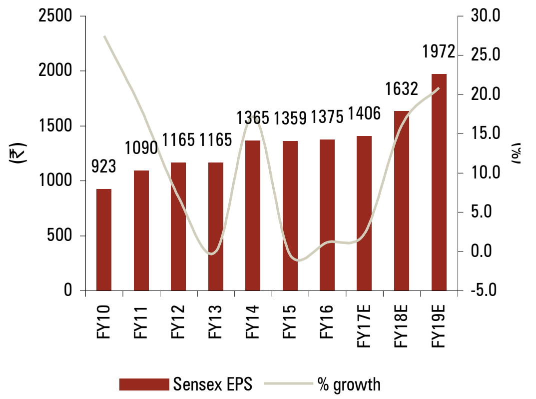
July 10, 2017

Transition before swift recovery…

Trend in Sensex EPS



Bloomberg, ICICIdirect.com Research

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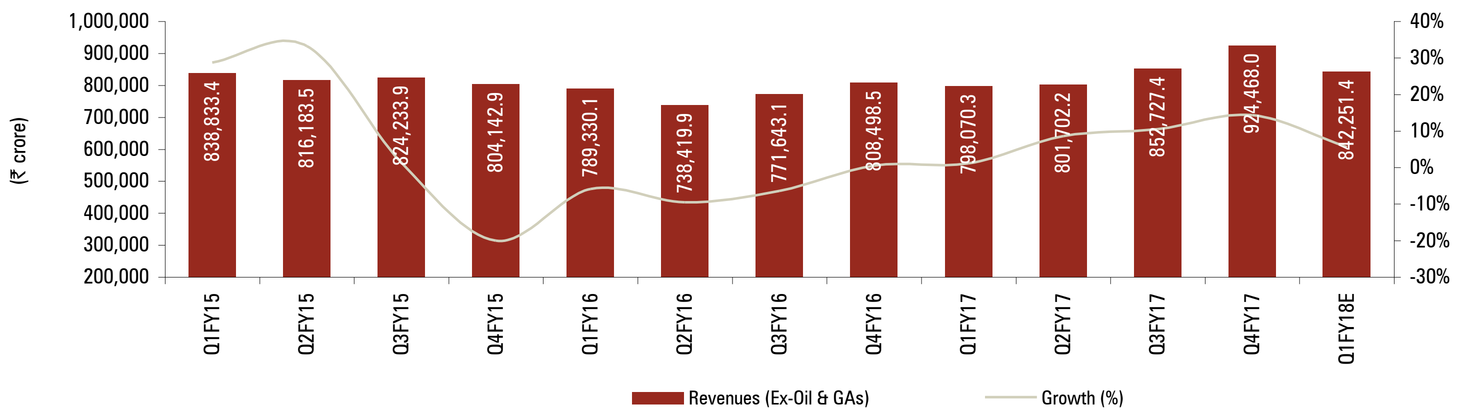
- Q1FY18E earnings and possibly the next quarter are likely to be non-events as the economy gears up for the GST challenge. We believe that the market is likely to focus on the long term benefits that would accrue from this structural change. We note that with most of items' rate being closer to the existing rates and more importantly ~ 81% of items to be taxed below the 18% standard rate, we believe implementation of GST will not be inflationary in nature
- In terms of sectors, key beneficiaries of GST include FMCG, consumer durables, tourism, aviation, DTH & cable and building materials among others. While anti-profiteering would limit margin benefits, the consequent benefits passed on would lead to a demand uptick in the abovementioned sectors. Similarly, the GST impact for a major set of sectors such as auto, cement, power, banking, pharma and agri chemical would be neutral. The luxury segment discretionaries such as hotels, theme parks, breweries along with upstream and downstream oil companies would, however, feel the pinch of the GST, making the product/services costlier
- Leading up to the event, however, there were a few adjustments, which would reflect during the quarterly performance. Consumer product companies are expected to report tepid sales growth despite healthy consumer demand because of de-stocking at the wholesaler and retailer level in the run up to implementation of GST. We also highlight that the GST uncertainty headwinds, which are largely one-off events, could be seen even during Q2FY17 and does not change the structural story of strong domestic consumption led growth, which would be a key long term driver of the economy and earnings growth
- The I-direct coverage (ex-BFSI and oil & gas) is likely to witness revenue growth of 3.4% YoY, which will be primarily driven by sectors like metals & mining (up 19.5% YoY), power (up 9.1% YoY) & capital goods (up 5.6% YoY). Operating margins (ex-BFSI and oil & gas) may contract 158 bps YoY to 19.6%. Earnings of our coverage universe (ex-BFSI and oil & gas) are expected to grow 7.1% YoY. We expect Sensex EPS to grow at a CAGR of 18.4% in FY17-19E

Exhibit 1: Trend in revenue growth of I-direct coverage universe (ex- BFSI)

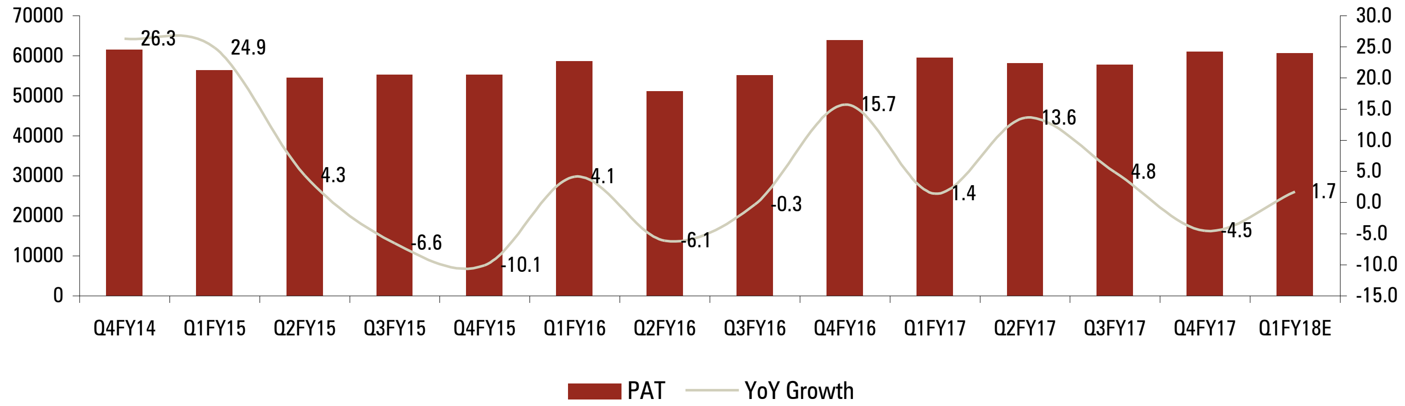


Source: Company, ICICIdirect.com Research

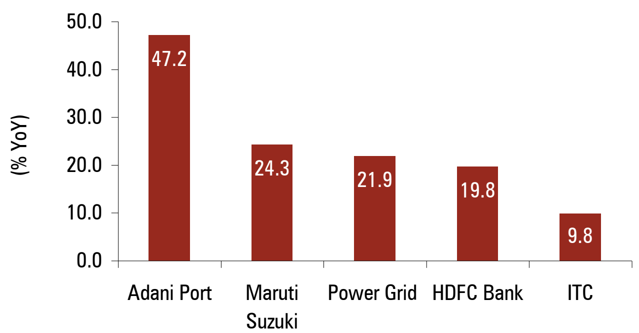
Performance of Sensex companies

- In Q1FY18E, average revenue, PAT of Sensex companies (ex SBI & Tata Motors) is likely to grow 3.6%, 4.1% YoY, respectively. This positive growth is notable given most businesses experienced pre-GST jitters. More than 50% of absolute growth is attributable to Gail (trading & transmission volume growth), Maruti Suzuki (13.2% volume growth) & Tata Steel (~31% growth in Indian operations). EBITDA (ex SBI & Tata Motors) is broadly flat as growth in cyclicals like Power Grid & NTPC is offset by EBITDA performance of Bharti Airtel (competitive pressure)
- On a sectoral basis, with respect to Sensex companies, auto, power, oil & gas and FMCG would be among top five performing sectors based on PAT growth. The five companies that top the charts in terms of profitability growth include Adani Port (~47% YoY), Maruti Suzuki (~24% YoY), Power Grid (~20%), HDFC Bank (~20%) & ITC (~9.8% YoY). The expected strong growth in Power Grid's earnings is attributable to strong asset capitalisation
- On the other hand, export based sectors like healthcare & IT sectors would be the underperformers in terms of performance based on PAT decline. The bottom five companies include Bharti Airtel (down ~80% YoY), Lupin (down ~56%), Sun Pharma (down ~52% YoY), Coal India (down 30% YoY) & Axis Bank (down ~23% YoY). The dismal earnings performance in Bharti Airtel is due to pricing pressure & spectrum related interest & depreciation

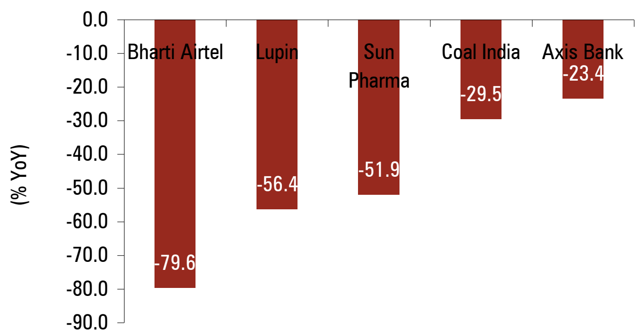
Exhibit 2: Trend in profitability of Sensex companies…



Top five likely Sensex companies in PAT growth for Q1FY18E



Bottom five likely Sensex companies in PAT growth for Q1FY18E



Source: Company, ICICIdirect.com Research

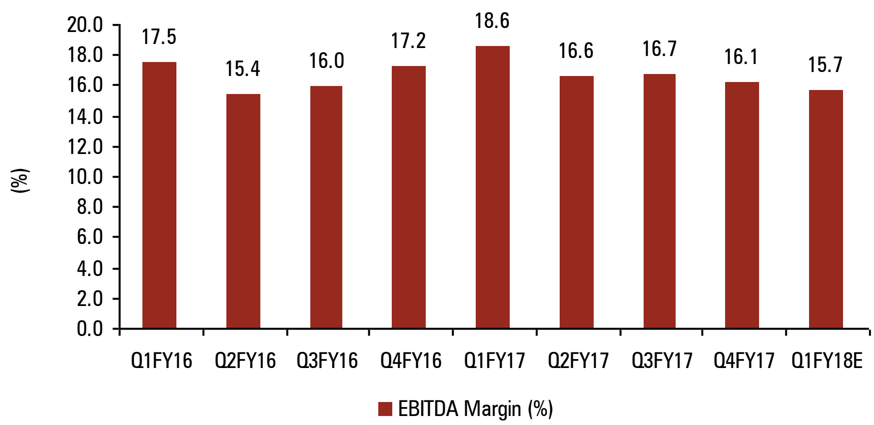
What we expect our coverage universe to report; emerging trends

- From a sectoral perspective, sectors like metals & mining (19.5% YoY), auto (ex-Tata Motors 12.1%), cement (11.4% YoY) and oil & gas (10.1% YoY) are expected to report strong volume driven revenue growth. However, telecom (12% de-growth), healthcare (3.4% de-growth) and FMCG (0.1% de-growth) are expected to witness a sales decline. Telecom & healthcare sectors (price erosion in US) were impacted by pricing pressure. Pre-GST de-stocking led to a loss of ~10 day sales in the FMCG sector (ex-ITC)
- In the banking space, credit growth is expected to remain in single digits at ~6% YoY. Retail focused private banks like IndusInd Bank, HDFC Bank and DCB Bank are expected to maintain their strong growth trajectory of >20% YoY. We expect NPA accretion to continue in Q1FY18E though the pace of addition is expected to be lower than seen in the previous quarter. For our coverage universe, we expect net addition in GNPA at ₹ 6430 crore (₹ 11639 crore added in Q1FY17 and ₹ 7262 crore seen in Q4FY17). Aging of assets and reference of 12 accounts to NCLT is seen keeping credit cost elevated. However, completion of deal between UltraTech and JP Associates will provide a cushion in terms of reversal of provision. On a broader basis, GST implementation remains a positive as it is expected to widen organised base and cut down shadow business. In our coverage, mid-size banks like Federal Bank, DCB Bank & CUB seem to be not much impacted by accounts referred to NCLT and are, thus, expected to deliver a healthy set of numbers. Earnings of large private banks (our coverage) like HDFC Bank, IndusInd Bank, Yes Bank and Kotak Mahindra Bank are expected to continue to remain strong
- For the auto & auto Ancillary space, Q1FY18 started with the implementation of BS IV norms thereby filling the inventory (by OEMs) at dealer level & ended with liquidation of inventory by dealers ahead of the implementation of GST. Pricing of vehicles were hiked at the beginning of the quarter (due to newer norms) but were moderated (by offering discounts) to clear up inventory ahead of implementation of GST. Thus, on an overall basis, auto volumes grew ~8% YoY, driven by 2-W (volumes up 9% YoY) mainly due to expectation of normal monsoon & wedding season. The PV witnessed moderation in growth with volumes up ~8% YoY. Overall CV volumes declined ~11% YoY, as M&HCV volumes declined primarily due to supply constraints of fuel injection pumps for BS IV engines. Hence we estimate our universe (ex-TML) to report topline growth of 12% YoY. Average prices of major commodities increased YoY. Hence, we expect EBITDA margins of our universe (ex-TML) to contract ~75 bps YoY to 14.8%. Overall profit of our coverage universe, (ex-TML) is expected to grow ~8% YoY
- In the capital goods space, GST rates for the construction and allied activities have been pegged at 18% vs. earlier rates in the range of 12-18% (includes excise duty plus state specific duties). With GST kicking in and given the price variable clause in orders, there may be some escalation in order values. During Q1FY18E, companies like L&T and KEC International continued their consistent streak of reporting order wins. On the positive side, Thermax also reported a big order win of $157 million (export order). Product based companies are also expected to put up a moderate show with revenue growth of ~10% YoY whereas there will be some pressure on EBITDA margins. We believe the focus of EPC companies on improving the receivable collection cycle will continue in Q1FY18E amid implementation of GST wherein again

generation of cash flows will be a priority till the time entire value chain gets itself adjusted to the new regime

- After two quarters of subdued volume growth (mainly due to a slowdown in construction activity and demonetisation), cement volumes are expected to increase 6-7% mainly led by increased infra spend by the government. In addition, cement prices have, on an average, increased 5-6% across regions led by an improved demand outlook. Consequently, we expect our I-direct cement universe to report 11.4% YoY growth in sales. On the cost front, we expect rising cost pressure due to increase in pet coke prices (impact of ₹ 70-80/t) and higher freight cost (driven by truck overloading ban in northern region) to be offset by better pricing environment and operating leverage benefit. Consequently, we expect companies under our coverage universe to report 3.7% YoY increase in EBITDA/tonne to ₹ 985/t
- EBITDA margins of the coverage universe (ex-BFSI) are expected to contract 289 bps to 15.7% compared to 18.6% in the corresponding quarter. However, operating margins (ex-BFSI, oil & gas) are expected to contract 157 bps to 19.6%

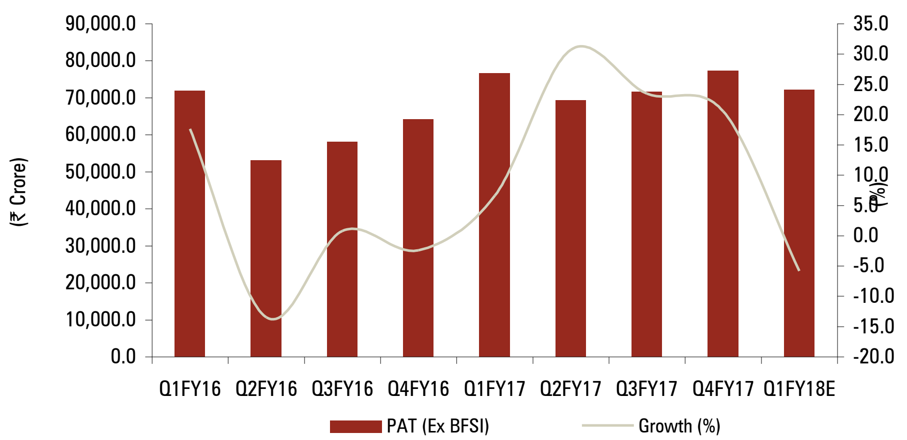
Exhibit 3: Trend in EBITDA margins of I-direct coverage universe (ex- BFSI)



Source: Company, ICICIdirect.com Research

- On the profitability front, the bottomline of the I-direct coverage universe (ex-BFSI) is expected to decline 5.8% YoY due to a 40.6% decline in the oil & gas sector mainly due to inventory loss. However, the earnings (ex- BFSI and oil & gas) are likely to grow 7.1% YoY.

Exhibit 4: Trend in profitability of I-direct coverage universe (ex- BFSI)



Source: Company, ICICIdirect.com Research

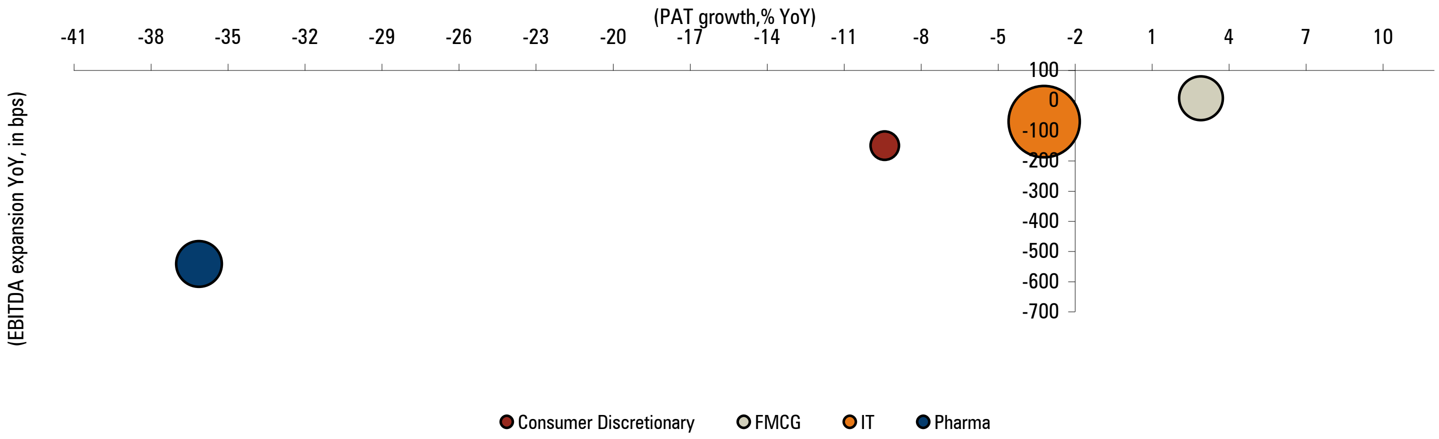
Defensives: Consumption sectors impacted by GST…

(Sector composition: consumer discretionary, IT, FMCG, healthcare)

Key Highlights:

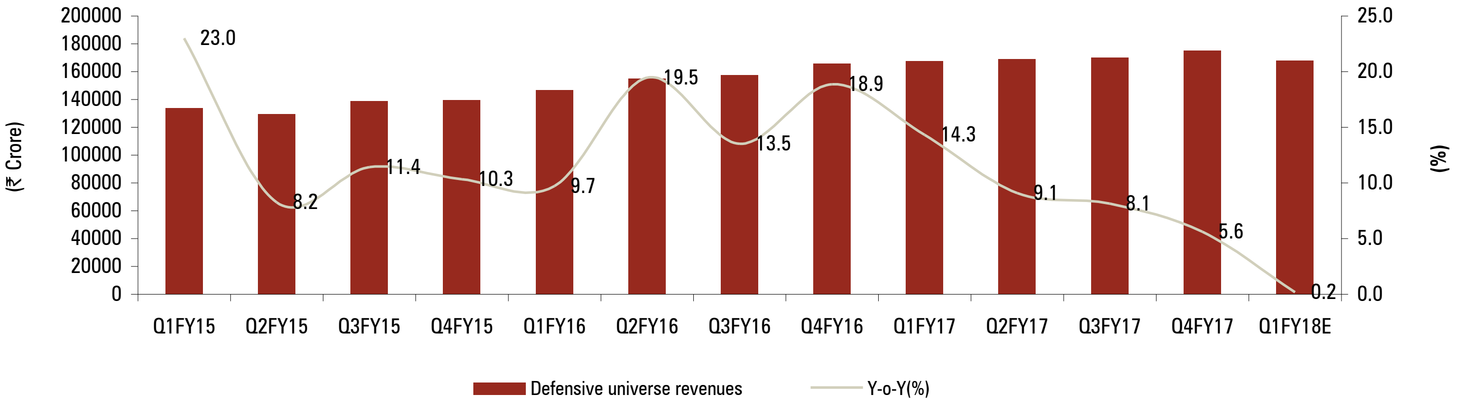
- Defensives are expected to post lowest revenue growth of 0.2% YoY compared to average revenue growth of 12.6% in the previous 12 quarters. However, this is mainly attributable to GST, which led to de-stocking of inventory in FMCG, consumer discretionary & healthcare sector which led to volume dip. The IT universe is expected to post a revenue growth of ~2% YoY. The EBITDA margin of the defensive universe is expected to contract 164 bps YoY mainly due to margin contraction of 542 bps in the pharma space on account of sharp price erosion in US. The ensuing EBITDA, PAT of the defensive universe is expected to decline 7% YoY & 9.6% YoY, respectively
- Tier-1 IT companies are expected to start FY18E with reasonable constant currency (CC) growth (-1%-2.5%) in otherwise seasonally strong Q1 while reported dollar growth could be aided by cross currency tailwinds ranging from 40-90 bps. Inter-quarter appreciation of rupee against US$ (3.6% QoQ) could negatively impact rupee revenue growth in the quarter. Tier-I IT companies could likely report average $ revenue growth of ~2.4% in Q1FY18E. Within tier-I, HCLT (4.0%) could lead again led by inorganic contribution followed by TCS (3.3%) and Infosys (2.6%) while Wipro could witness a subdued quarter. We expect a mixed Q1 for our midcap coverage universe led by MindTree, which could witness an up-tick in growth on the back of strong deal pipeline in H2FY17. On the operating margins front, rupee appreciation (3.6% QoQ) coupled with moderate wage hikes and visa costs could create margin headwinds in Q1 partly aided by cross currency benefit and operational efficiency. Deferral of wage hike at Infosys could cushion margins in Q1
- Amid the chaos ahead of GST implementation, we are estimating sales loss of 8-15 days during the quarter for companies under our coverage universe and, hence, factoring in flat revenue YoY. We estimate revenue growth only for ITC, Nestlé and Prabhat Dairy among our coverage. Led by the cigarette and hotel segments, we are estimating 3.9% YoY growth in revenue for ITC. Nestlé is estimated to report marginal growth in sales by 1.5% YoY. Supported by B2B exposure and increasing capacity utilisation, Prabhat Dairy is expected to report 21.4% YoY growth in revenue. Given the huge size of business and reach, we are factoring in ~8 days sales loss for HUL, thus, leading to a marginal decline of 2.8% YoY in the revenue. JLL, Dabur, Colgate & VST Industries are expected to report sales decline of 5.9%, 5.8%, 4.6% and 5.6% YoY. GSK Consumer is estimated to report 7.8% decline in sales largely led by the discretionary nature of the product portfolio and uncertainty about the GST rate of the malt based drinks. On account of higher commodity cost and sales loss, we expect our coverage universe to post flat EBITDA margin. We estimate 2.9% YoY growth in profit for our coverage universe
- I-direct healthcare universe is expected to decline ~4% YoY to ₹ 35714 crore. The pharma companies (select pack) will continue to face challenges on the US front (decline 17% YoY) as well as for the quarter in domestic formulations front (decline 15% YoY) mainly due to 1) de-stocking of inventories in the domestic market led by GST implementation and 2) sharp price erosion as well as high base in the US and 3) rupee appreciation vs. all major currencies. As per AIOCD, primary sales would have dipped 50% or more for most pharma companies for June. European growth is expected at just 7% YoY, due to negative impact of currency movement (down 6% YoY)

Exhibit 5: How performance variables of defensives may pan out in Q1FY18E



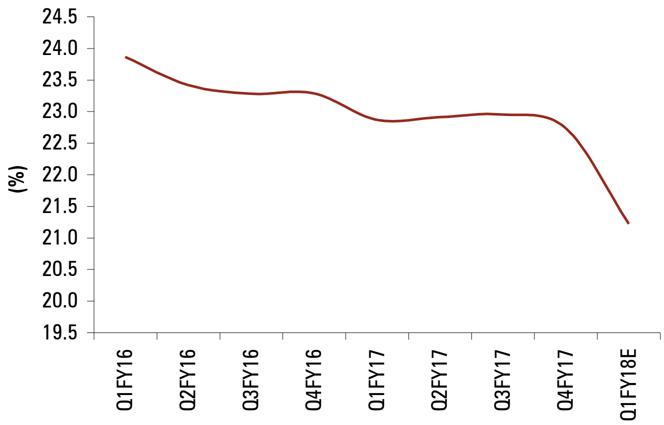
Source: Company, ICICIdirect.com Research
Note: Size of individual circle represents the Revenue for the respective sector in Q1FY18E.

Exhibit 6: Trend in revenue growth of defensives over last three years



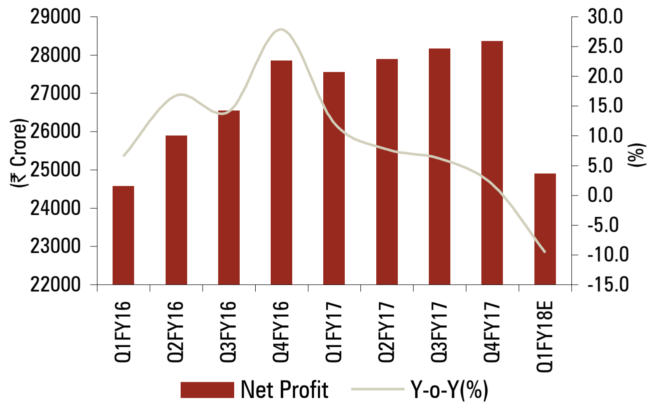
Source: Company, ICICIdirect.com Research

Exhibit 7: Trend in EBITDA margins



Source: Company, ICICIdirect.com Research

Exhibit 8: Trend in profitability



Source: Company, ICICIdirect.com Research

Cyclicals: Visible signs of pick-up in capex cycle

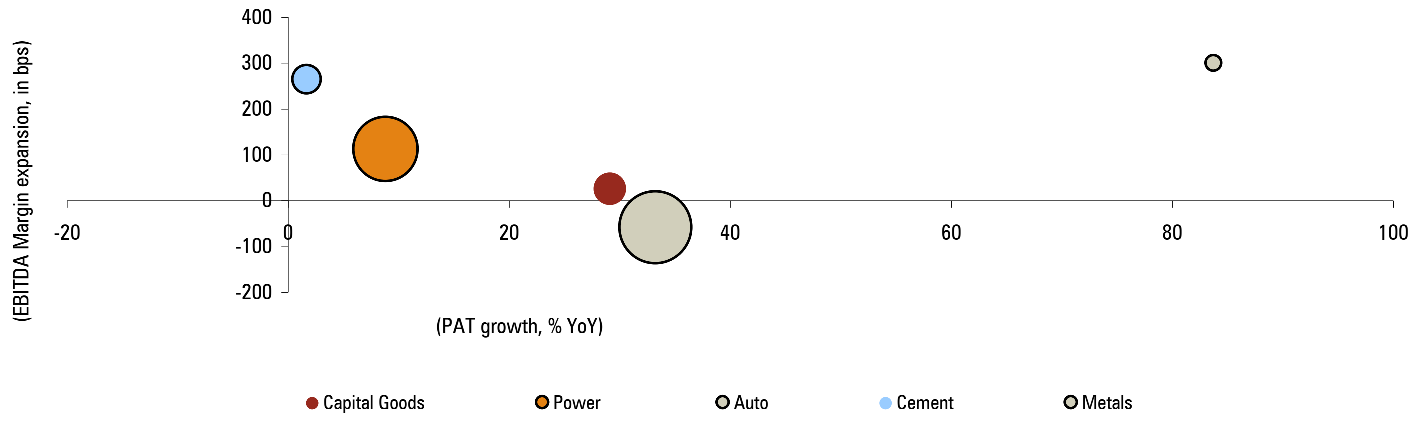
(Sector composition: auto, cement, capital goods, power, infrastructure, real estate, oil & gas and telecom)

Key Highlights

Cyclicals are expected to witness 7.2% YoY growth in Q4FY17E. This high growth is mainly driven by the 10% YoY growth in the oil & gas sector led by higher crude prices & 22% YoY growth in the metals sector led by both volume & realisation growth. The power sector is likely to continue its growth momentum (~9.1% YoY growth) on the back of generation & capacity addition.

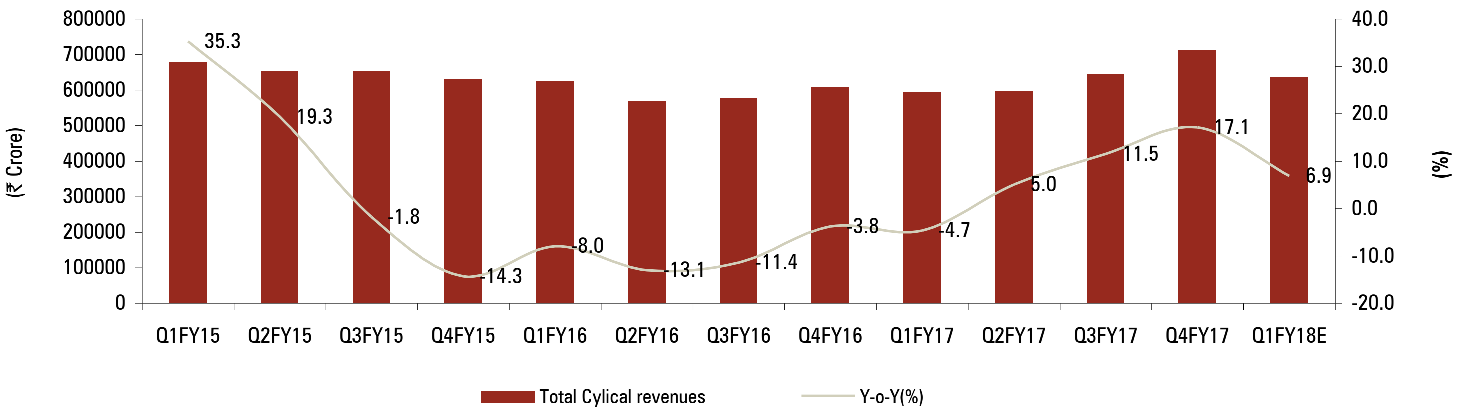
- We expect the performance of the oil & gas sector to remain mixed during the quarter. Oil & gas production for upstream oil companies is expected to report positive growth. However, we expect realisations to decline QoQ on account of a fall in crude oil prices by 8.3% QoQ to US$50.1/bbl. The quarter witnessed flat Singapore GRMs at US$6.4/bbl but GRMs for OMCs are expected to remain subdued on account of inventory losses and weak petrol and diesel product spreads, which constitute a majority of Indian refinery production. On the gas utility front, we expect stable growth in volumes due to increase in domestic gas production and imported LNG. Lower spot LNG prices is expected to augur well for gas utility companies
- In the metals space, on a sequential basis, we expect EBITDA/tonne of steel players to decline while nonferrous players are likely to report increase in their earning YoY. On a sequential basis, prices of key inputs such as coking coal, iron ore have moderated but the partial impact of the sharp rally in coking coal prices at the end of March 2017 on account of cyclone 'Debbie' is likely to come in lag during the current quarter. Hence, we expect the EBITDA/tonne of major steel players to decline sequentially. During Q1FY18, majority of base metals (except aluminium) witnessed a decline on a QoQ basis. However, on a YoY basis, prices continued to remain elevated. Average zinc prices during the quarter stood at US$2591/tonne (up 35.0% YoY, down 6.7% QoQ). Average lead prices were at US$2156/tonne, up 25.5% YoY, down 5.4% QoQ. The average price of aluminium was at US$1905/tonne up 21.2% YoY, 2.8% QoQ while average copper prices were at US$5668/tonne up 19.7% YoY, down 2.9% QoQ. Hence, for Q1FY18, we expect the earnings of non-ferrous players to remain healthy on a YoY basis
- In the power space, the GST rate on thermal coal has been pegged at 5%, which is lower than the current rate of 12%. This move will be neutral for regulated utilities as lower fuel costs will be treated as a pass through and subsequently lead to lower tariffs. On the renewable side, GST on solar and wind equipment has been pegged at 5%, which does not materially alter the economics of the project. The coverage universe is likely to report growth in performance for five straight consecutive quarters. Revenues, PAT are expected to grow 9.1%, 8.8%, respectively for Q1FY18E. In terms of individual performance, Power Grid is expected to continue to witness a robust operational performance as it is likely to capitalise assets to the tune of ₹ 8000-9000 crore during Q1FY18 coupled with 22.9%, 21.9% YoY growth in revenues, PAT, respectively. On the other hand, NTPC is likely to report a flattish Q1FY18 as gross generation and energy sold is expected at 64.3 BUs and 60 BUs. Consequently, revenues and PAT are expected to grow 5.6% and -0.6% YoY, respectively. In terms of capacity addition, NTPC now commands solar capacity to the tune of 845 MW

Exhibit 9: How performance variables of cyclicals may pan out in Q1FY18E



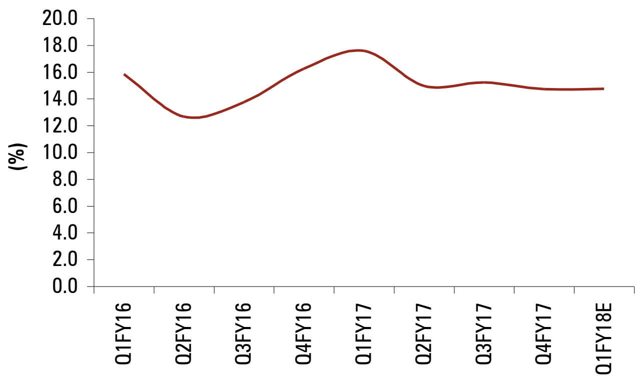
Source: Company, ICICIdirect.com Research

Exhibit 10: Trend in revenue growth of cyclicals



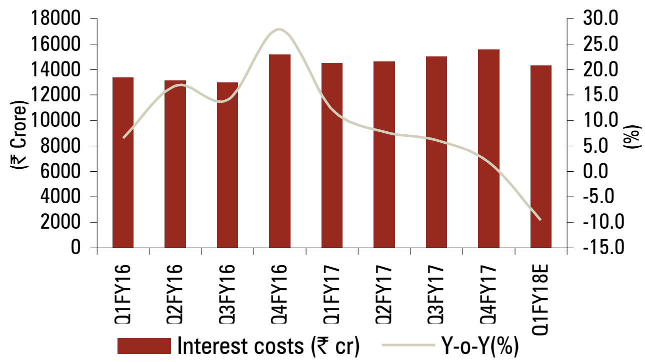
Source: Company, ICICIdirect.com Research

Exhibit 11: Trend in EBITDA margins



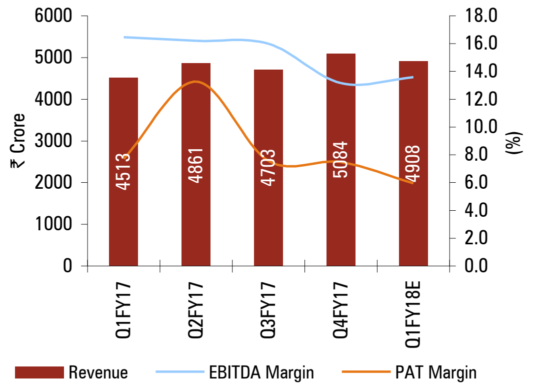
Source: Company, ICICIdirect.com Research

Exhibit 12: Interest costs …

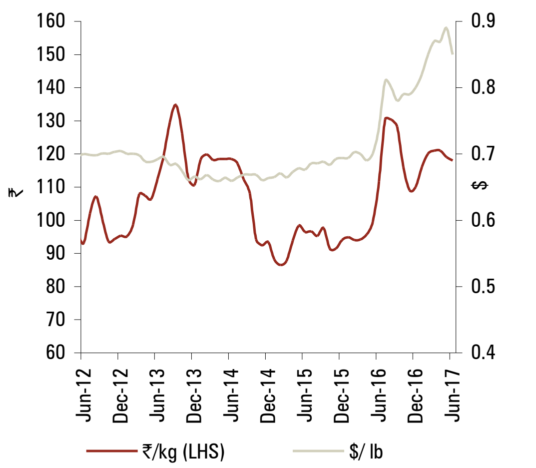


Source: Company, ICICIdirect.com Research

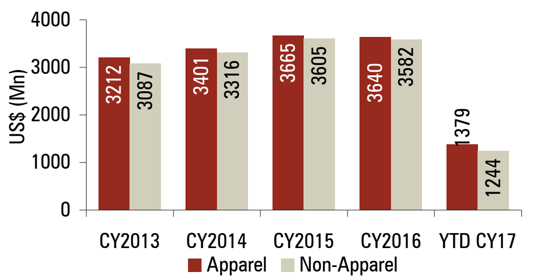
Topline & Profitability (Coverage Universe)



Cotton prices (domestic & international)



Indian textile exports to US



Top Pick

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Apparel

GST leading to lower offtake by trade channels

The Indian textile industry is aligning itself with the GST rollout becoming effective from July 1, 2017. The 5% GST rate on cotton yarn and fabrics is higher than the existing tax rate at zero percent. However, availability of input tax credit is likely to partly offset the increase in tax rates. The tax rate for branded apparels above ₹ 1000 under GST has been fixed at 12% while the current incidence of taxation is ~ 7-8%. We believe over the longer term, branded players will be able to pass on the additional tax levy by taking a price hike. For apparels priced below ₹ 1000 GST rate is 5%. We believe Page and Rupa are the key beneficiaries as the GST rate is lower than the current tax incidence. GST would be positive for organised players as higher compliance cost for unorganised players would create a level playing field. However, disruptions prior to GST implementation on account of de-stocking by dealers over concerns on availing input credit of tax paid on existing stocks are likely to negatively impact the revenue growth of the textile and apparel sector.

Revenue growth expected to remain moderate

Except for Page industries and Arvind, all other companies in our coverage universe are likely to register a single digit revenue growth rate. Disruption in supply chain owing to inventory downsizing may impact revenue growth in the current quarter. Kewal Kiran and Rupa are expected to report subdued revenue growth of 2.2% and 3.8%, respectively. Vardhman's textile segment is expected to register moderate revenue growth of 3.4%, owing to near full capacity utilisation while the acrylic segment is expected to remain flattish. On a consolidated basis, Vardhman is expected to register 5.8% growth in revenues. Arvind's brand business has been growing in excess of 20% in the last two years owing to aggressive store additions and strong revenue growth in power brands. We expect the momentum in brand & retail business to continue and register revenue growth of 22% YoY. Also, advancement of end of season sale (EOSS) from July to June is expected to drive revenue growth. Arvind's textile segment is expected to clock revenue growth of 3.2% mainly driven by the garmenting segment. On a consolidated basis, Arvind is expected to clock revenue growth of 10.6% YoY. Page is expected to register revenue growth of 12.7% YoY (albeit on a higher base), driven by 6.9% volume growth and 7.2% expansion in blended realisations.

Exhibit 13: Estimates for Q1FY18E: (Apparel) (₹ Crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q1FY18E	YoY	QoQ	Q1FY18E	YoY	QoQ	Q1FY18E	YoY	QoQ
Arvind Ltd	2,328.2	10.6	-5.5	220.8	-7.3	-1.2	69.3	-5.6	-28.5
Kewal Kiran	110.7	2.2	-15.1	17.5	-9.8	-45.5	11.4	-9.9	-66.5
Page Industries	645.4	12.7	29.4	124.7	14.1	28.0	76.6	12.7	14.7
Rupa & Co.	228.7	3.8	-40.1	29.2	-0.9	-27.5	16.2	5.2	-31.3
Vardhman Tex	1,595.3	5.8	-0.8	274.8	-20.7	-0.3	118.6	-33.5	-25.2
Total	4,908.2	8.7	-3.5	666.9	-10.2	-0.3	292.0	-16.0	-23.1

Source: ICICIdirect.com Research

- **High cotton cost inventory to impact margins**

  We expect companies in our coverage universe to report subdued operating margins mainly on account of high cost cotton inventory and recent appreciation of rupee vs. other currencies. Average cotton prices (Shankar-6) have risen 17% YoY in Q1FY18. The EBITDA margin for Kewal Kiran, Vardhman Textiles and Rupa are likely to contract 210 bps, 580 bps and 60 bps respectively. Arvind's EBITDA margin is likely to decline 180 bps YoY mainly on account of higher discounts impacting the gross margins negatively. In case of Page, increase in blended realisations is expected to partially offset the negative impact of high cotton prices leading to flattish EBITDA margins YoY.

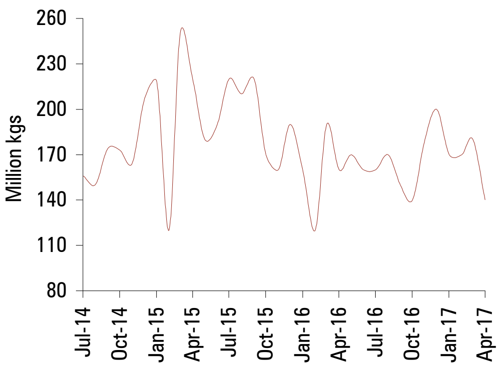
- **Anticipation of increase in cotton acreage to soften cotton prices**

  Cotton acreage in India is anticipated to expand by 7.5% YoY in Cotton Season (CS) 2017-18 to 11.3 million hectare in the backdrop of near normal monsoon forecast (96% LPA) for the upcoming monsoon season 2017. The monsoon forecast is comfortably ahead of two deficient rainfall years in 2014 and 2015. In CS 2016-17, cotton prices rose ~12% giving better returns than other crops. Assuming the yield to be in the range 528 kg/ hectare, the production is expected to increase 3% YoY to 5960 thousand tonnes in CS 2016-17. Higher supply with stable demand should translate into cooling of prices, going forward.

- **Apparel exports to US witness decline in YTD CY17**

  According to the data provided by Office of Textile and Apparel (OTEXA), India's apparel exports to the US for YTD CY17 declined 3.3% to US$1379 million while non-apparel exports registered growth of 5.7% to US$1244 million.

China's cotton yarn import



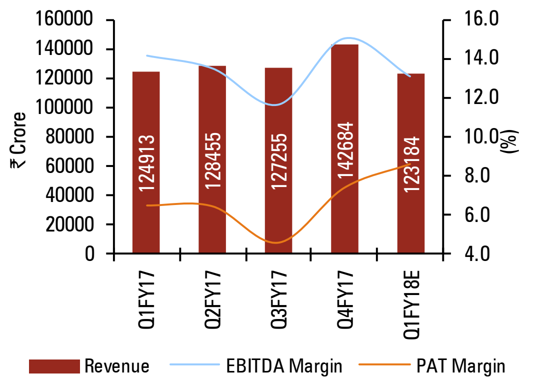
China's cotton yarn imports have declined 10% YoY in FY17 which would impact revenue growth and margins of Indian cotton yarn exporters.

Exhibit 14: Company specific view (Apparel)

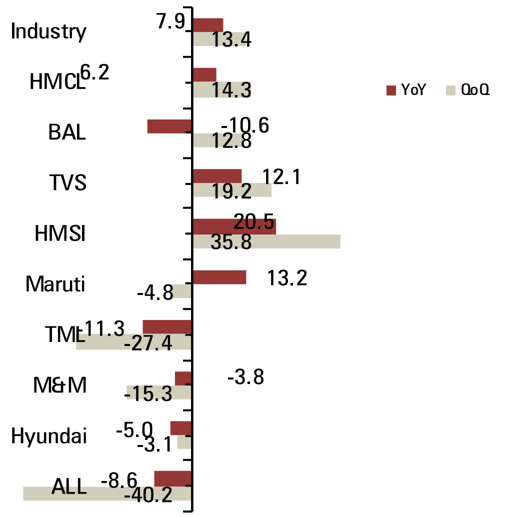
Company	Remarks
Kewal Kiran	We expect revenue growth to be impacted on account of downsizing of inventory by Multi brand outlets (MBOs) and dealers over lack of clarity until the implementation of GST from July 2017. Revenues are expected to increase modestly by 2.2% YoY to ₹ 110.7 crore. Volumes are expected to rise 3% while blended realisations are expected to de-grow marginally YoY. EBITDA margins are expected to contract 210 bps YoY to 15.8% YoY owing to preponing of end of season sale to liquidate existing inventory. Subsequently, we expect PAT to de-grow 9.9% YoY to ₹ 11.4 crore
Page Industries	We expect Page to register revenue growth of 12.7% YoY to ₹ 645.4 crore albeit on a high base. The growth is mainly expected to be driven by a mix of 6.9% expansion in volumes (43.7 million pieces) and 7.2% expansion in average realisations (₹ 146/ piece). Increase in realisations is expected to partly negate the negative impact of high cotton prices leading to flattish EBITDA margin of 19.3% YoY. Hence, we expect PAT to increase 12.7% YoY to ₹ 76.6 crore
Rupa & Company	We expect Rupa to register subdued revenue growth of 3.8% YoY to ₹ 228.7 crore. Disruption in supply chain owing to GST may impact the revenue growth of Rupa in the current quarter. EBITDA margins are likely to contract 60 bps YoY to 12.8% on account of negative operating leverage while absolute EBITDA is expected to remain flat at ₹ 29.2 crore. We expect PAT to increase 5.2% YoY to ₹ 16.2 crore on account of decline in interest expense
Vardhman Textiles	Consolidated revenues are likely to report a moderate growth of 5.8% YoY to ₹ 1595.3 crore. On the segmental front we, expect textiles segment to register subdued growth rate of 3.4% while the acrylic business is expected to remain flattish YoY. We expect operating margins to be severely impacted on account of high cost cotton inventory and appreciation of rupee against other currencies. EBITDA margins are expected to contract 580 bps YoY to 17.2% while PAT is expected to decline 33% YoY to ₹ 118.6 crore
Arvind Ltd	On a consolidated basis, we expect Arvind to register revenue growth of 10.6% YoY to ₹ 2328.2 crore, mainly driven by 22% growth rate in the brands and retail segment. The growth in B&R segment is on account of advancement of end of season sale (EOSS) period from July to June. The textiles segment is expected clock revenue growth of 3.2% YoY driven by garmenting segment. EBITDA margins are likely to contract 180 bps YoY to 9.5% owing to preponing of EOSS to liquidate old stock prior to GST implementation. EBITDA is expected to decline 7% to ₹ 221 crore. However , lower interest cost (owing to reduction in debt) is likely to mitigate the decline in PAT to 5.6% YoY to ₹ 69.3 crore

Source: Company, ICICIdirect.com Research

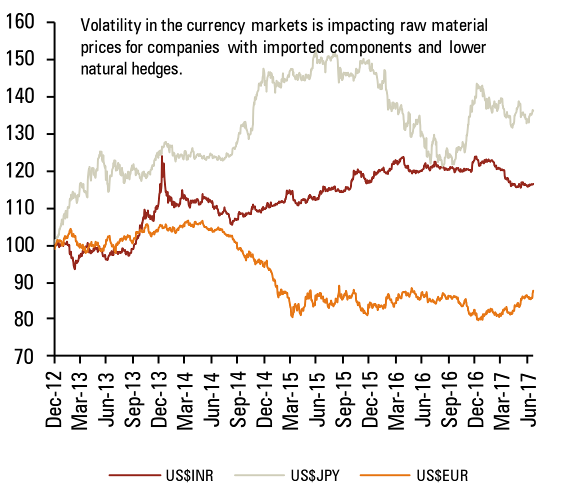
Topline & Profitability (Coverage universe)



Key players & industry volume June'17 quarter growth (%)



Currency volatility chart



Top Picks

Maruti Suzuki & Eicher Motors

Research Analyst

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Auto and auto ancillary

Decent performance despite implementation of BS IV norms & GST

The implementation of BS IV emission norms & GST played as a prefix & suffix, respectively, for the auto & auto ancillary space in Q1FY18. The quarter started with the implementation of BS IV norms thereby filling the inventory (by OEMs) at dealer level & ended with liquidation of inventory by dealers ahead of the implementation of GST. Pricing of the vehicles were hiked at the beginning of the quarter (due to new norms) but were lowered (by offering discounts) to clear up inventory ahead of implementation of GST. Thus, on an overall basis, auto volumes grew 8% YoY, primarily driven by 2-W (volumes up 9% YoY) mainly due to expectation of normal monsoon & wedding season.

PVs witnessed moderation in growth (volumes up ~8% YoY), with MSIL continuing to outperform the PV industry. Overall CV volumes declined ~11% YoY, as M&HCV volumes declined primarily due to supply constraints of fuel injection pumps for BS IV engines. The 3-W volumes declined 7% YoY as growth in export was offset by de-growth in domestic market. We estimate our universe (ex-TML) to report topline growth of 12% YoY, with OEMs & ancillary likely to grow 9% & 16%, respectively. We expect Maruti Suzuki, Eicher Motors & Balkrishna Industries to post good results. We believe GST will have neutral to positive impact on the sector as 1) most OEMs have lowered ASPs of vehicles, which is likely to fuel demand (except for hybrid & 2-W >350 cc vehicles) and 2) the shift from unorganised to organised will benefit the ancillary space.

Higher commodity cost to impact margin & profitability!

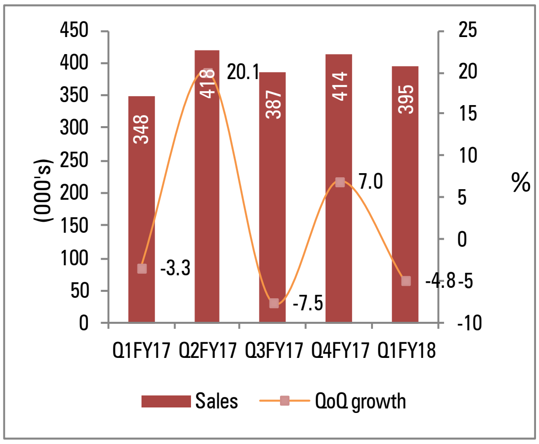
Average prices of major commodities increased - lead (21% YoY), CR steel sheet (15% YoY), plastics (4.5% YoY), aluminium (2.5% YoY) & rubber (0.4% YoY). Thus, we expect EBITDA margins of our auto universe (ex-TML) to contract ~75 bps YoY to 14.8%, with OEM & ancillary margins likely to contract 56 bps & 90 bps YoY, respectively. For the I-direct universe, (ex-TML) profits are likely to grow ~8% YoY, with OEM & ancillary profit likely to grow 9% & 7% YoY, respectively. TML will have subdued performance with PAT growth attributable to exceptional item of £400 mn related to pension benefit.

Exhibit 15: Estimates for Q1FY18E: Auto and auto ancillary (₹ Crore)

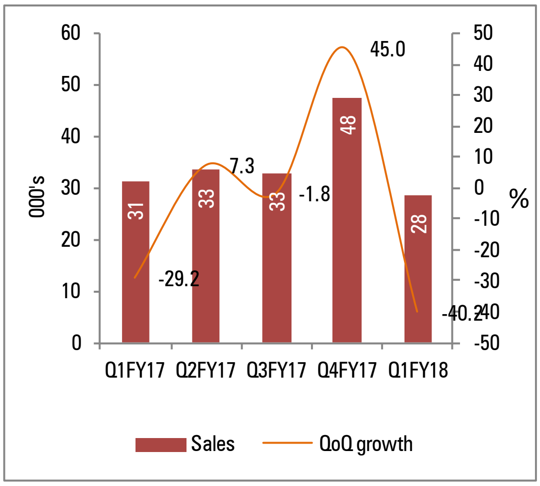
Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q1FY18E	YoY	QoQ	Q1FY18E	YoY	QoQ	Q1FY18E	YoY	QoQ
Amara Raja	1,556.6	17.9	15.8	245.1	7.8	32.8	139.7	6.9	40.6
Apollo Tyre`	3,648.5	10.4	9.7	475.1	-11.8	28.4	254.7	-19.1	11.6
Ashok Leyland	3,846.6	-9.7	-41.9	351.9	-26.1	-51.8	161.9	-44.3	-66.0
Bajaj Auto'	5,377.9	-6.4	9.8	1,050.8	-10.7	16.0	916.6	-6.3	14.3
Balkrishna Ind	1,061.2	14.3	5.8	308.4	18.6	20.8	187.1	25.5	36.1
Bharat Forge	1,042.1	15.2	-7.4	295.5	20.9	-7.7	161.8	32.5	-22.0
Bosch India	2,437.5	-3.3	-5.3	448.8	-0.5	-36.2	331.1	-12.6	-24.8
Eicher Motors*	1,969.2	26.4	4.5	618.2	28.8	4.6	474.4	26.1	-8.7
Exide	2,285.6	13.7	15.7	321.6	2.1	22.9	198.5	1.3	20.5
Hero Motocorp	8,055.5	8.9	16.5	1,335.3	8.6	39.4	951.3	7.7	32.5
JK Tyre `	2,219.3	24.6	3.1	247.9	-30.5	23.9	51.2	-48.9	-42.3
Mahindra CIE `	1,532.4	11.7	5.2	204.7	33.4	5.2	101.6	62.8	24.0
Maruti Suzuki	17,697.0	18.6	-3.5	2,518.0	13.6	-1.7	1,853.4	24.7	8.5
Motherson`	12,917.8	23.6	14.5	1,270.0	36.8	2.4	481.2	59.0	1.4
Tata Motors`	57,049.8	-13.4	-26.1	6,345.1	-25.2	-46.4	4,261.4	88.5	-1.7
Wabco India	487.0	-9.3	-15.6	78.0	-25.3	0.6	52.7	-28.7	6.3
Total	123,184.2	-1.4	-13.7	16,114.4	-8.7	-24.6	10,578.6	30.5	0.4

*Source: Company, ICICIdirect.com research , `Consolidated numbers, *Eicher's PAT is consolidated*

Maruti Suzuki's sales performance



Ashok Leyland's sales performance



Eicher Motor's sales performance

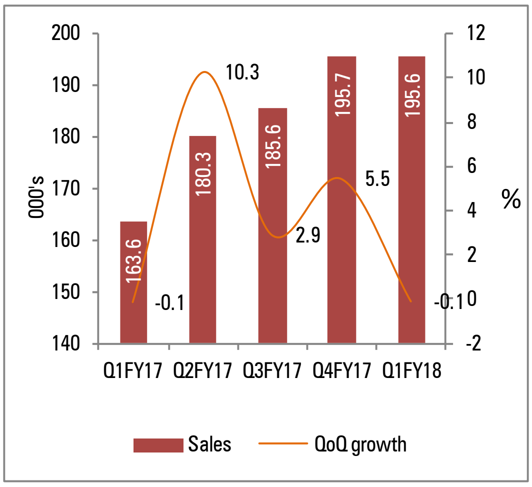
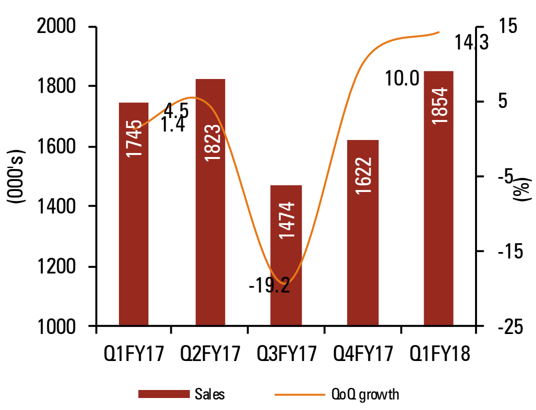


Exhibit 16: Company specific view-OEM

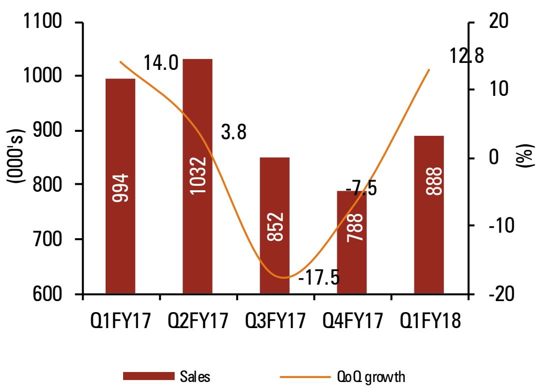
Company	Remarks
Ashok Leyland	The topline is expected to decline ~9.7% YoY to ₹ 3847 crore as overall volumes have declined ~9% YoY to ~28495 units. The ASP is expected to grow QoQ by 1.2% as the impact of poor product mix (M&HCV share at ~70% vs 81% in previous quarter) is offset by price increase post migration to BSIV. M&HCV volumes have declined~17% YoY to 19877 units while LCV volumes are up 21% YoY to 8618 units. We expect EBITDA margins to be contract QoQ to ~9.1% on account of negative operating leverage & poor mix. Reported PAT is expected at ₹ 161.9 crore
Bajaj Auto	Revenues are expected to decline 6.4% YoY to ₹ 5378 crore on account of 10.7% YoY decline in total volumes to ~0.88 million units. Domestic volumes declined 23.3% YoY to ~4.78 lakh units while domestic 2-W & 3-W volumes declined 22% YoY & 30% YoY, respectively. Export volumes at ~4.09 lakh units have exhibited growth (10% YoY) after six consecutive quarters of negative growth. EBITDA margins are expected to expand ~100 bps QoQ to 19.5% due to positive operating leverage & higher export share. PAT is expected to decline 6.3% YoY to ₹ 917 crore
Eicher Motors	Eicher's RE business (motorcycles) has grown ~24.8% YoY to ~183998 units. VECV (truck business) volumes were at ~11,591 units, down ~27.9% YoY. Revenues may grow 26.4% YoY to ₹ 1969 crore. EBITDA margins may come in at 31.4% flat QoQ. We expect VECV business margins to decline 230 bps QoQ to 5.9% on account of negative operating leverage & weaker product mix in VECV business. Consolidated PAT is expected at ~₹ 474 crore
Hero MotoCorp	HMCL volumes increased ~6.2% YoY ~1.85 million units, with de-growth of ~1.5% YoY in the scooter segment & 6.2% YoY growth in motorcycle segment. Volume growth is supported by wedding season. Scooter & motorcycle volumes are expected at ~0.21 million units & ~1.64 million units, respectively. EBITDA margins are expected to expand 273 bps QoQ to 16.6% as last quarter had a one off of ~₹ 193 crore due to high discount offered by the company to liquidate its inventory post SC verdict. Also, company will enjoy operating leverage benefit as it recorded its highest ever quarterly volumes. Topline & PAT are seen at ~₹ 8056 & ~₹ 951 crore, respectively
Maruti Suzuki	Maruti's volumes have grown by ~13.2% YoY to ~3.95 lakh units due to strong domestic demand (across models) where volumes grew by 14.3%. EBITDA margins are expected to expand 20 bps QoQ to 14.2% mainly due to QoQ decline in raw material prices, favourable exchange rate movement & QoQ decline in selling & advertisement costs. Topline is expected to grow 18.6% to ₹ 17697 crore. Net ASPs are expected to increase by ~1% QoQ due to product mix, while discounts are expected to be higher QoQ due to pre-GST benefits offered by the company. PAT for
Tata Motors	JLR is expected to clock sales volumes of ~134,137 units, flat YoY, due to decline in almost all Land Rover models (~70% of JLR volumes). JLR is likely to post topline of ~£5.6 billion while margins are likely to decline ~100 bps QoQ to 13.5% due to poor product mix. JLR's PAT is estimated at ~£664 million. However, there is an exceptional item of £400 million related to pension benefit. Standalone revenues are expected to decline 13.7% YoY to ₹ 8909 crore due to one of the worst volume performance (11% YoY decline). EBITDA margins are expected at 0.8% due to negative operating leverage & poor product mix. Standalone loss is expected at ~₹998 crore

Source: Company, ICICIdirect.com Research

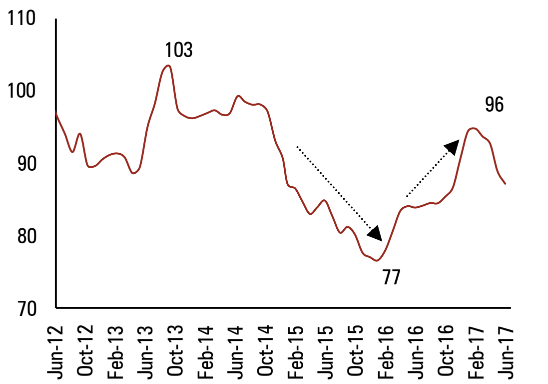
Hero MotoCorp's sales performance



Bajaj Auto's sales performance



Auto raw material index



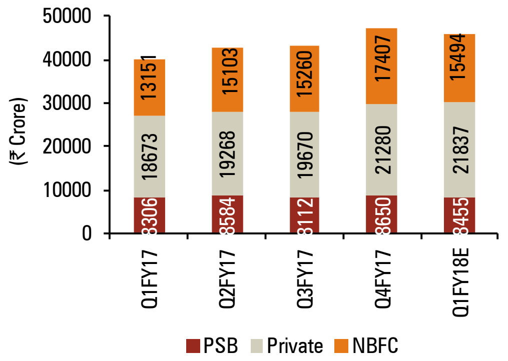
Commodity prices have been indexed to 100 with base as April-12

Exhibit 17: Company specific view- Ancillaries

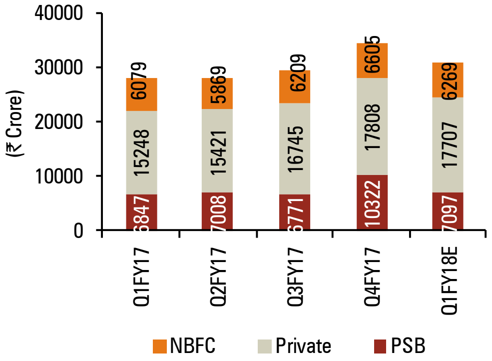
Company	Remarks
Amara Raja Batteries (ARBL)	Revenues is expected to grow 17.9% YoY to ₹ 1,556 crore, largely supported by replacement segment. The growth would be equally spread across volume & value, as ARBL in the past six months has taken price hikes of ~9%. EBITDA margins are expected to decline 146 bps YoY (up 200 bps QoQ) to 15.7% as average lead prices (key raw material) increased 21.1% YoY (down 8.6% QoQ) to ₹ 140/kg in Q1FY18. PAT is expected to increase 6.9% YoY to ₹ 140 crore
Apollo Tyres (APL)	Consolidated revenue is likely to grow 10.4% YoY to ₹ 3,648 crore mainly supported by its Indian operations which will have ~10% volume growth (partly due to lower import of chinese tyres) & higher realisations (due to price hikes). Average price of natural rubber moved up 0.4% YoY (however down 13% QoQ) to ₹ 132/kg, thus EBITDA margins are expected contract 330 bps YoY (however up 190 bps QoQ) to 13%. Lower margins & higher depreciation is likely to impact PAT which is expected to decline 19% YoY to ₹ 255 crore
Balkrishna Industries (BIL)	BIL's revenues are expected to grow 14.3% YoY to ₹ 1,061 crore, with volume likely to increase 10% YoY to 47,637 MT. With prices of natural rubber (NR) (key input cost) moving southwards on QoQ basis, we expects its EBITDA margins to expand 360 bps QoQ (up 105bps YoY) to 29.1% (management guidance of 28-30%). PAT is expected to grow 25.5% YoY to ₹ 187 crore
Bharat Forge	Revenues are likely to increase 15.2% YoY to ₹ 1042 crore. Net domestic revenues are expected to decrease 6% QoQ to ₹ 454 crore, mainly driven by M&HCV volume decline. Export revenues are expected to increase 39% YoY to ₹ 567 crore as class 8 truck volumes have grown YoY & also oil & gas revenues are expected to grow significantly. EBITDA margins are expected to expand 150 bps YoY due to higher contribution from export business. PAT is likely to increase 32% YoY to ₹ 162.8 crore
Bosch	Bosch performance is likely to get impacted by the decline in domestic CV volumes. It also sold off its starter motors & generator business (accounted 10% of revenue) in August 2016 hence results would not be comparable. We expect its revenues to decline 3.3% YoY to ₹ 2,438 crore. EBITDA margins are expected to expand 50bps YoY to 18.4%. Higher depreciation & nomralised other income is likely to impact PAT which is expected at ₹ 331 crore
Exide Industries (EIL)	EIL is expected to post highest ever quarterly revenue, EBITDA and PAT. We expect its revenues to grow 13.7% YoY to ₹ 2,286 crore supported by automotive replacement & industrial segment. With product price hikes (in the range of 2-9%) in the last six months in addition to lower lead prices QoQ & better operational efficiency is likely to expand its EBITDA margins by 82 bps QoQ to 14.1%. Subsequently PAT is expected at ₹ 199 crore
JK Tyre (JKTIL)	Its consolidated revenues are expected to grow 24.6% YoY to ₹ 2,219 crore. The acquisition of Cavendish Industries (CIL) has witnessed turnaround (likely to add revenue of >₹400 crore) thereby supporting the revenue growth. Its standalone business will have a positive impact of lower chinese import & price hikes. EBITDA margins are expected to expand 188 bps QoQ to 11.2%. Reported PAT is estimated at ₹ 51 crore
MCIE Automotive	The standalone business will largely be driven by production volumes of its top two clients. Standalone revenue, EBITDA & PAT are estimated at ~₹ 425 crore, ~₹ 44 crore and ~₹ 19 crore, respectively. On a consolidated basis, we expect revenue, EBITDA & PAT of ₹ 1532 crore, ₹ 205 crore and ₹ 102 crore, respectively
Motherson Sumi	MSSL's consolidated revenues are expected to grow 24% YoY to ₹ 12,918 crore. The result would not be comparable on like-to-like basis, as it would include the performance of newly acquired PKC group. MSSL is expected to continue its decent growth momentum in its existing domestic & European (SMR & SMP) operations. Consolidated EBITDA margin is likely to expand 95 bps YoY to 9.8%. PAT is likely to be ₹ 481 crore
Wabco India (WIL)	WIL for the first time in past four years is likely to post revenue de-growth of 9.3% YoY to ₹487 crore. This is primarily attributable to decline in the domestic M&HCV production (>30% YoY) though partly supported by exports. EBITDA margins is likely to improve 250 bps QoQ to 16%. Subsequently, PAT is expected to come in at ₹ 53 crore

Source: Company, ICICIdirect.com Research

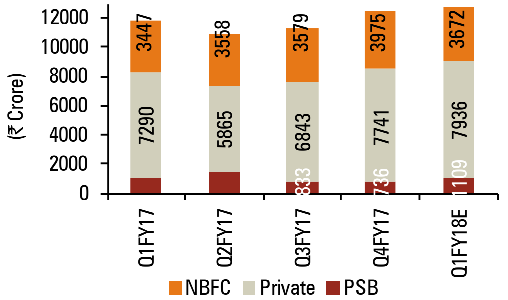
Net interest income (Coverage Universe)



PPP (Coverage Universe)



Net Profit (Coverage Universe)



** Numbers in chart excludes SBI*

Top Picks

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Banking and Financial Institutions

- **RBI steps towards NPA resolution to increase provisions…**

In Q1FY18, a major event was the government passing an ordinance, which allowed RBI to take action for resolution of top NPA accounts. In this regard, the RBI has asked banks to refer 12 large accounts comprising 25% of total GNPAs (~₹ 200000 crore and mainly in the steel/metal and infrastructure sector) to the National Company Law Tribunal (NCLT) for initiating insolvency proceedings. While this is positive in the long run, this action is expected to entail heavy provisioning burden on banks as the RBI has asked for 50% of the loan amount referred to NCLT to be provided for initially and 100% on liquidation after 180/270 days of insolvency proceedings. The unsecured portion needs provision from first day of filing to NCLT.

- **…but pressure to ease as >40% already provided; closure of deal in cement sector to provide cushion**

Large banks like SBI, PNB & BoB (₹ 7200 crore exposure in 10 accounts) and Axis Bank (₹ 5283 crore in eight accounts) have indicated that their exposure to the 12 accounts has been provided for by ~40-50% of the portfolio. Hence, additional provision is seen to be limited for these banks though the unsecured portion needing 100% provision can add pressure.
Further, the provisioning pressure would ease, to some extent, owing to completion of ~₹ 16000 crore deal in the cement sector between UltraTech and Jaiprakash Associates. Only ₹ 4000 crore will flow to banks while the balance debt would be transferred to UltraTech Cement. Provisions of ~₹ 4000 crore made across banking system (of which IndusInd Bank made ₹ 122 crore and Yes Bank made ₹ 228 crore) in Q4FY17 will be reversed in Q1 and can now be utilised for provisioning required on accounts referred to NCLT. In addition, decline of ~17 bps in G-sec yields is expected to aid earnings. PNB and Axis Bank are expected to see the highest treasury gains owing to their high AFS portfolio.

- **Credit growth still muted; retail banks continue to defy trend**

The banking system's credit growth was muted at ~6% YoY as per latest data by RBI as on June 9, 2017, while deposit increased 11% YoY. However, retail focused private banks like IndusInd Bank, HDFC Bank, DCB Bank are expected to maintain their strong growth trajectory of >20% YoY. SBI is expected to grow in line with industry at ~6% YoY mainly led by strong trajectory in its retail portfolio. For our coverage universe, credit growth is estimated at 9.5% YoY to ₹ 3912224 crore. PSU banks would continue to see single digit growth of ~5% YoY while private banks would increase at 17.3% YoY.

- **Slippages to stay steady; QoQ PAT decline seen due to provisions**

We expect NPA accretion to continue in Q1FY18E though the pace of addition is expected to be lower than seen in previous quarter. Slippages from the watchlist provided by Axis Bank & SBI would be a key monitorable. Restructured assets and SDR are gradually flowing to the NPA category. For our coverage universe, we expect net addition in GNPA at ₹ 6430 crore (₹ 11639 crore added in Q1FY17 and ₹ 7262 crore seen in Q4FY17). Despite moderation in slippages, GNPA ratio is expected to inch up owing to muted growth in advances.

In our coverage, mid-size banks like Federal Bank, DCB Bank & CUB do not seem to be much impacted by accounts referred to NCLT and are, thus, expected to deliver healthy set of numbers. Earnings of large private banks like HDFC Bank, IndusInd Bank, Yes Bank and Kotak Mahindra Bank are expected to continue to remain strong. Weakness in Axis Bank's earnings would stay. This would be first quarter when SBI would report results as a merged entity. Hence, numbers would not be fully comparable. We have estimated consolidated SBI results and expect the same to report a loss. Overall, we expect our banking coverage universe NII to grow 14.1% YoY while PAT is expected to de-grow ~13.7% YoY and grow 47% QoQ

- **GST largely neutral from pure banking impact**

  Services tax on fee based income is expected to increase from 15% to 18% for banks under the new GST which shall largely be a pass-on to the customers until banks access available input credit to them. But, fee income forms 11% proportion of bank's total income and 3% impact on this will be ~₹ 2000 crore. This is around 3-4% of average banking industry profits. The impact is more on the compliance side, as banks operate from several states and need to be registered everywhere while revenue bifurcation between two states will be a tedious involving ambiguity, in case of branch and client RO being different. Even ATMs being put in the 28% tax bracket is on the higher side, being a deterrent on expansion plans of smaller and new banks. Barring this small impact, the broader positive impact seen is widening of the organised base. Accordingly, more companies will get registered and enter into organised businesses as well as witness expansion of existing balance sheets due to lower shadow business opportunities. Banks will have opportunity to raise lending and have better margin of safety.

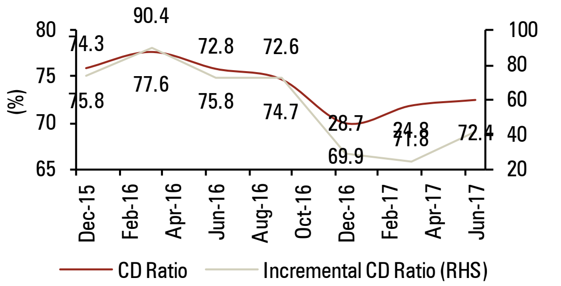
Exhibit 18: Estimates for Q1FY18E (₹ Crore)

	NII	Change (%)		PPP	Change (%)		NP	Change (%)	
	Q1FY18E	YoY	QoQ	Q1FY18E	YoY	QoQ	Q1FY18E	YoY	QoQ
Public Sector Banks									
Bank of Baroda	3311.0	-1.8	-7.6	2591.5	-2.9	-14.2	394.1	-7.0	154.7
PNB	3733.6	0.9	1.4	3417.0	4.3	-45.2	377.5	23.2	44.2
SBI*	22805.8	16.7	1.4	16840.9	15.8	-4.8	-954.7	LP	LP
Indian Bank	1410.6	14.1	1.9	1089.0	20.6	1.8	337.7	9.9	5.6
Total	31260.9	12.2	0.4	23938.4	11.9	-14.6	154.5	-92.6	LP
Private Banks									
Axis Bank	4797.9	6.2	1.5	4290.0	-4.0	-1.9	1192.1	-23.4	-2.7
City Union Bank	321.4	14.8	3.5	256.8	8.9	3.5	136.9	10.8	6.2
DCB	223.5	26.3	1.5	118.6	27.9	2.8	60.2	28.0	13.8
Federal Bank	834.5	20.5	-0.9	552.2	29.7	0.5	260.6	55.7	1.6
HDFC Bank	9325.9	19.8	3.0	7059.2	21.3	-3.0	3878.6	19.8	-2.8
Indusind Bank	1759.9	29.7	5.5	1610.6	30.5	2.4	811.1	22.6	7.9
J&K Bank	647.5	2.3	-1.1	335.5	-3.9	21.4	-405.7	LP	LP
Kotak Bank	2208.2	15.1	2.2	1712.4	30.2	0.6	1008.9	36.0	3.3
Yes Bank	1718.0	30.5	4.8	1772.3	35.6	4.8	993.2	35.7	8.6
Total	21836.7	16.9	2.6	17707.5	16.1	-0.6	7935.9	8.9	2.5
Total Banks	53097.6	14.1	1.3	41645.9	13.6	-9.1	8090.5	-13.7	47.1
NBFCs									
HDFC	2519.1	19.0	-8.8	2556.8	-15.9	-17.2	1737.2	-7.1	-15.0
LIC HF	1010.8	22.6	-2.8	879.0	18.8	-1.8	501.7	23.0	-5.2
Rel Cap	4019.3	9.7	-21.0	340.5	4.8	-28.0	208.3	0.6	-50.0
Bajaj Finance	1662.8	29.6	12.6	1120.1	34.7	14.3	562.9	32.8	25.1
Bajaj Finserv	6282.0	19.3	-10.8	1372.4	20.0	17.2	662.0	23.2	23.8
Total	15494.0	17.8	-11.0	6268.8	3.1	-5.1	3672.2	6.5	-7.6

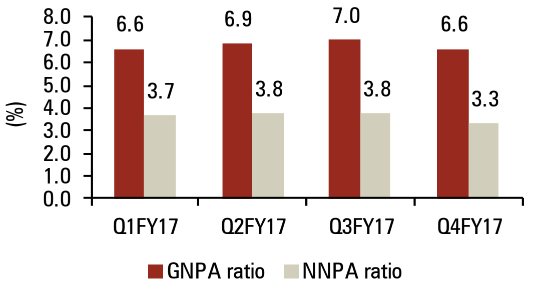
*LP denotes Not Meaningful, * SBI estimates are for the consolidated entity*

Source: Company, ICICIdirect.com Research

C-D Ratio (Industry)



Asset Quality (Coverage Universe)



NPA trend (Coverage Universe)

Q1FY18E	GNPA (₹ crore)	QoQ Growth(%)	NNPA (₹ crore)	QoQ Growth(%)
PSB				
Bank of Baroda	42919	0.5	18230	0.8
PNB	55270	-0.2	32602	-0.3
SBI	182366	2.5	99778	2.9
Indian Bank	10065	2.0	5707	1.8
Private Banks				
Axis Bank	22345	5.0	9144	6.0
City Union Bank	716	5.0	425	4.0
DCB	262	3.0	128	3.0
Federal Bank	1762	2.0	988	5.0
HDFC Bank	6062	3.0	1936	5.0
Indusind Bank	1181	12.0	505	15.0
J&K Bank	6250	4.2	2575	6.2
Kotak Mahindra Banl	3722	4.0	1787	4.0
Yes Bank	1312	-35.0	751	-30.0

Exhibit 19: Company specific view (Banks)

Bank of Baroda	We expect credit growth to remain flat at 1.4% YoY, led by muted corporate activity and demonetisation. Consequently, NII is expected to remain flattish YoY. Ageing of stressed asset to keep credit cost higher at ~50 bps (76% of PPP), partially aided by treasury gains led by 17 bps decline in G-sec yields. Adequate provision on exposures referred to IBC (Insolvency and Bankruptcy Code) is seen not to deter profitability. Slippages are expected to continue, however, management maintains its FY18 guidance at ~₹ 46000 crore. Overall PAT is seen at ₹ 463 crore; up 9.4% YoY
Punjab National Bank	Headline asset quality numbers are seen to decline, led by moderation in slippages and higher recoveries and upgrades. Consequently, absolute GNPA is expected to decline marginally QoQ at ₹55270 crore. However, ageing of stressed assets is seen to keep credit cost elevated at ~70 bps (84% of PPP), though lower compared to previous quarter. Adequate provision on IBC referred accounts is not seen to lead to volatility in earnings. Muted corporate activity is seen to keep credit off-take flattish at 1.7% YoY. Decline in G-sec yields would enable treasury gains aiding profitability. Opex to revive to normal trajectory at 47-48%, unlike reversal of provision seen in last quarter. Higher provision is seen to keep profitability benign with PAT of ₹ 377 crore
State Bank of India	First consolidated quarter after merger of associate banks, some numbers may not be comparable. We have therefore worked on consolidated entity (group including all subsidiaries) estimate and expect a loss of ₹954 crore for Q1FY18E vs a loss of ₹2977 crore in Q4FY17 and profit of ₹1046 crore in Q1FY17. Expect credit growth of 5-6% YoY and a decline of ~3% QoQ for banking to ₹1812894 crore with NII of₹22805 crore. As per management guidance of elevated credit costs we maintain provisions at ₹17069 crore vs ₹21069 crore in Q4 and slippages to continue around ₹9000-10000 crore. In the 12 accounts exposure for bank is reasonable with ~48% provisions maintained, as per the bank.
Axis Bank	With lower exposure at ₹ 5000 crore to accounts referred to IBC, slippages run rate is seen to moderate in the quarter. Credit cost is seen to remain steady at ~67 bps, led by higher coverage of 50% on IBC related accounts and reversal of provision related to one cement company parked in previous quarter. Therefore, overall asset quality is expected to remain steady with GNPA ratio at 5.8%. Led by retail segment, advances growth is seen steady at 10% YoY. Margins are seen stable at ~3.8%, NII growth is expected at 6.2% YoY and PAT is seen at ₹ 1192 crore; down 23% YoY, led by higher CI ratio at ~43% vs ~38% in Q1FY17
City Union Bank	We expect steady performance of the bank to continue with credit growth estimated at 13% YoY (Flat QoQ) to ₹ 23833 crore. Margins estimated to manintain strong levels at ~4% (4.2% seen in Q4FY17). NII is expected to increase at 14.8% YoY to ₹ 321 crore. Asset quality to stay under control as there is no exposure to major stressed corporates. PAT of ₹ 137 crore is estimated, up 10.8% YoY and 6% QoQ
DCB Bank	Healthy credit growth at 22% YoY is expected, with traction coming from retail segment. According NII seen growing at 23%YoY to ₹223 crore. Treasury gains on decline in yields and transfer too HTM can be seen resulting in higher other income at ₹69 crore. On the opex side, CI ratio is moderating gradually to 59% from 60 % in FY17. Factoring in relatively lower expectation of high slippages in Q1FY18 and GNPA largely contained, provision are seen lower QoQ to ₹28.7 crore and thereby PAT growth is seen at 28% YoY at ₹ 60 crore
HDFC Bank	HDFC Bank's better than peer performance is estimated to sustain. Higher than industry credit traction of 20% YoY to ₹ 565660 crore is expected. With reported margins estimated in the range of ~4.2-4.3%, NII may increase by 19.8% YoY to ₹ 9326 crore. Asset quality to stay under control after one time surge seen in Q4FY17 on account of demonetisation. PAT of ₹ 3879 crore is estimated, up 19.8% YoY

Source: Company, ICICIdirect.com Research

Exhibit 20: Company specific view contd. (Banks)

Federal Bank	Federal Bank is estimated to continue to report healthy set of numbers with respect to credit growth (expected at 23% YoY to ₹ 72715 crore) and asset quality. NIMs expected at ~3.3% leading to NII traction of 20.5% YoY to ₹ 834 crore. PAT increase of 55.7% YoY to ₹ 261 crore is expected. The traction seems higher owing to lower base last year due to higher provisioning cost in Q1FY17. Benefit of ₹ 2500 crore raised at the fag end of the quarter would occur in coming quarters.
Jammu & Kashmir Bank	For J&K Bank, though NPA accretion remain moderate compared to previous quarters, accretion to restructured asset remained elevated. On incremental basis, NPA addition is anticipated to moderate, however, stressed asset ratio is expected to remain elevated at ~27-28%. However, floating provision at ₹ 349 crore provides comfort. Aeging of stressed asset and incremental slippages to keep credit cost higher at ~142 bps. Therefore, bottom-line is seen to remain in red with loss at ₹ 405 crore. Flattish advances, steady margins and treasury gains to keep operational performance steady
Kotak Mahindra Bank	On asset quality front, slippages are anticipated to remain steady and asset quality is expected to remain stable. GNPA ratio is seen remaining broadly at 2.6-2.7%. Credit traction is seen to remain healthy at 14% YoY, led by corporate and retail segment. Operational performance is expected to remain steady. With broadly stable margins, NII growth is seen at 15% YoY at ₹ 2123 crore. Provision is seen to remain steady at ~15 bps (12% of PPP). Consequently, PAT is seen at ₹ 1009 crore; up 36% YoY
Yes Bank	For Yes bank, credit traction is seen to continue to remain robust at 29.8% YoY, led by retail and upcoming corporate sectors. Margins are expected to remain steady at ~3.6%. Consequently, NII growth is seen healthy at 30.5% YoY. With limited exposure to IBC referred accounts, credit cost is seen at ~20 bps (~16% of PPP) for the quarter. Earnings growth is seen to remain healthy at 35.7% YoY to ₹ 993 crore. Surge in GNPA seen in Q4FY17, led by slippage of exposure to JP Associate is expected to reverse during the quarter. Therefore GNPA ratio is expected to decline QoQ by ~57 bps to 0.95%.
IndusInd Bank	We expect Indusind Bank's overall consistent performance to continue in Q1FY18E. We expect growth of 25.2% YoY to ₹ 117260 crore led by consumer finance (CF) segment. In CF, CV financing & LAP may continue to witness healthy traction. Margins are expected to be strong at ~3.9% range, which would lead to NII growth of 29.7% YoY to ₹ 1760 crore. PAT of ₹ 811 crore is expected, up 22.6% YoY while asset quality should remain largely steady. The ₹ 122 crore one off provision made in Q4FY17 on exposure to JP Associate would be reversed in Q1FY18E, which would aid earnings.
Indian Bank	We expect credit growth to marginally decline QoQ and remain flat at 1% YoY, led by slower corporate activity and shift of corporate to bond markets. With anticipated moderation in slippages and steady margins at 2.7-2.8%, NII is seen to grow at 14% YoY to ₹ 1410 crore. Provision is expected to remain higher at 43 bps (~50% of PPP), led by ageing of stressed assets, though lower than 63 bps QoQ. Therefore, slower growth at 9.9% YoY is expected in bottom-line to ₹ 338 crore. Asset quality is expected to remain steady with GNPA ratio at ~7.8-8%. Slippages are anticipated to continue, however, pace is seen to remain moderate along with higher recoveries and upgrades.

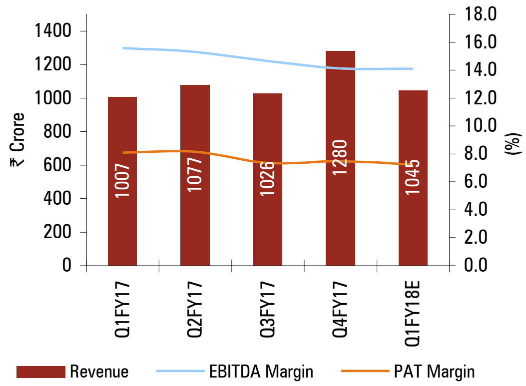
Source: Company, ICICIdirect.com Research

Exhibit 21: Company specific view (NBFCs)

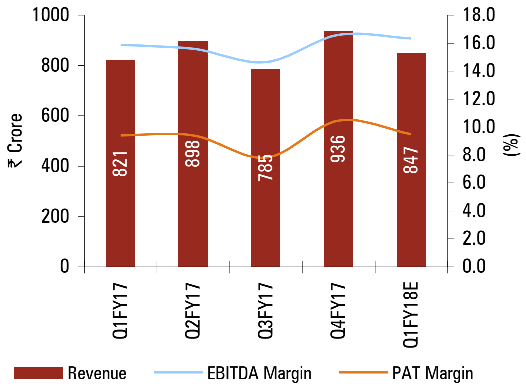
LIC Housing Finance	LIC HF's Q1FY18 earnings traction at 23% YoY to ₹ 502 crore seems a bit higher owing to lower base last year due to higher provisioning. Operating profit is estimated to increrase by 19% YoY led by 22.6% YoY growth in NII to ₹ 1011 crore. The loan book is estimated at ~₹ 146553 crore, up 15% YoY while margins expected in the range of ~2.8-2.9%.
Reliance Capital	Expect bottomline to be flat YoY at ₹208 crore, being a usual quarter with no exceptions. Total NII to grow 20% YOY with stable loan book growth of 12%. Life insurance has been growing gradual, expect premium to grow 10% YoY. AMC expected to report PBT of ₹145 crore, up 10% YoY with AUM rising 38% YoY and 5% QoQ to ₹220000 crore as on May 2017. Consolidated revenues seen rising 9.7% YoY to ₹4019 crore. With new CEO, commercial finance book to see strategy changes and housing finance subsidiary to get listed in Q2.
HDFC Ltd	For HDFC Ltd, in Q1FY17 last year there were gains of ₹ 1120 crore (₹ 922 crore post tax) on stake sale in HDFC ERGO which bloated earnings. Such large gains will not be there in Q1FY18E. Thus bottomline would witnesss negative traction of 7% YoY to ₹ 1737 crore. Loan growth estimated at 14% YoY to ₹ 302933 crore. Asset quality is expected to continue to remain steady while reported margins expected to be in the 3.9-4% range. The company indicated that ~ ₹ 900 crore exposure to one of the 12 accounts referred to NCLT is adequately provided and no additional provision is made in Q1FY18E
Bajaj Finance	For Bajaj Finance, Q1 and Q3 are seasonally strong quarters in terms of asset growth. Further, inventory clean up by dealers in consumer durable due to GST would also aid loan growth for Bajaj Finance. We expect AUM to increase by 31% YoY (8% QoQ) to ₹ 64884 crore led by the consumer finance segment and in that mainly aided by the consumer durable segment. Calculated NIMs are expected at ~10%. No negative surprise is expected on the asset quality front. PAT of ₹ 563 crore is estimated, up 33% YoY
Bajaj Finserv	Bajaj Finserv's consolidated revenue is seen to grow at heatlhy pace of 19.3% YoY, led by higher traction in lending business at 27% YoY. General insurance premium growth is expected to remain healthy at 18% YoY, led by higher traction in health insurance. Post moderation in Q4FY17, life insurance premium growth on YoY basis is seen to revive at 11%, led by traction in individual business. On profitability front, finance business PBT is seen to continue at healthy trajectory of ~27.6% YoY to ₹ 859 crore. With combined ratio expected below 100%, general insurance earnings is expected to remain healthy growing at 24% YoY, while life insurance profitability is seen to remain under pressure. Consequently, overall PAT is expected to grow at 23% YoY to ₹ 661 crore

Source: Company, ICICIdirect.com Research

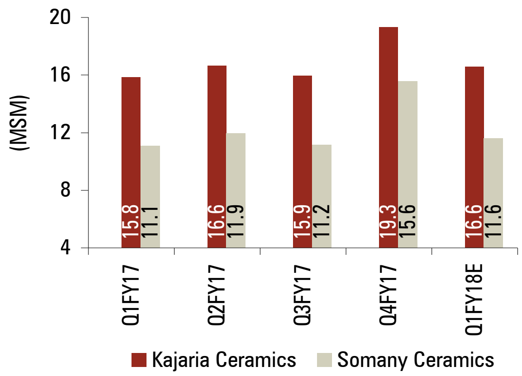
Topline & Profitability (Tiles universe)



Topline & Profitability (Plywood universe)



Sales Volume Trend (Tiles Universe)



Top pick of the sector

Somany Ceramics, Century Plyboards

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Building materials

- **Higher-than-expected GST rates for plywood and tiles at 28%…**

In the recently announced GST rates by government, rates for plywood and tiles have been fixed at 28% (current indirect tax incidence: 27-29%) against the industry's expectation of 18%. However, the GST rate for laminates has been set at 18% (current indirect tax incidence: 27-29%) thereby bringing cheer among laminate players. Though the GST rate for tiles and plywood has been set at 28%, it would still be positive for organised players as it would help them gain market share from unorganised players who would now come under the tax ambit. Currently, the organised segment accounts for ~50% of the tiles industry and ~25% of the plywood industry, which could significantly increase over the next few years given GST implementation, growing brand awareness and higher consumer aspirations.

However, in the near term, revenues could stay under pressure on account of de-stocking at the dealer level in June 2017. Though retail sales have been impacted due to de-stocking, institutional sales have picked up as builders seem to have preponed their purchases. Hence, all in all, we expect our universe to report moderate growth as sales were strong in April-May 2017. Hence, our building material universe is expected to post a topline growth of 3.5% YoY to ₹ 1892.0 crore led by 5.6% YoY growth in revenues of Century Plyboards to ₹ 428.6 crore.

- **Tiles universe revenues expected to grow 3.8% YoY…**

The sales volumes of our tiles universe is expected to post a 4.7% YoY growth to 28.2 MSM as demand as sales would be impacted due de-stocking at dealer level in June'17. Hence, we expect the topline to grow 3.8% YoY to ₹ 1044.8 crore. However, we expect EBITDA margins to contract 150 bps YoY to 14.1% due to 330 bps YoY contraction in Kajaria's EBITDA margins to 18.0%. Consequently, we anticipate the bottomline to de-grow by 7.0% YoY to ₹ 75.7 crore.

- **Plywood universe revenues expected to grow by 3.2% YoY…**

With Century's revenues expected to grow 5.6% YoY, we expect the topline of the plywood universe to grow 3.2% YoY to ₹ 847.2 crore. EBITDA margins expected to expand 40 bps YoY to 16.3% due to lower input costs. Consequently, we expect bottomline of our plywood universe to grow 4.1% YoY to ₹ 80.3 crore.

Exhibit 22: Estimates for Q1FY18E (Tiles) (₹ crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q1FY18E	YoY	QoQ	Q1FY18E	YoY	QoQ	Q1FY18E	YoY	QoQ
Kajaria Ceramics	617.8	4.2	-14.3	111.4	-11.5	-14.1	55.8	-12.0	-21.1
Somany Ceramics	427.0	3.2	-23.7	35.8	15.5	-29.6	19.9	10.9	-20.6
Total	1,044.8	3.8	-18.4	147.2	-6.1	-18.5	75.7	-7.0	-20.9

Source: Company, ICICIdirect.com Research

Exhibit 23: Estimates for Q1FY18E (Plywood) (₹ crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q1FY18E	YoY	QoQ	Q1FY18E	YoY	QoQ	Q1FY18E	YoY	QoQ
Century Plyboards	428.6	5.6	-12.3	73.0	6.8	-12.8	44.1	2.4	-21.2
Greenply Industries	418.7	0.9	-6.3	65.3	5.7	-8.4	36.2	6.2	-13.5
Total	847.2	3.2	-9.4	138.3	6.3	-10.8	80.3	4.1	-17.9

Source: Company, ICICIdirect.com Research

Major news during Q1FY18 (Building materials)

Building materials sector	Media reports indicate that the anti dumping duty on import of vitrified tiles from China has been increased from $1.37/ sq mt to $1.87/ sq mt. for a period of five years.
	A GST rate of 28% has been fixed for tiles and plywood, while a lower rate of 18% has been fixed for Laminates
Greenply Industries	Greenply's step-down subsidiary has commenced commercial production of veneer, at its manufacturing unit at Nkok SEZ in Gabon, West Africa.
Somany Ceramics	The expansion of Somany's sanitaryware plant has been completed and it commenced operations on April 26, 2017. Consequently, its capacity has been increased from 3.03 lakh pieces to 11.5 lakh pieces.
	Somany Ceramics has completed the expansion at its Vintage facility in Morbi from 2.99 MSM to 4.8 MSM.

Exhibit 24: Company specific view (Tiles coverage universe)

Company	Remarks
Kajaria Ceramics	Though demand recovery was seen in April-May'17 period, sales were impacted in June'17 due to de-stocking happening at dealer level ahead of GST roll out. Consequently, we expect the sales volumes to grow moderately at 4.6% YoY to 16.6 MSM (million square metre). Hence, the topline is expected to grow by 4.2% YoY to ₹ 617.8 crore. Further, we expect EBITDA margins to decline 330 bps YoY to 18.0% due to high base effect (company recorded highest ever EBITDA margins of 21%) raw material expenses (36.1% in Q1FY18E vs. 32.2% in Q1FY17). Consequently, we expect bottomline to de-grow 12.0% YoY to ₹ 55.8 crore largely on account on EBITDA margin contraction.
Somany Ceramics	With demand to be impacted in June'17 due to de-stocking at dealer level ahead of GST, we expect the volume growth to be restricted at 4.8% YoY to 11.6 MSM. Consequently, we expect topline to grow at 3.2% YoY to ₹ 427.0 crore. Further, we expect EBITDA margins to expand 90 bps YoY to 8.4% led by lower raw material costs (59.8% in Q1FY18E vs. 62.2% in Q1FY17). Consequently, we expect a strong bottomline growth of 10.9% YoY to ₹ 19.9 crore.

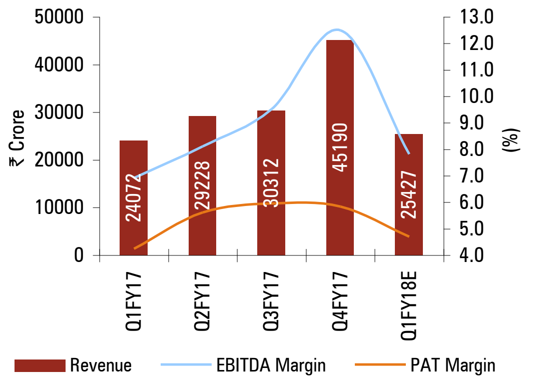
Source: Company, ICICIdirect.com Research

Exhibit 25: Company specific view (Plywood coverage universe)

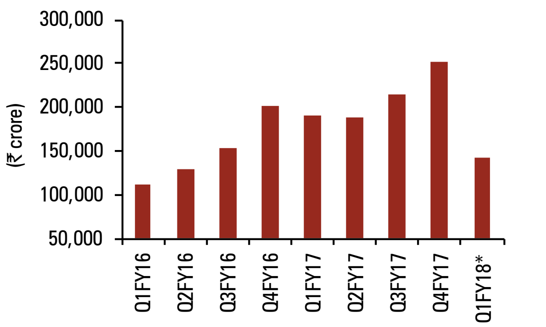
Company	Remarks
Century Plyboard	With sales impacted in June'17 due to destocking, we expect Century to post a topline growth of 5.6% YoY to ₹ 428.6 crore. Its plywood and allied division revenues are expected to grow 5.1% YoY to ₹ 301.3 crore while laminates and allied division segment is expected to post a topline growth of 4.8% YoY to ₹ 83.3 crore. Further, we expect EBITDA margins to remain flat YoY at 17.0%. Hence, the bottomline is expected to grow moderately by 2.4% YoY to ₹ 44.2 crore.
Greenply Industries	We expect Greenply to post a flattish topline growth of 0.9% YoY to ₹ 418.7 crore as its plywood division revenues are expected to post a 2.6% YoY de-growth to ₹ 285.8 crore due to impact of de-stocking. However, MDF revenues are expected to post a strong growth of 8.8% YoY to ₹ 130.3 crore as it is not much impacted from destocking by dealers. It may be on account of 5% price hike taken by the company in June'17 which could have triggered more sales in April-May'17 period. Further, with price hikes in both plywood and MDF, we expect the EBITDA margins to expand 70 bps YoY to 15.6%. Consequently, we expect the bottomline to grow 6.2% YoY to ₹ 36.2 crore.

Source: Company, ICICIdirect.com Research

Topline & Profitability (Coverage universe)

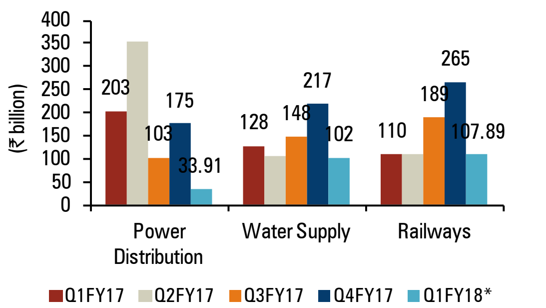


Trend in quarterly tenders (both govt + private players)



Q1FY18* = Tenders only for Apr-May 2017

Trend in segment wise tenders



Top pick of the sector

L&T
KEC International

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Capital Goods

- **GST to have impact on value, which may slow down execution for quarter or two**

  GST rates for construction & allied activities have been pegged at 18% vs. earlier rates in range of 12-18% (includes excise duty plus state specific duties). However, with GST kicking in and given price variable clause in orders, there may be some escalation in order values. Also, value chain of EPC activity will itself get recalibrated with new regime and, consequently, impact execution trends in H1FY18E.

- **Order wins remain steady**

  In Q1FY18E, companies like L&T and KEC International continued their consistent streak of reporting order wins. L&T, in YTDQ1FY18, reported order wins of ₹ 10000 crore (as announced on exchanges). This mainly came in from sectors like power T&D, water, buildings, factories, etc. KEC continued to impress with order wins as it has won orders to the tune of ₹ 945 crore for Q1FY18. On the positive side, Thermax also reported a big order win of $157 million (export order). On the whole, we expect the company to report an order win to the tune of ₹ 2000 crore. Bhel did not manage to report any significant order win in the BTG segment but movement of slow moving orders in the executable segment will be key to watch.

- **Margin expansion to drive profitability for EPC companies**

  We expect EPC companies to post reasonable revenue growth of 5.2%YoY whereas PAT is expected to grow 19.7% YoY on the back of better margins. The performance of large-cap EPC players will be moderate as L&T is expected to deliver decent revenue growth of 4% YoY coupled with expansion in margins. L&T will continue to see improvement in working capital and operating cash flows. Bhel, on the other hand, is likely to report flattish revenue growth coupled with margin expansion of 150 bps YoY. BEL will post robust revenue growth of 24% YoY with margins turning positive in a seasonally weak quarter. In the midcap space, VA Tech and KEC are also likely to post healthy PAT growth of 184.8% and 91% YoY (expansion in margins and decline in interest costs), respectively. Companies in this segment are likely to witness margin expansion on account of improved execution in both domestic and overseas markets. Engineers India, on the other hand, may end Q1FY18E with revenue, PAT growth of 30.7% YoY and 21.1% YoY, respectively. Thermax may see 7.1% YoY revenue growth coupled with margin expansion (low base of Q1FY17), which will propel PAT by 27.9% YoY.

- **Product base companies to put up moderate show**

  For Q1FY18, product based companies are expected to report 10.6% YoY revenue growth whereas there will be some pressure on EBITDA margins. The same is expected to contract 70 bps to 18.5% in Q1FY18E. Consequently, PAT is expected to grow 7.5% in Q1FY18E. In terms of individual performance, bearings companies (on the back of 8% volume for Q1FY18 in the automobile segment) may report sober growth as NRB and Timken India are expected to report PAT growth of 12.2% and 11.6% YoY growth, respectively. Grindwell is also expected to report 10.2% YoY growth each in revenues and PAT (growth could have been higher but for implementation of GST, sales of June 2017 would be impacted). AIA Engineering is expected to see robust 18.7% YoY growth but rupee appreciation and marketing of new capacity would lead to margin contraction of 300 bps. KSB Pumps is also likely to report 13% YoY revenue growth (given commissioning of new facilities) coupled with flattish margins.

Exhibit 26: Estimates for Q1FY18E (Capital Goods) (₹ Crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q1FY18E	YoY	QoQ	Q1FY18E	YoY	QoQ	Q1FY18E	YoY	QoQ
AIA Engineering	582.5	16.4	-10.1	152.9	4.5	-4.1	109.2	0.8	-4.6
Bharat Electronics	1,084.8	24.5	-72.8	55.7	LP	-94.3	88.1	144.0	-88.9
BHEL	5,560.4	-1.1	-42.6	154.6	117.7	-76.2	155.6	100.1	-27.8
Engineers India Ltd	446.8	30.7	0.9	89.4	21.9	64.7	97.2	21.1	47.4
Greaves Cotton	406.4	1.4	4.0	61.1	1.2	14.6	45.8	18.9	-2.0
Grindwell Norton	343.1	10.2	5.1	55.3	9.8	4.5	32.0	10.2	-5.0
KEC Internnational	1,822.2	4.2	-36.0	171.4	14.6	-43.1	59.1	91.0	-59.4
KSB Pumps	230.7	13.3	12.3	27.7	13.9	36.4	17.4	8.9	30.7
L&T	12,635.7	4.0	-46.2	1,011.8	4.9	-66.5	591.8	7.4	-52.8
NRB Bearings	196.1	12.3	3.9	32.4	10.4	20.2	15.8	12.2	22.2
Reliance Defence &	239.2	240.1	4.8	9.6	424.6	81.1	-120.9	NA	NA
Thermax Ltd	872.3	7.1	-35.0	74.1	16.4	-51.2	57.9	27.9	LP
Timken India	312.4	10.7	19.9	54.4	10.8	44.5	31.6	11.6	23.0
Va Tech Wabag	694.0	19.6	-38.7	39.4	43.3	-70.2	15.9	184.8	-79.7
Total	25,426.8	5.6	-43.7	1,989.7	19.6	-64.8	1,196.5	29.1	-54.7

Source: Company, ICICIdirect.com Research

- **Interest costs to rise in line with revenue growth while cash flow improvement will be in focus**
  We expect interest costs of our coverage universe to increase 6.2%, which is a tad higher than revenue growth of 5.6% for the coverage. Over the last few quarters, the key focuses of all EPC companies (L&T, KEC, Bhel and VA Tech Wabag) have been on improving the receivable collection cycle and augmenting operating cash flows thereby putting revenue growth on secondary agenda. We believe the same trend will continue in Q1FY18E amid implementation of GST wherein again generation of cash flows will be a priority till the time entire value chain gets itself adjusted to the new regime.

Exhibit 27: Capital Goods

Company	Remarks
AIA Engineering	AIA is expected to report strong 18.7% YoY volume growth in Q1FY18E at 56450 tonnes. However, with depreciating dollar, realisations are expected to decline 5% YoY to ₹ 100000/tonne. Hence, we expect revenues to grow 16.4% YoY at ₹ 582.5 crore. On the margins front, higher raw material prices (ferro chrome) will impact margins as they are expected to witness contraction of 300 bps to 26.2%. Hence, we expect AIA to post a flattish 0.8% YoY growth in consolidated PAT at ₹109.2 crore for Q1FY18E
Thermax	After many quarters, the company has managed to bag a sizeable order to the tune of $157 million from export markets. In terms of financial performance, things are expected to look robust on the back of lower base of Q1FY17. We expect revenues to go up 7.1% YoY to ₹ 872.3 crore. EBITDA margins are expected to expand 70 bps to 8.5%. Consequently, pick-up in execution and improvement in margins will lead to PAT growth of 27.9% YoY to ₹ 57.9 crore
KSB Pumps	KSB Pumps is expected to report healthy performance in Q2CY17E primarily tracking commissioning of new manufacturing facility. Net sales for the quarter are expected at ₹ 230.7 crore, up 13.3% YoY. Pump segment sales are expected at ₹ 193 crore (up 13.7% YoY) while valves segment sales are expected at ₹ 35 crore (up 14.1% YoY). EBITDA margins are expected to be flat at 12%. For Q2CY17E, EBITDA is expected at ₹ 27.7 crore while PAT is expected at ₹ 17.4 crore, up 8.7% YoY
KEC International	KEC has booked orders to the tune of ₹ 945 crore in Q1FY18E. However, with implementation of GST, there will be some moderation in execution as there will be some slowdown in value chain (domestic sub contacting segment). Thus, we expect KEC to report revenue growth of 4.2% YoY to ₹ 1822.2 crore. In terms of segmental performance, international T&D and railways will drive growth. EBITDA margins are expected to expand 80 bps YoY to 9.5%. Focus on better working capital management will lead interest costs to decline 9% YoY to ₹ 65 crore. Consequently, margin expansion, lower interest costs and normalised tax rate will lead to PAT growth of 91% YoY to ₹ 59.1 crore
L&T	L&T has announced order wins to the tune of ₹ 10000 crore YTD Q1FY18E. With implementation of GST and a seasonally weak quarter, we expect L&T to report 4% YoY growth in revenues at ₹ 12635.7 crore in Q1FY18E. We expect infrastructure segment revenues to grow 12% YoY (71% of revenues) on the back of strong execution in international markets. On the other hand, power segment (6% of revenues) is expected to witness decline of 54% YoY due to lower backlog, We expect EBITDA margins to expand 10 bps to 8% YoY. PAT is expected to grow 7.6% YoY to ₹ 591.8 crore
Bhel	Bhel has not managed to win any significant order during Q1FY18E. On the financial performance side, we expect Bhel's revenue to decline 1.1% YoY to ₹ 5560.4 crore. However, EBITDA margins are expected to expand 150 bps to 2.8%. Consequently, we expect PAT to be at ₹ 155.6 crore. Key things to watch out would be the movement of slow moving orders to the execution category, which will be highly crucial for revenue visibility for FY18-19
Greaves Cotton	We expect the company to report 1.4% YoY growth in revenues to ₹ 406.4 crore. The auto segment is likely to witness a flattish QoQ performance as sales in the end user markets have not picked up. However, non auto segment (power gensets, agri machinery and services) business is likely to zee 5-8% YoY growth. EBITDA margins are likely to be at 15% for Q1FY18E. Adjusted PAT is expected to see moderate growth of 4.2% YoY to ₹ 45.8 crore, backed by higher growth in other income

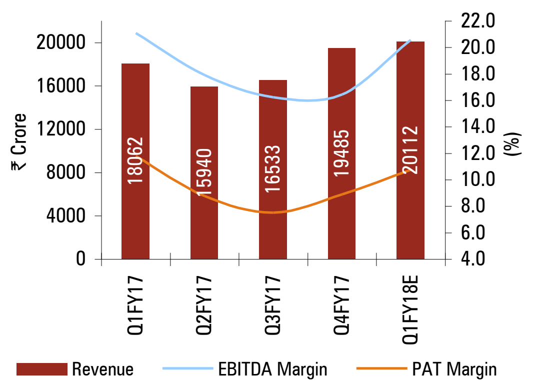
Source: Company, ICICIdirect.com Research

Exhibit 28: Company specific view : Capital Goods (Continued)

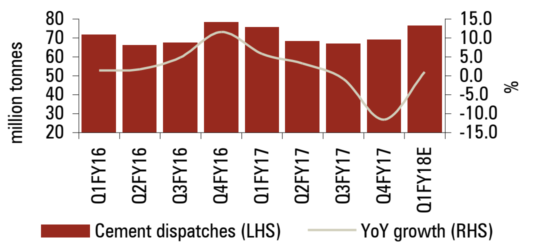
Engineers India	EIL is expected to report topline growth of 30.7% YoY to ₹ 446.8 crore on the back of strong growth in both consultancy & LSTK segment. EBITDA margins are expected at 20% vs.21.4% YoY due to higher revenue booking in the turnkey segment . PAT is expected to grow 21.1% YoY to ₹ 97.2 crore
VA Tech Wabag	Wabag is expected to report higher topline growth of 19.6% YoY to ₹ 694 crore on the back of healthy execution in both domestic and overseas orders. The EBITDA margin is expected 5.2% vs. 4.7% YoY. Wabag reports lower EBITDA margins due to revenue lower bookings during the first quarter. Absolute EBITDA is likely to grow 31.5% YoY to ₹ 36 crore. We expect PAT of ₹ 14 crore for the quarter. We expect muted order inflows for the quarter.
NRB Bearings	NRB is expected to report double digit topline growth of 12.3% YoY to ₹ 196.1 crore, on the back of strong volume growth of ~7% and 8% in passenger vehicles and two-wheeler segments respectively. EBITDA margins are expected at 16.5% for Q1FY18E vs. 16.8% in Q4FY16. Q1FY17 reported higher margins on account of higher gross margins (lower commodity prices). Consequently, PAT is expected to grow 12.2% YoY to 22.2 crore.
Timken India	Timken is expected to report topline growth of 10.7% to ₹ 312.4 crore. Double digit topline growth is expected on the back of higher export growth of ~13% for Q1FY18. Domestic performance is likely to remain muted due to weak volume growth of -15% in the M&HCV segment. EBITDA margins are expected at remain flat at 17.4%. PAT is expected to increase 11.6% YoY to ₹ 31.6 crore
Grindwell Norton	GNL is expected to report topline growth of 10.2% YoY to ₹ 343.1 crore on the back of expected growth of 10% and 11% in abrasive and ceramic segment, respectively. EBITDA margins are expected to be stable at 16.1% vs.16.2% YoY. Accordingly, PAT is expected to grow 10.2% YoY to ₹ 32 crore.
Bharat Electronics	BEL is expected to report topline growth of 24.5% YoY to ₹ 1084.8 crore. EBITDA margins are expected at 5.1% for the quarter (-5.4% in Q1FY17). PAT for the quarter is likely to be ₹ 88.1 crore, up 144% YoY mostly on account of low base of Q1FY17. BEL reported EBITDA loss in Q1FY17.
Reliance Defence	We expect RDL to post revenues of ₹ 239.2 crore for Q1FY18E on the back of improving execution for the quarter. Better execution would lead to EBITDA margin improvement resulting in operating profit of ₹ 9.6 crore. Accordingly, we expect loss at PAT level to decrease from ₹ 139.7 crore in Q4FY17 to ₹ 120.9 crore in Q1FY18E.

Source: Company, ICICIdirect.com Research

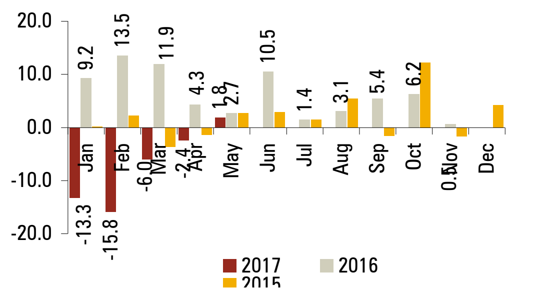
Topline & Profitability (Coverage universe)



All-India quarterly cement dispatches



Monthly production growth YoY (%) – Till May 2017



Top pick of the sector

ACC
Mangalam Cement

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Cement

- **Volume on uptrend after two quarters of slowdown**

  After two quarters of subdued volume growth (mainly due to a slowdown in construction activity and a decline in infra spend), cement demand is witnessing a gradual improvement mainly led by increased government spending in infrastructure activities. This is supported by the fact that project awarding has increased 59.4% YoY to ₹ 41,181 crore during April and May 2017. As a result, overall cement demand is expected to increase 6-7% YoY in Q1FY18E. Considering this, we expect companies under our coverage universe to register volume increase of 6.7% YoY in Q1FY18E.

- **Prices improve across regions YoY**

  As per our channel checks, better pricing scenario in Gujarat have led to 13.2% YoY price rise in the western region. Further, prices in the central and north regions have improved 6.8% YoY and 5.6% YoY to ₹ 316 and ₹ 301 per bag, respectively. Overall, realisation at the pan-India level has increased 6.7% YoY to ₹ 328/bag. We expect companies in our coverage universe to report 4.8% YoY increase in realisation to ₹ 4,786.

- **Improving cement demand to drive topline growth**

  Our coverage universe is expected to report 11.4% YoY (up 3.2% QoQ) increase in cement revenues led by 6.7% YoY increase in volumes (driven by higher infra spend) and better pricing environment across regions. Company wise, we expect Shree and Mangalam to report a volume growth of 12.4% YoY and 14.0% YoY while Star Cement is expected to report volume de-growth of 5.1% YoY. The bottomline of our universe is expected to increase 1.7% YoY to ₹ 2,163.4 crore led by better performance at operating level and lower interest expenses.

- **Operating leverage benefit and higher realisation to drive EBITDA/tonne**

  We believe rising cost pressure due to increase in pet coke prices (impact of ₹ 70-80/t) and higher freight cost (driven by truck overloading ban in northern region) is expected to be offset by improving realisation and operating leverage benefit. Consequently, we expect companies under our coverage universe to report 3.7% YoY increase in EBITDA/tonne to ₹ 985/t.

- **Tax impact on cement under new GST regime remains neutral**

  Under the previous tax regime, cement companies used to pay an average tax rate of 26-27%. Under the new GST regime, cement companies are expected to pay marginally higher tax rate of 28.0%. However, with the availability of input tax credit we believe the impact of tax under GST will remain neutral. GST will come in force from July 1, 2017.

Exhibit 1: Estimates for Q1FY18E (₹ Crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q1FY18E	YoY	QoQ	Q1FY18E	YoY	QoQ	Q1FY18E	YoY	QoQ
ACC ^	3,172.9	10.6	2.4	457.3	11.5	33.6	251.2	5.0	19.0
Ambuja ^	2,764.1	8.8	9.1	621.9	7.0	70.3	418.1	4.7	69.6
Heidelberg	505.6	9.5	11.4	89.5	12.0	27.6	35.3	35.1	-4.7
India Cement *	1,440.0	19.8	-5.4	217.5	8.0	14.5	57.4	30.5	99.3
JK Cement	983.0	10.9	-3.5	186.6	12.6	2.9	76.7	26	-16
JK Laxmi Cement	868.6	11.8	7.7	130.0	10.6	81.7	33.9	18.3	62.5
Mangalam Cement	266.7	19.0	4.9	44.9	-4.6	81.3	19.1	-17.9	611.9
Shree Cement *	2,791.6	13.1	4.0	758.4	3.8	48.4	410.1	-19.2	34.7
Star Cement	465.4	3.9	-9.9	104.8	14.4	-38.4	41.0	73.8	-60.4
UltraTech Cem	6,854.4	10.9	3.9	1,525.3	11.1	19.3	820.6	5.9	19.2
Total	20,112.4	11.4	3.2	4,136.1	8.6	29.1	2,163.4	1.7	24.7

Source: Company, ICICIdirect.com research ^Q2CY17 result

Sales volume (Coverage Universe)

Million tonnes	Q1FY18E	Q1FY17	YoY (%)	Q4FY17	QoQ (%)
ACC	6.5	6.1	5.8	6.6	-1.9
Ambuja	6.0	5.8	4.1	6.0	-0.4
UltraTech*	13.9	13.2	5.0	13.7	0.9
Shree Cem	5.8	5.2	12.4	5.9	-2.1
India Cem	2.6	2.3	13.7	2.9	-10.1
JK Cement*	2.0	1.9	7.2	2.2	-6.0
JK Lakshmi	2.3	2.1	8.1	2.3	-0.3
Mangalam	0.7	0.6	14.0	0.7	-0.2
Heidelberg	1.3	1.2	4.9	1.2	5.8
Star Cement	0.7	0.8	-5.1	0.7	-3.9
Total	41.8	39.1	6.7	42.3	-1.3

** blended sales volume (grey & white)*

Region-wise cement retail prices

₹/50 kg bag	Q1FY18	Q1FY17	YoY (%)	Q4FY17	QoQ (%)
North	301	285	5.6	290	3.8
East	265	255	3.8	247	7.2
South	371	348	6.5	345	7.4
West	324	286	13.2	296	9.3
Central	316	296	6.8	297	6.4
North East	394	377	4.5	369	6.8
Average	328	308	6.7	307	6.8

Cement Realisations (Coverage Universe)

₹ per tonne	Q1FY18E	Q1FY17	YoY (%)	Q4FY17	QoQ (%)
ACC	4900	4689	4.5	4696	4.3
Ambuja	4610	4412	4.5	4208	9.6
UltraTech	4945	4684	5.6	4801	3.0
Shree Cem ^	4607	4427	4.1	4282	7.6
India Cem ^	5430	5173	5.0	5201	4.4
JK Cement*	4863	4703	3.4	4737	2.7
JK Lakshmi	3803	3678	3.4	3523	8.0
Mangalam	3865	3705	4.3	3677	5.1
Heidelberg	3950	3785	4.4	3750	5.3
Star Cement	6516	5948	9.6	6959	-6.4
Average	4786	4567	4.8	4572	4.7

** Blended realisations (grey cement +white cement),*

EBITDA per tonne (Coverage Universe)

₹ per tonne	Q1FY18E	Q1FY17	YoY (%)	Q4FY17	QoQ (%)
ACC	706	670	5.4	519	36.1
Ambuja	1037	1009	2.8	606	71.0
UltraTech*	1100	1040	5.9	931	18.3
Shree Cem	1290	1262	2.2	818	57.7
India Cem	771	857	-10.1	640	20.3
JK Cement*	923	879	5.1	843	9.5
JK Lakshmi	569	556	2.4	312	82.2
Mangalam	651	778	-16.3	358	81.7
Heidelberg	699	655	6.7	580	20.6
Star Cement	1461	1212	20.5	2279	-35.9
Average	985	949	3.7	751	31.1

**blended (grey + white)*

Exhibit 2: Company specific view

Company	Remarks
ACC	Capacity expansion in the east (2.8 MT in Jamul) coupled with improving cement demand is expected to result in 5.8% YoY increase in cement volumes for ACC. This coupled with higher realisation is expected to lead to revenue growth of 10.6% YoY to ₹ 3172.9 crore in Q1FY18E. Further, EBITDA/t is expected to rise 5.4% YoY to ₹ 706/t driven by 4.5% YoY increase in realisation and operating leverage benefit. PAT is expected to increase 5.0% YoY to ₹ 251.2 crore led by better performance at operating level
Ambuja Cement	Ambuja Cement is expected to report 4.5% YoY growth in realisation to ₹ 4610 mainly led by price improvement in its key markets i.e. north and west (driven by higher prices in Gujarat). Apart from better pricing scenario 4.1% YoY increase in volume is expected to result in 8.8% YoY increase in revenues to ₹ 2764.1 crore. EBITDA/tonne is expected to increase by 2.8% YoY to ₹ 1,037/t. Further, PAT is expected to increase by 4.7% YoY (up 69.6% QoQ) mainly led by higher operating profit
UltraTech Cement	UltraTech being a pan-India player will be a key beneficiary of increased infra spending by the government. Consequently, we expect the company to report 10.9% YoY growth in revenues. Further, cost rationalisation (led by increasing of WHRMS capacity and reduction in power consumption) and improving pricing scenario is expected to drive EBITDA/tonne of the company (up 5.9% YoY to ₹ 1,100/t). Further, PAT is expected to increase 5.9% YoY to ₹ 820.6 crore
Shree Cement	Shree Cement revenues are expected to increase by 13.1% YoY mainly led by 16.9% YoY growth in cement revenues while power revenues are expected to decline by 35.2% YoY (driven by 42.4% YoY dip in power volumes). The increase in cement revenues is mainly due to 12.4% YoY rise in volumes (due to higher demand in the east) and 4.1% YoY increase in realisation. Shree Cement's blended EBITDA/t is expected to decline by 7.6% YoY mainly led by fall in power margins (down from 43.6% to 20.4% in Q1FY18E). Cement EBITDA/t is expected to increase by 2.2% YoY ₹ 1,290/t. Further, PAT is expected to decline by 19.2% YoY mainly led by higher depreciation expenses.
India Cement	We expect India Cements to report a volume growth of 13.7% YoY mainly led by merger of Trinetra Cements and higher cement demand. However, we expect EBITDA/tonne to decline from ₹ 857/t to 771/t in Q1FY18E due to lower margins in Trinetra Cements and higher power cost. PAT is expected to increase 30.5% YoY mainly led by lower interest and tax expenses
JK Cement	We expect grey cement revenues to increase 11.5% YoY mainly led by improving demand in the company's key markets i.e. north and south. Further, white cement revenues are expected to increase 9.5% YoY driven by 7.4% YoY increase in volumes (led by capacity expansion in wall putty). In addition, blended EBITDA/tonne is expected to increase 5.1% YoY to ₹ 923/t mainly due to 7.5% YoY rise in grey cement EBITDA/tonne.
JK Lakshmi Cement	Capacity expansion (0.9 MT in Durg) coupled with higher cement demand is expected to result in volume growth of 8.1% for JK Lakshmi Cement. Further, realisation is expected to increase 3.4% YoY driven by healthy pricing environment in the north and east. In addition, EBITDA/tonne is expected to increase 2.4% YoY. The company is expected to report PAT growth of 18.3% YoY to ₹ 33.9 crore mainly led by higher operating margins
Mangalam Cement	In Q1FY18E, we expect Mangalam to report revenue growth of 19.0% YoY to ₹ 266.7 crore mainly led by better pricing environment and capacity expansion (0.75 MT in Aligarh) by the company. In terms of volume, we expect it to grow 14.0% YoY to 0.7 MT. EBITDA/tonne is expected to increase 81.7% QoQ to ₹ 651/t from ₹ 358/t in Q4FY17. Further, PAT is expected to increase from ₹ 2.7 crore from Q4FY17 to ₹ 19.1 crore led by better performance at operating level and lower interest expenses

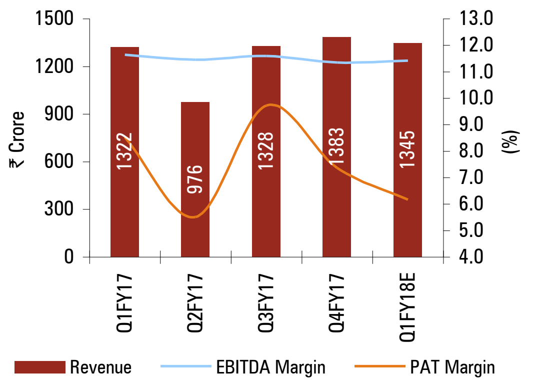
Source: Company, ICICIdirect.com Research

Exhibit 3: Company specific view

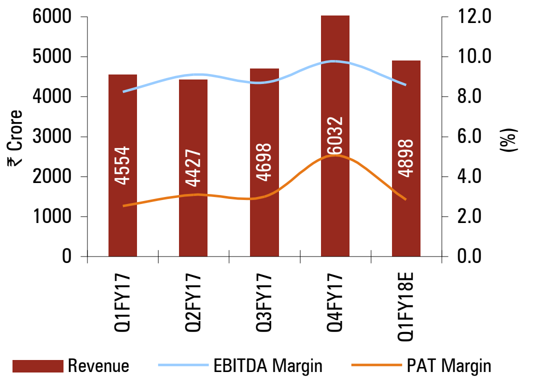
Company	Remarks
Heidelberg Cement	Heidelberg is expected to report revenue growth of 9.5% YoY led by 4.4% YoY increase in realisation and 4.9% YoY increase in volumes. Further, we expect EBITDA/tonne to increase from ₹ 655/t in Q1FY17 to ₹ 699/t in Q1FY18E led by higher utilisation (up from 90.0% to 95.0%). PAT is expected to increase by 35.1% YoY driven by higher operating margins and lower interest expenses
Star Cement	Although volumes in Q1FY18E are expected to decline, we expect better pricing environment in the north east to drive revenues of Star Cement (up 3.9% YoY). Further, EBITDA/tonne is expected to improve from ₹1,212/t to ₹1,461/t. PAT is expected to increase by 73.8% YoY led by lower minority interest (due to reverse merger).

Source: Company, ICICIdirect.com Research

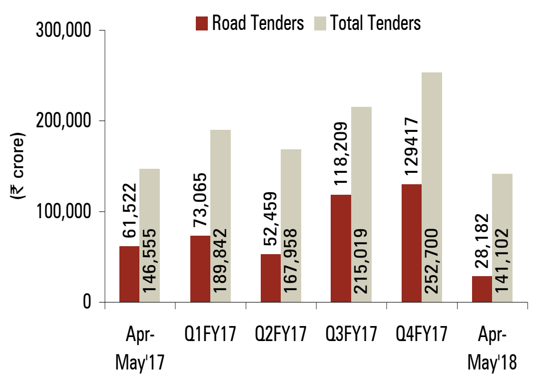
Topline & profitability (Road Coverage)



Topline & profitability (Construction Coverage)



Quarterly Tenders trend…



Top pick of the sector

NCC,

Research Analyst

Deepak Purswani, CFA
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Construction & Roads

GST rate for works contract set high at 18%…

Under GST, works contracts fall under the 18% GST rate. Prima facie, the rate appears higher against the current indirect tax incidence, which ranges between 11% and 18%. However, despite higher rates, the sector is likely to benefit from availability of input tax credit (ITC). However, media reports indicate the Road Ministry has asked the government to reduce GST rate to 5%, exempt annuity payments to developers from GST. It also indicated that 18% GST rate would increase the cost of road projects by ~₹ 10000 crore per annum.

Tendering activity slows down in April-May 2017…

On the tendering side, there was robust activity in Q4FY17 as road tenders grew strongly by 77.1% YoY to ~₹ 1.3 lakh crore. However, during April-May 2017, tendering activity slowed down significantly in the roads sector largely owing to issues related to land acquisition. During this period, road tenders slumped 54.2% YoY to ₹ 28182 crore while overall tenders declined 3.7% YoY to ₹ 1.4 lakh crore. However, the Roads Ministry expects the situation to improve soon and has maintained its ambitious awarding/construction target of 25000 km, 15000 km for FY18E.

Construction universe revenues to grow 7.6% YoY…

We expect revenues of our construction universe to grow 7.6% YoY to ₹ 4897.9 crore led by 22.7% YoY growth in NBCC's revenues to ₹ 1528.2 crore Q1FY18E. Further, our road universe is expected to report flattish growth of 1.8% YoY in revenues to ₹ 1345.3 crore due to 20.9% YoY de-growth in PNC's topline as it is facing land acquisition related issues, which are hampering execution.

PAT of our construction universe to rise robustly by 20.9% YoY…

Our construction universe is expected to post PAT growth of 20.9% YoY to ₹ 139.0 crore led by margin expansion. Our road universe bottomline is expected to significantly decline by 26.4% YoY to ₹ 82.9 crore due to 46.9% YoY decline in PNC's bottomline to ₹ 34.0 crore.

Exhibit 4: Estimates for Q1FY18E (Road) (₹ Crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q1FY18E	YoY	QoQ	Q1FY18E	YoY	QoQ	Q1FY18E	YoY	QoQ
Ashoka Buildcon	744.9	NA	NA	223.8	NA	NA	-5.6	NA	NA
PNC Infratech	407.2	-20.9	16.2	53.3	-20.6	12.4	34.0	-46.9	0.9
Sadbhav Eng.	938.1	16.3	-9.2	100.4	15.6	-8.4	48.9	0.5	-28.3
Total*	1,345.3	1.8	-2.8	153.7	-0.2	-2.1	82.9	-26.4	-18.6

Source: Company, ICICIdirect.com Research

**does not include Ashoka Buildcon numbers as base quarter consolidated financials are not available*

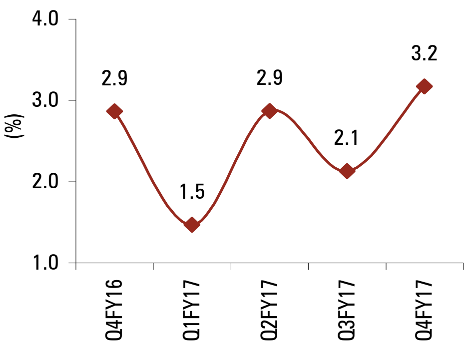
Exhibit 5: Estimates for Q1FY18E (Construction) (₹ Crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q1FY18E	YoY	QoQ	Q1FY18E	YoY	QoQ	Q1FY18E	YoY	QoQ
NBCC	1,528.2	22.7	-34.7	69.1	54.1	-67.0	65.8	45.0	-62.3
NCC	1,916.5	0.8	-10.4	172.7	4.2	-0.8	54.3	3.8	-14.8
Simplex Infra	1,453.3	3.3	-6.2	178.5	8.6	-13.0	18.9	9.8	-71.7
Total	4,897.9	7.6	-18.8	420.4	12.1	-28.6	139.0	20.9	-54.5

Source: Company, ICICIdirect.com Research

Road Coverage Universe

Interest expense* trend



**Interest Expenses as %age of Sales*

Major news during Q1FY18

Ashoka Buildcon	Ashoka Buildcon has accepted LoA from Mumbai International Airport (MIAL) to develop two land parcels near Chhatrapati Shivaji International Airport with commercial/office space of potential built-up area of 1.17 mn sq ft for an aggregate lease period of 49 years. The company will make payment of refundable security deposit amounting to ₹ 329.4 crore and annual lease rental of ₹ 15.2 crore to MIAL with an escalation of 15% every three years
	According to media sources, SBI Macquarie is in talks with global PE funds like Aion, ISquared Capital and Canadian pension fund CDPQ to sell its 39% stake in Ashoka Concessions, a subsidiary of Ashoka Buildcon
Infrastructure Sector	Four companies namely Afcon Infrastructure, Simplex Infrastructure, NCC and Gayatri Projects have been short-listed for the first of the construction tenders for Pune Metro. The overall project is worth ₹ 11420 crore, which is being executed by Maha Metro, Government of India and Maharashtra government JV
	In potentially the first big FDI in railways, Malaysia's state-owned Construction Industry Development Board (CIDB) will participate in the auction for redevelopment of Udaipur, Howrah, Indore, Secunderabad, Pune and Faridabad railway stations. The estimated cost of redevelopment of these stations would be ₹ 5,000 crore
	The government has announced the third list of 30 cites to be made smart under its flagship 100 Smart Cities mission, taking the total number of smart cities to 90. Thiruvananthapuram in Kerala topped the chart, which included other prominent capital cities like Amaravati, Patna, Srinagar, Bengaluru, Shimla, Dehradun, Aizawl and Gangtok

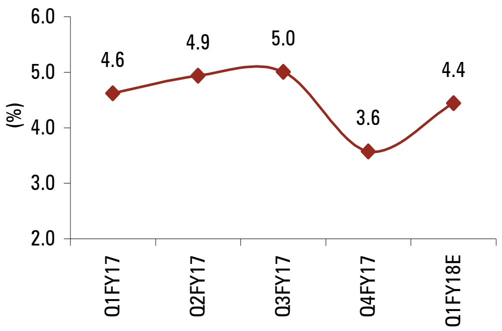
Exhibit 6: Company specific view (Road coverage universe)

Company	Remarks
Ashoka Buildcon	Since Ashoka Buildcon had stopped giving consolidated quarterly numbers since Q1FY17, we do not have exact comparables. In Q1FY18, we expect Ashoka Buildcon to post consolidated revenues to the tune of ₹ 744.9 crore. We expect it to post BOT revenues of ₹ 222.7 crore and EPC revenues of ₹ 522.2 crore. Further, we expect it to post EBITDA margins of 30.0% led by higher contribution of BOT revenues. However, with higher interest expenses post Ind-As transition, we expect the company to post a net loss of ₹ 5.6 crore in Q1FY18E. **Key monitorable:** Management guidance on order inflow and status of real estate project
PNC Infratech	We expect PNC's topline to de-grow 21.1% YoY to ₹ 403.9 crore as execution of its newly won projects is expected to pick up in H2FY18 as it expects to receive appointed dates in various projects post Q1FY18. EBITDA margins are expected to expand 10 bps YoY to 13.1%. However, we expect the bottomline of PNC to de-grow 46.9% to ₹ 34.0 crore due to higher other income to the tune of ₹ 17.4 crore (₹ 6.1crore in Q1FY18E) in the base quarter and significant topline de-growth in current quarter. **Key monitorable**: Management commentary on execution pick-up.
Sadbhav Engineering	We expect Sadbhav's topline to grow robustly by 16.3% YoY to ₹ 938.1 crore on the back of anticipated improvement in execution across divisions in Q1FY18E. Furthermore, EBITDA margins are expected to remain flat YoY at 10.7%. However, despite strong topline growth and stable margins, the bottomline is expected to remain flat at ₹ 48.5 crore on account of higher interest expenses (₹ 35.5 crore in Q1FY18E vs. ₹ 17.2 crore in Q1FY17) and higher effective tax rate (5% in Q1FY18E vs. 0.5% in Q1FY17). **Key monitorable**: Improvement in execution.

Source: Company, ICICIdirect.com Research

Construction Coverage Universe

De-leveraging is on top of the mind of construction players…



**Interest Expenses as %age of Sales*

Major News during Q1FY18

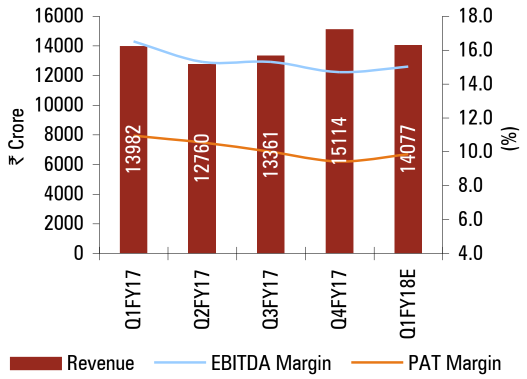
Road Sector	National Highways Authority of India (NHAI) has raised ₹ 3,000 crore by selling the rupee-denominated Masala bonds with 7.3% annual yield that are now listed on London Stock Exchange. The issue has attracted investors from across the spectrum with Asia contributing 60% of the subscription and the balance 40% coming from Europe
	Funds worth ₹ 983 crore have been released as against ₹ 2,630 crore claims made to NHAI in the last six months since introduction of the arbitration scheme. However, the pace of release of arbitration claims for infrastructure developers has gained limited traction, due to the inability of road developers to provide bank guarantees
NBCC	NBCC has signed a Memorandum of Business Exploration (MoBE) with Bolix to use their thermal insulation technology, which can save energy cost by 30-35%. The new technology will not only help improve the aesthetics of building facade but will also extend the life of a building by up to 20 years
	NBCC has completed the acquisition of HSCL at attractive valuations by acquiring 51% stake for ₹ 35 crore
	NBCC has successfully e-auctioned 2.83 lakh sq ft super built up area in Nauroji Nagar, which would result in inflows of ~₹ 1100 crore in stages as per agreement
	NBCC and Rail Land Development Authority have signed an MoU to redevelop 10 railway stations namely Tirupati, Sarai Rohilla (Delhi), Nellore, Puducherry, Madgaon, Lucknow, Gomtinagar, Kota, Thane (New), and Ernakulam
	NBCC has signed an MoU with South Delhi Municipal Corporation (SDMC) for planning, designing and construction of office building/ SDMC headquarters near Pragati Maidan amounting to ₹ 525 crore. Furthermore, the company also expects to win 30 more railway station redevelopment orders

Exhibit 7: Company specific view (Construction coverage universe)

Company	Remarks
NBCC	We expect NBCC's topline to grow robustly by 22.7% YoY to ₹ 1528.2 crore led by strong growth of 19.7% YoY to ₹ 1401.4 crore in its PMC division revenues. EBITDA margins are expected to expand 100 bps YoY to 4.5% largely due to 40 bps YoY margin expansion in PMC division to 8%. Consequently, we expect bottomline growth of 45.0% YoY to ₹ 65.8 crore aided by strong topline growth, margin expansion and lower effective tax rate (28.0% in Q1FY18E vs. 34.5% in Q1FY17) **Key monitorable**: Execution ramp up in big ticket re-development projects
Simplex Infrastructure	We expect Simplex Infrastructure's revenues to grow 3.6% YoY to ₹ 1453.3 crore with some improvement in execution during the quarter. Furthermore, we anticipate its EBITDA margins will expand 60 bps YoY to 12.3% led by lower raw material expenses (29.3% as a percentage of sales in Q1FY18E vs. 29.8% in Q1FY17). Consequently, its bottomline is expected to grow 9.8% YoY to ₹ 18.9 crore **Key monitorable**: Management commentary on working capital improvement
NCC Ltd	We expect NCC's topline to remain flat YoY at ₹ 1916.5 crore in Q1FY18E led by moderate execution during the quarter. Furthermore, EBITDA margins are expected to expand 30 bps YoY to 9.0% led by lower construction expenses (10.1% of sales in Q1FY18E vs. 12.1% in Q1FY17). Consequently, we expect bottomline to grow 3.8% YoY to ₹ 54.3 crore **Key monitorable**: Management commentary on monetisation of assets & debt reduction

Source: Company, ICICIdirect.com Research

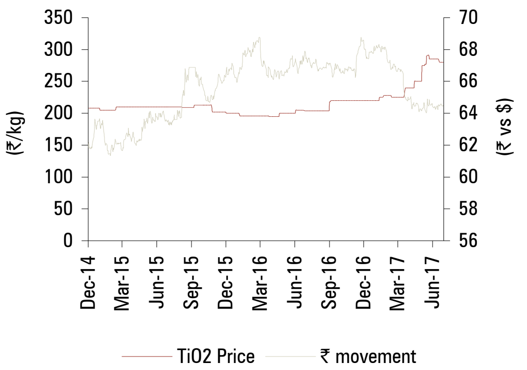
Topline & Profitability (Coverage universe)



EBITDA margin (%) movement

EBITDA margin	Q1FY17	Q2FY17	Q3FY17	Q4FY17E	Q1FY18E
Asian Paints	20.1	16.8	17.8	16.1	18.4
Kansai Nerolac	17.8	19.8	18.0	17.4	16.8
Pidilite Ind	23.3	21.1	20.2	18.4	21.2
Essel Propack	17.8	18.7	16.4	18.9	16.7
Havells	13.7	14.0	12.7	13.4	12.0
Bajaj Ele	5.9	4.5	6.4	5.8	5.0
V-Guard	11.1	10.8	8.4	9.5	9.6
Voltas	10.8	7.0	7.4	10.8	9.7
Supreme Ind	16.6	14.7	16.3	18.9	15.0
Astral Poly	13.0	12.9	14.1	15.4	12.8
Symphony	25.6	34.1	37.3	26.9	26.2

Titanium dioxide (₹/kg) price trend



Top Pick

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Astral Poly Technik

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Consumer Discretionary

- **Inventory clearance at trade level to weigh on primary sales growth**

  The I-direct consumer discretionary (CD) universe is estimated to record a muted performance in Q1FY18 due to ~5% YoY volume dip of consumer products. Despite a strong season, pre-GST inventory clearance at dealer's level amid doubt over input tax credit restricted primary sales growth across the CD universe during Q1FY18. Our dealer check suggests that paints and piping segment volumes are likely to decline ~4% and ~5%, respectively. We believe strong demand for air conditioners and air cooler during first two months of Q1 (due to strong summer), was partly offset by lower dealer demand in June 2017 as dealers refrained from building fresh inventory. As a result, Voltas and Symphony are expected to record muted sales growth of ~2% and ~5% YoY, respectively. Further, consolidation of Lloyd's AC business would help driving sales growth of Havells by 21% YoY (excluding Lloyd sales may dip 2% YoY).

- **Lower operating leverage, higher raw material prices hurt margin**

  The EBITDA margin of I-direct CD universe is expected to decline ~155 bps YoY due to lower operating leverage (owing to lower volume) and higher raw material prices. Though raw material prices remained benign in Q1FY18, use of old inventory of raw materials (titanium dioxide and PVC prices were up 25% and 17% YoY, respectively, in January-March 2017) would partly hurt gross margin. Further, higher raw material cost would be partly offset by lower advertisement expenses. We believe paint companies will record a contraction in EBITDA margin by 100-170 bps YoY in this quarter. Further, Pidilite is likely to witness a decline in margin by 210 bps YoY owing to lower sales and higher base of corresponding quarter. Consequently, I-direct CD universe PAT is likely to decline ~9%.

- **Structural reforms like GST to benefit CD companies in long run**

  We expect a strong recovery in demand of consumer goods post Q1FY18 as the GST transition period gets over. Recent discounts by dealers/retailers to clear the old inventory have created substantial vacuum for re-stocking of consumer products. Also, strong fundamentals coupled with a shift in demand from unorganised to organised category (due to GST) would benefit organised players in the long run. We believe the CD universe will command premium valuations on the back of sustained volume growth owing to increasing power availability, good monsoon and rising disposable income(due to implementation of Seventh Pay Commission).

Exhibit 8: Estimates for Q1FY18E (Consumer Discretionary) (₹ Crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q1FY18E	YoY	QoQ	Q1FY18E	YoY	QoQ	Q1FY18E	YoY	QoQ
Asian Paints	3,920.7	-4.0	-11.2	720.3	-12.2	1.2	488.6	-11.6	1.9
Astral Poly Technik	402.8	-4.2	-30.7	51.4	-5.7	-42.4	25.5	-4.3	-54.1
Bajaj Electricals	952.7	-0.7	-25.5	48.0	-15.0	-35.1	21.1	-7.9	-45.2
Essel Propack	574.4	4.5	-9.5	102.7	5.2	-14.3	37.7	0.2	-18.2
Havells	1,779.7	21.3	4.1	213.2	6.4	-7.1	137.3	-5.7	45.0
Kansai Nerolac	1,014.6	-3.1	7.8	170.2	-8.9	3.7	120.3	-4.9	3.5
Pidilite Industries	1,700.1	0.5	21.1	360.7	-8.5	39.9	247.8	-8.9	57.6
Supreme Industries	1,124.3	-5.1	-12.3	168.4	-14.3	-30.6	91.8	-20.3	-37.1
Symphony	162.3	6.4	-11.8	42.5	9.1	-14.1	34.7	11.5	-25.6
V-Guard Industries	559.4	-2.3	-10.2	53.6	-16.0	-9.7	35.8	-16.2	-14.4
Voltas Ltd	1,885.9	1.7	-8.4	182.6	-8.5	-17.7	146.1	-7.3	-27.1
Total	14,076.9	0.7	-6.9	2,113.7	-8.5	-4.8	1,386.7	-9.4	-2.5

Source: Company, ICICIdirect.com Research,

- **Impact of GST on consumer goods**

We believe the impact of GST would be limited to Q1 till the time dealers get clarity over tax issues. Also, the government's plan to subsume GST rate in the nearest tax bracket would see a marginal price hike for paint companies where tax incidence has increased up to ~4 percentage points. In the adhesive categories, the tax incidence declined to 18% under GST compared to 23% previously. This would benefit companies like Pidilite Industries and Astral Poly, as the companies would easily pass on the benefit to its customers while unorganised industry (~40% of total industry) would find it difficult to operate under the new tax regime. Further, to promote use of efficient lighting products, the GST rate on LED has been kept at 12%, which was taxed substantially higher previously (lamps and fixtures have been taxed at 15% and 21.5% respectively).

This move will benefit Havells and Bajaj Electricals where the companies lighting comprises 14% and 17% of total revenue, respectively. On the other hand, GST rates for PVC pipes and furniture categories have been subsumed in the nearest tax bracket of 18% and 28%, respectively. We believe this would lead to a shift in demand from unorganised players (PVC pipes: 35% and plastic furniture: 45%) to organised players such as Supreme Industries, Astral Poly, Wim Plast and Prima Plastic. As expected, the white goods category (air conditioner, washing machines, TVs) has been kept under 28% GST (compared to 26% earlier) bracket considering the luxurious product category. The air cooler category has been kept under the 18% bracket, which will benefit organised players (Symphony, Bajaj Electricals, Voltas and Wim Plast) in terms of a shift in demand from unorganised categories (still 45% unorganised). Besides, electrical wire & cable and switches have been kept at the upper tax category at 28% each compared to 18% earlier. Though this would be slightly negative for players like Havells, however, builders and contractors can avail the take credit on the same. This would partly negate the impact at the company level.

Exhibit 9: GST rate comparison vis-à-vis previous tax rates

Consumer Durable	GST rate %	Privous rates %	Companies affected
Air cooler	18%	26%	Symphony Ltd, Bajaj Electrical, Voltas, Wim plast, Kenstar
Air conditioner	28%	26%	Voltas, Blue Star, Hitachi, Llyod (Havells)
Adhesives	18%	23%	Pidilite Ind, Astral Poly
Appliances (Domestic)	28%	26%	Havells, Bajaj Electricals, V-guard, Crompton Greaves
Electric wire & cable	28%	19%	Havells, V-guard, KEI Ind
LED Lightings/Fixtures	12%	15%-21.5%	Havells, Bajaj Electricals, Crompton Greaves, Eveready
Paints	28%	24%-27%	Asian Paints, Berger Paints, Kansai Nerolac, Akzo
Plastic Furniture	28%	27%	Nilkamal, Supreme Ind, Prima Plastic, Wim plast
PVC Pipes	18%	17%	Supreme Industries, Astral Poly, Finolex Ind
Switches	28%	26%	Havells, V-guard, Anchor, Schneider

Source: Company, ICICIdirect.com Research,

Volume growth movement of paint companies

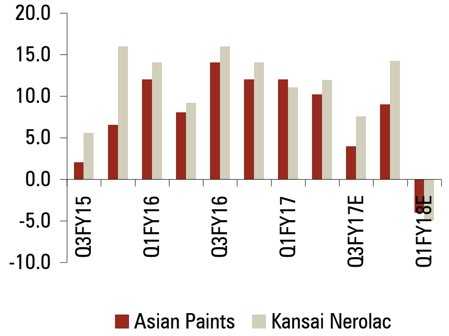


Exhibit 10: Company specific view for Q1FY18E

Asian Paints	The company is likely to record a decline in sales by 4% YoY to~₹ 3921 crore in Q1FY18 mainly due to ~5% YoY decline in volume. The decline in volume was largely due to de-stocking of inventory at the dealer's level before implementation of GST. On the other hand, increase in raw material prices (TiO2 prices up 34% YoY) would weigh on gross margins. As a result, the EBITDA margin is likely to decline 170 bps YoY to18% while PAT would see de-growth of 12% YoY to ₹ 487 crore
Astral Poly Technik	We believe APTL's Q1FY18E sales may decline ~4% YoY to ₹ 403 crore due to a decline in sales of piping and adhesive division. Pre GST inventory clearance at dealers level and lower primary sales are likely to hit piping and adhesive division by 4.4% and 3% YoY to ₹ 325 crore and ₹ 128 crore respectively. Pick-up in raw material cost (PVC prices up 17% YoY December-March 2017) would be partly offset by lower advertisement cost, which would result in flattish margin (at 12.8%) during Q1FY18. PAT is likely to decline ~4% YoY at ~₹ 26 crore
Bajaj Electricals	BEL is likely to record flattish sales at ₹ 953 crore during Q1FY18, as 3.3% YoY decline in sales of consumer durable (CD) segment (to ₹ 530 crore) was partly offset by 3% YoY growth in sales from E&P segment (to ₹ 423 crore). We believe CD sales would be impacted by lower primary sales on account of pre GST inventory clearance at dealer's level. Further, EBITDA margin is likely to decline 90 bps YoY to 5% on account of lower operating leverage due to lower sales of CD. PAT is likely to decline 8% YoY to ₹ 21 crore in Q1FY18
Essel Propack	The company is likely to record sales growth of 4.5% YoY to ₹ 574 crore during Q1FY18E led by ~21% and ~11% YoY growth in Europe and EAP regions to ₹ 99 crore and ₹ 142 crore, respectively. However, sales from the Amesa region could see a decline of 7% YoY to ₹ 226 crore due to lower offtake by key customers. EBITDA margin is likely to decline 108 bps YoY to 16.7% due to an increase in employee cost. PAT is likely to remain flat at ₹ 38 crore
Havells India	Havells is likely to post sales growth of ~21% (including Lloyd) YoY to ~₹ 1780 crore in Q1FY18E supported by ECD segment, which is expected to record strong sales growth (up by 96% YoY). However, ex-Lloyd the sales likely to remain flat at ₹ 1451 crore owing to lower primary sales of consumer facing products, which would partially offset by demand of industrial product segment (largely cable segment). Further, switchgear and lighting segment likely to witness decline in sales by ~6% and 5% YoY, respectively. EBITDA margin is likely to decline 168 bps YoY to 12% due to lower sales of better margin products and consolidation of Lloyd's lower margin business. PAT is likely to decline 6% YoY to ~₹ 137 crore
Kansai Nerolac	The company is likely to record decline in sales by 3% YoY to ~₹ 1015 crore in Q1FY18E mainly due to decline in sales volume by 4% YoY. Lower volume growth (both decorative and industrial category) was largely due to de-stocking of inventory at dealers level (for the decorative segment) before implementation of GST. EBITDA margin is likely to decline 106 bps YoY to 16.8% owing to increase in raw material prices and lower operating leverage. As a result, adjusted PAT is likely to decline 5% YoY to ~₹ 120 crore

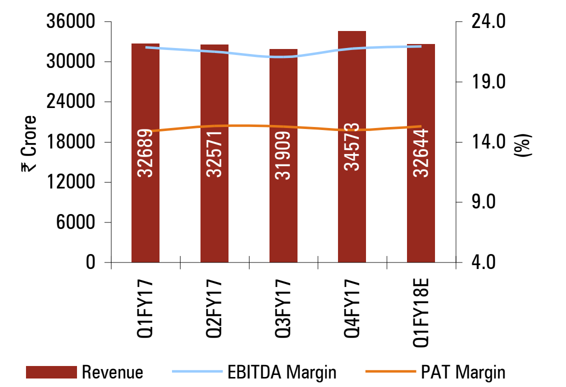
Source: Company, ICICIdirect.com Research

Exhibit 11: Company specific view for Q1FY18E

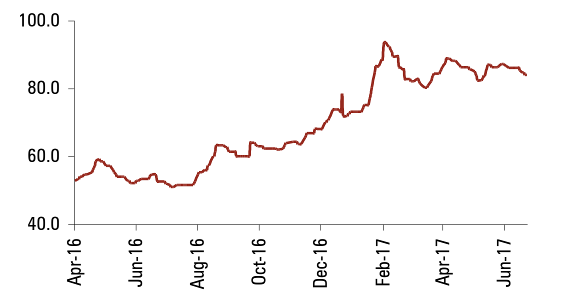
Pidilite Industries	Despite a strong season for Pidilite, consolidated sales growth is likely to remain muted at ₹ 1700 crore in Q1FY18E inventory clearance at dealers level from May 2017 onwards. Sales of consumer & bazaar segment are likely to remain flat while industrial segment is likely to record a decline in sales by 6% YoY. We believe a slight pick-up in raw material prices from corresponding period would weigh on EBITDA margin, which is likely to decline 210 bps YoY at 21.2%. Finally, PAT is likely to decline ~9% YoY to ~₹ 248 crore
Supreme Industries	Supreme is expected to record a decline in sales by ~5% YoY to ~₹ 1124 crore in Q1FY18E due to a similar volume decline. We believe pre GST stock clearance at dealer level would result in a decline in primary sales of consumer and industrial products by 14% and 9% to ₹ 73 crore and ₹ 138 crore, respectively. Piping and packaging segment sales are also likely to decline 4% each YoY. Lower operating leverage coupled with an increase in commodity prices would result in a decline in EBITDA margin by 160 bps YoY to 15%. As a result, PAT is likely to decline 20% YoY to ₹ 92 crore
Symphony	Symphony is likely to post sales growth of 6% YoY to ₹ 162 crore during Q1FY18E supported by volume growth of 5% YoY. A strong season clearance of inventory at dealer's level (owing to uncertainty over input tax credit) would result in tepid volume growth (primary sales). The EBITDA margin is likely to increase 65 bps YoY to ~26% due to low advertisement & promotion activities (as the company refrained from giving discounts on products) during the period. PAT is likely to record growth of 12% YoY to ₹ 35 crore supported by higher other income
V-Guard	We expect the topline to decline ~2% YoY to ~₹ 559 crore in Q1FY18E led by 4% YoY decline in electrical segment (led by 4% YoY de-growth in wire & cable segment). However, the electronic segment is expected to record a flattish performance as 3% YoY growth in stabiliser would be partly offset by 4% YoY dip in sales of UPS products. Lower volume coupled with higher employee cost will hurt EBITDA margin by ~156 bps YoY at 9.6%. PAT is likely to decline ~16% YoY at ₹ 36 crore
Voltas	We believe Voltas would record muted sales growth of 2% YoY to ₹ 1886 crore during Q1FY18E. Despite strong season, UCP segment likely to record muted growth in primary sales by ~2% YoY to ₹ 1215 crore owing to pre GST inventory clearance at dealers' level. Also, focus on execution of quality orders would lead to muted sales of EMPS segment during Q1FY18E. The EBITDA margin is likely to decline by 107 bps YoY to 9.7% owing to lower operating leverage. As a result, PAT is likely to decline ~7% YoY to ~₹ 146 crore

Source: Company, ICICIdirect.com Research

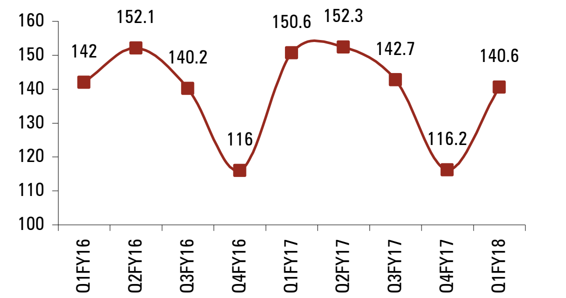
Topline & profitability (Coverage Universe)



Copra price continues to remain elevated (₹ per kg))



Benign tea prices (₹/kg)



Top Picks

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FMCG

Destocking ahead of GST to impact revenue for quarter

With the reform in the indirect tax structure & ahead of its transition, we estimate sales loss of 8 to 15 days during the quarter for companies under our coverage universe and hence, we factor in flat revenue on a YoY basis. Though large companies extended support to dealers throughout the transition phase, as per our channel checks, retailers remained sceptical. Hence, the offtake was not encouraging in the last 10-15 days of June. We estimate revenue growth only for ITC, Nestlé and Prabhat Dairy among our coverage. Led by the cigarette and hotel segments, we are estimating 3.9% YoY growth in revenue for ITC. Nestle is estimated to report marginal growth in sales by 1.5% YoY. Supported by B2B exposure and increasing capacity utilisation, Prabhat Dairy is expected to report 21.4% growth in revenue. Given the huge size of business and reach, we are factoring in about eight days sales loss for HUL, thus, leading to a marginal decline of 2.8% YoY in the revenue. Also, we are estimating limited impact on Marico with revenue decline of 3.9% YoY led by the price hike undertaken across portfolio. JLL, Dabur and Colgate are expected to report sales decline of 5.9%, 5.8% and 4.6% YoY, respectively. GSK Consumer is estimated to report 7.8% decline in sales largely due to the discretionary nature of the product portfolio and uncertainty about the GST rate of the malt based drinks. For VST Industries we are factoring in limited revenue decline of 5.6% YoY despite estimated 3.9% decline in volumes largely led by to the price hikes undertaken earlier this year.

- **Amid elevated commodity prices, lower ad-ex to be a saviour**

Commodity prices remained elevated during the quarter and continued to put pressure on majority of companies under our coverage. Copra prices grew 57.9% YoY during the quarter followed by Robusta prices, which grew 25.9% YoY. Crude, sugar and palm oil also grew 8.3%, 6.5% and 6.0%, respectively. Milk prices also continued to rise in Maharashtra. Over the quarter, tea and barley prices declined 6.7% and 5.6% YoY, respectively. We assume that in order to curb the impact of revenue loss and elevated commodity cost, companies would resort to lower advertisement expense to limit the impact on their operating margin. We expect our coverage universe to post flat EBITDA margin. We are estimating 2.9% YoY growth in profit for our coverage universe. Profit for ITC, Colgate and Nestlé is estimated to grow 9.8%, 9.9% and 6.9% YoY, respectively.

Exhibit 12: Estimates for Q1FY18E (FMCG)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q1FY18E	YoY	QoQ	Q1FY18E	YoY	QoQ	Q1FY18E	YoY	QoQ
Colgate Palmolive	1,089.2	-4.6	-7.0	222.9	5.5	-8.8	138.2	9.9	-3.1
Dabur India Ltd	1,834.9	-5.8	-4.2	339.5	-1.4	-18.7	289.0	-1.6	-13.4
GSK Consumer	977.0	-7.8	-19.2	186.4	-8.4	-14.1	156.0	-2.9	-11.3
HUL	8,416.3	-2.8	-4.1	1,633.5	-0.1	-1.1	1,094.1	-6.8	-7.5
ITC	13,669.4	3.9	-8.2	3,635.7	3.1	-6.2	2,618.5	9.8	-1.9
Jyothy Laboratories	408.8	-5.9	-9.6	62.0	-19.9	-1.2	49.8	-2.1	-54.7
Marico Ltd	1,680.9	-3.9	27.8	331.0	-11.5	27.6	226.6	-15.4	32.3
Nestle India	2,289.0	1.5	-11.1	445.1	-0.3	-15.2	246.8	6.9	-19.6
Prabhat Dairy	355.2	21.4	-5.8	28.7	15.7	-3.7	10.8	80.0	LP
Tata Global	1,683.9	-3.0	0.6	210.5	-11.7	17.6	124.5	4.1	143.5
VST Industries	239.3	-5.6	5.4	67.3	0.5	8.8	42.8	2.8	-5.1
Total	32,643.9	-0.1	-5.6	7,162.5	0.2	-4.8	4,997.0	2.9	-3.7

Source: Company, ICICIdirect.com Research

Tax rates for major categories under GST

Item	GST rate %	Current (%)
Hair Oil	18%	23-24%
Toothpaste	18%	23-24%
Soap	18%	23-24%
Detergent	28%	23-24%
Shampoo	28%	24-25%
Tea	5%	3-9%
Edible Oil	5%	3-9%
Butter, Ghee, Cheese	12%	6%

Source: ICICIdirect.com Research

Tax incidence under GST for ITC

(₹ Per stick)	Earlier	Under GST	Difference
Net realisation	2.7	2.7	
Excise Duty / NCCD	2.2	0.1	
Gross Realisation	4.9	2.8	
VAT @ 25% / GST @ (28%+5%)	1.2	0.9	
Cess	0.0	2.2	
Total tax incidence	**3.4**	**3.3**	**-4.5%**
Dealers Margin @ 15%	0.9	0.9	
MRP	**7.0**	**6.9**	**-2.5%**

Source: ICICIdirect.com Research

Tax incidence under GST for VST Industries

(₹ Per stick)	Earlier	Under GST	Difference
Net Realisation	0.96	0.96	
Excise Duty/NCCD	1.81	0.12	
Gross realisation	2.77	1.08	
VAT @ 25% / GST @ (28%+5%)	0.69	0.36	
Cess	0.00	1.82	
Total tax incidence	**2.50**	**2.29**	**-8.3%**
Dealers Margin @ 15%	0.52	0.49	
MRP	**3.98**	**3.74**	**-6.0%**

Source: ICICIdirect.com Research

GST to aid volume growth in the FMCG sector

The implementation of GST on July 1, 2017 is expected to be a growth driver for the FMCG sector, as a whole. The sector is expected to enjoy operational efficiency with rationalisation of supply chain by removing bottlenecks under the GST regime. Additionally, with strict compliance in place under Goods and Services Network (GSTN), we expect a shift from the unorganised to the organised sector over the medium to long term. Additionally, we believe the implementation of GST would not be inflationary in nature as most FMCG products have been subsumed in the nearest slab of existing indirect tax. The government has also put in place the anti-profiteering clause under which companies would be required to pass on the benefit of tax rates to consumers in the form of lower prices, thus further providing a push to overall volume growth in FMCG space.

Keeping it non-inflationary in nature, personal care products, soaps, hair-oil & toothpaste have been kept in the 18% slab against current 23-24%. Among companies under our coverage, Colgate-Palmolive is expected to be one of the major beneficiaries of GST. Under the new tax regime, the average indirect tax rate for toothpaste has come down to 18% from ~23-24%. Following the anti-profiteering clause, Colgate would be passing on the benefit in form of price cuts and in our view, it levels the playing field for Colgate vis-à-vis other key players who enjoy various tax benefits account of ayurvedic proposition.

As per various media reports, in order to pass on the benefits companies viz. ITC, HUL and Marico are either slashing prices of goods or increasing the grammage of the products. Nestlé has also announced a drop in prices of Maggi ketchup, Cerelac infant foods and select dairy products.

To our surprise, detergents and shampoos have been kept under the highest bracket of 28% against industry expectation of 18%. We believe this may require companies to take price hike to pass on the burden. Also the Ayurvedic medicines and products have been put in the 12% bracket, slightly higher than the prevailing rate of 7-10% and may put some pressure on Dabur as the company would have to take price hikes to pass on the additional tax burden.

However, overall, we believe the GST tax rate structure will be neutral or marginally positive for majority of our companies given the mixed impact on the overall product portfolio. Additionally, companies are set to benefit from the supply chain efficiency and consumption shift from unbranded to branded products, spurring volume growth for FMCG companies.

Tax incidence to come down for cigarette companies under GST

Under GST, cigarettes have been kept in the highest tax slab of 28% along with NCCD (National Calamity Contingent Duty) and cess of 5% plus another cess based on length of the cigarette. With the removal of the multi layered tax regime and abolition of excise and additional excise duty (AED), the net tax incidence of cigarette companies are estimated to come down. We are expecting 4.5% and 8.3% decline in net tax incidence for ITC and VST Industries. This, as per our calculation, provides companies room to pass on the benefit to customers through price cuts of 2.5% and 6.0%, respectively, for the aforesaid companies. After five consecutive year of increase in duties & taxes on cigarettes, GST implementation has come as an advantage for cigarettes companies. We believe companies would continue to concentrate on low priced (64 & 69 mm) cigarettes and become more competitive in these categories to derive higher volume growth. In the long run, it may help companies to gain market share from illegal cigarette players.

Exhibit 13: Company specific view (FMCG)

Company	
Colgate	On account of pressure on trade channel, we expect Colgate to report 4.6% decline in net sales. We estimate ~10% YoY volume decline for the quarter. Amid a muted demand environment, we expect the company to curb advertisement spend to 11.5% of net sales vis-à-vis 13.6% in Q1FY18. Thus, operating margin is likely to expand 193 bps YoY to 20.3%. Thus, PAT is expected to grow 9.9% YoY to ₹ 138.2 crore
Dabur	On account of de-stocking in the domestic market and unfavourable currency movement in the international business, we expect Dabur to report revenue decline of 5.8% YoY. Domestic and international sales is expected to decline 3.5% and 10.3% YoY, respectively. Inflationary pressure of input cost remained high during the quarter. However, we expect the company to keep selling expenses low at 9.0% vs. 10.1% in same quarter last year. Thus, the EBITDA margin is expected to expand marginally by 82 bps YoY to 18.5%. PAT is estimated to remain largely flat YoY to ₹ 289.0 crore
GSK Consumer Healthcare	Considering the discretionary nature of the products and pressure in the trade channel, we expect sales to decline 10.2% YoY. However, we expect revenue from auxiliary income to grow to ₹ 76.8 crore against ₹ 56.8 crore in Q1FY17 on account of additional products from the Novartis kitty. We expect the operating margin to remain flat YoY at 19.1%. PAT for the quarter is expected to decline marginally by 2.9% YoY at ₹ 156.0 crore
HUL	HUL is expected to report a marginal decline of 2.8% YoY in revenue on account of de-stocking ahead of GST. We are estimating ~8 days sales loss for the quarter. We expect home and personal care segments to report ~5% YoY decline in sales. Though the raw material cost is estimated to remain elevated amid the inflationary situation, we expect the company to lower the advertisement expense to 9.5% of net sales. EBITDA margin is expected to expand marginally by 50 bps YoY to 19.1%. Adjusted PAT is expected to decline marginally by 2.8% YoY to ₹ 1094.1 crore
ITC	We expect ITC to report 3.9% YoY growth in net sales driven by cigarette and hotel segments. We estimate that the cigarette volumes would decline ~7%. However, on account of price hike taken, it is expected to grow 3.9% at the gross level. On a low base, we are estimating the hotel segment will post healthy revenue of 11.3% YoY. However, on account of trade channel pressure, we estimate a marginal decline across other segments. EBITDA margin is expected to remain flat YoY to 26.3%. PAT is estimated to grow 9.8% YoY to ₹ 2618.5 crore
Jyothy Labs	On account of higher exposure to the wholesale channel and de-stocking ahead of GST, we estimate JLL to report 6.0% decline in the net sales. We estimate personal care, fabric care, insecticide and dishwashing will decline 11.3%, 7.4%, 4.0% and 3.0% YoY, respectively. On account of elevated raw material cost, we estimate EBITDA margin will contract to 15.1% vis-à-vis 17.4% on Q1FY17. We are not considering any tax outgo for the quarter. Hence, profit is estimated to decline marginally by 2.1% YoY to ₹ 49.8 crore despite bigger drop in sales & contraction in margins
Marico	Amid the pressure on trade channel, we expect Marico to report 3.9% decline in overall sales. Domestic sales is expected to decline 4.1% YoY despite considering loss of sales for ~10-12 days, on account of price hikes undertaken across the Parachute and Saffola portfolio to the tune of ~5-12% during the quarter. International business is also expected to remain muted and report 2.9% YoY decline in sales on account of unfavourable currency movement and political turmoil in the concerned countries. With rising copra prices (up 57.9% YoY), we estimate 168 bps YoY contraction in the operating margin to 19.6%. We estimate PAT will decline 15.4% YoY to ₹ 226.6 crore
Nestlé India	Considering 10-15 days revenue loss for the company, we expect Nestlé to report 1.5% YoY growth in the revenue. Raw material expense is expected to remain elevated for the quarter. However, we expect the company to report operating margin of 19.3% against 19.7% in Q2CY16. This is on account of lower advertisement expense as companies have refrained from aggressive product launch due to the uncertainties ahead of GST. Thus, we expect PAT to grow 6.9% YoY to ₹ 246.8 crore

Source: Company, ICICIdirect.com Research

Exhibit 14: Company specific view (FMCG)

Company	
Prabhat Dairy	Due to the B2B nature of business, we estimate Prabhat Dairy to be largely insulated from de-stocking ahead of GST implementation. With the increasing capacity utilisation across products, the company is likely to report a healthy set of numbers. We expect revenue to grow 21.2% YoY to ₹ 355.2 crore. However, the rising procurement cost of milk coupled with higher advertisement expense, is expected to put pressure on the operating margin. We expect the margin to contract to by 40 bps to 8.1%. PAT is expected to grow by 80% to ₹ 10.8 crore as against ₹ 6.0 crore in Q1FY17
Tata Global Beverages	We expect TGBL to report 3.8% decline in the net sales for the quarter led by 4.5% and 3.0% decline in tea and coffee segments, respectively. Though we expect domestic sales to remain muted, international business is shielded from the GST chaos. Though tea prices remained under pressure domestically, coffee prices have grown considerably over the quarter. Thus, we are factoring in ~125 bps YoY contraction in the operating margin to 12.5%. Further, profit is likely to grow marginally by 4.1% YoY to ₹ 124.5 crore for the quarter on lower tax outgo compared to Q1FY17
VST Industries	We estimate the company to report 5.6% decline in sales. The cigarette segment is expected to report 3.9% volume decline. However, on account of price hikes undertaken, the impact of volume decline ahead of GST in the quarter would be limited. On a high base, sales from un-manufactured tobacco is estimated to decline 15.9% YoY to ₹ 71.5 crore. Led by increase in realisation, we expect the EBITDA margin to expand 180 bps YoY to 27.7%. PAT is expected to grow marginally by 2.8% YoY to ₹ 42.8 crore

Source: Company, ICICIdirect.com Research

Healthcare

- **GST impact, US price erosion to weigh on numbers**

I-direct healthcare universe revenues are expected to decline ~4% YoY to₹ 35714 crore. Q1 is expected to be one of the worst quarters in the past many years mainly due to 1) de-stocking of inventories in domestic market led by GST implementation and 2) sharp price erosion as well as high base in the US and 3) rupee appreciation against all major currencies. US sales (select pack) are expected to decline ~17% YoY to ₹ 10151 crore mainly due higher base, lack of meaningful approvals and sharp price erosion owing to client consolidation and increased competition. On the domestic formulations front, sales are expected to decline ~15% YoY to ₹ 6648 crore (select pack) due de-stocking of inventories led by GST implementation. As per AIOCD, primary sales would have dipped 50% or more for most pharma companies for June. European growth is expected at just 7% YoY, due to the negative impact of currency movement (down 6% YoY). Excluding exclusivities and consolidation, revenues are likely to decline ~5%.

On the company front, we expect Apollo Hospitals, Jubilant Life, Glenmark, Natco and Syngene to register double digit growth. On the other hand, nine out of 19 companies in the I-direct healthcare universe are expected to register negative growth.

- **EBITDA to decline ~25% YoY**

EBITDA of the I-direct healthcare universe is expected to decline 25% YoY to ₹ 7087 crore. EBITDA margins are likely to decline 543 bps YoY to 19.8%. An adverse product mix, increase in R&D expenditure and fixed cost led to sharp margin erosion during the quarter.

- **Adjusted net profit to decline 36% YoY**

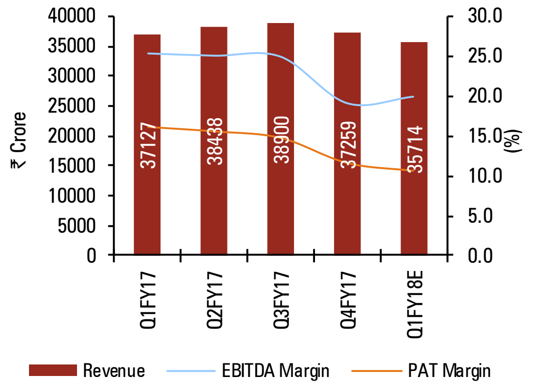
Net profit is expected to increase ~36% YoY to ₹ 3826 crore. Delta vis-à-vis EBITDA was mainly due to higher depreciation and lower other income.

Exhibit 15: Estimates for Q1FY18E

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q1FY18E	YoY	QoQ	Q1FY18E	YoY	QoQ	Q1FY18E	YoY	QoQ
Ajanta Pharma	485.9	3.2	1.9	150.6	-9.6	-6.7	99.5	-16.7	-12.7
Alembic Pharma	671.9	-7.7	-9.4	120.9	-23.0	-10.1	77.0	-25.7	-17.2
Aurobindo Pharma	3,670.7	-1.5	0.8	765.7	-13.9	6.2	466.0	-20.3	-9.2
Biocon	955.1	-2.8	2.6	202.0	-23.2	7.7	84.9	-49.1	-33.5
Cadila Healthcare	2,369.9	3.6	-6.1	414.7	-20.8	-10.5	262.6	-26.3	-31.9
Divi's Lab	1,061.1	5.3	-0.5	361.1	-10.6	-0.3	262.8	-12.9	1.4
Cipla	3,517.8	-2.1	-1.8	545.3	-10.8	7.7	233.4	-36.1	LP
Dr. Reddys	3,302.1	2.1	-7.1	536.6	38.7	-0.3	191.5	61.1	-36.6
Glenmark	2,146.0	10.4	-12.7	398.5	5.1	-10.2	223.0	-1.7	-15.8
Indoco Remedies	241.8	-6.0	-12.7	26.6	-36.4	-18.3	5.6	-71.5	-68.5
IPCA Labs	741.8	-11.9	11.4	81.6	-36.5	20.6	28.7	-45.4	-35.3
Jubilant Life Sc.	1,643.5	15.8	0.1	355.9	-3.3	16.7	165.3	2.4	10.1
Lupin	3,932.5	-11.4	-7.5	798.1	-39.0	2.1	384.9	-56.4	1.2
Natco Pharma	396.0	21.8	-31.5	108.9	41.0	-54.8	68.4	43.5	-61.3
Sunpharma	6,796.4	-17.5	-4.8	1,631.1	-44.2	5.4	977.7	-51.9	-20.1
Syngene International	310.0	12.9	6.5	100.3	12.9	0.3	64.8	8.6	-16.9
Torrent Pharma	1,420.6	-8.1	-0.9	284.1	-35.0	-3.7	164.2	-43.8	-20.3
Unichem Laboratories	339.4	-0.8	-1.3	23.8	-46.2	-29.5	11.8	-54.2	-62.5
Apollo Hospitals	1,711.6	16.8	3.0	181.0	-3.1	6.4	54.1	-25.0	12.3
Total	35,714.0	-3.8	-4.1	7,086.9	-24.5	-0.1	3,826.4	-36.1	-12.1

Source: Company, ICICIdirect.com Research

Topline & Profitability (Coverage universe)

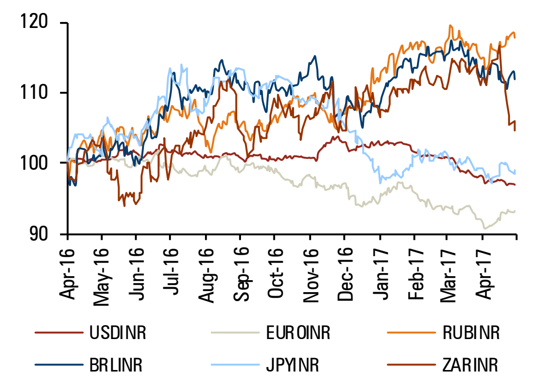


USFDA approvals for Apr-Jun 2017 (Coverage Universe)

Company	Final	Tentative
Ajanta Pharma	1	0
Aurobindo Pharma	17	2
Cadila Healthcare	18	0
Cipla	2	0
Dr. Reddy's Labs	2	0
Glenmark Pharma	5	1
Jubilant Life	3	0
Lupin	3	0
Natco	1	0
Sun Pharma	4	1
Unichem Labs	1	0

Source: USFDA, ICICIdirect.com Research

Currency Movement



Top picks of sector

Natco Pharma

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Expected growth (%) in Domestic formulation

(₹ crore)	Q1FY18E	Q1FY17	Var. (%)	Q4FY17	Var. (%)
Ajanta	133.5	157.0	-15.0	133.0	0.3
Alembic	236.1	277.7	-15.0	261.7	-9.8
Biocon	110.6	158.0	-30.0	131.0	-15.6
Cadila	729.6	786.2	-7.2	840.2	-13.2
Glenmark	436.7	513.8	-15.0	576.9	-24.3
Indoco	120.8	142.1	-15.0	130.1	-7.1
Ipca	293.4	345.2	-15.0	276.7	6.1
Lupin	791.6	931.3	-15.0	878.8	-9.9
Cipla	1159.2	1449.0	-20.0	1197.0	-3.2
Dr Reddy's	444.0	522.3	-15.0	571.1	-22.3
Sun Pharma	1576.1	1854.3	-15.0	1916.4	-17.8
Torrent	428.4	504.0	-15.0	467.0	-8.3
Unichem	188.3	221.5	-15.0	187.4	0.5
Total	6648.3	7862.5	-15.4	7567.2	-12.1

Expected growth (%) in the US

(₹ crore)	Q1FY18E	Q1FY17	Var. (%)	Q4FY17	Var. (%)
Aurobindo	1661.1	1703.9	-2.5	1643.2	1.1
Cadila	936.4	848.3	10.4	985.1	-4.9
Cipla	633.8	657.0	-3.5	646.0	-1.9
Glenmark	919.8	698.2	31.7	1000.4	-8.1
Lupin	1651.6	2188.6	-24.5	1900.7	-13.1
Dr Reddy's	1528.7	1552.3	-1.5	1534.9	-0.4
Sun Pharma	2559.0	4070.6	-37.1	2554.5	0.2
Torrent	261.3	434.0	-39.8	281.0	-7.0
Total	10151.5	12152.9	-16.5	10545.8	-3.7

Expected growth (%) in Europe

(₹ crore)	Q1FY18E	Q1FY17	Var. (%)	Q4FY17	Var. (%)
Aurobindo	839.0	831.2	0.9	777.2	8.0
Cadila	75.2	79.2	-5.0	62.0	21.4
Glenmark	179.9	150.0	20.0	229.8	-21.7
Dr Reddy's	193.8	161.5	20.0	206.6	-6.2
Lupin	134.4	128.0	5.0	135.5	-0.8
Torrent	224.4	187.0	20.0	235.0	-4.5
Total	1646.8	1536.8	7.2	1646.0	0.0

Expected growth (%) in Latin America

(₹ crore)	Q1FY18E	Q1FY17	Var. (%)	Q4FY17	Var. (%)
Cadila	60.6	52.7	15.0	60.3	0.5
Glenmark	132.3	155.6	-15.0	134.0	-1.3
Torrent	200.4	167.0	20.0	216.0	-7.2
Total	393.3	375.3	4.8	410.3	-4.1

Exhibit 16: Company specific view

Company	Remarks
Ajanta Pharma	Revenues are expected to grow just 3% YoY as ~12% YoY growth in exports business is likely to be offset by 15% decline in domestic formulations due to GST impact. US sales improved YoY but declined sequentially mainly due to price erosion in the base business. EBITDA margins are expected to decline 436 bps to 31% due to commissioning of Guwahati (partly commissioned) and Dahej plant and increase in R&D spend. Net profit is likely to decline 17% YoY mainly due to lower operational performance and higher depreciation costs
Alembic Pharma	Revenues are expected to decline 8% YoY mainly due to 15% decline in the domestic formulations business owing to GST impact as well as 9% decline in export formulations, partly offset by 5% growth in the API business. EBITDA margins are expected at 18%. Net profit is expected to decline ~26% YoY mainly due to lower operational performance
Apollo Hospitals	Standalone sales are likely to grow ~17% YoY mainly due to 22% growth in the pharmacy business and 13% growth in the healthcare service business. The pharmacy business is expected to be driven by improvement in realisation while the hospital segment is expected to be driven by strong growth in new hospitals. EBITDA margins are likely to decline 217 bps to 10.6% YoY mainly due to adverse segment mix and impact of government regulation on stent pricing. Net profit is expected to decline 25% YoY mainly due to lower operational performance and higher depreciation led by commissioning of new hospital
Aurobindo Pharma	Revenues are expected to decline ~2% YoY mainly due to muted growth in the US and Europe. EBITDA margins are likely to decline ~300 bps to 20.9% due to adverse product mix and sharp price erosion in the US. Net profit is expected to decline ~20% YoY due to lower operational performance
Biocon	Revenues are likely to decline ~3% YoY mainly due to subdued performance in biopharmaceuticals (decline of 5% YoY) and domestic branded formulations (decline of 30% YoY) owing to higher base and GST impact, although partly negated by strong performance in Syngene (growth of ~12% YoY). EBITDA margins are expected to decline 563 bps to 21.2%. Net profit is expected to decline ~49% mainly due to a weak operational performance and higher depreciation cost due to commissioning of the Malaysian facility
Cadila Healthcare	Revenues are expected to increase ~4% YoY mainly due to strong US performance (10.4% YoY) and emerging markets (5% YoY), partly negated by a subdued India performance (decline of 10% YoY) due to GST impact. EBITDA margins are likely to decline 541 bps YoY to 17.5% mainly due to an adverse product mix. Net profit is expected to decline ~26% YoY mainly due to lower operational performance and higher depreciation cost
Cipla	Revenues are expected to decline 2% YoY mainly due to 20% decline in domestic formulations owing to GST implementation, partly negated by export formulations, which are expected to grow 3% YoY. EBITDA margins are expected to be at 15.5%. Net profit is expected to decline 31.6% YoY due to a lower operational performance, higher depreciation cost and higher tax rate
Divi's Laboratories	Revenues are expected to grow ~5% YoY mainly due to growth across custom synthesis and generic segment. EBITDA margins are likely to decline 602 bps to 34% mainly due to higher remedial cost. Net profit is expected to decline ~13% mainly due to lower operational performance
Dr Reddy's	Revenues are likely to grow mere ~2% YoY mainly due higher competition in the US and GST impact in domestic market. Russia and CIS business are expected to grow 30% YoY mainly due to new product approvals and favourable currency movement. EBITDA margins are likely to increase 429 bps YoY to 16.3% mainly due to decline in remedial expenses and lower R&D spend. Net profit is expected to increase 61% YoY to ₹ 192 crore
Glenmark Pharma	Revenues are expected to grow ~10% YoY mainly due to gZetia exclusivity in the US (32% YoY), partly negated by 15% decline in domestic formulation due to the GST impact. EBITDA margins are expected to largely decline 94 bps YoY to 18.6% mainly due to a adverse product mix. Net profit is expected to decline 2% YoY due to a weak operational performance

Source: Company, ICICIdirect.com Research

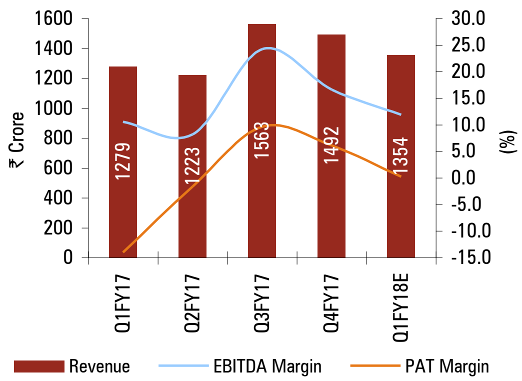
Expected growth (%) in API

(₹ crore)	Q1FY18E	Q1FY17	Var. (%)	Q4FY17	Var. (%)
Aurobindo	624.3	734.5	-15.0	762.8	-18.2
Alembic	134.6	128.2	5.0	181.0	-25.6
Cadila	102.5	97.6	5.0	93.4	9.7
Glenmark	200.8	191.2	5.0	199.7	0.5
Divi's Lab	531.4	501.3	6.0	558.4	-4.8
Indoco	17.6	17.6	0.0	12.0	46.1
Ipca Labs	221.7	201.5	10.0	153.8	44.1
Lupin	292.6	286.9	2.0	281.5	4.0
Cipla	137.6	131.0	5.0	162.0	-15.1
Dr Reddy's	478.6	469.2	2.0	540.1	-11.4
API	43.2	40.0	8.0	56.0	-22.9
Sun Pharma	497.9	488.2	2.0	409.3	21.7
Unichem	21.8	20.8	5.0	31.4	-30.4
Total	3304.6	3308.1	-0.1	3441.4	-4.0

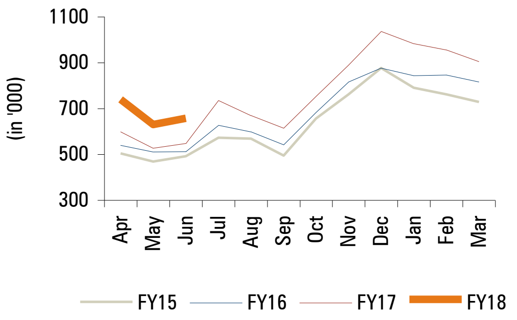
Exhibit 17: Company specific view

Indoco Remedies	Revenues will likely decline 6% YoY on the back of 15% decline in domestic formulations owing to GST impact. Export formulations are expected to grow just 1% YoY mainly due to a decline in US businesses. EBITDA margins are likely to decline to 11% from 16.2% in Q1FY17 mainly due to adverse product mix. Net profit is expected to decline 72% mainly due to weak operational performance
Ipca Laboratories	Revenues are expected to decline~12% YoY on the back of ~18% decline in domestic formulations owing to GST impact and ~22% decline in export formulations due to stoppage of US sales and delay in shipment. EBITDA margins are likely to decline 426 bps YoY to 11% mainly due to adverse product mix. Net profit is expected to decline ~45% YoY mainly due to lower operational performance
Jubilant Life Science	Revenues are expected grow ~16% YoY due to strong growth across the pharmaceutical and LSI segment. Margins are expected to decline 428 bps YoY to 21.7% mainly due to an adverse product mix. Net profit is expected to grow a mere 2% on the back of a muted operational performance
Lupin	Revenues are expected to decline ~11% YoY mainly due to the GST impact in the domestic market (15% YoY decline) and high base and steep price erosion in the US (25% YoY decline). EBITDA margins are likely to decline 917 bps to ~20% YoY mainly due to higher base of Metformin (diabetic) in Q1FY17. Net profit is expected to decline ~56% YoY mainly due to a weak operational performance
Natco Pharma	Revenues are likely to increase ~22% YoY mainly due to robust gTamiflu and gDoxil sales in the US. EBITDA margins are expected to expand 375 bps to 27.5% due to a favourable product mix. Net profit is expected to grow ~44% YoY
Sun Pharma	Revenues are likely to decline 18% YoY mainly due to GST impact in the domestic market (15% YoY decline) and high base and steep price erosion in the US (37% YoY decline). Taro's sales are expected to decline ~20% YoY. EBITDA margins are expected to decline 1144 bps YoY to ~24% mainly due to an adverse product mix. Net profit is expected to decline 52% YoY due to a lower than expected operational performance
Syngene	Revenues are likely to grow ~13% YoY due to growth across verticals. EBITDA margins are expected to be in the range of 32-33%. Net profit is expected to increase 9% on the back of a better operational performance
Torrent Pharma	Revenues are expected to decline ~8% YoY mainly due to high base of gAbilify in the US (40% YoY decline) and GST impact in domestic sales, which is likely to partly offset by strong growth in Brazil and Germany. EBITDA margins are expected to decline to 20% from ~28% in Q1FY17 due to base effect. Net profit is expected to decline ~44% due to lower operational performance and higher taxation
Unichem Labs	Revenues are expected to decline 4% YoY. The 20% YoY decline in domestic formulation due to GST impact is likely to offset by 27% YoY growth in export formulation. EBITDA margins are likely to decline ~595 bps to 7% due to an adverse product mix. Net profit is expected to decline ~54% due to a low operational performance

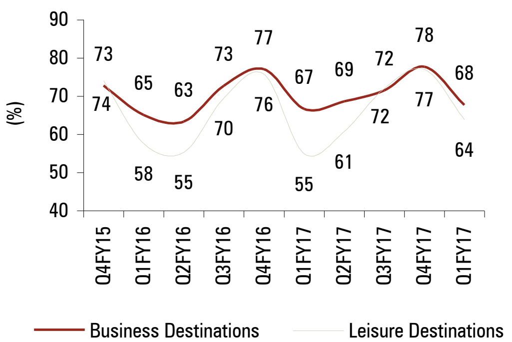
Topline & Profitability (Coverage universe)



FTAs to grow at 21.1% during Q1FY18E



Trends in average occupancy levels



Top pick of sector

EIH

Research Analyst

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Hotels

- **Foreign tourist arrivals (FTA) to report healthy growth of 21.1% YoY during Q1FY18E; one of highest growth in past seven years!!!**

Foreign tourist arrivals (FTAs) are expected to grow at a healthy rate of 21.1% YoY to 20.3 lakh during the quarter. With better FTA growth and improved domestic demand, we expect occupancy levels to improve during the quarter on a YoY basis. Still, competitive room rates are likely to keep revenue growth under check. Average occupancy levels at leisure destinations are expected to remain better than the business destinations due to healthy growth in foreign tourist arrivals. During the quarter, we expect **EIH** and **TajGVK** hotels to report a good set of numbers. **IHCL**, on the other hand, is likely to report moderate growth due to sale of its international property and subdued performance of international subsidiaries. Overall, we expect our I-direct hotel coverage universe to report 5.9% YoY revenue growth during the quarter due to company specific reasons.

- **Operating margins to improve YoY mainly due to cost controls**

Margins of the I-direct hotel universe are expected to improve YoY on account of cost control measures. During the quarter, we expect **Indian Hotels** (sale of loss making unit) and EIH (lower operating costs) to report margin expansion of 110 bps & 220 bps YoY, respectively, while TajGVK is expected to broadly maintain its margins vs. last year.

- **Leisure destinations, select business destinations to drive growth during quarter**

Average occupancy levels continue to remain higher at both business & leisure destinations during the quarter due to healthy FTA data and pick-up in economic environment. Select leisure destinations are expected to report marginally better occupancy levels during the quarter. In business destinations, Mumbai, Delhi and Hyderabad are expected to register higher occupancy compared to the previous year. Among leisure destinations Kochi, Rajasthan and Goa is likely to witness strong up-tick in occupancy levels during the quarter.

- **GST update: Rooms with rates above ₹ 7500/night to attract higher tax than prevailing rates from Q2FY18 onwards**

Under GST, the council has fixed 28% tax rate for room tariff above ₹ 7500/night, which is higher than the existing tax rate of ~21% (service tax 9% + luxury tax 12%). This will lead to additional cost burden from Q2FY18 onwards if it is not passed on to consumers fully. Among our coverage universe, EIH and IHCL would both be impacted as majority of their revenue generating properties fall under this bracket while TajGVK will be least impacted as their average ARR is below the prescribed rate of ₹ 7500/night in Hyderabad.

Exhibit 18: Estimates for Q1FY18E: (Hotels) (₹ Crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q1FY18E	YoY	QoQ	Q1FY18E	YoY	QoQ	Q1FY18E	YoY	QoQ
EIH	293.9	7.4	-20.5	36.9	31.5	-35.3	9.5	LP	-81.2
Indian Hotel	997.8	5.4	-4.9	110.8	17.6	-37.6	-7.3	NA	PL
Taj GVK Hotels	62.2	6.7	-15.2	13.2	4.8	-1.1	0.9	-63.4	49.3
Total	1,353.9	5.9	-9.3	161.0	19.3	-35.1	3.2	LP	-96.5

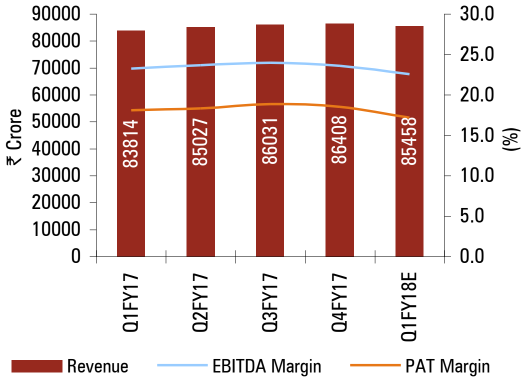
Source: ICICIdirect.com Research

Exhibit 19: Company specific view

Company	Remarks
Indian Hotels	Consolidated revenue growth may remain in the mid single digit on account of sale of its key international hotels. Standalone domestic segment growth is expected to remain better. We expect domestic net revenues to grow by 8.0% YoY to ₹ 511 crore. On the other hand, international segment to report revenue growth of 2.8%. OPM may improve 100 bps YoY on account of sale of loss making units aided by cost control measures. Lower depreciation and interest cost to narrow down the losses during the quarter
EIH	With healthy tourist arrivals growth, we expect EIH to report high single digit growth in the revenues. ARR is expected to increase 3% YoY, occupancy levels to also remain healthy vs. last year. Margins are likely to improve 220 bps YoY. Closure of Delhi property for renovation may lead to some write-offs or exceptional loss during the quarter
Taj GVK Hotel	Although, the new property addition of Taj Santacruz, Mumbai performance continues to remain healthy, the same will not be reflected on the revenues due to adoption of new-AS. On the standalone front, we expect revenue growth of 6.7% YoY. OPM margins to broadly remain same vs. last year. We expect the company to report net profit of ₹ 0.9 crore (vs. loss of ₹ 0.2 crore excluding exceptional gain of ₹ 2.6 crore last year)

Source: ICICIdirect.com Research

Topline & profitability (Coverage universe)



Dollar growth, QoQ

IT Services	Q1FY18E	Q4FY17	Growth (%)
TCS	4,599.2	4,452.0	3.3
Infosys	2,636.5	2,569.0	2.6
Wipro ^	1,944.8	1,954.6	(0.5)
HCL Tech	1,888.8	1,817.0	4.0
Tech Mahindra	1,138.5	1,131.2	0.6
Mindtree	201.4	195.6	3.0
KPIT Technologies	130.2	128.3	1.5
Cyient	144.2	141.0	2.2
NIIT Technologies	109.2	110.3	(1.0)
Persistent Systems	112.2	109.0	2.9
eClerx	48.6	47.9	1.5
BPO (in ₹)			
Firstsource	892.3	892.3	-
Internet (in ₹)			
Info Edge	226.3	223.9	1.1

^ IT services

Top picks of the sector

Persistent Systems

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Information Technology

- **Cross currency to aid US$ revenue growth…**

  We expect Tier-1 IT companies to start FY18E with reasonable constant currency (cc) growth (-1% to 2.5%) in an otherwise seasonally strong Q1 while reported $ growth may be aided by cross currency tailwinds ranging from 40-90 bps. Inter-quarter average US$ has depreciated more than 3% vs. ₹, Euro and GBP while appreciating ~1.0% vs. AU$. Sequentially appreciation in average rupee rate to ₹ 64.5 vs. US$ may negatively impact rupee revenue growth. Tier-I IT companies may likely report average $ revenue growth of ~2.4% in Q1FY18E. Within tier-I, HCLT (4.0%) may lead again led by inorganic contribution followed by TCS (3.3%) & Infosys (2.6%) while Wipro could see a subdued quarter.

- **Rupee appreciation, wage hikes & visa costs to impact margins…**

  Rupee appreciation (3.6% QoQ) coupled with moderate wage hikes and visa costs could create margin headwinds in Q1 partly aided by cross currency benefit and operational efficiency. Deferral of wage hike at Infosys could cushion margins in Q1. We expect EBIT margins to decline 50 bps, 100 bps for HCLT, Infosys respectively (primarily led by currency headwind and visa cost); 80 bps for Wipro (1 month impact of wage hike) and 150 bps for TCS (wage hike).

- **Q1 to be mixed bag for midcap coverage; MindTree, Persistent to lead…**

  We expect a mixed Q1 for our midcap coverage universe led by MindTree, which could witness an up-tick in growth on the back of a strong deal pipeline in H2FY17. Within midcaps, we expect Persistent (2.9% QoQ growth) Cyient (2.2%), KPIT (1.5%) to lead while TechM (0.6%) and Firstsource could be soft. Broadly, EBITDA margins could face pressures due to rupee headwind and wage hikes led by NIIT Tech, eClerx followed by Info Edge, KPIT and MindTree.

- **Hopeful of Infosys, HCLT to retain CC revenue guidance for FY18E…**

  Nasscom in its guidance projected Indian IT exports will grow at 7-8% (CC) for FY18E (vs. 8.6% in FY17). Given the prevailing concerns in the IT industry, Nasscom's revenue growth guidance of 7-8% is largely in line with frontline IT companies' guidance and commentary. We expect Infosys (6.5-8.5%) and HCLT (10.5-12.5%) to retain their CC revenue guidance for FY18E. Possible up-tick in Tier-1 companies key vertical BFSI on the back of positive commentary by the management at the start of the year and revenue outlook amid challenging environment and uncertain client spend in various verticals would be watched out. Further, how IT companies manage margins in the wake of rupee appreciation and increased US local hiring would be key monitorable.

Exhibit 20: Estimates for Q1FY18E (₹ Crore)

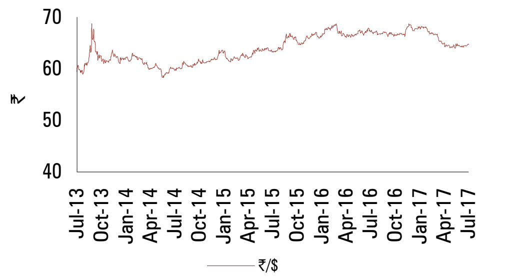
Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q1FY18E	YoY	QoQ	Q1FY18E	YoY	QoQ	Q1FY18E	YoY	QoQ
Cyient	929.3	11.3	-1.2	116.5	6.9	-6.7	93.6	26.4	19.3
Eclerx	320.9	-5.7	-3.2	101.7	-19.3	-8.9	74.6	-22.4	-0.5
Firstsource Sol	892.3	-0.1	0.0	96.4	-19.2	-2.7	65.5	-10.7	0.1
HCL Tech	12,175.1	7.4	1.0	2,678.5	6.2	1.1	2,035.0	-0.6	-12.5
Infosys	16,995.1	1.3	-0.7	4,452.7	0.1	-4.4	3,415.1	-0.6	-5.2
InfoEdge	226.3	12.3	1.1	82.1	45.9	-3.6	68.7	44.7	-2.7
KPIT Tech	839.4	4.5	-2.2	71.3	-16.7	-18.0	43.3	-21.3	-19.5
Mindtree	1,298.4	-2.2	-1.5	168.8	-13.5	-9.7	98.6	-20.2	1.5
NIIT Technologies	703.6	5.1	-5.3	112.6	10.1	-27.2	63.1	101.6	-41.3
Persistent Systems	723.1	3.0	-0.6	117.9	11.4	-0.8	75.3	2.7	3.6
TCS	29,646.4	1.2	0.0	7,678.4	-2.0	-5.6	6,068.0	-3.9	-8.2
Tech Mahindra	7,338.5	6.0	-2.1	902.6	-12.3	0.4	582.8	-22.3	-1.0
Wipro	13,369.1	-2.4	-4.9	2,687.7	-2.3	-12.2	2,008.6	-2.1	-11.2
Total	85,457.6	2.0	-1.1	19,267.3	-1.1	-5.4	14,692.2	-3.2	-8.2

EBIT margin impact

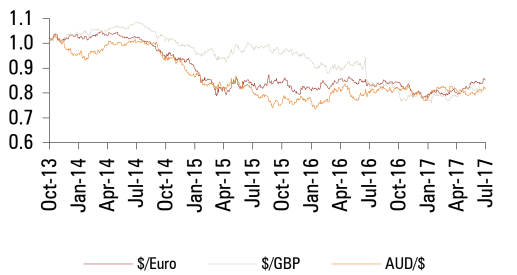
EBIT margins	Q1FY18E	Q4FY17	Change (bps)
TCS	24.2	25.7	(150)
Infosys	23.6	24.6	(100)
Wipro ^	16.8	17.6	(80)
HCL Tech	19.5	20.0	(50)
EBITDA margins			
Tech Mahindra	12.3	12.0	30
Mindtree	13.0	14.2	(120)
KPIT Technologies	8.5	10.1	(165)
Cyient	12.5	13.3	(70)
NIIT Technologies	16.0	20.8	(480)
Persistent Systems	16.3	16.3	(3)
eClerx	31.7	33.7	(200)
BPO			
Firstsource	10.8	11.1	(30)
Internet (in ₹)			
Info Edge	36.3	38.0	(176)

^ IT Services

$/₹



$ vs. global currencies



Inter-quarter average US$ has depreciated more than 3% vs. ₹, Euro and GBP while appreciating ~1.0% vs. AU$.

Exhibit 21: Company specific view

Company	Remarks
TCS	US$ revenues may grow 3.3% QoQ to $4,599.2 million led by BSFI and digital revenues. Constant currency may grow 2.5% QoQ while rupee revenues could remain flat QoQ to ₹ 29,646 crore. EBIT margins may decline 150 bps QoQ to 24.2% led by wage hike, rupee appreciation offset by operational efficiency. Investor interest: FY18E outlook, margin levers, trajectory of Diligenta, digital deal pipeline and pricing trends
Infosys	Constant currency revenues are expected to grow 2.5% QoQ while US$ revenues may increase 2.6% QoQ to $2,637 million (including revenue hedge gain of $9 million in Q4) led by large deal ramp-ups. Rupee revenue may decline 0.7% to ₹ 16,995 crore led by more than 3% rupee appreciation relative to the dollar during the quarter. EBIT margins may decline 100 bps QoQ to 23.6% owing to rupee appreciation and visa cost while pushback of wage hike would provide cushion to margins in this quarter. Investor interest: FY18E revenue guidance update, deal TCV and pricing trends
Wipro	Global IT services US$ revenues may decline 0.5% QoQ to $1,945 million, in line with its guided range of $1915-1955 million. Global IT services rupee revenue may decline 5.3% while consolidated revenues too could decline 4.9% to ₹13,369 crore. Global IT services EBIT margins could decline 80 bps QoQ to 16.8% led by muted revenue growth, one month wage hike and rupee headwinds. Investor interest: Q2FY18E guidance, margin outlook, digital business update and client spending patterns
HCL Tech	Dollar revenues are expected to grow 4% QoQ to $1,888 million led by Geometric contribution, IP partnerships supported by organic growth (2.3%). Rupee revenue could increase 1% to ₹ 12,175 crore. EBIT margins may decline 50 bps QoQ to 19.5% due to currency headwind offset by operational efficiency. Investor interest: Revenue and margin guidance update, TCV deal signings and update on IMS slowdown
Tech Mahindra	We expect US$ revenues to grow 0.6% QoQ to $1,138.5 million led by HCI contribution offset by Comviva seasonality and LCC drag. Rupee revenues may decline 2.1% QoQ to ₹ 7,339 crore. EBITDA margins could expand 30 bps QoQ to 12.3% while adjusting for one time hit in Q4, margins could decline by 150 bps QoQ. Investor Interest: FY18E outlook, deal pipeline, acquisitions update & margin enhancement levers
Info Edge	We expect revenues to grow 12.3% YoY to ₹ 226.3 crore led by revenue growth in Naukri business and other businesses. 99 acres business could witness sluggish growth. EBITDA margins may decline 170 bps QoQ to 36.3% led by higher marketing spends. Investor interest: Growth and margins outlook businesses, update on 99 acres and traction in investee companies
MindTree	We expect dollar revenues to increase 3% QoQ to $201.4 million led by deal ramp-ups while those in rupees may decline 1.5% QoQ to ₹ 1,298 crore. At 13.0%, EBITDA margins may decline 120 bps QoQ led by visa cost and currency headwind. Investor interest: Revenue outlook for FY18E, margin trajectory, order-book conversion, outlook on subsidiary companies
Cyient	We expect dollar revenues to grow 2.2% QoQ to $144.2 million led by improvement from core services business offset by seasonal weakness in Rangsons. Rupee revenues may decline 1.2% QoQ to ₹ 929 crore. EBITDA margins may decline 70 bps QoQ to 12.5% led by rupee appreciation and partial wage hike. Demand outlook across business units, margin enhancement levers could be of investor interest

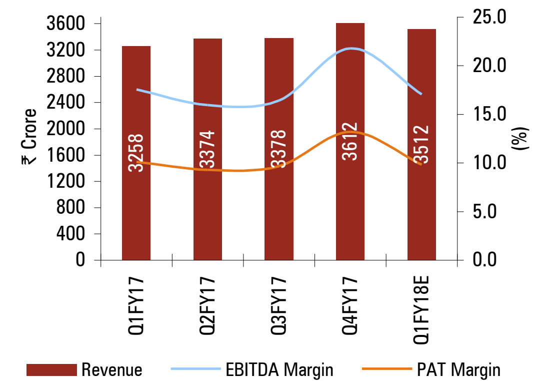
Source: Company, ICICIdirect.com Research

Company specific view

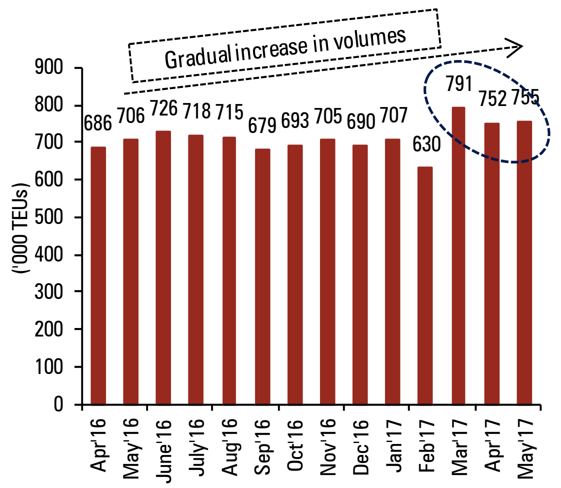
Company	Remarks
Persistent Systems	We expect dollar revenues to grow 2.9% QoQ to $112.2 million led by digital offerings offset by seasonally weakness in IP business while rupee revenues may decline 0.6% QoQ to ₹ 723.1 crore. Barring one-off exceptional item on IP settlement in Q4, EBITDA margins may decline 160 bps sequentially to 16.3% led by rupee appreciation and visa cost. Revenue and margin outlook, updates on services business and traction in IP business could be of investor interest
eClerx	Dollar revenues are expected to increase 1.5% to $48.6 million while rupee revenues may decline 3.2% to ₹ 320.9 crore led by continued weakness among top 10 clients and a weak deal pipeline. EBITDA margins may decline 200 bps QoQ to 31.7% led by wage hike and currency headwind. Investor interest: Outlook on top clients growth, margin trajectory and deal pipeline
NIIT Tech	At $109.2 million, reported dollar revenues may decline 1% QoQ while adjusting for one-off gain of US$4 million in Q4, $ revenues could witness 2.7% QoQ growth. Rupee revenues may decline 5.3% QoQ to ₹ 703.7 crore due to appreciation of rupee against dollar. EBITDA margins may decline 180 bps QoQ (ex one-off gain in Q4) to 16% led by moderate wage hike, currency headwind and GIS seasonality. Revenue & margin outlook, order book conversion, client spending patterns in various verticals may be monitorables for FY18E
KPIT Tech	Dollar revenues may grow 1.5% QoQ to $130.2 million while rupee revenue could decline 2.2% QoQ to ₹ 839.4 crore. EBITDA margins could decline 160 bps QoQ to 8.5% owing to wage hike, rupee appreciation offset by operational efficiency. Investor Interest: FY18E revenue guidance update, margin outlook, and demand environment across business units
Firstsource Solutions	We expect rupee revenues to be flat sequentially to ₹ 892.3 crore owing to underperformance of US mortgage business. EBITDA margins may decline 30 bps QoQ to 10.8% mainly led by muted revenue growth. FY18E revenue guidance update, margin trajectory, update on Sky deal and ISGN acquisition could be of investor interest

Source: Company, ICICIdirect.com Research

Topline & Profitability (Coverage universe)



Container Volumes



Top Pick

Container Corporation

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Logistics

- **Surface logistics players – Embracing GST…**

  The logistics industry is all set to witness an era of higher turnaround and improving efficiencies. Logistics costs estimated at 13% of India's GDP are largely on account of higher inefficiencies in the transport system, lower average trucking speed, underdeveloped infrastructure and lack of alternatives. More than 50% of the logistics market is unorganised, which post GST is expected to get formalised.

Exhibit 22: GST rate card for Logistics sector…

Sector	Tax rate earlier	Tax rate under GST	Impact
Road transport	4.5-6%	5% (No input tax)	Abolition of octroi would enable seamless movement of goods resulting in cost savings, improving vehicle efficiency
Rail & coastal shipping	4.5-6%	5% (With input tax)	Input tax credit, excluding capex, is allowed. This would bring in effective tax rate lower or close to existing rates
Container rail	6%	12%	Dilute the competitive positioning of rail vis-à-vis road. The market leader would be able to pass on the hike in rates thereby maintaining the realisations
Express, warehousing & other value added services	15%	18%	However, the shift to organised would trigger volume growth, which would benefit players having a pan-India presence

Source: Company, ICICIdirect.com Research

The abolition of tolls leading to winding up of check-posts in more than 20 states has reduced hassles for truck movement waiting their clearance at check-posts. This could increase the average speed of trucks to 40 km/hr (vs. current 20-22 km/hr) entailing a coverage of 400 km/day (vs. current 200 km/day. We believe the logistics industry is currently in a transformation phase and results over H1FY18 would remain an aberration. Surface players would re-align their supply chain capabilities, which would be foundational and future ready. We expect Q1FY18 revenue of surface logistics coverage universe (Gati, BlueDart and TCI) to grow 6% to ₹ 1560 crore. However, PAT may remain subdued with a decline of 11% YoY to ₹ 61 crore.

- **Upbeat container volumes to benefit; GST rates detrimental for CTOs…**

  Container volumes, which remained muted in FY17, posted growth of 6.4% growth (in tonnage terms) to 22 MT over April-May 2017. Also on a TEU basis, container volumes grew sharply by 8% over April-May 2017 compared to subdued 3% growth in FY17. Prima facie, GST is negative for rail freight operators as road would turn competitive. However, with a rail development authority in place, softening of haulages charges would be keenly watched. We expect revenues/profitability for CTOs and port operators (Concor, GDL and GPPL) to grow 10%, 12% to ₹ 1952 crore, ₹ 284 crore, respectively.

- **Sector to be driven by rail operators, margins to remain subdued**

  Total revenues of our logistics coverage universe are expected to grow 8% YoY to ₹ 3512 crore vs. ₹ 3259 crore in Q1FY17. Profitability in container train operators (CTOs) would drive overall EBITDA, PAT growth of 5% each to ₹ 599 crore, ₹ 345 crore, respectively.

Exhibit 23: GST rate card for Logistics sector…

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q1FY18E	YoY	QoQ	Q1FY18E	YoY	QoQ	Q1FY18E	YoY	QoQ
Blue Dart	671.1	8.0	-0.8	67.1	-12.9	22.3	35.9	-18.6	46.4
Container Corporation	1,468.5	9.7	-5.7	293.7	12.1	-40.7	200.7	12.4	-40.2
Gateway Distriparks	315.3	13.5	2.7	63.1	2.3	3.0	25.1	11.8	12.7
GATI Ltd	412.4	-3.1	-0.6	30.9	-7.5	44.8	8.6	-9.0	-7.5
Gujarat Pipavav	168.4	0.7	-3.5	102.7	2.5	-10.4	57.9	-3.1	-12.6
Transport Corp	476.4	11.5	-1.1	41.4	8.7	5.2	16.9	12.0	-8.7
Total	3,512.1	7.8	-2.8	598.9	4.7	-23.8	345.1	4.8	-27.6

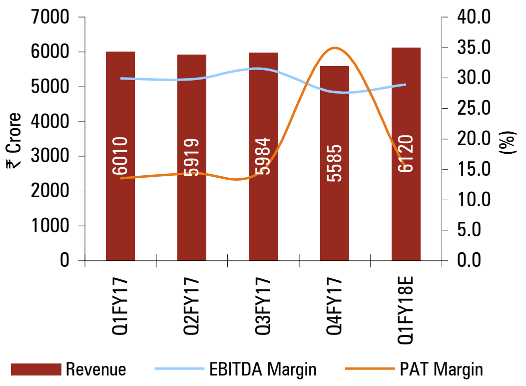
Source: Company, ICICIdirect.com Research

Exhibit 24: Company specific view

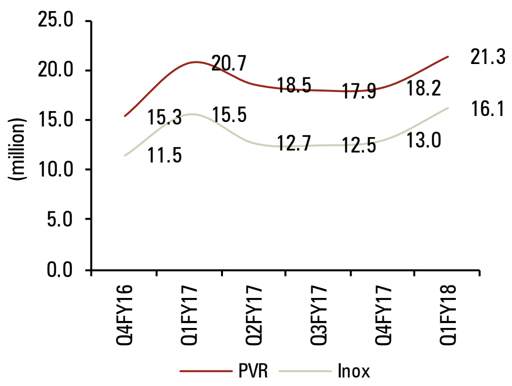
Company	Remarks
Container Corporation	Concor's throughput container volumes are expected to grow 8% YoY (Exim 8%, domestic 5%) to 790771 TEUs. Increased EXIM trade coupled with amplified domestic activities would enable rail continue to gain market share from road. The ransomware attack at JNPT could slightly moderate growth. Revenue is expected to grow 10% YoY to ₹ 1469 crore. EBITDA is expected to grow 12% YoY to ₹ 294 crore with an EBITDA margin of 20%. The sequential de-growth in EBITDA margins would optically be higher due to one-time SIES income booked in Q4FY17. PAT is expected to grow by 12% YoY to ₹ 201 crore
Gateway Distriparks	Following the growth in the major ports, rail volumes for GDL are expected to grow 11% YoY to 57929 TEUs. However, CFS volumes are expected to remain impacted (up 1% YoY) by direct port delivery (DPD) facility at JNPT and other major ports. The resultant consolidated revenues are expected to grow 14% YoY to ₹ 315 crore. Increased competitiveness from Concor would result in subdued realisations impacting margins, which are expected at 20% and absolute EBITDA of ₹ 63 crore. Resultant PAT is expected at ₹ 25 crore
Transport Corporation of India	The freight and supply chain division (SCS) is expected to grow 10% YoY each to ₹ 240 crore and ₹ 189 crore, respectively. Acquisition of container ship would lead to YoY improvement in seaways revenues, which are expected to grow by 18% YoY to ₹ 47.2 crore. EBITDA are expected at 8.7% with an EBITDA growth of 9 % YoY to ₹ 41.4 crore. The resultant PAT is expected at ₹ 17 crore
BlueDart	Revenues are expected to grow 8% YoY to ₹ 671 crore. The company had incurred an expenditure of ₹ 35 crore in FY17 to prepare its business for next level of growth. As the activity is through, EBITDA margins are expected to sequentially recover sharply with an improvement of 200 bps QoQ (down 200 bps YoY) to 10%. Absolute EBITDA is expected to de-grow 13% YoY to ₹ 67 crore. Higher depreciation (up 3% YoY) and lower other income (down 21%) would further impact PAT that is expected to de-grow 19% YoY to ₹ 36 crore
Gujarat Pipavav Port	The addition of a liner would result sequential revival in container volumes which are expected at 171000 TEUs compared to 158000 TEUs in Q4FY17. However, volumes are YoY expected to de-grow 1%. The ransomware attack at parent (AP Moller) server would moderate volume growth to the extent of five days. Lower coal imports would continue to impact bulk volumes, which are expected to de-grow 30% YoY (up 25% QoQ). Subsequently, revenues are expected to grow merely by 1% to ₹ 168.4 crore. Favourable product mix (RoRo & liquid) would enable margin expansion of 100 bps YoY to 61% enabling an absolute EBITDA of ₹ 103 crore compared to ₹ 100 crore in Q1FY17. The resultant PAT is expected at ₹ 53 crore
Gati	Rail revenues, absent in Q1FY17, are expected to contribute to KWE revenues, which are expected to resume their growth momentum from Q1FY18. The growth in KWE would be offset by weak performance in Kausar and standalone (e-commerce). Subsequently, consolidated revenues are expected to de-grow 3% YoY to ₹ 412.4 crore. Operating margins may continue to remain subdued on account of higher investments made to be GST ready. EBITDA is expected at ₹ 24.7 crore with margins of 6%. PAT (adjusting minority interest) is expected at ₹ 5 crore

Source: ICICIdirect.com Research

Topline & Profitability (Coverage universe)



PVR & Inox – Footfalls



Top pick of sector

Inox Leisure
Zee Entertainment

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Media

- **Advertisers hold back advertising ahead of GST, subdued ad growth**

  Major advertisers have held back advertising in June, ahead of the GST implementation, which would weigh down on ad growth in the quarter. In addition, the ad environment continued to have some after-effects of demonetisation. DB Corp is likely to witness print ad growth of ~4.0% YoY on a high base. Jagran Prakashan is expected to post ad revenue growth of 5% YoY to ₹ 367.5 crore. HT Media, however, would continue to post an ad growth decline as the English ad segment continues to suffer with Hindi & English ad growth at 1.0% & -8.0% YoY to ₹ 179.5 crore & ₹ 251 crore, respectively. Circulation revenues are expected to remain stable at 3.1% for companies in our coverage universe with no major increase in the number of copies. With GST there has been a levy of 5% tax on the newsprint, which they can avail as input tax credit.

- **Broadcasters to witness muted ad growth in quarter**

  Ad revenues are directly correlated to the overall economy wherein in the quarter the lack of clarity over GST made advertisers hold back advertising. Our broadcaster coverage universe is, hence, expected to witness muted ad growth of 2.7% YoY to ₹ 1420.6 crore. Zee and TV Today are expected to report subdued ad revenue growth of 4.2% & 3.2% YoY, respectively. Ad growth for Zee would have been higher but for some currency headwinds in its international markets. Sun TV is expected to continue with its declining trend and is expected to post a decline of 1.8% YoY in its ad revenues. Subscription revenues are expected to be stable for Zee & Sun TV at 5.4% & 8.0% YoY, respectively. TV Today may, however, continue to see a decline in circulation revenues by 9% YoY, post its on-boarding on DD Freedish platform.

- ***Baahubali 2* to boost growth in Q1FY18E for multiplexes**

  During Q1FY18, movies such as *Baahubali 2, Fast & Furious, Tubelight,* etc had a good run in the box-office, however Q1FY17 had a high base marked by hits such as *Jungle Book, Housefull 3, Fan and Sairat*. Consequently, it would be more of a price led growth. PVR & Inox are expected to post footfall growth of 3.0% & 3.9% to 21.3 & 16.1 million with an ATP growth of 12% & 8% to ₹ 219 & ₹ 188, respectively. Going ahead, multiplex players are expected to see an EBITDA margin benefit of 100-150 bps owing to input tax credit, albeit possible levy of tax by local bodies remain a hanging sword. GST on ticketing revenues have been levied at 28%, F&B has come under 12.5% rate (aerated drinks at 40%).

Exhibit 25: Estimates for Q1FY18E- Media

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q1FY18E	YoY	QoQ	Q1FY18E	YoY	QoQ	Q1FY18E	YoY	QoQ
DB Corp	593.5	4.1	14.8	175.6	-2.8	56.4	104.7	1.1	63.1
Dish TV	713.6	-8.4	0.7	201.6	-23.8	5.8	0.7	-98.2	LP
ENIL	102.5	-7.4	-38.0	18.4	-37.6	-47.8	1.8	-88.9	-86.6
HT Media	609.2	-0.9	4.1	73.2	13.8	0.1	37.0	65.2	44.9
Inox Leisure	372.1	10.5	29.0	69.1	11.4	190.4	28.0	12.2	NM
PVR	642.6	12.7	33.2	118.6	1.7	153.8	37.9	-11.4	LP
Sun TV	763.4	0.3	31.1	420.6	-3.6	6.9	235.0	0.8	-0.4
TV Today	144.2	5.3	-12.5	43.8	19.0	-6.7	27.2	21.3	-25.7
Zee Ent.	1,592.2	1.3	4.2	493.6	8.9	5.3	365.0	68.2	-75.9
Total	6,120.0	1.8	9.6	1,768.9	-1.6	14.5	926.1	14.0	-52.5

Source: Company, ICICIdirect.com Research

Exhibit 26: Company specific view

Company	Remarks
DB Corp	GST has had some effect on advertisement spends by advertisers in June, impacting ad revenues in the quarter. DB Corp is expected to post ad revenue growth of 4% YoY to ₹ 388.3 crore in the quarter, on a high base of 21% ad revenue growth in Q1FY17. The radio & digital segments are expected to grow at 8% & 12% YoY, respectively. The company is expected to clock circulation revenue growth of ~7.2% YoY growth to ₹ 126.0 crore. We expect margins of 29.8%, lower 190 bps on a YoY basis as the base quarter had higher operating leverage owing to strong growth in advertisement revenues
Dish TV	Gross subscriber addition is expected at ~0.52 million, with net adds of 0.20 million and churn of 0.32 million (0.7% monthly of net base). ARPU is expected to grow 5% on a QoQ basis to ₹ 141 as the base quarter had fewer days and demonetisation impact. Consequently, we expect topline of ₹ 713.6 crore, down 8% YoY. Content costs are expected to stay under control. We expect margins at 28.3%, higher 230 bps sequentially
ENIL	The quarter is expected to be subdued for ENIL affected by advertisers holding back ad spends ahead of GST and lack of government related advertising in the quarter. In addition, the overall sector continued to face post demonetisation woes. Hence, ENIL is expected to post revenue de-growth of 8.3% YoY during the quarter to ₹ 100 crore. The subdued ad revenues may lead to negative operating leverage. Hence, EBITDA margins would contract to 18% in the quarter vs. 26.5% in the base quarter
HT Media	English ad growth, is expected to remain a laggard and decline 8.0% YoY to ₹ 251.0 crore. The Hindi segment ad revenue is expected to remain subdued at 1.0% YoY growth to ₹ 179.5 crore as advertisers held back advertising ahead of GST. The radio segment is expected to record revenues of ₹ 39.2 crore, up 18% YoY. The company has been undertaking several cost rationalisation measures in terms of better pagination and restructuring of several overheads which will lead to margins of 12%, up 150 bps on a YoY basis
Jagran Prakashan	In line with its peers, Jagran is expected to post subdued ad growth of ~5.2% YoY, clocking ad revenues of ₹ 368.2 crore, impacted by GST and some after effects of the demonetisation effect. Circulation revenues would remain muted at 3.3% YoY to ₹ 110.5 crore as there was no major increase in the number of copies on a QoQ basis. Radio business, however, is expected to do well. We expect an ad revenue growth of 13.5% YoY from radio with ad revenues of ₹ 63.5 crore and radio margins of 33.5%. Overall margins are expected at 26.4%, down 80 bps on a YoY basis. We expect the second half of the fiscal to be relatively better for the company
Inox Leisure	Coming off a heavy base quarter of Q1FY17, which witnessed hits such as *Jungle Book, Housefull 3, Fan, Sairat*, etc, Q1FY18 would witness single digit growth in terms of overall footfalls. Given the star studded movies released in the quarter such as *Baahubali 2, Tubelight, Fast and Furious*, Inox would enjoy ATP growth of (~8% leading to net box office collections growth of ~12% YoY to ₹ 238 crore. Advertisement revenues are also expected to witness ~12.7% YoY growth to ₹ 24 crore led by strong content. We expect EBITDA margins of 18.6% (up 20 bps YoY). Given a healthy topline growth, we expect ~12% YoY growth in PAT to ₹ 28 crore

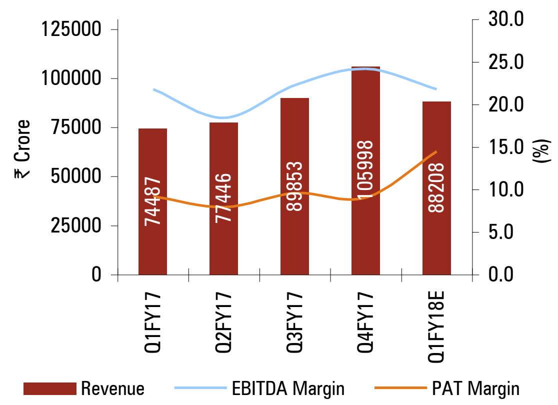
Source: Company, ICICIdirect.com Research

Exhibit 27: Company specific view

Company	Remarks
PVR	The quarter was marked by some of the popular movies such as *Baahubali 2, Fast and Furious, Tubelight*, etc which drove the overall footfalls for the company which is expected grow at 3% YoY to 21.3 million. It would have been better but for the heavy base quarter with hits such as J*ungle Book, Housefull 3, Fan, Sairat, etc*. ATPs are expected to grow 12.3% YoY to ₹ 218.9, leading to net ticketing revenues of ₹ 357.2 crore, up 16.9% YoY owing to healthy footfalls. F&B revenues are expected to witness growth of 18.1% YoY to ₹ 174.2 crore. Advertising revenues are expected at ₹ 60.8 crore (up 18% YoY). The EBITDA is expected at ₹ 118.6 crore, with margins at 18.5% (down 200 bps YoY) owing to some changes in the revenue mix
Sun TV	The quarter would be a softer one for the company owing to the GST impact and some after-effects of demonetisation. Hence, we expect the ad revenue growth to decline 1.8% YoY to ₹ 334 crore. Subscription revenues would continue to grow at a healthy pace of 8% YoY to ₹ 250.7 crore benefiting from traction in the cable subscription revenues. We expect revenues from IPL business to come in at ₹ 125 crore in the quarter. Margins are expected at 55.1%, down 230 bps YoY owing to lower operating leverage in the quarter
TV Today Network	TV Today is expected to post ~3% YoY growth in its broadcasting revenues to ₹ 140.2 crore as advertisement revenues face some step back owing to GST. Aaj Tak had come on board Doordarshan's Freedish platform (outlay of ₹ 6 crore as per media sources) to increase its presence in rural areas, which would impact its subscription revenues but would give it a premium with advertisers. The company is into a sales alliance with ENIL for its radio inventory sale which is benefiting the company. Radio revenues are expected at ₹ 3.3 crore vs. ₹ 1.3 crore in the base quarter. Margins are expected at 30% vs. the 26.9% in the base quarter
Zee Entertainment	Ad revenues in the quarter would be affected by the GST impact as advertisers held back advertising in June. In addition, international ad revenues were impacted due to currency fluctuations in some key international markets. Hence, we expect subdued ad revenue growth of 4.2% YoY to ₹ 950.4 crore. Domestic subscription revenues are expected to grow 9.9% YoY to ₹ 459.2 crore. The growth would have been higher but for the absence of sports related subscription revenues. International subscription revenues are expected to decline 5.0% YoY to ₹ 97.5 crore owing to currency fluctuations in international markets. Other operating revenues are expected at ₹ 85.0 crore owing to lack of any major sporting events and movies. The company launched some new shows during the quarter leading to an increase in programming expenses. The margins are expected at 31%, up 230 bps YoY

Source: Company, ICICIdirect.com Research

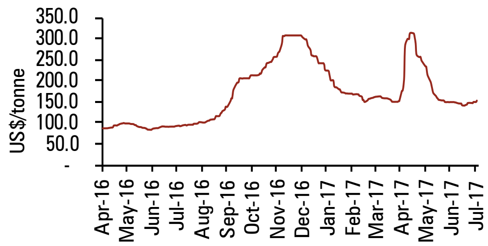
Top line & Profitability (Coverage universe)



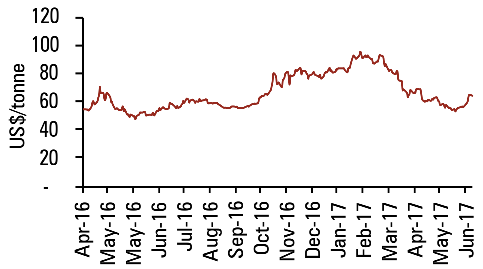
Base metal prices on LME (US$ per tonne)

	Q1FY18	Q1FY17	YoY	Q4FY17	QoQ
Zinc	2,591	1,919	35.0	2,778	-6.7
Lead	2,156	1,718	25.5	2,278	-5.4
Copper	5,668	4,736	19.7	5,838	-2.9
Aluminium	1,905	1,572	21.2	1,853	2.8

Spot Coking Coal Prices ($/tonne)



International Iron Ore Prices ($/tonne)



Top pick of sector

Hindustan Zinc

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Metals & Mining

- **Indian exports continue to outpace imports…**

For the first five months of CY17 (January-May), Chinese steel exports have declined ~26% YoY to 34.2 million tonne (MT). Declining exports from China have not only aided domestic steel players to enhance their share in domestic markets but also enter exports market. Indian steel exports, which gained momentum in FY17, continued to outpace imports during the first two months of FY18 (April-May). Indian exports increased 85.7% YoY to 1.3 MT during April-May 2017, while imports were down 8.3% YoY to 1.1 MT. Indian finished steel registered growth of 4.2% YoY to 13.8 MT during the aforementioned period. Prices of key inputs such as coking coal, iron ore though moderated during the quarter but the partial impact of the sharp rally in coking coal prices at the end of March 2017 on account of cyclone 'Debbie' is likely to come in with a lag during the current quarter. Hence, we expect the EBITDA/tonne of major steel players to witness a decline sequentially.

- **Base metal prices decline QoQ but remain elevated YoY…**

In Q1FY18, majority of base metals (except aluminium) witnessed a decline QoQ but YoY prices continued to remain elevated. Average zinc prices during the quarter were at US$2591/tonne (up 35.0% YoY, down 6.7% QoQ). Average lead prices were at US$2156/tonne, up 25.5% YoY, down 5.4% QoQ. Average price of aluminium was at US$1905/tonne up 21.2% YoY, 2.8% QoQ while average copper prices were at US$5668/tonne, up 19.7% YoY, down 2.9% QoQ.

- **GST longer term positive for metals & mining sector…**

The GST council has taxed coal at 5% (reduced from ~12% earlier), while that on steel remained broadly unchanged at ~18% (pre GST rate of ~18-19%). The reduction in tax on coal is likely to benefit the ferrous and non-ferrous players. We believe the roll out of GST on the longer term horizon would be beneficial for the domestic metal players with the shift from unorganised sector to organised sector. However, in June 2017 there has been inventory related impact for some companies on account of GST transition. This is likely to be short term in nature and phase out gradually.

- **Aggregate EBITDA margins to increase QoQ and YoY…**

We expect the aggregate EBITDA margin to remain flat YoY at 21.8%. We expect the EBITDA/tonne of JSW Steel (standalone operations) to come in at ₹ 6500/tonne and Tata Steel (Indian operations) at ₹ 12000/tonne. Tata Steel Europe is expected to report EBITDA/tonne of US$75/tonne.

Exhibit 28: Estimates for Q1FY18E: (Metals & Mining) (₹ Crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q1FY18E	YoY	QoQ	Q1FY18E	YoY	QoQ	Q1FY18E	YoY	QoQ
Coal India	18,960.6	2.9	-18.2	2,841.2	-33.2	-16.1	2,161.6	-29.5	-20.5
Graphite India	395.9	43.9	6.0	43.5	314.7	196.2	35.2	219.8	-43.3
HEG	301.3	84.6	16.9	48.9	1,427.2	65.1	14.3	LP	LP
Hindustan Zinc	4,850.5	91.7	-22.5	2,684.3	137.4	-28.4	2,226.6	114.7	-27.2
JSW Steel	14,326.0	22.4	-14.0	2,513.7	-23.1	-20.6	579.2	-47.8	-42.6
NMDC	2,537.1	47.4	-11.7	921.5	12.9	-1.1	680.5	-4.3	32.9
Vedanta Ltd	18,647.6	29.2	-17.2	5,603.9	59.8	-23.8	2,255.1	266.7	-24.1
Tata Steel	28,188.5	11.7	-16.8	4,565.1	40.8	-35.0	4,825.6	1,227.2	LP
Total	88,207.6	18.4	-16.8	19,222.2	18.4	-25.1	12,777.9	85.6	33.0

Source: Company, ICICIdirect.com Research,, Hindalco numbers are of Standalone entity, PAT of Tata Steel includes one time income in respect stake sale in Tata Motors

Hindustan Zinc : Sales Volume Trend

		FY17				FY18
Sales	Unit	Q1	Q2	Q3	Q4	Q1E
Zinc	Tonne	120000	148000	211000	217000	207000
Lead	Tonne	23000	32000	36000	47000	33500
Silver	Kg	88000	108000	117000	135000	100501

Tata Steel : EBITDTA/tonne & Sales

	FY17				FY18
Sales	Q1	Q2	Q3	Q4	Q1E
Tata Steel India	2.1	2.6	3.0	3.2	2.8
Tata Steel Europe	2.5	2.3	2.4	2.9	2.4
Tata Steel Group	5.4	5.7	6.1	6.8	5.8
EBITDA/tonne					
Tata Steel India	10,351	7,297	11,285	13,470	12,000
Tata Steel Europe	51	67	38	104	75

Sales volume in Million tonne, Indian EBITDA/tonne in ₹/tonne, while European operations EBITDA/tonne in US$/tonne.

JSW Steel : EBITDA/tonne & Sales

	FY17				FY18
	Q1	Q2	Q3	Q4	Q1E
Sales Volume	3.3	3.8	3.6	4.0	3.6
EBITDA/tonne	9,276	7,077	7,717	7,586	6,500

Sales volume in Million tonnes and EBITDA/tonne in ₹/tonne

Exhibit 29: Company specific view

Company	Remarks
Coal India	We expect Coal India to report a subdued performance for Q1FY18 on the back of lower FSA realisations, wages provisions, which are likely to impact Q1FY18 EBITDA. Coal India reported moderate growth in offtake in Q1FY18, which increased 3.1% YoY. Offtake volumes during the quarter came in at 137.4 million tonne (MT). For the quarter, we expect e-auction volumes to come in at 26.0 MT (up 27.1% YoY). For Q1FY18, we expect e-auction realisations to increase from Q4FY17 level of ₹1611/tonne to ₹1692/tonne (up 5.5% QoQ). Coal India's topline is expected to grow 2.9% YoY. Increased employee cost and gratuity provision is likely to impact EBITDA. The EBITDA margin is, thus, likely to decline 811 bps YoY to 15.0%
Graphite India	On the back of supply side restructuring in the global graphite electrode market and subsequent improvement on the demand side, we expect Graphite India (GIL) to report healthy capacity utilisation levels for Q1FY18. For the quarter, we expect GIL's domestic operation to report capacity utilisation of 90% (89% in Q4FY17 and 68% in Q1FY17). Subsequently, we expect the topline to increase ~44% YoY and ~6% QoQ. Furthermore, on the back of economies of scale, we expect the EBITDA margin to improve 718 bps YoY and 706 bps QoQ to 11.0%. PAT is expected to increase ~220% YoY, decline 43.3% QoQ.
HEG	On the back of supply side restructuring in the global graphite electrode market and subsequent improvement on the demand side, we expect HEG to report healthy capacity utilisation for Q1FY18. For the quarter, we expect HEG to report capacity utilisation of 83% (80% in Q4FY17 and 50% in Q1FY17). Subsequently, we expect topline to increase 84.7% YoY and 16.9% QoQ. We expect EBITDA margin to improve 1427 bps YoY and 472 bps QoQ to 16.2%
Hindustan Zinc	We expect HZL to report a strong EBITDA margin of 55.3% up 1065 bps YoY for Q1FY18, primarily on the back of strong volumes and higher zinc prices YoY. We expect zinc sales volume to come in at 207000 tonne (up 72.5% YoY). We expect lead volume to come in at 33500 tonne (up 45.7% YoY) while silver sales are likely to come in at 100501 kg (up 14.2% YoY). The topline and EBITDA is expected to reflect the increase in volumes as well as zinc and lead prices. We expect the topline, EBITDA and PAT to increase ~92%, ~137% and ~115% on a YoY basis, respectively
JSW Steel	For Q1FY18, we expect JSW Steel to report sales volume of 3.6 MT (Q4FY17: 4.0 MT, Q1FY17: 3.3 MT) and clock an EBITDA/tonne of ₹ 6500/tonne (Q4FY17: ₹ 7586/tonne, Q1FY17: ₹ 9276/tonne). The EBITDA/tonne is likely to decline as the impact of sharp rally in coking coal prices during Q4FY17 is likely to come in with lag in the current quarter. The topline is expected to increase 22.4% YoY while EBITDA margin is expected to decline by 1037 bps YoY and 145 bps QoQ to 17.5%.

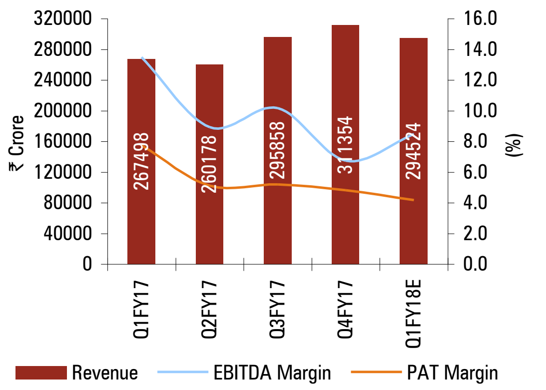
Source: ICICIdirect.com Research

Exhibit 30: Company specific view

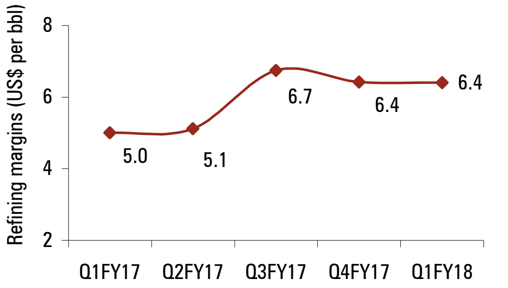
NMDC	For Q1FY18, we expect NMDC to report a sales volume of 9.2 million tonne (MT) (Q4FY17: 9.8 MT, Q1FY17: 7.8 MT). We expect the topline to increase 47.4% YoY on account of higher iron ore realisations on a YoY basis. We expect the EBITDA margin to come in at 36.3% (Q4FY17: 32.5%, Q1FY17: 47.4%).
Vedanta	On account of higher base metal prices YoY, we expect Vedanta to report a healthy performance for Q1FY18. The topline and EBITDA are expected to grow 29.2% and 59.8% on YoY basis. The EBITDA margin is likely to increase 576 bps YoY to 30.1% (Q4FY17: 32.5%, Q1FY17: 24.7%)
Tata Steel	Tata Steel reported healthy volume growth in Q1FY18, reflecting that it has continued to gain market share in domestic market. Tata Steel's Indian operations for Q1FY18 reported sales volume of 2.75 million tonne (MT) up 31% YoY. We expect European operations to report steel sales of 2.4 MT. EBITDA/tonne of the European operations is likely to decline on a sequential basis on account of lag impact of higher coking coal prices. The consolidated topline is expected to increase 11.7% YoY while on the back of healthy traction witnessed in the sales volume (domestic operations), the EBITDA margin is likely to increase 334 bps YoY to 16.2%. We expect Indian operations to clock an EBITDA/tonne of ₹ 12000/tonne while EBITDA/tonne of European operations is likely at US$75/tonne (Q4FY17: US$ 104/tonne and Q1FY17: US$ 51/tonne). Tata Steel sold 8.3 crore share of Tata Motors at a price of ₹453/share to Tata Sons thus is likely realise income from sale of investment to the tune of ~₹3700 crore

Source: ICICIdirect.com Research

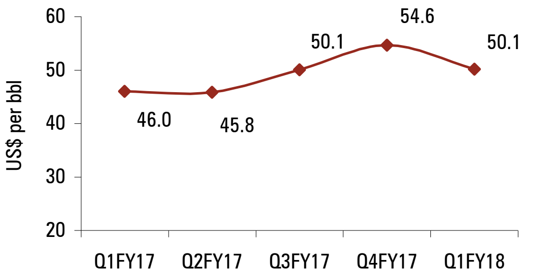
Topline & Profitability (Coverage universe)



Singapore gross refining margins (GRMs)



Average Brent Crude Oil Prices



Top pick of sector

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Oil and gas

- **GST regime to act as headwind, going forward**

  Under GST, oil upstream companies and OMCs will be unable to claim the input GST credit on procurement of machinery and services as majority products are excluded from GST regime. Hence, profitability of the companies will have a notable negative impact. However, the clarity is awaited on the same from the companies. Gas utility companies will also have a negative impact. However, the impact will remain for limited period as GST council is considering bringing natural gas under GST regime. For lubricant sector, majority of its products will face tax rate of 18% vs. 24-28% earlier, thus, benefiting the profitability

- **Brent crude prices decline QoQ**

  During the quarter, Opec countries decided to extend the production cut agreement till Q4FY18. However, the oil market continued to witness a supply glut on account of rising US shale production despite better-than-expected compliance by Opec countries. In effect, the average Brent oil prices declined 8.3% QoQ to US$50.1/bbl in Q1FY18 against US$54.7/bbl. On account of the same, realisations of upstream oil companies are expected to decline QoQ.

- **OMC's GRMs to decline QoQ on weak petrol, diesel spreads**

  Although Singapore GRMs have remained flat QoQ at US$6.4/bbl, we expect GRMs for oil marketing companies (OMCs) to remain subdued QoQ on account of weak petrol and diesel spreads (majority of India's refinery production) and inventory losses. On a YoY basis, OMCs may face a substantial fall in profitability on account of high inventory gains in Q1FY17. The crack spreads for gasoline (petrol) declined US$0.4/bbl QoQ to US$15.6/bbl while that of gas oil (diesel) also declined US$0.8/bbl QoQ to US$10.6/bbl. On the marketing front, we expect industry volumes to increase ~4% YoY for oil petroleum products.

- **Volumes of gas utilities to remain stable QoQ**

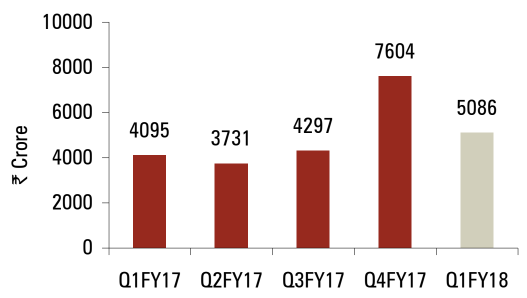
  Volumes of major gas utility companies are expected to post strong growth in Q1FY18E on account of an increase in domestic natural gas production and imported LNG QoQ. City gas distribution companies are expected to continue to report steady volume growth due to sustainable conversion to CNG vehicles and normalisation of spot LNG prices from highs seen in Q4FY17.

Exhibit 31: Estimates for Q1FY18E: (Oil and Gas) (₹ Crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q1FY18E	YoY	QoQ	Q1FY18E	YoY	QoQ	Q1FY18E	YoY	QoQ
Bharat Petroleum	62,607.5	9.8	-5.2	2,342.3	-40.2	5.9	1,376.3	-47.5	-25.3
Castrol India Ltd	1,031.6	6.3	16.9	295.6	-6.8	12.3	200.5	-3.1	12.0
Gail India	13,258.9	22.2	-3.0	1,752.7	10.0	12.7	1,045.7	-21.7	301.9
Gujarat Gas	1,528.3	24.8	9.1	269.1	22.9	83.9	117.2	54.4	253.7
GSPL	265.3	2.8	8.4	230.5	0.0	14.5	126.0	3.9	-0.8
Gulf Oil	307.8	8.6	2.7	45.7	-5.8	-1.8	30.4	-2.4	-5.3
HPCL	54,624.6	5.7	-7.1	2,158.3	-40.5	-25.2	1,093.8	-47.9	-39.9
IOC	119,696.1	11.7	-2.1	6,402.0	-53.2	45.2	2,934.7	-64.5	-21.1
Indraprastha Gas Ltd	1,042.1	15.8	4.0	260.0	0.1	22.5	148.0	0.0	10.4
Mahanagar Gas Ltd	586.4	9.8	1.7	174.7	14.7	7.1	107.4	15.8	7.9
MRPL	14,257.2	23.0	-21.3	661.2	-45.9	-57.5	333.0	-53.8	-82.9
ONGC	18,673.6	5.0	-14.0	9,634.2	2.6	43.3	4,314.6	1.9	-0.6
Petronet LNG	6,644.9	24.5	4.4	724.0	12.7	17.5	452.1	19.6	-4.0

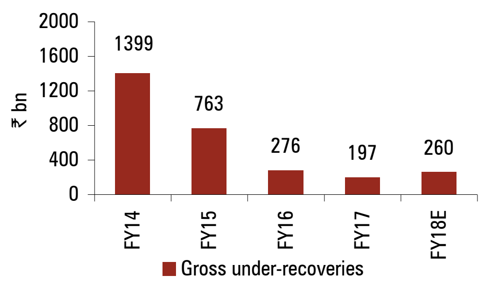
Source: Company, ICICIdirect.com Research

Gross under-recoveries of petroleum products (QoQ)



** Under-recoveries includes Cash Subsidy under DBTL*

Gross under-recoveries of petroleum products (Yearly)



Singapore benchmark product spreads (US$/bbl)

	Q4FY17	Q1FY18	Chg YoY	Chg QoQ
Gasoline Spread	16.1	15.6	-0.7	-0.4
Naphtha Spread	0.9	-1.3	-1.8	-2.2
Jet Kerosene Spread	11.3	10.9	-0.1	-0.4
Gas Oil Spread	11.4	10.6	0.7	-0.8
LSWR Spread	5.7	4.4	4.2	-1.3
Fuel Oil Spread	-5.1	-4.1	6.3	1.0
LPG Spread	-18.5	-15.5	-3.6	3.1

Exhibit 32: Company specific view

Company	Remarks
BPCL	Revenues are expected to decline 5.2% QoQ to ₹ 62607.5 crore on account of ~8.3% QoQ decline in crude oil prices. We expect GRMs to decline QoQ to $5.4/bbl from $6/bbl in Q4FY17 mainly due to inventory losses and weak spreads of products like petrol and diesel. Subsequently, PAT is expected to decline 25.3% QoQ to ₹ 1376.3 crore. We assume subsidy burden to remain nil, similar to Q4FY17
Castrol India	We expect revenues to increase 6.3% YoY on account of 2% YoY increase in volumes and 4.2% YoY increase in net realisation. Gross margins are expected to decline 4.9% YoY to ₹ 93.2/litre due to a rise in base oil prices but rupee appreciation and price hike benefits will limit the downside. EBITDA per litre is expected to rise 8.6% YoY to ₹ 51.4/litre, which will result in PAT declining 3.1% YoY to ₹ 200.5 crore
Gail	We expect mixed performance in terms of profitability in Q1FY18E. Although the gas transmission and trading business are expected to perform well QoQ, the profitability will be impacted by petchem and LPG business on account of low prices affecting realisations. In terms of gas transmission business, volumes are expected to increase 1.5% QoQ to 103 mmscmd. We expect petchem segment EBIT to remain subdued at ₹ 26 crore. LPG liquid hydrocarbon EBIT is expected to decline 18.7% QoQ to ₹ 408 crore. However, PAT is expected to grow 4x QoQ as Q4FY17 included one-offs like impairment losses and higher employee costs provisions
GSPL	With normalisation of spot LNG prices from highs in Q4FY17, we expect uptick in demand with a growth of 12.5% QoQ in gas transmission volumes to 26 mmscmd. Revenues are expected to increase 8.4% QoQ to ₹ 265.3 crore with transmission tariffs at ₹ 1.1/scm (Q4FY17 tariffs were higher at ₹1.2/scm on account of take or pay contracts). PAT is expected to decline marginally QoQ to ₹ 126 crore as Q4FY17 included higher other income
Gujarat Gas	The revenues are expected to increase 24.8% YoY benefiting from price hikes for the entire quarter. Volumes are expected to grow 22.2% YoY and 3% QoQ to 6.3 mmscmd due to better offtake from price sensitive sectors on account of lower spot LNG prices. Gross margins are expected to remain flat YoY. PAT is expected to increase 54.4% YoY and 3.5x QoQ to ₹ 117.2 crore
Gulf Oil Lubricants	We expect revenues to increase 8.6% YoY mainly on account of higher realisations YoY. Total reported volumes are expected to decline 2% YoY as there was an institutional order in Q1FY17. However, core volumes are expected to grow 10% YoY. Due to increase in base oil prices, we expect EBITDA per litre to decline by ₹ 0.8/litre YoY to ₹ 21.2/litre. The downside risk is, however, mitigated by hikes in product prices. Subsequently, PAT is expected to decline 2.4% YoY to ₹ 30.4 crore
Hindustan Petroleum	Revenues are expected to decline 7.1% QoQ to ₹ 54624.6 crore mainly due to 8.3% QoQ decline in crude oil prices. We expect refining margins to decline QoQ to $5.3/bbl in Q1FY18E from $8/bbl in Q4FY17, mainly on account of inventory losses vs. inventory gains in Q4FY17 and weak spreads of products like petrol and diesel. Subsequently, PAT is expected to decline 40% QoQ to ₹ 1093.3 crore. We assume subsidy burden will remain nil, same as Q4FY17
Indian Oil	We expect revenues to decline 2.1% QoQ to ₹ 119696.1 crore mainly due to 8.3% decline in crude oil prices. We expect GRMs to decline from $9/bbl in Q4FY17 to $5.2/bbl in Q1FY18E mainly on account of inventory losses vs. inventory gains in Q4FY17 and weak spreads of products like petrol and diesel. PAT is expected to decline 21.1% QoQ to ₹ 2934.7 crore and is not exactly comparable to Q4FY17, which included one-offs on expenses as well as other income front

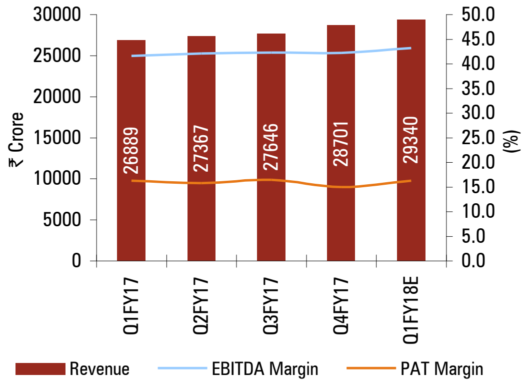
Source: ICICIdirect.com Research

Exhibit 33: Company specific view

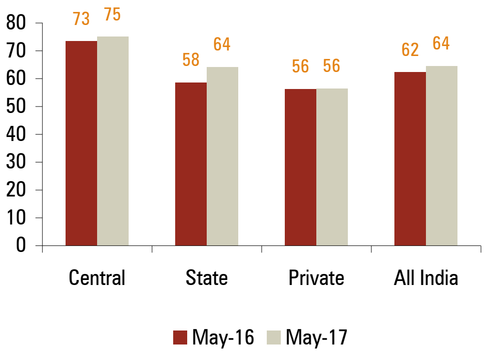
Mahanagar Gas	We expect stable volume growth of 7.2% YoY due to encouraging conversion rate of CNG vehicles. This will result in volumes of ~2.7 mmscmd (CNG: 2 mmscmd, PNG: 0.7mmscmd). We expect gross margins to increase to ₹ 13.7 per scm vs. ₹ 12.7 per scm YoY on account of rupee appreciation and decline in spot LNG prices. Subsequently, PAT is expected to increase 15.8% YoY to ₹ 107.4 crore
MRPL	We expect reported GRMs to decline from $8.3/bbl in Q4FY17 to $5.2/bbl in Q1FY18 mainly on account of lower petrol & diesel cracks and inventory loss of $1.7/bbl in Q1FY18 vs. inventory gain of $0.2/bbl in Q4FY17. Adjusting for inventory loss, we expect GRMs of $6.9/bbl vs. $7.9/bbl in Q4FY17. Throughput is expected at 3.9 MMTPA. PAT is expected to decline 82.9% QoQ to ₹ 333 crore as Q4FY17 includes one-time exceptional gain of ~₹ 1600 crore
ONGC	ONGC's oil & gas production is expected to increase 1.7% and 2.3% QoQ, respectively, with oil output at 6.2 MMT and gas output at 6.1 MMT in Q1FY18. With the fall in crude oil prices, net realisation is expected to decline 7.8% QoQ at $50.6/bbl. We assume subsidy burden to remain nil, similar to that of Q4FY17. PAT is expected at ₹ 4314.6 crore and is not comparable to Q4FY17, which witnessed one-offs like royalty payments on expense front and liability reversals on income front
Petronet LNG	Petronet's topline is expected to grow 4.4% QoQ on account of 11.4% QoQ increase in volumes to 200.5 trillion British thermal units (tbtu) (3.9 MMT) in Q1FY18 mainly due to higher regasification volumes. Blended margins are expected to decline 7.1% QoQ from ₹ 46.8/mmbtu to ₹ 43.5/mmbtu as last quarter margins on spot volumes were significantly higher than average. Hence, PAT is expected to decline 4% QoQ to ₹ 433.5 crore vs. ₹ 470.8 in Q4FY17

Source: ICICIdirect.com Research

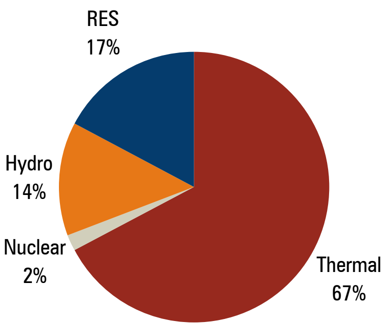
Topline & Profitability (Coverage universe)



Trend in all India sectoral PLF



Segment wise break up of total installed capacity



Data as on May 2017

Top pick of sector

Power Grid

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Power

- **GST neutral for sector**

  The GST rate on thermal coal has been pegged at 5%, which is lower than the current rate of 12%. This move will be neutral for regulated utilities as lower fuel costs will be treated as a pass through and subsequently lead to lower tariffs. On the renewable side, GST on solar and wind equipment has been pegged at 5%, which does not materially alter the economics of the project given PPAs in the sector has been pegged at aggressive rates.

- **Capacity in renewables getting ramped up aggressively**

  On an overall basis, the capacity of renewables was at 57260 MW and is clearly way ahead of its relative peer in the hydro sector wherein the capacity was at 44594 MW as of May 2017. Going ahead, FY18 is also expected to see a ramp up in solar addition to the tune of 8000-10000 MW of incremental capacity addition. On an overall basis, the country has added capacity to the tune of 3756 MW. Out of these, the thermal segment has witnessed additions to the tune of 3640 MW while the hydro segment has added 116 MW in YTDFY18.

- **Power generation up 5.5% in YTDFY18**

  Overall power generation during April-May 2017 is up 5.5% YoY. On a segmental (YTD) basis, thermal generation is up 4% YoY while hydro has seen meaningful growth of 21.9% YoY. Base deficit and peak deficit was at 0.6% each in April 2017. On an all India level PLFs for May 2017 were up 200 bps at 64%. On a segmental basis, central level utilities saw higher than average PLFs at 75% while that of state and private IPPs were at 64% and 56%, respectively.

- **Genco performance to be muted; transmission utility to hog limelight**

  The coverage universe is likely to report growth in performance for five straight consecutive quarters. Revenues, PAT are expected to grow 9.1%, 8.8%, respectively for Q1FY18E. In terms of individual performance, Power Grid is expected to continue to witness a robust operational performance as it is likely to capitalise assets to the tune of ₹ 8000-9000 crore during Q1FY18 coupled with 22.9%, 21.9% YoY growth in revenues, PAT, respectively. On the other hand, NTPC is likely to report a flattish Q1FY18 as gross generation and energy sold is expected at 64.3 BUs and 60 BUs. Consequently, revenues and PAT are expected to grow 5.6% and -0.6% YoY, respectively. In terms of capacity addition, NTPC now commands solar capacity to the tune of 845 MW. CESC, on other hand, is expected to report a decline in generation from own plants and step up buying from its subsidiary. We expect CESC's PAT to grow 3.2% YoY.

Exhibit 34: Estimates for Q1FY18E: (Power) (₹ Crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q1FY18	YoY	QoQ	Q1FY18	YoY	QoQ	Q1FY18	YoY	QoQ
CESC	1,886.5	-0.1	20.0	438.7	13.3	115.0	179.7	3.2	-39.1
NTPC	19,934.3	5.6	-2.4	5,769.8	10.0	-7.0	2,385.3	-0.6	13.8
Power Grid Corp	7,519.0	22.9	12.0	6,466.3	16.3	13.4	2,196.9	21.9	15.1
Total	29,339.8	9.1	2.2	12,674.8	13.3	4.7	4,761.8	8.8	10.8

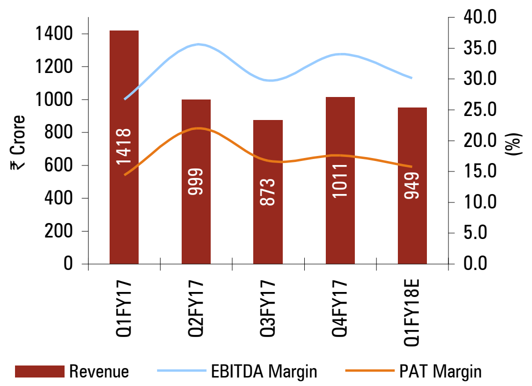
Source: Company, ICICIdirect.com Research

Exhibit 35: Company specific view (Power coverage universe)

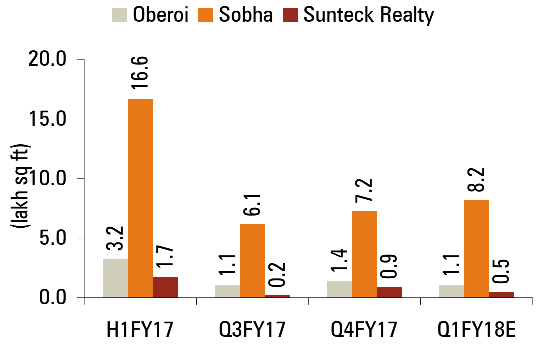
Company	
NTPC	The company has just commissioned 225 MW solar capacity during Q1FY18E as total solar capacity and overall commercial capacity were at 845 MW and 44419 MW, respectively. Energy generation was flat YoY as the company generated 64.3 billion units (BU) vs. 64.5 BU in Q1FY17. However, with lower auxiliary consumption, energy sold may be at 60 BU in Q1FY18. We have built in realisations at ₹ 3.3/Kwhr up 6% YoY. Hence, we expect revenues at ₹ 19934.3 crore up 5.6% YoY. PAT is expected at ₹ 2385.3 crore, down 0.6% YoY
Power Grid	The company is expected to report asset capitalisation in the range of ₹ 8000-9000 crore for Q1FY18E. W expect overall revenues to grow 22.9% YoY to ₹ 7519 crore. Within this, transmission segment revenues are expected to exhibit 23% YoY growth. Employee expenses are expected to grow substantially by 66% on account of implementation of seventh pay commission. Consequently, we expect PAT to grow 21.9% YoY at ₹ 2196.9 crore
CESC	CESC is expected to witness a decline of 21.5% YoY to 150 crore units whereas total energy sold is expected to decline 3% YoY to 269.5 crore units. The energy sales decline is lower than gross generation as CESC purchases its power from subsidiary, Haldia Energy. On the whole, we expect revenue to decline 0.1% YoY at ₹1886.5 crore. We have built in realisation of ₹ 7/Kwhr. Consequently, we expect PAT to increase 3.2% YoY at ₹ 179.7 crore on the back of lower fuel costs for Q1FY18E. Also, operational performance of Spencer's will be a key monitorable in Q1FY18E

Source: Company, ICICIdirect.com Research

Topline & Profitability (Coverage universe)



Sales volume trend (Coverage Universe)



Sobha has reported actual Q1FY18 numbers

Top pick of the sector

Sunteck Realty

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Real Estate

- **RERA to bring in consolidation, consumer confidence back in sector**
  The real estate sector got its first regulator, RERA, on May 1, 2017. The Union Ministry of Housing and Urban Poverty Alleviation (MHUPA) had given various states and union territories time till May 1, 2017, to formulate and notify rules for functioning of RERA. In our view, RERA is likely to pave the way for a regulatory mechanism in the sector. This would protect the rights of home buyers and ensure timely delivery by builders. Keeping 70% of sales collection in a different escrow account would ensure better utilisation for the project's completion. The bill is expected to bring back buyer's confidence in the sector and may act as a key catalyst for reviving residential demand. Secondly, stringent conditions towards utilisation of funds may weed out a lot of small players from real estate sector in long run. Hence, in our view, the large level of inventory visible currently would not entirely converge to deliverable during transition phase of RERA. Hence, real estate prices may remain stable despite high level of inventory. Finally, RERA should also throw up some good opportunities for organised players like Oberoi, Sobha and Sunteck Realty of our coverage universe to get land parcels under the asset light JV/JD model at better terms.
- **Effective GST rate at 12% for under-construction properties…**
  The government has notified 18% GST rate for under-construction properties and also allowed deduction of land value equivalent to one-third of total amount charged by developer, making effective tax rate at 12%. The current incidence of indirect tax varies region-wise (e.g. in Maharashtra: 4.5% service tax + 1-2% VAT). Though it seems higher at 12%, developers would be allowed to claim input tax credit on raw materials. Hence, affordable and low cost housing should benefit from these while for premium housing, prices may slightly move upwards. Furthermore, ready to move properties are out of the ambit of GST.
- **Sales volume of real estate universe to grow 7.2% QoQ…**
  We expect sales volumes of our universe to remain slightly under pressure amid RERA transition and GST implementation, which could have resulted in deferral in home-buying decision by consumers. However, Sobha has reported a strong show on the volume front. Consequently, we expect sales volumes to grow 7.2% QoQ to 9.7 lakh sq ft (lsf) led by Sobha's volume growth of 12.7% QoQ to 8.15 lsf.
- **Topline of real estate coverage universe to de-grow 33.1% YoY…**
  Real estate universe revenues are expected to de-grow significantly by 33.1% YoY to ₹ 949.2 crore due to 79.7% YoY de-growth in Sunteck's revenues as it had a high base quarter where its project Signia Pearl had hit revenue recognition. EBITDA margin is expected to expand 350 bps to 30.1% led by 330 bps YoY expansion in Sobha's margins to 19.9%. However, we expect our universe to post PAT decline of 26.7% YoY to ₹ 149.3 crore led by 67.2% de-growth in Sunteck's PAT to ₹ 93.9 crore.

Exhibit 36: Estimates for Q1FY18E (Real Estate) (₹ crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q1FY18E	YoY	QoQ	Q1FY18E	YoY	QoQ	Q1FY18E	YoY	QoQ
Oberoi Realty	272.9	-14.7	-5.7	134.0	-19.0	-11.5	88.8	-17.5	-12.7
Sobha Dev.	569.8	-0.7	-2.4	113.1	16.4	-5.9	40.7	13.4	-13.4
Sunteck Realty	106.5	-79.7	-22.8	38.5	-66.5	-46.8	19.7	-67.2	-32.0
Total	949.2	-33.1	-6.1	285.7	-24.3	-17.0	149.3	-26.7	-16.1

Source: Company, ICICIdirect.com Research

Major news in Q1FY18

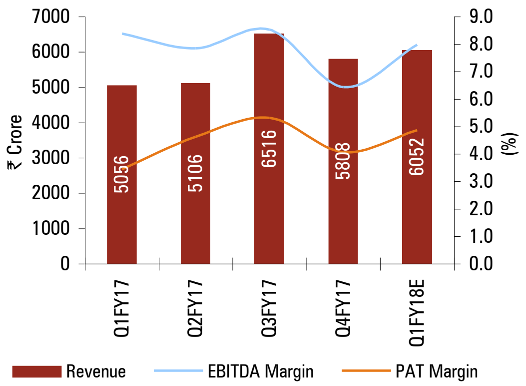
Real Estate Sector	RBI has allowed banks to invest in REITS (Real estate investment trusts).
	CREDAI members have launched 375 affordable housing projects across the country with investment commitment of ₹ 70,000 crore. These projects will involve development of over 86 mn sq ft to build a total of 2.37 lakh housing units.
	The government has set an ambitious target to construct as many as 12 lakh houses under Pradhan Mantri Awas Yojana (Urban) in 2017-18, although only 1.49 lakh houses were built under the scheme in 2016-17. It also targets construction of 26 lakh houses in 2018-19, 26 lakh in 2019-20, 30 lakh in 2020-21 and 29.80 lakh in 2021-22.
	The government has targeted construction of 51 lakh houses in FY18 that would meet its target of 1 crore houses by 2019 under the revised Pradhan Mantri Awaas Yojana Gramin (PMAY-G) and hopes to bring down the construction time to 6-12 months from 18 months to 3 years earlier. Over 32 lakh houses have been reported complete in FY17 and 18 lakh in FY16.
	The government has asked builders to pass on the benefit of lower tax under the GST system to buyers by reducing prices and instalments, otherwise the action will be violative of the anti-profiteering clause.
	Media reports indicate that the government is working on a scheme to promote energy efficient homes by offering cheaper loans and lower registration fee for green residential units as it ramps up efforts to mitigate climate change by moving towards a net zero-energy building regime.
	Media reports indicate that retirement fund body EPFO (Employees Provident Fund Organisation) will sign a pact with the Housing and Urban Development Corp (HUDCO) to enable members of its housing scheme to avail subsidy and interest subvention under the Pradhan Mantri Awas Yojana. Under the housing scheme, EPFO allows its subscribers from societies for withdrawing up to 90% of their EPF corpus to buy homes.

Exhibit 37: Company specific view (Real Estate coverage universe)

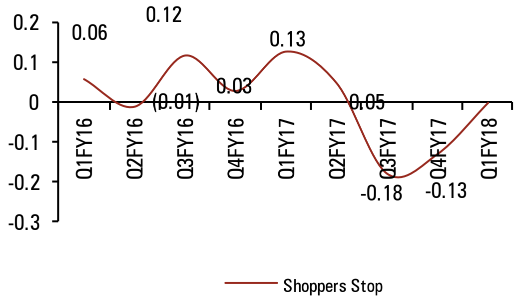
Company	Remarks
Oberoi Realty	We expect Oberoi's sales volumes to decline drastically by 22.4% QoQ to 1.05 lakh sq ft on account of muted demand amid RERA and GST implementation. Even on a YoY basis, sales is expected to de-grow 28.7%. Consequently, we expect the topline to de-grow 14.1% YoY to ₹ 271.2 crore mainly on account of 21.0% YoY decline in revenues from residential projects to ₹ 183.9 crore. EBITDA margins are expected to contract 260 bps YoY to 49.1% due to change in project mix. Consequently, we expect its bottomline to de-grow 17.5% YoY to ₹ 88.8 crore on account of topline de-growth and margin contraction
Sobha Ltd	Sobha has reported a strong set of volume numbers in Q1FY18E despite the GST implementation and transition towards RERA. Sobha's sales volumes grew robustly at 12.7% sequentially to 8.15 lakh sq ft largely driven by 16.6% sequential growth in sales volumes of Bengaluru market to 5.9 lsf. On the financial front, we expect topline to remain flat at ₹ 569.8 crore largely on account of lower contribution of contractual revenues to the tune of ₹ 162.8 crore as visibility of orders in the segment remains low. Further, we expect EBITDA margins to expand 330 bps YoY to 19.9%. Consequently, we expect the bottomline to grow 13.4% YoY to ₹ 40.7 crore
Sunteck Realty	We expect the sales volumes to remain under pressure amid GST & RERA implementation as customers look to defer their buying decision. Consequently, we expect Sunteck to post sales volumes of 0.45 lakh sq ft in Q1FY18E. On the financial front, we expect the topline to decline 79.7% YoY to ₹ 106.5 crore due to high base effect. In the base quarter, its Signia Pearl project had hit revenue recognition, thereby boosting revenues. Further, we expect the company to post EBITDA margin of 36.2% in Q1FY18E. Owing to significant de-growth in topline, we expect its bottomline to de-grow 67.2% YoY to ₹ 19.7 crore

Source: Company, ICICIdirect.com Research

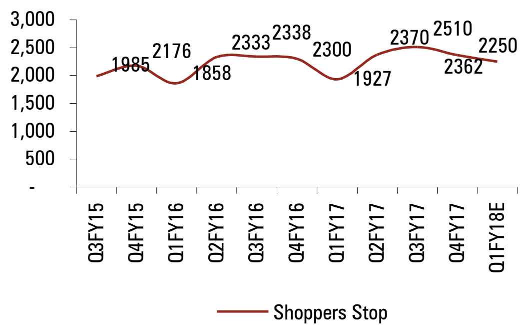
Topline & Profitability (Coverage Universe)



Space addition – million square feet (QoQ)



Revenue per sq. ft.



Top Pick

Trend Ltd

Research Analyst

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Retail

- **Retailers use heavy discount to liquidate old stock before GST rollout**
  Generally, end of season sales (EOSS) commence from July every year. However, several branded players had advanced their clearance sale by a month in June, offering heavy discounts to liquidate their existing inventory before the implementation of GST. Retailers started de-stocking their existing inventory, since the leftover stock would have been taxed under the new GST regime and, consequently, led to a variance in margins. Various retailers such as Shoppers Stop were offering discounts ranging from 30-60%. Though there will be visibility in topline growth, bottomline will be negatively impacted owing to a decline in gross margins.
- **Titan to be key beneficiary of GST rollout**
  GST would be positive for organised players like Titan as higher compliance cost for unorganised players would create a level playing field which could lead market share gains for Titan. The GST rate on the jewellery sector is fixed at 3% vs. the existing tax incidence of 2% (1% excise & 1% VAT). With the input credit available, the impact on the jewellery segment is expected to be neutral. In case of watches, the GST rate of 28% is higher than the current tax incidence, however with the availability of input tax credit; the prices are not expected to get dearer. For the sunglasses category, the GST rate is fixed at 28% which is higher than the current tax incidence. Titan would probably take a price hike in order to pass on the additional tax levy.
- **Prices of footwear to get dearer to mitigate the hike in GST rate**
  In case of footwear, those priced below ₹ 500 will be taxed at 5% while the rest would be taxed at 18% under GST. The GST rate for the footwear category above ₹ 500 is higher than the current tax incidence. Over the longer term, we believe that the organised players may take a price hike to partially negate the negative impact on margins. We expect Bata to be a beneficiary of the shift from unorganised to organised players owing to strong brand and Pan-India retail presence.
- **Advancement of EOSS expected to drive revenue growth**
  We expect Shoppers Stop departmental stores to record a healthy like to like sales growth of 11% YoY driven by various discount offerings in the month of June. HyperCity is expected to report a moderate LTL sales growth of 5.4% YoY. On a consolidated level we expect SSL to record a 11.1% revenue growth of ₹ 1312.5 crores. We expect Titan to register strong revenue growth of 27.1% YoY to ₹ 3557.1 crore, mainly driven by 32% growth in the jewellery segment on account of favourable base (jewellers strike till mid-April 2016) and successful gold exchange programme in June 2017. For Titan's watches segment, we expect revenues to grow marginally by 3% on account of postponement of activation for Titan and Fastrack watches. We expect Bata to register a topline growth of 7.9% YoY to ₹ 727.6 crores driven by demand from the school shoes segment.

Exhibit 38: Estimates for Q1FY18E: (Retail) (₹ Crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q1FY18E	YoY	QoQ	Q1FY18E	YoY	QoQ	Q1FY18E	YoY	QoQ
Bata India	727.6	7.9	23.0	81.9	-0.2	44.8	52.8	4.5	47.0
Shopper Stop	1,312.5	11.1	-1.5	26.4	86.0	-15.2	-15.5	NA	NA
Titan Company	3,557.1	27.1	3.7	337.2	15.4	23.9	232.6	83.6	15.9
Trent Ltd	455.3	13.6	0.3	37.2	4.9	166.4	24.8	6.5	-1.8
Total	6,052.5	19.7	4.2	482.8	13.9	29.1	294.6	69.5	24.6

Source: ICICIdirect.com Research

- **Margins to be adversely impacted by heavy discounting by retailers**

  We expect Titan's EBITDA margin to contract 130 bps YoY to 9.1% on account of lower making charges and steep discount offerings by the retailers in eyewear segment. Shoppers Stop is expected to register a decline in gross margins by 119 bps. However, since profitability in Q1FY17 was suppressed owing to aggressive store openings, we expect EBITDA margins to improve marginally by 80 bps YoY to 2%. For Bata, we expect EBITDA margins to contract 90 bps YoY to 11.3% on account of higher share of school shoes in the product mix (low margin segment) and pre-GST discounting offers. In case of Trent, we expect EBITDA margins to decline 60 bps YoY to 8.2% on account of increase in rental expense (negative operating leverage).

- **Space addition remains muted for Shoppers Stop**

  In Q1FY18E, Shoppers Stop did not open any departmental store or HyperCity format stores. However, the company has indicated it will cut down the store size and redesign eight old stores to enhance the profitability and improve revenue per store.

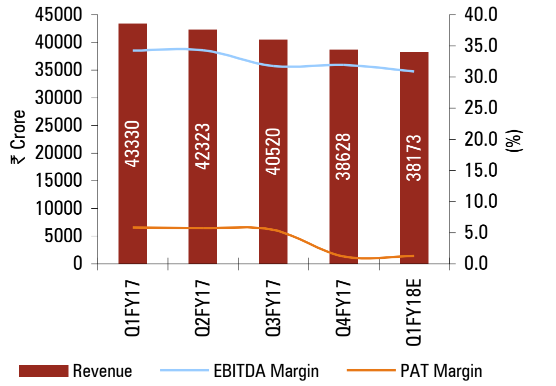
  In case of Titan, the jewellery segment opened two Tanishq stores (additional space of ~10500 sq feet) while the watches segment added eight WOT, five Fastrack and four Helios store (additional space of ~6500 sq ft) in Q1FY18. Tanishq launched the 'Mirayah' collection of diamond and studded jewellery and made additions to the 'RIVAAH' wedding collection.

Exhibit 39: Company specific view (Retail)

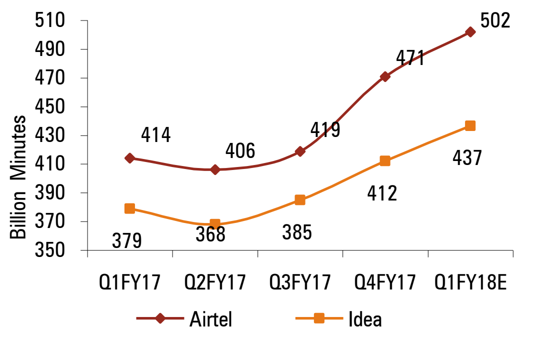
Company	Remarks
Bata India	Q1 generally tends to be a strong quarter mainly on account of growth in the school shoes segment. We expect Bata to register topline growth of 7.9% YoY to ₹ 727.6 crore. On account of higher share of school shoes in the product mix (low margin business) and aggressive pre-GST discounting, EBITDA margins are expected to decline 90 bps YoY at 11.2%. Consequently, we expect PAT to grow 4.5% YoY to ₹ 52.8 crore
Shoppers Stop	We expect Shoppers Stop's standalone business to post a healthy double digit SSSG of 11% YoY on account of advancement of end of season sale (EOSS) by a month from July to June while HyperCity is expected to clock in a modest SSSG of 5.4%. On a consolidated basis we expect SSL to report revenue growth of 11.1% YoY to ₹ 1312.5 crore. On account of preponing of EOSS, we expect gross margins to decline 119 bps YoY. However, as EBITDA in Q1FY17 was suppressed owing to aggressive store openings, we expect EBITDA margins to show an improvement of 80 bps YoY to 2%. Consequently, the company is expected to report a PAT (loss) of ₹ 15.6 crore vs. loss of ₹ 26.6 crore in Q1FY17
Titan Company	We expect Titan to continue its strong growth revenue trajectory for Q1FY18, driven by favourable base of Q1FY17 (jewellers strike that continued till mid-April 2016) and improved demand owing to strong wedding season in the current quarter. Overall revenues are expected to increase 27.1% YoY to ₹ 3557.1 crore, mainly driven by 32% growth in the jewellery segment. Watches segment is expected to clock in a marginal revenue growth of 3% owing to postponing of activation of Fastrack watches. We expect operating margins to contract 90 bps YoY to 9.5% on account of lower making charges by the jewellery division and advancement of end of season sale in the eyewear segment. On account of absence of exceptional expense (VRS scheme to the tune of ₹ 96.9 crore in Q1FY17), we expect PAT to register growth of 83.6% YoY. Adjusting for VRS expense, PAT is likely to grow 4% YoY to ₹ 232.6 crore
Trent Ltd	We expect Trent to register revenue growth of 14% YoY to ₹ 455.3 crore, driven by new store additions and 5% LTL sales growth. We expect operating margins to decline marginally by 60 bps YoY to 8.2% while absolute EBITDA is expected to increase 5% YoY to ₹ 37.2 crore. PAT is expected to increase 6.4% YoY to ₹ 24.8 crore

Source: Company, ICICIdirect.com Research

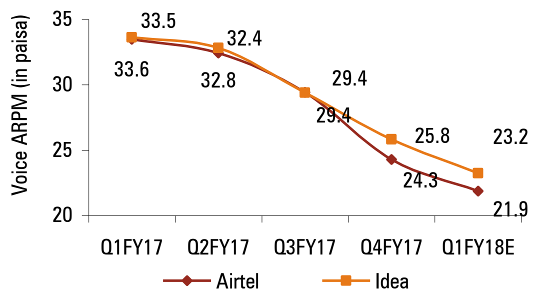
Topline & Profitability (Coverage Universe)



MOU trend



Voice ARPM Trend



Top Pick of the sector

Sterlite Technologies

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Telecom

- **Freebies impact wanes off partly as Jio begins monetisation**

  Q1FY18 was the first quarter of Jio's monetisation. Jio's extended offer, wherein it announced a complimentary offer for three months for those who pay ₹ 303, kept incumbents on their toes. In response to its freebies, incumbent operators continued to offer free voice and bundled offering to safeguard their customer base. We believe that while industry revenues would remain under pressure in FY18E (albeit lower pressure than FY17), there should be stability and perhaps some revenue growth from H2FY18 onwards. However, data usage adoption would be key for growth in data revenues, going ahead. In term of GST, while the increase of rate from 15% to 18% is likely to passed on to post-paid customers easily, the subsequent pass through for prepaid customers may be a slower process. As such there could be some impact on revenues.

- **Voice realisations slip amid strong volume growth**

  Voice volumes are expected to continue to witness robust growth led by unlimited voice freebies as well as incoming traffic from Jio. However, incumbents' free voice offering in the form of "bundled offer" is likely to impact the voice realisations. We expect 9.5% and 8% QoQ growth in total voice minutes to 417.4 and 250.1 billion for Airtel & Idea, respectively. The freebies coupled with skewed incoming volumes from Jio would result in a sharp decline in voice APRM Idea and Airtel are expected to post 10%QoQ decline to 21.9 paisa and 23.2 paisa, respectively. As a result, we expect Airtel and Idea to post voice revenue decline of 1.5% and 2.8% QoQ to ₹ 9123.4 crore and ₹ 5812.2 crore, respectively.

- **Data volumes to grow but declining realisations impact revenues**

  There is expected to be an uptick in data consumption given the attractive pricing by incumbents who have followed suit on Jio's pricing to protect their turf. Consequently, Airtel & Idea are expected to post 17.9% & 9.7% QoQ growth to 265.4 & 139.3 billion MB, respectively. However, realisations are expected to continue to slide given the attractive offer by incumbents. We expect data tariffs to decline 16% and 10% QoQ for Airtel and Idea to 10.3 and 9.8 paisa, respectively. Consequently, data revenues may decline 1.0% QoQ and 1.3% QoQ to ₹ 2720.7 crore and ₹ 1438.4 crore for Airtel and Idea, respectively.

- **Margins to remain under pressure...**

  Lower operating leverage during the quarter is expected to impact margins. Idea is expected to post margins at 24.2%, down 280 bps QoQ. Consolidated margins for Airtel are seen at 35%, down 100 bps QoQ, impacted by lower operating leverage in the Indian mobility business (margins down 180 bps) and cross currency impact.

Exhibit 40: Estimates for Q1FY18E (Telecom) (₹ Crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q1FY18E	YoY	QoQ	Q1FY18E	YoY	QoQ	Q1FY18E	YoY	QoQ
Bharti Airtel	21,717.3	-15.1	-1.2	7,599.4	-20.6	-3.9	297.6	-79.6	-20.3
Bharti Infratel	3,543.9	10.4	0.7	1,545.0	10.8	-1.7	739.6	-2.2	24.0
Idea Cellular	7,974.6	-15.9	-1.9	1,931.2	-37.2	-12.1	-657.6	PL	NA
Sterlite Technologies	701.5	16.2	-0.8	157.8	38.2	-2.8	60.0	58.9	-5.8
Tata Comm	4,235.4	-5.0	-1.4	550.6	-18.1	9.6	35.0	-16.4	LP
Total	38,172.6	-11.9	-1.2	11,784.0	-20.5	-4.5	474.6	-81.2	6.9

Source: Company, ICICIdirect.com research

Exhibit 41: Company specific view (Telecom)

Company	Remarks
Bharti Airtel	Airtel continued to follow suit offering unlimited free voice, extra data package to high ARPU subscribers, which would impact data and voice realisations adversely, albeit much lower than earlier quarters. The overall voice volume is expected to witness sharp growth of 9.5% QoQ at 417.4 billion minutes owing to unlimited voice freebies as well as incoming traffic from Jio. The voice ARPM is expected to decline 10% QoQ to 21.9 paisa. Consequently, we expect voice revenues to witness de-growth of 1.5% QoQ to ₹ 9123.4 crore in the India mobility business. Data realisations may continue to witness a decline. We expect data ARMB to slide 16% QoQ to 10.3 paisa. Data usage, at attractive prices, would witness a healthy take-off, with overall data volumes of 265.4 bn MB (up 17.9% QoQ). Consequently, we expect data revenues to decline 1% QoQ to ₹ 2720.7 crore. Indian EBITDA margins are seen at 35.9%, (down ~180 bps QoQ) Africa revenues are expected at ₹ 4970 crore vs. ₹ 5046.8 crore in Q4FY17. Africa EBITDA margin is expected at 25%
Bharti Infratel	Incremental tenancy demand from Jio and Airtel would boost Bharti Infratel's tenancy in Q1FY18. We expect net tenancy addition of 5199. Average tenancy ratio (at the consolidated level) is expected at 2.35x (up 2.3% QoQ) with total co-locations reaching 215805. Rental realisation growth, however, would be restricted by rental freeze for existing clients as per the new master service agreement (MSA). Rental revenues are expected at ₹ 22241.5 crore (up 2.7% QoQ). We expect energy revenue decline of 2.6% QoQ to ₹ 1302.4 crore. Energy margins are expected at 4% during the quarter. EBITDA margins are seen at 43.6%, decline of 90 bps mainly due to lower energy margins for the quarter. PAT is seen at ₹ 739.6 crore for the quarter. Our estimates are based on proportionate consolidation of Indus (earlier method). We have not incorporated any MTM impact on investments, which could have some bearing on the bottomline
Idea Cellular	Following the extended freebies with Jio Prime offer, Idea also continued to offer unlimited voice and attractive data packages to its high ARPU consumers. Consequently, we expect voice ARPMs to decline 10% QoQ to 23.2 paisa. Voice volumes are expected to grow 8% QoQ to 250.1 billion minutes, given the voice freebies as well incoming volume from Jio network to Idea. Consequently, we expect overall voice revenue decline of 2.8% QoQ to ₹ 5812.2 crore. Similarly, data tariffs may decline 10% QoQ to 9.8 paisa. Data volumes, however, may witness growth of 9.7% QoQ to 139.3 bn MB, driven by attractive pricing. Hence, we expect 1.3% QoQ data revenue de-growth at ₹ 1438.4 crore. The negative operating leverage owing to both data and voice revenues decline may impact margins coupled with higher network costs. Therefore, we expect margins to contract 280 bps QoQ to 24.2%
Sterlite Technologies	We expect 16.2% YoY growth in topline at ₹ 701.5 crore. Product revenues (OF, OFC & copper wire) are expected to grow 17.6% YoY to ₹ 552 crore aided by robust demand. The services and project revenues are expected at ₹ 142.5 crore, contributing ~20% to overall revenues. The healthy revenue growth is expected to provide a positive operating leverage. Consequently, we expect margins at 22.5% (360 bps improvement YoY). Consequent PAT at ₹ 60 crore is expected to grow 58.9% YoY
Tata Comm	The weakness in the voice business is expected to continue with voice volumes expected to decline 8.7% YoY to 10.2 billion minutes while realisations are expected to decline by 12% YoY leading to voice revenue decline of 19.6% YoY to ₹ 1437.7 crore. Voice margins are expected at 5.5%, a decline of 180 bps sequentially. The data segment business optical growth would be lower owing to exclusion of data centre business and currency effect (appreciation of INR by ~4%). Consequently, we expect the data segment to post revenues of ₹ 2797.7 crore, flattish sequentially. Data margins are expected at 16.9% vs. 14% in Q4FY17 owing absence of some of the one-off costs which was seen during that quarter. The margins would have been higher but for wage hike and transformation cost. Overall margins are, hence, expected at 13%, up 130 bps YoY. We expect the company to report PAT of ₹ 35 crore

Source: Company, ICICIdirect.com Research

Others

Exhibit 42: Estimates for Q1FY18E (others) (₹ Crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q1FY18E	YoY	QoQ	Q1FY18E	YoY	QoQ	Q1FY18E	YoY	QoQ
Cox & Kings	781.2	11.7	72.5	355.0	13.4	412.8	137.4	27.2	536.3
CARE	60.6	5.9	-20.7	39.0	10.3	-17.3	27.9	12.7	-27.5
DRECOR	174.8	22.7	34.4	41.3	41.5	13.3	4.4	10.3	27.6
GESHIP	900.3	11.5	20.6	405.1	-8.8	23.4	129.2	-44.7	LP
Jet Airways	6,188.8	10.8	2.7	476.5	-28.1	17.9	76.5	-39.4	218.8
Mcleod Russel	164.7	-3.8	-53.4	-15.9	NA	NA	-36.8	NA	NA
Navneet Publications	618.9	10.4	195.0	204.2	13.3	631.0	130.7	15.1	675.0
Rallis India	512.5	13.9	47.2	91.1	21.3	118.9	62.9	10.0	102.8
Shipping Corporation of	828.3	-0.2	-7.7	169.8	-20.6	-25.7	44.0	-21.2	-52.3
Solar Industries	471.5	11.0	6.7	97.2	12.3	5.8	52.6	11.6	-4.3
Swaraj Engines	192.6	12.2	19.8	29.9	5.5	23.7	20.2	6.4	32.3
TTK Prestige	402.1	16.2	1.2	46.2	6.3	-7.1	28.0	15.8	-49.4
Talwalkars	68.6	17.9	-33.6	29.8	18.6	-53.9	6.9	19.7	-72.1
United Spirits	1,934.0	-4.6	-4.0	176.3	-11.2	-33.5	58.1	37.8	LP
United Breweries	1,460.8	-1.6	31.3	240.4	-17.4	137.7	131.4	-10.6	1,852.8
VST Tillers & Tractors	198.6	11.5	0.7	28.8	17.2	-0.1	19.4	-2.6	11.2
Wonderla Holidays	99.3	11.7	62.2	44.4	13.3	349.0	26.7	18.9	675.5
Total	15,465.1	7.6	9.0	2,522.8	-6.7	46.2	959.7	-9.3	273.6

Source: Company, ICICIdirect.com Research

Exhibit 43: Company specific view (Others)

Company	
Cox & Kings	Q1 is a seasonally strong quarter for Cox and Kings. The company is expected to report 11.7% YoY growth in revenues mainly led by 18.0% YoY increase in Meininger revenues (led by bed additions) and 12.9% YoY increase in leisure revenues. On the margin front, we expect EBITDA margin to increase from 44.8% to 45.4% in Q1FY18E mainly led by higher margins in Meininger and leisure India. Further, we expect PAT margins to improve from 15.5% to 17.6% in Q1FY18E mainly led by better performance at operating level and lower interest expenses.
CARE	We expect rating revenue to increase at 6% YoY to ₹ 60.6 crore. The pace of growth in Q1 is lower than previous years owing to subdued volume traction in the BLR segment (banking sector loans grew at sub 5% YoY). Surveillance income is also on the lower side in Q1. Owing to steady operating costs, EBITDA is expected to increase by 10% YoY. Other income to be better than last year. We expect PAT at ₹ 27.9 crore while PAT margin at ~46% is expected
Dredging Corporation of India	The revenues from dredging activity at Puducherry are expected to improve the earnings for the current quarter. Revenues for the quarter are expected to grow 23% YoY to ₹ 175 crore. Following the improvement in execution and higher utilisation levels EBITDA margins are expected to improve by 300 bps YoY enabling EBITDA nearly double to ₹ 41.3 crore. On account of higher taxation YoY, PAT growth is expected to moderate to 10% at ₹ 4.4 crore
Great Eastern Shipping	Riding on the all time high tonnage, revenues for the company are expected to grow 12% YoY to ₹ 900 crore. Higher crude prices coupled with lower utilisation level are expected to dent the EBITDA margins which are expected at 45% with absolute EBITDA of ₹ 405 crore (vs. 55% margins and absolute EBITDA of ₹ 444 crore in Q1FY17). Lower operational performance would be further aggravated by increased interest costs (NCD issuance) coupled with elevated depreciation (of newer vessels). PAT is expected to halve to ₹ 129.2 crore

Source: Company, ICICIdirect.com Research

Exhibit 44: Company specific view (Others)

Company	Remarks
Jet Airways	Jet's domestic passenger traffic growth (up 8.7% YoY) is expected to remain better than the past four quarters average passenger growth of 5.2%. Domestic traffic to grow 9% YoY to 50.8 lakh (vs. industry growth of 17.2% YoY). Further, with improved realisations (up 2% YoY), we expect the company to report revenue growth of 10.8% YoY during the quarter. Moderation in ATF prices (down 4.8% QoQ) will help to improve margins sequentially. However, margins may remain lower YoY
Maharashtra Seamless	We expect pipes segment sales volume for Q1FY18 of ~77657 tonnes (up 35% YoY) wherein seamless pipes sales volumes are expected at ~57829 tonnes (up 31% YoY) while that of ERW is likely to be ~19827 tonnes (up 47% YoY). We expect topline to increase by 41% YoY, while EBITDA margins are expected to come in at 15.6% (16.0% in Q4FY17 and 10.1% in Q4FY17)
McLeod Russel	On account of low tea prices, McLeod Russel is expected to report 3.6% decline in revenue to ₹ 167.7 crore. Though, domestic tea volume to grow by 7.4% YoY to 9.6 million kg, tea realisations are expected remain under pressure and decline 10% to ₹ 150/kg. The company is expected to report a loss of ₹ 36.8 crore against a loss of ₹ 17.3 crore in the corresponding quarter last year
Navneet Education	We expect Navneet to register revenue growth of 10.4% YoY to ₹ 618.9 crore, driven by strong growth in publication segment to the tune of 14.1% and 4.2% revenue growth in the stationery segment. EBITDA margins are expected to expand marginally by 85 bps YoY to 33% on account of positive operating leverage. Consequently, we expect PAT to grow 15.1% YoY to ₹ 130.7 crore
Rallis India	Rallis India is expected to report a steady performance in a seasonally important quarter (seed business). This is largely tracking positive monsoon 2017 and robust sowing activity domestically. In Q1FY18E, in the agro-chemical segment we expect sales to grow by a modest 7.3% YoY to ₹ 279.3 crore, limited by de-stocking of channel inventory. On the Metahelix front, we expect 22.9% YoY growth in sales to ₹ 233.2 crore. At the consolidated level, we expect sales to grow 13.9% YoY to ₹ 512.5 crore while EBITDA margins are expected at 17.8%. Consequent EBITDA & PAT in Q1FY18E is expected at ₹ 91.1 crore & ₹ 62.9 crore, respectively. Normalised PAT in Q1FY17 was at ~₹ 57 crore
Shipping Corporation of India	The softness in tanker rates would be moderated by fairly stable BDI rates. We expect SCI revenues to remain flattish at ₹ 828 crore. Lower utilisation of offshore vessels coupled with higher crude prices would impact EBITDA margins, which are expected at 20.5% (vs. 25.8% in Q1FY17) resulting an absolute EBITDA of ₹ 170 crore. PAT excluding extraordinary profit/loss is expected at ₹ 44 crore
Solar Industries	Solar Industries is expected to post weak revenue growth of 11% YoY to ₹ 471.5 crore. This is mostly due to weak volume growth of ~9% in bulk segment. Cartridge segment is likely to witness moderate volume growth of ~9% for the quarter. Revenues from overseas markets are likely to grow 13% YoY due to stable Naira (Nigeria), Kwacha (Zambia), Lira (turkey) and Rand (South Africa) for the quarter. EBITDA margins are likely to remain stable at 20.6%. PAT is likely to increase by 11.6% YoY to ₹ 52.6 crore
Swaraj Engines	Swaraj Engines is expected to report steady performance in Q1FY18E largely tracking tractor sales at parent group i.e. M&M, amid normal to positive monsoon season 2017. Engine sales volume is expected to grow 13% YoY to 23628 units in Q1FY18E with consequent sales at ₹ 192.6 crore, up 12.2% YoY. EBITDA margins are expected to moderate to 15.5% in Q1FY18E (down 100 bps YoY). PAT in Q1FY18E is expected at ₹ 20.2 crore (up 6.3% YoY)

Source: Company, ICICIdirect.com Research

Exhibit 45: Company specific view (Others)

Company	Remarks
TTK Prestige	Owing to lack of clarity on the tax on existing inventory before the GST implementation, various dealers and retailers had started downsizing the quantity stocked in June. We believe this will have a material effect on revenue growth for the current quarter. We expect revenues to increase marginally by 3.2% YoY to ₹ 374.5 crore on a standalone basis. Cooker and appliances are expected to register growth of 3% and 4%, respectively, while cookware is expected to remain flattish. On a consolidated basis (including Horwood acquisition), we expect TTK to report revenue of ₹ 402.1 crore. EBITDA margins are expected to contract 110 bps YoY to 11.5% on account of negative operating leverage. Consolidated PAT is expected at ₹ 28.0 crore
Talwalkars Better Value Fitness	Q1 is a seasonally weak quarter. However, the addition of new gyms is expected to drive Talwalkar's topline. We expect the company to report revenue growth of 17.9% YoY. In addition, we expect margins to improve 22 bps YoY to 43.5% mainly led by expansion of value added services and operating leverage benefit. Further, net profit is expected to increase 19.7% YoY to ₹ 6.9 crore
United Spirits	Alcobev sector volume growth is likely to be negatively impacted by Supreme court (SC) verdict of banning sale of alcohol within 500 meters of national and state highways. Subsequently, we expect USP total volumes to decline 13% YoY to 19 million cases. However with price hikes in certain states coupled and increasing proportion of premium segment, the impact of volume de-growth would be mitigated and result in revenues declining by 5% YoY to ₹ 1954 crore. Owing to negative operating leverage , EBITDA margin is expected to decline by 70 bps to 9.1% with EBITDA declining by 11% YoY to ₹ 176 crore. However PAT is likely to increase by 33% owing to eceptional expense to the tune of ₹ 25 crore in Q1FY17, adjusting for the same the PAT is expected to de-grow by 15% YoY.
United Breweries	Q1 is usually the best quarter in terms of revenues for UBL. However, Q1FY18 has been impacted by the Supreme Court highway ban ruling whch is expected to take a toll on its volumes growth. We expect volume to decline by 20% YoY to 38.9 million cases but higher realisations would mitigate the revenue de-growth. The resultant revenues are expected to decline 7% to ₹ 1461 crore. Elevated input costs (sugar, barley) and negative operaating leverage would lead to EBITDA margins declining by 215 bps to 16.5% with absolue EBITDA of ₹ 240 crore. Consequently, PAT is expected to decline 11% YoY to ₹ 131.4 crore
VST Tillers & Tractors	VST Tillers and Tractors is expected to report stable performance in Q1FY18E amidst normal to positive monsoon season 2017 (+6% of LPA) and robust sowing (up 19% YoY) domestically. In Q1FY18, tractor sales volume came in at 2555 units (up 18.4% YoY) while power tillers sales volume came in at 7119 units (down 2.5% YoY). Consequent net sales is expected at ₹ 198.6 crore (up 11.5%), EBITDA margins at 14.5% (up 70 bps YoY) and consequent PAT at ₹ 19.4 crore, down 3.0% YoY. PAT is expected to be muted on YoY basis due to lower tax incidence & higher other income in the base quarter.
Wonderla Holidays	Wonderla holidays is expected to report revenue growth of 11.7% YoY mainly led by increase in ticket prices while footfalls are expected to remain flat across all the parks (Bengaluru, Kochi and Hyderabad). Further, we expect margins to improve by 60 bps YoY to 44.7% mainly due to stabilisation of Hyderabad park and operating leverage benefit. PAT is expected to increase by 18.9% YoY mainly led by better performance at operating level. On the GST front tax, burden of the company is expected to increase by 8-10% which will impact the company from Q2FY18 onwards.

Source: Company, ICICIdirect.com Research

ICICIdirect.com Coverage Universe

Valuation Matrix

Sector / Company	CMP	Target Price	Rating	Market Cap	EPS (Rs)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E
Apparels																			
Kewal Kiran Clothing Ltd	1,750	1,844	Hold	2,157	69.2	65.9	80.2	25.3	26.5	21.8	21.1	18.0	15.1	32.9	37.7	39.7	23.8	23.0	25.2
Vardhman Textiles Ltd	1,183	1,240	Hold	6,789	179.0	107.6	133.6	6.6	11.0	8.9	6.7	6.2	5.2	13.1	11.8	13.7	23.0	13.1	14.5
Page Industries	16,946	12,500	Sell	18,901	238.7	296.6	351.2	71.0	57.1	48.3	48.4	38.8	33.1	55.5	59.8	59.4	40.0	44.5	43.2
Arvind Limited	370	480	Buy	9,565	12.3	17.5	23.9	30.0	21.1	15.4	13.1	10.9	8.9	11.3	13.7	15.8	9.0	12.6	15.0
Rupa	503	425	Buy	3,997	9.1	12.0	14.2	55.4	41.8	35.4	29.2	23.8	20.5	20.8	22.4	22.3	16.4	19.2	19.5
Auto																			
Amara Raja Batteries	857	930	Hold	14,634	28.0	33.2	40.4	30.6	25.8	21.2	17.1	14.8	12.3	25.8	27.4	28.0	18.5	19.3	19.6
Apollo Tyres	259	280	Buy	13,168	21.8	19.7	23.3	11.9	13.1	11.1	7.9	8.5	7.4	13.6	11.0	12.0	15.0	12.2	12.9
Ashok Leyland	104	105	Buy	30,465	4.3	4.7	5.9	24.2	22.0	17.7	12.9	12.0	9.9	21.2	21.6	23.7	21.2	16.5	17.7
Bajaj Auto	2,701	3,000	Hold	78,159	132.3	155.4	181.0	20.4	17.4	14.9	16.4	13.6	11.1	30.5	33.5	34.5	22.4	24.0	24.6
Balkrishna Industries	1,710	1,670	Buy	16,524	74.0	81.4	104.4	23.1	21.0	16.4	15.0	10.6	7.9	23.0	24.0	25.8	20.2	18.6	19.7
Bharat Forge	1,124	1,300	Buy	26,174	29.9	40.1	47.6	37.6	28.0	23.6	20.8	13.9	11.7	16.1	22.2	26.9	14.6	17.9	21.2
Bosch	23,755	26,400	Buy	72,502	570.5	564.0	658.9	41.6	42.1	36.1	35.7	30.0	24.9	24.8	24.1	25.4	16.9	16.4	17.0
Mahindra CIE	239	280	Buy	9,041	4.5	10.3	13.5	53.5	23.1	17.6	17.1	11.7	9.3	6.9	11.1	13.2	5.4	10.8	12.6
Eicher Motors	27,953	30,500	Buy	76,095	655.9	833.2	1,019.4	42.6	33.5	27.4	25.5	18.8	15.0	39.4	40.7	39.0	36.0	33.6	30.9
Exide Industries	231	270	Buy	19,614	8.2	9.4	11.1	28.3	24.5	20.8	17.1	13.9	11.6	18.7	20.4	21.5	14.1	14.8	15.6
Hero Motocorp	3,687	3,975	Buy	73,632	169.1	199.6	232.8	21.8	18.5	15.8	15.1	12.6	10.7	43.5	49.0	47.9	33.0	36.3	35.3
JK Tyre & Industries	170	215	Buy	3,856	16.6	18.1	31.0	10.3	9.4	5.5	7.9	6.4	4.5	11.2	11.8	16.7	15.8	18.2	24.4
Maruti Suzuki	7,438	7,200	Buy	224,684	242.9	280.1	327.7	30.6	26.6	22.7	21.7	18.5	15.7	26.3	26.5	26.8	20.3	20.4	20.6
Motherson Sumi	312	300	Hold	65,742	11.1	16.7	22.9	28.2	18.7	13.6	11.3	7.8	5.7	16.0	22.2	28.4	19.6	23.1	25.0
Wabco	5,677	6,610	Buy	10,768	112.5	144.7	178.7	50.4	39.2	31.8	31.3	25.1	20.3	23.6	25.2	25.7	16.9	18.2	18.6
Tata Motors	440	560	Buy	140,446	22.3	42.9	52.6	19.8	10.2	8.4	6.2	4.5	3.9	11.6	16.8	17.1	15.0	22.0	21.1
Aviation																			
Jet Airways	595	580	Buy	6,763	38.6	52.3	61.2	15.4	11.4	9.7	9.5	7.7	7.2	47.7	47.7	47.7	NA	NA	NA

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Valuation Matrix

Sector / Company	CMP	Target Price	Rating	Market Cap	EPS (Rs)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E
Building Materials																			
Century Plyboard	288	325	Buy	6,407	8.4	10.0	13.1	34.5	28.9	22.0	9.3	7.5	6.0	21.3	21.2	23.7	27.0	26.0	27.1
Kajaria Ceramics	670	725	Hold	10,650	15.9	18.8	24.2	42.1	35.7	27.7	22.3	19.9	16.1	26.9	26.4	29.1	21.5	21.2	22.6
Somany Ceramics	774	885	Buy	3,282	21.7	28.0	35.4	35.7	27.6	21.9	17.9	15.0	12.1	20.3	22.0	24.4	17.7	19.6	20.9
Greenply Industries	271	300	Hold	3,327	11.2	12.4	13.6	24.2	22.0	20.0	14.7	13.8	11.8	17.7	15.7	15.4	17.3	16.2	15.3
Capital Goods																			
VA Tech Wabag	671	765	Buy	3,663	31.1	39.4	48.0	21.6	17.0	14.0	11.3	8.8	7.2	22.0	24.2	24.7	9.5	17.1	17.6
Timken India	761	867	Hold	5,173	14.3	15.9	19.3	53.2	47.7	39.5	33.5	27.2	22.7	22.7	24.2	25.5	16.0	15.7	16.6
NRB Bearing	137	123	Hold	1,327	5.6	5.9	6.5	24.6	23.2	21.1	11.3	10.1	9.3	16.0	16.8	16.9	17.5	16.8	16.5
Grindwell Norton	423	460	Buy	4,678	10.8	12.9	15.2	39.2	32.7	27.7	22.3	18.2	15.3	23.4	25.5	26.8	16.1	17.4	18.2
Bharat Heavy Electrical Limit	135	140	Hold	33,116	2.8	8.4	8.7	48.4	16.2	15.6	21.1	10.0	9.6	3.4	7.6	7.5	2.0	5.7	5.7
Thermax	927	944	Hold	11,045	12.2	26.7	31.5	76.2	34.7	29.4	30.7	26.5	22.0	15.4	16.0	17.2	8.4	11.2	12.0
KEC International	263	292	Buy	6,769	12.8	14.4	18.4	20.5	18.3	14.3	9.1	8.0	6.7	16.8	17.5	19.2	17.4	16.7	18.0
Greaves Cotton	160	176	Buy	3,917	7.3	8.7	9.8	21.9	18.4	16.4	14.5	12.3	10.5	28.7	33.2	34.3	21.2	23.7	24.5
AIA Engineering	1,412	1,533	Buy	13,319	50.1	51.9	61.3	28.2	27.2	23.0	19.5	18.5	15.3	28.5	25.5	26.0	22.1	19.6	19.9
Larsen & Toubro	1,707	2,090	Buy	159,358	50.9	65.0	69.5	33.5	26.3	24.6	26.5	22.2	0.8	13.6	15.8	16.4	11.1	13.0	12.8
Bharat Electronics Ltd	169	204	Buy	37,771	6.8	7.3	7.9	24.8	23.1	21.5	18.2	15.8	14.3	26.0	25.1	23.5	19.5	18.4	17.4
Engineers India Ltd	155	182	Buy	10,472	4.9	6.8	8.3	31.7	22.9	18.7	23.3	17.2	12.6	15.7	18.9	20.6	11.7	15.0	16.6
cement																			
India cements	205	245	Buy	6,309	5.4	8.5	11.1	37.6	24.0	18.5	10.7	9.7	8.6	7.1	7.8	8.6	3.3	4.9	6.0
Ambuja	252	280	Buy	50,058	4.9	7.4	7.1	51.5	34.2	35.3	30.4	21.9	20.8	7.4	10.7	10.8	5.1	7.4	6.9
Ultratech	4,092	4,750	Buy	112,347	95.8	122.9	146.0	42.7	33.3	28.0	22.3	17.9	15.7	13.0	16.1	16.6	11.0	12.7	13.5
Heidelberg cement	133	145	Buy	3,003	3.4	7.3	8.7	39.4	18.2	15.2	15.3	9.2	8.5	10.8	18.0	19.4	7.9	15.3	16.8
JK Lakshmi	470	525	Hold	5,533	7.0	10.8	19.8	67.5	43.4	23.8	19.6	13.7	10.9	7.5	10.8	13.7	5.9	8.5	13.5
Jk cement	970	1,265	Buy	6,781	37.1	50.9	59.2	26.1	19.0	16.4	14.1	11.2	9.8	12.6	15.1	16.6	14.5	16.1	16.2
Mangalam cement	363	425	Buy	969	12.9	31.1	37.7	28.2	11.7	9.6	11.4	6.8	5.9	10.9	18.4	19.7	6.8	14.2	14.9
Shree cement	18,403	17,800	Hold	64,110	384.8	549.8	717.1	47.8	33.5	25.7	26.7	18.3	14.2	17.7	22.6	24.4	17.4	20.2	21.2
ACC	1,614	1,850	Buy	30,313	35.6	54.1	71.7	45.4	29.9	22.5	22.8	15.8	13.1	10.0	13.7	16.7	8.2	11.0	13.3
Star Cement	125	115	Hold	5,240	4.1	6.5	6.9	30.5	19.4	18.0	14.3	9.9	9.5	13.8	19.7	19.0	14.0	18.7	17.2
Construction																			
NBCC	205	195	Hold	18,405	3.9	4.6	6.4	52.4	44.1	32.1	42.6	35.6	25.3	31.4	33.1	39.2	21.0	22.0	26.0
NCC Limited	89	110	Buy	4,973	4.1	4.7	5.9	22.1	19.1	15.1	9.6	8.9	7.7	14.6	13.4	14.6	6.6	6.9	8.1
Simplex Infrastructure	538	480	Hold	2,664	24.3	23.5	38.9	22.2	22.9	13.9	8.7	8.2	7.1	11.8	12.0	13.8	7.9	7.1	10.4

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Valuation Matrix

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					FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E
Consumer Discretionery																			
Havells India	468	570	Buy	29,276	8.6	11.9	15.5	54.2	39.5	30.3	33.5	25.8	20.7	23.0	26.7	27.9	17.4	20.9	22.3
Voltas Ltd	468	525	Buy	15,494	15.5	18.6	21.1	30.3	25.2	22.2	27.1	22.4	19.2	21.5	25.5	25.7	15.5	19.0	18.7
Asian Paints Ltd	1,116	1,204	Hold	107,061	21.0	23.2	27.1	53.1	48.2	41.1	34.5	32.4	27.2	33.2	30.3	31.0	26.5	25.6	25.9
Kansai Nerolac	439	445	Buy	23,640	9.4	9.2	10.9	46.7	47.8	40.3	30.9	32.0	26.6	26.2	24.7	26.2	18.0	17.1	18.1
Bajaj Electricals Ltd	328	380	Buy	3,322	10.8	17.3	19.6	30.4	18.9	16.7	15.8	11.9	10.3	16.7	21.4	22.8	12.4	17.7	17.2
Symphony Ltd	1,347	1,623	Buy	9,423	23.7	33.4	42.1	56.9	40.4	32.0	45.7	31.0	24.2	48.4	50.6	56.2	36.1	38.3	42.3
Essel Propack Ltd	241	270	Hold	3,789	12.5	16.2	16.1	19.4	14.9	14.9	10.7	8.2	8.0	17.6	19.5	18.2	17.4	17.2	15.2
V-Guard Ltd	179	165	Hold	7,608	3.6	4.0	4.8	50.1	44.9	37.0	34.3	31.1	25.4	32.3	31.2	31.1	23.8	23.8	23.7
Pidilite Industries	815	827	Buy	41,781	16.8	18.2	21.2	48.4	44.7	38.4	30.0	27.9	23.9	33.0	32.5	33.0	24.9	24.6	24.9
Supreme Industries	1,220	1,285	Buy	15,496	33.7	43.6	44.7	36.2	28.0	27.3	19.3	14.9	14.3	30.0	37.1	34.1	25.3	30.0	26.9
Astral Poly Technik Ltd	683	685	Buy	8,179	12.1	14.4	19.8	56.6	47.5	34.4	31.4	25.2	19.5	21.3	21.6	23.9	17.2	15.9	18.2
FMCG																			
Hindustan Unilever	1,102	1,120	Hold	238,513	20.8	22.8	26.7	53.0	48.4	41.2	38.9	33.9	28.9	74.9	82.2	85.6	66.6	66.7	69.0
Colgate Palmolive	1,088	1,150	Hold	29,593	21.2	23.6	28.7	51.3	46.2	38.0	31.6	29.1	23.9	64.1	71.5	74.0	45.3	50.2	51.7
Dabur India	302	305	Hold	53,251	7.2	7.5	8.0	41.7	40.4	37.6	35.0	34.7	32.5	28.0	25.6	25.5	26.4	23.4	22.6
GSK Consumer Healthcare	5,487	6,074	Buy	23,076	156.1	176.3	199.2	35.1	31.1	27.5	24.0	21.4	18.2	30.8	30.3	31.3	21.0	21.2	21.7
ITC	336	407	Buy	407,827	8.4	10.3	11.6	40.0	32.6	28.8	27.4	23.0	20.4	32.9	38.1	40.2	22.5	26.5	27.9
Jyothy Laboratories	368	397	Hold	6,684	11.1	10.7	12.7	33.1	34.3	29.0	23.4	21.0	17.4	28.1	29.0	30.5	30.9	27.1	28.0
Marico	321	341	Hold	41,360	6.3	6.9	8.4	50.9	46.5	38.0	36.2	32.4	26.7	44.6	45.1	49.4	34.9	34.6	37.7
McLeod Russel	180	183	Hold	1,973	7.8	5.6	9.2	23.0	32.2	19.7	24.1	17.2	15.5	6.2	5.8	6.5	3.3	2.3	3.6
Nestle India	6,885	7,420	Buy	66,383	103.9	133.4	154.5	66.3	51.6	44.6	32.6	29.6	26.1	34.9	36.7	44.3	36.2	40.0	44.1
Tata Global Beverages	158	147	Hold	9,950	7.2	7.7	8.2	21.9	20.5	19.3	12.3	12.4	11.8	8.8	9.1	9.3	7.2	7.7	7.8
VST Industries	3,640	4,130	Buy	5,621	108.3	134.6	164.6	33.6	27.1	22.1	22.6	17.1	14.1	45.0	49.0	51.5	31.1	34.1	36.2
Prabhat dairy	132	140	Buy	1,290	4.8	6.4	9.5	27.5	20.6	13.9	11.7	10.3	8.4	8.0	9.7	12.2	5.1	6.8	9.7
Hospital																			
Apollo Hospital	1,254	1,400	Buy	17,440	12.8	16.5	33.3	97.7	75.8	37.6	27.7	25.7	18.3	6.0	6.7	10.8	4.9	5.9	10.9
Hotels																			
EIH	140	155	Buy	7,988	1.9	2.3	3.4	75.3	62.1	41.0	30.8	23.3	16.6	6.4	6.0	9.6	4.7	4.5	6.5
Indian Hotels	127	145	Buy	12,539	-0.6	1.2	0.9	NM	101.6	137.3	25.4	22.7	20.7	5.4	6.7	6.6	-3.7	4.8	3.5
Taj GVK	172	188	Buy	1,079	0.6	0.1	2.2	265.9	1,619.3	77.3	20.9	23.4	18.5	6.7	5.6	8.3	1.4	0.9	4.2

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					FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E
IT																			
Cyient	522	580	Hold	5,876	30.5	35.9	41.5	17.1	14.5	12.6	9.9	8.7	7.1	20.0	20.3	20.0	16.3	17.1	16.5
eClerx Services	1,300	1,145	Sell	5,179	88.4	79.5	88.0	14.7	16.4	14.8	9.8	10.2	9.0	35.4	31.2	31.2	29.5	23.9	23.9
Firstsource Solutions	35	45	Buy	2,380	4.1	4.4	5.0	8.5	8.0	7.0	5.8	5.1	4.2	12.1	12.1	13.0	11.5	11.0	11.4
HCL Technologies	833	930	Hold	118,861	60.0	59.6	66.6	13.9	14.0	12.5	10.4	9.8	8.6	30.3	30.6	33.1	26.6	25.1	26.9
Infosys	937	1,060	Buy	215,143	62.8	64.4	70.5	14.9	14.6	13.3	9.6	9.9	8.6	28.8	30.9	30.4	20.8	22.2	21.7
KPIT Technologies	133	140	Hold	2,626	10.6	11.0	13.9	12.5	12.1	9.6	6.2	5.7	4.4	16.3	16.3	18.5	15.4	12.8	14.2
MindTree	540	485	Hold	9,079	24.9	29.1	34.5	21.7	18.6	15.6	11.7	10.6	8.6	21.1	23.9	26.5	16.0	18.0	20.0
NIIT Technologies	559	520	Hold	3,432	43.2	45.3	52.0	12.9	12.3	10.7	3.0	2.7	2.1	29.9	28.1	30.0	14.9	14.1	14.4
Persistent Systems	670	700	Buy	5,362	37.6	40.1	46.7	17.8	16.7	14.4	8.9	7.4	5.9	21.3	20.4	21.3	16.2	15.4	15.9
Tata Consultancy Services	2,343	2,400	Hold	461,661	133.4	135.2	150.2	17.6	17.3	15.6	14.4	14.1	12.4	38.0	40.9	41.6	29.7	32.2	32.0
Tech Mahindra	380	490	Buy	37,057	31.8	33.9	40.9	12.0	11.2	9.3	8.1	7.2	5.8	21.9	20.6	21.8	17.2	16.2	17.1
Wipro Technologies	258	500	Hold	125,376	35.2	34.1	38.2	7.3	7.5	6.7	10.1	10.1	9.1	17.3	15.9	16.4	15.7	14.1	14.5
InfoEdge	1,043	955	Hold	12,640	22.0	23.8	28.2	47.4	43.8	36.9	36.7	28.3	23.4	17.1	19.1	20.2	11.5	13.2	14.0
Logistics																			
Blue Dart Express	4,832	5,500	Buy	11,465	58.9	69.1	92.3	82.1	69.9	52.4	33.2	30.5	25.0	33.7	30.1	34.0	32.6	30.8	34.8
GE Shipping	412	330	Sell	6,211	40.9	41.6	49.9	10.1	9.9	8.3	4.7	3.0	2.0	8.5	7.6	8.2	7.7	7.9	8.7
Shipping Corporation of Indi	84	55	Sell	3,927	3.8	4.6	5.2	22.2	18.3	16.1	7.8	8.5	7.2	3.2	2.8	3.2	2.6	2.8	3.1
Container Corporation of Inc	1,185	1,380	Buy	28,879	42.5	36.4	49.1	27.9	32.6	24.1	22.6	19.9	15.1	12.5	12.5	15.5	9.4	9.4	11.6
Gati Ltd	127	150	Buy	1,126	3.3	3.8	5.3	38.1	33.7	24.0	13.5	12.2	9.8	8.0	9.0	10.9	5.1	5.6	7.4
Gujarat Pipavav Port	152	165	Hold	7,329	5.1	6.0	7.4	29.8	25.3	20.6	16.1	14.2	11.8	13.8	62.0	71.2	9.2	11.5	11.9
Transport Corporation of Inc	340	250	Hold	2,603	8.6	10.9	16.1	39.6	31.2	21.1	16.9	13.5	10.4	10.6	13.2	16.6	10.1	11.3	14.6
Dredging Corporation of Ind	624	450	Sell	1,748	2.7	18.2	30.0	235.3	34.3	20.8	19.3	14.3	11.6	1.1	2.2	3.1	0.5	2.9	4.6
Media																			
Sun TV Limited	829	920	Buy	32,687	26.1	29.1	35.1	31.7	28.5	23.6	17.1	15.4	12.6	37.2	38.0	39.8	25.6	25.9	27.4
DB Corp Ltd	380	395	Hold	6,997	20.4	23.1	26.7	18.7	16.5	14.2	10.4	9.1	7.6	32.2	31.7	31.7	23.5	23.0	22.8
Dish TV Limited	79	80	Hold	8,426	1.0	1.4	2.8	77.1	55.6	28.4	9.5	8.9	7.5	20.8	24.5	28.5	22.3	23.7	31.7
Entertainment Network Limi	963	860	Buy	4,592	11.6	13.8	24.7	83.2	69.6	39.0	28.6	21.9	15.6	9.3	12.0	16.5	6.4	7.2	11.4
HT Media Limited	82	75	Hold	1,909	7.3	6.7	7.3	11.2	12.2	11.2	8.7	8.1	6.6	10.9	9.5	9.8	7.6	6.6	6.7
Inox Leisure Ltd	276	325	Buy	2,657	3.2	6.8	9.7	86.5	40.7	28.5	19.6	13.3	10.5	7.3	12.9	15.9	5.5	10.5	13.1
Jagran Prakashan Limited	179	210	Buy	5,852	10.6	12.7	14.3	16.8	14.1	12.5	8.7	7.5	6.3	20.1	20.5	20.5	16.1	16.9	16.6
PVR Limited	1,422	1,575	Hold	6,646	20.5	32.3	42.2	69.4	44.0	33.7	20.5	15.6	12.7	13.7	17.1	19.2	10.2	13.7	15.3
Zee Entertainment Enterpris	507	600	Buy	48,690	23.1	15.8	19.3	21.9	32.0	26.3	24.0	21.9	17.6	21.2	23.5	24.6	15.0	15.5	16.2
TV Today Network Limited	253	315	Buy	1,508	18.1	20.8	24.9	14.0	12.1	10.2	8.1	6.4	5.2	24.7	26.3	26.9	16.3	17.2	17.6

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Metals, Mining & Pipes																			
Tata Steel	552	550	Buy	53,606	42.2	47.6	64.7	13.1	11.6	8.5	7.1	6.9	5.8	9.0	8.9	10.5	10.8	13.8	16.2
JSW Steel	215	215	Buy	52,055	14.3	18.8	20.8	15.0	11.4	10.4	3.8	3.6	3.3	13.3	13.7	13.8	15.3	17.4	16.4
NMDC	116	120	Hold	36,638	8.2	9.4	10.9	14.2	12.3	10.6	8.4	8.4	7.1	18.6	17.1	18.0	11.5	11.7	12.3
Vedanta Ltd	258	260	Hold	95,811	15.1	30.5	34.4	17.0	8.5	7.5	5.6	4.8	4.3	12.1	14.2	14.8	9.3	16.3	15.9
Hindustan Zinc	267	300	Buy	112,985	19.7	23.9	25.5	13.6	11.2	10.5	7.7	6.2	5.1	26.9	33.2	30.3	27.0	27.0	24.3
Graphite India	173	200	Buy	3,375	3.6	8.7	13.7	47.9	19.9	12.6	45.4	7.6	4.4	-0.3	12.4	19.1	3.8	9.4	14.0
HEG	405	440	Hold	1,619	-12.5	17.5	27.5	NM	23.1	14.7	29.1	10.9	8.6	1.3	8.9	11.6	-5.7	7.4	10.4
Maharashtra Seamless	429	360	Hold	2,875	21.7	26.3	29.7	19.8	16.3	14.4	8.8	7.0	6.0	5.3	8.3	8.9	5.2	5.9	6.3
Coal India	251	280	Hold	156,054	14.7	18.5	20.0	17.1	13.6	12.6	16.8	13.5	12.0	33.5	53.1	50.9	37.8	39.2	37.2
MidCap																			
Rallis India	244	300	Buy	4,743	15.3	10.1	12.0	16.0	24.1	20.4	17.4	14.7	12.7	19.7	22.5	23.8	15.6	16.2	17.4
Swaraj Engines	2,346	2,570	Buy	2,914	55.4	69.0	80.2	42.3	34.0	29.3	25.9	21.5	18.2	31.2	36.3	39.9	24.3	28.4	31.2
VST Tillers & Tractors	2,446	2,510	Hold	2,113	83.0	95.8	104.6	29.5	25.5	23.4	18.8	15.6	13.2	19.2	21.4	20.5	14.2	15.3	14.8
KSB Pumps	801	800	Buy	2,788	18.8	21.6	26.7	42.7	37.0	30.0	26.0	21.9	17.9	10.6	11.8	13.6	10.1	10.9	12.3
Oil & Gas																			
GAIL	359	460	Buy	60,667	20.7	26.7	28.7	17.3	13.4	12.5	11.0	9.4	9.1	14.5	16.0	15.5	10.6	12.5	12.4
Gulf Oil	813	825	Hold	4,036	24.4	25.3	29.4	33.3	32.1	27.7	20.9	20.0	16.8	36.6	35.8	37.8	34.2	29.6	28.6
HPCL	502	545	Hold	51,023	61.0	44.7	46.2	8.2	11.2	10.9	6.8	8.6	8.4	21.1	13.8	13.6	29.7	19.3	17.8
IGL	1,072	1,140	Buy	15,001	40.8	43.8	45.5	26.3	24.5	23.6	14.9	13.1	12.2	24.6	22.6	20.6	17.6	16.4	14.6
Indian Oil Corporation	382	420	Hold	185,568	39.3	30.8	34.8	9.7	12.4	11.0	7.5	8.1	7.2	20.5	16.6	17.4	23.2	16.5	16.8
MRPL	121	150	Buy	21,285	20.8	11.3	14.7	5.8	10.7	8.3	6.0	7.0	5.6	37.9	18.1	22.6	23.2	19.8	22.1
ONGC	161	195	Hold	206,166	13.9	16.0	17.7	11.5	10.0	9.1	5.9	4.8	4.2	12.9	14.5	15.1	11.3	12.3	12.9
Petronet LNG	218	240	Buy	32,625	11.4	12.9	14.9	18.9	16.7	14.5	6.3	5.0	4.4	24.3	28.2	32.6	18.8	21.6	23.0
Castrol	400	475	Buy	19,795	13.6	14.1	14.4	29.3	28.4	27.9	19.8	19.6	19.1	198.1	225.6	222.6	113.3	130.9	129.7
GSPL	173	174	Hold	9,752	8.8	11.2	12.6	19.6	15.4	13.8	11.6	9.1	8.0	14.0	16.7	17.4	9.4	11.3	11.4
Gujarat Gas	756	805	Hold	10,410	16.2	36.3	44.8	46.7	20.9	16.9	17.1	11.1	9.3	10.1	16.2	18.1	8.6	17.5	18.4
BPCL	665	710	Hold	96,170	55.6	51.3	58.8	12.0	13.0	11.3	10.9	9.8	9.6	23.8	22.3	20.7	26.2	23.6	25.5
Mahanagar Gas Ltd	973	1,085	Buy	9,613	39.8	45.3	48.2	24.4	21.5	20.2	14.8	13.0	12.3	32.8	33.3	31.8	20.0	20.5	19.1

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Valuation Matrix

Sector / Company	CMP	Target Price	Rating	Market Cap	EPS (Rs)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E
Others																			
Reliance Defence and Engine	61	68	Hold	4,525	NA	NA	NA				303.8	155.9	114.9	-1.8	-1.3	-1.1	-39.9	-18.3	-18.9
Talwalkars	310	315	Hold	919	22.1	21.1	27.6	14.0	14.7	11.2	6.8	6.0	4.8	13.1	12.0	14.3	13.4	11.4	13.1
Cox and Kings	269	275	Buy	4,750	2.9	17.4	12.9	93.5	15.4	20.9	10.0	7.0	6.1	7.9	12.8	13.4	2.1	10.6	7.3
Solar Industries India Ltd	851	765	Buy	7,704	20.6	22.9	25.3	41.3	37.2	33.6	23.9	20.8	18.6	19.5	19.9	19.8	18.2	17.5	16.9
United Spirits	2,629	2,700	Buy	38,207	6.4	24.0	37.2	410.8	109.5	70.6	38.3	43.4	33.0	16.6	27.0	30.1	5.2	18.3	22.8
United Breweries	806	820	Hold	21,320	8.7	11.7	11.7	93.0	69.0	69.0	33.4	29.7	29.7	15.8	19.2	19.2	9.8	11.9	11.9
Wonderla Holidays	359	460	Buy	2,029	5.9	13.3	16.5	61.3	27.1	21.7	26.7	14.2	11.1	11.1	20.3	23.6	7.7	15.2	16.3
Navneet Education Ltd.	178	204	Buy	4,161	7.3	8.7	10.2	24.4	20.4	17.4	15.2	13.1	10.9	31.3	32.0	33.8	24.6	25.2	25.1
Pharma																			
Sun Pharma	550	550	Hold	132,019	29.0	20.3	25.5	19.0	27.1	21.6	12.1	15.6	12.6	19.8	13.5	15.0	19.0	12.0	13.4
Ajanta Pharma	1,548	1,880	Buy	13,626	58.5	57.8	69.4	26.5	26.8	22.3	19.8	18.8	15.5	40.6	32.0	31.0	32.6	25.6	24.7
Lupin	1,122	1,335	Buy	50,697	56.6	49.1	65.1	19.8	22.9	17.3	13.2	13.6	10.6	17.2	14.9	18.9	19.1	14.6	16.6
Aurobindo Pharma	696	753	Buy	40,789	39.4	37.9	42.5	17.7	18.4	16.4	12.1	12.1	10.4	24.8	19.7	20.1	23.9	19.1	18.1
Biocon	338	340	Hold	20,286	10.3	7.2	13.2	32.7	46.6	25.6	21.5	22.5	14.9	11.4	9.2	15.0	13.5	8.8	14.2
Cadila Healthcare	517	420	Hold	52,902	13.7	14.9	20.1	37.7	34.6	25.8	28.1	23.0	17.5	13.4	15.0	18.5	20.2	18.9	21.3
Cipla	551	470	Hold	44,331	12.9	17.8	25.3	42.8	30.9	21.8	18.6	16.3	13.1	8.0	11.0	14.5	8.1	10.4	13.1
Dr Reddy's Lab	2,709	2,610	Hold	44,895	70.7	92.9	135.4	38.3	29.2	20.0	18.2	13.3	10.0	6.3	9.6	13.5	9.4	11.4	14.6
Divi's Lab	683	625	Hold	18,141	39.7	43.0	44.6	17.2	15.9	15.3	10.5	9.4	8.6	25.1	23.6	21.6	19.7	18.5	16.8
Glenmark	667	910	Buy	18,823	44.0	40.5	48.3	15.2	16.5	13.8	10.1	11.2	9.6	19.2	16.4	17.7	25.9	18.5	18.2
Indoco	195	180	Hold	1,799	8.4	7.7	11.4	23.3	25.2	17.1	12.7	11.9	9.1	8.4	8.9	12.1	12.0	10.2	13.4
Ipca Lab	470	525	Hold	5,928	15.4	17.6	27.9	30.5	26.6	16.8	15.6	14.2	10.0	8.7	9.3	13.2	7.9	8.4	12.0
Jubilant Life	713	810	Buy	11,349	36.1	48.1	65.1	19.7	14.8	10.9	11.4	9.5	7.4	13.3	14.9	18.2	16.8	18.5	20.3
Natco	1,004	1,055	Buy	17,501	27.8	20.6	20.3	36.1	48.7	49.3	24.9	30.9	31.1	33.6	22.9	20.3	29.5	18.7	16.2
Torrent Pharma	1,295	1,165	Hold	21,914	57.4	46.9	61.3	22.5	27.6	21.1	14.7	16.0	13.1	20.3	17.0	20.1	22.5	16.2	18.2
Unichem lab	269	235	Hold	2,441	12.0	11.8	16.6	22.4	22.7	16.1	14.1	13.8	10.5	12.0	11.0	13.9	10.5	9.5	12.0
Alembic Pharma	516	605	Hold	9,732	21.4	21.9	28.5	24.1	23.6	18.1	15.4	15.6	11.6	26.1	21.0	23.7	21.4	18.9	21.0
Syngene International	475	515	Hold	9,509	14.3	14.4	18.4	33.2	32.9	25.9	23.2	19.5	15.3	16.8	16.0	18.1	21.9	18.4	19.1

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Valuation Matrix

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					FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E
Real Estate																			
Oberoi Realty	377	385	Hold	12,801	11.5	25.9	27.4	32.7	14.5	13.7	22.8	9.7	8.8	8.6	17.2	17.4	6.7	12.7	12.7
Sobha Ltd	397	450	Hold	3,824	16.7	19.7	23.1	23.8	20.1	17.2	14.3	12.2	10.4	7.6	8.9	10.2	6.0	6.8	7.5
Sunteck Realty Ltd	475	570	Buy	2,995	34.7	42.1	53.8	13.7	11.3	8.8	10.8	8.8	6.4	12.9	15.2	18.5	11.6	12.6	14.2
Retail																			
TTK Prestige	6,390	5,475	Sell	7,439	129.3	151.7	182.5	49.4	42.1	35.0	34.0	27.0	22.8	18.5	22.9	26.3	17.6	18.8	19.7
Shopper Stop	349	350	Hold	2,913	-8.6	1.3	2.5	NM	273.7	141.0	20.2	16.8	13.3	2.8	4.3	5.1	-7.7	1.4	6.2
Titan Industries	534	510	Hold	47,390	8.6	12.0	14.6	62.2	44.5	36.7	38.7	31.5	26.1	33.0	31.6	32.8	17.7	22.2	22.7
Bata India	575	585	Hold	7,394	12.3	17.0	20.2	46.6	33.8	28.5	24.5	21.2	18.1	29.6	34.2	34.9	12.0	15.8	17.0
Trent Ltd.	250	290	Buy	8,308	4.2	5.5	7.2	59.5	45.4	34.8	32.1	24.7	19.9	14.8	18.0	20.4	9.9	12.4	14.5
Road																			
Ashoka Buildcon	189	210	Buy	3,528	-0.5	-3.1	0.7	NM	NM	276.3	9.3	8.5	7.5	5.2	5.3	6.1	-0.5	-3.2	0.7
PNC Infratech	148	155	Buy	3,784	8.2	6.8	10.3	18.0	21.7	14.3	15.9	13.4	9.0	14.2	12.6	17.4	9.8	10.2	13.6
Sadbhav Engineering	301	350	Buy	5,163	11.0	10.8	12.5	27.5	27.8	24.1	18.5	15.0	12.7	10.5	11.6	13.3	11.5	10.4	10.9
Telecom																			
Bharti Airtel	386	410	Buy	154,200	9.5	4.5	7.2	40.6	85.1	53.9	7.2	7.9	7.2	8.4	6.2	7.4	7.6	2.7	4.2
Bharti Infratel	405	400	Hold	74,918	14.9	16.7	18.2	27.3	24.2	22.3	11.5	10.4	9.4	20.1	23.1	25.2	17.7	20.1	21.6
Idea Cellular	83	95	Hold	30,003	-1.1	-6.5	-5.3	NM	NM	NM	7.9	9.8	8.5	3.3	0.6	1.2	-1.6	-10.5	-9.3
Tata Communications	670	650	Hold	19,098	43.3	14.7	22.7	15.5	45.6	29.5	11.6	10.3	8.5	6.1	8.1	10.9	17.2	23.6	29.6
Sterlite Technologies Ltd.	160	175	Buy	6,380	5.1	6.8	7.9	31.6	23.5	20.1	14.4	10.8	9.4	16.1	20.5	20.8	22.9	25.1	24.3

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					FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E
Banks												**P/BV(x)**			**RoA (%)**				
IndusInd Bank	1,525	1,570	Buy	91,286	48.0	59.2	76.0	31.8	25.8	20.1	5.1	4.4	3.9	1.8	1.8	1.9	14.9	16.1	17.9
Yes Bank	1,506	1,650	Hold	68,914	73.0	97.6	127.7	20.6	15.4	11.8	5.0	3.1	2.6	1.8	1.9	2.0	18.6	18.5	20.3
Bank of Baroda	161	200	Buy	37,155	6.0	10.2	19.1	26.9	15.9	8.4	0.9	0.9	0.8	0.2	0.3	0.5	3.3	5.4	9.6
State Bank of India	281	335	Buy	242,259	13.2	18.1	26.0	21.3	15.5	10.8	1.7	1.3	1.1	0.4	0.5	0.7	6.3	7.5	9.7
City Union Bank	181	185	Buy	10,888	8.4	9.5	11.6	21.7	19.0	15.6	3.5	3.1	2.7	1.5	1.5	1.6	15.5	15.4	16.3
Indian Bank	300	350	Buy	14,409	29.3	31.5	42.3	10.2	9.5	7.1	0.9	0.8	0.7	0.7	0.7	0.9	8.4	9.1	11.0
Punjab National Bank	144	160	Buy	30,643	6.2	14.8	21.3	23.1	9.7	6.8	0.8	0.7	0.7	0.2	0.4	0.5	3.3	7.3	9.8
Axis Bank	505	540	Hold	120,941	15.4	22.1	35.9	32.8	22.8	14.1	2.3	2.2	2.0	0.7	0.8	1.2	6.7	9.1	13.3
DCB Bank	194	200	Hold	5,963	7.0	8.5	10.6	27.6	22.8	18.3	3.3	2.7	2.1	0.9	1.0	1.0	11.1	11.7	12.0
Federal Bank	116	130	Buy	22,470	4.8	6.1	8.1	23.9	18.9	14.2	2.7	2.5	1.8	0.8	0.9	1.1	9.6	11.1	12.1
HDFC Limited	1,622	1,750	Buy	258,343	46.9	52.0	58.7	34.6	31.2	27.6	7.6	6.6	6.0	2.4	2.3	2.3	20.2	20.0	20.4
Jammu & Kashmir Bank	86	95	Buy	4,781	-31.3	7.2	12.6	NM	11.9	6.8	0.7	0.8	0.8	-2.0	0.4	0.7	-27.0	6.5	10.6
Kotak Mahindra Bank	959	950	Hold	182,607	18.5	23.4	29.7	51.8	41.0	32.4	7.6	6.6	5.7	1.7	1.8	2.0	13.2	14.5	16.2
LIC Housing Finance	743	750	Buy	37,491	38.3	46.9	56.4	19.4	15.8	13.2	4.1	3.4	2.8	1.4	1.5	1.5	19.1	19.4	19.3
Reliance Capital	663	718	Buy	16,761	42.7	58.9	74.9	15.6	11.3	8.9	1.1	1.0	1.0	1.6	1.9	2.3	6.8	8.8	10.4
CARE	1,585	1,750	Buy	4,668	51.5	58.7	69.2	30.8	27.0	22.9	9.4	9.3	7.9	36.5	41.3	42.2	30.4	34.4	34.6
HDFC Bank	1,666	1,700	Buy	428,719	56.8	69.2	84.2	29.3	24.1	19.8	5.9	4.8	4.3	1.9	1.9	2.0	17.9	18.7	20.3
Bajaj Finserv Limited	4,100	4,900	Buy	65,243	142.2	201.8	251.4	28.8	20.3	16.3	5.1	4.3	3.6	1.9	2.4	2.5	16.2	19.3	19.8
Bajaj Finance Limited	1,392	1,500	Buy	76,545	34.0	44.6	59.9	41.0	31.2	23.2	10.5	8.0	6.5	3.3	3.3	3.5	21.8	22.9	24.8

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