Angel Broking™
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2QFY2012 Result Preview
October 2011

Clearer skies ahead...

Global Macro Worries

High Inflation & Interest Rates

Lower Commodity & Energy Prices

Peaking of Inflation & Interest Rates

Research Team

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Strategy

Valuations reasonable but macro worries could remain an overhang in the short term

During 2QFY2012, Indian markets fell in tandem with peers on heightened global macro concerns, registering their worst quarterly performance since the 3QFY2009 fall following the Lehman crisis. Uncertain global macro environment, moderating domestic growth with persistently higher inflation and concomitant policy rate hikes by the Reserve Bank of India (RBI) have overshadowed the reasonable valuations of domestic equities.

The key triggers for Indian equities are likely to be in the form of a) peaking of the domestic inflation and interest rate cycle and b) restoration of some degree of certainty in global markets on the back of structural reforms in the Eurozone.

Hence, in the short term, Indian equities are likely to gyrate depending on global cues, despite reasonable valuations. However, over the longer term, we remain confident on the long-term prospects of the Indian growth story due to benefits of demographic dividend, a primarily internal consumption-driven economy, better positioning vis-à-vis peers, reasonable earnings growth trajectory and reasonable valuations in the context of India's structurally positive outlook. In the near term as well, cooling global commodity and energy prices also bode well for the Indian economy and are likely to lead to peaking out of the WPI inflation cycle in September 2011. Inflation is likely to see meaningful deceleration from January 2012. As inflation peaks out, we expect the interest rate cycle to peak out with expected policy rate cuts from CY2012 to stimulate the moderating domestic growth momentum.

Growth vs. inflation conundrum

In spite of slowing domestic growth, inflation has stubbornly remained above the RBI's indicated comfort level of 5-5.5% for 21 consecutive months. In fact, headline WPI inflation in August 2011 approached the double-digit mark at 9.8%. The acceleration in core (non-food manufacturing) inflation in August 2011 indicated the persistence of inflationary pressures, which in the RBI's words has remained high, generalised and much above its comfort zone.

Based on the historical relationship of WPI inflation with Reuters CRB Index and considering the remaining pass-through of oil and electricity prices, we believe inflation is likely to remain closer to (or possibly above) the double-digit mark in September as well as October 2011.

High inflation readings are likely to force the RBI to persevere with its hawkish stance, considering the RBI's unequivocal guidance of change in stance only if the inflation trajectory shows a downward movement. Hence, we do not rule out further policy rate hikes until December 2011. However, the recent sharp fall in global commodity and energy prices following the Fed's abstinence from adopting quantitative easing (QE)-III and weaker global demand prospects are likely to aid in pulling down headline inflation to at least the 8-9% band from December 2011 and is likely to be a meaningful case for the RBI to pause and even think of cuts depending on the domestic growth scenario and international macro environment.

Global macro worries loom large, leading to risk aversion among global investors

The recent economic news flow from both the sides of the Atlantic has been disappointing. The Fed gave a stern warning in terms of significant downside risks to growth and cautioned on the financial market stress. Sovereign debt crisis concerns among Eurozone countries remain unresolved and measures adopted by policy makers seem to be focusing solely on the short-term postponement of the problem rather than on a long-tem resolution once and for all. However, the expanded bailout fund (EFSF) is large enough, in our view, to avert a sudden financial shock. The IMF also cautioned, in no uncertain words, that the global economy is entering a 'new dangerous phase'.

Increased volatility and uncertainty across global markets, be it equities or commodities, have led to risk aversion amongst global investors, which has led to FIIs pulling out over US$2bn from Indian equities and a 10.2% fall in the benchmark index over the past two months.

2QFY2012 earnings likely to disappoint

Margin pressures have dented the profitability of Indian corporates over the past few quarters and are likely to continue in 2QFY2012 as well. While top-line growth for Sensex companies is expected to remain healthy at 21.1% yoy (muted 2.6% qoq), margin pressures are likely to result in PAT growth falling to sub-10% (at 8.2%) level. However, on a sequential basis, both operating and net profit margins are expected to improve, albeit marginally. Earnings for Angel coverage universe are expected to grow at 7.4% yoy, driven by 18.6% yoy top-line growth.

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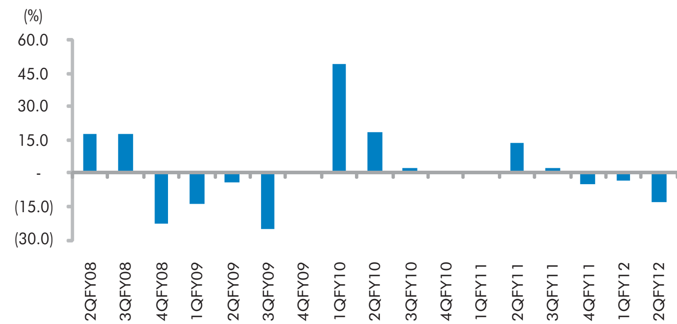
Markets fall sharply on global cues

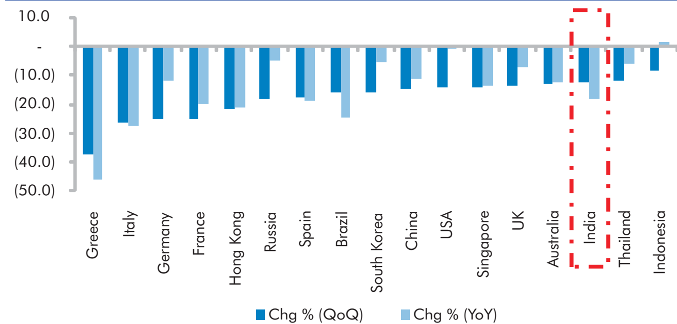
During 2QFY2012, Indian markets fell in tandem with peers on heightened global macro worries. The fall accentuated post the downgrade of the US' sovereign debt rating by one of the rating agencies. Domestic cues in terms of slowing growth, persistence of inflationary pressures and concomitant policy rate hikes by the RBI did not help the matters either. The Fed's decision to abstain from adopting QE-III dampened the sentiments further. The Sensex declined sharply by 12.7% during the quarter - the most since the 3QFY2009 crash following the Lehman crisis. However, the Sensex managed to outperform global emerging market peers by c.10% on a qoq basis.

Exhibit 1: Sensex on a qoq basis falls most since Lehman crisis



Source: BSE, Angel Research

Exhibit 2: Performance of Sensex vis-a-vis peers

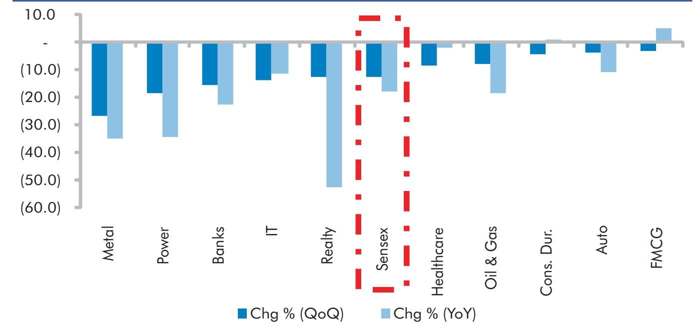


Source: Bloomberg, Angel Research

Risk aversion leads to outperformance of defensive plays

On a sectoral basis, defensive plays such as FMCG and pharma stocks managed to beat the Sensex. However, high beta sectors such as metals, IT and banks lagged the benchmark. During the quarter, FMCG stocks ended down by just 3.3% qoq, however metal stocks fell sharply by 27.0%.

Exhibit 3: Sectoral returns

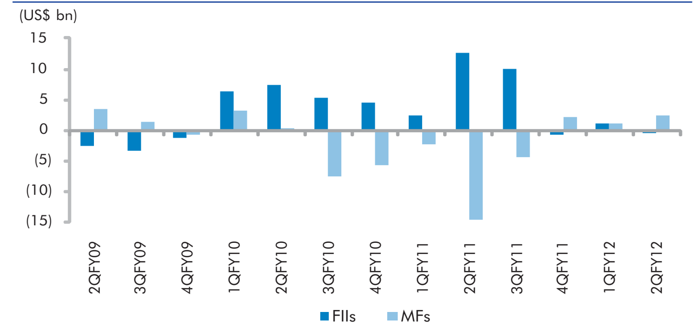


Source: Bloomberg, Angel Research

Lack of FII flows continue to plague performance

2QFY2012 turned out to be the third consecutive quarter of virtually no net FII flows, largely responsible for the sluggish performance of the markets during the same period. In fact, FIIs turned net sellers of US$0.7bn, primarily as a result of global risk aversion. However, flows from MFs doubled to US$2.4bn vis-à-vis US$1.2bn witnessed in 1QFY2012.

Exhibit 4: FIIs turn net sellers; MFs increase exposure



Source: Bloomberg, Angel Research

Eurozone: Structural problems remain; EFSF fund large enough to avert the sudden financial shock

Eurozone countries continue to face problems over mounting sovereign debt crisis concerns. The International Monetary Fund (IMF), in its latest World Economic Outlook, has further cut its GDP growth projections, especially for PIIGS countries. The IMF's projections of government debt to GDP suggest 100%+ levels for four of the five PIIGS countries by CY2012, highlighting the gravity of the problem.

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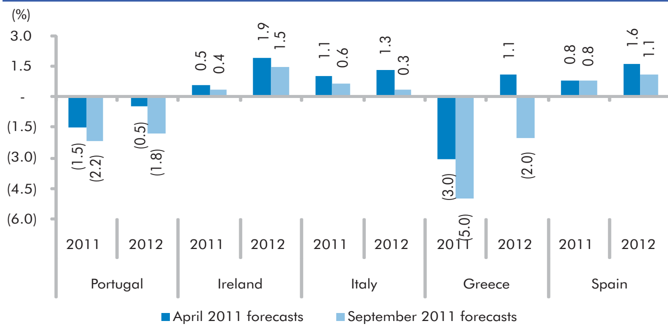
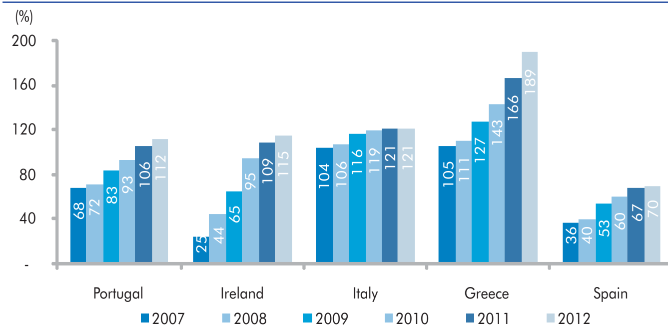
Exhibit 5: GDP growth in PIIGS remains weak



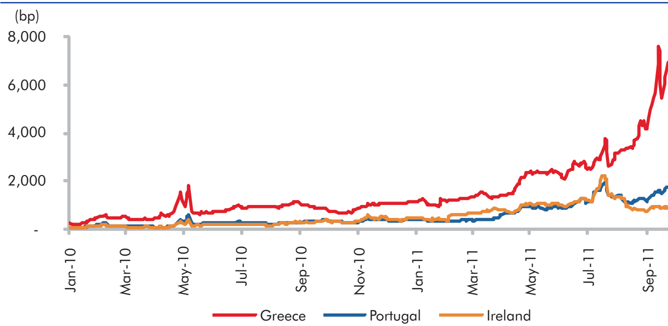
Source: IMF, Angel Research

Exhibit 6: Debt to GDP to continue spiralling upwards



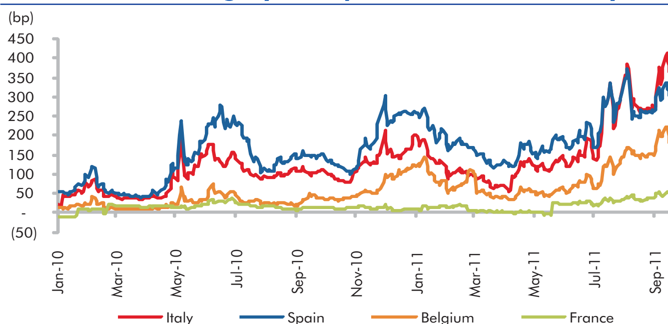
Source: IMF, Angel Research

Exhibit 7: Sovereign yield spreads over Germany



Source: Bloomberg, Angel Research; Note: Spread over German Bunds

Exhibit 8: Sovereign yield spreads over Germany



Source: Bloomberg, Angel Research; Note: Spread over German Bunds

Having said that, recently member countries of the Eurozone have ratified the increase in the size of the European Financial Stability Facility (EFSF), which is a similar tool to the TARP fund that was employed by the Federal Reserve to restore confidence in the financial markets after the Lehman crisis. The combined size of the EFSF fund at EUR750bn (over US$1tln), including the guaranteed portion by the Eurozone member countries of EUR440bn as well as EUR60bn from the European Financial Stabilisation Mechanism (EFSM) and EUR250bn committed by the IMF, is substantial in our view.

Considering that the total public debt of Greece, Ireland and Portugal put together is about US$820bn, not-to-mention that the amount that could actually crystallise into a loss for the bond-holders is likely to be much lower. Of the various Eurozone countries, these three are clearly the ones with multiple macro-economic problems, including a combination of low savings, high current and fiscal deficits and high public debt. The increase in the cost of their public debt has created a vicious downward spiral for these countries. If confidence can be restored and lower cost funding provided, an immediate default event can be avoided - we believe the EFSF is large enough to achieve this. Then the admittedly gradual process of rectifying the other imbalances can be undertaken in these nations.

Exhibit 9: Global macro snapshot

Country	GDP USD bn	Savings rate (%)	Fiscal deficit (%)	Public Debt (%)	Current a/c (%)	Inv. rate (%)
Germany	3,316	22.8	(3.3)	80.0	5.3	17.5
France	2,583	17.3	(7.7)	84.3	(2.1)	19.3
Italy	2,055	16.7	(4.6)	119.0	(3.5)	20.2
Spain	1,410	18.5	(9.2)	60.1	(4.5)	23.0
Netherlands	783	25.4	(5.2)	63.7	7.1	18.3
Belgium	466	20.2	(4.6)	97.1	1.2	19.0
Austria	377	25.1	(4.1)	69.9	3.2	22.0
Greece	305	4.1	(9.6)	142.0	(10.4)	14.6
Finland	239	21.9	(2.8)	48.4	3.1	18.7
Portugal	229	8.9	(7.3)	83.3	(9.9)	18.8
Ireland	204	10.1	(32.2)	96.1	(0.7)	10.8
Slovak Rep.	87	20.2	(8.2)	42.0	(3.4)	23.7
Luxembourg	55	25.1	(1.7)	16.6	7.7	17.3
Slovenia	48	22.2	(5.2)	37.2	(1.2)	23.4
Cyprus	23	11.4	(5.4)	61.7	(7.0)	18.4
Malta	8	15.7	(3.8)	67.0	(0.6)	16.4
Euro Rgn.	12,189	19.2	(6.1)	85.0	0.1	19.1
PIIGS	4,204	15.6	(8.0)	97.9	(4.5)	20.2
PIG	739	7.2	(15.1)	111.1	(7.6)	14.8
US	14,527	12.5	(10.3)	94.4	(3.2)	15.7
UK	2,250	11.8	(10.2)	75.5	(3.2)	15.0
Japan	5,459	23.8	(9.2)	220.0	3.6	20.2

Source: IMF, Angel Research

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As for the other two nations that have been sucked into the vortex of this sovereign debt crisis viz., Italy and Spain, the fact remains that both these are substantially larger and more robust economies than the former three and the issues ailing them are neither multiple nor as onerous. For instance, while Italy does have 120% public debt to GDP, its fiscal deficit and current deficit as well as savings rate are far better than even US or UK. Similarly, while Spain does have a high fiscal deficit, its accumulated public debt to GDP at 60% is far lower than other developed economies whose bond yields are ironically at much lower levels. In our view, if confidence can be restored regarding the impact of loss on sovereign debt in the main problematic countries of Greece, Portugal and Ireland, then it is possible that an immediate worsening of the Eurozone crisis may not occur.

In fact, the Eurozone as a whole in our view has reasonably healthy fundamentals relative to say the US, UK or Japan. Savings rates are better than those in the US or UK and the current account as a whole is also balanced. Public debt to GDP is lower than that in the US and much lower than that in Japan, where ironically interest rates are so much lower. Also, fiscal deficit for the Eurozone as a whole at 6.1% is much lower than the US ~10% - in amount terms, and considering the similarity in the absolute size of the US and Eurozone GDP, this four percentage point differential amounts to US$580bn per annum being spent in the US to prop up its economy as against the one-time EFSF cost of US$590bn for the Eurozone member countries, which may not even crystallise into an actual loss if one goes by the experience of the US TARP fund.

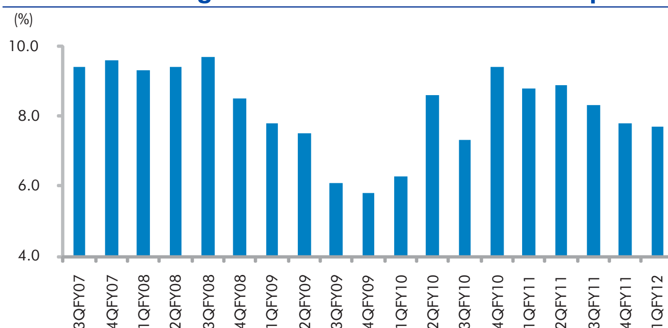
The problem with the Eurozone as against the US, we acknowledge, is that there are structural issues facing the Eurozone due to the inherent conflict between common monetary policy and independent fiscal policies of member countries. These issues do not have any simple quick-fix solution and could continue to create uncertainty in capital markets in the time to come. This is reflected in the low valuation levels that equities are trading at across the world. However, in our view, the probability of a sudden, large financial shock on the lines of the Lehman bankruptcy appears lower in the aftermath of the ratification of the larger EFSF fund and shows the broader commitment of leading Eurozone members to avert a major crisis of confidence event similar to Lehman.

Slowing domestic growth

Domestic economic growth has been on a moderating trend for quite a few quarters now. The 1QFY2012 GDP growth reading (at 7.7%) was the lowest in six quarters and the HSBC PMI suggests continuance of the weak trend in 2QFY2012 as well. In fact the PMI for September 2011 fell dengerously close to the thereshold level of 50 at 50.4 (lowest in 2 1/2 years) from 52.6 in August 2011. Higher interest rates have already reduced new project announcements by corporates, and projects currently under the implementation phase are also facing multiple headwinds in the form of higher interest rates, lack of adequate fuel linkages and difficulties pertaining to the slow decision making of the government. Although the recent proposed land acquisition bill brings in some transparency in the generally murky land deals, it is likely to substantially push up land prices (which form a considerable part of new capex plans), thereby hampering new corporate capex projects.

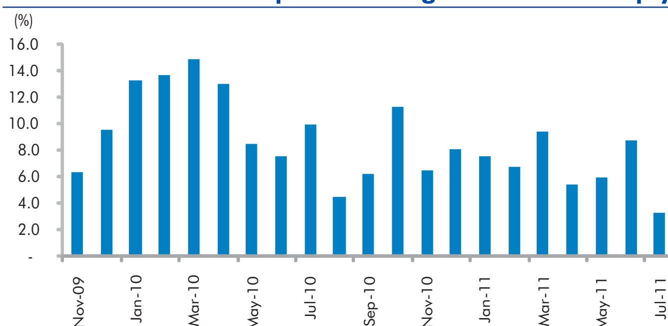
Growth in manufacturing, as indicated by the Index of Industrial Production (IIP) during July 2011, fell to sub-4% levels (at 3.3%) for the first time after 20 months. Fresh credit sanctions have slackened substantially over the past few months, indicating the slowdown in corporate capex projects. Even moderate credit growth so far, according to a few bankers, is primarily driven by disbursals in the earlier sanctioned accounts. Liquidity conditions in the system have eased off considerably, as evident from falling overnight borrowings (LAF borrowings averaging c.₹43,000cr in 2QFY2012 vs. average of c.₹48,000cr in 1QFY2012 and c.₹88,000cr in 2HFY2011) by banks from the RBI; and healthy deposit mobilisation (50%+ yoy growth in deposit mobilisation) and flat credit offtake in FY2012YTD.

Exhibit 10: GDP growth slows to the lowest in six quarters



Source: MOSPI, Angel Research

Exhibit 11: Industrial production growth falls sharply



Source: MOSPI, Angel Research

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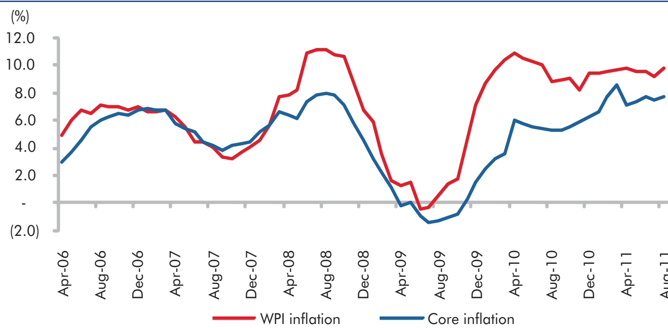
Persistence of high inflation

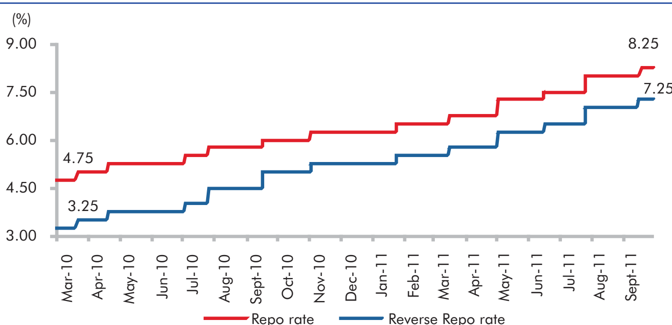
Domestic wholesale price-based inflation has remained stubbornly above the 9% mark for the past nine months and above the 8% levels for the past 20 months. In fact, core (non-food manufacturing) inflation jumped to 7.7% during August 2011 as compared to its five-year average of sub-5%. The stickiness of inflation has prompted 12 repo rate hikes (500bp hike in terms of the operative policy rate) by the Central Bank since March 2010. The RBI, in its recent monetary policy review, also highlighted its concerns over suppressed inflation in the form of regulated fuel and electricity prices and the adverse impact of the recent depreciation of the INR vs. the USD. The RBI also stated that inflation remains high, generalised and much above its comfort zone.

Exhibit 12: Persistence of inflation at higher levels...



Source: MOSPI, Angel Research

Exhibit 13: ...prompting continuation of the tightening stance

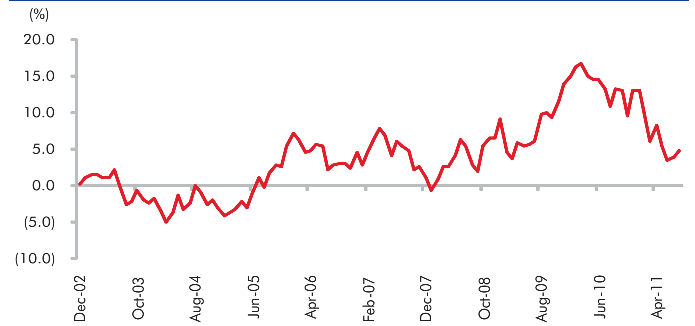


Source: RBI, Angel Research

Inflation expected to head south on the back of lower global commodity and energy prices

However, the silver lining amidst inflationary pressures has been in the form of the narrowing gap between primary articles inflation and manufactured products inflation, suggesting that the bulk of pass-through of raw-material cost pressures has flown through the prices of manufactured products. The gap between these inflation parameters, which was as high as 13.1% at the start of CY2011, narrowed to sub-5% levels during June-August 2011.

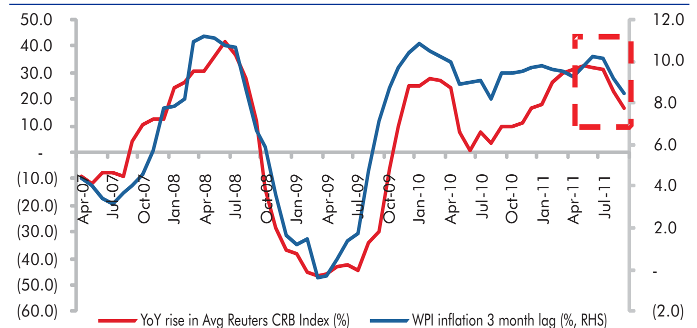
Exhibit 14: Primary and mfg. inflation spread narrows



Source: MOSPI, Angel Research

The recent trend in the movement of the Reuters CRB Index - the global commodity index - suggests moderation in headline WPI inflation from December 2011. Over the past five years, there has been c.90% positive correlation between the yoy change in monthly average of the Reuters CRB Index and headline WPI inflation numbers with a three-month lag. The yoy rise in Reuters CRB Index has halved from 32.8% in May 2011 (which has reflected in WPI inflation numbers for August 2011) to 16.6% during September 2011 (expected to reflect in domestic inflation numbers from December 2011). Hence, we expect headline inflation to peak in September 2011 (in double digits) and moderate thereafter to c.9% levels in December 2011 and expect further softening going forward as well.

Exhibit 15: Fall in Reuters CRB to drive inflation lower



Source: MOSPI, Bloomberg, Angel Research; Note: WPI inflation forecasted figures from September 2011 based on historical correlation with Reuters CRB Index

Outlook on policy rates

Taking into account our forecasted inflation trajectory and the RBI's unequivocal guidance (that in the near term, unless inflation trajectory shows a downward trend, its stance will not change), we do not rule out further rate hikes in CY2011.

However, from January 2012, we believe inflation is likely to start trending downwards, barring any major negative surprises on the global commodity price front. In fact, rising global growth concerns and the consequent weaker demand prospects along

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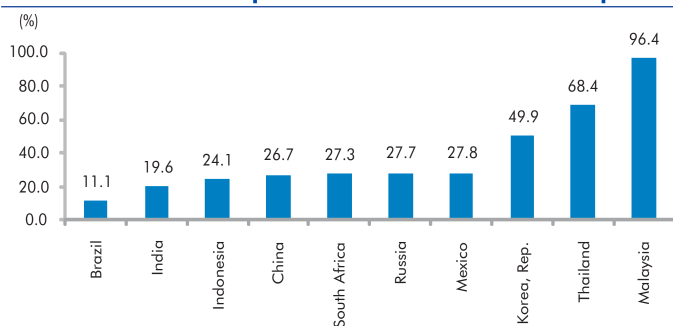
with declining fiscal stimulus measures in developed economies are likely to keep commodity and energy prices in check in the short term. Moreover, in our view, annualised inflation in manufactured products is showing signs of cooling (5.2% in August, 4.2% on a three-month annualised basis) - an indication that demand-side pressures are not at runaway levels.

Hence, from January 2012 at the latest, we see a meaningful case for the RBI to take a pause, especially considering the signs of slowdown on the domestic growth front, evident from slowing GDP growth rates, tepid IIP growth, moderating trend in PMI, declining vehicle sales and expected moderation in export growth.

Lower dependence on exports

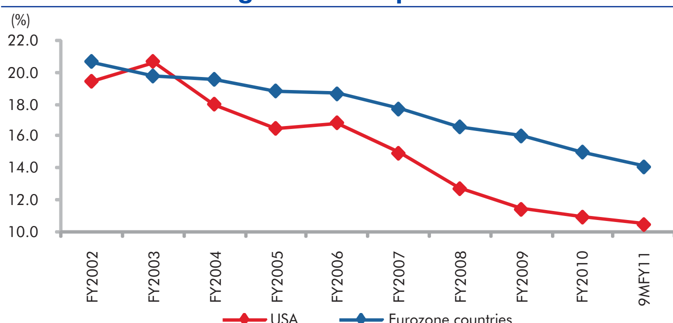
With the prospects of weaker growth in the US and Europe, concerns have arisen about the adverse impact on exports from India to these countries. However, we note that India has a relatively lower dependence as compared to other emerging market peers (exports to GDP of ~20% vs. ~40% for peers). Also, the share of these trading partners in India's exports basket has been on a declining trend; it has dipped from 40%+ in FY2003 to sub-25% during 9MFY2011.

Exhibit 16: India's exports to GDP lower vis-a-vis peers



Source: IMF, Angel Research; Note: Data for CY2009

Exhibit 17: Declining share of exports to US and EU



Source: Commerce Ministry, Angel Research; Note: As a % of India's exports

Demand for IT exports expected to hold up well

Global data points such as 1) IMF downgrade of global, US, UK and Eurozone GDP, 2) slowing consumer confidence, 3) PMI index near the danger mark of 50, and 4) announcement of layoffs by global banks are painting a hazy picture regarding CY2012 client budgets related to IT spending. However, financial results of Oracle, the enterprise giant globally for the quarter ending August 2011, overruled the pessimism that is building in the Indian IT future. The company's licence sales grew by 19% yoy and the guidance remained positive at 6-16% yoy licence sales for the next quarter. There is always a lag effect of two to three quarters between the licence sales by Oracle and SAP translating into an implementation opportunity for Indian IT vendors.

Globally, spending on IT post the recession has been very prudent by corporates. Clients have started focusing on cost efficiencies and have stopped irrational upgrades or capex.

Budgets are now assigned with an intention of achieving objectives of cost efficiency, driving growth in other markets to grow footprint and be regulatory compliant to have effective risk management, among other factors. Hence, we believe the CY2008 scenario of extensive client budget cuts and pricing cut would not resurface in CY2012. However, we do not rule out the probability of CY2012 IT budgets turning softer as compared to CY2011. Hence, we expect moderation in IT budgets for CY2012 and expect volumes for Indian IT companies to scale down to sub 15% from 20% plus. However, we have not built in any pricing erosion because post CY2008, the current pricing is still at a discount to the peaks.

INR depreciation unlikely to reflect in margin expansion for IT companies due to MTM hedges

In 2QFY2012, INR has shown a steep correction against USD by 8.6% in a month's time from ₹45.7 to ₹49.6. The volatility in cross currencies like USD against GBP, Euro, AUD has also increased recently. This steep depreciation would have close to a month effect on the average realisation of INR/USD moving upto ₹45.8 vis-à-vis ₹44.7 in 1QFY2012. Thus, the INR has depreciated by 2.4% qoq, which will lead to higher INR revenue vis-à-vis USD revenue. Also, in terms of margins, every 1% INR depreciation would boost EBITDA margins for IT companies by 35-40bp. On the profitability front, the impact of INR movement does not flow linearly due to hedging strategies (MTM hedges) adopted by companies.

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Depreciation of INR likely to aid exports

Although exports growth is likely to subside on a weaker demand scenario due to slower global growth, the recent sharp depreciation (~11% depreciation since August 1) of INR vs. USD is expected to improve the competitiveness of Indian exporters. As compared to the sharp depreciation of INR, the Chinese Yuan has actually appreciated marginally over the same period, thereby bettering the competitiveness of Indian products.

Exhibit 18: Competitive advantage for Indian exporters

Particulars	Current	Since Aug 1 (%)	3M chg (%)	1Y chg (%)
USD-INR	48.97	11.2	9.9	8.9
USD-CNY	6.38	(0.8)	(1.2)	(4.6)
Net benefit for Indian exporters		**11.9**	**11.1**	**13.5**

Source: Bloomberg, Angel Research

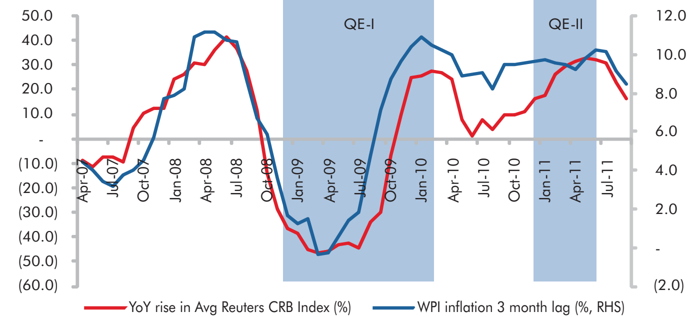
No fresh money supply from the Fed - Positive for keeping commodity and energy prices under check

At the start of QE-I, the global economy was in doldrums with recessionary environment looming large. The spurt in commodity prices at that time was fueled by the resolve of central banks around the world to maintain an easing monetary policy to facilitate economic recovery and the rise in demand, driven by economic recovery across EMs as well as developed economies. However, the demand scenario this time around has been hampered by heightened macro risks due to prospects of a double-dip recession in the US, sovereign debt crisis concerns plaguing European countries and weaker global growth prospects.

The US Fed, in its recent meeting, dashed hopes of further quantitative easing through increasing the money supply in the economy. Instead, it opted for a shift in the maturity pattern of its treasury holdings, which is intended to reduce long-term interest rates. The Fed announced that it will sell US$400bn of short-term (maturing within three years) treasury securities it owns and replace them with long-term (maturity of more than six years) treasury securities. The Fed also stated its intention to reinvest the proceeds from its US$900bn portfolio of mortgage-backed securities into new mortgage-backed securities, which is aimed at keeping mortgage rates low.

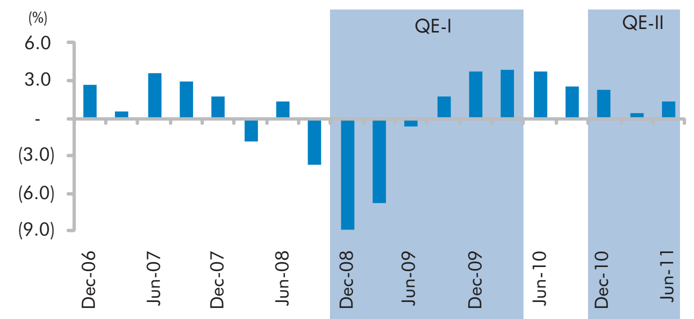
The absence of new money supply fueling liquidity in the system, a weaker demand outlook and strengthening of the USD due to abstinence from fresh money printing is expected to keep commodity and energy prices in check with a downward bias, which will be beneficial for reducing inflationary pressures, which the Indian economy has been facing over the past 1-2 years.

Exhibit 19: QE-II impact was lower on commodities vs. QE-I



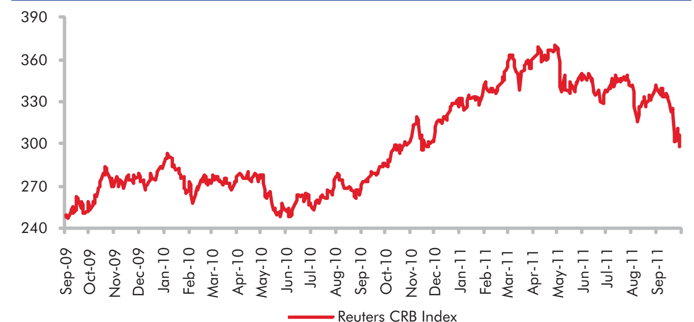
Source: US Fed, MOSPI, Bloomberg, Angel Research

Exhibit 20: QEs did not have desired effect on US GDP



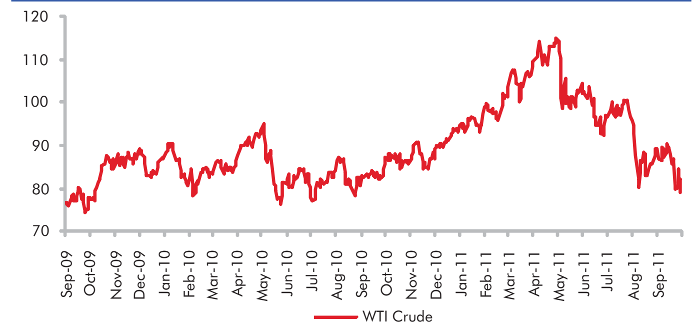
Source: US Fed, Bloomberg, Angel Research; Note: Quarterly GDP growth

Exhibit 21: CRB Index falls sharply on growth worries...



Source: Bloomberg, Angel Research

Exhibit 22: ...so does WTI crude



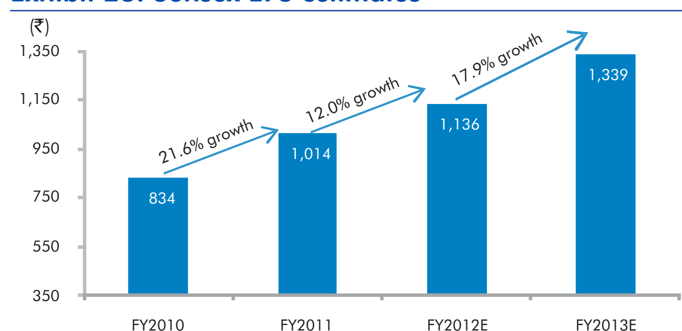
Source: Bloomberg, Angel Research

Strategy

Sensex EPS: 14.9% CAGR in FY2011-13E

The earnings growth trajectory for Indian corporates remains moderate in spite of higher raw-material costs and interest rates hurting margins over the past few quarters. While FY2012 earnings growth is likely to be modest, cooling inflation and interest rates should underpin healthier growth in FY2013. We expect Sensex companies to deliver EPS growth of 12.0% in FY2012 and improve it further to 17.9% in FY2013, translating into a reasonable 14.9% CAGR over FY2011-13E. Earnings growth is expected to be broad-based with a larger contribution from banking stocks. Oil and gas, metals and IT stocks are expected to be the other major contributors to growth.

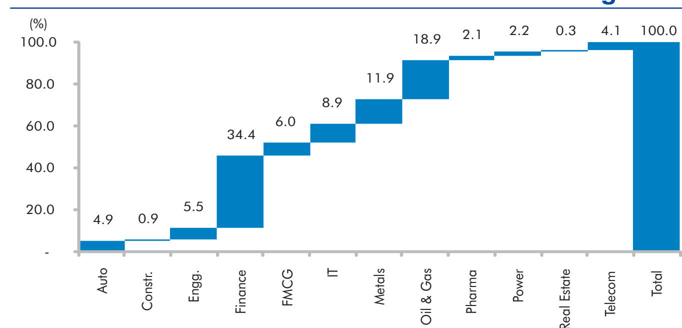
Exhibit 23: Sensex EPS estimates



Source: Angel Research

The primary growth drivers of Sensex EPS over FY2011-13E are expected to be the BFSI, oil and gas and metal sectors, with the BFSI sector expected to contribute more than one-third (34.4%) to the overall growth in Sensex EPS during the period, while contribution from the oil and gas and mining & metal sectors is estimated to be at 18.9% and 11.9%, respectively. Strong performance by the BFSI sector highlights the sustained earnings outlook for HDFC Bank and a low base effect for SBI, which has not posted growth in PAT over FY2009-11. IT companies are expected to contribute healthy 8.9% to Sensex EPS growth over FY2011-13E, primarily backed by higher volumes. On the other hand, sectors such as telecom, power and FMCG are expected to underperform the others. The combined contribution of all these sectors to Sensex EPS growth is expected to be 12.4% over FY2011-13E.

Exhibit 24: Sectoral contribution to Sensex EPS growth



Source: Angel Research; Note: Contribution over FY2011-2013E

2QFY2012 earnings - Top-line growth to remain healthy but margin woes likely to dent profitability

We expect Sensex companies to maintain healthy top-line growth momentum, with projected growth of 21.1% yoy in sales. However, profit growth is expected to be considerably lower at sub-10% levels (8.2%) due to margin compression. Operating margins of Sensex companies are expected to contract sharply by 166bp yoy during the quarter. Overall, we expect operating margin to come in at 20.8% vis-à-vis 22.5% in the corresponding period last year. Consequently, net profit margin is expected to come in lower at 11.7%, registering a decline of 138bp yoy. However, on a sequential basis, both operating and net profit margins are expected to improve, albeit marginally.

- We expect strong numbers to be posted by oil and gas as well as BFSI stocks in 2QFY2012, accounting for c.85% of Sensex' net profit growth. Even in terms of top line, oil and gas stocks are expected to drive growth, accounting for c.45% of top-line growth.
- Overall, we expect Sensex oil and gas companies to post 40.2% yoy growth in sales on the back of higher crude oil prices. However, margin compression is likely to dent profitability at RIL due to lower gas production from KG-D6 basin; and higher subsidy-sharing burden is expected to hamper margins for ONGC. Accordingly, we expect Sensex oil and gas stocks to post bottom-line growth of 17.6% yoy.
- IT companies are expected to report reasonable sales growth of 17.9% yoy, while profit growth is expected to come in at a relatively lower 7.6% yoy due to a 200bp yoy margin compression. BFSI companies are expected to report a 18.0% rise in net profit on the back of healthy performance from private banks. Profit growth for BFSI companies is expected to be driven by higher NII on the back of sequentially stable net interest margins. Ex. BFSI, growth in Sensex profit is expected to be a weak 5.9% yoy.
- We expect FMCG companies to post decent 16.2% yoy growth in sales on the back of higher volumes as well as price hikes; the increase in profits is expected to be relatively higher at 17.5% yoy due to a 74bp yoy expansion in operating margins on the back of price hike and ad-spending cuts. Power companies are expected to post a moderate 10.6% increase in sales, however PAT is expected to decline marginally by 2.2%.
- Auto stocks are expected to report a muted performance with a 3.9% yoy decline in profit, despite a reasonable 18.7% increase in sales, mainly because of the expected earnings decline for Maruti Suzuki and Tata Motors due to lower volume growth and higher input costs on a yoy basis. Maruti Suzuki is expected to report a sharp 25.7% yoy decline in profits due to lower volumes primarily because of labour strikes. Tata Motors' profitability is expected to be affected due to a higher tax rate on the JLR front.

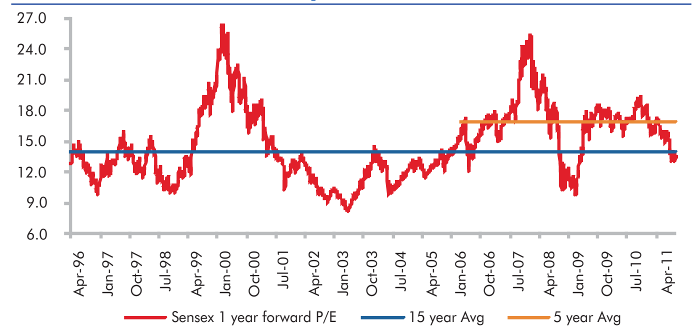
Strategy

- Amongst telecom companies, Bharti Airtel is expected to report a 21.3% yoy decline in its profit, despite 12.3% top-line growth. Revenue growth is expected to be muted because of moderating growth in subscriber base, flat voice ARPM and declining MOU. However, due to increased competition and higher interest and other costs on account of the 3G network rollout, profits are expected to decline by 21.3% yoy.
- Metal and mining companies are expected to witness moderate 12.9% yoy growth in the top line on the back of higher finished product prices as well as volume growth on account of capacity expansions. However, profits are expected to grow by relatively lower 4.5% yoy, primarily due to high input costs impacting PAT margins by 68bp yoy. Although the capital goods sector is expected to witness reasonable sales growth of 14.5% yoy, PAT margin is estimated to fall by 97bp yoy, resulting in muted bottom-line growth of just 2.9% yoy, partly due to lower non-operating income.
- In the construction sector, we expect JP Associates to report disappointing performance on the top-line and bottom-line fronts. Sales are expected to be flat on a yoy basis, however the bottom line is expected to be hampered due to higher interest costs.
- Pharmaceutical companies are also likely to face margin compression, resulting in lower PAT growth. Sensex pharma companies are expected to register a muted 4.9% yoy growth in PAT as compared to 19.6% yoy rise in sales due to a sharp 299bp yoy compression in PAT margin.

Valuations reasonable but macro worries could remain an overhang in the short term

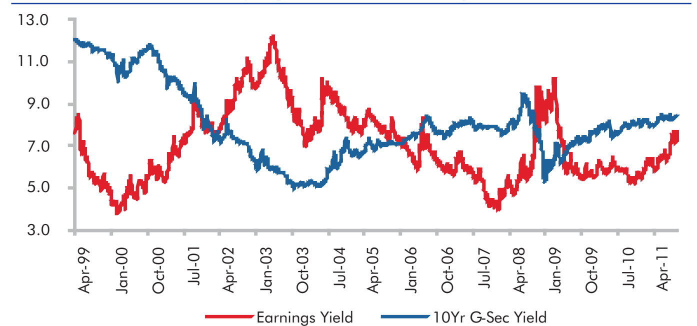
Indian markets have fallen c.20% in CY2011YTD and have underperformed world markets by c.7% due to concerns of higher inflation and higher interest rates. Based on one-year forward earnings, the Sensex is trading at valuations of 13.3x. While the Sensex is trading at a considerable (c.20%) discount to its five-year average of 16.8x one-year forward earnings, compared to its average over a 10-year period, the discount narrows to just 5%.

Exhibit 25: Sensex one-year forward P/E



Source: Bloomberg, Angel Research

Exhibit 26: Earnings yield vs. bond yield



Source: Bloomberg, Angel Research

Exhibit 27: Sensex one-year forward P/E - Peak and trough

Source: Bloomberg, Angel Research

Strategy

Since 1994, the Sensex has witnessed three large valuation cycles, with average duration from peak to trough of approximately 2½ years. The previous cycle had witnessed abrupt fall from the peak following the Lehman crisis and the ensuing global liquidity crunch, which reduced that cycle's duration to ~15 months. The first three cycles had witnessed Sensex valuations ballooning to ~25x. However, the current cycle seems to have turned around from sub-20x levels. Assuming that the historical cycle durations were to hold true, the Sensex could remain in a narrow range with a downward bias till at least the end of CY2012. However, we do not expect markets to fall as steep as that witnessed in the previous cycles (~60%), as valuations were not that demanding this time around. The Sensex has already retraced more than 31% from the peak valuations of the current cycle; hence, downside from the current levels is likely to be limited.

Exhibit 28: Sensex cycle

Cycle	Days	Peak P/E	Trough P/E	*Diff*	% fall
Jan'94 - Dec'96	1,054	23.8	9.9	*13.8*	58.2
Feb'00 - May'03	1,187	26.4	8.2	*18.2*	69.0
Jan'08 - Jan'09	427	25.4	9.8	*15.6*	61.4
Nov'10 - till date	330	19.2	13.3*	*6.1*	31.7

*Source: Bloomberg, Angel Research; Note: * As on Sept. 30, one-year forward P/E*

Although valuations of Sensex at 13.3x one-year forward earnings look reasonable, the Sensex on seven occasions in the past 16 odd years has traded below these levels. Sensex valuations remained below these reasonable levels for more than two years following the dot-com bust. Excluding this prolonged period of cheap valuations, the Sensex on an average has traded for approximately nine months below these levels. However, rebounds from all these levels were equally sharp.

Exhibit 29: Sensex valuations below the current P/E

Start	End	Days	Avg.	Max	Min
8-Nov-95	15-Apr-96	160	12.2	13.3	11.1
24-Jul-96	30-May-97	311	12.0	13.1	10.2
11-Nov-97	3-Mar-98	113	12.4	13.2	11.8
1-Jun-98	6-May-99	340	11.5	13.2	10.1
30-Aug-01	24-Dec-03	847	10.9	13.2	8.6
19-Feb-04	12-Sep-05	572	12.0	13.1	10.4
15-Oct-08	23-Apr-09	191	11.4	13.0	10.2
	Average	**362**	**11.8**	**13.2**	**10.4**

Source: Bloomberg, Angel Research; Note: One-year forward P/E

Having said that, we remain confident on the long-term prospects of the Indian growth story due to benefits of demographic dividend, a primarily internal consumption-driven economy, its relative better positioning globally, reasonable earnings growth trajectory and reasonable valuations vis-à-vis India's structurally positive outlook. Cooling global commodity and energy prices also bode well for the Indian economy and are likely to lead to peaking out of the WPI inflation cycle in September 2011. Inflation is likely to see meaningful deceleration from December 2011. As inflation peaks out, we expect the interest rate cycle to peak out with expected policy rate cuts from CY2012 in order to stimulate the moderating domestic growth momentum. We maintain our 12-18 months Sensex target of 18,750, assigning a conservative multiple of 14x FY2013E earnings. Our target implies an upside of c.14% from current levels, which is likely to be back-ended.

Strategy

Exhibit 30: Sensex earnings summary

		Net Sales (₹ cr)			Net Profit (₹ cr)		
Company	**Weightage (%)**	**2QFY2012E**	**2QFY2011**	***% chg***	**2QFY2012E**	**2QFY2011**	***% chg***
Finance	24.5	23,434	20,642	*13.5*	6,361	5,457	*16.6*
IT	15.2	28,581	23,964	*19.3*	5,547	5,148	*7.8*
Oil & Gas	14.1	104,594	75,909	*37.8*	12,018	10,312	*16.5*
FMCG	10.7	11,294	9,742	*15.9*	2,077	1,772	*17.2*
Auto	9.3	60,211	51,513	*16.9*	4,583	4,767	*(3.9)*
Engineering	7.6	20,653	17,822	*15.9*	2,039	1,907	*6.9*
Metals	6.2	50,109	43,556	*15.0*	4,494	4,329	*3.8*
Telecom	3.7	17,091	15,215	*12.3*	1,308	1,661	*(21.3)*
Power	3.3	16,480	14,921	*10.4*	2,372	2,359	*0.5*
Pharma	2.5	3,463	2,950	*17.4*	791	767	*3.2*
Mining	1.6	13,774	11,668	*18.0*	3,164	1,495	*111.6*
Real Estate	0.7	2,674	2,369	*12.9*	399	418	*(4.6)*
Construction	0.6	3,097	3,071	*0.8*	69	116	*(40.0)*
Sensex	**100.0**	**355,454**	**293,343**	***21.2***	**45,223**	**40,510**	***11.6***
Sensex #				***21.1***			**8.2**

Source: Company, Angel Research; Note: #On free-float adjusted basis

Exhibit 31: Angel universe estimates summary

	Net Sales (₹ cr)			Operating Profit (₹ cr)			Net Profit (₹ cr)		
Company	**2QFY2012E**	**2QFY2011**	***% chg***	**2QFY2012E**	**2QFY2011**	***% chg***	**2QFY2012E**	**2QFY2011**	***% chg***
Auto & Auto Ancillary	74,643	63,486	*17.6*	9,312	8,975	*3.7*	5,438	5,630	*(3.4)*
Capital Goods	19,342	17,055	*13.4*	2,726	2,558	*6.5*	1,727	1,665	*3.7*
Cement	10,656	8,165	*30.5*	2,227	1,134	*96.4*	1,061	371	*185.8*
Construction	19,850	18,206	*9.0*	2,723	2,543	*7.1*	969	1,122	*(13.6)*
Financials	58,700	53,986	*8.7*	32,859	30,651	*7.2*	15,674	14,714	*6.5*
FMCG	21,403	18,154	*17.9*	4,419	3,738	*18.2*	3,211	2,780	*15.5*
IT	39,493	33,224	*18.9*	9,061	8,207	*10.4*	6,904	6,237	*10.7*
Metals & Mining	87,703	75,938	*15.5*	18,286	14,590	*25.3*	11,672	9,279	*25.8*
Oil & Gas	116,962	86,699	*34.9*	26,678	24,190	*10.3*	13,186	12,821	*2.9*
Pharmaceuticals	13,643	12,429	*9.8*	2,719	2,345	*15.9*	2,341	2,281	*2.6*
Power	16,189	14,654	*10.5*	3,468	2,455	*41.2*	2,326	2,278	*2.1*
Real Estate	3,298	2,875	*14.7*	1,462	1,229	*19.0*	632	680	*(7.1)*
Telecom	26,538	23,992	*10.6*	8,354	7,564	*10.4*	1,606	2,287	*(29.8)*
Angel Universe	**508,418**	**428,864**	***18.6***	**124,291**	**110,180**	***12.8***	**66,746**	**62,144**	***7.4***

Source: Company, Angel Research; Note: Only for coverage stocks for which quarterly results are estimated

Strategy

Exhibit 32: Earnings estimates for Sensex companies

	Net Sales (₹ cr)			Net Profit (₹ cr)			Weightage	% Contribution
Company	2QFY2012E	2QFY2011	% chg	2QFY2012E	2QFY2011	% chg	(%)	to Sensex growth#
Bajaj Auto	4,960	4,181	18.6	776	682	13.7	1.6	2.9
Bharti Airtel	17,091	15,215	12.3	1,308	1,661	(21.3)	3.7	(7.6)
BHEL	10,129	8,491	19.3	1,301	1,142	13.9	2.1	3.4
Cipla	1,742	1,370	27.1	297	263	13.0	1.1	1.4
Coal India	13,774	11,668	18.2	3,164	1,495	111.7	1.6	10.2
DLF	2,674	2,369	12.9	399	418	(4.6)	0.7	(0.3)
HDFC	1,476	1,253	17.8	932	808	15.4	6.6	7.2
HDFC Bank	4,154	3,487	19.1	1,188	912	30.3	6.5	13.5
Hero Honda	5,754	4,511	27.5	557	506	10.1	1.4	1.6
Hindalco	6,039	5,803	4.1	596	434	37.3	1.3	6.9
HUL	5,345	4,681	14.2	599	526	14.0	2.7	2.3
ICICI Bank	4,248	3,782	12.3	1,473	1,236	19.1	7.5	14.5
Infosys	7,988	6,947	15.0	1,851	1,737	6.5	9.1	5.9
ITC	5,948	5,061	17.5	1,478	1,247	18.5	8.0	9.9
Jindal Steel & Power	3,408	3,078	10.7	918	894	2.7	1.6	0.7
JP Associates	3,097	3,071	0.8	69	116	(40.0)	0.6	(1.6)
L&T	10,524	9,331	12.8	738	765	(3.5)	5.5	(1.5)
M&M	7,385	5,311	39.0	832	758	9.7	2.9	3.6
Maruti Suzuki	7,531	8,937	(15.7)	445	598	(25.7)	1.2	(4.7)
NTPC	14,733	13,350	10.4	2,151	2,107	2.1	2.0	0.5
ONGC	22,991	18,430	24.7	6,161	5,389	14.3	3.4	9.5
RIL	81,603	57,479	42.0	5,857	4,923	19.0	10.8	31.5
SBI	13,557	12,120	11.9	2,769	2,501	10.7	4.0	7.4
Sterlite	9,726	6,029	61.3	1,641	1,022	60.5	1.3	17.1
Sun Pharma	1,721	1,580	8.9	494	504	(1.9)	1.4	(0.2)
Tata Motors	34,581	28,573	21.0	1,973	2,223	(11.2)	2.2	(10.7)
Tata Power	1,748	1,571	11.3	221	252	(12.2)	1.2	(1.3)
Tata Steel	30,936	28,646	8.0	1,339	1,979	(32.3)	2.1	(27.5)
TCS	11,670	9,286	25.7	2,472	2,126	16.3	4.5	6.4
Wipro	8,923	7,730	15.4	1,225	1,285	(4.7)	1.6	(0.9)
Total	**355,454**	**293,343**	**21.2**	**45,223**	**40,510**	**11.6**	**100.0**	**100.0**
Sensex#			**21.1**			**8.2**		

Source: Angel Research; Note: # based on free-float weightages

Angel Research Model Portfolio

Sector	Company	CMP (₹)	Target Price (₹)	BSE-100 Weightage (%)	Angel Weightage (%)	Stance
Auto & Ancillaries				***7.2***	***6.0***	**Underweight**
	Ashok Leyland	26	31	*0.2*	*3.0*	Overweight
	MRF	6,590	8,710	*0.0*	*3.0*	Overweight
BFSI				***26.0***	***29.0***	**Overweight**
	ICICI Bank	875	1,146	*5.3*	*12.0*	Overweight
	Axis Bank	1,021	1,426	*1.4*	*9.0*	Overweight
	SBI	1,911	2,403	*2.8*	*5.0*	Overweight
	HDFC Bank	467	517	*4.5*	*3.0*	Underweight
Capital Goods				***8.8***	***11.0***	**Overweight**
& Infrastructure	L&T	1,358	1,857	*3.9*	*5.0*	Overweight
	IVRCL Infra	35	60	*0.0*	*3.0*	Overweight
	LMW	1,941	2,780	*0.0*	*3.0*	Overweight
Cement				***2.6***	***0.0***	**Underweight**
FMCG				***10.5***	***3.0***	**Underweight**
	ITC	198	205	*5.6*	*3.0*	Underweight
Hotels				***0.0***	***3.0***	**Overweight**
	Taj GVK	91	140	*0.0*	*3.0*	Overweight
Media				***0.4***	***3.0***	**Overweight**
	Jagran Prakashan	110	148	*0.0*	*3.0*	Overweight
Metals				***7.2***	***9.0***	**Overweight**
	Tata Steel	415	614	*1.5*	*3.0*	Overweight
	Hindalco Inds	131	196	*0.9*	*3.0*	Overweight
	Tata Sponge	297	429	*0.0*	*3.0*	Overweight
Oil & Gas				***12.9***	***12.0***	**Underweight**
	Reliance Industries	808	1,099	*7.6*	*12.0*	Overweight
Pharma				***4.8***	***3.0***	**Underweight**
	Lupin	473	593	*0.6*	*3.0*	Overweight
Power				***3.9***	***0.0***	**Underweight**
Real Estate				***0.7***	***0.0***	**Underweight**
Software				***11.3***	***12.0***	**Overweight**
	Infosys	2,534	2,705	*6.4*	*5.0*	Underweight
	TCS	1,038	1,179	*3.2*	*4.0*	Overweight
	Mphasis	342	382	*0.0*	*3.0*	Overweight
Telecom				***3.4***	***0.0***	**Underweight**
Others				***0.5***	***9.0***	**Overweight**
	Greenply	196	311	*0.0*	*3.0*	Overweight
	Siyaram	272	422	*0.0*	*3.0*	Overweight
	United Phosporus	138	208	*0.0*	*3.0*	Overweight

2QFY2012 Sectoral Outlook

Automobile

The Indian automobile sector sustained its sales momentum at a healthy pace in 2QFY2012 despite roadblocks in the form of high petrol prices, interest rates and inflationary pressures. Volume growth, however, continued to witness a mixed trend as demand for the passenger car (PC) and medium and heavy commercial vehicle (M&HCV) segments remained subdued; whereas, the two-wheeler, three-wheeler, light commercial vehicle (LCV) and tractor segments continued their strong pace of growth. As a result, the overall auto sector witnessed growth of 15.7% YTD in FY2012. Volumes of Hero MotoCorp (Hero), Mahindra and Mahindra (M&M) and Tata Motors (TML - commercial vehicles) came in better than expected during 2QFY2012, while volumes of Maruti Suzuki (Maruti) and Ashok Leyland (ALL) came in below expectations. Bajaj Auto (BAL) and TVS Motor's (TVS) numbers were largely in-line with our estimates. We expect the short-term volume outlook in the PC and M&HCV segments to remain subdued due to higher interest rates and fuel prices.

For 2QFY2012, we expect our auto universe to witness strong revenue growth of 17% yoy, led by a combination of volume growth (13.3% yoy) and price increases along with improvement in product mix. Sequentially though, we expect the auto sector to register moderate growth of 3.5% and 4% in volumes and revenue, respectively, primarily on account of lacklustre volume performance by Maruti due to dampened demand environment and production losses led by labour issues.

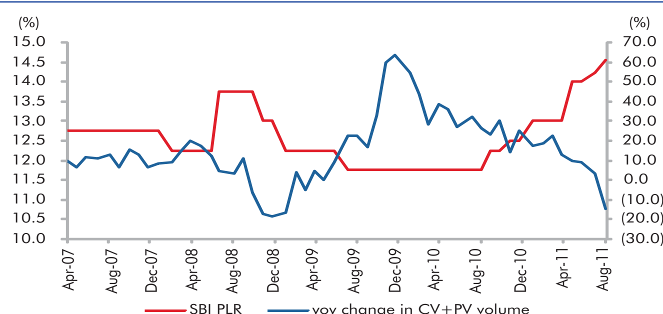
Margins to remain under pressure

We expect operating margins of most companies to trend downwards on a yoy basis in 2QFY2012 on account of a yoy increase in raw-material costs and weak operating leverage (except for two-wheeler companies and M&M). Further, higher discounts offered by PC companies, in an attempt to push up sales, will also weigh on margin performance. Pricing power, especially in the PC and M&HCV segments, has weakened on a moderating demand environment. As a result, we expect EBITDA margin for our auto universe to contract by 130bp yoy to 12.6%. While commodity prices still remain high compared to FY2011, they have started softening on a sequential basis, thereby indicating improved operating margins going forward. Sequentially, prices of key raw materials - steel, aluminum and rubber have corrected and witnessed an average decline of ~2%, ~7% and ~8%, respectively. Thus, operating margins are expected to remain flat sequentially. On the net profit front, we expect margins to contract by ~160bp yoy to 7.3% (flat on a sequential basis), largely due to a decline in profitability at TML, Maruti and ALL.

Interest rates and fuel prices trend northwards

As most of the consumers in the auto industry (PV ~75% and CV ~85%) rely on financing, a gradual increase in interest rates by the RBI over the past 18 months has resulted in higher EMI outflow for consumers, thereby leading to postponement of new vehicle purchases. Further, the increase in fuel prices (petrol prices up by ₹5.5 and diesel prices up by ₹3.8 YTD in FY2012) has also impacted the sales negatively.

Exhibit 1: Interest rates vs. auto sales

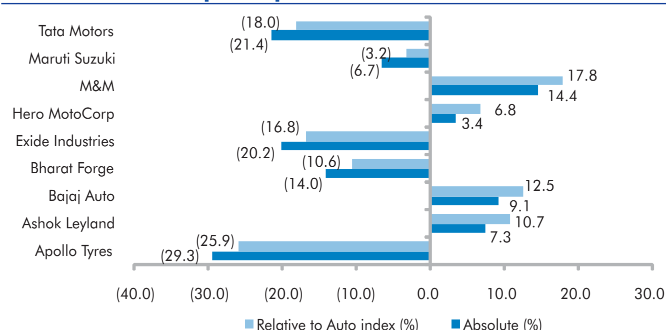


Source: Bloomberg, Angel Research

Auto Index outperforms the Sensex

The BSE Auto Index fell by 3.4% during 2QFY2012 against a 12.7% decline in the Sensex, thereby outperforming it by 9.3%. M&M, BAL and Hero contributed to the outperformance, driven by strong monthly volume numbers. However, TML underperformed on account of concerns relating to JLR volume growth because of rising economic uncertainty in the US and Europe. Apollo Tyres and Exide also underperformed because of slowdown in the demand for tyres and batteries. The negative impact on profitability due to price cuts by Exide also led to weak stock performance. Growing pessimissm regarding overall volume growth in the auto sector in the current fiscal due to rising interest rates and fuel and product prices weighed heavily on investor sentiments, thus negatively affecting stock prices.

Exhibit 2: Stock price performance



Source: Bloomberg, Angel Research

CV sales riding on robust LCV demand

The CV segment registered strong growth of 18.9% yoy YTD in FY2012, driven by robust growth in the LCV segment, which grew by 29.3% yoy. Demand in the LCV segment continues to be driven by growth in the agriculture sector, increasing preference for low payload vehicles, structural factors such as

Automobile

proliferation of the hub and spoke model and new launches from M&M and Piaggio. The M&HCV segment, on the other hand, witnessed moderate growth of 7% yoy due to slowdown in mining activity and concerns related to high interest rates and fuel prices. Going ahead, we expect the LCV segment to sustain its strong performance and grow at a CAGR of 16-18% over the next two years.

Exhibit 3: TML and ALL – Quarterly volumes

Segment	2QFY12	2QFY11	% chg	1HFY12	1HFY11	% chg
TML	**206,434**	**198,405**	***4.0***	**399,661**	**380,116**	***5.1***
M&HCV	54,334	53,435	*1.7*	103,554	98,733	*4.9*
LCV	89,960	65,530	*37.3*	166,751	127,169	*31.1*
Total CV	**144,294**	**118,965**	***21.3***	**270,305**	**225,902**	***19.7***
Utility vehicles	12,003	9,746	*23.2*	22,956	19,541	*17.5*
PC	50,137	69,694	*(28.1)*	106,400	134,673	*(21.0)*
Total PV	**62,140**	**79,440**	***(21.8)***	**129,356**	**154,214**	***(16.1)***
Exports (incl. above)	16,004	14,455	*10.7*	31,078	26,698	*16.4*
ALL*	**24,352**	**24,589**	***(1.0)***	**43,629**	**45,989**	***(5.1)***

*Source: Company; Angel Research; Note: *September volumes are estimated*

During 2QFY2012, TML recorded 21.3% yoy growth in CV volumes on account of impressive growth of 37.3% yoy in the LCV segment, while ALL witnessed a ~1% yoy decline in volumes led by a ~3% yoy fall in the M&HCV goods segment. We expect yoy top-line performance for TML (standalone) and ALL to be driven by realisation growth, led by price increases; however, the bottom line will remain under pressure on account of the expected contraction in operating margins.

Higher discounts fail to revive PV sales; New launches and diesel variants driving growth

Against the backdrop of fuel price hikes and increased interest rates, most buyers have put new vehicle buying plans on hold, thus resulting in a slowdown in demand in the domestic PV segment. As a result, market conditions remained tough, resulting in modest volume growth of 1.9% yoy YTD in FY2012. Noticeably, volumes in the domestic PC segment (~75% of PV sales) registered a decline of 1.3% yoy during the period. The shift in consumer preference for diesel cars due to the relative attractiveness of diesel prices has led to long waiting periods for diesel cars and a decline in sales of petrol cars. Volume growth in the segment continues to be driven by new car launches and diesel variants of available models. We expect the demand scenario to improve slightly in the festival season; however, the complete revival will depend upon how interest rates pan out from here on. However, we remain positive on the long-term demand outlook of the PV sector and estimate the segment to post a 10-12% CAGR over the next two years.

Exhibit 4: Maruti and M&M – Quarterly volumes

Segment	2QFY12	2QFY11	% chg	1HFY12	1HFY11	% chg
Maruti	**252,307**	**313,654**	***(19.6)***	**533,833**	**596,978**	***(10.6)***
Domestic	222,406	277,936	*(20.0)*	473,089	520,823	*(9.2)*
Exports	29,901	35,718	*(16.3)*	60,744	76,155	*(20.2)*
M&M	**178,848**	**137,637**	***29.9***	**340,971**	**269,880**	***26.3***
Automotive-Domestic	114,215	87,444	*30.6*	210,495	165,762	*27.0*
Automotive-Exports	7,239	4,685	*54.5*	12,956	8,460	*53.1*
Tractor-Domestic	54,266	42,287	*28.3*	111,510	90,005	*23.9*
Tractor-Exports	3,128	3,221	*(2.9)*	6,010	5,653	*6.3*

Source: Company; Angel Research

During 2QFY2012, Maruti's volumes declined by 19.6% yoy (10.4% qoq) on account of a general slowdown in the segment and due to labour problems at its Manesar plant, which affected production. As a result, Maruti's market share dropped by almost 450bp yoy to 43.6% in the domestic PC market YTD in FY2012. On the other hand, Toyota and Volkswagen gained market share, driven by the successful launch of *Etios, Liva* and *Vento*. We expect Maruti's market share to remain under pressure, as several new car launches by competitors are in the pipeline.

Two-wheeler sales volume remains strong

During the quarter, two-wheeler volumes continued to witness strong growth traction, as their sales are less dependent on financing. Also, the impact of higher fuel prices is minimal on two-wheeler sales, as these vehicles offer better fuel efficiency. As a result, two-wheelers registered strong 17.7% yoy volume growth YTD in FY2012. Domestic volumes jumped by 15.9% yoy, while exports registered robust 30% yoy growth YTD in FY2012. The scooter and motorcycle segments maintained their strong volume performance, recording growth of 19.4% and 17.6% yoy, respectively.

Exhibit 5: BAL, Hero and TVS – Quarterly volumes

Segment	2QFY12	2QFY11	% chg	1HFY12	1HFY11	% chg
BAL	**1,164,137**	**1,000,548**	***16.3***	**2,256,952**	**1,928,884**	***17.0***
Motorcycles	1,027,357	883,472	*16.3*	1,990,408	1,711,863	*16.3*
Three-wheelers	136,780	117,076	*16.8*	266,544	216,994	*22.8*
Exports (incl. above)	424,134	307,332	*38.0*	851,498	631,231	*34.9*
Hero	**1,544,315**	**1,285,944**	***20.1***	**3,073,892**	**2,519,982**	***22.0***
TVS	**606,267**	**524,954**	***15.5***	**1,142,397**	**988,794**	***15.5***
Motorcycles	241,074	209,006	*15.3*	456,125	409,364	*11.4*
Scooters	158,132	124,356	*27.2*	275,655	219,842	*25.4*
Mopeds	195,168	181,636	*7.5*	387,301	341,833	*13.3*
Three-wheelers	11,893	9,956	*19.5*	23,316	17,755	*31.3*
Exports (incl. above)	83,457	58,460	*42.8*	161,259	112,943	*42.8*

Source:Company, Angel Research

We expect two-wheeler companies to witness top-line growth of 19-28% yoy during 2QFY2012 on the back of sustained volume growth. Hero is expected to lead the pack, as volumes

Automobile

registered strong ~20.1% yoy growth, backed by strong performance in the rural market. Led by superior sales growth, Hero continues to regain its market share, which now stands at 45.9% (44%) vs. 19.6% (20.9%) and 14.6% (15%) for BAL and TVS, respectively. Going ahead, we expect two-wheeler sales to maintain their volume momentum and register a 14-15% CAGR in volumes over the next couple of years.

Auto ancillaries to track the auto sector

The auto ancillaries sector, which derives 70-75% of its revenue from OEMs, has benefitted from strong growth in domestic automobile production in the last two years and is estimated to have grown at a robust rate of 20-25% during the period. The sector's growth has been driven by the domestic OEM segment, which has witnessed a CAGR of ~25% in FY2009-11. Further, exports, which account for ~17% of the auto component industry, are estimated to have grown at a rate of ~15% during the period on the back of recovery in the cars and light trucks segments in the US in CY2010, after a 21% yoy decline in CY2009. The US and European Union are the major export destinations for Indian auto component manufacturers, contributing 60-65% to the sector's export revenue.

Going ahead, we expect the auto component industry to register moderate growth as domestic OEM demand is expected to ease after witnessing strong volume growth over the last two years. However, exports are likely to grow at a healthy rate on revival in the automobile industry across the globe and increased penetration of domestic auto component players in key export markets over the next couple of years. Further, with India emerging as a global automotive manufacturing hub, foreign players are setting up their facilities in the country and this is expected to aid sourcing of components from the country over the long term. Replacement demand in the industry is expected to grow at a steady rate of 8-10%, although the threat of cheaper Chinese imports will remain a major concern for domestic manufacturers.

Companies in the subsegments of the auto components sector (tyres, bearings and batteries), with a larger share of revenue from the replacement and domestic markets, are likely to register strong growth in the next couple of years.

Outlook

Considering the near-term macroeconomic challenges, we expect the auto industry to register moderate volume growth of 12-13% for FY2012. However, we believe low penetration levels coupled with a healthy and sustainable economic environment and favourable demographics supported by increasing per capita income levels will drive long-term growth of the Indian auto industry. As such, we prefer stocks that have strong fundamentals, ability to deliver strong top-line performance and are available at attractive valuations. We continue to prefer companies in the auto sector with a strong pricing power and high exposure to rural and exports markets. Among auto heavyweights, we maintain our positive outlook on Maruti and M&M.

Exhibit 6: Quarterly estimates – Automobile (₹ cr)

Company	CMP	Net Sales		OPM (%)		Net Profit		EPS (₹)		EPS (₹)			P/E (x)			Target	Reco.
	(₹)	2QFY12E	% chg	2QFY12E	chg bp	2QFY12E	% chg	2QFY12E	% chg	FY11	FY12E	FY13E	FY11	FY12E	FY13E	(₹)	
Ashok Leyland	26	3,184	17.3	9.4	(188)	112	(32.9)	0.4	(32.9)	2.4	1.9	2.6	11.0	13.5	10.2	31	Buy
Bajaj Auto	1,534	4,960	18.6	19.4	(127)	776	13.7	26.8	13.7	95.0	105.5	113.3	16.1	14.5	13.5	1,699	Accumulate
Hero^	1,942	5,754	27.5	11.2	(219)	557	10.1	27.9	10.1	92.2	108.4	126.0	21.1	17.9	15.4	-	Neutral
Maruti	1,081	7,531	(15.7)	9.3	(119)	445	(25.7)	15.4	(25.7)	77.9	75.4	90.1	13.9	14.3	12.0	1,172	Accumulate
M&M	803	7,385	39.0	13.5	(295)	832	9.7	14.2	6.5	43.2	46.8	53.3	18.6	17.1	15.1	848	Accumulate
Tata Motors*	156	34,581	21.0	12.2	(170)	1,973	(11.2)	6.2	(20.2)	28.6	27.1	29.1	5.5	5.8	5.4	178	Accumulate
TVS Motor	61	1,943	22.2	6.5	(17)	67	22.7	1.4	22.7	4.3	4.8	5.4	14.1	12.6	11.3	65	Accumulate

*Source: Company, Angel Research; Note: Price as on September 30, 2011, * Consolidated numbers; ^ OPM adjusted for royalty payments*

Exhibit 7: Quarterly estimates – Auto Ancillary (₹ cr)

Company	CMP	Net Sales		OPM (%)		Net Profit		EPS (₹)		EPS (₹)			P/E (x)			Target	Reco.
	(₹)	2QFY12E	% chg	2QFY12E	chg bp	2QFY12E	% chg	2QFY12E	% chg	FY11	FY12E	FY13E	FY11	FY12E	FY13E	(₹)	
Apollo Tyres*	55	2,809	44.1	8.4	(111)	74	39.6	1.5	39.6	8.7	7.6	9.3	6.3	7.3	6.0	74	Buy
Bharat Forge&	268	839	19.8	23.5	(72)	90	31.8	3.9	31.8	12.5	17.1	20.0	21.5	15.7	13.4	301	Accumulate
Bosch#	7,054	2,020	18.3	18.3	(143)	267	13.1	85.1	13.1	273.4	329.4	375.0	25.8	21.4	18.8	7,501	Accumulate
Exide Ind.	129	1,200	6.5	17.3	(444)	140	(15.7)	1.6	(15.7)	7.4	7.6	8.6	17.3	17.0	14.9	150	Buy
FAG Bearings#	1,170	308	14.0	19.0	133	40	27.6	24.1	27.6	73.1	99.6	107.6	16.0	11.7	10.9	1,292	Accumulate
Motherson Sumi*	177	2,203	15.0	8.6	(207)	73	(14.8)	1.9	(14.8)	9.9	9.5	11.5	17.9	18.6	15.3	208	Buy

*Source: Company, Angel Research; Note: Price as on September 30, 2011, * Consolidated numbers; # December year ending; & Full year EPS is consolidated*

Analyst - Yaresh Kothari

Banking

Banking stocks continued with their poor run in 2QFY2012. Most banks reported higher slippages (~44bp average qoq rise in slippage ratio) and contraction in NIMs (~21bp average qoq drop in reported NIMs) during 1QFY2012 results. Concerns on asset quality continued to remain an overhang on banking stock prices along with the expected moderation in credit growth as the RBI maintained its hawkish stance on curbing inflation. The RBI, in its 1QFY2012 review of the monetary policy, surprised with a 50bp increase (Bloomberg consensus of 25bp) in the repo rate, leading to the Bankex correcting by ~20% in August 2011. The Bankex traded range bound in September 2011, as an increase of 25bp in the mid-quarter monetary policy was more or less factored in by the markets.

By the end of the quarter, the Bankex was down by 15.4% sequentially, underperforming the Sensex marginally by 2.7%. Within our coverage universe, only Indian Bank managed to give positive returns albeit marginal.

Exhibit 1: 2QFY2012 stock performance

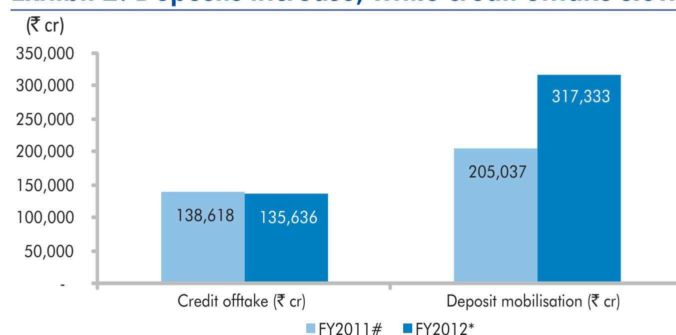
(%)	Returns (qoq)	Returns (yoy)
Indian Bank	0.2	(23.8)
J & K Bank	(4.8)	(0.7)
HDFC Bank	(6.6)	(5.8)
South Ind.Bank	(7.3)	(7.1)
Andhra Bank	(7.7)	(22.5)
HDFC	(9.2)	(12.4)
Oriental Bank	(10.9)	(36.3)
Syndicate Bank	(11.6)	(9.4)
Punjab Natl.Bank	(12.0)	(25.8)
Bank of Baroda	(12.4)	(12.5)
Yes Bank	(12.6)	(22.5)
Sensex	**(12.7)**	**(18.0)**
LIC Housing Finance	(12.8)	(26.6)
Dena Bank	(14.1)	(26.8)
Bankex	**(15.4)**	**(22.6)**
Union Bank	(16.0)	(36.6)
Canara Bank	(16.1)	(24.5)
Central Bank	(17.5)	(37.9)
Bank of Maharashtra	(18.2)	(34.5)
Federal Bank	(19.0)	(6.5)
Corporation Bank	(19.6)	(39.0)
Allahabad Bank	(19.8)	(31.7)
ICICI Bank	(19.9)	(21.2)
St Bk of India	(20.6)	(40.9)
Axis Bank	(20.8)	(33.3)
Vijaya Bank	(21.6)	(33.1)
United Bank	(23.2)	(36.7)
Bank of India	(23.7)	(38.8)
IDBI Bank	(24.5)	(32.6)
UCO Bank	(31.2)	(41.7)
Indian Overseas Bank	(36.9)	(29.9)

Source: Bloomberg, Angel Research

Liquidity remains comfortable as deposit growth stays strong

The credit growth (as of Sep 09, 2011) stood at 20.42% yoy, while the deposit growth (as of Sep 09, 2011) stood at 17.54% yoy. Credit growth trends for SCBs remained moderate, with incremental credit in FY2012 YTD remaining at broadly the same levels as in FY2011 YTD. At the same time, deposit mobilisation picked up (incremental YTD deposits up over 54.8% yoy) due to the effect of higher interest rates. Incremental CD ratio in FY2012 YTD (up to Sep 09, 2011) declined to 42.7% from 67.6% in FY2011 YTD. Consequently, systemic liquidity conditions improved, with LAF borrowings averaging ~₹45,000cr in FY2012 YTD vs. ~₹67,000cr in 2HFY2011.

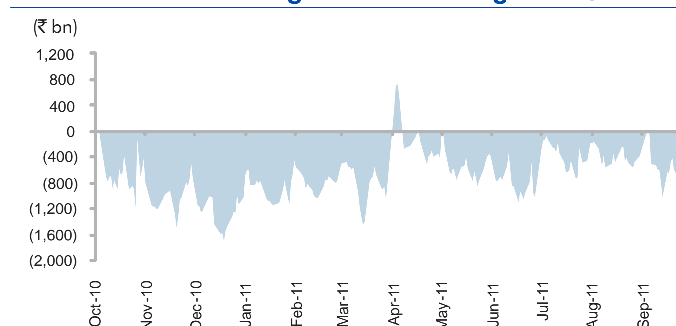
Exhibit 2: Deposits increase, while credit offtake slows



*Source: RBI, Angel Research; Note: #Between March 26, 2010 and September 10, 2010, * Between March 25, 2011 and September 09, 2011*

Considering the improvement in systemic liquidity (moderation in credit offtake and a substantial rise in deposit mobilisation), we do not expect deposit rates to increase materially from the current levels. In fact, over the past six months, there have not been meaningful hikes in deposit rates and the impact of the past increases has largely flown through bank P&Ls. Hence, unlike six months back, when deposit and lending rates were also increasing due to extremely tight liquidity conditions, now the only upward pressure on broader lending rates is from the monetary policy side, which too we believe is close to the peak.

Exhibit 3: Lower average LAF borrowings in 2QFY2012



Source: RBI, Angel Research

While most large banks chose not to raise their deposit rates over the past quarter, smaller banks increased them by 15-50bp. On the advances side, the increment in lending rates was more uniform, with most banks increasing their base rates

Banking

Exhibit 4: 1QFY2012 and 2QFY2012 – Lending and deposit rates

Bank	Avg. Base rates			BPLR rates			FD rates		
	1QFY12	2QFY12	*BP change*	1QFY12	2QFY12	*BP change*	1QFY12	2QFY12	*BP change*
South Indian Bank	9.40	10.32	*92*	18.50	19.00	*50*	9.75	9.75	-
St. Bank of India	8.85	9.74	*89*	14.00	14.75	*75*	9.25	9.25	-
Corporation Bank	9.65	10.52	*87*	13.85	15.00	*115*	9.30	9.50	*20*
Indian Overseas Bank	9.81	10.58	*77*	14.25	15.00	*75*	9.25	9.25	-
Canara Bank	9.81	10.58	*77*	14.25	15.00	*75*	9.25	9.25	-
Andhra Bank	9.79	10.55	*76*	14.25	15.00	*75*	9.25	9.40	*15*
Syndicate Bank	9.81	10.57	*76*	14.25	15.00	*75*	9.35	9.35	-
Dena Bank	9.76	10.52	*76*	15.00	15.75	*75*	9.25	9.60	*35*
Bank of Baroda	9.81	10.55	*74*	14.25	15.00	*75*	9.00	9.35	*35*
Oriental Bank	9.81	10.55	*74*	14.25	15.00	*75*	9.25	9.75	*50*
Allahabad Bank	9.81	10.54	*74*	14.25	15.00	*75*	9.00	9.50	*50*
Indian Bank	9.81	10.55	*74*	14.25	15.00	*75*	9.25	9.25	-
HDFC Bank	9.00	9.74	*73*	17.75	18.50	*75*	9.25	9.25	-
Vijaya Bank	9.81	10.54	*73*	14.25	15.00	*75*	9.35	9.35	-
Bank of India	9.81	10.53	*72*	14.25	15.00	*75*	9.25	9.25	-
Union Bank	9.80	10.52	*71*	14.25	15.00	*75*	9.25	9.25	-
Central Bank	9.79	10.50	*71*	14.25	15.00	*75*	9.25	9.40	*15*
ICICI Bank	9.05	9.76	*71*	18.00	18.75	*75*	9.25	9.25	-
IDBI Bank	9.81	10.50	*68*	14.50	15.25	*75*	9.50	9.50	-
Punjab Natl. Bank	9.81	10.50	*68*	13.50	14.25	*75*	9.15	9.40	*25*
UCO Bank	9.81	10.50	*68*	14.25	15.00	*75*	9.00	9.50	*50*
Axis Bank	9.64	10.32	*68*	17.25	17.75	*50*	9.25	9.25	-
United Bank	9.79	10.44	*65*	14.25	14.85	*60*	8.75	9.25	*50*
Federal Bank	9.54	10.16	*62*	16.50	17.25	*75*	9.50	9.90	*40*
Bank of Maha	9.81	10.37	*56*	14.25	15.00	*75*	8.30	9.35	*105*
Yes Bank	9.50	10.05	*55*	19.00	19.75	*75*	9.35	9.60	*25*
J&K Bank	9.66	9.92	*25*	14.00	14.50	*50*	9.00	9.50	*50*

Source: Company, Angel Research

by 50-75bp during the quarter. Amongst banks under our coverage, South Indian Bank had the highest average base rate change (92bp), followed by State Bank of India (89bp) and Corporation Bank (87bp). Overall, we expect large private banks to post 14.3% yoy growth in net interest income, while PSU banks are expected to register 8.9% yoy growth (4.2% yoy growth excluding SBI). On the net profit front, private banks are expected to report healthy 23.0% yoy growth, while PSU banks are likely to post a weak 0.7% yoy growth (de-growth of 2.5% yoy excluding SBI).

PSU banks could surprise negatively in 2QFY2012 on the asset-quality front

Most PSU banks have witnessed an increase in their NPA ratios over the past two quarters due to the effect of part-migration to system-based NPA recognition. In fact, 16 out of the 21 PSUs under our coverage reported higher slippage ratio for 1QFY2012 compared to 4QFY2011. We expect further rise in slippages in 2QFY2012 (which is the mandated timeline for the full switchover), as most PSU banks are left with transition of smaller accounts (below ₹25lakh-50lakh, including agriculture accounts). On the contrary, private banks, which have sharply improved their asset quality over the past two years, continue to be comfortable on the asset-quality front.

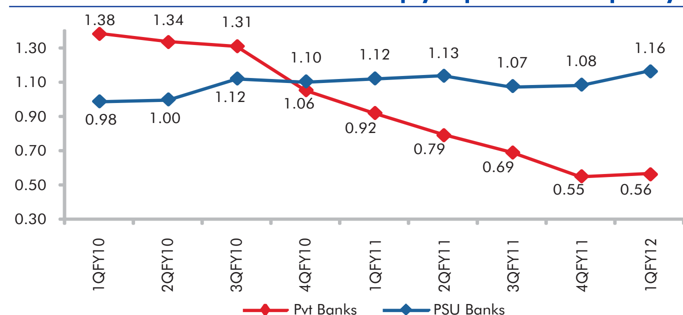
Exhibit 5: Switchover to system based NPA recognition

Bank	Status as on 30-Jun-11
Bank of Baroda	Fully done
Bank of Maha	Fully done
Corporation Bank	Fully done
IDBI Bank	Fully done
Indian Bank	Fully done
J&K Bank	Fully done
St Bk of India	Fully done
Vijaya Bank	Fully done
Canara Bank	Above ₹2lakhs
Bank of India	Above ₹5lakhs
Union Bank	Above ₹5lakhs
United Bank	Above ₹5lakhs
Oriental Bank	Above ₹10lakhs
Punjab Natl.Bank	Above ₹10lakhs
Andhra Bank	Above ₹25lakhs
Syndicate Bank	Above ₹25lakhs
Allahabad Bank	Above ₹50lakhs
Dena Bank	Above ₹50lakhs
Indian Overseas Bank	Above ₹50lakhs
UCO Bank	Above ₹50lakhs
Central Bank	Nothing till now

Source: Company, Angel Research

Banking

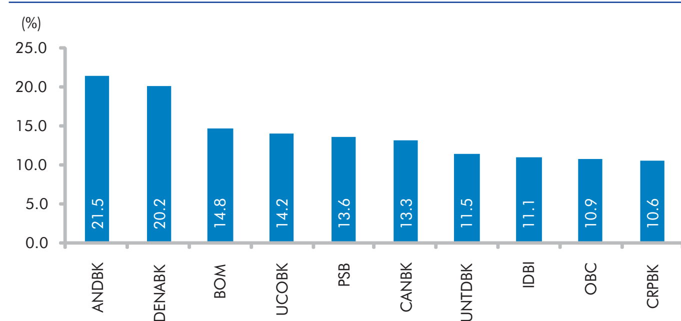
Exhibit 6: Pvt. banks continue to enjoy superior asset quality*



Source: Company, Angel Research; Note: Aggregate net NPA ratio*

Although, we believe lending rates are close to peak levels, any further lending rate hikes are expected to increase asset-quality risks for the whole banking sector. We remain apprehensive on banks having a high exposure to infrastructure, in particular to the power sector. While the scenario pertaining to the health of state electricity boards seems to be improving with the increase in power tariffs doing the rounds, banks with higher exposure include Andhra Bank and Dena Bank, which have more than 20% of their total funded exposure to the power sector, much above the ~5% average exposure for the banking sector. Origination of some chunky NPAs or large restructuring in the books of these banks cannot be ruled out.

Exhibit 7: Exposure to the power sector* as of FY2011



*Source: Company, Angel Research; Note: * As a % of total funded exposure*

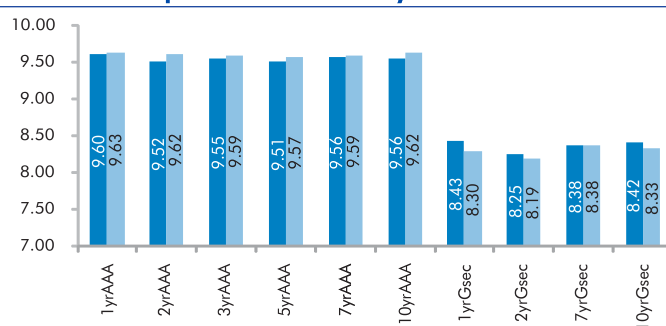
Hence, overall we prefer banks with a more conservative asset-quality profile, especially amongst mid caps (i.e., relatively lower yield on advances and switchover to system-based recognition system nearly complete) – this includes banks such as Syndicate Bank, Bank of Maharashtra and United Bank of India.

Bond yields remained firm throughout 2QFY2012

The 10-year G-sec yields traded firmly in a narrow band (8.20-8.46%) throughout 2QFY2012, as inflationary expectations and the hawkish stance of the RBI to curb the same continued to dominate sentiments in the bond market. 2QFY2012 saw two rate hikes with a cumulative increase of 75bp in policy rates. On July 26, 2011, the RBI raised the policy rates by 50bp, which led to a sharp run-up in G-sec bond yields (from 8.29% to 8.43%) by 14bp in a single day. The second rate hike of 25bp seemed to be more factored in by the bond market, with the run-up in yields preceding the rate hike.

Hardening of bond yields despite higher deposit mobilisation (leading to higher SLR investments) witnessed during the quarter (17.5% as of September 09, 2011) also indicated higher demand for funds from the government's side. With yields having hardened by ~9bp on an average in 2QFY2012 over the past quarter, we expect banks carrying a high modified duration investment book to report some MTM losses in 2QFY2012 results.

Exhibit 8: Corp. and G-Sec bond yields rise in 2QFY2012



Source: Bloomberg, Angel Research

Exhibit 9: AFS modified duration as of 1QFY2012

Bank	AFS (₹ cr)	AFS (%)	AFS Mod. Dur. (yrs)
Dena Bank*	2,897	14.6	3.97
Oriental Bank	14,860	33.0	3.64
Bank of Maharashtra#	4,116	18.0	3.33
St Bk of India	72,000	24.5	3.15
Syndicate Bank	3,750	11.0	3.15
Axis Bank	25,213	33.5	3.01
Canara Bank	25,355	29.5	2.67
Allahabad Bank*	13,835	30.3	2.67
Punjab Natl.Bank	22,212	22.0	2.64
Bank of Baroda*	10,390	13.0	2.50
Indian Overseas Bank	15,116	29.5	2.19
Indian Bank#	11,000	29.6	1.69
Federal Bank*	2,658	22.1	1.60
Union Bank	10,264	17.1	1.59
Andhra Bank	2,169	8.6	1.09
J & K Bank	6,028	33.2	0.97
Bank of India	31,530	37.3	0.62
South Ind.Bank*	1,771	20.9	0.39

Source: Company, Angel Research; Note: AFS + HFT Mod duration,*
 # Latest available data

Banking

Regulatory developments during the quarter

RBI releases draft guidelines on new banking licenses

The RBI, on August 29, 2011, released its much-awaited draft guidelines on new banking licenses in the private sector. At the time the discussion paper had been released, we had taken the view that diversified shareholding could be used as one of the criteria by the RBI to issue banking licenses. In-line with this view, diversified ownership has been listed as one of the pre-requisites for applicants in the current guidelines, but the term has not been clearly defined, leaving some ambiguity about the eligible players. In our view, if diversified shareholding was to be interpreted as not more than 26% promoter shareholding, then amongst large, reputed corporates (with deep enough pockets to promote a bank) that have also expressed interest in applying for a license, L&T group appears to be one of the few logical contenders.

RBI releases report of the working group on the NBFC sector

The RBI has proposed new regulations for NBFCs, mostly centered on minimising regulatory arbitrage opportunities available to NBFCs as compared to banks. One of the major changes proposed by the RBI is bringing capital adequacy requirements and asset classification and provisioning norms for NBFCs in-line with the banks. The proposed recommendations if implemented will increase the NPA book and provisioning requirements for NBFCs. Also, although most larger NBFCs currently have tier-1 CAR more than 12%, however if 12% becomes the minimum norm, it can be expected that most NBFCs would look to maintain at least 13-15% to be comfortable on the capital adequacy front, hence reducing the outlook for their sustainable leverage and RoE potential.

HFCs face tighter regulations as NHB raises provisioning requirements

The National Housing Bank (NHB) has increased the provisioning requirements for housing finance companies (HFCs). The new norms are expected to be implemented in a phased manner. Earlier HFCs only had to provide 0.4% provisions on total outstanding amount of non-housing loans. According to the new norms, the standard asset provisioning of 0.4% has been extended to housing loans also, which comprise majority of the loan book for HFCs. The new provisioning requirements are in-line with what the RBI has in place for the banking sector and is expected to hit the profitability of all HFCs. While HDFC would be expected to provide for ~₹500cr of standard asset provisioning in FY2012, LIC Housing Finance (LICHF) would be expected to provide ~₹200cr for standard asset provisioning in FY2012. However, both HDFC and LICHF have extra provisions that are expected to minimise the overall impact.

Outlook on inflation and policy rates

Looking at the remaining pass-through of oil and electricity prices, we expect WPI inflation to remain sticky above 9% levels at least until December 2011, which is likely to force the RBI to persevere with its hawkish stance to anchor inflationary expectations. Hence, taking into account our forecasted inflation trajectory and the RBI's unequivocal guidance (that in the near term, unless inflation actually shows a clear declining trend, its stance will not change), we do not rule out further rate hikes up to January 2012.

However, from January 2012, we believe inflation is likely to start trending downwards, barring any major negative surprises on the global commodity price front. In fact, rising global growth concerns and declining fiscal stimulus measures in developed economies are likely to keep commodity and energy prices in check in the short term. Moreover, in our view, annualised inflation in manufactured products is showing signs of cooling (5.2% in August, 4.2% on a three-month annualised basis) - an indication that demand-side pressures are not at runaway levels.

Hence, from January 2012 at the latest, we see a meaningful case for the RBI to take a pause, especially considering the signs of slowdown on the domestic growth front, evident from slowing GDP growth rates, tepid IIP growth, moderating trend in PMI, declining vehicle sales, flat cement dispatches and expected moderation in export growth.

Outlook and valuation

To overcome liquidity concerns and high inflation, the RBI has increased the key policy rates by 350bp over the past 15 months, which in turn has resulted in bankers raising their deposit rates by ~250bp over the same period. As most of these deposit rate hikes were undertaken by banks during 2HFY2011 (~215bp), upward deposit repricing is likely to be nearly over for most banks. Hence, we expect relatively lesser contraction in NIMs going forward (average NIM contraction of 21bp in 1QFY2012).

Also, with deposit mobilisation gaining traction over the past six months, liquidity conditions have improved immensely. Hence, unlike six months ago, when tight liquidity conditions were a major factor in pushing up lending rates, at present we

Banking

see the upward bias to lending rates arising only from the monetary policy front, which too we believe is close to peak levels.

However, we believe the key parameter monitorable over the next few quarters would be the asset quality. While the leftover pain of switchover to system-based NPA recognition for PSU banks is expected to be over in 2QFY2012 (unless there is an extension by the RBI for some accounts), we remain wary of the incremental asset-quality pressures that could arise due to the increase in lending rate hikes over the past one year. Hence, we prefer banks with a more conservative asset-quality profile, especially amongst mid caps (i.e., relatively lower yield on advances and switchover to system-based recognition system nearly complete) - this includes banks such as Syndicate Bank, Bank of Maharashtra and United Bank of India. Also, from a medium-term perspective, we continue to prefer large private banks with a strong structural investment case (within which we prefer Axis Bank and ICICI Bank from a valuation perspective).

Exhibit 10: PSU banks price band (P/ABV)*

Source:C-line, Angel Research, Note: For PSU banks , excl. SBI and IDBI*

Exhibit 11: Large Pvt. banks price band (P/ABV)

Source:C-line, Angel Research

Exhibit 12: Quarterly estimates (₹ cr)

Company	CMP	Operating Income		Net Profit		EPS (₹)			Adj BVPS (₹)			P/E (x)			P/ABV (x)			Target	Reco.
	(₹)	2QFY12E	% chg	2QFY12E	% chg	FY11	FY12E	FY13E	FY11	FY12E	FY13E	FY11	FY12E	FY13E	FY11	FY12E	FY13E	(₹)	
AXSB	1,021	2,907	9.8	886	20.5	82.5	96.0	119.6	462.5	528.1	619.8	12.4	10.6	8.5	2.2	1.9	1.6	1,426	Buy
FEDBK	367	589	1.1	158	12.6	34.3	39.0	48.1	298.3	329.2	366.8	10.7	9.4	7.6	1.2	1.1	1.0	422	Accum.
HDFCBK	467	4,154	19.1	1,188	30.3	16.9	21.9	28.2	109.1	126.0	147.8	27.7	21.4	16.5	4.3	3.7	3.2	517	Accum.
ICICIBK	875	4,248	12.3	1,473	19.1	44.7	54.3	68.9	478.3	508.8	547.7	19.6	16.1	12.7	1.8	1.7	1.6	1,146	Buy
SIB	22	259	6.9	83	7.7	2.6	3.0	3.1	15.0	17.3	19.7	8.6	7.5	7.2	1.5	1.3	1.1	24	Accum.
YESBK	273	552	24.2	216	22.7	20.9	25.7	29.6	109.3	131.5	156.5	13.0	10.6	9.2	2.5	2.1	1.7	321	Buy
ALLBK	158	1,480	12.7	363	(9.9)	29.9	33.1	35.4	160.5	185.0	210.6	5.3	4.8	4.5	1.0	0.9	0.7	174	Accum.
ANDHBK	124	1,087	11.6	293	(3.3)	22.6	22.5	22.2	116.0	132.7	148.4	5.5	5.5	5.6	1.1	0.9	0.8	-	Neutral
BOB	764	3,020	11.0	1,088	6.8	108.0	116.1	132.1	534.4	623.9	725.7	7.1	6.6	5.8	1.4	1.2	1.1	943	Buy
BOI	316	2,550	8.0	625	1.4	45.5	47.7	60.4	287.1	309.3	361.8	6.9	6.6	5.2	1.1	1.0	0.9	371	Buy
BOM	46	681	17.6	81	55.3	6.2	8.6	10.7	57.3	67.8	76.2	7.5	5.4	4.3	0.8	0.7	0.6	57	Buy
CANBK	444	2,487	(6.4)	866	(14.1)	90.9	79.0	85.8	401.1	452.9	514.8	4.9	5.6	5.2	1.1	1.0	0.9	-	Neutral
CENTBK	102	1,608	1.0	205	(46.0)	27.7	15.5	20.3	126.4	126.8	141.7	3.7	6.6	5.1	0.8	0.8	0.7	-	Neutral
CRPBK	422	1,020	8.4	349	(0.8)	95.4	95.1	99.8	481.5	554.9	630.9	4.4	4.4	4.2	0.9	0.8	0.7	489	Buy
DENABK	78	578	(1.1)	100	(37.6)	18.3	16.5	20.5	103.5	118.0	135.0	4.2	4.7	3.8	0.8	0.7	0.6	-	Neutral
IDBI	103	1,633	(1.6)	413	(3.7)	16.8	16.9	20.8	128.5	141.5	157.7	6.1	6.1	4.9	0.8	0.7	0.7	-	Neutral
INDBK	213	1,303	2.8	421	1.2	38.8	38.2	39.0	184.4	213.9	244.2	5.5	5.6	5.5	1.2	1.0	0.9	-	Neutral
IOB	93	1,526	24.0	235	14.0	17.3	20.9	25.1	128.4	142.9	160.8	5.3	4.4	3.7	0.7	0.6	0.6	104	Accum.
J&KBK	801	501	12.0	177	8.5	126.9	142.6	144.4	717.4	826.3	937.0	6.3	5.6	5.5	1.1	1.0	0.9	843	Accum.
OBC	292	1,281	(0.8)	324	(18.5)	51.5	48.2	57.2	350.0	388.3	433.4	5.7	6.1	5.1	0.8	0.8	0.7	325	Accum.
PNB	952	4,100	11.0	1,033	(3.9)	139.9	138.9	160.7	628.1	738.7	868.1	6.8	6.9	5.9	1.5	1.3	1.1	1,129	Buy
SBI	1,911	13,557	11.9	2,769	10.7	130.1	190.3	260.0	967.6	1,114.8	1,317.5	14.7	10.0	7.3	2.0	1.7	1.5	2,403	Buy
SYNBK	104	1,304	(2.6)	241	1.8	18.3	18.8	21.8	116.1	130.3	146.8	5.7	5.5	4.8	0.9	0.8	0.7	125	Buy
UCOBK	66	1,044	(15.2)	190	59.3	12.6	13.1	16.3	67.6	76.1	82.5	5.2	5.0	4.0	1.0	0.9	0.8	-	Neutral
UNBK	246	2,062	0.8	488	60.9	32.7	41.9	47.6	169.5	236.5	272.7	7.5	5.9	5.2	1.5	1.0	0.9	286	Buy
UTDBK	74	691	2.0	110	0.2	13.3	14.1	16.6	101.2	110.2	120.8	5.6	5.3	4.5	0.7	0.7	0.6	91	Buy
VIJAYA	55	554	(8.4)	94	(34.9)	3.5	6.0	8.2	32.3	68.3	73.3	15.5	9.2	6.7	1.7	0.8	0.7	-	Neutral
HDFC	639	1,476	17.8	932	15.4	24.1	27.2	31.0	118.1	128.7	158.6	26.5	23.5	20.7	5.4	5.0	4.0	-	Neutral
LICHF	211	450	21.8	273	16.5	20.5	23.7	28.8	87.8	106.8	129.9	10.3	8.9	7.3	2.4	2.0	1.6	-	Neutral

Source: Company, Angel Research; Note: Price as on September 30, 2011

Analyst - Vaibhav Agrawal/Shrinivas Bhutda/Varun Varma

Capital Goods

Trembling in choppy waters...

We expect companies in the capital goods (CG) universe to post decent cumulative top-line growth of 13.4%. However, on the bottom-line front, there is a mixed picture, with most companies in our coverage universe posting subdued numbers mainly on account of margin pressure and, in some cases, due to higher interest cost.

ABB India (CMP/TP: ₹693/578) (Rating: Sell)

ABB India (ABB) is expected to post a mixed set of numbers for 3QCY2011. We expect top-line growth of 14.0% yoy to ₹1,538cr, driven by the power systems and process automation segments. The power products segment, which contributes ~25% to the overall revenue, is expected to witness muted growth amid delayed offtake of power products. EBITDA margin is likely witness a huge uptick of 344bp yoy to 6.0% (3QCY2010 margins were marred by higher provisioning on account of RE projects). Notably, despite the absence of provisioning, increased cost pressures are expected to weigh heavily on margins and we do not expect a major revival in the same. Nonetheless, the bottom line is expected to jump nearly by 290% yoy to ₹44.8cr on account of low base.

Areva T&D (CMP/TP: ₹218/-) (Rating: Neutral)

For 3QCY2011, Areva T&D is expected to post moderate top-line growth of 10.1% yoy to ₹1,153cr mainly on account of high base (Areva in 3QCY2010 posted 39.5% yoy growth). Further, the delay in large projects is likely to keep revenue growth under check. Lower volumes and pricing pressure in the T&D segment are expected to dent the company's EBITDA margin by ~470bp yoy to 8.0%. Against this backdrop, the bottom line is expected to decline by 43.9% yoy to ₹35.3cr.

BHEL (CMP/TP: ₹1,637/-) (Rating: Neutral)

We expect BHEL to post top-line growth of 19.3% yoy to ₹10,129cr for 2QFY2012. This growth is on the back of its strong order book of ~₹1.6tn, which provides robust revenue visibility for the next couple of years. On the EBITDA front, BHEL's margin is expected to remain stable at 18.5%. The bottom line is expected to post decent growth of 13.9% yoy to ₹1,301cr.

BGR Energy (CMP/TP: ₹322/-) (Rating: Neutral)

For 2QFY2012, BGR Energy's (BGR) top line is expected to be under pressure, as was the case in the first quarter, due to high base created in 1HFY2011 and dry spell of order booking over the last few quarters. The top line is expected to decline by 9.9% yoy to ₹1,023cr. EBITDA margin is expected to be flat at 11.8%. Also, increased interest cost (owing to hike in interest rates and enhanced working capital debt levels) is likely to drag the bottom line further and post a decline of 14.1% to ₹66.8cr.

Crompton Greaves (CMP/TP: ₹152/-) (Rating: Neutral)

For 2QFY2012, Crompton Greaves is expected to report muted top-line growth of 6.0% yoy to ₹2,542cr, which can be mainly attributed to the power system segment, which has remained a drag since the past few quarters. Poor capex cycle as well as strained consumer sentiment is also likely to affect the companies' growth. On the EBITDA front, margins across all segments are expected to come under pressure - steep contraction of ~490bp yoy to 9% (in-line with management's guidance), seems probable amid high input costs and pricing pressures. Coupled with a two-fold rise in interest cost, PAT is expected to decline by whopping 45.8% yoy to ₹115.8cr.

Jyoti Structures (CMP/TP: ₹67/100) (Rating: Buy)

For 2QFY2012, we expect Jyoti Structures to report decent top-line growth of 14.0% yoy to ₹618.3cr. EBITDA margin is expected to hover around 11.1%. Despite the NCD issue, interest cost is expected to remain at elevated levels, resulting in flat bottom-line growth. PAT is expected to come in at ₹25.2cr.

KEC International (CMP/TP: ₹60/107) (Rating: Buy)

For 2QFY2012, KEC International (KEC) is expected to register strong growth of 17.0% yoy to ₹1,171cr on the back of strong execution of its robust order book. On the EBITDA front, the company's margin is expected to remain under pressure due to contribution of low-margin businesses (railways, cables and telecom); however, increased contribution from SAE Towers is likely to ensure that margins remain flat at 10.2%. Nonetheless, high interest cost is expected to shadow some of the gains and the bottom line is expected to grow by 14.0% yoy to ₹48.7cr.

Thermax (CMP/TP: ₹441/-) (Rating: Neutral)

We expect subdued revenue growth of 7.0% yoy to ₹1,168cr, mainly due to high base effect of the 2QFY2011. The company's EBITDA margin is likely to compress by 68bp yoy due to higher execution of lower-margin EPC contracts. Combination of subdued revenue growth and margin contraction is expected to result in PAT of ₹89.5cr.

CG Index - Despair continues...

During 2QFY2012, the CG Index posted lacklustre performance, losing 22.7% compared to the Sensex losing 12.7%. With global markets going downhill on the back of concerns in the US and Europe, domestic bourses were also pinched and, thus, retreated considerably. Further, unfavourable domestic climate depicted a bleak outlook for the CG sector (lower-than-expected industrial capex). Hence, the appetite across the investor class for CG stocks weakened significantly.

Capital Goods

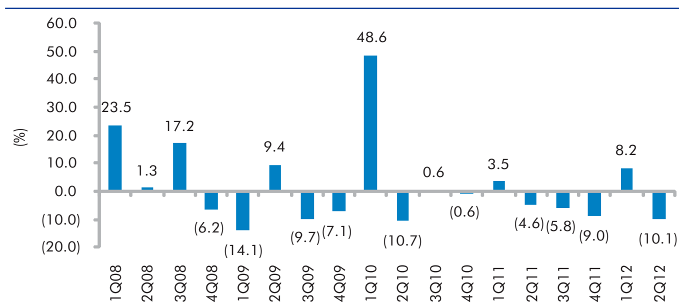
IIP Capital Goods numbers also reported substantial volatility (down 15.2% yoy in July 2011 vs. 38.2% yoy growth in June 2011). Overall, the CG sector displayed extreme weakness.

Exhibit 1: 2QFY2012 – Sensex vs. CG stocks

	Abs. Returns (%)	Relative to Sensex (%)
BSE Sensex	(12.7)	NA
BSE CG Index	(22.7)	(10.1)
ABB	(21.0)	(8.3)
Areva T&D	(15.2)	(2.5)
BHEL	(20.0)	(7.3)
BGR Energy Sys.	(28.4)	(15.7)
Crompton Greaves	(41.4)	(28.7)
Jyoti Structures	(21.0)	(8.3)
K E C Intl.	(24.7)	(12.0)
Thermax	(25.7)	(13.0)

Source: C-line, Angel Research

Exhibit 2: CG index – Relative returns to the Sensex



Source: C-line, Angel Research

During the quarter, all companies in our CG universe performed miserably mainly due to ongoing concerns in the power sector and unfavourable macro climate. Crompton Greaves and BGR emerged as the major losers, nosediving 41.4% and 28.4% in absolute terms and underperforming the Sensex by 28.7% and 15.7%, respectively. BGR posted a decent recovery post the NTPC bulk tender order win; however, it failed to sustain the momentum as concerns still loom on its near-to-medium term growth trajectory. BHEL also witnessed a downward pressure, losing 20%. The proposed FPO also remained as an overhang on the stock. Rest of the companies in our universe lost 15-26% during the quarter.

We believe the challenges outlined in the power sector (such as inadequate coal supplies and land acquisition issues) will continue to drag down the performance of companies in our CG universe.

Key developments during the quarter

NTPC bulk tender details; Doosan and BGR throw surprises

The release of the much-awaited NTPC bulk tenders (900x8MW boilers and turbine generators) was the only silver lining in the otherwise dull ordering environment in the power sector. Doosan Heavy Industries (Korea) and BGR emerged as L1 bidders for boilers and turbine generator (TG) sets, respectively, each securing 5X800MW orders. BHEL emerged as L2 due to preferential treatment, outplaying L&T-MHI, which was L2 for both boiler and TG sets. The bid price stood at ₹1.6cr/MW and ₹1.01cr/MW* for boilers and TG sets, respectively. BGR pocketed orders worth ~₹3,600cr – coming in at a time when the company is desperately in need of big orders to lend revenue visibility to its manufacturing JV. BHEL and L&T pocketed orders worth ₹6,700cr and ₹1,600cr, respectively.

*(*The quote for the TG set is the NTPC evaluated price (adjusted for heat rate and auxiliary consumption). The actual quote of the company stood at ₹0.9cr/MW.)*

What lies ahead?

BTG industry set for lower realisations

Pricing for the recent NTPC TG bulk tender (realisation of ~₹0.9cr/MW) appeared quite aggressive when compared to the average realisation of about ₹1.25cr/MW of the previous bulk tender of NTPC (11X660MW TG), which was won by Bharat Forge-Alstom JV. We believe such aggressive pricing may soon be a yardstick for all future BTG orders. This can be indicated from the fact that BGR's management is receiving inquiries from state utility players to supply TG sets at the above quote.

Competition to intensify from here

With domestic players all set to house manufacturing facilities through JVs with foreign players, the BTG equipment market will shortly have new incumbents (six players) versus the previous monopoly held by BHEL in the power equipment market. NTPC bulk tender opened up the floor that displayed competitiveness as well as readiness among players to bag orders. With fewer-than-expected equipment ordering in the near-to-medium term due to concerns in the power sector, cut-throat competition is imminent.

What it means for BHEL?

BHEL enjoyed preferential treatment, getting placed as L2 for boilers as well as TG. Having needed to match the L1 price, BHEL's own track record of earning superior margins on similar kind of orders in the past seems doubtful on these orders. Further, considering the aforementioned factors, pricing pressure is unavoidable given the overcapacity scenario and limited order pipeline for the near-to-medium term. Hence, we believe competition is here to stay and BHEL will find it extremely difficult to maintain its superior margins and market share in the long run. **Hence, we are Neutral on companies in the BTG space.**

Capital Goods

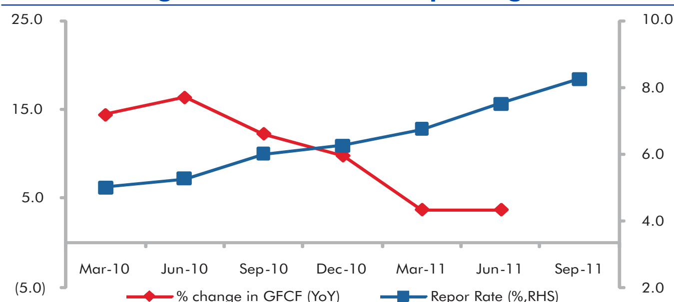
Outlook and valuation

Order inflows drying up…

Barring the recent NTPC bulk tender, which was long overdue, the overall motion in the power sector seems to have paused considerably mainly on account numerous headwinds faced by the sector (including inadequate coal supplies, issues of land acquisitions and surmounting losses at SEB levels). These challenges have negatively impacted the T&D space as well. Hence, PGCIL's capex plans (on which most T&D players rely upon) face a downward risk. We estimate a capex of ~₹12,000cr for FY2012 (vs. PGCIL's target of ₹17,700cr).

…In addition to unfavourable macro environment: Elevated interest rates remain a cause of concern, given the cascading impact on industrial capex (lower capacity additions) and, thereby, demand for capital goods. Investment capex in core industries and rate of capital formation have slowed down amid high cost of capital and subdued demand. Muted demand in terms of lower inflows will post concerns over the growth trajectory of the companies in our universe. Given unabated inflation, further hikes cannot be ruled out; however, in our view, both inflation and interest rates are close to peak levels and are likely to see some respite from 4QFY2012.

Exhibit 3: Higher interest rates impacting GFCF



Source: RBI, CSO, Angel Research

…Therefore, the outlook remains depressed: To sum up, the gloomy picture is same for market leaders (read BHEL, ABB and CG, among others) as well as mid-size companies (such as Jyoti Structures, KEC and BGR). Against this backdrop, we believe, in 2QFY2012, order booking of companies in our universe is likely to witness a downward drift. Further, given no respite in sight from these macro headwinds, we expect the slowdown to continue for the next few quarters. Hence, companies catering to the power sector will witness a high degree of discomfort unless the core concerns soothe.

Valuations: All companies in our CG universe have corrected sharply, justified by concerns brewing in the power sector. On the back of this backdrop, we prefer companies with strong growth visibility and diversified revenue streams. **We follow a stock-specific approach, with Jyoti Structures and KEC being among our preferred picks. In the BTG space, we continue to maintain our negative stance, owing to concerns of heightened competition and slowdown in order inflows.**

Exhibit 4: Quarterly estimates (₹ cr)

Company	CMP	Net Sales		OPM (%)		Net Profit		EPS (₹)		EPS (₹)			P/E (x)			Target	Reco.
	(₹)	2QFY12E	*% chg*	2QFY12E	*chg bp*	2QFY12E	*% chg*	2QFY12E	*% chg*	FY11	FY12E	FY13E	FY11	FY12E	FY13E	(₹)	
ABB*	693	1,538	*14.0*	6.0	*344*	44.8	*288.9*	2.1	*288.9*	3.0	14.7	21.4	232.1	47.2	32.4	578	Sell
Areva*	218	1,153	*10.1*	8.0	*(471)*	35.3	*(43.9)*	1.5	*(43.9)*	7.8	8.0	11.4	27.9	27.1	19.2	-	Neutral
BHEL	1,637	10,129	*19.3*	18.5	*(73)*	1,301	*13.9*	26.6	*13.9*	123.7	140.8	159.9	13.2	11.6	10.2	-	Neutral
BGR	322	1,023	*(9.9)*	11.8	*15*	66.8	*(14.1)*	9.3	*(14.2)*	44.8	45.6	41.6	7.2	7.1	7.7	-	Neutral
Crompt. Greav.	152	2,542	*6.0*	9.0	*(490)*	115.8	*(45.8)*	1.8	*(45.8)*	14.4	9.9	15.3	10.5	15.4	9.9	-	Neutral
Jyoti Structures#	67	618.3	*14.0*	11.1	*(54)*	25.2	*1.5*	3.1	*1.4*	12.1	13.6	15.1	6.9	4.9	4.4	105	Buy
Kec Intl'	60	1,171	*17.0*	10.2	*12*	48.7	*14.0*	1.9	*14.0*	8.3	9.7	12.6	7.2	6.2	4.7	107	Buy
Thermax	441	1,168	*7.0*	11.1	*(68)*	89.5	*(0.1)*	7.5	*(0.1)*	32.0	34.9	40.8	13.8	12.6	10.8	-	Neutral

*Source: Company; Angel Research; Note: Price as on September 30, 2011; * December year ending; # Given the current market scenario, we believe that the warrants are unlikely to get converted and hence not factored in our diluted EPS estimates.*

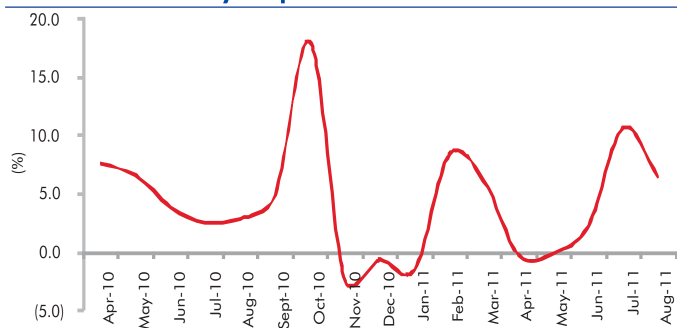
Analyst - Shailesh Kanani / Hemang Thaker

Cement

Cement dispatches growth at decent 8.5% yoy in July-August 2011, albeit on a low base

Cement demand continued to be affected during the quarter due to slow-down in the housing, infrastructure and industrial capex segments. High interest rates, slowed down demand from the housing and industrial capex segments, continuing political uncertainty in certain states and indecisiveness in government's policy making affected demand from the infrastructure segment. During the quarter, dispatches suffered as well due to a weeklong truckers' strike in south and above-normal rainfall in various parts of the country. All-India cement dispatches rose by 8.5% in July-August 2011. However, such strong growth has come on a low base and, hence, cannot be construed as a signal of pick-up in demand. While cement dispatches were higher by 10.6% (on a yoy basis) in July 2011, growth was at 6.4% in August 2011.

Exhibit 1: Monthly dispatch trend

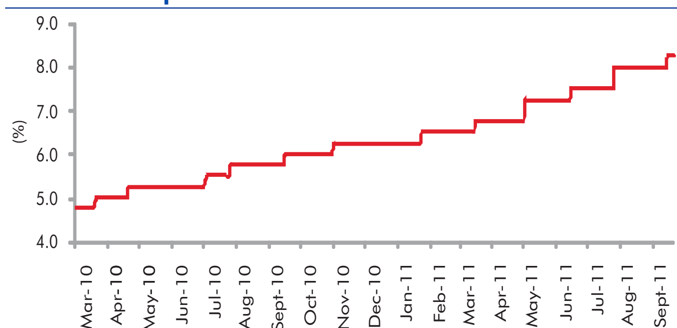


Source: CMA, Angel Research

High interest rates - A cause of worry for the cement sector

The housing sector is the single largest cement consumer (65% of overall consumption) in India. The substantial increase in borrowing costs over the last year has resulted in a slowdown in the housing and industrial capex segments, which has in turn affected cement demand. The RBI's tough anti-inflationary stance has resulted in the repo rate being hiked 12 times since March 2010.

Exhibit 2: Repo rate



Source: RBI, Angel Research

Dispatches performance of companies in 2QFY2012

During July-August 2011, ACC was the top performer among large players with 23.9% yoy growth in its dispatches, aided by capacity additions at Bargarh and Chanda. ACC's installed capacity currently stands at 30mtpa and is higher by 3mtpa since the end of CY2010. JP Associates and Shree Cements also reported high 19.9% and 19.8% growth in dispatches, respectively.

Exhibit 3: Cement dispatches across players (mt)

Company	July-August 2011	July-August 2010	yoy chg(%)
ACC	3.88	3.13	23.9
Ambuja	3.21	2.96	8.4
UltraTech Cement	6.19	5.87	5.5
JP Associates	2.77	2.31	19.9
Shree Cement	1.69	1.41	19.8

Source: Company, Angel Research

Price situation

Southern region: Despite sluggish demand, prices in the region have corrected minimally due to the pricing discipline adopted by players in the region. Prices at the start of the quarter were at ₹275-285/bag, and they are now quoted at ₹270-280/bag.

Northern region: Prices in the northern region, which fell by ₹20-25/bag at the beginning of the quarter and further witnessed a fall of ₹15-20/bag during August increased during mid-September on an average by ₹9-10/bag in anticipation of demand pick-up. Prices are currently at ₹240-255/bag.

Eastern region: Prices in the region, which fell during July-August 2011 due to the monsoon season, recovered in September 2011. Prices are currently in the broad range of ₹245-265/bag, up ₹5-6/bag from ₹240-260/bag in August.

Western region: Prices, which fell by 15-20/bag at the beginning of the quarter and then remained flat until August, showed no signs of recovery in September. In Maharashtra, demand has not picked up due to sand availability issues in the state. Prices are, however, expected to improve once the sand availability issue is sorted out.

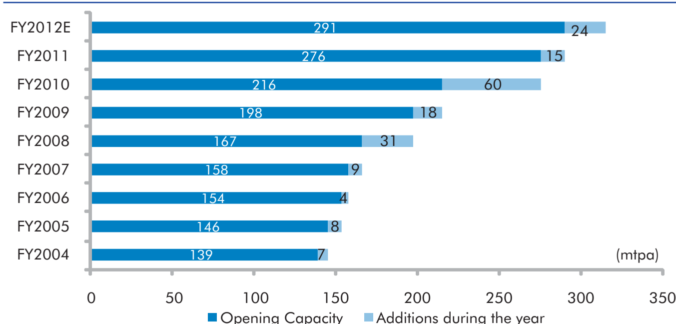
Central region: Prices in the central region, which were trading at ₹235-255/bag at the beginning of the quarter, fell by ~₹20 during the first two months of the quarter. However, prices have recovered strongly by ₹10-15 on expectations of a pick-up in demand.

Cement

All-India capacity to increase by 24mt in FY2012

In FY2011, all-India cement capacity stood at ~291mtpa. The country's cement capacity has gone up by ~100mtpa during FY2009-11. The huge capacity addition coupled with low demand resulted in a substantial fall in utilisation levels to ~75% in FY2011. In FY2012, all-India cement capacity is expected to increase by ~24mtpa.

Exhibit 4: All-India capacity addition



Source: CMA, Industry, Angel Research

Higher coal prices to exert margin pressures in 2QFY2012

During the quarter, cement companies are expected to face margin pressures due to higher yoy power and fuel costs because of increased domestic and international coal prices. During March 2011, Coal India hiked the prices of coal supplied by it to non-core sectors by ~30%. Prices of international coal are also higher on a yoy basis. Average prices of the New Castle McCloskey 6,700kc coal stood at ~US$120/tonne in 2QFY2012, as against US$94/tonne in 2QFY2011. However, on a sequential basis, prices remained flat.

Exhibit 5: New Castle McCloskey prices

Source: Bloomberg, Angel Research

Key developments

Ambuja Cements: During the quarter, Ambuja Cements (Ambuja) acquired 60% equity shares from the existing promoters of Dirk India Pvt. Ltd. (Dirk) for a consideration of ₹16.5cr. Dirk is a company incorporated in Maharashtra and is the first processed fly ash manufacturing and marketing company in India with a capacity of 2,500TPD. During FY2011, Dirk generated revenue of ₹55cr and earned EBITDA of ₹6.8cr. Dirk has a subsidiary company named Dirk Pozzocrete (MP) Pvt. Ltd., which is also in the same field. With this acquisition, Dirk and Dirk Pozzocrete (MP) Pvt. Ltd. have become subsidiaries of Ambuja.

Cement stocks – Outperform the broder markets

During 2QFY2012, cement stocks outperformed the Sensex, with most of them delivering handsome returns as against Sensex' decline of 12.7%. The biggest gainer was Madras Cements, which ended higher by 23.3%, closely followed by UltraTech (up 21.9%). Other players such as Ambuja and ACC also gained 11.6% and 15.7%, respectively, during the quarter. Among the companies under over coverage, JK Lakshmi Cement was the sole loser, losing 4.8% during the quarter.

Exhibit 6: Sensex vs. cement stocks (2QFY2012)

Cement Majors	Abs. Returns (%)	Relative to Sensex (%)
Sensex	(12.7)	-
ACC	15.7	28.4
Ambuja Cements	11.6	24.3
UltraTech Cement	21.9	34.6
India Cements	2.3	14.9
Madras Cements	23.3	36.0
JK Lakshmi	(4.8)	7.9

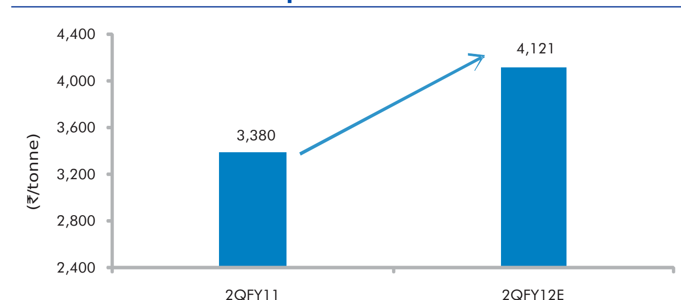
Source: BSE, Angel Research

2QFY2012 expectations

Top line to grow by 30.5% yoy

We expect our cement universe to report 30.5% yoy improvement in its top line on account of 7.9% growth in dispatches and a very strong yoy improvement in realisations on a low base. From our coverage universe, JK Lakshmi and ACC are expected to post the highest top-line growth of 42.9% and 40.1%, respectively.

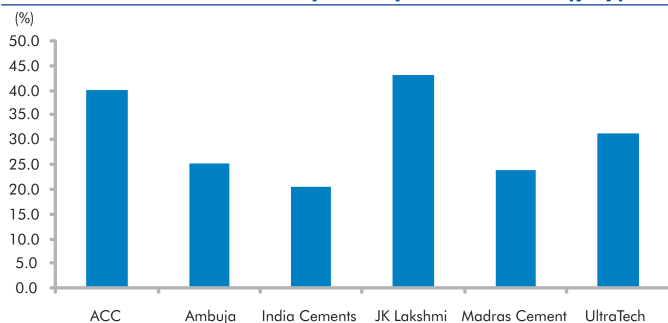
Exhibit 7: Realisation per tonne



Source: Industry, Company, Angel Research

Cement

Exhibit 8: 2QFY2012E top-line performance (yoy)



Source: Company, Angel Research

Exhibit 9: Margins to expand (yoy) in 2QFY2012

Company (%)	2QFY12	2QFY11	*chg bp (yoy)*	1QFY12	*chg bp (qoq)*
ACC*	18.9	13.5	*543*	24.1	*(521)*
Ambuja*	20.5	19.3	*113*	27.5	*(708)*
Ultratech	22.1	13.6	*848*	28.1	*(602)*
India Cements	15.2	3.6	*1,157*	22.8	*(767)*
Madras Cements	32.5	17.9	*1,462*	32.3	*18*
JK Lakshmi	12.7	10.4	*224*	19.9	*(726)*

*Source: Company, Angel Research; Note: *Year ending December*

Operating margins to expand

Operating margins of most of the cement players are expected to expand on account of higher realisations on a yoy basis. Amongst the stocks in our cement universe, Madras Cements is expected to report the highest growth of 1,462bp yoy in OPM during the quarter, on account of the strong improvement in realisation.

Outlook and valuation

We expect cement demand to witness a considerable momentum going ahead and expect 2HFY2012 dispatch growth to be higher than ~3.3% growth in 5MFY2012. However, excess capacity and other macro issues such as rising interest rates and policy inaction remain causes of concern. Most cement stocks under our coverage are fairly valued and, hence, we remain Neutral on them. However, we maintain our Buy recommendation on JK Lakshmi, which is available at attractive valuations of US$32 on EV/tonne basis, based on FY2013 estimates.

Exhibit 10: Quarterly estimates

(₹ cr)

Company	CMP	Net Sales		OPM (%)		Net Profit		EPS (₹)		EPS (₹)			P/E (x)			Target	Reco.
	(₹)	2QFY12E	*% chg*	2QFY12E	*chg bp*	2QFY12E	*% chg*	2QFY12E	*% chg*	FY11	FY12E	FY13E	FY11	FY12E	FY13E	(₹)	
ACC*	1,098	2,294	*40.1*	18.9	*543*	237	*137*	12.6	*137*	59.6	64.9	73.9	18.4	16.9	14.9	-	Neutral
Ambuja*	149	1,957	*25.1*	20.5	*113*	225	*48*	1.5	*48*	8.2	8.4	9.5	18.1	17.6	15.7	-	Neutral
India Cem.	73	1,013	*20.4*	15.2	*1,157*	31	*-*	1.0	*-*	2.2	8.1	9.9	32.7	9.0	7.3	-	Neutral
J K Lakshmi	42	380	*42.9*	12.7	*224*	9	*49.9*	0.7	*49.9*	4.8	7.8	8.0	8.7	5.3	5.2	54	Buy
Madras Cem.	100	796	*24.0*	32.5	*1,462*	114	*266*	4.8	*266*	8.9	13.3	12.4	11.3	7.6	8.1	-	Neutral
UltraTech	1,138	4,216	*31.2*	22.1	*848*	445	*285*	16.2	*285*	51.2	70.8	81.5	22.2	16.1	14.0	-	Neutral

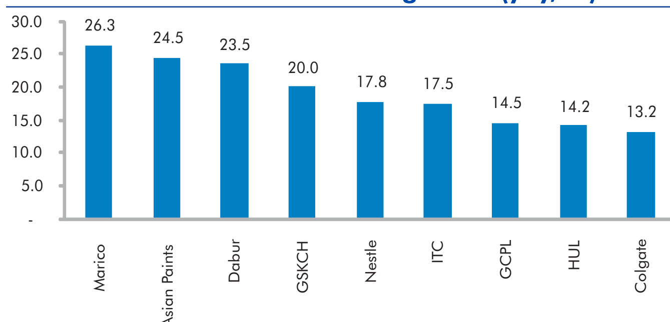
*Source: Company, Angel Research; Note: Price as on September 30, 2011; *December year ending*

Analyst - V Srinivasan / Sourabh Taparia

FMCG

For 2QFY2012, we expect our FMCG universe's revenue growth at ~18% yoy on the back of impact of price hikes and moderate volume growth. We expect profitability growth to slow down at ~16% yoy due to high raw-material costs. As companies still face high raw-material cost pressure, the quarter witnessed broad-based price hikes by these companies. Unlike last year, the quarter under review witnessed fewer product launches and sales promotions. Companies have resorted to reduction/withdrawal of sales promotion schemes in order to maintain their margins. Still high crude prices have increased the distribution and packaging expenses for these companies.

Exhibit 1: 2QFY2012E revenue growth (yoy, %)

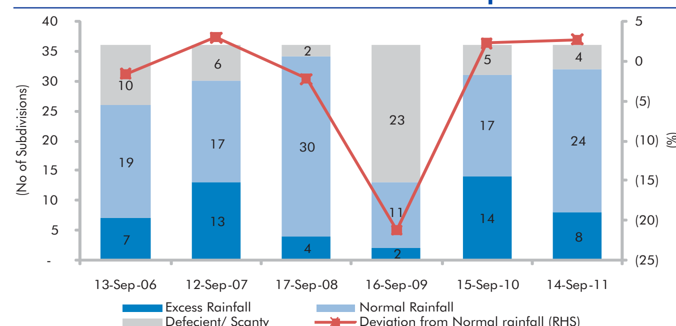


Source: Company; Angel Research; Note: Nestle, GSKCHL figures - 3QCY2011

Good monsoons offer a ray of hope for growth and easing raw-material cost pressure…

The Indian Meteorological Department (IMD) had forecasted normal monsoons from June to September this year (96-104% of long period average - LPA). September data for this year for the country as a whole shows 3% plus departure from the normal. During the monsoon season, of the 36 meteorological substations, eight received excess rainfall, 24 substations received normal rainfall, whereas four substations received deficient rainfall. Northwest India, Central India and Southern Peninsula received excess to normal rainfall, whereas East and Northeast India received deficient rainfall. A good monsoon generally has a two-fold benefit for FMCG companies. Farmers' income levels improve during a good monsoon, thereby improving demand for FMCG products and bringing down the prices of agri commodities. Companies like HUL, Colgate, Godrej Consumer and ITC will benefit from the increase in demand, as a good monsoon is likely to cool food inflation, thereby boosting buying power, especially among low/middle income groups, which spend ~60% of their earnings on groceries. Also, a good monsoon generally aids in lowering the prices of agri commodities.

Exhibit 2: Monsoon trend for June-September



Source: IMD; Angel Research

Input cost pressure still hovers, though shows signs of cooling down

While crude is still trending high on a yoy basis, up 31%, it has declined by ~3% during the quarter. Despite crude being benign sequentially, crude-based derivatives in 2QFY2012 showed an uptrend. TiO2, a raw material for paint companies, grew by over 50% qoq, while it more than doubled on a yoy basis. This is a negative development for Asian Paints, as the company has been reeling under raw-material cost pressures for long now. Agri commodities witnessed cooling down in wheat, barley, cocoa and coffee, down 3-10 % qoq, whereas tea and sugar have been benign during 2QFY2012. This is beneficial for GSKCH. Milk liquid has been trending up, which is negative for Nestle.

Exhibit 3: Input cost trend

	CMP (₹)	yoy (%)	qoq (%)
Wheat (₹/quintal)	1,158	(6)	(3)
Barley (₹/quintal)	1,180	(5)	(9)
Sugar (₹/ quintal)	2,906	7	6
Tea (₹/kg)	210	17	2
Coffee (US cent/LB)	234	43	(8)
Cocoa (US$/MT)	2,984	(9)	(10)
Milk Liquid (₹/ltr)	33	27	6
Palm Oil (MYR/tonne)	2,919	7	(6)
Copra (₹/quintal)	5,700	16	(11)
Safflower (₹/ quintal)	2,725	24	1
Soyabean Oil (₹/10kg)	628	32	1
Groundnt Oil (₹/MT)	88,000	4	(5)
Coconut Oil (₹/quintal)	8,840	20	(11)
Rice Bran Oil (₹/MT)	5,000	(33)	(7)
Crude (US$/ barrel)	108	31	(3)
Caustic Soda (₹/kg)	1,465	69	18
Sorbitol (₹/kg)	34	(11)	(26)
Soda Ash (₹/kg)	965	9	(2)
TiO2 -Rutile (₹ kg)	280	87	51
TiO2 -Anantese (₹ kg)	250	138	61

Source: Bloomberg, Cline, Angel Research; Note: Prices as on September 30, 2011

FMCG

Among vegetable oils, all oils have shown cooling down of prices, with coconut oil down by 11% qoq. This will benefit Marico in the coming quarters as copra comprises ~40% of the raw materials consumed by the company. Palm oil declined by ~6% qoq but was still high on a yearly basis (up ~7%). Cooling off of palm oil should benefit Britannia and GCPL. All edible oils showed a downward trend during the quarter, except soyabean oil and groundnut oil, which remained flat.

With the current monsoon season spanning out to be normal, agri commodities are expected to show a benign trend. Prices of crude-based inputs tend to follow the decrease in crude oil prices with a lag. And with the uncertainty in crude prices, prices of crude-linked inputs are expected to rise going ahead.

Companies resort to price hikes and fewer sales promotions and product launches to maintain margins...

FMCG companies witnessed one of the worst quarters during 1QFY2012, where most companies reported a huge gross margin contraction. During 2QFY2012, although the prevailing input cost scenario showed a sequential decline, on a yoy basis, it is still very high. Companies increased their product prices, reduced/removed discounts, and decreased the grammage in order to improve profitability.

We believe this strategy will help the companies to an extent in maintaining margins and improving profitability. However, if this trend continues, we believe competition levels would see a decline.

During the past couple of months, a number of companies took price hikes in many categories. HUL hiked prices of *Rexona, Hamam* and *Pears* by 3-7%. *Lux* soap prices were increased from ₹17 to ₹18. Price of *Surf* washing powder increased to ₹10 from ₹7 for 125gm. *Rin* witnessed a price hike of ~8%. *Pears* saw an increase of ₹2 to ₹44. *Fair & Lovely* cream saw a price hike of ~5%. Colgate increased the price of *Colgate Total* to ₹77 from ₹72. Also, Colgate undertook price hikes of 3-6% in various products. ITC hiked prices for its cigarette brands *Wills Classic* and *Wills Navy Cut* by 10% on account of increased VAT rate on cigarettes in several states.

Companies that have withdrawn discounts include P&G, which withdrew a discount of ₹18 and ₹20 on *Pantene Pro-V shampoo* and *Head and Shoulders*, respectively. HUL withdrew the free offer of a *Dove soap* with *Dove shampoo*.

We believe the above initiatives by companies would improve their operating margins.

No big ticket product launches during the quarter...

High raw-material costs forced most FMCG companies to stall the launches of variants of existing products and venturing into new categories. Companies are maintaining caution in terms of spends towards new product launches and higher ad spends due to high raw-material cost pressures.

During the quarter, product launches took a back seat, as witnessed in the past few quarters. Apart from Britannia, Dabur, GSKCH, HUL, Marico and Nestle, none of the companies under our universe launched new products in 2QFY2012.

Britannia launched *Tiger Zor Milk* in two variants Tiger Zor Chocolate Milk and Tiger Zor Badam Milk.

Dabur India forayed into two new product categories: 1) carbonated fruit drink category branded as *Burrst Fizz* with two variants Lemon fizz and Apple fizz and 2) aroma products with *Odonil* Occasions. The company's home freshener products are available in a special package of different formats: reed diffuser, an oil burner, a potpourri, a pillar candle and aromatic floating candles. These variations will help Dabur India position *Odonil* as the complete domestic air freshening brand.

GSKCH launched *Horlicks Gold* in two variants: *Golden malt* and *Chocolate delight*. The products are priced at ₹195 for cartons and ₹200 for jars.

HUL launched *Bru Exotica* coffee.

Marico launched *Parachute Advansed Body Lotion* under its flagship brand Parachute. The product is available in variants such as *Dry Skin, Intense Care* and *All Season Gentle Care*. A 250ml pack of the product costs ₹99 (100ml - ₹49; 40ml - ₹22; and 20ml - ₹10).

Nestle launched *Maggi* in ready-to-eat format in two variants. The company also launched *Actiplus Dahi* and *imli sauce*.

Nivea launched *Nivea for Men Fresh Active* deodorant. The aerosol spray (150ml) is priced at ₹164 and the roll-on (50ml) costs ₹145.

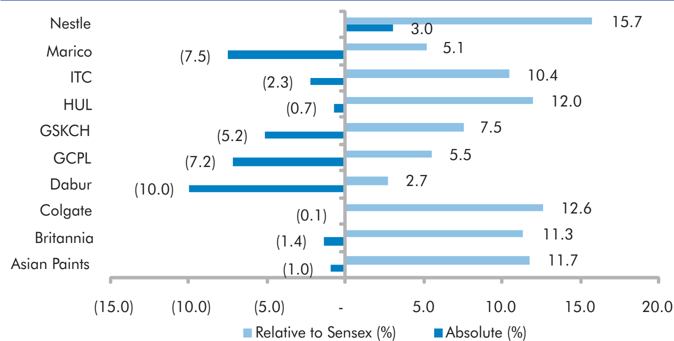
Reckitt Benckiser launched *Lizol* in a jasmine fragrance. A pack of 200ml is priced at ₹26 (500ml - ₹54; 975ml - ₹99; and two litres - ₹195).

Unibic India introduced sugarfree rich buttery cookies in three flavours.

FMCG

Eureka Forbes introduced *Aquaguard Total Duo*. It is a water purifier with an advanced six-stage purification process. The water purifier category witnessed lot of heat from both HUL and Tata, as they are competitors in the low-price products category.

Exhibit 4: Outperformance to Sensex (2QFY2012 period)



Source: C-line, Angel Research

Outperformance across the sector...

2QFY2012 witnessed a mixed performance by all FMCG companies (though all stocks in our universe outperformed the Sensex) with BSE FMCG Index outperforming the Sensex by 9% during the quarter. The sector clearly reflected a defensive nature and outperformed the benchmark indices as the overall economic scenario during the quarter remained gloomy. Nestle emerged as the top gainer during the quarter.

Heavy weights to demonstrate an exciting show...

For 2QFY2012, we expect our FMCG universe's revenue growth at ~18% yoy and earnings growth at ~16% yoy, as we expect increased margins for HUL and ITC; flat margins for Britannia and GCPL; and lower margins for Asian Paints, Dabur, GSK Consumer and Marico. HUL is expected to report impressive top-line growth of 14.2% yoy, driven by price hikes and better product mix. Top-line growth coupled with cut in ad spends will aid in margin expansion for HUL, leading to 14% yoy growth in earnings. We expect ITC to register robust top-line growth of 17.5%, marked by price hikes and earnings growth at 18.5% yoy. We expect all business units to perform well for the company.

Valuations show a breather, but still high; Maintain Underweight

FMCG stocks have been volatile and have showed a mix performance during 2QFY2012. We highlight that FMCG companies have outperformed the Sensex and there is still a wide gap in the premium valuations. Though valuations show a breather from their peak levels.

While the long-term consumption story for the FMCG industry remains intact, any further re-rating from current valuations seems less likely given near-term concerns over 1) high inflationary scenario, 2) possible rise in inflation post the fuel price hike and 3) spike in input costs. **Hence, we maintain our Underweight stance on the FMCG sector, as we do not expect any near-term positive triggers for the companies.**

Amongst heavyweights, we remain Neutral on ITC, HUL and Asian Paints. In mid caps, we have a Neutral stance on GSKCH and Marico. We maintain our Reduce rating on Nestle and Colgate due to their stretched valuations and wait for better entry opportunities. We maintain Accumulate on Britannia, Dabur and GCPL.

Exhibit 5: Quarterly estimates (₹ cr)

Company	CMP	Net Sales		OPM (%)		Net Profit		EPS (₹)		EPS (₹)			P/E (x)			Target	Reco.
	(₹)	2QFY12E	% chg	2QFY12E	chg bp	2QFY12E	% chg	2QFY12E	% chg	FY11	FY12E	FY13E	FY11	FY12E	FY13E	(₹)	
Asian Paints ^	3,149	2,255	24.5	16.6	(168)	243.0	13.2	26.5	13.2	87.9	102.5	126.3	35.8	30.7	24.9	-	Neutral
Britannia	471	1,291	17.9	5.1	29	42.2	27.4	3.5	27.4	12.2	15.4	22.5	38.7	30.6	20.9	495	Accum.
Colgate	980	625	13.2	20.0	(33)	107.5	7.2	7.9	7.2	29.6	32.3	37.8	33.1	30.4	26.0	869	Reduce
Dabur India ^	103	1,202	23.5	18.6	(189)	173.2	8.0	1.0	8.0	3.3	4.0	4.6	31.4	25.5	22.3	115	Accum.
GCPL ^	400	1,091	14.5	17.9	3	142.7	8.9	4.4	8.9	14.9	18.1	20.8	26.9	22.1	19.2	457	Accum.
GSKCH *	2,325	735	20.0	15.2	(32)	89.8	14.3	21.3	14.3	71.2	82.7	98.3	32.6	28.1	23.7	-	Neutral
HUL	340	5,345	14.2	12.6	55	599.4	14.0	2.7	14.0	9.7	11.7	13.3	35.0	29.1	25.5	-	Neutral
ITC	198	5,948	17.5	36.0	60	1,477.7	18.5	1.9	18.5	6.4	7.5	8.9	30.7	26.4	22.3	-	Neutral
Marico ^	144	984	26.3	11.8	(90)	72.7	1.6	1.2	1.6	3.9	5.1	6.3	37.2	28.5	22.9	-	Neutral
Nestle *	4,219	1,928	17.8	20.5	84	263.1	20.4	27.3	20.4	84.9	101.0	120.1	49.7	41.8	35.1	3,603	Reduce

*Source: Company, Angel Research; Note: Price as on September 30, 2011; * December year ending; ^ Consolidated*

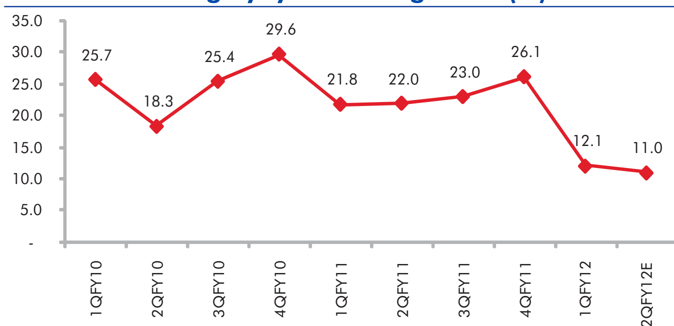
Analyst: Sreekanth P.V.S

Infrastructure

Pain at earnings level to continue…

During 1QFY2012, our coverage universe saw a dip in top-line growth, and we expect the trend to continue for 2QFY2012. We expect average top-line growth of 11.0% for our coverage – the lowest recorded in the last many quarters.

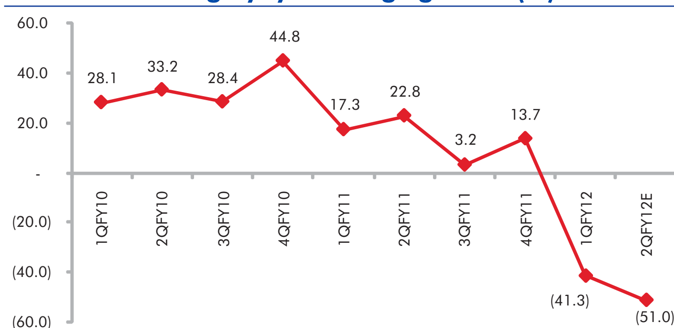
Exhibit 1: Average yoy revenue growth (%)



Source: Company, Angel Research

During 2QFY2012, there has been no respite from the several headwinds (such as high interest and commodity cost and slowdown in order inflow) faced by the sector. Further, the second quarter is seasonally the weakest quarter for construction companies because of the monsoon season. Against this backdrop, we expect a decline in earnings for most of the companies in our coverage universe, with SEL and IRB being the only exceptions.

Exhibit 2: Average yoy earnings growth (%)



Source: Company, Angel Research

2QFY2012 expectations

CCCL (CMP/TP: ₹20/–) (Rating: Neutral)

Consolidated Construction Consortium (CCCL) is expected to continue the trend to post poor numbers on all fronts for 2QFY2012 as well. We expect a 5% decline on the top-line front to ₹465.0cr (₹489.5cr), given the slowmoving infra orders forming ~40% of its total order book. On the EBITDA front, we expect the company to continue dismal performance and register a dip of 261bp yoy to 5.2% (7.8%), in-line with management's guidance. **Against this backdrop, the bottom line is expected to post a yoy decline of 90.0% to ₹1.4cr (₹13.7cr) for the quarter.**

HCC (CMP/TP: ₹29/–) (Rating: Neutral)

For Hindustan Construction Company (HCC), we project modest 7% yoy growth in revenue for 2QFY2012 to ₹946.5cr (₹884.6cr) due to the slowdown of execution on account of gloomy macro environment and monsoon season affecting its hydro power projects. On the EBITDA front, we expect marginal improvement of 43bp yoy to 13.2% (12.8%). **However, on the bottom-line front, we expect a loss of ₹7.4cr against profit of ₹12.1cr in 2QFY2011 due to its escalating interest cost, which is expected to post a yoy jump of ~46%.**

IRB Infra (CMP/TP: ₹163/₹193) (Rating: Buy)

IRB Infra (IRB) is expected to continue its robust performance on a quarterly basis. We expect 44.1% and 28.6% yoy growth in C&EPC (₹425.5cr) and BOT (₹261.4cr) revenue, respectively, leading to overall top-line growth of 40.1% yoy to ₹686.9cr. The C&EPC segment will get the last leg of contribution from Surat Dahisar and Kolhapur road projects, which are expected to achieve completion soon. On the BOT front, pick-up in toll collection from the recently commissioned Tumkur Chitradurga project (operational from June 2011) will drive growth for the quarter. We expect lower EBITDA margin at 45.2% due to the C&EPC segment, which posted higher-than-average EBITDA margin in 2QFY2011. **We project net profit before tax and after tax (post minority interest) at ₹147.1cr and ₹107.3cr, respectively, after factoring a blended tax rate of 25.3% for the quarter.**

IVRCL (CMP/TP: ₹35/₹60) (Rating: Buy)

We expect IVRCL to post flat revenue growth for 2QFY2012 to ₹1,075cr. On the EBITDA margin front, we expect a dip of 87bp yoy to 8.0% (8.9%). **On the earnings front, we expect a decline of whopping 95.1% yoy for the quarter to ₹1.1cr (₹23.3cr), primarily on account of higher interest costs for the quarter.**

JAL (CMP/TP: ₹73/₹85) (Rating: Buy)

We expect Jaiprakash Associates (JAL) to post muted top-line growth of 0.8% yoy to ₹3,097cr (₹3,071cr) for the quarter. We expect a decline of 22.9% in C&EPC revenue to ₹1,211cr. On the cement front, we expect JAL to post revenue of ₹1,480cr - volume of 4.2mt with realisation of ₹3,527/tonne for the quarter. The real estate sector is expected to post top-line growth of 10% yoy to ₹355.6cr.

Overall, we expect the company to post EBITDA margin of 23.3%, a dip of 140bp yoy for the quarter. **The bottom line is expected to be at ₹69.3cr, registering a yoy decline of 40.0% for the quarter.** This is on account of a 38.5% expected jump in interest cost to ₹447.7cr (₹323.4cr).

Infrastructure

L&T (CMP/TP: ₹1,358/₹1,857) (Rating: Buy)

We expect Larsen and Toubro (L&T) to record revenue of ₹10,524cr, growth of 12.8% yoy, for 2QFY2012. This growth is on account of its large order book (~₹1.4trillion). On the EBITDA front, we expect margin to be flat at 10.8%. We project net profit at ₹738.1cr, down 3.5% yoy, mainly on account of higher other income booked in 2QFY2011. We believe the company would end the quarter with a total order inflow of ₹13,000cr (₹20,464cr) for the quarter. **An important thing to watch out for would be management's commentary on the outlook for the sector and how things pan out on the margin front.**

MPL (CMP/TP: ₹71/₹106) (Rating: Buy)

Madhucon Projects (MPL) is expected to post flat top-line growth of 1.5% yoy to ₹356.9cr for 2QFY2012. We expect EBITDA margin to improve, given that the company's margin was low in 2QFY2011, and register a yoy increase of ~100bp to 10.6%. **Earnings are expected to be under pressure on account of higher interest cost for the quarter and are expected to post a decline of 52.4% yoy to ₹3.2cr.**

NCC (CMP/TP: ₹60/₹82) (Rating: Buy)

We expect subdued performance from Nagarjuna Construction (NCC) for this quarter. On the top-line front, NCC is expected to post modest yoy growth of 5.0% to ₹1,261cr. EBITDA margin is expected to be flat at ~10.3% for the quarter. **However, the blow is expected on the earnings front, as we expect the company to post a decline of 35.1% on a yoy basis to ₹29.8cr (₹46.0cr) for the quarter.** This would be primarily on account of burgeoning interest cost (yoy jump of ~79.4%), led by elongated working capital cycle.

SEL (CMP/TP: ₹132/₹161) (Rating: Buy)

We expect Sadbhav Engineering (SEL) to post robust 48.0% yoy growth to ₹386.1cr (₹260.9cr) on the top-line front, owing to pick-up in the execution of captive road BOT projects. EBITDA margin is expected to witness a fall of 70bp yoy to 11.3% (12.0%) on account of higher sub-contracting charges for the quarter. **On the earnings front, despite lower margins, the company is expected to post decent growth of 22.9% yoy to ₹16.9cr (₹13.7cr).**

Simplex (CMP/TP: ₹226/₹299) (Rating: Buy)

For Simplex, we project flat top line of ₹1,051cr for 2QFY2012. This subdued performance would be mainly on account of slowdown faced by the company on the international front. We expect EBITDA margin to remain stable at 10.1%, in-line with management's guidance. **However, the bottom line is expected to be under pressure due to increased interest cost (yoy expected jump of ~73.3%), resulting in a yoy decline of around 64.4% to ₹9.6cr for the quarter.**

Land acquisition bill: The land acquisition bill would provide for detailed calculations of compensation and resettlement and rehabilitation (R&R) packages for project affected families (PAF). The R&R exemption is limited to cases such as NHs, defense and railways.

The bill would ensure higher compensation for land owners, speed up the whole land acquisition process and avoid disputes, among others. The bill would also require the consent of 80% of PAF (including landless dependents) to ensure a smooth process.

We believe although this new bill would facilitate speedy and smooth acquisition of land, it could result in slowdown in private capex on account of additional cost. For the road sector, which has historically been plagued with the land acquisition issue, NHAI would have to shell out more; and with limited resources at its disposal, it could affect the pace of awarding.

Outlook and valuation

Dry spell of project awarding, across sectors, to continue...: Since the last few quarters, there has been a significant slowdown in award activity across sectors. This is a major concern for the sector, given its direct correlation to revenue visibility. Against this backdrop, given the current policy paralysis and gloomy macro environment, which is expected to stay for the next few quarters, we are expecting subdued performance for our coverage universe in the near-to-medium term on the order inflow front.

...with the road sector being the only exception: NHAI has invited bids of ~4,600km up to August 2011, which includes 1,400km already awarded, 1,800km in the awarding process and bids for the balance 1,400km yet to be opened. However, the fact that the activity has only been witnessed at NHAI's end has led to enhanced competition, which is evident from the huge difference in bidding prices amongst players. This is affecting project IRR and is leading to delays in achieving financial closure. However, NHAI is emerging as the winner in this highly competitive environment, with bidders offering a premium much higher than the expectations of NHAI.

Exhibit 3: High intensity of competition across road projects

Project	Exp Prem./ (Grant) (₹ cr)	Actual Prem./ (Grant) (₹ cr)	No of bidders	Diff bet. L1 & L2 (%)
A'bad Vadodara	0.6	310.0	22	*38.0*
Beawer Pali Pindwara	24.0	251.0	19	*10.4*
Kota Jhalawar	(22.8)	4.0	41	*2.9*
Barwa Adda Panagarh	6.0	106.0	20	*36.0*

Source: NHAI, Angel Research

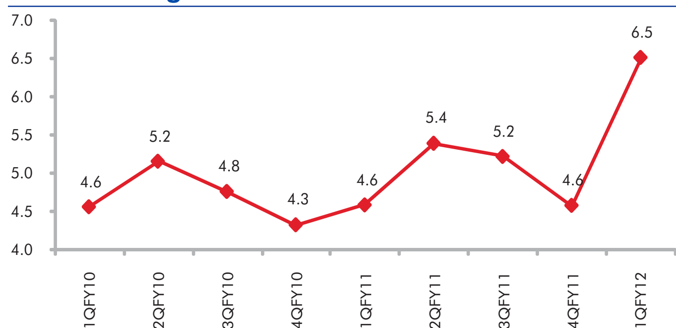
Infrastructure

However, there are few early signs of subsiding competition, as witnessed in the recent bids – where not only the number of bidders have gone down (5-10 players) but the gap between L1 and L2 bidders is also reasonable (5-10%), unlike the picture depicted in Exhibit 3. However, it should be noted that these projects are two lanning projects, which have less traffic density and thus lower interest from bigger players. Therefore, we would wait for a clear and decisive trend from other projects as well to form a view of competitive pressures easing in the sector.

Further, we believe that the high intensity of competition to significantly subside only once project awarding from other sectors pick up.

High interest rates - The same old villain: The RBI in its mid-quarterly monetary policy review has increased the repo rate by 25bp to contain inflation. Moreover, RBI's tone remains hawkish and we do not rule out further rate hikes in future. The high interest rate scenario is shrinking the companies' profitability; and with this trend to continue, we expect earnings to remain subdued. Further, slow execution and high inflationary pressures would keep a tab on earnings growth.

Exhibit 4: Avg Int cost as % to Revenues

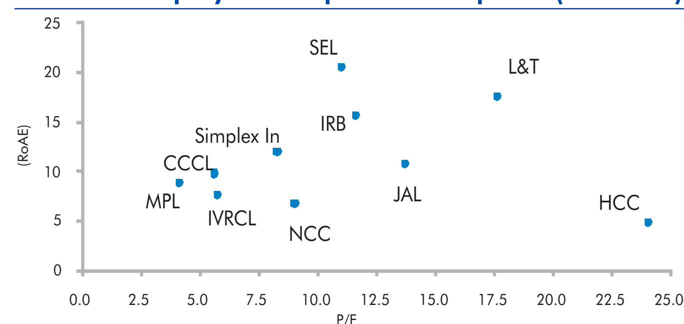


Source: Company, Angel Research

In the current uncertain times, we remain positive on companies having 1) comfortable leverage position (L&T and SEL); 2) strong order book position (L&T, IVRCL and SEL); 3) undemanding valuations (IVRCL), 4) superior return ratios (L&T and SEL); and 5) less dependence on capital markets for raising equity for funding projects (L&T and SEL).

Our top picks: L&T, SEL, IVRCL and IRB are better placed than their peers on the valuations screen (Exhibit 5).

Exhibit 5: L&T, SEL and IRB enjoy higher returns on equity as compared to its peers (FY2013E)



Source: Company, Angel Research

Exhibit 6: Quarterly estimates

(₹ cr)

Company	CMP	Net Sales		OPM (%)		Net Profit		EPS (₹)		EPS (₹)			*Adj. P/E (x)			Target	Reco.
	(₹)	2QFY12E	% chg	2QFY12E	chg bp	2QFY12E	% chg	2QFY12E	% chg	FY11	FY12E	FY13E	FY11	FY12E	FY13E	(₹)	
CCCL	20	465	(5.0)	5.2	(261)	1.4	(90.0)	0.1	(90.0)	2.5	1.5	3.6	7.9	13.3	5.6	-	Neutral
HCC	29	946	7.0	13.2	43	(7.4)	(160.8)	(0.1)	(160.8)	1.2	0.7	1.2	-	-	-	-	Neutral
IRB Infra ^	163	687	40.1	45.2	(296)	107.3	8.3	3.2	8.3	13.6	12.5	14.0	6.1	6.6	5.9	193	Buy
IVRCL	35	1,075	0.0	8.0	(87)	1.1	(95.1)	0.0	(95.1)	5.9	4.2	6.1	3.0	4.2	2.9	60	Buy
JAL	73	3,097	0.8	23.3	(140)	69.3	(40.0)	0.3	(40.0)	5.5	3.7	5.3	13.3	19.6	13.7	85	Buy
L&T	1,358	10,524	12.8	10.8	2	738.1	(3.5)	12.0	(3.5)	54.3	64.4	76.9	17.7	15.0	12.5	1,857	Buy
MPL	71	357	1.5	10.6	93	3.2	(52.4)	0.4	(52.4)	5.6	5.8	6.8	4.2	4.1	3.5	106	Buy
NCC	60	1,261	5.0	10.3	3	29.8	(35.1)	1.2	(35.1)	6.4	5.5	6.7	5.0	5.7	4.7	82	Buy
SEL	132	386	48.0	11.3	(74)	16.9	22.9	1.1	22.9	8.0	8.7	12.0	7.3	6.7	4.9	161	Buy
Simplex In.	226	1,051	0.0	10.1	0	9.6	(64.4)	1.9	(64.4)	21.5	20.4	29.9	10.5	11.1	7.5	299	Buy

*Source: Company, Angel Research; Note: Price as on September 30, 2011, Target prices are based on SOTP methodology; ^Consolidated numbers; *(1) For CCCL, there are no major investments in subsidiary;(2) For HCC, value of Lavasa and Road BOT totals to ₹29.9/share; (3) For IRB, investments in BOT and real estate total to ₹80.8/share; (4) For IVRCL, value of IVRCL Assets and BOT projects totals to₹17.3/share; (5) For JAL, no investments have been adjusted;(6) For L&T, investments in subsidiaries amount to ₹395/share. (7) For Madhucon Projects, Road BOT and other investments total to ₹47.0/share; (8) For Nagarjuna, value of land bank, BOT projects and investments totals to ₹28.7/share; (9) For SEL, its investments in BOT projects total to ₹73.6/share; (10) For Simplex Infra, there are no major investments in subsidiaries*

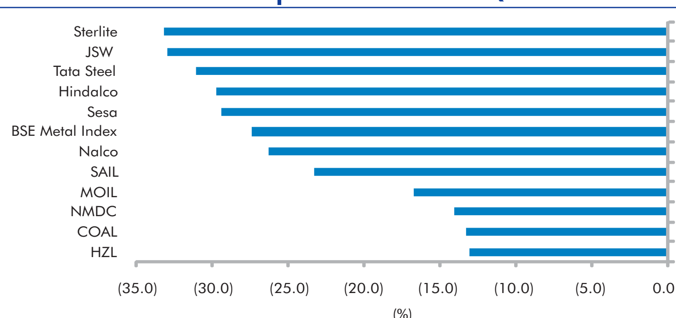
Analyst: Shailesh Kanani / Nitin Arora

Metals

For 2QFY2012, we believe the steel space will continue to face challenges (as witnessed in 1QFY2012) amid high raw-material costs, low demand and fresh escalation of European debt crisis. We expect steel prices to remain at the current levels in the near term. For 3QFY2012, coking coal prices have been settled at lower levels of US$285/tonne (down 9.5% qoq) and iron ore contracts are expected to settle at 2QFY2012 levels. On the other hand, base metal prices are likely to remain under pressure in the near term on demand concerns due to slowdown in global growth, led by monetary tightening in China and escalating debt crisis in Europe.

The BSE Metal Index posted a negative return of 27.4% in 2QFY2012. Steel stocks declined in 2QFY2012 mainly on account of lower-than-expected 1QFY2012 profitability, subdued demand and weak macro-economic environment globally in the wake of escalating European debt crisis. JSW Steel declined by 32.9% on account of shortage of iron ore supply, resulting in lower steel production. Sesa Goa declined by 29.4% on the back of closure of its Karnataka mine. SAIL and Tata Steel declined by 31.0% and 23.2%, respectively. Nalco and Hindalco dipped by 26.3% and 29.7%, respectively, led by a decline in spot LME aluminium prices and concerns on coal shortage. Sterlite and HZL declined by 33.2% and 13.0%, in-line with the fall in zinc prices and a broad decline in the BSE Metal Index. Coal India, NMDC and MOIL declined by 13.3%, 14.0% and 16.7%, respectively.

Exhibit 1: Metal stock performance - 2QFY2012



Source: Bloomberg, Angel Research

Key events

The new mining bill approved by Union Cabinet: During July 2011, the Group of Ministers approved a draft bill for the mining sector, which was granted further approval by Union Cabinet on September 30, 2011. The bill makes it mandatory for coal miners to share 26% of their profit after tax with project-affected people. The draft bill also proposes that companies mining other minerals (such as limestone, iron ore, copper and bauxite) should pay an amount equivalent to 100% of the royalty on their production to the local population of the project site. Furthermore, the new bill obligates mining firms to pay a 10.0% cess to state governments and 2.5% to the centre on the total royalty paid. As per our estimates, the EPS of mining companies (other than coal mining) is expected to be lower by 8-13%, while for Coal India the EPS could potentially decline by 17%. However, the extent of higher burden could be lower (than the proposed 26% of net profit) for Coal India as it (currently) spends a significant amount towards CSR activities. Also, we believe Coal India has the cushion to pass on the additional burden to its customers as its sells coal at a price lower than global benchmarks. For miners and steel makers, the additional burden will have to be absorbed by them as they sell their products at prices determined by global benchmarks. For steel companies, the impact on EPS could be 2-8%.

Supreme Court (SC) bans iron ore mining in Bellary, Chitradurga and Tumkur districts: Central Empowered Committee (CEC) had found that iron ore miners resorted to illegal mining activity in Bellary, Chitradurga and Tumkur districts of Karnataka, resulting in environmental damage and loss of forest cover. Thus, based on CEC's suggestions, the SC imposed a ban on mining in the Bellary region and later extended the ban to Tumkur and Chitradurga districts. Subsequently, the SC had permitted NMDC to operate its Kurumaswamy mine (@1mn tonnes per month) in the Bellary region to meet iron ore requirements of the steel industry in the region. Also, the SC permitted e-auction of iron ore inventory (approximately 25.0mn tonnes) at the rate of 1.5mn tonnes per month. According to media reports, the base price has been fixed at ₹2,700/tonne for iron ore fines and ₹3,700/tonne for iron ore lumps with 63% Fe grade and above. We estimate these factors would lead to higher iron ore costs for JSW Steel. Also, production will remain halted for Sesa Goa's mines in Chitradurga until further update by the SC. The SC will look into rehabilitation and forestation package and, henceforth, permit regulated mining in the region. This may take several months in our view.

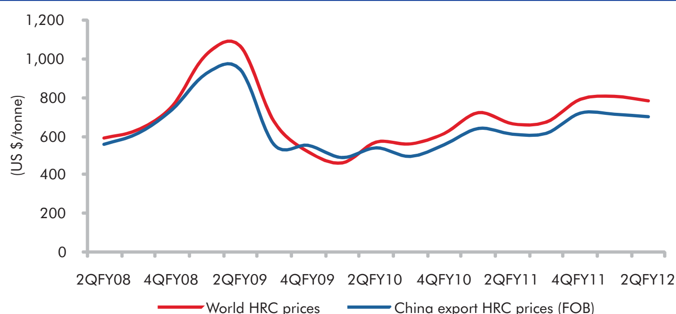
Sesa Goa acquires 51% in Western Cluster Limited (WCL): During August 2011, Sesa Goa acquired 51% stake in WSL, Liberia, for a cash consideration of US$90mn (approximately ₹400cr). WCL will develop the Western Cluster Iron ore project in Liberia, which includes development of iron ore deposits and the required infrastructure for export of iron ore. WCL has potential iron ore resources of over 1bn tonnes (~330mn tonnes of saleable product); it is in close proximity to the existing port infrastructure and has access to land for railway corridor.

Metals

Ferrous sector

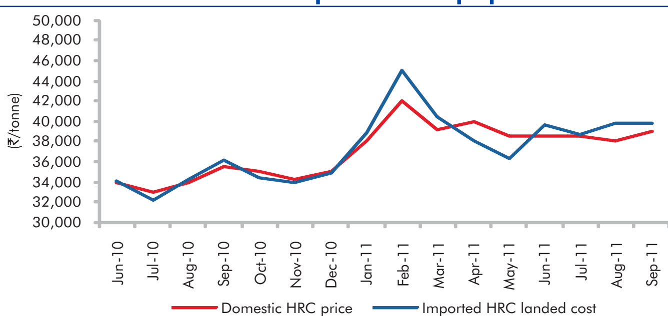
During July-August 2011, steel prices in India remained flat qoq, while steel prices rose by ₹1,500/tonne in September 2011 on account of steel production cuts in Karnataka and rupee depreciation. In 2QFY2012, average HRC prices in India were flat qoq at ~₹38,567/tonne, though up by 12.9% yoy. World average HRC prices decreased by 2.8% qoq to US$786/tonne, though up 17.8% yoy, while average Chinese export prices declined by 1.8% qoq at US$714/tonne, though up 14.8% yoy.

Exhibit 2: Chinese HRC prices declines 1.8% qoq



Source: Bloomberg, Angel Research

Exhibit 3: Domestic HRC prices flat qoq

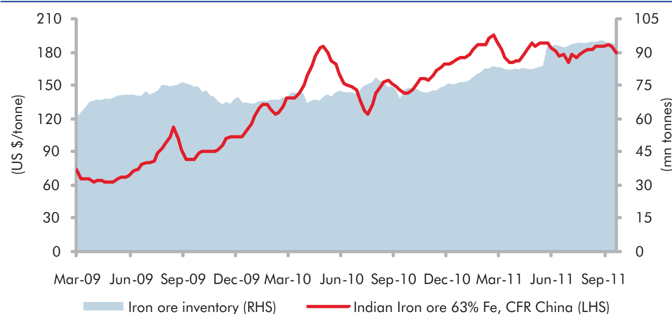


Source: Crisil Research, Angel Research

Iron ore prices firm, while coking coal prices come off: As per media reports, coking coal contract prices for the October-December quarter have been settled at US$285/tonne (down 9.5% qoq) between Posco and Anglo American. The qoq decline in coking coal prices reflects weaker demand coupled with rising supplies from the flood-affected Queensland region in Australia. Going forward, we expect coking coal prices to decline further as logistics issues are fully resolved in Queensland. The decline in coking coal prices should benefit domestic steel companies' margins, as we believe steelmakers may not fully pass the benefits of the decline in coking coal costs to their customers.

In case of iron ore negotiations, media reports suggest that 3QFY2012 contracts are likely to settle at 2QFY2012 levels. During the quarter, average spot iron ore prices for 63% Fe grade (CFR, China) were flat qoq at US$182/tonne (up 27.1% yoy).

Exhibit 4: Iron ore prices and inventory in China

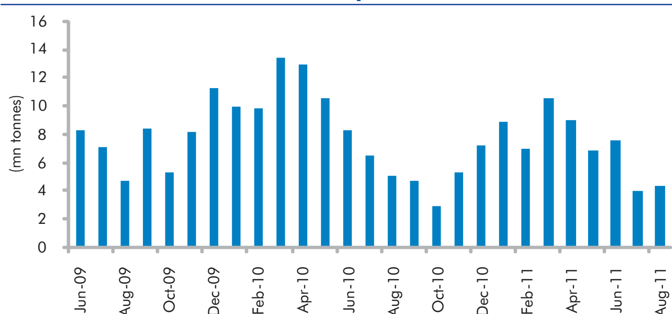


Source: Bloomberg, Angel Research

Iron ore exports from India decline

As per Federation of Indian Mineral Industries (FIMI), iron ore exports from India have declined by 22.0% to 25.2mn tonnes between April-July 2011 on account of export ban in Karnataka and the increase in export duty. In July 2011, Indian iron ore exports fell by 23.0% yoy to 3.6mn tonnes. As per FIMI, total iron ore exports during FY2012 are estimated to be 75.0mn tonnes (down 23.5% yoy).

Exhibit 5: Indian iron ore exports to China down



Source: Bloomberg, Angel Research

Outlook

Raw-material cost pressure to persist: We expect increased iron ore costs for non-integrated players on account of mining issues in Karnataka. Nevertheless, the decline in coking coal prices should benefit margins of Indian steelmakers, the benefits of which will be witnessed in 2HFY2012. We expect international iron ore prices to remain firm on account of steady demand in China coupled with declining supplies from India.

According to World Steel, global crude steel production for July and August was higher by 11.5% and 10.1% yoy to 127mn tonnes and 125mn tonnes, respectively. Global capacity utilisation levels during July and August stood at 80% and 78%, respectively. Given the high production levels, declining coking coal prices and subdued demand in developed countries, we do not expect any significant rise in steel prices in the near term. Nevertheless, we do not expect any significant drop in steel prices either, as raw-material prices remain at elevated levels currently.

Metals

2QFY2012 expectations: For 2QFY2012, on a yoy basis, we expect net sales to increase, aided by higher realisations. Thus, we expect the top line of companies under our coverage to grow by 5-32% yoy. However, due to relatively higher raw-material costs, margins of steel companies are likely to contract by 32-357bp yoy. For Sesa Goa, higher iron ore royalty is expected to result in a 16.4% yoy decline in net profit. For Coal India, we expect 111.7% yoy growth in net profit on account of the price increase. We remain positive on Tata Steel and SAIL.

Non-ferrous sector

During the quarter, base metal prices declined sequentially on account of fresh escalation of European debt crisis. Domestic aluminium companies continued to suffer on account of rising coal prices.

On a sequential basis, average copper, aluminium and zinc prices declined by 1.7%, 6.5% and 1.3%, respectively. The decline was steeper in the latter half of September 2011 on account of escalating debt crisis in Europe. However, on a yoy basis, average copper, aluminium and zinc prices increased by 23.9%, 16.3% and 10.2%, respectively.

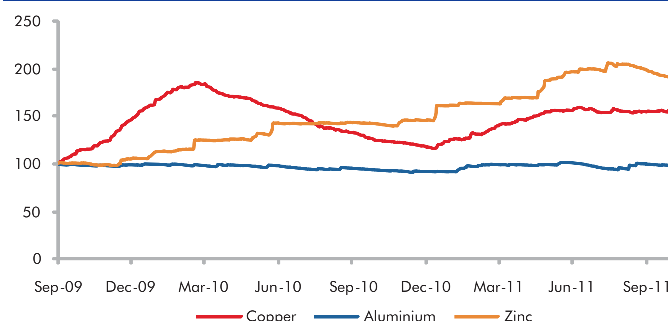
Exhibit 6: Average base metal prices (US$/tonne)

	2QFY12	2QFY11	*yoy %*	1QFY12	*qoq %*
Copper	8,992	7,260	*23.9*	9,147	*(1.7)*
Aluminium	2,430	2,090	*16.3*	2,600	*(6.5)*
Lead	2,221	2,015	*10.2*	2,251	*(1.3)*

Source: Bloomberg, Angel Research

On a yoy basis, inventory levels at the LME warehouse for copper, aluminium and zinc increased by 26.6%, 4.9% and 34.1%, respectively. However, on a qoq basis, copper and aluminium inventory increased by 1.8% and 1.5%, respectively, while zinc inventory declined by 4.6%.

Exhibit 7: Inventory chart



Source: Bloomberg, Angel Research

Outlook

Although base metal prices are likely to remain under pressure in the near term due to concerns on growth, high cost of production should lend support to prices. While the copper market is struggling with supply constraints, downside for aluminium prices is capped due to high energy cost. Zinc and lead prices are unlikely to see any major upside as the market remains in surplus.

We expect non-ferrous companies to register positive top-line growth of 4-61% yoy, owing to a surge in LME prices. However, while Hindalco and Sterlite are expected to report margin expansion of 145bp and 340bp yoy, respectively, Nalco and HZL are expected to witness a margin contraction by 122bp and 200bp yoy, respectively, on account of higher raw-material prices. **We remain positive on Sterlite, HZL and Hindalco.**

Exhibit 8: Quarterly estimates **(₹ cr)**

Company	CMP	Net Sales		OPM (%)		Net Profit		EPS (₹)		EPS (₹)			P/E (x)			Target	Reco.
	(₹)	2QFY12E	*% chg*	2QFY12E	*chg bp*	2QFY12E	*% chg*	2QFY12E	*% chg*	FY11	FY12E	FY13E	FY11	FY12E	FY13E	(₹)	
Coal India	333	13,774	*18.2*	28.0	*1,207*	3,164	*111.7*	5.0	*111.7*	17.2	23.2	25.2	19.3	14.3	13.2	-	Neutral
Hindalco *	131	6,039	*4.1*	12.5	*145*	596	*37.3*	3.1	*37.1*	12.8	20.9	23.2	10.2	6.3	5.7	196	Buy
Hind. Zinc	119	2,643	*22.2*	50.0	*(200)*	1,265	*33.3*	3.0	*33.3*	11.6	13.9	15.4	10.3	8.6	7.7	156	Buy
JSW Steel ©	591	7,788	*31.8*	15.8	*(39)*	334	*24.7*	15.0	*12.8*	78.6	51.7	114.9	7.5	11.4	5.1	-	Neutral
MOIL	281	180	*(36.8)*	56.0	*1,957*	93	*70.2*	5.5	*70.2*	35.0	28.9	30.9	8.0	9.7	9.1	-	Neutral
Nalco	62	1,440	*(1.0)*	21.0	*(122)*	238	*6.2*	0.9	*6.2*	4.1	5.9	6.9	14.9	10.4	8.9	-	Neutral
NMDC	227	2,917	*18.6*	80.0	*519*	1,844	*33.7*	4.7	*33.7*	16.4	17.8	20.3	13.8	12.8	11.2	-	Neutral
SAIL	105	11,135	*5.0*	10.5	*(357)*	836	*(23.3)*	2.0	*(23.3)*	11.8	10.6	13.4	8.9	9.9	7.8	139	Buy
Sesa Goa ©	200	1,125	*22.5*	38.0	*100*	322	*(16.4)*	3.6	*(16.4)*	47.5	33.3	37.4	4.2	6.0	5.3	253	Buy
Sterlite Inds ©	114	9,726	*61.3*	27.8	*340*	1,641	*60.5*	4.9	*60.5*	14.3	18.2	23.3	7.9	6.3	4.9	189	Buy
Tata Steel ©	415	30,936	*8.0*	12.5	*(32)*	1,339	*(32.3)*	14.0	*(37.4)*	77.5	69.5	78.8	5.4	6.0	5.3	614	Buy

*Source: Company, Angel Research; Note: Price as on September 30, 2011; EPS calculation based on fully diluted equity; © Denotes consolidated numbers; * Denotes standalone numbers*

Analyst : Bhavesh Chauhan

Oil & Gas

During 2QFY2012, Brent crude oil price decreased by 4.6% qoq on the expectation of increased supply and weaker macro-economic environment. WTI crude oil price declined by 17.0% on the back of rising production of oil sand in Canada and shale gas in the US. Henry Hub natural gas price declined by 14.3% qoq on the back of weak macro-economic environment in the US. Similarly, prices of petrochemical products declined qoq on account of subdued demand. During September 2011, International Energy Agency (IEA) cut its forecast for global oil demand growth to 1.2% in CY2011 to 89.3mnbpd and 1.6% to 90.7mnbpd in CY2012. For companies under our coverage, we expect robust yoy growth in profits in 2QFY2012, except for Cairn India. Cairn India's bottom line is expected to take a hit on account of higher royalty payment. On the domestic front, the EGoM meeting, which was scheduled to take place on September 16, 2011, has been deferred.

Brent crude remains range-bound in 2QFY2012

Brent crude oil price average stood at US$114/bbl in 2QFY2012 compared to US$118/bbl in 1QFY2012. WTI crude declined to average US$90/bbl in 2QFY2012 compared to US$102/bbl in 1QFY2011 due to oversupply in the US. Weaker macro-economic environment coupled with rising supply from OPEC muted the rise in crude oil price in 2QFY2012.

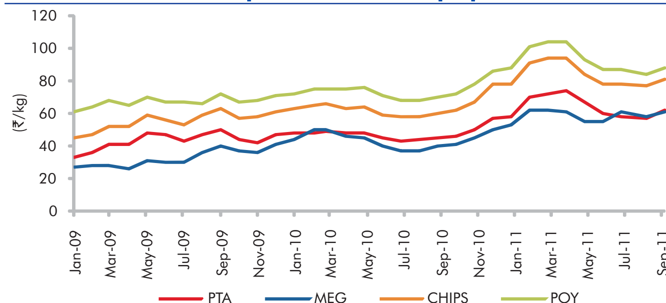
Exhibit 1: Brent crude remains range-bound

Source: Bloomberg, Angel Research

Petrochemical prices decline qoq in 2QFY2012

Prices of petrochemical products declined qoq in 2QFY2012 on account of subdued demand, especially for polyester. However, prices have remained steady after a steep decline in June 2011.

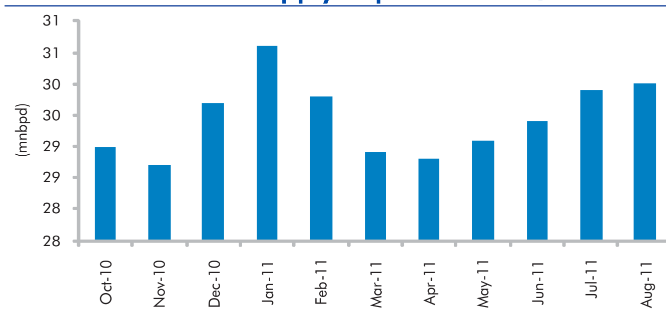
Exhibit 2: Petchem prices decline qoq in 2QFY2012



Source: Industry sources, Angel Research

Oil supply from Organization of Petroleum Exporting Countries (OPEC) continued to improve in 2QFY2012 as Saudi Arabia, Iraq, Kuwait, Nigeria and UAE raised their production.

Exhibit 3: OPEC oil supply improved in 2QFY2012



Source: Bloomberg, Angel Research

IEA cuts its forecast for oil demand

During September 2011, the IEA cut its forecast for global oil demand growth to 1.2% in CY2011 to 89.3mnbpd and 1.6% to 90.7mnbpd in CY2012. IEA reported that supplies from OPEC may be sufficient to meet demand over the coming three quarters, without any further production increases.

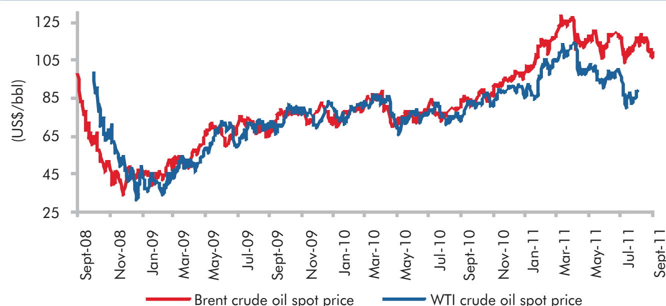
On the supply side, IEA expects slower resumption of output in Libya to 0.4mnbpd by the end of CY2011. IEA has also cut its forecasts for oil supplies from outside OPEC by 0.2mnbpd in CY2011 on account of field maintenance in the North Sea and Kazakhstan and by 0.2mnbpd in CY2012 on the back of weaker output of natural gas liquids. IEA estimates that non-OPEC producers will boost shipments by 0.4% to 52.8mnbpd in CY2011 and by 1.9% to 53.8mnbpd in CY2012.

Spread between WTI and Brent remains high

Although, the spread between WTI crude and Brent crude has remained insignificant historically, recently Brent crude has traded at a premium of 20% over WTI. Rising production of oil sand in Canada and shale gas in the US has led to higher supplies in the US, which has, in turn, muted the rise in WTI crude prices. While Brent crude price declined by 4.6% qoq, WTI crude price declined by 17.0% qoq in 2QFY2012.

Oil & Gas

Exhibit 4: WTI Brent crude oil spread remains high

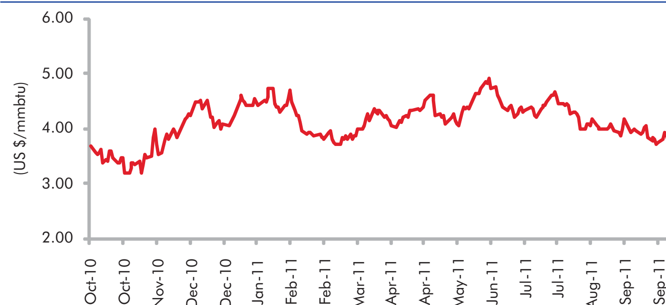


Source: Bloomberg, Angel Research

Gas prices decline on macro concerns

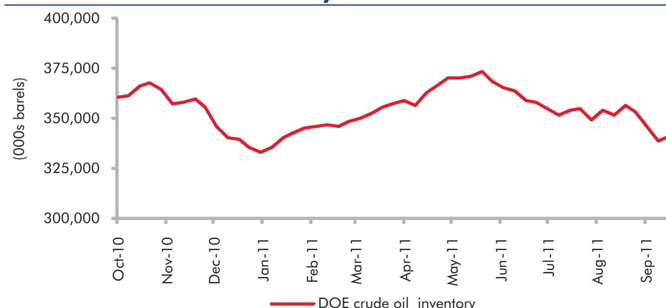
Average natural gas price stood at US$4.12/mmbtu in 2QFY2012 compared to US$4.36/mmbtu in 1QFY2012. The qoq price decline was mainly on the back of escalating debt crisis in Europe and a weak macro-economic environment in the US.

Exhibit 5: Natural gas prices declined in 2QFY2012



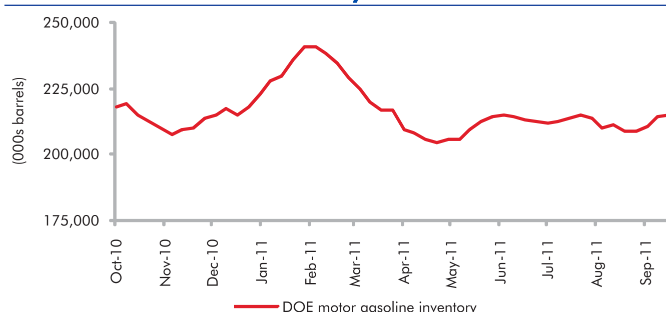
Source: Bloomberg, Angel Research

Exhibit 6: Crude inventory decreased in 2QFY2012



Source: Bloomberg, Angel Research

Exhibit 7: Gasoline inventory remain flat in 2QFY2012



Source: Bloomberg, Angel Research

Key developments

RIL reiterates that it adhered to PSC provisions

The Comptroller and Auditor General of India (CAG) reported that Reliance Industries (RIL) had violated the terms of its production sharing contract (PSC) for its blocks in the KG Basin, off the Andhra Pradesh coast. As per CAG, the company entered the second and third phases without relinquishing 25% each of the contract area, hoarded D6 exploration and front loaded the capex amongst other things. However, the company reiterated that it had complied with PSC's provisions and adopted Good International Petroleum Practices (GIPIP) at its operations.

ONGC FPO deferred again

The upcoming FPO of ONGC was deferred by the government (earlier scheduled to start on September 20, 2011), as investor concerns remained over the lack of clarity on the subsidy-sharing mechanism. The government aims to divest a 5% stake (42.8cr shares) in ONGC as part of a disinvestment programme.

Petrol price hiked by ₹3.1/litre

During September 2011, oil marketing companies (OMCs) hiked petrol prices by approximately ₹3.1/litre as firm crude oil prices coupled with depreciating rupee were resulting in higher under-recoveries (revenue losses) on the sale of petrol. As per Indian Oil Corporation, OMCs were losing ₹3.1/litre (including taxes) after considering the impact of the recent rupee depreciation against the US dollar. A 5.0% depreciation in the rupee results in an increase in under-recoveries by approximately ₹9,000cr annually. Factoring in the recent rupee depreciation, the hike in petrol prices is expected to have an insignificant impact on overall under-recoveries. OMCs continue to lose ₹260cr per day on account of selling diesel, domestic LPG and kerosene at subsidised prices at current prices.

Cairn-Vedanta deal sails through

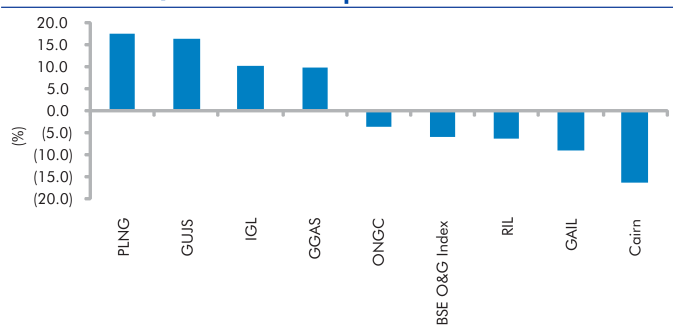
Cairn Energy's proposal to sell a majority stake in its Indian arm, Cairn India concluded during 2QFY2012. The transaction was held up since August 2010 mainly over the disagreement on royalty payments. The government had imposed a few conditions, including undertaking from Cairn India, that, alongside ONGC, it will share the burden of royalty payments on a pro rata basis (which are currently only paid by ONGC) and withdrawal of arbitration on taxes. Cairn India conducted a postal ballot where these conditions were accepted by majority shareholders. On September 27, 2011, ONGC decided to grant its approval to the deal.

Oil & Gas

Oil stocks decline, while gas stocks rise

A broad decline in the stock market led to a dip in the overall BSE Oil and Gas Index in 2QFY2012. GAIL and ONGC declined by 3.7% and 8.9% in 2QFY2012, respectively. Cairn India declined by 16.4% in 2QFY2012 as the company's majority shareholders agreed to bear proportionate royalty burden, which is expected to hit its bottom line. Gradually, the stock recovered partially during September 2011. Nevertheless, gas companies' stock prices increased qoq due to better-than-expected 1QFY2012 results and steady demand. Petronet LNG, Indraprasth Gas and Gujarat Gas rose by 17.7%, 10.2% and 16.2%, respectively.

Exhibit 8: 2QFY2012 stock performance



Source: Bloomberg, Angel Research

2QFY2012 expectations

For 2QFY2012, we expect net sales to increase by 8-42% yoy mainly on the back of higher prices coupled with volume growth. We expect a 24.7% yoy growth in ONGC's top line. ONGC's subsidy amount for 2QFY2012 would be significantly lower than 1QFY2012 due to (1) price increases on diesel, kerosene and LPG and (2) excise tax reduction on diesel and customs duty cuts on crude oil, diesel and gasoline implemented by the government during June 2011.

For RIL, we expect the top line to grow by 42.0% on the back of rise in prices of petrochemical products. RIL's bottom line is expected to increase by 19.0% yoy.

GAIL is expected to report steady growth of 8.3% yoy in its net sales on the back of higher volumes, while its net profit is expected to increase by 3.3% yoy.

Cairn India's net sales are expected to grow by 33.6% on the back of rise in crude oil prices, while its bottom line is expected to decline by 87.5% yoy on account of royalty reimbursement to ONGC for Cairn India's respective production. As per the new agreement between the two companies, Cairn India will pay royalty for its share of production retrospectively.

Exhibit 9: Quarterly estimates (₹ cr)

Company	CMP	Net Sales		OPM (%)		Net Profit		EPS (₹)		EPS (₹)			P/E (x)			Target	Reco.
	(₹)	2QFY12E	% chg	2QFY12E	chg bp	2QFY12E	% chg	2QFY12E	% chg	FY11	FY12E	FY13E	FY11	FY12E	FY13E	(₹)	
RIL ^	808	81,603	42.0	12.3	(405)	5,857	19.0	17.9	19.0	58.0	68.0	79.9	13.9	11.9	10.1	1,099	Buy
GAIL	411	8,779	8.3	17.3	(38)	954	3.3	7.5	3.3	28.1	32.1	35.6	14.6	12.8	11.5	508	Buy
ONGC ^	266	22,991	24.7	55.0	(495)	6,161	14.3	7.2	17.8	26.2	32.0	34.4	10.1	8.3	7.7	326	Buy
Cairn India	273	3,590	33.6	69.0	(1,298)	214	(87.5)	1.1	(87.5)	33.3	46.0	54.8	8.2	5.9	5.0	-	Neutral

Source: Company, Angel Research; Note: Price as on September 30, 2011; ^Standalone numbers for the quarter and consolidated numbers for the full year

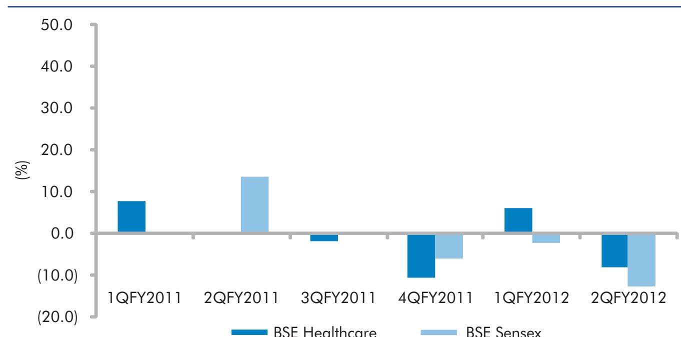
Analyst: Bhavesh Chauhan

Pharmaceutical

Pharma sector continues its uptrend

During 2QFY2012, the BSE Healthcare (HC) Index continued to outperform the BSE Sensex. The HC index declined by 8.3% as against the 12.7% drop in the Sensex during the same period. The performance of the sector was impacted by lacklustre performance of the broader indices, which reeled under the slowdown in economic growth and hardening of interest rates. In such a scenario, the pharma sector, which is not impacted much by the economic slowdown, emerged resilient and outperformed the broader indices.

Exhibit 1: BSE HC Index vs. the Sensex



Source: C-line, Angel Research

Amongst Indian large caps, the major gainer during the quarter was Lupin with gains of ~5%. In the MNC pack, Aventis Pharma moved up by 12% on the back of the acquisition of Universal Medicare. Amongst others, Sun Pharma, Ranbaxy Labs and Dr. Reddy's (DRL) declined by 7%, 5% and 4%, respectively.

Amongst large caps, Cipla and Cadila were the major losers, declining by almost 14% and 18%, respectively. However, the downtrend during the quarter was mainly driven by mid caps. Amongst mid caps and small caps, Orchid Chemicals and Dishman declined by 42% and 36%, respectively. Amongst the other losers, Aurobindo Pharma and Ipca Laboratories fell by 28% and 25%, respectively. Among small caps, Indoco Remedies lost 11% during 2QFY2012.

Key developments

Aurobindo Pharma in a JV with Russian company

Aurobindo Pharma, through its investment holding subsidiary and OJSC DIOD, a Russian manufacturer of ecological healthcare equipment and nutrition supplements through its investment holding subsidiary announced the establishment of a joint venture (JV) in Russia on a parity basis (50:50). The name of the JV is Aurospharma Company. It is established to manufacture and sell the pharmaceuticals in the markets of Russia, Belarus and Kazakhstan.

As part of this cooperation, the JV intends to construct a state-of-the-art plant to manufacture Non Penicillin and Non Cephalosporin Rx generics and other drugs that are categorised as OTC products in Russia. To harmonise interests of the JV partners in the Russian market environment, it has contemplated to transfer 100% interest in the CJSC Olifen being held by DIOD to the JV company, subject to due diligence. In addition, the JV shall source Penicillins, Cephalosporins and few other therapy products manufactured by Aurobindo Pharma, India, to sell in the markets of Russia, Belarus and Kazakhstan.

The plant, meeting the GMP standards, will be constructed in the Podolsk district. It is expected that the construction will be completed and the plant will attain its rated capacity by CY 2013.The Russian OTC is market is amongst one of the largest markets in BRIC. **At the CMP, the stock trades at 8.0xFY2012E and 6.5x FY2013E earnings, we recommend Buy with target price of ₹278.**

Aventis Pharma acquires Universal Medicare

Aventis Pharma has acquired Universal Medicare, a nutraceutical formulation company. According to the deal, Aventis Pharma will be acquiring the products and Universal Medicare would retain the manufacturing rights of the products. Mumbai-based Universal Medicare manufactures, markets and distributes branded nutraceutical formulations in India through its sales and marketing infrastructure. For the year ended March 31, 2011, the company's turnover of branded nutraceutical formulations was approximately ₹110cr. Through the acquisition, the company will advance its sustainable growth strategy in India and facilitate the creation of a consumer healthcare and wellness platform. This move is also synergetic with the growth strategy of Sanofi, a majority stakeholder in Aventis Pharma. The transaction is expected to close by December 2011. While the details of the deal are not known, we believe the company's earnings would increase by 7%. **Thus, after factoring in the possible upsides from the deal, the stock would trade at 25.5x CY2012E earnings, which is richly valued. Hence, we recommend a Reduce rating on the stock with a target price of ₹1,937.**

Pharmaceutical

DRL announces the launch of OTC Fexofenadine HCL and Pseudoephedrine HCL extended release tablets

During the quarter, DRL launched its over-the-counter (OTC) Fexofenadine HCL and Pseudoephedrine HCL extended release tablets (180/240 mg). The USFDA had approved DRL's ANDA for Fexofenadine HCL and Pseudoephedrine HCL extended release tablets in June 2011. DRL will market the product under store brand labels in the US market. The product is a bioequivalent version of Sanofi-Aventis Allegra D24 Hour extended release tablets, which received Rx-to-OTC switch approval from the USFDA on January 2011. The product is expected to contribute around ₹4.0 to the overall EPS of FY2012.

Sanofi Aventis and Lupin ink a strategic agreement in Philippines

Sanofi-Aventis Philippines, Inc., which is a part of the Sanofi Group, and Multicare Pharmaceuticals (Multicare), the Philippines subsidiary of Lupin, entered into a marketing and distribution agreement, whereby Multicare will market Sanofi-Aventis's central nervous system (CNS) global brands, Solian (Amisulpride) and Stilnox (Zolpidem Hemitartrate) in Philippines. The annual revenue of these brands is valued at PHP138mn (IMS).

The agreement would enable Lupin to build its branded formulations business in Philippines, which is a growing market. It also underlines Lupin's differentiated strategy for select markets. The company has already forayed into Japan, which has become one of its key markets. **At the CMP, the stock trades at 15.9x FY2013E earnings. We maintain our Buy rating on the stock with a target price of ₹593.**

ANDA approvals in 2QFY2012

During the quarter, there were few ANDA approvals. The key companies that received the approval during the quarter were Lupin and Sun Pharma (five approvals each). DRL, on the other, hand received two approvals.

Exhibit 2: ANDA approvals for select companies

Company	Generic products	Approvals
Lupin	Amlodipine Besylate; Benazepril HCL, Mefenamic Acid,Levetiracetam,Eszopiclone, Norethindrone	5
Dr. Reddy's	Amlodipine Besylate; Benazepril HCL, Gemcitabine HCL	2
Sun Pharma	Anastrazole,Alfuzosin HCL, Chlorothizadine sodium, Cetirizine HCL, Ranitidine HCL	5

Source: USFDA, Angel Research

2QFY2012 – Result expectations

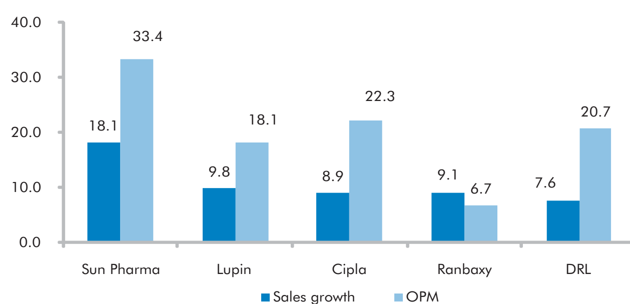
The Indian pharma sector is expected to post muted numbers for 2QFY2012. We expect our coverage universe to register 19% yoy top-line growth. On the operating front, margins are expected to remain flat. However, increased tax outgo would lead to low growth on the net profit front.

Amongst large caps, Sun Pharma is expected to post 18.1% yoy sales growth, mainly on the back of integration of Taro. Cipla is expected to post net sales growth of 8.9% yoy. Other players, namely DRL, Lupin and Cadila are expected to report 7.6%, 9.8% and 18.6% growth in net sales, respectively.

Amongst small caps, Indoco Remedies is expected to post 12.1% yoy top-line growth.

In the MNC pack, Aventis is likely to post 11.5% growth in net sales, while Glaxo is likely to report 7.8% yoy growth in sales.

Exhibit 3: Sales growth and OPM for 2QFY2012E



Source: Angel Research

Among large caps, Cipla and Cadila to outperform

Among the large caps in our coverage universe, for 2QFY2012, Sun Pharma is likely to post 18.1% yoy growth on the sales front, mainly on the back of integration of Taro, which will drive export formulation sales during the period. On the domestic front, Indian formulation sales are expected to report a muted performance. Despite strong top-line growth, on account of the integration, the company's operating profit margin would decline by 70bp to around 33.4%. Net profit is expected to drop by 1.9% yoy during the quarter.

Lupin, on the other hand, is expected to register sales growth of 9.8% yoy. OPM is expected to contract by 110bp yoy. Consequently, the company's net profit is expected to increase by 3.1% in 2QFY2012.

DRL is expected to post strong results, with top-line growth of 7.6% yoy to ₹2,013cr, majorly driven by the US market. The company is expected to see strong traction in its Indian and Russian formulation businesses as well. In terms of the PSAI

Pharmaceutical

segment, lacklustre performance is expected for 2QFY2012. The company is expected to post OPM of 20.7%, up 470bp yoy. On the net profit front, the company is expected to post net profit of ₹295cr, growth of 3.1% yoy.

Cipla is expected to post net sales growth of 8.9% yoy to ₹1,742cr, driven by the domestic and exports performance. On the operating front, OPM (excluding technical know-how fees) is expected to come in at 22.3%, an expansion of 130bp yoy. Further, net profit is expected to grow by 13.0% yoy to ₹297.2cr.

Ranbaxy is expected to post yoy growth of 9.1%, with sales at ₹2,054cr during 3QCY2011. The company's GPM is expected to expand by 200bp yoy to 6.7%.

Cadila is expected to post yet another strong quarter with 18.6% growth in net sales to ₹1,312cr on the back of robust growth on the domestic formulation and exports front. We expect the company's OPM to dip by 100bp yoy to 20.2% on the back of favourable product mix. Net profit is expected to increase by 17.8% yoy to ₹201.2cr, driven by top-line growth.

Mid caps to report muted numbers

We estimate Ipca Laboratories' top line to grow by 23.6% to ₹530cr for 2QFY2012. OPM is expected to decline by 580bp yoy to 17.7%, led by higher other expenses. Adjusted net profit is expected to decline by 2.2% yoy in 2QFY2012.

Aurobindo Pharma is expected to post net sales growth of 18.7% yoy, led by formulation exports. OPM is likely to dip to 16.7%, which will lead to flat net profit of ₹192.3cr.

Indoco Remedies is expected to report top-line growth of 12.0% yoy to ₹148cr. OPM is expected to expand by 170bp yoy to 15.1%, driven by growth in domestic formulation sales. As a result, net profit is expected to increase by 18.3% yoy to ₹18.1cr on the back of improved OPM.

Outlook and valuation

With the expected earnings CAGR of 21% over FY2011-13E for our universe of stocks, we remain overweight on the sector, maintaining a positive future outlook and earnings growth. In the generic segment, we prefer Cipla, Lupin, Cadila Healthcare, Aurobindo Pharma and Indoco Remedies. In CRAMS, though the segment is currently witnessing some pressure, there have been indications of a gradual recovery and ramp up from most CRAMS players. Thus, with valuations rendering attractive, we recommend Dishman Pharma in this segment.

Exhibit 4: Quarterly estimates

(₹ cr)

Company	CMP	Net Sales		OPM (%)		Net Profit		EPS (₹)		EPS (₹)			P/E (x)			Target	Reco.
	(₹)	2QFY12E	% chg	2QFY12E	chg bp	2QFY12E	% chg	2QFY12E	% chg	FY11	FY12E	FY13E	FY11	FY12E	FY13E	(₹)	
Alembic Pharma*	42	317	-	14.0	-	23	-	1.2	-	4.5	4.9	5.9	9.3	8.6	7.1	71	Buy
Aventis #	2,340	307	11.5	15.0	(40)	51	7.2	22.1	7.2	67.3	85.5	89.7	34.0	26.8	25.5	1,937	Reduce
Aurobindo	124	1,238	18.7	16.7	(100)	192	(2.9)	6.6	(2.9)	18.1	23.9	25.3	6.9	5.2	4.9	278	Buy
Cadila	756	1,312	18.6	20.2	(100)	201	17.8	9.8	17.8	33.8	38.5	51.3	22.3	19.6	14.3	1,053	Buy
Cipla	283	1,742	8.9	22.3	130	297	13.0	3.7	13.0	12.0	14.9	18.4	23.5	19.0	15.3	377	Buy
Dishman	57	240	12.8	18.6	120	16	(43.1)	2.0	(43.1)	9.9	9.9	11.7	5.8	6.1	5.1	133	Buy
Dr. Reddys	1,481	2,013	7.6	20.7	470	295	3.1	17.5	3.1	63.8	87.9	96.0	23.1	16.8	15.4	1,920	Buy
Glaxo #	2,081	627	7.8	32.4	(350)	162	2.7	19.1	2.7	66.2	72.0	86.9	31.5	28.9	23.9	-	Neutral
Indoco	384	148	12.0	15.1	170	18	18.3	14.7	18.3	41.5	52.9	65.8	9.2	7.2	5.8	658	Buy
Ipca	257	530	23.6	17.7	(580)	63	(2.2)	5.0	(2.2)	20.9	20.0	27.5	12.2	12.8	9.3	358	Buy
Lupin	473	1,543	9.8	18.1	(110)	221	3.1	5.0	3.1	19.3	22.4	29.7	24.5	21.2	15.9	593	Buy
Orchid *	158	461	-	17.4	-	39	-	5.5	-	22.2	28.4	37.3	7.1	5.6	4.2	373	Buy
Ranbaxy #	514	2,054	9.1	6.7	200	291	(5.4)	6.9	(5.4)	35.5	29.4	52.8	14.5	17.7	11.5	593	Accum.
Sun Pharma	462	1,618	18.1	33.4	(70)	494	(1.9)	4.8	(1.9)	17.5	18.0	23.5	26.3	25.7	19.6	518	Accum.

Source: Company, Angel Research; Note: Price as on September 30, 2011; Our numbers do not include MTM on foreign debt. # 3QCY2011, Non availability of 2QFY2011 consolidated numbers*

Analyst: Sarabjit Kour Nangra

Power

For 2QFY2012, we expect power-generating companies in our universe to report top-line growth of 10.5% yoy, driven by capacity additions and higher tariffs. The operating profit of companies in our universe is expected to increase by 41.2% yoy, primarily due to low base. However, Net profit is expected to increase modestly by 2.1% yoy due to lower other income estimated on a yoy basis.

Fuel security remains a key concern

Coal-based plants constitute ~55% of India's power capacity. A major portion of India's upcoming power capacity is also based on coal. Fuel security remains a key concern for the Indian power sector, with domestic coal production insufficient to meet the requirement. India's domestic coal deficit is expected to be 114mt in FY2012 as against 83mt in FY2011. Coal India, which accounts for ~80% of India's domestic coal supply, has not been able to ramp up production. Coal India's production stood at 431mt in FY2011, as against an initial target of 461mt, which was later revised to 440mt. The company has a target to produce 447mt of coal in FY2012. In order to reduce the deficit, the company intends to liquidate 28mt out of 70mt of coal it has lying at various pithead coal mines. However, the liquidation of coal remains contingent on the availability of rakes to transport coal.

As of August 31, 2011, 22 critical thermal power stations out of the 82 monitored by the CEA had critical coal stocks for less than seven days. Currently, coal shortage has been due to multiple accounts such as lower receipt from Coal India, logistical issues, lower imports and higher utilisations.

Global coal prices higher on a yoy basis

Spot global coal prices were substantially higher on a yoy basis during the quarter. Average prices of the New Castle Mccloskey 6,700kc coal stood at ~US$120/tonne in 2QFY2012 vs. US$94/tonne in 2QFY2011. However, on a qoq basis, coal prices remained flat.

Exhibit 1: New Castle McCloskey prices

Source: Bloomberg, Angel Research

Indonesian regulation on coal exports to affect profitability of power projects

Currently, India's power sector imports a major portion of its coal requirements from Indonesia. The Indonesian government had few months back brought a new regulation that said that the pricing of Indonesian coal exports should be based on a reference price, which would be published by it every month. The government had set a September 2011 deadline for renegotiating the contract with retrospective effect.

This new regulation will adversely affect the profitability of power projects in India based on Indonesian coal with fuel supply agreements at concessional rates, if they could not get their PPAs modified to pass on the hike in fuel costs using the force majeure clause. PPAs for these projects have been signed under the competitive bidding route by factoring low coal costs and, hence, have to be renegotiated to make the projects financially viable.

Power players have made representations to the Indian government and state regulators, both individually and collectively, requesting changes in competitive bidding rules and PPA clauses to factor in the hike in coal costs due to the change in Indonesian regulation. However, there has not been any announcement from the government regarding the same.

Exhibit 2: Some of the projects dependent on Indonesian coal

Company	Project	Capacity (in MW)
Adani Power	Mundra I&II	1,320
	Mundra III	1,320
	Mundra IV	1,980
JSW Energy	JSW SBU I	260
	JSW SBU II	600
	JSWERL	1,200
Lanco Infratech	Nagarjuna Power - I	1,200
Reliance	Krishnapatnam	3,960
Tata Power	Mundra UMPP	4,000

Source: Company, Angel Research

Poor financial position of state utilities is a major worry

The poor financial position of SEBs (aggregate losses excluding subsidy of ₹63,548cr in FY2010 and estimated to have gone up substantially since then) has affected power plants operating under both regulated RoE model as well as the merchant route. Instances of backing down by state utilities have increased

Power

considerably in the past few quarters, resulting in lower generation-linked incentives for regulated RoE plants. NTPC, India's largest power producer, lost 13bn units of generation in FY2011 due to backing down by SEBs. Similarly, the slowdown in demand from state utilities has resulted in a fall in short-term power rates, thereby considerably affecting merchant power players.

Of late, there has been increasing instances of delayed payments by SEBs/distribution companies to generation companies. In September, NTPC had issued notices to distribution utilities in New Delhi and Haryana for payment defaults. In New Delhi, the blackout situation was averted after BSES-Rajdhani and BSES-Yamuna - the private distribution utilities in New Delhi - promised to restore the Letter of Credit, which had expired at the end of August. With regard to Haryana SEB, NTPC has given a deadline of October 4, 2011, for clearing the dues, post which the company can recover its dues under the provisions of tripartite agreement.

During the quarter, the Delhi Electricity Regulatory Commission raised power tariffs in New Delhi by ~22%. The Rajasthan Electricity Regulatory Commission also increased power tariffs in the state. Bihar increased power tariff by ~19% in June 2011. Going ahead, power tariffs are expected to be increased in Tamil Nadu and Karnataka.

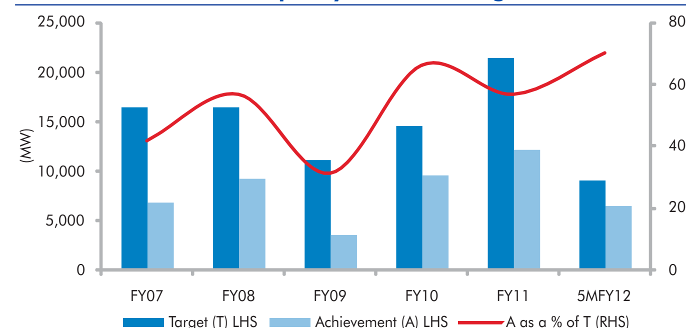
Capacity addition: Status check

Generation

As of August 2011, only 65% of the revised Eleventh Plan capacity addition target of 62,374MW had been completed. During 5MFY2012, 6,369MW of capacity was added as against the targeted 9,091MW, showing a pickup in capacity addition, which is expected to be maintained for the remaining year, which is the last half year of the plan period. Capacity addition has generally not been as per the target due to execution issues relating to acquisition of land and obtaining environment and other statutory clearances.

In all, we expect capacity addition of ~52,000MW (including the slippages of the tenth plan, which were commissioned in the eleventh plan) during the plan period, which will be ~10,000MW short of the target.

Exhibit 3: Generation capacity addition: Targeted vs.achieved



Source: CEA, Angel Research

Transmission lines

During 5MFY2012, 3,851 circuit kilometers (ckm) were added to the 400kV transmission lines, as against the targeted 2407ckm. Total addition to the 220kV transmission line categories stood at 1,999ckm, as against the targeted 1,409ckm.

Transmission substations

During 5MFY2012, total addition to the 220kV substation category stood at 3310MW as against the targeted 1730MW.

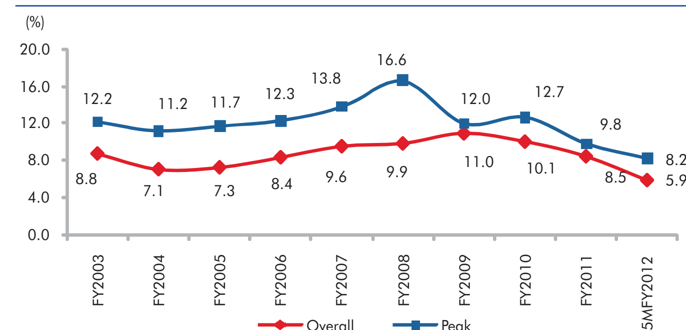
Operational highlights

During 5MFY2012, power generation in India rose by 9.6% yoy to 361.2BU (329.7BU). Overall, the country's thermal power generation rose by 5.8% yoy to 285.7BU. The plant load factor (PLF) of thermal plants for 5MFY2012 stood at 73.4%, higher by 483bp than the targeted 68.6%. Hydro power generation increased substantially by 22.6% yoy to 62.2BU, while nuclear power generated grew drastically by 50.6% yoy to 13.3BU during the mentioned period, depicting lower base effect.

Power deficit situation

India's overall and peak power-deficit levels during 5MFY2012 stood at 5.9% and 8.2%, respectively, significantly lower than 10.4% and 13.8% reported in 5MFY2011. The substantial fall in the deficit is on account of lower demand from SEBs due to poor financial position.

Exhibit 4: India - Power-deficit scenario



Source:CEA, Angel Research

Power

Exhibit 5: Region-wise power deficit (5MFY2012)

Region (%)	Overall	Peak
Northern	(4.1)	(9.1)
Western	(9.4)	(14.8)
Southern	(4.7)	(7.2)
Eastern	(4.0)	(6.4)
Northeastern	(9.6)	(11.6)
All India	**(5.9)**	**(8.2)**

Source: CEA, Angel Research

Key developments

NTPC

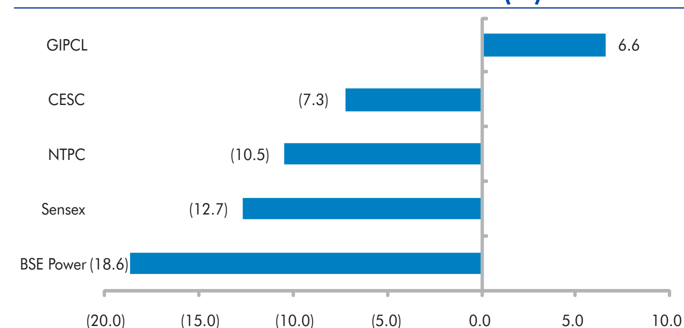
During the quarter, NTPC completed the bulk tendering of BTG equipment for nine units of 800MW. BGR Energy-Hitachi Joint Venture emerged as the winner during the tender.

NTPC and Ceylon Electricity Board (CEB), Sri Lanka, signed a joint venture agreement on September 6, 2011, in Colombo for setting up a 500MW (2X250MW) coal-based power station at Sampur, Trincomalee, in the Eastern Province of Sri Lanka. The proposed joint venture company would be incorporated in Sri Lanka, with equal equity contributions from NTPC and CEB.

Performance on the bourses

The Sensex lost 12.7% of its value during the quarter, while the BSE Power Index fell by 18.6%. Among the power companies in our coverage universe, NTPC and CESC lost 10.5% and 7.3%, respectively. However, GIPCL rose by 6.6% during the quarter.

Exhibit 6: Performance on the bourses (%)



Source: BSE, Angel Research

2QFY2012 expectations

For 2QFY2012, we expect NTPC to record a 10.4% yoy increase in its top line to ₹14,733cr, aided by volume growth due to the commencement of new capacities. Operating profit is expected to increase by 46.7% yoy to ₹3,094cr. The huge growth is on account of low base, since NTPC had a huge one-off provision of ₹1,263cr on sundry debtors during 2QFY2011. However, the company also had depreciation write-back and advance against depreciation (AAD) recognised as prior-period sales totalling ₹1,763cr in 2QFY2011. Thus, net profit is expected to increase marginally by 2.1% yoy to ₹2,151cr.

CESC is expected to register 6% yoy growth in its standalone top line to ₹1,155cr, aided by better realisation. OPM is expected to decline by 455bp yoy to 23.3% on account of higher base. The company had reported negative other expenses of ₹14cr in 2QFY2011, which boosted its operating margins considerably. We expect net profit to dip by 6% yoy to ₹146cr.

We expect GIPCL to register a 40.6% yoy increase in revenue in 2QFY2012 due to higher contribution to revenue from SLPP-2 station, which has stabilised completely. OPM is set to expand by 1,456bp yoy to 35% due to higher availability and lower PLFs. The bottom line is expected to improve by 90.3% yoy to ₹29cr in 2QFY2012.

Outlook: With the power sector currently facing many headwinds such as fuel shortage, increasing fuel prices, falling merchant tariffs and poor SEB financial position, we believe players with cost-plus return models and assured fuel are better placed than others. **We maintain our Buy view on NTPC, GIPCL and CESC.**

Exhibit 7: Quarterly estimates

(₹ cr)

Company	CMP	Net Sales		OPM (%)		Net Profit		EPS (₹)		EPS (₹)			P/E (x)			Target	Reco.
	(₹)	2QFY12E	% chg	2QFY12E	chg bp	2QFY12E	% chg	2QFY12E	% chg	FY11	FY12E	FY13E	FY11	FY12E	FY13E	(₹)	
CESC	277	1,155	6.0	23.3	(455)	146	(6.0)	11.6	(6.0)	38.8	42.3	44.8	7.1	6.5	6.2	383	Buy
GIPCL	81	301	40.6	35.0	1,456	29.2	90.3	1.9	90.3	10.8	10.3	11.2	7.5	7.8	7.2	95	Buy
NTPC	167	14,733	10.4	21.0	521	2,151	2.1	2.6	2.1	11.3	12.2	13.5	14.7	13.7	12.4	202	Buy

Source: Company, Angel Research; Note: Price as on September 30, 2011

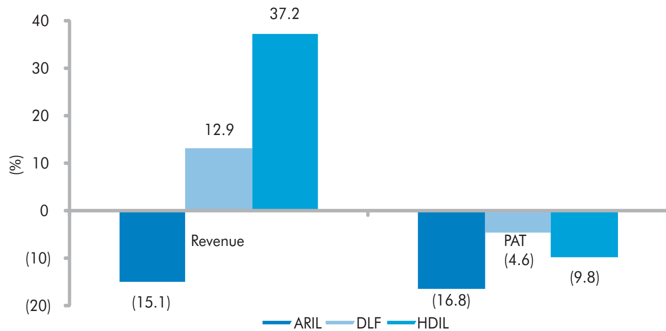
Analyst - V. Srinivasan / Sourabh Taparia

Real Estate

For 2QFY2012, we expect residential volumes to report negative to flat growth on a sequential basis on account of weak demand due to high interest rates, elevated property prices and 2Q being a cyclically weak quarter for the real estate industry because of the monsoon season. Revenue of real estate companies is expected to be largely driven by sale of plotted land and execution of existing projects, though execution delays remain a cause of concern. Companies such as DLF are expected to continue to see sustainability in office-leasing volumes on a sequential basis. Accordingly, we believe commercial rentals have bottomed out, and we do not foresee any material uptick until inventory levels come down.

In our universe of stocks, we expect HDIL to report flat growth qoq in Transfer of Development Rights (TDR) volumes and prices, given low inventory of TDRs left on account of earlier stoppage of the MIAL project, which has restarted but the company does not foresee any material uptick in the generation and sale of TDR. HDIL is also expected to continue to book partial revenue from the 2mn sq. ft. (msf) FSI sale (worth ~₹1,400cr) in 2QFY2012. DLF's revenue is expected to be largely driven by the sale of plotted properties in Gurgaon. For ARIL, we expect revenue to be driven by the residential segment and rental income.

Exhibit 1: 2QFY2012E – Revenue and PAT yoy growth



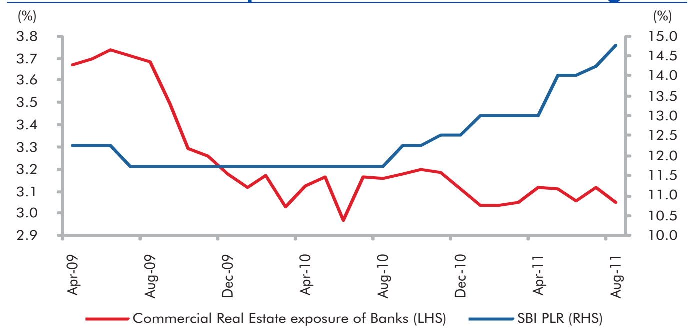
Source: Angel Research

Low liquidity, high interest rates and escalating input costs

Currently, the real estate industry is facing a liquidity crunch where companies are finding it difficult to raise money. The sharp rise in interest rates over the last 18 months has led to a considerable increase in cost of capital especially for real estate companies. Banks have become very cautious while sanctioning loans to the sector, and even private equity funding has dried up. Exposure of banks to the sector has reduced from 3.7% in April 2009 to just 3.05% in August 2011. Private equity investment in the sector declined by around 20.2% yoy to about ₹3,740cr in the first five months of this fiscal. Foreign direct investment in the sector has been gradually falling from FY2010 and is at its four-year low as a percentage of the total FDI in the country.

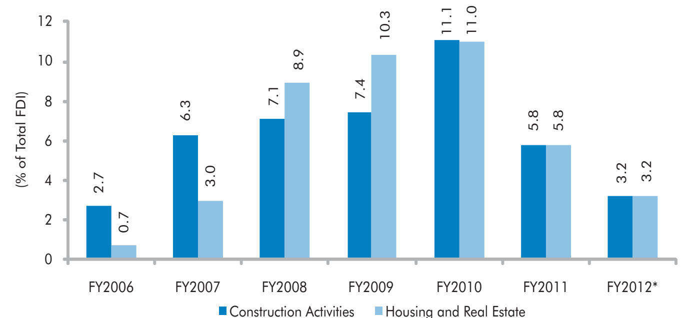
Apart from the liquidity crunch, rise in interest rates has also resulted in a slump in demand. In August 2011, on a yoy basis, Mumbai witnessed a decline in residential registration by 25% and is at its 27-month low. Higher interest rates may further compel buyers to postpone their purchases or investments in new houses going ahead, which may further dampen sales.

Exhibit 2: Banks exposure to the sector declining



Source: CRISIL, Angel Research

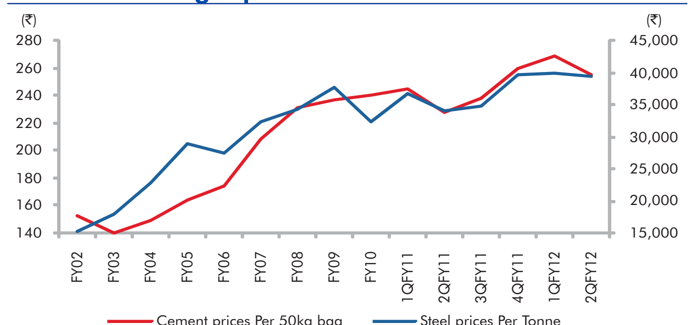
Exhibit 3: FDI Inflow at a four year low in the sector



*Source: Department of Industrial Policy and Promotion, Govt. of India; Note: * April-May 2011*

Cost overruns continue to be a big cause of concern for real estate developers. Around 70% of construction cost is spent on raw material (steel and cement) and labour. Currently, on a two-year basis, cement price has increased by ~27% from ₹202/bag to ₹275/bag, steel price has increased by ~13% from ₹30,750/tonne to ₹38600/tonne and labour cost has increased by ~50% from ₹250/day to ₹375/day. With increasing input cost and demand failing to pick up, we expect execution delays for many new as well as old properties. We also believe that cost escalation will impact margins over the coming quarters; however, margins will improve once revenue from new projects increases.

Exhibit 4: Rising input cost – A cause of concern



Source: CRISIL, Angel Research

Real Estate

Land Acquisition Bill 2011

The Central Cabinet in September approved the much-awaited Land Acquisition Bill 2011, which is expected to be cleared by the parliament before year-end, which seeks to lay down increased compensation for land owners. The bill proposes 1) the compensation offered to land owners would be four times the notified rate for rural areas and two times the notified rate for urban areas, along with other benefits; 2) all land acquisitions above a threshold (>100 acres in rural area; >50 acres in urban area) whether undertaken by the government or private parties would necessarily be required to formulate a rehabilitation and resettlement (R&R) policy covering the land owner and everyone dependent on the land. Therefore, the bill increases the scope of people covered under the compensation, leading to a further increase in cost. It should be noted that the bill is only proposing a model framework devised by the Central Government, leaving it to the state regulators to decide how land acquisition transactions will be dealt within their states.

We believe this bill will bring transparency in the sector and put a stop to the murky deals happening in the real estate industry. This bill may lead to an increase in cost and delay in projects as land values will increase and developers will have to provide new homes, jobs, monthly stipends and a cut of future profits to former landowners. This will mostly affect developers who are planning to develop township, which require land more than 100 acres. We believe developers who already hold large land parcels such as DLF may benefit greatly from this bill as they will be able to sell their land at a premium price or develop it without paying a hefty premium. We believe affordable housing will be hit as these projects are based on large volumes, which require a large area to develop. Developers will move towards building mid-high income projects, which require less area but give high returns on investment.

DLF - Putting plan into action

DLF, which had planned to reduce its burgeoning debt (which stood at ₹21,524cr at the end of 1QFY2012) by monetising its non-core assets seems to be putting its plan into action. DLF sold 28 acres of land in Gurgaon for ₹440cr and is planning to sell its 17.5 acres of land in NTC mill land in Central Mumbai, which is estimated to be worth around ₹3,000cr and could be one of the biggest land deals in the country. The company is also seeking approval from the Board of Approvals for SEZs to sell the shares of its IT SEZ in Pune. DLF, which has a 70% stake in the SEZ, is in talks with PE players to sell the land, which is estimated to be worth around ₹900cr. DLF is also expected to complete selling its IT park in Noida to IDFC for ₹512cr. DLF has a 71% stake in this project; the remaining 29% stake is held by 3C. Overall, if these deals go through, the company could significantly reduce its mounting debt over the coming few quarters.

DLF's overall target on divestments is about ₹ 10,000cr, which would be about ₹4,500cr if the wind segment is excluded. Further, the company has added ₹6,000cr to ₹7,000cr to its disinvestment target over the next two to three years.

CCI penalty to have a negative impact on brand value

DLF, one of the most dominant players in the real estate industry, was slapped with a ₹630cr penalty by the Competition Commission of India (CCI) for abuse of its dominant position following the inclusion of unfair conditions in agreements it concluded with a number of flat buyers. CCI has also directed DLF to cease and desist from formulating and imposing such unfair conditions in its agreements with buyers in Gurgaon and to modify unfair conditions imposed on its buyers within three months of the date of receipt of this order. The penalty amounts to 7% of DLF's average turnover for the last three years. This decision to impose a penalty on DLF was the first of its kind in India, and we believe this can have a negative impact on DLF's goodwill. The company has appealed against the penalty stating that it was following industry practices. We believe this case may take a long time to settle.

The CCI may also take action against other developers if they are found guilty. These kinds of action taken by the CCI will help make the industry more transparent in future and safeguard the interest of buyers.

HDIL - Trying to reduce debt and improve cash flows

HDIL, which does not expect any major increase in TDR generation and sale for this year, has also started following the footsteps of DLF to reduce debt. The company plans to sell 5msf land parcel at Virar for around ₹650cr, which will help it to reduce debt. With the delay in the MIAL project, the company is trying to diversify by moving towards developing residential projects. With residential sales slowing, the company plans to boost its sales by launching projects at a discount to market price. HDIL is expected to soon launch a residential building in Ghatkopar at ₹7,500-10,000 per sq. ft., with the present minimum market rate in Mumbai suburb hovering around ₹10,000/sq. ft. Overall, HDIL plans to launch three-four residential developments, of 8-10msf in total, in and around the city. This will help the company to increase cash flow generation. The company plans to repay ₹800cr-1,000cr of debt in the coming three quarters of FY2012.

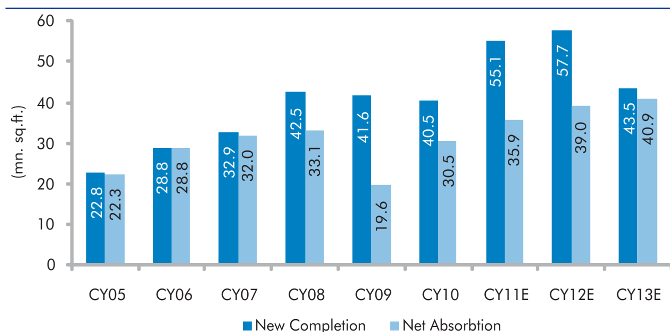
Real Estate

The company, which has already generated 11msf from the MIAL project this far despite more than one-year delay in shifting the families in Phase 1, will benefit with the continuation of work and increased TDR generation. For 2QFY2012, we expect flat growth in the sale of TDR sequentially, but we expect TDR sales to improve to 1-1.2msf by FY2013E. The expected hike in FSI from 1.0x to 1.33x in suburbs by the Maharashtra government will have a negative impact on TDR prices. Thus, we have factored in lower TDR price of ₹2,400/sq. ft. (i.e., 20% discount to current levels of ₹3,000/sq. ft.) for arriving at our target price and do not expect a negative impact incrementally. We have assumed 3.25msf of TDR sale in FY2012.

Commercial demand to pick up after 12-15 months

After registering a sharp decline in the past few quarters, capital values have started to strengthen and registered a marginal appreciation across most micro markets. The commercial sector is expected to get a huge supply in 2HCY2011 according to Jones Lang LaSalle (JLL). CY2011 is likely to see 55.1msf of office space to be operational with only 35.9msf estimated to be absorbed. Vacancy is estimated to be above 20%, which will keep commercial rates stagnant over the coming quarters. JLL expects vacancy to remain above 22.9% in CY2012 and gradually reduce in CY2013. Industry participants have indicated that the surge in leasing enquiries has come on the back of renewed interest shown by the IT industry, which contributed to 41% of the total leasing activity in 1QFY2012.

Exhibit 5: Absorbtion level to remain low

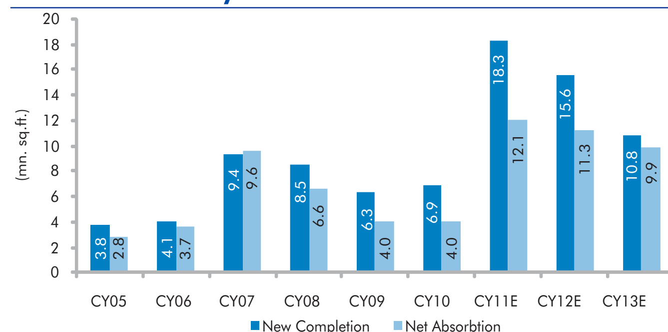


Source: Real Estate Intelligence Service (JLL), 2Q11

Retail segment - Still some pain left

Vacant space in shopping centres had increased during 2008-09, primarily on account of high real estate costs and lower consumption, owing to which many retailers shifted gears from the rapid expansion mode to consolidation mode. Therefore, in the short term, vacant spaces are likely to increase given the considerable rationalisation in the supply pipeline. On the other hand, we believe demand is yet to pick up, especially in tier-II and III cities, which is not the case with metros, where catchment areas are witnessing high demand. We expect prices to remain under pressure, as the segment has fragmented supply dynamics. Initial recovery volumes are likely to be cornered by experienced players such as Phoenix Mills and not necessarily large ones. JLL expects vacancy in the segment to remain above 20% over CY2011-13.

Exhibit 6: Vacancy to remain above 20% over CY11-13



Source: Real Estate Intelligence Service (JLL), 2QFY2011

Dipping residential volumes adding to margin pressure

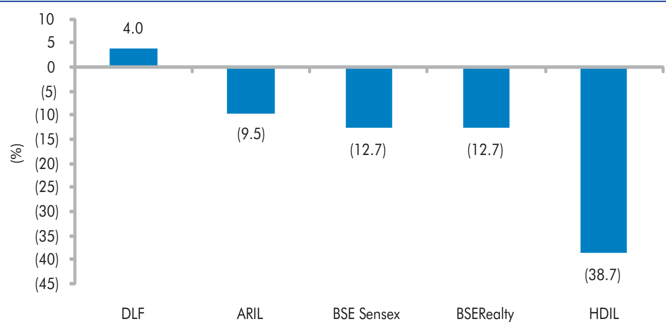
Mumbai registrations have declined by 25% yoy and are at their 27-month low in August 2011. Residential absorption rates had fallen to 14.6% in 1QFY2012 from 17.5% in 4QFY2011 and are not expected to improve any time soon. In Mumbai and Delhi, residential prices are currently ruling 15-30% above the peak levels of 2008; whereas, prices in most other markets are still 10-15% lower than their last peak levels. This has resulted in tapering of volumes in regions such as Mumbai and NCR. India's top two real estate players (DLF and Unitech) have recently stated that slower sales are leading to a build-up of inventory and, thus, they may see some price correction, leading to margin pressures. On the back of sluggish demand, HDFC and SBI have also seen a drop in their mortgage loan transactions. For instance, HDFC has seen a drop of 15-20% in its mortgage loans in Mumbai (although disbursements have been good otherwise), while SBI expects a downward revision in its growth target. We believe 2HCY2011 will see consolidation with residential prices remaining soft in Mumbai and Gurgaon (could see a correction of 10-15% in some overheated urban markets), with a modest to flat 5% decline expected in other markets.

Real Estate

Sensex vs. realty stocks

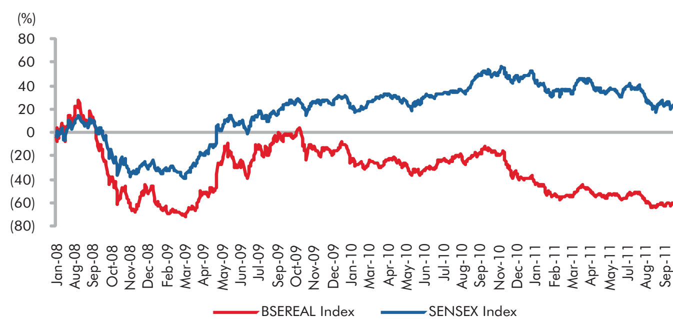
During 2QFY2012, the BSE Realty Index fell in tandem with the Sensex on the back of macro concerns and because of 1) rise in interest costs, 2) corporate governance issues, 3) Land Acquisition Bill, 4) liquidity crunch and 5) projects delays. However, we believe the sharp correction (BSE Realty Index down by 52.7% yoy) gives a good entry point on account of 1) companies trading at a significant discount to our one-year forward NAV, 2) stability in volumes and 3) comfortable balance sheet position unlike that in 2008. We believe HDIL and ARIL are best placed in the sector.

Exhibit 7: 2QFY2012 – Coverage vs. Sensex performance



Source: Bloomberg, Angel Research

Exhibit 8: BSE Realty index vs. Sensex



Source: Bloomberg, Angel Research

Outlook and valuation

The BSE Realty Index (down 12.7% yoy) is currently ruling near its life-time low seen in 2008. Short-term prospects for the sector look bleak due to project delays, low cash flow generation, high debt and rising interest costs. Further, refinancing of loans from banks has become difficult with rising interest cost and the banks having a cautious view on the sector. Having said that, we believe absorption and not price appreciation will drive residential growth over the next six quarters. Given the scenario, new launches have been launched at 10-15% discount to prevailing market rates, which would help developers to achieve higher booking, thereby generating higher cash flows. Further, high inventory is still hampering commercial recovery, though there has been an uptick in absorption levels. We expect rentals to remain firm at current levels with an uptick likely over the next 12-15 months. We believe stock performances are related to macro factors interspersed with company-specific issues such as the CCI penalty on DLF. We are positive on the long-term outlook of the realty sector, taking into account growing disposable income, shortage of 25mn houses in India and reasonable affordability. Given the current scenario, we expect modest correction in residential prices with the exception of certain micro markets, where prices are not overheated, and expect an uptick in the commercial segment over the next 12-15 months.

We prefer companies with visibility in cash flow, low leverage and strong project pipeline with attractive valuations. **Our top picks are HDIL and ARIL, which are trading at ~50% and ~54% discount to their NAVs, respectively. We maintain our Neutral view on DLF, owing to concerns of weak operating cash flow, increasing gearing and just ~12% discount to our one-year forward NAV.**

Exhibit 9: Quarterly estimates

(₹ cr)

Company	CMP	Net Sales		OPM (%)		Net Profit		EPS (₹)		EPS (₹)			P/E (x)			Target	Reco.
	(₹)	2QFY12E	*% chg*	2QFY12E	*chg bp*	2QFY12E	*% chg*	2QFY12E	*% chg*	FY11	FY12E	FY13E	FY11	FY12E	FY13E	(₹)	
DLF	219	2,674	*12.9*	43.0	*382*	399	*(4.6)*	2.4	*(4.6)*	9.7	9.8	11.9	22.6	22.4	18.4	-	Neutral
Anant Raj Ind	58	113	*(15.1)*	50.8	*356*	40	*(16.8)*	0.1	*(16.8)*	5.7	5.3	8.1	10.2	10.9	7.2	90	Buy
HDIL	98	511	*37.2*	49.7	*(1,395)*	193	*(9.8)*	0.5	*(9.8)*	19.8	24.9	31.7	4.9	3.9	3.1	150	Buy

Source: Company, Angel Research; Note: Price as on September 30, 2011

Analyst - Sharan Lillaney

Software

Macro data points hint slowdown...

In June 2011, the IMF forecasted that global GDP is set to grow at 4.3% and 4.5%, respectively, for CY2011 and CY2012. However, rising sovereign debt due to QE measures and bailouts led to gross debt to GDP of developed economies such as US, UK and Eurozone surge to an uncomfortable zone. Further, as the effect of QE measures is gradually fading, economic data points for developed economies are also moving back into the alarming zone. As a result, the IMF, just within two months, has marginally downgraded its global GDP growth forecast to 4.2% and 4.3% for CY2011 and CY2012, respectively. The downgrade has, however, been steep for US from 2.5% and 2.7% for CY2011 and CY2012 to 1.6% and 2.0%, respectively. In case of Eurozone, the forecast has been trimmed marginally from 2.0% and 1.7% to 1.9% and 1.4% for CY2011 and CY2012, respectively.

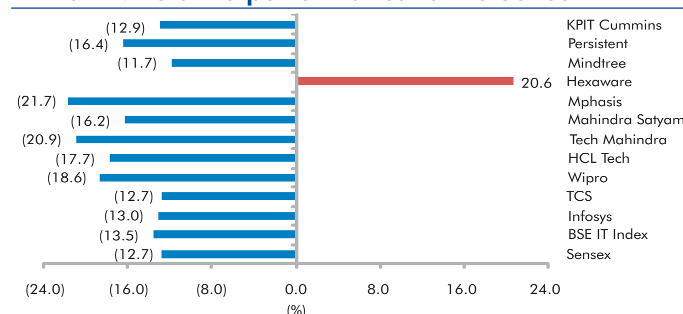
For August 2011, data points for the US economy have turned negative. For instance, 1) consumer confidence index has fallen to 44.5 from 59.2 (mom), indicating that expectations are turning negative; 2) manufacturing index is flirting near the 50 mark (currently at 50.6 from 50.9 in July 2011); and 3) unemployment rate remains unchanged at 9.1% (mom). Globally, large selective banks have announced planned layoffs to curb costs such as UBS (3,500 employees, which is 5% of its global staff), Credit Suisse (2,000 employees i.e., 4% of its global staff), HSBC (30,000 employees, 10% of its global staff by CY2013) and Bank of America (30,000 employees, 10% of its global staff by CY2014).

...Slowdown may cause CY2012 IT budgets to go soft

In CY2008, Lehman Bankruptcy was the starting point when clients revisited their spending on IT and scrapped most of their discretionary spending. Layoffs in the form of pink slips were sudden to pull the lever of variable cost as revenue dipped. In CY2011, the S&P downgraded US credit rating from AAA to AA for the first time ever in the history of US, which led to panic selling in IT stocks, as developed economies remain the key markets for IT companies. Hence, the IT index nosedived by 13.5% in 2QFY2012 in anticipation of the repetition of FY2009-10 slowdown.

IT stock prices have corrected significantly, indicating that prices have already built in the case of another recession. However, financial results of Oracle, the global enterprise giant for the quarter ending August 2011, overruled the pessimism that is building in Indian IT future. The company's licence sales grew by 19% yoy and the guidance remained positive at 6% to 16% yoy license sales for the next quarter. There is always a lag effect of two to three quarters between licence sales by Oracle and SAP translating into an implementation opportunity for Indian IT vendors. Globally, spending on IT post the recession has been very prudent by corporates. Clients have started focusing on cost efficiencies and have stopped irrational upgrades or capex. Budgets are now assigned with an intention of achieving objectives of cost efficiency, driving growth in other markets to grow footprint and be regulatory compliant to have effective risk management, among other factors. This has also been highlighted by the recent commentary by Accenture's management, which posted robust bookings of US$8.4bn in 4QFY2011 (August ending). Management expects FY2012 bookings to be US$28bn-31bn and has guided for overall revenue growth of 7-10% yoy (15% yoy in FY2011). Hence, we believe the CY2008 scenario of extensive client budget cuts and pricing cut would not resurface in CY2012. However, we do not rule out the probability of CY2012 IT budgets turning softer as compared to CY2011. Hence, our base case before the US credit de-rating event has now become the bullish case (only in case of another round of QE-3). We expect moderation in IT budgets for CY2012 and expect volumes for Indian IT companies to scale down to sub 15% from 20% plus levels. However, we have not built in any pricing erosion because post CY2008, the current pricing is still at a discount to the peaks.

Exhibit 1: Relative performance to the Sensex



Source: Bloomberg, Angel Research

Hiring spree to continue

IT players got into the hiring mode from 2HFY2010, with high lateral hiring to tap the sudden increase in demand. Even amidst uncertainty regarding client budgets for CY2012, companies like Infosys and TCS are continuing to hire as per their robust gross hiring targets for FY2012 of 45,000 and 60,000, even on the total employee base of 1,33,560 and 2,04,245, respectively. These initial hiring numbers are much higher than the initial hiring numbers of 30,000 each indicated for FY2011 by Infosys and TCS. On-track hiring as well as strong results by Oracle and Accenture instills confidence in achievement of 20% plus growth by tier-I IT companies in FY2012.

Utilisation to be a mixed bag

In 2QFY2012, we expect the utilisation level (including trainees) of Infosys to increase by 181bp qoq to 71.4%. In case of TCS, we expect the utilisation level (including trainees) to drop by 91bp qoq to 75.1% on the back of absorption of a higher number of freshers. We expect HCL Tech to continue its just-in-time hiring and manage to pull up its utilisation level by

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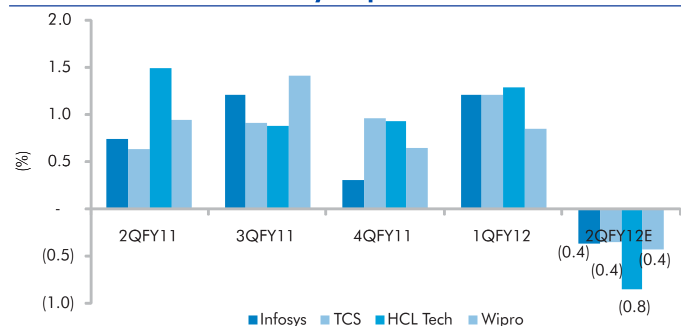
95bp qoq to 76.5%. However, Wipro is expected to show a marginal dip of 19bp qoq in its utilisation level to 76.7%, as it also would have freshers joining in.

In case of tier-II Indian IT companies, utilisation levels of most companies are expected to move down primarily because these companies are chasing to achieve the flattening of their employee pyramids. Most of their campus hires are expected to join in 2QFY2012. Hence, we expect utilisation levels of Hexaware, MindTree and KPIT Cummins (KPIT) to slip by 90bp, 300bp and 120bp qoq to 70.5%, 68.8% and 70.0%, respectively. However, in case of Mahindra Satyam and Tech Mahindra, we expect utilisation levels to rebound by 30bp and 90bp qoq to 74.3% and 71.9%, respectively, because of major fresher hiring done in 1QFY2012; these freshers will turn billable in 2QFY2012.

Cross-currency movement turns spoilsport

The cross-currency movement, which had proved to be a bane during 4QFY2010-1QFY2011 impacting USD revenue by 0.8-1.5% (qoq), had turned into a boon since 2QFY2011. However, once again it has turned into a spoilsport with the USD appreciating by 1.8%, 1.2% and 1.1% qoq against the Euro, GBP and AUD, respectively, in 2QFY2012. This will negatively affect USD revenue of Infosys, TCS, Wipro and HCL Tech by 0.4%, 0.4%, 0.4% and 0.8% qoq, respectively. Amongst the entire IT pack, Tech Mahindra is expected to be the highest looser due to unfavourable cross-currency movement of 1.0% qoq.

Exhibit 2: Cross-currency impact on USD revenue

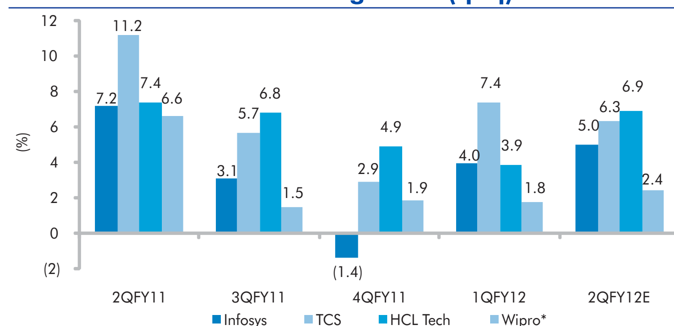


Source: Company, Angel Research

Strong volume growth

Traditionally, 2Q is the strongest period for IT companies as client budgets start getting spent aggressively. However, companies like Infosys expect 2HFY2012 to be the strongest. We expect 2QFY2012 to be strong in terms of volume growth for most companies. For 2QFY2012, we expect volume growth to remain better at 2.4-6.9% qoq for tier-I IT companies, with HCL Tech leading the pack and Wipro at the fag end of the range. For tier-II companies, we expect growth to be modest at 0.6-6.0% qoq, as utilisation is expected to take a hit with the highest number of freshers expected to come on board in 2QFY2012. Mahindra Satyam is expected to be the leading tier-II company, whereas Mphasis is expected to be at the bottom.

Exhibit 3: Trend in volume growth (qoq) - Tier-I

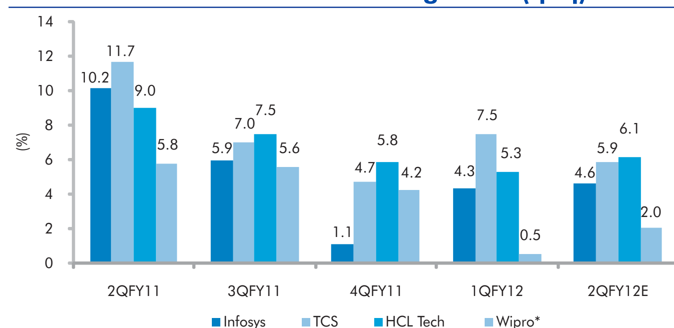


Source: Company, Angel Research; Note: *For IT services segment

Revenue expected to surge

For 2QFY2012, we expect USD revenue to surge by 2.0-6.1% qoq for tier-I IT companies on the back of strong volume growth and stable pricing countering the impact of unfavourable cross-currency movement. In INR terms, revenue growth is expected to be higher at 2.3-8.3% qoq due to depreciation of INR against USD on a qoq basis, with average USD/INR rate at 45.8 for 2QFY2012 as against 44.7 in 1QFY2012. For tier-II IT companies, USD revenue growth is expected to be 0.2-5.8%, with Mahindra Satyam leading the pack.

Exhibit 4: Trend in USD revenue growth (qoq) - Tier-I



Source: Company, Angel Research; Note: *For IT services segment

Margins to be a mixed bag

We expect EBITDA margin for Infosys and TCS to expand as the negative effect of wage hikes given in 1QFY2012 is expected to be partially absorbed in 2QFY2012. Also, depreciating rupee is expected to provide a cushion to their operating margins. Infosys and TCS are expected to record a margin improvement of 108bp and 36bp qoq to 30.2% and 28.4%, respectively. Margin improvement is expected to be lower in case of TCS on account of a dip in utilisation as well as effect of its promotion cycle.

The impact on the EBITDA margin of Wipro's IT services segment due to wage hike and full quarter integration effect of SAIC (with 13.5% EBIT margins) is expected to be 329bp qoq to 21.3% as the increments were effective from June 1, 2011. For HCL Tech, we expect the company's EBITDA margin to slide by 200bp qoq to 16.5% on the back of wage hikes given from July 1, 2011.

Wage hikes for tier-II IT companies, including Hexaware,

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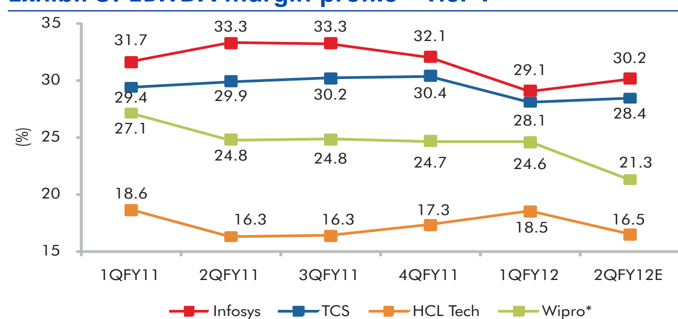
MindTree (75% of employee base), KPIT and Mphasis, got over in 2QCY2011. Hence, we expect efficiency gains, rupee depreciation and good volume growth to drive EBITDA margin by 41bp, 67bp, 256bp and 228bp qoq to 15.7%, 11.8%, 15.1% and 17.6%, respectively. In case of Mahindra Satyam, wage hikes have been deferred to OND2011 quarter, so the company is expected to record a 139bp qoq expansion in its EBITDA margin to 16.0%. This is primarily on the back of improved utilisation, flattening of employee pyramid due to 1,300 freshers hired in 1QFY2012, rupee depreciation and SGA leverage. On the contrary, EBITDA margin for Persistent is expected to dip by 252bp qoq to 15.4% due to wage hikes given in 2QFY2012.

Exhibit 5: EBITDA margin profile - Tier-I



*Source: Company, Angel Research; Note: *For IT services segment*

Earnings growth to be a mixed bag

On the back of absorption of wage hikes, which were undertaken in 1QFY2012, profitability of tier-I companies like TCS and Infosys is expected to rebound by 3.8% and 7.5% qoq, respectively, in 2QFY2012. For Wipro and HCL Tech, profitability is expected to slip by 8.2% and 3.1%, respectively, as the effect of wage hikes is expected to follow in 3QCY2011.

Amongst mid-tier IT companies, profitability is expected to slide steeply on the back of a decrease in forex gains due to rupee depreciation, marginal increase in tax rates and wage hikes hampering margins (except KPIT). KPIT is expected to show robust improvement of 19.9% qoq on PAT because of strong improvement in margins; hedges turning into ITM because of rupee depreciation; and contribution by Systime.

Outlook and valuation

For CY2011, clients allocated 2-3% higher budgets for IT spending. Also, S&P 500 profits are expected to grow by 16% yoy for CY2011. Moreover, as per TPI's recent report, deal pipelines of IT companies are expected to be higher in 2HCY2011, as indicated by the managements of selective companies such as HCL Tech and Infosys. This is also in tandem with the licence sales data from enterprise leader Oracle as well as higher number of deals expected to begin to resurface for vendor churn.

However, the global macro data is pointing towards a bleak outlook for future global corporate profits. Further, there is a huge amount of disconnect in terms of macro landscape and client behaviour. Thus, we expect tier-I IT companies (except Wipro) to replicate growth of 20% plus in FY2012. Further, we expect moderation in volumes to sub 15% only in FY2013. Moderate volumes and stable pricing (assumed) have resulted into FY2013 EBITDA margins moving down marginally by 0-65bp yoy for tier-I IT companies. However, EPS cuts have been of 5-9% for tier-I companies and 4-12% for tier-II companies (excluding Hexaware and MindTree) for FY2013. Thus, we have downgraded our one-year forward PE (x) targets of IT phoenixes by ~10% to 20x (22x earlier) and 18x (20x earlier) for TCS and Infosys, respectively. We have now turned cautious from cautiously optimistic (during results of 1QFY2012) and prefer diversified players such as Infosys, TCS and HCL Tech (top pick) in tier-I IT companies. In case of tier-II IT companies, we like Mahindra Satyam and Hexaware Technologies.

Exhibit 6: Quarterly estimates **(₹ cr)**

Company	CMP	Net Sales		OPM (%)		Net Profit		EPS (₹)		EPS (₹)			P/E (x)			Target	Reco.
	(₹)	2QFY12E	% chg	2QFY12E	chg bp	2QFY12E	% chg	2QFY12E	% chg	FY11	FY12E	FY13E	FY11	FY12E	FY13E	(₹)	
TCS	1,038	11,670	8.1	28.4	36	2,472	3.8	12.6	3.8	44.5	53.4	58.9	23.3	19.4	17.6	1,179	Accumulate
Infosys	2,534	7,988	6.7	30.2	108	1,851	7.5	32.4	7.5	119.5	136.9	150.3	21.2	18.5	16.9	2,705	Accumulate
Wipro	341	8,923	4.2	17.7	(254)	1,225	(8.2)	5.0	(8.2)	21.7	21.3	24.4	15.7	16.0	13.9	374	Accumulate
HCL Tech*	408	4,671	8.6	16.5	(200)	495	(3.1)	7.1	(3.1)	24.5	31.3	37.8	16.7	13.0	10.8	558	Buy
Tech Mahindra	574	1,351	4.6	16.3	(236)	265	(4.0)	20.1	(4.0)	49.4	79.4	81.5	11.6	7.2	7.0	734	Buy
Mahindra Satyam	70	1,541	7.4	16.0	139	207	(8.0)	1.8	(8.0)	4.2	6.7	7.1	16.7	10.5	9.8	79	Accumulate
Mphasis^	342	1,347	4.2	17.6	228	184	(5.4)	8.8	(5.4)	39.3	36.2	39.6	8.7	9.4	8.6	382	Accumulate
Hexaware#	83	361	7.9	15.7	41	57	(5.5)	1.9	(5.5)	2.9	7.7	7.9	29.0	10.8	10.5	-	Neutral
MindTree	350	445	7.7	11.8	67	30	(12.8)	7.4	(12.8)	24.9	37.4	41.0	14.1	9.4	8.5	414	Buy
Persistent	304	241	7.7	15.4	(252)	26	(5.2)	6.5	(5.2)	34.9	32.0	34.0	8.7	9.5	8.9	357	Buy
KPIT Cummins	150	324	2.3	15.1	256	29	19.9	3.2	19.9	11.4	13.4	15.4	13.2	11.2	9.7	-	Neutral
Infotech Entp.	115	366	5.6	13.6	106	30	10.0	2.7	10.0	12.6	12.4	15.2	9.1	9.3	7.6	-	Neutral

*Source: Company, Angel Research; Note: Price as on September 30, 2011; *June ending so 1QFY2012 estimates; ^October ending so 4QFY2011 estimates; #December ending so 3QCY2011 estimates; Change is on a qoq basis*

Analyst - Srishti Anand/Ankita Somani

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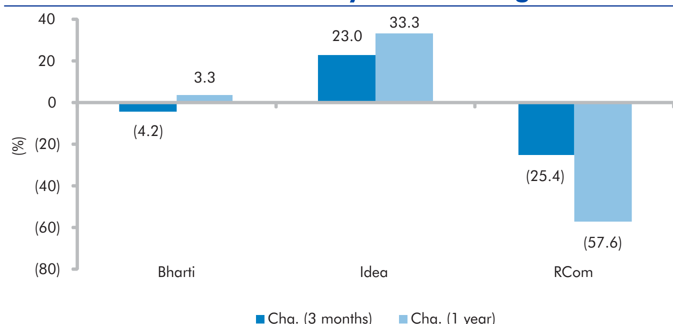
During 2QFY2012, Bharti Airtel (Bharti) announced 20% tariff hike in its mobile services segment for off-net calls (calls made to other networks). After Bharti's move, many other telecom players came with the same kind of move, which led telecom stocks to rally during the quarter with Idea Cellular (Idea) gaining the most by 33.3%. However, the pace of net subscriber addition stood moderate during the quarter, with MNP contributing very less in the subscriber churn. Reliance Communications (RCom), on the other hand, underperformed during the quarter, slipping by 25.4% due to issues related to 2G as well as the company's accounting issues. Also, the company's announcement of hiking tariff rates for off-net calls will not reap benefits for RCom as it will for other telecom players because most of the calls being made by RCom subscribers are on-net calls (within the same network). RCom has also announced restructuring of its cost structure; and so in tandem with this, the company will reduce its employee strength by 700-800 employees.

The National Telecom Policy 2011 will be released in October 2011 by TRAI, which will make the re-pricing and re-framing of the spectrum and subsidising spectrum charges clear and will give direction to telecom stocks going ahead.

Exhibit 1: Stock return analysis of leading Indian TSPs

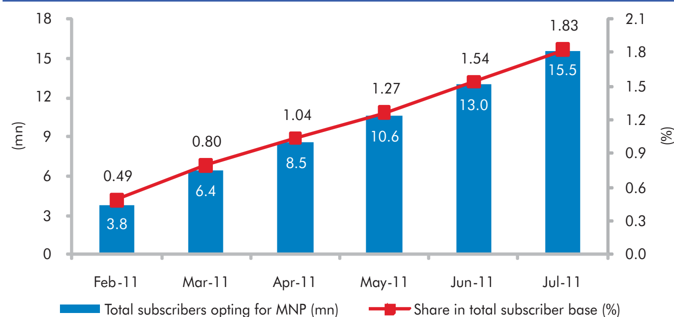


Source: Bloomberg, Angel Research

MNP recording a secular trend

Since the launch of MNP in January 2011, a secular trend is emerging in which incumbents such as Vodafone, Idea and Bharti are proving to be net gainers in the mentioned pecking order; whereas, the highest net looser has been RCom, both for its GSM and CDMA subscriber base. Until July 2011, the Indian mobile market has seen ~15.5mn users opting for MNP, which is insignificant at ~1.8% of subscriber base, but the trend emerging from the applications clearly suggests that the above-mentioned players are proving to be the front-runners in gaining market shares.

Exhibit 2: Trend in churn due to MNP

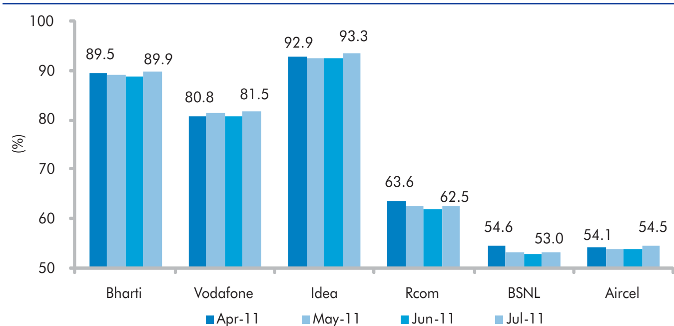


Source: Bloomberg, Angel Research

VLR data looks favourable for tier-I companies

As per the recent VLR data released for July 2011, of the total 850.70mn subscribers, 70.65% i.e., 601.02mn subscribers, were active subscribers on the date of peak VLR. Service provider wise, Idea leads the tally with a share of 93.3%, followed by Bharti with 89.9%, Vodafone with 81.5% and RCom with 62.5%, whereas Videocon is at the bottom with 33.8%.

Exhibit 3: VLR data of incumbents



Source: TRAI, Angel Research

Exhibit 4: Active subscribers (July 2011)

	Active subscribers (mn)	Active subscribers' market share (%)	Active subscribers' market share (%) -June 2011	Reported subscribers' market share (%)
Bharti	153.4	25.52	25.49	20.06
Vodafone	116.6	19.40	19.41	16.81
Idea	89.7	14.92	14.93	11.30
RCom	91.3	15.19	15.19	17.17
BSNL	47.9	7.96	7.91	10.61
Aircel	32.0	5.32	5.30	6.89
MTNL	1.9	0.32	0.31	0.62

Source: TRAI, Angel Research

RMS vs. SMS

As per the revenue market share (RMS) data for 1QFY2012, Bharti leads at 31.8% with subscriber market share (SMS) of 20.1%, whereas Idea has its RMS and SMS at 14.1% and 11.3%, respectively. RMS for Bharti and Idea is higher than SMS, which indicates that the quality of subscribers added by these companies is good. On the contrary, in case of RCom, SMS is at 17.0%, which is much ahead of RMS that is only at 7.8%.

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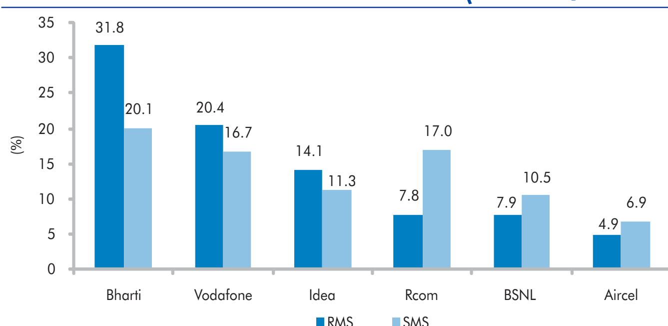
This is evident from the ARPU profile of these companies; also, RCom has peak VLR of merely 62.5% (in July 2011) as posed to its peers Bharti, Idea and Vodafone - the peak VLR of these varies from 80-92% (for July 2011). Thus, though the pace of subscriber addition sported by each of the companies remains at 1mn-2mn per month, additions made by Bharti and Idea are value additions, whereas those for RCom are more of volume additions. Amongst unlisted companies, Vodafone is also part of the Bharti-Idea clan with higher RMS at 20.4% and SMS at 16.7%, whereas incumbents such as BSNL and Aircel are part of RCom's clan with SMS higher than RMS.

Exhibit 5: RMS vs. SMS of incumbents (as of 1QFY2012)



Source: TRAI, Angel Research

Momentum in net subscriber additions declines

Over June-August 2011, subscriber net addition was weak (lowest since the last few years) across all telecom operators. Indian subscriber base grew at an average rate of merely 0.9% mom, led by incumbents such as Idea and BSNL. Amongst incumbents, subscriber growth was again led by Idea at 1.8% mom, followed by BSNL, Aircel, RCom, Vodafone and Bharti, which grew at an average rate of 1.2%, 1.0%, 1.0%, 0.9% and 0.8% mom, respectively.

Exhibit 6: Total subscriber base

Company (mn)	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11
Bharti	162.2	164.6	167.1	169.2	170.7	171.8
RCom	137.0	139.9	141.2	143.3	144.8	146.1
Vodafone	134.6	137.0	139.4	141.0	142.4	143.6
BSNL	86.5	87.1	87.6	88.5	90.2	90.6
Idea	89.5	92.0	93.8	95.1	96.1	98.4
TTSL	89.1	90.4	90.8	91.0	88.3	88.6
Aircel	54.8	56.0	57.1	58.0	58.6	59.2
MTNL	5.2	5.2	5.2	5.2	5.3	5.3
Loop Mobile	3.1	3.1	3.1	3.1	3.2	3.2
HFCL	1.5	1.5	1.4	1.4	1.4	1.4
Shyam Telelink	10.1	10.6	11.2	11.7	12.3	12.8
S Tel	2.8	3.0	3.2	2.9	3.1	3.0
Uninor	22.8	24.2	25.4	26.3	27.4	27.7
Videocon	7.1	7.2	7.1	5.8	5.6	5.2
DB Etisalat	1.0	1.2	1.3	1.4	1.4	1.5
Total	**807.2**	**823.0**	**834.8**	**843.8**	**850.7**	**858.4**

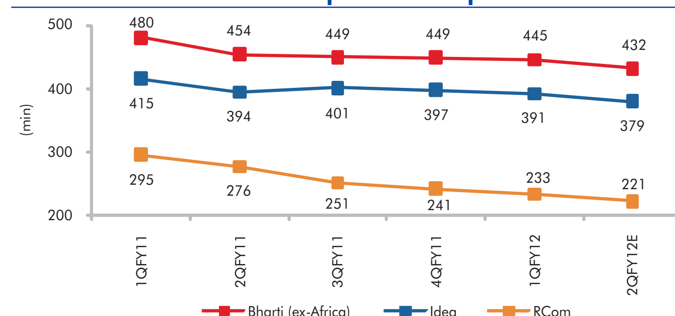
Source: COAI, AUSPI, Angel Research

New entrants, including Etisalat, Uninor, S Tel and Loop Mobile grew at average rates of 4.4%, 2.7%, 2.0% and 0.5% mom, respectively, while Videocon declined at an average rate of 5.1% mom. Although subscriber base grew for all telecom players, net addition run rate slided steeply for every player in July and August 2011. However, this is already priced in earlier in our estimates. Thus, a trend was spotted with most incumbents (Vodafone, Idea, BSNL and Aircel) maintaining or inching up their subscriber market share over June-August 2011, whereas Bharti lost its market shares slightly to 20.0% in August 2011 from 20.1% in June 2011.

MOU to decline

In the last quarter, the declining trend in minutes of usage (MOU) continued for Bharti (excluding Africa), Idea as well as RCom. For 2QFY2012, we expect MOU of Bharti (excluding Africa), Idea and RCom to experience a decline again by 3.0%, 3.0% and 5.0% to 432min, 379min and 221min, respectively. This is because 2Q is a seasonally weak quarter for MOU of telecom players due to the monsoon season, which leads to higher call drop rates.

Exhibit 7: Trend in MOU per month per subscriber

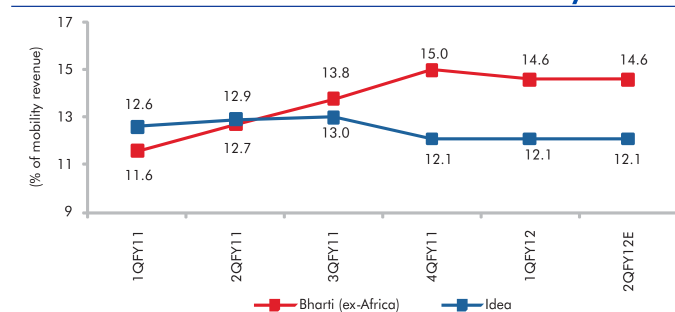


Source: Company, Angel Research

VAS share to remain stagnant

We expect VAS share in the mobility revenue of Bharti and Idea to remain flat qoq in 2QFY2012 at 14.6% and 12.1%, respectively.

Exhibit 8: Trend in VAS share as a % to mobility revenue



Source: Company, Angel Research

ARPM to remain flat

ARPM has been following a declining trend over the past nine quarters due to entry of new players and the price war. However,

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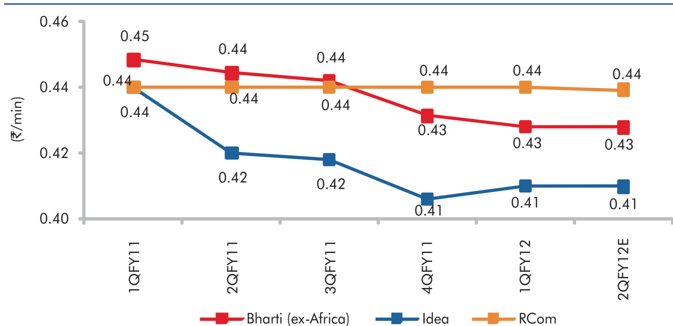
the price war logged by these new entrants has turned into a curse for their own sustainability. The confidence in no further possibility of a price war was instilled by the rational pricing move made by various telecom players for 3G services. On the contrary, tariff rate hikes are announced for mobile services by various telecom players; however, the effect due to the hike in tariff rates will flow from 3QFY2012, as hikes are applicable only after the existing vouchers of the subscribers' expire. Therefore, for 2QFY2012, we expect ARPM to remain flat qoq for Bharti (excluding Africa), Idea and RCom at ₹0.43/min, ₹0.41/min and ₹0.44.min, respectively.

Exhibit 9: Trend in ARPM

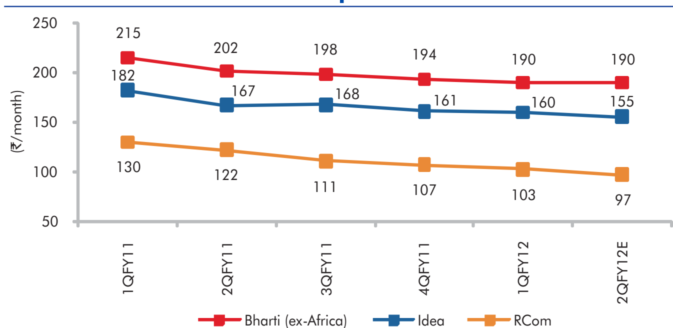


Source: Company, Angel Research

ARPUs to decline

For 2QFY2012, we expect the combination of declining MOU and flat ARPM to pull down the ARPU of Bharti (excluding Africa), Idea and RCom by 0.1%, 2.9% and 5.2% qoq to ₹190/month, ₹155/month and ₹97/month, respectively.

Exhibit 10: Trend in ARPU per month

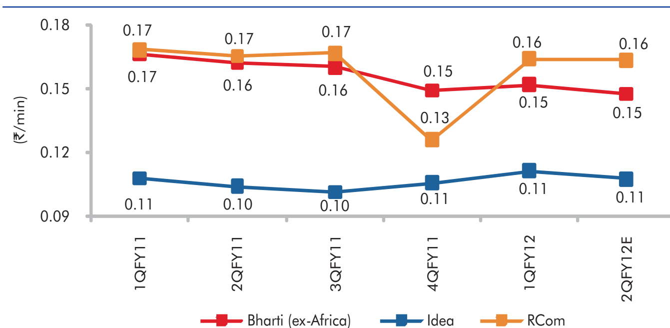


Source: Company, Angel Research

EPM to go down

For 2QFY2012, we expect EBITDA per minute (EPM) to decline by 0-4% for Bharti, Idea and RCom on the back of lower revenue growth due to seasonality of 2Q because of lower MOU and flat ARPM.

Exhibit 11: EPM trend



Source: Company, Angel Research

Outlook and valuation

For 2QFY2012, we expect revenue growth to be muted due to moderating growth in subscriber base, flat voice ARPM and declining MOU. Amongst the top three operators, we expect Bharti and Idea to post revenue growth of 0.6% and 0.3% qoq, respectively. RCom is expected to post a revenue decline of 0.6% qoq. On the EBITDA margin front, we expect margins to remain weak for Bharti, Idea as well as RCom, with margins declining by 88bp, 62bp and 21bp qoq to 32.7%, 26.0% and 32.2%, respectively. Players in the sector (especially RCom and Etisalat) continue to be haunted by issues related to the 2G scam. We believe industry dynamics point towards a possible consolidation in the long run and expect only select few operators, including Bharti, Vodafone, RCom, Idea, BSNL, Aircel and Uninor, to be the survivors out of the current 15 operators. Bharti continues to be our preferred pick amongst telcos due to its low-cost integrated model (owned tower infrastructure), potential opportunity to scale up in Africa, established leadership in revenue and subscriber market share, and relatively better KPIs. However, overall we remain Neutral on the sector.

Exhibit 12: Quarterly estimates (₹ cr)

Company	CMP	Net Sales		OPM (%)		Net Profit		EPS (₹)		EPS (₹)			P/E (x)			Target	Reco.
	(₹)	2QFY12E	*% chg*	2QFY12E	*chg bp*	2QFY12E	*% chg*	2QFY12E	*% chg*	FY11	FY12E	FY13E	FY11	FY12E	FY13E	(₹)	
Bharti	378	17,091	0.6	32.7	(88)	1,308	7.6	3.4	7.6	15.9	15.5	24.7	23.7	24.4	15.3	430	Accumulate
Idea	99	4,536	0.3	26.0	(62)	154	(13.2)	0.5	(13.2)	2.7	2.5	3.7	36.3	40.2	26.8	-	Neutral
RCom	72	4,911	(0.6)	32.2	(21)	145	(7.6)	0.7	(7.6)	6.5	3.6	6.4	11.0	20.0	11.2	-	Neutral

Source: Company, Angel Research; Note: Price as on September 30, 2011; Change is on a qoq basis

Analyst - Srishti Anand/Ankita Somani

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Stock Watch

Company Name	Reco	CMP (₹)	Target Price (₹)	Mkt Cap (₹ cr)	Sales (₹ cr)		OPM (%)		EPS (₹)		PER (x)		P/BV (x)		RoE (%)		EV/Sales (x)	
					FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
Agri / Agri Chemical																		
Rallis	Neutral	172	-	3,350	1,342	1,570	18.4	17.4	8.3	9.8	20.8	17.6	4.9	4.0	27.3	25.9	2.3	1.9
United Phosphorus	Buy	138	208	6,352	6,935	7,424	19.7	19.7	14.9	16.0	9.2	8.6	1.6	1.4	17.1	16.1	1.1	1.1
Auto & Auto Ancillary																		
Amara Raja Batteries	Buy	211	242	1,802	2,179	2,559	13.4	13.0	19.4	22.0	10.9	9.6	2.2	1.8	22.9	21.1	0.8	0.7
Apollo Tyres#	Buy	55	74	2,788	11,389	12,752	9.4	9.9	7.6	9.3	7.3	6.0	1.0	0.9	12.9	14.7	0.4	0.4
Ashok Leyland	Buy	26	31	6,944	12,344	14,178	9.6	10.1	1.9	2.6	13.5	10.2	1.3	1.1	12.8	16.2	0.4	0.4
Automotive Axles^	Accumulate	393	450	594	944	1,078	12.5	12.3	40.4	45.0	9.7	8.7	2.5	2.1	27.6	26.2	0.7	0.6
Bajaj Auto	Accumulate	1,534	1,699	44,399	20,165	23,131	19.3	18.7	105.5	113.3	14.5	13.5	7.1	5.5	54.6	45.9	1.9	1.6
Bharat Forge#	Accumulate	268	301	6,240	5,947	6,750	14.2	14.0	17.1	20.0	15.7	13.4	2.6	2.3	18.3	18.1	1.1	0.9
Bosch India*	Accumulate	7,054	7,501	22,149	7,967	9,197	18.8	18.5	329.4	375.0	21.4	18.8	4.3	3.6	20.1	19.0	2.4	2.0
CEAT	Buy	77	104	265	4,394	5,102	3.6	4.6	4.5	20.7	17.1	3.7	0.4	0.4	2.4	10.8	0.3	0.3
Exide Industries	Buy	129	150	10,969	5,154	5,937	17.6	17.5	7.6	8.6	17.0	14.9	3.5	3.0	21.7	21.2	1.8	1.5
FAG Bearings*	Accumulate	1,170	1,292	1,945	1,241	1,415	19.8	18.6	99.6	107.6	11.7	10.9	2.7	2.2	25.4	22.1	1.2	1.0
Hero Motocorp	Neutral	1,942	-	38,779	22,996	26,326	13.7	14.0	108.4	126.0	17.9	15.4	10.4	8.9	64.8	62.3	1.4	1.2
JK Tyre#	Buy	75	99	306	7,139	8,317	4.4	5.4	9.5	22.1	7.8	3.4	0.4	0.3	4.5	10.0	0.3	0.3
M&M	Accumulate	803	848	49,275	28,066	32,081	12.6	12.9	46.8	53.3	17.1	15.1	4.0	3.3	25.0	24.3	1.4	1.2
Maruti	Accumulate	1,081	1,172	31,252	36,126	42,036	7.8	8.3	75.4	90.1	14.3	12.0	1.9	1.7	14.3	14.8	0.7	0.5
Motherson Sumi#	Buy	177	208	6,855	9,572	10,961	9.6	9.8	9.5	11.5	18.6	15.3	3.9	3.3	21.8	23.1	0.8	0.7
Subros	Accumulate	29	33	173	1,202	1,343	8.5	8.3	5.0	5.4	5.8	5.3	0.7	0.6	12.4	12.6	0.3	0.3
Tata Motors#	Accumulate	156	178	42,014	142,142	156,746	12.0	11.6	27.1	29.1	5.8	5.4	2.4	2.1	43.5	41.5	0.5	0.4
TVS Motor	Accumulate	61	65	2,898	7,512	8,589	6.4	6.3	4.8	5.4	12.6	11.3	50.8	50.8	19.2	20.3	0.4	0.3
Banking																		
Allahabad Bank	Accumulate	158	174	7,512	6,013	6,569	2.9	2.6	33.1	35.4	4.8	4.5	0.9	0.7	19.1	17.7	-	-
Andhra Bank	Neutral	124	-	6,930	4,417	4,738	3.0	2.7	22.5	22.2	5.5	5.6	0.9	0.8	18.1	15.8	-	-
Axis Bank	Buy	1,021	1,426	42,117	12,562	15,664	2.8	2.9	96.0	119.6	10.6	8.5	1.9	1.6	19.7	20.8	-	-
Bank of Baroda	Buy	764	943	29,908	12,524	14,471	2.5	2.4	116.1	132.1	6.6	5.8	1.2	1.1	20.1	19.6	-	-
Bank of India	Buy	316	371	17,274	10,587	12,352	2.1	2.1	47.7	60.4	6.6	5.2	1.0	0.9	15.3	17.1	-	-
Bank of Maharashtra	Buy	46	57	2,228	2,850	3,030	2.9	2.6	8.6	10.7	5.4	4.3	0.7	0.6	13.5	15.1	-	-
Canara Bank	Neutral	444	-	19,492	10,297	12,186	2.1	2.1	79.0	85.8	5.6	5.2	1.0	0.9	18.1	17.1	-	-
Central Bank	Neutral	102	-	6,621	6,619	7,396	2.5	2.4	15.5	20.3	6.6	5.1	0.8	0.7	14.4	14.2	-	-
Corporation Bank	Buy	422	489	6,259	4,208	4,802	1.9	1.9	95.1	99.8	4.4	4.2	0.8	0.7	18.3	16.8	-	-
Dena Bank	Neutral	78	-	2,595	2,420	2,756	2.5	2.5	16.5	20.5	4.7	3.8	0.7	0.6	14.9	16.2	-	-
Federal Bank	Accumulate	367	422	6,257	2,426	2,751	3.4	3.2	39.0	48.1	9.4	7.6	1.1	1.0	12.4	13.8	-	-
HDFC	Neutral	639	-	94,064	6,174	7,227	3.6	3.5	27.2	31.0	23.5	20.7	5.0	4.0	38.4	34.0	-	-
HDFC Bank	Accumulate	467	517	109,198	17,661	22,060	4.3	4.2	21.9	28.2	21.4	16.5	3.7	3.2	18.6	20.6	-	-
ICICI Bank	Buy	875	1,146	100,875	17,884	22,445	2.5	2.6	54.3	68.9	16.1	12.7	1.7	1.6	13.4	15.6	-	-
IDBI Bank	Neutral	103	-	10,117	6,910	8,085	1.8	1.8	16.9	20.8	6.1	4.9	0.7	0.7	12.5	13.9	-	-
Indian Bank	Neutral	213	-	9,154	5,269	5,706	3.2	3.0	38.2	39.0	5.6	5.5	1.0	0.9	19.6	17.4	-	-

Company Name	Reco	CMP (₹)	Target Price (₹)	Mkt Cap (₹ cr)	Sales (₹ cr)		OPM (%)		EPS (₹)		PER (x)		P/BV (x)		RoE (%)		EV/Sales (x)	
					FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
IOB	Accumulate	93	104	5,733	6,242	7,125	2.5	2.3	20.9	25.1	4.4	3.7	0.6	0.6	14.9	15.9	-	-
J & K Bank	Accumulate	801	843	3,878	2,025	2,168	3.3	3.1	142.6	144.4	5.6	5.5	1.0	0.9	18.5	16.4	-	-
LIC Housing Finance	Neutral	211	-	10,011	1,954	2,316	3.3	3.2	23.7	28.8	8.9	7.3	2.0	1.6	24.4	24.4	-	-
Oriental Bank	Accumulate	292	325	8,563	5,269	5,764	2.5	2.3	48.2	57.2	6.1	5.1	0.8	0.7	13.1	13.9	-	-
Punjab Natl.Bank	Buy	952	1,129	30,384	16,867	18,974	3.2	3.0	138.9	160.7	6.9	5.9	1.3	1.1	20.2	20.0	-	-
South Ind.Bank	Accumulate	22	24	2,509	1,072	1,176	2.5	2.4	3.0	3.1	7.5	7.2	1.3	1.1	18.2	16.5	-	-
St Bk of India	Buy	1,911	2,403	121,355	56,585	65,908	3.2	3.1	190.3	260.0	10.0	7.3	1.7	1.5	18.6	21.9	-	-
Syndicate Bank	Buy	104	125	5,954	5,443	5,781	2.6	2.3	18.8	21.8	5.5	4.8	0.8	0.7	15.3	15.7	-	-
UCO Bank	Neutral	66	-	4,132	4,276	4,795	1.9	1.9	13.1	16.3	5.0	4.0	0.9	0.8	15.0	16.5	-	-
Union Bank	Buy	246	286	12,901	8,624	9,716	2.6	2.5	41.9	47.6	5.9	5.2	1.0	0.9	18.4	18.1	-	-
United Bank	Buy	74	91	2,549	2,896	3,220	2.5	2.4	14.1	16.6	5.3	4.5	0.7	0.6	13.0	13.8	-	-
Vijaya Bank	Neutral	55	-	2,576	2,334	2,670	2.1	2.1	6.0	8.2	9.2	6.7	0.8	0.7	8.2	10.5	-	-
Yes Bank	Buy	273	321	9,566	2,352	2,894	2.4	2.3	25.7	29.6	10.6	9.2	2.1	1.7	21.3	20.6	-	-
Capital Goods																		
ABB*	Sell	693	578	14,675	7,370	8,527	6.3	8.2	14.7	21.4	47.2	32.4	5.5	4.8	12.2	15.7	2.0	1.7
Areva*	Neutral	218	-	5,210	4,504	5,162	9.8	10.9	8.0	11.4	27.1	19.2	4.6	3.8	17.9	21.6	1.3	1.1
BHEL	Neutral	1,637	-	80,142	51,021	57,978	19.7	19.8	140.8	159.9	11.6	10.2	3.2	2.6	30.3	27.7	1.4	1.2
BGR Energy	Neutral	322	-	2,320	5,121	4,713	11.9	12.5	45.6	41.6	7.1	7.7	1.9	1.7	30.6	23.4	0.6	0.6
Crompton Greaves	Neutral	152	-	9,751	10,940	12,406	9.3	12.1	9.9	15.3	15.4	9.9	2.6	2.1	18.1	23.7	0.9	0.7
Graphite India	Buy	74	109	1,440	1,721	2,053	22.9	25.6	11.9	15.4	6.2	4.8	0.9	0.8	14.6	17.2	1.1	0.7
Jyoti Structures	Buy	67	105	534	2,771	3,082	11.0	11.0	13.6	15.1	4.9	4.4	0.8	0.7	17.8	16.9	0.4	0.3
KEC International	Buy	60	107	1,534	5,273	6,293	10.7	11.0	9.7	12.6	6.2	4.7	1.3	1.1	24.5	25.7	0.6	0.5
LMW	Buy	1,941	2,780	2,188	2,350	2,883	14.2	14.3	179.3	231.7	10.8	8.4	2.3	1.9	22.9	24.7	0.5	0.4
Thermax	Neutral	441	-	5,258	5,971	6,830	10.8	11.0	34.9	40.8	12.6	10.8	3.2	2.6	28.2	26.6	0.8	0.7
Cement																		
ACC*	Neutral	1,098	-	20,640	9,765	11,164	22.0	22.1	64.9	73.9	16.9	14.9	2.8	2.5	17.8	18.0	1.8	1.5
Ambuja Cements*	Neutral	149	-	22,760	8651	9746	25.4	25.4	8.4	9.5	17.6	15.7	2.8	2.5	16.7	16.8	2.3	2.0
India Cements	Neutral	73	-	2,230	3871	4237	16.9	17.1	8.1	9.9	9.0	7.3	0.6	0.6	7.0	8.3	1.0	0.9
J K Lakshmi Cements	Buy	42	54	513	1530	1757	18.3	17.5	7.8	8.0	5.3	5.2	0.5	0.4	8.8	8.4	0.6	0.4
Madras Cements	Neutral	100	-	2,384	2,975	3,135	27.6	24.9	13.3	12.4	7.6	8.1	1.2	1.1	16.9	13.9	1.7	1.5
UltraTech Cement	Neutral	1,138	-	31,173	17506	19941	22.6	22.5	70.8	81.5	16.1	14.0	2.5	2.2	16.9	16.9	1.8	1.5
Construction																		
Consolidated Co	Neutral	20	-	370	2,362	2,646	6.3	7.3	1.5	3.6	13.3	5.6	0.6	0.5	4.4	9.8	0.4	0.4
Hind. Const.	Neutral	29	-	1,741	4,723	5,485	12.6	12.6	0.7	1.2	42.5	24.0	1.2	1.2	2.7	4.8	1.2	1.2
IRB Infra	Buy	163	193	5,426	3,024	3,980	44.4	38.3	12.5	14.0	13.0	11.6	1.9	1.7	16.0	15.6	3.4	2.8
ITNL	Buy	199	259	3,859	4,910	6,484	27.5	23.5	23.9	25.3	8.3	7.9	1.5	1.3	18.8	17.1	2.1	2.0
IVRCL Infra	Buy	35	60	939	5,798	6,994	8.8	9.2	4.2	6.1	8.3	5.8	0.5	0.4	5.5	7.6	0.6	0.6
Jaiprakash Asso.	Buy	73	85	15,481	15,092	17,683	24.5	24.4	3.7	5.3	19.6	13.7	1.5	1.4	8.2	10.7	2.3	2.0
Larsen & Toubro	Buy	1,358	1,857	82,925	52,765	66,551	12.0	14.6	64.4	76.9	21.1	17.7	3.3	2.9	16.9	17.6	1.7	1.4
Madhucon Proj	Buy	71	106	522	1,959	2,512	10.7	10.4	5.8	6.8	12.2	10.4	0.8	0.8	6.8	7.5	0.7	0.7
Nagarjuna Const.	Buy	60	82	1,547	5,755	6,689	9.3	9.8	5.5	6.7	10.9	9.0	0.6	0.6	5.8	6.7	0.7	0.8

Company Name	Reco	CMP (₹)	Target Price (₹)	Mkt Cap (₹ cr)	Sales (₹ cr)		OPM (%)		EPS (₹)		PER (x)		P/BV (x)		RoE (%)		EV/Sales (x)	
					FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
Patel Engg.	Neutral	94	-	655	3,272	3,587	14.2	13.1	17.1	16.7	5.5	5.6	0.4	0.4	7.9	7.3	0.9	0.9
Punj Lloyd	Neutral	54	-	1,793	9,585	10,992	8.3	8.4	2.5	4.0	21.7	13.4	0.6	0.6	2.7	4.3	0.6	0.6
Sadbhav Engg.	Buy	132	161	1,978	2,602	2,865	9.8	10.4	8.7	12.0	15.2	11.0	2.6	2.0	18.7	20.5	0.9	0.8
Simplex Infra	Buy	226	299	1,124	5,286	6,178	9.6	10.0	20.4	29.9	11.1	7.6	1.0	0.9	9.0	11.9	0.6	0.5
FMCG																		
Asian Paints	Neutral	3,149	-	30,209	9,092	10,608	17.0	17.6	102.5	126.3	30.7	24.9	10.9	8.5	39.6	38.3	3.2	2.7
Britannia	Accumulate	471	495	5,626	5,014	5,858	5.8	7.1	15.4	22.5	30.6	20.9	10.7	8.7	37.8	46.0	1.1	0.9
Colgate	Reduce	980	869	13,328	2,550	2,931	19.8	20.3	32.3	37.8	30.4	26.0	33.2	24.2	111.7	108.0	5.0	4.3
Dabur India	Accumulate	103	115	17,874	5,179	5,919	18.4	18.4	4.0	4.6	25.5	22.3	10.3	8.4	44.9	41.6	3.5	3.1
GlaxoSmith Con*	Neutral	2,325	-	9,778	2,723	3,174	16.4	16.9	82.7	98.3	28.1	23.7	8.3	6.9	32.6	31.8	3.2	2.7
Godrej Consumer	Accumulate	400	457	12,944	4,196	4,681	19.5	19.9	18.1	20.8	22.1	19.2	5.9	5.0	38.7	28.0	3.4	3.0
HUL	Neutral	340	-	73,477	21,865	24,637	13.6	14.0	11.7	13.3	29.1	25.5	23.4	20.3	87.5	85.3	3.2	2.8
ITC	Neutral	198	-	153,098	24,706	29,294	34.0	34.2	7.5	8.9	26.4	22.3	7.9	6.3	32.7	31.5	5.9	4.9
Marico	Neutral	144	-	8,847	3,643	4,185	13.4	13.7	5.1	6.3	28.5	22.9	7.4	5.9	30.4	28.6	2.6	2.2
Nestle*	Reduce	4,219	3,603	40,683	7,277	8,435	20.1	20.7	101.0	120.1	41.8	35.1	31.7	21.5	91.1	72.9	5.6	4.8
IT																		
HCL Tech	Buy	408	558	28,377	19,716	23,129	17.2	17.2	31.3	37.8	13.0	10.8	2.9	2.4	22.2	22.4	1.4	1.2
Hexaware	Neutral	83	-	2,434	1,381	1,602	15.3	15.3	7.7	7.9	10.8	10.5	2.1	1.9	20.2	18.0	1.4	1.2
Infosys	Accumulate	2,534	2,705	144,933	32,659	36,674	30.9	30.3	136.9	150.3	18.5	16.9	4.4	3.7	23.6	21.6	3.8	3.3
Infotech Enterprises	Neutral	115	-	1,275	1,476	1,689	14.3	15.1	12.4	15.2	9.3	7.6	1.1	1.0	11.6	12.6	0.5	0.4
KPIT Cummins	Neutral	150	-	1,226	1,337	1,538	15.1	15.3	13.4	15.4	11.2	9.7	1.7	1.4	16.9	16.4	0.8	0.6
Mahindra Satyam	Accumulate	70	79	8,249	6,138	6,891	14.1	14.6	6.7	7.1	10.5	9.8	1.5	1.3	14.6	13.5	1.0	0.8
Mindtree	Buy	350	414	1,435	1,798	1,993	13.0	13.9	37.4	41.0	9.4	8.5	1.6	1.3	16.5	15.5	0.7	0.6
Mphasis	Accumulate	342	382	7,168	5,571	6,020	17.1	15.5	36.2	39.6	9.4	8.6	1.5	1.3	16.1	14.5	0.8	0.7
NIIT	Buy	44	57	724	1,415	1,556	13.1	13.8	5.6	6.9	7.9	6.4	1.2	1.1	15.0	16.6	0.6	0.4
Persistent	Buy	304	357	1,214	980	1,117	18.4	19.0	32.0	34.0	9.5	8.9	1.4	1.2	14.9	13.9	0.9	0.8
TCS	Accumulate	1,038	1,179	203,060	46,953	53,162	29.2	28.5	53.4	58.9	19.4	17.6	6.5	5.3	33.4	30.2	4.1	3.6
Tech Mahindra	Buy	574	734	7,480	5,405	5,823	16.7	16.3	79.4	81.5	7.2	7.0	1.7	1.4	24.2	20.2	1.5	1.3
Wipro	Accumulate	341	374	83,608	35,732	39,178	18.6	18.3	21.3	24.4	16.0	13.9	3.0	2.6	18.9	18.7	2.0	1.7
Media																		
D B Corp	Buy	202	302	3,702	1,413	1,586	29.5	30.8	14.1	16.8	14.3	12.0	3.9	3.1	29.0	28.7	2.6	2.2
HT Media	Buy	148	177	3,489	2,010	2,255	18.2	18.1	8.8	9.7	16.9	15.3	2.3	2.0	14.7	14.2	1.8	1.6
Jagran Prakashan	Buy	110	148	3,479	1,339	1,453	29.4	29.5	7.2	8.1	15.2	13.7	4.9	4.5	33.2	34.4	2.7	2.5
PVR	Neutral	122	-	331	507	577	16.6	16.7	5.0	8.0	24.4	15.3	0.9	0.9	3.9	5.7	0.7	0.5
Sun TV Network	Neutral	232	-	9,151	2,104	2,341	78.5	78.5	20.9	23.2	11.1	10.0	3.1	2.5	30.3	27.6	4.2	3.8

Company Name	Reco	CMP (₹)	Target Price (₹)	Mkt Cap (₹ cr)	Sales (₹ cr) FY12E	Sales (₹ cr) FY13E	OPM (%) FY12E	OPM (%) FY13E	EPS (₹) FY12E	EPS (₹) FY13E	PER (x) FY12E	PER (x) FY13E	P/BV (x) FY12E	P/BV (x) FY13E	RoE (%) FY12E	RoE (%) FY13E	EV/Sales (x) FY12E	EV/Sales (x) FY13E
Metal																		
Bhushan Steel	Neutral	333	-	7,074	8,109	8,486	32.2	33.8	15.7	15.8	21.2	21.1	0.5	0.5	13.8	12.2	2.8	2.6
Coal India	Neutral	333	-	210,777	62,487	66,674	26.8	26.8	23.2	25.2	14.3	13.2	4.7	3.7	37.5	31.2	2.5	2.2
Electrosteel Castings	Buy	29	35	403	1,900	1,966	15.1	17.7	4.1	5.1	7.0	5.7	0.5	0.5	7.9	9.2	1.0	1.0
Godawari Ispat	Buy	121	190	383	1,774	1,916	17.2	20.5	34.2	55.0	3.5	2.2	0.5	0.4	14.8	20.0	0.6	0.4
Hind. Zinc	Buy	119	156	50,260	11,538	12,679	56.4	56.8	13.9	15.4	8.6	7.7	1.8	1.5	23.2	21.0	2.6	1.9
Hindalco	Buy	131	196	25,189	74,701	78,657	11.6	12.4	20.9	23.2	6.3	5.7	1.0	0.9	15.6	15.0	0.6	0.6
JSW Steel	Neutral	591	-	13,192	26,862	42,558	14.9	18.0	51.7	114.9	11.4	5.1	0.8	0.7	7.7	15.4	1.1	0.7
MOIL	Neutral	281	-	4,716	1,032	1,060	55.8	56.7	28.9	30.9	9.7	9.1	1.9	1.7	21.2	19.6	2.5	2.2
Monnet Ispat	Buy	487	549	3,134	1,973	2,960	28.0	29.5	45.9	60.4	10.6	8.1	1.3	1.1	12.9	16.1	2.9	2.2
Nalco	Neutral	62	-	15,888	7,670	8,680	28.0	29.2	5.6	6.3	11.0	9.7	1.4	1.4	13.7	15.7	1.6	1.4
NMDC	Neutral	227	-	90,018	12,197	14,027	73.9	73.4	17.8	20.3	12.8	11.2	3.7	2.9	32.3	29.3	5.8	4.7
Prakash Industries	Buy	52	72	697	2,219	2,312	18.9	20.3	18.6	20.8	2.8	2.5	0.3	0.3	15.1	14.5	0.6	0.6
SAIL	Buy	105	139	43,451	47,903	56,016	15.7	18.6	10.6	13.4	9.9	7.8	1.0	0.9	11.0	12.6	1.1	1.0
Sarda Energy	Buy	129	213	462	992	1,070	17.6	20.8	23.3	27.7	5.5	4.7	0.6	0.5	12.0	12.8	0.9	0.7
Sesa Goa	Buy	200	253	17,338	8,711	10,012	46.4	46.1	33.3	37.4	6.0	5.3	1.2	1.0	21.0	19.8	1.1	0.7
Sterlite Inds	Buy	114	189	36,261	34,694	41,698	23.5	28.2	18.2	23.3	6.3	4.9	0.8	0.7	13.7	15.2	1.3	1.0
Tata Steel	Buy	415	614	39,831	130,317	138,260	12.8	13.9	69.5	78.8	6.0	5.3	0.9	0.8	26.1	15.4	0.3	0.3
Oil & Gas																		
Cairn India	Neutral	273	-	51,900	15,639	17,900	76.6	78.8	46.0	54.8	5.9	5.0	1.1	0.9	19.6	19.2	2.9	2.0
GAIL	Buy	411	508	52,128	34,070	37,916	19.1	19.6	32.1	35.6	12.8	11.5	2.3	2.0	19.6	18.7	1.5	1.3
Gujarat Gas	Neutral	430	-	5,520	2,122	2,438	20.8	19.9	20.9	23.2	20.6	18.6	5.6	4.7	32.6	30.7	2.0	1.8
Gujarat State Petronet	Accum.	105	117	5,902	1,173	1,259	92.2	92.5	10.2	11.1	10.3	9.5	2.4	2.0	25.6	22.7	6.0	5.4
Indraprasth Gas	Neutral	425	-	5,956	2,288	2,723	28.2	25.7	23.5	25.1	18.1	16.9	4.7	3.9	29.1	25.3	2.7	2.3
ONGC	Buy	266	326	227,319	126,535	140,194	44.2	42.7	32.0	34.4	8.3	7.7	1.7	1.5	21.9	20.4	1.5	1.2
Petronet LNG	Neutral	159	-	11,947	19,048	25,001	9.1	8.0	12.1	13.3	13.1	12.0	3.5	2.8	29.8	26.0	0.7	0.6
Reliance Industries	Buy	808	1,099	264,656	310,994	314,718	13.2	14.9	68.0	79.9	11.9	10.1	1.4	1.2	13.6	14.1	0.9	0.8
Pharmaceuticals																		
Alembic Pharma	Buy	42	71	792	1,266	1,395	14.0	14.5	4.9	5.9	8.6	7.1	2.2	1.7	29.0	26.4	0.9	0.8
Aurobindo Pharma	Buy	124	278	3,617	4,519	5,243	17.8	18.3	15.5	19.1	8.0	6.5	8.0	6.5	20.7	19.0	1.2	1.0
Aventis*	Reduce	2,340	1,937	5,388	1,224	1,401	14.9	15.3	85.6	89.9	26.8	25.5	4.6	4.1	18.3	17.1	3.8	3.2
Cadila Healthcare	Buy	756	1,053	15,452	5,386	6,604	20.2	20.2	38.5	51.3	19.6	14.3	5.5	4.3	33.1	35.2	3.0	2.4
Cipla	Buy	283	377	22,698	7,006	8,164	20.0	21.2	14.9	18.4	19.0	15.3	3.2	2.8	16.8	18.2	3.5	3.0
Dishman Pharma	Buy	57	133	462	1,115	1,282	17.5	17.9	9.9	11.7	6.1	5.1	0.7	0.6	8.6	9.2	1.4	1.3
Dr Reddy's	Buy	1,481	1,920	25,103	8,721	9,584	25.2	25.1	87.9	96.0	16.8	15.4	4.3	3.5	28.6	25.2	3.0	2.7
GSK Pharma*	Neutral	2,081	-	17,695	2,447	2,788	35.5	35.5	72.0	86.9	28.9	23.9	7.9	6.9	21.1	30.7	6.4	5.5
Indoco Remedies	Buy	384	658	471	587	734	16.1	17.2	52.9	65.8	7.2	5.8	1.2	1.1	17.9	19.3	0.9	0.8
Ipca labs	Buy	257	358	3,233	2,207	2,548	20.5	21.5	20.0	27.5	12.8	9.3	3.2	2.6	21.8	24.9	2.0	1.7
Lupin	Buy	473	593	21,117	6,817	8,272	18.3	19.7	22.4	29.7	21.2	15.9	5.6	4.4	28.2	30.8	3.2	2.6
Orchid Chemicals	Buy	158	373	1,115	2,143	2,508	21.8	21.8	28.4	37.3	5.6	4.2	2.0	1.6	19.3	23.4	1.8	1.5

Company Name	Reco	CMP (₹)	Target Price (₹)	Mkt Cap (₹ cr)	Sales (₹ cr)		OPM (%)		EPS (₹)		PER (x)		P/BV (x)		RoE (%)		EV/Sales (x)	
					FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
Ranbaxy*	Accumulate	514	593	21,661	10,196	12,023	17.0	24.0	29.4	52.8	17.7	11.5	3.3	2.8	20.1	25.9	2.2	1.6
Sun Pharma	Accumulate	462	518	47,814	7,576	9,516	30.1	31.1	18.0	23.5	25.7	19.6	4.5	3.8	18.2	20.4	6.2	4.9
Power																		
CESC	Buy	277	383	3,486	4,453	4,817	24.5	23.8	42.3	44.8	6.5	6.2	0.7	0.7	11.6	11.1	1.2	1.0
GIPCL	Buy	81	95	1,221	1,549	1,579	28.6	27.6	10.3	11.2	7.8	7.2	0.8	0.8	11.0	11.0	1.3	1.1
NTPC#	Buy	167	202	137,905	63,539	71,207	24.9	25.2	12.2	13.5	13.7	12.4	1.8	1.6	13.9	14.0	2.6	2.5
PTC India	Neutral	68	-	2,009	11,109	13,430	2.0	1.9	6.5	7.1	10.5	9.6	0.9	0.9	8.5	8.7	0.2	0.2
Real Estate																		
Anant Raj	Buy	58	90	1,707	532	742	54.4	54.9	5.3	8.1	10.9	7.2	0.4	0.4	4.1	6.0	4.7	3.7
DLF	Neutral	219	-	37,127	10,466	11,702	43.6	44.5	9.8	11.9	22.4	18.4	1.5	1.4	6.7	7.8	5.8	5.3
HDIL	Buy	98	150	4,106	2,675	3,167	50.5	54.4	24.9	31.7	3.9	3.1	0.4	0.3	10.3	11.6	2.8	2.4
Telecom																		
Bharti Airtel	Accumulate	378	430	143,546	70,838	82,218	33.7	35.9	15.5	24.7	24.4	15.3	2.6	2.3	10.8	14.9	2.8	2.3
Idea Cellular	Neutral	99	-	32,624	18,981	22,190	26.4	27.5	2.5	3.7	40.2	26.8	2.5	2.3	6.2	8.5	2.3	1.9
Rcom	Neutral	72	-	14,809	20,394	23,276	33.3	34.9	3.6	6.4	20.0	11.2	0.5	0.5	1.8	3.1	2.1	1.6
Others																		
Bajaj Electrical	Neutral	183	-	1,822	3,302	3,956	8.0	9.0	15.1	21.1	12.2	8.7	2.5	2.1	22.7	26.5	0.6	0.5
Blue Star	Neutral	224	-	2,013	3,406	3,972	5.9	7.4	14.5	22.1	15.4	10.1	3.5	2.9	24.2	31.5	0.6	0.5
CRISIL	Neutral	842	-	5,974	766	926	34.8	35.0	28.3	34.4	29.8	24.5	12.7	10.9	46.4	47.8	7.5	6.1
Finolex Cables	Buy	38	59	577	2,332	2,584	8.7	8.8	7.9	9.9	4.8	3.8	0.7	0.6	15.8	17.1	0.2	0.2
Greenply	Buy	196	311	473	1,426	1,574	12.5	13.0	28.4	38.8	6.9	5.0	1.2	1.0	19.3	21.7	0.7	0.6
Page Industries	Neutral	2,540	-	2,832	658	822	18.6	18.6	64.0	79.1	39.7	32.1	20.2	16.5	55.8	56.4	4.7	3.6
Sintex	Buy	127	185	4,118	5,296	6,256	18.3	17.4	20.8	23.6	6.1	5.4	0.9	0.8	19.3	18.1	0.7	0.6
Siyaram Silk Mills	Buy	272	422	255	982	1,150	12.2	11.6	65.1	70.4	4.2	3.9	0.9	0.8	25.0	22.3	0.6	0.5
SpiceJet	Neutral	21	-	862	4,327	5,703	0.0	2.3	(0.4)	1.3	-	16.2	2.8	2.4	-	15.9	0.3	0.2
Taj GVK	Buy	91	140	571	310	360	40.4	40.6	9.5	11.7	9.6	7.8	1.5	1.3	17.3	18.3	2.2	1.8

*Source: Company, Angel Research, Note: ^Sept. year end; *December year end; #Consolidated; Price as on September 30, 2011*

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