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# 4QFY11 Results Preview

AMBIT
Acumen at work

RESULTS PREVIEW


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## Spring Is In The Air?

**Whilst there are an equal number of upgrades and downgrades for our FY12 net earnings, the common trend visible across sectors — net earnings growth behind topline growth — highlights rising input and finance cost pressure. Although we estimate sequentially better earnings growth in this quarter, we expect macro-political fundamentals (high inflation, weak GDP growth and ongoing policy paralysis) to remain weak in the near term thereby warranting a de-rating of Indian equities.**

**Upgrades in consumption stories:** Whilst autos, media and telecom are witnessing strong consumption volumes, metals are riding the global commodity wave. Our key top picks in these sectors are Tata Motors (Autos), DB Corp (Media), Bharti Airtel (Telecom), and Sesa Goa (Minerals).

**Inflationary pressures visible across sectors:** Despite strong volume growth expected across consumption sectors and the expected improvement in building materials/capital goods, we find that nearly all companies are grappling with rising raw material, employee and interest costs. We expect most of the sectors to report net earnings growth behind revenue growth in FY11.

**Valuations supporting dominance of BUYs in coverage:** Barring a few companies with either weak competitive positioning or higher valuations (Bank of India, Ambuja Cement, ACC, NMDC, Idea, Adani Power), we presently have no SELL recommendations and find support in historically cheap valuations for most of our BUY recommendations.

**Macro concerns don't appear to be receding:** Our economist Ritika Mankar highlights that India is in a structurally high inflation period, which could impact equity returns for most sectors. Moreover, the near-term macro pressures of lower GDP and policy paralysis, could lead to a de-rating of the Indian market before it starts rallying post the state elections.

**Exhibit 1: Quarterly earnings performance of the Ambit universe**

| (%) | Revenue growth | | | EBITDA growth* | | | Net income growth | | |
|---|---|---|---|---|---|---|---|---|---|
| | CQ | PQ | P4Q | CQ | PQ | P4Q | CQ | PQ | P4Q |
| Automobiles | 21 | 24 | 42 | 22 | 23 | 104 | 40 | 62 | 259 |
| Banking* | 33 | 34 | 36 | 31 | 28 | 23 | 29 | 27 | 22 |
| Capital Goods | (14) | 22 | 14 | (25) | 258 | 160 | NA | NA | NA |
| Cement | 47 | 34 | 14 | 9 | (6) | (19) | 8 | (2) | (31) |
| Construction | 17 | 10 | 19 | 9 | 11 | 25 | (5) | (10) | (4) |
| Consumer | 22 | 25 | 24 | 20 | 17 | 16 | 25 | 25 | 16 |
| Education | 28 | 38 | 37 | 122 | 24 | 21 | 106 | 72 | 31 |
| Media | 17 | 36 | 29 | 5 | 35 | 40 | 6 | 22 | 30 |
| Metals & Mining | 19 | 15 | 12 | 10 | 9 | 73 | 2 | 20 | 128 |
| NBFCs* | 41 | 62 | 87 | 44 | 56 | 107 | 30 | 57 | 156 |
| Real Estate | 4 | 13 | 40 | 16 | 35 | 48 | 13 | 9 | 23 |
| Stockbrokers* | (2) | 27 | 57 | (25) | 24 | 62 | (38) | 15 | 127 |
| Technology | 25 | 23 | 16 | 19 | 17 | 14 | 16 | 22 | 21 |
| Telecom | 34 | 32 | 17 | 27 | 18 | 2 | (32) | (32) | (32) |
| Utilities | 61 | 30 | 58 | 98 | 4 | 75 | 68 | (9) | 88 |

*Source: Company, Ambit Capital research*
*Note: CQ: Current quarter YoY; PQ: Previous quarter YoY; P4Q: Previous 4 quarter YoY; *Operating income for Banks, NBFCs and Stockbrokers*

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## 4QFY11 Results Preview – Spring Is In The Air?



## Sectors

**Exhibit 2: Sectoral snaphsot ahead of results**

| | FY12 estimate revisions before results | | Compared to FY12 consensus | | Stance | |
|---|---|---|---|---|---|---|
| | Up | Down | Higher | Lower | BUY | SELL |
| Automobiles | Ashok Leyland<br>Hero Honda<br>Tata Motors<br>Bajaj Auto | Maruti Suzuki | Bajaj Auto<br>Tata Motors | Ashok Leyland Hero Honda | Bajaj Auto<br>Tata Motors<br>Maruti Suzuki<br>Ashok Leyland | |
| Banking | Bank of Baroda | Bank of India<br>Axis Bank<br>HDFC Bank<br>Punjab National Bank | Bank of Baroda<br>City Union Bank<br>Union Bank | Bank of India<br>HDFC Bank<br>Punjab National Bank<br>South Indian Bank | Bank of Baroda<br>Andhra Bank<br>City Union Bank<br>Union Bank | Bank of India |
| Capital Goods | | BGR Energy | Suzlon | BGR Energy | Suzlon<br>BGR Energy | |
| Construction | | | | Nagarjuna | KNR<br>CCCL<br>Nagarjuna | |
| Consumer | Titan | Nestle | Dabur, Titan<br>Nestle | Pantaloon | Dabur<br>Titan<br>ITC<br>Nestle | |
| Education | | | Everonn | Educomp | | Educomp<br>Everonn |
| Media | Entertainment Network<br>Zee Telefilms<br>HT Media | Jagran Prakashan | Sun TV | Entertainment Network<br>Jagran Prakashan<br>Zee Tele<br>DB Corp | Sun TV<br>DB Corp<br>Jagran Prakashan<br>Entertainment Network | |
| Metals | Hindalco<br>Sesa Goa | Nalco | SAIL<br>Nalco | Tata Steel<br>JSW Steel<br>Sesa Goa<br>Hindalco<br>Hindustan Zinc<br>Sterlite | SESA Goa<br>JSW Steel<br>Hindustan Zinc<br>Sterlite<br>Tata Steel | NMDC |
| NBFCs | | | | Shriram Transport,<br>HDFC Ltd.<br>M&M Financial | Manappuram | |
| Real Estate | DLF | | DLF<br>HDIL | Orbit<br>Puravankara<br>Unitech<br>Sobha Developers | Sobha<br>Puravankara<br>HDIL | |
| Stockbrokers | | Motilal Oswal<br>Edelweiss | | Motilal Oswal<br>Edelweiss | Motilal Oswal<br>Edelweiss | |
| Technology | | eClerx<br>HCL Tech<br>Infosys | HCL Tech<br>Wipro<br>TCS | Persistent<br>eClerx<br>Polaris<br>Infosys<br>Redington | HCL Tech<br>eClerx<br>Persistent<br>Polaris<br>Redington | Wipro<br>Infosys |
| Telecom | Idea | | Bharti Airtel | Idea<br>RCom | Bharti Airtel | Idea |
| Utilities | Torrent Power | | Torrent Power<br>JSW Energy | Adani Power | Torrent Power<br>JSW Energy | Adani Power |

*Source: Ambit Capital research*

**Exhibit 3: Sector views**

| Sector | Views | Estimate revisions for FY12 |
|---|---|---|
| Automobiles | ▪ On the back of strong volumes, the sector is expected to post strong revenue growth<br>▪ Significant increase in input costs to keep margins and bottomline growth muted | Up |
| Banking | ▪ We expect average YoY margins to come off by 30bps in FY12<br>▪ Credit growth to moderate closer to 21% as banks remain conscious of their margins | Down |
| Capital Goods | ▪ Execution is likely to remain strong on the back of existing order backlog<br>▪ Whilst BGR is likely to disappoint, Suzlon is likely to report significant improvement in order intake | Unchanged |
| Cement | ▪ Net cement realisation to increase by 12% QoQ in 4QFY11<br>▪ Higher fuel and freight cost to moderate realisation gains QoQ | Unchanged |
| Construction | ▪ FY12 revenue growth will be higher v/s FY11 on account of higher order inflow and better execution<br>▪ High interest rates to keep PBT margins under pressure in FY12 | Unchanged |
| Consumer | ▪ Do not anticipate any major change in consumption growth trends v/s the previous quarter<br>▪ Gross margins will remain stressed due to sharp increases in commodity prices | Unchanged |
| Media | ▪ Strong advertising outlook and digitization to fuel growth<br>▪ Lower content cost to help sustain margins | Up |
| Metals | ▪ In FY12, we expect the raw material cost push, especially coking coal to hit the financials of steel companies, offsetting the positive impact of higher steel prices seen in 4QFY12<br>▪ We are cautious on zinc and aluminium metal prices as our CY11 average metal price outlook is lower than spot prices | Unchanged |
| NBFCs | ▪ Loan growth momentum to continue but slight contraction in NIMs in FY12 | Unchanged |
| Real Estate | ▪ Execution challenges and higher residential prices to result in muted revenue growth<br>▪ Credit pricing may increase across developers; to result in cashflow stress | Up |
| Stockbrokers | ▪ Lower share of cash volumes coupled with lower investment banking and/or financing opportunities will keep earnings muted until 1HFY12 | Down |
| Telecom | ▪ Strong subscriber growth, stable tariffs and improving network traffic to support revenue growth<br>▪ Post 3G launch, operating expenses as well as spectrum amortization and interest spend to rise | Unchanged |
| Technology | ▪ Downward revision primarily led by company specific change for eClerx wherein FY12 tax rates factor in MAT rate (20% v/s 11.9% earlier)<br>▪ Also, softer expectations for Infosys leads us to downgrade EPS marginally | Down |
| Utilities | ▪ We expect sequential improvement in PLF due to significant improvement in the merchant rate<br>▪ However, higher fuel prices are likely to play spoilsport | Unchanged |

*Source: Ambit Capital research*

**Exhibit 4: Top recommendations (page 1 of 2)**

| Recommendation | Rationale | Catalysts |
|---|---|---|
| **BUY**<br>**Torrent Power** (TPW IN)<br>CMP: Rs256<br>Target Price: Rs327 | ▪ Fully integrated player present across the entire value chain<br>▪ Free cash flow yield of 10%+<br>▪ Zero exposure to Chinese equipment | ▪ Financial closure of Dahej project<br>▪ Improving PLFs on the back of higher merchant realization |
| **BUY**<br>**KNR Constructions** (KNRC IN)<br>CMP: Rs 119<br>Target Price: Rs 200 | ▪ Low debt:equity of 0.2x gives enough headroom to capture growth in the long run<br>▪ Strongest on the cost competitiveness metric amongst peers<br>▪ Growing opportunity in the roads segment | ▪ Award of new orders in the pipeline<br>▪ Revival of road project orders |
| **BUY**<br>**Nestle India** (NEST IN)<br>CMP: Rs3,664<br>Target Price: Rs4,200 | ▪ Capacity additions and demand trends to help volumes in CY11<br>▪ Cost levers (staff and A&P expenses) to help sustain margins | ▪ Healthy volume growth in 1QCY11 results<br>▪ Margins remaining strong in 1QCY11 results |
| **BUY**<br>**Tata Motors**<br>(TTMT IN)<br>CMP: Rs1,243<br>Target Price: Rs1,600 | ▪ Despite moderation, CV sales to remain above the long term average in FY12<br>▪ JLR volume and margin performance appears encouraging<br>▪ Trading at attractive valuations | ▪ JLR margins remaining healthy in 4QFY11 results<br>▪ Strong JLR March sales |
| **BUY**<br>**JSW Steel**<br>(JSTL IN Equity)<br>CMP: Rs950<br>Target Price: Rs 1,350 | ▪ Increase in steel prices | ▪ Expansion in capacity<br>▪ Margin improvement |
| **BUY**<br>**Bharti Airtel**<br>(BHARTI IN)<br>CMP: Rs355<br>Target Price: Rs425 | ▪ Best placed to monetize 3G spectrum<br>▪ Turnaround in Africa to boost revenue and profitability<br>▪ Better placed to withstand the impact of regulatory liability | ▪ Profitability improvement in African operations<br>▪ Regulatory stability and New Telecom Policy 2011 |

## Top recommendations (contd)

| Recommendation | Rationale | Catalysts |
|---|---|---|
| **BUY**<br>**HCL Tech** (HCLT IN)<br>CMP: Rs488<br>Target Price: Rs595 | ▪ Strong positioning with respect to short term drivers (remote infrastructure management) and long term drivers (consulting)<br>▪ Inexpensive valuations at 15x FY12 earnings (v/s peer average of 22x earnings) | ▪ Pick up in discretionary spending<br>▪ Margin improvement in 4QFY11 |
| **BUY**<br>**Redington** (REDI IN)<br>CMP: Rs80<br>Target Price: Rs98 | ▪ Strong India growth led by Blackberry momentum, new Smartphone and tablet sign-ups, and eGovernance spending<br>▪ Worries on impact of rising interest rates is overdone given 50 – 60 % of funding comes from overseas buyers credit | ▪ Strong FY11 and 4Q numbers in May<br>▪ New Smartphone and PC vendor signups |
| **BUY**<br>**DB Corp** (DBCL IN)<br>CMP: Rs258<br>Target Price: Rs310 | ▪ Launch of services in new states to expand addressable market<br>▪ Diversified revenue and EBITDA portfolio<br>▪ Favorable newsprint prices to benefit | ▪ Strong uptake in readership and ad revenue<br>▪ Lower losses in new areas |
| **BUY**<br>**Manappuram** (MGFL IN )<br>CMP: Rs131<br>Target Price: Rs143 | ▪ A structural play on the unavailability of formal debt finance for a large part of the Indian population and the abundant availability of gold as collateral in India.<br>▪ Manappuram has a large branch presence, a strong brand name and well developed risk management architecture to capture this opportunity. | ▪ 4Q results will convince investors that MGFL's growth trajectory is independent of the priority sector status which was withdrawn by the RBI. |
| **SELL**<br>**Infosys** (INFO IN)<br>CMP: Rs3,218<br>Target Price: Rs2,612 | ▪ Lack of clear strategic focus on either scaling the business or investing seriously in front end capabilities (to move up the value chain).<br>▪ High current consensus expectations of short term and long term growth, even as Infosys is losing share to Indian and MNC peers | ▪ Soft performance in 4QFY11 and weak FY12 guidance during results<br>▪ Continued outperformance by smaller and larger Tier 1 IT peers. |
| **SELL**<br>**Educomp** (EDSL IN)<br>CMP: Rs432<br>Target Price: Rs372 | ▪ Weakening core Smart_Class business due to market saturation in high-end schools and rising competition.<br>▪ Slower than expected ramp-up in K-12 schools, with continuing losses in other nascent businesses. | ▪ Missing FY11 PAT guidance and weak guidance for FY12 PAT during results in May 2011<br>▪ Weakening pricing and penetration in Smart_Class due to competition from strong competitors. |
| **SELL**<br>**Adani Power** (ADANI IN)<br>CMP: Rs116<br>Target Price: Rs128 | ▪ Punchy valuations (3.0x FY12 P/BV, 65%+ premium compared with peers)<br>▪ Rising fuel costs to hurt the most given ~51% of the portfolio tied up on fixed price PPAs<br>▪ 100% reliance on Chinese equipment | ▪ Lower PLF on super critical equipment<br>▪ Potential execution slippages |
| **SELL**<br>**Bank of India** (BOI IN)<br>CMP: Rs480<br>Target Price: Rs490 | ▪ From a relative valuation perspective, we consider Bank of India as an attractive 'shorting idea'.<br>▪ The stock currently trades at 1.5x our FY12E ABVPS of Rs314, nearly on a par with Bank of Baroda for a business with less reliable and predictable RoEs | ▪ Higher pension costs (~26% retired employees) |

*Source: Ambit Capital research*

## Exhibit 5: Ambit valuation summary

| | Reco | CMP | Target Price | Market Cap | | EPS growth (%) | | | P/E (x) | | | P/B (x) | | | EV/EBITDA (x) | | | ROE (%) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Rs | Rs | Rsbn | US$mn | FY11E | FY12E | FY13E | FY11E | FY12E | FY13E | FY11E | FY12E | FY13E | FY11E | FY12E | FY13E | FY11E | FY12E | FY13E |
| **Automobiles** | | | | | | | | | | | | | | | | | | | | |
| Ashok Leyland | BUY | 58 | 75 | 78 | 1,733 | 31 | 24 | 16 | 13.9 | 11.3 | 9.7 | 2.0 | 1.8 | 1.6 | 9.5 | 8.2 | 7.2 | 15 | 17 | 18 |
| Bajaj Auto | BUY | 1,457 | 1,600 | 422 | 9,420 | 39 | 18 | 15 | 16.2 | 13.7 | 12.0 | 9.0 | 6.3 | 4.6 | 12.4 | 10.7 | 9.4 | 68 | 54 | 44 |
| Hero Honda | HOLD | 1,620 | 1,625 | 323 | 7,228 | (8) | 5 | 15 | 15.8 | 15.1 | 13.1 | 7.1 | 5.7 | 4.6 | 13.4 | 12.6 | 11.0 | 51 | 42 | 39 |
| Maruti Suzuki | BUY | 1,302 | 1,600 | 376 | 8,402 | (8) | 16 | 14 | 16.2 | 13.9 | 12.2 | 2.7 | 2.3 | 1.9 | 8.9 | 7.5 | 6.4 | 18 | 18 | 17 |
| Tata Motors | BUY | 1,252 | 1,600 | 741 | 16,552 | 167 | 14 | 11 | 8.6 | 7.5 | 6.7 | 3.6 | 2.4 | 1.8 | 6.0 | 5.2 | 4.7 | 61 | 39 | 31 |
| **Cement** | | | | | | | | | | | | | | | | | | | | |
| ACC | SELL | 1,115 | 938 | 209 | 4,677 | (26) | (31) | 41 | 17.6 | 25.6 | 18.2 | 3.2 | 3.1 | 2.8 | 10.1 | 11.7 | 9.1 | 19 | 12 | 16 |
| Ambuja Cement | SELL | 149 | 123 | 227 | 5,077 | 2 | (16) | 21 | 18.3 | 21.8 | 18.0 | 3.1 | 2.8 | 2.6 | 10.5 | 11.4 | 9.5 | 18 | 14 | 15 |
| Shree Cement | BUY | 2,005 | 2,064 | 70 | 1,561 | (68) | (11) | 173 | 30.9 | 34.5 | 12.7 | 3.5 | 3.3 | 2.7 | 10.0 | 8.8 | 6.5 | 12 | 10 | 24 |
| Ultra Tech | HOLD | 1,120 | 1,100 | 307 | 6,858 | (50) | 28 | 44 | 25.8 | 20.2 | 14.0 | 2.8 | 2.5 | 2.1 | 11.8 | 9.6 | 7.4 | 15 | 13 | 16 |
| **Construction** | | | | | | | | | | | | | | | | | | | | |
| KNR Construction | BUY | 118 | 200 | 3 | 74 | 14 | (25) | 34 | 5.2 | 6.8 | 5.1 | 0.9 | 0.8 | 0.7 | 4.0 | 4.1 | 3.2 | 17 | 12 | 14 |
| IVRCL Infra | HOLD | 86 | 96 | 23 | 515 | 168 | 19 | 35 | 12.2 | 10.3 | 7.6 | 1.1 | 1.0 | 0.9 | 10.8 | 8.9 | 7.1 | 10 | 11 | 13 |
| NCC | BUY | 108 | 135 | 28 | 619 | (2) | (6) | 35 | 14.7 | 15.6 | 11.5 | 1.2 | 1.1 | 1.0 | 13.0 | 11.4 | 9.2 | 8 | 7 | 9 |
| CCCL | BUY | 52 | 83 | 10 | 217 | (7) | 12 | 40 | 11.4 | 10.1 | 7.2 | 1.5 | 1.3 | 1.1 | 5.7 | 4.9 | 3.8 | 14 | 14 | 17 |
| **Telecom** | | | | | | | | | | | | | | | | | | | | |
| Bharti Airtel | BUY | 359 | 425 | 1,365 | 30,496 | (25) | 31 | 34 | 20.3 | 15.5 | 11.6 | 2.8 | 2.4 | 2.0 | 6.6 | 5.3 | 4.6 | 15 | 16 | 18 |
| Idea Cellular | SELL | 67 | 63 | 223 | 4,978 | (8) | (39) | 127 | 25.9 | 42.2 | 18.5 | 1.8 | 1.7 | 1.6 | 8.8 | 7.2 | 5.8 | 7 | 4 | 9 |
| Reliance Comm | HOLD | 109 | 120 | 225 | 5,027 | (68) | 1 | 43 | 14.9 | 14.8 | 10.4 | 0.6 | 0.6 | 0.5 | 8.4 | 7.7 | 6.8 | 4 | 4 | 5 |
| **Power** | | | | | | | | | | | | | | | | | | | | |
| Adani Power | SELL | 119 | 128 | 259 | 5,782 | 263 | 188 | 80 | 41.9 | 14.5 | 8.1 | 4.0 | 3.2 | 2.3 | 28.0 | 10.1 | 4.7 | 10 | 24 | 33 |
| JSW Energy | BUY | 77 | 109 | 127 | 2,836 | 66 | 61 | (20) | 10.2 | 6.4 | 8.0 | 2.1 | 1.6 | 1.3 | 8.8 | 4.3 | 5.2 | 23 | 28 | 18 |
| Torrent Power | BUY | 257 | 327 | 121 | 2,710 | 14 | 34 | 6 | 12.7 | 9.5 | 8.9 | 2.5 | 1.9 | 1.6 | 7.4 | 6.4 | 6.3 | 21 | 23 | 20 |
| **Capital Goods** | | | | | | | | | | | | | | | | | | | | |
| Suzlon Energy | BUY | 50 | 62 | 88 | 1,966 | (14) | (137) | 140 | (9.1) | 24.9 | 10.3 | 1.2 | 1.2 | 1.0 | 28.9 | 9.3 | 7.0 | (14) | 5 | 11 |
| BGR Energy | BUY | 537 | 710 | 39 | 865 | 54 | 9 | 16 | 12.4 | 11.4 | 9.8 | 4.1 | 3.2 | 2.5 | 7.2 | 6.0 | 5.1 | 37 | 31 | 28 |
| **Consumer** | | | | | | | | | | | | | | | | | | | | |
| Titan Inds | BUY | 3,853 | 4,000 | 171 | 3,821 | 86 | 31 | 24 | 36.6 | 27.8 | 22.4 | 15.6 | 11.0 | 8.1 | 26.2 | 19.9 | 15.6 | 51 | 46 | 42 |
| Pantaloon Retail | HOLD | 283 | 325 | 60 | 1,338 | (18) | 31 | 33 | 31.7 | 24.2 | 18.3 | 2.1 | 1.8 | 1.7 | 11.6 | 9.5 | 8.0 | 7 | 8 | 10 |
| Colgate Palmolive | HOLD | 827 | 875 | 112 | 2,513 | (2) | 17 | 18 | 27.6 | 23.6 | 20.0 | 27.3 | 22.2 | 19.2 | 20.1 | 17.4 | 14.6 | 110 | 104 | 103 |
| Nestle India | BUY | 3,690 | 4,200 | 356 | 7,949 | 18 | 20 | 7 | 35.7 | 29.7 | 27.8 | 25.9 | 18.9 | 18.5 | 24.1 | 20.1 | 18.0 | 86 | 73 | 67 |
| Godrej Consumer | HOLD | 373 | 400 | 121 | 2,697 | 33 | 13 | 18 | 25.5 | 22.5 | 19.2 | 6.9 | 5.8 | 5.0 | 20.9 | 17.9 | 16.0 | 35 | 28 | 28 |
| Dabur India | BUY | 97 | 115 | 169 | 3,777 | 18 | 32 | 23 | 28.7 | 21.8 | 17.8 | 13.2 | 9.7 | 7.2 | 20.9 | 16.3 | 13.7 | 53 | 51 | 47 |
| Hind. Unilever | HOLD | 279 | 300 | 610 | 13,622 | 1 | 10 | 14 | 29.3 | 26.7 | 23.4 | 20.7 | 18.7 | 16.7 | 21.5 | 19.4 | 17.2 | 75 | 74 | 75 |
| ITC | BUY | 185 | 200 | 1,430 | 31,961 | 21 | 21 | 19 | 28.6 | 23.6 | 19.9 | 9.4 | 7.7 | 6.3 | 17.5 | 14.3 | 12.1 | 33 | 34 | 34 |
| **Metals** | | | | | | | | | | | | | | | | | | | | |
| Hindalco Inds | HOLD | 216 | 235 | 414 | 9,248 | 119 | 1 | 38 | 16.0 | 15.9 | 11.4 | 1.7 | 1.6 | 1.5 | 7.5 | 7.1 | 5.6 | 11 | 10 | 13 |
| Hindustan Zinc | BUY | 141 | 160 | 595 | 13,288 | 15 | 11 | 19 | 12.9 | 11.6 | 9.7 | 2.7 | 2.2 | 1.8 | 10.3 | 9.1 | 7.7 | 21 | 19 | 19 |
| JSW Steel | BUY | 966 | 1,360 | 216 | 4,817 | 17 | 63 | 55 | 15.3 | 11.4 | 7.3 | 1.4 | 1.2 | 1.1 | 9.4 | 7.6 | 5.4 | 8 | 11 | 15 |
| NALCO | HOLD | 98 | 114 | 253 | 5,658 | 47 | 17 | 18 | 21.3 | 18.2 | 15.4 | 2.2 | 2.1 | 1.9 | 12.6 | 10.3 | 8.8 | 11 | 11 | 12 |
| NMDC | SELL | 300 | 260 | 1,189 | 26,563 | 85 | 30 | 24 | 18.7 | 14.3 | 11.5 | 6.2 | 4.7 | 3.6 | 12.1 | 9.3 | 7.4 | 33 | 33 | 31 |
| S A I L | HOLD | 172 | 195 | 709 | 15,851 | (13) | 21 | 28 | 12.2 | 10.1 | 7.8 | 1.9 | 1.6 | 1.4 | 7.1 | 5.9 | 4.6 | 15 | 16 | 18 |
| Sesa Goa | BUY | 293 | 325 | 252 | 5,636 | 48 | (21) | 11 | 6.3 | 8.0 | 7.2 | 2.3 | 1.8 | 1.5 | 5.6 | 5.9 | 5.4 | 35 | 22 | 20 |
| Sterlite Inds | BUY | 173 | 190 | 581 | 12,987 | 17 | 40 | 32 | 12.7 | 9.4 | 7.1 | 1.9 | 1.7 | 1.5 | 7.9 | 5.5 | 3.9 | 11 | 13 | 15 |
| Tata Steel | BUY | 630 | 720 | 605 | 13,508 | (350) | 9 | 33 | 11.1 | 10.2 | 7.6 | 1.9 | 1.7 | 1.4 | 7.5 | 7.1 | 5.8 | 19 | 16 | 19 |

## Ambit valuation summary

| | Reco | CMP | Target Price | Market Cap | | EPS growth (%) | | | P/E (x) | | | P/B (x) | | | EV/EBITDA (x) | | | ROE (%) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Rs | Rs | Rsbn | US$mn | FY11E | FY12E | FY13E | FY11E | FY12E | FY13E | FY11E | FY12E | FY13E | FY11E | FY12E | FY13E | FY11E | FY12E | FY13E |
| **Media** | | | | | | | | | | | | | | | | | | | | |
| Sun TV Network | BUY | 438 | 530 | 173 | 3,860 | 38 | 21 | - | 24.1 | 19.9 | - | 7.7 | 6.2 | - | 10.7 | 9.7 | - | 34 | 34 | - |
| Zee Entertainment | HOLD | 126 | 133 | 123 | 2,744 | (65) | 19 | - | 24.7 | 20.8 | - | 2.9 | 2.6 | - | 17.2 | 13.7 | - | 11 | 13 | - |
| DB Corp | BUY | 249 | 310 | 45 | 1,010 | 32 | 14 | 19 | 18.8 | 16.5 | 13.8 | 5.4 | 4.2 | 3.3 | 11.4 | 10.1 | 8.7 | 32 | 29 | 27 |
| Jagran Prakashan | BUY | 124 | 160 | 39 | 879 | 21 | 12 | - | 17.5 | 15.6 | - | 4.5 | 3.8 | - | 11.3 | 10.0 | - | 30 | 26 | - |
| H T Media | HOLD | 145 | 160 | 34 | 762 | 27 | 22 | - | 19.8 | 16.2 | - | 3.0 | 2.6 | - | 10.7 | 8.7 | - | 16 | 17 | - |
| ENIL | BUY | 252 | 275 | 12 | 268 | 159 | (1) | - | 25.9 | 26.2 | - | 3.2 | 2.8 | - | 15.8 | 13.3 | - | 10 | 11 | - |
| **Software** | | | | | | | | | | | | | | | | | | | | |
| Persistent | BUY | 392 | 470 | 16 | 350 | 8 | (3) | 21 | 9.9 | 10.3 | 9.7 | 1.9 | 1.6 | 1.5 | 4.9 | 3.5 | 2.4 | 19 | 16 | 16 |
| Everonn | SELL | 575 | 535 | 11 | 245 | 25 | 36 | 33 | 15.3 | 11.2 | 8.4 | 2.4 | 2.0 | 1.6 | 9.1 | 6.4 | 4.9 | 18 | 19 | 21 |
| Educomp | SELL | 451 | 372 | 43 | 963 | 27 | (6) | 25 | 13.0 | 13.8 | 11.0 | 1.9 | 1.7 | 1.4 | 8.9 | 9.2 | 7.5 | 17 | 13 | 15 |
| Redington | BUY | 80 | 98 | 32 | 712 | 23 | 24 | 22 | 13.9 | 11.2 | 9.2 | 0.5 | 0.4 | 0.4 | 8.7 | 7.0 | 5.8 | 19 | 21 | 21 |
| Polaris | BUY | 195 | 225 | 19 | 432 | 27 | 3 | 6 | 8.9 | 8.6 | 8.1 | 1.9 | 1.7 | 1.5 | 8.4 | 7.1 | 5.9 | 21 | 18 | 17 |
| HCL | BUY | 488 | 595 | 335 | 7,477 | 26 | 36 | 28 | 20.6 | 15.1 | 11.9 | 2.6 | 2.2 | 1.8 | 12.4 | 9.3 | 7.4 | 20 | 23 | 23 |
| Wipro | SELL | 481 | 351 | 1,181 | 26,381 | 15 | 13 | 18 | 22.2 | 19.6 | 16.7 | 5.2 | 4.4 | 3.6 | 21.0 | 17.7 | 14.5 | 25 | 24 | 24 |
| TCS | HOLD | 1,214 | 1,200 | 2,377 | 53,110 | 26 | 20 | 18 | 27.3 | 22.8 | 19.3 | 10.9 | 8.2 | 6.3 | 20.7 | 16.6 | 14.4 | 38 | 35 | 32 |
| Infosys | SELL | 3,278 | 2,612 | 1,882 | 42,058 | 10 | 22 | 22 | 27.2 | 22.3 | 18.3 | 7.4 | 6.0 | 4.9 | 19.2 | 16.2 | 13.4 | 28 | 30 | 29 |
| Eclerx | BUY | 645 | 780 | 19 | 416 | 72 | 3 | 24 | 15.1 | 13.3 | 12.0 | 91.5 | 116.6 | 144.5 | 13.5 | 10.7 | 8.4 | 53 | 45 | 40 |
| **Real Estate** | | | | | | | | | | | | | | | | | | | | |
| HDIL | BUY | 182 | 240 | 76 | 1,692 | 40 | 46 | (2) | 28.9 | 19.8 | 20.1 | 2.7 | 2.5 | 2.3 | 0.4 | 0.4 | 9.2 | 11 | 13 | 12 |
| Puravankara | BUY | 110 | 170 | 24 | 526 | (7) | 35 | 24 | 102.4 | 75.9 | 61.3 | 8.4 | 7.8 | 7.1 | 0.6 | 0.5 | 7.2 | 9 | 11 | 12 |
| DLF | UR | 273 | UR | 463 | 10,340 | 1 | 57 | - | 62.7 | 40.3 | - | 3.9 | 3.6 | - | 0.8 | - | 13.6 | 6 | 9 | - |
| Sobha Developers | BUY | 300 | 360 | 29 | 658 | 35 | 18 | 22 | 15.4 | 13.0 | 10.7 | 1.5 | 1.4 | 1.3 | 12.8 | 10.4 | 8.7 | 10.5 | 11.3 | 12.4 |
| Unitech | UR | 41 | UR | 108 | 2,409 | (4) | 32 | - | 236.2 | 179.0 | - | 13.1 | 12.3 | - | 0.4 | - | 8.9 | 6 | 7 | - |
| **Banks/Financial Services** | | | | | | | | | | | | | | | | | | | | |
| SBI | HOLD | 2,752 | 2,860 | 1,748 | 39,051 | 16 | 24 | - | 15.4 | 11.9 | - | 2.6 | 2.2 | - | - | - | - | 16 | 18 | - |
| ICICI Bank | HOLD | 1,122 | 1,225 | 1,292 | 28,875 | 25 | 28 | - | 24.9 | 19.5 | - | 2.4 | 2.2 | - | - | - | - | 9 | 11 | - |
| Andhra Bank | BUY | 155 | 195 | 75 | 1,679 | 19 | 14 | - | 6.0 | 5.3 | - | 1.5 | 1.2 | - | - | - | - | 26 | 24 | - |
| South Indian Bank | BUY | 24 | 25 | 28 | 617 | 22 | 27 | - | 9.5 | 7.4 | - | 1.7 | 1.4 | - | - | - | - | 17 | 20 | - |
| Punjab National Bank | BUY | 1,195 | 1,350 | 377 | 8,419 | 14 | 19 | - | 8.5 | 7.1 | - | 2.1 | 1.6 | - | - | - | - | 23 | 23 | - |
| Axis Bank | BUY | 1,432 | 1,595 | 587 | 13,126 | 21 | 29 | - | 18.0 | 13.7 | - | 3.2 | 2.7 | - | - | - | - | 19 | 21 | - |
| HDFC Bank | HOLD | 2,404 | 2,400 | 1,118 | 24,976 | 28 | 28 | - | 29.2 | 22.8 | - | 4.9 | 4.2 | - | - | - | - | 17 | 19 | - |
| City Union Bank | BUY | 49 | 60 | 20 | 442 | 32 | 32 | - | 9.4 | 7.2 | - | 2.1 | 1.7 | - | - | - | - | 23 | 25 | - |
| Union Bank of India | BUY | 352 | 425 | 178 | 3,974 | 3 | 35 | - | 8.4 | 6.2 | - | 1.9 | 1.5 | - | - | - | - | 19 | 22 | - |
| Bank of India | HOLD | 487 | 490 | 256 | 5,717 | 37 | 32 | - | 10.8 | 8.2 | - | 1.9 | 1.6 | - | - | - | - | 15 | 18 | - |
| Bank of Baroda | BUY | 951 | 1,210 | 346 | 7,740 | 31 | 29 | - | 8.7 | 6.7 | - | 1.9 | 1.5 | - | - | - | - | 24 | 25 | - |
| Manappuram | BUY | 132 | 143 | 55 | 1,225 | 88 | 44 | 37 | 17.1 | 11.9 | 8.7 | 2.8 | 2.3 | 1.9 | - | - | - | 22 | 21 | 24 |
| Edelweiss | BUY | 40 | 51 | 30 | 670 | 1 | 12 | 16 | 13.5 | 12.1 | 10.4 | 1.3 | 1.2 | 1.0 | - | - | - | 10 | 11 | 11 |
| Motilal Oswal | BUY | 133 | 196 | 19 | 430 | (16) | 10 | 22 | 13.4 | 12.2 | 10.0 | 1.7 | 1.5 | 1.3 | - | - | - | 14 | 13 | 14 |
| Shriram Transport | HOLD | 802 | 803 | 181 | 4,054 | 33 | 17 | 19 | 14.8 | 12.6 | 10.6 | 3.7 | 3.0 | 2.4 | - | - | - | 28 | 26 | 25 |
| IDFC | UR | 165 | UR | 241 | 5,380 | 10 | 32 | - | 19.2 | 14.6 | - | 2.2 | 1.9 | - | - | - | - | 14 | 14 | - |
| M&M Financial | HOLD | 792 | 770 | 82 | 1,840 | 27 | 24 | - | 17.4 | 14.1 | - | 3.6 | 3.0 | - | - | - | - | 23 | 23 | - |
| HDFC | HOLD | 707 | 735 | 1,037 | 23,173 | 20 | 18 | - | 29.8 | 25.2 | - | 6.0 | 5.2 | - | - | - | - | 21 | 22 | - |

*Source: Bloomberg, Ambit Capital research; Note: UR-Under Review*

# Macro Viewpoint

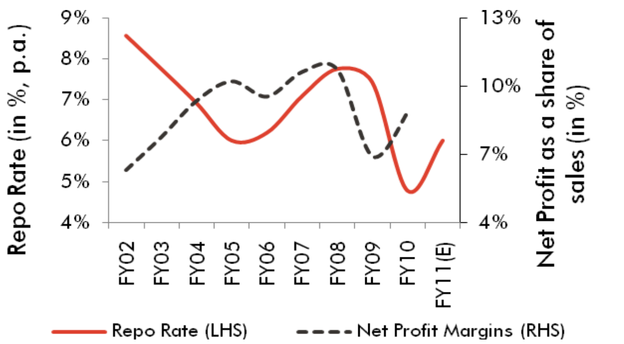
## Too early for bottom fishing

### Macro-political fundamentals to remain weak in the near term

High inflation, weaker GDP growth and the persistence of the ongoing policy paralysis warrants a further de-rating of Indian equities.

As highlighted in our note dated February 9, 2011, high inflation imposes margin pressure on corporate earnings through higher raw material costs, higher employee costs and higher interest costs (on account of the resultant monetary tightening). This dynamic is largely responsible for the historic phenomenon whereby a high repo rate environment is followed by weaker net profit margins (see exhibit 6 below). The triple blow that high inflation imposes will be a meaningful headwind over the next 2-3 quarters given that these cost heads together account for more than 70% of BSE500 net sales.

**Exhibit 6: High policy rates translate into lower profit margins with a lag**




*Source: Capitaline, CEIC, Ambit Capital research*

**Exhibit 7: State elections in CY11**

| | Term of current Government | |
|---|---|---|
| **House/State** | **FROM** | **TO** |
| Assam | 29.05.2006 | 28.05.2011 |
| Kerala | 24.05.2006 | 23.05.2011 |
| Puducherry | 29.05.2006 | 28.05.2011 |
| Tamil Nadu | 17.05.2006 | 16.05.2011 |
| West Bengal | 12.06.2006 | 11.06.2011 |

*Source: Election Commission, Ambit Capital research*

Lastly, given that five Indian states face elections in 1QFY12 (see exhibit 7 above) and given that the constant corruption-related news flow will continue as the 2G investigation rumbles on, the ongoing policy paralysis is unlikely to break until State elections are completed. As highlighted in our January 18, 2011 note titled *Here Comes Political Instability*, the most likely outcome is going to be a weaker UPA coalition that appeases the masses through populist measures with structural reforms taking a back-seat.

### Indian equities still overvalued

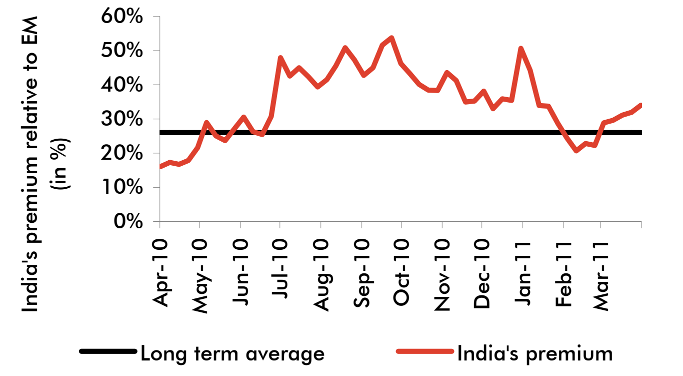
Historical precedents suggest that the ongoing India de-rating process is not yet complete. India trades at just a shade below its long term PE despite near-term macroeconomic headwinds. Also, in comparison to the broader EM pack, India continues to trade at a premium (on forward PE) despite the policy-paralysis and the higher domestic inflation.

Comparing the shape of the current correction to Jan-Aug 2008 (for its arguable similarities in terms of high inflation, tightening monetary policy and falling equities) also suggests that Indian equities are yet to bottom out.

- **De-rating process not complete yet**

Despite the recent see-sawing of Indian equities' PE ratio, India continues to trade at a premium relative to the broader EM pack (see exhibit 8 below). In terms of its own long term average, Indian equities are trading above their long term average despite: (1) the political impasse which has held back the reform agenda, (2) the persistence of high inflation which will impose margin pressure on earnings and (3) the potential weakening of GDP growth in FY12 given tightening monetary policy.

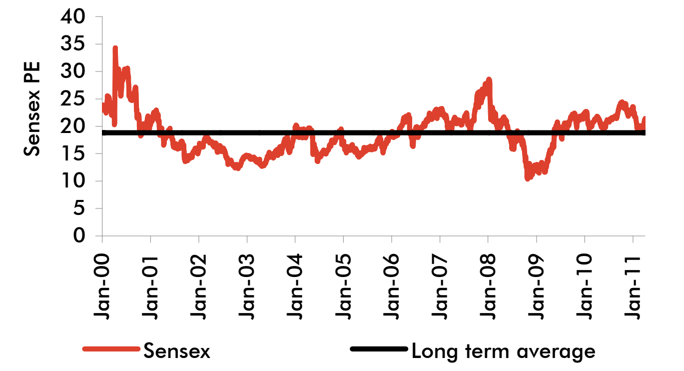
**Exhibit 8: India's premium relative to EMs ahead of long term average**




*Source: Bloomberg, Ambit Capital research*

*Note: Trailing PE used, Dashed line shows Long Term Average*

**Exhibit 9: India trades a shade above its 10-year average PE**

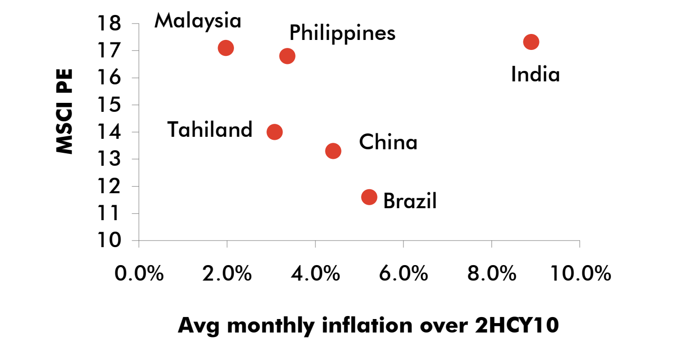



*Source: Bloomberg, Ambit Capital research*

*Note: Trailing PE used, Dashed line shows Long Term Average*

Whilst it is difficult to quantify the negative impact of the political situation in India on equities, India still is one of the most expensive Emerging Markets despite the persistently high domestic inflation (see exhibit 10 below).

**Exhibit 10: Indian equities are most expensive relative to EM peers despite higher domestic inflation**




*Source: Bloomberg, CEIC, Ambit Capital research*
*Note: Leading PE used, MSCI Indices used*

**Exhibit 11: India trades at a discount to EMs when GDP growth is weak, inflation is high or both**

| | GDP growth | Inflation | Sensex PE |
|---|---|---|---|
| Long Term Average (CY00-CY09) | 7.2% | 5.2% | 18.4 |
| Apr 2001 -Dec 2005 | **6.9%** | 4.7% | 15.9 |
| Jul 2008 - Jun 2009 | **6.3%** | **5.9%** | 15.1 |

*Source: CEIC, Ambit Capital research;*
*Note: Trailing PE used*

Furthermore, history suggests (see exhibit 11 above) that India trades at a discount to other EMs for a prolonged period when GDP growth is weak (April 2001 – December 2005) or when inflation is high (the coming two quarters) or both (July 2008-June 2009) thus suggesting that the de-rating process in not complete yet.

# Automobiles

**Whilst we expect the sector to once again witness a strong quarter in terms of revenues, high input costs mean that the bottomline growth would be relatively muted. Against this backdrop, our top picks Tata Motors and Bajaj Auto represent companies that are expected to maintain better margin resilience compared with peers.**

**Volume trends across our coverage universe were strong in 4Q FY11:** Whilst Hero Honda, Maruti Suzuki and Ashok Leyland recorded volumes better than our expectations, Tata Motor's commercial vehicle volumes were below expectations. However, Jaguar Land Rover's (JLR) volumes surprised positively. Bajaj Auto's numbers were largely in line. The increase in interest rates not appear to have made any significant impact to demand so far. Overall, once again we expect the sector to witness strong revenue growth in the quarter.

As indicated in our 3QFY11 result review, commodity costs continue to present a challenge to the sector. Whilst healthy demand trends have enabled companies to take calibrated price increases (in the region of 1-1.5%), it appears the same is not enough to offset the increase in input costs. Consequently, we expect margins to remain under pressure for the quarter.

## Preparing for upcoming results

We have upgraded our estimates for Ashok Leyland and Hero Honda on the back of better-than-expected volumes reported by them, which should more than offset the margin downgrades (owing to rise in input costs) leading to net upgrades at the PBT/PAT/EPS levels. Similarly, despite downgrading the margin at the standalone level, higher-than-expected JLR volumes and margins lead to net upgrades at the Tata Motors consolidated level. We have moderated our earnings estimates (despite revenue seeing upgrades) for Maruti Suzuki owing to increase in the commodity costs.

Overall, whilst we expect Ashok Leyland, Hero Honda and Maruti Suzuki to post 3%, 18% and 4% YoY declines in adjusted PAT respectively, we expect Bajaj Auto to post 12% YoY increase and Tata Motors, helped by the low base of JLR, to post strong 110% YoY growth in adjusted PAT.

## Ambit v/s Consensus

For 4QFY11E, based on the limited consensus data, we are behind consensus in the case of Ashok Leyland, Bajaj Auto and Maruti Suzuki but ahead of consensus in the case of Tata Motors and Hero Honda. However on overall FY11E estimates (which provides a better comparison), we are ahead of consensus for Bajaj Auto and Tata Motors, behind consensus for Ashok Leyland and Hero Honda, and in line with consensus for Maruti Suzuki.

## Recommendation

We continue to maintain **Bajaj Auto** and **Tata Motors** as our top picks in the auto sector. In case of Bajaj Auto, despite increase in the commodity costs, we expect EBITDA margin for the quarter to remain above 20% driven by a healthy mix of premium bikes and three wheelers. Similarly for Tata Motors, despite standalone margins under pressure, strong margins at JLR (which has relatively low raw material intensity) should help the margins at the consolidated level.

**Stock Performance**

| (%) | 3-month | |
|---|---|---|
| | Absolute | Rel to Sensex |
| Ashok Leyland ^ | (10.7) | (5.4) |
| Bajaj Auto ^ | (5.3) | 0.0 |
| Hero Honda ^ | (19.4) | (14.1) |
| Maruti Suzuki ^ | (10.4) | (5.0) |
| Tata Motors | (5.0) | 0.3 |

**Mar '11E Qtrly EPS**

| (Rs) | Ambit | Consensus |
|---|---|---|
| Ashok Leyland ^ | 1.6 | 1.8 |
| Bajaj Auto ^ | 22.4 | 23.2 |
| Hero Honda ^ | 24.7 | 20.7 |
| Maruti Suzuki ^ | 21.9 | 22.5 |
| Tata Motors | 40.7 | 35.9 |

**FY12E EPS**

| (Rs) | Ambit | Consensus |
|---|---|---|
| Ashok Leyland ^ | 5.2 | 5.6 |
| Bajaj Auto ^ | 107.7 | 100.0 |
| Hero Honda ^ | 107.6 | 115.2 |
| Maruti Suzuki ^ | 93.7 | 94.6 |
| Tata Motors | 167.1 | 157.6 |

**Change in FY12E EPS**

| | % change |
|---|---|
| Ashok Leyland ^ | 6 |
| Bajaj Auto ^ | 2 |
| Hero Honda ^ | 1 |
| Maruti Suzuki ^ | (5) |
| Tata Motors | 1 |

*Note: ^ standalone*
*Source: Ambit Capital research*

**Exhibit 12: Detailed Mar '11 quarterly estimates**

| | Mar '11 | Mar '10 | Dec '10 | YoY (%) | QoQ (%) | Comment |
|---|---|---|---|---|---|---|
| **Ashok Leyland** | **(AL IN Equity, BUY, mcap US$1,733mn)** | | | | | |
| Sales (Rsmn) | 36,435 | 29,390 | 22,272 | 24 | 64 | ▪ V/s 3QFY11, Ashok Leyland has seen a rebound in volumes in 4QFY11. This should help the company post strong YoY and QoQ revenue growth. ▪ The significant increase in input costs, however, is likely to impact margins. 3QFY11 margins were impacted by one-time costs (employee expenses and adverse mix), which should help the QoQ trend in margin and profitability. |
| EBITDA (Rsmn) | 3,716 | 3,784 | 1,660 | (2) | 124 | |
| EBITDA margin (%) | 10.2 | 12.9 | 7.5 | (267bps) | 275bps | |
| PBT (Rsmn) | 2,706 | 2,998 | 555 | (10) | 388 | |
| PAT (Rsmn) | 2,165 | 2,227 | 433 | (3) | 400 | |
| **Bajaj Auto** | **(BJAUT IN Equity, BUY, mcap US$9,420mn)** | | | | | |
| Sales (Rsmn) | 40,710 | 32,905 | 40,282 | 24 | 1 | ▪ The healthy volumes in 4QFY11 should help Bajaj post significant YoY revenue growth. ▪ Margins likely to be impacted by significant increase in input costs. However we expect margins to remain above 20% driven by a healthy mix of premium bikes and three wheelers. |
| EBITDA (Rsmn) | 8,464 | 7,771 | 8,493 | 9 | (0) | |
| EBITDA margin (%) | 20.8% | 23.6% | 21.1% | (283bps) | (29bps) | |
| PBT (Rsmn) | 8,996 | 7,855 | 9,174 | 15 | (2) | |
| PAT (Rsmn) | 6,480 | 5,780 | 6,671 | 12 | (3) | |
| **Hero Honda** | **(HH IN Equity, HOLD, mcap US$7,228mn)** | | | | | |
| Sales (Rsmn) | 52,910 | 40,926 | 51,182 | 29 | 3 | ▪ 4QFY11 volumes have been impressive; this should help Hero Honda post strong revenue growth ▪ YoY drop in EBITDA margins to be more severe v/s peers on account of rise in raw material costs, provision for national calamity contingent duty and high ad expenses (Cricket World Cup). |
| EBITDA (Rsmn) | 5,910 | 7,117 | 5,766 | (17) | 2 | |
| EBITDA margin (%) | 11.2% | 17.4% | 11.3% | (622bps) | (10bps) | |
| PBT (Rsmn) | 6,128 | 7,370 | 5,879 | (17) | 4 | |
| PAT (Rsmn) | 4,936 | 5,988 | 5,088 | (18) | (3) | |
| **Maruti Suzuki** | **(MSIL IN Equity, BUY, mcap US$8,402mn)** | | | | | |
| Sales (Rsmn) | 98,243 | 82,349 | 92,767 | 19 | 6 | ▪ Strong volumes to enable Maruti post decent growth in revenues ▪ Similar to other auto companies, margins to be impacted by higher material costs. However we expect positive trends in QoQ margins since 3QFY11 included one-time expenses related to employee costs. |
| EBITDA (Rsmn) | 10,111 | 11,111 | 9,018 | (9) | 12 | |
| EBITDA margin (%) | 10.3 | 13.5 | 9.7 | (320bps) | 57bps | |
| PBT (Rsmn) | 8,913 | 9,542 | 7,928 | (7) | 12 | |
| PAT (Rsmn) | 6,328 | 6,566 | 5,652 | (4) | 12 | |
| **Tata Motors** | **(TTMT IN Equity, BUY, mcap US$16,552mn)** | | | | | |
| Sales (Rsmn) | 341,906 | 287,407 | 315,063 | 19 | 9 | ▪ We expect the disappointment in CVs to be more than overcome by the healthy volumes at JLR enabling Tata Motors to continue to post strong revenue growth in 4QFY11 at the consol. level. ▪ Whilst we expect standalone margins to take a significant hit on account of increase in commodity costs, the uptick in JLR YoY margins seen in recent quarters should help the company record reasonable YoY growth in EBITDA, PBT and PAT. |
| EBITDA (Rsmn) | 46,330 | 31,354 | 44,886 | 48 | 3 | |
| EBITDA margin (%) | 13.6 | 10.9 | 14.2 | 264bps | (70bps) | |
| PBT (Rsmn) | 30,347 | 16,990 | 27,604 | 79 | 10 | |
| PAT (Rsmn) | 27,067 | 12,898 | 24,416 | 110 | 11 | |

*Source: Company, Ambit Capital research*

**Exhibit 13: Revisions ahead of earnings season**

| | New estimates | | Old estimates | | Change | | Comments |
|---|---|---|---|---|---|---|---|
| | FY11E | FY12E | FY11E | FY12E | FY11E | FY12E | |
| **Ashok Leyland** | | | | | | | |
| Recommendation | BUY | | BUY | | | | |
| TP (Rs) | 75 | | 75 | | | | ▪ Higher-than-expected volumes in 4QFY11 drives the upgrades to revenues.<br>▪ Higher input costs however, lead to EBITDA margin being downgraded by 29bps for FY11.<br>▪ Overall upgrades at PBT and PAT are higher v/s EBITDA since depreciation and interest expenses are maintained at earlier levels. |
| Revenues (Rsmn) | 109,347 | 128,276 | 100,365 | 122,610 | 9 | 5 | |
| EBITDA (Rsmn) | 10,804 | 12,443 | 9,966 | 12,016 | 8 | 4 | |
| EBITDA margin (%) | 9.9% | 9.7% | 9.9% | 9.8% | (5bps) | (10bps) | |
| PBT (Rsmn) | 6,881 | 8,400 | 6,044 | 7,959 | 14 | 6 | |
| PAT (Rsmn) | 5,574 | 6,888 | 4,896 | 6,526 | 14 | 6 | |
| EPS (Rs) | 4.2 | 5.2 | 3.7 | 4.9 | 14 | 6 | |
| **Bajaj Auto** | | | | | | | |
| Recommendation | BUY | | BUY | | | | |
| TP (Rs) | 1600 | | 1600 | | | | ▪ Price hikes adopted by the company recently leads to minor upgrades in FY12 revenues.<br>▪ Significant rise in commodity costs leads to slight downgrades in margins.<br>▪ However, higher other income leads to PBT/PAT largely remaining at earlier levels. |
| Revenues (Rsmn) | 160,174 | 197,711 | 162,193 | 190,288 | (1) | 4 | |
| EBITDA (Rsmn) | 33,698 | 39,840 | 34,254 | 39,862 | (2) | (0) | |
| EBITDA margin (%) | 21.0% | 20.2% | 21.1% | 20.9% | (8bps) | (80bps) | |
| PBT (Rsmn) | 35,934 | 43,290 | 36,112 | 42,564 | (0) | 2 | |
| PAT (Rsmn) | 25,872 | 31,169 | 25,893 | 30,646 | (0) | 2 | |
| EPS (Rs) | 89.4 | 107.7 | 89.5 | 105.9 | (0) | 2 | |
| **Hero Honda** | | | | | | | |
| Recommendation | HOLD | | HOLD | | | | |
| TP (Rs) | 1625 | | 1625 | | | | |
| Revenues (Rsmn) | 191,008 | 217,738 | 188,457 | 212,912 | 1 | 2 | |
| EBITDA (Rsmn) | 24,124 | 25,699 | 23,369 | 25,555 | 3 | 1 | ▪ Higher-than-expected volumes in 4QFY11 drives the upgrades to revenues and profits. |
| EBITDA margin (%) | 12.6% | 11.8% | 12.4% | 12.0% | 23bps | (20bps) | |
| PBT (Rsmn) | 24,830 | 26,684 | 23,986 | 26,540 | 4 | 1 | |
| PAT (Rsmn) | 20,460 | 21,481 | 19,285 | 21,338 | 6 | 1 | |
| EPS (Rs) | 102.5 | 107.6 | 96.6 | 106.9 | 6 | 1 | |
| **Maruti Suzuki** | | | | | | | |
| Recommendation | BUY | | BUY | | | | |
| TP (Rs) | 1600 | | 1600 | | | | |
| Revenues | 360,438 | 420,226 | 351,461 | 408,413 | 3 | 3 | ▪ Higher-than-expected volumes in 4QFY11 leads to revenue upgrades.<br>▪ However, rise in input costs results in net downgrades at the EBITDA, PBT and PAT levels. |
| EBITDA | 37,236 | 44,065 | 38,506 | 46,194 | (3) | (5) | |
| EBITDA margin | 10.3% | 10.5% | 11.0% | 11.3% | (63bps) | (82bps) | |
| PBT | 32,476 | 38,142 | 34,159 | 40,921 | (5) | (7) | |
| PAT | 23,246 | 27,081 | 23,939 | 28,440 | (3) | (5) | |
| EPS (Rs) | 80.4 | 93.7 | 82.8 | 98.4 | (3) | (5) | |
| **Tata Motors** | | | | | | | |
| Recommendation | BUY | | BUY | | | | |
| TP (Rs) | 1600 | | 1600 | | | | |
| Revenues (Rsmn) | 1,211,457 | 1,426,002 | 1,169,628 | 1,338,465 | 4 | 7 | |
| EBITDA (Rsmn) | 169,787 | 195,310 | 166,030 | 191,585 | 2 | 2 | ▪ Despite downgrading standalone margins due to increase in input costs, the upgrades to JLR volumes and margins could lead to net upgrades at the consolidated level. |
| EBITDA margin (%) | 14.0% | 13.7% | 14.2% | 14.3% | (18bps) | (62bps) | |
| PBT (Rsmn) | 105,069 | 126,203 | 103,720 | 126,097 | 1 | 0 | |
| PAT (Rsmn) | 92,511 | 111,031 | 91,436 | 109,785 | 1 | 1 | |
| EPS (Rs) | 139.2 | 167.1 | 137.3 | 164.9 | 1 | 1 | |

*Source: Ambit Capital research*

**Stock Performance**

| (%) | 3-month | |
|---|---|---|
| | Absolute | Rel to Sensex |
| Andhra Bank | 0.5 | 5.8 |
| Axis Bank | 4.4 | 9.7 |
| BOB | 5.5 | 10.8 |
| BOI | 6.3 | 11.6 |
| CUB | (6.2) | (0.9) |
| HDFC Bank | (0.3) | 5.0 |
| ICICI Bank | (3.7) | 1.6 |
| PNB | (3.5) | 1.8 |
| S I Bank | (2.9) | 2.4 |
| SBI | (3.3) | 2.0 |
| UBI | (0.9) | 4.4 |

**Mar '11E Qtrly EPS**

| (Rs) | Ambit | Consensus |
|---|---|---|
| Andhra Bank | 6.0 | 6.6 |
| Axis Bank | 23.0 | 23.2 |
| BOB | 29.2 | 30.9 |
| BOI | 11.1 | 11.7 |
| CUB | 1.1 | 1.1 |
| HDFC Bank | 22.4 | 23.8 |
| ICICI Bank | 11.6 | 13.0 |
| PNB | 38.0 | 35.8 |
| S I Bank | 0.7 | 0.6 |
| SBI | 49.1 | 52.4 |
| UBI | 12.7 | 12.0 |

**FY12E EPS**

| (Rs) | Ambit | Consensus |
|---|---|---|
| Andhra Bank | 28.8 | 28.7 |
| Axis Bank | 100.4 | 97.3 |
| BOB | 135.4 | 126.1 |
| BOI | 61.0 | 62.9 |
| CUB | 6.6 | 6.1 |
| HDFC Bank | 104.3 | 108.6 |
| ICICI Bank | 58.0 | 56.7 |
| PNB | 162.3 | 169.3 |
| S I Bank | 3.3 | 5.1 |
| SBI | 244.8 | 222.8 |
| UBI | 56.9 | 54.2 |

**Change in FY12E EPS**

| | % change |
|---|---|
| Andhra Bank | -1.7 |
| Axis Bank | -1.9 |
| BOB | 1.1 |
| BOI | -12.9 |
| CUB | 0.0 |
| HDFC Bank | -3.3 |
| ICICI Bank | 0.0 |
| PNB | -2.8 |
| S I Bank | 1.6 |
| SBI | -4.0 |
| UBI | 0.0 |

*Source: Ambit Capital research*

# Banking

**With the pace of deposit mobilization picking up (as is characteristic of the fourth quarter of a FY), YoY deposit growth during the Mar '11 quarter is likely to inch up higher than Dec '10 levels while YoY credit growth is expected to simultaneously moderate, resulting in the first signs of margin compression against the backdrop of rising interest rate environment.**

**Higher pace of deposit mobilization in a high interest rate environment:** While credit growth has continued to surprise us positively with sequential credit growth at ~3% (as of 11 Mar '11), what is even more heartening is that the pace of deposit mobilization in the quarter was ahead of the pace of loan growth, with QoQ deposit growth nearly 100bps higher than QoQ loan book growth thus far.

Against this backdrop, the banking system witnessed term deposit rates inching up by ~200bps on average across maturity buckets with a peak increase of 325-375bps in the 1-2 years bucket between 4QFY10 and 4QFY11. We expect the lag effect of such high deposit rates to begin reflecting in banks' portfolio cost of funds (as against the incremental cost of funds) beginning 4QFY11 with NIMs likely to dip ~15bps sequentially for banks within our coverage universe.

**Pension cost to swing investment decisions among state-owned banks:** Among state-owned banks, the pension liability towards retired employees is likely to swing investment decisions this quarter. Within the overall pension obligation of ~Rs250bn for the system, about one-fifths the liability (~Rs45bn) is on account of retired employees. Banks with a significantly higher mix of retired employees opting for the pension option would need to provide a larger sum of money during 4QFY11. We expect Dena Bank (NOT RATED), Indian Bank (NOT RATED) and UCO Bank (NOT RATED) to face a greater impact on their profitability as a result of the anticipated higher mix of retired employees.

## Preparing for upcoming results

We have revised downward our FY12 earnings forecasts by ~2% on account of equity dilution in state-owned banks and factoring in lower-than-anticipated loan book growth (~200bps) at the large private sector banks.

## Ambit v/s Consensus

While we remain relatively more bullish on state-owned banks for FY12, our 4QFY11 earnings forecasts are below consensus - primarily as a result of our forecasts on pension costs that will need to be borne by the state-owned banks this quarter. Our earnings forecasts for 4QFY11 (across our coverage universe) factor in a ~15bps sequential dip in net interest margins.

## Recommendation

We reiterate **Bank of Baroda** as our top pick among state-owned banks and **ICICI Bank** (from a valuation perspective) among private sector banks. We maintain that **City Union Bank** is as a longer-term multi-bagger.

**Exhibit 14: Detailed Mar '11 quarterly estimates**

| | Mar' 11 | Mar' 10 | Dec' 10 | YoY | QoQ | Comment |
|---|---|---|---|---|---|---|
| **Andhra Bank** | **(ANDB IN Equity, BUY, mcap US$1,679mn )** | | | | | |
| Net Revenues (Rs mn) | 7,969 | 6,562 | 8,399 | 21.4 | -5.1 | ▪ Margins likely to shrink ~30bps QoQ and settle at 3.6%<br>▪ Operating profit likely to get impacted by high pension costs (~12% retired employees)<br>▪ NPA accretion likely to dip further from current levels |
| Operating profit (Rs mn) | 5,919 | 5,272 | 6,266 | 12.3 | -5.5 | |
| Operating margin (%) | 74 | 80 | 75 | (607bps) | (33bps) | |
| PBT (Rs mn) | 3,614 | 3,043 | 4,549 | 18.8 | -20.6 | |
| PAT (Rs mn) | 2,925 | 2,403 | 3,309 | 21.7 | -11.6 | |
| **Axis Bank** | **(AXSB IN Equity, BUY, mcap US$13,126mn)** | | | | | |
| Net Revenues (Rs mn) | 17,078 | 14,601 | 17,331 | 17.0 | -1.5 | ▪ Likely to begin witnessing pressure on net interest margins beginning 4QFY11 |
| Operating profit (Rs mn) | 16,442 | 13,838 | 16,585 | 18.8 | -0.9 | |
| Operating margin (%) | 96 | 95 | 96 | 149bps | 58bps | |
| PBT (Rs mn) | 13,950 | 11,819 | 13,446 | 18.0 | 3.7 | |
| PAT (Rs mn) | 8,584 | 7,649 | 8,914 | 12.2 | -3.7 | |
| **BOB** | **(BOB IN Equity, BUY, mcap US$7,740mn)** | | | | | |
| Net Revenues (Rs mn) | 22,746 | 17,450 | 22,923 | 30.4 | -0.8 | ▪ Domestic margins likely to shrink ~15bps QoQ<br>▪ Operating profit likely to get impacted by high pension costs (~10% retired employees)<br>▪ Likely to benefit from relatively low credit cost |
| Operating profit (Rs mn) | 16,419 | 15,473 | 18,512 | 6.1 | -11.3 | |
| Operating margin (%) | 72 | 89 | 81 | (1,649bps) | *858bps) | |
| PBT (Rs mn) | 15,391 | 11,700 | 15,471 | 31.5 | -0.5 | |
| PAT (Rs mn) | 10,648 | 8,248 | 10,689 | 29.1 | -0.4 | |
| **BOI** | **(BOI IN Equity, HOLD, mcap US$5,717mn)** | | | | | |
| Net Revenues (Rs mn) | 18,449 | 15,517 | 19,869 | 18.9 | -7.1 | ▪ Operating profit likely to get impacted by high pension costs (~26% retired employees)<br>▪ YoY profit growth to appear impressive due to a poor base effect |
| Operating profit (Rs mn) | 14,031 | 12,754 | 13,888 | 10.0 | 1.0 | |
| Operating margin (%) | 76 | 82 | 70 | (6214bps) | 615bps | |
| PBT (Rs mn) | 7,262 | 4,664 | 8,908 | 55.7 | -18.5 | |
| PAT (Rs mn) | 5,807 | 4,279 | 6,532 | 35.7 | -11.1 | |
| **CUB** | **(CUBK IN Equity, BUY, mcap US$442mn)** | | | | | |
| Net Revenues (Rs mn) | 1,066 | 875 | 1,047 | 21.8 | 1.7 | ▪ Net interest margin to dip ~30bps QoQ and settle at 3.5%<br>▪ Provisioning for exposure to dyeing units in Tirupur needs to be watched |
| Operating profit (Rs mn) | 930 | 736 | 900 | 26.3 | 3.3 | |
| Operating margin (%) | 87 | 84 | 86 | 312bps | 132bps | |
| PBT (Rs mn) | 521 | 381 | 792 | 36.7 | -34.2 | |
| PAT (Rs mn) | 440 | 348 | 577 | 26.3 | -23.8 | |
| **HDFC Bank** | **(HDFCB IN Equity, HOLD, mcap US$24,976mn)** | | | | | |
| Net Revenues (Rs mn) | 29,887 | 23,514 | 27,767 | 27.1 | 7.6 | |
| Operating profit (Rs mn) | 21,838 | 16,944 | 20,727 | 28.9 | 5.4 | |
| Operating margin (%) | 73 | 72 | 75 | 101bps | (150bps) | |
| PBT (Rs mn) | 16,001 | 12,545 | 16,068 | 27.6 | -0.4 | |
| PAT (Rs mn) | 10,396 | 8,366 | 10,878 | 24.3 | -4.4 | |
| **ICICI Bank** | **(ICICIBC IN Equity, HOLD, mcap US$28,875mn)** | | | | | |
| Net Revenues (Rs mn) | 22,576 | 20,349 | 23,117 | 10.9 | -2.3 | ▪ Lower credit costs to contribute to higher growth in profitability |
| Operating profit (Rs mn) | 24,941 | 23,989 | 23,426 | 4.0 | 6.5 | |
| Operating margin (%) | 110 | 118 | 101 | (741bps) | 914bps | |
| PBT (Rs mn) | 18,895 | 13,479 | 20,074 | 40.2 | -5.9 | |
| PAT (Rs mn) | 13,304 | 10,056 | 14,370 | 32.3 | -7.4 | |
| **PNB** | **(PNB IN Equity, BUY, mcap US$8,419mn)** | | | | | |
| Net Revenues (Rs mn) | 30,154 | 24,980 | 32,033 | 20.7 | -5.9 | ▪ Operating profit likely to get impacted by high pension costs (~17% retired employees) |
| Operating profit (Rs mn) | 24,282 | 22,510 | 23,499 | 7.9 | 3.3 | |
| Operating margin (%) | 81 | 90 | 73 | (959bps) | 717bps | |
| PBT (Rs mn) | 19,749 | 16,292 | 16,360 | 21.2 | 20.7 | |
| PAT (Rs mn) | 11,982 | 10,536 | 10,897 | 13.7 | 10.0 | |
| **S I Bank** | **(SIB IN Equity, BUY, mcap US$617mn)** | | | | | |
| Net Revenues (Rs mn) | 2,056 | 789 | 2,048 | 160.6 | 0.4 | ▪ P&L likely to look impressive on the back of a depressed 4QFY10 due to an accounting error<br>▪ Operating profit growth to appear impressive due to a depressed base |
| Operating profit (Rs mn) | 1,490 | 516 | 1,429 | 188.7 | 4.3 | |
| Operating margin (%) | 72 | 65 | 70 | 705bps | 270bps | |
| PBT (Rs mn) | 1,039 | 547 | 1,130 | 90.0 | -8.0 | |
| PAT (Rs mn) | 744 | 386 | 754 | 92.6 | -1.3 | |
| **SBI** | **(SBIN IN Equity, HOLD, mcap US$39,051mn)** | | | | | |
| Net Revenues (Rs mn) | 91,570 | 67,214 | 90,498 | 36.2 | 1.2 | ▪ Profitability could surprise positively if teaser rate provisioning is reversed |
| Operating profit (Rs mn) | 64,627 | 51,939 | 67,645 | 24.4 | -4.5 | |
| Operating margin (%) | 71 | 77 | 75 | (670bps) | (417bps) | |
| PBT (Rs mn) | 45,185 | 28,445 | 47,129 | 58.9 | -4.1 | |
| PAT (Rs mn) | 31,030 | 18,666 | 28,280 | 66.2 | 9.7 | |
| **UBI** | **(UNBK IN Equity, BUY, mcap US$3,974mn)** | | | | | |
| Net Revenues (Rs mn) | 16,021 | 13,961 | 16,158 | 14.8 | -0.8 | ▪ Operating profit likely to get impacted by high pension costs (~15% retired employees)<br>▪ Marginal NPA accretion in the quarter |
| Operating profit (Rs mn) | 12,136 | 11,475 | 12,611 | 5.8 | -3.8 | |
| Operating margin (%) | 76 | 82 | 78 | (645bps) | (230bps) | |
| PBT (Rs mn) | 9,602 | 8,075 | 8,612 | 18.9 | 11.5 | |
| PAT (Rs mn) | 6,433 | 5,935 | 5,796 | 8.4 | 11.0 | |

*Source: Company, Ambit Capital research*

## Exhibit 15: Revisions ahead of earnings season

| | New estimates | | Old estimates | | Change | | Comments |
|---|---|---|---|---|---|---|---|
| | FY11E | FY12E | FY11E | FY12E | FY11E | FY12E | |
| **Andhra Bank** | | | | | | | |
| Recommendation | BUY | | BUY | | | | ▪ Factoring in ~22% equity dilution - one of the highest among state-owned banks<br>▪ However, capital infusion allows Andhra Bank to grow its balance sheet higher v/s earlier growth forecast of sub-19%<br>▪ Higher employee expenditure from rising pension costs result in lower op. margins |
| TP (Rs) | 195 | | 185 | | | | |
| Net Revenues (Rs mn) | 31,563 | 35,450 | 30,073 | 33,658 | 5.0 | 5.3 | |
| Operating profit (Rs mn) | 22,935 | 26,266 | 22,191 | 25,403 | 3.4 | 3.4 | |
| Operating margin (%)* | 72.7 | 74.1 | 73.8 | 75.5 | (113bps) | (138bps) | |
| PBT | 17,197 | 20,305 | 16,940 | 19,790 | 1.5 | 2.6 | |
| PAT | 12,468 | 14,213 | 12,282 | 13,850 | 1.5 | 2.6 | |
| EPS (Rs) | 25.7 | 28.8 | 25.0 | 29.3 | 2.8 | (1.7) | |
| **Axis Bank** | | | | | | | |
| Recommendation | BUY | | BUY | | | | ▪ Reduced credit growth forecasts by more than 200bps from 30% to 27.4% However, lower credit growth implies the bank can protect margins better than previously forecast under a higher growth regime<br>▪ Lowering previously our estimates on non-interest income growth |
| TP (Rs) | 1,560 | | 1,595 | | | | |
| Net Revenues (Rs mn) | 65,698 | 82,449 | 65,275 | 82,503 | 0.6 | (0.1) | |
| Operating profit (Rs mn) | 62,390 | 82,745 | 65,117 | 84,699 | (4.2) | (2.3) | |
| Operating margin (%)* | 95.0 | 100.4 | 99.8 | 102.7 | (479bps) | (230bps) | |
| PBT | 49,642 | 65,007 | 51,710 | 66,410 | (4.0) | (2.1) | |
| PAT | 32,268 | 42,255 | 33,611 | 43,183 | (4.0) | (2.1) | |
| EPS (Rs) | 79.6 | 105.0 | 83.0 | 107.0 | (4.0) | (1.9) | |
| **BOB** | | | | | | | |
| Recommendation | BUY | | BUY | | | | ▪ Factoring in 15% equity dilution for FY12E. However, credit growth forecast has been upped 100bps from 22.9% to 23.9%<br>▪ We have upped NIM forecasts for current financial year in line with deposit rates prevailing until Mar '11<br>▪ Higher pension costs result in lower op. margins |
| TP (Rs) | 1,270 | | 1,210 | | | | |
| Net Revenues (Rs mn) | 84,630 | 104,997 | 79,258 | 96,424 | 6.8 | 8.9 | |
| Operating profit (Rs mn) | 66,777 | 82,822 | 64,158 | 79,059 | 4.1 | 4.8 | |
| Operating margin (%)* | 78.9 | 78.9 | 80.9 | 82.0 | (204bps) | (131bps) | |
| PBT | 55,340 | 71,306 | 54,720 | 67,540 | 1.1 | 5.6 | |
| PAT | 40,121 | 51,697 | 39,672 | 48,969 | 1.1 | 5.6 | |
| EPS (Rs) | 109.8 | 135.4 | 109.0 | 134.0 | 0.7 | 1.0 | |
| **BOI** | | | | | | | |
| Recommendation | BUY | | BUY | | | | ▪ Factoring in ~7% equity dilution for FY12E and ~26% retired employee mix within the pension liability<br>▪ Pension costs lead to lower op. margins |
| TP (Rs) | 470 | | 490 | | | | |
| Net Revenues (Rs mn) | 77,759 | 84,420 | 74,759 | 85,037 | 4.0 | (0.7) | |
| Operating profit (Rs mn) | 67,204 | 69,003 | 70,204 | 76,686 | (4.3) | (10.0) | |
| Operating margin (%)* | 86.4 | 81.7 | 93.9 | 90.2 | (748bps) | (844bps) | |
| PBT | 43,940 | 44,893 | | | | | |
| PAT | 35,885 | 38,536 | 33,885 | 37,026 | 5.9 | 4.1 | |
| EPS (Rs) | 45.1 | 61.0 | 64.0 | 70.0 | (29.5) | (12.9) | |
| **CUB** | | | | | | | |
| Recommendation | BUY | | BUY | | | | ▪ No change |
| TP (Rs) | 60 | | 60 | | | | |
| Net Revenues (Rs mn) | 4,075 | 5,105 | 4,075 | 5,105 | (0.0) | (0.0) | |
| Operating profit (Rs mn) | 3,946 | 4,946 | 3,946 | 4,946 | 0.0 | (0.0) | |
| Operating margin (%)* | 96.8 | 96.9 | 96.8 | 96.9 | | | |
| PBT | 3,053 | 4,017 | 3,053 | 4,017 | 0.0 | 0.0 | |
| PAT | 2,076 | 2,739 | 2,076 | 2,739 | 0.0 | (0.0) | |
| EPS (Rs) | 5.0 | 6.6 | 5.0 | 6.6 | 0.0 | 0.0 | |
| **HDFC Bank** | | | | | | | |
| Recommendation | BUY | | BUY | | | | ▪ We have reduced our FY12E loan book growth forecasts by ~140bps (26%)<br>▪ Lower fee income growth from lower loan book expansion leads to lower op. margins |
| TP (Rs) | 2,345 | | 2,400 | | | | |
| Net Revenues (Rs mn) | 106,928 | 135,573 | 108,846 | 137,753 | (1.8) | (1.6) | |
| Operating profit (Rs mn) | 78,123 | 97,869 | 80,041 | 100,049 | (2.4) | (2.2) | |
| Operating margin (%)* | 73.1 | 72.2 | 73.5 | 72.6 | (47bps) | (44bps) | |
| PBT | 56,636 | 73,996 | 58,560 | 76,180 | (3.3) | (2.9) | |
| PAT | 38,513 | 50,316 | 39,817 | 51,799 | (3.3) | (2.9) | |
| EPS (Rs) | 82.3 | 104.3 | 85.0 | 108.0 | (3.2) | (3.4) | |

*Note: * Calculated as op. profit /Net interest income*

## Revisions ahead of earnings season (contd.)

| | New estimates | | Old estimates | | Change | | Comments |
|---|---|---|---|---|---|---|---|
| | FY11E | FY12E | FY11E | FY12E | FY11E | FY12E | |
| **ICICI Bank** | | | | | | | |
| Recommendation | BUY | | BUY | | | | ▪ We maintain our forecasts for ICICI Bank<br>▪ While we see upside risks to our growth forecasts during FY12E, we believe that lower margins will offset the NII impact partially |
| TP (Rs) | 1,225 | | 1,225 | | | | |
| Net Revenues (Rs mn) | 87,648 | 114,373 | 87,648 | 114,373 | 0.0 | 0.0 | |
| Operating profit (Rs mn) | 92,368 | 122,593 | 92,368 | 122,593 | 0.0 | 0.0 | |
| Operating margin (%)* | 105.4 | 107.2 | 105.4 | 107.2 | | | |
| PBT | 68,900 | 87,933 | 68,900 | 87,933 | 0.0 | 0.0 | |
| PAT | 50,297 | 64,191 | 50,297 | 64,191 | 0.0 | 0.0 | |
| EPS (Rs) | 45.0 | 58.0 | 45.0 | 58.0 | 0.0 | 0.0 | |
| **Punjab National Bank** | | | | | | | |
| Recommendation | BUY | | BUY | | | | ▪ We factor in a ~1% equity dilution<br>▪ However, we maintain our loan book growth forecasts at sub-18%<br>▪ We maintain our other forecasts on PNB for FY12E in anticipation of the bank adopting a calibrated growth strategy |
| TP (Rs) | 1,355 | | 1,350 | | | | |
| Net Revenues (Rs mn) | 118,140 | 135,268 | 116,581 | 135,258 | 1.3 | 0.0 | |
| Operating profit (Rs mn) | 89,764 | 104,550 | 88,205 | 104,541 | 1.8 | 0.0 | |
| Operating margin (%)* | 76.0 | 77.3 | 75.7 | 77.3 | 40bps | - | |
| PBT | 68,166 | 81,200 | 67,150 | 81,200 | 1.5 | 0.0 | |
| PAT | 44,308 | 52,780 | 43,294 | 52,774 | 2.3 | 0.0 | |
| EPS (Rs) | 137.3 | 162.3 | 137.0 | 167.0 | 0.2 | (2.8) | |
| **South Indian Bank** | | | | | | | |
| Recommendation | BUY | | BUY | | | | ▪ Marginal changes to the deposit mix during the current financial year<br>▪ Marginal changes to the employee expense forecast on pension liability (~11% retired employees)<br>▪ Pension costs lead to lower operating margins |
| TP (Rs) | 25 | | 25 | | | | |
| Net Revenues (Rs mn) | 7,751 | 9,636 | 7,740 | 9,275 | 0.1 | 3.9 | |
| Operating profit (Rs mn) | 5,210 | 6,491 | 5,472 | 6,483 | (4.8) | 0.1 | |
| Operating margin (%)* | 67.2 | 67.4 | 70.7 | 69.9 | (300bps) | (250bps) | |
| PBT | 4,387 | 5,644 | 4,528 | 5,598 | (3.1) | 0.8 | |
| PAT | 2,852 | 3,668 | 2,938 | 3,651 | (2.9) | 0.5 | |
| EPS (Rs) | 2.5 | 3.3 | 2.6 | 3.2 | (3.1) | 1.6 | |
| **State Bank of India** | | | | | | | |
| Recommendation | BUY | | BUY | | | | ▪ Reduced our loan book growth forecasts by ~60bps during FY11 (19.3%)<br>▪ Reduced our loan book growth forecasts by ~140bps during FY12 (18%)<br>▪ Key upside risk is reversal of teaser rate provisioning<br>▪ NII forecasts upped on lower credit growth and this leads to lower op. margins |
| TP (Rs) | 2,920 | | 2,860 | | | | |
| Net Revenues (Rs mn) | 336,258 | 402,662 | 317,206 | 398,479 | 6.0 | 1.0 | |
| Operating profit (Rs mn) | 257,189 | 315,356 | 258,862 | 326,019 | (0.6) | (3.3) | |
| Operating margin (%)* | 76.5 | 78.3 | 81.6 | 81.8 | (510bps) | (350bps) | |
| PBT | 174,569 | 226,015 | 183,286 | 245,315 | (4.8) | (7.9) | |
| PAT | 113,470 | 156,909 | 119,397 | 162,053 | (5.0) | (3.2) | |
| EPS (Rs) | 178.7 | 244.8 | 188.0 | 255.0 | (4.9) | (4.0) | |
| **Union Bank of India** | | | | | | | |
| Recommendation | BUY | | BUY | | | | ▪ No change |
| TP (Rs) | 425 | | 425 | | | | |
| Net Revenues (Rs mn) | 61,018 | 69,869 | 61,018 | 69,869 | (0.0) | 0.0 | |
| Operating profit (Rs mn) | 46,490 | 54,851 | 46,490 | 54,851 | (0.0) | 0.0 | |
| Operating margin (%)* | 76.2 | 78.5 | 76.2 | 78.5 | | | |
| PBT | 29,571 | 41,450 | 29,571 | 41,450 | 0.0 | 0.0 | |
| PAT | 21,276 | 28,766 | 21,276 | 28,766 | 0.0 | 0.0 | |
| EPS (Rs) | 42.1 | 56.9 | 42.1 | 56.9 | 0.0 | 0.0 | |

*Note: *Calculated as operating profit/Net interest income; Source: Company, Ambit Capital research*

**Stock Performance**

| (%) | 3-month | |
|---|---|---|
| | Absolute | Rel to Sensex |
| BGR Energy | (33.4) | (28.1) |
| Suzlon Energy | (11.1) | (5.8) |

**Mar '11E Qtrly EPS**

| (Rs) | Ambit | Consensus |
|---|---|---|
| BGR Energy | 11.9 | 12.3 |
| Suzlon Energy | -0.9 | NA |

**FY12E EPS**

| (Rs) | Ambit | Consensus |
|---|---|---|
| BGR Energy | 47.1 | 49.8 |
| Suzlon Energy | 2.0 | 1.8 |

**Change in FY12E EPS**

| | % change |
|---|---|
| BGR Energy | -5 |
| Suzlon Energy | NA |

*Source: Ambit Capital research*

# Capital Goods

**We expect revenues to remain strong on the back of timely execution of order backlog (BGR – Mettur and Jhalawar projects; Suzlon – sunset clause on GBI and accelerated depreciation to drive High Net Worth Investors orders). However, the rising cost of credit and raw materials could mean lower earnings growth.**

**Expect strong execution but lacklustre however order inflows:** For the two companies in our coverage, we expect execution momentum to remain strong on the back of the existing healthy order book. Whilst we expect Suzlon Wind to execute 518MW in 4QFY11 on the back of its dominant share of India in its existing order, we expect BGR to report 14% revenue growth QoQ primarily on back of execution of large EPC contracts (Mettur and Jhalawar).

Whilst we are bearish on order inflows for BGR given rising interest costs, weakening business confidence and policy paralysis, we are neutral on Suzlon as it has already booked record order intake in 9MFY11.

## Preparing for upcoming results

**BGR**: Given that in 9MFY11 the company has already achieved 73% of our FY11E earnings, we maintain our quarterly estimates. However, for FY12E, we factor in delays in order inflows and accordingly revise our earnings estimates downward by ~5%.

**Suzlon**: We maintain our earnings estimates.

We also maintain our BUY stance on both Suzlon Energy and BGR.

## Ambit v/s Consensus

Given that we model quarterly estimates for Suzlon Wind (unlike Bloomberg consensus, which reports it on a consolidated basis), it is not possible to do a comparative analysis with consensus. However, notably we have assumed Rs75mn of currency conversion loss on the FCCB (given the appreciation in US$ v/s INR) and also assumed an average FY11 tax rate of 6% for Suzlon Wind (as it cannot set off one subsidiary's profits against losses of another). On BGR, we are broadly in-line with consensus estimates.

## Recommendation

Given inexpensive valuations (1.0x FY12 P/BV) coupled with the possibility of a return to profitability in FY12 on the back of shorter execution cycle and healthy current order backlog, **Suzlon Energy** remains our top pick in the sector. Further, the company is likely to be the biggest beneficiary of the ongoing IPP flurry in the wind Indian market due to: (a) successful launch of its new 2.1MW low wind speed machine (technologically on a par with global peers), (b) attractive portfolio of wind sites (a key differentiator), and (c) proven execution track record given significant execution challenges in developing wind farms.

**Exhibit 16: Detailed Mar '11 quarterly estimates**

| | Mar '11 | Mar '10 | Dec '10 | YoY | QoQ | Comment |
|---|---|---|---|---|---|---|
| **BGR Energy** | **(BGRL IN Equity, BUY, mcap US$865mn)** | | | | | |
| Sales (Rsmn) | 14,292 | 16,571 | 12,511 | (14) | 14 | ▪ YoY de-growth since 4QFY10 was highly skewed (54% of yearly revenues) |
| EBITDA (Rsmn) | 1,524 | 1,725 | 1,414 | (12) | 8 | |
| EBITDA margin (%) | 11 | 10 | 11 | 26bps | (64bps) | ▪ With increasing mix of EPC contribution, margins to hover around 11% |
| PBT (Rsmn) | 1,336 | 1,642 | 1,287 | (19) | 4 | |
| PAT (Rsmn) | 855 | 1,083 | 876 | (21) | (2) | ▪ PAT in line with the overall estimates |
| **Suzlon Energy** | **(SUEL IN Equity, BUY, mcap US$1,966mn)** | | | | | |
| Sales (Rsmn) | 35,633 | 41,500 | 25,090 | (14) | 42 | |
| EBITDA (Rsmn) | 2,423 | 3,510 | 1,820 | (31) | 33 | ▪ We expect Suzlon Wind to sell 518MW (~90% India) in the quarter |
| EBITDA margin (%) | 7 | 8 | 7 | (166bps) | (45bps) | |
| PBT (Rsmn) | (766) | 410 | (1,030) | NA | NA | ▪ Lower gross margin leads to lower EBITDA margin |
| PAT (Rsmn) | (1,576) | (2,440) | (1,360) | NA | NA | |

*Source: Company, Ambit Capital research*

**Exhibit 17: Revisions ahead of earnings season**

| | New estimates | | Old estimates | | Change | | Comments |
|---|---|---|---|---|---|---|---|
| | FY11E | FY12E | FY11E | FY12E | FY11E | FY12E | |
| **BGR Energy** | | | | | | | |
| Recommendation | BUY | | BUY | | | | |
| TP (Rs) | 710 | | 715 | | | | |
| Revenues (Rsmn) | 47,194 | 56,978 | 47,194 | 59,651 | 0.0 | -4.5 | |
| EBITDA (Rsmn) | 5,268 | 6,258 | 5,268 | 6,554 | 0.0 | -4.5 | ▪ We are tweaking our FY12 revenue estimates factoring in slower execution on back of delayed orders |
| EBITDA margin (%) | 11.2 | 11.0 | 11.2 | 11.0 | 0 | 0 | |
| PBT (Rsmn) | 4,718 | 5,148 | 4,718 | 5,448 | 0.0 | -5.5 | ▪ EBITDA margin continue to hover ~11% |
| PAT (Rsmn) | 3,112 | 3,396 | 3,112 | 3,594 | 0.0 | -5.5 | |
| EPS (Rs) | 43 | 47 | 43 | 50 | 0.0 | -5.5 | ▪ PAT change in-line with the overall revision |

*Source: Ambit Capital research*

# Cement

**Stock Performance**

| (%) | 3-month | |
|---|---|---|
| | Absolute | Rel to Sensex |
| ACC * | 2.3 | 7.6 |
| Ambuja Cem* | 2.7 | 8.0 |
| Shree Cement | 2.0 | 7.4 |
| Ultratech Cem | 2.5 | 7.8 |

**Mar '11E Qtrly EPS**

| (Rs) | Ambit | Consensus |
|---|---|---|
| ACC * ^ | 13.1 | NA |
| Ambuja Cem*^ | 2.0 | NA |
| Shree Cement^ | 19.5 | NA |
| Ultratech Cem^ | 18.8 | NA |

**FY12E EPS**

| (Rs) | Ambit | Consensus |
|---|---|---|
| ACC * ^ | 43.6 | 59.8 |
| Ambuja Cem*^ | 6.8 | 8.0 |
| Shree Cement^ | 58.0 | 123.3 |
| Ultratech Cem^ | 55.6 | 64.7 |

**Change in FY12E EPS**

| | % change |
|---|---|
| ACC * ^ | - |
| Ambuja Cem*^ | - |
| Shree Cement^ | - |
| Ultratech Cem^ | - |

*Note: * year end is Dec 2010; # year end is June; @ year end is Sept; ^ standalone*
*Source: Ambit Capital research*

**We expect 4QFY11 results to be higher sequentially as price discipline across India has led to a 12% QoQ increase in net realizations. This should more than compensate for the increase in fuel and freight costs. We expect the industry's operating margins to expand by ~300bps QoQ to 21%.**

**Net cement realisation to increase 12% QoQ in 4QFY11**: With cement manufacturers across India having price discipline since January this year, the average cement price has risen 20% to Rs280/bag currently. Overall, we expect average net realisation to increase by 12% QoQ to Rs183/bag.

**Higher fuel and freight cost to moderate realisation gains QoQ**: Fuel costs has been impacted by increases in the cost of imported fuel and domestic linkage coal. Freight cost has risen due to the Indian Railways increasing haulage charges on cement by 4% since December 2010; Road transport costs has risen due to the stricter implementation of the rules against truck overloading. On an average, we expect operating cost to increase 7% QoQ, moderating operating margin expansion by a modest 300bps QoQ to ~21%.

## Preparing for upcoming results

We expect our universe of stocks to post >18% QoQ sales growth in 4QFY11 primarily on account of higher realisations. QoQ sales volume is expected to grow 10% for ACC and Ambuja Cements, 6% for Shree Cement and 12% for UltraTech Cements. We estimate EBITDA margin for the stated stocks to expand by 190-440bps QoQ with Ambuja being the biggest gainer. In 3QFY11 Ambuja had to part-purchase clinker from outside due to production disruptions at its north based plants, raising its raw material cost.

## Ambit v/s Consensus

Whilst there are no meaningful 4QFY11 consensus estimates available, our FY12E earnings estimates are lower than consensus. We believe net realisation are will likely to see pressure in FY12 and remain flat YoY. We have factored in lower FY12E volume growth (5-6% YoY) for these companies as we expect the industry to grow by 7.5%. All of this coupled with high cost pressures should lead to 300-400bps operating margin contraction in FY12E for ACC, Ambuja Cements and Shree Cement while UltraTech's margins should contract by ~40bps.

## Recommendation

As we had highlighted in our earlier notes, manufacturers have been able to raise prices during January-March 2011 on account of price discipline. Cement stock prices have surged ~10% over the last one month on account of sustained price discipline and improvement in MoM demand data. However, since construction activity to line peak out over the next month, prices should come under pressure going into the summer while cost pressure remains firm. Overall we do not expect any positive trigger over the next three to four months.

We maintain our SELL stance on ACC and Ambuja Cements and HOLD on UltraTech. **Shree Cement**, our Top Pick, has already achieved our valuation. Hence, we will revisit our target price and recommendation on Shree Cement following the results.

**Exhibit 18: Detailed Mar '11 quarterly estimates**

| | Mar '11 | Mar '10 | Dec '10 | YoY | QoQ | Comment |
|---|---|---|---|---|---|---|
| **Shree Cement** | **(SRCM IN EQUITY, BUY, mcap US$1,561mn)** | | | | | |
| Sales (Rsmn) | 10,317 | 9,451 | 7,804 | 9 | 32 | ▪ Sales growth led by 6% and 140% QoQ volume growth in cement and power volumes and higher cement realisation |
| EBITDA (Rsmn) | 2,496 | 3,266 | 1,583 | (24) | 58 | |
| EBITDA margin (%) | 24 | 35 | 20 | (1,036bps) | 391bps | ▪ We have factored in 22% higher fuel cost QoQ and 10% higher freight cost |
| PBT (Rsmn) | 924 | 20 | 77 | 4,627 | 1,102 | |
| PAT (Rsmn) | 681 | (165) | 334 | (512) | 104 | ▪ Higher depreciation cost QoQ related to the grinding unit commissioning to moderate net profit growth |
| **UltraTech** | **(UTCEM IN EQUITY, HOLD, mcap US$6,858mn)** | | | | | |
| Sales (Rsmn) | 45,269 | 19,225 | 37,409 | 135 | 21 | ▪ QoQ sales growth led by 12% sales volume growth and 8% realisation growth |
| EBITDA (Rsmn) | 9,929 | 4,158 | 7,334 | 139 | 35 | |
| EBITDA margin (%) | 22 | 22 | 20 | 30 bps | 233 bps | ▪ EBITDA growth QoQ to be impacted by 10% QoQ increase in power/fuel cost |
| PBT (Rsmn) | 7,494 | 3,007 | 4,675 | 149 | 60 | |
| PAT (Rsmn) | 5,144 | 2,286 | 3,189 | 125 | 61 | ▪ Note: YoY growth is not comparable as last year's data is for standalone UltraTech, whereas this year it includes sales volume of the merged Samruddhi Cement |
| **Ambuja** | **(ACEM IN EQUITY, SELL, mcap US$5,077mn)** | | | | | |
| Sales (Rsmn) | 22,551 | 20,188 | 18,274 | 12 | 23 | ▪ Sales growth led by 11% volume growth QoQ and 13% realisation growth |
| EBITDA (Rsmn) | 5,355 | 6,513 | 3,535 | (18) | 51 | |
| EBITDA margin (%) | 24 | 32 | 19 | (851bps) | 440bps | ▪ Opex to increase by 5% QoQ led by higher power and fuel cost |
| PBT (Rsmn) | 4,505 | 5,897 | 2,619 | (24) | 72 | |
| PAT (Rsmn) | 3,063 | 4,345 | 2,593 | (30) | 18 | ▪ Subsequently net profit should grow by 18% QoQ |
| **ACC** | **(ACC IN EQUITY, SELL, mcap US$4,677mn)** | | | | | |
| Sales (Rsmn) | 24,783 | 21,363 | 20,889 | 16 | 19 | ▪ Sales growth led by 9% volume growth QoQ and 13% realisation growth |
| EBITDA (Rsmn) | 4,503 | 6,567 | 3,401 | (31) | 32 | |
| EBITDA margin (%) | 18 | 31 | 16 | (1,257 bps) | 189bps | ▪ EBITDA margin to expand by a modest 189bps due to high fuel and freight cost |
| PBT (Rsmn) | 3,503 | 5,768 | 2,386 | (39) | 47 | |
| PAT (Rsmn) | 2,452 | 4,051 | 2,559 | (39) | (4) | ▪ Net profit decline QoQ due to tax adjustment impact in the Dec 2010 quarter |

*Source: Company, Ambit Capital research*

# Construction

**Stock Performance**

| (%) | 3-month | |
|---|---|---|
| | Absolute | Rel to Sensex |
| CCCL | (19.0) | (13.7) |
| IVRCL Infra. | (36.0) | (30.7) |
| KNR Const. | (30.7) | (25.4) |
| Nagarjuna Const. | (27.6) | (22.3) |

**Mar '11E Qtrly EPS**

| (Rs) | Ambit | Consensus |
|---|---|---|
| CCCL | 1.2 | NA |
| IVRCL Infra. | 3.6 | 3.6 |
| KNR Const. | 4.1 | NA |
| Nagarjuna Const. | 2.1 | 2.8 |

**FY12E EPS**

| (Rs) | Ambit | Consensus |
|---|---|---|
| CCCL | 5.2 | 5.9 |
| IVRCL Infra. | 8.4 | 8.5 |
| KNR Const. | 17.3 | NA |
| Nagarjuna Const. | 6.9 | 8.8 |

**Change in FY12E EPS**

| | % change |
|---|---|
| CCCL* | NA |
| IVRCL Infra. | 5% |
| KNR Const. | NA |
| Nagarjuna Const. | NA |

*Note: All data is stand-alone; *CCCL FY12E EPS number is consolidated; Source: Bloomberg, Ambit Capital research*

**Gradual execution pick-up will drive YoY revenue growth but higher leverage and higher interest rates will keep net earnings growth lower in 4QFY11E. Whilst CCCL and KNR are our top picks, we expect stock prices of IVRCL and Nagarjuna to rise in the near term as execution improvement becomes visible and interest rates stabilize/rise slowly.**

**Despite moderate execution pick-up QoQ, high interest costs to impact 4QFY11 earnings:** We expect higher YoY revenue growth in 4QFY11 (20%+) compared to 3QFY11 (17% for top-10 construction companies excl. L&T). However, higher interest rates in 4QFY11 v/s 3QFY11 (six-month commercial paper rate has risen by 60bps in the last three months) and higher leverage will result in higher interest expenses, thus keeping the PBT margins under pressure. We expect order inflow to improve in FY12 as the political situation improves post state elections and interest rates do not rise sharply. Improving execution in slow moving order books and new orders will drive revenues in 2HFY12.

## Preparing for upcoming results

We model YoY revenue growth in the range of 9-26% (ex-KNR) for 4QFY11, thus limiting FY11 revenue growth to 15-20%, which is lower than construction company managements' revenue growth guidance of 25-30%. As the fourth quarter forms more than 30% of the annual revenues for all the construction companies, the QoQ growth is significantly higher (31-69% QoQ). Rising input costs and sub-contractor costs will keep the EBITDA margins in the range of 9.6%-9.8% (KNR: 12.5%) in 4QFY11 v/s 10.0%-11.4% (KNR: 11.5%) in 4QFY10. We expect PBT margins to decline ~100-350bps YoY in 4QFY11 impacted by rising interest rates and higher leverage (on account of deterioration in working capital turnover and investments in BOTs).

## Ambit v/s Consensus

Whilst our 4QFY11 PAT estimate is in line with consensus for IVRCL, our PAT estimate for Nagarjuna is 25% lower than consensus as we model higher interest expense. We expect Nagarjuna's interest expense to increase significantly due to higher debt levels for providing capital to its BOT (power) assets (D/E end-4QFY11E: 1.3x v/s 0.8x as on 4QFY10). KNR does not have any coverage, whilst CCCL numbers are in line with those of consensus.

## Recommendation

Our fears of execution slippages and rising interest rates were realized in 3QFY11 results, and this was reflected in stock price performance of the construction companies (stock prices declined 16-54% in the last three months). However, at the current valuations of 4-10x FY12 earnings, we believe the negatives are largely priced in and we do not see any significant downside from current levels. We expect stock prices of **IVRCL** and **Nagarjuna** to rise in the near term as execution improvement is visible and interest rates stabilize/rise slowly. Whilst we see limited upside for IVRCL and Nagarjuna, we see big upside in small-cap construction companies — **CCCL** and **KNR Constructions** — which have strong competitive positioning on cost structure and low debt:equity ratio giving them enough headroom to grow as and when order momentum picks up.

## Exhibit 19: Detailed Mar '11 quarterly estimates

| | Mar '11 | Mar '10 | Dec '10 | YoY | QoQ | Comment |
|---|---|---|---|---|---|---|
| **IVRCL Infra.** | **(IVRC IN Equity, HOLD, mcap US$515mn)** | | | | | |
| Sales (Rsmn) | 23,908 | 18,904 | 14,168 | 26 | 69 | ▪ Moderate execution pick-up will keep the YoY revenue growth higher in 4QFY11 v/s 3QFY11. |
| EBITDA (Rsmn) | 2,319 | 1,984 | 1,394 | 17 | 66 | |
| EBITDA margin (%) | 9.7 | 10.5 | 9.8 | (80bps) | (14bps) | ▪ Higher input costs and subcontractors' costs to keep EBITDA growth lower than revenue growth |
| PBT (Rsmn) | 1,444 | 1,338 | 615 | 8 | 135 | |
| PAT (Rsmn) | 953 | 852 | 413 | 12 | 131 | ▪ Pressure of rising interest rates to continue in 4QFY11 resulting in lower YoY PBT growth. |
| **KNR Const.** | **(KNRC IN Equity, BUY, mcap US$74mn)** | | | | | |
| Sales (Rsmn) | 2,300 | 2,842 | 1,598 | (19) | 44 | ▪ Execution pick-up in Orissa and other large projects to improve revenue growth in 4QFY11 v/s 3QFY11 |
| EBITDA (Rsmn) | 288 | 327 | 226 | (12) | 27 | |
| EBITDA margin (%) | 12.5 | 11.5 | 14.1 | 102bps | (162bps) | ▪ Rising input costs and lower fixed overhead cost absorption will keep EBITDA margins lower than 3QFY11 |
| PBT (Rsmn) | 173 | 282 | 122 | (39) | 42 | |
| PAT (Rsmn) | 115 | 129 | 153 | (11) | (25) | ▪ Increase in depreciation expenses and rising interest costs will lower the PBT margins compared to last year |
| **Nagarjuna Const.** | **(NJCC IN Equity, BUY, mcap US$619mn)** | | | | | |
| Sales (Rsmn) | 17,511 | 15,227 | 13,355 | 15 | 31 | ▪ We model moderate revenue growth due to limited execution pick-up in 2HFY11. Management also reduced their FY11E revenue guidance by 9-10% |
| EBITDA (Rsmn) | 1,681 | 1,527 | 1,276 | 10 | 32 | |
| EBITDA margin (%) | 9.6 | 10.0 | 9.6 | (43bps) | 5bps | |
| PBT (Rsmn) | 801 | 1,055 | 686 | (24) | 17 | ▪ Near-term inflationary and interest rate challenges to keep EBITDA margin in check compared to corresponding period last year |
| PAT (Rsmn) | 529 | 605 | 444 | (13) | 19 | ▪ Increase in borrowings to fund BOT (Power) assets and rising interest rates will impact PBT margins |
| **CCCL** | **(CCCL IN Equity,BUY, mcap US$217mn)** | | | | | |
| Sales (Rsmn) | 6,904 | 6,363 | 4,962 | 9 | 39 | ▪ Lower YoY revenue growth in 4QFY11 on account of lower growth in order inflow in 1HFY11 |
| EBITDA (Rsmn) | 680 | 723 | 484 | (6) | 41 | |
| EBITDA margin (%) | 9.8 | 11.4 | 9.7 | (152bps) | 10bps | ▪ Effective management of fixed expenses to keep margins marginally higher than 3QFY11 |
| PBT (Rsmn) | 362 | 572 | 338 | (37) | 7 | |
| PAT (Rsmn) | 227 | 337 | 167 | (33) | 36 | ▪ Rising interest expenses on account of hardening of interest rates to pull down PBT margins |

*Note: All data is stand-alone; Source: Company, Ambit Capital research*

## Exhibit 20: Revisions ahead of earnings season

| | New estimates | | Old estimates | | Change | | Comments |
|---|---|---|---|---|---|---|---|
| | FY11E | FY12E | FY11E | FY12E | FY11E | FY12E | |
| **IVRCL Infra.** | | | | | | | |
| Recommendation | HOLD | | HOLD | | | | |
| TP (Rs) | 96 | | 96 | | | | ▪ We maintain our earlier revenue estimate of 13% and 20% YoY growth revenues for FY11 and FY12 respectively. |
| Revenues (Rsmn) | 59,890 | 72,125 | 59,890 | 72,125 | - | (0.0) | |
| EBITDA (Rsmn) | 5,675 | 6,924 | 5,435 | 6,924 | 0.0 | (0.0) | ▪ We increase our EBITDA margin estimates in FY11 on account of decline in employee expenses in 2HFY11. We expect FY12 EBITDA margin to be in line with FY11 |
| EBITDA margin (%) | 10 | 10 | 9 | 10 | 40bps | - | |
| PBT (Rsmn) | 2,810 | 3,392 | 2,678 | 3,421 | 0.0 | (0.0) | |
| PAT (Rsmn) | 1,880 | 2,239 | 1,786 | 2,258 | 0.1 | (0.0) | |
| EPS (Rs) | 7.0 | 8.4 | 6.7 | 8.5 | 0.1 | (0.0) | |

*Note: All data is stand-alone; Source: Ambit Capital research*

# Consumer

**Whilst we expect consumer buoyancy to continue during the quarter, rising commodity prices implies significant stress on margins. Nestle and Titan are our top recommendations as we believe longer term growth prospects are still not fully factored into the in stock prices.**

**Stock Performance**

| (%) | 3-month | |
|---|---|---|
| | Absolute | Rel to Sensex |
| Colgate | (5.2) | 0.2 |
| Dabur | (3.1) | 2.2 |
| Godrej | (5.9) | (0.5) |
| HUL ^ | (9.2) | (3.9) |
| ITC ^ | 4.6 | 9.9 |
| Nestle * ^ | (3.9) | 1.4 |
| Pantaloon # | (26.7) | (21.4) |
| Titan Ind. ^ | 7.3 | 12.6 |

**Mar '11E Qtrly EPS**

| (Rs) | Ambit | Consensus |
|---|---|---|
| Colgate | 8.9 | NA |
| Dabur | 0.9 | 0.9 |
| Godrej | 3.9 | 4.4 |
| HUL ^ | 2.1 | 2.7 |
| ITC ^ | 1.7 | 1.7 |
| Nestle * ^ | 26.8 | NA |
| Pantaloon # | 2.4 | 2.4 |
| Titan Ind. ^ | 27.2 | 27.2 |

**FY12E EPS**

| (Rs) | Ambit | Consensus |
|---|---|---|
| Colgate | 35.0 | 35.9 |
| Dabur | 4.5 | 4.2 |
| Godrej | 20.8 | 18.1 |
| HUL ^ | 10.5 | 11.3 |
| ITC ^ | 7.7 | 7.7 |
| Nestle * ^ | 102.7 | 100.8 |
| Pantaloon # | 11.7 | 13.3 |
| Titan Ind. ^ | 139.1 | 125.0 |

**Change in FY12E EPS**

| | % change |
|---|---|
| Colgate | NA |
| Dabur | NA |
| Godrej | NA |
| HUL ^ | NA |
| ITC ^ | (0) |
| Nestle * ^ | (2) |
| Pantaloon # | NA |
| Titan Ind. ^ | 0 |

*Note: * year end is Dec 2010; # year end is June; @ year end is Sept; ^ standalone*
*Source: Ambit Capital research*

**Government support to help maintain consumption**: We do not anticipate any major changes in consumption growth trends from the previous quarter as consumer confidence has been reasonably high and it would have mitigated the negative impact of inflation to a large extent. Importantly support from the Government (through the Union Budget) in maintaining the consumption stimulus was positive and we believe this will have significant impact on demand for FY12 especially from semi-urban and rural markets.

**Gross margins in our opinion will likely remain stressed**: The sharp increases seen in commodity prices towards the end of 4QCY10 will likely start impacting most players. Although companies have taken price increases we believe most of them have been calibrated to maintain demand and competitiveness in the marketplace.

## Preparing for upcoming results

We expect Titan and Nestle to report strong topline and operating profits. At a recent analyst meeting Nestle highlighted that it is likely to announce a decision to set up another greenfield facility besides the ongoing activity at four brownfield and one greenfield locations. Titan continues to benefit from encouraging trends in urban markets, which in our opinion, will continue to have an important impact on mix and margins. ITC also, in our opinion, should benefit significantly from the status quo being maintained on excise duty, as towards the end of 3QFY11 the company had announced meaningful price changes to its portfolio in the mid-segment.

## Ambit v/s Consensus

We are towards the high end of consensus for companies such as ITC, Nestle, Titan and Dabur where we believe demand trends are encouraging and we do not envisage any major impact on margins.

## Recommendation

**Nestle** and **Titan** are our top recommendations as we believe longer term growth prospects are still not fully factored into their stock prices. We believe that these 2 companies will sustain their premium valuations supported by significant growth in core categories and competitive positioning.

**Exhibit 21: Detailed Mar '11 quarterly estimates**

| | Mar '11 | Mar '10 | Dec '10 | YoY | QoQ | Comment |
|---|---|---|---|---|---|---|
| **Pantaloon Retail** | **(PF IN Equity, HOLD, mcap US$1,338mn)** | | | | | |
| Sales (Rsmn) | 29,008 | 20,576 | 27,586 | 41 | 5 | ▪ We expect strong growth in topline driven by space additions and healthy same store sales growth<br>▪ As seen in the last two quarters, adverse category mix and cost dynamics to impact margins |
| EBITDA (Rsmn) | 2,431 | 2,156 | 2,384 | 13 | 2 | |
| EBITDA margin (%) | 8.4% | 10.5% | 8.6% | (210bps) | (26bps) | |
| PBT (Rsmn) | 795 | 847 | 708 | (6) | 12 | |
| PAT (Rsmn) | 531 | 559 | 473 | (5) | 12 | |
| **Colgate Palmolive** | **(CLGT IN Equity, HOLD, US$mcap 2,513mn)** | | | | | |
| Sales (Rsmn) | 5,993 | 5,166 | 5,582 | 16 | 7 | ▪ Expect volume growth trends seen in the recent quarters to continue<br>▪ Earnings performance will see improvement from the previous quarter supported by moderation in advertising and promotion spends |
| EBITDA (Rsmn) | 1,613 | 1,441 | 931 | 12 | 73 | |
| EBITDA margin (%) | 26.9% | 27.9% | 16.7% | (98bps) | 1025bps | |
| PBT (Rsmn) | 1,628 | 1,259 | 913 | 29 | 78 | |
| PAT (Rsmn) | 1,205 | 1,070 | 662 | 13 | 82 | |
| **Dabur India** | **(DABUR IN Equity, BUY, mcap US$3,777mn)** | | | | | |
| Sales (Rsmn) | 11,733 | 8,488 | 10,800 | 38 | 9 | ▪ Hobi and Namaste acquisitions to add 2,000bps to topline growth and about 1,600bps to EBITDA growth for the quarter |
| EBITDA (Rsmn) | 2,238 | 1,714 | 2,165 | 31 | 3 | |
| EBITDA margin (%) | 19.1% | 20.2% | 20.0% | (113bps) | (97bps) | |
| PBT (Rsmn) | 2,048 | 1,589 | 1,897 | 29 | 8 | |
| PAT (Rsmn) | 1,653 | 1,331 | 1,541 | 24 | 7 | |
| **Godrej Consumer** | **(GCPL IN Equity, HOLD, mcap US$2,697mn)** | | | | | |
| Sales (Rsmn) | 9,110 | 5,091 | 9,804 | 79 | (7) | ▪ We expect the bulk of growth to be led by consolidation of the remaining stake in Godrej Sara Lee and the recent acquisitions of Megasari (Indonesia), Tura (Nigeria) and Issue Group (Argentina)<br>▪ Expect margins in soaps business to be under pressure on account of rise in palm oil prices |
| EBITDA (Rsmn) | 1,730 | 1,074 | 1,732 | 61 | (0) | |
| EBITDA margin (%) | 19.0% | 21.1% | 17.7% | (211bps) | (132bps) | |
| PBT (Rsmn) | 1,570 | 1,109.0 | 1,472.9 | 42 | 7 | |
| PAT (Rsmn) | 1,256 | 917.0 | 1,188.0 | 37 | 6 | |
| **HUL** | **(HUVR IN Equity, HOLD, mcap US$13,622mn)** | | | | | |
| Sales (Rsmn) | 48,609 | 43,158 | 50,270 | 13 | (3) | ▪ Expect moderation in volume growth compared to previous quarters<br>▪ Margins to be impacted by rise in input costs and competitive challenges |
| EBITDA (Rsmn) | 5,844 | 5,955 | 7,250 | (2) | (19) | |
| EBITDA margin (%) | 12.0% | 13.8% | 14.4% | (178bps) | (240bps) | |
| PBT (Rsmn) | 5,894 | 5,736 | 7,470 | 3 | (21) | |
| PAT (Rsmn) | 4,538 | 4,147 | 5,810 | 9 | (22) | |
| **ITC** | **(ITC IN Equity, BUY, mcap US$31,961mn)** | | | | | |
| Sales (Rsmn) | 55,846 | 50,538 | 54,535 | 11 | 2 | ▪ No change in the excise duty in the budget should help company post healthy volume growth for the quarter<br>▪ Price increases adopted by the company to help margins |
| EBITDA (Rsmn) | 19,546 | 16,180 | 20,293 | 21 | (4) | |
| EBITDA margin (%) | 35.0% | 32.0% | 37.2% | 299bps | (221bps) | |
| PBT (Rsmn) | 19,226 | 15,048 | 20,313 | 28 | (5) | |
| PAT (Rsmn) | 12,978 | 10,282 | 13,891 | 26 | (7) | |
| **Nestle India** | **(NEST IN Equity, BUY, mcap US$7,949mn)** | | | | | |
| Sales (Rsmn) | 17,904 | 14,797 | 16,710 | 21 | 7 | ▪ Healthy demand trends and capacity additions to drive revenue growth<br>▪ Healthy premiumisation trends to help margins |
| EBITDA (Rsmn) | 4,037 | 3,096 | 3,340 | 30 | 21 | |
| EBITDA margin (%) | 22.5% | 20.9% | 20.0% | 163bps | 256bps | |
| PBT (Rsmn) | 3,687 | 2,816 | 3,075 | 31 | 20 | |
| PAT (Rsmn) | 2,581 | 1,971 | 2,214 | 31 | 17 | |
| **Titan Industries** | **(TTAN IN Equity, BUY, mcap US$3,821mn)** | | | | | |
| Sales (Rsmn) | 17,778 | 13,110 | 19,546 | 36 | (9) | ▪ Strong consumer sentiment and store additions to help post significant growth in revenues<br>▪ We expect margins to continue to remain favourable on the back of higher share of studded jewellery and premium watches in the overall revenue mix |
| EBITDA (Rsmn) | 1,758 | 1,000 | 1,952 | 76 | (10) | |
| EBITDA margin (%) | 9.9% | 7.6% | 10.0% | 226bps | (10bps) | |
| PBT (Rsmn) | 1,678 | 617 | 1,999 | 172 | (16) | |
| PAT (Rsmn) | 1,208 | 510 | 1,408 | 137 | (14) | |

*Source: Company, Ambit Capital research*

**Exhibit 22: Revisions ahead of earnings season**

| | New estimates | | Old estimates | | Change | | Comments |
|---|---|---|---|---|---|---|---|
| | FY11E | FY12E | FY11E | FY12E | FY11E | FY12E | |
| **ITC** | | | | | | | |
| Recommendation | BUY | | BUY | | | | |
| TP (Rs) | 200 | | 200 | | | | |
| Revenues (Rsmn) | 213,682 | 248,779 | 213,682 | 248,470 | - | 0 | |
| EBITDA (Rsmn) | 78,671 | 93,926 | 78,671 | 94,336 | - | (0) | |
| EBITDA margin (%) | 36.8% | 37.8% | 36.8% | 38.0% | 0 | (21bps) | Only minor changes in estimates |
| PBT (Rsmn) | 72,270 | 87,070 | 72,270 | 87,254 | - | (0) | |
| PAT (Rsmn) | 49,867 | 59,208 | 49,867 | 59,333 | - | (0) | |
| EPS (Rs) | 6.5 | 7.7 | 6.5 | 7.7 | - | (0) | |
| **Nestle India** | | | | | | | |
| Recommendation | BUY | | BUY | | | | |
| TP (Rs) | 4,200 | | 4,200 | | | | |
| Revenues (Rsmn) | 73,354 | 86,970 | 72,234 | 84,272 | 2 | 3 | |
| EBITDA (Rsmn) | 14,930 | 18,423 | 14,763 | 17,272 | 1 | 7 | |
| EBITDA margin (%) | 20.4% | 21.2% | 20.4% | 20.5% | (8bps) | 69bps | Only minor changes in estimates |
| PBT (Rsmn) | 13,757 | 16,764 | 13,887 | 16,413 | (1) | 2 | |
| PAT (Rsmn) | 9,905 | 11,903 | 10,137 | 11,981 | (2) | (1) | |
| EPS (Rs) | 102.7 | 123.5 | 105.1 | 124.3 | (2) | (1) | |
| **Titan Industries** | | | | | | | |
| Recommendation | BUY | | BUY | | | | |
| TP (Rs) | 4,000 | | 4,000 | | | | |
| Revenues (Rsmn) | 65,371 | 83,956 | 65,094 | 83,586 | 0 | 0 | |
| EBITDA (Rsmn) | 6,558 | 8,569 | 6,485 | 8,531 | 1 | 0 | |
| EBITDA margin (%) | 10.0% | 10.2% | 10.0% | 10.2% | 7bps | 0 | Only minor changes in estimates |
| PBT (Rsmn) | 6,474 | 8,456 | 6,399 | 8,415 | 1 | 0 | |
| PAT (Rsmn) | 4,726 | 6,173 | 4,671 | 6,143 | 1 | 0 | |
| EPS (Rs) | 106.5 | 139.1 | 105.2 | 138.4 | 1 | 0 | |

# Education

**It is likely that the results of the two most-watched Education companies — Educomp and Everonn, will be contrasting. Whilst 4Q tends to be a seasonally strong quarter for both companies from a revenue and PAT perspective, Educomp is likely to find it tougher to meet its current PAT guidance (Rs3.3-3.5bn) and is likely to give weak FY12 guidance. In contrast, we expect stronger results from Everonn with ramp-ups in iSchools and renewed strength in colleges driving strong growth.**

**Stock Performance**

| (%) | 3-month | |
|---|---|---|
| | Absolute | Rel to Sensex |
| Educomp | (18.7) | (13.4) |
| Everonn | (9.6) | (4.3) |

**Mar '11E Qtrly EPS**

| (Rs) | Ambit | Consensus |
|---|---|---|
| Educomp | 16 | 12.6 |
| Everonn | 21 | NA |

**FY12E EPS**

| (Rs) | Ambit | Consensus |
|---|---|---|
| Educomp | 33 | 37.7 |
| Everonn | 51 | 49.2 |

**Change in FY12E EPS**

| | % change |
|---|---|
| Educomp | 0 |
| Everonn | 0 |

*Source: Ambit Capital research*

## Educomp

We expect Educomp to struggle to meet the lower end of its FY11 PAT guidance Rs3.3-3.5bn (implying 113% YoY and 43% QoQ growth) due to continued losses in its nascent businesses. Smart_Class profitability will be underwritten by the second tranche of content revenues recognized for all the schools transferred to EduSmart in 4QFY10. We also expect management to pour cold water over the still high FY12 PAT expectations.

- A primary driver for Educomp is likely to be its ability (or each thereof) to tie up funding for its Edu Smart SPV on time while maintaining the cost of borrowing. The rising cost of borrowing is likely to further strain Edu Smart's cashflows and increase the likelihood of further equity infusion or dilution of Educomp's revenue share.
- The second big driver will be its ability to control costs and ballooning debtor days in its non-core businesses.

## Everonn

In contrast, we expect robust results from Everonn. The company is likely to see a strong ramp-up in its iSchools business and renewed strength in colleges due to the Microsoft sign up in the quarter. Reported profits are also likely to be helped by upfront revenue recognition of iSchool revenues.

- One of the biggest drivers for Everonn would be the increasing stickiness of its College business. Increase in students per college will be a key driver of sustainability and profits.
- The next big driver is maintaining the relevance of its iSchool business, with the No.2 player, TutorVista/Edurite acquired by Pearson and several new entrants.

## Ambit v/s Consensus

For Educomp we remain substantially below consensus on FY12 PAT and earnings given the challenge in filling the gap as a result of upfront revenue booking in FY11 and rising competition. We see **Educomp** potentially underperforming FY11 PAT to make it easier to show growth in FY12.

Given, **Everonn's** more nascent business, outperforming expectations could be easier should it make its College business stickier. We remain below consensus as we prefer more conservative revenue recognition in the iSchool business.

## Recommendation

We remain SELLers on Educomp due to profound challenges facing the core business and its inability to bridge the profitability gap from newer endeavours that places its FY12-13 profits at risk. We are incrementally more optimistic on Everonn, given rising traction in Colleges and Retail. We would still wait a while to confirm the current strength in its Colleges business before turning BUYers.

**Exhibit 23: Detailed Mar '11 quarterly estimates**

| | Mar '11 | Mar '10 | Dec '10 | YoY | QoQ | Comment |
|---|---|---|---|---|---|---|
| **Educomp** | **(EDSL IN Equity, SELL, mcap US$963mn)** | | | | | |
| Sales (Rsmn) | 4,625 | 3,331 | 3,575 | 39% | 29% | |
| EBITDA (Rsmn) | 2,773 | 1,590 | 1,632 | 74% | 70% | ▪ Revenue growth driven by Rs1.9bn from deferred Smart_Class revenues from FY10 |
| EBITDA margin (%) | 60% | 48% | 46% | 1,223 | 1,432 | |
| PBT (Rsmn) | 2,670 | 1,364 | 1,257 | 96% | 112% | ▪ PAT growth driven by contribution of deferred content revenues from FY10 |
| PAT (Rsmn) | 1,426 | 604 | 967 | 136% | 47% | |
| **Everonn** | **(EEDU IN Equity, SELL, mcap US$245mn)** | | | | | |
| Sales (Rsmn) | 953 | 1,034 | 1,153 | -8% | -17% | |
| EBITDA (Rsmn) | 677 | 336 | 439 | 102% | 54% | ▪ We maintain our full year numbers in spite of strong 3QFY11 performance. Our numbers are lower as we do not factor in upfront revenue recognition in iSchools. |
| EBITDA margin (%) | 71% | 32% | 38% | 3,859bps | 3,297bps | |
| PBT (Rsmn) | 231 | 247 | 289 | -7% | -20% | ▪ Our PAT numbers are lower as we do not factor in upfront revenue recognition in iSchools |
| PAT (Rsmn) | 156 | 164 | 189 | -5% | -18% | |

*Source: Company, Ambit Capital research*

**Exhibit 24: Revisions ahead of earnings season**

| | New estimates | | Old estimates | | Change | | Comments |
|---|---|---|---|---|---|---|---|
| | FY11E | FY12E | FY11E | FY12E | FY11E | FY12E | |
| **Educomp** | | | | | | | |
| Recommendation | SELL | | SELL | | | | |
| TP (Rs) | 386 | | 386 | | | | |
| Revenues (Rsmn) | 13,247 | 13,805 | 13,247 | 13,805 | 0% | 0% | |
| EBITDA (Rsmn) | 6,135 | 5,896 | 6,135 | 5,896 | 0% | 0% | |
| EBITDA margin (%) | 46% | 43% | 46% | 43% | 0 | 0 | ▪ No revisions |
| PBT (Rsmn) | 5,054 | 4,802 | 5,054 | 4,802 | 0% | 0% | |
| PAT (Rsmn) | 3,295 | 3,110 | 3,295 | 3,110 | 0% | 0% | |
| EPS (Rs) | 35 | 33 | 35 | 33 | 0% | 0% | |
| **Everonn** | | | | | | | |
| Recommendation | SELL | | SELL | | | | |
| TP (Rs) | 553 | | 553 | | | | |
| Revenues (Rsmn) | 3,861 | 5,100 | 3,861 | 5,100 | 0% | 0% | |
| EBITDA (Rsmn) | 1,363 | 1,919 | 1,363 | 1,919 | 0% | 0% | |
| EBITDA margin (%) | 35% | 38% | 35% | 38% | 0 | 0 | ▪ No revisions |
| PBT (Rsmn) | 854 | 1,160 | 854 | 1,160 | 0% | 0% | |
| PAT (Rsmn) | 570 | 775 | 570 | 775 | 0% | 0% | |
| EPS (Rs) | 37 | 51 | 37 | 51 | 0% | 0% | |

*Source: Ambit Capital research*

# Media

**Owing to the strong growth in advertising spend, we expect the momentum in advertising revenue to continue for both broadcasting as well as print companies. We expect Sun TV and Zee Entertainment to report advertising revenue growth of 14% and 19% respectively during the quarter over the corresponding period last year. This apart, increasing digitization would lead to higher subscription revenue growth for broadcasting companies.**

Robust advertising revenue growth: We expect both Print and Broadcasting companies to report advertising revenue growth on a YoY basis. In the case of Hindi GECs, growth in revenue could be impacted by the recently concluded Cricket World Cup. We expect ZEEL and Sun TV to report advertising revenue growth of 19% and 14% respectively on a YoY basis. The subscription revenue is also expected to go up by 15%-22%.

## Preparing for upcoming results

We have adjusted our revenue and profitability estimates for the companies under our coverage to reflect some of the recent changes such as the impact of sports on Zee, a change in business plan in the case of DB Corp and the impact of this on other print companies. For Zee, a major change includes upward revision in the profitability by 8% owing to lowering of losses in the sports business in FY12E.

## Ambit v/s Consensus

In the case of Sun TV we are ahead of consensus in both revenue and EBITDA by 1.4% and 7% respectively. We expect the company to report higher advertising revenue growth on the back of its leadership in the southern market and also expect it to maintain margins. For ZEEL, we are in line on the revenue front but 5% lower than consensus at the EBITDA level. This is mainly driven by a higher cost structure on account of an increase in original programming hours and the cost associated with the sports business. In the case of Print companies, we are in line with consensus for DB Corp but lower than consensus on Jagran Prakashan's revenue and EBITDA estimates.

## Recommendation

Among broadcasters, owing to strong revenue and earnings growth, we maintain our BUY on **Sun TV** with a target price of Rs530. We believe that, losses in the sports business and increasing programming hours will keep ZEEL's margin growth under check. We maintain our HOLD stance on ZEEL with a target price of Rs133.

Whilst, advertising revenue growth for HT Media, DBCL and Jagran is estimated to be over 15% CAGR over the next two years, circulation revenue is expected to grow at a meagre 3%. Increased newsprint consumption owing to expansion in new territories and increase in number of copies under circulation, will exert pressure on margins. We prefer **DBCL** and **Jagran** owing to their market leadership and attractive valuations. We maintain our HOLD stance on HT Media.

**Stock Performance**

| (%) | 3-month | |
|---|---|---|
| | Absolute | Rel to Sensex |
| DB Corp. | (5.0) | 0.3 |
| ENIL | 9.5 | 14.8 |
| H T Media | 0.0 | 5.3 |
| Jagran Prakashan | (6.1) | (0.8) |
| Sun TV | (15.3) | (10.0) |
| Zee Ent. | (15.1) | (9.8) |

**Mar '11E Qtrly EPS**

| (Rs) | Ambit | Consensus |
|---|---|---|
| DB Corp. | 3.1 | 3.5 |
| ENIL | 2.1 | NA |
| H T Media | 1.8 | 2.1 |
| Jagran Prakashan | 1.5 | NA |
| Sun TV | 4.5 | 3.9 |
| Zee Ent. | 1.2 | 1.3 |

**FY12E EPS**

| (Rs) | Ambit | Consensus |
|---|---|---|
| DB Corp. | 15.2 | 15.5 |
| ENIL | 9.9 | 10.5 |
| H T Media | 9.2 | 9.2 |
| Jagran Prakashan | 7.7 | 8.0 |
| Sun TV | 22.2 | 21.9 |
| Zee Ent. | 6.5 | 6.7 |

**Change in FY12E EPS**

| | % change |
|---|---|
| DB Corp. | 0.7 |
| ENIL | 3.2 |
| H T Media | 3.4 |
| Jagran Prakashan | -3.0 |
| Sun TV | 1.0 |
| Zee Ent. | 7.9 |

*Source: Ambit Capital research*

**Exhibit 25: Detailed Mar '11 quarterly estimates**

| | Mar '11 | Mar '10 | Dec '10 | YoY | QoQ | Comment |
|---|---|---|---|---|---|---|
| **DB Corp.** | **(DBCL in Equity, BUY, mcap US$1,010mn)** | | | | | |
| Sales (Rsmn) | 3,250 | 2,572 | 3,482 | 26 | -7 | ▪ Strong advertising revenue growth, (in the existing markets) and expansion in new markets. |
| EBITDA (Rsmn) | 937 | 696 | 1,148 | 35 | -18 | |
| EBITDA margin (%) | 29 | 27 | 33 | 179bps | (413bps) | ▪ Revenues, however, would be lower sequentially on account of seasonality |
| PBT (Rsmn) | 817 | 547 | 1,034 | 49 | -21 | |
| PAT (Rsmn) | 566 | 367 | 659 | 54 | -14 | ▪ Expansion and increase in the number of copies under circulation to put pressure on margins |
| **ENIL** | **(ENIL IN Equity, BUY, mcap US$268mn)** | | | | | |
| Sales (Rsmn) | 773 | 612 | 775 | 26 | 0 | ▪ Increasing spend on radio advertising coupled with ENIL's leadership position and higher inventory utilization to help the company report 26% YoY advertisement revenue growth |
| EBITDA (Rsmn) | 247 | 148 | 282 | 67 | -12 | |
| EBITDA margin (%) | 32 | 24 | 36 | 781bps | (437bps) | |
| PBT (Rsmn) | 165 | 52 | 207 | 215 | -20 | ▪ Provision for royalty fees to impact margins |
| PAT (Rsmn) | 101 | 48 | 128 | 111 | -22 | |
| **H T Media** | **(HTML IN Equity, HOLD, mcap US$762mn)** | | | | | |
| Sales (Rsmn) | 4,550 | 3,851 | 4,651 | 18 | -2 | ▪ Growing metro advertising revenue coupled with strong growth in Hindi market to drive revenue |
| EBITDA (Rsmn) | 863 | 929 | 883 | (7) | -2 | |
| EBITDA margin (%) | 19 | 24 | 19 | (516bps) | (2bps) | |
| PBT (Rsmn) | 643 | 708 | 684 | (9) | -6 | ▪ Increase in copies under circulation to result in higher raw material cost resulting in steady margins |
| PAT (Rsmn) | 432 | 495 | 478 | (13) | -10 | |
| **Jagran Prakashan** | **(JAGP IN Equity, BUY, mcap US$879mn)** | | | | | |
| Sales (Rsmn) | 2,742 | 2,363 | 2,860 | 16 | -4 | ▪ Growth in semi urban and rural ad spend and the company's dominant position in the UP market to result in revenue growth |
| EBITDA (Rsmn) | 762 | 633 | 897 | 20 | -15 | |
| EBITDA margin (%) | 28 | 27 | 31 | 102bps | (359bps) | |
| PBT (Rsmn) | 657 | 540 | 786 | 22 | -16 | ▪ Significant increase in copies under circulation to result in a higher cost structure |
| PAT (Rsmn) | 440 | 364 | 526 | 21 | -16 | |
| **Sun TV** | **(SUNTV IN Equity, BUY, mcap US$3,860mn)** | | | | | |
| Sales (Rsmn) | 4,542 | 3,919 | 5,980 | 16 | -24 | ▪ Advertising revenue growth to continue but sequential drop is on account of lower revenue from the movie segment |
| EBITDA (Rsmn) | 3,532 | 3,309 | 5,018 | 7 | -30 | |
| EBITDA margin (%) | 78 | 84 | 84 | (666bps) | (616bps) | |
| PBT (Rsmn) | 2,630 | 2,542 | 3,367 | 3 | -22 | ▪ Last quarter, *Endhiran* boosted revenue by Rs1.5bn |
| PAT (Rsmn) | 1,761 | 1,651 | 2,255 | 7 | -22 | |
| **Zee Enter.** | **(Z IN Equity, HOLD, mcap US$2,744mn)** | | | | | |
| Sales (Rsmn) | 7,417 | 6,493 | 7,549 | 14 | -2 | ▪ Steady GRPs to boost ad revenue but growth to be tempered by the cricket sports season |
| EBITDA (Rsmn) | 1,565 | 1,836 | 1,541 | (15) | 2 | |
| EBITDA margin (%) | 21 | 28 | 20 | (718bps) | 68bps | ▪ Lower EBITDA growth due to continued losses in sports business and increasing content cost owing to higher original programming hours |
| PBT (Rsmn) | 1,678 | 1,961 | 1,672 | (14) | 0 | |
| PAT (Rsmn) | 1,159 | 1,273 | 900 | (9) | 29 | |

*Source: Company, Ambit Capital research*

**Exhibit 26: Revision ahead of earnings season**

| | New estimates | | Old estimates | | Change | | Comments |
|---|---|---|---|---|---|---|---|
| | FY11E | FY12E | FY11E | FY12E | FY11E | FY12E | |
| **DB Corp.** | | | | | | | |
| Recommendation | BUY | | BUY | | | | |
| TP (Rs) | 310 | | 310 | | | | |
| Revenues (Rsmn) | 12,724 | 14,804 | 12,252 | 14,124 | 3.9 | 4.8 | ▪ Revenues estimated revised upwards due to advertising revenue growth envisaged in the existing market and expansion in the new markets. Margin pressures to continue due to increase in no. of copies and expansion in the new areas. |
| EBITDA (Rsmn) | 4,182 | 4,604 | 4,097 | 4,588 | 2.1 | 0.3 | |
| EBITDA margin (%) | 33 | 31 | 33 | 32 | (57bps) | (138bps) | |
| PBT (Rsmn) | 3,722 | 4,156 | 3,577 | 4,131 | 4.1 | 0.6 | |
| PAT (Rsmn) | 2,472 | 2,776 | 2425 | 2,759 | 1.9 | 0.6 | |
| EPS (Rs) | 13.5 | 15.2 | 13.3 | 15.1 | 1.9 | 0.7 | |
| **ENIL** | | | | | | | |
| Recommendation | BUY | | BUY | | | | |
| TP (Rs) | 275 | | 275 | | | | |
| Revenues (Rsmn) | 2,751 | 3,146 | 2,716 | 3,084 | 1.3 | 2.0 | |
| EBITDA (Rsmn) | 831 | 973 | 804 | 954 | 3.3 | 2.0 | |
| EBITDA margin (%) | 30 | 31 | 30 | 31 | 60bps | 0.1bps | ▪ Higher tax outflow to reduce PAT by 5%. |
| PBT (Rsmn) | 517 | 615 | 482 | 597 | 7.1 | 3.2 | |
| PAT (Rsmn) | 322 | 472 | 339 | 458 | -5.0 | 3.2 | |
| EPS (Rs) | 6.8 | 9.9 | 7.1 | 9.6 | -5.0 | 3.2 | |
| **H T Media** | | | | | | | |
| Recommendation | HOLD | | HOLD | | | | |
| TP (Rs) | 160 | | 160 | | | | |
| Revenues (Rsmn) | 17,698 | 20,339 | 17,680 | 20,240 | 0.1 | 0.5 | |
| EBITDA (Rsmn) | 3,336 | 4,125 | 3,351 | 4,133 | -0.4 | -0.2 | ▪ Advertising revenue growth to improve slightly, Increase in copies under circulation would result in higher raw material costs resulting in steady margins overall. |
| EBITDA margin (%) | 19 | 20 | 19 | 20 | (10bps) | (14bps) | |
| PBT (Rsmn) | 2,513 | 3,258 | 2,601 | 3,245 | -3.4 | 0.4 | |
| PAT (Rsmn) | 1,712 | 2,173 | 1,719 | 2,101 | -0.4 | 3.4 | |
| EPS (Rs) | 7.3 | 9.2 | 7.3 | 8.9 | -0.4 | 3.4 | |
| **Jagran Prakashan** | | | | | | | |
| Recommendation | BUY | | BUY | | | | |
| TP (Rs) | 160 | | 160 | | | | |
| Revenues (Rsmn) | 11,069 | 12,742 | 10,745 | 12,699 | 3.0 | 0.3 | |
| EBITDA (Rsmn) | 3,470 | 3,810 | 3,537 | 3,992 | -1.9 | -4.6 | ▪ Increase in number copies and subsequent increase in raw material prices to impact margins and profitability for FY11 and FY12. |
| EBITDA margin (%) | 31 | 30 | 33 | 31 | (157bps) | (153bps) | |
| PBT (Rsmn) | 3,089 | 3,460 | 3,175 | 3,568 | -2.7 | -3.0 | |
| PAT (Rsmn) | 2,077 | 2,325 | 2,136 | 2,398 | -2.8 | -3.0 | |
| EPS (Rs) | 6.9 | 7.7 | 7.1 | 8.0 | -2.8 | -3.0 | |
| **Sun TV** | | | | | | | |
| Recommendation | BUY | | BUY | | | | |
| TP (Rs) | 530 | | 530 | | | | |
| Revenues (Rsmn) | 19982 | 22214 | 20118 | 22689 | -0.7 | -2.1 | |
| EBITDA (Rsmn) | 15538 | 17174 | 15751 | 17435 | -1.4 | -1.5 | |
| EBITDA margin (%) | 78 | 77 | 78 | 77 | (53bps) | (47) | |
| PBT (Rsmn) | 10882 | 13094 | 11186 | 13532 | -2.7 | -3.2 | |
| PAT (Rsmn) | 7265 | 8751 | 7159 | 8661 | 1.5 | 1.0 | |
| EPS (Rs) | 18.4 | 22.2 | 18.2 | 22.0 | 1.5 | 1.0 | |
| **Zee Enter.** | | | | | | | |
| Recommendation | HOLD | | HOLD | | | | |
| TP (Rs) | 133 | | 133 | | | | |
| Revenues (Rsmn) | 28,851 | 33,211 | 28,829 | 32,865 | 0.1 | 1.1 | |
| EBITDA (Rsmn) | 6,862 | 8,967 | 7,090 | 8,939 | -3.2 | 0.3 | ▪ Upward revision in the profitability of ZEEL by 8% owing to lowering of losses in the sports business in FY12E. |
| EBITDA margin (%) | 24 | 27 | 25 | 27 | (81bps) | (20bps) | |
| PBT (Rsmn) | 7,588 | 9,520 | 7,817 | 9,454 | -2.9 | 0.7 | |
| PAT (Rsmn) | 4,565 | 6,379 | 4,969 | 5,912 | -8.1 | 7.9 | |
| EPS (Rs) | 4.7 | 6.5 | 4.8 | 6.0 | -2.4 | 7.9 | |

*Source: Ambit Capital research*

# Metals & Mining

**In 4QFY11, we expect margin expansion for both ferrous as well as non-ferrous metal companies. The quarter saw an increase in steel and non-ferrous metal prices, , leading to realization improvement for the companies.**

**Significant sequential increase in metal prices to improve margins in 4QFY11**. The domestic steel price increase mirrored international steel prices which rose across geographies due to cost-push, especially on account of Australian floods that increased coking coal prices beyond US$300/t. However the increase in spot prices for coking coal will hit the financials of steel companies only in 1Q and 2Q of FY12 (lag effect) and so margins for the quarter are expected to improve significantly in 4QFY11 (contracted coking coal prices increased from US$207/t in 3QFY11 to only US$225/t in 4QFY11).

The quarter also saw a significant increase in the price of all non-ferrous metals. Average Aluminum prices rose 8% sequentially to US$2,510/t in 4QFY11 from US$2,340 in 3Q. Similarly, on an average, zinc prices have increased 4% QoQ while lead prices have jumped 10% QoQ. As a result, we expect sequential margin expansion for non-ferrous companies too.

## Preparing for upcoming results

The higher steel prices, which have not been accompanied by a significant increase in costs have led us to increase our revenue and profit estimates for all the steel companies for 4QFY11 and FY11.

We maintain our FY12 and FY13 estimates for Hindustan Zinc and Sterlite Industries on which we initiated recently. For Hindalco and Nalco, we increase our FY12 and FY13 realisation estimates on account of our recent improved outlook on aluminium prices (we now expect aluminium prices to be US$2,473/t in FY12 and US$2,546/t in FY13 compared to earlier US$2,300/t and US$2,350/t respectively for the two years) but this is offset to different degrees by the price hike announced by Coal India.

We maintain BUY on Sesa Goa, Tata Steel, JSW Steel, Hindustan Zinc and Sterlite Industries, and HOLD on Hindalco, NALCO and SAIL and SELL on NMDC.

## Ambit v/s Consensus

Over the last three months, prices of both steel and non-ferrous metals have increased significantly and is probably not factored in current consensus estimates. Another factor could be that the consensus for the quarter is yet to fully emerge and is currently driven by a small number of estimates.

Be that as it may, for our FY12 estimates, we are below consensus. A probable reason could be that our long term pricing assumptions for non-ferrous metals are more conservative than the current spot prices. Further, we believe that raw material cost push and inflationary cost pressures will prevent margin expansion.

## Recommendation

Key developments to focus on are the impact of recent events in Japan on the global steel market as well as the spot market for iron ore and coking coal. Besides results, a key announcement will be the management commentary on the reserve base from the Vedanta Group companies (Sesa Goa, Hindustan Zinc and Sterlite Industries).

Our top picks in the sector are **Sesa Goa** (where annualized volumes are expected to improve post removal of the export ban in Karnataka soon) and **JSW Steel** (where the margin improvement and capacity expansion should serve as stock price catalysts).

**Stock Performance**

| (%) | 3-month | |
|---|---|---|
| | Absolute | Rel to Sensex |
| Hindalco Ind. | (13.5) | (8.2) |
| Hindustan Zinc | (0.9) | 4.4 |
| JSW Steel | (19.3) | (14.0) |
| NALCO | (2.2) | 3.1 |
| NMDC | 5.7 | 11.0 |
| SAIL | (6.9) | (1.6) |
| Sesa Goa | (9.6) | (4.2) |
| Sterlite Ind. | (6.9) | (1.6) |
| Tata Steel | (8.0) | (2.7) |

**Mar '11E Qtrly EPS**

| (Rs) | Ambit | Consensus |
|---|---|---|
| Hindalco Ind. | 3.3 | 3.2 |
| Hindustan Zinc | 3.5 | 2.1 |
| JSW Steel | 25.9 | 15.3 |
| NALCO | 1.6 | 1.1 |
| NMDC | 5.0 | NA |
| SAIL | 5.7 | 4.7 |
| Sesa Goa | 13.4 | 12.4 |
| Sterlite Ind. | 4.0 | 3.9 |
| Tata Steel | 15.6 | 16.2 |

**FY12E EPS**

| (Rs) | Ambit | Consensus |
|---|---|---|
| Hindalco Ind. | 13.6 | 20.2 |
| Hindustan Zinc | 12.2 | 13.0 |
| JSW Steel | 85.0 | 102.2 |
| NALCO | 5.4 | 7.5 |
| NMDC | 21.0 | 21.0 |
| SAIL | 17.0 | 16.4 |
| Sesa Goa | 37.0 | 47.3 |
| Sterlite Ind. | 18.1 | 22.3 |
| Tata Steel | 59.4 | 75.3 |

**Change in FY12E EPS**

| | % change |
|---|---|
| Hindalco Ind. | 3.9 |
| Hindustan Zinc | 0.0 |
| JSW Steel | 0.0 |
| NALCO | -12.2 |
| NMDC | 0.0 |
| SAIL | 0.0 |
| Sesa Goa | 1.7 |
| Sterlite Ind. | 0.0 |
| Tata Steel | 0.0 |

*Source: Ambit Capital research*

**Exhibit 27: Detailed Mar '11 quarterly estimates**

| | Mar '11 | Mar '10 | Dec '10 | YoY | QoQ | Comment |
|---|---|---|---|---|---|---|
| **Hindalco Ind.** | **(HNDL IN Equity, HOLD, mcap US$9,248mn)** | | | | | |
| Sales (Rsmn) | 68,901 | 54,044 | 59,746 | 27 | 15 | ▪ We expect strong sequential profitability improvement led by both realization and volumes. |
| EBITDA (Rsmn) | 9,813 | 8,354 | 7,401 | 17 | 33 | |
| EBITDA margin (%) | 14 | 15 | 12 | (122bps) | 185bps | ▪ We expect aluminium volumes to rebound to 144kt post the operational recovery at Hirakud. |
| PBT (Rsmn) | 8,165 | 6,741 | 5,785 | 21 | 41 | |
| PAT (Rsmn) | 6,368 | 5,508 | 4,603 | 16 | 38 | ▪ Auminium prices have averaged US$2,510/t compared to US$2,330 in 3QFY11 (8% jump) leading to segmental profit improvement. |
| **JSW Steel** | **(JSTL IN Equity, BUY, mcap US$4,817mn)** | | | | | |
| Sales (Rsmn) | 70,459 | 54,807 | 60,026 | 29 | 17 | ▪ Expect sales volume of 1.73mt, 8% YoY growth and 6% QoQ growth. |
| EBITDA (Rsmn) | 14,551 | 13,234 | 10,164 | 10 | 43 | |
| EBITDA margin (%) | 21 | 24 | 17 | (349bps) | 372bps | ▪ Realisation jump in the quarter to lead to significant profitability improvement QoQ. EBITDA/t (inc other op income) to increase from Rs 6,300/t in 3Q to Rs8,400/t in 4Q. |
| PBT (Rsmn) | 8,628 | 7,476 | 4,328 | 15 | 99 | |
| PAT (Rsmn) | 5,862 | 5,150 | 2,917 | 14 | 101 | ▪ No major improvement expected from US operations. |
| **NALCO** | **(NACL IN Equity, HOLD, mcap US$5,658)** | | | | | |
| Sales (Rsmn) | 17,190 | 16,260 | 14,431 | 6 | 19 | ▪ Revenue and EBITDA expected to increase 19% and 48% QoQ due to both prices and volume effect. |
| EBITDA (Rsmn) | 5,769 | 5,411 | 3,896 | 7 | 48 | |
| EBITDA margin (%) | 34 | 33 | 27 | 28bps | 656bps | ▪ Auminium prices have averaged US$2,510/t compared to US$2,330 in 3QFY11 (8% jump) leading to segmental profit improvement. |
| PBT (Rsmn) | 5,979 | 5,189 | 3,759 | 15 | 59 | |
| PAT (Rsmn) | 4,192 | 3,915 | 2,560 | 7 | 64 | ▪ 4Q is seasonally strong for Nalco in its alumina sales and we expect the company to record alumina sales volume of 230kt. |
| **NMDC** | **(NMDC IN Equity, SELL, mcap US$26,563)** | | | | | |
| Sales (Rsmn) | 35,114 | 19,833 | 26,212 | 77 | 34 | |
| EBITDA (Rsmn) | 26,804 | 13,792 | 20,159 | 94 | 33 | ▪ Expect sales volume to be strong at 8mt, a 16% YoY and 26% QoQ growth. |
| EBITDA margin (%) | 76 | 70 | 77 | 679bps | (57bps) | |
| PBT (Rsmn) | 29,509 | 15,994 | 22,812 | 84 | 29 | ▪ This along with 6% QoQ realization growth should lead to 34% QoQ topline growth and 33% EBITDA growth. |
| PAT (Rsmn) | 19,771 | 10,656 | 15,180 | 86 | 30 | |
| **SAIL** | **(SAIL IN Equity, HOLD, mcap US$15,581)** | | | | | |
| Sales (Rsmn) | 144,152 | 122,298 | 113,128 | 18 | 27 | ▪ Sales volume of 3.65mt 8% YoY growth and 12% QoQ growth. |
| EBITDA (Rsmn) | 36,680 | 30,971 | 17,957 | 18 | 104 | ▪ Sales realization to significant 13% QoQ jump due to spot steel price trends. |
| EBITDA margin (%) | 25 | 25 | 16 | 12bps | 957bps | |
| PBT (Rsmn) | 35,180 | 30,668 | 16,282 | 15 | 116 | ▪ Realisation improvement to also lead to EBITDA increase as coking coal costs will impact only later. |
| PAT (Rsmn) | 23,570 | 20,849 | 11,075 | 13 | 113 | |
| **Sesa Goa** | **(SESA IN Equity, BUY, mcap US$5,636)** | | | | | |
| Sales (Rsmn) | 25,113 | 24,189 | 22,501 | 4 | 12 | ▪ We expect sales volume of 5.7mt in the quarter. |
| EBITDA (Rsmn) | 13,590 | 15,030 | 12,329 | (10) | 10 | ▪ Realisation improvement led by increased iron ore spot prices (58% Chinese CFR prices rose 13% QoQ). |
| EBITDA margin (%) | 54 | 62 | 55 | (802bps) | (68bps) | |
| PBT (Rsmn) | 14,505 | 15,928 | 13,255 | (9) | 9 | ▪ The realization improvement expected to be partially offset by the export duty hike to 20% effective from March beginning. |
| PAT (Rsmn) | 11,872 | 12,129 | 10,653 | (2) | 11 | |
| **Tata Steel** | **(TATA IN Equity, BUY, mcap US$13,508)** | | | | | |
| Sales (Rsmn) | 309,893 | 275,038 | 290,895 | 13 | 7 | ▪ We expect Indian and European operations to record sales volume of 1.68mt and 3.4mt respectively, both of which are relatively flattish on a QoQ basis. |
| EBITDA (Rsmn) | 40,443 | 47,501 | 34,246 | (15) | 18 | |
| EBITDA margin (%) | 13 | 17 | 12 | (422bps) | 128bps | |
| PBT (Rsmn) | 23,812 | 35,497 | 14,506 | (33) | 64 | ▪ Realisation improvement to help revenue and EBITDA growth by 7% and 18% QoQ respectively. EBITDA at Corus expected to recover to US$45/t. |
| PAT (Rsmn) | 14,828 | 27,920 | 8,807 | (47) | 68 | |
| **Hindustan Zinc** | **(HZ IN Equity, BUY, mcap US$13,288)** | | | | | |
| Sales (Rsmn) | 29,540 | 25,449 | 26,302 | 16 | 12 | ▪ We expect 12% QoQ increase in topline led predominantly by strong spot prices. |
| EBITDA (Rsmn) | 17,654 | 15,482 | 15,073 | 14 | 17 | |
| EBITDA margin (%) | 60 | 61 | 57 | (107bps) | 246bps | ▪ On an average, zinc prices have increased 4% QoQ while lead prices have jumped 10% QoQ. Further, silver prices have jumped 25% QoQ. |
| PBT (Rsmn) | 18,330 | 15,543 | 15,947 | 18 | 15 | |
| PAT (Rsmn) | 14,839 | 12,390 | 12,896 | 20 | 15 | ▪ The higher realization will lead to improved profitability, both at the EBITDA and net profit levels. |
| **Sterlite Ind.** | **(STLT IN Equity, BUY, mcap US$12,987)** | | | | | |
| Sales (Rsmn) | 86,943 | 71,108 | 82,943 | 22 | 5 | |
| EBITDA (Rsmn) | 22,506 | 20,685 | 19,406 | 9 | 16 | ▪ We expect 5% and 16% QoQ increase in revenue and EBITDA respectively, led predominantly by realization improvement, both in the aluminium and zinc segments, as well as inclusion of assets acquired from Anglo American. |
| EBITDA margin (%) | 26 | 29 | 23 | (320bps) | 249bps | |
| PBT (Rsmn) | 23,733 | 23,890 | 21,370 | (1) | 11 | |
| PAT (Rsmn) | 13,452 | 13,809 | 11,052 | (3) | 22 | |

*Source: Company, Ambit Capital research*

**Exhibit 28: Revisions ahead of earnings season**

| | New estimates | | Old estimates | | Change | | Comments |
|---|---|---|---|---|---|---|---|
| | FY11E | FY12E | FY11E | FY12E | FY11E | FY12E | |
| **Hindalco Ind.** | | | | | | | |
| Recommendation | HOLD | | HOLD | | | | ▪ We increase our FY12 and FY13 revenue and profit estimates on account of the higher aluminium price forecasts, partially offset by the higher coal prices. (We now expect aluminium prices to be US$/t 2,473 in FY12 and US$2,546 in FY13 v/s earlier US$2,300/t and US$2,350/t respectively for the 2 years) The recent coal price hike is expected to raise cost of production by ~Rs 3,500/t. |
| TP (Rs) | 235 | | 235 | | | | |
| Revenues (Rsmn) | 728,102 | 812,951 | 725,958 | 791,666 | 0 | 3 | |
| EBITDA (Rsmn) | 80,528 | 86,107 | 80,261 | 85,353 | 0 | 1 | |
| EBITDA margin (%) | 11 | 11 | 11 | 11 | 0 | (19bps) | |
| PBT (Rsmn) | 44,109 | 46,977 | 43,676 | 45,851 | 1 | 2 | |
| PAT (Rsmn) | 25,719 | 26,025 | 25,339 | 25,046 | 2 | 4 | |
| EPS (Rs) | 13 | 14 | 13 | 13 | 2 | 4 | |
| **JSW Steel** | | | | | | | |
| Recommendation | BUY | | BUY | | | | ▪ We increase our FY11 estimates on account of the increase in steel prices in 4Q. However the increase has been on account of cost-push, and the higher cost structure will be reflected in FY12. We maintain our EBITDA/t (exc op income) estimate of Rs6,600/t in FY12. The capacity increase at Vijaynagar to help volume growth in FY12 and FY13 to 8.4mt and 9.5mt resp. |
| TP (Rs) | 1,360 | | 1,360 | | | | |
| Revenues (Rsmn) | 236,692 | 341,333 | 234,471 | 341,333 | 1 | - | |
| EBITDA (Rsmn) | 45,632 | 56,202 | 42,579 | 56,202 | 7 | - | |
| EBITDA margin (%) | 19 | 16 | 18 | 16 | 112bps | - | |
| PBT (Rsmn) | 21,330 | 30,361 | 18,219 | 30,361 | 17 | - | |
| PAT (Rsmn) | 14,421 | 20,452 | 12,337 | 20,452 | 17 | - | |
| EPS (Rs) | 63 | 85 | 54 | 85 | 17 | - | |
| **NALCO** | | | | | | | |
| Recommendation | HOLD | | HOLD | | | | ▪ We decrease our FY12 revenue estimates by -0.6% respectively - the higher aluminium price assumptions offset by lower alumina volumes in FY12 (given that the new alumina refinery will take time to ramp up). We now expect aluminium prices to be US$ 2,473/t and US$2,546/t in FY12 and FY13 respectively v/s earlier US$2,300/t and US$2,350/t respectively for the 2 years) ▪ We also factor in the higher coal prices (and the withdrawal of coal linkage for one power unit) which will hurt profitability. As a result we decrease our FY12 EBITDA estimate by 12% |
| TP (Rs) | 114 | | 114 | | | | |
| Revenues (Rsmn) | 59,493 | 69,699 | 58,739 | 70,154 | 1 | (1) | |
| EBITDA (Rsmn) | 17,080 | 20,985 | 17,391 | 23,849 | (2) | (12) | |
| EBITDA margin (%) | 29 | 30 | 30 | 34 | (90bps) | (389bps) | |
| PBT (Rsmn) | 17,035 | 20,669 | 17,346 | 23,531 | (2) | (12) | |
| PAT (Rsmn) | 11,832 | 13,848 | 12,143 | 15,766 | (3) | (12) | |
| EPS (Rs) | 5 | 5 | 5 | 6 | (3) | (12) | |
| **NMDC** | | | | | | | |
| Recommendation | SELL | | SELL | | | | ▪ No change in estimates. We continue to expect sales volume of 30mt in FY12 and 36mt in FY13 led by capacity ramp-up through Deposit 11B mine. |
| TP (Rs) | 260 | | 260 | | | | |
| Revenues (Rsmn) | 111,106 | 147,996 | 111,106 | 147,996 | - | - | |
| EBITDA (Rsmn) | 85,878 | 112,607 | 85,878 | 112,607 | - | - | |
| EBITDA margin (%) | 77 | 76 | 77 | 76 | - | - | |
| PBT (Rsmn) | 95,343 | 124,072 | 95,343 | 124,072 | - | - | |
| PAT (Rsmn) | 63,742 | 83,117 | 63,742 | 83,117 | - | - | |
| EPS (Rs) | 16 | 21 | 16 | 21 | - | - | |
| **SAIL** | | | | | | | |
| Recommendation | HOLD | | HOLD | | | | ▪ We expect flattish volume in FY12 followed by 13% volume growth in FY13, led by capacity increase. ▪ We maintain our EBITDA (exc other op income) estimate for SAIL of Rs8,100/t and Rs9,400/t in FY12 and FY13 respectively compared to Rs6800 in FY11, helped by higher steel prices and captive iron ore supply and economies of scale (in FY13). |
| TP (Rs) | 195 | | 195 | | | | |
| Revenues (Rsmn) | 457,085 | 491,098 | 450,927 | 491,098 | 1 | - | |
| EBITDA (Rsmn) | 91,673 | 111,105 | 84,541 | 111,105 | 8 | - | |
| EBITDA margin (%) | 20 | 23 | 19 | 23 | 131bps | - | |
| PBT (Rsmn) | 86,141 | 105,105 | 79,009 | 105,105 | 9 | - | |
| PAT (Rsmn) | 58,140 | 70,406 | 53,362 | 70,406 | 9 | - | |
| EPS (Rs) | 14 | 17 | 13 | 17 | 9 | - | |

## Revisions ahead of earnings season (contd.)

| | New estimates | | Old estimates | | Change | | Comments |
|---|---|---|---|---|---|---|---|
| | FY11E | FY12E | FY11E | FY12E | FY11E | FY12E | |
| **Sesa Goa** | | | | | | | |
| Recommendation | BUY | | BUY | | | | |
| TP (Rs) | 325 | | 325 | | | | |
| Revenues (Rsmn) | 80,928 | 96,532 | 82,722 | 95,369 | (2) | 1 | ▪ We adjust our FY11 revenue and profit estimate downwards to factor in volume of 5.7mt in 4QFY11 (7.0 earlier) as the Karanataka state ban is expected to be removed only in FY12 beginning rather than March 2011. |
| EBITDA (Rsmn) | 44,460 | 42,584 | 44,168 | 41,741 | 1 | 2 | |
| EBITDA margin (%) | 55 | 44 | 53 | 44 | 154bps | 35bps | |
| PBT (Rsmn) | 48,252 | 47,731 | 48,414 | 46,914 | (0) | 2 | |
| PAT (Rsmn) | 40,156 | 32,094 | 40,712 | 31,546 | (1) | 2 | |
| EPS (Rs) | 46 | 37 | 47 | 36 | (1) | 2 | |
| **Tata Steel** | | | | | | | |
| Recommendation | BUY | | BUY | | | | |
| TP (Rs) | 720 | | 720 | | | | |
| Revenues (Rsmn) | 1,159,198 | 1,320,228 | 1,130,481 | 1,320,228 | 3 | - | |
| EBITDA (Rsmn) | 155,738 | 155,903 | 147,690 | 155,903 | 5 | - | ▪ FY11E estimates increased on account of buoyant 4Q. We maintain our FY12 and FY13 estimates. |
| EBITDA margin (%) | 13 | 12 | 13 | 12 | 37bps | - | |
| PBT (Rsmn) | 94,271 | 84,955 | 82,796 | 84,955 | 14 | - | |
| PAT (Rsmn) | 62,590 | 59,468 | 59,493 | 59,468 | 5 | - | |
| EPS (Rs) | 66 | 59 | 62 | 59 | 5 | - | |
| **Hindustan Zinc** | | | | | | | |
| Recommendation | BUY | | BUY | | | | |
| TP (Rs) | 160 | | 160 | | | | |
| Revenues (Rsmn) | 96,255 | 113,433 | 94,834 | 113,433 | 1 | - | ▪ We increase our FY11 estimates on account of the strong zinc prices witnessed in 4QFY11. Our FY12 and FY13 estimates remain unchanged as we initiated on the stock recently (March 18, 2011). Our non-ferrous metal price outlook is based on the long-term quantitative model rather than spot prices and so remain unhanged. |
| EBITDA (Rsmn) | 52,866 | 59,681 | 50,523 | 59,681 | 5 | - | |
| EBITDA margin (%) | 55 | 53 | 53 | 53 | 165bps | - | |
| PBT (Rsmn) | 56,830 | 65,010 | 54,467 | 65,010 | 4 | - | |
| PAT (Rsmn) | 46,343 | 51,358 | 43,979 | 51,358 | 5 | - | |
| EPS (Rs) | 11 | 12 | 10 | 12 | 5 | - | |
| **Sterlite Ind.** | | | | | | | |
| Recommendation | BUY | | BUY | | | | |
| TP (Rs) | 190 | | 190 | | | | |
| Revenues (Rsmn) | 275,576 | 366,908 | 274,154 | 366,908 | 1 | - | ▪ We increase our FY11 estimates on account of the high aluminium and zinc prices witnessed in 4QFY11. Our FY12 and FY13 estimates remain unchanged as we initiated on the stock recently (March 18, 2011). Our non-ferrous metal price outlook is based on the long-term quantitative model rather than spot prices and so remain unchanged. |
| EBITDA (Rsmn) | 68,293 | 99,584 | 65,951 | 99,584 | 4 | 0 | |
| EBITDA margin (%) | 25 | 27 | 24 | 27 | 73bps | 0 | |
| PBT (Rsmn) | 76,381 | 99,805 | 74,017 | 99,805 | 3 | - | |
| PAT (Rsmn) | 46,412 | 61,568 | 44,048 | 61,568 | 5 | - | |
| EPS (Rs) | 14 | 18 | 13 | 18 | 5 | - | |

*Source: Ambit Capital research*

# NBFCs

**Stock Performance**

| (%) | 3-month | |
|---|---|---|
| | Absolute | Rel to Sensex |
| HDFC | (3.0) | 2.3 |
| IDFC | (12.3) | (7.0) |
| M&M Finance | 6.1 | 11.4 |
| Shriram Transport | 1.2 | 6.5 |
| Manappuram Gen | (12.4) | (7.1) |

**Mar '11E Qtrly EPS**

| (Rs) | Ambit | Consensus |
|---|---|---|
| HDFC | 7.1 | 6.7 |
| IDFC | Under review | 2.2 |
| M&M Finance | 13.6 | 17.7 |
| Shriram Tran. Fin. | 14.9 | 13.5 |
| Manappuram | 2.6 | NA |

**FY12E EPS**

| (Rs) | Ambit | Consensus |
|---|---|---|
| HDFC | 28.1 | 30.0 |
| IDFC | Under Review | 10.9 |
| M&M Finance | 56.3 | 59.6 |
| Shriram Tran. Fin. | 63.4 | 66.4 |
| Manappuram | 11.0 | 11.0 |

**Change in FY12E EPS**

| | % change |
|---|---|
| HDFC | NA |
| IDFC | NA |
| M&M Finance | NA |
| Shriram Tran. Fin. | NA |
| Manappuram | NA |

*Source: Ambit Capital research*

**We expect 4QFY11 net profits of the NBFCs under our coverage to be up ~11% sequentially as we expect the loan growth momentum to continue in 4QFY11. However, we expect ~20-50bps compression in NIMs in this quarter due to rising systematic rates and some regulatory changes.**

**Manappuram to continue its growth momentum:** We expect Manappuram to continue its growth momentum despite removal of gold loans from the priority sector. Manappuram has been able to tap other sources of funding although at an incremental cost of ~100bps.

**Moderation in growth for Shriram:** Whilst we expect the loan growth to continue, the pace of growth will fall due to a slowdown in industrial growth affecting CV sales and hence affect loan growth of Shriram. This could lead to a slight moderation of ~20 bps in NIMs due to lending rates rising less than the increase in cost of funds.

## Preparing for upcoming results

We expect the stocks under our coverage to post ~11% QoQ increase in net profit driven primarily by loan growth. This will somewhat offset compression in net interest margins.

## Ambit v/s Consensus

Whilst there are no meaningful 4QFY11 consensus estimates available, our FY12E earnings estimates are in line with consensus for Manappuram but 5% below consensus for Shriram, M&M Financial and HDFC.

## Recommendation

We maintain our BUY stance on Manappuram as we believe that despite gold loans being removed from the priority sector, Manappuram is well placed to grow its loan book and earnings at ~40% CAGR for the next two years.

We maintain our HOLD stance on Shriram Transport Finance, M&M Financial and HDFC as we believe that the long term growth and RoE potential of these companies are already reflected in the punchy valuation of these companies.

**Exhibit 29: Detailed Mar '11 quarterly estimates**

| | Mar '11 | Mar '10 | Dec '10 | YoY | QoQ | Comment |
|---|---|---|---|---|---|---|
| **HDFC** | **(HDFC IN Equity, HOLD, mcap US$23,173mn)** | | | | | |
| Net Revenues (Rsmn) | 16,422 | 13,393 | 13,282 | 23% | 24% | ▪ Lag effect of higher incremental cost of funds to begin catching up at a portfolio level |
| Operating Profit (Rsmn) | 15,615 | 12,706 | 12,184 | 23% | 28% | |
| Operating margin (%) | 95% | 95% | 92% | | | |
| PBT (Rsmn) | 15,551 | 12,653 | 12,129 | 23% | 28% | |
| PAT (Rsmn) | 10,147 | 9,258 | 8,909 | 10% | 14% | |
| **M&M Finance** | **(MMFS IN Equity, HOLD, mcap US$1,840mn)** | | | | | |
| Net Revenues (Rsmn) | 3,803 | 3,509 | 3,487 | 8% | 9% | ▪ Cost of funds likely to begin catching up - however, NIMs will be cushioned by recent capital raise<br>▪ We have been conservative on loan book growth (below 9MFY11 trends) and cost of funds (ahead of 9MFY11 trends) for the full year |
| Operating Profit (Rsmn) | 3,195 | 2,535 | 2,317 | 26% | 38% | |
| Operating margin (%) | 84% | 72% | 66% | | | |
| PBT (Rsmn) | 1,853 | 2,168 | 2,018 | -15% | -8% | |
| PAT (Rsmn) | 1,019 | 1,402 | 1,444 | -27% | -29% | |
| **Shriram Tran. Fin.** | **(SHTF IN Equity, HOLD, US$4,054mn)** | | | | | |
| Net Revenues (Rsmn) | 8,631 | 8,631 | 8,537 | 0% | 1% | ▪ We expect net revenues to be flat sequentially as any increase in NII would be offset by decline in securitization income |
| Operating Profit (Rsmn) | 6,452 | 5,130 | 6,338 | 26% | 2% | |
| Operating margin (%) | 75% | 59% | 74% | | | |
| PBT (Rsmn) | 5,117 | 4,127 | 4,564 | 24% | 12% | ▪ However, we expect 12% sequential increase in PBT as in the last quarter the company had to make one-time provisions for standard assets which will not be repeated this quarter |
| PAT (Rsmn) | 3,378 | 2,644 | 3,014 | 28% | 12% | |
| **Manappuram** | **(MGFL IN Equity, BUY, mcap US$1,225mn)** | | | | | |
| Net Revenues (Rsmn) | 2,841 | 1,406 | 2,342 | 102% | 21% | ▪ We expect the high growth trajectory of Manappuram to continue despite gold loans being removed from the priority sector. |
| Operating Profit (Rsmn) | 1,767 | 870 | 1,375 | 103% | 28% | |
| operating margin (%) | 62% | 62% | 59% | | | |
| PBT (Rsmn) | 1,625 | 795 | 1,115 | 105% | 46% | ▪ However, there would be slight pressure on NIMs due to increased cost of funds during the quarter. |
| PAT (Rsmn) | 1,089 | 522 | 745 | 109% | 46% | |

*Source: Company, Ambit Capital research*

**Exhibit 30: Revisions ahead of earnings season**

| | New estimates | | Old estimates | | Change | | Comments |
|---|---|---|---|---|---|---|---|
| | FY11E | FY12E | FY11E | FY12E | FY11E | FY12E | |
| **HDFC** | | | | | | | |
| Recommendation | HOLD | | HOLD | | | | |
| TP (Rs) | 735 | | 735 | | | | |
| Net Revenues | 53,054 | 62,848 | 53,054 | 62,848 | 0% | 0% | |
| Operating Income | 48,885 | 57,965 | 48,885 | 57,965 | 0% | 0% | |
| Operating Margin | 92.1% | 92.2% | 92.1% | 92.2% | 0 bps | 0 bps | |
| PBT | | | | | | | |
| PAT | 34,077 | 40,430 | 34,077 | 40,430 | 0% | 0% | |
| EPS (Rs) | 23.7 | 28.1 | 23.7 | 28.1 | 0% | 0% | |
| **M&M Finance** | | | | | | | |
| Recommendation | HOLD | | HOLD | | | | |
| TP (Rs) | 770 | | 770 | | | | |
| Net Revenues | 13,259 | 17,169 | 13,259 | 17,169 | 0% | 0% | |
| Operating Income | 9,304 | 12,030 | 9,304 | 12,030 | 0% | 0% | |
| Operating Margin | 70.2% | 70.1% | 70.2% | 70.1% | 0 bps | 0 bps | |
| PBT | 6,723 | 8,321 | 6,723 | 8,321 | | | |
| PAT | 4,370 | 5,408 | 4,370 | 5,408 | 0% | 0% | |
| EPS (Rs) | 45.5 | 56.3 | 45.5 | 56.3 | 0% | 0% | |
| **Shriram Tran. Fin.** | | | | | | | |
| Recommendation | HOLD | | HOLD | | | | |
| TP (Rs) | 803 | | 803 | | | | |
| Net Revenues | 32,288 | 36,540 | 32,288 | 36,540 | 0% | 0% | |
| Operating Income | 24,129 | 27,770 | 24,129 | 27,770 | 0% | 0% | |
| Operating Margin | 74.7% | 76.0% | 74.7% | 76.0% | 0 bps | 0 bps | |
| PBT | 18,487 | 21,766 | 18,487 | 21,766 | 0% | 0% | |
| PAT | 12,271 | 14,372 | 12,271 | 14,372 | 0% | 0% | |
| EPS (Rs) | 54.2 | 63.4 | 54.2 | 63.4 | 0% | 0% | |
| **Manappuram** | | | | | | | |
| Recommendation | BUY | | BUY | | | | |
| TP (Rs) | 143 | | 143 | | | | |
| Net Revenues | 8,410 | 12,561 | 8,410 | 12,561 | 0% | 0% | |
| Operating Income | 4,836 | 7,296 | 4,836 | 7,296 | 0% | 0% | |
| Operating Margin | 57.5% | 58.1% | 57.5% | 58.1% | 0 bps | 0 bps | |
| PBT | 4,300 | 6,914 | 4,300 | 6,914 | 0% | 0% | |
| PAT | 2,865 | 4,608 | 2,865 | 4,608 | 0% | 0% | |
| EPS (Rs) | 7.6 | 11.0 | 7.6 | 11.0 | 0% | 0% | |

*Source: Ambit Capital research*

# Real Estate

**Stock Performance**

| (%) | 3-month | |
|---|---|---|
| | Absolute | Rel to Sensex |
| DLF | (7.7) | (2.9) |
| HDIL | (8.2) | (2.9 |
| Orbit Corp. | (31.4) | (26.0) |
| Puravankara | (7.7) | (2.4) |
| Sobha Deve | (38.8) | (33.5) |
| Unitech | (7.7) | (2.9) |

**Mar '11E Qtrly EPS**

| (Rs) | Ambit | Consensus |
|---|---|---|
| DLF | 2.5 | 3.2 |
| HDIL | 5.4 | 6.3 |
| Orbit Corp. | 1.8 | NA |
| Puravankara | 1.6 | NA |
| Unitech | 1.0 | 0.9 |
| Sobha Deve | 4.5 | 5.5 |

**FY12E EPS**

| (Rs) | Ambit | Consensus |
|---|---|---|
| DLF | 16.4 | 13.9 |
| HDIL | 32.6 | 29.3 |
| Orbit Corp. | 9.2 | 11.4 |
| Puravankara | 8.5 | 9.6 |
| Unitech | 3.6 | 3.8 |
| Sobha Deve | 22.5 | 25.3 |

**Change in FY12E EPS**

| | % change |
|---|---|
| DLF | 2.5% |
| HDIL | 0 |
| Orbit Corp. | - |
| Puravankara | 0 |
| Unitech | 0 |
| Sobha Deve | 0 |

*Source: Ambit Capital research*

**We expect the cashflow stress to continue in 4QFY11 thanks to the tightened liquidity scenario, high leverage and unaffordable realty prices. Execution challenges may be visible across developers as buyers' equity has almost disappeared impacting fund inflows for developers. We look towards the South for comfort; Sobha and Puravankara are our top picks owing to (i) healthy cashflows (ii) strong execution; and (iii) affordable realty prices.**

**New launches to be hit by higher pricing, growth to remain muted:** Our primary data checks suggest a marked slowdown in volume offtake owing to high realty prices across key markets (viz. NCR, Mumbai residential markets reaching new highs while Pune and Bangalore prices are still at a discount of 20-25% to FY08 highs). Whilst DLF and Unitech launched new projects in 3QFY11, we expect a 50% shortfall in their 1HFY12E launch guidance of 6-8mn sq ft, due to high property prices impacting volumes. We see increased traction in the South with Puravankara Projects launching about 3mn sq ft in Chennai, Bangalore and Coimbatore and Sobha bracing for its Gurgaon launch.

**Higher interest rates could result in cash-flow stress:** Real Estate companies are facing tightened liquidity post the housing scam. Our primary data checks suggest that after a pause of three months (since Dec-10) banks have starting taking up new credit proposals, although the credit pricing has moved up by 200-300bps. This could result in cash flow stress with DLF being impacted the most. We estimate a 1% increase in interest rate leads to 3-7% decline in FY12 EPS for Real Estate developers (7% impact on DLF while 3% for HDIL and Unitech).

## Preparing for upcoming results

Given that a good part of the year is behind us, we have revisited our assumptions and estimates for the sector. We have revised Orbit Corporation's FY11E earnings estimates downward by 8.5% owing to higher interest costs, we have marginally increased DLF's FY12E EPS by 2.5% by lowering our estimates on other expenses. Earnings estimates for the rest of our coverage universe are unchanged.

## Ambit v/s Consensus

Our coverage universe's March 11E estimates vary from consensus on account of lower revenue growth, higher constructions cost and higher financial cost impacting EBIDTA and PBT margins. Our 4QFY11, DLF and HDIL estimates are below consensus whilst in the case of Unitech we are ahead of consensus. Our FY12E EPS divergence is highest in the case of DLF and HDIL on account of a correction in property prices and a pick up in execution. In the case of Unitech and Puravankara Projects, our FY12E EPS estimates are below consensus as their focus on affordable housing may result in lower realizations.

## Recommendation

Over the past 12 months the BSE Realty index has underperformed the BSE500 by 37% (with stocks correcting by 25-50%). The negative reaction to the housing scam has led to tightened liquidity, and higher interest costs and the sharp increase in realty prices has impacted volumes. Though sector valuations appear inexpensive, we would prefer to wait for a house price correction to set in and lead to a pick up in new sales. We expect the Southern market to do well thanks to stable IT/ITES-led housing demand and affordability. **Sobha** and **Puravankara Projects** remain our preferred plays going into the results season.

**Exhibit 31: Detailed Mar '11 quarterly estimates**

| | Mar '11 | Mar '10 | Dec '10 | YoY | QoQ | Comment |
|---|---|---|---|---|---|---|
| **DLF** | **(DLFU IN Equity, UNDER REVIEW, mcap US$10,340mn)** | | | | | |
| Sales (Rsmn) | 23,574 | 19,940 | 24,799 | 18.2 | (4.9) | ▪ Delay in launches and slow execution to impact revenue growth |
| EBITDA (Rsmn) | 11,429 | 10,000 | 11,780 | 14.3 | (3.0) | |
| EBITDA margin (%) | 48.5 | 50.2 | 47.5 | (167bps) | 98bps | ▪ QoQ EBITDA improvement on high margin plotted sales |
| PBT (Rsmn) | 6,702 | 7,420 | 7,034 | (9.7) | (4.7) | ▪ YoY PBT decline, impacted by higher interest costs and depreciation |
| PAT (Rsmn) | 4,208 | 4,270 | 4,657 | (1.5) | (9.6) | ▪ Higher tax outgo to result in QoQ profit decline |
| **HDIL** | **(HDIL IN Equity, BUY, mcap US$1,692mn)** | | | | | |
| Sales (Rsmn) | 4,804 | 4,341 | 4,554 | 10.7 | 5.5 | |
| EBITDA (Rsmn) | 2,624 | 2,271 | 2,665 | 15.5 | (1.6) | |
| EBITDA margin (%) | 54.6 | 52.3 | 58.5 | 230bps | (391bps) | ▪ FSI sales to drive QoQ growth |
| PBT (Rsmn) | 2,569 | 2,309 | 2,728 | 11.3 | (5.8) | ▪ Decline in PAT QoQ on account of lower TDR prices |
| PAT (Rsmn) | 2,229 | 1,778 | 2,564 | 25.3 | (13.1) | |
| **Orbit Corp.** | **(ORB IN Equity, UNDER REVIEW, mcap US$138mn)** | | | | | |
| Sales (Rsmn) | 1,056 | 865 | 1,138 | 22.1 | (7.2) | |
| EBITDA (Rsmn) | 510 | 412 | 602 | 23.7 | (15.4) | ▪ Execution delay to impact revenue growth |
| EBITDA margin (%) | 48.3 | 47.6 | 52.9 | 62bps | (462bps) | ▪ QoQ margin decline due to lower realization from Orbit Residency project |
| PBT (Rsmn) | 280 | 165 | 331 | 69.4 | (15.2) | |
| PAT (Rsmn) | 206 | 200 | 231 | 3.0 | (10.8) | ▪ Higher interest cost to result in decline QoQ |
| **Puravankara** | **(PVKP IN Equity, BUY, mcap US$526mn)** | | | | | |
| Sales | 1,298 | 1,228 | 1,735 | 5.7 | (25.2) | |
| EBITDA | 536 | 405 | 373 | 32.6 | 44.0 | ▪ QoQ growth high as Rs170mn of cost overruns impacted 3QFY11 EBITDA |
| EBITDA margin (%) | 41.3 | 32.9 | 21.5 | 839bps | 1,986bps | |
| PBT | 483 | 395 | 410 | 22.3 | 17.7 | ▪ QoQ margin expansion as no cost overuns expected |
| PAT | 335 | 434 | 292 | (22.8) | 15.0 | |
| **Unitech** | **(UT IN Equity, UNDER REVIEW, mcap US$2,409mn)** | | | | | |
| Sales (Rsmn) | 9,606 | 11,325 | 6,598 | (15.2) | 45.6 | ▪ Improvement in execution to result in high QoQ growth |
| EBITDA (Rsmn) | 3,723 | 2,705 | 2,088 | 37.6 | 78.3 | |
| EBITDA margin (%) | 38.8 | 23.9 | 31.6 | 1487bps | 712bps | ▪ QoQ margin expansion on better realization |
| PBT (Rsmn) | 3,339 | 2,473 | 1,853 | 35.1 | 80.2 | |
| PAT (Rsmn) | 2,601 | 1,775 | 1,113 | 46.5 | 133.6 | ▪ Reduction in debt to lower interest cost |
| **Sobha Developers** | **(SOBHA IN Equity,BUY, mcap US$360mn)** | | | | | |
| Sales (Rsmn) | 3,335 | 4,008 | 3,629 | (16.8) | (8.1) | |
| EBITDA (Rsmn) | 785 | 965 | 820 | (18.7) | (4.3) | ▪ Lower contribution from contractual projects |
| EBITDA margin (%) | 23.5 | 24.1 | 22.6 | (54bps) | 94bps | ▪ Slight improvement in realization QoQ |
| PBT (Rsmn) | 616 | 776 | 667 | (20.6) | (7.7) | ▪ Decline in line with revenue trends |
| PAT (Rsmn) | 444 | 557 | 490 | (20.3) | (9.4) | |

*Source: Company, Ambit Capital research*

**Exhibit 32: Revisions ahead of earnings season**

| | New estimates | | Old estimates | | Change | | Comments |
|---|---|---|---|---|---|---|---|
| | FY11E | FY12E | FY11E | FY12E | FY11E | FY12E | |
| **DLF** | | | | | | | |
| Recommendation | UNDER REVIEW | | | | | | |
| Revenues (Rsmn) | 92,349 | 113,955 | 92,349 | 113,955 | - | - | |
| EBITDA (Rsmn) | 42,294 | 54,930 | 38,834 | 51,298 | 8.9 | 7.1 | ▪ Lowering other expenses assumptions and increasing our depreciation and interest rate estimates results in muted net profit change |
| EBITDA margin (%) | 45.8 | 48.2 | 42.1 | 45.0 | | | |
| PBT (Rsmn) | 24,390 | 38,825 | 24,241 | 37,745 | 0.6 | 2.9 | |
| PAT (Rsmn) | 17,457 | 27,856 | *17,454* | 27,187 | 0.0 | 2.5 | |
| EPS (Rs) | 10.3 | 16.4 | 10.3 | 16.0 | | | |
| **Orbit Corp.** | | | | | | | |
| Recommendation | UNDER REVIEW | | | | | | |
| Revenues (Rsmn) | 4366.0 | 5457.5 | 4366.0 | 5457.5 | - | - | |
| EBITDA (Rsmn) | 2139.3 | 2637.8 | 2052.0 | 2637.9 | 4.3 | (0.0) | ▪ We lower our other expenses estimate |
| EBITDA margin (%) | 49.0 | 48.3 | 47.0 | 48.3 | 200 bps | - | ▪ We increase our interest cost and tax rate assumptions resulting in a decline in net profit |
| PBT (Rsmn) | 1152.6 | 1322.1 | 1091.5 | 1321.8 | 5.6 | 0.0 | |
| PAT (Rsmn) | 799.0 | 1053.0 | 873.2 | 1053.0 | (8.5) | - | |
| EPS (Rs) | 7.0 | 9.2 | 7.7 | 9.2 | | | |

*Source: Ambit Capital research*

# Stockbrokers

**Stock Performance**

| (%) | 3-month | |
|---|---|---|
| | Absolute | Rel to Sensex |
| Edelweiss Capital | (15.3) | (10.0) |
| Motilal Oswal | (22.2) | (16.9) |

**Mar '11E Qtrly EPS**

| (Rs) | Ambit | Consensus |
|---|---|---|
| Edelweiss | 0.55 | NA |
| Motilal Oswal | 2.06 | NA |

**FY12E EPS**

| (Rs) | Ambit | Consensus |
|---|---|---|
| Edelweiss | 3.3 | 3.7 |
| Motilal Oswal | 10.9 | 13.0 |

**Change in FY12E EPS**

| | % change |
|---|---|
| Edelweiss | -18% |
| Motilal Oswal | -18% |

*Source: Ambit Capital research*

**Sequentially we expect 4QFY11 revenues to be ~12-16% lower; and net profits to be down 30-34%, as high-yielding cash volumes on the Indian exchanges declined ~23% with share of low-yield option volumes further increasing to 65% of total volumes (v/s ~57% in the previous quarter). Ancillary revenues related to Investment Banking and financing are also expected to decline as capital raisings were down significantly due to choppy markets. The continued low retail participation affected IPO and margin funding.**

**Cash volumes down 23% sequentially:** Total cash volumes in 4QFY11 were down 23% sequentially with high yield 'cash delivery' volumes declining 26% sequentially due to lack of retail participation. The volumes mix further shifted to low yield option volumes (65% in 4QFY11 v/s 57% in 3QFY11). This will result in brokerage revenue declining by ~15%-20% sequentially.

**Investment banking (IBK) and financing income to also decline QoQ:** 4QFY11 IBK income is also expected to remain muted, as equity capital raising was down 90% sequentially that quarter (as per Bloomberg league tables). Moreover, lack of big IPOs in the quarter and continued absence of retail investors from the market would affect the financing income of brokers as well due to limited IPO funding and margin funding opportunities.

## Preparing for upcoming results

We expect the stocks under our coverage to post ~12-16% QoQ revenue decline and 30-34% net profit decline in 4QFY11. We expect operating margins for Edelweiss and Motilal Oswal to contract by 700bps to 900bps sequentially.

## Ambit v/s Consensus

Whilst no 4QFY11 consensus estimates available, our FY12E earnings estimates are 10-15% below FY12E consensus. We believe that cash volumes will continue to remain muted at least until 1HFY12, (in line with our call on the broader markets) and could pick up in 2H of the year along with the markets.

## Recommendation

Whilst we expect earnings of the brokers to remain muted for at least two more quarters, the stock prices are already reflecting this with stockbrokers underperforming broader markets over the last one year and trading at depressed multiples of 10-12x FY12 earnings.

Whilst we do not see any near-term trigger for stockbrokers that could prompt a rerating; we still believe in the long-term growth of the sector due to underpenetration of equities in the savings pie of Indian households. Whilst we maintain our BUY ratings on the both the stocks under our coverage, we have placed our target prices under review in light of the likely muted earnings environment over the next two quarters. We will review our target price post the results.

**Exhibit 33: Detailed Mar '11 quarterly estimates**

| | Mar '11 | Mar '10 | Dec '10 | YoY | QoQ | Comment |
|---|---|---|---|---|---|---|
| **Edelweiss** | **(EDEL IN EQUITY, BUY, mcap US$670mn)** | | | | | |
| Net Revenues (Rsmn) | 2,256 | 2,055 | 2,696 | 10% | -16% | ▪ Sequential decline in revenues due to weak cash market volumes; lower capital raising in the quarter and lower IPO and margin funding requirement. |
| Operating Profit (Rsmn) | 684 | 787 | 1,044 | -13% | -34% | |
| Operating margin (%) | 30% | 38% | 39% | | | |
| PBT (Rsmn) | 621 | 747 | 980 | -17% | -37% | ▪ Drop in margins as a majority of the expenses are still fixed in nature. |
| PAT (Rsmn) | 410 | 614 | 623 | -33% | -34% | |
| **Motilal Oswal** | **(MOFS IN EQUITY, BUY, mcap US$430mn)** | | | | | |
| Net Revenues (Rsmn) | 1,441 | 1,678 | 1,632 | -14% | -12% | ▪ Sequential decline in revenues due to weak cash market volumes, lower retail participation and capital raisings in the quarter. |
| Operating Profit (Rsmn) | 494 | 772 | 672 | -36% | -26% | |
| operating margin (%) | 34% | 46% | 41% | | | |
| PBT (Rsmn) | 460 | 754 | 638 | -39% | -28% | ▪ Drop in margins as a majority of the expenses are still fixed in nature. |
| PAT (Rsmn) | 295 | 519 | 421 | -43% | -30% | |

*Source: Company, Ambit Capital research*

**Exhibit 34: Revisions ahead of earnings season**

| | New estimates | | Old estimates | | Change | | Comments |
|---|---|---|---|---|---|---|---|
| | FY11E | FY12E | FY11E | FY12E | FY11E | FY12E | |
| **Edelweiss** | | | | | | | |
| Recommendation | BUY | | BUY | | | | |
| TP (Rs) | | Under Review | | Under Review | | | |
| Net Revenues | 9,562 | 10,506 | 9,929 | 10,580 | -4% | -1% | |
| Operating Income | 3,678 | 4,058 | 4,009 | 4,820 | -8% | -16% | ▪ We have revised our numbers downwards as cash market volumes are expected to be weak till 1HFY12 with weak investment banking and IPO funding outlook. |
| Operating Margin | 38.5% | 38.6% | 40.4% | 45.6% | (190bps) | (700bps) | |
| PBT | 3,478 | 3,848 | 3,810 | 4,610 | -9% | -17% | |
| PAT | 2,421 | 2,694 | 2,538 | 3,127 | -5% | -14% | |
| EPS (Rs) | 3.0 | 3.3 | 3.2 | 4.0 | -9% | -17% | |
| **Motilal Oswal** | | | | | | | |
| Recommendation | BUY | | BUY | | | | |
| TP (Rs) | | Under Review | | Under Review | | | |
| Net Revenues | 6,137 | 6,601 | 6,482 | 7,652 | -5% | -14% | |
| Operating Income | 2,307 | 2,541 | 2,606 | 3,072 | -11% | -17% | ▪ We have revised our numbers downwards as cash market volumes are expected to be weak till 1HFY12 with weak investment banking and margin funding outlook. |
| Operating Margin | 37.6% | 38.5% | 40.2% | 40.1% | (260bps) | (160bps) | |
| PBT | 2,174 | 2,392 | 2,474 | 2,923 | -12% | -18% | |
| PAT | 1,424 | 1,561 | 1,612 | 1,906 | -12% | -18% | |
| EPS (Rs) | 10.0 | 10.9 | 11.3 | 13.3 | -12% | -18% | |

*Source: Ambit Capital research*

# Technology

**Heritage Indian IT firms are expected to report a relatively subdued 4QFY11 despite strong results from global IT majors such as Accenture and Oracle. We expect Infosys and Wipro to just about meet the higher end of the guidance. Further, as Infosys sets the FY12 ball rolling with its much awaited full year guidance, we see disappointments ahead. We expect Infosys to pour cold water over still high consensus expectations with a subdued guidance for US$ revenue growth of 18-20% YoY and EPS of Rs140-142 for FY12. With FY12 consensus estimates factoring in 24% YoY revenue growth and EPS of Rs150, we do not rule out consensus downgrades post earnings.**

**No surprises on revenue growth limits upside triggers:** 4Q is typically a seasonally soft quarter. Expect tier-1 IT firms to report US$ revenue growth of 2.5% to 4.7% QoQ; Infosys and Wipro to just meet higher end of the guidance, HCL Tech to lead the pack with a US$ revenue growth of 4.7% QoQ, driven by strong growth in remote infrastructure services. Amongst tier-2 firms, we expect strong US$ revenue growth of 6% QoQ for eClerx (led by strong momentum in financial services) and Persistent (on the back of higher IP-led revenues).

We expect segmental EBITDA margin decline in 4Q of 25 to 115bps for tier-1 firms (barring HCL Tech) primarily led by lower utilization (as companies increase hiring to prepare for the upcoming demand) and lower SG&A leverage. HCLT Tech is the only tier-1 firm where we expect a margin increase (113 bps). Amongst tier-2 firms, we expect Persistent to report a margin decline of 260bps as it absorbs the impact of interim wage hike (10%) during the quarter.

**Key factors to watch:** (a) growth trend in service lines such as package implementation, consulting and application development, which are more discretionary; (b) management commentary on sustainability of growth in strong verticals such as BFSI and retail; (c) growth trends in relatively slower verticals such as manufacturing and telecom; (d) management outlook on scope for like-to-like price increases; and (e) campus recruitment and lateral hiring momentum.

## Preparing for upcoming results

We largely maintain our estimates and recommendation for all the stocks under the coverage universe.

## Ambit v/s Consensus

We are 13% lower v/s consensus for eClerx as consensus estimates do not currently reflect in the change in tax clause introduced in the recent budget. We are 5% lower v/s consensus for Polaris as we factor in higher impact from wage hikes (14%).

## Recommendation

While we find valuations for the overall tier-1 IT services pack running ahead of fundamentals, we believe that **HCL Tech** given its strong positioning with respect to short-term drivers (remote infrastructure services) and long-term drivers (consulting) coupled with inexpensive valuations (15x FY12E EPS v/s peer average of 21.7x) is still a value BUY. Amongst tier-2 firms, we continue to like **eClerx, Persistent** and **Polaris**.

**Stock Performance**

| (%) | 3-month | |
|---|---|---|
| | Absolute | Rel to Sensex |
| eClerx Services | (11.3) | (6.0) |
| HCL Tech. | 2.4 | 7.7 |
| Infosys Tech. | (6.5) | (1.2) |
| Persistent | (12.3) | (7.0) |
| Polaris Software | 9.0 | 14.3 |
| Redington India | (0.5) | 4.8 |
| TCS | 1.2 | 6.5 |
| WIPRO | (3.1) | 2.2 |

**Mar '11E Qtrly EPS**

| (Rs) | Ambit | Consensus |
|---|---|---|
| eClerx Services | 11 | 12.2 |
| HCL Tech. | 7 | 6.3 |
| Infosys Tech. | 32 | 33.1 |
| Persistent | 8 | 10.3 |
| Polaris Software | 5 | 5.8 |
| Redington India | 2 | 2.1 |
| TCS | 12 | 12.0 |
| WIPRO | 6 | 5.7 |

**FY12E EPS**

| (Rs) | Ambit | Consensus |
|---|---|---|
| eClerx Services | 48 | 51.1 |
| HCL Tech. | 32 | 31.6 |
| Infosys Tech. | 141 | 149.7 |
| Persistent | 34 | 34.9 |
| Polaris Software | 20 | 21.4 |
| Redington India | 7 | 7.3 |
| TCS | 53 | 52.1 |
| WIPRO | 25 | 24.5 |

**Change in FY12E EPS**

| | % change |
|---|---|
| eClerx Services | 0% |
| HCL Tech. | -3% |
| Infosys Tech. | -4% |
| Persistent | 0% |
| Polaris Software | 0% |
| Redington India | 0% |
| TCS | 0% |
| WIPRO | 0% |

*Source: Ambit Capital research*

## Exhibit 35: Detailed Mar '11 quarterly estimates

| | Mar '11 | Mar '10 | Dec '10 | YoY | QoQ | Comment |
|---|---|---|---|---|---|---|
| **eClerx Services** | **(ECLX IN Equity, BUY, mcap US$416mn)** | | | | | |
| Sales (Rsmn) | 941 | 713 | 871 | 32% | 8% | ▪ US$ revenue growth of 6.1% QoQ primarily led by financial services vertical ▪ Sequential margin decline due to one-offs in the last quarter. Excluding this margins are constant ▪ Excluding one-offs from last quarter, PAT margins are constant. |
| EBITDA (Rsmn) | 362 | 261 | 363 | 39% | 0% | |
| EBITDA margin (%) | 38% | 37% | 42% | 187bps | (323bps) | |
| PBT (Rsmn) | 388 | 268 | 400 | 45% | -3% | |
| PAT (Rsmn) | 342 | 242 | 361 | 41% | -5% | |
| **HCL Tech** | **(HCLT IN Equity, BUY, mcap US$7,477mn)** | | | | | |
| Sales (Rsmn) | 40,992 | 30,759 | 38,885 | 33% | 5% | ▪ US$ revenue growth of 4.6% QoQ led by infrastructure services. Also impact of one-offs-from Japan onsite revenues and sale of specific telecom expense contracts to Tangoe. ▪ Margin improvement led by lower SG&A spend and increase in utilization |
| EBITDA (Rsmn) | 6,992 | 6,074 | 6,350 | 15% | 10% | |
| EBITDA margin (%) | 17% | 20% | 16% | (269bps) | 73bps | |
| PBT (Rsmn) | 5,447 | 4,206 | 5,031 | 30% | 8% | |
| PAT (Rsmn) | 4,331 | 3,439 | 4,001 | 26% | 8% | |
| **Infosys Tech** | **(INFO IN Equity, SELL, mcap US$41,058mn)** | | | | | |
| Sales (Rsmn) | 73,731 | 59,440 | 71,060 | 24% | 4% | ▪ US$ revenue growth of 2.5%, driven by 2% volume growth ▪ Margin decline due to fall in utilization as recruitment levels remain high. |
| EBITDA (Rsmn) | 24,324 | 20,160 | 23,620 | 21% | 3% | |
| EBITDA margin (%) | 33% | 34% | 33% | (93bps) | (25bps) | |
| PBT (Rsmn) | 25,826 | 20,410 | 24,370 | 27% | 6% | |
| PAT (Rsmn) | 18,968 | 16,480 | 17,800 | 15% | 7% | |
| **Persistent Systems** | **(PSYS in Equity, BUY, mcap US$350mn)** | | | | | |
| Sales (Rsmn) | 2,071 | 1,717 | 1,949 | 21% | 6% | ▪ US$ revenue growth of 6.2% QoQ primarily driven by strong IP revenues. ▪ Sequential margin decline due to impact of interim wage hikes (10%, effective Jan 2011) |
| EBITDA (Rsmn) | 402 | 383 | 428 | 5% | -6% | |
| EBITDA margin (%) | 19% | 22% | 22% | (291bps) | (254bps) | |
| PBT (Rsmn) | 364 | 417 | 395 | -13% | -8% | |
| PAT (Rsmn) | 317 | 397 | 362 | -20% | -13% | |
| **Polaris Software** | **(POL IN Equity, BUY, mcap US$432mn)** | | | | | |
| Sales (Rsmn) | 4,223 | 3,510 | 3,999 | 20% | 6% | ▪ US$ revenue growth of 4.7% QoQ led by Intellect business. ▪ Sequential margin improvement led by increase in utilization |
| EBITDA (Rsmn) | 572 | 581 | 524 | -2% | 9% | |
| EBITDA margin (%) | 14% | 17% | 13% | (302bps) | 44bps | |
| PBT (Rsmn) | 613 | 540 | 602 | 13% | 2% | |
| PAT (Rsmn) | 510 | 457 | 501 | 12% | 2% | |
| **TCS** | **(TCS IN Equity, HOLD, mcap US$ 53,110mn)** | | | | | |
| Sales (Rsmn) | 101,110 | 77,365 | 96,634 | 31% | 5% | ▪ US$ revenue growth of 4.2% QoQ led by BFSI and Retail. ▪ Sequential decline in margins led by lower utilization and normalization of bad debt provisions. |
| EBITDA (Rsmn) | 29,368 | 23,120 | 29,173 | 27% | 1% | |
| EBITDA margin (%) | 29% | 30% | 30% | (84bps) | (114bps) | |
| PBT (Rsmn) | 28,663 | 22,907 | 30,197 | 25% | -5% | |
| PAT (Rsmn) | 23,551 | 19,510 | 24,812 | 21% | -5% | |
| **WIPRO** | **(WPRO IN Equity, SELL, mcap US$26,381mn)** | | | | | |
| Sales (Rsmn) | 83,616 | 69,772 | 78,202 | 20% | 7% | ▪ US$ revenue growth of 4.7% driven by volume growth in IT Services. We also factor in a recovery in IT products. |
| EBITDA (Rsmn) | 17,355 | 15,391 | 16,678 | 13% | 4% | |
| EBITDA margin (%) | 18% | 19% | 18% | (120bps) | (37bps) | |
| PBT (Rsmn) | 16,242 | 14,976 | 15,692 | 8% | 4% | |
| PAT (Rsmn) | 13,481 | 11,961 | 13,110 | 13% | 3% | |
| **Redington India** | **(REDI IN Equity, BUY, mcap US$712mn)** | | | | | |
| Sales (Rsmn) | 48,780 | 38,593 | 45,942 | 26% | 6% | |
| EBITDA (Rsmn) | 1,913 | 1,229 | 1,132 | 56% | 69% | |
| EBITDA margin (%) | 4% | 3% | 2% | 74bps | 146bps | |
| PBT (Rsmn) | 1,361 | 937 | 824 | 45% | 65% | |
| PAT (Rsmn) | 769 | 615 | 527 | 25% | 46% | |

*Source: Company, Ambit Capital research*

**Exhibit 36: Revisions ahead of earnings season**

| | New estimates | | Old estimates | | Change | | Comments |
|---|---|---|---|---|---|---|---|
| | FY11E | FY12E | FY11E | FY12E | FY11E | FY12E | |
| **eClerx Services** | | | | | | | |
| Recommendation | BUY | | BUY | | | | |
| TP (Rs) | 826 | | 806 | | | | |
| Revenues (Rsmn) | 3,406 | 4,487 | 3,380 | 4,429 | 1% | 1% | |
| EBITDA (Rsmn) | 1,306 | 1,648 | 1,287 | 1,627 | 1% | 1% | ▪ Change in FY12 EPS as we factor in higher tax rate of 20%. This is driven by the clause which was introduced in the recent budget that SEZ units must pay MAT from FY12. |
| EBITDA margin (%) | 38% | 37% | 38% | 37% | 27bps | (1bps) | |
| PBT (Rsmn) | 1,435 | 1,645 | 1,427 | 1,649 | 1% | 0% | |
| PAT (Rsmn) | 1,272 | 1,316 | 1,265 | 1,441 | 1% | -9% | |
| EPS (Rs) | 43 | 44 | 43 | 49 | 1% | -9% | |
| **HCL Tech** | | | | | | | |
| Recommendation | BUY | | BUY | | | | |
| TP (Rs) | 572 | | 587 | | | | |
| Revenues (Rsbn) | 159 | 199 | 160 | 202 | 0% | -1% | |
| EBITDA (Rsbn) | 27 | 36 | 28 | 37 | -1% | -2% | ▪ Revise revenue estimates to factor in lower Japan onsite revenues and contract transfers to Tangoe. |
| EBITDA margin (%) | 17.1% | 18.1% | 17.2% | 18.3% | (5bps) | (18bps) | |
| PBT (Rsbn) | 21 | 30 | 22 | 31 | -3% | -4% | |
| PAT (Rsbn) | 17 | 23 | 17 | 23 | -3% | -4% | |
| EPS (Rs) | 24 | 32 | 24 | 34 | -3% | -4% | |
| **Infosys Tech** | | | | | | | |
| Recommendation | SELL | | SELL | | | | |
| TP (Rs) | 2705 | | 2670 | | | | |
| Revenues (Rsbn) | 276 | 330 | 276 | 336 | 0% | -2% | |
| EBITDA (Rsbn) | 91 | 107 | 90 | 107 | 0% | 0% | ▪ No major revisions to our FY11 estimates. We reduce our FY12 estimates marginally. |
| EBITDA margin (%) | 33% | 32% | 33% | 32% | 7bps | 49bps | |
| PBT (Rsbn) | 94 | 112 | 94 | 112 | 0% | 0% | |
| PAT (Rsbn) | 69 | 83 | 69 | 84 | 0% | -1% | |
| EPS (Rs) | 121 | 145 | 121 | 147 | 0% | -1% | |
| **Persistent Systems** | | | | | | | |
| Recommendation | BUY | | BUY | | | | |
| TP (Rs) | 470 | | 470 | | | | |
| Revenues (Rsmn) | 7,701 | 9,668 | 7,687 | 9,720 | 0% | -1% | |
| EBITDA (Rsmn) | 1,604 | 2,056 | 1,601 | 2,092 | 0% | -2% | |
| EBITDA margin (%) | 21% | 21% | 21% | 22% | 0 | (25bps) | ▪ No meaningful change to estimates |
| PBT (Rsmn) | 1,519 | 1,907 | 1,518 | 1,919 | 0% | -1% | |
| PAT (Rsmn) | 1,383 | 1,335 | 1,382 | 1,344 | 0% | -1% | |
| EPS (Rs) | 35 | 34 | 35 | 34 | 0% | -1% | |
| **Polaris Software** | | | | | | | |
| Recommendation | BUY | | BUY | | | | |
| TP (Rs) | 225 | | 225 | | | | |
| Revenues (Rsbn) | 15,711 | 18,842 | 15,604 | 18,516 | 1% | 2% | |
| EBITDA (Rsbn) | 2,184 | 2,640 | 2,166 | 2,587 | 1% | 2% | |
| EBITDA margin (%) | 14% | 14% | 14% | 14% | 2bps | 4bps | ▪ No meaningful change to estimates |
| PBT (Rsbn) | 2,328 | 2,617 | 2,317 | 2,610 | 0% | 0% | |
| PAT (Rsbn) | 1,956 | 2,017 | 1,952 | 2,012 | 0% | 0% | |
| EPS (Rs) | 20 | 20 | 20 | 20 | 0% | 0% | |

## Revisions ahead of earnings season (contd.)

| | New estimates | | Old estimates | | Change | | Comments |
|---|---|---|---|---|---|---|---|
| | FY11E | FY12E | FY11E | FY12E | FY11E | FY12E | |
| **TCS** | | | | | | | |
| Recommendation | HOLD | | HOLD | | | | |
| TP (Rs) | 1237 | | 1251 | | | | |
| Revenues (Rsmn) | 373 | 454 | 373 | 462 | 0% | -2% | |
| EBITDA (Rsmn) | 111 | 138 | 112 | 140 | -1% | -1% | |
| EBITDA margin (%) | 30% | 30% | 30% | 30% | (25bps) | (22bps) | ▪ No meaningful change to estimates |
| PBT (Rsmn) | 107 | 136 | 108 | 137 | -1% | 0% | |
| PAT (Rsmn) | 86 | 104 | 87 | 104 | -1% | 0% | |
| EPS (Rs) | 44 | 53 | 45 | 53 | -1% | 0% | |
| **WIPRO** | | | | | | | |
| Recommendation | SELL | | SELL | | | | |
| TP (Rs) | 356 | | 356 | | | | |
| Revenues (Rsbn) | 311 | 369 | 311 | 369 | 0% | 0% | |
| EBITDA (Rsbn) | 66 | 80 | 66 | 80 | 0% | 0% | |
| EBITDA margin (%) | 21% | 22% | 21% | 22% | 0 | 0 | ▪ No major revisions |
| PBT (Rsbn) | 62 | 74 | 62 | 74 | 0% | 0% | |
| PAT (Rsbn) | 53 | 60 | 53 | 60 | 0% | 0% | |
| EPS (Rs) | 22 | 25 | 22 | 25 | 0% | 0% | |
| **Redington India** | | | | | | | |
| Recommendation | BUY | | BUY | | | | |
| TP (Rs) | 98 | | 98 | | | | |
| Revenues (Rsbn) | 169 | 195 | 169 | 195 | 0% | 0% | |
| EBITDA (Rsbn) | 4.92 | 6.17 | 4.92 | 6.17 | 0% | 0% | |
| EBITDA margin (%) | 3% | 3% | 3% | 3% | 0 | 0 | |
| PBT (Rsbn) | 3.64 | 4.33 | 3.64 | 4.33 | 0% | 0% | |
| PAT (Rsbn) | 2.27 | 2.82 | 2.27 | 2.82 | 0% | 0% | |
| EPS (Rs) | 6 | 7 | 6 | 7 | 0% | 0% | |

*Source: Ambit Capital research*

**Stock Performance**

| (%) | 3-month | |
|---|---|---|
| | Absolute | Rel to Sensex |
| Bharti Airtel | (1.0) | 4.3 |
| Idea Cellular | (2.8) | 2.5 |
| Reliance Comm. | (23.2) | (17.9) |

**Mar '11E Qtrly EPS**

| (Rs) | Ambit | Consensus |
|---|---|---|
| Bharti Airtel | 4.6 | 4.0 |
| Idea Cellular | 0.7 | 0.4 |
| Reliance Comm. | 1.6 | 1.8 |

**FY12E EPS**

| (Rs) | Ambit | Consensus |
|---|---|---|
| Bharti Airtel | 23.2 | 21.9 |
| Idea Cellular | 1.6 | 2.4 |
| Reliance Comm. | 7.4 | 8.1 |

**Change in FY12E EPS**

| | % change |
|---|---|
| Bharti Airtel | 0.0 |
| Idea Cellular | 13.3 |
| Reliance Comm. | 0.0 |

*Source: Ambit Capital research*

# Telecom

**The Indian telecom sector is currently grappling with regulatory uncertainty and an alleged corruption scam. Over the next few months, we expect the Government to publish the New Telecom Policy 2011 (NTP), which is expected to give a new direction to the sector. We expect the Government to relax M&A norms and reduce licence fees' revenue share to 6%.**

**Stable tariffs and improving traffic to boost revenue:** The industry continued to witness strong subscriber net additions during the quarter. Revenue growth will be driven by the growing subscriber base, relatively stable headline tariffs and continuously increasing network traffic. The revenue growth could get impacted by the launch of MNP (and the subsequent discounts operators will offer to subscribers who apply for a change of operator). With limited 3G launch during the quarter, the cost structure will also remain stable leading to flat or marginally higher margins sequentially.

We expect Bharti's mobile revenue to grow by 3.7% QoQ. We also expect its EBITDA margin to increase from 33.8% in 3QFY11 to 34.6% in 4QFY11E. Idea, on the other hand, is expected to report revenue growth of 6% QoQ. We expect Idea's EBITDA margin to remain at 24.1%.

## Preparing for upcoming results

We have adjusted our revenue for subscriber growth, increase in traffic and relatively stable headline tariffs despite MNP, which has resulted in upward revisions in revenue for Idea Cellular and Bharti Airtel. Owing to the delay in the launch of 3G services, the amortization and interest expenditure has also been adjusted accordingly leading to higher profitability than our earlier estimates.

## Ambit v/s Consensus

In the case of Bharti, we are in line with consensus on the revenue front. However, owing to the lower cost structure our EBITDA is 2% ahead of consensus. In the case of Idea, our EBITDA is below consensus estimates by 4% on account of the higher cost structure. Our PAT estimate, however, is 21% higher than consensus owning to lower interest expenses in our model.

## Recommendation

We maintain our positive stance on **Bharti Airtel** and believe that Bharti is in a better position to benefit from the launch of 3G services. In the African market, revenue growth, network outsourcing and economies of scale are expected to increase margins. Also, we expect Bharti to be the biggest beneficiary of any regulatory change. We maintain our BUY stance on the stock with a target price of Rs425/share.

We revise our revenue and profitability estimates for Idea by 2% and 13% respectively and hence increase our target price by 5% to Rs63 (Rs60 earlier). We, however, believe that at 8x FY12E/EBITDA the stock is trading ahead of its fundamentals and hence maintain SELL.

We believe that RCom's current market price factors in poor operational and financial performance. Going forward, if the company manages to relieve pressure on its balance sheet, it could provide upside to the stock. We maintain our HOLD stance on the company with a TP of Rs120.

## Exhibit 37: Detailed Mar '11 quarterly estimates

| | Mar '11 | Mar '10 | Dec '10 | YoY | QoQ | Comment |
|---|---|---|---|---|---|---|
| **Bharti Airtel** | **(BHARTI IN Equity, BUY, mcap US$30,496mn)** | | | | | |
| Sales (Rsbn) | 163 | 107 | 158 | 52 | 4 | ▪ Stable tariffs and subscriber additions to support revenue growth. It is further aided by growth in Africa operations.<br>▪ Improving African margins to fuel margin growth for the company |
| EBITDA (Rsbn) | 57 | 41 | 53 | 38 | 6 | |
| EBITDA margin (%) | 35 | 38 | 34 | (335bps) | 86bps | |
| PBT (Rsbn) | 23 | 24 | 19 | (5) | 23 | |
| PAT (Rsbn) | 18 | 20 | 16 | (14) | 7 | |
| **Idea Cellular** | **(IDEA IN Equity, SELL, mcap US$4,978mn)** | | | | | |
| Sales (Rsbn) | 42 | 33 | 40 | 25 | 6 | ▪ Robust growth in network traffic to result in revenue growth<br>▪ Higher subscriber acquisition and marketing cost to offset revenue growth leading to flat margins |
| EBITDA (Rsbn) | 10 | 9 | 9 | 17 | 7 | |
| EBITDA margin (%) | 24 | 26 | 24 | (171bps) | 11bps | |
| PBT (Rsbn) | 2.6 | 2.3 | 2.6 | 11 | -1 | |
| PAT (Rsbn) | 2.3 | 1.5 | 2.4 | 48 | -6 | |
| **Reliance Comm.** | **(RCOM IN Equity, HOLD, mcap US$5,027mn)** | | | | | |
| Sales (Rsbn) | 51 | 51 | 50 | 0 | 2 | ▪ Drop in ARPU and poor network minutes growth to result in subdued revenue growth |
| EBITDA (Rsbn) | 17 | 16 | 17 | 5 | 0 | |
| EBITDA margin (%) | 33 | 31 | 33 | 135bps | (52) | |
| PBT (Rsbn) | 3.9 | 13.3 | 5.0 | (71) | -22 | |
| PAT (Rsbn) | 3.3 | 12.2 | 4.8 | (73) | -31 | |

*Source: Company, Ambit Capital research*

**Exhibit 38: Revisions ahead of earnings season**

| | New estimates | | Old estimates | | Change | | Comments |
|---|---|---|---|---|---|---|---|
| | FY11E | FY12E | FY11E | FY12E | FY11E | FY12E | |
| **Bharti Airtel** | | | | | | | |
| Recommendation | BUY | | BUY | | | | |
| TP (Rs) | 425 | | 425 | | | | |
| Revenues (Rsbn) | 595 | 723 | 595 | 721 | 0.0 | 0.3 | |
| EBITDA (Rsbn) | 205 | 256 | 205 | 256 | 0.3 | 0.1 | |
| EBITDA margin (%) | 34 | 35 | 34 | 35 | 8bps | (6bps) | |
| PBT (Rsbn) | 85 | 116 | 88 | 117 | -3.4 | -0.8 | |
| PAT (Rsbn) | 67 | 88 | 67 | 88 | 0.2 | 0.0 | |
| EPS (Rs) | 17.8 | 23.2 | 17.7 | 23.2 | 0.2 | 0.0 | |
| **Idea Cellular** | | | | | | | |
| Recommendation | SELL | | SELL | | | | |
| TP (Rs) | 63 | | 60 | | | | |
| Revenues (Rsbn) | 155 | 189 | 153 | 183 | 0.8 | 3.2 | ▪ Revenue estimates have been revised upwards on account of higher subscriber net additions and lower drop in ARPUs. Delay in launch of 3G services would result in higher PAT for 4QFY11 and thereby FY11. PAT for FY12 is higher due to increase in revenues. |
| EBITDA (Rsbn) | 37 | 46 | 37 | 45 | 0.2 | 2.1 | |
| EBITDA margin (%) | 24 | 24 | 24 | 25 | (15bps | (27bps) | |
| PBT (Rsbn) | 9.2 | 6.1 | 7.9 | 5.4 | 17.1 | 13.4 | |
| PAT (Rsbn) | 8.5 | 5.2 | 7.0 | 4.6 | 21.5 | 13.3 | |
| EPS (Rs) | 2.6 | 1.6 | 2.1 | 1.4 | 21.5 | 13.3 | |
| **Reliance Comm.** | | | | | | | |
| Recommendation | HOLD | | HOLD | | | | |
| TP (Rs) | 120 | | 120 | | | | |
| Revenues (Rsbn) | 203 | 224 | 203 | 224 | 0.0 | 0.0 | |
| EBITDA (Rsbn) | 66 | 73 | 66 | 73 | 0.0 | 0.0 | |
| EBITDA margin (%) | 33 | 32 | 33 | 32 | 0.0 | 0.0 | |
| PBT (Rsbn) | 15 | 18 | 15 | 18 | 0.0 | 0.0 | |
| PAT (Rsbn) | 15 | 15 | 15 | 15 | 0.0 | 0.0 | |
| EPS (Rs) | 7.3 | 7.4 | 7.3 | 7.4 | 0.0 | 0.0 | |

*Source: Ambit Capital research*

# Utilities

**We expect 4QFY11 revenues to rise 161% on a YoY basis, primarily on the back of new capacity additions and increase in average realizations (driven by higher merchant tariffs). However, higher fuel costs and rising interest rates result lower growth in earnings (91% YoY).**

**Expect strong merchant rates:** Merchant tariffs after remaining between Rs.2.5-3.5 per unit to 9MFY11 have started rising to Rs4.0-4.5 per unit in 4Q on the back of the forthcoming state elections (five states including the big ones, Tamil Nadu and West Bengal). In fact, states like Tamil Nadu which go into elections in May have witnessed realizations north of Rs8 per unit (as per the Indian Energy Exchange) in March 2011.

**High fuel cost likely to spoil party:** However, rising fuel prices on the back of dismal growth in domestic coal production (over the last ten years coal production has increased at only ~5% CAGR) coupled with regulatory and natural calamities globally, will play spoilsport. Coal prices are already up by 30% YTD (FY11) across all major coal indices (Richards Bay, Indonesian coal reference price, McCloskey New Castle, etc.).

## Preparing for upcoming results

For 4QFY11E we have upgraded our revenue estimates for Torrent Power by 18% as we now expect PLF of 76% (upgraded from 71% earlier for 4QFY11E) on the back of an improvement in merchant tariffs. However, higher other expenses limit the positive impact at the PAT level (4Q PAT revised upwards by 6%). For Adani Power and JSW Energy, our estimates remain unchanged. We also continue to maintain our BUY recommendation on Torrent Power and JSW Energy and SELL recommendation on Adani Power.

## Ambit v/s Consensus

Our quarterly estimates are higher than consensus for Torrent Power as we have modeled higher PLF on the back of higher merchant prices. We are also ahead of consensus on JSW Energy as we have modeled a merchant tariff of Rs5.25 per unit for FY11 as against consensus estimates of Rs4-4.5 per unit. For Adani Power we are in-line with consensus on 4QFY11 estimates.

## Recommendation

**Torrent Power** remains our strongest BUY idea.

**Torrent Power** is a recommended franchisee with one of the strongest balance sheets in the sector (FY10 net debt:equity was 0.6x). Notably it is the only company in the sector with positive free cash flows in FY10 (FCF yield of 10%+). Further, our discussion with primary data sources suggests improving visibility on the Dahej Power project, which we believe will serve as a positive catalyst.

**Stock Performance**

| (%) | 3-month | |
|---|---|---|
| | Absolute | Rel to Sensex |
| Adani Power | (11.2) | (5.9) |
| Torrent Power | (24.5) | (19.2) |
| JSW Energy | (7.5) | (2.2) |

**Mar '11E Qtrly EPS**

| (Rs) | Ambit | Consensus |
|---|---|---|
| Adani Power | 1.2 | 1.3 |
| Torrent Power | 4.9 | 4.0 |
| JSW Energy | 3.6 | 1.7 |

**FY12E EPS**

| (Rs) | Ambit | Consensus |
|---|---|---|
| Adani Power | 8.2 | 11.6 |
| Torrent Power | 27.1 | 24.0 |
| JSW Energy | 12.2 | 9.7 |

**Change in FY12E EPS**

| | % change |
|---|---|
| Adani Power | NA |
| Torrent Power | 0.6 |
| JSW Energy | NA |

*Source: Ambit Capital research*

## Exhibit 39: Detailed Mar '11 quarterly estimates

| | Mar '11 | Mar '10 | Dec '10 | YoY (%) | QoQ (%) | Comment |
|---|---|---|---|---|---|---|
| **Torrent Power** | **(TPW IN Equity, BUY, mcap US$2,710mn)** | | | | | |
| Sales (Rsmn) | 16,178 | 17,169 | 15,587 | (6) | 4 | ▪ PLF though lower on YoY basis, improvement on QoQ basis<br>▪ PAT in line with overall estimates. QoQ growth, however, expect YoY decline |
| EBITDA (Rsmn) | 4,502 | 5,849 | 4,287 | (23) | 5 | |
| EBITDA margin (%) | 28 | 34 | 28 | (624bps) | 33bps | |
| PBT (Rsmn) | 3,266 | 3,983 | 2,665 | (18) | 23 | |
| PAT (Rsmn) | 2,300 | 2,751 | 1,978 | (16) | 16 | |
| **JSW Energy** | **(JSW IN Equity, BUY, mcap US$2,836mn)** | | | | | |
| Sales (Rsmn) | 17,981 | 7,845 | 10,765 | 129 | 67 | ▪ Newer units getting commissioned at Ratnagiri and Barmer<br>▪ EBITA margin to remain strong on the back of firm merchant realisations |
| EBITDA (Rsmn) | 10,089 | 3,307 | 3,664 | 205 | 175 | |
| EBITDA margin (%) | 56 | 42 | 34 | 1,396bps | 2,208bps | |
| PBT (Rsmn) | 8,730 | 2,555 | 1,840 | 242 | 374 | |
| PAT (Rsmn) | 5,881 | 2,730 | 1,691 | 115 | 248 | |
| **Adani Power** | **(ADANI IN Equity, SELL, mcap US$5,782mn)** | | | | | |
| Sales (Rsmn) | 9,277 | 2,013 | 5,026 | 361 | 85 | ▪ Increased capacity at Mundra leading to strong growth<br>▪ EBITA margin to remain strong on the back of firm merchant realisations<br>▪ Higher interest cost leading to lower PBT growth on a YoY basis |
| EBITDA (Rsmn) | 5,818 | 1,174 | 2,730 | 396 | 113 | |
| EBITDA margin (%) | 63 | 58 | 54 | 440bps | 840bps | |
| PBT (Rsmn) | 3,518 | 1,106 | 1,758 | 218 | 100 | |
| PAT (Rsmn) | 2,689 | 983 | 1,091 | 173 | 146 | |

*Source: Company, Ambit Capital research*

## Exhibit 40: Revisions ahead of earnings season

| | New estimates | | Old estimates | | Change | | Comments |
|---|---|---|---|---|---|---|---|
| | FY11E | FY12E | FY11E | FY12E | FY11E | FY12E | |
| **Torrent Power** | | | | | | | |
| Recommendation | BUY | | BUY | | | | ▪ We are tweaking our FY11 revenue estimates slightly on the back of higher-than-expected PLFs<br>▪ On back of higher other expenses, EBITDA margin shrinks by 10bps in FY11<br>▪ Consequently, not much change at the PAT level |
| TP (Rs) | 327 | | 327 | | | | |
| Revenues (Rsmn) | 67,293 | 75,107 | 63,255 | 73,651 | 6.4 | 2.0 | |
| EBITDA (Rsmn) | 19,711 | 22,641 | 18,592 | 22,575 | 6.0 | 0.3 | |
| EBITDA margin (%) | 29.3 | 30.1 | 29.4 | 30.7 | (10bps) | (51bps) | |
| PBT (Rsmn) | 13,644 | 18,315 | 13,555 | 18,210 | 0.7 | 0.6 | |
| PAT (Rsmn) | 9,551 | 12,820 | 9,489 | 12,747 | 0.7 | 0.6 | |
| EPS (Rs) | 20 | 27 | 20 | 27 | 0.7 | 0.6 | |

*Source: Company, Ambit Capital research*

## Explanation of Investment Rating

| Investment Rating | Expected return (over 12-month period from date of initial rating) |
|---|---|
| Buy | >15% |
| Hold | 5% to 15% |
| Sell | <5% |

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