

AUTOMOBILES: Speed-breaker



Domestic automobile companies continued their sluggish sales momentum with two-wheeler manufacturers posting a negative growth in sales (-1.62 per cent). Overall profits have also been marginal, with a 5 per cent rise in net profit in the first nine months of the financial year.

Commercial vehicle makers fared slightly better by posting 10.3 per cent rise in sales and 5.42 per cent rise in net profit. The passenger car makers, however, did extremely well with sales and profit growth of 27.4 per cent and 35.4 per cent respectively.

Among two-wheelers, both Hero Honda and Bajaj Auto posted a decline in net profits, while Hero Honda's sales were up marginally. Among car makers, Maruti Suzuki's nine months' sales grew 28.64 per cent compared with 22.3 per cent in 2006-07. The growth in net profit also fell to 28.7 per cent from 31.4 per cent in 2006-07.

The realisation during the nine months

was lower because most of the auto makers were offering discounts to push volumes. On the other hand, they had to face the pressure of higher raw material cost as steel prices continued their uptrend. Going forward, rising steel prices could put pressure on operating costs for four-wheelers, while credit availability could have a negative affect on two-wheeler sales.

OUTLOOK

The growth prospects of the two-wheeler segment continue to remain weak, especially in the motorcycle segment. "Even if the consumer financing market improves and there is credit offtake, the competitive pressures are too high in the segment," said a SSKI analyst. The operating profit margins are expected to be under pressure, thereby lowering profitability.

The commercial vehicle segment is likely to see some improvement in the first quarter of FY09, courtesy improvement in freight movement. Long-term demand drivers like infrastructure spending on road construction projects and strong industrial growth may help the segment to grow by around 10 per cent in the near future.

Rs crore	Net sales	YoY (%)	PBIDT	YoY (%)	Net profit	YoY (%)
Tata Motors	25074.99	10.77	3626.42	22.59	1819.70	16.01
M&M	8355.33	14.41	1300.61	4.59	882.27	6.00
Ashok Leyland	5167.11	5.94	563.24	16.69	288.75	7.02
Eicher Motors	1549.04	16.17	106.89	10.26	43.59	7.92
Punjab Tractors	683.70	-7.03	60.90	-39.46	38.50	-36.47
Force Motors	629.97	-9.41	-5.77	-	-60.40	-
Swaraj Mazda	496.50	12.94	38.50	63.14	18.50	83.17
Total (19)	73690.65	9.78	10627.32	12.83	5875.54	11.41

AUTO ANCILLARY: Budget support



Auto ancillary firms have fared badly in the last two quarters in a row because of lacklustre growth in domestic auto industry. Also, there

has been a slow down of exports to key markets like the US. The margins have been under pressure on account of increase in raw material cost and inability to pass-on the hike to the end-users.

As a result, their topline growth was at 17 per cent in nine months compared to 27.5 per cent in 2006-07. The decline in sales growth was primarily led by slow inflow of orders, and in certain cases, customers not picking up equipment. All this led to a much lower growth in profitability. The net profit grew by just 9.72 per cent from a hefty 45.8 per cent in full year 2006-07.

OUTLOOK

Auto Ancillaries are expected to witness sluggish growth on the back of slowdown in auto volumes. Margins are expected to be under pressure due to high input costs and no price hike being passed

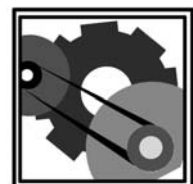
to most original equipment manufacturers (OEMs). Some of the companies with high export bias are going to be hit by the rupee appreciation as well, thereby pulling down the overall realisation.

The Union Budget for 2007-08 had hit the ancillary companies badly by cutting the customs duty from 12.5 per cent to 10 per cent. Also, the optional excise duty on nylon filament yarns had been increased from 8 per cent to 12 per cent. Further, an education cess on imported goods at one per cent of aggregate duties of customs, excise and income tax had been imposed, in addition to the existing cess of 2 per cent.

Budget for 2008-09, however, has provided them with some relief with reduction in customs duty on aluminium scrap. This will reduce the raw material cost for aluminium alloys, which is used in many auto components. This would also help the industry as their margins have been under pressure due to increased raw material cost. The reduction in Cenvat, from 16 per cent to 14 per cent, will benefit entire auto component sector. In most of the cases, it will be passed to the OEMs, expect analysts.

Rs crore	Net sales	YoY (%)	PBIDT	YoY (%)	Net profit	YoY (%)
Bharat Forge	3186.55	7.07	598.59	10.30	230.52	2.54
Exide Inds.	2053.59	53.09	361.85	52.68	187.51	60.68
Motherson Sumi	1441.43	35.36	230.24	39.24	113.18	34.56
Amtek Auto	914.73	26.16	348.64	33.96	191.57	25.95
Wheels India	811.28	11.08	76.52	29.21	19.54	16.59
Asahi India Glas	731.55	36.31	169.25	45.58	20.23	-42.32
Amtek India	697.13	55.04	207.63	61.08	108.23	57.43
Sai Service	692.86	14.33	25.92	30.98	9.48	16.75
Total (104)	25929.90	17.46	4127.61	18.49	1747.25	9.72

CAPITAL GOODS: Thrust from government



The sector fared quite well during the first nine months of 2007-08. However, there was a modest slowdown in growth rate during the third quarter

compared to first two quarters. Net sales grew by 35.2 per cent (38.8 per cent full year of 2006-07) and net profit rose by 42.7 per cent (50.6 per cent full year of 2006-07).

Rs crore	Net sales	YoY (%)	PBIDT	YoY (%)	Net profit	YoY (%)
Larsen & Toubro	16387.83	44.74	2035.32	64.52	1206.66	71.83
BHEL	12163.42	17.67	2975.51	36.54	1748.47	38.29
Suzlon Energy	8755.68	72.70	1294.26	52.15	570.64	12.81
Crompton Greaves	2716.23	14.24	372.81	49.66	210.85	72.19
Thermax	2282.06	68.44	311.74	63.63	200.24	69.59
Lanco Infratech	2016.31	81.60	460.43	44.17	276.86	60.18
KEC Internatio	1783.45	27.67	241.01	33.18	111.50	49.76
Total(105)	68295.59	35.22	11212.61	43.90	6178.71	42.74

Many companies reported disappointing numbers during the third quarter after strong show during the second quarter. Sales grew by around 30 per cent in third quarter compared to an average of 35 per cent in the first two quarters. The net profit growth of 17.5 per cent was significantly lower at 17.52 per cent compared to 68.8 per cent in the second quarter. The third quarter performance was primarily due to slow inflow of orders, and in certain cases, customers refusing to take delivery.

The performance of capital goods sector is expected to pick up in fourth quarter. Historically, the fourth quarter is

the best one, in terms of revenue booking and operating performance. Analysts maintain positive outlook on the sector because of the government's thrust towards infrastructure development.

OUTLOOK

The Eleventh five-year plan's (2007-2012) emphasis for a better infrastructure in the country will lead to strong order books in the days to come.

With the Union Budget reducing customs duties project imports to 5 per cent from 7.5 per cent. The cut in customs

Rs crore	Net sales	YoY (%)	PBIDT	YoY (%)	Net profit	YoY (%)
TCS	16765.59	23.98	4789.22	26.04	3803.34	24.82
Wipro	14360.30	34.24	3108.50	19.30	2404.00	15.27
Infosys Tech.	12150.00	20.05	4325.00	25.36	3410.00	25.28
Satyam Computer	6057.47	28.72	1528.41	23.22	1221.04	20.77
Tele Data Infor.	5034.93	127.08	498.71	34.86	415.33	46.92
HCL Technologies	3173.19	19.15	1168.95	54.89	922.35	51.60
Tech Mahindra	2744.30	33.14	671.40	31.29	550.60	22.66
Total (108)	82633.64	31.36	21672.20	27.15	16458.45	24.65

duty will lead to cheaper imports, which may be a slight negative for power equipment companies.

The Budget, however, has withdrawn exemption of additional four per cent duty which will neutralise the impact of reduction on custom duty. The Budget increased allocation on Bharat Nirman by 27 per cent to Rs 31,280 crore and allocation to National Highways Development Project by 19.3 per cent to Rs12,966 crore.

This is positive for infrastructure sector and beneficiaries include L&T, Punj Lloyd, HCC, Gammon, IVRCL, Simplex, Nagarjuna, among others.

CEMENT: Not concrete enough



Cement companies have found themselves in a tight situation in the last three quarters. The numbers speak for themselves. Net

sales of cement companies grew by 25.3 per cent during the first nine months of 2007-08 as against 45.7 per cent in financial year 2006-07. The net profit also slipped sharply to 43 per cent compared with 166 per cent in the same period, clear-

Rs crore	Net sales	YoY (%)	PBIDT	YoY (%)	Net profit	YoY (%)
UltraTech Cem.	3920.82	13.80	1304.40	24.08	724.73	31.59
India Cements	2200.26	49.27	835.13	74.30	533.10	72.14
Madras Cement	1481.93	30.09	594.69	38.72	332.06	40.09
Shree Cement	1415.79	43.05	667.46	47.56	258.17	-5.20
Birla Corp.	1236.09	10.09	472.39	32.81	307.01	36.42
JK Cements	1072.70	23.77	318.60	41.73	205.40	75.26
Dalmia Cement	1066.14	54.87	492.97	72.08	277.15	65.84
JK Lakshmi	816.31	40.60	269.24	55.33	203.06	73.14
Chettinad Cement	672.39	24.90	254.97	45.78	127.34	44.72
Total (27)	18102.95	25.31	6533.27	42.16	3720.64	43.04

ly reflecting a pressure on margins that was because of the overall rise in the production costs, including power and fuel.

The performance of ACC and Ambuja Cement was affected due to one-time expenses and higher raw material costs, other expenses and taxes, whereas the margins of India Cement were adversely impacted due to higher freight costs and other expenses. Only Grasim was able to post strong results, which was mainly due to strength in both cement and VSF businesses.

OUTLOOK

In February, the three major cement manufacturers in the country showed a healthy growth in despatches. An analyst at SSKI Research expects firming up of cement prices in the following days because of a rising demand.

On the price front, there has been a rise between Rs 3 and Rs 5 per bag with effect from February 1, 2008, in Tamil Nadu, Andhra Pradesh and Maharashtra (Mumbai), which will partly compensate for the cost pressure experienced by the industry. Again in March, the bulk ce-

INFORMATION TECHNOLOGY: Rupee trouble



The rupee appreciation has dragged down the growth rate of the Indian technology firms during the nine months, ending December

2007. The total revenue from software services grew by 31.65 per cent (50.9 per cent in 2006-07) and net profit rose by 24.65 per cent (51.4 per cent in 2006-07). The sector had been doing extremely well since the US recession in 2001 with revenue and profit growth of over 50 per cent till the financial year 2006-07. With rupee appreciating by over 12 per cent in the last nine months, the revenue and profit growth

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rate of software firms started decelerating from the very first quarter. The quarterly revenue growth rate declined from 38.2 per cent in the first quarter to 26.2 per cent in the third quarter. The profit growth rate fell from 34 per cent in the first quarter to 28.2 per cent in the same time period.

While the rupee has more or less stabilised around 39.50-40 in the last one and half month, there has been a sudden spurt

of the rupee against the Pound Sterling. In the past 50 days, the rupee has appreciated by 3 per cent against the Pound Sterling. This is likely to adversely impact the performance of specific technology firms that have relatively higher exposure to the UK.

OUTLOOK

With the stabilisation of the rupee, the fourth quarter results of front-line companies will be in-line with their earlier guidance or marginally better than expectations. The results of global tech majors have also quelled fears of a slowdown. Encouraging results by global tech majors such as Oracle and Accenture means that there is a likelihood that Indian companies will also be able to do well. How-

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ever, watch out for the slowing US economy. Another dampener, though very small for most IT majors comes from the Budget 2008-09, which has proposed increase on excise duty on packaged software from 8 per cent to 12 per cent. This will primarily impact companies catering to the domestic IT market. Most frontline companies have less than 10 per cent exposure to domestic markets.

PHARMACEUTICALS: Pill power



The pharma sector showed better results in the third quarter, especially drug exporters, who have done extremely well. The sector re-

ported an improved performance in the third quarter, with sales growth of 18.56 per cent, as against 13.62 per cent in second quarter and 15.63 per cent in the first quarter. The profits also went up by 26.03 per cent in third quarter, compared to 10.42 per cent in second quarter and 22.10 per cent in the first quarter. However, the nine months sales growth rate of 15.94 per cent was well below the full year growth of 25.1 per cent in the last financial year.

Though, the overall impact of the dollar depreciation has been negative for some companies, especially in export revenues. However, pharma analysts feel that the worst is over as the companies have started re-aligning their business models by renegotiating export contracts with higher prices in other currencies.

The US generic market has been the

major growth driver for most of the mid-cap pharmaceutical companies. However, SSKI pharma analyst's interaction with companies indicates that the competition in the US generic market continues to remain stiff as major generic brands are available at huge discount in US markets. But there are opportunities galore in markets across Asia, Africa, South and Latin America of \$44 billion (around Rs 1,70,000 crore), which is expected to touch \$77 billion (around Rs 3,00,000 crore) over the next five years. Since these markets are branded markets, companies operating in there enjoy higher margins.

The Budget 2008-09 is positive for the pharmaceutical sector. The biggest change was the reduction in excise duty from 16 per cent to 8 per cent. This is likely to create a level-playing field between companies operating from excise-exempt zones and others. Most of the Indian companies have a significant portion of their formulation production from excise-exempt zones like Baddi in Haryana and Jammu. The multinational pharmaceutical companies will be key beneficiaries, since they do not operate out of excise-exempt zones.

Rs crore	Net sales	YoY (%)	PBIDT	YoY (%)	Net profit	YoY (%)
Dr Reddy's Labs.	3679.19	-23.36	776.12	-29.54	359.68	-31.70
Cipla	3104.71	17.89	731.52	-1.52	521.03	-2.63
Nicholas Piramal	2104.97	15.23	335.55	17.49	200.85	23.08
Sun Pharma.	2099.37	32.25	899.97	37.11	808.44	34.83
Lupin	1955.99	31.99	489.81	75.00	312.30	86.45
Cadila Health	1719.10	26.01	343.70	12.39	210.60	5.83
Aurobindo Pharma	1602.33	17.15	325.83	33.01	214.71	42.22
Total (97)	35265.59	15.94	8628.80	26.38	5468.15	31.88