



Industry Performance FY - Q3, 2011 - 12



Indian Economy Overview

The December quarter results announced by companies show a relatively moderate performance. A total of 360 companies from manufacturing and financial sectors have announced their results. They've reported a 20.7 per cent rise in revenue and 22 per cent growth in net profit.

With the favorable base effect wearing off and margin pressures creeping in, the profit growth is likely to be around 20 per cent. During the quarter-ended December 2011, the corporate sector had reported net profit growth of a little over 30 per cent.

The World's Biggest Gold Reserves

Operating margins are up five basis points on a yearly basis, as the total expenditure to sales ratio has remained unchanged over the year. The cost of raw materials, which rose at a slower pace of 18.1 per cent compared to sales growth of 19.6 per cent, helped manufacturers show a small growth in operating margins.

More than half, or 183 companies, outperformed the sample by reporting net profit growth of 25 per cent. The net profit of as many as 61 companies more than doubled, 96 posted profit growth in the range of 25-100 per cent and 26 saw a turnaround.

A sector-wise analysis suggests moderate growth in earnings in sectors such as information technology, auto ancillaries and banks. Automobiles and pharmaceuticals are expected to do well, but cement, steel and telecom may see a sharp decline in profit.

Reliance Industries' earnings from refining and petrochemicals continued to improve, with its refining throughput of 16.1 mt much better than expectations. According to research, at \$9/bbl, the gross refining margin was marginally lower than the estimate of \$9.25/bbl. Integrated polyester margins, at \$1,200/mt, were the highest in the decade. According to research crude oil production from the Krishna-Godavari (KG) block was down 21 per cent quarter-on-quarter. Also, lack of clarity on raising the gas output from the KG-D6 field beyond 60 mscmd will limit future earnings. At Rs 959, the stock has been down three per cent since the results, despite a buy call from analysts.

Possible solutions to high food inflation

ICICI Bank reported a 12.3 per cent rise in net interest income, after considering its merger with Bank of Rajasthan. After the merger, it was up just eight per cent. The bank's net interest margins (NIMs) remained stable at 2.6 per cent. Its third quarter performance was built on the good work done in the previous quarters. The consolidated profit growth of 77.5 per cent was on the back of a change in the accounting policy in the life insurance business. The stock was up after the

results, but fell three per cent to Rs 1,038 after the monetary policy review.

Punjab National Bank reported an eight per cent increase in net profit, four per cent lower than the market estimate. NIMs of 4.13 per cent were on the back of a higher increase in yield on advances due to an increase of 100 basis points (bps) in the base rate and 75 bps in BPLR during the quarter. The slippages of Rs 1,000 crore were high, resulting in higher provisions.

State Bank of India's profits were up 14 per cent. Qualitatively, it was a strong quarter, with a 17-bps rise in NIMs, high proportion of low-cost deposits and a 22 per cent increase in lending. NIMs were up 18 bps to 3.61 per cent.

Banking sector analysts indicate that SBI's net profit increase of 14 per cent was due to inadequate provisions for dual rate housing loans. A Reserve Bank of India (RBI) circular required the bank to provide a cover on two per cent of the Rs 30,000 crore of teaser home loans during the quarter. The management believes the bank's special home loan product does not come under the circular's purview. Going ahead, the bank has to provide Rs 140 crore for gratuity, Rs 540 crore for higher standard provisioning on special home loan products and pension provisions. SBI's stock has corrected significantly in the past three months due to macro concerns and apprehensions about its asset quality and NIMs.

IITC's net revenues were up 19 per cent, primarily driven by cigarettes, other fast moving consumer goods (FMCG) and the agro business. Operating margins were a flat 33.6 per cent. FMCG losses continued to decline despite new launches. The performance of hotels was disappointing, as the Commonwealth Games impacted the October results. According to an analyst, the company is entering a phase of high free cash flow of around Rs 20/share over 2010-2013. With no increase in capex plans, an increase in the dividend payout ratio is likely.

BHEL reported strong revenue growth, aided by one-offs of about Rs 440 crore due to revision of the revenue recognition methodology. This led to an increase of Rs 88 crore in profit before tax and Rs 60 crore in net profit, according to analysts. Operating margins were up 250 bps due to various cost-control measures, but this may not sustain in the face of higher commodity prices. During the last rally in commodity prices, BHEL's margins were affected the most among peers, though with a lag.

Bajaj Auto did well in the third quarter, beating analysts' estimates by around seven per cent. The company has been on the growth path for the last three quarters and has been maintaining margins of over 20 per cent. The stock has underperformed the Sensex in recent days, possibly due to the seasonally weak volumes in November and December.

YoY Change	Sector	Dec-11		Dec-10		YoY %-Change	
		Net Sales (Rs m)	PAT (Rs m)	Net Sales (Rs m)	PAT (Rs m)	Net Sales (%)	PAT (%)
	Airlines	64,573	(6,906)	59,634	42	8.30%	-16542.90%
	Automobiles	480,944	27,894	428,203	30,761	12.30%	-9.30%
	Banking	1,369,795	169,949	1,022,158	155,318	34.00%	9.40%
	Cement	158,624	17,566	123,398	10,262	28.50%	71.20%
	Energy	3,708,384	303,326	2,762,725	186,432	34.20%	62.70%
	Engineering	605,942	39,167	537,553	45,883	12.70%	-14.60%
	Hotels	12,478	421	11,696	1,334	6.70%	-68.40%
	Power	318,593	43,548	265,713	37,448	19.90%	16.30%
	Real estate / Construction	236,724	9,013	214,576	17,252	10.30%	-47.80%
	Software	472,338	81,850	371,510	72,668	27.10%	12.60%
	Steel	708,231	32,995	612,161	44,639	15.70%	-26.10%
	Telecom	310,179	3,416	271,080	13,244	14.40%	-74.20%
	Textiles	208,029	13,639	176,825	14,217	17.60%	-4.10%

QoQ Change	Sector	Dec-11		June-11		QoQ %-Change	
		Net Sales (Rs m)	PAT (Rs m)	Net Sales (Rs m)	PAT (Rs m)	Net Sales (%)	PAT (%)
	Airlines	64,573	(6,906)	54,232	(5,030)	19%	37%
	Automobiles	480,944	27,894	389,897	23,164	23%	20%
	Banking	1,369,795	169,949	1,185,401	132,696	16%	28%
	Cement	158,624	17,566	138,457	17,745	15%	-1%
	Energy	3,708,384	303,326	2,320,711	103,669	60%	193%
	Engineering	605,942	39,167	487,791	33,161	24%	18%
	Hotels	12,478	421	6,357	113	96%	273%
	Power	318,593	43,548	285,729	41,639	12%	5%
	Real estate / Construction	236,724	9,013	132,350	6,636	79%	36%
	Software	472,338	81,850	191,866	27,059	146%	202%
	Steel	708,231	32,995	378,859	63,909	87%	-48%
	Telecom	310,179	3,416	279,511	5,631	11%	-39%
	Textiles	208,029	13,639	159,215	10,008	31%	36%



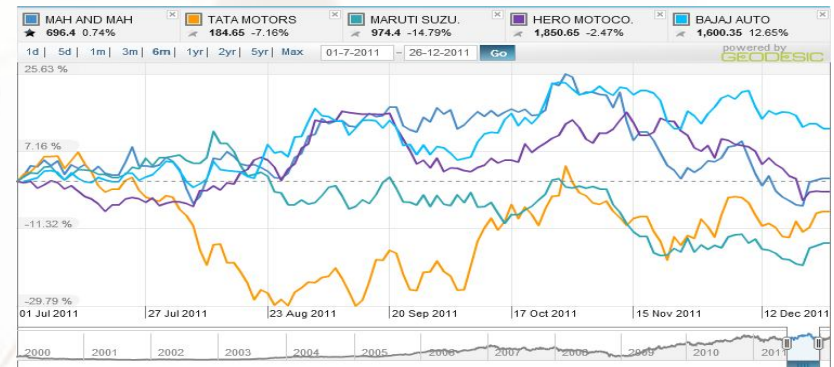
Automobiles

The Indian automobile segment can be divided into several segments viz. two-wheelers (motorcycles, geared and ungeared scooters and mopeds), three wheelers, commercial vehicles (light, medium and heavy), passenger cars, utility vehicles (UVs) and tractors.

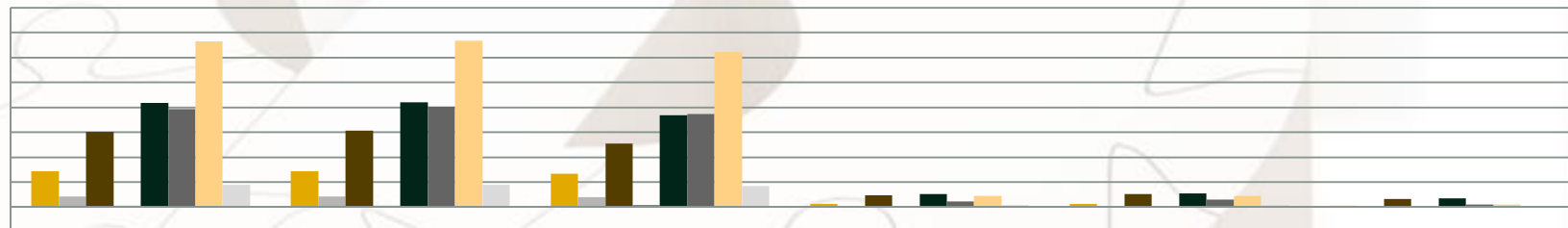
Demand is linked to economic growth and rise in income levels. Per capita penetration at around nine cars per thousand people is among the lowest in the world (including other developing economies like Pakistan in segments like cars). While the industry is highly capital intensive in nature in case of four-wheelers, capital intensity is a lot less for two-wheelers. Though three-wheelers and tractors have low barriers to entry in terms of technology, four wheelers is technology intensive. Costs involved in branding, distribution network and spare parts availability increase entry barriers. With the Indian market moving towards complying with global standards, capital expenditure will rise to take into account future safety regulations. As compared to their global counterparts, both the two-wheeler as well as four wheeler segments are relatively lesser fragmented. However, things are changing, especially on

the passenger cars front as many foreign majors are eyeing the Indian market. As a result, pricing power is likely to diminish going forward.

Automobile majors increase profitability by selling more units. As number of units sold increases, average cost of selling an incremental unit comes down. This is because the industry has a high fixed cost component. This is the key reason why operating efficiency through increased localization of components and maximizing output per employee is of significance.



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(In Rs. Cr.)



	Sales	Income	Expenses	Operating Profit	Gross Profit	Net Profit
AL	2,879.80	2,883.03	2,669.43	210.37	213.60	66.90
Escorts	829.77	829.77	796.39	33.38	33.38	10.86
Hero	6,031.45	6,107.73	5,088.46	942.99	1,019.27	613.03
Hindustan	100.49	100.94	135.14	(34.65)	(34.20)	(42.81)
M & M	8,386.81	8,427.61	7,365.97	1,020.84	1,061.64	662.15
Maruti	7,882.40	8,042.77	7,465.19	417.21	577.58	205.62
Tata	13,337.90	13,362.91	12,486.14	851.76	876.77	173.67
TVS	1,762.22	1,762.29	1,646.90	115.32	115.39	56.53





Banking

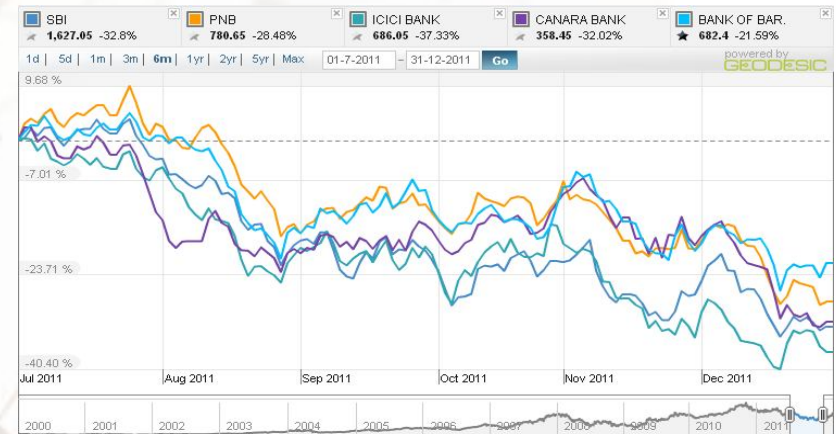
The global financial system is still far away from a full recovery on account of a slowdown in the US economy as well as the Euro debt crisis. However, the Indian banking sector has been relatively well shielded by the central bank and has managed to sail through most of the crisis with relative ease. But, with the economic buoyancy the world over showing signs of cooling off, the investment cycle has been wavering in the country.

Public sector banks have been proactive in their restructuring initiatives be it in technology implementation or pruning their loss assets. While the likes of SBI have made already attempts towards consolidation, others are keen to take off in that direction. Incremental provisioning made for asset slippages have safeguarded the banks from witnessing a sudden impact on their bottomlines.

Retail lending (especially mortgage financing) that formed a significant portion of the portfolio for most banks in the last two years lost some weightage on the banks' portfolios due to their risk weightage. However, on the liabilities side, with better penetration in the semi urban and rural areas, banks garnered a higher proportion of low cost deposits thereby economising on the cost of funds. However, the RBI recently deregulated the savings account deposit rate. However only a few smaller private sector banks have increased

their rates while the others have maintained status quo.

Apart from streamlining their processes through technology initiatives such as ATMs, telephone banking, online banking and web based products, banks also resorted to cross selling of financial products such as credit cards, mutual funds and insurance policies to augment their fee based income. They are also looking at various financial inclusion initiatives in order to spread the use of financial services among India's large unbanked population.



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(In Rs. Cr.)

	Sales	Income	Expenses	Operating Profit	Gross Profit	Net Profit
■ BoB	7,671.99	8,821.32	2,033.39	5,638.60	6,787.93	1,289.85
■ BoI	7,150.12	8,002.27	1,880.88	5,269.24	6,121.39	716.15
■ Canara	7,812.08	8,591.15	1,622.06	6,190.02	6,969.09	875.56
■ HDFC	7,202.64	8,622.64	2,157.96	5,044.68	6,464.68	1,429.66
■ ICICI	8,591.87	10,483.73	2,257.88	6,333.99	8,225.85	1,728.10
■ IDBI	5,849.21	6,281.04	1,073.40	4,775.81	5,207.64	409.81
■ IOB	4,604.26	5,015.33	1,477.76	3,126.50	3,537.57	108.27
■ PNB	9,481.03	10,435.12	2,760.40	6,720.63	7,674.72	1,150.04
■ SBI	27,661.42	29,787.37	8,739.23	18,922.19	21,048.14	3,263.04
■ UBoI	5,374.71	5,966.82	2,061.54	3,313.17	3,905.28	197.00



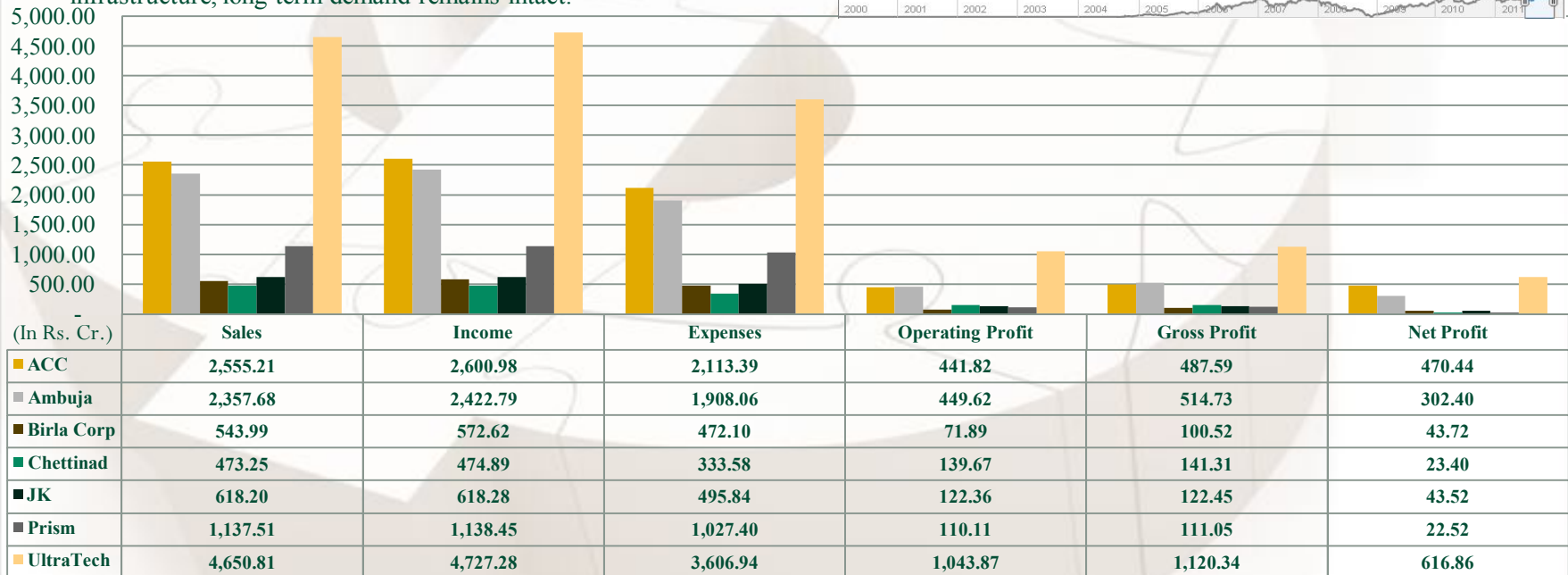
Cement

The Indian cement industry is the 2nd largest market after China. It had a total capacity of about 300 m tonnes (MT) as of financial year ended 2010-11. Consolidation has taken place with the top three players alone controlling almost 35% of the capacity. However, the balance capacity still remains quite fragmented.

Despite the fact that the Indian cement industry has grown at a commendable rate in the last decade, registering a growth of nearly 9% to 10%, the per capita consumption still remains substantially poor when compared with the world average. While China registered the highest per capita cement consumption in 2010 of about 1,380 kg, India stood much lower at 230 kg. This underlines the tremendous scope for growth in the Indian cement industry in the long term.

Cement, being a bulk commodity, is a freight intensive industry and transporting it over long distances can prove to be uneconomical. This has resulted in cement being largely a regional play with the industry divided into five main regions viz. north, south, west, east and the central region. With capacity addition taking place at a faster rate as compared to demand, prices have remained southbound, especially in the last one year. Nevertheless, considering the government's thrust on infrastructure, long term demand remains intact.

Given the high potential for growth, quite a few foreign transnational companies have displayed their interest in the Indian markets. Already, while companies like Lafarge, Heidelberg and Italcementi have made a couple of acquisitions, Holcim has increased its stake in domestic companies Ambuja Cements and ACC to gain full control. Considering the long term growth story, fair valuations, fragmented structure of the industry and low gearing, another wave of consolidation would not come as a surprise.





Energy

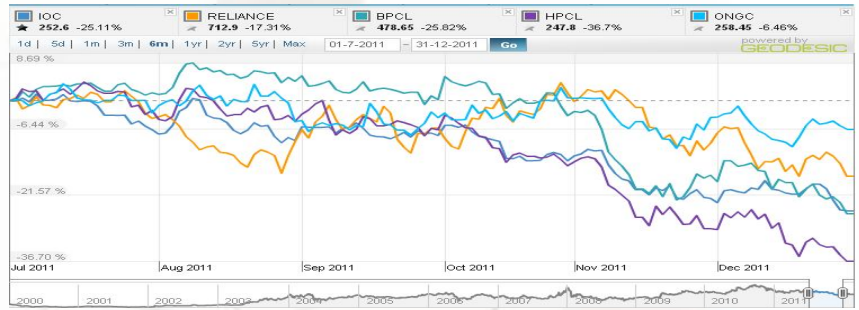
Energy value chain has 2 stages - upstream (exploration and production) and downstream (refining and marketing). Post extraction from reserves, crude oil is processed to yield various petroleum products, which are then marketed. The gas consuming sectors can be broadly classified into - Priority (power, fertilizers) and unregulated sectors (City gas distribution, industrials, refining etc.). The gas demand in India is met through either domestic supplies or imported gas (LNG). As per the Government mandate, the priority sector has the first claim over domestic gas which is less costly than the imported supplies (since it can't pass higher gas costs to the end consumer). Since demand overpowers supplies, the final off take of gas depends on available domestic supplies, regasification capacity and pipeline infrastructure etc.

The share of natural gas in serving India's energy needs is 10% versus 24% across the world. India has total reserves of 1,201 mmt of crude oil and 1,437 bcm of natural gas at the end of 2010. Around 80% of Oil and 20% of Gas is imported to serve consumption needs. While Petroleum is deregulated, the prices for diesel, kerosene and LPG are still fixed. As a result of this, the state run oil retailers incur under recovery losses. As of now, losses on account of under recoveries are shared amongst upstream oil companies, the Government and downstream for which there is no fixed formula.

The Indian basket of crude oil averaged around US\$ 85.09 per barrel, up 22% YoY. Inflation was a major issue on the domestic front. Global oil prices increased due to turmoil in Middle East and North Africa. The domestic crude processing in FY11 stood at 196.5 MMT, up 5.3% YoY. The domestic crude production came at 37.68 MMT, up 12.47% YoY. The natural gas production came at 52.22 BCM, up 9.9% YoY. Demand for petroleum products in India at 142 million tonnes was up 2.6% YoY. The crude import volumes at 163.13 MMT were up 2.4% YoY. The total

exports of finished products touched 56.35 MMT, up 10% YoY while imports stood at 17 MMT, up 16% YoY. The consumption was up for LPG, Aviation Turbine Fuel (ATF), Naphtha, and High Speed Diesel (HSD) that amounted to 74% of the consumption basket. The consumption for rest of the products like Superior Kerosene Oil (SKO), Bitumen, Lubes, Light Diesel Oil (LDO) and Fuel Oil (FO) etc. declined. The subsidized products (SKO-6%, HSD-42% and LPG-10%), constituted 58% of the total products consumption. The Indian refining capacity increased to 184.1 MMT, up 2.3% YoY.

In FY-11, Asian LNG prices remained linked to crude oil and spot prices in recent months touched \$10-12/MMBTU. The overall gas supply in the country has increased to 154 mmscmd, up 4.8% YoY. FY11 also saw developments on cross border pipeline (TAPI) project. Natural gas prices were revised to US\$ 2.52 per MMBTU for North East consumers and US\$ 4.2 per MMBTU for the rest. Also the non APM price of natural gas produced by national oil companies was revised upwards.



(In Rs. Cr.)

	Sales	Income	Expenses	Operating Profit	Gross Profit	Net Profit
■ BPCL	58,846.79	59,263.39	55,137.07	3,709.72	4,126.32	3,139.60
■ Castrol India	772.70	784.10	616.40	156.30	167.70	106.80
■ CHENNAI PETROLEUM	11,157.63	11,188.50	11,095.75	61.88	92.75	(63.41)
■ GAIL	11,294.15	11,315.50	9,499.27	1,794.88	1,816.23	1,091.42
■ HPCL	48,047.45	48,204.97	44,344.85	3,702.60	3,860.12	2,725.18
■ IOC	115,641.87	115,989.38	104,483.61	11,158.26	11,505.77	2,488.44
■ MRPL	12,966.84	12,975.04	12,649.14	317.70	325.90	109.75
■ Reliance Industries	85,135.00	86,852.00	77,850.00	7,285.00	9,002.00	4,440.00
■ ONGC	18,517.13	19,475.30	7,466.25	11,050.88	12,009.05	6,741.41
■ PETRONET LNG	6,330.26	6,346.66	5,827.01	503.25	519.65	295.38





Engineering

Engineering is a diverse industry with a number of segments. A company from this sector can be a power equipment manufacturer (like transformers and boilers), execution specialist or a niche player (like providing environment friendly solutions). It can be an electrical, non-electrical machinery and static equipment manufacturer too. Order book size determines the performance of the company in the short to medium-term. In order to bag big contracts, companies need to have a big balance sheet size and proven execution capabilities. They need huge working capital in order to execute bigger contracts, as initially they receive only part payment and the remaining comes as projects get executed.

Many tariffs that earlier offered protection to Indian capital goods manufacturers, have been removed or reduced. This coupled with the high cost of capital in India puts Indian manufacturers at a disadvantage against overseas competition. There have been numerous instances in the recent past where Chinese equipment manufacturers (especially in power generation) have snatched away orders from Indian companies due to the pricing advantage. Power sector contributes the largest to the engineering companies' revenues. For instance, as of the latest fiscal year end, ABB and BHEL derive roughly 53% and 79% of their revenues from supplying equipments to the power sector. And with the government planning to add large-scale generation capacities in view of the paucity of power in the country, the potential seems huge for the engineering majors in both generation and the transmission & distribution space. Infrastructure is another key area of

operation for major Indian engineering companies. L&T's order book at the end of FY11, for example, contained around 36% of orders from the infrastructure sector which includes activities like engineering, design and construction of industrial projects and social & physical projects like housing, hospitals, IT parks, expressways, bridges, ports, and water & effluent treatment projects.

The year gone by was disappointing one for the Indian engineering industry. Order inflows were weak due to delays in awarding projects, land acquisition problems and environmental issues. Even the operating margins came under pressure due to commodity price inflation. Thus, rising commodity prices and slowdown in order inflows proved to be a double whammy for the engineering companies. RBI's tight monetary policy slowed the industrial capex during the year. And with inflation reigning high we expect rate tightening to continue for the next few quarters. This on the contrary would further impact the momentum in industrial capex.



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(In Rs. Cr.)

	Sales	Income	Expenses	Operating Profit	Gross Profit	Net Profit
■ Bharat Electronics	1,447.34	1,589.23	1,318.44	128.90	270.80	174.65
■ BHEL	10,743.08	10,939.10	8,662.63	2,080.45	2,276.47	1,432.61
■ KEC International	1,142.45	1,196.20	1,060.86	81.59	135.34	71.30
■ L&T	13,998.58	14,447.29	12,655.47	1,343.11	1,791.82	991.55
■ Punj Lloyd	1,533.94	1,666.36	1,475.00	58.94	191.36	17.55
■ Siemens	2,396.87	2,396.87	2,273.73	123.14	123.14	70.72
■ Suzlon Energy	1,435.57	1,529.10	1,599.76	(164.19)	(70.66)	(314.57)
■ Thermax	1,269.23	1,285.00	1,133.91	135.32	151.09	95.49
■ Voltas	1,134.62	1,151.39	1,050.24	84.38	101.15	(116.11)
■ Welspun Corp	1,385.23	1,408.64	1,452.10	(66.87)	(43.46)	(92.82)





Hotels

After witnessing exceptionally bad years in FY09 and FY10 due to the global economic slowdown and terror attacks, the Indian hotel industry appears to be now on a path of slow recovery. Foreign tourist arrivals (FTAs) to India surged from 5.11 m in 2009 to 5.58 m in 2010, thereby resulting in an increase of 9.3% YoY.

India occupies the sixty-eighth position among the top tourist destinations in the world, according to the Travel and Tourism Competitiveness Report 2011. To encourage the tourism sector, the government in recent times, has taken some measures which will benefit the sector. In the general budget for 2011-12, Rs 11.7 bn for development of tourism infrastructure and promotion of tourism was allocated. This figure is higher by Rs 1.0 bn as compared what was allocated in the previous year. The Centre and States are also working out a PPP (Public-Private-Partnership) model to increase hotel capacity. Government of India increased spend on advertising campaigns (including for the campaigns 'Incredible India' and 'Athithi Devo Bhava' - Visitors are like God) to reinforce the rich variety of tourism in India. The ministry granted Tourist Visa on Arrival (T-VoA) for the citizens of Finland, Japan, Luxembourg, New Zealand and Singapore. It also promoted India as a safe tourist destination and undertook various measures, such as stepping up vigilance in key cities and at historically important tourist sites. The tourism ministry has envisaged a budgetary allocation of Rs 200 bn in the Twelfth Five Year Plan.

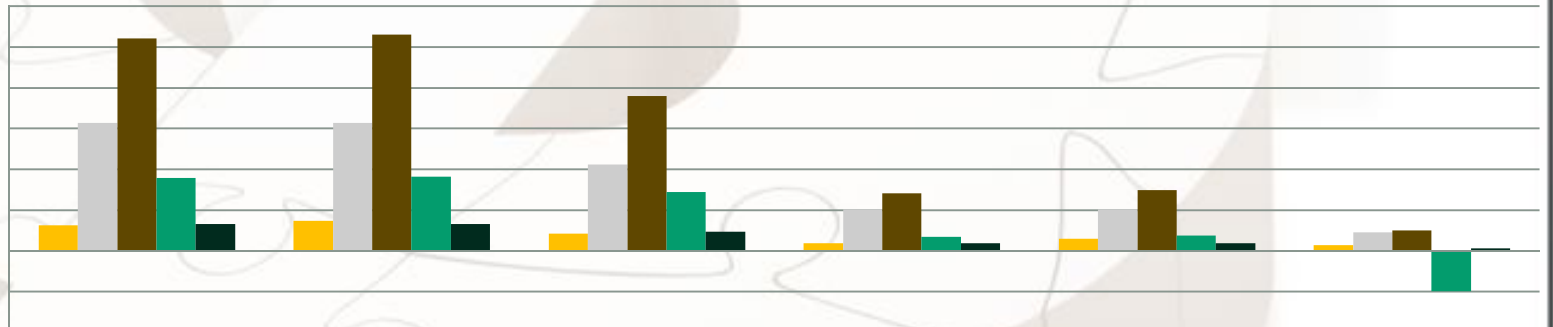
According to the latest Tourism Satellite Accounting (TSA) research, released by the World Travel and Tourism Council (WTTC), the demand for travel and tourism in India is expected to grow by 8.2 % between 2010 and 2019. This will place India at the third position in the world. India's travel and tourism sector is expected to be the second largest employer in the world. Capital investment in India's travel and tourism sector is expected to grow at 8.8 % between 2010 and 2019. The report forecasts India to get more capital investment in the travel and tourism sector and is projected to become the fifth fastest growing business travel destination from 2010 through 2020. Over the past few years, the hotel industry has witnessed a shift in the product mix

towards the budget and mid market hotels. Renowned hotel companies have launched brands (eg. Ginger by Indian Hotels (IHCL)) catering to the budget and mid-market customers, who were thus far being served by the unorganized sector.

The sector began the year FY11 on a positive note, continuing the trend witnessed in the second half of FY2010. Led by signs of economic recovery, demand from both foreign and domestic travellers continued to be strong. Rising tourist inflow and higher occupancy kept the hotel companies afloat after the slowdown. The foreign tourist arrivals were higher by 9.3% YoY in 2010. Existing hotel companies, new foreign players and real estate players continued with their expansion plans. However, ARR continued to remain subdued during 1HFY11, as new supply did impact room rentals across India. During 2HFY11, the industry started witnessing some improvements in ARRs, though in single digits, as the supply pressures negated the impact of improvement in demand and prevented any steep increases in room tariffs. Supply overhang in certain cities, increase in food and fuel costs and rising interest rates eroded the margins for the Indian hotel industry.



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	Sales	Income	Expenses	Operating Profit	Gross Profit	Net Profit
Asian Hotels (North)	61.76	72.84	42.75	19.01	30.09	13.55
EIH	313.84	314.58	212.23	101.61	102.35	45.25
IHC	521.48	530.07	380.68	140.80	149.39	50.48
Leela Venture	178.42	181.82	144.75	33.67	37.07	(99.65)
Taj GVK	66.32	66.32	47.37	18.95	18.95	6.10



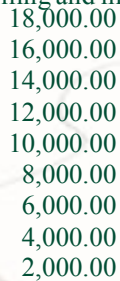
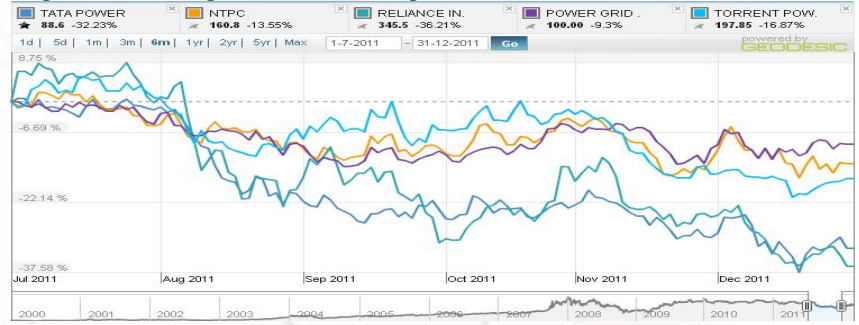


Power

With the coming of Electricity Act 2003, the power sector, which was highly regulated with lot of licensing requirements, was supposed to be in the throes of a long awaited change. But things are still happening very slowly on ground. The sector is facing serious delays in terms of capacity expansion. The Eleventh Five-Year Plan (2007-12) target of setting up 78,000 MW of new generation capacity has already been lowered by around 25%. And even the revised target seems unattainable given the current progress.

The key problems hindering the growth of the power sector are land, fuel, environment, and forest clearances. Even the government is finding it very difficult to get the required land for allotting to power projects. One of the key problems in getting land is Naxalism in the eastern and central states, where a large number of projects are being planned owing to abundance of fuel resources. Central institutions like NTPC and the State Electricity Boards (SEBs) continue to dominate the power sector in India. India has adopted a blend of thermal, hydel and nuclear sources with a view to increasing the availability of electricity. Thermal plants at present account for 65% (115,650 MW) of the total power generation capacity in India. This is followed by hydro-electricity (22% share; 37,367 MW). The rest comes from nuclear and wind energy. Average transmission and distribution losses (T&D) exceed 25% of total power generation compared to less than 15% for developing economies. The T&D losses are due to a variety of reasons, viz., substantial energy sold at low voltage, sparsely distributed loads over large rural areas, inadequate investment in distribution system, improper billing and high pilferage.

Total power generation stood at 811 bn units (BU) in FY11, as compared to 771 BU in FY10. This represented a growth of just around 5%, when the requirement is anywhere around 10-12% per annum. FY11 also witnessed peak shortage in availability of critical fuel coal which hampered capacity addition in the power sector. The average PLF in the Central Public Sector Undertakings and private sector companies was much higher than that achieved by the SEBs as a whole in FY11. Wide inter-state variations were noticed in the average PLF of thermal power plants with southern and northern zones having better performances. As far as T&D segments of the sector are concerned, there was little that actually happened in FY11. The country continues to reel under the pressure of higher T&D losses and with the government going very slow with the reforms process in these segments, the long-term sustainable growth of the sector seems doubtful.



(In Rs. Cr.)

	Sales	Income	Expenses	Operating Profit	Gross Profit	Net Profit
■ CESC	1,032.00	1,052.00	819.00	213.00	233.00	74.00
■ Neyveli Lignite Corp	1,045.99	1,181.28	818.47	227.52	362.81	184.94
■ NTPC	15,384.40	16,245.42	12,476.94	2,907.46	3,768.48	2,130.39
■ Power Grid	2,466.62	2,576.20	363.95	2,102.67	2,212.25	809.23
■ PTC India	1,330.02	1,334.28	1,309.05	20.97	25.22	9.52
■ Reliance Infra	4,477.73	4,626.56	3,827.92	649.81	798.64	415.82
■ Tata Power	2,251.86	2,662.34	1,776.72	475.14	885.62	422.88
■ Torrent Power	1,883.48	1,902.86	1,427.89	455.59	474.97	211.28





Real Estate / Construction

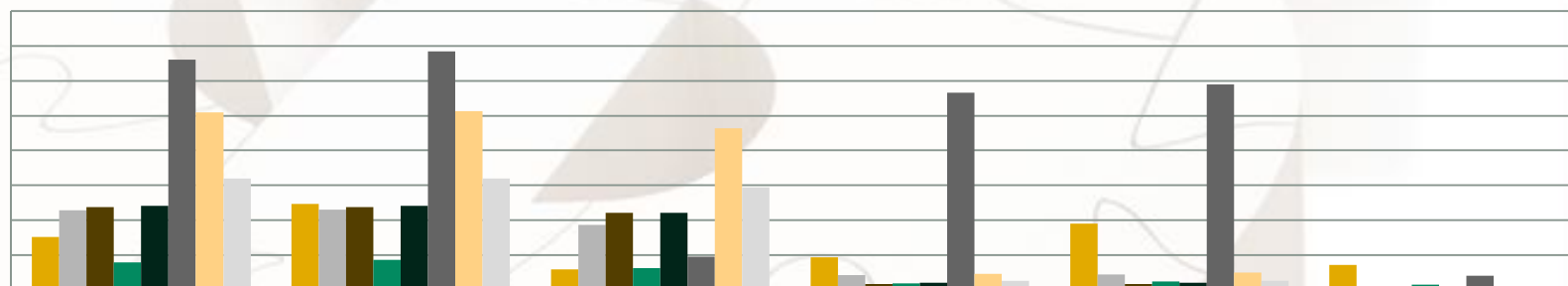
India is on the verge of witnessing a sustained growth in infrastructure build up. The construction industry has been witness to a strong growth wave powered by large spends on housing, road, ports, water supply and airport development. The construction sector has registered double digit growth during the last few years and its share as a percentage of GDP has increased considerably as compared to the last decade. The Planning Commission of India has proposed an investment of around US\$ 1 trillion in the Twelfth five-year plan (2012-2017), which is double of that in the Eleventh five-year plan. From a policy perspective, there has been a growing consensus that a private-public partnership is required to remove difficulties concerning the development of infrastructure in the country. During the first two years of the eleventh five-year plan (2007-2012), the share of private players in the total investment was 34%. This is higher than the target of 30% for the eleventh five-year plan. During the twelfth five-year plan, the contribution of private sector in total infrastructure investment is expected to increase to 50%. The balance will be borne by the public sector.

The real estate industry comprising of construction and development of properties has grown from family based entities with focus on single products and having one market presence into corporate entities with multi-city presence having differentiated products. The industry has witnessed considerable shift from traditional financing methods and limited debt support to an era of structured finance, private equity and public offering. The construction sector is a major employment driver, being the second largest employer in the country, next only to agriculture. This is because of the chain of backward and forward linkages that the sector has with other sectors of the economy. About 250 ancillary industries such as cement, steel, brick, timber and building material are dependent on the construction industry. A unit increase in expenditure in this sector has a multiplier effect and the capacity to generate income as high as five times. After a slow growth in the last fiscal, order inflows in the construction industry registered a healthy growth in FY11. However, it was not reflected in the revenues and profitability due to execution delays and rising cost of construction. Nevertheless, considering the strong order backlog, the next fiscal could be promising provided execution remains on track. The 2011-12 Budget saw increase in allocation towards various infrastructure development schemes. The government earmarked Rs 2 trillion for infrastructure development as a whole. This is an increase

of 23.3% over 2010-11. The government also increased FII limit for investment in corporate bonds issued in the infrastructure sector to US\$ 25 bn from US\$ 5 bn. Backed by government's sustained focus on housing, road, port and airport development, infrastructure sector in India is poised to grow. The first half of FY11 proved favorable for the real estate companies. The global economy improved, bringing back financial confidence to the home buyers along with low interest rates. As demand for houses mounted, developers increased the prices. Prices went up to pre-2008 levels and in some cases beyond that. However, the situation has changed since 4QFY11. Rising inflation forced the Reserve Bank of India to hike interest rates. High interest rates and high property prices started denting demand for real estate. The real estate companies are reeling under heavy debt and rising costs (both operating expenses and interest costs). Nevertheless, as genuine demand exists for good quality homes, long-term fundamentals for real estate sector remains strong.



4,000.00
3,500.00
3,000.00
2,500.00
2,000.00
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500.00



(In Rs. Cr.) -

	Sales	Income	Expenses	Operating Profit	Gross Profit	Net Profit
■ DLF	753.54	1,236.00	289.63	463.91	946.37	355.70
■ Era Infra Eng	1,140.87	1,148.29	930.14	210.73	218.15	34.21
■ Gammon India	1,184.69	1,186.99	1,102.95	81.74	84.04	1.02
■ GMR	395.97	429.04	308.23	87.74	120.81	75.98
■ IVRCL	1,202.54	1,203.52	1,107.75	94.79	95.77	6.79
■ Jaiprakash Asso	3,305.39	3,425.86	472.36	2,833.03	2,953.50	204.95
■ Lanco Infra	2,545.90	2,566.15	2,321.53	224.37	244.62	24.70
■ Simplex Infra	1,596.37	1,597.32	1,466.95	129.42	130.37	18.03





Software

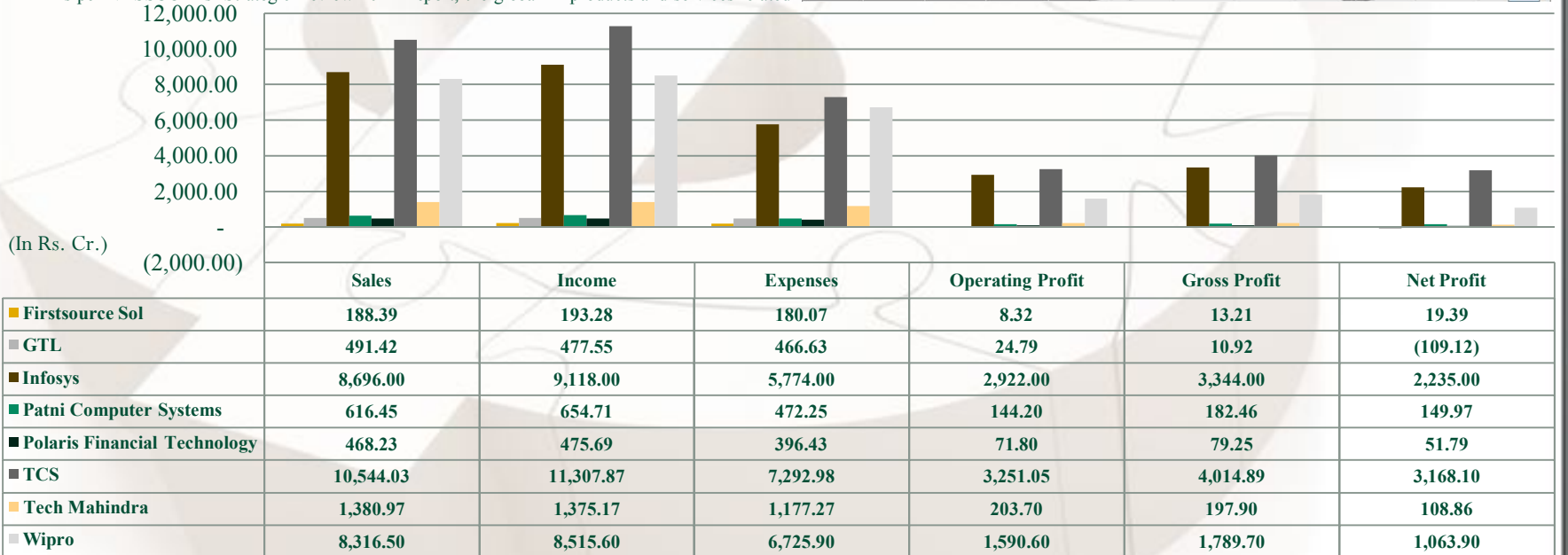
The global IT spending increased exponentially for years before the onset of global recession in 2008-09. Riding the wave, Indian Information Technology (IT) industry grew at impressive rates of above 30% during that time to the tune of over US\$ 60. The global meltdown dented the scene, with businesses across the globe, cutting on discretionary IT budgets. However, it created a huge pent-up demand in the software sector. With the economic recovery, the sector witnessed a surge in the demand across markets, both traditional and emerging. As a result, Indian IT industry performed well on back of superior quality and execution efficiency.

India's IT industry can be divided into five main components, viz. software products, IT services, engineering and R&D services, ITES (IT-enabled services) and hardware. Export revenues primarily on project based services continue to drive growth. Multi-year annuity based outsourcing agreements are expected to increase going forward. However, the majority share of the project based revenues is going to continue on the back of custom application development and application management. Cost leadership has been the competitive edge of the Indian software sector over the last few years. However, this seems to be threatened now by MNCs who are replicating the Indian outsourcing model and setting up bases in the country. Going forward, the advantage of low employee costs could peter out and the sector could get commoditised. Increasing competition, pressure on billing rates and increasing commoditisation of lower-end application development and maintenance (ADM) services are among the key reasons forcing the Indian software industry to make a fast move up the software value chain. IT companies have to move up the value chain to provide higher value-added services as consulting, product development, R&D and end-to-end turnkey solutions. Therefore, companies have started shifting their focus towards high end as well as value added services to keep their competitive advantage intact. Now they are also looking at emerging business themes like analytics, mobility, cloud computing. The software services segment of the industry continues to grow by leaps and bounds. With the government emphasizing on better technology enabled delivery mechanisms for multitude of government projects such as e-passport, Unique Identification Scheme, eLearning, virtual classrooms, telemedicine, remote consultation, and mobile clinics, the domestic market looks equally more promising.

spending reached US\$ 1.6 trillion in 2010. This was a growth of 4.0% over 2009. This came on the back of 6.4% increase in worldwide hardware spend which witnessed a pent-up demand during economic recovery. Please note that the global hardware market was badly hit during 2008 meltdown, with almost 8% decline during the year. During 2010, IT services spend grew by 1.4%, within which IT outsourcing grew by 2.4%. Within IT outsourcing, global sourcing grew by 10.4% in 2010. The Indian IT/ITES industry earned revenues of around US\$ 88.1 bn during FY11. The IT software and services industry (excluding hardware) accounted for US\$ 76.1 bn. At the end of FY11, the Indian IT/ITES directly employed around 2.5 m people (an addition of 240,000 employees), while indirect job creation was estimated at 8.3 m. As a proportion of India's GDP, the sector revenues have grown from 1.2% in FY98 to 6.4% in FY11. The industry's share of total Indian exports (merchandise plus services) increased from less than 4% in FY98 to 26% in FY11. Indian IT firms (especially the top notch Indian firms like TCS, Infosys and Wipro) are increasingly competing against top global players such as IBM, Accenture and EDS for large deals. The top Indian IT companies are more frequently being invited to bid on large deals that were earlier closed to them. India's top outsourcers are competing effectively with the top three global service providers on large deals. Moreover, global IT biggies like Accenture who used to deal mostly in premium-priced high-end IT services have entered the space of low-end IT services at a competitive price. This has added to the competition.



As per NASSCOM's 'Strategic Review 2011' report, the global IT products and services related



Steel

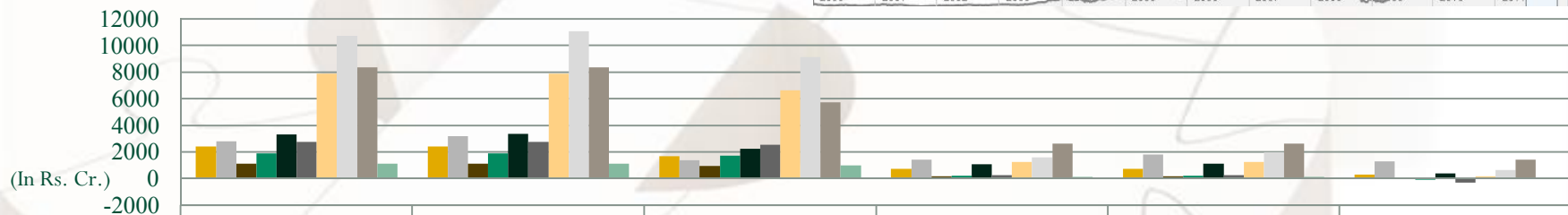
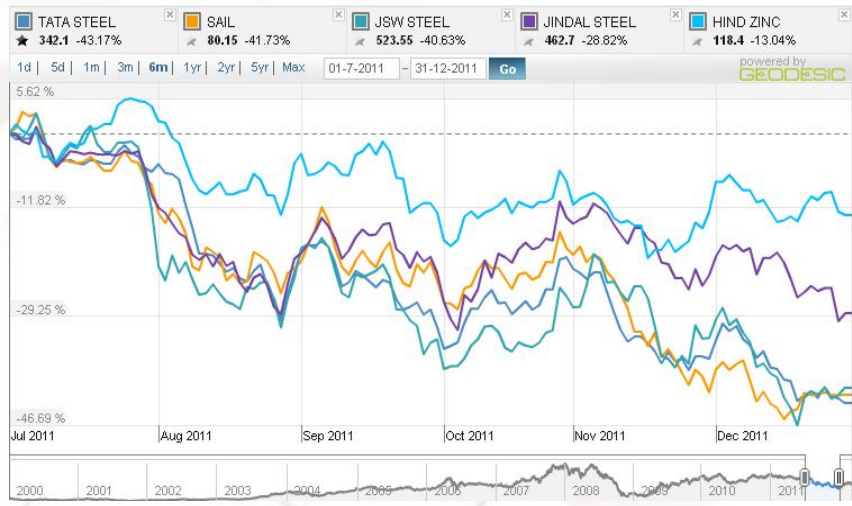
India is currently the fifth largest steel-producing nation in the world with production of over 65.6 million tonnes (MT). However, it has a very low per capita consumption of steel of around 51.7 kgs as against an average of 203 kgs of the world. This wide gap in relative steel consumption indicates that the potential ahead for India to raise its steel consumption is high. During the period from 1997-98 to 2000-01, steel production witnessed a marginal CAGR growth of 3%. However during 2001-02 to 2010-11, owing to boom in the infrastructure and automobile sectors, the industry witnessed a sharp turnaround and registered a steep hike of 8.6% CAGR. Being a core sector, steel industry tracks the overall economic growth in the long term. Also, steel demand, being derived from other sectors like automobiles, consumer durables and infrastructure, its fortune is dependent on the growth of these user industries. The Indian steel sector enjoys advantages of domestic availability of raw materials and cheap labour. Iron ore is also available in abundant quantities. This provides major cost advantage to the domestic steel industry, with companies like Tata Steel being one of the lowest cost producers in the world.

However, Indian steel companies have to bear additional costs pertaining to capital equipment, power and inefficiencies (low per employee productivity). This has resulted in the erosion of the edge they would have otherwise enjoyed due to availability of cheap labour and raw materials. India is likely to add 30 m tonnes of new steel capacity over the next 18 months, of which 21 m tonnes will be added by top five players. This will make India net exporter of steel from the current net importer. Steel being at the core of economic activity witnessed an unprecedented downturn in 2009. The global steel production which had declined on account of the intervening global financial crisis, showed a sharp pick-up in 2010. All the major steel-producing countries and regions showed double-digit growth in 2010.

World crude steel production clocked an impressive output growth of 6.5% against a negative growth of -0.5% in 2009. World steel production reached a new height during 2010 at 1,414 m tonnes as against 1,223 m tonnes in 2009. The EU registered the highest growth in production of crude steel by registering a growth of 24.5% over 2009. However, UK and Greece continued to decline over previous years. Asia posted the second highest growth followed by CIS countries. Most of the international steel companies witnessed a bounce back in their production

level, however in many cases could not reach their pre-crisis production levels.

Global steel consumption also witnessed a bounce back and grew 13.1% to 1,283 m tonnes in 2010. Steel consumption in emerging and advanced economies grew 9.1% and 25% respectively in 2010. The natural disasters in Japan and Australia have caused some uncertainty over raw material prices and short term steel demand. In particular, the automotive and electronic industries may face shortages in supply where they are relying on Japan for manufacturing components.



	Sales	Income	Expenses	Operating Profit	Gross Profit	Net Profit
■ Bhushan Steel	2407.06	2418.26	1683.03	724.03	735.23	276.62
■ Hindustan Zinc	2786.81	3168.68	1384.53	1402.28	1784.15	1273.6
■ Jindal Saw	1,096.71	1,097.55	957.18	139.53	140.37	36.54
■ Jindal Stainless	1,910.27	1,910.47	1,710.08	200.19	200.39	(110.33)
■ Jindal Steel	3,333.81	3,341.53	2,247.10	1,086.71	1,094.43	395.79
■ JSW ISPAT Steel	2,767.81	2,767.82	2,519.73	248.08	248.09	(308.57)
■ JSW Steel	7,876.48	7,877.24	6,623.86	1,252.62	1,253.38	168.24
■ SAIL	10,728.78	11,112.49	9,147.68	1,581.10	1,964.81	632.12
■ Tata Steel	8,381.85	8,355.56	5,751.25	2,630.60	2,604.31	1,421.26
■ Uttam Galva Steel	1,105.31	1,105.33	986.42	118.89	118.91	11.03





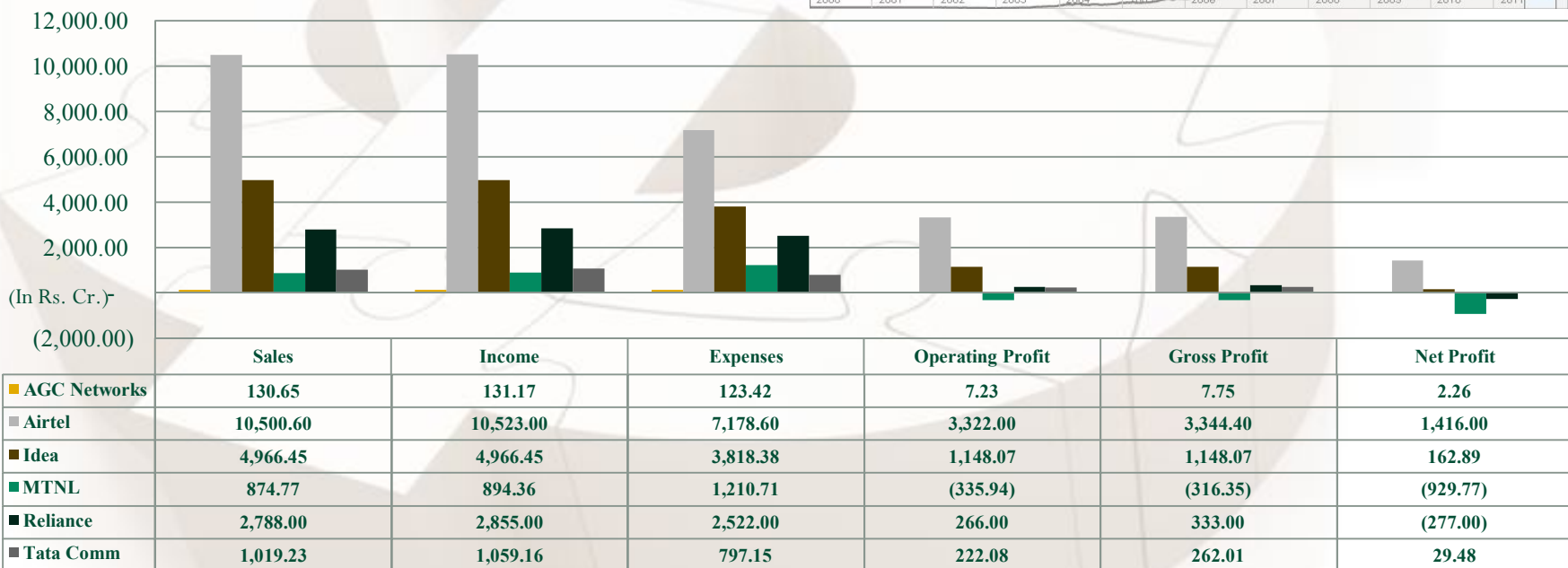
Telecom

India's teledensity has improved from under 4% in March 2001 to around 71% by the end of March 2011. Cellular telephony has emerged as the fastest growing segment in the Indian telecom industry. The mobile subscriber base (GSM and CDMA combined) has grown from under 2 m at the end of FY00 to touch 812 m at the end of March 2011 (average annual growth of nearly 73% during this eleven year period). Tariff reduction and decline in handset costs has helped the segment to gain in scale. The cellular segment is playing an important role in the industry by making itself available in the rural and semi urban areas where teledensity is the lowest. The fixed line segment has actually seen a decline in the subscriber base. It has declined to 34.73 m subscribers in March 2011 from 36.96 m in March 2010. The decline was mainly due to substitution of landlines with mobile phones.

As far as broadband connections (>=256 kbps) are concerned, India currently has a subscriber base of 11.9 m. It has grown at an average annual growth rate of 45% since 2008. The auction for broadband wireless license and spectrum was carried out last year. Once the operators complete their network rollouts, this will further boost the broadband penetration in the country.

FY11 saw the continuance of strong growth for the Indian telecom market, which witnessed a 39% YoY increase in its subscriber base during the 12-month period. At the end of March 2011, the country's total telecom

subscriber base (fixed plus mobile) stood at about 846 m. The tele-density level stood at about 71% by the end of the fiscal. Growth remained robust in the GSM mobile space. GSM added 220 m subscribers during the year. After a good 22% YoY increase in subscriptions during FY10, the GSM industry clocked another robust performance during FY11, growing subscriber base by 46% YoY to about 698 m. During FY11, India's mobile subscriber base grew by 39% YoY, from 584 m to 812 m, while the fixed subscriber base declined by about 1%, from 36.96 m to about 34.73 m.





Textiles

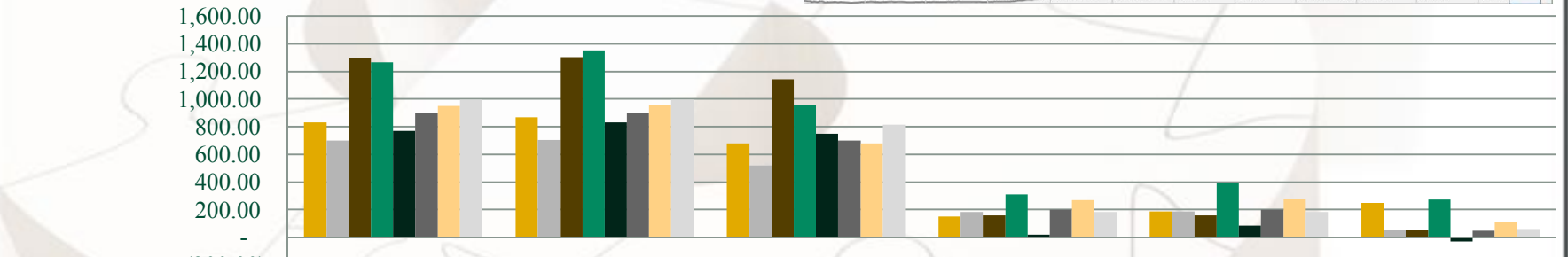
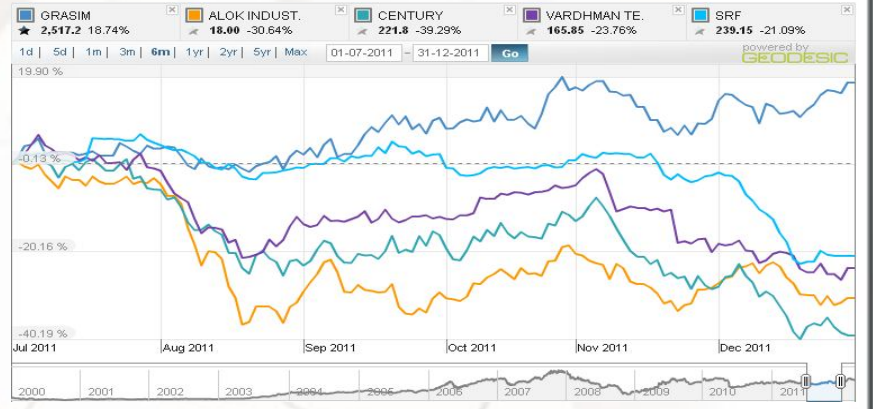
The Indian textile industry contributed about 14% to industrial production, 4% to the country's GDP and 17% to the country's export earnings in 2010. It provides direct employment to over 35 m people and is the second largest provider of employment after agriculture.

As per Technopak, most developed countries will see continued decline of their textile and apparel industry and create fresh opportunity of up to US\$ 140 bn for exports for developing countries by 2020. According to the Textile ministry, Indian textile industry is expected to more than double to US\$ 115 bn by 2012. The domestic market is likely to increase from US\$ 34.6 bn to US\$ 60 bn by 2012. India's share of global textile exports is expected to increase from the current 4% to around 7% over the next three-years. According to the Textile Association of India (TAI), the denim manufacturing capacity, which stands at 600-650 m metres per annum, is set to witness an addition by another 100 m metres wherein 70% focus will be on the domestic market. India enjoys a significant lead in terms of labour cost per hour (US\$ 0.6 in 2004), over developed countries like US and newly industrialised economies like Hong Kong, Taiwan, South Korea and China. Also, India is rich in traditional workers adept at value-adding tasks, which could give Indian companies significant margin advantage. However, India's inflexible labor laws have been a hindrance to investments in this segment. Unlike in home textiles, garment capacities are highly fragmented and leading Indian textile companies have been slow to ramp up their apparel capacities, despite strong order flows from overseas buyers who are trying to diversify out of China. The textile industry aims to double its workforce over the next 3 years. As a thumb rule, for every Rs1 lac invested in the industry, an average of 7 additional jobs is created.

Most companies in the sector timed their expansion plans FY04 onwards, so as to avail themselves of the funding under TUF (Technology Upgradation Fund, offering loans at 6% subsidy). This led to the capex-spending phase in the textile sector peaking in the last three fiscals. However, with the slump in demand for textile products from the overseas markets, a number of companies had to defer their expansion plans due to large under-utilised capacities. With the government rejecting the proposal to continue the TUF scheme beyond the 11th plan (2007- 2012), the players looking to defer their capex plans will be hit. We believe that with higher interest rates, players in the sector would prefer to see the utilisation levels get

normalised, before leveraging more for incremental capex.

The global textile industry also faced the brunt of economic slowdown in FY11, wherein, exports to the US from two of its largest suppliers India and China dipped in terms of value and volumes respectively. While India sustained volumes because of better product quality as compared to China, it lost out in terms of realizations. Competitors like Vietnam, Bangladesh and Indonesia gained substantially because of relatively lower labour costs. Troubled by the rupee's appreciation against the US dollar, thereby eroding their competitiveness in the global market, textile exporters have demanded duty benefits and credit at lower interest rates. According to the data from the ministry of textiles, cotton prices for medium-long variety have escalated by 36% and for long variety by as much as 69% in the last one year. In contrast, prices of cotton yarn have increased by just 14 to 35%. The rise in key input prices has dealt a heavy blow to the operating margins of textile manufacturers.



	Sales	Income	Expenses	Operating Profit	Gross Profit	Net Profit
■ Arvind	831.37	866.45	680.58	150.79	185.87	249.91
■ Bombay Rayon Fashions	700.93	702.70	517.39	183.54	185.30	51.72
■ Century Textiles and Industries	1,301.51	1,304.74	1,145.31	156.20	159.43	54.28
■ Grasim Industries	1,266.27	1,352.14	957.48	308.79	394.66	274.48
■ Indo Rama Synthetics (India)	768.64	833.41	749.40	19.24	84.01	(32.11)
■ S Kumars Nationwide	902.11	902.11	701.98	200.13	200.13	46.65
■ SRF	949.05	956.24	681.09	267.96	275.15	110.55
■ Vardhman Textiles	994.59	994.59	814.12	180.47	180.47	60.29



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