RESULT PREVIEW Q1FY18

New year, old story

India Equity Research | Strategy

It's going to remain tough. For our 225 coverage companies, we foresee weak earnings growth (-2% YoY), subdued top line (+12%) and moderating margins (-262bps). And, it would look weaker still, if you strip out the more cyclical metals (173% profit growth) and banks (11% profit growth). We expect: a) domestic consumption (8% profit contraction)—impacted by GST destocking; b) some domestic investment pick up—9% top line growth (cap goods +9%, Cement +11%); and c) weak exports (pharma profits down 25% and IT profits – 0% growth). While this is likely to be one more disrupted quarter (GST, after DeMon) and guidance is likely to remain muted, do not be surprised with some optimism in housing finance, cement and autos. While we do expect the rest of the year to be better, the likely subdued Q1 show will weigh on our 20% earnings growth forecast for FY18 (Consensus: +18%). Our FY17/FY18/FY19 Nifty EPS forecasts are INR450/540/640.

Coverage universe's profits likely to contract

After growing in teens in H2FY17, profits of our coverage universe are likely to contract in Q1FY18. The sharp slowdown in profit growth will be led by OMCs and PSU banks, which after reporting 46% and 175% profit spurt in H2FY17 are likely to report contraction of 48% and growth of 12%, respectively. Even excluding these, the picture is not very encouraging. Our coverage universe's profit growth, excluding commodities and banks, is likely to contract for third consecutive quarter with hardly any sector posting double digit profit growth. IT and pharma are plagued by stronger INR and structural industry issues, domestic consumption companies (FMCG, autos, consumer discretionary) by GST destocking and lower margins are likely to keep domestic investment (cement, industrials, etc.) companies' profits in mid single digits. Metals are likely to be one of the few bright spots in the quarter—30% top line growth and 175% profit growth, albeit on a low base.

Top line to be driven largely by base effects

Our coverage universe's top line is estimated to grow 12% YoY in Q1FY18 (11% growth in H2FY17), primarily due to low base effects of commodities and banks. Excluding these, top line growth is likely to slow further to mere 3% (from H2FY17 average of 4%) with broad-based weakness. While some of the weakness may be temporary owing to destocking prior to GST in the quarter. However, some sectors such as IT, pharma and export auto companies—not much impacted by domestic activity—are also likely to post subdued growth. Domestic investment companies' growth is likely to be better at 9%.

Nifty: Flat profit growth expected

Nifty companies are estimated to report top line, EBITDA and PAT growth of 10%, -5% and -2% YoY, respectively, a slowdown from H2FY17 and last years' 10% EPS growth. It will be predominantly led by weakness in OMCs and PSU banks. Given that full year EPS growth estimates still imply 18-20% growth in FY18, earnings downgrades are likely.

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July 05, 2017

Table 1: Q1FY18—Growth expectations for earnings, revenue and EBITDA margin

Sector	Weight in earnings (%)	PAT growth		Revenue growth		EBITDA margin	
		Y-o-Y (%)	Q-o-Q (%)	Y-o-Y (%)	Q-o-Q (%)	Y-o-Y (bps)	Q-o-Q (bps)
Commodity sectors	**29**	**(7)**	**(8)**	**23**	**(3)**	**(406)**	**32**
OMCs	6	(48)	(16)	24	6	(651)	59
Energy (ex OMC)	16	2	(0)	15	(9)	(356)	395
Metals & Mining	6	173	(16)	29	(12)	130	(197)
Exports/High global exposure	**21**	**(6)**	**(14)**	**(1)**	**(8)**	**(88)**	**(68)**
Auto (Export)	2	2	(53)	(6)	(19)	(9)	(252)
IT	14	0	(4)	2	(1)	(55)	(117)
Pharmaceuticals	4	(25)	(2)	1	2	(411)	155
Manufactured exports	1	(8)	3	11	(3)	(315)	125
Domestic Investment	**12**	**3**	**(22)**	**9**	**(14)**	**(60)**	**179**
Utilities	5	(1)	2	5	(0)	(114)	325
Engg & Cap Goods	3	11	(58)	9	(28)	24	(252)
Cement	2	4	34	11	3	(113)	389
Agro, fertiliser & Chemicals related	2	13	(8)	17	(3)	(87)	57
Construction	0	(19)	(56)	5	(20)	(11)	(37)
Real estate	0	(17)	(5)	4	(1)	410	408
Domestic consumption	**14**	**(8)**	**(1)**	**2**	**(0)**	**(172)**	**68**
Auto (Domestic)	5	3	(4)	6	(3)	(67)	123
Telecom	1	(73)	3	(11)	1	(319)	(117)
FMCG	5	2	(8)	1	(2)	20	(91)
Consumer Discretionary (Including media)	2	3	(3)	8	3	(139)	194
Airlines	1	20	101	17	10	(126)	474
BFSI	**23**	**11**	**38**	**14**	**(3)**	**NA**	**NA**
PSU Banks	4	12	15	14	(9)	NA	NA
Private Banks	11	15	7	15	1	NA	NA
NBFC/Insurance	8	5	167	14	(1)	NA	NA
Coverage	**100**	**(2)**	**(3)**	**12**	**(5)**	**(262)**	**36**
ex OMCs	**94**	**5**	**(2)**	**9**	**(8)**	(116)	76
ex OMCs and Banks	**70**	**3**	**(10)**	**8**	**(9)**	(116)	76
ex commodities and Banks	**48**	**(4)**	**(13)**	**3**	**(28)**	(102)	491
Nifty		**(2)**	**(7)**	**10**	**(6)**	**(280)**	**51**

Source: Edelweiss research

Note: OMCs include BPCL, HPCL and IOCL

Contents

Since the number of companies coverage is huge it is impossible to include all the price charts in one note. However, is client request for a particular price chart we can provide the same.

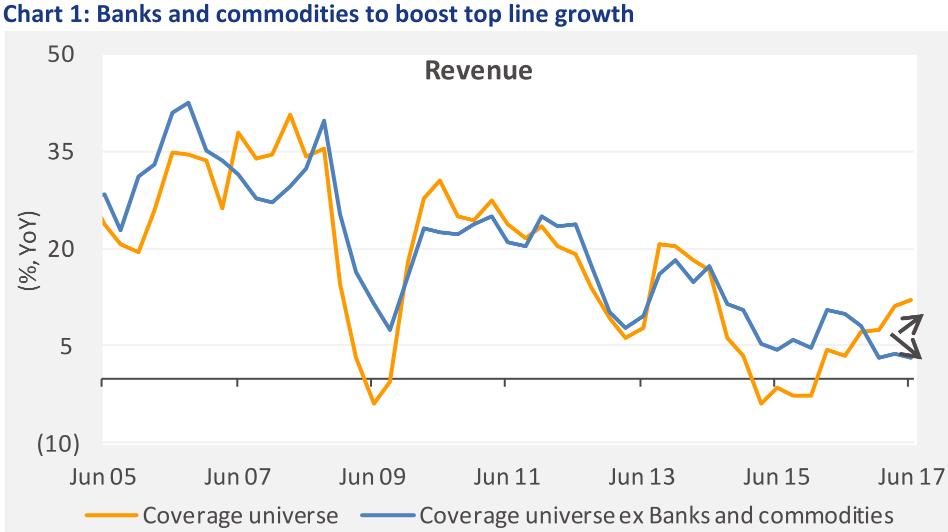
Top line growth primarily supported by base effects

Top line of our coverage universe is likely to grow 12%, lower than 13% in Q4FY17. Similar to the past 2 quarters, breadth of growth is not likely to be widespread. End of deflation in commodity prices is leading to revenue growth as the commodities sector alone accounts for 80% incremental revenue growth. Other than commodities, banks are expected to post healthy growth of 14%. Revenue growth, excluding commodities and banks, is likely to remain muted at 3%.

Domestic consumption is expected to clock a zero growth quarter and reason for the same is destocking led by GST implementation. Within domestic consumption, FMCG is likely to grow 1%, whereas consumer discretionary is estimated to grow 8%. Competitive pressure continues to dent the telecom sector, which is likely to decline 11%. Domestic investment may perform better than domestic consumption with 9% growth. Within domestic investment, agro, fertilizers and chemicals are likely to grow 17%, cement is expected to deliver growth of 11%. Industrials and utilities are estimated to grow in single digits. Exports are likely to contract or post low single digit growth.

Top line of Nifty companies is estimated to grow ~10% YoY. Just like our coverage universe, top line growth of Nifty companies is likely to be led by commodity companies—growing more than 21%. Kotak Mahindra Bank, Yes Bank, BPCL and Vedanta are expected to post 30% plus top line growth. However, Bharti Airtel, Sun Pharma and Tata Motors are likely to post double-digit contraction in top line growth.

Chart 1: Banks and commodities to boost top line growth



Source: Edelweiss research

Table 2: Revenue growth ex commodities and banks likely remain muted

Sector	# of companies	Q1FY18E INR bn	Q1FY17 INR bn	Y-o-Y (%)	Q4FY17 INR bn	Q-o-Q (%)
Commodity sectors	**20**	**4,504**	**3,672**	**23**	**4,643**	**(3)**
OMCs	3	2,211	1,779	24	2,089	6
Energy (ex OMC)	9	1,245	1,082	15	1,366	(9)
Metals & Mining	8	1,048	811	29	1,188	(12)
Exports/High global exposure	**38**	**1,985**	**2,006**	**(1)**	**2,164**	**(8)**
Auto (Export)	3	725	773	(6)	896	(19)
IT	11	826	811	2	836	(1)
Pharmaceuticals	17	353	349	1	347	2
Manufactured exports	7	81	73	11	84	(3)
Domestic Investment	**76**	**1,588**	**1,456**	**9**	**1,836**	**(14)**
Utilities	8	465	441	5	465	(0)
Engg & Cap Goods	33	571	523	9	794	(28)
Cement	6	177	159	11	171	3
Agro, fertiliser & Chemicals related	11	243	207	17	251	(3)
Construction	12	91	87	5	114	(20)
Real estate	6	42	40	4	43	(1)
Domestic consumption	**49**	**1,551**	**1,523**	**2**	**1,555**	**(0)**
Auto (Domestic)	13	546	514	6	563	(3)
Telecom	3	338	382	(11)	336	1
FMCG	12	337	333	1	346	(2)
Consumer Discretionary (Including media)	18	197	182	8	190	3
Airlines	3	132	112	17	119	10
BFSI	**36**	**1,071**	**936**	**14**	**1,110**	**(3)**
PSU Banks	4	406	357	14	446	(9)
Private Banks	11	441	383	15	438	1
NBFC/Insurance	21	224	196	14	226	(1)
Coverage	**219**	**10,698**	**9,594**	**12**	**11,308**	**(5)**
ex OMCs	**216**	**8,487**	**7,815**	**9**	**9,219**	**(8)**
ex OMCs and Banks	**180**	**7,416**	**6,879**	**8**	**8,109**	**(9)**
ex commodities and Banks	**163**	**5,123**	**4,986**	**3**	**7,130**	**(28)**
Nifty	**49**	**7,444**	**6,754**	**10**	**7,927**	**(6)**

Source: Edelweiss research

Note: (1) Revenue for BFSI = Net Interest Income + Other Income

(2) OMCs includes BPCL, HPCL and IOCL

EBITDA margin of coverage universe to move lower YoY

EBITDA margin of our coverage universe is estimated to contract 262bps YoY (up 36bps QoQ). It has peaked and has been contracting for the past couple of quarters. The primary reason for the decline in EBITDA margin is the rise in input costs for most players.

Commodity prices have risen meaningfully from the bottom in Q4FY16. This rise along with weak demand is resulting in most companies facing margin pressure. In other sectors such as telecom and pharma, high competitive intensity is resulting in margin pressure. OMCs' GRMs are likely to correct sharply, which in turn is also weighing on overall coverage margin.

Margins of Nifty companies are estimated to decline 280bps YoY. While margins of Zee, Eicher and Vedanta are estimated to improve 170-220bps, those of Lupin, Sun Pharma and ONGC are expected to contract the maximum—~1,000bps YoY.

Table 3: EBITDA margins likely to move lower

Sector	# of companies	Q1FY18E (%)	Q1FY17 (%)	Y-o-Y (bps)	Q4FY17 (%)	Q-o-Q (bps)
Commodity sectors	**20**	**13**	**17**	**(406)**	**13**	**32**
OMCs	3	5	12	(651)	5	59
Energy (ex OMC)	9	22	25	(356)	18	395
Metals & Mining	8	19	18	130	21	(197)
Exports/High global exposure	**38**	**18**	**19**	**(88)**	**19**	**(68)**
Auto (Export)	3	11	11	(9)	14	(252)
IT	11	23	23	(55)	24	(117)
Pharmaceuticals	17	20	24	(411)	19	155
Manufactured exports	7	18	21	(315)	17	125
Domestic investment	**76**	**21**	**22**	**(60)**	**19**	**179**
Utilities	8	38	39	(114)	34	325
Engg & Cap Goods	33	9	9	24	12	(252)
Cement	6	22	23	(113)	18	389
Agro, fertiliser & Chemicals related	11	17	18	(87)	17	57
Construction	12	11	11	(11)	11	(37)
Real estate	6	36	32	410	32	408
Domestic Consumption	**49**	**22**	**24**	**(172)**	**22**	**68**
Auto (Domestic)	13	15	16	(67)	14	123
Telecom	3	33	37	(319)	35	(117)
FMCG	12	24	24	20	25	(91)
Consumer Discretionary (Including media)	18	19	20	(139)	17	194
Airlines	3	24	26	(126)	20	474
Coverage	**186**	**17**	**20**	**(262)**	**17**	**36**
ex OMCs	**183**	**20**	**21**	**(116)**	**20**	**76**
ex commodities and Banks	**166**	**20**	**21**	**(102)**	**15**	**491**
Nifty	**40**	**18**	**21**	**(280)**	**17**	**51**

Source: Edelweiss research; Note: 1) Coverage and Nifty aggregate excludes BFSI

PAT growth back in contraction zone

PAT of our coverage universe is likely to contract by 2% compared to 14% growth in Q4FY17. The contraction will be led by banks and commodities, which are forecasted to grow 13% and -7%, respectively, compared to growth of 31% and 79%, respectively, in Q4FY17.

PAT growth, even excluding commodities and banks, is not encouraging—to contract 4%. Sector-wise, exports profit is likely to contract by 6% led by sharp appreciation of INR and structural issues in pharma & IT, wherein profits are likely to dip 25% and no growth, respectively—both are multi-year lows.

Even profits of domestic consumption companies are likely to decline 8% predominantly led by destocking due to GST implementation and weakness in telecom (73% decline in profit) due to competitive pressure.

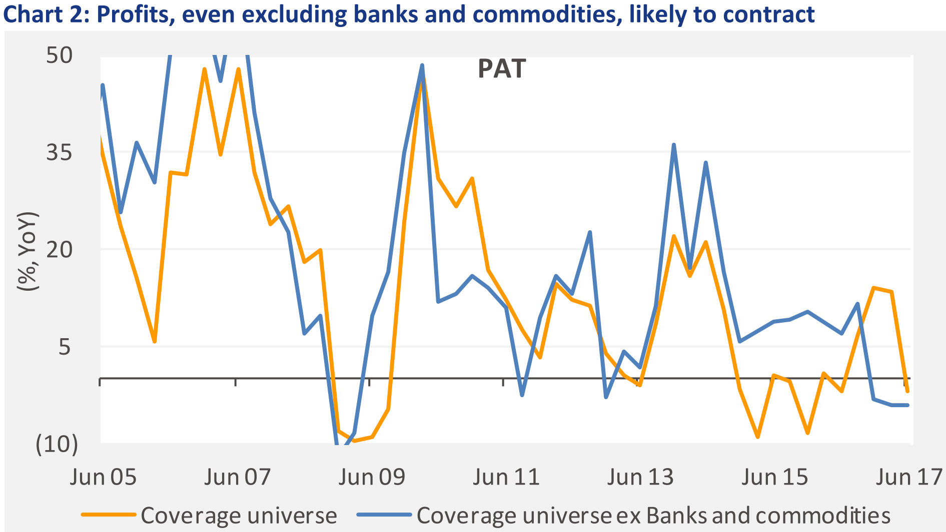
With regards to domestic investment, the relatively better top line growth will be offset by margin weakness. Hence, profit of this segment is likely to grow mere 3%.

In the banking space, NBFCs and private banks are expected to post relatively good numbers, while public sector banks' profits are likely to slow sharply as base effects fade.

Nifty companies' profit growth is likely to contract by 2% with 30% companies expected to post profit contraction. While the decline is likely to be maximum in Bharti, Lupin and Sun Pharma, profits of Tata Steel, Vedanta and Dr. Reddy's are likely to post maximum growth.

While we do expect improvement in Nifty earnings' profitability going ahead, given that Q1 profits are expected to contract, achieving 20% full year Nifty EPS could be difficult. Our FY17, FY18 and FY19 Nifty EPS estimates are INR450, INR540 and INR640.

Chart 2: Profits, even excluding banks and commodities, likely to contract



Source: Edelweiss research

Table 4: Earnings growth likely to be negative

Sector	# of companies	Q1FY18E INR bn	Q1FY17 INR bn	Y-o-Y (%)	Q4FY17 INR bn	Q-o-Q (%)
Commodity sectors	**20**	**297**	**317**	**(7)**	**322**	**(8)**
OMCs	3	67	130	(48)	80	(16)
Energy (ex OMC)	9	168	165	2	169	(0)
Metals & Mining	8	61	22	173	73	(16)
Exports/High global exposure	**38**	**221**	**234**	**(6)**	**256**	**(14)**
Auto (Export)	3	24	23	2	51	(53)
IT	11	151	150	0	158	(4)
Pharmaceuticals	17	40	53	(25)	40	(2)
Manufactured exports	7	7	7	(8)	7	3
Domestic investment	**76**	**129**	**126**	**3**	**166**	**(22)**
Utilities	8	56	56	(1)	55	2
Engg & Cap Goods	33	26	24	11	64	(58)
Cement	6	21	20	4	16	34
Agro, fertiliser & Chemicals related	11	19	17	13	21	(8)
Construction	12	3	3	(19)	6	(56)
Real estate	6	4	5	(17)	5	(5)
Domestic consumption	**49**	**149**	**162**	**(8)**	**151**	**(1)**
Auto (Domestic)	13	58	56	3	60	(4)
Telecom	3	7	25	(73)	6	3
FMCG	12	54	53	2	58	(8)
Consumer Discretionary (Including media)	18	20	20	3	21	(3)
Airlines	3	11	9	20	5	101
BFSI	**36**	**241**	**217**	**11**	**175**	**38**
PSU Banks	4	38	34	12	33	15
Private Banks	11	117	101	15	109	7
NBFC/Insurance	21	86	82	5	32	167
Coverage	**219**	**1,037**	**1,057**	**(2)**	**1,069**	**(3)**
ex OMCs	**216**	**970**	**927**	**5**	**989**	**(2)**
ex OMCs and Banks	**180**	**729**	**709**	**3**	**814**	**(10)**
ex commodities and Banks	**163**	**500**	**522**	**(4)**	**572**	**(13)**
Nifty	**49**	**793**	**807**	**(2)**	**855**	**(7)**

Source: Edelweiss research

RESULT PREVIEW

AUTOMOBILES

Margin pressure to persist

India Equity Research | Strategy

In Q1FY18, passenger vehicle (PV) segment clocked 5% volume growth despite 10% YoY dip in June due to pre-GST destocking by dealers. Medium & heavy commercial (M&HCV) segment's volumes plummeted ~30% YoY as BS-IV transition and associated supply constraints dented demand. Two-wheeler (2W) volumes jumped ~7.5% YoY, indicating that demand has normalised post demonetisation. Operating margins across companies (except Eicher Motors) are expected to dip YoY given the pressure on volumes.

Key highlights of the sector during the quarter

Maruti Suzuki's (MSIL) volumes grew 13% YoY riding strong response to new launches (*Brezza, Baleno, Ignis*). However, Mahindra & Mahindra's (M&M) volumes rose mere 2.7% YoY as the 13% YoY spurt in tractor volumes was largely offset by 4% dip in auto volumes. In the M&HCV segment, Tata Motors (TTMT) continued to lose market share with 36% YoY dip in volumes. However, Ashok Leyland's (AL) volume decline was much lower at 17% YoY which led to market share gains. Eicher Motor's (EIM) *Royal Enfield* clocked volume growth of 25% YoY as capacity ramp up remained on course. Bajaj Auto's (BJAUT) volumes dipped ~10.5% YoY led by weakness in domestic 2Ws and 3Ws. Hero MotoCorp's (HMCL) volumes grew 6% YoY led by good response to new scooter upgrades.

Result expectations; stocks under coverage

While EIM is likely to report the strongest margin expansion of ~140bps YoY led by operating leverage benefit, M&M's margin is likely to jump ~20bps led by higher share of tractors. MSIL's margin is likely to expand ~80bps QoQ led by lower average discounts given higher share of new models. TTMT's consolidated margin is expected to decline ~30bps YoY due to ~20bps YoY margin contraction in JLR business. AL is set to report margin dip of ~500bps YoY due to steep fall in M&HCV volumes. HMCL's margin is likely to tumble ~90bps YoY given gross margin pressure and BJAUT may report 30bps YoY decline in margin due to weaker product mix.

Outlook over the next 12 months

We expect PV and 2W segments' volumes to be driven by government spending on rural infrastructure and Seventh Pay Commission impact. For M&HCVs, though BS-IV transition and GST related uncertainty are likely to weigh on demand in H1FY18, we expect volume recovery in H2FY18 with revival in economic activity. We expect AL to continue to profitably gain market share given its focus on improving reach and product portfolio. We expect EIM to maintain strong revenue trajectory led by growing *RE* order book, new products and reach expansion. For MSIL, we expect the long waiting period for key products, superior franchise and robust free cash flow generation to help sustain premium valuations.

Top Picks

Ashok Leyland, Eicher Motors and Maruti Suzuki.

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July 05, 2017

Stock		Q1FY18E (INR mn)	Q1FY17 (INR mn)	Y-o-Y (%)	Q4FY17 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Ashok Leyland	Revenues	35,434	42,588	(16.8)	66,179	(46.5)	We expect revenue decline of 17% YoY in line with M&HCV volume decline of 17% YoY. We expect operating margins to decline sequentially by ~500bps to 6% on account of negative operating leverage impact
	EBITDA	2,126	4,763	(55.4)	7,299	(70.9)	
	Core PAT	758	2,560	(70.4)	9,198	(91.8)	
Bajaj Auto	Revenues	54,119	57,480	(5.8)	48,973	10.5	We expect revenue decline of 6% YoY led by 11% decline in volumes and 5% improvement YoY in realisations. We expect operating margins to decline ~30bps YoY on account of weaker product mix and negative operating leverage impact
	EBITDA	10,932	11,763	(7.1)	9,060	20.7	
	Core PAT	9,309	9,784	(4.9)	8,018	16.1	
CEAT Limited	Revenues	14,856	14,558	2.0	14,507	2.4	We expect revenue growth of 2% YoY led by flat tonnage growth (impacted by destocking ahead of GST and overloading ban in Uttar Pradesh) and ASP growth of 2% YoY. Impact of high cost inventory and inability to take price hikes during the quarter to lead to sequential decline of ~350bps in EBITDA margins to 5.9%
	EBITDA	871	1,855	(53.0)	1,387	(37.2)	
	Core PAT	224	971	(76.9)	837	(73.2)	
Eicher Motors	Revenues	19,752	15,557	27.0	18,881	4.6	We expect consolidated revenues growth of 27% YoY led by volume growth of 25% YoY for Royal Enfield business. We expect operating margins to improve sequentially by ~70bps to 32.1% led by benefits of operating leverage
	EBITDA	6,343	4,702	34.9	5,848	8.5	
	Core PAT	5,437	3,763	44.5	4,594	18.3	
Hero Motocorp	Revenues	80,378	73,989	8.6	69,152	16.2	We expect revenue growth of 8.6% YoY largely led by volume growth of 6% YoY. We expect operating margins to decline by ~90bps YoY on largely on account gross margin pressure
	EBITDA	12,619	12,301	2.6	9,576	31.8	
	Core PAT	9,040	8,831	2.4	7,178	25.9	
Minda Corporation	Revenues	5,698	6,954	(18.1)	7,614	(25.2)	We expect the traditional business revenue growth of 7% with operating margins of 7.5%. With transition to IND-AS accounting from Q1FY18 onwards, the three JV business (Minda VAST, Minda Furukawa and Minda Stoneridge) would be accounted for by equity method. Hence revenues, EBITDA are not comparable on YoY basis.
	EBITDA	427	585	(26.9)	338	26.6	
	Core PAT	164	245	(33.2)	114	44.1	
Mahindra & Mahindra (including MVML)	Revenues	109,776	105,247	4.3	106,121	3.4	We expect revenue growth of 4.3% YoY largely led by volume growth of 2.7% YoY. We expect operating margins to see improvement of ~30bps YoY to 14.3% given a better product mix (share of tractors up to 42% from 38% YoY)
	EBITDA	15,698	14,885	5.5	12,368	26.9	
	Core PAT	9,004	8,952	0.6	7,800	15.4	
Maruti Suzuki India	Revenues	173,722	149,273	16.4	183,334	(5.2)	We expect revenue growth of 16.4% YoY largely driven by volume growth of 13% YoY. We expect operating margins to improve sequentially by ~80bps to 14.8% driven by lowering of average discounts due to higher share of new models
	EBITDA	25,711	22,157	16.0	25,607	0.4	
	Core PAT	17,925	14,862	20.6	17,090	4.9	

Stock		Q1FY18E (INR mn)	Q1FY17 (INR mn)	Y-o-Y (%)	Q4FY17 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Motherson Sumi Systems	Revenues	120,179	104,504	15.0	112,839	6.5	We expect consolidated revenue growth of 15% YoY led by strong demand traction across India/SMR and SMP business. We expect consolidated operating margins to decline sequentially by ~140bps to 9.6%. Our estimates do not include financials of PKC
	EBITDA	11,537	9,404	22.7	12,543	(8.0)	
	Core PAT	4,349	3,149	38.1	6,182	(29.7)	
Suprajit Engineering*	Revenues	3,331	2,544	30.9	3,646	(8.6)	We expect consolidated (including Wescon) revenue growth of 31% YoY and expect operating margins to decline sequentially by ~50bps to 17.4%
	EBITDA	579	410	41.3	653	(11.3)	
	Core PAT	336	197	70.6	404	(16.8)	
Tata Motors (Consol.)	Revenues	593,481	658,950	(9.9)	772,172	(23.1)	We expect consolidated revenue decline of 10% YoY. We expect consolidated operating margins to decline by ~30bps YoY to 11.3% (JLR margins to see decline of ~20bps YoY to 13.6%)
	EBITDA	67,245	76,129	(11.7)	108,012	(37.7)	
	Core PAT	18,015	19,122	(5.8)	43,315	(58.4)	

**Including Wescon*

Valuation snapshot

		Mkt Cap	Price	P/E (x)		P/B (x)		RoE (%)		Div yld (%)	
	Reco	USD mn	(INR)	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Ashok Leyland	Buy	4,591	102	19.9	15.3	5.0	4.4	22.6	26.4	2.3	3.0
Bajaj Auto	Hold	12,382	2,771	17.9	16.2	4.2	3.8	24.9	24.9	2.7	3.1
Ceat Ltd	Buy	1,165	1,865	21.9	11.0	2.9	2.3	14.1	23.7	0.7	0.8
Eicher Motors	Buy	11,797	28,067	32.3	22.7	10.4	7.6	37.3	38.7	0.5	0.7
Hero MotoCorp	Hold	11,439	3,710	19.9	17.1	6.6	5.9	34.9	36.2	3.0	3.2
Mahindra & Mahindra	Buy	13,282	1,385	20.0	17.9	2.9	2.6	15.4	15.2	1.1	1.2
Maruti Suzuki India	Buy	34,381	7,371	25.1	21.1	5.3	4.5	22.7	23.0	1.1	1.2
Minda corporation	Buy	369	114	21.9	14.7	3.2	2.7	14.9	18.9	0.4	0.4
Motherson Sumi Systems	Hold	9,928	305	21.6	15.4	4.2	3.5	23.4	26.1	0.0	0.0
Suprajit Engineering	Buy	642	316	30.7	26.3	6.4	5.4	23.4	22.7	0.5	0.6
Tata Motors (Consolidated)	Hold	21,333	432	10.8	8.8	2.0	1.7	20.6	20.5	0.3	0.3

RESULT PREVIEW

BANKING AND FINANCIAL SERVICES

Soft quarter

India Equity Research | Strategy

We expect Q1FY18 to be yet another soft quarter characterised by slower revenue momentum and elevated credit costs. Earnings of retail-heavy private banks are expected to be stable; however, corporate-heavy banks are likely to incur elevated credit costs (ageing provisions, higher haircuts including provisions on 12 accounts that were referred to NCLT, as mandated by RBI). Industry credit growth continues to be soft and is hovering around multi-year lows and will continue to pressurise banks' top-line growth, especially of corporate-heavy PSU banks. While NIMs had settled at elevated levels in FY17, we expect them to moderate (MCLR transition), which will restrict NII growth. NBFCs will sustain momentum on higher-than banks' credit growth and better asset quality. Housing finance companies have gained strong traction in disbursements and tractor financing has been robust. MFIs may report weak earnings with further provisioning; however, on positive front, collection efficiency has not deteriorated further post loan waiver announcements.

Asset quality: Credit cost to remain elevated

Credit costs will continue to strain most banks' profitability. Given the low coverage in overall stress asset book, we expect credit cost to continue to be a drag on earnings due to higher provisioning resulting from rising ageing provisions, higher haircuts including provisions on 12 accounts that were referred to NCLT (albeit limited as most banks have already recognised these as NPLs and provided 30-40%) and increasing write offs. While incremental stress creation will be softer, the recoveries/upgrades trend (slower than we would prefer) needs to be monitored.

NIMs to be under pressure

NIMs in Q4FY17 were markedly impressive (FY17 exit NIMs settled at elevated levels) following benefit of lower funding cost. However, given limited scope for further reduction in cost of funds, we expect NIMs to come off going forward as lagged impact of MCLR transition starts flowing into lower yields (average difference between current base rate and 1 - year MCLR rate is ~100bps).

Outlook for next 12 months

The sector's earnings are expected to remain subdued in near term owing to NIMs pressure, slower recovery in loan growth and continued provisioning drag. We continue to prefer new generation private banks (Yes and IndusInd Bank) given their limited stress baggage, improving franchise and strong capital position, followed by ICICI Bank (superior capital position, earnings cushion given value discovery via stake sale in other businesses) among corporate lenders. Among PSBs, we prefer SBI due to its strong liability franchise, healthy capital position & value in non-core assets. We maintain our cautious stance on mid-size PSBs on higher asset quality stress & weak capital position.

Trading ideas from Q1FY18 earnings perspective

Long: Yes Bank, IndusInd Bank, L&T Finance, Shriram Transport **Short:** PNB.

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July 05, 2017

Stock		Q1FY18E (INR mn)	Q1FY17 (INR mn)	Y-o-Y (%)	Q4FY17 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Axis Bank	NII + OI	74,818	72,553	3.1	77,418	(3.4)	Loan growth to be better than industry given the continued momemtum in retail growth and opportunistic pick up in corporate. Though incremental stress might be curtailed, credit cost will likely continue to be elevated. The provision requirement for accounts referred to NCLT remains key monitorable.
	PPOP	41,590	44,695	(6.9)	43,747	(4.9)	
	Core PAT	12,688	15,556	(18.4)	12,251	3.6	
Bajaj Finserv	NII + OI	18,661	20,594	(9.4)	NA	NA	Financing business will likely sustain growth momentum. Margin may see some pressure, a function of change in business mix, however funding cost will lend support. Life Insurance profitability, albeit improving, will continue to be under pressure. General insurance to be better than industry growth rates.
	PPOP	13,820	11,432	20.9	NA	NA	
	Core PAT	6,772	5,375	26.0	NA	NA	
Bank of Baroda	NII + OI	51,531	48,155	7.0	55,591	(7.3)	Loan growth momentum seen in last quarter will persist as bank capitalised on some corporate opportunities. Margins will also see some improvement (improvement in international NIMs and lower deposit cost). Incremental stress creation will be key monitorable.
	PPOP	27,336	26,695	2.4	30,202	(9.5)	
	Core PAT	4,893	4,236	15.5	1,547	216.3	
Bharat Financial Inclusion	NII + OI	2,886	2,772	4.1	2,448	17.9	We expect company to register mid-to-high double digit AUM growth. NIMs will likely benefit from lower funding cost and fees will also be lower. Asset quality trend needs to be monitored.
	PPOP	1,280	1,503	(14.8)	996	28.6	
	Core PAT	366	2,359	(84.5)	(2,349)	115.6	
Capital First	NII + OI	4,580	3,383	35.4	4,628	(1.0)	Loan growth will continue to report strong momentum with continued tilt towards retail segment; NIMs will benefit from lower funding cost; Asset quality will continue to track benign trends.
	PPOP	2,221	1,683	32.0	2,236	(0.7)	
	Core PAT	639	452	41.4	692	(7.8)	
DCB Bank	NII + OI	2,970	2,372	25.2	2,839	4.6	Loan growth to be higher than industry. Asset quality trend needs to be carefully evaluated given higher exposure to MSME segment. Operating expenses will likely continue to be on higher side.
	PPOP	1,202	927	29.6	1,153	4.2	
	Core PAT	596	470	26.7	529	12.8	
Dewan Housing Finance #	NII + OI	6,375	4,840	31.7	6,303	1.1	AUM growth expected at 17-19% levels; asset quality will likely remain stable; cost/income will be a key monitorable, we expect it to come down during the quarter.
	PPOP	4,702	3,479	35.1	4,586	2.5	
	Core PAT	2,674	2,014	32.8	2,483	7.7	
Equitas Holdings	NII + OI	2,536	2,273	11.6	2,419	4.8	In line with the intended roadmap, MFI book will continue moderate growth, thereby pulling down overall growth rates. NIMs will benefit from lower funding cost (deposit traction needs to be seen), but higher opex will keep operating profitability under check. Asset quality needs to be monitored (especially on MFI book).
	PPOP	578	1,139	(49.3)	475	21.7	
	Core PAT	256	612	(58.2)	69	270.5	
Federal Bank	NII + OI	11,257	9,297	21.1	11,245	0.1	Loan growth will continue to maintain traction driven by retail segment and opportunistic growth in mid-corporate segment. Incremental stress will likely be lower, however performance on retail segment needs to be seen, especially the effect of education loan waiver in Kerala.
	PPOP	4,831	4,259	13.4	5,492	(12.0)	
	Core PAT	2,586	1,673	54.5	2,566	0.8	

 # Q4FY17 PAT excludes impact of stake sale in DHFL Pramerica Life Insurance

Stock		Q1FY18E (INR mn)	Q1FY17 (INR mn)	Y-o-Y (%)	Q4FY17 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
HDFC	NII + OI	28,260	23,456	20.5	32,280	(12.5)	Disbursement growth is likely to be strong benefitting from various government initiatives on affordable housing. However, it may not entirely percolate into loan growth (we anticipate loan growth in 13-15% range). While funding cost benefit will play out, however pressure on yields henceforth will normalise NIMs. Headline asset quality number may see a rise given exposure of INR9.1bn towards one account referred to NCLT; however, given that company already has adequate provisions towards it, it may not require additional provisions.
	PPOP	24,622	17,781	38.5	28,896	(14.8)	
	Core PAT	17,249	18,707	(7.8)	20,442	(15.6)	
HDFC Bank	NII + OI	124,175	105,881	17.3	125,014	(0.7)	Loan growth to likely gain traction. Core revenue momentum will be softer (fee income key monitorable) and below trend. Asset quality trends continue to remain benign.
	PPOP	69,334	58,192	19.1	72,794	(4.8)	
	Core PAT	39,670	32,389	22.5	39,901	(0.6)	
ICICI Bank	NII + OI	91,166	85,878	6.2	89,794	1.5	Loan offtake will be lower, however NII will likely benefit from better/sustained NIMs benefitting from lower funding costs. Though incremental stress might be curtailed, credit cost will likely continue to be elevated. The provision requirement for accounts referred to NCLT remains a key monitorable.
	PPOP	52,891	52,147	1.4	51,120	3.5	
	Core PAT	23,986	22,324	7.4	20,246	18.5	
IDFC Bank	NII + OI	6,672	7,117	(6.3)	5,584	19.5	Business momentum will likely be on track. Asset quality trend will likely sustain. The momentum of liability franchise needs to be seen.
	PPOP	3,347	4,349	(23.0)	2,603	28.6	
	Core PAT	1,974	2,648	(25.4)	1,760	12.2	
Indiabulls Housing Finance (Standalone)	NII + OI	14,455	11,421	26.6	13,904	4.0	Earnings consistency expected to continue in line with guided range; AUM growth to continue to remain strong upwards of 27% YoY; Asset quality will be broadly stable and NIMs will benefit from lower funding cost.
	PPOP	13,193	9,894	33.3	12,617	4.6	
	Core PAT	8,126	6,265	29.7	8,217	(1.1)	
IndusInd Bank	NII + OI	29,862	23,294	28.2	28,788	3.7	Loan growth to be higher than industry, with the continued tilt towards consumer finance division. Fee income trends to continue superior performance. Asset quality trends will likely be stable (provision benefit likely to percolate from recent deal in cement segment).
	PPOP	15,827	12,338	28.3	15,722	0.7	
	Core PAT	8,769	6,614	32.6	7,516	16.7	
Karnataka Bank	NII + OI	6,463	5,391	19.9	6,639	(2.6)	Loan growth to average industry rates. Though incremental stress will be lower, credit cost will continue to be elevated.
	PPOP	3,613	2,619	37.9	3,293	9.7	
	Core PAT	1,472	1,215	21.1	1,384	6.4	
Kotak Mahindra Bank	NII + OI	57,683	43,871	31.5	56,085	2.8	Growth momentum has been softer post integration, we expect some traction on growth this quarter. Asset growth of combined entity will likely be stable; capital market related businesses to maintain momentum.
	PPOP	23,843	17,852	33.6	22,908	4.1	
	Core PAT	13,810	9,960	38.7	13,032	6.0	
LIC Housing Finance	NII + OI	10,557	8,780	20.2	10,919	(3.3)	Individual loan growth to continue momentum and we expect it to track 14-15% growth YoY; Lower funding cost & largely fixed rate nature of lending book to support NIMs; Asset quality will likely be stable; pending resolution in corporate loan book will be key monitorable.
	PPOP	8,899	7,399	20.3	8,954	(0.6)	
	Core PAT	5,279	4,078	29.4	5,292	(0.2)	
L&T Finance Holdings *	NII + OI	10,764	8,751	23.0	10,801	(0.3)	Will continue on its path to achive high quartile RoEs by FY20. NIMs to benefit from lower funding cost aiding revenue momentum. Asset quality to be stable with no major hiccups.
	PPOP	7,654	5,529	38.4	7,738	(1.1)	
	Core PAT	2,589	1,753	47.7	2,805	(7.7)	

** PAT is after preference dividend*

Stock		Q1FY18E (INR mn)	Q1FY17 (INR mn)	Y-o-Y (%)	Q4FY17 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Manappuram Finance	NII + OI	5,252	4,406	19.2	5,487	(4.3)	We expect growth momentum to sustain. Spreads are likely to sequentially improve. Asset quality will likely remain stable. The quality and impact on MFI portfolio needs to be monitored.
	PPOP	3,070	2,449	25.3	3,198	(4.0)	
	Core PAT	1,990	1,492	33.3	2,072	(4.0)	
M&M Financial Services	NII + OI	10,182	6,847	48.7	11,290	(9.8)	Disbursement trends are likely to be better (higher single digit YoY); Asset quality performance will be key monitorable; NIMs to get support from lower funding cost.
	PPOP	6,048	3,587	68.6	7,252	(16.6)	
	Core PAT	1,423	870	63.6	2,341	(39.2)	
Multi Commodity Exchange of India	NII + OI	936	938	(0.2)	869	7.8	We expect revenue mometum to be under pressure in line with lower average daily volumes. We dont expect any exceptional item during this quarter.
	PPOP	410	530	(22.6)	374	9.6	
	Core PAT	263	328	(19.9)	219	20.1	
Muthoot Finance	NII + OI	8,330	7,437	12.0	11,672	(28.6)	We expect growth momentum to somewhat gain traction. Performance on asset quality remians key monitorable.
	PPOP	4,926	4,237	16.3	5,893	(16.4)	
	Core PAT	3,227	2,703	19.4	3,218	0.3	
Power Finance Corporation	NII + OI	29,286	29,900	(2.1)	16,800	74.3	Disbursement trend will likely be strong supporting loan growth. NIMs will benefit from lower funding cost. Asset quality trends will likely be stable with no major hiccups on the same, incremental progress under UDAY schemes augur well for entire value chain.
	PPOP	28,696	27,880	2.9	16,270	76.4	
	Core PAT	16,790	17,120	(1.9)	(34,110)	NA	
Punjab National Bank	NII + OI	63,537	60,541	4.9	67,863	(6.4)	Loan growth to be softer (mid-low single digit growth). While slippages may continue to be elevated, however sustained recovery trends may spring some positive surprise. Cost will likely continue to be elevated. The provision requirement for accounts referred to NCLT
	PPOP	33,389	32,746	2.0	62,318	(46.4)	
	Core PAT	3,583	3,064	17.0	2,619	36.8	
Rural Electrification Corporation	NII + OI	24,652	24,974	(1.3)	25,558	(3.5)	Loan growth likely to maintain traction (albeit on lower base); NIMs will benefit from lower funding cost; asset quality will likely be stable with no major additions.
	PPOP	23,726	24,093	(1.5)	25,026	(5.2)	
	Core PAT	14,932	14,209	5.1	13,192	13.2	
Repco Home Finance	NII + OI	1,065	920	15.7	1,101	(3.3)	Disbursement has been a volatile piece, and will likely improve (largely as TN related issues being settled), however we still expect AUM growth to be lower than historical trend of >25% YoY growth. Asset quality performance will hold key especially on softer FY17 performance.
	PPOP	873	771	13.2	902	(3.2)	
	Core PAT	502	395	26.9	506	(0.8)	
Reliance Capital	NII + OI	36,310	29,540	22.9	42,560	(14.7)	Core businesses, particularly commercial finance, asset management and general insurance, to maintain traction; performance of life insurance business will continue to be subdued; distribution business to report volatility (as seen in many past quarters).
	PPOP	4,060	3,250	24.9	4,730	(14.2)	
	Core PAT	2,867	2,070	38.5	4,170	(31.3)	
State Bank of India	NII + OI	254,343	216,474	17.5	283,982	(10.4)	Loan growth to be softer, but NII to be supported by lower funding cost. Though incremental stress might be curtailed, credit cost will likely continue to be elevated. The provision requirement for accounts referred to NCLT remains key monitorable. Further the outlook on merger and cost/benefit on it will hold key.
	PPOP	136,321	110,539	23.3	160,265	(14.9)	
	Core PAT	28,144	25,210	11.6	28,148	(0.0)	
Shriram City Union Finance	NII + OI	7,336	6,878	6.7	7,139	2.8	Growth metrics will likely track 19-20% levels. But lower funding cost will provide support to NIMs inturn aiding revenue momentum. Performance on asset quality (softer in Q1) and credit cost performance will be key monitorable.
	PPOP	4,422	4,139	6.8	4,324	2.3	
	Core PAT	1,636	1,818	(10.0)	120	NM	

Stock		Q1FY18E (INR mn)	Q1FY17 (INR mn)	Y-o-Y (%)	Q4FY17 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
South Indian Bank	NII + OI	6,119	5,471	11.8	5,768	6.1	Marginal pick up in loan growth. Margins to benefit from lower fundng cost. Asset quality to be weak, with large chunk of incremental stress flowing from watchlist accounts. This recognition will keep credit
	PPOP	3,050	2,595	17.5	2,808	8.6	
	Core PAT	898	951	(5.6)	755	18.8	
Shriram Transport Finance	NII + OI	14,608	13,641	7.1	14,327	2.0	AUM growth likely to track lower mid-double digit growth. NIMs expansion will support revenue momentum. Asset quality will likely be stable with no major hiccups; having said that Q1 is generally a softer quarter.
	PPOP	11,559	10,300	12.2	11,424	1.2	
	Core PAT	3,843	3,741	2.7	1,496	156.8	
Union Bank of India	NII + OI	37,021	31,421	17.8	38,326	(3.4)	Headline loan growth to be closer to below-industry growth rates, however key focus segments - retail, agriculture and MSME should grow at industry averages. Incremental stress creation will be key monitorable.
	PPOP	19,526	16,251	20.2	21,341	(8.5)	
	Core PAT	1,680	1,663	1.0	1,082	55.2	
Yes Bank	NII + OI	29,739	22,171	34.1	28,971	2.7	Loan growth to be higher than industry, retail segment offtake to gain traction. Impairment ratio will likely be contained, with credit cost contained at guided levels. Fee income trends to be in-line with loan growth.
	PPOP	17,107	13,068	30.9	16,910	1.2	
	Core PAT	10,246	7,318	40.0	9,141	12.1	

Valuation snapshot

		Mkt Cap	Price	P/E (x)		P/B (x)		RoE (%)		Div yld (%)	
	Reco	USD mn	(INR)	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Axis Bank	Buy	19,019	514	18.1	11.9	2.0	1.8	11.7	16.0	1.4	1.9
Bank of Baroda	Buy	5,721	161	12.3	8.2	1.0	0.9	8.1	11.3	1.9	1.9
Bharat Financial Inclusion	Buy	1,580	741	25.2	13.4	3.2	2.4	14.3	20.4	0.0	0.0
Capital First	Buy	1,051	697	19.1	15.0	2.7	2.3	14.9	16.6	0.8	1.0
DCB Bank	Reduce	923	194	23.4	20.0	2.5	2.3	11.5	11.9	0.0	0.0
Dewan Housing Finance	Buy	2,110	436	12.3	10.7	1.6	1.4	13.7	14.3	1.4	1.6
Equitas Holdings Ltd.	Buy	829	159	27.0	21.8	2.2	2.0	8.5	9.6	0.0	0.0
Federal Bank	Buy	3,443	115	15.7	13.2	2.0	1.8	13.3	14.2	2.1	2.1
HDFC	Hold	40,068	1,629	31.2	27.2	5.9	5.4	20.0	20.8	1.3	1.5
HDFC Bank	Buy	65,524	1,649	24.5	20.7	4.1	3.5	17.9	18.3	0.8	0.9
ICICI Bank	Buy	28,997	293	14.0	9.7	1.6	1.5	12.1	15.8	1.9	2.9
IDFC Bank	Hold	3,274	62	15.0	12.3	1.3	1.2	9.3	10.5	1.3	1.6
Indiabulls Housing Finance	Buy	6,951	1,061	13.0	10.9	3.4	3.0	27.7	29.2	3.7	4.4
IndusInd Bank	Buy	14,013	1,516	25.0	20.1	3.9	3.4	16.8	17.9	0.6	0.6
Karnataka Bank	Buy	970	167	8.7	7.5	0.9	0.8	10.2	11.0	3.0	3.0
Kotak Mahindra Bank	Hold	28,209	960	30.4	25.0	4.3	3.8	15.6	16.3	0.4	0.5
LIC Housing Finance	Buy	5,866	753	17.4	15.9	2.9	2.5	19.6	18.9	1.1	1.2
L&T FINANCE HOLDINGS LTD	Buy	4,193	149	19.3	14.1	2.9	2.5	16.0	19.2	1.1	1.6
M&M Financial Services	Hold	3,158	360	30.1	20.6	3.0	2.7	10.2	13.8	0.8	1.2
Manappuram Finance	Buy	1,266	97	9.8	8.5	2.3	2.0	24.9	24.9	3.8	4.3
Multi Commodity Exchange	Buy	868	1,102	30.7	24.2	3.5	3.3	11.7	14.0	1.5	1.9
Muthoot Finance	Buy	2,783	451	13.0	11.5	2.4	2.1	19.7	19.4	0.0	0.0
Power Finance Corporation	Buy	5,051	124	4.8	4.7	0.8	0.7	17.8	16.1	5.2	5.3
Punjab National Bank	Buy	4,488	137	9.7	7.1	0.7	0.6	7.7	10.0	2.2	2.2
Reliance Capital	Buy	2,588	664	13.6	10.9	1.0	0.9	7.4	8.6	1.1	1.1
Repco Home Finance	Buy	783	810	23.5	19.4	3.8	3.2	17.5	18.0	0.4	0.5
Rural Electrification Corporation	Buy	5,259	172	5.8	5.3	0.9	0.8	16.6	15.9	3.6	3.6
Shriram City Union Finance	Buy	2,596	2,550	19.9	14.0	2.9	2.5	15.7	19.3	0.7	0.9
Shriram Transport Finance	Buy	3,839	1,096	14.8	9.6	2.0	1.7	14.2	18.8	0.0	0.0
State Bank of India	Buy	36,639	275	12.2	9.9	1.1	1.0	11.0	12.2	1.5	1.5
South Indian Bank	Buy	771	28	10.3	7.2	1.0	0.9	9.7	13.0	2.7	2.7
Union Bank of India	Hold	1,585	149	6.8	5.7	0.5	0.5	7.3	8.8	2.0	2.0
Yes Bank	Buy	10,637	1,506	16.0	12.4	2.7	2.3	18.0	19.9	1.1	1.1

RESULT PREVIEW

CEMENT

Gradual recovery unabated/ Impressive price hike across regions

India Equity Research | Strategy

Cement prices witnessed impressive hikes across regions lead by gradual recovery in demand growth post demonetization. In our view, the cement industry has witnessed growth of ~4-5% in Q1FY18 versus negative growth in H2FY18. Ergo, all India average cement prices rose ~7% QoQ (similar 7% YoY). Price hikes were steep in East (~13% QoQ) and West regions (~14%) and staid muted in South (~3% QoQ). Going ahead, while demand and prices may stay soft in Q2FY18 owing monsoons, we expect sharp recovery in H2FY18; amplified further by the low base effect of H2FY17 (owing to demon). Cement demand outlook stays positive given – expectation of normal monsoons, governments focus on infrastructure and affordable housing and increased political stability which can drive further reforms. With slowing capacity additions and expectations of a stable cost regime, we maintain our positive view on the sector.

Key highlights of the sector during the quarter

Improvement in cement prices, across regions, was the main highlight for Q1FY18. Led by a hike of ~13% QoQ in East and ~14% QoQ in West region, the all India average prices for the quarter surged ~7% QoQ (as a similar ~7% YoY). Coming out of pangs of demonetization (witnessed in Q3 & Q4 of FY17), the YoY volume growth recovery is believed to have continued in Q1FY18 as well. We estimate the industry to have grown at ~4-5% in Q1FY18. On the cost front, we expect a gradual inch up of fuel cost for companies led by lagged impact of the rise in pet coke cost.

Result expectations; stocks under coverage

We broadly expect cement players under coverage to report good set of numbers in Q1FY18 led by decent volume growth and strong price recovery (both QoQ & YoY) across the regions. Except India Cements, which is largely expected to witness a flat trend YoY (due to weak demand in Tamil Nadu), all the other companies under our coverage may report a volume growth of 5-13% YoY. Overall, combined volume growth of our coverage universe is estimated to be ~7% YoY. In our view, this along with firm cement prices will aid combined EBITDA (except Grasim) to grow ~5-6% YoY despite a sharp rise in energy costs/t. Looking at the price trends, we anticipate companies with large presence in West and East regions to benefit from double digit cement price growth QoQ. Grasim's VSF margins are estimated to marginally fall by ~40bps QoQ due to weak pricing scenario in the past 3 months.

Outlook over the next 12 months

FY18 has started on a positive note with prices improving across region; rising ~7% YoY on an all India basis. While prices could be weak in Q2FY18 owing to monsoons, we expect sharp recovery in H2FY18 led by demand growth and also the optical advantage of the low base of H2FY17 owing to demon. Factoring the same, we see no risk to our FY18 earnings estimates. We remain constructive on the sector factoring positive demand growth outlook (aided by expectations of increased political stability), slowing capacity additions and stable operating cost regime. Shree Cement & JK Cement are our top picks in the sector.

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July 05, 2017

Stock		Q1FY18E (INR mn)	Q1FY17 (INR mn)	Y-o-Y (%)	Q4FY17 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
ACC	Revenues	34,157	29,172	17.1	31,740	7.6	Expect volumes to grow by ~10% YoY aided by capacity expansions in Eastern region, and this along with strong realisations, up ~6.5% QoQ (~6.7% YoY), are estimated boost top-line growth of ~17% YoY. Expect EBITDA/t to surge 17% YoY to INR780.
	EBITDA	5,992	4,566	31.2	4,161	44.0	
	Core PAT	3,336	2,378	40.3	2,115	57.7	
Ambuja Cements	Revenues	27,897	25,607	8.9	25,624	8.9	Volumes expected to rise moderately by ~6% YoY while realisations estimated to surge ~7.5% QoQ (2.6% YoY) aided by strong price recovery in Western regions which represents ~40% of sales volume for ACEM. However, due to higher costs on the back of sharp rise in energy costs/t, we expect EBITDA/t to decline 3% YoY to INR968.
	EBITDA	6,271	6,009	4.4	3,941	59.1	
	Core PAT	4,098	3,995	2.6	2,299	78.2	
Grasim Industries	Revenues	113,214	90,886	24.6	111,402	1.6	Expect VSF volumes to grow by ~3% YoY with operations at close to 100% capacity utilisation. Expect realisations to decline 2.5% QoQ on the back of sustained fall in internation VSF prices in the past 3 months, however, expect costs to fall marginally due to positive impact from softening of pulp prices. Overall, expect VSF EBITDA margins to contrast by ~40bps QoQ while total standalone EBITDA margin is estimated to contrast by ~190bps YoY in Q1FY18 led by higher costs.
	EBITDA	21,304	20,245	5.2	18,732	13.7	
	Core PAT	8,539	8,302	2.9	7,745	10.2	
India Cements	Revenues	12,865	10,553	21.9	13,453	(4.4)	While volumes are expected to grow marginally (up 1% YoY) due to weak demand in key market Tamil Nadu (TN), realisations may see an improvement of ~3.5% QoQ led by price recovery in AP & Telangana. EBITDA/t is estimated to surge 15% QoQ, however, may fall 14% YoY to INR748/t due to sharp rise in energy costs driving up total cost/t by 10% YoY.
	EBITDA	2,025	2,046	(1.0)	1,917	5.7	
	Core PAT	391	440	(11.1)	343	14.1	
J K Cement	Revenues	10,044	8,969	12.0	10,648	(5.7)	Expect grey cement volumes to rise a ~6% YoY while expect realisations to increase by ~4% QoQ, largely aided by strong realisation growth in North operations. We expect the white cement+wall putty volumes to grow moderately at ~7% YoY. Despite benefits of low pet coke price fading away, we expect EBITDA/t of grey cement to remain above INR670 levels reported in Q4FY17 while blended EBITDA/t is expected to be INR929, up 6% YoY (8% QoQ).
	EBITDA	2,091	1,767	18.3	2,273	(8.0)	
	Core PAT	805	609	32.3	985	(18.2)	
Shree Cement	Revenues	24,597	21,987	11.9	23,803	3.3	Expect cement volumes to grow by a robust 13% YoY with benefits of capacity ramp up in east. Further with realisations rising by ~5.5% QoQ, total revenue is expected to rise by 12% YoY. However, with the sharp rise in energy costs led by higher pet coke prices, expect cement EBIDTA/t to fall 21% YoY to INR998.
	EBITDA	6,106	7,309	(16.5)	5,112	19.5	
	Core PAT	4,045	5,077	(20.3)	3,045	32.8	
Ultratech	Revenues	66,994	62,325	7.5	65,953	1.6	Expect volumes to grow by ~5% YoY with realisations estimated to rise ~6% QoQ (~2.5% YoY), in line with our all India price estimate. EBITDA/t could rise ~6% YoY (to INR1,144/t) despite an estimated ~21% YoY surge in energy costs/t.
	EBITDA	15,504	14,225	9.0	12,782	21.3	
	Core PAT	8,297	7,749	7.1	6,883	20.5	

Valuation snapshot

	Reco	Mkt Cap USD mn	Price (INR)	P/E (x) FY18E	P/E (x) FY19E	P/B (x) FY18E	P/B (x) FY19E	RoE (%) FY18E	RoE (%) FY19E	Div yld (%) FY18E	Div yld (%) FY19E
ACC	Buy	4,623	1,594	38.0	27.1	3.4	3.3	9.0	12.3	1.9	2.2
Ambuja Cement	Hold	7,764	253	42.3	32.9	2.6	2.5	6.2	7.8	1.2	1.6
Grasim	Buy	9,279	1,287	15.9	12.8	1.7	1.5	11.8	13.4	0.7	0.7
India Cements	Buy	978	206	23.4	15.1	1.2	1.1	5.2	7.6	1.0	1.0
JK Cement	Buy	1,057	980	20.5	14.2	3.4	2.8	17.6	21.7	0.8	1.0
Shree Cements	Buy	9,660	17,958	34.7	24.4	6.7	5.3	21.2	24.3	0.2	0.2
UltraTech Cement	Buy	17,293	4,080	32.8	23.7	4.1	3.6	13.4	16.2	0.2	0.4

RESULT PREVIEW

CONSTRUCTION

Steady quarter

India Equity Research | Strategy

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Ideas create, values protect

We remain positive on the construction sector for the next year, as order awards activity in the urban infra/railway/buildings space is likely to gather pace. We expect our coverage universe (excluding Ashoka Buildcon) to post top-line growth of 5% in Q1FY18, led by steady resolution of execution issues. Robust execution and healthy balance sheets will see KNR Constructions and Ahluwalia Contracts deliver good performance for the quarter. Our positive stance on the sector from the medium term perspective stems from: (1) likely decline in interest rates; (2) government initiatives like release of 75% arbitration awards won by construction players; and (3) pick up in execution, riding government's thrust on infra sector.

Key highlights of sector during the quarter

Awarding in the road sector remains muted with only 379kms awarded till May 2017, down ~41% YoY. However, order awards from urban infra (metro rail) & building space remained strong. Interest rate for companies continued to trend down.

Result expectations for the sector and stocks under coverage

We estimate our coverage universe's revenue (excluding Ashoka Buildcon) to grow 5% YoY. EBITDA margins (ex- Ashoka Buildcon) are estimated to decline marginally by ~10bps YoY to 10.9%. PAT margins (ex- Ashoka Buildcon) are likely to dip ~80bps to 2.9% YoY owing to lower other income and increase in tax outgo. Players with healthy balance sheets like KNR Constructions and Ahluwalia Contracts are likely to deliver robust performance.

Outlook for the next 12 months

We maintain our positive stance on the construction sector for next year. We expect order inflows to remain strong with the government's emphasis on infrastructure development. With NHAI focusing on 90% land availability before awarding, projects awarding is expected to gather pace in H2FY18. We expect execution and earnings to improve in H2FY18 as most projects awarded in FY17 would enter execution stage by then. Declining interest rates will further boost earnings. A host of measures initiated by the government like easier fund raising/asset monetisation and awarding of 75% of claims won by construction companies are likely to work in the sector's favour. These measures will also help players deal with cash flow stress and deleverage their balance sheets.

Top picks: KNR Constructions and Ahluwalia Contracts.

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July 05, 2017

Stock		Q1FY18E (INR mn)	Q1FY17 (INR mn)	Y-o-Y (%)	Q4FY17 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Ahluwalia Contracts	Revenues	3,415	3,063	11.5	4,718	(27.6)	While company's order book visibility remains strong, the impact of recent demonetisation exercise on order inflow and execution on projects from private real estate developers remains key montiorable
	EBITDA	406	429	(5.3)	431	(5.6)	
	Core PAT	196	214	(8.3)	203	(3.5)	
Ashoka Buildcon	Revenues	7,721	NA	NA	NA	NA	ASBL reported only standalone quarterly nos. in FY17 due to Ind-AS. ASBL has witnessed a ramp up in execution on projects won in H1FY16. Pick up in pace of execution remains key monitorable. Also, improvement in traffic growth post demonetisation for operational BOT projects need to be watched.
	EBITDA	2,336	NA	NA	NA	NA	
	Core PAT	(34)	NA	NA	NA	NA	
HCC	Revenues	10,781	9,825	9.7	13,583	(21)	HCC has undergone S4A in Q4FY17 which aided in debt reduction and will further assist in improvement in working capital cycle. Award of arbiteration claims remains key monitorable
	EBITDA	1,686	1,725	(2.3)	2,241	(25)	
	Core PAT	34	115	(70.0)	421	(92)	
J Kumar Infraprojects	Revenues	4,050	4,033	0.4	3,555	13.9	The pace of execution in new projects need to be watched. Also, its ability to maintain high level of operating profitability will be a key monitorable
	EBITDA	689	680	1.2	602	14.4	
	Core PAT	300	297	1.2	263	14.4	
KNR construction	Revenues	3,820	3,032	26.0	4,821	(20.8)	With increase in order book, company's ability to maintain high level of operating profitability will be a key monitorable.
	EBITDA	539	437	23.3	722	(25.4)	
	Core PAT	342	302	13.3	524	(34.7)	
NBCC	Revenues	13,526	12,641	7.0	23,460	(42.3)	The company has a strong order book; execution on this will be a key monitorable. The company's ability to maintain stable margin also need to be watched.
	EBITDA	582	449	29.6	2,098	(72.3)	
	Core PAT	556	454	22.3	1,583	(64.9)	
Nagarjuna Const.	Revenues	19,772	19,011	4.0	21,394	(7.6)	The company's ability to achieve operating margin expansion is a key monitorable. Also, expansion in profit margins due to lower working capital requirements needs to be watched
	EBITDA	1,720	1,657	3.8	1,742	(1.2)	
	Core PAT	449	523	(14.2)	1,110	(59.6)	
PNC Infratech	Revenues	3,602	5,150	(30.1)	3,506	2.8	With a strong order book the company's ability to translate it into execution need to be watched. In addition its ability to maintain stable operating profitability remains key monitorable
	EBITDA	486	671	(27.5)	474	2.5	
	Core PAT	303	640	(52.7)	337	(10.2)	
Sadbhav Engineering	Revenues	9,286	8,070	15.1	10,329	(10.1)	With work on projects won in FY16 in full swing, SEL posted strong revenues in H2FY17. The company's ability to sustain healthy execution pace need to be watched. Also improvement in working capital remains key monitorable
	EBITDA	1,003	868	15.5	1,096	(8.5)	
	Core PAT	397	487	(18.5)	682	(41.8)	
Simplex Infra	Revenues	14,637	14,074	4.0	15,501	(5.6)	While Simplex's order book remains robust, execution need to catch up pace. The company's performance on this front will determine the growth trajectory. Also, operating profitability will be a key monitorable
	EBITDA	1,830	1,644	11.3	2,051	(10.8)	
	Core PAT	181	172	5.3	668	(72.9)	
Supreme Infrastructure	Revenues	2,444	2,242	9.0	3,255	(24.9)	SPII has clocked in strong revenue growth in H2F17. The sustainability in revenue growth along with performance on the working capital front needs to be watched
	EBITDA	381	375	1.7	442	(13.7)	
	Core PAT	(249)	(142)	NA	(173)	(43.7)	
Titagarh Wagons	Revenues	3,382	2,859	18.3	6,619	(48.9)	The company's ability to maintain strong performance of the Italian coach subsidiary Firema remains key monitorable. Further improvement in operating profitablility need to be watched.
	EBITDA	203	144	40.5	358	(43.3)	
	Core PAT	12	21	(41.6)	126	(90.4)	
Texmaco Rail & Engineering	Revenues	2,462	2,723	(9.6)	2,860	(13.9)	Order inflow from the rolling stock business need to be watched. Further the company's ability to sustain healthy execution pace in its EPC business, Kalindee. need to be watched. Also improvement in operating profitablility remains key monitorable
	EBITDA	84	152	(44.7)	131	(35.9)	
	Core PAT	14	66	(79)	59	(77)	

Valuation snapshot

		Mkt Cap	Price	P/E (x)		P/B (x)		RoE (%)		Div yld (%)	
	Reco	USD mn	(INR)	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Ahluwalia Contracts	Buy	362	350	21.7	16.8	3.8	3.1	19.2	20.4	0.0	0.0
Ashoka Buildcon	Buy	549	190	NM	1,960.6	2.2	2.3	-5.6	-1.5	0.4	0.4
Hindustan Construction Company	Buy	647	41	NM	27.3	1.6	1.5	(3.4)	5.7	0.0	0.0
J Kumar Infraprojects	Buy	348	298	17.9	12.9	1.5	1.4	8.7	11.1	0.7	0.7
KNR construction	Buy	448	206	17.3	14.7	2.7	2.3	17.2	17.0	0.1	0.1
NBCC	Hold	2,864	206	43.1	30.6	9.5	7.9	23.8	28.3	0.7	1.0
Nagarjuna Construction Co	Buy	777	91	21.0	14.1	1.4	1.3	6.8	9.4	0.4	0.4
PNC Infrateh	Buy	568	143	24.3	19.6	2.1	1.9	9.2	10.4	0.3	0.3
Sadbhav Engineering	Buy	807	305	30.9	30.5	2.9	2.6	9.7	9.0	0.2	0.2
Simplex Infrastructures	Buy	423	554	34.1	15.6	1.7	1.5	5.1	10.4	0.1	0.1
Supreme Infrastructure	Under	31	77	NM	21.4	0.3	0.3	(7.9)	1.6	0.0	0.0
Titagarh Wagons	Buy	213	120	54.2	16.0	1.3	1.3	2.6	8.0	0.8	0.8
Texmaco Rail & Engineering	Buy	319	94	95.1	17.9	1.9	1.7	2.1	10.3	0.3	0.3

RESULT PREVIEW

CONSUMER GOODS

Destocking to impact topline

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Ideas create, values protect

The Edelweiss consumer goods pack's revenue, EBITDA and PAT growth is likely to slow down to 2.2%, 2.2% and 2.0% YoY (Q4FY17: 7.3%, 8.4%, 13.0%), respectively, in Q1FY18. Amidst GST implementation, there was significant destocking in the last 10 days of the quarter. Companies with high proportion of wholesale trade will be impacted more as our channel checks indicate that quite a few wholesalers have still not registered under GST. Gross margin expansion is unlikely due to higher promotions (though QoQ raw material prices have come off), but savings in ad spends (many consumer companies have cut ad spends) will curtail overall margin dip. We expect the GST dust to settle down in case of distributors within first half of July, but wholesale trade is likely to take more time.

Destocking to impact primary sales

Amidst confusion in terms of rules, input tax credit of inventory, IT software etc., consumer goods companies have seen destocking in trade in the last 8-10 days of June. **The CSD channel, accounting for 4-5% of overall sales of consumer goods companies, destocked significantly throughout June.** Lower wholesale dependent companies such as paint players (expect 4-5% YoY volume growth), HUL (1-2% YoY volume dip), GCPL (domestic business to clock lower single digit sales growth), Britannia (2-3% YoY volume dip) and ITC (estimate 2-3% YoY cigarette volume dip) are likely to outperform companies with higher salience. While volumes of Dabur and Colgate are likely to dip 5-6% and 7-8% YoY, respectively, Emami's volume fall is likely to be in lower double digits. United Spirits' (USL) volumes may fall ~8-10% YoY due to liquor ban on highways (the ban will also impact performance of hotel companies).

Advertisement spends cut to restrict margin dip

Prices of raw materials—palm oil, crude, sugar, wheat and copra—have cooled off QoQ, though YoY they are high (INR has also strengthened). Hence, any gross margin expansion when volumes are under pressure is unlikely. Except for Colgate, Emami and GCPL, most companies have cut ad spends, which will curtail margin dip.

Outlook for next 12 months

We believe, destocking is largely over and with IT software in place for majority of the distributors, business will return to normal in Q2FY18. However wholesalers could take a couple of months to stabilise. Hence, we expect some impact to continue in Q2FY18 and believe that Q3FY18 will be a normal quarter—better monsoon and some price cuts due to GST, especially in essential goods (toothpaste, soaps etc) can help volume growth to revert to mid to high single digit.

Top picks

ITC, Pidilite and Marico. We also like GCPL and HUL.

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July 05, 2017

Stock		Q1FY18E (INR mn)	Q1FY17 (INR mn)	Y-o-Y (%)	Q4FY17 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Asian Paints	Revenues	39,472	36,374	8.5	39,525	(0.1)	While demonetisation negatives are largely behind, implementation of GST will slightly impact Asian Paints's volume growth. While we expect double digit volume growth in April and May, June month is likely to see destocking. On the positive side, price hikes taken by Asian paints (~5-6% overall price hikes over March - May) and larger direct distribution reach should aid revenue. We expect domestic volume growth of ~4-5% on a base of 11% (Q4FY17 saw 10% YoY volume growth on a base of 13%). Prices of Crude, TiO2 and other monomers have inched up which can have some impact on the margins but has seen a dip recently whose impact will come with a lag. Ess Ess and Sleek will see some impact due to being more discretionary.
	EBITDA	8,368	8,203	2.0	7,119	17.6	
	Core PAT	5,611	5,526	1.5	4,796	17.0	
Bajaj Corp	Revenues	1,900	2,043	(7.0)	2,045	(7.1)	Offtakes should continue to remain impacted on the back of weak wholesale channel, rural growth and implementation of GST on the anvil. We expect volumes to dip by ~7-8% YoY on a base of 0.8% YoY growth in overall volumes (Q4FY17 saw volume de-growth of ~7% on abase of dip of 5%). Nomarks will continue to remain under pressure due to rationalisation of SKUs and pilot testing in few geographies. A&P spends will be rationalised and should pick up once company sees improving demand. PAT optically looks better since base quarter had an impact of INR117mn owing to amortisation of Nomarks brand.
	EBITDA	633	710	(10.8)	662	(4.5)	
	Core PAT	542	522	3.9	527	2.9	
Berger Paints*	Revenues	12,128	11,182	8.5	11,129	9.0	While demonetisation negatives are largely behind, implementation of GST will impact volume growth. While we expect double digit volume growth in April and May, June month is likely to see some destocking. However, the positives are price hikes taken (~5% overall price hikes over March to May). We expect domestic volume growth of ~4-5% on a base of ~11-12% (Q4FY17 saw low double digit volume growth). Prices of Crude, TiO2 and other monomers have inched up which can have some impact on the margins but has seen a dip recently whose impact will come with a lag.
	EBITDA	2,025	1,951	3.8	1,611	25.7	
	Core PAT	1,245	1,203	3.5	1,055	18.0	
Britannia Industries	Revenues	21,579	21,408	0.8	22,444	(3.9)	We expect Britannia to post volume dip of 2-3% on a base of 8% in Q1FY17 (Q4FY17 saw 2% volume growth on a base of 10%). This coupled with selective price hikes and soft international growth will lead to company posting an overall flattish revenue growth. We expect company facing increasing competitive intensity especially from Parle. RM prices have started to cool off in this quarter - Flour and sugar prices (~45% of raw material basket) which had moved up significantly has soften sequentially but is still up ~6-7% YoY. On cost side, savings will come from rationalisation of ad spends and other cost.
	EBITDA	3,065	3,162	(3.1)	3,081	(0.5)	
	Core PAT	2,077	2,191	(5.2)	2,109	(1.5)	
Colgate	Revenues	9,533	10,131	(5.9)	10,375	(8.1)	We expect volumes to decline by ~7-8% YoY on a base of 5% YoY (reported 3% YoY dip in Q4FY17 on a base of 4% YoY growth) with pricing growth of ~2%. This dip is primarily owing to destocking at wholesaler level and Colgate has higher dependence on wholesale channel. We do not expect Colgate to cut on their A&P spends which will help them sustain and improve their MS too. Heighthened A&P spends will also lead to compression in margins.
	EBITDA	1,840	2,113	(12.9)	2,443	(24.7)	
	Core PAT	1,085	1,257	(13.7)	1,426	(23.9)	

Stock		Q1FY18E (INR mn)	Q1FY17 (INR mn)	Y-o-Y (%)	Q4FY17 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Dabur	Revenues	18,349	19,522	(6.0)	19,147	(4.2)	We expect domestic volumes to see a decline of ~5-6% YoY on a base of 4% YoY growth (Q4FY17 saw 2.4% YoY volume growth on a base of 7% YoY volume growth). This volume impact would be largely owing to destocking at wholesale level as well as at CSD level. Further international business is expected to see pain largely owing to prevailing MENA issues. Further, largely with no pricing benefits, overall revenue dip should map the volume dip for Dabur. Overall promotional intensity will come down and likewise ad spends will be moderate in Q1FY18. Margins are likely to be impacted owing to lack of operating leverage.
	EBITDA	3,083	3,488	(11.6)	4,176	(26.2)	
	Core PAT	2,580	2,928	(11.9)	3,331	(22.6)	
Emami	Revenues	5,746	6,444	(10.8)	5,777	(0.5)	We expect domestic volumes to dip ~13-14% on a base of 6.5% (Q4FY17 saw volume dip of 1.5% on a base of 6.5%) largely owing to destocking by wholesalers (wholesale contributes 50-55% for Emami), minimal offtake by CSD in June month (CSD contributes 5-6%). The company has taken some price increase in the summer products such as Navratna and talcum powder. Summer has not been too harsh which might impact the seasonal products too. Kesh king sales will also be impacted due to higher ticket price and larger reliance on the wholesale channel which according to company has yet not come out of demonetisation lingering impact. International business too will remain under pressure owing to political turmoil in middle east. Company has not cut down on A&P spends - have spent during the quarter towarsd HE Face wash, Zandu Gel and Roll-on. This should impact EBITDA margins too.
	EBITDA	1,120	1,473	(23.9)	1,781	(37.1)	
	Core PAT	248	566	(56.2)	833	(70.2)	
Godrej Consumer	Revenues	22,774	21,228	7.3	23,898	(4.7)	Volumes would be somewhat impacted by destocking at wholesale level, but at an overall level, GCPL should report better results when compared to peers. We expect soaps to see 1-2% YoY revenue growth on a base of 1% growth - this segment should see some dent owing to destocking at wholesale level(Q4FY17 saw 9% YoY growth on a base of dip of 6%); hair colour business is expected to witness ~3-4% YoY growth on a base of 4% YoY (Q4FY17 saw 13% growth on a base of 9%, slightly fuelled by restocking post demonetisation impact) aided by new launches. HI business is expected to see ~5% YoY growth on a base of 11% YoY dip (Q4FY17 saw 4% YoY growth on a base of 10%). We expect international business to see mixed trends with Indonesia remaining soft (seasonally not favourable for sale of HI products as well as festive season) Business of Strength of Nature is now in the base for 2 months. Growth in Africa is expected to continue good growth trajectory. We expect some uptick from Latam and North America geographies however currency conversion can have some impact. Broadly we expect international sales to grow ~10%. GCPL is one of the few companies who has not cut down on ad spends which will lead to some margin compression and hence EBITDA growth would be lower than sales growth.
	EBITDA	4,031	3,800	6.1	5,507	(26.8)	
	Core PAT	2,642	2,528	4.5	3,827	(30.9)	

Stock		Q1FY18E (INR mn)	Q1FY17 (INR mn)	Y-o-Y (%)	Q4FY17 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
GSK Consumer	Revenues	8,916	9,439	(5.5)	10,418	(14.4)	Demonetisation had impacted the wholesale channel which has yet not revived completely. To add to this, wholesalers have resorted to destocking on account of implementation of GST w.e.f. July 2017. This together with high competitive intensity will impact GSK's volume growth - we estimate GSK's volumes to dip ~6-8% on a base of dip of 4%. Company has taken price hikes which should however counter cost inflationary pressures. The company has cut prices of sachets from INR6 to INR5 which should partially cushion volume decline. Auxiliary income too will be subdued. Margins will see some pressure owing to lack of operating leverage benefit coming through.
	EBITDA	1,864	2,035	(8.4)	2,171	(14.2)	
	Core PAT	1,462	1,606	(9.0)	1,759	(16.9)	
Hindustan Unilever	Revenues	82,875	81,282	2.0	82,130	0.9	We expect HUL to record a volume decline of ~1-2% YoY on a base of 4% YoY (volumes grew 4% YoY in Q4FY17 on a base of 4% YoY) owing to impact in CSD sales (CSD offtake has been negligible over past 1 month - CSD contributes 5-6% of sales), destocking in wholesale channel owing to GST. GST albeit will not impact the consumer demand but destocking by wholesalers is inevitable - share of wholesale lower for HUL and hence impact would be lower compared to many other staple companies. Company is expanding its focus on Herbal segment under brand Aayush which should also aid volumes to some extent. Prices have been holding well. This coupled with benign raw material prices should aid HUL in holding its margins. Further, with multiple cost reduction initiatives such as ZBB, efficiencies in ad spends, etc should cushion EBITDA.
	EBITDA	16,989	16,359	3.9	16,510	2.9	
	Core PAT	11,792	11,280	4.5	11,180	5.5	
ITC	Revenues	106,121	100,540	5.6	111,255	(4.6)	On a base of 3% volume growth, we expect cigarette volumes to decline by ~2-3% YoY in Q1FY18 (Q4FY17 saw flattish volume growth on a flat base). FMCG business is expected to see flat revenue growth on a base of 9.5%, impacted largely by destocking in wholesale and CSD channel (Q4FY17 saw revenue growth of 6.5% on a base of 5.4%). We expect Hotels business to register flat revenue growth, impacted by highway liquor ban issue. Subdued demand is expected in paper business. Agri business might see pressure
	EBITDA	38,203	35,262	8.3	38,754	(1.4)	
	Core PAT	25,987	23,847	9.0	26,695	(2.7)	

Stock		Q1FY18E (INR mn)	Q1FY17 (INR mn)	Y-o-Y (%)	Q4FY17 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Marico	Revenues	17,045	17,543	(2.8)	13,222	28.9	Like other staple companies, Marico too would have seen destocking in June month which would have impacted its overall volumes. With wholesale contributing ~35% to sales and some of the products being sold through Modern Trade channels, the volume dip should be restricted. We expect Parachute to clock ~4-5% volume dip on a base 7% (Q4FY17 saw 15% volume growth after 2 quarters of negative vol growth). In order to combat rising copra prices, Marico had however taken price hike in March 2017, effect of which would have however flowed through by May 2017. However, the extent of price hike was not enough to counteract the copra price rise seen and hence some compression on gross margin level is given. Further, Saffola too should see destocking and we expect volume dip of ~2% since it is more sold through modern trade channels (Q4FY17 saw a volume growth of 6% YoY on base of 13% YoY). VAHO volume growth is expected to dip by 2-3% on a base of 9% YoY(Q4FY17 saw a volume growth of 10% on a base of 11% YoY). International business will continue to remain soft due to impact in MENA (currency devaluation and sluggish environment) while other geographies such as Bangladesh, Vietnam and South Africa should see good recovery. We expect international business to see ~5% dip on base of 6% (Q4FY17 saw dip of 8% owing to the same issues). Company has marginally rationalised spend towards A&P; however, margin compression is a natural outcome of contraction in EBITDA margin as well as lack of operating leverage.
	EBITDA	3,409	3,740	(8.8)	2,595	31.4	
	Core PAT	2,415	2,679	(9.8)	1,709	41.3	
Nestle India	Revenues	22,927	22,717	0.9	24,919	(8.0)	Nestle is likely to see a flattish domestic revenue growth on a base 17.5% in Q2CY17. Milk prices has been consistently moving up; Sugar prices have however cooled down - on an overall basis however we expect some contraction at gross margin level. The company has done more than 30 new launches and is running advertisements to promote products which will keep opex at an elevated levels keeping margins under check.
	EBITDA	4,471	4,513	(0.9)	5,272	(15.2)	
	Core PAT	2,493	2,628	(5.2)	3,068	(18.7)	
Pidilite Industries	Revenues	15,929	15,694	1.5	12,954	23.0	Pidilite is one of the beneficiaries of GST with rate of adhesives being fixed at 18% against existing effective rate of ~25%. This will however lead to destocking in the short term and thus impact volumes. We expect Pidilite to clock flat volume growth on a base of ~9% (Q4FY17 saw volume of ~8% on a base of ~14%). International business is undergoing some stress (pressure in North and South America) but better sales is expected in other geographies. Base quarter had one of the highest level of EBITDA margin which may not be sustainable and we expect some margin compression inspite of undertaking some cost rationalisation steps.
	EBITDA	3,982	3,943	1.0	2,579	54.4	
	Core PAT	2,750	2,726	0.9	1,554	77.0	

Stock		Q1FY18E (INR mn)	Q1FY17 (INR mn)	Y-o-Y (%)	Q4FY17 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
United Spirits	Revenues	19,557	20,405	(4.2)	20,250	(3.4)	Volumes will be impacted in Q1FY18 owing to highway liquor ban policy. We expect overall volumes for USL to witness a decline of ~8-10% YoY on a base of 0.6% YoY (Q4FY17 volumes dipped ~8% YoY on a base of 4% YoY degrowth). The volume decline would be across both Prestige and above as well as Popular segment. Gross margins can come under pressure due to high ENA prices, any savings due to cost savings and mix will be ploughed back in to Advertisement spends to support new launches. This coupled with lack of operating leverage will yield to compression in EBITDA margins too.
	EBITDA	1,701	1,985	(14.3)	2,651	(35.8)	
	Core PAT	515	683	(24.6)	1,908	(73.0)	

Valuation snapshot

	Reco	Mkt Cap USD mn	Price (INR)	P/E (x) FY18E	P/E (x) FY19E	P/B (x) FY18E	P/B (x) FY19E	RoE (%) FY18E	RoE (%) FY19E	Div yld (%) FY18E	Div yld (%) FY19E
Asian Paints	Buy	16,686	1,127	46.2	37.3	14.2	12.0	33.0	34.5	0.9	1.1
Bajaj Corp	Hold	900	395	23.8	23.0	11.6	11.3	49.1	49.7	3.4	3.5
Berger paints	Buy	3,672	245	43.8	34.8	12.1	10.4	29.6	32.1	0.8	1.0
Britannia	Buy	6,919	3,733	45.3	37.6	16.6	13.6	40.3	39.8	0.7	0.8
Colgate	Hold	4,677	1,114	44.4	38.3	21.6	18.5	52.6	52.0	1.3	1.5
Dabur	Buy	8,101	298	36.2	31.0	9.3	8.0	27.5	27.7	1.1	1.2
Emami	Buy	3,743	1,068	49.7	37.6	13.2	11.1	28.5	32.1	0.8	1.1
GlaxoSmithKline Consumer Healthcare	Hold	3,566	5,492	32.5	29.1	7.4	6.5	24.2	23.8	1.2	1.4
Godrej Consumer	Buy	10,325	982	42.9	35.2	10.0	8.6	24.7	26.0	0.8	1.0
Hindustan Unilever	Hold	36,652	1,097	47.3	39.7	47.9	42.6	106.5	113.0	1.6	1.9
ITC	Buy	62,092	331	32.7	28.0	9.5	8.5	30.5	31.9	1.7	1.9
Marico	Buy	6,475	325	44.1	38.6	15.5	13.2	38.1	37.1	1.1	1.3
Nestle	Hold	10,284	6,908	51.6	39.9	18.9	15.0	39.4	41.9	1.0	1.0
Pidilite Industries	Buy	6,556	828	43.4	36.8	10.7	9.0	26.5	26.3	0.7	0.8
United Spirits	Hold	5,823	2,595	56.4	39.9	14.8	10.8	30.2	31.2	0.0	0.0

RESULT PREVIEW

ENGINEERING & CAPITAL GOODS

Bottom-up stock selection to gain significance

India Equity Research | Strategy

The industrial sector has outperformed the benchmark Sensex by more than 30% over the past 6 months led by uptick in mass infrastructure and PSU capex. Leading industrial players L&T, ABB, Siemens, Bharat Electronics (BEL), Engineers India (EIL), KEC etc., have clocked robust ordering momentum from railways, defence, T&D, downstream oil & gas, among others, over the past 6-8 months, leading to strong run up in valuations. While near-term growth challenges are likely to persist given weak private sector, we place our bets on industry leaders with strong competitive moat and scalable business models in our preferred segments like defence, railways, oil & gas, T&D etc. Our top picks are EIL, BEL, Bharat Forge, KEC and Cummins India.

Key highlights of the sector during the quarter

Overall ordering activity across key segments like power generation and T&D has been weak with no major awards. This could lead to flat/low single digit growth in new orders overall for the sector, barring L&T given its diversified exposure. Ahead of GST, there was a strong dealer push for consumer durables led by de-stocking driving high double digit growth for them. However, we do not expect any immediate benefits for consumer durable players under our coverage. Execution scenario across companies may remain challenging, impacting sales growth of large EPC companies.

Result expectations for stocks under coverage

In a seasonally strong quarter, we expect our coverage universe to post ~8% revenue growth led by weaker execution for large players. Our coverage universe's margins are likely to improve ~30bps YoY given impact of new orders won over the past 12 months with better profitability. While the sector's overall order intake may not clock double digit growth, L&T, KEC and BEL are likely to clock reasonable ramp up in new orders during the quarter. We expect Cummins, Bharat Forge and ABB to post better top line growth in the short cycle space led by select domestic segments.

Outlook over the next 12 months

Industrials' valuations have run up reasonably over the past 6-8 months with many stocks like KEC, BEL, EIL and Bharat Forge giving strong returns. We expect the outperformance to continue given improving growth visibility.

Top picks

Bharat Forge, Bharat Electronics, Cummins India, KEC International, Engineers India.

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July 05, 2017

Stock		Q1FY18E (INR mn)	Q1FY17 (INR mn)	Y-o-Y (%)	Q4FY17 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
ABB	Revenues	23,081	21,015	9.8	21,688	6.4	We expect 10% yoy sustined increase in revenue and 14% yoy increase in EBITDA with margins at 8.4% mainly led by the Power Grids, Discrete Automation and Motion Segment and also the Renewables.
	EBITDA	1,932	1,701	13.6	1,714	12.7	
	Core PAT	937	774	21.1	882	6.3	
Astra Microwave Products	Revenues	668	568	17.6	1,564	(57.3)	We expect ~15% increase in revenues in Q1FY18 revenues on a low base in line with the management guidance of muted H1FY18. Margins are expceted to remain healthy at 16% lead by higher domestic revenue mix. Order intake would be a key monitorable
	EBITDA	107	27	293.1	426	(75.0)	
	Core PAT	36	(24)	249.6	303	(88.0)	
Bajaj Electricals	Revenues	10,581	9,594	10.3	12,639	(16.3)	We expect ~10% increase in topline due to the impact of GST on lighting and consumer durables segment with margins at 5.8%
	EBITDA	612	564	8.5	739	(17.2)	
	Core PAT	266	229	16.3	384	(30.7)	
Bharat Electronics	Revenues	10,076	8,714	15.6	39,877	(74.7)	We expect the Q1FY18 erevnues to remain muted being a seasonally weal quarter. Order intake and margins to be closely monitored.
	EBITDA	(655)	(467)	(40.3)	9,796	(106.7)	
	Core PAT	12	361	(96.7)	7,917	(99.9)	
Bharat Forge	Revenues	11,260	9,570	17.7	11,257	0.0	We expect the revenues to increase ~18% on the back of sequential recovery in exports business whereas the domestic revenue growth is expected to sustain. Margins are also expected to improve slightly to ~27% levels.
	EBITDA	3,035	2,444	24.2	3,199	(5.1)	
	Core PAT	1,587	1,221	30.0	1,695	(6.3)	
Bharat Heavy Electricals	Revenues	57,117	56,225	1.6	96,882	(41.0)	We expect the Revenues to remain flat as BHEL has not been able to get a final go ahead on many projects and also due to decline in the fresh order inflows which has led its order book to shrink.
	EBITDA	1,661	710	133.8	6,509	(74.5)	
	Core PAT	757	777	(2.7)	2,156	(64.9)	
Crompton Greaves (Consolidated)	Revenues	16,033	15,239	5.2	17,101	(6.2)	CG is expected to see revenue growth of ~5% and margins of 7%. Order intake will be a key monitorable.
	EBITDA	1,129	1,206	(6.3)	1,181	(4.4)	
	Core PAT	429	401	7.1	376	14.1	
Cummins India	Revenues	13,899	12,590	10.4	11,844	17.3	We expect revenue growth of 10% led by the traction in the industrial activities, power gen and distribution segment led by pick up in infra
	EBITDA	2,160	2,063	4.7	1,700	27.0	
	Core PAT	1,946	1,812	7.4	1,585	22.8	
Engineers India	Revenues	3,691	3,418	8.0	4,429	(16.7)	We expect a moderate ~8% yoy increase in the revenues in line with the management guidance as most of the revenue has been pushed to FY19. The Order intake will be a key monitorable with order book targets of FY17
	EBITDA	797	733	8.7	543	46.9	
	Core PAT	829	803	3.2	660	25.6	
Greaves cotton	Revenues	4,601	4,448	3.4	3,907	17.7	We expect flat growth in Q1FY18 with stable margins at 13.8%.
	EBITDA	635	604	5.2	533	19.1	
	Core PAT	409	441	(7.3)	404	1.3	
Havells India (Standalone)	Revenues	23,773	14,668	62.1	17,102	39.0	We expect 50% growth in Q1FY18 vis-a-vis the corresponding previous year quarter with the revenues of the AC division of Lloyd being included.
	EBITDA	2,650	2,012	31.7	2,296	15.4	
	Core PAT	1,714	1,456	17.8	947	81.0	

Stock		Q1FY18E (INR mn)	Q1FY17 (INR mn)	Y-o-Y (%)	Q4FY17 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
KEC International (Consolidated)	Revenues	19,081	17,847	6.9	28,492	(33.0)	We expect 7% growth in Q1FY18 with railways and T&D gaining traction and margins are expected to remain healthy at above 8% levels. Order intake and working capital levels to remain key monitorable.
	EBITDA	1,781	1,496	19.1	3,011	(40.9)	
	Core PAT	535	309	72.8	1,455	(63.3)	
Kalpataru Power	Revenues	12,849	11,874	8.2	14,963	(14.1)	We expect revenue increase of ~8%+ in Q1FY18 led by pickup in execution in T&D projects. Margins are expected to be at ~10% levels. Order intake would be a key monitorable
	EBITDA	1,349	1,308	3.2	1,573	(14.2)	
	Core PAT	687	645	6.5	896	(23.3)	
L&T (Consol)	Revenues	233,663	218,738	6.8	368,280	(36.6)	We expect a moderate revenue growth of ~7% on back of 8-10% growth in hudrocarbons, IT and finance businesses while infra expected to grow ~5%. Working capital levels and order intake are key monitorables.
	EBITDA	20,849	19,051	9.4	43,351	(51.9)	
	Core PAT	6,761	6,097	10.9	33,057	(79.5)	
Praj Industries	Revenues	2,043	2,049	(0.3)	3,016	(32.3)	We expect flat revenue in Q1FY18 and margins at 5% . Status on Petrobras proejct and new order intake would be key monitorable.
	EBITDA	109	68	60.3	383	(71.6)	
	Core PAT	64	41	56.5	228	(71.8)	
Ramkrishna Forgings	Revenues	2,598	2,178	19.3	2,887	(10.0)	We expect ~20% increase in revenues in Q1FY18 led by ~12/20% increase in domestic and export sales on the back of improving outlook of class 8 truck market
	EBITDA	504	418	20.7	564	(10.5)	
	Core PAT	114	62	81.7	141	(19.4)	
Siemens	Revenues	29,549	26,204	12.8	29,288	0.9	We expect 13 % revenue growth led by growth in the energy and mobility business led by the growth in the railways and T&D industry. Order intake would be a key monitorable.
	EBITDA	2,660	2,339	13.7	2,786	(4.5)	
	Core PAT	1,694	1,301	30.3	1,791	(5.4)	
TD power systems	Revenues	906	814	11.3	1,286	(29.6)	We expect revenue growth of 10% and margins at 2.5% levels.
	EBITDA	25	15	66.1	102	(75.9)	
	Core PAT	(7)	(22)	NA	80	(109.0)	
Techno electric	Revenues	2,780	2,709	2.6	3,619	(23.2)	The revenues are expected to grow by ~3% and margins to remain at 25% levels. Order intake to be a key monitorable.
	EBITDA	681	712	(4.3)	544	25.2	
	Core PAT	402	485	(17.1)	295	36.2	
Thermax	Revenues	8,657	8,145	6.3	14,905	(41.9)	We expect revenue growth of ~6% with margins at 8%. The single biggest key monitorable for the company is the order inflow.
	EBITDA	698	637	9.6	1,732	(59.7)	
	Core PAT	469	452	3.8	531	(11.6)	
Triveni Turbines	Revenues	1,764	1,549	13.9	1,790	(1.5)	We expect TTL to post 9% revenue growth led by traction domestic markets. We expect thje margins to be ~20.5% levels. Order intake both at the SA level and TTL JE level would be key monitorable and would decide the growth path for FY18.
	EBITDA	365	317	15.0	376	(2.8)	
	Core PAT	253	219	15.6	272	(6.7)	
Va Tech Wabag	Revenues	6,592	5,803	13.6	11,317	(41.8)	On the back of strong OB, we expect 20%+ revenue growth for the company. Margins and working capital would be a key monitorable.
	EBITDA	336	275	22.2	1,317	(74.5)	
	Core PAT	105	6	1,561.3	757	(86.2)	
Voltas	Revenues	19,987	18,552	7.7	20,351	(1.8)	We expect revenues to increase by 8% mainly led by the UCP segment and margins at 10.8%
	EBITDA	2,153	1,995	7.9	2,219	(3.0)	
	Core PAT	1,690	1,570	7.7	2,018	(16.2)	

Valuation snapshot

	Reco	Mkt Cap USD mn	Price (INR)	P/E (x) FY18E	P/E (x) FY19E	P/B (x) FY18E	P/B (x) FY19E	RoE (%) FY18E	RoE (%) FY19E	Div yld (%) FY18E	Div yld (%) FY19E
ABB India	Buy	4,695	1,435	61.5	48.1	8.3	7.3	14.2	16.1	0.3	0.3
AIA Engineering	Buy	2,058	1,413	25.7	21.6	4.3	3.7	17.7	18.2	0.6	0.6
Astra Microwave Products	Buy	191	143	17.9	14.5	2.4	2.1	14.3	15.6	1.1	1.1
Bajaj Electricals	Hold	505	323	18.1	NA	3.3		19.6	NA	1.1	0.0
Bharat Electricals	Buy	5,849	170	23.6	19.7	4.3	3.7	19.7	20.4	0.0	0.0
Bharat Heavy Electronics	Buy	5,066	134	29.9	18.7	1.0	1.0	3.4	5.3	1.5	2.2
Crompton Greaves	Hold	803	83	29.7	22.1	1.3	1.2	4.2	5.4	0.6	0.6
Cummins India	Buy	3,911	914	29.2	24.4	6.0	5.1	21.7	22.6	1.6	1.6
Engineers India	Buy	1,632	157	28.4	19.4	3.7	3.6	13.3	18.8	2.6	3.2
Greaves Cotton	Hold	607	161	19.9	17.3	3.8	3.4	20.2	20.7	1.9	1.9
Havell's India	Buy	4,555	472	38.6	31.1	7.9	7.0	21.8	23.9	0.0	0.0
Kalpataru Power Transmission	Buy	796	336	16.3	13.8	1.9	1.7	12.0	12.7	1.0	1.0
KEC International	Buy	1,020	257	18.5	15.6	3.5	2.9	20.4	20.1	0.5	0.5
Larsen & Toubro	Buy	24,433	1,695	24.2	20.4	2.9	2.6	12.4	13.3	0.9	1.0
Praj Industries	Buy	212	77	24.3	16.8	1.9	1.8	7.8	10.9	2.6	2.8
Ramkrishna forgings	Buy	237	535	22.0	14.3	2.8	2.4	13.4	17.9	0.6	0.7
Siemens	Hold	7,472	1,359	65.3	53.2	7.0	6.4	10.9	12.6	0.6	0.6
SKF India	Buy	1,311	1,610	29.2	23.4	4.1	3.7	14.9	16.6	0.9	1.1
TD Power Systems	Hold	118	230	39.8	21.9	1.6	1.5	4.1	7.2	1.6	1.8
Techno electric	Buy	673	382	18.3	15.1	3.4	2.9	20.1	20.9	1.3	1.0
Thermax	Reduce	1,714	932	35.4	28.0	4.1	3.6	11.4	13.0	0.8	0.8
Triveni Turbine	Buy	799	157	36.9	30.5	10.8	8.8	31.5	31.2	0.8	0.8
VA Tech Wabag	Buy	573	680	18.9	16.0	3.2	2.7	18.3	18.4	0.7	0.7
Voltas	Buy	2,431	476	28.5	25.9	4.2	3.7	15.6	15.3	0.8	0.8

RESULT PREVIEW

ENERGY

Subdued quarter; few bright spots

India Equity Research | Strategy

We expect the oil & gas sector to turn in a subdued Q1FY18 post a mixed Q4FY17. While oil price has tumbled, Singapore benchmark has been flat QoQ. We believe, upstream and downstream oil marketing companies (OMCs) will be impacted by oil price correction. Inventory losses in the refining segment in addition to ramp-up private competition in retail segment will weigh on OMC earnings. Reliance Industries' (RIL) earnings will be supported by strong polymer and polyester spreads in addition to increased output from new capacities. City gas will continue to see volume pick up even as margins recover on benign LNG prices. Sustained oil price correction should trigger output moderation in US shale, ultimately supporting prices.

Key highlights of the sector over the quarter

Brent has corrected ~8% QoQ, up 10% YoY to USD50/bbl. Singapore GRMs have been flat at USD6.4/bbl (up 28% YoY) on subdued MS/HSD crack spreads. Estimated diesel retail margin has been robust, up ~30% QoQ.

Result expectations for stocks under coverage

RIL: We estimate subdued operating performance with flat standalone EBIT QoQ and PAT at INR79bn. We expect GRMs at USD11.2/bbl (down 3% QoQ), a USD4.8/bbl premium over Singapore benchmark. We estimate refining and petchem EBIT to be flat / 8% higher QoQ, respectively, on subdued GRMs and robust petrochemical spreads in addition to higher output.

ONGC: We expect PAT to dip 4% QoQ to INR42bn on ~7% lower net realisation. We estimate flattish oil and 3% higher gas sales QoQ.

IGL: We expect earnings to improve 6% QoQ on 10% higher EBITDA margin (on benign feedstock prices) and 3% QoQ improvement in volumes.

Outlook over the next 12 months

We believe, sustained correction in oil will moderate the growth rate of US shale output. The announced output cuts have been offset by jump in shale as well as increase in oil production from regions exempted from cuts. We, therefore, expect oil price to remain range bound. With demonetisation headwinds now behind, we expect city gas and petrochemical volumes to pick up. LNG prices are likely to remain subdued given the global oversupply, barring one-off outages. GAIL's petrochemical segment will benefit from benign feedstock, while lower LNG will encourage gas demand and consequently higher transmission volumes. Ramp up of IOCL's flagship Paradip refinery will boost near-term earnings. Stabilisation of BPCL's Kochi expansion will be a key monitorable.

Top picks: RIL, IOCL, GUJGA.

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July 05, 2017

Stock		Q1FY18E (INR mn)	Q1FY17 (INR mn)	Y-o-Y (%)	Q4FY17 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Bharat petroleum	Revenues	623,635	469,387	32.9	570,365	9.3	We expect a subdued Q1 with PAT of INR15bn, down 40% QoQ, with GRM at USD4.9/bbl (HPCL at USD4.4/bbl and IOCL at USD4.5/bbl). GRM will be impacted due to ongoing stabilisation of Kochi expanded capacity and inventory losses following 8% correction in oil. Retail margins could see pressure given onset of private competition and digital discounts.
	EBITDA	20,678	39,192	(47.2)	28,091	(26.4)	
	Core PAT	14,538	26,205	(44.5)	24,385	(40.4)	
GAIL	Revenues	135,627	106,866	26.9	134,217	1.1	We expect robust performance to continue with PAT at INR11bn (up 14% YoY, down 3% QoQ). We expect strong earnings momentum in the LPG and petrochemical segment offset by subdued transmission and gas trading performance.
	EBITDA	16,534	15,732	5.1	15,250	8.4	
	Core PAT	10,933	8,459	29.2	8,118	34.7	
Gujarat Gas	Revenues	14,229	12,248	16.2	14,002	1.6	We estimate robust Q4 with PAT at INR1.1bn (up 3x QoQ). Volume recovery is expected to remain strong (7% QoQ), EBITDA margin will recover to INR4.3/scm following normalisation of spot LNG price.
	EBITDA	2,533	2,190	15.7	1,463	73.1	
	Core PAT	1,071	759	41.2	331	223.3	
Gujarat state petronet	Revenues	2,780	2,581	7.7	2,460	13.0	We estimate PAT at INR1.4bn (up 7% QoQ, 12% YoY). Transmission volumes are expected to revive 11% QoQ on higher offtake by refining and power sector. Transmission tariffs will be flat QoQ.
	EBITDA	2,443	2,333	4.7	2,027	20.5	
	Core PAT	1,359	1,213	12.1	1,270	7.0	
Mahanagar Gas Ltd	Revenues	5,212	4,834	7.8	5,253	(0.8)	MGL will report robust Q1 with PAT at INR1.1bn, up 9% QoQ, 16% YoY. We expect a 3% QoQ CNG volume growth with demonetisation headwinds behind, while EBITDA margin is expected to be flat.
	EBITDA	1,713	1,524	12.5	1,631	5.0	
	Core PAT	1,080	927	16.4	995	8.5	
Hindustan petroleum	Revenues	585,706	448,408	30.6	515,248	13.7	We expect a subdued Q1 with PAT of INR12bn, down 32% QoQ, with GRM at USD4.4/bbl (BPCL at USD4.9/bbl and IOCL at USD4.5/bbl). GRM will be impacted due to inventory losses following 8% correction in oil. Retail margins could see pressure given onset of private competition and digital discounts.
	EBITDA	22,116	36,268	(39.0)	28,860	(23.4)	
	Core PAT	12,362	20,984	(41.1)	18,188	(32.0)	
Indian Oil corporation	Revenues	1,001,873	860,807	16.4	1,003,375	(0.1)	We expect a subdued Q1 with PAT of INR40bn, up 8% QoQ, with GRM at USD4.5/bbl (BPCL at USD4.9/bbl and HPCL at USD4.4/bbl). GRM will be impacted due to inventory losses following 8% correction in oil offset by higher utilization at Paradip. Retail margins could see pressure given onset of private competition and digital discounts.
	EBITDA	77,147	136,835	(43.6)	44,086	75.0	
	Core PAT	40,206	82,690	(51.4)	37,206	8.1	
Indraprastha gas	Revenues	10,456	8,997	16.2	10,019	4.4	We estimate Q1 PAT at INR1.4bn (up 6% QoQ, down 4% YoY). CNG volumes is likely to improve 4% QoQ given bus additions seen in FY17. PNG will continue to grow at a robust 8%. EBITDA margin will likely improve 10% QoQ to INR5.6/scm given recent price hikes and subdued feedstock cost.
	EBITDA	2,401	2,596	(7.5)	2,122	13.2	
	Core PAT	1,421	1,480	(4.0)	1,341	6.0	
ONGC	Revenues	200,478	176,704	13.5	217,140	(7.7)	We estimate a mixed Q1, with PAT at INR42bn (down 2% YoY, 4% QoQ). The 8% QoQ decrease in oil realisation will be offset by 3% higher gas sales.
	EBITDA	85,975	92,761	(7.3)	67,252	27.8	
	Core PAT	41,647	42,325	(1.6)	43,402	(4.0)	
Petronet LNG	Revenues	67,612	51,090	32.3	63,651	6.2	We estimate Q1 PAT at INR4.4bn (down 6% QoQ). 7% QoQ volume recovery will be offset by modest trading gains given subdued LNG price in Q1.
	EBITDA	7,199	6,425	12.1	7,063	1.9	
	Core PAT	4,410	3,779	16.7	4,708	(6.3)	

Stock		Q1FY18E (INR mn)	Q1FY17 (INR mn)	Y-o-Y (%)	Q4FY17 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
RIL	Revenues	619,479	534,960	15.8	671,460	(7.7)	We estimate standalone PAT at INR79bn, down 3% QoQ. We estimate GRM to correct 3% to USD11.2/bbl despite flattish Singapore benchmark due to correction in oil price. We expect refining EBIT to be flat QoQ while petchem EBIT to improve 8% on firm polymer and polyester spreads and 6% higher output on the back of new capacities.
	EBITDA	112,172	108,170	3.7	112,800	(0.6)	
	Core PAT	78,757	75,480	4.3	81,510	(3.4)	

Valuation snapshot

		Mkt Cap	Price	P/E (x)		P/B (x)		RoE (%)		Div yld (%)	
	Reco	USD mn	(INR)	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Bharat Petroleum Corporation	Buy	14,784	662	8.4	7.2	2.6	2.1	30.8	31.2	4.0	4.6
GAIL	Buy	9,481	363	14.0	12.5	1.5	1.4	10.6	10.9	2.3	2.5
Gujarat State Petronet	Buy	1,542	177	18.8	16.6	2.1	1.9	11.4	11.9	1.3	1.5
Gujarat Gas	Buy	1,613	759	25.6	18.7	5.2	4.3	22.3	25.3	0.8	1.1
HPCL	Hold	8,095	516	5.7	5.0	2.1	1.7	40.1	38.1	6.2	7.1
Indraprastha Gas	Buy	2,317	1,072	20.9	18.6	4.3	3.7	22.1	21.6	0.9	1.1
Indian Oil Corporation	Buy	28,919	386	8.3	7.5	1.7	1.5	21.6	21.2	5.4	5.9
Mahanagar Gas Ltd	Buy	1,497	982	22.0	19.5	4.4	3.9	22.0	21.4	1.8	1.8
ONGC	Buy	32,259	163	9.6	7.6	1.0	0.9	9.9	12.4	5.0	6.6
Petronet LNG	Hold	4,976	215	8.2	7.5	1.7	1.5	22.8	21.5	2.3	3.3
Reliance Industries	Buy	72,429	1,443	13.6	12.5	1.5	1.3	11.2	11.1	1.5	1.9

IT

INR appreciation to aggravate margin woes

India Equity Research | Strategy

We estimate the top-5 IT players, Tata Consultancy Services (TCS), Infosys, Wipro, HCL Technologies (HCLT) and Tech Mahindra (TECHM) to clock -1.0-4.2% QoQ USD revenue growth in Q1FY18. Appreciation of GBP, EUR and JPY against USD will lead to 40-90bps revenue tailwinds. However, margins will be under pressure on account of visa expenses, wage hikes and 3.9% INR appreciation against USD. HCLT (bolstered by acquisitions), Infosys and TCS are expected to lead the pack with 4.2%, 2.8% and 2.3% QoQ USD revenue growth, respectively, while Wipro and TECHM are expected to post a decline of 0.3% and 1.0%, respectively. <u>We would keenly monitor: 1) revenue growth traction of digital services; 2) management commentaries on clients' budgets; 3) growth in key verticals, such as, BFSI, manufacturing, retail, healthcare, etc; 4) pace of local hiring due to expected changes in visa regime; and 5) pace of commoditisation of legacy business and impact of same on demand outlook.</u> We maintain 'BUY' on Infosys, HCLT, TECHM and Wipro and 'HOLD' on TCS.

Cross currency to aid revenue growth

With GBP/EUR/JPY appreciating by 3.2%/3.2%/2.3% QoQ against USD, we expect cross currency tailwinds of 40-90bps for top-5 Indian IT companies. While we believe that retail will remain soft, we expect growth to be driven by manufacturing, BFSI and telecom verticals. We expect HCLT to post USD revenue growth of 4.2%, driven by acquisition while Infosys and TCS are expected to post growth of 2.8% and 2.3%, respectively. With Q1 being a weak quarter for Wipro, revenues are expected to dip by 0.3%, while TECHM is likely to post 1.0% USD revenue decline following weakness in network business.

INR appreciation, visa costs, wage hike to take a toll on margins

We expect seasonal margin pressure in Q1, led by visa costs and wage hikes to be further accentuated by 3.9% QoQ INR appreciation against USD. We expect margins to further decline on increase in local hirings, though its impact would be gradual. Some of the impact will be compensated by improving operating efficiencies leading to 50-120bps margin decline.

Outlook: Strength in BFSI and Manufacturing to drive growth

We expect Indian IT companies to show pickup in growth on seasonality and strength in BFSI and manufacturing sector. Any turnaround in retail and healthcare verticals, which have been a key revenue growth headwind, would reinforce confidence in revenue growth for the sector. We expect Indian IT companies to report healthy growth in digital related services (in excess of 30%), while legacy services will continue to remain soft during this transitional phase. In our pecking order, we maintain **'BUY'** on Infosys (top pick), HCLT, TECHM and Wipro, and **'HOLD'** on TCS.

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July 05, 2017

Stock		Q1FY18E (INR mn)	Q1FY17 (INR mn)	Y-o-Y (%)	Q4FY17 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Cyient	Revenues	9,434	8,349	13.0	9,410	0.3	Revenues to grow 3.8% in USD terms and 3.0% in cc terms as Q1 is seasonally strong quarter for the compnay . Expect EBITDA margin to contract 50bps QoQ due to INR appreciation and visa costs partially set-off by better margins in service business. Commentary on deal pipeline and traction in DLM business to be keenly monitored.
	EBITDA	1,204	1,089	10.5	1,247	(3.5)	
	Core PAT	990	739	33.9	784	26.2	
e-Clerx	Revenues	3,262	3,403	(4.1)	3,315	(1.6)	Revenue expected to grow 2.3% QoQ in USD terms,1.5% in cc terms. EBITDA margin to jump 210bps, as base was low in Q4FY17due to one-off item relating to DTA . Demand outlook, particularly for short-term projects, and impact of insourcing and automation in client base will be key monitorables.
	EBITDA	1,076	1,259	(14.5)	1,023	5.2	
	Core PAT	825	960	(14.1)	748	10.3	
HCL Tech	Revenues	122,033	113,360	7.7	120,530	1.2	Expect HCL Tech to post revenue growth of 4.2% QoQ in USD terms and 3.3% in constant currency, implying positive cc movement of 90bps. Revenue growth to be aided by revenues from IBM deals, Butler Aerospace and Geometric deals. Expect EBITDA margin to contract 50 bps QoQ majorly on account of higher visa costs and INR appreciation. Management commentary on traction in Mode 2 and 3 services to be monitored.
	EBITDA	26,212	25,210	4.0	26,490	(1.0)	
	Core PAT	20,922	20,430	2.4	23,280	(10.1)	
Hexaware	Revenues	9,625	8,697	10.7	9,605	0.2	USD revenue growth to grow 3.2% in USD terms and 2.8% in cc terms. EBITDA margin to contract 70bps majorly on account of visa costs, INR appreciation and wage hike. Hexaware's outlook on the top-10 clients and demand outlook, particularly in discretionary space will be key monitorables.
	EBITDA	1,560	1,353	15.3	1,623	(3.9)	
	Core PAT	1,152	999	15.3	1,140	1.1	
InfoEdge	Revenues	2,266	1,976	14.7	2,084	8.7	Revenue expected to grow 14.7% YoY due to traction in recruitment business, Jeevansathi and Skisha. EBITDA margin expected to decline 20bps QoQ. InfoEdge's commentary on 99acres business (impact of RERA and GST), new acquisitions, investee companies' performance (especially Zomato) are key monitorables.
	EBITDA	682	478	42.7	632	7.9	
	Core PAT	598	444	34.8	329	82.0	
Infosys	Revenues	170,150	167,820	1.4	171,200	(0.6)	Revenue growth of 2.4% QoQ in cc terms, further aided 40bps by currency movement (USD growth 2.8% QoQ). EBITDA margin to contract by 80bps QoQ majorly on account of Visa costs and INR appreciation, partially set-off by operational efficiencies. Commentary on client budgets, deal wins, margin levers and local hiring will be key monitorables.
	EBITDA	44,844	44,470	0.8	46,580	(3.7)	
	Core PAT	34,952	34,360	1.7	36,030	(3.0)	
Just Dial	Revenues	1,922	1,763	9.0	1,817	5.8	Revenue growth to be 9.0% YoY driven by increase in campaigns as benefit from advertisement (started in last quarter) accrue. We expect margin to contract by 170bps QoQ majorly due to advertisement expenses. Management commentary on strategy in core business, and plan of action in JD Omni and further advertising will be keenly watched.
	EBITDA	307	293	4.9	322	(4.6)	
	Core PAT	277	389	(28.9)	254	9.1	
Persistent Systems	Revenues	7,376	7,018	5.1	7,271	1.4	Revenue to grow 4.9% in USD terms on account of low base, as Q4 is seasonally weak quarter for Alliance business. Margin to contract by 20bps on account of INR appreciation and visa costs offset by operational efficiencies and pyramid rationalisation. Commentary on IBM Watson deal, new acquisitions, contribution from IP-led revenue are key monitorables.
	EBITDA	1,184	1,058	12.0	1,188	(0.3)	
	Core PAT	810	733	10.4	728	11.2	

Stock		Q1FY18E (INR mn)	Q1FY17 (INR mn)	Y-o-Y (%)	Q4FY17 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
TCS	Revenues	293,685	293,050	0.2	296,420	(0.9)	CC revenue growth of 1.5% QoQ and aided 80bps by cross currency (2.3% growth in USD terms). EBITDA margin expected to contract by 150bps QoQ on account of wage hikes, visa costs and INR appreciation. Commentary on client budgets, spends by BFSI clients and H1B visa issues key monitorables.
	EBITDA	75,998	78,370	(3.0)	81,330	(6.6)	
	Core PAT	63,843	63,412	0.7	66,080	(3.4)	
TechMahindra	Revenues	72,159	69,209	4.3	74,950	(3.7)	We estimate TECHM's revenue to decline 1.0% in USD terms, 1.7% in cc terms QoQ. Revenue decline expected due to weakness in Network business. EBITDA margin to expand 70bps QoQ, as Q4FY17 had an one-time impact of 180bps. Excluding that, margins are expected to fall 110bps due to INR appreciation, weakness in legacy business and visa costs. Commentary on progress on LCC, telecom vertical, margin outlook for rest of the year will be keenly monitored.
	EBITDA	9,179	10,290	(10.8)	8,987	2.1	
	Core PAT	5,981	7,500	(20.3)	5,880	1.7	
Wipro	Revenues	134,255	135,992	(1.3)	139,875	(4.0)	Wipro to post USD revenue decline of 0.3% QoQ (cc decline of 1.2% QoQ), as Q1 is generally weak quarter for Wipro . Operating margins (EBIT) to contract 90bps QoQ on account of INR appreciation, wage hike and visa costs. Demand outlook in energy & utilities vertical, traction in BPM and restructuring in India and Middle East business are key monitorables.
	EBITDA	27,264	26,528	2.8	32,264	(15.5)	
	Core PAT	20,599	20,518	0.4	22,611	(8.9)	

Valuation snapshot

		Mkt Cap	Price	P/E (x)		P/B (x)		RoE (%)		Div yld (%)	
	Reco	USD mn	(INR)	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Cyient	Buy	915	526	13.6	12.2	2.4	2.1	19.0	18.4	1.9	1.9
eClerx Services	Hold	804	1,307	14.6	12.9	3.8	3.4	27.8	27.8	3.2	3.6
HCL Tech	Buy	18,453	838	13.1	11.9	3.1	2.7	25.0	24.2	3.1	3.6
Hexaware Technologies	Hold	1,122	240	15.6	14.7	4.0	3.7	26.2	26.0	4.2	4.2
Infosys Technologies	Buy	33,730	951	14.2	13.0	3.0	2.8	21.6	22.0	4.2	4.6
Info Edge	Buy	1,897	1,014	45.7	38.5	8.2	7.1	12.9	13.9	0.5	0.6
Just Dial	Reduce	393	366	20.1	18.3	2.5	2.2	13.2	12.7	0.0	0.0
Persistent Systems	Buy	846	685	15.3	13.3	2.6	2.3	18.4	18.6	1.8	1.8
Tata Consultancy Services	Hold	71,680	2,356	16.8	15.7	4.4	3.8	28.4	25.9	2.0	2.2
Tech Mahindra	Buy	5,680	377	10.8	9.4	1.8	1.6	17.5	18.1	2.7	3.2
Wipro	Buy	19,370	258	7.0	6.5	1.1	1.0	16.6	16.4	5.4	6.2

RESULT PREVIEW

MEDIA

GST a long-term booster; Baahubali bolsters multiplexes

India Equity Research | Strategy

April and May have been good for the ad industry post demonetisation. However, with roll out of GST from July 1, FMCG companies (contribute 27% to overall advertising) have started postponing new launches, leading to lower ad spends. We estimate our media universe (ex-Hathway and Jagran) to report revenue dip of 0.7% YoY (1.6% YoY growth in Q4FY17) and 5.0% YoY EBITDA dip (4.4% YoY growth in Q4FY17). However, going ahead, a number of factors augur well for the TV broadcasting industry: i) GST implementation will energise H2FY18 ad growth; ii) BARC India's digital measurement services will resolve the digital measurement metric; and iii) Phase III & IV digitisation will aid subscription growth. For multiplexes, the quarter commenced with blockbuster *Baahubali 2: The Conclusion (*INR10bn plus box office collection in India).

GST rollout leads to ad cuts

GST roll out led to lower ad spends in Q1FY18. We expect **ZEE to clock 8% YoY LTL ad growth** (on overall basis, ad growth will be 4.8% YoY). We estimate Sun TV to report 4.0% YoY dip in ad growth on low base of 3.7% YoY ad dip primarily affected by lower regional ad spends. While Jagran Prakashan is likely to report 4% YoY print ad growth, DB Corp is estimated to clock 2% YoY ad growth on high base of 20.2% YoY. Radio City is expected to report robust 10.0% YoY growth on base of 22.9% even though new stations will be fully operational. **Dish TV's subscription revenue is expected to increase 4.9% QoQ aided by net subscriber addition of 0.25mn and increase in ARPU by 3% QoQ to INR139 (overall revenue flattish QoQ).** We estimate PVR to report strong footfalls and ATP aided by *Baahubali 2: The Conclusion*. Continuation of monetisation of Phase III subscribers will result in slightly higher subscription revenue for MSOs.

Margins to be soft

We expect ZEE to report 31% EBITDA margin in Q1FY18 (up 217bps YoY) even though the company continues to invest in content (*Aisi Deewangi.. Dekhi Nai Kahin* from May & *Chupke* and *Asli Champion…Hai Dum* from May on &TV). It will also launch *India's Best Judwa* and *Fear Files* from July on Zee TV. **Sun TV's EBITDA margin is estimated to dip 138bps YoY due to higher IPL losses (Sunrisers Hyderabad stood fourth versus first in base).** Dish TV is likely to report EBITDA margin of 27.4% (34.0% in Q1FY17) impacted by lower revenue growth. PVR is likely to report 18.9% EBITDA margin (156bps YoY dip).

Outlook for the next 12 months

Freedish subscribers will pick up as Phase IV digitisation continues. **We expect the delay window of archived content aired on FTA channels to return to 1 year from 1-3 months currently.** While competitive intensity will rise in Tamil GEC (Colors Tamil likely to be launched in Q4CY17), Hindi GEC will see new entrant—*Discovery Jeet* launch likely to target male viewers.

Top picks: ZEE and Sun TV

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July 05, 2017

Stock		Q1FY18E (INR mn)	Q1FY17 (INR mn)	Y-o-Y (%)	Q4FY17 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
DB Corp	Revenues	5,824	5,704	2.1	5,171	12.6	Due to implementation of GST, we expect 2%YoY print ad growth in Q1FY18 on a high base of 20.2% YoY. Circulation revenues are expected to grow by 6% YoY in Q1FY18 (7.1% YoY in Q4FY17; 8.9% YoY in Q3FY17; 11.5% YoY in Q2FY17; and 15.1% YoY in Q1FY17), mainly led by higher net realisations. Radio is expected to report 10% YoY ad growth in Q1FY18. Newsprint cost has remained stable.
	EBITDA	1,678	1,812	(7.4)	1,122	49.5	
	Core PAT	1,007	1,040	(3.1)	642	56.9	
DEN Networks	Revenues	3,309	2,689	23.1	3,172	4.3	The company has shifted to IND AS numbers. Subscription revenue is expected to increase by 5.1% QoQ led by slightly higher DAS I and II ARPUs and better monetisation in Phase III. Activation revenue to be steady QoQ at INR200mn (INR230mn in Q4FY17). Broadband business is expected to do well in Q1FY18, we expect the company to add 20,000 broadband subscribers to 197,000. Broadband ARPU to remain broadly remain stable at INR730 in Q1FY18.
	EBITDA	612	433	41.3	565	8.4	
	Core PAT	(218)	(521)	NA	(605)	63.9	
Dish TV	Revenues	7,111	7,786	(8.7)	7,086	0.4	We expect 4.9% QoQ growth in subscription revenue (base got affected due to demonetisation) aided by net additions of 0.25mn subscriber in Q1FY18 (versus 0.16mn in Q4FY17 and 0.40mn subscribers in Q1FY17). ARPU is expected to increase by 3% QoQ to INR139 (still lower than its peak of INR165). The company is implementing IND AS from Q1FY18 and hence there could be some accounting change.
	EBITDA	1,950	2,646	(26.3)	1,906	2.3	
	Core PAT	(150)	409	(136.6)	(283)	47.2	
Hathway Cable & Datacom	Revenues	1,402	1,046	34.0	NA	NA	Hathway has restructed the company and shifted its cable operation into a wholly owned subsidiary. Therefore going ahead, the company will report pure broadband standlone business numbers. We expect 20,000 broadband subscribers to be added in Q1FY18 with an average ARPU of INR730. Hence, broadband revnue is expected to increase 34.0% YoY.
	EBITDA	420	NA	NA	NA	NA	
	Core PAT	NA	NA	NA	NA	NA	
Jagran Prakashan	Revenues	5,884	5,587	5.3	5,650	4.1	We expect standalone print ad growth of 4% YoY on base of 8.5% YoY lower than normal run rate of 7-8% YoY due to GST implementation. Radio City is expected to report robust 10% YoY growth on base of 22.9%. Circulation revenue is expected to grow by 4.0% YoY on a base of 6.2%. Newsprint prices is expected to be stable. We expect EBITDA margin to drop slightly due to lower ad growth.
	EBITDA	1,559	1,540	1.2	1,432	8.9	
	Core PAT	777	840	(7.5)	NA	NA	
PVR	Revenues	6,437	5,702	12.9	4,826	33.4	The quarter commenced with blockbuster The Baahubali 2: The conclusion. The film alone reported INR10bn plus box office collection across all languages in India. However, films like Begum Jaan, Sarkaar 3, Baywatch and Tubelight did not perform up to the expectations. Overall, Q1FY18 was a decent quarter. We expect 10% YoY increase in ARPU to INR215. LTL SPH is expected to increase by double digit YoY, while advertising will report robust 18% YoY growth. DT Cinemas will be consolidation happened from June 2016. Hence two months of DT Cinema is not present in base. The company opened 8 screens in Q1FY18.
	EBITDA	1,217	1,167	4.3	467	160.3	
	Core PAT	401	428	(6.4)	(0)	NA	

Stock		Q1FY18E (INR mn)	Q1FY17 (INR mn)	Y-o-Y (%)	Q4FY17 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Sun TV	Revenues	7,425	7,608	(2.4)	5,825	27.5	We expect the company to report 4% YoY dip in ad growth due to cautious spend in ad spends by regional advertisers. DTH revenues would grow by 12.0% YoY in Q1FY18 (9.6% YoY in Q4FY17, 10.7% in Q3FY17, 14.4% YoY in Q1FY17). The company stood fourth in IPL 10. Therefore, we expect lower revenues in Q1FY18 versus Q1FY17 (stood first). We expect INR550mn loss in IPL.
	EBITDA	4,157	4,364	(4.7)	3,936	5.6	
	Core PAT	2,374	2,331	1.8	2,359	0.6	
Zee Entertainment	Revenues	14,790	15,716	(5.9)	15,280	(3.2)	ZEE recorded ~INR268mn ad revenues, ~INR982mn subscription revenue from sports on a quarterly basis in FY17. With Ten Sports deal sealing off in Q4FY17, the company will report 8% YoY LTL ad growth in Q1FY18. On an overall basis, ad growth will be 4.8% YoY. LTL domestic subscription revenue growth is likely to grow by 11% YoY on a base of 13.6% YoY. However due to Ten Sports present in the base, the company will report negative growth. International subscription is expected to report 2% YoY dip on a high base of 16.7% YoY. We expect marginally improvement EBITDA margins QoQ as company continues to drive investment behind new shows in Zee TV. Increase of other income YoY will happen due to flow in of consideration of Ten Sports deal.
	EBITDA	4,585	4,532	1.2	4,687	(2.2)	
	Core PAT	3,227	2,929	10.2	7,334	(56.0)	

Valuation snapshot

		Mkt Cap	Price	P/E (x)		P/B (x)		RoE (%)		Div yld (%)	
	Reco	USD mn	(INR)	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
DB Corp	Buy	1,091	384	15.9	13.9	4.1	3.8	26.7	28.5	3.8	4.3
DEN Networks	Hold	239	80	NM	NM	1.8	1.9	(9.5)	(5.1)	0.0	0.0
Dish TV India	Buy	1,339	81	81.8	33.1	14.5	8.1	19.5	37.3	0.0	0.0
Hathway Cable & Datacom	Buy	467	36	NM	NM	4.0	4.6	(9.0)	(6.7)	0.0	0.0
Jagran Prakashan	Buy	928	184	15.2	13.5	3.0	2.8	20.6	21.4	2.6	2.8
PVR	Buy	1,016	1,407	37.5	25.9	5.8	4.8	16.2	19.8	0.2	0.3
Sun TV Network	Buy	5,020	825	27.1	23.8	7.6	7.1	28.8	30.7	2.4	2.8
Zee Entertainment Enterprise	Buy	7,410	500	32.2	27.0	6.4	5.6	21.0	22.0	0.8	1.0

RESULT PREVIEW

METALS AND MINING

Earnings momentum to sustain

India Equity Research | Strategy

We expect earnings growth momentum to sustain in Q1FY18 for both ferrous and non-ferrous players on better prices. Capacity ramp up is expected to yield further benefits for Vedanta, Tata Steel and Hindustan Zinc in our coverage universe. As a result, we expect these companies to post EBITDA growth in excess of 50%. Going ahead, we expect ferrous players to witness earnings growth on better spreads while non-ferrous companies would see volume growth amid steady LME prices. We expect mining players to post muted as international coal and iron ore prices remain under pressure. We prefer Hindalco, Vedanta and Tata Steel.

Higher prices remain key driver for most companies

LME zinc (up 34% YoY), aluminium (up 21% YoY) and lead (up 25% YoY) prices remained firm in Q1FY18. In case of ferrous, HRC and longs prices were up 13% and 18% YoY, respectively. However, prices were off highs QoQ for most commodities in ferrous and non-ferrous space. In case of mining companies, international iron ore prices declined significantly during the quarter resulting in NMDC merely rolling over February prices every month. For Coal India, our channel checks revealed that e-auction premium at 20-25% over FSA remained stable, though FSA price is expected to be slightly lower owing to grade rationalisation.

Operating leverage benefits apparent in top picks

We expect operating leverage of our top picks to improve reaping benefits of higher volumes. Data for April-May suggests that major players are gaining market share at the expense of minor players, despite overall lacklustre demand growth. During April-June, Tata Steel reported 28% growth in steel sales volume which surpassed the industry average. On non-ferrous front, Hindustan Zinc and Vedanta are likely to further expand zinc and aluminum volumes, respectively, while Hindalco is expected to see a jump in copper sales volume while consolidating its Al capacity. On mining front, we expect volume growth to remain relatively muted at 3-5% levels.

Outlook: Stable spreads and robust LME prices to drive growth

Over next 12 months, we expect our coverage ferrous companies to report growth on stable spreads and operating leverage benefits. For non-ferrous players, robust LME prices and production ramp up in Hindustan Zinc and Vedanta would be major growth drivers. However, we expect earnings of mining companies to remain under pressure due to muted volume growth amidst lower international iron ore and coal prices.

Top picks: Hindalco, Vedanta, Tata Steel

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July 05, 2017

Stock		Q1FY18E (INR mn)	Q1FY17 (INR mn)	Y-o-Y (%)	Q4FY17 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Coal India	Revenues	188,819	184,219	2.5	247,802	(23.8)	Expect lower FSA realisation as compared to Q1FY17. However, higher volume and better e-auction realisation is expected to keep EBITDA broadly stable YoY. Expect Other Income to be lower due to depleted cash balance
	EBITDA	40,092	42,548	(5.8)	33,876	18.4	
	Core PAT	27,409	30,653	(10.6)	27,179	0.8	
Hindalco (Standalone)	Revenues	103,830	81,593	27.3	117,471	(11.6)	Adverse movement in exchange rate is expected to result in muted EBITDA growth YoY. On cost front, we expect respite on oil derivatives QoQ. Better realisation for Aluminium YoY is expected to be primary growth driver
	EBITDA	12,044	11,247	7.1	13,472	(10.6)	
	Core PAT	3,722	2,942	26.5	5,027	(26.0)	
Hindustan Zinc	Revenues	56,731	28,041	102.3	67,562	(16.0)	Higher mined metal production and better LME Zinc and Lead price is expected to drive Revenue and EBITDA growth (YoY).
	EBITDA	28,818	11,309	154.8	37,480	(23.1)	
	Core PAT	22,071	10,373	112.8	30,570	(27.8)	
JSPL (Consol)	Revenues	60,267	45,361	32.9	62,905	(4.2)	Improved realisation for longs is expected to be the key driver of earnings. We expect additional production from blast furnace in June to add to the volumes
	EBITDA	15,087	9,841	53.3	15,521	(2.8)	
	Core PAT	(4,785)	(5,203)	8.0	(4,977)	3.9	
NMDC	Revenues	26,999	17,207	56.9	28,720	(6.0)	Expect better realisation YoY and QoQ to be the major growth driver. Higher volume YoY is an additional earnings driver. However, continued higher cost base espcially related to mine closure obligations is expected to keep EBITDA growth realtively lower.
	EBITDA	11,821	8,164	44.8	9,321	26.8	
	PAT	8,474	7,089	19.5	5,119	65.5	
SAIL	Revenues	123,040	92,381	33.2	142,342	(13.6)	Expect higher volume and price to drive earnings YoY. We expect coking coal cost to be relatively benign this quarter and this is expected to improve profitability
	EBITDA	1,337	2,338	(42.8)	(2,644)	150.6	
	Core PAT	(8,893)	(5,355)	(66.1)	(7,715)	(15.3)	
Tata Steel (Consol)	Revenues	309,868	264,061	17.3	353,049	(12.2)	Incremental volume from Kalinganagar and better prices are expected to drive growth. However, sharply reduced ferrochrome prices and higher coking coal cost is expected to result in lower EBITDA on QoQ basis
	EBITDA	41,621	32,420	28.4	70,252	(40.8)	
	Core PAT	11,624	(7,990)	NA	20,008	(41.9)	
Vedanta	Revenues	231,634	153,092	51.3	236,914	(2.2)	Better zinc and aluminium prices are the major drivers. However, pot outages at Jharsuguda-I and fire at Talwandi Sabo power plant are expected to impact earnings adversely. On volume front, Zinc India and Balco are expected to be the main growth drivers
	EBITDA	57,125	35,064	62.9	73,501	(22.3)	
	Core PAT	19,266	9,550	101.7	14,849	29.7	

Valuation snapshot

		Mkt Cap	Price	P/E (x)		P/B (x)		RoE (%)		Div yld (%)	
	Reco	USD mn	(INR)	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Coal India	Buy	23,722	248	13.4	11.8	7.6	8.1	50.3	65.3	8.0	8.0
Hindalco Industries	Buy	6,886	199	9.9	9.0	0.9	0.8	9.3	9.2	0.0	0.0
Hindustan Zinc	Buy	17,573	269	11.9	11.0	3.3	3.0	29.3	28.4	0.0	0.0
Jindal Steel & Power	Buy	1,844	131	NM	12.2	0.4	0.4	(1.7)	3.0	0.0	0.0
NMDC	Hold	5,432	111	10.3	10.9	1.5	1.4	14.6	13.0	4.3	4.1
Steel Authority of India	Reduce	3,801	60	NM	15.0	0.7	0.7	(1.7)	4.5	0.0	0.0
Tata Steel	Buy	8,244	550	13.1	9.5	1.4	1.2	11.2	13.9	1.8	1.8
Vedanta	Buy	15,003	261	8.9	7.9	1.4	1.2	15.9	15.1	6.9	6.9

RESULT PREVIEW

PHARMACEUTICALS

INR appreciation further mars lethargic performance

India Equity Research | Strategy

Pharma sector's Q1FY18 revenue is expected to remain flat YoY on last year's high base consisting gGleevec and gGlumetza in US. However, EBITDA and PAT are expected to decline 16% and 26%, respectively, as sharp INR appreciation (~INR2.4 YoY) will hurt core earnings to the tune of ~7%. Adjusted for these 2 factors, we estimate earnings would have still declined ~10%. While US revenue is likely to tumble 9% YoY, it will grow 5% QoQ in constant currency post the slump in Q4FY17. The latest wave of consolidation (WBAD-Econdisc alliance) poses risk to this. India sales will face the brunt of GST headwind and we expect our coverage's growth to be curtailed at 6% YoY. Overall, while NATP (g*Tamiflu*) and GNP (g*Zetia*) are anticipated to post best growth, SUNP (g*Gleevec*) and LPC (g*Glumetza*) will clock worst declines. Even in the healthcare space, while APHS's Navi Mumbai ramp up losses will weigh on EBITDA growth (down 6% YoY), DLPL's EBITDA will grow merely 4% YoY.

Currency and GST to singe already sluggish earnings

The sector is grappling with structural business challenges (further customer consolidation, rising competition) in the US and has de-rated since FY16 highs—16% premium to Nifty at Q1FY18 end versus high of ~70% in September 2015. Street's downgrades continued with 17%/13% cut in FY18/19 earnings through Q4FY17 earnings during Q1FY18. However, during the quarter, on an average, USD and EUR depreciated ~4% and 6% YoY, respectively, versus INR, which implies ~15% impact on the sector's profit. Moreover, GST's roll out in July has impacted growth in India, which will show up in Q1FY18 earnings. In the healthcare space, we expect negligible impact of demonetisation and price regulation for stents.

Glad tidings for Glenmark, Natco likely

SUNP: g*Gleevec* in base; **LPC**: g*Glumetza* in base; **Cipla**: Steady growth, last year had low tax rate; **CDH**: Asacol HD AG and Lialda fill some void left by HCQS benefit; **DRRD:** Rebound on last year's low base (12% margin), sluggish performance otherwise; **ARBP:** US business challenges to result in top line and margin headwinds; **TRP:** High erosion in US to hurt earnings; **GNP:** g*Zetia* to benefit; **Divi's**: Import alert headwinds; **NATP:** Last bit of g*Tamiflu* benefit, no benefit from gDoxil; **Ipca**: Growth to largely mirror India market; **APHS:** EBITDA margin to remain under pressure due to commissioning of hospital at Navi Mumbai; **Fortis:** Impact of FHTL transaction; **Max:** Top line to grow 5% YoY; **HCG:** Top line to grow 15%; **DLPL, THC:** Top lines to grow 12%, 20%, respectively; however, DLPL's margin to be weaker due to the newly commissioned lab.

Outlook: FY18 to be a challenging year

The pharma sector is trading at ~20.6 x rolling 1-year forward earnings/16% premium to Nifty versus 26.2x/42% a year ago. FY18 is likely to be a disappointing year, with INR appreciation being an additional headwind along with business woes in US as well as India. Our top picks are **SUNP/ CDH/ NATP** in pharma and **Apollo/HCG** in healthcare**.**

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July 05, 2017

Stock		Q1FY18E (INR mn)	Q1FY17 (INR mn)	Y-o-Y (%)	Q4FY17 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Apollo Hospitals	Revenues	16,852	14,654	15.0	16,616	1.4	Expect topline to grow 15% YoY as Navi Mumbai hospitals ramps up. EBITDA margin to remain under pressure due to commissioning as this hospital is expected to contribute INR150mn loss (INR220mn in Q4FY17); expecting steady growth across Chennai and Hyderabad hospital clusters.
	EBITDA	1,775	1,880	(5.6)	1,701	4.4	
	Core PAT	500	722	(30.7)	482	3.8	
Aurobindo	Revenues	37,890	37,755	0.4	36,416	4.0	Expect US sales (USD257mn) to grow 5% QoQ in CC driven by new launches like Epzicom, Mucinex DM etc. Previous quarter EBITDA margin (20%) impacted by one-off inventory write-off. Expect core EBITDA margin of ~24%.
	EBITDA	8,912	9,292	(4.1)	7,212	23.6	
	Core PAT	5,631	5,895	(4.5)	5,172	8.9	
Cipla	Revenues	39,556	36,500	8.4	35,820	10.4	Revenue is expected to grow 8%YoY/10% QoQ. While US revenue (USD99mn) is expected to stable YoY and QoQ in CC, India business is expected to grow 5%. South Africa/ Europe/ Emerging market is expected to grow 21%/26%/28%. Expect EBITDA margin to be flat YoY. Q1FY17 had a low tax rate.
	EBITDA	6,714	6,112	9.8	5,062	32.6	
	Core PAT	2,981	3,391	(12.1)	2,042	46.0	
Cadila Healthcare	Revenues	24,997	22,871	9.3	24,782	0.9	We expect US sales (USD145mn) to decline 1% sequentially in CC. Revenue from new launches including Lialda and full quarter consolidation of Sentynl Therapeutics to offset decline in Tamiflu, Fenofibrate and HCQS. Expect ~5% growth in India revenue. Expect EBITDA margin to be weaker YoY.
	EBITDA	4,891	5,239	(6.6)	4,636	5.5	
	Core PAT	3,293	3,564	(7.6)	3,855	(14.6)	
Divi's Laboratories	Revenues	10,384	10,172	2.1	10,667	(2.7)	Topline to grow merely ~2% YoY due to import alert. EBITDA margin to decline YoY due to higher remediation cost.
	EBITDA	3,655	4,038	(9.5)	3,620	1.0	
	Core PAT	2,753	3,012	(8.6)	2,825	(2.6)	
Dr Reddy's	Revenues	34,520	32,345	6.7	35,542	(2.9)	Expect US revenue (USD 225mn) to decline 2%QoQ/8% YoY as new launches like Vytorin and Doxil marginally offset the increased competition in Dacogen, Valcyte and Vidaza and base business. Russia/CIS revenues up 30% YoY in CC. Expect growth in India to be mellow at 6% YoY. Expect EBITDA margin to improve QoQ and YoY (Q1FY17 had an exceptionally low margin of 12%).
	EBITDA	5,959	3,773	57.9	5,834	2.1	
	Core PAT	2,744	1,238	121.7	3,221	(14.8)	
Glenmark Pharma	Revenues	23,285	19,694	18.2	24,572	(5.2)	US revenue (USD164mn) to benefit from FTF launch of Zetia (December 2016), expected to contribute USD50mn/USD35mn to Revenue /PAT. While we expect India business to grow 10%, LatAm would be impacted by depreciation of BRL. EBITDA margin to improve, primarily due to Zetia and higher R&D expense in Q4FY17.
	EBITDA	4,926	3,791	29.9	4,438	11.0	
	Core PAT	2,907	2,268	28.2	2,404	20.9	
IPCA Laboratories	Revenues	8,312	8,551	(2.8)	6,658	24.8	India sales to grow 7% YoY. We expect the export formulation business to decline 3% YoY impacted by sales in US and institutional malaria business. EBITDA margin to improve sequentially.
	EBITDA	1,128	1,285	(12.3)	677	66.7	
	Core PAT	570	526	8.3	271	110.3	
Lupin	Revenues	41,939	44,677	(6.1)	42,533	(1.4)	Expect US sales (USD273mn) to decline 15% YoY/ 1% QoQ as incremental competition in Glumetza and Fortamet (~40% of business has declined ~15% sequentially owing to competition and AG) will get offset by new launches like Suprep Bowel Kit and Minastrin. India business will be impacted by GST (8% growth). We expect APAC/ EMEA to grow 20%/15%. to remain steady. EBITDA margins to slip YoY and QoQ.
	EBITDA	7,408	13,080	(43.4)	7,814	(5.2)	
	Core PAT	3,636	8,820	(58.8)	3,802	(4.4)	

Stock		Q1FY18E (INR mn)	Q1FY17 (INR mn)	Y-o-Y (%)	Q4FY17 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Natco Pharma	Revenues	4,086	3,403	20.1	5,778	(29.3)	Expect topline to grow 20% YoY. Tamiflu profit share to contribute ~INR500mn compared to INR 2.42 bn in Q4'FY17. EBITDA margin expected to be ~30% (23% in Q1FY17) owing to this limited competition opportunity.
	EBITDA	1,217	773	57.6	2,411	(49.5)	
	Core PAT	836	477	75.5	1,767	(52.7)	
Max India Limited	Revenues	6,384	6,080	5	6,040	6	Expect topline to grow at 5%, and margins to improve YoY.
	EBITDA	800	610	31	770	4	
	Core PAT	104	(40)	361	160	(34.8)	
HealthCare Global Enterprises Limited	Revenues	1,922	1,676	14.7	1,824	5.3	We expect topline to grow 15%YoY. Expect EBITDA margin to improve YoY.
	EBITDA	292	236	23.6	300	(2.5)	
	Core PAT	51	50	2.2	69	(26.2)	
Fortis Healthcare Ltd	Revenues	12,539	11,212	11.8	11,234	11.6	Expect topline to grow at 12% for the hospital business as well as SRL. We expect EBITDAC margin to to decline marginally YoY due on a strong base.
	EBITDA	1,936	1,798	7.7	1,430	35.4	
	Core PAT	39	162	(75.8)	(671)	106	
Thyrocare Technologies Ltd	Revenues	834	694	20.2	877	(4.9)	Expect top line to grow 20% YoY but decline 5% QoQ as growth in previous quarter was driven by health camps. EBITDA to grow 19% YoY and decline 2% QoQ.
	EBITDA	325	273	18.9	332	(2.1)	
	Core PAT	201	164	22.4	190	5.9	
Dr. Lal Pathlabs Ltd	Revenues	2,496	2,228	12.0	2,199	13.5	Expect top line to grow 12% YoY/13% QoQ. EBITDA to grow 4% YoY/27% QoQ.
	EBITDA	626	604	3.6	494	26.8	
	Core PAT	399	398	0.2	310	28.8	
Sun Pharma	Revenues	71,778	82,430	(12.9)	71,370	0.6	We expect US revenue (USD443mn) to decline 27% YoY in CC owing to gGleevec (~USD100mn) in the Q1FY17 base and grow 16% sequentially in CC due to low base sales in Q4FY17 and new product launches in Taro. While RoW sales will benefit from additional sales in Japan, India is expected to be impacted by GST and grow 6% YoY.
	EBITDA	18,091	29,210	(38.1)	15,475	16.9	
	Core PAT	11,084	20,337	(45.5)	12,237	(9.4)	
Torrent Pharmaceuticals	Revenues	15,036	14,290	5.2	14,340	4.9	We expect US (USD43mn) to be flat QoQ and decline 34% YoY in CC due to lower contribution from gAbilify. India to post 5% growth impacted by GST. Expect core EBITDA margin of ~20%.
	EBITDA	3,021	3,300	(8.5)	2,950	2.4	
	Core PAT	1,809	2,070	(12.6)	2,060	(12.2)	

Valuation snapshot

		Mkt Cap	Price	P/E (x)		P/B (x)		RoE (%)		Div yld (%)	
	Reco	USD mn	(INR)	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Apollo Hospitals Enterprise	Buy	2,739	1,275	54.3	35.6	4.6	4.3	8.1	11.7	0.7	1.0
Aurobindo	Hold	6,141	679	18.9	17.1	3.5	3.0	20.3	18.8	0.4	0.4
Cadila Healthcare	Buy	8,176	517	22.7	17.2	6.0	4.7	29.0	30.1	0.7	1.0
Cipla	Hold	6,779	546	24.9	21.5	3.1	2.8	13.1	13.6	0.6	0.7
Divi's Laoratories	Hold	2,674	652	17.0	16.3	2.8	2.5	17.8	16.4	1.4	1.5
Dr Reddy Labs	Hold	6,802	2,658	27.7	18.0	3.3	2.9	12.3	17.1	1.0	1.5
Glenmark Pharmaceuticals	Hold	2,861	657	15.6	15.8	3.3	2.8	23.5	19.0	0.3	0.3
IPCA Laboratories	Reduce	935	480	19.0	15.1	2.2	2.0	12.3	13.9	0.5	1.3
Lupin	Hold	7,561	1,084	21.3	17.8	3.2	2.8	15.9	16.7	0.7	0.8
Natco Pharma	Buy	2,658	988	32.1	20.8	8.2	6.1	28.4	33.5	0.5	0.7
Sun Pharma	Buy	20,397	551	22.7	17.8	3.2	2.7	14.8	16.2	0.4	0.6
Max India Limited	Buy	635	154	NM	234.1	8.2	7.9	-1.2	3.2	0.0	0.0
HealthCare Global Enterprises Limited	Buy	338	255	93.1	66.7	4.8	4.4	4.9	7.9	0.0	0.0
FORTIS HEALTHCARE LTD	Buy	1,291	161	NM	171.7	2.0	2.0	0.3	2.0	0.0	0.0
Thyrocare Technologies Ltd	Buy	610	736	43.2	34.0	9.4	8.2	23.0	25.7	0.9	1.2
Dr. Lal Pathlabs Ltd	Buy	1,038	807	39.8	30.8	8.4	6.8	23.1	24.6	0.4	0.5
Torrent Pharmaceuticals	Buy	3,327	1,273	18.5	16.2	4.2	3.5	24.5	23.6	1.6	1.8

RESULT PREVIEW

REAL ESTATE

Operational slowdown likely in Q1FY18

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Our channel checks indicate new sales have recovered well across most markets post the demonetisation led slowdown with little impact on primary prices. However, buyers are concerned regarding impact of GST on property prices resulting in some deferment of purchases. Developers, across most markets, have held back planned new launches until RERA implementation. This together should lead to sequential softening of new sales across markets in Q1FY18, we believe. Office space absorption remains robust. Earnings could see some QoQ dip for most of our coverage companies.

Operationally, a slow quarter…

Residential new sales have recovered sharply across most markets post demonetization led slowdown. However, with GST becoming effective from July 1, 2017 prospective buyers are uncertain of the impact of GST on their purchase price. Our channel checks suggest buyers deferring their purchase decision, especially in June, till clarity emerges on GST impact. RERA became effective on May 1 2017, though final guidelines are yet to be notified across most key markets, except Mumbai; the real estate regulator too is not in place for most markets, except Mumbai. Developers have hence postponed their new launch plans till RERA gets implemented in their respective markets. This together should lead to Q1FY18 quarter being operationally slow with few new launches and sequential fall in new sales. Office space absorption is expected to remain good across most markets with rising rentals and stable vacancies.

…leading to some down tick in earnings

We expect most of our coverage companies to report QoQ flat - marginal drop in earnings led by sequential drop in new sales across ongoing projects. DLF's new sales are expected to remain sluggish, while net debt could increase further. We expect Brigade's net debt to fall meaningfully led by recently raised QIP funds. Oberoi's revenues should be driven by its existing projects with Mulund, Borivali and Worli projects unlikely to hit revenue recognition threshold during the quarter. GPL could report QoQ rise in new sales given strong response to its recent Pune and Noida launches.

Outlook over the next 12 months

Despite near-term sluggishness, we expect uptick in residential new sales in quarters ahead across key markets. This, we believe, would be driven by favourable macros, low interest rates, improving affordability and significant pent-up demand in the system. Interest rate subvention for first-time buyers from the middle income group (INR0.6-1.8mn household income) should incentivise fence-sitters to make purchases. We anticipate office space demand to remain robust with rising rentals and low vacancies.

Top picks

Sobha, Oberoi Realty, Brigade Enterprises and Sunteck Realty.

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July 05, 2017

Stock		Q1FY18E (INR mn)	Q1FY17 (INR mn)	Y-o-Y (%)	Q4FY17 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
DLF	Revenues	21,807	18,675	16.8	22,252	(2.0)	We expect some slowdown in new sales during the quarter owing to uncertainty surrounding GST implementation. Reveunues would be driven by POCM based revenue recognition in ongoing projects. Net debt may increase sequentially.
	EBITDA	9,159	7,448	23.0	7,102	29.0	
	Core PAT	1,365	2,613	(47.8)	1,421	(4.0)	
Brigade Enterprises	Revenues	5,814	4,592	26.6	5,537	5.0	We expect new sales to improve sequentially given couple of new launches during the quarter. Revenues should be driven by POCM based recognition in ongoing projects coupled with some first-time project recognition. Net gearing should improve meaningfully in view of QIP funds raised during Q1FY18.
	EBITDA	1,628	1,175	38.6	1,981	(17.8)	
	Core PAT	557	203	174.2	743	(25.0)	
Godrej Properties	Revenues	4,923	3,038	62.0	4,648	5.9	We expect strong sequential rise in new sales in Q1FY18 given strong sales response to its Noida and Pune new launches. Revenue should mostly be driven by ongoing projects and some from first-time project recognition. Net gearing should likely remain stable.
	EBITDA	1,083	398	172.4	1,000	8.3	
	Core PAT	706	433	63.0	624	13.2	
Oberoi Realty	Revenues	2,954	3,200	(7.7)	2,896	2.0	We expect sequentially stable new sales. Reveunues should be driven by POCM based recognition in ongoing projects.
	EBITDA	1,536	1,666	(7.8)	1,515	1.4	
	Core PAT	1,022	1,088	(6.0)	1,016	0.6	
Sobha Developers	Revenues	5,532	5,701	(3.0)	5,888	(6.0)	We expect marginal QoQ uptick in new sales driven by sales in ongoing projects. Revenues should be driven mostly by POCM based recognition in ongoing projects and some first-time project/phase recognition. Balance sheet should mostly remain stable.
	EBITDA	1,106	997	11.0	1,202	(8.0)	
	Core PAT	401	360	11.4	466	(14.0)	
Sunteck realty	Revenues	1,100	5,245	(79.0)	1,379	(20.2)	We expect revenues to be driven by POCM based revenue recognition in BKC projects
	EBITDA	583	1,150	(49.3)	725	(19.5)	
	Core PAT	340	603	(43.7)	339	0.3	

Valuation snapshot

		Mkt Cap	Price	P/E (x)		P/B (x)		RoE (%)		Div yld (%)	
	Reco	USD mn	(INR)	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Brigade Enterprises	Buy	546	260	NA	NA			11.0	11.1	0.8	0.8
DLF	Hold	5,438	197	37.8	33.9			3.3	3.6	0.7	0.7
Godrej Properties	Hold	1,717	514	34.5	26.3			13.3	15.6	0.7	0.7
Oberoi Realty	Buy	1,899	362	14.4	13.4			14.3	13.5	0.7	0.7
Sobha Developers	Buy	568	382	17.3	13.9			7.7	9.0	1.4	1.7
Sunteck realty	Buy	476	489	9.7	8.5			15.9	15.5	0.1	0.1

RESULT PREVIEW

RETAIL

Strong recovery in SSG

India Equity Research | Strategy

Edelweiss
Ideas create, values protect

Q1FY18 saw the onset of an early sale season for most retailers (especially apparel) in the run-up to GST implementation starting July 2017. Titan's Tanishq is likely to clock yet another bumper quarter with market share gains and we estimate jewellery sales to jump ~25% YoY. Disruption in trade for Titan due to GST has been negligible as the company will compensate its channel partners for any loss they incur. Onset of early sale season will help Shoppers Stop and Pantaloons clock double digit same store sales growth (SSG). Though Madura, being heavily dependent on the wholesale channel, could face some pre-GST disruption impact, it is likely to clock SSG in high single digit. Dominos India's SSG is likely to recover QoQ with the dip restricted to ~2% YoY (on base of 3.2% YoY dip). Footfalls at Wonderla will be aided by lower base and is expected to be flattish as the Hyderabad park will come in the base. We anticipate some disruption in trade for retailers in Q2FY18 on account of GST implementation, post which it will normalise.

Jewellery sustains strong run; early sale season to drive SSG

Titan has seen good growth in Q1FY18 in the jewellery business led by favourable base, strong Akshay Tritiya (50% growth over previous year's Akshay Tritiya period), new launches, refreshes in existing brands as well as successful gold exchange programmes and activations in studded jewellery. Shoppers Stop is expected to clock 12% YoY LTL SSG growth in departmental format (on base of 5.5% YoY) aided by early sale season. In ABFRL while we expect Madura to clock ~8-9% SSG on base of 4% YoY dip, Pantaloons is estimated to post SSG of ~10-12% on a base of 16%. ABFRL has been aggressive in new ventures such as Forever 21, under garments business etc., which should give further fillip to revenue growth. Dominos India's SSG is expected to dip ~2.0% YoY in Q1FY18 (on a base of 3.2% YoY dip; 7.5% dip in Q4FY17 on a base of 2.9% YoY) even though the company ran Everyday values and presence of IPL in Q1FY18.

Early sales could mar margins

Margins of the sector will be impacted due to early sale season and also due to higher cost on account of GST implementation—companies will compensate trade partners for any loss they may incur due to GST implementation.

Outlook for next 12 months

The government's stringent initiatives to curb black money could impact luxury and discretionary spends growth over the near term. However, GST implementation will lead to higher share gains for unorganised players, especially in segments such as jewellery. Though GST will entail some transition issue, it will be short term.

Top picks

Titan, ABFRL, Wonderla Holidays.

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July 05, 2017

Stock		Q1FY18E (INR mn)	Q1FY17 (INR mn)	Y-o-Y (%)	Q4FY17 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Jubilant Foodworks	Revenues	6,329	6,089	3.9	6,128	3.3	Dominos India's SSG growth is expected to be ~2.0% YoY dip in Q1FY18 (on a base of 3.2% YoY dip; 7.5% dip in Q4FY17 on a base of 2.9% YoY) even though the company ran Everyday values and IPL being present in Q1FY18. Apart from menu innovations, the company is also looking at effectively utilising its stores. Further, the company has tied up with AT Kearny to drive down costs and was focusing on driving down rentals costs by renegotiating contracts. Gross margins will be under pressure due to increase in raw material prices. Implementation of GST will lead to may lead to some disruption in the business.
	EBITDA	607	577	5.0	605	0.2	
	Core PAT	132	190	(30.7)	168	(21.6)	
Shoppers Stop (Standalone)	Revenues	9,457	8,210	15.2	9,103	3.9	We expect 12% YoY LTL SSG growth in departmental format (on base of 5.5% YoY). Overall sales growth is expected to be 15.2% YoY. Due to GST implementation, sales season was pre-postponed by 5 days. Sales season started by mid June. The company has increased advertising whose benefits will be seen in 9mFY18. There was no new store opening in Q1FY18. HyperCity will show decent performance in Q1FY18.
	EBITDA	269	237	13.8	525	(48.7)	
	Core PAT	(30)	(136)	78.1	117	(125.3)	
Titan	Revenues	33,422	27,988	19.4	34,297	(2.6)	Titan should continue to see market share improvement in Q1FY18, which will be further helped by implementation of GST. The company has seen good growth in last quarter led by favourable base, strong Akshay Tritiya (50% growth over previous year Akshay Tritiya period), new launches, refresher in existing brands as well as successful gold exchange programmes and activations in studded jewellery. We expect the jewellery sales growth for Titan to grow by ~25% YoY on a base of 3.2% (Q4FY17 saw 55% YoY sales growth spearheaded by strong festive and wedding season on a base of 1%). In watches, retail formats recorded healthy revenue growth but topline is likely to remain flat due to rescheduling of Titan and Fastrack activations. Eye plus retail format should continue to show healthy LTL growth in Q1FY18. However, slowdown in sunglasses should pull the overall sales growth. We expect ~5% YoY growth in eyewear on a base on 2.9% YoY in Q1FY17 (clocked 13.1% YoY in Q4FY17 on a base of 10% YoY).
	EBITDA	3,309	2,922	13.3	2,721	21.6	
	Core PAT	2,382	2,236	6.5	2,023	17.7	
Aditya Birla Fashion and Retail	Revenues	17,019	14,119	20.5	16,149	5.4	Retail market started EOSS from early June (~15 days earlier) which will help aid SSG for ABFRL. We expect core Madura to clock ~8% SSG on a base of negative 4% (EOSS started in late June in base quarter). For Pantaloons, we expect SSG to be ~10-12% - this is commendable considering thiss SSG has been achieved on a higher base of 16%. Further, this growth for ABFRL has been inspite of shop closures in few prime malls. We also expect ABFRL's new segment such as Forever21, undergarment business to show good growth (these businesses were not in the base quarter). We do not expect EBITDA margins to remain to expand since higher discounting will nullify operating leverage benefit gained from higher LTL
	EBITDA	868	701	23.9	1,140	(23.8)	
	Core PAT	(82)	(208)	60.6	218	(137.6)	

Stock		Q1FY18E (INR mn)	Q1FY17 (INR mn)	Y-o-Y (%)	Q4FY17 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Wonderla Holidays	Revenues	936	889	5.3	612	52.9	Hyderabad park footfalls will come in the base in Q1FY18. We expect overall footfall to be flattish to 1% YoY in Q1FY18. We expect Bengaluru to witness flattish footfall on a base of 12% YoY decline while footfall at Kochi park is expected to grow by 5% YoY on a favourable base of a dip of 24% YoY.
	EBITDA	402	392	2.6	99	306.6	
	Core PAT	225	225	0.2	34	553.5	

Valuation snapshot

		Mkt Cap	Price	P/E (x)		P/B (x)		RoE (%)		Div yld (%)	
	Reco	USD mn	(INR)	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Aditya Birla Fashion and Retail	Buy	2,033	171	83.9	40.1	11.4	8.9	14.6	24.8	0.0	0.0
Jubilant Foodworks	Hold	1,068	1,049	50.0	40.8	7.6	6.7	16.0	17.4	0.5	0.6
Shoppers' Stop	Buy	451	350	86.2	28.3	5.8	5.2	-2.6	13.3	0.3	1.1
Titan Company	Buy	7,293	532	47.2	37.2	10.3	8.7	23.5	25.3	0.6	0.8
Wonderla Holidays	Buy	311	357	35.4	24.2	4.3	3.8	12.6	16.5	0.7	1.0

RESULT PREVIEW

TELECOM

Pressure on realisations to continue

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Ideas create, values protect

We estimate Bharti Airtel's (Bharti) India mobility business and Idea Cellular's (Idea) Q1FY18 revenues to decline 0.2% and 0.3%, respectively, due to impact of heavily discounted offers from Reliance Jio (RJIO). Voice and data realisations are likely to fall 6.8% and 16.2% for Bharti and 6.5% and 16.0% for Idea, respectively. Continued revenue decline aggravated by operating leverage is expected to take a toll on margin with Bharti's India mobility business and Idea's margin declining 90bps and 130bps, respectively. Bharti Infratel (Infratel) is estimated to benefit from aggressive data roll out by telecom operators with addition of 5,143 tenancies during the quarter. Possible regulatory changes to revive the telecom industry, likely acquisition of Vodafone/Idea towers and their stake in Indus, launch of a 4G feature phone by RJIO and proportion of RJIO's subscribers recharging on Jio Prime will be key monitorables.

RJIO's heavily discounted offerings continue to impact performance

We are building in 7.2% and 6.6% voice volume growth QoQ on account of unlimited calling offers to counter RJIO's offering leading to 6.8% and 6.5% QoQ realisation dent for Bharti and Idea, respectively. We expect Bharti and Idea's data volume to grow 18.6% and 17.6% and realisations to dip 16.2% and 16.0%, respectively. On consolidated basis, Bharti's revenue is estimated to grow 1.0% QoQ. With sustained revenue decline (3 consecutive quarters) aggravated by cost pressures, we estimate EBITDA margins of Bharti and Idea to decline 110bps and 130bps QoQ, respectively.

Realisations to continue to bear the brunt

We estimate **Bharti** to clock voice RPM of INR0.226 (INR0.243 in Q4FY17) and average MOU of 492 (471 in Q4FY17), up 4.5% QoQ. Revenue of the company's India mobility business is likely to fall 0.2% QoQ with EBITDA margins expected to decline 90bps QoQ. We estimate its Africa business to post overall revenue of USD774mn, up 2.9% QoQ, with cross currency movement expected to eat up 400bps, leading to 1.1% dip in INR terms. EBITDA margin is expected to rise 40bps QoQ to 26.3%. **Idea** is likely to post consolidated revenue of INR81.0bn (down 0.3% QoQ), voice RPM of INR0.242 (INR0.259 in Q4FY17) and average MOU of 423 (412 in Q4FY17). We expect the company's EBITDA margin to dip 130bps QoQ to 25.7%. **Bharti Infratel** is estimated to add 401 towers and 5,143 tenancies during the quarter aided by aggressive data roll out by telecom operators.

Outlook over the next 12 months

We continue to maintain our stance that heightened competitive intensity will lead to sustained pressure on voice & data realisations and subscriber acquisition & retention costs. This will accelerate industry consolidation, with expected benefits to be back-ended. Also, setting of an Inter-Ministerial Group by the government to consider measures for revival of the sector is not likely to meaningfully alter the sector's course, as most of the recommended measures are unlikely to be implemented due to fiscal constraints /anti-consumer (***refer our note dated 4th July, 2017***).

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July 05, 2017

Stock		Q1FY18E (INR mn)	Q1FY17 (INR mn)	Y-o-Y (%)	Q4FY17 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Bharti	Revenues	221,615	255,465	(13.3)	219,346	1.0	We expect Bharti's India mobile business expected to report 0.2% QoQ decline in revenue to INR129.5bn with the 7.2% and 18.6% voice and data volume growth offset by the 6.8% and 16.2% realisation drop, respectively. We estimate Africa business to clock overall revenue of USD774mn, up 2.9% QoQ, with EBIDTA margin of 26.3%. Consolidated revenue is expected to increase 1.0% QoQ to INR221.6bn with 110bps decline in EBITDA margin (34.7%). PAT is expected to rise by 52.6% QoQ (down 61.0% YoY) to INR5.7bn. Possible regulatory intervention to revive industry, trajectory of churn and realisations, traction in 4G business and update on payment bank will be key monitorables.
	EBITDA	76,958	95,480	(19.4)	78,600	(2.1)	
	Core PAT	5,698	14,841	(61.6)	3,734	52.6	
Bharti Infratel	Revenues	35,878	32,106	11.7	35,204	1.9	We expect Bharti Infratel (Infratel) to report 1.9% QoQ revenue growth led by the 2.5% QoQ growth in rental revenue and 0.9% QoQ spurt in energy revenue. We expect Infratel to add 401 towers and 5,143 tenancies during the quarter. EBITDA margin is expected to decline 150bps QoQ to 43.2% on decline in energy margins from 10.2% to 3.5% QoQ. PAT is expected to decline 11.0% YoY to INR6.7bn. Commentary on possible acquisition of towers from Vodafone/Idea and their stake in Indus, consolidation in telecom industry and standalone 3G/4G data sites rollout will be key factors to watch.
	EBITDA	15,495	13,947	11.1	15,723	(1.5)	
	Core PAT	6,728	7,562	(11.0)	5,966	12.8	
Idea	Revenues	81,007	94,866	(14.6)	81,261	(0.3)	Idea is likely to post consolidated revenue of INR81.0bn (down 0.3% QoQ), led by 6.6% and 17.6% voice and data volume growth, respectively, and 6.5% and 16.0% voice and data realisation dip, respectively. We expect its EBITDA margin to decline 130bps QoQ to 25.7%, leading to net loss of INR5.8bn versus loss of INR3.3bn in Q4FY17. Commentary on possible regulatory interventions to revive industry, merger with Vodafone, strategy to tackle subscriber churn to RJIO, and trajectory of churn & data realisations will be key monitorables.
	EBITDA	20,803	30,742	(32.3)	21,965	(5.3)	
	Core PAT	(5,818)	2,204	(363.9)	(3,277)	(77.5)	

Valuation snapshot

		Mkt Cap	Price	P/E (x)		P/B (x)		RoE (%)		Div yld (%)	
	Reco	USD mn	(INR)	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Bharti Airtel	Hold	23,226	376	34.0	28.9	2.1	2.0	6.3	6.9	0.4	0.0
Bharti Infratel	Hold	11,489	402	23.9	21.8	4.7	4.6	19.9	21.4	3.8	4.0
Idea Cellular	Hold	4,652	84	NM	NM	1.3	1.3	(3.5)	(0.1)	0.0	0.0
Reliance Communications	Hold	838	22	277.3	NM	0.1	0.1	0.3	0.2	0.0	0.0

RESULT PREVIEW

UTILITIES

Demand yet to see significant uptick

India Equity Research | Strategy

During Q1FY18(April& May), all India power demand rose 4.6% YoY to ~208BUs, led by the 4% spurt in thermal power generation and 20% rise in hydro generation, while nuclear generation declined 2% YoY. Overall power deficit declined further to 0.5% vs 1.3% during the same period . All-India thermal PLFs however remained flattish YoY at ~65%, even though the all-India conventional installed capacity expanded by ~9GW(4.5% growth) during the quarter. International coal prices continue to rule strong at ~USD80/tonne , which will impact players with inadequate fuel pass-through. Exchange prices and exchange volumes witnessed some improvement YoY. Our preferred picks continue to be regulated utilities, viz., Power Grid (BUY) and NTPC (BUY), and maintain 'BUY' on Gujarat Pipavav Port (GPPV) and Adani Port (APSEZ).

Key highlights of the sector during the quarter

Power demand in Q1FY18 (April&May) grew 4.6%% YoY, even though PLFs were flattish owing to increased generation capacity. NTPC recorded 2% rise in generation YoY, while private players like Adani Power, CESC and JSW Energy recorded a dip in generation during the quarter. Exchange prices saw some improvement and volumes also grew YoY. Though domestic coal supply continues to be adequate, strong international coal prices will hurt players.

Result expectations for stocks under coverage

1. Power Grid's earnings growth is estimated to remain strong on healthy commissioning activity.
2. NTPC is expected to report growth in earnings YoY following improvement in generation volumes.
3. Adani Power is expected to extend losses post the adverse Supreme court judgement on Mundra Power.Tata Power's earnings are estimated to be subdued for the quarter, though performance of the renewable business is key.
4. JSW Energy's profits may take a hit due to lower generation volumes at Vijaynagar and Ratnagiri plants and strong international coal prices.
5. CESC's earnings are estimated to be sudued owing to lower generation this quarter.
6. Volumes of Adani Ports (APSEZ) and GPPV will see some uptick YoY.

Outlook over the next 12 months

Power Grid is expected to have recorded robust commissioning during the quarter. Overall, demand has improved YoY and merchant prices and volumes have also witnessed some improvement. UDAY has seen some progress. Pertinently, stronger power demand hinges on success of UDAY reforms. We prefer **Power Grid** and **NTPC** in the power segment. We have a 'BUY' on **GPPV** and **Adani Ports**.

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July 05, 2017

Stock		Q1FY18E (INR mn)	Q1FY17 (INR mn)	Y-o-Y (%)	Q4FY17 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Adani Power	Revenues	58,500	55,875	4.7	63,522	(7.9)	We expect Adani Power to continue to report loss for the quarter post the Supreme court order
	EBITDA	15,210	19,253	(21.0)	13,216	15.1	
	Core PAT	(4,500)	(312)	(1,341.8)	(8,838)	49.1	
Adani Ports & SEZ	Revenues	19,544	18,266	7.0	22,315	(12.4)	We expect 10% YoY growth in cargo volumes driven by 10% growth at the Mundra port. This results in revenue of INR 19 bn.
	EBITDA	12,704	11,698	8.6	13,335	(4.7)	
	Core PAT	8,478	8,352	1.5	8,629	(1.7)	
CESC	Revenues	19,450	20,120	(3.3)	15,720	23.7	We estimate generation to fall by 3% Yoy resulting in a nominal increase in revenues of 1%. We expect no change in fuel cost QoQ
	EBITDA	4,250	5,110	(16.8)	2,040	108.3	
	Core PAT	1,750	1,740	0.6	2,950	(40.7)	
Gujarat Pipavav Port	Revenues	1,700	1,672	1.7	1,746	(2.6)	We expect 10% growth in overall cargo volumes YOY while at the same time we expect realisations to remain flat.
	EBITDA	1,050	1,002	4.8	1,147	(8.4)	
	Core PAT	630	598	5.4	662	(4.9)	
JSW Energy	Revenues	24,600	24,500	0.4	18,621	32.1	Revenues are expected to be flat despite growth in hydro generation assets.
	EBITDA	10,824	11,173	(3.1)	5,869	84.4	
	Core PAT	3,178	3,665	(13.3)	237	1,239.8	
NTPC	Revenues	199,207	190,629	4.5	204,167	(2.4)	We expect generation to be ~60BUs resulting in revenues of INR199bn (4.5% Yoy growth) and PAT of INR25bn
	EBITDA	53,450	52,105	2.6	54,628	(2.2)	
	Core PAT	24,762	23,695	4.5	28,624	(13.5)	
Power Grid	Revenues	71,148	61,199	16.3	67,120	6.0	We estimate a capitalisation of ~70bn for the quarter translating into a transmission revenue of INR67bn.
	EBITDA	61,898	54,196	14.2	56,185	10.2	
	Core PAT	20,122	18,018	11.7	19,164	5.0	
Tata Power	Revenues	70,434	68,383	3.0	71,668	(1.7)	We expect marginal growth in revenues YoY . Performance of renewable business remains key.
	EBITDA	15,496	16,355	(5.3)	13,467	15.1	
	Core PAT	1,760	725	142.8	3,890	(54.8)	

Valuation snapshot

		Mkt Cap	Price	P/E (x)		P/B (x)		RoE (%)		Div yld (%)	
	Reco	USD mn	(INR)	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Adani Power	Hold	1,712	29	37.8	19.9	3.4		9.3	15.6	0.0	0.0
Adani Ports and Special Economic	Buy	11,924	373	20.8	18.0	3.7	3.2	19.3	18.9	0.5	0.6
CESC	Buy	1,792	875	17.0	14.8	1.4	1.3	5.0	5.5	1.2	1.3
Gujarat Pipavav Port	Buy	1,122	150	22.8	18.9	3.5	3.4	15.6	18.3	0.0	0.0
JSW Energy	Hold	1,716	68	17.7	12.7	1.0	1.0	6.0	7.8	1.1	1.6
NTPC	Buy	20,243	159	11.5	10.1	1.3	1.2	11.6	12.6	4.4	5.0
PTC India	Buy	460	101	9.1	7.6	0.9	0.9	10.3	11.5	4.0	4.7
Power Grid Corp of India	Buy	16,967	210	12.0	10.2	2.0	1.7	17.4	18.2	2.5	3.0
Tata Power Co	Buy	3,408	82	26.9	20.3	1.6	1.6	7.0	8.8	1.8	2.3

Agri Input

Stock		Q1FY18E (INR mn)	Q1FY17 (INR mn)	Y-o-Y (%)	Q4FY17 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Bayer Crop Science	Revenues	8,594	8,212	4.6	2,153	299.1	We estimate 5% YoY growth in domestic business and export business to report flat growth this quarter. Expect margins to contract.
	EBITDA	1,726	1,883	(8.3)	(581)	397.1	
	Core PAT	1,182	1,312	(9.9)	(361)	427.5	
Coromandel International	Revenues	24,392	20,173	20.9	22,591	8.0	We have considered manufactured volumes to grow at 10% YoY and 8% growth in traded fertilizer sales volume . Non fertilizer business (Including Sabero) is likely to perform well, expecting it to clock 15% growth.
	EBITDA	1,898	886	114.2	2,724	(30.3)	
	Core PAT	846	75	1,030.1	1,443	(41.3)	
Dhanuka agritech	Revenues	2,147	1,988	8.0	1,587	35.3	While Dhanuka remains confident of a 15% growth in revenues in FY18, we expect growth this quarter to be muted on the impact of GST and expect it to pick up in the latter half of FY18. Expect margins to remain stable compared to last year.
	EBITDA	321	287	11.9	342	(6.1)	
	Core PAT	222	193	14.7	242	(8.4)	
Deepak Fertilisers and Petrochemicals	Revenues	11,343	10,449	8.6	12,154	(6.7)	We expect a 13% increase in chemical segment. Company has recently commissioned its NPK plant, and hence we have taken higher share of manufactured volumes for NPK. Expect EBITDA margins to improve by ~100bps YoY. However, because of lower utilization initially, increase in interest and depreciation is likely to impact PAT.
	EBITDA	1,545	1,071	44.3	1,229	25.8	
	Core PAT	543	347	56.3	519	4.7	
Jain Irrigation	Revenues	19,792	16,558	19.5	22,316	(11.3)	We expect the strong growth seen in the MIS business to continue this quarter also and build in a 20% YoY growth in this segment. We build in a 5% YoY growth for piping, agro processing segment. We also factor in the revenues from the US acquisition starting from this quarter.
	EBITDA	2,744	2,333	17.6	3,452	(20.5)	
	Core PAT	742	583	27.2	771	(3.8)	
PI Industries	Revenues	6,770	6,389	6.0	6,056	11.8	We expect growth in both, the domestic and CSM business to moderate this quarter as the domestic business will be impacted by GST destocking and also potential slowdown in growth of 'Nominee Gold'. CSM business will continue to be impacted by the global agrochemical slowdown. As a result, we build in a 5%/7% YoY growth in revenues for Domestic/CSM segments respectively. Expect margins to remain stable.
	EBITDA	1,730	1,655	4.5	1,537	12.6	
	Core PAT	1,312	1,268	3.5	1,352	(2.9)	
Rallis Industries	Revenues	4,992	4,500	11.0	3,481	43.4	We build in a 11% YoY growth in consolidated revenues driven by a 15% growth in the subsidiary seeds business (Metahelix). On the standalone revenues, we expect growth in international operations to be higher than domestic business.
	EBITDA	816	752	8.5	416	96.0	
	Core PAT	671	586	14.5	311	115.5	
Sharda cropchem	Revenues	3,591	3,141	14.3	5,949	(39.6)	Expect revenue growth to be 14% for this quarter, in line with the annual guidance given by the company. However, gross margins are expected to contract driven by increase in raw material prices in China.
	EBITDA	799	714	11.9	1,626	(50.9)	
	Core PAT	474	409	15.8	987	(52.0)	
United Phosphorus	Revenues	39,312	35,102	12.0	53,414	(26.4)	We expect UPL to report a 12% YoY revenue growth (Volume led) driven by good performance in all the regions, especially LATAM. Expect interest cost also to fall driven by pay down of debt this quarter.
	EBITDA	8,059	6,987	15.3	11,261	(28.4)	
	Core PAT	4,196	3,610	16.2	7,407	(43.4)	
Zuari Agrochemicals	Revenues	8,576	9,778	(12.3)	9,443	(9.2)	We expect non complex fertilizer volumes to grow by 10% YoY with urea volumes expected to be flat. Fall in fertilizer prices (on YoY basis) will have a negative impact on revenues growth but expect margin expansion also to happen driven by fall in input cost for both urea and complex fertilizers.
	EBITDA	643	484	32.9	754	(14.7)	
	Core PAT	193	38	403.9	253	(23.9)	

Valuation snapshot

		Mkt Cap	Price	P/E (x)		P/B (x)		RoE (%)		Div yld (%)	
	Reco	USD mn	(INR)	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Bayer Cropscience	Hold	2,517	4,610	34.4	28.1	6.7	5.6	21.2	21.8	0.5	0.6
Coromandel International	Buy	1,919	426	21.1	17.3	3.8	3.3	19.1	20.1	1.3	1.3
Dhanuka Agritech	Buy	631	817	29.0	24.9	6.6	5.6	24.6	24.2	1.0	1.0
Deepak Fertilisers and Petrochemicals	Buy	403	296	9.7	8.6	1.4	1.2	15.4	15.3	1.9	1.9
Jain Irrigation Systems	Buy	783	107	15.7	11.3	1.2	1.0	9.1	10.9	0.7	0.7
PI Industries	Buy	1,722	811	24.2	21.1	5.3	4.2	24.7	22.4	0.0	0.0
Rallis India	Hold	735	245	22.0	18.9	3.8	3.4	18.4	18.9	1.4	1.4
Sharda cropchem	Buy	690	495	20.2	17.4	3.9	3.3	21.1	20.7	0.8	0.8
United Phosphorus	Buy	6,695	854	19.2	15.1	4.7	3.7	27.3	27.2	0.7	0.7
Zuari Agro Chemicals	Buy	268	413	14.4	10.3	1.6	1.4	9.4	11.9	0.8	0.8

Credit Rating

Stock		Q1FY18E (INR mn)	Q1FY17 (INR mn)	Y-o-Y (%)	Q4FY17 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
CARE	Revenues	617	571	8.0	764	(19.2)	Led by the slow the credit growth, we expect revenue growth of 8% YoY. We expect margins to be flat YoY and QoQ leading to EBITDA growth of 8%.
	EBITDA	381	353	8.0	471	(19.2)	
	Core PAT	304	247	23.2	384	(21.0)	
Crisil	Revenues	4,185	3,751	11.6	4,022	4.0	Despite slowdown in credit growth rate, we forcast sales growth of 12% on account of continued growth in research (14% revenue growth). We forecast marginal margin expansion leading to EBITDA growth of 13% YoY.
	EBITDA	1,102	976	12.9	1,106	(0.4)	
	Core PAT	756	698	8.3	733	3.1	
ICRA	Revenues	734	867	(15.4)	788	(6.8)	With the slow credit environment, we estimate 11% growth in ratings revenue due to a seasonally strong Q1. Due to the sale of low margin IT business we expect strong EBITDA margin expansion of ~250bps YoY.
	EBITDA	228	248	(8.0)	295	(22.7)	
	Core PAT	190	182	4.2	220	(13.7)	

Valuation snapshot

		Mkt Cap	Price	P/E (x)		P/B (x)		RoE (%)		Div yld (%)	
	Reco	USD mn	(INR)	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Credit Research and Analysis	Buy	729	1,603	30.5	26.8	8.7	7.9	29.8	31.0	2.0	2.2
Crisil	Hold	2,186	1,984	37.8	32.1	13.1	11.3	37.0	37.8	1.5	1.6
ICRA	Hold	614	4,013	45.6	36.5	7.3	6.5	16.7	18.8	0.8	1.0

Leisure and Travel

Stock		Q1FY18E (INR mn)	Q1FY17 (INR mn)	Y-o-Y (%)	Q4FY17 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Interglobe Aviation (Indigo)	Revenues	56,091	45,789	22.5	48,482	15.7	We expect revenue growth of 23% YoY on account of strong growth in passengers, despite lower yields. However, margins will be stunted due to higher ATF prices YoY.
	EBITDAR	17,948	15,279	17.5	13,322	34.7	
	Core PAT	6,826	6,268	8.9	4,403	55.0	
Jet Airways	Revenues	57,572	51,120	12.6	54,491	5.7	We expect a muted topline growth (of 13%) compared to peers. Margins will be impacted due to pressure on yields and rising ATF prices YoY.
	EBITDAR	9,514	9,016	5.5	7,005	35.8	
	Core PAT	1,861	1,031	80.4	400	364.9	
Mahindra Holidays	Revenues	2,759	2,497	10.5	3,105	(11.1)	We expect MHRL to have added ~4,200 members this quarter, a growth of 15% YoY, in line with our annual estimate for FY18 of 13% YoY growth in member addition
	EBITDA	632	576	9.7	592	6.7	
	Core PAT	351	302	16.1	318	10.3	
Spice Jet	Revenues	17,966	15,215	18.1	16,257	10.5	Growth in pax volumes continue to drive revenue growth while yield remains under pressure. Pax growth has been modeled at 20%. Higher ATF prices YoY will impact the profitability this quarter.
	EBITDAR	4,701	4,519	4.0	3,152	49.2	
	Core PAT	1,817	1,490	21.9	416	336.4	

Valuation snapshot

	Reco	Mkt Cap USD mn	Price (INR)	P/E (x) FY18E	P/E (x) FY19E	P/B (x) FY18E	P/B (x) FY19E	RoE (%) FY18E	RoE (%) FY19E	Div yld (%) FY18E	Div yld (%) FY19E
Jet Airways	Buy	1,021	582	12.6	7.2	(1.5)	(1.9)	(11.2)	(23.0)	0.0	0.0
Mahindra Holidays & Resorts	Buy	860	627	33.0	28.1	7.8	6.5	24.6	24.3	0.9	0.8
Interglobe Aviation (Indigo)	Hold	6,791	1,216	21.8	15.4	10.7	10.4	51.2	68.4	3.2	4.5
SpiceJet	Buy	1,154	125	15.3	10.7	89.9	9.6	(256.4)	161.5	0.0	0.0

Miscellaneous

Stock		Q1FY18E (INR mn)	Q1FY17 (INR mn)	Y-o-Y (%)	Q4FY17 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
AIA Engineering	Revenues	5,792	5,004	15.7	6,476	(10.6)	We expect 16% growth in revenues led by 14% growth in volumes as strong growth in mining volumes is expected to continue. EBITDA/MT will dip YoY on account of the recent surge in ferrochrome prices.
	EBITDA	1,566	1,470	6.5	1,600	(2.1)	
	Core PAT	1,128	1,090	3.5	1,151	(2.0)	
Aarti Industries	Revenues	8,478	7,354	15.3	8,344	1.6	We estimate the speciality chemicals segment to clock 15% YoY revenue growth driven by higher volumes. As a result, the segment's margin is expected to remain largely stable. The pharma segment is also estimated to clock 15% YoY revenue growth with stable margin.
	EBITDA	1,771	1,546	14.5	1,526	16.0	
	Core PAT	934	825	13.2	743	25.7	
Amara Raja	Revenues	14,859	13,208	12.5	13,445	10.5	Led by recovery auto OEM production, we expect a 12.5% YoY growth in revenue. However due to sharp jump in the lead prices, we expect a dip in EBITDA margin YoY, leading to EBITDA decline of 2% YoY.
	EBITDA	2,229	2,273	(1.9)	1,844	20.9	
	Core PAT	1,275	1,307	(2.4)	992	28.6	
Apar Industries	Revenues	12,704	10,819	17.4	12,968	(2.0)	We expect volume growth of 6%/10% for conductors/Transformer oils and 10% growth in cables leading to blended revenue growth of 17% on a weak base. We expect EBITDA growth of merely 4% as margins will be impacted due to transition during the quarter.
	EBITDA	1,143	1,102	3.7	1,039	10.1	
	Core PAT	504	456	10.5	477	5.5	
Balkrishna Industries	Revenues	10,575	9,281	13.9	10,029	5.4	We are building in 14% YoY volume growth this quarter (Q4FY17: 12%), in line with our annual expectation. Expect EBITDA margins to be in the guided range of 28-30%.
	EBITDA	3,120	2,910	7.2	2,554	22.2	
	Core PAT	1,878	1,491	26.0	1,375	36.6	
Carborundum Universal	Revenues	5,624	5,055	11.3	5,599	0.4	We expect revenues to grow 11% led by steady continued growth in Abrasives and strong growth in Ceramics as well as improvement in Electrominerals division. We expect EBITDA margin to remain similar YoY due to improved margin in Abrasives and Ceramics being set off by weak Electrominerals.
	EBITDA	906	811	11.7	923	(1.8)	
	Core PAT	484	401	20.8	444	9.2	
CCL Products India	Revenues	2,807	2,506	12.0	2,970	(5.5)	We expect revenue to jump 12% YoY. However, supply of agglomerated coffee from India to Vietnam is likely to impact Q1FY18 margin as seen in Q4FY17. Margin is expected to tumble 340bps YoY resulting in EBITDA and PAT falling 3% and 7%, respectively.
	EBITDA	603	623	(3.4)	640	(5.8)	
	Core PAT	375	403	(6.8)	353	6.4	
Castrol Inida	Revenues	9,407	9,708	(3.1)	8,822	6.6	Given the impact GST has had on the sector, we expect a degrowth in volumes for Castrol this quarter. Also, given the correction in crude oil prices we expect gross margins to improve QoQ.
	EBITDA	2,916	3,173	(8.1)	2,633	10.8	
	Core PAT	1,936	2,069	(6.4)	1,790	8.1	
Essel Propack	Revenues	5,930	5,280	12.3	6,126	(3.2)	While domestic operations were impacted by demonetization for the last 2 quarters, we expect India growth to pick up as the impact of demonetization moderates. Expect the strong momentum seen in AMESA non India (Majorly Egypt) and EAP to sustain. Margins are expected to remain similar YoY.
	EBITDA	1,125	976	15.2	1,199	(6.2)	
	Core PAT	459	376	21.9	520	(11.7)	

Stock		Q1FY18E (INR mn)	Q1FY17 (INR mn)	Y-o-Y (%)	Q4FY17 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Exide	Revenues	22,222	20,111	10.5	19,757	12.5	Led by pick up in 2W OEM segment, we expect a 10.5% growth in revenue. However due to jump in YoY lead prices we expect a EBITDA margin to decline leading to EBITDA growth being flat.
	EBITDA	3,156	3,150	0.2	2,618	20.5	
	Core PAT	1,981	1,961	1.0	1,648	20.2	
Fag Bearings	Revenues	4,978	4,526	10.0	4,612	7.9	We expect revenue growth of 10% as per recent trajectory. However we forecast EBITDA growth of 22% on account of margin expansion YoY and a weak base quarter.
	EBITDA	846	696	21.6	885	(4.4)	
	Core PAT	587	453	29.7	575	2.1	
Gulf Oil	Revenues	2,901	2,836	2.3	2,996	(3.2)	As Q1FY17 had the one time orders from the state transport department, we expect volumes to contract by 7% YoY (Implies a 5% YoY growth excluding the one-off order). Volume growth will be marginally impacted due
	EBITDA	425	485	(12.4)	465	(8.7)	
	Core PAT	318	312	2.1	321	(0.9)	
Grindwell Norton	Revenues	3,431	3,113	10.2	3,264	5.1	We forecast revenue growth of 10% YoY driven by steady 10% growth in abrasives and 9% in ceramics. We expect an EBITDA margin to expand marginally to 16.6% leading to EBITDA growth of 13%.
	EBITDA	569	504	12.9	529	7.5	
	Core PAT	346	291	19.0	337	2.7	
Kajaria ceramics	Revenues	6,108	5,930	3.0	7,207	(15.3)	We estimate revenue to rise 3% YoY led by increase in volumes, but realisations are expected to remain muted. Volumes are likely to be tepid largely due to de-stocking at dealers' level prior to GST implementation. Further, margin is expected to plummet 325bps YoY primarily due to increase in fuel cost, resulting in EBITDA and PAT declining 13% and 11% YoY, respectively
	EBITDA	1,110	1,271	(12.6)	1,308	(15.1)	
	Core PAT	567	634	(10.5)	707	(19.8)	
Orient refractories	Revenues	1,417	1,312	8.0	1,278	10.9	Led by slowdown in steel production among the smaller mills, we expect the revenues to grow 8% YoY. We forecast margin to remain flat YoY on account of a strong base quarter, leading to EBITDA growth of 8%.
	EBITDA	283	262	8.2	263	7.8	
	Core PAT	187	174	7.6	177	5.6	
SKF India	Revenues	7,131	6,512	9.5	6,537	9.1	We expect 9.5% YoY revenue growth owing to decent growth in PVs and 2W, though CV production faltered. We expect EBITDA to grow by 11.5% YoY on account of slight margin expansion.
	EBITDA	933	837	11.5	795	17.3	
	Core PAT	678	604	12.2	579	17.1	
Solar Industries	Revenues	4,772	4,249	12.3	4,421	7.9	We expect sales growth of 12% YoY on account of improved demand from road & infra segments, Coal India and export & overseas revenue. Margin is likely to remain largely stable at 20.5% resulting in EBITDA and PAT jumping 13% and 18% YoY respectively.
	EBITDA	980	866	13.3	919	6.7	
	Core PAT	555	471	17.7	549	1.0	
Somany tiles	Revenues	4,263	4,139	3.0	5,633	(24.3)	We expect revenue to increase by around 3% YoY as 3.8% increase in volumes will be marginally offest by decline in realisations. Volumes are likely to be weak largely due to de-stocking at dealers' level prior to GST implementation. Further, riding 175bps YoY improvement in EBITDA margin, EBITDA and PAT are likely to jump 25% and 17% YoY, respectively.
	EBITDA	420	335	25.5	545	(23.0)	
	Core PAT	210	179	17.1	276	(24.0)	

Stock		Q1FY18E (INR mn)	Q1FY17 (INR mn)	Y-o-Y (%)	Q4FY17 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
SRF	Revenues	13,737	12,192	12.7	14,164	(3.0)	Revenue is expected to grow at a healthy 13% YoY led by contribution from all segments and commissioning of the packaging films plant in Q4FY17. However, high margin base of last year is likely to impact profitability. We expect margin pressure across categories leading to 18% and 27% fall in EBITDA and PAT, respectively.
	EBITDA	2,316	2,841	(18.5)	2,157	7.4	
	Core PAT	1,024	1,395	(26.6)	1,147	(10.7)	
Supreme Industries	Revenues	12,332	11,893	3.7	12,826	(3.9)	We estimate revenue to rise 4% YoY largely led by increase in volumes. We expect EBITDA margin at around 17% (Similar to Q1 FY17) resulting in EBITDA and PAT growth of 5% and 2% YoY, respectively.
	EBITDA	2,105	2,011	4.7	2,426	(13.3)	
	Core PAT	1,170	1,152	1.5	1,482	(21.0)	
Vesuvius	Revenues	2,412	2,081	15.9	2,280	5.8	With production in large steel mills ramping up, we forecast Vesuvius to register revenue growth of 16%. Further with improved product mix and cost reduction technique we expect EBITDA to grow at 16% with a margin of 19.2%.
	EBITDA	463	398	16.3	399	16.0	
	Core PAT	279	238	17.2	234	19.1	
VIP	Revenues	4,052	3,752	8.0	3,072	31.9	We expect a sales to grow 8% YoY on account of good May and June. Margins are expected to expand strongly YoY and QoQ due to a stronger INR this quarter, leading to EBITDA growth of 16%.
	EBITDA	547	472	15.8	307	78.1	
	Core PAT	355	290	22.5	189	87.5	

Valuation snapshot

		Mkt Cap	Price	P/E (x)		P/B (x)		RoE (%)		Div yld (%)	
	Reco	USD mn	(INR)	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Aarti Industries	Buy	1,160	915	19.9	16.4	4.5	3.7	24.7	24.4	0.9	0.9
Amara Raja Batteries	Buy	2,237	848	26.0	22.2	4.8	4.0	19.8	19.6	0.6	0.7
Apar Industries	Buy	454	769	13.6	10.7	2.4	2.1	19.3	21.0	1.4	1.6
Balkrishna Industries	Buy	2,555	1,712	21.6	16.6	3.9	3.2	19.7	21.4	0.5	0.5
Bharat Forge	Buy	3,992	1,111	26.6	22.7	5.4	4.6	21.9	22.1	1.1	0.9
Carborundum Universal	Buy	960	330	26.7	20.3	4.0	3.5	14.5	16.9	0.6	0.8
Castrol India	Reduce	3,054	400	27.1	25.3	28.9	25.3	113.9	106.8	2.7	2.9
CCL Products India	Buy	629	306	24.8	20.7	5.4	4.6	23.7	24.0	1.0	1.3
Essel Propack	Buy	585	241	16.5	13.0	3.1	2.6	20.8	22.2	1.4	1.8
Exide Industries	Buy	2,994	228	24.9	20.7	3.5	3.0	14.9	15.8	1.1	1.3
Fag Bearings	Buy	1,210	4,715	31.9	26.4	4.7	4.0	15.7	16.4	0.3	0.3
Gateway Distriparks	Buy	467	278	23.6	NA	2.4		13.5	NA	2.5	0.0
Grindwell Norton	Buy	732	428	33.3	26.4	4.9	4.5	15.3	17.7	1.3	1.5
Gulf oil	Buy	622	812	28.8	25.1	9.1	7.3	35.2	32.4	1.1	1.1
Kajaria ceramics	Buy	1,659	676	33.2	26.7	7.5	6.1	23.5	24.1	0.5	0.6
Orient Refractories	Buy	278	150	23.5	19.1	6.4	5.4	29.4	30.4	1.5	1.9
Solar Industries	Hold	1,151	824	31.3	24.5	6.8	5.6	23.4	24.8	0.7	0.8
Somany tiles	Buy	513	785	28.4	21.3	5.3	4.4	20.4	22.4	0.4	0.4
SRF	Hold	1,387	1,565	17.3	13.8	2.5	2.2	15.3	16.9	1.0	1.3
Supreme Industries	Buy	2,397	1,222	30.1	26.3	7.6	6.3	27.7	26.3	0.7	0.7
Vesuvius India	Buy	429	1,369	21.6	NA	3.7	NA	18.1	NA	0.7	0.0
VIP Industries	Buy	421	193	26.0	20.8	5.8	4.9	23.8	25.5	1.2	1.6

Textiles

Stock		Q1FY18E (INR mn)	Q1FY17 (INR mn)	Y-o-Y (%)	Q4FY17 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Arvind	Revenues	22,776	21,041	8.2	24,648	(7.6)	While last quarter saw a sharp drop in textile margins due to impact of raw material, there is some recovery expected in this quarter. Revenue growth in the textile segment was marginally impacted by the implementation of GST. While the advancement of End of season sale helped the company clock decent revenue growth despite the impact of GST, margins are expected to correct significantly QoQ.
	EBITDA	2,176	2,380	(8.6)	2,235	(2.6)	
	Core PAT	761	711	7.1	947	(19.7)	
Himatsingka Seide	Revenues	6,145	4,805	27.9	5,843	5.2	We expect the strong trend in revenue growth seen since commissioning of the new bed sheet unit in Q3FY17 to continue in this quarter also. We build in overall revenue growth of 28% YoY for this quarter. Post the Margins fall in the Retail & Distribution (R&D) segment in Q4FY17, we expect it to improve marginally with standalone remains expected to remain constant.
	EBITDA	1,040	898	15.9	1,013	2.7	
	Core PAT	488	453	7.6	456	7.0	
Welspun India	Revenues	16,454	15,926	3.3	17,572	(6.4)	Similar to previous quarters, Q1FY18 will also see impact of withdrawal of orders by Target. As a result, we expect marginal growth in revenues this quarter. Also, while rising cotton prices will impact margins, the benefits accruing from the recently launched government schemes is expected to keep margins stable.
	EBITDA	3,508	4,225	(17.0)	3,829	(8.4)	
	Core PAT	1,268	2,019	(37.2)	1,533	(17.3)	

Valuation snapshot

		Mkt Cap	Price	P/E (x)		P/B (x)		RoE (%)		Div yld (%)	
	Reco	USD mn	(INR)	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Arvind	Buy	1,473	369	24.1	15.7	2.5	2.2	10.3	14.2	0.7	0.7
Himatsingka Seide	Buy	547	360	17.0	12.3	2.8	2.4	18.0	20.9	0.7	0.7
Welspun India	Buy	1,250	81	12.4	10.7	2.8	2.3	24.5	23.6	1.5	1.9

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Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution* * 1stocks under review	161	67	11	240

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	156	62	11

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

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