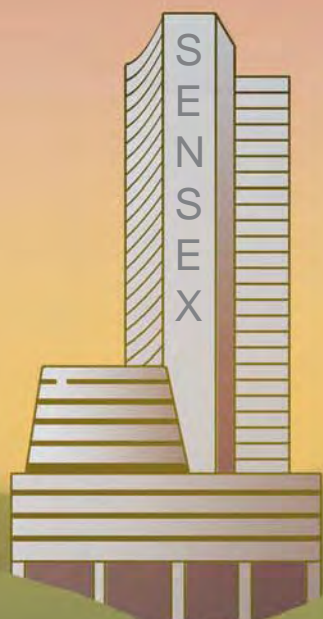


January 2010



# India Strategy



## New Cycle

Research Team ([Rajat@MotilalOswal.com](mailto:Rajat@MotilalOswal.com))

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**Note:** All stock prices and indices as on 29 December 2009, unless otherwise stated

# India Strategy

BSE Sensex: 17,402

S&amp;P CNX: 5,188

As on: 29 December 2009

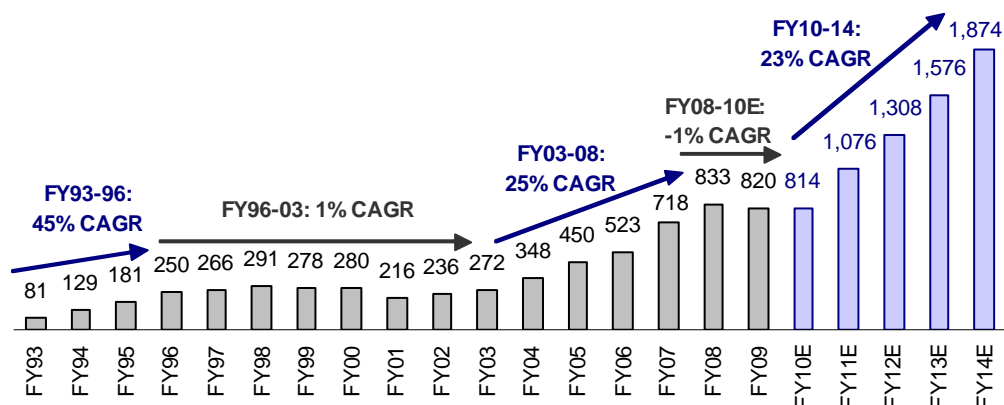
After two extreme years, 2008 and 2009, the Indian market is now trading at a premium to historical valuations, and looking for fresh triggers to decide the direction of its next move. Going forward, we see the market direction being decided by the interplay of a new cycle in three aspects: (1) Earnings growth, (2) Capital raising, (3) Policy reforms.



## New cycle of earnings growth

In the last 18 years, the Indian markets have witnessed four distinct earnings cycles. We now see the beginning of new cycle of earnings growth. Based on a detailed bottom-up exercise, we expect Sensex EPS CAGR of 23% through FY14 - a high front-ended growth of 32% in FY11 followed by 20% CAGR FY11-14.

SENSEX EPS: THE FIFTH GROWTH CYCLE BEGINS



Source: MOSL

We believe our underlying assumptions are conservative, and actual earnings growth could be even higher than 23%. The new cycle of earnings growth should drive markets going forward.



## New cycle of capital raising

After a lull in CY08, there was a significant amount of capital raising in CY09. A large 52% of capital was raised by way of QIP and stake sale (including treasury shares). This implies increasing institutionalization of primary markets as well. In CY10/FY11, we expect fresh India equity allocation of US\$24-27b — US\$15b from insurance companies, US\$8-10b by way of FII flows and US\$1-2b from domestic mutual funds. With 69% of the Indian corporate sector unlikely to raise fresh capital, the time is ripe for the government to pursue an aggressive divestment program and alleviate fiscal deficit.

The new cycle of lower fiscal deficit will (1) prevent crowding out of private sector credit, (2) help keep interest rates low, and (3) sustain growth of the economy and of the corporate sector.



### New cycle of policy reforms

FY11 will be the current government's second year in office. We believe the stage is set for the government to initiate/execute policy reforms in several key areas:

- **Oil & Gas:** subsidy-sharing and gas pricing;
- **Goods & Services Tax (GST):** moderate rates and early implementation;
- **Banking & Finance:** consolidation of public sector banks, and raising of foreign holding in insurance sector from 26% to 49%; and
- **Infrastructure:** mainly, thrust on roads, airports, ports and power projects.

The new cycle of reforms, if implemented well, should drive growth in corporate sector profits, and hence, growth of India's equity markets.

### Possible spokes in the wheel

- **Economic stimulus withdrawal:** We are not too concerned about this, as we expect the withdrawal to be gradual as to not hurt growth.
- **Global ambitions of companies:** In the last three years, Indian companies' global ambitions have not been well received by the markets.
- **Optimistic IPO valuations:** Over the last three years, 70% of large IPOs have underperformed benchmark indices. Recurrence of this phenomenon will affect investor sentiment and market growth.

### Valuations are rich, strong long-term returns quite likely

All indicators suggest that Indian markets are currently enjoying rich valuations e.g. P/E at 20% premium to long-period average. This suggests that the market expects future earnings growth to be higher than long-period average. We estimate earnings CAGR of 23% for FY10-FY14, which is a significant 1.6x the long-period average earnings growth of ~14%.

Applying one-year forward P/E multiple of 15x (base case) and 20x (optimistic case), we arrive at March 2011 Sensex range of 19,600 to 26,000 (10-38% CAGR), and March 2013 Sensex range of 28,100 to 37,500 (16-26% CAGR). The upper end of our Sensex range, implies market return CAGR of 25% over next 3 years. Welcome to the New Cycle!

### 3QFY10: Aggregate PAT up 23% YoY

In 3QFY10, we expect MOSL Universe (118 companies' ex-RMs) to report sales growth of 18% YoY, EBITDA growth of 29% YoY and PAT growth of 23.5% YoY. PAT growth for Sensex companies at 18% YoY will be lower than the MOSL Universe. Of the large sectors, the fastest growers are Auto (+369%), Oil & Gas ex RMs (+96%), Metals (+38%) and Pharma (+36%). The laggards include Telecom (-29%), Banks (+1.5%), IT (+7%), and Utilities (+8%).

### Overweight on domestic plays and mid-caps

Our model portfolio is overweight on domestic plays like Financials, Infrastructure, Cement, Autos and Telecom. The only global play we are overweight is Metals, that too owing to volume growth rather than price hikes. We increase our mid-cap weight from 5% to 10% as they offer strong absolute return opportunities. Top large cap picks: **SBI, Axis Bank, BHEL, Sterlite, GAIL, M&M, Jaiprakash Associates, Bharti, Cipla, ITC**. Select mid-cap picks: **Zee Entertainment, GVK Power, Sintex, Piramal Healthcare, Nagarjuna Construction, Shriram Transport**.

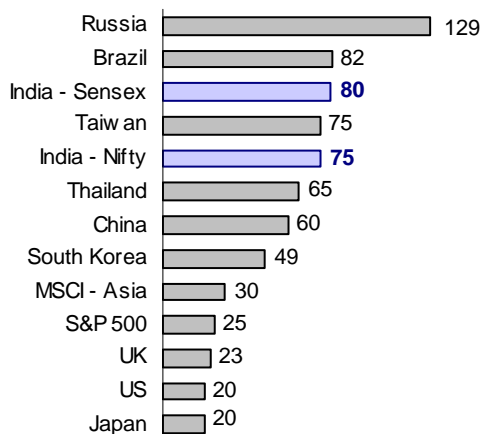


## New cycle

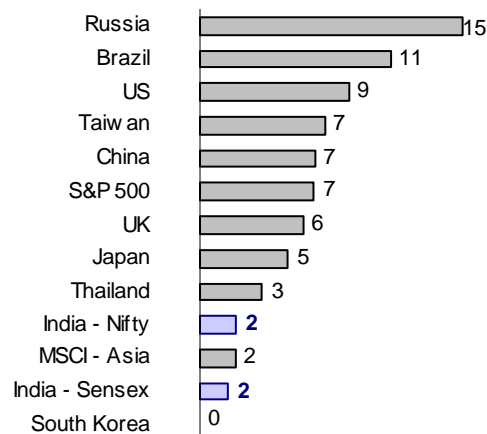
*While India is one of the best performing markets in 2009. However, in the last quarter of 2009, Indian markets have underperformed the most.*

India is among the best performing markets in 2009. However, in the last quarter of 2009, Indian markets have underperformed the most.

WORLD EQUITY INDICES: CY09 PERFORMANCE (%)



WORLD EQUITY INDICES: 4QCY09 PERFORMANCE (%)

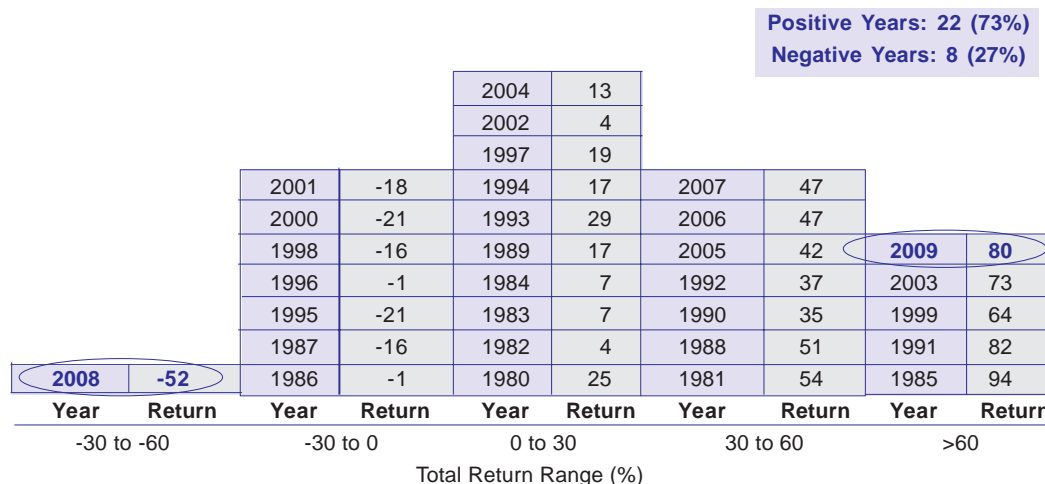


Source: MOSL

*After going to two extremes during the last two years...*

Indian markets have been through extremes in the last two years. In 2008, the BSE Sensex hit an all-time high of 21,000 in January 2008, followed by a fall of over 50% to close at 9,600 levels. In 2009, the Sensex plunged to a 3-year low of 8,000 and then jumped 120% to current levels of 17,400.

TWO EXTREME YEARS - 2008 AND 2009



Note: Returns for calendar years

Source: Bloomberg/MOSL

*...and looking for fresh triggers*

The Indian market is now trading at a premium to historical valuations, and looking for fresh triggers to decide the direction of its next move. Going forward, we see the market direction being decided by the interplay of a new cycle in three different aspects:

1. Earnings growth
2. Capital raising
3. Policy reforms.



## #1. New cycle of earnings growth

In the last 18 years, the Indian markets have witnessed four distinct earnings cycles:

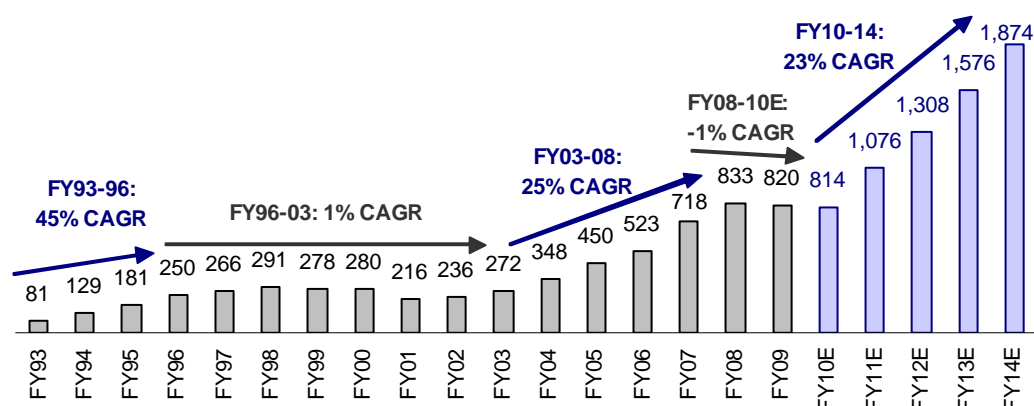
1. **FY93-96:** Sensex EPS more than trebled in 3 years i.e. a CAGR of 45%.
2. **FY96-03:** Earnings growth holiday. Over the full 10-year cycle FY93-03, Sensex EPS CAGR is 13%.
3. **FY03-08:** Sensex EPS again trebled, albeit in 5 years i.e. a CAGR of 25%.
4. **FY08-10:** Earnings growth holiday again. Over the 7-year cycle FY03-10, Sensex EPS CAGR is higher than the previous cycle at 17%.

*We see the beginning  
of a new cycle of  
earnings growth...*

We now see the beginning of a new cycle of earnings growth. Based on a detailed bottom-up exercise, we expect Sensex EPS CAGR of 23% through FY14 - a high front-ended growth of 32% in FY11 followed by 20% CAGR over FY11-14.

SENSEX EPS: THE FIFTH GROWTH CYCLE BEGINS

*...with the Sensex EPS  
growing at a CAGR of  
23% over FY10-14*



Source: MOSL

Our earnings estimates are based on several key assumptions at the sector and company level, tabled on page 7. The major ones are:

- **Autos:** 12-13% volume growth in 2-wheelers; 15% volume growth in cars, below 10-year average growth.
- **Banking:** Advances growth to sustain around 20%, in line with last 10-year average.
- **Cement:** Volume growth of 10-12% and 2.5-4% price hike after a 4.5% fall in FY11.
- **Engineering:** Order intake growth of 15-25%.
- **Metals:** Flattish price trend assumed for steel and non-ferrous metals, slightly higher than FY10 levels.
- **Telecom:** Pricing pressure in wireless expected to be over in FY11.
- **Utilities:** Power shortages to abate, and merchant power tariffs to halve from Rs6.9/unit in FY09 to Rs3.5/unit by FY13.
- **Rupee:** Gradual appreciation from Rs47.6/US\$ in FY10E to Rs42/US\$ by FY14.

*Positive surprises on  
economic growth could  
render our estimates  
conservative*

Strong economic growth could surprise us positively, rendering our assumptions conservative. Metal prices could be higher than expected, as could be volume growth in sectors like Autos, Cement and Engineering. This, in turn, could drive bank credit growth higher than 20%.

Overall, we believe there is an upward bias to our earnings estimates, as witnessed in the previous upturns.

## KEY ASSUMPTIONS FOR EARNINGS ESTIMATES THROUGH FY14 (%)

|                                    | FY09A | FY10E | FY11E | FY12E | FY13E | FY14E | LONG PERIOD AVG |
|------------------------------------|-------|-------|-------|-------|-------|-------|-----------------|
| <b>Autos</b>                       |       |       |       |       |       |       |                 |
| 2 Wheeler Volume Growth            | 4.6   | 24    | 12.5  | 13.0  | 12.0  | 11.5  | 11.6            |
| 4 Wheeler Volume Growth            | 9.8   | 25    | 15    | 15    | 15    | 15    | 16.7            |
| <b>Banking</b>                     |       |       |       |       |       |       |                 |
| 1-Year G-Sec                       | 5.2   | 5.0   | 5.5   | 6.0   | 6.3   | 6.0   | 6.3             |
| 10-Year G-Sec                      | 7.0   | 7.5   | 7.8   | 7.8   | 7.5   | 7.8   | 7.6             |
| Credit Growth                      | 22.5  | 14.0  | 19.9  | 20.1  | 20.7  | 20.8  | 21.4            |
| NPA Credit Charges in P&L          | 0.8   | 1.0   | 1.1   | 1.0   | 0.9   | 0.9   | -               |
| <b>Cement</b>                      |       |       |       |       |       |       |                 |
| Volume Growth                      | 8.4   | 11.5  | 11.7  | 11.7  | 10.0  | 10.0  | 8.0             |
| Price Change                       | 3.0   | 3.0   | -4.1  | 2.5   | 4.2   | 4.0   | 6.4             |
| <b>Engineering</b>                 |       |       |       |       |       |       |                 |
| Avg Order Intake Growth            | 19.6  | 6.7   | 18.0  | 25.0  | 20.0  | 15.0  | 20.0            |
| <b>FMCG</b>                        |       |       |       |       |       |       |                 |
| Value Growth                       | 24.5  | 7.3   | 16.0  | 14.1  | 14.4  | 15.0  | -               |
| Margins                            | 18.9  | 21.2  | 21.2  | 21.5  | 21.7  | 22.1  | -               |
| <b>IT</b>                          |       |       |       |       |       |       |                 |
| US\$ Revenue Growth                | 11.3  | 4.6   | 15.2  | 18.3  | 18.3  | 18.2  | -               |
| US\$ / Rs                          | 46.5  | 47.6  | 46.0  | 44.5  | 43.0  | 42.0  | 45.6            |
| <b>Infrastructure</b>              |       |       |       |       |       |       |                 |
| Avg Order Intake Growth            | 1.00  | 5.00  | 50.00 | 10.00 | 15.0  | 15.0  | 31.0            |
| <b>Media</b>                       |       |       |       |       |       |       |                 |
| Ad Revenue Growth                  | 11.30 | 9.00  | 20.50 | 15.00 | 15.0  | 14.0  | 20.0            |
| <b>Metal Prices (US\$/Tonne)</b>   |       |       |       |       |       |       |                 |
| Steel                              | 851   | 673   | 700   | 750   | 750   | 750   | 394             |
| Aluminium                          | 2,281 | 1,833 | 2,000 | 2,000 | 2,000 | 2,000 | 1,883           |
| Copper                             | 5,783 | 5,600 | 6,000 | 6,000 | 6,000 | 6,000 | 3,948           |
| Zinc                               | 1,594 | 1,820 | 2,200 | 2,200 | 2,200 | 2,200 | 1,613           |
| <b>Oil &amp; Gas</b>               |       |       |       |       |       |       |                 |
| Brent Oil Price (US\$/bbl)         | 84.7  | 69    | 70    | 70    | 70    | 70    | 51              |
| Singapore GRM (US\$/bbl)           | 5.8   | 2.9   | 4.0   | 4.0   | 4.0   | 5.0   | 4.8             |
| <b>Real Estate</b>                 |       |       |       |       |       |       |                 |
| Price Rise                         | -     | -     | 5     | 5     | 5     | 5     | -               |
| <b>Retail</b>                      |       |       |       |       |       |       |                 |
| Same Store Sales Growth            | 7.7   | 8.5   | 7.2   | 5.9   | 4.6   | 4.2   | 11.1            |
| <b>Telecom</b>                     |       |       |       |       |       |       |                 |
| Subscribers (m)                    | 391   | 561   | 729   | 837   | 933   | 1,017 | -               |
| ARPU (Rs/month) *                  | 325   | 246   | 210   | 210   | 214   | 225   | 429             |
| RPM (Rs) *                         | 0.64  | 0.53  | 0.47  | 0.47  | 0.47  | 0.47  | 1.22            |
| MOU per sub per month *            | 508   | 463   | 449   | 449   | 458   | 481   | 396             |
| <i>* Numbers for Bharti Airtel</i> |       |       |       |       |       |       |                 |
| <b>Utilities</b>                   |       |       |       |       |       |       |                 |
| Merchant Power Rate (Rs/unit)      | 6.9   | 5.5   | 4.0   | 3.8   | 3.5   | 3.5   | -               |

Source: MOSL

## Infrastructure, Metals and Engineering among fastest PAT growth sectors through FY14

We have carried out a detailed bottoms-up exercise of estimating earnings for our universe through FY14. (See pages 46 to 60 for a snapshot outlook of each sector from 3QFY10 to FY14.) The exercise provides us several interesting insights:

- Sensex earnings growth is 23% while MOSL Universe earnings growth is 20%.
- Sectors that are expected to report higher than market earnings growth include Infrastructure (36%), Metals (33%), Engineering (25%) and Autos (24%).
- Financials, Media and Pharma sectors are expected report earnings growth of 20-22%, broadly in-line with market earnings growth.
- Sectors that are expected to report lower than market earnings growth include Telecom (11%), Cement (13%), IT (14%), Oil & Gas (14%), FMCG (18%).

## Earnings outperformers

### LONG-TERM SECTOR OUTLOOK

### EARNINGS ANALYSIS (FY10-FY14)

#### Infrastructure/Construction

Huge opportunity given economic growth. Companies will diversify into new segments and broadbase skill sets. There's also value unlocking potential of subsidiaries / BOT projects. Best bets – HCC, NCC and Simplex.

Infrastructure asset owners (GMR, GVK, Mundra Port, Jaiprakash Associates) are expected to report EPS growth of 40-50%. Construction companies like HCC, Simplex Infra, NCC and IVRCL will report earnings growth of 20-30%.

#### Metals

Strong earnings growth expected on the back of growing capacities and improved outlook on prices following semblance of global economic stability. Prefer Sterlite and JSW Steel among large caps, and Bhushan Steel and Jai Balaji among mid-caps.

Hindalco will deliver earnings CAGR of 60% while Sterlite will deliver earnings CAGR of 31%. JSW Steel will deliver earnings CAGR of 34% while JSPL will deliver earnings CAGR of 24%. State-owned metal companies (SAIL & Nalco) are expected to deliver poor earnings growth of 10-14%.

#### Real Estate

Ongoing recovery led by affordable housing, expected to be followed by the commercial and retail verticals. Companies with huge land bank and reasonable leverage are poised to deliver robust PAT growth through FY14.

Sector earnings CAGR of 27%. While DLF will deliver earnings CAGR of 21%, Unitech will deliver earnings CAGR of 34% and HDIL at 16%. IBREL, Mahindra Life Spaces and Phoenix Mills are expected to deliver earnings CAGR of well above sector growth rates.

#### Engineering

Robust business growth potential given the simultaneous pick up in power generation, T&D, industrial and private capex. With margins close to peak, earnings growth will mirror revenue growth. Though L&T and ABB will deliver high earnings growth, much of it is already priced in.

Larsen is expected to lead earnings CAGR at 27% among large caps while BHEL is expected to deliver 22% earnings CAGR. ABB and Siemens are expected to deliver earnings CAGR of 33-35% driven by revival in industrial capex.

#### Autos

Strong economic growth to drive volume CAGR of 10-15% across all segments. Market leaders with wider product basket and market reach to outperform industry. Prefer players in segments less vulnerable to competitive dynamics - Bajaj Auto, M&M and Hero Honda.

High sector PAT CAGR is being driven by Tata Motors turning from loss to profit. 2-wheeler companies are expected to deliver earnings CAGR of 12-13%, Maruti at 15% and M&M at 17%.



## Earnings in-line

### LONG TERM SECTOR OUTLOOK

### EARNINGS ANALYSIS (FY10-FY14)

#### Banks

Sector loan growth to revive to 20%, compared to 14% for FY10. Larger banks will gain share and grow faster than the sector. With opex growth lower than balance sheet growth and slippages declining, profit growth to be higher than topline growth. Prefer SBI, Bank of Baroda and Union Bank among PSU banks; Axis Bank and ICICI Bank among private banks.

SBI, ICICI Bank and HDFC Bank will all deliver earnings CAGR of 25-26% during FY10-14 while HDFC will deliver a slower earnings growth of 18%. Some of the other banks with earnings CAGR of ~25% include Bank of India, Axis Bank, Yes Bank and LIC Housing Finance.

#### Pharma

Key events to watch include recovery in outsourcing business for CRAMS companies, resolution of US FDA issues for companies like Ranbaxy and Sun, and appreciation in the rupee. The sector holds potential to deliver 18-20% PAT growth over the long term.

While the pharma sector earnings growth is in-line with the corporate earnings growth, Dr Reddys (+43%) and Ranbaxy (+57%) stand out for exceptionally strong earnings CAGR albeit on a low base. Most other pharma companies have earnings CAGR of 15-20%.

## Earnings underperformers

### LONG TERM SECTOR OUTLOOK

### EARNINGS ANALYSIS (FY10-FY14)

#### Oil & Gas

The sector is poised to harvest the significant capex in the last few years e.g. Reliance Industries in KG basin and Cairn in Rajasthan. Another key trend is the significant improvement in gas availability in India, benefiting companies like GAIL, Gujarat State Petronet and Indraprastha Gas. Government reforms on product pricing and sharing of under-recoveries is a key re-rating trigger. Prefer GAIL.

Reliance Inds, the largest market cap Indian stock, will deliver earnings CAGR of 20% while ONGC is expected to deliver earnings CAGR of just 10%. Gas plays (GAIL, Indraprastha Gas & GSPL) are expected to deliver earnings CAGR of 18-20% while Oil marketing companies and stand-alone refiners are expected to deliver low-single digit earnings growth. Cairn will deliver earnings CAGR of 66% due to low base effect and commissioning of the MBA fields in Rajasthan.

#### Telecom

Bleak medium-term outlook, but potential to bounce back from FY12 on the back of industry consolidation, easing of pricing pressures and steady volume growth. Stock valuations suggest most concerns priced in. Prefer Bharti.

Bharti is expected to report earnings CAGR of 9% while RCOM is expected to report earnings CAGR of 12% v/s a sector earnings CAGR of 11%. Idea is expected to report highest earnings CAGR at 31%.

#### IT

A bet on recovery in global discretionary spend on IT. However, wage inflation, rupee appreciation and rising tax rate mute the reported earnings growth.

TCS and Wipro are expected to report earnings CAGR of 12% while Infosys is expected to report earnings CAGR of 17% v/s a sector earnings CAGR of 14%. HCL Tech is expected to deliver the highest earnings CAGR at 20%.

#### Cement

A classical cyclical play with upcycle expected in 2HFY12. Top-tier cement stocks are trading at reasonable valuations of 10-12x FY12E EPS and EV of US\$90-105/ton. Prefer ACC, UltraTech, Birla Corp and Shree Cement.

Earnings CAGR of Ambuja, Grasim and UltraTech is 13-15% while ACC is expected to report a lower earnings CAGR of 9%.

#### FMCG

Excellent play on India's demographic dividend. Low penetration of several categories like skin care, processed foods, paints, etc will drive sustained growth. ITC, United Spirits, Asian Paints and Nestle are key picks.

ITC as well as Hindustan Unilever are expected to report earnings CAGR of 16-17% vs sector growth of 18%. United Spirits is expected to post the highest earnings CAGR at 33% while Britannia, Godrej Consumer, GSK Consumer, Marico, Nestle are expected to post earnings CAGR of 21-24%.

## ANNUAL PERFORMANCE - MOSL UNIVERSE

| SECTOR<br>Y/E MARCH      | SALES (RS B)  |               |               |               |               | FY11 FY10-14 |             | PAT (RS B)   |              |              |              |              | FY11 FY10-14 |             |
|--------------------------|---------------|---------------|---------------|---------------|---------------|--------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------|
|                          | FY10E         | FY11E         | FY12E         | FY13E         | FY14E         | YOY (%)      | CAGR (%)    | FY10E        | FY11E        | FY12E        | FY13E        | FY14E        | YOY (%)      | CAGR (%)    |
| Auto (5)                 | 1,681         | 1,904         | 2,157         | 2,435         | 2,735         | 13.2         | 12.9        | 85           | 115          | 144          | 171          | 199          | 35.1         | 23.7        |
| Banks (26)               | 1,164         | 1,424         | 1,682         | 2,011         | 2,412         | 22.4         | 20.0        | 536          | 651          | 782          | 964          | 1,176        | 21.6         | 21.7        |
| Cement (8)               | 655           | 691           | 783           | 900           | 1,030         | 5.5          | 12.1        | 109          | 93           | 105          | 138          | 177          | -15.1        | 12.8        |
| Engineering (6)          | 960           | 1,158         | 1,485         | 1,724         | 2,057         | 20.6         | 21.0        | 94           | 119          | 155          | 187          | 227          | 26.4         | 24.6        |
| FMCG (12)                | 743           | 862           | 983           | 1,125         | 1,294         | 16.0         | 14.9        | 102          | 121          | 143          | 167          | 199          | 18.3         | 18.2        |
| IT (7)                   | 1,042         | 1,168         | 1,339         | 1,531         | 1,764         | 12.1         | 14.1        | 207          | 231          | 255          | 296          | 346          | 11.3         | 13.7        |
| Infrastructure (9)       | 372           | 444           | 511           | 637           | 788           | 19.4         | 20.7        | 34           | 40           | 47           | 83           | 115          | 20.1         | 35.8        |
| Media (6)                | 72            | 86            | 97            | 109           | 122           | 19.2         | 14.2        | 17           | 21           | 25           | 30           | 36           | 23.5         | 20.6        |
| Metals (9)               | 2,734         | 3,072         | 3,478         | 3,838         | 4,147         | 12.4         | 11.0        | 199          | 345          | 433          | 544          | 626          | 73.2         | 33.1        |
| Oil Gas & Petchem (11)   | 8,368         | 8,951         | 9,078         | 9,358         | 9,660         | 7.0          | 3.7         | 578          | 709          | 829          | 882          | 969          | 22.8         | 13.8        |
| Pharma (13)              | 479           | 542           | 614           | 699           | 794           | 13.3         | 13.5        | 63           | 81           | 95           | 113          | 132          | 27.1         | 20.2        |
| Real Estate (10)         | 149           | 198           | 275           | 339           | 424           | 33.0         | 29.9        | 45           | 63           | 74           | 88           | 117          | 37.9         | 26.5        |
| Retail (2)               | 121           | 150           | 177           | 206           | 238           | 23.4         | 18.3        | 4            | 5            | 7            | 9            | 11           | 37.9         | 29.1        |
| Telecom (3)              | 749           | 823           | 944           | 1,054         | 1,177         | 9.8          | 12.0        | 135          | 126          | 147          | 173          | 207          | -6.2         | 11.3        |
| Textiles (5)             | 141           | 169           | 192           | 207           | 221           | 19.3         | 11.9        | 5            | 9            | 13           | 16           | 19           | 84.2         | 40.2        |
| Utilities (10)           | 915           | 1,136         | 1,337         | 1,597         | 1,786         | 24.2         | 18.2        | 153          | 188          | 225          | 267          | 306          | 23.2         | 18.9        |
| <b>MOSL (144)</b>        | <b>20,348</b> | <b>22,879</b> | <b>25,249</b> | <b>27,904</b> | <b>30,801</b> | <b>12.4</b>  | <b>10.9</b> | <b>2,360</b> | <b>2,929</b> | <b>3,494</b> | <b>4,146</b> | <b>4,882</b> | <b>24.1</b>  | <b>19.9</b> |
| <b>MOSL Ex RMs (141)</b> | <b>15,690</b> | <b>18,113</b> | <b>20,674</b> | <b>23,120</b> | <b>25,843</b> | <b>15.4</b>  | <b>13.3</b> | <b>2,221</b> | <b>2,816</b> | <b>3,361</b> | <b>4,010</b> | <b>4,721</b> | <b>26.8</b>  | <b>20.7</b> |
| <b>Sensex (30) *</b>     | <b>5,352</b>  | <b>6,037</b>  | <b>6,862</b>  | <b>7,590</b>  | <b>8,449</b>  | <b>12.8</b>  | <b>12.1</b> | <b>616</b>   | <b>813</b>   | <b>989</b>   | <b>1,191</b> | <b>1,416</b> | <b>32.1</b>  | <b>23.2</b> |
| <b>Nifty (50) *</b>      | <b>6,326</b>  | <b>7,148</b>  | <b>8,071</b>  | <b>8,972</b>  | <b>10,011</b> | <b>13.0</b>  | <b>12.2</b> | <b>709</b>   | <b>935</b>   | <b>1,136</b> | <b>1,373</b> | <b>1,641</b> | <b>31.8</b>  | <b>23.3</b> |

For Banks: Sales = Net Interest Income, EBITDA = Operating Profits; Tata Steel figures are consolidated including Corus; \* free float

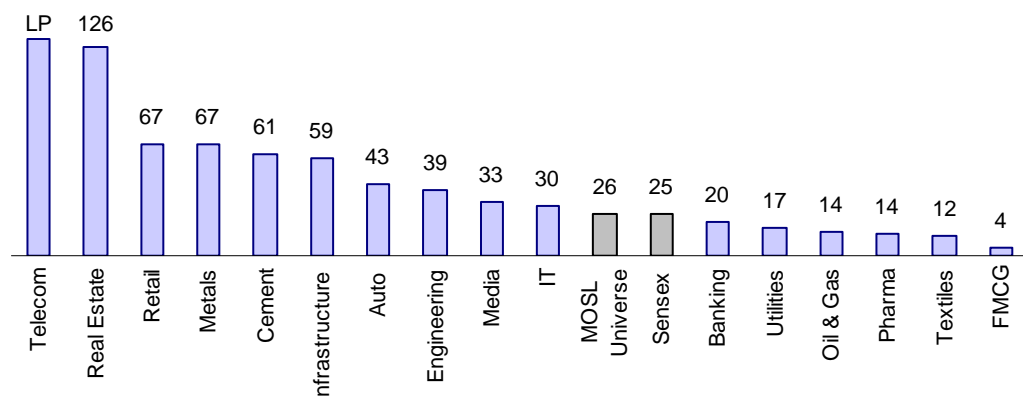
## FY10-14 ESTIMATES OF SENSEX STOCKS

|                            | MCAP   | FY10-14 CAGR (%) |           |           | EPS (RS)   |              |              |              |              | P/E (X)     |             |             |             |            |
|----------------------------|--------|------------------|-----------|-----------|------------|--------------|--------------|--------------|--------------|-------------|-------------|-------------|-------------|------------|
|                            | (USDB) | SALES            | EBITDA    | PAT       | FY10E      | FY11E        | FY12E        | FY13E        | FY14E        | FY10E       | FY11E       | FY12E       | FY13E       | FY14E      |
| ACC                        | 3      | 11               | 8         | 9         | 90.3       | 71.4         | 81.6         | 103.3        | 130.0        | 9.5         | 12.0        | 10.5        | 8.3         | 6.6        |
| Bharti Airtel              | 26     | 11               | 11        | 9         | 22.9       | 22.3         | 24.1         | 27.7         | 32.6         | 14.2        | 14.6        | 13.5        | 11.8        | 10.0       |
| BHEL                       | 25     | 20               | 24        | 22        | 86.7       | 114.7        | 152.9        | 170.3        | 193.7        | 27.4        | 20.7        | 15.5        | 14.0        | 12.3       |
| DLF                        | 13     | 18               | 17        | 21        | 13.9       | 18.9         | 19.9         | 23.7         | 29.9         | 26.3        | 19.4        | 18.4        | 15.4        | 12.2       |
| Grasim Industries          | 5      | 11               | 11        | 13        | 334.7      | 269.5        | 308.4        | 379.5        | 469.1        | 7.2         | 9.0         | 7.9         | 6.4         | 5.2        |
| HDFC                       | 17     | 19               | 18        | 18        | 94.7       | 110.0        | 129.7        | 148.8        | 175.1        | 28.4        | 24.4        | 20.7        | 18.0        | 15.3       |
| HDFC Bank                  | 15     | 21               | 24        | 26        | 65.9       | 86.9         | 110.9        | 136.3        | 167.9        | 25.8        | 19.5        | 15.3        | 12.5        | 10.1       |
| Hero Honda                 | 7      | 13               | 12        | 12        | 105.4      | 121.1        | 136.9        | 156.2        | 165.1        | 16.5        | 14.4        | 12.7        | 11.2        | 10.6       |
| Hind. Unilever             | 12     | 13               | 15        | 16        | 10.2       | 11.4         | 13.3         | 15.3         | 18.2         | 26.2        | 23.4        | 20.0        | 17.3        | 14.6       |
| Hindalco                   | 7      | 10               | 21        | 60        | 3.3        | 8.2          | 14.0         | 18.6         | 21.9         | 48.8        | 19.8        | 11.6        | 8.7         | 7.4        |
| ICICI Bank                 | 21     | 16               | 18        | 25        | 37.7       | 48.8         | 61.3         | 74.9         | 91.1         | 23.3        | 18.0        | 14.3        | 11.7        | 9.6        |
| Infosys                    | 32     | 15               | 15        | 17        | 105.7      | 113.9        | 136.0        | 164.2        | 196.9        | 24.4        | 22.6        | 18.9        | 15.7        | 13.1       |
| ITC                        | 21     | 14               | 15        | 17        | 10.5       | 12.3         | 14.4         | 16.6         | 19.6         | 24.4        | 20.8        | 17.8        | 15.4        | 13.1       |
| Jaiprakash Associates      | 6      | 30               | 34        | 47        | 4.2        | 4.1          | 3.2          | 12.0         | 19.9         | 34.1        | 35.1        | 45.3        | 12.0        | 7.2        |
| Larsen & Toubro            | 22     | 25               | 26        | 27        | 57.3       | 67.1         | 85.8         | 113.1        | 149.6        | 29.4        | 25.1        | 19.6        | 14.9        | 11.3       |
| Mahindra & Mahindra        | 6      | 14               | 16        | 17        | 95.4       | 108.8        | 124.6        | 151.5        | 179.1        | 11.1        | 9.7         | 8.5         | 7.0         | 5.9        |
| Maruti Suzuki              | 10     | 17               | 16        | 15        | 78.6       | 87.5         | 104.9        | 118.8        | 136.0        | 19.9        | 17.9        | 14.9        | 13.2        | 11.5       |
| NTPC                       | 41     | 16               | 19        | 13        | 10.5       | 11.4         | 13.0         | 16.4         | 16.9         | 22.1        | 20.3        | 17.9        | 14.2        | 13.7       |
| ONGC                       | 54     | 5                | 7         | 10        | 100.5      | 118.3        | 133.3        | 139.3        | 147.5        | 11.8        | 10.0        | 8.9         | 8.5         | 8.0        |
| Reliance Comm              | 8      | 11               | 13        | 12        | 20.1       | 18.1         | 23.2         | 26.9         | 31.1         | 8.7         | 9.7         | 7.6         | 6.5         | 5.6        |
| Reliance Inds.             | 76     | 4                | 17        | 20        | 57.4       | 81.6         | 97.5         | 105.4        | 116.7        | 18.8        | 13.2        | 11.1        | 10.2        | 9.2        |
| Reliance Infrastructure    | 5      | 12               | 13        | 11        | 54.8       | 62.5         | 69.1         | 74.9         | 80.0         | 20.6        | 18.1        | 16.4        | 15.1        | 14.1       |
| State Bank                 | 30     | 22               | 24        | 25        | 215.7      | 269.1        | 302.0        | 402.9        | 527.9        | 10.3        | 8.3         | 7.4         | 5.5         | 4.2        |
| Sterlite Inds.             | 15     | 12               | 31        | 31        | 47.9       | 72.4         | 104.2        | 123.8        | 143.2        | 17.9        | 11.9        | 8.2         | 6.9         | 6.0        |
| Sun Pharma                 | 7      | 14               | 12        | 15        | 58.2       | 66.2         | 72.7         | 86.7         | 100.8        | 26.4        | 23.2        | 21.1        | 17.7        | 15.3       |
| Tata Motors                | 10     | 11               | 10        | LP        | -4.2       | 25.0         | 47.0         | 61.3         | 78.6         | -           | 31.4        | 16.7        | 12.8        | 10.0       |
| Tata Power                 | 7      | 5                | 11        | 25        | 67.0       | 98.3         | 121.9        | 119.2        | 161.8        | 20.2        | 13.7        | 11.1        | 11.3        | 8.3        |
| Tata Steel                 | 12     | 7                | 39        | LP        | -28.8      | 60.1         | 89.0         | 126.1        | 137.0        | -           | 10.4        | 7.0         | 4.9         | 4.5        |
| TCS                        | 31     | 13               | 11        | 12        | 33.3       | 36.7         | 39.1         | 44.7         | 52.0         | 22.3        | 20.2        | 19.0        | 16.6        | 14.3       |
| Wipro                      | 21     | 14               | 11        | 12        | 31.3       | 34.5         | 36.2         | 41.7         | 48.4         | 21.8        | 19.8        | 18.8        | 16.4        | 14.1       |
| <b>Sensex (Free Float)</b> |        | <b>12</b>        | <b>19</b> | <b>23</b> | <b>814</b> | <b>1,076</b> | <b>1,308</b> | <b>1,576</b> | <b>1,874</b> | <b>21.4</b> | <b>16.2</b> | <b>13.3</b> | <b>11.0</b> | <b>9.3</b> |

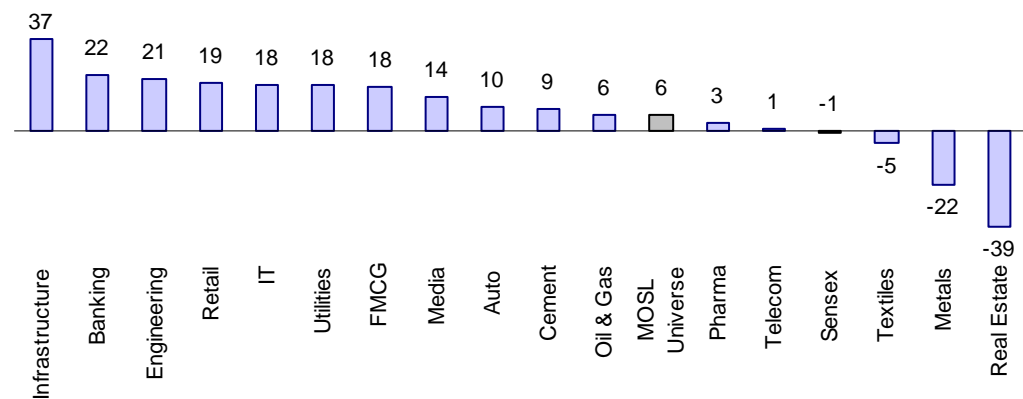
### Some interesting observations from three earnings cycles

- Auto, Engineering, Infrastructure, Retail and Media earnings growth are in line with or higher than our universe in all the three cycles.
- Oil & Gas earnings growth is below-average in all the three cycles.
- Following the FY03-08 boom, Telecom is one of the worst affected in terms of earnings growth with 1% CAGR in FY08-10 (v/s 6% for our universe) and the lowest 11% CAGR in FY10-14 (v/s 20% for our universe).

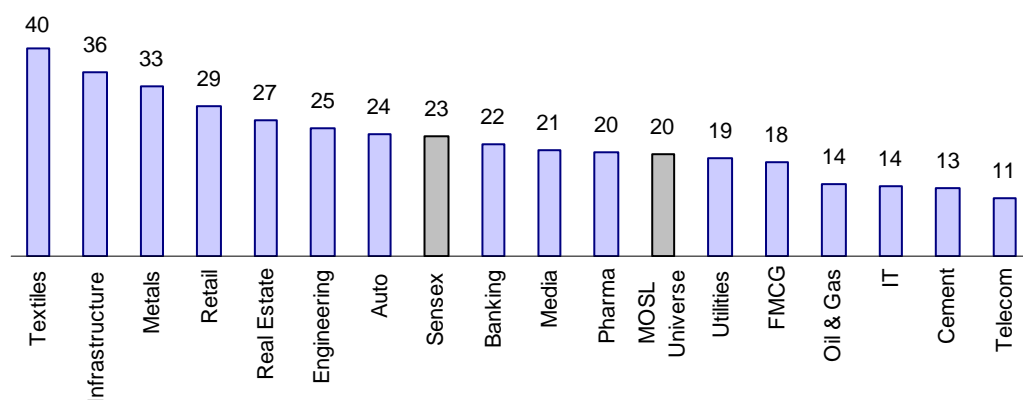
FY03-08 PAT CAGR (%)



FY08-10 PAT CAGR (%)



FY10-14 PAT CAGR (%)



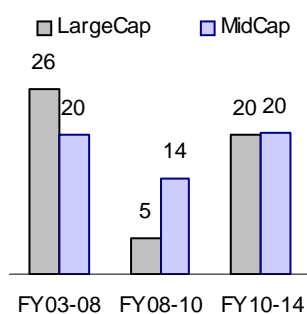
Source: MOSL

We also classified our universe by market capitalization (large-cap, mid-cap), by ownership (private, public sector) and geography exposure (domestic, global). Their performance across the three cycles also throws up some interesting conclusions:

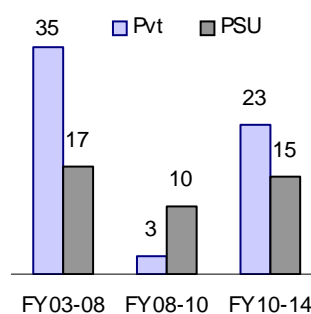
- Earnings growth of mid-caps was higher than the large caps during the downturn, and is expected to match going forward.
- Public sector companies have a lower (albeit more stable) earnings growth profile compared to private companies.
- Companies with no / low global exposure are better off in all the three earnings cycles.

## PAT GROWTH

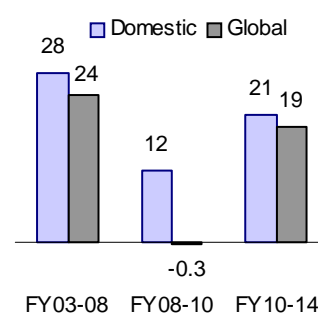
## LARGE CAP V/S MID-CAP



## PRIVATE V/S PUBLIC SECTOR



## DOMESTIC V/S GLOBAL COMPANIES

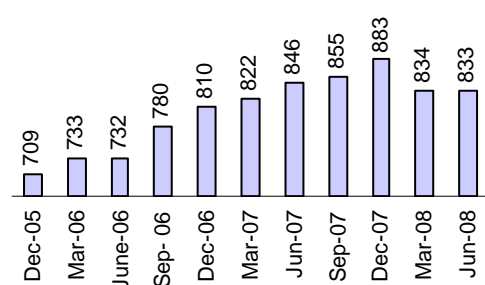


Source: MOSL

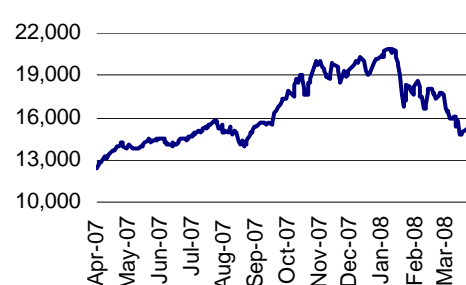
## Market phases and earnings upgrades/downgrades

We observe that markets typically rise on the back of steady upgrades in earnings estimates and vice versa. For instance, our FY08 Sensex EPS estimate was upgraded from Rs709 in December 2005 to Rs883 by December 2007, before settling at Rs833 in March 2008. In FY08, the Sensex rose 26%. In contrast, our FY09 Sensex EPS estimate was downgraded from Rs1,064 in December 2007 to Rs820 by June 2009. In FY09, the Sensex fell 38%.

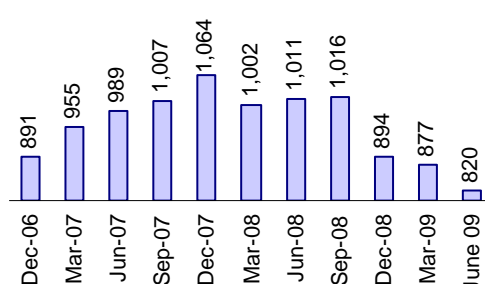
## FY08 EPS ESTIMATE(RS): 25% PEAK UPGRADE



## FY08 SENSEX: UP 26%



## FY09 EPS ESTIMATE (RS): 23% PEAK DOWNGRADE



## FY09 SENSEX: DOWN 38%



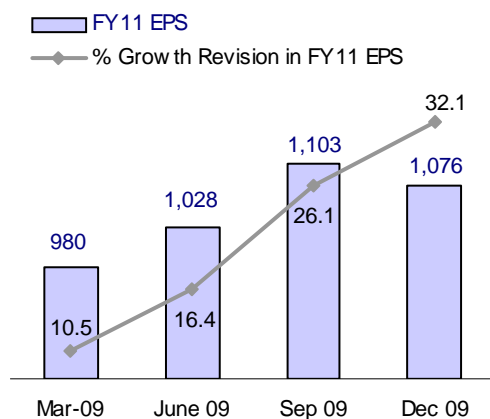
Source: MOSL

Markets typically rise on the back of steady upgrades in earnings estimates...

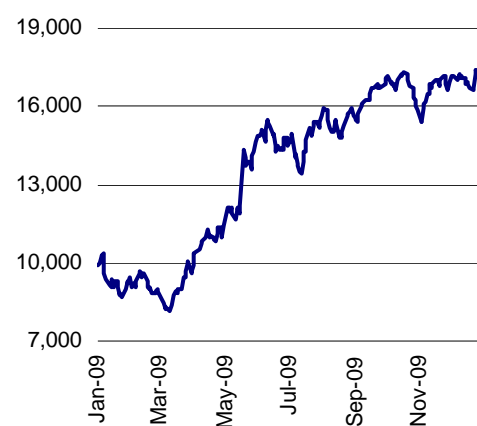
...and vice versa

Initial trends for our FY11 earnings estimate also seem to suggest a new cycle of earnings growth and upgrades. The markets are taking cognizance of this, as is evident from the 80% rise in Sensex in 2009.

FY11 EPS ESTIMATE (RS): ON UPGRADE CYCLE



CY09 SENSEX: UP 80%



*The rise in the Sensex over CY09 appears to reflect the steady upgrades in FY11E EPS*

Source: MOSL



## SENSEX STOCKS: FY10-14 EPS CAGR

| COMPANY           | EPS CAGR % |
|-------------------|------------|
| Hindalco          | 60         |
| Jaiprakash Asso.  | 47         |
| Sterlite Inds.    | 31         |
| Larsen & Toubro   | 27         |
| HDFC Bank         | 26         |
| State Bank        | 25         |
| ICICI Bank        | 25         |
| Tata Power        | 25         |
| <b>Sensex</b>     | <b>23</b>  |
| BHEL              | 22         |
| DLF               | 21         |
| Reliance Inds.    | 19         |
| Mah. & Mah.       | 17         |
| Infosys           | 17         |
| ITC               | 17         |
| HDFC              | 17         |
| Hind. Unilever    | 16         |
| Sun Pharma        | 15         |
| Maruti Suzuki     | 15         |
| NTPC              | 13         |
| Hero Honda        | 12         |
| TCS               | 12         |
| Reliance Comm     | 12         |
| Wipro             | 12         |
| ONGC              | 10         |
| Reliance Infra.   | 10         |
| ACC               | 10         |
| Bharti Airtel     | 9          |
| Grasim Industries | 9          |

## SENSEX STOCKS: FY14 P/E

| COMPANY                 | P/E (X)    |
|-------------------------|------------|
| State Bank              | 4.2        |
| Tata Steel              | 4.5        |
| Grasim Industries       | 5.2        |
| Reliance Comm           | 5.6        |
| Mahindra & Mahindra     | 5.9        |
| Sterlite Inds.          | 6.0        |
| ACC                     | 6.6        |
| Hindalco                | 7.4        |
| ONGC                    | 8.0        |
| Tata Power              | 8.3        |
| Reliance Inds.          | 9.2        |
| <b>Sensex</b>           | <b>9.3</b> |
| ICICI Bank              | 9.6        |
| Bharti Airtel           | 10.0       |
| Tata Motors             | 10.0       |
| HDFC Bank               | 10.1       |
| Hero Honda              | 10.6       |
| Larsen & Toubro         | 11.3       |
| Maruti Suzuki           | 11.5       |
| Jaiprakash Associates   | 11.6       |
| DLF                     | 12.2       |
| BHEL                    | 12.3       |
| Infosys                 | 13.1       |
| ITC                     | 13.1       |
| NTPC                    | 13.7       |
| Wipro                   | 14.1       |
| Reliance Infrastructure | 14.1       |
| TCS                     | 14.3       |
| Hind. Unilever          | 14.6       |
| Sun Pharma              | 15.3       |
| HDFC                    | 15.3       |

## SENSEX STOCKS: CONTRIBUTION TO FY10-14 PAT GROWTH

| COMPANY                 | WEIGHT IN SENSEX (%) (A) | CONTRIBUTION PAT GR. (%) (B) | (B)-(A) |
|-------------------------|--------------------------|------------------------------|---------|
| Tata Steel              | 2.9                      | 12.9                         | 9.9     |
| State Bank              | 4.9                      | 11.1                         | 6.3     |
| Tata Motors             | 1.7                      | 3.8                          | 2.1     |
| Sterlite Inds.          | 2.5                      | 4.5                          | 2.0     |
| Hindalco                | 1.6                      | 3.2                          | 1.6     |
| Jaiprakash Associates   | 1.3                      | 2.0                          | 0.8     |
| Grasim Industries       | 1.3                      | 1.8                          | 0.5     |
| Mahindra & Mahindra     | 1.7                      | 2.2                          | 0.5     |
| Tata Power              | 1.7                      | 2.0                          | 0.2     |
| HDFC Bank               | 4.8                      | 4.9                          | 0.1     |
| ICICI Bank              | 7.4                      | 7.4                          | 0.1     |
| Reliance Comm           | 1.0                      | 1.0                          | 0.0     |
| ACC                     | 0.7                      | 0.5                          | -0.2    |
| DLF                     | 1.2                      | 0.9                          | -0.3    |
| Sun Pharma              | 1.0                      | 0.4                          | -0.5    |
| Hero Honda              | 1.3                      | 0.7                          | -0.6    |
| Maruti Suzuki           | 1.7                      | 1.0                          | -0.7    |
| Reliance Infrastructure | 1.2                      | 0.5                          | -0.7    |
| Larsen & Toubro         | 7.0                      | 6.2                          | -0.7    |
| BHEL                    | 3.1                      | 2.3                          | -0.8    |
| Wipro                   | 1.6                      | 0.6                          | -0.9    |
| Hind. Unilever          | 2.2                      | 1.1                          | -1.1    |
| NTPC                    | 2.2                      | 1.0                          | -1.2    |
| ONGC                    | 3.9                      | 2.5                          | -1.4    |
| Bharti Airtel           | 3.3                      | 1.6                          | -1.6    |
| TCS                     | 3.4                      | 1.4                          | -2.0    |
| ITC                     | 5.2                      | 3.0                          | -2.2    |
| HDFC                    | 5.2                      | 2.8                          | -2.4    |
| Reliance Inds.          | 13.5                     | 11.0                         | -2.6    |
| Infosys                 | 9.7                      | 5.6                          | -4.1    |

## MCAP &gt; US\$1B &amp; FY10-14 PAT CAGR &gt; 30%

| COMPANY                | MKT CAP (USD B) | PAT CAGR % (FY10-14) |
|------------------------|-----------------|----------------------|
| Indiabulls Real Estate | 1.9             | 90                   |
| Cairn India            | 11.4            | 66                   |
| Hindalco               | 6.8             | 60                   |
| Ranbaxy Labs           | 4.7             | 57                   |
| GMR Infrastructure     | 5.3             | 50                   |
| Adani Power            | 4.6             | 49                   |
| Jaiprakash Associates  | 5.8             | 47                   |
| Dr Reddy's Labs        | 4.1             | 43                   |
| GVK Power & Infra      | 1.6             | 39                   |
| Mundra Port            | 4.7             | 39                   |
| Siemens                | 4.2             | 35                   |
| JSW Steel              | 4.1             | 34                   |
| Unitech                | 4.2             | 34                   |
| ABB                    | 3.5             | 33                   |
| United Spirits         | 3.3             | 33                   |
| Sterlite Inds.         | 15.5            | 31                   |
| Idea Cellular          | 3.9             | 31                   |
| Pantaloon Retail       | 1.6             | 30                   |

## MCAP &gt; US\$1B &amp; FY10-14 PAT CAGR &lt; 10%

| COMPANY            | MKT CAP (USD B) | PAT CAGR % (FY10-14) |
|--------------------|-----------------|----------------------|
| CESC               | 1.0             | -1                   |
| Jubilant Organosys | 1.1             | 2                    |
| HPCL               | 2.8             | 2                    |
| BPCL               | 4.8             | 3                    |
| IOC                | 15.9            | 4                    |
| MRPL               | 3.0             | 5                    |
| Patni Computer     | 1.3             | 6                    |
| ACC                | 3.5             | 9                    |
| Bharti Airtel      | 26.5            | 9                    |
| JSW Energy         | 3.4             | 9                    |
| Sesa Goa           | 7.1             | 10                   |
| IRB Infra.Devl.    | 1.7             | 10                   |

## MCAP &lt; US\$1B

| COMPANY                   | MKT CAP (USD B) | PAT CAGR % (FY10-14) |
|---------------------------|-----------------|----------------------|
| <b>Top 10 PAT CAGR</b>    |                 |                      |
| Arvind Mills              | 0.2             | 60                   |
| Mahindra Lifespace        | 0.3             | 56                   |
| Phoenix Mills             | 0.6             | 43                   |
| Dewan Housing             | 0.3             | 34                   |
| Alok Ind                  | 0.2             | 31                   |
| Vardhman Textiles         | 0.3             | 31                   |
| Bombay Rayon              | 0.4             | 30                   |
| Hind. Construction        | 1.0             | 28                   |
| Puravankara Projects      | 0.4             | 27                   |
| Sintex Inds.              | 0.8             | 26                   |
| <b>Bottom 10 PAT CAGR</b> |                 |                      |
| Indraprastha Gas          | 0.6             | 19                   |
| India Cements             | 0.8             | 17                   |
| Jagran Prakashan          | 0.8             | 17                   |
| Aventis Pharma            | 0.8             | 17                   |
| J&K Bank                  | 0.6             | 17                   |
| Dena Bank                 | 0.5             | 17                   |
| Birla Corporation         | 0.5             | 8                    |
| PTC India                 | 0.7             | 8                    |
| Peninsula Land            | 0.5             | 4                    |
| Chennai Petroleum         | 0.7             | 3                    |



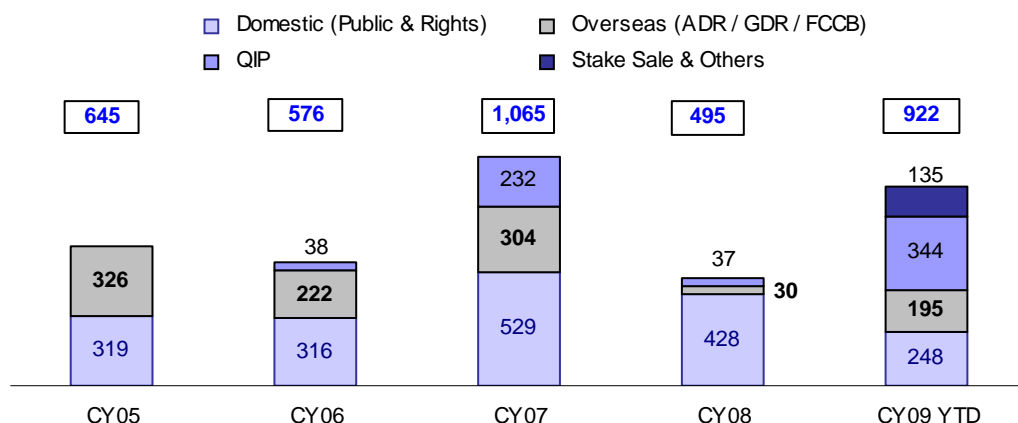
## #2. New cycle of capital raising

After a lull in CY08, there was a significant amount of capital raising in CY09. However, unlike the previous capital raising high of CY07, a large 52% of capital was raised by way of QIP (Qualified Institutional Placement) and stake sale (including treasury shares). This implies increasing institutionalization of primary markets as well.

*After a lull in CY08, there was significant capital raising in CY09*

*Over 50% of the capital was raised by way of QIP and stake sale, implying increasing institutionalization*

CAPITAL RAISING IN INDIA (RS B): INCREASING INSTITUTIONALIZATION



Source: MOSL

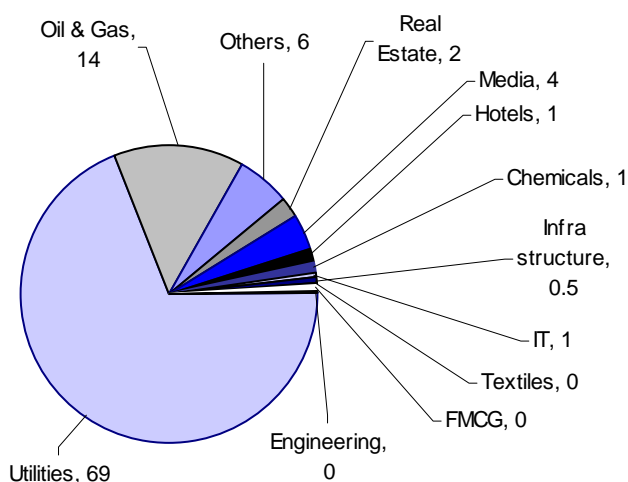
*The two major applications of the capital raised in CY09 were funding power infrastructure and deleveraging in real estate*

There are two important observations regarding the capital raised in CY09:

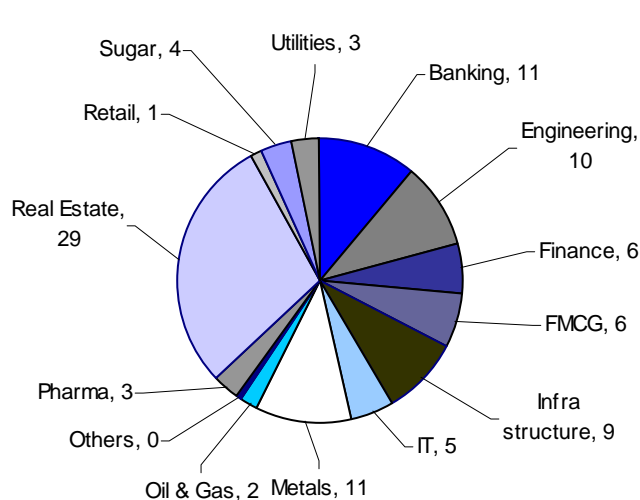
1. 69% of the money raised through IPO was by the Utilities sector; and
2. 30% of the money raised through QIP was by the Real Estate sector.

Thus, the two major applications of the capital raised in CY09 were: (1) funding power infrastructure; and (2) deleveraging in real estate.

69% OF IPO MONEY RAISED BY UTILITIES SECTOR (%)



29% OF QIP MONEY RAISED BY THE REAL ESTATE SECTOR (%)



Source: MOSL

*In CY10/FY11, we expect fresh India equity allocation of US\$24b-27b*

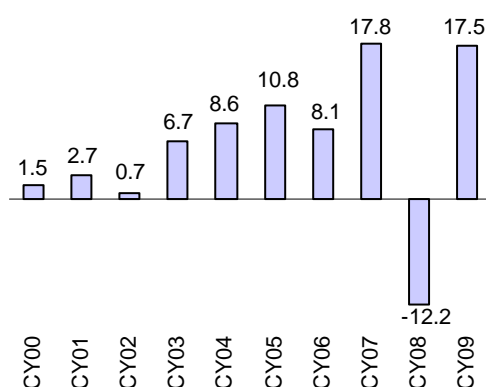
In CY10/FY11, we expect fresh India equity allocation of US\$24b-27b — US\$15b from insurance companies, US\$8b-10b by way of FII (foreign institutional investment) flows and US\$1b-2b from domestic mutual funds. This inflow is almost 5% of India's current free float market cap of US\$550b, implying that the market has enough capacity to absorb huge supplies of fresh paper without any major damage to asset values.

#### US\$15B EQUITY INFLOW FROM DOMESTIC INSURANCE SECTOR IN FY11E

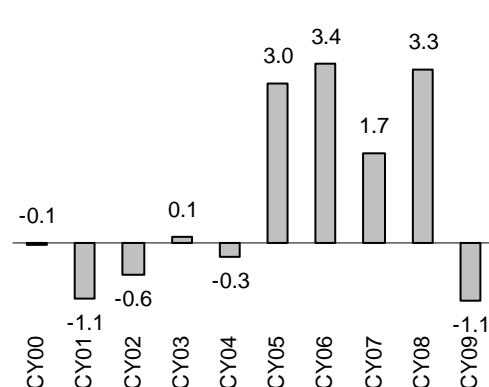
|   | FY09         | FY10E        | FY11E        | FY12E        |
|---|--------------|--------------|--------------|--------------|
| <b>Indian Insurance Sector</b>                          |              |              |              |              |
| Gross first year premium                                | 869          | 966          | 1,093        | 1,237        |
| Growth (%)  | -7           | 11           | 13           | 13           |
| Renewal premium   | 1,333        | 1,400        | 1,581        | 1,784        |
| Persistency (%)   | 66           | 64           | 67           | 67           |
| <b>Total premium inflows</b>                            | <b>2,202</b> | <b>2,366</b> | <b>2,674</b> | <b>3,021</b> |
| <b>LIC</b>  |              |              |              |              |
| Gross first year premium                                | 530          | 593          | 664          | 744          |
| Growth (%)  | -12          | 12           | 12           | 12           |
| Renewal premium   | 1,042        | 1,022        | 1,130        | 1,256        |
| Persistency (%)   | 70           | 65           | 70           | 70           |
| <b>Total premium Inflows</b>                            | <b>1,572</b> | <b>1,615</b> | <b>1,795</b> | <b>2,000</b> |
| <b>Private Players</b>                                  |              |              |              |              |
| Gross first year premium                                | 339          | 373          | 429          | 493          |
| Growth (%)  | 1            | 10           | 15           | 15           |
| Renewal premium   | 291          | 378          | 451          | 528          |
| Persistency (%)   | 56           | 60           | 60           | 60           |
| <b>Total premium Inflows</b>                            | <b>630</b>   | <b>751</b>   | <b>880</b>   | <b>1,021</b> |
| <b>Projection of inflows to equity</b>                  |              |              |              |              |
| LIC (20% of premium net of 10% commissions)             |              | 291          | 323          | 360          |
| Private Players (50% of premium net of 20% commissions) |              | 300          | 352          | 408          |
| <b>Total Equity Inflows</b>                             |              | <b>591</b>   | <b>675</b>   | <b>768</b>   |
| <b>Total Equity Inflows (US\$ b @ Rs45)</b>             |              | <b>13</b>    | <b>15</b>    | <b>17</b>    |

Gross first year premium based on growth assumption; Renewal premium based on persistency assumption

FII INFLOW TREND (US\$ B)



DOMESTIC MUTUAL FUND INFLOW TREND (US\$ B)



Source: MOSL

Our analysis of India's listed corporate space suggests that companies accounting for 69% of India's market capitalization are unlikely to need significant fresh equity capital for organic growth. Thus, **FY11 seems to offer a ripe time for the government to aggressively pursue its disinvestment program and bridge its fiscal deficit.**

#### INDIAN CORPORATE SECTOR: 69% UNLIKELY TO RAISE SIGNIFICANT CAPITAL

| SECTOR                            | MKT CAP<br>(RS T) | % TO TOTAL<br>MKT CAP | SECTOR                      | MKT CAP<br>(RS T) | % TO TOTAL<br>MKT CAP |
|-----------------------------------|-------------------|-----------------------|-----------------------------|-------------------|-----------------------|
| <b>Don't need capital raising</b> |                   |                       | <b>Need capital raising</b> |                   |                       |
| Oil & Gas                         | 8.8               | 15.2                  | Metals                      | 6.6               | 11.4                  |
| IT                                | 5.4               | 9.3                   | Utilities                   | 4.4               | 7.6                   |
| Engineering                       | 4                 | 6.9                   | Banks - Public Sector       | 3                 | 5.2                   |
| FMCG                              | 3                 | 5.2                   | Real Estate                 | 1.3               | 2.3                   |
| Banks - Private Sector            | 2.6               | 4.6                   | Infrastructure              | 1.1               | 1.9                   |
| Finance                           | 2.5               | 4.3                   | Auto Ancillaries            | 0.7               | 1.1                   |
| Pharma                            | 2.3               | 3.9                   | Textiles                    | 0.5               | 0.9                   |
| Telecom                           | 2.1               | 3.6                   | Retailing                   | 0.2               | 0.3                   |
| Automobile                        | 1.9               | 3.2                   |                             |                   |                       |
| Cement                            | 1                 | 1.6                   |                             |                   |                       |
| Miscellaneous                     | 6.6               | 11.3                  |                             |                   |                       |
| <b>Total</b>                      | <b>40.1</b>       | <b>69.2</b>           |                             | <b>17.9</b>       | <b>30.8</b>           |

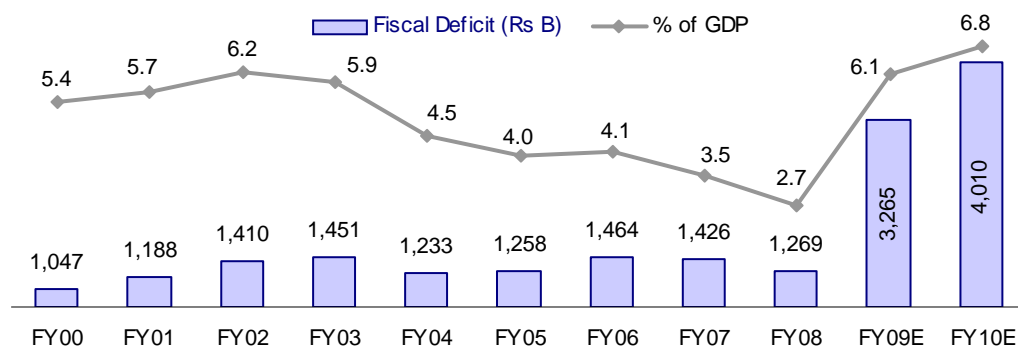
Source: Company/MOSL

*Companies accounting for 69% of India's market capitalization are unlikely to need significant fresh equity capital for organic growth*

#### Can PSU disinvestments drive a new cycle of lower fiscal deficits?

FY02-08 saw a steady and meaningful improvement in the Central government finances with fiscal deficit falling from 6.2% of GDP in FY02 to 2.7% in FY08. However, the next two years saw the government resort to counter-cyclical measures to minimize the impact of global recession and economic slowdown. This led to fiscal deficit shooting up to 6.1% of GDP in FY09, and to an even higher 6.8% in FY10E.

#### INDIAN CENTRAL GOVERNMENT'S FISCAL DEFICIT AT 12-YEAR HIGH



Source: Company/MOSL

*The environment is conducive for a planned PSU divestment program*

**Environment conducive for a planned PSU disinvestment program:** The market capitalization of the top 20 listed PSUs (excluding banks) with current government holding greater than 65% is ~US\$279b (Rs13t). Thus, if the government were to divest just 10% in these PSUs, it could garner US\$28b (Rs1.3t), and the proceeds utilized to alleviate fiscal deficit. The healthy funds flow situation of the market makes the environment conducive for the government to plan a disinvestment program for 3-4 years including large unlisted PSUs like Coal India and even Railways (which can be corporatized).

## TOP 20 LISTED PSUS (EXCL BANKS) WITH GOVERNMENT STAKE &gt; 65% (US\$ B)

| COMPANY                | GOVT STAKE (%) | MKT CAP      | FY09 NET SALES | FY09 PAT    |
|------------------------|----------------|--------------|----------------|-------------|
| ONGC                   | 74.1           | 53.8         | 13.6           | 3.4         |
| NTPC                   | 89.5           | 36.7         | 9.0            | 1.8         |
| MMTC                   | 99.3           | 36.3         | 7.9            | 0.0         |
| NMDC                   | 98.4           | 34.2         | 1.6            | 0.9         |
| BHEL                   | 67.7           | 23.9         | 5.6            | 0.7         |
| SAIL                   | 85.8           | 18.7         | 9.2            | 1.3         |
| IOCL                   | 78.9           | 15.7         | 65.1           | 0.6         |
| Power Grid Corpn.      | 86.4           | 9.4          | 1.4            | 0.4         |
| NHPC                   | 86.4           | 8.4          | 0.6            | 0.2         |
| Oil India              | 78.4           | 6.3          | 1.5            | 0.5         |
| Power Finance Corpn.   | 89.8           | 6.0          | 1.4            | 0.4         |
| Hind. Copper           | 99.6           | 5.2          | 0.3            | 0.0         |
| Natl. Aluminium        | 87.1           | 5.1          | 1.1            | 0.3         |
| Neyveli Lignite        | 93.6           | 5.1          | 0.7            | 0.2         |
| Rural Elec. Corpn.     | 81.8           | 4.2          | 1.0            | 0.3         |
| Bharat Electronics     | 75.9           | 3.2          | 1.0            | 0.2         |
| MRPL                   | 88.6           | 2.8          | 8.2            | 0.3         |
| Engineers India        | 90.4           | 1.7          | 0.3            | 0.1         |
| SCI                    | 80.1           | 1.3          | 0.9            | 0.2         |
| HMT                    | 98.9           | 1.0          | 0.0            | 0.0         |
| <b>Total of top 20</b> |                | <b>278.9</b> | <b>130.4</b>   | <b>11.6</b> |

Source: Company/MOSL

The government, in its published Medium-Term Fiscal Policy Statement, has made its intention clear to roll back the fisc to 5.5% of GDP in FY11 and further down to 4% in FY12. We expect fiscal deficit to peak out in FY10 and start contracting going forward led by: (1) Improved economic growth, (2) Gradual withdrawal of fiscal stimulus starting FY11, (3) Traction in government disinvestment program, and (4) Revenues from scaling up of the government's profit share in various projects (eg KG-D6 gas, Cairn India oil fields in Rajasthan, etc).

The new cycle of lower fiscal deficit will (1) prevent crowding out of private sector credit, (2) help keep interest rates lower, and (3) sustain growth of the economy and of the corporate sector.





*FY11 will be the current government's second year in office; the stage is set for policy reforms in several key areas*

### #3. New cycle of reforms

FY11 will be the current government's second year in office. We believe the stage is set for the government to initiate/execute policy reforms in several key areas:

- A. **Oil & Gas:** subsidy-sharing and gas pricing;
- B. **Banking & Finance:** consolidation of public sector banks, and raising of foreign holding in insurance sector from 26% to 49%; and
- C. **Infrastructure:** mainly, thrust on roads, airports, ports and power projects.
- D. **Goods & Services Tax (GST):** moderate rates and early implementation.

We believe the above reforms will (1) address anomalies in the economy such as subsidies, multiple product levies, etc, (2) strengthen the country's financial system (stronger banks, higher resources from the insurance sector for longer term requirements like infrastructure), and (3) sustain the economy's growth impetus by way of investments.

The new cycle of reforms, if implemented well, should drive growth in corporate sector profits, and hence, growth of India's equity markets.

#### A] Oil & Gas

There are two broad areas of reform -

- (1) **Oil sector:** Fuel pricing and sharing of under-recoveries/subsidies; and
- (2) **Gas sector:** Increase in APM gas prices.

#### 1. Likely reforms on fuel pricing and subsidy sharing: Positive for oil PSUs

The two pressing issues in the oil sector which need reform are - (1) Product-pricing; and (2) Sharing of under-recoveries/subsidies. To address these issues, several committees were set-up (Rangarajan, Chaturvedi), but very few suggestions were implemented. Currently, an expert group under Dr Kirit Parikh is expected to submit its report in January 2010.

HIGH OIL BONDS BURDEN ON GOVERNMENT SHOULD PROMPT POLICY REFORMS

|                                      | FY05       | FY06       | FY07       | FY08       | FY09         | FY10E      | REMARKS  |
|--------------------------------------|------------|------------|------------|------------|--------------|------------|--|
| Fx Rate (Rs/US\$)                    | 44.9       | 44.3       | 45.2       | 40.3       | 46.0         | 47.6       |  |
| Brent (US\$/bbl)                     | 42.2       | 58.0       | 64.4       | 82.3       | 84.8         | 68.5       | Significant rise in oil prices...                |
| <b>Gross Under-recoveries (Rs b)</b> |            |            |            |            |              |            |  |
| Auto Fuels                           | 23         | 154        | 208        | 426        | 575          | 127        |  |
| Domestic Fuels                       | 178        | 246        | 286        | 347        | 458          | 298        | ...resulted in high under recoveries             |
| <b>Total</b>                         | <b>201</b> | <b>400</b> | <b>494</b> | <b>773</b> | <b>1,033</b> | <b>425</b> | ...reaching Rs1 trillion in FY09                 |
| <b>Sharing (Rs b)</b>                |            |            |            |            |              |            |  |
| Oil Bonds                            | -          | 115        | 241        | 353        | 713          | 298        | Govt had to dole out oil bonds of Rs713b in FY09 |
| Upstream                             | 59         | 140        | 205        | 257        | 329          | 127        | ...more than the sum of previous three years     |
| OMC's sharing                        | 142        | 138        | 48         | 163        | (9)          | -          |  |
| <b>Total</b>                         | <b>201</b> | <b>393</b> | <b>494</b> | <b>773</b> | <b>1,033</b> | <b>425</b> |  |
| <b>Sharing (%)</b>                   |            |            |            |            |              |            |  |
| Oil Bonds                            | -          | 29         | 49         | 46         | 69           | 70         | With no policy in place ...                      |
| Upstream                             | 30         | 36         | 42         | 33         | 32           | 30         |  |
| OMC's sharing                        | 70         | 35         | 10         | 21         | (1)          | -          | ...sharing has been adhoc                        |
| <b>Total</b>                         | <b>100</b> | <b>100</b> | <b>100</b> | <b>100</b> | <b>100</b>   | <b>100</b> |  |

Source: Company/MOSL

*OMCs could get autonomy to fix retail prices for auto fuels*

### Likely reforms in product pricing

1. Autonomy for OMC's to fix retail prices for petrol and diesel within a price band up to crude of US\$85/bbl,
2. Targeted subsidy pricing of LPG.

### Likely reforms in sharing of under-recoveries

1. Budgetary support for PDS kerosene and LPG to continue,
2. Auto fuel under-recoveries (beyond the price band) to be shared by upstream (ONGC and OIL) based on an appropriate formula (see table below for one proposed by ONGC).

SIGNIFICANT BENEFIT TO ONGC IN THE PROPOSED SHARING MECHANISM

|              |                         | REALIZATION (US\$/BBL) |          |     | ONGC FY11E    |         | UPGRADE   | LIKELY |
|--------------|-------------------------|------------------------|----------|-----|---------------|---------|-----------|--------|
| CRUDE PRICE  | UPSTREAM                | CUMULATIVE             |          |     | CONS EPS (RS) |         | POTENTIAL | P/E    |
| (US\$ / BBL) | DISCOUNT                | GROSS                  | DISCOUNT | NET | LIKELY        | CURRENT | (%)       | (X)    |
| Up to 60     | Nil                     | 60                     | 0        | 60  | 108           | 118     | -9        | 10.9   |
| 60-70        | 20% of price > \$60/bbl | 70                     | 2        | 68  | 131           | 118     | 10        | 9.0    |
| 70-80        | 40% of price > \$70/bbl | 80                     | 6        | 74  | 148           | 118     | 25        | 7.9    |
| 80-90        | 60% of price > \$80/bbl | 90                     | 12       | 78  | 160           | 118     | 35        | 7.3    |
| > 90         | 80% of price > \$90/bbl | 100                    | 20       | 80  | 166           | 118     | 40        | 7.1    |

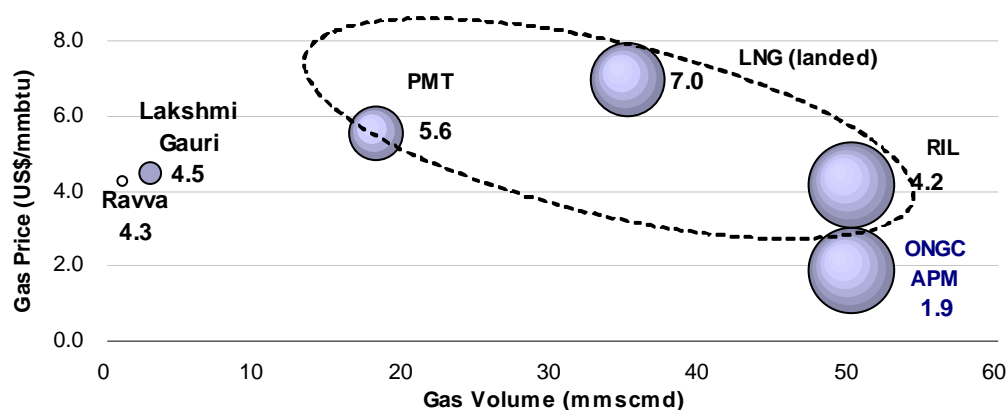
Source: Company/MOSL

## 2. APM gas prices: Hike inevitable; positive for ONGC and OIL

Gas prices in India have historically remained low compared to international gas prices (Henry Hub). Gas sold by ONGC and OIL through their nomination blocks is priced at ~US\$2/mmbtu (Rs3,200/mscm) under APM (administered pricing mechanism).

Both ONGC and Oil India have been demanding APM price hike for several years to at least maintain current production volumes. After remaining stagnant for many years, APM prices were increased in July 2005 by 12% from Rs2,850/mscm to Rs3,200/mscm on an ad hoc basis pending final recommendation by Tariff Commission (TC). In May 2007, TC increased ONGC's producer price to Rs3,600/mscm (Rs3,820, post WPI adjustment). However, it was never implemented due to pending final notification.

APM PRICE FAR BELOW THE PREVAILING PRICES IN INDIA



Source: Company/MOSL

*Hike in APM gas prices  
is inevitable*

We believe APM gas price hike is inevitable given the (1) unremunerative investments to maintain production, and (2) higher prices for other gas producers in India. Over the next 2-3 years, APM price is most likely to be brought in line with the other prevailing gas prices - RIL - US\$4.2/mmbtu, PMT - US\$5.7/mmbtu.

Increase of APM price from current US\$2/mmbtu to US\$4.2/mmbtu boosts ONGC's PAT by Rs17b (EPS of Rs18, +15%).

## B] Banking & Finance

The key financial sector reforms likely in 2010 are: (1) Consolidation of state-owned banks, and (2) Increase in FDI (foreign direct investment) limits in insurance from 24% to 49%.

### Consolidation of state-owned banks

- In recent times, the larger state-owned banks (such as State Bank of India, Punjab National Bank, Bank of Baroda) have significantly improved their core operating profitability on the back of improving efficiency and structural improvements (technology, manpower, etc).
- In contrast, a few regional banks in the highly competitive southern and western India would find it increasingly difficult to manage self sustaining asset growth. Government ownership at near 51% further aggravates the problem, as they will have to depend on the government for their growth aspiration.
- We believe their merger with other banks seems inevitable over the medium- to long term. The process of the consolidation of SBI with its associate banks will also gain momentum over the next few years.
- Consolidation of state-owned banks was one of the focus areas of the UPA government prior to 2009 elections. However, due to opposition from the Left alliance partners, the process got delayed. The current Congress-led UPA government, with a majority at the Center and no pressure from the Left, has already taken initiatives for consolidation among PSU banks. (For instance, the mergers of State Bank of Saurashtra and State Bank of Indore with State Bank of India have already been cleared.)

### Our case for consolidation of State-owned banks

*There is a strong case for  
consolidation of state-owned  
banks*

1. **Excluding SBI, there is no truly Pan Indian state-owned bank:** SBI group is among the "Top 3" banks in each of India's 35 states/UTs in terms of branch network. The next biggest is PNB with "Top 3" status in 14 states. All other large banks (BoI, BoB, Canara, Union Bank) have dominance in less than 10 states each. Thus excluding SBI, all the state-owned banks remain largely regional in nature. Inorganically, these banks can become pan India faster.
2. **Core operations for small and mid sized banks deteriorating fast; pressure on RoE evident:** Core operating profits of large banks have improved significant due to benefits of large scale/reach, improved technology platform, and higher customer acquisitions. While business growth for a few smaller banks has also been in line with

larger banks, their quality of profits has deteriorated over time. We see no reason this trend should reverse. Given a strong and rapid thrust by large banks like SBI, BoI, Union Bank, PNB etc in technology ramp up and organization restructuring, we believe many other banks would remain in catch up exercise only putting them in structurally uncompetitive position.

3. **Capital is scarce; only the fittest will survive:** Smaller banks like Dena Bank, Bank of Maharashtra and Vijaya Bank operate in intensely competitive regions of west and south India. They would find it increasingly difficult to grow without government's intermittent capital support. (In Central and East India, the markets are clearly under-penetrated, which dilutes the urgency for consolidating banks here e.g. Allahabad Bank, United Bank of India and UCO Bank). The government may well provide near-term capital to the weaker PSU banks. However, as the world is moving towards higher core Tier I ratio, it would be difficult for these banks to grow without government support as their RoA remains low.
4. **The acquirers and the acquirees:** Strong performing large banks like PNB, Canara, BoI, BoB and Union Bank are the potential acquirers in our view. The potential acquiree banks are regional banks which are succumbing to competitive pressures e.g. Dena Bank, Vijaya Bank, Bank of Maharashtra, Oriental Bank of Commerce and Indian Overseas Bank. (Some regional banks seem to be managing competitive pressures much better than others e.g. Indian Bank, Andhra Bank and Corporation Bank.)
5. **The final hurdle:** The government's and the respective bank management's willingness for consolidation seems to be high currently. However, for the idea to become a reality, the final hurdle of resistance from worker unions will need to be overcome.

#### Insurance sector reforms

*We expect the government to increase the FDI/FII limit in insurance companies to 49%*

- We expect the current UPA government to hasten the process of insurance sector reforms. Currently FDI (foreign direct investment) allowed in insurance companies is 26% whereas no FII (foreign institutional investment) is allowed.
- As we expect several private insurance companies to get listed in the next 2-3 years, GOI will need to address the issue of allowing FII in insurance companies. Considering the huge opportunity in insurance and the significant capital required, we expect the government to increase the FDI/FII limit in insurance companies to 49%.
- This move should lead to significant upgrades to the insurance subsidiary valuation of various banks. From our universe of companies, the beneficiaries will be SBI, ICICI Bank, HDFC, Kotak Mahindra Bank and Reliance Life.

INCREASE IN FOREIGN HOLDING LIMIT TO RELEASE SIGNIFICANT CAPITAL FOR HOLDING COMPANIES (RS B)

| INSURANCE COMPANY | % STAKE IN INS | CAPITAL INFUSED |           | INS VALUE | GAIN (X) | AT 49% FOREIGN HOLDING |                  |
|-------------------|----------------|-----------------|-----------|-----------|----------|------------------------|------------------|
|                   |                | TOTAL           | BY PARENT |           |          | STAKE SALEABLE         | CAPITAL RELEASED |
|                   | a              | b               | c         | d         | e=d/b    | f                      | g = d x f        |
| Reliance Life     | 100            | 28              | 28        | 106       | 3.7      | 49                     | 52               |
| ICICI Pru Life    | 74             | 49              | 36        | 191       | 3.9      | 23                     | 44               |
| SBI Life          | 74             | 10              | 7         | 119       | 11.8     | 23                     | 27               |
| HDFC Std Life     | 72             | 18              | 13        | 80        | 4.3      | 21                     | 17               |
| Om Kotak Life     | 74             | 6               | 4         | 39        | 6.9      | 23                     | 9                |

Source: Company/MOSL

## EMBEDDED INSURANCE VALUE NOT VERY HIGH

| COMPANY          | INS VALUE<br>(RS B) | % STAKE<br>IN INS | VALUE OF<br>STAKE (RS B) | INS VALUE<br>PER SHARE (RS) | CMP<br>(RS) | TP<br>(RS) | INS VALUE<br>TO TP (%) |
|------------------|---------------------|-------------------|--------------------------|-----------------------------|-------------|------------|------------------------|
| Reliance Capital | 106                 | 100               | 106                      | 431                         | 852         | 874        | 49                     |
| Kotak Mahindra   | 39                  | 74                | 29                       | 84                          | 808         | 703        | 12                     |
| ICICI Bank *     | 191                 | 74                | 113                      | 101                         | 878         | 987        | 10                     |
| HDFC *           | 80                  | 72                | 46                       | 160                         | 2,685       | 2,298      | 7                      |
| SBI *            | 119                 | 74                | 70                       | 111                         | 2,221       | 2,600      | 4                      |

\* Post 20% Discount

Source: Company/MOSL

## C] Infrastructure

Infrastructure reforms can be looked at two ways: (1) Transportation infrastructure (Roads, Airports, Ports) and (2) Power infrastructure including generation, transmission and distribution.

### Key reforms in infrastructure sector in CY09

- **Roads:** NHAI (National Highway Authority of India) and the government have accepted recent recommendations of the B K Chaturvedi committee to overcome issues with respect to 1) Termination/exit clauses, 2) upfront land acquisition of 80%+ before project award, 3) PQ criterion assessment on annual basis vs project specific, etc. These will lead to an accelerated pace in terms of road project awards.
- **Airports:** Ministry of Civil Aviation has allowed ADF (Airport Development Fees)/UDF (User Development Fees) to improve project viability of brownfield/greenfield airports. The steps have been initiated to appoint a regulator for the aviation sector to regulate returns, charges, operations, etc. Bidding and award for various regional airports has also been completed.
- **Ports:** The government plans to de-regulate tariff for terminals/berths in major ports awarded on BOT basis to private sector payers, and take it out of the purview of Tariff Authority of Major Ports (TAMP). Plans are initiated to appoint a regulator for the ports sector.

### Impact on the sector

- The enhanced activity on the roads sector is clearly visible with project award of Rs138b (16 projects) in the month of November 2009 by NHAI covering 1,200km. NHAI plans to award additional 6,000km of road projects by end FY10.
- On the airports front, the pick-up in traffic has improved project economics over the past few months, and this could possibly mean lower grant by Government in the form of ADF/UDF. There is strong interest in the bidding for various regional airports and till date 7-8 airport projects have already been awarded.
- Port traffic has picked up of late, but is still not commensurate to earlier levels, given slower global recovery. However, the investment in port sector is expected to pick up as per the plans announced under National Maritime Development Programme (NMDP).

### Key reforms to look out for in CY10

- Large part of regulatory action would be in the form of accelerating project awards (roads, ports, dedicated freight corridor), addressing funding issues (by making available long term resources) and improving execution (addressing bottlenecks like clearances and dispute resolution for contractors).

*Infrastructure reforms would help sustain the economy's growth impetus by way of investments*



- Airport Regulator is expected to approve tariff orders, which will provide a policy framework in terms of return calculations, particularly for Hyderabad and Bangalore airports.

#### **Impact on the sector**

- Project awards are likely to pick up in the roads sector as the number of bidders per project has increased with the amendments adopted by NHAI.
- Appointment of a regulator in for ports and airports would provide higher visibility on sustainable earnings/returns for large investments in the sector.

### **Power sector**

#### **Key reforms in Indian power sector in the year CY09**

- Regulated returns have been prescribed for Renewable Energy (RE) projects to promote development.
- Strict norms on improving Grid Discipline by regulating UI (Unscheduled Interchange) market.
- Open access in transmission proposed to be allowed.
- Short-term prices were capped for a brief period (45 days) to check merchant power rates.
- Fuel Supply Agreement (FSA) articulated and signed with Coal India (CIL) to ensure 90% availability of coal for thermal power project on long-term, take-or-pay basis.

#### **Impact on the sector**

- In the past one year, Indian power sector has gained significant traction in all segments, viz, generation, transmission and distribution. Signing of FSA by CIL with Central and State PSUs for assured fuel supply has been one of the foremost reforms given that fuel availability was a key contentious issue for sector.
- Steps have been taken up to establish vibrant power trading market allowing free pricing and establishment of Energy Exchanges. Though the central regulator had imposed cap on ST trading prices in India for 45 days, it was largely aimed at eliminating seasonality and irrationally high ST prices.
- On the transmission side, the proposed bill on open access for transmission to bulk consumers (1MW requirement and above) would lead to healthy competition among power generators.
- Lastly, on the distribution side, the introduction of prior condition of channeling database on IT platform for SEBs would help check system losses, monitor performance, and expedite privatization process.

#### **Key reforms to look out for in CY10**

- Introduction of marginal participation method of charging transmission tariffs for medium- and short-term contracts
- UMPPs in transmission sector
- Competitive bidding route for allocation of coal blocks
- Expediting regulatory clearances for power / mining projects, particularly environment and forest
- Improved long-term funding availability
- Distribution reforms and further privatization.

### Impact on the sector

- Central Electricity Regulatory Commission (CERC) is already working on the final framework for fixation of transmission tariff under the new "Marginal Participation Method", v/s current system of dedicated beneficiaries and standard transmission charges. This could possibly aid free movement of power at lower transmission charges, v/s current scenario of postage stamp system of transmission charges.
- Also, the investment in transmission sector has been lower than planned capex on generation side. To enable free inter-regional movement of power, Ministry of Power (MoP) has proposed to setup transmission infrastructure corridor on the lines of generation UMPPs to expedite the investment in the transmission sector. This could be a key positive for IPPs (Independent Power Producers) with sizable capacity.
- Fuel supply is another such key issue haunting Indian power sector for a while, with significant capacity being put up dependent on imported coal. The Central government has decided to award coal blocks on competitive auction to expedite the investment in coal mining sector and improve domestic production without loss to Central/State government.

### D] GST implementation

*The Finance Ministry has already issued a draft bill for the implementation of a simplified GST in India*

Finance Ministry has already issued a draft bill for the implementation of a simplified GST (Goods & Services Tax) in India. The issue is under discussion regarding: (1) tax slabs which will be imposed under the new system, (2) dissolution of various taxes into GST, and (3) date of implementation. So far, there is some clarity on some points: (1) It will be a two-tier GST i.e. central and state GST, (2) large number of state and local taxes will be subsumed into GST and (3) multiple categories and levels of taxation depending upon placement of goods in a particular class.

Our discussion with various trade and industry participants suggests following benefits which are beyond tax rates:

- GST is likely to set up a floor level (Rs1m for state GST and Rs1.5m for central GST) for trade applicability to come under the tax net. Companies expect this floor level to result in large part of unorganized sector coming under the tax net. This will reduce the undue cost advantage unorganized sector gets from evading taxes at various levels; we estimate that taxes constitute 20-25% of the total consumer prices.
- Supply chain will become more efficient as some of the taxes like central sales tax, entry tax and various other nomenclature of taxes on entry of goods from one state to another get subsumed. This will negate the need to maintain small supply depots in every state. Manufacturers can have fewer but large depots for supply in various economic regions which would be beyond state boundaries. This will reduce supply chain costs, e.g. supply of goods to entire NCR (National Capital Region of Delhi) region might be controlled from one central depot. NCR has states like Delhi, Haryana, UP, Rajasthan surrounding it and currently needs to be serviced from those states only.
- GST is likely to reduce prices (lower taxes and distribution costs) and improve tax compliance. This is likely to increase GDP growth by 0.4-0.5%.

## Possible spokes in the wheel

The new cycle of earnings growth coupled with optimism on policy reform and strong liquidity should help sustain rich valuations and healthy growth of the Indian stock markets going forward. However, there are a few potential spokes in the wheel, which we also address here:

- (1) Economic stimulus withdrawal
- (2) Aggressive global ambitions of companies; and
- (3) Optimistic valuations of IPOs.

### Economic stimulus withdrawal

*The government could commence a gradual withdrawal of the economic stimulus measures*

With the domestic and global economy showing signs of stability, the government is likely to commence a calibrated withdrawal of the economic stimulus announced since 2HFY09.

The economic stimulus withdrawal is likely to assume two forms:

- (1) Some monetary tightening, considering the prevailing inflationary conditions, and
- (2) Withdrawal of fiscal stimulus in the Union Budget FY11, mainly reversal of excise duty cuts.

We expect the impact of economic stimulus withdrawal to be limited:

- (1) We expect the monetary tightening to be RBI's thrust only till inflation peaks out in March 2010. In any case, there seems sufficient liquidity in the system to support strong economic and credit growth.
- (2) Impact of the reversal of excise duty cuts, depending upon the magnitude of the withdrawal will selectively impact stocks.

### Monetary tightening should be a temporary measure

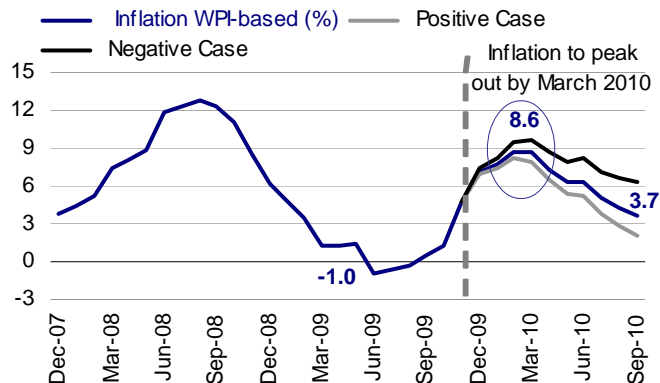
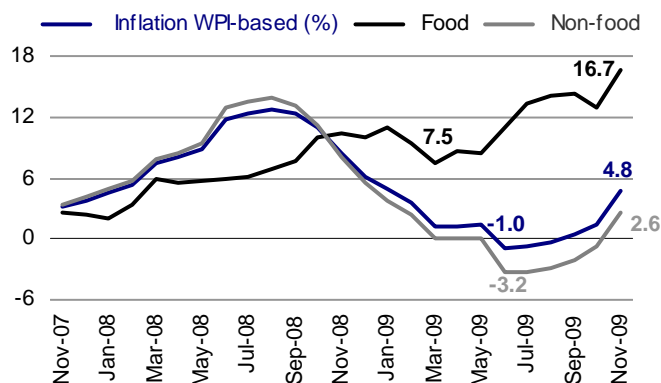
#### Inflation should peak out by March 2010

In August 2008, inflation in India peaked at 13%. Ever since, it has been declining steadily, even turning negative during June-August 2009, before creeping up to the current levels of 5%. Interestingly, the decline in inflation is despite raging food inflation following a weak monsoon. Depressed global commodity prices coupled with domestic excise duty cuts as part of the economic stimulus package helped keep non-food inflation low. Non-food inflation bottomed out in July 2009, and has been inching up since then, pushing up overall inflation.

*CRR could be hiked to counter rising inflation...*

We expect inflation to peak out in March 2010 between 8-10% and ease back to low single digits by September 2010. The RBI is likely to counter the temporary rise in inflation by a hike in CRR, which in turn could also marginally drive up deposit and lending rates, specially at the shorter end.

## INFLATION, THOUGH ON A RISE, SHOULD PEAK OUT IN MARCH 2010



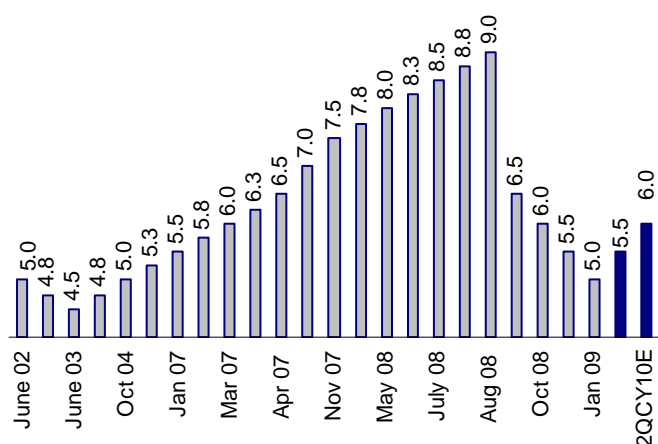
Source: Company/MOSL

## CRR hike should not concern the markets

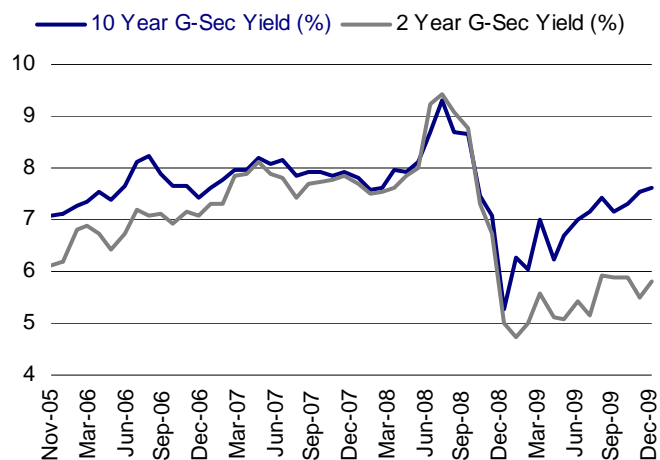
...but a 50-100bp hike in CRR should not be much of a concern for the markets

In the last cycle of CRR hikes, CRR rose from 4.5% in June 2003 to as high as 9% in August 2008. The Sensex which was at 3,600 levels in June 2003 stood at 14,500 levels in August 2008, having touched a high of almost 21,000 along the journey in December 2007. Given this, the expected 50-100bp hike in CRR should not be much of a concern for the markets from a longer term perspective as focus shifts from the fear of tightening to the opportunities from accelerating growth.

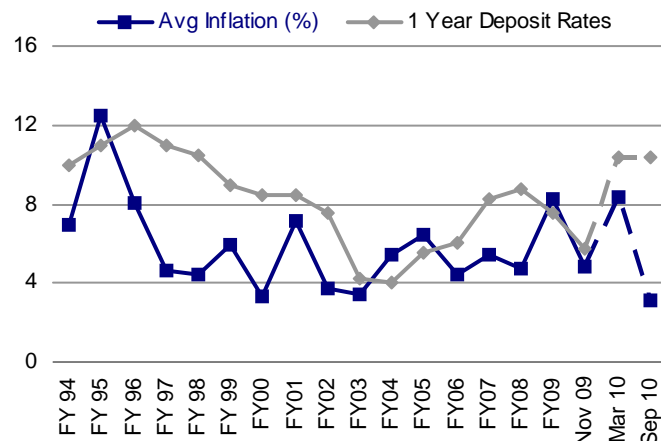
## RISE IN INFLATION LIKELY TO BE COUNTERED BY A HIKE IN CRR



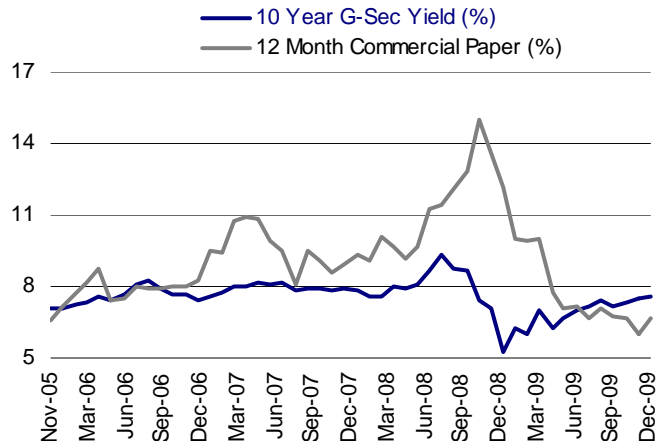
## SHORT-TERM RATES LIKELY TO RISE



## HIGHER INFLATION SHOULD LEAD TO HIGHER DEPOSIT RATES ...



## ... AND LENDING RATES



Source: Company/MOSL

### Banking system liquidity situation comfortable to sustain growth

Our calculations suggest that liquidity in the Indian banking system is comfortable enough to sustain about 20% credit growth in FY11E and still leave some cushion for banks to participate in the government's borrowing program despite modeling a 100bps hike in CRR.

#### LIQUIDITY SITUATION IS COMFORTABLE TO SUSTAIN 20% CREDIT GROWTH

*Liquidity situation is comfortable to sustain 20% credit growth in FY11*

|   | FY09          | FY10E         | FY11E         | REMARKS              |
|---|---------------|---------------|---------------|----------------------|
| <b>Total Inflows expected in the system</b> |               |               |               |                      |
| <b>Deposits (1)</b>                         | <b>38,303</b> | <b>45,198</b> | <b>53,333</b> |                      |
| YoY Growth (%)                              | 20.0          | 18.0          | 18.0          | Assuming slowdown    |
| Total Inflow via Deposits                   | 6,382         | 6,895         | 8,136         | in growth rates      |
| <b>Other Liabilities (2)</b>                | <b>4,245</b>  | <b>4,372</b>  | <b>4,503</b>  |                      |
| YoY Growth (%)                              | 5.4           | 3.0           | 3.0           |                      |
| Total Inflow via other Liabilities          | 219           | 127           | 131           |                      |
| <b>Demand and Time Liab (NDTL) (1+2)</b>    | <b>42,548</b> | <b>49,570</b> | <b>57,837</b> |                      |
| YoY Growth (%)                              | 18.4          | 16.5          | 16.7          |                      |
| <b>Total Inflow via NDTL (A)</b>            | <b>6,601</b>  | <b>7,022</b>  | <b>8,267</b>  |                      |
| <b>CRR</b>                                  | <b>2,586</b>  | <b>2,726</b>  | <b>3,470</b>  |                      |
| CRR (%)                                     |               | 5.5           | 6.0           | Assumed 1% hike by   |
| <b>Total Inflow/outflow on a/c of CRR</b>   | <b>14</b>     | <b>141</b>    | <b>744</b>    | FY11                 |
| <b>Total resource inflows</b>               | <b>6,586</b>  | <b>6,881</b>  | <b>7,523</b>  |                      |
| <b>Total Outflow on a/c of loan growth</b>  |               |               |               |                      |
| <b>Loan Book</b>                            | <b>27,700</b> | <b>31,578</b> | <b>37,894</b> |                      |
| YoY Growth (%)                              | 17.9          | 14.0          | 20.0          |                      |
| Total Outflow via loan growth               | 4,215         | 3,878         | 6,316         |                      |
| <b>Non SLR Book</b>                         | <b>2,115</b>  | <b>2,856</b>  | <b>2,142</b>  | MF investment        |
| YoY Growth (%)                              | 25.2          | 35.0          | -25.0         | redemptions by banks |
| Total Outflow via loan equivalents          | 426           | 740           | (714)         |                      |
| <b>Total outflows (C )</b>                  | <b>4,641</b>  | <b>4,618</b>  | <b>5,602</b>  |                      |
| <b>Amounts Available for SLR</b>            | <b>1,946</b>  | <b>2,263</b>  | <b>1,921</b>  | Cushion available to |
| <b>SLR Investments</b>                      | <b>11,657</b> | <b>13,920</b> | <b>15,842</b> | invest in G-Sec is   |
| SLR to NDTL (%)                             | 27.4          | 28.1          | 27.4          | Rs2T in FY11         |

Source: Company/MOSL

### Fiscal stimulus withdrawal to selectively impact stocks

The government's fiscal stimulus mainly came in two forms -

1. Higher government expenditure, including on NREGS (National Rural Employment Guarantee Scheme); and
2. Lower rates of indirect taxes (excise duty and service tax).

As part of the stimulus withdrawal, we believe the government will reverse the cut in indirect tax rates, rather than cutback on its expenditures. Reversal of excise duty rates can have an impact on consumer-facing sectors, mainly Auto. FMCG will not be severely affected as many companies have manufacturing units in excise-exempt locations.



## AUTOS BENEFIT SIGNIFICANTLY FROM FISCAL STIMULUS: 1HFY10 GROWTH SIGNIFICANTLY HIGH

|                     | EXCISE DUTY RATE (%) * |      |               | VOLUME GROWTH (%) |      |        |
|---------------------|------------------------|------|---------------|-------------------|------|--------|
|                     | FY08                   | FY09 | POST-STIMULUS | FY08              | FY09 | 1HFY10 |
| <b>Auto</b>         |                        |      |               |                   |      |        |
| Hero Honda          | 16                     | 12   | 8             | 0                 | 12   | 23     |
| Maruti (small cars) | 16                     | 12   | 8             | 13                | 4    | 24     |
| M&M - UVs           | 24                     | 24   | 20            | 19                | 1    | 30     |
| <b>FMCG</b>         |                        |      |               |                   |      |        |
| Asian Paints        | 16                     | 14   | 8             | 17                | 13   | 15     |
| Colgate             | 16                     | 14   | 8             | 5                 | 13   | 16     |

\* Excluding 3% surcharge

Source: MOSL

Even after the fiscal stimulus is withdrawn, we expect consumers and companies to be better off than the pre-stimulus situation:

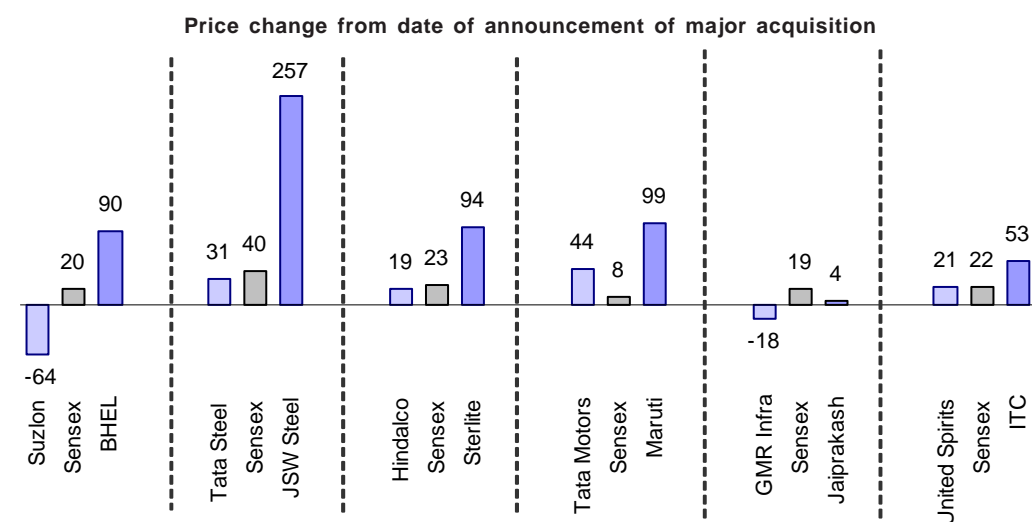
1. The Finance Minister's statements seem to suggest that the full cut in excise duty rates may not be reversed in one go. In the meanwhile, GST (common Goods & Services Tax) may also get implemented, where the tentative rates recommended are lower than the pre-stimulus rates.
2. Beginning FY11, the Indian economy could resume its pre-crisis growth rate of 8-9%, higher than the 6.5-7% growth rates seen in FY09 and FY10.

Overall, we expect the withdrawal of economic stimulus to be gradual and calibrated such that it does not adversely impact the India growth story.

## Aggressive global ambitions of companies

Beginning end-CY06, several Indian companies embarked on a globalization spree with mega acquisitions in various parts of the world. However, these acquisitions coincided with a global downturn and the acquirer companies are yet to earn meaningful returns on their investment. This is already reflected in their stock market performance. Most of the big acquirers have underperformed the market benchmark, and ALL of them have underperformed their closest peer by a wide margin.

## GLOBAL AMBITIONS OF INDIAN COMPANIES NOT WELL RECEIVED BY THE MARKETS



Source: Company/MOSL

## Optimistic valuations of IPOs

An analysis of major IPOs by Indian companies over the last three years does not make good reading from the investors' point of view. Of the 74 companies which raised over Rs1b, 52 (70%) have underperformed the market benchmark. In terms of amount raised, the underperformance is even higher at 78%.

This is a major deterrent for equity as an asset class among retail investors. Recurrence of this phenomenon of overvaluation of IPOs going forward would have a negative impact on investor sentiment and hence, overall market growth.

### OPTIMISTIC IPO VALUATIONS HAVE LED TO DISAPPOINTING RETURNS FOR INVESTORS

|                               | TOTAL | RELATIVE TO BENCHMARK |              |
|-------------------------------|-------|-----------------------|--------------|
|                               |       | UNDERPERFORMED        | OUTPERFORMED |
| No. of IPOs raising over Rs1b | 74    | 52 (70%)              | 22 (30%)     |
| Total amount raised (Rs b)    | 745   | 584 (78%)             | 161 (22%)    |

Source: MOSL

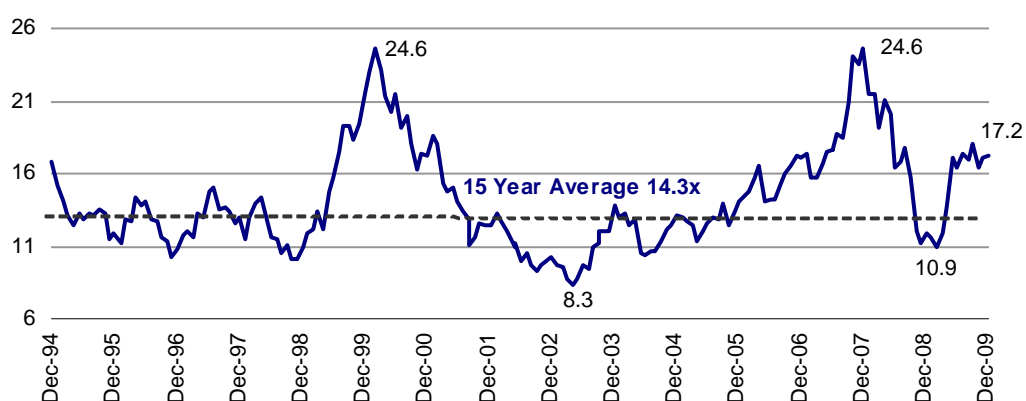
## Valuations rich; strong long-term returns quite likely

### Valuations are rich

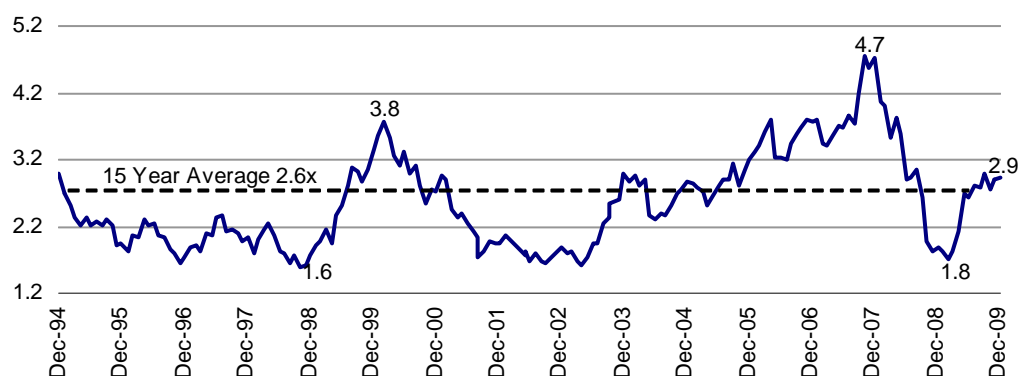
All indicators suggest that Indian markets are currently enjoying rich valuations -

- **P/E:** The Sensex's current one-year forward P/E is 17x, which is a 20% premium to the last 15-year average.
- **P/B:** The Sensex's current one-year forward P/B is 2.9x, a 12% premium to the 15-year average.
- **Earnings yield to bond yield:** This ratio is currently at 0.8x, which is about 10% lower than the 15-year average.
- **RoE:** Sensex RoE at 17.3% is 130bp lower than the 15-year average of 18.6%.

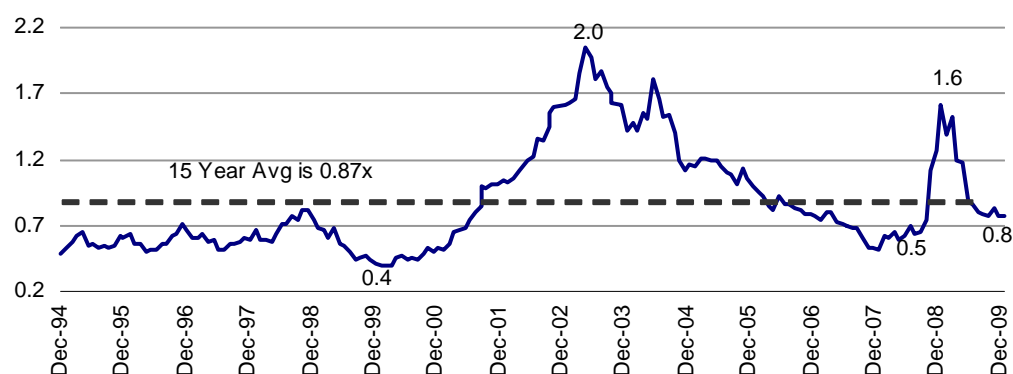
SENSEX P/E: 20% PREMIUM TO LONG-PERIOD AVERAGE



SENSEX P/B: 12% PREMIUM TO LONG-PERIOD AVERAGE

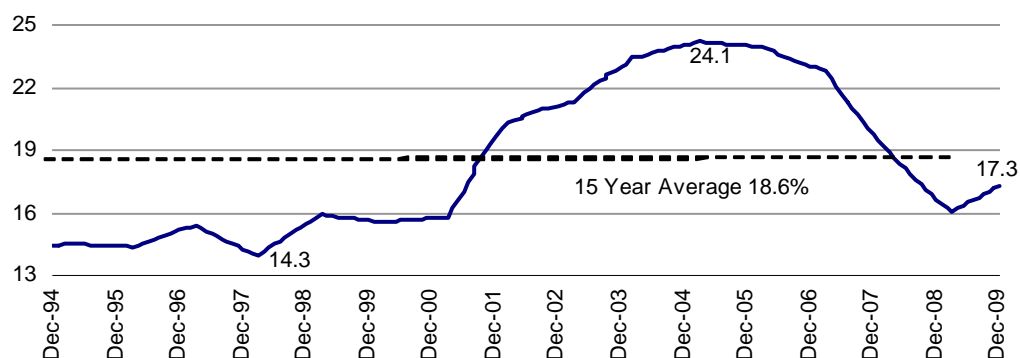


SENSEX EARNINGS YIELD TO BOND YIELD: BELOW LONG PERIOD AVERAGE



Source: MOSL

## SENSEX ROE: 130BP BELOW LONG PERIOD AVERAGE



Source: MOSL

Current valuations above long-period averages clearly suggest that the market expects future earnings growth to be higher than the long-period average. Our estimates for FY10-FY14 show earnings CAGR of 23%, which is a significant 1.6x the long-period average earnings growth of ~14%.

### Sensex target range of 28,000-37,500 by March 2013

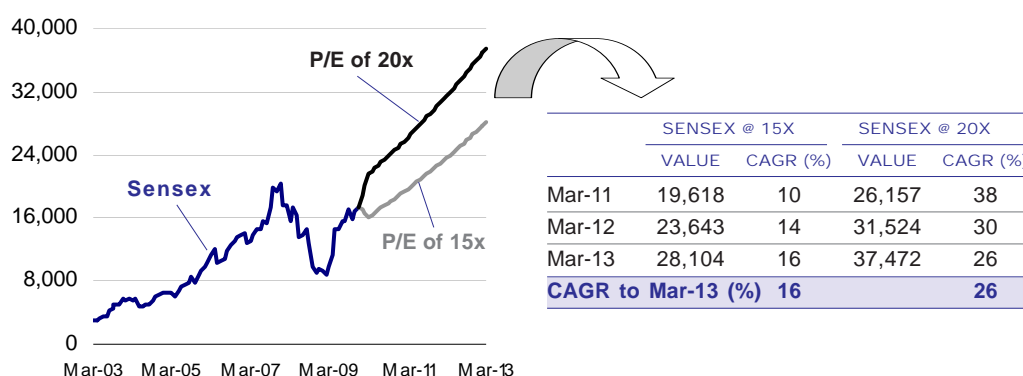
We create two future scenarios for the Sensex -

1. **Base case:** Forward P/E multiple of 15x, in line with long-period average; and
2. **Optimistic case:** Forward P/E multiple of 20x, considering that our expected future earnings growth is much higher than the past.

Applying these target multiples to our earnings estimates, we arrive at Sensex range for each of the years FY11 to FY13 -

- **FY11:** Sensex range of 19,600 (10% CAGR) to 26,000 (38% CAGR)
- **FY13:** Sensex range of 28,100 (16% CAGR) to 37,500 (26% CAGR).

## SENSEX TARGET RANGE OF 28,000-37,500 BY MARCH 2013



Source: MOSL

*However, 25% market returns are highly probable*

### New Cycle: Next three-year likely market return of 25% compounded

As noted earlier in our report, we believe our underlying assumptions are fairly conservative, and back-ended earnings growth beyond FY11 could be higher than our estimated 20% (FY11 growth of 32%). Thus, we are biased towards the upper end of our Sensex range, implying market returns of ~25% compounded are likely for the next three years.

### Welcome to the New Cycle!

## Model Portfolio: Strategy thoughts, Sector views, Top picks

After three consecutive years of sharp moves in either direction, we expect 2010 to be a year of stock-picking with market returns unlikely to contribute in a very meaningful manner, as in 2009.

2009 commenced with historic low valuations and resulted in one of the highest market returns in over a decade. The markets have ended at the highest point during the year 2009 and the upmove was marked by brief and small corrections, offering virtually no opportunities for those trying to time the market. Almost all the sectors offered positive returns with a few sectors delivering over 100% returns.

Normal monsoons in 2010 vs a deficient rainfall in 2009 could provide a positive trigger for domestic growth. This, coupled with continued global recovery, will provide impetus to corporate earnings growth. However, 2010 will be marked by the partial withdrawal of economic stimulus (both monetary and fiscal) starting 1QCY10 and this will partly offset the rising momentum in domestic economy and corporate profits. Our bottom-up MOSL Universe earnings growth estimate is 24% for FY11 and 20% for FY10-FY14.

While 2009 was characterized by strong uptick in capital raising by the private sector to either de-leverage or fund the strong growth plans, 2010 will witness significant capital raising by government through an aggressive disinvestment plans. This, coupled with strong capital raising plans of private sector will test the ability of the market to absorb the highest-ever supply of paper.

The starting valuations of 2010 are significantly richer than the starting valuations of 2009. BSE Sensex now trades at an FY11 P/E of 16.2x and a 12-month forward P/E of 17.2x. The 12-month forward P/E is a 20% premium over the 15-year average driven by rising risk appetite globally resulting in very strong liquidity in the global markets.

We believe that accelerating economic and corporate profit growth (both for 1-year and 4-year horizon) will limit the downside in the markets. However, richer starting valuations and rising paper supply will determine the magnitude and pace of the markets move from fair valuations to over valuations. We reiterate that 2010 will be a year of stock-picking with market returns contributing the smallest share of performance in 3 years.

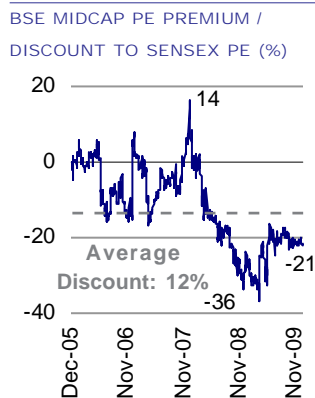
*Our portfolio allocation strategy is broadly positioned to identify sectors and stocks offering growth at reasonable valuations*

Our portfolio allocation strategy is broadly positioned to identify sectors and stocks offering growth at a reasonable valuation. Some of our overweight sectors / stocks face headwinds in near-term, more particularly in 1QCY10, but are pricing in these headwinds, in our view. Our key underweight sectors / stocks are those in which we do not expect meaningful absolute returns despite expectations of positive business cycle in coming quarters.

### Model Portfolio Attributes

*Overweight on domestic plays*

- Overweighting domestic plays like Financials, Infrastructure, Cement, Autos, Telecoms.
- Only global play that we are Overweight is Metals. This too is driven by exceptionally strong volume growth in most companies rather than depending on price growth.



- Underweighting global plays like IT and Oil & Gas. Also, underweighting domestic plays with rich valuations like FMCG and Utilities.
- Most large caps have delivered strong returns in CY09, and trade in-line to above historic valuations.
- BSE Mid-cap Index currently trades at 22% discount to Sensex against long period average of 12%. We are increasing allocation of mid-caps across sectors. Several mid caps offer strong absolute return opportunities and we present our list of preferred mid-caps in Model Portfolio.
- Our model portfolio quotes at 14x FY11E EPS against 16.2x FY11E EPS for the Sensex, 14% discount.

### Risks to the performance of Model Portfolio

- We assume gradual withdrawal of monetary and fiscal stimulus. A hasty reversal would adversely impact the performance of some of the overweighted sectors.
- We are also Underweight sectors that may benefit from strong global recovery i.e. IT and Oil & Gas due to possible hiccups from withdrawal of stimulus or currency appreciation.

### Financials: Raising weight further; plenty of absolute return opportunities

- Our bias towards financials is driven by expected rebound in loan growth, resulting improvement in margins and bank's ability to earn strong RoEs despite near-term headwinds. We expect gradual monetary tightening with a CRR hike of 100bps in CY10. While this will hurt margins initially, we expect this to coincide with stronger loan growth and higher loan yields. Bond losses will be minimal as banks maintain a low proportion of G-Secs in AFS.
- Within financials, our bias towards state-owned banks is driven by their ability to sustain high RoEs in the last 12 months despite challenging environment and conviction of further improvement in operating profitability as cost increase lags NII growth and provisioning costs start to decline. Valuations are reasonable despite strong earnings growth and sustained return ratios. We like SBI, Bank of Baroda and Union Bank as our top bets amongst state-owned banks. Amongst the smaller ones, we prefer OBC and Dena Bank.
- Within private sector, we are adding more weight to Axis Bank as we expect the bank to report one of the highest earnings growth post capital-raising despite assumptions of high stress assets ratio in 3QFY10. HDFC Bank has a lower weight largely due to rich valuations, although it will report sector-beating earnings growth over the next few quarters. We remain positive on ICICI Bank as it focuses back on growth after a significant balance sheet restructuring over the last couple of years.

*Among the large state-owned banks, we prefer SBI, BoB and Union Bank*

*Among private sector banks, we are adding more weight to Axis Bank*

### Infrastructure-related: Bet on new cycle

- We expect strong growth in Infrastructure and related sectors driven by government's thrust on infrastructure, coupled with a revival incorporate capex as GDP growth accelerates in FY11. We are betting on Infrastructure through a combination of engineering, real estate and cement. Within mid-caps too, we have significant exposure to this space through Nagarjuna, GVK, Sintex, Anantraj and Birla Corp.



*In Engineering, we have raised BHEL to overweight*

- In Engineering sector, we have raised BHEL to an overweight now, post our recent upgrade on the stock. With a 28% EPS CAGR for next 2 years, strong order book, reducing competitive intensity from offshore players, we are positive on BHEL. Our underweight stance on L&T is driven by muted earnings growth in FY09-11. Earnings are likely to disappoint consensus as new businesses will take time to deliver profits.
- Cement remains a preferred sector despite the underperformance of last couple of quarters. While CY10 will a year of supply overhang, nearly all the stocks in the sector trade at a discount to replacement cost. We have modeled Rs10/bag decline in cement prices in FY11 and stocks still look cheap on earnings-based valuations. We expect demand growth to surprise and be a key catalyst for sector performance. Our top bets are UltraTech and Jaiprakash.

*DLF is our top bet in Real Estate*

- DLF remains the top bet in real estate. After a strong recovery in residential segment, we expect recovery in the commercial segment as well. DLF remains best placed to benefit from this. Near term concern of monetary tightening will likely impact real estate stocks, but the sector has already witnessed significant underperformance in the past 3 months and stocks are now back to a discount to NAV. We expect strong sector earnings growth over the next 4 years as well.

*Our top overweight in Oil & Gas is GAIL*

#### **Oil & Gas: Cutting to Underweight; policy clarity important for performance**

- With the rise in oil prices to ~US\$80, sharing of under-recoveries will have a bearing on the sector's performance. Till date, there is lack of clarity on the subsidy sharing. While upstream companies are bearing the entire auto fuel subsidy, OMCs have not yet been reimbursed the oil bonds. We expect these companies to perform when oil prices average US\$65/bbl.
- Reliance remains a underweight as refining margins continues to disappoint and RIL's premium over Singapore GRM remains low. Gas volumes will ramp-up to 80mmstd but are captured in estimates. Recent announcement of bid to acquire LyondellBasell will be a key catalyst, but could be a long drawn process before clarity emerges.
- Our top overweight in the sector is GAIL (new introduction). GAIL will benefit significantly from a ramp-up in the transmission volumes. Its aggressive capex plans will help it to further capture the huge business opportunities as more gas discoveries are commissioned over the next 3-5 years. With falling share of petchem and other businesses, we expect earnings to be valued on the lines of Utilities. GAIL trades at attractive adjusting for the value of investments.

#### **Metals: Raising weight to play strong volume additions across players**

*In Metals, we have doubled the weight on Sterlite and introduced Tata Steel*

- We have increased our weight on Metals. We have doubled the weight on Sterlite and introduced Tata Steel in the portfolio. Global commodity prices have strongly recovered during the year, resulting in large outperformance. Our earnings estimates model price assumptions lower than current prices, leaving room for upsides.
- The key catalyst for Indian companies in our view will be significant capacity additions over the next 12-18 months across segments. While Sterlite will add capacity across Aluminium, Zinc etc, its energy subsidiary will start contributing to earnings in FY11. Moreover, the current earnings are depressed due to very low yields on significant cash, which will improve post the deployment of cash in businesses.

- Tata Steel will be a key beneficiary of rise in domestic steel prices and expansion of its domestic production to 10MT. Tata Steel has taken number of tough decisions in 2009 like consuming most of carry over tonnage of high cost coking coal (priced at US\$300/ton fob) under contractual obligation and aggressively cutting high cost manpower and number of restructuring initiatives at Corus including plans to shut down Teesside plant. All these will ensure turnaround in earnings from losses in FY10 to significant profits in FY11 and grow 45% for subsequent two years.

#### IT: Cutting weight as sector performance overdone

- IT has been amongst the best performing sectors in 2009 and stocks now trade at almost PE of 20x FY12 earnings despite an earnings CAGR of 15-18% over the next 3 years. Optimism on recovery in global economy, business opportunities arising out of M&A and ability to maintain margins through cost controls has helped the sector to weather a very tough last 18 months.
- From a PE of 11x in March 2009, Infosys now trades at 23x FY11 EPS. In our recent interactions, companies are still uncertain about a recovery in growth rates to over 20%. Moreover, as we expect rupee appreciation to continue for a prolonged time and will hurt both earnings and valuations for the sector.

#### Auto: Lower weight reflects caution on sustaining strong volume momentum

*We have cut weight on Autos, marginally*

- We have cut weight on Autos marginally after the huge outperformance over the last 2 years on back of record volumes and earnings.
- Volume growth will be impacted by the pace of monetary and fiscal stimulus withdrawal. Input costs have started rising. However, recent demand growth has been ahead of the ability of companies to raise volumes. We believe that EBITDA margins have peaked in 2QFY10 and we model moderation in margins from 2HFY10 onwards. Our top bets remain M&M, Bajaj Auto and Hero Honda.

#### Telecom: Overweight; near-term concerns drive underperformance

*Bharti remains the sole stock in our Telecom allocation*

- Bharti remains the sole stock in the telecom allocation. The sector has witnessed significant underperformance in CY09 led by rising competitive intensity resulting in sharp fall in RPM and a resulting fall in EBITDA margins.
- Earnings estimates have seen big downgrades and Bharti now trades at 15x FY11 and 13x FY12 earnings.
- We expect the increased intensity of competition to accelerate the process of consolidation. Bharti remains best placed to not only weather this storm but also emerge stronger post this inevitable consolidation. Earnings may see some more downgrade resulting in continued near-term underperformance. This will provide an opportunity to build exposure for long-term investing.

#### Pharma: Positive; individual stocks have triggers for outperformance

*We remain positive on Pharmaceuticals*

- We remain positive on the pharmaceuticals sector. Growth rates are expected to remain strong and we see attractive valuations relative to the market.
- **Cipla:** Cipla represents one of the strongest generic pipelines from India. Low-risk strategy coupled with strong capex should ensure 31% earnings CAGR (on a low base) and 20%+ RoE for the next two years. Cipla has one of the strongest balance sheets in the sector with D/E of 0.2x as of Mar-09 and zero goodwill / intangibles.

Inhaler opportunity in Europe represents "option value". Stock valued at 20x FY11E EPS.

- **Sun Pharma:** Sun Pharma has one of the strongest pipeline with 108 ANDAs pending approval. An expanding generic portfolio coupled with change in product mix in favor of high-margin exports should bring in long-term benefits. Its ability to sustain superior margins even on a high base is a clear positive. The stock is currently valued at 23x FY11E earnings (excl Para-IV upsides which have a DCF value of Rs19/share). Favorable outcome on the Taro acquisition front would be a stock trigger.

### FMCG: Underweight; no immediate catalysts

*Valuations remain rich for FMCG*

- Our weight on the FMCG sector is unchanged. We see no significant catalyst in the near-term to drive stock performance.
- Change in excise structure in upcoming budget could impact performance of ITC. Moreover, upsurge in global commodity prices could also impact margins for other FMCG players.
- Valuations remain rich for all the stocks, leaving little room for absolute returns.

### Mid caps: Overweight

**Zee Entertainment:** Zee is the only listed TV broadcaster with a presence across genres and a nationwide reach. With a strong bouquet of channels, it offers the best play on digitization of the Indian broadcasting sector, driving subscription revenue. Its recent acquisition of regional GECs from Zee News enables it to benefit from strong growth in regional advertising market. We expect FY10-12E EPS CAGR of 24%; the stock trades at 22x FY11E EPS of Rs12.3. Management is committed towards recovering advances made to group companies by March 2010, a potential re-rating trigger for the stock.

**Shriram Transport Finance:** STF the only organized player with three decades of experience in used CV financing with wide branch network (482, mainly in freight centric locations), large employee (~12,000) and customer base (~0.6m). Robust new CV sales during FY05-07 (~1.2m trucks) will drive STF's disbursements over the next 2-3 years as STF's target segment is over 5-year old trucks. STF plans to drive fee income growth by offering value added services like auto mall, electronic shop, and re-engineered truck under its own brand name "Shriram New Look". We expect EPS CAGR of 27% with RoE of 29-30%. Valuation is attractive at FY11E P/E of 9x and P/ABV of 2.5x.

**Piramal Healthcare:** We expect PHL to be a key beneficiary of increased outsourcing from India, given its strong MNC relations, and improving profitability in the CRAMS business. A steady double-digit growth for the domestic formulations business (49% of total revenues) with good profitability, and potential debt reduction also augur well over the next two years. We expect 23% EPS CAGR over FY10-12E with RoE of 29-31%. The stock trades at 14x FY11E EPS.

**Anant Raj:** Anant Raj is a Delhi/NCR focused real-estate company. While it historically focused on capital intensive verticals such as commercial and retail, it now plans to expand in the residential vertical. We expect Anant Raj to generate cash flows of ~Rs16b from three key residential projects alone over FY10-12 with rental income to increase from Rs150m in FY09 to ~Rs1.7b by FY11. The stock trades at 1x FY11E BV of Rs129 and 30% discount to its FY11E NAV of Rs194. Recommend Buy with a target price of Rs194.

**GVK Power:** Consolidated earnings CAGR of 57% over FY10-12E, from Rs1.1b in FY09 to Rs3.2b in FY11E driven by contribution from power projects, and superior profitability of roads and airports businesses. Equity investment of Rs18-20b over next 3 years could be largely funded through FY11-12 accruals of Rs12-13b. Near term triggers include 1) Monetization of real estate at Mumbai airport, and 2) Sale of power on merchant basis from JP-II and Gautami power project. Buy for an SOTP target price of Rs54/sh, comprising of Airports Rs25/sh, Roads Rs5/sh, Power portfolio at Rs18/sh, and investment in other projects/cash at Rs6/sh.

**Nagarjuna Construction:** NCC's order book as at end 2QFY10 stood at Rs174b (including L1), TTM book-to-bill of 4.1x. Earnings CAGR of 15% over FY10-12E, quotes at a consolidated construction P/E of 14x FY11E. Value unlocking is possible in BOT projects (excluding real estate), in which it has invested ~Rs12b. Recommend Buy due to rising order intake leading to possibility of earnings upgrades, and improvement in embedded valuations for BOT and RE projects.

**Birla Corp:** Its new 1.75mt capacity will drive volume growth in FY11 and FY12. Its good market mix (North, Central and East) should result in lower-than-industry price decline. It has aggressive plans to invest Rs23b over FY10-14, adding 4.8mt capacity, funded largely through accruals. Valuations are very attractive with EV at 2.5x FY11E EBITDA and US\$45/ton.

**Deccan Chronicle:** DCHL has consolidated its position as leader in English dailies in south India with circulation exceeding 1.3m. The company has addressed most of the balance sheet related concerns (e.g. high debtor days), and is committed towards improving the payout ratio. DCHL plans to unlock value in its Indian Premier League cricket team Deccan Chargers by selling part/full interest. The recent floor price announced by BCCI at US\$225m/team (2x the money paid by DCHL, US\$107m) sets a benchmark valuation. For 23% EPS CAGR during FY10-12E, valuation is reasonable at 11x FY11E EPS.

**Dewan Housing Finance:** In the niche business of providing housing loans to middle-and low-income customers, DHFL is one of the fastest growing housing finance companies with 37% disbursement CAGR over FY04-09. Despite exposure to high-risk low-income customers, DHFL's Net NPAs were only 1.07% as of 1HFY10. We expect disbursement CAGR of 37% over FY10-12, driving EPS CAGR of 30% with RoE of 22%. Adjusting for the value of key investments at a 20% discount (Rs19/share), the stock trades at an attractive valuation of 1.4x FY11E BV and 6.5x FY11E EPS.

**Sintex Industries:** Sintex offers a unique play on: (1) New construction technologies in India (monolithic and pre-fabricated structures), and (2) Substitution of metal by plastics and composites in several areas such as autos, electricals, electronics, aerospace, defence, etc. After a muted FY10 due to economic slowdown, we expect Sintex to resume 19-20% topline growth. Margins improvement due to weak plastic prices should drive 30% EPS CAGR over FY10-12. Valuation is attractive at 9x FY11E EPS. Recommend Buy with target price of Rs356 (12x FY11E EPS).

## MOSL MODEL PORTFOLIO

| SECTOR WEIGHT /<br>PORTFOLIO PICKS    | BSE-100      | MOSL<br>WEIGHT | WEIGHT RELATIVE<br>TO BSE-100 | EFFECTIVE SECTOR<br>STANCE |
|---------------------------------------|--------------|----------------|-------------------------------|----------------------------|
| <b>Banks</b>                          | <b>21.3</b>  | <b>23</b>      | <b>1.7</b>                    | <b>Overweight</b>          |
| <b>PSU</b>                            | <b>5.8</b>   | <b>12</b>      | <b>6.2</b>                    | <b>Overweight</b>          |
| SBI                                   | 3.4          | 5              | 1.6                           | Buy                        |
| Bank of Baroda                        | 0.5          | 4              | 3.5                           | Buy                        |
| Union Bank                            | 0.3          | 3              | 2.7                           | Buy                        |
| <b>Private</b>                        | <b>15.5</b>  | <b>11</b>      | <b>-4.5</b>                   | <b>Underweight</b>         |
| ICICI Bank                            | 5.2          | 4              | -1.2                          | Buy                        |
| Axis Bank                             | 1.4          | 4              | 2.6                           | Buy                        |
| HDFC Bank                             | 3.3          | 3              | -0.3                          | Neutral                    |
| <b>Infrastructure &amp; surrogate</b> | <b>14.2</b>  | <b>16</b>      | <b>1.8</b>                    | <b>Overweight</b>          |
| BHEL                                  | 2.2          | 5              | 2.8                           | Buy                        |
| UltraTech                             | 0.0          | 3              | 3.0                           | Buy                        |
| DLF                                   | 0.8          | 3              | 2.2                           | Buy                        |
| Jaiprakash Associates                 | 0.9          | 3              | 2.1                           | Buy                        |
| Larsen & Toubro                       | 4.9          | 2              | -2.9                          | Neutral                    |
| <b>Oil &amp; Gas</b>                  | <b>15.5</b>  | <b>13</b>      | <b>-2.5</b>                   | <b>Underweight</b>         |
| Reliance Inds.                        | 9.4          | 6              | -3.4                          | Buy                        |
| GAIL                                  | 1.1          | 5              | 3.9                           | Buy                        |
| ONGC                                  | 2.7          | 2              | -0.7                          | Neutral                    |
| <b>Metals</b>                         | <b>7.3</b>   | <b>8</b>       | <b>0.7</b>                    | <b>Overweight</b>          |
| Sterlite                              | 1.7          | 4              | 2.3                           | Buy                        |
| Sesa Goa                              | 0.8          | 2              | 1.2                           | Buy                        |
| Tata Steel                            | 2.1          | 2              | -0.1                          | Neutral                    |
| <b>Information Technology</b>         | <b>10.9</b>  | <b>7</b>       | <b>-3.9</b>                   | <b>Underweight</b>         |
| Infosys Tech                          | 6.7          | 3              | -3.7                          | Neutral                    |
| TCS                                   | 2.3          | 2              | -0.3                          | Buy                        |
| HCL Tech                              | 0.5          | 2              | 1.5                           | Buy                        |
| <b>Auto</b>                           | <b>5.5</b>   | <b>6</b>       | <b>0.5</b>                    | <b>Overweight</b>          |
| Mahindra & Mahindra                   | 1.2          | 2              | 0.8                           | Buy                        |
| Hero Honda                            | 0.9          | 2              | 1.1                           | Buy                        |
| Bajaj Auto                            | 0.6          | 2              | 1.4                           | Buy                        |
| <b>FMCG</b>                           | <b>7.0</b>   | <b>5</b>       | <b>-2.0</b>                   | <b>Underweight</b>         |
| ITC                                   | 3.6          | 3              | -0.6                          | Buy                        |
| United Spirits                        | 0.6          | 2              | 1.4                           | Buy                        |
| <b>Pharmaceuticals</b>                | <b>3.7</b>   | <b>4</b>       | <b>0.3</b>                    | <b>Overweight</b>          |
| Cipla                                 | 0.9          | 2              | 1.1                           | Buy                        |
| Sun Pharma                            | 0.7          | 2              | 1.3                           | Buy                        |
| <b>Telecom</b>                        | <b>3.5</b>   | <b>4</b>       | <b>0.5</b>                    | <b>Overweight</b>          |
| Bharti Airtel                         | 2.3          | 4              | 1.7                           | Buy                        |
| <b>Utilities</b>                      | <b>6.8</b>   | <b>4</b>       | <b>-2.8</b>                   | <b>Underweight</b>         |
| NTPC                                  | 1.5          | 2              | 0.5                           | Neutral                    |
| Jindal Steel & Power                  | 1.6          | 2              | 0.4                           | Buy                        |
| <b>Midcaps</b>                        | <b>4.3</b>   | <b>10</b>      | <b>5.7</b>                    | <b>Overweight</b>          |
| Zee Entertainment                     | 0.4          | 1              | 0.6                           | Neutral                    |
| GVK Power                             | 0.0          | 1              | 1.0                           | Buy                        |
| Piramal Healthcare                    | 0.0          | 1              | 1.0                           | Buy                        |
| Nagarjuna Construction                | 0.0          | 1              | 1.0                           | Buy                        |
| Shriram Transport                     | 0.0          | 1              | 1.0                           | Buy                        |
| Sintex Industries                     | 0.0          | 1              | 1.0                           | Buy                        |
| Birla Corp                            | 0.0          | 1              | 1.0                           | Buy                        |
| Deccan Chronicle                      | 0.0          | 1              | 1.0                           | Buy                        |
| Anant Raj Industries                  | 0.0          | 1              | 1.0                           | Buy                        |
| Dewan Housing                         | 0.0          | 1              | 1.0                           | Buy                        |
| <b>Cash</b>                           | <b>0.0</b>   | <b>0.0</b>     | <b>0.0</b>                    |                            |
| <b>Total</b>                          | <b>100.0</b> | <b>100.0</b>   |                               |                            |

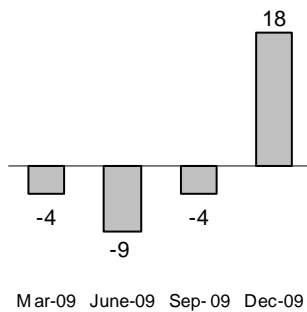


## 3QFY10: 23% YoY PAT growth

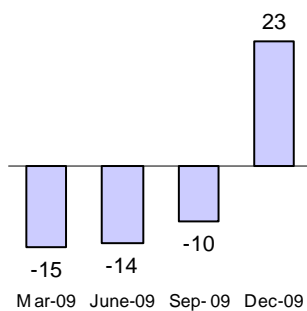
In 3QFY10, we expect MOSL Universe of 118 companies ex-RMs (oil refiners and marketers) to report sales growth of 18% YoY, EBITDA growth of 29% YoY and PAT growth of 23.5% YoY. Key highlights:

- Profits of MOSL Universe peaked in 2QFY09 at Rs539b and fell sharply in 3QFY09 to Rs409b led by sharp fall in profits of metals, real estate, autos, etc. Low base effect from 3QFY09 is resulting in high YoY reported profit growth from 3QFY10. QoQ growth in 3QFY10 profits of MOSL Universe is 3.8%.
- 3QFY10 PAT growth for Sensex companies at 18% YoY will be lower than the MOSL Universe growth of 23.5%.
- Oil, Gas & Petchem (ex-RMs) sector is the biggest contributor to PAT growth at 96% YoY led by significantly higher profits of upstream companies - GAIL and ONGC.
- Autos will report a 369% YoY growth in PAT due to a very low base effect. QoQ profits will decline by 3.3%. Tata Motors is turning from loss to profit while M&M will report a ~12x increase in PAT.
- Other sectors with high PAT growth are Metals (+38% YoY), Pharma (+36%), FMCG (+26%) and Cement (+25%).
- On a low base, PAT growth would also be high in Textiles (+147%) and Media (+53%).
- The only 2 sectors reporting negative earnings growth 3QFY10 are Telecom (down 29% led by sharply lower RPM & EBITDA margins) and Real Estate (down 28% as the commercial segment is still not contributing to profits).
- Banking sector will report muted growth in profits at 1.5% driven primarily by poor credit growth and higher provisioning costs modeled. QoQ growth though will be among the best in corporate sector at 6.7% led by deposit re-pricing driving up NIMs and credit growth QoQ.
- IT sector too will report muted profit growth of 6.8% YoY and a marginal decline QoQ led by anemic topline growth and lack of pricing power.

QUARTERLY SALES GROWTH (% YOY)



QUARTERLY PAT GROWTH (% YOY)



Ex RMs (oil refiners & marketers)

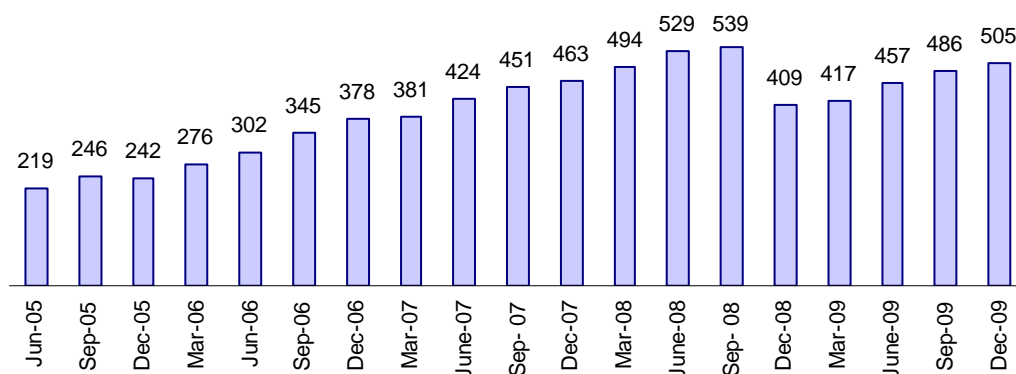
QUARTERLY PERFORMANCE - MOSL UNIVERSE (RS B)

| SECTOR<br>(NO OF COMPANIES) | SALES        |              |             |            | EBITDA     |              |             |             | NET PROFIT |            |             |             |
|-----------------------------|--------------|--------------|-------------|------------|------------|--------------|-------------|-------------|------------|------------|-------------|-------------|
|                             | DEC-08       | DEC-09       | VAR %       | VAR %      | DEC-08     | DEC-09       | VAR %       | VAR %       | DEC-08     | DEC-09     | VAR %       | VAR %       |
|                             |              |              | YOY         | QOQ        |            |              | YOY         | QOQ         |            |            | YOY         | QOQ         |
| Auto (5)                    | 169          | 267          | 58.2        | 0.7        | 12         | 41           | 227.7       | -0.9        | 5          | 25         | 368.8       | -3.3        |
| Banks (22)                  | 238          | 262          | 10.0        | 10.5       | 219        | 229          | 4.7         | 5.9         | 118        | 120        | 1.5         | 6.7         |
| Cement (7)                  | 97           | 106          | 9.3         | 0.9        | 23         | 31           | 36.3        | -10.6       | 14         | 18         | 24.9        | -18.9       |
| Engineering (6)             | 203          | 236          | 16.4        | 15.8       | 27         | 32           | 18.3        | 26.8        | 20         | 23         | 15.9        | 24.5        |
| FMCG (12)                   | 163          | 187          | 14.7        | 3.4        | 32         | 41           | 27.9        | 6.9         | 22         | 27         | 25.7        | 6.3         |
| IT (7)                      | 251          | 259          | 3.4         | -0.3       | 63         | 66           | 4.3         | -2.7        | 48         | 51         | 6.8         | -0.6        |
| Infrastructure (5)          | 57           | 71           | 24.5        | 18.0       | 7          | 11           | 62.0        | 23.8        | 4          | 4          | 25.6        | 67.7        |
| Media (6)                   | 16           | 18           | 10.4        | 2.1        | 5          | 7            | 56.4        | 4.2         | 3          | 4          | 52.9        | -1.2        |
| Metals (8)                  | 574          | 581          | 1.2         | 4.5        | 70         | 103          | 48.0        | 35.7        | 39         | 53         | 38.1        | 75.5        |
| Oil Gas & Petchem (11)      | 1,951        | 2,244        | 15.0        | 14.5       | 139        | 300          | 115.1       | 63.3        | 84         | 169        | 100.2       | 63.2        |
| Pharma (13)                 | 111          | 122          | 10.2        | -1.5       | 22         | 25           | 13.8        | -3.6        | 11         | 15         | 35.6        | -19.4       |
| Real Estate (2)             | 19           | 22           | 18.7        | -2.5       | 10         | 11           | 3.6         | -13.1       | 8          | 6          | -28.1       | -5.8        |
| Retail (2)                  | 25           | 32           | 24.1        | 8.2        | 2          | 3            | 25.9        | -3.3        | 1          | 1          | 23.7        | -22.9       |
| Telecom (3)                 | 182          | 185          | 1.4         | -0.3       | 70         | 62           | -11.3       | -11.0       | 39         | 27         | -29.3       | -19.0       |
| Textiles (5)                | 28           | 33           | 19.3        | 8.6        | 5          | 7            | 29.9        | -1.5        | 1          | 2          | 147.3       | -14.1       |
| Utilities (5)               | 186          | 205          | 9.9         | 10.4       | 39         | 44           | 10.8        | 4.1         | 25         | 27         | 7.8         | 1.8         |
| <b>MOSL (121)*</b>          | <b>4,290</b> | <b>4,850</b> | <b>13.1</b> | <b>9.2</b> | <b>749</b> | <b>1,015</b> | <b>35.5</b> | <b>17.8</b> | <b>442</b> | <b>574</b> | <b>29.8</b> | <b>18.0</b> |
| <b>MOSL Excl. RMs (118)</b> | <b>2,974</b> | <b>3,496</b> | <b>17.6</b> | <b>5.3</b> | <b>697</b> | <b>899</b>   | <b>29.0</b> | <b>4.7</b>  | <b>409</b> | <b>505</b> | <b>23.5</b> | <b>3.8</b>  |
| <b>Sensex (30)</b>          | <b>1,931</b> | <b>2,297</b> | <b>19.0</b> | <b>6.5</b> | <b>467</b> | <b>583</b>   | <b>24.8</b> | <b>6.8</b>  | <b>282</b> | <b>332</b> | <b>17.6</b> | <b>9.1</b>  |

\*Tata Steel Consolidated.



LOW BASE EFFECT ENHANCES 3QFY10 PAT GROWTH (MOSL UNIVERSE PAT EX-RMs, RS B)



Source: Company/MOSL

### 3QFY10 earnings growth distribution is superior both YoY and QoQ

- The breadth of earnings growth in 3QFY10 is superior on YoY and QoQ basis.
- 57% of companies in the MOSL universe are expected to report PAT growth of 15%+ compared to just 36% a year ago and 51% in 2QFY10.
- 25% of the companies are expected to report PAT declines compared to 42% a year ago and 35% in 2QFY10.

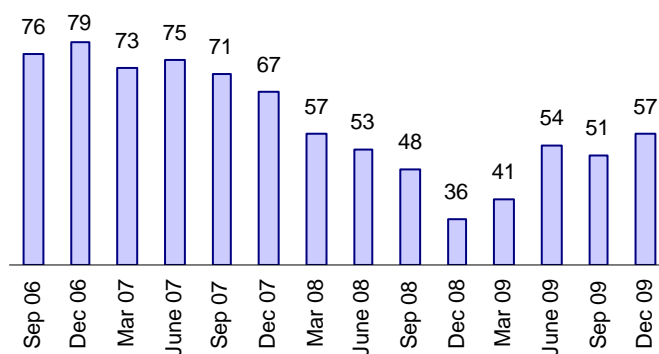
### 3QFY10 earnings growth distribution

DISTRIBUTION OF COMPANIES BASED ON EARNINGS GROWTH

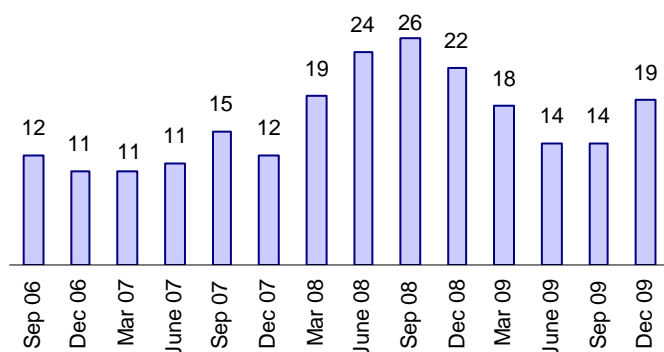
| RANGE   | PAT<br>YOY (%) | % OF COMPANIES WITH GROWTH OF |        |     |
|---------|----------------|-------------------------------|--------|-----|
|         |                | >15%                          | >0-15% | <0% |
| Dec-07  | 15.4           | 67                            | 12     | 21  |
| Mar-08  | 24.3           | 57                            | 19     | 24  |
| June-08 | 25.6           | 53                            | 24     | 23  |
| Sep-08  | 19.7           | 48                            | 26     | 26  |
| Dec-08  | -8.4           | 36                            | 22     | 42  |
| Mar-09  | -16.2          | 41                            | 18     | 41  |
| June-09 | -15.1          | 54                            | 14     | 32  |
| Sep-09  | -11.2          | 51                            | 14     | 35  |
| Dec-09  | 23.5           | 57                            | 19     | 25  |

Source: Company/MOSL

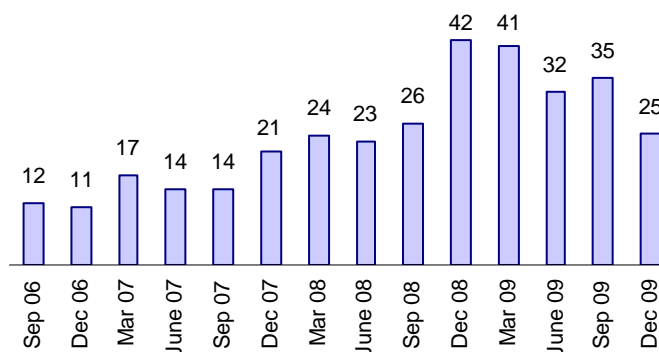
PROPORTION OF COMPANIES WITH EARNINGS GROWTH &gt; 15%



PROPORTION OF COMPANIES WITH EARNINGS GROWTH OF 0-15%



PROPORTION OF COMPANIES WITH EARNINGS GROWTH &lt; 0%



Source: Company/MOSL

### **Auto and Banking sectors show significant intra-sector earnings growth divergence**

We note that there would be significant intra-sector divergences in 3QFY10 performance. Consider the following:

- Tata Motors has been the biggest swing factor in superior earnings growth for Auto sector. Tata Motors is expected to report profit of Rs3.9b, vs loss of Rs2.3b in Dec-08. This will lead to Auto universe net earnings growth of 369% YoY. Also, M&M is likely to report 12x fold increase in profits to Rs4.8b (vs Rs384m in Dec-08). Maruti Suzuki and Hero Honda are likely to report earnings growth of 171% YoY and 75% YoY, while Bajaj Auto is expected to report earnings growth of 141% YoY.
- Among state-owned banks, SBI will report 8% YoY earnings growth, PNB will report a 7% YoY earnings growth while Union Bank and Bank of Baroda will report earnings decline. In private sector, HDFC Bank will report 33% earnings growth, Axis Bank will report 26% earnings growth while ICICI Bank will report earnings decline of 15% YoY. Other Financials that will report above-average earnings growth include IDFC (+50%), Shriram Transport (+40%) and HDFC (+24%).
- Cement sector is expected to report 25% YoY growth in earnings led by strong growth of 69% by Grasim among large caps and 41% by Birla Corp among mid-caps. Below average growth will be reported by Ultratech at 1%, Ambuja at 9% while in-line growth will be report by ACC at 22%.
- Crompton Greaves and BHEL are expected to lead the Engineering pack with earnings growth of 37% YoY and 26% YoY vs sector earnings growth of 16%. L&T is expected to report earnings growth of 16% YoY. Sector earnings growth is being dragged down by de-growth in earnings by ABB (down 10% YoY), Thermax (down 15% YoY) and Siemens (down 9% YoY).
- Of the large earnings contributors to the FMCG sector, ITC is expected to growth earnings at 22% YoY, while HUL would report earnings growth of 11% YoY. United Spirits is likely to report highest earnings growth at 203% YoY, followed by Godrej Consumer at 99% YoY. Nestle and Tata Tea are expected to report steady growth of 25% and 24% YoY, respectively.
- In frontline IT stocks, TCS is expected to lead the pack with earnings growth of 21%, vs 20% earnings growth for Wipro and 7% earnings de-growth for Infosys. Sector earnings growth is expected at 7%, due to significant de-growth in earnings from HCL Tech (down 19% YoY) and Tech Mahindra (down 28% YoY).
- For Infrastructure sector, the earnings growth is driven by NCC (up 48% YoY), Simplex Infra (up 80% YoY), while Jaiprakash Associates and IVRCL are expected to report earnings growth of 18% YoY. HCC will be a sector laggard with earnings growth of just 5%.
- Telecom sector is likely to report earning de-growth of 25% YoY. Bharti (-12% YoY) and RCOM (-47% YoY) will report earnings decline.

## INTRA-SECTOR 3QFY10 EARNINGS DIVERGENCE

| SECTORS           | 3QFY10 PAT GROWTH (%) | EARNINGS GROWTH IN EXCESS OF 15%  | EARNINGS GROWTH IN 0-15%                | NEGATIVE EARNINGS GROWTH                    | EARNINGS MOMENTUM |
|-------------------|-----------------------|---|---|---|-------------------|
| Auto              | 368.8                 | Bajaj Auto, Hero Honda, Maruti Suzuki, Tata Motors, Mahindra & Mahindra |   |   |                   |
| Banks             | 1.5                   | IDFC, HDFC Bank, Axis Bank, HDFC  | Canara, Indian Bank, SBI, PNB, OBC, Yes | BoB, ICICI Bank, Union Bank, BoI            |                   |
| Cement            | 24.9                  | ACC, Grasim Industries  | Ambuja Cements, Shree Cement, Ultratech | India Cements                               |                   |
| Engineering       | 15.9                  | Larsen & Toubro, Crompton Greaves, BHEL                                 |   | Siemens, Thermax, ABB                       |                   |
| FMCG              | 25.7                  | ITC, United Spirits, Godrej Cons., Asian Paints, Nestle, Marico         | Hind. Unilever, Colgate                 | Britannia                                   |                   |
| Infrastructure    | 25.6                  | Simplex Infra, Nagarjuna Const., Jaiprakash, IVRCL                      | Hindustan Construction                  |   |                   |
| IT                | 6.8                   | Patni Computer, Wipro, TCS  | Mphasis                                 | Infosys, Tech Mahindra, HCL Technologies    |                   |
| Media             | 52.9                  | Deccan Chronicle, HT Media, Sun TV                                      | Zee Entertainment                       |   |                   |
| Metals            | 38.1                  | JSW Steel, Hindustan Zinc, Sterlite Inds, SAIL                          | Jindal Steel & Power                    | Hindalco, Tata Steel                        |                   |
| Oil Gas & Petchem | 95.7                  | GAIL, ONGC, Reliance Inds.  |   | Chennai Petroleum, Cairn India              |                   |
| Pharma            | 35.6                  | Ranbaxy Labs, Piramal Healthcare, Glenmark Pharma, Lupin, Cipla         | GSK Pharma                              | Dr Reddy's Labs, Sun Pharma, Divis Labs     |                   |
| Real Estate       | -28.1                 | Unitech   |   | DLF   |                   |
| Retail            | 23.7                  | Pantaloon Retail, Titan Inds  |   |   |                   |
| Telecom           | -29.3                 |   |   | Bharti Airtel, Reliance Comm. Idea Cellular |                   |
| Textiles          | 147.3                 | Raymond, Vardhman Textiles, Bombay Rayon                                |   | Alok Ind                                    |                   |
| Utilities         | 7.8                   | Tata Power, CESC  | NTPC, Reliance Infrastructure           | PTC India                                   |                   |
| Others            | 15.1                  | United Phosphorous  | Sintex Inds.                            |   |                   |

Note: Earnings momentum represents number of companies in every sector in the MOSL Universe in each of the 3 buckets of earnings growth

### Key earnings divergence for Sensex stocks in 3QFY10

- 22 of the 30 Sensex stocks would report positive earnings growth.
- ONGC (94% YoY growth and 47% contribution) and Sterlite Inds (141% YoY growth and 14% contribution) would be the biggest contributors to Sensex earnings growth for 3QFY10.
- Reliance Inds (18% YoY) and Tata Motors (LP) would also contribute ~13% each to Sensex earnings growth in 3QFY10.
- Other stocks with above-average earnings growth include Maruti (+171%), Tata Power (+122%), Hero Honda (+75%), Grasim (+69%).
- Stocks with the highest negative contributions to Sensex earnings growth for 3QFY10 would be Tata Steel (-83%), RCOM (-47%), DLF (-45%), ICICI Bank (-15%), Bharti Airtel (-12%), and Sun Pharma (-12%)

3QFY10 EARNINGS COMPOSITION OF SENSEX (RS B)

| COMPANY                 | SALES        |             |            | EBITDA     |             |            | PAT        |             |            | CONTRIBUTION TO % |        |
|-------------------------|--------------|-------------|------------|------------|-------------|------------|------------|-------------|------------|-------------------|--------|
|                         | DEC-09       | VAR         | VAR        | DEC-09     | VAR         | VAR        | DEC-09     | VAR         | VAR        | PAT               | PAT    |
|                         |              | % YOY       | % QOQ      |            | % YOY       | % QOQ      |            | % YOY       | % QOQ      |                   | GROWTH |
| ACC                     | 19.8         | 3.4         | 0.3        | 6.2        | 40.6        | -7.9       | 4.1        | 21.5        | -6.7       | 1.2               | 1.4    |
| Bharti Airtel           | 97.0         | 0.7         | -1.5       | 36.6       | -7.3        | -11.7      | 18.9       | -12.3       | -18.4      | 5.7               | -5.3   |
| BHEL                    | 76.9         | 27.6        | 16.0       | 14.6       | 29.4        | 29.2       | 10.8       | 25.7        | 26.1       | 3.3               | 4.4    |
| DLF                     | 15.1         | 10.3        | -13.9      | 7.1        | -7.7        | -22.0      | 3.7        | -45.0       | -16.1      | 1.1               | -6.1   |
| Grasim Industries       | 29.1         | 9.8         | -2.4       | 9.2        | 84.7        | -9.2       | 5.6        | 69.2        | -17.3      | 1.7               | 4.6    |
| HDFC                    | 8.7          | 6.1         | 10.4       | 9.6        | 20.9        | 3.5        | 6.8        | 24.0        | 2.1        | 2.0               | 2.6    |
| HDFC Bank               | 22.8         | 14.9        | 16.3       | 18.1       | 24.0        | 13.5       | 8.3        | 32.9        | 20.2       | 2.5               | 4.1    |
| Hero Honda              | 36.9         | 28.5        | -8.6       | 6.5        | 57.7        | -10.8      | 5.3        | 75.0        | -12.0      | 1.6               | 4.5    |
| Hind. Unilever          | 47.3         | 8.0         | 10.8       | 8.8        | 15.7        | 35.6       | 6.8        | 10.7        | 35.2       | 2.0               | 1.3    |
| Hindalco                | 48.4         | 17.5        | -1.6       | 8.2        | 5.3         | 34.7       | 5.2        | -5.2        | 50.2       | 1.6               | -0.6   |
| ICICI Bank              | 21.0         | 5.5         | 3.2        | 24.8       | -10.7       | 1.7        | 10.8       | -15.3       | 3.6        | 3.2               | -3.9   |
| Infosys                 | 55.9         | -3.4        | 0.0        | 18.2       | -10.3       | -5.8       | 14.7       | -6.8        | -4.3       | 4.4               | -2.2   |
| ITC                     | 44.8         | 16.0        | 3.0        | 17.0       | 23.4        | 6.9        | 11.0       | 21.9        | 9.1        | 3.3               | 4.0    |
| Jaiprakash Associates   | 20.4         | 54.7        | 12.1       | 5.5        | 122.7       | 20.8       | 2.5        | 18.6        | 115.0      | 0.8               | 0.8    |
| Larsen & Toubro         | 97.9         | 13.9        | 24.4       | 10.4       | 10.0        | 32.2       | 7.4        | 15.9        | 34.2       | 2.2               | 2.0    |
| Mahindra & Mahindra     | 43.7         | 74.3        | -2.2       | 7.1        | 740.3       | -7.3       | 4.7        | 1136.4      | -19.8      | 1.4               | 8.8    |
| Maruti Suzuki           | 74.4         | 59.0        | 3.4        | 9.4        | 167.4       | 2.7        | 5.8        | 171.2       | 1.7        | 1.7               | 7.4    |
| NTPC                    | 124.6        | 10.5        | 15.6       | 34.0       | 5.8         | 5.7        | 20.9       | 2.3         | 5.1        | 6.3               | 1.0    |
| ONGC                    | 153.7        | 23.6        | 1.9        | 86.9       | 73.8        | 0.1        | 48.1       | 94.4        | -5.5       | 14.5              | 47.0   |
| Reliance Comm           | 57.6         | -1.6        | 1.0        | 18.7       | -20.6       | -7.5       | 7.8        | -47.4       | -5.6       | 2.3               | -14.1  |
| Reliance Inds.          | 502.6        | 59.2        | 7.3        | 76.2       | 42.1        | 5.6        | 41.3       | 18.1        | 7.3        | 12.5              | 12.7   |
| Reliance Infrastructure | 30.6         | 12.5        | 15.4       | 2.3        | -26.5       | -26.7      | 3.0        | 4.6         | -20.1      | 0.9               | 0.3    |
| State Bank              | 63.4         | 10.1        | 13.0       | 52.0       | 16.1        | 7.6        | 26.8       | 8.2         | 7.7        | 8.1               | 4.1    |
| Sterlite Inds.          | 62.8         | 38.4        | 2.4        | 16.5       | 191.6       | 20.7       | 11.7       | 140.6       | 18.9       | 3.5               | 13.7   |
| Sun Pharma              | 9.6          | 5.0         | -11.5      | 3.6        | -13.4       | -7.6       | 3.6        | -12.1       | 11.0       | 1.1               | -1.0   |
| Tata Motors             | 78.1         | 65.7        | -1.5       | 10.5       | 1042.1      | -1.8       | 3.9        | LP          | 7.7        | 1.2               | 12.5   |
| Tata Power              | 17.4         | -2.0        | 1.2        | 5.0        | 97.2        | 21.2       | 2.2        | 121.6       | 18.3       | 0.7               | 2.4    |
| Tata Steel              | 293.9        | -11.4       | 15.7       | 25.9       | -9.4        | 596.6      | 1.7        | -82.6       | LP         | 0.5               | -16.2  |
| TCS                     | 74.6         | 2.5         | 0.3        | 21.1       | 8.1         | -1.3       | 16.4       | 21.4        | 1.1        | 5.0               | 5.8    |
| Wipro                   | 68.4         | 3.9         | -0.7       | 13.3       | 21.3        | 2.4        | 12.1       | 19.7        | 3.2        | 3.6               | 4.0    |
| <b>Sensex (30)</b>      | <b>2,297</b> | <b>19.0</b> | <b>6.5</b> | <b>583</b> | <b>24.8</b> | <b>6.8</b> | <b>332</b> | <b>17.6</b> | <b>9.1</b> |                   |        |

LP: Loss to profit

Source: Company/MOSL

## Sector outlook — 3QFY10 to FY14

We have carried out a detailed bottoms-up exercise of estimating earnings for our universe through FY14. The exercise provides us several interesting insights:

- Sensex earnings growth is 23% while MOSL Universe earnings growth is 20%
- Sectors that are expected to report higher than market earnings growth include Infrastructure (36%), Metals (33%), Engineering (25%) and Autos (24%)
- Sectors that are expected to report lower than market earnings growth include Telecoms (11%), IT (14%), Oil & Gas (14%), Cement (17%), FMCG (18%)
- Financials, Media and Pharma sectors are expected report earnings growth of 20-22%, broadly in-line with market earnings growth.

The following pages provide -

1. Snapshot outlook of each sector from 3QFY10 to FY14; and
2. FY10-14 estimates and valuation of companies in each sector.

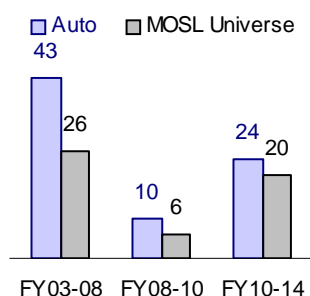
### ANNUAL PERFORMANCE - MOSL UNIVERSE

| SECTOR<br>Y/E MARCH      | SALES (RS B)  |               |               |               |               | FY11 FY10-14 |             | PAT (RS B)   |              |              |              |              | FY11 FY10-14 |             |
|--------------------------|---------------|---------------|---------------|---------------|---------------|--------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------|
|                          | FY10E         | FY11E         | FY12E         | FY13E         | FY14E         | YOY (%)      | CAGR (%)    | FY10E        | FY11E        | FY12E        | FY13E        | FY14E        | YOY (%)      | CAGR (%)    |
| Auto (5)                 | 1,681         | 1,904         | 2,157         | 2,435         | 2,735         | 13.2         | 12.9        | 85           | 115          | 144          | 171          | 199          | 35.1         | 23.7        |
| Banks (26)               | 1,164         | 1,424         | 1,682         | 2,011         | 2,412         | 22.4         | 20.0        | 536          | 651          | 782          | 964          | 1,176        | 21.6         | 21.7        |
| Cement (8)               | 655           | 691           | 783           | 900           | 1,030         | 5.5          | 12.1        | 109          | 93           | 105          | 138          | 177          | -15.1        | 12.8        |
| Engineering (6)          | 960           | 1,158         | 1,485         | 1,724         | 2,057         | 20.6         | 21.0        | 94           | 119          | 155          | 187          | 227          | 26.4         | 24.6        |
| FMCG (12)                | 743           | 862           | 983           | 1,125         | 1,294         | 16.0         | 14.9        | 102          | 121          | 143          | 167          | 199          | 18.3         | 18.2        |
| IT (7)                   | 1,042         | 1,168         | 1,339         | 1,531         | 1,764         | 12.1         | 14.1        | 207          | 231          | 255          | 296          | 346          | 11.3         | 13.7        |
| Infrastructure (9)       | 372           | 444           | 511           | 637           | 788           | 19.4         | 20.7        | 34           | 40           | 47           | 83           | 115          | 20.1         | 35.8        |
| Media (6)                | 72            | 86            | 97            | 109           | 122           | 19.2         | 14.2        | 17           | 21           | 25           | 30           | 36           | 23.5         | 20.6        |
| Metals (9)               | 2,734         | 3,072         | 3,478         | 3,838         | 4,147         | 12.4         | 11.0        | 199          | 345          | 433          | 544          | 626          | 73.2         | 33.1        |
| Oil Gas & Petchem (11)   | 8,368         | 8,951         | 9,078         | 9,358         | 9,660         | 7.0          | 3.7         | 578          | 709          | 829          | 882          | 969          | 22.8         | 13.8        |
| Pharma (13)              | 479           | 542           | 614           | 699           | 794           | 13.3         | 13.5        | 63           | 81           | 95           | 113          | 132          | 27.1         | 20.2        |
| Real Estate (10)         | 149           | 198           | 275           | 339           | 424           | 33.0         | 29.9        | 45           | 63           | 74           | 88           | 117          | 37.9         | 26.5        |
| Retail (2)               | 121           | 150           | 177           | 206           | 238           | 23.4         | 18.3        | 4            | 5            | 7            | 9            | 11           | 37.9         | 29.1        |
| Telecom (3)              | 749           | 823           | 944           | 1,054         | 1,177         | 9.8          | 12.0        | 135          | 126          | 147          | 173          | 207          | -6.2         | 11.3        |
| Textiles (5)             | 141           | 169           | 192           | 207           | 221           | 19.3         | 11.9        | 5            | 9            | 13           | 16           | 19           | 84.2         | 40.2        |
| Utilities (10)           | 915           | 1,136         | 1,337         | 1,597         | 1,786         | 24.2         | 18.2        | 153          | 188          | 225          | 267          | 306          | 23.2         | 18.9        |
| <b>MOSL (144)</b>        | <b>20,348</b> | <b>22,879</b> | <b>25,249</b> | <b>27,904</b> | <b>30,801</b> | <b>12.4</b>  | <b>10.9</b> | <b>2,360</b> | <b>2,929</b> | <b>3,494</b> | <b>4,146</b> | <b>4,882</b> | <b>24.1</b>  | <b>19.9</b> |
| <b>MOSL Ex RMs (141)</b> | <b>15,690</b> | <b>18,113</b> | <b>20,674</b> | <b>23,120</b> | <b>25,843</b> | <b>15.4</b>  | <b>13.3</b> | <b>2,221</b> | <b>2,816</b> | <b>3,361</b> | <b>4,010</b> | <b>4,721</b> | <b>26.8</b>  | <b>20.7</b> |
| <b>Sensex (30) *</b>     | <b>5,352</b>  | <b>6,037</b>  | <b>6,862</b>  | <b>7,590</b>  | <b>8,449</b>  | <b>12.8</b>  | <b>12.1</b> | <b>616</b>   | <b>813</b>   | <b>989</b>   | <b>1,191</b> | <b>1,416</b> | <b>32.1</b>  | <b>23.2</b> |
| <b>Nifty (50) *</b>      | <b>6,326</b>  | <b>7,148</b>  | <b>8,071</b>  | <b>8,972</b>  | <b>10,011</b> | <b>13.0</b>  | <b>12.2</b> | <b>709</b>   | <b>935</b>   | <b>1,136</b> | <b>1,373</b> | <b>1,641</b> | <b>31.8</b>  | <b>23.3</b> |

For Banks: Sales = Net Interest Income, EBITDA = Operating Profits; Tata Steel figures are consolidated including Corus; \* free float

## Automobiles

PAT CAGR (%)



### Outlook: 3QFY10

- Strong retail level demand and low inventory to drive momentum in volumes, ever after festive season, with 41% YoY growth (flat QoQ).
- Despite RM cost increase, EBITDA margin decline to be limited at 30bps QoQ (~780bp YoY improvement).
- Overall, we estimate PAT growth of 360% YoY (~5% QoQ de-growth), largely driven by a very low base.
- Prefer Bajaj Auto and M&M in the near term due to very strong volume growth and improving product mix.

### Outlook: FY11

- Volume growth to remain strong led by healthy economic growth. Our estimates factor in 15% volume growth for Bajaj Auto, 10% for Hero Honda, 11% for M&M, 13.4% for Maruti and 47% for Tata Motors.
- Cost inflation would result in 20-100bp decline in EBITDA margins from the peak of FY10. Hero Honda to be least impacted as full benefit of ramp-up and higher localization at Haridwar would dilute cost inflation.
- **Key events to watch out:** Roll-back of excise duty cut, pricing action to mitigate RM cost, compliance with BS IV emission norms, and hardening of interest rates.
- Prefer Bajaj Auto, M&M and Hero Honda due to relatively benign competitive environment and attractive valuation compared to peers.

### Outlook: FY12-14

- Strong economic growth to drive volume CAGR of 10-15%, across all segments. Market leaders with wider product basket and market reach to outperform industry. Volume growth estimated at 12% for two wheelers and 15% for cars.
- EBITDA margins to sustain above historical average in two-wheelers, UVs and tractors, due to higher industry consolidation and focus on branding. EBITDA margins are estimated to improve by 30-40bp in FY12-14E due to higher operating leverage.
- Companies with manufacturing facilities in fiscal havens will see increase in tax rates due to (1) lower share from such facilities, and (2) lower income tax exemption from 6th year onwards. Biggest impact would be for Hero Honda, which would witness decline in Haridwar contribution from FY13 onwards, whereas income tax benefit would be lower from FY14.
- Prefer players in segments less vulnerable to competitive dynamics - Bajaj Auto, M&M and Hero Honda.

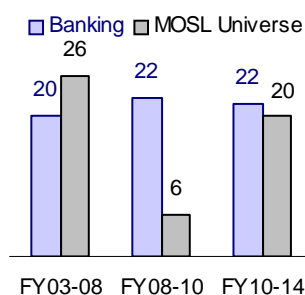
AUTOMOBILES: FY10-14 ESTIMATES

|                         | MCAP<br>(USDB) | RECO    | FY10E-FY14E CAGR (%) |           |           | EPS (RS) |       |       |       |       | P/E (X)     |             |             |             |            |
|-------------------------|----------------|---------|----------------------|-----------|-----------|----------|-------|-------|-------|-------|-------------|-------------|-------------|-------------|------------|
|                         |                |         | SALES                | EBITDA    | PAT       | FY10E    | FY11E | FY12E | FY13E | FY14E | FY10E       | FY11E       | FY12E       | FY13E       | FY14E      |
| Bajaj Auto              | 5.2            | Buy     | 12                   | 10        | 13        | 116.2    | 133.3 | 151.5 | 169.7 | 190.7 | 14.5        | 12.6        | 11.1        | 9.9         | 8.8        |
| Hero Honda              | 7.5            | Buy     | 13                   | 12        | 12        | 105.4    | 121.1 | 136.9 | 156.2 | 165.1 | 16.5        | 14.4        | 12.7        | 11.2        | 10.6       |
| Mahindra & Mahindra     | 6.5            | Buy     | 14                   | 16        | 17        | 95.4     | 108.8 | 124.6 | 151.5 | 179.1 | 11.1        | 9.7         | 8.5         | 7.0         | 5.9        |
| Maruti Suzuki           | 9.7            | Buy     | 17                   | 16        | 15        | 78.6     | 87.5  | 104.9 | 118.8 | 136.0 | 19.9        | 17.9        | 14.9        | 13.2        | 11.5       |
| Tata Motors             | 10.4           | Neutral | 11                   | 10        | LP        | -4.2     | 25.0  | 47.0  | 61.3  | 78.6  | -           | 31.4        | 16.7        | 12.8        | 10.0       |
| <b>Sector Aggregate</b> | <b>39.2</b>    |         | <b>13</b>            | <b>13</b> | <b>24</b> |          |       |       |       |       | <b>21.5</b> | <b>15.9</b> | <b>12.7</b> | <b>10.7</b> | <b>9.2</b> |



## Banking

PAT CAGR (%)



### Outlook: 3QFY10

- Margins to expand by 10-15bp QoQ across the industry backed by a) lag impact of fall in the cost of deposits b) calibrated deposits growth with a higher reliance on CASA deposits (thus, CASA ratio to expand) and c) benefit of capital raising for the large private banks like Axis Bank and HDFC Bank.
- NII to grow just 11% YoY due to high base effect - margins had expanded significantly in 3QFY09 (due to financial crisis).
- Loan growth will pick up QoQ for many large banks despite the muted industry numbers (largely on account of decline in growth for foreign banks and ICICI Bank). We have factored in 4-5% QoQ growth in loans across the large PSU and private banks.
- NPA cost is unlikely to be higher (expect for SBI and ICICI Bank) as incremental delinquencies will not increase significantly. However, to comply with the RBI guideline of 70% PCR, SBI and ICICI Bank could make higher NPA provisions in our view.
- Private sector banks with strong growth are Axis Bank, HDFC Bank and Yes Bank. Among PSU banks, expect superior earnings performance from Union Bank and Bank of Baroda.

### Outlook: FY11

- Loan growth to rebound strongly to ~20% YoY led by revival in economic growth and improved business confidence.
- Expect margin expansion of 10-15bp and banks with significant liquidity in the balance sheet (represented by lower CD ratio) are likely to be the biggest beneficiaries. Our preferred bets for the margin expansion are SBI and Union Bank among PSU banks and Axis Bank and ICICI Bank among the private banks.
- Slippages will increase. We have modeled 10% of restructured loans to turn NPA in FY10 and 20-30% for banks with proportion of restructured loans higher than industry average. For our coverage universe GNPA will increase by 33% in FY10 and 31% in FY11.
- Core operating profits expected to increase 28% backed by 23% increase in NII, ~17% growth in fee income, and ~14% growth in opex. However, PAT growth is expected to be 20% due to lower trading profits and higher NPA provision.
- Our preferred bets are SBI, Axis Bank, ICICI Bank and Bank of Baroda.

### Outlook: FY12-14

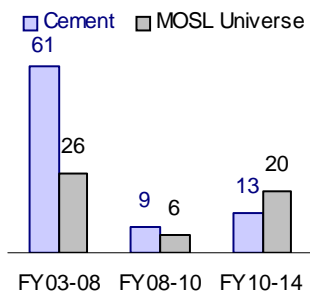
- Expect loan CAGR of 20% for the sector. Growth for large players will be higher as they gain market share.
- Margins to remain stable at the level of FY11. Thus, NII growth will be in line with the balance sheet growth.
- Fee income is also expected to grow inline with balance sheet. However, opex growth will be lower than balance sheet growth, driving profitability.
- Slippage should be lower as economy resumes its strong growth trend; thus, credit cost should fall, especially starting FY13, further boosting profitability.
- All three large private banks - ICICI, Axis and HDFC Bank - will report consistent growth. Among PSU banks, best earnings growth will be from SBI and Bank of India.

## BANKING: FY10-14 ESTIMATES

|                        | MCAP<br>(USDB) | RECO    | FY10E-FY14E CAGR (%) |       |      |     | P/B (X) |       |       |       |       | ROE (%) |       |       |       |       |
|------------------------|----------------|---------|----------------------|-------|------|-----|---------|-------|-------|-------|-------|---------|-------|-------|-------|-------|
|                        |                |         | NII                  | OPER. | PRO. | PAT | FY10E   | FY11E | FY12E | FY13E | FY14E | FY10E   | FY11E | FY12E | FY13E | FY14E |
| State-owned Banks      |                |         |                      |       |      |     |         |       |       |       |       |         |       |       |       |       |
| Andhra Bank            | 1.1            | Buy     | 17                   | 14    | 13   | 1.2 | 1.0     | 0.9   | 0.8   | 0.6   | 25.5  | 21.8    | 22.8  | 22.9  | 22.2  |       |
| Bank of Baroda         | 4.0            | Buy     | 19                   | 24    | 20   | 1.4 | 1.2     | 1.0   | 0.8   | 0.7   | 20.9  | 21.3    | 21.7  | 21.8  | 22.1  |       |
| Bank of India          | 4.3            | Neutral | 20                   | 22    | 25   | 1.5 | 1.3     | 1.1   | 0.9   | 0.8   | 17.0  | 18.7    | 21.4  | 21.6  | 21.5  |       |
| Canara Bank            | 3.5            | Buy     | 18                   | 19    | 13   | 1.3 | 1.1     | 0.9   | 0.8   | 0.6   | 26.8  | 24.3    | 21.9  | 21.9  | 20.8  |       |
| Corporation Bank       | 1.3            | Buy     | 16                   | 19    | 18   | 1.0 | 0.9     | 0.8   | 0.6   | 0.5   | 21.4  | 19.7    | 21.2  | 21.9  | 21.9  |       |
| Dena Bank              | 0.5            | Buy     | 20                   | 20    | 17   | 1.0 | 0.9     | 0.7   | 0.6   | 0.5   | 22.2  | 20.4    | 19.8  | 20.3  | 20.7  |       |
| Indian Bank            | 1.6            | Buy     | 15                   | 15    | 12   | 1.1 | 1.0     | 0.8   | 0.7   | 0.6   | 24.6  | 20.8    | 22.8  | 21.3  | 20.2  |       |
| Indian Overseas Bank   | 1.3            | Sell    | 17                   | 22    | 27   | 0.9 | 0.9     | 0.7   | 0.6   | 0.5   | 16.1  | 14.4    | 20.9  | 23.1  | 22.4  |       |
| Oriental Bank          | 1.4            | Buy     | 22                   | 28    | 22   | 0.9 | 0.8     | 0.7   | 0.6   | 0.5   | 15.0  | 15.8    | 18.0  | 18.2  | 18.3  |       |
| Punjab National Bank   | 6.2            | Buy     | 17                   | 20    | 17   | 1.8 | 1.5     | 1.2   | 1.0   | 0.8   | 26.7  | 25.8    | 24.2  | 23.5  | 23.4  |       |
| State Bank             | 30.2           | Buy     | 22                   | 24    | 25   | 1.7 | 1.4     | 1.2   | 1.0   | 0.9   | 17.5  | 18.7    | 17.9  | 20.3  | 22.2  |       |
| Union Bank             | 2.9            | Buy     | 23                   | 26    | 20   | 1.5 | 1.2     | 1.0   | 0.8   | 0.7   | 26.1  | 27.0    | 25.2  | 24.2  | 23.9  |       |
| Private Banks          |                |         |                      |       |      |     |         |       |       |       |       |         |       |       |       |       |
| Axis Bank              | 8.5            | Buy     | 23                   | 24    | 24   | 2.5 | 2.2     | 1.8   | 1.6   | 1.3   | 18.7  | 17.8    | 19.0  | 20.3  | 20.7  |       |
| Federal Bank           | 0.9            | Buy     | 21                   | 20    | 20   | 0.8 | 0.8     | 0.7   | 0.6   | 0.5   | 12.8  | 14.1    | 15.2  | 15.7  | 16.0  |       |
| HDFC Bank              | 15.5           | Neutral | 21                   | 24    | 26   | 3.7 | 3.2     | 2.7   | 2.3   | 2.0   | 16.5  | 17.4    | 19.3  | 20.3  | 21.3  |       |
| ICICI Bank             | 20.9           | Buy     | 16                   | 18    | 25   | 1.9 | 1.8     | 1.6   | 1.5   | 1.3   | 11.0  | 13.3    | 15.2  | 16.6  | 17.7  |       |
| J&K Bank               | 0.6            | Buy     | 15                   | 19    | 17   | 0.9 | 0.8     | 0.7   | 0.6   | 0.5   | 17.4  | 17.8    | 18.1  | 18.2  | 18.9  |       |
| Kotak Mahindra Bank    | 6.0            | Neutral | 16                   | 16    | 18   | 3.6 | 3.1     | 2.6   | 2.2   | 1.8   | 19.5  | 19.7    | 19.6  | 19.8  | 20.1  |       |
| South Indian Bank      | 0.3            | Buy     | 20                   | 18    | 22   | 1.1 | 0.9     | 0.8   | 0.7   | 0.6   | 18.1  | 19.2    | 19.9  | 21.0  | 22.1  |       |
| Yes Bank               | 1.7            | Buy     | 31                   | 27    | 26   | 3.9 | 2.5     | 2.1   | 1.8   | 1.5   | 23.4  | 19.0    | 17.1  | 17.7  | 18.7  |       |
| NBFCs                  |                |         |                      |       |      |     |         |       |       |       |       |         |       |       |       |       |
| Dewan Housing          | 0.3            | Buy     | 32                   | 34    | 34   | 1.8 | 1.5     | 1.1   | 0.9   | 0.8   | 22.8  | 22.9    | 22.8  | 21.9  | 22.1  |       |
| HDFC                   | 16.5           | Neutral | 19                   | 18    | 18   | 5.3 | 4.7     | 4.1   | 3.2   | 2.9   | 25.1  | 25.0    | 25.7  | 26.9  | 27.3  |       |
| IDFC                   | 4.3            | Neutral | 13                   | 17    | 17   | 2.9 | 2.5     | 2.2   | 1.9   | 1.7   | 16.1  | 16.4    | 16.9  | 17.3  | 17.7  |       |
| LIC Housing Fin        | 1.6            | Buy     | 26                   | 26    | 24   | 2.3 | 1.9     | 1.4   | 1.2   | 1.0   | 23.8  | 23.0    | 20.5  | 19.6  | 20.6  |       |
| Rural Electric. Corp.  | 5.0            | Buy     | 23                   | 22    | 22   | 2.1 | 1.9     | 1.6   | 1.4   | 1.2   | 22.2  | 21.0    | 23.1  | 24.3  | 24.2  |       |
| Shriram Transport      | 2.1            | Buy     | 21                   | 20    | 21   | 3.1 | 2.4     | 2.0   | 1.6   | 1.3   | 25.6  | 26.6    | 25.9  | 24.6  | 23.1  |       |
| Sector Aggregate 142.5 |                |         | 20                   | 22    | 22   | 2.3 | 2.0     | 1.7   | 1.4   | 1.2   | 18.6  | 19.3    | 19.7  | 20.7  | 21.3  |       |

## Cement

PAT CAGR (%)



### Outlook: 3QFY10

- Volume growth expected to pick-up to 8.9% YoY, despite brief slowdown in Sep-Oct 2009.
- 40mt capacity addition during TTM would suppress capacity utilization for 3QFY10 to 82% (v/s 87% in 3QFY09). As a result, cement prices are expected to decline by 5.3% QoQ (flat YoY).
- 3QFY10 aggregate EBITDA margins to decline by 410bp QoQ (~380bp YoY increase).
- Cement prices have started recovering from the bottom and are expected to firm-up further as construction activity picks-up in 1HCY10.
- Commissioning of new capacities would drive strong volume growth for Jaiprakash Associates (~46% YoY), India Cement (~35% YoY) and Grasim (~16% YoY).
- Prefer UltraTech and India Cement given attractive valuations.

### Outlook: FY11

- Volume growth to remain strong at 10-12%, boosted by pick-up in urban real estate sector. Expect higher than industry growth from Jaiprakash Associates (+27%) and India Cement (+13%).
- Pace of capacity addition to slow down, with ~25mt of capacity addition in FY11 as against ~54mt in FY10. Capacity utilization in FY11 is estimated to decline to 83% (v/s 87% in FY10E).
- Expect full impact of these capacity additions to be realized by 2QFY11 (monsoon quarter). Hence, cycle should bottom out by then and recover gradually thereafter.
- Expect Rs10/bag decline in cement prices in FY11, resulting in ~19% decline in PAT.
- Prefer ACC, UltraTech and Birla Corp.

### Outlook: FY12-14

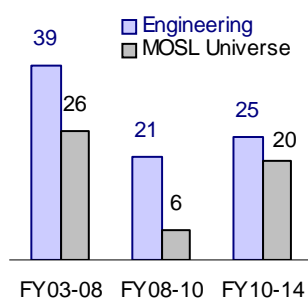
- Volume growth estimated at 10-12% driven by infrastructure, real estate and industrial demand.
- Limited capacity addition (~22mt in FY12) would result in gradual recovery, with pick-up in capacity utilization from 2HFY12. We estimate capacity utilization to increase from 84.6% in FY11 to 86.7% in FY12 and 95% in FY13 and 104% in FY14.
- Expect cement prices to recover FY12 onwards, thereby driving improvement in margins and profit growth. We estimate cement prices to improve by Rs5/bag in FY12, Rs10/bag each in FY13 and FY14.
- The sector should see reasonable earnings growth in FY12-14E, driven by demand and price increases. This coupled with limited capex would generate very strong cash flows. Top-tier cement stocks are trading at reasonable valuations of 10-12x FY12E EPS and EV of US\$90-105/ton. Beginning of new upcycle would act as strong re-rating trigger for the cement industry.
- Prefer ACC, UltraTech, Birla Corp and Shree Cement.

CEMENT: FY10-14 ESTIMATES

|                         | MCAP<br>(USDB) | RECO    | FY10E-FY14E CAGR (%) |           |           | EPS (RS) |       |       |       |       | P/E (X)    |            |            |            |            |
|-------------------------|----------------|---------|----------------------|-----------|-----------|----------|-------|-------|-------|-------|------------|------------|------------|------------|------------|
|                         |                |         | SALES                | EBITDA    | PAT       | FY10E    | FY11E | FY12E | FY13E | FY14E | FY10E      | FY11E      | FY12E      | FY13E      | FY14E      |
| ACC                     | 3.5            | Neutral | 11                   | 8         | 9         | 90.3     | 71.4  | 81.6  | 103.3 | 130.0 | 9.5        | 12.0       | 10.5       | 8.3        | 6.6        |
| Ambuja Cements          | 3.3            | Neutral | 12                   | 13        | 14        | 8.0      | 7.5   | 8.3   | 10.5  | 13.8  | 12.6       | 13.5       | 12.1       | 9.6        | 7.3        |
| Birla Corporation       | 0.5            | Buy     | 14                   | 11        | 8         | 72.5     | 60.1  | 58.6  | 76.5  | 99.2  | 4.4        | 5.3        | 5.5        | 4.2        | 3.2        |
| Grasim Industries       | 4.8            | Buy     | 11                   | 11        | 13        | 334.7    | 269.5 | 308.4 | 379.5 | 469.1 | 7.2        | 9.0        | 7.9        | 6.4        | 5.2        |
| India Cements           | 0.8            | Buy     | 14                   | 12        | 17        | 14.9     | 10.0  | 12.3  | 19.8  | 28.3  | 8.3        | 12.5       | 10.1       | 6.3        | 4.4        |
| Kesoram Ind             | 0.3            | Buy     | 13                   | 12        | 23        | 68.2     | 72.5  | 89.4  | 119.3 | 157.7 | 5.2        | 4.9        | 3.9        | 3.0        | 2.2        |
| Shree Cement            | 1.4            | Buy     | 17                   | 14        | 12        | 260.9    | 194.4 | 207.5 | 333.3 | 411.6 | 7.2        | 9.7        | 9.1        | 5.6        | 4.6        |
| Ultratech Cement        | 2.4            | Buy     | 11                   | 11        | 14        | 101.0    | 78.8  | 94.1  | 124.1 | 163.9 | 8.9        | 11.4       | 9.5        | 7.2        | 5.5        |
| <b>Sector Aggregate</b> | <b>16.9</b>    |         | <b>12</b>            | <b>11</b> | <b>13</b> |          |       |       |       |       | <b>8.3</b> | <b>8.5</b> | <b>7.5</b> | <b>5.7</b> | <b>4.5</b> |

## Engineering

PAT CAGR (%)



### Outlook: 3QFY10

- Early signs of higher industrial activity: In Oct 2009, IIP Index grew 10.3% YoY and capital goods index 12.2% YoY. Growth has started picking up from Aug 2009, given lower base.
- For 3QFY10, expect capital goods space to deliver revenue growth of 16% YoY; adjusted EBITDA growth of 19% YoY and adjusted PAT growth of 17% YoY.
- 3QFY10 EBITDA margins are likely to be stable YoY. However, lower commodity price benefits could continue to surprise positively, particularly for BHEL and Crompton.

### Outlook: FY11

- Expect capital goods space to deliver revenue growth of 21% YoY (v/s 14.6% in FY10) and adjusted PAT growth of 25% YoY (v/s 13.5% YoY in FY10). Pick up in execution is led by improved credit availability, better demand scenario for end user industries and accelerated commissioning of power generation capacity.
- Expect higher order intake from infrastructure and industrial capex.
- BHEL: Expect robust order intake during next 12-18 months, driven largely by i) financial closure of private sector power projects, ii) National Tariff Policy stipulating Central and State sector companies to award projects by Jan 11 to be eligible for CERC methodology of tariff determination, iii) Bulk ordering of 11 supercritical sets (660MW each) by NTPC and DVC, and iv) orders of 6.5-7GW from BHEL's JVs with state utilities for power projects.
- L&T: Expect order intake to be more broadbased with segments like process industries, hydrocarbons, power T&D, etc. Also, nuclear power could be a possible surprise contributor. Still, our earnings estimates are lower than consensus by over 10%.
- Expect EBITDA margin expansion of 60bp driven largely by operating leverage (BHEL, Crompton, ABB) and lower one-off impact from cost escalations on projects (ABB).
- BHEL and ABB will lead earnings growth outperformance in FY11.

### Outlook: FY12-14

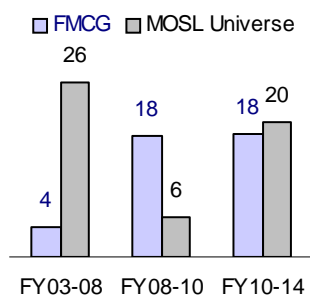
- Likely to be a period of robust business growth given the simultaneous pick up in power generation, T&D, industrial and private capex.
- The previous upcycle (FY03-08) had benefited from margin expansion. This time, the margins in a trough year (FY10) are close to historical peaks. Thus, expect earnings growth to largely mirror revenue growth.
- **BHEL:** Stagnation / decline in order intake from power segment is a concern, which would impact growth beyond FY13. Potential mitigants are: (i) BHEL's rising share of super critical projects, (ii) BHEL's planned foray into new segments like rig manufacturing, defense, wind energy, water desalination, etc, and (iii) Inorganic growth.
- **L&T:** Entry into new areas like power equipment, nuclear power plants, defense, shipbuilding, power development projects, and forgings (thermal and nuclear), increased presence in the Middle East, and its ability to take new PPP projects (due to strong balance sheet) likely to ensure long-term sustainability of order flow.
- L&T and ABB should deliver the best earnings growth in this period.

#### ENGINEERING: FY10-14 ESTIMATES

|                         | MCAP<br>(USDB) | RECO    | FY10E-FY14E CAGR (%) |           |           | EPS (RS) |       |       |       |       | P/E (X)     |             |             |             |             |
|-------------------------|----------------|---------|----------------------|-----------|-----------|----------|-------|-------|-------|-------|-------------|-------------|-------------|-------------|-------------|
|                         |                |         | SALES                | EBITDA    | PAT       | FY10E    | FY11E | FY12E | FY13E | FY14E | FY10E       | FY11E       | FY12E       | FY13E       | FY14E       |
| ABB                     | 3.5            | Neutral | 21                   | 32        | 33        | 19.8     | 28.2  | 36.3  | 47.6  | 62.0  | 38.6        | 27.1        | 21.0        | 16.0        | 12.3        |
| BHEL                    | 24.9           | Buy     | 20                   | 24        | 22        | 86.7     | 114.7 | 152.9 | 170.3 | 193.7 | 27.4        | 20.7        | 15.5        | 14.0        | 12.3        |
| Crompton Greaves        | 3.3            | Buy     | 19                   | 20        | 20        | 19.2     | 21.6  | 27.0  | 33.0  | 39.3  | 22.0        | 19.6        | 15.7        | 12.8        | 10.7        |
| Larsen & Toubro         | 21.7           | Neutral | 25                   | 26        | 27        | 57.3     | 67.1  | 85.8  | 113.1 | 149.6 | 29.4        | 25.1        | 19.6        | 14.9        | 11.3        |
| Siemens                 | 4.2            | Neutral | 11                   | 13        | 35        | 13.7     | 16.5  | 22.1  | 28.3  | 31.4  | 42.1        | 35.0        | 26.1        | 20.4        | 18.4        |
| Thermax                 | 1.6            | Neutral | 11                   | 12        | 11        | 23.6     | 25.7  | 28.5  | 31.8  | 35.4  | 25.8        | 23.7        | 21.3        | 19.2        | 17.2        |
| <b>Sector Aggregate</b> | <b>59.1</b>    |         | <b>21</b>            | <b>24</b> | <b>25</b> |          |       |       |       |       | <b>29.3</b> | <b>23.2</b> | <b>17.8</b> | <b>14.8</b> | <b>12.1</b> |

## FMCG

PAT CAGR (%)



## Outlook: 3QFY10

- Expect 15% sales growth and 26% Adj PAT growth for the universe.
- Asian Paints and United Spirits should report three-digit PAT growth given the low base effect (sharp profit decline in 3QFY09)
- ITC to deliver 22% PAT growth on the back of 6.5% cigarette volume growth and high double-digit profit growth in paper and agri businesses.
- Britannia's PAT to de-grow 12.5% due to input cost pressure, mainly sugar and wheat.
- Key picks - ITC, United Spirits and Asian Paints.

## Outlook: FY11

- Expect double-digit volume growth, led by buoyant rural India and lower inflation.
- Implementation of GST could be a key trigger for the sector as it would lower tax incidence on organised sector and rein supply chain costs.
- ITC: Expect 17% PAT growth led by 6% volume growth in cigarettes and rebound in hotels business. Key event to watch: hike in excise duty on cigarettes in upcoming Budget.
- HUL: Expect 12% PAT growth for HUL on the back of 6.5% volume growth. Higher input costs, ad spend and royalty to Unilever would impact profit growth.
- Colgate: PAT growth would be muted on account of 600bp rise in tax rate to 24.5% as its Baddi unit moves to 30% tax exemption from 100% currently.
- Asian Paints: PAT growth to be muted at 12% due to high base (71% growth in FY10), input cost pressures and higher overheads/depreciation on new plant in Rohtak.
- United Spirits: Expect 66% PAT growth due to 140bp margin expansion led by lower input costs, and benefits from repayment of debt related to Whyte and Mackay acquisition.
- Key picks - ITC, United Spirits.

## Outlook: FY12-14

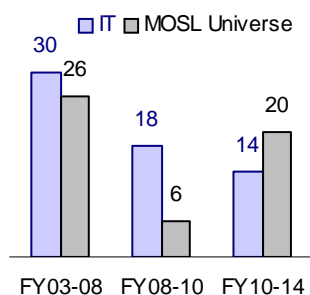
- Expect 20%+ sales growth led by (1) rising income levels and higher affordability, (2) favorable demographics, (3) low penetration, and (4) distribution expansion.
- Strong volume growth in low penetration categories like skin care, processed foods, household products, paints and alcoholic beverages.
- Nestle, United Spirits, Asian Paints and Dabur India to deliver mid-teens volume growth. Margin expansion would be muted companies focus on value for money segments.
- United Spirits could benefit from progressive ban on country liquor in various states.
- Key stock picks - Nestle and HUL (contrarian).

FMCG: FY10-14 ESTIMATES

|                         | MCAP<br>(USDB) | RECO    | FY10E-FY14E CAGR (%) |           |           | EPS (RS) |       |       |       |       | P/E (X)     |             |             |             |             |
|-------------------------|----------------|---------|----------------------|-----------|-----------|----------|-------|-------|-------|-------|-------------|-------------|-------------|-------------|-------------|
|                         |                |         | SALES                | EBITDA    | PAT       | FY10E    | FY11E | FY12E | FY13E | FY14E | FY10E       | FY11E       | FY12E       | FY13E       | FY14E       |
| Asian Paints            | 3.6            | Neutral | 17                   | 17        | 18        | 71.4     | 80.0  | 97.1  | 116.8 | 139.7 | 24.7        | 22.1        | 18.2        | 15.1        | 12.6        |
| Britannia               | 0.8            | Buy     | 14                   | 23        | 24        | 86.9     | 112.7 | 132.0 | 169.6 | 205.9 | 19.1        | 14.7        | 12.5        | 9.8         | 8.0         |
| Colgate                 | 1.9            | Buy     | 17                   | 19        | 17        | 27.1     | 31.0  | 36.5  | 42.9  | 50.8  | 24.2        | 21.1        | 17.9        | 15.3        | 12.9        |
| Dabur                   | 3.0            | Buy     | 17                   | 17        | 20        | 5.7      | 6.8   | 8.3   | 9.9   | 11.7  | 28.5        | 24.0        | 19.6        | 16.4        | 13.9        |
| Godrej Consumer         | 1.7            | Buy     | 18                   | 19        | 21        | 10.3     | 13.2  | 15.6  | 18.5  | 22.1  | 25.5        | 19.8        | 16.7        | 14.1        | 11.8        |
| GSK Consumer            | 1.2            | Buy     | 18                   | 20        | 21        | 57.8     | 71.0  | 84.6  | 103.3 | 124.7 | 22.8        | 18.5        | 15.6        | 12.8        | 10.6        |
| Hind. Unilever          | 12.4           | Neutral | 13                   | 15        | 16        | 10.2     | 11.4  | 13.3  | 15.3  | 18.2  | 26.2        | 23.4        | 20.0        | 17.3        | 14.6        |
| ITC                     | 20.7           | Buy     | 14                   | 15        | 17        | 10.5     | 12.3  | 14.4  | 16.6  | 19.6  | 24.4        | 20.8        | 17.8        | 15.4        | 13.1        |
| Marico                  | 1.4            | Buy     | 17                   | 16        | 21        | 3.9      | 4.7   | 5.7   | 6.9   | 8.4   | 26.9        | 22.4        | 18.3        | 15.1        | 12.4        |
| Nestle                  | 5.2            | Buy     | 20                   | 22        | 22        | 76.5     | 93.5  | 114.2 | 136.0 | 168.2 | 33.1        | 27.1        | 22.2        | 18.6        | 15.0        |
| Tata Tea                | 1.3            | Neutral | 10                   | 12        | 11        | 61.6     | 68.8  | 76.7  | 83.3  | 94.0  | 15.5        | 13.9        | 12.5        | 11.5        | 10.2        |
| United Spirits          | 3.3            | Buy     | 15                   | 16        | 33        | 30.7     | 51.1  | 61.9  | 76.7  | 94.8  | 41.9        | 25.2        | 20.8        | 16.8        | 13.6        |
| <b>Sector Aggregate</b> | <b>56.5</b>    |         | <b>15</b>            | <b>16</b> | <b>18</b> |          |       |       |       |       | <b>25.8</b> | <b>21.9</b> | <b>18.5</b> | <b>15.8</b> | <b>13.2</b> |

## Information Technology

PAT CAGR (%)



### Outlook: 3QFY10

- Expect US\$ revenue growth of 3.7% - 5.0% QoQ for the top-3 IT companies.
- Expect Wipro to post the best revenue growth, margin progression and earnings growth across the top-3 IT companies in 3QFY10, with Infosys expected to underperform on these parameters. EBITDA margins are expected to improve by 60bp at Wipro, whereas Infosys and TCS are expected to see a decline of 200bp and 50bp respectively.
- QoQ EPS growth of 3.2% for Wipro, 1.1% for TCS and -4.3% for Infosys.
- Infosys FY10 US\$ revenue guidance likely to be upgraded to a growth of 0-1% (v/s a decline of 1 to 1.3%). Also expect Infosys to raise its FY10 EPS to Rs103 (vs Rs99.6-100).
- HCL Tech to have a muted quarter with revenue growth of 2.3%, EBITDA margin decline of 50bp and EPS decline of 5% QoQ.

### Outlook: FY11

- US\$ revenue growth of 14.6%-15.7% for the top-3 IT companies; Infosys should lead the growth, given higher discretionary spending in 2HFY11.
- Expect Infosys to enjoy highest revenue growth and EBITDA margin progression. However, earnings growth should be the slowest on increased taxation (20% in FY10 to 24% in FY11).
- EBITDA margins to moderate by 60-90bp, with Wipro expected to show higher declines on wage inflation impacts and moderation in utilization levels.
- EPS growth of 7.7%-10.3% for the top three IT companies, moderated due to higher taxation and assumed rupee appreciation of 3.3%.
- HCL Tech to post EPS growth of 39.8% YoY, with significant contributions from lower forex losses.
- Key factors that could change FY11 estimates: improvements in discretionary spends, wage hike expectations above our assumed wage inflation and changes in exchange rate assumptions.

### Outlook: FY12-14

- Infosys to lead the revenue and earnings growth among the top tier IT companies with US\$ revenue and EPS CAGR of 20% over FY12-FY14. Assumption: Infosys would be able to keep its margins intact on [1] greater skew towards higher margin services and higher margin geographies like Europe/US and [2] less than commensurate increase in headcount.
- TCS and Wipro to post US\$ revenue CAGR of 17% and 18.7% over this period, with EPS CAGR of 15.3% and 15.6% respectively.
- Higher margin companies like Infosys to see a lower impact of progressive rupee appreciation on earnings compared to TCS and Wipro.
- EBITDA margins at TCS and Wipro to moderate by 140bp and 90bp respectively.
- HCL Tech to post US\$ revenue CAGR of 16.4% and EPS CAGR of 13.7% over this period.

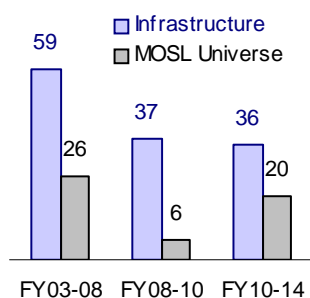
INFORMATION TECHNOLOGY : FY10-14 ESTIMATES

|                         | MCAP<br>(USDB) | RECO    | FY10E-FY14E CAGR (%) |           |           | EPS (RS) |       |       |       |       | P/E (X)     |             |             |             |             |
|-------------------------|----------------|---------|----------------------|-----------|-----------|----------|-------|-------|-------|-------|-------------|-------------|-------------|-------------|-------------|
|                         |                |         | SALES                | EBITDA    | PAT       | FY10E    | FY11E | FY12E | FY13E | FY14E | FY10E       | FY11E       | FY12E       | FY13E       | FY14E       |
| HCL Technologies        | 5.5            | Buy     | 13                   | 11        | 21        | 18.0     | 25.1  | 28.9  | 32.9  | 37.3  | 20.7        | 14.8        | 12.9        | 11.3        | 10.0        |
| Infosys                 | 31.7           | Neutral | 15                   | 15        | 17        | 105.7    | 113.9 | 136.0 | 164.2 | 196.9 | 24.4        | 22.6        | 18.9        | 15.7        | 13.1        |
| Mphasis                 | 3.2            | Buy     | 18                   | 12        | 11        | 47.5     | 50.0  | 56.3  | 63.1  | 72.8  | 15.3        | 14.5        | 12.9        | 11.5        | 10.0        |
| Patni Computer          | 1.3            | Buy     | 11                   | 1         | 6         | 35.2     | 41.6  | 43.4  | 42.9  | 43.7  | 13.8        | 11.7        | 11.2        | 11.3        | 11.1        |
| TCS                     | 31.1           | Buy     | 13                   | 11        | 12        | 33.3     | 36.7  | 39.1  | 44.7  | 52.0  | 22.3        | 20.2        | 19.0        | 16.6        | 14.3        |
| Tech Mahindra           | 2.8            | Neutral | 10                   | -1        | 11        | 64.6     | 72.4  | 75.9  | 85.4  | 95.7  | 15.4        | 13.8        | 13.2        | 11.7        | 10.4        |
| Wipro                   | 21.4           | Neutral | 14                   | 11        | 12        | 31.3     | 34.5  | 36.2  | 41.7  | 48.4  | 21.8        | 19.8        | 18.8        | 16.4        | 14.1        |
| <b>Sector Aggregate</b> | <b>97.0</b>    |         | <b>14</b>            | <b>11</b> | <b>14</b> |          |       |       |       |       | <b>21.9</b> | <b>19.6</b> | <b>17.7</b> | <b>15.3</b> | <b>13.1</b> |



## Infrastructure

PAT CAGR (%)



### Outlook: 3QFY10

- We expect revenue growth of 17% YoY in 3QFY10 v/s 9.5% YoY during 1HFY10. Execution during 1HFY10 was impacted on account of intentional slow execution by companies in few states like Andhra, labor unavailability issues, poor health of government finances (particularly states), etc.
- We expect profitability to sustain at higher level driven by lower commodity prices. We expect EBITDA margin of 11% (+65bp YoY) during 3QFY10 as against 10.4% during 3QFY09.
- 3QFY10 PAT is expected to grow 30% YoY v/s 2.4% YoY decline during 1HFY10. We expect interest cost benefits to kick in from this quarter resulting in substantial YoY gains at the net level.
- Compared to FY09, commodity prices are lower/stable and borrowing cost moderate. Key beneficiaries will be companies with higher fixed proportion of price contracts (Nagarjuna Construction) and with higher leverage (Hindustan Construction and Simplex Infrastructures).

### Outlook: FY11

- Execution will improve as pressure on state government finances moderate; supply chain (mainly labor availability) is much better now. Operating margins to be stable.
- Macro environment showing initial signs of improvement with strong order intake expected from sectors like roads, power (thermal, hydro, etc), urban infrastructure (UI), ports, Irrigation, etc.
- Expect improved working capital cycle and lower interest cost (as % of revenue) to boost earnings.
- Top bets to play FY11 earnings growth are NCC and HCC.

### Outlook: FY12-14

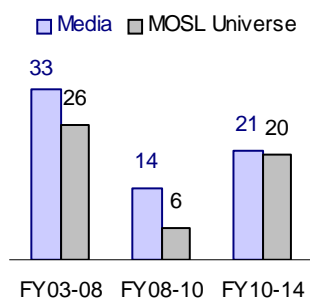
- Expect improved order intake and execution, given possible improvement in government finances. This should lead to better operating performance.
- EBITDA margins are expected to improve slightly. Existing margins are close to historical peaks. However, possible increase in contribution from specialized segments like nuclear power and hydro power, and increased share of EPC projects could help improve margins.
- Expect companies to diversify into new geographies, new segments, and to broadbase skill sets. Also, many companies will move up the value curve in existing business segments.
- Also, there is a possibility of value unlocking in subsidiaries / project SPVs (HCC - Lavasa, NCC - PPP projects, etc) which provides value maximization opportunities.
- Best bets in this period are HCC, NCC and Simplex.

#### INFRASTRUCTURE: FY10-14 ESTIMATES

|                         | MCAP<br>(USDB) | RECO      | FY10E-FY14E CAGR (%) |           |           | EPS (RS) |       |       |       |       | P/E (X)     |             |             |             |            |
|-------------------------|----------------|-----------|----------------------|-----------|-----------|----------|-------|-------|-------|-------|-------------|-------------|-------------|-------------|------------|
|                         |                |           | SALES                | EBITDA    | PAT       | FY10E    | FY11E | FY12E | FY13E | FY14E | FY10E       | FY11E       | FY12E       | FY13E       | FY14E      |
| GMR Infrastructure      | 5.3            | Neutral   | 21                   | 28        | 50        | 1.2      | 1.2   | 1.4   | 3.9   | 6.0   | 56.5        | 57.1        | 47.8        | 17.2        | 11.2       |
| GVK Power & Infra       | 1.6            | Buy       | 22                   | 30        | 39        | 1.2      | 2.2   | 3.0   | 3.3   | 4.6   | 39.0        | 21.6        | 15.7        | 14.5        | 10.3       |
| Hindustan Constr.       | 1.0            | Neutral   | 18                   | 18        | 28        | 4.8      | 6.9   | 8.6   | 10.4  | 12.9  | 31.2        | 21.5        | 17.4        | 14.3        | 11.6       |
| IRB Infra.Devl.         | 1.7            | Not Rated | -6                   | 7         | 10        | 17.7     | 19.7  | 18.6  | 20.2  | 25.9  | 13.8        | 12.5        | 13.2        | 12.1        | 9.5        |
| IVRCL Infra.            | 1.0            | Buy       | 16                   | 17        | 19        | 16.5     | 19.7  | 23.9  | 27.1  | 33.2  | 21.9        | 18.3        | 15.1        | 13.3        | 10.9       |
| Jaiprakash Associates   | 5.8            | Buy       | 30                   | 34        | 47        | 4.2      | 4.1   | 3.2   | 12.0  | 19.9  | 34.1        | 35.1        | 45.3        | 12.0        | 7.2        |
| Mundra Port             | 4.7            | Not Rated | 28                   | 25        | 39        | 14.4     | 20.9  | 32.9  | 47.7  | 53.3  | 38.4        | 26.4        | 16.8        | 11.6        | 10.4       |
| Nagarjuna Constr.       | 0.9            | Buy       | 19                   | 19        | 21        | 9.5      | 11.9  | 14.3  | 16.4  | 20.1  | 17.3        | 13.8        | 11.4        | 10.0        | 8.2        |
| Simplex Infra.          | 0.6            | Buy       | 19                   | 19        | 26        | 33.2     | 43.6  | 51.9  | 69.1  | 82.5  | 16.2        | 12.3        | 10.3        | 7.8         | 6.5        |
| <b>Sector Aggregate</b> | <b>22.7</b>    |           | <b>21</b>            | <b>26</b> | <b>36</b> |          |       |       |       |       | <b>31.5</b> | <b>26.2</b> | <b>22.4</b> | <b>12.8</b> | <b>9.2</b> |

## Media

PAT CAGR (%)



### Outlook: 3QFY10

- MOSL Media universe to report revenue growth of 10.4% YoY and Adj PAT growth of 53% YoY.
- Ad revenue to grow at 8.8% YoY (flat QoQ). Sharp decline in newsprint prices coupled with lower base of last year to boost PAT growth.
- Key trigger: 3QFY10 advertising growth for Zee Entertainment post ad rate hike by the company will be the key factor to watch out. We estimate 11% QoQ and 2% YoY growth in ad revenue.

### Outlook: FY11

- Expect ad revenue growth to bounce back to 14% (9% in FY10). Regional ad growth at 19% will continue to outpace national growth rate.
- Digitization in the broadcasting space to gain momentum on back of consolidation of cable distribution network and strong traction in DTH subscribers. Expect DTH revenue growth of 34% for ZEEL and 23% for Sun TV.
- Zee Entertainment: Benefits from merger of Zee News regional GECs will be visible. Further, acceleration in digitization will boost subscription revenue growth for the company. Expect revenue and PAT growth of 30%.
- Print media companies: Expect strong cash flow generation as they come off their investment phase. Strong payout ratio will be a key driver of re-rating. Prefer Deccan Chronicle.

### Outlook: FY12-14

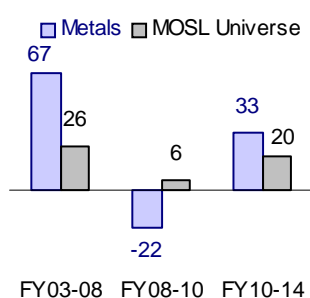
- Sustained growth in economy to be a key driver of ad revenue growth of media companies - expect 13% CAGR in ad revenue for our Media universe.
- Broadcasting sector will witness a massive structural change as digitization of the distribution network accelerates. Digitization will benefit broadcasters: share of domestic subscription revenue to increase from 17% currently to 25% by FY14.
- Expect competition to intensify in all media verticals e.g. new players will enter the television segment; existing print media players will encroach into each other's geographies.
- Zee Entertainment: As a national broadcaster with a wide network, Zee offers the best play on the digitization opportunity. Expect EPS CAGR of 21%.

MEDIA: FY10-14 ESTIMATES

|                         | MCAP<br>(USDB) | RECO    | FY10E-FY14E CAGR (%) |           |           | EPS (RS) |       |       |       |       | P/E (X)     |             |             |             |             |
|-------------------------|----------------|---------|----------------------|-----------|-----------|----------|-------|-------|-------|-------|-------------|-------------|-------------|-------------|-------------|
|                         |                |         | SALES                | EBITDA    | PAT       | FY10E    | FY11E | FY12E | FY13E | FY14E | FY10E       | FY11E       | FY12E       | FY13E       | FY14E       |
| Deccan Chronicle        | 0.9            | Buy     | 13                   | 17        | 21        | 12.5     | 15.3  | 19.1  | 22.9  | 26.8  | 13.5        | 11.0        | 8.8         | 7.4         | 6.3         |
| HT Media                | 0.7            | Neutral | 10                   | 16        | 19        | 6.7      | 8.2   | 9.5   | 11.1  | 13.3  | 21.6        | 17.6        | 15.1        | 13.0        | 10.9        |
| Jagran Prakashan        | 0.8            | Neutral | 12                   | 16        | 17        | 5.8      | 6.6   | 7.9   | 9.3   | 10.9  | 22.6        | 19.7        | 16.5        | 13.9        | 11.9        |
| Sun TV                  | 2.8            | Neutral | 14                   | 14        | 20        | 13.6     | 16.6  | 20.1  | 24.3  | 28.6  | 24.6        | 20.2        | 16.8        | 13.8        | 11.8        |
| TV Today                | 0.1            | Buy     | 13                   | 17        | 19        | 8.6      | 10.4  | 12.1  | 14.9  | 17.4  | 14.0        | 11.5        | 9.9         | 8.0         | 6.9         |
| Zee Entertainment       | 2.5            | Neutral | 18                   | 23        | 23        | 9.5      | 12.3  | 14.5  | 17.9  | 21.4  | 28.0        | 21.6        | 18.3        | 14.8        | 12.4        |
| <b>Sector Aggregate</b> | <b>7.9</b>     |         | <b>14</b>            | <b>17</b> | <b>21</b> |          |       |       |       |       | <b>21.9</b> | <b>17.7</b> | <b>14.8</b> | <b>12.2</b> | <b>10.3</b> |

## Metals

PAT CAGR (%)



### Outlook: 3QFY10

- **Steel:** Companies faced poor sales in the month of October and November due to declining steel prices. Sales have started picking up in the middle of December, but unlikely to cover lost sales in previous 2 months. Expect both SAIL and JSW Steel to report QoQ decline in sales tonnage. Tata Steel's tonnage may at best remain flat QoQ.
- **Aluminium:** LME prices are up 8% QoQ. Expect both Nalco and Hindalco (standalone) to report sharp margin expansion. Novelis's earnings should still be weaker QoQ due to seasonal factors.
- **Zinc, lead:** LME prices are up 18-23% QoQ. Expect margins to expand 400-500bp QoQ.
- Best earnings performance in Metals will be from Sterlite, JSW Steel and Sesa Goa.

### Outlook: FY11

- Prices of both iron ore and coking coal are likely to go up in 2010, which will push steel prices higher; global demand is expected to grow 9-10%. SAIL and Tata Steel should benefit more because of partial raw material integration.
- **Tata Steel:** Expect consolidated turnaround from loss to profit due to lower coking coal costs, operating leverage and restructuring at Corus.
- **JSW Steel:** Will commission new hot strip mill and iron ore beneficiation plant. There will be dual benefit of better product mix and lower iron ore cost risk.
- **Jindal Steel & Power:** Will commission 1,350MW captive power plant and pellet plant.
- **Sterlite:** Expect very strong earnings growth of 51% due to Sterlite Energy's 2,400MW plant, stronger metal prices and overall volume growth across base metals.
- **Hindalco and Nalco:** Strong price-led earnings growth. Novelis' earnings will boost because of expiry of price ceiling contracts and re-pricing of conversion margins.
- Best bets will be Sterlite, Tata Steel and JSW Steel.

### Outlook: FY12-14

- The three major steel producers will add large capacities of at least 3m tons each, which will drive top line growth.
- Tata Steel will have to look for refinancing of Corus' debt because a large part of it will mature in 2012. Re-financing woes may continue to stall progress of its greenfield projects.
- JSW Steel's leverage is expected to come down due to strong cash flows. We expect JSW steel to take up Greenfield projects in West Bengal/Jharkhand.
- We expect Bhushan Steel to stabilize 1.9mtpa HRC mill and expand further to 5mtpa.
- Hindalco will commission greenfield projects one after another.
- Balco will more than double capacity of its aluminium smelter, while larger expansion of captive power capacity to 2,000mw will lead to surplus sale of 1,000MW.
- Expect major growth in captive coal production including by Jai Balaji.
- Top bets will be Sterlite, JSW Steel. Also prefer Bhushan Steel and Jai Balaji in mid-caps.

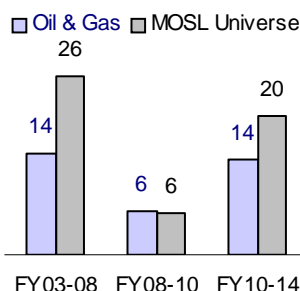
METALS: FY10-14 ESTIMATES

|                         | MCAP<br>(USDB) | RECO    | FY10E-FY14E CAGR (%) |           |           | EPS (RS) |       |       |       |       | P/E (X)     |             |             |            |            |
|-------------------------|----------------|---------|----------------------|-----------|-----------|----------|-------|-------|-------|-------|-------------|-------------|-------------|------------|------------|
|                         |                |         | SALES                | EBITDA    | PAT       | FY10E    | FY11E | FY12E | FY13E | FY14E | FY10E       | FY11E       | FY12E       | FY13E      | FY14E      |
| Hindalco                | 6.8            | Sell    | 10                   | 21        | 60        | 3.3      | 8.2   | 14.0  | 18.6  | 21.9  | 48.8        | 19.8        | 11.6        | 8.7        | 7.4        |
| Hindustan Zinc          | 11.0           | Buy     | 13                   | 15        | 19        | 91.0     | 120.4 | 139.3 | 157.0 | 181.5 | 13.3        | 10.1        | 8.7         | 7.7        | 6.7        |
| Jindal Steel & Power    | 14.5           | Buy     | 33                   | 29        | 24        | 41.9     | 46.5  | 56.4  | 80.2  | 100.6 | 17.4        | 15.7        | 12.9        | 9.1        | 7.2        |
| JSW Steel               | 4.1            | Buy     | 15                   | 18        | 34        | 64.5     | 82.4  | 137.7 | 185.1 | 208.0 | 15.9        | 12.4        | 7.4         | 5.5        | 4.9        |
| Nalco                   | 5.4            | Sell    | 7                    | 13        | 14        | 16.2     | 26.3  | 25.5  | 25.8  | 27.2  | 24.2        | 14.8        | 15.3        | 15.1       | 14.4       |
| SAIL                    | 21.1           | Sell    | 11                   | 16        | 10        | 14.4     | 16.3  | 15.3  | 18.3  | 21.3  | 16.5        | 14.6        | 15.5        | 13.0       | 11.2       |
| Sesa Goa                | 7.1            | Buy     | 7                    | 9         | 10        | 22.5     | 26.3  | 27.4  | 30.4  | 32.7  | 18.1        | 15.4        | 14.8        | 13.3       | 12.4       |
| Sterlite Inds.          | 15.5           | Buy     | 12                   | 31        | 31        | 47.9     | 72.4  | 104.2 | 123.8 | 143.2 | 17.9        | 11.9        | 8.2         | 6.9        | 6.0        |
| Tata Steel              | 11.8           | Neutral | 7                    | 39        | LP        | -28.8    | 60.1  | 89.0  | 126.1 | 137.0 | -           | 10.4        | 7.0         | 4.9        | 4.5        |
| <b>Sector Aggregate</b> | <b>97.2</b>    |         | <b>11</b>            | <b>24</b> | <b>33</b> |          |       |       |       |       | <b>22.8</b> | <b>13.2</b> | <b>10.5</b> | <b>8.3</b> | <b>7.3</b> |

Note : JSW Energy Valuation is at Issue Price

## Oil & Gas

PAT CAGR (%)



### Outlook: 3QFY10

- 3QFY10 is marked by YTD higher oil prices, GRMs at 8 year low, QoQ margin decline in petchem and continued overhang in subsidy sharing mechanism.
- Expect strong PAT growth for RIL (+18% YoY) led by KG-D6 production and ONGC (+120% YoY) led by higher net realization (higher gross price and lower subsidy burden).
- GAIL will continue to report a continued uptick in gas transmission profits (transmission EBIT up 66% YoY).

### Outlook: FY11

- Strong earnings growth in FY11 will be witnessed in RIL (EPS up 43% YoY) and Cairn (EPS up 5.7x YoY) led by significant production ramp-up at KG-D6 and Rajasthan block respectively. We build RIL's GRM at US\$7/bbl and KG-D6 gas volumes at 80mmscmd.
- GAIL's FY11 PAT increase of 20% would be driven by higher gas transmission volumes and likely lower subsidy.
- ONGC's earnings growth of 20% in FY11 is based on upstream to share 100% of auto fuel under recoveries and 30% hike in APM gas price hike.
- Expect recovery in GRM led by capacity closures of marginal refiners leading to some rationalization (Singapore GRM at US\$4/bbl in FY11E v/s US\$2.9/bbl in FY10E).
- Petchem margins should be lower due to impending large supply from to-be-commissioned Middle East crackers.

### Outlook: FY12-14

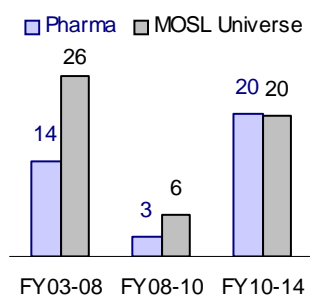
- Earnings over the next 4 years will be driven by (1) large projects going online (RIL: KG-D6; Cairn: Rajasthan; ONGC: KG; BPCL: Bina; HPCL: Bhatinda), and (2) likely upturn in the business cycle.
- On the policy front, expect some rationalization towards subsidy sharing. (However, we have built in subsidy sharing as indicated by the government in July-2009.)
- Cairn's earnings CAGR of 66% will be driven by Rajasthan block production ramp-up (20 to 180kboepd) at our Brent oil price assumption of US\$70/bbl.
- RIL's 20% earnings CAGR will be driven by increase in KG-D6 volumes from 60 to 100mmscmd (EPS sensitivity of Rs5 per 10mmscmd of volume change) and likely upturn in the blended GRM from US\$6.1/bbl in FY10 to US\$11.5/bbl in FY14 (EPS sensitivity of Rs5 per US\$1/bbl GRM change).
- ONGC is likely to report PAT CAGR of 10%, of which 3% would be contributed by the likely APM gas price hikes as indicated by the petroleum ministry.
- GAIL's 19% earnings CAGR will be driven by 17% increase in the transmission volumes from 120 to 208mmscmd, benefiting from increased gas production in India.
- GSPL and IGL should report PAT CAGR of 20% and 17%, respectively.

OIL &amp; GAS: FY10-14 ESTIMATES

|                         | MCAP<br>(USDB) | RECO    | FY10E-FY14E CAGR (%) |           |           | EPS (RS) |       |       |       |       | P/E (X)     |             |             |            |            |
|-------------------------|----------------|---------|----------------------|-----------|-----------|----------|-------|-------|-------|-------|-------------|-------------|-------------|------------|------------|
|                         |                |         | SALES                | EBITDA    | PAT       | FY10E    | FY11E | FY12E | FY13E | FY14E | FY10E       | FY11E       | FY12E       | FY13E      | FY14E      |
| BPCL                    | 4.8            | Buy     | 2                    | 6         | 3         | 65.7     | 54.8  | 61.3  | 57.3  | 74.0  | 9.3         | 11.2        | 10.0        | 10.7       | 8.3        |
| Cairn India             | 11.4           | Buy     | 54                   | 60        | 66        | 4.6      | 26.1  | 34.9  | 34.0  | 35.5  | 61.0        | 10.8        | 8.1         | 8.3        | 8.0        |
| Chennai Petroleum       | 0.7            | Buy     | 0                    | 12        | 3         | 27.8     | 28.9  | 24.4  | 20.0  | 31.3  | 7.9         | 7.6         | 9.0         | 11.0       | 7.0        |
| GAIL                    | 11.4           | Buy     | 15                   | 24        | 18        | 22.7     | 27.3  | 29.1  | 37.9  | 43.7  | 18.4        | 15.3        | 14.3        | 11.0       | 9.6        |
| Gujarat State Petronet  | 1.2            | Buy     | 13                   | 13        | 20        | 8.1      | 9.4   | 12.4  | 15.0  | 16.9  | 12.1        | 10.5        | 8.0         | 6.5        | 5.8        |
| HPCL                    | 2.8            | Buy     | 3                    | 8         | 2         | 61.4     | 46.7  | 50.7  | 54.8  | 67.3  | 6.3         | 8.3         | 7.6         | 7.1        | 5.7        |
| Indraprastha Gas        | 0.6            | Neutral | 24                   | 15        | 19        | 15.4     | 18.1  | 21.0  | 25.3  | 2.6   | 12.8        | 10.9        | 9.4         | 7.8        | 76.9       |
| IOC                     | 15.9           | Buy     | 1                    | 8         | 4         | 39.3     | 32.4  | 38.8  | 40.2  | 46.1  | 7.9         | 9.5         | 8.0         | 7.7        | 6.7        |
| MRPL                    | 3.0            | Sell    | 10                   | 17        | 5         | 4.5      | 4.3   | 4.7   | 6.1   | 5.4   | 17.5        | 18.2        | 16.9        | 13.0       | 14.6       |
| ONGC                    | 54.3           | Neutral | 5                    | 7         | 10        | 100.5    | 118.3 | 133.3 | 139.3 | 147.5 | 11.8        | 10.0        | 8.9         | 8.5        | 8.0        |
| Reliance Inds.          | 75.8           | Buy     | 4                    | 17        | 20        | 57.4     | 81.6  | 97.5  | 105.4 | 116.7 | 18.8        | 13.2        | 11.1        | 10.2       | 9.2        |
| <b>Sector Aggregate</b> | <b>181.9</b>   |         | <b>4</b>             | <b>13</b> | <b>14</b> |          |       |       |       |       | <b>14.7</b> | <b>12.0</b> | <b>10.2</b> | <b>9.6</b> | <b>8.8</b> |

## Pharmaceuticals

PAT CAGR (%)



### Outlook: 3QFY10

- Expect ~10% top-line growth, ~14% EBITDA growth and 35% PAT growth for our universe. Top-line growth will be led by higher growth in emerging markets (including India) coupled with new launches in the US. PAT growth is strong due to low base of 3QFY09 (due to forex losses) and savings in interest costs.
- **Ranbaxy:** Will benefit from improvement in core operational performance and contribution from generic Valtrex exclusivity.
- Sun Pharma will continue to suffer from US FDA issues and high base due to absence of Pantoprazole supplies.
- DRL will report a muted performance due to high base of 3QFY09 (on account of generic Imitrex supplies under exclusivity) and potential Rs3.3b impairment in Germany.
- CRAMS players will continue to be impacted by inventory reduction from customers.

### Outlook: CY10/FY11

- Expect 13% top-line growth led by double-digit growth in exports to emerging markets and new launches in the US by generic companies. One-off revenue contribution for FY11/CY10 (not included in our estimates) is Ranbaxy (Rs18.5b) and DRL (Rs6.36b).
- CRAMS companies are likely to show improved performance (double-digit growth) as MNC customers restart outsourcing after a severe round of inventory destocking in FY10.
- Overall, expect 13% EBITDA growth (16% excluding one-offs) and 27% PAT growth (19% excluding one-offs and impairment write-offs for DRL).
- Most companies should record 20%+ growth adjusted for one-offs. Significant growth outperformers will be Ranbaxy (+68%) and Glenmark (+47%). Underperformers include DRL, Sun Pharma, GSK Pharma, Biocon and Jubilant (PAT de-growth).
- Key events to track: 1) More activity on alliances/stake sale to MNCs, 2) Resolution of on-going US FDA issues for Ranbaxy, Sun Pharma (Caraco) and Lupin and 3) Recovery in outsourcing business for CRAMS companies.

### Outlook: FY12-14

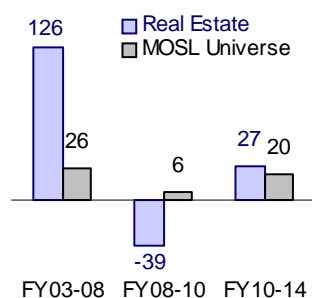
- Emerging markets, India formulations, US and Japan will be the key top-line growth drivers for the sector. Indian CRAMS companies are likely to record steady double-digit growth given the favorable macro parameters for outsourcing from India.
- MNCs operating in India will witness upward trending growth as new launches (including patented products) make meaningful contribution to their overall revenues.
- CRAMS companies like Divi's Labs and Piramal Healthcare are likely to outperform the sector average PAT CAGR of 18%.

PHARMACEUTICALS: FY10-14 ESTIMATES

|                         | MCAP<br>(USDB) | RECO    | FY10E-FY14E CAGR (%) |           |           | EPS (RS) |       |       |       |       | P/E (X)     |             |             |             |             |
|-------------------------|----------------|---------|----------------------|-----------|-----------|----------|-------|-------|-------|-------|-------------|-------------|-------------|-------------|-------------|
|                         |                |         | SALES                | EBITDA    | PAT       | FY10E    | FY11E | FY12E | FY13E | FY14E | FY10E       | FY11E       | FY12E       | FY13E       | FY14E       |
| Aventis Pharma          | 0.8            | UR      | 13                   | 19        | 17        | 76.0     | 85.2  | 99.3  | 118.6 | 143.2 | 21.5        | 19.1        | 16.4        | 13.7        | 11.4        |
| Biocon                  | 1.2            | Buy     | 15                   | 13        | 16        | 13.8     | 15.7  | 18.0  | 21.6  | 25.0  | 20.3        | 17.9        | 15.6        | 13.0        | 11.2        |
| Cadila Health           | 1.8            | Buy     | 16                   | 17        | 21        | 33.3     | 40.5  | 51.5  | 60.9  | 71.6  | 19.8        | 16.3        | 12.8        | 10.8        | 9.2         |
| Cipla                   | 5.8            | Buy     | 16                   | 15        | 17        | 13.8     | 17.0  | 19.9  | 22.7  | 26.3  | 24.2        | 19.7        | 16.8        | 14.8        | 12.7        |
| Divis Labs              | 1.9            | Buy     | 17                   | 19        | 19        | 24.8     | 29.4  | 35.2  | 41.1  | 49.3  | 27.0        | 22.8        | 19.0        | 16.3        | 13.6        |
| Dr Reddy's Labs         | 4.1            | Buy     | 12                   | 10        | 43        | 19.6     | 52.2  | 59.9  | 71.8  | 81.6  | 58.5        | 22.0        | 19.2        | 16.0        | 14.1        |
| GSK Pharma              | 2.9            | Buy     | 13                   | 15        | 17        | 58.3     | 68.8  | 79.7  | 93.0  | 108.9 | 27.3        | 23.2        | 20.0        | 17.1        | 14.6        |
| Glenmark Pharma         | 1.6            | Neutral | 14                   | 10        | 21        | 10.5     | 15.4  | 17.5  | 20.0  | 22.3  | 26.5        | 18.0        | 15.8        | 13.8        | 12.4        |
| Jubilant Organosys      | 1.1            | Buy     | 10                   | 8         | 2         | 29.4     | 23.2  | 26.2  | 29.4  | 31.7  | 11.6        | 14.7        | 13.0        | 11.6        | 10.8        |
| Lupin                   | 2.6            | Buy     | 15                   | 18        | 17        | 68.1     | 84.2  | 94.8  | 105.9 | 127.8 | 21.5        | 17.4        | 15.4        | 13.8        | 11.5        |
| Piramal Healthcare      | 1.7            | Buy     | 14                   | 16        | 21        | 21.8     | 28.1  | 33.1  | 38.7  | 46.3  | 17.9        | 13.9        | 11.8        | 10.1        | 8.4         |
| Ranbaxy Labs            | 4.7            | Neutral | 10                   | 26        | 57        | 4.2      | 7.1   | 12.3  | 20.8  | 25.7  | 122.8       | 73.2        | 42.4        | 25.0        | 20.3        |
| Sun Pharma              | 6.8            | Buy     | 14                   | 12        | 15        | 58.2     | 66.2  | 72.7  | 86.7  | 100.8 | 26.4        | 23.2        | 21.1        | 17.7        | 15.3        |
| <b>Sector Aggregate</b> | <b>37.0</b>    |         | <b>13</b>            | <b>15</b> | <b>20</b> |          |       |       |       |       | <b>27.3</b> | <b>21.4</b> | <b>18.2</b> | <b>15.3</b> | <b>13.1</b> |

## Real Estate

PAT CAGR (%)



### Outlook: 3QFY10

- Results to only partially reflect the improving sector outlook, aided by 1) low base impact and 2) pick up in residential sales. This is because significant new launches by companies like Unitech and IBREL, may not get reflected in the financials as they recognize revenue only after 20-25% of the construction cost.
- Expect Unitech to report better financial performance than DLF owing to ramp up in launches and higher execution. DLF had guided for launches of ~10msf in the affordable/mid-income housing segment. However, there is little/no progress on the same.
- Debt levels for key listed RE companies to decline further, as they have recently raised equity from the capital markets. Upswing in RE activity should also boost cash flows.

### Outlook: FY11

- Steady increase in new launches across companies - DLF 24msf and Unitech 22msf.
- Expect at least 5% increase in prices and construction cost across verticals and regions.
- EBITDA margins to decline on a YoY basis owing to higher contribution from low margin affordable/mid-income housing projects.
- Expect revenue growth of 30-40% across key RE companies and net profit growth of ~40%, largely led by robust sales volumes and lower interest expenditure.
- Recovery in the commercial and retail verticals to gain momentum, based on the improved demand outlook for commercial offices and indications of pick-up in hiring by key IT companies.
- Improvement in the global REIT market will be a major positive for commercial real estate in India, which lacks a monetization vehicle for capital intensive verticals such as commercial offices and retail malls. As such access to monetization models such as REITs is a necessity for the sector. As the government has been talking about introduction of REITs in India for some time now, expect concrete development on the same.

### Outlook: FY12-14

- Extension of the FY11 theme - steady increase in new launches, 5% increase in prices and costs.
- Recovery momentum to sustain led by residential vertical followed by the commercial and retail verticals.
- Commercial and retail verticals likely to start contributing to revenues from FY12 onwards, thereby leading to improved margins. Expect DLF's EBITDA margins to improve from 46% in FY12 to 50% in FY13 and 53% in FY14.
- Expect average revenue growth of 30-40% across key RE companies and PAT growth of 30-35%, largely led by robust sales volumes and lower interest expenditure.

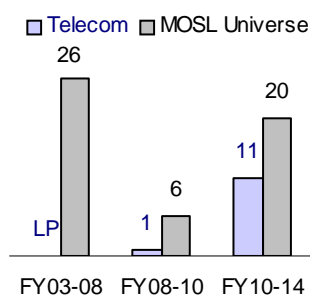
REAL ESTATE: FY10-14 ESTIMATES

|                         | MCAP<br>(USDB) | RECO    | FY10E-FY14E CAGR (%) |           |           | EPS (RS) |       |       |       |       | P/E (X)     |             |             |             |             |
|-------------------------|----------------|---------|----------------------|-----------|-----------|----------|-------|-------|-------|-------|-------------|-------------|-------------|-------------|-------------|
|                         |                |         | SALES                | EBITDA    | PAT       | FY10E    | FY11E | FY12E | FY13E | FY14E | FY10E       | FY11E       | FY12E       | FY13E       | FY14E       |
| Anant Raj Inds          | 0.8            | Buy     | 46                   | 35        | 25        | 7.3      | 10.4  | 11.9  | 13.5  | 17.6  | 18.1        | 12.7        | 11.1        | 9.7         | 7.5         |
| Brigade Enterpr.        | 0.3            | Buy     | 33                   | 27        | 25        | 10.7     | 13.5  | 17.9  | 4.0   | 5.2   | 12.0        | 9.5         | 7.2         | 31.9        | 24.5        |
| DLF                     | 13.4           | Buy     | 18                   | 17        | 21        | 13.9     | 18.9  | 19.9  | 23.7  | 29.9  | 26.3        | 19.4        | 18.4        | 15.4        | 12.2        |
| HDIL                    | 2.7            | Buy     | 31                   | 14        | 16        | 13.0     | 16.4  | 18.9  | 18.5  | 23.9  | 27.9        | 22.1        | 19.2        | 19.6        | 15.2        |
| Indiabulls Real Estate  | 1.9            | Neutral | 99                   | 133       | 90        | 2.8      | 5.4   | 13.4  | 22.5  | 36.3  | 78.2        | 40.0        | 16.2        | 9.7         | 6.0         |
| Mahindra Lifespace      | 0.3            | Buy     | 33                   | 61        | 56        | 18.2     | 23.4  | 32.6  | 76.5  | 108.0 | 18.9        | 14.6        | 10.5        | 4.5         | 3.2         |
| Peninsula Land          | 0.5            | Neutral | 15                   | 2         | 4         | 8.0      | 11.7  | 13.8  | 5.1   | 9.2   | 9.8         | 6.6         | 5.6         | 15.2        | 8.5         |
| Phoenix Mills           | 0.6            | Buy     | 54                   | 56        | 43        | 6.0      | 8.0   | 13.7  | 20.5  | 25.1  | 31.7        | 23.7        | 13.8        | 9.2         | 7.6         |
| Puravankara Projects    | 0.4            | Neutral | 28                   | 37        | 27        | 5.3      | 7.9   | 9.4   | 10.8  | 13.6  | 17.3        | 11.6        | 9.7         | 8.5         | 6.7         |
| Unitech                 | 4.2            | Neutral | 42                   | 27        | 34        | 3.4      | 4.8   | 6.4   | 8.1   | 10.9  | 24.1        | 17.0        | 12.8        | 10.2        | 7.5         |
| <b>Sector Aggregate</b> | <b>25.1</b>    |         | <b>30</b>            | <b>24</b> | <b>27</b> |          |       |       |       |       | <b>25.7</b> | <b>18.7</b> | <b>15.8</b> | <b>13.3</b> | <b>10.0</b> |



## Telecom

PAT CAGR (%)



### Outlook: 3QFY10

- Subscriber growth at new highs with monthly wireless subscriber net additions run rate of 15m+; however, aggressive pricing due to intense competition to drag down revenue growth and margins.
- Expect 7-12% QoQ growth in aggregate traffic v/s 1-3% growth in 2QFY10.
- Blended wireless RPM to decline of 8-10% QoQ, implying largely flat QoQ revenue. On a YoY basis, revenues likely to remain flat for Bharti/RCom and rise 10% for Idea.
- Lower tariffs to drive down EBITDA margin 300-450bp QoQ implying QoQ EBITDA decline of 12%/16%/8% for Bharti/Idea/RCom. Aggressive cost saving by operators is a potential positive margin surprise.
- Sector earnings would remain under pressure due to lower margins and tepid revenue growth. Expect proforma PAT to decline by 18%/75%/6% QoQ and 12%/75%/47% YoY for Bharti/Idea/RCom.

### Outlook: FY11

- Monthly wireless subscriber additions likely to remain strong at ~14m, flat YoY.
- Wireless subscriber base to reach 729m, implying penetration of ~60% and average subscriber growth of 36%.
- RPM to decline 8-14% to Rs0.44-0.47.
- Expect revenue growth of 7-8% for Bharti/RCom and 19% for Idea (driven by new circle expansions).
- EBITDA margin likely to have a negative bias. EBITDA growth of 4% for Bharti due to intense competitive pressures, 7% for RCom due to continued traction in the global business, and a high 15% for Idea on lower losses in new circles.
- Capex intensity likely to remain high due to investments for 3G (~Rs50b for pan-India 3G spectrum for Bharti/RCom).
- PAT:** Flat for Bharti, down 10% for RCom and down 30% for Idea.

### Outlook: FY12-14

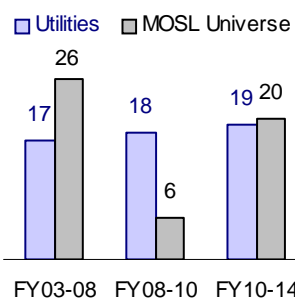
- Recovery in FY12 after two years of hyper competition. Wireless RPM to stabilize led by industry consolidation; wireless MOU to stabilize on increased mix of matured subscribers on the network.
- Revenues to grow at 12-13% CAGR during FY11E-14E v/s 5-8% in FY09-11E (considering only established circle revenues for Idea).
- Wireless EBITDA margin to increase by 100-200bp in FY12 on scale benefits and relatively benign competitive scenario and remain stable thereafter.
- EBITDA CAGR of 13% during FY11E-14E for Bharti; margin expansion in wireless and passive infrastructure likely to be offset by normalization of margins in other segments. EBITDA CAGR of 15% for RCOM and 19% for Idea driven by phased turnaround in new circles.
- PAT CAGR:** 13% for Bharti, 20% for RCom, 62% for Idea (driven by low base).

TELECOM: FY10-14 ESTIMATES

|                         | MCAP<br>(USDB) | RECO    | FY10E-FY14E CAGR (%) |           |           | EPS (RS) |       |       |       |       | P/E (X)     |             |             |             |            |
|-------------------------|----------------|---------|----------------------|-----------|-----------|----------|-------|-------|-------|-------|-------------|-------------|-------------|-------------|------------|
|                         |                |         | SALES                | EBITDA    | PAT       | FY10E    | FY11E | FY12E | FY13E | FY14E | FY10E       | FY11E       | FY12E       | FY13E       | FY14E      |
| Bharti Airtel           | 26.5           | Buy     | 11                   | 11        | 9         | 22.9     | 22.3  | 24.1  | 27.7  | 32.6  | 14.2        | 14.6        | 13.5        | 11.8        | 10.0       |
| Idea Cellular           | 3.9            | Neutral | 15                   | 18        | 31        | 2.1      | 1.4   | 2.4   | 3.9   | 5.8   | 27.9        | 43.0        | 23.9        | 15.0        | 10.1       |
| Reliance Comm           | 7.7            | Buy     | 11                   | 13        | 12        | 20.1     | 18.1  | 23.2  | 26.9  | 31.1  | 8.7         | 9.7         | 7.6         | 6.5         | 5.6        |
| <b>Sector Aggregate</b> | <b>38.1</b>    |         | <b>12</b>            | <b>12</b> | <b>11</b> |          |       |       |       |       | <b>13.2</b> | <b>14.1</b> | <b>12.1</b> | <b>10.3</b> | <b>8.6</b> |

## Utilities

PAT CAGR (%)



### Outlook: 3QFY10

- Expect robust power generation for most players, specially from gas-based projects.
- Thermal generation up 1% YoY in Oct-Nov; generation from gas based project up 20% YoY. Players like GVK, GMR, Torrent Power (Sugen) are key beneficiaries of higher gas based generation.
- Oct-Nov 2009 generation and growth: NTPC 34.8BUs (+3.1% YoY), Tata Power in Mumbai license region 1.7BUs (+1.2%), Reliance Infra 668BUs (+0.9%), CESC 1.3BUs (-0.9%).
- Expect PLF for major utilities to be in-line YoY. Tata Power and Reliance Infra could have lower PLF owing to outage in Maharashtra.
- For the week ended December 19, short-term prices stood at Rs3.10/unit v/s Rs5.40/unit for the week ended 1st November. Merchant rates down over the past 2 months owing to absence of agricultural load in northern India, mild temperatures in most parts of the country and good hydro-support in few states due to rains.
- Expect universe revenue growth of 13% YoY, EBITDA growth of 46% YoY, and PAT growth of 11.5% YoY.

### Outlook: FY11

- Capacity addition expected at 23GW, highest ever in India in a single year (vs 20GW in 10th Plan period as a whole).
- Operational performance likely to be driven by 1) full effect of capacity addition in FY10E and 2) partial contribution of capacity addition in FY11E, given back-ended addition.
- Fuel sourcing arrangement could be a key hindrance to improved operating performance. A large part of project capacity is being put up on imported coal/linkages, where fuel availability could be an issue. Also, the recent plea by CIL to lower firm offtake levels to 50% (vs 90% as decided) under take-or-pay fuel supply agreement is concerning.
- Merchant rates in India to further moderate due to (1) 15% capacity addition over FY10, (2) promotion of renewable energy, and (3) higher captive generation.
- PAT growth highlights: Tata Power 47%, PTC India 14%, and NTPC 8%.

### Outlook: FY12-14

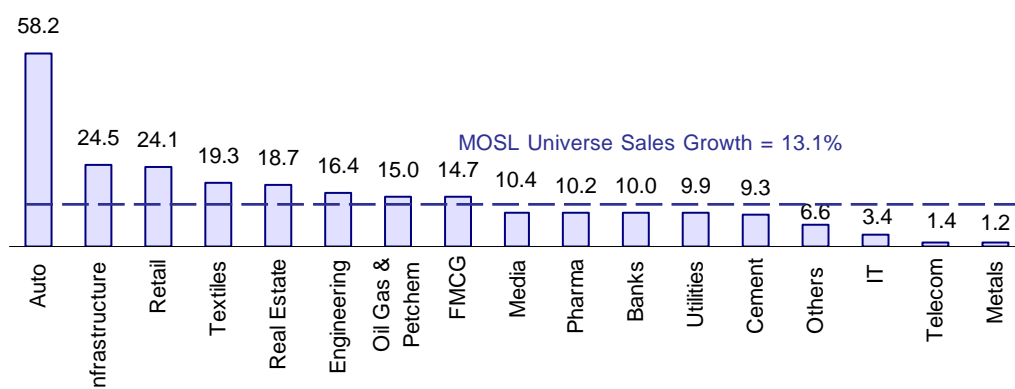
- Expect 60GW+ of capacity over FY11E base of 175GW.
- Power demand in India has historically grown at 1x real GDP growth (~6.5-7.0%). Affordable tariff in the range of Rs2.5-3/unit is a key enabler for demand explosion.
- Key long term risks: 1) Fuel supply, 2) Sustainable merchant tariffs, and 3) Availability of transmission evacuation for merchant power projects.
- Earnings growth is likely to be superior over FY12-14E v/s FY10-12E on account of sizable capacity addition being back-ended.

UTILITIES: FY10-14 ESTIMATES

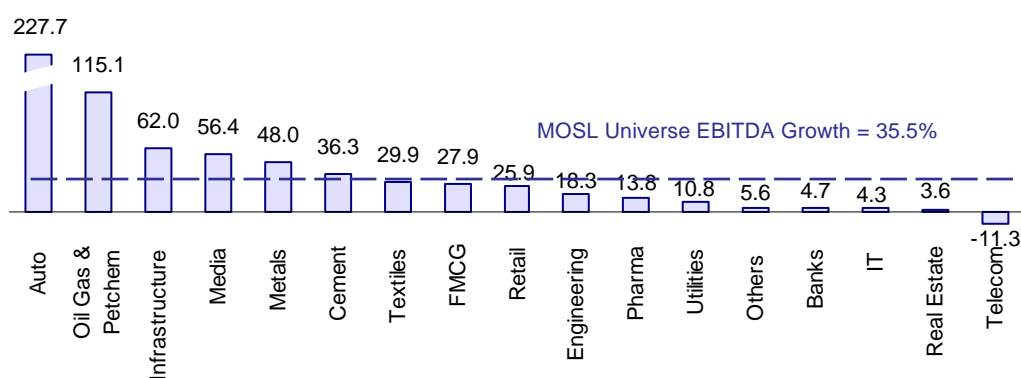
|                         | MCAP<br>(USDB) | RECO      | FY10E-FY14E CAGR (%) |           |           | EPS (RS) |       |       |       |       | P/E (X)     |             |             |             |             |
|-------------------------|----------------|-----------|----------------------|-----------|-----------|----------|-------|-------|-------|-------|-------------|-------------|-------------|-------------|-------------|
|                         |                |           | SALES                | EBITDA    | PAT       | FY10E    | FY11E | FY12E | FY13E | FY14E | FY10E       | FY11E       | FY12E       | FY13E       | FY14E       |
| Adani Power             | 4.6            | Not Rated | 71                   | 60        | 49        | 2.2      | 2.7   | 8.2   | 10.6  | 10.5  | 45.3        | 36.3        | 12.0        | 9.3         | 9.3         |
| CESC                    | 1.0            | Neutral   | 6                    | 1         | -1        | 28.9     | 31.0  | 31.5  | 30.8  | 28.2  | 13.5        | 12.6        | 12.4        | 12.7        | 13.9        |
| Indiabulls Power        | 1.5            | Not Rated | -                    | -         | 128       | 0.2      | 0.1   | -0.2  | 3.2   | 5.9   | 154.6       | 287.5       | -           | 10.3        | 5.7         |
| JSW Energy              | 3.4            | Not Rated | 27                   | 19        | 9         | 4.8      | 9.2   | 9.8   | 8.7   | 6.8   | 21.0        | 10.8        | 10.2        | 11.5        | 14.7        |
| NTPC                    | 41.0           | Neutral   | 16                   | 19        | 13        | 10.5     | 11.4  | 13.0  | 16.4  | 16.9  | 22.1        | 20.3        | 17.9        | 14.2        | 13.7        |
| Power Grid Corp.        | 9.9            | Not Rated | 18                   | 18        | 19        | 4.8      | 5.8   | 7.8   | 9.3   | 9.8   | 22.7        | 18.9        | 14.1        | 11.8        | 11.2        |
| PTC India               | 0.7            | Buy       | 10                   | 7         | 8         | 3.7      | 4.3   | 4.4   | 4.7   | 5.1   | 30.9        | 27.0        | 26.3        | 24.6        | 22.7        |
| Reliance Infra.         | 5.4            | Buy       | 12                   | 13        | 11        | 54.8     | 62.5  | 69.1  | 74.9  | 80.0  | 20.6        | 18.1        | 16.4        | 15.1        | 14.1        |
| Reliance Power          | 7.9            | Not Rated | 183                  | 211       | 319       | 0.0      | 2.6   | 0.8   | -0.8  | 7.3   | -           | 59.6        | 188.5       | -           | 21.2        |
| Tata Power              | 6.9            | Neutral   | 5                    | 11        | 25        | 67.0     | 98.3  | 121.9 | 119.2 | 161.8 | 20.2        | 13.7        | 11.1        | 11.3        | 8.3         |
| <b>Sector Aggregate</b> | <b>82.4</b>    |           | <b>18</b>            | <b>24</b> | <b>19</b> |          |       |       |       |       | <b>25.2</b> | <b>20.4</b> | <b>17.1</b> | <b>14.4</b> | <b>12.6</b> |

## MOSL Universe: 3QFY10 aggregate performance highlights

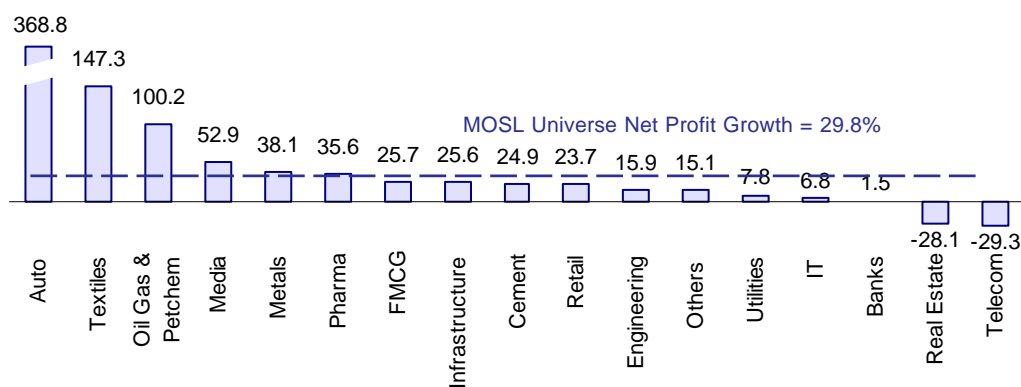
SECTORAL SALES GROWTH - QUARTER ENDED DECEMBER 2009 (%)



SECTORAL EBITDA GROWTH - QUARTER ENDED DECEMBER 2009 (%)



SECTORAL NET PROFIT GROWTH - QUARTER ENDED DECEMBER 2009 (%)



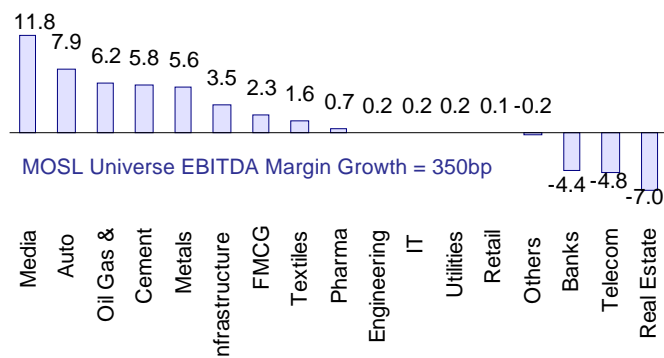
## QUARTERLY PERFORMANCE - MOSL UNIVERSE

| SECTOR<br>(NO. OF COMPANIES) | EBITDA MARGIN (%) |             |            | NET PROFIT MARGIN (%) |             |             |
|------------------------------|-------------------|-------------|------------|-----------------------|-------------|-------------|
|                              | DEC.08            | DEC.09      | CHG. (%)   | DEC.08                | DEC.09      | CHG. (%)    |
| Auto (5)                     | 7.4               | 15.3        | 7.9        | 3.1                   | 9.2         | 6.1         |
| Banks (22)                   | 91.9              | 87.5        | -4.4       | 49.6                  | 45.8        | -3.8        |
| Cement (7)                   | 23.6              | 29.4        | 5.8        | 14.9                  | 17.0        | 2.1         |
| Engineering (6)              | 13.5              | 13.7        | 0.2        | 9.7                   | 9.7         | 0.0         |
| FMCG (12)                    | 19.6              | 21.9        | 2.3        | 13.4                  | 14.7        | 1.3         |
| IT (7)                       | 25.2              | 25.4        | 0.2        | 19.2                  | 19.8        | 0.6         |
| Infrastructure (5)           | 11.7              | 15.3        | 3.5        | 6.2                   | 6.3         | 0.1         |
| Media (6)                    | 28.2              | 40.0        | 11.8       | 17.4                  | 24.1        | 6.7         |
| Metals (8)                   | 12.1              | 17.8        | 5.6        | 6.7                   | 9.2         | 2.5         |
| Oil Gas & Petchem (11)       | 7.1               | 13.4        | 6.2        | 4.3                   | 7.5         | 3.2         |
| Pharma (13)                  | 19.8              | 20.4        | 0.7        | 9.7                   | 12.0        | 2.3         |
| Real Estate (2)              | 54.8              | 47.8        | -7.0       | 43.6                  | 26.4        | -17.2       |
| Retail (2)                   | 9.0               | 9.1         | 0.1        | 3.0                   | 3.0         | 0.0         |
| Telecom (3)                  | 38.4              | 33.6        | -4.8       | 21.2                  | 14.8        | -6.4        |
| Textiles (5)                 | 18.1              | 19.7        | 1.6        | 2.3                   | 4.7         | 2.4         |
| Utilities (5)                | 21.1              | 21.3        | 0.2        | 13.6                  | 13.4        | -0.3        |
| Others (2)                   | 16.9              | 16.7        | -0.2       | 7.1                   | 7.6         | 0.6         |
| <b>MOSL (121)*</b>           | <b>17.5</b>       | <b>20.9</b> | <b>3.5</b> | <b>10.3</b>           | <b>11.8</b> | <b>1.5</b>  |
| <b>MOSL Excl. RMs (118)</b>  | <b>23.4</b>       | <b>25.7</b> | <b>2.3</b> | <b>13.8</b>           | <b>14.4</b> | <b>0.7</b>  |
| <b>Sensex (30)</b>           | <b>24.2</b>       | <b>25.4</b> | <b>1.2</b> | <b>14.6</b>           | <b>14.4</b> | <b>-0.2</b> |

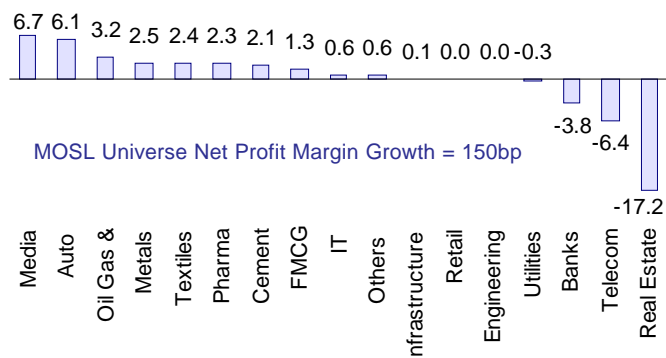
\*Tata Steel Consolidated

Source: MOSL

## EBITDA MARGIN GROWTH - QUARTER ENDED DECEMBER 2009 (%)



## NET PROFIT MARGIN GROWTH - QUARTER ENDED DECEMBER 2009 (%)



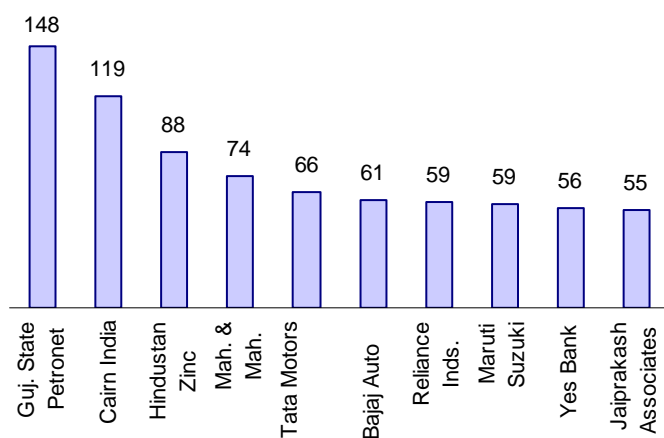
## SECTORAL CONTRIBUTION TO GROWTH IN SALES, EBITDA AND NET PROFIT (%)

| SECTOR                 | CONTRIBUTION TO SALES GR. | SECTOR                 | CONTRIBUTION TO EBITDA GR. | SECTOR                 | CONTRIBUTION TO NP GR. |
|------------------------|---------------------------|------------------------|----------------------------|------------------------|------------------------|
| Oil Gas & Petchem (11) | 52.2                      | Oil Gas & Petchem (11) | 60.3                       | Oil Gas & Petchem (11) | 64.0                   |
| Auto (5)               | 17.5                      | Metals (8)             | 12.6                       | Auto (5)               | 14.7                   |
| Engineering (6)        | 6.0                       | Auto (5)               | 10.6                       | Metals (8)             | 11.2                   |
| FMCG (12)              | 4.3                       | Banks (22)             | 3.9                        | FMCG (12)              | 4.3                    |
| Banks (22)             | 4.2                       | FMCG (12)              | 3.4                        | Pharma (13)            | 2.9                    |
| Utilities (5)          | 3.3                       | Cement (7)             | 3.1                        | Cement (7)             | 2.7                    |
| Infrastructure (5)     | 2.5                       | Engineering (6)        | 1.9                        | IT (7)                 | 2.5                    |
| Pharma (13)            | 2.0                       | Utilities (5)          | 1.6                        | Engineering (6)        | 2.4                    |
| Cement (7)             | 1.6                       | Infrastructure (5)     | 1.6                        | Utilities (5)          | 1.5                    |
| IT (7)                 | 1.5                       | Pharma (13)            | 1.1                        | Banks (22)             | 1.3                    |
| Metals (8)             | 1.2                       | IT (7)                 | 1.0                        | Media (6)              | 1.1                    |
| Retail (2)             | 1.1                       | Media (6)              | 1.0                        | Textiles (5)           | 0.7                    |
| Textiles (5)           | 1.0                       | Textiles (5)           | 0.6                        | Infrastructure (5)     | 0.7                    |
| Real Estate (2)        | 0.6                       | Retail (2)             | 0.2                        | Others (2)             | 0.2                    |
| Telecom (3)            | 0.4                       | Real Estate (2)        | 0.1                        | Retail (2)             | 0.1                    |
| Media (6)              | 0.3                       | Others (2)             | 0.1                        | Real Estate (2)        | -1.7                   |
| Others (2)             | 0.2                       | Telecom (3)            | -3.0                       | Telecom (3)            | -8.6                   |

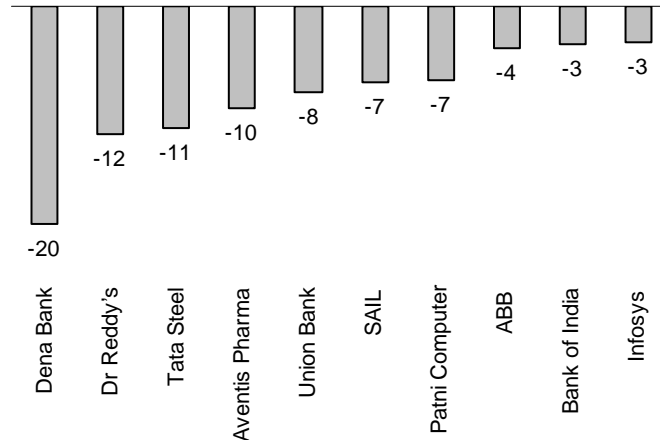
Source: MOSL

## Scoreboard (quarter ended December 2009)

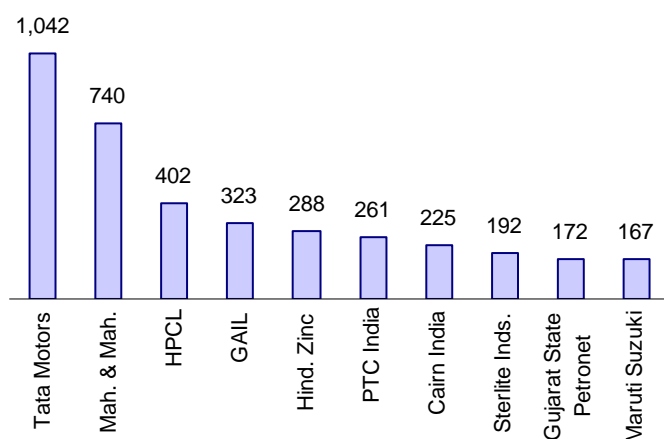
TOP 10 BY SALES GROWTH (%)



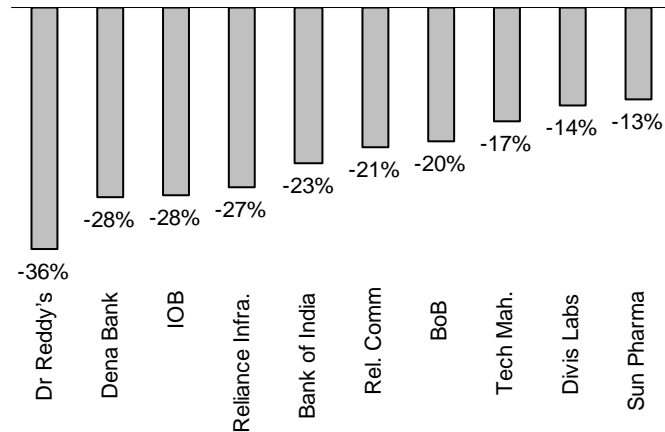
WORST 10 BY SALES GROWTH (%)



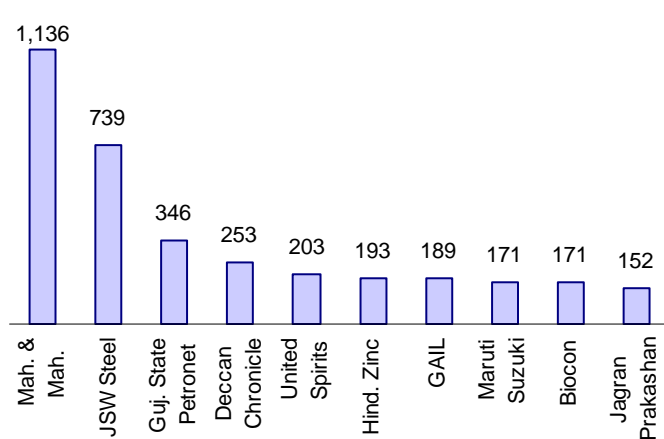
TOP 10 BY EBITDA GROWTH (%)



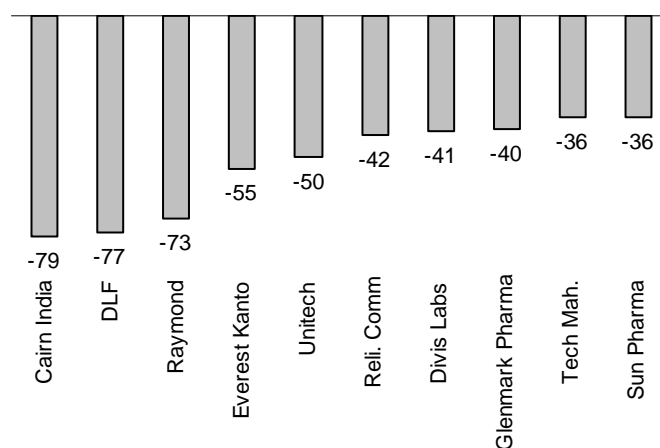
WORST 10 BY EBITDA GROWTH (%)



TOP 10 BY NET PROFIT GROWTH (%)



WORST 10 BY NET PROFIT GROWTH (%)



Source: MOSL

## ANNUAL PERFORMANCE - MOSL UNIVERSE

(RS BILLION)

|                     | SALES         |               |               |             |             | EBITDA       |              |              |             |             | NET PROFIT   |              |              |             |             |
|---------------------|---------------|---------------|---------------|-------------|-------------|--------------|--------------|--------------|-------------|-------------|--------------|--------------|--------------|-------------|-------------|
|                     | FY10E         | FY11E         | FY12E         | YOY %       | YOY %       | FY10E        | FY11E        | FY12E        | YOY %       | YOY %       | FY10E        | FY11E        | FY12E        | YOY %       | YOY %       |
|                     |               |               |               | FY11        | FY12        |              |              |              | FY11        | FY12        |              |              |              | FY11        | FY12        |
| Auto (5)            | 1,681         | 1,904         | 2,157         | 13.2        | 13.3        | 173          | 191          | 218          | 10.4        | 14.0        | 85           | 115          | 144          | 35.1        | 25.0        |
| Banks (26)          | 1,164         | 1,424         | 1,682         | 22.4        | 18.1        | 971          | 1,221        | 1,464        | 25.7        | 19.9        | 536          | 651          | 782          | 21.6        | 20.0        |
| Cement (8)          | 655           | 691           | 783           | 5.5         | 13.3        | 199          | 178          | 201          | -10.9       | 13.0        | 109          | 93           | 105          | -15.1       | 13.4        |
| Engineering (6)     | 960           | 1,158         | 1,485         | 20.6        | 28.2        | 133          | 168          | 222          | 26.1        | 32.2        | 94           | 119          | 155          | 26.4        | 30.2        |
| FMCG (12)           | 743           | 862           | 983           | 16.0        | 14.1        | 157          | 183          | 212          | 16.0        | 16.0        | 102          | 121          | 143          | 18.3        | 18.1        |
| IT (7)              | 1,042         | 1,168         | 1,339         | 12.1        | 14.7        | 276          | 299          | 336          | 8.4         | 12.3        | 207          | 231          | 255          | 11.3        | 10.7        |
| Infrastructure (9)  | 372           | 444           | 511           | 19.4        | 15.1        | 96           | 112          | 139          | 16.8        | 24.1        | 34           | 40           | 47           | 20.1        | 17.1        |
| Media (6)           | 72            | 86            | 97            | 19.2        | 12.9        | 28           | 34           | 39           | 23.4        | 14.1        | 17           | 21           | 25           | 23.5        | 19.9        |
| Metals (9)          | 2,734         | 3,072         | 3,478         | 12.4        | 13.2        | 449          | 649          | 796          | 44.6        | 22.5        | 199          | 345          | 433          | 73.2        | 25.4        |
| Oil Gas&Pet.(11)    | 8,368         | 8,951         | 9,078         | 7.0         | 1.4         | 1,069        | 1,301        | 1,493        | 21.7        | 14.7        | 578          | 709          | 829          | 22.8        | 16.9        |
| Pharma (13)         | 479           | 542           | 614           | 13.3        | 13.2        | 97           | 110          | 127          | 13.3        | 15.6        | 63           | 81           | 95           | 27.1        | 17.6        |
| Real Estate (10)    | 149           | 198           | 275           | 33.0        | 38.6        | 72           | 94           | 112          | 30.4        | 18.3        | 45           | 63           | 74           | 37.9        | 18.1        |
| Retail (2)          | 121           | 150           | 177           | 23.4        | 18.0        | 11           | 14           | 17           | 25.2        | 19.3        | 4            | 5            | 7            | 37.9        | 26.7        |
| Telecom (3)         | 749           | 823           | 944           | 9.8         | 14.8        | 270          | 287          | 340          | 6.2         | 18.2        | 135          | 126          | 147          | -6.2        | 16.5        |
| Textiles (5)        | 141           | 169           | 192           | 19.3        | 13.6        | 25           | 31           | 37           | 23.9        | 21.0        | 5            | 9            | 13           | 84.2        | 49.9        |
| Utilities (10)      | 915           | 1,136         | 1,337         | 24.2        | 17.7        | 266          | 366          | 450          | 37.6        | 22.9        | 153          | 188          | 225          | 23.2        | 19.6        |
| <b>MOSL (144)</b>   | <b>20,348</b> | <b>22,879</b> | <b>25,249</b> | <b>12.4</b> | <b>10.4</b> | <b>4,282</b> | <b>5,258</b> | <b>6,224</b> | <b>22.8</b> | <b>18.4</b> | <b>2,360</b> | <b>2,929</b> | <b>3,494</b> | <b>24.1</b> | <b>19.3</b> |
| <b>Ex RMs (141)</b> | <b>15,690</b> | <b>18,113</b> | <b>20,674</b> | <b>15.4</b> | <b>14.1</b> | <b>4,044</b> | <b>5,033</b> | <b>5,969</b> | <b>24.5</b> | <b>18.6</b> | <b>2,221</b> | <b>2,816</b> | <b>3,361</b> | <b>26.8</b> | <b>19.4</b> |
| <b>Sensex (30)</b>  | <b>5,352</b>  | <b>6,037</b>  | <b>6,862</b>  | <b>12.8</b> | <b>13.7</b> | <b>1,177</b> | <b>1,447</b> | <b>1,732</b> | <b>23.0</b> | <b>19.7</b> | <b>616</b>   | <b>813</b>   | <b>989</b>   | <b>32.1</b> | <b>21.6</b> |
| <b>Nifty (50)</b>   | <b>6,326</b>  | <b>7,148</b>  | <b>8,071</b>  | <b>13.0</b> | <b>12.9</b> | <b>1,345</b> | <b>1,667</b> | <b>2,002</b> | <b>23.9</b> | <b>20.1</b> | <b>709</b>   | <b>935</b>   | <b>1,136</b> | <b>31.8</b> | <b>21.5</b> |

For Banks : Sales = Net Interest Income, EBITDA = Operating Profit; Tata Steel figures are consolidated including Corus; Sensex & Nifty numbers are free float

## VALUATIONS - MOSL UNIVERSE

| SECTOR                      | P/E                |             |             | EV/EBITDA   |            |            | P/BV       |            |            | ROE        |             |             | DIV.        |            | EPS         |
|-----------------------------|--------------------|-------------|-------------|-------------|------------|------------|------------|------------|------------|------------|-------------|-------------|-------------|------------|-------------|
|                             | (X)                |             |             | (X)         |            |            | (X)        |            |            | (% )       |             |             | YLD (%)     |            | CAGR        |
|                             | (NO. OF COMPANIES) | FY09        | FY10E       | FY11E       | FY09       | FY10E      | FY11E      | FY09       | FY10E      | FY11E      | FY09        | FY10E       | FY11E       | FY10E      | FY10-12     |
| Auto (5)                    |                    | 21.5        | 15.9        | 12.7        | 9.6        | 8.3        | 6.8        | 4.3        | 3.5        | 2.9        | 20.2        | 22.3        | 23.0        | 1.0        | 30.0        |
| Banks (26)                  |                    | 12.4        | 10.2        | 8.5         | NM         | NM         | NM         | 2.3        | 2.0        | 1.7        | 18.6        | 19.3        | 19.7        | 1.6        | 20.8        |
| Cement (8)                  |                    | 8.3         | 8.5         | 7.5         | 4.5        | 4.2        | 3.4        | 1.9        | 1.5        | 1.3        | 23.2        | 17.3        | 16.9        | 1.6        | 5.4         |
| Engineering (6)             |                    | 29.3        | 23.2        | 17.8        | 19.8       | 15.8       | 12.1       | 7.0        | 5.7        | 4.7        | 24.0        | 24.4        | 26.5        | 0.9        | 28.3        |
| FMCG (12)                   |                    | 25.8        | 21.9        | 18.5        | 16.6       | 14.1       | 11.9       | 8.1        | 7.0        | 6.0        | 31.3        | 31.9        | 32.4        | 2.0        | 18.2        |
| IT (7)                      |                    | 21.9        | 19.6        | 17.7        | 15.5       | 13.9       | 11.9       | 5.8        | 4.7        | 3.9        | 26.4        | 23.9        | 21.9        | 0.9        | 11.0        |
| Infrastructure (9)          |                    | 31.5        | 26.2        | 22.4        | 15.8       | 14.5       | 11.5       | 3.5        | 3.1        | 2.8        | 11.1        | 11.9        | 12.4        | 0.5        | 18.6        |
| Media (6)                   |                    | 21.9        | 17.7        | 14.8        | 12.7       | 10.0       | 8.5        | 3.6        | 3.2        | 2.8        | 16.4        | 18.0        | 19.1        | 1.4        | 21.7        |
| Metals (9)                  |                    | 22.8        | 13.2        | 10.5        | 11.8       | 8.1        | 6.4        | 2.7        | 2.3        | 1.9        | 11.9        | 17.5        | 18.3        | 0.8        | 47.4        |
| Oil Gas & Petchem (11)      |                    | 14.7        | 12.0        | 10.2        | 8.7        | 7.0        | 5.9        | 2.2        | 1.9        | 1.7        | 15.1        | 16.2        | 16.5        | 1.4        | 19.8        |
| Pharma (13)                 |                    | 27.3        | 21.4        | 18.2        | 18.2       | 15.8       | 13.4       | 4.8        | 4.1        | 3.5        | 17.5        | 18.9        | 19.2        | 0.9        | 22.3        |
| Real Estate (10)            |                    | 25.7        | 18.7        | 15.8        | 18.6       | 13.7       | 10.3       | 1.9        | 1.7        | 1.7        | 7.3         | 9.3         | 10.6        | 0.3        | 27.6        |
| Retail (2)                  |                    | 35.0        | 25.4        | 20.0        | 13.4       | 10.8       | 9.0        | 3.7        | 3.3        | 2.9        | 10.6        | 12.8        | 14.4        | 0.5        | 32.2        |
| Telecom (3)                 |                    | 13.2        | 14.1        | 12.1        | 8.0        | 7.5        | 6.1        | 2.0        | 1.7        | 1.5        | 15.3        | 12.3        | 12.7        | 0.6        | 4.6         |
| Textiles (5)                |                    | 13.1        | 7.1         | 4.8         | 7.1        | 5.6        | 4.4        | 0.8        | 0.7        | 0.6        | 5.8         | 9.7         | 13.0        | 1.2        | 66.2        |
| Utilities (10)              |                    | 25.2        | 20.4        | 17.1        | 17.1       | 13.6       | 12.0       | 2.8        | 2.5        | 2.3        | 11.1        | 12.5        | 13.6        | 1.2        | 21.4        |
| <b>MOSL (144)</b>           |                    | <b>18.0</b> | <b>14.5</b> | <b>12.2</b> | <b>N.M</b> | <b>N.M</b> | <b>N.M</b> | <b>2.9</b> | <b>2.5</b> | <b>2.2</b> | <b>16.3</b> | <b>17.3</b> | <b>17.9</b> | <b>1.2</b> | <b>21.7</b> |
| <b>MOSL Excl. RMs (141)</b> |                    | <b>18.6</b> | <b>14.7</b> | <b>12.3</b> | <b>N.M</b> | <b>N.M</b> | <b>N.M</b> | <b>3.0</b> | <b>2.6</b> | <b>2.2</b> | <b>16.2</b> | <b>17.6</b> | <b>18.2</b> | <b>1.2</b> | <b>23.0</b> |
| <b>Sensex (30)</b>          |                    | <b>21.4</b> | <b>16.2</b> | <b>13.3</b> | <b>N.M</b> | <b>N.M</b> | <b>N.M</b> | <b>3.3</b> | <b>2.8</b> | <b>2.5</b> | <b>15.4</b> | <b>17.6</b> | <b>18.5</b> | <b>1.1</b> | <b>26.7</b> |
| <b>Nifty (50)</b>           |                    | <b>21.4</b> | <b>16.2</b> | <b>13.3</b> | <b>N.M</b> | <b>N.M</b> | <b>N.M</b> | <b>3.2</b> | <b>2.8</b> | <b>2.4</b> | <b>15.0</b> | <b>17.1</b> | <b>18.0</b> | <b>1.0</b> | <b>26.6</b> |

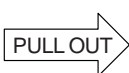
N.M. - Not Meaningful

Source: MOSL



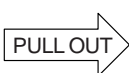
## Ready reckoner: quarterly performance

|                     | CMP (RS) | RECO    | SALES   |       |       | EBITDA |         |       | NET PROFIT |         |       |
|---------------------|----------|---------|---------|-------|-------|--------|---------|-------|------------|---------|-------|
|                     | 29.12.09 |         | DEC.09  | VAR.  | VAR.  | DEC.09 | VAR.    | VAR.  | DEC.09     | VAR.    | VAR.  |
|                     |          |         | RS M    | % YOY | % QOQ | RS M   | % YOY   | % QOQ | RS M       | % YOY   | % QOQ |
| Automobiles         |          |         |         |       |       |        |         |       |            |         |       |
| Bajaj Auto          | 1,683    | Buy     | 33,946  | 61.4  | 17.6  | 7,296  | 138.6   | 14.6  | 5,008      | 140.5   | 15.2  |
| Hero Honda          | 1,744    | Buy     | 36,945  | 28.5  | -8.6  | 6,464  | 57.7    | -10.8 | 5,256      | 75.0    | -12.0 |
| Mahindra & Mahindra | 1,059    | Buy     | 43,675  | 74.3  | -2.2  | 7,118  | 740.3   | -7.3  | 4,746      | 1,136.4 | -19.8 |
| Maruti Suzuki       | 1,566    | Buy     | 74,441  | 59.0  | 3.4   | 9,406  | 167.4   | 2.7   | 5,797      | 171.2   | 1.7   |
| Tata Motors         | 786      | Neutral | 78,083  | 65.7  | -1.5  | 10,467 | 1,042.1 | -1.8  | 3,868      | LP      | 7.7   |
| Sector Aggregate    |          |         | 267,089 | 58.2  | 0.7   | 40,752 | 227.7   | -0.9  | 24,675     | 368.8   | -3.3  |
| Cement              |          |         |         |       |       |        |         |       |            |         |       |
| ACC                 | 860      | Neutral | 19,762  | 3.4   | 0.3   | 6,152  | 40.6    | -7.9  | 4,065      | 21.5    | -6.7  |
| Ambuja Cements      | 101      | Neutral | 17,998  | 10.5  | 11.7  | 4,282  | 5.2     | -0.4  | 2,886      | 9.3     | 1.2   |
| Birla Corporation   | 321      | Buy     | 5,435   | 20.2  | 7.5   | 1,643  | 61.3    | -15.1 | 1,149      | 41.2    | -24.4 |
| Grasim Industries   | 2,426    | Buy     | 29,133  | 9.8   | -2.4  | 9,224  | 84.7    | -9.2  | 5,575      | 69.2    | -17.3 |
| India Cements       | 124      | Buy     | 8,576   | 13.9  | -13.3 | 1,789  | -0.7    | -39.9 | 606        | -13.4   | -56.0 |
| Shree Cement        | 1,879    | Buy     | 8,371   | 25.8  | -7.0  | 3,360  | 48.1    | -17.7 | 1,377      | 7.8     | -52.8 |
| Ultratech Cement    | 898      | Buy     | 16,711  | 2.5   | 8.5   | 4,684  | 8.7     | -0.3  | 2,404      | 0.9     | -4.2  |
| Sector Aggregate    |          |         | 105,985 | 9.3   | 0.9   | 31,134 | 36.3    | -10.6 | 18,063     | 24.9    | -18.9 |
| Engineering         |          |         |         |       |       |        |         |       |            |         |       |
| ABB                 | 763      | Neutral | 20,820  | -3.9  | 43.2  | 2,768  | 3.3     | 126.3 | 1,744      | -9.7    | 110.0 |
| BHEL                | 2,375    | Buy     | 76,851  | 27.6  | 16.0  | 14,591 | 29.4    | 29.2  | 10,816     | 25.7    | 26.1  |
| Crompton Greaves    | 422      | Neutral | 12,487  | 15.7  | -1.6  | 1,842  | 32.9    | -12.1 | 1,161      | 37.0    | -14.7 |
| Larsen & Toubro     | 1,684    | Neutral | 97,868  | 13.9  | 24.4  | 10,374 | 10.0    | 32.2  | 7,422      | 15.9    | 34.2  |
| Siemens             | 578      | Neutral | 18,881  | 15.1  | -25.0 | 2,001  | 17.6    | -18.9 | 1,089      | -8.8    | -28.2 |
| Thermax             | 609      | Neutral | 9,419   | 18.5  | 41.0  | 879    | -9.2    | 31.7  | 615        | -15.0   | 13.6  |
| Sector Aggregate    |          |         | 236,326 | 16.4  | 15.8  | 32,456 | 18.3    | 26.8  | 22,846     | 15.9    | 24.5  |
| FMCG                |          |         |         |       |       |        |         |       |            |         |       |
| Asian Paints        | 1,765    | Neutral | 14,399  | 9.0   | -16.5 | 2,405  | 120.0   | -25.5 | 1,462      | 145.2   | -28.9 |
| Britannia           | 1,655    | Buy     | 8,919   | 9.0   | 3.9   | 669    | 1.9     | -9.3  | 460        | -12.5   | -30.4 |
| Colgate             | 654      | Buy     | 4,905   | 17.0  | 0.7   | 1,079  | 18.7    | -2.5  | 881        | 13.3    | -1.8  |
| Dabur               | 162      | Buy     | 9,500   | 22.0  | 12.0  | 1,765  | 36.9    | 0.6   | 1,378      | 27.1    | -1.0  |
| Godrej Consumer     | 261      | Buy     | 5,276   | 54.2  | -8.3  | 1,060  | 119.4   | -5.3  | 799        | 99.4    | -14.1 |
| GSK Consumer        | 1,317    | Buy     | 4,146   | 24.4  | -16.3 | 582    | 44.8    | -25.9 | 440        | 35.2    | -26.6 |
| Hind. Unilever      | 266      | Neutral | 47,290  | 8.0   | 10.8  | 8,843  | 15.7    | 35.6  | 6,752      | 10.7    | 35.2  |
| ITC                 | 256      | Buy     | 44,750  | 16.0  | 3.0   | 17,005 | 23.4    | 6.9   | 11,014     | 21.9    | 9.1   |
| Marico              | 105      | Buy     | 7,100   | 14.0  | 2.6   | 930    | 17.5    | -2.1  | 611        | 20.0    | -2.1  |
| Nestle              | 2,530    | Buy     | 13,131  | 20.5  | 0.8   | 2,569  | 21.0    | -2.8  | 1,730      | 25.4    | -3.0  |
| Tata Tea            | 956      | Neutral | 14,375  | 10.0  | 2.5   | 1,912  | 7.3     | 9.9   | 1,020      | 24.2    | -7.5  |
| United Spirits      | 1,289    | Buy     | 13,175  | 28.0  | 22.0  | 2,121  | 99.5    | 16.5  | 926        | 202.8   | 33.1  |
| Sector Aggregate    |          |         | 186,965 | 14.7  | 3.4   | 40,940 | 27.9    | 6.9   | 27,474     | 25.7    | 6.3   |



## Ready reckoner: quarterly performance

|                        | CMP (RS) | RECO    | SALES     |       |       | EBITDA  |       |         | NET PROFIT |       |         |
|------------------------|----------|---------|-----------|-------|-------|---------|-------|---------|------------|-------|---------|
|                        | 29.12.09 |         | DEC.09    | VAR.  | VAR.  | DEC.09  | VAR.  | VAR.    | DEC.09     | VAR.  | VAR.    |
|                        | RS M     |         | % YOY     | % QOQ | RS M  | % YOY   | % QOQ | RS M    | % YOY      | % QOQ |         |
| Information Technology |          |         |           |       |       |         |       |         |            |       |         |
| HCL Technologies       | 372      | Buy     | 29,981    | 21.4  | -1.1  | 6,193   | 19.5  | -7.4    | 2,863      | -19.2 | -5.0    |
| Infosys                | 2,578    | Neutral | 55,871    | -3.4  | 0.0   | 18,216  | -10.3 | -5.8    | 14,740     | -6.8  | -4.3    |
| Mphasis                | 725      | Buy     | 11,359    | 16.2  | 0.3   | 3,002   | 15.8  | 2.0     | 2,376      | 13.1  | -3.0    |
| Patni Computer         | 485      | Buy     | 7,980     | -6.9  | -0.7  | 1,615   | -0.2  | -2.8    | 1,244      | 59.4  | 6.6     |
| TCS                    | 742      | Buy     | 74,607    | 2.5   | 0.3   | 21,058  | 8.1   | -1.3    | 16,418     | 21.4  | 1.1     |
| Tech Mahindra          | 999      | Neutral | 11,220    | -0.9  | -1.7  | 2,648   | -16.7 | -9.5    | 1,614      | -27.6 | -4.5    |
| Wipro                  | 681      | Neutral | 68,446    | 3.9   | -0.7  | 13,263  | 21.3  | 2.4     | 12,085     | 19.7  | 3.2     |
| Sector Aggregate       |          |         | 259,465   | 3.4   | -0.3  | 65,995  | 4.3   | -2.7    | 51,340     | 6.8   | -0.6    |
| Infrastructure         |          |         |           |       |       |         |       |         |            |       |         |
| Hindustan Construction | 149      | Neutral | 10,587    | 20.9  | 22.8  | 1,292   | 21.8  | 46.7    | 314        | 4.7   | 12.5    |
| IVRCL Infra.           | 361      | Buy     | 13,740    | 15.5  | 12.8  | 1,319   | 21.6  | 15.2    | 547        | 17.5  | 12.1    |
| Jaiprakash Associates  | 144      | Buy     | 20,449    | 54.7  | 12.1  | 5,507   | 122.7 | 20.8    | 2,496      | 18.6  | 115.0   |
| Nagarjuna Construction | 164      | Buy     | 12,145    | 18.3  | 13.8  | 1,251   | 39.2  | 14.9    | 538        | 48.2  | 22.5    |
| Simplex Infra.         | 536      | Buy     | 13,833    | 8.9   | 34.9  | 1,444   | 24.9  | 35.6    | 544        | 79.9  | 94.9    |
| Sector Aggregate       |          |         | 70,754    | 24.5  | 18.0  | 10,813  | 62.0  | 23.8    | 4,440      | 25.6  | 67.7    |
| Media                  |          |         |           |       |       |         |       |         |            |       |         |
| Deccan Chronicle       | 169      | Buy     | 2,350     | 9.5   | -6.3  | 1,340   | 146.2 | -3.4    | 907        | 253.4 | -9.2    |
| HT Media               | 144      | Neutral | 3,475     | 4.1   | 0.1   | 747     | 76.2  | 15.6    | 442        | 114.4 | 24.8    |
| Jagran Prakashan       | 130      | Neutral | 2,375     | 14.7  | -3.8  | 689     | 129.1 | -17.2   | 389        | 151.6 | -22.6   |
| Sun TV                 | 336      | Neutral | 3,410     | 25.9  | 6.4   | 2,643   | 31.3  | 8.5     | 1,405      | 25.1  | 7.6     |
| TV Today               | 120      | Buy     | 720       | 10.4  | 11.6  | 180     | 30.3  | 42.4    | 139        | 59.9  | 30.2    |
| Zee Entertainment      | 265      | Neutral | 5,750     | 5.4   | 6.4   | 1,630   | 35.7  | 8.1     | 1,075      | 5.2   | -5.7    |
| Sector Aggregate       |          |         | 18,080    | 10.4  | 2.1   | 7,228   | 56.4  | 4.2     | 4,357      | 52.9  | -1.2    |
| Metals                 |          |         |           |       |       |         |       |         |            |       |         |
| Hindalco               | 162      | Sell    | 48,382    | 17.5  | -1.6  | 8,207   | 5.3   | 34.7    | 5,166      | -5.2  | 50.2    |
| Hindustan Zinc         | 1,212    | Buy     | 20,093    | 87.9  | 10.5  | 11,830  | 287.8 | 10.0    | 10,806     | 193.0 | 15.6    |
| Jindal Steel & Power   | 729      | Buy     | 19,775    | 11.0  | 23.7  | 6,825   | -0.3  | 23.8    | 4,173      | 10.1  | 36.8    |
| JSW Steel              | 1,024    | Buy     | 39,975    | 43.5  | -11.5 | 10,180  | 160.0 | -8.0    | 3,530      | 739.3 | -20.5   |
| Nalco                  | 390      | Sell    | 13,300    | 28.4  | 12.8  | 5,153   | 94.0  | 263.6   | 3,690      | 68.1  | 131.4   |
| Sterlite Inds.         | 860      | Buy     | 62,763    | 38.4  | 2.4   | 16,483  | 191.6 | 20.7    | 11,682     | 140.6 | 18.9    |
| SAIL                   | 238      | Sell    | 82,830    | -7.1  | -17.5 | 18,680  | 65.5  | -21.8   | 12,548     | 49.3  | -24.6   |
| Tata Steel             | 622      | Neutral | 293,928   | -11.4 | 15.7  | 25,898  | -9.4  | 596.6   | 1,703      | -82.6 | LP      |
| Sector Aggregate       |          |         | 581,046   | 1.2   | 4.5   | 103,255 | 48.0  | 35.7    | 53,298     | 38.1  | 75.5    |
| Oil & Gas              |          |         |           |       |       |         |       |         |            |       |         |
| BPCL                   | 614      | Buy     | 318,324   | -0.2  | 17.6  | 24,634  | 62.0  | LP      | 14,008     | 75.1  | LP      |
| Cairn India            | 282      | Buy     | 4,621     | 119.2 | 101.1 | 3,086   | 224.9 | 131.6   | 783        | -66.9 | -58.2   |
| Chennai Petroleum      | 221      | Buy     | 73,378    | 30.6  | 4.9   | 573     | LP    | -82.2   | -342       | -     | PL      |
| GAIL                   | 418      | Buy     | 64,877    | 11.6  | 4.6   | 11,253  | 323.0 | 10.6    | 7,336      | 189.5 | 2.9     |
| Gujarat State Petronet | 98       | Buy     | 2,912     | 148.0 | 14.3  | 2,765   | 172.0 | 13.2    | 1,232      | 345.9 | 12.0    |
| HPCL                   | 387      | Buy     | 296,067   | 0.8   | 21.1  | 23,678  | 402.2 | LP      | 13,449     | LP    | LP      |
| Indraprastha Gas       | 197      | Neutral | 2,890     | 31.7  | 5.8   | 1,085   | 60.1  | 8.6     | 584        | 52.5  | 3.0     |
| IOC                    | 309      | Buy     | 740,058   | 5.2   | 21.8  | 68,184  | 111.9 | 1,480.6 | 41,570     | 40.5  | 1,361.7 |
| MRPL                   | 79       | Sell    | 84,615    | 12.3  | 7.6   | 1,617   | LP    | -52.1   | 592        | LP    | -67.1   |
| ONGC                   | 1,186    | Neutral | 153,680   | 23.6  | 1.9   | 86,903  | 73.8  | 0.1     | 48,122     | 94.4  | -5.5    |
| Reliance Inds.         | 1,078    | Buy     | 502,606   | 59.2  | 7.3   | 76,199  | 42.1  | 5.6     | 41,333     | 18.1  | 7.3     |
| Sector Aggregate       |          |         | 2,244,028 | 15.0  | 14.5  | 299,977 | 115.1 | 63.3    | 168,667    | 100.2 | 63.2    |



## Ready reckoner: quarterly performance

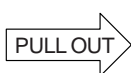
|                         | CMP (RS) | RECO    | SALES          |             |             | EBITDA        |              |              | NET PROFIT    |              |              |
|-------------------------|----------|---------|----------------|-------------|-------------|---------------|--------------|--------------|---------------|--------------|--------------|
|                         | 29.12.09 |         | DEC.09         | VAR.        | VAR.        | DEC.09        | VAR.         | VAR.         | DEC.09        | VAR.         | VAR.         |
|                         |          |         | RS M           | % YOY       | % QOQ       | RS M          | % YOY        | % QOQ        | RS M          | % YOY        | % QOQ        |
| <b>Pharmaceuticals</b>  |          |         |                |             |             |               |              |              |               |              |              |
| Aventis Pharma          | 1,631    | UR      | 2,441          | -9.6        | -5.6        | 437           | -6.3         | 10.5         | 437           | -4.2         | -0.2         |
| Biocon                  | 281      | Buy     | 5,564          | 27.6        | -4.1        | 1,221         | 29.5         | 7.8          | 756           | 170.8        | 1.9          |
| Cadila Health           | 657      | Buy     | 8,884          | 18.6        | -6.1        | 1,655         | 16.2         | -19.5        | 983           | 62.4         | -26.7        |
| Cipla                   | 335      | Buy     | 15,183         | 13.1        | 5.2         | 3,996         | 18.0         | 7.0          | 2,973         | 33.1         | 7.8          |
| Divis Labs              | 668      | Buy     | 2,626          | -0.8        | 16.5        | 926           | -14.5        | -12.1        | 747           | -6.1         | -11.9        |
| Dr Reddy's Labs         | 1,147    | Buy     | 16,190         | -12.0       | -11.9       | 2,704         | -35.7        | -1.6         | -1,509        | PL           | PL           |
| Glenmark Pharma         | 277      | Neutral | 6,438          | 10.7        | 9.1         | 1,665         | -12.0        | 6.5          | 840           | 43.9         | 3.8          |
| GSK Pharma              | 1,594    | Buy     | 4,001          | 9.7         | -21.8       | 1,068         | 4.9          | -43.5        | 961           | 7.4          | -31.9        |
| Jubilant Organosys      | 341      | Buy     | 10,300         | 13.2        | 10.4        | 1,920         | 36.1         | 16.8         | 1,238         | LP           | 114.7        |
| Lupin                   | 1,464    | Buy     | 11,626         | 20.9        | 4.3         | 1,864         | 21.0         | 13.6         | 1,550         | 33.1         | -3.4         |
| Piramal Healthcare      | 390      | Buy     | 9,752          | 17.7        | -2.5        | 1,946         | 25.1         | 9.7          | 1,196         | 99.7         | 12.1         |
| Ranbaxy Labs            | 521      | Neutral | 19,659         | 20.1        | 4.2         | 2,024         | LP           | -16.6        | 909           | LP           | -24.1        |
| Sun Pharma              | 1,538    | Buy     | 9,640          | 5.0         | -11.5       | 3,579         | -13.4        | -7.6         | 3,593         | -12.1        | 11.0         |
| <b>Sector Aggregate</b> |          |         | <b>122,305</b> | <b>10.2</b> | <b>-1.5</b> | <b>25,004</b> | <b>13.8</b>  | <b>-3.6</b>  | <b>14,674</b> | <b>35.6</b>  | <b>-19.4</b> |
| <b>Real Estate</b>      |          |         |                |             |             |               |              |              |               |              |              |
| DLF                     | 365      | Buy     | 15,075         | 10.3        | -13.9       | 7,128         | -7.7         | -22.0        | 3,688         | -45.0        | -16.1        |
| Unitech                 | 82       | Neutral | 6,962          | 42.3        | 36.7        | 3,398         | 39.1         | 14.1         | 2,126         | 54.0         | 19.6         |
| <b>Sector Aggregate</b> |          |         | <b>22,037</b>  | <b>18.7</b> | <b>-2.5</b> | <b>10,526</b> | <b>3.6</b>   | <b>-13.1</b> | <b>5,814</b>  | <b>-28.1</b> | <b>-5.8</b>  |
| <b>Retailing</b>        |          |         |                |             |             |               |              |              |               |              |              |
| Pantaloon Retail        | 381      | Buy     | 18,842         | 23.5        | 6.0         | 2,005         | 27.4         | 5.4          | 450           | 34.2         | 2.7          |
| Titan Industries        | 1,434    | Neutral | 12,800         | 25.0        | 11.6        | 880           | 22.4         | -18.6        | 486           | 15.4         | -37.4        |
| <b>Sector Aggregate</b> |          |         | <b>31,642</b>  | <b>24.1</b> | <b>8.2</b>  | <b>2,885</b>  | <b>25.9</b>  | <b>-3.3</b>  | <b>936</b>    | <b>23.7</b>  | <b>-22.9</b> |
| <b>Telecom</b>          |          |         |                |             |             |               |              |              |               |              |              |
| Bharti Airtel           | 326      | Buy     | 96,987         | 0.7         | -1.5        | 36,563        | -7.3         | -11.7        | 18,933        | -12.3        | -18.4        |
| Idea Cellular           | 58       | Neutral | 30,043         | 10.0        | 1.0         | 6,781         | -2.8         | -16.2        | 557           | -74.6        | -74.7        |
| Reliance Comm           | 175      | Buy     | 57,588         | -1.6        | 1.0         | 18,674        | -20.6        | -7.5         | 7,777         | -47.4        | -5.6         |
| <b>Sector Aggregate</b> |          |         | <b>184,618</b> | <b>1.4</b>  | <b>-0.3</b> | <b>62,018</b> | <b>-11.3</b> | <b>-11.0</b> | <b>27,267</b> | <b>-29.3</b> | <b>-19.0</b> |
| <b>Textiles</b>         |          |         |                |             |             |               |              |              |               |              |              |
| Alok Ind                | 22       | Buy     | 9,682          | 18.6        | -0.7        | 2,614         | 21.9         | -10.1        | 336           | -32.6        | -41.1        |
| Arvind Mills            | 39       | Neutral | 6,927          | 15.6        | 15.9        | 921           | 12.8         | 13.0         | 71            | LP           | -53.5        |
| Bombay Rayon            | 185      | Buy     | 5,000          | 45.0        | 29.4        | 1,250         | 48.3         | 36.1         | 602           | 44.5         | 46.7         |
| Raymond                 | 195      | Buy     | 4,506          | 25.6        | 12.0        | 631           | 135.8        | 3.3          | 240           | LP           | 33.1         |
| Vardhman Textiles       | 209      | Buy     | 6,869          | 6.5         | 1.7         | 1,085         | 16.4         | -19.7        | 313           | 88.1         | -38.0        |
| <b>Sector Aggregate</b> |          |         | <b>32,984</b>  | <b>19.3</b> | <b>8.6</b>  | <b>6,502</b>  | <b>29.9</b>  | <b>-1.5</b>  | <b>1,561</b>  | <b>147.3</b> | <b>-14.1</b> |
| <b>Utilities</b>        |          |         |                |             |             |               |              |              |               |              |              |
| CESC                    | 392      | Neutral | 8,234          | 9.5         | -13.2       | 2,141         | 41.8         | 1.9          | 1,188         | 21.2         | -5.7         |
| NTPC                    | 232      | Neutral | 124,612        | 10.5        | 15.6        | 33,957        | 5.8          | 5.7          | 20,855        | 2.3          | 5.1          |
| PTC India               | 115      | Buy     | 24,042         | 13.6        | -2.2        | 98            | 261.4        | -66.9        | 264           | -4.2         | -14.7        |
| Reliance Infrastructure | 1,132    | Buy     | 30,573         | 12.5        | 15.4        | 2,293         | -26.5        | -26.7        | 2,953         | 4.6          | -20.1        |
| Tata Power              | 1,351    | Neutral | 17,413         | -2.0        | 1.2         | 5,050         | 97.2         | 21.2         | 2,168         | 121.6        | 18.3         |
| <b>Sector Aggregate</b> |          |         | <b>204,874</b> | <b>9.9</b>  | <b>10.4</b> | <b>43,539</b> | <b>10.8</b>  | <b>4.1</b>   | <b>27,427</b> | <b>7.8</b>   | <b>1.8</b>   |
| <b>Others</b>           |          |         |                |             |             |               |              |              |               |              |              |
| Sintex Inds.            | 269      | Buy     | 8,785          | 7.1         | 22.8        | 1,449         | 13.9         | 11.0         | 779           | 9.9          | 12.1         |
| United Phosphorous      | 169      | Buy     | 11,629         | 6.3         | 0.2         | 1,957         | 0.2          | -2.4         | 781           | 20.9         | -23.7        |
| <b>Sector Aggregate</b> |          |         | <b>20,414</b>  | <b>6.6</b>  | <b>8.8</b>  | <b>3,406</b>  | <b>5.6</b>   | <b>2.9</b>   | <b>1,560</b>  | <b>15.1</b>  | <b>-9.2</b>  |

PL: Profit to Loss; LP: Loss to Profit; UR=Under Review; Tata Steel and Sterlite numbers are consolidated



## Ready reckoner: quarterly performance

|                           | CMP (RS) | RECO    | NET INT INCOME |       |      | OPERATING PROFIT |       |      | NET PROFIT |       |       |
|---------------------------|----------|---------|----------------|-------|------|------------------|-------|------|------------|-------|-------|
|                           | 29.12.09 |         | DEC.09         | VAR.  | VAR. | DEC.09           | VAR.  | VAR. | DEC.09     | VAR.  | VAR.  |
|                           | RS M     |         | % YOY          | % QOQ | RS M | % YOY            | % QOQ | RS M | % YOY      | % QOQ |       |
| Banks                     |          |         |                |       |      |                  |       |      |            |       |       |
| Andhra Bank               | 106      | Buy     | 5,687          | 25.8  | 10.5 | 4,537            | 21.8  | 0.2  | 2,369      | 11.4  | -13.5 |
| Axis Bank                 | 984      | Buy     | 13,280         | 42.8  | 15.5 | 13,093           | 43.9  | 0.3  | 6,301      | 25.8  | 18.5  |
| Bank of Baroda            | 507      | Buy     | 14,741         | 0.8   | 6.2  | 11,339           | -19.8 | 9.9  | 6,543      | -7.6  | 3.2   |
| Bank of India             | 385      | Neutral | 14,687         | -3.5  | 4.2  | 13,577           | -22.9 | 12.6 | 5,851      | -32.9 | 81.0  |
| Canara Bank               | 401      | Buy     | 14,665         | 17.9  | 11.6 | 13,309           | 9.6   | -6.2 | 7,967      | 13.6  | -12.5 |
| Corporation Bank          | 419      | Buy     | 5,597          | 17.1  | 11.2 | 5,197            | 15.6  | -3.0 | 2,739      | 6.8   | -6.1  |
| Dena Bank                 | 85       | Buy     | 2,808          | -20.3 | 16.8 | 1,913            | -27.9 | 18.4 | 1,153      | -17.8 | -7.4  |
| Federal Bank              | 238      | Buy     | 3,716          | -3.4  | 12.6 | 3,429            | -10.8 | 13.1 | 1,502      | -26.3 | 48.6  |
| HDFC                      | 2,685    | Neutral | 8,658          | 6.1   | 10.4 | 9,593            | 20.9  | 3.5  | 6,780      | 24.0  | 2.1   |
| HDFC Bank                 | 1,698    | Neutral | 22,751         | 14.9  | 16.3 | 18,079           | 24.0  | 13.5 | 8,260      | 32.9  | 20.2  |
| ICICI Bank                | 878      | Buy     | 21,007         | 5.5   | 3.2  | 24,757           | -10.7 | 1.7  | 10,773     | -15.3 | 3.6   |
| IDFC                      | 156      | Neutral | 2,850          | 10.3  | 2.9  | 4,000            | 48.9  | -3.1 | 2,765      | 49.8  | -4.7  |
| Indian Bank               | 174      | Buy     | 7,934          | 10.3  | 4.5  | 6,264            | 0.4   | 13.1 | 3,817      | 8.8   | 2.6   |
| Indian Overseas Bank      | 113      | Sell    | 8,579          | 4.3   | 9.3  | 6,289            | -27.5 | 13.4 | 2,325      | -40.2 | -10.0 |
| J&K Bank                  | 574      | Buy     | 2,757          | 5.2   | 9.4  | 2,292            | 22.5  | 3.5  | 1,215      | 0.7   | -9.5  |
| Oriental Bank of Commerce | 259      | Buy     | 6,085          | 7.2   | 8.5  | 4,735            | 22.6  | -6.2 | 2,571      | 1.9   | -5.1  |
| Punjab National Bank      | 915      | Buy     | 22,626         | 15.0  | 8.0  | 17,562           | -2.8  | 9.3  | 10,774     | 7.1   | 16.2  |
| Shriram Transport Fin.    | 456      | Buy     | 5,780          | 34.0  | 8.4  | 4,330            | 43.3  | 3.5  | 2,090      | 40.0  | 0.7   |
| South Indian Bank         | 144      | Buy     | 1,770          | 21.1  | 7.1  | 1,290            | 28.8  | -3.7 | 690        | 27.2  | -5.0  |
| State Bank                | 2,221    | Buy     | 63,399         | 10.1  | 13.0 | 52,023           | 16.1  | 7.6  | 26,811     | 8.2   | 7.7   |
| Union Bank                | 267      | Buy     | 10,372         | -8.1  | 20.1 | 9,360            | 9.5   | 15.5 | 5,332      | -20.6 | 5.6   |
| Yes Bank                  | 272      | Buy     | 1,879          | 56.0  | 17.5 | 1,912            | 3.7   | -0.3 | 1,080      | 2.1   | -3.3  |
| Sector Aggregate          |          |         | 261,628        | 10.0  | 10.5 | 228,881          | 4.7   | 5.9  | 119,708    | 1.5   | 6.7   |

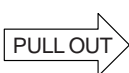


## Ready reckoner: valuations

|                     | CMP (RS) | RECO    | EPS (RS) |       |       | P/E (X) |       |       | EV/EBITDA (X) |       |       | ROE (%) |       |       |
|---------------------|----------|---------|----------|-------|-------|---------|-------|-------|---------------|-------|-------|---------|-------|-------|
|                     | 29.12.09 |         | FY10E    | FY11E | FY12E | FY10E   | FY11E | FY12E | FY10E         | FY11E | FY12E | FY10E   | FY11E | FY12E |
| Automobiles         |          |         |          |       |       |         |       |       |               |       |       |         |       |       |
| Bajaj Auto          | 1,683    | Buy     | 116.2    | 133.3 | 151.5 | 14.5    | 12.6  | 11.1  | 9.4           | 7.8   | 6.5   | 56.3    | 42.9  | 35.1  |
| Hero Honda          | 1,744    | Buy     | 105.4    | 121.1 | 136.9 | 16.5    | 14.4  | 12.7  | 11.3          | 9.6   | 8.0   | 46.2    | 38.9  | 29.9  |
| Mahindra & Mahindra | 1,059    | Buy     | 95.4     | 108.8 | 124.6 | 11.1    | 9.7   | 8.5   | 5.4           | 4.9   | 4.0   | 25.9    | 21.5  | 20.1  |
| Maruti Suzuki       | 1,566    | Buy     | 78.6     | 87.5  | 104.9 | 19.9    | 17.9  | 14.9  | 11.5          | 10.0  | 8.1   | 19.9    | 18.5  | 18.5  |
| Tata Motors         | 786      | Neutral | -4.2     | 25.0  | 47.0  | -       | 31.4  | 16.7  | 11.8          | 10.1  | 8.5   | 8.5     | 9.0   | 9.2   |
| Sector Aggregate    |          |         |          |       |       | 21.5    | 15.9  | 12.7  | 9.6           | 8.3   | 6.8   | 20.2    | 22.3  | 23.0  |
| Cement              |          |         |          |       |       |         |       |       |               |       |       |         |       |       |
| ACC                 | 860      | Neutral | 90.3     | 71.4  | 81.6  | 9.5     | 12.0  | 10.5  | 5.3           | 6.2   | 5.6   | 31.4    | 20.7  | 18.9  |
| Ambuja Cements      | 101      | Neutral | 8.0      | 7.5   | 8.3   | 12.6    | 13.5  | 12.1  | 7.4           | 7.7   | 6.9   | 20.1    | 16.6  | 16.8  |
| Birla Corporation   | 321      | Buy     | 72.5     | 60.1  | 58.6  | 4.4     | 5.3   | 5.5   | 2.3           | 2.4   | 3.4   | 31.0    | 20.9  | 17.2  |
| Grasim Industries   | 2,426    | Buy     | 334.7    | 269.5 | 308.4 | 7.2     | 9.0   | 7.9   | 3.3           | 3.0   | 2.1   | 23.4    | 15.8  | 15.7  |
| India Cements       | 124      | Buy     | 14.9     | 10.0  | 12.3  | 8.3     | 12.5  | 10.1  | 5.1           | 6.5   | 5.0   | 10.8    | 6.7   | 7.5   |
| Kesoram Ind         | 352      | Buy     | 68.2     | 72.5  | 89.4  | 5.2     | 4.9   | 3.9   | 4.0           | 3.9   | 3.1   | 21.2    | 18.8  | 19.5  |
| Shree Cement        | 1,879    | Buy     | 260.9    | 194.4 | 207.5 | 7.2     | 9.7   | 9.1   | 4.2           | 4.5   | 3.2   | 55.4    | 28.5  | 23.9  |
| Ultratech Cement    | 898      | Buy     | 101.0    | 78.8  | 94.1  | 8.9     | 11.4  | 9.5   | 5.1           | 3.1   | 2.3   | 26.4    | 26.2  | 20.0  |
| Sector Aggregate    |          |         |          |       |       | 8.3     | 8.5   | 7.5   | 4.5           | 4.2   | 3.4   | 23.2    | 17.3  | 16.9  |
| Engineering         |          |         |          |       |       |         |       |       |               |       |       |         |       |       |
| ABB                 | 763      | Neutral | 19.8     | 28.2  | 36.3  | 38.6    | 27.1  | 21.0  | 24.0          | 17.4  | 13.0  | 18.2    | 21.7  | 22.9  |
| BHEL                | 2,375    | Buy     | 86.7     | 114.7 | 152.9 | 27.4    | 20.7  | 15.5  | 17.6          | 12.8  | 9.5   | 29.5    | 31.7  | 33.9  |
| Crompton Greaves    | 422      | Neutral | 19.2     | 21.6  | 27.0  | 22.0    | 19.6  | 15.7  | 18.8          | 16.1  | 12.7  | 36.3    | 32.0  | 31.7  |
| Larsen & Toubro     | 1,684    | Neutral | 57.3     | 67.1  | 85.8  | 29.4    | 25.1  | 19.6  | 23.1          | 19.4  | 15.5  | 19.9    | 18.1  | 19.8  |
| Siemens             | 578      | Neutral | 13.7     | 16.5  | 22.1  | 42.1    | 35.0  | 26.1  | 17.5          | 17.9  | 14.1  | 12.3    | 16.9  | 20.0  |
| Thermax             | 609      | Neutral | 23.6     | 25.7  | 28.5  | 25.8    | 23.7  | 21.3  | 17.3          | 15.8  | 13.9  | 29.1    | 28.2  | 27.5  |
| Sector Aggregate    |          |         |          |       |       | 29.3    | 23.2  | 17.8  | 19.8          | 15.8  | 12.1  | 24.0    | 24.4  | 26.5  |
| FMCG                |          |         |          |       |       |         |       |       |               |       |       |         |       |       |
| Asian Paints        | 1,765    | Neutral | 71.4     | 80.0  | 97.1  | 24.7    | 22.1  | 18.2  | 15.5          | 13.6  | 11.2  | 44.2    | 39.5  | 38.7  |
| Britannia           | 1,655    | Buy     | 86.9     | 112.7 | 132.0 | 19.1    | 14.7  | 12.5  | 15.7          | 11.7  | 9.7   | 49.1    | 50.7  | 48.0  |
| Colgate             | 654      | Buy     | 27.1     | 31.0  | 36.5  | 24.2    | 21.1  | 17.9  | 19.1          | 15.5  | 12.9  | 154.1   | 146.5 | 144.4 |
| Dabur               | 162      | Buy     | 5.7      | 6.8   | 8.3   | 28.5    | 24.0  | 19.6  | 21.8          | 18.4  | 15.3  | 45.6    | 42.2  | 40.4  |
| Godrej Consumer     | 261      | Buy     | 10.3     | 13.2  | 15.6  | 25.5    | 19.8  | 16.7  | 19.8          | 15.3  | 12.8  | 47.1    | 51.5  | 50.8  |
| GSK Consumer        | 1,317    | Buy     | 57.8     | 71.0  | 84.6  | 22.8    | 18.5  | 15.6  | 15.2          | 12.7  | 10.3  | 26.8    | 27.6  | 27.6  |
| Hind. Unilever      | 266      | Neutral | 10.2     | 11.4  | 13.3  | 26.2    | 23.4  | 20.0  | 19.1          | 16.8  | 14.3  | 93.5    | 92.5  | 92.0  |
| ITC                 | 256      | Buy     | 10.5     | 12.3  | 14.4  | 24.4    | 20.8  | 17.8  | 14.7          | 12.6  | 10.7  | 25.1    | 25.4  | 25.6  |
| Marico              | 105      | Buy     | 3.9      | 4.7   | 5.7   | 26.9    | 22.4  | 18.3  | 17.4          | 14.6  | 12.0  | 37.0    | 32.4  | 29.6  |
| Nestle              | 2,530    | Buy     | 76.5     | 93.5  | 114.2 | 33.1    | 27.1  | 22.2  | 22.1          | 18.2  | 14.9  | 125.1   | 119.7 | 115.7 |
| Tata Tea            | 956      | Neutral | 61.6     | 68.8  | 76.7  | 15.5    | 13.9  | 12.5  | 9.4           | 8.1   | 7.1   | 9.5     | 9.9   | 10.2  |
| United Spirits      | 1,289    | Buy     | 30.7     | 51.1  | 61.9  | 41.9    | 25.2  | 20.8  | 16.5          | 13.4  | 11.7  | 8.3     | 12.3  | 13.1  |
| Sector Aggregate    |          |         |          |       |       | 25.8    | 21.9  | 18.5  | 16.6          | 14.1  | 11.9  | 31.3    | 31.9  | 32.4  |

## Ready reckoner: valuations

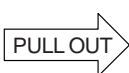
|                        | CMP (RS) | RECO      | EPS (RS) |       |       | P/E (X) |       |       | EV/EBITDA (X) |       |       | ROE (%) |       |       |
|------------------------|----------|-----------|----------|-------|-------|---------|-------|-------|---------------|-------|-------|---------|-------|-------|
|                        | 29.12.09 |           | FY10E    | FY11E | FY12E | FY10E   | FY11E | FY12E | FY10E         | FY11E | FY12E | FY10E   | FY11E | FY12E |
| Information Technology |          |           |          |       |       |         |       |       |               |       |       |         |       |       |
| HCL Technologies       | 372      | Buy       | 18.0     | 25.1  | 28.9  | 20.7    | 14.8  | 12.9  | 10.0          | 8.7   | 7.4   | 19.9    | 23.4  | 22.4  |
| Infosys                | 2,578    | Neutral   | 105.7    | 113.9 | 136.0 | 24.4    | 22.6  | 18.9  | 17.8          | 15.7  | 13.2  | 29.6    | 26.2  | 26.2  |
| Mphasis                | 725      | Buy       | 47.5     | 50.0  | 56.3  | 15.3    | 14.5  | 12.9  | 12.0          | 10.8  | 9.3   | 36.3    | 29.0  | 25.4  |
| Patni Computer         | 485      | Buy       | 35.2     | 41.6  | 43.4  | 13.8    | 11.7  | 11.2  | 6.8           | 5.6   | 4.5   | 14.9    | 15.4  | 14.2  |
| TCS                    | 742      | Buy       | 33.3     | 36.7  | 39.1  | 22.3    | 20.2  | 19.0  | 16.6          | 14.8  | 12.9  | 35.8    | 30.7  | 26.2  |
| Tech Mahindra          | 999      | Neutral   | 64.6     | 72.4  | 75.9  | 15.4    | 13.8  | 13.2  | 12.9          | 13.8  | 12.7  | 36.4    | 30.2  | 24.7  |
| Wipro                  | 681      | Neutral   | 31.3     | 34.5  | 36.2  | 21.8    | 19.8  | 18.8  | 15.7          | 13.9  | 11.9  | 27.0    | 23.5  | 20.5  |
| Sector Aggregate       |          |           |          |       |       | 21.9    | 19.6  | 17.7  | 15.5          | 13.9  | 11.9  | 26.4    | 23.9  | 21.9  |
| Infrastructure         |          |           |          |       |       |         |       |       |               |       |       |         |       |       |
| GMR Infrastructure     | 67       | Neutral   | 1.2      | 1.2   | 1.4   | 56.5    | 57.1  | 47.8  | 17.7          | 15.9  | 14.1  | 6.5     | 6.1   | 6.9   |
| GVK Power & Infra      | 48       | Buy       | 1.2      | 2.2   | 3.0   | 39.0    | 21.6  | 15.7  | 17.9          | 14.4  | 11.4  | 6.1     | 10.1  | 12.4  |
| Hindustan Construction | 149      | Neutral   | 4.8      | 6.9   | 8.6   | 31.2    | 21.5  | 17.4  | 12.6          | 10.5  | 9.3   | 9.2     | 12.2  | 13.5  |
| IRB Infra.Devl.        | 246      | Not Rated | 17.7     | 19.7  | 18.6  | 13.8    | 12.5  | 13.2  | 9.7           | 9.6   | 8.2   | 22.2    | 19.7  | 15.7  |
| IVRCL Infra.           | 361      | Buy       | 16.5     | 19.7  | 23.9  | 21.9    | 18.3  | 15.1  | 12.1          | 10.3  | 9.0   | 12.1    | 12.9  | 13.5  |
| Jaiprakash Associates  | 144      | Buy       | 4.2      | 4.1   | 5.2   | 12.1    | 20.3  | 27.8  | 16.3          | 18.5  | 12.4  | 11.3    | 9.8   | 7.0   |
| Mundra Port            | 553      | Not Rated | 14.4     | 20.9  | 32.9  | 38.4    | 26.4  | 16.8  | 27.2          | 17.2  | 12.9  | 17.4    | 21.3  | 26.8  |
| Nagarjuna Construction | 164      | Buy       | 9.5      | 11.9  | 14.3  | 17.3    | 13.8  | 11.4  | 12.2          | 11.2  | 9.9   | 10.5    | 9.8   | 10.8  |
| Simplex Infra.         | 536      | Buy       | 33.2     | 43.6  | 51.9  | 16.2    | 12.3  | 10.3  | 7.1           | 6.1   | 5.3   | 16.8    | 18.8  | 18.8  |
| Sector Aggregate       |          |           |          |       |       | 31.5    | 26.2  | 22.4  | 15.8          | 14.5  | 11.5  | 11.1    | 11.9  | 12.4  |
| Media                  |          |           |          |       |       |         |       |       |               |       |       |         |       |       |
| Deccan Chronicle       | 169      | Buy       | 12.5     | 15.3  | 19.1  | 13.5    | 11.0  | 8.8   | 6.9           | 5.6   | 4.3   | 23.5    | 24.8  | 26.4  |
| HT Media               | 144      | Neutral   | 6.7      | 8.2   | 9.5   | 21.6    | 17.6  | 15.1  | 12.7          | 10.2  | 8.9   | 14.5    | 15.9  | 16.3  |
| Jagran Prakashan       | 130      | Neutral   | 5.8      | 6.6   | 7.9   | 22.6    | 19.7  | 16.5  | 13.3          | 11.2  | 9.6   | 29.3    | 31.5  | 34.2  |
| Sun TV                 | 336      | Neutral   | 13.6     | 16.6  | 20.1  | 24.6    | 20.2  | 16.8  | 12.4          | 9.7   | 8.6   | 24.5    | 24.3  | 23.8  |
| TV Today               | 120      | Buy       | 8.6      | 10.4  | 12.1  | 14.0    | 11.5  | 9.9   | 7.7           | 5.7   | 4.4   | 13.8    | 14.7  | 15.0  |
| Zee Entertainment      | 265      | Neutral   | 9.5      | 12.3  | 14.5  | 28.0    | 21.6  | 18.3  | 18.2          | 13.5  | 11.3  | 11.1    | 11.9  | 13.1  |
| Sector Aggregate       |          |           |          |       |       | 21.9    | 17.7  | 14.8  | 12.7          | 10.0  | 8.5   | 16.4    | 18.0  | 19.1  |
| Metals                 |          |           |          |       |       |         |       |       |               |       |       |         |       |       |
| Hindalco               | 162      | Sell      | 3.3      | 8.2   | 14.0  | 48.8    | 19.8  | 11.6  | 10.0          | 8.8   | 6.9   | 6.0     | 13.1  | 18.7  |
| Hindustan Zinc         | 1,212    | Buy       | 91.0     | 120.4 | 139.3 | 13.3    | 10.1  | 8.7   | 9.3           | 6.3   | 4.7   | 21.4    | 22.2  | 20.6  |
| Jindal Steel & Power   | 729      | Buy       | 41.9     | 46.5  | 56.4  | 17.4    | 15.7  | 12.9  | 12.1          | 10.7  | 9.5   | 35.9    | 28.9  | 26.2  |
| JSW Steel              | 1,024    | Buy       | 64.5     | 82.4  | 137.7 | 15.9    | 12.4  | 7.4   | 8.7           | 7.7   | 4.8   | 16.7    | 17.6  | 22.7  |
| Nalco                  | 390      | Sell      | 16.2     | 26.3  | 25.5  | 24.2    | 14.8  | 15.3  | 16.2          | 8.1   | 8.1   | 9.8     | 14.2  | 12.5  |
| SAIL                   | 238      | Sell      | 14.4     | 16.3  | 15.3  | 16.5    | 14.6  | 15.5  | 11.2          | 9.9   | 9.9   | 18.1    | 17.5  | 14.6  |
| Sesa Goa               | 406      | Buy       | 22.5     | 26.3  | 27.4  | 18.1    | 15.4  | 14.8  | 11.7          | 9.4   | 7.9   | 26.7    | 24.4  | 19.8  |
| Sterlite Inds.         | 860      | Buy       | 47.9     | 72.4  | 104.2 | 17.9    | 11.9  | 8.2   | 11.3          | 5.9   | 3.9   | 10.8    | 14.2  | 17.1  |
| Tata Steel             | 622      | Neutral   | -28.8    | 60.1  | 89.0  | -21.6   | 10.4  | 7.0   | 16.8          | 7.5   | 5.4   | -28.8   | 42.9  | 42.5  |
| Sector Aggregate       |          |           |          |       |       | 22.8    | 13.2  | 10.5  | 11.8          | 8.1   | 6.4   | 11.9    | 17.5  | 18.3  |
| Oil & Gas              |          |           |          |       |       |         |       |       |               |       |       |         |       |       |
| BPCL                   | 614      | Buy       | 65.7     | 54.8  | 61.3  | 9.3     | 11.2  | 10.0  | 8.5           | 8.4   | 8.6   | 16.6    | 12.3  | 12.3  |
| Cairn India            | 282      | Buy       | 4.6      | 26.1  | 34.9  | 61.0    | 10.8  | 8.1   | 37.9          | 6.7   | 5.0   | 13.9    | 16.2  | 13.8  |
| Chennai Petroleum      | 221      | Buy       | 27.8     | 28.9  | 24.4  | 7.9     | 7.6   | 9.0   | 6.3           | 5.5   | 6.0   | 12.1    | 12.4  | 9.9   |
| GAIL                   | 418      | Buy       | 22.7     | 27.3  | 29.1  | 18.4    | 15.3  | 14.3  | 12.0          | 9.9   | 9.5   | 17.2    | 17.9  | 16.7  |
| Gujarat State Petronet | 98       | Buy       | 8.1      | 9.4   | 12.4  | 12.1    | 10.5  | 8.0   | 6.1           | 5.3   | 4.1   | 31.7    | 28.0  | 28.6  |
| HPCL                   | 387      | Buy       | 61.4     | 46.7  | 50.7  | 6.3     | 8.3   | 7.6   | 5.2           | 5.6   | 4.9   | 17.8    | 11.8  | 11.6  |
| Indraprastha Gas       | 197      | Neutral   | 15.4     | 18.1  | 21.0  | 12.8    | 10.9  | 9.4   | 7.0           | 5.5   | 4.4   | 28.5    | 27.3  | 26.1  |
| IOC                    | 309      | Buy       | 39.3     | 32.4  | 38.8  | 7.9     | 9.5   | 8.0   | 6.1           | 6.2   | 5.0   | 19.0    | 13.6  | 14.5  |
| MRPL                   | 79       | Sell      | 4.5      | 4.3   | 4.7   | 17.5    | 18.2  | 16.9  | 11.6          | 11.6  | 12.4  | 15.9    | 13.7  | 13.5  |
| ONGC                   | 1,186    | Neutral   | 100.5    | 118.3 | 133.3 | 11.8    | 10.0  | 8.9   | 5.2           | 4.6   | 4.0   | 21.9    | 22.2  | 21.6  |
| Reliance Inds.         | 1,078    | Buy       | 57.4     | 81.6  | 97.5  | 18.8    | 13.2  | 11.1  | 13.6          | 9.6   | 7.7   | 13.6    | 16.6  | 17.0  |
| Sector Aggregate       |          |           |          |       |       | 14.7    | 12.0  | 10.2  | 8.7           | 7.0   | 5.9   | 15.1    | 16.2  | 16.5  |





## Ready reckoner: valuations

|                        | CMP (RS) | RECO    | EPS (RS) |       |       | P/E (X) |       |       | EV/EBITDA (X) |       |       | ROE (%) |       |       |
|------------------------|----------|---------|----------|-------|-------|---------|-------|-------|---------------|-------|-------|---------|-------|-------|
|                        | 29.12.09 |         | FY10E    | FY11E | FY12E | FY10E   | FY11E | FY12E | FY10E         | FY11E | FY12E | FY10E   | FY11E | FY12E |
| Pharmaceuticals        |          |         |          |       |       |         |       |       |               |       |       |         |       |       |
| Aventis Pharma         | 1,631    | UR      | 76.0     | 85.2  | 99.3  | 21.5    | 19.1  | 16.4  | 17.5          | 15.1  | 11.8  | 20.3    | 20.0  | 20.5  |
| Biocon                 | 281      | Buy     | 13.8     | 15.7  | 18.0  | 20.3    | 17.9  | 15.6  | 12.2          | 10.9  | 9.3   | 16.1    | 16.0  | 16.1  |
| Cadila Health          | 657      | Buy     | 33.3     | 40.5  | 51.5  | 19.8    | 16.3  | 12.8  | 12.9          | 11.2  | 9.1   | 33.3    | 31.6  | 31.5  |
| Cipla                  | 335      | Buy     | 13.8     | 17.0  | 19.9  | 24.2    | 19.7  | 16.8  | 17.7          | 15.1  | 12.8  | 18.8    | 19.8  | 19.7  |
| Divis Labs             | 668      | Buy     | 24.8     | 29.4  | 35.2  | 27.0    | 22.8  | 19.0  | 22.2          | 18.5  | 15.5  | 23.7    | 23.6  | 23.7  |
| Dr Reddy' s Labs       | 1,147    | Buy     | 19.6     | 52.2  | 59.9  | 58.5    | 22.0  | 19.2  | 17.1          | 16.2  | 14.2  | 7.4     | 17.3  | 17.5  |
| GSK Pharma             | 1,594    | Buy     | 58.3     | 68.8  | 79.7  | 27.3    | 23.2  | 20.0  | 18.9          | 16.7  | 14.2  | 29.1    | 30.9  | 32.3  |
| Glenmark Pharma        | 277      | Neutral | 10.5     | 15.4  | 17.5  | 26.5    | 18.0  | 15.8  | 14.0          | 11.3  | 10.1  | 13.1    | 13.3  | 13.3  |
| Jubilant Organosys     | 341      | Buy     | 29.4     | 23.2  | 26.2  | 11.6    | 14.7  | 13.0  | 11.8          | 11.1  | 9.4   | 30.2    | 19.0  | 17.9  |
| Lupin                  | 1,464    | Buy     | 68.1     | 84.2  | 94.8  | 21.5    | 17.4  | 15.4  | 17.6          | 13.5  | 11.8  | 36.3    | 34.6  | 30.9  |
| Piramal Healthcare     | 390      | Buy     | 21.8     | 28.1  | 33.1  | 17.9    | 13.9  | 11.8  | 12.3          | 10.0  | 8.6   | 30.6    | 31.1  | 29.4  |
| Ranbaxy Labs           | 521      | Neutral | 4.2      | 7.1   | 12.3  | 122.8   | 73.2  | 42.4  | 48.1          | 41.6  | 28.0  | 4.1     | 6.5   | 10.5  |
| Sun Pharma             | 1,538    | Buy     | 58.2     | 66.2  | 72.7  | 26.4    | 23.2  | 21.1  | 22.1          | 20.2  | 17.7  | 15.9    | 15.8  | 15.3  |
| Sector Aggregate       |          |         |          |       |       | 27.3    | 21.4  | 18.2  | 18.2          | 15.8  | 13.4  | 17.5    | 18.9  | 19.2  |
| Real Estate            |          |         |          |       |       |         |       |       |               |       |       |         |       |       |
| Anant Raj Inds         | 131      | Buy     | 7.3      | 10.4  | 11.9  | 18.1    | 12.7  | 11.1  | 15.4          | 9.6   | 9.8   | 6.0     | 8.0   | 8.5   |
| Brigade Enterpr.       | 128      | Buy     | 10.7     | 13.5  | 17.9  | 12.0    | 9.5   | 7.2   | 9.7           | 6.6   | 4.8   | 11.3    | 13.0  | 15.5  |
| DLF                    | 365      | Buy     | 13.9     | 18.9  | 19.9  | 26.3    | 19.4  | 18.4  | 17.2          | 13.7  | 10.8  | 8.8     | 10.8  | 11.0  |
| HDIL                   | 363      | Buy     | 13.0     | 16.4  | 18.9  | 27.9    | 22.1  | 19.2  | 21.5          | 15.9  | 11.3  | 6.9     | 7.9   | 9.4   |
| Indiabulls Real Estate | 218      | Neutral | 2.8      | 5.4   | 13.4  | 78.2    | 40.0  | 16.2  | 149.8         | 39.7  | 21.2  | 0.8     | 1.6   | 3.9   |
| Mahindra Lifespace     | 343      | Buy     | 18.2     | 23.4  | 32.6  | 18.9    | 14.6  | 10.5  | 16.3          | 10.3  | 7.1   | 7.6     | 8.9   | 10.9  |
| Peninsula Land         | 78       | Neutral | 8.0      | 11.7  | 13.8  | 9.8     | 6.6   | 5.6   | 7.2           | 4.5   | 3.6   | 20.2    | 25.4  | 25.2  |
| Phoenix Mills          | 189      | Buy     | 6.0      | 8.0   | 13.7  | 31.7    | 23.7  | 13.8  | 31.9          | 21.4  | 14.4  | 5.5     | 6.9   | 11.1  |
| Puravankara Projects   | 92       | Neutral | 5.3      | 7.9   | 9.4   | 17.3    | 11.6  | 9.7   | 21.1          | 11.8  | 8.4   | 7.8     | 10.7  | 13.2  |
| Unitech                | 82       | Neutral | 3.4      | 4.8   | 6.4   | 24.1    | 17.0  | 12.8  | 19.7          | 14.2  | 9.2   | 7.6     | 9.8   | 12.5  |
| Sector Aggregate       |          |         |          |       |       | 25.7    | 18.7  | 15.8  | 18.6          | 13.7  | 10.3  | 7.3     | 9.3   | 10.6  |
| Retailing              |          |         |          |       |       |         |       |       |               |       |       |         |       |       |
| Pantaloon Retail       | 381      | Buy     | 9.2      | 13.0  | 16.6  | 41.6    | 29.4  | 23.0  | 11.1          | 9.2   | 8.0   | 6.3     | 8.2   | 9.6   |
| Titan Industries       | 1,434    | Neutral | 45.3     | 59.4  | 74.5  | 31.7    | 24.1  | 19.2  | 19.2          | 14.3  | 11.3  | 29.5    | 30.6  | 30.8  |
| Sector Aggregate       |          |         |          |       |       | 35.0    | 25.4  | 20.0  | 13.4          | 10.8  | 9.0   | 10.6    | 12.8  | 14.4  |
| Telecom                |          |         |          |       |       |         |       |       |               |       |       |         |       |       |
| Bharti Airtel          | 326      | Buy     | 22.9     | 22.3  | 24.1  | 14.2    | 14.6  | 13.5  | 8.2           | 7.9   | 6.5   | 25.8    | 21.3  | 19.1  |
| Idea Cellular          | 58       | Neutral | 2.1      | 1.4   | 2.4   | 27.9    | 43.0  | 23.9  | 7.8           | 7.7   | 5.8   | 4.7     | 2.9   | 4.5   |
| Reliance Comm          | 175      | Buy     | 20.1     | 18.1  | 23.2  | 8.7     | 9.7   | 7.6   | 7.6           | 6.9   | 5.5   | 10.6    | 8.8   | 10.3  |
| Sector Aggregate       |          |         |          |       |       | 13.2    | 14.1  | 12.1  | 8.0           | 7.5   | 6.1   | 15.3    | 12.3  | 12.7  |
| Textiles               |          |         |          |       |       |         |       |       |               |       |       |         |       |       |
| Alok Ind               | 22       | Buy     | 2.7      | 4.4   | 5.5   | 8.2     | 5.0   | 4.0   | 8.1           | 7.6   | 6.4   | 7.1     | 10.9  | 12.4  |
| Arvind Mills           | 39       | Neutral | 1.7      | 1.6   | 5.2   | 23.3    | 25.0  | 7.5   | 6.7           | 6.2   | 5.0   | 1.9     | 1.7   | 5.5   |
| Bombay Rayon           | 185      | Buy     | 20.3     | 33.8  | 45.1  | 9.1     | 5.5   | 4.1   | 6.6           | 3.9   | 2.8   | 14.0    | 18.4  | 20.1  |
| Raymond                | 195      | Buy     | -7.0     | 9.0   | 19.1  | -27.8   | 21.8  | 10.2  | 12.1          | 8.1   | 5.9   | -1.9    | 2.2   | 4.6   |
| Vardhman Textiles      | 209      | Buy     | 23.4     | 31.5  | 51.9  | 8.9     | 6.6   | 4.0   | 3.0           | 2.2   | 1.8   | 10.3    | 12.8  | 18.4  |
| Sector Aggregate       |          |         |          |       |       | 13.1    | 7.1   | 4.8   | 7.1           | 5.6   | 4.4   | 5.8     | 9.7   | 13.0  |

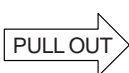


## Ready reckoner: valuations

|                    | CMP (RS) | RECO      | EPS (RS) |       |       | P/E (X) |       |       | EV/EBITDA (X) |       |       | ROE (%) |       |       |
|--------------------|----------|-----------|----------|-------|-------|---------|-------|-------|---------------|-------|-------|---------|-------|-------|
|                    | 29.12.09 |           | FY10E    | FY11E | FY12E | FY10E   | FY11E | FY12E | FY10E         | FY11E | FY12E | FY10E   | FY11E | FY12E |
| Utilities          |          |           |          |       |       |         |       |       |               |       |       |         |       |       |
| Adani Power        | 98       | Not Rated | 2.2      | 2.7   | 8.2   | 45.3    | 36.3  | 12.0  | 32.4          | 26.1  | 10.8  | 8.3     | 9.9   | 25.7  |
| CESC               | 392      | Neutral   | 28.9     | 31.0  | 31.5  | 13.5    | 12.6  | 12.4  | 7.8           | 8.6   | 9.5   | 11.3    | 11.0  | 10.1  |
| Indiabulls Power   | 33       | Not Rated | 0.2      | 0.1   | -0.2  | 154.6   | 287.5 | -     | -             | -     | -     | 1.1     | 0.6   | -0.9  |
| JSW Energy         | 100      | Not Rated | 4.8      | 9.2   | 9.8   | 21.0    | 10.8  | 10.2  | 16.0          | 6.4   | 5.8   | 15.4    | 26.0  | 21.8  |
| NTPC               | 232      | Neutral   | 10.5     | 11.4  | 13.0  | 22.1    | 20.3  | 17.9  | 14.8          | 11.9  | 11.7  | 14.5    | 14.4  | 14.9  |
| Power Grid Corp.   | 110      | Not Rated | 4.8      | 5.8   | 7.8   | 22.7    | 18.9  | 14.1  | 12.3          | 10.7  | 9.0   | 13.3    | 14.6  | 17.5  |
| PTC India          | 115      | Buy       | 3.7      | 4.3   | 4.4   | 30.9    | 27.0  | 26.3  | 45.1          | 45.5  | 42.4  | 6.1     | 5.9   | 5.9   |
| Reliance Infra.    | 1,132    | Buy       | 54.8     | 62.5  | 69.1  | 20.6    | 18.1  | 16.4  | 27.4          | 23.6  | 20.5  | 10.4    | 10.9  | 11.4  |
| Reliance Power     | 154      | Not Rated | -        | 2.6   | 0.8   | -       | 59.6  | 188.5 | -             | 31.7  | 20.9  | -       | 4.4   | 1.4   |
| Tata Power         | 1,351    | Neutral   | 67.0     | 98.3  | 121.9 | 20.2    | 13.7  | 11.1  | 18.0          | 18.2  | 16.3  | 8.6     | 8.5   | 9.1   |
| Sector Aggregate   |          |           |          |       |       | 25.2    | 20.4  | 17.1  | 17.1          | 13.6  | 12.0  | 11.1    | 12.5  | 13.6  |
| Others             |          |           |          |       |       |         |       |       |               |       |       |         |       |       |
| Sintex Inds.       | 269      | Buy       | 22.3     | 29.7  | 37.5  | 12.1    | 9.1   | 7.2   | 8.3           | 6.3   | 5.0   | 16.9    | 18.8  | 19.8  |
| United Phosphorous | 169      | Buy       | 12.2     | 16.0  | 19.3  | 13.9    | 10.6  | 8.8   | 7.7           | 5.7   | 4.3   | 19.6    | 22.0  | 21.4  |
| Sector Aggregate   |          |           |          |       |       | 12.8    | 9.7   | 7.9   | 7.9           | 5.9   | 4.5   | 17.9    | 20.0  | 20.0  |

Note : JSW Energy Valuation is at Issue Price

|                        | CMP (RS) | RECO    | EPS (RS) |       |       | P/E (X) |       |       | P/BV (X) |       |       | ROE (%) |       |       |
|------------------------|----------|---------|----------|-------|-------|---------|-------|-------|----------|-------|-------|---------|-------|-------|
|                        | 29.12.09 |         | FY10E    | FY11E | FY12E | FY10E   | FY11E | FY12E | FY10E    | FY11E | FY12E | FY10E   | FY11E | FY12E |
| Banks                  |          |         |          |       |       |         |       |       |          |       |       |         |       |       |
| Andhra Bank            | 106      | Buy     | 20.9     | 20.9  | 25.3  | 5.0     | 5.0   | 4.2   | 1.2      | 1.0   | 0.9   | 25.5    | 21.8  | 22.8  |
| Axis Bank              | 984      | Buy     | 60.9     | 76.1  | 94.3  | 16.2    | 12.9  | 10.4  | 2.5      | 2.2   | 1.8   | 18.7    | 17.8  | 19.0  |
| Bank of Baroda         | 507      | Buy     | 72.2     | 86.7  | 104.2 | 7.0     | 5.8   | 4.9   | 1.4      | 1.2   | 1.0   | 20.9    | 21.3  | 21.7  |
| Bank of India          | 385      | Neutral | 40.8     | 52.0  | 69.8  | 9.4     | 7.4   | 5.5   | 1.5      | 1.3   | 1.1   | 17.0    | 18.7  | 21.4  |
| Canara Bank            | 401      | Buy     | 73.7     | 82.0  | 89.3  | 5.4     | 4.9   | 4.5   | 1.3      | 1.1   | 0.9   | 26.8    | 24.3  | 21.9  |
| Corporation Bank       | 419      | Buy     | 79.5     | 85.7  | 107.9 | 5.3     | 4.9   | 3.9   | 1.0      | 0.9   | 0.8   | 21.4    | 19.7  | 21.2  |
| Dena Bank              | 85       | Buy     | 16.7     | 18.4  | 21.1  | 5.1     | 4.6   | 4.0   | 1.0      | 0.9   | 0.7   | 22.2    | 20.4  | 19.8  |
| Dewan Housing          | 189      | Buy     | 18.6     | 26.1  | 31.4  | 10.2    | 7.3   | 6.0   | 1.8      | 1.5   | 1.1   | 22.8    | 22.9  | 22.8  |
| Federal Bank           | 238      | Buy     | 34.2     | 42.3  | 51.4  | 7.0     | 5.6   | 4.6   | 0.8      | 0.8   | 0.7   | 12.8    | 14.1  | 15.2  |
| HDFC                   | 2685     | Neutral | 94.7     | 110.0 | 129.7 | 21.4    | 17.5  | 14.9  | 5.3      | 4.4   | 3.8   | 25.1    | 25.0  | 25.7  |
| HDFC Bank              | 1698     | Neutral | 65.9     | 86.9  | 110.9 | 25.8    | 19.5  | 15.3  | 3.7      | 3.2   | 2.7   | 16.5    | 17.4  | 19.3  |
| ICICI Bank             | 878      | Buy     | 37.7     | 48.8  | 61.3  | 18.3    | 13.5  | 10.8  | 1.9      | 1.7   | 1.5   | 10.1    | 12.2  | 14.1  |
| IDFC                   | 156      | Neutral | 8.2      | 9.5   | 11.2  | 19.0    | 16.5  | 14.0  | 2.9      | 2.5   | 2.2   | 16.1    | 16.4  | 16.9  |
| Indian Bank            | 174      | Buy     | 34.7     | 34.8  | 44.9  | 5.0     | 5.0   | 3.9   | 1.1      | 1.0   | 0.8   | 24.6    | 20.8  | 22.8  |
| Indian Overseas Bank   | 113      | Sell    | 18.5     | 18.2  | 30.1  | 6.1     | 6.2   | 3.7   | 0.9      | 0.9   | 0.7   | 16.1    | 14.4  | 20.9  |
| J&K Bank               | 574      | Buy     | 100.8    | 117.7 | 137.4 | 5.7     | 4.9   | 4.2   | 0.9      | 0.8   | 0.7   | 17.4    | 17.8  | 18.1  |
| Kotak Mahindra Bank    | 808      | Neutral | 35.6     | 42.5  | 50.1  | 22.7    | 19.0  | 16.1  | 3.6      | 3.1   | 2.6   | 19.5    | 19.7  | 19.6  |
| LIC Housing Fin        | 804      | Buy     | 70.5     | 89.8  | 96.3  | 11.4    | 8.9   | 8.3   | 2.3      | 1.9   | 1.4   | 23.8    | 23.0  | 20.5  |
| Oriental Bank          | 259      | Buy     | 41.1     | 49.0  | 64.3  | 6.3     | 5.3   | 4.0   | 0.9      | 0.8   | 0.7   | 15.0    | 15.8  | 18.0  |
| Punjab National Bank   | 915      | Buy     | 124.4    | 146.9 | 167.1 | 7.4     | 6.2   | 5.5   | 1.8      | 1.5   | 1.2   | 26.7    | 25.8  | 24.2  |
| Rural Electric. Corp.  | 237      | Buy     | 20.5     | 25.1  | 31.8  | 11.6    | 9.5   | 7.5   | 2.1      | 1.9   | 1.6   | 22.2    | 21.0  | 23.1  |
| Shriram Transport Fin. | 456      | Buy     | 38.0     | 49.5  | 60.3  | 12.0    | 9.2   | 7.6   | 3.1      | 2.4   | 2.0   | 25.6    | 26.6  | 25.9  |
| State Bank (Cons.)     | 2221     | Buy     | 215.7    | 269.1 | 302.0 | 9.8     | 7.8   | 7.0   | 1.6      | 1.4   | 1.2   | 17.5    | 18.7  | 17.9  |
| South Indian Bank      | 144      | Buy     | 22.5     | 27.5  | 33.1  | 6.4     | 5.2   | 4.4   | 1.1      | 0.9   | 0.8   | 18.1    | 19.2  | 19.9  |
| Union Bank             | 267      | Buy     | 40.8     | 52.5  | 60.4  | 6.5     | 5.1   | 4.4   | 1.5      | 1.2   | 1.0   | 26.1    | 27.0  | 25.2  |
| Yes Bank               | 272      | Buy     | 14.5     | 16.1  | 20.4  | 18.7    | 16.9  | 13.3  | 3.9      | 2.5   | 2.1   | 23.4    | 19.0  | 17.1  |
| Sector Aggregate       |          |         |          |       |       | 12.4    | 10.2  | 8.5   | 2.3      | 2.0   | 1.7   | 18.6    | 19.3  | 19.7  |



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BSE Sensex: 17,402

S&amp;P CNX: 5,188

As on: 29 December 2009

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## Sectors & Companies

**Note:** In our quarterly performance tables, our four-quarter numbers may not always add up to the full-year numbers. This is because of differences in classification of account heads in the company's quarterly and annual results or because of differences in the way we classify account heads as opposed to the company.

## Automobiles

BSE Sensex: 17,402

S&amp;P CNX: 5,188

29 December 2009

## COMPANY NAME

Bajaj Auto

Hero Honda

Mahindra &amp; Mahindra

Maruti Suzuki India

Tata Motors

**Strong momentum in volumes, ever after festive season:** Momentum in volumes continues to remain strong, after the festive season as well, as volumes are expected to remain sequentially flat (~41% YoY growth). Retail demand continues to be strong, driven by continued improvement in the economic environment, and as a result, overall inventory in the system is below normal levels.

**EBITDA margins to remain stable sequentially:** EBITDA margins are estimated to remain sequentially stable despite increase in raw material costs. We estimate a 30bp QoQ decline (~780bp YoY growth) in EBITDA margins, despite factoring in 80bp QoQ increase in raw material costs. Overall, we estimate 360% YoY growth (~5% QoQ de-growth) in PAT.

**Sector outlook positive, despite hurdles:** Volume outlook for the industry remains positive based on continuance of the economic recovery, increase in availability of finance and lower inventories. This, coupled with new product launches and change in emission norms, would aid volume growth in 2HFY10. However, hardening interest rates, roll-back of excise duty cuts, pricing action to mitigate raw material costs and compliance with BS IV emission norms would act as short term impediments in 1HCY10.

**Valuation and view:** Auto stocks outperformed over the past year due to recovery in volumes and margin expansion. With volume outlook positive, despite recent outperformance, valuations in the sector remain attractive. While operating margins at current high levels are not sustainable, we don't expect margins to revert to historical averages. Our top picks are **Bajaj Auto, M&M and Hero Honda**.

## KEY OPERATING INDICATORS

|                  | VOLUMES ('000 UNITS) |              |             |              |            | EBITDA MARGINS (%) |            |            |             |            |
|------------------|----------------------|--------------|-------------|--------------|------------|--------------------|------------|------------|-------------|------------|
|                  | 3QFY10E              | 3QFY09       | YOY (%)     | 2QFY10       | QOQ (%)    | 3QFY10E            | 3QFY09     | YOY (BP)   | 2QFY10      | QOQ (BP)   |
| Bajaj Auto       | 803                  | 494          | 62.6        | 687          | 16.9       | 21.5               | 14.5       | 700        | 22.0        | -50        |
| Hero Honda       | 1,071                | 858          | 24.8        | 1,183        | -9.5       | 17.4               | 14.3       | 310        | 17.9        | -50        |
| Maruti Suzuki    | 249                  | 173          | 43.8        | 246          | 1.3        | 12.3               | 7.5        | 480        | 12.7        | -40        |
| M&M              | 106                  | 64           | 65.3        | 109          | -3.0       | 16.3               | 3.4        | 1,290      | 17.1        | -80        |
| Tata Motors      | 155                  | 99           | 56.7        | 159          | -2.4       | 13.3               | 1.9        | 1,140      | 13.4        | -10        |
| <b>Aggregate</b> | <b>2,383</b>         | <b>1,688</b> | <b>41.2</b> | <b>2,384</b> | <b>0.0</b> | <b>15.1</b>        | <b>7.3</b> | <b>780</b> | <b>15.5</b> | <b>-30</b> |

Source: SIAM/ MOSL

## EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

|                         | CMP (RS) | RECO    | SALES          |             |            | EBITDA        |              |             | NET PROFIT    |              |             |
|-------------------------|----------|---------|----------------|-------------|------------|---------------|--------------|-------------|---------------|--------------|-------------|
|                         |          |         | DEC.09         | VAR.        | VAR.       | DEC.09        | VAR.         | VAR.        | DEC.09        | VAR.         | VAR.        |
|                         |          |         |                |             |            |               |              |             |               |              |             |
|                         | 29.12.09 |         |                | % YOY       | % QOQ      |               | % YOY        | % QOQ       |               | % YOY        | % QOQ       |
| <b>Automobiles</b>      |          |         |                |             |            |               |              |             |               |              |             |
| Bajaj Auto              | 1,683    | Buy     | 33,946         | 61.4        | 17.6       | 7,296         | 138.6        | 14.6        | 5,008         | 140.5        | 15.2        |
| Hero Honda              | 1,744    | Buy     | 36,945         | 28.5        | -8.6       | 6,464         | 57.7         | -10.8       | 5,256         | 75.0         | -12.0       |
| Mahindra & Mahindra     | 1,059    | Buy     | 43,675         | 74.3        | -2.2       | 7,118         | 740.3        | -7.3        | 4,746         | 1,136.4      | -19.8       |
| Maruti Suzuki           | 1,566    | Buy     | 74,441         | 59.0        | 3.4        | 9,406         | 167.4        | 2.7         | 5,797         | 171.2        | 1.7         |
| Tata Motors             | 786      | Neutral | 78,083         | 65.7        | -1.5       | 10,467        | 1,042.1      | -1.8        | 3,868         | LP           | 7.7         |
| <b>Sector Aggregate</b> |          |         | <b>267,089</b> | <b>58.2</b> | <b>0.7</b> | <b>40,752</b> | <b>227.7</b> | <b>-0.9</b> | <b>24,675</b> | <b>368.8</b> | <b>-3.3</b> |

Jinesh K Gandhi (Jinesh@MotilalOswal.com)

### 3QFY10: Robust performance continues

Recovery in volumes, initially witnessed in 4QFY09, continued in 3QFY10, supported by overall improvement in sentiment, availability of credit and benefiting from new product launches. Retail demand continues to be strong, driven by continued improvement in the economic environment. Consequently, overall inventory in the system is lower than normal. Volume growth on a YoY basis comes on a low base (~10% YoY decline in 3QFY09). Volume growth across the segment continues to remain very robust.

- Two-wheeler volumes are estimated to have grown 29% YoY (~2% QoQ decline). Bajaj Auto benefited most with a 70% YoY (~18% QoQ) growth in volumes and Hero Honda's volumes grew 25% YoY (~10% QoQ de-growth).
- Car volumes grew by 40% YoY (~5.3% QoQ), driven by growth in domestic and export demand. Maruti Suzuki's volumes grew 44% YoY (~1% QoQ) and Tata Motors' car volumes grew 47% YoY (~15% QoQ).
- The commercial vehicles segment grew 73% YoY (~3% QoQ decline), driven by 85% YoY growth (~4% QoQ decline) in M&HCV volumes and 64% YoY growth (~2% QoQ decline) in LCV volumes. CV volumes were sequentially stable despite withdrawal of higher accelerated depreciation (offered until September 2009). Tata Motors' CV volumes grew 72% YoY (~2% QoQ de-growth) as M&HCV's volumes grew 98% YoY (~3% QoQ) and LCV volumes grew 57% YoY (~6% QoQ decline).

AUTO VOLUMES SNAPSHOT FOR 3QFY10 ('000 UNITS)

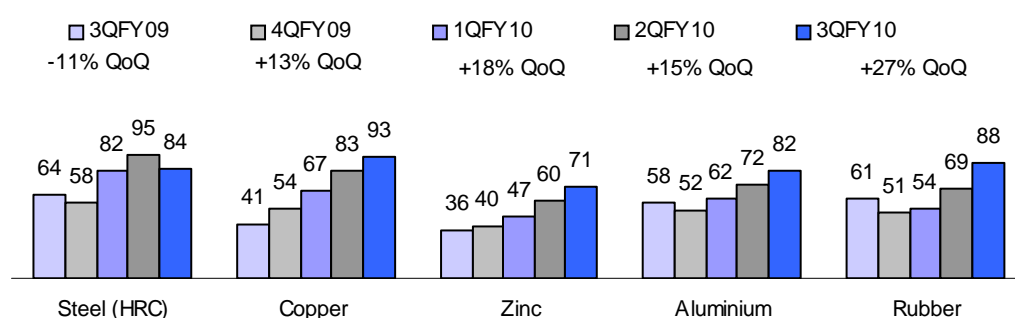
|                  | 3QFY10E      | 3QFY09       | YOY (%)     | 2QFY10       | QOQ (%)     |
|------------------|--------------|--------------|-------------|--------------|-------------|
| Two wheelers     | 2,554        | 1,980        | 29.0        | 2,613        | -2.2        |
| Three wheelers   | 165          | 126          | 31.0        | 156          | 5.6         |
| Passenger cars   | 504          | 360          | 40.0        | 478          | 5.3         |
| UVs & MPVs       | 99           | 62           | 59.0        | 103          | -3.9        |
| M&HCV            | 57           | 31           | 85.0        | 60           | -3.7        |
| LCV              | 73           | 44           | 64.0        | 75           | -2.4        |
| <b>Total CVs</b> | <b>130</b>   | <b>75</b>    | <b>72.6</b> | <b>134</b>   | <b>-3.0</b> |
| <b>Total</b>     | <b>3,452</b> | <b>2,603</b> | <b>32.6</b> | <b>3,484</b> | <b>-0.9</b> |

Source: SIAM/ MOSL

### Commodity prices firm up

Commodity prices, after bottoming out in 4QFY09, increased in 3QFY10. With full benefits of softening key raw material prices already reflecting in 2QFY10 results, raw material costs are expected to increase in 2HFY10. Our estimates now factor in a 100-120bp increase in raw material costs in 2HFY10, thereby impacting margins. While there are indications of an increase in selling prices to partly offset cost increases, our estimates don't factor in any increase in selling prices.

COMMODITY PRICES (INDEXED)



Source: Bloomberg/MOSL

### Margins to decline, but to stay higher than historical average margins

We estimate margins for the auto industry will decline from their peak in 2QFY10, driven by the raw material cost push and higher incidence of discount in 3QFY10. We estimate EBITDA margins for the MOSL universe will moderate by 30bp QoQ (~780bp YoY improvement) to 15.1% in 3QFY10. While margins are expected to come off their peaks of 2QFY10, we do not expect a reversion due to a) strong volume growth, b) relatively higher pricing power, c) cost controls, and d) increasing contribution from plants enjoying fiscal incentives.

#### MARGINS TO MODERATE FROM PEAK

|                         | 3QFY10E     | 2QFY09     | YOY (BP)   | 1QFY10      | QOQ (BP)   |
|-------------------------|-------------|------------|------------|-------------|------------|
| Bajaj Auto              | 21.5        | 14.5       | 700        | 22.0        | -50        |
| Hero Honda              | 17.4        | 14.3       | 310        | 17.9        | -50        |
| Maruti Suzuki           | 12.3        | 7.5        | 480        | 12.7        | -40        |
| Mahindra & Mahindra     | 16.3        | 3.4        | 1290       | 17.1        | -80        |
| Tata Motors             | 13.3        | 1.9        | 1140       | 13.4        | -10        |
| <b>Sector Aggregate</b> | <b>15.1</b> | <b>7.3</b> | <b>780</b> | <b>15.5</b> | <b>-30</b> |

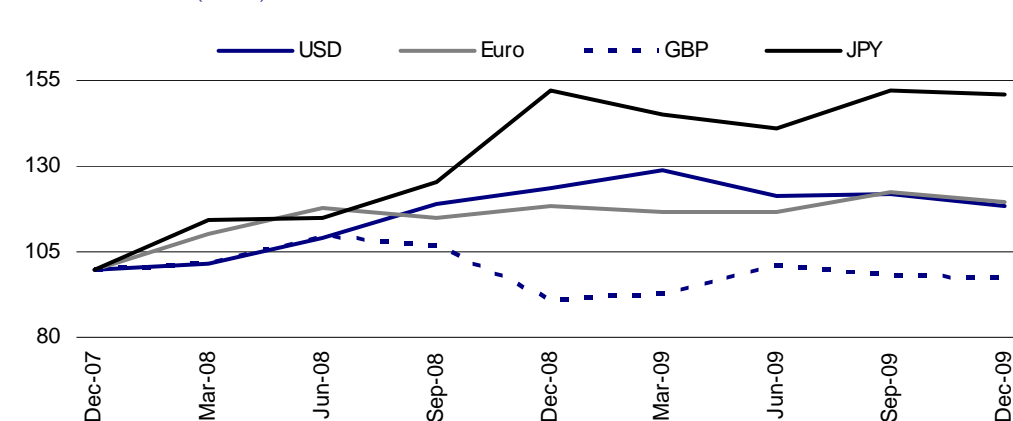
Source: MOSL

### Destabilizing effect of forex fluctuation continues

The exchange rate fluctuation has led to concerns over export revenue realization and cost of imported inputs, and the effectiveness of hedging practises followed by companies. The rupee appreciated sequentially against major currencies. Its impact would vary depending on forex exposure and the hedging strategies deployed by respective companies.

|     | YOY  | QOQ  |
|-----|------|------|
| USD | -4.3 | -2.9 |
| JPY | -0.7 | -0.5 |
| EUR | 1.2  | -2.2 |
| GBP | 7.0  | -1.1 |

#### RUPEE MOVEMENT (INDEX)



Source: Bloomberg

### Sector outlook positive...

Volumes in the auto sector recovered in 2HFY09 after the impact of the financial crisis. While two-wheeler, passenger vehicle and LCV volumes resumed growth after a brief pause, M&HCVs, tractors and three-wheelers have recovered completely from the downturn. We remain bullish on the auto sector for the following reasons:

- Volume growth is expected to continue, driven by strong economic recovery, pent-up demand, pre-buying due to change in emission norms, increase in availability of finance and new product launches expanding the market.



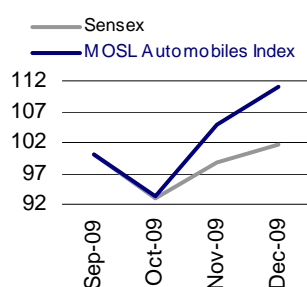
- Continued volume growth will give the industry pricing power and support high operating leverage. Moreover, leading companies have undertaken cost reduction and productivity improvement programs, which will dilute the impact of raw material cost inflation, thereby supporting higher margins. Besides, ramping up operations in tax-free zones like Uttaranchal will help to counter cost pressure through a lower tax burden.
- Recovery of global economies augurs well for export demand. Indian auto manufacturers have yet to fully tap the export market. This segment might become a further volume growth driver for the industry. Companies like Maruti, Tata Motors, M&M and Bajaj Auto are in a position to enhance their exports by tapping new destinations and increasing penetration in their existing foreign markets.

### ...despite hurdles in short term

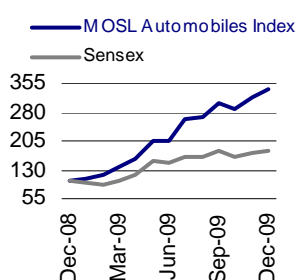
In 4QFY10, demand is expected to face some headwind, which is expected to have a short-term impact. Events to watch out for are:

- Change in emission norm to BS IV in the top-11 cities (BS III in other parts of India) from April 2010, which will result in engine modification to comply with the new emission norms, thereby increasing vehicle costs. This will also result in some pre-buying before the change in emission norms.
- Roll-back in excise duty cut of 4%, which was offered as part of government stimulus package in December 2008. The excise duty cut had been a key measure to boost volumes for the auto sector. Increased excise duty would have a short-term impact on demand because it would be entirely passed on to consumers.
- Expected increase in the selling price of vehicles to partly offset raw material cost inflation. This, coupled with the engine modification to comply with new emission norms and the rollback of the excise duty cut could result in a meaningful increase in the cost of ownership of a vehicle.
- Expected hardening in monetary policy, as inflation rises, would result in higher interest rates for automobile finance and thereby further increase cost of ownership/operating a vehicle. On the other hand, we expect auto finance availability to improve as ICICI Bank is expected to re-enter auto finance segment.

RELATIVE PERFORMANCE - 3M (%)



RELATIVE PERFORMANCE - 1YR (%)



### Valuation and view

Volume growth is reviving in the domestic market. Despite auto stocks' outperformance, valuations in the sector remain attractive, especially considering impending improvement in the macro environment for the auto industry, coupled with high operating margins. Our top picks are **Bajaj Auto**, **M&M** and **Hero Honda**.

|                     | CMP (RS) | RECO    | EPS (RS) |       |       | P/E (X) |       |       | EV/EBITDA |       |       | ROE (%) |       |       |
|---------------------|----------|---------|----------|-------|-------|---------|-------|-------|-----------|-------|-------|---------|-------|-------|
|                     | 29.12.09 |         | FY10E    | FY11E | FY12E | FY10E   | FY11E | FY12E | FY10E     | FY11E | FY12E | FY10E   | FY11E | FY12E |
| Automobiles         |          |         |          |       |       |         |       |       |           |       |       |         |       |       |
| Bajaj Auto          | 1,683    | Buy     | 116.2    | 133.3 | 151.5 | 14.5    | 12.6  | 11.1  | 9.4       | 7.8   | 6.5   | 56.3    | 42.9  | 35.1  |
| Hero Honda          | 1,744    | Buy     | 105.4    | 121.1 | 136.9 | 16.5    | 14.4  | 12.7  | 11.3      | 9.6   | 8.0   | 46.2    | 38.9  | 29.9  |
| Mahindra & Mahindra | 1,059    | Buy     | 95.4     | 108.8 | 124.6 | 11.1    | 9.7   | 8.5   | 5.4       | 4.9   | 4.0   | 25.9    | 21.5  | 20.1  |
| Maruti Suzuki       | 1,566    | Buy     | 78.6     | 87.5  | 104.9 | 19.9    | 17.9  | 14.9  | 11.5      | 10.0  | 8.1   | 19.9    | 18.5  | 18.5  |
| Tata Motors         | 786      | Neutral | -4.2     | 25.0  | 47.0  | -       | 31.4  | 16.7  | 11.8      | 10.1  | 8.5   | 8.5     | 9.0   | 9.2   |
| Sector Aggregate    |          |         |          |       |       | 21.5    | 15.9  | 12.7  | 9.6       | 8.3   | 6.8   | 20.2    | 22.3  | 23.0  |

## Bajaj Auto

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | BJAUT IN     |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | BJAT.BO      |

29 December 2009

Buy

Rs1,683

Previous Recommendation: Buy

|                     |              |
|---------------------|--------------|
| Equity Shares (m)   | 144.7        |
| 52 Week Range (Rs)  | 1,800 / 353  |
| 1,6,12 Rel Perf (%) | 4 / 44 / 273 |
| Mcap (Rs b)         | 243.5        |
| Mcap (USD b)        | 5.2          |

| YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 3/09A       | 88,104              | 7,963         | 55.0        | -3.4              | 30.6       | 26.3        | 14.4       | 20.1        | 47.2         | 36.3          |
| 3/10E       | 116,985             | 16,817        | 116.2       | 111.2             | 14.5       | 13.4        | 8.2        | 9.4         | 56.3         | 53.3          |
| 3/11E       | 136,431             | 19,287        | 133.3       | 14.7              | 12.6       | 11.7        | 5.4        | 7.8         | 42.9         | 45.8          |
| 3/12E       | 153,045             | 21,925        | 151.5       | 13.7              | 11.1       | 10.4        | 3.9        | 6.5         | 35.1         | 40.3          |

- Bajaj Auto volumes are expected to improve by 62.6% YoY (~17% QoQ) in 3QFY10. Recovery in volumes continues in the third quarter after a significant decline in 2HFY09. Two-wheeler volumes are estimated to improve 70% YoY, and three-wheeler volumes are estimated to improve 23% YoY.
- We estimate net sales of Rs33.9b, a growth of 61% YoY. Realizations are estimated to remain flat YoY, despite a higher share of two wheelers (88% v/s 84% last year). EBITDA margin is expected to improve by 700bp YoY (~50bp QoQ decline) to 21.5%, benefiting from higher realizations and lower raw material costs. We estimate EBITDA at Rs7.3b (~139% YoY growth) and adjusted PAT at Rs5b (~140% YoY growth).
- The recently launched *Discover 100* has been very well received and is estimated to have sold over 200,000 units in 3QFY10. This, coupled with newly launched *Pulsar 135cc*, will be key volume drivers in FY11.
- We are upgrading our earnings estimates for FY10 by 10% to Rs116.2 and FY11 by 14.3% to Rs133.3 to factor in strong volume growth. Our earnings estimate factors in 29.5% growth in FY10 volumes and 15.5% in FY11, and 70bp higher raw material cost in 2HFY10. The stock trades at 14.5x FY10E and 12.6x FY11E EPS. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH              | FY09          |               |               |               | FY10          |               |               |               | FY09          | FY10E          |
|------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|
|                        | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3QE           | 4QE           |               |                |
| Volumes (nos)          | 620,095       | 640,040       | 493,748       | 440,269       | 547,662       | 686,727       | 802,614       | 804,400       | 2,194,154     | 2,841,499      |
| Change (%)             | 8.5           | 4.2           | -30.8         | -20.3         | -11.7         | 7.3           | 62.6          | 82.7          | (10.5)        | 29.5           |
| Realization            | 37,736        | 39,360        | 42,595        | 42,779        | 42,699        | 42,047        | 42,294        | 38,264        | 40,154        | 41,170         |
| Change (%)             | 2.3           | 2.3           | 21.4          | 14.0          | 13.2          | 6.8           | -0.7          | -10.6         | 8.8           | 2.5            |
| <b>Net Sales</b>       | <b>23,400</b> | <b>25,192</b> | <b>21,031</b> | <b>18,834</b> | <b>23,385</b> | <b>28,875</b> | <b>33,946</b> | <b>30,779</b> | <b>88,104</b> | <b>116,985</b> |
| Change (%)             | 11.0          | 6.7           | -15.9         | -9.2          | -0.1          | 14.6          | 61.4          | 63.4          | -2.6          | 32.8           |
| <b>EBITDA</b>          | <b>2,960</b>  | <b>3,439</b>  | <b>3,058</b>  | <b>2,858</b>  | <b>4,554</b>  | <b>6,365</b>  | <b>7,296</b>  | <b>6,441</b>  | <b>12,023</b> | <b>24,656</b>  |
| EBITDA Margins (%)     | 12.7          | 13.6          | 14.5          | 15.2          | 19.5          | 22.0          | 21.5          | 20.9          | 13.6          | 21.1           |
| Other Income           | 288           | 221           | 379           | 229           | 231           | 217           | 325           | 381           | 1,117         | 1,155          |
| Extraordinary Expenses | 0             | 611           | 611           | 829           | 458           | 458           | 458           | 458           | 2,071         | 1,833          |
| Interest               | 9             | 59            | 90            | 52            | 60            | 0             | 60            | 116           | 210           | 236            |
| Depreciation           | 335           | 331           | 319           | 313           | 331           | 336           | 355           | 356           | 1,298         | 1,378          |
| <b>PBT</b>             | <b>2,904</b>  | <b>2,659</b>  | <b>2,417</b>  | <b>1,893</b>  | <b>4,155</b>  | <b>5,788</b>  | <b>6,748</b>  | <b>5,892</b>  | <b>9,561</b>  | <b>22,582</b>  |
| Tax                    | 860           | 810           | 755           | 591           | 1,220         | 1,760         | 2,058         | 1,850         | 3,016         | 6,888          |
| Effective Tax Rate (%) | 29.6          | 30.5          | 31.2          | 31.2          | 29.4          | 30.4          | 30.5          | 31.4          | 31.5          | 30.5           |
| <b>Rep. PAT</b>        | <b>2,044</b>  | <b>1,849</b>  | <b>1,662</b>  | <b>1,302</b>  | <b>2,935</b>  | <b>4,028</b>  | <b>4,690</b>  | <b>4,042</b>  | <b>6,545</b>  | <b>15,695</b>  |
| Change (%)             | 11.7          | (22.5)        | (22.2)        | 7.8           | 43.6          | 117.9         | 182.2         | 210.4         | -13.4         | 139.8          |
| <b>Adj. PAT</b>        | <b>2,044</b>  | <b>2,274</b>  | <b>2,082</b>  | <b>1,873</b>  | <b>3,105</b>  | <b>4,347</b>  | <b>5,008</b>  | <b>4,356</b>  | <b>7,963</b>  | <b>16,817</b>  |
| Change (%)             | 11.7          | (6.7)         | (16.2)        | 21.9          | 51.9          | 91.2          | 140.5         | 132.6         | -4.6          | 111.2          |

E: MOSL Estimates

Jinesh K Gandhi (Jinesh@MotilalOswal.com)

## Hero Honda

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | HH IN        |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | HROH.BO      |

29 December 2009

Buy

Rs1,744

Previous Recommendation: Buy

|                     |             |
|---------------------|-------------|
| Equity Shares (m)   | 199.7       |
| 52 Week Range (Rs)  | 1,798 / 755 |
| 1,6,12 Rel Perf (%) | -1 / 8 / 34 |
| Mcap (Rs b)         | 348.2       |
| Mcap (USD b)        | 7.5         |

| YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 3/09A       | 123,191             | 12,818        | 64.2        | 32.4              | 27.2       | 23.8        | 9.2        | 18.3        | 37.8         | 48.1          |
| 3/10E       | 152,706             | 21,052        | 105.4       | 64.2              | 16.5       | 15.1        | 6.5        | 11.3        | 46.2         | 56.3          |
| 3/11E       | 169,427             | 24,177        | 121.1       | 14.8              | 14.4       | 13.2        | 4.9        | 9.6         | 38.9         | 47.6          |
| 3/12E       | 193,734             | 27,343        | 136.9       | 13.1              | 12.7       | 11.7        | 3.8        | 8.0         | 29.9         | 37.4          |

- Hero Honda's volumes are estimated to grow by 26% YoY (~8.7% QoQ decline) in 3QFY10. Realizations are expected to improve by 2% YoY due to higher contribution from the Haridwar unit (~29.6% of volumes v/s 17.5% in 3QFY09). Our estimates factor in about 320,000 units from Haridwar in 3QFY10.
- Net sales are estimated to increase by 28.5% YoY to Rs36.9b, and operating margins are likely to improve 320bp YoY to 17.5% (~40bp QoQ decline), driven by a ramp-up at the Haridwar plant and benefits from softening commodity prices. This, coupled with lower tax (due to ramp-up at Haridwar), would boost PAT growth to 75% to Rs5.25b.
- We maintain our EPS estimates for FY10 at Rs105.4 and FY11 at Rs121.1. Our estimates factor in volume growth of 20% for FY10 (to 4.5m units) and 10% growth for FY11 (to 4.9m units) and 100bp increase in raw material cost in 2HFY10 (~60bp adjusting for higher localization at Haridwar).
- While we maintain our earnings estimates, strong momentum in retail sales offers upside potential to our volume assumption. Based on our estimate of 345,000 units in September 2009, our residual run-rate for volumes in 4QFY10 is 357,000 units/month (~18% residual growth). Besides, its fiscal incentive at Haridwar plant would increase if excise duty were increased. The stock trades at 16.5x FY10E EPS and 14.4x FY11E EPS. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH              | FY09          |               |               |               | FY10          |               |               |               | FY09           | FY10E          |
|------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|
|                        | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3QE           | 4QE           |                |                |
| Total Volumes (nos)    | 894,244       | 972,095       | 857,806       | 997,855       | 1,118,987     | 1,183,235     | 1,080,534     | 1,083,644     | 3,722,000      | 4,466,400      |
| Change (%)             | 11.4          | 28.5          | -4.0          | 12.9          | 25.1          | 21.7          | 26.0          | 8.6           | 11.5           | 20.0           |
| Net Realization        | 31,798        | 32,813        | 33,505        | 34,192        | 34,058        | 34,145        | 34,191        | 34,375        | 33,098         | 34,190         |
| Change (%)             | 4.3           | 5.6           | 9.1           | 8.4           | 7.1           | 4.1           | 2.0           | 0.5           | 6.9            | 3.3            |
| <b>Net Sales</b>       | <b>28,435</b> | <b>31,897</b> | <b>28,740</b> | <b>34,118</b> | <b>38,111</b> | <b>40,401</b> | <b>36,945</b> | <b>37,250</b> | <b>123,191</b> | <b>152,706</b> |
| Change (%)             | 16.2          | 35.6          | 4.8           | 22.3          | 34.0          | 26.7          | 28.5          | 9.2           | 19.2           | 24.0           |
| Total Cost             | 25,025        | 27,672        | 24,643        | 28,734        | 31,723        | 33,153        | 30,481        | 31,195        | 106,074        | 126,552        |
| <b>EBITDA</b>          | <b>3,410</b>  | <b>4,226</b>  | <b>4,098</b>  | <b>5,384</b>  | <b>6,387</b>  | <b>7,248</b>  | <b>6,464</b>  | <b>6,055</b>  | <b>17,118</b>  | <b>26,154</b>  |
| As % of Sales          | 12.0          | 13.2          | 14.3          | 15.8          | 16.8          | 17.9          | 17.5          | 16.3          | 13.9           | 17.1           |
| Other Income           | 467           | 662           | 508           | 549           | 539           | 881           | 750           | 626           | 2,187          | 2,795          |
| Interest               | -50           | -83           | -87           | -96           | -55           | -61           | -60           | -64           | -317           | -240           |
| Depreciation           | 422           | 466           | 475           | 444           | 456           | 503           | 505           | 517           | 1,807          | 1,981          |
| <b>PBT</b>             | <b>3,505</b>  | <b>4,505</b>  | <b>4,219</b>  | <b>5,586</b>  | <b>6,525</b>  | <b>7,686</b>  | <b>6,769</b>  | <b>6,228</b>  | <b>17,815</b>  | <b>27,208</b>  |
| Tax                    | 777           | 1,442         | 1,214         | 1,564         | 1,524         | 1,715         | 1,513         | 1,405         | 4,997          | 6,156          |
| Effective Tax Rate (%) | 22.2          | 32.0          | 28.8          | 28.0          | 23.4          | 22.3          | 22.3          | 22.6          | 28.1           | 22.6           |
| <b>PAT</b>             | <b>2,729</b>  | <b>3,063</b>  | <b>3,004</b>  | <b>4,022</b>  | <b>5,001</b>  | <b>5,971</b>  | <b>5,256</b>  | <b>4,823</b>  | <b>12,818</b>  | <b>21,052</b>  |
| <b>Adj. PAT</b>        | <b>2,729</b>  | <b>3,063</b>  | <b>3,004</b>  | <b>4,022</b>  | <b>5,001</b>  | <b>5,971</b>  | <b>5,256</b>  | <b>4,823</b>  | <b>12,818</b>  | <b>21,052</b>  |
| Change (%)             | 43.7          | 49.9          | 9.2           | 34.7          | 83.3          | 95.0          | 75.0          | 19.9          | 32.4           | 64.2           |

E: MOSL Estimates

Jinesh K Gandhi (Jinesh@MotilalOswal.com)

## Mahindra &amp; Mahindra

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | MM IN        |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | MAHM.BO      |

29 December 2009

Buy

Rs1,059

Previous Recommendation: Buy

|                     |              |
|---------------------|--------------|
| Equity Shares (m)   | 285.7        |
| 52 Week Range (Rs)  | 1,099 / 247  |
| 1,6,12 Rel Perf (%) | 0 / 33 / 231 |
| Mcap (Rs b)         | 302.5        |
| Mcap (USD b)        | 6.5          |

| YEAR<br>END | NET SALES<br>(RS M) | S/A PAT<br>(RS M) | ADJ.EPS<br>(RS) | CONS.<br>EPS (RS) | P/E<br>(X) | CONS.<br>P/E (X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|-------------------|-----------------|-------------------|------------|------------------|------------|-------------|--------------|---------------|
| 3/09A       | 130,937             | 9,297             | 32.5            | 52.7              | 32.5       | 20.1             | 17.7       | 13.2        | 2.0          | 19.2          |
| 3/10E       | 174,168             | 19,439            | 68.0            | 95.4              | 15.6       | 11.1             | 25.9       | 24.7        | 1.5          | 9.1           |
| 3/11E       | 197,577             | 21,485            | 75.2            | 108.8             | 14.1       | 9.7              | 21.5       | 22.0        | 1.3          | 8.4           |
| 3/12E       | 223,239             | 23,719            | 83.0            | 124.6             | 12.8       | 8.5              | 20.1       | 23.1        | 1.1          | 7.2           |

- M&M is expected to report overall volume growth of 65% YoY (~3% QoQ decline) in 3QFY10, driven by 74% growth in tractor volumes and 65% growth in UV volumes. Higher contribution of tractors (~41% v/s 39% in 3QFY09) would boost realization growth of 4.9% YoY.
- Net sales are estimated to grow 74% YoY to Rs43.7b. Higher realizations and savings in raw material cost would drive 12.9pp YoY expansion (~80bp QoQ decline) in EBITDA margin to 16.3%. As a result, recurring PAT is estimated to be Rs4.75b (v/s Rs384m in 3QFY09).
- Volume growth momentum is expected to continue, as it continues to dominate the UV segment. This, coupled with an encouraging response to the recently launched small truck *Gio* and expected launch of a 25 ton M&HCV (in JV) and a pick-up truck in the US in January 2010 would support volume growth.
- We upgrade our consolidated EPS estimates for FY10 by 3.5% to Rs95.4 and for FY11 by 6.2% to Rs108.8, to factor in strong volume growth and improvement in subsidiary performance. Our estimates factor in volume growth of 29.3% (including PTL) in FY10 and 11.2% in FY11, and an 80bp increase in raw material costs in 2HFY10. On a consolidated basis, the stock trades at 11.1x FY10E EPS and 9.7x FY11E EPS. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH              | FY09          |               |               |               | FY10          |               |               |               | FY09           | FY10E          |
|------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|
|                        | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3QE           | 4QE           |                |                |
| Total Volume (nos)     | 82,625        | 84,508        | 64,141        | 88,860        | 102,280       | 109,292       | 106,053       | 105,089       | 326,890        | 422,714        |
| Change (%)             | 22.9          | 21.8          | -16.8         | 12.4          | 23.8          | 29.3          | 65.3          | 18.3          | 11.3           | 29.3           |
| Net Realization        | 399,203       | 396,966       | 392,768       | 411,259       | 414,802       | 410,394       | 411,820       | 411,224       | 400,553        | 412,025        |
| Change (%)             | 2.2           | -2.0          | 2.6           | 2.9           | 3.9           | 3.4           | 4.9           | 0.0           | 2.0            | 2.9            |
| <b>Net Sales</b>       | <b>32,873</b> | <b>33,057</b> | <b>25,063</b> | <b>36,192</b> | <b>42,295</b> | <b>44,650</b> | <b>43,675</b> | <b>43,215</b> | <b>129,853</b> | <b>174,168</b> |
| Change (%)             | 25.8          | 22.2          | -14.6         | 15.2          | 28.7          | 35.1          | 74.3          | 19.4          | 14.0           | 34.1           |
| Total Cost             | 29,687        | 30,388        | 24,345        | 32,337        | 35,557        | 37,173        | 36,556        | 36,536        | 117,639        | 145,822        |
| <b>EBITDA</b>          | <b>3,298</b>  | <b>3,159</b>  | <b>847</b>    | <b>4,208</b>  | <b>6,869</b>  | <b>7,680</b>  | <b>7,118</b>  | <b>6,679</b>  | <b>13,298</b>  | <b>28,346</b>  |
| As % of Sales          | 10.0          | 9.4           | 3.4           | 11.5          | 16.2          | 17.1          | 16.3          | 15.5          | 10.2           | 16.3           |
| Other income           | 294           | 1,168         | 436           | 51            | 236           | 1,333         | 420           | 230           | 1,871          | 2,218          |
| Interest               | 97            | 122           | 141           | 209           | 60            | 128           | 175           | 195           | 453            | 557            |
| Depreciation           | 621           | 669           | 653           | 932           | 885           | 892           | 950           | 1,049         | 2,915          | 3,776          |
| EO Expense             | 779           | 666           | 461           | -1,968        | 779           | -1,539        | 0             | 0             | 1,437          | -760           |
| <b>PBT</b>             | <b>2,094</b>  | <b>2,871</b>  | <b>29</b>     | <b>5,086</b>  | <b>5,381</b>  | <b>9,533</b>  | <b>6,413</b>  | <b>5,665</b>  | <b>10,365</b>  | <b>26,993</b>  |
| Tax                    | 541           | 404           | 17            | 905           | 1,373         | 2,504         | 1,667         | 1,475         | 1,997          | 7,018          |
| Effective Tax Rate (%) | 25.8          | 14.1          | 58.9          | 17.8          | 25.5          | 26.3          | 26.0          | 26.0          | 19.3           | 26.0           |
| <b>Reported PAT</b>    | <b>1,553</b>  | <b>2,467</b>  | <b>12</b>     | <b>4,181</b>  | <b>4,009</b>  | <b>7,029</b>  | <b>4,746</b>  | <b>4,191</b>  | <b>8,368</b>   | <b>19,975</b>  |
| Change (%)             | -23.8         | -13.7         | -99.7         | 89.1          | 158.1         | 185.0         | NA            | 0.2           | -24.2          | 138.7          |
| <b>Adj PAT</b>         | <b>2,182</b>  | <b>2,986</b>  | <b>384</b>    | <b>2,795</b>  | <b>4,585</b>  | <b>5,917</b>  | <b>4,746</b>  | <b>4,191</b>  | <b>9,297</b>   | <b>19,439</b>  |
| Change (%)             | 6.4           | 7.6           | -85.8         | 33.8          | 110.1         | 98.2          | 1,136.4       | 49.9          | -4.5           | 109.1          |

E: MOSL Estimates; FY09 quarterly results don't add-up to full year results due to restatement

Jinesh K Gandhi (Jinesh@MotilalOswal.com)

## Maruti Suzuki India

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | MSIL IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | MRTI.BO      |

29 December 2009

Buy

Rs1,566

Previous Recommendation: Buy

|                     |               |
|---------------------|---------------|
| Equity Shares (m)   | 289.0         |
| 52 Week Range (Rs)  | 1,740 / 428   |
| 1,6,12 Rel Perf (%) | -3 / 29 / 131 |
| Mcap (Rs b)         | 452.5         |
| Mcap (USD b)        | 9.7           |

| YEAR<br>END | TOTAL INC.<br>(RS M) | PAT<br>(RS M) | ADJ. EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|----------------------|---------------|------------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 3/09A       | 209,075              | 13,334        | 46.1             | -22.0             | 33.9       | 22.2        | 4.8        | 19.9        | 13.0         | 18.7          |
| 3/10E       | 285,941              | 22,711        | 78.6             | 70.3              | 19.9       | 14.5        | 4.0        | 11.5        | 19.9         | 26.9          |
| 3/11E       | 333,129              | 25,287        | 87.5             | 11.3              | 17.9       | 13.1        | 3.3        | 10.0        | 18.5         | 25.3          |
| 3/12E       | 388,145              | 30,304        | 104.9            | 19.8              | 14.9       | 10.9        | 2.8        | 8.1         | 18.5         | 25.1          |

- Maruti's volumes are expected to grow 44% YoY (~1.3% QoQ) in 3QFY10, helped by better retail demand and A-Star exports. Realization is seen to rise 8.6% YoY (flat QoQ), reflecting improved product mix in India and abroad.
- Net sales are estimated to grow 55% to Rs72.5b. EBITDA margins are estimated to expand by 480bp YoY (~40bp QoQ decline) to 12.3%, benefiting from a better product mix, lower raw material costs and higher volumes. EBITDA is estimated to grow by 154% to Rs8.95b, translating into 156% growth in recurring PAT to Rs5.5b.
- Demand is reviving in urban markets for the company's products. This, along with strong demand in rural markets, strong export volume and pre-buying prior to a change in emission norms, will aid sustenance of volumes in 2HFY10.
- We are upgrading our EPS estimates for FY10 by 2.3% to Rs78.6 and FY11 by 2.3% to Rs87.5. Our FY10 earnings estimate factors in 24.3% volume growth (residual volume 85,000 units/month), 13.4% volume growth in FY11, and 80bp increase in RM costs in 2HFY10. We are factoring in an exchange rate of 86 yen to the US dollar, the impact of which would be offset by a 4% rise in selling price. The stock trades at 19.9x FY10E and 17.9x FY11E earnings. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH               | FY09          |               |               |               | FY10          |               |               |               | FY09           | FY10E          |
|-------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|
|                         | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3QE           | 4QE           |                |                |
| Total Volumes (nos)     | 192,584       | 189,451       | 173,494       | 236,638       | 226,729       | 246,188       | 256,222       | 255,575       | 792,167        | 984,714        |
| Change (%)              | 13.5          | -1.0          | -14.0         | 17.0          | 17.7          | 29.9          | 47.7          | 8.0           | 3.6            | 24.3           |
| Realizations (Rs/car)   | 245,661       | 253,695       | 263,274       | 266,582       | 279,640       | 286,349       | 285,867       | 286,623       | 257,689        | 284,750        |
| Change (%)              | 6.5           | 7.2           | 14.1          | 11.9          | 13.8          | 12.9          | 8.6           | 7.5           | 10.0           | 10.5           |
| <b>Net Op. Revenues</b> | <b>48,588</b> | <b>49,936</b> | <b>46,808</b> | <b>64,329</b> | <b>64,930</b> | <b>72,026</b> | <b>74,441</b> | <b>74,544</b> | <b>209,075</b> | <b>285,941</b> |
| Change (%)              | 21.0          | 6.7           | -1.7          | 28.7          | 33.6          | 44.2          | 59.0          | 15.9          | 13.4           | 36.8           |
| Total Cost              | 42,899        | 44,779        | 43,290        | 59,836        | 56,998        | 62,865        | 65,034        | 65,696        | 190,205        | 250,593        |
| <b>EBITDA</b>           | <b>5,689</b>  | <b>5,157</b>  | <b>3,518</b>  | <b>4,493</b>  | <b>7,932</b>  | <b>9,161</b>  | <b>9,406</b>  | <b>8,848</b>  | <b>18,871</b>  | <b>35,348</b>  |
| As % of Sales           | 11.7          | 10.3          | 7.5           | 7.0           | 12.2          | 12.7          | 12.6          | 11.9          | 9.0            | 12.4           |
| Change (%)              | -13.6         | -27.1         | -49.6         | -39.4         | 39.4          | 77.6          | 167.4         | 96.9          | -33.5          | 87.3           |
| Non-Operating Income    | 2,236         | 960           | 1,209         | 1,054         | 2,165         | 1,100         | 1,000         | 1,035         | 5,386          | 5,300          |
| Extraordinary Expense   | 0             | 0             | -77           | 0             | 0             | 0             | 0             | 0             | -77            | 0              |
| Interest                | 168           | 208           | 45            | 89            | 63            | 60            | 65            | 60            | 510            | 248            |
| <b>Gross Profit</b>     | <b>7,756</b>  | <b>5,910</b>  | <b>4,758</b>  | <b>5,459</b>  | <b>10,034</b> | <b>10,202</b> | <b>10,341</b> | <b>9,823</b>  | <b>23,824</b>  | <b>40,400</b>  |
| Less: Depreciation      | 1,661         | 1,658         | 1,775         | 1,971         | 1,961         | 2,031         | 2,060         | 2,134         | 7,065          | 8,186          |
| <b>PBT</b>              | <b>6,096</b>  | <b>4,252</b>  | <b>2,983</b>  | <b>3,487</b>  | <b>8,073</b>  | <b>8,171</b>  | <b>8,281</b>  | <b>7,689</b>  | <b>16,759</b>  | <b>32,214</b>  |
| Tax                     | 1,437         | 1,290         | 789           | 1,056         | 2,238         | 2,471         | 2,484         | 2,310         | 4,571          | 9,503          |
| Effective Tax Rate (%)  | 23.6          | 30.3          | 26.4          | 30.3          | 27.7          | 30.2          | 30.0          | 30.0          | 27.3           | 29.5           |
| <b>PAT</b>              | <b>4,659</b>  | <b>2,961</b>  | <b>2,194</b>  | <b>2,431</b>  | <b>5,835</b>  | <b>5,700</b>  | <b>5,797</b>  | <b>5,379</b>  | <b>12,187</b>  | <b>22,711</b>  |
| <b>Adjusted PAT</b>     | <b>4,659</b>  | <b>2,961</b>  | <b>2,138</b>  | <b>2,431</b>  | <b>5,835</b>  | <b>5,700</b>  | <b>5,797</b>  | <b>5,379</b>  | <b>12,131</b>  | <b>22,711</b>  |
| Change (%)              | -6.8          | -36.5         | -54.2         | -49.4         | 25.3          | 92.5          | 171.2         | 121.2         | -32.7          | 87.2           |

E: MOSL Estimates

Jinesh K Gandhi (Jinesh@MotilalOswal.com)



## Tata Motors

|                   |              |
|-------------------|--------------|
| STOCK INFO.       | BLOOMBERG    |
| BSE Sensx: 17,402 | TTMT IN      |
|                   | REUTERS CODE |
| S&P CNX: 5,188    | TAMO.BO      |

29 December 2009

Neutral

Previous Recommendation: Neutral

Rs786

|                     |                |
|---------------------|----------------|
| Equity Shares (m)   | 615.3          |
| 52 Week Range (Rs)  | 793 / 126      |
| 1,6,12 Rel Perf (%) | 16 / 133 / 346 |
| Mcap (Rs b)         | 483.8          |
| Mcap (USD b)        | 10.4           |

| YEAR<br>END | SALES<br>(RS M) | S/A PAT<br>(RS M) | ADJ EPS<br>(RS) | CONS.<br>EPS (RS) | P/E<br>RATIO | CONS.<br>P/E (X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|-----------------|-------------------|-----------------|-------------------|--------------|------------------|------------|-------------|--------------|---------------|
| 3/09A       | 256,101         | 4,953             | 9.6             | -34.3             | 81.6         | -22.9            | 4.0        | 4.8         | 1.5          | 23.2          |
| 3/10E       | 306,593         | 12,831            | 20.9            | -4.2              | 37.7         | -188.0           | 8.5        | 8.9         | 1.3          | 10.3          |
| 3/11E       | 370,410         | 14,915            | 24.2            | 25.0              | 32.4         | 31.4             | 9.0        | 9.5         | 1.0          | 8.9           |
| 3/12E       | 435,066         | 17,546            | 28.5            | 47.0              | 27.6         | 16.7             | 9.2        | 10.2        | 0.8          | 7.7           |

\* Excl JLR

- Tata Motors is estimated to post 56.7% YoY growth (~2.4% QoQ decline) in volumes in 3QFY10, driven by 98% growth in M&HCV, 57% growth in LCVs and 47% growth in cars. Higher CV contribution (~60.7% v/s 55.4% in 3QFY09) would drive 5.7% YoY improvement in realizations.
- Net sales are estimated to grow 65.7% YoY to Rs78.1b. Margins are estimated to improve 11.4pp YoY (~10bp QoQ decline) to 13.3%, as the company benefits from an improved product mix, lower raw material costs and cost cutting initiatives. Recurring PAT is estimated at Rs3.87b (v/s loss of Rs2.3b in 3QFY09).
- For JLR, we are estimating 3.3% QoQ growth in volumes to 45,750 units. This, coupled with stable realizations and benefits of cost cutting, would result in EBITDA margins of 5.2% (v/s 2.9% in 2QFY10) and reduction in recurring loss to GBP16m (v/s GBP30m in 2QFY10).
- We are upgrading our consolidated earnings estimates for FY11 by 11.3% to Rs25. Our estimates factor in improved CV demand (~27.5% growth in FY10 and 15% growth in FY11), 70bp increase in raw material costs in 2HFY10 and improvement in JLR performance (~3.2% EBITDA margins in FY10 and 6.4% in FY11). The stock trades at 31.4x FY11E consolidated EPS. Maintain **Neutral**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH              | FY09          |               |               |               | FY10          |               |               |               | FY09           | FY10E          |
|------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|
|                        | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3QE           | 4QE           |                |                |
| Total Volumes (nos)    | 133,079       | 135,037       | 98,760        | 139,545       | 127,340       | 158,575       | 154,712       | 160,328       | 506,421        | 600,955        |
| Change (%)             | 3.9           | (1.1)         | (31.7)        | (20.5)        | (4.3)         | 17.4          | 56.7          | 14.9          | (13.5)         | 18.7           |
| <b>Net Sales</b>       | <b>68,870</b> | <b>70,293</b> | <b>47,136</b> | <b>66,734</b> | <b>63,502</b> | <b>79,241</b> | <b>78,083</b> | <b>83,313</b> | <b>253,033</b> | <b>304,139</b> |
| Change (%)             | 13.7          | 9.9           | -34.6         | -24.8         | (7.8)         | 12.7          | 65.7          | 24.8          | -11.3          | 20.2           |
| <b>EBITDA</b>          | <b>4,922</b>  | <b>5,356</b>  | <b>917</b>    | <b>5,823</b>  | <b>7,280</b>  | <b>10,657</b> | <b>10,467</b> | <b>10,182</b> | <b>17,017</b>  | <b>38,586</b>  |
| EBITDA Margins (%)     | 7.1           | 7.6           | 1.9           | 8.5           | 11.4          | 13.4          | 13.3          | 12.1          | 6.6            | 12.6           |
| Non-Operating Income   | 2,020         | 705           | 517           | 815           | 5             | 510           | 200           | 203           | 4,057          | 917            |
| Forex Gain / (Loss)    | -1,616        | -2,452        | -2,265        | 5,681         | -55           | -153          |               |               | -653           | -209           |
| Extraordinary Income   | 1,136         | 3,588         | 478           | 508           | 3,189         | 3,700         |               |               | 5,710          | 6,888          |
| Interest               | 1,123         | 1,483         | 1,684         | 2,447         | 2,535         | 2,856         | 3,000         | 3,135         | 6,737          | 11,525         |
| <b>Gross Profit</b>    | <b>5,339</b>  | <b>5,714</b>  | <b>-2,038</b> | <b>10,380</b> | <b>7,884</b>  | <b>11,857</b> | <b>7,667</b>  | <b>7,250</b>  | <b>19,395</b>  | <b>34,658</b>  |
| Depreciation & Amort.  | 1,808         | 2,029         | 2,017         | 2,892         | 2,291         | 2,634         | 2,750         | 2,907         | 8,745          | 10,583         |
| Product Dev. Expenses  | 79            | 105           | 137           | 190           | 112           | 154           | 160           | 174           | 512            | 600            |
| <b>PBT</b>             | <b>3,451</b>  | <b>3,580</b>  | <b>-4,192</b> | <b>7,298</b>  | <b>5,480</b>  | <b>9,068</b>  | <b>4,757</b>  | <b>4,169</b>  | <b>10,138</b>  | <b>23,475</b>  |
| Tax                    | 190           | 110           | -1,559        | 1,384         | 343           | 1,777         | 890           | 746           | 125            | 3,756          |
| Effective Tax Rate (%) | 5.5           | 3.1           | 37.2          | 19.0          | 6.3           | 19.6          | 18.7          | 17.9          | 1.2            | 16.0           |
| <b>PAT</b>             | <b>3,261</b>  | <b>3,470</b>  | <b>-2,633</b> | <b>5,914</b>  | <b>5,138</b>  | <b>7,291</b>  | <b>3,868</b>  | <b>3,422</b>  | <b>10,013</b>  | <b>19,719</b>  |
| Change (%)             | -30.1         | -34.1         | -152.8        | 10.3          | 57.5          | 110.1         | (246.9)       | (42.1)        | -50.7          | 96.9           |
| <b>Adj PAT</b>         | <b>3,833</b>  | <b>2,383</b>  | <b>-2,344</b> | <b>1,082</b>  | <b>1,949</b>  | <b>3,592</b>  | <b>3,868</b>  | <b>3,422</b>  | <b>4,953</b>   | <b>12,831</b>  |
| Change (%)             | 17.0          | -27.1         | -156.4        | -80.2         | (49.2)        | 50.7          | (265.0)       | 216.4         | -69.3          | 159.0          |

E: MOSL Estimates

Jinesh K Gandhi (Jinesh@MotilalOswal.com)

## Banking

BSE Sensex: 17,402

S&amp;P CNX: 5,188

29 December 2009

## COMPANY NAME

Andhra Bank  
Axis Bank  
Bank of Baroda  
Bank of India  
Canara Bank  
Corporation Bank  
Dena Bank  
HDFC  
HDFC Bank  
Federal Bank  
ICICI Bank  
IDFC  
Indian Bank  
Indian Overseas Bank  
J&K Bank  
Oriental Bank  
Punjab National Bank  
Shriram Transport  
South Indian Bank  
State Bank  
Union Bank  
Yes Bank

## Economic recovery yet to translate into loan growth...

The government's stimuli and the RBI's expansionary policy are leading to a speedy economic revival (2QFY10 GDP growth at 7.9% v/s 6.1% in 1QFY10). While incremental data (IIP, auto numbers, cement dispatches and housing sales) send encouraging signals, loan demand pick up is yet to materialize (YoY loan growth at 10.5% as on 4 December 2009). C-D Ratio is stabilizing at 69-70% as deposits inflows (18% YoY) have moderated.

## ... expect monetary tightening ahead

Fast rising inflation and improving growth outlook would propel RBI to tighten monetary policy gradually. We expect CRR hikes to precede interest rate hikes as (1) liquidity remains comfortable and (2) raising interest rates ahead of loan growth pick up could be ineffective. A start of gradual monetary tightening will be taken positively as it would endorse the conviction in growth sustainability and augur well for margin expansion.

## EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

|                           | CMP (RS) | RECO    | NET INT INCOME |       |       | OPERATING PROFIT |       |       | NET PROFIT |       |       |
|---------------------------|----------|---------|----------------|-------|-------|------------------|-------|-------|------------|-------|-------|
|                           | 29.12.09 |         | DEC.09         | VAR.  | VAR.  | DEC.09           | VAR.  | VAR.  | DEC.09     | VAR.  | VAR.  |
|                           |          |         |                | % YOY | % QOQ |                  | % YOY | % QOQ |            | % YOY | % QOQ |
| Banks                     |          |         |                |       |       |                  |       |       |            |       |       |
| Andhra Bank               | 106      | Buy     | 5,687          | 25.8  | 10.5  | 4,537            | 21.8  | 0.2   | 2,369      | 11.4  | -13.5 |
| Axis Bank                 | 984      | Buy     | 13,280         | 42.8  | 15.5  | 13,093           | 43.9  | 0.3   | 6,301      | 25.8  | 18.5  |
| Bank of Baroda            | 507      | Buy     | 14,741         | 0.8   | 6.2   | 11,339           | -19.8 | 9.9   | 6,543      | -7.6  | 3.2   |
| Bank of India             | 385      | Neutral | 14,687         | -3.5  | 4.2   | 13,577           | -22.9 | 12.6  | 5,851      | -32.9 | 81.0  |
| Canara Bank               | 401      | Buy     | 14,665         | 17.9  | 11.6  | 13,309           | 9.6   | -6.2  | 7,967      | 13.6  | -12.5 |
| Corporation Bank          | 419      | Buy     | 5,597          | 17.1  | 11.2  | 5,197            | 15.6  | -3.0  | 2,739      | 6.8   | -6.1  |
| Dena Bank                 | 85       | Buy     | 2,808          | -20.3 | 16.8  | 1,913            | -27.9 | 18.4  | 1,153      | -17.8 | -7.4  |
| Federal Bank              | 238      | Buy     | 3,716          | -3.4  | 12.6  | 3,429            | -10.8 | 13.1  | 1,502      | -26.3 | 48.6  |
| HDFC                      | 2,685    | Neutral | 8,658          | 6.1   | 10.4  | 9,593            | 20.9  | 3.5   | 6,780      | 24.0  | 2.1   |
| HDFC Bank                 | 1,698    | Neutral | 22,751         | 14.9  | 16.3  | 18,079           | 24.0  | 13.5  | 8,260      | 32.9  | 20.2  |
| ICICI Bank                | 878      | Buy     | 21,007         | 5.5   | 3.2   | 24,757           | -10.7 | 1.7   | 10,773     | -15.3 | 3.6   |
| IDFC                      | 156      | Neutral | 2,850          | 10.3  | 2.9   | 4,000            | 48.9  | -3.1  | 2,765      | 49.8  | -4.7  |
| Indian Bank               | 174      | Buy     | 7,934          | 10.3  | 4.5   | 6,264            | 0.4   | 13.1  | 3,817      | 8.8   | 2.6   |
| Indian Overseas Bank      | 113      | Sell    | 8,579          | 4.3   | 9.3   | 6,289            | -27.5 | 13.4  | 2,325      | -40.2 | -10.0 |
| J&K Bank                  | 574      | Buy     | 2,757          | 5.2   | 9.4   | 2,292            | 22.5  | 3.5   | 1,215      | 0.7   | -9.5  |
| Oriental Bank of Commerce | 259      | Buy     | 6,085          | 7.2   | 8.5   | 4,735            | 22.6  | -6.2  | 2,571      | 1.9   | -5.1  |
| Punjab National Bank      | 915      | Buy     | 22,626         | 15.0  | 8.0   | 17,562           | -2.8  | 9.3   | 10,774     | 7.1   | 16.2  |
| Shriram Transport Fin.    | 456      | Buy     | 5,780          | 34.0  | 8.4   | 4,330            | 43.3  | 3.5   | 2,090      | 40.0  | 0.7   |
| South Indian Bank         | 144      | Buy     | 1,770          | 21.1  | 7.1   | 1,290            | 28.8  | -3.7  | 690        | 27.2  | -5.0  |
| State Bank                | 2,221    | Buy     | 63,399         | 10.1  | 13.0  | 52,023           | 16.1  | 7.6   | 26,811     | 8.2   | 7.7   |
| Union Bank                | 267      | Buy     | 10,372         | -8.1  | 20.1  | 9,360            | 9.5   | 15.5  | 5,332      | -20.6 | 5.6   |
| Yes Bank                  | 272      | Buy     | 1,879          | 56.0  | 17.5  | 1,912            | 3.7   | -0.3  | 1,080      | 2.1   | -3.3  |
| Sector Aggregate          |          |         | 261,628        | 10.0  | 10.5  | 228,881          | 4.7   | 5.9   | 119,708    | 1.5   | 6.7   |

Ajinkya Dhavale (AjinkyaDhavale@MotilalOswal.com) /

Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com)/Parag Jariwala (Parag.Jariwala@MotilalOswal.com)



### **3Q expectation: Core income to improve QoQ; but nothing very exciting or disappointing**

In 3QFY10, we expect margins to improve by 10-15bp QoQ for the banks under our coverage due to falling cost of funds, 4-5% sequential loan growth and stronger CASA deposit growth. We expect NII to grow 11% QoQ. YoY NII numbers (~10% growth for our coverage universe) would look muted due to lackluster loan growth. For most banks, we expect lower other income YoY due to a fall in trading profits.

Despite a rise in benchmark yield by 50bp during 3QFY10, we do not expect meaningful MTM losses for any bank as we understand (a) a large part of the AFS book is in the form of non-interest rate sensitive portfolio, and (b) most banks are protected on their AFS book until a 7.5-7.7% benchmark yield. We expect aggregate earnings growth to be 2% YoY and 7% QoQ. However we expect a few banks including ICICI Bank, Bank of India and Union Bank to post a 15-30% YoY earnings decline mainly due to a high base.

### **Loan growth sluggish... expect gradual recovery ahead**

A high base effect and sluggish credit offtake by corporates pulled down YoY credit growth to a 14-year low of 9.7% as on 23 October 2009. Credit growth remains low at 10.5% YoY as on 4 December 2009. Loans increased 2% QoQ and 5% YTD as of 4 December 2009. Large amounts of equity and commercial paper issues substituted banking funds during 9MFY10, leading to the slower loan growth.

We expect a gradual recovery in loan growth ahead as (1) improved sales and higher inflation will lead to higher working capital requirement, (2) drawdown of sanctions made to the infrastructure sector, and (3) improved business confidence will lead to higher capex and investment related loan growth. A lower statistical base from 4QFY10 would also lead to better loan growth numbers ahead till December 2010. We expect the industry to grow at 14-15% in FY10 and 20% in FY11 (with an upside risk).

### **Moderating deposit growth...**

After strong deposit mobilization in the past 5-6 quarters, deposit growth moderated to 18.3% v/s 19.8% in 2QFY10 and 21.2% in 3QFY09. In 3QFY10 (till 4 December), deposit mobilization was Rs836b v/s Rs913b in 2QFY10 and Rs1,766b in 3QFY09. In our view, CASA ratio will improve QoQ due to (1) CASA deposit mobilization being a key focus area, and (2) a slow down in term deposits growth (led by repayment of bulk deposits and lower interest rates).

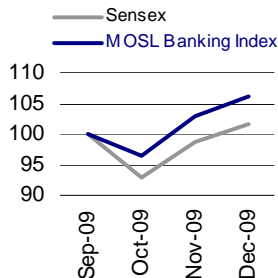
### **... leading to stable CD ratio at 69-70%**

While absolute growth in deposits continues to outpace absolute loan growth the gap has narrowed over the past few quarters resulting in stable CD ratio at ~69.5% (down from 72% at the end of FY09).

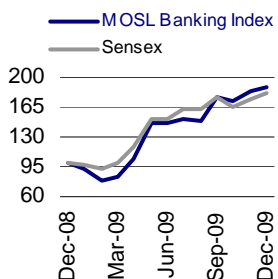
### Margins to improve sequentially; to be lower YoY

We expect margins to improve sequentially by 10-15bp for most banks due to downward repricing of deposits, slower deposit growth with better loan growth and higher growth in CASA deposits. On a sequential basis, NII growth will outpace loan growth. During 3QFY09, banks posted strong NII growth due to significant margin expansion due to then prevailing pricing power and liquidity crunch. Thus NII growth will be lower on a YoY basis.

RELATIVE PERFORMANCE - 3M (%)



RELATIVE PERFORMANCE - 1YR (%)



### MTM losses would not materially impact profits

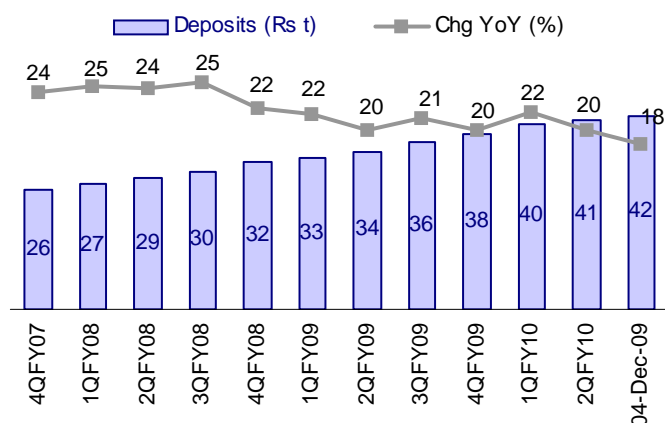
Our interaction with bankers indicates banks have a higher proportion of investment book in the AFS category (~30%) largely comprising of non interest-rate insensitive securities (due to higher MF investment and T-Bills). High churning of investment portfolio in the past two quarters has resulted in higher cut-off yield of 7.5-7.7% for the investment book. Considering 7.8% bond yield at the end of the 3QFY10, MTM losses for the banks will be minuscule at 1-3% of PBT.

### Valuation and view

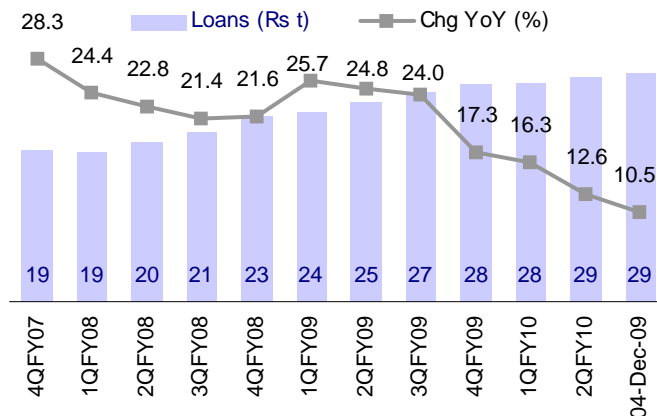
State-owned banks trade at 1.1-1.5x FY11E BV, with RoE of 14-27%. We prefer selective buying, and like banks with a strong core deposit franchise, higher tier-I capital and high provision coverage ratio. **SBI, PNB, Union Bank and BoB** are our top picks among large state-owned banks. **Axis Bank and ICICI Bank** are our top picks among private banks. **South Indian Bank, Indian Bank and Dena Bank** are our top picks among mid/small-cap banks.

| BANKS                   | CMP (RS)<br>29.12.09 | RECO    | EPS (RS) |       |       | P/E (X)     |             |            | P/BV (X)   |            |            | ROE (%)     |             |             |
|-------------------------|----------------------|---------|----------|-------|-------|-------------|-------------|------------|------------|------------|------------|-------------|-------------|-------------|
|                         |                      |         | FY10E    | FY11E | FY12E | FY10E       | FY11E       | FY12E      | FY10E      | FY11E      | FY12E      | FY10E       | FY11E       | FY12E       |
| Andhra Bank             | 106                  | Buy     | 20.9     | 20.9  | 25.3  | 5.0         | 5.0         | 4.2        | 1.2        | 1.0        | 0.9        | 25.5        | 21.8        | 22.8        |
| Axis Bank               | 984                  | Buy     | 60.9     | 76.1  | 94.3  | 16.2        | 12.9        | 10.4       | 2.5        | 2.2        | 1.8        | 18.7        | 17.8        | 19.0        |
| Bank of Baroda          | 507                  | Buy     | 72.2     | 86.7  | 104.2 | 7.0         | 5.8         | 4.9        | 1.4        | 1.2        | 1.0        | 20.9        | 21.3        | 21.7        |
| Bank of India           | 385                  | Neutral | 40.8     | 52.0  | 69.8  | 9.4         | 7.4         | 5.5        | 1.5        | 1.3        | 1.1        | 17.0        | 18.7        | 21.4        |
| Canara Bank             | 401                  | Buy     | 73.7     | 82.0  | 89.3  | 5.4         | 4.9         | 4.5        | 1.3        | 1.1        | 0.9        | 26.8        | 24.3        | 21.9        |
| Corporation Bank        | 419                  | Buy     | 79.5     | 85.7  | 107.9 | 5.3         | 4.9         | 3.9        | 1.0        | 0.9        | 0.8        | 21.4        | 19.7        | 21.2        |
| Dena Bank               | 85                   | Buy     | 16.7     | 18.4  | 21.1  | 5.1         | 4.6         | 4.0        | 1.0        | 0.9        | 0.7        | 22.2        | 20.4        | 19.8        |
| Dewan Housing           | 189                  | Buy     | 18.6     | 26.1  | 31.4  | 10.2        | 7.3         | 6.0        | 1.8        | 1.5        | 1.1        | 22.8        | 22.9        | 22.8        |
| Federal Bank            | 238                  | Buy     | 34.2     | 42.3  | 51.4  | 7.0         | 5.6         | 4.6        | 0.8        | 0.8        | 0.7        | 12.8        | 14.1        | 15.2        |
| HDFC                    | 2685                 | Neutral | 94.7     | 110.0 | 129.7 | 21.4        | 17.5        | 14.9       | 5.3        | 4.4        | 3.8        | 25.1        | 25.0        | 25.7        |
| HDFC Bank               | 1698                 | Neutral | 65.9     | 86.9  | 110.9 | 25.8        | 19.5        | 15.3       | 3.7        | 3.2        | 2.7        | 16.5        | 17.4        | 19.3        |
| ICICI Bank              | 878                  | Buy     | 37.7     | 48.8  | 61.3  | 18.3        | 13.5        | 10.8       | 1.9        | 1.7        | 1.5        | 10.1        | 12.2        | 14.1        |
| IDFC                    | 156                  | Neutral | 8.2      | 9.5   | 11.2  | 19.0        | 16.5        | 14.0       | 2.9        | 2.5        | 2.2        | 16.1        | 16.4        | 16.9        |
| Indian Bank             | 174                  | Buy     | 34.7     | 34.8  | 44.9  | 5.0         | 5.0         | 3.9        | 1.1        | 1.0        | 0.8        | 24.6        | 20.8        | 22.8        |
| Indian Overseas Bank    | 113                  | Sell    | 18.5     | 18.2  | 30.1  | 6.1         | 6.2         | 3.7        | 0.9        | 0.9        | 0.7        | 16.1        | 14.4        | 20.9        |
| J&K Bank                | 574                  | Buy     | 100.8    | 117.7 | 137.4 | 5.7         | 4.9         | 4.2        | 0.9        | 0.8        | 0.7        | 17.4        | 17.8        | 18.1        |
| Kotak Mahindra Bank     | 808                  | Neutral | 35.6     | 42.5  | 50.1  | 22.7        | 19.0        | 16.1       | 3.6        | 3.1        | 2.6        | 19.5        | 19.7        | 19.6        |
| LIC Housing Fin         | 804                  | Buy     | 70.5     | 89.8  | 96.3  | 11.4        | 8.9         | 8.3        | 2.3        | 1.9        | 1.4        | 23.8        | 23.0        | 20.5        |
| Oriental Bank           | 259                  | Buy     | 41.1     | 49.0  | 64.3  | 6.3         | 5.3         | 4.0        | 0.9        | 0.8        | 0.7        | 15.0        | 15.8        | 18.0        |
| Punjab National Bank    | 915                  | Buy     | 124.4    | 146.9 | 167.1 | 7.4         | 6.2         | 5.5        | 1.8        | 1.5        | 1.2        | 26.7        | 25.8        | 24.2        |
| Rural Electric. Corp.   | 237                  | Buy     | 20.5     | 25.1  | 31.8  | 11.6        | 9.5         | 7.5        | 2.1        | 1.9        | 1.6        | 22.2        | 21.0        | 23.1        |
| Shriram Transport Fin.  | 456                  | Buy     | 38.0     | 49.5  | 60.3  | 12.0        | 9.2         | 7.6        | 3.1        | 2.4        | 2.0        | 25.6        | 26.6        | 25.9        |
| State Bank (Cons.)      | 2221                 | Buy     | 215.7    | 269.1 | 302.0 | 9.8         | 7.8         | 7.0        | 1.6        | 1.4        | 1.2        | 17.5        | 18.7        | 17.9        |
| South Indian Bank       | 144                  | Buy     | 22.5     | 27.5  | 33.1  | 6.4         | 5.2         | 4.4        | 1.1        | 0.9        | 0.8        | 18.1        | 19.2        | 19.9        |
| Union Bank              | 267                  | Buy     | 40.8     | 52.5  | 60.4  | 6.5         | 5.1         | 4.4        | 1.5        | 1.2        | 1.0        | 26.1        | 27.0        | 25.2        |
| Yes Bank                | 272                  | Buy     | 14.5     | 16.1  | 20.4  | 18.7        | 16.9        | 13.3       | 3.9        | 2.5        | 2.1        | 23.4        | 19.0        | 17.1        |
| <b>Sector Aggregate</b> |                      |         |          |       |       | <b>12.4</b> | <b>10.2</b> | <b>8.5</b> | <b>2.3</b> | <b>2.0</b> | <b>1.7</b> | <b>18.6</b> | <b>19.3</b> | <b>19.7</b> |

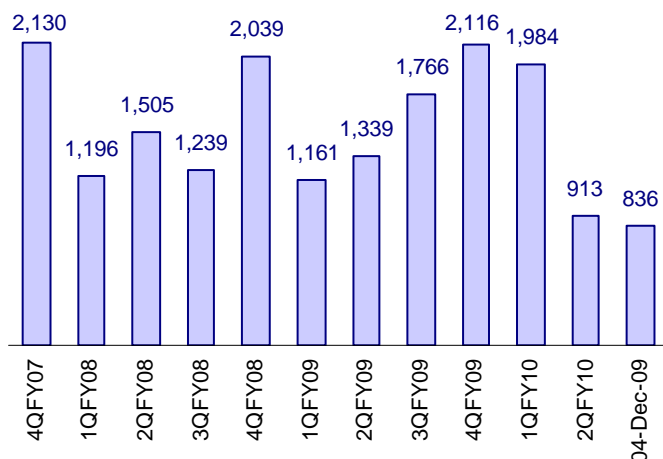
DEPOSIT GROWTH MODERATED FURTHER IN 3QFY10



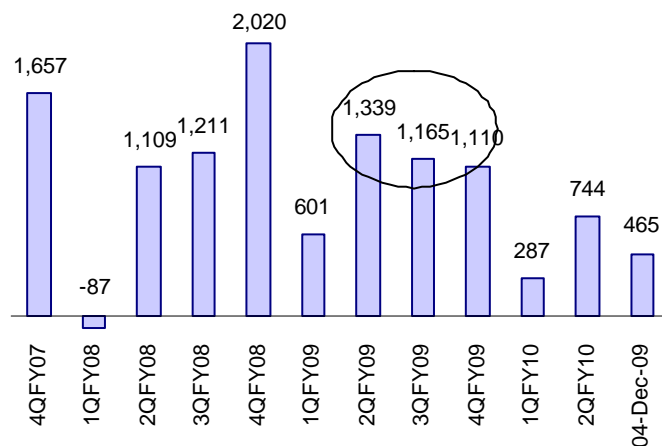
LOANS MODERATED TO 10.5%, GRADUAL RECOVERY EXPECTED HEREON



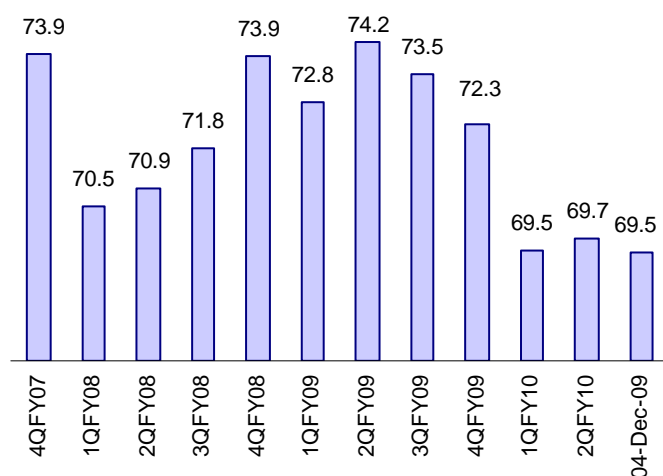
QOQ ADDITION TO DEPOSIT MODERATING (RS B)



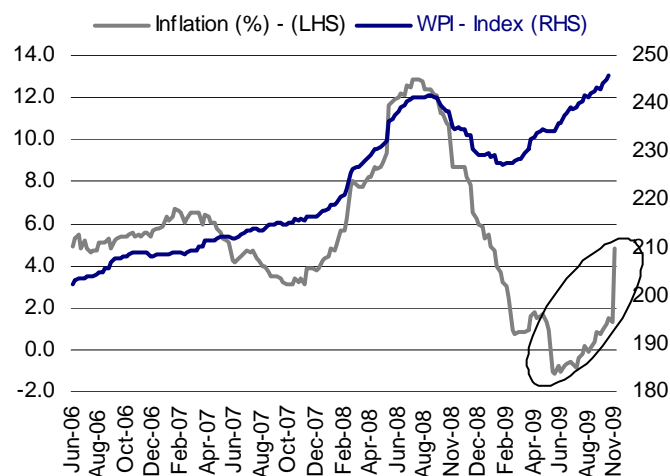
HIGH BASE LEADING TO MUTED YOY NOS, QOQ LOANS ADDITION (RS B)



CD RATIO STABILIZING AT 69-70%

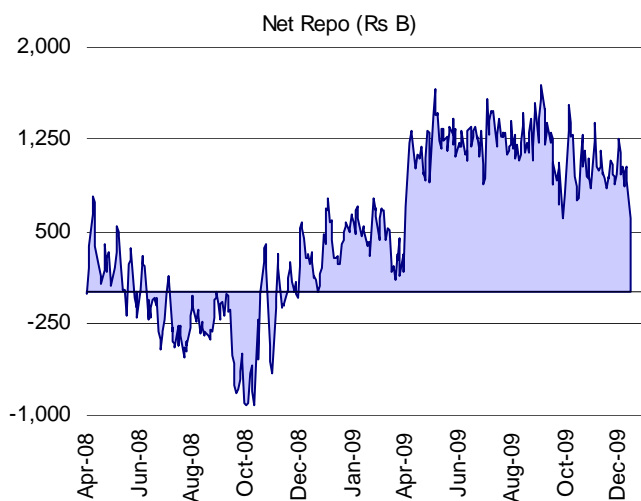


INFLATION BACK TO POSITIVE TERRITORY

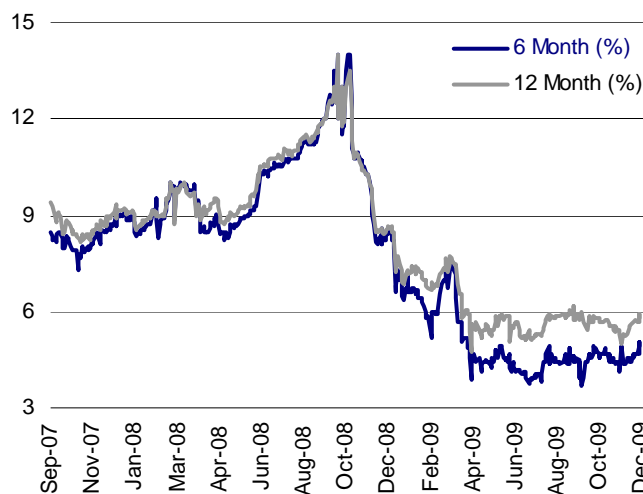


Source: Company/MOSL

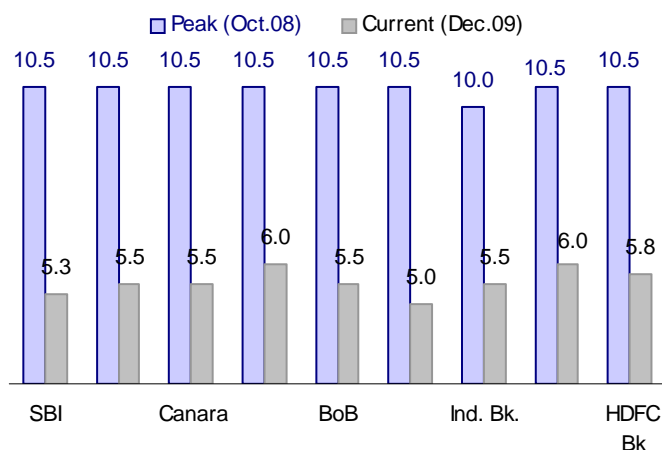
LIQUIDITY REMAINS ABUNDANT IN THE SYSTEM (AS ON 22.12.09)



BULK DEPOSIT REPRICING TO AID MARGIN IMPROVEMENT: COD RATE (%)



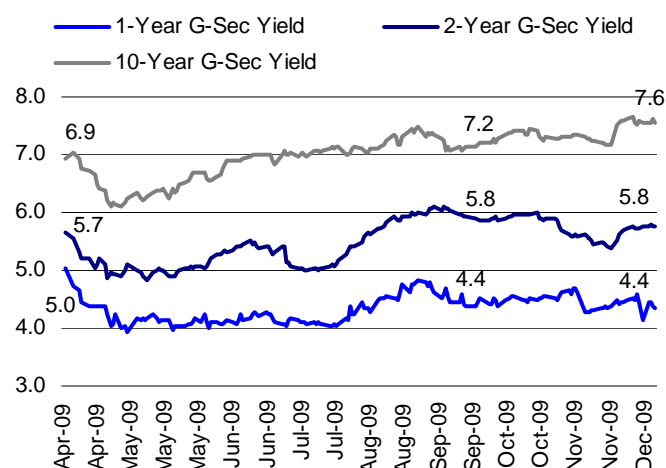
DEPOSIT RATES HAVE FALLEN SIGNIFICANTLY FROM THE PEAK (%)



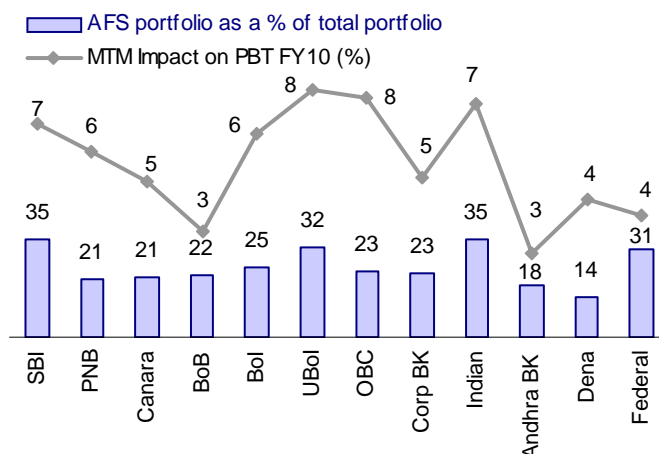
CP RATES AT 4 YEAR LOW (%)



MOVEMENT IN G-SEC YIELD ACROSS MATURITIES



WORST CASE MTM IMPACT ON FY10 PBT FOR VARIOUS BANKS \*



\*Assuming 50bp change in benchmark yield of 7.15% (as of Sep-09) and without considering the non interest rate sensitive AFS investment portfolio

Source: Company/MOSL

## Andhra Bank

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | ANDB IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | ADBK.BO      |

29 December 2009

Buy

Rs106

Previous Recommendation: Buy

|                     |             |
|---------------------|-------------|
| Equity Shares (m)   | 485.0       |
| 52 Week Range (Rs)  | 125 / 37    |
| 1,6,12 Rel Perf (%) | -11 / 8 / 9 |
| Mcap (Rs b)         | 51.2        |
| Mcap (USD b)        | 1.1         |

| YEAR<br>END | NET INCOME<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | CAR<br>(%) | ROAE<br>(%) | ROAA<br>(%) | P/ABV<br>(X) |
|-------------|----------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|-------------|--------------|
| 3/09A       | 23,923               | 6,530         | 13.5        | 13.5              | 7.8        | 1.4         | 13.2       | 18.9        | 1.0         | 1.4          |
| 3/10E       | 29,683               | 10,139        | 20.9        | 55.3              | 5.0        | 1.2         | 12.4       | 25.5        | 1.4         | 1.2          |
| 3/11E       | 32,736               | 10,160        | 20.9        | 0.2               | 5.0        | 1.0         | 11.3       | 21.8        | 1.2         | 1.1          |
| 3/12E       | 37,614               | 12,269        | 25.3        | 20.8              | 4.2        | 0.9         | 10.4       | 22.8        | 1.2         | 0.9          |

- We expect net interest income (NII) to grow 25% YoY (~10% QoQ) to Rs5.7b due to improved margins backed by falling cost of deposits. On a low base, we expect loan growth to remain strong at 20%+ YoY.
- We expect lower other income, led by both lower trading gains (~50% sequential decline) and muted fee income growth. Fees growth will stay dismal (QoQ and YoY) considering the high base.
- Provisions were lower in 2QFY10 due to depreciation write back of Rs165m on investments. We have modeled higher provisions for NPAs conservatively for 3QFY10.
- Operating expenses are expected to remain flat YoY and QoQ. 3QFY09 and 2QFY10 had a provision for wage revisions at ~Rs200m.
- The stock trades at 1x FY11E BV and 0.9x FY12E BV. The stock also offers an attractive dividend yield of ~4.9%. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH                        | FY09         |              |              |              | FY10         |              |              |              | FY09          | FY10E         |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|
|                                  | 1Q           | 2Q           | 3Q           | 4Q           | 1Q           | 2Q           | 3QE          | 4QE          |               |               |
| Interest Income                  | 11,574       | 13,281       | 13,824       | 15,067       | 15,046       | 15,577       | 16,498       | 17,248       | 53,746        | 64,369        |
| Interest Expense                 | 8,111        | 8,946        | 9,305        | 11,114       | 10,633       | 10,431       | 10,811       | 11,177       | 37,477        | 43,051        |
| <b>Net Interest Income</b>       | <b>3,463</b> | <b>4,335</b> | <b>4,519</b> | <b>3,953</b> | <b>4,414</b> | <b>5,147</b> | <b>5,687</b> | <b>6,071</b> | <b>16,269</b> | <b>21,319</b> |
| % Change (Y-o-Y)                 | 0.9          | 25.8         | 29.2         | 22.6         | 27.5         | 18.7         | 25.8         | 53.6         | 21.4          | 31.0          |
| Other Income                     | 1,187        | 1,264        | 2,165        | 3,204        | 2,381        | 2,332        | 1,800        | 1,852        | 7,654         | 8,364         |
| <b>Net Income</b>                | <b>4,649</b> | <b>5,599</b> | <b>6,684</b> | <b>7,157</b> | <b>6,794</b> | <b>7,479</b> | <b>7,487</b> | <b>7,923</b> | <b>23,923</b> | <b>29,683</b> |
| Operating Expenses               | 2,597        | 2,815        | 2,958        | 2,839        | 3,314        | 2,950        | 2,950        | 3,026        | 11,043        | 12,241        |
| <b>Operating Profit</b>          | <b>2,053</b> | <b>2,784</b> | <b>3,725</b> | <b>4,318</b> | <b>3,480</b> | <b>4,528</b> | <b>4,537</b> | <b>4,897</b> | <b>12,880</b> | <b>17,442</b> |
| % Change (Y-o-Y)                 | -8.1         | 19.9         | 29.2         | 37.9         | 69.5         | 62.6         | 21.8         | 13.4         | 21.9          | 35.4          |
| Other Provisions                 | 1,227        | 569          | 249          | 1,856        | -32          | 578          | 1,200        | 1,415        | 3,900         | 3,162         |
| <b>Profit before Tax</b>         | <b>826</b>   | <b>2,215</b> | <b>3,477</b> | <b>2,462</b> | <b>3,512</b> | <b>3,950</b> | <b>3,337</b> | <b>3,481</b> | <b>8,980</b>  | <b>14,280</b> |
| Tax Provisions                   | 50           | 600          | 1,350        | 450          | 950          | 1,210        | 968          | 1,014        | 2,450         | 4,141         |
| <b>Net Profit</b>                | <b>776</b>   | <b>1,615</b> | <b>2,127</b> | <b>2,012</b> | <b>2,562</b> | <b>2,740</b> | <b>2,369</b> | <b>2,468</b> | <b>6,530</b>  | <b>10,139</b> |
| % Change (Y-o-Y)                 | -45.0        | 6.8          | 33.8         | 62.0         | 230.1        | 69.6         | 11.4         | 22.7         | 13.5          | 55.3          |
| Interest Exp/Interest Income (%) | 70.1         | 67.4         | 67.3         | 73.8         | 70.7         | 67.0         | 65.5         | 64.8         | 69.7          | 66.9          |
| Other Income/Net Income (%)      | 25.5         | 22.6         | 32.4         | 44.8         | 35.0         | 31.2         | 24.0         | 23.4         | 32.0          | 28.2          |
| Cost/Income Ratio (%)            | 55.8         | 50.3         | 44.3         | 39.7         | 48.8         | 39.5         | 39.4         | 38.2         | 46.2          | 41.2          |
| Provisions/Operating Profits (%) | 59.8         | 20.4         | 6.7          | 43.0         | -0.9         | 12.8         | 26.5         | 28.9         | 30.3          | 18.1          |
| Tax Rate (%)                     | 6.1          | 27.1         | 38.8         | 18.3         | 27.0         | 30.6         | 29.0         | 29.1         | 27.3          | 29.0          |

E: MOSL Estimates

Ajinkya Dhavale (AjinkyaDhavale@MotilalOswal.com) /

Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com)/Parag Jariwala (Parag.Jariwala@MotilalOswal.com)

## Axis Bank

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | AXSB IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | AXBK.BO      |

|                     |              |
|---------------------|--------------|
| Equity Shares (m)   | 401.1        |
| 52 Week Range (Rs)  | 1,063 / 279  |
| 1,6,12 Rel Perf (%) | -4 / -4 / 16 |
| Mcap (Rs b)         | 394.8        |
| Mcap (USD b)        | 8.5          |

29 December 2009

Buy

Rs984

Previous Recommendation: Buy

| YEAR<br>END | NET INCOME<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | CAR<br>(%) | ROAE<br>(%) | ROAA<br>(%) | P/ABV<br>(X) |
|-------------|----------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|-------------|--------------|
| 3/09A       | 65,831               | 18,154        | 50.6        | 68.9              | 19.5       | 3.5         | 13.7       | 19.1        | 1.4         | 3.5          |
| 3/10E       | 88,428               | 24,421        | 60.9        | 20.4              | 16.2       | 2.5         | 15.5       | 18.6        | 1.5         | 2.6          |
| 3/11E       | 105,731              | 30,530        | 76.1        | 25.0              | 12.9       | 2.2         | 14.2       | 17.9        | 1.6         | 2.2          |
| 3/12E       | 125,694              | 37,826        | 94.3        | 23.9              | 10.4       | 1.8         | 13.1       | 19.0        | 1.6         | 1.9          |

- We expect NII growth of ~43% YoY in 3QFY10 due to QoQ improvement in margins because of falling cost of funds, benefit of capital raising and expected improvement in CD ratio. Base for 3QFY10 is also lower as in 3QFY09 margins had declined 27bp QoQ due to a substantial increase in cost of funds.
- We expect loan growth to improve sequentially. On a YoY basis it is expected to be 16-17% due to high base (in 3QFY09 loans grew 9% QoQ).
- Fee income growth is likely to be in line with the loan growth. Capital market related fees will improve QoQ in 3QFY10. YoY numbers will look muted because of a high base.
- We have factored in higher NPA provisions for 3QFY10 (1.6% on an annualized basis). We expect aggressive write offs to continue in 3QFY10 due to strong profitability. The bank is also expected to make higher NPA provisions to improve the coverage ratio from 63%. Slippage from restructured loans is the key factor to watch for.
- The stock trades at 2.2x FY11E BV and 1.8x FY12E BV. Axis bank is our top pick among private sector banks.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH                        | FY09          |               |               |               | FY10          |               |               |               | FY09          | FY10E         |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                                  | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3QE           | 4QE           |               |               |
| Interest Income                  | 22,664        | 25,450        | 29,848        | 30,392        | 29,056        | 28,604        | 30,884        | 32,942        | 108,355       | 121,486       |
| Interest Expense                 | 14,560        | 16,316        | 20,551        | 20,066        | 18,599        | 17,107        | 17,604        | 18,169        | 71,493        | 71,479        |
| <b>Net Interest Income</b>       | <b>8,105</b>  | <b>9,134</b>  | <b>9,297</b>  | <b>10,326</b> | <b>10,456</b> | <b>11,497</b> | <b>13,280</b> | <b>14,773</b> | <b>36,862</b> | <b>50,007</b> |
| % Change (Y-o-Y)                 | 92.5          | 55.2          | 24.4          | 24.6          | 29.0          | 25.9          | 42.8          | 43.1          | 42.6          | 35.7          |
| Other Income                     | 6,248         | 6,944         | 7,322         | 8,455         | 9,586         | 10,656        | 9,127         | 9,053         | 28,969        | 38,422        |
| <b>Net Income</b>                | <b>14,353</b> | <b>16,078</b> | <b>16,619</b> | <b>18,781</b> | <b>20,042</b> | <b>22,153</b> | <b>22,407</b> | <b>23,827</b> | <b>65,831</b> | <b>88,428</b> |
| Operating Expenses               | 6,329         | 7,334         | 7,522         | 7,396         | 8,278         | 9,095         | 9,314         | 9,132         | 28,582        | 35,819        |
| <b>Operating Profit</b>          | <b>8,023</b>  | <b>8,744</b>  | <b>9,096</b>  | <b>11,385</b> | <b>11,764</b> | <b>13,058</b> | <b>13,093</b> | <b>14,695</b> | <b>37,249</b> | <b>52,609</b> |
| % Change (Y-o-Y)                 | 118.1         | 88.9          | 35.3          | 57.5          | 46.6          | 49.3          | 43.9          | 29.1          | 67.3          | 41.2          |
| Other Provisions                 | 2,967         | 2,558         | 1,320         | 2,552         | 3,153         | 4,989         | 3,400         | 3,496         | 9,397         | 15,038        |
| <b>Profit before Tax</b>         | <b>5,056</b>  | <b>6,186</b>  | <b>7,777</b>  | <b>8,833</b>  | <b>8,611</b>  | <b>8,069</b>  | <b>9,693</b>  | <b>11,198</b> | <b>27,852</b> | <b>37,571</b> |
| Tax Provisions                   | 1,754         | 2,157         | 2,768         | 3,019         | 2,990         | 2,752         | 3,393         | 4,015         | 9,698         | 13,150        |
| <b>Net Profit</b>                | <b>3,302</b>  | <b>4,029</b>  | <b>5,009</b>  | <b>5,815</b>  | <b>5,620</b>  | <b>5,316</b>  | <b>6,301</b>  | <b>7,184</b>  | <b>18,154</b> | <b>24,421</b> |
| % Change (Y-o-Y)                 | 88.7          | 76.8          | 63.2          | 60.9          | 70.2          | 32.0          | 25.8          | 23.5          | 69.5          | 34.5          |
| Interest Exp/Interest Income (%) | 64.2          | 64.1          | 68.9          | 66.0          | 64.0          | 59.8          | 57.0          | 55.2          | 66.0          | 58.8          |
| Other Income/Net Income (%)      | 43.5          | 43.2          | 44.1          | 45.0          | 47.8          | 48.1          | 40.7          | 38.0          | 44.0          | 43.4          |
| Cost/Income Ratio (%)            | 44.1          | 45.6          | 45.3          | 39.4          | 41.3          | 41.1          | 41.6          | 38.3          | 43.4          | 40.5          |
| Provisions/Operating Profits (%) | 37.0          | 29.3          | 14.5          | 22.4          | 26.8          | 38.2          | 26.0          | 23.8          | 25.2          | 28.6          |
| Tax Rate (%)                     | 34.7          | 34.9          | 35.6          | 34.2          | 34.7          | 34.1          | 35.0          | 35.9          | 34.8          | 35.0          |

E: MOSL Estimates

Ajinkya Dhavale (AjinkyaDhavale@MotilalOswal.com) /

Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com)/Parag Jariwala (Parag.Jariwala@MotilalOswal.com)



## Bank of Baroda

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | BOB IN       |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | BOB.BO       |

|                     |             |
|---------------------|-------------|
| Equity Shares (m)   | 365.5       |
| 52 Week Range (Rs)  | 563 / 181   |
| 1,6,12 Rel Perf (%) | -6 / -5 / 7 |
| Mcap (Rs b)         | 185.1       |
| Mcap (USD b)        | 4.0         |

29 December 2009

Buy

Rs507

Previous Recommendation: Buy

| YEAR<br>END | NET INCOME<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | CAR<br>(%) | ROAE<br>(%) | ROAA<br>(%) | P/ABV<br>(X) |
|-------------|----------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|-------------|--------------|
| 3/09A       | 78,811               | 22,272        | 60.9        | 55.1              | 8.3        | 1.6         | 14.1       | 20.9        | 1.1         | 1.6          |
| 3/10E       | 83,435               | 26,382        | 72.2        | 18.5              | 7.0        | 1.4         | 13.7       | 20.9        | 1.1         | 1.4          |
| 3/11E       | 98,307               | 31,679        | 86.7        | 20.1              | 5.8        | 1.2         | 13.2       | 21.3        | 1.1         | 1.2          |
| 3/12E       | 112,487              | 38,074        | 104.2       | 20.2              | 4.9        | 1.0         | 12.5       | 21.7        | 1.1         | 1.0          |

- On a higher base we expect NII to be flattish YoY. In 3QFY09, NII grew ~29% QoQ led by margin expansion of 20bp QoQ and strong loan growth of 7% QoQ. We expect NII to grow sequentially by ~6%, led by a fall in the cost of funds.
- In 3QFY10, we expect loan growth of ~5% QoQ and ~23% YoY. Deposit growth is expected to be calibrated and CD ratio is expected to improve.
- We expect other income to decline 30% YoY led by lower trading gains. In 3QFY09, the bank had reported trading gains (including forex and exceptional income of Rs700m) of Rs5.5b, which was ~45% overall trading gains in FY09.
- On a YoY basis, overall provisions will decline as the bank had reported MTM depreciation on its investment book of Rs2.3b in 3QFY09.
- The stock trades at 1.2x FY11E BV and 1x FY12E BV. BoB is our top pick among state owned banks.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH                        | FY09          |               |               |               | FY10          |               |               |               | FY09          | FY10E         |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                                  | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3QE           | 4QE           |               |               |
| Interest Income                  | 32,938        | 35,510        | 41,080        | 41,388        | 40,321        | 41,354        | 42,731        | 44,617        | 150,916       | 169,023       |
| Interest Expense                 | 22,368        | 24,172        | 26,462        | 26,680        | 28,274        | 27,468        | 27,990        | 28,559        | 99,682        | 112,291       |
| <b>Net Interest Income</b>       | <b>10,570</b> | <b>11,338</b> | <b>14,618</b> | <b>14,708</b> | <b>12,047</b> | <b>13,886</b> | <b>14,741</b> | <b>16,059</b> | <b>51,234</b> | <b>56,733</b> |
| % Change (Y-o-Y)                 | 16.9          | 15.5          | 46.6          | 43.0          | 14.0          | 22.5          | 0.8           | 9.2           | 31.0          | 10.7          |
| Other Income                     | 5,126         | 4,759         | 9,156         | 8,536         | 7,030         | 5,953         | 6,448         | 7,270         | 27,577        | 26,702        |
| <b>Net Income</b>                | <b>15,696</b> | <b>16,097</b> | <b>23,774</b> | <b>23,244</b> | <b>19,077</b> | <b>19,839</b> | <b>21,189</b> | <b>23,329</b> | <b>78,811</b> | <b>83,435</b> |
| Operating Expenses               | 7,094         | 7,641         | 9,627         | 10,199        | 8,978         | 9,523         | 9,850         | 9,926         | 35,761        | 38,277        |
| <b>Operating Profit</b>          | <b>8,602</b>  | <b>8,456</b>  | <b>14,147</b> | <b>13,045</b> | <b>10,099</b> | <b>10,316</b> | <b>11,339</b> | <b>13,403</b> | <b>43,050</b> | <b>45,158</b> |
| % Change (Y-o-Y)                 | 33.5          | 32.7          | 51.7          | 60.2          | 17.4          | 22.0          | -19.8         | 2.7           | 47.0          | 4.9           |
| Other Provisions                 | 2,803         | 2,419         | 3,501         | 2,097         | -390          | 1,163         | 1,500         | 3,211         | 9,621         | 5,485         |
| <b>Profit before Tax</b>         | <b>5,799</b>  | <b>6,037</b>  | <b>10,646</b> | <b>10,947</b> | <b>10,489</b> | <b>9,153</b>  | <b>9,839</b>  | <b>10,192</b> | <b>33,429</b> | <b>39,673</b> |
| Tax Provisions                   | 2,090         | 2,084         | 3,562         | 3,421         | 3,635         | 2,811         | 3,296         | 3,548         | 11,157        | 13,290        |
| <b>Net Profit</b>                | <b>3,709</b>  | <b>3,953</b>  | <b>7,084</b>  | <b>7,527</b>  | <b>6,854</b>  | <b>6,342</b>  | <b>6,543</b>  | <b>6,644</b>  | <b>22,272</b> | <b>26,382</b> |
| % Change (Y-o-Y)                 | 12.1          | 20.8          | 41.4          | 172.3         | 84.8          | 60.4          | -7.6          | -11.7         | 55.1          | 18.5          |
| Interest Exp/Interest Income (%) | 67.9          | 68.1          | 64.4          | 64.5          | 70.1          | 66.4          | 65.5          | 64.0          | 66.1          | 66.4          |
| Other Income/Net Income (%)      | 32.7          | 29.6          | 38.5          | 36.7          | 36.9          | 30.0          | 30.4          | 31.2          | 35.0          | 32.0          |
| Cost/Income Ratio (%)            | 45.2          | 47.5          | 40.5          | 43.9          | 47.1          | 48.0          | 46.5          | 42.5          | 45.4          | 45.9          |
| Provisions/Operating Profits (%) | 32.6          | 28.6          | 24.7          | 16.1          | -3.9          | 11.3          | 13.2          | 24.0          | 22.3          | 12.1          |
| Tax Rate (%)                     | 36.0          | 34.5          | 33.5          | 31.2          | 34.7          | 30.7          | 33.5          | 34.8          | 33.4          | 33.5          |

E: MOSL Estimates

Ajinkya Dhavale (AjinkyaDhavale@MotilalOswal.com) /

Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com)/Parag Jariwala (Parag.Jariwala@MotilalOswal.com)



## Bank of India

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | BOI IN       |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | BOI.BO       |

29 December 2009

Neutral

Previous Recommendation: Neutral

Rs385

|                     |                |
|---------------------|----------------|
| Equity Shares (m)   | 525.9          |
| 52 Week Range (Rs)  | 475 / 180      |
| 1,6,12 Rel Perf (%) | -3 / -10 / -49 |
| Mcap (Rs b)         | 202.3          |
| Mcap (USD b)        | 4.3            |

| YEAR<br>END | NET INCOME<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | CAR<br>(%) | ROAE<br>(%) | ROAA<br>(%) | P/ABV<br>(X) |
|-------------|----------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|-------------|--------------|
| 3/09A       | 85,508               | 30,077        | 57.2        | 49.7              | 6.7        | 1.7         | 13.0       | 29.2        | 1.5         | 1.8          |
| 3/10E       | 84,158               | 21,447        | 40.8        | -28.7             | 9.4        | 1.5         | 12.1       | 17.0        | 0.9         | 1.6          |
| 3/11E       | 99,335               | 27,368        | 52.0        | 27.6              | 7.4        | 1.3         | 11.6       | 18.7        | 1.0         | 1.4          |
| 3/12E       | 115,350              | 36,708        | 69.8        | 34.1              | 5.5        | 1.1         | 11.1       | 21.4        | 1.1         | 1.2          |

- We expect loan growth to moderate to ~16% YoY from 31% in December 2008 and 26% in March 2009, highlighting the impact of a high base.
- While margins are expected to improve sequentially, they will remain under pressure on a YoY basis. In 3QFY09, NIM increased by 20bp QoQ to 3.4%. Thus, we expect NII to decline ~4% YoY basis due to a high base.
- Other income is expected to decline 35% YoY due to flattish fee income and a decline in trading profits. In 3QFY09, BoI reported trading profits (including forex) of Rs6.7b (forming 50% of this revenue stream of FY09). We have modeled a decline in trading profits YoY and QoQ, which will put pressure on other income.
- NPA provisions are likely to remain higher as asset quality is under pressure. Slippage from restructured loans is the key factor to watch for. We expect net profit to decline by more than 30%, led by moderation in loan growth, lower other income and higher provisions.
- We expect FY10 earnings to decline ~30% YoY due to a decline in margins, lower trading gains (in FY09 14% of operating profit was derived from trading gains) and higher NPA provisions. The stock trades at 1.3x FY11E BV and 1.1x FY12E BV. Maintain **Neutral**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH                        | FY09          |               |               |               | FY10          |               |               |               | FY09          | FY10E         |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                                  | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3QE           | 4QE           |               |               |
| Interest Income                  | 35,483        | 39,628        | 43,432        | 44,931        | 43,777        | 44,890        | 45,700        | 46,612        | 163,474       | 180,980       |
| Interest Expense                 | 23,676        | 25,996        | 28,215        | 30,598        | 30,771        | 30,801        | 31,013        | 31,231        | 108,485       | 123,816       |
| <b>Net Interest Income</b>       | <b>11,808</b> | <b>13,631</b> | <b>15,217</b> | <b>14,334</b> | <b>13,006</b> | <b>14,089</b> | <b>14,687</b> | <b>15,381</b> | <b>54,989</b> | <b>57,164</b> |
| % Change (Y-o-Y)                 | 24.7          | 38.3          | 41.0          | 17.8          | 10.1          | 3.4           | -3.5          | 7.3           | 30.0          | 4.0           |
| Other Income                     | 5,664         | 6,495         | 10,506        | 7,854         | 6,459         | 6,760         | 6,739         | 7,037         | 30,519        | 26,995        |
| <b>Net Income</b>                | <b>17,472</b> | <b>20,126</b> | <b>25,722</b> | <b>22,187</b> | <b>19,465</b> | <b>20,849</b> | <b>21,427</b> | <b>22,418</b> | <b>85,508</b> | <b>84,158</b> |
| Operating Expenses               | 6,748         | 7,979         | 8,107         | 8,107         | 8,529         | 8,789         | 7,850         | 7,925         | 30,940        | 33,092        |
| <b>Operating Profit</b>          | <b>10,724</b> | <b>12,147</b> | <b>17,616</b> | <b>14,081</b> | <b>10,936</b> | <b>12,060</b> | <b>13,577</b> | <b>14,493</b> | <b>54,568</b> | <b>51,066</b> |
| % Change (Y-o-Y)                 | 58.2          | 44.6          | 81.4          | 16.2          | 2.0           | -0.7          | -22.9         | 2.9           | 47.4          | -6.4          |
| Other Provisions                 | 3,490         | 2,868         | 2,720         | 3,846         | 2,234         | 6,021         | 5,450         | 5,349         | 12,920        | 19,055        |
| <b>Profit before Tax</b>         | <b>7,234</b>  | <b>9,280</b>  | <b>14,896</b> | <b>10,234</b> | <b>8,702</b>  | <b>6,038</b>  | <b>8,127</b>  | <b>9,144</b>  | <b>41,648</b> | <b>32,011</b> |
| Tax Provisions                   | 1,615         | 1,651         | 6,174         | 2,131         | 2,859         | 2,805         | 2,275         | 2,624         | 11,571        | 10,564        |
| <b>Net Profit</b>                | <b>5,620</b>  | <b>7,629</b>  | <b>8,722</b>  | <b>8,104</b>  | <b>5,843</b>  | <b>3,233</b>  | <b>5,851</b>  | <b>6,520</b>  | <b>30,077</b> | <b>21,447</b> |
| % Change (Y-o-Y)                 | 78.3          | 79.4          | 70.4          | 7.1           | 4.0           | -57.6         | -32.9         | -19.5         | 49.7          | -28.7         |
| Interest Exp/Interest Income (%) | 66.7          | 65.6          | 65.0          | 68.1          | 70.3          | 68.6          | 67.9          | 67.0          | 66.4          | 68.4          |
| Other Income/Net Income (%)      | 32.4          | 32.3          | 40.8          | 35.4          | 33.2          | 32.4          | 31.5          | 31.4          | 35.7          | 32.1          |
| Cost/Income Ratio (%)            | 38.6          | 39.6          | 31.5          | 36.5          | 43.8          | 42.2          | 36.6          | 35.4          | 36.2          | 39.3          |
| Provisions/Operating Profits (%) | 32.5          | 23.6          | 15.4          | 27.3          | 20.4          | 49.9          | 40.1          | 36.9          | 23.7          | 37.3          |
| Tax Rate (%)                     | 22.3          | 17.8          | 41.4          | 20.8          | 32.9          | 46.5          | 28.0          | 28.7          | 27.8          | 33.0          |

E: MOSL Estimates

Ajinkya Dhavale (AjinkyaDhavale@MotilalOswal.com) /

Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com)/Parag Jariwala (Parag.Jariwala@MotilalOswal.com)

## Canara Bank

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | CBK IN       |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | CNBK.BO      |

|                     |              |
|---------------------|--------------|
| Equity Shares (m)   | 410.0        |
| 52 Week Range (Rs)  | 437 / 144    |
| 1,6,12 Rel Perf (%) | -2 / 31 / 26 |
| Mcap (Rs b)         | 164.4        |
| Mcap (USD b)        | 3.5          |

29 December 2009

Buy

Rs401

Previous Recommendation: Buy

| YEAR<br>END | NET INCOME<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | CAR<br>(%) | ROAE<br>(%) | ROAA<br>(%) | P/ABV<br>(X) |
|-------------|----------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|-------------|--------------|
| 3/09A       | 70,290               | 20,724        | 50.5        | 32.4              | 7.9        | 1.6         | 14.1       | 22.6        | 1.0         | 1.8          |
| 3/10E       | 83,198               | 30,206        | 73.7        | 45.7              | 5.4        | 1.3         | 13.4       | 26.8        | 1.2         | 1.5          |
| 3/11E       | 95,780               | 33,640        | 82.0        | 11.4              | 4.9        | 1.1         | 12.9       | 24.3        | 1.1         | 1.2          |
| 3/11E       | 109,787              | 36,611        | 89.3        | 8.8               | 4.5        | 0.9         | 12.2       | 21.9        | 1.0         | 1.0          |

- We expect loan growth to stay healthy at 20% in 3QFY10 despite the high base. Deposit growth is expected to be calibrated and CD ratio is expected to improve sequentially.
- We expect NII to grow 18% YoY and 11% QoQ led by improved CD ratio and a fall in the cost of funds.
- We expect operating profit to grow 10% in 3QFY10 led by a strong performance in core operating income. In 3QFY09, the bank booked strong trading gains of Rs3.4b (forming ~50% of trading profits in FY09).
- The stock trades at 1.1x FY11E BV and 0.9x FY12E BV. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH                        | FY09          |               |               |               | FY10          |               |               |               | FY09          | FY10E         |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                                  | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3QE           | 4QE           |               |               |
| Interest Income                  | 37,305        | 41,092        | 46,254        | 46,539        | 45,584        | 47,092        | 49,046        | 51,635        | 171,191       | 193,357       |
| Interest Expense                 | 27,114        | 29,602        | 33,811        | 33,486        | 32,669        | 33,955        | 34,381        | 34,939        | 124,012       | 135,944       |
| <b>Net Interest Income</b>       | <b>10,192</b> | <b>11,490</b> | <b>12,443</b> | <b>13,053</b> | <b>12,915</b> | <b>13,137</b> | <b>14,665</b> | <b>16,696</b> | <b>47,178</b> | <b>57,413</b> |
| % Change (Y-o-Y)                 | 14.0          | 46.0          | 33.2          | 41.5          | 26.7          | 14.3          | 17.9          | 27.9          | 33.4          | 21.7          |
| Other Income                     | 3,685         | 3,388         | 7,575         | 8,465         | 4,736         | 8,929         | 6,494         | 5,626         | 23,112        | 25,785        |
| <b>Net Income</b>                | <b>13,877</b> | <b>14,877</b> | <b>20,018</b> | <b>21,518</b> | <b>17,651</b> | <b>22,066</b> | <b>21,159</b> | <b>22,322</b> | <b>70,290</b> | <b>83,198</b> |
| Operating Expenses               | 6,841         | 7,142         | 7,877         | 8,792         | 7,237         | 7,875         | 7,850         | 7,955         | 30,652        | 30,917        |
| <b>Operating Profit</b>          | <b>7,036</b>  | <b>7,735</b>  | <b>12,141</b> | <b>12,726</b> | <b>10,413</b> | <b>14,191</b> | <b>13,309</b> | <b>14,367</b> | <b>39,638</b> | <b>52,281</b> |
| % Change (Y-o-Y)                 | 15.0          | 18.9          | 60.2          | 35.5          | 48.0          | 83.5          | 9.6           | 12.9          | 33.9          | 31.9          |
| Other Provisions                 | 5,409         | 1,441         | 3,526         | 3,538         | 3,360         | 3,086         | 3,350         | 4,728         | 13,914        | 14,524        |
| <b>Profit before Tax</b>         | <b>1,627</b>  | <b>6,294</b>  | <b>8,615</b>  | <b>9,188</b>  | <b>7,053</b>  | <b>11,105</b> | <b>9,959</b>  | <b>9,639</b>  | <b>25,724</b> | <b>37,757</b> |
| Tax Provisions                   | 400           | 1,000         | 1,600         | 2,000         | 1,500         | 2,000         | 1,992         | 2,060         | 5,000         | 7,551         |
| <b>Net Profit</b>                | <b>1,227</b>  | <b>5,294</b>  | <b>7,015</b>  | <b>7,188</b>  | <b>5,553</b>  | <b>9,105</b>  | <b>7,967</b>  | <b>7,580</b>  | <b>20,724</b> | <b>30,206</b> |
| % Change (Y-o-Y)                 | -49.0         | 31.8          | 52.9          | 54.9          | 352.7         | 72.0          | 13.6          | 5.4           | 32.4          | 45.7          |
| Interest Exp/Interest Income (%) | 72.7          | 72.0          | 73.1          | 72.0          | 71.7          | 72.1          | 70.1          | 67.7          | 72.4          | 70.3          |
| Other Income/Net Income (%)      | 49.3          | 48.0          | 39.4          | 40.9          | 41.0          | 35.7          | 37.1          | 35.6          | 43.6          | 37.2          |
| Cost/Income Ratio (%)            | 26.6          | 22.8          | 37.8          | 39.3          | 26.8          | 40.5          | 30.7          | 25.2          | 32.9          | 31.0          |
| Provisions/Operating Profits (%) | 76.9          | 18.6          | 29.0          | 27.8          | 32.3          | 21.7          | 25.2          | 32.9          | 35.1          | 27.8          |
| Tax Rate (%)                     | 24.6          | 15.9          | 18.6          | 21.8          | 21.3          | 18.0          | 20.0          | 21.4          | 19.4          | 20.0          |

E: MOSL Estimates

Ajinkya Dhavale (AjinkyaDhavale@MotilalOswal.com) /

Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com)/Parag Jariwala (Parag.Jariwala@MotilalOswal.com)

## Corporation Bank

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | CRPBK IN     |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | CRBK.BO      |

|                     |             |
|---------------------|-------------|
| Equity Shares (m)   | 143.4       |
| 52 Week Range (Rs)  | 480 / 156   |
| 1,6,12 Rel Perf (%) | -9 / 8 / 43 |
| Mcap (Rs b)         | 60.0        |
| Mcap (USD b)        | 1.3         |

29 December 2009

Buy

Rs419

Previous Recommendation: Buy

| YEAR<br>END | NET INCOME<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | CAR<br>(%) | ROAE<br>(%) | ROAA<br>(%) | P/ABV<br>(X) |
|-------------|----------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|-------------|--------------|
| 3/09A       | 27,982               | 8,928         | 62.2        | 21.5              | 6.7        | 1.2         | 13.6       | 19.6        | 1.2         | 1.2          |
| 3/10E       | 32,912               | 11,398        | 79.5        | 27.7              | 5.3        | 1.0         | 16.0       | 21.4        | 1.2         | 1.1          |
| 3/11E       | 36,109               | 12,292        | 85.7        | 7.8               | 4.9        | 0.9         | 15.7       | 19.7        | 1.1         | 0.9          |
| 3/12E       | 40,229               | 15,479        | 25.9        | 25.9              | 3.9        | 0.8         | 15.4       | 21.2        | 1.2         | 0.8          |

- We expect loans to grow at 4% QoQ (22% YoY on a low base). However deposit growth is expected to be strong at 37% YoY. We expect margins to be largely flat QoQ due to excess liquidity in the balance sheet.
- Operating profit is expected to grow 15% YoY. Treasury gains are expected to be lower compared with 2QFY10 (~50% sequential decline). However; fee income is expected to grow 30% YoY on a low base.
- Asset quality is robust with net NPAs at 0.3%. We do not expect material weakening of the bank's asset portfolio.
- The stock trades at P/BV of 0.9x of FY11E BV and P/BV of 0.8x of FY12E BV. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH                        | FY09         |              |              |              | FY10         |              |              |              | FY09          | FY10E         |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|
|                                  | 1Q           | 2Q           | 3Q           | 4Q           | 1Q           | 2Q           | 3QE          | 4QE          |               |               |
| Interest Income                  | 12,887       | 14,488       | 16,235       | 17,064       | 17,422       | 17,695       | 18,882       | 19,563       | 60,674        | 73,563        |
| Interest Expense                 | 9,107        | 10,421       | 11,455       | 12,781       | 12,747       | 12,660       | 13,285       | 13,436       | 43,764        | 52,128        |
| <b>Net Interest Income</b>       | <b>3,780</b> | <b>4,067</b> | <b>4,780</b> | <b>4,283</b> | <b>4,675</b> | <b>5,035</b> | <b>5,597</b> | <b>6,127</b> | <b>16,910</b> | <b>21,435</b> |
| % Change (Y-o-Y)                 | 7.2          | 10.3         | 37.3         | 14.6         | 23.7         | 23.8         | 17.1         | 43.1         | 17.2          | 26.8          |
| Other Income                     | 1,576        | 1,744        | 2,820        | 4,933        | 3,593        | 3,028        | 2,350        | 2,506        | 11,072        | 11,477        |
| <b>Net Income</b>                | <b>5,356</b> | <b>5,810</b> | <b>7,600</b> | <b>9,216</b> | <b>8,269</b> | <b>8,063</b> | <b>7,947</b> | <b>8,633</b> | <b>27,982</b> | <b>32,912</b> |
| Operating Expenses               | 2,146        | 2,295        | 3,106        | 2,468        | 2,556        | 2,707        | 2,750        | 2,714        | 10,016        | 10,727        |
| <b>Operating Profit</b>          | <b>3,210</b> | <b>3,515</b> | <b>4,494</b> | <b>6,747</b> | <b>5,712</b> | <b>5,356</b> | <b>5,197</b> | <b>5,919</b> | <b>17,966</b> | <b>22,185</b> |
| % Change (Y-o-Y)                 | 16.5         | 19.3         | 61.9         | 67.2         | 78.0         | 52.4         | 15.6         | -12.3        | 43.6          | 23.5          |
| Other Provisions                 | 1,008        | 558          | 185          | 2,107        | 1,550        | 940          | 1,170        | 1,256        | 4,104         | 4,916         |
| <b>Profit before Tax</b>         | <b>2,201</b> | <b>2,957</b> | <b>4,309</b> | <b>4,640</b> | <b>4,162</b> | <b>4,417</b> | <b>4,027</b> | <b>4,663</b> | <b>13,862</b> | <b>17,269</b> |
| Tax Provisions                   | 358          | 1,042        | 1,744        | 2,035        | 1,550        | 1,500        | 1,289        | 1,533        | 4,935         | 5,871         |
| <b>Net Profit</b>                | <b>1,843</b> | <b>1,915</b> | <b>2,565</b> | <b>2,605</b> | <b>2,612</b> | <b>2,917</b> | <b>2,739</b> | <b>3,130</b> | <b>8,928</b>  | <b>11,398</b> |
| % Change (Y-o-Y)                 | 4.1          | 18.7         | 34.3         | 26.7         | 41.8         | 52.3         | 6.8          | 20.1         | 21.5          | 27.7          |
| Interest Exp/Interest Income (%) | 70.7         | 71.9         | 70.6         | 74.9         | 73.2         | 71.5         | 70.4         | 68.7         | 72.1          | 70.9          |
| Other Income/Net Income (%)      | 29.4         | 30.0         | 37.1         | 53.5         | 43.5         | 37.6         | 29.6         | 29.0         | 39.6          | 34.9          |
| Cost/Income Ratio (%)            | 40.1         | 39.5         | 40.9         | 26.8         | 30.9         | 33.6         | 34.6         | 31.4         | 35.8          | 32.6          |
| Provisions/Operating Profits (%) | 31.4         | 15.9         | 4.1          | 31.2         | 27.1         | 17.5         | 22.5         | 21.2         | 22.8          | 22.2          |
| Tax Rate (%)                     | 16.3         | 35.2         | 40.5         | 43.9         | 37.2         | 34.0         | 32.0         | 32.9         | 35.6          | 34.0          |

E: MOSL Estimates

Ajinkya Dhavale (AjinkyaDhavale@MotilalOswal.com) /

Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com)/Parag Jariwala (Parag.Jariwala@MotilalOswal.com)

## Dena Bank

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | DBNK IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | DENA.BO      |

|                     |             |
|---------------------|-------------|
| Equity Shares (m)   | 286.8       |
| 52 Week Range (Rs)  | 93 / 27     |
| 1,6,12 Rel Perf (%) | 6 / 30 / 75 |
| Mcap (Rs b)         | 24.4        |
| Mcap (USD b)        | 0.5         |

29 December 2009

Buy

Rs85

Previous Recommendation: Buy

| YEAR<br>END | NET INCOME<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | CAR<br>(%) | ROAE<br>(%) | ROAA<br>(%) | P/ABV<br>(X) |
|-------------|----------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|-------------|--------------|
| 3/09A       | 14,976               | 4,257         | 14.8        | 18.3              | 5.7        | 1.3         | 10.7       | 24.2        | 1.0         | 1.4          |
| 3/10E       | 16,264               | 4,780         | 16.7        | 12.3              | 5.1        | 1.0         | 13.3       | 22.2        | 0.9         | 1.2          |
| 3/11E       | 18,540               | 5,273         | 18.4        | 10.3              | 4.6        | 0.9         | 12.3       | 20.4        | 0.9         | 1.0          |
| 3/12E       | 20,780               | 6,050         | 21.1        | 14.7              | 4.0        | 0.7         | 11.8       | 19.8        | 0.9         | 0.9          |

- We expect NII to decline by ~20% YoY (increase QoQ) to Rs2.8b on a high base. We expect margins to improve sequentially due to repricing of deposits and pick up in loan growth
- We expect strong recoveries from the written-off pool of Rs15.3b. We expect fee income to show good traction YoY, while trading profits are expected to be lower. Operating profit is expected to decline by 28% YoY due to lower NII and muted other income.
- Provisions charge is expected to increase sequentially on a lower base. In 2QFY10 bank had accounted for (1) investment write-back of Rs81m (Rs397m in 3QFY09), and (2) lower provision for NPAs.
- The stock trades at P/BV of 0.9x of FY11E BV and P/BV of 0.7x of FY12E BV. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH                         | FY09         |              |              |              | FY10         |              |              |              | FY09          | FY10E         |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|
|                                   | 1Q           | 2Q           | 3Q           | 4Q           | 1Q           | 2Q           | 3QE          | 4QE          |               |               |
| Interest Income                   | 7,675        | 8,286        | 9,556        | 8,958        | 9,685        | 9,628        | 10,229       | 10,833       | 34,505        | 40,374        |
| Interest Expense                  | 5,487        | 5,744        | 6,032        | 6,568        | 7,180        | 7,223        | 7,421        | 7,592        | 23,831        | 29,416        |
| <b>Net Interest Income</b>        | <b>2,188</b> | <b>2,543</b> | <b>3,525</b> | <b>2,390</b> | <b>2,505</b> | <b>2,405</b> | <b>2,808</b> | <b>3,241</b> | <b>10,674</b> | <b>10,959</b> |
| % Change (Y-o-Y)                  | 0.9          | 23.0         | 71.7         | 4.2          | 14.5         | -5.4         | -20.3        | 35.6         | 24.3          | 2.7           |
| Other Income                      | 669          | 852          | 1,379        | 1,400        | 1,554        | 1,253        | 1,205        | 1,294        | 4,301         | 5,305         |
| <b>Net Income</b>                 | <b>2,857</b> | <b>3,395</b> | <b>4,904</b> | <b>3,790</b> | <b>4,059</b> | <b>3,658</b> | <b>4,013</b> | <b>4,536</b> | <b>14,976</b> | <b>16,264</b> |
| Operating Expenses                | 1,616        | 1,903        | 2,251        | 1,912        | 2,045        | 2,043        | 2,100        | 2,081        | 7,682         | 8,268         |
| <b>Operating Profit</b>           | <b>1,241</b> | <b>1,492</b> | <b>2,652</b> | <b>1,878</b> | <b>2,013</b> | <b>1,615</b> | <b>1,913</b> | <b>2,455</b> | <b>7,294</b>  | <b>7,996</b>  |
| % Change (Y-o-Y)                  | -11.4        | -7.2         | 59.2         | -14.2        | 62.2         | 8.2          | -27.9        | 30.8         | 6.3           | 9.6           |
| Other Provisions                  | 500          | 373          | 462          | 514          | 406          | 15           | 375          | 826          | 1,849         | 1,622         |
| <b>Profit before tax</b>          | <b>741</b>   | <b>1,119</b> | <b>2,190</b> | <b>1,364</b> | <b>1,607</b> | <b>1,600</b> | <b>1,538</b> | <b>1,629</b> | <b>5,444</b>  | <b>6,374</b>  |
| Tax Provisions                    | 58           | 91           | 786          | 252          | 457          | 354          | 384          | 399          | 1,188         | 1,593         |
| <b>Net Profit</b>                 | <b>683</b>   | <b>1,028</b> | <b>1,404</b> | <b>1,112</b> | <b>1,150</b> | <b>1,246</b> | <b>1,153</b> | <b>1,230</b> | <b>4,257</b>  | <b>4,780</b>  |
| % Change (Y-o-Y)                  | 22.9         | 11.6         | 38.9         | 0.2          | 68.4         | 21.2         | -17.8        | 10.7         | 18.3          | 12.3          |
| Interest Exp./Interest Income (%) | 71.5         | 69.3         | 63.1         | 73.3         | 74.1         | 75.0         | 72.5         | 70.1         | 69.1          | 72.9          |
| Other Income/Net Income (%)       | 23.4         | 25.1         | 28.1         | 36.9         | 38.3         | 34.3         | 30.0         | 28.5         | 28.7          | 32.6          |
| Cost to Income Ratio (%)          | 56.6         | 56.0         | 45.9         | 50.5         | 50.4         | 55.9         | 52.3         | 45.9         | 51.3          | 50.8          |
| Provisions/Operating Profits (%)  | 40.3         | 25.0         | 17.4         | 27.3         | 20.2         | 0.9          | 19.6         | 33.6         | 25.4          | 20.3          |
| Tax Payout (%)                    | 7.8          | 8.1          | 35.9         | 18.5         | 28.4         | 22.1         | 25.0         | 24.5         | 21.8          | 25.0          |

E: MOSL Estimates

## Federal Bank

STOCK INFO. BLOOMBERG  
BSE Sensex: 17,402 FB IN  
REUTERS CODE  
S&P CNX: 5,188 FED.BO

29 December 2009

Buy

Rs238

Previous Recommendation: Buy

Equity Shares (m) 171.0  
52 Week Range (Rs) 270 / 111  
1,6,12 Rel Perf (%) -1 / -24 / -33  
Mcap (Rs b) 40.8  
Mcap (USD b) 0.9

| YEAR<br>END | NET INCOME<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | CAR<br>(%) | ROAE<br>(%) | ROAA<br>(%) | P/ABV<br>(X) |
|-------------|----------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|-------------|--------------|
| 3/09A       | 18,312               | 5,005         | 29.3        | 36.0              | 8.1        | 0.9         | 20.1       | 12.1        | 1.4         | 1.0          |
| 3/10E       | 19,900               | 5,846         | 34.2        | 16.8              | 7.0        | 0.8         | 18.5       | 12.8        | 1.4         | 0.9          |
| 3/11E       | 24,198               | 7,227         | 42.3        | 23.6              | 5.6        | 0.8         | 17.2       | 14.1        | 1.5         | 0.8          |
| 3/12E       | 27,461               | 8,783         | 51.4        | 21.5              | 4.6        | 0.7         | 16.2       | 15.2        | 1.5         | 0.7          |

- We expect NII to decline by ~3.5% YoY due to strong loan growth and superior margins in 3QFY09.
- We expect other income to decline YoY due to lower trading gains. We expect a ~50% sequential decline in trading profits, but fee income is expected to show good traction.
- In 2QFY10, provision for NPAs was higher at Rs1.6b compared with an average of Rs800m in the preceding six quarters due to slippage of 1-2 large accounts. Thus, we expect provisions for NPAs to be sequentially lower. In 2QFY10, the bank had a write-back of Rs260m on investments and provision for wage revisions (included in provisions) at Rs150m.
- The stock trades at 0.8x FY11E BV and 0.7x FY12E BV with RoA of 1.3%+. RoE is likely to remain lower due to lower leverage. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH                        | FY09         |              |              |              | FY10         |              |              |              | FY09          | FY10E         |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|
|                                  | 1Q           | 2Q           | 3Q           | 4Q           | 1Q           | 2Q           | 3QE          | 4QE          |               |               |
| Interest Income                  | 7,451        | 8,281        | 8,764        | 8,657        | 8,744        | 9,011        | 9,614        | 10,208       | 33,154        | 37,577        |
| Interest Expense                 | 4,669        | 4,963        | 4,918        | 5,448        | 5,843        | 5,711        | 5,898        | 5,898        | 19,999        | 23,351        |
| <b>Net Interest Income</b>       | <b>2,782</b> | <b>3,318</b> | <b>3,846</b> | <b>3,209</b> | <b>2,901</b> | <b>3,300</b> | <b>3,716</b> | <b>4,310</b> | <b>13,155</b> | <b>14,226</b> |
| % Change (Y-o-Y)                 | 47.3         | 63.9         | 88.8         | 17.5         | 4.3          | -0.6         | -3.4         | 34.3         | 51.5          | 8.1           |
| Other Income                     | 962          | 1,042        | 1,648        | 1,505        | 1,474        | 1,364        | 1,373        | 1,463        | 5,158         | 5,674         |
| <b>Net Income</b>                | <b>3,744</b> | <b>4,360</b> | <b>5,494</b> | <b>4,714</b> | <b>4,375</b> | <b>4,664</b> | <b>5,089</b> | <b>5,773</b> | <b>18,312</b> | <b>19,900</b> |
| Operating Expenses               | 1,209        | 1,331        | 1,650        | 1,525        | 1,592        | 1,631        | 1,660        | 1,747        | 5,715         | 6,631         |
| <b>Operating Profit</b>          | <b>2,535</b> | <b>3,029</b> | <b>3,844</b> | <b>3,189</b> | <b>2,783</b> | <b>3,032</b> | <b>3,429</b> | <b>4,025</b> | <b>12,598</b> | <b>13,269</b> |
| % Change (Y-o-Y)                 | 34.5         | 71.5         | 129.3        | 22.0         | 9.8          | 0.1          | -10.8        | 26.2         | 58.6          | 5.3           |
| Other Provisions                 | 1,724        | 1,569        | 500          | 875          | 520          | 1,501        | 1,220        | 1,171        | 4,668         | 4,412         |
| <b>Profit before Tax</b>         | <b>811</b>   | <b>1,461</b> | <b>3,344</b> | <b>2,314</b> | <b>2,263</b> | <b>1,531</b> | <b>2,209</b> | <b>2,854</b> | <b>7,930</b>  | <b>8,857</b>  |
| Tax Provisions                   | 130          | 318          | 1,306        | 1,172        | 900          | 520          | 707          | 885          | 2,925         | 3,011         |
| <b>Net Profit</b>                | <b>682</b>   | <b>1,143</b> | <b>2,039</b> | <b>1,142</b> | <b>1,364</b> | <b>1,011</b> | <b>1,502</b> | <b>1,969</b> | <b>5,005</b>  | <b>5,846</b>  |
| % Change (Y-o-Y)                 | 1.8          | 19.9         | 98.1         | 11.0         | 100.1        | -11.6        | -26.3        | 72.5         | 36.0          | 16.8          |
| Interest Exp/Interest Income (%) | 62.7         | 59.9         | 56.1         | 62.9         | 66.8         | 63.4         | 61.3         | 57.8         | 60.3          | 62.1          |
| Other Income/Net Income (%)      | 25.7         | 23.9         | 30.0         | 31.9         | 33.7         | 29.3         | 27.0         | 25.3         | 28.2          | 28.5          |
| Cost/Income Ratio (%)            | 32.3         | 30.5         | 30.0         | 32.4         | 36.4         | 35.0         | 32.6         | 30.3         | 31.2          | 33.3          |
| Provisions/Operating Profits (%) | 68.0         | 51.8         | 13.0         | 27.4         | 18.7         | 49.5         | 35.6         | 29.1         | 37.1          | 33.2          |
| Tax Rate (%)                     | 16.0         | 21.8         | 39.0         | 50.7         | 39.7         | 34.0         | 32.0         | 31.0         | 36.9          | 34.0          |

E: MOSL Estimates

Ajinkya Dhavale (AjinkyaDhavale@MotilalOswal.com) /

Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com)/Parag Jariwala (Parag.Jariwala@MotilalOswal.com)

HDFC

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | HDFC IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | HDFC.BO      |

29 December 2009

Neutral

Previous Recommendation: Neutral

Rs2,685

|                     |              |
|---------------------|--------------|
| Equity Shares (m)   | 287.1        |
| 52 Week Range (Rs)  | 2,875/1,116  |
| 1,6,12 Rel Perf (%) | -6 / -4 / -3 |
| Mcap (Rs b)         | 771.0        |
| Mcap (USD b)        | 16.5         |

| YEAR<br>END | NET INCOME<br>(RS M) | PAT<br>(RS M) | ADJ. EPS<br>(RS) | EPS<br>GROWTH (%) | AP/E*<br>(X) | P/BV<br>(X) | CAR<br>(%) | ROAE<br>(%) | ROAA<br>(%) | AP/ABV*<br>(X) |
|-------------|----------------------|---------------|------------------|-------------------|--------------|-------------|------------|-------------|-------------|----------------|
| 3/09A       | 35,852               | 22,825        | 80.2             | 17.5              | 28.5         | 5.8         | 15.1       | 23.7        | 2.5         | 6.9            |
| 3/10E       | 41,973               | 27,194        | 94.7             | 18.0              | 21.4         | 5.3         | 14.3       | 25.1        | 2.5         | 5.3            |
| 3/11E       | 48,635               | 31,588        | 110.0            | 16.2              | 17.5         | 4.7         | 14.2       | 25.0        | 2.5         | 4.4            |
| 3/12E       | 57,097               | 37,238        | 129.7            | 17.9              | 14.9         | 4.1         | 14.1       | 25.7        | 2.5         | 3.8            |

\* Price is adjusted for value of key ventures. Book Value is adjusted by deducting investments in key ventures from net worth

- We expect loan growth of ~13% YoY in 3QFY10. We expect HDFC Bank will continue to buy out home loans from HDFC Ltd in 3QFY10, which would impact HDFC's own loan growth.
- Despite lending rate cuts, we expect spreads to stay steady due to a significant reduction in wholesale borrowing costs during 9MFY10.
- Fee income growth is expected to be strong on a low base and buoyant capital markets will keep trading profits strong. In 1HFY10, HDFC earned trading profits of Rs1.1b and we expect the momentum to continue in 3QFY10.
- HDFC trades at 4.4x FY11E AP/ABV (price adjusted for value of other businesses and book value adjusted for investments made in those businesses) and 3.8x FY12E AP/ABV. This is higher than our target multiple of 4.7x P/BV for the stock. We believe further BV multiple re-rating is limited, given the limited scope to the RoE expansion. Maintain **Neutral**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH                      | FY09         |              |              |               | FY10         |               |               |               | FY09          | FY10E         |
|--------------------------------|--------------|--------------|--------------|---------------|--------------|---------------|---------------|---------------|---------------|---------------|
|                                | 1Q           | 2Q           | 3Q           | 4Q            | 1Q           | 2Q            | 3QE           | 4QE           |               |               |
| Interest Income                | 22,435       | 25,279       | 28,587       | 30,141        | 26,894       | 26,209        | 27,613        | 30,176        | 106,442       | 110,892       |
| Interest Expense               | 15,684       | 17,573       | 20,427       | 20,641        | 19,628       | 18,365        | 18,955        | 19,582        | 74,324        | 76,530        |
| <b>Net Interest Income</b>     | <b>6,751</b> | <b>7,707</b> | <b>8,160</b> | <b>9,500</b>  | <b>7,266</b> | <b>7,844</b>  | <b>8,658</b>  | <b>10,594</b> | <b>32,118</b> | <b>34,362</b> |
| YoY Change (%)                 | 34.2         | 20.8         | 14.9         | 5.3           | 7.6          | 1.8           | 6.1           | 11.5          | 16.7          | 7.0           |
| Profit on Sale of Investments  | 0            | 226          | 15           | 12            | 513          | 613           | 600           | 674           | 252           | 2,400         |
| Other Operating Income         | 700          | 646          | 590          | 1,317         | 1,035        | 1,627         | 1,150         | 1,140         | 3,254         | 4,951         |
| <b>Net Operating Income</b>    | <b>7,451</b> | <b>8,578</b> | <b>8,766</b> | <b>10,828</b> | <b>8,814</b> | <b>10,083</b> | <b>10,408</b> | <b>12,408</b> | <b>35,623</b> | <b>41,713</b> |
| YoY Change (%)                 | 28.1         | 29.0         | 5.1          | 13.8          | 18.3         | 17.5          | 18.7          | 14.6          | 17.4          | 17.1          |
| Other Income                   | 51           | 55           | 56           | 66            | 49           | 54            | 75            | 82            | 229           | 260           |
| <b>Total Income</b>            | <b>7,503</b> | <b>8,633</b> | <b>8,821</b> | <b>10,894</b> | <b>8,863</b> | <b>10,137</b> | <b>10,483</b> | <b>12,490</b> | <b>35,852</b> | <b>41,973</b> |
| Operating Expenses             | 904          | 874          | 886          | 498           | 944          | 868           | 890           | 852           | 3,162         | 3,553         |
| <b>Pre Provisioning Profit</b> | <b>6,599</b> | <b>7,760</b> | <b>7,936</b> | <b>10,396</b> | <b>7,919</b> | <b>9,269</b>  | <b>9,593</b>  | <b>11,638</b> | <b>32,690</b> | <b>38,420</b> |
| YoY Change (%)                 | 28.7         | 30.5         | 3.6          | 16.2          | 20.0         | 19.5          | 20.9          | 11.9          | 18.0          | 17.5          |
| Provisions                     | 100          | 160          | 120          | 120           | 120          | 140           | 177           | 213           | 500           | 650           |
| <b>PBT</b>                     | <b>6,499</b> | <b>7,600</b> | <b>7,816</b> | <b>10,276</b> | <b>7,799</b> | <b>9,129</b>  | <b>9,416</b>  | <b>11,425</b> | <b>32,190</b> | <b>37,770</b> |
| YoY Change (%)                 | 28.7         | -15.2        | -11.3        | -5.8          | 20.0         | 20.1          | 20.5          | 11.2          | -4.6          | 17.3          |
| Provision for Tax              | 1,818        | 2,258        | 2,348        | 2,943         | 2,150        | 2,490         | 2,637         | 3,299         | 9,365         | 10,576        |
| <b>PAT</b>                     | <b>4,681</b> | <b>5,342</b> | <b>5,468</b> | <b>7,334</b>  | <b>5,649</b> | <b>6,639</b>  | <b>6,780</b>  | <b>8,126</b>  | <b>22,825</b> | <b>27,194</b> |
| YoY Change (%)                 | 25.6         | 32.8         | -1.4         | 20.3          | 20.7         | 24.3          | 24.0          | 10.8          | 17.7          | 19.1          |

E: MOSL Estimates

Ajinkya Dhavale (AjinkyaDhavale@MotilalOswal.com) /

Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com)/Parag Jariwala (Parag.Jariwala@MotilalOswal.com)



## HDFC Bank

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | HDFCB IN     |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | HDBK.BO      |

29 December 2009

Neutral

Previous Recommendation: Neutral

Rs1,698

|                     |               |
|---------------------|---------------|
| Equity Shares (m)   | 425.4         |
| 52 Week Range (Rs)  | 1,836 / 774   |
| 1,6,12 Rel Perf (%) | -7 / -5 / -13 |
| Mcap (Rs b)         | 722.2         |
| Mcap (USD b)        | 15.5          |

| YEAR<br>END | NET INCOME<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | CAR<br>(%) | ROAE<br>(%) | ROAA<br>(%) | P/ABV<br>(X) |
|-------------|----------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|-------------|--------------|
| 3/09A       | 107,118              | 22,449        | 52.8        | 27.7              | 32.2       | 4.8         | 15.7       | 15.6        | 1.3         | 4.9          |
| 3/10E       | 126,325              | 29,768        | 65.9        | 24.9              | 25.7       | 3.7         | 15.3       | 16.5        | 1.5         | 3.8          |
| 3/11E       | 152,092              | 39,242        | 86.9        | 31.8              | 19.5       | 3.2         | 14.2       | 17.4        | 1.7         | 3.3          |
| 3/12E       | 179,253              | 50,093        | 110.9       | 27.7              | 15.3       | 2.7         | 13.6       | 19.3        | 1.8         | 2.8          |

- Loan growth will rebound to 20%+ backed by a low base and a strong up-tick in retail disbursements. However, deposit growth will be ~10% due to a high base. CD ratio is expected to improve from 76% as the bank received warrant conversion money of Rs36b in November 2009.
- We expect higher CASA funds, deposits repricing, strong loan growth, and warrant conversion money will lead to sequential improvement in margins.
- Other income is expected to be flattish despite the high base of 3QFY09 (due to strong trading profit) as fee income and forex income will compensate for higher trading profit. We model in 18% YoY growth in fee income in 3QFY10.
- We expect the bank will continue to make accelerated provisions for NPA to maintain its superior asset quality.
- We estimate PAT CAGR of ~32% over FY09-11E with RoE increasing to ~17% by FY11 and ~19% by FY12. The stock trades at 3.2x FY11E BV and 2.7x FY12E BV. Maintain **Neutral**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH                        | FY09          |               |               |               | FY10          |               |               |               | FY09           | FY10E          |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|
|                                  | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3QE           | 4QE           |                |                |
| Interest Income                  | 36,217        | 39,912        | 44,685        | 42,508        | 40,931        | 39,919        | 42,783        | 45,113        | 163,323        | 168,746        |
| Interest Expense                 | 18,983        | 21,248        | 24,893        | 23,988        | 22,375        | 20,361        | 20,032        | 20,433        | 89,111         | 83,202         |
| <b>Net Interest Income</b>       | <b>17,234</b> | <b>18,665</b> | <b>19,793</b> | <b>18,520</b> | <b>18,556</b> | <b>19,558</b> | <b>22,751</b> | <b>24,680</b> | <b>74,212</b>  | <b>85,544</b>  |
| % Change (Y-o-Y)                 | 74.9          | 60.5          | 37.7          | 12.8          | 7.7           | 4.8           | 14.9          | 33.3          | 42.0           | 15.3           |
| Other Income                     | 5,934         | 6,431         | 9,394         | 11,147        | 10,437        | 10,074        | 9,829         | 10,442        | 32,906         | 40,781         |
| <b>Net Income</b>                | <b>23,169</b> | <b>25,096</b> | <b>29,186</b> | <b>29,667</b> | <b>28,992</b> | <b>29,632</b> | <b>32,579</b> | <b>35,122</b> | <b>107,118</b> | <b>126,325</b> |
| Operating Expenses               | 12,894        | 13,867        | 14,606        | 13,962        | 13,806        | 13,702        | 14,500        | 16,225        | 55,328         | 58,233         |
| <b>Operating Profit</b>          | <b>10,275</b> | <b>11,229</b> | <b>14,581</b> | <b>15,705</b> | <b>15,187</b> | <b>15,930</b> | <b>18,079</b> | <b>18,897</b> | <b>51,790</b>  | <b>68,093</b>  |
| % Change (Y-o-Y)                 | 31.1          | 35.8          | 36.7          | 44.3          | 47.8          | 41.9          | 24.0          | 20.3          | 37.6           | 31.5           |
| Other Provisions                 | 3,445         | 3,460         | 5,318         | 6,574         | 6,588         | 5,941         | 5,750         | 6,036         | 18,791         | 24,316         |
| <b>Profit before Tax</b>         | <b>6,830</b>  | <b>7,768</b>  | <b>9,263</b>  | <b>9,131</b>  | <b>8,598</b>  | <b>9,989</b>  | <b>12,329</b> | <b>12,861</b> | <b>32,999</b>  | <b>43,777</b>  |
| Tax Provisions                   | 2,187         | 2,488         | 3,046         | 2,822         | 2,537         | 3,114         | 4,069         | 4,289         | 10,549         | 14,009         |
| <b>Net Profit</b>                | <b>4,643</b>  | <b>5,280</b>  | <b>6,217</b>  | <b>6,309</b>  | <b>6,061</b>  | <b>6,875</b>  | <b>8,260</b>  | <b>8,572</b>  | <b>22,449</b>  | <b>29,768</b>  |
| % Change (Y-o-Y)                 | 44.5          | 43.3          | 44.8          | 33.9          | 30.5          | 30.2          | 32.9          | 35.9          | 41.2           | 32.6           |
| Interest Exp/Interest Income (%) | 52.4          | 53.2          | 55.7          | 56.4          | 54.7          | 51.0          | 46.8          | 45.3          | 54.6           | 49.3           |
| Other Income/Net Income (%)      | 25.6          | 25.6          | 32.2          | 37.6          | 36.0          | 34.0          | 30.2          | 29.7          | 30.7           | 32.3           |
| Cost/Income Ratio (%)            | 55.7          | 55.3          | 50.0          | 47.1          | 47.6          | 46.2          | 44.5          | 46.2          | 51.7           | 46.1           |
| Provisions/Operating Profits (%) | 33.5          | 30.8          | 36.5          | 41.9          | 43.4          | 37.3          | 31.8          | 31.9          | 36.3           | 35.7           |
| Tax Rate (%)                     | 32.0          | 32.0          | 32.9          | 30.9          | 29.5          | 31.2          | 33.0          | 33.3          | 32.0           | 32.0           |

E: MOSL Estimates

Ajinkya Dhavale (AjinkyaDhavale@MotilalOswal.com) /

Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com)/Parag Jariwala (Parag.Jariwala@MotilalOswal.com)



## ICICI Bank

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE SENSEX: 17,402 | ICICIBCN     |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | ICBK.BO      |

|                     |             |
|---------------------|-------------|
| Equity Shares (m)   | 1,113.3     |
| 52 Week Range (Rs)  | 984 / 253   |
| 1,6,12 Rel Perf (%) | -1 / 0 / 15 |
| Mcaps (Rs b)        | 977.1       |
| Mcaps (USD b)       | 20.9        |

29 December 2009

Buy

Rs878

Previous Recommendation: Buy

| YEAR<br>END | NET INCOME<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | AP/E*<br>(X) | AP/ABV*<br>(X) | CAR<br>(%) | CORER<br>(%) | ROE<br>(%) | ROAA<br>(%) |
|-------------|----------------------|---------------|-------------|-------------------|------------|--------------|----------------|------------|--------------|------------|-------------|
| 3/09A       | 159,704              | 37,582        | 33.8        | -9.7              | 26.0       | 21.6         | 2.2            | 16.0       | 10.0         | 1.0        |             |
| 3/10E       | 163,208              | 41,943        | 37.7        | 11.6              | 23.3       | 18.3         | 1.9            | 15.5       | 10.8         | 1.1        |             |
| 3/11E       | 179,922              | 54,293        | 48.8        | 29.4              | 18.0       | 13.5         | 1.7            | 14.9       | 13.2         | 1.3        |             |
| 3/12E       | 208,033              | 68,231        | 61.3        | 25.7              | 14.3       | 10.8         | 1.5            | 14.2       | 14.1         | 1.5        |             |

\*Price is adjusted for value of key ventures; Book value adjusted for investment in subsidiaries

- We expect loans to decline ~7% YoY as international loans and retail loans continue to decline. We expect deposits to decline ~7% YoY due to net repayment of bulk deposits and moderation in loan book growth.
- Benefit of lower cost of funds due to repricing of bulk deposits will be negated by lower yield on loans and moderation in asset growth thus, margins are likely to remain stable QoQ. From 3QFY08 (except 3QFY09), interest expenses have declined in absolute amount QoQ for ICICI Bank and we expect the trend to continue in 3QFY10 as well.
- Despite the decline in loans YoY NII is expected to grow 5% YoY driven by margin expansion YoY. In 3QFY09, cost of funds increased substantially on back of rumors which led to the run on bank.
- On a high base of 3QFY09 other income is expected to decline 20% YoY. In 3QFY09, bank had booked the strong trading gains of Rs9.8b. Fee income on a lower base is expected to grow 10% YoY.
- We model in 7% QoQ increase in opex as the branch expansion is expected to gain momentum and employee cost in our view has very little room to go down further. We expect NPA provisions to remain high in 3QFY10 as well.
- Excluding the subsidiaries, the stock trades at 1.7x FY11E ABV and 1.5x FY12E ABV (BV adjusted for NPA and investment in subsidiaries). We maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH                        | FY09          |               |               |               | FY10          |               |               |               | FY09           | FY10E          |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|
|                                  | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3QE           | 4QE           |                |                |
| Interest Income                  | 78,918        | 78,350        | 78,361        | 75,297        | 71,334        | 66,569        | 65,389        | 65,721        | 310,926        | 269,014        |
| Interest Expense                 | 58,021        | 56,874        | 58,457        | 53,909        | 51,482        | 46,209        | 44,381        | 43,470        | 227,259        | 185,542        |
| <b>Net Interest Income</b>       | <b>20,898</b> | <b>21,476</b> | <b>19,904</b> | <b>21,388</b> | <b>19,853</b> | <b>20,361</b> | <b>21,007</b> | <b>22,252</b> | <b>83,666</b>  | <b>83,472</b>  |
| % Change (Y-o-Y)                 | 41.3          | 20.2          | 1.6           | 2.9           | -5.0          | -5.2          | 5.5           | 4.0           | 14.5           | -0.2           |
| Other Income                     | 15,382        | 18,773        | 25,145        | 16,737        | 20,899        | 18,238        | 19,000        | 21,599        | 76,038         | 79,736         |
| <b>Net Income</b>                | <b>36,279</b> | <b>40,250</b> | <b>45,050</b> | <b>38,125</b> | <b>40,751</b> | <b>38,599</b> | <b>40,007</b> | <b>43,851</b> | <b>159,704</b> | <b>163,208</b> |
| Operating Expenses               | 19,136        | 17,400        | 17,341        | 16,571        | 15,460        | 14,245        | 15,250        | 16,996        | 70,451         | 61,952         |
| <b>Operating Profit</b>          | <b>17,144</b> | <b>22,849</b> | <b>27,708</b> | <b>21,555</b> | <b>25,291</b> | <b>24,353</b> | <b>24,757</b> | <b>26,855</b> | <b>89,253</b>  | <b>101,256</b> |
| % Change (Y-o-Y)                 | 12.5          | 21.1          | 22.7          | -5.9          | 47.5          | 6.6           | -10.7         | 24.6          | 12.1           | 13.4           |
| Other Provisions                 | 7,925         | 9,235         | 10,077        | 10,845        | 13,237        | 10,713        | 10,000        | 9,851         | 38,083         | 43,800         |
| <b>Profit before Tax</b>         | <b>9,219</b>  | <b>13,614</b> | <b>17,631</b> | <b>10,709</b> | <b>12,055</b> | <b>13,640</b> | <b>14,757</b> | <b>17,004</b> | <b>51,171</b>  | <b>57,456</b>  |
| Tax Provisions                   | 1,935         | 3,472         | 4,910         | 3,272         | 3,273         | 3,239         | 3,984         | 5,017         | 13,588         | 15,513         |
| <b>Net Profit</b>                | <b>7,283</b>  | <b>10,142</b> | <b>12,722</b> | <b>7,438</b>  | <b>8,782</b>  | <b>10,401</b> | <b>10,773</b> | <b>11,987</b> | <b>37,582</b>  | <b>41,943</b>  |
| % Change (Y-o-Y)                 | -6.0          | 1.2           | 3.4           | -35.3         | 20.6          | 2.6           | -15.3         | 61.2          | -9.6           | 11.6           |
| Interest Exp/Interest Income (%) | 73.5          | 72.6          | 74.6          | 71.6          | 72.2          | 69.4          | 67.9          | 66.1          | 73.1           | 69.0           |
| Other Income/Net Income (%)      | 42.4          | 46.6          | 55.8          | 43.9          | 51.3          | 47.3          | 47.5          | 49.3          | 47.6           | 48.9           |
| Cost/Income Ratio (%)            | 52.7          | 43.2          | 38.5          | 43.5          | 37.9          | 36.9          | 38.1          | 38.8          | 44.1           | 38.0           |
| Provisions/Operating Profits (%) | 46.2          | 40.4          | 36.4          | 50.3          | 52.3          | 44.0          | 40.4          | 36.7          | 42.7           | 43.3           |
| Tax Rate (%)                     | 21.0          | 25.5          | 27.8          | 30.5          | 27.1          | 23.7          | 27.0          | 29.5          | 26.6           | 27.0           |

E: MOSL Estimates

Ajinkya Dhavale (AjinkyaDhavale@MotilalOswal.com) /

Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com)/Parag Jariwala (Parag.Jariwala@MotilalOswal.com)

IDFC

|                     |              |
|---------------------|--------------|
| STOCK INFO.         | BLOOMBERG    |
| BSE Sensex: 17,402  | IDFC IN      |
|                     | REUTERS CODE |
| S&P CNX: 5,188      | IDFC.BO      |
| Equity Shares (m)   | 1,295.3      |
| 52 Week Range (Rs)  | 180 / 44     |
| 1,6,12 Rel Perf (%) | -9 / -6 / 51 |
| Mcap (Rs b)         | 202.0        |
| Mcap (USD b)        | 4.3          |

29 December 2009

Neutral

Previous Recommendation: Neutral

Rs156

| YEAR  | NET INCOME | PAT    | EPS  | EPS        | P/E  | P/BV | ROE  | ROA |
|-------|------------|--------|------|------------|------|------|------|-----|
| END   | (RS M)     | (RS M) | (RS) | GROWTH (%) | (X)  | (X)  | (%)  | (%) |
| 3/09A | 15,556     | 7,498  | 5.8  | 1.0        | 26.9 | 3.3  | 12.7 | 2.6 |
| 3/10E | 19,144     | 10,618 | 8.2  | 41.6       | 19.0 | 2.9  | 16.1 | 3.3 |
| 3/11E | 22,101     | 12,269 | 9.5  | 15.6       | 16.5 | 2.5  | 16.4 | 3.3 |
| 3/12E | 25,559     | 14,457 | 11.2 | 17.8       | 14.0 | 2.2  | 16.9 | 3.4 |

Adjusted for Goodwill, Investment in subsidiaries and NPA, prices adjusted for other ventures

- Overall NII growth would be driven by infrastructure loans. We estimate NII growth of 10% YoY on a higher base. We expect margins to improve QoQ as the excess liquidity will be used to grow loans.
- On back of strong capital markets we expect IDFC to book higher trading profits of Rs500m vs Rs610m in 2QFY10. However on a YoY basis, capital gains will look high as base is low.
- On a lower base net income is expected to grow 50%+ backed by higher fee income and principal investment income.
- Excluding the subsidiaries, the stock trades at 2.5x FY11E BV and 2.2x FY11E BV (BV adjusted for NPA and investment in subsidiaries). We maintain **Neutral** on back of rich valuations

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH               | FY09         |              |              |              | FY10         |              |              | FY09          |
|-------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|
|                         | 1Q           | 2Q           | 3Q           | 4Q           | 1Q           | 2Q           | 3QE          |               |
| <b>NII</b>              | <b>2,160</b> | <b>2,028</b> | <b>2,583</b> | <b>2,561</b> | <b>2,475</b> | <b>2,770</b> | <b>2,850</b> | <b>9,332</b>  |
| % Change (Y-o-Y)        | 61           | 3            | 51           | 32           | 15           | 37           | 10           | 34            |
| - Infra Loans           | 1,770        | 1,790        | 2,070        | 1,950        | 2,190        | 2,520        | 2,600        | 7,580         |
| - Treasury              | 390          | 238          | 513          | 611          | 285          | 250          | 250          | 1,752         |
| <b>Fees</b>             | <b>1,010</b> | <b>1,358</b> | <b>723</b>   | <b>1,301</b> | <b>1,535</b> | <b>1,698</b> | <b>1,750</b> | <b>4,392</b>  |
| - Asset Management      | 180          | 590          | 480          | 780          | 720          | 690          | 700          | 2,030         |
| - SSKI                  | 370          | 350          | 130          | 300          | 350          | 630          | 650          | 1,150         |
| - Loan Related/Others   | 460          | 418          | 113          | 221          | 465          | 378          | 400          | 1,212         |
| Principal Investments   | 640          | 890          | 10           | 300          | 680          | 610          | 500          | 1,840         |
| Other Income            | 19           | 68           | 33           | (16)         | 23           | 145          | 50           | 104           |
| <b>Net Income</b>       | <b>3,828</b> | <b>4,343</b> | <b>3,350</b> | <b>4,146</b> | <b>4,714</b> | <b>5,223</b> | <b>5,150</b> | <b>15,563</b> |
| % Change (Y-o-Y)        | 28           | 33           | (8)          | 24           | 23           | 20           | 54           | 17            |
| Operating Expenses      | 769          | 929          | 663          | 1,305        | 1,026        | 1,097        | 1,150        | 3,665         |
| <b>Operating Profit</b> | <b>3,059</b> | <b>3,414</b> | <b>2,687</b> | <b>2,842</b> | <b>3,688</b> | <b>4,126</b> | <b>4,000</b> | <b>11,898</b> |
| % Change (Y-o-Y)        | 23           | 23           | (11)         | 16           | 21           | 21           | 49           | 11            |
| Provisions              | 199          | 148          | 34           | 1,151        | (66)         | 242          | 300          | 1,532         |
| <b>PBT</b>              | <b>2,861</b> | <b>3,266</b> | <b>2,653</b> | <b>1,690</b> | <b>3,754</b> | <b>3,884</b> | <b>3,700</b> | <b>10,471</b> |
| Tax                     | 685          | 833          | 810          | 454          | 973          | 973          | 925          | 2,782         |
| <b>PAT</b>              | <b>2,176</b> | <b>2,434</b> | <b>1,843</b> | <b>1,237</b> | <b>2,780</b> | <b>2,910</b> | <b>2,775</b> | <b>7,689</b>  |
| Consol Adjustments      | 9            | 111          | (3)          | 74           | 56           | 10           | 10           | 191           |
| <b>Consol PAT</b>       | <b>2,167</b> | <b>2,323</b> | <b>1,846</b> | <b>1,162</b> | <b>2,724</b> | <b>2,900</b> | <b>2,765</b> | <b>7,498</b>  |
| % Change (Y-o-Y)        | 20           | 19           | (15)         | (24)         | 26           | 25           | 50           | 1             |

E: MOSL Estimates

Ajinkya Dhavale (AjinkyaDhavale@MotilalOswal.com) /

Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com)/Parag Jariwala (Parag.Jariwala@MotilalOswal.com)

## Indian Bank

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | INBK IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | INBA.BO      |

29 December 2009

Buy

Rs174

Previous Recommendation: Buy

|                     |             |
|---------------------|-------------|
| Equity Shares (m)   | 429.8       |
| 52 Week Range (Rs)  | 196 / 64    |
| 1,6,12 Rel Perf (%) | 3 / 3 / -47 |
| Mcap (Rs b)         | 74.8        |
| Mcap (USD b)        | 1.6         |

| YEAR<br>END | NET INCOME<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | CAR<br>(%) | ROAE<br>(%) | ROAA<br>(%) | P/ABV<br>(X) |
|-------------|----------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|-------------|--------------|
| 3/09A       | 36,440               | 12,453        | 29.0        | 23.5              | 6.0        | 1.4         | 14.0       | 24.8        | 1.6         | 1.4          |
| 3/10E       | 42,520               | 14,906        | 34.7        | 19.7              | 5.0        | 1.1         | 13.7       | 24.6        | 1.6         | 1.1          |
| 3/11E       | 50,013               | 14,974        | 34.8        | 0.5               | 5.0        | 1.0         | 13.2       | 20.8        | 1.4         | 1.0          |
| 3/12E       | 55,592               | 19,317        | 44.9        | 29.0              | 3.9        | 0.8         | 13.0       | 22.8        | 1.5         | 0.8          |

- We expect NII to grow at 10% due to a high base. Deposit growth is expected to be moderate and loan growth expected to pick up compared with earlier quarters, leading to an improved CD ratio.
- Other income growth is expected to decline YoY due to lower treasury gains in 3QFY10 compared with Rs1.1b in 3QFY09. Fee income growth is expected to stay strong at ~20% YoY in 3QFY10.
- We expect a sequential fall in operating costs as in 2QFY10 the bank made an ad hoc provision of Rs150m towards wage revision.
- We continue to estimate higher NPA provisions in our numbers considering the high restructured loans (9.7%+). We have modeled 40% of restructured loans turning NPAs by FY11 and have kept provision coverage at 75%. Positive surprises are possible as the bank's reported gross and net NPA ratio of 0.9% and 0.2% respectively are the best in the industry.
- The stock trades at 1x FY11E BV and 0.8x FY12E BV. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH                        | FY09         |              |               |              | FY10          |              |               |               | FY09          | FY10E         |
|----------------------------------|--------------|--------------|---------------|--------------|---------------|--------------|---------------|---------------|---------------|---------------|
|                                  | 1Q           | 2Q           | 3Q            | 4Q           | 1Q            | 2Q           | 3QE           | 4QE           |               |               |
| Interest Income                  | 15,018       | 16,882       | 17,840        | 18,564       | 18,802        | 19,372       | 19,849        | 20,473        | 68,303        | 78,496        |
| Interest Expense                 | 9,623        | 10,063       | 10,644        | 11,888       | 11,426        | 11,780       | 11,915        | 11,975        | 42,218        | 47,096        |
| <b>Net Interest Income</b>       | <b>5,395</b> | <b>6,818</b> | <b>7,196</b>  | <b>6,676</b> | <b>7,377</b>  | <b>7,591</b> | <b>7,934</b>  | <b>8,497</b>  | <b>26,085</b> | <b>31,400</b> |
| % Change (Y-o-Y)                 | 11.7         | 44.7         | 24.6          | 27.7         | 36.7          | 11.3         | 10.3          | 27.3          | 27.0          | 20.4          |
| Other Income                     | 2,432        | 2,128        | 2,873         | 2,921        | 3,502         | 2,372        | 2,380         | 2,866         | 10,354        | 11,120        |
| <b>Net Income</b>                | <b>7,827</b> | <b>8,946</b> | <b>10,069</b> | <b>9,597</b> | <b>10,878</b> | <b>9,963</b> | <b>10,314</b> | <b>11,364</b> | <b>36,440</b> | <b>42,520</b> |
| Operating Expenses               | 3,461        | 3,618        | 3,833         | 3,239        | 4,573         | 4,425        | 4,050         | 4,178         | 14,151        | 17,226        |
| <b>Operating Profit</b>          | <b>4,366</b> | <b>5,328</b> | <b>6,237</b>  | <b>6,357</b> | <b>6,305</b>  | <b>5,539</b> | <b>6,264</b>  | <b>7,186</b>  | <b>22,288</b> | <b>25,294</b> |
| % Change (Y-o-Y)                 | 32.4         | 55.1         | 34.6          | 21.6         | 44.4          | 4.0          | 0.4           | 13.0          | 19.1          | 16.7          |
| Other Provisions                 | 1,690        | 1,089        | 1,410         | 243          | 1,209         | 293          | 1,000         | 1,498         | 4,427         | 4,000         |
| <b>Profit before Tax</b>         | <b>2,676</b> | <b>4,239</b> | <b>4,827</b>  | <b>6,114</b> | <b>5,096</b>  | <b>5,246</b> | <b>5,264</b>  | <b>5,687</b>  | <b>17,861</b> | <b>21,294</b> |
| Tax Provisions                   | 500          | 1,409        | 1,320         | 2,173        | 1,780         | 1,526        | 1,448         | 1,635         | 5,408         | 6,388         |
| <b>Net Profit</b>                | <b>2,176</b> | <b>2,829</b> | <b>3,507</b>  | <b>3,941</b> | <b>3,317</b>  | <b>3,720</b> | <b>3,817</b>  | <b>4,053</b>  | <b>12,453</b> | <b>14,906</b> |
| % Change (Y-o-Y)                 | 2.6          | 14.3         | 14.0          | 63.1         | 52.4          | 31.5         | 8.8           | 2.8           | 23.5          | 19.7          |
| Interest Exp/Interest Income (%) | 64.1         | 59.6         | 59.7          | 64.0         | 60.8          | 60.8         | 60.0          | 58.5          | 61.8          | 60.0          |
| Other Income/Net Income (%)      | 31.1         | 23.8         | 28.5          | 30.4         | 32.2          | 23.8         | 23.1          | 25.2          | 28.4          | 26.2          |
| Cost/Income Ratio (%)            | 44.2         | 40.4         | 38.1          | 33.8         | 42.0          | 44.4         | 39.3          | 36.8          | 38.8          | 40.5          |
| Provisions/Operating Profits (%) | 38.7         | 20.4         | 22.6          | 3.8          | 19.2          | 5.3          | 16.0          | 20.9          | 19.9          | 15.8          |
| Tax Rate (%)                     | 18.7         | 33.3         | 27.3          | 35.5         | 34.9          | 29.1         | 27.5          | 28.7          | 30.3          | 30.0          |

E: MOSL Estimates

Ajinkya Dhavale (AjinkyaDhavale@MotilalOswal.com) /

Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com)/Parag Jariwala (Parag.Jariwala@MotilalOswal.com)

## Indian Overseas Bank

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | IOB IN       |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | IOBK.BO      |

29 December 2009

Sell

Rs113

Previous Recommendation: Sell

|                     |              |
|---------------------|--------------|
| Equity Shares (m)   | 544.8        |
| 52 Week Range (Rs)  | 141 / 38     |
| 1,6,12 Rel Perf (%) | -6 / 9 / -22 |
| Mcap (Rs b)         | 61.4         |
| Mcap (USD b)        | 1.3          |

| YEAR<br>END | NET INCOME<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | CAR<br>(%) | ROAE<br>(%) | ROAA<br>(%) | P/ABV<br>(X) |
|-------------|----------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|-------------|--------------|
| 3/09A       | 44,654               | 13,258        | 24.3        | 10.7              | 4.6        | 1.0         | 13.2       | 24.8        | 1.2         | 1.2          |
| 3/10E       | 46,206               | 10,070        | 18.5        | -24.0             | 6.1        | 0.9         | 11.5       | 16.1        | 0.7         | 1.0          |
| 3/11E       | 51,654               | 9,898         | 18.2        | -1.7              | 6.2        | 0.9         | 11.5       | 14.4        | 0.6         | 0.9          |
| 3/12E       | 59,019               | 16,376        | 30.1        | 65.5              | 3.7        | 0.7         | 11.5       | 20.9        | 0.9         | 0.8          |

- We expect NII to grow at 4% YoY (growth of 9% QoQ) on a high base.
- Non-interest income is expected to decline YoY and QoQ due to lower trading gains in 3QFY10 (3QFY09 and 2QFY10 trading gains were Rs3.6b and Rs1.5b respectively). Operating profit is expected to decline by ~27% YoY.
- Provisions are expected to increase YoY and QoQ due to lower provision for NPAs in 3QFY09 and 2QFY10. We are modeling higher provisions for NPAs due to high restructured assets (~10% of loan book) for FY10 and FY11. In 2QFY10, the bank had an investment write back of Rs256m.
- PAT is likely to decline ~40% YoY and ~7% QoQ (pre-exceptional item) due to slower NII, other income growth and higher provision for NPAs.
- We remain concerned about the bank's asset quality. The stock trades at P/BV of 0.9x FY11E and 0.7x FY12E BV. Maintain **Sell**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH                            | FY09         |               |               |               | FY10         |               |               |               | FY09          | FY10E         |
|--------------------------------------|--------------|---------------|---------------|---------------|--------------|---------------|---------------|---------------|---------------|---------------|
|                                      | 1Q           | 2Q            | 3Q            | 4Q            | 1Q           | 2Q            | 3QE           | 4QE           |               |               |
| Interest Income                      | 21,605       | 24,270        | 26,541        | 25,115        | 25,779       | 25,500        | 26,629        | 27,913        | 96,414        | 105,820       |
| Interest Expense                     | 14,909       | 16,420        | 18,315        | 18,074        | 18,094       | 17,653        | 18,050        | 18,472        | 67,718        | 72,270        |
| <b>Net Interest Income</b>           | <b>6,696</b> | <b>7,850</b>  | <b>8,227</b>  | <b>7,041</b>  | <b>7,684</b> | <b>7,846</b>  | <b>8,579</b>  | <b>9,440</b>  | <b>28,696</b> | <b>33,550</b> |
| % Change (Y-o-Y)                     | -5.6         | 24.2          | 25.4          | 13.0          | 14.8         | 0.0           | 4.3           | 34.1          | 17.1          | 16.9          |
| Other Income                         | 263          | 2,835         | 5,508         | 6,227         | 2,307        | 3,724         | 3,410         | 3,216         | 15,958        | 12,656        |
| <b>Net Income</b>                    | <b>6,959</b> | <b>10,684</b> | <b>13,734</b> | <b>13,268</b> | <b>9,991</b> | <b>11,570</b> | <b>11,989</b> | <b>12,656</b> | <b>44,654</b> | <b>46,206</b> |
| Operating Expenses                   | 4,547        | 4,670         | 5,057         | 5,142         | 5,705        | 6,024         | 5,700         | 5,355         | 19,417        | 22,784        |
| <b>Operating Profit</b>              | <b>2,412</b> | <b>6,014</b>  | <b>8,677</b>  | <b>8,126</b>  | <b>4,286</b> | <b>5,546</b>  | <b>6,289</b>  | <b>7,301</b>  | <b>25,237</b> | <b>23,422</b> |
| % Change (Y-o-Y)                     | -41.1        | 31.3          | 76.0          | 26.7          | 77.7         | -7.8          | -27.5         | -10.2         | 26.1          | -7.2          |
| Other Provisions                     | -605         | 1,790         | 1,731         | 2,770         | -167         | 1,220         | 2,920         | 4,192         | 5,694         | 8,165         |
| <b>Profit before Tax</b>             | <b>3,017</b> | <b>4,224</b>  | <b>6,946</b>  | <b>5,356</b>  | <b>4,454</b> | <b>4,326</b>  | <b>3,369</b>  | <b>3,109</b>  | <b>19,543</b> | <b>15,258</b> |
| Tax Provisions                       | 457          | 633           | 3,062         | 2,132         | 1,436        | 1,744         | 1,044         | 964           | 6,285         | 5,188         |
| <b>Net Profit</b>                    | <b>2,560</b> | <b>3,590</b>  | <b>3,884</b>  | <b>3,224</b>  | <b>3,018</b> | <b>2,582</b>  | <b>2,325</b>  | <b>2,145</b>  | <b>13,258</b> | <b>10,070</b> |
| % Change (Y-o-Y)                     | -4.7         | 12.3          | 26.0          | 5.4           | 17.9         | -28.1         | -40.2         | -33.4         | 10.7          | -24.0         |
| Exceptional Item                     | 0            | 0             | 0             | 0             | 0            | 822           | 0             | 0             | 0             | 822           |
| <b>Net Profit (Post Exceptional)</b> | <b>2,560</b> | <b>3,590</b>  | <b>3,884</b>  | <b>3,224</b>  | <b>3,018</b> | <b>1,760</b>  | <b>2,325</b>  | <b>2,145</b>  | <b>13,258</b> | <b>9,248</b>  |
| % Change (Y-o-Y)                     | -4.7         | 12.3          | 26.0          | 5.4           | 17.9         | -51.0         | -40.2         | -33.4         | 10.7          | -30.2         |
| Interest Exp/Interest Income (%)     | 69.0         | 67.7          | 69.0          | 72.0          | 70.2         | 69.2          | 67.8          | 66.2          | 70.2          | 68.3          |
| Other Income/Net Income (%)          | 3.8          | 26.5          | 40.1          | 46.9          | 23.1         | 32.2          | 28.4          | 25.4          | 35.7          | 27.4          |
| Cost/Income Ratio (%)                | 65.3         | 43.7          | 36.8          | 38.8          | 57.1         | 52.1          | 47.5          | 42.3          | 43.5          | 49.3          |
| Provisions/Operating Profits (%)     | -25.1        | 29.8          | 20.0          | 34.1          | -3.9         | 22.0          | 46.4          | 57.4          | 22.6          | 34.9          |
| Tax Rate (%)                         | 15.2         | 15.0          | 44.1          | 39.8          | 32.2         | 40.3          | 31.0          | 31.0          | 32.2          | 34.0          |

E: MOSL Estimates

Ajinkya Dhavale (AjinkyaDhavale@MotilalOswal.com) /

Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com)/Parag Jariwala (Parag.Jariwala@MotilalOswal.com)

## Jammu &amp; Kashmir Bank

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | JKBK IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | JKBK.BO      |

|                     |               |
|---------------------|---------------|
| Equity Shares (m)   | 48.5          |
| 52 Week Range (Rs)  | 706 / 210     |
| 1,6,12 Rel Perf (%) | -10 / 1 / -21 |
| Mcap (Rs b)         | 27.8          |
| Mcap (USD b)        | 0.6           |

29 December 2009

Buy

Rs574

Previous Recommendation: Buy

| YEAR<br>END | NET INCOME<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | CAR<br>(%) | ROAE<br>(%) | ROAA<br>(%) | P/ABV<br>(X) |
|-------------|----------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|-------------|--------------|
| 3/09A       | 12,453               | 4,098         | 84.5        | 13.8              | 6.8        | 1.1         | 14.5       | 16.6        | 1.2         | 1.1          |
| 3/10E       | 14,940               | 4,886         | 100.8       | 19.2              | 5.7        | 0.9         | 14.8       | 17.4        | 1.2         | 1.0          |
| 3/11E       | 16,434               | 5,707         | 117.7       | 16.8              | 4.9        | 0.8         | 14.5       | 17.8        | 1.3         | 0.8          |
| 3/12E       | 18,057               | 6,663         | 137.4       | 16.7              | 4.2        | 0.7         | 14.5       | 18.1        | 1.3         | 0.7          |

- In 3QFY10, NII is expected to grow 5% to Rs2.8b due to 7% growth in loan book (5% growth QoQ). We expect margins to improve sequentially due to pick-up in disbursement and reduction in deposit costs.
- We expect other income to decline sequentially due to lower trading gains. On a low base, other income is expected to increase YoY
- We are conservatively estimating a higher provision charge (Rs450m in 3QFY10 v/s Rs166m in 2QFY10 and Rs120m in 3QFY09) and thus PAT is expected to stay flat YoY and decline ~10% QoQ.
- The stock trades at P/BV of 0.8x FY11E and 0.7x FY12E BV. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH                        | FY09         |              |              |              | FY10         |              |              |              | FY09          | FY10E         |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|
|                                  | 1Q           | 2Q           | 3Q           | 4Q           | 1Q           | 2Q           | 3QE          | 4QE          |               |               |
| Interest Income                  | 6,514        | 7,478        | 8,000        | 7,889        | 7,754        | 7,463        | 7,770        | 8,203        | 29,881        | 31,189        |
| Interest Expense                 | 4,252        | 4,865        | 5,379        | 5,383        | 5,094        | 4,944        | 5,013        | 5,121        | 19,879        | 20,172        |
| <b>Net Interest Income</b>       | <b>2,263</b> | <b>2,613</b> | <b>2,621</b> | <b>2,506</b> | <b>2,660</b> | <b>2,519</b> | <b>2,757</b> | <b>3,082</b> | <b>10,003</b> | <b>11,018</b> |
| % Change (Y-o-Y)                 | 19.3         | 33.9         | 30.2         | 11.7         | 17.6         | -3.6         | 5.2          | 23.0         | 23.4          | 10.1          |
| Other Income                     | 649          | 411          | 394          | 997          | 1,157        | 1,012        | 865          | 889          | 2,451         | 3,923         |
| <b>Net Income</b>                | <b>2,911</b> | <b>3,024</b> | <b>3,015</b> | <b>3,503</b> | <b>3,817</b> | <b>3,531</b> | <b>3,622</b> | <b>3,971</b> | <b>12,453</b> | <b>14,940</b> |
| Operating Expenses               | 1,096        | 1,148        | 1,145        | 1,320        | 1,252        | 1,318        | 1,330        | 1,342        | 4,709         | 5,241         |
| <b>Operating Profit</b>          | <b>1,815</b> | <b>1,876</b> | <b>1,870</b> | <b>2,184</b> | <b>2,565</b> | <b>2,213</b> | <b>2,292</b> | <b>2,629</b> | <b>7,745</b>  | <b>9,699</b>  |
| % Change (Y-o-Y)                 | 38.4         | 25.2         | 11.4         | 7.6          | 41.3         | 18.0         | 22.5         | 20.4         | 18.8          | 25.2          |
| Other Provisions                 | 414          | 243          | 120          | 646          | 803          | 166          | 450          | 878          | 1,424         | 2,296         |
| <b>Profit before Tax</b>         | <b>1,401</b> | <b>1,633</b> | <b>1,750</b> | <b>1,538</b> | <b>1,762</b> | <b>2,048</b> | <b>1,842</b> | <b>1,752</b> | <b>6,321</b>  | <b>7,403</b>  |
| Tax Provisions                   | 455          | 474          | 543          | 751          | 592          | 705          | 626          | 594          | 2,223         | 2,517         |
| <b>Net Profit</b>                | <b>946</b>   | <b>1,159</b> | <b>1,207</b> | <b>787</b>   | <b>1,171</b> | <b>1,343</b> | <b>1,215</b> | <b>1,157</b> | <b>4,098</b>  | <b>4,886</b>  |
| % Change (Y-o-Y)                 | 13.6         | 7.5          | 10.6         | 31.6         | 23.8         | 15.8         | 0.7          | 47.1         | 13.8          | 19.2          |
| Interest Exp/Interest Income (%) | 65.3         | 65.1         | 67.2         | 68.2         | 65.7         | 66.2         | 64.5         | 62.4         | 66.5          | 64.7          |
| Other Income/Net Income (%)      | 22.3         | 13.6         | 13.1         | 28.5         | 30.3         | 28.7         | 23.9         | 22.4         | 19.7          | 26.3          |
| Cost/Income Ratio (%)            | 37.7         | 38.0         | 38.0         | 37.7         | 32.8         | 37.3         | 36.7         | 33.8         | 37.8          | 35.1          |
| Provisions/Operating Profits (%) | 22.8         | 12.9         | 6.4          | 29.6         | 31.3         | 7.5          | 19.6         | 33.4         | 18.4          | 23.7          |
| Tax Rate (%)                     | 32.5         | 29.0         | 31.0         | 48.8         | 33.6         | 34.4         | 34.0         | 33.9         | 35.2          | 34.0          |

E: MOSL Estimates

Ajinkya Dhavale (AjinkyaDhavale@MotilalOswal.com) /

Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com)/Parag Jariwala (Parag.Jariwala@MotilalOswal.com)

## Oriental Bank of Commerce

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | OBC IN       |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | ORBC.BO      |

|                     |               |
|---------------------|---------------|
| Equity Shares (m)   | 250.5         |
| 52 Week Range (Rs)  | 296 / 95      |
| 1,6,12 Rel Perf (%) | -8 / 22 / -13 |
| Mcap (Rs b)         | 65.0          |
| Mcap (USD b)        | 1.4           |

29 December 2009

Buy

Rs259

Previous Recommendation: Buy

| YEAR<br>END | NET INCOME<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | CAR<br>(%) | ROAE<br>(%) | ROAA<br>(%) | P/ABV<br>(X) |
|-------------|----------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|-------------|--------------|
| 3/09A       | 30,678               | 9,054         | 36.1        | 7.7               | 7.2        | 1.0         | 13.0       | 14.8        | 0.9         | 1.1          |
| 3/10E       | 34,974               | 10,308        | 41.1        | 13.8              | 6.3        | 0.9         | 12.0       | 15.0        | 0.8         | 0.9          |
| 3/11E       | 43,052               | 12,287        | 49.0        | 19.2              | 5.3        | 0.8         | 11.3       | 15.8        | 0.9         | 0.8          |
| 3/12E       | 49,224               | 16,120        | 64.3        | 31.2              | 4.0        | 0.7         | 11.0       | 18.0        | 1.0         | 0.7          |

- We expect the NII to increase by 7% YoY (9% QoQ) at Rs6.1b due to the benefit of repricing of bulk deposits, and margin expansion.
- Deposit and loan growth are expected to stay healthy at 20-22% YoY and 3% QoQ for 3QFY10.
- Non-interest income is expected to decline YoY and QoQ due to expected lower trading profit in 3QFY10. We expect a ~50% sequential decline in trading profits. Fee income is expected to show good traction YoY.
- Provision charge is expected to increase sequentially and annually as we have assumed higher NPA provisions. In 2QFY10 and 3QFY09 the bank had an investment write back of Rs160m and Rs110m respectively. Conservatively, we expect the bank to make higher NPA provisions due to high restructured assets (~6% of loan book).
- We have assumed an effective tax rate of 27.5% (management guidance of 25%) for FY10. In 1HFY10, tax provisions were ~35% of PBT. Thus, we assume a lower effective tax rate of 18% for 3QFY10.
- The stock trades at P/BV of 0.8x FY11E and 0.7x of FY12E BV. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH                        | FY09         |              |              |              | FY10         |              |              |              | FY09          | FY10E         |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|
|                                  | 1Q           | 2Q           | 3Q           | 4Q           | 1Q           | 2Q           | 3QE          | 4QE          |               |               |
| Interest Income                  | 19,537       | 21,495       | 24,028       | 23,481       | 24,042       | 24,958       | 26,003       | 26,948       | 88,565        | 101,952       |
| Interest Expense                 | 15,070       | 16,302       | 18,350       | 18,878       | 19,201       | 19,347       | 19,918       | 20,385       | 68,600        | 78,851        |
| <b>Net Interest Income</b>       | <b>4,467</b> | <b>5,193</b> | <b>5,678</b> | <b>4,603</b> | <b>4,842</b> | <b>5,611</b> | <b>6,085</b> | <b>6,563</b> | <b>19,965</b> | <b>23,100</b> |
| % Change (Y-o-Y)                 | 0.8          | 30.0         | 41.1         | 5.3          | 8.4          | 8.0          | 7.2          | 42.6         | 19.5          | 15.7          |
| Other Income                     | 2,055        | 2,115        | 3,154        | 3,413        | 3,919        | 3,051        | 2,450        | 2,454        | 10,713        | 11,873        |
| <b>Net Income</b>                | <b>6,522</b> | <b>7,308</b> | <b>8,832</b> | <b>8,016</b> | <b>8,760</b> | <b>8,662</b> | <b>8,535</b> | <b>9,017</b> | <b>30,678</b> | <b>34,974</b> |
| Operating Expenses               | 2,985        | 3,241        | 4,970        | 2,633        | 3,591        | 3,612        | 3,800        | 4,079        | 13,828        | 15,083        |
| <b>Operating Profit</b>          | <b>3,537</b> | <b>4,067</b> | <b>3,862</b> | <b>5,383</b> | <b>5,169</b> | <b>5,049</b> | <b>4,735</b> | <b>4,937</b> | <b>16,850</b> | <b>19,891</b> |
| % Change (Y-o-Y)                 | 8.8          | 49.4         | 30.2         | 65.6         | 46.1         | 24.1         | 22.6         | -8.3         | 38.2          | 18.0          |
| Other Provisions                 | 2,071        | 1,875        | 519          | 783          | 1,514        | 551          | 1,600        | 2,007        | 5,255         | 5,672         |
| <b>Profit before Tax</b>         | <b>1,466</b> | <b>2,192</b> | <b>3,343</b> | <b>4,600</b> | <b>3,656</b> | <b>4,498</b> | <b>3,135</b> | <b>2,930</b> | <b>11,595</b> | <b>14,218</b> |
| Tax Provisions                   | -739         | -177         | 821          | 2,642        | 1,082        | 1,789        | 564          | 475          | 2,540         | 3,910         |
| <b>Net Profit</b>                | <b>2,206</b> | <b>2,369</b> | <b>2,522</b> | <b>1,958</b> | <b>2,574</b> | <b>2,709</b> | <b>2,571</b> | <b>2,455</b> | <b>9,054</b>  | <b>10,308</b> |
| % Change (Y-o-Y)                 | 10.0         | 0.3          | 26.3         | -4.3         | 16.7         | 14.3         | 1.9          | 25.4         | 7.7           | 13.8          |
| Interest Exp/Interest Income (%) | 77.1         | 75.8         | 76.4         | 80.4         | 79.9         | 77.5         | 76.6         | 75.6         | 77.5          | 77.3          |
| Other Income/Net Income (%)      | 31.5         | 28.9         | 35.7         | 42.6         | 44.7         | 35.2         | 28.7         | 27.2         | 34.9          | 33.9          |
| Cost/Income Ratio (%)            | 45.8         | 44.3         | 56.3         | 32.8         | 41.0         | 41.7         | 44.5         | 45.2         | 45.1          | 43.1          |
| Provisions/Operating Profits (%) | 58.5         | 46.1         | 13.4         | 14.5         | 29.3         | 10.9         | 33.8         | 40.7         | 31.2          | 28.5          |
| Tax Rate (%)                     | -50.4        | -8.1         | 24.6         | 57.4         | 29.6         | 39.8         | 18.0         | 16.2         | 21.9          | 27.5          |

E: MOSL Estimates

Ajinkya Dhavale (AjinkyaDhavale@MotilalOswal.com) /

Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com)/Parag Jariwala (Parag.Jariwala@MotilalOswal.com)



## Punjab National Bank

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | PNB IN       |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | PNB.BO       |

29 December 2009

Buy

Rs915

Previous Recommendation: Buy

|                     |              |
|---------------------|--------------|
| Equity Shares (m)   | 315.3        |
| 52 Week Range (Rs)  | 943 / 286    |
| 1,6,12 Rel Perf (%) | -2 / 17 / -4 |
| Mcap (Rs b)         | 288.4        |
| Mcap (USD b)        | 6.2          |

| YEAR<br>END | NET INCOME<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | CAR<br>(%) | ROAE<br>(%) | ROAA<br>(%) | P/ABV<br>(X) |
|-------------|----------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|-------------|--------------|
| 3/09A       | 99,505               | 30,909        | 98.0        | 50.9              | 9.6        | 2.2         | 14.0       | 25.8        | 1.4         | 2.2          |
| 3/10E       | 117,591              | 39,208        | 124.4       | 26.9              | 7.4        | 1.8         | 13.2       | 26.7        | 1.5         | 1.8          |
| 3/11E       | 135,542              | 46,322        | 146.9       | 18.1              | 6.2        | 1.5         | 12.8       | 25.8        | 1.5         | 1.5          |
| 3/12E       | 154,568              | 52,674        | 167.1       | 13.7              | 5.5        | 1.2         | 12.2       | 24.2        | 1.4         | 1.2          |

- We expect reported loan growth to fall to 21% YoY v/s 38% in 1QFY10 and 25% in 2QFY10 due to a high base of 3QFY09. In 3QFY09, loans grew 9% sequentially. We expect loan growth of ~5% QoQ.
- Deposit growth is expected to moderate to 21% from 27% in 1QFY10 and 24% in 2QFY10. In 3QFY09, deposits grew 6% QoQ and we expect deposits to grow ~3% QoQ in 3QFY10.
- We have modeled 20% YoY growth in fee income and expect a ~50% sequential decline in trading profits. Strong trading profits can provide upside to our earnings estimates. On a YoY basis, other income is expected to fall 30% as we have assumed lower trading profits.
- Reported gross and net NPA ratio remain comfortable at 1.6% and 0.1% respectively, with provision coverage ratio of 90%+ as at September 2009. NPA provisions thus would remain minimal in 3QFY10 but conservatively we expect the bank to make higher NPA provisions.
- The stock trades at 1.5x FY10E BV and 1.2x FY11E BV. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH                        | FY09          |               |               |               | FY10          |               |               |               | FY09          | FY10E          |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|
|                                  | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3QE           | 4QE           |               |                |
| Interest Income                  | 41,385        | 46,504        | 52,947        | 52,426        | 52,074        | 54,072        | 56,597        | 59,499        | 193,262       | 222,243        |
| Interest Expense                 | 26,937        | 29,382        | 33,274        | 33,360        | 33,456        | 33,123        | 33,971        | 34,400        | 122,953       | 134,950        |
| <b>Net Interest Income</b>       | <b>14,448</b> | <b>17,122</b> | <b>19,674</b> | <b>19,065</b> | <b>18,618</b> | <b>20,949</b> | <b>22,626</b> | <b>25,099</b> | <b>70,309</b> | <b>87,293</b>  |
| % Change (Y-o-Y)                 | 11.0          | 32.6          | 38.1          | 25.7          | 28.9          | 22.4          | 15.0          | 31.6          | 27.0          | 24.2           |
| Other Income                     | 4,561         | 6,628         | 9,452         | 8,556         | 9,702         | 6,686         | 6,736         | 7,174         | 29,197        | 30,298         |
| <b>Net Income</b>                | <b>19,009</b> | <b>23,750</b> | <b>29,126</b> | <b>27,621</b> | <b>28,320</b> | <b>27,636</b> | <b>29,362</b> | <b>32,273</b> | <b>99,505</b> | <b>117,591</b> |
| Operating Expenses               | 9,185         | 10,072        | 11,066        | 11,740        | 12,626        | 11,573        | 11,800        | 12,084        | 42,062        | 48,083         |
| <b>Operating Profit</b>          | <b>9,824</b>  | <b>13,678</b> | <b>18,059</b> | <b>15,882</b> | <b>15,693</b> | <b>16,063</b> | <b>17,562</b> | <b>20,189</b> | <b>57,443</b> | <b>69,507</b>  |
| % Change (Y-o-Y)                 | 5.3           | 60.0          | 82.2          | 29.5          | 59.7          | 17.4          | -2.8          | 27.1          | 43.4          | 21.0           |
| Other Provisions                 | 2,105         | 3,177         | 1,813         | 2,678         | 3,018         | 2,160         | 1,600         | 4,211         | 9,774         | 10,988         |
| <b>Profit before Tax</b>         | <b>7,719</b>  | <b>10,501</b> | <b>16,246</b> | <b>13,203</b> | <b>12,676</b> | <b>13,903</b> | <b>15,962</b> | <b>15,978</b> | <b>47,669</b> | <b>58,519</b>  |
| Tax Provisions                   | 2,595         | 3,430         | 6,188         | 4,548         | 4,355         | 4,634         | 5,188         | 5,135         | 16,760        | 19,311         |
| <b>Net Profit</b>                | <b>5,124</b>  | <b>7,071</b>  | <b>10,058</b> | <b>8,656</b>  | <b>8,321</b>  | <b>9,270</b>  | <b>10,774</b> | <b>10,843</b> | <b>30,909</b> | <b>39,208</b>  |
| % Change (Y-o-Y)                 | 20.5          | 31.3          | 85.8          | 59.2          | 62.4          | 31.1          | 7.1           | 25.3          | 50.9          | 26.9           |
| Interest Exp/Interest Income (%) | 65.1          | 63.2          | 62.8          | 63.6          | 64.2          | 61.3          | 60.0          | 57.8          | 63.6          | 60.7           |
| Other Income/Net Income (%)      | 24.0          | 27.9          | 32.5          | 31.0          | 34.3          | 24.2          | 22.9          | 22.2          | 29.3          | 25.8           |
| Cost/Income Ratio (%)            | 48.3          | 42.4          | 38.0          | 42.5          | 44.6          | 41.9          | 40.2          | 37.4          | 42.3          | 40.9           |
| Provisions/Operating Profits (%) | 21.4          | 23.2          | 10.0          | 16.9          | 19.2          | 13.4          | 9.1           | 20.9          | 17.0          | 15.8           |
| Tax Rate (%)                     | 33.6          | 32.7          | 38.1          | 34.4          | 34.4          | 33.3          | 32.5          | 32.1          | 35.2          | 33.0           |

E: MOSL Estimates; Quarterly and Annual numbers may not tally due to reclassification

Ajinkya Dhavale (AjinkyaDhavale@MotilalOswal.com) /

Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com)/Parag Jariwala (Parag.Jariwala@MotilalOswal.com)



## Shriram Transport Finance

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | SHTF IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | SRTR.BO      |

29 December 2009

Buy

Rs456

Previous Recommendation: Buy

|                     |             |
|---------------------|-------------|
| Equity Shares (m)   | 211.5       |
| 52 Week Range (Rs)  | 525 / 150   |
| 1,6,12 Rel Perf (%) | 4 / 38 / 51 |
| Mcap (Rs b)         | 96.6        |
| Mcap (USD b)        | 2.1         |

| YEAR<br>END | NET INCOME<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROAE<br>(%) | ROAA<br>(%) | P/ABV<br>(X) |
|-------------|----------------------|---------------|-------------|-------------------|------------|-------------|-------------|-------------|--------------|
| 3/09A       | 17,535               | 6,124         | 30.1        | 56.8              | 15.2       | 4.1         | 30.3        | 2.8         | 4.2          |
| 3/10E       | 21,801               | 8,041         | 38.0        | 26.3              | 12.0       | 3.1         | 29.7        | 3.1         | 3.2          |
| 3/11E       | 26,922               | 10,474        | 49.5        | 30.2              | 9.2        | 2.4         | 29.6        | 3.5         | 2.5          |
| 3/12E       | 32,602               | 12,764        | 60.3        | 21.9              | 7.6        | 2.0         | 28.8        | 3.5         | 2.0          |

- Total income is expected to increase 13% YoY (3.5% QoQ) despite a high base due to pick-up in loan disbursement (11% YTD growth in AUM in 1HFY10) and strong traction in fee-based income.
- Interest expense is expected to be flat QoQ (4% decline YoY) due to lower borrowing costs and excess liquidity on the balance sheet. SHTF had liquid funds of Rs55b (~20% of assets) in 2QFY10, which will result in lower incremental borrowings in 2HFY10 compared with 2HFY09. We expect margins to improve QoQ and operating profit is expected to increase 43% YoY (4% QoQ).
- Conservatively, we assume higher NPA provisions at Rs1.1b (flat QoQ and 46% increase YoY). Considering the improved outlook on asset quality and a comfortable provision coverage ratio at 70%, NPA provisions can surprise us positively.
- Net profit is expected to grow 40% YoY (flat QoQ).
- The stock trades at 2.4x FY11E BV and 9.2x FY11E EPS with RoE at ~25%+ over FY10-11E. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH                     | FY09         |              |              |               | FY10          |               |               |               | FY09          | FY10E         |
|-------------------------------|--------------|--------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                               | 1Q           | 2Q           | 3Q           | 4Q            | 1Q            | 2Q            | 3QE           | 4QE           |               |               |
| Operating Income              | 8,344        | 9,016        | 9,729        | 9,953         | 10,203        | 10,645        | 10,800        | 10,929        | 33,208        | 42,577        |
| Other Income                  | 74           | 96           | 127          | 90            | 147           | 71            | 295           | 349           | 4,103         | 862           |
| <b>Total Income</b>           | <b>8,418</b> | <b>9,112</b> | <b>9,856</b> | <b>10,043</b> | <b>10,350</b> | <b>10,716</b> | <b>11,095</b> | <b>11,278</b> | <b>37,311</b> | <b>43,439</b> |
| Y-o-Y Growth (%)              | 75.2         | 59.3         | 45.5         | 31.4          | 22.9          | 17.6          | 12.6          | 12.3          | 48.7          | 16.4          |
| Interest Expenses             | 4,287        | 4,683        | 5,542        | 5,265         | 5,527         | 5,382         | 5,315         | 5,413         | 19,777        | 21,638        |
| <b>Net Income</b>             | <b>4,131</b> | <b>4,428</b> | <b>4,314</b> | <b>4,778</b>  | <b>4,822</b>  | <b>5,334</b>  | <b>5,780</b>  | <b>5,865</b>  | <b>17,535</b> | <b>21,801</b> |
| Operating Expenses            | 1,229        | 1,315        | 1,293        | 1,434         | 1,404         | 1,149         | 1,450         | 1,744         | 5,271         | 5,747         |
| <b>Operating Profit</b>       | <b>2,902</b> | <b>3,114</b> | <b>3,021</b> | <b>3,344</b>  | <b>3,418</b>  | <b>4,185</b>  | <b>4,330</b>  | <b>4,121</b>  | <b>12,264</b> | <b>16,054</b> |
| Y-o-Y Growth (%)              | 65.7         | 55.0         | 38.8         | 37.1          | 17.8          | 34.4          | 43.3          | 23.2          | 43.9          | 30.9          |
| Provisions                    | 695          | 735          | 752          | 994           | 949           | 1,122         | 1,100         | 881           | 3,057         | 4,052         |
| <b>Profit before Tax</b>      | <b>2,207</b> | <b>2,379</b> | <b>2,269</b> | <b>2,351</b>  | <b>2,469</b>  | <b>3,063</b>  | <b>3,230</b>  | <b>3,240</b>  | <b>9,206</b>  | <b>12,002</b> |
| Tax Provisions                | 771          | 723          | 776          | 812           | 825           | 988           | 1,140         | 1,007         | 3,082         | 3,961         |
| <b>Net Profit</b>             | <b>1,436</b> | <b>1,656</b> | <b>1,493</b> | <b>1,539</b>  | <b>1,644</b>  | <b>2,075</b>  | <b>2,090</b>  | <b>2,233</b>  | <b>6,124</b>  | <b>8,041</b>  |
| Y-o-Y Growth (%)              | 91.6         | 79.4         | 34.9         | 37.6          | 14.5          | 25.3          | 40.0          | 45.1          | 57.1          | 31.3          |
| Int Exp/ Int Earned (%)       | 51.4         | 51.9         | 57.0         | 52.9          | 54.2          | 50.6          | 49.2          | 49.5          | 59.6          | 50.8          |
| Other Income / Net Income (%) | 1.8          | 2.2          | 2.9          | 1.9           | 3.0           | 1.3           | 5.1           | 6.0           | 23.4          | 4.0           |
| Cost to Income Ratio (%)      | 29.8         | 29.7         | 30.0         | 30.0          | 29.1          | 21.5          | 25.1          | 29.7          | 30.1          | 26.4          |

E: MOSL Estimates; Quarterly nos and full year nos will not tally due to different way of reporting financial nos

Ajinkya Dhavale (AjinkyaDhavale@MotilalOswal.com) /

Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com)/Parag Jariwala (Parag.Jariwala@MotilalOswal.com)

## South Indian Bank

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE SENSEX: 17,402 | SIB IN       |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | SIBK.BO      |

29 December 2009

Buy

Rs144

Previous Recommendation: Buy

|                     |             |
|---------------------|-------------|
| Equity Shares (m)   | 113.0       |
| 52 Week Range (Rs)  | 171 / 43    |
| 1,6,12 Rel Perf (%) | 1 / 35 / 73 |
| Mcap (Rs b)         | 16.3        |
| Mcap (USD b)        | 0.3         |

| YEAR  | NET INCOME | PAT    | EPS  | EPS        | P/E | P/BV | CAR  | ROAE | ROAA | P/ABV |
|-------|------------|--------|------|------------|-----|------|------|------|------|-------|
| END   | (RS M)     | (RS M) | (RS) | GROWTH (%) | (X) | (X)  | (%)  | (%)  | (%)  | (X)   |
| 3/09A | 6,872      | 1,948  | 17.2 | 30.8       | 8.4 | 1.3  | 14.8 | 15.8 | 1.0  | 1.3   |
| 3/10E | 8,983      | 2,540  | 22.5 | 30.4       | 6.4 | 1.1  | 15.5 | 18.1 | 1.2  | 1.1   |
| 3/11E | 10,089     | 3,108  | 27.5 | 22.4       | 5.2 | 0.9  | 13.8 | 19.2 | 1.2  | 1.0   |
| 3/12E | 11,786     | 3,740  | 33.1 | 20.3       | 4.4 | 0.8  | 13.2 | 19.9 | 1.2  | 0.8   |

- Advances and deposits are expected to grow 23% YoY and 3-4% QoQ. We expect NII to grow ~ 20% YoY (~7% QoQ) due to strong loan growth and margin expansion in 3QFY10.
- We expect other income to fall sequentially as trading profits are expected to decline (Rs100m in 3QFY10 v/s Rs366m in 2QFY10). Fee income is expected to show good traction sequentially.
- We conservatively assume a higher provision charge at Rs245m v/s Rs165m in 2QFY10 (including investment write back of Rs67m) and an average for the past eight quarters of Rs134m.
- The stock trades at 0.9x FY11E BV and 0.8x FY12E BV with RoE 19-20%. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH                         | FY09         |              |              |              | FY10         |              |              |              | FY09         | FY10E        |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                                   | 1Q           | 2Q           | 3Q           | 4Q           | 1Q           | 2Q           | 3QE          | 4QE          |              |              |
| Interest Income                   | 3,716        | 4,036        | 4,414        | 4,730        | 4,653        | 4,689        | 4,892        | 5,215        | 16,869       | 19,448       |
| Interest Expense                  | 2,688        | 2,750        | 2,953        | 3,250        | 3,128        | 3,037        | 3,122        | 3,360        | 11,640       | 12,647       |
| <b>Net Interest Income</b>        | <b>1,028</b> | <b>1,286</b> | <b>1,462</b> | <b>1,480</b> | <b>1,524</b> | <b>1,652</b> | <b>1,770</b> | <b>1,855</b> | <b>5,229</b> | <b>6,801</b> |
| % Change (Y-o-Y)                  | 10.8         | 49.5         | 57.8         | 41.3         | 48.3         | 28.5         | 21.1         | 25.3         | 39.0         | 30.1         |
| Other Income                      | 343          | 363          | 465          | 443          | 560          | 655          | 435          | 533          | 1,643        | 2,183        |
| <b>Net Income</b>                 | <b>1,371</b> | <b>1,649</b> | <b>1,926</b> | <b>1,923</b> | <b>2,084</b> | <b>2,307</b> | <b>2,205</b> | <b>2,387</b> | <b>6,872</b> | <b>8,983</b> |
| % Change (Y-o-Y)                  | 12.8         | 30.5         | 44.3         | 40.1         | 52.1         | 39.9         | 14.4         | 24.1         | 32.5         | 30.7         |
| Operating Expenses                | 677          | 719          | 925          | 962          | 1,015        | 968          | 915          | 1,026        | 3,285        | 3,925        |
| <b>Operating Profit</b>           | <b>694</b>   | <b>930</b>   | <b>1,001</b> | <b>962</b>   | <b>1,069</b> | <b>1,339</b> | <b>1,290</b> | <b>1,361</b> | <b>3,587</b> | <b>5,059</b> |
| % Change (Y-o-Y)                  | 28.9         | 37.0         | 46.6         | 14.5         | 54.1         | 44.0         | 28.8         | 41.5         | 32.5         | 41.0         |
| Other Provisions                  | 107          | 144          | 178          | 145          | 104          | 165          | 245          | 637          | 573          | 1,151        |
| <b>Profit before Tax</b>          | <b>587</b>   | <b>786</b>   | <b>823</b>   | <b>817</b>   | <b>965</b>   | <b>1,174</b> | <b>1,045</b> | <b>724</b>   | <b>3,014</b> | <b>3,908</b> |
| Tax Provisions                    | 201          | 269          | 281          | 315          | 364          | 448          | 355          | 246          | 1,066        | 1,368        |
| <b>Net Profit</b>                 | <b>386</b>   | <b>517</b>   | <b>542</b>   | <b>503</b>   | <b>601</b>   | <b>726</b>   | <b>690</b>   | <b>478</b>   | <b>1,948</b> | <b>2,540</b> |
| % Change (Y-o-Y)                  | 25.3         | 44.9         | 33.2         | 12.1         | 55.6         | 40.3         | 27.2         | -4.9         | 28.4         | 30.4         |
| Interest Exp./Interest Income (%) | 72.3         | 68.1         | 66.9         | 68.7         | 67.2         | 64.8         | 63.8         | 64.4         | 69.0         | 65.0         |
| Other Income/Net Income (%)       | 25.0         | 22.0         | 24.1         | 23.0         | 26.9         | 28.4         | 19.7         | 22.3         | 23.9         | 24.3         |
| Cost to Income Ratio (%)          | 49.4         | 43.6         | 48.0         | 50.0         | 48.7         | 42.0         | 41.5         | 43.0         | 47.8         | 43.7         |
| Provisions/Operating Profits (%)  | 15.4         | 15.4         | 17.8         | 15.0         | 9.8          | 12.3         | 19.0         | 46.8         | 16.0         | 22.7         |
| Tax Rate (%)                      | 34.2         | 34.2         | 34.1         | 38.5         | 37.7         | 38.2         | 34.0         | 34.0         | 35.4         | 35.0         |

E: MOSL Estimates

Ajinkya Dhavale (AjinkyaDhavale@MotilalOswal.com) /

Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com)/Parag Jariwala (Parag.Jariwala@MotilalOswal.com)

## State Bank of India

STOCK INFO. BLOOMBERG  
BSE Sensex: 17,402 SBIN IN  
REUTERS CODE  
S&P CNX: 5,188 SBI.BO

29 December 2009

Buy

Rs2,221

Previous Recommendation: Buy

Equity Shares (m) 634.9  
52 Week Range (Rs) 2,500 / 894  
1,6,12 Rel Perf (%) -4 / 8 / -8  
Mcap (Rs b) 1,410.0  
Mcap (USD b) 30.2

| YEAR<br>END | NET INCOME<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | CON.EPS<br>(RS) | CON.<br>P/E (X) | CON.<br>P/BV (X) | CON.<br>P/ABV (X) | CAR<br>(%) | ROAE<br>(%) | ROAA<br>(%) |
|-------------|----------------------|---------------|-------------|-----------------|-----------------|------------------|-------------------|------------|-------------|-------------|
| 3/09A       | 335,648              | 91,221        | 143.7       | 178.4           | 11.8            | 1.9              | 2.1               | 14.3       | 17.1        | 1.1         |
| 3/10E       | 387,826              | 104,421       | 164.5       | 215.7           | 9.8             | 1.6              | 1.8               | 12.5       | 16.8        | 1.0         |
| 3/11E       | 480,970              | 124,973       | 196.8       | 269.1           | 7.8             | 1.4              | 1.5               | 12.2       | 17.6        | 1.0         |
| 3/12E       | 562,687              | 144,317       | 227.3       | 302.0           | 7.0             | 1.2              | 1.3               | 12.8       | 17.7        | 1.0         |

\* valuation multiples are adjusted for SBI Life

- Deposits growth is expected to come down to 15% due to high base of 3QFY09. Lower base of 3QFY09 will lead to ~20% YoY growth in loans. We have modeled 5.5% QoQ growth in loans and ~3% QoQ growth in deposits. CD ratio is expected to improve further.
- We expect margins to improve sequentially from 2.54% in 2QFY10 by ~10bp due to improved yields on overall funds, continued benefit of deposit repricing and expansion of CD ratio. But on a YoY basis, margins will decline significantly. We expect NII to grow ~10% YoY.
- Strong traction in fee income is expected to continue in 3QFY10 after growing 34% YoY in 1HFY10. We expect non-interest income to be flattish due to pressure on trading gains.
- While operating profit is expected to increase 16% YoY, net profit growth is likely to be 8% as provisions are expected to increase ~6x. In 3QFY09, the bank had an MTM write back of Rs3.4b. In 3QFY10, we have assumed NPA provision of Rs10b as it will have to increase the PCR to 70% from 43% at current levels.
- The stock trades at 1.5x FY11E and 1.3x FY12E consolidated ABV. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH                        | FY09          |               |               |               | FY10          |               |               |                | FY09           | FY10E          |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|----------------|
|                                  | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3QE           | 4QE            |                |                |
| Interest Income                  | 137,992       | 155,665       | 180,303       | 173,424       | 174,728       | 177,759       | 185,894       | 195,659        | 637,884        | 734,039        |
| Interest Expense                 | 89,815        | 101,112       | 122,722       | 125,005       | 124,479       | 121,671       | 122,495       | 129,114        | 429,144        | 497,759        |
| <b>Net Interest Income</b>       | <b>48,177</b> | <b>54,554</b> | <b>57,582</b> | <b>48,419</b> | <b>50,249</b> | <b>56,088</b> | <b>63,399</b> | <b>66,544</b>  | <b>208,740</b> | <b>236,280</b> |
| % Change (Y-o-Y)                 | 14.7          | 45.0          | 35.3          | 0.9           | 4.3           | 2.8           | 10.1          | 37.4           | 22.6           | 13.2           |
| Other Income                     | 24,039        | 23,431        | 32,256        | 47,182        | 35,688        | 35,252        | 33,805        | 46,802         | 126,908        | 151,546        |
| <b>Net Income</b>                | <b>72,215</b> | <b>77,985</b> | <b>89,838</b> | <b>95,602</b> | <b>85,936</b> | <b>91,340</b> | <b>97,204</b> | <b>113,346</b> | <b>335,648</b> | <b>387,826</b> |
| Operating Expenses               | 32,592        | 36,053        | 45,011        | 42,831        | 49,198        | 42,990        | 45,181        | 46,689         | 156,487        | 184,057        |
| <b>Operating Profit</b>          | <b>39,623</b> | <b>41,932</b> | <b>44,826</b> | <b>52,771</b> | <b>36,739</b> | <b>48,350</b> | <b>52,023</b> | <b>66,657</b>  | <b>179,161</b> | <b>203,769</b> |
| % Change (Y-o-Y)                 | 67.8          | 54.5          | 22.5          | 20.7          | -7.3          | 15.3          | 16.1          | 26.3           | 36.7           | 13.7           |
| Other Provisions                 | 15,495        | 6,106         | 1,968         | 13,777        | 1,727         | 10,161        | 11,400        | 19,833         | 37,346         | 43,121         |
| <b>Profit before Tax</b>         | <b>24,129</b> | <b>35,826</b> | <b>42,858</b> | <b>38,994</b> | <b>35,011</b> | <b>38,190</b> | <b>40,623</b> | <b>46,824</b>  | <b>141,815</b> | <b>160,648</b> |
| Tax Provisions                   | 7,721         | 13,229        | 18,074        | 11,571        | 11,708        | 13,289        | 13,812        | 17,418         | 50,594         | 56,227         |
| <b>Net Profit</b>                | <b>16,408</b> | <b>22,597</b> | <b>24,784</b> | <b>27,423</b> | <b>23,304</b> | <b>24,900</b> | <b>26,811</b> | <b>29,406</b>  | <b>91,221</b>  | <b>104,421</b> |
| % Change (Y-o-Y)                 | 15.1          | 40.2          | 37.0          | 45.6          | 42.0          | 10.2          | 8.2           | 7.2            | 35.6           | 14.5           |
| Interest Exp/Interest Income (%) | 65.1          | 65.0          | 68.1          | 72.1          | 71.2          | 68.4          | 65.9          | 66.0           | 67.3           | 67.8           |
| Other Income/Net Income (%)      | 33.3          | 30.0          | 35.9          | 49.4          | 41.5          | 38.6          | 34.8          | 41.3           | 37.8           | 39.1           |
| Cost/Income Ratio (%)            | 45.1          | 46.2          | 50.1          | 44.8          | 57.2          | 47.1          | 46.5          | 41.2           | 46.6           | 47.5           |
| Provisions/Operating Profits (%) | 39.1          | 14.6          | 4.4           | 26.1          | 4.7           | 21.0          | 21.9          | 29.8           | 20.8           | 21.2           |
| Tax Rate (%)                     | 32.0          | 36.9          | 42.2          | 29.7          | 33.4          | 34.8          | 34.0          | 37.2           | 35.7           | 35.0           |

E: MOSL Estimates

Ajinkya Dhavale (AjinkyaDhavale@MotilalOswal.com) /

Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com)/Parag Jariwala (Parag.Jariwala@MotilalOswal.com)

## Union Bank of India

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | UNBK IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | UNBK.BO      |

|                     |               |
|---------------------|---------------|
| Equity Shares (m)   | 505.1         |
| 52 Week Range (Rs)  | 291 / 115     |
| 1,6,12 Rel Perf (%) | -6 / -9 / -17 |
| Mcap (Rs b)         | 135.0         |
| Mcap (USD b)        | 2.9           |

29 December 2009

Buy

Rs267

Previous Recommendation: Buy

| YEAR<br>END | NET INCOME<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | CAR<br>(%) | ROAE<br>(%) | ROAA<br>(%) | P/ABV<br>(X) |
|-------------|----------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|-------------|--------------|
| 3/09A       | 52,961               | 17,266        | 34.2        | 24.5              | 7.8        | 1.9         | 13.3       | 27.2        | 1.2         | 2.0          |
| 3/10E       | 58,909               | 20,630        | 40.8        | 19.5              | 6.5        | 1.5         | 12.6       | 26.1        | 1.2         | 1.6          |
| 3/11E       | 74,270               | 26,506        | 52.5        | 28.5              | 5.1        | 1.2         | 12.3       | 27.0        | 1.3         | 1.3          |
| 3/12E       | 84,205               | 30,501        | 60.4        | 15.1              | 4.4        | 1.0         | 11.9       | 25.2        | 1.2         | 1.1          |

- We expect loan and deposit growth of ~12% and ~20% respectively due to a high base. In 2QFY10 loan and deposit YoY growth was 15% and 29% respectively. We expect loans and deposits to grow 4-5% QoQ.
- In 3QFY09, strong pricing power led to 20bp margin expansion QoQ to 3.53%. Consequently, we expect an 8% decline in NII due to high base. However, sequentially, we expect a 20% increase in NII led by margin expansion (led by a decline in the cost of funds).
- Core fee income is likely to grow at ~25% YoY in 3QFY10 due to the bank's increased thrust on scaling up traditional non-fund based revenue. Overall, other income is expected to grow 20% led by flattish trading profits (one of the few banks to report lower trading profits in 3QFY09) and strong fee income growth.
- Considering UBI's provision coverage ratio of 90%+, NPA provisions can surprise positively as we are conservative in our estimates. In 3QFY09, the bank had a lower tax rate and a higher MTM write back on investments. Consequently, in spite of a 10% YoY increase in operating profit, net profit is expected to decline 20% YoY.
- The stock trades at 1.2x FY11E and 1x FY12E BV. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH                        | FY09          |               |               |               | FY10          |               |               |               | FY09          | FY10E         |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                                  | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3QE           | 4QE           |               |               |
| Interest Income                  | 25,123        | 28,290        | 32,617        | 32,897        | 31,753        | 32,056        | 33,638        | 35,982        | 118,894       | 133,429       |
| Interest Expense                 | 17,232        | 18,560        | 21,333        | 23,633        | 23,737        | 23,422        | 23,267        | 23,937        | 80,758        | 94,363        |
| <b>Net Interest Income</b>       | <b>7,891</b>  | <b>9,730</b>  | <b>11,284</b> | <b>9,264</b>  | <b>8,016</b>  | <b>8,634</b>  | <b>10,372</b> | <b>12,045</b> | <b>38,136</b> | <b>39,066</b> |
| % Change (Y-o-Y)                 | 7.5           | 48.2          | 63.1          | 20.1          | 1.6           | -11.3         | -8.1          | 30.0          | 33.6          | 2.4           |
| Other Income                     | 2,426         | 2,856         | 3,921         | 5,590         | 5,287         | 5,553         | 4,689         | 4,314         | 14,826        | 19,843        |
| <b>Net Income</b>                | <b>10,317</b> | <b>12,586</b> | <b>15,205</b> | <b>14,854</b> | <b>13,303</b> | <b>14,187</b> | <b>15,060</b> | <b>16,358</b> | <b>52,961</b> | <b>58,909</b> |
| Operating Expenses               | 4,157         | 5,589         | 6,656         | 5,740         | 5,429         | 6,086         | 5,700         | 6,005         | 22,141        | 23,220        |
| <b>Operating Profit</b>          | <b>6,160</b>  | <b>6,997</b>  | <b>8,548</b>  | <b>9,115</b>  | <b>7,875</b>  | <b>8,101</b>  | <b>9,360</b>  | <b>10,353</b> | <b>30,820</b> | <b>35,689</b> |
| % Change (Y-o-Y)                 | 17.3          | 32.4          | 34.4          | 2.3           | 27.8          | 15.8          | 9.5           | 13.6          | 19.4          | 15.8          |
| Other Provisions                 | 2,957         | 2,033         | -449          | 2,834         | 1,903         | 1,350         | 1,850         | 1,934         | 7,375         | 7,036         |
| <b>Profit before Tax</b>         | <b>3,203</b>  | <b>4,965</b>  | <b>8,997</b>  | <b>6,281</b>  | <b>5,972</b>  | <b>6,751</b>  | <b>7,510</b>  | <b>8,419</b>  | <b>23,446</b> | <b>28,652</b> |
| Tax Provisions                   | 920           | 1,350         | 2,280         | 1,630         | 1,550         | 1,700         | 2,178         | 2,595         | 6,180         | 8,023         |
| <b>Net Profit</b>                | <b>2,283</b>  | <b>3,615</b>  | <b>6,717</b>  | <b>4,651</b>  | <b>4,422</b>  | <b>5,051</b>  | <b>5,332</b>  | <b>5,825</b>  | <b>17,266</b> | <b>20,630</b> |
| % Change (Y-o-Y)                 | 1.6           | 31.1          | 83.8          | -10.8         | 93.7          | 39.7          | -20.6         | 25.2          | 24.5          | 19.5          |
| Interest Exp/Interest Income (%) | 68.6          | 65.6          | 65.4          | 71.8          | 74.8          | 73.1          | 69.2          | 66.5          | 67.9          | 70.7          |
| Other Income/Net Income (%)      | 23.5          | 22.7          | 25.8          | 37.6          | 39.7          | 39.1          | 31.1          | 26.4          | 28.0          | 33.7          |
| Cost/Income Ratio (%)            | 40.3          | 44.4          | 43.8          | 38.6          | 40.8          | 42.9          | 37.8          | 36.7          | 41.8          | 39.4          |
| Provisions/Operating Profits (%) | 48.0          | 29.0          | -5.3          | 31.1          | 24.2          | 16.7          | 19.8          | 18.7          | 23.9          | 19.7          |
| Tax Rate (%)                     | 28.7          | 27.2          | 25.3          | 26.0          | 26.0          | 25.2          | 29.0          | 30.8          | 26.4          | 28.0          |

E: MOSL Estimates

Ajinkya Dhavale (AjinkyaDhavale@MotilalOswal.com) /

Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com)/Parag Jariwala (Parag.Jariwala@MotilalOswal.com)

## Yes Bank

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | YES IN       |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | YESB.BO      |

|                     |              |
|---------------------|--------------|
| Equity Shares (m)   | 297.0        |
| 52 Week Range (Rs)  | 278 / 41     |
| 1,6,12 Rel Perf (%) | 5 / 62 / 176 |
| Mcap (Rs b)         | 80.7         |
| Mcap (USD b)        | 1.7          |

29 December 2009

Buy

Rs272

Previous Recommendation: Buy

| YEAR<br>END | NET INCOME<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | CAR<br>(%) | ROAE<br>(%) | ROAA<br>(%) | P/ABV<br>(X) |
|-------------|----------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|-------------|--------------|
| 3/09A       | 9,462                | 3,038         | 10.2        | 51.3              | 26.6       | 5.0         | 16.6       | 20.6        | 1.5         | 5.1          |
| 3/10E       | 13,029               | 4,307         | 14.5        | 41.8              | 18.7       | 3.9         | 14.8       | 23.4        | 1.6         | 4.0          |
| 3/11E       | 17,162               | 5,492         | 16.1        | 10.9              | 16.9       | 2.5         | 16.3       | 19.0        | 1.6         | 2.5          |
| 3/12E       | 22,208               | 6,966         | 20.4        | 26.8              | 13.3       | 2.1         | 14.3       | 17.1        | 1.5         | 2.1          |

- We expect NII growth of 50%+ due to a low base, led by margin expansion. NII is expected to grow ~18% sequentially as the full benefit of loan growth during the last fortnight of 2QFY10 will be realized. A decline in the cost of funds will also help margin expansion.
- Non interest income will decline 30% YoY due to a high base. In 3QFY09, the bank posted strong trading profit of Rs600m. Strong improvement in capital markets and pick-up in economic activity augurs well for various streams of fee income and the bank can surprise us positively.
- GNPA ratio of 30bp and provision coverage ratio of 75% is one of the best in the industry. We do not expect higher NPA provisions.
- The stock trades at P/BV of 2.5x FY11E and 2.1x FY12E. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH                         | FY09         |              |              |              | FY10         |              |              |              | FY09         | FY10E         |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|
|                                   | 1Q           | 2Q           | 3Q           | 4Q           | 1Q           | 2Q           | 3QE          | 4QE          |              |               |
| Interest Income                   | 4,147        | 4,897        | 5,327        | 5,663        | 5,427        | 5,269        | 5,585        | 6,052        | 20,033       | 22,333        |
| Interest Expense                  | 3,017        | 3,671        | 4,123        | 4,111        | 3,789        | 3,670        | 3,706        | 3,833        | 14,921       | 14,998        |
| <b>Net Interest Income</b>        | <b>1,130</b> | <b>1,226</b> | <b>1,204</b> | <b>1,552</b> | <b>1,637</b> | <b>1,600</b> | <b>1,879</b> | <b>2,220</b> | <b>5,112</b> | <b>7,335</b>  |
| % Change (Y-o-Y)                  | 122.0        | 50.0         | 32.0         | 45.4         | 44.9         | 30.5         | 56.0         | 43.0         | 54.6         | 43.5          |
| Other Income                      | 715          | 803          | 1,935        | 898          | 1,452        | 1,516        | 1,350        | 1,376        | 4,350        | 5,693         |
| <b>Net Income</b>                 | <b>1,845</b> | <b>2,029</b> | <b>3,139</b> | <b>2,450</b> | <b>3,089</b> | <b>3,115</b> | <b>3,229</b> | <b>3,595</b> | <b>9,462</b> | <b>13,029</b> |
| Operating Expenses                | 931          | 1,049        | 1,295        | 910          | 1,111        | 1,197        | 1,317        | 1,598        | 4,185        | 5,223         |
| <b>Operating Profit</b>           | <b>914</b>   | <b>980</b>   | <b>1,844</b> | <b>1,539</b> | <b>1,978</b> | <b>1,918</b> | <b>1,912</b> | <b>1,998</b> | <b>5,277</b> | <b>7,806</b>  |
| % Change (Y-o-Y)                  | 50.3         | 45.3         | 82.6         | 27.3         | 116.4        | 95.8         | 3.7          | 29.8         | 50.7         | 47.9          |
| Other Provisions                  | 84           | 7            | 204          | 322          | 455          | 234          | 250          | 240          | 617          | 1,179         |
| <b>Profit before Tax</b>          | <b>830</b>   | <b>973</b>   | <b>1,639</b> | <b>1,218</b> | <b>1,523</b> | <b>1,684</b> | <b>1,662</b> | <b>1,757</b> | <b>4,659</b> | <b>6,626</b>  |
| Tax Provisions                    | 286          | 337          | 581          | 416          | 522          | 567          | 582          | 648          | 1,621        | 2,319         |
| <b>Net Profit</b>                 | <b>544</b>   | <b>636</b>   | <b>1,058</b> | <b>801</b>   | <b>1,001</b> | <b>1,117</b> | <b>1,080</b> | <b>1,109</b> | <b>3,038</b> | <b>4,307</b>  |
| % Change (Y-o-Y)                  | 51.1         | 40.4         | 95.0         | 24.2         | 84.0         | 75.6         | 2.1          | 38.4         | 51.9         | 41.8          |
| Interest Exp./Interest Income (%) | 72.8         | 75.0         | 77.4         | 72.6         | 69.8         | 69.6         | 66.4         | 63.3         | 74.5         | 67.2          |
| Other Income/Net Income (%)       | 38.8         | 39.6         | 61.6         | 36.6         | 47.0         | 48.7         | 41.8         | 38.3         | 46.0         | 43.7          |
| Cost to Income Ratio (%)          | 50.5         | 51.7         | 41.3         | 37.2         | 36.0         | 38.4         | 40.8         | 44.4         | 44.2         | 40.1          |
| Provisions/Operating Profits (%)  | 9.2          | 0.7          | 11.1         | 20.9         | 23.0         | 12.2         | 13.1         | 12.0         | 11.7         | 15.1          |
| Tax Rate (%)                      | 34.5         | 34.6         | 35.5         | 34.2         | 34.3         | 33.7         | 35.0         | 36.9         | 34.8         | 35.0          |

E: MOSL Estimates

Ajinkya Dhavale (AjinkyaDhavale@MotilalOswal.com) /

Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com)/Parag Jariwala (Parag.Jariwala@MotilalOswal.com)

## Cement

BSE Sensex: 17,402

S&amp;P CNX: 5,188

29 December 2009

## COMPANY NAME

ACC

Ambuja Cements

Birla Corporation

Grasim Industries

India Cements

Shree Cement

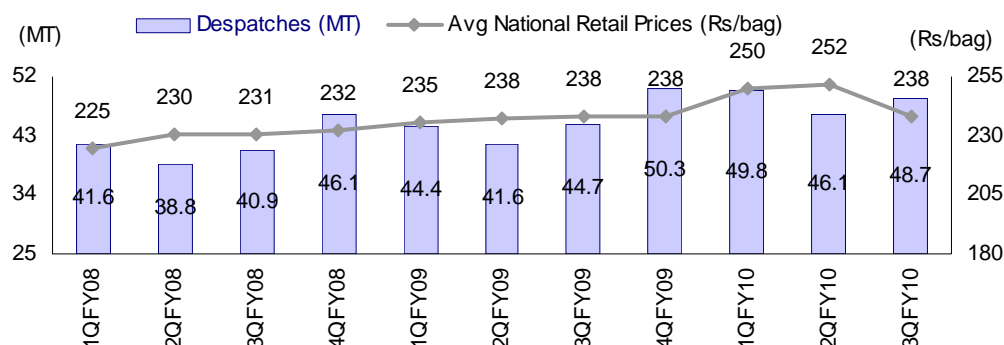
UltraTech Cement

## Snapshot of 3QFY10 cement preview

- Volumes expected to be higher by 8.9% YoY & 5.6% QoQ
- Domestic prices expected to decline by 5.3% QoQ (flat YoY), impacted by overcapacity. However, prices have started recovering from the bottom.
- Capacity utilization to fall to 82% (v/s 87% in 3QFY09), as 40mt capacity was added in the past year.
- 3QFY10 aggregate EBITDA margins to decline by 410bp QoQ (up ~380bp YoY).
- After cement prices corrected from their peak in July 2009, they have improved in line with better demand. We see prices rising as construction picks up in 1HCY10.
- We estimate a fall in pace of capacity addition, with ~40mt capacity addition in the next 18 months against ~61mt addition over the past 18 months. We estimate the full impact of these additions will be realized by 2QFY11 (the monsoon quarter), and hence expect the cycle to bottom out by then and see gradual recovery thereafter.
- Recent underperformance and attractive valuations offer a good entry point for the next upcycle. We prefer companies that are ahead of the curve in adding capacity, and with strong cost saving possibilities. Prefer **Grasim/UltraTech, India Cement and Birla Corp.**

## CEMENT INDUSTRY DYNAMICS: DEMAND AND PRICE TRENDS

| CHANGE<br>(%) | DISPATCHES |     | PRICES |      |
|---------------|------------|-----|--------|------|
|               | YOY        | QOQ | YOY    | QOQ  |
| 3QFY10        | 8.9        | 5.6 | 0.2    | -5.3 |
| FY10YTD       | 10.6       |     | 4.1    |      |
| FY09          | 8.2        |     | 12.7   |      |
| FY10E         | 12.0       |     | 4.6    |      |



Source: CMA/MOSL

## EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

|                         | CMP (RS) | RECO    | SALES          |            |            |               | EBITDA      |              |               | NET PROFIT  |              |        |
|-------------------------|----------|---------|----------------|------------|------------|---------------|-------------|--------------|---------------|-------------|--------------|--------|
|                         |          |         | DEC.09         | VAR.       |            | DEC.09        | VAR.        |              | DEC.09        | VAR.        |              | DEC.09 |
|                         |          |         |                | % YOY      | % QOQ      |               | % YOY       | % QOQ        |               | % YOY       | % QOQ        |        |
| <b>Cement</b>           |          |         |                |            |            |               |             |              |               |             |              |        |
| ACC                     | 860      | Neutral | 19,762         | 3.4        | 0.3        | 6,152         | 40.6        | -7.9         | 4,065         | 21.5        | -6.7         |        |
| Ambuja Cements          | 101      | Neutral | 17,998         | 10.5       | 11.7       | 4,282         | 5.2         | -0.4         | 2,886         | 9.3         | 1.2          |        |
| Birla Corporation       | 321      | Buy     | 5,435          | 20.2       | 7.5        | 1,643         | 61.3        | -15.1        | 1,149         | 41.2        | -24.4        |        |
| Grasim Industries       | 2,426    | Buy     | 29,133         | 9.8        | -2.4       | 9,224         | 84.7        | -9.2         | 5,575         | 69.2        | -17.3        |        |
| India Cements           | 124      | Buy     | 8,576          | 13.9       | -13.3      | 1,789         | -0.7        | -39.9        | 606           | -13.4       | -56.0        |        |
| Shree Cement            | 1,879    | Buy     | 8,371          | 25.8       | -7.0       | 3,360         | 48.1        | -17.7        | 1,377         | 7.8         | -52.8        |        |
| Ultratech Cement        | 898      | Buy     | 16,711         | 2.5        | 8.5        | 4,684         | 8.7         | -0.3         | 2,404         | 0.9         | -4.2         |        |
| <b>Sector Aggregate</b> |          |         | <b>105,985</b> | <b>9.3</b> | <b>0.9</b> | <b>31,134</b> | <b>36.3</b> | <b>-10.6</b> | <b>18,063</b> | <b>24.9</b> | <b>-18.9</b> |        |

Jinesh K Gandhi (Jinesh@MotilalOswal.com)



MOSL CEMENT UNIVERSE: 3QFY10 PERFORMANCE AT A GLANCE

|                 | VOL (M TON)<br>3QFY10 | GROWTH (%)  |             |             | REAL (RS/BAG)<br>3QFY10 | CHANGE (%) |            |            |
|-----------------|-----------------------|-------------|-------------|-------------|-------------------------|------------|------------|------------|
|                 |                       | YOY         | YTD         | FY10E       |                         | YOY        | QOQ        | FY10E      |
| ACC             | 5.4                   | -1.9        | 3.9         | 2.4         | 185                     | 5.5        | -6.1       | 8.4        |
| Ambuja Cements  | 4.8                   | 6.0         | 7.1         | 6.8         | 181                     | 4.2        | -4.1       | 6.7        |
| Grasim          | 4.7                   | 16.0        | 23.1        | 17.8        | 173                     | 1.8        | -6.2       | 4.4        |
| UltraTech       | 4.8                   | 5.4         | 14.8        | 10.7        | 173                     | -2.7       | -6.4       | 4.3        |
| Birla Corp      | 1.4                   | 1.4         | 5.7         | 4.7         | 178                     | 21.2       | -6.8       | 17.4       |
| India Cements   | 2.7                   | 35.0        | 9.5         | 18.8        | 155                     | -14.7      | -10.0      | -11.0      |
| Shree Cement    | 2.4                   | 14.0        | 27.8        | 18.9        | 165                     | 8.5        | -4.1       | 8.7        |
| <b>Industry</b> | <b>49.8</b>           | <b>12.2</b> | <b>10.6</b> | <b>12.0</b> | <b>252</b>              | <b>5.9</b> | <b>0.7</b> | <b>3.0</b> |

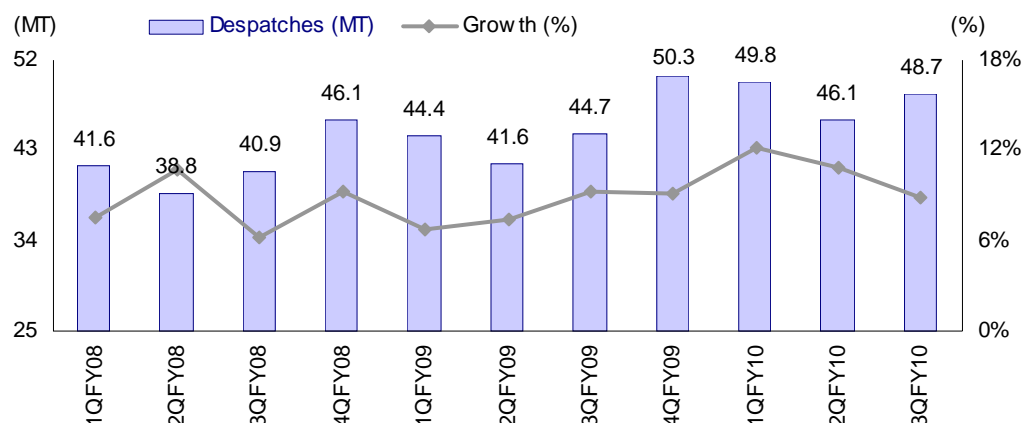
Source: CMA/MOSL

### Stable demand growth of 8.9% in 3QFY10

Domestic demand is expected to grow by 8.9% in 3QFY10, resuming strong growth after a brief slowdown in September-October 2009. Cement demand in 3QFY10 has been largely driven by individual housing in rural/semi-urban centers. Besides, there have been initial signs of recovery in the organized real estate sector. Overall demand growth was impacted by a slowdown in south India, especially Andhra Pradesh, where volumes declined by 5% over May-October 2009. However, there are signs of revival in Andhra Pradesh with volumes growing by 5% in November 2009.

DEMAND GROWS AT 10.6% IN FY10YTD

| PERIOD  | MT    | GROWTH (%) |
|---------|-------|------------|
| FY09    | 181   | 8.2        |
| 3QFY10  | 48.7  | 8.9        |
| FY10YTD | 144.6 | 10.6       |
| FY10E   | 203.1 | 12.0       |



Source: CMA/MOSL

| CAP UTILIZATION | %   |
|-----------------|-----|
| FY08            | 103 |
| FY09E           | 92  |
| FY10E           | 87  |
| 3QFY10E         | 81  |
| FY10YTD         | 84  |

### New capacity addition suppress capacity utilization to 82%

Capacity utilization for 3QFY10 is estimated at 82% (v/s 87% in 3QFY09), impacted by new capacity additions (~40mt in TTM). Capacity utilization for the industry is expected to ease from the ~90% in FY09 to ~87% in FY10 and ~83% in FY11, due to a 55-60mt capacity addition over the next two years.

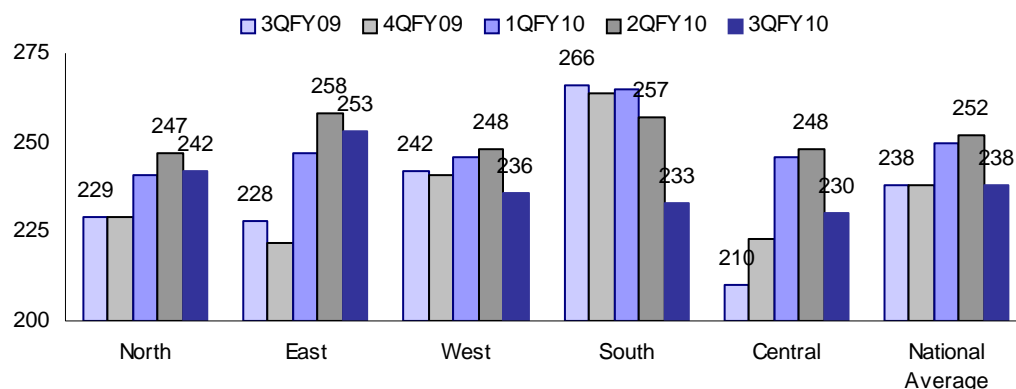
### Capacity addition, lower growth lead to softer cement prices...

Cement prices in 3QFY10 are expected to decline by 5.3%, as new capacity and a brief slowdown in demand impacted pricing. Cement prices have declined across key markets by an average Rs14/bag QoQ. After cement prices corrected from their peak in July 2009, they have started improving in line with improved demand. We expect cement prices to recover as construction activity picks up in 1HCY10. Cement prices have recovered in markets of the south and the west, where prices had declined most.

3QFY10: SUMMARY PRICING TREND

|                 | PRICE CHANGE* |             |
|-----------------|---------------|-------------|
|                 | YOY (%)       | QOQ (%)     |
| North           | 5.9           | -1.7        |
| East            | 10.9          | -2.0        |
| West            | -2.3          | -4.7        |
| South           | -12.4         | -9.3        |
| Central         | 9.6           | -7.4        |
| <b>National</b> | <b>0.2</b>    | <b>-5.3</b> |

PRICING PRESSURE HIGHEST IN SOUTH, CENTRAL INDIA



Figures in bracket indicate YoY change

Source: CMA, MOSL estimates

TREND IN 3QFY10 KEY OPERATING PARAMETERS

|                         | VOLUME (M TON) |            |            | REALIZATION (RS/BAG) |            |              | EBITDA (RS/BAG) |            |              |
|-------------------------|----------------|------------|------------|----------------------|------------|--------------|-----------------|------------|--------------|
|                         | 3QFY10         | YOY (%)    | QOQ (%)    | 3QFY10               | YOY (RS)   | QOQ (RS)     | 3QFY10          | YOY (RS)   | QOQ (RS)     |
| ACC                     | 5.4            | -1.9       | 6.9        | 185                  | 9.6        | -12.0        | 57              | 17.4       | -9.2         |
| Ambuja Cements          | 4.8            | 6.0        | 16.5       | 188                  | 7.6        | -8.0         | 45              | -0.3       | -7.6         |
| Grasim                  | 4.7            | 16.0       | 3.1        | 173                  | 3.0        | -11.5        | 62              | 12.8       | -11.1        |
| UltraTech               | 4.8            | 5.4        | 15.9       | 173                  | -4.9       | -11.8        | 49              | 1.5        | -7.9         |
| Birla Corp              | 1.4            | 1.4        | 16.2       | 178                  | 31.1       | -13.0        | 58              | 17.4       | -11.0        |
| India Cements           | 2.7            | 35.0       | -3.3       | 155                  | -26.7      | -17.2        | 33              | -11.9      | -20.2        |
| Shree Cement            | 2.4            | 14.0       | -3.3       | 165                  | 13.0       | -7.0         | 64              | 13.1       | -12.3        |
| <b>Sector Aggregate</b> | <b>26.2</b>    | <b>8.6</b> | <b>7.6</b> | <b>176</b>           | <b>3.1</b> | <b>-10.8</b> | <b>52</b>       | <b>7.2</b> | <b>-10.8</b> |

Source: CMA/MOSL

TREND IN 3QFY10 KEY FINANCIAL PARAMETERS

|                          | NET SALES (RS M) |             |            | EBITDA MARGIN (%) |            |             | NET PROFIT (RS M) |             |              |
|--------------------------|------------------|-------------|------------|-------------------|------------|-------------|-------------------|-------------|--------------|
|                          | 3QFY10           | YOY (%)     | QOQ (%)    | 3QFY10            | YOY (BP)   | QOQ (BP)    | 3QFY10            | YOY (%)     | QOQ (%)      |
| ACC                      | 19,762           | 3.4         | 0.3        | 31.1              | 820        | -280        | 4,065             | 21.5        | -6.7         |
| Ambuja Cement            | 17,998           | 10.5        | 11.7       | 23.8              | -120       | -290        | 2,886             | 9.3         | 1.2          |
| Grasim*                  | 19,997           | 15.9        | -3.2       | 29.8              | 620        | -330        | 5,575             | 69.2        | -17.3        |
| UltraTech                | 16,711           | 2.5         | 8.5        | 28.0              | 160        | -250        | 2,404             | 0.9         | -4.2         |
| Birla Corp               | 5,435            | 20.2        | 7.5        | 30.2              | 770        | -800        | 1,149             | 41.2        | -24.4        |
| India Cement             | 8,576            | 13.9        | -13.3      | 20.9              | -310       | -920        | 606               | -13.4       | -56.0        |
| Shree Cement             | 8,371            | 25.8        | -7.0       | 40.1              | 600        | -520        | 1,377             | 7.8         | -52.8        |
| <b>Sector Aggregate*</b> | <b>96,849</b>    | <b>10.5</b> | <b>1.1</b> | <b>28.8</b>       | <b>380</b> | <b>-410</b> | <b>12,487</b>     | <b>11.9</b> | <b>-19.6</b> |

Source: CMA/MOSL

## Revising estimates

We are revising our FY11 estimates for all cement companies under our coverage to factor in a fall in prices in 3QFY10. Our estimates factor in a Rs5-22/bag decline in 3QFY10, Rs5/bag QoQ increase in 4QFY10 and Rs10/bag decline in FY11 (over the FY10 average). A recovery in prices will result in an upgrade of our FY10-11 estimate.

### REVISING ESTIMATES

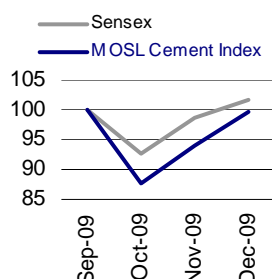
|                | FY10E |       |         | FY11E |       |         |
|----------------|-------|-------|---------|-------|-------|---------|
|                | REV   | OLD   | CHG (%) | REV   | OLD   | CHG (%) |
| ACC            | 93.3  | 98.8  | -5.6    | 73.7  | 78.1  | -5.6    |
| Ambuja Cements | 8.0   | 8.3   | -3.4    | 7.5   | 7.3   | 1.6     |
| Grasim         | 334.7 | 347.1 | -3.6    | 269.5 | 320.4 | -15.9   |
| UltraTech      | 101.0 | 106.8 | -5.4    | 82.9  | 89.8  | -7.7    |
| Birla Corp     | 72.5  | 72.4  | 0.1     | 60.1  | 60.8  | -1.1    |
| India Cements  | 14.9  | 15.5  | -3.8    | 10.0  | 10.9  | -8.8    |
| Shree Cement   | 260.9 | 242.5 | 7.6     | 194.4 | 246.2 | -21.0   |

Source: MOSL

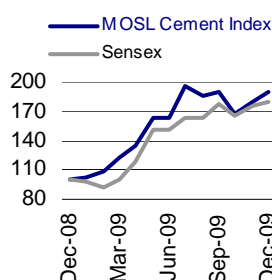
## Valuation and view

Cement stocks have underperformed over the past six months, in anticipation of over capacity and price correction. While there will be volatility in cement prices, driven by new capacities over the next 6-9 months, we estimate the full impact of these capacity additions to be realized by 2QFY11 (the monsoon quarter) and hence expect the cycle to bottom out by then and build the foundation for the next upcycle. Cement stock valuations are attractive and offer a good entry point for the next upcycle. We prefer companies that are ahead of the curve in adding capacity, along with strong cost saving possibilities. Among large cap stocks, Grasim and UltraTech remain our top picks, and we prefer India Cement, Shree Cement and Birla Corp among mid-caps.

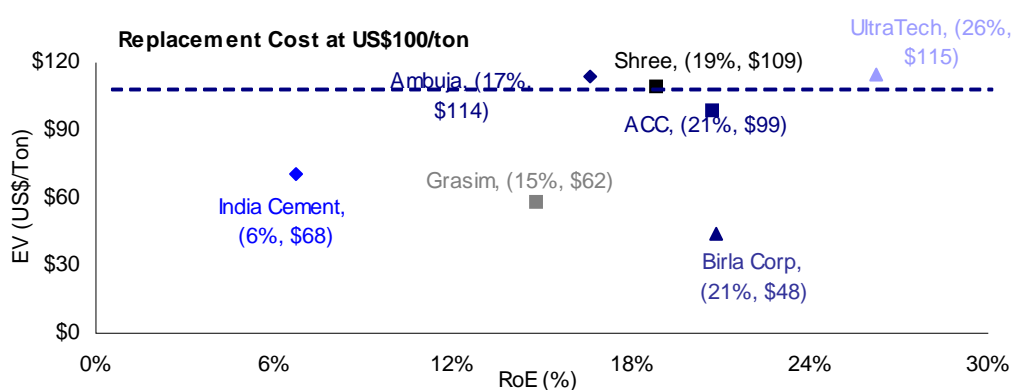
### RELATIVE PERFORMANCE - 3M (%)



### RELATIVE PERFORMANCE - 1YR (%)



### VALUATIONS - ATTRACTIVE DESPITE RECENT RUN UP



Source: MOSL

|                   | CMP (RS) | RECO    | EPS (RS) |       |       | P/E (X) |       |       | EV/EBITDA |       |       | ROE (%) |       |       |
|-------------------|----------|---------|----------|-------|-------|---------|-------|-------|-----------|-------|-------|---------|-------|-------|
|                   | 29.12.09 |         | FY10E    | FY11E | FY12E | FY10E   | FY11E | FY12E | FY10E     | FY11E | FY12E | FY10E   | FY11E | FY12E |
| Cement            |          |         |          |       |       |         |       |       |           |       |       |         |       |       |
| ACC               | 860      | Neutral | 90.3     | 71.4  | 81.6  | 9.5     | 12.0  | 10.5  | 5.3       | 6.2   | 5.6   | 31.4    | 20.7  | 18.9  |
| Ambuja Cements    | 101      | Neutral | 8.0      | 7.5   | 8.3   | 12.6    | 13.5  | 12.1  | 7.4       | 7.7   | 6.9   | 20.1    | 16.6  | 16.8  |
| Birla Corporation | 321      | Buy     | 72.5     | 60.1  | 58.6  | 4.4     | 5.3   | 5.5   | 2.3       | 2.4   | 3.4   | 31.0    | 20.9  | 17.2  |
| Grasim Industries | 2,426    | Buy     | 334.7    | 269.5 | 308.4 | 7.2     | 9.0   | 7.9   | 3.3       | 3.0   | 2.1   | 23.4    | 15.8  | 15.7  |
| India Cements     | 124      | Buy     | 14.9     | 10.0  | 12.3  | 8.3     | 12.5  | 10.1  | 5.1       | 6.5   | 5.0   | 10.8    | 6.7   | 7.5   |
| Kesoram Ind       | 352      | Buy     | 68.2     | 72.5  | 89.4  | 5.2     | 4.9   | 3.9   | 4.0       | 3.9   | 3.1   | 21.2    | 18.8  | 19.5  |
| Shree Cement      | 1,879    | Buy     | 260.9    | 194.4 | 207.5 | 7.2     | 9.7   | 9.1   | 4.2       | 4.5   | 3.2   | 55.4    | 28.5  | 23.9  |
| Ultratech Cement  | 898      | Buy     | 101.0    | 78.8  | 94.1  | 8.9     | 11.4  | 9.5   | 5.1       | 3.1   | 2.3   | 26.4    | 26.2  | 20.0  |
| Sector Aggregate  |          |         |          |       |       | 8.3     | 8.5   | 7.5   | 4.5       | 4.2   | 3.4   | 23.2    | 17.3  | 16.9  |

ACC

STOCK INFO. BLOOMBERG  
BSE Sensex: 17,402 ACC IN  
REUTERS CODE  
S&P CNX: 5,188 ACC.BO

29 December 2009

Neutral

Previous Recommendation: Neutral

Rs860

|                     |            |
|---------------------|------------|
| Equity Shares (m)   | 187.9      |
| 52 Week Range (Rs)  | 928 / 443  |
| 1,6,12 Rel Perf (%) | 5 / -9 / 2 |
| Mcap (Rs b)         | 161.5      |
| Mcap (USD b)        | 3.5        |

| YEAR   | NET SALES | PAT    | EPS* | EPS        | P/E  | P/BV | ROE  | ROCE | EV/    | EV/TON |
|--------|-----------|--------|------|------------|------|------|------|------|--------|--------|
| END    | (RS M)    | (RS M) | (RS) | GROWTH (%) | (X)  | (X)  | (%)  | (%)  | EBITDA | (US\$) |
| 12/08A | 72,829    | 11,787 | 62.7 | -7.9       | 14.9 | 3.3  | 26.0 | 27.3 | 8.6    | 140    |
| 12/09E | 80,820    | 17,525 | 93.3 | 48.7       | 9.5  | 2.6  | 31.4 | 36.4 | 5.3    | 117    |
| 12/10E | 84,168    | 13,853 | 73.7 | -21.0      | 12.0 | 2.3  | 20.7 | 23.1 | 6.2    | 100    |
| 12/11E | 94,355    | 15,330 | 81.6 | 10.7       | 10.5 | 2.0  | 18.9 | 21.8 | 5.6    | 90     |

- Dispatches during 4QCY09 are estimated to de-grow by 1.9% YoY (~6.9% QoQ growth) to 5.35mt, as the company continues to face capacity constraints. Average realizations are expected to improve 5.5% YoY (~6.1% QoQ decline) to Rs3,691/ton.
- Net sales are expected to grow by 3.4% YoY to Rs19.8b. EBITDA margins are expected to decline by 280bp QoQ (~820bp YoY expansion) to 31.1%, being impacted by a fall in realizations. As a result, EBITDA is expected to improve 44% YoY (~8% QoQ decline) to Rs6.15b and PAT will improve by 21.5% to Rs4.07b.
- Commissioning of 1.2mt capacity in Orissa by 4QCY09 and 3mt capacity in Karnataka, which was delayed by a quarter, will drive ACC's volume growth from 1QCY10.
- We are downgrading our earnings estimates for CY09 by 5.6% to Rs93.3 and CY10 by 5.6% to Rs73.7. Valuations at 9.5x CY09E EPS and 5.3x CY09E EV/EBITDA, appear rich. Maintain **Neutral**.

## QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

| Y/E DECEMBER              | CY08          |               |               |               | CY09          |               |               |               | CY08          | CY09E         |
|---------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                           | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3Q            | 4QE           |               |               |
| Cement Sales (m ton)      | 5.40          | 5.29          | 4.86          | 5.46          | 5.73          | 5.42          | 5.01          | 5.35          | 21.0          | 21.5          |
| YoY Change (%)            | 9.5           | -0.9          | 3.8           | 8.8           | 6.1           | 2.4           | 3.1           | -1.9          | 5.2           | 2.4           |
| Cement Realization        | 3,325         | 3,375         | 3,571         | 3,499         | 3,587         | 3,840         | 3,931         | 3,691         | 3,466         | 3,757         |
| YoY Change (%)            | 5.5           | 3.4           | 5.0           | 8.1           | 7.9           | 13.8          | 10.1          | 5.5           | 6.3           | 8.4           |
| QoQ Change (%)            | 2.7           | 1.5           | 5.8           | -2.0          | 2.5           | 7.1           | 2.4           | -6.1          |               |               |
| <b>Net Sales</b>          | <b>17,958</b> | <b>17,857</b> | <b>17,909</b> | <b>19,105</b> | <b>20,551</b> | <b>20,813</b> | <b>19,694</b> | <b>19,762</b> | <b>72,829</b> | <b>80,820</b> |
| YoY Change (%)            | 9.8           | -3.1          | 6.7           | 10.8          | 14.4          | 16.5          | 10.0          | 3.4           | 5.8           | 11.0          |
| <b>EBITDA</b>             | <b>4,700</b>  | <b>4,136</b>  | <b>4,461</b>  | <b>4,375</b>  | <b>6,474</b>  | <b>7,337</b>  | <b>6,679</b>  | <b>6,152</b>  | <b>17,332</b> | <b>26,642</b> |
| Margins (%)               | 26.2          | 23.2          | 24.9          | 22.9          | 31.5          | 35.3          | 33.9          | 31.1          | 23.8          | 33.0          |
| Depreciation              | 714           | 724           | 736           | 768           | 789           | 784           | 796           | 895           | 2,942         | 3,264         |
| Interest                  | 56            | 108           | 116           | 120           | 144           | 159           | 135           | 151           | 400           | 589           |
| Other Income              | 661           | 472           | 581           | 1,172         | 508           | 570           | 509           | 713           | 2,887         | 2,300         |
| <b>PBT before EO Item</b> | <b>4,592</b>  | <b>3,776</b>  | <b>4,190</b>  | <b>4,660</b>  | <b>6,049</b>  | <b>6,963</b>  | <b>6,257</b>  | <b>5,820</b>  | <b>16,877</b> | <b>25,089</b> |
| EO Income/(Expense)       | 366           | 123           | 0             | 0             | -224          | 0             | 0             | 0             | 489           | 0             |
| <b>PBT after EO Item</b>  | <b>4,958</b>  | <b>3,899</b>  | <b>4,190</b>  | <b>4,660</b>  | <b>5,825</b>  | <b>6,963</b>  | <b>6,257</b>  | <b>5,820</b>  | <b>17,366</b> | <b>25,089</b> |
| Tax                       | 1,383         | 1,185         | 1,356         | 1,315         | 1,777         | 2,107         | 1,900         | 1,755         | 5,238         | 7,564         |
| Rate (%)                  | 27.9          | 30.4          | 32.4          | 28.2          | 30.5          | 30.3          | 30.4          | 30.2          | 30.2          | 30.2          |
| <b>Reported PAT</b>       | <b>3,575</b>  | <b>2,714</b>  | <b>2,834</b>  | <b>3,345</b>  | <b>4,048</b>  | <b>4,856</b>  | <b>4,356</b>  | <b>4,065</b>  | <b>12,128</b> | <b>17,525</b> |
| <b>Adjusted PAT</b>       | <b>3,312</b>  | <b>2,629</b>  | <b>2,834</b>  | <b>3,345</b>  | <b>4,203</b>  | <b>4,856</b>  | <b>4,356</b>  | <b>4,065</b>  | <b>11,787</b> | <b>17,525</b> |
| Margins (%)               | 18.4          | 14.7          | 15.8          | 17.5          | 20.5          | 23.3          | 22.1          | 20.6          | 16.2          | 21.7          |
| YoY Change (%)            | -5.9          | -24.4         | 0.9           | 8.5           | 26.9          | 84.7          | 53.7          | 21.5          | -7.9          | 48.7          |

E: MOSL Estimates

Jinesh K Gandhi (Jinesh@MotilalOswal.com)

## Ambuja Cements

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | ACEM IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | GACM.BO      |

29 December 2009

Neutral

Previous Recommendation: Neutral

Rs101

|                     |              | YEAR   | NET SALES | PAT    | EPS  | EPS        | P/E  | P/BV | ROE  | ROCE | EV/    | EV/TON |
|---------------------|--------------|--------|-----------|--------|------|------------|------|------|------|------|--------|--------|
|                     |              | END    | (RS M)    | (RS M) | (RS) | GROWTH (%) | (X)  | (X)  | (%)  | (%)  | EBITDA | (US\$) |
| Equity Shares (m)   | 1,522.6      | 12/08A | 62,347    | 11,335 | 7.4  | -13.3      | 13.5 | 2.7  | 22.1 | 31.1 | 8.1    | 162    |
| 52 Week Range (Rs)  | 112 / 60     | 12/09E | 71,057    | 12,196 | 8.0  | 7.6        | 12.6 | 2.4  | 20.1 | 28.0 | 7.4    | 116    |
| 1,6,12 Rel Perf (%) | 7 / -7 / -36 | 12/10E | 74,026    | 11,344 | 7.5  | -7.0       | 13.5 | 2.1  | 16.6 | 22.8 | 7.7    | 113    |
| Mcap (Rs b)         | 153.4        | 12/11E | 84,345    | 12,712 | 8.3  | 12.1       | 12.1 | 1.9  | 16.8 | 23.1 | 6.9    | 105    |
| Mcap (USD b)        | 3.3          |        |           |        |      |            |      |      |      |      |        |        |

- Dispatches are expected to grow 6% YoY (~16% QoQ) to 4.77mt, and average realizations are expected to grow 4.2% YoY (~4.1% QoQ decline) to Rs3,769/ton. Volume growth will be driven by purchased clinker, as it continues to face clinker capacity constraint. Realization declines would have been higher but for a change in its market mix in favor of the domestic market.
- Net sales are expected to grow 10.5% to Rs18b. EBITDA margin is expected to decline by 290bp QoQ (~120 YoY) to 23.8%, being impacted by a decline in realizations and purchased clinker. EBITDA is expected to grow 5% YoY to Rs4.3b and recurring PAT is estimated to grow by 9.3% to Rs2.9b.
- Ambuja will benefit from the commissioning of new capacities in Chattisgarh (~2.2mt by the end of 4QCY09) and in Himachal Pradesh (~2.2mt in 1QCY09), which would drive volume growth and profitability (due to lower reliance on purchased clinker).
- We are downgrading our earnings estimates for CY09 by 3.4% to Rs8 to factor in price declines, but upgrade CY10 by 1.6% to Rs7.5, to factor in cost savings in CY10 due to new capacities. Valuations at 12.6x CY09E earnings and 7.4x CY09E EV/EBITDA are a fair reflection of its business fundamentals. Maintain **Neutral**.

## QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

| Y/E DECEMBER                  | CY08          |               |               |               | CY09          |               |               |               | CY08          | CY09E         |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                               | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3Q            | 4QE           |               |               |
| Sales Volume (m ton)          | 4.80          | 4.38          | 3.92          | 4.50          | 5.10          | 4.83          | 4.10          | 4.77          | 17.60         | 18.80         |
| YoY Change (%)                | 10.6          | -0.3          | 4.0           | 5.7           | 6.3           | 10.3          | 4.6           | 6.0           | 5.0           | 6.8           |
| Realization (Rs/ton)          | 3,448         | 3,573         | 3,538         | 3,617         | 3,623         | 3,828         | 3,929         | 3,769         | 3,542         | 3,779         |
| YoY Change (%)                | 5.4           | 8.1           | 3.2           | 4.9           | 5.1           | 7.1           | 11.1          | 4.2           | 5.4           | 6.7           |
| QoQ Change (%)                | 0.0           | 3.6           | -1.0          | 2.2           | 0.2           | 5.7           | 2.6           | -4.1          |               |               |
| <b>Net Sales</b>              | <b>16,549</b> | <b>15,635</b> | <b>13,869</b> | <b>16,293</b> | <b>18,476</b> | <b>18,474</b> | <b>16,110</b> | <b>17,998</b> | <b>62,347</b> | <b>71,057</b> |
| YoY Change (%)                | 16.6          | 7.8           | 7.3           | 10.9          | 11.6          | 18.2          | 16.2          | 10.5          | 259.3         | 261.1         |
| <b>EBITDA</b>                 | <b>5,146</b>  | <b>4,622</b>  | <b>3,941</b>  | <b>4,070</b>  | <b>5,247</b>  | <b>4,797</b>  | <b>4,300</b>  | <b>4,282</b>  | <b>17,779</b> | <b>18,627</b> |
| Margins (%)                   | 31.1          | 29.6          | 28.4          | 25.0          | 28.4          | 26.0          | 26.7          | 23.8          | 28.5          | 26.2          |
| Depreciation                  | 618           | 616           | 654           | 709           | 686           | 704           | 719           | 817           | 2,598         | 2,927         |
| Interest                      | 57            | 57            | 59            | 148           | 65            | 52            | 52            | 52            | 321           | 221           |
| Other Income                  | 420           | 470           | 333           | 531           | 409           | 692           | 433           | 541           | 1,754         | 2,075         |
| <b>PBT before EO Item</b>     | <b>4,890</b>  | <b>4,420</b>  | <b>3,561</b>  | <b>3,744</b>  | <b>4,905</b>  | <b>4,732</b>  | <b>3,962</b>  | <b>3,955</b>  | <b>16,615</b> | <b>17,554</b> |
| Extraordinary Inc/(Exp)       | -59           | 3,142         | 0             | 0             | 0             | 0             | 462           | 0             | 3,083         | 0             |
| <b>PBT after EO Exp/(Inc)</b> | <b>4,832</b>  | <b>7,562</b>  | <b>3,561</b>  | <b>3,744</b>  | <b>4,905</b>  | <b>4,732</b>  | <b>4,423</b>  | <b>3,955</b>  | <b>19,698</b> | <b>17,554</b> |
| Tax                           | 1,570         | 1,791         | 1,210         | 1,105         | 1,565         | 1,486         | 1,238         | 1,069         | 5,676         | 5,358         |
| Rate (%)                      | 32.5          | 23.7          | 34.0          | 29.5          | 31.9          | 31.4          | 28.0          | 27.0          | 28.8          | 30.5          |
| <b>Reported Profit</b>        | <b>3,262</b>  | <b>5,770</b>  | <b>2,351</b>  | <b>2,640</b>  | <b>3,341</b>  | <b>3,247</b>  | <b>3,185</b>  | <b>2,886</b>  | <b>14,023</b> | <b>12,196</b> |
| <b>Adj PAT</b>                | <b>3,302</b>  | <b>3,043</b>  | <b>2,351</b>  | <b>2,640</b>  | <b>3,341</b>  | <b>3,247</b>  | <b>2,852</b>  | <b>2,886</b>  | <b>11,335</b> | <b>12,196</b> |
| YoY Change (%)                | -7.8          | -20.1         | -19.2         | -5.6          | 1.2           | 6.7           | 21.3          | 9.3           | -13.3         | 7.6           |

E: MOSL Estimates

Jinesh K Gandhi (Jinesh@MotilalOswal.com)

## Birla Corporation

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | BJUT IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | BRLC.BO      |

29 December 2009

Buy

Rs321

Previous Recommendation: Buy

|                     |              |
|---------------------|--------------|
| Equity Shares (m)   | 77.0         |
| 52 Week Range (Rs)  | 345 / 118    |
| 1,6,12 Rel Perf (%) | -1 / 41 / 83 |
| Mcap (Rs b)         | 24.7         |
| Mcap (USD b)        | 0.5          |

| YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>EBITDA | EV/TON<br>(US\$) |
|-------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|---------------|------------------|
| 03/09A      | 17,907              | 3,235         | 42.0        | -17.8             | 7.6        | 1.9         | 25.1       | 27.9        | 4.4           | 70               |
| 03/10E      | 21,854              | 5,582         | 72.5        | 72.5              | 4.4        | 1.4         | 31.0       | 36.5        | 2.3           | 49               |
| 03/11E      | 23,004              | 4,631         | 60.1        | -17.0             | 5.3        | 1.1         | 20.9       | 26.6        | 2.4           | 45               |
| 03/12E      | 25,438              | 4,516         | 58.6        | -2.5              | 5.5        | 0.9         | 17.2       | 22.2        | 3.4           | 52               |

- During 3QFY10, Birla Corporation's revenues are expected to grow 20% to Rs5.4b. Volumes are estimated to grow by 1.4% YoY (~16.2% QoQ) to 1.42mt, and cement realizations are likely to improve by 21.2% YoY (~6.8% QoQ drop) to Rs3,553/ton. A drop in realizations is a reflection of significant price declines in central India, despite stable realizations in north and east India.
- A decline in realizations will translate into a fall of 810bp QoQ (~770bp YoY improvement) in EBITDA margins to 30.2%. However, higher depreciation and higher tax provisioning will restrict PAT growth to 41% at Rs1.15b.
- Birla Corp's volume growth will pick up from 1QFY10 as its brownfield expansion (~1.75mt) in Madhya Pradesh is expected to be commissioned by March 2010.
- We are maintaining our EPS estimates for FY10 at Rs72.5, but downgrade FY11 by 1.1% to Rs60.1. The stock trades at 4.4x FY10E EPS and 5.3x FY11E EPS, which is at a discount to comparable peers. We believe the discount is not justified and valuations, based on earnings and replacement costs, are compelling. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH                | FY09         |              |              |              | FY10         |              |              |              | FY09          | FY10E         |
|--------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|
|                          | 1Q           | 2Q           | 3Q           | 4Q           | 1Q           | 2Q           | 3QE          | 4QE          |               |               |
| Cement Sales (m ton)     | 1.19         | 1.11         | 1.40         | 1.60         | 1.21         | 1.22         | 1.42         | 1.70         | 5.29          | 5.55          |
| YoY Change (%)           | -7.1         | -7.2         | 5.3          | 8.2          | 1.8          | 9.9          | 1.4          | 6.3          | 0.1           | 5.0           |
| Cement Realization       | 3,096        | 3,083        | 2,931        | 3,259        | 3,717        | 3,813        | 3,553        | 3,653        | 3,105         | 3,677         |
| YoY Change (%)           | 4.2          | 0.6          | -2.8         | 10.0         | 20.0         | 23.7         | 21.2         | 12.1         | 3.5           | 18.4          |
| QoQ Change (%)           | 4.5          | -0.4         | -4.9         | 11.2         | 14.0         | 2.6          | -6.8         | 2.8          |               |               |
| <b>Net Sales</b>         | <b>3,959</b> | <b>3,718</b> | <b>4,521</b> | <b>5,708</b> | <b>4,904</b> | <b>5,057</b> | <b>5,435</b> | <b>6,457</b> | <b>17,907</b> | <b>21,854</b> |
| YoY Change (%)           | -3.3         | -5.6         | 4.5          | 16.8         | 23.9         | 36.0         | 20.2         | 13.1         | 3.8           | 22.0          |
| Total Expenditure        | 2,816        | 2,938        | 3,503        | 4,392        | 3,148        | 3,122        | 3,792        | 4,485        | 13,649        | 14,547        |
| <b>EBITDA</b>            | <b>1,143</b> | <b>780</b>   | <b>1,019</b> | <b>1,316</b> | <b>1,756</b> | <b>1,935</b> | <b>1,643</b> | <b>1,973</b> | <b>4,258</b>  | <b>7,307</b>  |
| Margins (%)              | 28.9         | 21.0         | 22.5         | 23.1         | 35.8         | 38.3         | 30.2         | 30.6         | 23.8          | 33.4          |
| Depreciation             | 98           | 100          | 110          | 126          | 133          | 137          | 140          | 165          | 434           | 575           |
| Interest                 | 50           | 40           | 56           | 78           | 60           | 64           | 75           | 86           | 221           | 284           |
| Other Income             | 235          | 121          | 191          | 215          | 519          | 249          | 135          | 142          | 761           | 1,045         |
| <b>Profit before Tax</b> | <b>1,230</b> | <b>760</b>   | <b>1,044</b> | <b>1,328</b> | <b>2,082</b> | <b>1,983</b> | <b>1,563</b> | <b>1,864</b> | <b>4,365</b>  | <b>7,492</b>  |
| Tax                      | 311          | 163          | 230          | 425          | 528          | 463          | 414          | 505          | 1,130         | 1,911         |
| Rate (%)                 | 25.3         | 21.5         | 22.1         | 32.0         | 25.4         | 23.3         | 26.5         | 27.1         | 25.9          | 25.5          |
| <b>Adjusted PAT</b>      | <b>918</b>   | <b>597</b>   | <b>814</b>   | <b>903</b>   | <b>1,553</b> | <b>1,521</b> | <b>1,149</b> | <b>1,359</b> | <b>3,235</b>  | <b>5,582</b>  |
| Margins (%)              | 23.2         | 16.1         | 18.0         | 15.8         | 31.7         | 30.1         | 21.1         | 21.0         | 18.1          | 25.5          |
| YoY Change (%)           | -5.8         | -42.1        | -23.6        | 4.3          | 69.2         | 154.7        | 41.2         | 50.5         | -17.8         | 72.5          |

E: MOSL Estimates

Jinesh K Gandhi (Jinesh@MotilalOswal.com)



## Grasim Industries

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE SENSEX: 17,402 | GRASIM IN    |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | GRAS.BO      |

29 December 2009

Buy

Rs2,426

Previous Recommendation: Buy

|                     |               |
|---------------------|---------------|
| Equity Shares (m)   | 91.7          |
| 52 Week Range (Rs)  | 2,938/1,122   |
| 1,6,12 Rel Perf (%) | -1 / -13 / 12 |
| Mcap (Rs b)         | 222.4         |
| Mcap (USD b)        | 4.8           |

| YEAR<br>END* | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>EBITDA | EV/TON<br>(US\$) |
|--------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|---------------|------------------|
| 03/09A       | 184,039             | 21,867        | 238.5       | -18.9             | 10.2       | 1.9         | 21.1       | 20.7        | 6.6           | 128              |
| 03/10E       | 202,317             | 30,686        | 334.7       | 40.3              | 7.2        | 1.5         | 23.4       | 25.4        | 3.7           | 77               |
| 03/11E       | 215,558             | 24,709        | 269.5       | -19.5             | 9.0        | 1.3         | 15.8       | 20.6        | 3.4           | 59               |
| 03/12E       | 240,538             | 28,281        | 308.4       | 14.5              | 7.9        | 1.2         | 15.7       | 21.4        | 2.5           | 44               |

\* Consolidated; Demerger of cement business assumed w.e.f 1 April 2010

- Grasim (standalone) is estimated to post sales growth of 9.8% YoY to Rs29.1b in 3QFY10, despite the hive-off of its sponge iron business from 22 May 2009. However, higher volumes in cement and VSF and higher realizations and cost savings in the VSF business would drive margin improvement of 12.8pp YoY (~240bp QoQ decline) to 31.7%. Higher depreciation, interest costs and higher tax provisioning restrict PAT growth to 69% to Rs5.57b.
- The recently commissioned new capacities will drive 16% YoY growth in volumes to 4.7mt. However, realizations are expected to decline 6.2% QoQ (~1.8% YoY growth) to Rs3,459/ton. The cement division's operating margins are expected to decline by 330bp QoQ (~620bp YoY improvement) to 29.8%.
- Improvement in the VSF business continued in 3QFY10, with volume growth of 33.9% and realizations higher by 11.8% YoY (~2.6% QoQ) at Rs108/kg. As a result, operating margins for the VSF business are expected to improve by 29.1pp YoY (~60bp QoQ) to 40.4%.
- We are downgrading our earnings estimates for FY10 by 3.5% to Rs334.7 and for FY11 by 15.9% to Rs269.5, to factor in for decline in cement prices and demerger of cement business in FY11. Valuations at 7.2x PER FY10E and 3.7x FY10E EV/EBITDA (consolidated) appear reasonable. Maintain **Buy**.

## QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

| Y/E MARCH                  | FY09          |               |               |               | FY10          |               |               |               | FY09           | FY10E          |
|----------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|
|                            | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3QE           | 4QE           |                |                |
| <b>Net Sales</b>           | <b>25,782</b> | <b>26,875</b> | <b>26,536</b> | <b>28,870</b> | <b>30,453</b> | <b>29,838</b> | <b>29,133</b> | <b>32,055</b> | <b>108,040</b> | <b>121,479</b> |
| YoY Change (%)             | 5.5           | 8.5           | 2.3           | 5.9           | 18.1          | 11.0          | 9.8           | 11.0          | 5.8            | 12.4           |
| <b>EBITDA</b>              | <b>7,376</b>  | <b>5,794</b>  | <b>4,995</b>  | <b>6,800</b>  | <b>8,853</b>  | <b>10,162</b> | <b>9,224</b>  | <b>10,239</b> | <b>24,965</b>  | <b>38,202</b>  |
| Margins (%)                | 28.6          | 21.6          | 18.8          | 23.6          | 29.1          | 34.1          | 31.7          | 31.9          | 23.1           | 31.4           |
| Depreciation               | 1,050         | 1,069         | 1,198         | 1,253         | 1,370         | 1,359         | 1,450         | 1,452         | 4,570          | 5,631          |
| Interest                   | 302           | 284           | 444           | 385           | 475           | 505           | 550           | 547           | 1,421          | 2,077          |
| Other Income               | 964           | 990           | 806           | 738           | 620           | 1,432         | 775           | 724           | 3,504          | 3,550          |
| <b>PBT before EO Items</b> | <b>6,988</b>  | <b>5,431</b>  | <b>4,159</b>  | <b>5,900</b>  | <b>7,628</b>  | <b>9,729</b>  | <b>7,999</b>  | <b>8,963</b>  | <b>22,478</b>  | <b>34,043</b>  |
| Extraordinary Inc/(Exp)    | 0             | 0             | 0             | 0             | 3,447         | 0             | 0             | 0             | 0              | 3,447          |
| <b>PBT after EO Items</b>  | <b>6,988</b>  | <b>5,431</b>  | <b>4,159</b>  | <b>5,900</b>  | <b>11,075</b> | <b>9,729</b>  | <b>7,999</b>  | <b>8,963</b>  | <b>22,478</b>  | <b>37,490</b>  |
| Tax                        | 1,846         | 1,236         | 864           | 2,053         | 2,322         | 2,986         | 2,424         | 2,702         | 5,999          | 10,434         |
| Rate (%)                   | 26.4          | 22.8          | 20.8          | 34.8          | 21.0          | 30.7          | 30.3          | 30.1          | 26.7           | 27.8           |
| <b>Reported PAT</b>        | <b>5,142</b>  | <b>4,195</b>  | <b>3,296</b>  | <b>3,847</b>  | <b>8,752</b>  | <b>6,743</b>  | <b>5,575</b>  | <b>6,261</b>  | <b>16,480</b>  | <b>27,056</b>  |
| <b>Adj. PAT</b>            | <b>5,142</b>  | <b>4,195</b>  | <b>3,296</b>  | <b>3,847</b>  | <b>5,392</b>  | <b>6,743</b>  | <b>5,575</b>  | <b>6,261</b>  | <b>16,480</b>  | <b>23,696</b>  |
| YoY Change (%)             | 0.5           | -16.1         | -40.0         | -7.1          | 4.9           | 60.7          | 69.2          | 62.8          | -16.6          | 43.8           |

E: MOSL Estimates; Quarterly results do not add-up to full year results due to restatement

Jinesh K Gandhi (Jinesh@MotilalOswal.com)

## India Cements

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | ICEM IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | ICMN.BO      |

29 December 2009

Buy

Rs124

Previous Recommendation: Buy

|                     |               |
|---------------------|---------------|
| Equity Shares (m)   | 282.4         |
| 52 Week Range (Rs)  | 180 / 91      |
| 1,6,12 Rel Perf (%) | 8 / -28 / -55 |
| Mcap (Rs b)         | 35.0          |
| Mcap (USD b)        | 0.8           |

| YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>EBITDA | EV/TON<br>(US\$) |
|-------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|---------------|------------------|
| 03/09A      | 34,268              | 4,851         | 17.7        | -28.2             | 7.0        | 0.9         | 15.7       | 16.8        | 5.3           | 82               |
| 03/10E      | 37,524              | 4,076         | 14.9        | -16.0             | 8.3        | 0.9         | 10.8       | 12.9        | 5.0           | 74               |
| 03/11E      | 40,523              | 2,725         | 10.0        | -33.1             | 12.5       | 0.8         | 6.7        | 9.1         | 6.3           | 71               |
| 03/12E      | 46,468              | 3,361         | 12.3        | 23.4              | 10.1       | 0.7         | 7.5        | 10.0        | 4.8           | 61               |

- India Cement is expected to post sales growth of 14% YoY at Rs8.6b, impacted by 10% QoQ realizations (~14.7% YoY decline) to Rs3,094/ton, but 35% YoY volume growth to 2.7mt (including 1mt of clinker). We estimate revenue of Rs85m from IPL.
- Decline in realizations coupled with maintenance related expenses would translate into an EBITDA margin decline of 920bp QoQ (~300bp YoY) to 20.9%. As a result, EBITDA is expected to remain flat at Rs1.79b, but higher depreciation and interest cost would result in 13% YoY decline in PAT to Rs606m.
- India Cement will benefit from the commissioning of brownfield units and split grinding units, augmenting capacity to 14mt, aiding volume growth from 4QFY10. This, coupled with recovery in prices in South India would aid earnings.
- We are downgrading our earnings estimates for FY10 by 3.8% to Rs14.9 and FY11 by 8.8% to Rs10, to factor in a significant price decline in South India. At current estimates, the stock quotes at attractive valuations of 8.3x FY10E EPS and 5x FY10E EBITDA. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH                    | FY09         |              |              |              | FY10         |              |              |              | FY09          | FY10E         |
|------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|
|                              | 1Q           | 2Q           | 3Q           | 4Q           | 1Q           | 2Q           | 3QE          | 4QE          |               |               |
| Sales Dispatches (m ton)     | 2.37         | 2.43         | 2.00         | 2.32         | 2.46         | 2.79         | 2.70         | 2.88         | 9.12          | 10.83         |
| YoY Change (%)               | 2.7          | 6.9          | -8.3         | -5.5         | 3.9          | 15.0         | 35.0         | 23.9         | -1.1          | 18.8          |
| Realization (Rs/ton)         | 3,440        | 3,585        | 3,629        | 3,733        | 3,736        | 3,438        | 3,094        | 3,184        | 3,594         | 3,225         |
| YoY Change (%)               | 13.4         | 7.4          | 6.9          | 10.7         | 8.6          | -4.1         | -14.7        | -14.7        | 9.6           | -10.3         |
| QoQ Change (%)               | 2.0          | 4.2          | 1.2          | 2.9          | 0.1          | -8.0         | -10.0        | 2.9          |               |               |
| <b>Net Sales</b>             | <b>8,375</b> | <b>9,455</b> | <b>7,529</b> | <b>8,885</b> | <b>9,535</b> | <b>9,894</b> | <b>8,576</b> | <b>9,520</b> | <b>34,268</b> | <b>37,524</b> |
| YoY Change (%)               | 19.4         | 24.2         | 2.0          | 5.3          | 13.9         | 4.6          | 13.9         | 7.1          | 12.6          | 9.5           |
| <b>EBITDA</b>                | <b>2,981</b> | <b>2,901</b> | <b>1,801</b> | <b>2,255</b> | <b>2,863</b> | <b>2,977</b> | <b>1,789</b> | <b>2,080</b> | <b>9,962</b>  | <b>9,710</b>  |
| Margins (%)                  | 35.6         | 30.7         | 23.9         | 25.4         | 30.0         | 30.1         | 20.9         | 21.9         | 29.1          | 25.9          |
| Depreciation                 | 490          | 498          | 513          | 533          | 571          | 572          | 585          | 587          | 2,033         | 2,314         |
| Interest                     | 230          | 248          | 293          | 350          | 385          | 374          | 385          | 406          | 1,122         | 1,550         |
| Other Income                 | 132          | 91           | 141          | 131          | 68           | 55           | 100          | 108          | 470           | 330           |
| <b>PBT before EO Expense</b> | <b>2,392</b> | <b>2,246</b> | <b>1,136</b> | <b>1,503</b> | <b>1,976</b> | <b>2,086</b> | <b>919</b>   | <b>1,195</b> | <b>7,277</b>  | <b>6,175</b>  |
| Extra-Ord Expense            | 218          | 296          | 132          | 149          | -210         | 13           | 0            | 0            | 794           | -197          |
| <b>PBT</b>                   | <b>2,175</b> | <b>1,950</b> | <b>1,004</b> | <b>1,354</b> | <b>2,186</b> | <b>2,074</b> | <b>919</b>   | <b>1,195</b> | <b>6,483</b>  | <b>6,373</b>  |
| Tax                          | 754          | 608          | 385          | 415          | 745          | 704          | 312          | 405          | 2,161         | 2,167         |
| Rate (%)                     | 34.6         | 31.2         | 38.3         | 30.7         | 34.1         | 34.0         | 34.0         | 33.9         | 33.3          | 34.0          |
| <b>Reported PAT</b>          | <b>1,421</b> | <b>1,343</b> | <b>619</b>   | <b>939</b>   | <b>1,441</b> | <b>1,369</b> | <b>606</b>   | <b>789</b>   | <b>4,322</b>  | <b>4,206</b>  |
| <b>Adj PAT</b>               | <b>1,564</b> | <b>1,546</b> | <b>700</b>   | <b>1,042</b> | <b>1,302</b> | <b>1,378</b> | <b>606</b>   | <b>789</b>   | <b>4,851</b>  | <b>4,076</b>  |
| YoY Change (%)               | -15.3        | -29.2        | -44.9        | -26.0        | -16.7        | -10.9        | -13.4        | -24.2        | -28.0         | -16.0         |
| Margins (%)                  | 18.7         | 16.4         | 9.3          | 11.7         | 13.7         | 13.9         | 7.1          | 8.3          | 14.2          | 10.9          |

E: MOSL Estimates; \*Excluding Visaka merger

## Shree Cement

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | SRCM IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | SHCM.BO      |

29 December 2009

Buy

Rs1,879

Previous Recommendation: Buy

|                     |              |
|---------------------|--------------|
| Equity Shares (m)   | 34.8         |
| 52 Week Range (Rs)  | 1,900 / 452  |
| 1,6,12 Rel Perf (%) | 2 / 39 / 221 |
| Mcap (Rs b)         | 65.5         |
| Mcap (USD b)        | 1.4          |

| YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>EBITDA | EV/TON<br>(US\$) |
|-------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|---------------|------------------|
| 03/09A      | 27,139              | 6,174         | 177.2       | 114.5             | 10.6       | 5.4         | 65.6       | 35.5        | 7.0           | 161              |
| 03/10E      | 36,478              | 9,088         | 260.9       | 47.2              | 7.2        | 3.2         | 55.4       | 35.8        | 4.0           | 112              |
| 03/11E      | 41,428              | 6,774         | 194.4       | -25.5             | 9.7        | 2.4         | 28.5       | 21.8        | 4.2           | 110              |
| 03/12E      | 52,091              | 7,228         | 207.5       | 6.7               | 9.1        | 2.0         | 23.9       | 19.6        | 3.0           | 91               |

- Sales in 3QFY10 are expected to grow 25.8% YoY to Rs8.4b driven by volume growth of 14% YoY to 2.4mt and realizations are expected to decline 4.1% QoQ (~8.5% YoY) to Rs3,309/ton. Surplus power sale is estimated at Rs429m on sale of 65m units.
- Lower realizations will result in a margin decline of 530bp QoQ (~600bp YoY improvement) to 40.1%. EBITDA margins of the cement business are expected to decline by 550bp QoQ to 38.4%.
- Depreciation is expected to increase to ~Rs1.7b. Recurring PAT is estimated to grow by 7.8% to Rs1.38b.
- We are upgrading our earnings estimates for FY10 by 7.6% to Rs260.9, due to increase in guidance for power sales. However, we are downgrading our FY11 estimates by 21% to Rs194.4 to factor in higher depreciation on commissioning of new power units and grinding units. The stock quotes at very attractive valuations of 7.2x FY10E EPS and 4x FY10E EBITDA. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH                | FY09         |              |              |              | FY10         |              |              |              | FY09          | FY10E         |
|--------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|
|                          | 1Q           | 2Q           | 3Q           | 4Q           | 1Q           | 2Q           | 3QE          | 4QE          |               |               |
| Sales Dispatches (m ton) | 1.92         | 2.02         | 2.11         | 2.41         | 2.55         | 2.48         | 2.40         | 2.62         | 8.45          | 10.05         |
| YoY Change (%)           | 33.7         | 35.1         | 30.2         | 17.2         | 32.8         | 23.1         | 14.0         | 8.8          | 28.0          | 18.9          |
| Realization (Rs/ton)     | 3,201        | 3,050        | 3,049        | 3,163        | 3,477        | 3,449        | 3,309        | 3,409        | 3,116         | 3,412         |
| YoY Change (%)           | 4.2          | -4.3         | -6.9         | -1.8         | 8.6          | 13.1         | 8.5          | 7.8          | -2.5          | 9.5           |
| QoQ Change (%)           | -0.7         | -4.7         | 0.0          | 3.7          | 9.9          | -0.8         | -4.1         | 3.0          |               |               |
| <b>Net Sales</b>         | <b>6,143</b> | <b>6,280</b> | <b>6,653</b> | <b>8,062</b> | <b>9,224</b> | <b>8,996</b> | <b>8,371</b> | <b>9,886</b> | <b>27,139</b> | <b>36,478</b> |
| YoY Change (%)           | 39.3         | 31.9         | 25.6         | 21.7         | 50.2         | 43.2         | 25.8         | 22.6         | 28.7          | 34.4          |
| <b>EBITDA</b>            | <b>2,106</b> | <b>1,828</b> | <b>2,269</b> | <b>3,306</b> | <b>4,250</b> | <b>4,082</b> | <b>3,360</b> | <b>4,294</b> | <b>9,496</b>  | <b>15,752</b> |
| Margins (%)              | 34.3         | 29.1         | 34.1         | 41.0         | 46.1         | 45.4         | 40.1         | 43.4         | 35.0          | 43.2          |
| Depreciation             | 461          | 537          | 509          | 547          | 973          | 998          | 1,700        | 1,741        | 2,054         | 5,412         |
| Interest                 | 171          | 177          | 166          | 218          | 152          | 155          | 165          | 173          | 744           | 645           |
| Other Income             | 118          | 346          | 183          | 169          | 473          | 316          | 195          | 176          | 829           | 1,160         |
| <b>PBT before EO Exp</b> | <b>1,592</b> | <b>1,460</b> | <b>1,776</b> | <b>2,710</b> | <b>3,599</b> | <b>3,245</b> | <b>1,690</b> | <b>2,556</b> | <b>7,527</b>  | <b>10,856</b> |
| Extra-Ord Expense        | 76           | 97           | 53           | 83           | 42           | 29           | 35           | 34           | 309           | 140           |
| <b>PBT</b>               | <b>1,516</b> | <b>1,363</b> | <b>1,723</b> | <b>2,627</b> | <b>3,557</b> | <b>3,215</b> | <b>1,655</b> | <b>2,522</b> | <b>7,218</b>  | <b>10,716</b> |
| Tax                      | 407          | 288          | 484          | 271          | 645          | 326          | 306          | 490          | 1,449         | 1,768         |
| Rate (%)                 | 26.9         | 21.1         | 28.1         | 10.3         | 18.1         | 10.1         | 18.5         | 19.4         | 20.1          | 16.5          |
| <b>Reported PAT</b>      | <b>1,109</b> | <b>1,075</b> | <b>1,239</b> | <b>2,356</b> | <b>2,911</b> | <b>2,889</b> | <b>1,349</b> | <b>2,032</b> | <b>5,768</b>  | <b>8,948</b>  |
| <b>Adj PAT</b>           | <b>1,164</b> | <b>1,151</b> | <b>1,278</b> | <b>2,431</b> | <b>2,946</b> | <b>2,915</b> | <b>1,377</b> | <b>2,059</b> | <b>6,015</b>  | <b>9,065</b>  |
| YoY Change (%)           | -0.4         | 8.4          | 264.7        | 480.6        | 153.0        | 153.2        | 7.8          | -15.3        | 106.3         | 50.7          |
| Margins (%)              | 19.0         | 18.3         | 19.2         | 30.2         | 31.9         | 32.4         | 16.5         | 20.8         | 22.2          | 24.8          |

E:MOSL Estimates

Jinesh K Gandhi (Jinesh@MotilalOswal.com)

## UltraTech Cement

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | UTCEM IN     |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | ULTC.BO      |

29 December 2009

Buy

Rs898

Previous Recommendation: Buy

|                     |             |
|---------------------|-------------|
| Equity Shares (m)   | 124.5       |
| 52 Week Range (Rs)  | 922 / 325   |
| 1,6,12 Rel Perf (%) | 5 / 10 / 60 |
| Mcap (Rs b)         | 111.8       |
| Mcap (USD b)        | 2.4         |

| YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>EBITDA | EV/TON<br>(US\$) |
|-------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|---------------|------------------|
| 03/09A      | 63,831              | 9,940         | 79.8        | -1.4              | 11.3       | 3.1         | 31.6       | 29.2        | 7.1           | 114              |
| 03/10E      | 72,357              | 12,577        | 101.0       | 26.5              | 8.9        | 2.3         | 30.1       | 32.7        | 5.0           | 107              |
| 03/11E      | 165,098             | 21,616        | 78.8        | -22.0             | 11.4       | 2.1         | 26.2       | 27.8        | 6.3           | 116              |
| 03/12E      | 185,388             | 25,814        | 94.1        | 19.4              | 9.5        | 0.0         | 20.0       | 22.8        | 5.0           | 102              |

- Net sales are expected to grow by 2.5% YoY to Rs16.7b driven by 5.4% YoY growth in volume to 4.82mt, but a 1.5% YoY decline (~5.8% QoQ decline) in realizations to Rs3,343/ton.
- The impact of lower realizations will be diluted by cost savings from recently commissioned CPP and result in 250bp QoQ decline (~160bp YoY improvement) in EBITDA margins at 28%. However, higher depreciation and higher tax would translate into flat PAT of Rs2.4b.
- After the merger of Grasim's cement assets into UltraTech (by 2QFY11), UltraTech will have the largest cement capacity in India and tenth largest in the world with 49.4mt capacity.
- We downgrade our earnings estimates (pre-merger) for FY10 by 5.4% to Rs101 and FY11 by 7.7% to Rs78.8. The stock trades at 8.9x FY10E EPS and 5x FY10E EV/EBITDA. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH                   | FY09          |               |               |               | FY10          |               |               |               | FY09          | FY10E         |
|-----------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                             | 1Q*           | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3QE           | 4QE           |               |               |
| Sales (m ton)               | 4.27          | 3.98          | 4.58          | 5.35          | 5.31          | 4.16          | 4.82          | 5.83          | 18.48         | 20.12         |
| YoY Change (%)              | -4.2          | 12.7          | 6.1           | 11.2          | 24.4          | 4.6           | 5.4           | 9.0           | 8.0           | 8.9           |
| Realization (Rs/ton)        | 3,324         | 3,351         | 3,394         | 3,335         | 3,534         | 3,548         | 3,343         | 3,443         | 3,295         | 3,464         |
| YoY Change (%)              | 12.6          | 4.9           | 10.1          | 4.3           | 6.3           | 5.9           | -1.5          | 3.2           | 6.1           | 5.2           |
| QoQ Change (%)              | 3.9           | 0.8           | 1.3           | -1.7          | 6.0           | 0.4           | -5.8          | 3.0           |               |               |
| <b>Net Sales</b>            | <b>14,960</b> | <b>13,962</b> | <b>16,308</b> | <b>18,601</b> | <b>19,528</b> | <b>15,408</b> | <b>16,711</b> | <b>20,710</b> | <b>63,831</b> | <b>72,357</b> |
| YoY Change (%)              | 10.0          | 19.6          | 18.2          | 16.2          | 30.5          | 10.4          | 2.5           | 11.3          | 15.9          | 13.4          |
| <b>EBITDA</b>               | <b>4,458</b>  | <b>2,967</b>  | <b>4,308</b>  | <b>5,331</b>  | <b>7,168</b>  | <b>4,700</b>  | <b>4,684</b>  | <b>6,396</b>  | <b>17,064</b> | <b>22,947</b> |
| Margins (%)                 | 29.8          | 21.3          | 26.4          | 28.7          | 36.7          | 30.5          | 28.0          | 30.9          | 26.7          | 31.7          |
| Depreciation                | 711           | 808           | 805           | 906           | 936           | 967           | 1,000         | 1,138         | 3,230         | 4,041         |
| Interest                    | 247           | 309           | 359           | 340           | 330           | 299           | 325           | 331           | 1,255         | 1,284         |
| Other Income                | 266           | 278           | 204           | 287           | 342           | 308           | 230           | 270           | 1,036         | 1,150         |
| <b>PBT after EO Expense</b> | <b>3,766</b>  | <b>2,129</b>  | <b>3,348</b>  | <b>4,372</b>  | <b>6,244</b>  | <b>3,743</b>  | <b>3,589</b>  | <b>5,197</b>  | <b>13,615</b> | <b>18,772</b> |
| Tax                         | 1,116         | 487           | 964           | 1,277         | 2,067         | 1,234         | 1,184         | 1,711         | 3,675         | 6,195         |
| Rate (%)                    | 29.6          | 22.9          | 28.8          | 29.2          | 33.1          | 33.0          | 33.0          | 32.9          | 27.0          | 33.0          |
| <b>Reported PAT</b>         | <b>2,650</b>  | <b>1,642</b>  | <b>2,384</b>  | <b>3,095</b>  | <b>4,178</b>  | <b>2,509</b>  | <b>2,404</b>  | <b>3,486</b>  | <b>9,940</b>  | <b>12,577</b> |
| <b>Adj PAT</b>              | <b>2,650</b>  | <b>1,642</b>  | <b>2,384</b>  | <b>3,095</b>  | <b>4,178</b>  | <b>2,509</b>  | <b>2,404</b>  | <b>3,486</b>  | <b>9,940</b>  | <b>12,577</b> |
| YoY Change (%)              | 2.2           | -11.7         | -14.7         | 9.4           | 57.6          | 52.8          | 0.9           | 12.7          | -1.4          | 26.5          |

E: MOSL Estimates

## Engineering

BSE Sensx: 17,402

S&amp;P CNX: 5,188

29 December 2009

## COMPANY NAME

ABB

BHEL

Crompton Greaves

Larsen &amp; Toubro

Siemens

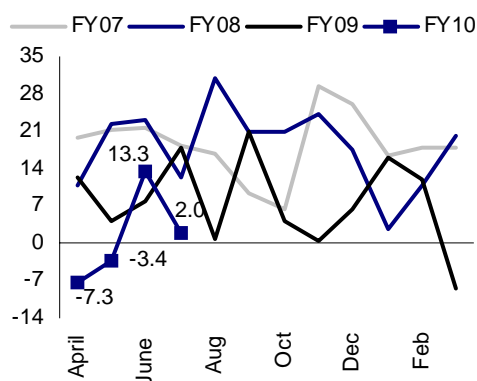
Thermax

**Initial signs of IPP/capital goods improvement; base effect to help in 2HFY10**

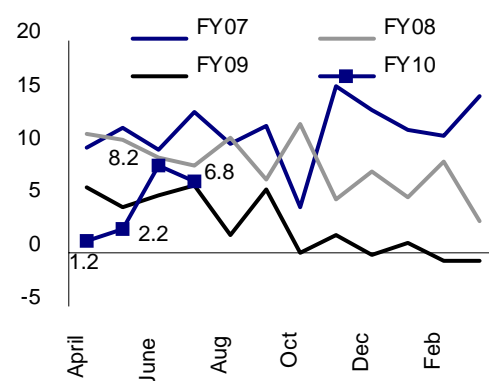
Recent IIP/capital goods index data show signs of improvement in industrial activity. The IIP index for October 2009 grew 10.3% YoY. Growth began to pick up from August 2009, mainly due to a low base effect. In FY10, IIP's cumulative growth was 7.1% (until October).

The capital goods index was up 12.2% YoY in October 2009. The index for FY10 (YTD) was 6.3%. Past data suggest the positive base effect benefits will start contributing to the indices in the coming months, particularly from December 2009.

CAPITAL GOODS INDEX (% YOY)



IIP INDEX (% YOY)



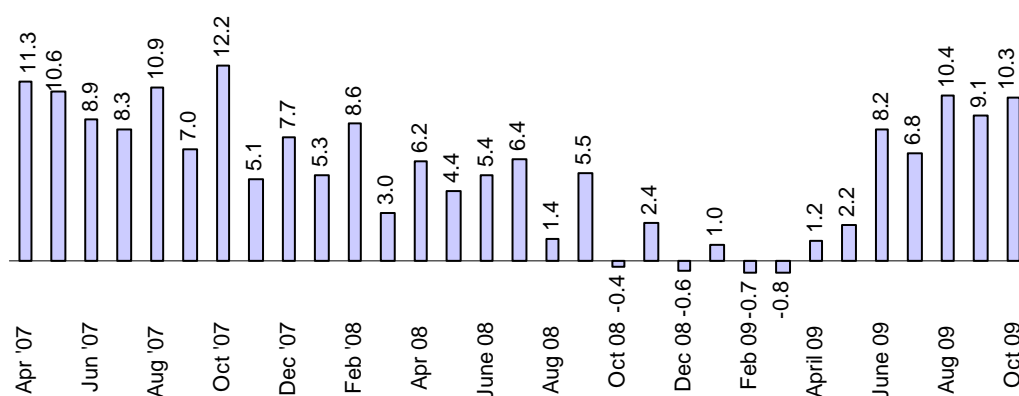
Source: Ministry of Statistics

## EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

|                         | CMP (RS) | RECO    | SALES          |             |             | EBITDA        |             |             | NET PROFIT    |             |             |
|-------------------------|----------|---------|----------------|-------------|-------------|---------------|-------------|-------------|---------------|-------------|-------------|
|                         |          |         | DEC.09         | VAR.        | VAR.        | DEC.09        | VAR.        | VAR.        | DEC.09        | VAR.        | VAR.        |
|                         |          |         |                |             |             |               |             |             |               |             |             |
|                         | 29.12.09 |         |                | % YOY       | % QOQ       |               | % YOY       | % QOQ       |               | % YOY       | % QOQ       |
| <b>Engineering</b>      |          |         |                |             |             |               |             |             |               |             |             |
| ABB                     | 763      | Neutral | 20,820         | -3.9        | 43.2        | 2,768         | 3.3         | 126.3       | 1,744         | -9.7        | 110.0       |
| BHEL                    | 2,375    | Buy     | 76,851         | 27.6        | 16.0        | 14,591        | 29.4        | 29.2        | 10,816        | 25.7        | 26.1        |
| Crompton Greaves        | 422      | Neutral | 12,487         | 15.7        | -1.6        | 1,842         | 32.9        | -12.1       | 1,161         | 37.0        | -14.7       |
| Larsen & Toubro         | 1,684    | Neutral | 97,868         | 13.9        | 24.4        | 10,374        | 10.0        | 32.2        | 7,422         | 15.9        | 34.2        |
| Siemens                 | 578      | Neutral | 18,881         | 15.1        | -25.0       | 2,001         | 17.6        | -18.9       | 1,089         | -8.8        | -28.2       |
| Thermax                 | 609      | Neutral | 9,419          | 18.5        | 41.0        | 879           | -9.2        | 31.7        | 615           | -15.0       | 13.6        |
| <b>Sector Aggregate</b> |          |         | <b>236,326</b> | <b>16.4</b> | <b>15.8</b> | <b>32,456</b> | <b>18.3</b> | <b>26.8</b> | <b>22,846</b> | <b>15.9</b> | <b>24.5</b> |

IIP INDEX (% YOY): EXPECT IMPROVED NUMBERS PARTLY DRIVEN BY BASE EFFECT



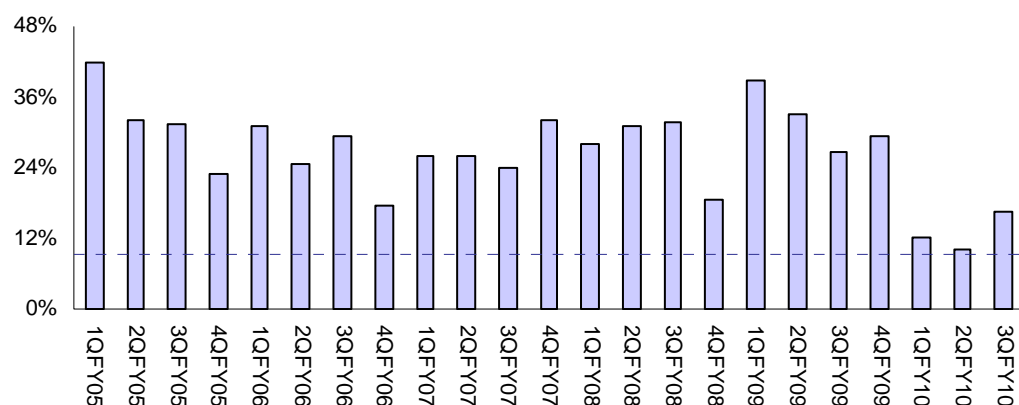
Source: Company/MOSL

### 3QFY10: Expect modest operating performance

For 3QFY10, we expect capital goods revenue to grow 16.4% YoY, adjusted EBITDA growth of 19.3% YoY and adjusted net profit growth of 17.1% YoY.

- We are expecting better execution during 2HFY10 compared with 1HFY10 from power T&D players, given a pick-up in execution in the power systems division. In 2QFY10, most companies except BHEL will experience slower execution due to lower revenue from the power division and slower industrial products sales.
- 3QFY10 EBITDA margins are likely to be stable YoY but lower commodity price benefits could continue to surprise positively at EBITDA margin level; particularly for BHEL and Crompton.

EXPECT MARGINAL IMPROVEMENT IN 3QFY10 REVENUE GROWTH (% YOY)



Source: Company/MOSL

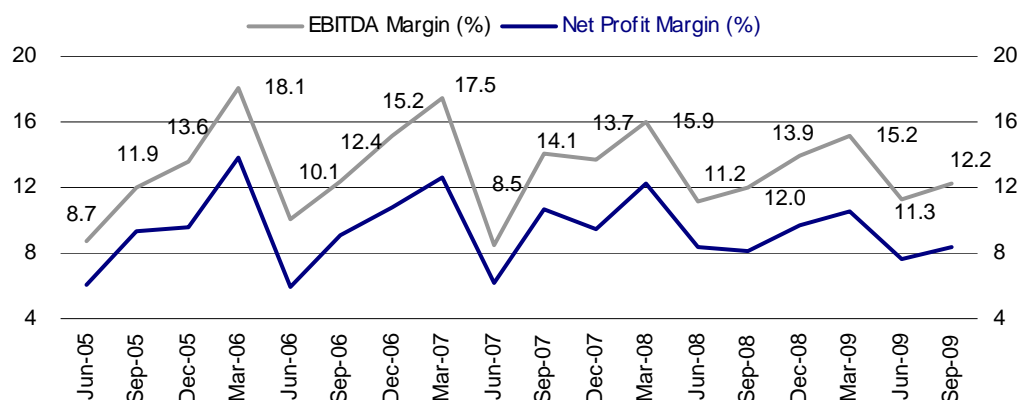
### See marginal EBITDA margin rise; pressure on industrial businesses to recede

During 3QFY10, we expect aggregate EBITDA margin to improve marginally to 13.9% (+33bpYoY).

- After margin pressure during the past 2-3 quarters, the profitability of industrials and consumer businesses of L&T, ABB and other companies is expected to improve. Volume could improve marginally, given improving demand.
- Declining commodity prices will result in EBITDA margin benefits for companies like BHEL, Crompton and ABB.



EBITDA MARGINS AT 13.9%, UP MARGINALLY



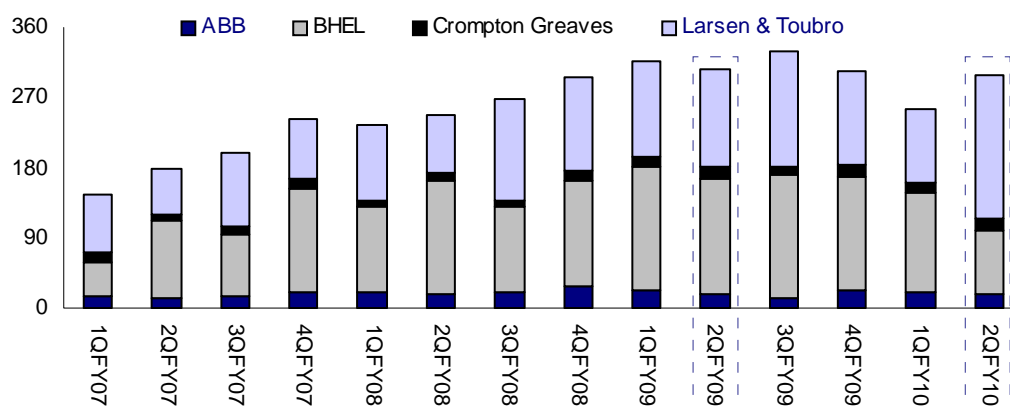
Source: MOSL

### No clear sign of revival in private capex despite green shoots; public capex healthy

During the past 12 months, the order book for BHEL, L&T and ABB remained healthy, driven by project orders in power equipment and investment in completion of existing projects from hydrocarbons and process industries. While the order intake has been good on the power side (driven by public and private utilities), there are no signs of industrial capex revival in terms of actual order awards. However, the lower cost of capital, easy credit availability, buoyant equity markets and increased consumption are expected to translate into capacity build-up in the next 6-9 months for most industries. Projects kept on hold due to lack of funds could be revived as demand improvement becomes visible.

Siemens' order book stagnated during the past 9-12 months due to lack of mega order intakes and Suzlon's order book declined significantly due to issues such as blade cracks in the US market, global slowdown, credit market freeze and decline in gas prices in Europe. Equipment order awards in the power segment improved (also driven by supportive equity markets for private sector projects), and should increase further with (1) remaining 765KV substation orders, (2) bulk BTG awarding from NTPC/mandatory localization clause for UMPP BTGs, and (3) sharper focus on T&D spend (including schemes like APDRP, RGGVY and new grid development) from the government.

ORDER INTAKE (RS B, % YOY)



Source: MOSL

## ORDER INTAKE (RS B, %YOY)

|          | FY08 |     |     |     | FY09 |     |     |     | FY10 |     | YOY (%) |
|----------|------|-----|-----|-----|------|-----|-----|-----|------|-----|---------|
|          | 1Q   | 2Q  | 3Q  | 4Q  | 1Q   | 2Q  | 3Q  | 4Q  | 1Q   | 2Q  |         |
| ABB      | 20   | 17  | 20  | 27  | 22   | 19  | 13  | 23  | 21   | 19  | 0.0     |
| BHEL     | 110  | 146 | 109 | 137 | 159  | 148 | 160 | 146 | 128  | 80  | -45.9   |
| Crompton | 19   | 19  | 16  | 20  | 29   | 28  | 20  | 21  | 21   | 17  | -39.3   |
| L&T      | 99   | 75  | 130 | 120 | 122  | 125 | 146 | 121 | 96   | 183 | 46.4    |
| Siemens  | 18   | 13  | 19  | 23  | 21   | 24  | 20  | 19  | 24   | 26  | 8.3     |
| Suzlon   | 60   | 65  | 40  | 61  | 9    | 27  | 3   | 32  | 16   | 18  | -33.3   |

Source: MOSL

## ORDER BACKLOG (RS B AND % YOY)

|                  | ORDER BOOK (SEPT 09) | REVENUES (TTM, SEPT 09) | BOOK TO BILL(X) |
|------------------|----------------------|-------------------------|-----------------|
| ABB              | 80                   | 65                      | 1.2             |
| BHEL             | 1258                 | 287                     | 4.4             |
| Crompton Greaves | 64                   | 90                      | 0.7             |
| Larsen & Toubro  | 816                  | 342                     | 2.4             |
| Siemens          | 103                  | 84                      | 1.2             |
| Suzlon Energy    | 83                   | 150                     | 0.6             |

Source: Company/MOSL

## ABB/SIEMENS HAVE HIGHEST EXPOSURE (% ORDER BOOK) TO INDUSTRIAL CAPEX

|                    | GOVERNMENT | INDUSTRIAL | INFRASTRUCTURE | CONSUMERS |
|--------------------|------------|------------|----------------|-----------|
| ABB                | 62         | 38         | 0              | 0         |
| BHEL               | 79         | 19         | 2              | 0         |
| Crompton Greaves** | 70         | 15         | 0              | 15        |
| Larsen and Toubro  | 20         | 42         | 38             | 0         |
| Siemens            | 48         | 37         | 8              | 7         |
| Suzlon             | 62         | 38         | 0              | 0         |

\*\* Based on consolidated numbers

Source: Company/MOSL

## INDUSTRIAL INVESTMENTS - MAJOR CONTRIBUTION FROM HYDROCARBONS AND METALS

| % ORDER BOOK      | PROCESS | HYDROCARBONS | OTHERS | TOTAL |
|-------------------|---------|--------------|--------|-------|
| ABB               | 10      | 15           | 13     | 38    |
| BHEL              | 6       | 5            | 14     | 25    |
| Crompton Greaves* | 11      | 2            | 2      | 16    |
| Larsen and Toubro | 14      | 23           | 5      | 42    |
| Siemens           | 20      | 10           | 8      | 38    |

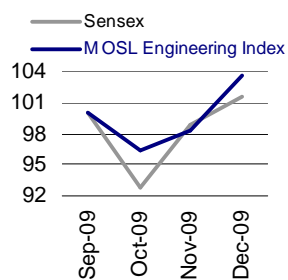
\* For consolidated

Source: Company/MOSL

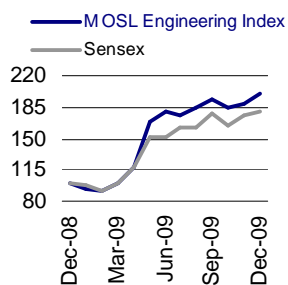
### Limited room for meaningful outperformance, valuations factor in better earnings

The outperformance in 1QFY10 was driven by comfortable valuations (at 14x FY10 in March 2009) and expectations of a positive impact on the business environment with continuity of government. Currently, the one-year forward sector PER is 21x FY11 and is in line with the average of 21x over FY05-09. This period was one of the best in terms of power and industrial capex, resulting in earnings CAGR of 38%. Over FY09-11, we expect earnings CAGR of 18%, and thus the current PER of 21x leaves limited room for meaningful outperformance, until visibility improves due to order intake and thus earnings. We maintain Neutral on the sector.

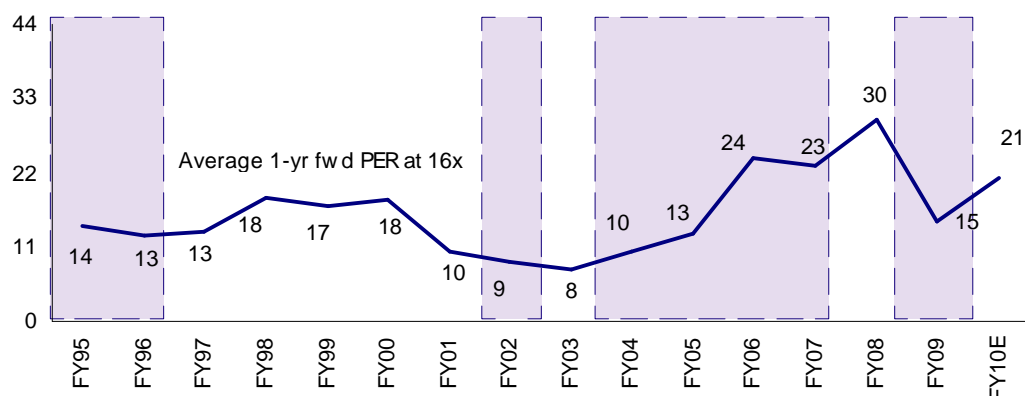
RELATIVE PERFORMANCE - 3M (%)



RELATIVE PERFORMANCE - 1YR (%)



SECTOR PER (1 YEAR FORWARD) AT 23X FY11E, EXPECTED EARNINGS CAGR AT 17% OVER FY09-11



Note: Shaded area indicates earnings growth in excess of 20% YoY

Source: Company/MOSL

COMPARATIVE VALUATION

|                  | CMP (RS) | RECO    | EPS (RS) |       |       | P/E (X) |       |       | EV/EBITDA |       |       | ROE (%) |       |       |
|------------------|----------|---------|----------|-------|-------|---------|-------|-------|-----------|-------|-------|---------|-------|-------|
|                  | 29.12.09 |         | FY10E    | FY11E | FY12E | FY10E   | FY11E | FY12E | FY10E     | FY11E | FY12E | FY10E   | FY11E | FY12E |
| Engineering      |          |         |          |       |       |         |       |       |           |       |       |         |       |       |
| ABB              | 763      | Neutral | 19.8     | 28.2  | 36.3  | 38.6    | 27.1  | 21.0  | 24.0      | 17.4  | 13.0  | 18.2    | 21.7  | 22.9  |
| BHEL             | 2,375    | Buy     | 86.7     | 114.7 | 152.9 | 27.4    | 20.7  | 15.5  | 17.6      | 12.8  | 9.5   | 29.5    | 31.7  | 33.9  |
| Crompton Greaves | 422      | Neutral | 19.2     | 21.6  | 27.0  | 22.0    | 19.6  | 15.7  | 18.8      | 16.1  | 12.7  | 36.3    | 32.0  | 31.7  |
| Larsen & Toubro  | 1,684    | Neutral | 57.3     | 67.1  | 85.8  | 29.4    | 25.1  | 19.6  | 23.1      | 19.4  | 15.5  | 19.9    | 18.1  | 19.8  |
| Siemens          | 578      | Neutral | 13.7     | 16.5  | 22.1  | 42.1    | 35.0  | 26.1  | 17.5      | 17.9  | 14.1  | 12.3    | 16.9  | 20.0  |
| Thermax          | 609      | Neutral | 23.6     | 25.7  | 28.5  | 25.8    | 23.7  | 21.3  | 17.3      | 15.8  | 13.9  | 29.1    | 28.2  | 27.5  |
| Sector Aggregate |          |         |          |       |       | 29.3    | 23.2  | 17.8  | 19.8      | 15.8  | 12.1  | 24.0    | 24.4  | 26.5  |

ABB

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | ABB IN       |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | ABB.BO       |

29 December 2009

Neutral

Previous Recommendation: Neutral

Rs763

|                     |              | YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS GR.<br>(%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|---------------------|--------------|-------------|---------------------|---------------|-------------|----------------|------------|-------------|------------|-------------|--------------|---------------|
| Equity Shares (m)   | 211.9        | 12/08A      | 68,370              | 5,325         | 25.1        | 8.3            | 30.4       | 7.6         | 28.4       | 46.1        | 2.3          | 20.4          |
| 52 Week Range (Rs)  | 834 / 344    | 12/09E      | 64,339              | 4,194         | 19.8        | -21.2          | 38.6       | 6.5         | 18.2       | 29.0        | 2.4          | 24.0          |
| 1,6,12 Rel Perf (%) | 1 / -23 / -9 | 12/10E      | 74,140              | 5,976         | 28.2        | 42.5           | 27.1       | 5.4         | 21.7       | 33.8        | 2.1          | 17.4          |
| Mcap (Rs b)         | 161.7        | 12/11E      | 88,085              | 7,685         | 36.3        | 28.6           | 21.0       | 4.4         | 22.9       | 35.6        | 1.7          | 13.0          |
| Mcap (USD b)        | 3.5          |             |                     |               |             |                |            |             |            |             |              |               |

- Order backlog at the end of 3QCY09 was Rs80b (up 18.1% YoY), book-to-bill ratio of 1.2x TTM revenue. Order intake in 3QCY09 was Rs19b (stable YoY, down 10% QoQ). During 4QCY09, the order announcement (through media communications) was Rs5b compared with Rs4.4b in 3QCY09 and Rs8.3b in 2QCY09.
- Execution in 3QCY09 was impacted mainly by slower revenue growth in the power systems division. This division, which contributes ~30% to total revenue, had a revenue decline of 25.4% YoY in the quarter. After weak execution over the past 2-3 quarters, we expect better execution during CY10.
- EBITDA margin during 3QCY09 declined 46bp YoY to 8.4%. EBITDA contraction was driven by margin pressure in power products (EBIT decline of 890bp YoY to 1.2%) and process automation division (EBIT decline of 520bp YoY to 7.0%). These levels point to either cost escalations or one-offs. We expect margin expansion YoY during 4QCY09 and improved revenue growth.
- Capital employed rose 12% YoY to Rs24.7b in 3QCY09. While the increased capital employed in the automation business can be partially attributed to capex on increased capacities, the increased capital employed in the power business implies increased working capital in the segment. But capital employed has been stable over the past three quarters.
- The stock trades at 38.6x CY09E and 27.1x CY10E earnings. We estimate EPS of Rs19.8/sh for CY09 and Rs28.2/sh for CY10. Maintain **Neutral**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E DECEMBER           | CY08          |               |               |               | CY09          |               |               |               | CY08          | CY09E         |
|------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                        | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3Q            | 4QE           |               |               |
| <b>Sales</b>           | <b>15,353</b> | <b>16,163</b> | <b>15,191</b> | <b>21,663</b> | <b>13,931</b> | <b>15,050</b> | <b>14,538</b> | <b>20,820</b> | <b>68,370</b> | <b>64,339</b> |
| Change (%)             | 17.0          | 15.4          | 10.3          | 17.8          | (9.3)         | (6.9)         | (4.3)         | (3.9)         | 15.3          | -5.9          |
| <b>EBITDA</b>          | <b>1,728</b>  | <b>1,902</b>  | <b>1,348</b>  | <b>2,680</b>  | <b>1,271</b>  | <b>1,281</b>  | <b>1,223</b>  | <b>2,768</b>  | <b>7,658</b>  | <b>6,544</b>  |
| Change (%)             | 34.8          | 16.1          | -21.8         | 3.0           | -26.4         | -32.7         | -9.3          | 3.3           | 5.7           | -14.5         |
| As % of Sales          | 11.3          | 11.8          | 8.9           | 12.4          | 9.1           | 8.5           | 8.4           | 13.3          | 11.2          | 10.2          |
| Depreciation           | 83            | 88            | 92            | 103           | 109           | 125           | 127           | 124           | 367           | 484           |
| Interest               | 28            | 8             | 67            | 159           | 103           | 80            | 44            | 72            | 262           | 300           |
| Other Income           | 185           | 184           | 399           | 507           | 143           | 209           | 159           | 133           | 1,275         | 643           |
| <b>PBT</b>             | <b>1,801</b>  | <b>1,990</b>  | <b>1,589</b>  | <b>2,925</b>  | <b>1,202</b>  | <b>1,284</b>  | <b>1,212</b>  | <b>2,705</b>  | <b>8,304</b>  | <b>6,404</b>  |
| Tax                    | 624           | 701           | 540           | 993           | 419           | 448           | 381           | 961           | 2,858         | 2,209         |
| Effective Tax Rate (%) | 34.6          | 35.2          | 34.0          | 34.0          | 34.8          | 34.9          | 31.4          | 35.5          | 34.4          | 34.5          |
| <b>Reputed PAT</b>     | <b>1,177</b>  | <b>1,289</b>  | <b>1,048</b>  | <b>1,931</b>  | <b>783</b>    | <b>836</b>    | <b>831</b>    | <b>1,744</b>  | <b>5,474</b>  | <b>4,194</b>  |
| <b>Adj. PAT</b>        | <b>1,177</b>  | <b>1,289</b>  | <b>927</b>    | <b>1,931</b>  | <b>783</b>    | <b>836</b>    | <b>831</b>    | <b>1,744</b>  | <b>5,325</b>  | <b>4,194</b>  |
| Change (%)             | 35.9          | 19.5          | -20.8         | 6.8           | -33.4         | -35.1         | -10.4         | -9.7          | 8.3           | -21.2         |

E: MOSL Estimates

Satyam Agarwal (AgarwalS@MotilalOswal.com)/Navneet Iyengar (Navneet.Iyengar@MotilalOswal.com)

## BHEL

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE SENSEX: 17,402 | BHEL IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | BHEL.BO      |

29 December 2009

Buy

Rs2,375

Previous Recommendation: Buy

|                     |              |
|---------------------|--------------|
| Equity Shares (m)   | 489.5        |
| 52 Week Range (Rs)  | 2,550/1,250  |
| 1,6,12 Rel Perf (%) | 3 / -11 / -6 |
| Mcap (Rs b)         | 1162.8       |
| Mcap (USD b)        | 24.9         |

| YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 03/09A      | 267,880             | 35,594        | 72.7        | 41.8              | 32.7       | 9.0         | 30.0       | 46.9        | 4.0          | 25.2          |
| 03/10E      | 332,634             | 42,446        | 86.7        | 19.2              | 27.4       | 7.4         | 29.5       | 51.8        | 3.2          | 17.6          |
| 03/11E      | 428,824             | 56,130        | 114.7       | 32.2              | 20.7       | 5.9         | 31.7       | 54.4        | 2.5          | 12.8          |
| 03/12E      | 556,479             | 74,842        | 152.9       | 33.3              | 15.5       | 4.7         | 33.9       | 56.7        | 1.9          | 9.5           |

- During 3QFY10, we expect revenue of Rs77b (+28% YoY) and EBITDA margin expansion of 30bp YoY, driven by a decline in commodity prices, operating leverage from staff cost; partly offset by increased outsourcing.
- BHEL's order book as at September 2009 was Rs1,258b (+21% YoY, +2% QoQ) and order intake was Rs80b (-46% YoY, -37% QoQ). During 3QFY10, BHEL's order intake announcements were Rs60b, compared with Rs71b in 2QFY10 and Rs128b in 1QFY10.
- Key orders in 3QFY10 include: (1) 1,980MW supercritical thermal power project from Jaiprakash (Rs56b), and (2) 126MW gas turbine order from Oman (Rs2.1b).
- Against order intake of Rs597b in FY09, we expect FY10 order intake of Rs523b. The management indicated the industrial division would contribute Rs100b and exports would contribute Rs50b. Thus, the power division order intake is expected to be Rs350b (-24.2% YoY) against Rs462b in FY09. This does not include possible order intake from bulk ordering of supercritical projects, now expected in 1HFY11, which could be a meaningful addition.
- In November 2009, BHEL commissioned a factory at Bhopal to make UHV transformers; which will increase the company's transformer capacity by 12,000MVA a year. After the capacity addition, BHEL's aggregate transformer capacity would be 45,000MVA a year.
- The stock trades at a P/E of 27.4x FY10E and 20.7x FY11E. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH              | FY09          |               |               |                | FY10          |               |               |                | FY09           | FY10E          |
|------------------------|---------------|---------------|---------------|----------------|---------------|---------------|---------------|----------------|----------------|----------------|
|                        | 1Q            | 2Q            | 3Q            | 4Q             | 1Q            | 2Q            | 3QE           | 4QE            |                |                |
| <b>Sales (Net)</b>     | <b>43,292</b> | <b>53,426</b> | <b>60,223</b> | <b>105,401</b> | <b>55,957</b> | <b>66,252</b> | <b>76,851</b> | <b>127,034</b> | <b>262,342</b> | <b>326,094</b> |
| Change (%)             | 33.9          | 34.7          | 21.3          | 46.4           | 29.3          | 24.0          | 27.6          | 20.5           | 35.5           | 24.3           |
| <b>EBITDA</b>          | <b>3,737</b>  | <b>7,107</b>  | <b>10,207</b> | <b>16,963</b>  | <b>5,162</b>  | <b>11,295</b> | <b>14,591</b> | <b>21,647</b>  | <b>38,014</b>  | <b>52,695</b>  |
| Change (%)             | 20.3          | 2.2           | 2.3           | 24.4           | 38.1          | 58.9          | 43.0          | 27.6           | 12.9           | 38.6           |
| As a % Sales           | 8.6           | 13.3          | 16.9          | 16.1           | 9.2           | 17.0          | 19.0          | 17.0           | 14.5           | 16.2           |
| <b>Adjusted EBITDA</b> | <b>4,560</b>  | <b>8,061</b>  | <b>11,280</b> | <b>20,711</b>  | <b>5,162</b>  | <b>11,295</b> | <b>14,591</b> | <b>21,647</b>  | <b>44,612</b>  | <b>52,695</b>  |
| Change (%)             | 119.2         | 36.0          | 26.0          | 43.4           | 13.2          | 40.1          | 29.4          | 4.5            | 33.6           | 18.1           |
| As a % Sales           | 10.5          | 15.1          | 18.7          | 19.6           | 9.2           | 17.0          | 19.0          | 17.0           | 17.0           | 16.2           |
| Interest               | 26            | 22            | 179           | 81             | 43            | 45            | 65            | 202            | 307            | 355            |
| Depreciation           | 726           | 744           | 865           | 1,009          | 961           | 934           | 981           | 1,138          | 3,343          | 4,014          |
| Other Income           | 2,917         | 3,072         | 3,063         | 5,072          | 3,029         | 2,978         | 3,094         | 7,874          | 14,124         | 16,975         |
| <b>PBT</b>             | <b>5,903</b>  | <b>9,414</b>  | <b>12,226</b> | <b>20,945</b>  | <b>7,187</b>  | <b>13,294</b> | <b>16,639</b> | <b>28,181</b>  | <b>48,488</b>  | <b>65,301</b>  |
| Tax                    | 2,059         | 3,256         | 4,321         | 7,470          | 2,481         | 4,715         | 5,824         | 9,836          | 17,106         | 22,855         |
| Effective Tax Rate (%) | 34.9          | 34.6          | 35.3          | 35.7           | 34.5          | 35.5          | 35.0          | 34.9           | 35.3           | 35.0           |
| <b>Reported PAT</b>    | <b>3,844</b>  | <b>6,158</b>  | <b>7,906</b>  | <b>13,475</b>  | <b>4,706</b>  | <b>8,579</b>  | <b>10,816</b> | <b>18,345</b>  | <b>31,382</b>  | <b>42,446</b>  |
| Change (%)             | 33.0          | -10.5         | 2.4           | 21.3           | 22.4          | 39.3          | 36.8          | 36.1           | 9.8            | 35.3           |
| <b>Adj. PAT</b>        | <b>4,379</b>  | <b>6,777</b>  | <b>8,603</b>  | <b>15,911</b>  | <b>4,706</b>  | <b>8,579</b>  | <b>10,816</b> | <b>18,345</b>  | <b>35,671</b>  | <b>42,446</b>  |
| Change (%)             | 97.1          | 9.1           | 22.0          | 36.7           | 7.5           | 26.6          | 25.7          | 15.3           | 31.5           | 19.0           |

E: MOSL Estimates

Satyam Agarwal (AgarwalS@MotilalOswal.com)/Navneet Iyengar (Navneet.Iyengar@MotilalOswal.com)

## Crompton Greaves

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | CRG IN       |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | CROM.BO      |

29 December 2009

Neutral

Previous Recommendation: Buy

Rs422

|                     |              |
|---------------------|--------------|
| Equity Shares (m)   | 366.6        |
| 52 Week Range (Rs)  | 428 / 100    |
| 1,6,12 Rel Perf (%) | 4 / 22 / 142 |
| Mcap (Rs b)         | 154.8        |
| Mcap (USD b)        | 3.3          |

| YEAR<br>END | NET SALES<br>(RS M) | PAT*<br>(RS M) | EPS*<br>(RS) | EPS GR.<br>(%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|----------------|--------------|----------------|------------|-------------|------------|-------------|--------------|---------------|
| 3/09A       | 46,107              | 5,599          | 15.3         | 53.2           | 27.7       | 12.5        | 36.6       | 52.9        | 3.3          | 23.6          |
| 3/10E       | 52,400              | 7,038          | 19.2         | 25.7           | 22.0       | 9.5         | 36.3       | 52.3        | 2.9          | 18.8          |
| 3/11E       | 61,022              | 7,908          | 21.6         | 12.4           | 19.6       | 7.5         | 32.0       | 46.7        | 2.5          | 16.1          |
| 3/12E       | 73,546              | 9,890          | 27.0         | 25.1           | 15.7       | 5.9         | 31.7       | 46.9        | 2.0          | 12.7          |

\* Consolidated; pre-exceptionals

- Crompton is expected to deliver a healthy performance in 3QFY10. We expect Crompton to report standalone revenue of Rs12.5b, up 16% YoY, EBITDA of Rs1.8b, up 33% YoY, and net profit of Rs1.2b, up 37% YoY.
- Crompton's consolidated order book is Rs64b (largely power), translating into book-to-bill of 1x TTM revenue of the power business. The standalone and international order book at the end of 2QFY10 was Rs31b (+13.2% YoY) and Rs33b (-18.3% YoY). Crompton is bullish about order intake from Powergrid, SEBs and exports.
- During 2QFY10, Pauwels and Ganz had weak order flow at Rs7.8b (-2.5% QoQ, -4.8% YoY). But with the improving macro environment order inflows could improve for the international business.
- During 2QFY10, Crompton's management increased standalone revenue growth guidance: For FY10, standalone revenue growth of 14-16%; overseas revenue growth of 2-5%. For FY11, standalone revenue growth of 18-22%; overseas revenue growth of 7-8%.
- The management says it intends to list Avantha Power during next 12-18 months.
- For 3QFY10, we expect EBITDA margin at 14.8% (up 200bp YoY) due to continued benefits of lower commodity prices on fixed price contracts. For FY10, Crompton management expects stable EBITDA margins driven by (1) benefit of lower commodity prices due to lower variable price-based contracts, (2) continued focus on power products unlike peers that have significant exposure to lower margin projects business, (3) sourcing from India (8-9% for Pauwels/Ganz), and (4) improvement in design and manufacturing efficiencies.
- We expect Crompton to report consolidated earnings of Rs19.2/sh in FY10 (up 25.7% YoY) and Rs21.6/sh in FY11 (up 12.4% YoY). The stock trades at a P/E of 22x FY10E and 19.6x FY11E. **Neutral**.

## QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

| Y/E MARCH              | FY09          |               |               |               | FY10          |               |               |               | FY09          | FY10E         |
|------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                        | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3QE           | 4QE           |               |               |
| <b>Sales</b>           | <b>10,829</b> | <b>10,862</b> | <b>10,797</b> | <b>13,618</b> | <b>11,735</b> | <b>12,686</b> | <b>12,487</b> | <b>15,492</b> | <b>46,107</b> | <b>52,400</b> |
| Change (%)             | 20.8          | 20.0          | 18.0          | 17.4          | 8.4           | 16.8          | 15.7          | 13.8          | 19.0          | 13.6          |
| <b>EBITDA</b>          | <b>1,381</b>  | <b>1,435</b>  | <b>1,386</b>  | <b>2,167</b>  | <b>1,740</b>  | <b>2,094</b>  | <b>1,842</b>  | <b>2,470</b>  | <b>6,381</b>  | <b>8,146</b>  |
| Change (%)             | 32.2          | 34.4          | 19.5          | 38.4          | 26.0          | 45.9          | 32.9          | 14.0          | 31.9          | 27.7          |
| As of % Sales (Adj)    | 12.8          | 13.2          | 12.8          | 15.9          | 14.8          | 16.5          | 14.8          | 15.9          | 13.8          | 15.5          |
| Depreciation           | 108           | 120           | 94            | 130           | 128           | 129           | 131           | 140           | 452           | 529           |
| Interest               | 22            | 39            | 47            | 38            | -6            | 0             | 1             | 2             | 146           | -3            |
| Other Income           | 81            | 102           | 85            | 104           | 84            | 99            | 104           | 123           | 361           | 411           |
| <b>PBT</b>             | <b>1,332</b>  | <b>1,379</b>  | <b>1,330</b>  | <b>2,102</b>  | <b>1,702</b>  | <b>2,064</b>  | <b>1,814</b>  | <b>2,451</b>  | <b>6,143</b>  | <b>8,032</b>  |
| Tax                    | 443           | 453           | 483           | 793           | 555           | 703           | 653           | 900           | 2,172         | 2,811         |
| Effective Tax Rate (%) | 33.3          | 32.9          | 36.3          | 37.7          | 32.6          | 34.1          | 36.0          | 36.7          | 35.4          | 35.0          |
| <b>Reported PAT</b>    | <b>889</b>    | <b>925</b>    | <b>847</b>    | <b>1,309</b>  | <b>1,147</b>  | <b>1,361</b>  | <b>1,161</b>  | <b>1,551</b>  | <b>3,971</b>  | <b>5,221</b>  |
| Change (%)             | 65.3          | 44.3          | 34.7          | 38.6          | 29.1          | 47.1          | 37.0          | 18.5          | 44.3          | 31.5          |

E: MOSL Estimates

Satyam Agarwal (AgarwalS@MotilalOswal.com)/Navneet Iyengar (Navneet.Iyengar@MotilalOswal.com)



## Larsen &amp; Toubro

|                     |              |              |
|---------------------|--------------|--------------|
| STOCK INFO.         |              | BLOOMBERG    |
| BSE Sensex: 17,402  |              | LT IN        |
|                     |              | REUTERS CODE |
| S&P CNX: 5,188      |              | LART.BO      |
| Equity Shares (m)   | 601.8        |              |
| 52 Week Range (Rs)  | 1,800 / 557  |              |
| 1,6,12 Rel Perf (%) | 2 / -13 / 45 |              |
| Mcap (Rs b)         | 1013.5       |              |
| Mcap (USD b)        | 21.7         |              |

29 December 2009

Neutral

Previous Recommendation: Neutral

Rs1,684

| YEAR<br>END | NET SALES<br>(RS M) | PAT *<br>(RS M) | EPS*<br>(RS) | EPS GR.<br>(%) | P/E*<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|-----------------|--------------|----------------|-------------|-------------|------------|-------------|--------------|---------------|
| 3/09A       | 339,264             | 30,046          | 51.5         | 31.1           | 32.7        | 7.9         | 24.5       | 26.0        | 3.1          | 27.7          |
| 3/10E       | 389,398             | 34,507          | 57.3         | 11.8           | 29.4        | 5.5         | 19.9       | 21.9        | 2.6          | 23.1          |
| 3/11E       | 462,794             | 40,375          | 67.1         | 17.0           | 25.1        | 4.8         | 18.1       | 20.3        | 2.3          | 19.4          |
| 3/12E       | 617,591             | 51,641          | 85.8         | 27.9           | 19.6        | 4.2         | 19.8       | 21.6        | 1.8          | 15.5          |

\* Consolidated; EPS is fully diluted

- 2QFY10 order book was Rs816b (+29.8% YoY), book-to-bill ratio of 2.3x TTM revenue and order intake of Rs184b (+47.5% YoY, +91.9% QoQ). In-house order book accounts for 10% of the order backlog.
- During 3QFY10, L&T announced healthy order intakes including large orders such as (1) a Rs69b BTG order from Mahagenco (1980MW), (2) a Rs16b BOP order from MP Power (1,200MW), and (3) an Rs8.4b nuclear power-related order.
- During 3QFY10 we expect EBIDTA margins to decline 40bp YoY to 10.6%. In 1H FY10, higher revenue contribution from hydrocarbon and process industries, which are higher margin businesses, resulted in YoY increase in EBIDTA margins. Lower treasury income, given reduction in yields will also impact E&C EBIT margins.
- With an improving macro environment, there is a possibility of a reduction in volume pressure in MIP/EBG. During 1H FY10, machinery and industrial production (MIP) and the electrical and electronics business group (EBG) were under pressure due to the overall slowdown of end markets. Management indicated that while there were signs of recovery in the EBG business end markets such as agriculture and OEM, the major drivers to MIP, construction, mining and valves, continued to face weak demand.
- Management has indicated 15% revenue growth in FY10 (v/s 15-20% earlier) and stable EBITDA margins.
- The stock trades at a P/E of 29.4x FY10E and 25.1x FY11E. Maintain **Neutral**.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

| Y/E MARCH               | FY09          |               |               |                | FY10          |               |               |                | FY09           | FY10E          |
|-------------------------|---------------|---------------|---------------|----------------|---------------|---------------|---------------|----------------|----------------|----------------|
|                         | 1Q            | 2Q            | 3Q            | 4Q             | 1Q            | 2Q            | 3QE           | 4QE            |                |                |
| <b>Net Sales</b>        | <b>69,014</b> | <b>76,864</b> | <b>85,940</b> | <b>104,648</b> | <b>73,627</b> | <b>78,662</b> | <b>97,868</b> | <b>136,898</b> | <b>336,465</b> | <b>387,055</b> |
| Change (%)              | 53.2          | 39.8          | 34.6          | 23.6           | 6.7           | 2.3           | 13.9          | 30.8           | 35.4           | 15.0           |
| <b>EBITDA</b>           | <b>6,609</b>  | <b>6,809</b>  | <b>7,799</b>  | <b>14,845</b>  | <b>7,863</b>  | <b>7,846</b>  | <b>10,374</b> | <b>16,292</b>  | <b>36,061</b>  | <b>42,374</b>  |
| Change (%)              | 55.9          | 15.8          | 12.1          | 31.3           | 19.0          | 15.2          | 33.0          | 9.7            | 27.1           | 17.5           |
| Margin (%)              | 9.6           | 8.9           | 9.1           | 14.2           | 10.7          | 10.0          | 10.6          | 11.9           | 10.7           | 10.9           |
| <b>Adjusted EBITDA</b>  | <b>6,609</b>  | <b>7,409</b>  | <b>9,429</b>  | <b>13,685</b>  | <b>7,863</b>  | <b>7,846</b>  | <b>10,374</b> | <b>16,292</b>  | <b>37,131</b>  | <b>42,374</b>  |
| Adjusted Margin (%)     | 9.6           | 9.6           | 11.0          | 13.1           | 10.7          | 10.0          | 10.6          | 11.9           | 11.0           | 10.9           |
| Depreciation            | 659           | 731           | 781           | 889            | 937           | 1,001         | 1,101         | 1,183          | 3,060          | 4,223          |
| Interest                | 382           | 690           | 975           | 1,455          | 1,096         | 1,310         | 1,283         | 1,442          | 3,503          | 5,130          |
| Other Income            | 1,983         | 1,518         | 3,072         | 3,331          | 2,683         | 2,702         | 3,007         | 3,524          | 9,903          | 11,916         |
| Extraordinary Inc/(Exp) | 0             | 0             | 9,163         | -1,439         | 10,199        | 274           | 0             | 0              | 7,725          | 10,473         |
| <b>Reported PBT</b>     | <b>7,551</b>  | <b>6,906</b>  | <b>18,277</b> | <b>14,393</b>  | <b>18,712</b> | <b>8,511</b>  | <b>10,996</b> | <b>17,191</b>  | <b>47,127</b>  | <b>55,410</b>  |
| Tax                     | 2,526         | 2,304         | 3,073         | 4,409          | 2,730         | 2,707         | 3,574         | 5,149          | 12,312         | 14,159         |
| Effective Tax Rate (%)  | 33.5          | 33.4          | 16.8          | 30.6           | 14.6          | 31.8          | 32.5          | 29.9           | 26.1           | 25.6           |
| <b>Reported PAT</b>     | <b>5,025</b>  | <b>4,602</b>  | <b>15,204</b> | <b>9,984</b>   | <b>15,982</b> | <b>5,804</b>  | <b>7,422</b>  | <b>12,043</b>  | <b>34,814</b>  | <b>41,251</b>  |
| <b>Adjusted PAT</b>     | <b>4,906</b>  | <b>5,004</b>  | <b>6,406</b>  | <b>10,646</b>  | <b>5,783</b>  | <b>5,530</b>  | <b>7,422</b>  | <b>12,043</b>  | <b>26,968</b>  | <b>30,778</b>  |
| Change (%)              | 67.8          | 30.4          | 24.4          | 17.0           | 17.9          | 10.5          | 15.9          | 13.1           | 28.4           | 14.1           |

E: MOSL Estimates

Satyam Agarwal (AgarwalS@MotilalOswal.com)/Navneet Iyengar (Navneet.Iyengar@MotilalOswal.com)

## Siemens

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | SIEM IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | SIEM.BO      |

29 December 2009

Neutral

Previous Recommendation: Neutral

Rs578

|                     |             |
|---------------------|-------------|
| Equity Shares (m)   | 337.2       |
| 52 Week Range (Rs)  | 605 / 186   |
| 1,6,12 Rel Perf (%) | 7 / -2 / 30 |
| Mcap (Rs b)         | 194.7       |
| Mcap (USD b)        | 4.2         |

| YEAR<br>END | NET SALES<br>(RS M) | PAT*<br>(RS M) | EPS*<br>(RS) | EPS GR.<br>(%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|----------------|--------------|----------------|------------|-------------|------------|-------------|--------------|---------------|
| 9/09A       | 84,585              | 4,623          | 13.7         | -11.3          | 42.1       | 6.3         | 12.3       | 43.8        | 2.1          | 17.5          |
| 9/10E       | 89,911              | 5,557          | 16.5         | 20.2           | 35.0       | 5.6         | 16.9       | 27.2        | 2.0          | 17.9          |
| 9/11E       | 102,020             | 7,464          | 22.1         | 34.3           | 26.1       | 4.9         | 20.0       | 31.1        | 1.7          | 14.1          |
| 9/12E       | 117,738             | 9,553          | 28.3         | 28.0           | 20.4       | 4.3         | 22.4       | 34.3        | 1.4          | 11.2          |

\*Consolidated

- For 1QFY10 (September year ending), we expect Siemens to report revenue of Rs18.9b, up 15% YoY; EBITDA of Rs2.0b (up 17.6% YoY) and net profit of Rs1.1b (down 8.8% YoY). During FY09 there has been pressure on industrial segment margins and this is likely to continue through 1QFY10, as well.
- Order book at the end of FY09 was Rs103b (+5% YoY, +1% QoQ). During 4QFY10, order intake was Rs26b (+10% YoY, +12% QoQ). While the order book has been largely stagnant over the past 10 quarters; order intake in 4QFY09 saw marginal improvement. We understand the improved sequential order intake was driven by better order flows in transmission and mobility (mainly railways) segments, which is likely to continue.
- During 1QFY10, the order intake has been robust with Siemens announcing order intake of Rs10b from Qatar.
- During FY09, EBIT of the power division was 13.6%, much higher than peer margins for the segment, given write backs of Rs1.2b. EBIT margins for industrials continued to be under pressure. 4QFY09 EBIT for the industry division was 5.6% (-330bpYoY).
- The stock trades at a P/E of 35x FY10E and 26.1x FY11E. We maintain **Neutral**.

## QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

| Y/E SEPTEMBER          | FY09          |               |               |               | FY10E         |               |               |               | FY09          | FY10E         |
|------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                        | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3Q            | 4Q            |               |               |
| <b>Total Revenues</b>  | <b>16,399</b> | <b>23,830</b> | <b>19,177</b> | <b>25,180</b> | <b>18,881</b> | <b>24,276</b> | <b>20,230</b> | <b>26,524</b> | <b>84,585</b> | <b>89,911</b> |
| Change (%)             | -14.6         | 10.6          | 5.3           | 2.2           | 15.1          | 1.9           | 5.5           | 5.3           | 1.2           | 6.3           |
| <b>EBITDA</b>          | <b>1,702</b>  | <b>3,489</b>  | <b>2,571</b>  | <b>2,469</b>  | <b>2,001</b>  | <b>2,986</b>  | <b>1,922</b>  | <b>2,927</b>  | <b>10,231</b> | <b>9,837</b>  |
| Change (%)             | 10.0          | 2,192.9       | -3.1          | -28.2         | 17.6          | -14.4         | -25.3         | 18.6          | 31.3          | -3.9          |
| As % of Revenues       | 10.4          | 14.6          | 13.4          | 9.8           | 10.6          | 12.3          | 9.5           | 11.0          | 12.1          | 10.9          |
| Depreciation           | 181           | 184           | 199           | 213           | 228           | 233           | 248           | 246           | 778           | 956           |
| Interest Income        | 165           | 94            | 118           | 87            | 148           | 136           | 205           | 198           | 464           | 687           |
| Other Income           | 2,233         | 30            | 125           | -47           | 0             | 0             | 0             | 0             | 2,341         | 0             |
| Extra-ordinary Items   | 0             | 0             | 2,059         | 0             | 0             | 0             | 0             | 0             | 2,059         | 0             |
| <b>PBT</b>             | <b>3,919</b>  | <b>3,429</b>  | <b>4,674</b>  | <b>2,296</b>  | <b>1,625</b>  | <b>2,617</b>  | <b>1,469</b>  | <b>2,483</b>  | <b>14,318</b> | <b>9,568</b>  |
| Tax                    | 613           | 1,174         | 1,304         | 780           | 536           | 864           | 485           | 819           | 3,870         | 3,157         |
| Effective Tax Rate (%) | 15.6          | 34.2          | 27.9          | 34.0          | 33.0          | 33.0          | 33.0          | 33.0          | 27.0          | 33.0          |
| <b>Reported PAT</b>    | <b>3,306</b>  | <b>2,255</b>  | <b>3,370</b>  | <b>1,516</b>  | <b>1,089</b>  | <b>1,753</b>  | <b>984</b>    | <b>1,664</b>  | <b>10,448</b> | <b>6,410</b>  |
| <b>Adjusted PAT</b>    | <b>1,193</b>  | <b>2,255</b>  | <b>1,725</b>  | <b>1,516</b>  | <b>1,089</b>  | <b>1,753</b>  | <b>984</b>    | <b>1,664</b>  | <b>5,911</b>  | <b>6,410</b>  |
| Change (%)             | 9.5           | 13,428        | 2             | -33           | -8.8          | -22.3         | -43.0         | 10            | -5.8          | 8.4           |

E: MOSL Estimates

Satyam Agarwal (AgarwalS@MotilalOswal.com)/Navneet Iyengar (Navneet.Iyengar@MotilalOswal.com)

## Thermax

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | TMX IN       |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | THMX.BO      |

29 December 2009

Neutral

Previous Recommendation: Neutral

Rs609

|                     |               |
|---------------------|---------------|
| Equity Shares (m)   | 119.2         |
| 52 Week Range (Rs)  | 650 / 151     |
| 1,6,12 Rel Perf (%) | -1 / 29 / 161 |
| Mcap (Rs b)         | 72.5          |
| Mcap (USD b)        | 1.6           |

| YEAR<br>END | NET SALES<br>(RS M) | PAT*<br>(RS M) | EPS*<br>(RS) | EPS GR.*<br>(%) | P/E*<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|----------------|--------------|-----------------|-------------|-------------|------------|-------------|--------------|---------------|
| 03/09A      | 32,644              | 2,950          | 24.8         | 2.6             | 24.6        | 8.2         | 35.3       | 51.0        | 2.2          | 17.1          |
| 03/10E      | 32,480              | 2,808          | 23.6         | -4.8            | 25.8        | 7.3         | 29.1       | 43.7        | 2.2          | 17.3          |
| 03/11E      | 35,819              | 3,064          | 25.7         | 9.1             | 23.7        | 6.5         | 28.2       | 42.5        | 2.0          | 15.8          |
| 03/12E      | 39,967              | 3,398          | 28.5         | 10.9            | 21.3        | 5.7         | 27.5       | 41.4        | 1.7          | 13.9          |

\* Consolidated

- For 3QFY10, we expect revenue of Rs9.4b, up 18.5% YoY, EBITDA of Rs879m, down 9.2% and net profit of Rs615m, down 15% YoY.
- Consolidated order book was Rs50.6b (19% YoY, +48% QoQ) at the end of 2QFY10. The energy division contributed Rs43.4b and environment division contributed Rs7.2b. During 2QFY10, Thermax order flow improved significantly with intake at Rs23.45b (+22.5% QoQ, 42% YoY) against the management's expectation of Rs6b. In 3QFY10 Thermax won two large orders in the energy segment totaling about Rs15b and overall inflows in 1HFY10 were worth Rs34b against FY09 inflows of Rs40b. We expect FY10E inflows to reflect a 10-15% improvement considering strong inflow traction in 2HFY10 being underway.
- FY10 order intake will be mainly driven by utility/IPP orders. During 3QFY10 Thermax received two large orders. The first one, worth Rs10b (2X135MW) is from a Hyderabad based IPP and the second order is of a captive plant (2X60MW) in Orissa, which is valued at Rs4.7b. These orders are using CFBC technology: They use waste heat and coal rejects as fuel to fire the boiler. Thermax will undertake the complete EPC including the supply of auxiliaries like water treatment and effluent treatment systems for the plant.
- With its tie-up with Babco & Wilcox, Thermax will be able to take EPC jobs of up to 500MW plant size. Considering that BHEL is active in the subcritical 500MW market, Thermax will find it difficult to break into BHEL's share.
- The stock trades at a P/E of 25.8x FY10E and 23.7x FY11E. Maintain **Neutral**.

## QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

| Y/E MARCH              | FY09         |              |              |              | FY10         |              |              |               | FY09          | FY10E         |
|------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|---------------|
|                        | 1Q           | 2Q           | 3Q           | 4Q           | 1Q           | 2Q           | 3QE          | 4QE           |               |               |
| <b>Sales</b>           | <b>7,170</b> | <b>7,907</b> | <b>7,951</b> | <b>9,483</b> | <b>5,376</b> | <b>6,678</b> | <b>9,419</b> | <b>11,006</b> | <b>32,510</b> | <b>32,480</b> |
| Change (%)             | 9.0          | 2.7          | -6.0         | 2.8          | -25.0        | -15.5        | 18.5         | 16.1          | 1.5           | -0.1          |
| <b>EBITDA</b>          | <b>911</b>   | <b>799</b>   | <b>968</b>   | <b>1,333</b> | <b>689</b>   | <b>667</b>   | <b>879</b>   | <b>1,812</b>  | <b>4,011</b>  | <b>4,047</b>  |
| Change (%)             | 33.9         | -20.9        | -7.8         | 4.9          | -24.4        | -16.5        | -9.2         | 35.9          | -2.1          | 0.9           |
| As of % Sales          | 12.7         | 10.1         | 12.2         | 14.1         | 12.8         | 10.0         | 9.3          | 16.5          | 12.3          | 12.5          |
| Depreciation           | 70           | 67           | 84           | 100          | 95           | 104          | 95           | 80            | 321           | 375           |
| Interest               | 3            | 8            | 6            | 17           | 5            | 1            | 8            | 26            | 33            | 40            |
| Other Income           | 102          | 213          | 88           | 119          | 103          | 267          | 142          | -23           | 521           | 489           |
| <b>PBT</b>             | <b>940</b>   | <b>937</b>   | <b>966</b>   | <b>1,348</b> | <b>692</b>   | <b>829</b>   | <b>917</b>   | <b>1,682</b>  | <b>4,192</b>  | <b>4,121</b>  |
| Tax                    | 303          | 368          | 243          | 405          | 227          | 288          | 303          | 579           | 1,319         | 1,397         |
| Effective Tax Rate (%) | 32.3         | 39.2         | 25.2         | 30.0         | 32.8         | 34.7         | 33.0         | 34.4          | 31.5          | 33.9          |
| <b>Reported PAT</b>    | <b>637</b>   | <b>570</b>   | <b>723</b>   | <b>943</b>   | <b>465</b>   | <b>541</b>   | <b>615</b>   | <b>1,103</b>  | <b>2,873</b>  | <b>2,724</b>  |
| Change (%)             | 13.7         | -17.7        | -3.7         | 17.1         | -27.0        | -5.0         | -15.0        | 16.9          | 2.3           | -5.2          |
| <b>Adj PAT</b>         | <b>637</b>   | <b>570</b>   | <b>723</b>   | <b>930</b>   | <b>465</b>   | <b>541</b>   | <b>615</b>   | <b>1,103</b>  | <b>2,859</b>  | <b>2,724</b>  |
| Change (%)             | 37.8         | (17.7)       | (3.7)        | 18.5         | (27.0)       | (5.0)        | (15.0)       | 18.7          | 2.6           | (4.7)         |

E: MOSL Estimates

Satyam Agarwal (AgarwalS@MotilalOswal.com)/Navneet Iyengar (Navneet.Iyengar@MotilalOswal.com)

## FMCG

BSE Sensex: 17,402

S&amp;P CNX: 5,188

29 December 2009

## COMPANY NAME

Asian Paints

Britannia Industries

Colgate Palmolive

Dabur India

GSK Consumer

Godrej Consumer Products

Hindustan Unilever

ITC

Marico

Nestle India

Tata Tea

United Spirits

**Strong volume growth, low base to enable 26% PAT growth for FMCG universe:**

We estimate MOSL's FMCG universe will report 15% sales growth and 26% adjusted PAT growth during 3QFY10. Muted value sales growth is due to the waning impact of carry over pricing for most companies, though volume growth is expected to remain robust. EBITDA is likely to post growth of 28%, with margin expansion of 230bp.

**Sub-normal monsoon has little impact; winter sales encouraging:** We note that the sub-normal monsoon has had little impact on FMCG consumption as the increase in the minimum selling price (MSP) of agri-produce, and government initiatives like NREGS and Bharat Nirman have helped to cushion the impact. Early sowing of the Rabi crop has increased visibility of a good crop, which has boosted sentiment in rural India. While an early winter has boosted demand for product categories like skin care and *Chawyanprash*, though food inflation is leading to downtrading in some key categories.

**Raw material prices firm; waning impact of carry over pricing to restrict margin expansion:** Prices of major raw materials like palm oil, LAB, HDPE and milk continued to stay firm in 3QFY10. Copra and safflower prices, however, were benign. Though FMCG companies have not changed their pricing during the quarter, the waning impact of carry over pricing could result in lower margin expansion in 3QFY10 than in 2QFY10.

**Competition set to intensify; prefer niche players:** We see competition intensifying in select categories in the coming quarters. P&G's recent mass market product launch is a case in point. We believe India is fast evolving as a key emerging market, which will result in renewed focus from global FMCG players. We prefer companies present in niche categories, resulting in strong pricing power. **ITC** and **Nestle** are our preferred bets among large caps, and **Glaxo Consumer** is our top picks among mid caps.

## EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

|                  | CMP (RS) | RECO    | SALES   |       |       | EBITDA |       |       | NET PROFIT |       |       |
|------------------|----------|---------|---------|-------|-------|--------|-------|-------|------------|-------|-------|
|                  |          |         | DEC.09  | VAR.  | VAR.  | DEC.09 | VAR.  | VAR.  | DEC.09     | VAR.  | VAR.  |
|                  |          |         |         | % YOY | % QOQ |        | % YOY | % QOQ |            | % YOY | % QOQ |
| FMCG             |          |         |         |       |       |        |       |       |            |       |       |
| Asian Paints     | 1,765    | Neutral | 14,399  | 9.0   | -16.5 | 2,405  | 120.0 | -25.5 | 1,462      | 145.2 | -28.9 |
| Britannia        | 1,655    | Buy     | 8,919   | 9.0   | 3.9   | 669    | 1.9   | -9.3  | 460        | -12.5 | -30.4 |
| Colgate          | 654      | Buy     | 4,905   | 17.0  | 0.7   | 1,079  | 18.7  | -2.5  | 881        | 13.3  | -1.8  |
| Dabur            | 162      | Buy     | 9,500   | 22.0  | 12.0  | 1,765  | 36.9  | 0.6   | 1,378      | 27.1  | -1.0  |
| Godrej Consumer  | 261      | Buy     | 5,276   | 54.2  | -8.3  | 1,060  | 119.4 | -5.3  | 799        | 99.4  | -14.1 |
| GSK Consumer     | 1,317    | Buy     | 4,146   | 24.4  | -16.3 | 582    | 44.8  | -25.9 | 440        | 35.2  | -26.6 |
| Hind. Unilever   | 266      | Neutral | 47,290  | 8.0   | 10.8  | 8,843  | 15.7  | 35.6  | 6,752      | 10.7  | 35.2  |
| ITC              | 256      | Buy     | 44,750  | 16.0  | 3.0   | 17,005 | 23.4  | 6.9   | 11,014     | 21.9  | 9.1   |
| Marico           | 105      | Buy     | 7,100   | 14.0  | 2.6   | 930    | 17.5  | -2.1  | 611        | 20.0  | -2.1  |
| Nestle           | 2,530    | Buy     | 13,131  | 20.5  | 0.8   | 2,569  | 21.0  | -2.8  | 1,730      | 25.4  | -3.0  |
| Tata Tea         | 956      | Neutral | 14,375  | 10.0  | 2.5   | 1,912  | 7.3   | 9.9   | 1,020      | 24.2  | -7.5  |
| United Spirits   | 1,289    | Buy     | 13,175  | 28.0  | 22.0  | 2,121  | 99.5  | 16.5  | 926        | 202.8 | 33.1  |
| Sector Aggregate |          |         | 186,965 | 14.7  | 3.4   | 40,940 | 27.9  | 6.9   | 27,474     | 25.7  | 6.3   |

Amnish Aggarwal (AmnishAggarwal@MotilalOswal.com) / Nikhil Kumar N (Nikhil.N@MotilalOswal.com)

### Strong volume growth, low base to enable 26% PAT growth for FMCG universe

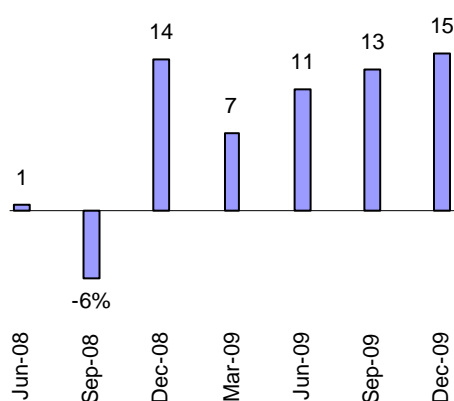
We estimate MOSL's FMCG universe will report 15% sales growth in 3QFY10 (including ~2% impact of acquisitions: Godrej Sara Lee by GCPL, Fem by Dabur and Shaw Wallace consolidation with United Spirits). Sales growth would have been higher but for the waning impact of carry over pricing for most companies. Volume growth for most of the companies is likely to remain robust. We estimate a 100-800bp expansion in EBITDA margins due to lower input costs and a low base in 3QFY09. In 3QFY10, EBITDA is likely to rise 28% YoY and adjusted PAT of the MOSL FMCG universe is likely to grow by 26% YoY.

VOLUME GROWTH TREND (%)

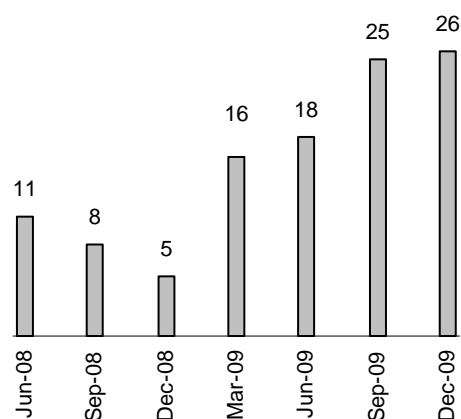
| VOLUME GROWTH        | SEP-08 | DEC-08 | MAR-09 | JUN-09 | SEP-09 |
|----------------------|--------|--------|--------|--------|--------|
| Hindustan Unilever   | 6.8    | 2.3    | -4.2   | 2.0    | 1.0    |
| ITC (Cigarettes)     | -2.0   | -3.5   | -3.0   | 5.0    | 8.0    |
| Asian Paints         | 19.0   | 2.0    | 13.0   | 11.5   | 17.5   |
| United Spirits       | 15.0   | 19.0   | 24.0   | 17.0   | 11.1   |
| Colgate (Toothpaste) | 11.1   | 14.0   | 15.2   | 14.0   | 18.0   |
| GSK Consumer         | 16.0   | 13.0   | 20.0   | 12.0   | 9.0    |
| Marico               |        |        |        |        |        |
| Parachute            | 12.0   | 9.0    | N.A    | 14.0   | 10.0   |
| Hair Oil             | 14.0   | 14.0   | N.A    | 9.0    | 17.0   |
| Saffola              | 9.0    | 3.0    | N.A    | 13.0   | 22.0   |
| Godrej Consumer      |        |        |        |        |        |
| Soaps                | 14.0   | 19.0   | 34.0   | 15.0   | ~16    |
| Hair Color           | -4.0   | 7.0    | 13.0   | 14.0   | ~35    |
| Dabur                | 13.0   | 14.0   | 13.0   | 16.0   | 13.0   |

Source: Company/MOSL

MOST FMCG UNIVERSE SALES GROWTH (%)



MOST FMCG UNIVERSE PAT GROWTH (%)



Source: Company/MOSL

- Asian Paints and United Spirits will post PAT growth of 145% and 203% YoY respectively as these companies had reported a 50-60% decline in profits in 3QFY09.
- We expect HUL's volume growth to rebound to 4% v/s 1% in 2QFY10 as the benefits of increased advertising and an aggressive sales push kick in.
- ITC will report another quarter of strong volume growth: We estimate 6.5% volume growth in 3QFY10.
- Processed food companies will report pressure on gross margins due to an increase in input costs of wheat and sugar in 2QFY10.

### Early sowing of Rabi crop positive, downtrading visible due to inflation

The sub-normal monsoon has had little impact on FMCG consumption. A rise of 10-15% in the MSP of key agri-produce, higher government spending through initiatives like NREGS and Bharat Nirman helped to cushion the impact in rural areas. Early sowing of the Rabi crop has increased visibility of a good crop and boosted sentiment in rural India.

AREA UNDER RABI CULTIVATION UNTIL 11 DECEMBER (M HECTARES)

| CROP             | CURRENT YEAR | PREVIOUS YEAR |
|------------------|--------------|---------------|
| Wheat            | 21.7         | 21.6          |
| Rice             | 0.3          | 0.2           |
| Coarse Cereals   | 5.7          | 6.1           |
| Oilseeds         | 7.9          | 8.4           |
| Pulses           | 11.2         | 10.9          |
| <b>All Crops</b> | <b>46.9</b>  | <b>47.2</b>   |

Source: Agriculture Ministry

Our channel check suggests early winter has boosted demand for winter based products such as skin care products and *Chawyanprash*. However, sustained food inflation (19% during the week to 28 November) has resulted in downtrading in categories like toilet soap and detergent.

### New product launches indicate increasing mass market focus

Although new product launches were relatively few compared with earlier quarters, the products launched had a distinctly mass market, value-for-money focus. During the quarter, P&G launched *Tide Naturals* priced at Rs50/kg, Glaxo Consumer test marketed *Horlicks Asha* (Rs80/500gm) and Tata Chemicals launched *Swach* water purifier (Rs799 and Rs999). Emami enhanced its presence in winter skin care segment with *Malai Kesar* cold cream and petroleum jelly with herbal extracts. We believe rising demand for FMCG products from small towns and rural India has caught the marketer's attention and we expect the trend to accelerate in coming quarters.

NEW PRODUCTS: VFM SEGMENT A KEY FOCUS

| COMPANY        | CATEGORY       | BRAND/SKU     |
|----------------|----------------|---------------|
| P&G            | Detergents     | Tide Naturals |
|                | Skin Care      | Olay Natural  |
| Nestle         | Pasta          | Maggi Pazzta  |
| Heinz          | RTE            | N.A           |
| GSK Consumer   | MFD            | Horlicks Asha |
| Tata Chemicals | Water Purifier | Swach         |

Source: Company/MOSL

### Input costs mixed; margin expansion to tend lower

We note that prices of major raw materials like LAB, palm oil, packaging material, sugar and milk remained firm in 3QFY10. Copra and safflower prices, however, were benign; titanium dioxide prices have been moving sideways. As FMCG companies have not changed their pricing during the quarter, the waning impact of carry over pricing could restrict the margin expansion to 230bp in 3QFY10, lower than 270bp in 2QFY10.

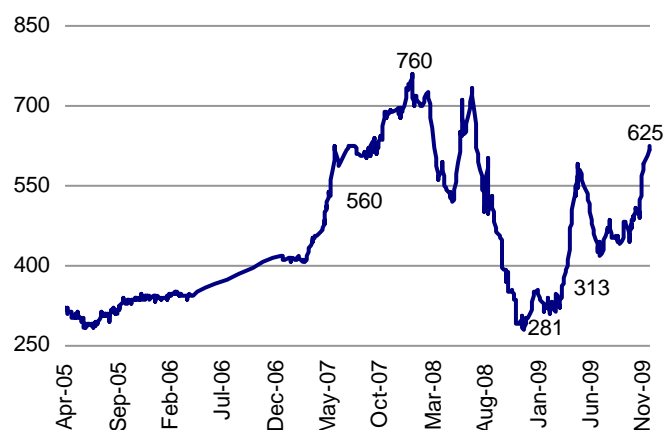


## IMPACT OF INPUT PRICE CHANGES

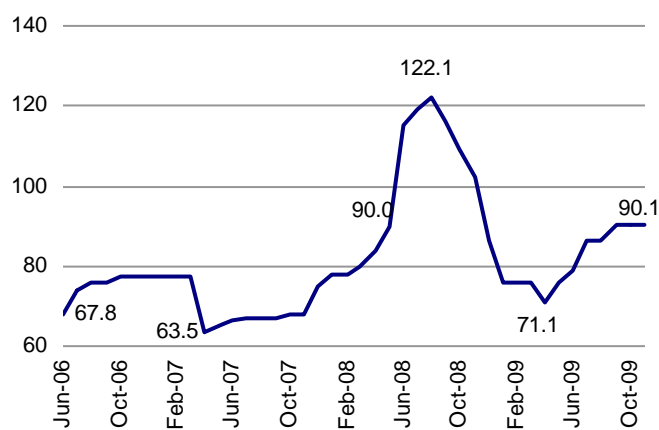
| INPUT           | PRICE<br>TREND | UNIT    | 52 WEEK<br>H/L | CURRENT<br>PRICE | IMPACT   | COMPANIES                 |
|-----------------|----------------|---------|----------------|------------------|----------|---------------------------|
| LAB             | Up             | Rs/Kg   | 94/71          | Rs.94/Kg         | Negative | HUL                       |
| Soda Ash        | Down           | Rs/50Kg | 1,038/837      | Rs837/50Kg       | Positive | HUL                       |
| Palm Fatty Acid | Up             | US\$/MT | 760/281        | US\$625/MT       | Negative | HUL, Godrej Consumer      |
| Wheat           | Up             | Rs/Qtl  | 1,304/1137     | Rs1,137/Qtl      | Negative | Nestle, ITC and Britannia |
| Milk            | Up             | Index   | 252/231        | 252 (Index)      | Negative | Nestle, GSK Consumer      |
| Copra           | Down           | Rs/Qtl  | 4,125/2900     | Rs3,350/Qtl      | Positive | Marico                    |

Source: Company/MOSL

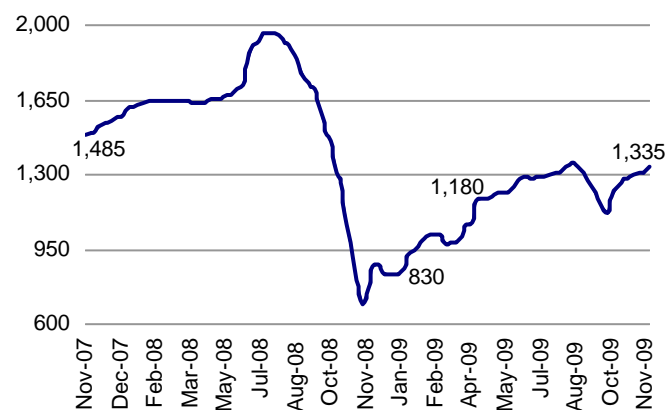
PALM FATTY ACID (US\$/MT): UP 25% IN PAST ONE MONTH



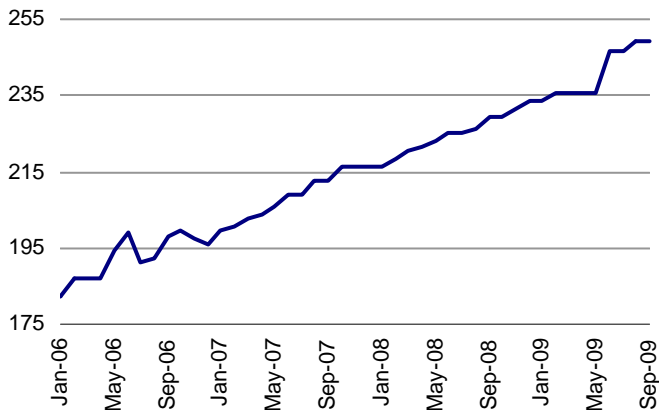
LAB (RS/KG): RULING FIRM



HDPE (US\$/MT): MIRRORING CRUDE



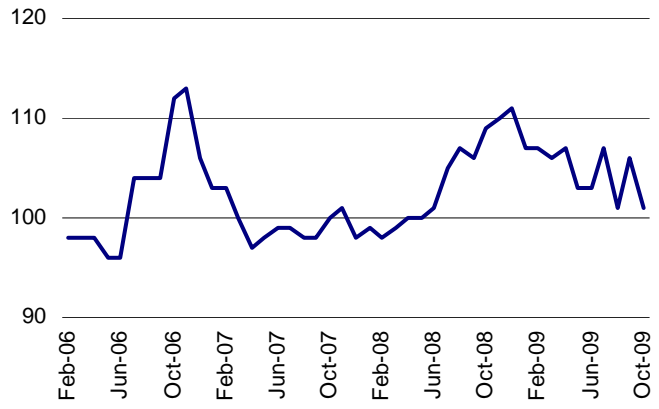
MILK PRICE INDEX: ON A STEADY RISE



COPRA (RS/QTL): DOWN 25% YOY

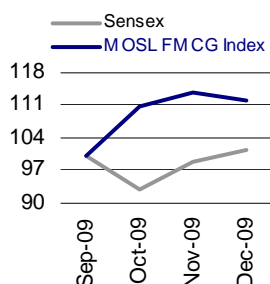


TITANIUM DIOXIDE PRICE INDEX: MOVING SIDeways



Source: Bloomberg/MOSL

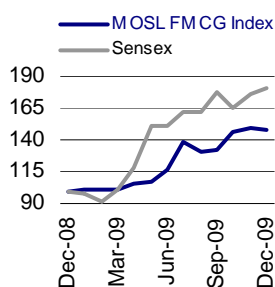
RELATIVE PERFORMANCE - 3M (%)



### Competition to intensify; prefer niche players

We expect competition to intensify in select FMCG categories. P&G's recent mass market launches are a case in point. We believe India is fast evolving as a key emerging market, which will result in renewed focus from global FMCG and foods players, which will add to competition. We prefer companies present in niche categories with little competition (and resulting strong pricing power). We rate **ITC** and **Nestle** as our preferred bet among large caps and **Glaxo Consumer** is our top picks among mid caps.

RELATIVE PERFORMANCE - 1YR (%)



COMPARATIVE VALUATION

|                  | CMP (RS) | RECO    | EPS (RS) |       |       | P/E (X) |       |       | EV/EBITDA |       |       | ROE (%) |       |       |
|------------------|----------|---------|----------|-------|-------|---------|-------|-------|-----------|-------|-------|---------|-------|-------|
|                  | 29.12.09 |         | FY10E    | FY11E | FY12E | FY10E   | FY11E | FY12E | FY10E     | FY11E | FY12E | FY10E   | FY11E | FY12E |
| FMCG             |          |         |          |       |       |         |       |       |           |       |       |         |       |       |
| Asian Paints     | 1,765    | Neutral | 71.4     | 80.0  | 97.1  | 24.7    | 22.1  | 18.2  | 15.5      | 13.6  | 11.2  | 44.2    | 39.5  | 38.7  |
| Britannia        | 1,655    | Buy     | 86.9     | 112.7 | 132.0 | 19.1    | 14.7  | 12.5  | 15.7      | 11.7  | 9.7   | 49.1    | 50.7  | 48.0  |
| Colgate          | 654      | Buy     | 27.1     | 31.0  | 36.5  | 24.2    | 21.1  | 17.9  | 19.1      | 15.5  | 12.9  | 154.1   | 146.5 | 144.4 |
| Dabur            | 162      | Buy     | 5.7      | 6.8   | 8.3   | 28.5    | 24.0  | 19.6  | 21.8      | 18.4  | 15.3  | 45.6    | 42.2  | 40.4  |
| Godrej Consumer  | 261      | Buy     | 10.3     | 13.2  | 15.6  | 25.5    | 19.8  | 16.7  | 19.8      | 15.3  | 12.8  | 47.1    | 51.5  | 50.8  |
| GSK Consumer     | 1,317    | Buy     | 57.8     | 71.0  | 84.6  | 22.8    | 18.5  | 15.6  | 15.2      | 12.7  | 10.3  | 26.8    | 27.6  | 27.6  |
| Hind. Unilever   | 266      | Neutral | 10.2     | 11.4  | 13.3  | 26.2    | 23.4  | 20.0  | 19.1      | 16.8  | 14.3  | 93.5    | 92.5  | 92.0  |
| ITC              | 256      | Buy     | 10.5     | 12.3  | 14.4  | 24.4    | 20.8  | 17.8  | 14.7      | 12.6  | 10.7  | 25.1    | 25.4  | 25.6  |
| Marico           | 105      | Buy     | 3.9      | 4.7   | 5.7   | 26.9    | 22.4  | 18.3  | 17.4      | 14.6  | 12.0  | 37.0    | 32.4  | 29.6  |
| Nestle           | 2,530    | Buy     | 76.5     | 93.5  | 114.2 | 33.1    | 27.1  | 22.2  | 22.1      | 18.2  | 14.9  | 125.1   | 119.7 | 115.7 |
| Tata Tea         | 956      | Neutral | 61.6     | 68.8  | 76.7  | 15.5    | 13.9  | 12.5  | 9.4       | 8.1   | 7.1   | 9.5     | 9.9   | 10.2  |
| United Spirits   | 1,289    | Buy     | 30.7     | 51.1  | 61.9  | 41.9    | 25.2  | 20.8  | 16.5      | 13.4  | 11.7  | 8.3     | 12.3  | 13.1  |
| Sector Aggregate |          |         |          |       |       | 25.8    | 21.9  | 18.5  | 16.6      | 14.1  | 11.9  | 31.3    | 31.9  | 32.4  |

## Asian Paints

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | APNT IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | ASPN.BO      |

29 December 2009

Neutral

Previous Recommendation: Neutral

Rs1,765

|                     |             |
|---------------------|-------------|
| Equity Shares (m)   | 95.9        |
| 52 Week Range (Rs)  | 1,811 / 681 |
| 1,6,12 Rel Perf (%) | 3 / 33 / 21 |
| Mcap (Rs b)         | 169.3       |
| Mcap (USD b)        | 3.6         |

| YEAR<br>END | NET SALES<br>(RS M) | ADJ. PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|--------------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 3/09A       | 54,632              | 4,014              | 41.8        | -3.9              | 42.2       | 13.3        | 33.4       | 48.5        | 2.9          | 24.0          |
| 3/10E       | 62,360              | 6,849              | 71.4        | 70.7              | 24.7       | 10.4        | 44.2       | 59.9        | 2.6          | 14.7          |
| 3/11E       | 72,604              | 7,670              | 80.0        | 12.0              | 22.1       | 8.3         | 39.5       | 57.4        | 2.2          | 12.8          |
| 3/12E       | 84,720              | 9,317              | 97.1        | 21.5              | 18.2       | 6.7         | 38.7       | 57.3        | 1.8          | 10.6          |

- We expect Asian Paints to post net sales of Rs14.4b, growth of 9% YoY in 3QFY10. We expect 15% volume growth in domestic decorative paints. The muted sales growth is due to lower sales realization.
- Tier II and Tier III towns continue to lead Asian Paints' volume growth, though demand in metros improved sequentially.
- Raw material prices continue to be benign. We estimate the raw material index to be sequentially flat. Asian Paints continues to exercise strong pricing power as it did not reduce product prices during the quarter.
- We estimate EBITDA growth of 120%, resulting in an 840bp margin expansion, led by a lower base effect (16.7% in 3QFY10 v/s 8.3% in 3QFY09) and a benign input cost environment.
- International business growth will tend lower due to the fall out of Dubai world crisis on middle east market. However, direct exposure to Dubai is limited to 10% of Asian Paints' international business (~2% of consolidated sales), indicating negligible impact on the company.
- The stock is trading at 22.1x FY11E and 18.2x FY12E earnings. Maintain **Neutral**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH                        | FY09          |               |               |               | FY10          |               |               |               | FY09          | FY10E         |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                                  | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3QE           | 4QE           |               |               |
| <b>Volume Growth (%) *</b>       | <b>20.0</b>   | <b>19.0</b>   | <b>0.0</b>    | <b>13.0</b>   | <b>11.5</b>   | <b>17.5</b>   | <b>15.0</b>   | <b>12.0</b>   | <b>13.4</b>   | <b>14.0</b>   |
| Titanium Dioxide Price Index #   | 102           | 107           | 111           | 108           | 106           | 106           | 103           | 103           | 107           | 104           |
| <b>Net Sales</b>                 | <b>12,420</b> | <b>14,753</b> | <b>13,210</b> | <b>14,249</b> | <b>14,602</b> | <b>17,239</b> | <b>14,399</b> | <b>16,120</b> | <b>54,632</b> | <b>62,360</b> |
| Change (%)                       | 29.3          | 30.2          | 12.2          | 25.8          | 17.6          | 16.9          | 9.0           | 13.1          | 24.0          | 14.1          |
| <b>EBITDA</b>                    | <b>1,722</b>  | <b>2,088</b>  | <b>1,093</b>  | <b>1,791</b>  | <b>2,758</b>  | <b>3,228</b>  | <b>2,405</b>  | <b>2,509</b>  | <b>6,694</b>  | <b>10,900</b> |
| Margin (%)                       | 13.9          | 14.2          | 8.3           | 12.6          | 18.9          | 18.7          | 16.7          | 15.6          | 12.3          | 17.5          |
| Change (%)                       | 27.2          | 15.0          | -35.3         | 25.3          | 36.2          | 32.3          | 120.0         | 40.1          | 1.3           | 62.8          |
| Interest                         | 55            | 68            | 66            | 75            | 72            | 64            | 80            | 113           | 263           | 329           |
| Depreciation                     | 154           | 186           | 202           | 201           | 198           | 200           | 215           | 284           | 744           | 897           |
| Other Income                     | 103           | 179           | 122           | 114           | 156           | 247           | 120           | 130           | 517           | 654           |
| <b>PBT</b>                       | <b>1,616</b>  | <b>2,014</b>  | <b>946</b>    | <b>1,629</b>  | <b>2,645</b>  | <b>3,211</b>  | <b>2,230</b>  | <b>2,242</b>  | <b>6,204</b>  | <b>10,327</b> |
| Tax                              | 519           | 634           | 291           | 530           | 844           | 1,065         | 702           | 611           | 1,974         | 3,222         |
| Effective Tax Rate (%)           | 32.1          | 31.5          | 30.7          | 32.5          | 31.9          | 33.2          | 31.5          | 27.3          | 31.8          | 31.2          |
| <b>PAT before Minority</b>       | <b>1,096</b>  | <b>1,379</b>  | <b>656</b>    | <b>1,099</b>  | <b>1,801</b>  | <b>2,146</b>  | <b>1,527</b>  | <b>1,631</b>  | <b>4,230</b>  | <b>7,105</b>  |
| Minority Interest                | 29            | 55            | 60            | 73            | 40            | 89            | 65            | 62            | 216           | 256           |
| <b>Adjusted PAT</b>              | <b>1,068</b>  | <b>1,324</b>  | <b>596</b>    | <b>1,026</b>  | <b>1,761</b>  | <b>2,057</b>  | <b>1,462</b>  | <b>1,569</b>  | <b>4,014</b>  | <b>6,849</b>  |
| Change (%)                       | 27.4          | 9.4           | -42.3         | 17.6          | 64.9          | 55.4          | 145.2         | 52.9          | -3.9          | 70.7          |
| Exceptional / Prior Period items | 6             | 9             | 6             | 15            | 1             | -627          | 0             | 0             | -35           | -626          |
| <b>Reported PAT</b>              | <b>1,062</b>  | <b>1,315</b>  | <b>590</b>    | <b>1,011</b>  | <b>1,760</b>  | <b>2,684</b>  | <b>1,462</b>  | <b>1,569</b>  | <b>3,978</b>  | <b>7,475</b>  |

E: MOSL Estimates; \* Domestic Decorative Paints; # FY08 average as 100

## Britannia Industries

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | BRIT IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | BRIT.BO      |

29 December 2009

Buy

Rs1,655

Previous Recommendation: Buy

|                     |               |
|---------------------|---------------|
| Equity Shares (m)   | 23.9          |
| 52 Week Range (Rs)  | 1,890/1,225   |
| 1,6,12 Rel Perf (%) | 1 / -15 / -52 |
| Mcap (Rs b)         | 39.5          |
| Mcap (USD b)        | 0.8           |

| YEAR   | NET SALES | PAT    | EPS   | EPS        | P/E  | P/BV | ROE  | ROCE | EV/   | EV/    |
|--------|-----------|--------|-------|------------|------|------|------|------|-------|--------|
| END    | (RS M)    | (RS M) | (RS)  | GROWTH (%) | (X)  | (X)  | (%)  | (%)  | SALES | EBITDA |
| 03/09A | 31,122    | 2,011  | 84.2  | 9.7        | 19.7 | 4.7  | 24.4 | 31.7 | 1.1   | 12.9   |
| 03/10E | 33,670    | 2,075  | 86.9  | 3.2        | 19.1 | 9.1  | 49.1 | 32.5 | 1.1   | 13.9   |
| 03/11E | 38,643    | 2,692  | 112.7 | 29.7       | 14.7 | 7.2  | 50.7 | 38.2 | 1.0   | 10.2   |
| 03/12E | 44,253    | 3,153  | 132.0 | 17.1       | 12.5 | 5.9  | 48.0 | 40.5 | 0.8   | 8.3    |

- We expect Britannia to report net sales of Rs8.9b, 9% growth YoY.
- We are positive about the company's strategy to drive consumer upgrades. Changing the product mix in favor of higher margin, value-added biscuits augur well for the company, though volume growth is likely to remain subdued.
- We expect gross margin erosion of 30bp as prices of key inputs like wheat flour, milk are firm, while sugar prices are up ~40% YoY. EBIDTA is expected to increase only 1.9% as margins are expected to contract 50bp YoY.
- We estimate adjusted PAT to post de-growth during the quarter due to the interest burden on the company due to its bond issue.
- We note positive changes in Britannia after its management change. These include the purchase of the balance stake in a dairy venture, increased dividend payout and issue of bonus debentures.
- The stock trades at 14.7x FY11E EPS and 12.5x FY12E EPS. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH              | FY09         |              |              |              | FY10         |              |              |              | FY09          | FY10E         |
|------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|
|                        | 1Q           | 2Q           | 3Q           | 4Q           | 1Q           | 2Q           | 3QE          | 4QE          |               |               |
| <b>Net Sales</b>       | <b>6,933</b> | <b>8,385</b> | <b>8,183</b> | <b>7,621</b> | <b>7,312</b> | <b>8,585</b> | <b>8,919</b> | <b>8,854</b> | <b>31,122</b> | <b>33,670</b> |
| YoY Change (%)         | 20.2         | 27.3         | 24.7         | 10.0         | 5.5          | 2.4          | 9.0          | 16.2         | 20.4          | 8.2           |
| Raw Material Cost      | 4,846        | 5,953        | 5,784        | 5,184        | 5,070        | 5,918        | 6,333        | 6,281        | 21,766        | 23,602        |
| <b>Gross Profit</b>    | <b>2,087</b> | <b>2,433</b> | <b>2,399</b> | <b>2,437</b> | <b>2,243</b> | <b>2,668</b> | <b>2,587</b> | <b>2,572</b> | <b>9,356</b>  | <b>10,069</b> |
| Margins (%)            | 30.1         | 29.0         | 29.3         | 32.0         | 30.7         | 31.1         | 29.0         | 29.1         | 30.1          | 29.9          |
| Other Exp              | 1,511        | 1,762        | 1,743        | 1,751        | 1,643        | 1,930        | 1,918        | 1,816        | 6,728         | 7,306         |
| <b>EBITDA</b>          | <b>576</b>   | <b>671</b>   | <b>656</b>   | <b>686</b>   | <b>599</b>   | <b>737</b>   | <b>669</b>   | <b>757</b>   | <b>2,627</b>  | <b>2,762</b>  |
| Margins (%)            | 8.3          | 8.0          | 8.0          | 9.0          | 8.2          | 8.6          | 7.5          | 8.5          | 8.4           | 8.2           |
| YoY Growth (%)         | 29.1         | -2.2         | 11.6         | 17.0         | 4.1          | 9.9          | 1.9          | 10.3         | 13.7          | 5.1           |
| Depreciation           | 79           | 82           | 86           | 88           | 91           | 94           | 94           | 91           | 335           | 370           |
| Interest               | 35           | 44           | 30           | 8            | 8            | 9            | 110          | 123          | 160           | 250           |
| Other Income           | 79           | 167          | 73           | 75           | 153          | 126          | 80           | 29           | 399           | 388           |
| <b>PBT</b>             | <b>541</b>   | <b>712</b>   | <b>614</b>   | <b>665</b>   | <b>653</b>   | <b>762</b>   | <b>545</b>   | <b>571</b>   | <b>2,532</b>  | <b>2,531</b>  |
| Tax                    | 83           | 116          | 88           | 235          | 109          | 101          | 85           | 160          | 521           | 456           |
| Rate (%)               | 15.3         | 16.2         | 14.3         | 35.3         | 16.7         | 13.3         | 15.6         | 28.0         | 20.6          | 18.0          |
| <b>Adjusted PAT</b>    | <b>458</b>   | <b>597</b>   | <b>526</b>   | <b>430</b>   | <b>544</b>   | <b>660</b>   | <b>460</b>   | <b>411</b>   | <b>2,011</b>  | <b>2,075</b>  |
| YoY Change (%)         | 16.8         | 15.6         | 7.7          | -17.8        | 18.7         | 10.7         | -12.5        | -4.4         | 9.7           | 3.2           |
| Extraordinary Expenses | 55           | 64           | 64           | 23           | 70           | 70           | 37           | 90           | 206           | 266           |
| <b>Reported PAT</b>    | <b>403</b>   | <b>533</b>   | <b>462</b>   | <b>407</b>   | <b>474</b>   | <b>591</b>   | <b>423</b>   | <b>321</b>   | <b>1,804</b>  | <b>1,809</b>  |

E: MOSL Estimates

## Colgate Palmolive

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | CLGT IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | COLG.BO      |

29 December 2009

Buy

Rs654

Previous Recommendation: Buy

|                     |               |
|---------------------|---------------|
| Equity Shares (m)   | 136.0         |
| 52 Week Range (Rs)  | 735 / 380     |
| 1,6,12 Rel Perf (%) | -8 / -7 / -23 |
| Mcap (Rs b)         | 89.0          |
| Mcap (USD b)        | 1.9           |

| YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 03/09A      | 16,948              | 2,902         | 21.3        | 25.2              | 32.1       | 43.1        | 153.3      | 150.2       | 5.3          | 26.9          |
| 03/10E      | 19,700              | 3,683         | 27.1        | 26.9              | 25.3       | 35.6        | 154.1      | 152.1       | 4.6          | 20.3          |
| 03/11E      | 22,925              | 4,209         | 31.0        | 14.3              | 22.1       | 29.8        | 146.5      | 145.1       | 3.9          | 16.4          |
| 03/12E      | 26,830              | 4,958         | 36.5        | 17.8              | 18.8       | 24.9        | 144.4      | 143.2       | 3.3          | 13.8          |

- We expect Colgate to post 3QFY10 net sales of Rs4.9b, a YoY growth of 17%.
- Volume growth is likely to be sustained at ~16%, with Cibaca reporting strong growth in rural India.
- We expect a 110bp increase in EBITDA margins led by 150bp expansion in gross margins.
- Colgate completed its Oral Health Month in October. The activation campaign ran for two months this year, covering 1,000 towns (5x increase YoY). The expenses incurred are likely to be spread across 2QFY10 and 3QFY10.
- The stock is trading at 22.1x FY11E EPS of Rs31 and 18.8x FY12E EPS of Rs36.5. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH                        | FY09         |              |              |              | FY10         |              |              |                | FY09          | FY10E         |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|----------------|---------------|---------------|
|                                  | 1Q           | 2Q           | 3Q           | 4Q           | 1Q           | 2Q           | 3QE          | 4QE            |               |               |
| <b>Toothpaste Volume Gr. (%)</b> | <b>10.9</b>  | <b>11.1</b>  | <b>14.0</b>  | <b>15.2</b>  | <b>14.0</b>  | <b>18.0</b>  | <b>16.0</b>  | <b>14.0</b>    | <b>12.8</b>   | <b>15.5</b>   |
| <b>Net Sales</b>                 | <b>4,076</b> | <b>4,125</b> | <b>4,192</b> | <b>4,555</b> | <b>4,680</b> | <b>4,873</b> | <b>4,905</b> | <b>5,243</b>   | <b>16,948</b> | <b>19,700</b> |
| YoY Change (%)                   | 16.2         | 13.4         | 14.1         | 16.4         | 14.8         | 18.1         | 17.0         | 15.1           | 15.0          | 16.2          |
| COGS                             | 1,752        | 1,807        | 1,849        | 2,005        | 2,050        | 2,076        | 2,089        | 2,294          | 7,413         | 8,508         |
| <b>Gross Profit</b>              | <b>2,324</b> | <b>2,319</b> | <b>2,343</b> | <b>2,549</b> | <b>2,630</b> | <b>2,797</b> | <b>2,815</b> | <b>2,949</b>   | <b>9,535</b>  | <b>11,192</b> |
| Gross Margin (%)                 | 57.0         | 56.2         | 55.9         | 56.0         | 56.2         | 57.4         | 57.4         | 56.3           | 56.3          | 56.8          |
| Other Operating Expenses         | 1,636        | 1,807        | 1,597        | 1,789        | 1,579        | 1,847        | 1,881        | 2,016          | 6,919         | 7,323         |
| % to Sales                       | 40.1         | 43.8         | 38.1         | 39.3         | 33.7         | 37.9         | 38.4         | 38.5           | 40.8          | 37.172        |
| Other Operating Income           | 253          | 176          | 163          | 167          | 174          | 156          | 145          | 138            | 760           | 613           |
| <b>EBITDA</b>                    | <b>942</b>   | <b>688</b>   | <b>909</b>   | <b>928</b>   | <b>1,226</b> | <b>1,106</b> | <b>1,079</b> | <b>1,071</b>   | <b>3,376</b>  | <b>4,482</b>  |
| Margins (%)                      | 21.8         | 16.0         | 20.9         | 19.7         | 25.3         | 22.0         | 22.0         | 20.4           | 19.1          | 22.8          |
| YoY Growth (%)                   | 20.0         | -0.8         | 16.2         | 35.9         | 30.2         | 60.8         | 18.7         | 15.4           | 14.7          | 32.8          |
| Depreciation                     | 55           | 56           | 55           | 64           | 56           | 58           | 62           | 65             | 229           | 241           |
| Interest                         | 4            | 5            | 1            | 1            | 5            | 1            | 6            | 8              | 11            | 20            |
| Financial Other Income           | 31           | 93           | 65           | 38           | 86           | 66           | 70           | 81             | 318           | 303           |
| <b>PBT</b>                       | <b>913</b>   | <b>721</b>   | <b>918</b>   | <b>901</b>   | <b>1,251</b> | <b>1,113</b> | <b>1,081</b> | <b>1,079.1</b> | <b>3,453</b>  | <b>4,524</b>  |
| Tax                              | 194          | 86           | 140          | 131          | 223          | 216          | 200          | 202            | 551           | 841           |
| Rate (%)                         | 21.3         | 11.9         | 15.3         | 14.5         | 17.8         | 19.4         | 18.5         | 18.8           | 16.0          | 18.6          |
| <b>PAT</b>                       | <b>719</b>   | <b>635</b>   | <b>777</b>   | <b>771</b>   | <b>1,028</b> | <b>897</b>   | <b>881</b>   | <b>877</b>     | <b>2,902</b>  | <b>3,683</b>  |
| YoY Change (%)                   | 16.2         | 16.0         | 28.3         | 38.6         | 42.9         | 41.3         | 13.3         | 13.8           | 25.2          | 26.9          |

E: MOSL Estimates

## Dabur India

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | DABUR IN     |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | DABU.BO      |

29 December 2009

Buy

Rs162

Previous Recommendation: Neutral

|                     |             |
|---------------------|-------------|
| Equity Shares (m)   | 864.0       |
| 52 Week Range (Rs)  | 172 / 80    |
| 1,6,12 Rel Perf (%) | 0 / 14 / 13 |
| Mcap (Rs b)         | 140.3       |
| Mcap (USD b)        | 3.0         |

| YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 03/09A      | 28,054              | 3,912         | 4.5         | 17.1              | 36.5       | 17.4        | 47.7       | 44.5        | 5.0          | 29.8          |
| 03/10E      | 34,362              | 4,935         | 5.7         | 26.2              | 28.9       | 13.1        | 45.6       | 47.6        | 4.1          | 22.2          |
| 03/11E      | 41,144              | 5,848         | 6.8         | 18.5              | 24.4       | 10.2        | 42.2       | 47.6        | 3.4          | 18.8          |
| 03/12E      | 47,826              | 7,150         | 8.3         | 22.3              | 20.0       | 8.0         | 40.4       | 46.5        | 2.8          | 15.5          |

- Dabur India is expected to post net sales of Rs9.5b in 3QFY10, up 22% YoY. We expect a 200bp expansion in EBITDA margins due to sedate raw material prices (vegetable oil, coconut oil, herbs and packaging) and carry over impact of pricing. Adjusted PAT is likely to grow by 27.1% YoY to Rs1.4b.
- These numbers include the benefits of the acquisition of the Fem Care business. The company has integrated the backend and front end distribution. Fem Care would be merged with Dabur effective April 2009.
- Demand remains robust in major segments like hair care, packaged juices and oral care. Shampoos and hair oils are likely to grow in strong double digits; *Chawyanprash* will gain due to the early start of winter this year.
- International sales are likely to grow by 30-35%, largely led by volumes. CHD sales are likely to increase focus on the OTC range and natural products. Dabur is formulating a long term strategy to increase growth rates of the CHD segment.
- The stock trades at 10.2x FY11E EPS of Rs6.8 and 8x FY12E EPS of Rs8.3. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH                | FY09         |              |              |              | FY10         |              |              |              | FY09          | FY10E         |
|--------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|
|                          | 1Q           | 2Q           | 3Q           | 4Q           | 1Q           | 2Q           | 3QE          | 4QE          |               |               |
| <b>Volume Growth (%)</b> | <b>11.0</b>  | <b>13.0</b>  | <b>14.0</b>  | <b>13.5</b>  | <b>16.0</b>  | <b>13.0</b>  | <b>15.0</b>  | <b>14.5</b>  | <b>13.0</b>   | <b>15.0</b>   |
| <b>Net Sales</b>         | <b>6,040</b> | <b>6,912</b> | <b>7,787</b> | <b>7,317</b> | <b>7,427</b> | <b>8,480</b> | <b>9,500</b> | <b>8,955</b> | <b>28,054</b> | <b>34,362</b> |
| YoY Change (%)           | 16.0         | 18.3         | 19.9         | 20.6         | 23.0         | 22.7         | 22.0         | 22.4         | 18.8          | 22.5          |
| Total Exp                | 5,168        | 5,664        | 6,497        | 6,021        | 6,244        | 6,726        | 7,735        | 7,272        | 23,350        | 27,977        |
| <b>EBITDA</b>            | <b>871</b>   | <b>1,248</b> | <b>1,290</b> | <b>1,296</b> | <b>1,182</b> | <b>1,754</b> | <b>1,765</b> | <b>1,683</b> | <b>4,705</b>  | <b>6,385</b>  |
| Margins (%)              | 14.4         | 18.1         | 16.6         | 17.7         | 15.9         | 20.7         | 18.6         | 18.8         | 16.8          | 18.6          |
| YoY Growth (%)           | 10.0         | 7.6          | 10.9         | 32.4         | 35.7         | 40.6         | 36.9         | 29.9         | 14.9          | 35.7          |
| Depreciation             | 117          | 123          | 109          | 144          | 123          | 139          | 147          | 196          | 492           | 605           |
| Interest                 | 40           | 40           | 69           | 44           | 37           | 33           | 65           | 83           | 232           | 218           |
| Other Income             | 120          | 145          | 114          | 49           | 78           | 107          | 125          | 91           | 468           | 401           |
| <b>PBT</b>               | <b>834</b>   | <b>1,230</b> | <b>1,226</b> | <b>1,158</b> | <b>1,101</b> | <b>1,690</b> | <b>1,678</b> | <b>1,495</b> | <b>4,448</b>  | <b>5,963</b>  |
| Tax                      | 127          | 156          | 152          | 106          | 190          | 286          | 295          | 241          | 540           | 1,012         |
| Rate (%)                 | 15.2         | 12.7         | 12.4         | 9.1          | 17.3         | 16.9         | 17.6         | 16.1         | 12.1          | 17.0          |
| Minority Interest        | 1            | -4           | -11          | 10           | -4           | 11           | 5            | 3            | -4            | 16            |
| <b>Adjusted PAT</b>      | <b>707</b>   | <b>1,078</b> | <b>1,085</b> | <b>1,042</b> | <b>914</b>   | <b>1,392</b> | <b>1,378</b> | <b>1,251</b> | <b>3,912</b>  | <b>4,935</b>  |
| YoY Change (%)           | 13.5         | 11.6         | 14.8         | 29.7         | 29.4         | 29.1         | 27.1         | 20.0         | 17.2          | 26.7          |

E: MOSL Estimates



## GlaxoSmithKline Consumer

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | SKB IN       |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | GLSM.BO      |

29 December 2009

Buy

Rs1,317

Previous Recommendation: Buy

|                     |              |
|---------------------|--------------|
| Equity Shares (m)   | 42.1         |
| 52 Week Range (Rs)  | 1,465 / 526  |
| 1,6,12 Rel Perf (%) | -7 / 21 / 63 |
| Mcap (Rs b)         | 55.5         |
| Mcap (USD b)        | 1.2          |

| YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 12/08A      | 15,431              | 1,883         | 44.8        | 16.3              | 29.4       | 7.9         | 24.8       | 38.4        | 3.6          | 23.3          |
| 12/09E      | 19,177              | 2,432         | 57.8        | 29.1              | 22.8       | 6.6         | 26.8       | 41.4        | 2.9          | 16.6          |
| 12/10E      | 22,697              | 2,987         | 71.0        | 22.8              | 18.5       | 5.5         | 27.6       | 41.6        | 2.4          | 13.8          |
| 12/11E      | 26,598              | 3,557         | 84.6        | 19.1              | 15.6       | 4.7         | 27.6       | 41.3        | 2.0          | 11.2          |

- We expect GSK Consumer to report net sales of Rs4.2b, a YoY growth of 24.4%. Strong sales growth will be fueled by robust domestic growth and pipeline filling in Sri Lanka (after re-introduction of exports in 4QCY09).
- We expect volume growth of 10% in 4QCY09 (~12% in 9MCY09), led by rising penetration of *Horlicks* and frequency of use.
- Despite raw material pressure, we believe improved realization (led by 5% price increase taken in January, excise benefits and mix improvements) will help EBITDA margin expansion of 190bp. Adjusted PAT is likely increase 35.2% to Rs440m.
- A dominating position in the category, widening product portfolio and 20% PAT CAGR in the coming years make the stock attractive. An increase in the payout ratio and success of new launches can re-rate the stock further.
- GSK trades at 18.5x CY10E EPS of Rs71 and 15.6x CY11E EPS of Rs84.6. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E DECEMBER             | CY08         |              |              |              | CY09         |              |              |              | CY08          | CY09E         |
|--------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|
|                          | 1Q           | 2Q           | 3Q           | 4Q           | 1Q           | 2Q           | 3Q           | 4QE          |               |               |
| <b>Volume Growth (%)</b> | <b>17.0</b>  | <b>13.0</b>  | <b>16.0</b>  | <b>13.0</b>  | <b>20.0</b>  | <b>12.0</b>  | <b>6.0</b>   | <b>10.0</b>  | <b>15.8</b>   | <b>12.0</b>   |
| <b>Net Sales</b>         | <b>4,109</b> | <b>3,764</b> | <b>4,225</b> | <b>3,334</b> | <b>5,394</b> | <b>4,687</b> | <b>4,951</b> | <b>4,146</b> | <b>15,431</b> | <b>19,177</b> |
| YoY Change (%)           | 25.8         | 19.3         | 20.2         | 17.3         | 31.3         | 24.5         | 17.2         | 24.4         | 20.8          | 24.3          |
| Total Exp                | 3,300        | 3,218        | 3,594        | 2,932        | 4,207        | 3,941        | 4,165        | 3,564        | 13,043        | 15,877        |
| <b>EBITDA</b>            | <b>809</b>   | <b>546</b>   | <b>631</b>   | <b>402</b>   | <b>1,187</b> | <b>746</b>   | <b>786</b>   | <b>582</b>   | <b>2,388</b>  | <b>3,301</b>  |
| Margins (%)              | 19.7         | 14.5         | 14.9         | 12.1         | 22.0         | 15.9         | 15.9         | 14.0         | 15.5          | 17.2          |
| YoY Change (%)           | 29.6         | -6.6         | -6.9         | 12.7         | 46.7         | 36.6         | 24.6         | 44.8         | 220.1         | 320.0         |
| Depreciation             | 106          | 102          | 104          | 107          | 106          | 105          | 105          | 114          | 419           | 431           |
| Interest                 | 25           | 13           | 14           | 30           | 13           | 11           | 10           | 32           | 82            | 65            |
| Other Income             | 186          | 262          | 265          | 242          | 256          | 228          | 213          | 192          | 955           | 890           |
| <b>PBT</b>               | <b>864</b>   | <b>692</b>   | <b>778</b>   | <b>507</b>   | <b>1,324</b> | <b>858</b>   | <b>884</b>   | <b>628</b>   | <b>2,841</b>  | <b>3,694</b>  |
| Tax                      | 298          | 231          | 247          | 181          | 485          | 307          | 283          | 188          | 957           | 1,263         |
| Rate (%)                 | 34.0         | 33.3         | 33.0         | 35.8         | 36.6         | 35.7         | 32.1         | 29.9         | 33.7          | 34.2          |
| <b>PAT</b>               | <b>566</b>   | <b>462</b>   | <b>530</b>   | <b>326</b>   | <b>839</b>   | <b>552</b>   | <b>600</b>   | <b>440</b>   | <b>1,883</b>  | <b>2,432</b>  |
| YoY Change (%)           | 33.7         | 9.1          | 5.0          | 18.5         | 48.4         | 19.6         | 13.2         | 35.2         | 16.3          | 29.1          |

E: MOSL Estimates

## Godrej Consumer Products

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE SENSEX: 17,402 | GCPL IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | GOCPL.BO     |

|                     |              |
|---------------------|--------------|
| Equity Shares (m)   | 308.2        |
| 52 Week Range (Rs)  | 304 / 111    |
| 1,6,12 Rel Perf (%) | -13 / 38 / 5 |
| Mcap (Rs b)         | 80.6         |
| Mcap (USD b)        | 1.7          |

29 December 2009

Buy

Rs261

Previous Recommendation: Buy

| YEAR   | NET SALES | PAT    | EPS  | EPS        | P/E  | P/BV | ROE  | ROCE | EV/   | EV/    |
|--------|-----------|--------|------|------------|------|------|------|------|-------|--------|
| END    | (RS M)    | (RS M) | (RS) | GROWTH (%) | (X)  | (X)  | (%)  | (%)  | SALES | EBITDA |
| 03/09A | 13,946    | 1,733  | 5.6  | -20.3      | 46.5 | 12.5 | 30.4 | 27.2 | 5.0   | 34.2   |
| 03/10E | 20,437    | 3,165  | 10.3 | 82.7       | 25.5 | 12.6 | 47.1 | 47.0 | 4.1   | 20.8   |
| 03/11E | 25,259    | 4,067  | 13.2 | 28.5       | 19.8 | 10.7 | 51.5 | 52.2 | 3.3   | 16.1   |
| 03/12E | 29,343    | 4,811  | 15.6 | 18.3       | 16.7 | 8.9  | 50.8 | 52.8 | 2.7   | 13.5   |

\* Estimates from FY10 factor in 49% consolidation for Godrej Sara Lee

- We expect GCPL to report net sales of Rs5.3b, implying YoY growth of 54.2%, led by strong traction in *Godrej No1*, *Godrej Expert* hair dye and consolidation of Godrej Sara Lee financials.
- In toilet soaps, the company is reaping the benefits of value for money positioning and increasing distribution reach. *Godrej No1* has attained market leadership in key markets in North India; in hair color, GCPL is driving higher penetration through *Nupur* and *Godrej Expert*.
- In 3QFY10, GCPL is likely expand gross margins by ~1,000bp due to a low base effect, benign palm oil prices and the early onset of winter (*Ezee Liquid* detergent). Consequently, EBITDA margins will expand 600bp to 20.1% and EBITDA growth is likely to be 119% YoY.
- We expect 3QFY10 adjusted PAT growth of 99.4% YoY to Rs799m.
- The stock is trading at 19.8x FY11E EPS and 16.7x FY12E EPS. Acquisition of the remaining stake in Godrej Sara Lee holds the key to further re-rating of the stock. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH                    | FY09         |              |              |              | FY10         |              |              |              | FY09          | FY10E         |
|------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|
|                              | 1Q           | 2Q           | 3Q           | 4Q           | 1Q           | 2Q           | 3QE          | 4QE          |               |               |
| <b>Palm Oil Price Index*</b> | <b>141</b>   | <b>142</b>   | <b>113</b>   | <b>72</b>    | <b>78</b>    | <b>103</b>   | <b>91</b>    | <b>90</b>    | <b>117</b>    | <b>91</b>     |
| <b>Net Sales</b>             | <b>3,616</b> | <b>3,481</b> | <b>3,421</b> | <b>3,427</b> | <b>4,389</b> | <b>5,756</b> | <b>5,276</b> | <b>5,017</b> | <b>13,946</b> | <b>20,437</b> |
| YoY Change (%)               | 26.3         | 27.0         | 25.4         | 26.1         | 21.4         | 65.4         | 54.2         | 46.4         | 26.5          | 46.5          |
| Cost of Goods Sold           | 1,979        | 1,975        | 1,998        | 1,743        | 2,022        | 2,714        | 2,559        | 2,653        | 7,695         | 9,948         |
| <b>Gross Profit</b>          | <b>1,637</b> | <b>1,505</b> | <b>1,423</b> | <b>1,684</b> | <b>2,367</b> | <b>3,042</b> | <b>2,717</b> | <b>2,364</b> | <b>6,250</b>  | <b>10,490</b> |
| Margin (%)                   | 45.3         | 43.2         | 41.6         | 49.1         | 53.9         | 52.8         | 51.5         | 47.1         | 44.8          | 48.7          |
| Other Operating Exp.         | 1,142        | 1,093        | 940          | 1,023        | 1,502        | 1,922        | 1,657        | 1,373        | 4,197         | 6,454         |
| <b>EBITDA</b>                | <b>496</b>   | <b>413</b>   | <b>483</b>   | <b>661</b>   | <b>864</b>   | <b>1,119</b> | <b>1,060</b> | <b>992</b>   | <b>2,053</b>  | <b>4,036</b>  |
| Margins (%)                  | 13.7         | 11.9         | 14.1         | 19.3         | 19.7         | 19.4         | 20.1         | 19.8         | 14.7          | 19.7          |
| YoY Growth (%)               | -3.1         | -17.7        | -15.0        | 16.7         | 74.3         | 171.2        | 119.4        | 50.0         | -4.3          | 96.6          |
| Depreciation                 | 55           | 46           | 51           | 40           | 52           | 68           | 78           | 91           | 193           | 289           |
| Interest                     | -12          | 45           | -42          | -60          | -56          | 26           | 2            | 2            | -67           | -26           |
| Other Income                 | 35           | 107          | 15           | 7            | 8            | 139          | 12           | 9            | 164           | 167           |
| <b>PBT</b>                   | <b>487</b>   | <b>428</b>   | <b>489</b>   | <b>688</b>   | <b>876</b>   | <b>1,164</b> | <b>992</b>   | <b>907</b>   | <b>2,092</b>  | <b>3,940</b>  |
| Tax                          | 96           | 81           | 88           | 94           | 179          | 234          | 194          | 168          | 360           | 775           |
| Rate (%)                     | 19.7         | 18.9         | 18.1         | 13.7         | 20.5         | 20.1         | 19.5         | 18.5         | 17.2          | 19.7          |
| <b>PAT</b>                   | <b>391</b>   | <b>347</b>   | <b>401</b>   | <b>594</b>   | <b>697</b>   | <b>930</b>   | <b>799</b>   | <b>740</b>   | <b>1,733</b>  | <b>3,165</b>  |
| YoY Change (%)               | 1.2          | -6.3         | -6.9         | 45.4         | 78.2         | 167.8        | 99.4         | 24.6         | 8.9           | 82.7          |

E: MOSL Estimates; \* taken with a 3 month lag (FY08 average as 100)

Amnish Aggarwal (AmnishAggarwal@MotilalOswal.com) / Nikhil Kumar N (Nikhil.N@MotilalOswal.com)

## Hindustan Unilever

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | HUVR IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | HLL.BO       |

29 December 2009

Neutral

Previous Recommendation: Neutral

Rs266

|                     |                 |
|---------------------|-----------------|
| Equity Shares (m)   | 2,177.5         |
| 52 Week Range (Rs)  | 306 / 211       |
| 1,6,12 Rel Perf (%) | -10 / -18 / -77 |
| Mcap (Rs b)         | 578.2           |
| Mcap (USD b)        | 12.4            |

| YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 03/09A*     | 167,617             | 20,636        | 9.5         | 18.4              | 28.0       | 28.8        | 121.3      | 138.6       | 2.8          | 18.9          |
| 03/10E      | 179,457             | 22,136        | 10.2        | 7.1               | 26.2       | 25.0        | 93.5       | 128.2       | 3.2          | 19.6          |
| 03/11E      | 203,623             | 24,750        | 11.4        | 11.8              | 23.4       | 22.2        | 92.5       | 129.0       | 2.8          | 17.2          |
| 03/12E      | 228,398             | 28,908        | 13.3        | 16.8              | 20.0       | 18.9        | 92.0       | 128.9       | 2.5          | 14.7          |

\* EPS for 12 months (April 2008-March 2009)

- We expect HUL to report a 8% YoY increase in sales for 3QFY10 to Rs44.1b, with volume growth at ~4%.
- Gross margins are likely to expand 300bp YoY to 50% led by lower input costs and higher skin care sales due to the early start of winter. EBITDA margin expansion, however would be limited to 130bp due to higher spends on advertising and brand building. A 450bp increase in the tax rate will curtail PAT growth to 10.7%
- Volumes are expected to increase by 4% (1% 2QFY10) due to 1) grammage increase in detergents and toilet soaps and 2) price reduction in some HPC brands 3) increased trade margins in shampoo sachets, *Wheel* and *Rin Advanced*.
- HUL has been taking steps to improve its price value equation for the consumer to regain lost market share. It relaunched *Breeze* with an increase in TFM to 76% to compete with *No1* from GCPL.
- HUL increased adspend significantly in 2Q (13.4% of sales) and we expect the trend to continue in the succeeding quarter, as well. But we believe increased media spend might not result in an increase in market share.
- The stock trades at 23.4x FY11E EPS of Rs11.4 and 20x FY12E EPS of Rs13.3. Maintain **Neutral**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH                           | FY09          |               |               |               | FY10          |               |               |               | FY09           | FY10E          |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|
|                                     | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3QE           | 4QE           |                |                |
| <b>Volume Growth (%)</b>            | <b>8.3</b>    | <b>6.8</b>    | <b>2.3</b>    | <b>-4.2</b>   | <b>2.0</b>    | <b>1.0</b>    | <b>4.0</b>    | <b>7.0</b>    | <b>3.3</b>     | <b>3.5</b>     |
| <b>Palm Oil Price Index</b>         | <b>141</b>    | <b>142</b>    | <b>113</b>    | <b>72</b>     | <b>78</b>     | <b>103</b>    | <b>91</b>     | <b>90</b>     | <b>117</b>     | <b>91</b>      |
| <b>Net Sales (incl service inc)</b> | <b>42,367</b> | <b>41,109</b> | <b>43,787</b> | <b>40,354</b> | <b>45,026</b> | <b>42,692</b> | <b>47,290</b> | <b>44,448</b> | <b>168,245</b> | <b>179,457</b> |
| YoY Change (%)                      | 20.8          | 21.0          | 15.6          | 5.1           | 6.3           | 3.9           | 8.0           | 10.1          | 15.8           | 6.7            |
| COGS                                | 22,044        | 21,827        | 23,201        | 20,856        | 23,198        | 21,512        | 23,645        | 23,157        | 88,556         | 91,512         |
| <b>Gross Profit</b>                 | <b>20,323</b> | <b>19,282</b> | <b>20,586</b> | <b>19,497</b> | <b>21,828</b> | <b>21,181</b> | <b>23,645</b> | <b>21,291</b> | <b>79,689</b>  | <b>87,945</b>  |
| Margin (%)                          | 48.0          | 46.9          | 47.0          | 48.3          | 48.5          | 49.6          | 50.0          | 47.9          | 47.4           | 49.0           |
| Operating Exp                       | 13,970        | 13,689        | 12,946        | 13,534        | 14,678        | 14,661        | 14,750        | 14,610        | 54,138         | 58,699         |
| <b>EBITDA</b>                       | <b>6,354</b>  | <b>5,594</b>  | <b>7,640</b>  | <b>5,963</b>  | <b>7,150</b>  | <b>6,520</b>  | <b>8,843</b>  | <b>6,732</b>  | <b>25,551</b>  | <b>29,245</b>  |
| YoY Change (%)                      | 20.3          | 16.5          | 14.9          | 22.9          | 12.5          | 16.6          | 15.7          | 12.9          | 18.4           | 14.5           |
| Margins (%)                         | 15.0          | 13.6          | 17.4          | 14.8          | 15.9          | 15.3          | 18.7          | 15.1          | 15.2           | 16.3           |
| Depreciation                        | 379           | 393           | 406           | 413           | 425           | 462           | 463           | 463           | 1,590          | 1,814          |
| Interest                            | 87            | 65            | 44            | 22            | 52            | 15            | 45            | 105           | 218            | 217            |
| Other Income                        | 808           | 474           | 335           | 203           | 335           | 473           | 480           | 432           | 1,820          | 1,721          |
| <b>PBT</b>                          | <b>6,695</b>  | <b>5,610</b>  | <b>7,526</b>  | <b>5,731</b>  | <b>7,009</b>  | <b>6,515</b>  | <b>8,815</b>  | <b>6,596</b>  | <b>25,562</b>  | <b>28,936</b>  |
| Tax                                 | 1,294         | 1,044         | 1,425         | 1,164         | 1,643         | 1,520         | 2,063         | 1,575         | 5,113          | 6,800          |
| Rate (%)                            | 19.3          | 18.6          | 18.9          | 20.3          | 23.4          | 23.3          | 23.4          | 23.9          | 20.0           | 23.5           |
| <b>Adjusted PAT</b>                 | <b>5,401</b>  | <b>4,566</b>  | <b>6,101</b>  | <b>4,568</b>  | <b>5,367</b>  | <b>4,995</b>  | <b>6,752</b>  | <b>5,022</b>  | <b>20,449</b>  | <b>22,136</b>  |
| YoY Change (%)                      | 19.6          | 11.4          | 13.0          | 20.7          | -0.6          | 9.4           | 10.7          | 9.9           | 15.2           | 8.2            |
| Extraordinary Inc/(Exp)             | 180           | 900           | 56            | -618          | 65            | -710          | 0             | 0             | 706            | 65             |
| <b>Reported Profit</b>              | <b>5,582</b>  | <b>5,466</b>  | <b>6,157</b>  | <b>3,950</b>  | <b>5,432</b>  | <b>4,285</b>  | <b>6,752</b>  | <b>5,022</b>  | <b>21,155</b>  | <b>22,201</b>  |
| YoY Change (%)                      | 13.2          | 34.0          | -3.3          | 3.7           | -2.7          | -21.6         | 9.7           | 27.1          | 10.6           | 4.9            |

E: MOSL Estimates

Amnish Aggarwal (AmnishAggarwal@MotilalOswal.com) / Nikhil Kumar N (Nikhil.N@MotilalOswal.com)

ITC

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | ITC IN       |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | ITC.BO       |

29 December 2009

Buy

Rs256

Previous Recommendation: Buy

|                     |               |
|---------------------|---------------|
| Equity Shares (m)   | 3,774.4       |
| 52 Week Range (Rs)  | 271 / 156     |
| 1,6,12 Rel Perf (%) | -3 / 15 / -33 |
| Mcap (Rs b)         | 967.4         |
| Mcap (USD b)        | 20.7          |

| YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 03/09A      | 155,827             | 32,636        | 8.6         | 4.6               | 29.6       | 7.0         | 23.8       | 32.8        | 6.0          | 18.4          |
| 03/10E      | 176,811             | 39,671        | 10.5        | 21.6              | 24.4       | 6.1         | 25.1       | 34.7        | 5.2          | 14.7          |
| 03/11E      | 206,247             | 46,423        | 12.3        | 17.0              | 20.8       | 5.3         | 25.4       | 35.1        | 4.4          | 12.6          |
| 03/12E      | 232,696             | 54,213        | 14.4        | 16.8              | 17.8       | 4.6         | 25.6       | 35.5        | 3.8          | 10.7          |

- We expect ITC's 3QFY10 revenue to post 16% YoY growth to Rs44.8b. EBITDA is expected to increase 23.4% YoY due to 230bp margin expansion. A 3% decline in other income will limit PAT increase to 21.4% at Rs11.1b.
- We expect the cigarette business to report 6.5% volume growth in 3QFY10; against 7.5% volume growth in 2QFY10. ITC has increased prices of premium brands in the third quarter benefits of which will kick in the coming quarters.
- ITC's paper and paperboard unit is expected to sustain another quarter of strong margin expansion due to a low base (370bp decline in EBIT margins and 6% decline in EBIT in 3QFY09) and full benefits of pulp mill expansion. However, we believe sustaining 23% EBIT margins of 2QFY10 will be a challenge.
- We expect the pace of reduction in losses in new FMCG to sustain. ITC has reduced EBIT loss by 22.7% during 1HFY10. Agri business will report strong growth due to firm leaf tobacco prices and good soybean season.
- Hotel occupancies have increased in the past two months and are ruling in excess of 70%. We expect increased occupancies to result in an increase in ARR (average revenue per room) after a lag. We expect a lower decline in 2HFY10 EBIT (v/s 1HFY10 decline of 59%).
- The stock trades at 20.8x FY11E earnings of Rs12.3 and 17.8x FY12E EPS of Rs14.4. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH                   | FY09          |               |               |               | FY10          |               |               |               | FY09           | FY10E          |
|-----------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|
|                             | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3QE           | 4QE           |                |                |
| <b>Cigarette Vol Gr (%)</b> | <b>-3.0</b>   | <b>-2.0</b>   | <b>-3.5</b>   | <b>-3.0</b>   | <b>5.5</b>    | <b>7.5</b>    | <b>6.5</b>    | <b>6.5</b>    | <b>(2.9)</b>   | <b>6.5</b>     |
| <b>Net Sales</b>            | <b>39,340</b> | <b>38,627</b> | <b>38,587</b> | <b>39,274</b> | <b>41,329</b> | <b>43,453</b> | <b>44,750</b> | <b>47,279</b> | <b>155,827</b> | <b>176,811</b> |
| YoY Change (%)              | 18.7          | 16.3          | 9.8           | -2.8          | 5.1           | 12.5          | 16.0          | 20.4          | 9.9            | 13.5           |
| <b>EBITDA</b>               | <b>11,614</b> | <b>12,154</b> | <b>13,780</b> | <b>12,983</b> | <b>13,873</b> | <b>15,901</b> | <b>17,005</b> | <b>15,514</b> | <b>50,532</b>  | <b>62,293</b>  |
| Growth (%)                  | 1.1           | 12.5          | 9.6           | 12.6          | 19.5          | 30.8          | 23.4          | 19.5          | 8.9            | 23.3           |
| Margins (%)                 | 29.5          | 31.5          | 35.7          | 33.1          | 33.6          | 34.1          | 38.0          | 32.8          | 32.4           | 35.2           |
| Depreciation                | 1,261         | 1,340         | 1,442         | 1,451         | 1,516         | 1,484         | 1,565         | 1,619         | 5,494          | 6,184          |
| Interest                    | 14            | 28            | 5             | 137           | 58            | 182           | 25            | 35            | 183            | 300            |
| Other Income                | 801           | 1,105         | 976           | 523           | 876           | 684           | 950           | 715           | 3,403          | 3,225          |
| <b>PBT</b>                  | <b>11,140</b> | <b>11,890</b> | <b>13,310</b> | <b>11,918</b> | <b>13,175</b> | <b>14,920</b> | <b>16,365</b> | <b>14,575</b> | <b>48,257</b>  | <b>59,035</b>  |
| Tax                         | 3,653         | 3,864         | 4,277         | 3,828         | 4,388         | 4,821         | 5,351         | 4,803         | 15,622         | 19,363         |
| Rate (%)                    | 32.8          | 32.5          | 32.1          | 32.1          | 33.3          | 32.3          | 32.7          | 33.0          | 32.4           | 32.8           |
| <b>Adjusted PAT</b>         | <b>7,487</b>  | <b>8,027</b>  | <b>9,032</b>  | <b>8,090</b>  | <b>8,787</b>  | <b>10,099</b> | <b>11,014</b> | <b>9,772</b>  | <b>32,636</b>  | <b>39,671</b>  |
| YoY Change (%)              | -4.4          | 4.1           | 8.7           | 10.0          | 17.4          | 25.8          | 21.9          | 20.8          | 4.6            | 21.6           |
| <b>Sales Growth (% YoY)</b> |               |               |               |               |               |               |               |               |                |                |
| Cigarettes                  | 5.7           | 10.9          | 10.5          | 10.2          | 14.4          | 15.3          | 12.5          | 10.0          | 9.3            | 12.2           |
| FMCG - Others               | 27.9          | 29.4          | 11.7          | 13.6          | 9.5           | 14.0          | 17.0          | 20.0          | 19.8           | 18.0           |
| <b>EBIT Growth (% YoY)</b>  |               |               |               |               |               |               |               |               |                |                |
| Cigarettes                  | 2.4           | 16.6          | 18.0          | 24.3          | 17.1          | 24.3          | 16.0          | 14.0          | 15.1           | 17.8           |
| FMCG - Others (Loss)        | 175.0         | 219.0         | 97.0          | -0.5          | -18.6         | -27.3         | -18.0         | -17.0         | 83.5           | -18.5          |

E: MOSL Estimates

Amnish Aggarwal (AmnishAggarwal@MotilalOswal.com) / Nikhil Kumar N (Nikhil.N@MotilalOswal.com)

## Marico

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | MRCO IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | MRCO.BO      |

29 December 2009

Buy

Rs105

Previous Recommendation: Buy

|                     |              |
|---------------------|--------------|
| Equity Shares (m)   | 609.0        |
| 52 Week Range (Rs)  | 113 / 51     |
| 1,6,12 Rel Perf (%) | -2 / 22 / 13 |
| Mcap (Rs b)         | 63.8         |
| Mcap (USD b)        | 1.4          |

| YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 03/09A      | 23,884              | 2,037         | 3.3         | 28.5              | 31.3       | 14.4        | 44.9       | 42.5        | 2.8          | 22.3          |
| 03/10E      | 27,463              | 2,368         | 3.9         | 16.2              | 26.9       | 10.2        | 37.0       | 48.6        | 2.4          | 17.8          |
| 03/11E      | 32,608              | 2,849         | 4.7         | 20.3              | 22.4       | 7.4         | 32.4       | 47.2        | 2.0          | 14.9          |
| 03/12E      | 38,273              | 3,483         | 5.7         | 22.2              | 18.3       | 5.5         | 29.6       | 45.1        | 1.6          | 12.3          |

- Marico is expected to post net sales of Rs7.1b (up 14% YoY), backed by robust volume growth of 14%. We estimate PAT to grow 25% to Rs639m.
- A benign input cost environment (both copra and safflower) is likely to improve gross margins by 570bp. However EBITDA margin expansion is likely to be curtailed to 90bp due to increased spending on advertising and sales promotions and provision for excise duty on small packs of coconut oil, which is under litigation.
- Marico has reduced price of 50ml packs from Rs12 to Rs10 to reduce the price differential between *Parachute* and loose oil, which is expected to boost uptrading. We expect continued volume traction in *Parachute* and *Saffola*. The hair care portfolio is expected to maintain double digit volume growth.
- Sales growth in international business continues to be strong; *Haircode* and *Fiancée* and Marico Bangladesh are likely to report improved performance.
- The stock trades at 22.4x FY11E EPS of Rs4.7 and 18.3x FY12E EPS of Rs5.7. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH                | FY09         |              |              |              | FY10         |              |              |              | FY09          | FY10E         |
|--------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|
|                          | 1Q           | 2Q           | 3Q           | 4Q           | 1Q           | 2Q           | 3QE          | 4QE          |               |               |
| <b>Volume Growth (%)</b> | <b>15.0</b>  | <b>11.0</b>  | <b>7.0</b>   | <b>15.4</b>  | <b>14.0</b>  | <b>15.0</b>  | <b>14.0</b>  | <b>13.0</b>  | <b>12.0</b>   | <b>14.0</b>   |
| <b>Net Sales</b>         | <b>5,966</b> | <b>6,049</b> | <b>6,228</b> | <b>5,612</b> | <b>6,967</b> | <b>6,922</b> | <b>7,100</b> | <b>6,473</b> | <b>23,884</b> | <b>27,463</b> |
| YoY Change (%)           | 27.2         | 30.4         | 23.0         | 20.5         | 16.8         | 14.4         | 14.0         | 15.4         | 25.3          | 15.0          |
| COGS                     | 3,230        | 3,275        | 3,423        | 2,851        | 3,501        | 3,262        | 3,706        | 3,292        | 13,105        | 13,762        |
| <b>Gross Profit</b>      | <b>2,736</b> | <b>2,774</b> | <b>2,806</b> | <b>2,760</b> | <b>3,466</b> | <b>3,660</b> | <b>3,394</b> | <b>3,181</b> | <b>10,780</b> | <b>13,701</b> |
| Gross Margin (%)         | 45.9         | 45.9         | 45.0         | 49.2         | 49.7         | 52.9         | 47.8         | 49.1         | 45.1          | 49.9          |
| Other Expenditure        | 1,980        | 2,035        | 2,014        | 2,028        | 2,501        | 2,711        | 2,464        | 2,302        | 7,740         | 9,977         |
| <b>EBITDA</b>            | <b>757</b>   | <b>739</b>   | <b>791</b>   | <b>733</b>   | <b>965</b>   | <b>950</b>   | <b>930</b>   | <b>879</b>   | <b>3,040</b>  | <b>3,724</b>  |
| Margins (%)              | 12.7         | 12.2         | 12.7         | 13.1         | 13.8         | 13.7         | 13.1         | 13.6         | 12.7          | 13.6          |
| YoY Change (%)           | 14.6         | 14.1         | 23.2         | 60.9         | 27.5         | 28.5         | 17.5         | 20.0         | 23.4          | 22.5          |
| Depreciation             | 75           | 82           | 98           | 104          | 99           | 179          | 112          | 125          | 358           | 515           |
| Interest                 | 96           | 96           | 68           | 113          | 86           | 56           | 75           | 108          | 357           | 326           |
| Other Income             | 26           | 21           | 31           | 80           | 31           | 42           | 40           | 39           | 122           | 152           |
| <b>PBT</b>               | <b>612</b>   | <b>583</b>   | <b>657</b>   | <b>595</b>   | <b>811</b>   | <b>757</b>   | <b>783</b>   | <b>685</b>   | <b>2,447</b>  | <b>3,036</b>  |
| Tax                      | 149          | 111          | 148          | 1            | 210          | 133          | 172          | 153          | 409           | 668           |
| Rate (%)                 | 24.4         | 19.1         | 22.5         | 0.2          | 25.9         | 17.5         | 22.0         | 22.3         | 16.7          | 22.0          |
| <b>Adjusted PAT</b>      | <b>463</b>   | <b>471</b>   | <b>509</b>   | <b>594</b>   | <b>600</b>   | <b>624</b>   | <b>611</b>   | <b>533</b>   | <b>2,037</b>  | <b>2,368</b>  |
| YoY Change (%)           | 15.1         | 11.6         | 19.0         | 96.9         | 29.6         | 32.4         | 20.0         | -10.3        | 28.5          | 16.2          |

E: MOSL Estimates

## Nestle India

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | NEST IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | NEST.BO      |

29 December 2009

Buy

Rs2,530

Previous Recommendation: Buy

|                     |              |
|---------------------|--------------|
| Equity Shares (m)   | 96.4         |
| 52 Week Range (Rs)  | 2,739/1,377  |
| 1,6,12 Rel Perf (%) | -3 / 14 / -5 |
| Mcap (Rs b)         | 244.0        |
| Mcap (USD b)        | 5.2          |

| YEAR<br>END | NET SALES<br>(RS M) | ADJ. PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|--------------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 12/08A      | 43,242              | 5,649              | 58.6        | 31.0              | 43.2       | 53.3        | 119.4      | 169.9       | 5.8          | 28.9          |
| 12/09E      | 50,907              | 7,374              | 76.5        | 30.5              | 33.1       | 42.8        | 125.1      | 172.8       | 4.9          | 22.9          |
| 12/10E      | 61,219              | 9,011              | 93.5        | 22.2              | 27.1       | 33.5        | 119.7      | 164.0       | 4.1          | 18.8          |
| 12/11E      | 73,255              | 11,010             | 114.2       | 22.2              | 22.2       | 26.5        | 115.7      | 158.5       | 3.4          | 15.4          |

- Nestle is expected to post 4QCY10 net sales of Rs13.1b, a 20% YoY growth, and we expect the company to sustain volume growth in the mid teens (13.6% in 9mCY09).
- We believe high operating leverage and strong pricing power will enable Nestle India to maintain margins, despite high prices of sugar, milk and wheat. We estimate 10bp EBITDA margin expansion to 19.6%, EBITDA is likely to grow 21% YoY to Rs2.6b.
- We expect milk, infant nutrition and culinary products to drive volume growth. Chocolate and confectionery volumes will grow sequentially. Early winter will increase domestic coffee volume growth.
- The stock trades at 33.1x CY09E EPS of Rs76.5 and 27.1x CY10E EPS of Rs93.5. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E DECEMBER            | CY08          |               |               |               | CY09          |               |               |               | CY08          | CY09E         |
|-------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                         | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3Q            | 4QE           |               |               |
| <b>Net Sales</b>        | <b>10,909</b> | <b>10,356</b> | <b>11,076</b> | <b>10,901</b> | <b>12,659</b> | <b>12,095</b> | <b>13,022</b> | <b>13,131</b> | <b>43,242</b> | <b>50,907</b> |
| YoY Change (%)          | 26.4          | 23.5          | 22.2          | 21.7          | 16.0          | 16.8          | 17.6          | 20.5          | 23.4          | 17.7          |
| Total Exp               | 8,419         | 8,406         | 9,004         | 8,778         | 9,562         | 9,478         | 10,380        | 10,562        | 34,607        | 39,981        |
| <b>EBITDA</b>           | <b>2,490</b>  | <b>1,950</b>  | <b>2,072</b>  | <b>2,123</b>  | <b>3,097</b>  | <b>2,618</b>  | <b>2,642</b>  | <b>2,569</b>  | <b>8,635</b>  | <b>10,926</b> |
| Margins (%)             | 22.8          | 18.8          | 18.7          | 19.5          | 24.5          | 21.6          | 20.3          | 19.6          | 20.0          | 21.5          |
| YoY Growth (%)          | 39.2          | 18.5          | 6.9           | 34.7          | 24.4          | 34.2          | 27.5          | 21.0          | 24.0          | 26.5          |
| Depreciation            | 211           | 224           | 233           | 257           | 256           | 264           | 286           | 303           | 924           | 1,109         |
| Interest                | 1             | 14            | 1             | 2             | 2             | 6             | 2             | 7             | 17            | 16            |
| Other Income            | 63            | 67            | 82            | 129           | 103           | 88            | 88            | 105           | 341           | 384           |
| <b>PBT</b>              | <b>2,341</b>  | <b>1,780</b>  | <b>1,921</b>  | <b>1,994</b>  | <b>2,943</b>  | <b>2,436</b>  | <b>2,443</b>  | <b>2,364</b>  | <b>8,035</b>  | <b>10,185</b> |
| Tax                     | 640           | 538           | 596           | 614           | 864           | 654           | 659           | 634           | 2,387         | 2,811         |
| Rate (%)                | 27.3          | 30.2          | 31.0          | 30.8          | 29.4          | 26.9          | 27.0          | 26.8          | 29.7          | 27.6          |
| <b>Adjusted PAT</b>     | <b>1,701</b>  | <b>1,242</b>  | <b>1,325</b>  | <b>1,380</b>  | <b>2,078</b>  | <b>1,782</b>  | <b>1,784</b>  | <b>1,730</b>  | <b>5,648</b>  | <b>7,374</b>  |
| YoY Change (%)          | 52.7          | 25.6          | 9.3           | 40.3          | 22.2          | 43.5          | 34.6          | 25.4          | 30.9          | 30.6          |
| Extraordinary Inc/(Exp) | -100          | -31           | -8            | -169          | -105          | -102          | 44            | -175          | -308          | -339          |
| <b>Reported PAT</b>     | <b>1,601</b>  | <b>1,211</b>  | <b>1,317</b>  | <b>1,211</b>  | <b>1,973</b>  | <b>1,680</b>  | <b>1,828</b>  | <b>1,555</b>  | <b>5,340</b>  | <b>7,035</b>  |
| YoY Change (%)          | 47.6          | 26.5          | 13.5          | 29.4          | 23.2          | 38.7          | 38.8          | 28.4          | 29.0          | 31.7          |

E: MOSL Estimates



## Tata Tea

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | TT IN        |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | TTTE.BO      |

29 December 2009

Neutral

Previous Recommendation: Neutral

Rs956

|                     |              |
|---------------------|--------------|
| Equity Shares (m)   | 61.6         |
| 52 Week Range (Rs)  | 1,017 / 513  |
| 1,6,12 Rel Perf (%) | 3 / 12 / -21 |
| Mcap (Rs b)         | 58.9         |
| Mcap (USD b)        | 1.3          |

| YEAR<br>END | NET SALES<br>(RS M) | PAT*<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|----------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 3/09A       | 48,741              | 7,005          | 53.9        | 26.8              | 16.7       | 1.5         | 9.2        | 11.0        | 1.3          | 10.1          |
| 3/10E       | 54,877              | 3,794          | 61.6        | 14.1              | 14.6       | 1.4         | 9.5        | 11.9        | 1.2          | 8.9           |
| 3/11E       | 61,472              | 4,240          | 68.8        | 11.7              | 13.1       | 1.3         | 9.9        | 12.9        | 1.0          | 7.7           |
| 3/12E       | 67,370              | 4,726          | 76.7        | 11.5              | 11.7       | 1.2         | 10.2       | 13.2        | 0.9          | 6.8           |

- We expect Tata Tea to post net sales of Rs14.4b, reflecting 10% YoY growth.
- Volume growth in the domestic market continues to be strong but an adverse INR-GBP exchange rate will continue to affect growth of Tetley's operations. *Eight O'Clock* coffee continues to benefit from its value for money positioning in US markets.
- Raw material pressures for branded tea players have worsened during the quarter, with tea prices increasing by more than 30% YoY. The consequent price increase has pressurized volume growth in developed markets.
- We estimate EBITDA margins contraction to be 30bp, input cost pressure is likely to be partially offset by cost control initiatives in employee costs and other expenditure.
- While we are optimistic about the company's strategy to diversify beyond black tea, we believe new products will take a long time to contribute in a meaningful manner.
- We estimate 3QFY10 adjusted PAT growth of 24.2% to Rs1b.
- The stock trades at 13.1x FY11E EPS and 11.7x FY12E EPS. Maintain **Neutral**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH                         | FY09          |               |               |               | FY10          |               |               |               | FY09          | FY10E         |
|-----------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                                   | 1Q            | 2Q            | 3Q            | 4Q*           | 1Q            | 2Q            | 3QE           | 4QE           |               |               |
| <b>Net Sales</b>                  | <b>11,175</b> | <b>12,065</b> | <b>13,068</b> | <b>12,261</b> | <b>12,956</b> | <b>14,028</b> | <b>14,375</b> | <b>13,518</b> | <b>48,741</b> | <b>54,877</b> |
| YoY Change (%)                    | 10.1          | 13.8          | 9.8           | 6.5           | 15.9          | 16.3          | 10.0          | 10.3          | 10.4          | 12.6          |
| Total Exp                         | 9,715         | 10,568        | 11,286        | 10,572        | 11,202        | 12,289        | 12,463        | 11,609        | 42,236        | 47,563        |
| <b>EBITDA</b>                     | <b>1,460</b>  | <b>1,497</b>  | <b>1,782</b>  | <b>1,689</b>  | <b>1,754</b>  | <b>1,739</b>  | <b>1,912</b>  | <b>1,909</b>  | <b>6,505</b>  | <b>7,314</b>  |
| Margins (%)                       | 13.1          | 12.4          | 13.6          | 13.8          | 13.5          | 12.4          | 13.3          | 14.1          | 13.3          | 13.3          |
| Depreciation                      | 222           | 221           | 241           | 303           | 245           | 252           | 260           | 322           | 987           | 1,078         |
| Interest                          | 109           | 154           | 155           | 125           | 53            | 98            | 65            | -175          | 542           | 41            |
| Other Income                      | 74            | 219           | 32            | 7             | 46            | 227           | 87            | -49           | 332           | 312           |
| <b>PBT</b>                        | <b>1,202</b>  | <b>1,341</b>  | <b>1,418</b>  | <b>1,268</b>  | <b>1,503</b>  | <b>1,617</b>  | <b>1,674</b>  | <b>1,713</b>  | <b>5,308</b>  | <b>6,507</b>  |
| Tax                               | 440           | 384           | 485           | 484           | 511           | 533           | 594           | 609           | 1,886         | 2,247         |
| Rate (%)                          | 36.6          | 28.6          | 34.2          | 38.2          | 34.0          | 33.0          | 35.5          | 35.6          | 35.5          | 34.5          |
| <b>PAT</b>                        | <b>762</b>    | <b>958</b>    | <b>934</b>    | <b>784</b>    | <b>992</b>    | <b>1,084</b>  | <b>1,080</b>  | <b>1,104</b>  | <b>3,422</b>  | <b>4,259</b>  |
| YoY Change (%)                    | 88.8          | 31.4          | 1.0           | 1.3           | 30.2          | 13.2          | 15.6          | 40.8          | 24.0          | 24.5          |
| Minority Int./ Share of Associate | -97           | -117          | -113          | -258          | 132           | 18            | -60           | -555          | -97           | -465          |
| <b>Adjusted PAT</b>               | <b>665</b>    | <b>841</b>    | <b>821</b>    | <b>526</b>    | <b>778</b>    | <b>1,102</b>  | <b>1,020</b>  | <b>549</b>    | <b>3,325</b>  | <b>3,794</b>  |
| YoY Change (%)                    | 88.5          | -2.9          | -0.1          | -37.9         | 17.0          | 31.1          | 24.2          | 4.4           | 26.8          | 14.1          |
| Extraordinary Gains               | 92            | 1,337         | 3,141         | -354          | -973          | 1,773         | 0             | 855           | 3,681         | 1,654         |
| <b>Reported PAT</b>               | <b>757</b>    | <b>2,178</b>  | <b>3,961</b>  | <b>172</b>    | <b>-195</b>   | <b>2,874</b>  | <b>1,020</b>  | <b>1,404</b>  | <b>7,005</b>  | <b>5,448</b>  |
| YoY Change (%)                    | -83.9         | -80.6         | -2,269.3      | -24.0         | -125.8        | 32.0          | -74.3         | 717.6         | 1,445.4       | -22.2         |

E: MOSL Estimates

Amnish Aggarwal (AmnishAggarwal@MotilalOswal.com) / Nikhil Kumar N (Nikhil.N@MotilalOswal.com)

## United Spirits

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | UNSP IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | UNSP.BO      |

29 December 2009

Buy

Rs1,289

Previous Recommendation: Buy

|                     |               |
|---------------------|---------------|
| Equity Shares (m)   | 117.8         |
| 52 Week Range (Rs)  | 1415 / 426    |
| 1,6,12 Rel Perf (%) | -1 / 23 / -38 |
| Mcap (Rs b)         | 151.9         |
| Mcap (USD b)        | 3.3           |

| YEAR   | NET SALES | PAT    | EPS  | EPS        | P/E  | P/BV | ROE  | ROCE | EV/   | EV/    |
|--------|-----------|--------|------|------------|------|------|------|------|-------|--------|
| END    | (RS M)    | (RS M) | (RS) | GROWTH (%) | (X)  | (X)  | (%)  | (%)  | SALES | EBITDA |
| 03/09A | 54,681    | 1,875  | 23.0 | 24.9       | 56.1 | 5.7  | 7.8  | 9.9  | 3.2   | 20.2   |
| 03/10E | 63,869    | 3,603  | 30.7 | 33.7       | 41.9 | 3.9  | 8.3  | 11.9 | 3.0   | 18.2   |
| 03/11E | 73,203    | 5,990  | 51.1 | 66.3       | 25.2 | 3.5  | 12.3 | 14.4 | 2.6   | 14.8   |
| 03/12E | 83,933    | 7,257  | 61.9 | 21.1       | 20.8 | 3.1  | 13.1 | 15.6 | 2.3   | 13.0   |

- We expect United Spirits to post 28% topline growth to Rs13.2b. EBITDA margins are likely to expand by 580bp to 16.1% and adjusted PAT is expected to increase by 203% to Rs926m due to a low base effect (65.3% PAT decline in 3QFY09). 3QFY09 numbers are not comparable as they don't include the benefits of the Shaw Wallace merger.
- IMFL volumes are expected to rise by 16% in 3QFY10 due to strong growth across segments and price points. We expect premium segments to maintain higher growth than the value for money and mid priced segments.
- Sugarcane crushing has been delayed due to a controversy regarding sugarcane pricing in UP. However molasses/ ENA prices have been fairly stable due to low demand for industrial alcohol from the chemicals industry. Our estimates factor in ENA prices of Rs147-148/case in 3QFY10 and 4QFY10.
- United Spirits has completed a QIP of US\$350m, which has enabled the company to reduce loans in USL holdings considerably. Whyte and MacKay's contract for bulk Scotch is expiring this year and future pricing and contracts would be key factors to look for.
- We expect sustained long term volume growth of 14-15% due to favorable regulatory changes and demographics. We believe United Spirits continues to be the best bet in the liquor space in India due to a wide product portfolio and dominating market share. The stock trades at 25.2x FY11E EPS of 51.1 and 20.8x FY12E EPS of Rs61.9. **Buy.**

## QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

| Y/E MARCH                  | FY09          |              |               |              | FY10          |               |               |               | FY09          | FY10E         |
|----------------------------|---------------|--------------|---------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                            | 1Q            | 2Q           | 3Q            | 4Q           | 1Q            | 2Q            | 3QE           | 4QE           |               |               |
| <b>Volume Growth (%)</b>   | <b>18.8</b>   | <b>15.0</b>  | <b>20.0</b>   | <b>24.0</b>  | <b>17.0</b>   | <b>10.0</b>   | <b>16.0</b>   | <b>15.5</b>   | <b>19.6</b>   | <b>14.6</b>   |
| <b>ENA Price/Case</b>      | <b>111</b>    | <b>133</b>   | <b>156</b>    | <b>138</b>   | <b>150</b>    | <b>150</b>    | <b>147</b>    | <b>148</b>    | <b>135</b>    | <b>149</b>    |
| <b>Net Sales</b>           | <b>10,134</b> | <b>9,020</b> | <b>10,293</b> | <b>9,078</b> | <b>12,417</b> | <b>10,801</b> | <b>13,175</b> | <b>11,590</b> | <b>38,478</b> | <b>47,982</b> |
| YoY Change (%)             |               | 19.9         | 15.8          | 19.6         | 22.5          | 19.7          | 28.0          | 27.7          |               | 24.7          |
| Total Exp                  | 8,182         | 7,230        | 9,229         | 7,626        | 10,198        | 8,980         | 11,053        | 9,717         | 32,221        | 39,948        |
| <b>EBITDA</b>              | <b>1,952</b>  | <b>1,790</b> | <b>1,063</b>  | <b>1,452</b> | <b>2,219</b>  | <b>1,821</b>  | <b>2,121</b>  | <b>1,873</b>  | <b>6,257</b>  | <b>8,034</b>  |
| Margins (%)                | 19.3          | 19.8         | 10.3          | 16.0         | 17.9          | 16.9          | 16.1          | 16.2          | 16.3          | 16.7          |
| Depreciation               | 82            | 87           | 87            | 98           | 80            | 83            | 95            | 108           | 354           | 366           |
| Interest                   | 341           | 395          | 529           | 565          | 592           | 751           | 700           | 731           | 1,830         | 2,774         |
| <b>PBT from Operations</b> | <b>1,529</b>  | <b>1,308</b> | <b>447</b>    | <b>789</b>   | <b>1,547</b>  | <b>987</b>    | <b>1,326</b>  | <b>1,035</b>  | <b>4,073</b>  | <b>4,895</b>  |
| Other Income               | 272           | 125          | 60            | 109          | 63            | 109           | 110           | 177           | 566           | 459           |
| <b>PBT</b>                 | <b>1,801</b>  | <b>1,433</b> | <b>507</b>    | <b>898</b>   | <b>1,610</b>  | <b>1,097</b>  | <b>1,436</b>  | <b>1,211</b>  | <b>4,639</b>  | <b>5,354</b>  |
| Tax                        | 630           | 494          | 201           | 342          | 553           | 401           | 510           | 405           | 1,666         | 1,869         |
| Rate (%)                   | 35.0          | 34.5         | 39.7          | 38.0         | 34.4          | 36.5          | 35.5          | 33.4          | 35.9          | 34.9          |
| <b>PAT</b>                 | <b>1,171</b>  | <b>939</b>   | <b>306</b>    | <b>556</b>   | <b>1,057</b>  | <b>696</b>    | <b>926</b>    | <b>806</b>    | <b>2,972</b>  | <b>3,485</b>  |
| YoY Change (%)             | 30.8          | 17.0         | -65.3         | -14.6        | -9.8          | -25.9         | 202.8         | 44.9          | -4.5          | 17.3          |
| Extraordinary Inc/(Exp)    | 0             | 0            | 0             | 0            | 700           | 0             | 0             | 0             | 0             | 700           |
| <b>Reported PAT</b>        | <b>1,171</b>  | <b>939</b>   | <b>306</b>    | <b>556</b>   | <b>1,757</b>  | <b>696</b>    | <b>926</b>    | <b>806</b>    | <b>2,972</b>  | <b>4,185</b>  |

E: MOSL Estimates

Amnish Aggarwal (AmnishAggarwal@MotilalOswal.com) / Nikhil Kumar N (Nikhil.N@MotilalOswal.com)

## Information Technology

BSE Sensex: 17,402

S&amp;P CNX: 5,188

29 December 2009

## COMPANY NAME

HCL Technologies

Infosys

Mphasis

Patni Computer

TCS

Tech Mahindra

Wipro

**Wipro to post the best results on revenue growth:** We expect Wipro to post the best results within the top tier universe in 3QFY10 with US dollar revenue growth of 5% QoQ, ahead of its guided range of 2.5-4.5%. TCS and Infosys are expected to follow with growth of 3.9% and 3.7% respectively. We expect companies to guide for 4QFY10 revenue growth of 2-3%, given expectations of no flush spending and budgetary closure by January-February 2010.

**EBITDA margins to decline at TCS, Infosys; Wipro to do better on lower product sales:** We expect EBITDA margins to decline by 200bp QoQ at Infosys on mid year wage inflation and the rupee's appreciation, coupled with an increase in SGA investments. At TCS, we expect a rupee appreciation led decline in EBITDA margin of 50bp. We expect Wipro to manage operations tightly and improve overall EBIT margin from 18.8% to 19.4%, due to lower non-IT business revenue contribution. We will watch for wage hikes announcements at Wipro.

**Expect Infosys EPS guidance to be raised to Rs103, revenue growth guidance to be raised:** We expect Infosys and Wipro to guide for 2-3% sequential growth in 4QFY10 and Infosys to raise FY10 EPS guidance to Rs103, based on out-performance in 3QFY10. We expect Infosys to post EPS of Rs105.7 in FY10.

**Marginal positives on cross currency movement, rupee appreciation to depress revenue:** The rupee, on average, has appreciated by 3.6% in 3QFY10 against the US dollar. Cross currency movement is expected to impact US dollar revenue growth positively by 0.4%-0.8%, depending on exposure to the Australian dollar, which is the only currency that has significantly risen against the US dollar. We expect Infosys to benefit most from cross currency movements.

## EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

| SELECTED QUARTERLY PERFORMANCE SUMMARY |                      |         |         |       |       |        |       |       |            |       | (RS MILLION) |
|--|----------------------|---------|---------|-------|-------|--------|-------|-------|------------|-------|--------------|
|  | CMP (RS)<br>29.12.09 | RECO    | SALES   |       |       | EBITDA |       |       | NET PROFIT |       |              |
|  |                      |         | DEC.09  | VAR.  | VAR.  | DEC.09 | VAR.  | VAR.  | DEC.09     | VAR.  | VAR.         |
|  |                      |         |         | % YOY | % QOQ |        | % YOY | % QOQ |            | % YOY | % QOQ        |
| Information Technology                 |                      |         |         |       |       |        |       |       |            |       |              |
| HCL Technologies                       | 372                  | Buy     | 29,981  | 21.4  | -1.1  | 6,193  | 19.5  | -7.4  | 2,863      | -19.2 | -5.0         |
| Infosys                                | 2,578                | Neutral | 55,871  | -3.4  | 0.0   | 18,216 | -10.3 | -5.8  | 14,740     | -6.8  | -4.3         |
| Mphasis                                | 725                  | Buy     | 11,359  | 16.2  | 0.3   | 3,002  | 15.8  | 2.0   | 2,376      | 13.1  | -3.0         |
| Patni Computer                         | 485                  | Buy     | 7,980   | -6.9  | -0.7  | 1,615  | -0.2  | -2.8  | 1,244      | 59.4  | 6.6          |
| TCS                                    | 742                  | Buy     | 74,607  | 2.5   | 0.3   | 21,058 | 8.1   | -1.3  | 16,418     | 21.4  | 1.1          |
| Tech Mahindra                          | 999                  | Neutral | 11,220  | -0.9  | -1.7  | 2,648  | -16.7 | -9.5  | 1,614      | -27.6 | -4.5         |
| Wipro                                  | 681                  | Neutral | 68,446  | 3.9   | -0.7  | 13,263 | 21.3  | 2.4   | 12,085     | 19.7  | 3.2          |
| Sector Aggregate                       |                      |         | 259,465 | 3.4   | -0.3  | 65,995 | 4.3   | -2.7  | 51,340     | 6.8   | -0.6         |

**Quarter to provide greater clarity on budgeting process, hiring next year:** With the budgeting process expected to be complete by January-February 2010, we expect management commentary post 3QFY10 results to provide greater clarity on IT spending and offshoring going forward. Early pick-up in discretionary spending could take our revenue growth assumptions of 14-16% in FY11 higher. We currently expect discretionary spending to pick up from 2HFY11.

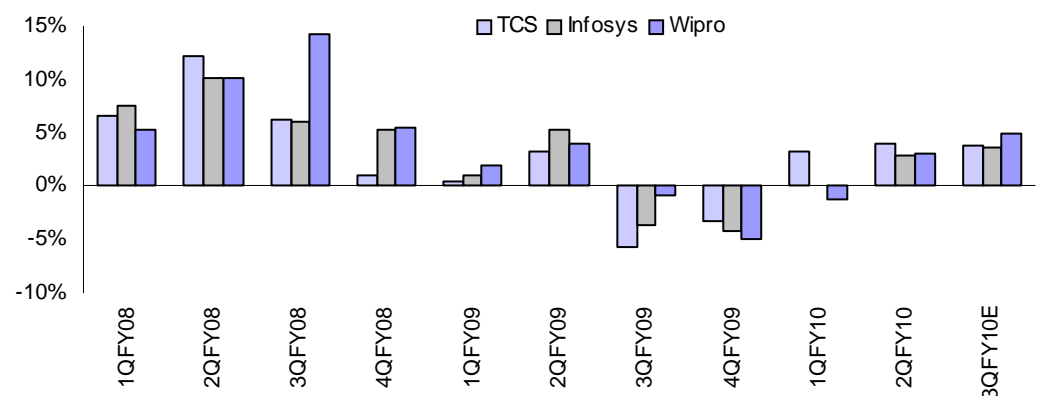
**Buy TCS, HCL Tech, Mphasis, Patni; Neutral on Infosys, Wipro, Tech Mahindra:**

We expect IT demand to revive in FY11 with 14-16% volume growth, compared with flattish revenue growth in FY10. We expect 3QFY10 results to reinforce this expectation. We believe faster pick up in discretionary demand and lagging verticals like Telecom/Manufacturing and contribution from new business channels could provide upsides to our growth estimates. We believe commentary post 3QFY10 results will be watched to ascertain the slope of the recovery. We maintain **Buy** on TCS and HCL Tech and prefer Infosys over Wipro, despite Wipro's expected out-performance in 3QFY10 results. Among mid caps, Patni is our preferred pick.

**Consistency in growth – expect 3.7-5% QoQ revenue growth across top three companies**

We expect sequential growth across the top-three IT companies in 3QFY10, with growth of 3.7%-5%. We expect volume growth of 2.9-4.5% QoQ, with 0.4-0.8% contribution from cross currency benefits to US dollar reported revenue. We expect Wipro to post the highest sequential growth of 5% QoQ, followed by TCS at 3.9% QoQ and Infosys at 3.7% QoQ. Revenue growth of 5% QoQ or higher, despite lower billing days in 3QFY10 would be taken positively by the market.

CONSISTENT SEQUENTIAL US DOLLAR REVENUE GROWTH: WIPRO TO OUTPERFORM, INFOSYS TO LAG



Source: Company/ MOSL

**EBITDA margin improvement at Wipro, divergence at TCS, Infosys**

We expect EBITDA margin improvement of 60bp at Wipro, whereas at Infosys and TCS, we expect EBITDA margin to decline 200bp and 50bp respectively.

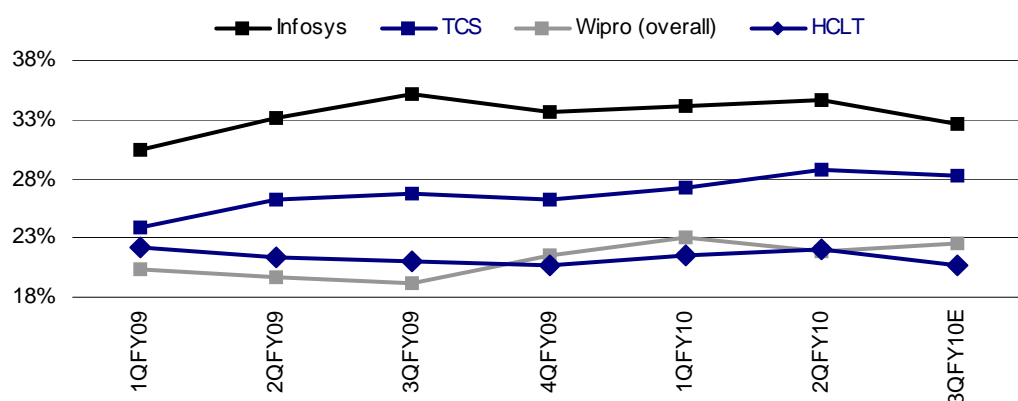
Our individual company expectations are:

- **TCS:** Expect cost increases on gross hiring of over 8,000 people to be countered by higher volumes. Margin declines largely led by rupee appreciation of 3.6%

- **Infosys:** Margins to be impacted on [1] mid-year wage inflation of 8% offshore and 2% onsite, [2] induction of freshers, [3] hiring of sales staff, and [4] overseas headcount addition. This is expected to be partly countered by higher volumes and higher than peer group cross currency benefits (0.8% impact) on a higher Australian dollar contribution. Infosys guided for a 200bp EBITDA margin decline in 3QFY10 with a US dollar-rupee rate of 47.
- **Wipro:** Expect overall margins to improve due to lower contribution from lower margin products and higher volume growth. We expect utilizations to be tightly managed despite fresher hiring.

We continue to believe margins will remain resilient at top tier IT companies in FY10, with improvements on a YoY basis of 40-240bp. Wipro and TCS are expected to show better progression, though there is a possibility of wage inflation at Wipro in 4QFY10.

EBITDA MARGIN MODERATION DUE TO WAGE INFLATION, RUPEE RISE; WIPRO THE ONLY EXCEPTION



Source: Company/ MOSL

### FY10 revenue, earnings guidance upgrades at Infosys

We expect Infosys 3QFY10 revenue to grow 3.7% QoQ, ahead of its guidance of 0-0.9% growth. We expect Infosys to upgrade its FY10 US dollar revenue guidance of a decline of 1-1.3% to growth of 0-1%.

We also expect Infosys to raise its FY10 EPS guidance to Rs103, due to expected outperformance of its 3QFY10 EPS guidance. Our expectations build a basic EPS of Rs25.7 in 3QFY10 v/s guidance of Rs23.6 at the high end.

INFOSYS GUIDANCE EXPECTATIONS

|                                   | GUIDED    | EXPECTED |
|-----------------------------------|-----------|----------|
| 3QFY10 Revenue Growth (QoQ, %)    | 0 to 0.9  | 3.7      |
| FY10 US\$ Revenue Growth (YoY, %) | -1.3 to 1 | 0 to 1   |
| FY10 EPS (Rs)                     | 99.6-100  | 103      |
| 4QFY10 Revenue Growth (%)         | 1.2       | 2-3      |

Source: Company/ MOSL

We also expect Wipro's revenue to be ahead of its guided 2.5-4.5% QoQ growth, at 5%. This is near the top-end of its guidance, adjusting for positive cross currency impacts of 0.4%. We expect Wipro to guide growth of 2-3% QoQ in 4QFY10.

## 3QFY10 GUIDANCE EXCHANGE RATE ASSUMPTIONS

| GUIDED AT        | EUR  | GBP  | AUD  | INR/US\$ |
|------------------|------|------|------|----------|
| Infosys          | 1.46 | 1.60 | 0.87 | 47.0     |
| Wipro            | 1.44 | 1.64 |      | 48.33    |
| Actual (average) | 1.49 | 1.64 | 0.91 | 46.66    |

Source: Company/ MOSL

Besides guidance upgrades, the commentary on budgets, and offshore allocation within them, FY11 hiring targets and mid-year wage inflation would be key factors to watch for. Top tier companies have indicated budget decision making is expected to be completed by January-February 2010. Indications of mid year wage inflation at TCS and Wipro, after such measures at HCL Tech and Infosys, would also be watched for.

### Rupee appreciation negative impact of 3.6%, cross currency benefits of 0.4-0.8%

The key currency impacts are:

- Rupee appreciation of 3.6% v/s US dollar to impact revenue and margins negatively.
- Cross currency benefits would be 0.4-0.8%, across companies, based on their invoicing proportions. Infosys is expected to gain most on 5.9% revenue contribution from the Australian dollar, which has risen most (9.6%) followed by the euro at 4% and flat British pound against the US dollar.

## 3QFY10 CURRENCY HIGHLIGHTS (IN INR)

|         | RATES (INR) |      |      |      | CHANGE (QOQ, %) |      |      |      |
|---------|-------------|------|------|------|-----------------|------|------|------|
|         | US\$        | EUR  | GBP  | AUD  | US\$            | EUR  | GBP  | AUD  |
| Average | 46.6        | 69.3 | 76.4 | 42.6 | -3.7            | 0.0  | -3.8 | 5.5  |
| Closing | 46.7        | 67.9 | 75.8 | 42.3 | -2.9            | -3.6 | -1.4 | -0.4 |

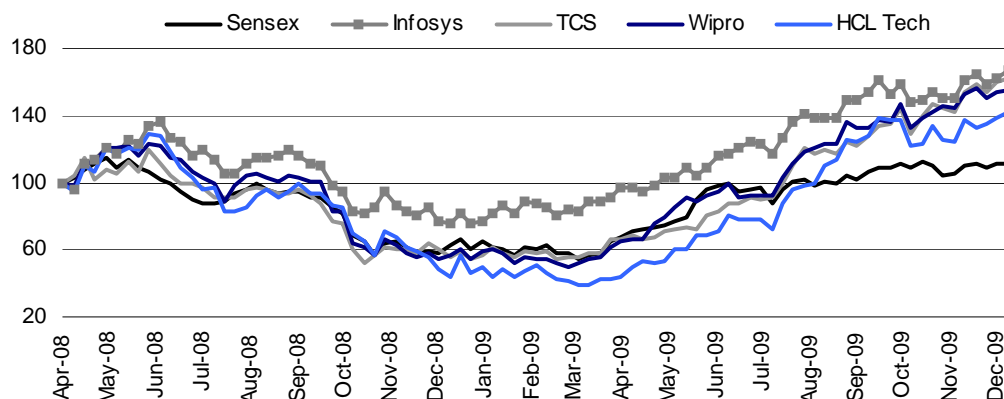
## 3QFY10 CURRENCY HIGHLIGHTS (IN US\$)

|         | RATES (US\$) |      |      | CHANGE (QOQ, %) |      |     |
|---------|--------------|------|------|-----------------|------|-----|
|         | EUR          | GBP  | AUD  | EUR             | GBP  | AUD |
| Average | 1.49         | 1.64 | 0.91 | 3.9             | -0.1 | 9.6 |
| Closing | 1.45         | 1.62 | 0.91 | -0.8            | 1.4  | 2.5 |

Source: Company/ MOSL

### What would stocks react positively to?

## IT STOCKS OUTPERFORM THE SENSEX



Source: Company/ MOSL

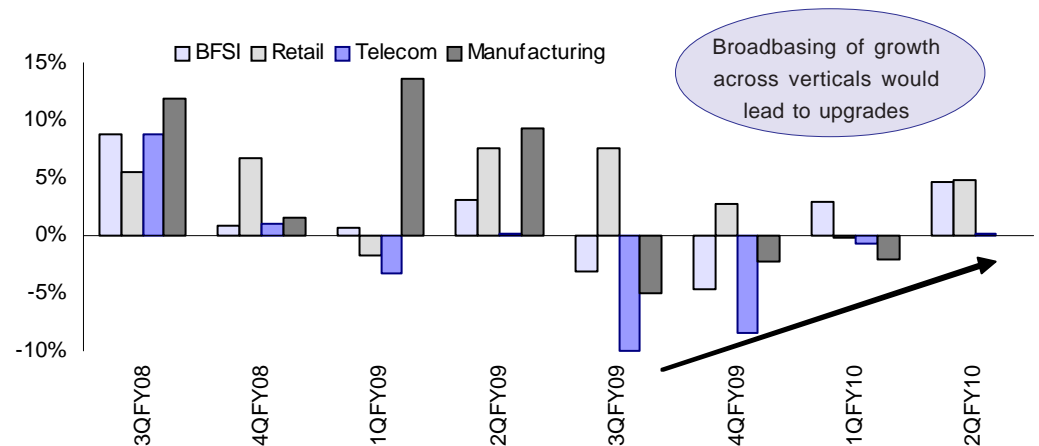


IT stocks have outperformed the Sensex by 26% to 71% over last six months. We believe the valuation gap has largely played out and further up-ticks hereafter would be driven by earnings upgrades on:

- [1] Volume growth of over 4-5% QoQ.
- [2] Early discretionary demand pick up and new business channel contribution.
- [3] Post budget clarity on FY11 demand.
- [4] Maintenance of the margin trajectory.
- [5] Stability of the rupee.

We believe Package Implementation growth and broad-basing of growth across verticals/services/geographies would be early indicators of a faster than anticipated volume growth rebound of 14-16% for top tier players in FY11.

AGGREGATE SEQUENTIAL VERTICAL GROWTH: RETAIL/BFSI KEY CONTRIBUTORS



Source: Company/ MOSL

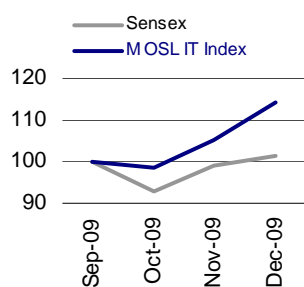
### Buy TCS, HCL Tech, Mphasis and Patni; Neutral on Infosys, Wipro and Tech Mahindra

We expect IT demand to revive in FY11 with 14-16% volume growth, compared with flattish revenue growth in FY10. We expect 3QFY10 results to reinforce this expectation. We believe faster pick-up in discretionary demand and lagging verticals like Telecom/Manufacturing and contribution from new business channels could provide upsides to our growth estimates. The commentary post 3QFY10 results would be watched to ascertain the slope of the recovery.

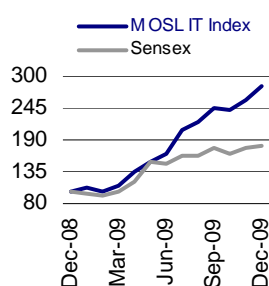
We maintain **Buy** on TCS and HCL Tech and prefer Infosys over Wipro, despite Wipro's expected outperformance in 3QFY10 results. We maintain **Buy** on Patni and Mphasis among mid caps. TCS and Patni remain our top large cap and mid cap picks respectively. Infosys, from a longer term perspective, warrants a look in, given high sensitivity to improvement in discretionary demand, best operational scope within the top tier universe and higher revenue and earnings growth expectation post FY11.

- Among large caps, we prefer **TCS** on expected benefits of BFSI trend strengthening, continued growth in Retail, greater scope and aggression on cost management, higher than peer group earnings growth (18.3%) over FY09-11 and valuation discount of 11% to Infosys. We maintain **Buy**.

RELATIVE PERFORMANCE - 3M (%)



RELATIVE PERFORMANCE - 1YR (%)



- We like **HCL Tech** for its high LTM deal signings (75%+ of its FY09 revenue), strong IMS growth, upside possibilities from Axon on discretionary demand return and subsiding of forex loss concerns over the next four quarters (94% of forex losses expected). We expect narrowing of valuation discounts as the company gets increasingly valued on operations v/s its forex concerns. We maintain **Buy**.
- We expect **Infosys** to be a lagged play on discretionary demand recovery with best operational scope, lower-than-peer group wage inflation in FY11 and the easing of the impact of a tax increases post FY11. This is expected to lead to higher revenue and earnings growth compared with peers post FY11. Expected short term underperformance can provide better entry points in the stock.
- Among mid caps, **Patni** remains our preferred pick on bottom up restructuring, strengthening of sales and management bandwidth, superior operational performance, cheap valuations 12x CY10 earnings and upside triggers on the inorganic front (Rs149 per share of cash). Maintain **Buy**.

COMPARATIVE VALUATION

|                        | CMP (RS) | RECO    | EPS (RS) |       |       | P/E (X) |       |       | EV/EBITDA |       |       | ROE (%) |       |       |
|------------------------|----------|---------|----------|-------|-------|---------|-------|-------|-----------|-------|-------|---------|-------|-------|
|                        | 29.12.09 |         | FY10E    | FY11E | FY12E | FY10E   | FY11E | FY12E | FY10E     | FY11E | FY12E | FY10E   | FY11E | FY12E |
| Information Technology |          |         |          |       |       |         |       |       |           |       |       |         |       |       |
| HCL Technologies       | 372      | Buy     | 18.0     | 25.1  | 28.9  | 20.7    | 14.8  | 12.9  | 10.0      | 8.7   | 7.4   | 19.9    | 23.4  | 22.4  |
| Infosys                | 2,578    | Neutral | 105.7    | 113.9 | 136.0 | 24.4    | 22.6  | 18.9  | 17.8      | 15.7  | 13.2  | 29.6    | 26.2  | 26.2  |
| Mphasis                | 725      | Buy     | 47.5     | 50.0  | 56.3  | 15.3    | 14.5  | 12.9  | 12.0      | 10.8  | 9.3   | 36.3    | 29.0  | 25.4  |
| Patni Computer         | 485      | Buy     | 35.2     | 41.6  | 43.4  | 13.8    | 11.7  | 11.2  | 6.8       | 5.6   | 4.5   | 14.9    | 15.4  | 14.2  |
| TCS                    | 742      | Buy     | 33.3     | 36.7  | 39.1  | 22.3    | 20.2  | 19.0  | 16.6      | 14.8  | 12.9  | 35.8    | 30.7  | 26.2  |
| Tech Mahindra          | 999      | Neutral | 64.6     | 72.4  | 75.9  | 15.4    | 13.8  | 13.2  | 12.9      | 13.8  | 12.7  | 36.4    | 30.2  | 24.7  |
| Wipro                  | 681      | Neutral | 31.3     | 34.5  | 36.2  | 21.8    | 19.8  | 18.8  | 15.7      | 13.9  | 11.9  | 27.0    | 23.5  | 20.5  |
| Sector Aggregate       |          |         |          |       |       | 21.9    | 19.6  | 17.7  | 15.5      | 13.9  | 11.9  | 26.4    | 23.9  | 21.9  |

## HCL Technologies

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | HCLT IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | HCLT.BO      |

|                     |              |
|---------------------|--------------|
| Equity Shares (m)   | 685.0        |
| 52 Week Range (Rs)  | 377 / 89     |
| 1,6,12 Rel Perf (%) | 8 / 77 / 149 |
| Mcap (Rs b)         | 255.0        |
| Mcap (USD b)        | 5.5          |

29 December 2009

Buy

Rs372

Previous Recommendation: Buy

| YEAR<br>END | NET SALES<br>(RS M) | PAT*<br>(RS M) | EPS*<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|----------------|--------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 6/09A       | 106,014             | 12,008         | 17.8         | 16.9              | 20.9       | 4.4         | 22.0       | 17.3        | 2.4          | 11.6          |
| 6/10E       | 122,441             | 12,351         | 18.0         | 1.2               | 20.7       | 3.7         | 19.9       | 15.0        | 2.1          | 9.9           |
| 6/11E       | 138,102             | 17,440         | 25.1         | 39.8              | 14.8       | 3.1         | 23.4       | 19.1        | 1.8          | 8.6           |
| 6/12E       | 158,754             | 20,215         | 28.9         | 14.8              | 12.9       | 2.6         | 22.4       | 19.5        | 1.5          | 7.3           |

\* After ESOP charges; # Axon consolidated in December 2008

- HCL Tech is expected to report US dollar revenue of US\$645m, up 2.3% QoQ.
- Rupee revenue is expected to be Rs30b down 1.1% QoQ and up 21% YoY.
- EBITDA margin is expected to be sequentially down by 140bp at 20.7%. The company indicated a 130bp negative margin impact due to wage hikes during the quarter.
- HCL Tech has forward cover of US\$725m as of September 2009. We expect the company to book forex losses of Rs1.3b (US\$28m) in 2QFY10.
- Effective tax rate is expected to decrease to 18% from 18.6% in 1QFY10.
- We expect the company to report net profit of Rs2.9b v/s Rs3b in 1QFY10, QoQ de-growth of 5%.
- The stock trades at 20.7x FY10E and 14.8x FY11E earnings estimates (after ESOP charges). Maintain **Buy**.
- **Key risks:** Slower ramp-up in large deals, deterioration in hi-tech manufacturing demand, currency volatility, delay in decision making.

## QUARTERLY PERFORMANCE (US GAAP)

(RS MILLION)

| Y/E JUNE                            | FY09          |               |               |               | FY10          |               |               |               | FY09           | FY10E          |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|
|                                     | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3QE           | 4QE           |                |                |
| <b>Revenues</b>                     | <b>23,623</b> | <b>24,691</b> | <b>28,615</b> | <b>29,085</b> | <b>30,314</b> | <b>29,981</b> | <b>30,728</b> | <b>31,418</b> | <b>106,014</b> | <b>122,441</b> |
| Q-o-Q Change (%)                    | 8.9           | 4.5           | 15.9          | 1.6           | 4.2           | -1.1          | 2.5           | 2.2           | 38.8           | 15.5           |
| Direct Expenses                     | 14,567        | 15,178        | 18,207        | 18,328        | 19,349        | 19,479        | 19,816        | 20,379        | 66,280         | 79,023         |
| Sales, General & Admin. Expenses    | 4,019         | 4,332         | 4,503         | 4,508         | 4,279         | 4,309         | 4,413         | 4,617         | 17,362         | 17,618         |
| <b>Operating Profit</b>             | <b>5,037</b>  | <b>5,181</b>  | <b>5,905</b>  | <b>6,249</b>  | <b>6,686</b>  | <b>6,193</b>  | <b>6,499</b>  | <b>6,422</b>  | <b>22,372</b>  | <b>25,800</b>  |
| Margins (%)                         | 21.3          | 21.0          | 20.6          | 21.5          | 22.1          | 20.7          | 21.2          | 20.4          | 21.1           | 21.1           |
| Other Income                        | 558           | 1,206         | -24           | -116          | -63           | 71            | -24           | -12           | 1,624          | -28            |
| Forex Gain / (Loss)                 | -904          | -1,205        | -2,016        | -886          | -1,504        | -1,293        | -1,291        | -1,033        | -5,011         | -5,120         |
| Depreciation & Amort.               | 908           | 971           | 1,417         | 1,197         | 1,418         | 1,479         | 1,320         | 1,345         | 4,493          | 5,562          |
| <b>PBT bef. Extra-ordinary</b>      | <b>3,783</b>  | <b>4,211</b>  | <b>2,448</b>  | <b>4,050</b>  | <b>3,701</b>  | <b>3,492</b>  | <b>3,864</b>  | <b>4,032</b>  | <b>14,492</b>  | <b>15,089</b>  |
| Provision for Tax                   | 422           | 667           | 470           | 955           | 687           | 629           | 696           | 726           | 2,514          | 2,737          |
| Rate (%)                            | 11.2          | 15.8          | 19.2          | 23.6          | 18.6          | 18.0          | 18.0          | 18.0          | 17.3           | 18.1           |
| Minority Interest                   | -14           | 1             | -17           | 0             | 1             | 0             | 0             | 0             | -30            | 1              |
| <b>PAT after ESOP Chrg</b>          | <b>3,375</b>  | <b>3,543</b>  | <b>1,995</b>  | <b>3,095</b>  | <b>3,013</b>  | <b>2,863</b>  | <b>3,169</b>  | <b>3,306</b>  | <b>12,008</b>  | <b>12,351</b>  |
| Q-o-Q Change (%)                    | 264.9         | 5.0           | -43.7         | 55.1          | -2.6          | -5.0          | 10.7          | 4.4           | 15.9           | 2.9            |
| <b>Reported PAT excl ESOP Chrg.</b> | <b>3,562</b>  | <b>3,729</b>  | <b>2,178</b>  | <b>3,307</b>  | <b>3,199</b>  | <b>3,078</b>  | <b>3,383</b>  | <b>3,521</b>  | <b>12,776</b>  | <b>13,180</b>  |
| Q-o-Q Change (%)                    | 152.6         | 4.7           | -41.6         | 51.8          | -3.3          | -3.8          | 9.9           | 4.1           | 13.6           | 3.2            |

E: MOSL Estimates; Axon is consolidated since December 2008

Infosys

STOCK INFO. BLOOMBERG  
BSE SENSEX: 17,402 INFO IN  
REUTERS CODE  
S&P CNX: 5,188 INFY.BO

29 December 2009

Neutral

Rs2,578

Previous Recommendation: Neutral

Equity Shares (m) 573.9  
52 Week Range (Rs) 2,600/1,065  
1,6,12 Rel Perf (%) 5 / 27 / 50  
Mcap (Rs b) 1479.2  
Mcap (USD b) 31.7

| YEAR<br>END | NET SALES<br>(RS M) | PAT*<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|----------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 3/09A       | 216,930             | 58,800         | 102.5       | 29.5              | 25.1       | 8.1         | 36.7       | 40.2        | 6.3          | 19.1          |
| 3/10E       | 224,459             | 60,679         | 105.7       | 3.1               | 24.3       | 6.5         | 29.6       | 32.3        | 5.9          | 17.6          |
| 3/11E       | 251,255             | 65,338         | 113.9       | 7.7               | 22.6       | 5.4         | 26.2       | 29.5        | 5.1          | 15.6          |
| 3/12E       | 290,361             | 78,070         | 136.0       | 19.5              | 18.9       | 4.6         | 26.2       | 28.7        | 4.3          | 13.2          |

- We expect Infosys' consolidated revenue to grow 3.7% QoQ in US dollar terms to US\$1,196m. Infosys guided for 3QFY10 US dollar revenue growth of 0-0.9%. In rupee terms, revenue is expected to be sequentially flat at Rs55.9b.
- Our revenue growth estimates factor in 2.8% QoQ volume growth and a cross currency benefit of 0.8% QoQ.
- During 3QFY10, the Euro and the Australian dollar appreciated by 3.9% and 9.6% (average) respectively against the US dollar and the British pound remained constant. Infosys bills ~27% of its invoices in non-dollar currencies and is expected to benefit by 0.8% due to cross currency movements.
- EBITDA margin is expected to decline sequentially by 200bp to 32.6% due to wage hikes, the rupee's appreciation and higher SGA expenses. EBITDA at Rs18.2b is expected to de-grow by 5.8% QoQ and 10.3% YoY.
- Infosys held hedges worth US\$698m as of September 2009. We expect Infosys to book other income of Rs2.5b in 3QFY10 v/s Rs2.4b in 2QFY10.
- Net profits are expected to decline by 4.3% QoQ to Rs14.7b implying EPS of Rs25.7, ahead of Infosys' higher end basic EPS guidance of Rs23.6.
- We expect Infosys to upgrade its full year US dollar revenue growth guidance to 0-1% growth v/s 1-1.3% decline and its full year EPS guidance to Rs.103 v/s Rs100 earlier.
- The stock trades at 24.3x FY10E and 22.6x FY11E earning estimates. Maintain **Neutral**.
- **Key risks:** Delay in discretionary spends, currency volatility.

## QUARTERLY PERFORMANCE (INDIAN GAAP)

(RS MILLION)

| Y/E MARCH                       | FY09          |               |               |               | FY10          |               |               |               | FY09           | FY10E          |
|---------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|
|                                 | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3QE           | 4QE           |                |                |
| <b>Revenues</b>                 | <b>48,540</b> | <b>54,180</b> | <b>57,860</b> | <b>56,350</b> | <b>54,720</b> | <b>55,850</b> | <b>55,871</b> | <b>58,018</b> | <b>216,930</b> | <b>224,459</b> |
| Q-o-Q Change (%)                | 6.9           | 11.6          | 6.8           | -2.6          | -2.9          | 2.1           | 0.0           | 3.8           | 30.0           | 3.5            |
| Direct Expenses                 | 27,540        | 28,910        | 30,750        | 30,450        | 29,150        | 29,630        | 30,559        | 31,404        | 117,650        | 120,744        |
| SG&A                            | 6,210         | 7,330         | 6,800         | 6,990         | 6,890         | 6,890         | 7,096         | 7,484         | 27,330         | 28,360         |
| <b>Operating Profit</b>         | <b>14,790</b> | <b>17,940</b> | <b>20,310</b> | <b>18,910</b> | <b>18,680</b> | <b>19,330</b> | <b>18,216</b> | <b>19,129</b> | <b>71,950</b>  | <b>75,355</b>  |
| Margins (%)                     | 30.5          | 33.1          | 35.1          | 33.6          | 34.1          | 34.6          | 32.6          | 33.0          | 33.2           | 33.6           |
| Other Income                    | 1,170         | 660           | 400           | 2,520         | 2,690         | 2,360         | 2,513         | 2,300         | 4,730          | 9,863          |
| Depreciation                    | 1,690         | 1,770         | 1,870         | 2,280         | 2,220         | 2,320         | 2,304         | 2,342         | 7,610          | 9,187          |
| <b>PBT bef. Extra-ordinary</b>  | <b>14,270</b> | <b>16,830</b> | <b>18,840</b> | <b>19,150</b> | <b>19,150</b> | <b>19,370</b> | <b>18,425</b> | <b>19,087</b> | <b>69,070</b>  | <b>76,032</b>  |
| Provision for Tax               | 1,560         | 2,510         | 3,030         | 3,170         | 3,880         | 3,970         | 3,685         | 3,817         | 10,270         | 15,352         |
| Rate (%)                        | 10.9          | 14.9          | 16.1          | 16.6          | 20.3          | 20.5          | 20.0          | 20.0          | 14.9           | 20.2           |
| <b>PAT before EO</b>            | <b>12,710</b> | <b>14,320</b> | <b>15,810</b> | <b>15,980</b> | <b>15,270</b> | <b>15,400</b> | <b>14,740</b> | <b>15,270</b> | <b>58,800</b>  | <b>60,679</b>  |
| Q-o-Q Change (%)                | 3.4           | 12.7          | 10.4          | 1.1           | -4.4          | 0.9           | -4.3          | 3.6           | 29.6           | 3.2            |
| Extra-ordinary Items            | 310           | 0             | 620           | 150           | 0             | 0             | 0             | 0             | 1,080          | 0              |
| <b>PAT aft. Minority and EO</b> | <b>13,020</b> | <b>14,320</b> | <b>16,430</b> | <b>16,130</b> | <b>15,270</b> | <b>15,400</b> | <b>14,740</b> | <b>15,270</b> | <b>59,880</b>  | <b>60,679</b>  |
| Q-o-Q Change (%)                | 4.2           | 10.0          | 14.7          | -1.8          | -5.3          | 0.9           | -4.3          | 3.6           | 28.5           | 1.3            |

E: MOSL Estimates

Ashwin Mehta (Ashwin.Mehta@MotilalOswal.com) / Vihang Naik (Vihang.Naik@MotilalOswal.com)

## Mphasis

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | MPHL IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | MBFL.BO      |

|                     |              |
|---------------------|--------------|
| Equity Shares (m)   | 209.2        |
| 52 Week Range (Rs)  | 796 / 142    |
| 1,6,12 Rel Perf (%) | 4 / 67 / 310 |
| Mcap (Rs b)         | 151.7        |
| Mcap (USD b)        | 3.2          |

29 December 2009

Buy

Rs725

Previous Recommendation: Buy

| YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 10/08A*     | 19,065              | 2,954         | 14.1        | 15.7              | 51.6       | 10.6        | 22.8       | 22.1        | 7.9          | 38.9          |
| 10/09A      | 42,638              | 9,086         | 43.2        | 79.4              | 17.1       | 6.6         | 48.1       | 48.8        | 3.4          | 12.9          |
| 10/10E      | 49,094              | 9,989         | 47.5        | 9.9               | 15.2       | 4.9         | 36.3       | 38.5        | 2.8          | 10.9          |
| 10/11E      | 58,921              | 10,518        | 50.0        | 5.3               | 14.2       | 3.7         | 29.0       | 32.5        | 2.2          | 9.0           |

\* Financial year ending has been changed to year ending October from March earlier

- We expect Mphasis to report US dollar revenue of US\$242m, up 4% QoQ.
- Mphasis is expected to report rupee revenue of Rs11.4b in 1QFY10, up 0.3% QoQ.
- We expect ITO (IT outsourcing) to continue to lead growth.
- EBITDA margin is expected to improve by 40bp QoQ to 26.4% in 1QFY10 due to expectation of forex gains in revenue.
- EBITDA is expected to grow by 2% QoQ to Rs3b.
- Net profit is expected to de-grow by 3% QoQ to Rs2.4b.
- We believe Mphasis is differentiated in the mid cap IT space due to strong revenue visibility given its HP-EDS parentage.
- Pick-up in headcount addition in the ITO and Applications businesses, after significant utilization improvements last quarter would be watched for future growth.
- The stock trades at 17.1x FY10E and 15.2x FY11E earnings estimates. Maintain **Buy**.
- **Key risks:** Adverse pricing renegotiations with HP, reduced focus on BPO, currency volatility

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E OCTOBER                    | FY09         |               |               |               | FY10E         |               |               |               | FY09          | FY10E         |
|--------------------------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                                | 1Q           | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3Q            | 4Q            |               |               |
| <b>Revenues</b>                | <b>9,777</b> | <b>10,485</b> | <b>11,056</b> | <b>11,321</b> | <b>11,359</b> | <b>11,810</b> | <b>12,607</b> | <b>13,318</b> | <b>42,638</b> | <b>49,094</b> |
| Q-o-Q Change (%)               | NA           | 7.2           | 5.4           | 2.4           | 0.3           | 4.0           | 6.8           | 5.6           | 129.5         | 15.1          |
| Direct Expenses                | 6,118        | 6,555         | 6,986         | 7,242         | 7,200         | 7,607         | 8,113         | 8,537         | 26,901        | 31,457        |
| Sales, General & Admin. Exp.   | 1,067        | 1,111         | 1,150         | 1,134         | 1,157         | 1,205         | 1,285         | 1,361         | 4,463         | 5,008         |
| <b>Operating Profit</b>        | <b>2,592</b> | <b>2,818</b>  | <b>2,919</b>  | <b>2,945</b>  | <b>3,002</b>  | <b>2,997</b>  | <b>3,208</b>  | <b>3,421</b>  | <b>11,274</b> | <b>12,628</b> |
| Margins (%)                    | 26.5         | 26.9          | 26.4          | 26.0          | 26.4          | 25.4          | 25.4          | 25.7          | 26.4          | 25.7          |
| Other Income                   | 64           | 153           | 32            | 226           | 115           | 110           | 119           | 161           | 476           | 505           |
| Depreciation                   | 486          | 552           | 514           | 471           | 477           | 497           | 530           | 528           | 2,022         | 2,033         |
| <b>PBT bef. Extra-ordinary</b> | <b>2,170</b> | <b>2,419</b>  | <b>2,438</b>  | <b>2,700</b>  | <b>2,639</b>  | <b>2,610</b>  | <b>2,797</b>  | <b>3,053</b>  | <b>9,726</b>  | <b>11,099</b> |
| Provision for Tax              | 70           | 174           | 145           | 251           | 264           | 261           | 280           | 305           | 641           | 1,110         |
| Rate (%)                       | 3.2          | 7.2           | 6.0           | 9.3           | 10.0          | 10.0          | 10.0          | 10.0          | 6.6           | 10.0          |
| <b>PAT bef. Extra-ordinary</b> | <b>2,100</b> | <b>2,245</b>  | <b>2,292</b>  | <b>2,449</b>  | <b>2,376</b>  | <b>2,349</b>  | <b>2,518</b>  | <b>2,748</b>  | <b>9,085</b>  | <b>9,989</b>  |
| Q-o-Q Change (%)               | NA           | 6.9           | 2.1           | 6.8           | -3.0          | -1.1          | 7.2           | 9.1           | 178.5         | 9.9           |

E: MOSL Estimates

## Patni Computer Systems

|                     |              |              |  |
|---------------------|--------------|--------------|--|
| STOCK INFO.         |              | BLOOMBERG    |  |
| BSE SENSEX: 17,402  |              | PATNI IN     |  |
|                     |              | REUTERS CODE |  |
| S&P CNX: 5,188      |              | PTNI.BO      |  |
| Equity Shares (m)   | 128.4        |              |  |
| 52 Week Range (Rs)  | 523 / 94     |              |  |
| 1,6,12 Rel Perf (%) | 8 / 60 / 200 |              |  |
| Mcap (Rs b)         | 62.3         |              |  |
| Mcap (USD b)        | 1.3          |              |  |

29 December 2009

Buy

Rs485

Previous Recommendation: Buy

| YEAR<br>END | NET SALES<br>(RS M) | PAT*<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|----------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 12/08A      | 31,991              | 3,671          | 28.6        | -11.9             | 17.0       | 2.2         | 13.4       | 13.4        | 1.5          | 9.2           |
| 12/09E      | 31,704              | 4,541          | 35.2        | 23.1              | 13.8       | 1.9         | 14.9       | 14.9        | 1.4          | 6.8           |
| 12/10E      | 33,959              | 5,368          | 41.6        | 18.2              | 11.6       | 1.7         | 15.4       | 15.4        | 1.1          | 5.6           |
| 12/11E      | 38,217              | 5,613          | 43.4        | 4.5               | 11.1       | 1.5         | 14.2       | 14.2        | 0.8          | 4.5           |

\* Reflects adjusted PAT

- We expect Patni's US dollar revenue to be US\$170m, in line with its guidance of US\$168m-169m.
- Rupee revenue is expected be flattish at Rs7.98b in 4QCY09.
- EBITDA margin is expected to be down marginally at 20.2% against 20.7% in 3QCY09.
- EBITDA is expected to de-grow by 2.8% QoQ and be flat YoY
- We expect non-operating income of Rs232m in 4QCY09 due to forex gains of Rs47m v/s a forex loss of Rs109m in 3QCY09.
- We expect net profit to grow 6.6% QoQ to Rs1.2b.
- The stock trades at 11.6x CY10E and 11.1x CY11E earnings estimates. Maintain **Buy**.
- Further headcount curtailments could provide upsides to our estimates.
- **Key risks:** Promoter stake sales, currency volatility, delay in decision making, high client concentration.

## QUARTERLY PERFORMANCE (US GAAP)

(RS MILLION)

| Y/E DECEMBER                          | CY08         |              |              |              | CY09         |              |              |              | CY08          | CY09E         |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|
|                                       | 1Q           | 2Q           | 3Q           | 4Q           | 1Q           | 2Q           | 3Q           | 4QE          |               |               |
| <b>Revenues</b>                       | <b>7,061</b> | <b>7,837</b> | <b>8,523</b> | <b>8,570</b> | <b>7,955</b> | <b>7,729</b> | <b>8,040</b> | <b>7,980</b> | <b>31,991</b> | <b>31,704</b> |
| Q-o-Q Change (%)                      | 2.9          | 11.0         | 8.7          | 0.6          | -7.2         | -2.8         | 4.0          | -0.7         | 18.7          | -0.9          |
| Direct Expenses                       | 4,843        | 5,267        | 5,594        | 5,455        | 5,143        | 4,851        | 4,922        | 4,919        | 21,158        | 19,835        |
| Sales, General & Admin. Expenses      | 1,157        | 1,365        | 1,530        | 1,496        | 1,380        | 1,229        | 1,456        | 1,446        | 5,549         | 5,511         |
| <b>Operating Profit</b>               | <b>1,061</b> | <b>1,205</b> | <b>1,399</b> | <b>1,619</b> | <b>1,432</b> | <b>1,649</b> | <b>1,662</b> | <b>1,615</b> | <b>5,284</b>  | <b>6,358</b>  |
| Margins (%)                           | 15.0         | 15.4         | 16.4         | 18.9         | 18.0         | 21.3         | 20.7         | 20.2         | 16.5          | 20.1          |
| Other Income                          | 59           | 285          | 197          | -435         | -202         | 339          | 74           | 232          | 106           | 442           |
| Depreciation                          | 279          | 283          | 300          | 286          | 288          | 294          | 308          | 311          | 1,147         | 1,202         |
| <b>PBT bef. Extra-ordinary</b>        | <b>842</b>   | <b>1,207</b> | <b>1,296</b> | <b>898</b>   | <b>941</b>   | <b>1,694</b> | <b>1,428</b> | <b>1,536</b> | <b>4,243</b>  | <b>5,599</b>  |
| Provision for Tax                     | 117          | 170          | 168          | 117          | 180          | 326          | 260          | 292          | 572           | 1,058         |
| Rate (%)                              | 13.9         | 14.1         | 12.9         | 13.1         | 19.1         | 19.2         | 18.2         | 19.0         | 13.5          | 18.9          |
| <b>Net Income bef. Extra-ordinary</b> | <b>725</b>   | <b>1,037</b> | <b>1,129</b> | <b>780</b>   | <b>761</b>   | <b>1,368</b> | <b>1,168</b> | <b>1,244</b> | <b>3,671</b>  | <b>4,541</b>  |
| Q-o-Q Change (%)                      | -27.3        | 43.1         | 8.8          | -30.9        | -2.5         | 79.9         | -14.7        | 6.6          | -20.9         | 23.7          |
| Extra-ordinary items                  | 0            | 0            | -873         | 0            | 0            | 0            | -548         | 0            | -873          | 0             |
| <b>Net Income aft. Extra-ordinary</b> | <b>725</b>   | <b>1,037</b> | <b>2,002</b> | <b>780</b>   | <b>761</b>   | <b>1,368</b> | <b>1,716</b> | <b>1,244</b> | <b>4,544</b>  | <b>4,541</b>  |
| Q-o-Q Change (%)                      | -27.3        | 43.1         | 93.0         | -61.0        | -2.5         | 79.9         | 25.4         | -27.5        | -2.1          | -0.1          |

E: MOSL Estimates



## Tata Consultancy Services

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | TCS IN       |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | TCS.BO       |

|                     |              |
|---------------------|--------------|
| Equity Shares (m)   | 1,957.2      |
| 52 Week Range (Rs)  | 756 / 220    |
| 1,6,12 Rel Perf (%) | 5 / 75 / 129 |
| Mcap (Rs b)         | 1452.5       |
| Mcap (USD b)        | 31.1         |

29 December 2009

Buy

Rs742

Previous Recommendation: Buy

| YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 3/09A       | 278,129             | 51,369        | 26.2        | 3.0               | 28.3       | 9.2         | 36.4       | 44.2        | 5.1          | 19.9          |
| 3/10E       | 298,143             | 65,159        | 33.3        | 26.8              | 22.5       | 7.1         | 35.8       | 40.3        | 4.7          | 16.8          |
| 3/11E       | 332,734             | 71,846        | 36.7        | 10.3              | 20.4       | 5.6         | 30.7       | 34.4        | 4.1          | 15.0          |
| 3/12E       | 377,191             | 76,457        | 39.1        | 6.4               | 19.0       | 4.5         | 26.2       | 31.0        | 3.5          | 12.9          |

\*EPS cum-bonus of 1:1

- TCS is expected to report revenue of US\$1,598m a growth of 3.9% QoQ. In rupee terms, we expect revenue of Rs74.6b, a growth of 0.3% QoQ and 2.5% YoY.
- EBIDTA margin is expected to be 28.2%, down 50bp QoQ led by assumed rupee appreciation of 3.6%.
- TCS is expected to recruit 8,000 freshers in the quarter on a gross basis. Lateral hiring is expected to restart in 3QFY10.
- Utilization, excluding trainees, is expected to be sequentially flat at 79.5%, despite employee addition, due to pick up in volumes.
- SGA expenses (including depreciation) as a percentage of sales are expected to sequentially decline marginally to 19.4% in line with TCS' goal of bringing them to 19% of sales.
- We expect pricing to remain largely stable at 2QFY10 levels.
- We expect other income of Rs292m v/s a loss of Rs144m in 2QFY10 due to lower forex losses. US\$75m of net hedges are expected to expire in 3QFY10.
- Net profit is expected to grow to Rs16.4b, a growth of 1.1% QoQ.
- The stock trades at 22.5x FY10E and 20.4x FY11E earnings estimates. Maintain **Buy**.
- **Key risks:** Slower growth in BFSI, continued decline in Manufacturing, currency volatility.

## QUARTERLY PERFORMANCE (US GAAP)

(RS MILLION)

| Y/E MARCH                      | FY09          |               |               |               | FY10          |               |               |               | FY09           | FY10E*         |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|
|                                | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3QE           | 4QE           |                |                |
| <b>Revenues</b>                | <b>64,107</b> | <b>69,534</b> | <b>72,770</b> | <b>71,717</b> | <b>72,070</b> | <b>74,351</b> | <b>74,607</b> | <b>77,115</b> | <b>278,129</b> | <b>298,143</b> |
| Q-o-Q Change (%)               | 6.0           | 8.5           | 4.7           | -1.4          | 0.5           | 3.2           | 0.3           | 3.4           | 21.7           | 7.2            |
| Direct Expenses                | 36,427        | 36,879        | 39,348        | 38,120        | 38,208        | 39,215        | 39,741        | 40,907        | 150,774        | 158,071        |
| Sales, General & Admin. Exp.   | 12,366        | 14,458        | 13,948        | 14,802        | 14,243        | 13,794        | 13,809        | 14,177        | 55,574         | 56,023         |
| <b>Operating Profit</b>        | <b>15,314</b> | <b>18,197</b> | <b>19,474</b> | <b>18,795</b> | <b>19,619</b> | <b>21,342</b> | <b>21,058</b> | <b>22,030</b> | <b>71,781</b>  | <b>84,049</b>  |
| Margins (%)                    | 23.9          | 26.2          | 26.8          | 26.2          | 27.2          | 28.7          | 28.2          | 28.6          | 25.8           | 28.2           |
| Other Income                   | 332           | -1,784        | -1,847        | -1,374        | 194           | -144          | 292           | 417           | -4,673         | 759            |
| Depreciation                   | 1,167         | 1,349         | 1,454         | 1,796         | 1,727         | 1,811         | 1,751         | 1,813         | 5,766          | 7,102          |
| <b>PBT bef. Extra-ordinary</b> | <b>14,479</b> | <b>15,064</b> | <b>16,173</b> | <b>15,625</b> | <b>18,086</b> | <b>19,387</b> | <b>19,598</b> | <b>20,634</b> | <b>61,342</b>  | <b>77,705</b>  |
| Provision for Tax              | 2,297         | 2,291         | 2,481         | 2,293         | 2,655         | 2,909         | 2,941         | 3,096         | 9,362          | 11,601         |
| Rate (%)                       | 15.9          | 15.2          | 15.3          | 14.7          | 14.7          | 15.0          | 15.0          | 15.0          | 15.3           | 14.9           |
| Minority Interest              | 96            | 158           | 168           | 190           | 228           | 239           | 239           | 239           | 611            | 945            |
| <b>Net Income after. EO</b>    | <b>12,086</b> | <b>12,615</b> | <b>13,525</b> | <b>13,143</b> | <b>15,203</b> | <b>16,239</b> | <b>16,418</b> | <b>17,299</b> | <b>51,369</b>  | <b>65,159</b>  |
| Q-o-Q Change (%)               | -3.8          | 4.4           | 7.2           | -2.8          | 15.7          | 6.8           | 1.1           | 5.4           | 3.0            | 26.8           |

E: MOSL Estimates

## Tech Mahindra

|                     |              |              |  |
|---------------------|--------------|--------------|--|
| STOCK INFO.         |              | BLOOMBERG    |  |
| BSE Sensex: 17,402  |              | TECHM IN     |  |
| S&P CNX: 5,188      |              | REUTERS CODE |  |
|                     |              | TEML.BO      |  |
| Equity Shares (m)   | 130.7        |              |  |
| 52 Week Range (Rs)  | 1,073 / 204  |              |  |
| 1,6,12 Rel Perf (%) | 5 / 17 / 228 |              |  |
| Mcap (Rs b)         | 130.5        |              |  |
| Mcap (USD b)        | 2.8          |              |  |

29 December 2009

Neutral

Previous Recommendation: Neutral

Rs999

| YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS*<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|---------------|--------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 3/09A       | 44,647              | 10,147        | 70.6         | 19.9              | 14.1       | 6.3         | 57.6       | 56.9        | 2.5          | 9.4           |
| 3/10E*      | 45,046              | 8,362         | 64.6         | -8.4              | 15.4       | 4.5         | 36.4       | 32.4        | 4.5          | 12.0          |
| 3/11E*      | 47,173              | 9,458         | 72.4         | 12.0              | 13.8       | 3.4         | 30.2       | 22.4        | 3.4          | 12.9          |
| 3/12E*      | 51,947              | 9,914         | 75.9         | 4.8               | 13.2       | 2.7         | 24.7       | 20.6        | 2.7          | 11.8          |

\* Includes profits from Satyam

- Tech Mahindra's revenue of US\$239m is expected to grow 0.9% QoQ.
- We expect Tech Mahindra to report 3QFY10 rupee revenue de-growth of 1.7% QoQ to Rs11.2b.
- EBITDA margin of 23.6% is expected to contract by 200bp QoQ due to pricing pressure and a dip in utilization.
- Tax rate is expected to be about 16%.
- We expect net profit to de-grow by 4.5% QoQ to Rs1.6b.
- The stock trades at 15.4x FY10E and 13.8x FY11E consolidated (diluted) earnings estimates including contribution from Satyam. Maintain **Neutral**.
- Clarity on pricing and scope renegotiation with BT on its contracts (BT contributes 52% of Tech Mahindra revenue) would be keenly watched.
- **Key risks:** Adverse pricing and volume impact from renegotiations at BT, Satyam financials and legal issues, currency volatility and delay in decision making.

## QUARTERLY PERFORMANCE (INDIAN GAAP)

(RS MILLION)

| Y/E MARCH                             | FY09          |               |               |               | FY10          |               |               |               | FY09          | FY10E         |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                                       | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3QE           | 4QE           |               |               |
| <b>Revenues</b>                       | <b>11,164</b> | <b>11,648</b> | <b>11,322</b> | <b>10,513</b> | <b>11,130</b> | <b>11,418</b> | <b>11,220</b> | <b>11,278</b> | <b>44,647</b> | <b>45,046</b> |
| Q-o-Q Change (%)                      | 9.3           | 4.3           | -2.8          | -7.1          | 5.9           | 2.6           | -1.7          | 0.5           | 18.5          | 0.9           |
| Direct Cost                           | 6,825         | 6,867         | 6,572         | 6,364         | 6,838         | 6,986         | 7,058         | 7,139         | 26,628        | 28,021        |
| Other Operating Exps                  | 1,470         | 1,520         | 1,570         | 1,557         | 1,487         | 1,507         | 1,515         | 1,522         | 6,117         | 6,031         |
| <b>Operating Profit</b>               | <b>2,869</b>  | <b>3,261</b>  | <b>3,180</b>  | <b>2,592</b>  | <b>2,805</b>  | <b>2,925</b>  | <b>2,648</b>  | <b>2,616</b>  | <b>11,902</b> | <b>10,994</b> |
| Margins (%)                           | 25.7          | 28.0          | 28.1          | 24.7          | 25.2          | 25.6          | 23.6          | 23.2          | 26.7          | 24.4          |
| Other Income                          | 261           | -320          | -397          | 78            | -261          | 270           | 67            | 223           | -378          | 299           |
| Interest                              | 2             | 0             | 0             | 23            | 571           | 843           | 474           | 455           | 25            | 2,343         |
| Depreciation                          | 258           | 267           | 286           | 286           | 296           | 312           | 314           | 316           | 1,097         | 1,238         |
| <b>PBT bef. Extra-ordinary</b>        | <b>2,870</b>  | <b>2,674</b>  | <b>2,497</b>  | <b>2,361</b>  | <b>1,677</b>  | <b>2,040</b>  | <b>1,927</b>  | <b>2,068</b>  | <b>10,402</b> | <b>7,712</b>  |
| Provision for Tax                     | 282           | 321           | 269           | 306           | 268           | 345           | 308           | 331           | 1,178         | 1,252         |
| Rate (%)                              | 9.8           | 12.0          | 10.8          | 13.0          | 16.0          | 16.9          | 16.0          | 16.0          | 11.3          | 16.2          |
| Minority Interest                     | 2             | -1            | -1            | 0             | 8             | 5             | 5             | 5             | 0             | 23            |
| <b>Net Income bef. Extra-ordinary</b> | <b>2,586</b>  | <b>2,354</b>  | <b>2,229</b>  | <b>2,055</b>  | <b>1,402</b>  | <b>1,690</b>  | <b>1,614</b>  | <b>1,732</b>  | <b>9,224</b>  | <b>6,438</b>  |
| Q-o-Q Change (%)                      | 18.1          | -9.0          | -5.3          | -7.8          | -31.8         | 20.6          | -4.5          | 7.3           | 19.9          | -30.2         |
| Extra-ordinary Items                  | 0             | 673           | 0             | 250           | -85           | 0             | 0             | 0             | 923           | -85           |
| <b>Net Income aft. Extra-ordinary</b> | <b>2,586</b>  | <b>3,027</b>  | <b>2,229</b>  | <b>2,305</b>  | <b>1,317</b>  | <b>1,690</b>  | <b>1,614</b>  | <b>1,732</b>  | <b>10,147</b> | <b>6,353</b>  |
| Q-o-Q Change (%)                      | -217.0        | 17.0          | -26.4         | 3.4           | -42.9         | 28.3          | -4.5          | 7.3           | 208.0         | -37.4         |

E: MOSL Estimates

Wipro

STOCK INFO. BLOOMBERG  
BSE Sensex: 17,402 WPRO IN  
REUTERS CODE  
S&P CNX: 5,188 WIPR.BO

29 December 2009

Neutral

Previous Recommendation: Neutral

Rs681

|                     |              |
|---------------------|--------------|
| Equity Shares (m)   | 1,466.0      |
| 52 Week Range (Rs)  | 699 / 195    |
| 1,6,12 Rel Perf (%) | 6 / 62 / 117 |
| Mcap (Rs b)         | 998.6        |
| Mcap (USD b)        | 21.4         |

| YEAR<br>END | NET SALES<br>(RS M) | PAT*<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|----------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 3/09A       | 256,891             | 38,761         | 26.5        | 19.6              | 25.7       | 6.7         | 28.0       | 23.2        | 3.8          | 18.9          |
| 3/10E       | 271,471             | 45,977         | 31.3        | 18.2              | 21.8       | 5.1         | 27.0       | 23.5        | 3.5          | 15.6          |
| 3/11E       | 305,915             | 50,585         | 34.5        | 10.0              | 19.8       | 4.2         | 23.5       | 21.8        | 3.0          | 13.8          |
| 3/12E       | 352,525             | 53,216         | 36.2        | 5.2               | 18.8       | 3.5         | 20.5       | 20.8        | 2.5          | 11.8          |

\* Reflects adjusted PAT; \* Citi Technology Services is fully consolidated in FY10

- We expect Wipro's IT services segment to report US dollar revenue growth of 5% QoQ to US\$1,118m, above its guided revenue of US\$1b-1.1b (up 2.5-4.5% QoQ).
- Wipro is expected to report consolidated revenue de-growth of 0.7% QoQ at Rs68.4b on lower non-IT business revenue.
- Global IT services volume is expected to grow 4.5% QoQ. IT product revenue is expected to decline QoQ after a spurt in 2QFY10.
- Consolidated EBIT margin is expected to rise to 19.4% from 18.8%. We expect pricing to remain stable and cross currency rates to benefit revenue by ~0.3% in 3QFY10.
- EBIT of Rs13.3b is expected to grow 2.4% QoQ and 22% YoY.
- We expect consolidated net profit to grow by 3.2% QoQ to Rs12.1b in 3QFY10.
- The stock trades at 21.8x FY10E and 19.8x FY11E. Maintain **Neutral**.
- **Key risks:** Fixed price project overruns, delay in telecom recovery, currency volatility.

## CONSOLIDATED QUARTERLY PERFORMANCE (US GAAP)

(RS MILLION)

| Y/E MARCH                    | FY09          |               |               |               | FY10*         |               |               |               | FY09*          | FY10E*         |
|------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|
|                              | 1Q            | 2Q            | 3Q*           | 4Q*           | 1Q            | 2Q            | 3QE           | 4QE           |                |                |
| IT Services and Products#    | 51,350        | 57,416        | 59,056        | 58,067        | 55,603        | 61,835        | 60,827        | 62,288        | 225,889        | 240,553        |
| Other Businesses             | 9,066         | 7,887         | 6,842         | 7,208         | 8,265         | 7,102         | 7,619         | 7,932         | 31,002         | 30,918         |
| <b>Revenues</b>              | <b>60,416</b> | <b>65,303</b> | <b>65,898</b> | <b>65,275</b> | <b>63,868</b> | <b>68,937</b> | <b>68,446</b> | <b>70,220</b> | <b>256,891</b> | <b>271,471</b> |
| Q-o-Q Change (%)             | 8.0           | 8.1           | 0.9           | -0.9          | -2.2          | 7.9           | -0.7          | 2.6           | 0.0            | 0.0            |
| Y-o-Y Change (%)             | 44.4          | 38.1          | 25.9          | 16.7          | 5.7           | 5.6           | 3.9           | 7.6           | 30.1           | 5.7            |
| Direct Expenses              | 42,301        | 46,140        | 46,374        | 45,365        | 43,247        | 47,522        | 46,459        | 47,685        | 180,180        | 184,913        |
| SG&A                         | 7,438         | 7,936         | 8,590         | 7,747         | 7,791         | 8,466         | 8,725         | 8,943         | 31,711         | 33,924         |
| <b>EBIT</b>                  | <b>10,677</b> | <b>11,227</b> | <b>10,934</b> | <b>12,163</b> | <b>12,830</b> | <b>12,949</b> | <b>13,263</b> | <b>13,592</b> | <b>45,000</b>  | <b>52,634</b>  |
| Margins (%)                  | 17.7          | 17.2          | 16.6          | 18.6          | 20.1          | 18.8          | 19.4          | 19.4          | 17.5           | 19.4           |
| Other Income                 | 316           | 233           | 452           | 85            | 355           | 681           | 730           | 860           | 1,086          | 2,626          |
| Forex Gain/(Loss)            | -697          | -281          | 186           | -761          | -1,406        | 240           | 330           | -134          | -1,553         | -970           |
| Income from Equity Investees | 107           | 106           | 114           | 35            | 114           | 112           | 112           | 112           | 362            | 450            |
| <b>PBT</b>                   | <b>10,403</b> | <b>11,285</b> | <b>11,686</b> | <b>11,522</b> | <b>11,893</b> | <b>13,982</b> | <b>14,435</b> | <b>14,430</b> | <b>44,895</b>  | <b>54,740</b>  |
| Provision for Tax            | 1,443         | 1,559         | 1,572         | 1,461         | 1,740         | 2,217         | 2,292         | 2,291         | 6,035          | 8,540          |
| Rate (%)                     | 13.9          | 13.8          | 13.5          | 12.7          | 14.6          | 15.9          | 15.9          | 15.9          | 13.4           | 15.6           |
| Minority Interest            | 12.0          | 22.0          | 16.0          | 49.0          | 49.0          | 58.0          | 58.0          | 58.0          | 99             | 223.0          |
| <b>Net Income</b>            | <b>8,948</b>  | <b>9,704</b>  | <b>10,098</b> | <b>10,012</b> | <b>10,104</b> | <b>11,707</b> | <b>12,085</b> | <b>12,081</b> | <b>38,761</b>  | <b>45,977</b>  |
| Q-o-Q Change (%)             | 2.2           | 8.4           | 4.1           | -0.9          | 0.9           | 15.9          | 3.2           | 0.0           | 20.2           | 18.6           |

E: MOSL Estimates; \* includes Infocrossing. # reclassified in FY09

Ashwin Mehta (Ashwin.Mehta@MotilalOswal.com) / Vihang Naik (Vihang.Naik@MotilalOswal.com)

## Infrastructure

BSE Sensex: 17,402

S&amp;P CNX: 5,188

29 December 2009

## COMPANY NAME

Hindustan Construction

IVRCL

Jaiprakash Associates

Nagarjuna Construction

Simplex Infrastructure

**Andhra projects to impact execution in 3QFY10; expect visible interest cost benefits**

We expect revenue growth of 17% YoY in 3QFY10 against 9.5% YoY in 1HFY10. Execution during 1HFY10 was impacted by intentional slow execution by companies in a few states like Andhra, labor scarcity issues and poor government finances (particularly in states). The elections now behind us, the new government will sharpen its focus on all key infrastructure projects and their execution. A lower base effect will also lead to improved 3QFY10 earnings.

- During 1HFY10, EBITDA margins for most of the players improved (industry average margins up 44bp). We expect profitability to sustain at higher levels driven by lower commodity prices. We expect EBITDA margins of 11% (+65bp YoY) during 3QFY10 against 10.4% in 3QFY09.
- 3QFY10 PAT is expected to grow by 30% YoY against a decline of 2.4% YoY in 1HFY10 (mainly due to low execution and higher cost of borrowings). Adjusted for the Sec 80IA impact for IVRCL and Patel Engineering, PAT growth will be even better. We expect interest cost benefits to kick in from this quarter resulting in substantial YoY gains at the net level.

**Exposure to Andhra Pradesh**

The Andhra Pradesh government has set in motion the process of hiving off Telangana into a separate state. This could potentially lead to execution delays, though it is too early to comment. Construction companies with large order books from Andhra Pradesh are the following: Patel (37.1%), IVRCL (33.4%) and HCC (24.4%). In the case of IVRCL, exposure is over 38 projects and thus it is relatively better positioned to address execution delays.

## EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

|                        | COMPANY              |         | SALES  |       |       | EBITDA |       |       | NET PROFIT |       |       |
|------------------------|----------------------|---------|--------|-------|-------|--------|-------|-------|------------|-------|-------|
|                        | CMP (RS)<br>29.12.09 | RECO    | DEC.09 | VAR.  | VAR.  | DEC.09 | VAR.  | VAR.  | DEC.09     | VAR.  | VAR.  |
|                        |                      |         |        | % YOY | % QOQ |        | % YOY | % QOQ |            | % YOY | % QOQ |
|                        |                      |         |        |       |       |        |       |       |            |       |       |
| Infrastructure         |                      |         |        |       |       |        |       |       |            |       |       |
| Hindustan Construction | 149                  | Neutral | 10,587 | 20.9  | 22.8  | 1,292  | 21.8  | 46.7  | 314        | 4.7   | 12.5  |
| IVRCL Infra.           | 361                  | Buy     | 13,740 | 15.5  | 12.8  | 1,319  | 21.6  | 15.2  | 547        | 17.5  | 12.1  |
| Jaiprakash Associates  | 144                  | Buy     | 20,449 | 54.7  | 12.1  | 5,507  | 122.7 | 20.8  | 2,496      | 18.6  | 115.0 |
| Nagarjuna Construction | 164                  | Buy     | 12,145 | 18.3  | 13.8  | 1,251  | 39.2  | 14.9  | 538        | 48.2  | 22.5  |
| Simplex Infra.         | 536                  | Buy     | 13,833 | 8.9   | 34.9  | 1,444  | 24.9  | 35.6  | 544        | 79.9  | 94.9  |
| Sector Aggregate       |                      |         | 70,754 | 24.5  | 18.0  | 10,813 | 62.0  | 23.8  | 4,440      | 25.6  | 67.7  |

Satyam Agarwal (AgarwalS@MotilalOswal.com)

In 1HFY10, most construction companies a slowdown in execution, partly given the political changes in Andhra which impacted revenue booking. Our expectation of a pick up in execution in 2HFY10 appears to be delayed.

ORDER BOOK COMPOSITION (RS M)

|           | ORDER BOOK |        |            | PROJECTS |
|-----------|------------|--------|------------|----------|
|           | TOTAL      | ANDHRA | ANDHRA (%) | (NOS)    |
| IVRCL     | 149,500    | 50,000 | 33.4       | 38       |
| Patel     | 70,000     | 26,000 | 37.1       | 3        |
| HCC       | 155,420    | 38,000 | 24.4       | 8        |
| Nagarjuna | 142,660    | 5,500  | 3.9        |          |

Source: Company/MOSL

### Improved order intake visibility to counter moderation of book to bill ratio; intake muted

Book to bill ratio for our construction coverage universe has declined (based on TTM revenues) from 3.9x over FY05-06 to 2.9x as at September 2009. This moderation has impacted near term revenue visibility, and was caused mainly by delays in order intake due to central/state elections, and a challenging credit environment, which stalled private capex. We believe that the stable government has given rise to a macro environment that has shown initial signs of improvement with strong order intake expected from sectors like roads, power (thermal, hydro, etc), urban infrastructure (UI), ports, and irrigation. Order intake in segments such as roads, power and UI have already picked up.

### Operating performance to stabilize; expect FY10 EBITDA margins to rise 70bp YoY

Our coverage universe's earnings were volatile in FY09 driven by commodity prices and increased borrowing costs. In FY10, we expect companies to benefit from lower/stable commodity prices and lower borrowing costs. Key beneficiaries will be companies with higher leverage (HCC, Simplex) and higher proportion of fixed price contracts (NCC).

#### We expect improvement in two key operating parameters:

- Execution will improve from 4QFY10 as pressure on state government finances moderate. Besides, the supply chain (mainly labor availability) is much better now. We expect revenue CAGR of 16% over FY09-11 despite a disappointing 1HFY10.
- Operating margins will improve given lower and stable commodity prices. Companies like NCC have ~20-25% of fixed price order book where margins were impacted in FY09. We expect EBITDA margin expansion of 70bp YoY in FY10 for our coverage universe given lower commodity prices.

### Earnings to benefit from lower interest cost, working capital moderation

Over FY09-11, we expect our construction coverage universe to report earnings CAGR of 20.5%, on revenue CAGR of 16.3%. The higher earnings growth is largely due to lower borrowing costs, driven by improved working capital requirement and lower capex during FY10. During FY09, interest costs as a percentage of revenue were 3.3%, up 150bp since FY07, which impacted earnings growth. Net working capital in FY09 was 129 days (excluding advances to subsidiary companies), up from 118 days in FY07. Going forward, until FY11, we expect a 50bp reduction in interest costs (as a percentage of revenue) and 13 days improvement in the net working cycle.

## TREND IN ORDER BOOK (RS B)

|                  | 1QFY08     | 2QFY08     | 3QFY08     | 4QFY08     | 1QFY09     | 2QFY09     | 3QFY09     | 4QFY09     | 1QFY10     | 2QFY10     | YOY (%)   |
|------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|-----------|
| HCC              | 94         | 96         | 91         | 102        | 102        | 108        | 122        | 164        | 154        | 155        | 44        |
| IVRCL            | 95         | 96         | 110        | 127        | 124        | 138        | 143        | 145        | 139        | 150        | 8         |
| NCC              | 78         | 90         | 98         | 114        | 122        | 124        | 124        | 122        | 139        | 143        | 15        |
| Patel Engg       | 50         | 54         | 55         | 60         | 60         | 60         | 71         | 72         | 74         | 70         | 17        |
| Simplex Infra    | 70         | 71         | 89         | 100        | 100        | 107        | 102        | 101        | 100        | 105        | (1)       |
| <b>Aggregate</b> | <b>387</b> | <b>407</b> | <b>442</b> | <b>502</b> | <b>507</b> | <b>537</b> | <b>562</b> | <b>604</b> | <b>606</b> | <b>623</b> | <b>16</b> |
| % Growth (QoQ)   | 10.3       | 5.3        | 8.7        | 13.7       | 1.0        | 5.7        | 4.8        | 7.3        | 0.4        | 2.8        |           |

Source: Companies

## TREND IN REVENUE (RS B)

|                        | 1QFY08    | 2QFY08    | 3QFY08    | 4QFY08    | 1QFY09    | 2QFY09    | 3QFY09    | 4QFY09    | 1QFY10    | 2QFY10    | 3QFY10    | YOY %     |
|------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| HCC                    | 7         | 5         | 8         | 11        | 9         | 6         | 8         | 10        | 10        | 9         | 11        | 29        |
| IVRCL                  | 7         | 7         | 10        | 13        | 9         | 11        | 12        | 16        | 11        | 12        | 14        | 16        |
| NCC                    | 8         | 7         | 8         | 13        | 10        | 11        | 10        | 11        | 10        | 11        | 12        | 18        |
| Patel Engg             | 3         | 2         | 3         | 5         | 4         | 3         | 3         | 8         | 5         | 4         | 4         | 36        |
| Simplex Infrastructure | 6         | 6         | 7         | 8         | 10        | 10        | 13        | 14        | 11        | 10        | 14        | 9         |
| <b>Aggregate</b>       | <b>31</b> | <b>27</b> | <b>35</b> | <b>49</b> | <b>42</b> | <b>42</b> | <b>46</b> | <b>59</b> | <b>46</b> | <b>46</b> | <b>55</b> | <b>18</b> |

Source: Companies

## Working capital, borrowing cost moderation ahead

## QUARTERLY INTEREST COST, PERCENTAGE OF REVENUE

|                  | 1QFY09     | 2QFY09     | 3QFY09     | 4QFY09     | 1QFY10     | 2QFY10     | 3QFY10     | CHG BP<br>(YOY) |
|------------------|------------|------------|------------|------------|------------|------------|------------|-----------------|
| HCC              | 4.4        | 7.1        | 6.5        | 6.3        | 6.4        | 5.8        | 4.8        | -172            |
| IVRCL            | 2.1        | 2.7        | 3.5        | 2.4        | 3.6        | 2.9        | 2.7        | -87             |
| NCC              | 2.5        | 2.6        | 2.3        | 1.9        | 3.5        | 3.0        | 2.6        | 24              |
| Patel Engg       | 3.7        | 5.3        | 6.1        | 2.0        | 5.1        | 6.3        | 4.0        | -210            |
| Simplex Infra    | 2.7        | 3.2        | 3.4        | 2.8        | 3.1        | 2.8        | 2.2        | -126            |
| <b>Aggregate</b> | <b>3.0</b> | <b>3.7</b> | <b>4.0</b> | <b>2.5</b> | <b>4.2</b> | <b>3.8</b> | <b>3.0</b> | <b>-100</b>     |

## ANNUAL INTEREST COST, PERCENTAGE OF REVENUE

|                  | FY06       | FY07       | FY08       | FY09       | FY10E      | FY11E      |
|------------------|------------|------------|------------|------------|------------|------------|
| HCC              | 2.1        | 2.6        | 4.9        | 6.4        | 5.6        | 4.2        |
| IVRCL            | 1.7        | 1.3        | 1.3        | 2.7        | 2.6        | 2.4        |
| NCC              | 1.2        | 1.8        | 2.1        | 2.3        | 2.7        | 2.9        |
| Patel Engg       | 2.5        | 0.6        | 1.6        | 2.0        | 4.0        | 3.2        |
| Simplex Infra    | 3.0        | 3.7        | 3.6        | 3.0        | 2.5        | 2.2        |
| <b>Aggregate</b> | <b>2.0</b> | <b>2.1</b> | <b>2.7</b> | <b>3.3</b> | <b>3.3</b> | <b>2.9</b> |

## NET DER (TAKING MOBILIZATION ADVANCE AS PART OF DEBT), X

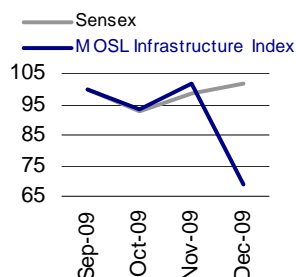
|               | FY06 | FY07 | FY08 | FY09 | FY10E | FY11E |
|---------------|------|------|------|------|-------|-------|
| HCC*          | 0.4  | 1.7  | 1.8  | 2.5  | 1.3   | 1.4   |
| IVRCL         | 1.2  | 0.5  | 0.7  | 0.9  | 1.0   | 0.8   |
| NCC           | 0.2  | 0.9  | 0.7  | 0.9  | 0.8   | 0.9   |
| Patel Engg    | 2.0  | 0.5  | 0.8  | 1.3  | 0.9   | 1.0   |
| Simplex Infra | 2.2  | 3.5  | 1.6  | 2.1  | 2.0   | 1.9   |

\* Includes FCCB of Rs4b as debt

Source: Company/MOSL



## RELATIVE PERFORMANCE - 3M (%)

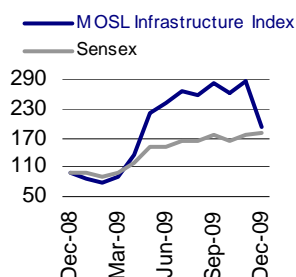


## NWC (ADJUSTED FOR ADVANCES TO SUBSIDIARIES), DAYS

|                     | DAYS       |            |            |            |            |            |
|---------------------|------------|------------|------------|------------|------------|------------|
|                     | FY06       | FY07       | FY08       | FY09       | FY10E      | FY11E      |
| Inventory           | 97         | 102        | 104        | 104        | 98         | 98         |
| Debtors             | 68         | 79         | 78         | 82         | 84         | 82         |
| Loans & Advances    | 57         | 80         | 63         | 58         | 55         | 54         |
| Other CA            | 20         | 21         | 26         | 26         | 26         | 26         |
| Current Liabilities | 140        | 164        | 147        | 145        | 144        | 145        |
| <b>NWC</b>          | <b>102</b> | <b>118</b> | <b>124</b> | <b>126</b> | <b>119</b> | <b>114</b> |

Source: Company/MOSL

## RELATIVE PERFORMANCE - 1YR (%)



## We are positive on the sector

We remain positive on the construction sector, given the strong revenue visibility (2.9x TTM book to bill), receding concerns over borrowing costs and commodity prices and growth opportunities in target markets. The sector is likely to outperform the market due to earnings CAGR of 21% over FY09-11. **Simplex** and **NCC** remain our top picks.

## VALUATION AND VIEW

|            | CMP   | BOOK TO BILL | EPS (RS) |       |       |  | PER (X) |       | P/BV (X) |       | ROE (%) |       |
|------------|-------|--------------|----------|-------|-------|--|---------|-------|----------|-------|---------|-------|
|            | RS/SH | (FY09X)      | FY10E    | FY11E | % YOY |  | FY10E   | FY11E | FY10E    | FY11E | FY10E   | FY11E |
| HCC        | 139   | 4.9          | 4.8      | 6.9   | 45.1  |  | 29.1    | 20.1  | 2.7      | 2.4   | 11.3    | 12.8  |
| IVRCL      | 337   | 3.0          | 16.5     | 19.7  | 19.2  |  | 20.4    | 17.1  | 2.4      | 2.0   | 12.1    | 12.9  |
| NCC        | 156   | 2.6          | 9.5      | 11.9  | 25.3  |  | 16.5    | 13.1  | 1.8      | 1.6   | 10.5    | 9.8   |
| Patel Engg | 446   | 4.0          | 27.4     | 33.3  | 21.8  |  | 16.3    | 13.4  | 2.4      | 2.1   | 12.4    | 13.9  |
| Simplex    | 549   | 2.2          | 33.2     | 42.8  | 29.0  |  | 16.6    | 12.8  | 2.6      | 2.2   | 16.8    | 18.4  |

Source: MOSL

## COMPARATIVE VALUATION

|                         | CMP (RS) | RECO      | EPS (RS) |       |       | P/E (X)     |             |             | EV/EBITDA   |             |             | ROE (%)     |             |             |
|-------------------------|----------|-----------|----------|-------|-------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
|                         | 29.12.09 |           | FY10E    | FY11E | FY12E | FY10E       | FY11E       | FY12E       | FY10E       | FY11E       | FY12E       | FY10E       | FY11E       | FY12E       |
| <b>Infrastructure</b>   |          |           |          |       |       |             |             |             |             |             |             |             |             |             |
| GMR Infrastructure      | 67       | Neutral   | 1.2      | 1.2   | 1.4   | 56.5        | 57.1        | 47.8        | 17.7        | 15.9        | 14.1        | 6.5         | 6.1         | 6.9         |
| GVK Power & Infra       | 48       | Buy       | 1.2      | 2.2   | 3.0   | 39.0        | 21.6        | 15.7        | 17.9        | 14.4        | 11.4        | 6.1         | 10.1        | 12.4        |
| Hindustan Construction  | 149      | Neutral   | 4.8      | 6.9   | 8.6   | 31.2        | 21.5        | 17.4        | 12.6        | 10.5        | 9.3         | 9.2         | 12.2        | 13.5        |
| IRB Infra.Devl.         | 246      | Not Rated | 17.7     | 19.7  | 18.6  | 13.8        | 12.5        | 13.2        | 9.7         | 9.6         | 8.2         | 22.2        | 19.7        | 15.7        |
| IVRCL Infra.            | 361      | Buy       | 16.5     | 19.7  | 23.9  | 21.9        | 18.3        | 15.1        | 12.1        | 10.3        | 9.0         | 12.1        | 12.9        | 13.5        |
| Jaiprakash Associates   | 144      | Buy       | 4.2      | 4.1   | 5.2   | 12.1        | 20.3        | 27.8        | 16.3        | 18.5        | 12.4        | 11.3        | 9.8         | 7.0         |
| Mundra Port             | 553      | Not Rated | 14.4     | 20.9  | 32.9  | 38.4        | 26.4        | 16.8        | 27.2        | 17.2        | 12.9        | 17.4        | 21.3        | 26.8        |
| Nagarjuna Construction  | 164      | Buy       | 9.5      | 11.9  | 14.3  | 17.3        | 13.8        | 11.4        | 12.2        | 11.2        | 9.9         | 10.5        | 9.8         | 10.8        |
| Simplex Infra.          | 536      | Buy       | 33.2     | 43.6  | 51.9  | 16.2        | 12.3        | 10.3        | 7.1         | 6.1         | 5.3         | 16.8        | 18.8        | 18.8        |
| <b>Sector Aggregate</b> |          |           |          |       |       | <b>31.5</b> | <b>26.2</b> | <b>22.4</b> | <b>15.8</b> | <b>14.5</b> | <b>11.5</b> | <b>11.1</b> | <b>11.9</b> | <b>12.4</b> |

## Hindustan Construction

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | HCC IN       |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | HCNS.BO      |

29 December 2009

Neutral

Previous Recommendation: Neutral

Rs149

|                     |              |
|---------------------|--------------|
| Equity Shares (m)   | 303.3        |
| 52 Week Range (Rs)  | 155 / 29     |
| 1,6,12 Rel Perf (%) | 4 / 22 / 121 |
| Mcap (Rs b)         | 45.1         |
| Mcap (USD b)        | 1.0          |

| YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS GR.<br>(%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|---------------|-------------|----------------|------------|-------------|------------|-------------|--------------|---------------|
| 3/09A       | 33,137              | 760           | 3.0         | 7.3            | 50.2       | 3.8         | 7.6        | 11.7        | 1.8          | 13.9          |
| 3/10E       | 37,753              | 1,449         | 4.8         | 61.1           | 31.2       | 2.9         | 11.3       | 10.2        | 1.5          | 11.2          |
| 3/11E       | 45,438              | 2,103         | 6.9         | 45.1           | 21.5       | 2.6         | 12.8       | 12.3        | 1.3          | 9.3           |
| 3/12E       | 54,521              | 2,599         | 8.6         | 23.6           | 17.4       | 2.3         | 14.2       | 13.3        | 1.1          | 8.3           |

\* Fully Diluted

- For 3QFY10, we expect HCC to post revenue (excluding JVs) of Rs9.7b, up 18.5% YoY; EBITDA of Rs1.3b and net profit of Rs314m. Revenue growth has been impacted by poor execution in Andhra projects and as some of the projects have not crossed the margin recognition threshold of 10%, reported margins will also be impacted.
- Order book was Rs155b (up 44% YoY, -1% QoQ), book-to-bill ratio of 4.2x TTM revenue. We believe the order book should drive revenue CAGR of 17% over FY09-11.
- Order announcements in 3QFY10 were worth Rs4.5b, including (1) a pumped water supply project, Gujarat Rs1.7b, and (2) an elevated road in Kolkata, Rs3.2b. We understand the company is L1 in projects of Rs40b including Rs11b worth of NHAI projects on a development basis. This is a meaningful increase, given that L1 in 2QFY10 was Rs10b.
- Subdued revenue growth in 1HFY10 was mainly due to (1) delayed project execution due to elections, and (2) delayed execution in J&K projects due to difficulty in obtaining supplies.
- Better than estimated performance in 2QFY10 was mainly driven by higher EBITDA margins at 12.5% (+50bp YoY), largely because of a higher proportion of hydropower in the revenue mix at 31% against 23% a year earlier.
- At the CMP, the stock trades at reported P/E of 31.2x FY10E and 21.5x FY11E. Maintain **Neutral**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH              | FY09         |              |              |               | FY10         |              |               |               | FY09          | FY10E         |
|------------------------|--------------|--------------|--------------|---------------|--------------|--------------|---------------|---------------|---------------|---------------|
|                        | 1Q           | 2Q           | 3Q*          | 4Q            | 1Q           | 2Q           | 3QE           | 4QE           |               |               |
| <b>Sales (Excl JV)</b> | <b>8,659</b> | <b>6,489</b> | <b>8,194</b> | <b>9,795</b>  | <b>8,725</b> | <b>7,825</b> | <b>9,710</b>  | <b>11,494</b> | <b>33,137</b> | <b>37,753</b> |
| Change (%)             | 18.8         | 18.3         | 9.3          | -7.2          | 0.8          | 20.6         | 18.5          | 17.3          | 7.5           | 13.9          |
| <b>Gross Sales</b>     | <b>8,949</b> | <b>6,977</b> | <b>8,759</b> | <b>10,295</b> | <b>9,641</b> | <b>8,622</b> | <b>10,587</b> | <b>13,453</b> | <b>34,979</b> | <b>42,303</b> |
| Change (%)             | 23.0         | 27.1         | 17.2         | -0.8          | 7.7          | 23.6         | 20.9          | 30.7          | 160.0         | 20.9          |
| <b>EBITDA</b>          | <b>911</b>   | <b>839</b>   | <b>1,061</b> | <b>1,508</b>  | <b>1,151</b> | <b>881</b>   | <b>1,292</b>  | <b>1,734</b>  | <b>4,318</b>  | <b>5,058</b>  |
| Change (%)             | 15.2         | 39.5         | 9.5          | 15.5          | 26.3         | 5.0          | 21.8          | 15.0          | 17.8          | 17.1          |
| As of % Sales          | 10.2         | 12.0         | 12.1         | 14.7          | 13.0         | 12.5         | 12.2          | 12.9          | 12.3          | 12.7          |
| Depreciation           | 253          | 296          | 299          | 304           | 301          | 315          | 335           | 375           | 1,152         | 1,326         |
| Interest               | 391          | 492          | 573          | 650           | 613          | 499          | 510           | 478           | 2,105         | 2,101         |
| Other Income           | 124          | 268          | -46          | 242           | 19           | 28           | 22            | -22           | 588           | 47            |
| Extraordinary Items    | 0            | 0            | 0            | 0             | 0            | 0            | 0             | 0             | 3             | 0             |
| <b>PBT</b>             | <b>392</b>   | <b>319</b>   | <b>143</b>   | <b>796</b>    | <b>256</b>   | <b>95</b>    | <b>469</b>    | <b>859</b>    | <b>1,649</b>  | <b>1,679</b>  |
| Tax                    | 84           | 117          | -90          | 281           | 74           | 40           | 155           | 286           | 392           | 554           |
| Effective Tax Rate (%) | 21.3         | 36.8         | -62.7        | 35.3          | 28.8         | 42.0         | 33.0          | 33.3          | 23.8          | 33.0          |
| <b>Reported PAT</b>    | <b>308</b>   | <b>202</b>   | <b>232</b>   | <b>515</b>    | <b>182</b>   | <b>55</b>    | <b>314</b>    | <b>573</b>    | <b>1,257</b>  | <b>1,125</b>  |
| <b>Adj PAT</b>         | <b>195</b>   | <b>-47</b>   | <b>300</b>   | <b>515</b>    | <b>268</b>   | <b>280</b>   | <b>314</b>    | <b>586</b>    | <b>964</b>    | <b>1,449</b>  |
| Change (%)             | 37.4         | -            | 52.7         | 43.6          | 37.2         | NA           | 4.7           | 13.8          | 36.2          | 50.2          |

E: MOSL Estimates; 1QFY10 adjustments of Rs50m towards political donation and Rs53m towards Bandra Worli Sealink Inauguration

Satyam Agarwal (AgarwalS@MotilalOswal.com)

## IVRCL Infrastructure

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | IVRC IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | IVRC.BO      |

|                     |               |
|---------------------|---------------|
| Equity Shares (m)   | 134.8         |
| 52 Week Range (Rs)  | 425 / 82      |
| 1,6,12 Rel Perf (%) | -6 / -20 / 77 |
| Mcap (Rs b)         | 48.7          |
| Mcap (USD b)        | 1.0           |

29 December 2009

Buy

Rs361

Previous Recommendation: Buy

| YEAR  | NET SALES | PAT    | EPS  | EPS GR. | P/E  | P/BV | ROE  | ROCE | EV/   | EV/    |
|-------|-----------|--------|------|---------|------|------|------|------|-------|--------|
| END   | (RS M)    | (RS M) | (RS) | (%)     | (X)  | (X)  | (%)  | (%)  | SALES | EBITDA |
| 3/09A | 48,819    | 2,290  | 17.0 | 10.5    | 21.3 | 2.7  | 13.4 | 13.7 | 1.3   | 14.6   |
| 3/10E | 55,384    | 2,228  | 16.5 | -2.7    | 21.9 | 2.6  | 12.1 | 14.1 | 1.1   | 12.1   |
| 3/11E | 63,798    | 2,656  | 19.7 | 19.2    | 18.3 | 2.2  | 12.9 | 14.4 | 1.0   | 10.3   |
| 3/12E | 74,261    | 3,225  | 23.9 | 21.4    | 15.1 | 1.9  | 13.5 | 15.2 | 0.9   | 9.0    |

- Order book as at 2QFY10 was worth Rs150b, representing a book-to-bill ratio of 2.9x TTM revenue. IVRCL announced projects worth Rs5.7b (tunnel, water supply in Mumbai). Further, IVR Prime Urban (80.5% subsidiary) has emerged as L1 in NHAI projects worth Rs21.5b, the construction contract for which will be awarded to IVRCL gradually. Including L1 projects, we understand IVRCL's order book is ~Rs200b
- We believe execution in 3QFY10 will be impacted, because Andhra Pradesh accounts for Rs50b of the company's order book. The projects are undergoing execution delays, and in some cases, contractors are slowing down because of possible balance sheet issues.
- Margin expansion in 2QFY10 was driven by savings from commodity prices and lower contribution from fixed price projects. We expect margins in 3QFY10 at 9.6%, against 9.1% a year earlier.
- The management guided for revenue of Rs63-65b in FY10 (up 29-33% YoY) and EBITDA margin of 9.5-10% (v/s earlier guidance of 9.8-10.3%). Given execution related issues, we believe the company will miss its guidance. Net debt increased to Rs17.5b in 2QFY10 against Rs13b in FY09, largely due to deterioration in working capital.
- Over FY09-11, we expect IVRCL to report revenue and earnings CAGR of 13% and 8% respectively; given the impact of execution from projects in Andhra and 80-IA tax impact. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH              | FY09         |               |               |               | FY10          |               |               |               | FY09          | FY10E         |
|------------------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                        | 1Q           | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3QE           | 4QE           |               |               |
| <b>Sales</b>           | <b>9,285</b> | <b>11,366</b> | <b>11,896</b> | <b>16,272</b> | <b>10,860</b> | <b>12,178</b> | <b>13,740</b> | <b>18,606</b> | <b>48,819</b> | <b>55,384</b> |
| Change (%)             | 37.1         | 65.1          | 22.0          | 23.1          | 17.0          | 7.1           | 15.5          | 14.3          | 33.4          | 13.4          |
| <b>EBITDA</b>          | <b>820</b>   | <b>913</b>    | <b>1,085</b>  | <b>1,450</b>  | <b>996</b>    | <b>1,145</b>  | <b>1,319</b>  | <b>1,780</b>  | <b>4,268</b>  | <b>5,239</b>  |
| Change (%)             | 36.6         | 65.0          | 0.1           | 4.5           | 21.5          | 25.4          | 21.6          | 22.7          | 18.1          | 22.8          |
| As of % Sales          | 8.8          | 8.0           | 9.1           | 8.9           | 9.2           | 9.4           | 9.6           | 9.6           | 8.7           | 9.5           |
| Depreciation           | 102          | 113           | 123           | 134           | 129           | 133           | 148           | 159           | 473           | 570           |
| Interest               | 194          | 304           | 419           | 392           | 389           | 354           | 365           | 351           | 1,309         | 1,459         |
| Other Income           | 26           | 172           | 14            | 87            | 39            | 57            | 10            | 9             | 298           | 116           |
| <b>PBT</b>             | <b>550</b>   | <b>667</b>    | <b>556</b>    | <b>979</b>    | <b>516</b>    | <b>715</b>    | <b>816</b>    | <b>1,279</b>  | <b>2,753</b>  | <b>3,326</b>  |
| Tax                    | 115          | 96            | 91            | 181           | 165           | 227           | 269           | 436           | 483           | 1,098         |
| Effective Tax Rate (%) | 20.9         | 14.4          | 16.3          | 18.5          | 32.0          | 31.8          | 33.0          | 34.1          | 17.6          | 33.0          |
| <b>Reported PAT</b>    | <b>435</b>   | <b>571</b>    | <b>465</b>    | <b>798</b>    | <b>351</b>    | <b>488</b>    | <b>547</b>    | <b>843</b>    | <b>2,269</b>  | <b>2,228</b>  |
| <b>Adj PAT</b>         | <b>435</b>   | <b>601</b>    | <b>465</b>    | <b>799</b>    | <b>351</b>    | <b>488</b>    | <b>547</b>    | <b>843</b>    | <b>2,300</b>  | <b>2,228</b>  |
| Change (%)             | 14.6         | 70.5          | -16.6         | 9.0           | -19.3         | -18.9         | 17.5          | 5.5           | 11.6          | -2.7          |

E: MOSL Estimates

## Jaiprakash Associates

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE SENSEX: 17,402 | JPA IN       |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | JAIA.BO      |

29 December 2009

Buy

Rs144

Previous Recommendation: Buy

|                     |               |
|---------------------|---------------|
| Equity Shares (m)   | 1,893.1       |
| 52 Week Range (Rs)  | 180 / 40      |
| 1,6,12 Rel Perf (%) | -7 / -20 / 90 |
| Mcap (Rs b)         | 271.9         |
| Mcap (USD b)        | 5.8           |

| YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS*<br>(RS) | EPS GR.*<br>(%) | P/E*<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|---------------|--------------|-----------------|-------------|-------------|------------|-------------|--------------|---------------|
| 3/09A       | 57,642              | 8,970         | 4.7          | 47.1            | 30.3        | 2.5         | 15.9       | 10.3        | 6.5          | 22.3          |
| 3/10E       | 94,032              | 9,754         | 5.2          | 8.7             | 27.9        | 3.2         | 12.8       | 16.8        | 4.0          | 15.3          |
| 3/11E       | 107,609             | 10,864        | 5.7          | 11.4            | 25.0        | 2.9         | 12.2       | 11.1        | 3.5          | 13.8          |
| 3/12E       | 107,139             | 9,768         | 5.2          | -10.1           | 27.8        | 2.7         | 10.0       | 10.0        | 3.4          | 14.1          |

\* Fully Diluted

- For 3QFY10, we expect Jaiprakash to report revenue of Rs20.4b, up 55% YoY, EBITDA of Rs5.5b, up 123% YoY and net profit of Rs2.5b, up 19% YoY.
- Jaypee Infratech (99.1% held by JAL) has filed DRHP with SEBI for its proposed IPO to raise Rs16.5b. JAL has also offered to sell 60m shares of JIL in the proposed public offering. Jaypee Infratech is an SPV executing the Yamuna Expressway project.
- Of the 6,175 acres of land available for development as part of the Yamuna Expressway project, ~3,080 acres was acquired by the company as at December 2009.
- The company received approval from court for a merger scheme between Jaiprakash Hydro Power (JHPL) and Jaiprakash Power Venture (JPV). It is in the final stages of completing the formalities of the scheme. After this, JPVL plans to raise Rs15b to fund the equity contribution towards various projects.
- Jaiprakash Associates (JPA) sold 74m shares as part of the treasury stock and raised ~Rs16.8b. We expect monetization of the treasury stock will reduce the standalone DER to 1.16x in FY10 from 1.52x in FY09.
- We expect JAL to report standalone net profit of Rs10.9b in FY11 (up 11% YoY) and Rs9.8b in FY12 (down by 10% YoY). **Buy.**

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH              | FY09          |               |               |               | FY10          |               |               |               | FY09          | FY10E         |
|------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                        | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3QE           | 4QE           |               |               |
| <b>Sales</b>           | <b>11,487</b> | <b>11,825</b> | <b>13,217</b> | <b>20,846</b> | <b>20,671</b> | <b>18,243</b> | <b>20,449</b> | <b>34,668</b> | <b>57,750</b> | <b>94,032</b> |
| Change (%)             | 23.9          | 37.2          | 46.9          | 63.1          | 79.9          | 54.3          | 54.7          | 66.3          | 45.6          | 62.8          |
| <b>EBITDA</b>          | <b>3,123</b>  | <b>3,477</b>  | <b>2,473</b>  | <b>7,050</b>  | <b>5,417</b>  | <b>4,558</b>  | <b>5,507</b>  | <b>9,006</b>  | <b>16,123</b> | <b>24,489</b> |
| Change (%)             | 30.6          | 57.3          | 10.9          | 78.2          | 73.5          | 31.1          | 122.7         | 27.8          | 49.5          | 51.9          |
| As of % Sales          | 27.2          | 29.4          | 18.7          | 33.8          | 26.2          | 25.0          | 26.9          | 26.0          | 27.9          | 26.0          |
| Depreciation           | 622           | 667           | 646           | 1,023         | 1,017         | 1,100         | 1,350         | 1,312         | 2,958         | 4,780         |
| Interest               | 984           | 1,008         | 992           | 1,682         | 2,219         | 2,588         | 2,281         | 2,228         | 5,024         | 9,315         |
| Other Income           | 394           | 1,040         | 1,254         | 1,100         | 3,229         | 10,298        | 1,850         | 922           | 4,147         | 16,299        |
| <b>PBT</b>             | <b>1,911</b>  | <b>2,843</b>  | <b>2,089</b>  | <b>5,445</b>  | <b>5,410</b>  | <b>11,168</b> | <b>3,726</b>  | <b>6,388</b>  | <b>12,289</b> | <b>26,693</b> |
| Tax                    | 639           | 812           | 434           | 1,591         | 498           | 2,466         | 1,230         | 2,474         | 3,477         | 6,668         |
| Effective Tax Rate (%) | 33.4          | 28.6          | 20.8          | 29.2          | 9.2           | 22.1          | 33.0          | 38.7          | 28.3          | 25.0          |
| <b>Reported PAT</b>    | <b>1,273</b>  | <b>2,030</b>  | <b>1,655</b>  | <b>3,853</b>  | <b>4,912</b>  | <b>8,702</b>  | <b>2,496</b>  | <b>3,914</b>  | <b>8,812</b>  | <b>20,025</b> |
| <b>Adj PAT</b>         | <b>1,273</b>  | <b>2,030</b>  | <b>2,105</b>  | <b>3,153</b>  | <b>2,181</b>  | <b>1,161</b>  | <b>2,496</b>  | <b>3,914</b>  | <b>8,561</b>  | <b>9,754</b>  |
| Change (%)             | -9.1          | 95.2          | 34.9          | 50.3          | 71.4          | -42.8         | 18.6          | 24.1          | 40.4          | 13.9          |

E: MOSL Estimates

## Nagarjuna Construction

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | NJCC IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | NGCN.BO      |

|                     |             |
|---------------------|-------------|
| Equity Shares (m)   | 256.6       |
| 52 Week Range (Rs)  | 184 / 34    |
| 1,6,12 Rel Perf (%) | 1 / -3 / 54 |
| Mcap (Rs b)         | 42.0        |
| Mcap (USD b)        | 0.9         |

29 December 2009

Buy

Rs164

Previous Recommendation: Buy

| YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 3/09A       | 47,002              | 1,788         | 7.0         | -1.4              | 23.5       | 2.2         | 9.4        | 10.2        | 1.3          | 14.2          |
| 3/10E       | 55,054              | 2,430         | 9.5         | 35.9              | 17.3       | 1.9         | 10.5       | 13.0        | 1.2          | 12.2          |
| 3/11E       | 69,944              | 3,046         | 11.9        | 25.3              | 13.8       | 1.7         | 9.8        | 11.4        | 1.1          | 11.2          |
| 3/12E       | 84,376              | 3,670         | 14.3        | 20.5              | 11.4       | 1.6         | 10.8       | 11.9        | 1.0          | 9.9           |

- NCC's order book in 2QFY10 was Rs143b (+15% YoY). Against order intake of Rs17.5b during 2QFY10. During 3QFY10, the company announced orders worth Rs7.2b, which includes a Rs3.2b order for the Bangalore Water Supply project and a Rs1.4b Bihar road project. The company is the preferred bidder for a road and airport project in Oman, with NCC's share at Rs30b+.
- We estimate execution to pick up during 3QFY10 (revenue Rs12.2b, up 18.3% YoY). In 1HFY10, execution was impacted by the election and subdued order intake in FY09 (~Rs46b v/s Rs76b in FY08).
- We are estimating sequentially lower interest costs at Rs310m, driven by lower borrowing costs. In 2QFY10, NCC's interest cost rose to Rs322m (+17% YoY, -7% QoQ). Debt as at September 2009 declined to Rs12.5b against Rs14b in June 2009; as part of its QIP proceeds (Rs3.7b) was used for repayment.
- In 2QFY10, NCC maintained its FY09 guidance of Rs48b (16% YoY) and Rs55b (+15% YoY) for its standalone and consolidated revenue respectively. Order intake in FY10 is expected to be Rs65b in FY10.
- At the CMP, the stock trades at a P/E of 17.3x FY10E and 13.8x FY11E. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH              | FY09         |               |               |               | FY10          |               |               |               | FY09          | FY10E         |
|------------------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                        | 1Q           | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3QE           | 4QE           |               |               |
| <b>Sales</b>           | <b>9,709</b> | <b>10,558</b> | <b>10,266</b> | <b>10,981</b> | <b>10,004</b> | <b>10,670</b> | <b>12,145</b> | <b>15,527</b> | <b>41,514</b> | <b>48,345</b> |
| Change (%)             | 27.4         | 55.9          | 31.7          | -12.4         | 3.0           | 1.1           | 18.3          | 41.4          | 19.5          | 16.5          |
| <b>EBITDA</b>          | <b>916</b>   | <b>1,085</b>  | <b>899</b>    | <b>838</b>    | <b>1,032</b>  | <b>1,089</b>  | <b>1,251</b>  | <b>1,514</b>  | <b>3,737</b>  | <b>4,885</b>  |
| Change (%)             | 15.9         | 27.4          | 4.2           | -23.4         | 12.7          | 0.4           | 39.2          | 80.7          | 3.9           | 30.7          |
| As of % Sales          | 9.4          | 10.3          | 8.8           | 7.6           | 10.3          | 10.2          | 10.3          | 9.7           | 9.0           | 10.1          |
| Depreciation           | 142          | 149           | 119           | 123           | 127           | 129           | 135           | 159           | 533           | 550           |
| Interest               | 239          | 275           | 238           | 213           | 346           | 322           | 310           | 308           | 964           | 1,287         |
| Other Income           | 9            | 10            | 8             | 15            | 20            | 8             | 10            | 508           | 42            | 547           |
| <b>PBT</b>             | <b>544</b>   | <b>671</b>    | <b>551</b>    | <b>517</b>    | <b>579</b>    | <b>646</b>    | <b>815</b>    | <b>1,555</b>  | <b>2,282</b>  | <b>3,595</b>  |
| Tax                    | 173          | 248           | 188           | 135           | 196           | 206           | 277           | 345           | 743           | 1,025         |
| Effective Tax Rate (%) | 31.8         | 36.9          | 34.1          | 26.1          | 33.9          | 32.0          | 34.0          | 22.2          | 32.6          | 28.5          |
| <b>Reported PAT</b>    | <b>371</b>   | <b>423</b>    | <b>363</b>    | <b>382</b>    | <b>382</b>    | <b>439</b>    | <b>538</b>    | <b>1,211</b>  | <b>1,539</b>  | <b>2,570</b>  |
| <b>Adj PAT</b>         | <b>371</b>   | <b>423</b>    | <b>363</b>    | <b>382</b>    | <b>382</b>    | <b>439</b>    | <b>538</b>    | <b>721</b>    | <b>1,539</b>  | <b>2,080</b>  |
| Change (%)             | 3.9          | 24.5          | -8.4          | -27.4         | 3.1           | 3.8           | 48.2          | 88.6          | -5.0          | 35.2          |

E: MOSL Estimates

## Simplex Infrastructure

|                     |               |              |  |
|---------------------|---------------|--------------|--|
| STOCK INFO.         |               | BLOOMBERG    |  |
| BSE SENSEX:         | 17,402        | SINF IN      |  |
| S&P CNX: 5,188      |               | REUTERS CODE |  |
|                     |               | SINF.BO      |  |
| Equity Shares (m)   | 49.5          |              |  |
| 52 Week Range (Rs)  | 558 / 102     |              |  |
| 1,6,12 Rel Perf (%) | -5 / 16 / 109 |              |  |
| Mcap (Rs b)         | 26.5          |              |  |
| Mcap (USD b)        | 0.6           |              |  |

29 December 2009

Buy

Rs536

Previous Recommendation: Buy

| YEAR  | NET SALES | PAT    | EPS  | EPS        | P/E  | P/BV | ROE  | ROCE | EV/   | EV/    |
|-------|-----------|--------|------|------------|------|------|------|------|-------|--------|
| END   | (RS M)    | (RS M) | (RS) | GROWTH (%) | (X)  | (X)  | (%)  | (%)  | SALES | EBITDA |
| 3/09A | 46,627    | 1,318  | 26.6 | 29.1       | 20.1 | 2.9  | 15.9 | 16.7 | 0.8   | 9.5    |
| 3/10E | 50,798    | 1,641  | 33.2 | 24.5       | 16.2 | 2.5  | 16.8 | 16.4 | 0.7   | 7.1    |
| 3/11E | 61,561    | 2,158  | 43.6 | 31.6       | 12.3 | 2.1  | 18.8 | 18.7 | 0.6   | 6.1    |
| 3/12E | 71,930    | 2,567  | 51.9 | 19.0       | 10.3 | 1.8  | 18.8 | 19.6 | 0.5   | 5.3    |

- For 3QFY10, we expect Simplex to post revenue of Rs14b, up 8.9% YoY, and net profit of Rs544m, up 80% YoY.
- Simplex's order book was Rs105b (-2% YoY, +5% QoQ) in 2QFY10. Order intake during 2QFY10 was Rs15b (-8.4% YoY). Shifting focus from private to public orders is visible as the order book has 50% private orders compared with 70-75% at the start of FY09. Besides, 43% of the order intake in 2QFY10 and 61% in 1QFY10 has been from the thermal power segment, which is witnessing strong traction.
- We estimate execution improvement during 3QFY10. We expect 3QFY10 EBITDA margins to sustain at 1QFY10 levels of 10.8% (+140bp YoY). We estimate interest cost of Rs275m (stable QoQ) in 3QFY10, mainly driven by lower average borrowing costs.
- Over FY09-11, we expect Simplex to report a CAGR of 14% in revenues and 28% in net profit. The stock trades at 16.2x FY10E and 12.3x FY11E earnings. We maintain **Buy**.

## QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

| Y/E MARCH           | FY09          |               |               |               | FY10          |               |               |               | FY09          | FY10E         |
|---------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                     | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3QE           | 4QE           |               |               |
| <b>Net Income</b>   | <b>10,181</b> | <b>10,050</b> | <b>12,703</b> | <b>13,876</b> | <b>11,097</b> | <b>10,252</b> | <b>13,833</b> | <b>15,615</b> | <b>46,888</b> | <b>50,798</b> |
| Change (%)          | 75.0          | 76.0          | 80.4          | 45.3          | 9.0           | 2.0           | 8.9           | 12.5          | 66.7          | 8.3           |
| <b>EBITDA</b>       | <b>1,115</b>  | <b>988</b>    | <b>1,156</b>  | <b>1,123</b>  | <b>1,118</b>  | <b>1,065</b>  | <b>1,444</b>  | <b>1,529</b>  | <b>4,277</b>  | <b>5,156</b>  |
| Change (%)          | 91.6          | 72.8          | 63.9          | 37.7          | 0.2           | 7.8           | 24.9          | 36.2          | 59.9          | 20.6          |
| As % of Sales       | 11.0          | 10.2          | 9.4           | 8.3           | 10.2          | 10.7          | 10.8          | 10.2          | 9.5           | 10.4          |
| Other Income        | 4             | 39            | 37            | 30            | 14            | 30            | 50            | 59            | 186           | 153           |
| Interest            | 275           | 324           | 436           | 392           | 348           | 289           | 275           | 341           | 1,418         | 1,252         |
| Depreciation        | 255           | 302           | 370           | 374           | 381           | 383           | 395           | 412           | 1,299         | 1,571         |
| <b>PBT</b>          | <b>552</b>    | <b>378</b>    | <b>387</b>    | <b>386</b>    | <b>404</b>    | <b>423</b>    | <b>824</b>    | <b>835</b>    | <b>1,685</b>  | <b>2,486</b>  |
| Tax                 | 169           | 98            | 134           | 88            | 147           | 144           | 280           | 274           | 477           | 845           |
| Tax / PBT           | 30.6          | 25.9          | 34.7          | 22.7          | 36.4          | 34.0          | 34.0          | 32.8          | 28.3          | 34.0          |
| <b>PAT</b>          | <b>383</b>    | <b>280</b>    | <b>253</b>    | <b>299</b>    | <b>257</b>    | <b>279</b>    | <b>544</b>    | <b>561</b>    | <b>1,208</b>  | <b>1,641</b>  |
| <b>Adjusted PAT</b> | <b>421</b>    | <b>303</b>    | <b>303</b>    | <b>299</b>    | <b>257</b>    | <b>279</b>    | <b>544</b>    | <b>561</b>    | <b>1,324</b>  | <b>1,641</b>  |
| As % of Sales       | 4.1           | 3.0           | 2.4           | 2.2           | 2.3           | 2.7           | 3.9           | 3.6           | 2.8           | 3.2           |
| Change (%)          | 114.7         | 59.2          | 37.3          | (28.0)        | (39.0)        | (7.7)         | 79.9          | 87.8          | 29.7          | 23.9          |

E: MOSL Estimates



## Media

BSE Sensex: 17,402

S&amp;P CNX: 5,188

29 December 2009

## COMPANY NAME

Deccan Chronicle

H T Media

Jagran Prakashan

Sun TV Network

TV Today

Zee Entertainment

**Colors a clear No1, Sony zooms towards tier-1 channels:** After a prolonged tussle among the top three players, Colors emerged a clear winner as the channel has consistently been able to maintain a lead of 80-90 GRPs. 3QFY10 has taken the battle for GRPs in the Hindi GEC space to the next level. With aggressive content strategy, Colors and Sony improved their GRPs significantly. Sony's GRPs grew from an average of 130-135 to 180-190 points during the quarter. The channel is just 40-50 points behind Zee TV is planning to revamp its programming and has tied up with Yash Raj Films for content.

**Media companies line up for IPOs:** During 3QFY10, media companies lined up for IPOs. Den Networks, one of the largest MSOs, raised Rs3.9b. DB Corp (Dainik Bhaskar) floated an IPO of Rs3.8b and Hathway Cable and Data Com plans to raise Rs2.5b.

**Newsprint prices firming up:** Newsprint prices, which continued to slide since December 2008, have begun to firm up, though they are still below FY08 levels. Newsprint prices during the quarter firmed up by 13% to \$540/ton. A significant rebound in newsprint prices will impact the companies' operating performance. However, our interaction with companies indicates they don't expect newsprint prices to rise sharply.

**Valuation and view:** While the advertising outlook has improved in the past six months, we expect 3QFY10 advertising revenue for the MOSL media universe to remain sequentially flat. Print media companies will continue to post strong profit growth due to the improving advertising outlook and low newsprint prices. We prefer companies that focus on core strengths and those with a high payout ratio. Deccan Chronicle is our top pick. We believe the broadcasting space offers a sustained longer term investment opportunity as it is backed by structural changes in the industry such as (1) improving advertising outlook, and (2) changing distribution structure of television.

## EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

|                   | CMP (RS) | RECO    | SALES  |       |       | EBITDA |       |       | NET PROFIT |       |       |
|-------------------|----------|---------|--------|-------|-------|--------|-------|-------|------------|-------|-------|
|                   | 29.12.09 |         | DEC.09 | VAR.  | VAR.  | DEC.09 | VAR.  | VAR.  | DEC.09     | VAR.  | VAR.  |
|                   |          |         |        | % YOY | % QOQ |        | % YOY | % QOQ |            | % YOY | % QOQ |
| Media             |          |         |        |       |       |        |       |       |            |       |       |
| Deccan Chronicle  | 169      | Buy     | 2,350  | 9.5   | -6.3  | 1,340  | 146.2 | -3.4  | 907        | 253.4 | -9.2  |
| HT Media          | 144      | Neutral | 3,475  | 4.1   | 0.1   | 747    | 76.2  | 15.6  | 442        | 114.4 | 24.8  |
| Jagran Prakashan  | 130      | Neutral | 2,375  | 14.7  | -3.8  | 689    | 129.1 | -17.2 | 389        | 151.6 | -22.6 |
| Sun TV            | 336      | Neutral | 3,410  | 25.9  | 6.4   | 2,643  | 31.3  | 8.5   | 1,405      | 25.1  | 7.6   |
| TV Today          | 120      | Buy     | 720    | 10.4  | 11.6  | 180    | 30.3  | 42.4  | 139        | 59.9  | 30.2  |
| Zee Entertainment | 265      | Neutral | 5,750  | 5.4   | 6.4   | 1,630  | 35.7  | 8.1   | 1,075      | 5.2   | -5.7  |
| Sector Aggregate  |          |         | 18,080 | 10.4  | 2.1   | 7,228  | 56.4  | 4.2   | 4,357      | 52.9  | -1.2  |

### Colors a clear No1, Sony zooms towards tier-1 channels

After a prolonged tussle among the top three players, Colors emerged a clear winner as the channel has consistently been able to maintain a lead of 80-90 GRPs. 3QFY10 has taken the battle for GRPs in the Hindi GEC space to the next level.

Sony's GRPs grew from an average of 130-135 to 180-190 points during the quarter. The channel is just 40-50 points behind Zee TV is planning to revamp its programming and has tied up with Yash Raj Films for content. YRF TV will provide five new shows, one non-fiction, and four fiction programs. The new shows will be Lift Kara De, Mahi Way, Rishta.Com, Seven and Powder

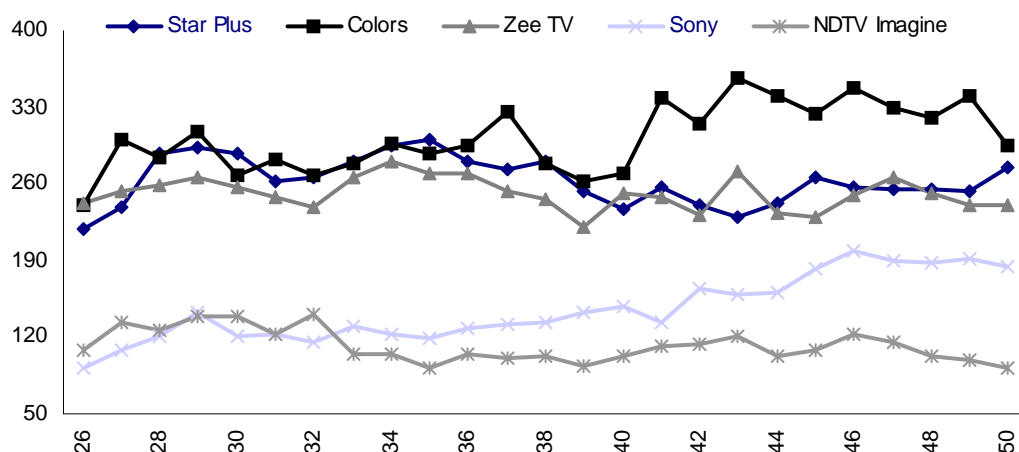
Zee TV continued to maintain its GRPs of about 250 and is competing with Star Plus for the No2 slot. The channel continues to dominate the top 50 shows.

PERIOD 35-47WEEK

| CHANNELS  | TOP 50 | TOP 100 |
|-----------|--------|---------|
| Zee TV    | 20     | 31      |
| Star Plus | 12     | 28      |
| Colors    | 17     | 34      |

Source: Company

GRP GAP NARROWS



Source: www.Indiatimes.com

ADVERTISING RATE (%)

|           |        |
|-----------|--------|
| Sun TV    | 9 - 33 |
| Gemini TV | 6 - 16 |
| Udaya TV  | 10     |
| Surya TV  | 5      |

Source: Company

### Advertising rate hike continues in 3QFY10

Advertising rate increases, which began in 2QFY10, continued in 3QFY10 with Sun TV Networks announcing a rate hike across its channels. The hike was announced after two years and will be effective from 1 January 2010. We estimate an average rate hike of 10-15% for Sun TV. Advertising spends after the festive season slowed sequentially; but the outlook remains positive.

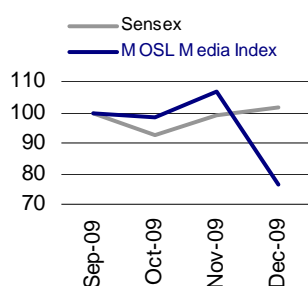
### Media companies line up for IPOs

During 3QFY10, several media companies floated IPOs. Den Networks, one of the largest MSOs, raised Rs3.9b. DB Corp (Dainik Bhaskar) floated an IPO of Rs3.8b and Hathway Cable and Data Com plans to raise Rs2.5b through an IPO.

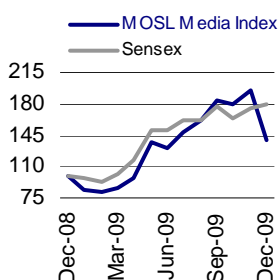
### Newsprint prices firming up

Newsprint prices, which continued to slide since December 2008, have begun to firm up, though they are still below FY08 levels. Newsprint prices during the quarter firmed up by 13% to US\$540/ton. A significant rebound in newsprint prices will impact companies' operating performance. But our interaction with companies indicates they don't expect a sharp increase in newsprint prices.

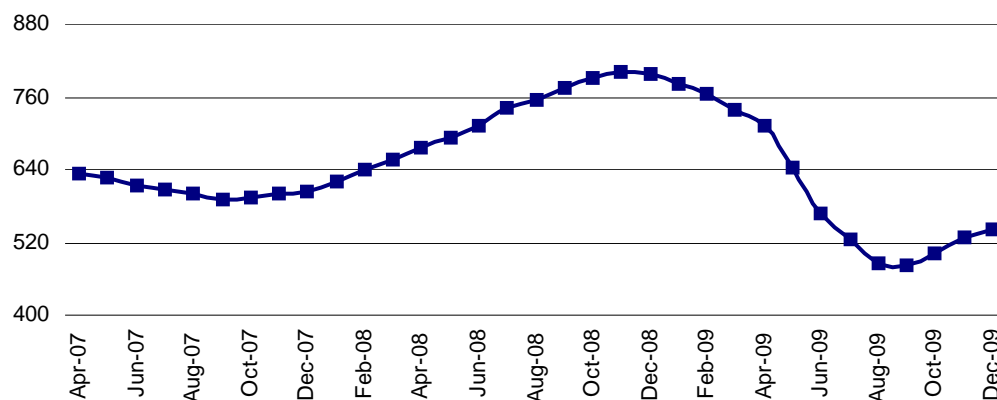
RELATIVE PERFORMANCE - 3M (%)



RELATIVE PERFORMANCE - 1YR (%)



NEWSPRINT PRICES FIRMING UP



Source: www.Indiatimes.com

### Valuation and view

While the advertising outlook has improved in the past six months, we expect 3QFY10 advertising revenue for MOSL media universe to stay sequentially flat. Print media companies will continue to post strong profit growth due to an improving advertising outlook and low newsprint prices. We prefer companies that focus on core strengths and with a high payout ratio. Deccan Chronicle is our top pick. We believe the broadcasting space offers a sustained longer term investment opportunity as it is backed by structural changes in the industry, such as (1) improving advertising outlook, and (2) changing distribution structure of television.

COMPARATIVE VALUATION

|                   | CMP (RS) | RECO    | EPS (RS) |       |       | P/E (X) |       |       | EV/EBITDA |       |       | ROE (%) |       |       |
|-------------------|----------|---------|----------|-------|-------|---------|-------|-------|-----------|-------|-------|---------|-------|-------|
|                   | 29.12.09 |         | FY10E    | FY11E | FY12E | FY10E   | FY11E | FY12E | FY10E     | FY11E | FY12E | FY10E   | FY11E | FY12E |
| Media             |          |         |          |       |       |         |       |       |           |       |       |         |       |       |
| Deccan Chronicle  | 169      | Buy     | 12.5     | 15.3  | 19.1  | 13.5    | 11.0  | 8.8   | 6.9       | 5.6   | 4.3   | 23.5    | 24.8  | 26.4  |
| HT Media          | 144      | Neutral | 6.7      | 8.2   | 9.5   | 21.6    | 17.6  | 15.1  | 12.7      | 10.2  | 8.9   | 14.5    | 15.9  | 16.3  |
| Jagran Prakashan  | 130      | Neutral | 5.8      | 6.6   | 7.9   | 22.6    | 19.7  | 16.5  | 13.3      | 11.2  | 9.6   | 29.3    | 31.5  | 34.2  |
| Sun TV            | 336      | Neutral | 13.6     | 16.6  | 20.1  | 24.6    | 20.2  | 16.8  | 12.4      | 9.7   | 8.6   | 24.5    | 24.3  | 23.8  |
| TV Today          | 120      | Buy     | 8.6      | 10.4  | 12.1  | 14.0    | 11.5  | 9.9   | 7.7       | 5.7   | 4.4   | 13.8    | 14.7  | 15.0  |
| Zee Entertainment | 265      | Neutral | 9.5      | 12.3  | 14.5  | 28.0    | 21.6  | 18.3  | 18.2      | 13.5  | 11.3  | 11.1    | 11.9  | 13.1  |
| Sector Aggregate  |          |         |          |       |       | 21.9    | 17.7  | 14.8  | 12.7      | 10.0  | 8.5   | 16.4    | 18.0  | 19.1  |

## Deccan Chronicle

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | DECH IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | DCHL.BO      |

29 December 2009

Buy

Rs169

Previous Recommendation: Buy

|                     |              |
|---------------------|--------------|
| Equity Shares (m)   | 245.0        |
| 52 Week Range (Rs)  | 174 / 26     |
| 1,6,12 Rel Perf (%) | 6 / 89 / 199 |
| Mcap (Rs b)         | 41.3         |
| Mcap (USD b)        | 0.9          |

| YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 03/09A      | 8,149               | 1,401         | 5.7         | -48.5             | 29.5       | 3.7         | 12.2       | 17.6        | 5.2          | 15.9          |
| 03/10E      | 9,496               | 3,096         | 12.5        | 118.7             | 13.5       | 3.3         | 23.5       | 29.6        | 4.2          | 7.7           |
| 03/11E      | 10,646              | 3,790         | 15.3        | 22.4              | 11.0       | 2.8         | 24.8       | 31.7        | 3.5          | 6.3           |
| 03/12E      | 12,204              | 4,720         | 19.1        | 24.5              | 8.9        | 2.4         | 26.4       | 35.6        | 2.9          | 4.9           |

- We expect Deccan Chronicle to post 9.5% YoY revenue growth due to a lower base last year. Advertising revenue is expected grow 9% YoY and decline 6% QoQ. Advertising spend has declined marginally after the festive season.
- A decline in newsprint prices will benefit the company. We estimate 146% YoY growth in EBITDA at Rs1.3b as margins expand to 57% v/s 25.3% in 3QFY09.
- DCHL intends to sell part or all its stake in its IPL venture, The Deccan Charger Sporting Venture. The entry of two new teams in the IPL at base price of US\$225 sets benchmark valuation for Deccan Chargers (US\$107m).
- We estimate PAT of Rs907m in 3QFY10 v/s Rs257m in 3QFY09.
- The stock trades at 13.5x FY10E EPS of Rs12.5 and 11x FY11E EPS of Rs15.3. **Buy**

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH              | FY09         |              |              |              | FY10         |              |              |              | FY09         | FY10E        |
|------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                        | 1Q           | 2Q           | 3Q           | 4Q           | 1Q           | 2Q           | 3QE          | 4QE          |              |              |
| <b>Sales</b>           | <b>1,935</b> | <b>2,264</b> | <b>2,147</b> | <b>1,803</b> | <b>2,166</b> | <b>2,509</b> | <b>2,350</b> | <b>2,472</b> | <b>8,149</b> | <b>9,496</b> |
| Change (%)             | 11.6         | 20.6         | -0.7         | -12.1        | 11.9         | 10.8         | 9.5          | 37.1         | 4.2          | 16.5         |
| <b>EBITDA</b>          | <b>943</b>   | <b>773</b>   | <b>544</b>   | <b>422</b>   | <b>1,059</b> | <b>1,387</b> | <b>1,340</b> | <b>1,341</b> | <b>2,682</b> | <b>5,127</b> |
| Change (%)             | -9.1         | -34.3        | -61.5        | -65.7        | 12.4         | 79.3         | 146.2        | 217.8        | -44.8        | 91.1         |
| As of % Sales          | 48.7         | 34.2         | 25.3         | 23.4         | 48.9         | 55.3         | 57.0         | 54.3         | 32.9         | 54.0         |
| Depreciation           | 73           | 75           | 78           | 95           | 99           | 102          | 100          | 100          | 321          | 401          |
| Interest               | 198          | 198          | 191          | 123          | 111          | 111          | 110          | 110          | 709          | 442          |
| Other Income           | 59           | 155          | 136          | 77           | 71           | 75           | 80           | 112          | 427          | 338          |
| <b>PBT</b>             | <b>732</b>   | <b>655</b>   | <b>411</b>   | <b>282</b>   | <b>920</b>   | <b>1,249</b> | <b>1,210</b> | <b>1,243</b> | <b>2,079</b> | <b>4,622</b> |
| Tax                    | 122          | 202          | 154          | 200          | 150          | 250          | 302          | 823          | 679          | 1,525        |
| Effective Tax Rate (%) | 16.7         | 30.9         | 32.0         | 71.1         | 25.0         | 20.0         | 25.0         | 66.2         | 32.6         | 33.0         |
| <b>Reported PAT</b>    | <b>610</b>   | <b>453</b>   | <b>257</b>   | <b>82</b>    | <b>770</b>   | <b>999</b>   | <b>907</b>   | <b>420</b>   | <b>1,401</b> | <b>3,096</b> |
| <b>Adj PAT</b>         | <b>610</b>   | <b>453</b>   | <b>257</b>   | <b>82</b>    | <b>770</b>   | <b>999</b>   | <b>907</b>   | <b>420</b>   | <b>1,401</b> | <b>3,096</b> |
| Change (%)             | -27.2        | -45.2        | -75.1        | 207.5        | 26.3         | 120.7        | 253.4        | 415.5        | -48.5        | 121.1        |

E: MOSL Estimates

## H T Media

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | HTML IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | HTML.BO      |

|                     |             |
|---------------------|-------------|
| Equity Shares (m)   | 234.2       |
| 52 Week Range (Rs)  | 154 / 36    |
| 1,6,12 Rel Perf (%) | 0 / 33 / 33 |
| Mcap (Rs b)         | 33.7        |
| Mcap (USD b)        | 0.7         |

29 December 2009

Neutral

Previous Recommendation: Neutral

Rs144

| YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 03/09A      | 13,231              | 1,040         | 4.4         | -28.2             | 32.5       | 3.7         | 9.4        | 9.9         | 2.5          | 17.7          |
| 03/10E      | 13,927              | 1,566         | 6.7         | 50.5              | 21.6       | 3.6         | 14.5       | 16.3        | 2.3          | 11.8          |
| 03/11E      | 15,191              | 1,919         | 8.2         | 22.6              | 17.6       | 3.1         | 15.9       | 19.3        | 2.1          | 9.3           |
| 03/12E      | 16,933              | 2,236         | 9.5         | 16.5              | 15.1       | 2.7         | 16.3       | 20.2        | 1.7          | 7.8           |

- We expect HT Media to post revenue of Rs3.4b, up 4.1% YoY.
- Lower newsprint prices will benefit the company from 3QFY10. Cost rationalization and low newsprint prices will boost EBITDA to Rs747m, up 76.2% YoY.
- Its Hindi daily Hindustan continues to do well but its national daily is impacted by the economic slowdown and competition in Mumbai and Delhi. The company will de-merge its Hindi business and plans to float an IPO in 9-12 months.
- We estimate adjusted PAT of Rs442m, up 114.4% YoY.
- The stock trades at 21.6x FY10E EPS of Rs6.7 and 17.6x FY11E EPS of Rs8.2. **Neutral**

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH              | FY09         |              |              |              | FY10         |              |              |              | FY09          | FY10E         |
|------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|
|                        | 1Q           | 2Q           | 3Q           | 4Q           | 1Q           | 2Q           | 3QE          | 4QE          |               |               |
| <b>Sales</b>           | <b>3,247</b> | <b>3,342</b> | <b>3,338</b> | <b>3,338</b> | <b>3,351</b> | <b>3,471</b> | <b>3,475</b> | <b>3,631</b> | <b>13,230</b> | <b>13,927</b> |
| Change (%)             | 18.8         | 16.1         | 4.5          | 6.5          | 3.2          | 3.9          | 4.1          | 8.8          | 11.5          | 5.3           |
| <b>EBITDA</b>          | <b>663</b>   | <b>399</b>   | <b>424</b>   | <b>402</b>   | <b>691</b>   | <b>646</b>   | <b>747</b>   | <b>692</b>   | <b>1,853</b>  | <b>2,776</b>  |
| Change (%)             | 19.3         | -28.3        | -23.9        | -33.2        | 4.2          | 62.1         | 76.2         | 72.1         | -16.9         | 49.8          |
| As of % Sales          | 20.0         | 11.9         | 12.7         | 12.0         | 20.6         | 18.6         | 21.5         | 19.0         | 14.0          | 19.9          |
| Depreciation           | 129          | 128          | 138          | 155          | 163          | 175          | 173          | 175          | 550           | 686           |
| Interest               | 51           | 74           | 101          | 91           | 78           | 75           | 70           | 64           | 317           | 287           |
| Other Income           | 82           | 52           | 79           | 101          | 65           | 39           | 70           | 72           | 347           | 246           |
| Extra-ordinary income  | 0            | 0            | 128          | 60           | 45           | 40           | 45           | 58           | 188           | 188           |
| <b>PBT</b>             | <b>565</b>   | <b>248</b>   | <b>135</b>   | <b>196</b>   | <b>470</b>   | <b>396</b>   | <b>529</b>   | <b>467</b>   | <b>1,145</b>  | <b>1,862</b>  |
| Tax                    | 188          | 86           | 57           | -38          | 146          | 82           | 132          | 124          | 293           | 484           |
| Effective Tax Rate (%) | 33.3         | 34.5         | 42.2         | (19.4)       | 31.1         | 20.6         | 25.0         | 26.6         | 25.6          | 26.0          |
| <b>Reported PAT</b>    | <b>377</b>   | <b>163</b>   | <b>78</b>    | <b>234</b>   | <b>324</b>   | <b>314</b>   | <b>397</b>   | <b>343</b>   | <b>852</b>    | <b>1,378</b>  |
| Exceptional Items      | 0            | 0            | 128          | 60           | 45           | 40           | 45           | 58           | 188           | 188           |
| <b>Adj PAT</b>         | <b>377</b>   | <b>163</b>   | <b>206</b>   | <b>295</b>   | <b>369</b>   | <b>354</b>   | <b>442</b>   | <b>401</b>   | <b>1,041</b>  | <b>1,566</b>  |
| Change (%)             | 10.4         | -52.3        | -36.5        | -29.2        | -2.2         | 117.4        | 114.4        | 36.1         | -28.0         | 50.5          |

E: MOSL Estimates

## Jagran Prakashan

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | JAGP IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | JAGP.BO      |

29 December 2009

Neutral

Previous Recommendation: Neutral

Rs130

|                     |             |
|---------------------|-------------|
| Equity Shares (m)   | 301.2       |
| 52 Week Range (Rs)  | 138 / 43    |
| 1,6,12 Rel Perf (%) | 6 / 49 / 57 |
| Mcap (Rs b)         | 39.2        |
| Mcap (USD b)        | 0.8         |

| YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 03/09A      | 8,234               | 916           | 3.0         | -6.7              | 42.7       | 7.0         | 16.4       | 18.7        | 4.5          | 23.5          |
| 03/10E      | 9,561               | 1,733         | 5.8         | 89.2              | 22.6       | 6.6         | 29.3       | 33.8        | 3.8          | 12.9          |
| 03/11E      | 10,736              | 1,993         | 6.6         | 15.0              | 19.7       | 6.2         | 31.5       | 35.7        | 3.4          | 10.9          |
| 03/12E      | 12,017              | 2,374         | 7.9         | 19.1              | 16.5       | 5.6         | 34.2       | 38.3        | 3.0          | 9.3           |

- Jagran Prakashan is expected to post revenue of Rs2.37b, up 14.7% YoY. After the festive season, advertising revenue is expected to cool off.
- With newsprint prices rising, EBITDA margins are expected to start declining sequentially. For 3QFY10, we estimate EBITDA margin of 29% v/s 33.7% in 2QFY10 and 14.5% in 3QFY09.
- The low base effect will result in a 129% YoY growth in EBITDA at Rs689m and a 152% YoY growth in PAT at Rs389m.
- The stock trades at 22.6x FY10E EPS of Rs5.8 and 19.7x FY11E EPS of Rs6.6. **Neutral**

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH              | FY09         |              |              |              | FY10         |              |              |              | FY09         | FY10E        |
|------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                        | 1Q           | 2Q           | 3Q           | 4Q           | 1Q           | 2Q           | 3QE          | 4QE          |              |              |
| <b>Revenue</b>         | <b>2,065</b> | <b>2,086</b> | <b>2,070</b> | <b>2,013</b> | <b>2,319</b> | <b>2,468</b> | <b>2,375</b> | <b>2,399</b> | <b>8,234</b> | <b>9,561</b> |
| Change (%)             | 12.6         | 17.8         | 4.0          | 5.9          | 12.3         | 18.3         | 14.7         | 19.2         | 9.8          | 16.1         |
| <b>EBITDA</b>          | <b>496</b>   | <b>380</b>   | <b>301</b>   | <b>390</b>   | <b>705</b>   | <b>832</b>   | <b>689</b>   | <b>624</b>   | <b>1,567</b> | <b>2,850</b> |
| Change (%)             | -3.6         | -2.6         | -30.4        | 29.9         | 42.0         | 119.1        | 129.1        | 60.0         | -4.3         | 81.9         |
| As of % Sales          | 24.0         | 18.2         | 14.5         | 19.4         | 30.4         | 33.7         | 29.0         | 26.0         | 19.0         | 29.8         |
| Depreciation           | 84           | 89           | 98           | 113          | 124          | 130          | 133          | 136          | 383          | 523          |
| Interest               | 10           | 12           | 18           | 20           | 14           | 15           | 15           | 20           | 59           | 63           |
| Other Income           | 63           | 55           | 45           | 64           | 157          | 50           | 40           | 46           | 227          | 293          |
| <b>PBT</b>             | <b>466</b>   | <b>334</b>   | <b>229</b>   | <b>322</b>   | <b>724</b>   | <b>738</b>   | <b>581</b>   | <b>514</b>   | <b>1,352</b> | <b>2,557</b> |
| Tax                    | 150          | 108          | 75           | 104          | 229          | 235          | 192          | 168          | 436          | 824          |
| Effective Tax Rate (%) | 32.1         | 32.1         | 32.0         | 32.3         | 31.7         | 31.9         | 33.0         | 32.7         | 32.2         | 32.2         |
| <b>Reported PAT</b>    | <b>316</b>   | <b>227</b>   | <b>155</b>   | <b>218</b>   | <b>495</b>   | <b>503</b>   | <b>389</b>   | <b>346</b>   | <b>916</b>   | <b>1,733</b> |
| <b>Adj PAT</b>         | <b>316</b>   | <b>227</b>   | <b>155</b>   | <b>218</b>   | <b>495</b>   | <b>503</b>   | <b>389</b>   | <b>346</b>   | <b>916</b>   | <b>1,733</b> |
| Change (%)             | -8.8         | 3.2          | -40.1        | 41.4         | 56.4         | 121.5        | 151.6        | 58.7         | -6.5         | 89.2         |

E: MOSL Estimates



## Sun TV Network

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | SUNTV IN     |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | SUTV.BO      |

|                     |              |
|---------------------|--------------|
| Equity Shares (m)   | 394.1        |
| 52 Week Range (Rs)  | 371 / 136    |
| 1,6,12 Rel Perf (%) | -2 / 21 / 16 |
| Mcap (Rs b)         | 132.5        |
| Mcap (USD b)        | 2.8          |

29 December 2009

Neutral

Previous Recommendation: Neutral

Rs336

| YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 3/09A       | 10,364              | 4,164         | 10.6        | 13.5              | 31.8       | 7.4         | 24.4       | 44.2        | 12.4         | 16.1          |
| 3/10E       | 13,103              | 5,376         | 13.6        | 29.1              | 24.6       | 6.0         | 24.5       | 45.8        | 9.6          | 12.4          |
| 3/11E       | 16,036              | 6,557         | 16.6        | 22.0              | 20.2       | 4.9         | 24.3       | 46.3        | 7.6          | 9.7           |
| 3/12E       | 17,606              | 7,902         | 20.1        | 20.5              | 16.8       | 4.0         | 23.8       | 42.1        | 6.7          | 8.6           |

Standalone numbers excluding radio Business

- We expect the company to post revenue of Rs3.4b, up 26% YoY, EBITDA of Rs2.6b, up 31.3% YoY and PAT of Rs1.4b, up 25% YoY.
- We expect 3QFY10 advertising revenue to remain sequentially flat and up 21% YoY, at Rs2.2b.
- Sun TV announced an ad rate hike across its channels and the broadcast fee has also been increased. The hike is effective from 1 January 2010 and comes after two years.
- The stock trades at 24.6x FY10E EPS of Rs13.6 and 20.2x FY11E EPS of Rs16.6. **Neutral**

## QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

| Y/E MARCH              | FY09         |              |              |              | FY10         |              |              |              | FY09          | FY10E         |
|------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|
|                        | 1Q           | 2Q           | 3Q           | 4Q           | 1Q           | 2Q           | 3QE          | 4QE          |               |               |
| <b>Revenue</b>         | <b>2,236</b> | <b>2,379</b> | <b>2,708</b> | <b>2,759</b> | <b>2,877</b> | <b>3,204</b> | <b>3,410</b> | <b>3,528</b> | <b>10,082</b> | <b>13,019</b> |
| Change (%)             | 10.5         | 22.3         | 24.4         | 11.9         | 28.7         | 34.7         | 25.9         | 27.9         | 17.1          | 29.1          |
| <b>EBITDA</b>          | <b>1,683</b> | <b>1,763</b> | <b>2,013</b> | <b>2,257</b> | <b>2,236</b> | <b>2,436</b> | <b>2,643</b> | <b>2,758</b> | <b>7,716</b>  | <b>10,073</b> |
| Change (%)             | 10.0         | 26.1         | 17.7         | 42.8         | 32.9         | 38.1         | 31.3         | 22.2         | 24.1          | 30.5          |
| As of % Sales          | 75.0         | 74.1         | 74.3         | 81.8         | 77.7         | 76.0         | 77.5         | 78.2         | 76.5          | 77.4          |
| Depreciation           | 278          | 464          | 446          | 662          | 550          | 571          | 650          | 806          | 1,849         | 2,577         |
| Interest               | 0            | 21           | 8            | 10           | 6            | 2            | 5            | 7            | 39            | 20            |
| Other Income           | 164          | 165          | 144          | 154          | 142          | 115          | 150          | 299          | 627           | 706           |
| Extraordinary Item     |              | 207          |              |              |              |              |              |              | 207           | 0             |
| <b>PBT</b>             | <b>1,568</b> | <b>1,650</b> | <b>1,703</b> | <b>1,740</b> | <b>1,822</b> | <b>1,978</b> | <b>2,138</b> | <b>2,245</b> | <b>6,661</b>  | <b>8,182</b>  |
| Tax                    | 543          | 567          | 581          | 599          | 624          | 672          | 733          | 777          | 2,290         | 2,806         |
| Effective Tax Rate (%) | 34.6         | 36.0         | 34.1         | 34.7         | 34.3         | 34.0         | 34.3         | 34.6         | 34.4          | 34.3          |
| <b>Reported PAT</b>    | <b>1,026</b> | <b>1,083</b> | <b>1,122</b> | <b>1,141</b> | <b>1,198</b> | <b>1,306</b> | <b>1,405</b> | <b>1,468</b> | <b>4,371</b>  | <b>5,376</b>  |
| <b>Adj PAT</b>         | <b>1,026</b> | <b>951</b>   | <b>1,122</b> | <b>1,141</b> | <b>1,198</b> | <b>1,306</b> | <b>1,405</b> | <b>1,468</b> | <b>4,165</b>  | <b>5,376</b>  |
| Change (%)             | 10.2         | 18.6         | 9.7          | 24.7         | 16.8         | 37.3         | 25.1         | 28.7         | 13.5          | 29.1          |

E: MOSL Estimates

## TV Today

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | TVTN IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | TVTO.BO      |

|                     |               |
|---------------------|---------------|
| Equity Shares (m)   | 58.0          |
| 52 Week Range (Rs)  | 152 / 53      |
| 1,6,12 Rel Perf (%) | -4 / 10 / -18 |
| Mcap (Rs b)         | 6.9           |
| Mcap (USD b)        | 0.1           |

29 December 2009

Buy

Rs120

Previous Recommendation: Buy

| YEAR<br>END | NET SALES<br>(RS M) | PAT*<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|----------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 03/09A      | 2,499               | 336            | 5.8         | -23.1             | 20.7       | 2.2         | 10.5       | 15.2        | 2.0          | 11.2          |
| 03/10E      | 2,749               | 497            | 8.6         | 48.0              | 14.0       | 1.9         | 13.8       | 20.5        | 1.8          | 7.7           |
| 03/11E      | 3,107               | 604            | 10.4        | 21.5              | 11.5       | 1.7         | 14.7       | 21.8        | 1.4          | 5.7           |
| 03/12E      | 3,573               | 703            | 12.1        | 16.4              | 9.9        | 1.5         | 15.0       | 22.2        | 1.1          | 4.4           |

\* Excluding extraordinary items and provisions

- We expect the company to post revenue of Rs720m, up 10% YoY due to strong growth in advertising revenue.
- EBITDA margins are expected to expand 380bp to 25%. We estimate EBITDA to grow by 30% YoY to Rs180m.
- Aaj Tak is an undisputed leader in the Hindi news genre and Headlines Today continues to improve its market share.
- We estimate PAT of Rs139m, up 60%.
- The stock trades at 14x FY10E EPS of Rs8.6 and 11.5x FY11E EPS of Rs10.4. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH              | FY09       |            |            |            | FY10       |            |            |            | FY09         | FY10E        |
|------------------------|------------|------------|------------|------------|------------|------------|------------|------------|--------------|--------------|
|                        | 1Q         | 2Q         | 3Q         | 4Q         | 1Q         | 2Q         | 3QE        | 4QE        |              |              |
| <b>Sales</b>           | <b>641</b> | <b>669</b> | <b>652</b> | <b>537</b> | <b>710</b> | <b>645</b> | <b>720</b> | <b>673</b> | <b>2,499</b> | <b>2,749</b> |
| Change (%)             | 24.5       | 44.1       | -6.0       | -15.8      | 10.8       | -3.5       | 10.4       | 25.4       | 8.2          | 10.0         |
| <b>EBITDA</b>          | <b>131</b> | <b>122</b> | <b>138</b> | <b>51</b>  | <b>195</b> | <b>126</b> | <b>180</b> | <b>127</b> | <b>442</b>   | <b>628</b>   |
| Change (%)             | 9.9        | 55.2       | -43.4      | -72.1      | 49.3       | 3.9        | 30.3       | 146.4      | -29.4        | 0.4          |
| As of % Sales          | 21.5       | 18.2       | 21.2       | 9.6        | 28.0       | 19.6       | 25.0       | 18.8       | 17.7         | 22.8         |
| Depreciation           | 41         | 42         | 65         | 46         | 46         | 42         | 50         | 65         | 194          | 203          |
| Interest               | 0          | 0          | 0          | 1          | 0          | 0          | 0          | 1          | 1            | 1            |
| Other Income           | 45         | 38         | 70         | 89         | 92         | 79         | 80         | 67         | 242          | 318          |
| <b>PBT</b>             | <b>135</b> | <b>118</b> | <b>143</b> | <b>93</b>  | <b>240</b> | <b>163</b> | <b>210</b> | <b>128</b> | <b>488</b>   | <b>742</b>   |
| Tax                    | 43         | 42         | 56         | 12         | 73         | 56         | 71         | 43         | 153          | 245          |
| Effective Tax Rate (%) | 31.8       | 35.7       | 35.0       | 12.7       | 30.6       | 34.7       | 34.0       | 33.8       | 31.2         | 33.0         |
| <b>Reported PAT</b>    | <b>92</b>  | <b>76</b>  | <b>87</b>  | <b>82</b>  | <b>167</b> | <b>106</b> | <b>139</b> | <b>85</b>  | <b>336</b>   | <b>497</b>   |
| <b>Adj PAT</b>         | <b>92</b>  | <b>76</b>  | <b>87</b>  | <b>82</b>  | <b>167</b> | <b>106</b> | <b>139</b> | <b>85</b>  | <b>336</b>   | <b>497</b>   |
| Change (%)             | 14.9       | 41.0       | -48.0      | -39.6      | 81.9       | 40.7       | 59.9       | 3.9        | -22.9        | 48.0         |

E: MOSL Estimates

## Zee Entertainment Enterprises

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | Z IN         |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | ZEE.BO       |

29 December 2009

Neutral

Previous Recommendation: Neutral

Rs265

|                     |            | YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|---------------------|------------|-------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| Equity Shares (m)   | 433.6      | 3/09A       | 21,773              | 4,365         | 10.1        | 14.8              | 26.4       | 3.4         | 13.9       | 18.2        | 5.5          | 21.7          |
| 52 Week Range (Rs)  | 275 / 88   | 3/10E       | 22,892              | 4,585         | 9.5         | -5.8              | 28.0       | 2.7         | 11.1       | 15.6        | 5.6          | 20.4          |
| 1,6,12 Rel Perf (%) | 2 / 27 / 9 | 3/11E       | 29,788              | 5,953         | 12.3        | 29.8              | 21.6       | 2.5         | 11.9       | 17.1        | 4.3          | 15.1          |
| Mcap (Rs b)         | 115.0      | 3/12E       | 34,227              | 7,027         | 14.5        | 18.0              | 18.3       | 2.3         | 13.1       | 19.1        | 3.7          | 12.6          |
| Mcap (USD b)        | 2.5        |             |                     |               |             |                   |            |             |            |             |              |               |

- We expect Zee Entertainment Enterprise (ZEEL) to report 5.4% YoY revenue growth due to a 2% increase in advertising revenue and a 12% increase in subscription revenue. PAT is estimated at Rs1b, up 5.2% YoY.
- A turnaround in advertising revenue will be visible hereafter. Ad revenue will be largely driven by the recent rate hike. We expect 10% QoQ growth in advertising revenue.
- DTH revenue will continue to drive subscription revenue growth. We expect the share of subscription revenue to be 44% of total revenue in 3QFY10.
- Zee TV dominates the top 50 shows with 20 shows. The channel has been successful in maintaining its GRPs at 240-250 points.
- The stock trades at 28x FY10E EPS of Rs9.5 and 21.6x FY11E EPS of Rs12.3. **Neutral**

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH                              | FY09         |              |              |              | FY10         |              |              |              | FY09          | FY10E         |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|
|  | 1Q           | 2Q           | 3Q           | 4Q           | 1Q           | 2Q           | 3QE          | 4QE          |               |               |
| Advertising Revenue                    | 2,798        | 2,851        | 2,684        | 2,284        | 1,980        | 2,476        | 2,750        | 3,374        | 10,618        | 10,580        |
| Subscription Revenue                   | 2,150        | 2,244        | 2,274        | 2,345        | 2,410        | 2,435        | 2,550        | 2,807        | 9,014         | 10,202        |
| Other Sales and Services               | 471          | 621          | 497          | 508          | 370          | 494          | 450          | 797          | 2,098         | 2,110         |
| <b>Net Sales</b>                       | <b>5,420</b> | <b>5,717</b> | <b>5,456</b> | <b>5,137</b> | <b>4,759</b> | <b>5,405</b> | <b>5,750</b> | <b>6,978</b> | <b>21,730</b> | <b>22,892</b> |
| Change (%)                             | 38.4         | 43.4         | 5.3          | -2.3         | -12.2        | -5.5         | 5.4          | 35.8         | 18.4          | 5.3           |
| Prog, Transmission & Direct Exp        | 2,366        | 2,613        | 2,684        | 2,241        | 2,392        | 2,229        | 2,350        | 3,000        | 9,904         | 9,971         |
| Staff Cost                             | 690          | 513          | 382          | 439          | 390          | 442          | 495          | 619          | 2,025         | 1,946         |
| Selling and Other Exp                  | 921          | 1,102        | 1,189        | 1,255        | 808          | 1,226        | 1,275        | 1,350        | 4,468         | 4,658         |
| <b>EBITDA</b>                          | <b>1,443</b> | <b>1,488</b> | <b>1,201</b> | <b>1,202</b> | <b>1,170</b> | <b>1,508</b> | <b>1,630</b> | <b>2,009</b> | <b>5,332</b>  | <b>6,317</b>  |
| Change (%)                             | 20.5         | 12.6         | -23.5        | -7.8         | -18.9        | 1.3          | 35.7         | 67.2         | -1.7          | 18.5          |
| As of % Sales                          | 26.6         | 26.0         | 22.0         | 23.4         | 24.6         | 27.9         | 28.3         | 28.8         | 24.5          | 27.6          |
| Depreciation                           | 55           | 65           | 84           | 99           | 75           | 77           | 90           | 115          | 304           | 357           |
| Interest                               | 214          | 223          | 386          | 509          | 91           | 84           | 175          | 170          | 1,331         | 520           |
| Other Income                           | 278          | 280          | 401          | 444          | 325          | 291          | 290          | 397          | 1,403         | 1,303         |
| Extraordinary Items                    | 574          | 792          | 26           | 260          |              |              |              |              | 1,651         |               |
| <b>PBT</b>                             | <b>2,025</b> | <b>2,271</b> | <b>1,158</b> | <b>1,298</b> | <b>1,329</b> | <b>1,638</b> | <b>1,655</b> | <b>2,121</b> | <b>6,751</b>  | <b>6,743</b>  |
| Tax                                    | 417          | 489          | 318          | 330          | 416          | 529          | 530          | 683          | 1,552         | 2,158         |
| Effective Tax Rate (%)                 | 20.6         | 21.5         | 27.5         | 25.4         | 31.3         | 32.3         | 32.0         | 32.2         | 23.0          | 32.0          |
| <b>Reported PAT</b>                    | <b>1,608</b> | <b>1,782</b> | <b>840</b>   | <b>968</b>   | <b>913</b>   | <b>1,109</b> | <b>1,125</b> | <b>1,438</b> | <b>5,198</b>  | <b>4,585</b>  |
| Minority Interest                      | 16           | -11.0        | 14.7         | 3.4          | -105.8       | -32          | 50           | 88           | 23.0          | 0.0           |
| <b>Adj PAT after Minority Interest</b> | <b>1,240</b> | <b>1,223</b> | <b>1,022</b> | <b>927</b>   | <b>1,019</b> | <b>1,141</b> | <b>1,075</b> | <b>1,350</b> | <b>4,413</b>  | <b>4,585</b>  |
| Change (%)                             | 60.8         | 32.2         | -6.8         | 0.3          | -17.8        | -6.7         | 5.2          | 45.6         | 15.4          | 3.9           |

E: MOSL Estimates

Amnish Aggarwal (AmnishAggarwal@MotilalOswal.com) / Amit Purohit (AmitPurohit@MotilalOswal.com)

## Metals

BSE Sensex: 17,402

S&amp;P CNX: 5,188

29 December 2009

## COMPANY NAME

Hindalco

Hindustan Zinc

Jindal Steel

JSW Steel

Nalco

Sterlite Industries

SAIL

Tata Steel

**Steel volumes to shrink sequentially**

Indian steel prices have been declining from the start of October until the middle of December due to weakening prices in the international market. De-stocking by consumers in anticipation of lower prices led to reduced apparent demand. The combined sales of SAIL, Tata Steel and JSW Steel are expected to decline QoQ by 12% to 5.25m tons, though they will increase by 26% YoY. Most Indian steel producers accumulated inventories during the quarter as sales tonnage dropped month after month. However, the situation changed in the second half of December due to the end of de-stocking and bottoming out of steel prices. The long products market is vibrant because of production cuts by secondary producers due to shortage of iron ore owing to a clamp down on illegal mining and rising scrap prices in the international market. Long product prices increased by nearly Rs4,000/ton in the second half of December, and flat product prices have begun their up-tick. Prices are expected to increase by Rs1,000-1,500/ton from the beginning of January 2010.

Indian steel real demand remains strong due to strong growth in auto, consumer goods, capital goods and construction activity. Industrial production growth is picking up. Demand is expected to rise 12% in FY10 and restrictions on imports remain. Indian crude steel production has struggled to grow despite the addition of two large blast furnaces during the past 12-16 months as secondary producers cut production. Indian crude steel production grew 2.6% YoY (declined 2% MoM) to 4.77m tons. In CY09 (January to November), Indian crude steel production grew marginally by 1% YoY to 51.12m tons.

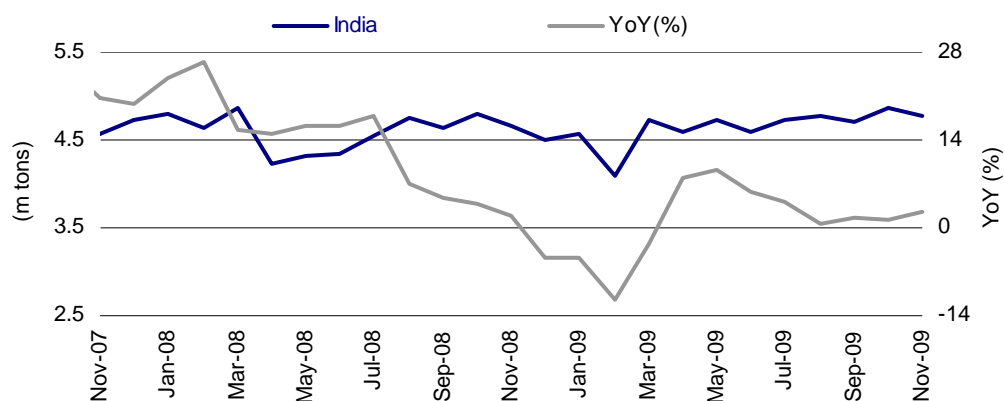
## EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

|                      | CMP (RS) | RECO    | SALES   |       |       | EBITDA  |       |       | NET PROFIT |       |       |
|----------------------|----------|---------|---------|-------|-------|---------|-------|-------|------------|-------|-------|
|                      | 29.12.09 |         | DEC.09  | VAR.  | VAR.  | DEC.09  | VAR.  | VAR.  | DEC.09     | VAR.  | VAR.  |
|                      |          |         |         | % YOY | % QOQ |         | % YOY | % QOQ |            | % YOY | % QOQ |
| Metals               |          |         |         |       |       |         |       |       |            |       |       |
| Hindalco             | 162      | Sell    | 48,382  | 17.5  | -1.6  | 8,207   | 5.3   | 34.7  | 5,166      | -5.2  | 50.2  |
| Hindustan Zinc       | 1,212    | Buy     | 20,093  | 87.9  | 10.5  | 11,830  | 287.8 | 10.0  | 10,806     | 193.0 | 15.6  |
| Jindal Steel & Power | 729      | Buy     | 19,775  | 11.0  | 23.7  | 6,825   | -0.3  | 23.8  | 4,173      | 10.1  | 36.8  |
| JSW Steel            | 1,024    | Buy     | 39,975  | 43.5  | -11.5 | 10,180  | 160.0 | -8.0  | 3,530      | 739.3 | -20.5 |
| Nalco                | 390      | Sell    | 13,300  | 28.4  | 12.8  | 5,153   | 94.0  | 263.6 | 3,690      | 68.1  | 131.4 |
| Sterlite Inds.*      | 860      | Buy     | 62,763  | 38.4  | 2.4   | 16,483  | 191.6 | 20.7  | 11,682     | 140.6 | 18.9  |
| SAIL                 | 238      | Sell    | 82,830  | -7.1  | -17.5 | 18,680  | 65.5  | -21.8 | 12,548     | 49.3  | -24.6 |
| Tata Steel *         | 622      | Neutral | 293,928 | -11.4 | 15.7  | 25,898  | -9.4  | 596.6 | 1,703      | -82.6 | LP    |
| Sector Aggregate     |          |         | 581,046 | 1.2   | 4.5   | 103,255 | 48.0  | 35.7  | 53,298     | 38.1  | 75.5  |

\* Consolidated

## INDIA'S CRUDE STEEL PRODUCTION



Source: WSA

Steel companies' sales were poor in October and November due to declining steel prices. Sales started picking up in the middle of December, but it is a bit late to offset the lower sales of the previous two months. We expect SAIL and JSW Steel to post a sequential decline in sales tonnage in 3QFY10. Tata Steel's tonnage may at best remain sequentially flat. Inventories are expected to be high.

## SALEABLE STEEL ('000 TONS)

| Y/E MARCH                    | FY09  |       |       |       | FY10  |       |       |       |
|------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|
|                              | 1Q    | 2Q    | 3Q    | 4Q    | 1Q    | 2Q    | 3QE   | 4QE   |
| <b>Tata Steel India</b>      |       |       |       |       |       |       |       |       |
| Production                   | 1,187 | 1,330 | 1,235 | 1,624 | 1,542 | 1,519 | 1,450 | 1,732 |
| Change (YoY %)               | 11.5  | 3.9   | -0.9  | 28.1  | 30.0  | 14.2  | 17.4  | 6.7   |
| Sales                        | 1,159 | 1,220 | 1,072 | 1,791 | 1,418 | 1,457 | 1,450 | 1,732 |
| Change (YoY %)               | 11.4  | 0.1   | -13.8 | 40.0  | 22.3  | 19.4  | 35.3  | -3.3  |
| <b>SAIL</b>                  |       |       |       |       |       |       |       |       |
| Production                   | 2,947 | 3,180 | 3,000 | 3,258 | 3,060 | 3,140 | 3,000 | 3,400 |
| Change (YoY %)               | -1.4  | -2.2  | -10.7 | -5.3  | 3.8   | -1.3  |       | 4.4   |
| Sales                        | 2,650 | 2,650 | 2,400 | 3,600 | 2,790 | 3,030 | 2,500 | 3,200 |
| Change (YoY %)               | 4.7   | -11.7 | -20.3 | -5.3  | 5.3   | 14.3  | 4.2   | -11.1 |
| <b>JSW Steel</b>             |       |       |       |       |       |       |       |       |
| Production                   | 976   | 1,001 | 782   | 966   | 1,376 | 1,540 | 1,300 | 1,600 |
| Change (YoY %)               | 21.7  | 14.3  | -18.2 | -2.7  | 41.0  | 53.8  | 66.2  | 65.6  |
| Sales                        | 817   | 837   | 711   | 928   | 1,321 | 1,454 | 1,300 | 1,600 |
| Change (YoY %)               | 13.2  | 3.7   | -18.0 | -8.1  | 61.7  | 73.7  | 82.8  | 72.4  |
| <b>3 Key Producers Total</b> |       |       |       |       |       |       |       |       |
| Production                   | 5,110 | 5,511 | 5,017 | 5,848 | 5,978 | 6,199 | 5,750 | 6,732 |
| Change (YoY %)               | 5.2   | 1.9   | -9.8  | 2.6   | 17.0  | 12.5  | 14.6  | 15.1  |
| Sales                        | 4,626 | 4,707 | 4,183 | 6,319 | 5,529 | 5,941 | 5,250 | 6,532 |
| Change (YoY %)               | 7.8   | -6.3  | -18.3 | 3.8   | 19.5  | 26.2  | 25.5  | 3.4   |

Source: Company/MOSL

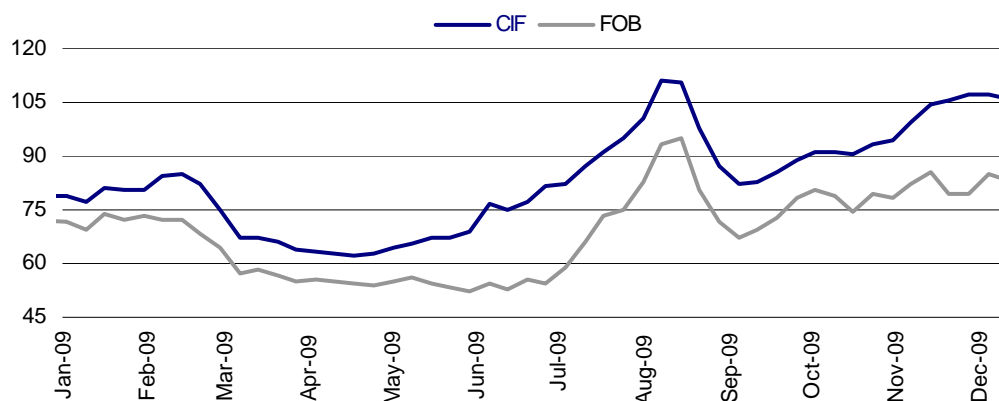
## Iron ore realizations rise

Iron ore merchant mine production in India has been facing hurdles since the crack down on illegal mining. Supplies from NMDC mines in Chhattisgarh too have become unreliable due to frequent Naxal attacks. Essar Steel's slurry pipeline has been repeatedly blown up, which has forced it to secure supplies from Australia. Essar Steel will import 160,000 tons of iron ore from Rio Tinto to avoid disruption of production. India, which is the third largest exporter of iron ore in world, will import iron ore, for the first time, due to unreliable domestic supplies.

Iron ore export prices have begun to move up again because of strong demand from China and insufficient supplies. Iron ore prices, which had shown a weakening trend over recent months, have moved up by US\$6-7/dmt to US\$110-112/dmt CFR, China. Sea freight from India to China has fallen from US\$20-23/ton to US\$18-20/dmt. Thus, the FOB prices moved up from US\$75-80/dmt to over US\$90/dmt. Weakening sea freight charges and hardening prices are likely to boost iron ore export realizations.

Sesa Goa's management says its mining operations are unaffected and shipments are as per target. At current iron ore prices, there are upsides to our estimates, which are based on FOB realization of US\$63/wmt for 63.5% Fe grade of iron ore. Current prices would result in realizations being higher by US\$20-23/wmt. Every increase of one US dollar per ton in realization will result in an FY11 EPS upgrade of 2.7%.

INDIAN IRON ORE (63% FE) PRICES FOR SHIPMENT TO CHINA (US\$/TON)

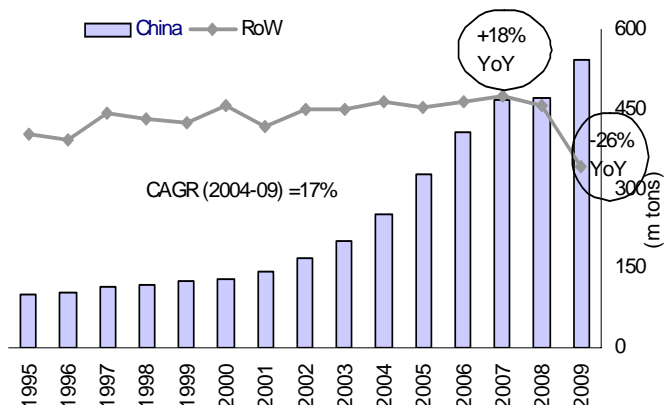


Source: WSA

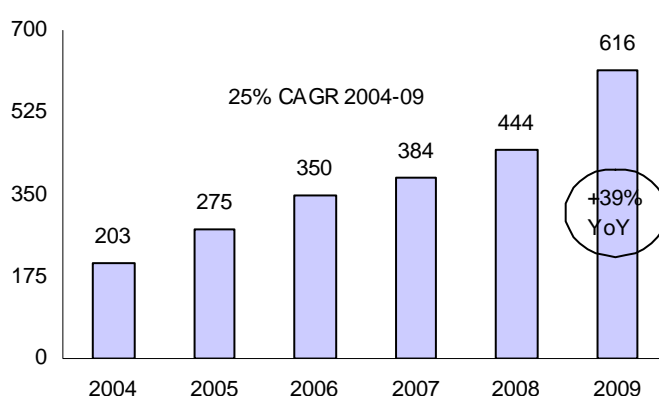
### Strong iron ore demand from China, price hikes

China is the sole driver of iron-ore prices because growth in pig iron production has stayed stagnant in rest of world. In 2009, Chinese pig iron production increased by 18%, and iron ore imports rose 39%. Current pig iron production in the rest of the world has been stagnant over the past 15 years. However, it declined by an unprecedented 26% in 2009. Demand for iron ore is expected to increase in 2010 with the recovery of crude steel production in the western world.

PIG IRON PRODUCTION (M TONS)



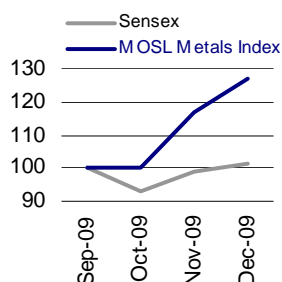
CHINESE IRON ORE IMPORTS (M TONS)



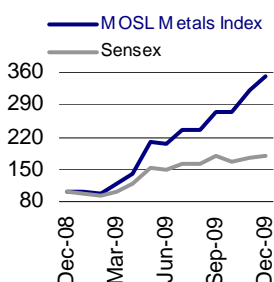
Source: SBB



RELATIVE PERFORMANCE - 3M (%)



RELATIVE PERFORMANCE - 1YR (%)



Chinese ore is magnetite, low grade and production costs are high and its local iron ore production has stagnated. Therefore, its dependence on imports is rising.

The BHP-Rio joint venture for iron ore assets will prevent oversupply. Indian iron ore supply is at risk due to a clamp down on illegal mining

### Non ferrous metal prices to drive earnings sequentially

Margins of non-ferrous companies are likely to expand by 400-500bp sequentially because of a rally in base metal prices. Average zinc and lead LME prices are up 18-23% QoQ. Hindustan Zinc may surprise positively with sale of surplus concentrate. Improvement of by-product prices will also boost its bottom line.

Average aluminum LME prices are up 8% QoQ and the average increase in realization for Indian aluminum smelters is expected to be stronger.

Energy costs for aluminum smelters are expected to fall sequentially because coal supply disruptions and moisture inflated costs in 2QFY10. Hindalco standalone and Nalco are expected to report sharper margin expansion because of cost reductions and increased prices. But Novelis' earnings are likely to be sequentially weaker due to seasonal factors.

QUARTERLY AVERAGE METAL PRICES ON LME (USD/TON)

| QUARTER | ZINC  |       |       | ALUMINIUM |       |       | COPPER |       |       | LEAD  |       |       | ALUMINA |       |       |
|---------|-------|-------|-------|-----------|-------|-------|--------|-------|-------|-------|-------|-------|---------|-------|-------|
|         | AVG.  | QOQ % | YOY % | AVG.      | QOQ % | YOY % | AVG.   | QOQ % | YOY % | AVG.  | QOQ % | YOY % | AVG.    | QOQ % | YOY % |
| 3QFY10  | 2,208 | 24    | 81    | 2,010     | 9     | 7     | 6,623  | 13    | 68    | 2,306 | 19    | 82    | 306     | 13    | 10    |
| 2QFY10  | 1,780 | 18    | -1    | 1,836     | 20    | -35   | 5,856  | 24    | -23   | 1,942 | 28    | 1     | 270     | 29    | -34   |
| 1QFY10  | 1,509 | 25    | -30   | 1,530     | 9     | -49   | 4,708  | 35    | -43   | 1,520 | 30    | -35   | 209     | 10    | -49   |
| 4QFY09  | 1,208 | -1    | -51   | 1,401     | -26   | -50   | 3,494  | -11   | -55   | 1,173 | -7    | -60   | 190     | -32   | -51   |
| 3QFY09  | 1,219 | -32   | -54   | 1,885     | -34   | -25   | 3,948  | -48   | -46   | 1,265 | -34   | -61   | 279     | -32   | -19   |
| 2QFY09  | 1,798 | -16   | -44   | 2,839     | -5    | 9     | 7,571  | -9    | -1    | 1,915 | -18   | -38   | 408     | -1    | 17    |
| 1QFY09  | 2,150 | -13   | -42   | 2,995     | 8     | 7     | 8,323  | 8     | 10    | 2,330 | -20   | 7     | 411     | 5     | 14    |

Source: LME

COMPARATIVE VALUATION

|                         | CMP (RS) | RECO    | EPS (RS) |       |       | P/E (X)     |             |             | EV/EBITDA   |            |            | ROE (%)     |             |             |
|-------------------------|----------|---------|----------|-------|-------|-------------|-------------|-------------|-------------|------------|------------|-------------|-------------|-------------|
|                         | 29.12.09 |         | FY10E    | FY11E | FY12E | FY10E       | FY11E       | FY12E       | FY10E       | FY11E      | FY12E      | FY10E       | FY11E       | FY12E       |
| <b>Metals</b>           |          |         |          |       |       |             |             |             |             |            |            |             |             |             |
| Hindalco                | 162      | Sell    | 3.3      | 8.2   | 14.0  | 48.8        | 19.8        | 11.6        | 10.0        | 8.8        | 6.9        | 6.0         | 13.1        | 18.7        |
| Hindustan Zinc          | 1,212    | Buy     | 91.0     | 120.4 | 139.3 | 13.3        | 10.1        | 8.7         | 9.3         | 6.3        | 4.7        | 21.4        | 22.2        | 20.6        |
| Jindal Steel & Power    | 729      | Buy     | 41.9     | 46.5  | 56.4  | 17.4        | 15.7        | 12.9        | 12.1        | 10.7       | 9.5        | 35.9        | 28.9        | 26.2        |
| JSW Steel               | 1,024    | Buy     | 64.5     | 82.4  | 137.7 | 15.9        | 12.4        | 7.4         | 8.7         | 7.7        | 4.8        | 16.7        | 17.6        | 22.7        |
| Nalco                   | 390      | Sell    | 16.2     | 26.3  | 25.5  | 24.2        | 14.8        | 15.3        | 16.2        | 8.1        | 8.1        | 9.8         | 14.2        | 12.5        |
| SAIL                    | 238      | Sell    | 14.4     | 16.3  | 15.3  | 16.5        | 14.6        | 15.5        | 11.2        | 9.9        | 9.9        | 18.1        | 17.5        | 14.6        |
| Sesa Goa                | 406      | Buy     | 22.5     | 26.3  | 27.4  | 18.1        | 15.4        | 14.8        | 11.7        | 9.4        | 7.9        | 26.7        | 24.4        | 19.8        |
| Sterlite Inds.          | 860      | Buy     | 47.9     | 72.4  | 104.2 | 17.9        | 11.9        | 8.2         | 11.3        | 5.9        | 3.9        | 10.8        | 14.2        | 17.1        |
| Tata Steel              | 622      | Neutral | -28.8    | 60.1  | 89.0  | -21.6       | 10.4        | 7.0         | 16.8        | 7.5        | 5.4        | -28.8       | 42.9        | 42.5        |
| <b>Sector Aggregate</b> |          |         |          |       |       | <b>22.8</b> | <b>13.2</b> | <b>10.5</b> | <b>11.8</b> | <b>8.1</b> | <b>6.4</b> | <b>11.9</b> | <b>17.5</b> | <b>18.3</b> |

Tata Steel and Sterlite numbers are consolidated

## Hindalco

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | HNDL.IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | HALC.BO      |

29 December 2009

Sell

Rs162

Previous Recommendation: Sell

|                     | YEAR<br>END   | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|---------------------|---------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| Equity Shares (m)   | 1,962.8       |                     |               |             |                   |            |             |            |             |              |               |
| 52 Week Range (Rs)  | 163 / 37      |                     |               |             |                   |            |             |            |             |              |               |
| 1,6,12 Rel Perf (%) | 15 / 67 / 145 |                     |               |             |                   |            |             |            |             |              |               |
| Mcap (Rs b)         | 318.1         |                     |               |             |                   |            |             |            |             |              |               |
| Mcap (USD b)        | 6.8           |                     |               |             |                   |            |             |            |             |              |               |
|                     | 3/09A         | 656,252             | 4,853         | 2.8         | -81.8             | 58.4       | 3.7         | 6.4        | -0.1        | 0.8          | 16.9          |
|                     | 3/10E         | 548,743             | 6,520         | 3.3         | 19.8              | 48.8       | 2.9         | 6.0        | 4.2         | 0.9          | 10.0          |
|                     | 3/11E         | 554,892             | 16,032        | 8.2         | 145.9             | 19.8       | 2.6         | 13.1       | 6.0         | 1.0          | 8.8           |
|                     | 3/12E         | 690,150             | 27,510        | 14.0        | 71.6              | 11.6       | 2.2         | 18.7       | 8.1         | 0.8          | 6.9           |

Consolidated

- **Net sales to grow 18%:** Net sales are expected to grow 18% YoY to Rs48.4b due to higher metal prices. Production of copper is expected to increase by 10% YoY, while aluminum will remain flat at 132kt.
- **EBITDA to post 5% YoY growth:** EBITDA is expected to post 5% growth YoY (34% QoQ) due to higher metal prices, reduction in energy costs and recent up-tick in by-product prices.
- **Bottom line to remain flat YoY:** Profit after tax will remain flat at Rs5.2b (50% up QoQ).
- **Outlook improving:** Hindalco's earnings outlook is improving due to hardening aluminum prices and turn around of Novelis' margins due to re-pricing of contracts.

## QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

| Y/E MARCH                   | FY09          |               |               |               | FY10          |               |               |               | FY09           | FY10E          |
|-----------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|
|                             | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3QE           | 4QE           |                |                |
| <b>Net Sales</b>            | <b>46,475</b> | <b>56,832</b> | <b>41,172</b> | <b>37,718</b> | <b>38,905</b> | <b>49,171</b> | <b>48,382</b> | <b>52,125</b> | <b>182,197</b> | <b>188,583</b> |
| Change (YoY %)              | -0.6          | 14.6          | -9.1          | -24.7         | -16.3         | -13.5         | 17.5          | 38.2          | -5.0           | 3.5            |
| Total Expenditure           | 36,985        | 46,898        | 33,380        | 34,575        | 32,757        | 43,080        | 40,175        | 43,693        | 151,838        | 159,704        |
| <b>EBITDA</b>               | <b>9,490</b>  | <b>9,934</b>  | <b>7,792</b>  | <b>3,142</b>  | <b>6,148</b>  | <b>6,092</b>  | <b>8,207</b>  | <b>8,433</b>  | <b>30,359</b>  | <b>28,879</b>  |
| Change (YoY %)              | 7.3           | 7.8           | -2.7          | -60.6         | -35.2         | -38.7         | 5.3           | 168.4         | -10.8          | -4.9           |
| As % of Net Sales           | 20.4          | 17.5          | 18.9          | 8.3           | 15.8          | 12.4          | 17.0          | 16.2          | 16.7           | 15.3           |
| Interest                    | 761           | 855           | 932           | 821           | 682           | 663           | 676           | 690           | 3,369          | 2,711          |
| Depreciation                | 1,568         | 1,592         | 1,611         | 1,682         | 1,653         | 1,659         | 1,627         | 1,665         | 6,453          | 6,604          |
| Other Income                | 2,147         | 1,768         | 1,505         | 947           | 753           | 573           | 618           | 618           | 6,367          | 2,562          |
| <b>PBT (before EO Item)</b> | <b>9,308</b>  | <b>9,255</b>  | <b>6,754</b>  | <b>1,587</b>  | <b>4,566</b>  | <b>4,343</b>  | <b>6,521</b>  | <b>6,696</b>  | <b>26,903</b>  | <b>22,125</b>  |
| Extra-ordinary Income       | -             | -             | -             | -             | 1,430         | -             | -             | -             | -              | 1,430          |
| <b>PBT (after EO Item)</b>  | <b>9,308</b>  | <b>9,255</b>  | <b>6,754</b>  | <b>1,587</b>  | <b>5,996</b>  | <b>4,343</b>  | <b>6,521</b>  | <b>6,696</b>  | <b>26,903</b>  | <b>23,555</b>  |
| Total Tax                   | 2,340         | 2,056         | 1,306         | -1,101        | 1,190         | 903           | 1,355         | 1,391         | 4,601          | 4,839          |
| % Tax                       | 25.1          | 22.2          | 19.3          | -69.4         | 26.1          | 20.8          | 20.8          | 20.8          | 17.1           | 20.5           |
| <b>Reported PAT</b>         | <b>6,968</b>  | <b>7,200</b>  | <b>5,448</b>  | <b>2,688</b>  | <b>4,806</b>  | <b>3,441</b>  | <b>5,166</b>  | <b>5,304</b>  | <b>22,303</b>  | <b>18,716</b>  |
| <b>Adjusted PAT</b>         | <b>6,968</b>  | <b>7,200</b>  | <b>5,448</b>  | <b>2,688</b>  | <b>3,376</b>  | <b>3,441</b>  | <b>5,166</b>  | <b>5,304</b>  | <b>22,303</b>  | <b>17,580</b>  |
| Change (YoY %)              | 15.6          | 12.0          | 0.4           | -49.9         | -51.6         | -52.2         | -5.2          | 97.4          | -8.3           | -21.2          |
| Avg LME Aluminium (USD/T)   | 2,995         | 2,839         | 1,885         | 1,401         | 1,530         | 1,836         | 2,010         | 2,000         | 2,280          | 1,833          |

E: MOSL Estimates

## Hindustan Zinc

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | HZ.IN        |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | HZNC.BO      |

29 December 2009

Buy

Rs1,212

Previous Recommendation: Buy

|                     |               |
|---------------------|---------------|
| Equity Shares (m)   | 422.5         |
| 52 Week Range (Rs)  | 1250 / 303    |
| 1,6,12 Rel Perf (%) | -2 / 81 / 173 |
| Mcap (Rs b)         | 512.1         |
| Mcap (USD b)        | 11.0          |

| YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 3/09A       | 56,803              | 27,276        | 64.6        | -38.0             | 18.8       | 3.6         | 19.0       | 16.4        | 7.3          | 15.2          |
| 3/10E       | 73,665              | 38,452        | 91.0        | 41.0              | 13.3       | 2.8         | 21.4       | 21.0        | 5.3          | 9.3           |
| 3/11E       | 92,800              | 50,856        | 120.4       | 32.3              | 10.1       | 2.2         | 22.2       | 21.6        | 3.8          | 6.3           |
| 3/12E       | 103,430             | 58,876        | 139.3       | 15.8              | 8.7        | 1.8         | 20.6       | 19.6        | 2.8          | 4.7           |

Consolidated

- **Volume growth and metal price appreciation to drive top line:** Net sales are expected to post robust 88% YoY growth to Rs20.1b on 10% volume growth and 81% rise in metal prices. Refined zinc production is expected to be ~10% higher to 165kt. Average zinc and lead prices are ~80% higher YoY on LME.
- **EBITDA to quadruple YoY:** EBITDA margins are expected to improve by 3000bps YoY on higher price realizations and increased sales volumes.
- **Profit after tax to grow 193%:** Other income is expected to increase due to higher accumulation of cash and equivalents, which along with a lower tax rate (19% due to the EOU status of the Chanderiya smelter) will help the bottom line to grow by 193% YoY to Rs10.8b.

## QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

| Y/E MARCH            | FY09          |               |               |               | FY10          |               |               |               | FY09          | FY10E         |
|----------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                      | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3QE           | 4QE           |               |               |
| <b>Net Sales</b>     | <b>16,437</b> | <b>17,905</b> | <b>10,692</b> | <b>12,627</b> | <b>15,122</b> | <b>18,183</b> | <b>20,093</b> | <b>20,267</b> | <b>56,803</b> | <b>73,665</b> |
| Change (YoY %)       | -16.6         | -9.8          | -35.5         | -44.3         | -8.0          | 1.6           | 87.9          | 60.5          | -27.9         | 29.7          |
| Total Expenditure    | 6,660         | 8,084         | 7,641         | 7,076         | 7,443         | 7,428         | 8,264         | 8,275         | 29,461        | 31,410        |
| <b>EBITDA</b>        | <b>9,777</b>  | <b>9,821</b>  | <b>3,051</b>  | <b>5,551</b>  | <b>7,679</b>  | <b>10,755</b> | <b>11,830</b> | <b>11,992</b> | <b>27,342</b> | <b>42,255</b> |
| Change (YoY %)       | -31.9         | -30.8         | -70.8         | -62.5         | -21.5         | 9.5           | 287.8         | 116.0         | -49.2         | 54.5          |
| As % of Net Sales    | 59.5          | 54.8          | 28.5          | 44.0          | 50.8          | 59.1          | 58.9          | 59.2          | 48.1          | 57.4          |
| Interest             | 69            | 71            | 44            | 49            | 32            | 54            | 53            | 49            | 219           | 188           |
| Depreciation         | 686           | 704           | 712           | 750           | 748           | 771           | 718           | 748           | 2,853         | 2,985         |
| Other Income         | 2,094         | 1,807         | 2,363         | 2,205         | 1,946         | 1,537         | 2,282         | 2,519         | 9,312         | 8,284         |
| <b>PBT</b>           | <b>11,116</b> | <b>10,853</b> | <b>4,658</b>  | <b>6,956</b>  | <b>8,845</b>  | <b>11,467</b> | <b>13,341</b> | <b>13,714</b> | <b>33,582</b> | <b>47,366</b> |
| Total Tax            | 2,638         | 1,257         | 969           | 1,442         | 1,657         | 2,118         | 2,535         | 2,606         | 6,306         | 8,915         |
| % Tax                | 23.7          | 11.6          | 20.8          | 20.7          | 18.7          | 18.5          | 19.0          | 19.0          | 18.8          | 18.8          |
| <b>Reported PAT</b>  | <b>8,478</b>  | <b>9,595</b>  | <b>3,688</b>  | <b>5,515</b>  | <b>7,188</b>  | <b>9,349</b>  | <b>10,806</b> | <b>11,108</b> | <b>27,276</b> | <b>38,452</b> |
| <b>Adjusted PAT</b>  | <b>8,478</b>  | <b>9,595</b>  | <b>3,688</b>  | <b>5,515</b>  | <b>7,188</b>  | <b>9,349</b>  | <b>10,806</b> | <b>11,108</b> | <b>27,276</b> | <b>38,452</b> |
| Change (YoY %)       | -28.5         | -16.4         | -53.0         | -56.8         | -15.2         | -2.6          | 193.0         | 101.4         | -38.0         | 41.0          |
| Avg LME Zinc (USD/T) | 2,150         | 1,798         | 1,219         | 1,208         | 1,509         | 1,780         | 2,208         | 2,200         | 1,594         | 1,922         |
| Avg LME Lead (USD/T) | 2,330         | 1,915         | 1,265         | 1,173         | 1,520         | 1,942         | 2,306         | 2,200         | 1,671         | 1,966         |

E: MOSL Estimates

## Jindal Steel &amp; Power

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE SENSEX: 17,402 | JSP IN       |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | JNSP.BO      |

29 December 2009

Buy

Rs729

Previous Recommendation: Buy

|                     |              |
|---------------------|--------------|
| Equity Shares (m)   | 928.2        |
| 52 Week Range (Rs)  | 778 / 121    |
| 1,6,12 Rel Perf (%) | 3 / 51 / 301 |
| Mcap (Rs b)         | 676.8        |
| Mcap (USD b)        | 14.5         |

| YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 3/09A       | 108,510             | 31,916        | 34.4        | 122.0             | 21.2       | 9.6         | 45.3       | 27.4        | 6.9          | 14.1          |
| 3/10E       | 114,934             | 38,919        | 41.9        | 21.9              | 17.4       | 6.2         | 35.9       | 24.6        | 6.5          | 12.1          |
| 3/11E       | 132,427             | 43,172        | 46.5        | 10.9              | 15.7       | 4.5         | 28.9       | 20.9        | 5.6          | 10.7          |
| 3/12E       | 150,489             | 52,322        | 56.4        | 21.2              | 12.9       | 3.4         | 26.2       | 18.0        | 5.2          | 9.5           |

Consolidated

- **Net sales to grow by 11%:** Net sales are expected to increase 11% YoY to Rs19.7b due to higher volumes of steel products. EBITDA is expected to remain flat at Rs6.8b. We expect PAT to grow by 10% YoY to Rs4.2b.
- **Higher capacity utilization at Jindal Power:** Power generation in October and November was higher by 8.7% at 1,419mkwh against 1,305mkwh a year earlier. As power rates have softened YoY, we expect revenues to decline 8.3% to Rs10.6b.
- **Strong earnings growth, high asset quality:** We expect JSPL to report earnings growth of 20-30% over the next 5 years on account of investments in the steel and power sectors. Its subsidiary Jindal Power is increasing capacity of its thermal power plant from 1,000MW presently to 5,400MW over 4-5years. In addition, it will be setting up a ~6,000MW hydro power plant over next 10 years. Angul project will double its steel production over 2-3years along with the rise of a captive power capacity from 340MW presently to 1,690MW by 2011. Maintain **Buy**.

## QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

| Y/E MARCH                   | FY09          |               |               |               | FY10          |               |               |               | FY09          | FY10E         |
|-----------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                             | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3QE           | 4QE           |               |               |
| <b>Net Sales</b>            | <b>18,953</b> | <b>22,161</b> | <b>17,811</b> | <b>17,607</b> | <b>15,761</b> | <b>15,982</b> | <b>19,775</b> | <b>21,682</b> | <b>76,532</b> | <b>73,201</b> |
| Change (YoY %)              | 55.0          | 74.6          | 27.6          | 15.6          | -16.8         | -27.9         | 11.0          | 23.1          | 41.4          | -4.4          |
| Total Expenditure           | 11,128        | 13,610        | 10,965        | 15,902        | 10,174        | 10,469        | 12,950        | 13,684        | 50,508        | 47,277        |
| <b>EBITDA</b>               | <b>7,825</b>  | <b>8,551</b>  | <b>6,846</b>  | <b>1,705</b>  | <b>5,587</b>  | <b>5,514</b>  | <b>6,825</b>  | <b>7,999</b>  | <b>26,024</b> | <b>25,924</b> |
| Change (YoY %)              | 63.3          | 58.2          | 28.6          | -74.9         | -28.6         | -35.5         | -0.3          | 369.1         | 14.3          | -0.4          |
| As % of Net Sales           | 41.3          | 38.6          | 38.4          | 9.7           | 35.4          | 34.5          | 34.5          | 36.9          | 34.0          | 35.4          |
| Interest                    | 475           | 563           | 743           | 259           | 328           | 545           | 449           | 510           | 1,689         | 1,831         |
| Depreciation                | 1,057         | 1,077         | 1,109         | 1,087         | 1,229         | 1,270         | 1,102         | 1,102         | 4,330         | 4,702         |
| Other Income                | 74            | 150           | 104           | 1,135         | 165           | 205           | 145           | 164           | 1,462         | 679           |
| <b>PBT (before EO Item)</b> | <b>6,368</b>  | <b>7,061</b>  | <b>5,097</b>  | <b>1,494</b>  | <b>4,196</b>  | <b>3,903</b>  | <b>5,419</b>  | <b>6,551</b>  | <b>21,467</b> | <b>20,069</b> |
| Extra-ordinary Income       | -770          | -1,106        | -726          | 500           | 0             | 0             | 0             | 0             | -1,448        | 0             |
| <b>PBT (after EO Item)</b>  | <b>5,598</b>  | <b>5,955</b>  | <b>4,371</b>  | <b>1,994</b>  | <b>4,196</b>  | <b>3,903</b>  | <b>5,419</b>  | <b>6,551</b>  | <b>20,019</b> | <b>20,069</b> |
| Total Tax                   | 1,575         | 1,455         | 1,120         | 505           | 1,195         | 853           | 1,246         | 1,507         | 4,654         | 4,801         |
| % Tax                       | 28.1          | 24.4          | 25.6          | 25.3          | 28.5          | 21.8          | 23.0          | 23.0          | 23.2          | 23.9          |
| <b>Reported PAT</b>         | <b>4,023</b>  | <b>4,500</b>  | <b>3,252</b>  | <b>1,489</b>  | <b>3,001</b>  | <b>3,050</b>  | <b>4,173</b>  | <b>5,044</b>  | <b>15,365</b> | <b>15,268</b> |
| <b>Adjusted PAT</b>         | <b>4,576</b>  | <b>5,336</b>  | <b>3,792</b>  | <b>1,115</b>  | <b>3,001</b>  | <b>3,050</b>  | <b>4,173</b>  | <b>5,044</b>  | <b>16,476</b> | <b>15,268</b> |
| Change (YoY %)              | 97.5          | 92.3          | 18.8          | -76.7         | -34.4         | -42.8         | 10.1          | 352.2         | 20.1          | -7.3          |
| <b>Consolidated PAT</b>     | <b>4,989</b>  | <b>8,483</b>  | <b>9,538</b>  | <b>6,761</b>  | <b>9,885</b>  | <b>8,197</b>  | <b>10,270</b> | <b>11,166</b> | <b>31,916</b> | <b>38,919</b> |
| Change (YoY %)              | 115.3         | 205.7         | 198.9         | 41.1          | 98.1          | -3.4          | 7.7           | 65.1          | 155.1         | 21.9          |

E: MOST Estimates

## JSW Steel

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE SENSEX: 17,402 | JSTL IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | JSTL.BO      |

|                     |              |
|---------------------|--------------|
| Equity Shares (m)   | 187.1        |
| 52 Week Range (Rs)  | 1,051 / 161  |
| 1,6,12 Rel Perf (%) | 0 / 44 / 286 |
| Mcap (Rs b)         | 191.5        |
| Mcap (USD b)        | 4.1          |

29 December 2009

Buy

Rs1,024

Previous Recommendation: Buy

| YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 3/09A       | 159,348             | 10,173        | 54.4        | -31.9             | 18.8       | 2.5         | 13.5       | 7.7         | 2.2          | 11.9          |
| 3/10E       | 179,928             | 12,071        | 64.5        | 18.7              | 15.9       | 2.6         | 16.7       | 10.7        | 2.1          | 8.7           |
| 3/11E       | 201,126             | 15,422        | 82.4        | 27.8              | 12.4       | 2.2         | 17.6       | 11.0        | 2.0          | 7.7           |
| 3/12E       | 273,774             | 25,750        | 137.7       | 67.0              | 7.4        | 1.7         | 22.7       | 16.0        | 1.3          | 4.8           |

Consolidated

- **Strong volume growth:** Net sales are expected to post robust growth of 43.5% YoY to Rs40b on the back of 66% growth in volumes. The average realization is expected to decline 22% to Rs30,750 on account of lower steel prices during 3Q. Sales volumes are expected to grow 66% YoY to 1.3m tons.
- **Higher EBITDA driven by volumes:** Margins are expected to expand YoY due to lower coking coal costs and improved volumes. 3QFY09 was one of the worst quarters for the company when steel prices fell below raw material prices and it had to temporarily shut down two blast furnaces. However, going forward strong volume growth will drive EBITDA growth YoY despite lower specific margins.
- **US operations:** We expect operating performance of its US plate and pipe mill to improve because losses pertaining to inventory are now behind it. However, it is still likely to be a drag on bottom line.
- **Product mix improvement and cost reduction ahead:** A new hot strip mill is expected to be completed by March 2010, which will improve the product mix. The market for HRC is far more developed than slabs, offering better margins. The ore beneficiation plant will reduce overall iron ore costs because low grade ore is available at much lower prices in the Bellary-Hospet region, close to its plant location.

## QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

| Y/E MARCH                  | FY09          |               |               |               | FY10          |               |               |               | FY09           | FY10E          |
|----------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|
|                            | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3QE           | 4QE           |                |                |
| Sales ('000 tons)          | 817           | 837           | 711           | 928           | 1,321         | 1,454         | 1,300         | 1,600         | 3,293          | 5,675          |
| Change (YoY %)             | 13.2          | 3.7           | -18.0         | -8.1          | 61.7          | 73.7          | 82.8          | 72.4          | -3.3           | 72.3           |
| Realization (Rs per ton)   | 44,938        | 51,006        | 39,178        | 35,871        | 29,650        | 31,080        | 30,750        | 29,766        | 42,681         | 30,301         |
| Change (YoY %)             | 36.0          | 52.8          | 21.2          | 1.5           | -34.0         | -39.1         | -21.5         | -17.0         | 26.9           | -29.0          |
| <b>Net Sales</b>           | <b>36,714</b> | <b>42,692</b> | <b>27,855</b> | <b>33,288</b> | <b>39,168</b> | <b>45,190</b> | <b>39,975</b> | <b>47,625</b> | <b>140,549</b> | <b>171,958</b> |
| Change (YoY %)             | 53.9          | 58.5          | -0.6          | -6.7          | 6.7           | 5.9           | 43.5          | 43.1          | 22.7           | 22.3           |
| <b>EBITDA</b>              | <b>8,593</b>  | <b>10,904</b> | <b>3,915</b>  | <b>4,061</b>  | <b>7,467</b>  | <b>11,070</b> | <b>10,180</b> | <b>13,480</b> | <b>27,472</b>  | <b>42,196</b>  |
| Change (YoY %)             | 11.0          | 25.8          | -50.8         | -49.9         | -13.1         | 1.5           | 160.0         | 231.9         | -15.4          | 53.6           |
| As % of Net Sales          | 23.4          | 25.5          | 14.1          | 12.2          | 19.1          | 24.5          | 25.5          | 28.3          | 19.5           | 24.5           |
| EBITDA (Rs per ton)        | 10,518        | 13,027        | 5,506         | 4,376         | 5,652         | 7,613         | 7,830         | 8,425         | 8,343          | 7,435          |
| Interest                   | 1,531         | 1,960         | 2,333         | 2,149         | 2,206         | 2,298         | 2,367         | 2,438         | 7,973          | 9,309          |
| Depreciation               | 1,852         | 1,975         | 2,141         | 2,309         | 2,718         | 2,805         | 2,889         | 2,976         | 8,277          | 11,389         |
| Other Income               | 273           | 426           | 420           | 973           | 54            | 615           | 375           | 275           | 2,092          | 1,319          |
| <b>PBT (after EO Item)</b> | <b>3,217</b>  | <b>4,711</b>  | <b>-1,907</b> | <b>755</b>    | <b>4,957</b>  | <b>6,582</b>  | <b>5,299</b>  | <b>8,341</b>  | <b>6,775</b>   | <b>25,178</b>  |
| Total Tax                  | 1,024         | 1,536         | -632          | 263           | 1,556         | 2,066         | 1,696         | 2,669         | 2,191          | 7,987          |
| % Tax                      | 31.8          | 32.6          | 33.1          | 34.9          | 31.4          | 31.4          | 32.0          | 32.0          | 32.3           | 31.7           |
| <b>Reported PAT</b>        | <b>2,193</b>  | <b>3,175</b>  | <b>-1,275</b> | <b>492</b>    | <b>3,400</b>  | <b>4,515</b>  | <b>3,603</b>  | <b>5,672</b>  | <b>4,584</b>   | <b>17,191</b>  |
| Preference Dividend        | 73            | 73            | 73            | 73            | 73            | 73            | 73            | 73            | 291            | 291            |
| <b>Adjusted PAT</b>        | <b>4,386</b>  | <b>5,785</b>  | <b>421</b>    | <b>241</b>    | <b>968</b>    | <b>4,443</b>  | <b>3,530</b>  | <b>5,599</b>  | <b>10,833</b>  | <b>14,540</b>  |
| Change (YoY %)             | 14.8          | 22.0          | -87.6         | -94.1         | -77.9         | -23.2         | 739.3         | 2,222.9       | -30.6          | 34.2           |

E: MOSL Estimates

Sanjay Jain (SanjayJain@MotilalOswal.com)/Tushar Chaudhari (Tushar.Chaudhari@MotilalOswal.com)

## Nalco

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | NACL IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | NALU.BO      |

29 December 2009

Sell

Rs390

Previous Recommendation: Sell

|                     |            |
|---------------------|------------|
| Equity Shares (m)   | 644.3      |
| 52 Week Range (Rs)  | 408 / 172  |
| 1,6,12 Rel Perf (%) | 1 / 7 / 31 |
| Mcap (Rs b)         | 251.5      |
| Mcap (USD b)        | 5.4        |

| YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 3/09A       | 50,945              | 12,610        | 19.6        | -23.5             | 19.9       | 2.6         | 12.9       | 13.6        | 4.2          | 12.7          |
| 3/10E       | 48,329              | 10,409        | 16.2        | -17.5             | 24.2       | 2.4         | 9.8        | 9.3         | 4.5          | 16.2          |
| 3/11E       | 65,751              | 16,952        | 26.3        | 62.9              | 14.8       | 2.1         | 14.2       | 16.0        | 3.0          | 8.1           |
| 3/12E       | 64,045              | 16,422        | 25.5        | -3.1              | 15.3       | 1.9         | 12.5       | 13.1        | 2.9          | 8.1           |

Standalone

- **Revenue to grow 28% YoY:** Net sales is expected to grow 28% YoY to Rs13.3b due to higher metal as well as alumina prices. We expect metal production to increase by 25% YoY to 109,000tons. LME aluminum prices are hovering 7% higher YoY (9% QoQ) at US\$2,010.
- **EBITDA to almost double:** EBITDA is expected to increase 94% YoY to Rs5.2b due to higher alumina and aluminum prices. Energy costs should fall sequentially as coal supply disruptions and moisture had inflated costs in 2QFY10.
- **Refinery expansion delayed, slow execution on other greenfield projects:** Nalco's remaining 50 pots (in the planned smelter expansion) are expected to be operational by end-3QFY10. This will increase aluminum production by 17% in FY10 and a further 7% in FY11 to 460,000tons. Nalco is working on several greenfield projects in India and abroad. However it will take significant time for these projects to contribute to earnings.

## QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

| Y/E MARCH                   | FY09          |               |               |               | FY10         |               |               |               | FY09          | FY10E         |
|-----------------------------|---------------|---------------|---------------|---------------|--------------|---------------|---------------|---------------|---------------|---------------|
|                             | 1Q            | 2Q            | 3Q            | 4Q            | 1Q           | 2Q            | 3QE           | 4QE           |               |               |
| <b>Net Sales</b>            | <b>14,675</b> | <b>15,364</b> | <b>10,360</b> | <b>11,257</b> | <b>9,353</b> | <b>11,791</b> | <b>13,300</b> | <b>13,884</b> | <b>51,655</b> | <b>48,329</b> |
| Change (YoY %)              | 25.9          | 17.4          | -6.6          | -19.9         | -36.3        | -23.3         | 28.4          | 23.3          | 3.6           | -6.4          |
| Total Expenditure           | 7,307         | 8,957         | 7,704         | 10,301        | 7,679        | 10,374        | 8,147         | 8,785         | 34,268        | 34,985        |
| <b>EBITDA</b>               | <b>7,368</b>  | <b>6,408</b>  | <b>2,655</b>  | <b>956</b>    | <b>1,674</b> | <b>1,417</b>  | <b>5,153</b>  | <b>5,100</b>  | <b>17,387</b> | <b>13,343</b> |
| Change (YoY %)              | 19.5          | 12.7          | -39.7         | -84.1         | -77.3        | -80.8         | -19.6         | 92.0          | -22.0         | -23.3         |
| As % of Net Sales           | 50.2          | 41.7          | 25.6          | 8.5           | 17.9         | 12.0          | 38.7          | 36.7          | 33.7          | 27.6          |
| Interest                    | 4             | 1             | 6             | 29            | 11           | 8             | 0             | 0             | 40            | 19            |
| Depreciation                | 679           | 696           | 642           | 713           | 756          | 764           | 801           | 645           | 2,730         | 2,967         |
| Other Income                | 1,262         | 1,181         | 1,133         | 1,078         | 1,012        | 1,402         | 1,240         | 1,305         | 4,654         | 4,958         |
| <b>PBT (before EO Item)</b> | <b>7,948</b>  | <b>6,892</b>  | <b>3,140</b>  | <b>1,292</b>  | <b>1,918</b> | <b>2,046</b>  | <b>5,591</b>  | <b>5,760</b>  | <b>19,272</b> | <b>15,316</b> |
| Extra-ordinary Income       | 0             | 0             | 0             | 0             | 0            | 0             | 0             | 0             | 170           | 0             |
| <b>PBT (after EO Item)</b>  | <b>7,948</b>  | <b>6,892</b>  | <b>3,140</b>  | <b>1,292</b>  | <b>1,918</b> | <b>2,046</b>  | <b>5,591</b>  | <b>5,760</b>  | <b>19,442</b> | <b>15,316</b> |
| Total Tax                   | 2,694         | 2,447         | 946           | 462           | 654          | 451           | 1,901         | 1,901         | 6,549         | 4,907         |
| % Tax                       | 33.9          | 35.5          | 30.1          | 35.7          | 34.1         | 22.1          | 34.0          | 33.0          | 33.7          | 32.0          |
| <b>Reported PAT</b>         | <b>5,253</b>  | <b>4,445</b>  | <b>2,195</b>  | <b>830</b>    | <b>1,265</b> | <b>1,595</b>  | <b>3,690</b>  | <b>3,859</b>  | <b>12,893</b> | <b>10,409</b> |
| <b>Adjusted PAT</b>         | <b>5,253</b>  | <b>4,445</b>  | <b>2,195</b>  | <b>830</b>    | <b>1,265</b> | <b>1,595</b>  | <b>3,690</b>  | <b>3,859</b>  | <b>12,780</b> | <b>10,409</b> |
| Change (YoY %)              | 17.6          | 1.1           | -33.4         | -80.8         | -75.9        | -64.1         | 68.1          | 364.8         | -22.7         | -18.6         |
| Avg LME Aluminium (USD/T)   | 2,995         | 2,839         | 1,885         | 1,401         | 1,530        | 1,836         | 2,010         | 2,000         | 2,280         | 1,833         |

E: MOSL Estimates



## Sterlite Industries

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | STLT IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | STRL.BO      |

29 December 2009

Buy

Rs860

Previous Recommendation: Buy

|                     |               |
|---------------------|---------------|
| Equity Shares (m)   | 840.2         |
| 52 Week Range (Rs)  | 902 / 234     |
| 1,6,12 Rel Perf (%) | -3 / 15 / 157 |
| Mcap (Rs b)         | 722.2         |
| Mcap (USD b)        | 15.5          |

| YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 3/09A       | 211,442             | 34,847        | 49.2        | -19.9             | 17.5       | 2.4         | 13.7       | 9.2         | 2.8          | 16.9          |
| 3/10E       | 233,385             | 40,242        | 47.9        | -2.6              | 17.9       | 1.9         | 10.8       | 8.0         | 2.8          | 14.0          |
| 3/11E       | 278,237             | 60,397        | 72.4        | 51.1              | 11.9       | 1.7         | 14.2       | 12.2        | 2.2          | 8.4           |
| 3/12E       | 328,473             | 87,157        | 104.2       | 44.0              | 8.2        | 1.4         | 17.1       | 14.7        | 1.7          | 5.3           |

Consolidated

- **Higher metal prices to boost top line:** Net sales are expected to grow 38% YoY to Rs62.8b due to higher metal prices and volumes. Refined zinc production is expected to increase due to ramp up of capacities and aluminum production will remain flat YoY after a cut in production of Balco-I plant in 3QFY09.
- **EBITDA to almost triple YoY:** EBITDA is expected to post robust 192% YoY growth due to higher metal prices and higher realizations in zinc. Lower aluminum production due to the shutting of Balco's old smelter will be offset by earnings from power sales. Margins will expand by 1,380bp, mainly on higher metal realizations.
- **Bottom line to grow 141%:** Profit after tax is expected to increase 141% YoY to Rs11.6b helped by better performance from Hindustan Zinc.
- **Outlook remains positive:** We expect earnings to grow significantly in 2HFY10 due to stronger metal prices and start of Sterlite Energy's first 600MW unit by end 4QFY10.

## QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

| Y/E MARCH                   | FY09          |               |               |               | FY10          |               |               |               | FY09           | FY10E          |
|-----------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|
|                             | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3QE           | 4QE           |                |                |
| <b>Net Sales</b>            | <b>57,701</b> | <b>68,110</b> | <b>45,362</b> | <b>44,060</b> | <b>45,789</b> | <b>61,291</b> | <b>62,763</b> | <b>63,543</b> | <b>215,233</b> | <b>233,385</b> |
| Change (YoY %)              | -6.0          | 3.0           | -14.2         | -35.5         | -20.6         | -10.0         | 38.4          | 44.2          | -13.5          | 8.4            |
| Total Expenditure           | 39,435        | 49,588        | 39,709        | 35,669        | 35,580        | 47,637        | 46,280        | 46,896        | 164,401        | 176,392        |
| <b>EBITDA</b>               | <b>18,266</b> | <b>18,522</b> | <b>5,653</b>  | <b>8,392</b>  | <b>10,209</b> | <b>13,654</b> | <b>16,483</b> | <b>16,648</b> | <b>50,832</b>  | <b>56,993</b>  |
| Change (YoY %)              | -15.3         | -7.9          | -65.2         | -62.6         | -44.1         | -26.3         | 191.6         | 98.4          | -36.7          | 12.1           |
| As % of Net Sales           | 31.7          | 27.2          | 12.5          | 19.0          | 22.3          | 22.3          | 26.3          | 26.2          | 23.6           | 24.4           |
| Interest                    | 874           | 581           | 1,220         | 1,312         | 712           | 576           | 634           | 675           | 3,986          | 2,597          |
| Depreciation                | 1,655         | 1,667         | 1,654         | 2,032         | 1,736         | 1,734         | 1,751         | 1,783         | 7,007          | 7,005          |
| Other Income                | 4,024         | 3,948         | 5,852         | 3,940         | 3,783         | 3,887         | 4,471         | 4,918         | 17,764         | 17,059         |
| <b>PBT (before XO Item)</b> | <b>19,761</b> | <b>20,224</b> | <b>8,632</b>  | <b>8,988</b>  | <b>11,544</b> | <b>15,231</b> | <b>18,568</b> | <b>19,107</b> | <b>57,604</b>  | <b>64,450</b>  |
| Extra-ordinary Exp.         | 0             | -100          | 283           | 2,076         | 0             | -234          | 0             | 0             | 2,258          | -234           |
| <b>PBT (after XO Item)</b>  | <b>19,761</b> | <b>20,124</b> | <b>8,914</b>  | <b>11,063</b> | <b>11,544</b> | <b>14,997</b> | <b>18,568</b> | <b>19,107</b> | <b>59,862</b>  | <b>64,216</b>  |
| Total Tax                   | 3,808         | 2,916         | 1,591         | 1,941         | 2,305         | 2,593         | 3,528         | 3,630         | 10,255         | 12,057         |
| % Tax                       | 19.3          | 14.5          | 17.8          | 17.5          | 20.0          | 17.3          | 19.0          | 19.0          | 17.1           | 18.8           |
| <b>Reported PAT</b>         | <b>15,953</b> | <b>17,208</b> | <b>7,323</b>  | <b>9,122</b>  | <b>9,239</b>  | <b>12,403</b> | <b>15,040</b> | <b>15,477</b> | <b>49,607</b>  | <b>52,159</b>  |
| Minority interest           | 4,470         | 4,425         | 1,720         | 2,057         | 3,219         | 3,677         | 4,221         | 4,329         | 12,671         | 15,446         |
| Loss/(profit) of Associates | -27           | 14            | 466           | 1,082         | -707          | -863          | -863          | -863          | 1,536          | -3,295         |
| <b>Adjusted PAT</b>         | <b>11,510</b> | <b>12,869</b> | <b>4,855</b>  | <b>3,907</b>  | <b>6,727</b>  | <b>9,823</b>  | <b>11,682</b> | <b>12,011</b> | <b>33,141</b>  | <b>40,242</b>  |
| Change (YoY %)              | 0.7           | 18.9          | -43.2         | -71.5         | -41.6         | -23.7         | 140.6         | 207.4         | -24.0          | 21.4           |
| Avg LME Aluminium (USD/T)   | 2,995         | 2,839         | 1,885         | 1,401         | 1,530         | 1,836         | 2,010         | 2,000         | 2,280          | 1,833          |
| Avg LME Copper (USD/T)      | 8,323         | 7,571         | 3,948         | 3,494         | 4,708         | 5,856         | 6,623         | 6,000         | 5,834          | 5,800          |
| Avg LME Zinc (USD/T)        | 2,150         | 1,798         | 1,219         | 1,208         | 1,509         | 1,780         | 2,208         | 2,200         | 1,594          | 1,922          |

E: MOSL Estimates

Sanjay Jain (SanjayJain@MotilalOswal.com)/Tushar Chaudhari (Tushar.Chaudhari@MotilalOswal.com)

## Steel Authority of India

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | SAIL IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | SAIL.BO      |

|                     |               |
|---------------------|---------------|
| Equity Shares (m)   | 4,130.4       |
| 52 Week Range (Rs)  | 241 / 69      |
| 1,6,12 Rel Perf (%) | 18 / 33 / 124 |
| Mcap (Rs b)         | 984.1         |
| Mcap (USD b)        | 21.1          |

29 December 2009

Sell

Rs238

Previous Recommendation: Sell

| YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 3/09A       | 437,545             | 62,369        | 15.1        | -26.3             | 15.8       | 3.5         | 22.0       | 25.5        | 1.8          | 9.0           |
| 3/10E       | 381,129             | 59,677        | 14.4        | -4.3              | 16.5       | 3.0         | 18.1       | 21.9        | 2.2          | 9.4           |
| 3/11E       | 416,700             | 67,271        | 16.3        | 12.7              | 14.6       | 2.6         | 17.5       | 21.6        | 2.3          | 9.1           |
| 3/12E       | 455,394             | 63,343        | 15.3        | -5.8              | 15.5       | 2.3         | 14.6       | 18.5        | 2.3          | 9.5           |

Consolidated

- **Flat growth in volumes:** Net sales are expected to decline 7% YoY to Rs82.8b due to lower prices and subdued volumes. SAIL had undertaken price cuts in long products in October and November to align its prices with global steel prices and to compete with rising cheaper imports. We expect sales volumes to grow 4.2% YoY to 2.5mt.
- **Margins to improve in 3Q due to operating leverage:** We expect EBITDA per ton to improve YoY by Rs2,800 on the back of higher steel prices and lower input costs such as coking coal.
- **Higher employee cost:** We have factored in staff costs of Rs15.4b in 3Q which will be 37% higher than in 2Q, as the company had not made any provisions in 2Q.
- **Valuations are demanding:** SAIL accumulated large inventories during the quarter due to poor sales in October and November. Strong recovery of steel prices recently, if sustained, will drive earnings in the subsequent quarter. Valuations, however, are demanding.

## QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

| Y/E MARCH                  | FY09           |                |               |                | FY10          |                |               |                | FY09           | FY10E          |
|----------------------------|----------------|----------------|---------------|----------------|---------------|----------------|---------------|----------------|----------------|----------------|
|                            | 1Q             | 2Q             | 3Q            | 4Q             | 1Q            | 2Q             | 3QE           | 4QE            |                |                |
| Sales (m tons)             | 2.65           | 2.65           | 2.40          | 3.60           | 2.79          | 3.03           | 2.50          | 3.20           | 11.30          | 11.52          |
| Change (YoY %)             | 4.7            | -11.7          | -20.3         | -5.3           | 5.3           | 14.3           | 4.2           | -11.1          | -8.4           | 1.9            |
| Realization (Rs per ton)   | 41,621         | 46,183         | 37,169        | 33,494         | 32,806        | 33,132         | 33,132        | 33,132         | 39,156         | 33,053         |
| Change (YoY %)             | 31.0           | 51.2           | 17.4          | -5.6           | -21.2         | -28.3          | -10.9         | -1.1           | 20.2           | -15.6          |
| <b>Net Sales</b>           | <b>110,294</b> | <b>122,386</b> | <b>89,206</b> | <b>120,578</b> | <b>91,528</b> | <b>100,391</b> | <b>82,830</b> | <b>106,023</b> | <b>442,465</b> | <b>380,772</b> |
| Change (%)                 | 37.2           | 33.6           | -6.4          | -10.5          | -17.0         | -18.0          | -7.1          | -12.1          | 10.0           | -13.9          |
| <b>EBITDA</b>              | <b>31,236</b>  | <b>30,115</b>  | <b>11,287</b> | <b>21,097</b>  | <b>18,756</b> | <b>23,884</b>  | <b>18,680</b> | <b>26,009</b>  | <b>93,735</b>  | <b>87,329</b>  |
| Change (YoY %)             | 26.8           | 11.1           | -63.2         | -55.4          | -40.0         | -20.7          | 65.5          | 23.3           | -27.7          | -6.8           |
| As % of Net Sales          | 28.3           | 24.6           | 12.7          | 17.5           | 20.5          | 23.8           | 22.6          | 24.5           | 21.2           | 22.9           |
| EBITDA per ton             | 11,787         | 11,364         | 4,703         | 5,860          | 6,723         | 7,882          | 7,472         | 8,128          | 8,295          | 7,581          |
| Interest                   | 568            | 475            | 1,078         | 412            | 828           | 735            | 729           | 747            | 2,532          | 3,039          |
| Depreciation               | 3,165          | 3,194          | 3,194         | 3,298          | 3,269         | 3,322          | 3,239         | 3,664          | 12,851         | 13,494         |
| Other Income               | 3,926          | 4,224          | 5,550         | 5,323          | 5,400         | 5,362          | 4,290         | 3,432          | 19,023         | 18,484         |
| <b>PBT (after EO Inc.)</b> | <b>31,428</b>  | <b>30,670</b>  | <b>12,566</b> | <b>22,870</b>  | <b>20,059</b> | <b>25,189</b>  | <b>19,002</b> | <b>25,030</b>  | <b>97,534</b>  | <b>89,280</b>  |
| Total Tax                  | 9,577          | 10,574         | 4,132         | 8,004          | 6,798         | 8,554          | 6,461         | 8,510          | 32,286         | 30,323         |
| % Tax                      | 30.5           | 34.5           | 32.9          | 35.0           | 33.9          | 34.0           | 34.0          | 34.0           | 33.1           | 34.0           |
| <b>Reported PAT</b>        | <b>21,852</b>  | <b>20,096</b>  | <b>8,433</b>  | <b>14,867</b>  | <b>13,261</b> | <b>16,635</b>  | <b>12,542</b> | <b>16,520</b>  | <b>65,248</b>  | <b>58,957</b>  |
| <b>Adjusted PAT</b>        | <b>21,025</b>  | <b>20,517</b>  | <b>8,406</b>  | <b>15,193</b>  | <b>13,246</b> | <b>16,634</b>  | <b>12,548</b> | <b>16,529</b>  | <b>65,141</b>  | <b>58,957</b>  |
| Change (YoY %)             | 33.9           | 17.7           | -57.4         | -51.2          | -37.0         | -18.9          | 49.3          | 8.8            | -22.5          | -9.5           |

E: MOSL Estimates

## Tata Steel

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | TATA IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | TISC.BO      |

29 December 2009

Neutral

Rs622

Previous Recommendation: Neutral

|                     |              |
|---------------------|--------------|
| Equity Shares (m)   | 887.4        |
| 52 Week Range (Rs)  | 628 / 149    |
| 1,6,12 Rel Perf (%) | 5 / 39 / 107 |
| Mcap (Rs b)         | 552.0        |
| Mcap (USD b)        | 11.8         |

| YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 3/09A       | 1,473,293           | 90,454        | 101.9       | 16.9              | 6.1        | 4.7         | 76.7       | 15.3        | 0.7          | 5.8           |
| 3/10E       | 1,092,109           | -25,535       | -28.8       | -128.2            | -21.6      | 6.2         | -28.8      | 2.2         | 1.0          | 16.8          |
| 3/11E       | 1,262,822           | 53,319        | 60.1        | N.A.              | 10.4       | 4.4         | 42.9       | 10.9        | 0.9          | 7.5           |
| 3/12E       | 1,341,700           | 78,948        | 89.0        | 48.1              | 7.0        | 3.0         | 42.5       | 14.2        | 0.8          | 5.4           |

Consolidated

- **Stand-alone:** Net revenue is expected to increase 20% YoY to Rs57.6b on 35% growth in volumes. Sales during October and November remained sluggish (960,000tons) due to subdued prices. Steel prices started moving upwards in the first half of December due to surging scrap and sponge iron prices. We expect average realization to grow by 3% sequentially and expect significant reduction in raw material costs, thus helping earnings to grow YoY by 84% to Rs10.9b.
- **Corus:** Corus margins are expected to improve sequentially due to improvement in both, steel demand as well as production from 3.96m tons in 2QFY10 to 4m tons in 3QFY10. However, mothballing of Teesside plant will require one time restructuring costs. We expect Corus to turn EBITDA positive from losses of Rs18b in 2Q.
- **Maintain Neutral:** Tata Steel's Indian operations will deliver strong earnings growth due to volume growth and margin expansion on account of rising steel prices. Maintain **Neutral**.

## QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

| Y/E MARCH               | FY09    |         |         |         | FY10    |         |         |         | FY09      | FY10E     |
|-------------------------|---------|---------|---------|---------|---------|---------|---------|---------|-----------|-----------|
| Standalone Financials   | 1Q      | 2Q      | 3Q      | 4Q      | 1Q      | 2Q      | 3QE     | 4QE     |           |           |
| Sales ('000 tons)       | 1,159   | 1,220   | 1,072   | 1,791   | 1,418   | 1,457   | 1,450   | 1,732   | 5,242     | 6,057     |
| Change (YoY %)          | 11.4    | 0.1     | -13.8   | 40.0    | 22.3    | 19.4    | 35.3    | -3.3    | 9.6       | 15.5      |
| Realization (Rs/tss)    | 45,737  | 48,286  | 41,666  | 33,537  | 36,717  | 35,652  | 36,755  | 35,951  | 40,688    | 36,420    |
| Change (YoY %)          | 24.7    | 36.9    | 18.4    | -14.4   | -19.7   | -26.2   | -11.8   | 7.2     | 11.2      | -10.5     |
| Net Sales               | 61,650  | 68,507  | 48,021  | 65,004  | 56,156  | 56,921  | 57,635  | 66,613  | 243,183   | 237,324   |
| Change (YoY %)          | 46.9    | 43.2    | -3.5    | 13.3    | -8.9    | -16.9   | 20.0    | 2.5     | 23.5      | -2.4      |
| EBITDA                  | 30,246  | 31,830  | 14,780  | 14,504  | 17,422  | 19,222  | 22,160  | 24,411  | 91,359    | 83,216    |
| Change (YoY %)          | 78.0    | 57.1    | -29.5   | -39.6   | -42.4   | -39.6   | 49.9    | 68.3    | 11.1      | -8.9      |
| (% of Net Sales)        | 49.1    | 46.5    | 30.8    | 22.3    | 31.0    | 33.8    | 38.4    | 36.6    | 37.6      | 35.1      |
| EBITDA(Rs/tss)          | 21,918  | 21,482  | 12,401  | 7,757   | 12,135  | 12,664  | 14,711  | 13,614  | 15,107    | 13,372    |
| Interest                | 2,417   | 2,548   | 3,482   | 3,079   | 3,422   | 3,920   | 3,920   | 3,920   | 11,527    | 15,182    |
| Depreciation            | 2,168   | 2,488   | 2,513   | 2,565   | 2,532   | 2,564   | 2,596   | 2,513   | 9,734     | 10,204    |
| Other Income            | 122     | 2,384   | 85      | 467     | 463     | 761     | 756     | 756     | 3,058     | 2,737     |
| PBT (after EO Inc.)     | 22,749  | 25,723  | 7,601   | 17,084  | 11,932  | 13,499  | 16,401  | 18,735  | 73,156    | 60,567    |
| Total Tax               | 7,865   | 7,845   | 2,939   | 2,491   | 4,034   | 4,470   | 5,511   | 6,295   | 21,139    | 20,309    |
| % Tax                   | 34.6    | 30.5    | 38.7    | 14.6    | 33.8    | 33.1    | 33.6    | 33.6    | 28.9      | 33.5      |
| Reported PAT            | 14,884  | 17,878  | 4,662   | 14,593  | 7,898   | 9,029   | 10,890  | 12,440  | 52,017    | 40,258    |
| Adjusted PAT            | 17,918  | 21,332  | 5,930   | 6,836   | 7,898   | 9,029   | 10,890  | 12,440  | 52,017    | 40,258    |
| Change (YoY %)          | 79.5    | 82.7    | -45.1   | -47.4   | -55.9   | -57.7   | 83.6    | 82.0    | 16.5      | -22.6     |
| Consolidated Financials |         |         |         |         |         |         |         |         |           |           |
| Net Sales               | 435,083 | 441,990 | 331,910 | 264,147 | 232,923 | 253,950 | 293,928 | 311,308 | 1,473,293 | 1,092,109 |
| EBITDA                  | 69,876  | 82,497  | 28,574  | 385     | -299    | 3,718   | 25,898  | 35,645  | 181,277   | 64,962    |
| Adjusted PAT            | 42,633  | 51,452  | 9,782   | -13,258 | -19,899 | -17,959 | 1,703   | 10,749  | 90,454    | -25,535   |

E: MOSL Estimates; tss=ton of steel sales

Sanjay Jain (SanjayJain@MotilalOswal.com)/Tushar Chaudhari (Tushar.Chaudhari@MotilalOswal.com)

## Oil &amp; Gas

BSE Sensex: 17,402

S&amp;P CNX: 5,188

29 December 2009

## COMPANY NAME

|                        |  |
|------------------------|--|
| BPCL                   | <b>Oil demand rebounds; OPEC spare capacity 55%, higher than 10 year average:</b><br>After a loss of ~3.2mmbbl/d from its peak in July 2008, oil demand rebounded in September-October 2009. Despite subdued demand dynamics, oil prices in the past 12 months increased 130% from their lows to US\$81/bbl in 3QFY10, led by a decline in the value of the US dollar and strong hopes of economic recovery, in our view. The IEA expects 2010 oil demand to increase by 1.5mmbbl/d over to 86.3mmbbl/d. However, we rule out a further oil price spike in the near term as OPEC spare capacity of 4.4bbl/d is 55%, higher than the 10-year average. |
| Cairn India            |  |
| Chennai Petroleum      |  |
| GAIL                   |  |
| Gujarat State Petronet | <b>Singapore GRMs at 8-year low; seems to have bottomed out:</b> Reuters' Singapore GRM averaged US\$1.9/bbl in 3QFY10 (v/s US\$3.2/bbl in 2QFY10 and US\$3.6/bbl in 3QFY09). However, with utilization levels at historical lows, we believe GRMs have bottomed out and we expect them to improve henceforth, led by increased refinery closures and expected pick-up in product demand. Over the medium term, we expect refining margins to be subdued, but higher than the 3QFY10 average.  |
| HPCL                   |  |
| IOC                    |  |
| Indraprastha Gas       |  |
| MRPL                   | <b>Petchem margins suppressed owing to increased supply from the Middle East:</b> Polymer and polyester prices have decreased by 2-3% QoQ and led by higher naphtha price increase, polymer margins are down 8-17% and polyester margins are down 6%. Recently commissioned crackers (>2mmtpa) in the Middle East and China have increased the availability of petchem products, impacting pricing power. The margin decline over Naphtha is due to increase in oil prices leading to Naphtha price hike and increased supply from ME preventing domestic players to raise prices substantially.   |
| ONGC                   |  |
| Reliance Industries    |  |

## EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

|                         | CMP (RS) | RECO    | SALES            |             |             | EBITDA         |              |             | NET PROFIT     |              |             |
|-------------------------|----------|---------|------------------|-------------|-------------|----------------|--------------|-------------|----------------|--------------|-------------|
|                         |          |         | DEC.09           | VAR.        | VAR.        | DEC.09         | VAR.         | VAR.        | DEC.09         | VAR.         | VAR.        |
|                         |          |         |                  |             |             |                |              |             |                |              |             |
|                         | 29.12.09 |         |                  | % YOY       | % QOQ       |                | % YOY        | % QOQ       |                | % YOY        | % QOQ       |
| <b>Oil &amp; Gas</b>    |          |         |                  |             |             |                |              |             |                |              |             |
| BPCL                    | 614      | Buy     | 318,324          | -0.2        | 17.6        | 24,634         | 62.0         | LP          | 14,008         | 75.1         | LP          |
| Cairn India             | 282      | Buy     | 4,621            | 119.2       | 101.1       | 3,086          | 224.9        | 131.6       | 783            | -66.9        | -58.2       |
| Chennai Petroleum       | 221      | Buy     | 73,378           | 30.6        | 4.9         | 573            | LP           | -82.2       | -342           | -            | PL          |
| GAIL                    | 418      | Buy     | 64,877           | 11.6        | 4.6         | 11,253         | 323.0        | 10.6        | 7,336          | 189.5        | 2.9         |
| Gujarat State Petronet  | 98       | Buy     | 2,912            | 148.0       | 14.3        | 2,765          | 172.0        | 13.2        | 1,232          | 345.9        | 12.0        |
| HPCL                    | 387      | Buy     | 296,067          | 0.8         | 21.1        | 23,678         | 402.2        | LP          | 13,449         | LP           | LP          |
| Indraprastha Gas        | 197      | Neutral | 2,890            | 31.7        | 5.8         | 1,085          | 60.1         | 8.6         | 584            | 52.5         | 3.0         |
| IOC                     | 309      | Buy     | 740,058          | 5.2         | 21.8        | 68,184         | 111.9        | 1,480.6     | 41,570         | 40.5         | 1,361.7     |
| MRPL                    | 79       | Sell    | 84,615           | 12.3        | 7.6         | 1,617          | LP           | -52.1       | 592            | LP           | -67.1       |
| ONGC                    | 1,186    | Neutral | 153,680          | 23.6        | 1.9         | 86,903         | 73.8         | 0.1         | 48,122         | 94.4         | -5.5        |
| Reliance Inds.          | 1,078    | Buy     | 502,606          | 59.2        | 7.3         | 76,199         | 42.1         | 5.6         | 41,333         | 18.1         | 7.3         |
| <b>Sector Aggregate</b> |          |         | <b>2,244,028</b> | <b>15.0</b> | <b>14.5</b> | <b>299,977</b> | <b>115.1</b> | <b>63.3</b> | <b>168,667</b> | <b>100.2</b> | <b>63.2</b> |

**We build oil bonds for 9mFY10 in 3QFY10, but non-issuance could cause OMCs to post losses:** The government indicated in July 2009 that upstream companies will share 100% of auto fuel losses in 1HFY10. However oil bonds have yet to be issued towards cooking fuel losses. Rationalization in subsidy sharing is expected after the implementation of the recommendations by an expert group. (Report expected in January 2010) Media reports indicate that petroleum ministry asked the government to issue oil bonds towards 9mFY10. We have built this in our estimates but non-issuance could result in OMCs posting losses.

**Valuation and view:** Policy overhang continues to impact the stock performance of oil PSUs. RIL's stock performance is impacted by news flow on its court case with RNRL/ NTPC and its bid to acquire LyondellBasell, rather than its business fundamentals. We like GAIL because (1) it has strong earnings visibility through FY14, and (2) it should now get utilities company multiples (>70% profit from annuity like gas transmission business).

### Oil averaged US\$75/bbl, highest in the past 5 quarters; Singapore complex GRM slides to US\$1.5/bbl

#### YoY comparison (v/s 3QFY09)

- The average 3QFY10 Brent price was up 34% at US\$75/bbl v/s US\$56/bbl; Dubai crude was up 41 % at US\$76/bbl v/s US\$54/bbl.
- Benchmark Singapore complex average 3QFY10 refining margins down 56%, ~US\$1.6/bbl (v/s US\$3.6/bbl).
- Both polymers and polyesters margins were down in rupee terms.

**Polymers margins:** PE down 4%; PP down 18%.

**Polyester intermediates margins:** PTA down 11%, MEG down 15%.

**Integrated polyesters margins down:** POY down 15%, PSF down 17%.

#### QoQ comparison (v/s 2QFY10)

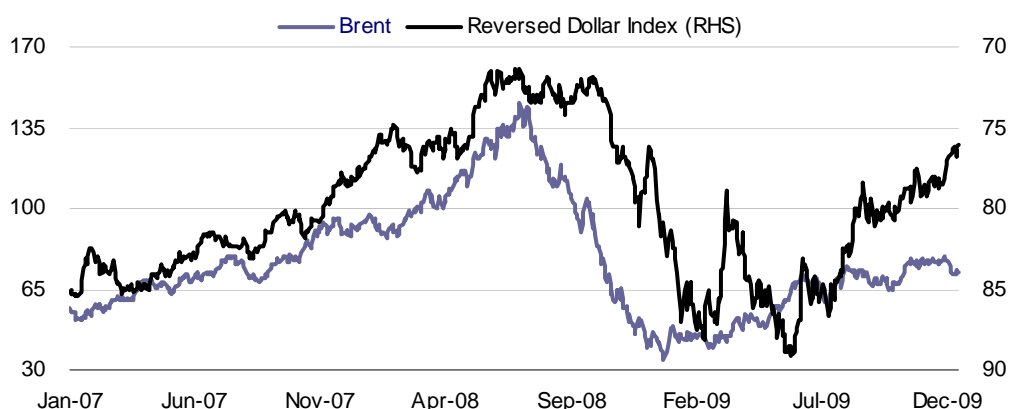
- Average 3QFY10 Brent and Dubai was up 9-11% from ~US\$68/bbl.
- Singapore complex margins were down 49% from US\$3.2/bbl in 2QFY10.
- Polymer and petchem margins are down substantially.

**Polymers:** PE and PP are down by 8-11%.

**Polyester intermediates:** PTA is down 14%, MEG up 10%.

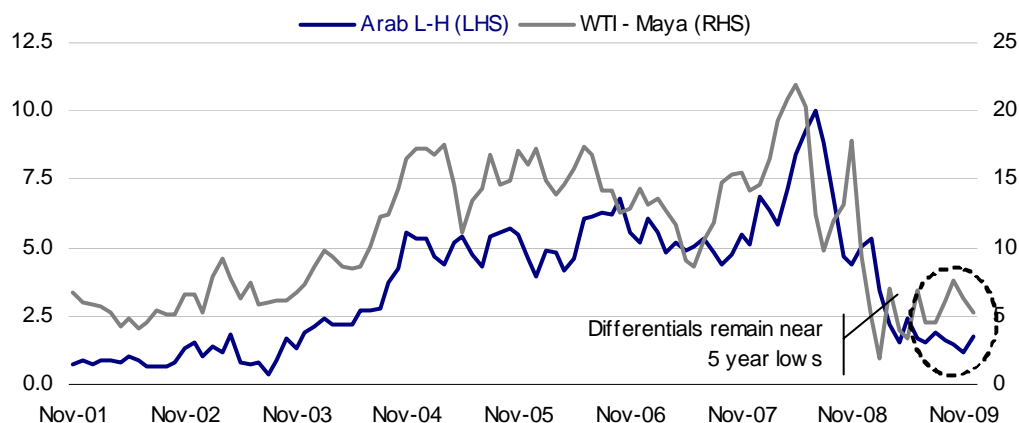
**Integrated polyesters:** POY and PSF are down by 7%

RECENT OIL PRICE TREND SHOWED HIGH CORRELATION WITH DOLLAR INDEX



Source: Bloomberg/MOSL

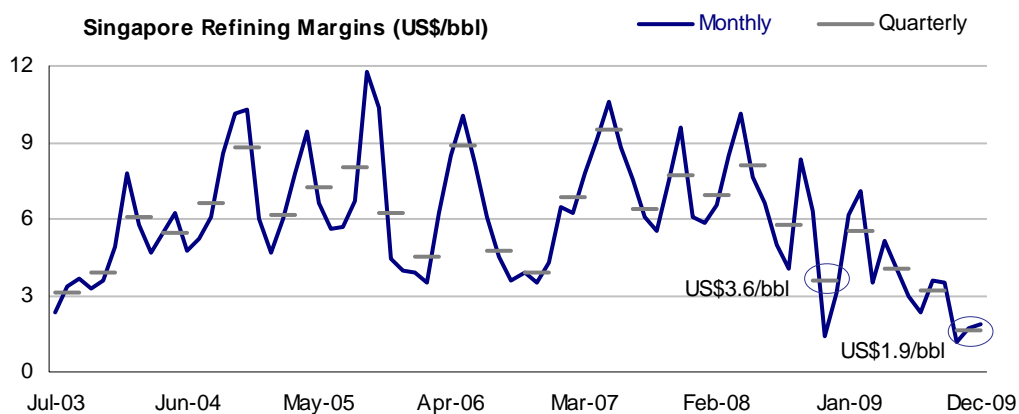
## CRUDE DIFFERENTIAL REMAINS AT HISTORICAL LOWS



Source: Bloomberg/MOSL

Lower Light-Heavy crude differentials affect premiums of complex refiners over simple refiners

## SINGAPORE GRM LOWEST IN 8 YEARS



Source: Bloomberg/Reuters/MOSL

GRMs seems to have hit bottom; expect increase led by closures and demand increase

## 3QFY10 GRM unsustainable, might rise in short term

Of the world refining capacity of 88.6mmbbl/d (2008), almost 1.6mmbbl/d (2%) have shut down and more shut downs are expected. However, new refining capacity of an equal amount (~1.6mmbbl/d) was commissioned in 2009, negating the effect of recent closures. Besides, additional capacity of ~1mmbbl/d a year is expected to be added through 2014. However, given the difficult economics of operating refineries in the US and Europe, we expect more closures and capacity utilization to improve. We believe current refining

## RECENTLY ANNOUNCED CLOSURES

| COMPANY      | LOCATION            | CAPACITY (KBPD) |
|--------------|---------------------|-----------------|
| Valero       | Delaware, US        | 210             |
| Petroplus    | Teeside, UK         | 117             |
| Valero       | Aruba               | 275             |
| Sunoco       | Eagle Point, US     | 150             |
| Total        | Gonfreville, France | 100             |
| Total        | Normandy, France    | 331             |
| Total        | Dunkirk, France*    | 137             |
| Repsol       | Petronor, Spain     | 220             |
| Big West Oil | Bakerfield, US      | 68              |
| <b>Total</b> |                     | <b>1,608</b>    |

\* could restart if economics improve

Source: Industry/MOSL



margins are unsustainable and will rise in the near term by US\$1-1.5/bbl, led by recent closures.

### Expect margin pressure on petchem in coming months

Pressure on petchem margins is imminent due to new capacities in the Middle East (ME) and China. Though these capacities have been delayed for past 6-9 months, we believe they might raise supplies substantially in 2010 and will put pressure on global petchem prices.

Though domestic players are protected to some extent due to (1) freight cost advantage, and (2) India's duty structure, we believe the ME supplies will eventually impact their margins.

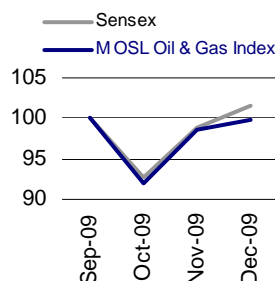
Petchem spreads are down QoQ as well as YoY

KEY PRODUCT SPREADS (RS/KG)

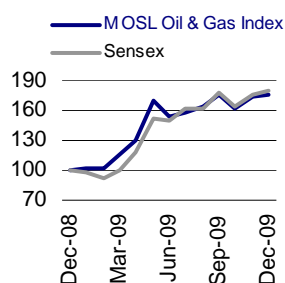
|                | 3QFY10 | 2QFY10 | QOQ CH (%) | 3QFY09 | YOY CH (%) |
|----------------|--------|--------|------------|--------|------------|
| PE             | 39.7   | 43.3   | -8.3       | 41.4   | -4.0       |
| PP             | 34.4   | 38.6   | -11.0      | 42.1   | -18.3      |
| PTA            | 23.9   | 27.6   | -13.5      | 26.7   | -10.5      |
| MEG            | 18.2   | 16.6   | 9.5        | 21.4   | -15.1      |
| POY integrated | 43.6   | 46.8   | -6.7       | 51.3   | -15.0      |
| PSF integrated | 40.3   | 43.0   | -6.3       | 48.5   | -16.9      |

\*PE,PP,PTA and MEG spreads over naphtha, POY & PSF spreads over PTA-MEG adjusted for consumption norms

RELATIVE PERFORMANCE - 3M (%)



RELATIVE PERFORMANCE - 1YR (%)



**FY10 underrecoveries estimated at Rs425b v/s Rs1,033b in FY09:** We estimate FY10 underrecoveries will decline by 59% to Rs425b. Our estimates factor in Brent crude price of US\$69/bbl and an exchange rate of Rs47.6/US dollar. We assume upstream will share 100% of the auto fuel subsidy (MS and HSD). As announced by the government, we assume it will share 100% of the domestic fuel subsidy (LPG and SKO). However, if the exchange rate or product cracks were to remain lower than estimated, underrecoveries could be lower than estimated.

An expert committee, set up to recommend a "viable and sustainable pricing policy" for the sector is expected to submit its report in January 2010. We expect the committee to present a viable strategy that could take care of profitability and remove the ad-hocism in subsidy sharing. Media reports indicate a new formula could be constituted, which would not come under pressure even if international crude oil prices turn volatile. We believe government will continue to bear subsidy towards LPG and kerosene and expect some pricing reforms for petrol and diesel. Thus subsidy rationalization, leading to earnings predictability, would improve the valuation multiples for the PSU oil companies in our view.

## GOVERNMENT EXPECTED TO SHARE 100% OF DOMESTIC FUEL SUBSIDY IN FY10

|                                      | FY07        | FY08        | FY09         | 1QFY10      | 2QFY10      | 3QFY10E     | 4QFY10E     | FY10E       |
|--------------------------------------|-------------|-------------|--------------|-------------|-------------|-------------|-------------|-------------|
| <b>Fx Rate (Rs/US\$)</b>             | <b>45.2</b> | <b>40.3</b> | <b>46.0</b>  | <b>48.8</b> | <b>48.5</b> | <b>46.5</b> | <b>46.5</b> | <b>47.6</b> |
| <b>Brent (US\$/bbl)</b>              | <b>64.4</b> | <b>82.3</b> | <b>84.8</b>  | <b>59.2</b> | <b>68.2</b> | <b>74.5</b> | <b>72.0</b> | <b>68.5</b> |
| <b>Product Prices (US\$/bbl)</b>     |             |             |              |             |             |             |             |             |
| Petrol                               | 73          | 91          | 87           | 62          | 74          | 77          | 77          | 72          |
| Diesel                               | 74          | 93          | 106          | 65          | 75          | 81          | 80          | 75          |
| PDS Kerosene                         | 77          | 94          | 108          | 61          | 73          | 83          | 81          | 74          |
| Domestic LPG (US\$/MT)               | 500         | 687         | 718          | 420         | 489         | 615         | 697         | 555         |
| <b>Gross Under Recoveries (Rs b)</b> |             |             |              |             |             |             |             |             |
| Auto Fuels                           | 208         | 426         | 575          | 6           | 34          | 48          | 39          | 127         |
| Domestic Fuels                       | 286         | 347         | 458          | 49          | 70          | 85          | 95          | 298         |
| <b>Total</b>                         | <b>494</b>  | <b>773</b>  | <b>1,033</b> | <b>54</b>   | <b>104</b>  | <b>133</b>  | <b>134</b>  | <b>425</b>  |
| <b>Sharing (Rs b)</b>                |             |             |              |             |             |             |             |             |
| Oil Bonds                            | 241         | 353         | 713          | -           | -           | 204         | 95          | 298         |
| Upstream                             | 205         | 257         | 329          | 6           | 34          | 48          | 39          | 127         |
| OMCs Sharing                         | 48          | 163         | (9)          | 49          | 70          | -           | -           | (0)         |
| <b>Total</b>                         | <b>494</b>  | <b>773</b>  | <b>1,033</b> | <b>54</b>   | <b>104</b>  | <b>251</b>  | <b>134</b>  | <b>425</b>  |
| <b>Sharing (%)</b>                   |             |             |              |             |             |             |             |             |
| Oil Bonds                            | 49          | 46          | 69           | -           | -           | 81          | 71          | 70          |
| Upstream                             | 42          | 33          | 32           | 10          | 33          | 19          | 29          | 30          |
| OMCs Sharing                         | 10          | 21          | (1)          | 90          | 67          | -           | -           | (0)         |
| <b>Total</b>                         | <b>100</b>  | <b>100</b>  | <b>100</b>   | <b>100</b>  | <b>100</b>  | <b>100</b>  | <b>100</b>  | <b>100</b>  |

Source: Company/MOSL

## COMPARATIVE VALUATION

|                        | CMP (RS) | RECO    | EPS (RS) |       |       | P/E (X) |       |       | EV/EBITDA |       |       | ROE (%) |       |       |
|------------------------|----------|---------|----------|-------|-------|---------|-------|-------|-----------|-------|-------|---------|-------|-------|
|                        | 29.12.09 |         | FY10E    | FY11E | FY12E | FY10E   | FY11E | FY12E | FY10E     | FY11E | FY12E | FY10E   | FY11E | FY12E |
| Oil & Gas              |          |         |          |       |       |         |       |       |           |       |       |         |       |       |
| BPCL                   | 614      | Buy     | 65.7     | 54.8  | 61.3  | 9.3     | 11.2  | 10.0  | 8.5       | 8.4   | 8.6   | 16.6    | 12.3  | 12.3  |
| Cairn India            | 282      | Buy     | 4.6      | 26.1  | 34.9  | 61.0    | 10.8  | 8.1   | 37.9      | 6.7   | 5.0   | 13.9    | 16.2  | 13.8  |
| Chennai Petroleum      | 221      | Buy     | 27.8     | 28.9  | 24.4  | 7.9     | 7.6   | 9.0   | 6.3       | 5.5   | 6.0   | 12.1    | 12.4  | 9.9   |
| GAIL                   | 418      | Buy     | 22.7     | 27.3  | 29.1  | 18.4    | 15.3  | 14.3  | 12.0      | 9.9   | 9.5   | 17.2    | 17.9  | 16.7  |
| Gujarat State Petronet | 98       | Buy     | 8.1      | 9.4   | 12.4  | 12.1    | 10.5  | 8.0   | 6.1       | 5.3   | 4.1   | 31.7    | 28.0  | 28.6  |
| HPCL                   | 387      | Buy     | 61.4     | 46.7  | 50.7  | 6.3     | 8.3   | 7.6   | 5.2       | 5.6   | 4.9   | 17.8    | 11.8  | 11.6  |
| Indraprastha Gas       | 197      | Neutral | 15.4     | 18.1  | 21.0  | 12.8    | 10.9  | 9.4   | 7.0       | 5.5   | 4.4   | 28.5    | 27.3  | 26.1  |
| IOC                    | 309      | Buy     | 39.3     | 32.4  | 38.8  | 7.9     | 9.5   | 8.0   | 6.1       | 6.2   | 5.0   | 19.0    | 13.6  | 14.5  |
| MRPL                   | 79       | Sell    | 4.5      | 4.3   | 4.7   | 17.5    | 18.2  | 16.9  | 11.6      | 11.6  | 12.4  | 15.9    | 13.7  | 13.5  |
| ONGC                   | 1,186    | Neutral | 100.5    | 118.3 | 133.3 | 11.8    | 10.0  | 8.9   | 5.2       | 4.6   | 4.0   | 21.9    | 22.2  | 21.6  |
| Reliance Inds.         | 1,078    | Buy     | 57.4     | 81.6  | 97.5  | 18.8    | 13.2  | 11.1  | 13.6      | 9.6   | 7.7   | 13.6    | 16.6  | 17.0  |
| Sector Aggregate       |          |         |          |       |       | 14.7    | 12.0  | 10.2  | 8.7       | 7.0   | 5.9   | 15.1    | 16.2  | 16.5  |

## BPCL

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE SENSEX: 17,402 | BPCL IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | BPCL.BO      |

29 December 2009

Buy

Rs614

Previous Recommendation: Buy

|                     |              |
|---------------------|--------------|
| Equity Shares (m)   | 361.5        |
| 52 Week Range (Rs)  | 648 / 329    |
| 1,6,12 Rel Perf (%) | 1 / 26 / -21 |
| Mcap (Rs b)         | 222.1        |
| Mcap (USD b)        | 4.8          |

| YEAR<br>END * | NET SALES<br>(RS B) | ADJ. PAT<br>(RS B) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|---------------|---------------------|--------------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 03/09A        | 1,366               | 6.3                | 17.5        | -58.1             | 35.0       | 1.7         | 4.8        | 5.9         | 0.3          | 13.9          |
| 03/10E        | 1,170               | 23.8               | 65.7        | 275.0             | 9.3        | 1.5         | 16.6       | 9.1         | 0.3          | 8.5           |
| 03/11E        | 1,230               | 19.8               | 54.8        | -16.6             | 11.2       | 1.3         | 12.3       | 8.7         | 0.3          | 8.4           |
| 03/12E        | 1,224               | 22.1               | 61.3        | 11.7              | 10.0       | 1.2         | 12.3       | 9.6         | 0.3          | 8.6           |

\* Consolidated

- Our estimates for 3QFY10 include oil bonds for 3QFY10 and for 1HFY10. For FY10, we build nil subsidies sharing by OMCs. However in FY11, we build 10% sharing in auto fuel underrecoveries.
- Rather than business fundamentals, actual subsidy sharing will continue to determine profitability. Our estimates take into account BPCL's full compensation through upstream sharing and oil bonds.
- We estimate BPCL to post net profit of Rs14b against loss of Rs8b in 3QFY09. On the operational front, we expect throughout at 5mmt (flat QoQ and up 4% YoY).
- During the quarter, BPCL reported a discovery during drilling of the Wahoo-2 (also called Wahoo North) appraisal-cum-exploration well in the offshore Campos Basin, Brazil.
- The stock trades at 11.2x FY11E consolidated EPS of Rs 54.8 and 1.3x FY11E BV. Maintain **Buy**.

## QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

| Y/E MARCH                    | FY09           |                |                |                | FY10           |                |                |                | FY09             | FY10E            |
|------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|------------------|------------------|
|                              | 1Q             | 2Q             | 3Q             | 4Q             | 1Q             | 2Q             | 3QE            | 4QE            |                  |                  |
| <b>Net Sales</b>             | <b>390,220</b> | <b>378,262</b> | <b>318,845</b> | <b>265,050</b> | <b>254,928</b> | <b>270,710</b> | <b>318,324</b> | <b>310,315</b> | <b>1,352,377</b> | <b>1,154,277</b> |
| Change (%)                   | 63.5           | 50.3           | 10.2           | -18.6          | -34.7          | -28.4          | -0.2           | 17.1           | 22.4             | -14.6            |
| <b>EBITDA</b>                | <b>-7,693</b>  | <b>-21,674</b> | <b>15,209</b>  | <b>41,531</b>  | <b>7,454</b>   | <b>-1,163</b>  | <b>24,634</b>  | <b>8,790</b>   | <b>27,373</b>    | <b>39,715</b>    |
| Change (%)                   | nm             | nm             | 247.9          | 382.9          | nm             | -94.6          | 62.0           | -78.8          | -10.8            | 45.1             |
| % of Sales                   | -2.0           | -5.7           | 4.8            | 15.7           | 2.9            | -0.4           | 7.7            | 2.8            | 2.0              | 3.4              |
| Depreciation                 | 2,691          | 2,419          | 3,014          | 2,631          | 2,311          | 3,088          | 3,150          | 3,271          | 10,756           | 11,821           |
| Interest                     | 3,016          | 5,338          | 7,161          | 6,149          | 2,866          | 2,673          | 3,120          | 3,277          | 21,664           | 11,935           |
| Other Income                 | 2,757          | 3,225          | 3,002          | 6,104          | 7,028          | 4,424          | 2,857          | 1,983          | 15,087           | 16,292           |
| <b>PBT</b>                   | <b>-10,643</b> | <b>-26,207</b> | <b>8,036</b>   | <b>38,854</b>  | <b>9,306</b>   | <b>-2,500</b>  | <b>21,220</b>  | <b>4,225</b>   | <b>10,041</b>    | <b>32,251</b>    |
| Tax                          | 24             | 46             | 38             | 2,574          | 3,165          | -912           | 7,213          | 1,436          | 2,682            | 10,902           |
| Rate (%)                     | -0.2           | -0.2           | 0.5            | 6.6            | 34.0           | 36.5           | 34.0           | 34.0           | 26.7             | 33.8             |
| <b>PAT</b>                   | <b>-10,667</b> | <b>-26,253</b> | <b>7,998</b>   | <b>36,280</b>  | <b>6,141</b>   | <b>-1,588</b>  | <b>14,008</b>  | <b>2,789</b>   | <b>7,359</b>     | <b>21,349</b>    |
| Change (%)                   | nm             | nm             | 174.5          | nm             | nm             | -94.0          | 75.1           | -92.3          | -53.4            | 190.1            |
| <b>Adj. PAT</b>              | <b>-10,667</b> | <b>-26,253</b> | <b>7,998</b>   | <b>36,280</b>  | <b>6,141</b>   | <b>-1,588</b>  | <b>14,008</b>  | <b>2,789</b>   | <b>7,359</b>     | <b>21,349</b>    |
| <b>Key Assumption (Rs b)</b> |                |                |                |                |                |                |                |                |                  |                  |
| Gross Under Recovery         | 115            | 103            | 28             | -8             | 11             | 22             | 29             | 30             | 238              | 92               |
| Upstream Sharing             | 27             | 34             | 12             | 2              | 2              | 9              | 11             | 9              | 76               | 29               |
| Oil Bonds                    | 58             | 48             | 36             | 21             | 0              | 0              | 42             | 21             | 162              | 63               |
| Net Under/(Over) Recovery    | 31             | 21             | -21            | -31            | 9              | 14             | -23            | 0              | 0                | 0                |
| As a % of Gross              | 26.8           | 20.4           | nm             | nm             | 85.5           | nm             | nm             | nm             | 0.0              | 0.0              |

E: MOSL Estimates

Harshad Borawake (HarshadBorawake@MotilalOswal.com) / Milind Bafna (Milind.Bafna@MotilalOswal.com)

## Cairn India

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE SENSEX: 17,402 | CAIR IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | CAIL.BO      |

|                     |              |
|---------------------|--------------|
| Equity Shares (m)   | 1,894.4      |
| 52 Week Range (Rs)  | 301 / 143    |
| 1,6,12 Rel Perf (%) | -1 / 3 / -19 |
| Mcap (Rs b)         | 534.5        |
| Mcap (USD b)        | 11.4         |

29 December 2009

Buy

Rs282

Previous Recommendation: Buy

| YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 03/09A      | 14,326              | 8,082         | 4.3         | N.M.              | 66.2       | 1.6         | 2.6        | 2.5         | 36.2         | 55.8          |
| 03/10E      | 19,809              | 8,774         | 4.6         | 8.6               | 61.0       | 1.6         | 2.6        | 3.0         | 27.5         | 38.0          |
| 03/11E      | 92,832              | 49,597        | 26.1        | 465.3             | 10.8       | 1.4         | 13.9       | 15.3        | 5.7          | 6.7           |
| 03/12E      | 114,928             | 66,130        | 34.9        | 33.3              | 8.1        | 1.2         | 16.2       | 17.9        | 4.3          | 5.0           |

Consolidated

- Cairn India's 3QFY10 numbers include revenue from its flagship Rajasthan block for the first time. Though it commenced production in the previous quarter, sales were booked in the current quarter.
- We estimate net oil and gas sales of 24.2kboepd (v/s 16.6kboepd in 4QFY09 and 14.4kboepd in 2QFY10). We build 10kboepd oil sales from the Rajasthan block in our estimates.
- We assume Brent price of US\$75/bbl and factor in 12.5% discount for Rajasthan crude in our estimates. We build long term Brent price of US\$70/bbl in our estimates.
- We expect Cairn India to report net sales of Rs4.6b (v/s Rs2.1b in 4QFY09), led by additional revenue from Rajasthan crude sales. We estimate PAT at Rs783m v/s adjusted PAT of Rs2.4b in 4QFY09.
- Cairn's earnings will jump substantially sequentially as production from its Rajasthan block ramps up. The stock trades at 10.8x FY11E EPS of Rs26.1. Maintain **Buy**.

## QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

| Y/E MARCH                             | FY09 (15M PERIOD) |              |              |              |              | FY10         |              |              |               | FY09          | FY10E         |
|---------------------------------------|-------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|---------------|
|                                       | 1Q                | 2Q           | 3Q           | 4Q           | 5Q           | 1Q           | 2Q           | 3QE          | 4QE           |               |               |
| <b>Net Sales</b>                      | <b>3,158</b>      | <b>4,036</b> | <b>3,206</b> | <b>2,108</b> | <b>1,818</b> | <b>2,050</b> | <b>2,298</b> | <b>4,621</b> | <b>10,841</b> | <b>14,326</b> | <b>19,809</b> |
| Change (%)                            | 33.6              | 65.9         | 20.6         | -21.0        | -42.5        | -49.2        | -28.3        | 119.2        | 496.5         | 41.5          | 38.3          |
| <b>EBITDA</b>                         | <b>2,280</b>      | <b>2,721</b> | <b>2,483</b> | <b>950</b>   | <b>867</b>   | <b>1,321</b> | <b>1,333</b> | <b>3,086</b> | <b>8,597</b>  | <b>9,301</b>  | <b>14,338</b> |
| % of Net Sales                        | 72.2              | 67.4         | 77.4         | 45.1         | 47.7         | 64.5         | 58.0         | 66.8         | 79.3          | 64.9          | 72.4          |
| D,D & A (inc. w/off)                  | 807               | 1,075        | 729          | 701          | 1,070        | 722          | 508          | 1,892        | 2,869         | 4,382         | 5,990         |
| Interest                              | 3                 | 29           | 5            | 6            | 21           | 7            | 9            | 1,100        | 1,216         | 64            | 2,332         |
| Other Income (Net)                    | 218               | 324          | 1,182        | 884          | 862          | 572          | 1,056        | 910          | 1,153         | 3,470         | 3,691         |
| Forex Fluctuations                    | -19               | 254          | 873          | 567          | -74          | 718          | 0            | 0            | 0             | 1,602         | 718           |
| Exceptional Items                     | 156               |              | -204         |              |              | -1,637       | 1,637        |              |               | -48           | 0             |
| <b>PBT</b>                            | <b>1,824</b>      | <b>2,196</b> | <b>3,600</b> | <b>1,694</b> | <b>565</b>   | <b>244</b>   | <b>3,510</b> | <b>1,004</b> | <b>5,665</b>  | <b>9,878</b>  | <b>10,423</b> |
| Tax                                   | 659               | 810          | 667          | -671         | 378          | -210         | -1,185       | 221          | 2,302         | 1,844         | 1,649         |
| Rate* (%)                             | 35.8              | 41.7         | 24.5         | nm           | 59.2         | nm           | -33.8        | 22.0         | 40.6          | 18.7          | 15.8          |
| <b>PAT</b>                            | <b>1,164</b>      | <b>1,385</b> | <b>2,933</b> | <b>2,364</b> | <b>187</b>   | <b>454</b>   | <b>4,695</b> | <b>783</b>   | <b>3,363</b>  | <b>8,034</b>  | <b>8,774</b>  |
| <b>Adj. PAT</b>                       | <b>1,009</b>      | <b>1,385</b> | <b>3,137</b> | <b>2,364</b> | <b>187</b>   | <b>2,092</b> | <b>1,873</b> | <b>783</b>   | <b>3,363</b>  | <b>8,082</b>  | <b>8,774</b>  |
| <b>Sales - Cairn's Share (kboepd)</b> |                   |              |              |              |              |              |              |              |               |               |               |
| Ravva and Cambay                      | 18.0              | 18.8         | 17.1         | 16.6         | 15.8         | 15.9         | 14.4         | 14.1         | 13.8          | 17.3          | 14.6          |
| Rajasthan                             |                   |              |              |              |              | 0.0          | 4.2          | 10.0         | 46.7          | -             | 15.2          |

E: MOSL Estimates; \* Excluding forex fluctuations; \*2007 - Dec year end, 2009 - 15 month period

## Chennai Petroleum Corporation

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | MRL IN       |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | CHPC.BO      |

29 December 2009

Buy

Rs221

Previous Recommendation: Buy

|                     |           |
|---------------------|-----------|
| Equity Shares (m)   | 149.0     |
| 52 Week Range (Rs)  | 270 / 78  |
| 1,6,12 Rel Perf (%) | 1 / 7 / 6 |
| Mcap (Rs b)         | 32.9      |
| Mcap (USD b)        | 0.7       |

| YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 03/09A      | 319,639             | -431          | -2.9        | -104.0            | -76.3      | 1.07        | -12.2      | -6.4        | 0.2          | -31.5         |
| 03/10E      | 278,215             | 4,138         | 27.8        | NM                | 7.9        | 0.98        | 16.0       | 16.2        | 0.2          | 5.6           |
| 03/11E      | 282,645             | 4,314         | 29.0        | 4.3               | 7.6        | 0.91        | 12.4       | 13.9        | 0.2          | 5.5           |
| 03/12E      | 291,159             | 3,642         | 24.4        | -15.6             | 9.0        | 0.87        | 9.9        | 12.0        | 0.3          | 6.0           |

- We expect CPCL to post a 3QFY10 net loss of Rs342m (v/s net loss of Rs12.7b in 3QFY09 and profit of Rs1.4b in 2QFY10).
- Large YoY reduction in loss is due to improved GRM against negative GRMs of US\$18/bbl in 3QFY09, led by inventory losses
- We estimate CPCL to report GRM of US\$1.7/bbl v/s reported GRM of US\$4.2/bbl in 2QFY10. Singapore GRMs in 2QFY10 were US\$3.2/bbl, almost double the present US\$1.7/bbl.
- On the operational front, we expect refinery throughput at 2.7mmt (flat QoQ and up 6% YoY).
- We expect refining margins have bottomed out and will improve in the next few quarters.
- For CPCL, we have built in GRM of US\$3.9/bbl for FY10 and US\$4.5/bbl for FY11. The stock trades at 7.6x FY11E EPS of Rs29 and an EV of 5.5x FY11E EBITDA of Rs 9.8b. **Buy.**

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH                      | FY09           |                |                |               | FY10          |               |               |               | FY09           | FY10E          |
|--------------------------------|----------------|----------------|----------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|
|                                | 1Q             | 2Q             | 3Q             | 4Q            | 1Q            | 2Q            | 3QE           | 4QE           |                |                |
| <b>Net Sales</b>               | <b>112,532</b> | <b>102,833</b> | <b>56,175</b>  | <b>48,100</b> | <b>56,604</b> | <b>69,971</b> | <b>73,378</b> | <b>78,261</b> | <b>319,639</b> | <b>278,214</b> |
| Change (%)                     | 80.9           | 62.3           | -20.5          | -42.7         | -49.7         | -32.0         | 30.6          | 62.7          | 14.1           | -13.0          |
| Raw Materials (incl Stock Adj) | 95,838         | 99,794         | 71,749         | 42,896        | 50,195        | 64,914        | 71,248        | 74,041        | 310,277        | 260,398        |
| Employee Costs                 | 857            | 568            | 366            | 139           | 450           | 501           | 526           | 646           | 1,929          | 2,122          |
| Other Exp                      | 4,148          | 3,006          | 2,072          | -132          | 1,282         | 1,339         | 1,031         | 1,592         | 9,094          | 5,245          |
| <b>EBITDA</b>                  | <b>11,689</b>  | <b>-534</b>    | <b>-18,013</b> | <b>5,196</b>  | <b>4,677</b>  | <b>3,218</b>  | <b>573</b>    | <b>1,982</b>  | <b>-1,662</b>  | <b>10,450</b>  |
| % of Sales                     | 10.4           | -0.5           | -32.1          | 10.8          | 8.3           | 4.6           | 0.8           | 2.5           | -0.5           | 3.8            |
| Change (%)                     | 97.6           | -112.5         | -537.8         | -23.6         | -60.0         | -702.6        | -103.2        | -61.9         | -107.9         | nm             |
| Depreciation                   | 639            | 637            | 638            | 659           | 665           | 679           | 686           | 731           | 2,572          | 2,761          |
| Interest                       | 380            | 607            | 834            | 419           | 279           | 316           | 426           | 675           | 2,239          | 1,696          |
| Other Income                   | 101            | 158            | 221            | 60            | 884           | -115          | 51            | 23            | 541            | 843            |
| <b>PBT</b>                     | <b>10,771</b>  | <b>-1,619</b>  | <b>-19,263</b> | <b>4,179</b>  | <b>4,617</b>  | <b>2,109</b>  | <b>-489</b>   | <b>599</b>    | <b>-5,931</b>  | <b>6,836</b>   |
| Tax                            | 3,739          | -592           | -6,564         | 1,460         | 1,570         | 717           | -147          | 180           | -1,958         | 2,319          |
| Rate (%)                       | 34.7           | nm             | nm             | 34.9          | 34.0          | 34.0          | 30.0          | 30.0          | 33.0           | 33.9           |
| <b>PAT</b>                     | <b>7,033</b>   | <b>-1,027</b>  | <b>-12,699</b> | <b>2,720</b>  | <b>3,047</b>  | <b>1,392</b>  | <b>-342</b>   | <b>420</b>    | <b>-3,973</b>  | <b>4,517</b>   |
| Change (%)                     | 117.6          | nm             | nm             | -20.9         | -56.7         | nm            | nm            | -84.6         | -135.4         | -213.7         |
| <b>Adj PAT*</b>                | <b>8,340</b>   | <b>264</b>     | <b>-12,068</b> | <b>3,034</b>  | <b>2,515</b>  | <b>1,545</b>  | <b>-342</b>   | <b>420</b>    | <b>-431</b>    | <b>4,138</b>   |
| GRM (US\$/bbl)                 | 15.9           | 1.7            | -18.0          | 6.6           | 6.9           | 4.2           | 1.7           | 3.0           | 6.1            | 3.9            |

E: MOSL Estimates; \* Adjusted for forex gain/loss

## GAIL (India)

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE SENSEX: 17,402 | GAIL IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | GAIL.BO      |

29 December 2009

Buy

Rs418

Previous Recommendation: Buy

|                     |              |
|---------------------|--------------|
| Equity Shares (m)   | 1,268.5      |
| 52 Week Range (Rs)  | 432 / 186    |
| 1,6,12 Rel Perf (%) | -3 / 26 / 23 |
| Mcap (Rs b)         | 530.1        |
| Mcap (USD b)        | 11.4         |

| YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 03/09A      | 237,760             | 28,511        | 22.5        | 12.1              | 18.6       | 3.6         | 19.0       | 24.8        | 2.1          | 12.5          |
| 03/10E      | 259,256             | 28,780        | 22.7        | 0.9               | 18.4       | 3.2         | 17.2       | 22.0        | 2.1          | 12.0          |
| 03/11E      | 329,089             | 34,652        | 27.3        | 20.4              | 15.3       | 2.7         | 17.9       | 20.7        | 1.7          | 9.9           |
| 03/12E      | 382,170             | 37,288        | 29.4        | 7.6               | 14.2       | 2.4         | 16.8       | 16.2        | 1.8          | 9.4           |

- We expect GAIL to post net profit of Rs7.4b (up 3% QoQ and 190% YoY)
- We expect GAIL to report segmental EBIT of Rs11.3b (v/s Rs3.6b in 3QFY09 and Rs9.6b in 2QFY10). Large YoY profit increase will be driven by gas transmission, petchem businesses and lower subsidy. Subsidy in 3QFY09 of Rs9b included Rs2.6b towards short provision in 2QFY09.
- We estimate GAIL's transportation volumes for 3QFY10 to average 115mmscmd against 107 in 2QFY10 and 85 in 3QFY09. GAIL is delivering 30mmscmd of KGD6 gas out of the total 50mmscmd of KGD6 gas produced.
- We build upstream to bear 100% towards auto fuel losses, of which GAIL will bear 13%. We have built in a subsidy of Rs6.2b (v/s Rs9b in 3QFY10 and Rs4.6b in 2QFY10).
- On the petchem business we expect GAIL's sales volume to be sequentially higher as in 2QFY10 it was unable to place all its products.
- The stock trades at 15.3x FY11 EPS of Rs27.3. Adjusted for investments, the stock trades at 12x FY11 EPS. **Buy.**

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH              | FY09          |               |               |               | FY10          |               |               |               | FY09           | FY10E          |
|------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|
|                        | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3QE           | 4QE           |                |                |
| <b>Net Sales</b>       | <b>57,307</b> | <b>61,293</b> | <b>58,117</b> | <b>61,043</b> | <b>60,214</b> | <b>62,022</b> | <b>64,877</b> | <b>72,143</b> | <b>237,760</b> | <b>259,256</b> |
| Change (%)             | 35.0          | 35.3          | 35.2          | 23.7          | 5.1           | 1.2           | 11.6          | 18.2          | 32.0           | 9.0            |
| <b>EBITDA</b>          | <b>13,995</b> | <b>14,314</b> | <b>2,660</b>  | <b>9,575</b>  | <b>10,655</b> | <b>10,173</b> | <b>11,253</b> | <b>12,707</b> | <b>40,544</b>  | <b>44,789</b>  |
| % of Net Sales         | 24.4          | 23.4          | 4.6           | 15.7          | 17.7          | 16.4          | 17.3          | 17.6          | 17.1           | 17.3           |
| Depreciation           | 1,430         | 1,386         | 1,374         | 1,410         | 1,404         | 1,416         | 1,570         | 1,670         | 5,599          | 6,061          |
| Interest               | 190           | 189           | 185           | 306           | 179           | 179           | 305           | 410           | 870            | 1,073          |
| Other Income           | 1,148         | 2,289         | 2,352         | 2,178         | 798           | 1,689         | 1,620         | 998           | 7,966          | 5,106          |
| <b>PBT</b>             | <b>13,522</b> | <b>15,029</b> | <b>3,453</b>  | <b>10,037</b> | <b>9,870</b>  | <b>10,268</b> | <b>10,998</b> | <b>11,625</b> | <b>42,041</b>  | <b>42,761</b>  |
| Tax                    | 4,554         | 4,794         | 919           | 3,737         | 3,312         | 3,135         | 3,662         | 3,871         | 14,003         | 13,980         |
| Rate (%)               | 33.7          | 31.9          | 26.6          | 37.2          | 33.6          | 30.5          | 33.3          | 33.3          | 33.3           | 32.7           |
| <b>PAT</b>             | <b>8,969</b>  | <b>10,234</b> | <b>2,534</b>  | <b>6,300</b>  | <b>6,558</b>  | <b>7,132</b>  | <b>7,336</b>  | <b>7,754</b>  | <b>28,037</b>  | <b>28,780</b>  |
| Change (%)             | 31.0          | 78.8          | -59.2         | -12.8         | -26.9         | -30.3         | 189.5         | 23.1          | 7.8            | 2.7            |
| <b>Adj PAT</b>         | <b>9,442</b>  | <b>10,234</b> | <b>2,534</b>  | <b>6,300</b>  | <b>6,558</b>  | <b>7,132</b>  | <b>7,336</b>  | <b>7,754</b>  | <b>28,511</b>  | <b>28,780</b>  |
| Subsidy Sharing (Rs b) | 4.8           | 4.0           | 9.0           | -             | 0.7           | 4.6           | 6.2           | 5.1           | 17.8           | 16.6           |

E: MOSL Estimates



## Gujarat State Petronet

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | GUJS IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | GSPT.BO      |

|                     |               |
|---------------------|---------------|
| Equity Shares (m)   | 562.0         |
| 52 Week Range (Rs)  | 104 / 26      |
| 1,6,12 Rel Perf (%) | -4 / 76 / 141 |
| Mcap (Rs b)         | 55.3          |
| Mcap (USD b)        | 1.2           |

29 December 2009

Buy

Rs98

Previous Recommendation: Buy

| YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 03/09A      | 4,875               | 1,234         | 2.2         | 23.5              | 44.8       | 4.5         | 10.4       | 11.5        | 13.9         | 15.9          |
| 03/10E      | 10,946              | 4,698         | 8.4         | 280.9             | 11.8       | 3.3         | 32.4       | 28.1        | 5.7          | 6.1           |
| 03/11E      | 12,365              | 5,269         | 9.4         | 12.1              | 10.5       | 2.6         | 27.7       | 27.1        | 4.9          | 5.3           |
| 03/12E      | 15,424              | 6,925         | 12.3        | 31.4              | 8.0        | 2.0         | 28.4       | 29.7        | 2.6          | 4.1           |

\*Our EPS numbers consider No provision towards "Social Contribution Fund"

- We expect GSPL to post a topline of Rs2.9b and net profit of Rs1.2b (up 12% QoQ and 346% YoY)
- GSPL is expected to deliver volumes of 36mmscmd in 3QFY10. It delivered 18mmscmd volumes in 3QFY09 and 31mmscmd in 2QFY10.
- PNGRB regulations require application from GSPL for authorization, after which the board will approve the tariff. We expect this process to take at least six months. We believe there will be a reduction in GSPL's network tariff by 10-20%, reducing its EBTIDA margins from the current 95% to 92%
- GSPL has raised an EOI for four major cross-country pipelines. PNGRB has set a deadline of February 10 for submission of bids. GSPL is on a strong position to win the bids, however a huge capex requirement for these pipelines (above Rs120b) will necessitate additional fund raising measures.
- GSPL trades at 10.5x FY11 EPS of Rs9.4. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH          | FY09         |              |              |              | FY10         |              |              |              | FY09         | FY10E         |
|--------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|
|                    | 1Q           | 2Q           | 3Q           | 4Q           | 1Q           | 2Q           | 3QE          | 4QE          |              |               |
| <b>Net Sales</b>   | <b>1,195</b> | <b>1,186</b> | <b>1,174</b> | <b>1,320</b> | <b>2,108</b> | <b>2,548</b> | <b>2,912</b> | <b>3,378</b> | <b>4,875</b> | <b>10,946</b> |
| Change (%)         | 24.7         | 24.4         | 6.2          | 13.7         | 76.4         | 114.8        | 148.0        | 155.9        | 16.7         | 124.5         |
| Employee Costs     | 19           | 20           | 24           | 47           | 28           | -16          | 28           | 81           | 109          | 120           |
| Operating Expenses | 68           | 92           | 106          | 128          | 97           | 120          | 120          | 120          | 394          | 457           |
| Other Expenditure  | 32           | 50           | 28           | 17           | 36           | 0            | 0            | 0            | 127          | 36            |
| <b>EBITDA</b>      | <b>1,076</b> | <b>1,024</b> | <b>1,016</b> | <b>1,128</b> | <b>1,948</b> | <b>2,443</b> | <b>2,765</b> | <b>3,178</b> | <b>4,245</b> | <b>10,333</b> |
| % of Net Sales     | 90.0         | 86.4         | 86.5         | 85.5         | 92.4         | 95.9         | 94.9         | 94.1         | 87.1         | 94.4          |
| Change (%)         | 29.0         | 26.5         | 4.6          | 9.6          | 81.1         | 138.5        | 172.0        | 181.6        | 16.4         | 143.4         |
| Depreciation       | 415          | 423          | 429          | 439          | 550          | 587          | 630          | 668          | 1,705        | 2,435         |
| Interest           | 218          | 231          | 222          | 199          | 245          | 250          | 397          | 444          | 870          | 1,337         |
| Other Income       | 68           | 72           | 58           | 44           | 68           | 59           | 59           | 59           | 243          | 244           |
| <b>PBT</b>         | <b>511</b>   | <b>443</b>   | <b>424</b>   | <b>535</b>   | <b>1,221</b> | <b>1,665</b> | <b>1,796</b> | <b>2,124</b> | <b>1,913</b> | <b>6,806</b>  |
| Tax                | 185          | 159          | 148          | 188          | 415          | 564          | 564          | 564          | 679          | 2,108         |
| Rate (%)           | 36.1         | 35.9         | 34.9         | 35.1         | 34.0         | 33.9         | 31.4         | 26.6         | 35.5         | 31.0          |
| <b>PAT</b>         | <b>326</b>   | <b>284</b>   | <b>276</b>   | <b>347</b>   | <b>806</b>   | <b>1,101</b> | <b>1,232</b> | <b>1,560</b> | <b>1,234</b> | <b>4,698</b>  |
| Change (%)         | 82.7         | 74.3         | 9.7          | -14.5        | 146.8        | 287.8        | 345.8        | 349.6        | 23.5         | 280.9         |

E: MOSL Estimates

## HPCL

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | HPCL IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | HPCL.BO      |

29 December 2009

Buy

Rs387

Previous Recommendation: Buy

|                     |              |
|---------------------|--------------|
| Equity Shares (m)   | 339.0        |
| 52 Week Range (Rs)  | 425 / 237    |
| 1,6,12 Rel Perf (%) | 7 / 10 / -44 |
| Mcap (Rs b)         | 131.1        |
| Mcap (USD b)        | 2.8          |

| YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 03/09A      | 1,246,943           | 4,355         | 12.8        | -40.0             | 30.1       | 1.2         | 4.1        | 8.8         | 0.2          | 7.8           |
| 03/10E      | 1,063,144           | 20,815        | 61.4        | 378.0             | 6.3        | 1.0         | 17.8       | 12.7        | 0.2          | 5.2           |
| 03/11E      | 1,139,495           | 15,831        | 46.7        | -23.9             | 8.3        | 0.9         | 11.8       | 10.4        | 0.2          | 5.6           |
| 03/12E      | 1,137,718           | 17,182        | 50.7        | 8.5               | 7.6        | 0.8         | 11.6       | 10.5        | 0.2          | 4.9           |

- Our estimates for 3QFY10 include oil bonds for 3QFY10 as well as 1H FY10. For FY10, we build nil subsidies sharing by OMCs. However in FY11, we build 10% sharing in auto fuel underrecoveries.
- Rather than business fundamentals, subsidy sharing will determine profitability. Our estimates take into account HPCL's full compensation through upstream sharing and oil bonds.
- We estimate HPCL will post net profit of Rs13.4b against a loss of Rs4.2b in 3QFY09.
- On the operational front, we expect throughout at 4mmt (flat QoQ and down 2% YoY).
- The stock trades at 8.3x FY11E consolidated EPS of Rs46.7 and 0.9x FY11E BV of Rs410. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH                     | FY09           |                |                |                | FY10           |                |                |                | FY09             | FY10E            |
|-------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|------------------|------------------|
|                               | 1Q             | 2Q             | 3Q             | 4Q             | 1Q             | 2Q             | 3QE            | 4QE            |                  |                  |
| <b>Net Sales</b>              | <b>346,920</b> | <b>354,622</b> | <b>293,858</b> | <b>251,542</b> | <b>241,976</b> | <b>244,566</b> | <b>296,067</b> | <b>280,535</b> | <b>1,246,943</b> | <b>1,063,144</b> |
| Change (%)                    | 59             | 46             | 8              | -20            | -30.3          | -31.0          | 0.8            | 11.5           | 19.1             | -14.7            |
| <b>EBITDA</b>                 | <b>-4,110</b>  | <b>-26,036</b> | <b>4,715</b>   | <b>54,374</b>  | <b>10,876</b>  | <b>-4</b>      | <b>23,678</b>  | <b>6,394</b>   | <b>28,943</b>    | <b>40,943</b>    |
| % of Net Sales                | -1.2           | -7.3           | 1.6            | 21.6           | 4.5            | 0.0            | 8.0            | 2.3            | 2.3              | 3.9              |
| Change (%)                    | nm             | nm             | 218            | 2,407          | -365           | -100           | 402            | -88.2          | 86.2             | 41               |
| Depreciation                  | 2,367          | 2,420          | 2,482          | 2,545          | 2,629          | 2,833          | 2,847          | 2,928          | 9,813            | 11,236           |
| Interest                      | 4,064          | 5,269          | 7,961          | 3,779          | 2,702          | 2,493          | 3,169          | 2,827          | 21,073           | 11,191           |
| OI (incl. Oper. other inc)    | 1,679          | 1,577          | 1,539          | 4,263          | 4,403          | 3,237          | 2,712          | 2,759          | 9,057            | 13,110           |
| <b>PBT</b>                    | <b>-8,861</b>  | <b>-32,149</b> | <b>-4,189</b>  | <b>52,313</b>  | <b>9,948</b>   | <b>-2,094</b>  | <b>20,375</b>  | <b>3,397</b>   | <b>7,114</b>     | <b>31,625</b>    |
| Tax                           | 20             | 40             | 40             | 1,273          | 3,457          | -727           | 6,925          | 1,155          | 1,373            | 10,810           |
| Rate (%)                      | nm             | nm             | nm             | 2              | 35             | 35             | 34             | 34             | 19.3             | 34               |
| <b>PAT</b>                    | <b>-8,881</b>  | <b>-32,189</b> | <b>-4,229</b>  | <b>51,040</b>  | <b>6,491</b>   | <b>-1,367</b>  | <b>13,449</b>  | <b>2,243</b>   | <b>5,741</b>     | <b>20,815</b>    |
| Change (%)                    | nm             | nm             | nm             | nm             | nm             | -95.8          | nm             | -95.6          | -49.4            | 262.5            |
| <b>Adj. PAT</b>               | <b>-8,881</b>  | <b>-32,189</b> | <b>-4,229</b>  | <b>51,040</b>  | <b>6,491</b>   | <b>-1,367</b>  | <b>13,449</b>  | <b>2,243</b>   | <b>5,741</b>     | <b>20,816</b>    |
| <b>Key Assumptions (Rs b)</b> |                |                |                |                |                |                |                |                |                  |                  |
| Gross Under Recovery          | 102            | 91             | 27             | -7             | 12             | 22             | 29             | 30             | 213              | 93               |
| Upstream Sharing              | 24             | 30             | 12             | 6              | 2              | 8              | 10             | 9              | 72               | 29               |
| Oil Bonds                     | 51             | 42             | 33             | 20             | 0              | 0              | 43             | 21             | 147              | 64               |
| Net Under Recovery            | 28             | 18             | -18            | -33            | 10             | 15             | -24            | 0              | -6               | 0                |
| Net Sharing (%)               | 26.9           | 20.1           | -66.9          | nm             | 85.1           | 65.7           | -84.1          | 0.0            | -2.6             | 0.0              |

E: MOSL Estimates

## Indian Oil Corporation

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | IOC IN       |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | IOC.BO       |

|                     |              |
|---------------------|--------------|
| Equity Shares (m)   | 2,406.3      |
| 52 Week Range (Rs)  | 395 / 190    |
| 1,6,12 Rel Perf (%) | 4 / -4 / -36 |
| Mcap (Rs b)         | 743.8        |
| Mcap (USD b)        | 15.9         |

29 December 2009

Buy

Rs309

Previous Recommendation: Buy

| YEAR<br>END | NET SALES<br>(RS B) | PAT<br>(RS B) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 03/09A      | 2,861               | 26.0          | 10.9        | -67.1             | 28.4       | 1.6         | 5.8        | 8.2         | 0.4          | 15.7          |
| 03/10E      | 2,426               | 94.5          | 39.3        | 260.3             | 7.9        | 1.3         | 19.0       | 17.0        | 0.4          | 6.1           |
| 03/11E      | 2,396               | 78.0          | 32.4        | -17.5             | 9.5        | 1.2         | 13.6       | 15.3        | 0.4          | 6.2           |
| 03/12E      | 2,213               | 93.4          | 38.8        | 19.8              | 8.0        | 1.1         | 14.5       | 17.1        | 0.5          | 5.0           |

\*Consolidated

- Our estimates for 3QFY10 include oil bonds for 3QFY10 and for 1HFY10. For FY10, we build nil subsidies sharing by OMCs. However in FY11, we build 10% sharing in auto fuel underrecoveries.
- Rather than business fundamentals, actual subsidy sharing will determine profitability. Our estimates take into account IOC's full compensation through upstream sharing and oil bonds.
- We estimate IOC to post net profit of Rs41.5b against a loss of Rs29.6b in 3QFY09. On the operational front, we expect throughout at 12.6mmt (up 5% QoQ and 2% YoY).
- The stock trades at 9.5x FY11E consolidated EPS of Rs32.4 and 1.2x FY11E BV of Rs252. **Buy.**

## QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

| Y/E MARCH                     | FY09           |                |                |                | FY10           |                |                |                | FY09             | FY10E            |
|-------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|------------------|------------------|
|                               | 1Q             | 2Q             | 3Q             | 4Q             | 1Q             | 2Q             | 3QE            | 4QE            |                  |                  |
| <b>Net Sales</b>              | <b>883,996</b> | <b>862,612</b> | <b>703,687</b> | <b>595,967</b> | <b>586,252</b> | <b>607,461</b> | <b>740,058</b> | <b>656,134</b> | <b>3,046,261</b> | <b>2,589,906</b> |
| Change (%)                    | 67.2           | 60.6           | 9.9            | -17.1          | -33.7          | -29.6          | 5.2            | 10.1           | 25.6             | -15.0            |
| <b>EBITDA</b>                 | <b>9,602</b>   | <b>-60,941</b> | <b>32,177</b>  | <b>86,171</b>  | <b>41,409</b>  | <b>4,314</b>   | <b>68,184</b>  | <b>20,072</b>  | <b>67,010</b>    | <b>133,978</b>   |
| % of Net Sales                | 1.1            | -7.1           | 4.6            | 14.5           | 7.1            | 0.7            | 9.2            | 3.1            | 2.2              | 5.2              |
| Change (%)                    | -32.3          | nm             | 8.4            | 1,285.4        | 331.2          | nm             | 111.9          | -76.7          | -33.8            | 99.9             |
| Depreciation                  | 6,726          | 6,775          | 7,275          | 8,041          | 7,598          | 7,805          | 8,117          | 8,732          | 28,817           | 32,253           |
| Interest                      | 6,142          | 9,928          | 15,054         | 8,397          | 3,340          | 3,477          | 4,785          | 4,515          | 39,521           | 16,117           |
| Other Income                  | 7,490          | 7,263          | 19,831         | 10,031         | 23,625         | 10,306         | 9,672          | 7,117          | 44,615           | 50,720           |
| <b>PBT</b>                    | <b>4,224</b>   | <b>-70,381</b> | <b>29,679</b>  | <b>79,765</b>  | <b>54,096</b>  | <b>3,337</b>   | <b>64,953</b>  | <b>13,942</b>  | <b>43,286</b>    | <b>136,328</b>   |
| Tax                           | 72             | 90             | 93             | 13,535         | 17,267         | 493            | 23,383         | 5,019          | 13,790           | 46,163           |
| Rate (%)                      | 1.7            | -0.1           | 0.3            | 17.0           | 31.9           | 14.8           | 36.0           | 36.0           | 31.9             | 33.9             |
| <b>PAT</b>                    | <b>4,151</b>   | <b>-70,471</b> | <b>29,586</b>  | <b>66,230</b>  | <b>36,828</b>  | <b>2,844</b>   | <b>41,570</b>  | <b>8,923</b>   | <b>29,495</b>    | <b>90,165</b>    |
| Change (%)                    | -71.7          | -284.6         | 41.5           | nm             | 787.2          | nm             | 40.5           | -86.5          | -57.6            | 205.7            |
| <b>Key Assumptions (Rs b)</b> |                |                |                |                |                |                |                |                |                  |                  |
| Gross Under Recovery          | 271            | 247            | 79             | -12            | 32             | 60             | 74             | 74             | 586              | 240              |
| Upstream Sharing              | 62             | 82             | 36             | 2              | 2              | 18             | 27             | 22             | 182              | 69               |
| Oil Bonds                     | 135            | 116            | 91             | 62             | 0              | 0              | 119            | 52             | 404              | 171              |
| Net Under Recovery            | 73             | 50             | -47            | -75            | 30             | 42             | -71            | 0              | 0                | 0                |
| As a % of Gross               | 27             | 20             | -60            | nm             | 93             | 70             | -96            | 0              | 0                | 0                |

E: MOSL Estimates

## Indraprastha Gas

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | IGL IN       |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | IGAS.BO      |

|                     |              |
|---------------------|--------------|
| Equity Shares (m)   | 140.0        |
| 52 Week Range (Rs)  | 203 / 95     |
| 1,6,12 Rel Perf (%) | 14 / 28 / 15 |
| Mcap (Rs b)         | 27.6         |
| Mcap (USD b)        | 0.6          |

29 December 2009

Neutral

Previous Recommendation: Neutral

Rs197

| YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 03/09A      | 8,528               | 1,725         | 12.3        | -1.1              | 16.0       | 4.0         | 27.4       | 38.7        | 3.1          | 8.8           |
| 03/10E      | 10,915              | 2,161         | 15.4        | 25.3              | 12.8       | 3.3         | 28.5       | 40.4        | 2.5          | 7.0           |
| 03/11E      | 14,067              | 2,537         | 18.1        | 17.4              | 10.9       | 2.7         | 27.3       | 39.1        | 1.8          | 5.5           |
| 03/12E      | 16,945              | 2,940         | 21.0        | 15.9              | 9.4        | 2.2         | 26.1       | 37.5        | 1.4          | 4.4           |

- We expect IGL to deliver volume of 2.2mmscmd in 3QFY10 and to post PAT of Rs584m (v/s Rs383m in 3QFY09 and Rs567m in 2QFY10).
- We expect CNG volume to grow 18% YoY to 1.98mmscmd and PNG volumes to grow 30% YoY to 0.19mmscmd.
- Apart from ~2mmscmd of APM gas, IGL gets 0.25mmscmd gas from KGD6 and is expected to ramp it up to 0.5mmscmd in coming quarters.
- IGL operates 182 CNG stations and plans to add 22 stations in coming quarters. .
- The new PNGRB regulations entitle IGL to earn 14% post-tax (21% pre-tax) ROCE on its network tariff. However the final commodity price is not controlled. We do not expect any cut in IGL's gas selling price.
- A resolution (proposal raised by the oil ministry) of an APM gas price hike by 33% is expected to be passed soon. This will directly impact IGL as IGL's selling price in Delhi is lower than that of other players' price in India, we believe IGL will be able to pass on the price hike. However, IGL's last price hike was in June 2009, and it could be a bit difficult for the company to increase prices again so soon.
- The stock trades at 10.9x FY11E EPS of Rs18.1. **Neutral**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH                  | FY09         |              |              |              | FY10         |              |              |              | FY09         | FY10E         |
|----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|
|                            | 1Q           | 2Q           | 3Q           | 4Q           | 1Q           | 2Q           | 3QE          | 4QE          |              |               |
| <b>Net Sales</b>           | <b>1,907</b> | <b>2,152</b> | <b>2,194</b> | <b>2,274</b> | <b>2,326</b> | <b>2,731</b> | <b>2,890</b> | <b>2,968</b> | <b>8,528</b> | <b>10,915</b> |
| Change (%)                 | 17.9         | 23.6         | 20.1         | 21.4         | 21.9         | 26.9         | 31.7         | 30.5         | 20.8         | 28.0          |
| Raw Material Consumed      | 844          | 959          | 1,148        | 1,157        | 1,041        | 1,243        | 1,301        | 1,444        | 4,107        | 5,029         |
| Staff Cost                 | 54           | 54           | 63           | 65           | 62           | 70           | 71           | 73           | 235          | 276           |
| Other Exp (incl Stock Adj) | 254          | 288          | 305          | 336          | 373          | 419          | 434          | 401          | 1,184        | 1,627         |
| <b>EBITDA</b>              | <b>755</b>   | <b>851</b>   | <b>678</b>   | <b>717</b>   | <b>849</b>   | <b>999</b>   | <b>1,085</b> | <b>1,050</b> | <b>3,001</b> | <b>3,984</b>  |
| % of Net Sales             | 39.6         | 39.6         | 30.9         | 31.5         | 36.5         | 36.6         | 37.5         | 35.4         | 35.2         | 36.5          |
| Change (%)                 | 9.9          | 13.5         | -13.1        | -8.4         | 12.4         | 17.4         | 60.1         | 46.5         | 0.0          | 32.7          |
| Depreciation               | 164          | 169          | 166          | 176          | 186          | 194          | 260          | 334          | 674          | 974           |
| Other Income               | 63           | 69           | 66           | 65           | 64           | 50           | 60           | 82           | 262          | 256           |
| <b>PBT</b>                 | <b>654</b>   | <b>752</b>   | <b>578</b>   | <b>605</b>   | <b>727</b>   | <b>856</b>   | <b>885</b>   | <b>798</b>   | <b>2,589</b> | <b>3,266</b>  |
| Tax                        | 218          | 249          | 195          | 202          | 244          | 288          | 301          | 271          | 864          | 1,105         |
| Rate (%)                   | 33.2         | 33.2         | 33.7         | 33.4         | 33.6         | 33.7         | 34.0         | 34.0         | 33.4         | 33.8          |
| <b>PAT</b>                 | <b>437</b>   | <b>502</b>   | <b>383</b>   | <b>403</b>   | <b>483</b>   | <b>567</b>   | <b>584</b>   | <b>527</b>   | <b>1,725</b> | <b>2,161</b>  |
| Change (%)                 | 13.7         | 17.2         | -14.9        | -16.3        | 10.5         | 13.0         | 52.5         | 30.7         | -1.1         | 25.3          |

E: MOSL Estimates

## MRPL

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | MRPL IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | MRPL.BO      |

|                     |               |
|---------------------|---------------|
| Equity Shares (m)   | 1,752.6       |
| 52 Week Range (Rs)  | 102 / 35      |
| 1,6,12 Rel Perf (%) | -1 / -27 / 16 |
| Mcap (Rs b)         | 138.5         |
| Mcap (USD b)        | 3.0           |

29 December 2009

Sell

Rs79

Previous Recommendation: Sell

| YEAR   | NET SALES | PAT    | EPS  | EPS        | P/E  | P/BV | ROE  | ROCE | EV/   | EV/    |
|--------|-----------|--------|------|------------|------|------|------|------|-------|--------|
| END    | (RS M)    | (RS M) | (RS) | GROWTH (%) | (X)  | (X)  | (%)  | (%)  | SALES | EBITDA |
| 03/09A | 382,438   | 11,926 | 8.3  | 23.2       | 9.5  | 2.9  | 28.0 | 25.3 | 0.4   | 6.7    |
| 03/10E | 308,587   | 7,931  | 4.5  | -45.5      | 17.5 | 2.6  | 15.9 | 11.2 | 0.5   | 11.6   |
| 03/11E | 357,924   | 7,597  | 4.3  | -4.2       | 18.2 | 2.4  | 13.7 | 9.5  | 0.5   | 11.6   |
| 03/12E | 348,534   | 8,210  | 4.7  | 8.1        | 16.9 | 2.2  | 13.5 | 7.9  | 0.6   | 12.4   |

- We expect MRPL to post 3QFY10 net profit of Rs0.6b (v/s reported net loss of Rs2.9b in 3QFY09 and profit of Rs1.8b in 2QFY10)
- We expect MRPL to report GRM of US\$1.7/bbl v/s reported GRM of US\$ -2.8/bbl in 3QFY09 and US\$3.6/bbl in 2QFY10. 2QFY10 GRM was boosted by inventory gains. On the operational front, we expect refinery throughput of 3.2mmt (flat QoQ and up 3% YoY).
- For MRPL, we have built in GRM of US\$3/bbl for FY10 and US\$4/bbl for FY11. The stock trades at 18.2x FY11E EPS of Rs4.3 and an EV/EBITDA of 11.6x FY11E. **Sell**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH                    | FY09           |                |               |               | FY10          |               |               |               | FY09           | FY10E          |
|------------------------------|----------------|----------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|
|                              | 1Q             | 2Q             | 3Q            | 4Q            | 1Q            | 2Q            | 3QE           | 4QE           |                |                |
| <b>Net Sales</b>             | <b>107,466</b> | <b>134,280</b> | <b>75,340</b> | <b>65,352</b> | <b>61,699</b> | <b>78,662</b> | <b>84,615</b> | <b>83,611</b> | <b>382,438</b> | <b>308,587</b> |
| Change (%)                   | 44             | 76             | -7            | -31           | -43           | -41           | 12            | 28            | 16.9           | -19.3          |
| Raw Material (incl. inv chg) | 89,394         | 130,544        | 77,583        | 53,854        | 54,413        | 74,035        | 81,468        | 78,752        | 351,375        | 288,669        |
| Staff Cost                   | 442            | 217            | 184           | 287           | 287           | 214           | 276           | 297           | 1,130          | 1,074          |
| Other Expenditure            | 3,776          | 2,108          | 1,116         | 1,803         | 728           | 1,035         | 1,254         | 1,725         | 8,802          | 4,742          |
| <b>EBITDA</b>                | <b>13,855</b>  | <b>1,410</b>   | <b>-3,543</b> | <b>9,407</b>  | <b>6,271</b>  | <b>3,377</b>  | <b>1,617</b>  | <b>2,837</b>  | <b>21,130</b>  | <b>14,102</b>  |
| % of Net Sales               | 12.9           | 1.1            | -4.7          | 14.4          | 10.2          | 4.3           | 1.9           | 3.4           | 5.5            | 4.6            |
| Change (%)                   | 124            | -69            | -165          | 118           | -55           | 139           | nm            | -70           | 3.2            | -33.3          |
| Depreciation                 | 952            | 962            | 962           | 947           | 963           | 975           | 984           | 1,205         | 3,823          | 4,127          |
| Interest                     | 364            | 379            | 363           | 329           | 302           | 302           | 317           | 329           | 1,435          | 1,250          |
| Other Income                 | 648            | 369            | 520           | 708           | 1,291         | 737           | 580           | 727           | 2,244          | 3,335          |
| <b>PBT</b>                   | <b>13,187</b>  | <b>439</b>     | <b>-4,349</b> | <b>8,839</b>  | <b>6,296</b>  | <b>2,838</b>  | <b>896</b>    | <b>2,029</b>  | <b>18,117</b>  | <b>12,059</b>  |
| Tax                          | 4,489          | -185           | -1,495        | 2,904         | 2,095         | 1,033         | 304           | 688           | 5,713          | 4,120          |
| Prior Year Tax Adjustment    | 244            | 375            | 0             | -140          | 0             | 9             | 0             | 0             | 479            | 9              |
| Rate (%)                     | 35.9           | -42.2          | 34.4          | 32.8          | 33.3          | 36.4          | 33.9          | 33.9          | 31.5           | 34.2           |
| <b>PAT</b>                   | <b>8,454</b>   | <b>249</b>     | <b>-2,854</b> | <b>6,076</b>  | <b>4,201</b>  | <b>1,797</b>  | <b>592</b>    | <b>1,341</b>  | <b>11,926</b>  | <b>7,931</b>   |
| Change (%)                   | 129.4          | -92.5          | -196.9        | 169.6         | -50.3         | 620.8         | nm            | -77.9         | -2.3           | -33.4          |
| <b>Adj. PAT*</b>             | <b>9,293</b>   | <b>1,526</b>   | <b>-2,334</b> | <b>6,076</b>  | <b>3,680</b>  | <b>1,797</b>  | <b>592</b>    | <b>1,341</b>  | <b>14,561</b>  | <b>7,410</b>   |
| GRM (US\$/bbl)               | 18.0           | 2.3            | -2.8          | 7.5           | 8.0           | 3.6           | 1.7           | 3.0           | 6.3            | 4.1            |

E: MOSL Estimates

ONGC

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | ONGC IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | ONGC.BO      |

|                     |              |
|---------------------|--------------|
| Equity Shares (m)   | 2,138.9      |
| 52 Week Range (Rs)  | 1,274 / 614  |
| 1,6,12 Rel Perf (%) | -4 / -7 / -2 |
| Mcap (Rs b)         | 2,537.3      |
| Mcap (USD b)        | 54.3         |

29 December 2009

Neutral

Rs1,186

Previous Recommendation: Neutral

| YEAR<br>END | NET SALES<br>(RS B) | PAT<br>(RS B) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 03/09A      | 1,046               | 198           | 92.5        | -0.4              | 12.8       | 2.8         | 23.4       | 22.7        | 2.2          | 5.4           |
| 03/10E      | 1,004               | 217           | 101.4       | 9.6               | 11.7       | 2.4         | 22.0       | 22.3        | 2.3          | 4.9           |
| 03/11E      | 1,151               | 288           | 134.7       | 32.9              | 8.8        | 2.0         | 24.9       | 25.2        | 1.9          | 4.0           |
| 03/12E      | 1,223               | 322           | 150.6       | 11.8              | 7.9        | 1.7         | 23.4       | 23.5        | 1.6          | 3.3           |

Consolidated

- We expect ONGC to post net profit of Rs48b (v/s Rs24.7b in 3QFY09 and Rs50.9b in 2QFY10). Strong YoY performance is driven by higher expected net realization in 3QFY10 of US\$58/bbl v/s US\$34/bbl in 3QFY09.
- We estimate EBITDA to remain sequentially flat at Rs87b v/s Rs50b in 3QFY09.
- We estimate gross realization at US\$77/bbl v/s US\$59/bbl in 3QFY09 and US\$70.5/bbl in 2QFY10. In 1H FY10, upstream (ONGC, GAIL and OIL) shared 100% subsidy towards auto fuel underrecoveries and ONGC shared 76% of it. We build similar sharing in 2H FY10 and assume ONGC's share at Rs36b in 3QFY10 (US\$19.4/bbl). We estimate net realization at US\$58/bbl (v/s US\$25/bbl in 3QFY09 and US\$14/bbl in 2QFY10).
- The oil ministry has raised a proposal (likely to be approved soon) to hike APM gas price by ~33% from current Rs3,200/mscm to Rs4,250/mscm, which has been built in our FY11 estimates. The ministry is expected to increase the APM price to US\$4.2/mmbtu over 2-3 years.
- Our Brent price assumption is US\$69/bbl in FY10 and US\$70/bbl in FY11. We build upstream sharing at 90% of auto fuel subsidies in our estimates for FY11. The stock trades at 8.8x FY11E consolidated EPS of Rs134.7. **Neutral.**

QUARTERLY PERFORMANCE (STANDALONE)

(RS BILLION)

| Y/E MARCH                         | FY09         |              |              |              | FY10         |              |              |              | FY09         | FY10E        |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                                   | 1Q           | 2Q           | 3Q           | 4Q           | 1Q           | 2Q           | 3QE          | 4QE          |              |              |
| <b>Net Sales</b>                  | <b>200.5</b> | <b>174.1</b> | <b>124.4</b> | <b>137.0</b> | <b>148.8</b> | <b>150.8</b> | <b>153.7</b> | <b>155.5</b> | <b>636.0</b> | <b>608.8</b> |
| Change (%)                        | 46.5         | 12.9         | -17.8        | -12.3        | -25.8        | -13.4        | 23.6         | 13.5         | 6.3          | -4.3         |
| <b>EBITDA</b>                     | <b>117.6</b> | <b>84.1</b>  | <b>50.0</b>  | <b>57.8</b>  | <b>95.0</b>  | <b>86.8</b>  | <b>86.9</b>  | <b>88.0</b>  | <b>309.5</b> | <b>356.7</b> |
| % of Net Sales                    | 58.6         | 48.3         | 40.2         | 42.2         | 63.9         | 57.6         | 56.5         | 56.6         | 48.7         | 58.6         |
| Change (%)                        | 48.4         | 0.0          | -37.7        | 0.1          | -19.2        | 3.2          | 73.8         | 52.3         | 2.7          | 15.3         |
| D,D & A                           | 28.0         | 21.8         | 28.6         | 42.4         | 31.8         | 23.6         | 26.7         | 28.3         | 120.8        | 110.3        |
| Other Income                      | 10.5         | 14.9         | 12.2         | 14.1         | 10.4         | 12.5         | 12.9         | 12.6         | 51.7         | 48.4         |
| <b>PBT</b>                        | <b>100.0</b> | <b>76.2</b>  | <b>33.6</b>  | <b>29.3</b>  | <b>73.6</b>  | <b>75.7</b>  | <b>72.9</b>  | <b>72.2</b>  | <b>239.1</b> | <b>294.4</b> |
| Tax                               | 34.1         | 28.1         | 11.7         | 7.2          | 25.1         | 25.2         | 24.8         | 24.1         | 81.2         | 99.3         |
| Rate (%)                          | 34.1         | 36.9         | 34.8         | 24.7         | 34.1         | 33.3         | 34.0         | 33.4         | 33.9         | 33.7         |
| <b>PAT</b>                        | <b>65.9</b>  | <b>48.1</b>  | <b>21.9</b>  | <b>22.1</b>  | <b>48.5</b>  | <b>50.5</b>  | <b>48.1</b>  | <b>48.0</b>  | <b>158.0</b> | <b>195.1</b> |
| Change (%)                        | 43.0         | -5.7         | -49.8        | -16.0        | -26.5        | 4.9          | 119.7        | 117.6        | -5.4         | 23.5         |
| Extraordinary Items               | 0.4          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.4          | 0.0          |
| <b>Adjusted PAT</b>               | <b>66.4</b>  | <b>48.1</b>  | <b>24.7</b>  | <b>22.1</b>  | <b>48.5</b>  | <b>50.9</b>  | <b>48.1</b>  | <b>48.0</b>  | <b>161.3</b> | <b>195.1</b> |
| <b>Key Assumptions (US\$/bbl)</b> |              |              |              |              |              |              |              |              |              |              |
| Fx Rate (Rs/US\$)                 | 41.6         | 43.3         | 48.8         | 49.6         | 48.8         | 48.5         | 46.5         | 46.5         | 45.8         | 47.6         |
| Gross Oil Realization             | 125.8        | 119.4        | 59.0         | 47.9         | 60.6         | 70.5         | 77.0         | 74.5         | 88.0         | 70.6         |
| Subsidy                           | 56.7         | 72.7         | 25.0         | 4.5          | 2.3          | 14.1         | 19.4         | 16.0         | 39.7         | 13.0         |
| Net Oil Realization               | 69.1         | 46.7         | 34.0         | 43.4         | 58.3         | 56.4         | 57.6         | 58.5         | 48.3         | 57.7         |
| Subsidy (Rs b)                    | 98.1         | 126.6        | 49.0         | 8.5          | 4.3          | 26.3         | 36.1         | 29.9         | 282.3        | 96.6         |

E: MOSL Estimates

Harshad Borawake (HarshadBorawake@MotilalOswal.com) / Milind Bafna (Milind.Bafna@MotilalOswal.com)



## Reliance Industries

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE SENSEX: 17,402 | RIL IN       |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | RELI.BO      |

|                     |                |
|---------------------|----------------|
| Equity Shares (m)   | 3,286.2        |
| 52 Week Range (Rs)  | 1,245 / 534    |
| 1,6,12 Rel Perf (%) | -1 / -14 / -10 |
| Mcap (Rs b)         | 3,541.7        |
| Mcap (USD b)        | 75.8           |

29 December 2009

Buy

Rs1,078

Previous Recommendation: Buy

| YEAR<br>END | NET SALES<br>(RS B) | PAT<br>(RS B) | EPS<br>(RS) | P/E<br>(X) | ADJ. EPS<br>(RS) | ADJ. P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>EBITDA |
|-------------|---------------------|---------------|-------------|------------|------------------|-----------------|-------------|------------|-------------|---------------|
| 03/09A      | 1,418               | 153           | 52.6        | 20.5       | 58.9             | 18.3            | 2.2         | 15.7       | 12.5        | 15.9          |
| 03/10E      | 1,816               | 167           | 51.0        | 21.2       | 57.4             | 18.8            | 2.2         | 13.6       | 11.3        | 13.6          |
| 03/11E      | 1,995               | 239           | 72.5        | 14.9       | 81.6             | 13.2            | 1.9         | 16.6       | 14.9        | 9.6           |
| 03/12E      | 2,056               | 286           | 86.7        | 12.4       | 97.5             | 11.0            | 1.8         | 17.0       | 16.2        | 7.7           |

\* FY10E onwards includes RPET financials; Adj. EPS excludes treasury shares

- We expect RIL to post 3QFY10 net profit of Rs41b (v/s Rs35b in 3QFY09 and Rs38.5b in 2QFY10).
- We estimate GRM at US\$5/bbl v/s US\$6/bbl in 2QFY10. (including the new RPL refinery). We have built in GRM of US\$6.1/bbl for FY10 and US\$7/bbl in FY11.
- On the petchem business, we expect a sequential drop in margins due to cost pressure from naphtha and have built in a 10% drop in EBIT in 2HFY10. We expect margin pressure on petchem to continue from likely supply from new Middle East petchem plants.
- We have built in average gas volume at 48mmcsmd in 3QFY10. (v/s 32mmcsmd in 2QFY10). PNGRB has made allocations for 90mmcsmd of KGD6 gas. RIL will ramp up to 60mmcsmd by December 2009 and 80mmcsmd by March 2010. Accordingly, we have modeled an average of 41mmcsmd for FY10 and 80mmcsmd for FY11.
- Key factors to watch out for are (1) the outcome of RIL's bid to acquire LyondellBasell, (2) resolution of its court cases with RNRL and NTPC. We remain positive on RIL for its large E&P potential. **Buy.**

## QUARTERLY PERFORMANCE (STANDALONE)

(RS BILLION)

| Y/E MARCH                            | FY09         |              |              |              | FY10         |              |              |              | FY09           | FY10E          |
|--------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|----------------|----------------|
|                                      | 1Q           | 2Q           | 3Q           | 4Q           | 1Q           | 2Q           | 3QE          | 4QE          |                |                |
| <b>Net Sales</b>                     | <b>415.8</b> | <b>447.9</b> | <b>315.6</b> | <b>283.6</b> | <b>311.9</b> | <b>468.5</b> | <b>502.6</b> | <b>532.6</b> | <b>1,462.9</b> | <b>1,815.5</b> |
| Change (%)                           | 40.8         | 39.8         | -8.8         | -23.9        | -25.0        | 4.6          | 59.2         | 87.8         | 9.6            | 24.1           |
| <b>EBITDA</b>                        | <b>61.2</b>  | <b>64.7</b>  | <b>53.6</b>  | <b>54.4</b>  | <b>63.8</b>  | <b>72.2</b>  | <b>76.2</b>  | <b>87.8</b>  | <b>234.0</b>   | <b>300.0</b>   |
| % of Net Sales                       | 14.7         | 14.5         | 17.0         | 19.2         | 20.5         | 15.4         | 15.2         | 16.5         | 16.0           | 16.5           |
| Change (%)                           | 7.9          | 12.0         | -8.1         | -9.7         | 4.3          | 11.5         | 42.1         | 61.5         | 0.4            | 28.2           |
| Depreciation                         | 11.5         | 12.6         | 13.2         | 13.3         | 18.8         | 24.3         | 24.8         | 25.1         | 50.6           | 93.0           |
| Interest                             | 2.9          | 4.4          | 4.8          | 4.8          | 4.6          | 4.6          | 5.1          | 5.1          | 16.9           | 19.4           |
| Other Income                         | 2.3          | 1.5          | 6.6          | 9.9          | 7.1          | 6.3          | 6.3          | 7.4          | 20.3           | 27.1           |
| <b>PBT</b>                           | <b>49.0</b>  | <b>49.2</b>  | <b>42.3</b>  | <b>46.3</b>  | <b>47.6</b>  | <b>49.5</b>  | <b>52.7</b>  | <b>64.9</b>  | <b>186.8</b>   | <b>214.7</b>   |
| Tax                                  | 7.9          | 8.0          | 7.2          | 7.1          | 10.9         | 11.0         | 11.3         | 14.0         | 30.3           | 47.2           |
| Rate (%)                             | 16.2         | 16.3         | 17.1         | 15.3         | 22.9         | 22.2         | 21.5         | 21.6         | 16.2           | 22.0           |
| <b>Adj. PAT</b>                      | <b>41.1</b>  | <b>41.2</b>  | <b>35.0</b>  | <b>39.2</b>  | <b>36.7</b>  | <b>38.5</b>  | <b>41.3</b>  | <b>50.9</b>  | <b>156.5</b>   | <b>167.4</b>   |
| Change (%)                           | 13.2         | 7.4          | -9.8         | 0.1          | -10.8        | -6.6         | 18.1         | 30.1         | 2.5            | 7.0            |
| <b>Key Assumptions (US\$/bbl)</b>    |              |              |              |              |              |              |              |              |                |                |
| GRM                                  | 15.7         | 13.4         | 10.0         | 9.9          | 7.5          | 6.0          | 5.0          | 6.0          | 12.3           | 6.1            |
| Singapore GRM                        | 8.1          | 5.8          | 3.6          | 5.5          | 4.1          | 3.3          | 1.9          | 2.5          | 5.8            | 3.0            |
| Premium/(disc) to Singapore          | 7.6          | 7.6          | 6.4          | 4.4          | 3.4          | 2.7          | 3.1          | 3.5          | 6.5            | 3.1            |
| KG-D6 Gas Prodn (mmcsmd)             | -            | -            | -            | -            | 19           | 32           | 48           | 65           | -              | 41.0           |
| KG-D6 Gas Price (US\$/mmbtu)         |              |              |              |              | 4.2          | 4.2          | 4.2          | 4.2          |                | 4.2            |
| <b>Segmental EBIT Breakup (Rs b)</b> |              |              |              |              |              |              |              |              |                |                |
| Refining                             | 30.4         | 27.7         | 18.8         | 19.5         | 13.0         | 13.5         | 11.9         | 15.2         | 96.5           | 53.6           |
| Petrochemicals                       | 15.8         | 19.0         | 16.6         | 17.2         | 21.1         | 22.0         | 19.1         | 19.5         | 68.6           | 81.6           |
| E&P, Others                          | 5.1          | 6.5          | 6.1          | 4.9          | 10.2         | 12.4         | 20.4         | 27.9         | 22.6           | 70.9           |
| <b>Total</b>                         | <b>51.3</b>  | <b>53.3</b>  | <b>41.5</b>  | <b>41.6</b>  | <b>44.3</b>  | <b>47.8</b>  | <b>51.4</b>  | <b>62.7</b>  | <b>187.7</b>   | <b>206.1</b>   |

E: MOSL Estimates; \*RPL numbers are included in FY10

Harshad Borawake (HarshadBorawake@MotilalOswal.com) / Milind Bafna (Milind.Bafna@MotilalOswal.com)

## Pharmaceuticals

BSE Sensex: 17,402

S&amp;P CNX: 5,188

29 December 2009

## COMPANY NAME

Aventis Pharma  
 Biocon  
 Cadila Healthcare  
 Cipla  
 Divi's Laboratories  
 Dr Reddy's Labs.  
 GSK Pharma  
 Glenmark Pharma  
 Jubilant Organosys  
 Lupin  
 Piramal Healthcare  
 Ranbaxy Labs.  
 Sun Pharmaceuticals

## Adversaries turn potential partners

Over the past few quarters, global MNC pharmaceutical companies have increased their engagement with India. Given the growth challenges in the developed world, most of these MNCs are targeting generic products and emerging economies as the future growth drivers. India features prominently in this strategy due to the following advantages which it offers:

1. Strong chemistry and regulatory skills which are pre-requisites for building a strong generic business.
2. Access to low-cost manufacturing which is an important determinant of profitability in the global generic business.
3. Access to the fast growing domestic formulations businesses of the Indian players.

This interest in India gained further strength with Sanofi recently acquiring majority stake in Shantha Biotech and strong rumours of large MNCs interested in acquiring equity stakes in some of the leading Indian companies. The table on page 209 gives details on the MNC engagement in India.

## Key events and their implications in 3QFY10

## 1. Cipla negotiating potential supply agreements with few MNCs

Cipla management has recently indicated that it is in negotiations with a few global MNC pharmaceuticals companies for supply of generic products. It has also indicated that it is yet to sign / complete such deals. Media reports indicate that Cipla is in negotiations with Pfizer for a possible product supply arrangement (yet to be confirmed by Cipla management).

## EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

|                    | CMP (RS)<br>29.12.09 | RECO         | SALES   |       |       | EBITDA |       |       | NET PROFIT |       |       |
|--------------------|----------------------|--------------|---------|-------|-------|--------|-------|-------|------------|-------|-------|
|                    |                      |              | DEC.09  | VAR.  | VAR.  | DEC.09 | VAR.  | VAR.  | DEC.09     | VAR.  | VAR.  |
|                    |                      |              |         | % YOY | % QOQ |        | % YOY | % QOQ |            | % YOY | % QOQ |
| Pharmaceuticals    |                      |              |         |       |       |        |       |       |            |       |       |
| Aventis Pharma     | 1,631                | Under Review | 2,441   | -9.6  | -5.6  | 437    | -6.3  | 10.5  | 437        | -4.2  | -0.2  |
| Biocon             | 281                  | Buy          | 5,564   | 27.6  | -4.1  | 1,221  | 29.5  | 7.8   | 756        | 170.8 | 1.9   |
| Cadila Health      | 657                  | Buy          | 8,884   | 18.6  | -6.1  | 1,655  | 16.2  | -19.5 | 983        | 62.4  | -26.7 |
| Cipla              | 335                  | Buy          | 15,183  | 13.1  | 5.2   | 3,996  | 18.0  | 7.0   | 2,973      | 33.1  | 7.8   |
| Divis Labs         | 668                  | Buy          | 2,626   | -0.8  | 16.5  | 926    | -14.5 | -12.1 | 747        | -6.1  | -11.9 |
| Dr Reddy' s Labs   | 1,147                | Buy          | 16,190  | -12.0 | -11.9 | 2,704  | -35.7 | -1.6  | -1,509     | PL    | PL    |
| Glenmark Pharma    | 277                  | Neutral      | 6,438   | 10.7  | 9.1   | 1,665  | -12.0 | 6.5   | 840        | 43.9  | 3.8   |
| GSK Pharma         | 1,594                | Buy          | 4,001   | 9.7   | -21.8 | 1,068  | 4.9   | -43.5 | 961        | 7.4   | -31.9 |
| Jubilant Organosys | 341                  | Buy          | 10,300  | 13.2  | 10.4  | 1,920  | 36.1  | 16.8  | 1,238      | LP    | 114.7 |
| Lupin              | 1,464                | Buy          | 11,626  | 20.9  | 4.3   | 1,864  | 21.0  | 13.6  | 1,550      | 33.1  | -3.4  |
| Piramal Healthcare | 390                  | Buy          | 9,752   | 17.7  | -2.5  | 1,946  | 25.1  | 9.7   | 1,196      | 99.7  | 12.1  |
| Ranbaxy Labs       | 521                  | Neutral      | 19,659  | 20.1  | 4.2   | 2,024  | LP    | -16.6 | 909        | LP    | -24.1 |
| Sun Pharma         | 1,538                | Buy          | 9,640   | 5.0   | -11.5 | 3,579  | -13.4 | -7.6  | 3,593      | -12.1 | 11.0  |
| Sector Aggregate   |                      |              | 122,305 | 10.2  | -1.5  | 25,004 | 13.8  | -3.6  | 14,674     | 35.6  | -19.4 |

## INDIA: INCREASING MNC INTEREST

| COMPANY        | INDIA PRESENCE     | INCREASING SALES FORCE                        | OUTSOURCING FROM INDIA      | HAS ENGAGEMENT IN INDIA INCREASED RECENTLY   |
|----------------|--------------------|---|-----------------------------|--|
| Pfizer         | Yes                | Yes   | Yes                         | Yes - made an open offer to minority shareholders. Has also tied-up with Aurobindo & Claris for generic supplies. Plans a significant ramp-up in its global generic business by 2012 |
| GSK            | Yes                | Planning to add 150-200 MRs annually          | Yes                         | Yes - looking for inorganic growth opportunities   |
| Novartis       | Yes                | N.A.  | Yes                         | Yes - made an open offer to minority shareholders  |
| Sanofi-Aventis | Yes                | Yes   | Yes                         | Acquired majority stake in Shantha Biotech valuing it at US\$780m  |
| Merck (USA)    | Yes - recent entry | Rapid addition to MR strength in last 2 years | Yes                         | Yes - Has very aggressive ramp-up plans for India  |
| Eli Lilly      | Yes                | N.A.  | Yes                         |  |
| Abbott         | Yes                | N.A.  | Yes                         | Has announced frequent buybacks. Proposed acquisition of Solvay will enhance India business  |
| Daiichi        | Through Ranbaxy    | N.A.  | May explore through Ranbaxy | Acquired majority stake in Ranbaxy in 2008 valuing it at US\$8b  |
| Takeda         | No                 | NA  | NA                          | Planning India entry. May look at acquisitions/tie-ups with Indian companies   |
| AstraZeneca    | Yes                | Planning to double MR strength by CY10        | Yes                         | Yes - significant addition to sales force  |

Source: Companies/MOSL

We believe that Cipla is strongly positioned to emerge as a key supplier of generic products to global MNC/generic companies due to:

- 1. Strongest capex** (Rs30b between FY07-11) in the company's history by a conservative management – This implies that the company has large capacities in place and will be able to cater to multiple partners for product supplies. In the 2QFY10 conf call, Cipla indicated that it expects an improvement in asset/turnover in the coming years.
- 2. Strong chemistry skills** – Has filed 140 DMFs till date – One of the strongest DMF pipelines from India.
- 3. Large capacity for inhalers** – Cipla has the 3rd largest capacity globally and can become a key supplier to both MNCs/generic companies globally. Very few generic companies globally have the capability to cater to this market, given the technological and IPR barriers.

## 2. Generic Valtrex launch indicates first major success for Ranbaxy in salvaging FTF upsidess

Ranbaxy launched generic Valtrex in last week of November 2009 from its US facility. This product was covered in the "Import Alert" issued by the US FDA for the company's Dewas facility. While this plant awaits a re-inspection by the US FDA, Ranbaxy has successfully shifted the manufacturing of generic Valtrex to its US facility. We expect the company to generate one-time PAT of Rs6.8b from this opportunity in the 180-day exclusivity period. This is the first major success for Ranbaxy in salvaging FTF upsidess in

the US. We await further clarity on the remaining FTF opportunities which together have a potential DCF value of Rs112/sh.

RANBAXY FTF OPPORTUNITIES - DCF VALUATION

| PRODUCT                        | LAUNCH DATE | NPV (US\$ M) | NPV (RS/SH.) | FILED FROM |
|--------------------------------|-------------|--------------|--------------|------------|
| Valtrex                        | Nov-09      | 145          | 16           | Dewas & US |
| Nexium                         | CY10-CY14   | 410          | 45           | **         |
| Lipitor (US + 7 other markets) | Nov-11      | 310          | 34           | Paonta     |
| Flomax                         | Mar-10      | 54           | 6            | **         |
| Caduet                         | Nov-11      | 20           | 2            | **         |
| Diovan                         | Sep-12      | 63           | 7            | **         |
| <b>Total</b>                   |             | <b>1,003</b> | <b>110</b>   |            |

\*\* Can be either Paonta or Dewas

Source: Company/MOSL

### 3. Increase in tenders in Germany points to further pressure on profitability

Taking a cue from the AOK tender floated last year, many other insurance companies have invited bids for generic supplies in the past few months. AOK itself is in the process of finalizing a second tender for sourcing of drugs from generic companies.

We believe that this will result in increased pressure on profitability of generic companies operating in Germany (while volumes may increase). Amongst Indian companies, DRL is the most exposed to Germany and we believe that it may be forced to take another write-off in 3QFY10 related to impairment testing for its German operations.

### 4. Stringent US FDA leads to cGMP problems at many leading companies...

Over the past few quarters, many leading Indian pharmaceutical companies like Sun Pharma (Caraco) and Lupin have received 483s/warning letters from the US FDA related to cGMP non-compliance. Ranbaxy continues to be impacted by the part-ban imposed by the US FDA in Sep-2008. We believe that this has to partly do with the US FDA becoming more stringent in its approval process post the adverse experience with some of the Chinese facilities. Opening up of local offices in India by the US FDA will result in more frequent audits for Indian players. This implies that Indian companies will have to be ready for audits at short notices. We note that amongst the larger generic players, DRL and Cipla are least impacted and have been able to get US FDA clearances for their facilities with only a few minor observations.

### ...Next few months will determine ability of Indian companies to satisfy US FDA

We believe that the next few months will be crucial for some of the Indian generic players (like Ranbaxy, Lupin and Sun Pharma-Caraco) for determining their ability to satisfy cGMP norms of US FDA. Of late, we have witnessed a significant improvement in management confidence at both Ranbaxy and Lupin for resolving the on-going US FDA issues. For Ranbaxy, this confidence stems from the fact that the company is now taking corrective actions in consultation with the US FDA. It has requested the US FDA for a re-inspection of Dewas facility (expected shortly) and is currently implementing an action plan to resolve the cGMP issues at its Paonta Sahib facility. Lupin, which had received a warning letter from the US FDA in 2008, is confident of resolving the cGMP issues. Its Mandideep facility has recently undergone a re-inspection and a final response from the US FDA is expected in the next few months.

## US FDA COMPLIANCE STATUS FOR LEADING INDIAN COMPANIES

| COMPANY             | LATEST WARNING LETTER | REASON   | SUBSEQUENT ACTION BY US FDA   | CURRENT STATUS  |
|---------------------|-----------------------|--|---|---|
| Glenmark            | 30-Mar-09             | Unapproved drug (Morphine)                                 | None  | NA  |
| Lupin               | 7-May-09              | Non-compliance with cGMP norms for Mandideep facility      | None  | Awaiting US FDA clearance. Re-inspection completed                      |
| Ranbaxy             | 16-Sep-08             | Non-compliance with cGMP norms for Dewas & Paonta facility | Import alert issued. Triggered AIP for Paonta facility                | Awaiting US FDA re-inspection for Dewas. Implementing changes at Paonta |
|                     | 24-Dec-09             | Non-compliance with cGMP norms for liquids facility in US  | NA  | NA  |
| Caraco (Sun Pharma) | 31-Oct-08             | Non-compliance with cGMP norms for Detroit facility        | US FDA seized products manufactured at the Detroit facility in Jun-09 | Signed consent decree. Implementing changes                             |
| DRL                 | No warning letter     | NA   | NA  | US FDA inspection in Nov-09 resulted in one minor observation           |
| Cipla               | No warning letter     | NA   | NA  | NA  |

Source: Companies/US FDA/MOSL

**Semi-regulated markets continue to be attractive...**

The size of the semi-regulated markets is expected to increase from US\$46b in 2007 to US\$74b by 2012. The opportunity spans more than 150 markets through Latin America, Asia, Eastern Europe and Australia. The current market share of Indian companies is merely about 6%, implying that there is substantial room for growth. Secondly, most of these markets are branded generic markets, thus, resulting in better margins compared with the US generic market (GPM of about 60-70% compared with about 40-50% for the US). Indian generic companies have already established a reasonable presence in some of these markets (like Russia, Latam) while they are in the process of strengthening their presence in some of the other markets (like China, Australia, New Zealand). We expect most of the Indian generic companies to report strong double-digit growth in RoW markets.

**...easing liquidity/credit and recovery in currencies likely to result in double-digit growth**

In the past few quarters, global liquidity conditions have started easing partly. We believe that this is likely to enable the trade channels in emerging markets to re-stock inventories, which is likely to lead to double-digit growth for these markets. We also note that many emerging market currencies have partly recovered (against the US\$) which is also likely to contribute to the positive growth momentum. Some of the key factors to watch out for over the next few quarters will be:

1. Improvement in working capital cycles in emerging markets – Ranbaxy, Glenmark and DRL are most exposed to these markets.
2. Extent of inventory correction undertaken by the global MNC pharmaceutical companies – Most Indian CRAMS companies will be impacted by this. We believe that this inventory correction can last till 3QFY10. A gradual re-stocking of inventory is expected in FY11E which is likely to improve the performance of Indian CRAMS players.
3. Slow-down in CRAMS business from small and mid-sized research/biotech companies – Most of the CRAMS players have some exposure to this segment but not very significant. DRL's evolving CPS business also has some exposure to this segment.

### Emerging markets and US to be key growth drivers

We expect most of the generic companies to report higher sales in emerging markets and the US (excluding upsides from patent challenges). The trade channels in emerging economies have commenced re-stocking inventory while their local currencies have stabilized vs the US\$. These two factors are likely to augur well for growth in emerging markets for 3QFY10. The growth in the US will be driven mainly by increased pace of new product launches. This is especially true for the tier-2 generic companies, for which, past product filings with the US FDA are now coming up for approvals leading to increased pace of new launches. The exception to this trend will be Ranbaxy which will witness a 15-20% decline in US revenues due to the ongoing US FDA ban and Sun Pharma due to high base of last year and on-going US FDA issues at Caraco.

### Currency appreciation to temper down top-line growth

The INR has appreciated by ~4.7% YoY vs the US\$. It has also appreciated by ~4% sequentially. This is likely to temper down top-line growth partly for the larger Indian players with higher exposure to the US\$. Amongst larger Indian companies, DRL (hedges of US\$217m) and Cipla are inadequately hedged given the significant net US\$ exposure. Ranbaxy with US\$0.8-1b of hedges is adequately hedged (although some of the hedges are at unfavourable rates) while Sun Pharma's net US\$ exposure is not very high.

### Cipla, Ranbaxy to record operational improvement

Of the larger generic companies, both Cipla and Ranbaxy are expected to record operational improvement for 3QFY10. Sun Pharma will continue to suffer from US FDA issues and high base due to absence of Pantoprazole supplies. We attribute the following company-specific reasons for 3QFY10 performance:

1. Ranbaxy – improvement in core operational performance led by better cost control and contribution from generic Valtrex exclusivity supplies.
2. Cipla – improved operational performance due better product-mix and low base of 3QFY09 (due to forex loss of Rs426m).
3. Sun Pharma – muted core operational performance due to on-going US FDA issues at Caraco and higher base (due to Pantoprazole exclusivity supplies in 3QFY09).
4. DRL – muted performance due to high base of 3QFY09 (on account of generic Imitrex supplies under exclusivity) and potential impairment write-offs for German operations.

### CRAMS players to reflect impact of on-going inventory correction by customers

Most Indian CRAMS companies will be impacted by the on-going inventory reduction undertaken by CRAMS customers. We believe that 3QFY10 will be the last quarter of this inventory correction and a gradual re-stocking of inventory is expected from 4QFY10 onwards. Full recovery in outsourcing business is expected from FY11E onwards.

### MNC performance continues to be lackluster

We expect our MNC pharmaceutical universe (Aventis and GSK) to record flat topline growth for the quarter, mainly due to high base effect and loss of Rabipur sales for Aventis (leading to 9.6% revenue de-growth). GSK's topline is expected to record 9.7% growth.



However, EBITDA for both GSK Pharma and Aventis is likely to remain flat for the quarter. We expect GSK's PAT to record 7.4% growth while Aventis is likely to record 4.2% de-growth in PAT.

## Outlook

### Generics

We believe that the worst is over for Indian generic companies and expect gradual improvement in their performance over the next two years. Emerging markets and the US are likely to be key revenue drivers in the short-to-medium term. Japan will be the next frontier of growth for generics in the long-term.

Geographically diversified operations, a pragmatic mix of IPR driven low-competition and normal products, vertically integrated operations and a differentiated business model are the key prerequisites for success in the generics space. Our top picks in the generic space are **Cipla** and **Lupin**.

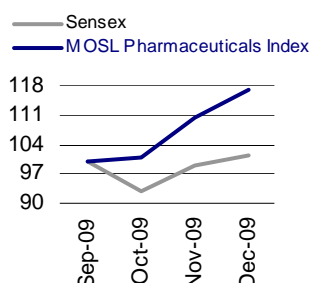
### CRAMS

Despite the short-term adverse impact of inventory corrections, we believe that the Indian contract-manufacturing segment will see strong double-digit secular growth (given India's advantages) with the financial impact visible from FY11E onwards. **Divi's Labs** and **Piramal Healthcare** remain our top picks among the CRAMS players.

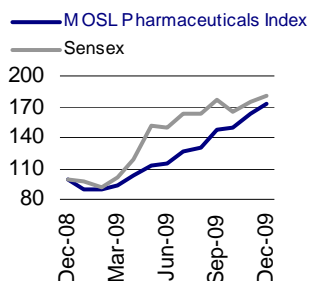
### MNC pharma

We remain favorably inclined towards MNC Pharma stocks in the long term. In our view, the current risk-reward equation is stacked in favor of MNC stocks. Leading Pharma MNCs are geared to gain from the opportunities arising in the stronger patent regime. We remain bullish on the long-term prospects of these companies. The potential upside from product patents would create 'option value' in these stocks over the longer term. It should be noted that some of the patented products may be launched by the parent through the 100% subsidiary route. However, we believe that most of the mass-market products (which need a large field force for promotion) are likely to be launched through the listed entities. **GSK Pharma** remains our top pick among the MNCs.

RELATIVE PERFORMANCE - 3M (%)



RELATIVE PERFORMANCE - 1YR (%)



COMPARATIVE VALUATION

|                    | CMP (RS)<br>29.12.09 | RECO    | EPS (RS) |       |       | P/E (X) |       |       | EV/EBITDA |       |       | ROE (%) |       |       |
|--------------------|----------------------|---------|----------|-------|-------|---------|-------|-------|-----------|-------|-------|---------|-------|-------|
|                    |                      |         | FY10E    | FY11E | FY12E | FY10E   | FY11E | FY12E | FY10E     | FY11E | FY12E | FY10E   | FY11E | FY12E |
| Pharmaceuticals    |                      |         |          |       |       |         |       |       |           |       |       |         |       |       |
| Aventis Pharma     | 1,631                | UR      | 76.0     | 85.2  | 99.3  | 21.5    | 19.1  | 16.4  | 17.5      | 15.1  | 11.8  | 20.3    | 20.0  | 20.5  |
| Biocon             | 281                  | Buy     | 13.8     | 15.7  | 18.0  | 20.3    | 17.9  | 15.6  | 12.2      | 10.9  | 9.3   | 16.1    | 16.0  | 16.1  |
| Cadila Health      | 657                  | Buy     | 33.3     | 40.5  | 51.5  | 19.8    | 16.3  | 12.8  | 12.9      | 11.2  | 9.1   | 33.3    | 31.6  | 31.5  |
| Cipla              | 335                  | Buy     | 13.8     | 17.0  | 19.9  | 24.2    | 19.7  | 16.8  | 17.7      | 15.1  | 12.8  | 18.8    | 19.8  | 19.7  |
| Divis Labs         | 668                  | Buy     | 24.8     | 29.4  | 35.2  | 27.0    | 22.8  | 19.0  | 22.2      | 18.5  | 15.5  | 23.7    | 23.6  | 23.7  |
| Dr Reddy's Labs    | 1,147                | Buy     | 19.6     | 52.2  | 59.9  | 58.5    | 22.0  | 19.2  | 17.1      | 16.2  | 14.2  | 7.4     | 17.3  | 17.5  |
| GSK Pharma         | 1,594                | Buy     | 58.3     | 68.8  | 79.7  | 27.3    | 23.2  | 20.0  | 18.9      | 16.7  | 14.2  | 29.1    | 30.9  | 32.3  |
| Glenmark Pharma    | 277                  | Neutral | 10.5     | 15.4  | 17.5  | 26.5    | 18.0  | 15.8  | 14.0      | 11.3  | 10.1  | 13.1    | 13.3  | 13.3  |
| Jubilant Organosys | 341                  | Buy     | 29.4     | 23.2  | 26.2  | 11.6    | 14.7  | 13.0  | 11.8      | 11.1  | 9.4   | 30.2    | 19.0  | 17.9  |
| Lupin              | 1,464                | Buy     | 68.1     | 84.2  | 94.8  | 21.5    | 17.4  | 15.4  | 17.6      | 13.5  | 11.8  | 36.3    | 34.6  | 30.9  |
| Piramal Healthcare | 390                  | Buy     | 21.8     | 28.1  | 33.1  | 17.9    | 13.9  | 11.8  | 12.3      | 10.0  | 8.6   | 30.6    | 31.1  | 29.4  |
| Ranbaxy Labs       | 521                  | Neutral | 4.2      | 7.1   | 12.3  | 122.8   | 73.2  | 42.4  | 48.1      | 41.6  | 28.0  | 4.1     | 6.5   | 10.5  |
| Sun Pharma         | 1,538                | Buy     | 58.2     | 66.2  | 72.7  | 26.4    | 23.2  | 21.1  | 22.1      | 20.2  | 17.7  | 15.9    | 15.8  | 15.3  |
| Sector Aggregate   |                      |         |          |       |       | 27.3    | 21.4  | 18.2  | 18.2      | 15.8  | 13.4  | 17.5    | 18.9  | 19.2  |

UR = Under Review

## Aventis Pharma

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | HOEC IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | HOEC.BO      |

29 December 2009

Under Review

Previous Recommendation: Buy

Rs1,631

|                     |             |
|---------------------|-------------|
| Equity Shares (m)   | 23.0        |
| 52 Week Range (Rs)  | 1,644 / 803 |
| 1,6,12 Rel Perf (%) | 0 / 26 / -9 |
| Mcap (Rs b)         | 37.6        |
| Mcap (USD b)        | 0.8         |

| YEAR   | NET SALES | PAT    | EPS  | EPS        | P/E  | P/BV | ROE  | ROCE | EV/   | EV/    |
|--------|-----------|--------|------|------------|------|------|------|------|-------|--------|
| END*   | (RS M)    | (RS M) | (RS) | GROWTH (%) | (X)  | (X)  | (%)  | (%)  | SALES | EBITDA |
| 12/08A | 9,833     | 1,662  | 72.2 | 15.1       | 22.6 | 4.9  | 21.7 | 33.9 | 3.2   | 17.1   |
| 12/09E | 9,814     | 1,751  | 76.0 | 5.4        | 21.5 | 4.4  | 20.3 | 30.8 | 3.1   | 17.5   |
| 12/10E | 11,071    | 1,962  | 85.2 | 12.0       | 19.1 | 3.8  | 20.0 | 30.4 | 2.7   | 15.1   |
| 12/11E | 12,549    | 2,288  | 99.3 | 16.6       | 16.4 | 3.4  | 20.5 | 31.1 | 2.2   | 11.8   |

- APL's 4QCY09 topline is expected to de-grow by 9.6% to Rs2.4b due to pressure on the domestic formulations business, given the discontinuation of Rabipur sales. Higher base effect for export revenues will also impact topline growth.
- EBITDA margins are expected to improve only marginally by 60bp mainly due to absence of Rabipur sales (a high margin product contributing about 12% of revenue).
- We estimate PAT de-growth of 4.2% for the quarter at Rs437m due to de-growth in topline.

We believe that APL will be one of the key beneficiaries of the patent regime in the long-term. The parent has a strong R&D pipeline with a total of 81 products undergoing clinical trials, of which 42 are in Phase-III, some of which are likely to be launched in India. Topline growth continues to be elusive and is thus impacting margins and earnings for APL. We expect the company to record EPS of Rs76 for CY09E (5.4% YoY growth despite absence of Rabipur) and Rs85.2 for CY10E (up 12%). It is currently valued at 21.5x CY09E and 19.1x CY10E EPS. We believe that the stock price performance is likely to remain muted in the short-term till clarity emerges on growth drivers in absence of Rabipur revenues. Our recommendation is currently Under Review pending our interaction with the management.

## QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

| Y/E DECEMBER              | CY08         |              |              |              | CY09         |              |              |              | CY08         | CY09E        |
|---------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                           | 1Q           | 2Q           | 3Q           | 4Q           | 1Q           | 2Q           | 3Q           | 4QE          |              |              |
| <b>Net Sales</b>          | <b>2,169</b> | <b>2,486</b> | <b>2,479</b> | <b>2,699</b> | <b>2,289</b> | <b>2,499</b> | <b>2,585</b> | <b>2,441</b> | <b>9,833</b> | <b>9,814</b> |
| YoY Change (%)            | 1.9          | 8.0          | 9.5          | 32.3         | 5.5          | 0.5          | 4.3          | -9.6         | 12.6         | -0.2         |
| Total Expenditure         | 1,764        | 1,982        | 2,000        | 2,232        | 1,899        | 1,970        | 2,189        | 2,004        | 7,978        | 8,062        |
| <b>EBITDA</b>             | <b>405</b>   | <b>504</b>   | <b>479</b>   | <b>467</b>   | <b>390</b>   | <b>529</b>   | <b>396</b>   | <b>437</b>   | <b>1,855</b> | <b>1,752</b> |
| Margins (%)               | 18.7         | 20.3         | 19.3         | 17.3         | 17.0         | 21.2         | 15.3         | 17.9         | 18.9         | 17.9         |
| Depreciation              | 51           | 44           | 43           | 44           | 42           | 43           | 44           | 48           | 182          | 177          |
| Interest                  | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 3            | 0            |
| Other Income              | 189          | 196          | 253          | 288          | 320          | 249          | 289          | 220          | 926          | 1,078        |
| <b>PBT after EO Items</b> | <b>543</b>   | <b>656</b>   | <b>689</b>   | <b>711</b>   | <b>668</b>   | <b>735</b>   | <b>641</b>   | <b>609</b>   | <b>2,596</b> | <b>2,653</b> |
| Tax                       | 198          | 238          | 243          | 255          | 263          | 264          | 203          | 172          | 934          | 902          |
| Effective tax Rate (%)    | 36.5         | 36.3         | 35.3         | 35.9         | 39.4         | 35.9         | 31.7         | 28.2         | 36.0         | 34.0         |
| <b>Reported PAT</b>       | <b>345</b>   | <b>418</b>   | <b>446</b>   | <b>456</b>   | <b>405</b>   | <b>471</b>   | <b>438</b>   | <b>437</b>   | <b>1,662</b> | <b>1,751</b> |
| <b>Adj PAT</b>            | <b>345</b>   | <b>418</b>   | <b>446</b>   | <b>456</b>   | <b>405</b>   | <b>471</b>   | <b>438</b>   | <b>437</b>   | <b>1,662</b> | <b>1,751</b> |
| YoY Change (%)            | -20.3        | 12.1         | 21.2         | 68.9         | 17.4         | 12.7         | -1.8         | -4.2         | 15.1         | 5.4          |
| Margins (%)               | 15.9         | 16.8         | 18.0         | 16.9         | 17.7         | 18.8         | 16.9         | 17.9         | 16.9         | 17.8         |

E: MOSL Estimates

## Biocon

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE SENSEX: 17,402 | BIOS IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | BION.BO      |

29 December 2009

Buy

Rs281

Previous Recommendation: Buy

|                     |            |
|---------------------|------------|
| Equity Shares (m)   | 200.0      |
| 52 Week Range (Rs)  | 298 / 90   |
| 1,6,12 Rel Perf (%) | 5 / 5 / 51 |
| Mcap (Rs b)         | 56.2       |
| Mcap (USD b)        | 1.2        |

| YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 03/09A      | 16,091              | 935           | 4.7         | -79.2             | 60.1       | 3.7         | 6.2        | 6.2         | 3.6          | 17.8          |
| 03/10E      | 21,822              | 2,769         | 13.8        | 196.3             | 20.3       | 3.3         | 16.1       | 16.7        | 2.6          | 12.2          |
| 03/11E      | 24,927              | 3,140         | 15.7        | 13.4              | 17.9       | 2.9         | 16.0       | 16.4        | 2.2          | 10.9          |
| 03/12E      | 28,948              | 3,597         | 18.0        | 14.5              | 15.6       | 2.5         | 16.1       | 16.4        | 1.8          | 9.3           |

- Biocon's 3QFY10 topline is expected to grow by 27.6% mainly due to a 25% increase in contract research revenues due to gradual scale-up of the BMS contract as well as 33% growth in AxiCorp operations (Germany) due to supply of Metformin under AOK contract. Biopharma revenues are expected to record 24% growth albeit on a low base of 3QFY09.
- Despite strong topline growth EBITDA margins are expected to expand by only 60bp due to 33% increase in RM & power costs, 22% increase in staff costs and increasing R&D expenses.
- Biocon has converted all its forex hedges into cash-flow hedges (making them "effective hedges") on which no MTM provision for forex losses is to be made. The company has also adopted the revised AS-11 guidelines, although the impact due to this change is negligible. This implies that the impact of forex losses/gains on the P&L will be limited only to the extent of actual losses/gains. This will result in negligible forex volatility for 3QFY10 as compared to Rs458m of forex losses for 3QFY09 thus boosting PAT by 171% to Rs756m.

Traction in the company's Insulin and contract research initiative, coupled with incremental contribution from immunosuppressants should augur well for Biocon's FY10E performance. However, higher R&D costs, higher depreciation and expenses linked to the scale-up of the domestic formulations business will continue to temper down earnings growth. We expect FY10 EPS of Rs13.8 (up 196% due to low-base) and FY11 EPS of Rs15.7 (up 13.4%). Biocon is currently valued at 20.3x FY10E and 17.9x FY11E earnings. Maintain **Buy**.

## QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

| Y/E MARCH         | FY09         |              |              |              | FY10         |              |              |              | FY09          | FY10E         |
|-------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|
|                   | 1Q           | 2Q           | 3Q           | 4Q           | 1Q           | 2Q           | 3QE          | 4QE          |               |               |
| <b>Net Sales</b>  | <b>2,639</b> | <b>4,427</b> | <b>4,362</b> | <b>4,663</b> | <b>4,959</b> | <b>5,800</b> | <b>5,564</b> | <b>5,499</b> | <b>16,488</b> | <b>21,822</b> |
| YoY Change (%)    | -2.6         | 58.7         | 84.1         | 58.6         | 87.9         | 31.0         | 27.6         | 17.9         | 52.5          | 32.4          |
| Total Expenditure | 2,063        | 3,598        | 3,420        | 3,765        | 3,946        | 4,668        | 4,344        | 4,247        | 12,853        | 17,204        |
| <b>EBITDA</b>     | <b>576</b>   | <b>830</b>   | <b>943</b>   | <b>898</b>   | <b>1,013</b> | <b>1,132</b> | <b>1,221</b> | <b>1,252</b> | <b>3,635</b>  | <b>4,618</b>  |
| Margins (%)       | 21.8         | 18.7         | 21.6         | 19.2         | 20.4         | 19.5         | 21.9         | 22.8         | 22.0          | 21.2          |
| Depreciation      | 253.0        | 290.4        | 270.9        | 306.2        | 324.0        | 351.0        | 355.0        | 363.5        | 1,102.5       | 1,393.5       |
| Interest          | 37.0         | 42.2         | 36.3         | 61.3         | 56.0         | 52.0         | 60.0         | 75.7         | 176.6         | 243.7         |
| Other Income      | -129.0       | -190.2       | -296.0       | -211.3       | 94.0         | 124.0        | 120.0        | 138.0        | -827.4        | 476.0         |
| <b>PBT</b>        | <b>157</b>   | <b>307</b>   | <b>339</b>   | <b>319</b>   | <b>727</b>   | <b>853</b>   | <b>926</b>   | <b>951</b>   | <b>1,528</b>  | <b>3,456</b>  |
| Tax               | 18           | 61           | 60           | -20          | 142          | 94           | 145          | 207          | 118           | 588           |
| Rate (%)          | 11.5         | 19.9         | 17.7         | -6.2         | 19.5         | 11.0         | 15.6         | 21.8         | 7.7           | 17.0          |
| Minority Interest | -10          | -6           | 0            | 86           | 14           | 17           | 25           | 44           | 71            | 100           |
| <b>PAT</b>        | <b>149</b>   | <b>252</b>   | <b>279</b>   | <b>253</b>   | <b>571</b>   | <b>742</b>   | <b>756</b>   | <b>700</b>   | <b>1,339</b>  | <b>2,769</b>  |
| YoY Change (%)    | -71.9        | -53.3        | -47.4        | -72.4        | 283.5        | 194.4        | 170.8        | 176.9        | -46.8         | 106.8         |
| Margins (%)       | 5.6          | 5.7          | 6.4          | 5.4          | 11.5         | 12.8         | 13.6         | 12.7         | 8.1           | 12.7          |

E: MOSL Estimates

Nimish Desai (NimishDesai@MotilalOswal.com)

## Cadila Healthcare

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | CDH IN       |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | CADI.BO      |

29 December 2009

Buy

Rs657

Previous Recommendation: Buy

|                     |             |
|---------------------|-------------|
| Equity Shares (m)   | 125.6       |
| 52 Week Range (Rs)  | 699 / 233   |
| 1,6,12 Rel Perf (%) | 7 / 48 / 72 |
| Mcap (Rs b)         | 82.6        |
| Mcap (USD b)        | 1.8         |

| YEAR<br>END* | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|--------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 03/09A       | 29,275              | 3,228         | 22.2        | 8.4               | 29.6       | 7.5         | 26.9       | 23.6        | 3.2          | 15.3          |
| 03/10E       | 36,060              | 4,540         | 33.3        | 49.8              | 19.8       | 5.8         | 33.1       | 22.0        | 2.6          | 12.8          |
| 03/11E       | 41,886              | 5,518         | 40.5        | 21.5              | 16.3       | 4.6         | 31.6       | 21.6        | 2.2          | 10.9          |
| 03/12E       | 49,175              | 7,020         | 51.5        | 27.2              | 12.8       | 3.6         | 31.5       | 23.2        | 1.9          | 9.1           |

- Cadila's 3Q topline is likely to record 18.6% growth led by a 22% growth in exports (contributing 48% of revenues). The company's consumer business in India is expected to record 22% growth while domestic formulation revenues are expected to grow by 11% for the quarter.
- EBITDA margins are likely to decline by 40bp to 18.6% due to adverse product-mix and higher staff costs.
- PAT is likely to record 62% growth to Rs983m for the quarter due to above reasons and partly boosted by low base of 3QFY09 (due to forex losses). Lower effective tax at 13% of PBT vs 32% for 3QFY10 will also help in boosting PAT.

Traction in international business, commencement of Hospira supplies coupled with a de-risked business model should ensure good long-term potential for the company. We expect Cadila to record FY10 EPS of Rs33.3 (up 50% on low base) and FY11 EPS of Rs40.5 (up 21.5%) leading to a 35% EPS CAGR for FY09-11E. This growth will be led by increased traction in its international businesses and ramp-up in supplies to Hospira. We expect RoE of more than 30% over the next two years. Cadila is currently valued at 19.8x FY10E and 16.3x FY11E consolidated earnings. Maintain **Buy**.

## QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

| Y/E MARCH                   | FY09         |              |              |              | FY10         |              |              |              | FY09          | FY10E         |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|
|                             | 1Q           | 2Q           | 3Q           | 4Q           | 1Q           | 2Q           | 3QE          | 4QE          |               |               |
| <b>Net Revenues</b>         | <b>6,985</b> | <b>7,566</b> | <b>7,491</b> | <b>7,233</b> | <b>9,036</b> | <b>9,458</b> | <b>8,884</b> | <b>8,683</b> | <b>29,275</b> | <b>36,060</b> |
| YoY Change (%)              | 22.1         | 24.2         | 29.3         | 28.7         | 29.4         | 25.0         | 18.6         | 20.0         | 26.0          | 23.2          |
| Total Expenditure           | 5,524        | 5,884        | 6,067        | 5,743        | 6,998        | 7,401        | 7,229        | 7,011        | 23,217        | 28,640        |
| <b>EBITDA</b>               | <b>1,461</b> | <b>1,681</b> | <b>1,425</b> | <b>1,491</b> | <b>2,037</b> | <b>2,057</b> | <b>1,655</b> | <b>1,672</b> | <b>6,057</b>  | <b>7,421</b>  |
| Margins (%)                 | 20.9         | 22.2         | 19.0         | 20.6         | 22.5         | 21.7         | 18.6         | 19.3         | 20.7          | 20.6          |
| Depreciation                | 246          | 259          | 299          | 314          | 296          | 311          | 320          | 347          | 1,118         | 1,274         |
| Interest                    | 148          | 99           | 233          | 440          | 229          | 206          | 220          | 231          | 1,205         | 886           |
| Other Income                | 27           | -269         | -11          | 172          | 28           | 16           | 40           | 37           | 204           | 121           |
| <b>PBT before EO Income</b> | <b>1,094</b> | <b>1,054</b> | <b>881</b>   | <b>909</b>   | <b>1,540</b> | <b>1,556</b> | <b>1,155</b> | <b>1,131</b> | <b>3,938</b>  | <b>5,381</b>  |
| EO Exp/(Inc)                | 0            | 18           | 0            | 223          | 9            | 26           | 0            | 0            | 241           | 35            |
| <b>PBT after EO Income</b>  | <b>1,094</b> | <b>1,036</b> | <b>881</b>   | <b>686</b>   | <b>1,531</b> | <b>1,530</b> | <b>1,155</b> | <b>1,131</b> | <b>3,697</b>  | <b>5,346</b>  |
| Tax                         | 123          | 101          | 284          | 158          | 242          | 176          | 150          | 180          | 666           | 748           |
| Rate (%)                    | 11.3         | 9.7          | 32.2         | 23.0         | 15.8         | 11.5         | 13.0         | 16.0         | 18.0          | 14.0          |
| Minority Int/Adj on Consol  | 74           | -14          | -8           | -51          | 40           | 35           | 22           | -10          | 1             | 88            |
| <b>Reported PAT</b>         | <b>897</b>   | <b>949</b>   | <b>605</b>   | <b>579</b>   | <b>1,248</b> | <b>1,319</b> | <b>983</b>   | <b>960</b>   | <b>3,031</b>  | <b>4,510</b>  |
| <b>Adj PAT</b>              | <b>897</b>   | <b>965</b>   | <b>606</b>   | <b>796</b>   | <b>1,256</b> | <b>1,342</b> | <b>983</b>   | <b>960</b>   | <b>3,228</b>  | <b>4,540</b>  |
| YoY Change (%)              | 21.4         | 17.4         | 10.3         | 53.2         | 40.0         | 39.0         | 62.4         | 20.5         | 22.7          | 40.6          |
| Margins (%)                 | 12.8         | 12.8         | 8.1          | 11.0         | 13.9         | 14.2         | 11.1         | 11.1         | 11.0          | 12.6          |

E: MOSL Estimates; Quarterly numbers don't add up to full year numbers due to restatement

Cipla

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE SENSEX: 17,402 | CIPLA IN     |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | CIPL.BO      |

29 December 2009

Buy

Rs335

Previous Recommendation: Buy

|                     |            |
|---------------------|------------|
| Equity Shares (m)   | 802.9      |
| 52 Week Range (Rs)  | 363 / 172  |
| 1,6,12 Rel Perf (%) | 2 / 10 / 0 |
| Mcap (Rs b)         | 269.3      |
| Mcap (USD b)        | 5.8        |

| YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 03/09A      | 52,343              | 7,768         | 10.0        | 10.6              | 33.6       | 6.0         | 17.9       | 17.1        | 5.3          | 22.8          |
| 03/10E      | 58,796              | 11,108        | 13.8        | 38.0              | 24.2       | 4.6         | 18.8       | 19.9        | 4.6          | 17.7          |
| 03/11E      | 69,264              | 13,684        | 17.0        | 23.0              | 19.7       | 3.9         | 19.8       | 20.3        | 3.9          | 15.1          |
| 03/12E      | 80,394              | 16,011        | 19.9        | 16.8              | 16.8       | 3.3         | 19.7       | 21.6        | 3.3          | 12.8          |

- Cipla's 3QFY10 topline is likely to grow by 13% led by a 14% growth in domestic formulations business and 13.5% growth in export revenues. A 4.7% YoY appreciation of the INR vs the US\$ will partly temper down top-line growth.
- EBITDA margins are likely to expand by 110bp YoY due to improving product-mix and lower other expenses.
- While EBITDA is likely to grow by 18%, PAT is likely to record 33% growth to Rs2.97b led by better operational performance and partly boosted by low base (Rs426m forex loss recorded in 3QFY09).

We believe that Cipla has one of the strongest generic pipelines amongst Indian companies. It has tie-ups with 21 US-based generic companies for supply of generic products. After a long delay, we believe that Cipla's CFC-free inhaler pipeline is likely to gradually get commercialized in Europe and upsides from high-margin opportunities like Seretide can potentially come through over the next two years (our estimates do not include these upsides). This coupled with its low-risk strategy and one of the strongest capex in the company's history should ensure good long-term potential. We expect Cipla to record 31% EPS CAGR for FY09-11 albeit on a low base (due to forex losses for FY09). Cipla is currently valued at 24.2x FY10E and 19.7x FY11E earnings (excl upsides from any potential MNC supply agreements). Maintain **Buy**. Large supply agreements with global MNCs are likely to lead to earnings upgrade as and when such deals are made public.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH                | FY09          |               |               |               | FY10          |               |               |               | FY09          | FY10E         |
|--------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                          | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3QE           | 4QE           |               |               |
| <b>Net Sales</b>         | <b>12,071</b> | <b>13,547</b> | <b>13,420</b> | <b>13,305</b> | <b>13,760</b> | <b>14,429</b> | <b>15,183</b> | <b>15,424</b> | <b>52,343</b> | <b>58,796</b> |
| YoY Change (%)           | 33.9          | 23.3          | 21.5          | 21.1          | 14.0          | 6.5           | 13.1          | 15.9          | 24.5          | 12.3          |
| Total Expenditure        | 9,371         | 10,392        | 10,035        | 10,326        | 10,075        | 10,695        | 11,187        | 11,515        | 40,124        | 43,472        |
| <b>EBITDA</b>            | <b>2,701</b>  | <b>3,155</b>  | <b>3,385</b>  | <b>2,978</b>  | <b>3,685</b>  | <b>3,733</b>  | <b>3,996</b>  | <b>3,909</b>  | <b>12,219</b> | <b>15,323</b> |
| Margins (%)              | 22.4          | 23.3          | 25.2          | 22.4          | 26.8          | 25.9          | 26.3          | 25.3          | 23.3          | 26.1          |
| Depreciation             | 382           | 406           | 412           | 318           | 458           | 478           | 520           | 587           | 1,518         | 2,043         |
| Interest                 | 37            | 56            | 110           | 127           | 105           | 84            | 120           | 129           | 329           | 437           |
| Other Income             | -576          | -876          | -241          | 335           | -150          | 203           | 270           | 380           | -1,359        | 703           |
| <b>Profit before Tax</b> | <b>1,705</b>  | <b>1,817</b>  | <b>2,622</b>  | <b>2,869</b>  | <b>2,972</b>  | <b>3,375</b>  | <b>3,626</b>  | <b>3,573</b>  | <b>9,013</b>  | <b>13,546</b> |
| Tax                      | 305           | 303           | 388           | 250           | 555           | 618           | 653           | 613           | 1,245         | 2,438         |
| Rate (%)                 | 17.9          | 16.6          | 14.8          | 8.7           | 18.7          | 18.3          | 18.0          | 17.2          | 13.8          | 18.0          |
| <b>Reported PAT</b>      | <b>1,400</b>  | <b>1,514</b>  | <b>2,234</b>  | <b>2,619</b>  | <b>2,417</b>  | <b>2,757</b>  | <b>2,973</b>  | <b>2,960</b>  | <b>7,768</b>  | <b>11,108</b> |
| YoY Change (%)           | 16.9          | -20.6         | 6.1           | 85.1          | 72.6          | 82.1          | 33.1          | 13.0          | 17.3          | 43.0          |
| Margins (%)              | 11.6          | 11.2          | 16.6          | 19.7          | 17.6          | 19.1          | 19.6          | 19.2          | 14.8          | 18.9          |

E: MOSL Estimates

## Divi's Laboratories

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | DIVIIN       |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | DIVI.BO      |

29 December 2009

Buy

Rs668

Previous Recommendation: Buy

|                     |              |
|---------------------|--------------|
| Equity Shares (m)   | 129.5        |
| 52 Week Range (Rs)  | 692 / 383    |
| 1,6,12 Rel Perf (%) | 8 / -3 / -80 |
| Mcap (Rs b)         | 86.6         |
| Mcap (USD b)        | 1.9          |

| YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 03/09A      | 11,803              | 4,166         | 32.2        | 19.5              | 20.8       | 7.0         | 39.6       | 40.6        | 7.4          | 16.8          |
| 03/10E      | 10,101              | 3,209         | 24.8        | -23.0             | 27.0       | 5.9         | 23.7       | 26.7        | 8.1          | 21.0          |
| 03/11E      | 11,671              | 3,801         | 29.4        | 18.5              | 22.8       | 4.9         | 23.6       | 26.6        | 6.8          | 16.9          |
| 03/12E      | 13,948              | 4,565         | 35.2        | 20.1              | 19.0       | 4.1         | 23.7       | 26.8        | 5.6          | 13.8          |

- We expect flat top-line growth for Divi's in 3QFY10 to Rs2.6b reflecting the adverse impact of the on-going inventory corrections undertaken by customers. We believe that this impact will last till 3QFY10 and expect a gradual recovery in CRAMS revenues beginning 4QFY10 onwards. The company commissioned its Carotenoids facility in June 2009 and we expect a gradual scale-up in revenues from this initiative over the next two years.
- While EBITDA is likely to decline by 14% to Rs926m, EBITDA margins are likely to decline by 570bp to 35.2% reflecting the above impact as well as the high base effect of 3QFY09.
- Bottomline is expected de-grow by 6% to Rs747m reflecting the slowdown in CRAMS business and the reduction in EBITDA margins.

Divi's performance in the short-term will be adversely impacted as customers are reducing inventories. We note that near-term earnings visibility is contingent on innovator companies re-starting sourcing from CRAMS companies. We expect Divi's to face a challenging FY10 given the high base of last year, coupled with inventory correction by customers. However, we continue to be positive on prospects of pharmaceutical outsourcing from India, given the unique combination of low costs and chemistry skills which India offers. We expect Divi's to be a key beneficiary of the increased pharmaceutical outsourcing from India given its strong relationships with global innovator pharmaceutical companies. Divi's stock currently trades at 27x FY10E earnings and 22.8x FY11E earnings. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH                   | FY09         |              |              |              | FY10         |              |              |              | FY09          | FY10E         |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|
|                             | 1Q           | 2Q           | 3Q           | 4Q           | 1Q           | 2Q           | 3QE          | 4QE          |               |               |
| <b>Net Op Revenue</b>       | <b>2,661</b> | <b>3,305</b> | <b>2,648</b> | <b>3,191</b> | <b>2,058</b> | <b>2,253</b> | <b>2,626</b> | <b>3,163</b> | <b>11,803</b> | <b>10,101</b> |
| YoY Change (%)              | 16.7         | 36.3         | -6.9         | 14.8         | -22.6        | -31.8        | -0.8         | -0.9         | 14.3          | -14.4         |
| Total Expenditure           | 1,473        | 1,676        | 1,565        | 1,912        | 1,392        | 1,200        | 1,700        | 1,896        | 6,625         | 6,188         |
| <b>EBITDA</b>               | <b>1,188</b> | <b>1,629</b> | <b>1,083</b> | <b>1,279</b> | <b>667</b>   | <b>1,053</b> | <b>926</b>   | <b>1,267</b> | <b>5,178</b>  | <b>3,913</b>  |
| Margins (%)                 | 44.6         | 49.3         | 40.9         | 40.1         | 32.4         | 46.7         | 35.2         | 40.1         | 43.9          | 38.7          |
| Depreciation                | 107          | 119          | 123          | 129          | 129          | 131          | 135          | 141          | 479           | 536           |
| Interest                    | 20           | 18           | 16           | 18           | 8            | 30           | 12           | 9            | 72            | 59            |
| Other Income                | -38          | 0            | -63          | -44          | 143          | 55           | 80           | 93           | -145          | 370           |
| <b>PBT before EO Income</b> | <b>1,023</b> | <b>1,491</b> | <b>880</b>   | <b>1,088</b> | <b>673</b>   | <b>947</b>   | <b>859</b>   | <b>1,209</b> | <b>4,482</b>  | <b>3,688</b>  |
| EO Income                   | 0            | 0            | 0            | 0            | -540         | 0            | 0            | 0            | 0             | -540          |
| <b>PBT after EO Income</b>  | <b>1,023</b> | <b>1,491</b> | <b>880</b>   | <b>1,088</b> | <b>132</b>   | <b>947</b>   | <b>859</b>   | <b>1,209</b> | <b>4,482</b>  | <b>3,148</b>  |
| Tax                         | 42           | 101          | 59           | 64           | 87           | 83           | 112          | 128          | 266           | 409           |
| Deferred Tax                | 16           | 26           | 26           | -18          | 2            | 17           | 0            | -19          | 50            | 0             |
| Rate (%)                    | 5.7          | 8.5          | 9.6          | 4.2          | 67.5         | 10.5         | 13.0         | 9.0          | 7.0           | 13.0          |
| <b>Reported PAT</b>         | <b>965</b>   | <b>1,364</b> | <b>795</b>   | <b>1,042</b> | <b>43</b>    | <b>848</b>   | <b>747</b>   | <b>1,101</b> | <b>4,166</b>  | <b>2,739</b>  |
| <b>Adj PAT</b>              | <b>965</b>   | <b>1,364</b> | <b>795</b>   | <b>1,042</b> | <b>585</b>   | <b>848</b>   | <b>747</b>   | <b>1,101</b> | <b>4,166</b>  | <b>3,209</b>  |
| YoY Change (%)              | 43.4         | 49.5         | -21.0        | 20.8         | -39.3        | -37.8        | -6.1         | 5.6          | 20.6          | -23.0         |
| Margins (%)                 | 36.3         | 41.3         | 30.0         | 32.7         | 28.4         | 37.6         | 28.4         | 34.8         | 35.3          | 31.8          |

E: MOSL Estimates

Nimish Desai (NimishDesai@MotilalOswal.com)



## Dr Reddy's Laboratories

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | DR IN        |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | REDY.BO      |

29 December 2009

Buy

Rs1,147

Previous Recommendation: Buy

|                     |              |
|---------------------|--------------|
| Equity Shares (m)   | 168.4        |
| 52 Week Range (Rs)  | 1,242 / 357  |
| 1,6,12 Rel Perf (%) | -1 / 29 / 63 |
| Mcap (Rs b)         | 193.2        |
| Mcap (USD b)        | 4.1          |

| YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 03/09A*     | 69,441              | -5,169        | -30.7       | -210.6            | -37.4      | 4.6         | -12.3      | -3.3        | 3.0          | 16.3          |
| 03/10E*     | 69,036              | 3,304         | 19.6        |                   |            |             |            |             |              |               |
| 03/10E      | 66,938              | 2,569         | 15.3        |                   | 75.2       | 4.3         | 7.4        | 7.9         | 2.9          | 17.1          |
| 03/11E      | 75,346              | 8,784         | 52.2        | 241.9             | 22.0       | 3.8         | 17.3       | 14.8        | 2.7          | 16.2          |
| 03/11E*     | 78,796              | 10,348        | 61.4        | 302.7             |            |             |            |             |              |               |

\* - includes patent challenge/low competition upsides

- We expect DRL's topline to de-grow by 12% to Rs16.19b due to absence of exclusivity based generic Imitrex supplies which contributed Rs3.64b in 3QFY09. Adjusted for these supplies, DRL's top-line is expected to record 10% growth. Double-digit top-line growth in US (excl generic Imitrex sales for 3QFY09), India formulations and PSAI businesses will be tempered down by 30% decline in European generic sales (mainly Germany).
- Excluding the one-time impact of generic Imitrex supplies in 3QFY09, EBITDA is likely to grow by 35% while EBITDA margins are expected to improve by almost 570bp to 16.7% (despite muted top-line growth) due savings in SG&A and R&D costs.
- We expect DRL to take a write-off related to impairment of goodwill/intangibles for its German operations. This is likely to lead to a net loss of Rs1.5b post Rs3.3b (assumed) of impairment write-off.

Traction in the branded formulations and US businesses, and focus on improving profitability will be the key growth drivers for DRL over next two years. We expect core EPS of Rs15.3 for FY10 (post Rs5b of impairment write-off) and Rs52.2 for FY11. Our estimates exclude the upsides from patent challenges / low competition opportunities in the US (Current DCF value of Rs27/sh for visible opportunities). DRL is currently valued at 22x FY11E earnings. Maintain **Buy**.

## GLOBAL QUARTERLY PERFORMANCE (US GAAP)

(RS MILLION)

| Y/E MARCH                   | FY09          |               |               |                | FY10          |               |               |               | FY09          | FY10E         |
|-----------------------------|---------------|---------------|---------------|----------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                             | 1Q            | 2Q            | 3Q            | 4Q             | 1Q            | 2Q            | 3QE           | 4QE           |               |               |
| <b>Gross Sales</b>          | <b>15,038</b> | <b>16,152</b> | <b>18,401</b> | <b>19,850</b>  | <b>18,189</b> | <b>18,368</b> | <b>16,190</b> | <b>16,289</b> | <b>69,441</b> | <b>69,036</b> |
| YoY Change (%)              | 25.1          | 27.5          | 49.3          | 52.7           | 21.0          | 13.7          | -12.0         | -17.9         | 38.9          | -0.6          |
| <b>EBITDA</b>               | <b>1,815</b>  | <b>2,326</b>  | <b>4,202</b>  | <b>4,614</b>   | <b>3,767</b>  | <b>2,749</b>  | <b>2,704</b>  | <b>2,633</b>  | <b>12,946</b> | <b>11,853</b> |
| Margins (%)                 | 12.1          | 14.4          | 22.8          | 23.2           | 20.7          | 15.0          | 16.7          | 16.2          | 18.6          | 17.2          |
| Depreciation & Amortization | 391           | 472           | 339           | 14,339         | 507           | 329           | 3,750         | 1,914         | 15,526        | 6,500         |
| Other Income                | 166           | -338          | -1,540        | 158            | -89           | 348           | -173          | -198          | -1,416        | -111          |
| <b>Profit before Tax</b>    | <b>1,590</b>  | <b>1,516</b>  | <b>2,323</b>  | <b>-9,567</b>  | <b>3,171</b>  | <b>2,768</b>  | <b>-1,219</b> | <b>521</b>    | <b>-3,996</b> | <b>5,241</b>  |
| Tax                         | 242           | 303           | 399           | 240            | 726           | 595           | 290           | 327           | 1,173         | 1,938         |
| Rate (%)                    | 15.2          | 20.0          | 17.2          | -2.5           | 22.9          | 21.5          | -23.8         | 62.7          | -29.4         | 37.0          |
| <b>Reported PAT</b>         | <b>1,348</b>  | <b>1,213</b>  | <b>1,924</b>  | <b>-9,807</b>  | <b>2,445</b>  | <b>2,173</b>  | <b>-1,509</b> | <b>194</b>    | <b>-5,169</b> | <b>3,303</b>  |
| One Time & EO (Exp)/Inc     | 0             | 0             | 1,027         | 1,243          | 734           | 0             | 0             | 0             | 2,270         | 734           |
| <b>Adjusted PAT</b>         | <b>1,348</b>  | <b>1,213</b>  | <b>897</b>    | <b>-11,049</b> | <b>1,711</b>  | <b>2,173</b>  | <b>-1,509</b> | <b>194</b>    | <b>-7,438</b> | <b>2,568</b>  |
| YoY Change (%)              | -26.3         | 0.3           | -             | -1,170.3       | 26.9          | 79.1          | -268.2        | -101.8        | -259.0        | -134.5        |
| Margins (%)                 | 9.0           | 7.5           | 4.9           | -55.7          | 9.4           | 11.8          | -9.3          | 1.2           | -10.7         | 3.7           |

E: MOSL Estimates; DRL commenced IFRS reporting wef 2QFY09. Past financials are as per US GAAP. Estimates do not include one-off upsides

## GlaxoSmithKline Pharmaceuticals

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | GLXO IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | GLAX.BO      |

29 December 2009

Buy

Rs1,594

Previous Recommendation: Buy

|                     |               |
|---------------------|---------------|
| Equity Shares (m)   | 84.7          |
| 52 Week Range (Rs)  | 1,716/1,035   |
| 1,6,12 Rel Perf (%) | -7 / 14 / -43 |
| Mcap (Rs b)         | 135.0         |
| Mcap (USD b)        | 2.9           |

| YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 12/08A      | 16,604              | 4,484         | 52.9        | 12.2              | 30.1       | 8.8         | 29.1       | 44.0        | 7.1          | 21.8          |
| 12/09E      | 18,265              | 4,941         | 58.3        | 10.2              | 27.3       | 7.9         | 29.1       | 43.3        | 6.5          | 18.9          |
| 12/10E      | 20,456              | 5,831         | 68.8        | 18.0              | 23.2       | 7.2         | 30.9       | 46.2        | 5.7          | 16.7          |
| 12/11E      | 23,116              | 6,755         | 79.7        | 15.8              | 20.0       | 6.5         | 32.3       | 48.4        | 4.9          | 14.2          |

- We expect GSK's topline to grow by 9.7% to Rs4b led by double-digit growth in Priority Products (60-70% of sales). DPCO products (~26% of sales) are likely to record single-digit revenue growth.
- EBITDA margins are likely to decline marginally by 120bp to 26.7% due to higher promotional expenditure for new launches and higher staff costs.
- PAT is expected to grow by 7.4% for the quarter impacted mainly due to decline in EBITDA Margins.

We believe GSK's topline growth is gradually improving with the company expected to record ~10-12% growth for the next two years. We believe that this growth trajectory will improve further in the long term and post CY13; it is likely to outperform the average industry growth of 12%. Given the high profitability of operations, we expect this growth to lead to sustainable double-digit earnings growth and RoE of ~30%. This growth is likely to be funded through miniscule capex (Rs250-300m/year) and negative net working capital. We believe GSK is one of the best plays on IPR regime in India with plans to launch 9 patented/low-competition products during CY08-10, of which 5 have already been launched. These launches are expected to bring in long-term benefits. Parent is fully committed to the listed entity, which is evident from the fact that it is proposing to launch most of the patented products through the listed entity. We expect GSK to record CY09 EPS of Rs58.3 (up 10.2%) and CY10 EPS of Rs68.8 (up 18%). The stock is currently valued at 27.3x CY09E and 23.2x CY10E earnings. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E DECEMBER                 | CY08         |              |              |              | CY09         |              |              |              | CY08          | CY09E         |
|------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|
|                              | 1Q           | 2Q           | 3Q           | 4Q           | 1Q           | 2Q           | 3Q           | 4QE          |               |               |
| <b>Net Sales</b>             | <b>4,215</b> | <b>4,163</b> | <b>4,579</b> | <b>3,647</b> | <b>4,572</b> | <b>4,574</b> | <b>5,118</b> | <b>4,001</b> | <b>16,604</b> | <b>18,265</b> |
| YoY Change (%)               | 0.3          | 6.3          | 9.2          | 7.5          | 8.5          | 9.9          | 11.8         | 9.7          | 5.7           | 10.0          |
| Total Expenditure            | 2,780        | 2,734        | 2,950        | 2,628        | 2,926        | 2,945        | 3,230        | 2,933        | 11,161        | 12,034        |
| <b>EBITDA</b>                | <b>1,435</b> | <b>1,429</b> | <b>1,629</b> | <b>1,018</b> | <b>1,645</b> | <b>1,629</b> | <b>1,888</b> | <b>1,068</b> | <b>5,443</b>  | <b>6,230</b>  |
| Margins (%)                  | 34.1         | 34.3         | 35.6         | 27.9         | 36.0         | 35.6         | 36.9         | 26.7         | 32.8          | 34.1          |
| Depreciation                 | 37           | 39           | 40           | 47           | 37           | 40           | 40           | 47           | 163           | 164           |
| Other Income                 | 428          | 341          | 389          | 367          | 300          | 419          | 233          | 366          | 1,525         | 1,319         |
| <b>PBT before EO Expense</b> | <b>1,824</b> | <b>1,730</b> | <b>1,977</b> | <b>1,336</b> | <b>1,908</b> | <b>2,009</b> | <b>2,081</b> | <b>1,382</b> | <b>6,799</b>  | <b>7,380</b>  |
| Tax                          | 622          | 585          | 668          | 442          | 644          | 696          | 684          | 415          | 2,315         | 2,439         |
| Deferred Tax                 | -9           | -2           | -10          | 0            | 11           | -4           | -14          | 7            | 0             | 0             |
| Rate (%)                     | 33.6         | 33.7         | 33.3         | 33.1         | 34.3         | 34.5         | 32.2         | 30.5         | 34.1          | 33.1          |
| <b>Adjusted PAT</b>          | <b>1,211</b> | <b>1,147</b> | <b>1,319</b> | <b>895</b>   | <b>1,253</b> | <b>1,317</b> | <b>1,410</b> | <b>961</b>   | <b>4,484</b>  | <b>4,941</b>  |
| YoY Change (%)               | -14.6        | 19.0         | 20.9         | 8.0          | 3.4          | 14.8         | 6.9          | 7.4          | 12.2          | 10.2          |
| Margins (%)                  | 28.7         | 27.6         | 28.8         | 24.5         | 27.4         | 28.8         | 27.6         | 24.0         | 27.0          | 27.1          |
| Extra-Ord Expense            | 0            | 0            | 0            | -1,193       | -178         | 73           | 0            | 0            | -1,282        | -105          |
| <b>Reported PAT</b>          | <b>1,211</b> | <b>1,147</b> | <b>1,319</b> | <b>2,088</b> | <b>1,431</b> | <b>1,243</b> | <b>1,410</b> | <b>961</b>   | <b>5,766</b>  | <b>5,046</b>  |

E: MOSL Estimates

Nimish Desai (NimishDesai@MotilalOswal.com)

## Glenmark Pharmaceuticals

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE SENSEX: 17,402 | GNP IN       |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | GLEN.BO      |

29 December 2009

Neutral

Previous Recommendation: Neutral

Rs277

|                     |              |
|---------------------|--------------|
| Equity Shares (m)   | 269.2        |
| 52 Week Range (Rs)  | 312 / 119    |
| 1,6,12 Rel Perf (%) | 17 / 3 / -87 |
| Mcap (Rs b)         | 74.6         |
| Mcap (USD b)        | 1.6          |

| YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 03/09A      | 20,865              | 1,125         | 4.2         | -64.3             | 65.4       | 4.3         | 7.0        | 8.0         | 4.5          | 28.1          |
| 03/10E      | 24,445              | 2,976         | 10.5        | 147.1             | 26.5       | 3.3         | 13.1       | 13.0        | 3.7          | 14.0          |
| 03/11E      | 28,364              | 4,367         | 15.4        | 46.7              | 18.0       | 2.3         | 13.3       | 14.7        | 2.8          | 11.3          |
| 03/12E      | 32,494              | 4,981         | 17.5        | 14.0              | 15.8       | 2.0         | 13.3       | 14.2        | 2.4          | 10.1          |

- Glenmark's 3Q topline is expected to record 10.7% growth led mainly by strong double-digit growth in India formulations and Europe operations but tempered down partly by the 4.7% YoY appreciation in the INR vs the US\$. US operations are likely to record 5% de-growth due to high base of 3QFY09.
- EBITDA is likely to record 12% de-growth while EBITDA margin are estimated to decline by 670bp due to lower revenue growth, high base effect and higher SG&A and RM costs.
- PAT is likely to grow by 44% YoY to Rs840m mainly led by lower tax outgo.

We believe that Glenmark's FY10E performance will continue to be adversely impacted due to delays in receiving approvals for its US business and delayed ramp-up in Latam and Europe. Glenmark has differentiated itself among Indian pharmaceutical companies through its significant success in NCE research. It emerged as the most successful NCE research company by out-licensing 3 molecules and receiving US\$117m in upfront and milestone payments till date. Given this success, Glenmark has been aggressive in adding new NCEs to its pipeline, which will put pressure on its operations in the short-term as the company will have to fund the R&D expenses for these NCEs on its own. Slower progress in NCE research (due to cut in R&D expenses) is likely to impact Glenmark's prospects of monetizing its NCE assets in the long-term. The stock currently trades at 26.5x FY10E and 18x FY11E earnings. Maintain **Neutral**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH                    | FY09         |              |              |               | FY10         |              |              |              | FY09          | FY10E         |
|------------------------------|--------------|--------------|--------------|---------------|--------------|--------------|--------------|--------------|---------------|---------------|
|                              | 1Q           | 2Q           | 3Q           | 4Q            | 1Q           | 2Q           | 3QE          | 4QE          |               |               |
| <b>Net Income</b>            | <b>4,608</b> | <b>5,609</b> | <b>5,814</b> | <b>4,688</b>  | <b>5,437</b> | <b>5,903</b> | <b>6,438</b> | <b>6,667</b> | <b>20,635</b> | <b>24,445</b> |
| YoY Change (%)               | 31.2         | 49.6         | -14.4        | -18.1         | 18.0         | 5.2          | 10.7         | 42.2         | 4.3           | 18.5          |
| <b>EBITDA</b>                | <b>1,410</b> | <b>1,694</b> | <b>1,891</b> | <b>-1,824</b> | <b>1,554</b> | <b>1,563</b> | <b>1,665</b> | <b>1,606</b> | <b>3,085</b>  | <b>6,387</b>  |
| Margins (%)                  | 30.6         | 30.2         | 32.5         | -38.9         | 28.6         | 26.5         | 25.9         | 24.1         | 14.9          | 26.1          |
| Depreciation                 | 215          | 225          | 291          | 296           | 312          | 362          | 390          | 435          | 1,027         | 1,499         |
| Interest                     | 155          | 187          | 343          | 719           | 438          | 456          | 311          | 210          | 1,405         | 1,415         |
| Other Income                 | 109          | 433          | 92           | 1,106         | -264         | 262          | 100          | 103          | 1,740         | 201           |
| <b>PBT before EO Expense</b> | <b>1,148</b> | <b>1,715</b> | <b>1,349</b> | <b>-1,734</b> | <b>540</b>   | <b>1,007</b> | <b>1,063</b> | <b>1,065</b> | <b>2,393</b>  | <b>3,674</b>  |
| Tax                          | 678          | 319          | 452          | -695          | 85           | 198          | 223          | 192          | 754           | 698           |
| Deferred Tax                 | -684         | 222          | 83           | 379           | -80          | 0            | 0            | 80           | 0             | 0             |
| Rate (%)                     | -0.5         | 31.6         | 39.6         | 18.2          | 0.9          | 19.6         | 21.0         | 25.5         | 31.5          | 19.0          |
| <b>Reported PAT</b>          | <b>1,154</b> | <b>1,174</b> | <b>814</b>   | <b>-1,417</b> | <b>535</b>   | <b>809</b>   | <b>840</b>   | <b>793</b>   | <b>1,639</b>  | <b>2,976</b>  |
| <b>Adj PAT</b>               | <b>923</b>   | <b>943</b>   | <b>584</b>   | <b>-1,648</b> | <b>535</b>   | <b>809</b>   | <b>840</b>   | <b>793</b>   | <b>1,125</b>  | <b>2,976</b>  |
| YoY Change (%)               | 61.5         | 25.5         | -52.9        | -199.3        | -42.1        | -14.2        | 43.9         | -148.1       | -82.2         | 164.5         |
| Margins (%)                  | 20.0         | 16.8         | 10.0         | -35.1         | 9.8          | 13.7         | 13.0         | 11.9         | 5.5           | 12.2          |

E: MOSL Estimates; Adj PAT includes capitalized R&amp;D exp &amp; excludes NCE upsides

## Jubilant Organosys

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | JOL IN       |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | JUBO.BO      |

29 December 2009

Buy

Rs341

Previous Recommendation: Buy

|                     |               |
|---------------------|---------------|
| Equity Shares (m)   | 147.5         |
| 52 Week Range (Rs)  | 365 / 85      |
| 1,6,12 Rel Perf (%) | 11 / 85 / 113 |
| Mcap (Rs b)         | 50.4          |
| Mcap (USD b)        | 1.1           |

| YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 03/09A      | 35,180              | 2,346         | 15.9        | -41.4             | 21.5       | 4.0         | 18.6       | 8.2         | 2.4          | 12.6          |
| 03/10E      | 39,471              | 4,344         | 29.4        | 85.1              | 11.6       | 3.1         | 30.2       | 13.3        | 2.2          | 11.8          |
| 03/11E      | 43,602              | 3,416         | 23.2        | -21.4             | 14.7       | 2.5         | 19.0       | 11.0        | 2.0          | 11.1          |
| 03/12E      | 48,164              | 3,868         | 26.2        | 13.2              | 13.0       | 2.2         | 17.9       | 12.0        | 1.7          | 9.4           |

- Jubilant's 3QFY10 topline is expected to record 13.2% growth, partly tempered down due to ongoing slowdown in CRAMS business, declining realizations and appreciating currency. The PLSP business (68% of revenues) is likely to grow by 14% while the chemicals business is likely to record 11.7% growth.
- EBITDA margins are expected to expand by 310bp due to low base, better product-mix and savings in SG&A costs.
- We expect PAT of Rs1.2b vs net loss of Rs715m for 3QFY09 (due to Rs1.3b of forex losses).

Slowdown in some of the CRAMS products, declining realizations and product rationalization (for the chemicals business) continues to impact Jubilant's top-line growth. We expect an improvement in the CRAMS business post 3QFY10. We expect FY10E EPS of Rs29.4 (up 85% on low base) and Rs23.2 (down 21%). We believe that earnings growth for FY11E could be adversely impacted (21% de-growth over FY10E) if the company were to re-finance FCCB redemption of US\$271m through debt. The stock currently quotes at 11.6x FY10E and 14.7x FY11E EPS. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH                    | FY09         |              |              |              | FY10         |              |               |               | FY09          | FY10E         |
|------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|---------------|---------------|
|                              | 1Q           | 2Q           | 3Q           | 4Q           | 1Q           | 2Q           | 3QE           | 4QE           |               |               |
| <b>Net Sales</b>             | <b>8,266</b> | <b>9,405</b> | <b>9,096</b> | <b>8,412</b> | <b>8,964</b> | <b>9,331</b> | <b>10,300</b> | <b>10,876</b> | <b>35,180</b> | <b>39,471</b> |
| YoY Change (%)               | 53.1         | 52.1         | 41.8         | 22.1         | 8.4          | -0.8         | 13.2          | 29.3          | 41.3          | 12.2          |
| Total Expenditure            | 6,608        | 7,632        | 7,686        | 6,488        | 7,385        | 7,687        | 8,380         | 8,792         | 28,414        | 32,243        |
| <b>EBITDA</b>                | <b>1,658</b> | <b>1,773</b> | <b>1,411</b> | <b>1,924</b> | <b>1,579</b> | <b>1,645</b> | <b>1,920</b>  | <b>2,084</b>  | <b>6,766</b>  | <b>7,227</b>  |
| Margins (%)                  | 20.1         | 18.8         | 15.5         | 22.9         | 17.6         | 17.6         | 18.6          | 19.2          | 19.2          | 18.3          |
| Depreciation                 | 337          | 411          | 434          | 451          | 308          | 308          | 375           | 422           | 1,632         | 1,413         |
| Interest                     | 138          | 221          | 324          | 388          | 407          | 363          | 375           | 404           | 1,070         | 1,549         |
| Other Income                 | -1,002       | -1,671       | -1,161       | -1,881       | 605          | -156         | 400           | 261           | -1,631        | 1,110         |
| <b>PBT before EO Expense</b> | <b>182</b>   | <b>-530</b>  | <b>-508</b>  | <b>-796</b>  | <b>1,469</b> | <b>818</b>   | <b>1,570</b>  | <b>1,518</b>  | <b>2,432</b>  | <b>5,375</b>  |
| Extra-Ord Expense            | 0            | 0            | 110          | -644         | 0            | 0            | 0             | 0             | -534          | 0             |
| <b>PBT after EO Expense</b>  | <b>182</b>   | <b>-530</b>  | <b>-618</b>  | <b>-152</b>  | <b>1,469</b> | <b>818</b>   | <b>1,570</b>  | <b>1,518</b>  | <b>2,966</b>  | <b>5,375</b>  |
| Tax                          | 61           | 166          | 283          | -243         | 223          | 240          | 330           | 229           | 267           | 1,021         |
| Rate (%)                     | 33.6         | -31.3        | -45.7        | 159.7        | 15.2         | 29.3         | 21.0          | 15.1          | 9.0           | 19.0          |
| <b>PAT</b>                   | <b>121</b>   | <b>-696</b>  | <b>-901</b>  | <b>91</b>    | <b>1,245</b> | <b>578</b>   | <b>1,240</b>  | <b>1,290</b>  | <b>2,699</b>  | <b>4,354</b>  |
| Minority Interest            | -7           | -69          | -25          | -33          | -13          | 1            | 2             | 20            | -133          | 10            |
| <b>Adjusted PAT</b>          | <b>128</b>   | <b>-627</b>  | <b>-715</b>  | <b>509</b>   | <b>1,258</b> | <b>577</b>   | <b>1,238</b>  | <b>1,270</b>  | <b>2,346</b>  | <b>4,344</b>  |
| YoY Change (%)               | -91.1        | -157.0       | -178.5       | -9.3         | 886.1        |              |               | 149.7         | -41.2         | 85.1          |
| Margins (%)                  | 1.5          | -6.7         | -7.9         | 6.0          | 14.0         | 6.2          | 12.0          | 11.7          | 6.7           | 11.0          |

E: MOSL Estimates; Quarterly numbers for FY09 do not add up to full-year numbers due to change in forex accounting policy (AS-11)

Lupin

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE SENSEX: 17,402 | LPC IN       |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | LUPN.BO      |

29 December 2009

Buy

Rs1,464

Previous Recommendation: Buy

|                     |             |
|---------------------|-------------|
| Equity Shares (m)   | 82.8        |
| 52 Week Range (Rs)  | 1,550 / 537 |
| 1,6,12 Rel Perf (%) | 4 / 59 / 66 |
| Mcap (Rs b)         | 121.2       |
| Mcap (USD b)        | 2.6         |

| YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 03/09A      | 37,759              | 5,015         | 56.9        | 50.5              | 25.7       | 8.5         | 37.1       | 25.6        | 3.5          | 20.5          |
| 03/10E      | 45,813              | 6,004         | 68.1        | 19.7              | 21.5       | 6.4         | 36.3       | 26.7        | 2.9          | 17.6          |
| 03/11E      | 53,964              | 7,430         | 84.2        | 23.8              | 17.4       | 5.0         | 34.6       | 27.3        | 2.4          | 13.5          |
| 03/12E      | 60,720              | 8,360         | 94.8        | 12.5              | 15.4       | 4.0         | 30.9       | 26.1        | 2.2          | 11.8          |

- Lupin's 3QFY10 topline is expected to record 21% growth driven by mainly by ramp-up of formulation revenues (28% growth) in emerging markets including India. Growth in US business at 19% is likely to be partly tempered down by the 4.7% YoY INR appreciation vs the US\$.
- EBITDA is expected to grow by 21% while EBITDA margins are likely to remain flat at 16% due to higher RM and staff costs.
- PAT is expected to grow by 33% partly boosted by higher other income including US\$5m licensing income from Salix Pharma.

Lupin is likely to witness a gradual improvement in the underlying fundamentals led by an expanding US generics pipeline, niche / Para-IV opportunities in the US, strong performance from Suprax & ramp-up in Antara revenues (branded products in US) and traction in formulation revenues from its European initiative. We expect Lupin's core operations (excluding one-off upsides) to record 19% sales and 21% earnings CAGR for FY09-11 led by 30% CAGR for the US business and 17% CAGR for the domestic formulations business. We believe the company is gaining critical mass in the US market, while European market revenues should gradually ramp up beginning FY10E. We expect Lupin to record EPS of Rs68.1 for FY10E (up 19.7%) and Rs84.2 for FY11E (up 23.8%) on a high base. We believe valuations at 21.5x FY10E and 17.4x FY11E EPS do not fully reflect the 21% earnings CAGR and sustained 30%+ RoE. Maintain **Buy**.

## QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

| Y/E MARCH            | FY09         |              |              |               | FY10          |               |               |               | FY09          | FY10E         |
|----------------------|--------------|--------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                      | 1Q           | 2Q           | 3Q           | 4Q            | 1Q            | 2Q            | 3QE           | 4QE           |               |               |
| <b>Net Sales</b>     | <b>8,624</b> | <b>9,343</b> | <b>9,618</b> | <b>10,174</b> | <b>10,856</b> | <b>11,147</b> | <b>11,626</b> | <b>12,184</b> | <b>37,759</b> | <b>45,813</b> |
| YoY Change (%)       | 49.8         | 41.8         | 33.3         | 35.6          | 25.9          | 19.3          | 20.9          | 19.8          | 39.5          | 21.3          |
| Total Expenditure    | 7,097        | 7,555        | 8,079        | 8,544         | 8,914         | 9,506         | 9,763         | 10,122        | 31,274        | 38,306        |
| <b>EBITDA</b>        | <b>1,527</b> | <b>1,788</b> | <b>1,540</b> | <b>1,630</b>  | <b>1,942</b>  | <b>1,641</b>  | <b>1,864</b>  | <b>2,062</b>  | <b>6,485</b>  | <b>7,508</b>  |
| Margins (%)          | 17.7         | 19.1         | 16.0         | 16.0          | 17.9          | 14.7          | 16.0          | 16.9          | 17.2          | 16.4          |
| Depreciation         | 193          | 201          | 219          | 266           | 231           | 242           | 270           | 368           | 880           | 1,111         |
| Interest             | 102          | 127          | 146          | 124           | 107           | 91            | 160           | 221           | 499           | 579           |
| Other Income         | 202          | 13           | 221          | 517           | 211           | 541           | 450           | 225           | 954           | 1,426         |
| <b>PBT</b>           | <b>1,433</b> | <b>1,474</b> | <b>1,396</b> | <b>1,757</b>  | <b>1,815</b>  | <b>1,848</b>  | <b>1,884</b>  | <b>1,698</b>  | <b>6,060</b>  | <b>7,243</b>  |
| Tax                  | 313          | 312          | 219          | 139           | 364           | 200           | 319           | 345           | 983           | 1,229         |
| Rate (%)             | 21.8         | 21.2         | 15.7         | 7.9           | 20.0          | 10.8          | 17.0          | 20.3          | 16.2          | 17.0          |
| <b>Reported PAT</b>  | <b>1,120</b> | <b>1,162</b> | <b>1,178</b> | <b>1,618</b>  | <b>1,451</b>  | <b>1,647</b>  | <b>1,564</b>  | <b>1,352</b>  | <b>5,077</b>  | <b>6,015</b>  |
| Minority Interest    | -1           | 5            | 13           | 44            | 50            | 43            | 14            | -57           | 62            | 50            |
| <b>Recurring PAT</b> | <b>1,121</b> | <b>1,156</b> | <b>1,165</b> | <b>1,574</b>  | <b>1,401</b>  | <b>1,604</b>  | <b>1,550</b>  | <b>1,450</b>  | <b>5,015</b>  | <b>6,005</b>  |
| YoY Change (%)       | 100.6        | 52.9         | 9.9          | 64.2          | 25.0          | 38.7          | 33.1          | -7.9          | 50.4          | 19.7          |
| Margins (%)          | 13.0         | 12.4         | 12.1         | 15.5          | 12.9          | 14.4          | 13.3          | 11.9          | 13.3          | 13.1          |

E: MOSL Estimates

Nimish Desai (NimishDesai@MotilalOswal.com)



## Piramal Healthcare

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE SENSEX: 17,402 | PIHC IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | NICH.BO      |

29 December 2009

Buy

Rs390

Previous Recommendation: Buy

|                     |               |
|---------------------|---------------|
| Equity Shares (m)   | 209.0         |
| 52 Week Range (Rs)  | 428 / 164     |
| 1,6,12 Rel Perf (%) | -4 / 11 / -24 |
| Mcap (Rs b)         | 81.5          |
| Mcap (USD b)        | 1.7           |

| YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 03/09A      | 32,448              | 3,580         | 17.1        | -1.7              | 22.8       | 6.2         | 29.7       | 21.0        | 2.9          | 15.0          |
| 03/10E      | 37,764              | 4,562         | 21.8        | 27.4              | 17.9       | 4.9         | 30.6       | 22.5        | 2.4          | 12.3          |
| 03/11E      | 43,652              | 5,873         | 28.1        | 28.7              | 13.9       | 3.9         | 31.1       | 25.3        | 2.1          | 10.0          |
| 03/12E      | 49,385              | 6,911         | 33.1        | 17.7              | 11.8       | 3.1         | 29.4       | 25.3        | 1.8          | 8.6           |

- PHL's 3QFY10 topline is expected to grow by 17.7% to Rs9.7b reflecting the improvement in capacity utilization at Minrad and strong double-digit growth in the domestic formulations business but also partly tempered down by the ongoing slowdown in its CRAMS business and the closure of the Huddersfield facility in UK.
- While EBITDA is likely to grow by 25% to Rs1.9b, EBITDA margins are expected to improve by 120bp reflecting cost savings from the closure of the Huddersfield facility and improving profitability the Minrad operations in the US.
- PAT is expected to grow by 100% to Rs1.2b partly aided by low base of 3QFY09 (Rs351m of forex loss).
- PHL has recently proposed to raise Rs10b through the equity route.

We believe that PHL will be a key beneficiary of increased outsourcing from India, given the strong MNC relations which the company enjoys and improving profitability in the CRAMS business. A steady double-digit growth for the domestic formulations business (49% of total revenues for FY09) with good profitability and potential debt reduction should also augur well over the next two years. We note that it is imperative for PHL to improve EBITDA margins for its GCC business to achieve its guidance of 21-22% margins for FY10E. We expect EPS of Rs21.8 for FY10 (up 27.4%) and Rs28.1 for FY11 (up 28.7%), leading to 28% earnings CAGR over FY09-11E (albeit on a low base) and 30%+ RoE in FY10E and FY11E. The stock trades at 17.9x FY10E and 13.9x FY11E EPS. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH                    | FY09         |              |              |              | FY10         |               |              |              | FY09          | FY10E         |
|------------------------------|--------------|--------------|--------------|--------------|--------------|---------------|--------------|--------------|---------------|---------------|
|                              | 1Q           | 2Q           | 3Q           | 4Q           | 1Q           | 2Q            | 3QE          | 4QE          |               |               |
| <b>Net Sales</b>             | <b>7,083</b> | <b>8,893</b> | <b>8,283</b> | <b>8,189</b> | <b>8,215</b> | <b>10,000</b> | <b>9,752</b> | <b>9,797</b> | <b>32,448</b> | <b>37,764</b> |
| YoY Change (%)               | 16.5         | 17.5         | 13.1         | 5.5          | 16.0         | 12.5          | 17.7         | 19.6         | 12.9          | 16.4          |
| Total Expenditure            | 5,680        | 7,066        | 6,728        | 6,702        | 6,658        | 8,226         | 7,806        | 7,641        | 26,176        | 30,331        |
| <b>EBITDA</b>                | <b>1,403</b> | <b>1,827</b> | <b>1,555</b> | <b>1,487</b> | <b>1,557</b> | <b>1,774</b>  | <b>1,946</b> | <b>2,156</b> | <b>6,272</b>  | <b>7,433</b>  |
| Margins (%)                  | 19.8         | 20.5         | 18.8         | 18.2         | 19.0         | 17.7          | 20.0         | 22.0         | 19.3          | 19.7          |
| Depreciation                 | 270          | 288          | 295          | 343          | 385          | 375           | 400          | 448          | 1,196         | 1,609         |
| Interest                     | 120          | 170          | 261          | 286          | 254          | 254           | 210          | 162          | 838           | 879           |
| Other Income                 | -207         | -408         | -309         | 540          | 45           | 15            | 45           | 75           | -384          | 180           |
| <b>PBT before EO Expense</b> | <b>806</b>   | <b>960</b>   | <b>691</b>   | <b>1,397</b> | <b>963</b>   | <b>1,160</b>  | <b>1,381</b> | <b>1,621</b> | <b>3,854</b>  | <b>5,125</b>  |
| Extra-Ord Expense            | 41           | 96           | 0            | 310          | 0            | 4             | 0            | 0            | 446           | 4             |
| <b>PBT after EO Expense</b>  | <b>766</b>   | <b>864</b>   | <b>691</b>   | <b>1,087</b> | <b>963</b>   | <b>1,157</b>  | <b>1,381</b> | <b>1,621</b> | <b>3,408</b>  | <b>5,122</b>  |
| Tax                          | 87           | 114          | 72           | 118          | 113          | 94            | 152          | 154          | 391           | 512           |
| Deferred Tax                 | 0            | 0            | 0            | -171         | 0            | 0             | 14           | 37           | -171          | 51            |
| Rate (%)                     | 11.3         | 13.2         | 10.4         | -4.9         | 11.7         | 8.1           | 12.0         | 11.8         | 6.4           | 11.0          |
| <b>PAT</b>                   | <b>679</b>   | <b>750</b>   | <b>619</b>   | <b>1,140</b> | <b>851</b>   | <b>1,063</b>  | <b>1,216</b> | <b>1,429</b> | <b>3,188</b>  | <b>4,558</b>  |
| Less: Minority Interest      | -2           | 17           | 20           | -10          | 0            | 0             | 20           | -20          | 26            | 0             |
| <b>Reported PAT</b>          | <b>681</b>   | <b>733</b>   | <b>599</b>   | <b>1,150</b> | <b>851</b>   | <b>1,063</b>  | <b>1,196</b> | <b>1,449</b> | <b>3,163</b>  | <b>4,558</b>  |
| <b>Adj PAT</b>               | <b>717</b>   | <b>816</b>   | <b>599</b>   | <b>1,078</b> | <b>851</b>   | <b>1,066</b>  | <b>1,196</b> | <b>1,449</b> | <b>3,580</b>  | <b>4,562</b>  |
| YoY Change (%)               | 19.8         | -21.0        | -36.3        | 13.8         | 18.7         | 30.6          | 99.7         | 34.4         | -1.7          | 27.4          |

E: MOSL Estimates; Quarterly numbers don't add up to full year numbers due to restatement

Nimish Desai (NimishDesai@MotilalOswal.com)



## Ranbaxy Laboratories

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE SENSEX: 17,402 | RBXY IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | RANB.BO      |

29 December 2009

Neutral

Previous Recommendation: Neutral

Rs521

|                     |              |
|---------------------|--------------|
| Equity Shares (m)   | 422.8        |
| 52 Week Range (Rs)  | 538 / 133    |
| 1,6,12 Rel Perf (%) | 11 / 84 / 42 |
| Mcap (Rs b)         | 220.1        |
| Mcap (USD b)        | 4.7          |

| YEAR<br>END* | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|--------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 12/08A       | 70,852              | 1,042         | 2.5         | -81.5             | 165.9      | 4.0         | 2.4        | 5.4         | 3.4          | 47.8          |
| 12/09E       | 72,401              | 1,793         | 4.2         | 72.1              | 96.4       | 3.9         | 4.1        | 5.3         | 3.2          | 48.1          |
| 12/10E       | 79,596              | 3,006         | 7.1         | 67.7              | 57.5       | 3.7         | 6.5        | 6.5         | 2.9          | 41.6          |
| 12/11E       | 85,193              | 5,187         | 12.3        | 72.6              | 33.3       | 3.5         | 10.5       | 13.3        | 2.7          | 28.0          |

\* All valuation ratios adjusted for Rs123/sh DCF value of FTFs

- Ranbaxy's 4Q topline is expected to grow by 20% (excl generic Valtrex contribution) mainly led by low base of 4QCY08 wherein operations were impacted due to the US FDA ban. While the US FDA issues are yet to be resolved, emerging markets including India are likely to be key drivers of growth for the company. We expect generic Valtrex to contribute Rs6.5b to Ranbaxy's 4Q revenues taking overall top-line to Rs26b.
- EBITDA Margins at 10.3% will reflect the impact of the ongoing restructuring and cost cutting measures undertaken by the company over the past few quarters but will also be tempered down by an appreciating currency.
- Core PAT at Rs909m will be boosted by improving profitability, lower interest cost and higher other income. Reported PAT at Rs6b will include Rs4.5b contribution from generic Valtrex exclusivity and US\$18m (pre-tax) income from sale of stake in Japanese JV.

Resolution of the US FDA issues remains the key determinant of near-term valuations for Ranbaxy. Launch of generic Valtrex through the US facility reflects the first major positive development in salvaging the upsides from FTFs (DCF value of Rs112/sh) in the US market. Exploitation of synergies between Daiichi and Ranbaxy will be a key driver of long-term prospects of the stock. Ranbaxy is currently valued at 57.5x CY10 and 33.3x CY11E core earnings adjusted for the value of its Para-IV pipeline. Maintain **Neutral**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E DECEMBER                       | CY08          |               |               |                | CY09           |               |               |               | CY08           | CY09E         |
|------------------------------------|---------------|---------------|---------------|----------------|----------------|---------------|---------------|---------------|----------------|---------------|
|                                    | 1Q            | 2Q            | 3Q            | 4Q             | 1Q             | 2Q            | 3Q            | 4QE           |                |               |
| <b>Net Income</b>                  | <b>16,986</b> | <b>19,286</b> | <b>18,532</b> | <b>16,370</b>  | <b>14,926</b>  | <b>18,958</b> | <b>18,858</b> | <b>19,659</b> | <b>71,174</b>  | <b>72,401</b> |
| YoY Change (%)                     | 7.4           | 14.4          | 4.4           | -13.9          | -12.1          | -1.7          | 1.8           | 20.1          | 2.5            | 1.7           |
| <b>EBITDA</b>                      | <b>2,552</b>  | <b>3,261</b>  | <b>1,440</b>  | <b>-1,085</b>  | <b>-822</b>    | <b>1,215</b>  | <b>2,427</b>  | <b>2,024</b>  | <b>6,168</b>   | <b>4,844</b>  |
| Margins (%)                        | 15.0          | 16.9          | 7.8           | -6.6           | -5.5           | 6.4           | 12.9          | 10.3          | 8.7            | 6.7           |
| Depreciation                       | 621           | 672           | 643           | 720            | 639            | 644           | 654           | 695           | 2,656          | 2,632         |
| Interest                           | 384           | 465           | 595           | 442            | 246            | 197           | 121           | 164           | 1,886          | 728           |
| Other Income                       | -713          | -1,832        | -3,069        | -1,374         | -816           | 2,308         | -51           | 349           | -6,988         | 1,790         |
| <b>PBT before EO Expense</b>       | <b>834</b>    | <b>292</b>    | <b>-2,867</b> | <b>-3,621</b>  | <b>-2,523</b>  | <b>2,682</b>  | <b>1,601</b>  | <b>1,515</b>  | <b>-5,362</b>  | <b>3,275</b>  |
| Extra-Ord Expense                  | -895          | 0             | 2,441         | 7,843          | 9,188          | -8,137        | 0             | 0             | 9,389          | 1,051         |
| <b>PBT after EO Expense</b>        | <b>1,729</b>  | <b>292</b>    | <b>-5,308</b> | <b>-11,464</b> | <b>-11,711</b> | <b>10,819</b> | <b>1,601</b>  | <b>1,515</b>  | <b>-14,751</b> | <b>2,224</b>  |
| Tax                                | 361           | 63            | -1,363        | -4,666         | -4,101         | 3,888         | 435           | 534           | -5,605         | 756           |
| Rate (%)                           | 20.9          | 21.6          | 25.7          | 40.7           | 35.0           | 35.9          | 27.2          | 35.3          | 38.0           | 34.0          |
| <b>Reported PAT</b>                | <b>1,368</b>  | <b>229</b>    | <b>-3,945</b> | <b>-6,798</b>  | <b>-7,610</b>  | <b>6,931</b>  | <b>1,166</b>  | <b>981</b>    | <b>-9,146</b>  | <b>1,468</b>  |
| <b>Adj PAT after Minority Int.</b> | <b>1,017</b>  | <b>1,386</b>  | <b>156</b>    | <b>-1,060</b>  | <b>-825</b>    | <b>511</b>    | <b>1,198</b>  | <b>909</b>    | <b>1,491</b>   | <b>1,793</b>  |
| YoY Change (%)                     | 20.8          | 30.1          | -89.6         | -162.0         | -181.1         | -63.1         | 668.8         | -185.7        | -70.8          | 20.3          |
| Margins (%)                        | 6.0           | 7.2           | 0.8           | -6.5           | -5.5           | 2.7           | 6.4           | 4.6           | 2.1            | 2.5           |
| <b>Adj PAT incl one-offs</b>       | <b>1,017</b>  | <b>1,386</b>  | <b>156</b>    | <b>-1,060</b>  | <b>-825</b>    | <b>511</b>    | <b>1,198</b>  | <b>6,018</b>  | <b>1,491</b>   | <b>6,350</b>  |

E: MOSL Estimates

Nimish Desai (NimishDesai@MotilalOswal.com)

## Sun Pharmaceuticals Industries

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | SUNP IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | SUN.BO       |

29 December 2009

Buy

Rs1,538

Previous Recommendation: Buy

|                     |              |
|---------------------|--------------|
| Equity Shares (m)   | 207.1        |
| 52 Week Range (Rs)  | 1,600 / 953  |
| 1,6,12 Rel Perf (%) | 3 / 22 / -38 |
| Mcap (Rs b)         | 318.5        |
| Mcap (USD b)        | 6.8          |

| YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 03/09A*     | 41,833              | 18,178        | 87.8        | 22.3              | 17.5       | 4.5         | 30.2       | 31.6        | 6.8          | 15.3          |
| 03/10E      | 37,976              | 12,056        | 58.2        | -33.7             | 26.4       | 3.9         | 17.6       | 18.0        | 7.4          | 22.1          |
| 03/10E*     | 44,151              | 16,070        | 77.6        | -11.6             |            |             |            |             |              |               |
| 03/11E      | 41,614              | 13,709        | 66.2        | 13.7              | 23.2       | 3.4         | 15.8       | 16.1        | 6.5          | 20.2          |
| 03/12E      | 46,421              | 15,062        | 72.7        | -6.3              | 21.1       | 3.1         | 15.3       | 15.7        | 5.6          | 17.7          |

\* Includes Para-IV upsides

- Sun Pharma's 3QFY10 topline is expected to grow by only 5% to Rs9.6b due to absence of exclusivity based Pantoprazole supplies and the impact of the US FDA issues on Caraco. Domestic formulations business (50% of revenues) are likely to revert back to the double-digit growth trajectory post the correction of excess supplies recorded in 4QFY09.
- EBITDA Margins are expected to record 8% point drop to 37% due to absence of Pantoprazole revenues. Excluding this one-time impact we expect a minor decline in EBITDA Margins.
- While reported PAT is likely to de-grow by 12% due to absence of one-off upsides of Pantoprazole, we believe that excluding these one-offs, bottomline is expected to remain flat at Rs3.6b for the quarter.

An expanding generic portfolio coupled with change in product mix in favor of high-margin exports is likely to bring in long-term benefits for Sun Pharma. Its ability to sustain superior margins even on a high base is a clear positive. Key drivers for future include ramp-up in US (from India facilities), the expected value unlocking by leveraging acquired companies (Able Labs & Valeant) and monetization of the Para-IV pipeline and controlled substances pipeline in the US. Resolution of US FDA issues at Caraco will remain a key determinant of short-term valuations. The stock is currently valued at 26.4x FY10E and 23.2x FY11E earnings (excl Para-IV upsides which have a DCF value of Rs19/share). Maintain **Buy**.

## QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

| Y/E MARCH                 | FY09          |               |              |               | FY10         |               |              |              | FY09          | FY10E         |
|---------------------------|---------------|---------------|--------------|---------------|--------------|---------------|--------------|--------------|---------------|---------------|
|                           | 1Q            | 2Q            | 3Q           | 4Q            | 1Q           | 2Q            | 3QE          | 4QE          |               |               |
| <b>Net Revenues</b>       | <b>10,239</b> | <b>11,778</b> | <b>9,183</b> | <b>10,634</b> | <b>7,876</b> | <b>10,892</b> | <b>9,640</b> | <b>9,568</b> | <b>41,833</b> | <b>37,976</b> |
| YoY Change (%)            | 66.4          | 82.2          | 16.2         | -14.2         | -23.1        | -7.5          | 5.0          | -10.0        | 27.1          | -9.2          |
| <b>EBITDA</b>             | <b>5,379</b>  | <b>5,379</b>  | <b>4,134</b> | <b>3,747</b>  | <b>1,684</b> | <b>3,873</b>  | <b>3,579</b> | <b>3,524</b> | <b>18,640</b> | <b>12,661</b> |
| Margins (%)               | 52.5          | 45.7          | 45.0         | 35.2          | 21.4         | 35.6          | 37.1         | 36.8         | 44.6          | 33.3          |
| Depreciation              | 277           | 287           | 311          | 359           | 376          | 379           | 412          | 481          | 1,233         | 1,648         |
| Net Other Income          | 451           | 524           | 443          | 669           | 205          | 1,588         | 550          | 586          | 2,086         | 2,929         |
| <b>PBT</b>                | <b>5,554</b>  | <b>5,616</b>  | <b>4,266</b> | <b>4,056</b>  | <b>1,513</b> | <b>5,082</b>  | <b>3,717</b> | <b>3,629</b> | <b>19,492</b> | <b>13,942</b> |
| Tax                       | 299           | 288           | 170          | -45           | 31           | 400           | 204          | 132          | 712           | 767           |
| Rate (%)                  | 5.4           | 5.1           | 4.0          | -1.1          | 2.1          | 7.9           | 5.5          | 3.6          | 3.7           | 5.5           |
| <b>Profit after Tax</b>   | <b>5,255</b>  | <b>5,329</b>  | <b>4,097</b> | <b>4,101</b>  | <b>1,482</b> | <b>4,683</b>  | <b>3,513</b> | <b>3,497</b> | <b>18,781</b> | <b>13,175</b> |
| Share of Minority Partner | 261           | 223           | 10           | 109           | -156         | 145           | -80          | -90          | 603           | -181          |
| <b>Adj Net Profit</b>     | <b>4,994</b>  | <b>5,106</b>  | <b>4,086</b> | <b>3,992</b>  | <b>1,638</b> | <b>3,238</b>  | <b>3,593</b> | <b>3,587</b> | <b>18,178</b> | <b>12,056</b> |
| YoY Change (%)            | 119.8         | 133.6         | 28.4         | -44.8         | -67.2        | -36.6         | -12.1        | -10.2        | 22.3          | -26.5         |
| Margins (%)               | 48.8          | 43.4          | 44.5         | 37.5          | 20.8         | 29.7          | 37.3         | 37.5         | 43.5          | 31.7          |

E: MOSL Estimates; Quaterly results have been recasted and hence do not tally with full year results

## Real Estate

BSE Sensex: 17,402

S&amp;P CNX: 5,188

29 December 2009

COMPANY NAME

DLF

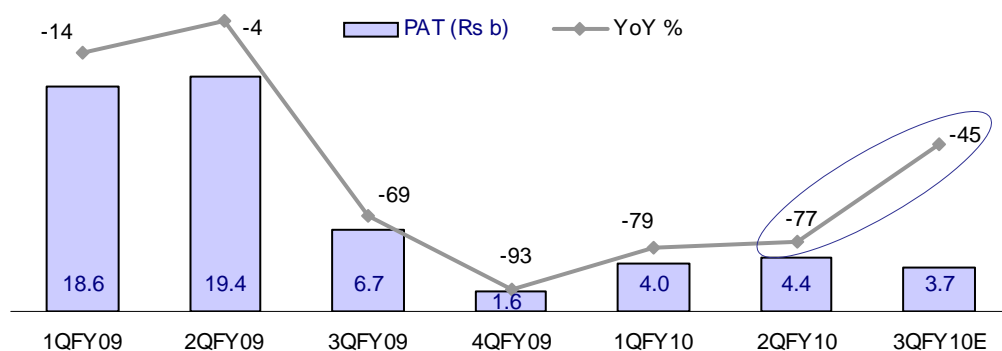
Unitech

## 3QFY10 results to reflect RE turnaround

We expect 3QFY10 results to reflect the improving real estate (RE) sector outlook, aided by (1) a low base impact, and (2) pick-up in residential sales. While the pick up in new launches has been significant in FY10 for few companies such as Unitech and IBREL, it may not be reflected in their financials due to the POCM method of accounting that these companies follow, which recognizes revenue only after 20-25% expenditure of construction costs.

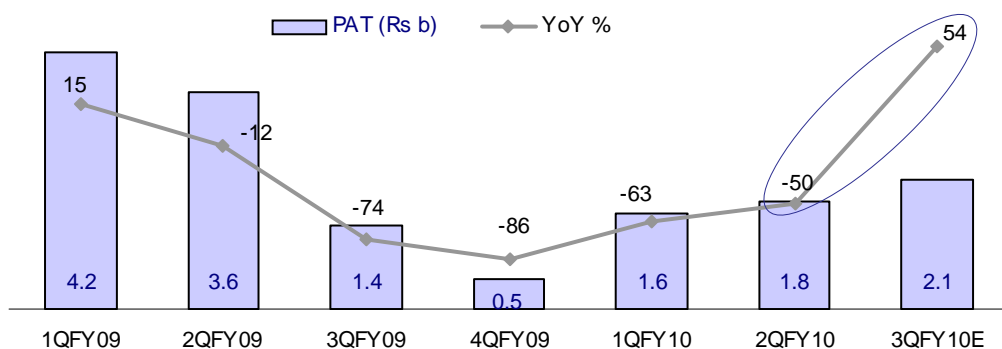
## QUARTER-WISE TREND IN PAT (RS B)

DLF



During 3QFY10, we expect DLF's PAT to decline by 45% YoY while for Unitech we expect 54% YoY growth in PAT

UNITECH



Source: Company/MOSL

## EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

|                  | CMP (RS) | RECO    | SALES  |       |       | EBITDA |       |       | NET PROFIT |       |       |
|------------------|----------|---------|--------|-------|-------|--------|-------|-------|------------|-------|-------|
|                  | 29.12.09 |         | DEC.09 | VAR.  | VAR.  | DEC.09 | VAR.  | VAR.  | DEC.09     | VAR.  | VAR.  |
|                  |          |         | % YOY  | % QOQ |       | % YOY  | % QOQ |       | % YOY      | % QOQ |       |
| Real Estate      |          |         |        |       |       |        |       |       |            |       |       |
| DLF              | 365      | Buy     | 15,075 | 10.3  | -13.9 | 7,128  | -7.7  | -22.0 | 3,688      | -45.0 | -16.1 |
| Unitech          | 82       | Neutral | 6,962  | 42.3  | 36.7  | 3,398  | 39.1  | 14.1  | 2,126      | 54.0  | 19.6  |
| Sector Aggregate |          |         | 22,037 | 18.7  | -2.5  | 10,526 | 3.6   | -13.1 | 5,814      | -28.1 | -5.8  |

Siddharth Bothra (SBothra@MotilalOswal.com) / Mansi Trivedi (Mansi.Trivedi@MotilalOswal.com)

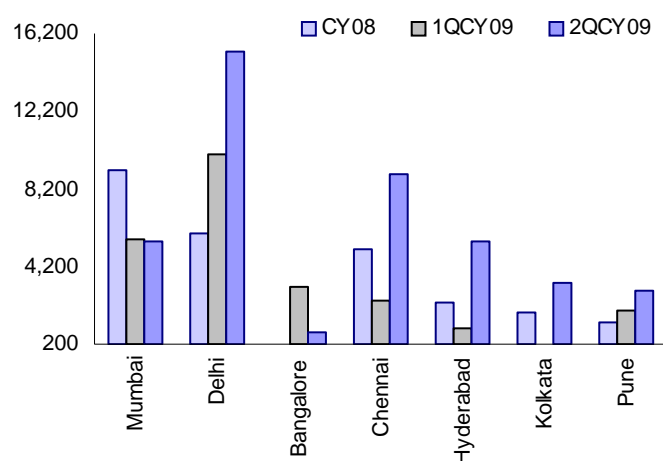
### Residential recovery extends to South India

Until 1HFY10 recovery in the residential vertical was limited to West and North India, particularly Mumbai and the NCR. But in 3QFY10, the residential recovery spread to South India, with sales volumes gaining momentum in Bangalore and Chennai. Residential RE prices in Mumbai and the NCR continued to strengthen during the quarter. Key areas in Mumbai and South Delhi have moved higher than their 2007 peaks.

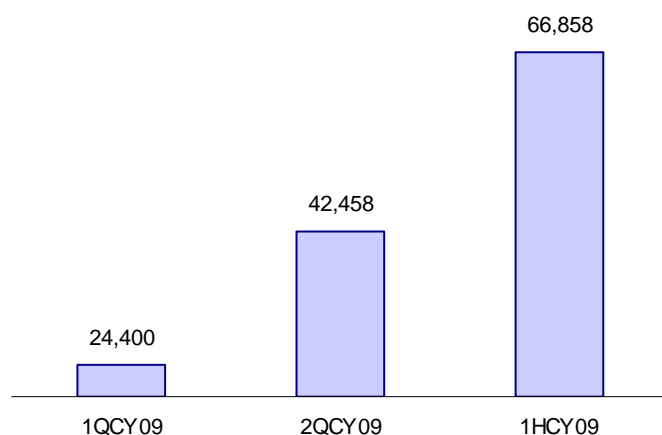
### Strong momentum in new launches in 3QFY10

There has been a sharp increase in launches in the residential vertical since 4QFY09. According to Jones Lang LaSalle Meghraj (JLLM), while new launches in 1QCY09 in seven key metro cities totaled ~24,400 units, new launches in 2QCY09 numbered ~42,458 units. Tier-1 cities of Delhi and Mumbai accounted for almost 64% of the launches.

NEW LAUNCHES ACROSS KEY CITIES (NOS)



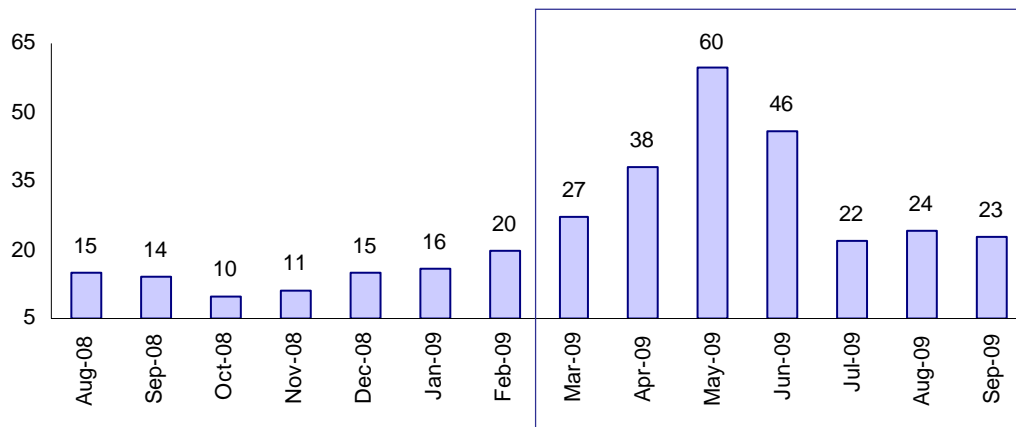
NEW LAUNCHES ACROSS 7 KEY CITIES IN CY08/1HCY09 (NOS)



Source: JLLM/MOSL

PAN INDIA ABSORPTION RATES HAVE ALSO RECOVERED SHARPLY IN CY09

*Tier-1 cities of Delhi and Mumbai alone accounted for almost 64% of the launches in 2QCY09*



Source: Industry/MOSL

## RE agents have mixed views

Our conference call on 25 November 2009 with RE agents revealed mixed views among agents. In our previous concall in August 2009, almost all agents unanimously expected volumes to increase and prices to strengthen, going forward. In the November call, we received mixed responses:

- [1] Strong volume and price momentum is expected in the NCR.
- [2] In Mumbai (including Thane) volume has slowed considerably due to sharp price increases by developers and will pick up after a price correction.
- [3] Volume outlook in Bangalore is positive but there has been almost no price increase due to high inventories and increased supply.

## City-wise key trends and outlook on prices

### 1) NCR: Prices up 5-10%; new highs in key areas

- Sales volumes stayed strong in the region, despite recent price increases.
- Prices increased by 5-10% across key projects since August 2009. In fact, prices in some key areas in South Delhi have moved to new highs.
- Demand from NRIs is a demand driver in the NCR.
- Jaiprakash's project along the Yamuna Expressway attracted good response because it was priced more attractively than the competition. In response to a conference participant's question on the progress of execution of recently launched projects, the NCR agent said the projects were likely to be delayed by 12-18 months and buyers had reconciled themselves to this.

### 2) Mumbai-Thane: Transactions stalled; volume recovery contingent on price moderation

- Sales volumes have decreased from those in May-August 2009, due to a sharp increase in prices by developers and volumes are unlikely to revive in the near term unless prices moderate 5-8%.
- Several suburban projects have been delayed due to lack of approvals and developers have been faced with pressure from customers demanding refunds..
- Home buyers are shifting focus to ready-to-move-in projects or projects nearing completion. Oversupply is expected in the near term for projects on the outskirts of Thane, which would check prices.

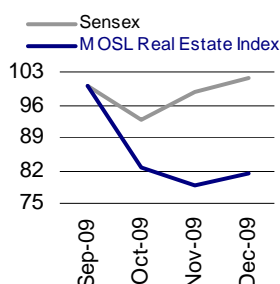
### 3) Bangalore: Sales volumes up 40% YoY; no increase in prices yet

- Sales volumes have gained momentum over the past few months, with transactions having increased by ~40% YoY. Sales volumes have been strong especially in North Bangalore, near the new airport, and in East Bangalore (Whitefield).
- The momentum of new launches and sales across new launches continues. Patel Realty's (the real estate arm of Patel Engineering) residential project attracted an encouraging response with ~1,400 units priced at Rs1,885/sf being sold within 10 days of launch. However, due to excessive supply and high inventories, prices are unlikely to increase in the near term.

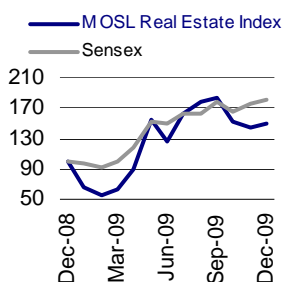
## Commercial/Retail verticals yet to recover

- While most agents said leasing had yet to pick up strongly, they expected the commercial and retail verticals to revive over 6-9 months.
- However, the NCR agent said leasing had picked up in the NCR but would take more time to recover fully.

RELATIVE PERFORMANCE - 3M (%)



RELATIVE PERFORMANCE - 1YR (%)



## KEY HIGHLIGHTS FROM OUR CALL WITH RE AGENTS SINCE MARCH 2009

|                    | 18-MAR-09  | 20-APR-09   | 10-JUN-09   | 12-AUG-09  | 25-NOV-09   |
|--------------------|--|---|---|--|---|
| <b>Mumbai</b>      |  |   |   |  |   |
| Price movement     | Sharp corrections in RE prices, 15-25% across city and 25-45% in outskirts           | Price correction in South Mumbai limited to 12-18%, in Central Mumbai prices down 15-30%. | Rates in South and Central Mumbai up ~5% from their recent lows         | Price hike of 5-15% in key city projects   | Prices up another 5-10% in key projects   |
| Volumes            | Pick up in sales volumes, recovery largely confined to city-centric areas            | Sales in residential vertical steadily gaining momentum over last one month               | Recovery seen in premium housing vertical along with affordable housing | Slowed in August 2009 compared with May-June 2009  | Volumes have slowed sharply compared with May-August 2009. Demand high for ready projects                           |
| Outlook on prices  | Prices to fall further   | Prices to stabilize as developers unwilling to negotiate                                  | Likely to increase in key projects                                      | Consolidate, increase in some key projects   | Prices could fall 5-8%  |
| Outlook on volumes | To pick up in near term  | Residential demand to gain momentum over the next few months                              | Volumes in 2HCY09 likely to be > 2x compared to 1HCY09                  | To pick up around festive period, buyer enquiries remain strong                                      | To pick up only post 5-8% correction in prices  |
| Commercial         | Outlook weak   | Continue to be in downturn  | Increase in enquiries for office segment                                | Increase in enquiries from investors for commercial projects with a completion timeframe of 12months | -   |
| Retail             | Outlook very weak  | Continue to be in downturn  | Continue to be in downturn  | Outlook continues to be weak   | -   |
| <b>NCR</b>         |  |   |   |  |   |
| Price movement     | Sharp corrections in RE prices, 15-25% across city and 25-45% in outskirts           | Aggressive price cuts by developers of 25-30% for new projects                            | -   | Prices up 5-15% in South Delhi and key areas of Gurgaon  | Prices increased by 10% across projects. Prices in some areas at new highs  |
| Volumes            | Transaction low despite price cuts, concern on the financial soundness of developers | Strong revival in demand but recovery confined to affordable housing segment              | -   | Sales gains momentum in past month   | Volumes high, NRI demand key contributor  |
| Outlook on prices  | Prices to fall further across city   | -   | -   | To increase by 5-10% in next few months in key areas   | To increase by 10-15% over the next quarter   |
| Outlook on volumes | Recovery in volumes to be delayed  | -   | -   | To pick up in festive period, likely over supply in affordable homes segment in medium term          | Volumes to remain strong  |
| Commercial         | Outlook weak   | Continue to be under pressure with no signs of recovery                                   | -   | Enquires for commercial (Non IT) increased. Recovery possible in the next few months.                | Strong enquiries, leasing has picked up in some ready to move projects  |
| Retail             | Outlook very weak  | Continue to be under pressure with no signs of recovery                                   | -   | Outlook continues to be weak, no signs of recovery   | Major retailers seen shifting operations from standalone stores to malls. Leasing to pick up over next few quarters |



## KEY HIGHLIGHTS FROM OUR CALL WITH RE AGENTS SINCE MARCH 2009

|                    | 18-MAR-09  | 20-APR-09  | 10-JUN-09 | 12-AUG-09  | 25-NOV-09  |
|--------------------|--|--|-----------|--|--|
| <b>Bangalore</b>   |  |  |           |  |  |
| Price movement     | -  | Prices under pressure, new projects being launched at 25-30% lower prices                      | -         | Prices have not moved up due to high inventory, despite increase in demand       | No price increase due to high supply and excessive inventory                             |
| Volumes            | -  | Strong response seen for affordable housing  | -         | Sharp increase in volumes post elections   | 40% YoY increase in volumes  |
| Outlook on prices  | -  | To remain weak   | -         | Outlook stable   | Price increase to be restricted to CBD areas. Prices in suburbs unlikely to pick up soon |
| Outlook on volumes | -  | Owing to high dependence on IT/ITES, recovery to be delayed                                    | -         | Outlook stable   | To remain strong   |
| Commercial         | -  | No signs of recovery   | -         | Some pick up seen in non-IT transactions   | Pick up in enquiries, revival still 6 months away  |
| Retail             | -  | No signs of recovery   | -         | Outlook continues to be weak   | To recover over the next 6-12months  |
| <b>Chennai</b>     |  |  |           |  |  |
| Price movement     | Sharp corrections in RE prices by 15-25% across city and 25-45% in outskirts   | Price reduction across projects continue   | -         | Prices have not moved up yet, but expect prices to strengthen in next few months | -  |
| Volumes            | Low number of transactions, some pick up in transactions in suburban locations | Demand for affordable residential picks up in OMR, GST Road and Sriperumbudur                  | -         | Volumes up across affordable housing and city-centric projects                   | -  |
| Outlook on prices  | Outlook weak   | Prices stabilizing   | -         | Outlook positive   | -  |
| Outlook on volumes | Outlook weak   | Volumes picking up   | -         | Volumes have picked up significantly   | -  |
| Commercial         | Outlook weak   | Several commercial projects on hold, commercial office rentals weak with corrections up to 20% | -         | Enquiries have started increasing, activity may pick up in near term             | -  |
| Retail             | Outlook weak   | Several key retail projects on hold, including DLF, Pantaloons, Sriram Mall                    | -         | Outlook continues to be weak   | -  |

Source: Company/MOSL

### Valuation and view

The RE sector seems well set for recovery, following the successful balance sheet recapitalization by key RE companies and pick-up in RE activity. We believe key mid cap RE companies, with a city-centric focus, robust financials and strong near-term monetization visibility are well placed to capitalize on the growth phase ahead, as they can shift focus to project monetization and pursue NAV enhancement strategies. Our top picks are DLF among large caps, and Anant Raj and Phoenix Mills among mid caps.

#### VALUATION SUMMARY

| COMPANY       | RATING  | CMP      | MKT CAP | NAV     | TP   | EPS (RS/SH) |       | P/E (X) |       | ABV (RS/SH) |       | P/B (X) |       | ROE (%) |       |
|---------------|---------|----------|---------|---------|------|-------------|-------|---------|-------|-------------|-------|---------|-------|---------|-------|
|               |         | 29.12.09 | (RS B)  | (RS/SH) | (RS) | FY10E       | FY11E | FY10E   | FY11E | FY10E       | FY11E | FY10E   | FY11E | FY10E   | FY11E |
| DLF           | Buy     | 365      | 626     | 412     | 453  | 13.9        | 18.9  | 26.3    | 19.4  | 136         | 154   | 2.7     | 2.4   | 8.8     | 10.8  |
| Unitech       | Neutral | 82       | 195     | 88      | 88   | 3.4         | 4.8   | 24.1    | 17.0  | 40          | 45    | 2.1     | 1.8   | 7.6     | 9.8   |
| IBREL         | Neutral | 218      | 87      | 261     | 261  | 2.8         | 5.4   | 78.2    | 40.0  | 204         | 206   | 1.1     | 1.1   | 0.8     | 1.6   |
| HDIL          | Buy     | 363      | 125     | 390     | 390  | 13.0        | 16.4  | 27.9    | 22.1  | 188         | 205   | 1.9     | 1.8   | 6.9     | 7.9   |
| Anant Raj     | Buy     | 131      | 39      | 194     | 194  | 7.3         | 10.4  | 18.1    | 12.7  | 120         | 129   | 1.1     | 1.0   | 6.0     | 8.0   |
| Phoenix Mills | Buy     | 189      | 27      | 220     | 220  | 6.0         | 8.0   | 31.7    | 23.7  | 109         | 116   | 1.7     | 1.6   | 5.5     | 6.9   |
| Mah Life      | Buy     | 343      | 14      | 512     | 512  | 18.2        | 23.4  | 18.9    | 14.6  | 233         | 257   | 1.5     | 1.3   | 7.6     | 8.9   |
| Brigade       | Buy     | 128      | 14      | 164     | 164  | 10.7        | 13.5  | 12.0    | 9.5   | 95          | 104   | 1.3     | 1.2   | 11.3    | 13.0  |
| Puravankara   | Neutral | 92       | 20      | 124     | 124  | 5.3         | 7.9   | 17.3    | 11.6  | 68          | 74    | 1.3     | 1.2   | 7.8     | 10.7  |
| Peninsula     | Neutral | 78       | 22      | 88      | 88   | 8.0         | 11.7  | 9.8     | 6.6   | 40          | 46    | 2.0     | 1.7   | 20.2    | 25.4  |

Source: MOSL

#### RE NAVS ACROSS COMPANIES (RS/SHARE)

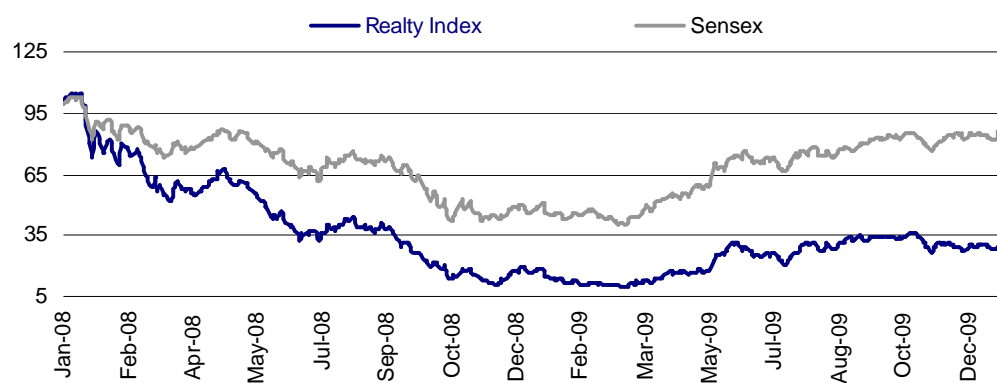
|                              | DLF        | UNITECH    | IBREL      | HDIL         | ANANT RAJ  | PHOENIX    | MAH LIFE   | BRIGADE    | PURAVANKARA | PENINSULA  |
|------------------------------|------------|------------|------------|--------------|------------|------------|------------|------------|-------------|------------|
| Apartments                   | 222        | 68         | 93         | 106          | 95         | 10         | 167        | 117        | 243         | 57         |
| Villas                       | 25         | 47         | 0          | 0            | 0          | 0          | 0          | 0          | 0           | 0          |
| Plots/Inst Plots             | 54         | 13         | 0          | 0            | 0          | 0          | 0          | 0          | 0           | 0          |
| Commercial                   | 135        | 39         | 75         | 139          | 62         | 34         | 0          | 124        | 9           | 65         |
| Hotels                       | 28         | 6          | 0          | 0            | 53         | 186        | 0          | 39         | 0           | 0          |
| Retail                       | 159        | 13         | 43         | 232          | 54         | 273        | 0          | 52         | 0           | 0          |
| Others                       | 0          | 2          | 10         | 677          | 4          |            | 272        | 7          | 0           | 1          |
| <b>Total</b>                 | <b>595</b> | <b>190</b> | <b>222</b> | <b>1,155</b> | <b>268</b> | <b>504</b> | <b>439</b> | <b>338</b> | <b>253</b>  | <b>122</b> |
| Add: Misc                    | 63         | 12         | 0          | 0            | 0          | 35         | 0          | 0          | 0           | 7          |
| <b>Gross Asset Value</b>     | <b>658</b> | <b>202</b> | <b>222</b> | <b>1,155</b> | <b>268</b> | <b>539</b> | <b>439</b> | <b>338</b> | <b>253</b>  | <b>129</b> |
| Less: Tax                    | 131        | 42         | 49         | 62           | 62         | 13         | 0          | 78         | 56          | 130        |
| Add: Cash                    | 7          | 4          | 48         | 120          | 21         | 32         | 82         | 0          | 1           | 29         |
| Less: Debt                   | 66         | 30         | 0          | 17           | 0          | 24         | 0          | 62         | 38          | 1          |
| Less: Land Cost              | 11         | 8          | 29         | 61           | 7          | 7          | 0          | 0          | 13          | 11         |
| Less: Operating Exp & others | 54         | 47         | 20         | -384         | 27         | 17         | 0          | 34         | 23          | 0          |
| <b>Net Asset Value</b>       | <b>412</b> | <b>88</b>  | <b>261</b> | <b>390</b>   | <b>194</b> | <b>220</b> | <b>512</b> | <b>164</b> | <b>124</b>  | <b>88</b>  |
| CMP 29 Dec-09 (Rs/sh)        | 365        | 82         | 218        | 363          | 131        | 189        | 343        | 128        | 92          | 78         |
| % Prem/Disc                  | -11.3      | -6.9       | -16.5      | -7.1         | -32.2      | -13.9      | -32.9      | -22.0      | -26.3       | -11.3      |

Source: MOSL

#### COMPARATIVE VALUATION

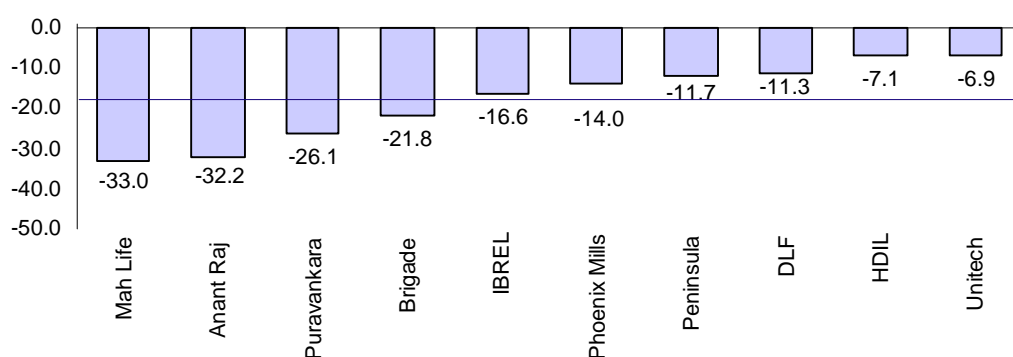
|                        | CMP (RS) | RECO    | EPS (RS) |       |       | P/E (X) |       |       | EV/EBITDA |       |       | ROE (%) |       |       |
|------------------------|----------|---------|----------|-------|-------|---------|-------|-------|-----------|-------|-------|---------|-------|-------|
|                        | 29.12.09 |         | FY10E    | FY11E | FY12E | FY10E   | FY11E | FY12E | FY10E     | FY11E | FY12E | FY10E   | FY11E | FY12E |
| Real Estate            |          |         |          |       |       |         |       |       |           |       |       |         |       |       |
| Anant Raj Inds         | 131      | Buy     | 7.3      | 10.4  | 11.9  | 18.1    | 12.7  | 11.1  | 15.4      | 9.6   | 9.8   | 6.0     | 8.0   | 8.5   |
| Brigade Enterpr.       | 128      | Buy     | 10.7     | 13.5  | 17.9  | 12.0    | 9.5   | 7.2   | 9.7       | 6.6   | 4.8   | 11.3    | 13.0  | 15.5  |
| DLF                    | 365      | Buy     | 13.9     | 18.9  | 19.9  | 26.3    | 19.4  | 18.4  | 17.2      | 13.7  | 10.8  | 8.8     | 10.8  | 11.0  |
| HDIL                   | 363      | Buy     | 13.0     | 16.4  | 18.9  | 27.9    | 22.1  | 19.2  | 21.5      | 15.9  | 11.3  | 6.9     | 7.9   | 9.4   |
| Indiabulls Real Estate | 218      | Neutral | 2.8      | 5.4   | 13.4  | 78.2    | 40.0  | 16.2  | 149.8     | 39.7  | 21.2  | 0.8     | 1.6   | 3.9   |
| Mahindra Lifespace     | 343      | Buy     | 18.2     | 23.4  | 32.6  | 18.9    | 14.6  | 10.5  | 16.3      | 10.3  | 7.1   | 7.6     | 8.9   | 10.9  |
| Peninsula Land         | 78       | Neutral | 8.0      | 11.7  | 13.8  | 9.8     | 6.6   | 5.6   | 7.2       | 4.5   | 3.6   | 20.2    | 25.4  | 25.2  |
| Phoenix Mills          | 189      | Buy     | 6.0      | 8.0   | 13.7  | 31.7    | 23.7  | 13.8  | 31.9      | 21.4  | 14.4  | 5.5     | 6.9   | 11.1  |
| Puravankara Projects   | 92       | Neutral | 5.3      | 7.9   | 9.4   | 17.3    | 11.6  | 9.7   | 21.1      | 11.8  | 8.4   | 7.8     | 10.7  | 13.2  |
| Unitech                | 82       | Neutral | 3.4      | 4.8   | 6.4   | 24.1    | 17.0  | 12.8  | 19.7      | 14.2  | 9.2   | 7.6     | 9.8   | 12.5  |
| Sector Aggregate       |          |         |          |       |       | 25.7    | 18.7  | 15.8  | 18.6      | 13.7  | 10.3  | 7.3     | 9.3   | 10.6  |

## RE SECTOR HAS OUTPERFORMED SENSEX SINCE APRIL 2009

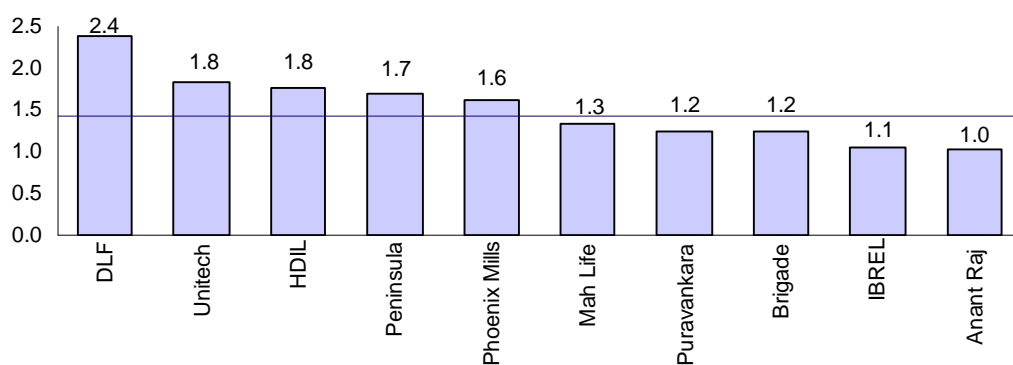


Source: Company/MOSL

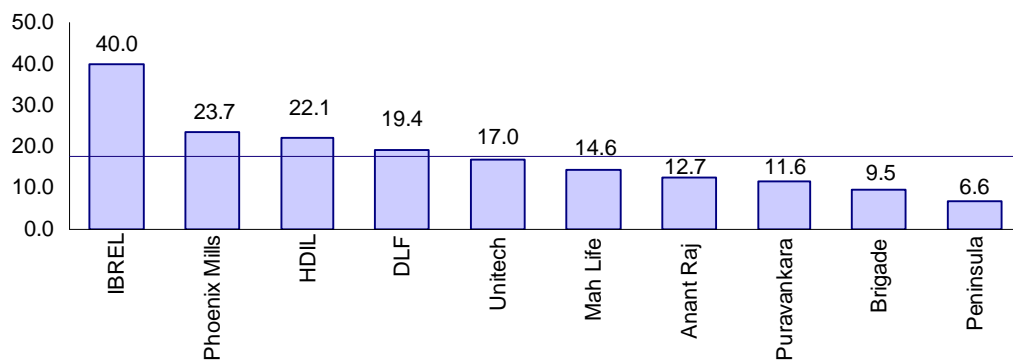
## RE COMPANIES IN OUR COVERAGE UNIVERSE TRADE AT 18% DISCOUNT TO NAV



## RE STOCKS IN OUR COVERAGE UNIVERSE TRADE AT ~1.5X FY11 BV



## RE STOCKS IN OUR COVERAGE UNIVERSE TRADE AT ~18X FY11 EPS



Prices as on 29 December 2009

Source: Company/MOSL

DLF

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE SENSEX: 17,402 | DLFU IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | DLF.BO       |

29 December 2009

Buy

Rs365

Previous Recommendation: Buy

|                     |               |
|---------------------|---------------|
| Equity Shares (m)   | 1,714.4       |
| 52 Week Range (Rs)  | 491 / 124     |
| 1,6,12 Rel Perf (%) | 1 / -10 / -50 |
| Mcap (Rs b)         | 626.2         |
| Mcap (USD b)        | 13.4          |

| YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 3/09A       | 100,440             | 46,292        | 26.9        | -41.3             | 13.6       | 2.8         | 18.7       | 15.5        | 7.7          | 14.1          |
| 3/10E       | 75,376              | 23,871        | 13.9        | -48.4             | 26.3       | 2.5         | 8.8        | 10.0        | 9.3          | 17.1          |
| 3/11E       | 101,526             | 32,498        | 18.9        | 36.1              | 19.4       | 2.3         | 10.8       | 12.6        | 6.7          | 13.6          |
| 3/12E       | 107,788             | 34,196        | 19.9        | 5.2               | 18.4       | 2.2         | 11.0       | 13.3        | 4.9          | 10.7          |

- We expect revenue to increase 10% YoY to Rs15.1b and net profit to decline 45% YoY to Rs3.7b. We estimate EBITDA margins to decline by 920bp to 47.3% vs 56.5% during 3QFY09.
- During 3QFY10, DLF's board approved integration of DLF Cyber City Developers Limited, a 100% subsidiary of DLF with Caraf Builders & Constructions Private Limited (Caraf) in the ratio of 60:40. Post the merger, DLF will hold a 60% stake in the integrated entity, while the residual 40% stake would be held by the promoters of DLF. This deal has resolved the DLF-DAL promoter conflict issue and has created a strong entity to take to REIT market.
- During 3QFY10, DLF launched its first project in Goa, River Valley, at Rs2,970/sf (post discount of Rs330/sf). It has received a good response to this project and has sold ~200units of the total ~300units on offer (total 700units in the project). Further, DLF has also started the bookings for its Premium projects in Gurgaon, The Belaire and The Park Place which have been extended from ~18stories towers to 28-30storied towers.
- We have lowered our earnings estimate for DLF by ~11% for FY10 to Rs23.8b and by ~13% for FY11 to Rs32.5b in order to account for the delay in launches and sales. Our NAV for DLF is Rs412/share. In case DLF manages to create a monetization vehicle for its capital intensive commercial and retail projects, it would make its business model structurally stronger. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH                 | FY09          |               |               |               | FY10          |               |               |               | FY09           | FY10E         |
|---------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|---------------|
|                           | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3QE           | 4QE           |                |               |
| <b>Sales</b>              | <b>38,106</b> | <b>37,444</b> | <b>13,667</b> | <b>11,223</b> | <b>16,499</b> | <b>17,509</b> | <b>15,075</b> | <b>26,292</b> | <b>100,440</b> | <b>75,376</b> |
| Change (%)                | 24.0          | 15.2          | (62.0)        | (73.9)        | -56.7         | -53.2         | 10.3          | 134.3         | -30.4          | -25.0         |
| Total Expenditure         | 14,661        | 15,274        | 5,947         | 9,677         | 9,058         | 8,371         | 7,947         | 8,821         | 45,559         | 34,198        |
| Cost of Land/Construction | 12,060        | 12,862        | 2,830         | 5,777         | 5,583         | 5,155         | 4,854         | 5,604         | 33,328         | 21,196        |
| Staff Cost                | 1,024         | 582           | 1,210         | 1,375         | 1,132         | 1,079         | 1,178         | 1,285         | 4,592          | 4,674         |
| Others                    | 1,577         | 1,829         | 1,907         | 2,526         | 2,343         | 2,137         | 1,915         | 1,932         | 7,640          | 8,328         |
| <b>EBITDA</b>             | <b>23,445</b> | <b>22,170</b> | <b>7,720</b>  | <b>1,546</b>  | <b>7,441</b>  | <b>9,138</b>  | <b>7,128</b>  | <b>17,471</b> | <b>54,881</b>  | <b>41,178</b> |
| Change (%)                | 6.4           | -2.1          | -69.1         | -94.4         | -68.3         | -58.8         | -7.7          | 1,030.2       | -43.5          | -25.0         |
| As % of Sales             | 61.5          | 59.2          | 56.5          | 13.8          | 45.1          | 52.2          | 47.3          | 66.4          | 54.6           | 54.6          |
| Depreciation              | 546           | 505           | 788           | 516           | 734           | 766           | 756           | 768           | 2,355          | 3,023         |
| Interest                  | 541           | 469           | 938           | 1,625         | 2,874         | 2,486         | 2,433         | 2,560         | 3,574          | 10,353        |
| Other Income              | 357           | 958           | 1,361         | 2,291         | 961           | 594           | 559           | 121           | 4,967          | 2,235         |
| <b>PBT</b>                | <b>22,715</b> | <b>22,154</b> | <b>7,356</b>  | <b>1,695</b>  | <b>4,794</b>  | <b>6,481</b>  | <b>4,498</b>  | <b>14,264</b> | <b>53,919</b>  | <b>30,037</b> |
| Tax                       | 3,766         | 2,813         | 537           | -2            | 993           | 1,918         | 810           | 2,287         | 7,115          | 6,007         |
| Effective Tax Rate (%)    | 16.6          | 12.7          | 7.3           | -0.1          | 20.7          | 17.5          | 18.0          | 16.0          | 13.2           | 20.0          |
| <b>Reported PAT</b>       | <b>18,949</b> | <b>19,341</b> | <b>6,818</b>  | <b>1,697</b>  | <b>3,801</b>  | <b>4,563</b>  | <b>3,688</b>  | <b>11,977</b> | <b>46,804</b>  | <b>24,030</b> |
| Change (%)                | -14.1         | -4.2          | (68.1)        | (92.3)        | (79.9)        | -76.4         | 24.5          | 45.6          | -40.2          | -48.7         |
| <b>Adj. PAT</b>           | <b>18,640</b> | <b>19,354</b> | <b>6,708</b>  | <b>1,591</b>  | <b>3,960</b>  | <b>4,397</b>  | <b>3,688</b>  | <b>11,825</b> | <b>46,292</b>  | <b>23,871</b> |
| Change (%)                | (14.4)        | (4.1)         | (68.7)        | (92.7)        | (78.8)        | (77.3)        | (45.0)        | 643.5         | (40.7)         | -48.4         |

E: MOSL Estimates

Siddharth Bothra (SBothra@MotilalOswal.com) / Mansi Trivedi (Mansi.Trivedi@MotilalOswal.com)

## Unitech

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE SENSEX: 17,402 | UT IN        |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | UNTE.BO      |

29 December 2009

Neutral

Previous Recommendation: Neutral

Rs82

|                     |              | YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|---------------------|--------------|-------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| Equity Shares (m)   | 2,385.6      | 3/09A       | 28,945              | 11,968        | 6.0         | -41.7             | 13.7       | 2.6         | 18.7       | 13.2        | 9.7          | 17.5          |
| 52 Week Range (Rs)  | 118 / 25     | 3/10E       | 29,009              | 8,106         | 3.4         | -43.1             | 24.1       | 1.8         | 7.6        | 7.7         | 8.9          | 19.7          |
| 1,6,12 Rel Perf (%) | 0 / -22 / 33 | 3/11E       | 33,976              | 11,527        | 4.8         | 42.2              | 17.0       | 1.7         | 9.8        | 9.0         | 7.1          | 14.2          |
| Mcap (Rs b)         | 195.5        | 3/12E       | 64,558              | 15,237        | 6.4         | 32.2              | 12.8       | 1.6         | 12.5       | 13.6        | 3.7          | 9.2           |
| Mcap (USD b)        | 4.2          |             |                     |               |             |                   |            |             |            |             |              |               |

- We expect revenue to increase by 42% YoY to Rs7b and net profit to increase by 54% YoY to Rs2b. We estimate ~100bp decline in EBITDA margin to 48.8% owing to higher contribution from mid-income housing projects.
- Unitech has emerged as the largest nationwide residential real estate company, with more than 60 ongoing projects across 10 cities. Between FY10-12, Unitech hopes to deliver ~32msf of residential projects (18,085 apartments).
- Unitech hopes to complete delivery of ~22msf of its old projects by FY11 itself. For ~78% of Unitech's past projects (22.3msf) the structure has been completed and internal work/handover is currently underway, construction has also commenced at ~45% of Unitech's recently launched projects.
- During 3QFY10, Unitech's telecom subsidiary, Unitech Wireless under the brand name Uninor launched GSM services in seven circles including Tamil Nadu, Kerala, Karnataka, Andhra Pradesh, Uttar Pradesh East, Uttar Pradesh West and Bihar (including Jharkhand).
- We have lowered our earnings estimate for Unitech by ~25% for FY10 to Rs8.1b and by ~13% for FY11 to ~Rs11.5b in order to build in a lag in execution and sales.
- Unitech's fund raising in 1HFY10 has significantly lowered the solvency risk for the company and improved financial outlook. Our FY11 NAV for Unitech is Rs88/share. The stock trades at 1.8x FY11E adjusted BV of Rs45/share and at 7% premium to FY11E NAV of Rs88/share. Maintain **Neutral**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH              | FY09          |              |              |              | FY10         |              |              |               | FY09          | FY10E         |
|------------------------|---------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|---------------|
|                        | 1Q            | 2Q           | 3Q           | 4Q           | 1Q           | 2Q           | 3QE          | 4QE           |               |               |
| <b>Sales</b>           | <b>10,317</b> | <b>9,831</b> | <b>4,894</b> | <b>3,903</b> | <b>5,149</b> | <b>5,095</b> | <b>6,962</b> | <b>11,803</b> | <b>28,945</b> | <b>29,009</b> |
| Change (%)             | 19.2          | -3.0         | -57.1        | -66.4        | -50.1        | -48.2        | 42.3         | 202.4         | -29.7         | 0.2           |
| Total Expenditure      | 4,233         | 3,739        | 2,451        | 2,587        | 1,998        | 2,117        | 3,565        | 8,291         | 13,010        | 15,970        |
| <b>EBITDA</b>          | <b>6,084</b>  | <b>6,092</b> | <b>2,443</b> | <b>1,316</b> | <b>3,151</b> | <b>2,978</b> | <b>3,398</b> | <b>3,513</b>  | <b>15,935</b> | <b>13,039</b> |
| Change (%)             | 21.5          | 20.2         | -66.7        | -72.7        | -48.2        | -51.1        | 39.1         | 166.9         | -27.7         | -18.2         |
| As of % Sales          | 59.0          | 62.0         | 49.9         | 33.7         | 48.5         | 58.4         | 48.8         | 29.8          | 55.1          | 44.9          |
| Depreciation           | 68            | 38           | 53           | 50           | 42           | 114          | 61           | 28            | 209           | 244           |
| Interest               | 1,079         | 1,341        | 967          | 2,158        | 926          | 603          | 905          | 980           | 5,546         | 3,414         |
| Other Income           | 227           | 184          | 176          | 240          | 333          | 172          | 234          | 161           | 4,212         | 900           |
| Extra-ordinary Income  | -4            | 7            | -20          | 3,385        | 0            | 0            | 0            | 0             | 3,369         | 0             |
| <b>PBT</b>             | <b>5,160</b>  | <b>4,896</b> | <b>1,579</b> | <b>2,733</b> | <b>2,516</b> | <b>2,432</b> | <b>2,666</b> | <b>2,667</b>  | <b>14,392</b> | <b>10,281</b> |
| Tax                    | 927           | 1,300        | 219          | -21          | 539          | 654          | 540          | 442           | 2,424         | 2,175         |
| Effective Tax Rate (%) | 18.0          | 26.5         | 13.9         | -0.8         | 21.4         | 18.5         | 20.3         | 16.6          | 16.8          | 21.2          |
| <b>Reported PAT</b>    | <b>4,233</b>  | <b>3,597</b> | <b>1,361</b> | <b>2,754</b> | <b>1,578</b> | <b>1,779</b> | <b>2,125</b> | <b>2,225</b>  | <b>11,968</b> | <b>8,106</b>  |
| Change (%)             | 15.3          | -12.3        | -74.0        | -25.4        | -62.7        | -50.5        | 56.2         | -19.2         | -29.6         | -32.3         |
| Minority               |               | 7            | 0            | 2            | 399          | -2           | 0            | 0             | 9             | 0             |
| <b>Adj PAT</b>         | <b>4,233</b>  | <b>3,589</b> | <b>1,380</b> | <b>486</b>   | <b>1,578</b> | <b>1,777</b> | <b>2,125</b> | <b>2,225</b>  | <b>9,689</b>  | <b>8,106</b>  |
| Change (%)             | 15.3          | -12.5        | -73.6        | -86.5        | -62.7        | -50.5        | 54.0         | 357.4         | -42.7         | -16.3         |

E: MOSL Estimates

Siddharth Bothra (SBothra@MotilalOswal.com) / Mansi Trivedi (Mansi.Trivedi@MotilalOswal.com)

## Retailing

BSE Sensex: 17,402

S&amp;P CNX: 5,188

29 December 2009

## COMPANY NAME

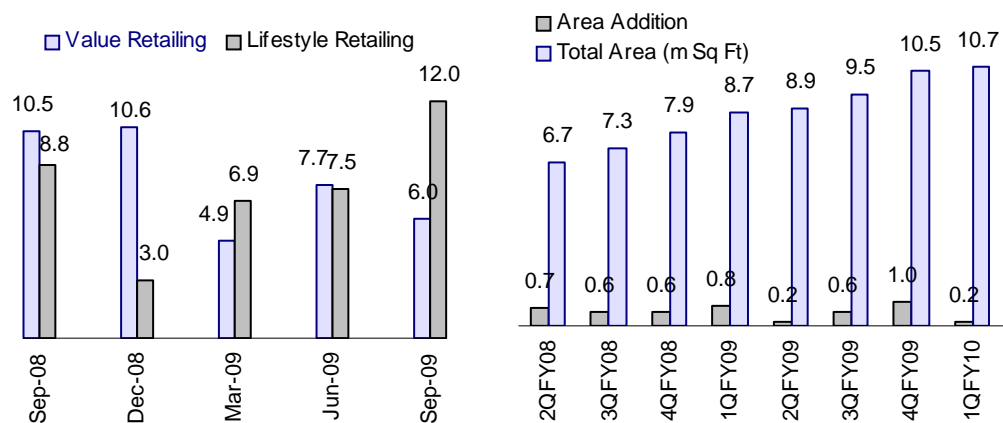
Pantaloon Retail

Titan Industries

## Festive season sales encouraging; up-tick across formats

Sales during the festive season have been highly encouraging for major retailers in India. We believe buoyant consumption sentiment (backed by improving employment prospects in metros) and pent up demand increased growth rates. Home retailing has also turned around with 20% increase in sales during the festive season. The trend is very encouraging: Full price sales posted strong growth and we do not rule out surprises in same store sales in the coming quarters.

## SAME STORE SALES GROWTH



Source: Industry/MOSL

## Area addition expected to pick up

Retail space addition for Pantaloon is expected to pick up with an expected 1msf being added during the quarter (v/s 0.2msf added in 1QFY10). Other key players like Shoppers Stop, Trent and Aditya Birla Retail are also likely to increase their retail space at a faster pace. However the retail players are much more profit focused this time around with emphasis on identifying proper catchments and store locations.

## EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

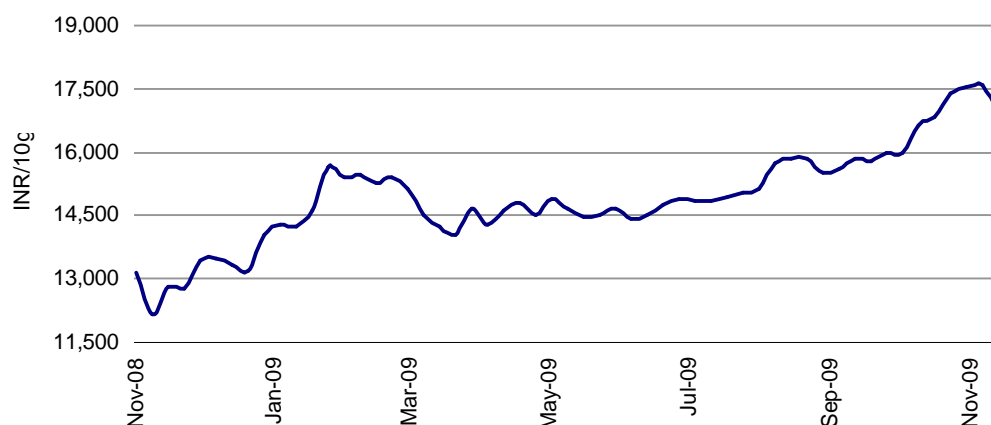
|                         | CMP (RS) | RECO    | SALES         |               |               | EBITDA       |               |               | NET PROFIT |               |               |
|-------------------------|----------|---------|---------------|---------------|---------------|--------------|---------------|---------------|------------|---------------|---------------|
|                         |          |         | DEC.09        | VAR.<br>% YOY | VAR.<br>% QOQ | DEC.09       | VAR.<br>% YOY | VAR.<br>% QOQ | DEC.09     | VAR.<br>% YOY | VAR.<br>% QOQ |
|                         |          |         |               |               |               |              |               |               |            |               |               |
|                         | 29.12.09 |         |               |               |               |              |               |               |            |               |               |
| <b>Retailing</b>        |          |         |               |               |               |              |               |               |            |               |               |
| Pantaloon Retail        | 381      | Buy     | 18,842        | 23.5          | 6.0           | 2,005        | 27.4          | 5.4           | 450        | 34.2          | 2.7           |
| Titan Industries        | 1,434    | Neutral | 12,800        | 25.0          | 11.6          | 880          | 22.4          | -18.6         | 486        | 15.4          | -37.4         |
| <b>Sector Aggregate</b> |          |         | <b>31,642</b> | <b>24.1</b>   | <b>8.2</b>    | <b>2,885</b> | <b>25.9</b>   | <b>-3.3</b>   | <b>936</b> | <b>23.7</b>   | <b>-22.9</b>  |



### Gold demand recovering, prices hold key to near term volumes

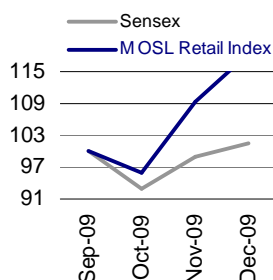
Jewelry sales continue to suffer due to high gold prices (~Rs18,000/10gm). However improving sentiment and the marriage season have resulted in higher demand in October-November. Volumes continue to be lower on an annual basis. Consumers are adjusting to higher gold prices and branded players are expected to report higher volume growth in the coming quarters. Gold lease charges are declining steadily and are ruling at 3% a year.

#### GOLD PRICES AT NEW HIGH

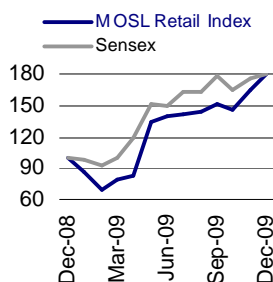


Source: Industry/MOSL

#### RELATIVE PERFORMANCE - 3M (%)



#### RELATIVE PERFORMANCE - 1YR (%)



### First mover advantage to help Pantaloon

We expect increased traction in the retail sector in the coming years. Pantaloon is expected to gain significant advantage over others due to (1) huge scale, (2) established formats (3) strong backend and IT network and (4) favorable sales mix. Lower overheads and benefits of fund raising should enable the company to increase growth. We maintain **Pantaloon** as our top pick in this segment.

#### COMPARATIVE VALUATION

|                  | CMP (RS) | RECO    | EPS (RS) |       |       | P/E (X) |       |       | EV/EBITDA |       |       | ROE (%) |       |       |
|------------------|----------|---------|----------|-------|-------|---------|-------|-------|-----------|-------|-------|---------|-------|-------|
|                  | 29.12.09 |         | FY10E    | FY11E | FY12E | FY10E   | FY11E | FY12E | FY10E     | FY11E | FY12E | FY10E   | FY11E | FY12E |
| Retailing        |          |         |          |       |       |         |       |       |           |       |       |         |       |       |
| Pantaloon Retail | 381      | Buy     | 9.2      | 13.0  | 16.6  | 41.6    | 29.4  | 23.0  | 11.1      | 9.2   | 8.0   | 6.3     | 8.2   | 9.6   |
| Titan Industries | 1,434    | Neutral | 45.3     | 59.4  | 74.5  | 31.7    | 24.1  | 19.2  | 19.2      | 14.3  | 11.3  | 29.5    | 30.6  | 30.8  |
| Sector Aggregate |          |         |          |       |       | 35.0    | 25.4  | 20.0  | 13.4      | 10.8  | 9.0   | 10.6    | 12.8  | 14.4  |

## Pantaloon Retail

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | PF IN        |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | PART.BO      |

29 December 2009

Buy

Rs381

Previous Recommendation: Buy

|                     |            |
|---------------------|------------|
| Equity Shares (m)   | 190.3      |
| 52 Week Range (Rs)  | 384 / 105  |
| 1,6,12 Rel Perf (%) | 6 / 3 / -8 |
| Mcap (Rs b)         | 72.5       |
| Mcap (USD b)        | 1.6        |

| YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 06/09A      | 63,417              | 1,406         | 7.4         | -6.6              | 51.6       | 2.9         | 6.1        | 10.1        | 1.3          | 12.7          |
| 06/10E      | 76,680              | 1,886         | 9.2         | 23.9              | 41.6       | 2.4         | 6.3        | 10.3        | 1.1          | 10.4          |
| 06/11E      | 94,192              | 2,734         | 13.0        | 41.5              | 29.4       | 2.2         | 8.2        | 11.6        | 0.9          | 8.6           |
| 06/12E      | 111,232             | 3,501         | 16.6        | 28.0              | 23.0       | 2.0         | 9.6        | 12.6        | 0.8          | 7.5           |

- We expect Pantaloon's revenue to grow 23.5% YoY to Rs18.8b, with value retailing driving growth during the quarter. Same store sales growth are likely to improve QoQ, with uplift across formats.
- Festive season demand has been robust with some stores reporting 20-25% same store sales growth (partly aided by a low base effect).
- During the quarter, the company added 1msf; Over the past three months space addition has picked up as stronger consumption sentiment and visibility of faster break-even has increased the management's confidence. However, it is likely to follow a more calibrated approach in adding new stores.
- We estimate 27.4% increase in EBITDA as EBITDA margins are expected to expand 30bps to 10.6%, led by improvement in gross margins (higher full price sales and private label sales).
- We estimate 34% increase in PAT growth due to flat interest cost (fund raising of Rs5b).
- The stock trades at 29.4x FY11E EPS of Rs13 and 23x FY12E EPS of Rs16.6. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E JUNE            | FY09          |               |               |               | FY10          |               |               |               | FY09          | FY10E         |
|---------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                     | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2QE           | 3QE           | 4QE           |               |               |
| <b>Net Sales</b>    | <b>15,112</b> | <b>15,257</b> | <b>16,421</b> | <b>16,627</b> | <b>17,770</b> | <b>18,842</b> | <b>20,001</b> | <b>20,067</b> | <b>63,417</b> | <b>76,680</b> |
| YoY Change (%)      | 39.1          | 24.4          | 21.2          | 20.4          | 17.6          | 23.5          | 21.8          | 20.7          | 25.6          | 20.9          |
| Total Exp           | 13,563        | 13,684        | 14,691        | 14,795        | 15,869        | 16,837        | 17,921        | 17,916        | 56,733        | 68,543        |
| <b>EBITDA</b>       | <b>1,549</b>  | <b>1,573</b>  | <b>1,730</b>  | <b>1,832</b>  | <b>1,901</b>  | <b>2,005</b>  | <b>2,080</b>  | <b>2,151</b>  | <b>6,684</b>  | <b>8,137</b>  |
| Growth (%)          | 62            | 44            | 51.6          | 29.8          | 22.8          | 27.4          | 20.2          | 17.4          | 45.1          | 21.7          |
| Margins (%)         | 10.2          | 10.3          | 10.5          | 11.0          | 10.7          | 10.6          | 10.4          | 10.7          | 10.5          | 10.6          |
| Depreciation        | 319           | 325           | 369           | 388           | 433           | 455           | 505           | 535           | 1,401         | 1,928         |
| Interest            | 684           | 742           | 847           | 910           | 869           | 865           | 835           | 812           | 3,182         | 3,380         |
| Other Income        | 12            | 15            | 16            | 18            | 47            | 10            | 12            | 4             | 61            | 73            |
| <b>PBT</b>          | <b>557</b>    | <b>522</b>    | <b>530</b>    | <b>553</b>    | <b>647</b>    | <b>695</b>    | <b>752</b>    | <b>808</b>    | <b>2,162</b>  | <b>2,902</b>  |
| Tax                 | 196           | 187           | 186           | 188           | 209           | 245           | 263           | 299           | 757           | 1,016         |
| Rate (%)            | 33.5          | 35.8          | 35.0          | 34.0          | 32.3          | 35.2          | 35.0          | 37.0          | 35.0          | 35.0          |
| <b>Adjusted PAT</b> | <b>362</b>    | <b>335</b>    | <b>344</b>    | <b>365</b>    | <b>438</b>    | <b>450</b>    | <b>489</b>    | <b>509</b>    | <b>1,406</b>  | <b>1,886</b>  |
| YoY Change (%)      | 21.8          | 6.0           | 7.1           | 12.2          | 21.2          | 34.2          | 42.2          | 39.5          | 11.6          | 34.2          |

E: MOSL Estimates

## Titan Industries

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | TTAN IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | TITN.BO      |

29 December 2009

Neutral

Previous Recommendation: Neutral

Rs1,434

|                     |             |
|---------------------|-------------|
| Equity Shares (m)   | 44.4        |
| 52 Week Range (Rs)  | 1,509 / 668 |
| 1,6,12 Rel Perf (%) | 5 / 3 / -24 |
| Mcap (Rs b)         | 63.7        |
| Mcap (USD b)        | 1.4         |

| YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 03/09A      | 38,034              | 2,055         | 46.3        | 36.8              | 31.0       | 10.9        | 37.3       | 38.8        | 1.6          | 18.8          |
| 03/10E      | 44,531              | 2,009         | 45.3        | -2.2              | 31.7       | 8.8         | 29.5       | 36.3        | 1.4          | 18.1          |
| 03/11E      | 55,385              | 2,638         | 59.4        | 31.3              | 24.1       | 7.0         | 30.6       | 40.3        | 1.1          | 13.5          |
| 03/12E      | 65,340              | 3,307         | 74.5        | 25.4              | 19.2       | 5.6         | 30.8       | 44.4        | 0.9          | 10.6          |

- In 3QFY10, we expect Titan to clock revenue of Rs12.8b, a 25% YoY growth. EBITDA margins are expected to decline 10bp due to a low single digit decline in jewelry volumes and continuing losses in eyewear and precision engineering. PAT growth is estimated at 15.4%.
- The watch division is expected to report decent double digit growth in sales and EBIT. Strong sales in the marriage season, higher sales of premium watches and a low base effect (sales rose 4% and PBIT rose 15% in 3QFY09). *Sonata* will continue to languish; premium brands like *Titan*, *Fastrack* and licensed and outsourced watches will be key growth drivers.
- The jewelry SBU will lower volume decline sequentially (15% and 10% decline in volume respectively in 1QFY10 and 2QFY10); we expect a 3-5% decline in volume and higher prices will enable sales growth above mid teens. Jewelry volumes are recovering and are likely to start showing positive volume growth after 3QFY10. Gold lease charges have declined to 3% currently; YoY decline in gold lease charges is expected to be 100-125bp.
- Precision engineering is expected to report better performance after its 40% YoY decline in sales in 2QFY10. In Titan Eye+ losses will continue at Rs80m-100m.
- A pick up in consumer sentiment and jewelry sales will be key factors to watch for. Long term prospects are encouraging, though the stock trades at 24.1x FY11E EPS of Rs59.4 and 19.2x FY12E EPS of Rs74.5. **Neutral**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH            | FY09         |               |               |              | FY10         |               |               |               | FY09          | FY10E         |
|----------------------|--------------|---------------|---------------|--------------|--------------|---------------|---------------|---------------|---------------|---------------|
|                      | 1Q           | 2Q            | 3Q            | 4Q           | 1Q           | 2Q            | 3QE           | 4QE           |               |               |
| <b>Net Sales</b>     | <b>8,103</b> | <b>10,886</b> | <b>10,238</b> | <b>8,807</b> | <b>8,830</b> | <b>11,468</b> | <b>12,800</b> | <b>11,433</b> | <b>38,034</b> | <b>44,531</b> |
| YoY Change (%)       | 23.2         | 53.0          | 27.6          | 7.1          | 9.0          | 5.4           | 25.0          | 29.8          | 27.0          | 17.1          |
| Total Exp            | 7,543        | 9,624         | 9,519         | 8,185        | 8,338        | 10,387        | 11,920        | 10,536        | 34,779        | 41,180        |
| <b>EBITDA</b>        | <b>561</b>   | <b>1,261</b>  | <b>719</b>    | <b>622</b>   | <b>493</b>   | <b>1,081</b>  | <b>880</b>    | <b>897</b>    | <b>3,255</b>  | <b>3,351</b>  |
| Margins (%)          | 6.9          | 11.6          | 7.0           | 7.1          | 5.6          | 9.4           | 6.9           | 7.8           | 8.6           | 7.5           |
| Depreciation         | 77           | 79            | 79            | 93           | 90           | 89            | 94.0          | 98            | 418           | 371           |
| Interest             | 46           | 62            | 56            | 55           | 76           | 50            | 100           | 135           | 228           | 361           |
| Other Income         | 8            | 12            | 12            | 20           | 7            | 32            | 5             | 17            | 53            | 60            |
| <b>PBT</b>           | <b>446</b>   | <b>1,133</b>  | <b>596</b>    | <b>494</b>   | <b>334</b>   | <b>974</b>    | <b>691</b>    | <b>681</b>    | <b>2,662</b>  | <b>2,679</b>  |
| Tax                  | 117          | 261           | 175           | 53           | 93           | 198           | 205           | 174           | 607           | 670           |
| Rate (%)             | 26.3         | 23.1          | 29.3          | 10.8         | 28.0         | 20.3          | 29.7          | 25.5          | 22.8          | 25.0          |
| <b>Adjusted PAT</b>  | <b>329</b>   | <b>872</b>    | <b>421</b>    | <b>441</b>   | <b>240</b>   | <b>776</b>    | <b>486</b>    | <b>507</b>    | <b>2,055</b>  | <b>2,009</b>  |
| YoY Change (%)       | 82.8         | 78.0          | 36.6          | -12.7        | -26.9        | -11.0         | 15.4          | 15.0          | 36.8          | -2.2          |
| Extraordinary Income | 0            | 0             | -176          | -290         | 216          | 0             | 0             | -216          | -466          | 0             |
| <b>Reported PAT</b>  | <b>329</b>   | <b>872</b>    | <b>245</b>    | <b>150</b>   | <b>457</b>   | <b>776</b>    | <b>486</b>    | <b>291</b>    | <b>1,589</b>  | <b>2,009</b>  |

E: MOSL Estimates

## Telecom

BSE Sensex: 17,402

S&amp;P CNX: 5,188

29 December 2009

## COMPANY NAME

Bharti Airtel

Idea Cellular

Reliance Communication

**3QFY10 to be one of the weakest quarters:** 3QFY10 is likely to be one of the weakest quarters for the Indian wireless sector. While the industry subscriber growth has scaled new highs with monthly subscriber net additions run rate of 15m+, aggressive pricing due to intense competition would drag revenue and margins. We expect revenue pressure to be partially offset by a rebound in traffic growth for listed operators driven by 1) price elasticity given sharp tariff cuts and promotions, 2) seasonal strength, and 3) lower MOU arbitrage from dual SIMs as incumbents have matched tariffs to a large extent. We expect 7-12% QoQ growth in aggregate traffic vs 1-3% in 2QFY10.

**Lower tariffs to result in 8-10% decline in RPM implying flat QoQ revenues:**

We expect blended RPM decline of 8-10% QoQ, resulting in largely flat QoQ revenue. Adjusted gross revenue (AGR) for the sector has been flat QoQ during the past two quarters. YoY revenue in 3QFY10 is expected to be flat QoQ for Bharti/RCom but increase ~10% for Idea.

**EBITDA margin to decline 300-450bp QoQ:** We expect EBITDA margin to decline by 300-450bp QoQ led by lower tariffs implying QoQ EBITDA decline of 12%/16%/8% for Bharti/Idea/RCom. Our estimates factor-in a QoQ decline of 20-25% in wireless EBITDA per minute. However, aggressive cost saving by operators could result in a positive margin surprise.

**Reported PAT to decline on YoY and QoQ basis:** Sector earnings would remain under pressure due to lower margins and tepid revenue growth. We expect proforma PAT to decline by 18%/75%/6% QoQ and 12%/75%/47% YoY for Bharti/Idea/RCom.

**MNP, new launches could create further disruption, 2G spectrum allocation guidelines, 3G auctions to settle policy issues:** New launches by Uninor and Etisalat, introduction of mobile number portability, final policy on 2G licence fee and allocation, and auction of 3G spectrum would be the key events closely watched over the next few months. While MNP implementation and new launches could lead to some further market

## EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

| EXPECTED QUARTERLY PERFORMANCE SUMMARY |          |         |         |       |       |        |       |       |            |       | (IN MILLION) |
|--|----------|---------|---------|-------|-------|--------|-------|-------|------------|-------|--------------|
|  | CMP (RS) | RECO    | SALES   |       |       | EBITDA |       |       | NET PROFIT |       |              |
|  |          |         | DEC.09  | VAR.  | VAR.  | DEC.09 | VAR.  | VAR.  | DEC.09     | VAR.  | VAR.         |
|  |          |         |         | % YOY | % QOQ |        | % YOY | % QOQ |            | % YOY | % QOQ        |
| Telecom                                |          |         |         |       |       |        |       |       |            |       |              |
| Bharti Airtel                          | 326      | Buy     | 96,987  | 0.7   | -1.5  | 36,563 | -7.3  | -11.7 | 18,933     | -12.3 | -18.4        |
| Idea Cellular                          | 58       | Neutral | 30,043  | 10.0  | 1.0   | 6,781  | -2.8  | -16.2 | 557        | -74.6 | -74.7        |
| Reliance Comm                          | 175      | Buy     | 57,588  | -1.6  | 1.0   | 18,674 | -20.6 | -7.5  | 7,777      | -47.4 | -5.6         |
| Sector Aggregate                       |          |         | 184,618 | 1.4   | -0.3  | 62,018 | -11.3 | -11.0 | 27,267     | -29.3 | -19.0        |

disruption and lead to an increase in competitive activity, successful 3G auctions and final policy on 2G spectrum allocations would increase visibility on these key regulatory issues.

**Growth outlook challenging due to continued tariff pressures; Bharti remains best placed:** 3QFY10 industry revenues would be negatively impacted by sharp tariff cuts undertaken by operators at the beginning of current quarter. We foresee low risk of significant revenue decline at the industry level given high mix of low end subscribers in the pre-paid segment who are likely to step up usage. However, realignment of revenue market share could continue driven by aggressive tariffs and promotions by new entrants. We believe that Bharti remains best placed in the current challenging environment based on 1) strong balance sheet, 2) least earning sensitivity to RPM declines, and 3) strong brand, network, and distribution coverage enabling it to maintain a premium vs other competitors. Sector valuations as 7x FY11 EV/EBITDA appear attractive, though near-term pricing pressure could trigger further downgrades. We maintain **Buy** on **Bharti** and **RCOM**, and **Neutral** on **Idea**.

**MNP charge significantly lower than expected:** TRAI has fixed the MNP 'per port transaction charge' at Rs19 vs expectation of Rs200-300. 'Per port transaction charge' means the charge payable by the recipient operator (the operator where the subscriber is willing to port his number), to the Mobile Number Portability Service Provider (who runs the MNP system and database) for processing the porting request of a mobile number. The subscriber, in turn, is required to pay a "porting charge" to the recipient operator. The recipient operator would be free to charge any amount less than or equal to Rs19 as 'Porting charge'. TRAI had earlier fixed maximum time for completion of porting process as four days and maximum "no service time" as two hours.

**We believe there would be three outcomes of such low portability charges:**

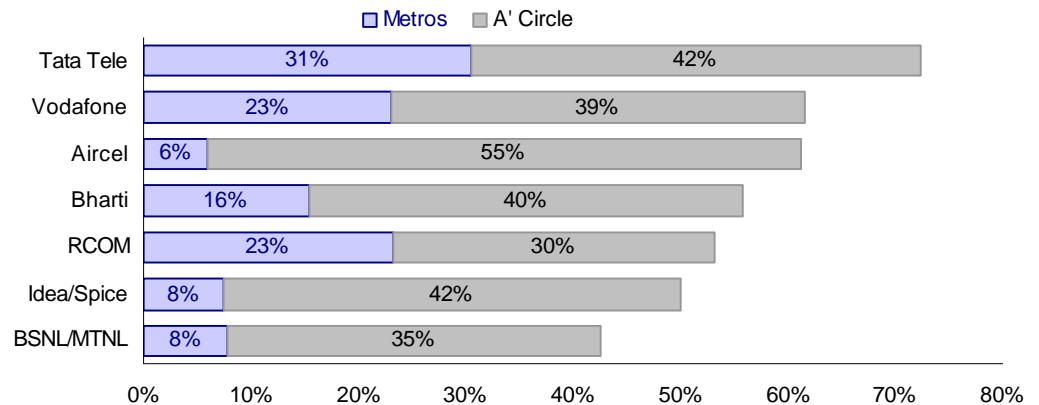
- 1) Recipient operator would have minimal cost if it foregoes the "per port transaction charge" (Rs19), thus allowing subscribers to change their operator while retaining the number without any financial burden,
- 2) Subscriber retention cost will increase and tariff wars are likely to intensify, and
- 3) Process of industry consolidation would likely get accelerated further.

In its September 2009 regulations on MNP, TRAI had fixed 31st December 2009 as the target date for implementing MNP in Metro and A category circles and 20th March 2010 for B and C category circles. Our interactions with industry sources indicate that implementation could be pushed back further given that some of the operators might not be able to upgrade their systems in the indicated time frame.

We believe MNP would have a higher impact in Metro and A circles, especially the postpaid subscriber base as prepaid churn is already high. Tata Teleservices and Vodafone have relatively higher exposure to metro and A circles. However, Tata Teleservices is likely to benefit from MNP given its recent entry into the GSM segment which has the majority of high ARPU early customers. We believe Vodafone will have maximum impact of MNP among the pan-India operators. Operators like MTNL and Loop which are only present in Metros would be impacted the most.

MIX OF METRO AND 'A' CIRCLE IN TOTAL AGR (2QFY10)

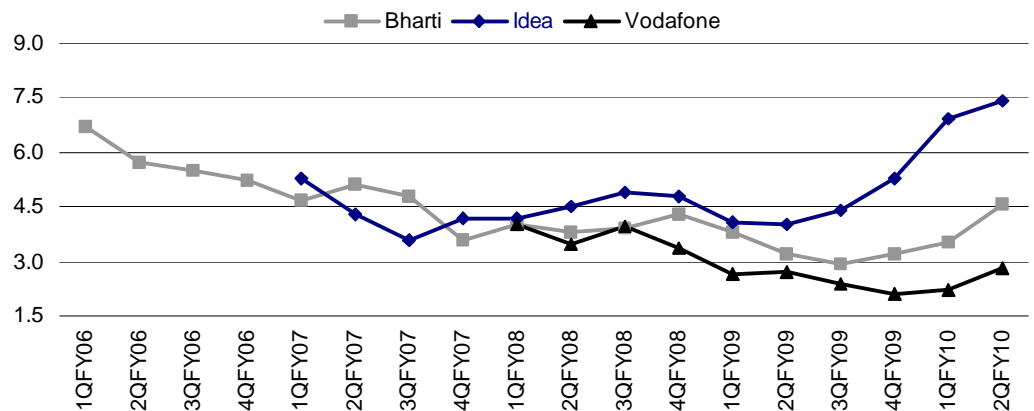
*Bharti, Idea and RCOM have lower exposure to metro and A circles (52-56%). At ~16% of access revenues, Bharti has the lowest exposure to metros amongst the pan-India operators*



Source: TRAI/MOSL

Global experience in MNP has been mixed with churn levels ranging from 0.1% to 31.9%. Surveys conducted by marketing research organizations predict that the porting rate will be from 10-20% for pre-paid subscription, and up to 50% for post paid subscription. For calculating the "per port transaction charge", TRAI has estimated 10% porting rate for the first 15 months and 7%, 6% and 5% for the successive three years. We believe that MNP will have limited impact on pre-paid due to already high churn levels.

TREND IN PRE-PAID MONTHLY CHURN (%)



Source: TRAI/MOSL

**3G and BWA spectrum auction likely in February 2010:** The government released revised information memorandum (IM) on upcoming 3G and broadband wireless access (BWA) spectrum auctions. As per the revised schedule, the auction will start on 14th January 2010 but is likely to be delayed and held in February 2010. Auction would be held on a circle wise basis with the aggregate base price for pan-India 3G spectrum set at Rs35b, as decided by the empowered group of ministers (EGoM) in August 2009. Aggregate base price for the 92 slots to be allocated across 21 circles (21 slots reserved for BSNL/MTNL and 71 slots to be auctioned) in the 2.1GHz band would be Rs150b. Additionally 3 slots would be allocated for BWA spectrum in the 2.3GHz band with an aggregate pan-India reserve price of Rs17.5b. One block in each of the circles, where at-least two carriers are available (one carrier to be allocated to BSNL/MTNL) would be auctioned in the 800MHz band (only the existing CDMA operators would be allowed to participate).



The aggregate reserve price for the 800MHz, 2.1GHz, and 2.3GHz spectrum blocks to be allocated would be ~Rs215b on a pan-India basis. The government had estimated for ~Rs350b revenue from the auction in the union budget.

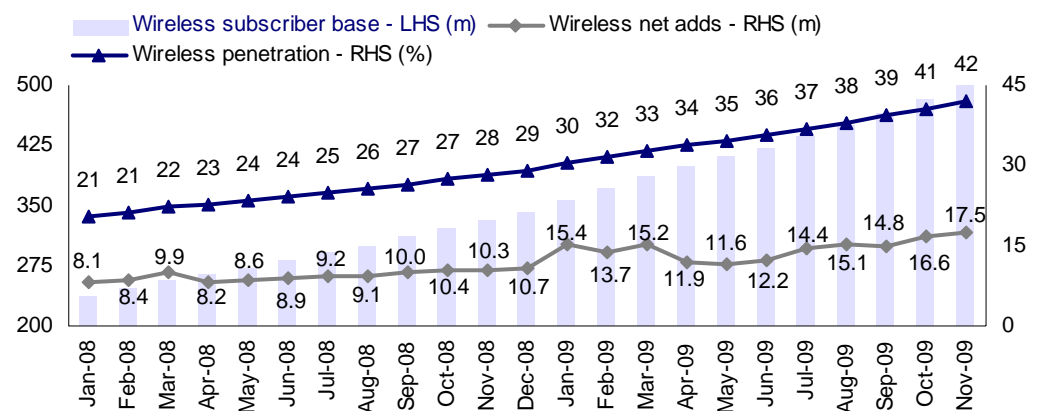
### 3G (2.1GHZ) SPECTRUM AUCTION: RESERVE PRICE DETAILS

| CIRCLE NAME               | NO. OF CIRCLES | RESERVE PRICE PER CIRCLE (RS B) | TOTAL RESERVE PRICE (RS B) |
|---------------------------|----------------|---------------------------------|----------------------------|
| Category A, Delhi, Mumbai | 7              | 3.2                             | 22.4                       |
| Category B & Kolkata      | 9              | 1.2                             | 10.8                       |
| Category C                | 6              | 0.3                             | 1.8                        |
| <b>Total</b>              | <b>22</b>      |                                 | <b>35.0</b>                |

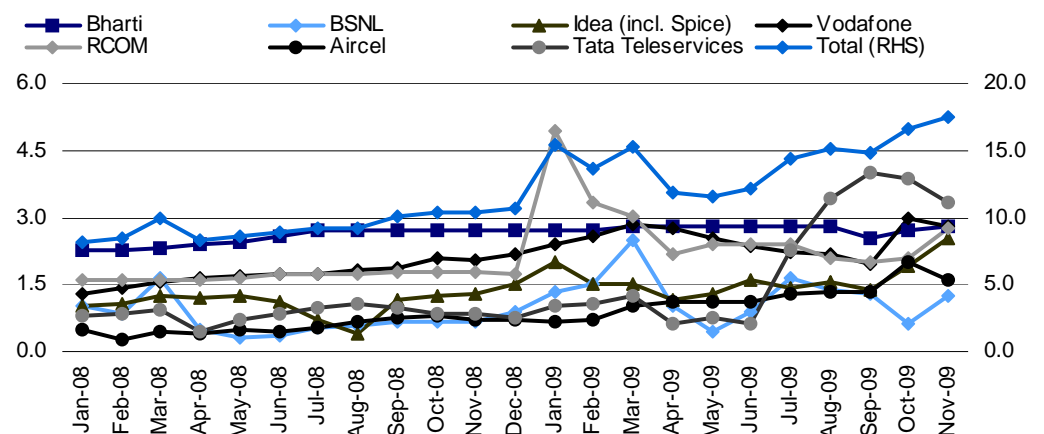
Source: Company/MOSL

The details of slots available for the 3G auctions in the revised IM are exactly same as that disclosed in the earlier IM released in December 2008. Further details on exact number and details of slots available for the auction would be disclosed later. As per the IM, the government is validating the frequency available across circles for the auction. We see four serious pan-India bidders for 3G spectrum - Bharti, RCOM, Tata Teleservices, and Vodafone. We expect Idea and Aircel to bid selectively (esp. in their established circles and metros) while new entrants like Telenor-Unitech and Etisalat-DB might bid only for select circles. In case less than four slots are available; there is risk of overbidding in some of the lucrative circles.

### WIRELESS SUBSCRIBER BASE AND NET ADDITIONS (M)

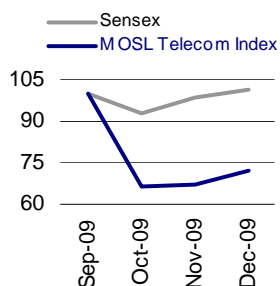


### COMPANY WISE WIRELESS SUBSCRIBER NET ADDITIONS (M)

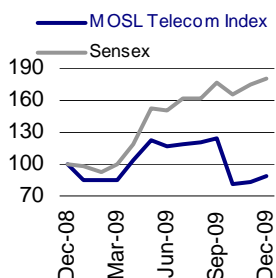


Source: TRAI/MOSL

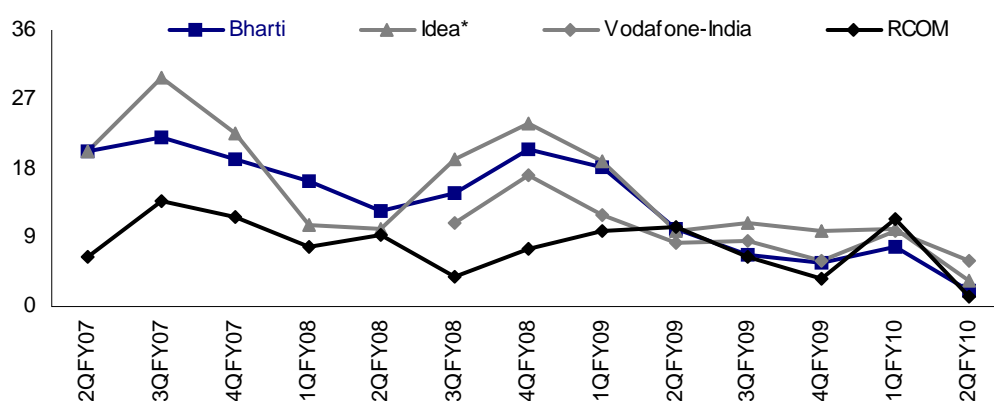
RELATIVE PERFORMANCE - 3M (%)



RELATIVE PERFORMANCE - 1YR (%)



TREND IN QOQ TRAFFIC GROWTH OF MAJOR WIRELESS OPERATORS (%)



Source: TRAI/MOSL

### 3QFY10: Summary Expectations

WIRELESS KPIS

|                                 | 1QFY09 | 2QFY09 | 3QFY09 | 4QFY09 | 1QFY10 | 2QFY10 | 3QFY10E | YOY (%) | QOQ (%) |
|---------------------------------|--------|--------|--------|--------|--------|--------|---------|---------|---------|
| <b>EOP Wireless Subs (m)</b>    |        |        |        |        |        |        |         |         |         |
| Bharti                          | 69     | 77     | 86     | 94     | 102    | 111    | 118     | 38      | 6.8     |
| Idea*                           | 27     | 30     | 34     | 39     | 43     | 47     | 51      | 51      | 10.1    |
| RCOM                            | 51     | 56     | 61     | 73     | 80     | 86     | 93      | 51      | 7.5     |
| <b>Avg. Wireless Subs (m)</b>   |        |        |        |        |        |        |         |         |         |
| Bharti                          | 66     | 73     | 82     | 90     | 98     | 106    | 114     | 40      | 7.3     |
| Idea*                           | 26     | 29     | 32     | 37     | 41     | 45     | 49      | 52      | 9.7     |
| RCOM                            | 48     | 53     | 59     | 67     | 76     | 83     | 89      | 52      | 7.8     |
| <b>ARPU (Rs/Month)</b>          |        |        |        |        |        |        |         |         |         |
| Bharti                          | 350    | 331    | 324    | 305    | 278    | 252    | 231     | -29     | -8.2    |
| Idea*                           | 278    | 261    | 266    | 254    | 232    | 209    | 192     | -28     | -7.9    |
| RCOM                            | 282    | 271    | 251    | 224    | 210    | 161    | 147     | -42     | -8.9    |
| <b>MOU Per Sub.</b>             |        |        |        |        |        |        |         |         |         |
| Bharti                          | 534    | 526    | 505    | 485    | 478    | 450    | 459     | -9      | 2.0     |
| Idea*                           | 431    | 421    | 416    | 402    | 399    | 375    | 383     | -8      | 2.0     |
| RCOM                            | 424    | 423    | 410    | 372    | 365    | 340    | 337     | -18     | -1.0    |
| <b>Revenue Per Minute (Rs)</b>  |        |        |        |        |        |        |         |         |         |
| Bharti                          | 0.66   | 0.63   | 0.64   | 0.63   | 0.58   | 0.56   | 0.50    | -21     | -10.0   |
| Idea*                           | 0.65   | 0.62   | 0.64   | 0.63   | 0.58   | 0.56   | 0.50    | -21     | -9.7    |
| RCOM                            | 0.67   | 0.64   | 0.61   | 0.60   | 0.58   | 0.47   | 0.44    | -29     | -8.0    |
| <b>Wireless Traffic (B Min)</b> |        |        |        |        |        |        |         |         |         |
| Bharti                          | 105    | 116    | 124    | 131    | 141    | 144    | 157     | 27      | 9.5     |
| Idea*                           | 33     | 36     | 40     | 44     | 49     | 50     | 56      | 40      | 12.0    |
| RCOM                            | 61     | 68     | 72     | 75     | 83     | 85     | 90      | 25      | 6.8     |

\* All operational numbers for Idea are on ex-Spice basis

Source: Company/MOSL

## 3QFY10: Summary expectations

## QUARTERLY FINANCIALS (CONSOLIDATED)

|                          | 1QFY09 | 2QFY09 | 3QFY09 | 4QFY09 | 1QFY10 | 2QFY10 | 3QFY10E | YOY (%) | QOQ (%) |
|--------------------------|--------|--------|--------|--------|--------|--------|---------|---------|---------|
| <b>Revenue (Rs b)</b>    |        |        |        |        |        |        |         |         |         |
| Bharti                   | 84.8   | 90.2   | 96.3   | 98.2   | 99.4   | 98.5   | 97.0    | 1       | -1.5    |
| Idea                     | 21.8   | 23.0   | 27.3   | 29.4   | 29.8   | 29.7   | 30.0    | 10      | 1.0     |
| RCOM                     | 53.2   | 56.4   | 58.5   | 61.2   | 61.5   | 57.0   | 57.6    | -2      | 1.0     |
| <b>EBITDA (Rs b)</b>     |        |        |        |        |        |        |         |         |         |
| Bharti                   | 35.2   | 37.0   | 39.5   | 40.0   | 41.5   | 41.4   | 36.6    | -7      | -11.7   |
| Idea                     | 7.2    | 6.0    | 6.9    | 8.1    | 8.6    | 8.1    | 6.8     | -2      | -16.2   |
| RCOM                     | 22.5   | 23.0   | 23.5   | 23.8   | 24.5   | 20.2   | 18.7    | -21     | -7.5    |
| <b>EBITDA Margin (%)</b> |        |        |        |        |        |        |         |         |         |
| Bharti                   | 41.5   | 41.0   | 41.0   | 40.7   | 41.8   | 42.1   | 37.7    | -325bp  | -437bp  |
| Idea                     | 32.9   | 26.2   | 25.5   | 27.6   | 28.9   | 27.2   | 22.6    | -290bp  | -465bp  |
| RCOM                     | 42.3   | 40.8   | 40.2   | 38.9   | 39.9   | 35.4   | 32.4    | -779bp  | -299bp  |
| <b>PAT (Rs m)</b>        |        |        |        |        |        |        |         |         |         |
| Bharti                   | 20.3   | 20.5   | 21.6   | 22.4   | 25.2   | 23.2   | 18.9    | -12     | -18.4   |
| Idea                     | 2.6    | 1.4    | 2.2    | 2.7    | 3.0    | 2.2    | 0.6     | -75     | -74.7   |
| RCOM                     | 16.4   | 16.8   | 14.8   | 13.6   | 17.3   | 8.2    | 7.8     | -47     | -5.6    |
| <b>EPS (Rs)</b>          |        |        |        |        |        |        |         |         |         |
| Bharti                   | 5.3    | 5.4    | 5.7    | 5.9    | 6.6    | 6.1    | 5.0     | -12     | -18.4   |
| Idea                     | 1.0    | 0.5    | 0.7    | 0.9    | 1.0    | 0.7    | 0.2     | -75     | -74.7   |
| RCOM                     | 7.9    | 8.1    | 7.2    | 6.6    | 8.4    | 4.0    | 3.8     | -47     | -5.6    |

Source: Company/MOSL

## COMPARATIVE VALUATION

|                   | CMP (RS) | RECO    | EPS (RS) |       |       | P/E (X) |       |       | EV/EBITDA |       |       | ROE (%) |       |       |
|-------------------|----------|---------|----------|-------|-------|---------|-------|-------|-----------|-------|-------|---------|-------|-------|
|                   | 29.12.09 |         | FY10E    | FY11E | FY12E | FY10E   | FY11E | FY12E | FY10E     | FY11E | FY12E | FY10E   | FY11E | FY12E |
| Telecommunication |          |         |          |       |       |         |       |       |           |       |       |         |       |       |
| Bharti Airtel     | 326      | Buy     | 22.9     | 22.3  | 24.1  | 14.2    | 14.6  | 13.5  | 8.2       | 7.9   | 6.5   | 25.8    | 21.3  | 19.1  |
| Idea Cellular     | 58       | Neutral | 2.1      | 1.4   | 2.4   | 27.9    | 43.0  | 23.9  | 7.8       | 7.7   | 5.8   | 4.7     | 2.9   | 4.5   |
| Reliance Comm     | 175      | Buy     | 20.1     | 18.1  | 23.2  | 8.7     | 9.7   | 7.6   | 7.6       | 6.9   | 5.5   | 10.6    | 8.8   | 10.3  |
| Sector Aggregate  |          |         |          |       |       | 13.2    | 14.1  | 12.1  | 8.0       | 7.5   | 6.1   | 15.3    | 12.3  | 12.7  |

## Bharti Airtel

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | BHARTI IN    |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | BRTI.BO      |

29 December 2009

Buy

Rs326

Previous Recommendation: Buy

|                     |               |
|---------------------|---------------|
| Equity Shares (m)   | 3,793.8       |
| 52 Week Range (Rs)  | 495 / 230     |
| 1,6,12 Rel Perf (%) | 6 / -37 / -91 |
| Mcap (Rs b)         | 1235.8        |
| Mcap (USD b)        | 26.5          |

| YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 3/09A       | 369,615             | 84,699        | 22.3        | 26.4              | 14.6       | 3.9         | 31.4       | 23.8        | 3.5          | 8.6           |
| 3/10E       | 392,298             | 86,785        | 22.9        | 2.4               | 14.2       | 3.4         | 25.8       | 18.2        | 3.3          | 8.2           |
| 3/11E       | 425,640             | 84,549        | 22.3        | -2.6              | 14.6       | 2.8         | 21.3       | 15.2        | 3.0          | 7.9           |
| 3/12E       | 485,697             | 91,346        | 24.1        | 8.0               | 13.5       | 2.4         | 19.1       | 14.5        | 2.5          | 6.6           |

- We expect revenue to remain largely flat YoY and QoQ at Rs97b. While average subscriber growth remains strong at ~7%, reported revenues would be dragged by sharp RPM decline. MOU is expected to increase by ~2% QoQ.
- EBITDA margin is expected to decline ~450bp QoQ to 37.7% on sharp RPM decline.
- Mobility revenues are expected to decline 1.5% QoQ, implying an ARPU of Rs231 (decline of 8.2% QoQ). EBITDA margin for mobile business is expected at 27%, down ~500bp QoQ.
- Net profit is expected to decline ~12% YoY and ~18% QoQ to Rs18.9b. We have not factored-in any forex gain/loss in the current quarter vs ~Rs0.7b loss in 2QFY10 and ~Rs2.2b loss in 3QFY09.
- Bharti is well positioned with strong incumbency advantage and healthy balance sheet. Bharti trades at 7.9x EV/EBITDA and 14.6x P/E FY11E are attractive. Maintain **Buy**.

## QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

| Y/E MARCH                           | FY09          |               |               |               | FY10          |               |               |               | FY09           | FY10E          |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|
|                                     | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3QE           | 4QE           |                |                |
| <b>Gross Revenue</b>                | <b>84,833</b> | <b>90,203</b> | <b>96,334</b> | <b>98,245</b> | <b>99,416</b> | <b>98,455</b> | <b>96,987</b> | <b>97,440</b> | <b>369,615</b> | <b>392,298</b> |
| YoY Growth (%)                      | 43.7          | 42.3          | 38.3          | 25.6          | 17.2          | 9.1           | 0.7           | -0.8          | 36.8           | 6.1            |
| QoQ Growth (%)                      | 8.5           | 6.3           | 6.8           | 2.0           | 1.2           | -1.0          | -1.5          | 0.5           |                |                |
| Total Operating Expenses            | 49,612        | 53,210        | 56,884        | 58,231        | 57,898        | 57,039        | 60,424        | 60,526        | 217,937        | 235,887        |
| <b>EBITDA</b>                       | <b>35,221</b> | <b>36,993</b> | <b>39,450</b> | <b>40,014</b> | <b>41,518</b> | <b>41,416</b> | <b>36,563</b> | <b>36,914</b> | <b>151,678</b> | <b>156,411</b> |
| YoY Growth (%)                      | 44.0          | 36.5          | 33.1          | 23.1          | 17.9          | 12.0          | -7.3          | -7.7          | 33.4           | 3.1            |
| QoQ Growth (%)                      | 8.3           | 5.0           | 6.6           | 1.4           | 3.8           | -0.2          | -11.7         | 1.0           |                |                |
| Margin (%)                          | 41.5          | 41.0          | 41.0          | 40.7          | 41.8          | 42.1          | 37.7          | 37.9          | 41.0           | 39.9           |
| Net Finance Costs                   | 1,832         | 5,741         | 1,904         | 2,136         | -2,605        | 428           | -320          | -318          | 11,613         | -2,815         |
| Non-Operating Income                | 470           | 21            | -215          | 313           | 295           | 396           | 518           | 568           | 588            | 1,777          |
| Depreciation & Amortization         | 10,045        | 11,549        | 12,702        | 13,285        | 14,330        | 14,796        | 15,417        | 15,186        | 47,581         | 59,729         |
| <b>Profit before Tax</b>            | <b>23,815</b> | <b>19,724</b> | <b>24,628</b> | <b>24,906</b> | <b>30,088</b> | <b>26,589</b> | <b>21,983</b> | <b>22,614</b> | <b>93,073</b>  | <b>101,274</b> |
| Income Tax Expense / (Income)       | 3,282         | -1,247        | 2,558         | 2,022         | 4,442         | 2,873         | 2,638         | 2,714         | 6,615          | 12,667         |
| Profit/(Loss) to Min. Shareholders  | 282           | 508           | 478           | 491           | 479           | 506           | 413           | 425           | 1,759          | 1,822          |
| <b>Reported Net Profit / (Loss)</b> | <b>20,251</b> | <b>20,463</b> | <b>21,592</b> | <b>22,393</b> | <b>25,167</b> | <b>23,210</b> | <b>18,933</b> | <b>19,476</b> | <b>84,699</b>  | <b>86,785</b>  |
| YoY Growth (%)                      | 34.0          | 26.8          | 25.4          | 20.9          | 24.3          | 13.4          | -12.3         | -13.0         | 26.4           | 2.5            |
| QoQ Growth (%)                      | 9.3           | 1.0           | 5.5           | 3.7           | 12.4          | -7.8          | -18.4         | 2.9           | 26.4           | 2.5            |
| <b>Mobile ARPU (Rs/month)</b>       | <b>350</b>    | <b>331</b>    | <b>324</b>    | <b>305</b>    | <b>278</b>    | <b>252</b>    | <b>231</b>    | <b>218</b>    | <b>325</b>     | <b>246</b>     |
| QoQ Growth (%)                      | -2.0          | -5.4          | -2.1          | -5.9          | -8.9          | -9.4          | -8.2          | -6.0          |                |                |
| <b>Mobile MOU/sub/month</b>         | <b>534</b>    | <b>526</b>    | <b>505</b>    | <b>485</b>    | <b>478</b>    | <b>450</b>    | <b>459</b>    | <b>454</b>    | <b>508</b>     | <b>463</b>     |
| QoQ Growth (%)                      | 5.3           | -1.5          | -4.0          | -4.0          | -1.4          | -5.9          | 2.0           | -1.0          |                |                |

E: MOSL Estimates; Financials as per US GAAP

Shobhit Khare (Shobhit.Khare@MotilalOswal.com)

## Idea Cellular

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | IDEA IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | IDEA.BO      |

29 December 2009

Neutral

Previous Recommendation: Neutral

Rs58

|                     |                |
|---------------------|----------------|
| Equity Shares (m)   | 3,100.1        |
| 52 Week Range (Rs)  | 92 / 41        |
| 1,6,12 Rel Perf (%) | 12 / -42 / -65 |
| Mcap (Rs b)         | 181.2          |
| Mcap (USD b)        | 3.9            |

| YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 3/09A       | 101,485             | 9,008         | 3.0         | -23.7             | 19.4       | 1.3         | 10.4       | 7.4         | 2.2          | 7.7           |
| 3/10E       | 121,157             | 6,484         | 2.1         | -30.7             | 27.9       | 1.3         | 4.7        | 4.1         | 2.0          | 7.8           |
| 3/11E       | 143,779             | 4,487         | 1.4         | -35.0             | 43.0       | 1.1         | 2.9        | 3.7         | 2.0          | 8.0           |
| 3/12E       | 169,277             | 8,058         | 2.4         | 79.6              | 23.9       | 1.1         | 4.5        | 4.8         | 1.6          | 6.1           |

- We expect consolidated revenues to grow 10% YoY and 1% QoQ to Rs30b. ARPU (ex-Spice) is expected to decline by 7.9% QoQ, impacted by tariff cuts but offset by rebound in traffic growth.
- EBITDA margin is likely to decline by ~460bp QoQ to 22.6%. We expect margins in established circles to decline from 30% in 2QFY10 to 26% in 3QFY10. EBITDA loss in new circles is estimated to increase from ~Rs0.83b in 2QFY10 to ~Rs1b in 3QFY10 due to new circle launches.
- Net Profit is expected to decline ~75% YoY and QoQ to Rs557m.
- Idea trades at FY11 P/E of 43x and EV/EBITDA of 8x. We are **Neutral** on Idea due to lower visibility on new circle losses/NPV and high earnings sensitivity to pricing declines - any potential M&A is an upside risk.

## QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

| Y/E MARCH                     | FY09          |               |               |               | FY10          |               |               |               | FY09           | FY10E          |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|
|                               | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3QE           | 4QE           |                |                |
| <b>Gross Revenue</b>          | <b>21,781</b> | <b>23,037</b> | <b>27,311</b> | <b>29,356</b> | <b>29,759</b> | <b>29,739</b> | <b>30,043</b> | <b>31,615</b> | <b>101,485</b> | <b>121,157</b> |
| YoY Growth (%)                | 47.4          | 47.3          | 59.7          | 47.9          | 36.6          | 29.1          | 10.0          | 7.7           | 50.6           | 19.4           |
| QoQ Growth (%)                | 9.7           | 5.8           | 18.6          | 7.5           | 1.4           | -0.1          | 1.0           | 5.2           |                |                |
| <b>EBITDA</b>                 | <b>7,203</b>  | <b>6,068</b>  | <b>6,974</b>  | <b>8,108</b>  | <b>8,599</b>  | <b>8,095</b>  | <b>6,781</b>  | <b>7,385</b>  | <b>28,353</b>  | <b>30,862</b>  |
| YoY Growth (%)                | 40.2          | 18.3          | 22.5          | 20.4          | 19.4          | 33.4          | -2.8          | -8.9          | 24.9           | 8.8            |
| QoQ Growth (%)                | 6.9           | -15.8         | 14.9          | 16.3          | 6.1           | -5.9          | -16.2         | 8.9           |                |                |
| Margin (%)                    | 33.1          | 26.3          | 25.5          | 27.6          | 28.9          | 27.2          | 22.6          | 23.4          | 27.9           | 25.5           |
| Net Finance Costs             | 1,526         | 1,497         | 874           | 1,046         | 869           | 740           | 1,220         | 1,364         | 4,943          | 4,193          |
| Depreciation & Amortization   | 2,749         | 3,032         | 3,937         | 4,321         | 4,555         | 4,796         | 4,963         | 5,212         | 14,039         | 19,525         |
| <b>Profit before Tax</b>      | <b>2,928</b>  | <b>1,540</b>  | <b>2,163</b>  | <b>2,741</b>  | <b>3,175</b>  | <b>2,559</b>  | <b>599</b>    | <b>810</b>    | <b>9,371</b>   | <b>7,143</b>   |
| Income Tax Expense / (Income) | 297           | 99            | -31           | -2            | 204           | 357           | 42            | 57            | 363            | 660            |
| <b>Net Profit / (Loss)</b>    | <b>2,631</b>  | <b>1,441</b>  | <b>2,194</b>  | <b>2,743</b>  | <b>2,971</b>  | <b>2,202</b>  | <b>557</b>    | <b>753</b>    | <b>9,008</b>   | <b>6,484</b>   |
| YoY Growth (%)                | -14.7         | -34.6         | -7.3          | -0.9          | 12.9          | 52.8          | -74.6         | -72.5         | -13.6          | -28.0          |
| QoQ Growth (%)                | -4.9          | -45.2         | 52.3          | 25.0          | 8.3           | -25.9         | -74.7         | 35.3          |                |                |
| Margin (%)                    | 12.1          | 6.3           | 8.0           | 9.3           | 10.0          | 7.4           | 1.9           | 2.4           | 8.9            | 5.4            |
| <b>Mobile ARPU (Rs/month)</b> | <b>278</b>    | <b>261</b>    | <b>266</b>    | <b>254</b>    | <b>232</b>    | <b>209</b>    | <b>192</b>    | <b>185</b>    | <b>264</b>     | <b>207</b>     |
| QoQ Growth (%)                | -3.1          | -6.1          | 1.9           | -4.5          | -8.7          | -9.9          | -7.9          | -3.6          |                |                |
| <b>Mobile MOU/sub/month</b>   | <b>431</b>    | <b>421</b>    | <b>416</b>    | <b>402</b>    | <b>399</b>    | <b>375</b>    | <b>383</b>    | <b>386</b>    | <b>418</b>     | <b>383</b>     |
| QoQ Growth (%)                | 4.9           | -2.3          | -1.2          | -3.4          | -0.7          | -6.0          | 2.0           | 1.0           |                |                |

E: MOSL Estimates

## Reliance Communication

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | RCOM IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | RLCM.BO      |

|                     |                 |
|---------------------|-----------------|
| Equity Shares (m)   | 2,063.0         |
| 52 Week Range (Rs)  | 359 / 131       |
| 1,6,12 Rel Perf (%) | -1 / -61 / -100 |
| Mcap (Rs b)         | 361.6           |
| Mcap (USD b)        | 7.7             |

29 December 2009

Buy

Rs175

Previous Recommendation: Buy

| YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 3/09A       | 229,410             | 61,552        | 29.8        | 11.7              | 5.9        | 1.0         | 18.7       | 8.9         | 2.5          | 6.3           |
| 3/10E       | 235,724             | 41,372        | 20.1        | -32.8             | 8.7        | 0.9         | 10.6       | 6.0         | 2.7          | 7.5           |
| 3/11E       | 253,242             | 37,272        | 18.1        | -9.9              | 9.7        | 0.8         | 8.8        | 6.2         | 2.4          | 6.8           |
| 3/12E       | 289,417             | 47,793        | 23.2        | 28.2              | 7.6        | 0.7         | 10.3       | 7.3         | 2.0          | 5.5           |

- We expect revenue to decline 1.6% YoY but grow 1% QoQ to Rs57.6b.
- We expect wireless ARPU to decline by ~9% QoQ to Rs147. We expect RPM to decline by 8% QoQ to Rs0.44 and MOU to decline by 1% QoQ to 337.
- EBITDA margin is expected to decline by ~300bp QoQ to 32.4%. Decline would be led by continued pressure on RPM post launch of new tariff plans.
- Pre-minority interest net profit is expected to decline by 47% YoY and 5.6% QoQ, primarily led by EBITDA decline but cushioned by lack of forex losses.
- RCOM trades at 6.8x EV/EBITDA and 9.7x P/E on FY11 basis. Maintain **Buy**.

## QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

| Y/E MARCH                           | FY09          |               |               |               | FY10          |               |               |               | FY09           | FY10E          |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|
|                                     | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3QE           | 4QE           |                |                |
| <b>Gross Revenue</b>                | <b>53,223</b> | <b>56,449</b> | <b>58,502</b> | <b>61,237</b> | <b>61,452</b> | <b>57,026</b> | <b>57,588</b> | <b>59,658</b> | <b>229,411</b> | <b>235,724</b> |
| YoY Growth (%)                      | 23.7          | 23.3          | 20.0          | 15.3          | 15.5          | 1.0           | -1.6          | -2.6          | 20.3           | 2.8            |
| QoQ Growth (%)                      | 0.2           | 6.1           | 3.6           | 4.7           | 0.4           | -7.2          | 1.0           | 3.6           |                |                |
| <b>EBITDA</b>                       | <b>22,501</b> | <b>23,016</b> | <b>23,525</b> | <b>23,832</b> | <b>24,525</b> | <b>20,198</b> | <b>18,674</b> | <b>19,823</b> | <b>92,875</b>  | <b>83,220</b>  |
| YoY Growth (%)                      | 24.0          | 17.3          | 11.7          | 2.9           | 9.0           | -12.2         | -20.6         | -16.8         | 13.3           | -10.4          |
| QoQ Growth (%)                      | -2.9          | 2.3           | 2.2           | 1.3           | 2.9           | -17.6         | -7.5          | 6.2           |                |                |
| Margin (%)                          | 42.3          | 40.8          | 40.2          | 38.9          | 39.9          | 35.4          | 32.4          | 33.2          | 40.5           | 35.3           |
| Net Finance Costs                   | -2,340        | -2,353        | -1,496        | -1,678        | -6,205        | 6,551         | 3,199         | 3,624         | -7,867         | 7,170          |
| Depreciation & Amortization         | 8,638         | 9,180         | 10,069        | 11,426        | 11,144        | 7,144         | 7,288         | 7,742         | 39,313         | 33,318         |
| <b>Profit before Tax</b>            | <b>16,203</b> | <b>16,189</b> | <b>14,952</b> | <b>14,084</b> | <b>19,586</b> | <b>6,503</b>  | <b>8,187</b>  | <b>8,457</b>  | <b>61,429</b>  | <b>42,732</b>  |
| Income Tax Expense / (Income)       | -194          | -567          | 153           | 485           | 2,267         | -1,739        | 409           | 423           | -123           | 1,360          |
| <b>Adjusted Net Profit / (Loss)</b> | <b>16,397</b> | <b>16,756</b> | <b>14,799</b> | <b>13,599</b> | <b>17,319</b> | <b>8,242</b>  | <b>7,777</b>  | <b>8,034</b>  | <b>61,552</b>  | <b>41,372</b>  |
| YoY Growth (%)                      | 34.5          | 26.1          | 6.1           | -13.2         | 5.6           | -50.8         | -47.4         | -40.9         | 11.7           | -32.8          |
| QoQ Growth (%)                      | 4.7           | 2.2           | -11.7         | -8.1          | 27.4          | -52.4         | -5.6          | 3.3           |                |                |
| Extraordinary Exp/Minority Interest | 1,275         | 1,447         | 697           | -945          | 953           | 839           | 802           | 814           | 2,474          | 3,409          |
| <b>Reported Net Profit / (Loss)</b> | <b>15,122</b> | <b>15,308</b> | <b>14,102</b> | <b>14,544</b> | <b>16,366</b> | <b>7,403</b>  | <b>6,976</b>  | <b>7,220</b>  | <b>59,078</b>  | <b>37,963</b>  |
| <b>Wireless ARPU (Rs/month)</b>     | <b>282</b>    | <b>271</b>    | <b>251</b>    | <b>224</b>    | <b>210</b>    | <b>161</b>    | <b>147</b>    | <b>139</b>    | <b>244</b>     | <b>162</b>     |
| QoQ Growth (%)                      | -11.0         | -3.9          | -7.4          | -10.8         | -6.3          | -23.3         | -8.9          | -5.0          |                |                |
| <b>Wireless MOU/sub/month</b>       | <b>424</b>    | <b>423</b>    | <b>410</b>    | <b>372</b>    | <b>365</b>    | <b>340</b>    | <b>337</b>    | <b>333</b>    | <b>389</b>     | <b>343</b>     |
| QoQ Growth (%)                      | -1.4          | -0.2          | -3.1          | -9.3          | -1.9          | -6.8          | -1.0          | -1.0          |                |                |

E: MOSL Estimates

Shobhit Khare (Shobhit.Khare@MotilalOswal.com)



## Textiles

BSE Sensex: 17,402

S&amp;P CNX: 5,188

29 December 2009

## COMPANY NAME

Alok Industries

Arvind Mills

Bombay Rayon

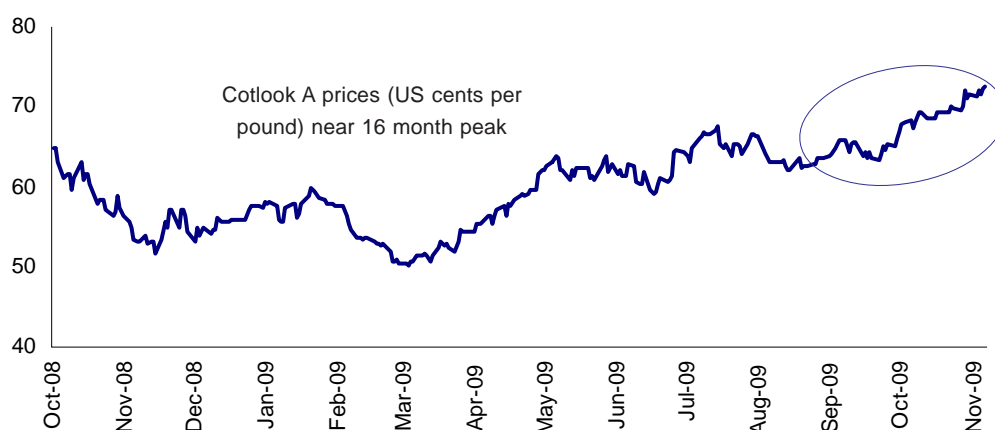
Raymond

Vardhman Textiles

## India cotton textile industry

A bumper cotton crop in India has put the Indian textiles industry in a relatively comfortable position compared with other countries, particularly China, which needs to import a significant part of its cotton needs to meet domestic demand. Yarn prices have moved up by ~25% in the past few months to US\$3.2/kg, a record high for cotton yarn. With international cotton production expected to fall ~5% next year, we expect cotton yarn prices to stay strong.

## INTERNATIONAL COTTON PRICES CLIMB SHARPLY (US CENTS/POUND)



Source: Company/MOSL

## EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

|                   | CMP (RS) | RECO    | SALES  |       |       | EBITDA |       |       | NET PROFIT |       |       |
|-------------------|----------|---------|--------|-------|-------|--------|-------|-------|------------|-------|-------|
|                   |          |         | DEC.09 | VAR.  | VAR.  | DEC.09 | VAR.  | VAR.  | DEC.09     | VAR.  | VAR.  |
|                   |          |         |        | % YOY | % QOQ |        | % YOY | % QOQ |            | % YOY | % QOQ |
| Textiles          |          |         |        |       |       |        |       |       |            |       |       |
| Alok Ind          | 22       | Buy     | 9,682  | 18.6  | -0.7  | 2,614  | 21.9  | -10.1 | 336        | -32.6 | -41.1 |
| Arvind Mills      | 39       | Neutral | 6,927  | 15.6  | 15.9  | 921    | 12.8  | 13.0  | 71         | LP    | -53.5 |
| Bombay Rayon      | 185      | Buy     | 5,000  | 45.0  | 29.4  | 1,250  | 48.3  | 36.1  | 602        | 44.5  | 46.7  |
| Raymond           | 195      | Buy     | 4,506  | 25.6  | 12.0  | 631    | 135.8 | 3.3   | 240        | LP    | 33.1  |
| Vardhman Textiles | 209      | Buy     | 6,869  | 6.5   | 1.7   | 1,085  | 16.4  | -19.7 | 313        | 88.1  | -38.0 |
| Sector Aggregate  |          |         | 32,984 | 19.3  | 8.6   | 6,502  | 29.9  | -1.5  | 1,561      | 147.3 | -14.1 |

WORLD COTTON DEMAND: SUPPLY  
ESTIMATE (%)

|                          | 2009-10   |
|--------------------------|-----------|
| <b>Production</b>        |           |
| China                    | -14       |
| India                    | 5         |
| United States            | -3        |
| Pakistan                 | 8         |
| Uzbekistan               | -13       |
| African Franc Zone       | -3        |
| Others                   | -13       |
| <b>World Production</b>  | <b>-5</b> |
| <b>Consumption</b>       |           |
| China                    | 6         |
| Indian subcontinent      | 5         |
| Turkey                   | 10        |
| Brazil                   | 0         |
| United States            | -4        |
| Others                   | 0         |
| <b>World Consumption</b> | <b>4</b>  |

Source: Company/MOSL

INDIAN COTTON BALANCE SHEET

(IN LAKH BALES OF 170 KG)

|                              | 2008-09    | 2009-10    |
|------------------------------|------------|------------|
| <b>Supply</b>                |            |            |
| Opening Stock                | 36         | 67         |
| Crop                         | 293        | 312        |
| Imports                      | 10         | 7          |
| <b>Total Supply</b>          | <b>338</b> | <b>387</b> |
| <b>Demand</b>                |            |            |
| Mill Consumption             | 200        | 210        |
| Small Scale Unit Consumption | 20         | 21         |
| Non-mill Consumption         | 19         | 19         |
| Exports                      | 32         | 65         |
| <b>Total Offtake</b>         | <b>271</b> | <b>315</b> |
| <b>Carry Over Stock</b>      | <b>67</b>  | <b>71</b>  |

Source: Company/MOSL

### China's competitive advantage declines

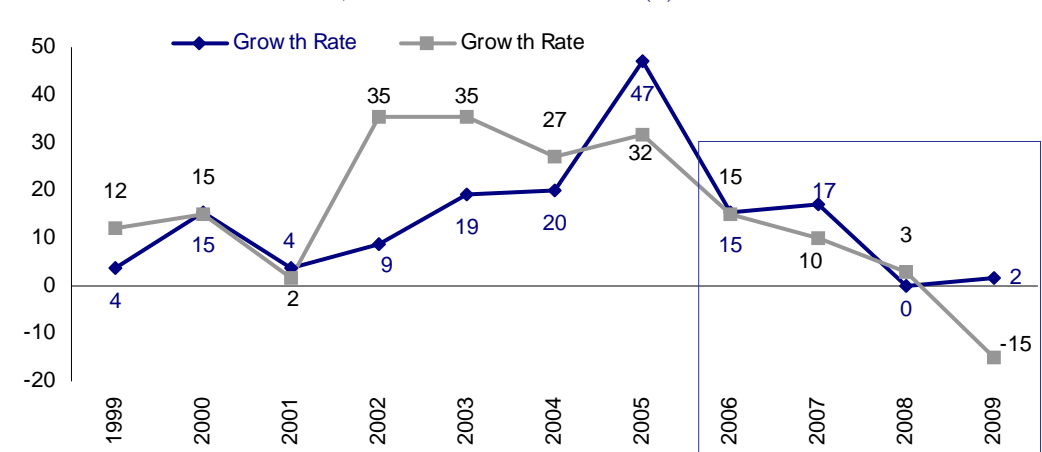
Recent studies on the Chinese textile industry indicate China's comparative advantage in the textile industry is declining. China's share of the global market rose from 38.8% in 2001 to 47.1% in 2005, but has remained largely stagnant since then. China's export growth rate of textiles and apparel to the US has been steadily declining since 2005 and entered negative territory for apparel in 2009. These figures confirm that China has not garnered incremental market share in the global textile industry.

CHINA'S SHARE OF THE GLOBAL TEXTILE &amp; APPAREL MARKET (%)

| YEAR | WORLD       | US + EU | OTHERS      |
|------|-------------|---------|-------------|
| 1999 | 36.3        | 18.1    | 67.0        |
| 2000 | 38.6        | 19.2    | 68.9        |
| 2001 | 38.8        | 19.5    | 69.4        |
| 2002 | 39.7        | 21.2    | 70.0        |
| 2003 | 40.9        | 23.1    | 70.7        |
| 2004 | 42.4        | 25.3    | 70.4        |
| 2005 | <b>47.1</b> | 32.3    | <b>70.9</b> |
| 2006 | <b>48.2</b> | 34.1    | <b>71.3</b> |
| 2007 | <b>49.5</b> | 37.1    | <b>69.7</b> |
| 2008 | <b>47.4</b> | 39.5    | <b>66.8</b> |

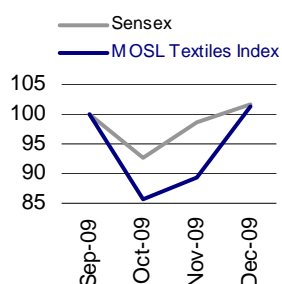
Source: Company/MOSL

GROWTH RATE OF CHINA'S TEXTILE, APPAREL EXPORTS TO THE US (%)

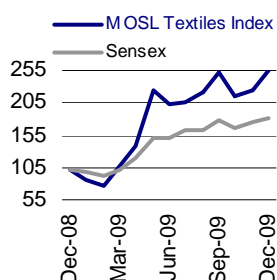


Source: Company/MOSL

RELATIVE PERFORMANCE - 3M (%)



RELATIVE PERFORMANCE - 1YR (%)



### Valuation and view

Most of the textile companies have expanded and modernized capacities to achieve critical size. Consequently, due to their modern plants and global capacities, they have attracted large international institutional buyers. This has allowed them to move their businesses from a transition-based model to a strategic vendor-based relationship model.

FY09 was one of the worst years for the Indian textile industry as it was impacted by negative factors such as (1) the appreciating rupee, (2) slow export demand and inventory de-stocking by domestic retailers, (3) higher depreciation and interest costs. In FY10 most of these factors have been reversed.

Textiles companies are trading at 2-3x FY11 cash profit. Besides, the debt equity for most textile companies is more than 2x (almost 4x in the case of Alok Industries), we expect most of these textile companies to generate significant free cash flows over the next two years and use it to lower their leverage. Consequently, we expect the equity component of most of the textile companies' current EV to double just due to repayment of debt through free cash flows.

**Top picks:** Our top picks in the sector are **Vardhman Textiles** and **Raymond**.

COMPARATIVE VALUATION

|                   | CMP (RS) | RECO    | EPS (RS) |       |       | P/E (X) |       |       | EV/EBITDA |       |       | ROE (%) |       |       |
|-------------------|----------|---------|----------|-------|-------|---------|-------|-------|-----------|-------|-------|---------|-------|-------|
|                   | 29.12.09 |         | FY10E    | FY11E | FY12E | FY10E   | FY11E | FY12E | FY10E     | FY11E | FY12E | FY10E   | FY11E | FY12E |
| Textiles          |          |         |          |       |       |         |       |       |           |       |       |         |       |       |
| Alok Ind          | 22       | Buy     | 2.7      | 4.4   | 5.5   | 8.2     | 5.0   | 4.0   | 8.1       | 7.6   | 6.4   | 7.1     | 10.9  | 12.4  |
| Arvind Mills      | 39       | Neutral | 1.7      | 1.6   | 5.2   | 23.3    | 25.0  | 7.5   | 6.7       | 6.2   | 5.0   | 1.9     | 1.7   | 5.5   |
| Bombay Rayon      | 185      | Buy     | 20.3     | 33.8  | 45.1  | 9.1     | 5.5   | 4.1   | 6.6       | 3.9   | 2.8   | 14.0    | 18.4  | 20.1  |
| Raymond           | 195      | Buy     | -7.0     | 9.0   | 19.1  | -27.8   | 21.8  | 10.2  | 12.1      | 8.1   | 5.9   | -1.9    | 2.2   | 4.6   |
| Vardhman Textiles | 209      | Buy     | 23.4     | 31.5  | 51.9  | 8.9     | 6.6   | 4.0   | 3.0       | 2.2   | 1.8   | 10.3    | 12.8  | 18.4  |
| Sector Aggregate  |          |         |          |       |       | 13.1    | 7.1   | 4.8   | 7.1       | 5.6   | 4.4   | 5.8     | 9.7   | 13.0  |

## Alok Industries

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | ALOK IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | ALOK.BO      |

29 December 2009

Buy

Rs22

Previous Recommendation: Neutral

|                     |               |
|---------------------|---------------|
| Equity Shares (m)   | 523.7         |
| 52 Week Range (Rs)  | 30 / 11       |
| 1,6,12 Rel Perf (%) | 8 / -20 / -40 |
| Mcap (Rs b)         | 11.6          |
| Mcap (USD b)        | 0.2           |

| YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS*<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|---------------|--------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 3/09A       | 29,664              | 1,879         | 3.6          | -25.4             | 5.8        | 0.3         | 10.3       | 6.0         | 2.3          | 8.9           |
| 3/10E       | 37,970              | 1,415         | 2.7          | -24.7             | 7.7        | 0.5         | 7.1        | 7.1         | 2.1          | 8.0           |
| 3/11E       | 42,527              | 2,315         | 4.4          | 63.6              | 4.7        | 0.5         | 10.9       | 7.3         | 1.9          | 7.5           |
| 3/12E       | 47,630              | 2,880         | 5.5          | 24.4              | 3.8        | 0.5         | 12.4       | 7.8         | 1.6          | 6.4           |

\*Fully Diluted EPS

- We expect 3QFY10 revenue to grow 18.6% YoY to Rs9.7b, helped by higher capacities in all textile segments and EBITDA margin is likely to expand 70bp to 27% from 26.3% in 3QFY09.
- In 1QFY10, Alok raised Rs4b through a rights issue, which has improved its debt-equity ratio.
- The management has drawn up restructuring plans, which include creating dedicated verticals for the textile and retail businesses. Alok's management plans to introduce international brands to India and open 500 H&A retail outlets over the next three years. After restructuring, we expect Alok to emerge as a large retail play.
- The stock trades at 7.7x FY10E EPS of Rs2.7 and 4.7x FY11E EPS of Rs4.4. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH              | FY09         |              |              |              | FY10         |              |              |               | FY09          | FY10E         |
|------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|---------------|
|                        | 1Q           | 2Q           | 3Q           | 4Q           | 1Q           | 2Q           | 3QE          | 4QE           |               |               |
| <b>Sales</b>           | <b>5,434</b> | <b>6,981</b> | <b>8,164</b> | <b>9,084</b> | <b>7,863</b> | <b>9,748</b> | <b>9,682</b> | <b>10,677</b> | <b>29,664</b> | <b>37,970</b> |
| Change (%)             | 29.7         | 50.2         | 48.2         | 25.3         | 44.7         | 39.6         | 18.6         | 17.5          | 37.4          | 28.0          |
| Total Expenditure      | 4,102        | 5,264        | 6,020        | 6,678        | 5,713        | 6,840        | 7,068        | 8,288         | 22,063        | 27,909        |
| <b>EBITDA</b>          | <b>1,333</b> | <b>1,718</b> | <b>2,144</b> | <b>2,406</b> | <b>2,150</b> | <b>2,908</b> | <b>2,614</b> | <b>2,389</b>  | <b>7,601</b>  | <b>10,061</b> |
| Change (%)             | 31.2         | 58.2         | 59.1         | 33.4         | 61.3         | 69.3         | 21.9         | -0.7          | 44.7          | 32.4          |
| As % of Sales          | 23.8         | 24.6         | 26.3         | 26.5         | 27.3         | 29.8         | 27.0         | 22.4          | 25.6          | 26.5          |
| Depreciation           | 488          | 531          | 704          | 754          | 784          | 846          | 912          | 967           | 2,476         | 3,509         |
| Interest               | 413          | 515          | 702          | 824          | 886          | 1,222        | 1,230        | 1,217         | 2,454         | 4,554         |
| Other Income           | 10           | 4            | 5            | 164          | 3            | 10           | 31           | 77            | 182           | 120           |
| <b>PBT</b>             | <b>442</b>   | <b>677</b>   | <b>743</b>   | <b>991</b>   | <b>483</b>   | <b>851</b>   | <b>503</b>   | <b>281</b>    | <b>2,853</b>  | <b>2,118</b>  |
| Tax                    | 143          | 224          | 245          | 279          | 164          | 280          | 168          | 91            | 892           | 703           |
| Effective Tax Rate (%) | 32.5         | 33.9         | 33.0         | 28.2         | 33.1         | 33.2         | 33.3         | 32.5          | 31.3          | 33.2          |
| <b>Reputed PAT</b>     | <b>298</b>   | <b>422</b>   | <b>473</b>   | <b>712</b>   | <b>319</b>   | <b>571</b>   | <b>336</b>   | <b>190</b>    | <b>1,879</b>  | <b>1,415</b>  |
| Change (%)             | -45.8        | -1.9         | -3.0         | 32.5         | 6.9          | 35.5         | -29.0        | -73.3         | -34.1         | -24.7         |
| <b>Adj. PAT</b>        | <b>298</b>   | <b>453</b>   | <b>498</b>   | <b>701</b>   | <b>320</b>   | <b>570</b>   | <b>336</b>   | <b>190</b>    | <b>1,961</b>  | <b>1,415</b>  |
| Change (%)             | 4.6          | 5.3          | 2.1          | 8.5          | 7.3          | 25.9         | -32.6        | -72.9         | -22.1         | -27.9         |

E: MOSL Estimates

## Arvind Mills

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE SENSEX: 17,402 | ARVND IN     |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | ARMI.BO      |

29 December 2009

Neutral

Previous Recommendation: Neutral

Rs39

|                     |              |
|---------------------|--------------|
| Equity Shares (m)   | 218.9        |
| 52 Week Range (Rs)  | 41 / 11      |
| 1,6,12 Rel Perf (%) | 12 / 22 / 60 |
| Mcap (Rs b)         | 8.5          |
| Mcap (USD b)        | 0.2          |

| YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 3/09A       | 27,211              | -994          | -4.5        | -463.2            | -8.6       | 0.4         | -5.0       | 4.7         | 1.0          | 9.3           |
| 3/10E       | 27,710              | 366           | 1.7         | -136.8            | 23.3       | 0.4         | 1.9        | 6.7         | 0.9          | 6.6           |
| 3/11E       | 29,095              | 341           | 1.6         | 6.8               | 25.0       | 0.4         | 1.7        | 7.0         | 0.8          | 6.1           |
| 3/12E       | 33,460              | 1,132         | 5.2         | -231.5            | 7.5        | 0.4         | 5.5        | 9.2         | 0.7          | 4.9           |

- We expect Arvind Mills to post 3QFY10 revenue growth of 15.6% YoY to Rs6.9b, driven mainly by increased denim realizations and volumes. Denim realizations are likely to be Rs125/meter against Rs109/meter in 3QFY09. Arvind's capacity utilization for its denim vertical was almost 100% in 3QFY10.
- EBITDA margin is likely to remain flat at 13.3%. We expect Arvind to report net profit of Rs71m in 3QFY10 against a loss of Rs308m a year earlier.
- During 2QFY10 Arvind initiated partial monetization of its surplus land bank in Ahmedabad, where it has about 700 acres of surplus land.
- Arvind is working on restructuring plans, which could include relocating part of its commodity grade denim capacity to other countries and sharpening focus on branded apparel and garment manufacturing.
- The stock trades at 0.4x FY10E book value of Rs89.7/share. Maintain **Neutral**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH              | FY09         |              |              |              | FY10         |              |              |              | FY09          | FY10E         |
|------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|
|                        | 1Q           | 2Q           | 3Q           | 4Q           | 1Q           | 2Q           | 3QE          | 4QE          |               |               |
| <b>Sales</b>           | <b>5,454</b> | <b>5,809</b> | <b>5,995</b> | <b>5,867</b> | <b>6,768</b> | <b>5,977</b> | <b>6,927</b> | <b>8,037</b> | <b>23,189</b> | <b>27,710</b> |
| Change (%)             | 6.9          | 3.0          | 17.7         | -5.2         | 24.1         | 2.9          | 15.6         | 37.0         | -10.1         | 19.5          |
| Total Expenditure      | 4,905        | 5,345        | 5,178        | 5,304        | 5,888        | 5,162        | 6,006        | 6,913        | 20,732        | 23,969        |
| <b>EBITDA</b>          | <b>549</b>   | <b>465</b>   | <b>817</b>   | <b>563</b>   | <b>880</b>   | <b>816</b>   | <b>921</b>   | <b>1,124</b> | <b>2,568</b>  | <b>3,740</b>  |
| Change (%)             | -23.9        | -40.7        | 122.7        | 104.8        | 60.2         | 75.5         | 12.8         | 99.5         | 1.6           | 45.6          |
| As % of Sales          | 10.1         | 8.0          | 13.6         | 9.6          | 13.0         | 13.6         | 13.3         | 14.0         | 11.1          | 13.5          |
| Depreciation           | 294          | 293          | 308          | 330          | 326          | 283          | 350          | 415          | 1,221         | 1,373         |
| Interest               | 322          | 663          | 772          | 455          | 473          | 463          | 530          | 612          | 2,221         | 2,078         |
| Other Income           | 73           | 535          | -40          | 76           | 5            | 82           | 45           | 23           | 519           | 155           |
| Non Recurring Expense  | 39           | -21          | -24          | -55          | 0            |              | 0            | 0            | 106           | 0             |
| <b>PBT</b>             | <b>44</b>    | <b>22</b>    | <b>-327</b>  | <b>-199</b>  | <b>86</b>    | <b>152</b>   | <b>86</b>    | <b>120</b>   | <b>-460</b>   | <b>444</b>    |
| Tax                    | 3            | 6            | 5            | 5            | 0            | 0            | 16           | 62           | 19            | 78            |
| Effective Tax Rate (%) | 5.9          | 26.1         | -1.6         | -2.5         | 0.0          | 0.0          | 18.0         | 51.8         | -4.0          | 17.5          |
| <b>Reported PAT</b>    | <b>41</b>    | <b>16</b>    | <b>-332</b>  | <b>-204</b>  | <b>86</b>    | <b>152</b>   | <b>71</b>    | <b>58</b>    | <b>-479</b>   | <b>366</b>    |
| Change (%)             | -29.0        | -84.4        | -685.0       | -480.4       | 107.5        | 826.8        | -121.3       | -128.4       | -356.8        | -176.5        |
| <b>Adj. PAT</b>        | <b>2</b>     | <b>37</b>    | <b>-308</b>  | <b>-150</b>  | <b>86</b>    | <b>152</b>   | <b>71</b>    | <b>58</b>    | <b>-585</b>   | <b>366</b>    |
| Change (%)             | -110.2       | -64.8        | -574.4       | -204.0       | 3,328.0      | 310.8        | -122.9       | -138.7       | -780.4        | -162.7        |

E: MOSL Estimates, \* Restated Quarterly Numbers

## Bombay Rayon

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | BRFL IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | BRFL.BO      |

29 December 2009

Buy

Rs185

Previous Recommendation: Buy

|                     |                |
|---------------------|----------------|
| Equity Shares (m)   | 106.1          |
| 52 Week Range (Rs)  | 246 / 80       |
| 1,6,12 Rel Perf (%) | -4 / -22 / -30 |
| Mcap (Rs b)         | 19.7           |
| Mcap (USD b)        | 0.4            |

| YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 03/09A      | 15,145              | 1,367         | 19.8        | 3.8               | 9.4        | 1.1         | 15.2       | 11.5        | 1.8          | 8.8           |
| 03/10E      | 20,803              | 2,156         | 20.3        | 2.7               | 9.1        | 1.0         | 14.0       | 11.6        | 1.5          | 6.6           |
| 03/11E      | 32,409              | 3,924         | 33.8        | 66.4              | 5.5        | 0.9         | 18.4       | 16.1        | 1.0          | 4.1           |
| 03/12E      | 39,500              | 5,236         | 45.1        | 33.4              | 4.1        | 0.8         | 20.1       | 18.2        | 0.7          | 3.0           |

- **3QFY10 results to reflect part benefits of Maharashtra expansion:** As part of its Rs11b Maharashtra project, Bombay Rayon is setting up fabric processing capacity of 180m meters (500,000 meters/day) at Tarapur. Of this, phase 1 of 200,000 meters per day was fully available in 3QFY10. The balance 300,000 meters/day will be commissioned in 4QFY10. Commissioning of Tarapur project has two favorable impacts - (1) Increased availability of fabric for sale, improving topline; and (2) Lower dependence on outsourced fabric, improving margins.
- **Rs5b funds raised in 3QFY10; Rs1.4b to be raised in FY11:** In November 2009, Bombay Rayon completed its GDR issue of 19m shares @ US\$5.11 (Rs238), raising US\$97m (Rs4.5b). The company also raised Rs0.5b by way of advance towards 10m warrants to promoters convertible into shares @ Rs193. The balance Rs1.4b will be raised in FY11. The total Rs6.4b raised will strengthen BRFL's balance sheet and meet incremental working capital requirements.
- **Attractive valuation, maintain Buy:** Despite a 33% dilution over FY09 equity, EPS CAGR during FY09-12 is expected to be a robust 32%, due to high 56% CAGR in profits led by the Maharashtra expansion. RoE should significantly improve to 20% levels by FY12. Valuation is attractive at 9.1x FY10E EPS and 5.5x FY11E EPS. We maintain **Buy** with a target price of Rs338 (10x FY11E EPS of Rs33.8).

QUARTERLY PERFORMANCE - STANDALONE (INCLUDING ERSTWHILE LEEA LACE FROM 3QFY09)

(RS MILLION)

| Y/E MARCH           | FY09         |              |              |              | FY10         |              |              |              | FY09<br>CONS. | FY10E<br>CONS. |
|---------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|----------------|
|                     | 1Q           | 2Q           | 3Q           | 4Q           | 1Q           | 2Q           | 3QE          | 4QE          |               |                |
| <b>Net Sales</b>    | <b>2,751</b> | <b>2,870</b> | <b>3,449</b> | <b>3,332</b> | <b>3,363</b> | <b>3,864</b> | <b>5,000</b> | <b>6,300</b> | <b>15,145</b> | <b>20,803</b>  |
| Change (%)          | 36.7         | 23.5         | 41.5         | 31.1         | N.A.         | N.A.         | 45.0         | 89.1         | 62.6          | 37.4           |
| Total Expenses      | 2,116        | 2,184        | 2,606        | 2,497        | 2,567        | 2,946        | 3,750        | 4,633        | 12,027        | 16,171         |
| <b>EBITDA</b>       | <b>635</b>   | <b>687</b>   | <b>843</b>   | <b>835</b>   | <b>796</b>   | <b>919</b>   | <b>1,250</b> | <b>1,667</b> | <b>3,118</b>  | <b>4,632</b>   |
| Change (%)          | 60.4         | 20.4         | 45.6         | 33.5         | N.A.         | N.A.         | 48.3         | 99.7         | 43.7          | 48.5           |
| EBITDA Margin (%)   | 23.1         | 23.9         | 24.4         | 25.1         | 23.7         | 23.8         | 25.0         | 26.5         | 20.6          | 22.3           |
| Depreciation        | 93           | 96           | 110          | 123          | 147          | 149          | 200          | 283          | 513           | 848            |
| Interest            | 74           | 108          | 165          | 227          | 210          | 225          | 210          | 199          | 686           | 874            |
| Other Income        | 13           | 16           | 10           | 11           | 51           | 16           | 20           | 62           | 65            | 169            |
| <b>PBT</b>          | <b>481</b>   | <b>498</b>   | <b>578</b>   | <b>495</b>   | <b>490</b>   | <b>561</b>   | <b>860</b>   | <b>1,248</b> | <b>1,985</b>  | <b>3,079</b>   |
| Tax                 | 132          | 131          | 162          | 244          | 117          | 151          | 258          | 422          | 611           | 924            |
| Tax/PBT (%)         | 27.4         | 26.3         | 27.9         | 49.3         | 23.9         | 26.9         | 30.0         | 33.8         | 30.8          | 30.0           |
| <b>PAT</b>          | <b>349</b>   | <b>367</b>   | <b>417</b>   | <b>251</b>   | <b>373</b>   | <b>410</b>   | <b>602</b>   | <b>826</b>   | <b>1,374</b>  | <b>2,156</b>   |
| <b>Adjusted PAT</b> | <b>349</b>   | <b>367</b>   | <b>417</b>   | <b>251</b>   | <b>373</b>   | <b>410</b>   | <b>602</b>   | <b>826</b>   | <b>1,374</b>  | <b>2,156</b>   |
| Change (%)          | 80.0         | 19.6         | 20.6         | -25.9        | N.A.         | N.A.         | 44.5         | 229.3        | 16.0          | 56.9           |
| PAT Margin (%)      | 12.7         | 12.8         | 12.1         | 7.5          | 11.1         | 10.6         | 12.0         | 13.1         | 9.1           | 10.4           |

E: MOSL Estimates; Note: The company has included Leela Lace numbers from 3QFY09, though the merger is with retrospective effect from 1QFY09. So, 1Q and 2Q are not strictly comparable. Consolidated figures include operations of GURU.



## Raymond

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | RW IN        |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | RYMD.BO      |

29 December 2009

Buy

Rs195

Previous Recommendation: Neutral

|                     |            |
|---------------------|------------|
| Equity Shares (m)   | 61.4       |
| 52 Week Range (Rs)  | 234 / 68   |
| 1,6,12 Rel Perf (%) | 1 / -5 / 4 |
| Mcap (Rs b)         | 12.0       |
| Mcap (USD b)        | 0.3        |

| YEAR<br>END | NET SALES<br>(RS M) | PAT*<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|----------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 3/09A       | 25,595              | -2,283         | -37.2       | -1,183.9          | -5.2       | 1.0         | -8.7       | -0.9        | 1.1          | 38.7          |
| 3/10E       | 28,037              | -430           | -7.0        | -81.2             | -27.8      | 1.0         | -1.9       | 2.5         | 0.9          | 13.1          |
| 3/11E       | 29,795              | 550            | 9.0         | -227.9            | 21.8       | 1.0         | 2.2        | 5.7         | 0.9          | 8.8           |
| 3/12E       | 32,775              | 1,172          | 19.1        | 113.1             | 10.2       | 0.9         | 4.6        | 8.3         | 0.8          | 6.4           |

\* Consolidated

- We expect Raymond to report 3QFY10 standalone revenue of Rs4.5b against Rs3.6b a year earlier.
- Raymond's 3QFY10 EBITDA is likely to be Rs631m against Rs268m a year earlier. EBITDA margin is expected to be 14%. The management says Raymond is incurring excess operating costs of Rs500m as it is operating on excess capacity in its worsted fabric segment, as the Thane plant has been closed down.
- During 4QFY09 Raymond closed its loss-making denim operations in the US and Belgium, for which it took a Rs2.3b one-time loss. The management plans to focus only on its cost competitive Romanian and Indian operations.
- Raymond's decision to close down its loss-making denim operations in the US and Belgium will lower losses it was incurring in its denim operations. Besides, with the commissioning of its new 7m meter worsted fabric plant at Vapi, the chances of faster monetization of its real estate (120-acre property in Thane) have increased significantly.
- The stock trades at 1x FY10 BV of Rs188/share. We value Raymond's Thane land at a minimum of Rs107/share. Maintain **Buy**.

## QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

| Y/E MARCH                | FY09         |              |              |               | FY10         |              |              |              | FY09          | FY10E         |
|--------------------------|--------------|--------------|--------------|---------------|--------------|--------------|--------------|--------------|---------------|---------------|
|                          | 1Q           | 2Q           | 3Q           | 4Q            | 1Q           | 2Q           | 3QE          | 4QE          |               |               |
| <b>Net Sales</b>         | <b>2,357</b> | <b>4,337</b> | <b>3,589</b> | <b>3,629</b>  | <b>2,348</b> | <b>4,021</b> | <b>4,506</b> | <b>4,663</b> | <b>13,792</b> | <b>15,537</b> |
| Change (%)               | 12.7         | 25.5         | 8.1          | -16.7         | -0.4         | -7.3         | 25.6         | 28.5         | 4.3           | 12.7          |
| Total Expenditure        | 2,747        | 3,834        | 3,321        | 3,467         | 2,413        | 3,411        | 3,875        | 3,997        | 13,496        | 13,696        |
| <b>EBITDA</b>            | <b>-390</b>  | <b>502</b>   | <b>268</b>   | <b>163</b>    | <b>-66</b>   | <b>611</b>   | <b>631</b>   | <b>666</b>   | <b>296</b>    | <b>1,841</b>  |
| Change (%)               | 865.3        | 86.0         | 39.0         | -60.7         | -83.2        | 21.6         | 135.8        | 309.1        | -64.6         | 521.2         |
| As % of Sales            | -16.5        | 11.6         | 7.5          | 4.5           | -2.8         | 15.2         | 14.0         | 14.3         | 4.6           | 11.9          |
| Depreciation             | 203          | 206          | 217          | 262           | 270          | 281          | 287          | 288          | 888           | 1,126         |
| Interest                 | 91           | 166          | 191          | 133           | 232          | 228          | 221          | 240          | 631           | 921           |
| Other Income             | 274          | 137          | 26           | 98            | 215          | 119          | 146          | 130          | 628           | 610           |
| Extra-ordinary Items     | -4           | 10           | 11           | 2,561         | 50           | 152          | 0            | 0            | 2,388         | 201           |
| <b>PBT</b>               | <b>-409</b>  | <b>257</b>   | <b>-125</b>  | <b>-2,695</b> | <b>-401</b>  | <b>69</b>    | <b>269</b>   | <b>268</b>   | <b>-2,982</b> | <b>203</b>    |
| Tax                      | 7            | 14           | 17           | -304          | -85          | -6           | 29           | 122          | -267          | 60            |
| Effective Tax Rate (%)   | -1.7         | 5.3          | -13.6        | 11.3          | 21.2         | -8.5         | 10.7         | 45.5         | 25.5          | 25.5          |
| <b>Reported PAT</b>      | <b>-416</b>  | <b>243</b>   | <b>-153</b>  | <b>-2,391</b> | <b>-316</b>  | <b>74</b>    | <b>240</b>   | <b>146</b>   | <b>-2,715</b> | <b>143</b>    |
| <b>Adj. PAT after MI</b> | <b>-412</b>  | <b>234</b>   | <b>-142</b>  | <b>170</b>    | <b>-266</b>  | <b>181</b>   | <b>240</b>   | <b>146</b>   | <b>-327</b>   | <b>344</b>    |
| Change (%)               | -632.6       | -25.4        | -243.9       | -38.6         | 87.6         | 6.0          | -            | -88.9        | -142.7        | -205.2        |

E: MOSL Estimates

Siddharth Bothra (SBothra@MotilalOswal.com)

## Vardhman Textiles

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | VTEX IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | MHSP.BO      |

|                     |               |
|---------------------|---------------|
| Equity Shares (m)   | 57.8          |
| 52 Week Range (Rs)  | 228 / 43      |
| 1,6,12 Rel Perf (%) | 12 / 56 / 171 |
| Mcap (Rs b)         | 12.1          |
| Mcap (USD b)        | 0.3           |

29 December 2009

Buy

Rs209

Previous Recommendation: Buy

| YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 3/09A       | 24,536              | 633           | 21.4        | 1.0               | 9.7        | 0.9         | 10.1       | 4.4         | 1.4          | 8.9           |
| 3/10E       | 27,416              | 1,352         | 23.4        | 9.2               | 8.9        | 0.9         | 10.3       | 4.2         | 1.3          | 8.8           |
| 3/11E       | 35,500              | 1,820         | 31.5        | 34.6              | 6.6        | 0.8         | 12.8       | 6.6         | 1.0          | 6.3           |
| 3/12E       | 39,050              | 2,996         | 51.9        | 64.6              | 4.0        | 0.7         | 18.4       | 9.9         | 0.8          | 4.4           |

- Vardhman is likely to report revenue growth of 6.5% YoY to Rs6.9b and EBITDA margins are expected to increase by 130bp YoY to 15.8%.
- Adjusted PAT is likely to post an 88% YoY increase at Rs211m, boosted by lower raw material costs.
- Vardhman's Rs26b capex plans have been largely completed in FY09 and full utilization will start towards the end of FY10.
- After capacity expansion, Vardhman's spinning capacity increased from 0.5m spindles to 0.75m spindles and its processing fabric plant capacity increased from 40m to 80m meters.
- Vardhman trades at 8.9x FY10E EPS of Rs23.4 and 6.6x FY11E EPS of Rs31.5. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH              | FY09         |              |              |              | FY10         |              |              |              | FY09          | FY10E         |
|------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|
|                        | 1Q           | 2Q           | 3Q           | 4Q           | 1Q           | 2Q           | 3QE          | 4QE          |               |               |
| <b>Sales</b>           | <b>5,662</b> | <b>6,507</b> | <b>6,451</b> | <b>5,917</b> | <b>6,201</b> | <b>6,752</b> | <b>6,869</b> | <b>7,115</b> | <b>24,537</b> | <b>26,936</b> |
| Change (%)             | 7.3          | 14.9         | 4.7          | 2.1          | -4.7         | 3.8          | 6.5          | 20.2         | 6.9           | 9.8           |
| Total Expenditure      | 4,804        | 5,395        | 5,518        | 5,082        | 5,105        | 5,401        | 5,783        | 5,996        | 20,799        | 22,284        |
| <b>EBITDA</b>          | <b>858</b>   | <b>1,111</b> | <b>933</b>   | <b>836</b>   | <b>1,096</b> | <b>1,351</b> | <b>1,085</b> | <b>1,119</b> | <b>3,738</b>  | <b>4,651</b>  |
| Change (%)             | -4.3         | 25.9         | -0.9         | 8.6          | 27.7         | 21.6         | 16.4         | 33.9         | 5.4           | 24.4          |
| As % of Sales          | 12.2         | 17.1         | 14.5         | 14.1         | 17.7         | 20.0         | 15.8         | 15.7         | 15.2          | 17.3          |
| Depreciation           | 504          | 525          | 546          | 498          | 539          | 538          | 573          | 642          | 2,073         | 2,293         |
| Interest               | 285          | 315          | 248          | 190          | 220          | 182          | 214          | 241          | 1,023         | 858           |
| Other Income           | 36           | 100          | 111          | 103          | 156          | 3            | 143          | 349          | 335           | 651           |
| Extra-ordinary Items   | 1044         | 65           | -74          | 130          | 112          | 0            | 0            | 0            | 775           | 112           |
| <b>PBT</b>             | <b>105</b>   | <b>307</b>   | <b>175</b>   | <b>250</b>   | <b>492</b>   | <b>634</b>   | <b>441</b>   | <b>585</b>   | <b>1,751</b>  | <b>2,151</b>  |
| Tax                    | 53           | 113          | 83           | 96           | 93           | 130          | 128          | 143          | 344           | 513           |
| Effective Tax Rate (%) | 49.9         | 36.7         | 47.3         | 38.4         | 18.8         | 20.5         | 29.1         | 24.4         | 19.6          | 23.8          |
| <b>Reported PAT</b>    | <b>1,097</b> | <b>194</b>   | <b>92</b>    | <b>25</b>    | <b>399</b>   | <b>504</b>   | <b>313</b>   | <b>442</b>   | <b>1,408</b>  | <b>1,639</b>  |
| <b>Adj. PAT</b>        | <b>314</b>   | <b>129</b>   | <b>166</b>   | <b>154</b>   | <b>287</b>   | <b>504</b>   | <b>313</b>   | <b>442</b>   | <b>633</b>    | <b>1,527</b>  |
| Change (%)             | 4.2          | -65.5        | -58.6        | 9.8          | -8.5         | 290.9        | 88.1         | 186.9        | -48.4         | 141.3         |

E: MOSL Estimates

## Utilities

BSE Sensex: 17,402

S&amp;P CNX: 5,188

29 December 2009

## COMPANY NAME

CESC

NTPC

PTC India

Reliance Infrastructure

Tata Power

In 3QFY10, we expect companies in the utilities segment to post revenue growth of 10% YoY, EBITDA growth of 11% YoY and net profit growth of 8% YoY. EBITDA growth is driven by higher depreciation and interest while revenue growth is lower due to fuel cost savings.

**October-November 2009 thermal generation up 2% driven by gas based power projects:** During October-November 2009, generation from thermal projects grew 2% YoY to 103.4BUs, driven by largely by gas-based projects (generation up 20% YoY). Companies like GVK, GMR, Torrent Power (Sugen) are key beneficiaries of higher gas based generation. Hydro power project generation was impacted by poor monsoons and was down by 7% YoY at 16.6BUs. During October-November 2009, NTPC posted 3.1% growth in generation at 34.8BUs, against 33.8BUs a year earlier.

**ST prices have been weak over the past two months:** For the week ended 19 December 2009, ST prices were Rs3.10/unit, against Rs5.40/unit for the week ended 1 November, 2009. Softening in prices is attributed to the absence of agricultural load in northern India, mild temperatures in most parts of the country, good hydro-support in J&K, HP, Uttarakhand and the southern parts of India due to rains. Also Maharashtra had an outage on the Chandrapur Parali circuits I and II for November 2009. This forces the state to implement an additional scheduled load shedding of 2,000-2,500MW due to transmission congestion.

**Revised FY10 capacity addition target of 15.2GW, achievement of ~30% till Oct-09:** CEA estimates capacity addition of 15.2GW in FY10, of which 5.8GW were commissioned until October 2009, envisaging capacity addition of ~10GW over the next five months. The highest capacity addition is from Lanco Infratech at 1,474MW, JSW Energy at 1,335MW, NTPC at 1,240MW, Adani Power at 990MW, Torrent Power at 765MW, and 600MW each by Sterlite Energy and Reliance Power.

**Valuations and view:** We remain neutral on the sector because of the rich valuations of the incumbents, which largely factor in the growth option. Our top picks in the sector are **Reliance Infrastructure** and **PTC India**.

## EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

|                         | CMP (RS) |         | RECO    | SALES  |       |        | EBITDA |       |        | NET PROFIT |       |       |
|-------------------------|----------|---------|---------|--------|-------|--------|--------|-------|--------|------------|-------|-------|
|                         | 29.12.09 |         |         | DEC.09 | VAR.  | VAR.   | DEC.09 | VAR.  | VAR.   | DEC.09     | VAR.  | VAR.  |
|                         |          |         |         |        | % YOY | % QOQ  |        | % YOY | % QOQ  |            | % YOY | % QOQ |
|                         |          |         |         |        |       |        |        |       |        |            |       |       |
| Utilities               |          |         |         |        |       |        |        |       |        |            |       |       |
| CESC                    | 392      | Neutral | 8,234   | 9.5    | -13.2 | 2,141  | 41.8   | 1.9   | 1,188  | 21.2       | -5.7  |       |
| NTPC                    | 232      | Neutral | 124,612 | 10.5   | 15.6  | 33,957 | 5.8    | 5.7   | 20,855 | 2.3        | 5.1   |       |
| PTC India               | 115      | Buy     | 24,042  | 13.6   | -2.2  | 98     | 261.4  | -66.9 | 264    | -4.2       | -14.7 |       |
| Reliance Infrastructure | 1,132    | Buy     | 30,573  | 12.5   | 15.4  | 2,293  | -26.5  | -26.7 | 2,953  | 4.6        | -20.1 |       |
| Tata Power              | 1,351    | Neutral | 17,413  | -2.0   | 1.2   | 5,050  | 97.2   | 21.2  | 2,168  | 121.6      | 18.3  |       |
| Sector Aggregate        |          |         | 204,874 | 9.9    | 10.4  | 43,539 | 10.8   | 4.1   | 27,427 | 7.8        | 1.8   |       |

Satyam Agarwal (AgarwalS@MotilalOswal.com) / Nalin Bhatt (NalinBhatt@MotilalOswal.com)

### All India October-November 2009 generation up by 1% YoY

During October-November 2009, all India generation from thermal projects grew by 2% YoY to 103.4BUs, driven largely by gas-based projects (generation up 20% YoY). Players like GVK, GMR, and Torrent Power (Sugen) are key beneficiaries of higher gas based generation. Hydro power project generation was impacted by poor monsoons and was down by 7% YoY at 16.6BUs.

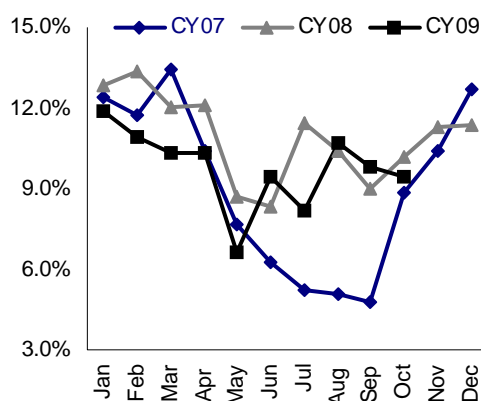
GENERATION (BU) UP 1.1% YOY IN OCTOBER-NOVEMBER 2009

| ALL INDIA PLF          | NOV 09      |             | NOV 08      |             | GENERATION     |                | CHG. (%)   |
|------------------------|-------------|-------------|-------------|-------------|----------------|----------------|------------|
|                        | GENERATION  | PLF (%)     | GENERATION  | PLF (%)     | OCT-NOV 09     | OCT-NOV 08     |            |
| Thermal-Coal & Lignite | 43.5        | 75.5        | 42.4        | 76.6        | 87,943         | 88,434         | -0.6       |
| Thermal-Gas            | 7.4         | 65.9        | 6.5         | 61.0        | 15,479         | 12,948         | 19.5       |
| Nuclear                | 1.4         | 46.8        | 1.3         | 42.7        | 3,103          | 2,578          | 20.3       |
| Hydro                  | 6.8         | 24.3        | 7.9         | 28.3        | 16,623         | 17,860         | -6.9       |
| Bhutan IMP             | 0.3         | NA          | 0.3         | NS          | 1,083          | 969            | 11.7       |
| <b>Total*</b>          | <b>59.1</b> | <b>59.3</b> | <b>58.0</b> | <b>60.0</b> | <b>123,148</b> | <b>121,820</b> | <b>1.1</b> |

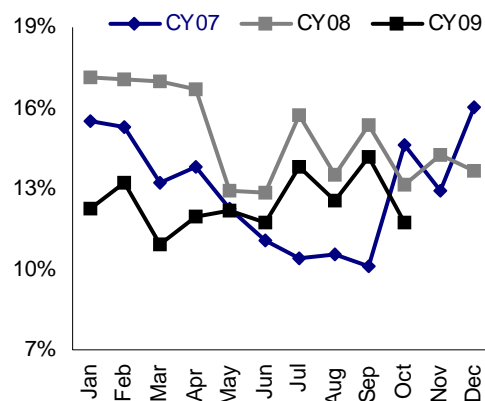
\*excluding import from Bhutan

Source: CEA

ALL INDIA BASE DEFICIT (%)



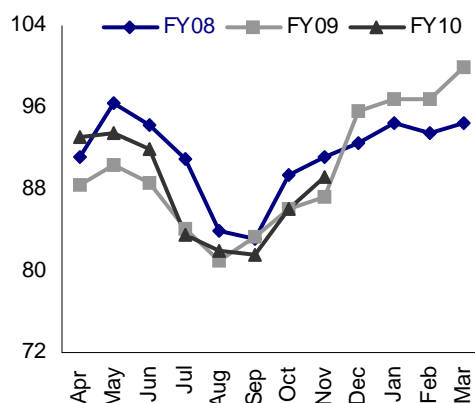
ALL INDIA PEAK DEFICIT (%)



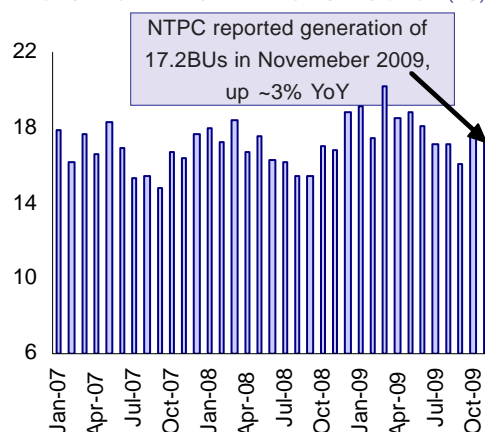
Source: CEA

In October-November 2009, NTPC posted 3.1% growth in generation at 34.8BUs, v/s 33.8BUs a year earlier.

NTPC NOVEMBER 2009 PLF (%) UP 180BP YOY



NOV-09 MONTHLY GENERATION UP ~3% YOY (BU)



Source: CEA

Generation for Tata Power in the Mumbai license region was up by 1.2% YoY (1.7BUs), Reliance Infrastructure was up 0.9% YoY (668BUs), CESC was down 0.9% YoY (1.3BUs). The higher generation has been driven by gas based power projects, benefiting companies like GVK, GMR and Torrent Power.

#### GENERATION (MUS) AND PLF (%) FOR PRIVATE SECTOR PLAYERS

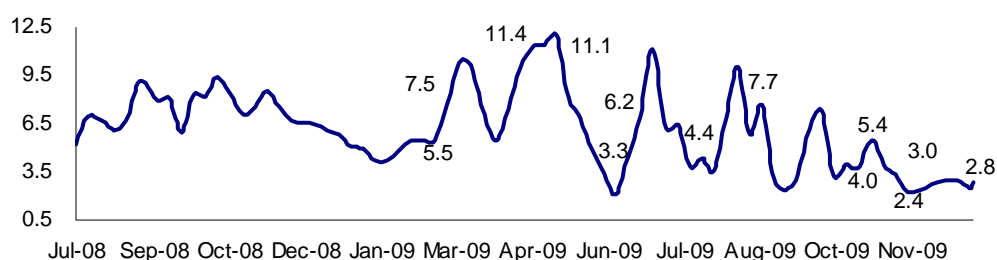
|                          | CAPACITY<br>(MW)* | NOV-09          |            | NOV-08          |            | GENERATION     |                | CHG<br>(%) |
|--------------------------|-------------------|-----------------|------------|-----------------|------------|----------------|----------------|------------|
|                          |                   | GENE-<br>RATION | PLF<br>(%) | GENE-<br>RATION | PLF<br>(%) | OCT-<br>NOV,09 | OCT-<br>NOV,08 |            |
| Adani Power              |                   |                 |            |                 |            |                |                |            |
| - Mundra Phase 1         | 330.0             | 209.3           | 86.9       | 0.0             | 0.0        | 387.3          | 0.0            | NA         |
| GVK                      |                   |                 |            |                 |            |                |                |            |
| - JP 1 & 2               | 455.4             | 292.5           | 88.0       | 107.1           | 32.2       | 581.6          | 227.7          | NC         |
| - Gautami                | 464.0             | 306.4           | 90.5       | 0.0             | 0.0        | 520.7          | 0.0            | NA         |
| GMR                      |                   |                 |            |                 |            |                |                |            |
| - Barge Mounted          | 220.0             | 42.2            | 26.3       | 121.8           | 75.8       | 102.2          | 121.8          | -16.1      |
| - Chennai                | 200.0             | 61.8            | 42.3       | 97.8            | 67.0       | 151.3          | 203.7          | -25.7      |
| - Vemagiri               | 370.0             | 220.9           | 81.8       | 0.0             | 0.0        | 490.0          | 0.0            | NA         |
| JSPL                     |                   |                 |            |                 |            |                |                |            |
| - Chattisgarh            | 1,000.0           | 686.4           | 95.3       | 600.3           | 82.2       | 1,416.9        | 1,305.1        | 8.6        |
| Rel Infra                |                   |                 |            |                 |            |                |                |            |
| - Dahanu                 | 500.0             | 277.7           | 77.1       | 273.2           | 75.9       | 668.0          | 662.1          | 0.9        |
| - Samalkot (AP)          | 220.0             | 140.8           | 87.6       | 69.9            | 43.5       | 146.2          | 155.4          | -6.0       |
| - Goa                    | 48.0              | 19.7            | 56.2       | 27.7            | 79.0       | 40.5           | 44.3           | -8.6       |
| - Kochi                  | 174.0             | 8.4             | 6.6        | 97.7            | 76.9       | 8.4            | 156.1          | -94.6      |
| Tata Power               |                   |                 |            |                 |            |                |                |            |
| - Trombay                | 1,580.0           | 892.6           | 75.6       | 893.4           | 94.9       | 1,776.2        | 1,754.7        | 1.2        |
| - Karnataka IPP          | 81.3              | 37.6            | 63.3       | 48.0            | 80.9       | 67.4           | 93.7           | -28.1      |
| - Tata Steel(Jamshedpur) | 360.0             | 148.3           | 56.4       | 144.4           | 54.9       | 342.0          | 338.1          | 1.2        |
| Torrent Power            |                   |                 |            |                 |            |                |                |            |
| - Existing               | 500.0             | 303.9           | 79.7       | 322.1           | 85.6       | 627.5          | 642.9          | -2.4       |
| - Sugan                  | 1,147.5           | 657.9           | 78.5       | 0.0             | 0.0        | 1,466.5        | 0.0            | NA         |

Source: CEA

#### Short term power trading prices move south

In the week ended 26 December 2009, ST prices were Rs2.8/unit against Rs5.40/unit for the week ended 1 November 2009. Soft prices are attributed to the absence of agricultural load in northern India, mild temperatures in most parts of India, good hydro-support in J&K, HP, Uttarakhand and the southern India due to rains. The recent cyclone in Mumbai also helped to fill hydro reservoirs in central India. More importantly, Maharashtra has an outage on Chandrapur Parali circuit I and II, which is expected only by the end of November. This forced the state to implement additional scheduled load shedding of 2,000-2,500MW due to transmission congestion. This led to private utilities like Tata Power and Reliance Infrastructure being advised not to buy power even at low rates.

#### SHORT TERM PRICES (RS/UNIT)



Source: IEX

### Revised FY10E capacity addition target at 15.2GW, achievement of ~30% till October 2009

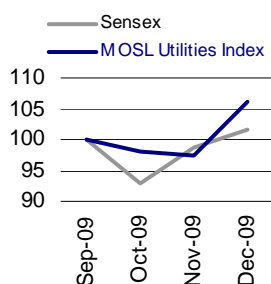
CEA estimates capacity addition of 15.2GW in FY10, of which 5.8GW was commissioned until October 2009, envisaging capacity addition of ~10GW over the next five months. Highest capacity addition is from Lanco Infratech at 1,474MW, JSW Energy at 1,335MW, NTPC at 1,240MW, Adani Power at 990MW, Torrent Power at 765MW, and 600MW each by Sterlite Energy and Reliance Power. In its latest review of power sector capacity addition, the Central Electricity Authority (CEA) revised the Eleventh Plan (FY08-12) capacity addition target downwards to 75GW (including 13GW of projects on best effort basis). The revision in capacity addition has been due to: 1) slippages of 7.3GW of thermal projects and 5.2GW of hydro projects, and 2) addition of new thermal power projects (6.8GW), which were earlier expected to be commissioned in the Twelfth Plan because of the improved project progress. Capacity addition for FY11 and FY12 is estimated at 22.8GW and 24.3GW, respectively. Thus, capacity addition over the next 30 months is estimated at ~57GW (including 13GW on best effort basis), v/s current installed base of 153GW.

CAPACITY ADDITION: A LARGE PART OF PROJECT COMMISSIONING IN FY12 (MW)

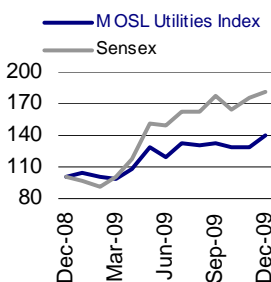
|                  | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | TOTAL  | % OF FY12<br>CAP ADDN |
|------------------|---------|---------|---------|---------|---------|--------|-----------------------|
| NTPC             | 1,740   | 750     | 1,240   | 4,310   | 5,710   | 13,750 | 41.5                  |
| Adani Power      | -       | -       | 990     | 330     | 5,280   | 6,600  | 80.0                  |
| Lanco            | -       | -       | 1,474   | 1,178   | 600     | 3,251  | 18.5                  |
| Sterlite         | -       | -       | 600     | 1,800   | -       | 2,400  | -                     |
| NHPC             | 510     | -       | 120     | 1,123   | 249     | 2,002  | 12.4                  |
| Reliance Power   | -       | -       | 600     | -       | 1,260   | 1,860  | 67.7                  |
| Tata Power       | -       | 250     | -       | 525     | 2,125   | 2,900  | 73.3                  |
| JSW              | -       | -       | 1,305   | 1,575   | -       | 2,880  | -                     |
| Torrent          | -       | 383     | 765     | -       | -       | 1,148  | -                     |
| Jaiprakash Power | -       | -       | -       | -       | 1,000   | 1,000  | 100.0                 |
| GVK              | -       | -       | -       | -       | 330     | 330    | 100.0                 |
| CESC             | -       | -       | 250     | -       | -       | 250    | -                     |

Source: CEA

RELATIVE PERFORMANCE - 3M (%)



RELATIVE PERFORMANCE - 1YR (%)



### CEA expects NTPC to add 1.2GW in FY10 v/s company target of 3.3GW

CEA expects NTPC to add three projects with cumulative capacity of 1.25GW including the 250MW Bhilai JV (which has been commissioned) and thus, net capacity addition is expected at 1GW. CEA expects the 500MW Kahalgaon and 490MW Dadri project to be commissioned in FY10. This compares with management guidance of 500MW Kahalgaon, 980MW of Dadri, 1,320MW of Sipat and 500MW Kora TPP. We have assumed NTPC will commission its 500MW Kahalgaon and 500MW Korba projects in FY10.

NTPC: EXPECTED CAPACITY ADDITION IN FY10 (MW)

| PROJECT                   | CAP AS PER CEA | CAP AS PER COMPANY |
|---------------------------|----------------|--------------------|
| Sipat Stage-I             |                | 1,320              |
| Kahalgaon Stage -II       | 500            | 500                |
| Korba Stage -III          |                | 500                |
| NCTPP Stage -II           | 490            | 980                |
| Bhilai TPP (NTPC-SAIL JV) | 250            |                    |
| <b>Total</b>              | <b>1,240</b>   | <b>3,300</b>       |

Source: CEA/Company



## COMPARATIVE VALUATION

|                  | CMP (RS) | RECO      | EPS (RS) |       |       | P/E (X) |       |       | EV/EBITDA |       |       | ROE (%) |       |       |
|------------------|----------|-----------|----------|-------|-------|---------|-------|-------|-----------|-------|-------|---------|-------|-------|
|                  | 29.12.09 |           | FY10E    | FY11E | FY12E | FY10E   | FY11E | FY12E | FY10E     | FY11E | FY12E | FY10E   | FY11E | FY12E |
| Utilities        |          |           |          |       |       |         |       |       |           |       |       |         |       |       |
| Adani Power      | 98       | Not Rated | 2.2      | 2.7   | 8.2   | 45.3    | 36.3  | 12.0  | 32.4      | 26.1  | 10.8  | 8.3     | 9.9   | 25.7  |
| CESC             | 392      | Neutral   | 28.9     | 31.0  | 31.5  | 13.5    | 12.6  | 12.4  | 7.8       | 8.6   | 9.5   | 11.3    | 11.0  | 10.1  |
| Indiabulls Power | 33       | Not Rated | 0.2      | 0.1   | -0.2  | 154.6   | 287.5 | -     | -         | -     | -     | 1.1     | 0.6   | -0.9  |
| JSW Energy       | 100      | Not Rated | 4.8      | 9.2   | 9.8   | 21.0    | 10.8  | 10.2  | 16.0      | 6.4   | 5.8   | 15.4    | 26.0  | 21.8  |
| NTPC             | 232      | Neutral   | 10.5     | 11.4  | 13.0  | 22.1    | 20.3  | 17.9  | 14.8      | 11.9  | 11.7  | 14.5    | 14.4  | 14.9  |
| Power Grid Corp. | 110      | Not Rated | 4.8      | 5.8   | 7.8   | 22.7    | 18.9  | 14.1  | 12.3      | 10.7  | 9.0   | 13.3    | 14.6  | 17.5  |
| PTC India        | 115      | Buy       | 3.7      | 4.3   | 4.4   | 30.9    | 27.0  | 26.3  | 45.1      | 45.5  | 42.4  | 6.1     | 5.9   | 5.9   |
| Reliance Infra.  | 1,132    | Buy       | 54.8     | 62.5  | 69.1  | 20.6    | 18.1  | 16.4  | 27.4      | 23.6  | 20.5  | 10.4    | 10.9  | 11.4  |
| Reliance Power   | 154      | Not Rated | -        | 2.6   | 0.8   | -       | 59.6  | 188.5 | -         | 31.7  | 20.9  | -       | 4.4   | 1.4   |
| Tata Power       | 1,351    | Neutral   | 67.0     | 98.3  | 121.9 | 20.2    | 13.7  | 11.1  | 18.0      | 18.2  | 16.3  | 8.6     | 8.5   | 9.1   |
| Sector Aggregate |          |           |          |       |       | 25.2    | 20.4  | 17.1  | 17.1      | 13.6  | 12.0  | 11.1    | 12.5  | 13.6  |

Note : JSW Energy Valuation is at Issue Price

CESC

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | CESC IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | CESC.BO      |

29 December 2009

Neutral

Previous Recommendation: Neutral

Rs392

|                     |               |
|---------------------|---------------|
| Equity Shares (m)   | 124.9         |
| 52 Week Range (Rs)  | 410 / 180     |
| 1,6,12 Rel Perf (%) | -2 / 19 / -13 |
| Mcap (Rs b)         | 48.9          |
| Mcap (USD b)        | 1.0           |

| YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS*<br>(RS) | EPS*<br>GROWTH (%) | P/E*<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|---------------|--------------|--------------------|-------------|-------------|------------|-------------|--------------|---------------|
| 03/09A      | 30,310              | 3,685         | 29.5         | 11.8               | 13.3        | 1.8         | 12.9       | 11.8        | 2.0          | 10.0          |
| 03/10E      | 34,149              | 3,610         | 28.9         | -2.0               | 13.5        | 1.6         | 11.3       | 12.9        | 1.9          | 7.8           |
| 03/11E      | 36,233              | 3,867         | 31.0         | 7.1                | 12.6        | 1.4         | 11.0       | 9.9         | 1.9          | 8.6           |
| 03/12E      | 38,570              | 3,937         | 31.5         | 1.8                | 12.4        | 1.3         | 10.1       | 8.9         | 2.1          | 9.5           |

\* Excl Spencers; fully diluted

- In 3QFY10, we expect CESC to post revenue of Rs8.2b (up 9.5% YoY) and net profit of Rs1.2b, up 21% YoY.
- CESC has acquired controlling stake in Dhariwal Infrastructure, which is engaged in setting up a 600MW thermal power generating station at Chandrapur in Maharashtra for Rs2b. Land for the project is in possession of an SPV, and coal linkages have been approved from SECL. Water clearance for the project has been received and MoEF clearance is in advanced stages. The company expects to achieve financial closure by March 2010.
- The 250MW Budge-Budge expansion is likely to be commissioned by 4QFY10 and the company expects to achieve financial closure for the 600MW Haldia project by 4QFY10.
- Spencer retail reported reported income of Rs10.7b (up 32% YoY) in FY09 and a net loss before exceptional item of Rs3.7b (v/s Rs1.5b a year earlier). Going forward, the management has guided reduction in monthly cash losses for Spencer by Rs100m in FY10 and to attain breakeven at the store level by the end of FY10.
- We expect CESC to report standalone net profit of Rs3.6b in FY10 (down 2% YoY) and Rs3.9b in FY11 (up 7% YoY), excluding Spencer.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH              | FY09         |              |              |              | FY10         |              |              |              | FY09          | FY10E         |
|------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|
|                        | 1Q           | 2Q           | 3Q           | 4Q           | 1Q           | 2Q           | 3QE          | 4QE          |               |               |
| <b>Sales</b>           | <b>7,830</b> | <b>7,550</b> | <b>7,520</b> | <b>7,410</b> | <b>8,090</b> | <b>9,490</b> | <b>8,234</b> | <b>8,334</b> | <b>30,310</b> | <b>34,149</b> |
| Change (%)             | 9.2          | 3.4          | 11.2         | 16.1         | 3.3          | 25.7         | 9.5          | 12.5         | 9.2           | 12.7          |
| <b>EBITDA</b>          | <b>1,220</b> | <b>1,870</b> | <b>1,510</b> | <b>1,520</b> | <b>1,900</b> | <b>2,100</b> | <b>2,141</b> | <b>2,180</b> | <b>6,120</b>  | <b>8,321</b>  |
| Change (%)             | -6.2         | 32.6         | -2.6         | 20.6         | 55.7         | 12.3         | 41.8         | 43.4         | 10.7          | 36.0          |
| As of % Sales          | 15.6         | 24.8         | 20.1         | 20.5         | 23.5         | 22.1         | 26.0         | 26.2         | 20.2          | 24.4          |
| Depreciation           | 420          | 430          | 430          | 420          | 480          | 490          | 520          | 537          | 1,700         | 2,027         |
| Interest               | 320          | 350          | 360          | 370          | 430          | 460          | 470          | 496          | 1,400         | 1,856         |
| Other Income           | 590          | 310          | 390          | 340          | 280          | 360          | 280          | 292          | 1,515         | 1,212         |
| <b>PBT</b>             | <b>1,070</b> | <b>1,400</b> | <b>1,110</b> | <b>1,070</b> | <b>1,270</b> | <b>1,510</b> | <b>1,431</b> | <b>1,440</b> | <b>4,650</b>  | <b>5,651</b>  |
| Tax                    | 130          | 160          | 130          | 130          | 220          | 250          | 243          | 247          | 550           | 961           |
| Effective Tax Rate (%) | 12.1         | 11.4         | 11.7         | 12.1         | 17.3         | 16.6         | 17.0         | 17.2         | 11.8          | 17.0          |
| <b>Reported PAT</b>    | <b>940</b>   | <b>1,240</b> | <b>980</b>   | <b>940</b>   | <b>1,050</b> | <b>1,260</b> | <b>1,188</b> | <b>1,192</b> | <b>4,100</b>  | <b>4,690</b>  |
| <b>Adjusted PAT</b>    | <b>825</b>   | <b>940</b>   | <b>980</b>   | <b>940</b>   | <b>-30</b>   | <b>1,260</b> | <b>1,188</b> | <b>1,192</b> | <b>3,685</b>  | <b>3,610</b>  |
| Change (%)             | 21.3         | 16.0         | 5.4          | 9.3          | -103.6       | 34.0         | 21.2         | 26.9         | 11.8          | -2.0          |

E: MOSL Estimates, Standalone Numbers (excl Spencers Retail)

## National Thermal Power Corporation

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | NTPC IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | NTPC.BO      |

29 December 2009

Neutral

Previous Recommendation: Neutral

Rs232

|                     |             |
|---------------------|-------------|
| Equity Shares (m)   | 8,245.5     |
| 52 Week Range (Rs)  | 237 / 166   |
| 1,6,12 Rel Perf (%) | 8 / 0 / -51 |
| Mcap (Rs b)         | 1,916.7     |
| Mcap (USD b)        | 41.0        |

| YEAR<br>END* | NET SALES<br>(RS M) | PAT*<br>(RS M) | EPS*<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|--------------|---------------------|----------------|--------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 03/09A       | 419,238             | 80,824         | 9.8          | 9.0               | 23.7       | 3.3         | 14.7       | 12.9        | 4.7          | 18.7          |
| 03/10E       | 481,938             | 86,800         | 10.5         | 7.4               | 22.1       | 3.1         | 14.5       | 14.5        | 4.2          | 14.8          |
| 03/11E       | 571,713             | 94,372         | 11.4         | 8.7               | 20.3       | 2.8         | 14.4       | 16.0        | 3.5          | 11.9          |
| 03/12E       | 660,383             | 106,989        | 13.0         | 13.4              | 17.9       | 2.6         | 14.9       | 14.0        | 3.1          | 11.7          |

\* Pre Exceptional Earnings

- We expect NTPC to post 3QFY10 revenue of Rs124.6b (up 10.5% YoY) and net profit of Rs20.9b.
- During FY10, CEA expects capacity addition at 1.2GW v/s the company's target of 3.3GW. Until October 2009, NTPC commissioned only 500MW its Kahalgaon unit.
- It has signed a MoU with the government of Chhattisgarh to set up a 4GW coal based thermal power project (five 800MW units) at Lara in Raigarh district of Chattisgarh. The company has been allotted the Talaipalli coal block in Chattisgarh with minable reserves of 600m tons. Based on a recent review by CEA, the mining plan for the block has still not been approved.
- In the eleventh plan period, the company commissioned 3.2GW of capacity, and 17.9GW of capacity is under construction (including eight super critical units of 660MW), and 3GW of projects are still to be awarded.
- We expect NTPC to post net profit of Rs87b (up 7% YoY) in FY10E and Rs94.4b (up 9% YoY) in FY11E. The stock trades at reported PER of 22.1x FY10E and 20.3x FY11E. **Neutral**.

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH                         | FY09          |               |                |                | FY10           |                |                |                | FY09           | FY10E          |
|-----------------------------------|---------------|---------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
|                                   | 1Q            | 2Q            | 3Q             | 4Q             | 1Q             | 2Q             | 3QE            | 4QE            |                |                |
| <b>Sales</b>                      | <b>95,395</b> | <b>96,614</b> | <b>112,771</b> | <b>114,458</b> | <b>120,027</b> | <b>107,828</b> | <b>124,612</b> | <b>129,472</b> | <b>419,237</b> | <b>481,938</b> |
| Change (%)                        | 6.4           | 20.5          | 20.9           | 6.5            | 25.8           | 11.6           | 10.5           | 13.1           | 8.5            | 15.0           |
| <b>EBITDA</b>                     | <b>24,218</b> | <b>25,476</b> | <b>32,086</b>  | <b>22,199</b>  | <b>31,757</b>  | <b>32,137</b>  | <b>33,957</b>  | <b>37,940</b>  | <b>103,978</b> | <b>135,791</b> |
| Change (%)                        | -10.1         | -7.3          | 8.1            | -21.3          | 31.1           | 26.1           | 5.8            | 70.9           | -8.9           | 30.6           |
| As of % Sales                     | 28.0          | 26.4          | 28.5           | 19.4           | 26.5           | 29.8           | 27.3           | 29.3           | 24.8           | 28.2           |
| Depreciation                      | 5,524         | 5,267         | 5,590          | 7,264          | 6,128          | 6,438          | 6,350          | 6,423          | 23,645         | 25,338         |
| Interest                          | 4,219         | 5,264         | 5,076          | 5,671          | 4,447          | 5,407          | 6,700          | 7,165          | 20,229         | 23,719         |
| Other Income                      | 7,172         | 7,448         | 8,513          | 10,357         | 7,763          | 7,410          | 7,662          | 8,362          | 33,490         | 31,196         |
| <b>PBT</b>                        | <b>21,646</b> | <b>22,394</b> | <b>29,933</b>  | <b>19,621</b>  | <b>28,945</b>  | <b>27,703</b>  | <b>28,568</b>  | <b>32,713</b>  | <b>93,595</b>  | <b>117,929</b> |
| Tax                               | 4,381         | 1,289         | 7,424          | -1,512         | 7,009          | 6,183          | 7,713          | 9,403          | 11,582         | 30,308         |
| Effective Tax Rate (%)            | 20.2          | 5.8           | 24.8           | -7.7           | 24.2           | 22.3           | 27.0           | 28.7           | 12.4           | 25.7           |
| <b>Reported PAT</b>               | <b>17,265</b> | <b>21,105</b> | <b>22,509</b>  | <b>21,134</b>  | <b>21,936</b>  | <b>21,520</b>  | <b>20,855</b>  | <b>23,311</b>  | <b>82,013</b>  | <b>87,621</b>  |
| <b>Adj. PAT (Pre Exceptional)</b> | <b>18,973</b> | <b>18,272</b> | <b>20,378</b>  | <b>23,885</b>  | <b>22,790</b>  | <b>19,845</b>  | <b>20,855</b>  | <b>23,311</b>  | <b>81,507</b>  | <b>86,800</b>  |
| Change (%)                        | 7.5           | 12.3          | 2.4            | 9.7            | 20.1           | 8.6            | 2.3            | -2.4           | 7.7            | 6.5            |

E: MOSL Estimates

## PTC India

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | PWTC IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | PTCI.BO      |

29 December 2009

Buy

Rs115

Previous Recommendation: Buy

|                     |            |
|---------------------|------------|
| Equity Shares (m)   | 294.1      |
| 52 Week Range (Rs)  | 119 / 55   |
| 1,6,12 Rel Perf (%) | 4 / 5 / -6 |
| Mcap (Rs b)         | 34.0       |
| Mcap (USD b)        | 0.7        |

| YEAR<br>END | NET SALES<br>(RS M) | PAT*<br>(RS M) | EPS*<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|----------------|--------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 03/09A      | 64,396              | 910            | 4.0          | 73.2              | 28.8       | 1.7         | 6.0        | 7.4         | 0.3          | 100.0         |
| 03/10E      | 91,770              | 1,101          | 3.7          | -6.5              | 30.9       | 1.6         | 6.1        | 8.3         | 0.3          | 44.5          |
| 03/11E      | 111,840             | 1,259          | 4.3          | 14.4              | 27.0       | 1.6         | 5.9        | 7.3         | 0.3          | 43.6          |
| 03/12E      | 117,587             | 1,292          | 4.4          | 2.6               | 26.3       | 1.5         | 5.9        | 7.3         | 0.3          | 42.9          |

\* Pre-exceptional

- We expect PTC to report 3QFY10 revenue of Rs24b, up 14% YoY, EBITDA of Rs98m and net profit of Rs264m, down 4% YoY.
- PTC Energy has entered into a JV agreement with Ashmore of the US to launch a power sector fund and the recent fund raising of Rs5b will enable it to make its initial contribution to the fund. This will not only provide an additional revenue stream from the fund management (2:20 structure), it will complement its existing trading portfolio.
- CERC has proposed draft norms to increase the cap on ST trading to Rs0.07/unit for units, against Rs0.04/unit currently. According to the proposed draft norms, the ST trading margin will be 1.5% of realization or Rs0.07/unit, whichever is lower for units traded at Rs3/unit or above. For units traded below Rs3/unit, the current ST trading margin cap of Rs0.04/unit will apply. Given that the average ST trading rates are at Rs4.5-5.0/unit, PTC would benefit from higher trading margins. In FY09, of the 13BUs traded by PTC, 5.8BUs were traded at less than Rs3/unit (largely Bhutan hydro power), 2.1BUs at between Rs3-4.67/unit and 5.2BUs at Rs4.67+/unit. Thus, the revised norms will lead to higher operating profits
- We expect long and medium term power trading volumes (including international projects) to account for ~80% of the total trading, leading to lower volatility in core earnings. We estimate PTC will add ~1.3GW of new projects to its long term portfolio in FY10.
- We expect PTC to report net profit of Rs1.1b in FY10 (up 21% YoY) and Rs1.3b in FY11 (up 14% YoY). **Buy.**

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH                      | FY09          |               |               |               | FY10          |               |               |               | FY09          | FY10E         |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                                | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3QE           | 4QE           |               |               |
| Power Traded (MUs)             | 2,687         | 5,159         | 3,497         | 2,182         | 4,204         | 6,388         | 4,371         | 3,759         | 13,525        | 18,722        |
| <b>Sales</b>                   | <b>12,031</b> | <b>20,313</b> | <b>21,168</b> | <b>11,777</b> | <b>23,717</b> | <b>24,582</b> | <b>24,042</b> | <b>19,430</b> | <b>65,289</b> | <b>91,770</b> |
| Change (%)                     | 3.8           | 38.4          | 188.5         | 115.5         | 97.1          | 21.0          | 13.6          | 65.0          | 67.1          | 40.6          |
| <b>EBITDA</b>                  | <b>59</b>     | <b>141</b>    | <b>27</b>     | <b>23</b>     | <b>147</b>    | <b>297</b>    | <b>98</b>     | <b>89</b>     | <b>250</b>    | <b>631</b>    |
| Change (%)                     | 1.1           | 36.1          | 67.0          | -15.4         | 151.0         | 111.0         | 261.4         | 279.2         | 21.8          | 152.6         |
| As of % Sales                  | 0.5           | 0.7           | 0.1           | 0.2           | 0.6           | 1.2           | 0.4           | 0.5           | 0.4           | 0.7           |
| Depreciation                   | 15            | 16            | 16            | 15            | 14            | 14            | 14            | 15            | 62            | 56            |
| Interest                       | 9             | 8             | 7             | 2             | 1             | 0             | 3             | 4             | 25            | 8             |
| Other Income                   | 176           | 281           | 312           | 193           | 280           | 175           | 270           | 225           | 960           | 950           |
| Extraordinary Income/(Expense) | 1             | 0             | 0             | -12           | 0             | 1             | 0             | 0             | -12           | 0             |
| <b>PBT</b>                     | <b>211</b>    | <b>398</b>    | <b>316</b>    | <b>211</b>    | <b>413</b>    | <b>459</b>    | <b>351</b>    | <b>296</b>    | <b>1,135</b>  | <b>1,518</b>  |
| Tax                            | 22            | 59            | 79            | 55            | 79            | 149           | 88            | 101           | 226           | 417           |
| Effective Tax Rate (%)         | 10.3          | 14.9          | 25.1          | 26.2          | 19.1          | 32.5          | 25.0          | 34.3          | 19.9          | 27.5          |
| <b>Reported PAT</b>            | <b>190</b>    | <b>338</b>    | <b>237</b>    | <b>155</b>    | <b>334</b>    | <b>310</b>    | <b>264</b>    | <b>194</b>    | <b>909</b>    | <b>1,101</b>  |
| <b>Adjusted PAT</b>            | <b>189</b>    | <b>334</b>    | <b>275</b>    | <b>174</b>    | <b>364</b>    | <b>309</b>    | <b>264</b>    | <b>194</b>    | <b>910</b>    | <b>1,101</b>  |
| Change (%)                     | 58.7          | 189.6         | 344.3         | -9.7          | 92.7          | -7.4          | -4.2          | 11.7          | 86.4          | 20.9          |

E: MOSL Estimates

Satyam Agarwal (AgarwalS@MotilalOswal.com) / Nalin Bhatt (NalinBhatt@MotilalOswal.com)

## Reliance Infrastructure

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | RELE IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | RLEN.BO      |

|                     |              |
|---------------------|--------------|
| Equity Shares (m)   | 224.3        |
| 52 Week Range (Rs)  | 1404 / 428   |
| 1,6,12 Rel Perf (%) | 5 / -28 / 19 |
| Mcap (Rs b)         | 253.8        |
| Mcap (USD b)        | 5.4          |

29 December 2009

Buy

Rs1,132

Previous Recommendation: Buy

| YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS*<br>(RS) | EPS<br>GROWTH (%) | P/E*<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|---------------|--------------|-------------------|-------------|-------------|------------|-------------|--------------|---------------|
| 3/09A       | 96,965              | 9,081         | 40.5         | 22.0              | 28.0        | 2.4         | 10.2       | 9.0         | 2.2          | 25.3          |
| 3/10E       | 116,816             | 12,301        | 54.8         | 35.5              | 20.6        | 2.2         | 10.4       | 10.4        | 1.9          | 21.4          |
| 3/11E       | 129,002             | 14,032        | 62.5         | 14.1              | 18.1        | 2.0         | 10.9       | 10.8        | 1.7          | 17.2          |
| 3/12E       | 145,556             | 16,217        | 72.3         | 15.6              | 16          | 2.0         | 11.4       | 11.3        | 1.4          | 14.1          |

\* Fully Diluted

- We expect Reliance Energy to post 3QFY10 revenue of Rs30.6b (up 13% YoY) and net profit of Rs3b, up 4.6% YoY.
- The EPC division order book was Rs196b as at September 2009 against 1HFY10 revenue of Rs14.8b and FY09 revenue of Rs24.4b. This, along with a sizable pipeline of 13GW of firm power projects by Reliance Power, indicate strong revenue visibility for the EPC business.
- RELI has a portfolio of 13 infrastructure projects under development, valued at Rs250b, including the Gurgaon-Faridabad road project (Rs8b) and the Jaipur-Reengus road project (Rs6b). RELE has invested Rs11.6b as equity contribution towards project SPVs and outstanding equity commitment is Rs17b.
- RELE had cash and cash equivalent of Rs80b as at September 2009, which will be used for equity funding requirements towards on-going and future projects.
- We expect Reliance Infrastructure to report net profit of Rs12.3b in FY10 (up 35% YoY) and Rs14b in FY11 (up 14% YoY). **Buy.**

## QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH                     | FY09          |               |               |               | FY10          |               |               |               | FY09          | FY10E          |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|
|                               | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3QE           | 4QE           |               |                |
| <b>Sales</b>                  | <b>22,903</b> | <b>24,732</b> | <b>27,176</b> | <b>23,875</b> | <b>24,463</b> | <b>26,496</b> | <b>30,573</b> | <b>35,284</b> | <b>98,686</b> | <b>116,816</b> |
| Change (%)                    | 39.8          | 58.2          | 77.5          | 39.2          | 6.8           | 7.1           | 12.5          | 47.8          | 53.0          | 18.4           |
| <b>EBITDA</b>                 | <b>2,858</b>  | <b>2,772</b>  | <b>3,120</b>  | <b>1,559</b>  | <b>2,995</b>  | <b>3,129</b>  | <b>2,293</b>  | <b>1,942</b>  | <b>10,309</b> | <b>10,359</b>  |
| Change (%)                    | 80.3          | 19.2          | 211.6         | -22.9         | 4.8           | 12.9          | -26.5         | 24.5          | 51.0          | 0.5            |
| As of % Sales                 | 12.5          | 11.2          | 11.5          | 6.5           | 12.2          | 11.8          | 7.5           | 5.5           | 10.4          | 8.9            |
| Depreciation                  | 612           | 620           | 589           | 627           | 722           | 740           | 710           | 652           | 2,449         | 2,824          |
| Interest                      | 774           | 653           | 865           | 1,013         | 1,037         | 740           | 1,325         | 1,842         | 3,305         | 4,944          |
| Other Income                  | 1,103         | 2,016         | 1,436         | 2,824         | 2,442         | 1,633         | 3,300         | 4,855         | 7,379         | 12,229         |
| <b>PBT</b>                    | <b>2,575</b>  | <b>3,515</b>  | <b>3,101</b>  | <b>2,743</b>  | <b>3,678</b>  | <b>3,283</b>  | <b>3,558</b>  | <b>4,301</b>  | <b>11,934</b> | <b>14,820</b>  |
| Tax (incl contingencies)      | 49            | 626           | 589           | -719          | 513           | 214           | 605           | 1,188         | 546           | 2,519          |
| Effective Tax Rate (%)        | 1.9           | 17.8          | 19.0          | -26.2         | 13.9          | 6.5           | 17.0          | 27.6          | 4.6           | 17.0           |
| <b>Reported PAT</b>           | <b>2,525</b>  | <b>2,890</b>  | <b>2,512</b>  | <b>3,462</b>  | <b>3,166</b>  | <b>3,069</b>  | <b>2,953</b>  | <b>3,113</b>  | <b>11,389</b> | <b>12,301</b>  |
| <b>PAT (Pre Exceptionals)</b> | <b>2,502</b>  | <b>2,122</b>  | <b>2,823</b>  | <b>2,958</b>  | <b>3,166</b>  | <b>3,696</b>  | <b>2,953</b>  | <b>3,113</b>  | <b>10,405</b> | <b>12,301</b>  |
| Change (%)                    | 12.9          | -5.2          | 100.4         | -19.1         | 26.5          | 74.2          | 4.6           | 5.2           | 39.8          | 18.2           |

E: MOSL Estimates; Quarterly nos. are on standalone basis

## Tata Power

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE SENSEX: 17,402 | TPWR IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | TTPW.BO      |

|                     |             |
|---------------------|-------------|
| Equity Shares (m)   | 237.3       |
| 52 Week Range (Rs)  | 1,487 / 602 |
| 1,6,12 Rel Perf (%) | -3 / 0 / 4  |
| Mcap (Rs b)         | 320.6       |
| Mcap (USD b)        | 6.9         |

29 December 2009

Neutral

Previous Recommendation: Neutral

Rs1,351

| YEAR<br>END | NET SALES<br>(RS M) | PAT*<br>(RS M) | EPS*<br>(RS) | EPS<br>GROWTH (%) | P/E*<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|----------------|--------------|-------------------|-------------|-------------|------------|-------------|--------------|---------------|
| 03/09A      | 72,362              | 11,667         | 52.4         | 52.4              | 25.8        | 3.7         | 6.6        | 6.5         | 4.7          | 29.8          |
| 03/10E      | 71,983              | 15,891         | 67.0         | 27.7              | 20.2        | 2.7         | 8.6        | 10.3        | 5.1          | 17.1          |
| 03/11E      | 74,881              | 23,330         | 98.3         | 46.8              | 13.7        | 2.5         | 8.5        | 8.6         | 5.0          | 16.4          |
| 03/12E      | 76,147              | 28,934         | 121.9        | 24.0              | 11.1        | 2.4         | 9.1        | 8.9         | 5.3          | 14.8          |

\* Consolidated including share of profit from Bumi Resources, Pre Exceptionals, Fully Diluted

- We expect Tata Power to post 3QFY10 revenue of Rs17.4b (down 2% YoY), EBITDA of Rs5b (up 29% YoY) and net profit of Rs2.1b (up 121% YoY).
- Tata Power raised Rs16b (US\$335m) through a GDR issue and Rs14b through FCCB, entailing dilution of ~10% on fully diluted equity capital. This, along with internal accruals of Rs30b+ over FY10-12E would be sufficient to meet its funding requirement for 5.1GW of projects under construction.
- Capacity is expected to rise from 2.8GW as at end FY09 to 8.2GW by FY13, an increase of ~3x. Of this, 1.5GW would be added in FY11 (1.1GW of the Maithon project and 98MW through a wind farm in Maharashtra), 1.6GW in FY12 (two units of Mundra UMPP) and 2.4GW (the balance three units of Mundra UMPP) in FY13 and 200MW capacity is on a merchant basis, comprising 100MW in Trombay and 100MW in Haldia.
- Of the project pipeline of 6.2GW, capacity of 4.4GW is likely to be taken up for development and investment approval by the board in 4QY10. This includes the 500MW Tubed project, a JV with Hindalco (40% stake) and the 1,000MW Mandakini power project. The mining plan for the Mandakini coal block has been approved.
- We expect Tata Power post FY10 consolidated net profit of Rs15.9b (up 36% YoY) and Rs23.3b (up 47% YoY) in FY11 (including the share of profit from Bumi Resources). Maintain **Neutral**.

## QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

| Y/E MARCH                     | FY09          |               |               |               | FY10          |               |               |               | FY09          | FY10E         |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                               | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3QE           | 4QE           |               |               |
| <b>Total Operating Income</b> | <b>20,261</b> | <b>19,589</b> | <b>17,769</b> | <b>14,744</b> | <b>20,156</b> | <b>17,211</b> | <b>17,413</b> | <b>17,203</b> | <b>72,362</b> | <b>71,983</b> |
| Change (%)                    | 34.0          | 45.0          | 25.2          | -9.8          | -0.5          | -12.1         | -2.0          | 16.7          | 22.3          | -0.5          |
| <b>EBITDA</b>                 | <b>3,049</b>  | <b>2,647</b>  | <b>2,560</b>  | <b>2,934</b>  | <b>6,323</b>  | <b>4,168</b>  | <b>5,050</b>  | <b>5,851</b>  | <b>11,190</b> | <b>21,392</b> |
| Change (%)                    | 5.0           | 1.3           | -4.5          | 105.7         | 107.4         | 57.5          | 97.2          | 99.4          | 16.3          | 91.2          |
| As of % Sales                 | 15.0          | 13.5          | 14.4          | 19.9          | 31.4          | 24.2          | 29.0          | 34.0          | 15.5          | 29.7          |
| Depreciation                  | 731           | 763           | 809           | 986           | 1,118         | 1,184         | 1,100         | 1,094         | 3,289         | 4,496         |
| Interest                      | 522           | 681           | 952           | 904           | 1,177         | 1,018         | 1,500         | 1,556         | 3,058         | 5,251         |
| Other Income                  | 872           | 1,884         | 460           | 3,108         | 1,076         | 755           | 520           | 516           | 6,324         | 2,867         |
| <b>PBT</b>                    | <b>2,668</b>  | <b>3,087</b>  | <b>1,260</b>  | <b>4,152</b>  | <b>5,104</b>  | <b>2,721</b>  | <b>2,970</b>  | <b>3,718</b>  | <b>11,167</b> | <b>14,513</b> |
| Tax                           | 763           | 468           | 109           | 605           | 1,333         | 889           | 802           | 1,179         | 1,945         | 4,204         |
| Effective Tax Rate (%)        | 28.6          | 15.2          | 8.7           | 14.6          | 26.1          | 32.7          | 27.0          | 31.7          | 17.4          | 29.0          |
| <b>Reported PAT</b>           | <b>1,906</b>  | <b>2,619</b>  | <b>1,151</b>  | <b>3,547</b>  | <b>3,771</b>  | <b>1,832</b>  | <b>2,168</b>  | <b>2,538</b>  | <b>9,222</b>  | <b>10,309</b> |
| <b>Adjusted PAT</b>           | <b>1,584</b>  | <b>1,969</b>  | <b>978</b>    | <b>941</b>    | <b>2,051</b>  | <b>1,832</b>  | <b>2,168</b>  | <b>2,538</b>  | <b>5,472</b>  | <b>8,589</b>  |
| Change (%)                    | -13.5         | 20.5          | -34.6         | N.A.          | 29.5          | -6.9          | 121.6         | 169.6         | 10.8          | 57.0          |

E: MOSL Estimates

Satyam Agarwal (AgarwalS@MotilalOswal.com) / Nalin Bhatt (NalinBhatt@MotilalOswal.com)



## Sintex Industries

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE SENSEX: 17,402 | BVML IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | SNTX.BO      |

29 December 2009

Buy

Rs269

Previous Recommendation: Buy

|                     |             |
|---------------------|-------------|
| Equity Shares (m)   | 135.5       |
| 52 Week Range (Rs)  | 272 / 70    |
| 1,6,12 Rel Perf (%) | 5 / 1 / -41 |
| Mcap (Rs b)         | 36.4        |
| Mcap (USD b)        | 0.8         |

| YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 03/09A      | 31,356              | 3,057         | 22.6        | 40.9              | 11.2       | 2.1         | 20.3       | 11.5        | 1.5          | 8.8           |
| 03/10E      | 32,826              | 3,020         | 22.3        | -1.2              | 11.8       | 1.9         | 16.9       | 12.1        | 1.4          | 8.3           |
| 03/11E      | 39,302              | 4,019         | 29.7        | 33.1              | 9.1        | 1.6         | 18.8       | 15.2        | 1.1          | 6.3           |
| 03/12E      | 46,294              | 5,075         | 37.5        | 26.3              | 7.2        | 1.3         | 19.8       | 9.1         | 0.9          | 5.0           |

- **The worst over in 1HFY10:** In 1HFY10, Sintex saw de-growth in both revenue and PAT, mainly due to sharp decline BTS (base telecom station) shelter business following lower roll-out of telecom towers. This business had started to slow down in 2HFY09 itself, and on a lower base, figures from 3QFY10 are expected to show growth.
- **3QFY10 sales up 7% YoY, PAT up 10% YoY:** We expect 3QFY10 sales growth at 7%, led by monolithics and non-BTS shelter pre-fab business. EBITDA margin is expected to be up 100bp YoY due to lower cost of inputs, mainly plastics. 3QFY10 PAT is expected to be up 10% YoY, after two successive quarters of degrowth.
- **Rising share of high-visibility, high-growth monolithics business:** In monolithic construction business, Sintex is currently running an order book of Rs16b, 2.2x FY10E expected revenue of Rs7.2b, up 60% YoY. Opportunity for low-cost, mass housing in India remains huge, including for slum rehabilitation. Thus, Sintex is confident of maintaining order backlog of 1.5-2x sales at all points of time. The share of this high-visibility, high-growth business is expected to increase from 14% of consolidated sales in FY09 to 29% in FY11. Share in consolidated EBITDA is even higher at 33% in FY11.
- **Reasonable valuation, maintain Buy:** We see FY10 as a year of consolidation for Sintex with flat PAT YoY. The stock currently trades at a P/E of 11.8x FY10E and 9.1x FY11E. This is reasonable considering FY10-12E EPS CAGR of 30% and RoE of 18-20%. We value Sintex at 12x FY11E EPS of Rs29.7 to arrive at a target price of Rs356, an upside of 32%. We maintain **Buy**.

## QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

| Y/E MARCH                    | FY09         |              |              |              | FY10         |              |              |               | FY09          | FY10E         |
|------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|---------------|
|                              | 1Q           | 2Q           | 3Q           | 4Q           | 1Q           | 2Q           | 3QE          | 4QE           |               |               |
| <b>Operating Income</b>      | <b>7,286</b> | <b>7,340</b> | <b>8,202</b> | <b>8,528</b> | <b>6,624</b> | <b>7,154</b> | <b>8,785</b> | <b>10,263</b> | <b>31,356</b> | <b>32,826</b> |
| YoY Growth (%)               | 109.4        | 87.8         | 33.3         | -9.6         | -9.1         | -2.5         | 7.1          | 20.3          | 36.5          | 4.7           |
| <b>EBIDTA</b>                | <b>923</b>   | <b>1,340</b> | <b>1,273</b> | <b>1,681</b> | <b>874</b>   | <b>1,305</b> | <b>1,449</b> | <b>1,964</b>  | <b>5,217</b>  | <b>5,593</b>  |
| EBITDA Margin (%)            | 12.7         | 18.3         | 15.5         | 19.7         | 13.2         | 18.2         | 16.5         | 19.1          | 16.6          | 17.0          |
| YoY Growth (%)               | 47.7         | 67.9         | 22.3         | 5.1          | -5.3         | -2.6         | 13.9         | 16.9          | 28.4          | 7.2           |
| Depreciation                 | 304          | 314          | 315          | 211          | 366          | 372          | 375          | 380           | 1,144         | 1,493         |
| Interest                     | 175          | 187          | 255          | 202          | 142          | 157          | 180          | 198           | 820           | 677           |
| Other Income                 | 242          | 221          | 252          | -63          | 159          | 103          | 139          | 153           | 652           | 554           |
| Extraordinary Items          | 0            | 0            | 0            | 194          | 200          | -123         | 0            | 0             | 194           | 77            |
| <b>Profit before Tax</b>     | <b>686</b>   | <b>1,060</b> | <b>954</b>   | <b>1,399</b> | <b>725</b>   | <b>757</b>   | <b>1,033</b> | <b>1,539</b>  | <b>4,100</b>  | <b>4,054</b>  |
| Tax Provisions               | 119          | 222          | 237          | 248          | 114          | 174          | 248          | 396           | 826           | 933           |
| Tax / PBT                    | 17.4         | 20.9         | 24.8         | 17.7         | 15.7         | 23.0         | 24.0         | 25.7          | 20.1          | 23.0          |
| <b>PAT before MI</b>         | <b>567</b>   | <b>838</b>   | <b>717</b>   | <b>1,151</b> | <b>611</b>   | <b>583</b>   | <b>785</b>   | <b>1,143</b>  | <b>3,274</b>  | <b>3,122</b>  |
| Minority Interest            | 3            | 1            | 9            | 11           | 5            | 10           | 6            | 3             | 23            | 25            |
| <b>Consolidated PAT</b>      | <b>565</b>   | <b>838</b>   | <b>708</b>   | <b>1,140</b> | <b>606</b>   | <b>572</b>   | <b>779</b>   | <b>1,140</b>  | <b>3,251</b>  | <b>3,097</b>  |
| <b>Adj. Consolidated PAT</b> | <b>565</b>   | <b>838</b>   | <b>708</b>   | <b>946</b>   | <b>406</b>   | <b>695</b>   | <b>779</b>   | <b>1,140</b>  | <b>3,057</b>  | <b>3,020</b>  |
| YoY Growth (%)               | 71.4         | 89.2         | 21.1         | 16.5         | -28.1        | -17.1        | 9.9          | 20.4          | 40.9          | -1.2          |

E: MOSL Estimates

Shrinath Mithanatha (ShrinathM@MotilalOswal.com)

## United Phosphorus

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 17,402 | UNTP IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,188     | UNPO.BO      |

|                     |               |
|---------------------|---------------|
| Equity Shares (m)   | 439.6         |
| 52 Week Range (Rs)  | 186 / 73      |
| 1,6,12 Rel Perf (%) | 11 / -6 / -21 |
| Mcap (Rs b)         | 74.4          |
| Mcap (USD b)        | 1.6           |

29 December 2009

Buy

Rs169

Previous Recommendation: Buy

| YEAR<br>END | NET SALES<br>(RS M) | PAT<br>(RS M) | EPS<br>(RS) | EPS<br>GROWTH (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>SALES | EV/<br>EBITDA |
|-------------|---------------------|---------------|-------------|-------------------|------------|-------------|------------|-------------|--------------|---------------|
| 03/09A      | 49,735              | 4,921         | 10.6        | 24.4              | 15.9       | 2.8         | 20.0       | 18.4        | 1.7          | 9.1           |
| 03/10E      | 55,459              | 5,636         | 12.2        | 14.5              | 13.9       | 2.4         | 19.6       | 15.6        | 1.4          | 8.1           |
| 03/11E      | 62,762              | 7,412         | 16.0        | 31.5              | 10.6       | 2.0         | 22.0       | 17.7        | 1.2          | 6.1           |
| 03/12E      | 70,059              | 8,903         | 19.3        | 20.1              | 8.8        | 1.7         | 21.4       | 18.8        | 0.9          | 4.7           |

- We expect United Phosphorus (UPL) to report 19.3% YoY growth in consolidated revenues to Rs13.9b, driven by robust volume growth across markets. Our estimates factor in 21.6% growth in domestic business and 17.7% growth in international business.
- EBITDA margin would decline 100bp YoY to 18.2%, impacted by high cost inventory and lower realizations. However, higher depreciation coupled with higher tax provisioning would restrict PAT growth to 17% YoY to Rs1.43b.
- UPL's volume growth would be vulnerable to adverse climatic patterns in Europe, Australia and Latin-America, and delayed in monsoon in India. This coupled with delays in purchases by the consumers would result in volatile quarterly revenues.
- Financial performance would improve, driven by synergies of integration with Cerexagri and new launches in existing markets. While short-term outlook is challenging due to adverse climatic pattern and volatile quarterly performance, long-term outlook remains positive. Valuations at 13.9x FY10E EPS (fully diluted) and an EV of 8.1x EBITDA do not adequately reflect the company's growth potential (both organic and inorganic). We maintain **Buy**.

## QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

| Y/E MARCH                    | FY09          |               |               |               | FY10          |               |               |               | FY09          | FY10E         |
|------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                              | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3QE           | 4QE           |               |               |
| <b>Gross Revenues</b>        | <b>13,141</b> | <b>11,648</b> | <b>10,944</b> | <b>14,002</b> | <b>16,442</b> | <b>11,610</b> | <b>11,629</b> | <b>15,778</b> | <b>49,735</b> | <b>55,459</b> |
| YoY Change (%)               | 55.5          | 31.4          | 35.2          | 14.7          | 25.1          | -0.3          | 6.3           | 12.7          | 32.2          | 11.5          |
| Total Expenditure            | 10,484        | 9,407         | 8,990         | 10,987        | 13,306        | 9,606         | 9,672         | 12,483        | 39,868        | 45,067        |
| <b>EBITDA</b>                | <b>2,657</b>  | <b>2,242</b>  | <b>1,954</b>  | <b>3,015</b>  | <b>3,135</b>  | <b>2,005</b>  | <b>1,957</b>  | <b>3,295</b>  | <b>9,867</b>  | <b>10,392</b> |
| Margins (%)                  | 20.2          | 19.2          | 17.9          | 21.5          | 19.1          | 17.3          | 16.8          | 20.9          | 19.8          | 18.7          |
| Depreciation                 | 378           | 455           | 457           | 638           | 501           | 547           | 570           | 594           | 1,927         | 2,212         |
| Interest                     | 634           | 600           | 810           | 875           | 578           | 405           | 450           | 526           | 2,919         | 1,959         |
| <b>PBT before EO Expense</b> | <b>1,645</b>  | <b>1,187</b>  | <b>687</b>    | <b>1,502</b>  | <b>2,056</b>  | <b>1,053</b>  | <b>937</b>    | <b>2,174</b>  | <b>5,021</b>  | <b>6,221</b>  |
| Extra-Ord Expense            | 0             | 0             | 0             | 101           | 0             | 0             | 0             | 0             | 101           | 0             |
| <b>PBT after EO Expense</b>  | <b>1,645</b>  | <b>1,187</b>  | <b>687</b>    | <b>1,401</b>  | <b>2,056</b>  | <b>1,053</b>  | <b>937</b>    | <b>2,174</b>  | <b>4,921</b>  | <b>6,221</b>  |
| Tax                          | 99            | 59            | 54            | 77            | 268           | 165           | 281           | 220           | 289           | 933           |
| Deferred Tax                 | 92            | 21            | 23            | -160          | 0             | 0             | 0             | 93            | -19           | 93            |
| Rate (%)                     | 11.6          | 6.7           | 11.1          | -5.9          | 13.0          | 15.7          | 30.0          | 14.4          | 5.5           | 16.5          |
| <b>Reported PAT</b>          | <b>1,454</b>  | <b>1,108</b>  | <b>611</b>    | <b>1,484</b>  | <b>1,789</b>  | <b>888</b>    | <b>656</b>    | <b>1,861</b>  | <b>4,651</b>  | <b>5,194</b>  |
| Income from Associate Co     | 22            | 113           | 36            | 29            | -26           | 135           | 125           | 207           | 200           | 442           |
| <b>Adjusted PAT</b>          | <b>1,477</b>  | <b>1,220</b>  | <b>646</b>    | <b>1,620</b>  | <b>1,763</b>  | <b>1,023</b>  | <b>781</b>    | <b>2,069</b>  | <b>4,946</b>  | <b>5,636</b>  |
| YoY Change (%)               | 100.1         | 38.3          | 33.1          | -15.1         | 19.4          | -16.2         | 20.9          | 27.7          | 25.1          | 13.9          |
| Margins (%)                  | 11.2          | 10.5          | 5.9           | 11.6          | 10.7          | 8.8           | 6.7           | 13.1          | 9.9           | 10.2          |

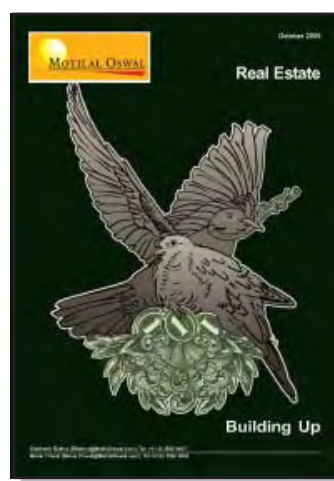
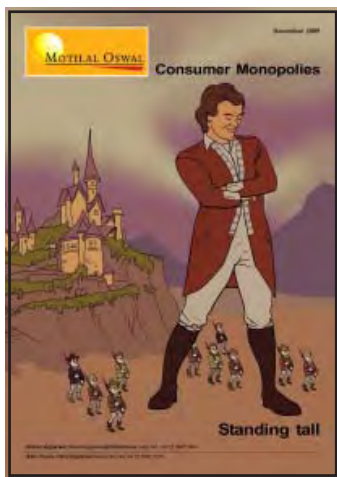
E: MOSL Estimates

Jinesh K Gandhi (Jinesh@MotilalOswal.com)

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For more copies or other information, contact  
**Institutional:** Navin Agarwal. **Retail:** Manish Shah

Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: reports@motilaloswal.com

Motilal Oswal Securities Ltd, 3rd Floor, Hoechst House, Nariman Point, Mumbai 400 021

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MOST has broking relationships with a few of the companies covered in this report.

MOST is engaged in providing investment-banking services in the following companies covered in this report: None

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