



Dec 07 Quarter Analysis

Gone with the Wind...

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Conclusion...

Some PAIN, But More GAIN

- Overall trend shows core profits declining
- But, we think India's growth story continues to remain strong supported by strong internals
- Upcoming assembly elections, US led global slowdown and other externals will affect India Inc.'s performance to that extent
- High depreciation and interest costs determine India Inc.'s hunger for expansion funds. A big long term positive
- Premium valuations will be commanded by companies that are able to come out smoothly through the expansion gamut
- Big expansions plans come on stream only by FY10
- Banking and financial companies however growing rapidly, compensating India Inc.'s manufacturing and services counterpart
- Some pain, but more gain if you are ready to play the India story long term

Dec 07 earnings comparison



1736 companies ex oil & financials

	Dec-07	Dec-06	%Growth
	Rs cr	Rs cr	
1.Net Sales	503264.2	422230	19.2
2.Net Profit	54082.89	40242.84	34.4
3.PBDIT	95731.14	72305.71	32.4
3.Other Income	14058.95	8903.58	57.9
4. Extra Ordinary Income	16741.41	8696.24	92.5
5.Adjusted PBDIT	64930.78	54705.89	18.7
6.Raw Material / Trading Goods Cost	313793.8	273166.1	14.9
7.Employee Expenses	28120.66	22577.68	24.6
8.Power, Oil & fuel	11024.39	8663.8	27.2
9.Interest	9337.84	6612.31	41.2
10.Depreciation	15176.58	12585.63	20.6
11.Total Tax Provision	17133.83	12864.93	33.2
ADJ PAT	24826.01	23783.96	4.4
OI/Net SALES	6.1	4.2	
OPM	19.0	17.1	
NPM	4.9	5.6	

Source: CNBC TV18 Analysis, CMIE

Authors: Haresh Soneji, Shravan Sreenivasula, Anichya Shah

Key Take Aways...

Overall



- Topline continues to grow. Sales growth picks up after 4-quarters of slowdown
- Efficiencies on the rise. OPMs up 200 bps
- India Inc. bottomline growth at 4.4%. Other Income supporting bottomline growth
- Net margins declining. Down 70 bps y-o-y
- Interest costs pinching India Inc. high
- Banking and financial companies however growing rapidly
- Focus back on individual performance

Key Take Aways...

Sensex

- Sensex earnings have been in line with expectations
- Earnings are slowing compared to past
- Bottomline growth mainly driven by other income



Sensex Valuations

- No reduction in target after poor quarter
- FY08 target EPS of Rs 852
- New additions to Sensex with higher PAT will help achieve target
- Sensex now trades at 18-19x one year forward



Sensex Matrix



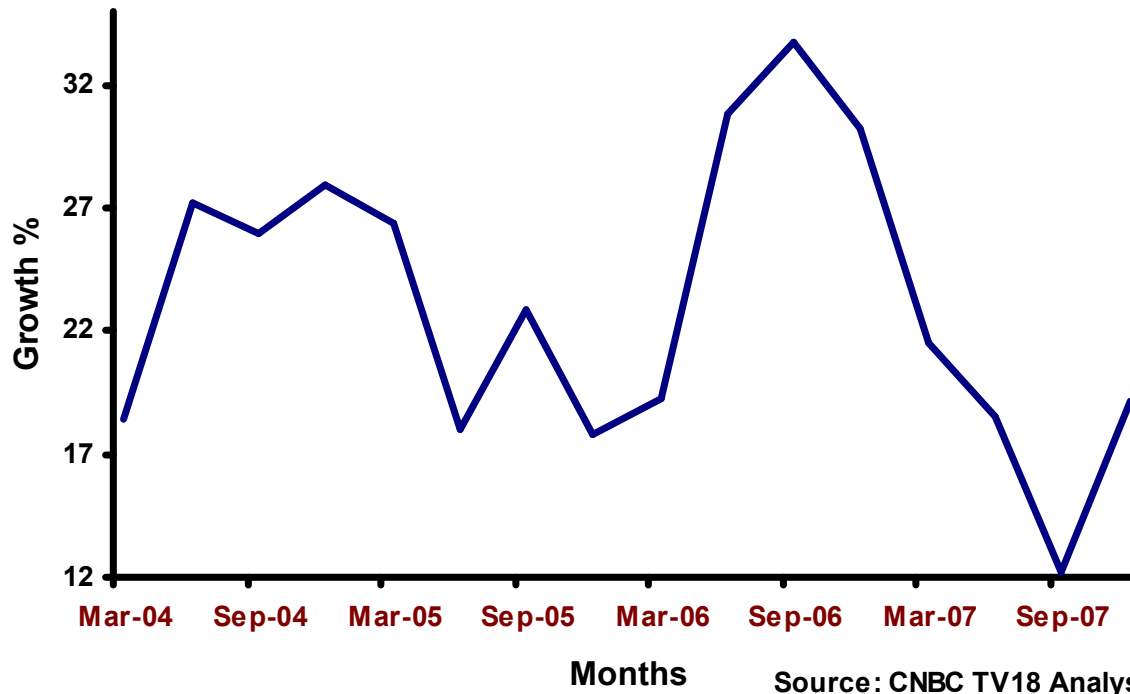
Sensex Levels for FY08	Pessimist	Realistic	Optimistic
EPS Growth	17%	20%	24%
P/E			
23x	18492	18765	19113
25x	20100	20396	20775
27x	21708	22028	22437



20 Quarter Performance

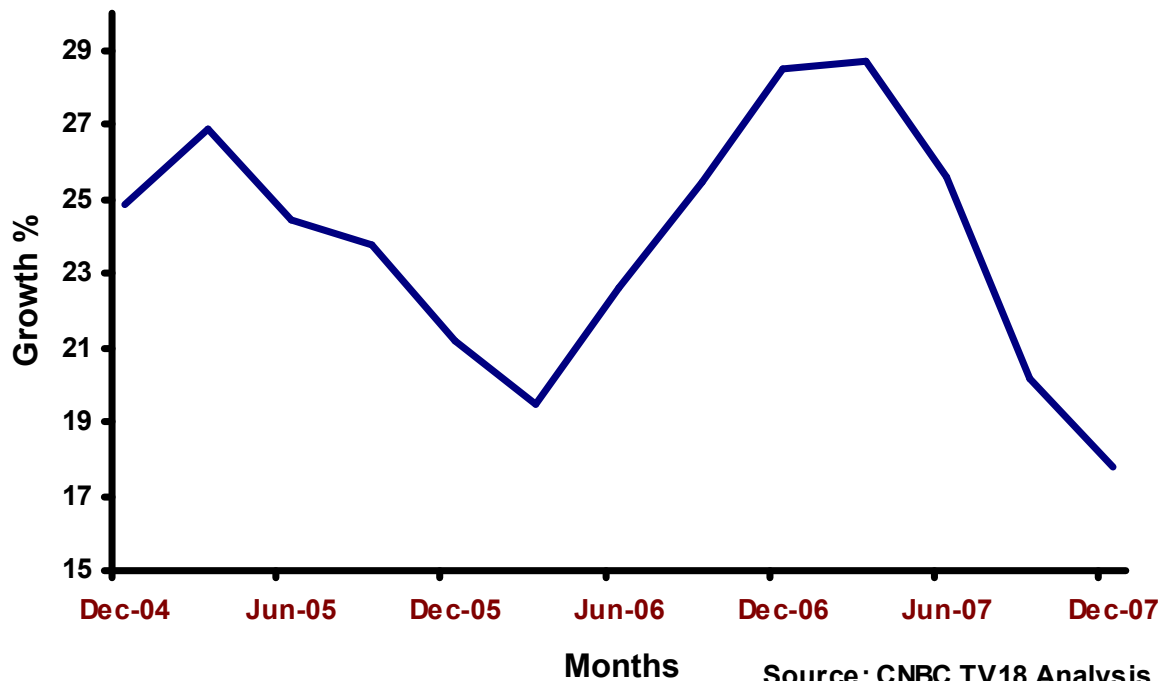
In the beginning was the end...

Sales Growth



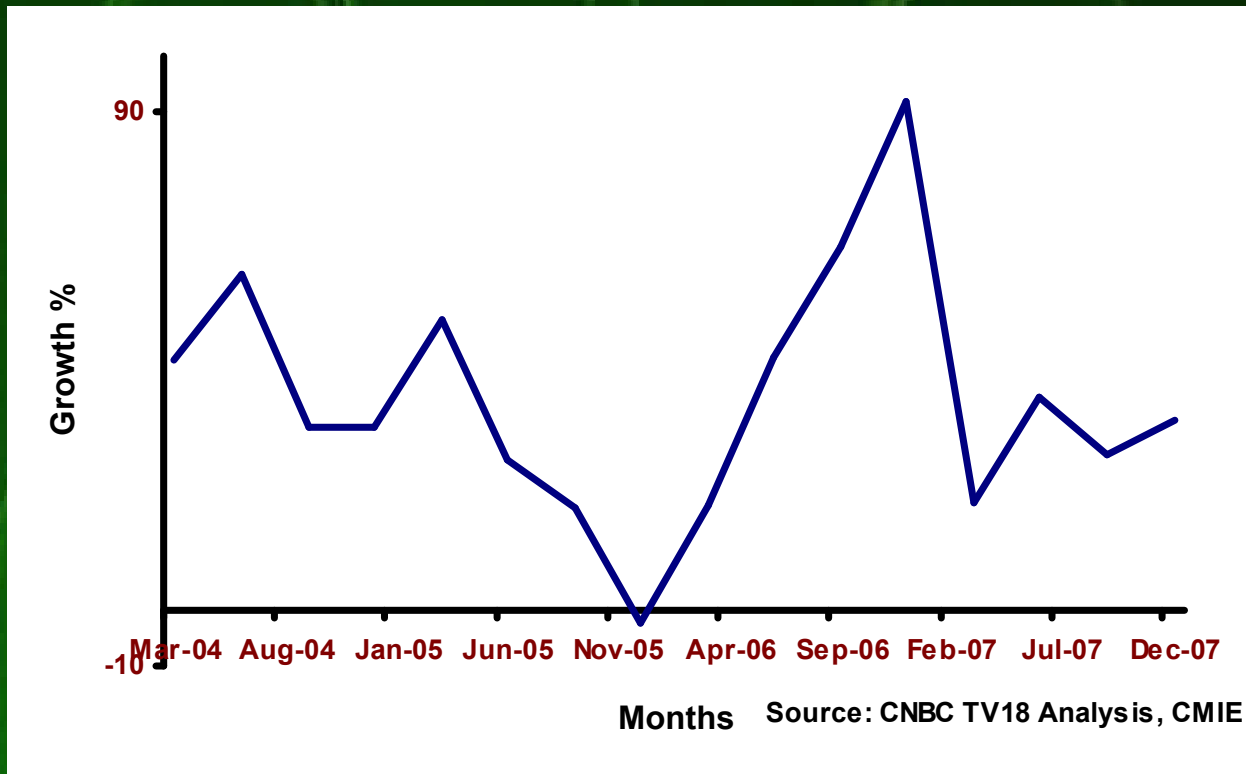
- Sales growth sees rise after 4- quarters of slowing
- A good sign for India Inc.
- But, growth rate still near its lows

Rolling Sales Growth



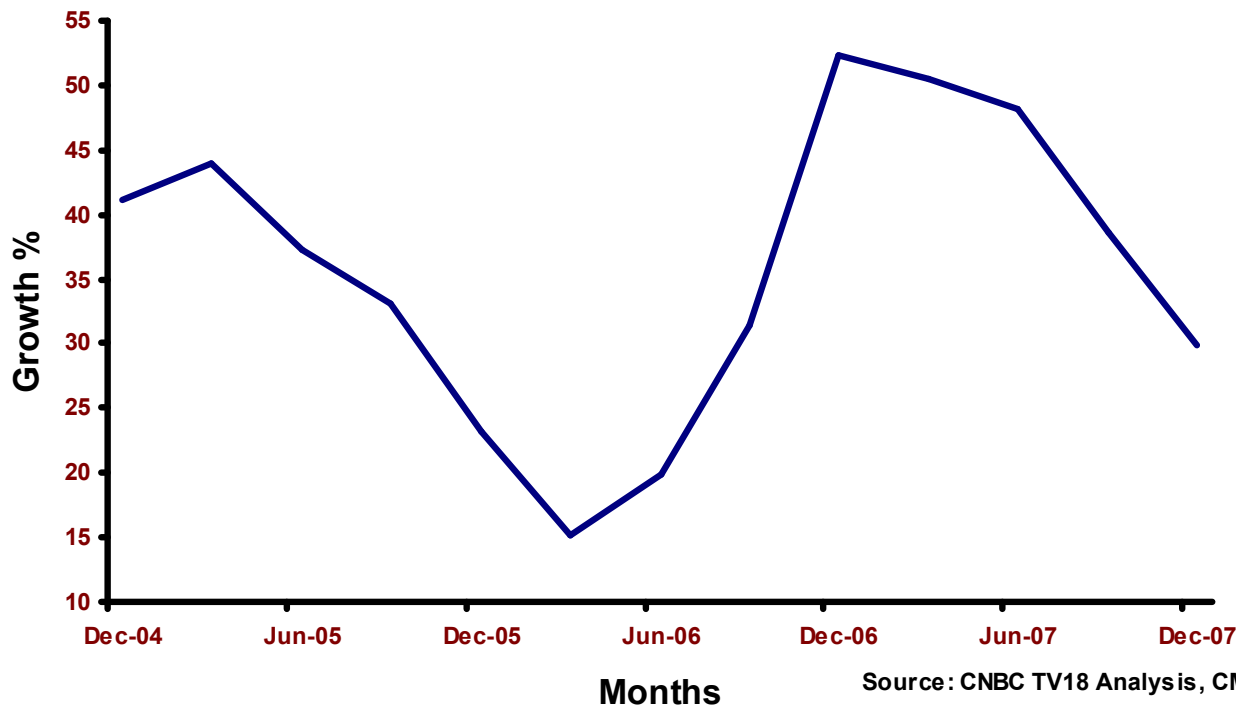
- 12-month Rolling Sales growth however on the decline.
- Lowest since the beginning of the bull run
- Will the pick up this quarter help?

PAT Growth



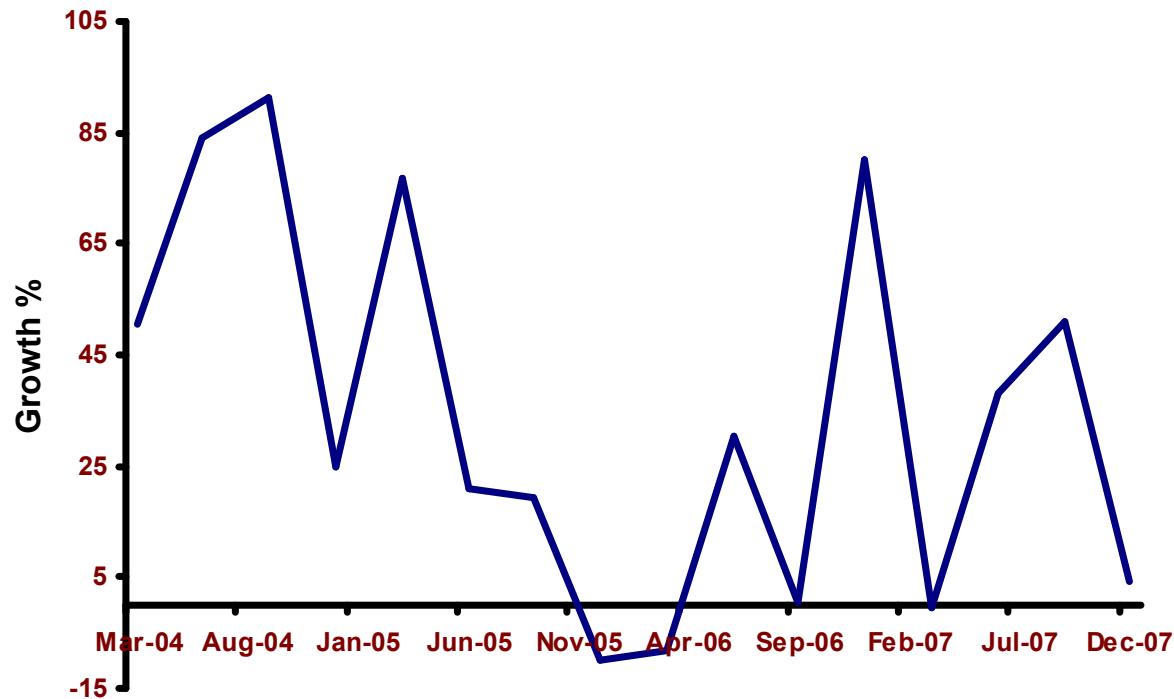
- PAT growth is a perfect disguise for bad performance
- Other Income supports the robust growth

Rolling PAT Growth



- 12-month rolling PAT still declining
- Time for a Big Quarter?

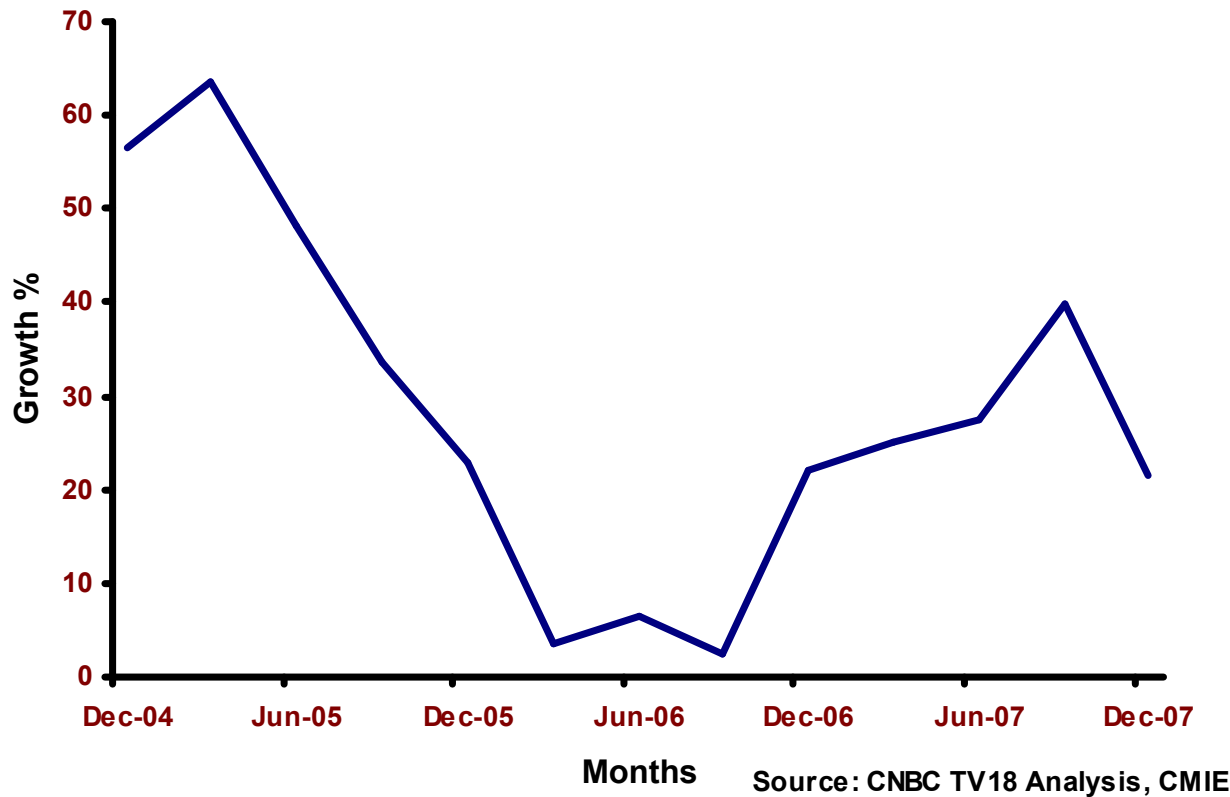
Adjusted PAT Growth



Months Source: CNBC TV18 Analysis, CMIE

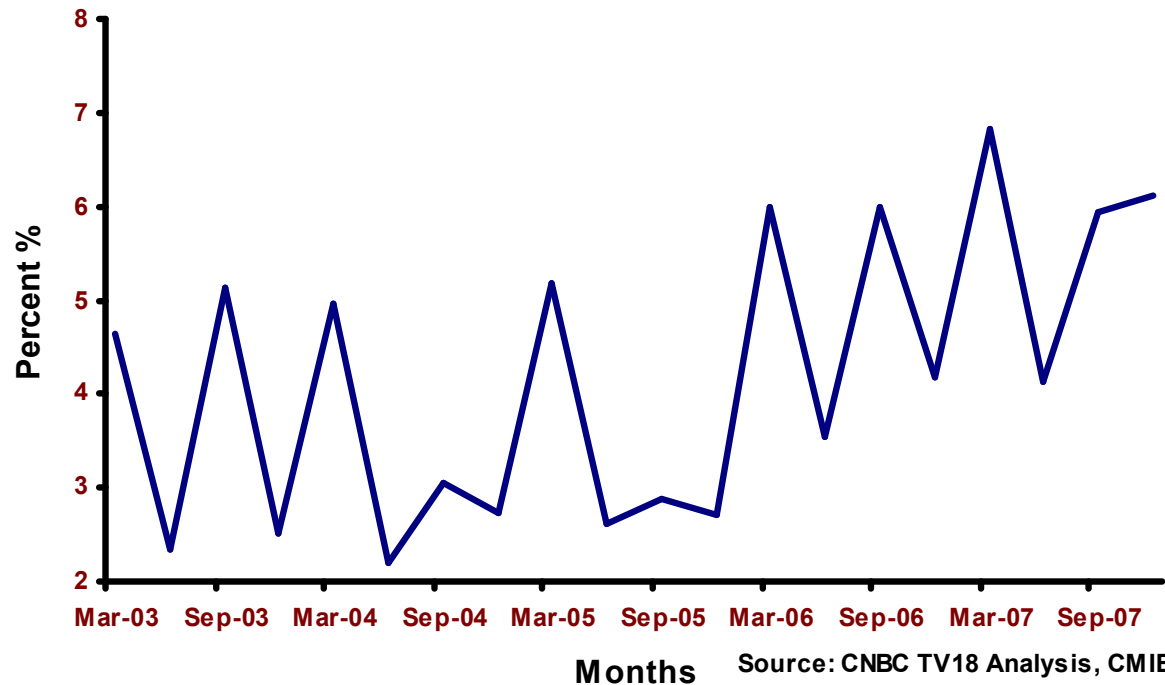
- Core Profits are flat
- Profit growth is supported by other income

Rolling APAT Growth



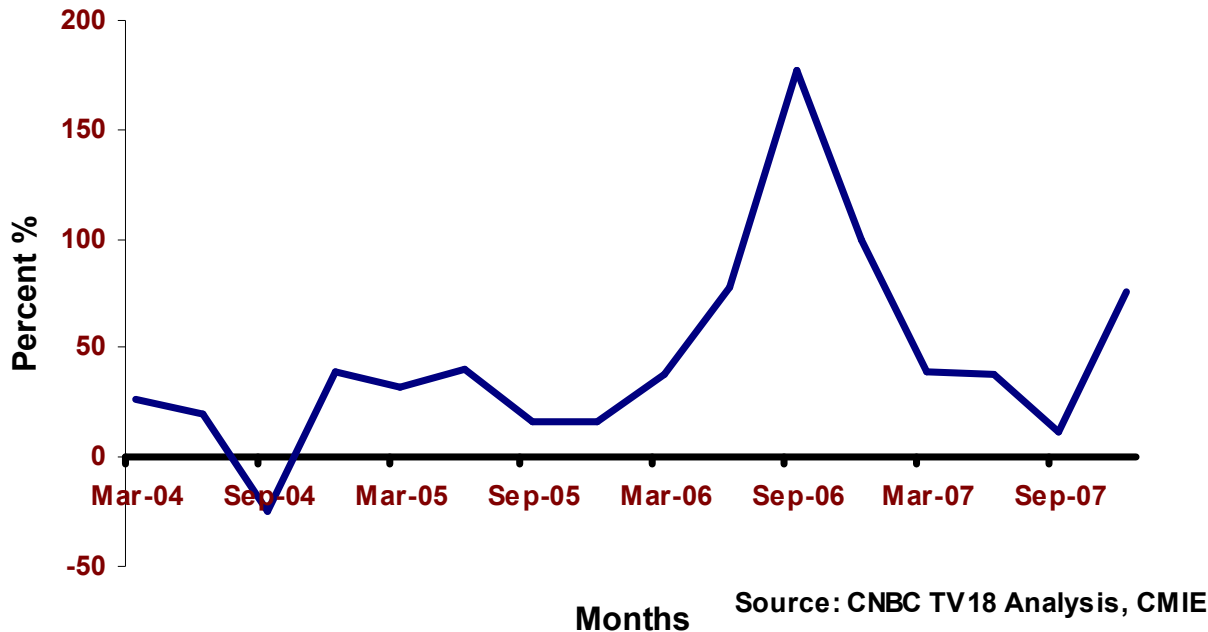
- 12-Month Rolling APAT dips again
- A high base also does not help
- Still in the Comfortable Zone?

Other Income to Sales



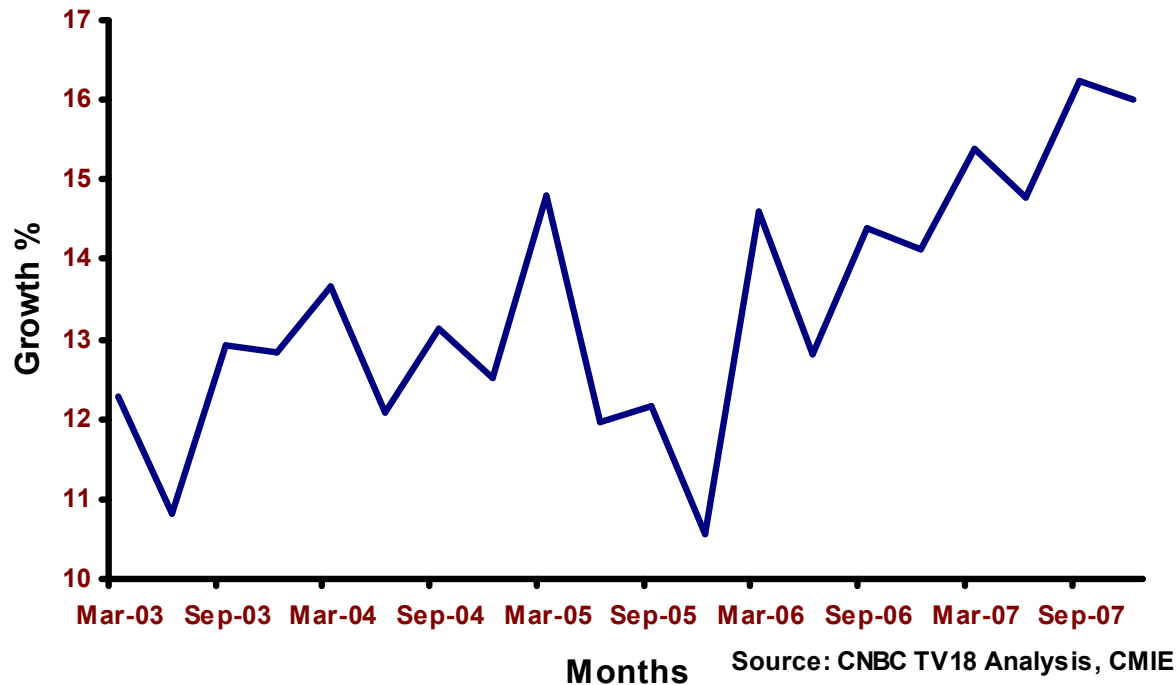
- Other Income to Sales near its all time high levels
- Other income component has been rising for a few quarters now

Other Income Growth



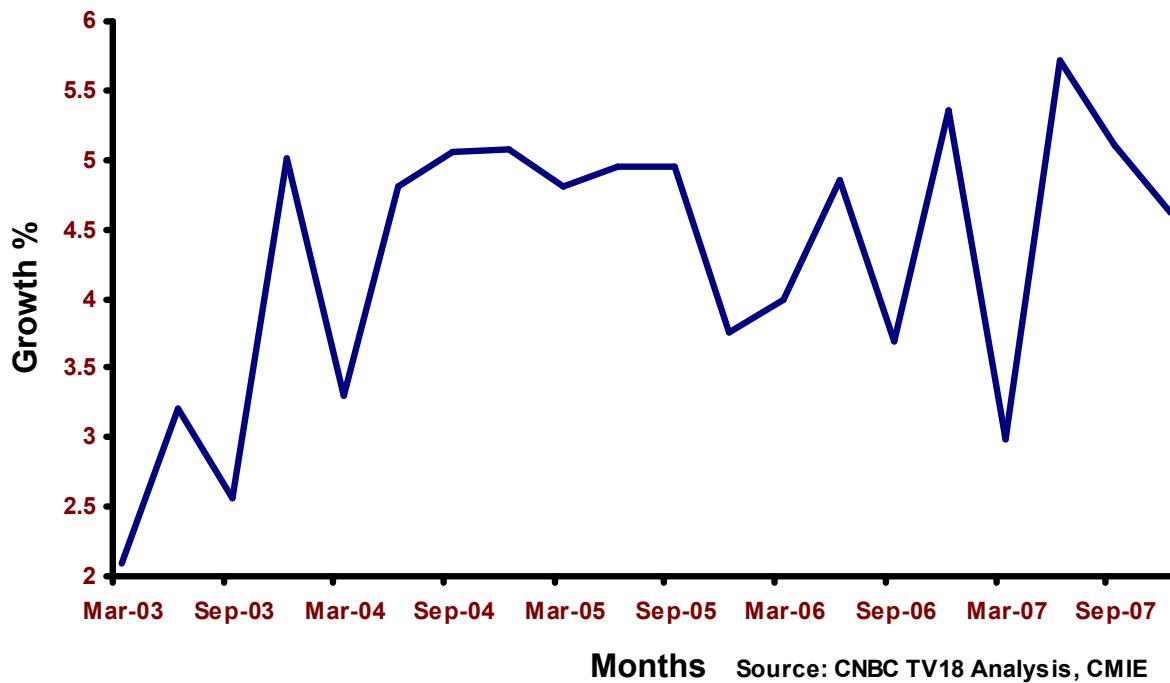
- The pace of other income is worrisome
- A bad quarter always sees a push in other income

Operating Margins



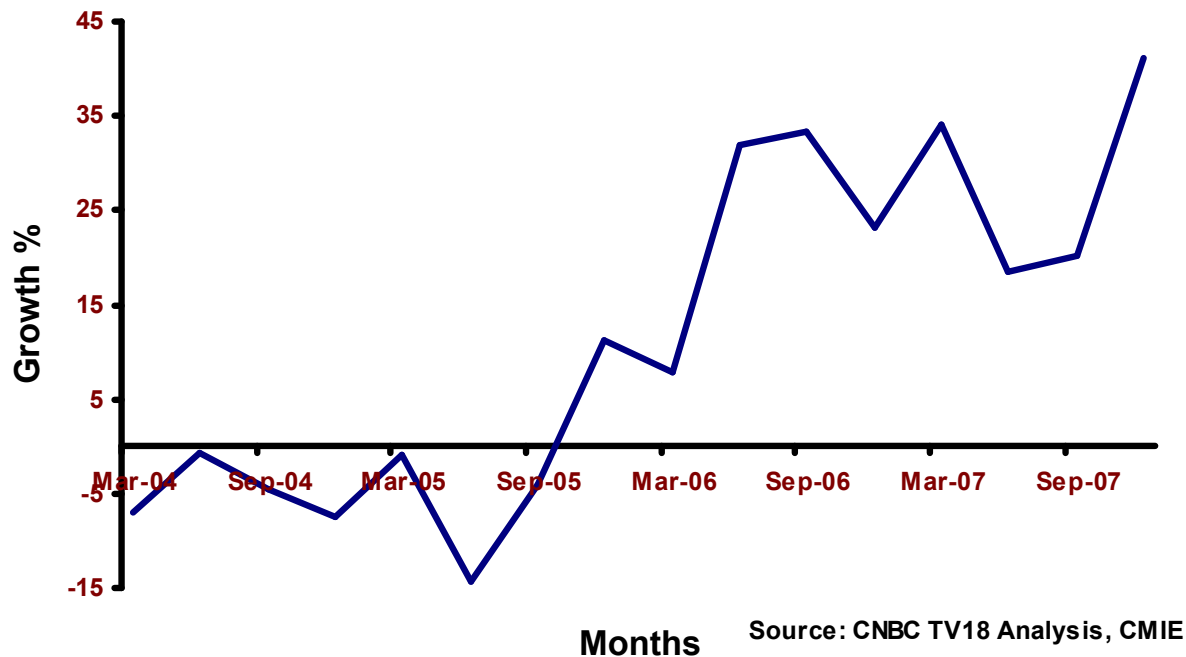
- Operating Margin Growth is Amazing
- A small dip is however seen as compared to Sep quarter
- Has Op margin peaked out?

Net Margins



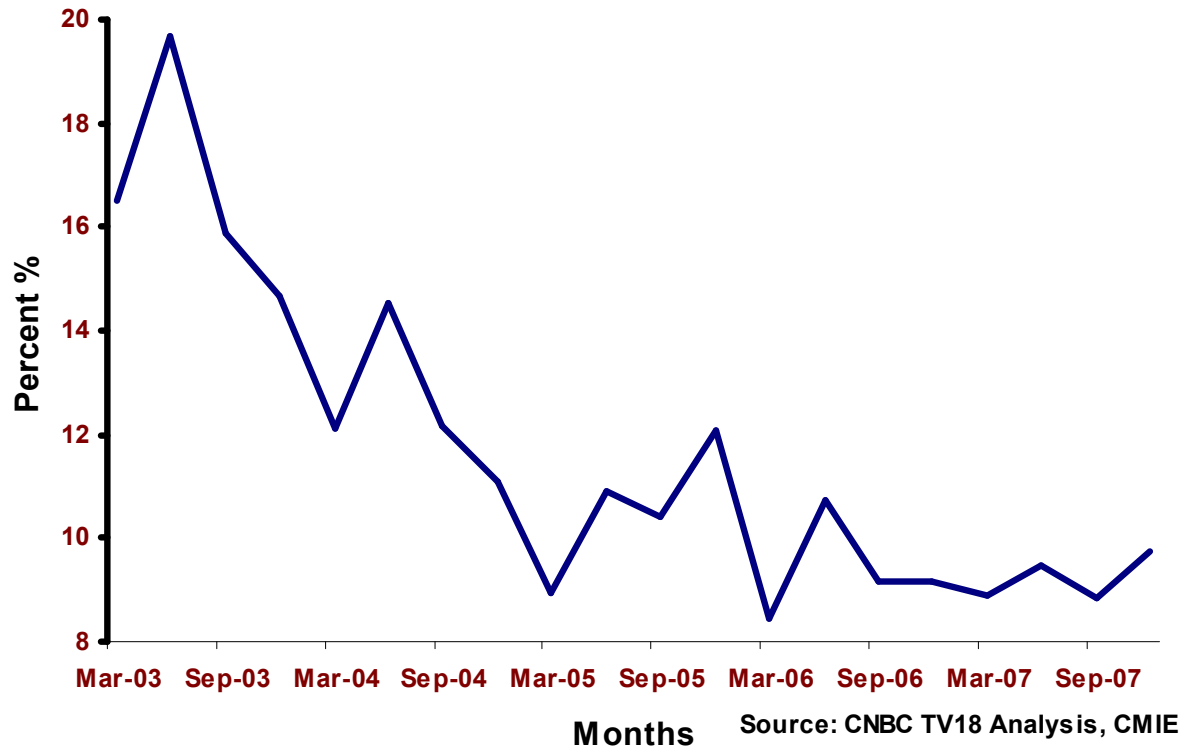
- Net Margins are tapering off
- Blame it on High Interest costs
- Employee & Depreciation costs also marginally rising

Interest Growth



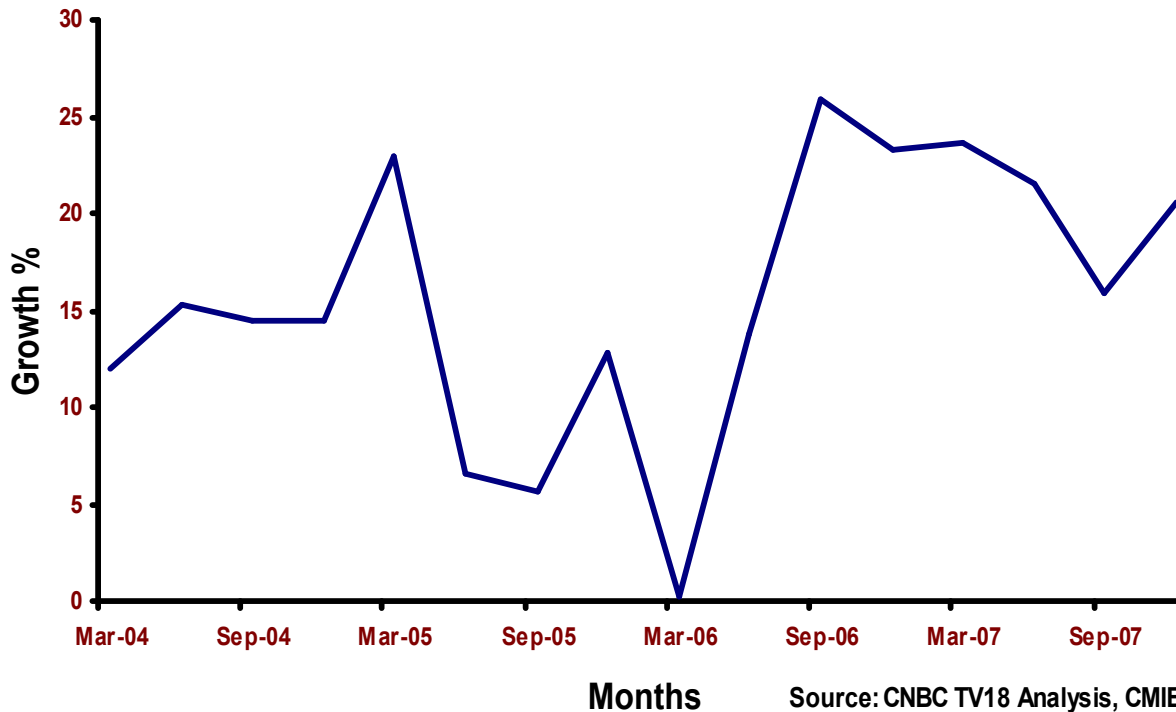
- Interest growth at all time high
- Hurting India Inc.s bottomline growth
- Indicates higher interest rate and higher borrowings

Interest To Op Income



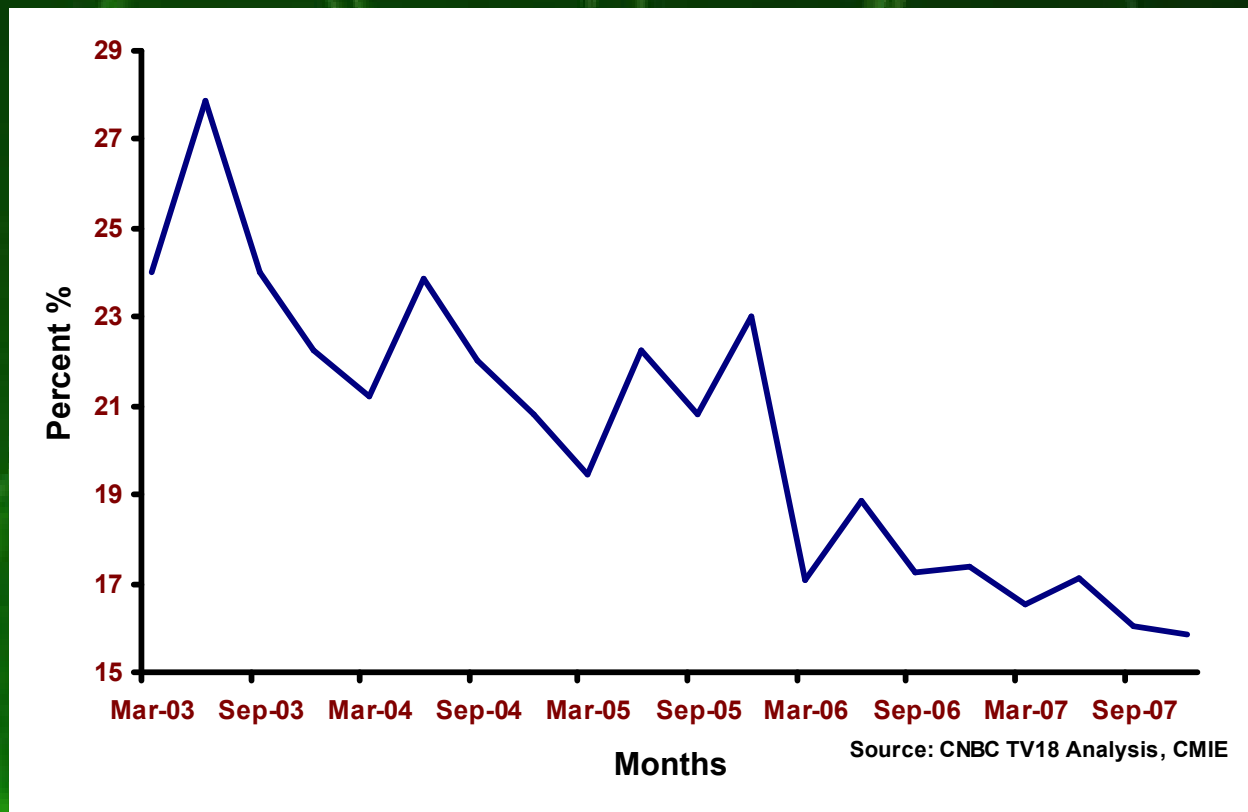
- Interest expense as percent of operating income highest after 5 quarters
- Interest rates in India seem to have peaked out
- Will continue to rise for a few quarters

Depreciation



- Slowly, but steadily India Inc. is expanding
- India Inc. in a better position to increase efficiencies

Dep to Op Income



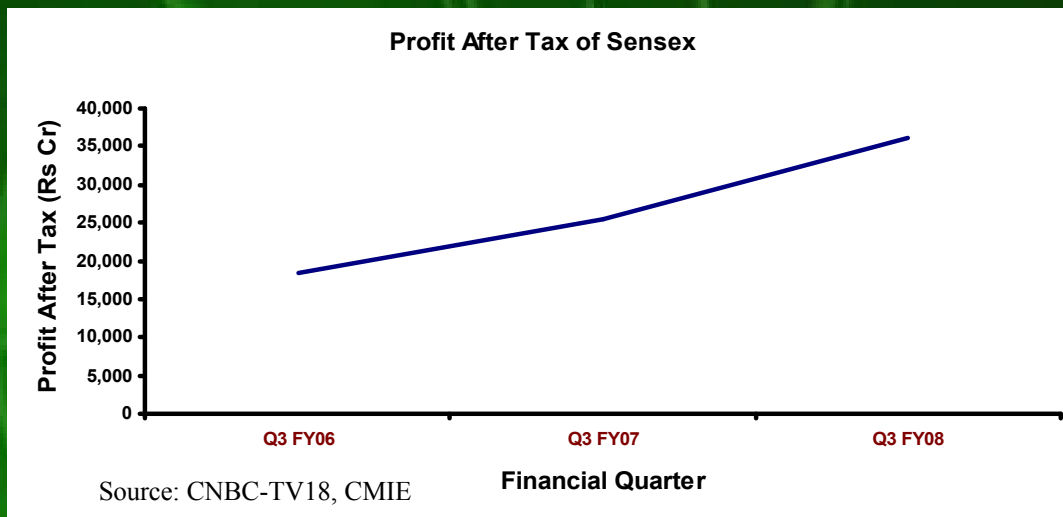
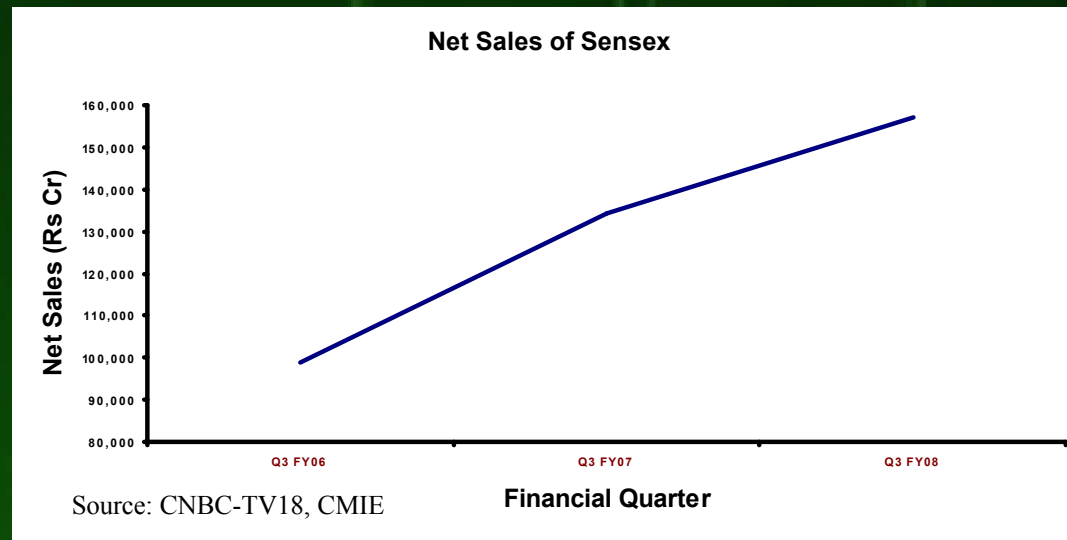
- Depreciation as a percent to OP Income lowest since the beginning of the bull run
- Is India Inc. expanding capacities fast enough?



Performance of Sensex Companies

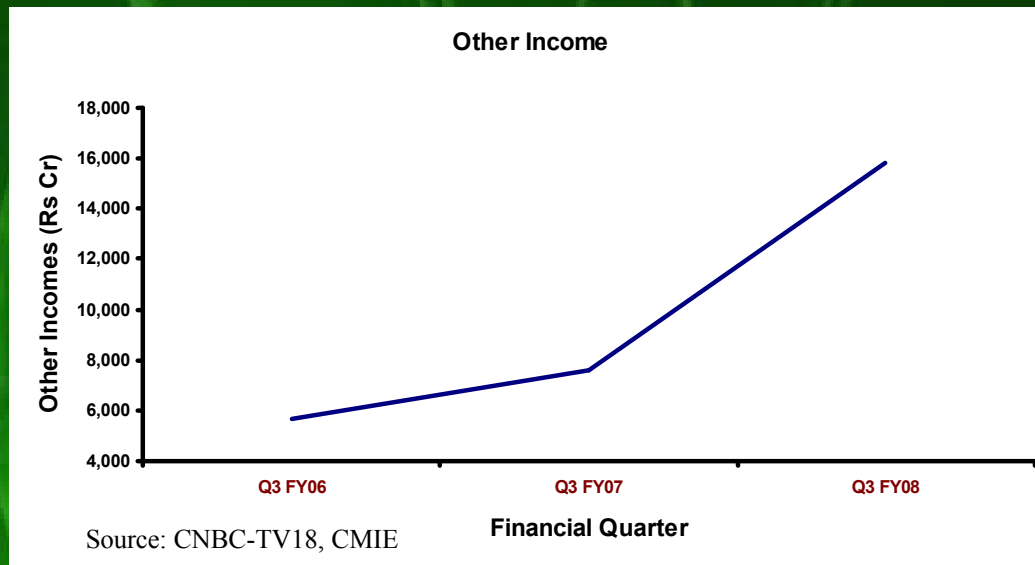
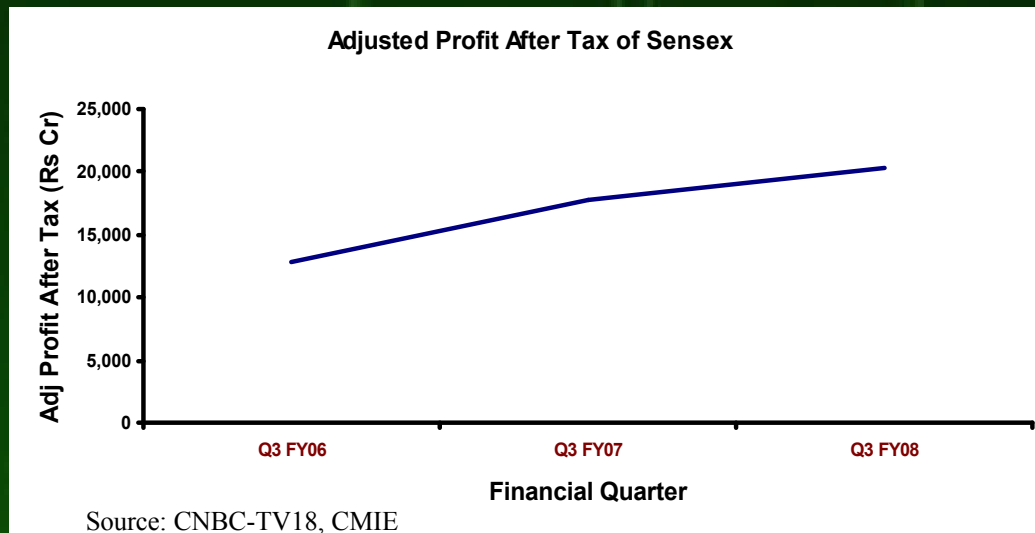
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On the face of it, Sensex earnings are in line with estimates



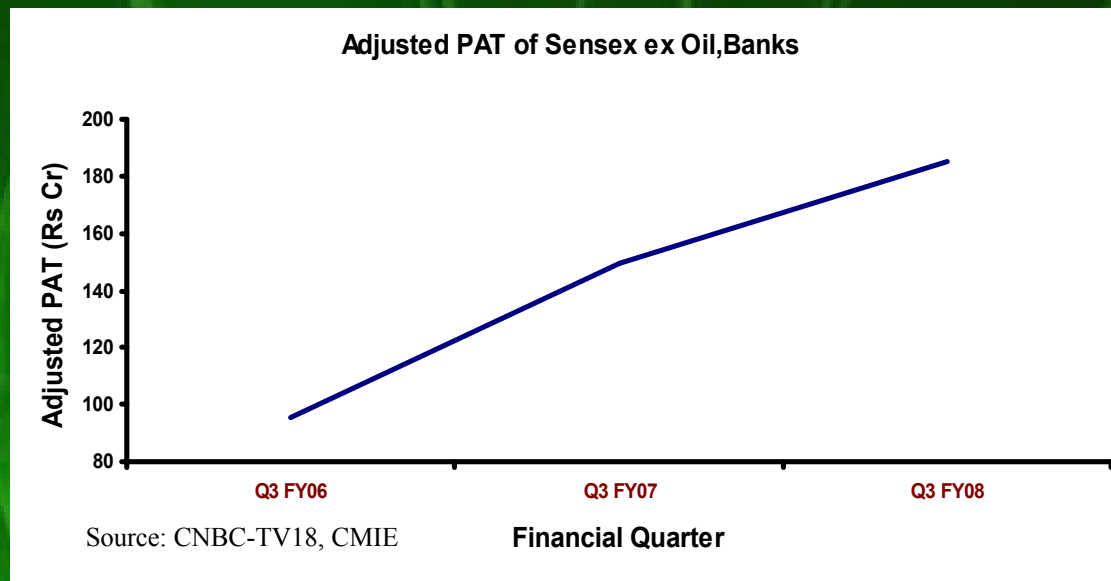
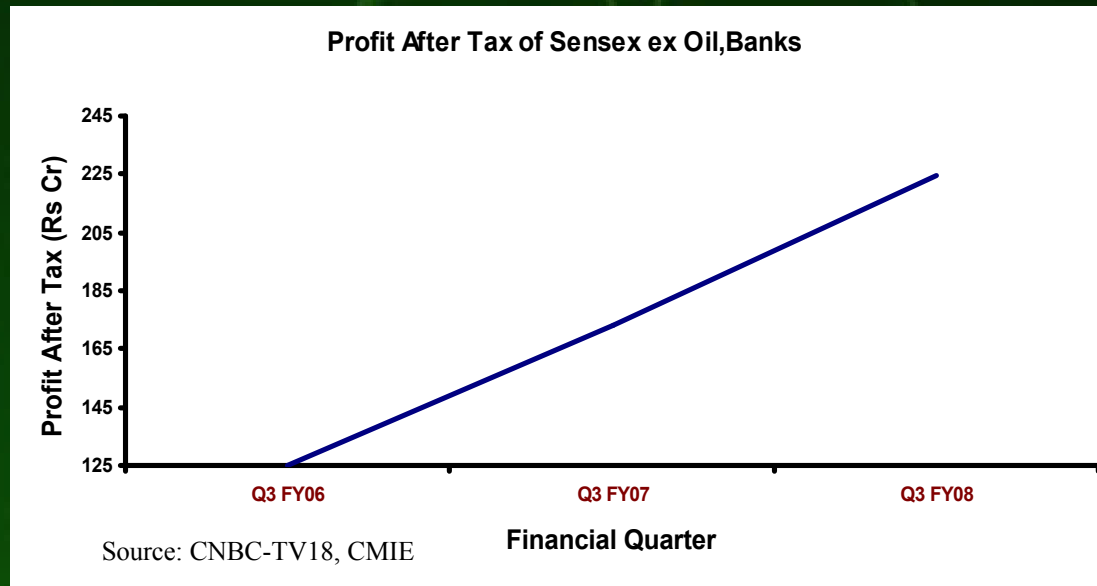
- Net Sales up 17% YoY
- But two year CAGR for Net Sales is 26% indicating decreasing growth rate
- Profit After Tax up 42% YoY

Look beyond the PAT numbers for growth consistency



- Adjusted PAT is up just a mere 14%
- Boost to PAT is coming from Other Income
- Other Income is up 108% YoY vs 67% two year CAGR
- Other Income is through tax subsidies, non-interest income and sale of assets

Sensex ex-Oil & Financials give a different picture



- While PAT is up 31%, Adj PAT is up 29% for 58% of the sensex companies
- This is because the Other Income is up only 40%
- Banks and Oil & Gas have been a drag on Adjusted PAT



BEST COMPANIES
The Best of the Best...



Sector	No of Cos	Net Sales Growth (%)	Net Profit Growth (%)	EBITDA Growth (%)	EBITDA Margins (%)
Auto	11	Maruti:27%	Hero Honda:31.5%	Hero Honda: 26.7%	Bharat Forge: 24%
Cement	7	Shree Cement: 43.3%	Grasim: 33.6%	Shree Cement: 40.7%	Shree Cement: 43%
Engineering	9	Suzlon: 65.6%	L&T: 49.7%	Alstom Projects: 71.1%	BHEL: 20%
FMCG	10	Asian Paints: 25.9%	Britannia: 143%	Britannia: 125.3%	ITC: 35%
IT	8	MphasiS: 106.6%	MphasiS:85.2%	MphasiS: 87.7%	Infosys: 33%
Infrastructure	6	IVRCL Infra: 86.6%	IVRCL Infra: 136.2%	IVRCL Infra: 44.7%	Jaiprakash Associates: 25%
Metals	8	Jindal Steel & Power: 38.2%	Jindal Steel & Power: 68%	Jindal Steel & Power: 41.1%	Hind Zinc: 63%
Pharma	13	Divi's Labs: 90%	Shashun Chem: 271.17%	Divi's Labs: 163.5%	Sun Pharma: 45%
Retail	3	Pantaloon Retail: 63%	Pantaloon Retail: 65.3%	Pantaloon Retail: 92.2%	Pantaloon Retail:9%
Telecom	3	Idea: 53%	Idea: 108.2%	Idea: 53.1%	Bharti: 43%
Textiles	5	Raymond:105.5%	Gokaldas Exports: -3.65	Raymond:90.6%	Welspun Ind: 15%
Utilities	6	Neyveli Lignite: 32.2%	CESC: 52.5%	Neyveli Lignite: 34.9%	Neyveli Lignite: 38%

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Thank You...

Important Disclosures

Haresh Soneji, Shravan Sreenivasula & Anichya Shah each certify, with respect to the companies analyzed, that (1) the views expressed in this report accurately reflect his or her personal views about all of the subject companies and (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

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