

OUTLOOK Profit

Cover Story

Playing the national anthem

Brokerages rework GDP and earnings estimates as UPA swings back to power

Gargi Banerjee

The a to optimism from pessimism can be rather swift on the Street. Days after the Congress-led United Progressive Alliance's decisive win, India strategy reports are flying off the tables at foreign and domestic brokerages. The ability of an 'empowered' Congress to take the country through its next stage of reforms has caught the imagination of the markets.

While some brokerages have rushed in to upgrade GDP targets, some others, albeit with a positive bias, are waiting for the picture to get clearer in the Budget.

For instance, Morgan Stanley in its recent report has increased its GDP estimates to 5.8 per cent for FY10 against the previous 4.4 per cent. Citigroup has maintained an upward bias in its growth expectations at 5.5 per cent for FY10, besides a 50 basis point easing in policy rates.

Gaurav Kapur, senior economist

with ABN Amro Bank, however, holds his earlier view of 5-5.5 per cent for FY10, though he believes that some "greenshoots" are visible. D K Joshi, director and principal economist, Crisil also maintains his earlier view of 5.5 to 6 per cent growth. "The

key to growth lies in bringing about pricing reforms when the interest rates are low," says Joshi.

Tweaking earnings

The biggest turnaround in analyst estimates has been on the earnings projections for India Inc. In March 2008, Sensex FY10 earnings were estimated at Rs 1,200, which was later downgraded to between Rs 800 and Rs 850 following concerns over economic growth. But for now, the downgrades have stopped and some are expecting higher earnings of about Rs 880-900.

Dipen Shah, vice-president, private client group, Kotak Securities, says, "From the second half of CY09 we will see some significant upgrades happening in the corporate earnings, because by that time ana-

Feel good factor

GDP growth	Target FY10 (%)	Revision
Morgan Stanley	5.8	Yes
Citigroup	5.5	Upward bias
ABN Amro Bank	5 to 5.5 range	Downsider risk to neutral
Crisil	5.5 to 6 range	Change in the higher side
JP Morgan	5.5	No
Goldman	5.8	Yes
Macquarie	5.5	Upside risk

Source: Bloomberg Pacific Markets

Sensex target	Fair value (FY10)	Earnings target
Morgan Stanley	13201	2.5% up ✓
Citigroup	13000-13500	positive watch ✓
Macquarie Sec	15300*	positive watch ✓
Credit Suisse	13500	30% plus earnings growth from FY11 ✓
Kotak Sec	14,000	positive watch ✓

*Revised, **June 2008 Source: Brokerages

The wish-list

Key reforms likely to be undertaken by the UPA government

Measure	Impact	Key beneficiaries
Raise FDI limit in insurance companies	Value unlocking through existing / additional stake sale	ICICI, HDFC, Max India
Facilitate equity participation for foreign banks in Indian banks	Capital raising through existing / additional stake sale	Yes Bank, Federal Bank, Karnataka Bank
Rehabilitation / compensation for people displaced as a result of land acquisition	Obstacles to project development will get reduced	Mining companies, SEZ developers
Allow FDI in retailing	Capital raising through existing/additional stake sale	Pantaloon, Shoppers stop
Allow strategic stake by foreign airlines in domestic airlines	Capital raising through existing/ additional stake sale	Kingsfisher, Jet, Spice Jet
Speed up approvals for pending infrastructure projects	Increase in order book, reduced risk of project delays	BHEL, L&T, Reliance Power, Reliance
Minority stake sale in listed public undertakings and IPO/stake sale in some large unlisted companies	No change in control but opportunity for minorities to gain exposure in strong asset plays	Power Grid, MMDC, SAIL

Source: CLSA

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This event probably does open up meaningful possibilities, but there's a lot to do, and there could be a lot in the way

Aditya Narain,
MD & head of research,
Citigroup Global Markets India



Even if markets head lower sharply later in the year, \$10-15 billion of capital may be transferred to Indian corporates

Nilesh Jasani,
MD & head of research,
Credit Suisse Securities



In our base case, we think earnings growth for the BSE Sensex constituents on an aggregate basis will likely be 2.5% in FY10

Ridham Desai,
Managing director,
Morgan Stanley India

lysts would have factored in an upward revision in GDP growth."

Morgan Stanley has raised its aggregate earnings growth estimates for Sensex constituents to 2.5 per cent in FY10 and 12.5 per cent in FY11 against its previous forecast of -10 per cent and 11 per cent. "Consequently, the fair value estimate for the BSE Sensex rises to 13,201," says the report. Like Morgan Stanley, other brokerage firms too have already raised their Sensex targets to 13,000-15,000.

Stopping short of calling the elections a "game changer for the market", the Citi report identifies capital/liquidity-

driven and beta-plays as the bigger immediate beneficiaries - in the areas of infrastructure, banks and real estate.

Credit Suisse has maintained an overweight on the Sensex with a target of 13,500 by mid-2010. Among all foreign brokerages, Macquarie seems the most bullish as it sets its June 2010 Sensex target at 15,000. "Disinvestment should also return to the table while the push to infrastructure should continue," it says in a report.

Nilesh Jasani, head of research at CSFB, however, wants investors to enter the markets in the second half of

the year as he expects global market correlations, monetary and fiscal constraints, corporate and economic data to create disappointments. Though Credit Suisse expects the markets to head lower sharply later in the year, it sees \$10-15 billion of capital being transferred from global financial investors to Corporate India.

But for now, analysts feel the positives have already been factored in the Sensex, which is now trading at 13,900 levels (15-16 times estimated FY10 earnings) and is almost close to the medium-term target of most research houses. □

What's on the menu?

List of major bills pending in Parliament

Title	Overview
The Insurance Laws (Amendment) Bill, 2008	To increase the permitted limit of foreign equity in Indian insurance companies from 26% to 49%
The Forward Contracts (Regulation) Amendment Bill, 2008	To transform the role of the Forward Markets Commission (FMC) from a government department to an independent regulator with powers similar to that of SEBI
The Land Acquisition (Amendment) Bill, 2007	Provide for rehabilitation and compensation framework, where land is acquired by government for public use or by corporates
The Unorganised Sector Workers' Social Security Bill, 2007	Provide for the social security and welfare of unorganised sector workers
The State Bank of India (Amendment) Bill, 2006	To reduce government's shareholding in SBI; Permit SBI to raise capital by way of preference shares
Labour Laws (Exemption from Furnishing Returns and Maintaining Registers by Certain Establishments) Amendment and Miscellaneous Provisions Bill, 2005	The Bill limits the application of the Labour Laws Act to establishments with 500 or fewer employees
The Banking Regulation (Amendment) Bill, 2005	Regulating acquisition of shares in banking companies, include preference share as capital and restriction of 10% voting rights on any shareholder is being revoked

Source: CSIA

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