto	217	405	BUY
Apollo Tyres	30	40	BUY
Ashok Leyland	28	43	BUY
Bajaj Auto	408	510	BUY
Bharat Forge	230	331	BUY
Hero Honda	662	711	HOLD
Mahindra & Mahindra	468	783	BUY
Maruti Suzuki	549	1,046	BUY
Tata Motors	390	411	SELL
TVS Motors	25	26	SELL

Quarterly expectations

Company	NII (Rs mn)	% Chg YoY	Total inc (Rs mn)	% Chg YoY	PPP (Rs mn)	% Chg YoY	PAT (Rs mn)	% Chg YoY	FDEPS (Rs)
Allahabad Bank	4,334	(3.9)	5,685	4.2	2,984	3.3	344	(82.8)	0.8
Axis Bank	7,808	74.7	12,062	52.8	5,541	50.6	2,720	55.5	7.6
Bank of Baroda	9,925	3.5	13,997	5.3	7,666	19.0	2,608	(21.2)	7.1
Bank of India	11,621	22.7	15,571	17.2	8,861	30.7	3,818	21.1	7.3
Bank of Maharashtra	3,229	5.4	3,859	7.0	1,632	6.2	632	(22.5)	1.5
Dena Bank	2,347	4.5	3,425	14.2	1,632	39.7	632	18.8	2.2
Federal Bank	2,594	34.6	3,687	25.7	2,390	26.9	585	(12.6)	3.4
HDFC Bank (merged)	18,115	52.7	23,844	29.3	11,061	26.5	4,540	28.2	10.8
ICICI Bank	19,027	28.7	41,013	19.6	19,509	28.0	10,133	30.7	9.1
Indian Bank	5,190	5.8	7,611	(17.0)	4,504	36.6	1,481	(30.2)	3.4
Indian Overseas Bank	7,020	(0.9)	9,309	20.9	5,675	38.8	2,276	(15.1)	4.2
Punjab National Bank	14,793	13.7	19,192	6.0	9,708	4.0	4,858	14.3	15.4
REC	4,436.4	NA	4,798	NA	4,437.8	NA	2,900	NA	3.4
South Indian Bank	1,094	12.5	1,332	9.6	757	40.6	376	23.7	4.2
State Bank of India	45,311	0.7	66,876	25.2	33,618	42.4	14,423	1.2	22.8
Union Bank of India	7,972	3.4	10,750	13.2	6,253	19.0	2,074	(7.9)	4.1
AGGREGATE	164,818	15.3	243,011	20.1	126,228	29.8	54,398	4.9	-

Key highlights

- The April-June quarter has been marked by record inflation and subsequent interest rate hikes. This would result in substantial MTM (mark-to-market) losses for banks. Credit growth has picked up during the quarter, but this may be spurred by increased offtake from oil marketing companies (OMC).

- During the quarter, inflation spiralled to a 13-year high of 11.63%, thereby warranting stricter monetary policies by the RBI. Since the beginning of FY09, the RBI has hiked the CRR by 125bps and the repo rate by 75bps. This would affect margins during the quarter as bank PLR hikes lagged the RBI measures to some extent.

- Tighter monetary policies have led to an unfavourable movement in interest rates, with the benchmark 10-year G-Sec rate rising by 75bps. This would fuel MTM losses for banks. Allahabad Bank, Oriental Bank of Commerce and Indian Bank would be the worst hit due to their high proportion of AFS (available for sale) portfolios.

- Till June 3, 2008, credit growth for the industry has been at 25.7% with deposit growth lagging behind at 23.1%. We expect the higher incremental CD ratio to slightly alleviate the margin pressure. With negligible treasury gains and substantial MTM losses, we estimate that profit growth would remain subdued, especially for PSU banks.

Sector outlook

- With the CRR and repo rate hikes in mid-June 2008 and the resultant increase in bank PLRs, we expect credit growth to moderate going forward. Loans to the corporate segment spurred the current rise in credit offtake, with retail credit slackening substantially. This along with higher deposit rates would restrict margin growth. However, banks with a large CASA deposit base such as HDFC Bank, Axis Bank and Bank of India would be relatively better off.
- With expectations of ~8% GDP growth for FY09 and credit directed largely to the corporate segment, loan defaults would be lower. But continuation of firm interest rates could spring negative surprises.

Contd…

Recommendation snapshot

Company	CMP (Rs)	Target (Rs)	Reco
Allahabad Bank	55	101	HOLD
Axis Bank	580	805	BUY
Bank of Baroda	211	308	BUY
Bank of India	225	331	BUY
Bank of Maharashtra	34	57	HOLD
Dena Bank	41	72	BUY
Federal Bank	184	273	BUY
HDFC Bank (merged)	984	1,331	BUY
ICICI Bank	581	840	BUY
Indian Bank	88	132	HOLD
Indian Overseas Bank	75	160	HOLD
Punjab National Bank	384	561	BUY
REC	75	120	BUY
South Indian Bank	96	156	BUY
State Bank of India	1,101	1,547	BUY
Union Bank of India	112	177	BUY

Sector outlook

- With inflation expected to ease post December 2008, the benchmark 10-year G-Sec rate could come off its highs, resulting in a reversal of MTM losses. We have not considered such a scenario of loss reversal in our projections and thus expect profits for FY09 to remain flattish for PSU banks. In case of large private players, the profit growth momentum is expected to continue as NII growth would be led by higher CASA deposits. Revenues from fee income would also boost profit growth for these players.

- Most PSU banks are currently trading below their FY09 adjusted book value. We believe the risks of lower credit growth, higher slippages and MTM losses are largely factored into the stock price for these players and hence the downside from current levels would be minimal. We therefore recommend buying into select stocks with a long-term perspective.

- Our top picks from the PSU pocket are Bank of India, Punjab National Bank and Union Bank of India. In the private sector we recommend HDFC Bank and Axis Bank.

Quarterly expectations

Company	Sales (Rs mn)	% Chg YoY	EBITDA (Rs mn)	% Chg YoY	EBITDA margin (%)	Inc/Dec (bps)	PAT (Rs mn)	% Chg YoY	FDEPS (Rs)
ABB*	18,038	28.8	2,120	29.4	11.8	6	1,380	27.1	6.5
Ahluwalia Contracts	2,131	25.0	253	25.0	11.9	80	110	17.5	1.8
BHEL	40,191	12.6	3,657	17.7	10.0	39	3,170	9.7	6.5
C&C Constructions**	2,096	61.2	355	(7.0)	16.9	(1,240)	154	(11.5)	8.4
Emco	2,150	39.3	277	37.6	12.9	(16)	117	29.5	2.0
HCC	8,946	22.7	984	24.9	11.0	22	237	66.7	0.6
IVRCL Infrastructures	9,435	39.3	849	41.5	9.0	14	463	22.0	3.4
Madhucon Projects	1,610	12.3	237	2.6	14.7	(130)	98	6.0	2.6
Punj Lloyd	17,322	24.2	1,516	24.8	8.8	5	724	21.8	2.3
Sadbhav Engineering	2,137	19.0	264	19.1	12.3	0	131	17.8	10.5
Sterlite Technologies	3,465	44.6	414	33.4	12.0	(100)	175	37.1	2.6
Unity Infrastructure	1,972	33.0	268	3.8	13.6	(120)	121	11.2	9.7
AGGREGATE	109,494	22.5	11,193	22.3	10.2	2	6,879	16.8	-

*Y/E Dec, ** Y/E June

Key highlights

- We estimate a healthy revenue growth of 23% YoY for our universe of capital goods and construction owing to the robust order book position witnessed over the past couple of years.
- EBITDA margins are likely to remain flat during the quarter, with the impact of rising raw material costs to be felt after Q1FY09.
- Higher depreciation and interest expenditure considering increased capex and borrowings during FY08 will translate to a 17% YoY growth in net profit.

Sector outlook

- We remain positive on the sector over the long term. The order book of our universe stands at a healthy 2–4x FY08 sales, which provides good revenue visibility for the next couple of years.
- The rising input costs will marginally reduce EBITDA margins during FY09. We expect higher depreciation and interest expenditure during FY09 and FY10.
- Momentum in order inflow is expected to continue during FY09 and FY10, but much would depend on the ability to garner projects with better margins. Companies with a presence in most segments of infrastructure development will be the biggest beneficiaries.

Recommendation snapshot

Company	CMP (Rs)	Target (Rs)	Reco
ABB	788	1,395	BUY
Ahluwalia Contracts	130	181	BUY
BHEL	1,397	2,021	BUY
C&C Constructions	111	376	BUY
Emco	137	240	BUY
HCC	77	219	BUY
IVRCL Infrastructures	292	522	BUY
Madhucon Projects	289	550	BUY
Punj Lloyd	200	411	BUY
Sadbhav Engineering	688	1,061	BUY
Sterlite Technologies	192	322	BUY
Unity Infrastructure	373	897	BUY

Quarterly expectations

Company	Sales (Rs mn)	% Chg YoY	EBITDA (Rs mn)	% Chg YoY	EBITDA margin (%)	Inc/Dec (bps)	PAT (Rs mn)	% Chg YoY	FDEPS (Rs)
Champagne Indage	252	60.0	73	9.1	29.0	(1,353)	50	101.7	15.8
Karuturi Global	1,446	358.3	506	363.8	35.0	41	427	327.2	5.2
KS Oils	6,777	85.0	712	55.7	10.5	(198)	404	71.0	4.9
REI Agro	6,595	113.3	1,121	50.8	17.0	(705)	320	2.9	26.6
AGGREGATE	**15,070**	**108.5**	**2,412**	**75.2**	**16.0**	**(304)**	**1,201**	**78.8**	**-**

Key highlights

- Input pricing pressure is likely to continue, taking a cue from the sharp uptrend in crude oil prices. A few FMCG players may consider product-specific price hikes to offset the increasing cost burden.
- Due to the high inflation levels, we expect a temporary shift in consumption pattern from premium consumer products to mass products, thus driving volumes but at the expense of margins.
- Companies are likely to demonstrate a renewed focus towards these mass products, thus incurring higher advertisement spends.
- Government initiatives to exempt imported crude palm oil, ban non-basmati rice exports and tax basmati rice exports as measures for curbing inflation would have a marginal impact on FMCG players.
- Although we believe sales growth would be strong in Q1FY09, the squeeze on operating margins would dampen bottomline growth.

Sector outlook

- We expect raw material costs to remain high, keeping margins cramped. We do not foresee significant price increases across the board, although hikes related to select products could be effected.
- While demand for premium consumer products would wane, mass products would take their place and hence we do not anticipate a major de-growth in overall volumes for consumer durables.
- Higher rural income coupled with the loan waiver, increased minimum support prices and a normal monsoon forecast would help maintain the sector's growth momentum. However, if inflation remains high, volume growth would slow even as costs go up. Thus, the sector would take a beating unless the uptrend in crude oil – the key inflation and input cost trigger – is halted.

Recommendation snapshot

Company	CMP (Rs)	Target (Rs)	Reco
Champagne Indage	356	1,223	BUY
Karuturi Global	22	35	BUY
KS Oils	43	111	BUY
REI Agro	1,193	1,528	BUY

Quarterly expectations

Company	Sales (Rs mn)	% Chg QoQ	EBITDA (Rs mn)	% Chg QoQ	EBITDA margin (%)	Inc/Dec (bps)	PAT (Rs mn)	% Chg QoQ	FDEPS (Rs)
Infosys	48,837	7.5	14,850	0.5	30.4	(213)	12,245	(2.0)	21.4
KPIT Cummins	1,774	7.6	219	7.0	12.4	(194)	132	27.9	1.7
MindTree	2,156	5.8	392	2.5	18.2	(58)	260	27.0	6.8
Satyam	26,458	9.5	6,633	20.5	25.1	228	5,162	10.6	7.6
TCS	62,440	2.5	15,125	(2.6)	24.2	(125)	11,868	(5.5)	11.9
Tech Mahindra	10,900	6.7	2,333	4.9	21.4	(36)	2,076	5.1	16.8
Wipro	58,257	2.2	11,312	1.5	19.4	(14)	8,849	1.1	6.3
AGGREGATE	**210,822**	**4.7**	**50,864**	**2.2**	**24.1**	**(58)**	**40,592**	**(0.4)**	**-**

Key highlights

- We expect revenue growth of our coverage universe to be in the region of 2.2–9.5% in rupee terms during the quarter. In case of Wipro, we expect volume growth to decelerate with revenues increasing at 2.2%.
- Rupee depreciation continued during the quarter at ~7%. The positive impact of rupee depreciation on EBIDTA margins is, however, likely to be eroded by salary hikes and forex losses.

Sector outlook

- Companies like Infosys and Satyam had given their first quarter and full year guidance at an exchange rate of ~Rs 40/US$ – much lower than that prevailing at the end of Q1FY09. We thus expect these companies to meet their revenue projections for Q1FY09. Further, a realignment of the full year guidance to the prevailing exchange rate (Rs 43/US$) may brighten their growth prospects for the year.
- The finalisation of client IT budgets for CY08 has been delayed this year due to the US sub-prime crisis; we now expect some clarity to emerge on this front. In our view, the robust results declared by Oracle and Accenture point to strengthening demand from US-based clients.
- We expect Indian IT players to witness an increase in offshore volumes going ahead. An early indicator of this is seen in Accenture's third quarter results.

Recommendation snapshot

Company	CMP (Rs)	Target (Rs)	Reco
Infosys	1,747	1,715	HOLD
KPIT Cummins	54	65	SELL
MindTree	381	579	BUY
Satyam	451	554	BUY
TCS	855	1,011	HOLD
Tech Mahindra	692	959	HOLD
Wipro	430	434	SELL

Quarterly expectations

Company	Sales (Rs mn)	% Chg YoY	EBITDA (Rs mn)	% Chg YoY	EBITDA margin (%)	Inc/Dec (bps)	PAT (Rs mn)	% Chg YoY	FDEPS (Rs)
Balaji Telefilms	949	27.3	333	12.7	35.1	(453)	230	24.6	14.1
Cinemax India	444	81.4	113	66.5	25.5	(228)	86	154.1	12.3
Fame India	271	43.2	49	41.1	18.0	(26)	21	(60.1)	2.4
Inox Leisure	747	74.5	149	30.4	20.0	(677)	99	(10.0)	6.4
PVR	662	21.3	122	3.5	18.5	(318)	42	(29.7)	7.3
Pyramid Saimira	2,589	111.0	362	55.2	14.0	(503)	261	62.7	36.9
UTV Software	1,008	80.0	151	28.2	15.0	(606)	168	84.2	27.0
AGGREGATE	**6,669**	**69.3**	**1,280**	**30.4**	**19.2**	**(570)**	**905**	**31.0**	**-**

Key highlights

- We expect a 69% growth in revenues of our coverage universe on the back of an increased consumer base. On a QoQ basis, growth would be slightly subdued on account of the current inflationary scenario which has hit leisure-related expenditure.
- Operating profit of our coverage universe is likely to be muted due to cost pressures and flat realisations. Higher depreciation and lower other income would keep PAT growth at 31% YoY.
- Most multiplex players as well as film production companies would have a slow quarter due to the absence of major film hits. Secondly, flattish occupancies and ATPs would add to their troubles since the quarter is typically the school/college examination season as well as a non-festive period. This together with skyrocketing inflation would effectively dampen growth of the sector as a whole.

Sector outlook

- Over the next five years, the media sector is expected to record an 18% revenue CAGR, with television growing at 22%, print at 14%, films at 13%, radio at 24%, animation at 25% and internet at 32%.
- Favourable demographics and changing lifestyles spurred by higher per capita incomes would propel growth in the sector. However, unless inflation cools off, the near-term growth of all these segments would be affected.
- We expect the last two quarters of the fiscal to be stronger than the first two due to the onset of the festival and holiday seasons.
- Growth in rural income on the back of a normal monsoon, debt waiver and larger incentive base would have a positive impact on the sector.

Recommendation snapshot

Company	CMP (Rs)	Target (Rs)	Reco
Balaji Telefilms	167	240	BUY
Cinemax India	89	183	BUY
Fame India	45	75	BUY
Inox Leisure	69	170	BUY
PVR	164	391	BUY
Pyramid Saimira	173	480	BUY
UTV Software	751	1,068	BUY

Quarterly expectations

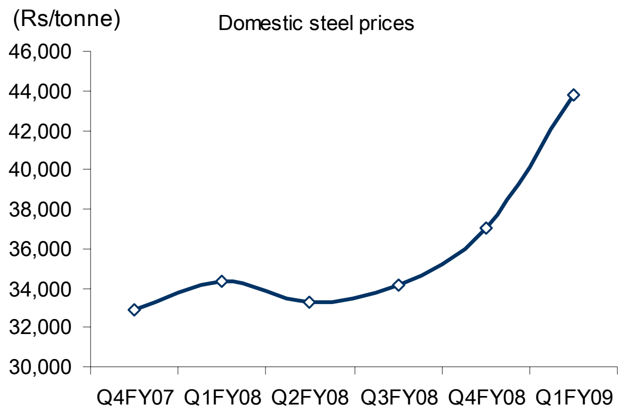
Company	Sales (Rs mn)	% Chg YoY	EBITDA (Rs mn)	% Chg YoY	EBITDA margin (%)	Inc/Dec (bps)	PAT (Rs mn)	% Chg YoY	FDEPS (Rs)
Adhunik Metaliks	3,281	57.6	474	37.0	14.4	(220)	226	27.1	2.0
Hindustan Zinc	18,255	(7.3)	11,683	(18.6)	64.0	(889)	9,708	(18.1)	22.9
Rohit Ferro Tech	2,791	179.0	627	346.0	22.5	841	420	342.5	9.9
SAIL	99,417	23.7	23,055	(3.2)	23.2	(640)	17,149	12.4	4.2
Sarda Energy	2,451	117.7	671	165.3	27.4	491	489	191.9	14.2
Surana Industries	1,939	8.0	165	(12.9)	8.5	(105)	39	(52.4)	2.3
Tata Metaliks	3,921	85.6	392.1	47.4	10.0	(160)	275	78.7	10.9
Tata Steel	376,410	20.8	45,512	(6.8)	12.1	(358)	16,124	(34.7)	18.5
AGGREGATE	**508,465**	**21.1**	**82,579**	**(6.4)**	**16.2**	**(490)**	**44,429**	**(13.2)**	**-**

Key highlights

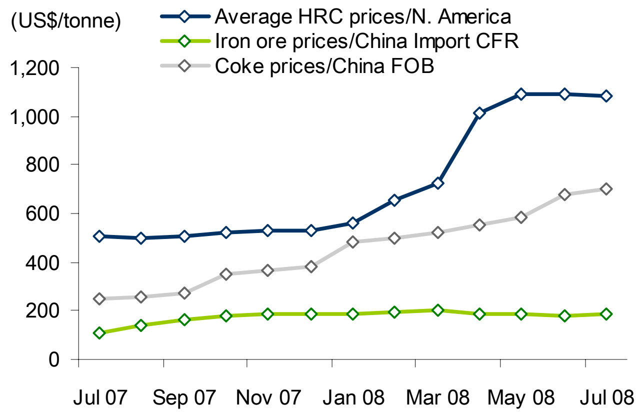
- International steel prices (world average for hot rolled coils) remained firm during the quarter with an increase of 15% QoQ and 85% YoY to US$ 1,100/tonne. However, domestic prices were not allowed to increase due to continuing government control.
- Prices of raw materials such as coke, coal and iron ore have increased sharply during the quarter, compressing steel producer margins. Steel players have agreed to hold prices temporarily due to increasing government pressure. However, going forward it will be difficult to maintain prices due to the spiralling input costs.
- International coke prices have increased by 15–20% QoQ to ~US$ 680/tonne, international iron ore annual price contracts settled higher by 96.5% between Australian miners and Chinese steel players. Since NMDC are price followers, the cost of production will rise if domestic iron ore prices are increased.

- The steel sector is historically linked to the industrial production cycle; the expected slowdown in this cycle will cloud growth prospects. However, the sharp increase in steel making raw material prices has increased global HRC prices.
- Major steel players have taken significant steps to increase their raw material base during the quarter to alleviate pricing concerns.
- Base metal prices have corrected QoQ with aluminium down by 2.6%, lead down by 36% and zinc by 17%; hence realisations will remain subdued during the quarter.

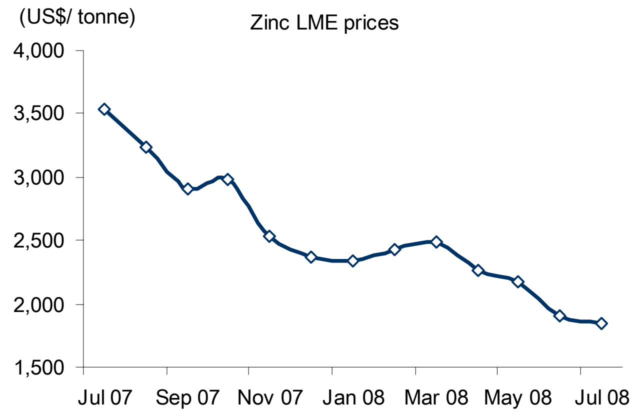
Metal price trends



Source: Cris Infac, Religare Research



Source: Industry, Religare Research



Source: Industry, Religare Research

Sector outlook

- Our sector strategy remains neutral and stock selective due to the overhang of government policy changes, led by rising inflation and increasing raw material costs.
- We believe global demand visibility for the short term has reduced on the back of upcoming macro concerns (expected slowdown in global consumption growth) and sharp cost increases.
- We foresee a continued tightness in the raw material market. We therefore prefer companies with an exposure to the mining and energy sector since they will be able to contain production costs.
- Our top pick for the sector remains Tata Steel due to its high leverage to global steel prices, increasing volume growth in domestic operations and significant steps taken to increase its raw material base.
- We also like ferro alloy players such as Rohit Ferro Tech and Sarda Energy.

Recommendation snapshot

Company	CMP (Rs)	Target (Rs)	Reco
Adhunik Metaliks	112	209	BUY
Hindustan Zinc	503	846	BUY
Rohit Ferro Tech	112	253	BUY
SAIL	128	242	BUY
Sarda Energy	251	404	BUY
Surana Industries	80	93	HOLD
Tata Metaliks	126	236	HOLD
Tata Steel	658	977	BUY

Quarterly expectations

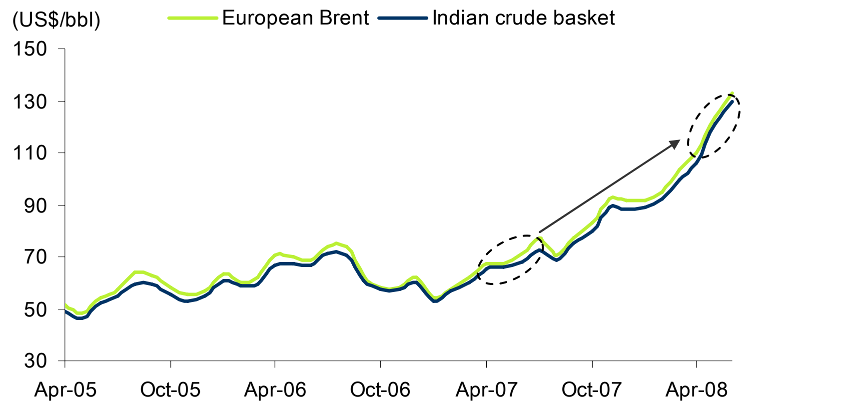
Company	Sales (Rs mn)	% Chg YoY	EBITDA (Rs mn)	% Chg YoY	EBITDA margin (%)	Inc/Dec (bps)	PAT (Rs mn)	% Chg YoY	FDEPS (Rs)
Asian Oilfield Services*	135	(7.5)	41	(25.0)	30.0	(700)	24	(28.2)	2.3
Cairn India**	3,744	53.9	2,846	531.0	76.0	5,750	1,273	-	0.7
Deep Industries	63	84.8	31	90.3	48.0	140	16	10.4	0.7
ONGC	171,887	25.6	89,381	12.8	52.0	(588)	49,160	6.6	23.0
Petronet LNG	18,972	22.3	2,485	21.3	13.1	(11)	1,385	28.2	1.8
Reliance Industries	387,774	38.2	63,983	23.6	16.5	(195)	41,492	27.1	28.5
AGGREGATE	**582,575**	**33.8**	**158,767**	**18.9**	**27.3**	**(341)**	**93,350**	**17.9**	**-**

*Y/E June, **Y/E Dec

Key highlights (of the quarter)

- **Crude prices continue to move northward:** Crude oil prices have risen sharply, gaining 78.1% YoY and 26.6% QoQ to an average of US$ 122.4/bbl (Brent) in Q1FY09. The flare up is on account of strong demand from China and India, supply disruptions in Nigeria and Canada, dollar depreciation against the euro, and declining US oil reserves. Crude oil prices have increased by 6.7%, 12.5% and 7.4% MoM in April, May and June 2008, sparking a global economic slowdown and inflationary pressures.

Crude price trend



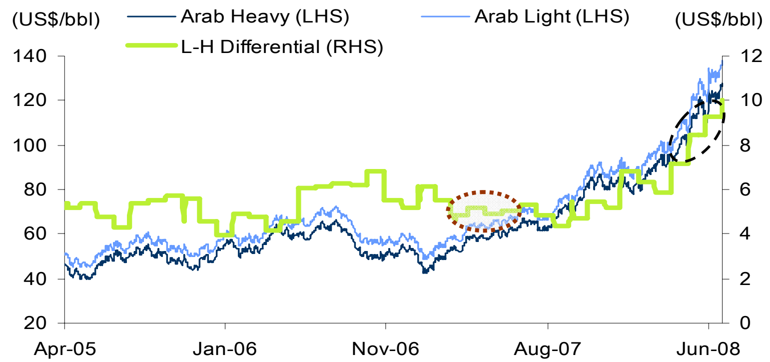
Source: Bloomberg, Religare Research

- **Higher GRMs to boost profitability of pure refineries:** With the rising crude prices, the light–heavy crude price differentials have firmed up in Q1FY09. The Arab Light–Arab Heavy differential stood at US$ 8.3/bbl in Q1FY09, up 63.8% YoY and 30.4% QoQ, reflecting higher refining margins for complex refineries. Further, a shortage of global refining capacity has increased the price of petroleum products, including petrol and diesel, translating to a US$ 1–2/bbl increase in Singapore gross refining margins (GRMs) for the quarter.

- **Petrochemical margins remained crunched:** Driven by the higher naphtha prices, petrochemical margins were strained during the quarter. Only polymer product margins like PE and PP were buoyant, thanks to strong demand from the packaging and plastic industry. But polyester (PFY, PSF and PET) and fibre intermediates (PX, PTA and MEG) were badly hit during the quarter. Naphtha prices shot up 53% YoY in Q1FY09 while PSF, POY, PX and PTA prices increased by just 21.6%, 17.9%, 9.7% and 9.9%, respectively, diminishing polyester and fibre intermediate margins.

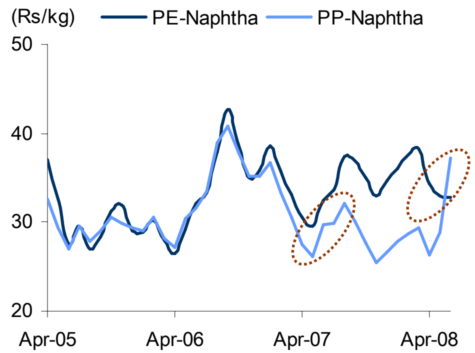
- **Under-recoveries set to cross Rs 2,500bn:** Oil marketing companies like IOC, BPCL and HPCL are facing tough times as their under-recoveries are set to cross Rs 2,500bn, if crude prices remain at US$ 140/bbl for FY09. Currently, OMCs are losing ~Rs 345 on each LPG cylinder, Rs 41/litre of kerosene, Rs 17/litre of petrol and Rs 32/ litre of diesel, despite the hike in fuel prices and duty reductions.

Arab light-heavy crude price differential

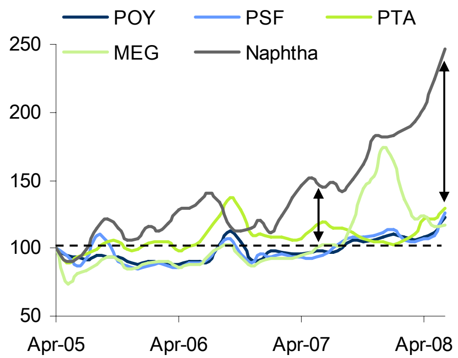


Source: Bloomberg, Religare Research

Naphtha price trend



Relative price movement



Source: Bloomberg, Religare Research

Sector outlook

Oil prices to remain firm in the mid-term

- We expect oil prices to remain firm over the next 6–12 months, owing to strong demand and geopolitical tensions over Iran and Iraq.
- The IEA places oil demand for 2008 at 87.5mnbpd – a 2% growth. As per the BP Statistical Review 2008, the gap between oil consumption and production is consistently widening; it has risen to 4.5% in 2007 from 3.1% in 2006, 2.5% in 2005 and 2.2% in 2004.
- A declining trend in production from non-OPEC countries due to ageing oilfields is adding fuel to the fire. However, a global slowdown and increased production from OPEC are likely to cool down crude prices after 10–12 months.

Contd…

Recommendation snapshot

Company	CMP (Rs)	Target (Rs)	Reco
Asian Oilfield Services	123	232	BUY
Cairn India	258	314	BUY
Deep Industries	128	285	BUY
ONGC	859	1,077	BUY
Petronet LNG	52	94	BUY
Reliance Industries	2,071	3,147	BUY

Sector outlook

GRMs robust in medium- to longer-term

- Refineries are witnessing strong margins owing to the large demand-supply gap. We expect the refinery cycle to remain firm in the medium- to longer-term.

- However, with fresh capacities of over 1.2mn bbl (including that of Reliance Petroleum) expected to come on stream within the next 6–8 months, refining margins would moderate to some extent. Further capacities aggregating 92mtpa are expected to come up by FY12 in India apart from additions in the Middle East region; this will pull down GRMs thereafter.

Limited upstream subsidy share very unlikely

- According to the latest policy, the upstream sector is expected to share a total subsidy burden of Rs 450bn in FY09 with OMCs bearing an amount of Rs 200bn. However, this was calculated at a price of US$ 123/bbl, which has thereafter risen to over US$ 146/bbl. We thus expect the subsidy burden from upstream companies like ONGC, OIL and GAIL to go up going forward.

Quarterly expectations

Company	Sales (Rs mn)	% Chg YoY	EBITDA (Rs mn)	% Chg YoY	EBITDA margin (%)	Inc/Dec (bps)	PAT (Rs mn)	% Chg YoY	FDEPS (Rs)
Aventis Pharma*	2,389	3.8	448	0.8	18.8	(60)	378	1.5	16.5
Biocon	3,693	36.3	1,006	31.8	27.2	(330)	667	29.7	6.7
Cadila Healthcare	7,076	23.7	1,408	26.6	19.9	47	934	26.4	7.4
Cipla	10,436	15.7	1,920	19.5	18.4	60	1,387	15.8	1.8
Dishman Pharma	2,327	38.6	459	67.3	19.7	340	289	34.7	3.6
Divi's Labs	2,900	27.1	1,144	35.7	39.4	250	908	34.9	14.1
Dr Reddy's Labs	14,971	24.6	2,725	27.9	18.2	55	1,998	29.6	11.9
GlaxoSmithKline Pharma*	4,269	7.9	1,345	9.9	31.5	60	1,091	13.2	12.9
Glenmark Pharma	5,052	43.8	1,536	49.8	30.4	120	1,341	134.6	5.1
Indoco Remedies	1,237	23.3	328	29.1	26.5	155	249	12.5	20.4
Jubilant Organosys	7,933	46.9	1,476	55.0	18.6	100	651	(52.9)	3.6
Jupiter Bioscience	321	31.9	160	29.4	49.7	(100)	70	11.7	3.9
Opto Circuits (India)	1,407	45.8	414	39.9	29.0	(120)	358	28.8	3.8
Piramal Healthcare	7,129	17.3	1,297	54.3	18.2	440	731	68.2	3.5
Sun Pharma Industries	11,735	87.0	5,660	163.5	47.9	1,370	5,497	142.0	26.5
Venus Remedies	673	54.4	186	62.9	27.6	148	136	56.4	16.2
AGGREGATE	83,548	31.4	21,512	52.1	25.7	340	16,685	44.8	-

*Y/E Dec

Key highlights

- We estimate that our coverage universe would report a sales growth of 31.4% driven by strong growth in key geographies, rupee depreciation of 4.9% and contribution from acquisitions made in FY08. We expect an EBITDA margin expansion of 340bps to 25.7% driven by these factors.
- The quarter will witness contributions from the following acquisitions made in FY08: AxiCorp for Biocon; the Vitamins and Fine Chemicals business for Dishman Pharma; Dow Pharma, Jet Generici and BASF for Dr Reddy's; Hollister Stier and Draxis for Jubilant Organosys; and Criticare for Opto Circuits.
- Other income is projected to decline by 48% due to exchange losses on foreign currency borrowings, whereas interest costs would rise 54% for the quarter. Thus, PAT would increase at a slower pace of 45% vis-à-vis the EBITDA growth of 52%.
- We expect Sun Pharma to record the strongest performance among our coverage universe with a sales growth of 87% YoY, driven by Pantoprazole sales in the US where the company has shared exclusivity.
- Even in a base case scenario, where we strip off the contribution from acquisitions and Pantoprazole sales, we estimate a sales growth of 20.8% for our universe with an EBITDA margin expansion of 130bps and a PAT growth of 19.6%.

Sector outlook

- The pharmaceuticals sector would remain in favour with investors given the uncertain market conditions. Improving fundamentals and quality of earnings as well as a reasonable dividend yield component are key rationales for an investor.
- Industry leaders have a strong product pipeline for the US market where drugs over US$ 125bn are going off patent. While Europe will register a slowdown in growth, we expect an increasing contribution from less regulated markets (BRICS) where revenues are set to log a 15% CAGR over 2007–15 to US$ 55bn.

Contd…

Recommendation snapshot

Company	CMP (Rs)	Target (Rs)	Reco
Aventis Pharma	690	890	HOLD
Biocon	381	573	BUY
Cadila Healthcare	308	381	BUY
Cipla	212	220	HOLD
Dishman Pharma	280	418	BUY
Divi's Labs	1,333	1,833	BUY
Dr Reddy's Labs	655	777	BUY
GlaxoSmithKline Pharma	1,135	1,192	BUY
Glenmark Pharma	607	717	BUY
Indoco Remedies	260	341	HOLD
Jubilant Organosys	314	452	BUY
Jupiter Bioscience	110	236	BUY
Opto Circuits (India)	295	501	BUY
Piramal Healthcare	300	412	BUY
Sun Pharma Industries	1,382	1,664	BUY
Venus Remedies	325	708	BUY

Sector outlook

- Rupee depreciation is a key positive for export driven companies. A 1% rupee depreciation results in ~1.3% upgrade in operating income, assuming exports comprise 50% of total revenue. Biocon, Cipla, Dr Reddy's, Dishman Pharma, Glenmark Pharma, Jubilant Organosys and Opto Circuits' earnings remain highly sensitive to foreign exchange movements.

- Return ratios and earnings quality would improve over FY08-FY10 as pharma companies have completed most of their capex. Our top picks in the generic and innovative R&D space are Sun Pharma and Glenmark Pharma.

- Manufacturing outsourcing by innovator and emerging pharma companies is likely to increase further. Dishman Pharma and Divi's Labs remain prime beneficiaries to capitalise on this momentum.

- A dividend yield in excess of 4%, consistent growth in earnings and the defensive nature of the industry make the risk-reward profile favourable for MNC pharma companies. We expect these companies to start launching products from their parent's portfolio this year. GlaxoSmithKline is our top pick in this space.

Quarterly expectations

Company	Sales (Rs mn)	% Chg YoY	EBITDA (Rs mn)	% Chg YoY	EBITDA margin (%)	Inc/Dec (bps)	PAT (Rs mn)	% Chg YoY	FDEPS (Rs)
DLF	39,300	27.9	26,810	21.7	68.2	(340)	20,601	35.3	11.8
DS Kulkarni Developers	1,056	(26.7)	159	35.6	15.0	690	124	15.5	5.6
Ganesh Housing	568	41.2	149	(60.7)	26.3	-	77	(80.8)	2.4
HDIL	5,598	26.3	2,920	23.6	52.2	(110)	2,111	4.1	10.0
Parsvnath Developers	2,933	(15.3)	892	(21.6)	30.4	(240)	702	(16.9)	3.8
Peninsula Land	1,194	26.5	651	28.1	54.6	70	404	11.3	1.4
AGGREGATE	**50,649**	**22.3**	**31,581**	**19.0**	**62.4**	**(170)**	**24,019**	**26.6**	**-**

Key highlights

- Since January this year, the realty market has witnessed a slowdown in registration volumes in a few cities. We believe this is largely a function of the spike in property prices over the last six to nine months. Owing to the demand deceleration, most realty companies have fallen short of their sales targets for the quarter.

- Moreover, as the rising inflation sparked monetary tightening measures, developers are feeling the pinch of higher borrowing costs and constraints to raising fresh debt.

- The situation has been further exacerbated by a 20–35% rise in construction costs (depending on location and projects) as commodity prices went through the roof. This caused construction delays and also led to new launches being postponed. The execution slowdown was compounded by the fund crunch faced by developers, leading to penalties for non-adherence to the delivery schedule.

- On the demand front, the muted buyer interest owing to high property prices was further dampened by the interest rate hikes which raised home loan EMIs, leading potential customers to defer their purchase decision. Leading banks also slashed their home loan exposure, making it difficult for individual property buyers to access funds.

❖ As the failure to meet sales targets met with a liquidity crunch and rising costs, realty stocks took a beating. While a few large PE deals did go through from January-March (such as the HDIL-Kalina project and the Noida BPTP), auctioned property recorded the lowest bidding levels of the year. The failure of the Emmar MGF IPO further dampened realty stock sentiments. From 13,419 on January 15, the realty index has plunged to 4,295 currently.

Sector outlook

- With multiple uncertainties assailing the realty market, we expect developers to miss their sales targets for the next two quarters at least. A further tightening of monetary policy will add to developer woes. For builders, the only way out is a reduction in realty prices (say by 15–20%). However, most builders are maintaining their rates and appear determined to hold out until October when the Diwali season sees the maximum prospects turn into buyers.
- With property prices unlikely to fall and customers shying away from making purchases in the intervening months up to Diwali, we expect realty companies to witness a continued execution slowdown, slimmer margins and lower cash collections. Revenue booking may not be hampered as developers follow the percentage completion method.
- Alternately, any reduction in interest rates could reverse the down cycle, though this seems unlikely.

Recommendation snapshot

Company	CMP (Rs)	Target (Rs)	Reco
DLF	382	648	BUY
DS Kulkarni Developers	91	251	BUY
Ganesh Housing	230	547	BUY
HDIL	365	1,334	BUY
Parsvnath Developers	114	245	BUY
Peninsula Land	55	121	BUY

Quarterly expectations

Company	Sales (Rs mn)	% Chg YoY	EBITDA (Rs mn)	% Chg YoY	EBITDA margin (%)	Inc/Dec (bps)	PAT (Rs mn)	% Chg YoY	FDEPS (Rs)
Aban Offshore	1,723	35.0	905	33.0	52.5	(80)	384	35.2	10.2
Garware Offshore	251	29.5	150	30.3	59.7	34	76	46.4	3.2
GE Shipping	7,646	2.9	3,893	(7.1)	50.9	(544)	3,656	(30.7)	24.0
Great Offshore	1,813	25.0	706	10.4	39.0	(515)	432	21.8	11.3
Mercator Lines	4,277	60.0	1,997	114.3	46.7	1,183	1,496	112.9	7.9
AGGREGATE	15,710	20.6	7,651	16.7	48.7	(163)	6,043	(9.3)	-

Key highlights

- A surge in crude oil prices (hovering at US$ 140/bbl) paired with a shortage of tanker tonnage has boosted tanker day rates in Q1FY09. Bunker costs, however, are expected to have risen for all companies.
- Day rates for offshore drilling rigs and supply vessels have risen during the quarter due to a surge in E&P activities and short supply of such vessels.
- Dry bulk day rates have experienced a sharp correction during Q1FY09 owing to a delay in shipments stemming from a) ongoing negotiations between Chinese ore importers and mining companies in Australia and South Africa, and b) an inventory build up in Chinese ports. The BDI (Baltic Dry Bulk index) logged a 30% correction due to the fall in day rates of Capesize vessels followed by Panamax vessels.
- On the domestic front, most shipping companies continue to perform robustly with many players adding new vessels during the quarter. This is expected to increase the number of operating days. As most fleet operators have a high percentage of long-term contracts, we anticipate strong growth during the quarter.

Sector outlook

- Seasonality (winter demand) and incremental crude oil demand will take day rates for tankers further north. Although tanker tonnage is expected to increase, the IMO guidelines for conversion of the tanker fleet into double hull vessels will lead to continued supply constraints.
- Correction in dry bulk day rates is an aberration; we expect rates to move up in H2FY09 once China consumes its existing inventory and completes renegotiation of its iron ore and coal contracts.
- Offshore market will remain firm due to the burgeoning E&P activity and vessel supply constraints. Jack up rig day rates are expected to remain strong in H2FY09 on the back of robust demand, tight supply and the replacement of old assets.

Recommendation snapshot

Company	CMP (Rs)	Target (Rs)	Reco
Aban Offshore	2,542	4,114	BUY
Garware Offshore	142	221	BUY
GE Shipping	351	570	BUY
Great Offshore	472	781	BUY
Mercator Lines	83	169	BUY

Quarterly expectations

Company*	Sales (Rs mn)	% Chg YoY	EBITDA (Rs mn)	% Chg YoY	EBITDA margin (%)	Inc/Dec (bps)	PAT (Rs mn)	% Chg YoY	FDEPS (Rs)
Bajaj Hindustan	4,441	(7.5)	733	NM	16.5	NM	17	NM	0.1
Balrampur Chini	3,318	(9.2)	542	NM	16.3	NM	37	NM	0.1
Triveni Engineering	3,637	5.9	589	850.2	16.2	NM	177	NM	0.7
AGGREGATE	11,396	(4.1)	1,864	NM	16.4	NM	230	NM	-

*Y/E September

Key highlights

- Sugar realisation for the quarter is expected to be ~Rs 15/kg which would be marginally higher compared to the preceding quarter, but 10% higher YoY. Lower volume sales would dampen sales growth however.
- Crushing operations were carried out for a few days during the quarter, thereby leading to the apportionment of fixed expenses to relatively lower production volumes. This has pushed up the cost of production, thereby subduing the quarter's operating margins.
- Profits for the quarter would continue to be driven by the distillery and co-generation segments.

Sector outlook

- Sugar production for the current season is expected to be in the range of 25–26mn tonnes, lower than the previous year's figure of ~28mn tonnes. For FY09, production is estimated at 21–22mn tonnes. Expectations of lower production volumes are likely to push up sugar prices, though the higher prices of sugarcane on account of lower availability would keep margins in check.
- Considering the above factors and buoyancy in the export market, we have estimated sugar prices of Rs 17–17.5/kg for the next fiscal.
- Government intends to dismantle the monthly release mechanism for the free sale quota and remove the levy on sales for PDS. This is unlikely to be positive for sugar prices as firms with a lower holding capacity would liquidate a larger quantity of sugar, thereby muting prices. We believe a decontrolled sugarcane procurement process would be more beneficial for sugar companies.
- Expectations of higher sugar prices are already captured in the stock prices; we see limited potential for appreciation and thus maintain a Neutral stance on the sector.

Recommendation snapshot

Company	CMP (Rs)	Target (Rs)	Reco
Bajaj Hindustan	167	159	HOLD
Balrampur Chini	76	82	HOLD
Triveni Engineering	79	83	HOLD

Quarterly expectations

Company	Sales (Rs mn)	% Chg QoQ	EBITDA (Rs mn)	% Chg QoQ	EBITDA margin (%)	Inc/Dec (bps)	PAT (Rs mn)	% Chg QoQ	FDEPS (Rs)
Bharti Airtel	82,300	5.3	34,100	4.9	41.4	(20)	19,100	3.1	10.1
Idea Cellular	21,258	7.8	7,003	6.0	32.9	(55)	2,719	(1.7)	1.0
Reliance Communications	57,566	8.4	25,499	10.1	44.3	70	15,706	4.5	7.3
Tulip Telecom	3,415	(17.7)	853	3.4	25.0	510	598	(9.8)	20.6
AGGREGATE	164,539	6.0	67,455	6.9	41.0	32	38,123	(0.3)	-

Key highlights

- The telecom sector witnessed a measure of consolidation during the quarter as Idea Cellular acquired a 40.8% stake in Spice Communication at Rs 77.3/share. This works out to an EV/Subscriber of US$ 325, which is higher than that of other telecom players and also more than Idea's pre-merger valuation of US$ 228. Despite the higher valuations, we expect merger synergies to enhance Idea's presence in the Punjab and Karnataka circles and augment its subscriber base.
- In a separate development, Reliance Communications (RCom) is looking at the possible acquisition of South African telecom player MTN after the latter's talks with Bharti Airtel were called off during the quarter.
- In the mobility business, ARPUs are likely to witness pressure during the quarter. We expect Bharti, RCom and Idea to report a decline of 5.2%, 2.5% and 3% QoQ respectively in Q1FY09.
- Robust growth in the wireless segment continues, with the addition of ~18.6mn subscribers during April and May. Overall tele-density has increased by 27.6% at the end of May 2008, which follows a growth of 26.9% in April 2008.

Sector outlook

- Growth drivers for the telecom industry such as strong subscriber additions month-on-month are likely to continue with the expansion of coverage by various service providers. On the flip side, competitive pressures would also continue to exact a toll on wireless tariffs, eroding revenues.

- As regards new entrants who have been allotted spectrum in the telecom sector, we do not view them as a major threat to top players (Bharti and RCom) in terms of gaining market share, tariff and coverage.

Recommendation snapshot

Company	CMP (Rs)	Target (Rs)	Reco
Bharti Airtel	709	1,150	BUY
Idea Cellular	87	110	HOLD
Reliance Communications	390	850	BUY
Tulip Telecom	890	1,558	BUY

Quarterly expectations

Company	Sales (Rs mn)	% Chg YoY	EBITDA (Rs mn)	% Chg YoY	EBITDA margin (%)	Inc/Dec (bps)	PAT (Rs mn)	% Chg YoY
ACC*	19,539	4.6	5,151	(5.4)	26.4	(2.8)	3,657	4.1
Bihar Tubes	1,300	118.7	128	73.9	9.8	(350)	72	74.0
Deepak Fertilisers & Petro	3,350	52.4	586	51.6	17.5	(10)	302	33.5
Garware Wall Ropes	1,096	15.0	111	10.4	10.2	(40)	48	17.4
GIPCL	1,997	(7.2)	527	(25.3)	26.4	(639)	245	(35.2)
Greenply industries	1,540	32.8	208	23.8	13.5	98	120	32.2
India Glycols	3,765	38.8	614	10.8	16.3	(410)	301	(15.5)
Nava Bharat Ventures	2,597	47.3	1,000	39.0	38.5	229	771	33.1
Riddhi Siddhi Gluco Biols	1,156	69.3	191	64.1	16.5	(50)	104	121.4
Sintex Industries	9,403	173.8	1,457	150.8	15.5	(142)	940	178.5
Sujana Towers	1,591	NA	194	NA	12.2	NA	102	NA
Time Technoplast	2,180	129.7	449	125.9	15.5	(142)	261	146.3
AGGREGATE	**47,923**	**36.0**	**10,423**	**15.2**	**21.7**	**(390)**	**6,821**	**19.3**

*Y/E Dec

Recommendation snapshot

Company	CMP (Rs)	Target (Rs)	Reco
ACC	472	632	HOLD
Bihar Tubes	156	240	BUY
Deepak Fertilisers & Petrochemicals	83	183	BUY
Garware Wall Ropes	82	202	BUY
GIPCL	71	123	BUY
Greenply industries	161	214	BUY
India Glycols	225	433	BUY
Nava Bharat Ventures	240	395	BUY
Riddhi Siddhi Gluco Biols	190	301	BUY
Sintex Industries	308	587	BUY
Sujana Towers	73	202	BUY
Time Technoplast	785	857	BUY

THANK YOU