Reliance Money
Anil Dhirubhai Ambani Group
A Reliance Capital Company

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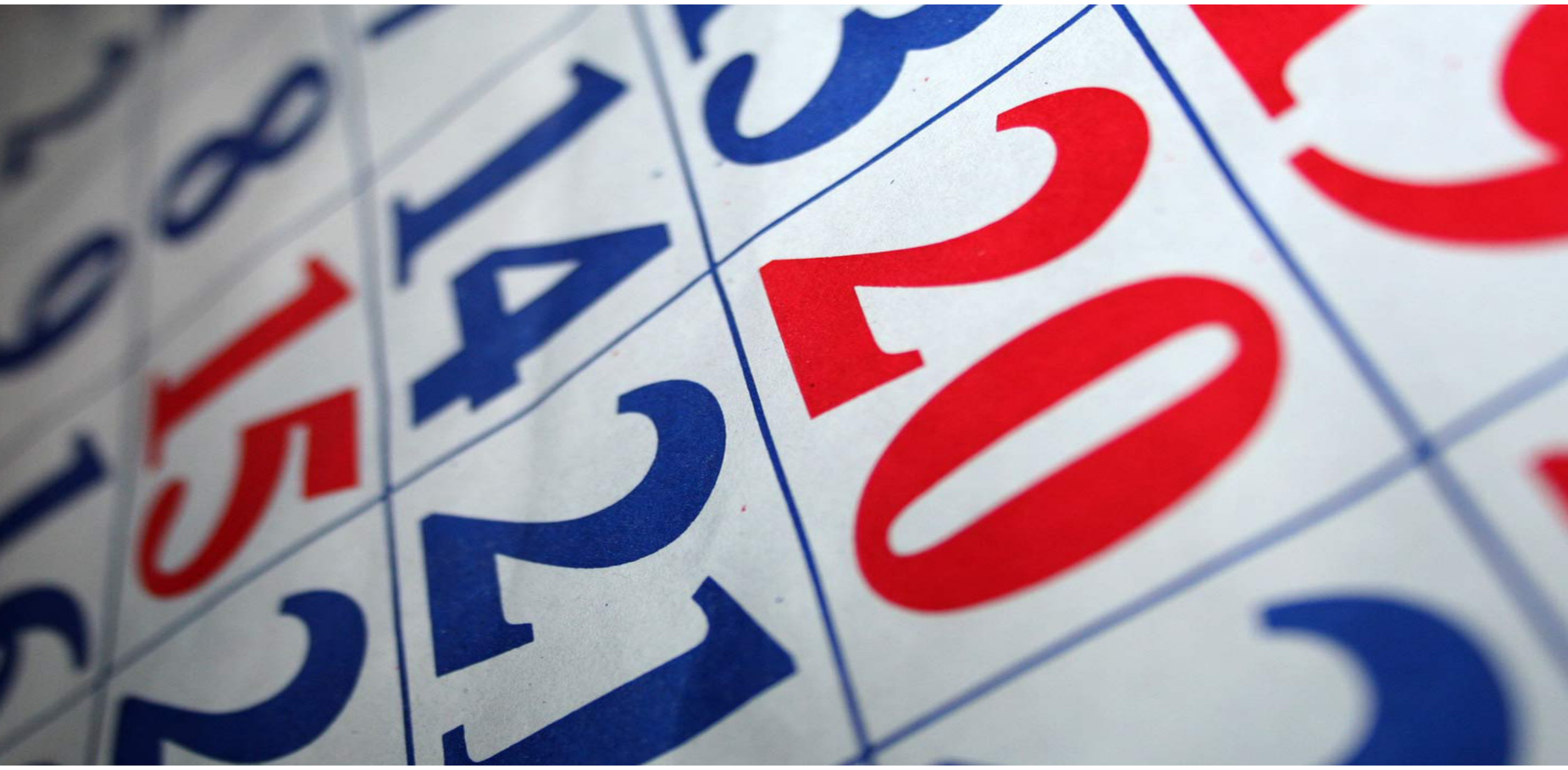
Q2FY09 Sector Review



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Q2FY09 Sector Review - Snapshot

Sector	Outlook	Key Sector Trends
Automobiles	Negative	▪ EBITDA margins down by 199bps y-o-y on account of high raw material costs. Only two wheeler companies reported improvement in EBITDA margins ▪ Lower capacity utilization due to slowdown and new capex initiatives to drag down profitability ▪ High interest rates, stringent financing norms, lower industrial production to impact demand for domestic automobiles
Auto Components	Negative	▪ Export and replacement market supported the top line growth. ▪ Due to slowdown in global automobile market, exports have also slowed down ▪ Impact of lower commodity prices to come with a lag effect ▪ Outlook on domestic automobiles market remains negative, so auto components are expected to suffer due to slowdown
Capital Goods	Positive	▪ Large capital goods companies continued to grow, order book momentum also maintained. However incremental orders could take a hit and current order book execution in the light of any order cancellation pose immediate risks to the sector ▪ Margins have taken a hit due to sharp rise in raw material prices ▪ Outlook on power equipment companies is positive due to strong capex in power sector
Cement	Negative	▪ Growth in sales was not reflected in profitability because of inability to pass on increased costs to customers. ▪ Cement prices increased marginally in southern market and were stable in the other parts of the country. ▪ Slack season, Government intervention and increased coal prices have taken a toll on profitability.
Construction	Negative	▪ Strong order book position and better execution leads to healthy revenue growth. ▪ Construction companies were able to pass on rise in input cost to some extent because of escalation clause in the contract. ▪ Five state elections (Nov 08 & Dec 08) and general elections in 2009 are likely to lead to a slowdown in fresh order flows from government in coming quarters.
Education	Positive	▪ Strong revenues and profits growth for Educomp and Everonn, disappointment for NIIT. ▪ Industry environment seems to be steady, with spending coming in from Governments and Private bodies (Schools, Colleges), however demand from IT education, corporate training, and Vocational training looking weak. ▪ Companies are looking for assets light model for expansion, however Educomp and Everonn have big capex lined up for next three years.
FMCG	Positive	▪ Good sales growth driven by strong volume growth coupled with the price hikes effected by players (to partly mitigate the higher input cost) during Q2FY09. The operating margins were subdued due to the impact of rising raw material prices, which has ultimately moderated the profit performance during the quarter. ▪ Going ahead, margin expansion is on cards as raw material prices have witnessed a cool down in the past few months but with the continuing uncertain economic outlook and moderating GDP growth the continuity of demand/ volume expansion looks doubtful in near future.
Hotels	Negative	▪ Economic slowdown and lower occupancy rates lead to a decline in profitability. ▪ Growth in ARR was seen at lower pace compared to same quarter previous year, ARR grew by 3% (Bengaluru), 20% (Mumbai & Delhi), 5% (Pune), and 11% Goa. Jaipur witnessed drop in ARR by 6%. ▪ Supply in rooms inventory is expected to be more than the demand post 2009 when new capacity is added to the existing room inventory
IT Services	Negative	▪ Decent topline growth in INR terms, owing to favorable rupee movement vis-à-vis USD. ▪ Owing to industry headwinds and cross currency depreciation vis-à-vis USD, Infosys and Satyam have reduced their guidance for FY09 by around 4%. ▪ Management of IT companies turned more cautious for year ahead, and voiced concerns on demand environment.
Metals	Negative	▪ The Steel producers exhibited a robust revenue growth of 43 %(YoY) in Q209 due to higher realizations. ▪ The Nonferrous Industry grew 5% (YoY) in revenues due to increase in volume but subdued LME prices. ▪ Sharp corrections in prices in face of high input prices are expected to affect both the top line and bottom-line of the Metals pack in near future.
Media	Negative	▪ Disappointing performance on the back of higher cost and overheads, leading to declined in the margins and profitability. ▪ Decent revenues growth in Q2FY09 however concerns emerging for growth in the coming quarters.
Oil & Gas	Positive	▪ Oil marketing companies posted huge losses on account of lower refining margins, inventory losses, and high under recoveries; ONGC suffered on account of high subsidy burden; GAIL posted robust growth on the back of higher LPG realizations; Oil service providers posted robust Y-o-Y growth on account of strong asset addition and higher day rates.
Pharmaceuticals	Negative	▪ Indian Pharma sector experienced the bitter taste of higher Forex exposure both in term of export earnings and loan exposure (predominantly the FCCBs) during Q2FY09. ▪ Though the sector saw impressive about 20% revenue growth driven by continued strong momentum in the formulation exports, the net profits witnessed negative growth due to huge Forex loss on loan/FCCBs during Q2FY09.
Power Utilities	Negative	▪ The topline growth was moderate for power utilities companies with better than expected margins. The timely execution of the scheduled projects and fuel supply remains the key concern for the sector.
Real Estate	Negative	▪ Negative macro factors have taken a toll on real estate sector. Liquidity crunch in the economy has badly hit the sector in the quarter. ▪ Lower volumes were realized by most of the developers because of increase in home loan rates and high price points. ▪ Focus of companies has shifted from accumulating land bank to execution of current projects. Most of the developers are keeping away from launching of new projects.
Shipbuilding	Positive	▪ Order book remained robust, revenue growth also remained impressive ▪ No clarity on continuation of subsidy support ▪ Global slowdown raising concerns over future order inflow ▪ Risk of orders cancellation remains, but present order book of Indian shipbuilding players are big enough and revenue visibility for next 2-3 years is firm

Source: Reliance Money Research

Q2FY09 Review

Automobiles

Slowdown deepens, net profit down by 21% y-o-y

Company	Net Sales (INRm)					EBITDA (INRm)					Adjusted PAT (INRm)				
	Q2FY09	Q2FY08	YoY (%)	Q1FY09	QoQ (%)	Q2FY09	Q2FY08	YoY (%)	Q1FY09	QoQ (%)	Q2FY09	Q2FY08	YoY (%)	Q1FY09	QoQ (%)
Maruti Suzuki	49,936	45,474	9.81	47,536	5.05	5,157	5,978	(13.73)	4,637	11.23	2,962	4,665	(36.52)	4,659	(36.43)
Tata Motors	70,789	66,727	6.09	69,284	2.17	5,649	7,451	(24.18)	5,225	8.11	3,470	5,268	(34.13)	3,261	6.41
M&M	31,380	28,024	11.97	32,934	(4.72)	2,929	3,813	(23.19)	3,248	(9.84)	2,268	2,860	(20.70)	2,372	(4.40)
Ashok Leyland	18,664	17,459	6.90	18,839	(0.93)	1,540	1,685	(8.61)	1,511	1.91	673	803	(16.26)	528	27.47
Hero Honda Motor	32,021	23,521	36.14	28,435	12.61	4,349	2,915	49.22	3,410	27.52	3,063	2,043	49.90	2,729	12.25
Bajaj Auto	25,484	23,618	7.90	23,108	10.29	3,802	3,394	12.02	2,637	44.16	1,849	2,386	(22.50)	1,751	5.60
TVS Motor Co.	10,151	8,254	22.98	9,111	11.42	317	218	45.10	312	1.34	104	119	(12.75)	70	48.15
Total	238,424	213,076	11.90	229,247	4.00	23,742	25,452	(6.72)	20,981	13.16	14,388	18,145	(20.70)	15,369	(6.38)

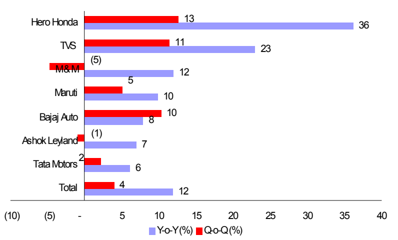
Source: Reliance Money Research

Growth in top line mainly driven by price hikes

The net sales of our automobile universe companies during Q2FY09 grew by 12% y-o-y which is better than our expectation of 9% y-o-y (ref our report dt 13th October 2008). Hero Honda and TVS reported highest growth of 36% and 23% respectively. Most of the companies except M&M and Ashok Leyland have reported increase in net sales on a sequential basis. The net sales growth was mainly driven by two wheeler companies which grew by 22.1% y-o-y during the quarter. While four wheeler companies grew by 8.3% y-o-y during Q2FY09. The net sales growth of both two wheeler and four wheeler companies are driven by price hikes taken by the respective companies.

During the quarter raw material costs of automobile companies went up significantly and most of the automobile companies have taken price increases to support their margins. During the quarter, two wheeler and four wheeler companies reported sales volume growth of 17% y-o-y and 1% y-o-y. Segments which have less dependent on financing like two wheeler (~40% credit sales) are less impacted, but segments like commercial vehicles (~85% credit sales) and passenger cars (~70% credit sales) have been impacted higher.

Net Sales Growth Q2FY09

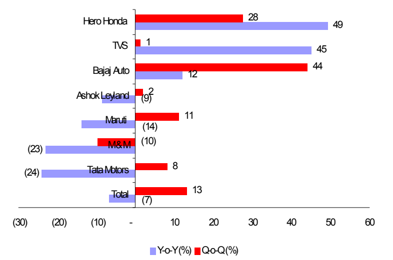


Source: Reliance Money Research

Sales Volumes for auto industry up by 14% y-o-y

Sales volume of auto companies during the period Q2FY09 have shown sales volume growth of 13.8% y-o-y compared to 9.3% growth in Q1FY09. Except Ashok Leyland, Tata Motors and Maruti Suzuki all other companies reported positive growth during the quarter. Only three companies i.e. M&M, Hero Honda and TVS Motor have managed to report double digit growth during the quarter. Dependence on credit sales for two wheeler companies has come down significantly. The exports volume of overall automobile industry during Q2FY09 grew impressively by 30% y-o-y and supported the overall growth during Q2FY09.

EBITDA growth Q2FY09



Source: Reliance Money Research

EBITDA margins down by 199bps

EBITDA for Q2FY09 for our automobile universe companies declined by 7% y-o-y, but reported growth of 13% on q-o-q basis. Spurt in raw material prices especially steel, aluminum, rubber impacted the EBITDA during the quarter. Two wheeler companies, Hero Honda, Bajaj Auto and TVS reported positive growth in EBITDA of 49%, 12% and 45% y-o-y respectively. Tata Motors reported sharpest fall in EBITDA by 24% y-o-y. Four wheeler companies dragged EBITDA of our auto universe companies and reported fall of 19% in EBITDA, while two wheeler companies with good support from sales volume growth reported increase in EBITDA by 30% y-o-y.

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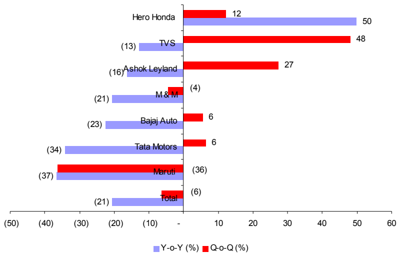
EBITDA margins for Q2FY09 for our automobile universe companies reported fall of 199bps y-o-y to 10% as against 12% in Q2FY08. We assess as most of the auto companies opted for price hikes during the quarter to support the fall in their EBITDA margins, otherwise the fall in EBITDA margins would have been much higher. Currently automobile companies have not passed on the entire rise in raw material prices to their consumers and in the near future the automobile players are likely to continue to hike prices of the vehicles. But we don't think the automobile companies would continue to increase prices at the same rate as there would be limitations over further price hikes, as it may induce buyers of vehicles to either cancel or postpone their decision to new vehicle.

Net Profit Growth Q2FY09



Source: Reliance Money Research

Net profit down by 21% y-o-y, other income supported

Commercial vehicle manufacturing companies like Tata Motors and Ashok Leyland are in the expansion mood and raised funds to fund these expansions. Maruti Suzuki is also expanding its capacity for engines and car plant. So for most of the companies the interest cost has gone up during the quarter. During Q2FY09 interest rates were also higher and pushed interest cost of these companies northwards.

Net profit for Q2FY09 for automobile companies came down by 21% y-o-y (6% q-o-q) mainly due to lower margins, higher interest and depreciation cost. Only Hero Honda has reported positive growth of 50% y-o-y in net profit during the quarter. Four wheeler companies reported decline of 31% in net profit for Q2FY09 and two wheeler companies reported 10% growth in net profits for Q2FY09. The total forex losses declared by these automobile companies are to the tune of Rs.6,127mn and Tata Motors has declared the largest share of it to Rs.2,850mn. Forex losses have also dragged the net profit of the automobile companies during the quarter.

Forex Losses

Forex Loss	Rs. Mn
Maruti Suzuki	200
Tata Motors	2,850
M & M	1,178
Ashok Leyland	216
Hero Honda Motor	-
Bajaj Auto	1,682
TVS Motor Co.	-
Total	**6,127**

Note: TVS to recognise loss on ECBs at the end of the year
Source: Company

Slowdown may worsen in Q3FY09E

During April-October 2008, total automobile (including two wheeler, three wheeler, passenger vehicle and commercial vehicle) market has reported growth of 8% y-o-y to 6.8mn vehicles backed by domestic growth of 5.6% y-o-y and exports growth of 29% y-o-y. M&HCV and three wheelers markets have already shown de-growth of 10% and 1% due to slowdown in automobile sector.

Going ahead we believe the slowdown to worsen especially in the segments like commercial vehicles and passenger vehicles

Going ahead we believe the slowdown to worsen especially in the segments like commercial vehicles and passenger vehicles which has high dependence on credit financing and economy growth. Slowdown in overall economy especially in industrial production, high interest rates, stringent financing norms, declining freight rates are likely to impact commercial vehicle sector in near future. Both large commercial vehicle players Tata Motors and Ashok Leyland have announced production cuts due to fall in demand and it will impact Q3FY09E results negatively. But comparatively two wheeler segment would be less affected as it has less dependence on credit financing.

Further fund raising seems to be difficult

Due to slowdown in overall economy most of the automobile companies including two wheelers, passenger vehicle and commercial vehicle companies which have announced capex plans during last 1-2 years are likely to see cutbacks in the proposed capex plans. Due to slowdown and sudden slump in the demand, the overall existing operating capacities have declined during last 6-8 months. Hence, the slowdown is likely to induce these companies to curtail their capex plans for next 1-2 years.

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Company	Estimated/announced capex	Comment
Tata Motors	Rs.100bn over next three years, JLR acquisition ~$2.3bn	Yet to fund ~500-600mn JLR acquisition. Rs.100bn capex is also likely to come down. Likely to face pressure in further fund raising
Ashok Leyland	Rs.20bn including Uttarakhand plant, Nissan JV ~Rs.5bn	Already cut capex for Uttarakhand
M&M	Rs.60-70bn over next three years	Likely to cut capex in near future
Maruti	Rs.90bn for Manesar and Gurgaon	Can fund capex through internal accruals, but review of capex plans likely
Bajaj Auto	Rs.1.5bn	Can fund capex through internal accruals
TVS	Rs.400mn	Already cut capex plans from Rs1bn to Rs.400mn
Hero Honda	Rs.4bn	Can fund capex plans through internal accruals

Source: Company

Outlook remains weak

We believe the outlook for overall automobile industry to remain weak.

It is noteworthy that in the month of October 2008, despite the festival season (Diwali and Dassehra), automobile sales volume came down by 9% y-o-y to 1mn from 1.1mn in October 2007. Domestic sales declined by 14% y-o-y but exports grew supported the overall sales volume and grew by 41% y-o-y. We believe the outlook for overall automobile industry to remain weak. High interest rates, stringent financing norms, lower industrial production, slowdown in overall economy; lower freight rates are likely to impact demand growth in near term.

Valuation matrix

Company	Net Sales		EBITDA %		PAT		EPS		PE(x)		CMP	Target Price	Comment
(Rs mn)	FY09E	FY10E	FY09E	FY10E	FY09E	FY10E	FY09E	FY10E	FY09E	FY10E	Rs	Rs	
Tata Motors	319,764	353,093	8.1	8.1	15,240	16,028	28.6	30.1	4.7	4.5	135	120	SELL
Ashok Leyland	71,375	78,832	7.4	7.9	2,358	2,584	1.8	1.9	8.2	7.5	15	13	SELL
M&M	133,499	157,489	9.0	9.6	8,482	10,028	32.9	38.9	9.2	7.8	303	320	HOLD
Maruti	199,716	230,311	10.4	11.0	15,306	18,235	53.0	63.1	9.8	8.2	517	504	REDUCE
Hero Honda	130,797	154,624	12.5	12.1	12,343	14,503	61.8	72.6	12.1	10.3	750	900	BUY
Bajaj Auto	94,485	104,551	11.6	11.6	6,951	7,870	48.0	54.4	7.6	6.7	366	340	REDUCE
TVS	37,916	46,904	3.1	3.5	339	549	1.4	2.3	17.8	11.0	25	23	SELL

Source: Reliance Money Research

Q2FY09 Review

Auto Components

Replacement market and exports drive top line

	Net Sales (INRm)					EBITDA (INRm)					Adjusted PAT (INRm)				
Company	Q2FY09	Q2FY08	YoY (%)	Q1FY09	QoQ (%)	Q2FY09	Q2FY08	YoY (%)	Q1FY09	QoQ (%)	Q2FY09	Q2FY08	YoY (%)	Q1FY09	QoQ (%)
Bosch	12,685	10,313	23.0	12,211	3.9	2,391	1,945	22.9	2,046	16.8	1,582	1,368	15.7	2,197	(28.0)
Exide Inds	9,008	6,678	34.9	9,065	(0.6)	1,484	1,172	26.6	1,499	(1.0)	778	622	25.1	822	(5.3)
Amtek Auto	12,304	11,366	8.3	13,284	(7.4)	2,023	2,263	(10.6)	2,058	(1.7)	741	1,061	(30.1)	1,070	(30.7)
Amtek India	2,704	2,819	(4.1)	2,792	(3.2)	566	719	(21.2)	60	840.7	227	383	(40.7)	242	(6.4)
Sona Koyo Steer.	1,789	1,646	8.7	1,704	5.0	14	192	(92.7)	79	(82.2)	(73)	88	(183.3)	(16)	(346.3)
WABCO-TVS India	1,341	-	-	1,542	(13.1)	267	-	-	278	(4.0)	182	-	-	193	(5.6)
Bosch Chassis	1,418	1,315	7.9	1,283	10.5	52	160	(67.5)	89	(41.2)	37	98	(62.5)	107	(65.8)
Sundaram Clayton	1,492	2,104	(29.1)	1,274	17.1	149	353	(57.8)	122	22.3	68	234	(70.7)	63	9.4
*Bharat Forge	13,466	10,451	28.8	13,113	2.7	1,938	1,775	9.2	2,045	(5.2)	41	791	(94.8)	409	(89.9)
Sundaram Fastners	3,884	2,982	30.2	3,637	6.8	332	401	(17.2)	590	(43.7)	92	205	(55.2)	129	(28.7)
*Rico Auto	2,547	2,013	26.5	2,345	8.6	163	153	6.0	150	8.5	39	92	(57.9)	53	(26.4)
Motherson Sumi	6,297	4,729	33.2	6,018	4.6	580	527	10.0	354	63.9	423	386	9.7	317	33.7
Mahindra Forgings	765	618	23.8	617	24.0	23	5	415.0	(5)	(526.6)	(76)	(12)	(540.2)	(95)	(20.5)
SKF India	4,332	3,870	11.9	4,312	0.5	593	683	(13.1)	567	4.5	370	431	(14.3)	367	0.8
Total	72,691	60,902	19.4	71,654	1.4	10,308	10,347	(0.4)	9,655	6.8	4,249	5,746	(26.1)	5,662	(25.0)

Source: Reliance Money Research
** Consolidated numbers*
Total excluding - WABCO - TVS India

Top line for auto components co's was on account of price hikes and better exports.

Top line grows on back of exports and Replacement market support

The net sales of auto components universe companies during Q2FY09 grew by 19% Y-o-Y and was primarily driven by price hikes and better exports. On a Q-o-Q basis net sales of auto component companies grew by 1%. Exide, Motherson Sumi, Sundaram Fastners and Bharat Forge Ltd reported highest growth of 35%, 33%, 30% and 29% y-o-y respectively. Sales volume of two wheeler and four wheeler companies, during the quarter remained under pressure. Major portion of the revenue rise for auto component players came in the form of price hikes rather than volume growth.

Inorder to meet up with the spurt in prices of key commodities most of the automobile ancillary players have taken price increases to support their margins, which have led to increase in prices of components. Apart from this companies like Exide and Bharat forge Ltd have grown on the back of revenue growth for Industrial segment business and exports.

EBITDA margins down by 281bps Y-o-Y

EBITDA for Q2FY09 for auto component universe companies reported a flat growth to Rs.10bn on a y-o-y basis, but sequentially the EBITDA of the company grew by 7%. Spurt in raw material prices especially steel, aluminum, rubber impacted the EBITDA during the quarter on a y-o-y basis. But the fall in commodity prices in the last quarter and price hikes by auto component manufacturers led to a 7% jump in EBITDA on a Q-o-Q basis. EBITDA margins for Q2FY09 for our auto components universe companies reported fall of 281bps y-o-y to 13.5% as against 17% in Q2FY08. Sona Koyo reported a sharp fall in EBITDA by 93% mainly due to sharp rise in raw materials and unfavorable yen movement.

Higher Interest costs, adverse currency movement led to drop in net profits during Q2FY09.

Net profit declines by 26% Y-o-Y

Net Profit for Q2FY09 for auto component universe companies reported a fall of 26% y-o-y as companies like Sona Koyo and Mahindra forgings reported losses, while majority of other companies reported drop in net profits, with the exception of Bosch, Exide and Motherson Sumi. Lower EBITDA, higher interest costs and adverse currency movement for companies relying on imports for raw materials, led to a drop of 26% in net profit of the company. Bharat Forge reported drop in net profit mainly due to translational forex loss of Rs. 875 mn on its FCCBs and ECBs. While , Sona Koyo Steerings Ltd also reported a forex loss of Rs.24 mn.

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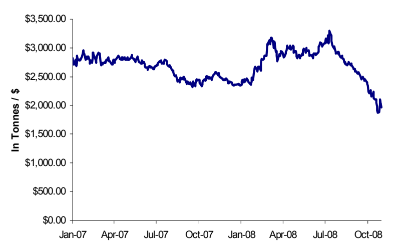
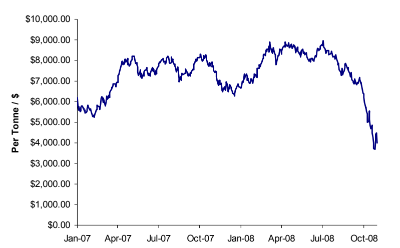
Aluminium price movement



Source: Reliance Money Research

Copper Price Movement



Source: Reliance Money Research

Impact of recent slowdown on auto component companies

Domestic auto component companies continue to face impact of slowdown in domestic market. Although the automobile companies (OEMs) reported growth in sales volume for Q2FY09, the growth has slowed down during Q2FY09 and segments like M&HCVs have already reported negative growth. Companies which have high exposure to global automobile markets through exports have also started facing problems mainly due to slowdown in global automobile industry. Favorable Rupee movement has supported exports of the auto component companies but it is unlikely to support in near future, unless there will be any respite from increase in sales volume in exports market.

We assess the overall slowdown in automobile market to impact the auto component companies as well. Companies are likely to postpone their fund raising plans, cut or delay production plans, face pressure for short term liquidity. Few are the instances/ announcements made by these companies.

- BFL has decided to review its rights issue keeping in mind the current slowdown
- SKF has delayed commissioning of its Rs. 1.5bn plant at Haridwar. The 10-acre plant was scheduled to start operations by the end of this year, but will now start operations in the first quarter of 2010.
- Hinduja foundries have decided to cut production for 5 days a week.
- Sona Koyo has faced adverse yen impact due to currency fluctuation. Reported a loss of Rs.73mn in Q2FY09.

Company	Impact of slowdown
Ashok Leyland	Cut in production for 3 days a week
Toyota Corolla	Cut production of Altis by 1,000 units as demand cools off
Maruti	A-star was due in October 08 ,now will come in November 08
Hyundai	I 20 to come in Jan 09
Tata Motors	Nano Postopned till March next year instead of October 08
Ennore foundaries	Weekly 5 days cut in production
Fiat	Linea to be launched by December 08 instead of October 08 Punto will be launched next year instead of December 08

Source: Reliance Money Research

Sector Outlook

Outlook for auto ancillary companies does not look encouraging in the medium term as sales volumes for passenger cars and CV are expected to be muted. Many automobile companies have postponed their new launches as the market conditions (lack of financing and higher interest rates) don't support the demand for vehicles. We believe that companies driving strong revenues from the replacement market will continue to grow and exports are expected to slowdown as the global automobile industry has started facing problems. Auto component companies which have diversified themselves to other sectors like industrials, power, wind energy etc are likely to impact less due to slowdown.

Overall we expect most of the auto component players to see a sharp erosion in there business operations

Overall we expect most of the auto component players to see a sharp erosion in there business operations in the coming few quarters as not only is the domestic market hit by a downturn in various segments like , cars, Cvs and Two wheelers but also exports are likely to hit a road block with several large auto giants in US and Europe reeling under pressure, following the global financial crisis witnessed in these markets

Valuation matrix

Company	Net Sales		EBITDA %		PAT		EPS		PE(x)		CMP	Target Price	Comment
(Rs mn)	FY09E	FY10E	FY09E	FY10E	FY09E	FY10E	FY09E	FY10E	FY09E	FY10E	Rs	Rs	
Bharat Forge	50,979	56,306	14.0	13.7	3,187	3,366	14.2	15.2	7.0	6.5	99	80	Sell
SKF India	17,160	18,704	13.6	13.7	1,485	1,617	28.2	30.7	5.2	4.8	147	130	Sell

Source: Reliance Money Research

Q2FY09 Review

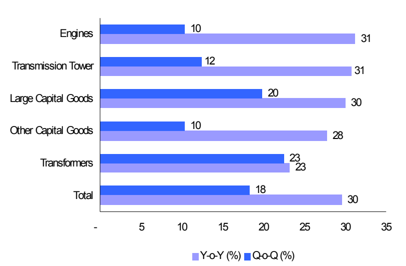
Capital Goods & Engineering

Top line up by 30%, net profit down by 9% y-o-y

	Net Sales (INRm)					EBITDA (INRm)					Adjusted PAT (INRm)				
Company	Q2FY09	Q2FY08	YoY (%)	Q1FY09	QoQ (%)	Q2FY09	Q2FY08	YoY (%)	Q1FY09	QoQ (%)	Q2FY09	Q2FY08	YoY (%)	Q1FY09	QoQ (%)
Larsen & Toubro	76,864	54,999	39.75	69,014	11.37	6,768	5,863	15.44	6,574	2.96	4,603	3,480	32.25	5,024	(8.40)
B H E L	53,426	39,654	34.73	43,292	23.41	7,107	6,952	2.23	3,737	90.18	6,158	6,877	(10.45)	3,844	60.19
Suzlon Energy	22,345	16,875	32.42	14,706	51.94	1,166	3,861	(69.80)	1,532	(23.89)	170	3,556	(95.22)	880	(80.71)
A B B	15,562	13,775	12.97	16,163	(3.72)	1,719	1,724	(0.27)	1,902	(9.59)	1,048	1,157	(9.42)	1,318	(20.50)
Bharat Electron	7,877	7,089	11.11	3,839	105.21	1,696	1,534	10.60	(326)	(620.84)	1,237	1,228	0.73	25	4,812.11
Crompton Greaves	10,896	9,925	9.78	10,829	0.62	1,469	1,068	37.50	1,381	6.35	925	742	24.73	889	4.09
BEML Ltd	6,139	4,752	29.19	2,879	113.22	583	344	69.42	(278)	(309.87)	555	243	128.25	(174)	(418.47)
Thermax	8,041	7,701	4.41	7,170	12.15	932	1,011	(7.76)	911	2.31	570	692	(17.69)	637	(10.59)
Total Large Cap Goods	**201,149**	**154,770**	**29.97**	**167,892**	**19.81**	**21,441**	**22,357**	**(4.10)**	**15,433**	**38.92**	**15,265**	**17,975**	**(15.07)**	**12,444**	**22.67**
Cummins India	8,084	5,282	53.04	7,070	14.33	1,232	726	69.78	938	31.42	939	665	41.32	882	6.44
Kirl. Oil Engine	6,142	5,560	10.46	5,823	5.48	780	628	24.06	685	13.79	274	337	(18.66)	295	(7.06)
Total Engines	14,225	10,842	31.20	12,893	10.34	2,012	1,354	48.56	1,623	23.98	1,213	1,001	21.15	1,177	3.06
Blue Star	6,466	5,478	18.04	6,309	2.49	690	684	0.88	571	20.95	450	460	(2.22)	364	23.42
Havells India	5,876	4,981	17.96	5,534	6.18	604	450	34.31	543	11.31	443	358	23.77	407	8.79
Areva T&D	5,865	4,326	35.57	6,218	(5.68)	972	781	24.47	1,113	(12.68)	523	480	8.98	647	(19.10)
Alstom Projects	5,872	3,981	47.50	3,645	61.09	852	323	163.78	250	240.80	590	242	143.84	183	222.46
Texmaco	2,053	1,688	21.60	1,968	4.30	308	201	53.33	350	(12.17)	202	127	59.29	228	(11.66)
Total Others Cap Goods	**26,131**	**20,454**	**27.75**	**23,674**	**10.38**	**3,426**	**2,439**	**40.49**	**2,827**	**21.19**	**2,207**	**1,666**	**32.48**	**1,829**	**20.67**
EMCO	2,306	1,842	25.24	1,833	25.80	307	251	22.34	239	28.41	113	104	9.1	100	12.50
Indo Tech Trans	654	514	27.31	540	21.16	212	139	52.67	142	48.91	142	102	38.77	104	36.24
Bharat Bijlee	1,509	1,359	11.04	1,056	42.92	200	259	(22.83)	132	51.36	125	164	(23.72)	77	62.92
Voltamp Trans	1,700	1,481	14.78	1,701	(0.11)	380	277	37.20	344	10.29	273	185	47.62	232	17.94
Transform & Rect	1,123	726	54.80	822	36.59	183	157	16.39	118	54.27	127	81	56.60	93	36.56
Total Transformers	**7,292**	**5,921**	**23.16**	**5,953**	**22.50**	**1,280**	**1,082**	**18.35**	**976**	**31.24**	**780**	**636**	**22.72**	**606**	**28.73**
KEC Int Ltd	8,060	5,629	43.2	6,000.5	34.3	562	673	(16.4)	804	(30.1)	178	339	(47.5)	255	(30.2)
Jyoti Structures	4,212	3,185	32.2	4,016.3	4.9	504.6	402.3	25.4	480.3	5.1	201.2	169.7	18.6	205.4	(2.1)
Kalpatru Power	4,326	3,876	11.6	4,749.5	(8.9)	552.5	529.1	4.4	559.2	(1.2)	223.0	321.5	(30.6)	289.9	(23.1)
Total Tranmission Tower	**16,598**	**12,691**	**30.8**	**14,766**	**12.4**	**1,619**	**1,604**	**0.9**	**1,843**	**(12.2)**	**602**	**830**	**(27.5)**	**750**	**(19.7)**

Source: Reliance Money Research

Capital Goods Net Sales Growth Q2FY09



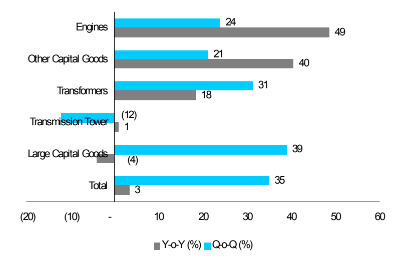
Source: Reliance Money Research

Maintains growth momentum

The capital goods companies reported net sales growth of 30% y-o-y in Q2FY09 and 20% on a sequential basis. Strong capex growth in power sector and in core sector drove the top line growth during the quarter. L&T reported highest growth of 40% y-o-y among all the large capital goods companies. But other large capital goods companies like ABB, Bharat Electronics, Crompton Greaves and Thermax reported lower growth mainly due to impact of slowdown in overall economy.

Among power equipment segment transformer companies continued to report good growth and cumulative net sales of transformer companies went up by 23% y-o-y and 22% on q-o-q basis. Engines companies reported mix trend, Cummins reported growth backed by strong export sales growth and power genset growth while Kirloskar Oil Engines reported growth of only 10% y-o-y during the quarter. But Kirlosakr Oil Engines reported growth in engines and power genset segment. Our universe of power transmission companies showed a strong growth in topline (31% YoY) during the Q2FY09 due to timely executions on orders. KEC and JSL posted a strong YoY revenue growth of 43.2% and 32.2% respectively. While KPTL grown by 11.6% YoY during the quarter. We expect the growth momentum of the revenue to continue on the back of the strong order book position.

Capital Goods EBITDA Growth Q2FY09



Source: Reliance Money Research

Order books continue to be buoyant

Large capital goods companies witnessed impressive order inflows of ~40% y-o-y during Q2FY09. L&T and Thermax witnessed order inflow growth of 65% and 149% respectively during the quarter. But companies like BHEL and ABB reported lower order inflow growth of 1% and 13% respectively. BHEL has highest order backlog of Rs.1040bn, followed by L&T with Rs.630bn.

All the companies in our power transmission universe currently holds robust order book size ~Rs.123 bn. During the quarter, the quoted companies secured new orders of worth ~Rs.15 bn, primarily from domestic market. Although there was a slow down in new orders inflow during the last two quarters, but we expect the momentum of order flowing from domestic market will improve in coming quarters on the back of PGCIL's planned expenditure for grid expansion and rural electrification program.

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Despite the top line growth of 30% y-o-y, EBITDA of capital goods and engineering companies grew only by 3.3% y-o-y.

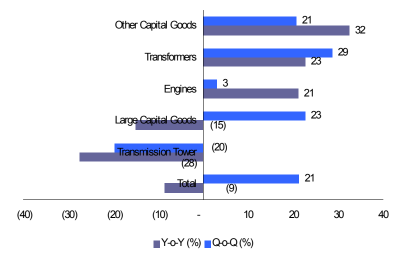
EBITDA margins down by 287bps

Despite the top line growth of 30% y-o-y, EBITDA of capital goods and engineering companies grew only by 3.3% y-o-y. But on a q-o-q basis EBITDA of capital goods companies went up by 31%. Large capital goods companies reported decline of 4% y-o-y in mainly due to drop in EBITDA of Suzlon which came down by 70% y-o-y during the quarter.

EBITDA margins for Q2FY09 were down by 287bps y-o-y to 11.3% compared to 14.2% in Q2FY08. The margins were down mainly due to sharp rise in material cost like steel, copper, etc. Large capital goods companies witnessed sharpest fall in EBITDA margins of 379bps y-o-y to 10.7%. Transformer companies continued to earn high margins, but margins came down by 71bps y-o-y to 17.6%.

The operating margin of transmission EPC players also declined sharply by 139 bps to 11.2%, largely attributed by the high input cost and translation loss booked by the company during the quarter.

Capital Goods Net Profit Growth Q2FY09



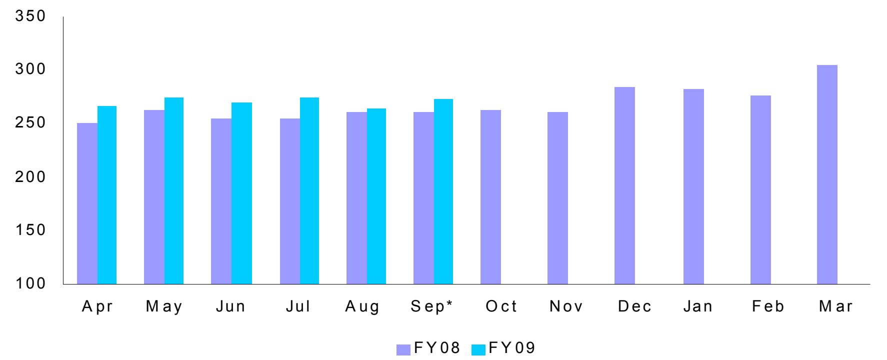
Source: Reliance Money Research

Net profit down by 9% y-o-y

Net profit for Q2FY09 for capital goods and engineering companies came down by 9% on y-o-y basis but on a sequential basis it was up by 19%. Their cumulative net profits declined by 15% y-o-y. Higher interest cost, lower margins and higher depreciation costs impacted net profit growth of capital goods and engineering companies. Large capital goods companies dragged the profit growth during the quarter. BHEL, Suzlon, ABB and Thermax reported dip in net profit for Q2FY09. Other segments such as engines companies, transformer companies reported continuous growth in net profit by 21% and 23% respectively.

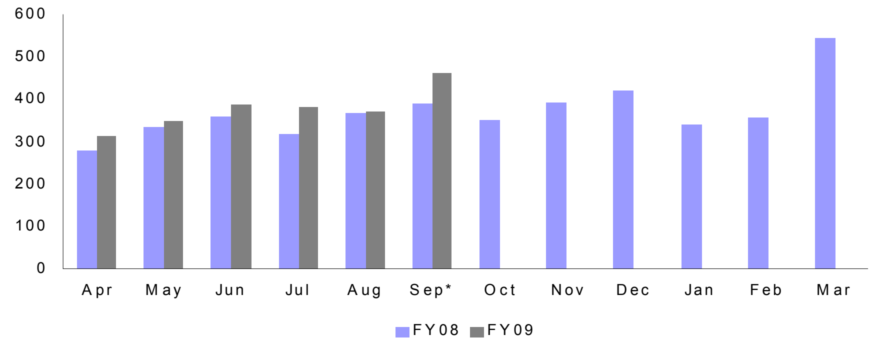
The net profit for transmission tower companies declined by 27.5% y-o-y and 19.7% on q-o-q basis during Q2FY09. KEC and KPTL fall significantly by 47.5% and 30.6% YoY during the quarter, while JSL recorded a modest growth of 18.6% YoY in bottom line.

IIP Growth slowed down to 4.9% Vs 9.5% for Apr-Sep 2008



*Source:CSO, *Sep - quick estimates*

IIP Capital Goods came down to 10% Vs 20% for Apr-Sep 2008



*Source:CSO, *Sep - quick estimates*

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Transmission Lines (Programme & Achievement) (in circuit kms.)

	April 2008- September 2008		Achievement /Target (%)	Programme 2008-09	Prog.2008-09 incl slipped prog. of 2007-08
	Programme	Achievement			
± 500 kV HVDC					
Central Sector	430	20	4.7	1250	1250
State Sector	0	0	0	0	0
765 kV					
Central Sector	37	24	64.9	519	653
State Sector	0	0	0	0	0
400 kV					
Central Sector	2478	1851	74.7	4879	5658
State Sector	1356	951	70.1	2162	2367
220 kV					
Central Sector	501	184	36.7	745	817
State Sector	2572	2097	81.5	3347	5676

Source: CEA

Outlook remains positive

Thermax has given positive surprise in terms of order inflows and offers strong visibility for FY10E.

Large capital goods companies have reported ~40% growth in order inflows in Q2FY09, but companies like ABB and BHEL have shown decline in order inflows during the period. Order inflows from industrial segments like cement, steel, chemicals etc have shown lower inflows during the period and major segments like power both public and private sector has continued to show strong inflows. Thermax has given positive surprise in terms of order inflows and offers strong visibility for FY10E. BHEL also offers very strong revenue visibility with order backlog of Rs.1040bn. Margins pressures on these companies will continue to impact due to higher raw material prices and fall in commodity prices will not improve the margins of capital goods companies immediately as there will be a lag effect.

Engines companies especially Cummins India has reported strong growth during H1FY09, but industrial, constructions segments have been slowing down. We believe power gensets continue to grow even in future mainly due to deficit in power supply-demand scenario. But these companies are likely to face impact of slowdown going ahead. We believe engines companies will also review their capex plans for FY09E and FY10E and are likely to curtail their capex plans further.

Transformer companies have reported better than expected performance mainly due to strong order backlog they had generated earlier. Going ahead we believe, although order inflows will remain strong, the large capacities which are getting built up in transformer industry would pull down realizations for the products and most of these companies will take a hit on their margins because of lower realizations.

Transmission towers segment is likely to perform well in coming quarters on the back of PGCIL's planned expenditure for 11th plan targets. With slow down in order flowing from international market, we believe the competition in domestic market will intensify. The margin will continue to remain under pressure along with tight working capital position of the companies. The large order book size of these transmission EPC companies offers strong revenue visibility going ahead.

for the H2 of FY09E, we expect slower growth in the incremental orderflows to capital goods and engineering company

Going ahead for the H2 of FY09E, we expect slower growth in the incremental orderflows to capital goods and engineering company, more importantly with a sharpdownturn, in IIP nos expectation next couple of months coupled with seasonal margin pressure seen in user sector, we believe valuation of capital goods player to get aligned with broad markets. We continue to maintain a positive view on the sector in the long term but the outlook for the next quarter looks challenging considering the slowdown see in the economy

Valuation matrix

Company	Net Sales		EBITDA %		PAT		EPS		PE(x)		CMP	Target Price	Comment
(Rs Mn)	FY09E	FY10E	FY09E	FY10E	FY09E	FY10E	FY09E	FY10E	FY09E	FY10E	Rs	Rs	
Thermax	39,239	48,591	11.8	12.5	3,101	4,002	26.0	33.6	8.1	6.3	212	225	HOLD
Cummins India	34,145	37,416	13.7	13.3	3,961	4,174	20.0	21.1	10.8	10.2	216	190	SELL
Kirloskar Oil	26,226	31,044	10.1	9.9	1,217	1,433	6.3	7.4	7.2	6.1	45	40	SELL
KEC Int Ltd	33761.6	39713.6	10.0	9.3	1125.9	1573.1	22.8	31.9	5.3	3.8	120	130	HOLD
Jyoti Structures	20611.8	26780.5	11.0	11.0	880.7	1035.8	10.8	12.8	5.6	4.7	60	98	BUY
Kalpatru Power	33802.8	44732.7	9.1	8.5	1327.2	1702.6	50.1	64.2	7.4	5.8	372	410	HOLD

Source: Reliance Money Research

HOME

Q2FY09 Review

Cement

Slack season, Government intervention and increased coal prices took a toll on profitability.

	Net Sales (INRm)					EBITDA (INRm)					Adjusted PAT (INRm)				
Company	Q2FY09	Q2FY08	YoY (%)	Q1FY09	QoQ (%)	Q2FY09	Q2FY08	YoY (%)	Q1FY09	QoQ (%)	Q2FY09	Q2FY08	YoY (%)	Q1FY09	QoQ (%)
Shree Cements	6,471	4,921	31.5%	6,261	3.4%	2,007	2,172	-7.6%	2,223	-9.7%	1,075	1,062	1.2%	1,109	-3.1%
ACC	19,630	17,079	14.9%	19,201	2.2%	4,721	4,731	-0.2%	4,014	17.6%	2,600	2,818	-7.7%	2,551	1.9%
Mysore Cements	1,367	1,533	-10.8%	1,658	-17.5%	143	239	-40.4%	228	-37.3%	101	197	-49.1%	239	-58.0%
Birla Corp	3,741	3,973	-5.8%	3,959	-5.5%	801	1,533	-47.8%	1,143	-29.9%	597	1,031	-42.1%	918	-35.0%
India Cements	10,966	8,914	23.0%	9,737	12.6%	2,991	3,085	-3.0%	2,981	0.3%	1,343	2,227	-39.7%	1,421	-5.5%
Dalmia Cements	4,549	3,640	25.0%	4,230	7.5%	1,166	1,309	-10.9%	1,305	-10.6%	402	828	-51.4%	505	-20.4%
Ultratech	14,169	11,786	20.2%	14,960	-5.3%	3,174	3,420	-7.2%	4,458	-28.8%	1,642	1,859	-11.7%	2,650	-38.0%
Ambuja Cement	14,019	12,924	8.5%	15,698	-10.7%	4,091	4,429	-7.6%	4,743	-13.7%	2,501	2,701	-7.4%	5,770	-56.7%
Madras Cement	6,665	4,998	33.3%	6,164	8.1%	2,304	2,167	6.4%	2,243	2.7%	1,136	1,209	-6.0%	1,140	-0.4%
Jk Lakshmi Cement	2,938	2,678	9.7%	2,699	8.8%	564	919	-38.7%	650	-13.2%	269	735	-63.4%	387	-30.5%
Prism Cement	1,632	1,933	-15.6%	2,266	-28.0%	276	735	-62.5%	849	-67.6%	150	518	-71.0%	610	-75.4%
Grasim Industries	44,891	39,639	13.3%	45,245	-0.8%	9,567	12,033	-20.5%	13,583	-29.6%	4,864	6,200	-21.5%	6,719	-27.6%

Source: Reliance Money Research

Topline grows by 15% Y-o-Y

Topline growth of 15% on YOY basis was lead by Grasim Industries (13.3%), ACC (14.9%), Ultratec (20%), Ambuja Cement (8.5%) and India Cement (23%). On the other hand sequential sales slipped by 1% on account of negative growth registered by Grasim (1%), Ultratec (5.3%), Ambuja Cement (10.7%), Prism Cement (28%) and Mysore Cement (17.5%). Growth slipped in Q2FY09 on account of softening of cement prices in northern region, prices however remained steady in southern region. According to Cement Manufactures Association (CMA) the overall production rose by 2.50% during Q2FY09 to 13.16 mn tn as against 12.83 mn tn in Q2FY08. In the second quarter of the year cement production registered a negative growth compared to same period last year which can be attributed to slack season for cement offtake. Although cement production has grown YoY but it is lower when compared to last year same period.

Input costs put pressure on EBITDA

Growth in sales was not reflected in profitability because of inability to pass on increased costs to customers.

Growth in sales was not reflected in profitability because of inability to pass on increased costs to customers. Power and fuel cost which is a major cost component grew in the range of 35%-40% YoY. Rise in power and fuel can be attributed to rise in coal prices in the quarter. Depreciating rupee in the quarter did not help the companies to take benefit of falling coal prices from its recent peak. Freight and Staff cost has also increased in Q2FY09. Except Madras Cement which reported EBITDA growth of 6.4% all the other companies reported negative growth in EBITDA. For companies in our universe EBITDA margin declined in the range of 4% to 13% and were as high as 17% and 21% for Birla corp and Prism cement (YoY). Except ACC all the companies under our analysis has seen fall in EBITDA margins on sequential basis.

Bottomline under pressure

Higher interest cost took a toll on PAT margins. Interest cost increased by 27% YoY and 12% QoQ Interest cost for companies like Madras Cements, Ultratech cements, Shree Cements, JK Lakshmi Cement increased by 276%, 52%, 97% and 89% respectively. PAT margin decline by 603 bps from 18.76% to 12.73% on YOY and 546 bps from 18.19% to 12.73% on QoQ. Growth in PAT was -22% (YoY) and -30.6% (QoQ). Almost all companies except Shree cements reported negative growth in PAT on YoY and QoQ (Except ACC).

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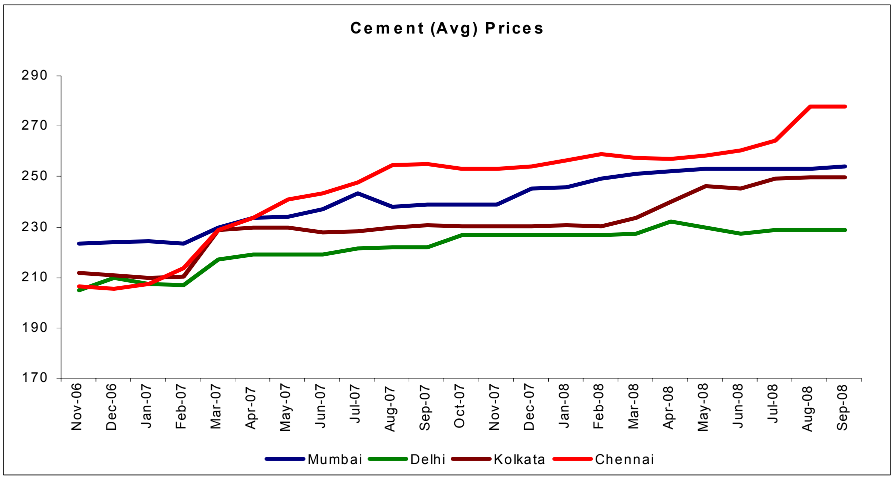
Cement Prices



Source: Company

Except Chennai (southern) market which saw stability in cement prices, all the other market saw a minor dip in prices for the quarter. Cement prices were stable at Mumbai and Delhi market in Q2FY09 compared to Q1FY09 at Rs. 250 per bag and Rs. 225 per bag respectively .Whereas southern market saw rise in cement prices from Rs. 260 per bag in Q1FY09 to Rs. 273 per bag in Q2FY09.

Sector Outlook

We continue to remain cautious on the sector

Indian cement industry with 205 mn tones of installed capacity is the second largest producer after China. Government intervention and continual raining & floods in some part of the country lead to lower demand and subsequently no rise or minimal rise in cement prices, which had a negative impact on margins. Demand for cement is derived from housing and Infrastructure construction in the country.

Although the massive order book position of Infrastructure Companies can take care of the demand for next few quarters, five state elections in Nov and Dec followed by general election in the country next year will see a slowdown in fresh order inflows from government. In case of housing construction which is major demand driver for the cement sector high interest rate and soaring real estate prices has reduced the demand and buyer are in wait and watch mood. Government has taken various steps in order to reduce interest rate in the economy but real impact of these measures will take some more time to get reflected in higher demant offtake.

We continue to remain cautious on the sector and expect cement companies to show pressure on profitability in the next couple of quarters ahead.

Q2FY09 Review

Construction

Strong order book position and better execution leads to healthy revenue growth. However five state elections (Nov 08 & Dec 08) and general elections in 2009 are likely to lead to a slowdown in fresh order flows from the government in coming quarters.

Company	Net Sales (INRm)					EBITDA (INRm)					Adjusted PAT (INRm)				
	Q2FY09	Q2FY08	YoY (%)	Q1FY09	QoQ (%)	Q2FY09	Q2FY08	YoY (%)	Q1FY09	QoQ (%)	Q2FY09	Q2FY08	YoY (%)	Q1FY09	QoQ (%)
Simplex Infra	10081	5711	77%	10167	-1%	878	572	53%	962	-9%	281	191	47%	383	-27%
Punj Lloyd	29261	18942	54%	26488	10%	2724	1666	64%	2116	29%	1441	895	61%	1119	29%
Patel Engineering	4418	3388	30%	5584	-21%	735	556	32%	786	-6%	426	355	20%	350	22%
Nagarjun Construction	10558	6772	56%	9709	9%	1085	848	28%	916	18%	423	337	26%	371	14%
JMC Projects India Ltd	3234	1845	75%	3128	3%	223	138	61%	205	9%	68	67	1%	79	-14%
Jaiprakash Associates	11826	8620	37%	11487	3%	3478	2210	57%	3123	11%	2031	1040	95%	1273	60%
IVRCL	11366	6885	65%	9285	22%	913	539	69%	820	11%	571	353	62%	435	31%
HCC	6492	5487	18%	8783	-26%	837	602	39%	1035	-19%	199	116	71%	308	-35%
Era Infra Engineering	4190	2564	63%	3909	7%	896	487	84%	771	16%	357	247	44%	284	26%

Source: Reliance Money Research

Better execution lead to healthy revenue growth.

Strong revenue growth was reported by companies in our universe. Topline grew by 52% from Rs. 60214 mn in Q2FY08 to Rs. 91425 mn in Q2FY09. Most of the companies like Simplex (77%), Punj Llyod (54%), Patel engineering (30%) reported revenue growth of over 30% (YoY), However, growth in revenues was muted on QoQ basis and grew by 3% from Rs. 88540 mn (Q1FY09) to Rs. 91425 mn (Q2FY09). Strong order book position and better execution capability lead to rise in topline. Healthy revenue growth is expected in H2FY09 because of strong order book position of construction companies. However five state elections and general elections in 2009 are likely to reduce the order flow from government agencies in next 1 year.

Gross Bank Credit *

Sector	31-Mar-06	31-Mar-07	28-Mar-08
Construction	13,303	19,970	28,298
Infrastructure	1,12,853	1,42,975	2,02,296

*Source RBI/ * Scheduled commercial banks*

EBITDA Growth due to escalation clause

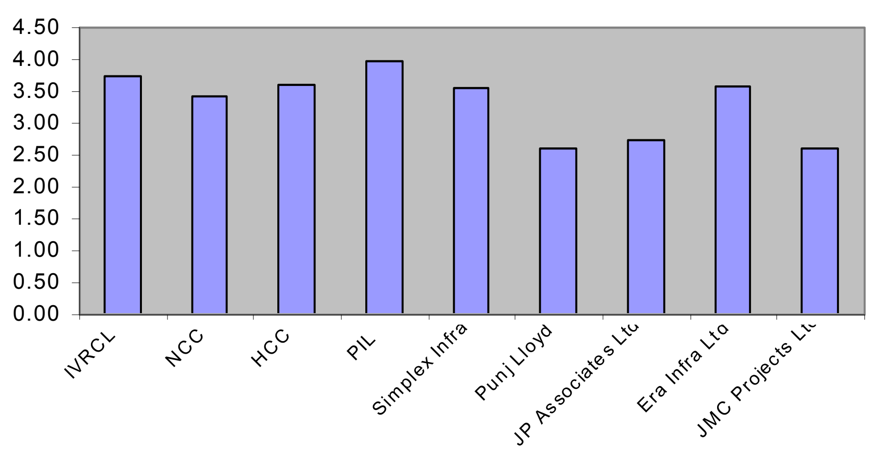
Healthy EBITDA growth from Rs. 7617 mn in Q2FY08 to Rs. 11769 mn in Q2FY09 was witnessed mainly due to escalation clause in most of the contracts. Construction companies were able to pass on rise in input cost to some extent because of escalation clause in the contract. EBITDA margins for companies were stable and maintained at 12.87% in Q2FY09 compared to 12.65% in Q2FY09 and 12.12% in Q1FY09.

Projected Investment in Infrastructure (Eleventh Plan)

Sector	$ bn	Sectoral share (%)
Electricity	177	30
Roads	89	15
Telecom	77	13
Railways	74	13
Irrigation	64	11
Water Supply & Sanitation	57	10
Ports	21	4
Airports	10	2
Storage	6	1
Gas	6	1
Total	581	100

Source: Company

Order Book to Sales Ratio



Source: Company

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PAT Margins under pressure

PAT margins declined for most of the companies (Except Jaiprakash Associates) in the range of 50 bps to 150 bps in Q2FY09 compared to Q2FY08. Interest cost increased from Rs. 2351 mn in Q2FY08 to Rs. 3565 in Q2FY09 growth of 52% and Rs. 3056 mn in Q1FY09 to Rs. 3565 mn in Q2FY09 rise of 17%. Interest cost has moved by 150 bps to 200 bps for companies and was the main factor impacting bottomline growth for companies covered in our universe.

Sector Outlook

We remain cautious on the construction sector going ahead as these are all working capital intensive in nature and sentiments being impacted severly could impact companies if they do not get funding property to execute ongoing projects

India's economic growth has slipped to 7.9% in quarter ending June 08 from 9.2% quarter ending 07. Rising commodity prices have lead to monetary tightening at the cost of growth. Current liquidity crunch in the economy will lead to execution delays to some extent. Due to liquidity issues many banks have continued to postpone leading decisions, despite sanctioned limits to the sector. However, strong order book position of 2x – 4x FY08 sales will lead to healthy growth in revenue for FY09. Declining commodity prices is likely to benefit construction companies in Q4FY09 and FY09. However, we remain cautious on the construction sector going ahead as these are all working capital intensive in nature and sentiments being impacted severly could impact companies if they do not get funding property to execute ongoing projects

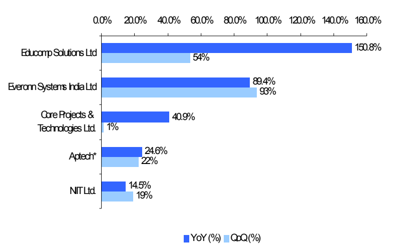
Q2FY09 Review

Education

Company	Net Sales (INRm)					EBITDA (INRm)					EBITDA Margin			Adjusted PAT (INRm)				
	Q2FY09	Q2FY08	YoY(%)	Q1FY09	QoQ(%)	Q2FY09	Q2FY08	YoY(%)	Q1FY09	QoQ(%)	Q2FY09	Q2FY08	Q1FY09	Q2FY09	Q2FY08	YoY(%)	Q1FY09	QoQ(%)
Aptech*	340.4	273.2	24.6%	278.6	22.2%	62.5	39.3	59.0%	63.9	-2.2%	18.4%	14.4%	22.9%	23.1	1.4	1550.0%	27.8	-16.9%
Core Projects & Tech Ltd.	1615.4	1146.2	40.9%	1593.7	1.4%	447.7	236.3	89.5%	401.2	11.6%	27.7%	20.6%	25.2%	296.5	223.9	32.4%	273.6	8.4%
Educomp Solutions Ltd	1321.5	526.9	150.8%	860.3	53.6%	538.1	233.4	130.5%	397.0	35.6%	40.7%	44.3%	46.1%	288.0	131.0	119.8%	165.5	74.0%
NIIT Ltd.	3095.0	2702.0	14.5%	2595	19.3%	406.0	358.0	13.4%	187	117.1%	13.1%	13.2%	7.2%	296.5	211.0	40.5%	170.0	74.4%
Everonn Systems India Ltd	430.7	227.4	89.4%	222.6	93.5%	151.7	73.5	106.4%	83.9	80.8%	35.2%	32.3%	37.7%	65.1	25.9	151.4%	30.7	112.1%

**Standalone numbers due to non availability of consolidated figures*
Source: Company

Revenues Growth

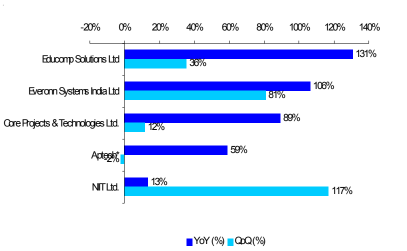


Source: Company

Strong topline growth, management voiced confidence on demand environment….

During Q2FY09, companies listed under Indian Education Sector reported a strong topline growth of 39.5% yoy and 22.6% qoq driven by healthy growth in key business areas, among the companies Educomp Solution lead the pack with 151% yoy growth in the topline followed by Everonn Systems with an 89.4% growth. Whereas Aptech on a standalone basis shown a 25% growth and NIIT posted a 15% yoy growth in the topline. During the quarter, Government ICT business stream of companies shown weakness in terms of schools addition albeit Educomp, which has added 1626 schools during Q2FY09. Whereas, Everonn and NIIT schools addition under this segment remains muted.

EBITDA Growth

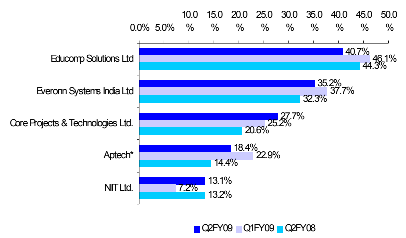


Source: Company

Margins on Track….

EBITDA margins of the companies improved on a yoy basis, albeit Educomp Solutions which reported a declined of 360bps yoy to 40.7%, however on a standalone basis Educomp margins has improved by around 1300 bps to 64% led by strong margins all the major business segments. Whereas, Everonn Systems margins improved by 290bps to 35.2% , on the back strong margins improvement in ViTELS segment on account of increase in points of presence (more number of students will contribute to revenue at the same specific cost). On the other hand, NIIT margins remains stable at 13%.

EBITDA Margins

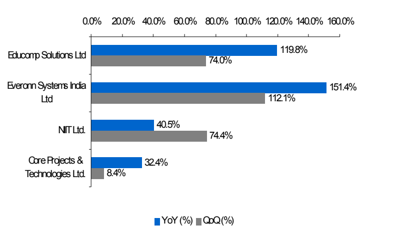


Source: Company

Capex plans intact…..

Among the companies under review, Educomp has the most ambitious capex plans for the next three years, which is going to be in excess of Rs 1.4 bn largely on its K-12 education part and inorganic growth initiatives, whereas Everonn Systems is having a Capex lined up to the tune of around Rs 1500 mn for next 12 months mainly into the ICT and ViTELS space. NIIT incurred a capex of Rs 760 mn till 30th Sep08. Given the current volatility in the market, NIIT has put cash conservation as its priority and will put on hold all discretionary CAPEX. The capex which is project related only (in SLS), will be incurred. So the maximum capex spend would be Rs 1000 mn, lot of which is already in Work In Progress.

Net Profit Growth



Source: Company

Funding getting dearer….

On the back of severe liquidity crunch in the market coupled with turmoil in the equity market is making the funding dearer for the companies, as companies are unable to obtain advantageous term in the credit market, which was available earlier and also raising capital through equity is also getting difficult owing to subdued market conditions. A case of point in this regards is Educomp Solution which has tied up for a debt of Rs 6250 mn at rate of 13%-14%, it intends to raise around Rs 1 bn in debt for its expansion in the K-12 segment. On the other hand, Everonn System has already raised capital via preferential allotment to the tune of Rs 914 mn for its expansion in the ICT and ViTELS space and NIIT has total debt of Rs 2891 mn at the end of September 2008 (includes foreign loan of $33 mn).

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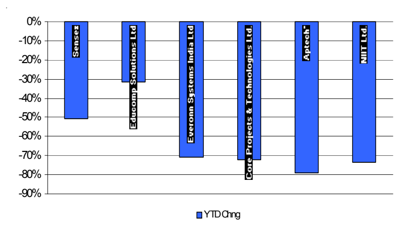
Key Issues - Summary Table

Schools	Meduim Term Spending Outlook	Companies					
		Educomp	Everonn	NIIT	Aptech	Navneet Publications	Kidzee
K-12 Education (Schools)	Positive	▲					
Online Tutoring/e-Learning	Neutral	▲	▲	▲	▲		
Textbooks	Neutral					▲	
Stationary	Neutral					▲	
Preschools	Positive	▲					▲
Educational Contents	Highly Positive	▲	▲	▲			
Multimedia CD	Neutral					▲	
Exams Preparations							
Engineering	Neutral		▲				
Medical	Neutral						
MBA	Minor Negative		▲				
IAS	Neutral						
GRE/GMAT etc	Minor Negative						
Vocational Traning							
Animation	Positive			▲	▲		▲
Hardware Traning	Minor Negative			▲	▲		
Airlines	Minor Negative				▲		
Retails	Minor Negative						
Financials Services	Minor Negative			▲			
English Speaking	Neutral		▲	▲			
BPO	Minor Negative			▲			
IT training_retails	Minor Negative			▲	▲		
IT training Corporate	Negative			▲	▲		
Teachers Training	Neutral	▲	▲				
Governments							
ICT	Positive	▲	▲	▲	▲		

Highly Positive	Positive	Neutral	Minor Negative	Negative

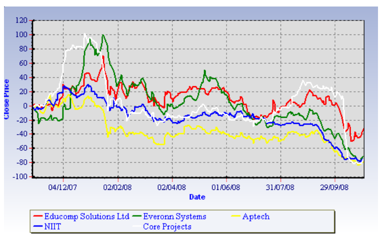
Source: Reliance Money Research

Price Change YTD



Source: Reliance Money Research

Stock Price Movement



Source: Capitaline

Sector Outlook

Steady Industry Environment, Valuation still not in a comfort zone….

There is no doubt about the potential and prospects of Indian Education Sector on a longer term perspective, given the thrust towards improving and enriching the Indian Education standards, which quite reflective in the scorching pace of revenues and profitability growth of companies operating in this space.

However, in the medium term given the tough environment, we believe there will be some slowdown in the areas like IT and BPO education and training, Vocational training (Airlines, Banking professional training), Corporate training (being a part of discretionary spending). Nevertheless, spending on education stream like schools and colleges will be little vulnerable to the tough environment, and we expect spending to continue without any major roadblock. As far as companies are concerned, we believe after a three year stint of enjoying high valuations riding on the favorable market condition , it is time to face reality reflective from the fact that most of the stocks in the education space have been beaten down severely in the recent months. We believe, the trouble experienced by these companies to sustain higher valuations has little to do with the fundamentals of the firms instead, it represents secular fall in the domestic equity market after years of exponential growth. Going forward, we expect investors to give higher preference to the companies having a lower debt equity ratio and with comfortable cash position, and as regards to the valuation we believe there is still room left for the correction in the medium term.

We continue to remain positive on the long term growth prospects of the education sector and believe all players have ample space to grow. As regards Q3E numbers, we expect the sector to grow at a healthy space and do not expect any major negative surprises in the near medium term.

Q2FY09 Review

FMCG

Higher input cost squeezes margins

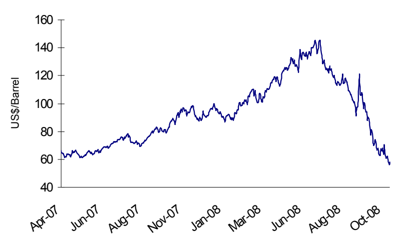
Company	Net Sales (INRm)					EBITDA Mrgin (%)					Adjusted PAT (INRm)				
	Q2FY09	Q2FY08	YoY (%)	Q1FY09	QoQ (%)	Q2FY09	Q2FY08	YoY (bps)	Q1FY09	QoQ (bps)	Q2FY09	Q2FY08	YoY (%)	Q1FY09	QoQ (%)
Hindustan Unilever*	40,278.7	33,646.3	19.7	42,156.7	(4.5)	13.9	14.3	(38.4)	15.1	(118.5)	5,466.1	4,080.6	34.0	5,581.8	(2.1)
Dabur India	6,911.6	5,841.4	18.3	6,039.8	14.4	19.2	19.9	(62.4)	14.4	480.7	1,078.2	965.9	11.6	706.5	52.6
Colgate Palmolive	4,125.3	3,638.7	13.4	4,076.0	1.2	16.7	15.5	116.7	16.2	45.8	635.0	547.4	16.0	719.2	(11.7)
Marico	6,035.0	4,637.9	30.1	6,009.3	0.4	12.2	14.0	(171.7)	12.6	(34.9)	471.2	422.4	11.6	462.9	1.8
Godrej Consumer	3,464.8	2,740.2	26.4	3,616.3	(4.2)	11.9	18.3	(637.2)	13.7	(178.4)	347.3	370.6	(6.3)	391.0	(11.2)
Nestle India*	11,076.0	9,067.4	22.2	10,356.3	6.9	19.0	21.1	(216.9)	18.8	12.7	1,317.6	1,160.6	13.5	1,210.9	8.8
ITC	37,632.9	32,701.4	15.1	38,997.0	(3.5)	32.3	33.0	(73.7)	28.9	339.3	8,027.2	7,708.7	4.1	7,486.7	7.2
Brittania Ind	8,385.4	6,587.4	27.3	6,933.0	20.9	9.0	10.5	(154.1)	8.3	69.3	533.0	484.7	10.0	403.0	32.3
GlaxoSmith CH	4,224.8	3,515.6	20.2	3,763.7	12.3	15.7	19.7	(403.2)	14.5	120.4	530.3	505.3	4.9	461.6	14.9
United Spirits	9,020.4	7,526.0	19.9	10,133.9	(11.0)	20.9	20.2	72.3	21.2	(35.8)	938.9	802.1	17.1	1,171.3	(19.8)
Radico Khaitan	1,739.2	1,537.2	13.1	1,668.6	4.2	13.5	11.9	156.2	13.7	(17.8)	60.3	92.5	(34.7)	68.8	(12.3)
United Breweries	3,632.7	2,806.5	29.4	4,746.2	(23.5)	9.7	8.6	111.1	13.5	(372.1)	51.6	105.2	(51.0)	225.9	(77.2)
Champagne India	731.0	446.1	63.8	428.6	70.6	23.1	18.3	483.7	23.8	(64.8)	55.5	50.9	9.1	2.3	2,293.9
Total	137,257.8	114,692.1	19.7	138,925.4	(1.2)	19.7	20.8	(103.0)	19.1	57.7	19,512.3	17,296.9	12.8	18,891.9	3.3

Source: Reliance Money Research

FMCG companies across various segments have witnessed impressive revenue growth driven by strong volume growth couple with higher realisation during the quarter. While the rising income and higher consumption strengthened the volume growth, the rising inflation and the price hikes effected by companies (to partly mitigate the higher input cost) has improved the realisation during Q2FY09. Also, the improving rural penetration supported the revenue growth during the quarter. On the flip side, operating margins remained subdued due to the impact of rising raw material prices, which has ultimately moderated the profit performance during the quarter.

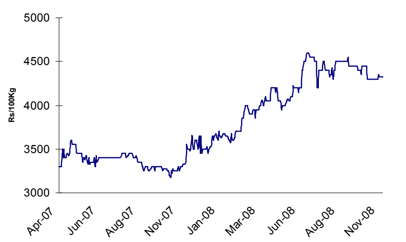
However the raw material prices have witnessed a cool down in the past few months and the impact of which will be reflected in improving margins in the subsequent quarters. On the other hand, with the continuing uncertain economic outlook and moderating GDP growth the continuity of demand/ volume expansion looks doubtful in near future.

Crude



Source: Capitaline

Copra



Source: Capitaline

Volume expansion and better realisation drives revenue growth

In line with the industry trend, FMCG biggies like - Hindustan Unilever (HUL), Godrej Consumer, Marico reported over 20% revenue growth in Q2FY09 on the back of stronger volume growth and higher realisations consequent to the price hikes effected by the companies to partly mitigate the higher raw material cost.

But the operating margins remained under pressure owing to sharp rise in the raw material costs. To be specific the prices of Copra - the raw material for coconut oil, were higher by over 30% in Q2FY09 over Q2FY08. Similarly, the raw materials for detergents (which are crude oil derivatives) witnessed steep rise in prices led by heavy jump in the crude oil prices impacting the profitability of the soap and detergent segment. Also, the higher advertising spend on new brands added to the cost pressure woes of the FMCG companies. However, the price hike effected by the FMCG players have restricted the sharp fall in the margins. Thus, the OPM of HUL, Dabur etc remained flattish, despite higher input costs.

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ITC with its diversified business model, managed to deliver decent growth but other Cigarette players continue to suffer due to steep increase in excise duty on non-filters leading to virtual discontinuation of entry level cigarettes.

Similarly, ITC - the tobacco major of the country, reported 15% revenue growth on the back of 30% growth in the FMCG segment of the company, 17% in the Agri business, 11% rise in cigarettes sales and 10% hotel business. The 11% growth in cigarettes segment was mainly due to the price rise and uptrading to filter from non-filter during the quarter, otherwise volume declined by 3%. However, ITC with its diversified business model, managed to deliver decent growth but other Cigarette players continue to suffer due to steep increase in excise duty on non-filters leading to virtual discontinuation of entry level cigarettes. Going ahead, the ban on cigarette smoking in public places would impact the business adversely.

Food Processing: Hit hard by steep agri commodity prices

Likewise other segments, FMCG majors in the food processing like Nestle, Britania, Glaxo Consumer Health delivered over 20% revenue growth in Q2FY09. The improved revenue performance was driven by the increasing demand as well as better realisation. But the OPM of the segment narrowed down by over 200bps during the quarter on the back of firm agri commodity prices and steep rise in prices of dairy products. However, the staggered price hike by the industry players and softening of agri prices seen in last couple of months would improve the profitability of the segment in the subsequent quarters. The improving margin scenario can be observed from the fact that Nestle, Britania and Glaxo Consumer Health witnessed margin expansion during Q2FY09 over Q1FY09.

Liquor: Maintains growth momentum

In the spirits space, United Spirits Ltd (USL) continued its growth momentum by delivering over 20% revenue growth during quarter. The margin remained flat despite sharp spurt in input costs i.e. packaging, ENA and others costs, as the company increased its focus on premium brands and lower its ASP spend. On the other hand wine industry continued its growth momentum and delivered over 30% growth during the quarter backed by increasing consumption of wine. In the wine space, Champagne Indage (CIL) delivered stronger result with over 64% revenue growth and over 485 bps expansion in margin, resulting in doubling growth (107%) in operating profits but due to sharp jump in interest and depreciation as result of the recent acquisition the bottom line growth was muted to about 9%.

Sector Outlook

As the economic growth has been severely dented and demand levels in the FMCG sector are unlikely to improve in the near term.

All in all, sharp rise in raw material cost and increase in ad spends due to rising competition have neutralisesd the volume led revenue growth of the FMCG segment during the Q2FY09. Going ahead, we believe the recent correction in some of the key raw material prices like crude oil, palm oil over the past one month, are expected to provide some relief. On the other hand, with the continuing uncertain economic outlook and moderating GDP growth the continuity of demand/ volume expansion looks doubtful in near future.

However while profitability levels could see improvement as input cost decline, we remain cautious on the volume growth during the H2 of FY09, as the economic growth has been severely dented and demand levels in the FMCG sector are unlikely to improve in the near term.

Q2FY09 Review

Hotels

Economic slowdown and lower occupancy rates lead to decline in profitability

	Net Sales (INRm)					EBITDA (INRm)					Adjusted PAT (INRm)				
Company	Q2FY09	Q2FY08	YoY (%)	Q1FY09	QoQ (%)	Q2FY09	Q2FY08	YoY (%)	Q1FY09	QoQ (%)	Q2FY09	Q2FY08	YoY (%)	Q1FY09	QoQ (%)
Hotel Leela	1,095	1,002	9.3%	1,278	-14.3%	415	473	-12.1%	582	-28.6%	241	401	-40.1%	334	-28.1%
Indian Hotels	37	34	8.0%	40	-7.6%	9	10	-9.1%	14	-34.8%	5	5	-4.8%	6	-17.3%
EIH	2,467	2,351	4.9%	2,558	-3.6%	763	772	-1.2%	905	-15.7%	313	428	-26.8%	380	-17.6%
Asian Hotels	1,118	1,056	5.9%	1,201	-6.9%	393	391	0.4%	503	-21.9%	173	179	-3.5%	261	-33.7%
Taj GVK	618	592	4.4%	585	5.8%	285	278	2.8%	263	8.6%	163	162	0.5%	151	7.8%
Oriental Hotels	510	458	11.3%	528	-3.4%	153	142	7.2%	179	-14.6%	81	80	1.2%	103	-21.2%
EIH Associate Hotels	340	291	17.0%	319	6.6%	68	62	9.4%	75	-9.6%	18	20	-5.8%	8	136.8%
Jaypee Hotels	403	364	10.6%	362	11.3%	71	54	32.6%	78	-7.9%	29	16	81.8%	30	-3.4%
Kamat Hotels	306	312	-1.8%	335	-8.4%	84	132	-36.1%	140	-39.6%	(19)	73	-126.5%	14	-239.7%
Royal Orchid	358	287	24.7%	383	-6.4%	88	88	0.3%	113	-22.4%	51	75	-32.4%	68	-25.1%

Source: Reliance Money Research

Muted Topline growth

Net sales for companies in our universe improved by 7.5% on yoy and declined 4.4 % on qoq. Except Kamat hotels all the companies witnessed growth in topline in the range of 5% to 24% (yoy) . On sequential basis most of the companies (Except Taj GVK, Jaypee and EIH Associates) have shown negative growth. Demand slowdown can be attributed to moderation in economic activity (globally and domestically). Occupancy Rate in H1 (FY09) were stable at Bengaluru and Jaipur, whereas cities like Mumbai, Delhi, Pune, Goa and Chennai witnessed drop in occupancy rate. Except Jaipur ARRs grew at a slower pace, in range 3% to 24% in H1 FY09 compared to same period last year.

Growth in ARR was seen at lower pace compared to same quarter previous year, ARR grew by 3% (Bengaluru), 20% (Mumbai & Delhi), 5% (Pune), and 11% Goa. Jaipur witnessed drop in ARR by 6%.

Pressure on EBITDA margins due to rise in Input costs

Q2FY09 EBITDA margins were under pressure due to rise in Staff cost and fuel expenses for most of the companies. Staff cost and power & fuel expenses grew by 20% and 13% on yoy respectively. EBITDA margins contracted between 100 bps to 600 bps in Q2FY09 compared to Q2FY08. On sequential basis EBITDA margins declined between 1% to 10%. Growth in EBITDA was negative, by 4.7% Y-o-Y and 23.6% Q-o-Q.

Decreasing PAT Margins

Most of the companies in our universe reported decline in PAT margin in the range of 200 bps to 500 bps. Royal Orchid, Kamat Hotels and Hotel Leela reported steepest decline in PAT margins. Overall PAT margin declined by 514 bps from 19.43% in Q2FY08 to 14.29% in Q2FY09. In absolute terms PAT was reported at Rs. 1556 in Q2FY09 compared to Rs. 1966 in Q2FY08, decline by 21%. Interest cost grew by 400 bps from Rs. 661 mn in Q1FY09 to Rs. 686 mn in Q2FY09. However, provisioning made for foreign loans by companies lead to a decline in PAT margins.

Sector Outlook

Hotel sector has close links with economic activity of the country. With most of economic think tank agencies revising downwards their forecast on economic growth due to global credit crises, the hotel sector will definitely feel the pinch in a negative way. Also supply in hotel rooms is expected to be more than the demand post 2009 when new capacity is added to the existing room inventory. The Ministry of Tourism estimates that about 80,000 new rooms will be added to the existing capacity of about 1 lakh rooms across all categories by 2010. Rupee depreciation in the recent past will be a positive factor for the sector. As the industry is moving into peak season, companies

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in the sector announced upward revision in tariffs as an annual review. However with demand supply mismatch in near terms ARR's are not expected to fall sharply in Q3FY09 but we could see decline in occupancy rate in Q3FY09 due to slowdown in the economic activity. rooms across all categories by 2010. Rupee depreciation in the recent past will be a positive factor for the sector. As the industry is moving into peak season, companies in the sector announced upward revision in tariffs as an annual review. With demand supply mismatch in near terms ARR's are not expected to fall sharply in Q3FY09 but we could see decline in occupancy rate in Q3FY09 due to slowdown in the economic activity.

Occupancy Rate

	Jul-07	Jul-08	Aug-07	Aug-08	Sep-07	Sep-08	Arp-Sep 07	Arp - Sep 08
Bengaluru	70	71	71	64	73	71	71	72
South Mumbai	64	60	59	55	59	57	61	60
North Mumbai	75	64	70	62	70	69	71	67
Delhi	70	72	67	66	72	79	75	73
Pune	72	67	60	61	70	70	74	68
Chennai	80	69	73	63	76	71	74	68
Kolkata	78	69	75	68	73	72	75	71
Agra	N.A	52	N.A	69	Na	67	NA	56
Goa	55	47	68	58	66	49	68	57
Jaipur	36	37	63	62	59	57	45	51

ARR's (Rs)

	Jul-07	Jul-08	Aug-07	Aug-08	Sep-07	Sep-08	Arp-Sep 07	Arp - Sep 08
Bengaluru	12755	12905	12922	12766	10822	13843	13052	13443
South Mumbai	9340	11664	9765	11984	11942	13011	10131	12327
North Mumbai	9216	10964	9361	10672	10218	11473	9491	11361
Delhi	8557	9733	9425	10445	12019	12853	9229	11094
Pune	7875	8238	7591	8103	8035	8447	7959	8364
Chennai	6502	7748	6388	7669	7522	8014	6402	7914
Kolkata	5870	7039	5874	6820	8409	7539	5981	7101
Agra	N.A	5094	N.A	5402	NA	6497	NA	5790
Goa	4755	5083	5018	5518	5101	5299	5026	5576
Jaipur	4080	5958	4882	4733	4701	5081	5395	5088

RevPAR (Rs.)

	Jul-07	Jul-08	Aug-07	Aug-08	Sep-07	Sep-08	Arp-Sep 07	Arp - Sep 08
Bengaluru	8871	9153	9179	8112	7952	9841	9206	9678
South Mumbai	5957	7036	5735	6593	7049	7423	6198	7397
North Mumbai	6899	7035	6591	6587	7106	7919	6753	7636
Delhi	6000	7011	6361	7139	8628	10173	6896	8082
Pune	5666	5523	4547	4933	5587	5873	5922	5697
Chennai	5198	5336	4658	4814	5731	5690	4721	5371
Kolkata	4561	4836	4376	4606	4689	5054	4505	5056
Agra	N.A	2674	N.A	3753	NA	4324	NA	3231
Goa	2605	2378	3405	3203	3390	2613	3142	3155
Jaipur	1449	2185	3081	2949	2792	2919	2429	2602

Source Crisil

Q2FY09 Review

IT Services

Company	Net Sales (INRm)					EBITDA (INRm)					EBITDA Margin			Adjusted PAT (INRm)				
	Q2FY09	Q2FY08	YoY(%)	Q1FY09	QoQ(%)	Q2FY09	Q2FY08	YoY(%)	Q1FY09	QoQ(%)	Q2FY09	Q2FY08	Q1FY09	Q2FY09	Q2FY08	YoY(%)	Q1FY09	QoQ(%)
Mastek	2577.9	2042.0	26.2%	2447.8	5.3%	468.7	295.7	58.5%	485.4	-3.4%	18.2%	14.5%	19.8%	411.8	251.2	63.9%	385.6	6.8%
Rolta India	3461.4	2210.3	56.6%	3211.1	7.8%	1184.7	839.9	41.1%	1122.0	5.6%	34.2%	38.0%	34.9%	239.1	538.3	-55.6%	508.3	-53.0%
HCL Technologies	23693.0	17092.0	38.6%	21688.0	9.2%	4019.0	2690.0	49.4%	3694.0	8.8%	17.0%	15.7%	17.0%	3562.0	3084.0	15.5%	1410.0	152.6%
Infosys Tech.	54180.0	41060.0	32.0%	48540.0	11.6%	17940.0	12840.0	39.7%	14790.0	21.3%	33.1%	31.3%	30.5%	14320.0	11000.0	30.2%	13020.0	10.0%
Oracle Financial	7074.0	5758.0	22.9%	6318.0	12.0%	1196.0	954.0	25.4%	689.0	73.6%	16.9%	16.6%	10.9%	1403.0	874.0	60.5%	1056.0	32.9%
TCS	69533.7	55495.9	25.3%	64107.0	8.5%	18202.0	13885.5	31.1%	15314.0	18.9%	26.2%	25.0%	23.9%	12709.9	12516.0	1.5%	12086.0	5.2%
Financial Tech*	1194.6	309.5	285.9%	440.0	171.5%	811.0	122.0	564.6%	91.1	789.9%	67.9%	39.4%	20.7%	770.5	3385.0	-77.2%	1698.7	-54.6%
Tech Mahindra	11648.0	8976.0	29.8%	11164.0	4.3%	3262.0	1971.0	65.5%	2869.0	13.7%	28.0%	22.0%	25.7%	2355.0	1816.0	29.7%	2587.0	-9.0%
Satyam Computer	28193.0	20317.2	38.8%	26208.3	7.6%	6509.3	4027.0	61.6%	6322.7	3.0%	23.1%	19.8%	24.1%	5808.6	4090.9	42.0%	5477.0	6.1%
Mindtree	3120.2	1819.5	71.5%	2235.9	39.6%	866.5	295.2	193.5%	468.5	85.0%	27.8%	16.2%	21.0%	372.7	271.3	37.4%	-124.8	-398.6%
Wipro	65354.0	47574.0	37.4%	60365.0	8.3%	11215.0	8254.0	35.9%	10778.0	4.1%	17.2%	17.3%	17.9%	9782.0	8237.0	18.8%	9078.0	7.8%
Glodyne Tech	1215.8	680.6	78.6%	1091.8	11.4%	277.0	120.4	130.1%	226.7	22.2%	22.8%	17.7%	20.8%	192.4	88.3	117.9%	160.4	20.0%
MphasiS	8360.6	6016.9	39.0%	7422.1	12.6%	1769.4	1079.1	64.0%	1246.6	41.9%	21.2%	17.9%	16.8%	1410.9	663.1	112.8%	790.0	78.6%
Infotech Enterpr	2214.2	1610.8	37.5%	2006.1	10.4%	456.6	293.3	55.7%	368.9	23.8%	20.6%	18.2%	18.4%	349.0	252.7	38.1%	245.6	42.1%
Tata Elxsi	1096.8	1008.8	8.7%	2070.5	-47.0%	223.9	148.2	51.1%	350.5	-36.1%	20.4%	14.7%	16.9%	156.1	90.9	71.7%	227.3	-31.3%
Tanla Solutions	2111.5	1073.3	96.7%	1668.6	26.5%	964.0	493.3	95.4%	804.2	19.9%	45.7%	46.0%	48.2%	705.5	365.8	92.8%	564.1	25.1%
Sasken Comm.Tech	1763.1	1432.3	23.1%	1681.3	4.9%	411.4	234.6	75.4%	366.3	12.3%	23.3%	16.4%	21.8%	103.7	143.3	-27.6%	137.1	-24.4%
NIIT Tech.	2587.0	2299.0	12.5%	2458.0	5.2%	458.0	426.0	7.5%	456.0	0.4%	17.7%	18.5%	18.6%	366.0	344.0	6.4%	351.0	4.3%
Nucleus Software	754.6	703.7	7.2%	828.9	-9.0%	84.0	179.5	-53.2%	141.8	-40.8%	11.1%	25.5%	17.1%	40.7	161.8	-74.8%	80.2	-49.3%
3i Infotech	6015.9	2778.8	116.5%	4684.7	28.4%	1142.4	588.4	94.2%	911.4	25.3%	19.0%	21.2%	19.5%	683.5	400.8	70.5%	586.5	16.5%
Subex	1420.9	1029.9	38.0%	1359.3	4.5%	205.7	(379.2)	-154.3%	57.0	261.1%	14.5%	-36.8%	4.2%	(716.9)	(348.3)	105.9%	(583.4)	22.9%
KPIT CumminsInfo	1947.2	1492.4	30.5%	1736.8	12.1%	284.4	234.9	21.1%	226.2	25.7%	14.6%	15.7%	13.0%	167.0	140.7	18.7%	129.7	28.8%
Geometric	1526.0	1225.0	24.6%	1404.4	8.7%	197.1	126.5	55.8%	128.6	53.2%	12.9%	10.3%	9.2%	33.0	90.7	-63.6%	41.8	-21.0%
Take Solutions	981.4	747.3	31.3%	913.9	7.4%	244.9	195.6	25.2%	165.5	48.0%	25.0%	26.2%	18.1%	179.9	127.8	40.7%	172.1	4.5%
Firstsource Sol*	1448.9	1203.4	20.4%	1349.3	7.4%	353.1	191.6	84.3%	254.1	39.0%	24.4%	15.9%	18.8%	269.7	154.6	74.5%	(582.2)	-146.3%
Hexaware Tech	2946.2	2546.2	15.7%	2844.9	3.6%	392.9	237.0	65.8%	83.1	372.8%	13.3%	9.3%	2.9%	115.1	269.2	-57.2%	95.2	20.9%

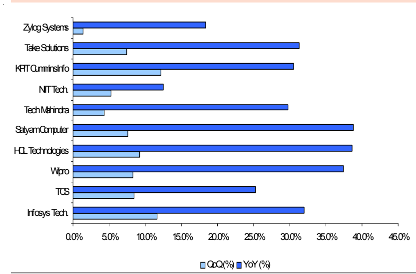
Source: Reliance Money Research
** Standalone Figures*

Decent quarter, favorable rupee saves the day…..

Traditionally the second quarter has always been the better quarter for Indian IT companies with strong headline numbers; however the Q2FY09 performance will be more remembered for the currency issues rather than the operating performance. With over 9% rupee depreciation vis-à-vis USD during the quarter helped immensely, as IT companies reported a better than expected numbers for Q2FY09. However, cross currency depreciation of GBP, EURO and AUD vis-à-vis USD has taken it toll on the revenue realisation of IT companies. On the other hand, sequential EBITDA margin improvement remained mixed during the quarter, with Infosys and TCS showing some improvement, whereas Satyam, Wipro and HCL Tech recorded a decline sequentially.

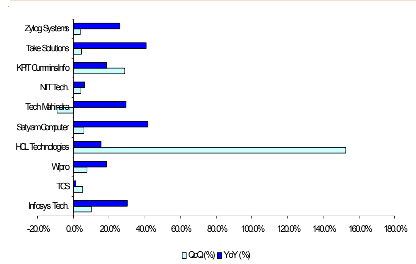
With rupee depreciating during the quarter, most of the companies have reported hedging losses, led by TCS to the tune of Rs 2610 mn. Net profits for the quarter, for the companies under review were inline with our expectations.

Revenues Growth



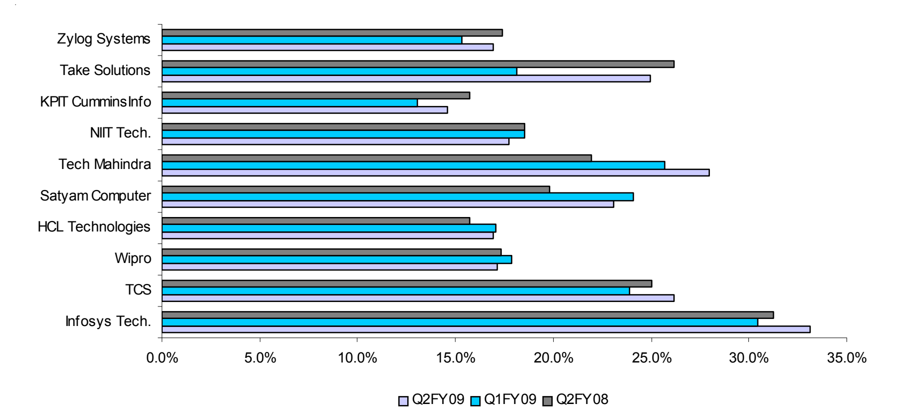
Source: Company

Net Profit Growth



Source: Company

EBITDA Margins



Source: Company

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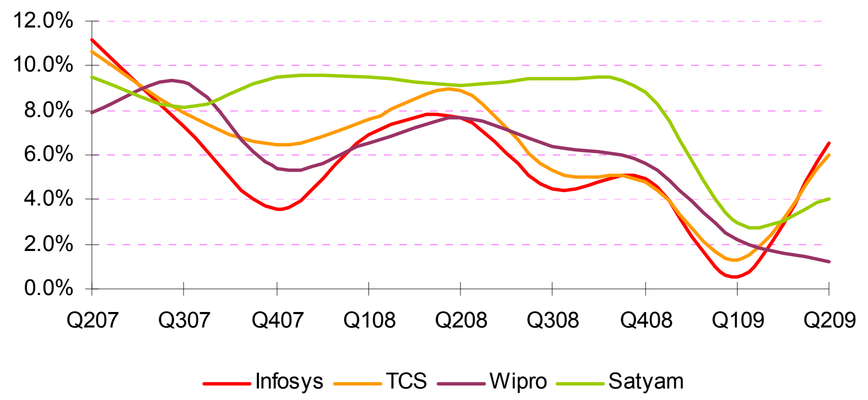
Macro Slowdown reflected in slower volume growth….

The unprecedented turmoil in the global macro environment, primarily in US and European regions, clearly impacted the volume growth of the Indian IT sector. Although during the quarter both Infosys and TCS reported sequential volume growth of 6% and 6.5% respectively, it was primarily from a lower base of Q1FY09. On the other hand, Wipro reported a volume growth of 1.2% qoq and Satyam at 4% qoq. The blended volume growth of the IT companies was way below the average volume growth seen in last few years.

Blended Volumes Movement



Source: Capitaline

BFSI still stable, pain still left to be seen…

Consolidation in financial services to show negative impact in coming quarters.....

The worst hit sector of recent global turmoil is the financial services sector; incidentally it is amongst the largest contributors of revenue for Indian IT companies. We have already witnessed some biggest collapse of global Financials Institutions in the recent times owing to global financial turmoil, which has kept the M&A street busy with the bailing out of these companies by Government and private financial institutions (which have survived till now). Nevertheless, looking at the BFSI verticals of top 4 IT companies, the pain is not yet reflected in the numbers. During Q2FY09, top four IT companies albeit Satyam has shown sequential growth in the BFSI's revenues with Wipro leading with 7.7% qoq growth. However, we believe that that recent consolidation seen in Financials institutions will bear some pain in the growth of BFSI sector for the Indian IT companies, whose impact we believe will start getting reflected from Q4FY09 onwards.

BFSI

		Q3FY07	Q4FY07	Q1FY08	Q2FY08	Q3FY08	Q4FY08	Q1FY09	Q2FY09
Infosys	BFSI	38.6%	37.0%	36.1%	36.5%	36.8%	33.9%	34.5%	33.4%
	QoQ Grth (%)	13.6	0.8	4.9	11.3	6.9	-3.0	2.9	1.9
TCS	BFSI	43.50%	41.30%	43.10%	43.30%	44.00%	43.80%	42.5%	41.9%
	QoQ Grth (%)	11.06	2.38	12.65	11.27	7.90	0.65	-2.5	1.8
Wipro	BFSI	**22.7%**	**22.9%**	**23.8%**	**24.2%**	**24.7%**	**25.2%**	25.4%	26.3%
	QoQ Grth (%)	9.2	8.8	9.3	11.5	16.6	7.5	4.3	7.7
Satyam	BFSI	25.6%	24.7%	23.8%	23.8%	22.4%	21.8%	21.4%	20.5%
	QoQ Grth (%)	-4.4	5.8	5.6	12.9	4.0	6.0	1.9	-1.9

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Pricing still stable, but expected to decline.....

Imminent price cut to double the negative impact.....

Blended pricing by and large remained stable during the quarter and the companys' managements are still not very clear about the pricing issues, however they have indicated at getting sporadic instances of price cut demands from the clients side. Going forward, we believe there is a strong probability of secular decline in the pricing as decision cycles in deals are getting delayed and IT budgets are getting squeezed, companies have to meet the terms with the clients demand for price cut.

Company	Q2FY09 qoq Price Change	Management comments on pricing
TCS	0.3%	By and large, we are stable on pricing - we do not expect it to go down despite the issues in the current environment
Infosys	-0.3%	The pricing remained stable and there are no major price renegotiation requests from the clients at this point in time. There are no instances of price cut even in the troubled BFSI space; however there are sporadic instances of price cut demand. On account of the strong relationships with the clients, be it in any domain, we are confident about stable pricing in the near future
Wipro	1.5%	In the current quarter, Wipro's realization improved by 1.9% for onsite and 1.8% for offshore sequentially. In this quarter, we witnessed price increases across the board with very few instances of price decrease. We expect the pricing to be kind of steady going forward.
Satyam	-0.6%	The impact of cross currency movement caused the decline in this quarter. Our outlook on pricing for the year continues to be stable on realized prices for FY2009. We do see possibility that there will be some pressure on pricing if the current economic environment prevails for few months longer.
HCL Tech	-1.8%	Pricing renegotiation is not a new phenomenon and we have been witnessing it over the past three quarters and there has been no major increase in requests in this quarter. More customers have stressed on reduction in onsite spending

Source: Company

M & A deals in the BFSI space

With the large scale M&A activity and the consequent consolidtaion in the BFSI space, the number of players has reduced. Although the IT companies are speaking of larger deals in the pipeline, we expect a certain amount of vendor consolidation in the BFSI space...

TARGET	ACQUIRER
MERRILL LYNCH & CO INC	BANK OF AMERICA CORP
WACHOVIA CORP	WELLS FARGO & CO
NYMEX HOLDINGS INC	CME GROUP INC
MORGAN STANLEY	MITSUBISHI UFJ FINANCIAL GRO
NATIONAL CITY CORP	PNC FINANCIAL SERVICES GROUP
COUNTRYWIDE FINANCIAL CORP	BANK OF AMERICA CORP
WASHINGTON MUTUAL BANK	JPMORGAN CHASE & CO
BEAR STEARNS COS LLC/THE	JPMORGAN CHASE & CO
MERRILL LYNCH & CO INC	TEMASEK HOLDINGS
LEHMAN BROTHERS (NORTH AMERICA & UK)	BARCLAYS PLC
LEHMAN BROTHERS (ASIA)	NOMURA FINANCIAL CORPORATION
FORTIS INSURANCE BELGIUM SA	BNP PARIBAS
DRESDNER BANK AG	COMMERZBANK AG
FORTIS BANQUE - BANK - AUC	KINGDOM OF BELGIUM
FORTIS BANQUE LUXEMBOURG	GRAND DUCHY OF LUXEMBOURG
AVIVA GLOBAL SERVICES	WNS HOLDINGS LTD-ADR
FORTIS INSURANCE BELGIUM SA	BNP PARIBAS
UNIONBANCAL CORPORATION	MITSUBISHI UFJ FINANCIAL GRO
SAFECO CORP	LIBERTY MUTUAL HOLDING CO IN
AIG	US GOVERNMENT
DEXIA	BELGIAN, DUTCH AND LUXEMBOURG GOVT.
BRADFORD & BINGLEY	UK GOVERNMENT
NORTHERN ROCK	UK GOVERNMENT
EBH	DENMARK
HYPO REAL ESTATE	GERMANY
GLITNIR	ICELAND
FANNIE MAE	US GOVERNMENT
FREDDIE MAC	US GOVERNMENT

Source: Company

Contd...

Cross-Currency Movement aiding to further woes…

Effect of currency fluctuation likely to hit topline growth.....

Cross currency movement has already taken its toll in Q2FY09 with lower reliasation of USD revenues as GBP, Euro and AUD depreciated against USD to the extent of 3.9%, 3.7% and 5.8% respectively. Going forward, as we have already crossed the half way mark to the Q3FY09 and there is further depreciation witnessed in GBP, EURO and AUD vis-à-vis USD, we believe it is unlikely for the currencies to totally reverse the order in next 50 odd days remaining for Q3FY09, thus the companies which have revenues exposure in these currencies are expected to lose further in Q3FY09.

For instance, Infosys has given guidance of -3.4% to 0.3% sequential growth in revenues based on cross currencies exchange rates of GBP / USD 1.86, Euro / USD 1.36, AUD / USD 0.81 as all the these currencies are still lower than the guided rates, we believe Infosys to miss its higher end of revenues guidance for Q3FY09.

	USD/INR	% chg	GBP/USD	% chg	Euro/USD	% chg	AUD/USD	% chg
Q3FY09*	48.51	10.8%	1.65	-13.0%	1.31	-12.8%	0.68	-23.2%
Q2FY09	43.78	5.1%	1.89	-3.9%	1.51	-3.7%	0.89	-5.8%
Q1FY09	41.66	4.7%	1.97	-0.4%	1.56	4.3%	0.94	4.2%
Q4FY08	39.79	0.8%	1.98	-3.2%	1.50	3.5%	0.91	1.7%

Hedge	Q3FY08	Q4FY08	Q1FY09	Q2FY09	Forex loss (Rs mn)
Infosys	1140	760	811	932	1260
TCS	2700	2900	2000	1250	2610
Satyam	930	1150	2600	2100	-85.1
Wipro	2100	2970	675	615.5	321
HCL Tech	2500	2750	2000	1900	97

We remain negative on the sector, worst is yet to come...

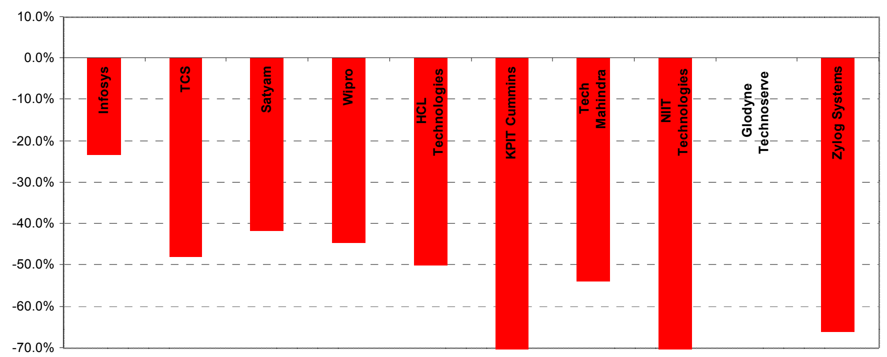
With deteriorating industry macro data coupled with uncertainties looming over the global economic environment, we believe it is fair to assume a more difficult time ahead for the Indian IT sector. Most of the Indian IT companies are indicating at a more cautious environment with key sector headwinds continue to make strong headlines like delays in deal cycle time, probable squeeze in IT budget for CY09 , pricing cut requests, slower volume growth , volatile currencies movements etc.

We believe, although there was a steep correction witnessed in the Indian IT companies and valuation seems to be attractive at current levels, we are still not comfortable with the Industry fundamentals and continue to remain worried about the sector headwinds. As far Q3FY09 performance is concerned, we believe numbers will be inline with the expectations,

We believe there is more pain still left to be seen in the sector and we continue to remain negative on the Indian IT sector.

However cross currencies movement continues to impact the USD based performance, with depreciating rupee continuing to aid the performance in INR term. However, the main issues which are going to remain in the main focus for Q3FY09, is budget for CY09 and client specific issues and pricing. We believe there is more pain still left to be seen in the sector and we continue to remain negative on the Indian IT sector.

Price change YTD



Source: Capitaline

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Key Issues - Summary Table

Parameters	Key Issues	Outlook	Comments
Geography	US and Europe Slowdown (Spending)		Datapoints suggests a slowdown in US and European regions, could impact the IT budget for CY2009, mostly in discretionary spending part.
Industry Vertical	BFSI, Retail, Telecom		Consumer focused sectors like BFSI, Retails and Telecom will have greater impact of recent global turmoil.
Clients	Delays and Cancellations		Already witnessed some clients specific issues in some companies in the recent quarters, likely to witness more in the coming quarters.
Volumes	Decision Making on Volumes, CY09 IT budget		Already witnessing some volume growth contraction in the recent quarters, with recent turmoil we believe the budget cycle will likely to get delayed for CY09 and declined in deals will impact on the volumes.
Pricing	Pricing cuts		Expect to decline in FY10, some cases of pricing cut request is already seen in companies.
Currencies Fluctuations	Depreciation of Euro,GBP, AUD vis-a-vis USD		Euro, GBP continues to remain volatile vis-à-vis USD, companies likely to be impacted with lower revenues realisations.
Rupee	Depreciation		Continues to remains favorable, augurs well for margins defence.
Leverages	Credit Crunch		Most of the IT companies are sitting on comfortable cash positions with negligible debt as compared to networth.
Cash	On higher side		On a comfortable positions to deals with opportunities and adversities.
Salary and Attritions	Inflation		With uncertainties looming over the economic environment, we believe employee attrition rate are likely to decline further. Companies will also take more aggressive steps in bringing down the wage bills in the coming fiscals.

Highly Positive	Positive	Neutral	Minor Negative	Negative

Source: Reliance Money Research

Valuation matrix

Company	Net Sales		EBITDA %		PAT		EPS		PE(x)		CMP	Target Price	Comment
(Rs Mn)	FY09E	FY10E	FY09E	FY10E	FY09E	FY10E	FY09E	FY10E	FY09E	FY10E	Rs	Rs	
Infosys	222228.6	246910.2	31.90%	31.10%	58742.3	64776.8	102.9	113	11.4	10.4	1172	1234	HOLD
TCS	278529.3	327479.6	25.22%	25.30%	54864	65205.2	56.1	66.6	8.6	7.2	481	439.6	REDUCE
Satyam	115966.1	135783.6	22.20%	22.10%	22623.1	26013.9	33.1	37.4	7.1	6.2	233.5	246.8	HOLD
Wipro	260237.9	294202.5	16.35%	16.37%	36778.0	41093.0	25.0	27.8	8.8	7.9	221	214.1	REDUCE
HCL Tech	95025.4	107123.5	20.80%	20.90%	13782.1	16767.1	20.1	24.4	6.7	5.5	134.6	120.8	REDUCE
KPIT Cummins	7383.5	8539.5	13.80%	14.00%	581.2	674.7	6.8	7.9	3.9	3.4	26.8	21.7	SELL
Tech Mahindra	48210.4	59980.3	24.40%	23.40%	10468.5	11893.7	75.3	91.4	3.4	2.8	257.4	291.6	HOLD
Zylog System	7735.6	10443	17.30%	17.50%	1040.5	1410.8	63.3	85.8	1.7	1.2	106	118.0	HOLD
Glodyne	4752.3	7791.4	19.20%	20.00%	682.1	1186.7	69.8	119.2	3.3	1.9	229	327.8	BUY

Source: Reliance Money Research

Q2FY09 Review

Metals

High Operating Margins are history

Strong Second quarter.... but future outlook looks hazy

The Ferrous industry exhibited a YoY revenue growth of 42.8% while EBIDTA did rise by 33.7% taking a cue of the partial effect of rise in the raw material costs

Metal companies viz. Steel producers indeed had strong quarter courtesy- high realizations on account of robust demand despite self imposed price moratorium (in Q109 further extended in Q209) in an attempt to aid the government rein in the rising inflation. The Ferrous industry exhibited a YoY revenue growth of 42.8% while EBIDTA did rise by 33.7% taking a cue of the partial effect of rise in the raw material costs (Contract coking coal price hike was 200%). Although, the Nonferrous Industry grew 5% (YoY) in revenues due to increase in volume but subdued LME prices, the EBIDTA dropped by 14% due to the increasing crude prices.

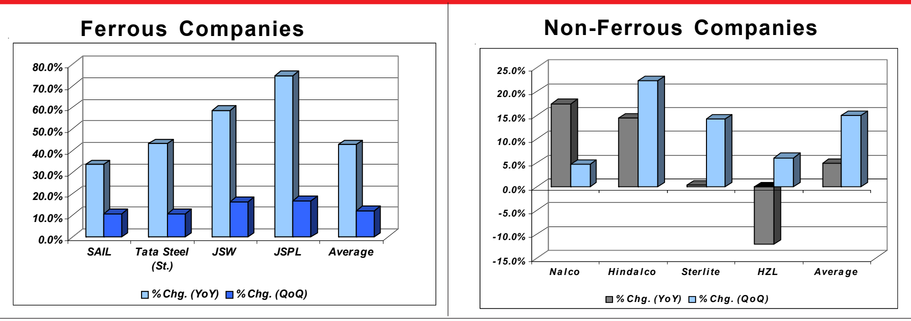
	Net Sales (INRm)					EBITDA (INRm)					Adjusted PAT (INRm)				
Company	**Q2FY09**	**Q2FY08**	**YoY (%)**	**Q1FY09**	**QoQ (%)**	**Q2FY09**	**Q2FY08**	**YoY (%)**	**Q1FY09**	**QoQ (%)**	**Q2FY09**	**Q2FY08**	**YoY (%)**	**Q1FY09**	**QoQ (%)**
Ferrous															
Tata Steel-(St.)	68507	47859	43%	61773	11%	31830	19700	62%	30368	5%	17878	11908	50%	14884	20%
SAIL	122386	91635	34%	110294	11%	30115	26292	15%	27735	9%	20096	17002	18%	18352	10%
JSW Steel	42692	26942	58%	36715	16%	10904	8666	26%	9956	10%	3175	5342	-41%	2194	45%
Jindal St. & Power	22161	12690	75%	18953	17%	7445	5407	38%	7056	6%	4500	2775	62%	4023	12%
Total- Ferrous	**255746**	**179126**	**42.8%**	**227735**	**12.3%**	**80293**	**60064**	**33.7%**	**75115**	**6.9%**	**45649**	**37027**	**23.3%**	**39452**	**15.7%**
Non Ferrous															
Hindalco (St.)	56832	49669	14%	46475	22%	9934	9224	8%	9490	5%	7200	6426	12%	6968	3%
Nalco	15364	13082	17%	14674	5%	6408	5685	13%	7368	-13%	4445	4397	1%	5253	-15%
Sterlite Ind.s	65938	65671	0.4%	57701	14%	16350	19658	-17%	18266	-10%	12769	10827	18%	11511	11%
Hind Zinc Ltd	17438	19843	-12%	16437	6%	9354	14184	-34%	9777	-4%	9595	11685	-18%	8478	13%
Total-Non Ferrous	**155572**	**148265**	**5%**	**135287**	**15%**	**42046**	**48751**	**-14%**	**44901**	**-6.4%**	**34009**	**33335**	**2.0%**	**32210**	**5.6%**
Total - Metals	**411318**	**327391**	**25.6%**	**363022**	**13.3%**	**122339**	**108815**	**12.4%**	**120016**	**1.9%**	**79657**	**70362**	**13.2%**	**71662**	**11.2%**

Source: Company results, Reliance Money Research

The rise in realizations was 52% for JSW steel, around 43% for Tata steel (St.) and 54% for SAIL.

During Q209, the overall Metal pack showed a revenue growth of 25.6% and an EBIDTA growth of 12.4%. The companies exhibited a meteoric rise in realizations for the steel producers which in turn reflected in the top line growth. The rise in realizations was 52% for JSW steel, around 43% for Tata steel (St.) and 54% for SAIL. The nonferrous companies also showed an excellent growth in realizations with Nalco posting 13% rise in realization for Primary metal but a 7% correction in Alumina realizations, Hindalco exhibited 18% rise in realizations of Primary metal and as high as 26% in value added products, Sterlite showed a 7% increase in Primary Aluminium realization and negative growth of 41% in price realization for Hindustan Zinc.

Growth in Revenues for Metal Producers



Source: Company results, Reliance Money Research

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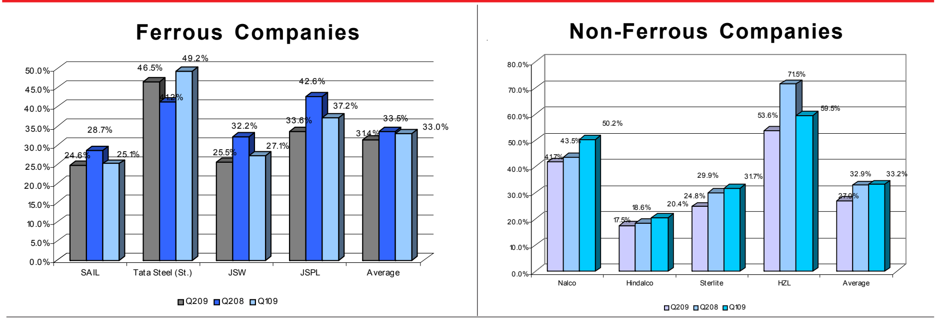
EBIDTA margins were under pressure in Q209 due to effect of rise in raw material cost; although only partial increase in prices of Raw material was seen in Q209 and total cost push would be reflected in Q309 results.

EBIDTA margins were under pressure in Q209 due to effect of rise in raw material cost; although only partial increase in prices of Raw material was seen in Q209 and total cost push would be reflected in Q309 results. Both ferrous and non-ferrous industry witnessed a compression in margins due to rise in costs- cost of iron ore and coking coal for steel makers and rise in crude oil for Aluminium makers (CPC and CTP are petroleum products and prices are pegged to crude oil prices).

EBIDTA Margins



Source: Company results, Reliance Money Research

The bottom-line of the Steel producing companies displayed a growth of 23.3% (YoY) while the non ferrous industry grew by mere 2%. The metal companies are prone to notional MTM losses on account of the foreign currency loans undertaken by them. SAIL, Nalco Sterlite and Hindustan Zinc do not have notional mark-to-mark (M2M) losses for the current quarter. The M2M losses for the other companies are given in the following table.

Mark- to-mark losses for different metal producers

(Rs mn)	Q209	Q208	% Change (YoY)
Tata Steel (St.)	(3456.2)	903.1	-483%
JSW Steel	(2683.5)	759.1	-454%
JSPL	(1106.2)	(177.2)	524%
Hindalco (St.)	1640.0	-	NA

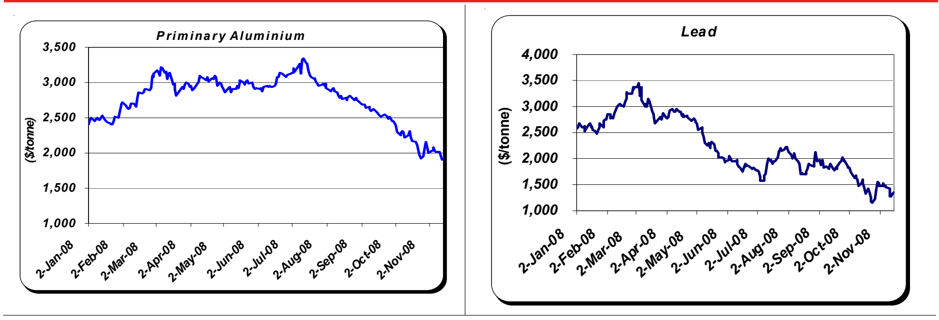
Source: Company results, Reliance Money Research

Squeezing profit margins seen in H2 of FY2009

The price cut has been around 10-12%, thus shaving substantial margins off the table for the steel producers in the face of high input prices in coming quarters.

Steel companies are expected to take the current slowdown in demand on their chin. Steel makers who would be most affected would be the likes of SAIL, JSW and JSPL who do not own the captive resources. These companies' margins are expected to be squeezed between the already high contract coking coal and iron ore prices and current drop in the steel prices. A cut of Rs. 5500-6000 per tonne of price cut has been announced across the board by all the steel makers effective from 1st week of Nov.'08. The price cut has been around 10-12%, thus shaving ***substantial margins*** off the table for the steel producers in the face of high input prices in coming quarters.

International price movement of different metals starting Jan' 08.



Source: Company results, Reliance Money Research

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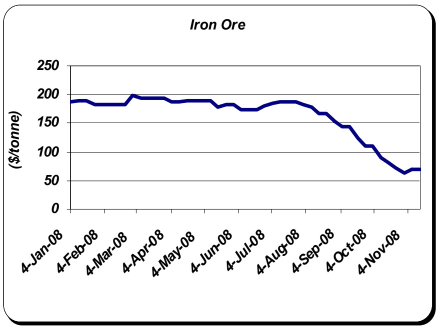
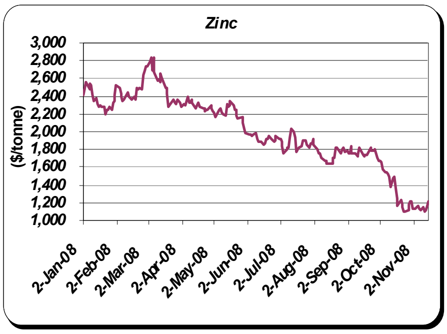
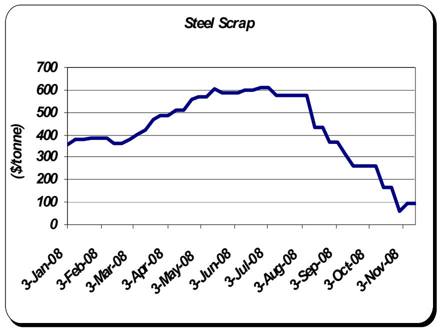






Source: Bloomberg

Non-Ferrous producers' revenues are linked to LME prices which have corrected to far below their respective closing on Oct.31, '08. Although the crude prices have also corrected, it is expected that a compression in margins would be witnessed in the H209. Drop in demand coupled with corrected LME prices are expected to hammer the realizations of the Aluminium and Zinc producers. The current LME prices, especially for Aluminium and Zinc, are below the marginal cost for about 40% of the global producers. This would lead to closing down of unviable capacities thus ruling out a sharp further correction from these levels.

The recent price correction of Rs 5500-6000 per tonne effective from Nov.'08 is expected to act as an impediment for the production of steel thus containing the total annual production to around 58.5 mn tonne- a growth rate of 6%.

Retarding Growth

We expect severe measures to be taken by the Steel producers to fight the slowdown. Although, the companies are refuting the production cuts, we expect a steel production growth of around 6% for FY09E as against 11% expected earlier. The total steel produced for sale by end of FY08 was 55.2 mn tonne. The expected steel production for FY09 was about 61.3 mn tonne-at around 11% expected growth rate. But the actual growth has been only 5.4% to 26.5 mn tonne during the first six months ending Sept.'08. The recent price correction of Rs 5500-6000 per tonne effective from Nov.'08 is expected to act as an impediment for the production of steel thus containing the total annual production to around 58.5 mn tonne- a growth rate of 6%.

('000 tonne)	Total Production for Sale	Imports (Partly Estimated)	Exports (Partly Estimated)	Net Availability	Variation in Stock in last six months	Apparent Consumption
Apr-Sept.'07	26494	3428	2780	27142	286	26856
Apr-Sept.'08	27932	2995	1940	28987	645	25317
Change (YoY) (%)	5.4%	-12.6%	-30.2%	6.8%	125.5%	-5.7%

Source: JPC online

The growth rate in Non-ferrous is expected to keep pace with the earlier expected growth rate of 6.5%.

Capex plans being Deferred

Almost all the industries in Metals space are going slow on the aggressive capex plans announced in last six- eight months citing the reason of falling demand and severe liquidity crisis in the market. Sterlite industries, JSW Steel etc. are taking necessary steps to restrain excessive spending.

We remain cautious on both ferrous and Non-ferrous sector

The Global financial crisis has led to a general slowdown in global economy and recession in US and Europe resulting in a sudden drop in the steel and other base metals demand. Sharp corrections in prices in face of high input prices are affecting the producers dearly. We remain cautious on both ferrous and Non-ferrous sector and expect Q308 to be a difficult time when both top line and bottom line of many players are likely to be impacted adversely.

Q2 FY09 Review

Media & Entertainment

Company	Net Sales (INRm)					EBITDA (INRm)					EBITDA Margin			Adjusted PAT (INRm)				
	Q2FY09	Q2FY08	YoY(%)	Q1FY09	QoQ(%)	Q2FY09	Q2FY08	YoY(%)	Q1FY09	QoQ(%)	Q2FY09	Q2FY08	Q1FY09	Q2FY09	Q2FY08	YoY(%)	Q1FY09	QoQ(%)
Adlabs Films Ltd.	2564.61	1325.69	93%	2289.7	12.0%	470.36	580.14	-19%	494.79	-5%	18.3%	43.8%	21.6%	-207.66	210.37	-199%	23.24	-994%
Balaji Telefilms Ltd.	1033.28	779.48	33%	916.03	12.8%	230.02	330.46	-30%	317.58	-28%	22.3%	42.4%	34.7%	181.25	262.76	-31%	222.57	-19%
Cinemax India Ltd.	449	263	71%	284	58.1%	142.6	78.2	82%	43.3	229%	31.8%	29.7%	15.2%	43.7	46.1	-5%	36.4	20%
Deccan Chronicle Holdin	2264.3	1877.7	21%	1935.3	17.0%	773.4	1177.8	-34%	942.9	-18%	34.2%	62.7%	48.7%	452.7	826	-45%	609.8	-26%
Dish TV India Ltd.	1732.8	755	130%	1644.6	5.4%	-874	-472.3	85%	-666.3	31%	-50.4%	-62.6%	-40.5%	-1541.11	-919.39	68%	-1254.39	23%
Entertainment Network Ind	1098.7	862.9	27%	1069.7	2.7%	-59.78	-70.28	-15%	28.96	-306%	-5.4%	-8.1%	2.7%	-182.11	-171.9	6%	-79.99	128%
HT Media Ltd.	3341.7	2827.7	18%	3247.2	2.9%	398.7	503.6	-21%	744.8	-46%	11.9%	17.8%	22.9%	162.8	319.4	-49%	377.2	-57%
IBN 18 Broadcast Ltd.	307.69	255.66	20%	305.46	0.7%	-101.66	-3.74	2618%	-52.21	95%	-33.0%	-1.5%	-17.1%	-189.41	-63.6	198%	-165.54	14%
Inox Leisure Ltd.	599.7	544.4	10%	533.7	12.4%	84.5	117.5	-28%	72.1	17%	14.1%	21.6%	13.5%	32.7	83.1	-61%	36.8	-11%
Jagran Prakashan Ltd.	2086.25	1771.68	18%	2064.8	1.0%	379.88	390.1	-3%	496.47	-23%	18.2%	22.0%	24.0%	226.97	220.05	3%	316.49	-28%
New Delhi Television Ltd.	1,203	717	68%	1,194	0.7%	(1,035)	(166)	522%	(919)	13%	-86.0%	-23.2%	-76.9%	119	25	372%	5,248	-98%
PVR	788	626	26%	602	30.2%	150	134	11%	97	55%	19.0%	21.5%	16.1%	79	63	27%	39	104%
Sun TV Network Ltd.	2378.8	1944.5	22%	2235.7	6.4%	1763.3	1368.3	29%	1688.9	4%	74.1%	70.4%	75.5%	1083.1	801.6	35%	1025.4	6%
T.V.Today Network Ltd.	668.9	464.2	44%	641.3	4.3%	121.67	78.47	55%	130.58	-7%	18.2%	16.9%	20.4%	75.77	53.54	42%	91.78	-17%
Television Eighteen India	1302.6	882.98	48%	929.92	40.1%	93.34	278.49	-66%	201.05	-54%	7.2%	31.5%	21.6%	-245.72	39.09	-729%	-25.25	873%
UTV Software Comm	1708.5	718.6	138%	1358.0	25.8%	-78.37	182.08	-143%	165.34	-147%	-4.6%	25.3%	12.2%	251.41	129.48	94%	198.85	26%
Wire and Wireless India	837.5	635.2	32%	716.3	16.9%	4.4	-52.2	-108%	1.0	336%	0.5%	-8.2%	0.1%	-219.7	-226.9	-3%	-183.1	20%
Zee Entertainment Ent Ind	5716.7	3986.0	43%	5419.5	5.5%	1488	1320	13%	1441.8	3%	26.0%	33.1%	26.6%	1781.9	925.4	93%	1601.1	11%
Zee News Ltd.	1276.9	798.1	60%	1127.5	13.3%	211.5	106.1	99%	172.7	22%	16.6%	13.3%	15.3%	114.7	56.1	104%	93.2	23%
Fame India Ltd.	329.2	210.7	56%	236.1	39.4%	64.8	36.5	78%	14	363%	19.7%	17.3%	5.9%	28.2	40.1	-30%	-36.7	-177%

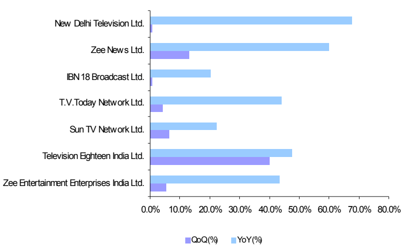
Source: Reliance Money Research

For the media companies traditionally Q2 is always been a weak quarter, nevertheless companies under our review has shown a decent growth in revenues, however margins continue to be under pressure with rising costs and overheads coupled with newer initiatives yet to contribute any significant amount to the company's financials.

Broadcasters: More Crowds than Content…

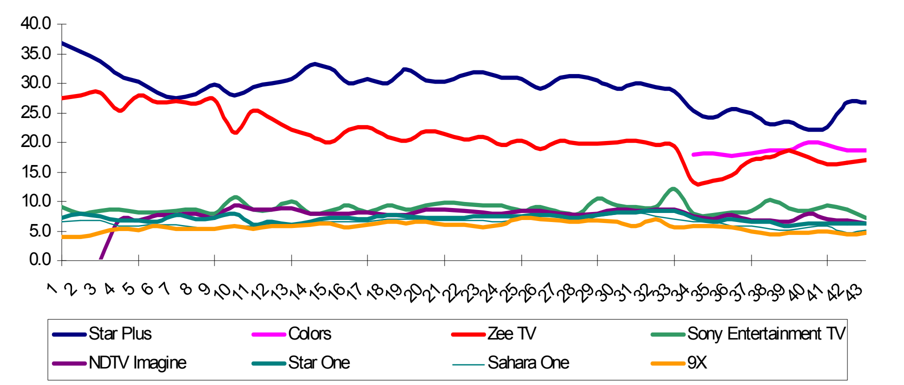
For Q2FY09, most of the broadcasting companies have shown strong growth in revenues led by NDTV and ZNL, followed by TV 18, ZEEL and TVTN. During the quarter under review, ZEEL reported a 30% growth in the advertisements revenues, whereas ZEE News reported a advertisement revenues growth of 61% yoy. On the other hand TVTN has reported strong growth in revenues on account of improvement in the advertisements rates, whereas Sun TV recorded advertisement revenue growth of 36% yoy.

Revenues Growth



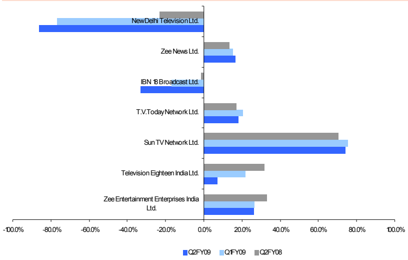
Source: Company

GRP Rating



Source:TAM Media

EBITDA Margin



Source: Company

Indian broadcasting space is getting crowded than ever before, with launch of new channels, wherein there is a fierce battle being fought for the GRP and prime slots. Moreover, in the broadcasting arena the space which is getting the top attention is the general entertainment channels (GEC) and with the recent launch of 9X, NDTV imagine and Colors, the fight is getting more intense to keep attracting the loyalty of the viewers. During first half of 2008, TV advertising reported a growth of 28% yoy; F&B was the top sector in TV advertising. There was 16% rise in the ads per day on TV during first half of 2008.

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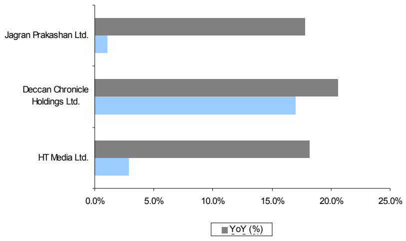
Print Media: Newsprint costs hit the most….

Indian Print media industry is reeling under immense pressure with slowdown in the advertisement volume growth owing to domestic slowdown, and as per Adex during H1CY08 industry has shown a growth of 5%. HT media management has indicated a growth of 10% in value term, however in terms of volume it grews at 1-2% flat. During the quarter, HT media reported an advertising growth of 18% yoy, which was primarily on the back 10% price hikes, whereas volume growth was at 8% yoy. On the other hand, Deccan Chronicle reported a revenues growth of 21%, primarily on the back of 30% increase in advertisement rates in April 2008. On the vernacular segment side, Jagran Prakashan has reported a advertisement revenues growth of 23% (there was no rates hikes during the quarter).

Revenues Growth

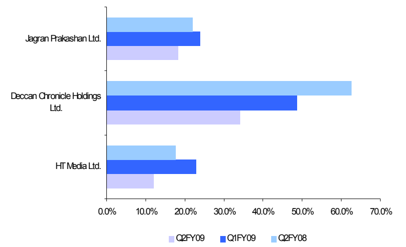


Source: Company

EBITDA Margins drop significantly....

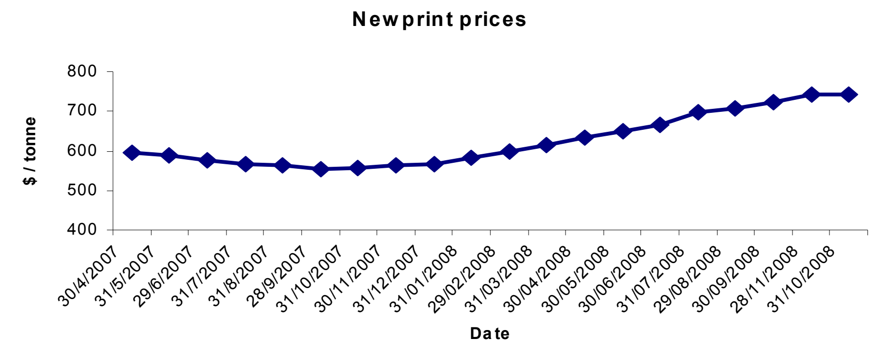
During the quarter, EBITDA margins of the companies operating in Print media space have nosedived on the back of higher newsprint cost (on the monthly closing basis price newsprint price has increased by 31% yoy) coupled with the depreciating rupee is further fueling the costs. The astronomical rise in the newsprint cost has been quite reflective on the EBITDA margins of the companies; the worst hit was Deccan Chronicle, margins are down by around 2900 bps to 34.2%. Whereas, HT Media margins were down by 588bps to 11.9% and Jagran Prakashan declined by 380bps to 18.2%.

EBITDA Margin



Source: Company

Newprint Prices

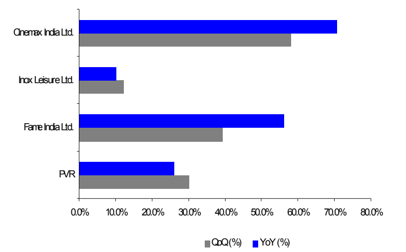


Source: Bloomberg

Multiplexes: Poor content leads to dismal performance…

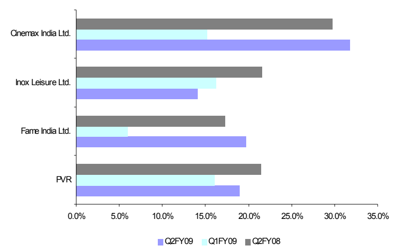
Multiplex operators continues to show dismal performance owing to poor content of movies released in recent times, albeit few which got a good run at multiplexes. Poor content has taken a toll on the occupancies of the multiplexes, and it is quite reflective from the drop in occupancies of PVR, Fame and Cinemax on yoy basis. While growth in revenues was more driven by new property addition, there is fall or flat trend seen in footfalls in the existing properties on a yoy basis, PVR (-14%), Fame (-17%), Cinemax (1.5%). Driven by new property addition most of the operators have shown a decent growth in topline on a lower base, however EBITDA margins continue to be under pressure with rising overheads and lease rentals with PVR and INOX reported a 250bps and 750bps declined in the margins respectively, whereas Cinemax and Fame have shown margin improvement of 200bps and 240bps respectively. All the operators except PVR (lower tax incidence) has shown degrowth in net profit on a yoy basis.

Revenues Growth



Source: Company

EBITDA Margin



Source: Company

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Major Releases	Collections (Rs in Mn)
Singh Is Kinng	724.0
Jaane Tu Ya Jaane Na	576.0
Bachna Ae Haseeno	297.0
Kismet Konnection	251.0
God Tussi Great Ho	133.0
Love Story 2050	123.0
Rock On!!	85.0
Phoonk	86.0

Source: Ibos

	Cinemax India Ltd.		PVR Ltd.		Fame India Ltd	
	Q2FY09	YOY Grth.	Q2FY09	YOY Grth.	Q2FY09	YOY Grth.
Footfalls (in lacs)						
Comparable properties	31.31	1.5%	35.8	-14%	12.6	-17%
Non comparable properties	10.66		13	550%	6.87	699%
Total	**41.97**	36.0%	**48.8**	-2%	**20.94**	30%
Average ticket prices	**129**	-2.3%	**140**	11%	**127**	18%
Comparable properties	133		136	8%	119	9%
Non comparable properties	116		152	28%	142	75%
F&B SPH Rs.	30	3.4%	39	26%	35	30%
SPH	**159**	**-1.2%**	**179**	**14%**	**162**	**20%**
Occupancy levels						
Comparable properties	28.0%		37.1%		28.0%	

Source: Company

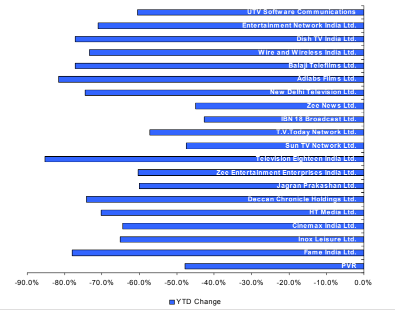
Key Issues - Summary Table

Segments	Outlook	Major Issues
Print Media		1. Higher Newsprint costs coupled with depreciating rupee putting pressure on margins. 2. Lower volume growth in advertisements revenues owing to slowdown in most of the categories of advertisers.
Broadcastings		1. Advertisements revenues growth is likely to slowdown on the back of cut in the pending on advertisements by Corporates 2. GEC segments getting hugely crowded with new launches likes NDTV Imagine, 9X and Colors, in the coming months battle likely to get intensifies with new launched coming up. 3. With new players coming in DTH, broadcasters are going to benefits with increase in the subscriptions revenues.
Content Providers		1. With the advent of new channels launches contents providers are likely to benefits as the demand for quality content and content hours increases.
Movie Production		1. There are sporadic instances of deferring the big budget projects by producers as financing of big budget is getting tougher on the back of tough economic environment, however we believe movie business is continue to enjoys the high risk high reward status.
Exhibitors		1. Slowdown in the consumers spending likely to impact footfalls in the exhibitions business 2. New projects likely to get deferred on the back of funding issues coupled with delays by real estate players.
Radio		1. Extended breakeven period, with slower growth in the new clients and advertisements as Radio is secondary media for advertisements and still not find a pan India appeal like TV and Print.
OOH (Out of Home Advertisings)		1. Likely to hit worst because of slowdown on advertisements spends, ENIL already experienced some withdrawals from big Corporates.
DTH		1. Getting crowded with the launch of BIG TV and (Reliance ADAG) and Digital TV (Bharti), however likely to benefits in the long run.

Highly Positive	Positive	Neutral	Minor Negative	Negative

Source: Rmoney Research

Price Change YTD



Source: Capitaline

Sector Outlook: In Troubled Waters….

We believe with slowdown and worries looming over the economic environment and corporates are reeling under enormous pressure to deals with macro uncertainties. We hence believe advertisements growth is likely to slowdown in medium term, and the impact of which is likely to be severe on secondary media like Radio, OOH than the broadcasters (TV) and Print. On the other hand, with tough credit environment and delays in the real estate projects coupled with lower footfalls will continue to put pressure on the multiplex operators. As far as print media is concerned, it is facing a double whammy with rising newsprint cost and decline in advertisements volume which is likely to take a toll on the companies performance. Going forward, we believe with industry data suggesting a probable slowdown in the economic environment, we believe Media companies are likely to witness pressure on their bottomline for the next couple of quarters ahead.

Q2FY09 Review

Oil & Gas

Keeping in view the fact that Oil & Gas sector involves different kind of companies along the value chain, we have divided Oil & Gas sector into four subsectors namely Oil Services, Refining and Marketing Companies, Gas Transmission companies and Upstream Companies.

Oil Services Companies

	Net Sales (INRm)					EBITDA (INRm)					Adjusted PAT (INRm)				
Company	Q2FY09	Q2FY08	YoY (%)	Q1FY09	QoQ (%)	Q2FY09	Q2FY08	YoY (%)	Q1FY09	QoQ (%)	Q2FY09	Q2FY08	YoY (%)	Q1FY09	QoQ (%)
Aban Offshore	8238	4761	73	7488	10.0	4605	2509	83.5	4015	14.7	1065	-144	840	1033	3.1
Shiv-Vani Oil & Gas	1872	973	92	1885	-0.7	737	366	101.1	928.8	-20.7	304	198	53.8	363	-16.2
Dolphin Offshore	654	269	144	669	-2.2	97	64.3	51.5	81.2	20.0	59	14.0	321	59	0.0
Garware Offshore	488	269	82	294	65.7	270	151	79.1	167.2	61.6	149.5	63.4	136	99.4	50.3
Great Offshore	1593	152	4.6	2027	-21.4	476	722	-34.1	842.7	-43.5	168.8	392	-56.9	356.5	-52.7
Jindal Drilling	1220	1042	17	1145	6.5	127	114	11	76.0	66.6	65.5	59.2	10.6	38.6	69.7

Source: Company

Huge asset addition and high day rates lead to strong Y-o-Y growth

Oil service providers continued their growth momentum, and were the best performing companies among the entire oil and gas sector. These companies showed a whopping 59% Y-o-Y growth in top line, which increased from Rs 8.8 bn in Q2 FY08 to Rs 14 bn in last quarter. Such a huge growth came mainly on the back of huge assets being added by almost all the companies, and higher day rates of older assets. However, on quarterly basis, growth in top line was muted at 4.1%, primarily because day rates for services and vessels have peaked out, and there is not much growth in day rates on a sequential basis. Moreover, many of the new vessels by the companies like Aban Offshore, Great Offshore, Garware offshore will be going on contracts during second half of the year, which will lead to lower growth on sequential basis in first half. However, going forward, with commencement of new contracts (see table below), we expect growth momentum to pick up in second half of the year.

Huge asset addition leads to Y-o-Y growth

Companies	Q2 FY09
Aban Offshore DD4,	New rigs Aban VIII, DD5 were added
Shiv-Vani Oil & Gas	Addition of 10 new onshore rigs
Garware	Addition of PSV MV Mana, and AHTSV MV Poorna
Great Offshore	Acquired High end AHTSV
Jindal Drilling	Took delivery of new jack up rig

Source: Company

New vessels and contracts to impart growth during second half of year

	New Vessels And Contracts
Aban Offshore	Dd 6, Dd 7, Dd 8, And Bullford Dolphin
Great Offshore	New High End Ahtsv, Construction Barge, 2 Psvs
Garware Offshore	60 T Ahtsv, Psv, Small Ahtsv
Jindal Drilling	Two New Jack Up Rigs
Shiv Vani Oil And Gas	High End Onshore Rigs Will Start Rs 16 Bn Project With OnGC

On a sequential basis, slight decline in margins is due to rising commodity prices, higher manpower expenses coupled with comparatively flat day rates

EBIDTA margins however come under pressure

In line with sales growth, operating profits for the sector grew by 60.7% Y-o-Y and 3.3% sequentially to Rs 6.3 bn. Operating margins however remained flat on Y-o-Y basis at 44.8% as compared to 44.4% in Q2 FY08 and 45.23% in Q1 FY09. On a sequential basis, slight decline in margins is due to rising commodity prices, higher manpower expenses coupled with comparatively flat day rates, which put pressure on margins and operating margins declined by 0.4%.

Bottom line shows robust growth

PAT for the sector jumped up by 211% Y-o-Y, but declined by 7% sequentially to Rs 1.81 bn. Y-o-Y jump in profits is mainly due to huge growth posted by Aban Offshore and Dolphin Offshore, both of which benefited from increased fleet size. In case of Aban, fleet under Sinvest started contributing meaningfully from this year, which lead to huge growth in profits.

Sector Outlook

Oil service providers have been the biggest beneficiary of high oil prices. However, current fall in oil prices and ongoing market turmoil has lead to contraction in valuation multiple of these companies. Most of the international majors have $40-$50 per barrel of long term crude oil prices as a threshold to determine the viability of offshore oil and gas projects and we believe that the impact of fall in oil prices on exploration programs is likely to be limited.

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Refining and Marketing Companies

Company	Net Sales (INRb)					EBITDA (INRmb					Adjusted PAT (INRb)				
	Q2FY09	Q2FY08	YoY (%)	Q1FY09	QoQ (%)	Q2FY09	Q2FY08	YoY (%)	Q1FY09	QoQ (%)	Q2FY09	Q2FY08	YoY (%)	Q1FY09	QoQ (%)
B P C L	378.2	251.7	50.3	390.2	-3.06	-17.5	15.6	-212.1	-6.1	-187.4	-19.0	8.4	-327.5	-6.3	-199.5
Bongaigaon Refinery	21.8	13.8	57.8	21.8	0.07	-1.2	1.45	-182.9	1.4	-184.4	-0.81	1.1	-171.7	0.9	-189.4
C P C L	102.8	63.3	62.3	112.5	-8.62	1.4	4.3	-67.5	13.7	-89.8	0.2	2.1	-90.4	7.7	-97.3
H P C L	355.2	241.3	47.2	347.5	2.22	-25.4	13.1	-293.0	-4.1	-518.9	-32.2	8.5	-477.4	-8.9	-262.4
I O C L	862.6	561.5	53.6	883.9	-2.42	-47.8	44.5	-207.4	25.5	-287.5	-50.5	27.99	-280.4	20.1	-350.8
Mangalore Refinery	134.3	76.4	75.8	107.4	25.01	1.77	4.5	-60.6	14.5	-87.8	0.45	3.0	-85.3	8.9	-94.96

Source: Company

lefining and marketing companies were impacted by high crude oil prices, lower product cracks, high marketing losses, inventory losses, and higher interest costs.

High crude oil prices lead to huge top line growth on Y-o-Y basis

In contrast to oil service providers, refining and marketing companies were impacted by high crude oil prices, lower product cracks, high marketing losses, inventory losses, and higher interest costs. During this quarter, oil prices averaged at around $120 per barrel, which lead to huge growth on top line front, with companies in our universe growing by 53.5% Y-o-Y to Rs 1855 bn. Sequentially, sales were flat on account of flat crude oil prices

EBIDTA growth however disappoints

However, such a robust performance didn't flow to EBITDA level because of gross under recoveries at Rs 441 bn as against Rs 488 bn in Q1 FY09 and Rs 133 bn in Q2 FY08. Oil bonds to the tune of Rs 206 bn, and upstream contribution at Rs 147 bn were not enough to tide over the losses. Matters were made worse by huge inventory losses on account of sharp fall in crude oil prices which at one time were ruling at $147 per barrel. Standalone refineries, though insulated from marketing losses suffered on account of lower product cracks and inventory losses. EBITDA for the companies turned negative from Rs 83.6 bn in Q2 FY08 and Rs 44.9 bn in Q1 FY09 to –Rs 88.8 bn in Q2 FY09. Huge losses at operating level lead to disappointing bottom-line, and the companies under coverage posted huge losses to the tune fo Rs 101.9 bn.

If crude prices sustain at current levels, we believe there is a huge re rating potential as the companies are trading at huge discounts to their replacement costs.

Sector Outlook

Going forward, we expect refining margins to weaken further on account of lower demand for products and increased supply coming from new refineries, which will put pressure on standalone refineries. In case of forward integrated refining and marketing companies, the companies are highly sensitive to crude oil prices. With Indian crude oil basket crashing below $50 mark, the companies have started making profits on petrol and diesel, although they continue to loose on LPG and kerosene. If crude prices sustain at current levels, we believe there is a huge re rating potential as the companies are trading at huge discounts to their replacement costs.

Gas transmission companies

Company	Net Sales (INRb)					EBITDA (INRb)					Adjusted PAT (INRb)				
	Q2FY09	Q2FY08	YoY (%)	Q1FY09	QoQ (%)	Q2FY09	Q2FY08	YoY (%)	Q1FY09	QoQ (%)	Q2FY09	Q2FY08	YoY (%)	Q1FY09	QoQ (%)
GAIL (India)	61.3	45.3	35.34	57.3	6.95	14.7	8.8	67.91	14.0	5.38	10.2	5.7	78.76	9.0	14.11
Gujarat Gas Company	3.2	2.7	19.11	3.1	2.59	0.5	0.5	2.48	0.6	-5.82	0.4	0.3	15.30	0.4	-10.39
Indraprastha Gas	2.2	1.7	23.60	1.9	12.82	0.9	0.8	13.45	0.8	12.67	0.5	0.4	16.87	0.4	14.66
Petronet LNG	16.5	16.7	-0.93	16.5	0.55	1.8	2.1	-14.96	1.9	-4.94	1.0	1.2	-10.52	1.1	-2.16
Gujarat State Petronet	1.2	1.0	24.36	1.2	-0.74	1.0	0.8	26.52	1.1	-4.78	0.3	0.2	74.43	0.3	-13.05

Source: Company

Higher volumes and better petrochemical realizations lead to growth in sales

Out of the whole universe of oil and gas companies, gas transmission companies enjoy the most stable business environment due to utility nature of the business, huge unmet demand for gas in the country, good visibility on gas supply front, and the fact that these companies simply pass through any increase in input costs.

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Net sales for the companies in our universe grew by 25% Y-o-Y and 5.5% sequentially to Rs 84.3 bn. Out of the whole universe, GAIL posted strongest growth because of good realizations on LPG and petrochemical business.

Operating margins remain flat sequentially

Operating profit margins for the quarter were flat sequentially, but rose by 320 bps on Y-o-Y basis to 22.5%. Maximum expansion in margins was witnessed by GAIL on account of high margins in petrochemical business. EBITDA for the companies stood at Rs 18.9 bn up 45.9% Y-o-Y and 3.7% sequentially. Lower growth on sequential basis is due to flat sequential margins.

Bottom line shows stable growth

In line with EBITDA, PAT for the companies grew 59% Y-o-Y and 10.8% sequentially to Rs 12.4 bn. PAT grew at a higher rate as compared to EBITDA because of better utilization of existing infrastructure which lead to stable depreciation charges, and lower leverage, which lead to low interest expense in this kind of tight credit conditions.

Sector Outlook

We expect gas transmission companies to continue posting steady growth over next 3-4 years.

India is a gas starved nation with demand for natural gas far exceeding supply. Lot of power and fertilizer plants are currently stranded for lack of any gas supply. However, the scenario is expected to change dramatically over next few years with commencement of production from Reliance Industries' KG-D6 field. In addition to this field, few other fields in basins of Mahanadi and KG are also expected to commence operations over the next few years, which will lead to increase gas volumes and better utilization of existing infrastructure of companies. We expect gas transmission companies to continue posting steady growth over next 3-4 years.

Upstream Companies

Company	Net Sales (INRb)					EBITDA (INRb)					Adjusted PAT (INRb)				
	Q2FY09	Q2FY08	YoY (%)	Q1FY09	QoQ (%)	Q2FY09	Q2FY08	YoY (%)	Q1FY09	QoQ (%)	Q2FY09	Q2FY08	YoY (%)	Q1FY09	QoQ (%)
O N G C	175.0	154.1	13.53	200.5	-12.7	85.1	84.2	1.07	117.6	-27.6	48.1	51.0	-5.7	65.9	-27.1
Hind.Oil Exploration	0.3	0.3	-1.19	0.2	47.6	0.2	0.2	-14.16	0.1	103.7	0.2	0.1	197.1	0.2	34.8
Selan Expl. Tech	0.4	0.1	326.80	0.4	5.8	0.3	0.1	470.30	0.3	6.7	0.2	0.03	578.3	0.2	29.8
Cairn	3.2	2.7	20.62	4.0	-20.5	2.2	1.1	92.13	2.3	-4.1	2.2	0.4	439.1	1.2	80.1

Source: Company

Indian upstream sector is dominated by ONGC because of its sheer size of operations and the aggregated numbers of companies under coverage are influenced by ONGC results on account of the insignificant contribution of other companies. However, the situation will change during next 1-2 years with start of production from Cairn's Rajasthan fields and listing of OIL. Subsidy sharing is one major difference between the public and private sector companies in the sector. While public sector companies like ONGC and OIL have to share subsidy burden with oil marketing companies, private sector companies are free to charge market rates for their production of oil and gas.

High oil prices fail to translate into robust topline growth

Top line for the companies in our universe increased by 13.8% Y-o-Y to Rs 179 bn, and declined by 12.8% sequentially. Sequential decline is due to increased subsidy burden on ONGC.

High subsidy burden leads to flat operating profits

Excluding ONGC, operating profits of Hindustan oil exploration and Selan Exploration witnessed smart jump, on the back of higher crude oil prices.

Operating profits for the sector were up 2.5% Y-o-Y and down 27% sequentially, again due to high subsidy and consequent lower net realizations for ONGC. Excluding ONGC, operating profits of Hindustan oil exploration and Selan Exploration witnessed smart jump, on the back of higher crude oil prices. Cairn India is still in investment phase of its major field, and as a result, the current numbers are not reflecting its future earning potential.

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Net profits of the sector declined by 24.8% Y-o-Y mainly on account of huge weight of ONGC, which suffered due to lower net realizations on crude oil.

Sector Outlook

ONGC continues to depend on government policies for profitability, and in the absence of other major listed players, sector results continue to reflect that of ONGC fundamentals. However, going forward, with commencement of production from Rajasthan fields and listing of OIL, we expect the situation to change. Cairn India, after starting peak production, will realize market based prices for its crude oil (in Q2 FY09, Cairn realized $116 per barrel of crude as compared to $47 epr barrel for ONGC) , and will be a true reflector of the sector fundamentals.

Valuation matrix

Company	Net Sales		EBITDA %		PAT		EPS		PE(x)		CMP	Target Price	Comment
(Rs. Mn)	FY09E	FY10E	FY09E	FY10E	FY09E	FY10E	FY09E	FY10E	FY09E	FY10E	Rs	Rs	
Aban Offshore	42,305	56,190	62.9	66.6	10,107	19,026	256.50	488.85	3.05	1.60	783	2650	Buy
Garware Offshore	1,499	2,332	58.8	58.3	406	717	17.04	30.11	5.05	2.86	86	188	Buy
Great Offshore	9,412	13,079	44.6	43.5	1,864	2,445	46.19	61.83	5.41	4.04	250	536	Buy
GAIL	233,532	289,300	21.3	18.5	33,265	34,577	26.22	27.26	7.32	7.04	192	241	Buy
Petronet LNG	74,979	127,792	11.1	9.1	4,386	5,730	5.85	7.64	5.55	4.25	32.45	57	Buy
O N G C	1,165,327	1,147,548	42.1	45.4	240,787	257,015	110.63	118.96	5.90	5.49	653	805	Buy
B P C L	1,402,716	1,265,010	2.3	1.6	13,732	6,012	37.99	16.63	8.32	19.00	316	355	Hold
H P C L	1,325,755	1,182,429	1.5	1.4	4,942	4,465	14.58	13.17	15.70	17.39	229	250	Hold
Chennai Petroleum	372,003	317,212	5.6	5.5	10,504	7,388	70.49	49.59	1.65	2.34	116	175	Buy

Source: Reliance Money Research

Q2FY09 Review

Pharmaceuticals

Indian Pharma: Forex overdose

Indian Pharma sector experienced the bitter taste of higher forex exposure both in terms of export earnings and loan exposure (predominantly the FCCBs) during Q2FY09. In fact, the sector saw about 20% revenue growth driven by continued strong momentum in the export earnings coupled with weakening Rupee (Re) against Dollar ($). On the other hand, the domestic business witnessed slight moderation in sales growth.

On the margin front, the sector performance remained subdued primarily due to the sharp rise in material costs.

On the margin front, the sector performance remained subdued primarily due to the sharp rise in material costs led by plant shut downs in China before Olympic. Also, hedging losses arising from forward contracts partly impacted the operating profitability of the sector.

Further, higher financial cost led by global financial crisis and notional forex loss arising out of outstanding FCCBs of many industry players, have dragged down the overall profitability of the sector and reported negative growth during the quarter. In fact, the wild fluctuation in Re/$ ratio (which depreciated by about 9% during the quarter) emerged as the prime culprit for the negative profit growth for the sector during the quarter.

	Net Sales (INRm)					EBITDA Margin (%)					Adjusted PAT (INRm)				
Company	**Q2FY09**	**Q2FY08**	**YoY (%)**	**Q1FY09**	**QoQ (%)**	**Q2FY09**	**Q2FY08**	**YoY (bps)**	**Q1FY09**	**QoQ (bps)**	**Q2FY09**	**Q2FY08**	**YoY (%)**	**Q1FY09**	**QoQ (%)**
Sun Pharmaceuticals	11,778	6,679	76.3%	10,418	13.1%	45.7	32.8	1284	51.6	-596	5,128	2,186	134.6%	5,015	2.3%
Cipla	13,025	10,379	25.5%	12,071	7.9%	12.2	17.7	-549	16.2	-400	1,514	1,906	-20.6%	1,400	8.1%
Ranbaxy Labs	18,532	17,730	4.5%	19,286	-3.9%	7.8	16.0	-820	16.9	-914	(3,529)	2,074	-270.2%	229	-1641.2%
GSK Pharma	4,570	4,208	8.6%	4,169	9.6%	75.2	75.3	-7	74.1	111	1,320	2,490	-47.0%	1,149	14.9%
Glenmark Pharma	5,597	3,749	49.3%	4,608	21.5%	30.1	31.6	-153	30.6	-54	1,174	751	56.2%	1,154	1.7%
Divi's Laboratories	3,331	2,425	37.3%	2,636	26.4%	48.2	43.3	490	40.8	743	1,354	910	48.8%	943	43.5%
Dr. Reddy's Lab.	15,759	12,557	25.5%	14,813	6.4%	12.6	14.1	-147	13.2	-59	866	1,106	-21.7%	920	-5.8%
Lupin	7,527	7,143	5.4%	7,124	5.7%	20.8	21.7	-94	19.3	146	1,319	1,181	11.7%	1,085	21.6%
Nicholas Piramal	8,843	7,558	17.0%	7,083	24.8%	20.7	17.1	353	16.9	378	734	848	-13.4%	681	7.8%
Cadila Healthcare	7,379	5,968	23.6%	6,857	7.6%	20.3	19.9	34	19.4	80	949	801	18.4%	897	5.8%
Jubliant Organosys	9,405	6,184	52.1%	8,266	13.8%	18.8	18.5	34	20.1	-121	(627)	1,101	-157.0%	128	-591.5%
Biocon	4,423	2,790	58.5%	2,639	67.6%	16.6	28.8	-1221	21.8	-520	250	540	-53.6%	150	66.8%
Aventis Pharma	2,479	2,264	9.5%	2,622	-5.5%	19.3	19.7	-38	24.4	-509	446	368	21.2%	418	6.7%
Pfizer	1,877	1,757	6.8%	1,634	14.8%	21.0	24.5	-343	22.6	-154	381	308	23.5%	379	0.4%
Dishman Pharma	2,556	1,836	39.2%	2,359	8.4%	20.9	20.5	37	28.1	-721	28	282	-90.1%	277	-90.0%
Torrent Pharma	3,912	3,343	17.0%	3,805	2.8%	13.7	9.9	378	15.2	-152	483	262	84.3%	493	-2.1%
Wockhardt	9,235	7,381	25.1%	9,350	-1.2%	22.8	24.5	-168	24.7	-186	622	1,083	-42.6%	1,063	-41.5%
IPCA Laboratories	3,446	2,814	22.5%	2,951	16.8%	23.3	18.5	483	20.2	307	365	454	-19.6%	236	54.5%
Panacea Biotech	1,469	1,751	-16.1%	2,320	-36.7%	15.6	30.7	-1507	24.9	-928	(441)	321	-237.3%	341	-229.4%
Orchid Chemicals	3,569	2,951	20.9%	3,099	15.2%	28.1	35.2	-713	22.2	592	(407)	633	-164.3%	(338)	20.1%
Aurobindo Pharma	7,010	6,284	11.6%	6,797	3.1%	16.6	14.9	175	16.3	30	(384)	621	-161.9%	164	-334.3%
Alembic	3,481	3,071	13.3%	2,293	51.8%	17.0	19.9	-292	9.7	730	150	456	-67.0%	(47)	-420.0%
Elder Pharma	1,511	1,323	14.2%	1,467	3.0%	17.3	19.4	-211	19.3	-207	151	173	-12.7%	175	-14.1%
Indoco Remedies	786	844	-6.9%	1,095	-28.2%	8.3	19.7	-1138	25.8	-1748	22	109	-80.0%	246	-91.2%
Total	**151,498**	**122,988**	**23.2%**	**139,762**	**8.4%**	**21.6**	**22.3**	**-76**	**23.3**	**-174**	**11,867**	**20,961**	**-43.4%**	**17,157**	**-30.8%**

Source: Reliance Money Research

Formulation exports drive growth; domestic growth moderated

In Q2FY09, the Indian formulation exports maintained its growth momentum delivering over 30% growth, which was the prime force behind the Indian pharma growth. The formulations export was mainly driven by increasing new launches (including Para-IVs), otherwise the persistent pricing pressure across the globe dents the realisations.

The Indian Pharma delivered about 20% growth in Q2FY09.

On the other hand, the domestic formulations witnessed slight moderation in sales growth to about 9% in Q2FY09 from about 12-13% growth in the recent previous quarters. Given the fact, Indian Pharma delivered about 20% growth in Q2FY09. The quarter experienced two surprising revenue performances, viz – Sun Pharma reported 76% jump in revenues as the company generated incremental revenue of about $70-80mn from Para IV launches (largely Protonix and some Ethyol). On the other hand, Ranbaxy reported flat sales, as the company faced import ban from USFDA that resulted revenue loss worth $59mn during the quarter.

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The sharp rise in material costs led by plant shut downs in China before Olympics.

Subdued OPM due to higher material cost

On the margin front, the sector performance remained subdued primarily due to the sharp rise in material costs led by plant shut downs in China before Olympics. Also, hedging loss arising from forward contracts has partly impacted the operating profitability of the sector. Ranbaxy suffered a hedging loss worth Rs 900mn during the quarter. However, with completion of Olympics the material prices are normalising in recent times, the positive impact of which will follow in the subsequent quarters.

Currency fluctuation: the key concern

The quarter under discussion observed over 9% depreciation of Rupee against Dollar, which emerged as the key concern for the Indian Pharma as many industry peers either holds FCCBs or foreign currency loan or both in their books. To be specific, Ranbaxy suffered a translation loss worth Rs 3099mn during the quarter, followed by Rs 1742mn by Jubilant Organosys and Rs 1045mn by Cipla.

	Forex (Loss)/Gain		
Company	**Q2FY09**	**Q2FY08**	**Q1FY09**
Cipla	(1,045)	200	(747)
Ranbaxy Labs	(3,117)	487	(1,931)
Glenmark Pharmaceuticals	(222)	34	1
Dr. Reddy's Lab.	(300)	260	150
Nicholas Priramal	(408)	35	(41)
Cadila Healthcare	(114)	10	(132)
Jubliant Organosys	(1,742)	278	(1,076)
Biocon	(255)	-	(345)
Dishman Pharma	(310)	101	(165)
Wockhardt	(553)	93	(104)
IPCA Laboratories	(236)	158	(175)
Panacea Biotech	(420)	39	(218)
Orchid Chemicals	(816)	198	(588)
Aurobindo Pharma	(1,051)	226	(537)
Alembic	(225)	(1)	(105)
Total	**(10,513)**	**1,857**	**(6,161)**

Company	FCCB Outstanding	Due on
Ranbaxy Labs	$440mn	Mar-11
Glenmark Pharmaceuticals	$100mn	Jan-11
Jubliant Organosys	$200mn	May-11
Wockhardt	$110mn	Oct-09
Orchid Chemicals	$193mn	Feb-12
Aurobindo Pharma	$260mn	May-11

Amidst the ongoing financial crisis, the funding cost across sector has increased by over 200bps during the quarter in Q2FY09 over previous quarters. This has added to the forex woes for the sector during the quarter. Given the fact, the profitability of the sector saw negative growth.

The Indian CRAMS sector reported over 37% growth in revenues during Q2FY09.

CRAMS maintains robust growth

The Indian CRAMS sector (mostly represented by – Divis, Jubilant Organosys, Piramal Healthcare, Biocon and Dishman Pharma), maintained the consistent growth and reported over 37% growth in revenues during Q2FY09. The growth was driven by addition of new clients as well as the capacity expansion.

But the operating margin remained flat despite higher material cost, as the companies could improve their capacity utilsation during the quarter. Subsequently, the wild fluctuation in currency resulting in forex loss concluded the overall profitability of the

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CRAMS segment with a negative growth. Divis was the only exception in the CRAMS space, as it reported 37% revenue growth coupled with 490bps expansion in operating margin and a impressive 49% jump in the net profit during the quarter.

Outlook: Challenging scenario going ahead

Indian Pharma delivered a subdued performance in Q2FY09 primarily due to currency fluctuation and increasing financial burden caused by global financial crisis. Also the continuing pricing pressure worldwide and moderating domestic growth kept the sector unhealthy.

We foresee Indian pharma to maintain its formulation export led growth story despite the continuing pricing pressure in advanced markets like US, Europe etc.

Going ahead, we foresee Indian pharma to maintain its formulation export led growth story despite the continuing pricing pressure in advanced markets like US, Europe etc. Domestic formulations is likely deliver better result in H2FY09, as second half has traditionally been a better period for domestic operation. On the other hand, CRAMS would continue its secular growth story, given the urgency amongst global innovator to outsource for reducing cost pressure.

OPM is likely to see some improvement as the prices of input materials have started stabilising subsequent to the Olympics. Despite all these positives, we expect challenging scenario for Indian pharma owing to uncertain currency fluctuation and higher financial burden led by global financial crisis. Thus, we remain negative for the sector in the medium term.

Valuation matrix

Company	Net Sales		EBITDA %		PAT		EPS		PE(x)		CMP	Target Price	Comment
(Rs Mn)	FY09E	FY10E	FY09E	FY10E	FY09E	FY10E	FY09E	FY10E	FY09E	FY10E	Rs	Rs	
Divi's Laboratories	13802.4	16150.9	43.0	43.2	5121.1	5984.4	79.3	92.7	13.8	11.8	1187	1391	BUY
Jubliant Organosys	36327.1	45464.6	19.2	20.1	3378.6	5639.4	22.8	31.7	7.3	5.2	160	181	HOLD
Elder Pharma	6546.6	7663.2	20.3	20.9	843.9	1068.2	45.4	57.4	6.1	4.8	250	287	HOLD
Dishman Pharma	10342.2	12518.7	22.5	23.4	1365.1	1830.8	17.0	22.8	8.3	6.2	154	185	BUY
Orchid Chemicals	14823.9	17095.8	24.8	25.6	-508.4	1625.8	-7.2	22.9	-16.0	5.0	87	92	HOLD
Indoco Remedies	4036.9	4762.7	18.2	19.3	512.6	658.2	41.7	53.6	3.7	2.9	134	150	HOLD
Biocon	14414.2	17796.7	22.9	22.1	2361.0	2781.7	11.8	13.9	10.4	8.8	101	97	REDUCE
Piramal Healthcare	34111.3	39085.9	19.1	20.0	4184.2	5246.7	19.9	25.0	12.2	9.7	207	200	REDUCE

Source: Reliance Money Research

Q2FY09 Review

Power Utilities

Company	Net Sales (INRm)					EBITDA (INRm)					Adjusted PAT (INRm)				
	Q2FY09	Q2FY08	YoY (%)	Q1FY09	QoQ (%)	Q2FY09	Q2FY08	YoY (%)	Q1FY09	QoQ (%)	Q2FY09	Q2FY08	YoY (%)	Q1FY09	QoQ (%)
NTPC	100911	80,169.0	25.9	95,394.7	5.8	29772.8	27490.0	8.3	24217.8	22.9	21105.1	19255.0	9.6	17265.3	22.2
Tata Power	19588.8	13,505.6	45.0	20,261.3	(3.3)	2646.7	2703.1	(2.1)	3438.0	(23.0)	2619.3	2574.3	1.7	1905.5	37.5
Guj Ind and power	2906.6	1,925.3	51.0	2,624.5	10.7	553.2	532.9	3.8	554.5	(0.2)	248.4	210.6	17.9	224.9	10.4
Neyveli Lignite	6681.7	7,277.7	(8.2)	10,871.4	(38.5)	2139.9	2588.2	(17.3)	3503.2	(38.9)	1883.9	2326.5	(19.0)	4817.9	(60.9)
JP Hydro	1082.9	1,184.0	(8.5)	950.7	13.9	1027.1	1129.9	(9.1)	893.2	15.0	668.5	769.8	(13.2)	546.0	22.4
Torrent power	11295.4	9,108.9	24.0	11,133.5	1.5	2056.2	1350.2	52.3	1412.3	45.6	1075.1	655.1	64.1	538.4	99.7
CESC	7640	7,510.0	1.7	7,830.0	(2.4)	1960.0	1570.0	24.8	1220.0	60.7	1240.0	930.0	33.3	940.0	31.9
Reliance Infra	24,732.3	15,417.3	60.4	21,981.1	12.5	2771.9	1813.0	52.9	-242.3	1244.0	2889.7	2500.8	15.6	2525.4	14.4
PTC India	20,312.6	14,672.1	38.4	12,031.0	68.8	140.2	97.9	43.2	57.9	142.1	327.4	114.1	186.9	188.9	73.3
Powergrid	15,752.1	10,387.2	51.6	12,940.3	21.7	13368.9	8576.5	55.9	10675.5	25.2	4029.9	3712.2	8.6	3062.0	31.6
Total	**210903.4**	**161157.1**	**30.9**	**196018.5**	**7.6**	**56436.9**	**47851.7**	**17.9**	**45730.1**	**23.4**	**36087.3**	**33048.4**	**9.2**	**32014.3**	**12.7**

Source: Reliance Money Research

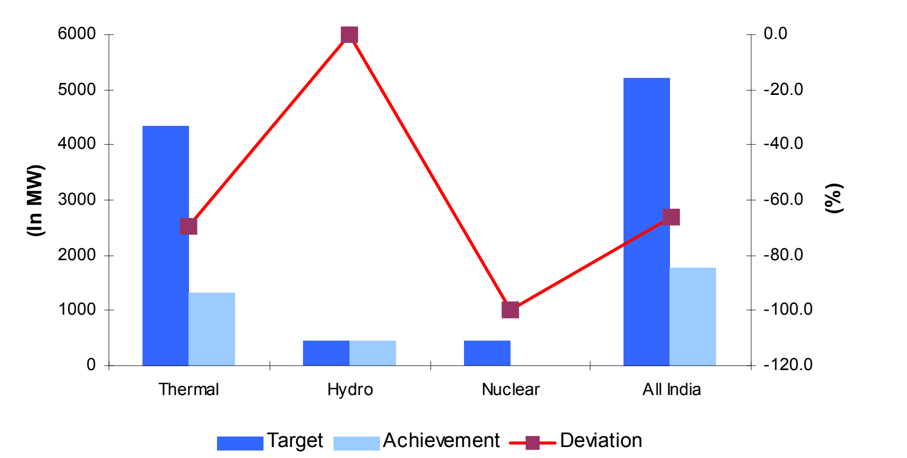
11th plan targets far off from sight

As on September 2008, the total installed power generation capacity of India is 145555 MW. The total generation capacity addition till now for 11th five year plan (FY07-12) has been 13226MW, which is way behind the target capacity addition of 78700 MW during the period. The generation capacity addition achievement during April-Sept 2008 was 1758.8 MW (16% of the targeted capacity during the period). During April-Sept 2008 the country generated electricity to the tune of 359025.8 MUs with power deficit situation deteriorated to 15.4% during peak hours. With the increasing demand for the energy in the future, India needs to gear up the capacity addition plan substantially. During the 11th Plan, NTPC targets to add 22430 MW. The company has already commissioned 2,990 MW capacity, the capacity under construction is 15,680MW, while the balance 3,760 MW is at the bidding stage.

During April-Sept 2008 the country generated electricity to the tune of 359025.8 MUs with power deficit situation deteriorated to 15.4% during peak hours.

India's Power Transmission Plan focuses on the creation of a 'National Grid' in a phased manner by adding over 60,000 km of Transmission Network by 2012. The integrated grid is envisaged to evacuate additional 1,00,000 MW by the year 2012 and carry 60% of the power generated in the country. The existing inter-regional power transfer capacity is 9,000 MW, which is to be further enhanced to 30,000 MW by 2012 through creation of "Transmission Super Highways". Powergrid have planned to enhance the inter-regional power transmission capacity of the National Grid to more than 37,000 MW by the year 2012. The investment programme of the powergrid for XI plan period is about Rs. 55,000 Crore. For the year 2008-09 the company is planning an investment of ~Rs. 8000 core.

GENERATION CAPACITY ADDITION FOR APRIL'08-SEPT.' 08



Source: CEA

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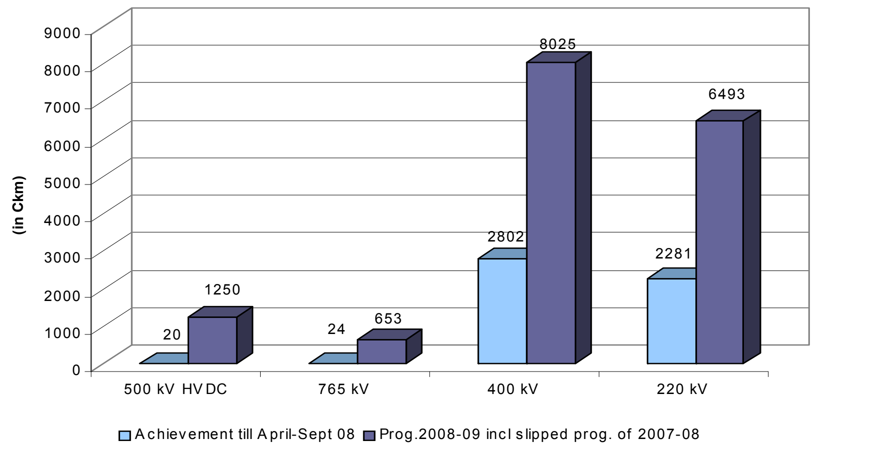
Transmission Lines (Programme & Achievement)



Source: CEA

According to latest report released by CEA, around 50 thermal power stations having critical coal stock of less than 7 days.

Fuel supply: Key concern

The fuel security to the generating units posses a key risk for the power generating sector. This non-availability compels the companies in the industry to purchase expensive imported coal which too is reducing. According to latest report released by CEA, around 50 thermal power stations having critical coal stock of less than 7 days. The supply of gas to the gas based power stations remains inadequate which in turn leading to loss in generation.

Regulatory change

Recently CERC has released draft regulations for rationalization of tariff terms for generation and transmission. Salient features of the proposed terms and conditions of tariff are summarized below:

- Tariff fixation procedure simplified. Provision for provisional tariff done away with.
- Benchmarking of capital cost for thermal and transmission projects.
- Post tax ROE of 14% retained.
- Norms of operation have been tightened.
- Beneficiaries not to take burden of payment of tax on the income on UI earnings and incentives.
- Depreciation rationalized avoiding front loading of tariff.
- Inducement to hedge foreign exchange risk exposure to the extent possible.
- O&M norms factored to inflation and reasonable compensation for pay hike for employees.
- Incentive payment has been linked to plant availability as against the existing practice of payment of incentive based on plant load fact (PLF).

The proposed changes will make tariff norms more stringent but will encourage the utilities to become more efficient in its operations.

Growth momentum maintained:

The power utilities companies reported net sales growth of 31% YoY in Q2FY09 and 7.6% on a sequential basis, mainly due to constant demand scenario. But due to fuel supply shortages companies like Neyveli Lignite and Tata power seen topline slowing down during the quarter. Gujarat Industries and Power reported highest growth of 51% YoY among the power generating companies.

The timely execution of the scheduled projects and fuel supply remains the key concern for the sector.

The operating too grew by 7.6% YoY and 18% QoQ. The pass through of fuel cost helped the utilities to maintain margins during the period. The net profit for the quarter grew by 23.4% YoY and 9.2% QoQ basis.

Sector Outlook

Operating margins of the utilities companies are likely to see some improvements in coming quarters on the back of cooling down of input material prices. The timely execution of the scheduled projects and fuel supply remains the key concern for the sector.

Q2FY09 Review

Real Estate

Challenging times in short term, focus on execution rather than land acquisition

Company	Net Sales (INRm)					EBITDA (INRm)					Adjusted PAT (INRm)				
	Q2FY09	Q2FY08	YoY (%)	Q1FY09	QoQ (%)	Q2FY09	Q2FY08	YoY (%)	Q1FY09	QoQ (%)	Q2FY09	Q2FY08	YoY (%)	Q1FY09	QoQ (%)
DLF	37444	32499	15%	38106	-2%	22170	22637	-2%	23445	-5%	19354	20186	-4%	18640	4%
Unitech	9831	10135	-3%	10317	-5%	6092	5071	20%	6084	0%	3589	4101	-12%	4233	-15%
HDIL	4776	4649	3%	5701	-16%	2705	2425	12%	4655	-42%	2657	2294	16%	3179	-16%
Akruti City Ltd	2532	1006	152%	2343	8%	2299	732	214%	2197	5%	1922	651	195%	1708	13%
Omaxe Ltd	2040	7037	-71%	3503	-42%	379	2398	-84%	949	-60%	204	1604	-87%	567	-64%
Puravankara Projects	1394	1576	-12%	1410	-1%	471	589	-20%	578	-19%	505	619	-18%	602	-16%
Sobha Developers	3002	3254	-8%	3468	-13%	936	825	13%	1016	-8%	490	562	-13%	505	-3%
Parsvnath Developers	2215	4045	-45%	3807	-42%	419	1576	-73%	1279	-67%	219	1028	-79%	740	-70%
Phoenix Mills	234	168	40%	207	13%	180	122	47%	156	16%	387	77	400%	110	251%
Peninsula Land	1105	1174	-6%	1239	-11%	515	614	-16%	409	26%	546	337	62%	313	75%

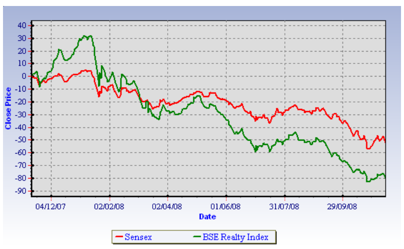
Source: Reliance Money Research

Banks Prime Lending Rates (PLR)

Bank	PLR (%)
SBI	13
BoB	13.25
BoI	13.25
Canara	13.25
OBC	13.25
Allahabad	13.25
Corporation	13.25
Dena	13.5
Central Bank	13.25
ICICI Bank	16.25
HDFC Bank	16
CITI Bank	15
AXIS Bank	15.75
Union Bank	13.5
J & K Bank	14.5
Vijaya bank	13.25

Source: Company

Index Movement



Source: Capitaline

Slowdown visible in Topline

Negative macro factors have taken a toll on the real estate sector. Except Akruti and Phoenix mills all the other companies reported negative growth in topline (QOQ) in the range of 2% to 16%. Companies in our universe reported negative growth of 1% and 8% on YoY and QoQ respectively. Lower volumes were realized by most of the developers because of increase in home loan rates and high price points. Companies like DLF launched mid income housing (lower margins) which received a positive response. Companies like Puravankara and Omaxe are planning to develop 64,500 and 10, 00,000 affordable house units in medium to long term.

Input cost pressure dents profitability

Higher input cost clearly impacted margins. Companies in our universe reported negative EBITDA growth of 11% on QoQ basis and 2% on YoY. Except Phoenix, Akruti and Peninsula all companies reported negative EBITDA growth QoQ. EBITDA Margins remained flat YoY and declined by 200 bps on QoQ.

Bottomline under pressure

The current low volumes, rising input cost and tight liquidity has lead to a decline in bottomline. Liquidity crunch in the global and domestic market impacted the sector adversely. Drying out of funds from all sources has lead to rise in cost of debt to 15% for most of the companies. Interest cost increased significantly by 123% from Rs. 1295 mn in Q2FY08 to Rs. 2889 mn in Q2FY09. With recent measure like reducing CRR, Repo rate, & SLR by government to reduce interest rates most of the banks has responded positively by reducing their PLR. PAT reported negative growth of 500 bps YoY and 200 bps QoQ. PAT margins for top two real estate i.e. DLF and Unitech declined 1000 bps and 400 bps YoY.

We beleive there is a close relationship between the economic growth and the prices of commercial (office) market and retail demand. Demographic factors determine the prices of housing segment though the interest rates in the economy also plays important role in price discovery of housing segment. The BSE real estate index has slipped by over 85% from its high of 13848 on 08th Jan 2008. Liquidity crunch in the economy has badly hit the sector in the last quarter. Fund flow from the primary

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market and private equity (PE) has dried out and therefore real estate companies are in need for more debt. Raising debt has become difficult due to global liquidity crunch in the international market and ECB restrictions. Banks continues to postpone leading decision, despite sanctioned limits to the sector. As per various media reports property prices have corrected in the range of 15% to 35% from its peak depending upon the location and region. Most of the developers which were confident of sales picking up in the diwali festival season were wide of the mark.

Sector Outlook

Most of the developers are now focusing towards Lower Income Group (LIG) and Middle Income Group (MIG) housing segment (Affordable housing).

Drying up of volumes, liquidity issues along with rising input cost is a curse to real estate companies. Inspite of these issues developers are not ready to reduce the list price. However indirect reduction in prices through discounts and freebies are part of the transaction. Real estate companies are taking several cost cutting measures to improve their margins in the face of the global economic turmoil. Most of the developers are now focusing towards Lower Income Group (LIG) and Middle Income Group (MIG) housing segment (Affordable housing). Also the focus has shifted from accumulating land to execution of current projects. Most of the developers are keeping away from launching of new projects. Malls rental rates are also expected to rationalize. In commercial space focus has shifted from IT/ITES commercial development segment to non IT/ITES commercial development as slowdown is expected in the sector. It's time for the developers to recalibrate and reprice their products. On the other side buyers are in "Wait & Watch Policy" and are in no hurry to entry any transaction. We expect Q3FY09 will be tough ride for real estate sector. Decreasing commodity prices and interest rates will help the sector get rid of dark clouds in medium to long term. However atleast for the next 12 - 18 months, real estate companies are likely to face rough weather

Q2FY09 Review

Shipbuilding

Order book remains strong

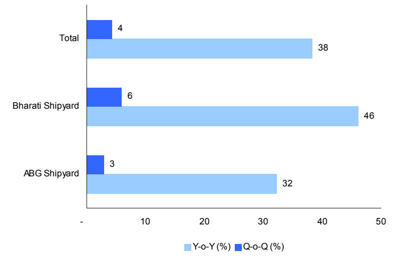
	Net Sales (INRm)					EBITDA (INRm)					Adjusted PAT (INRm)				
Company	Q2FY09	Q2FY08	YoY (%)	Q1FY09	QoQ (%)	Q2FY09	Q2FY08	YoY (%)	Q1FY09	QoQ (%)	Q2FY09	Q2FY08	YoY (%)	Q1FY09	QoQ (%)
ABG Shipyard	2,803	2,118	32.29	2,722	2.95	842	644	30.68	768	9.52	261	341	(23.56)	470	(44.55)
Bharati Shipyard	2,354	1,612	46.07	2,223	5.89	636	446	42.45	566	12.33	332	258	28.78	297	11.72
Total	5,157	3,730	38.25	4,945	4.27	1,477	1,090	35.50	1,334	10.71	592	599	(1.05)	767	(22.77)

Source: Reliance Money Research

Top line grows by 38% y-o-y

The net revenue of shipbuilding companies grew by 38% y-o-y to Rs.5.1bn compared to Rs.3.7bn. Bharati Shipyard grew by 46% y-o-y while ABG Shipyard reported growth of 32% during the quarter. ABG's growth was lower compared to Bharati Shipyard mainly due to lower subsidies booked during the quarter. Subsidy income during the quarter reported decline of 15% y-o-y to Rs.274mn compared to Rs.324mn. Excluding subsidy income, shipbuilding companies reported net revenue growth of 43% y-o-y to Rs.4.9bn compared to Rs.3.4bn.

Net Revenue Growth Q2FY09

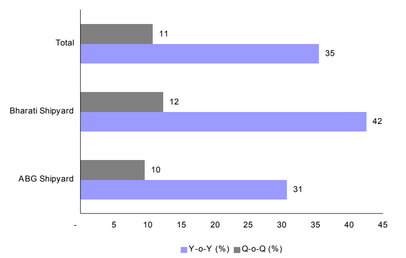


Source: Reliance Money Research

Order book swells to ~Rs.162bn

The total order book of ABG Shipyard and Bharati Shipyard jumped to a whopping ~Rs.162bn compared to ~Rs.120bn in Q2FY08. ABG Shipyard currently has order book of Rs.114bn while Bharati Shipyard has order book of Rs.48bn. Recently ABG bagged an order for 2 rigs from Essar Oilfields Services Ltd for $480mn. The order book of ABG Shipyard and Bharati Shipyard were up by 43% y-o-y and 18% y-o-y. The companies remained confident about the future inflows of the order book. None of the companies have yet received the cancellation of order book request from any of the customers.

EBITDA growth Q2FY09

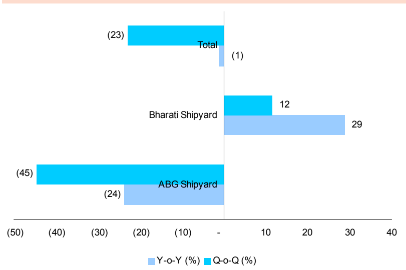


Source: Reliance Money Research

EBITDA margins down marginally by 58bps y-o-y

EBITDA margins of shipbuilding companies came down marginally by 58bps y-o-y to 28.7% in Q2FY09 compared to 29.2% in Q2FY08. Higher raw material costs and lower subsidy booking impacted EBITDA margins during the quarter. EBITDA during Q2FY09 went up by 36% y-o-y to Rs.1.5bn as against Rs.1.1bn in Q2FY08. EBITDA margins excluding subsidy went up by 215bps y-o-y to 24.6% as against 22.5% in Q2FY08 and EBITDA excluding subsidy income grew impressively by 57% y-o-y to Rs.1.2bn.

Net profit growth Q2FY09



Source: Reliance Money Research

Net profit declines marginally by 1% y-o-y

Net profit of shipbuilding companies during the quarter went down by 1% y-o-y and 23% on q-o-q basis. ABG Shipyard reported net profit drop of 24% y-o-y during the quarter to Rs.261mn and Bharati Shipyard reported increase of 29% y-o-y in net profit to Rs.332mn. Net profit of ABG Shipyard were down mainly due to steep rise in interest cost by 234% y-o-y to Rs.363mn as against Rs.109mn in corresponding quarter last year. The steep rise in interest cost was on account of inventory purchased for jack up drilling rigs for which the company has not booked any revenue during the period. Excluding this interest cost the companies profit before tax would have gone up by 16% y-o-y to Rs.602mn.

Impact of global slowdown is likely

Indian shipbuilding industry is ~1% of the total global shipbuilding industry. Global ship carrier companies have been looking at emerging shipbuilding markets like India mainly because of its proven engineering skill sets, low cost of manufacturing and timely delivery of vessels. But due to expected global slowdown the concerns of slowdown in order inflow to shipbuilding companies have risen. We believe Indian shipbuilding companies would also get impacted due to expected global slowdown and new order inflow is likely to come down in the short to medium term.

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Sector Outlook

Indian shipbuilding companies have huge order book position to support it and in pessimistic scenario, if any of the order books gets cancelled, these companies would report decent growth in coming years.

Indian Shipbuilding companies are currently sitting on strong order book of Rs.162bn which is ~10x of FY08 revenue. The strong order book offers strong revenue visibility for medium term outlook of Indian shipbuilding companies. ABG shipyard's order book stands at Rs.114bn which is 16x of FY08 revenue. Although there is rising concern of lower order inflow due to global economy slowdown, Indian shipbuilding companies have huge order book position to support it and in pessimistic scenario, if any of the order books gets cancelled, these companies would report decent growth in coming years.

Reliance Money Stock Rating

Rating	Stock Performance
BUY	Appreciate more than 15% in next 12 months
HOLD	Appreciate upto 15% in next 12 months
REDUCE	Depreciate upto 10% in next 12 months
SELL	Depreciate More than 10% in next 12 months

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