

10 July 2009

India EquiLogic

1Q Preview – Earnings bottom is here, but not upgrades

Sensex: 13504

Nifty: 4004

- No joy yet from earnings.** Infosys has started off the Jun-09 earnings season on a positive note. But, we still expect a 3rd successive quarter of earnings de-growth in India. We forecast Nifty50 ex-energy profits to fall 11.4% yoy for the Jun-09 quarter (better than -21% in the preceding quarter). While some of the worst affected sectors from this downturn are likely to show a bottoming out trend, meaningful recovery will not be visible in these results.
- Decline in top-line & margins to continue.** We expect an 8% yoy decline in Nifty50 revenues. Excluding energy, revenue decline will be moderate at -2% yoy (better than -6% yoy in the Mar-09 quarter). EBITDA margins will decline 207bps yoy, with materials and real estate likely to show maximum contraction. Consumer and IT services will be the sectors to see yoy small margin improvements.
- Nascent earnings upgrade momentum to pause.** The markets strong run needed support from earnings upgrades. While earnings upgrades had started in a small way in the last couple of months, we expect recent tax changes, lack of lending rate cuts and dent in sentiment to once again pause earnings momentum for at least three months. Lack of upgrades will be a valuation hurdle for the market.
- Profit leaders.** Consumer staples (+27%), IT-Services (+17%) and utilities (+13%) would lead the pack in terms of profit growth this earnings season. Worst performers will be materials and real estate.

Ratnesh Kumar
+9122 6626 6499
ratneshkumar@rathi.com

Atul Thakkar
atulthakkar@rathi.com



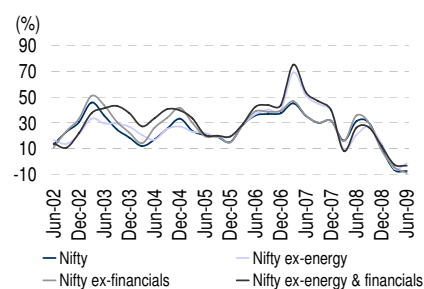
Chaupad – An ancient Indian game of strategy and chance

Fig 1 – Quarterly sales and net profit growth summary

(%)	Sales Growth			Net Profit Growth		
	Dec-08	Mar-09	Jun-09	Dec-08	Mar-09	Jun-09
Nifty 50	10.1	(6.6)	(7.6)	(12.7)	(10.7)	(7.1)
Nifty Ex-Energy	13.7	(5.7)	(1.5)	(8.2)	(20.8)	(11.4)
Nifty Ex-Financials	8.6	(4.5)	(9.1)	(19.1)	(15.5)	(9.6)
Nifty Ex-Energy & Financials	11.9	(2.6)	(3.4)	(16.0)	(29.3)	(15.6)
Sensex	6.2	(9.5)	(10.2)	(13.0)	(16.4)	(7.2)
Sensex Ex-Energy	10.1	(6.0)	(6.7)	(7.8)	(18.9)	(7.5)
Sensex Ex-Financials	4.6	(6.9)	(8.3)	(17.9)	(21.1)	(9.4)
Sensex Ex-Energy & Financials	8.3	(2.0)	(3.8)	(13.8)	(25.6)	(10.8)

Source: Anand Rathi Research

Fig 2 – Nifty50 quarterly sales growth



Source: Prowess, Anand Rathi Research

Anand Rathi Financial Services, its affiliates and subsidiaries, do and seek to do business with companies covered in its research reports. Thus, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. Disclosures and analyst certifications are located in Appendix 1.

1Q Preview – Earnings bottom is here, but not upgrades

Infosys has started off the Jun-09 quarter results on a positive note. But, we still expect a 3rd successive quarter of earnings de-growth in India. We expect Nifty50 ex-energy profits to fall 11.4% yoy for the Jun-09 quarter (better than the -21% in the preceding quarter). Earnings upgrades had started in a small way in the last couple of months. Going forward, we expect recent tax changes, lack of lending rate cuts and dent in sentiment to once again pause earnings momentum for at least three months. Lack of upgrades will be a valuation hurdle for the market.

Nifty50 ex energy earnings to decline 11%yoy

We expect the Jun-09 quarter earnings season to mark the third successive quarter of negative yoy earnings growth in India. After a 11% yoy decline in Nifty50 companies profits in the previous quarter, the June-09 quarter is forecast to see a 7.5% yoy decline.

Excluding the energy sector, Nifty50 earnings are likely decline 11.4% yoy for the Jun - 09 quarter, better of than the 21% yoy decline reported in the Mar - 09 quarter. The energy sector will benefit from the large payments downstream oil majors are set to receive (as oil bonds) to compensate for marketing losses during the quarter as well as arrears.

Fig 3 – Nifty and Sensex sales and net profit growth

	Sales Growth					Net Profit Growth				
	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09
Nifty 50	31.1	30.0	10.1	(6.6)	(7.6)	3.3	3.3	(12.7)	(10.7)	(7.1)
Nifty Ex-Energy	20.6	26.8	13.7	(5.7)	(1.5)	(1.0)	14.5	(8.2)	(20.8)	(11.4)
Nifty Ex-Financials	35.6	30.0	8.6	(4.5)	(9.1)	1.8	0.0	(19.1)	(15.5)	(9.6)
Nifty Ex-Energy & Fin.	26.1	26.4	11.9	(2.6)	(3.4)	(3.7)	11.8	(16.0)	(29.3)	(15.6)
Sensex	31.9	28.0	6.2	(9.5)	(10.2)	5.1	11.4	(13.0)	(16.4)	(7.2)
Sensex Ex-Energy	25.3	26.2	10.1	(6.0)	(6.7)	(3.2)	15.7	(7.8)	(18.9)	(7.5)
Sensex Ex-Financials	32.2	27.9	4.6	(6.9)	(8.3)	4.2	9.4	(17.9)	(21.1)	(9.4)
Sensex Ex-Energy & Fin.	25.1	25.9	8.3	(2.0)	(3.8)	(5.5)	13.6	(13.8)	(25.6)	(10.8)

Source : Anand Rathi Research

Topline to decline again

The slowdown in the domestic economy and the sharp decline in exports will result in Indian companies top-line growth being in the negative zone for the second successive quarter.

Lower commodity prices will keep materials sector (-23%) and energy sector sales subdued. The real estate sector has seen some pick up in activity, but that will still not be enough and revenues here will be down 59% yoy.

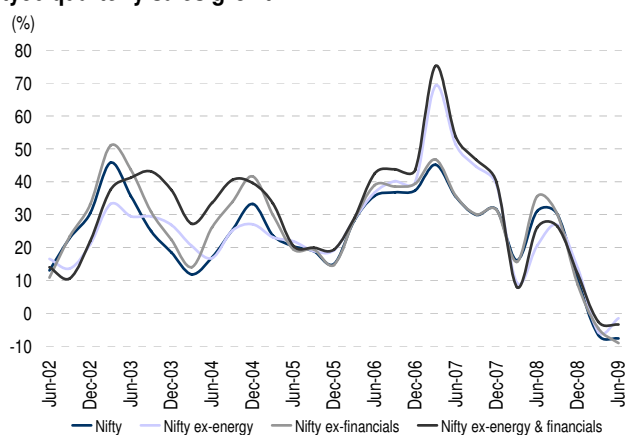
Sectors showing healthy sales growth would be financials (+30% yoy), telecom (+19.4%), industrials (+15%), consumer discretionary & staples (+12%) and IT services, healthcare and utilities (+11%).

With demand gradually picking up as a result of additional liquidity and the stimulus packages (globally as well as in India), we can expect stabilization of top-line growth and positive sales growth numbers in 2HFY10.

Fig 4 – Nifty50 – Sectoral sales and net profit growth %

Sales & Net Profit Growth (%)	Sales Growth					Net Profit Growth				
	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09
Nifty 50	31.1	30.0	10.1	(6.6)	(7.6)	3.3	3.3	(12.7)	(10.7)	(7.1)
Nifty Ex-Energy	20.6	26.8	13.7	(5.7)	(1.5)	(1.0)	14.5	(8.2)	(20.8)	(11.4)
Nifty Ex-Financials	35.6	30.0	8.6	(4.5)	(9.1)	1.8	0.0	(19.1)	(15.5)	(9.6)
Nifty Ex-Energy & Financials	26.1	26.4	11.9	(2.6)	(3.4)	(3.7)	11.8	(16.0)	(29.3)	(15.6)
Consumer Discretionary	18.5	13.2	(16.5)	2.5	12.0	22.0	(2.9)	(56.7)	(46.2)	(5.6)
Consumer Staples	19.2	18.9	14.1	2.0	11.7	1.0	14.5	3.9	15.2	26.6
Energy	55.0	37.5	2.2	(8.9)	(18.5)	17.8	(27.9)	(27.1)	29.5	4.9
Financials	(29.8)	30.9	28.1	(32.7)	29.9	17.4	30.4	29.1	19.2	13.1
Health Care	31.3	29.9	13.2	2.0	11.1	21.0	(22.4)	P2L	(110.9)	(26.1)
Industrials	25.3	27.2	51.2	11.7	15.1	94.2	(16.5)	18.3	(4.6)	9.1
Information Technology	31.3	30.7	32.6	22.2	11.1	1.1	11.6	14.7	8.9	16.5
Materials	27.8	28.3	0.3	(20.3)	(22.3)	(22.5)	21.4	(36.7)	(72.4)	(41.0)
Real estate	22.9	10.9	(60.8)	(72.2)	(58.9)	23.2	(5.5)	(69.8)	(73.9)	(78.9)
Telecommunication Services	32.8	34.7	32.4	24.6	19.4	23.1	24.0	16.3	4.0	8.3
Utilities	18.5	26.3	25.5	10.9	10.4	(21.6)	14.4	16.1	48.0	12.6

Source: Anand Rathi Research

Fig 5 – Nifty50 quarterly sales growth

Source: Anand Rathi Research

EBITDA margins will be 200bps lower, ex energy

Overall EBITDA margins are likely to be held flattish by one-off gains from oil bonds and subsidy for the energy sector. Ex-energy, EBITDA margin will still decline 200bps yoy.

The sharp fall in real estate prices will continue to hit margins hard there, although on a sequential basis margins will be slightly better.

On the positive side, consumers, IT and utilities will also either hold or improve margins.

Fig 6 – Nifty50 EBITDA margins

EBITDA Margin and Change (YOY bps)	EBITDA Margins (%)					EBITDA Margin changes (bps)				
	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09
Nifty Ex-Financials	20.9	18.0	17.8	19.3	20.9	(206)	(445)	(289)	22	(1)
Nifty Ex-Energy & Financials	22.9	22.2	19.1	18.1	20.8	(70)	(147)	(506)	(404)	(201)
Consumer Discretionary	10.1	9.7	7.6	10.0	10.3	(140)	(195)	(498)	(183)	22
Consumer Staples	20.7	21.4	25.1	23.0	22.2	(325)	(84)	43	420	151
Energy	17.6	9.9	15.1	22.1	20.9	(409)	(1,002)	109	985	334
Health Care	24.7	21.7	14.4	17.4	23.6	618	22	(1,044)	(1,280)	(110)
Industrials	11.2	9.6	10.4	13.8	10.9	259	(359)	(468)	34	(29)
Information Technology	24.5	25.6	26.2	26.0	25.0	(31)	39	(19)	99	52
Materials	21.3	20.6	11.9	10.0	17.0	(120)	(59)	(815)	(926)	(438)
Real estate	61.0	59.6	54.0	33.0	37.0	(745)	(535)	(1,423)	(2,647)	(2,399)
Telecommunication Services	37.1	35.3	35.5	35.4	36.1	7	(165)	(161)	(194)	(94)
Utilities	27.0	30.3	31.8	25.5	29.1	(172)	(514)	(228)	(239)	210

Source: Anand Rathi Research

Nascent earnings upgrade momentum to pause

The market's strong run needed a follow-up support from meaningful earnings upgrades. Last couple of months did see a beginning of earnings upgrades. However, with recent tax changes in the Budget, likely sticky high interest rates on fiscal slippage, rollover of commodity prices and some dent in sentiment, we expect the nascent earnings upgrade momentum will now take a pause, at least for another 3 months. Driven by stimulus packages, in India and globally, and better base effect, we should begin to see positive topline growth for Indian companies in 2HFY10. Return of positive topline growth will be a precursor as well as pre-requisite for restart of a meaningful earnings upgrade momentum.

Fig 7 – Nifty50 summary valuations @4004

Year to 31 March	2006	2007	2008	2009e	2010e	2011e
EPS Growth (%)	10.9	41.3	37.7	-1.4	1.5	15.8
PE (x)	30.1	21.3	15.5	15.7	15.5	13.4
EPS Growth (ex Oil & Gas) (%)	10.6	49.1	41.4	0.7	-3.8	11.6
PE (ex Oil & Gas) (x)	33.4	22.4	15.8	15.7	16.3	14.6
Div Yld (%)	2.8	0.9	3.6	4.0	1.5	1.5
PBV (x)	7.4	5.8	4.1	3.9	3.1	2.7
ROE (%)	20.0	17.4	18.4	24.3	19.8	16.7
EV/EBITDA (x)	20.7	22.2	17.0	12.9	11.0	10.5

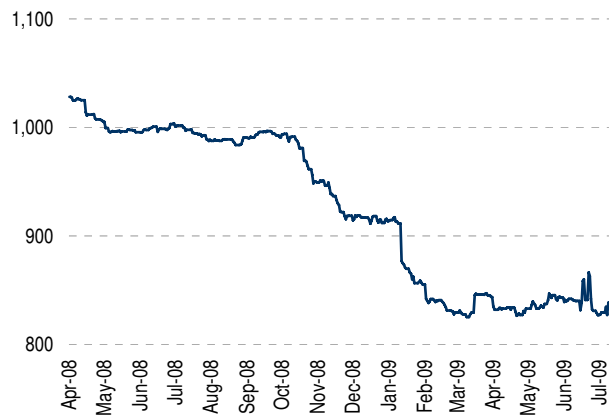
Source: Anand Rathi Research

Fig 8 – BSE30 Sensex summary valuations @13504

Year to 31 March	2006	2007	2008	2009	2010e	2011e
EPS Growth (%)	21.3	23.7	18.3	1.7	0.7	13.2
PE (x)	30.1	22.4	15.2	15.5	15.4	13.6
EPS Growth (ex Oil & Gas) (%)	18.1	44.3	54.4	0.7	-4.5	10.6
PE (ex Oil & Gas) (x)	35.4	24.5	15.9	15.8	16.5	14.9
Div Yld (%)	1.1	3.1	3.5	1.5	1.7	1.8
PB (x)	5.5	4.3	3.7	3.2	2.7	2.4
ROE (%)	18.3	19.3	24.3	20.4	17.8	17.7
EV/EBITDA (x)	18.5	14.6	11.5	10.5	9.6	8.1

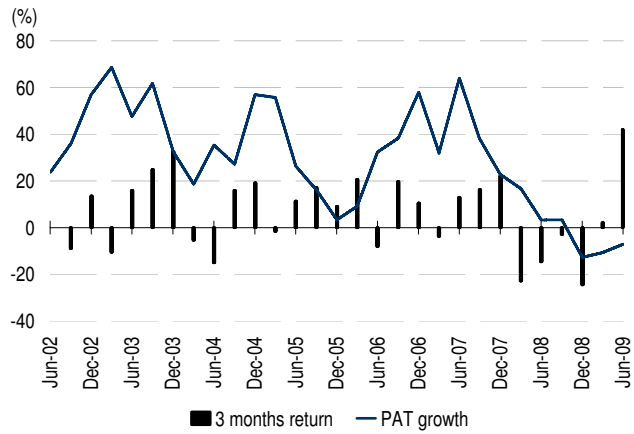
Source: Anand Rathi Research

Fig 9 – Earnings upgrades had just started to trickle in (Sensex FY10 EPS)



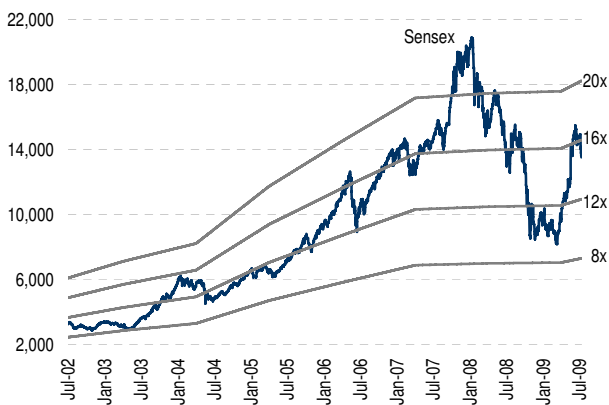
Source: Bloomberg, Anand Rathi Research.

Fig 10 – Nifty net profit growth vs 3 mth forward returns



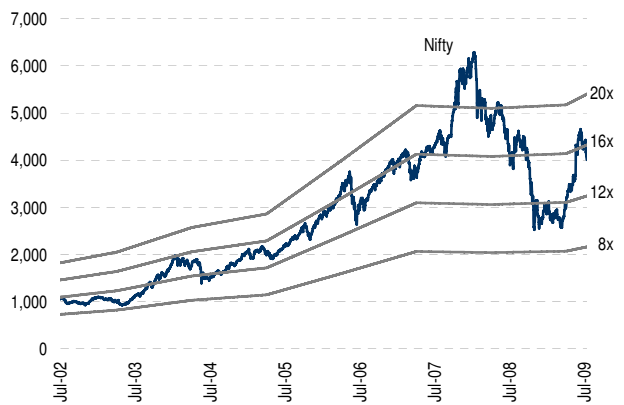
Source: Anand Rathi Research

Fig 11 – Sensex 12mth fwd PE band chart



Source: Anand Rathi Research.

Fig 12 – Nifty50 12mth fwd PE band chart



Source: Anand Rathi Research.

Autos

Amit Kasat

+91 22 6626 6715
amitkasat@rathi.com

Rohan Korde

+91 22 6626 6733
rohankorde@rathi.com

In 1QFY10, the sector (excluding M&H CVs) recorded good volume growth. Given this, we expect robust net profit growth for two-wheeler companies and M&M, profit squeeze on M&H CV companies, and Maruti Suzuki to show good qoq growth, but a yoy decline.

Fig 13 – Jun '09 quarter results expectations

Company	Net profit			Sales growth	EBITDA	Change yoy
	(Rsm)	yoy chg (%)	qoq chg (%)	yoy (%)	margin (%)	(bps)
Ashok Leyland	-83	-110.1	-127.7	-57.2	6.0	-202
Bajaj Auto	2,340	33.6	24.3	-1.1	14.7	311
Hero Honda	4,024	47.5	0.0	31.4	14.5	246
M&M	3,396	56.2	21.5	28.1	11.1	124
Maruti Suzuki	4,654	-6.2	16.8	20.1	11.8	-87
Tata Motors	1,150	-72.2	-152.1	-9.3	6.0	-166
TVS Motor	98	39.2	-40.4	8.0	3.6	17
Aggregate	15,577	-6.4	42.4	4.9	10.3	50

Source: Anand Rathi Research

Profit trend

We expect lower raw material prices to result in higher EBITDA and profit growth for most auto companies – the highest net profit growth to come M&M followed by two-wheeler companies.

Ashok Leyland, in our view, could record a loss in the quarter, while Tata Motors could show a profit, though a 72% yoy decline. We expect Maruti Suzuki (MS) to report a 6% decline in adjusted net profit due to lower EBITDA margin yoy. The impact of these three companies' performance would lower the sector's adjusted net profit by 6.4% yoy, in our view.

Top-line trend

Volume growth in passenger vehicles, two-wheelers and tractors has been good. This would drive revenue growth for M&M, Hero Honda and MS. Lower M&H CV sales would lead to Ashok Leyland's revenues dropping 57.2% yoy and Tata Motors' 9.3%. We estimate Bajaj Auto's revenue would see good qoq growth, but a marginal yoy decline.

Due to the lower net sales of these three, we expect net sales growth of just 4.9% yoy in the auto sector – and a qoq decline of 0.3%.

Margin trend

We expect two-wheeler companies to record much better EBITDA margins yoy, as would M&M, though qoq, their EBITDA margins would be flat to negative. MS would see a yoy dip in margins due to an increase in royalty payout and exports, but a qoq growth as the full benefits from lower commodity costs are felt. Tata Motors and Ashok Leyland are expected to see a qoq as well as yoy dip in their EBITDA margins. Due to the good showing of the two-wheeler companies, we expect the auto sector to register an EBITDA margin improvement of 50bps yoy and 30bps qoq.

Banks

Clyton Fernandes
+9122 6626 6744
clytonfernandes@rathi.com

Kaitav Shah

We expect banks to report a 22% yoy growth in profits in 1QFY10, in spite of slowing business growth and falling NIMs, due to likely treasury gains and lower provisions for non-performing loans.

Fig 14 – Jun '09 quarter results expectations

Company	Net profit			Net Interest Income		
	(Rsm)	yoy chg (%)	qoq chg (%)	(Rsm)	yoy chg (%)	qoq chg (%)
Axis Bank	4,303	30.3	(26.0)	10,475	29.2	1.4
BoB	4,751	28.1	(36.9)	12,601	19.2	(14.3)
Bol	7,263	29.2	(10.4)	13,489	14.2	(5.9)
Canara Bank	2,207	79.9	(69.3)	11,042	8.3	(15.4)
HDFC Bank	5,412	16.5	(14.2)	21,174	22.9	14.3
ICICI Bank	8,978	23.3	20.7	20,217	(3.3)	(5.5)
PNB	6,823	33.2	(21.2)	16,858	16.7	(11.6)
SBI	17,522	6.8	(36.1)	50,726	5.3	4.8
Union Bank	3,086	35.2	(33.7)	9,368	15.7	1.1
Yes Bank	700	28.9	(12.6)	1,500	32.8	(3.4)
South Indian Bank	426	10.4	(15.2)	1,230	19.7	(16.9)
Banking universe	61,472	21.7	(27.2)	168,681	11.2	(2.0)

Source: Anand Rathi Research

Subdued NII growth

Credit growth has further decelerated in the quarter (15.8% yoy; 0% qoq), with the incremental credit-deposit ratio weak at 0.2% (vs 76.3% a year ago). Falling yields and funds parked in low-yielding G-Secs and reverse repo should lead to declining NIMs qoq. Hence, for our banking universe we expect NII growth of 11% yoy, though down (-)1.8% qoq.

Treasury – likely gains

During the quarter, the 10-year G-Sec yield declined from 7% to 5.8%, implying some treasury gains. The one-year G-Sec has softened much more, from 5.1% to 3.9%. Gains are, however, unlikely to be substantial, as (1) banks have indicated a high proportion of low duration AFS investments and (2) incremental G-Sec investments are of shorter maturity.

Asset quality – lower provisions

As banks made provisions in 4QFY09 for a large part of NPAs and restructured loans, it is likely that incremental NPA provisioning would now be lower. Credit costs (percent-wise) should be high.

Leaders / laggards

We expect ICICI Bank and Axis Bank to be the leaders among private sector banks, and PNB, BoB, Union Bank, BoI and Canara among PSU banks. HDFC Bank, SBI and Canara would be laggards.

Capital Goods

Vinod Chari

+91 22 6626 6770
vinodchari@rathi.com

Nishit Master

+91 22 6626 6738
nishitmaster@rathi.com

Rahul Agarwal

Madhurendra M

For 1QFY10, we expect a modest 10% yoy growth in earnings for the capital goods sector, with a flat operating margin. BHEL, L&T and Crompton Greaves are likely to outperform the sector.

Fig 15 – Jun '09 quarter results expectations

Company	Net Profit			Sales Growth	EBITDA	Change yoy
	(Rsm)	yoy chg (%)	qoq chg (%)	yoy (%)	Margin (%)	(bps)
BHEL	6,525	69.7	(51.6)	25.6	11.8	318
L&T	5,693	13.3	(50.2)	20.4	9.5	(7)
ABB	1,248	(5.3)	59.3	3.3	11.6	(13)
Siemens	1,153	(32.0)	(48.9)	10.2	10.3	(433)
Suzlon Energy	1,055	(58.1)	-	(22.1)	16.8	(475)
Crompton Greaves	1,674	36.5	(13.7)	12.3	12.3	206
Areva T&D	649	0.3	26.3	24.6	15.8	(187)
Punj Lloyd	767	(21.4)	-	(3.4)	7.9	(8)
Cummins	712	(19.3)	(39.7)	(5.7)	13.9	64
Thermax	525	(17.7)	(43.6)	(5.6)	11.4	(131)
Voltas	662	(4.9)	37.0	17.9	6.7	(96)
BEML	241	-	(84.6)	34.0	8.1	1,774
Bharat Electronics	309	1,126.2	(94.5)	21.1	3.2	1,169
BGR Energy	272	57.9	(25.4)	60.0	10.5	35
Aggregate	21,485	10.3	(39.3)	12.9	10.6	27.4

Source: Anand Rathi Research

Profit trend

We expect the sector to report a 10% yoy growth in earnings in 1QFY10. Excluding BHEL, earnings in the sector are expected to slip 4% yoy.

- BHEL and Crompton Greaves are expected to report good growth in earnings, L&T moderate growth.
- L&T could also see extraordinaries of about Rs10bn from the sale of its stake in UltraTech.
- ABB and Siemens are likely to report declines in earnings due to lower business activity and lower margins, in our view. High interest costs, depreciation and lower 'other income' are likely to subdue earnings growth for ABB and Areva. Areva could also see extraordinaries of restructuring cost which might dent earnings.

Top-line trend

Capital goods companies are likely to book a larger proportion of revenue in the last quarter of this fiscal. Thus, for such order-book-driven companies, first-quarter results are less significant.

We expect a 13% yoy revenue growth in the sector.

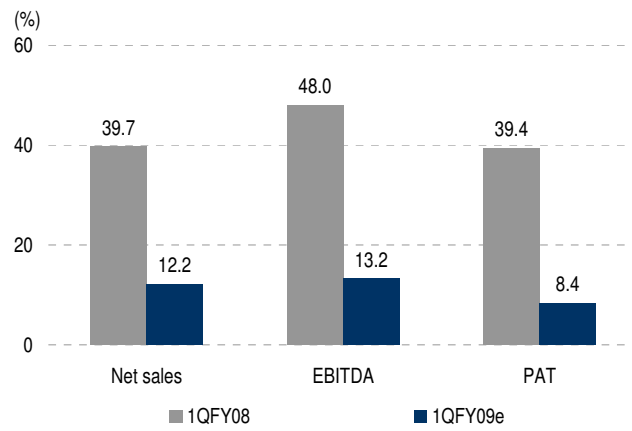
- BHEL, L&T, Areva and Crompton Greaves are expected to outperform the sector.
- We expect subdued growth for ABB and Siemens. Suzlon, Thermax, Cummins, Punj Lloyd and BEML could disappoint.

Margin trend

For the quarter, we expect a slight improvement (27bps yoy) in the operating margin of the sector as a whole. Except for BHEL (318bps yoy)

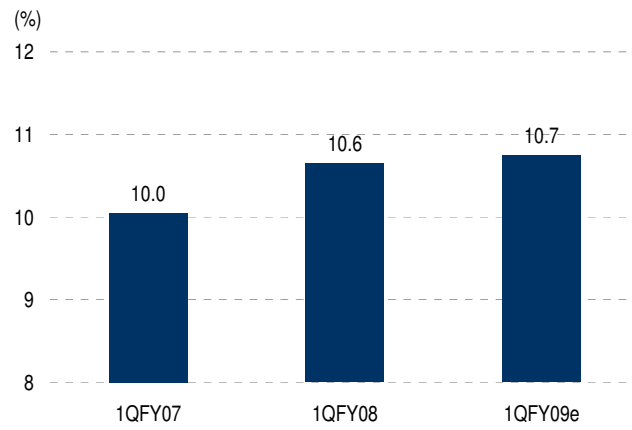
and Crompton Greaves (206bps yoy), we expect operating margins to decline or remain flat.

Fig 16 – Growth trend



Source: Anand Rathi Research

Fig 17 – Operating margin



Source: Anand Rathi Research

Cement

Jaspreet Singh Arora

+9122 6626 6727

jaspreet@rathi.com

Manish Valecha

+9122 6626 6552

manishvalecha@rathi.com

The upturn in cement prices during Mar-May '09, a period of robust demand, would be the key driver of profitability for 1QFY10. Other benefits of robust volume growth and lower coal charges are also expected to kick in.

Fig 18 – Jun '09 quarter results expectations

Company	Net profit			Sales growth	EBITDA	Change yoy
	(Rsm)	yoy chg (%)	qoq chg (%)	yoy (%)	margin (%)	(bps)
ACC	3,787	46.1	(1.7)	9.9	29.8	709
Ambuja	3,482	32.5	6.2	17.0	30.3	11
Grasim	5,050	(1.8)	31.3	13.4	27.7	(129)
UltraTech	3,408	28.6	10.1	28.4	30.9	106
India Cements	1,227	(25.1)	12.8	10.9	27.8	(780)
Shree Cements	2,143	80.8	(12.2)	39.8	41.1	683
Total	19,097	20.6	8.5	17.4	30.3	121

Source: Anand Rathi Research

Profit trend

We expect strong revenue growth and robust operating performance to drive profitability for cement companies during the quarter. We expect aggregate net profit to rise 21% yoy and 8.5% qoq. Shree is expected to post a robust profit growth of 81% yoy, while India Cements is expected to be an underperformer with a 25% yoy decline in profit.

Top-line trend

Top-line growth for cement companies would be led by robust volume growth and better prices. Aggregate volumes of the six companies under coverage rose 15% yoy. Industry dispatch growth was ~13%. The Northern region, with dispatch growth of over 20% for the quarter, was the out-performer, with demand kicking in from all states. The strong upswing in demand from the rural and semi-urban areas along with the pre-election infrastructure push led to a spurt in consumption.

Average utilization rates during 1QFY10 fell to 91%, compared to 96% the previous quarter on the back of 5m tons capacity added in 1QFY10 over and above the 12m added in 4QFY09. We expect this to fall further to <85% during 2QFY10.

All India, average realization is estimated to rise 6% yoy and 3% qoq, as the full benefit of price hikes gets visible. Cement prices in the East, Central and North saw significant jumps whereas the West and South saw modest hikes.

Margin trend

We expect margins to rise yoy and qoq, following the benefits from the upswing in cement prices and lower raw material costs. Average international coal prices for the quarter were down 11% qoq and 53% yoy. 1QFY10 should see the full benefit of the drop in coal prices as most companies have completely exhausted their high-cost coal inventories in 4QFY09. We expect EBITDA margins to rise 100 to 700bps, yoy, except those of India Cements and Grasim, which are expected to show declines.

Consumer

Shirish Pardeshi

+9122 6626 6730
shirishpardeshi@rathi.com

Aniruddha Joshi

+9122 6626 6732
aniruddhajoshi1@rathi.com

The consumer sector's growth rates are likely to remain steady. The carry-forward impact of earlier price hikes and the lower excise duty are expected to fuel revenue growth. We expect EBITDA margin to be higher due to lower raw material prices, driving net profit growth.

Fig 19 – Jun '09 quarter results expectations

Company	Net profit			Sales growth	EBITDA	Change yoy
	(Rsm)	yoy chg (%)	qoq chg (%)	yoy (%)	margin (%)	(bps)
ITC *	9,732	30.0	20.3	17.9	28.4	(46.2)
HUL	6,590	22.0	38.1	6.0	15.8	268.9
Nestle	1,417	14.1	(28.2)	15.0	18.3	(49.6)
Dabur	825	16.6	(21.6)	18.0	14.4	(0.0)
Colgate	886	23.2	10.0	15.0	17.8	154.8
Marico	599	29.3	36.4	18.0	13.7	107.5
Britannia	561	22.5	26.9	18.0	9.0	69.0
GSKCH	641	38.9	(23.6)	25.0	18.1	354.2
Navneet	455	13.1	426.2	12.0	27.2	(0.0)
Total	21,706	25.2	17.3	13.5	20.0	114.6

Source: Anand Rathi Research. *Bloomberg

Profit trend

We expect the consumer sector to report strong profit growth, driven by steady revenue growth and higher EBITDA margin. Lower interest rates are likely to reduce 'other income'.

Top-line trend

We expect the consumer sector to report steady revenue growth. We expect volume growth to increase for Hindustan Unilever, Colgate and GlaxoSmithKline Consumer Healthcare. Though no company, apart from Colgate, has hiked prices, the carry-forward impact of earlier price hikes and lower excise duty could likely allow companies to report price-led growth as well. Colgate has been successful in raising prices by around 2.5% in Apr '09.

Margin trend

With the carry-forward impact of earlier price hikes and lower raw material prices, advertising rates and transport costs, we expect the EBITDA margin of various consumer companies to move up. We expect Hindustan Unilever to report a margin expansion of 270bps. Colgate and GlaxoSmitKline are expected to report margin expansions of 155bps and 354bps, respectively.

IT Services

Tarun Sisodia

+9122 6626 6777
tarunsisodia@rathi.com

Naushil Shah

+9122 6626 6708
naushilshah@rathi.com

Atul Thakkar

+9122 6626 6724
atulthakkar@rathi.com

We expect a subdued quarter on account of the 2.3% sequential rupee appreciation. Favorable cross-currency movements, however, would alleviate part of this impact. Tech Mahindra's reported revenue would come stronger due to cross-currency gains.

Fig 20 – Jun '09 quarter results expectations

Company	Net profit			Sales growth	EBITDA	Change yoy
	(Rsm)	yoy chg (%)	qoq chg (%)	yoy (%)	margin (%)	(bps)
Infosys	13,735	5.5	(14.8)	9.2	30.7	22
TCS	13,316	7.1	1.3	7.3	25.2	127
Wipro	9,432	15.9	4.0	7.9	19.4	(118)
HCL Tech	2,756	95.5	26.5	27.4	19.5	(396)
Tech Mahindra	1,892	(26.8)	(17.9)	(3.5)	26.5	77
Mphasis	1,977	150.2	(11.9)	39.0	25.3	855
Allied Digital	221	40.2	0.1	69.3	18.6	(589)
Bartronics	247	4.9	157.9	56.8	23.0	(478)
IT Sector	43,575	12.4	(4.0)	11.0	24.2	(10)
IT Sector (Top 6)	43,108	12.3	(4.4)	10.5	24.2	(4)

Source: Anand Rathi Research

Profit trend

We expect the IT sector to report net profit growth of 12.4%, slightly more than sales growth of 11%, mainly from hedging gains. Infosys and Mphasis would not gain much in 'other income' from rupee appreciation on account of lower hedge book (US\$515m and US\$371m, respectively). Wipro (US\$2.6bn), HCL Tech (US\$1.3bn) and TCS (US\$1.2bn) are likely to see strong gains in 'other income'.

Top-line trend

We expect the top-six companies to continue to show weak sequential growth of -3.4% in revenue. Sequential rupee appreciation of 2.3% would be a dampener. Tech Mahindra would gain on account of more billings in UK pounds (£), which moved favorably (by 8% qoq) against the dollar.

Margin trend

Margins in this quarter are likely to be affected by a stronger rupee. For the top six companies, we expect margins to dip 4bps (yoy). For the IT sector as a whole, we expect margins to dip 10bps (yoy).

Non-Ferrous Metals

Amit Kasat

+9122 6626 6615

amitkasat@rathi.com

Rahul Menon

We expect Indian non-ferrous companies to post better quarterly results due to the qoq improvement in base metal prices. Margins are also expected to improve qoq as companies have exhausted their high-cost inventory.

Fig 21 – Jun '09 quarter results expectations

Company	Net profit			Sales growth	EBITDA	Change yoy
	(Rsm)	yoy chg (%)	qoq chg (%)	yoy (%)	margin (%)	(bps)
Hindustan Zinc	7,135	-15.8	30	-13.6	55	-400
Sterlite	7,002	-39.2	37.1	-25.1	17.5	-1420
Hindalco (Standalone)	2,065	-70.4	74.5	-4.0	11.2	-920
Nalco	2,346	-55.3	182.6	-24.9	29	-2100
Total	18,548	-42.4	47.1	-16.4	20.8	-1240

Source: Anand Rathi Research

Profit trend

Given the drastic fall in commodity prices in the last quarter of FY08, profitability in the sector is likely to decline from 1QFY09 onwards. Prices of all base metals have dropped by between 30% and 50% qoq, with zinc falling 30% and aluminium 49%. We, however, expect a qoq improvement due to the rally in commodity prices since March – zinc by 25%, aluminium 9%, copper 35% and lead 30%.

Top-line trend

Again, the top-line trend would be dictated primarily by the prices of metals. The Chanderiya smelter de-bottlenecking could likely result in Hindustan Zinc's sales volumes rising 11% yoy. Balco's volume is expected to fall 12% due to the partial shutdown of Balco-I. The re-start of the Dahej smelter-III could raise Hindalco's copper volumes 42%. On the HiraKud smelter capacity expansion, its aluminium volumes are expected to be 19% higher.

Margin trend

We expect margins of all companies to slip significantly yoy due to the steep fall in prices of metals. Nevertheless, margins are expected to improve qoq. We expect a significant qoq improvement in Nalco's margins (29% in the quarter vs 8% the previous quarter) due to a drop in power costs and lower employee costs. Hindustan Zinc should also see better margins (55% compared to 45% the previous quarter) due to zinc prices averaging 25% more in 1Q than in the last quarter of FY09.

Oil & Gas

Vishwas Katela
+9122 6626 6760
vishwaskatela@rathi.com

Sriram Ramesh

While we expect RIL's profits to be subdued, ONGC and GAIL are likely to report a yoy decline in net profit following the fall in prices of crude oil and petrochemicals. OMCs would report a net profit in spite of under-recoveries even without the support of ONGC/ GAIL or government oil bonds.

Fig 22 – Jun '09 quarter results expectations

Company	Net profit			EBITDA		
	(Rsm)	yoy chg (%)	qoq chg (%)	(Rsm)	yoy chg (%)	qoq chg (%)
Reliance Industries	41,486	0.9	7.1	61,454	0.4	13.0
ONGC	58,789	(10.8)	166.4	99,124	(15.7)	67.7
Cairn India	1,040	(42.7)	27.8	1,179	(56.7)	36.0
GAIL	8,286	(7.6)	31.5	12,798	(8.5)	33.7
Aban Offshore	1,395	2.3	NM	5,035	25.6	16.7
IOC	4,668	12.5	NM	10,967	14.2	NM
BPCL	2,704	NM	NM	7,535	NM	NM
HPCL	1,705	NM	NM	5,273	NM	NM
Total *	120,073	(6.2)	61.4	203,366	(8.9)	40.1

Source: Anand Rathi Research

*adjusted growth numbers

Profit trend

We expect RIL's net profit for 1QFY10 to be flat yoy, as lower refining margins could be offset by greater contribution of D6 gas. The decline in ONGC's net profit would come less than the decline in crude prices, as we have factored no subsidy sharing by ONGC for the quarter. Also, in the year-ago quarter, the subsidy borne by ONGC was exceptionally low, and made up by exceptionally higher subsidy payouts in the latter part of FY09.

We expect GAIL's net profit to decline yoy on sliding petrochemical and LPG margins, but the impact would be softened by the provision of no subsidy and greater transmission volumes from D6. We expect OMCs to report a profit, without factoring in any support through ONGC and GAIL or any oil bonds from the government.

Top-line trend

We expect sales of companies to decline yoy owing to a fall in prices of crude and petrochemicals. RIL and GAIL, though, would not be much affected as revenues would come in, respectively, from D6 production and transmission volumes. Aban's top line is likely to grow owing to the greater utilization of its rig fleet than in the year-ago quarter (1QFY09).

Margin trend

RIL's margins are likely to be hit by the drop in margins in refining products. This, though, could be offset by the greater contribution from the high-margin E&P segment, accentuated by D6 volumes. GAIL could be affected by the fall in petrochemicals and LPG margins. We expect OMCs, in spite of weak GRMs, to be slightly aided by inventory gains (as crude rose US\$24/bbl from the end of the previous quarter) and by relatively low marketing losses. We expect Aban's operating margins to be broadly in line with previous quarters.

Telecoms

Sanjay Chawla
+9122 6626 6608
sanjaychawla@rathi.com

Yogesh Kirve
+9122 6626 6731
yogeshkirve@rathi.com

We expect the qoq revenue growth to decelerate to 0-2%, on back of the 10p/min reduction in mobile termination rate (MTR) w.e.f. 1st April. However, this would be accompanied by margin expansion (lower interconnect to sales). Net profit trends will likely be mixed, with Bharti/RCOM reporting a strong ~9%/17% qoq profit growth (INR appreciation), but Idea showing a decline, driven by higher depreciation and finance costs.

Fig 23 – June 09 quarter results expectations

Company	Net profit		Sales growth	EBITDA growth	EBITDA margin	
	(Rsm)	yoy chg (%)	yoy (%)	yoy (%)	(%)	yoy chg (bps)
Bharti	24,428	20.6	9.1	18.2	16.9	41.1 (44)
RCOM [a]	15,215	(3.5)	17.3	15.8	11.2	40.6 (167)
Idea	2,373	(9.8)	(8.3)	37.4	14.1	27.4 (557)
Total	42,017	8.7	10.7	20.0	14.6	38.8 (181)

Source: Anand Rathi Research.

[a] In 1QFY10, RCOM will book FX gains (INR appreciation) on foreign currency borrowings/liabilities (ex FCCB) in the P&L (as per AS 11). It will continue to book FX gains/losses on hedging related derivatives and forex cash balances in the P&L. The FX gains on FCCBs are not expected to be booked in P&L due to equity-type treatment of FCCBs.

Profit trend

We expect Bharti to report a strong qoq PAT growth, driven by lower finance costs (lower net debt, FX-related gains). Idea's 'consolidated' net profit is likely to decline qoq, because of the impact of MTR cut, ongoing expansion (higher depreciation, finance costs) and a likely increase in the effective tax rate.

Partial expiry of 'free minutes' in GSM and lower CDMA subsidies may help RCOM to post the highest qoq EBITDA growth amongst peers (Recovery in the company's EBITDA growth rate is already factored in consensus FY10 estimates). Besides, from 1QFY10, the company will start booking FX gains (INR appreciation) on foreign currency borrowings/liabilities (ex FCCB) in P&L (as per AS 11). We expect this to cause a sharp increase in qoq net profit growth during the quarter. Nevertheless, EBIT is expected to decline qoq, driven by higher depreciation charges.

Topline trend

Despite nearly 9% qoq growth in wireless subscriber base, Bharti, RCOM and Idea are likely to report lukewarm revenue growth, because of the impact of the 10p reduction in MTR; MTR cut impacts the qoq revenue growth rate by 400-450bps. Overall, we estimate the qoq wireless ARPU decline to be in the range of 7-12% for leading telcos. However, MOU/sub is likely to remain broadly stable, driven by the impact of fewer free GSM minutes by RCOM and election spending.

Margin trend

Lower MTR would also result in reduced interconnect (IUC) expenses for operators, and as a result there would be an 'optical' expansion in the wireless EBITDA margins. Excluding the impact of the MTR cut, underlying EBITDA margins are likely to remain flat, except in the case of RCOM, where there could be some recovery.

Appendix 1

Analyst Certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report.

Anand Rathi Ratings Definitions

Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps (>US\$1bn) and Mid/Small Caps (<US\$1bn) as described in the Ratings Table below.

Ratings Table

	Buy	Hold	Sell
Large Caps (>US\$1bn)	>20%	5-20%	<5%
Mid/Small Caps (<US\$1bn)	>30%	10-30%	<10%

Other Disclosures

This report has been issued by Anand Rathi Financial Services Limited (ARFSL), which is regulated by SEBI. The information herein was obtained from various sources; we do not guarantee its accuracy or completeness. Neither the information nor any opinion expressed constitutes an offer, or an invitation to make an offer, to buy or sell any securities or any options, futures or other derivatives related to such securities ("related investments"). ARFSL and its affiliates may trade for their own accounts as market maker / jobber and/or arbitrageur in any securities of this issuer(s) or in related investments, and may be on the opposite side of public orders. ARFSL, its affiliates, directors, officers, and employees may have a long or short position in any securities of this issuer(s) or in related investments. ARFSL or its affiliates may from time to time perform investment banking or other services for, or solicit investment banking or other business from, any entity mentioned in this report. This research report is prepared for private circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities or investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities, if any, may fluctuate and that each security's price or value may rise or fall. Past performance is not necessarily a guide to future performance. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related investment mentioned in this report.

Anand Rathi Financial Services Limited and Anand Rathi Share & Stock Brokers Limited are members of The Stock Exchange, Mumbai, and the National Stock Exchange of India.

© 2009 Anand Rathi Financial Services Limited. All rights reserved. This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of Anand Rathi Financial Services Limited.

Additional information on recommended securities/instruments is available on request.