



19 November 2010

India Equity Strategy

Sep Q review: Strong earnings season

Robust earnings season with Sensex posting 26% yoy PAT growth

Sep-qtr turned out to be a robust earnings season with Sensex stocks posting impressive yoy growth of 21%/30%/26% for revenue/EBITDA/PAT, driven by Tata Motors, HDFC, BHEL, L&T, Tata Steel and Reliance Industries, among others. On a free-float basis the corresponding yoy growth numbers were even more impressive at 20%/33%/39%. Overall Sensex numbers were slightly above (1%-2%) both Deutsche Bank and consensus estimates and positive surprises outnumbered negative surprises by a ratio of ~2:1 at both revenue and PAT levels.

Metals, Auto and Cap Goods led both on PAT growth and positive surprises

As expected, we witnessed strong growth momentum in: (i) Metals (driven primarily by Tata Steel, which saw a swing from loss to profits, helped by better-than-anticipated realization of blended saleable steel in Europe and higher revenues from carbon credits), (ii) Autos - PAT up 88% yoy (mainly due to a strong performance from Tata Motors, with Chinese demand driving strength in global luxury cars and tight cost management leading to 773% yoy PAT growth), and (iii) Cap Goods - PAT up 34% yoy (both L&T and BHEL posted PAT growth of >30%; L&T benefited from the safety of diversification as L&T-IDPL and the urban infrastructure segment offset the slowdown in other infra segments, while BHEL witnessed robust order book growth of 61% yoy). We also note that these three sectors occupied the top rungs in terms of positive surprises with PAT for Auto/Metals/Cap Goods respectively coming in 24%/14%/13% higher than DBE, led by M&M (PAT+49% above DBE), Tata Steel (+36%) and Tata Motors (+29%).

Cement, Telecom lag while govt compensation props up Oil PSUs' PAT

In line with DBE, Cement posted the highest negative PAT growth of -63% yoy. ACC could not even meet our conservative estimates due to lower realization (-12% qoq) and higher clinker purchase and input cost inflation, which drove PAT down by 68% yoy. Telecom also posted negative PAT growth of -26% yoy, albeit better than DBE of -32%. This was mainly due to lower interest cost for RComm while Bharti's operational results were in line. Outside the Sensex, the biggest surprise was in Oil PSUs, which witnessed significantly higher PAT than DBE as volatile government compensation for under-recoveries turned favorable for IOC, HPCL and BPCL. Unexpected government compensation for Oil PSUs pushed PAT growth for the Deutsche Bank universe to 44% yoy, while ex-oil PAT growth came in at a more reasonable 25% yoy.

Earnings raises dominate; reiterating Dec'10 Sensex target of 22,000

During the Sep-qtr season earnings raises outpaced earnings cuts. Key raises were Ranbaxy Lab (+279%), Bharat Forge (+41%), Tata Motors (+18%), Can Bank (+27%), IDFC (+8%) and TCS (+6%). Earnings cuts were mostly within -10%. Key cuts were ICICI Bank (-8%), Cipla (-8%) and RIL (-7%). We remain sanguine on the earning trajectory and assign a low likelihood to material earnings downgrades. We reiterate our Sensex target of 22,000 and believe that the current global macro induced weakness offers a buying opportunity.

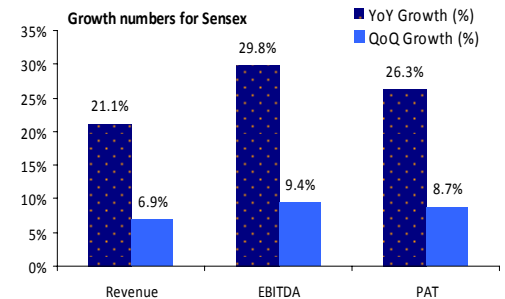
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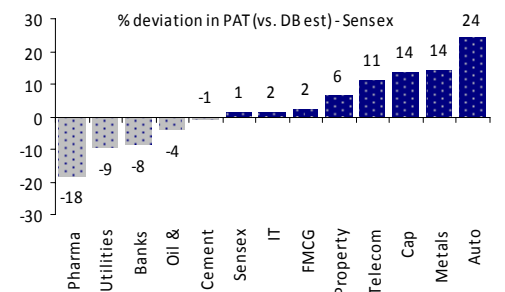
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Growth for Sensex stocks



% deviation vs. DB est at PAT level - Sensex

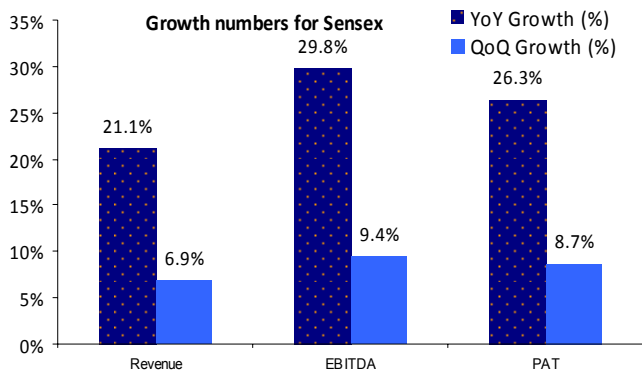


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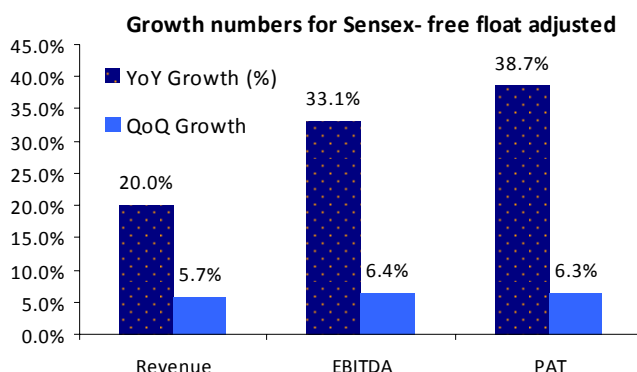
Sep-qtr analysis for Sensex stocks

Figure 1: Growth numbers for Sensex



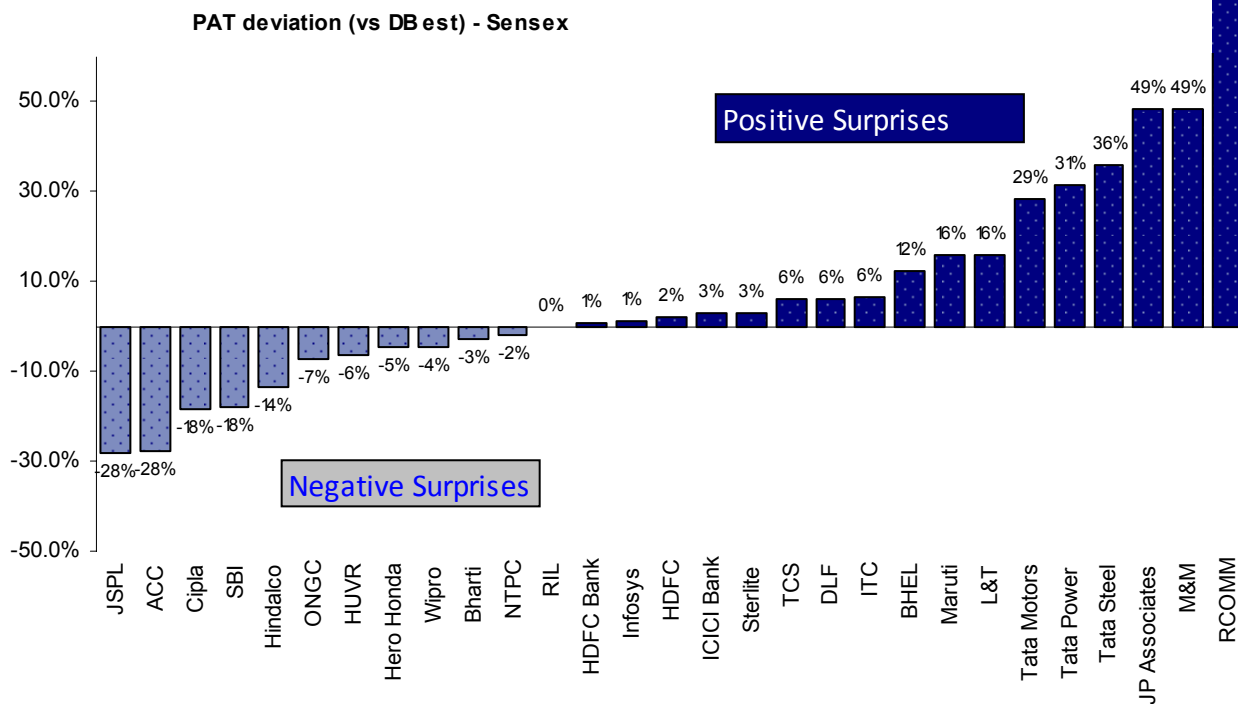
Source: Deutsche Bank

Figure 2: Growth for Sensex stocks (free float wtd.)



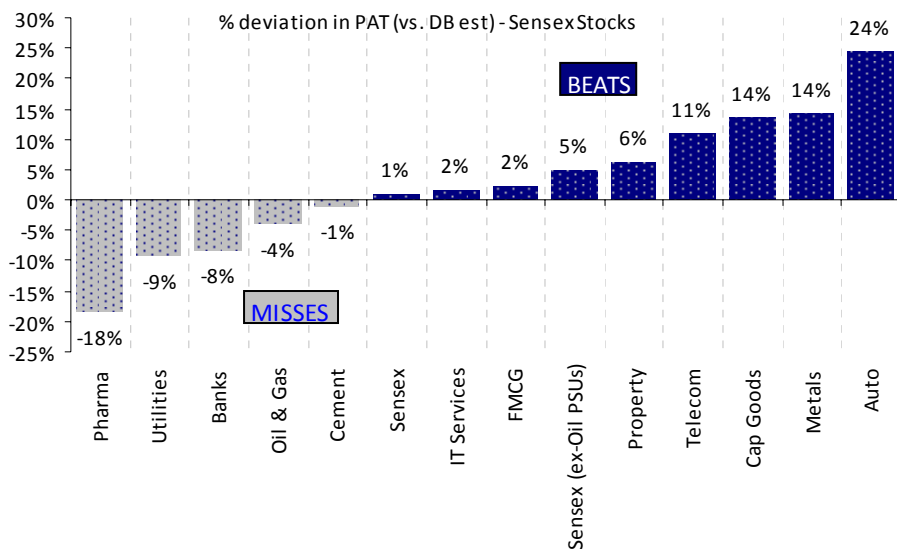
Source: Deutsche Bank

Figure 3: Stock-wise deviation at PAT level (vs. DBe) – Sensex stocks



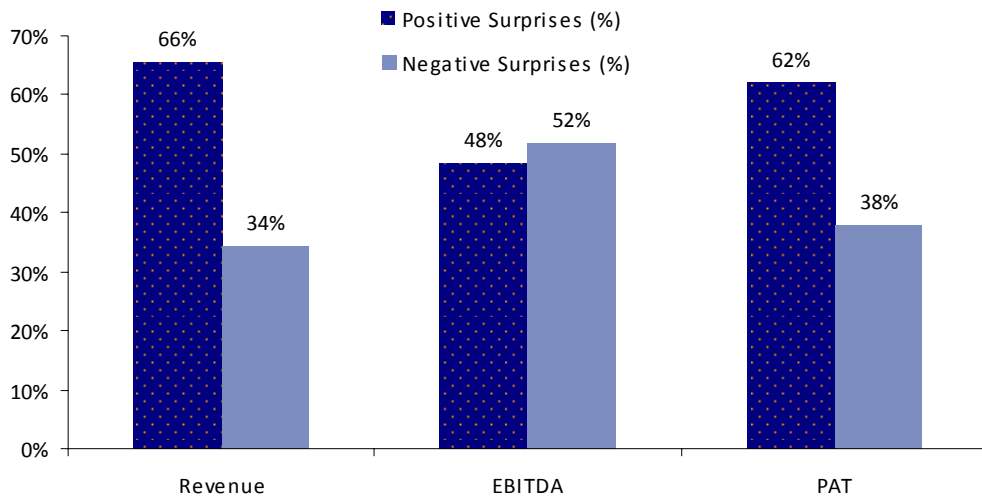
Source: Deutsche Bank, Bloomberg Finance LP; We have taken consensus estimates for stocks without DB estimates

Figure 4: Sector-wise deviation at PAT level (vs DBe) - Sensex



Source: Deutsche Bank

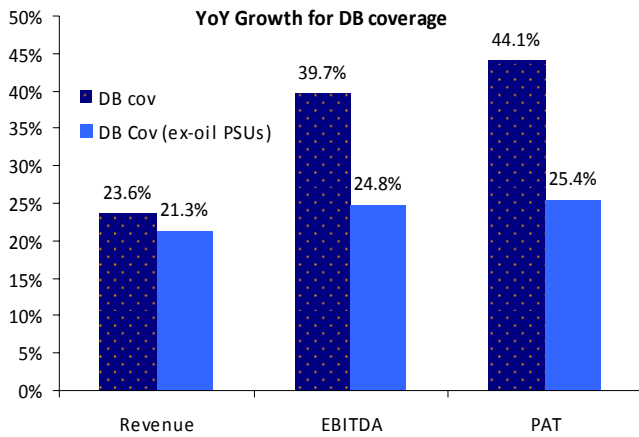
Figure 5: Beats to miss ratio - Sensex



Source: Deutsche Bank

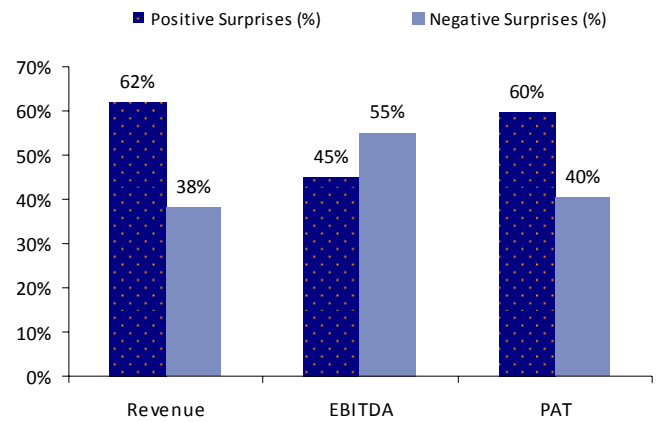
Sept-quarter analysis for DB coverage

Figure 6: YoY growth for DB coverage



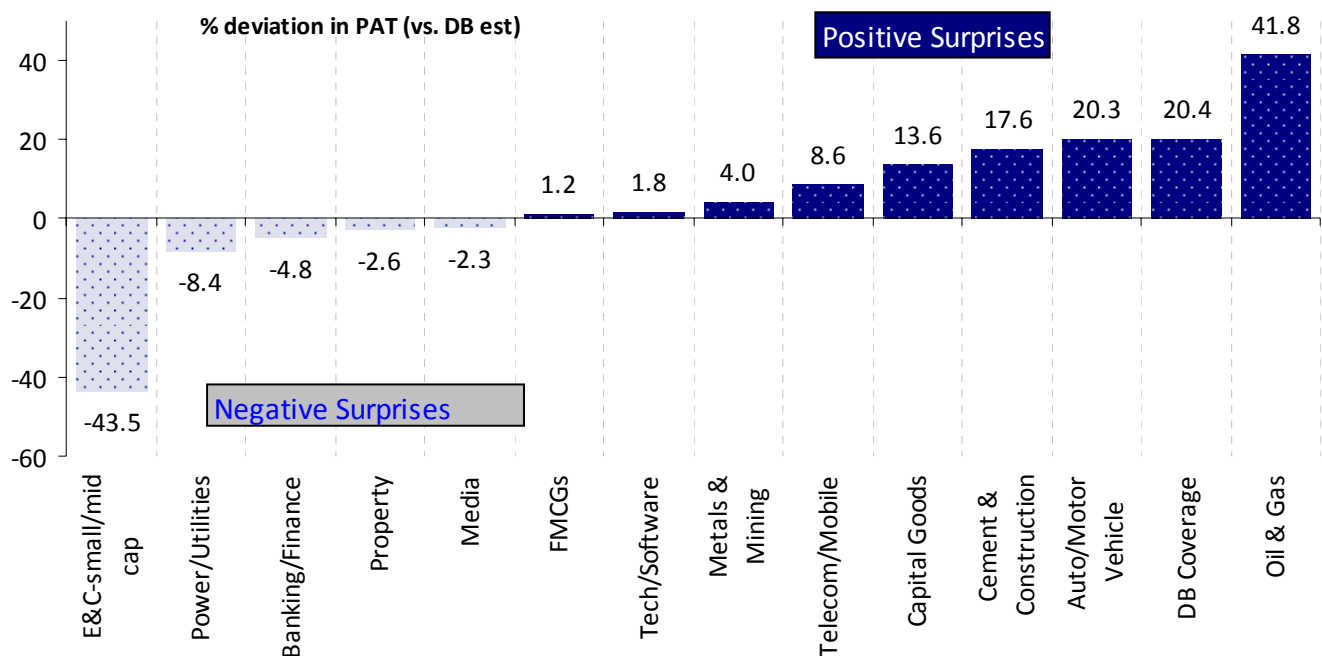
Source: Deutsche Bank

Figure 7: Beats to miss ratio – DB coverage



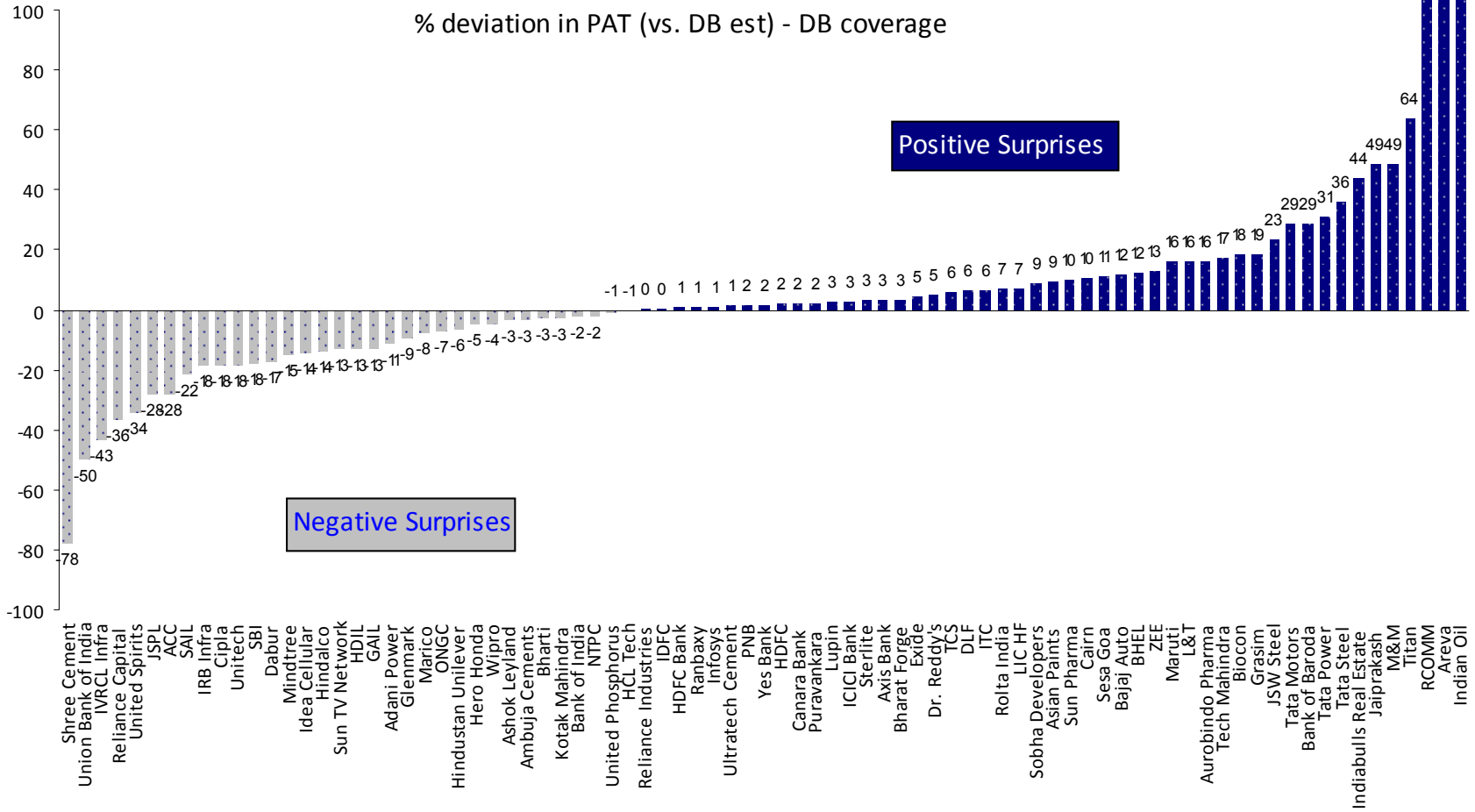
Source: Deutsche Bank

Figure 8: Sector-wise deviation at PAT level (vs DB est) - DB coverage



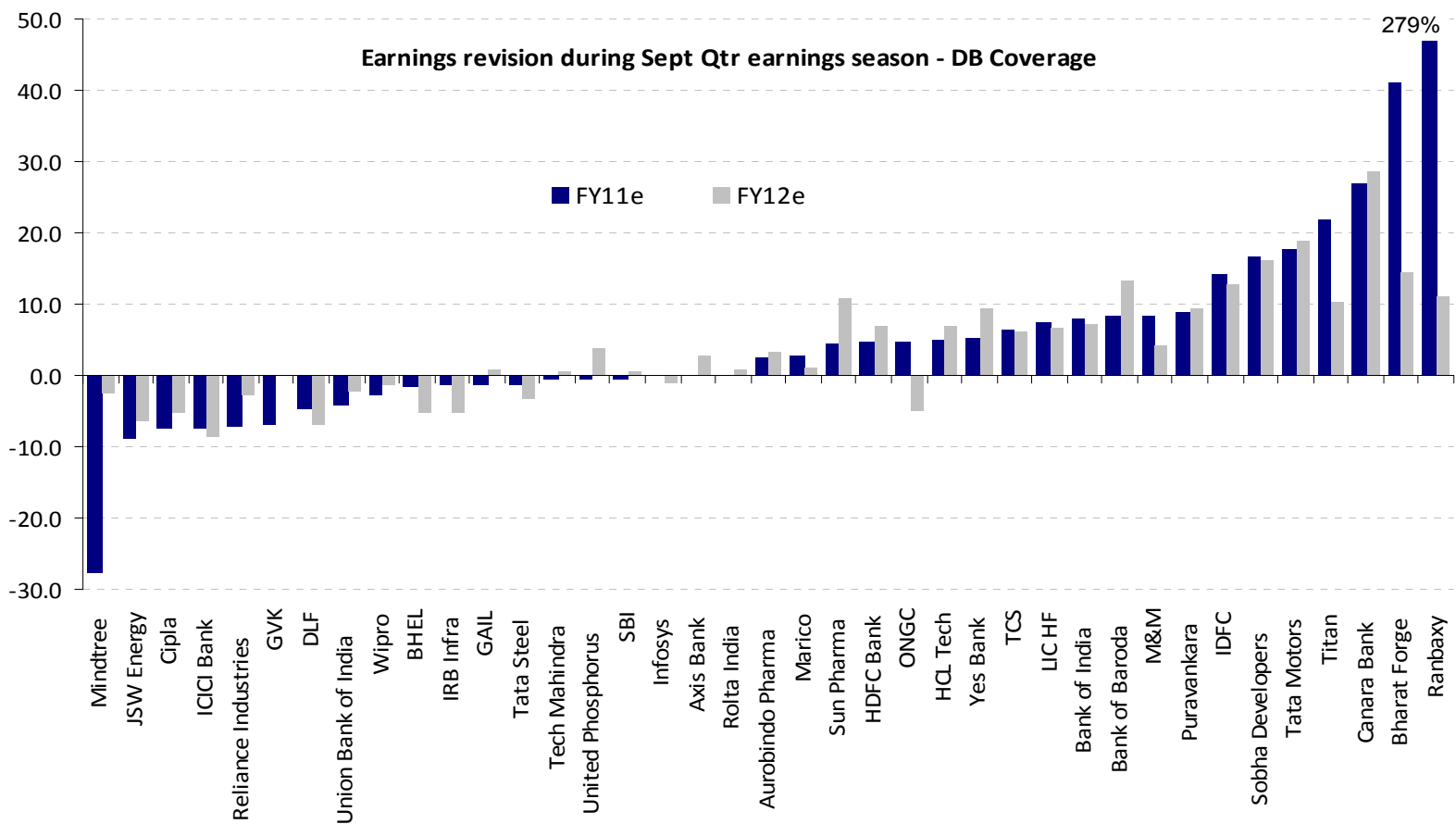
Source: Deutsche Bank

Figure 9: Stock-wise deviation at PAT level (vs. DBe) – DB coverage



Source: Deutsche Bank; In case of Sensex stocks we have used consensus estimates where DB estimates were not available

Figure 10: Earnings revisions during the Sept-Qtr earnings season – DB coverage



Source: Deutsche Bank;

Appendix 1

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Notes:

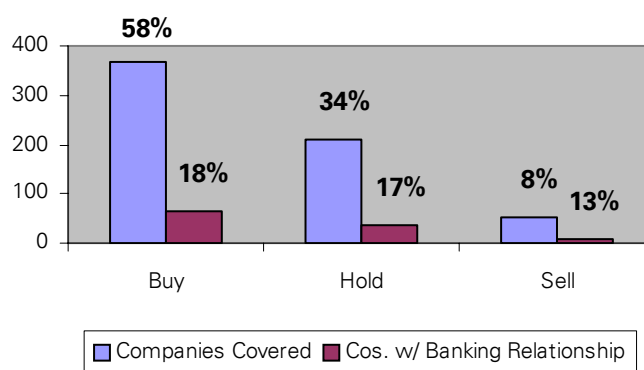
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Asia-Pacific Universe

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