Financial Chronicle

COUNTING PROFIT

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As India Inc gets ready to announce Q4 and FY10 results, the Street is busy counting the upside. But what's really in store? Will the numbers be big enough to trigger the next bull run?

Pinaki Paul

BIJOY SANKAR SAIKIA

IN JUST over two years, India Inc has seen its fortunes swing wildly from heady growth to modest gains and back. Not surprisingly, as the industry gets ready to announce March quarter and FY10 numbers, the Street is busy counting the upside, confident that the cycle of sequential quarterly earnings upgrades will continue across sectors, although an overhang of global slowdown and high inflation dog a few of them.

The confidence comes from rising advance tax payments for the March quarter and from other indicators such as high manufacturing growth, record auto sales, growth in savings, jump in cement dispatches, upbeat mood in the economy and faster recovery in the West.

Analysts say this results season is significant on two counts. First, this is the first quarter since the Lehman crisis when companies operated without the hangover of the global financial turmoil, except for a few shocks from the euro zone.

In fact, overseas liquidity is once again flowing freely to India Inc. This means companies did business in a purely domestic environment: rising inflation, recovery in demand and early stages of a capex boom.

Second, while many companies managed to keep their bottom lines rising during the crisis, in most cases they did it through cost-cutting, business reorganisation and even tweaking of numbers instead of top-line growth. That way, this quarter is expected to give the real picture.

The market is waiting for Q4 results to break it free from range-bound trade. Benchmark indices, trading in their upper ranges, are waiting for the next trigger and companies' forward guidance can kick off the next rally.

Estimates of Sensex EPS at the end of FY10 are around Rs 970. And optimists such as Madhabi Puri Buch, MD and CEO of ICICI Securities, peg earnings growth of Sensex stocks between 9 per cent and 11 per cent.

"The Q4 results should be good for most companies across sectors. Given this outlook, I don't think the Sensex is significantly overpriced at present levels," says Abhijit Gulanikar, chief investment officer of SBI Life. His target for Sensex EPS at the end of FY10 is Rs 950.

"We expect Q4 results to be in line with the sequential improvement that we have seen in the past few quarters across sectors," says Dilip Bhatt, joint MD of Prabhudas Lilladher.

The auto sector looks set to take the sweepstakes again after reporting big gains in sales quarter on quarter. The scenario is as bullish for metals, cement, sugar, consumer durables, capital goods and even IT. Banking remains a worry spot, as is telecom.

Reliance Industries is expected to report a big surprise because of surging gross refining margins. Its Rs 770 crore advance tax for the March quarter was Rs 365 crore higher than last year. Devarsh Vakil, head of advisory (private broking and wealth management) at HDFC Securities, projects RIL's net sales at Rs 65,450 crore, which works out to a 131 per cent year-on-year growth. "We expect RIL to outperform the market," he says.

"Auto companies should show spectacular growth this quarter," says Bhatt. Automakers clocked unprecedented sales growth in the financial year, with market leaders Maruti Suzuki and Hero Honda reporting record numbers as cheaper loans and excise duty cuts ensured huge demand for cars despite strong competition in the small car segment.

THE SCORE

	Sales growth (	
	Q1	Q2
Auto	6.81	17.85
Bank	19.34	10.24
Metal	-13.18	-13.52
Oil & gas	-2.33	-21.24
Power	14.39	8.16
Realty	-53.26	-38.4
Consumer durables	16.72	23.18
Capital goods	7.11	2.56
FMCG	10.57	13.87
Healthcare	4.92	6.96
IT	10.45	6.03
PSU	-17.3	-16.22
TECk	9.37	4.8

Average sectoral growth figures, All figures in per

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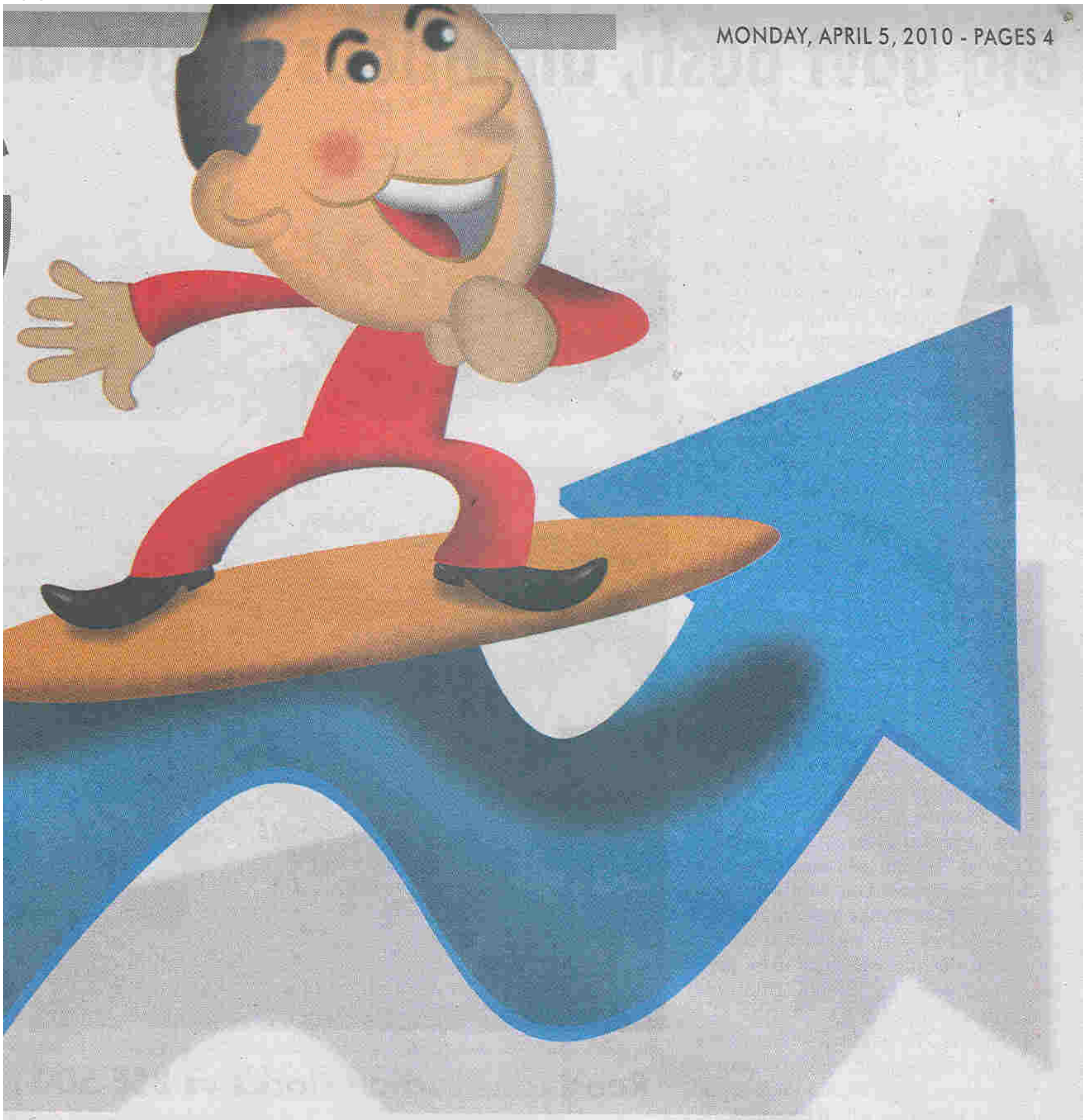

S SO FAR

(y-o-y)	PAT growth (y-o-y)		
Q3	Q1	Q2	Q3
54.56	47.97	108.72	347.88
0.66	51.77	17.57	-1.54
23.27	-34.25	-29.27	72.41
15.96	41.55	-	5.26
4.94	24.81	4.92	34.77
89.98	-67.95	-62.25	65.13
45.99	-31.66	-6.43	117.69
5.77	51.9	3.67	-8.05
16.1	17.82	22.36	20.78
15.81	29.93	89.46	2177.41
2.58	35.83	20.13	16.65
4.24	34.6	155.07	7.65
1.69	26.72	16.29	1.4

centage Source: Capitaline

"Auto companies should see an average 50 per cent year-on-year growth in sales and around 150 per cent profit growth," says Vakil. "We believe it will be well neigh impossible to repeat this performance on slack in demand, capacity constraints and higher raw material prices. We expect automobile shares to underperform the market in the near term," he cautions. Cement makers continued to see strong volume growth despite higher excise duty and huge capacity addition. Analysts said rising demand from infrastructure and realty sectors helped the industry register double-digit volume growth in March after a dip in February. The industry added about 35 million tonnes of capacity in 2009-10, with most of it coming from India Cements, Dalmia Cements, Chettinad Cement and UltraTech.

A rally in base metal prices and a surge in domestic and global demand from the construction sector have bulged the coffers of metal companies. In the past two months alone, copper prices have risen 16 per cent, zinc 11 per cent and aluminium 13 per cent while steel prices, too, are rising rapidly.

The IT sector is out of the woods, but zigzag dollar movement has been giving the industry headaches. "The fourth quarter numbers should be good, but the future guidance may not be," says Gulanikar.

"No doubt the worst is over for the sector, but the dollar googly could spoil the party," says Anil Advani, head of research at SBICap Securities. Analysts expect an average 4 per cent quarter-on-quarter revenue growth in dollar terms from top four players.

Some analysts say the mid-cap IT space is shining with a sharp rise in domestic demand, new market discoveries and new business environment in the West, where smaller IT companies are seeing an opportunity due to shrinking IT budgets and demand rationalisation. Sectoral analysts with broking houses are barred from giving views ahead of their official quarterly outlook.

The banking sector remains a concern. While announcing December quarter results, SBI chairman OP Bhatt had predicted "a rise in non-performing assets and massive restructuring of loans in the coming quarters". This strain is likely to show up in banks' balance sheets. However, NBFCs are likely to report robust gains as their business environment has improved over the past few months.

"Banking results may not be up to the mark. Bottom lines of banks are likely to suffer due to slow credit offtake and treasury losses as provisioning will go up. There could also be some stress due to a slump in real estate and gems and jewellery sectors," Bhatt of Prabhudas Lilladher said.

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Realty, oil & gas may throw up a pleasant surprise

From Page A

According to him, the sector to watch out for will be construction. The industry is expected to grow, in real terms, at a rate of 13.13 per cent year on year through 2010.

In the December quarter, L&T, Siemens and Gammon India had reported very modest numbers, with L&T showing a drop in its Q3 top line and cutting its guidance for March quarter to 10 per cent from 15 per cent.

But industry watchers say some better numbers can be expected on the back of robust growth in new orders and book-to-bill ratio.

Bhel, the first major company to announce March quarter results, has reported a 40 per cent year-on-year jump in net profit. The company also projects 15 per cent growth in revenue in 2010-11. If that's an indication to go by, most companies in the capital goods and engineering sectors are expected to report robust top-line and bottom-line growth.

The outlook for the oil and gas industry has improved on the back of better petroleum prices and a commodity rebound, but oil marketing companies have been bleeding badly.

In the realty space, most companies are expected to turn around this quarter, and some like DLF and HDIL are expected to report robust numbers.

Vakil of HDFC Securities says realty, oil and gas and sugar firms will surprise with their numbers. "We expect IT and cement firms to show around 8 per cent year-on-year growth while banking is likely to clock 30 per cent year-on-year growth in net interest income. Telecom and pharma companies are likely to dishearten."

Consumer durables manufacturers such as Havell's India, Bajaj Electricals, Khaitan, TTK Prestige, Whirlpool, Crompton Greaves and Hitachi Home & Life Solutions have seen surge in share prices in the past two months.

Their Q4 numbers are likely to reflect economic revival and more than 50 per cent rise in disposable incomes in the past two years.

By the same yardstick, FMCG sector could be a let down as high inflation and pricing pressure due to strong competition have shrunk their top lines over the past few months.

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