

RESULT REVIEW Q3FY10

Long term growth intact

■ Sensex earnings above our estimates; disappoints consensus

Core Q3FY10 Sensex earnings increased 19.1% Y-o-Y (against estimated increase of 16.2% and 23.5% by Edelweiss and consensus, respectively), primarily led by the base effect as revenue increased 27.4% and EBITDA margins (excluding BFSI) rose 108bps to 24.6%, Y-o-Y.

The rise was primarily led by auto, cement, metals, engineering & capital goods, oil & gas, FMCG, power and IT. Others like real estate, pharma and telecom were drag on the Sensex profitability.

■ Earnings outlook downgraded for FY10; maintained for FY11

We have downgraded our Sensex EPS estimates for FY10 by 3.2%, from INR 885 to INR 857, post results. The revision was primarily on account of downward revision in estimates of heavy weights like Reliance, ONGC, Tata Steel and State Bank of India. For FY11, Sensex EPS has been downgraded marginally by 0.2%, from INR 1,078 to INR 1,075, post results.

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Table 1: Q3FY10 result summary for our coverage universe

| Sector | PAT growth | | Revenue growth | | EBITDA margin | |
|------------------|-------------|--------------|----------------|--------------|---------------|----------------|
| | Y-o-Y (%) | Estimate (%) | Y-o-Y (%) | Estimate (%) | Y-o-Y (bps) | Estimate (bps) |
| Agro chemicals | (0.8) | 50.8 | 6.1 | 12.6 | (8) | (60) |
| Auto | 478.3 | 468.6 | 66.8 | 65.9 | 725 | 674 |
| BFSI | 1.2 | (7.5) | 6.4 | 3.2 | NM | NM |
| Cement | 39.7 | 26.7 | 32.4 | 20.3 | 549 | 502 |
| Construction | 52.3 | 57.8 | 13.2 | 29.7 | 308 | 155 |
| Engg & Cap Goods | 41.4 | 42.1 | 0.4 | 6.8 | 183 | 120 |
| FMCG | 31.5 | 25.6 | 15.6 | 17.6 | 268 | 195 |
| Hospitality | (7.4) | (57.2) | 23.2 | 7.8 | (231) | (1,310) |
| IT | 12.5 | 1.7 | 5.4 | 3.3 | 144 | 40 |
| Media | 69.4 | 27.6 | 7.3 | 5.6 | 681 | 557 |
| Metals & Mining | 69.6 | 68.7 | 28.1 | 21.8 | 796 | 858 |
| Plastic products | 1.5 | 13.7 | 3.4 | (0.6) | (55) | 348 |
| Oil & Gas | 23.7 | (6.5) | 18.7 | 18.3 | 200 | (52) |
| Pharmaceuticals | (57.3) | 11.4 | 7.5 | 9.6 | (81) | (237) |
| Pipes | 51.7 | 24.2 | (8.6) | (8.2) | 498 | 281 |
| Power | 19.6 | 14.6 | (2.6) | 4.6 | 303 | 298 |
| Real Estate | (13.4) | (9.0) | 53.7 | 25.2 | (1,216) | 161 |
| Retail | 159.6 | 143.9 | 24.8 | 16.0 | 174 | 169 |
| Telecom | (32.4) | (23.4) | (0.1) | 0.8 | (659) | (133) |
| Coverage | 19.7 | 12.2 | 15.5 | 15.3 | 213 | 93 |
| Sensex | 19.1 | 16.2 | 27.4 | 24.6 | 108 | 95 |

Source: Edelweiss research

ACC excluded from sensex since results are yet to be declared.

ABB, ACC, Ambuja cements, Nestle, Patni computer, Hexaware excluded from coverage since results are yet to be declared.

Note: Q3FY10 refers to the October - December 2009 quarter in this report, unless otherwise mentioned.

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■ Earnings on an uptrend, barring a few sectors

Core Sensex earnings increased 19.1% Y-o-Y in Q2FY10, led by auto, cement, metals, engineering & capital goods, oil & gas, FMCG, power and IT. Real estate, pharma and telecom were, however, dampeners.

Q3FY10 core earnings of our coverage universe grew 19.7% Y-o-Y (above our expectation of 12.3%, primarily due to allocation of subsidy to OMCs), led by oil & gas, auto, media, retail, construction, pipes, engineering & capital goods, cement, FMCG, power and IT. Pharma, telecom and real estate registered maximum decline in profits.

Table 2: Earnings growth led by auto, cement, metals, engg. & capital goods, oil & gas, FMCG and power

| Sector | # of companies | PAT (INR bn) | Y-o-Y (%) | | Q-o-Q (%) | | Surprise (%) |
|------------------|----------------|--------------|-------------|-------------|--------------|--------------|--------------|
| | | | Q3FY10 | Estimate | Q3FY10 | Estimate | |
| Agro chemicals | 1 | 0.6 | (0.8) | 50.8 | (37.4) | (4.8) | (34.2) |
| Auto | 5 | 22.3 | 478.3 | 468.6 | 6.7 | 5.0 | 1.7 |
| BFSI | 22 | 99.5 | 1.2 | (7.5) | 1.8 | (6.9) | 9.4 |
| Cement | 4 | 11.3 | 39.7 | 26.7 | (4.3) | (13.2) | 10.3 |
| Construction | 8 | 3.6 | 52.3 | 57.8 | 6.1 | 9.9 | (3.5) |
| Engg & Cap Goods | 16 | 26.3 | 41.4 | 42.1 | 45.2 | 46.0 | (0.5) |
| FMCG | 8 | 24.9 | 31.5 | 25.6 | 8.4 | 3.6 | 4.7 |
| Hospitality | 2 | 0.9 | (7.4) | (57.2) | 744.9 | 290.5 | 116.4 |
| IT | 7 | 49.8 | 12.5 | 1.7 | 4.7 | (5.4) | 10.6 |
| Media | 5 | 2.0 | 69.4 | 27.6 | 34.4 | 1.3 | 32.7 |
| Metals & Mining | 9 | 74.6 | 69.6 | 68.7 | 19.2 | 18.5 | 0.5 |
| Plastic products | 1 | 0.7 | 1.5 | 13.7 | 11.9 | 25.4 | (10.7) |
| Oil & Gas | 11 | 94.0 | 23.7 | (6.5) | (7.2) | (29.8) | 32.3 |
| Pharmaceuticals | 5 | 4.4 | (57.3) | 11.4 | (63.6) | (5.2) | (61.7) |
| Pipes | 3 | 3.2 | 51.7 | 24.2 | 10.1 | (9.9) | 22.2 |
| Power | 9 | 37.9 | 19.6 | 14.6 | 5.5 | 1.1 | 4.4 |
| Real Estate | 6 | 7.9 | (13.4) | (9.0) | 3.1 | 8.4 | (4.9) |
| Retail | 4 | 1.6 | 159.6 | 143.9 | 1.2 | (4.9) | 6.4 |
| Telecom | 5 | 27.0 | (32.4) | (23.4) | (19.4) | (8.7) | (11.7) |
| Coverage | 131 | 492.5 | 19.7 | 12.2 | 1.9 | (4.4) | 6.6 |
| Sensex | 29 | 325.5 | 19.1 | 16.2 | (1.3) | (3.7) | 2.5 |

Source: Edelweiss research

■ **Most index stocks delivered better earnings vis-à-vis expectations**

Profitability for most index stocks during the quarter was better than the Street's expectation. Almost 17 Sensex companies reported core profits better than consensus estimates, while 19 delivered better than Edelweiss estimates.

Tata Power, Sterlite, Reliance Infra, ONGC, Hindustan Unilever, Mahindra & Mahindra, however, disappointed by reporting lower earnings than Edelweiss and consensus expectations.

Table 3: Earnings growth for Sensex stocks vis-à-vis expectations

| Stock | PAT (INR mn) | Y-o-Y (%) | | |
|-----------------------|-----------------|-----------|--------------------|--------------------|
| | | Q3FY10A | Edelweiss estimate | Bloomberg estimate |
| Sensex | 325,510 | 19.1 | 16.2 | 23.5 |
| BHEL | 10,726 | 35.7 | 37.9 | 36.0 |
| BHARTI | 22,098 | 2.3 | (7.1) | (1.9) |
| DLF | 4,679 | (31.4) | (31.0) | (29.9) |
| Grasim Industries | 5,959 | 80.8 | 60.3 | 65.5 |
| HDFC Bank | 8,185 | 31.6 | 27.2 | 23.1 |
| Hero Honda Motors | 5,358 | 78.4 | 76.7 | 72.7 |
| Hindalco | 4,272 | (21.6) | (18.2) | (20.7) |
| Hindustan Unilever | 5,394 | (0.1) | 11.3 | 11.1 |
| HDFC | 6,713 | 22.8 | 21.6 | 20.3 |
| ICICI Bank | 11,011 | (13.5) | (48.5) | (14.4) |
| Infosys | 15,820 | (3.6) | (11.0) | (10.0) |
| ITC | 11,442 | 26.7 | 17.5 | 18.3 |
| Jaiprakash Associates | 3,140 | 89.7 | 23.0 | 29.3 |
| L&T | 7,588 | 10.3 | 9.4 | 12.4 |
| Mahindra & Mahindra* | 4,137 | NM | NM | NM |
| Maruti Suzuki India | 6,695 | 213.4 | 188.1 | 176.7 |
| NTPC | 23,650 | 17.9 | 3.4 | 16.0 |
| ONGC | 30,536 | 23.4 | 72.4 | 84.6 |
| RCOM | 11,301 | (21.8) | (41.3) | (44.9) |
| RIL | 40,080 | 14.5 | 8.8 | 10.5 |
| Reliance Infra. | 2,771 | 10.7 | 39.5 | 29.9 |
| SBI | 24,791 | 0.0 | (9.3) | 5.5 |
| Sterlite | 7,313 | 42.4 | 98.8 | 121.4 |
| Sun Pharmaceuticals | 1,638 | (67.3) | (23.0) | (23.1) |
| TCS | 17,975 | 32.9 | 14.5 | 20.6 |
| Tata Motors** | 4,020 | NM | NM | NM |
| Tata Power | 1,419 | 18.7 | 72.7 | 52.2 |
| Tata Steel | 11,918 | 101.0 | 78.3 | 63.7 |
| Wipro | 12,033 | 25.4 | 12.7 | 19.0 |

Source: Edelweiss research

*NM since on a low base

**NM since loss in Q3FY09

- **Revenues better than expected**

Revenues for the Sensex increased 27.4% Y-o-Y against our estimate of a 24.6% rise. Engineering & capital goods, power, telecom and pharma sectors disappointed us on the revenue front.

Revenue growth was primarily contributed by auto, oil & gas, real estate, cement, metals, pharma and FMCG sectors.

Table 4: Revenue growth primarily driven by auto, oil & gas, real estate, cement, pharma & FMCG

| Sector | # of companies | Revenue (INR bn) | Y-o-Y (%) | | Q-o-Q (%) | | Surprise (%) |
|------------------|----------------|------------------|-------------|-------------|------------|------------|--------------|
| | | | Q3FY10 | Estimate | Q3FY10 | Estimate | |
| Agro chemicals | 1 | 11.5 | 6.1 | 12.6 | (0.6) | 5.5 | (5.8) |
| Auto | 5 | 252.9 | 66.8 | 65.9 | 7.4 | 6.8 | 0.6 |
| BFSI | 22 | 343.5 | 6.4 | 3.2 | 4.4 | 1.3 | 3.1 |
| Cement | 4 | 86.1 | 32.4 | 20.3 | 15.1 | 4.6 | 10.1 |
| Construction | 8 | 61.1 | 13.2 | 29.7 | 7.9 | 23.7 | (12.7) |
| Engg & Cap Goods | 16 | 332.8 | 0.4 | 6.8 | 4.5 | 11.1 | (6.0) |
| FMCG | 8 | 146.3 | 15.6 | 17.6 | 5.0 | 6.8 | (1.6) |
| Hospitality | 2 | 5.6 | 23.2 | 7.8 | 38.6 | 21.2 | 14.3 |
| IT | 7 | 240.4 | 5.4 | 3.3 | 1.9 | (0.2) | 2.1 |
| Media | 5 | 11.1 | 7.3 | 5.6 | 0.8 | (0.8) | 1.7 |
| Metals & Mining | 9 | 411.2 | 28.1 | 21.8 | 9.6 | 4.3 | 5.1 |
| Plastic products | 1 | 8.5 | 3.4 | (0.6) | 18.5 | 14.0 | 4.0 |
| Oil & Gas | 11 | 2,227.7 | 18.7 | 18.3 | 12.2 | 11.8 | 0.3 |
| Pharmaceuticals | 5 | 63.4 | 7.5 | 9.6 | (2.6) | (0.7) | (1.9) |
| Pipes | 3 | 35.9 | (8.6) | (8.2) | (4.8) | (4.4) | (0.4) |
| Power | 9 | 274.0 | (2.6) | 4.6 | 0.5 | 8.0 | (6.9) |
| Real Estate | 6 | 33.8 | 53.7 | 25.2 | 23.9 | 1.0 | 22.7 |
| Retail | 4 | 39.2 | 24.8 | 16.0 | 6.8 | (0.7) | 7.6 |
| Telecom | 5 | 196.5 | (0.1) | 0.8 | (1.7) | (0.8) | (0.9) |
| Coverage | 131 | 4,781.3 | 15.5 | 15.3 | 8.1 | 8.0 | 0.1 |
| Sensex | 29 | 2,174.1 | 27.4 | 24.6 | 7.7 | 5.3 | 2.3 |

Source: Edelweiss research

Note: Revenues for BFSI = Net Interest Income + Other Income

- **Margin growth in most sectors**

EBITDA margins (excluding BFSI) for the Sensex increased 108bps Y-o-Y in Q3FY10, to 24.6%, vis-à-vis our expectation of a 95bps rise. Margins grew in cement, auto, metals, engineering & capital goods, power, IT and FMCG, while they contracted in real estate, pharma, telecom and oil & gas.

Table 5: EBITDA margins improve in most sectors

| Sector | # of companies | Margin (%) | bps Y-o-Y | | bps Q-o-Q | | Surprise (bps) |
|------------------|----------------|-------------|------------|-----------|-------------|--------------|----------------|
| | | | Q3FY10 | Estimate | Q3FY10 | Estimate | |
| Agro chemicals | 1 | 17.0 | (8) | (60) | 0 | (52) | 52 |
| Auto | 5 | 15.2 | 725 | 674 | 8 | (43) | 51 |
| Cement | 4 | 28.0 | 549 | 502 | (340) | (388) | 47 |
| Construction | 8 | 14.3 | 308 | 155 | 81 | (72) | 153 |
| Engg & Cap Goods | 16 | 12.8 | 183 | 120 | 174 | 110 | 64 |
| FMCG | 8 | 23.2 | 268 | 195 | 69 | (4) | 73 |
| Hospitality | 2 | 34.0 | (231) | (1,310) | 1,560 | 482 | 1,079 |
| IT | 7 | 27.8 | 144 | 40 | 42 | (61) | 103 |
| Media | 5 | 26.6 | 681 | 557 | 67 | (57) | 124 |
| Metals & Mining | 9 | 29.8 | 796 | 858 | 302 | 364 | (62) |
| Plastic products | 1 | 15.0 | (55) | 348 | (328) | 75 | (403) |
| Oil & Gas | 11 | 9.7 | 200 | (52) | 13 | (238) | 252 |
| Pharmaceuticals | 5 | 23.3 | (81) | (237) | 110 | (46) | 156 |
| Pipes | 3 | 17.3 | 498 | 281 | 210 | (7) | 217 |
| Power | 9 | 26.3 | 303 | 298 | (27) | (33) | 6 |
| Real Estate | 6 | 36.3 | (1,216) | 161 | (1,368) | 9 | (1,377) |
| Retail | 4 | 10.0 | 174 | 169 | (35) | (40) | 5 |
| Telecom | 5 | 29.6 | (659) | (133) | (620) | (94) | (526) |
| Coverage | 109 | 16.4 | 213 | 93 | (11) | (131) | 120 |
| Sensex | 25 | 24.6 | 108 | 95 | (63) | (76) | 13 |

Source: Edelweiss research

■ Recommendation changes post Q3FY10 results

We have upgraded nine and downgraded three stocks, post Q3FY10 results. Details of recommendation changes are summarised in the table below:

| Stocks | Recommendation | |
|-----------------------|----------------|------------|
| | Post-result | Pre-result |
| Upgrades | | |
| Shoppers Stop | Buy | Hold |
| Titan | Buy | Hold |
| Lupin | Buy | Hold |
| GMR Infrastructure | Hold | Reduce |
| Colgate | Hold | Reduce |
| IDFC | Hold | Reduce |
| BHEL | Buy | Hold |
| Jaiprakash Associates | Buy | Hold |
| Sintex Industries | Buy | Hold |
| Downgrades | | |
| Simplex Infra | Reduce | Buy |
| Voltas | Hold | Buy |
| Jindal Saw | Hold | Buy |

Source: Edelweiss research