India Strategy

Full of steam

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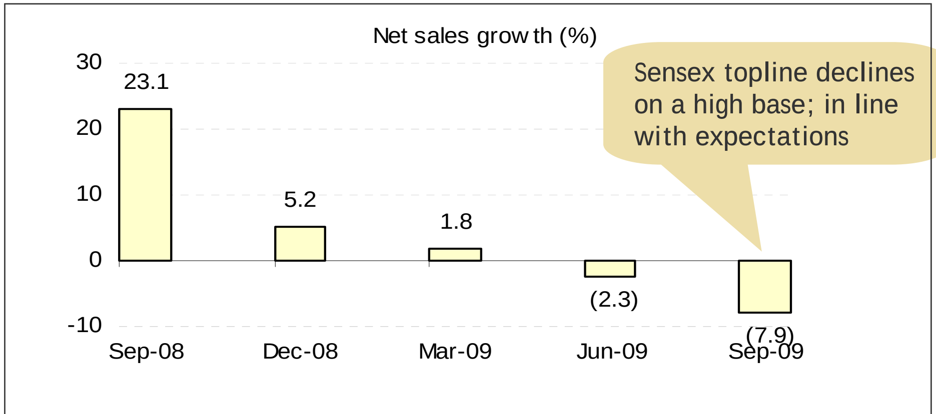
Sensex earnings in line with expectations

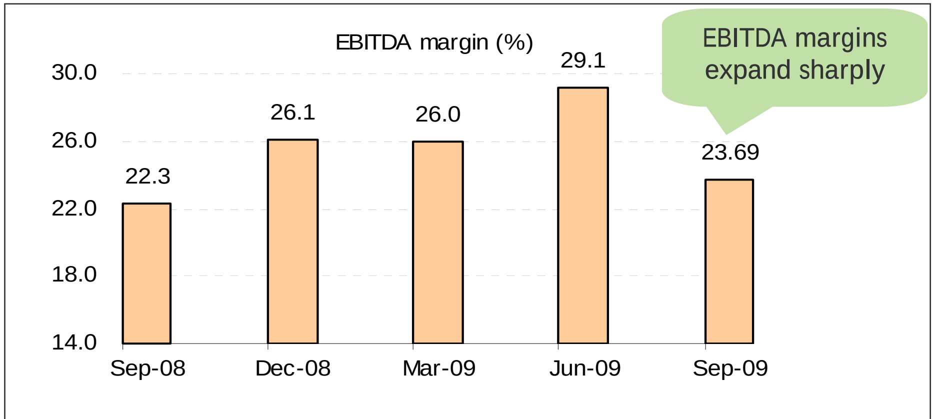
Sensex Topline: decline on a high base



- ✓ Topline slowdown evident in commodities, e.g. petrochemicals and oil & gas
- ✓ Real Estate, too has, contributed

Source: IDFC-SSKI Research

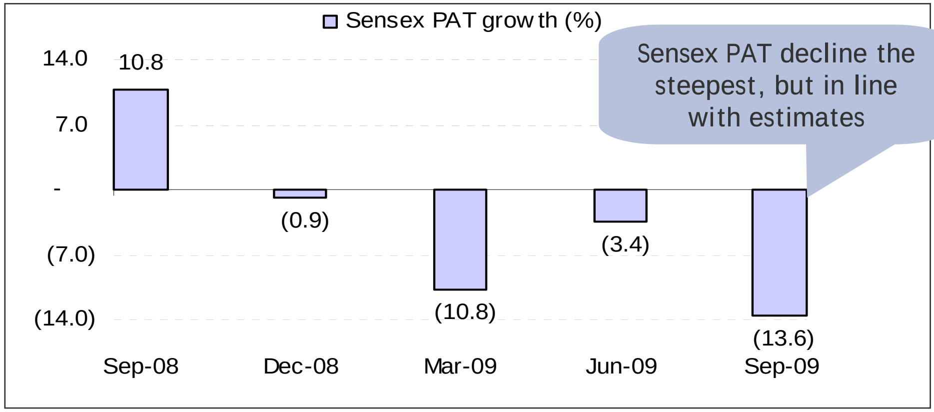
Sensex EBITDA margins: significant expansion



- ✓ Strong margin performance in Automobiles, Cement aided by lower comodity prices and costs
- ✓ Commodities' EBITDA margins remain weak

Source: IDFC-SSKI Research

Sensex PAT: earnings decline decelerates



Source: IDFC-SSKI Research

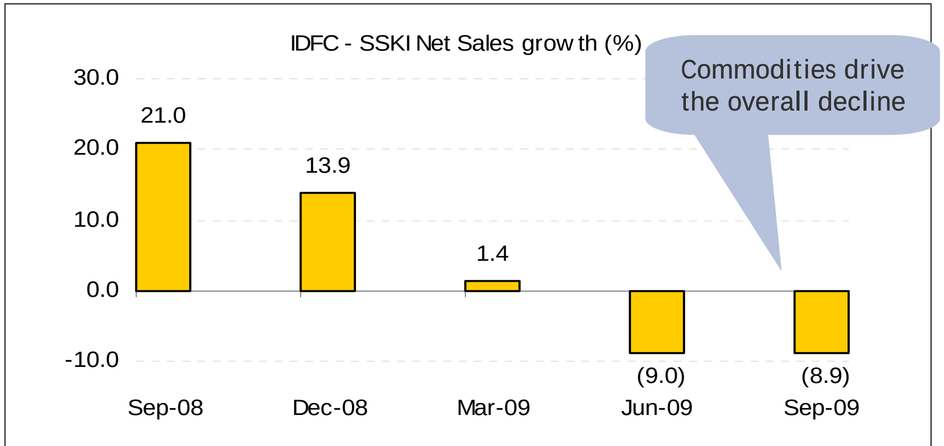
- ✓ Strong performance seen in:
  - Automobiles (higher volumes, strong margins)
  - Cement (high realizations) and
  - Power Equipment (higher margins)
  - IT Services (improving demand outlook)
- ✓ Oil&Gas, Petrochemicals drag on Sensex performance
- ✓ Telecom earnings disappoint

Sensex Q2FY10 earnings

(Rs m)	Net Sales					EBITDA					Profit After Tax				
Sector	**QE Sep 09**	**Var. %**	**y-o-y**	**FY09**	**FY10E**	**QE Sep 09**	**Var. %**	**y-o-y**	**FY09**	**FY10E**	**QE Sep 09**	**Var. %**	**y-o-y**	**FY09**	**FY10E**
Automobiles	133,224	1.2	30.2	756,694	853,144	19,923	18.2	100.4	57,289	88,142	14,341	35.5	74.7	11,076	31,811
Cement	33,210	8.5	11.6	169,100	191,317	11,295	26.1	75.1	41,054	57,959	7,453	30.8	69.3	22,574	30,501
Construction	79,917	(14.4)	6.5	337,096	410,108	9,340	(18.2)	12.1	45,834	57,363	5,667	(15.6)	(0.5)	28,532	34,840
Consumer goods	51,557	0.1	9.3	210,724	213,500	14,185	4.0	25.6	49,209	58,499	9,212	(0.6)	18.1	35,326	39,194
Metals	304,527	11.8	(33.8)	1,545,271	1,096,838	32,464	28.2	(55.8)	184,909	109,551	4,269	48.0	(89.2)	45,215	11,653
Oil & Gas	30,383	(5.4)	(13.2)	209,936	229,226	17,669	(8.1)	3.9	84,093	88,193	10,179	2.1	5.8	39,382	40,190
Petrochemicals	234,240	0.4	4.6	756,120	956,955	36,085	5.1	11.5	117,111	157,183	19,260	3.3	(6.6)	74,752	87,458
Pharmaceuticals	4,353	6.9	(7.6)	17,091	16,992	1,401	(6.7)	(34.9)	7,455	5,818	1,815	29.5	(11.3)	7,271	5,760
Power Equipment	23,188	(2.4)	24.0	91,743	112,984	3,953	12.3	58.9	12,966	19,687	3,003	8.9	39.3	10,842	15,247
Power Utilities	44,599	(3.3)	3.9	173,806	195,013	8,810	(4.7)	31.9	26,007	38,354	6,147	(6.0)	3.3	23,540	28,483
IT Services	79,848	1.3	4.4	305,301	315,228	24,773	10.0	10.7	89,492	93,793	19,491	13.3	12.9	71,579	73,193
Telecoms	54,418	(6.9)	6.0	209,685	220,187	21,565	(9.2)	2.7	85,655	88,128	11,943	2.9	(8.0)	49,629	43,073
Real Estate	4,377	0.2	(53.2)	25,098	17,314	2,285	10.0	(58.8)	13,716	7,691	1,099	(11.3)	(77.3)	11,571	5,775
(Rs m)	**NII**					**Pre-provisioning profit**					**Profit After Tax**				
Financials	69,284	(6.0)	0.7	269,920	301,825	67,994	0.1	16.7	243,551	285,513	33,425	(0.3)	12.9	118,252	138,701
Commodities	602,360	5.9	(19.6)	2,680,427	2,474,336	97,512	11.0	(24.6)	427,167	412,886	41,162	(0.1)	(44.4)	181,923	169,803
Non-commodities	544,765	(3.7)	9.6	2,397,159	2,656,294	174,229	1.0	17.7	631,175	742,988	106,144	0.1	9.9	366,747	414,137
Sensex	**1,147,125**	**1.1**	**(7.9)**	**5,077,587**	**5,130,629**	**271,741**	**(0.0)**	**(2.0)**	**1,058,342**	**1,155,874**	**147,305**	**(0.0)**	**(13.6)**	**548,670**	**583,940**

...as for IDFC-SSKI universe!

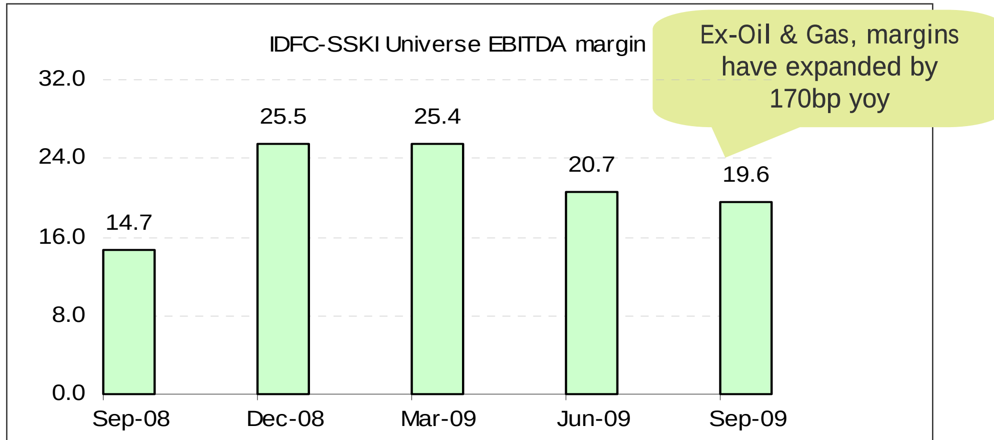
IDFC-SSKI Topline: slowdown continues



We expected IDFC-SSKI Universe revenues to decline by 9.7%

Source: IDFC-SSKI Research

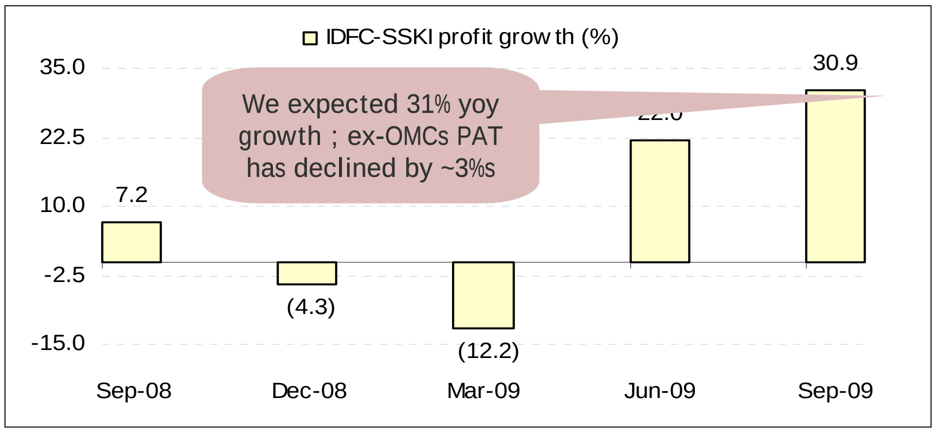
IDFC-SSKI EBITDA margins: buoyed by Oil & Gas



Margin expansion witnessed in Automobiles, Cement, Power Equipment as also Media

Source: IDFC-SSKI Research

IDFC-SSKI earnings growth: in line with expectations



Source: IDFC-SSKI Research

IDFC-SSKI universe - key winners

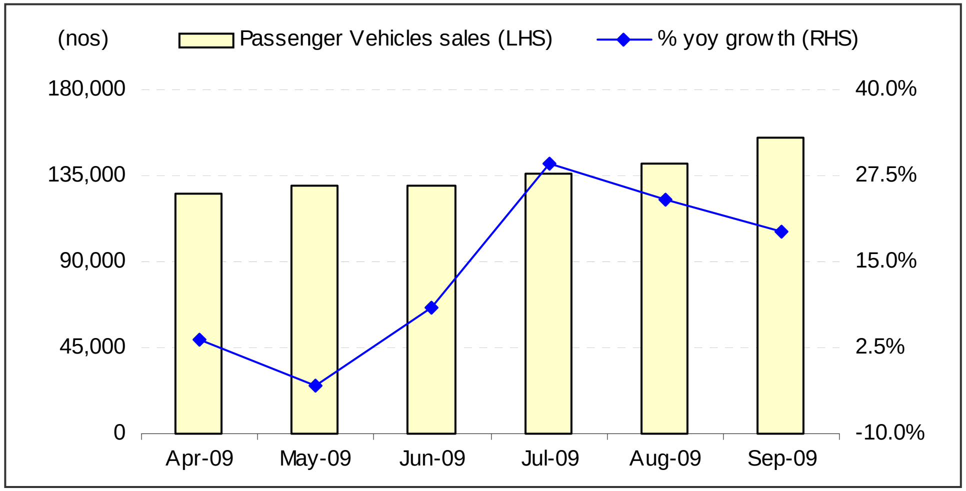
- ✓ Strong earnings performance witnessed in:
  - Automobiles/Auto components (higher volumes, strong margins)
  - Financials (treasury gains)
  - Cement (strong realizations)
  - Power Equipment (lower input costs buoy earnings)
  - Pharmaceuticals (improving fundamentals, absence of forex losses)

IDFC-SSKI Universe Q2FY10 earnings

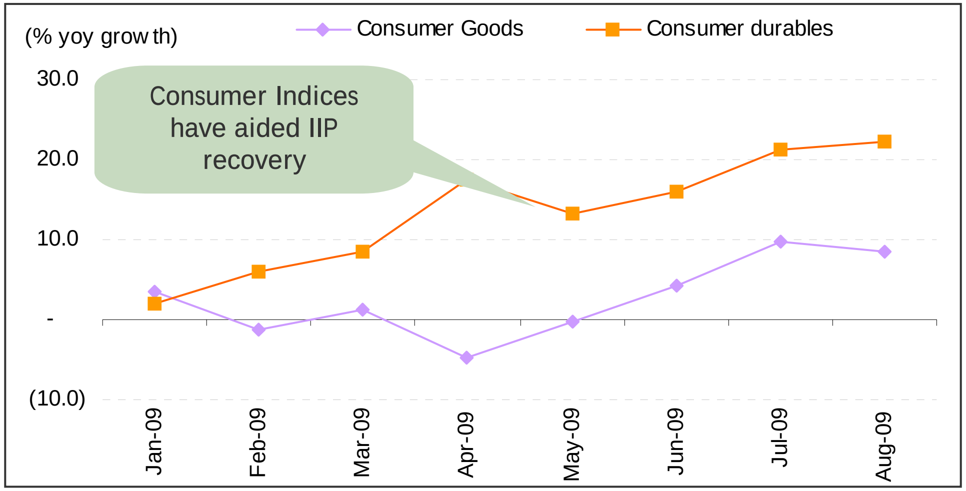
(Rs m)	Net Sales					EBITDA					Profit After Tax				
Sector	**QE Sep 09**	**Var. %**	**y-o-y**	**FY09**	**FY10**	**QE Sep 09**	**Var. %**	**y-o-y**	**FY09**	**FY10**	**QE Sep 09**	**Var. %**	**y-o-y**	**FY09**	**FY10**
Alcoholic Beverages	19,121	27.0	51.4	74,396	87,920	2,634	3.7	23.0	12,197	15,302	930	(17.3)	(6.1)	2,406	6,046
Auto Components	33,596	(13.8)	(27.9)	165,870	172,859	5,115	(13.4)	(28.1)	24,307	23,186	2,192	2.3	(12.8)	10,123	7,733
Automobiles	291,050	0.4	23.2	1,493,292	1,704,325	43,746	15.7	88.7	111,805	179,890	30,154	30.0	74.9	26,134	71,173
Cement	81,049	2.8	12.3	371,134	421,120	25,841	8.8	56.3	94,203	126,005	16,331	10.8	52.6	54,453	69,869
Construction	140,323	(12.9)	8.3	583,982	715,802	17,022	(14.4)	13.2	78,534	101,959	8,356	(15.4)	(4.1)	41,714	52,919
Consumer goods	124,856	1.4	12.9	486,897	510,863	29,619	5.1	30.0	101,258	121,970	20,055	1.8	23.5	73,346	84,093
Education	6,398	18.7	41.9	19,292	25,818	1,814	29.0	52.9	4,774	7,521	884	49.9	43.3	2,280	3,243
Exchanges	802	(19.8)	(32.8)	3,343	3,175	427	(14.5)	(47.3)	1,003	1,236	2,182	461.6	183.1	3,686	3,272
Engineering	25,252	(0.7)	(2.7)	106,626	111,570	3,046	(6.3)	(15.7)	13,441	14,003	1,969	(3.5)	(12.8)	8,824	9,075
Logistics	17,657	1.4	(1.8)	66,827	69,366	3,698	(3.1)	(8.3)	13,731	15,186	2,703	(3.1)	(12.3)	10,467	11,370
Infra Developers	39,530	(6.1)	56.2	124,004	173,180	10,911	4.4	56.4	29,463	52,214	4,034	12.0	24.5	11,268	17,073
Media	54,089	110.0	112.3	99,328	116,172	8,000	61.6	201.9	11,417	23,688	(396)	(140.7)	42.6	1,590	8,059
Metals	669,869	6.5	(27.7)	3,158,434	2,489,025	112,288	2.4	(38.7)	511,257	409,036	49,232	(3.8)	(53.1)	219,885	174,479
Oil & Gas	1,374,725	1.4	(23.4)	6,872,365	6,280,921	98,711	(36.6)	(716.0)	553,925	691,783	49,843	(35.0)	(161.9)	230,850	317,456
Others	88,188	3.8	(6.4)	413,710	410,793	6,724	(2.9)	43.4	30,779	41,096	(2,046)	40.9	(243.7)	4,302	7,259
Petrochemicals	468,480	0.4	4.6	1,512,240	1,913,910	72,170	5.1	11.5	234,222	314,365	38,520	3.3	(6.6)	149,503	174,916
Pharmaceuticals	107,162	(0.4)	6.3	394,495	429,428	21,531	(0.4)	1.0	87,570	88,548	17,587	11.2	87.9	59,809	66,757
Pipes	45,476	18.3	7.7	166,621	181,619	7,948	23.2	32.0	20,266	28,070	4,044	20.9	61.2	9,165	12,962
Power Equipment	123,644	(3.9)	14.0	511,733	589,917	17,991	8.7	39.2	65,228	85,907	12,461	8.4	34.2	46,265	59,697
Power Utilities	185,565	(8.3)	14.5	670,038	826,908	40,116	(1.4)	37.9	118,114	178,706	27,507	(1.4)	9.7	101,413	124,009
Retail	34,674	(2.9)	12.1	118,414	142,790	3,355	(8.8)	16.0	10,343	13,371	1,390	(4.8)	28.0	2,811	4,901
IT Services	248,910	1.9	6.9	934,723	978,335	67,240	8.6	12.4	237,343	253,764	49,766	16.9	10.5	177,186	181,660
Telecoms	185,220	(6.7)	9.2	700,643	750,438	69,710	(9.1)	5.5	273,094	284,437	36,113	0.4	(6.3)	150,614	130,957
Tyre	15,224	0.9	16.9	63,839	88,422	2,926	20.3	174.9	6,595	11,856	1,494	32.3	363.2	2,397	4,882
Real Estate	22,604	(5.4)	(52.2)	129,335	107,245	12,108	(0.1)	(57.2)	70,800	49,611	6,173	(13.9)	(73.2)	58,262	34,418
(Rs m)	**NII**					**Pre-provisioning profit**					**Profit After Tax**				
Financials	245,341	(0.7)	10.4	894,324	1,035,688	227,736	6.7	26.3	789,858	933,017	120,163	9.4	25.4	416,683	491,482
Commodities	2,594,123	2.5	(20.0)	11,914,173	11,104,975	309,009	(13.6)	24.4	1,393,607	1,541,189	153,926	(14.4)	101.7	654,691	736,721
Non-commodities	2,054,681	(0.8)	10.5	8,221,733	9,232,633	603,416	3.8	20.2	2,111,918	2,524,535	347,716	8.1	13.3	1,216,393	1,383,347
SSKI Universe	**4,648,804**	**1.0**	**(8.9)**	**20,135,906**	**20,337,609**	**912,426**	**(2.8)**	**21.6**	**3,505,525**	**4,065,724**	**501,642**	**0.0**	**30.9**	**1,871,085**	**2,120,067**

Economic recovery firmly in place

Consumption on a clear upturn

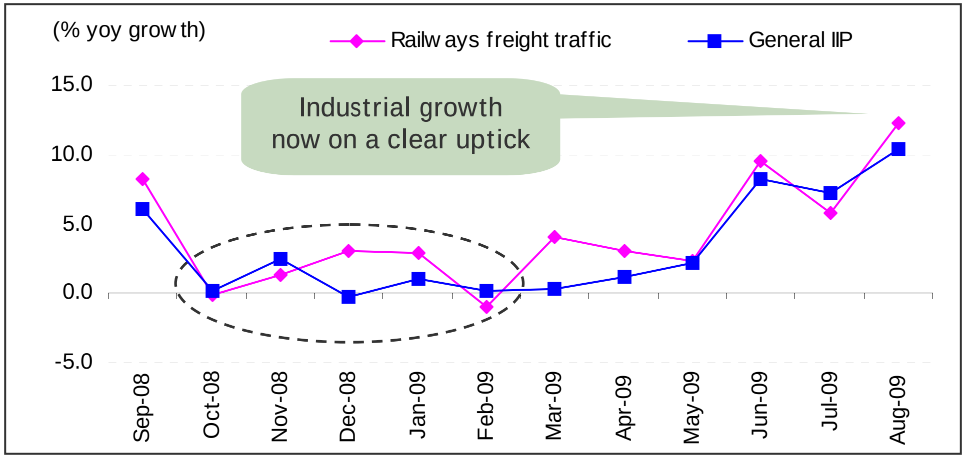


Source: SIAM, IDFC-SSKI Research



Source: MOSPI, IDFC-SSKI Research

Industrial recovery now gathering pace



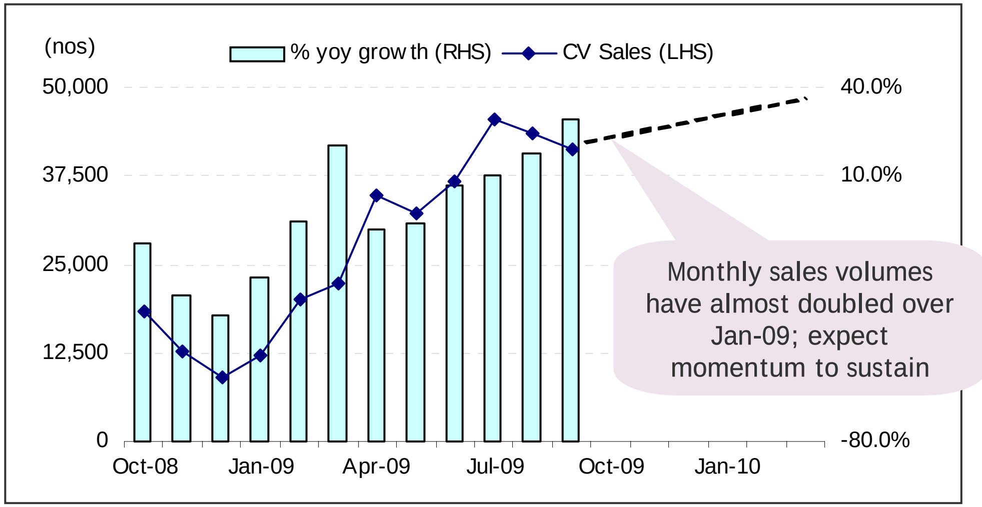
Source: CMIE, MOSPI

- **Robust consumption has supported economic growth over H1FY10**
- **GDP growth for Q4FY09 at 5.8% and Q1FY10 at 6.7% was driven by consumption while industrial activity lagged**
- **Industrial activity bottomed out in Q4FY09**

Consumption has stayed robust; industrial production now on the uptick

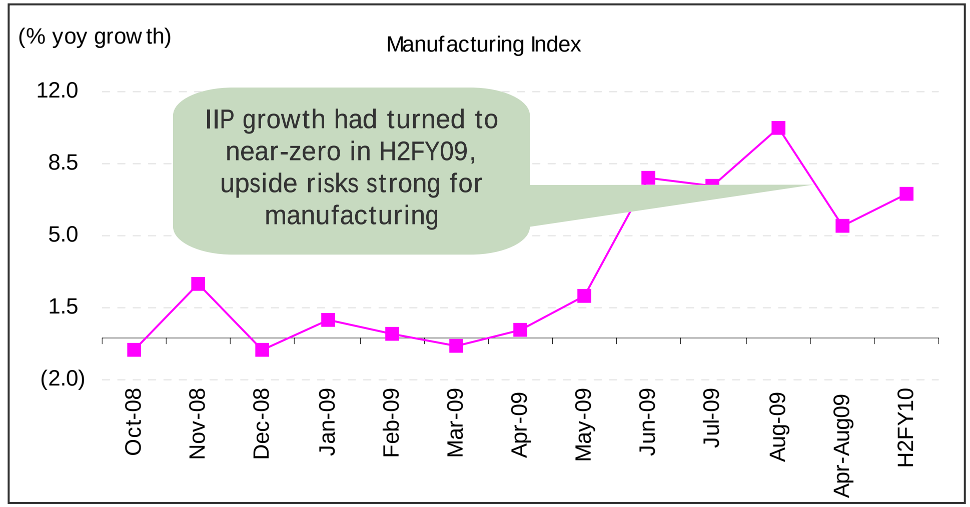
Base effect to fuel further growth momentum

Industrial recovery to be aided by low base



Source: SIAM, IDFC-SSKI Research

To reflect in strong manufacturing growth



Source: MOSPI, IDFC-SSKI Research

GDP growth appears subdued only due to monsoon impact

	FY09		FY10E			
% yoy growth	**H1**	**H2**	**H1**	**H2**	**FY10E**	**FY11E**
Agriculture	2.5	0.7	(3.0)	**(1.3)**	**(2.0)**	**2.5**
Industry	6.2	1.9	5.0	**7.6**	**6.3**	**7.3**
Services	10.0	9.4	7.1	**9.2**	**8.2**	**8.8**
GDP at factor cost	**7.7**	**5.8**	**5.6**	**6.3**	**6.0**	**7.4**

Source: MOSPI, IDFC-SSKI Research

Strong industrial recovery would lead to upward revision in GDP growth estimates

Corporate earnings to reflect the same

	Net sales				EBITDA				PAT			
(% yoy growth)	**H1FY10**	**H2FY10E**	**FY10E**	**FY11E**	**H1FY10**	**H2FY10E**	**FY10E**	**FY11E**	**H1FY10**	**H2FY10E**	**FY10E**	**FY11E**
Automobiles	23.7	24.3	12.9	15.0	78.8	93.5	53.4	33.3	58.0	110.7	187.2	59.3
Cement	14.0	11.0	13.1	6.7	48.5	(13.2)	41.2	0.3	38.2	36.2	35.1	(0.8)
Construction	9.5	28.5	21.7	23.6	21.0	19.9	25.2	28.2	10.6	17.3	4.2	30.5
Consumer goods	7.4	15.9	1.3	15.4	23.8	26.3	18.9	17.1	10.4	24.0	10.9	18.2
Metals	(41.5)	(11.4)	(29.2)	8.8	(65.0)	38.5	(41.4)	(6.6)	(104.7)	(147.7)	(77.4)	460.9
Oil & Gas	(19.9)	42.8	9.2	9.5	5.4	25.9	4.9	16.0	(13.2)	54.4	2.1	23.3
Petrochemicals	(8.6)	73.4	26.6	21.6	14.8	52.8	34.2	39.2	(9.0)	48.9	17.0	44.8
Pharmaceuticals	(15.5)	15.5	(0.6)	18.5	(55.5)	23.8	(22.0)	15.5	(41.1)	7.0	(20.8)	8.1
Power Equipment	26.4	21.3	23.2	22.2	51.8	51.9	51.8	29.9	31.1	45.2	40.6	28.7
Power Utilities	6.4	17.8	12.2	18.8	32.8	63.1	47.5	19.4	11.8	29.7	21.0	16.1
Software	7.7	(0.9)	1.9	8.6	17.6	(6.2)	0.8	9.7	12.3	(9.0)	0.8	12.8
Telecoms	11.1	(0.5)	5.0	6.7	8.4	(2.3)	2.9	4.5	(8.9)	(17.4)	(13.2)	(8.2)
Real Estate	(55.0)	41.9	(31.0)	22.7	(63.8)	54.0	(43.9)	27.2	(78.4)	87.6	(50.1)	27.9
Financial	1.2	22.1	11.8	17.3	20.4	14.7	17.2	16.8	20.0	15.1	17.3	21.0
Sensex	**(13.2)**	**17.5**	**1.0**	**14.8**	**(3.7)**	**23.3**	**8.8**	**17.5**	**(19.5)**	**46.0**	**5.5**	**30.2**

Strong earnings growth lies ahead; our FY11 Sensex EPS at Rs1032

Twin deficits remain manageable

Current account deficit to be sharply lower

(US$ m)	FY09	FY10E	FY11E
Exports	175,184	163,350	196,020
% yoy growth	*5.4%*	*-6.8%*	*21.0%*
Imports	294,587	266,379	319,655
% yoy growth	*14.3%*	*-9.6%*	*20.0%*
Trade Balance	(119,403)	(103,030)	(123,635)
Invisibles, net	89,586	86,336	99,287
Current Account Deficit	**(29,817)**	**(16,693)**	**(24,349)**
% of GDP	***2.6***	***1.6***	***2.0***

Source: Ministry of Finance, IDFC-SSKI Research

Strong capital inflows to support BoP and currency

(US $ bn)	Period	FY09	FY10	% yoy change
FDI to India	Apr-Aug	16.5	16.2	-2%
FIIs (net)	Apr-Oct*	-9.5	18.4	NA
ADRs/GDRs	Apr-Sep	1.1	2.6	136%
ECB Approvals	Apr-Sep	10.2	7.1	-30%
NRI Deposits (net)	Apr-Sep	1.1	2.7	145%

Source: RBI

Fiscal situation set to improve

(Rs bn)	FY10E
Total Receipts	**6,198**
Net Tax Revenue	4,742
Non-tax Revenue	1,403
Non-debt capital Receipts	53
Total Expenditure	**102**
Non-plan Expenditure	6,957
Plan Expenditure	3,251
Fiscal Deficit	**4,010**
% of GDP	**6.8**

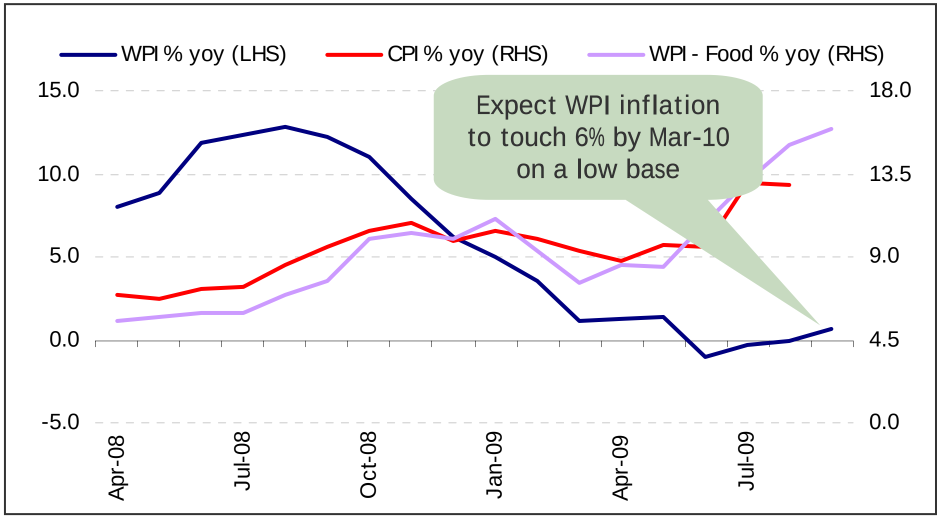
Source: Ministry of Finance, IDFC-SSKI Research

- We see downside risks to the fiscal deficit for FY10
    - As direct tax inflows have shown improvement (4% growth for Apr-Oct 09)
    - Indirect taxes shortfall to be met from divestment proceeds
- FY11 fiscal deficit target at 5.5% indicates strong intent for fiscal consolidation

Govt. indicating a strong resolve for fiscal consolidation; Global liquidity to chase growth - India a key beneficiary

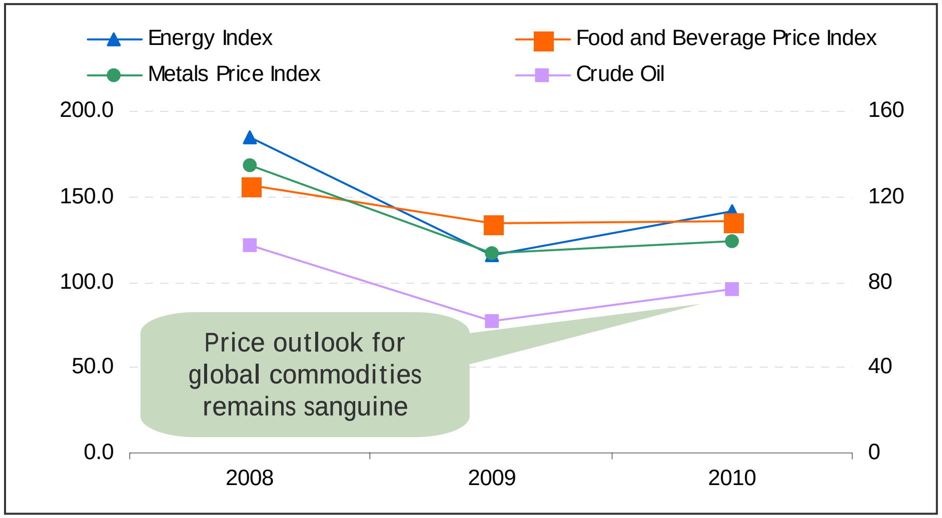
Inflation risks to be contained

WPI inflation - a statistical concern!



Source: MOSPI, IDFC-SSKI Research

Key global prices to remain benign



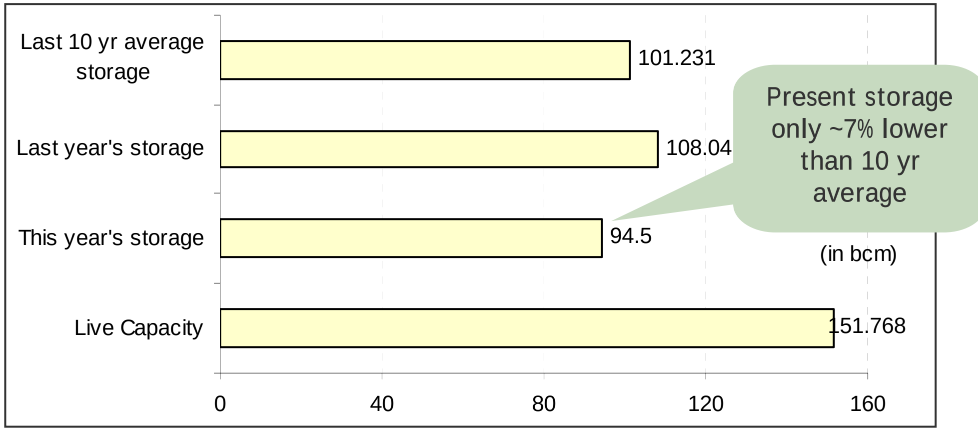
Source: IMF

Rabi targets appear achievable

(m tonnes)	2007-08	2008-09	2009-10E
Wheat	78.57	80.58	79
Barley	1.2	1.54	1.55
Rice	14.03	14.57	14.5
Jowar	3.82	4.21	3.9

Source: Ministry of Agriculture

With comfortable water levels



Source: Central Water Commission

Expect WPI inflation at ~6% by Mar-10

IDFC SSKI

Monetary tightening to lag growth

Reversal of accommodative policy has begun…

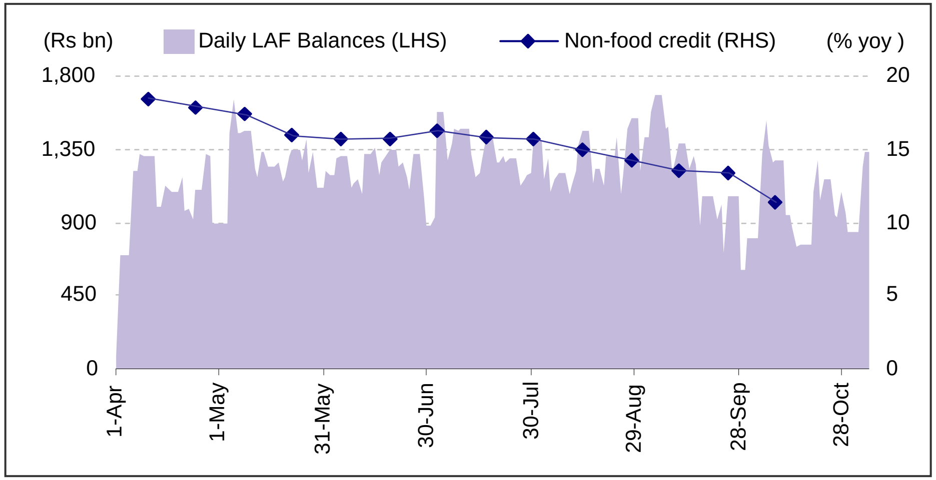
- *"As the Reserve Bank has indicated in several public statements… we need to reverse the expansionary stance…" "The lag with which monetary policy operates suggests that there is a case for tightening sooner rather than later…"*

…though growth remains high on priority

"…it may be appropriate to sequence the 'exit' in a calibrated way so that while the recovery process is not hampered, inflation expectations remain anchored."

- Second Quarter Review of Monetary Policy for the Year 2009-10

As credit growth remains sluggish…



Source: Bloomberg

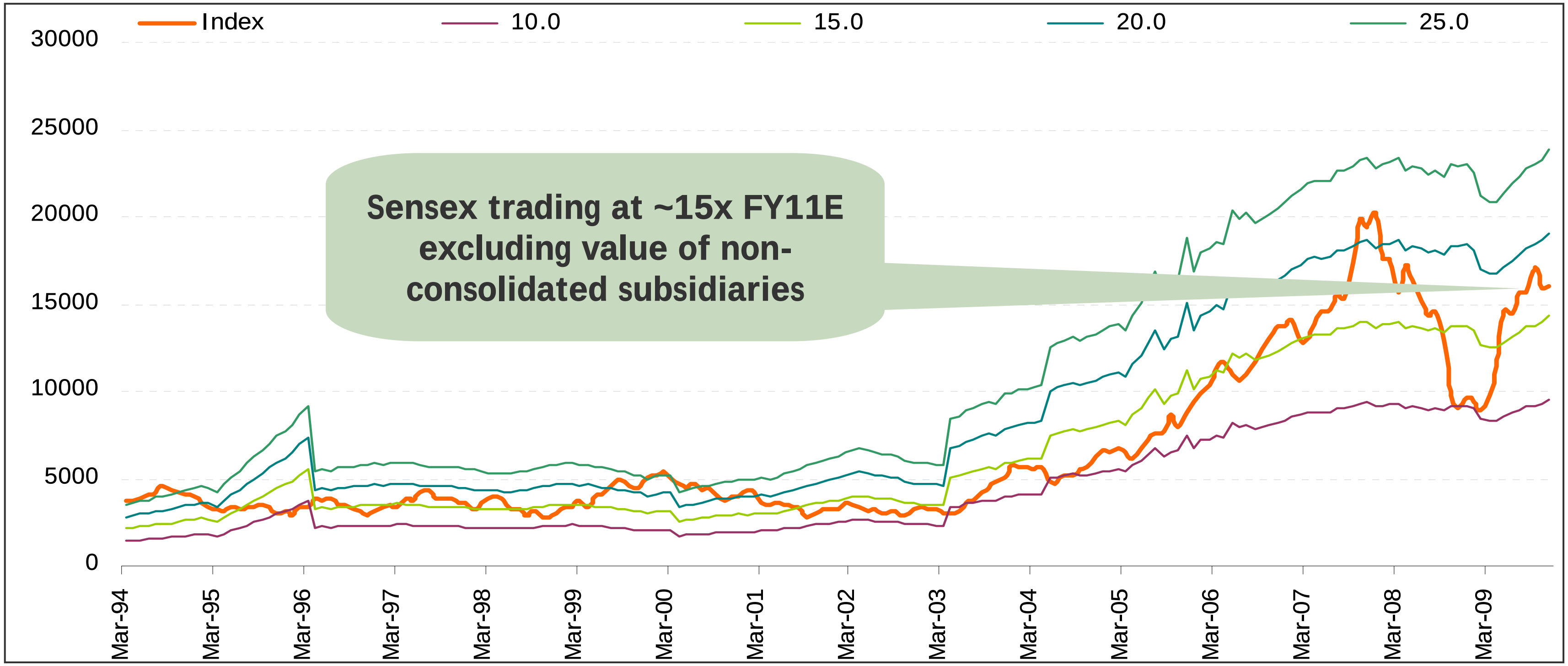
…government borrowing largely through… to aid lower bond yields

(Rs bn)	FY10	H1FY10	H2FY10		
	(Planned)	(Actual)	Planned	Actual	Balance
Gross Market Borrowings**	4,180	2,950	1,230	300	930
Less: Repayment	531	331	195	-	195
Net Market Borrowings**	3,649	2,619	1,035	300	735
Less: OMO Purchases	575	575	*	-	*
Add: MSS (Net) **	-530	-420	-110	-	-110
Net Supply of Fresh Securities	2,543	1,624	925	300	625

Source: RBI

Despite rising concerns on inflation, expect RBI to adroitly manage the trade-off… without derailing growth

Valuations "still" remain comfortable



Source: IDFC-SSKI Research

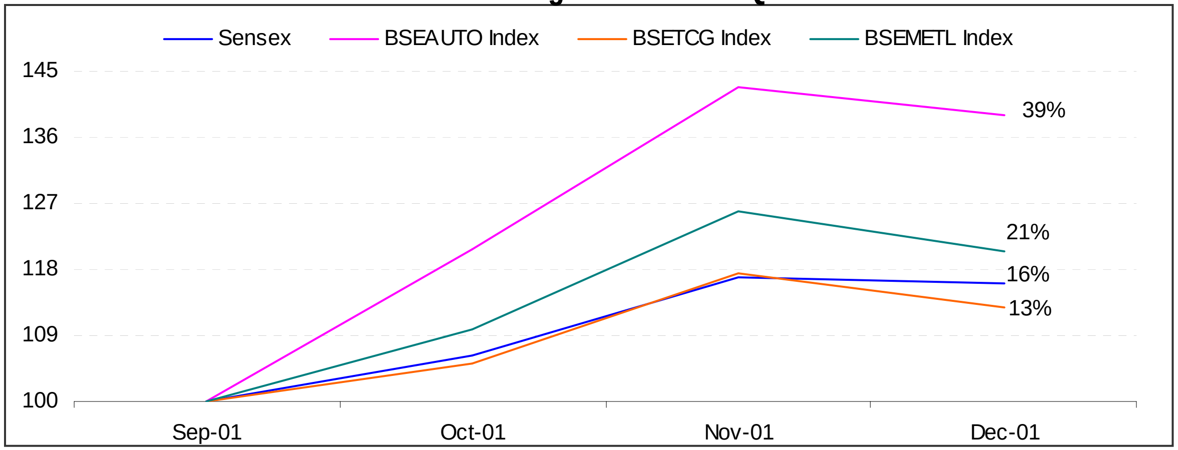
Policy reforms are key triggers ahead:

- Series of divestments lined up for listed and unlisted PSUs, proceeds to be invested in NIF
- Direct Tax Code implementation roadmap
- Key bills to be tabled in H2FY10: PFRDA, NPS, Banking Regulation Amendment Bill

Maintain our 12-month Sensex target at 20000

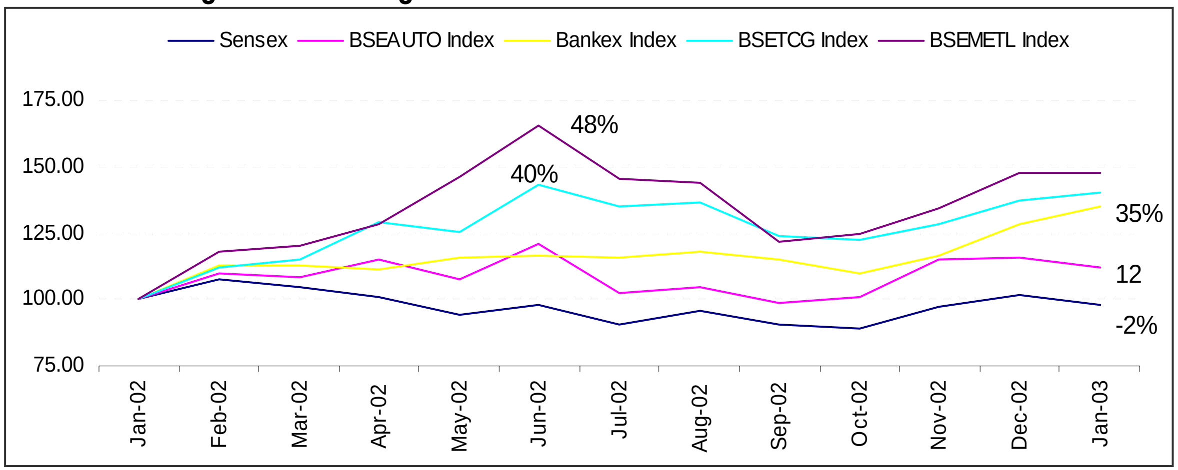
See a repeat of last cyclical upturn

Phase I: IIP bottomed out and averaged 2.7% for Q3FY02



Source: Bloomberg

Phase II: IIP growth averaged ~5%



Source: Bloomberg

- **Automobiles led the turnaround - first beneficiaries of economic recovery; low interest rates led to demand revival**

- **Metals -** the best performers with recovery in global commodity prices
- **Capital Goods** – driven by uptick in investment demand and increased availability of capital
- **Financials** – low interest rate regime and strong earnings visibility

Current scenario reminiscent of Phase II;
Expect Commodities, Capital Goods and Financials to outperform

Our strategy stance

Sector	Theme	Stocks
Transportation	Overall economic recovery to lead to higher transportation activity	Large-cap picks: **Tata Motors, Concor** Mid-cap picks: **Jet Airways, Gateway Distriparks**
Financials	Higher credit growth, stable bond yields and falling credit costs	Large-cap picks: **ICICI Bank, Axis Bank, SBI, Bank of Baroda** Mid-cap picks: **Yes Bank, IndusInd Bank, Shriram Transport**
Real Estate	Pick-up in volumes, improving balance sheets	Large-cap picks: **Unitech**
Infrastructure/ Capital Goods	Government focus to ensure strong order momentum	Large-cap picks: **Reliance Infrastructure, Jaiprakash Associates, Lanco Infratech, Crompton Greaves** Mid-cap picks: **IVRCL Infra, Kalpataru Power, NCC**
Engineering	Plays levered to eventual pick up in corporate capex	Mid-cap picks: **Voltas, AIA Engineering**
Commodities	See volume pick-up ahead, improving prices to support earnings	Large-cap picks:**Sterlite Industries, Hindalco, ONGC**
IT Services	See a strong earnings upgrade cycle to sustain	Large-cap picks: **Infosys, Wipro** Mid-cap picks: **Tech Mahindra**
Others	High earnings visibility	Large-cap picks: **Dr. Reddy's Labs, Lupin, United Spirits** Mid-cap picks**: Jain Irrigation, Sintex, Godrej Consumer Products**

IDFC SSKI

Top picks

Large Caps

	Price	Mkt cap	EPS (INR)			EPS CAGR	P/E (x)		
Company Name	**(INR)**	**(Rs. bn)**	**FY09**	**FY10E**	**FY11E**	**FY09-FY11**	**FY09**	**FY10E**	**FY11E**
Tata Motors	581	316	(40.6)	(13.5)	28.5	NA	NA	NA	20.3
Sterlite Industries	801	674	50.1	44.1	72.5	20.3	16.0	18.2	11.0
Hindalco Industries	129	227	8.6	3.2	4.8	(25.6)	15.0	40.7	27.1
Reliance Infrastructure	1117	252	51.6	56.3	59.2	7.1	21.6	19.8	18.9
Jaiprakash Associates	230	322	6.6	11.2	17.3	61.9	34.8	20.5	13.3
Unitech	89	211	7.4	4.7	5.4	(14.8)	12.0	18.7	16.5
Infosys Technologies	2232	1279	104.6	102.7	113.2	4.0	21.3	21.7	19.7
Wipro	603	877	26.5	28.9	31.1	8.3	22.7	20.8	19.3
Dr Reddys Laboratories	1100	185	52.6	50.8	57.8	4.9	20.9	21.6	19.0
Oil & Natural Gas Corpn	1167	2496	92.5	93.8	115.7	12.2	12.6	12.4	10.1
United Spirits	1104	143	16.0	36.6	53.9	83.5	75.3	30.2	20.5
Lupin	1350	122	60.0	76.2	89.6	22.2	22.5	17.7	15.1
Container Corporation	1159	151	60.9	64.8	72.5	9.1	19.0	17.9	16.0
Lanco Infratech	527	127	12.6	16.9	37.0	71.2	41.8	31.2	14.2
Crompton Greaves	385	141	15.3	19.1	22.0	19.9	25.2	20.2	17.5
							P/B (x)		
ICICI Bank	889	989	33.8	38.5	46.9	17.8	2.1	1.8	1.6
Axis Bank	998	400	50.7	65.3	77.4	23.6	3.5	2.3	2.1
State Bank of India	2318	1472	144.1	162.5	189.2	14.6	2.2	1.8	1.5
Bank of Baroda	540	197	61.1	77.3	88.1	20.1	1.7	1.5	1.3

Top picks

Mid Caps

	Price	Mkt cap	EPS (INR)			EPS CAGR	P/E (x)		
Company Name	**(INR)**	**(Rs. bn)**	**FY09**	**FY10E**	**FY11E**	**FY09-FY11**	**FY09**	**FY10E**	**FY11E**
Container Corporation	1159	151	60.9	64.8	72.5	9.1	19.0	17.9	16.0
Jet Airways	467	40	(242.9)	(134.3)	29.1	NA	n/a	n/a	16.1
Gateway Distripark	127	14	7.4	7.4	8.9	9.9	17.3	17.2	14.3
IVRCL Infrastructures	376	50	16.9	18.8	24.2	19.7	19.4	17.4	13.5
Kalpataru Power Transmission	915	24	41.8	62.6	79.3	37.7	21.9	14.6	11.5
AIA Engineering	313	30	18.2	18.8	22.7	11.7	17.2	16.6	13.8
Voltas	165	54	6.6	9.8	10.8	27.9	24.9	16.8	15.2
Godrej Consumer	289	89	6.7	11.1	13.4	41.5	43.2	25.9	21.6
Jain Irrigation	835	63	26.7	34.5	43.2	27.2	31.3	24.2	19.3
Sintex	224	30	24.2	26.2	30.3	12.1	9.3	8.5	7.4
Tech Mahindra	1030	125	73.0	43.7	52.0	(15.6)	14.1	23.6	19.8
							P/B (x)		
Shri Ram Transport	392	83	31.5	35.5	44.0	18.2	3.5	2.7	2.2
Yes Bank	267	91	10.2	13.2	17.6	31.2	4.9	2.9	2.4
IndusInd Bank	134	55	4.4	8.0	10.0	51.0	3.6	2.7	2.3

Sector-wise earnings review (Q2FY10)

Q2FY10 earnings review

Agri-inputs

- ✓ **UPL's** Q2FY10 operating results were below estimates due to revenue underperformance as a result of 5% drop in realizations. PAT declined by 20% yoy to Rs888m and below estimates of Rs1.3bn
- ✓ **Advanta's** Q3CY09 results were below estimates due to impact of seasonal factors as also much higher interest cots and tax rates. While some of the lost sales might be captured in Q4CY09, Advanta has effectively lost sales for crops like rice and cotton for the current year

(Rs m)	Net Sales					EBITDA					Profit After Tax				
Company	QE Sep 09	Var. %	y-o-y	FY09	FY10E	QE Sep 09	Var. %	y-o-y	FY09	FY10E	QE Sep 09	Var. %	y-o-y	FY09	FY10E
Advanta	1,333	(12.6)	9.3	6,176	7,037	268	9.8	36.7	1,135	1,200	(20)	(123.3)	(128.2)	530	331
United Phosphorus	11,570	(13.4)	0.0	49,316	54,748	1,964	(20.2)	(9.1)	9,545	10,373	888	(35.0)	(27.3)	5,048	5,798

Q2FY10 earnings review

Agri-related

- **Jain Irrigation Systems (JISL)**
  - JISL revenue growth ahead of our estimates at 18% with MIS business growing at 38%; Piping business has been relatively subdued on account of lower realization and lack of projects from telecom sector
  - Growth in food processing business is low on account of realization and deferrals in exports. Order book continues to remain very strong.
  - With highest margin MIS business growing the fastest, overall EBITDA margins have improved by 153bp at 21.6%
  - JISL has accounted for Rs34m of MTM gains as against Rs220m of forex loss in Q2FY09; however, JISL has accounted for full tax in the current quarter
  - Reiterate Outperformer
- **Ruchi Soya Industries**
  - Ruchi Soya has reported 24% growth – while realization was lower in Q2FY10 on yoy basis, higher trading activities (63% growth) and higher refining capacity utilization (78%) helped drive growth
  - Margins are lower than estimates with trading business growing the fastest and lower crushing activities
  - Volatility in edible oil prices has reduced and prices are now higher on yoy basis. Soya cultivation also expected higher that in the previous season at 9.5m tonnes
  - Key concerns of stability in edible oil prices addressed – upgrade the stock to Neutral

(Rs m)	Net Sales					EBITDA					Profit After Tax				
Company	**QE Sep 09**	**Var. %**	**y-o-y**	**FY09**	**FY10E**	**QE Sep 09**	**Var. %**	**y-o-y**	**FY09**	**FY10E**	**QE Sep 09**	**Var. %**	**y-o-y**	**FY09**	**FY10E**
Jain Irrigation Systems	5,625	1.9	18.2	30,974	36,895	1,218	10.3	27.2	5,065	6,225	391	11.0	(15.7)	1,263	2,586
Ruchi Soya	31,909	13.1	24.4	127,195	143,919	1,088	5.3	9.8	2,594	4,713	483	13.7	40.9	903	1,845

Q2FY10 earnings review

Alcoholic beverages

- ✓ While United Breweries witnessed 16% volume growth, USL's volume growth stood at 10% impacted by disruption in distribution in Maharashtra and UP
- ✓ United Spirits' EBITDA margins have contracted by 324bp at 17.4% (lower than estimates) on account of higher selling and distribution spend. On expected lines, gross margins have improved by 330bp on qoq basis with some easing in molasses price
- ✓ Reported PAT of USL is lower than estimates on account of higher interest cost – refinancing of a dollar debt through rupee denominated debt (USD90m).
- ✓ During the quarter, USL has raised Rs16bn through QIP issuance (17.8m shares). Funds are utilized to prepay the debt – outstanding debt at Rs51.5bn
- ✓ Gross margins for United Breweries have improved by 40bp with barley prices lower by 50%. Overall margins are lower than estimates on account of higher selling and distribution expenses
- ✓ Maintain our Outperformer stance on United Spirits and Neutral call United Breweries

(Rs m)	Net Sales					EBITDA					Profit After Tax				
Company	QE Sep 09	Var. %	y-o-y	FY09	FY10E	QE Sep 09	Var. %	y-o-y	FY09	FY10E	QE Sep 09	Var. %	y-o-y	FY09	FY10E
United Breweries	4,123	(3.3)	14.2	19,716	22,701	369	(36.4)	11.0	2,336	2,713	117	(49.1)	126.9	527	965
United Spirits	10,876	0.7	20.6	54,680	65,219	1,896	(3.3)	4.4	9,449	11,970	696	(22.2)	(25.9)	1,471	4,462

Q2FY10 earnings review

Automobiles

- Automobile majors within our coverage space posted a strong 23% topline growth on expected lines led by robust volume offtake in the festive season by all the players
- Bajaj Auto, Hero Honda, M&M and Tata Motors have witnessed record high margins during the quarter led by robust volume offtake and lower raw material costs
- In case of M&M and Tata Motors, apart from the robust margin expansion, PAT was further buoyed by higher other income from stake sale in subsidiaries
- Led by robust margin expansion for all the players, PAT for the quarter for our auto universe increased 75%yoy

(Rs m)	Net Sales					EBITDA					Profit After Tax				
Company	QE Sep 09	Var. %	y-o-y	FY09	FY10E	QE Sep 09	Var. %	y-o-y	FY09	FY10E	QE Sep 09	Var. %	y-o-y	FY09	FY10E
Ashok Leyland	15,777	(8.6)	(15.5)	59,811	67,114	1,660	20.7	7.9	4,649	5,724	892	68.7	12.3	1,994	2,694
Bajaj Auto	27,932	(2.1)	9.6	88,103	110,202	6,365	8.2	85.1	11,921	22,314	4,028	8.3	118.0	6,783	13,904
Hero Honda Motors	40,594	0.4	26.8	123,191	151,648	7,442	7.7	71.1	17,097	26,177	5,971	16.7	95.0	12,818	20,619
Mahindra & Mahindra	44,853	(0.9)	42.9	267,564	294,320	7,680	30.8	162.2	36,665	45,857	5,915	45.1	117.3	14,729	21,109
Maruti Suzuki	70,807	0.8	46.6	208,525	272,128	9,161	8.9	71.0	18,320	32,868	5,700	8.0	83.8	12,187	20,975
Tata Motors	79,788	3.6	13.5	709,389	764,574	10,657	22.6	102.7	21,965	44,049	7,399	74.6	31.9	(22,677)	(8,760)
TVS Motor Company	11,299	1.0	9.3	36,709	44,339	780	16.1	146.5	1,187	2,901	248	2.0	138.8	300	632

Q2FY10 earnings review

Auto ancillaries

- ✓ The auto component sector witnessed a sharp sequential revival in volumes in Q2FY10 in the domestic market. However, export offtake continued to be weak. Overall, ancillary companies within our coverage space (excluding tyre companies) reported 24%yoy decline in topline
- ✓ Tyre companies within our coverage space reported a strong 17%yoy growth in topline led by robust demand from both the OE and the replacement segment
- ✓ All ancillary players reported robust margin expansion during the quarter led by volume revival as also by lower raw material costs.
- ✓ Within our coverage space (excluding tyre companies), Bosch outperformed the sector with a robust 23%yoy PAT growth driven by sharp margin expansion
- ✓ While Bharat Forge’s standalone performance showed substantial improvement at the operating level (310bps qoq margin expansion) led by significant cost cutting initiatives undertaken, it posted a marginal PBT of Rs9mn (Rs1.2bn PBT in Q2FY09) on a consolidated basis due to continued stress at its overseas subsidiaries
- ✓ PAT for ancillary companies (excluding tyre companies) declined 14%yoy. Tyre companies reported a robust PAT growth of 363%yoy over a low base led by record high margins

(Rs m)	Net Sales					EBITDA					Profit After Tax				
Company	QE Sep 09	Var. %	y-o-y	FY09	FY10E	QE Sep 09	Var. %	y-o-y	FY09	FY10E	QE Sep 09	Var. %	y-o-y	FY09	FY10E
Amtek Auto	8,203	6.2	(33.3)	36,423	34,602	1,868	7.5	(7.7)	7,044	4,849	405	(11.9)	(45.3)	1,816	(525)
Bharat Forge	7,107	(21.5)	(47.2)	47,740	52,951	NA.	-	-	5,565	6,339	(407)	526.8	(1,093.7)	1,527	1,510
BOSCH	12,968	(9.6)	2.2	47,644	48,960	2,552	(1.8)	6.8	8,759	8,170	1,948	28.5	23.1	6,339	5,805
Sona Koyo Steering	2,004	(2.3)	12.0	6,932	7,681	195	27.8	407.3	156	686	37	463.5	(176.5)	(275)	58
Sundram Fasteners	3,314	(0.8)	(14.6)	18,087	18,714	500	2.2	(5.8)	2,052	2,160	209	9.4	(8.1)	768	731

Q2FY10 earnings review

Cement

- ✓ Revenues of cement companies increased by 11.6% in 2QFY10, led mainly by higher volume growth of both cement and VSF for Grasim, and steady growth in cement realizations
  - Grasim reported a 11% yoy growth in revenues, led by sharp jump in VSF volumes (highest ever quarterly sales) and 23%yoy increase in cement volumes
- ✓ EBITDA of our cement universe grew by 51% yoy, led mainly by lower power & fuel costs from lower prices of imported coal and commissioning of captive power units
  - Sequentially margins declined (except for Grasim) as growth in realisations did not keep pace with rise in costs
- ✓ Pre-exceptional earnings for cement companies under our coverage increased by 46%, again due to strong profitability of Grasim's VSF business
- ✓ We reiterate our Underweight stance on the sector due to oversupply concerns in FY10
  - 15mn tons of new capacity added in the last 4-6 months and a number of large new plants (~15mtpa) expected to be commissioned over the next 6-8 months.
  - Cement prices have already started weakening over the last one month
  - Over the medium to long term, demand growth is unlikely to be sufficient to absorb incremental supplies expected, hence pressure on realisations and therefore margins expected
- ✓ Retain Grasim as Outperformer as VSF business is expected to offset the likely pressure on cement business' profitability

(Rs m)	Net Sales					EBITDA					Profit After Tax				
Company	QE Sep 09	Var. %	y-o-y	FY09	FY10E	QE Sep 09	Var. %	y-o-y	FY09	FY10E	QE Sep 09	Var. %	y-o-y	FY09	FY10E
ACC *	19,694	0.4	10.0	73,086	81,896	6,679	8.8	49.7	17,331	26,441	4,356	11.1	53.7	11,777	16,999
Grasim Industries	29,838	12.8	11.1	171,871	195,032	10,162	36.5	75.5	42,028	57,889	6,743	42.8	60.7	21,462	28,203
Ambuja Cement	16,110	(2.7)	16.1	62,347	71,242	4,300	(4.5)	11.3	17,780	19,577	2,723	(9.5)	8.9	11,444	12,618
UltraTech Cem	15,408	(5.0)	10.4	63,831	72,949	4,700	(16.9)	58.4	17,064	22,099	2,509	(18.7)	52.8	9,770	12,049

** Calendar year end reporting*

Q2FY10 earnings review

Construction

- ✓ Our construction universe reported a 12.8% yoy increase in revenues, due to slower execution during the quarter due to monsoon
- ✓ Operating margins of companies in our universe grew by 64bps on a yoy basis, as fall in margins of Jaiprakash offset growth in margins of other companies
  - Jaiprakash margins were lower due to lower cement business margins
- ✓ Interest costs jumped 60% yoy led by Jaiprakash and L&T
  - Jaiprakash reported high growth in interest cost due to charging of interest to P&L on commissioning of cement capacities
  - L&T's debt remained high and cost of debt increased yoy due to swapping of low cost foreign debt to higher cost rupee denominated debt
  - However, sequentially interest costs have fallen as companies have partly repaid debt
- ✓ Earnings (pre-exceptional) grew by 1.1% yoy
- ✓ Order booking growth was strong, especially for L&T, as large orders which were postponed in FY09 have started to be awarded
  - Power sector orders continued to remain strong
- ✓ Reiterate Jaiprakash, Lanco, NCC and IVRCL as top picks

(Rs m)	Net Sales					EBITDA					Profit After Tax				
Company	**QE Sep 09**	**Var. %**	**y-o-y**	**FY09**	**FY10E**	**QE Sep 09**	**Var. %**	**y-o-y**	**FY09**	**FY10E**	**QE Sep 09**	**Var. %**	**y-o-y**	**FY09**	**FY10E**
HCC	7,811	(1.4)	20.3	33,138	39,864	1,074	7.9	28.3	4,314	5,314	217	143.7	332.6	760	1,381
IVRCL Infrastructures	12,138	(12.5)	6.8	49,831	60,761	1,105	(9.5)	23.3	4,218	5,498	488	(7.6)	(18.8)	2,279	2,516
Jaiprakash Associates	18,243	(6.2)	54.3	63,518	109,820	4,558	(13.4)	31.0	22,099	36,542	1,164	(45.5)	(42.7)	8,320	14,250
Larsen & Toubro	78,662	(15.4)	2.4	339,264	394,664	7,846	(19.6)	7.6	38,650	43,436	5,650	(9.9)	8.6	27,079	30,794
Madhucon Project	2,547	(14.0)	63.0	9,831	11,895	286	(18.1)	(28.9)	1,240	1,360	120	(9.2)	(6.6)	469	550
Nagarjuna Construction	10,670	(11.3)	1.1	41,514	47,118	1,089	(6.8)	0.4	3,736	4,726	439	(2.8)	3.8	1,538	1,917
Simplex Infrastructures	10,252	(13.8)	1.7	46,888	51,678	1,065	(6.1)	6.9	4,277	5,083	279	1.5	(0.5)	1,268	1,511
Lanco Infratech	19,266	(6.8)	50.6	60,720	75,491	3,141	26.6	58.7	8,874	15,639	1,244	70.6	141.2	2,803	3,981

Q2FY10 earnings review

Education

- **Educomp Solutions**
  - EDSL reported standalone numbers ahead of estimates. The consolidated numbers include a one time gain from stake sale to Pearson (~RS650m).
  - The growth was led by 'Smart Class' with the company adding 309 schools in the quarter.
  - EDSL increased its stake from 69.38% to 75.24% valuing the K-12 subsidiary at Rs14.6bn post money.
  - Inline with the smart performance we have upgraded numbers by 8% and 7% in FY10 and FY11. Valuations at ~23xFY11 adequately captures upside.
- **Everonn Education - Upgrade to outperformer**
  - ESIL's performance has been ahead of estimates. With increased visibility across the portfolio and a steady change in the revenue mix towards high margin/value creating businesses, we upgrade earnings by 16% to Rs26.2 (our numbers do not include any potential gains from the new initiative – 'Educating-India').
  - With few proxies to play within the education space, increased earnings visibility (eps cagr of 51% over FY09-11E) and sharp discount to the largest (and virtually only other) player in the space, we believe there is value in the stock.
- **NIIT Ltd**
  - Ahead of estimates, NIIT Ltd reported consolidated revenue growth of 16% at Rs3.6bn (our estimate of Rs3.4bn), EBITDA growth of 22% at 496m (our estimate of Rs443mn) and net profit (without share of associate) decline of 13% at Rs181m (our estimates of Rs110m). PAT after share of associate reported a 12% decline at Rs262m.
  - Growth in revenues was primarily led by the China and RoW markets within the ILS space.
  - NIIT plans to raise Rs2bn through a QIP and issue convertible warrants worth Rs300m to the promoters

Education

(Rs m)	Net Sales					EBITDA					Profit After Tax				
Company	QE Sep 09	Var. %	y-o-y	FY09	FY10E	QE Sep 09	Var. %	y-o-y	FY09	FY10E	QE Sep 09	Var. %	y-o-y	FY09	FY10E
Educomp Solution	2,069	41.2	110.7	6,370	11,159	1,055	35.9	67.7	3,043	5,037	504	46.1	97.7	1,354	2,709
NIIT	3,598	5.7	16.3	11,486	12,465	496	12.1	22.2	1,186	1,659	262	55.0	(11.8)	673	731
Everonn Education	731	40.8	69.8	1,436	2,373	263	40.1	73.7	545	938	118	56.1	81.4	253	396

Q2FY10 earnings review

Engineering

- ✓ Engineering companies revenues fell by 5% yoy in the quarter led by lower order backlogs
  - Thermax's revenues fell by 15% yoy due to lower order backlog at the beginning of the quarter
  - AIA's revenues fell by 24% yoy led by high base effect (volumes) and pass through of lower RM costs to clients
  - Voltas and Elecon revenue growth were the only 2 companies to report a postive growth due to the existing order backlog
- ✓ Operating margins witnessed a mixed trend in the quarter
- ✓ OPM fell by 55bps across companies led by raw material inventory on books, factoring rising material costs in bids as well as long term supply contracts
  - Thermax's margins fell by 460bps led by sharply lower revenues. Similarly, Elecon's margins fell due to sharp fall in the gear division revenues
  - Voltas's and Carborundum's OPM's improved sharply led by lower input prices and cost rationalisations
- ✓ Net earnings (pre-exceptionals) for companies fell across companies (except Voltas) due to lower revenues and other income
- ✓ Order backlog and booking picked up during the quarter with demand improving for Thermax, AIA and Carborundum. However, both Elecon and Voltas continued to witness slower order intake in the quarter.
- ✓ Maintain Overweight, with AIA and Voltas as our top picks

(Rs m)	Net Sales					EBITDA					Profit After Tax				
Company	QE Sep 09	Var. %	y-o-y	FY09	FY10E	QE Sep 09	Var. %	y-o-y	FY09	FY10E	QE Sep 09	Var. %	y-o-y	FY09	FY10E
AIAE	2,183	(8.7)	(23.7)	10,233	9,933	516	(11.5)	(23.0)	2,467	2,373	420	8.7	(5.5)	1,715	1,776
Carborundum Universal	3,250	13.8	(3.2)	11,930	13,134	586	28.3	6.7	1,731	2,229	265	17.8	(2.5)	878	1,006
Elecon Engineering	2,551	(3.7)	1.1	9,551	11,317	357	(15.9)	(6.9)	1,490	1,690	108	(21.4)	(32.8)	575	600
Thermax India	6,804	(3.8)	(15.4)	34,579	31,042	792	(20.0)	(39.4)	5,108	3,880	541	(17.6)	(34.9)	3,499	2,698
Voltas	9,993	(5.0)	9.0	43,259	49,744	1,062	33.0	51.0	2,831	4,281	807	27.0	46.0	2,191	3,242

Q2FY10 earnings review

Entertainment & Media

- Sharp recovery in IEM sector with revenue growth of 12.5% on yoy basis (1.6% growth in Q1FY10) and overall EBITDA growth of 99% (4.9% in Q1FY10), driven by print media sector
- Broadcasting industry has gained substantially with FMCG sector's (the largest spender) ASP spends higher by ~45% on yoy basis
- Zee Entertainment advertising revenue decline of 13% (29% decline in Q1FY10). However, sharp reduction in content cost has helped 130bp of margin improvement
- Sun TV surprises on positive with 37% growth in advertising; on the other hand Viacom18 (including Colors) has reported revenues of Rs2bn during the quarter
- Print industry has gained with lower newsprint prices – at USD500/ tonne vis-à-vis USD900/tonne a year back. All print media companies report 100%+ PAT growth
- On the distribution business, Dish TV's revenues are lower than estimates as ARPU drops from Rs142 in Q1FY10 to Rs139/month in Q2FY10
- Cable industry is expected to see increased focus on digitization with DEN raising Rs4bn, WWIL completing Rs4.5bn of rights issue and Hathway coming up with an IPO
- With revenue growth expected to be back on track from Q3FY10 and cost rationalization done over the past few quarters, we expect sharp jump in media sector profitability.
- **Corporate event** – Zee Entertainment is acquiring the regional GEC businesses from Zee News (expected to earn Rs1.3bn of EBITDA in FY10). Zee News shareholders will receive 4 shares of ZEEL for every 19 shares held. We believe that the deal leaves only 10% upside to Zee News' valuations, while its is accretive to ZEEL to the tune of 4%

Q2FY10 earnings review

Entertainment & Media

(Rs m)	Net Sales					EBITDA					Profit After Tax				
Company	**QE Sep 09**	**Var. %**	**y-o-y**	**FY09**	**FY10E**	**QE Sep 09**	**Var. %**	**y-o-y**	**FY09**	**FY10E**	**QE Sep 09**	**Var. %**	**y-o-y**	**FY09**	**FY10E**
Balaji Telefilms	407	3.9	(60.6)	3,375	1,979	(19)	(156.1)	(108.2)	163	37	10	(83.7)	(94.3)	8	123
Dish TV	2,573	(4.2)	48.5	7,383	11,525	229	23.1	-	(1,791)	1,026	(561)	(10.8)	-	(4,809)	(2,096)
Entertainment Network	984	5.4	(10.4)	4,263	4,384	(8)	(308.3)	(86.2)	(91)	510	(171)	9.1	-	(728)	(97)
IBN18 Broadcast *	1,361	202.5	342.4	1,831	5,896	(379)	-	301.1	(563)	(377)	(527)	287.5	-	(1,008)	(1,223)
HT Media	3,481	5.6	4.2	13,591	14,545	657	3.0	64.7	1,004	2,808	315	7.2	93.2	(120)	1,299
Jagran Prakashan	2,468	8.5	18.3	8,234	9,580	832	34.5	119.1	1,567	2,941	503	36.4	121.5	916	1,792
NDTV	1,404	6.1	16.7	4,923	5,831	(617)	12.9	(40.3)	(4,535)	(2,103)	(881)	4.6	(21.9)	1,418	(3,116)
PVR	787	(1.6)	0.3	3,332	3,574	138	(13.6)	(5.0)	529	548	52	(3.9)	(34.3)	141	106
Sun TV	3,204	12.2	34.7	10,394	13,074	2,436	11.7	38.1	5,965	7,993	1,306	8.2	20.5	3,684	4,808
T.V. Today Network	645	1.6	(3.5)	2,499	2,711	126	(13.2)	3.8	442	642	106	(17.1)	39.8	336	495
TV18	1,240	3.7	(4.8)	4,895	5,588	(45)	(150.5)	(194.1)	(1,244)	397	(646)	192.1	232.8	(1,667)	(839)
UTV	2,377	56.4	39.1	6,066	8,592	201	(336.1)	(356.1)	(829)	263	83	51.1	(66.9)	356	15
WWIL	698	2.6	(16.7)	3,083	3,131	(97)	2.2	(2,256.5)	25	(386)	(406)	0.4	84.9	(815)	(1,356)
Zee Entertainment	5,405	2.9	(5.4)	21,773	21,626	1,507	11.6	1.3	5,480	5,970	1,141	9.1	15.2	5,098	4,510
Zee News	1,612	10.0	26.3	5,221	6,043	258	(14.1)	21.8	836	1,145	132	(11.5)	14.7	446	550

** IBN 18 Q2FY10 results include 50% of Viacom*

Q2FY10 earnings review

Exchanges

✓ **Financial Technologies (FTIL)**

- While FTIL reported a 33% revenue decline during the quarter, this is primarily due the base effect as Q2FY09 saw heavy booking of revenues on account of exchange solutions.
- Similarly EBITDA margins for the quarter came in at 53.3% as against 67.9% in Q2FY09, as exchange solutions entail higher margins. Thus, operational profits (at the PBT level) declined by 16%.
- Additionally, FTIL has booked one-time capital gains of Rs2.4bn during the quarter, attributable to the income on divestment of 5% stake in MCX-SX to IFCI in July 2009.
- MCX (associate of FTIL – 31.2% stake owned), India's largest commodity exchange garnered an 83% market share in the quarter with a total turnover of US$319bn on the exchange.
- MCX Stock Exchange (or MCX-SX), the third national level stock exchange of the country which currently trades currency derivatives recorded a turnover of US$34bn in the quarter – a 75% qoq growth, garnering a market share of 49% against equity mammoth NSE.
- As per regulations, FT group (including MCX) would have to limit their holding in MCX-SX at a maximum level of 15% (currently stands at 70%). The completion of this divestment process will mark the entry of MCX-SX into equities as also new products such as interest rates, bonds, etc. The divestment is expected to be complete in this calendar year.
- While the stock has seen near-term pressure on account of apparent revisions in the valuations commanded by MCX-SX (IFCI acquired 5% at an entity valuation of US$1bn), we remain optimistic of its potential. Maintain Outperformer, with completion of divestment in MCX-SX being the key monitorable.

(Rs m)	Net Sales					EBITDA					Profit After Tax				
Company	QE Sep 09	Var. %	y-o-y	FY09	FY10E	QE Sep 09	Var. %	y-o-y	FY09	FY10E	QE Sep 09	Var. %	y-o-y	FY09	FY10E
Financial Technologies	802	(19.8)	(32.8)	3,343	3,175	427	(14.5)	(47.3)	1,003	1,236	2,182*	461.6	183.1	3,686	3,272

**Includes one-time capital gains of Rs2.4bn*

Q2FY10 earnings review

Financials

- NII performance in line: NII growth at 9% yoy and qoq for our coverage universe was in-line with estimates. The growth was muted due to
  - Subdued credit growth : Credit growth was at ~14% yoy in Q2FY10, in the context of dwindling demand from corporates. Sequential credit growth at ~4% for the universe
  - Margins expand qoq: Margins saw an uptick qoq for almost all banks (while declining yoy over a high base), as the benefit of deposit re-pricing overplayed the impact of lower loan yields. Private banks saw NIMs expansion yoy also
- Improvement in CASA: CASA ratio improved across banks qoq, recovering from low levels of Q1FY10 (aided by sanguine interest rates at a systemic level). Lower deposit growth in line with muted credit off-take also helped. ICICI Bank reported a 650bp qoq rise in CASA, on the back of its deleveraging strategy and thrust on saving deposit growth
- Treasury – a mixed bag: While treasury gains tapered from high levels evidenced in Q1FY10 (16-45% of operating profit), they still remained strong at 10-30% of operating profits. Canara Bank, Union Bank of India were on the higher end of the range
- Sluggish fee income growth
  - Credit-linked fees remained lukewarm with credit off-take remaining muted during the quarter
  - Private banks' (excluding ICICI Bank) non-fund income grew by ~15% yoy, with Axis Bank & HDFC Bank able to maintain momentum
  - Capital market related fees continued to be sluggish, hurting growth for private banks like ICICI Bank
- Asset quality largely stable – some negative surprises: Contained rise in Gross NPAs, given the large restructuring of stressed advances by banks till Q1FY10. Incremental restructured advances in Q2FY10 ranged from 0.3-1% across banks. Indian Bank and IDBI continued to be in the higher range, while Bank of India and Syndicate Bank surprised on the negative
- Pending further clarity, provisioning costs of Canara Bank and IDBI likely to be impacted more by RBI's new norm of minimum 70% coverage ratio
- Top picks: ICICI Bank, Axis Bank, SBI, Bank of Baroda, Yes Bank and Shriram Transport

Financials

(Rs m)	NII					Operating Profit					Profit After Tax				
Company	QE Sep 09	Var. %	y-o-y	FY09	FY10E	QE Sep 09	Var. %	y-o-y	FY09	FY10E	QE Sep 09	Var. %	y-o-y	FY09	FY10E
Allahabad Bank	6,033	(7.7)	22.2	21,586	25,143	6,498	45.8	106.8	19,011	23,277	3,336	65.1	700.3	7,686	10,196
Axis Bank	11,497	(2.4)	25.9	36,862	48,357	13,058	16.2	49.3	37,249	51,450	5,316	(1.4)	32.0	18,152	24,811
Bank of Baroda	13,886	5.6	22.5	51,234	59,507	10,316	4.6	22.0	43,050	48,861	6,342	31.6	60.4	22,272	28,156
Bank of India	14,089	3.7	3.4	54,989	59,592	12,060	2.7	(0.7)	54,568	53,484	3,233	(47.7)	(57.6)	30,074	27,669
Canara Bank	13,137	(3.3)	14.3	47,178	55,093	14,191	35.4	83.5	39,638	48,604	9,105	62.9	72.0	20,724	27,993
Corporation Bank	5,036	3.2	23.8	16,910	21,070	5,357	14.3	52.4	17,966	21,613	2,917	36.4	52.3	8,928	10,616
HDFC	7,844	(13.1)	1.8	32,495	37,071	9,269	1.7	19.4	32,690	39,580	6,639	7.7	24.3	22,825	27,286
HDFC Bank	19,558	(8.5)	4.8	74,212	87,611	15,930	6.8	41.9	52,069	65,600	6,875	(1.0)	30.2	22,449	29,186
ICICI Bank	20,361	(6.1)	(5.2)	83,666	87,706	24,353	(0.5)	6.6	89,252	100,959	10,401	3.4	2.6	37,581	42,916
IDBI	4,721	34.7	287.1	11,029	15,358	6,366	88.8	123.8	13,779	17,979	2,537	60.9	56.2	8,585	7,128
Indian Bank	7,591	0.7	11.3	26,085	30,832	5,539	(9.0)	4.0	22,288	23,715	3,720	21.2	31.5	12,453	14,306
IndusInd Bank	2,086	-	98.2	4,590	8,407	1,553	-	131.5	3,682	6,564	778	-	131.2	1,483	3,109
ING Vysya Bank	1,914	9.3	22.2	6,496	7,731	1,436	2.7	56.7	4,248	5,860	535	(8.4)	13.8	1,888	2,400
Mahindra & Mahindra Finance	2,325	7.4	18.3	8,550	9,727	1,630	12.0	31.0	6,080	6,906	692	59.9	96.5	2,145	2,505
LIC Housing Finance	1,868	(8.8)	9.2	7,479	8,528	1,860	(13.9)	3.8	7,318	9,885	1,712	10.7	26.8	5,316	7,336
Punjab National Bank	20,949	7.8	22.4	70,309	84,945	16,063	2.2	17.4	57,443	69,812	9,270	9.1	31.1	30,909	38,230
Shri Ram Transport	5,296	0.6	21.4	17,378	21,429	4,185	11.6	36.8	12,543	15,187	2,075	9.9	25.2	6,403	7,583
Shriram City Union Finance	1,541	(7.0)	22.3	4,888	6,432	1,036	10.6	58.3	2,568	3,663	502	20.0	62.8	1,170	1,695
State Bank of India	56,088	(1.8)	2.8	208,731	236,189	48,350	(3.7)	15.3	179,152	207,048	24,900	(6.8)	10.2	91,212	103,155
Syndicate Bank	6,179	(0.1)	(17.3)	26,020	25,872	4,434	3.4	(3.2)	17,464	19,435	1,778	16.2	(32.1)	9,128	8,540
Union Bank of India	8,634	(2.6)	(11.5)	38,136	38,296	8,101	4.0	15.8	30,820	34,233	5,051	28.2	39.7	17,270	20,038
Yes Bank	1,600	(6.6)	30.5	5,112	6,966	1,918	12.8	75.2	5,277	8,318	1,117	21.9	75.6	3,038	4,520
Rural Electrification	5,911	9.3	36.0	17,679	22,905	6,466	14.0	45.4	19,226	23,903	4,944	19.4	60.1	12,722	20,477
Power Finance	7,200	8.0	32.8	22,710	28,424	7,769	20.7	43.1	22,465	28,360	6,387	41.1	93.5	19,695	21,622

Q2FY10 earnings review

FMCG

- ✓ Overall FMCG sector grew by 10%, however sector growth excluding HUL stood at 20% - the sector so far remains insulated of delayed rainfall
- ✓ Growth was led by a strong underlying volume growth; however HUL volume growth remains a concern –
  - Colgate, Marico, Dabur all reported 14-16% volume growth.
  - ITC's cigarette business reported a strong 7% volume growth
  - GCPL reported 20%+ volume growth in soaps and 35%+ volume growth in hair colour.
  - However HUL remained a laggard at 1% volume growth, losing market share excessively in the soaps and detergents segment.
- ✓ All the FMCG companies have witnessed sharp gross margin expansion on the back of benign commodity prices
- ✓ This savings have been redirected towards higher brand spends - ~45% increase yoy, for a 10% increase in sales
- ✓ While the growth outlook remains strong, our overall stance remain neutral on account of valuation

(Rs m)	Net Sales					EBITDA					Profit After Tax				
Company	**QE Sep 09**	**Var. %**	**y-o-y**	**FY09**	**FY10E**	**QE Sep 09**	**Var. %**	**y-o-y**	**FY09**	**FY10E**	**QE Sep 09**	**Var. %**	**y-o-y**	**FY09**	**FY10E**
Colgate-Palmolive	4,873	4.1	18.1	17,597	20,312	950	3.0	85.9	3,584	4,698	897	(1.2)	41.4	2,882	3,808
Dabur India	8,540	0.1	22.1	28,310	34,597	1,814	7.3	36.5	4,961	6,593	1,392	7.4	29.1	3,912	4,977
Godrej Consumer*	5,765	38.0	65.6	13,966	21,232	1,129	38.3	173.2	2,073	4,222	930	44.2	167.8	1,724	3,443
Hindustan Unilever*	42,281	(2.8)	5.0	206,016	180,873	6,108	(5.1)	9.6	30,401	29,363	5,050	(0.6)	16.4	24,964	22,163
ITC	43,453	2.3	12.5	153,881	175,805	15,901	6.8	30.8	48,584	62,596	10,099	5.1	25.8	32,634	40,161
Marico Industries	6,922	0.6	14.7	23,885	27,545	1,074	13.5	45.3	3,018	3,763	624	20.0	32.5	1,888	2,498
Nestle India	13,022	1.3	17.6	43,243	50,500	2,642	6.5	27.5	8,636	10,734	1,828	12.1	38.7	5,341	7,042

** Godrej Consumers Q2FY10 results include financials of Godrej Sara Lee (equivalent 49% stake)*
** HUL PAT for Q2FY10 adjusted for extra ordinary loss; FY09-15 months period*

IDFC SSKI

Q2FY10 earnings review

Infrastructure developers

- ✓ Infrastructure developers reported a 62% yoy growth in revenues
  - GMR's revenues increased by 43% yoy due to gas based power plant being fully operational for whole quarter
  - MPSEZ saw revenues grow by 11% led by a growth of 9.3% yoy for cargo
  - GVK reported 4.5x yoy rise in revenues, due to Jegurupadu-II and Gautami plant in operation since Q1FY10 due to availability of gas
- ✓ EBITDA of our developers' universe jumped 56% yoy, led mainly by gas-based power plants coming into operations in Q1FY10
- ✓ Earnings of infrastructure developers grew by 7% yoy during the quarter
  - GMR earnings fell 34% on yoy basis, as revenues did not rise commensurately with fixed depreciation and interest costs due to commissioning of new assets
  - GVK earnings jumped 45% on yoy basis due to ~9.5% rise in passenger volumes and lower costs due to transfer back of AAI employees
- ✓ Maintain MPSEZ as our top pick in the sector

(Rs m)	Net Sales					EBITDA					Profit After Tax				
Company	QE Sep 09	Var. %	y-o-y	FY09	FY10E	QE Sep 09	Var. %	y-o-y	FY09	FY10E	QE Sep 09	Var. %	y-o-y	FY09	FY10E
Mundra Port & Special	3,274	0.1	10.6	13,384	22,164	2,337	0.6	13.7	8,232	13,440	1,726	8.2	26.4	4,683	8,266
GMR Infrastructure	12,067	(6.5)	42.5	44,762	53,684	3,925	(0.9)	58.8	10,668	16,622	622	(24.6)	(34.0)	2,792	2,821
GVK Power	4,923	(5.9)	349.6	5,138	21,840	1,508	(10.5)	222.3	1,763	6,512	442	(2.2)	45.2	1,064	2,005

Q2FY10 earnings review

IT services

Strong Quarter: Healthy Sequential Growth

- ✓ All IT companies reported 3-4% sequential revenue growth in USD terms
- ✓ Revenue growth was primarily driven by volume growth with pricing at flattish levels; cross currency tailwinds had favorable impact of 1-2% qoq
- ✓ Margins surprised on positive side - volume growth and sustained cost control efforts helped margins
- ✓ Buoyant outlook for 3Q revenues - 1% qoq growth at Infosys and 2.5-4.5% qoq growth at Wipro is healthy - given Dec-quarter is seasonally weak due to holiday season

(Rs m)	Net Sales					EBITDA					Profit After Tax				
Company	QE Sep 09	Var. %	y-o-y	FY09	FY10E	QE Sep 09	Var. %	y-o-y	FY09	FY10E	QE Sep 09	Var. %	y-o-y	FY09	FY10E
HCL Technologies	30,314	2.0	27.9	106,301	116,408	6,888	8.4	29.7	23,456	24,944	3,014	7.2	(10.7)	12,154	11,223
Infosys Technologies	55,850	0.5	3.1	216,930	220,701	19,330	11.0	7.7	71,950	73,059	15,400	10.7	7.5	59,880	58,866
Tech Mahindra	11,418	1.4	(2.0)	44,647	45,196	2,925	5.7	(25.6)	12,825	10,773	1,690	31.8	(44.2)	10,146	5,672
Patni Computer	8,040	(0.9)	(5.7)	31,825	31,642	1,720	(3.6)	12.5	5,383	6,389	1,716	42.5	(14.3)	4,528	4,779
Tata Consultancy	74,351	0.9	6.9	278,129	295,088	21,342	7.4	17.3	71,781	79,476	16,239	14.7	28.7	51,717	58,658
Wipro	68,937	4.7	5.6	256,891	269,301	15,035	9.5	16.6	51,948	59,123	11,707	27.1	20.6	38,761	42,462

Q2FY10 earnings review

Logistics

- ✓ Logistics companies reported fall in revenue growth of 5% yoy led by slower volumes in the quarter across all companies
  - Concor and GDL witnessed revenue growth led by higher realisations in the rail business
- ✓ Operating margins for the sector fell across companies
  - GDL's margins fell sharply (-1050bps) led by change in revenue mix towards low margin rail business as also sharp fall in CFS business
  - Arshiya's margins expanded (+150bps) led by value added services
  - Change in revenue mix towards high margin equipment leasing enhanced Allcargo's margins (+30bps)
  - Concor's margins fell (-350bps) due to high base effect and higher empty running costs
- ✓ Consequently, earnings (pre-exceptional) fell by 12% yoy during the quarter led by lower other income
- ✓ We maintain our Overweight stance on the sector with Concor and GDL as our top picks

(Rs m)	Net Sales					EBITDA					Profit After Tax				
Company	**QE Sep 09**	**Var. %**	**y-o-y**	**FY09**	**FY10E**	**QE Sep 09**	**Var. %**	**y-o-y**	**FY09**	**FY10E**	**QE Sep 09**	**Var. %**	**y-o-y**	**FY09**	**FY10E**
Arshiya International	1,184	7.7	(19.1)	5,005	5,049	197	2.3	(10.9)	762	951	131	7.8	(31.6)	646	618
Allcargo*	4,979	(10.0)	(21.0)	23,141	20,469	581	(12.0)	(19.0)	2,198	2,447	364	2.0	(13.0)	1,077	1,526
Container Corporation	9,599	2.4	6.3	34,172	38,369	2,534	(3.5)	(5.7)	9,311	10,432	2,044	(4.0)	(8.7)	7,915	8,428
Gateway Distripark	1,316	(5.3)	12.5	4,510	5,480	306	(9.6)	(25.0)	1,461	1,356	171	(5.6)	(27.0)	772	798

** Calendar year end reporting*

Q2FY10 earnings review

Metals

- **JSW Steel:** Standalone net profits for the quarter were below our estimates due to increase in finished goods inventory. Key highlight of the quarter was a sharp Rs1,371/tonne jump in realizations. Inventory losses partly offset the gains of higher utilization at US operations. Overall, we upgrade JSWS earnings on back of improved product mix, operational cost savings and volume growth. Maintain Outperformer.
- **Jindal Steel & Power:** Standalone as well as consolidated profits at Rs3bn and Rs8bn respectively were below our estimates. Lower steel sales volumes, higher other expenditure in standalone operations and lower per unit realization in power business resulted to lower profitability. We upward revise JSPL's SoTP price target to Rs516/share as we now assign value to Bolivian operations and 1800MW power plant at Jharkhand. Maintain Neutral.
- **Tata Steel:** Net profits were lower than our estimates primarily due to sharp sequential drop in realization. Faster than anticipated drop in raw material costs and profitability in the ferro alloy business were the key positives for the quarter. Maintain Neutral.
- **SAIL:** EBITDA and net profits for the quarter tracked our estimates. Lower than expected employee costs compensated for higher raw material costs for the quarter.
- **Sterlite:** Sterlite's net profits were ahead of estimates even as EBITDA trailed our estimates. Shutdown related costs at Balco smelter and lower power realisations impacted operating profits. However, lower tax rate and mark-to-market forex gains in VAL led to higher than expected net profits. Maintain Outperformer on the stock.
- **Hindustan Zinc:** EBITDA and net profits were marginally ahead of our estimates. The positive surprise was largely led by lower than expected cost pressures, particularly relating to manufacturing costs and impact of increase in royalty rates during the quarter. Maintain Outperformer.
- **Hindalco:** Consolidated profits at Rs12bn were ahead of our estimates thanks to improved performance of Novelis. Unrealized gains on derivative contracts (at US$254m) positively impacted Novelis profitability for the quarter. Improved operational performance was on back of improvement in product/price mix, reduction in conversion costs owing to lower labor, energy, alloy costs and higher volumes. Standalone profits at Rs3.4bn were below our estimates.
- **Nalco:** Net profits were significantly lower than our estimates primarily due to sharp 70%qoo jump in power costs. Higher use of imported coal and furnace oil during the quarter as also purchase of high cost power from the grid resulted to sharp increase in power costs.

Q2FY10 earnings review

Metals

(Rs m)	Net Sales					EBITDA					Profit After Tax				
Company	QE Sep 09	Var. %	y-o-y	FY09	FY10E	QE Sep 09	Var. %	y-o-y	FY09	FY10E	QE Sep 09	Var. %	y-o-y	FY09	FY10E
Hindalco Industries	49,171	(1)	(13)	644,324	422,418	6,092	(39)	(39)	56,677	40,500	3,441	(47)	(38)	(7,168)	3,797
Hindalco Industries (Consol)	155,037	48	(17)	644,324	422,418	23,615	105	82	56,677	40,500	12,906	18	1,131	(7,168)	3,797
Hindustan Zinc	18,183	(1)	1	56,803	69,378	10,755	(0)	10	27,342	35,080	9,350	0	0	27,276	30,173
Jindal Steel & Power	15,982	(8)	(28)	108,510	99,277	5,514	(21)	(26)	51,694	55,395	3,050	(24)	(32)	30,073	33,218
Jindal Steel & Power (Consol)	24,453	(13)	(15)	108,510	99,277	13,056	(18)	2	51,694	55,395	8,084	(20)	6	30,073	33,218
JSW Steel	45,798	(3)	6	159,348	191,069	11,672	(12)	28	29,818	47,117	4,515	(24)	22	2,746	14,579
JSW Steel (consol)	47,565	2	2	159,348	191,069	10,753	(10)	(10)	29,818	47,117	3,124	(18)	21	2,746	14,579
Nalco	11,430	(5)	(27)	59,405	45,914	1,056	(74)	(84)	26,499	7,625	1,594	(46)	(64)	21,181	6,013
Sterlite Industries	60,854	(1)	(8)	211,456	215,663	13,217	(11)	(19)	47,055	52,755	9,588	2	(25)	35,563	37,109
Tata Steel	56,921	(5)	(17)	1,473,292	1,036,025	19,222	(7)	(40)	181,277	84,981	9,092	(16)	(49)	48,492	(10,735)
SAIL	100,391	(5)	(18)	445,295	420,316	23,884	(3)	(21)	90,895	89,472	16,635	(1)	(17)	61,884	59,926

Q2FY10 earnings review

Oil & Gas

- Oil & gas players within our coverage space posted a 23% decline in top-line, primarily due to significantly lower oil prices during this quarter compared to last year
- Refining and marketing companies witnessed significant declines in GRMs, as the Asian benchmarks remained under pressure from weak product spreads, lack of availability of heavy crude and a depressed economic environment.
- OMCs suffered substantially due to no oil bonds having been issued for the quarter for losses sustained on the sale of cooking fuels. Even though material inventory gains offset this loss somewhat, EBITDA for our coverage universe came in 37% below estimates, even though this was a huge improvement on a negative EBITDA of Rs16bn earned in Q2FY09.
- ONGC was the only company to show improvement in margins, as its net realizations improved to US$56/bbl over Q2FY10. This was higher than our estimates of US$52/bbl, even as production came on slightly lower than estimates. Resultantly PAT for ONGC was 2% higher than estimates
- Overall, PAT came in 35% below estimates, driven by extremely weak results in the refining and marketing space.

(Rs m)	Net Sales					EBITDA					Profit After Tax				
Company	**QE Sep 09**	**Var. %**	**y-o-y**	**FY09**	**FY10E**	**QE Sep 09**	**Var. %**	**y-o-y**	**FY09**	**FY10E**	**QE Sep 09**	**Var. %**	**y-o-y**	**FY09**	**FY10E**
Essar Oil	95,900	21.8	(30.1)	378,867	336,426	3,459	(53.3)	(26.1)	12,872	41,843	(941)	(163.6)	(461.9)	(4,228)	17,998
BPCL	270,923	1.2	(28.4)	1,365,571	1,139,984	(950)	(109.3)	(95.6)	33,733	44,397	(1,588)	(142.2)	(94.0)	6,423	16,504
Chennai Petroleum Corp.	-	-	-	389,357	338,572	-	-	-	17,242	14,702	-	-	-	9,971	8,422
GAIL (India) Ltd	-	-	-	193,159	201,685	-	-	-	44,681	45,208	-	-	-	27,545	27,996
Gujarat Gas	-	-	-	15,176	17,990	-	-	-	2,352	2,946	-	-	-	1,375	1,712
HPCL	246,290	(2.6)	(30.7)	1,249,348	1,019,159	1,719	(80.0)	(106.8)	28,707	32,573	(1,368)	(148.7)	(95.7)	5,750	10,901
IOC	609,697	2.4	(18.6)	2,828,896	2,639,221	6,138	(81.5)	(110.4)	58,146	132,005	2,844	(84.8)	(104.0)	25,993	71,101
Indraprastha Gas	-	-	-	9,749	12,290	-	-	-	3,458	4,001	-	-	-	1,975	2,313
ONGC	151,916	(5.4)	(13.2)	1,049,682	1,146,130	88,345	(8.1)	3.9	420,467	440,965	50,896	2.1	5.8	196,911	200,952
Petronet LNG Ltd	-	-	-	87,398	165,743	-	-	-	9,762	11,039	-	-	-	5,070	4,288

Q2FY10 earnings review

Others

✓ **Sintex**

- Consolidated net profit for the quarter at Rs573m was ahead of our estimates (Rs533m). Consolidated operating margins improved 500bps qoq reflecting benefits of operating leverage on the back of improving utilization levels as also higher revenue recognisition in the monolithic business.
- EBIT margins in textile business declined by 517bps qoq to 3.8%. Lower off-take in the high value added exports segments and negative impact of operating leverage led to deteriorating operating performance.
- We believe that business fundamentals are slowly but steadily improving even as pressure points in BT shelters and textiles remain. Maintain Outperformer on the stock

(Rs m)	Net Sales					EBITDA					Profit After Tax				
Company	**QE Sep 09**	**Var. %**	**y-o-y**	**FY09**	**FY10E**	**QE Sep 09**	**Var. %**	**y-o-y**	**FY09**	**FY10E**	**QE Sep 09**	**Var. %**	**y-o-y**	**FY09**	**FY10E**
Sintex	7,154	(1.6)	(2.5)	31,355	33,449	1,305	15.5	(2.6)	5,217	5,407	573	7.5	(31.6)	3,273	3,559

Q2FY10 earnings review

Pharmaceuticals

- Most pharma companies reported in line earnings with healthy topline growth and stable EBITDA margins.
- **DRL** reported 14% yoy revenue growth Rs18.3bn (in line with estimates) driven by strong momentum across geographies. Adjusted for one-offs and given that Sumatriptan sales were negligible, base business profitability has improved sharply driven by combination of strong base business revenue growth, cost control measures as well as more profitable product mix.
- **Lupin** reported PAT at Rs1.6bn (~39% yoy growth), ahead of our estimates due to significantly higher other operating income (Rs250m Salix licensing income and export benefits) and lower tax outgo. Topline performance was driven primarily by continued success in US as also healthy performance in other advanced markets such as EU and Japan.
- **Sun Pharm's** reported PAT at Rs4.5bn (11.5% decline yoy) was significantly ahead of estimates of Rs3.5bn.are buoyed by higher Para IV sales, other several one-offs and are ahead of estimates. The slowdown in the domestic market growth has come in as a disappointment..
- **Cipla's** reported PAT at Rs2.7bn (82% yoy growth) was in line with estimates due to significantly higher other operating income (technical know-how fees) despite lower revenues. Formulation exports revenues at Rs5.8bn (3.4% decline yoy, we saw Rs7.2bn) have been the key disappointment for Q2FY10.
- **Ranbaxy** reported net revenues of Rs17.1bn (8.8% decline yoy) for Q3CY09 below our estimates of Rs19bn. Ranbaxy's Q3CY09 results indicate strong intent towards cost-containment and are encouraging. On the other hand, Business fundamentals for Ranbaxy continue to remain weak across major geographies.
- **Glenmark's** Q2FY10 results were ahead of estimates led by higher EBITDA margins. Glenmark needs to deliver a significantly superior H2FY10 to meet its guidance. PAT at Rs809m (~31% decline yoy), was in line with estimates ofRs770mn.
- **Ipca's** Q2FY10 results have been ahead of estimates on the operational front and is indicative of the strong growth traction across geographies. We believe, there is clearly and uptick in the business environment for IPCA with strong momentum for the branded formulations business across India and other markets. PAT at Rs638m has grown by strong 75% yoy against our estimates of Rs599m.
- **Dishman's** Q2FY10 revenues at Rs2.1bn (~14% decline yoy) were below our estimates of Rs2.6bn primarily due to weak sales to Solvay as well as lower revenues at Carbogen Amcis**.** Reported PAT at Rs249m was significantly higher yoy (Rs30m in Q2FY09) below estimates of Rs292m.

Q2FY10 earnings review

Pharmaceuticals

(Rs m)	Net Sales					EBITDA					Profit After Tax				
Company	**QE Sep 09**	**Var. %**	**y-o-y**	**FY09**	**FY10E**	**QE Sep 09**	**Var. %**	**y-o-y**	**FY09**	**FY10E**	**QE Sep 09**	**Var. %**	**y-o-y**	**FY09**	**FY10E**
Aventis Pharma	2,584	5.2	4.2	9,833	10,041	396	(20.6)	(17.3)	2,154	2,148	438	(8.9)	(1.8)	1,662	1,736
Biocon	5,810	14.4	31.4	16,086	22,130	1,141	12.3	55.2	3,346	4,277	742	21.8	199.2	2,403	2,679
Cipla	13,712	(9.3)	5.3	52,346	58,734	3,016	(9.3)	14.5	12,220	15,102	2,757	(0.8)	82.1	7,768	11,228
Dishman Pharma	2,174	(17.1)	(13.7)	10,671	10,948	498	(13.7)	-	2,662	2,668	249	(14.7)	982.6	1,467	1,534
Dr Reddys Lab	18,368	1.1	13.7	69,441	71,334	2,749	(8.1)	18.2	15,003	13,967	2,173	1.1	79.3	8,855	8,556
Glenmark Pharma	5,902	(1.3)	5.2	21,160	25,332	1,684	10.5	0.2	4,550	6,741	809	5.5	(31.0)	3,104	3,513
Glaxosmithkline Pharma	5,118	0.9	12.0	16,605	18,435	1,888	0.6	11.3	5,778	6,377	1,411	(5.7)	6.9	4,485	5,053
IPCA Laboratories	4,302	4.0	24.8	12,838	15,289	1,021	9.8	27.2	2,564	3,101	639	7.9	75.0	1,008	2,013
Lupin	11,147	3.5	22.7	37,759	46,035	1,641	(15.3)	(10.0)	6,807	8,570	1,604	12.2	38.8	5,400	6,859
Nicholas Piramal India	10,000	11.0	12.4	32,811	37,646	1,774	(1.5)	(2.9)	6,634	7,788	1,062	9.8	44.7	3,609	4,913
Ranbaxy Laboratories	17,163	(9.7)	(8.8)	72,218	71,024	2,220	59.3	54.2	7,213	3,265	1,165	54.3	(129.5)	1,871	4,275
SUN Pharma	10,882	6.9	(7.6)	42,729	42,479	3,503	(6.7)	(34.9)	18,638	14,544	4,538	29.5	(11.3)	18,177	14,400
Wockhardt	-	-	-	35,714	40,345	-	-	-	8,426	9,395	-	-	-	2,331	4,107

Q2FY10 earnings review

Pipes

- **WGSR:** Adjusting for extra-ordinary gains of Rs290m, net profits stood at Rs1.36bn, in line with our estimates. Higher pipe sales volumes from US operations and domestic plate sales saw revenue growth ahead of estimates. Maintain Neutral.
- **JSAW:** Net profits were broadly in line with estimates on back of better than expected operating margins. Margin surprise for the quarter was on account of (a) benefits of operating leverage with higher utilization rates (b) execution of high margin export orders and (c) operational cost savings. JSAW's order book position stands at US$700m, translating to ~0.67x CY08 revenues. Maintain Outperformer.
- **MSL:** MSL's net profits were ahead of estimates due to higher revenue growth and margin expansion. Sharp drop in other expenditure coupled with higher profitability in ERW business resulted to profitability ahead of our estimates.
- **PSL:** EBITDA and revenues for the quarter tracked our estimates. Sharp drop in interest costs primarily led to profitability ahead of our estimates.

(Rs m)	Net Sales					EBITDA					Profit After Tax				
Company	QE Sep 09	Var. %	y-o-y	FY09	FY10E	QE Sep 09	Var. %	y-o-y	FY09	FY10E	QE Sep 09	Var. %	y-o-y	FY09	FY10E
Jindal Saw	13,705	(4.0)	(7.7)	53,558	68,230	2,562	14.7	27.0	7,066	10,260	1,464	12.1	46.3	3,223	5,381
Maharashtra Seamless	4,101	33.8	(31.9)	20,915	13,489	1,072	31.9	21.0	3,607	3,304	713	16.2	11.5	2,529	2,100
PSL	5,936	4.1	(7.8)	33,364	42,981	685	4.5	3.4	3,246	3,963	216	35.3	(0.0)	1,077	1,267
Welspun Gujarat Stahl	21,734	41.2	45.6	58,783	56,919	3,629	32.1	47.9	6,346	10,543	1,651	30.4	152.8	2,336	4,213

Q2FY10 earnings review

Power equipment

- Power equipment companies reported 14% yoy growth in revenues
  - Strong revenue growth of 24% yoy for BHEL led by robust order backlog
  - ABB revenues fell 4.3% due to slower growth in all segments
  - Cromptons revenues impacted due to slower (-9% yoy) growth in international entities
- Operating margins growth of our power equipment universe grew 307bps yoy to 15.1%, mainly due to lower commodity costs
  - BHEL's high cost imported steel inventory got utilized leading to 375bps jump in margins
  - Cromptons margins improved due to value engineering, which reduced consumption of raw materials. Moreover centralised procurement and cost rationalisations, boosted margins.
  - Margins fell for both ABB and EMCO due to slower growth
- Consequently, pre-exceptional earnings for companies grew by 34% yoy
  - Strong 39%yoy growth in BHEL's earnings led by sharp rise in margins
  - Fall in earnings for ABB due to slower growth in revenues
  - Crompton's earnings grew by 61% yoy led by sharp jump in margins and lower tax rate
- BHEL reported fall in order booking in 2QFY10 due to higher base; order booking was flat on yoy basis for ABB, but showed strong 28.5% yoy growth for EMCO. Crompton's order intake and order backlog improved on qoq basis
- We maintain our neutral stance on the sector with Crompton being our top pick.

(Rs m)	Net Sales					EBITDA					Profit After Tax				
Company	QE Sep 09	Var. %	y-o-y	FY09	FY10E	QE Sep 09	Var. %	y-o-y	FY09	FY10E	QE Sep 09	Var. %	y-o-y	FY09	FY10E
ABB*	14,538	(9.7)	(4.3)	68,370	65,841	1,223	(18.4)	(9.3)	7,657	6,453	831	(18.1)	(20.7)	5,474	4,116
Bharat Heavy Electricals	66,252	(2.4)	24.0	262,123	322,811	11,295	12.3	58.9	37,046	56,249	8,579	8.9	39.3	30,977	43,563
EMCO	2,014	(18.4)	(12.7)	9,962	10,859	260	(18.9)	(15.2)	1,382	1,411	94	(17.5)	(17.1)	532	610
Crompton Greaves	21,890	(4.3)	4.6	87,373	93,007	3,067	19.7	32.3	9,945	11,383	1,934	28.1	61.0	5,599	6,988

**Calendar year end reporting*

Q2FY10 earnings review

Power Transmission

- Power transmission companies grew by 14% yoy led by strong order backlogs
  - KEC's growth was muted led by more designing work during the quarter
- Operating margins improved led by lower raw material costs and execution of higher margin orders (KEC: design work has lower costs)
  - Jyoti's margins were impacted due to higher sub contracting and frieght expenses as also high base effect
- Net earnings (pre-exceptionals) for companies grew by 34% yoy led by revenue growth, margin expansion as also savings in interest costs across all companies (lower debt due to tightening working capital cycle and lower interest rates)
- Order backlog and booking continued to remain robust during the quarter led by expansion and upgradation of transmission networks, especially by state utilities
  - PGCIL order intake to pick up sharply in 2HFY10 as limited ordering in 1HFY10 due to elections and change in bidding process
- Overall, we expect power transmission companies to maintain their earnings growth trajectory on the back of strong order inflows
- Maintain Overweight with Kalpataru as our top pick

(Rs m)	Net Sales					EBITDA					Profit After Tax				
Company	QE Sep 09	Var. %	y-o-y	FY09	FY10E	QE Sep 09	Var. %	y-o-y	FY09	FY10E	QE Sep 09	Var. %	y-o-y	FY09	FY10E
KEC International	8,751	(5.6)	8.5	34,274	39,177	948	(2.7)	16.5	3,940	4,088	446	1.0	31.6	1,776	1,849
Kalpataru Power	5,502	7.8	27.2	32,461	37,603	692	16.9	32.4	3,298	4,100	369	15.4	65.6	1,109	1,658
Jyoti Structures	4,696	(7.1)	11.5	17,171	20,621	505	(8.2)	0.2	1,959	2,223	209	(5.2)	3.8	797	914

Q2FY10 earnings review

Power utilities

- Utilities witnessed a 15% yoy revenue growth mainly due to higher volumes and tariffs of NTPC
  - NTPC's revenues increased sharply by 21.1% yoy, due to additional capacity being commissioned and higher tariffs as per new CERC tariff regulations (2009-2014)
  - PTC's revenues jumped 21% yoy, led by increased volumes from captive power units
- EBITDA increased by 38% due to lower fuel costs
- Net earnings (pre-exceptional) for power utilities increased by 10% yoy due to decline in earnings of Rel Infra, Tata Power, PTC and KSK Energy due to higher tax rate (probably due to higher MAT rate)
- We maintain Reliance Infrastructure as our top pick in the sector

(Rs m)	Net Sales					EBITDA					Profit After Tax				
Company	QE Sep 09	Var. %	y-o-y	FY09	FY10E	QE Sep 09	Var. %	y-o-y	FY09	FY10E	QE Sep 09	Var. %	y-o-y	FY09	FY10E
CESC	9,490	18.6	25.7	30,310	34,722	2,100	9.3	12.3	6,120	8,466	1,260	19.5	1.6	4,025	4,731
NTPC	107,839	(6.6)	21.1	401,454	495,954	31,367	(1.1)	44.4	91,537	139,849	21,121	1.3	15.6	77,271	94,647
PTC	24,582	(29.3)	21.0	65,289	110,053	297	37.3	111.0	250	770	309	(19.4)	(5.7)	899	1,214
KSK Energy Ventures	1,213	(9.1)	4.5	3,801	6,364	320	15.0	10.2	2,181	4,010	372	(26.7)	(17.9)	1,299	2,004
Reliance Infrastructure	25,719	9.1	5.6	96,821	105,001	2,352	(2.5)	(1.5)	6,836	11,028	2,644	(14.2)	(9.2)	11,899	14,068
Tata Power Company	16,723	(13.3)	(14.7)	72,363	74,814	3,680	(11.7)	37.6	11,190	14,584	1,801	(10.5)	(4.2)	6,021	7,345

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Real Estate

- Real estate majors within our coverage space posted a 52% yoy decline in net sales due to steep decline in revenue recognized
- PAT for the quarter for our real estate universe declined 73.2% yoy due to lower recognition of sales.
- Unitech and DLF are witnessing significant increase in demand for residential properties in the current fiscal. Since the beginning of year, Unitech has launched ~21msf of properties and successfully sold ~10.1msf of launched properties. DLF has sold ~4msf of properties YTDFY10 and is likely to launch ~10msf of residential properties in H2FY10.
- Unitech has repaid debt of Rs25bn from proceeds of QIP and has total debt of Rs65bn at the end of Q2FY10. Going forward both DLF & Unitech would be focusing on deleveraging further and development of affordable housing.

(Rs m)	Net Sales					EBITDA					Profit After Tax				
Company	QE Sep 09	Var. %	y-o-y	FY09	FY10E	QE Sep 09	Var. %	y-o-y	FY09	FY10E	QE Sep 09	Var. %	y-o-y	FY09	FY10E
Unitech	5,095	(20.6)	(48.3)	28,945	37,989	2,970	(22.0)	(51.4)	15,935	18,848	1,779	(19.7)	(51.2)	11,978	11,319
DLF	17,509	0.2	(53.2)	100,390	69,256	9,138.0	10.0	(58.8)	54,865	30,763	4,394.0	(11.3)	(77.3)	46,284	23,099

Q2FY10 earnings review

Retail

- ✓ Retail sector has reported revenue growth of 12% at Rs34.7bn, EBITDA growth of 16% at Rs3.4bn and PAT growth of 28% at Rs1.4bn
- ✓ Pantaloon Retail's growth is lower than estimates – impacted by slower retail roll out (115,000 sq. ft. added) and store closure in western India (swine flu). However, margins improve by 50bp, in line with our estimates
- ✓ Ahead of estimates, Shoppers Stop has reported net sales growth of 8% with same store sales growth at 1.8%; Margins have improved by 680bp at 6.6%
- ✓ Titan's watches business has reported 2.6% decline with volume decline at ~10%; jewelry business grew by 9% but underlying volume decline stood at 9%
- ✓ PRIL has announced business restructuring
  - Hiving off of Future Brands, Future Knowledge and Future Learning to promoter company for Rs1.9bn (invested Rs900m so far)
  - Transfer the holding in Future Capital and Future Generali in a subsidiary and eventually bring down the direct stake to 26%, while PRIL's shareholder will have direct holding in Future Capital (which would include Future Generali)
  - Transfer of value retail business into a subsidiary with a view to raise funds/ rope in strategic partner
- ✓ We maintain our bullish stance on the sector; Neutral call Titan

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Q2FY10 earnings review

Retail

(Rs m)	Net Sales					EBITDA					Profit After Tax				
Company	**QE Sep 09**	**Var. %**	**y-o-y**	**FY09**	**FY10E**	**QE Sep 09**	**Var. %**	**y-o-y**	**FY09**	**FY10E**	**QE Sep 09**	**Var. %**	**y-o-y**	**FY09**	**FY10E**
Pantaloon Retail	17,770	(5.2)	17.6	63,418	80,083	1,901	(4.9)	22.8	6,683	8,265	438	(10.9)	21.1	1,409	2,052
Provogue India	1,214	(2.7)	9.0	3,597	4,047	119	(17.4)	35.4	382	474	88	4.8	11.9	291	319
Shoppers Stop	4,223	1.3	10.4	13,072	14,772	254	5.4	-	240	945	88	31.8	-	(636)	233
Titan Industries	11,468	(0.7)	5.4	38,327	43,888	1,081	(16.4)	(14.3)	3,038	3,687	776	(5.0)	(11.0)	1,748	2,296

Q2FY10 earnings review

Telecom

- ✓ Sharp erosion in minute market share base for incumbents
- ✓ 9-10% ARPU erosion for Bharti and Idea, 23% for RCOM
- ✓ Tight control on operating costs in the face of falling ARPUs
- ✓ Wireless EBIDTA/min dropped 7-11%qoq for Bharti and Idea; 30%qoq for RCOM
- ✓ Change in depreciation policy triggers earnings upgrade for RCOM
- ✓ RCOM and Idea lower capex guidance; Bharti indicates potential slowdown in Indus capex
- ✓ All operators launch per second billing plans; RCOM's is the most aggressive

(Rs m)	Net Sales					EBITDA					Profit After Tax				
Company	QE Sep 09	Var. %	y-o-y	FY09	FY10E	QE Sep 09	Var. %	y-o-y	FY09	FY10E	QE Sep 09	Var. %	y-o-y	FY09	FY10E
Bharti Airtel	98,455	(4.1)	9.1	369,615	394,918	41,416	(1.7)	12.0	151,680	163,035	23,888	(0.4)	(9.3)	96,622	88,570
IDEA Cellular	29,739	(5.7)	29.1	101,544	121,333	8,095	(8.3)	33.5	28,364	32,643	1,989	(29.1)	38.1	8,816	7,892
Reliance Comm.	57,026	(11.3)	1.0	229,485	234,187	20,198	(21.5)	(12.2)	93,049	88,759	10,235	11.5	(5.0)	45,175	34,496

Q2FY10 earnings review

Transportation

- **GE Shipping**
  - Inline with expectations, GESCO reported one its worst quarters in its operating history. With tanker markets not making money for the last 3-4 months, GESCO reported a 81% decline in PAT at Rs968m (including profit on sale of ship at Rs538m).
  - Consolidated debt at Rs21bn (Gross debt at Rs52bn, cash at Rs32bn). Capex at $900m over the next 2 years.
  - The global economic recovery, and thereby improvement in freight rates, remains a key moniterable
  - While we expect the stock to remain range bound in the near term (stock is currently at ~0.8x NAV); maintain outperformer with a 12-15 month perspective.
- **Jet Airways**
  - Inline with estimates, Jet Airways reported numbers for Q2FY10, with consolidated revenues declining by 26% at Rs26.3bn EBITDA loss of Rs736mn and net loss pre – exceptional at Rs5bn
  - The 5 day strike by Indian pilots during the quarter, led to an estimated revenue loss on account of ~ $16.0m
  - Revenues from international operations in the quarter include ~Rs2.5bn from lease incomes. However Sept onwards, 6 out of the 9 aircrafts currently on lease with various operators in the gulf is expected to come off.
  - Jet reported consolidated gross debt at $3.1bn ($2.2bn is aircraft debt) and cash at $75m. The current payment obligations amount to ~$330m.While macro-economic environment is expected to improve; ability to raise funds is a key moniterable.

(Rs m)	Net Sales					EBITDA					Profit After Tax				
Company	QE Sep 09	Var. %	y-o-y	FY09	FY10E	QE Sep 09	Var. %	y-o-y	FY09	FY10E	QE Sep 09	Var. %	y-o-y	FY09	FY10E
Great Eastern Shipping	4,339	15.8	(49.8)	37,916	26,809	1,617	8.0	(68.8)	15,553	7,179	968	29.8	(80.9)	13,516	4,731
Jet Airways	26,258	3.8	(25.1)	130,778	107,936	(736)	34.8	(88.0)	(8,329)	6,000	(5,328)	7.4	(19.0)	(20,972)	(11,592)

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