RESULT PREVIEW Q2FY18

Earnings likely to remain subdued

India Equity Research | Strategy

The operating environment remains challenging. Hence, we foresee 232 companies under coverage clocking yet another quarter of weak earnings growth (5% YoY), relatively better top line (up 12%) and moderate margin (-72bps). Profit is likely to fall in contraction zone if one excludes base effect driven commodities (profit up 35%) akin to Q1FY18. The fact that earnings are not improving despite ebbing disruptions and early festive season is a tad disappointing and is certainly lagging market expectations of 10% Nifty EPS growth in FY18 (H1FY18E: +1%). We expect: a) commodities & private banks (>25% profit growth) to be the bright spots; b) domestic consumption (8% profit contraction) to be impacted by lingering GST pain and higher input costs; c) subdued pick up in domestic investment (5% profit contraction) reflecting weak private sector capex; and d) tepid exports (pharma profit down 27% and IT profit to contract 2%). Commentary on GST re-stocking and banking sector provisions will be key monitorables.

Coverage universe's profit likely to remain weak

The story for Q2FY18 remains the same as that of the past 3 quarters. Banks and commodities are likely to be the only large sectors reporting profit growth owing to base effects. Excluding these, the profit is likely to contract 9%, same as in the past 2 quarters. The weakness is fairly broad based and is a function of weak demand as well rise in input costs. This lackluster performance is a little disappointing. Ideally, by this time, earnings should have benefited from pent-up demand in the economy given that the effect of one-off disruptions—GST destocking, demonetisation—is ebbing.

Top line to be driven largely by base effects

Our coverage universe's top line is estimated to grow 12% YoY in Q2FY18 (9% in Q1FY18), primarily due to low base effects of commodities. Excluding these, top line is likely to grow mere 6% with broad-based weakness. What's worrying is weakness in real terms in a few sectors. For example, HUL's volume growth is estimated at mere 2% on a low base of -1%. In fact, the company's past 6 quarters' average volume growth is 1%, even lower than population growth. Cement companies are likely to post fourth consecutive quarter of flat volume growth. Also, IT and pharma companies are staring at yet another quarter of flat top line. Barring domestic auto, commodity companies and private sector banks, growth is likely to be in mid-low single digits.

Nifty: Commodities help drive profit growth

Nifty companies are estimated to report top line, EBITDA and PAT growth of 13%, 8% and 8% YoY, respectively, implying 1% EPS growth in H1FY18. The impact of GST seems to be weighing much longer than anticipated. Nonetheless, we do expect H2FY18 to be better. However, subdued H1 show does pose a risk to our 13% FY18 Nifty EPS estimate (consensus: 10%). Our current FY17/FY18/FY19 Nifty EPS estimates are INR445/500/614.

Prateek Parekh, CFA
+91-22-6623 3469
prateek.parekh@edelweissfin.com

Akshay Gattani
+91-22-6620 3103
akshay.gattani@edelweissfin.com

Edelweiss research team

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Table 1: Q2FY18—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	**30**	**35**	**22**	**21**	**2**	**113**	**127**
OMCs	8	55	83	29	1	133	259
Energy (ex OMC)	18	19	11	12	3	197	(12)
Metals & Mining	5	89	4	18	4	157	(42)
Exports/High global exposure	**21**	**(11)**	**23**	**5**	**9**	**(206)**	**93**
Auto (Export)	2	(26)	738	9	15	(179)	144
IT	15	(2)	1	3	2	(86)	41
Pharmaceuticals	4	(27)	44	1	11	(456)	267
Manufactured exports	1	(23)	20	10	5	(177)	152
Domestic Investment	**11**	**(5)**	**0**	**8**	**6**	**(104)**	**(99)**
Utilities	6	(6)	3	4	(0)	(99)	(34)
Engg & Cap Goods	3	(1)	31	10	16	(17)	98
Cement	1	(28)	(49)	7	(10)	(169)	(499)
Agro, fertiliser & Chemicals related	1	36	30	15	28	48	74
Construction	0	(17)	(31)	8	(5)	(114)	(73)
Real estate	0	(20)	10	4	2	(364)	194
Domestic consumption	**15**	**(8)**	**10**	**7**	**4**	**(193)**	**(2)**
Auto (Domestic)	8	4	34	19	18	(132)	101
Telecom	0	(93)	(20)	(11)	(2)	(387)	(32)
FMCG	6	(1)	(0)	1	(0)	14	1
Consumer Discretionary	2	7	(4)	11	(5)	(37)	21
Airlines	1	122	(27)	18	(2)	281	(114)
BFSI	**22**	**9**	**14**	**5**	**6**	**NA**	**NA**
PSU Banks	1	(51)	(6)	6	5	NA	NA
Private Banks	13	24	15	5	7	NA	NA
NBFC/Insurance	9	(1)	15	6	5	NA	NA
Coverage	**100**	**5**	**15**	**12**	**5**	**(72)**	**66**
ex OMCs	**92**	**2**	**12**	**8**	**6**	(75)	(5)
ex commodities	**70**	**(4)**	**13**	**6**	**6**	(172)	266
ex commodities and Banks	**48**	**(9)**	**13**	**6**	**(8)**	(172)	266
Nifty*		**8**	**17**	**13**	**5**	**(74)**	**78**

Source: Edelweiss research

Note: OMCs include BPCL, HPCL and IOCL

*Note:*SBI has been excluded from analysis as the base of Q2FY17 is not available*

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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.

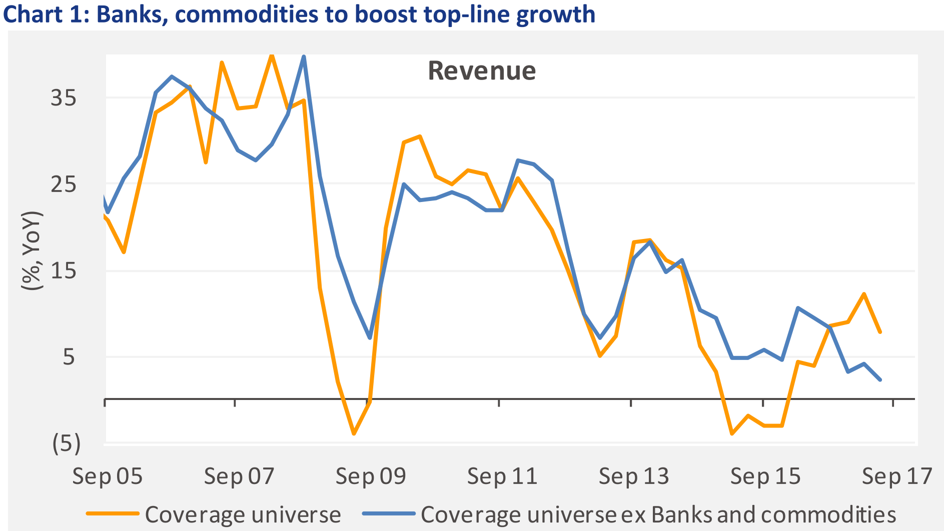
Top-line growth primarily supported by base effect

Top line of our coverage universe is likely to grow by 12%, marginally higher than 9% in previous quarter. Similar to past 3 quarters, breadth of growth is unlikely to be widespread. End of deflation in commodity prices is leading to revenue growth as commodities sector alone accounts for 65% incremental revenue growth. Other than commodities, domestic auto companies will post 19% growth. Revenue growth, excluding commodities and banks, is likely to remain muted at 6-7%.

This persistent weakness in top-line growth of coverage ex-banks and commodities is worrying. This is because a lot of disruptions, such as, demonetization and destocking due to GST, are now behind us and there is likely to be significant pent up demand. It is striking to note that HUL could deliver mere 2-3% volume growth in Q2FY18 on low base of -1%. In fact, its past 6 quarters' average volume growth is just 1% - even lower than population growth. This clearly reflects extremely weak demand environment. Cement companies are also likely to report their fourth consecutive quarter of flat volume growth. Weakness in IT and pharma companies is likely to continue. Thus, overall the expected upturn in growth is taking more time than previously anticipated.

Top line of Nifty companies is estimated to grow by ~13% YoY. Just like our coverage universe, top-line growth of Nifty companies is likely to be led by commodity companies—growing more than 21%. HPCL, BPCL and Vedanta are expected to clock 30% plus top-line growth. However, Bharti Airtel, Sun Pharma and Zee are likely to post double-digit contraction in top-line growth.

Chart 1: Banks, commodities to boost top-line growth



Source: Edelweiss research

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

Sector	# of companies	Q2FY18E INR bn	Q2FY17 INR bn	Y-o-Y (%)	Q1FY18 INR bn	Q-o-Q (%)
Commodity sectors	**19**	**4,348**	**3,594**	**21**	**4,255**	**2**
OMCs	3	2,149	1,672	29	2,132	1
Energy (ex OMC)	9	1,291	1,155	12	1,251	3
Metals & Mining	7	908	767	18	872	4
Exports/High global exposure	**38**	**2,134**	**2,028**	**5**	**1,965**	**9**
Auto (Export)	3	838	769	9	728	15
IT	11	850	823	3	831	2
Pharmaceuticals	17	362	360	1	325	11
Manufactured exports	7	83	76	10	80	5
Domestic Investment	**73**	**1,507**	**1,397**	**8**	**1,418**	**6**
Utilities	8	467	451	4	469	(0)
Engg & Cap Goods	30	593	539	10	513	16
Cement	6	161	150	7	178	(10)
Agro, fertiliser & Chemicals related	10	152	132	15	119	28
Construction	13	94	87	8	99	(5)
Real estate	6	40	38	4	39	2
Domestic consumption	**55**	**1,746**	**1,632**	**7**	**1,671**	**4**
Auto (Domestic)	13	655	550	19	557	18
Telecom	3	330	372	(11)	336	(2)
FMCG	13	336	333	1	336	(0)
Consumer Discretionary	23	294	266	11	309	(5)
Airlines	3	130	110	18	133	(2)
BFSI	**35**	**861**	**819**	**5**	**812**	**6**
PSU Banks	3	156	147	6	148	5
Private Banks	11	472	451	5	441	7
NBFC/Insurance	21	234	221	6	222	5
Coverage	**226**	**10,640**	**9,515**	**12**	**10,167**	**5**
ex OMCs	**223**	**8,491**	**7,843**	**8**	**8,035**	**6**
ex commodities	**207**	**6,292**	**5,921**	**6**	**5,912**	**6**
ex commodities and Banks	**172**	**5,431**	**5,102**	**6**	**5,903**	**(8)**
Nifty*	**47**	**7,886**	**7,005**	**13**	**7,529**	**5**

Source: Edelweiss research

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

(2) OMCs includes BPCL, HPCL and IOCL

*Note:*SBI has been excluded from analysis as the base of Q2FY17 is not available*

EBITDA margins to move lower YoY

EBITDA margin of our coverage universe is likely to remain moderate with contraction of 72bps (up 65bps QoQ). It seems margins have peaked and likely to contract for third consecutive quarter. Input costs are rising, which in turn is weighing on margins.

In specific to input cost, commodity prices (industrial metals, crude oil, base metals) have risen meaningfully. This rise in input cost along with weak demand is resulting in most companies facing margin pressures. Competitive intensity in pharma and telecom sectors is likely to keep margins under pressure. Hence margins of our coverage universe, ex-commodities, are likely to contract by 172bps.

Margins of Nifty companies are estimated to decline by 74bps YoY. While margins of Coal India, Tata Steel and Hindustan Unilever are estimated to expand between 250-750bps, those of Sun Pharma, Vedanta, Bharti Airtel and Adani Ports are expected to contract the maximum somewhere between 300-1800 bps YoY.

Table 3: EBITDA margins likely to moderate

Sector	# of companies	Q2FY18E (%)	Q2FY17 (%)	Y-o-Y (bps)	Q1FY18 (%)	Q-o-Q (bps)
Commodity sectors	**19**	**14**	**13**	**113**	**12**	**127**
OMCs	3	6	5	133	4	259
Energy (ex OMC)	9	23	21	197	23	(12)
Metals & Mining	7	18	17	157	19	(42)
Exports/High global exposure	**38**	**17**	**19**	**(206)**	**16**	**93**
Auto (Export)	3	10	12	(179)	9	144
IT	11	23	24	(86)	23	41
Pharmaceuticals	17	20	25	(456)	17	267
Manufactured exports	7	18	20	(177)	16	152
Domestic investment	**73**	**20**	**21**	**(104)**	**21**	**(99)**
Utilities	8	38	39	(99)	38	(34)
Engg & Cap Goods	30	10	10	(17)	9	98
Cement	6	17	19	(169)	22	(499)
Agro, fertiliser & Chemicals related	10	15	15	48	14	74
Construction	13	10	11	(114)	11	(73)
Real estate	6	36	40	(364)	34	194
Domestic Consumption	**55**	**20**	**22**	**(193)**	**20**	**(2)**
Auto (Domestic)	13	16	17	(132)	15	101
Telecom	3	33	37	(387)	33	(32)
FMCG	13	24	24	14	24	1
Consumer Discretionary	23	11	11	(37)	11	21
Airlines	3	22	20	281	24	(114)
Coverage	**191**	**16.8**	**17.5**	**(72)**	**16**	**66**
ex OMCs	**188**	**19.7**	**20.4**	**(75)**	**20**	**(5)**
ex commodities	**172**	**19**	**21**	**(172)**	**17**	**266**
Nifty*	**39**	**17**	**18**	**(74)**	**16**	**78**

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

*Note:*SBI has been excluded from analysis as the base of Q2FY17 is not available*

PAT growth back in likely to be subdued

PAT of our coverage universe is likely to grow by 5% compared to 13% growth in Q2FY17. The growth is mainly concentrated in commodities sector which is likely to grow 35% YoY, mainly led by rise in commodity prices and resulting in margin expansion.

If we exclude our top performing sector, i.e. commodities, then profit of our coverage universe is likely to contract by 4%, the trend being the same as seen in Q1FY18 where profits of coverage universe, ex-commodities, had contracted by 8%. Sector-wise, profits for exports are likely to decline by 11% led by overvalued INR and structural issues in pharma and IT, where profits are likely to dip by 27% and 2%, respectively.

Even profits of domestic consumption companies are likely to decline by 8%, partially due to slower pace of re-stocking, and transitional impact of GST. Profit of FMCG companies is likely to fall by 1%. Competitive pressure likely to persist in telecom sector, where profits may contract beyond 90%.

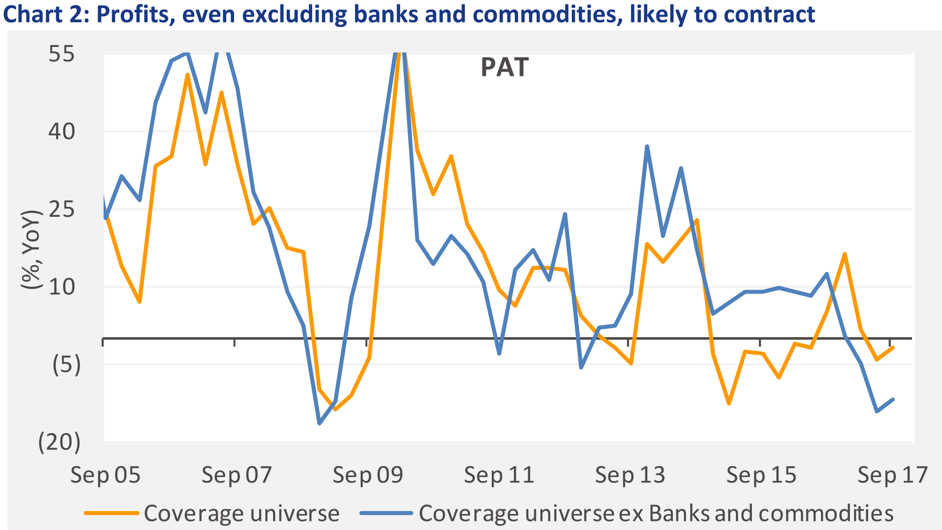
With regards to domestic investments, the relatively better top-line growth will be offset by margin weakness. Hence, profit of this segment is likely to contract by 5%.

In banking, private banks are expected to post relatively good numbers, while profits of public sector banks and NBFC are likely to remain subdued.

Nifty companies' profit growth is likely to grow by 8% with growth mainly concentrated in 5 companies (Tata Steel, Axis Bank, HPCL, Coal India and UPL). The decline is likely to be maximum in Bharti Airtel, Lupin and Sun Pharma, Tata Motors and Ultratech Cement.

While we do expect improvement in Nifty earnings in H2FY18, given that H1FY18 EPS is likely to grow at mere 1%, achieving 13% full-year Nifty EPS could be difficult as the asking rate for H2FY18 will be 23%. Our FY17, FY18 and FY19 Nifty EPS estimates are INR445, INR501 and INR614, respectivley.

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



Source: Edelweiss research

Table 4: Earnings growth likely to be in low single digits

Sector	# of companies	Q2FY18E INR bn	Q2FY17 INR bn	Y-o-Y (%)	Q1FY18 INR bn	Q-o-Q (%)
Commodity sectors	**19**	**311**	**230**	**35**	**255**	**22**
OMCs	3	79	51	55	43	83
Energy (ex OMC)	9	181	152	19	163	11
Metals & Mining	7	51	27	89	49	4
Exports/High global exposure	**38**	**221**	**249**	**(11)**	**180**	**23**
Auto (Export)	3	23	31	(26)	(4)	738
IT	11	150	154	(2)	149	1
Pharmaceuticals	17	40	55	(27)	28	44
Manufactured exports	7	7	9	(23)	6	20
Domestic investment	**73**	**117**	**124**	**(5)**	**117**	**0**
Utilities	8	57	60	(6)	55	3
Engg & Cap Goods	30	31	31	(1)	24	31
Cement	6	11	15	(28)	22	(49)
Agro, fertiliser & Chemicals related	10	12	9	36	9	30
Construction	13	3	3	(17)	4	(31)
Real estate	6	4	5	(20)	3	10
Domestic consumption	**55**	**159**	**172**	**(8)**	**144**	**10**
Auto (Domestic)	13	74	71	4	55	34
Telecom	3	2	23	(93)	2	(20)
FMCG	13	55	55	(1)	55	(0)
Consumer Discretionary	23	20	19	7	21	(4)
Airlines	3	8	4	122	11	(27)
BFSI	**35**	**224**	**206**	**9**	**196**	**14**
PSU Banks	3	6	13	(51)	7	(6)
Private Banks	11	129	104	24	112	15
NBFC/Insurance	21	89	89	(1)	77	15
Coverage	**226**	**1,038**	**989**	**5**	**899**	**15**
ex OMCs	**223**	**959**	**938**	**2**	**856**	**12**
ex commodities	**207**	**727**	**759**	**(4)**	**644**	**13**
ex commodities and Banks	**172**	**504**	**553**	**(9)**	**447**	**13**
Nifty*	**47**	**808**	**749**	**8**	**692**	**17**

Source: Edelweiss research

*Note:*SBI has been excluded from analysis as the base of Q2FY17 is not available*

RESULT PREVIEW

AGRI-INPUT

Weak monsoon affects growth recovery

India Equity Research | Strategy

Agri input companies'Q1FY18 results were affected owing to destocking under GST in agrochemicals while fertiliser companies witnessed stable demand with improvement in margins. We expect Q2FY18 earnings of fertiliser companies to continue to be driven by margin expansion, thanks to falling input prices and currency appreciation. Agro chemical companies may witness slow recovery in demand on back of monsoon concerns and subdued prices of agri outputs. Monsoon, on YTD basis, is 5% deficit at all India level while North (-9%) and Central (-6%) has been severely impacted. On aggregate level, we expect 15%yoy revenue growth and 50bps EBITDA margin expansion with aggregate PAT growth of 36%yoy. Deepak fertiliser (benefiting from expansion in fertiliser), Coromandel (strong margin) are preferred pick in fertiliser. While in agrochemical, due to weakness in domestic agrochemical companies, we prefer global player – UPL and PI Industry. We like Jain irrigation, which is beneficiary of growing government's thrust on micro irrigation.

Fertiliser companies to benefit from margin expansion

Fertiliser sales volume data suggests overall growth of 8% on YTD basis in both – Urea and NPK. However, currency appreciation and weak prices of inputs like ammonia and phos acid is expected to support margin expansion for the quarter. Ammonia prices have corrected from their peak by 15-20% while contract prices for phos acid remains ~590/mt. GST rates were rolled back to 5% as against earlier proposed rates of 12%, which has positively impacted fertiliser industry.

Agrochemicals – Prefer global agrochemical companies

Domestic agrochemical companies were expected to see pickup in demand in Q2FY18 after degrowth in Q1FY18 on back of inventory destocking ahead of GST. However, poor monsoon and higher trade inventory affected overall demand for agrocehmicals. Increase in technical's prices has raised concerns on company's margins while government's thrust on domestic manufacturing is likely to raise concerns on formulation based companies. With uncertainty over domestic agrochemical companies, we prefer agrochemical companies with global exposure like UPL and PI industry.

Outlook: Monsoon continues to stall the show

Overall monsoon has witnessed deficit of 5% on country level while North (-9%) and Central (-6%) has seen significant weakness. Overall crop prices (mainly vegetables) also remain weak which has adversely affected agrochemical consumption. Fertiliser companies' outlook remains robust on back of margin expansion. However current weakness in monsoon may lead to lower demand and initial sign of currency depreciation and hardening input cost may affect margins going forward. In micro Irrigation, growing need to save water and higher funds allocation from the government on these projects is likely support overall growth.

Top picks: **Deepak Fertiliser, Coromandel, UPL, PI Industry** and **Jain Irrigation**

Rohan Gupta
+91 22 4040 7416
rohan.gupta@edelweissfin.com

Nihal Mahesh Jham
+91 22 6623 3352
nihal.jham@edelweissfin.com

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Stock		Q2FY18E (INR mn)	Q2FY17 (INR mn)	Y-o-Y (%)	Q1FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Bayer Crop Science	Revenues	12,138	11,038	10.0	6,980	73.9	We expect domestic and export business to report a 10% YoY growth in revenues. Expect margins to remain stable YoY.
	EBITDA	2,597	2,374	9.4	1,156	124.7	
	Core PAT	1,757	1,591	10.4	1,117	57.3	
Coromandel International	Revenues	39,974	35,192	13.6	22,336	79.0	We are building in a 12% YoY growth in the - Nutrient and other allied products segment (Majorly fertilizer). Growth in the - Crop Protection segment (Majorly Sabero) is expected to be higher, factoring in a 15% YoY growth. Factoring in a 70bps YoY improvement in margins.
	EBITDA	4,649	3,846	20.9	1,715	171.1	
	Core PAT	2,656	2,134	24.4	754	252.1	
Dhanuka agritech	Revenues	3,474	3,102	12.0	2,080	67.0	We expect growth to pick up this quarter after a disappointing performance in Q1FY18 due to GST related destocking. We are building in a 12% YoY growth in revenues compared to 2% fall in Q1FY18. Margins are expected to contract by ~300bps YoY.
	EBITDA	693	708	(2.1)	245	182.4	
	Core PAT	497	492	0.9	161	207.8	
Deepak Fertilisers and Petrochemicals	Revenues	12,183	9,382	29.9	12,803	(4.8)	Driven by capacity increase, we expect manufactured fertilizer revenues to more than triple whereas traded revenues are consequently expected to fall. Overall we factor in a 57% YoY growth in fertilizer segment revenues. In the chemical segment, we expect overall revenues to increase by 13% YoY driven by higher contribution from traded segment. Both fertilizer and chemical segment are expected to report a YoY improvement in margins.
	EBITDA	1,486	884	68.2	1,225	21.3	
	Core PAT	566	270	110.0	374	51.4	
Jain Irrigation	Revenues	16,881	14,407	17.2	16,812	0.4	While last quarter was impacted by GST, we expect growth in domestic MIS segment to bounce back and build in 15% YoY growth with 5% YoY growth in the pipes and sheets segment. We have also factored in the revenue contribution from the recent acquisition made in the US by Jain Irrigation.
	EBITDA	2,275	1,769	28.6	2,343	(2.9)	
	Core PAT	331	137	142.2	443	(25.4)	
PI Industries	Revenues	6,039	5,441	11.0	5,532	9.2	Last quarter saw a deferment in orders in the CSM business which led to PI reporting negative growth in this segment despite a strong order book. Therefore we expect growth to bounce back in this segment from this quarter and build in a 12% YoY growth in revenues in this segment. Similarly, post the GST related destocking in Q1FY18, we expect growth in the domestic agrochemical segment to recover and build in a 10% YoY growth in revenues. Expect margins to remains table QoQ.
	EBITDA	1,420	1,279	11.0	1,304	8.8	
	Core PAT	1,068	1,014	5.4	1,001	6.7	
Rallis Industries	Revenues	6,334	5,489	15.4	4,455	42.2	We build in a 15% YoY growth in consolidated revenues driven by a 15% growth standalone agrochemical business, mainly driven by domestic segment, and 20% growth in subsidiary seeds business (Metahelix).
	EBITDA	1,180	1,042	13.2	694	70.0	
	Core PAT	741	667	11.1	453	63.7	
Sharda cropchem	Revenues	2,819	2,469	14.2	3,411	(17.4)	Expect revenue growth to be 14% this quarter, in line with the annual guidance of 15% growth. Gross margins are expected to correct YoY (Stable QoQ) driven by higher technical prices in China.
	EBITDA	450	476	(5.3)	622	(27.6)	
	Core PAT	245	298	(17.9)	432	(43.4)	

Stock		Q2FY18E (INR mn)	Q2FY17 (INR mn)	Y-o-Y (%)	Q1FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
United Phosphorus	Revenues	41,103	35,406	16.1	37,230	10.4	Like other agrochemical companies, UPL's domestic revenue growth was also impacted by GST in Q1FY18. Therefore we expect a pick-up in this region as GST impact fades away and build in a 12% YoY growth in revenues. We build in a 5% revenue growth for North America, Europe and RoW. While last quarter saw certain one-off's in LATAM, we expect the strong growth momentum seen in this region to pick-up again and build in a 20% YoY growth in revenues.
	EBITDA	7,398	6,247	18.4	7,500	(1.4)	
	Core PAT	4,024	2,218	81.4	4,730	(14.9)	
Zuari Agrochemicals	Revenues	11,360	10,519	8.0	7,038	61.4	We expect standalone revenues to grow 8% YoY. Last quarter, volumes/revenues degrew 7%/28% impacted by one-off's (lower trading and higher trade inventory). Expect a marginal 50bps YoY improvement in margins.
	EBITDA	966	843	14.5	331	191.4	
	Core PAT	439	270	62.6	3	16,171.5	

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
Bayer Cropscience	Hold	2,092	3,849	28.7	23.5	5.6	4.7	21.2	21.8	0.6	0.7
Coromandel International	Buy	2,062	459	21.8	18.0	4.0	3.4	19.7	20.6	1.3	1.3
Dhanuka Agritech	Buy	511	665	23.6	20.3	5.4	4.5	24.6	24.2	1.3	1.3
Deepak Fertilisers and Petrochemicals	Buy	520	384	11.7	10.5	1.8	1.6	16.1	16.2	1.8	2.1
Jain Irrigation Systems	Buy	706	97	15.5	10.6	1.1	0.9	8.4	10.6	0.7	0.7
PI Industries	Buy	1,563	739	22.0	19.2	5.0	4.1	25.1	23.3	0.5	0.5
Rallis India	Hold	638	213	19.2	16.5	3.3	2.9	18.4	18.9	1.6	1.6
Sharda cropchem	Buy	613	442	18.0	15.5	3.5	3.0	21.1	20.7	0.9	0.9
United Phosphorus	Buy	6,130	785	17.4	13.8	4.3	3.4	27.3	27.2	0.8	0.8
Zuari Agro Chemicals	Buy	315	488	13.6	11.2	1.2	1.1	8.2	8.7	0.7	0.7

RESULT PREVIEW

AUTOMOBILES

Margin improvement across the board

India Equity Research | Strategy

In Q2FY18, passenger vehicles (PV) segment clocked ~12.5% volume growth driven by strong response to new launches. Medium & heavy commercial (M&HCV) segment's volumes grew ~13% YoY led by replacement demand in favour of higher tonnage and normalising production post BS-IV. Two-wheeler (2W) volumes moved up ~12.5% YoY following extended scooter outperformance and gradual recovery in rural demand. We expect operating margins across companies to improve QoQ on recovery in volumes and stable commodity prices.

Key highlights of the sector during the quarter

Maruti Suzuki's (MSIL) volumes grew ~18% YoY, riding strong response to new launches (*Brezza, Baleno, Ignis, Dzire*). Mahindra & Mahindra's (M&M) volumes rose ~16% YoY led by 31% and 9% YoY growth in tractor and automotive volumes, respectively. In M&HCV segment, Ashok Leyland (AL) continued to gain market share with volume growth of 24% YoY, while Tata Motors' (TTMT) registered ~14% YoY growth in volumes. Eicher Motor's (EIM) *Royal Enfield* clocked robust volume growth of 22% YoY as capacity ramp up remained on course. Bajaj Auto's (BJAUT) volumes grew by mere ~4% YoY as robust growth in 3Ws was offset by subdued domestic motorcycle volumes. Hero MotoCorp's (HMCL) volumes grew 11% YoY, reflecting recovery in rural demand.

Result expectations; stocks under coverage

AL is likely to report strongest margin expansion of 430bps QoQ led by operating leverage benefit (M&HCV volumes up 58% QoQ). BJAUT's margin is likely to jump by 230bps QoQ on improved product mix and operating leverage. We expect HMCL and M&M to see margin expansion by 110bps and 60bps QoQ, respectively, reaping operating leverage benefits. MSIL's margin is likely to expand by only 20bps QoQ as benefits of stronger volumes and lower discounts are expected to be offset by lower gross margins due to Gujarat plant ramp up. EIM is expected to see 30bps QoQ rise in margins on benefits of scale and vendor consolidation. TTMT's consolidated margin is expected to increase by 170bps QoQ led by ~300bps sequential improvement in JLR margins (operating leverage benefit and better 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 impact of Seventh Pay Commission. For M&HCVs, with BS-IV and GST transition issues now behind, we expect volume to recoup 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**.

Chirag Shah
+91 22 6623 3367
chirag.shah@edelweissfin.com

Karthik Subramaniam
+91 22 6620 3156
karthik.subramaniam@edelweissfin.com

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Stock		Q2FY18E (INR mn)	Q2FY17 (INR mn)	Y-o-Y (%)	Q1FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Ashok Leyland	Revenues	64,309	46,224	39.1	42,378	51.8	We expect revenue growth of 39% YoY largely driven by M&HCV volume growth of 24% YoY. We expect operating margins to see sequential expansion of 430bps to 11.5% to factor in operating leverage benefit and higher export revenues.
	EBITDA	7,395	5,365	37.9	3,061	141.6	
	Core PAT	4,270	2,897	47.4	1,221	249.6	
Bajaj Auto	Revenues	66,612	60,545	10.0	54,424	22.4	We expect revenue growth of 10% YoY led by volume growth of ~4% YoY and realisation growth of 6% YoY. We expect operating margins to see sequential improvement of 230bps to 19.5% led by operating leverage benefit and better product mix (higher share of Pulsar and 3Ws)
	EBITDA	12,989	12,961	0.2	9,384	38.4	
	Core PAT	11,625	11,228	3.5	9,469	22.8	
CEAT Limited	Revenues	15,148	14,138	7.1	14,511	4.4	We expect revenue growth of 7% YoY driven by tonnage growth of 2% YoY and pricing growth of ~5% YoY. We expect operating margins to see a sharp improvement of 630bps to 10% on account of lower rubber prices.
	EBITDA	1,515	1,853	(18.3)	540	180.7	
	Core PAT	749	1,018	(26.5)	194	285.5	
Eicher Motors	Revenues	21,976	17,549	25.2	20,006	9.8	We expect consolidated revenue growth of 25% YoY driven by 21.5% YoY volume growth for Royal Enfield. We expect operating margins to improve sequentially by 30bps to 31.3% led by benefits of improving scale and vendor consolidation
	EBITDA	6,870	5,422	26.7	6,207	10.7	
	Core PAT	5,557	4,132	34.5	4,596	20.9	
Hero Motocorp	Revenues	88,121	77,963	13.0	79,716	10.5	We expect revenue growth of 13% YoY largely driven by volume growth of 11% YoY. We expect operating margins to improve sequentially by 110bps to factor in operating leverage benefit and non-recurrence of GST related compensation to dealers
	EBITDA	15,333	13,689	12.0	12,959	18.3	
	Core PAT	10,837	10,042	7.9	9,140	18.6	
Minda Corporation	Revenues	5,818	7,822	NA	5,817	0.0	We expect the traditional business revenue growth of 9% YoY with operating margins of 8.5% up 90bps QoQ. With transition to IND-AS accounting from Q1FY18 onwards, the 3 JV businesses (Minda VAST, Minda Furukawa and Minda Stoneridge) would be accounted for by the equity method. Hence revenues, EBITDA are not comparable on YoY basis
	EBITDA	495	811	NA	443	11.6	
	Core PAT	232	419	NA	243	(4.2)	
Mahindra & Mahindra (including MVML)	Revenues	119,081	101,718	17.1	112,381	6.0	We expect revenue growth of 17% YoY largely driven by volume growth of 16% YoY. We expect operating margins to see sequential improvement of 60bps to 14.8% led by operating leverage benefit.
	EBITDA	17,624	14,682	20.0	15,979	10.3	
	Core PAT	14,170	12,530	13.1	8,620	64.4	
Maruti Suzuki India	Revenues	221,891	178,428	24.4	176,872	25.5	We expect revenue growth of 24.4% YoY driven largely by volume growth of 19.4% YoY. We expect operating margins to improve sequentially by 20bps to 14.2% as benefits of operating leverage and lower discounts to be offset by lower gross margins (Gujarat plant ramp up)
	EBITDA	31,509	30,374	3.7	24,727	27.4	
	Core PAT	21,333	23,980	(11.0)	16,979	25.6	

Stock		Q2FY18E (INR mn)	Q2FY17 (INR mn)	Y-o-Y (%)	Q1FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Motherson Sumi Systems	Revenues	136,085	101,369	34.2	131,286	3.7	We expect consolidated revenue growth of 34% YoY (including PKC) driven by 19%/15%/15% YoY for domestic, SMR and SMP businesses respectively. We expect operating margins to improve by 60bps QoQ to 9.6%.
	EBITDA	13,009	9,971	30.5	11,864	9.6	
	Core PAT	5,213	3,513	48.4	5,332	(2.2)	
Suprajit Engineering*	Revenues	3,895	2,816	38.3	3,219	21.0	We expect consolidated (including Wescon) revenue growth of 38% YoY and expect operating margins to see sequential improvement of 20bps to 14.5%
	EBITDA	566	468	21.0	459	23.4	
	Core PAT	300	292	2.5	226	32.6	
Tata Motors (Consol.)	Revenues	690,722	659,004	4.8	584,934	18.1	We expect consolidated revenue growth of 5% YoY. We expect consolidated operating margins to improve sequentially by 170bps to 10.2% largely driven by 300bps QoQ improvement in JLR margins (operating leverage benefit and better product mix)
	EBITDA	70,585	80,954	(12.8)	49,648	42.2	
	Core PAT	16,085	26,250	(38.7)	(10,692)	250.4	

**Including Wescon*

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
Ashok Leyland	Buy	5,513	123	24.8	18.9	5.0	4.4	21.5	24.8	1.5	1.9
Bajaj Auto	Hold	13,931	3,131	20.3	18.2	4.7	4.2	24.6	24.2	2.1	2.4
Ceat Ltd	Buy	1,069	1,719	18.6	11.2	2.7	2.2	15.2	21.5	0.7	0.8
Eicher Motors	Buy	12,888	30,789	34.0	24.1	11.3	8.2	38.6	39.3	0.4	0.6
Hero MotoCorp	Hold	11,537	3,757	20.3	17.4	6.7	6.0	34.8	36.3	2.9	3.2
Mahindra & Mahindra	Buy	12,423	1,301	19.1	16.6	2.7	2.4	15.1	15.5	1.2	1.3
Maruti Suzuki India	Buy	36,376	7,831	26.9	22.5	5.6	4.8	22.5	22.9	1.0	1.1
Minda corporation	Buy	417	130	21.7	15.5	3.5	2.9	16.8	19.8	0.4	0.4
Motherson Sumi Systems	Hold	10,888	336	33.2	22.9	7.7	6.3	25.2	31.0	0.9	1.3
Suprajit Engineering	Buy	575	285	29.1	23.9	5.9	4.9	22.1	22.7	0.6	0.7
Tata Motors (Consolidated)	Hold	20,672	423	12.8	9.5	2.1	1.7	17.4	19.5	0.3	0.3

RESULT PREVIEW

BANKING AND FINANCIAL SERVICES

Soft quarter; elevated provisions to strain earnings

India Equity Research | Strategy

We expect Q2FY18 to be yet another soft quarter characterised by tepid 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, provisions on 12 accounts referred to NCLT by RBI), while impact of second list will be key monitorable. Industry credit growth continues to be soft—hovering around multi-year lows—and will continue to pressurise banks' top-line growth, especially of corporate-heavy PSU banks. This, along with NIMs pressure (MCLR transition), is likely to restrict NII growth. NBFCs are expected to sustain momentum on higher-than-banks' credit growth and better asset quality. Housing finance companies have maintained strong disbursements traction and tractor financing has been improving. MFIs may report weak earnings with elevated provisioning. However, on the positive front, collection efficiency has improved.

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 costs to continue to be a drag on earnings due to higher provisioning on account of rising ageing provisions, continued provisions on 12 accounts that were referred to NCLT and increasing write offs. While incremental stress creation will be softer, the recoveries/upgrades trend (slower than desired) needs to be monitored. Further, RBI has also come out with an additional second list, the impact of which needs to be monitored (refer our series ***Resolution Tracker #1: The game begins*** and ***Resolution Tracker #2: Upping the Ante*** for details).

NIMs to be under pressure

Despite the benefit flowing from funding cost, NIMs pressure was apparent in Q1FY18 following yields pressure. Given limited scope for further reduction in cost of funds, we expect NIMs pressure to continue 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 the 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 Q2FY18 earnings perspective

Long: Yes Bank, IndusInd Bank, L&T Finance **Short:** Union Bank of India.

Nilesh Parikh
+91 22 4063 5470
nilesh.parikh@edelweissfin.com

Kunal Shah
+91 22 4040 7579
kunal.shah@edelweissfin.com

Prakhar Agarwal
+91 22 6620 3076
prakhar.agarwal@edelweissfin.com

Malav Simaria
+91 22 6623 3357
malav.simaria@edelweissfin.com

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Stock		Q2FY18E (INR mn)	Q2FY17 (INR mn)	Y-o-Y (%)	Q1FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Axis Bank	NII + OI	75,724	70,535	7.4	76,160	(0.6)	Loan growth to be better than industry given the continued momentum in retail growth and opportunistic pick up in corporate. Though incremental stress might be curtailed, credit cost will likely continue to be elevated.
	PPOP	42,818	41,002	4.4	42,912	(0.2)	
	Core PAT	13,615	3,191	NM	13,056	4.3	
Bajaj Finserv	NII + OI	24,737	20,574	20.2	NA	NA	Financing business will likely sustain growth momentum. Funding cost will lend support to the margins. Life insurance profitability, albeit improving, will continue to be under pressure. General insurance to be better than industry growth rates.
	PPOP	14,608	12,326	18.5	NA	NA	
	Core PAT	7,158	5,758	24.3	NA	NA	
Bank of Baroda	NII + OI	52,009	49,875	4.3	49,561	4.9	While international book should see marginal growth, we expect domestic book to post 8-10% growth on average basis; Margins will also see some improvement (improvement in international NIMs and lower deposit cost). Incremental stress creation will be key monitorable.
	PPOP	28,349	26,902	5.4	26,481	7.1	
	Core PAT	2,579	5,521	(53.3)	2,034	26.8	
Bharat Financial Inclusion	NII + OI	3,139	2,916	7.6	2,881	8.9	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	1,623	1,544	5.1	1,388	16.9	
	Core PAT	345	1,459	(76.3)	(371)	NA	
Capital First	NII + OI	5,282	3,804	38.8	5,004	5.6	Loan growth will continue to report strong momentum (>25% growth) with continued tilt towards retail segment (>30% growth); NIMs will benefit from lower funding cost; After transitioning impact in Q1FY18, asset quality should see stabilisation.
	PPOP	2,425	1,738	39.5	2,318	4.6	
	Core PAT	638	467	36.5	603	5.8	
DCB Bank	NII + OI	3,290	2,519	30.6	3,189	3.2	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	1,401	1,009	38.9	1,364	2.7	
	Core PAT	694	485	43.0	652	6.3	
Dewan Housing Finance	NII + OI	6,528	5,371	21.5	6,209	5.1	AUM growth expected at 20-22% levels; asset quality will likely remain stable; cost/income will be a key monitorable, we expect it to come down during the quarter.
	PPOP	4,862	3,972	22.4	4,640	4.8	
	Core PAT	2,747	2,326	18.1	2,605	5.5	
Equitas Holdings	NII + OI	2,972	2,783	6.8	2,980	(0.3)	Overall AUM is expected to see marginal growth, with good traction in SME/LAP/home loans offset by conscious slowdown in MFI portfolio. NIMs will benefit from lower funding cost (deposit traction needs to be seen). Operating leverage benefit should start kicking in. Asset quality needs to be monitored (especially on MFI book) - Given improving collection efficiency, PaR should be contained, with provisioning at lower levels.
	PPOP	755	1,375	(45.1)	694	8.7	
	Core PAT	301	463	(35.0)	156	93.3	
Federal Bank	NII + OI	11,536	9,877	16.8	11,298	2.1	Loan growth will continue to maintain traction (>25% growth). Post blip in Q1FY18, slippages should normalise, with recoveries/upgrades trend being a key monitorable. Limited impact of RBI's 2nd list and high PCR (>70%) lend comfort. NIMs should be within a range of guidance (320bps). Opex may see some rise, following investment in the advertising campaign.
	PPOP	5,685	4,749	19.7	5,579	1.9	
	Core PAT	2,487	2,012	23.6	2,102	18.4	

Stock		Q2FY18E (INR mn)	Q2FY17 (INR mn)	Y-o-Y (%)	Q1FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
HDFC	NII + OI	31,894	28,292	12.7	26,953	18.3	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. After a blip in Q1FY18, the asset quality trend will likely remain benign
	PPOP	29,648	26,244	13.0	24,416	21.4	
	Core PAT	19,271	18,265	5.5	15,557	23.9	
HDFC Bank	NII + OI	1,30,400	1,08,945	19.7	1,28,874	1.2	Loan growth to likely gain traction implying continued market share gains. Core revenue momentum will likely improve (fee income is a key monitorable). Asset quality trend will likely remain benign.
	PPOP	74,084	60,246	23.0	75,199	(1.5)	
	Core PAT	41,635	34,553	20.5	38,938	6.9	
ICICI Bank	NII + OI	1,15,967	1,43,730	(19.3)	89,779	29.2	Loan off take will be softer, 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 by RBI for resolution (especially the second list) remains a key monitorable
	PPOP	75,698	1,06,361	(28.8)	51,834	46.0	
	Core PAT	32,559	31,023	5.0	20,490	58.9	
IDFC Bank	NII + OI	8,367	9,057	(7.6)	10,369	(19.3)	Business momentum will likely be on track. Asset quality trend will likely sustain. The momentum of liability franchise needs to be seen.
	PPOP	4,245	5,823	(27.1)	6,475	(34.4)	
	Core PAT	2,576	3,878	(33.6)	4,376	(41.1)	
Indiabulls Housing Finance (Standalone)	NII + OI	13,876	11,530	20.3	13,317	4.2	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	12,361	9,986	23.8	11,830	4.5	
	Core PAT	7,655	6,411	19.4	7,341	4.3	
IndusInd Bank	NII + OI	30,966	24,307	27.4	29,413	5.3	Loan growth to be higher than industry, with continued tilt towards consumer finance division. Fee income trends to continue superior performance. Asset quality trend will likely be stable.
	PPOP	16,495	12,817	28.7	15,885	3.8	
	Core PAT	8,946	7,043	27.0	8,366	6.9	
Karnataka Bank	NII + OI	6,789	5,870	15.7	6,418	5.8	Loan growth to average industry rates. Though incremental stress will be lower, credit cost will continue to be elevated.
	PPOP	3,364	2,328	44.5	3,097	8.6	
	Core PAT	1,376	1,238	11.1	1,339	2.8	
Kotak Mahindra Bank	NII + OI	51,807	47,088	10.0	49,596	4.5	Growth momentum is likely to sustain this quarter (~20% growth). Asset quality should be broadly stable, with in-line provisioning. NIMs may see some pressure following lower yields. Post blip in Q1FY18 (one-off marketing costs), opex will likely be lower.
	PPOP	23,211	19,514	18.9	21,561	7.7	
	Core PAT	13,859	11,393	21.6	12,437	11.4	
LIC Housing Finance	NII + OI	10,321	9,273	11.3	9,583	7.7	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	8,807	7,909	11.4	8,229	7.0	
	Core PAT	5,521	4,948	11.6	4,701	17.5	
L&T Finance Holdings *	NII + OI	11,736	9,883	18.7	11,332	3.6	Will continue on its path to achieve 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	8,188	6,557	24.9	8,055	1.7	
	Core PAT	3,132	2,156	45.3	2,786	12.5	

** PAT is after preference dividend*

Stock		Q2FY18E (INR mn)	Q2FY17 (INR mn)	Y-o-Y (%)	Q1FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Manappuram Finance	NII + OI	5,248	4,949	6.0	5,377	(2.4)	We expect growth momentum to sustain. Spreads are likely to sequentially improve. Asset quality will likely remain stable. The quality and improvement of MFI portfolio needs to be monitored.
	PPOP	2,951	2,869	2.9	2,951	0.0	
	Core PAT	1,931	1,797	7.4	1,878	2.8	
Max Financial Services	NII + OI	900	138	NM	918	(1.9)	Premium growth will likely continue to be on track registering mid-to-higher teens NBP growth.
	PPOP	655	-131	NA	666	(1.6)	
	Core PAT	655	-131	NA	666	(1.6)	
M&M Financial Services	NII + OI	9,136	8,071	13.2	8,704	5.0	Disbursement trends are likely to be better, supported by festival month, which should result in sustained AUM traction; Transition in NPA recognition norms may lead to higher GNPAs. However, excluding this, better collection efficiency should keep asset quality under check; NIMs should sustain at similar levels.
	PPOP	5,169	4,504	14.8	4,894	5.6	
	Core PAT	1,074	948	13.3	474	126.6	
Multi Commodity Exchange of India	NII + OI	903	954	(5.3)	868	4.0	We expect revenue momentum to be under pressure in line with lower average daily volumes. We don't expect any exceptional item during this quarter.
	PPOP	430	553	(22.3)	409	5.3	
	Core PAT	278	376	(26.3)	263	5.8	
Muthoot Finance	NII + OI	8,785	7,925	10.8	8,660	1.4	We expect growth momentum to somewhat gain traction. Performance on asset quality remains key monitorable.
	PPOP	5,532	4,624	19.6	5,518	0.2	
	Core PAT	3,651	2,967	23.0	3,511	4.0	
Power Finance Corporation	NII + OI	28,461	29,420	(3.3)	27,730	2.6	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.
	PPOP	27,761	29,000	(4.3)	25,690	8.1	
	Core PAT	16,045	18,740	(14.4)	14,290	12.3	
Punjab National Bank	NII + OI	65,400	62,678	4.3	61,869	5.7	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 will also keep credit cost elevated.
	PPOP	34,268	33,120	3.5	32,173	6.5	
	Core PAT	3,073	5,494	(44.1)	3,434	(10.5)	
Rural Electrification Corporation	NII + OI	23,218	26,831	(13.5)	23,196	0.1	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	22,544	25,681	(12.2)	22,322	1.0	
	Core PAT	13,977	17,513	(20.2)	13,011	7.4	
Repco Home Finance	NII + OI	1,113	1,000	11.3	1,030	8.1	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 Q1FY18 performance.
	PPOP	928	837	10.9	859	8.0	
	Core PAT	518	457	13.3	452	14.6	
Reliance Capital	NII + OI	40,410	41,780	(3.3)	39,020	3.6	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	3,960	3,980	(0.5)	3,660	8.2	
	Core PAT	2,789	2,530	10.2	2,380	17.2	
State Bank of India	NII + OI	3,11,202	2,28,616	NA	2,56,117	21.5	Loan growth is expected to be subdued (below system average), with support from retail portfolio. NIMs are expected to improve, although effect of SA rate cut will be partially offset by MCLR transtion. Incremental stress will likely be curtailed, but credit cost is expected to continue to be elevated. The provision requirement for accounts in RBI's lists remains key monitorable. Further the integration effect
	PPOP	1,70,484	1,12,243	NA	1,18,741	43.6	
	Core PAT	34,382	25,383	NA	20,055	71.4	
Shriram City Union Finance	NII + OI	8,423	7,354	14.5	8,174	3.0	Growth metrics will likely track 20-22% levels. But lower funding cost will provide support to NIMs in turn aiding revenue momentum. Performance on asset quality and credit cost will be key monitorable.
	PPOP	5,133	4,525	13.4	4,976	3.2	
	Core PAT	2,265	2,045	10.8	1,939	16.9	

Stock		Q2FY18E (INR mn)	Q2FY17 (INR mn)	Y-o-Y (%)	Q1FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
South Indian Bank	NII + OI	6,463	5,911	9.4	6,800	(5.0)	Marginal pick up in loan growth. Margins to benefit from lower funding cost. Asset quality to improve as the bank has done away with watch list accounts. However higher provisions will keep credit cost elevated.
	PPOP	3,355	2,973	12.8	3,795	(11.6)	
	Core PAT	1,026	1,105	(7.2)	1,015	1.1	
Shriram Transport Finance	NII + OI	16,448	13,699	20.1	16,070	2.3	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 H1 is generally a softer half.
	PPOP	12,900	10,561	22.2	12,691	1.6	
	Core PAT	4,877	3,877	25.8	4,487	8.7	
Union Bank of India	NII + OI	38,261	34,169	12.0	36,573	4.6	Growth is likely to sustain in the 8-10% range; Slippages should trend in lower this quarter, supported by lower corporate slippages. However, provisioning is likely to be elevated following exposure to accounts in RBI's lists; Having bottomed out, NIMs should be stable/marginally improve
	PPOP	21,853	18,197	20.1	20,566	6.3	
	Core PAT	597	1,767	(66.2)	1,166	(48.8)	
Yes Bank	NII + OI	30,390	23,340	30.2	29,411	3.3	Funnels of growth through corporate, SME and retail should result in higher-than-industry traction; Given limited exposure to accounts disclosed in RBI's lists, impairment ratio will likely be contained, with credit cost within guided levels. SA rate cut would benefit NIMs, budgeted to touch 4% by FY20
	PPOP	17,843	13,860	28.7	17,042	4.7	
	Core PAT	10,297	8,015	28.5	9,655	6.6	

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
Axis Bank	Buy	18,478	501	18.4	11.8	2.0	1.8	11.2	15.8	1.4	2.0
Bank of Baroda	Buy	4,946	140	12.5	7.7	0.8	0.7	6.2	9.6	2.1	2.1
Bharat Financial Inclusion	Buy	2,055	968	32.2	17.0	4.1	3.1	14.6	21.0	0.0	0.0
Capital First	Buy	1,120	745	21.3	16.0	2.9	2.5	14.3	16.8	0.7	0.9
DCB Bank	Hold	888	188	22.1	18.3	2.2	2.0	11.5	11.5	0.0	0.0
Dewan Housing Finance	Buy	2,691	558	15.6	13.6	2.0	1.8	13.8	14.5	1.1	1.3
Equitas Holdings	Buy	793	152	28.7	23.3	2.1	2.0	7.7	8.8	0.0	0.0
Federal Bank	Buy	3,421	114	18.3	14.6	1.8	1.6	11.4	11.7	2.1	2.1
HDFC	Hold	42,920	1,752	21.7	17.0	3.4	2.8	19.9	20.9	1.2	1.4
HDFC Bank	Buy	71,393	1,799	26.2	21.6	4.4	3.8	18.2	19.0	0.7	0.9
ICICI Bank	Buy	26,811	272	9.4	6.4	1.1	0.9	11.9	14.9	2.1	3.1
IDFC Bank	Hold	2,963	57	13.7	11.7	1.2	1.1	9.2	10.0	1.5	1.7
Indiabulls Housing Finance	Buy	8,231	1,261	15.6	12.9	4.1	3.5	27.3	29.3	3.1	3.7
IndusInd Bank	Buy	15,550	1,689	27.8	22.4	4.4	3.7	16.8	17.9	0.5	0.5
Karnataka Bank	Buy	849	146	7.7	6.4	0.8	0.7	10.0	11.2	3.4	3.4
Kotak Mahindra Bank	Hold	30,235	1,033	33.0	26.9	4.1	3.6	14.5	14.5	0.4	0.5
LIC Housing Finance	Buy	5,032	649	15.8	14.2	2.5	2.2	18.8	18.4	1.2	1.4
L&T Finance Holdings	Buy	5,418	193	24.6	18.2	3.8	3.2	16.3	19.2	0.9	1.2
M&M Financial Services	Hold	3,638	416	36.4	22.8	3.5	3.1	9.8	14.4	0.7	1.1
Manappuram Finance	Buy	1,274	98	10.1	8.8	2.3	2.0	24.5	24.3	3.7	4.2
Multi Commodity Exchange of India	Buy	821	1,048	38.3	28.6	3.4	3.2	9.0	11.5	1.2	1.6
Muthoot Finance	Buy	2,932	477	13.2	11.6	2.5	2.2	20.5	20.1	1.8	1.8
Power Finance Corporation	Buy	5,070	125	4.8	4.7	0.8	0.7	17.8	16.1	5.2	5.3
Punjab National Bank	Buy	4,331	132	9.9	7.2	0.7	0.6	7.5	9.8	2.3	2.3
Reliance Capital	Buy	2,187	563	8.7	6.8	0.6	0.6	7.5	8.7	1.3	1.3
Repco Home Finance	Buy	618	642	19.2	15.7	3.0	2.6	17.0	17.8	0.5	0.6
Rural Electrification Corporation	Buy	4,677	154	5.4	4.8	0.8	0.7	16.0	15.8	4.1	4.1
Shriram City Union Finance	Buy	2,119	2,090	16.4	11.7	2.4	2.0	15.6	19.0	0.9	1.1
Shriram Transport Finance	Buy	3,689	1,057	13.9	9.0	1.9	1.6	14.5	19.2	1.1	1.4
State Bank of India	Buy	33,363	251	11.4	8.0	0.7	0.7	7.7	10.0	1.6	1.6
South Indian Bank	Buy	825	30	10.4	7.3	1.1	1.0	10.7	14.0	2.5	2.5
Union Bank of India	Hold	1,407	126	7.8	5.5	0.4	0.4	5.3	7.8	2.4	2.4
Yes Bank	Buy	12,658	359	19.0	14.5	3.2	2.7	18.2	20.3	0.9	0.9

RESULT PREVIEW

CEMENT

Expect lacklustre quarter

India Equity Research | Strategy

We expect Q2FY18 to be a disappointing quarter on all fronts, be it volumes (industry volumes for July/August 2017 fell ~2% YoY), cement prices (all-India prices declined ~2% QoQ adjusted to GST rates) or cost (due to rise in prices of pet coke & imported coal, impact of scheduled seasonal repairs and maintenance in the monsoon quarter). We estimate EBITDA (adjusted to acquisitions) of our coverage universe to dip ~4% YoY. ACC and JK Cement (under our coverage) are expected to be the only companies to report decent EBITDA growth (over 20% YoY), though largely on low base. However, we remain optimistic on sharp recovery in cement demand and prices in H2FY18, further amplified by low base effect of H2FY17 (owing to DeMon). Our optimism stems from expected recovery in rural demand (post good monsoons), and government's focus on infrastructure & affordable housing. With slow capacity additions and expectations of stable cost regime, we remain positive on the sector.

Key highlights of the sector during the quarter

Demand growth remained subdued in the monsoon quarter with combined impact of heavy rains, shortage of sand and poor demand from organised housing segment. As per DIPP data, industry production for July and August 2017 (combined) fell 1.7% YoY (YTD down 3%). As a result, cement prices were also under pressure dipping ~2% QoQ adjusted to GST rates. Highest price drop was witnessed in Western (down ~4%) and Northern regions (down ~3%), while Southern region remained least impacted with prices staying flat QoQ. Q2FY18 will also be impacted by further rise in prices of pet coke/imported fuel and scheduled seasonal repairs and maintenance cost. Overall, it is expected to be a lacklustre quarter.

Result expectations; stocks under coverage

For our coverage universe (adjusted for acquisitions), combined cement volumes are expected to grow ~6% YoY. With no respite from costs, adjusted EBITDA may dip ~4% YoY. ACC and JK Cement (under our coverage) are expected to be the only companies to report decent EBITDA growth (of over 20% YoY), though largely on low base.

Outlook over the next 12 months

We continue to expect sharp recovery in cement demand in H2FY18 on low base of H2FY17, recovery in rural demand (owing to good monsoons) and continued government focus on infrastructure and affordable housing. As a result, cement prices too are expected to rebound in H2FY18. We also believe that operating costs will not increase materially from Q2FY18 levels. We remain constructive on the sector factoring in positive demand growth outlook (on expectation of increased government spending in the run up to general elections in 2019), slowing capacity additions and expected stable operating cost regime. Subdued demand in H2FY18 may pose a huge risk to our estimates and positive view on the sector.

Top Picks: **India Cement and UltraTech Cement.**

Navin R. Sahadeo
+91 22 4088 6242
navinr.sahadeo@edelweissfin.com

Sharif Hadimani
+91 22 6620 3111
sharif.hadimani@edelweissfin.com

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Stock		Q2FY18E (INR mn)	Q2FY17 (INR mn)	Y-o-Y (%)	Q1FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
ACC	Revenues	29,452	25,192	16.9	34,529	(14.7)	Expect volumes to grow by ~16% YoY, aided by capacity expansions in East and on low base (-9.6% YoY) in Q3CY16. However, realisations are expected to be weak, dropping by ~2% QoQ (flat YoY) impacted by seasonal factors, leading to top-line growth of ~17% YoY. Expect EBITDA to rise 12% YoY with EBITDA/t of INR421 (down ~5% YoY).
	EBITDA	3,318	2,734	21.4	6,354	(47.8)	
	Core PAT	1,272	841	51.2	3,217	(60.5)	
Ambuja Cements	Revenues	22,359	20,314	10.1	28,613	(21.9)	Cement volumes expected to grow by ~8% YoY, aided by low base in Q3CY16 (down ~7% YoY), while realisations are estimated to dip ~3% QoQ largely led by price corrections in Western region which accounts for ~40% of its sales volume. Expect EBITDA to grow ~4% YoY with EBITDA/t of INR575 (up ~2% YoY).
	EBITDA	3,156	3,032	4.1	6,510	(51.5)	
	Core PAT	2,266	2,770	(18.2)	3,922	(42.2)	
Grasim Industries	Revenues	44,469	27,492	61.8	29,865	48.9	We expect VSF volumes to grow by ~3.5% YoY with operations at close to 100% capacity utilisation. Expect realisations to rise ~1% QoQ. Further, aided by restart of domestic pulp facility, expect VSF EBITDA margin to expand by ~200bps QoQ. Standalone EBITDA margin may contract by ~130bps QoQ due to consolidation of Aditya Birla Nuvo from this quarter.
	EBITDA	7,676	5,585	37.4	5,553	38.2	
	Core PAT	5,984	5,923	1.0	3,472	72.3	
India Cements	Revenues	13,023	12,794	1.8	12,901	1.0	Cement volumes are expected to remain flat YoY on subdued demand in the key market - Tamil Nadu (owing to sand shortage). Realisations may decline ~2% QoQ led by increased sales in comparatively low prices markets (versus TN) and seasonal price drop across major states. Sharp rise in energy costs (up ~28% YoY) is estimated to driving up total cost/t by 7% YoY. Ergo, EBITDA/t may fall ~24% YoY on like-to-like basis.
	EBITDA	1,872	2,443	(23.4)	1,856	0.9	
	Core PAT	315	594	(47.0)	264	19.1	
J K Cement	Revenues	10,206	9,238	10.5	10,415	(2.0)	Expect grey cement volumes to rise ~6% YoY, while realisations may dip ~3% QoQ led by price corrections in Northern and Western markets. We expect white cement sales to grow ~2% YoY and putty volumes by ~8% YoY. An estimated grey cement EBITDA/t at ~INR565 compares to low base of INR398 in Q2FY17. Blended EBITDA/t is expected to be INR863, up 13% YoY.
	EBITDA	1,914	1,589	20.5	1,977	(3.2)	
	Core PAT	708	409	73.0	793	(10.8)	
Shree Cement	Revenues	21,395	20,068	6.6	25,363	(15.6)	Expect cement volumes to grow by ~13% YoY (10% including clinker) led by benefit of capacity augmentation. Total cost/t is expected to rise ~11% YoY following spurt in freight costs and higher energy and RM costs. Hence, cement EBIDTA/t is expected to fall 26% YoY to INR959.
	EBITDA	4,953	6,563	(24.5)	6,800	(27.2)	
	Core PAT	3,017	4,591	(34.3)	4,401	(31.5)	
Ultratech	Revenues	64,140	61,957	3.5	66,264	(3.2)	Expect volumes to grow by ~15% YoY (~2% YoY excluding recent acquisition of JPA assets) and cement realisations estimated to dip ~2.5% QoQ, in line with our all-India price estimate. EBITDA/t could fall ~10% YoY to INR932 (excluding JPA assets, may remain flat YoY at ~INR1,030/t). Estimate total EBITDA to be ~INR12bn.
	EBITDA	12,029	11,548	4.2	15,600	(22.9)	
	Core PAT	3,375	6,011	(43.9)	8,906	(62.1)	

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	4,909	1,700	40.5	28.9	3.6	3.5	9.0	12.3	1.8	2.1
Ambuja Cement	Hold	8,374	274	45.8	35.7	2.8	2.7	6.2	7.8	1.1	1.5
India Cements	Buy	864	182	20.8	13.4	1.1	1.0	5.2	7.6	1.1	1.1
Grasim	Buy	11,732	1,161	15.9	11.7	1.6	1.4	10.5	13.4	0.7	0.7
JK Cement	Buy	1,046	973	20.4	14.1	3.4	2.8	17.6	21.7	0.8	1.0
Shree Cements	Buy	10,066	18,792	36.4	25.4	7.0	5.5	21.0	24.2	0.1	0.1
UltraTech Cement	Buy	16,440	3,894	38.2	23.2	4.0	3.5	11.1	16.2	0.3	0.4

RESULT PREVIEW

CONSTRUCTION

Top line improvement expected

India Equity Research | Strategy

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Ideas create, values protect

Despite heavy rains impacting execution in Q2FY18, we estimate our coverage universe to clock ~11% YoY revenue growth. Execution is likely to improve in H2FY18 as work on projects won over the past year is likely to gather pace. Government initiatives like release of 75% of arbitration claims won by construction players and innovative funding avenues like InViT issue are key positives for the sector. Robust execution and healthy balance sheets are likely to help companies like Ahluwalia Contracts and Sadbhav Engineering clock good performance for the quarter.

Key highlights of sector during the quarter

Project awards during Q2FY18 remained slow due to GST impact. Road sector awards continued to be dominated by the hybrid annuity mode. Order awards from urban infra (metro rail) also maintained momentum. Order intake from other sectors, however, remained tepid.

Result expectations for the sector and stocks under coverage

We estimate our coverage universe's revenue to grow 11% YoY. EBITDA margins are estimated to decline ~130bps YoY to 10.6%. Adjusted for one-offs, PAT margins are likely to remain flat at ~3% YoY. Companies with healthy balance sheets like Ahluwalia Contracts and Sadbhav Engineering are expected to deliver strong performance.

Outlook for the next 12 months

We expect ordering in the roads space to improve with a large number of projects slated to be awarded by NHAI in the near future. We estimate revenue traction to improve going ahead with execution on projects awarded in FY17 expected to pick up. Lower interest rates too are likely to boost earnings. A host of measures initiated by the government like awarding of 75% of claims won by construction companies along with easier fund raising/asset monetisation are likely to work in the sector's favour. These measures will deleverage balance sheets and help EPC players weather cash flow stress. We expect the sector's execution and earnings to improve in H2FY18.

Top picks

KNR Constructions and NCC.

Parvez Akhtar Qazi
+91-22- 4063 5405
parvez.qazi@edelweissfin.com

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Stock		Q2FY18E (INR mn)	Q2FY17 (INR mn)	Y-o-Y (%)	Q1FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Ahluwalia Contracts	Revenues	3,904	2,903	34.5	5,042	(22.6)	Execution on projects from private real estate developers remains key monitorable
	EBITDA	476	398	19.4	536	(11.3)	
	Core PAT	254	197	28.8	295	(14.0)	
Ashoka Buildcon	Revenues	6,602	4,428	NA	7,228	NA	Pick up in pace of execution remains key monitorable. Also, improvement in traffic growth for operational BOT projects need to be watched.
	EBITDA	840	698	NA	975	NA	
	Core PAT	506	453	NA	619	NA	
HCC	Revenues	9,020	9,111	(1.0)	9,307	(3)	Pick up in pace of execution needs to be watched. Award of arbiteration claims and consequent debt reduction remains key monitorable
	EBITDA	1,062	1,951	(45.6)	1,700	(38)	
	Core PAT	(342)	220	(255.4)	145	(336)	
J Kumar Infraprojects	Revenues	3,506	3,097	13.2	3,742	(6.3)	Pace of execution on projects in Mumbai like JNPT Roads and Mumbai Metro need to be watched. Also, its ability to maintain high level of operating profitability
	EBITDA	609	563	8.1	627	(2.9)	
	Core PAT	236	230	2.4	258	(8.7)	
KNR construction	Revenues	4,079	3,735	9.2	4,807	(15.2)	The company's ability to maintain high level of execution growth rates and operating profitability will be a key monitorable.
	EBITDA	559	560	(0.2)	845	(33.9)	
	Core PAT	338	439	(23.1)	676	(50.1)	
NBCC	Revenues	13,221	12,488	5.9	12,666	4.4	While the company has strong revenue visibility, execution pick up will be a key monitorable. The company's ability to maintain stable margin also need to be watched
	EBITDA	838	721	16.3	649	29.2	
	Core PAT	702	672	4.5	559	25.6	
Nagarjuna Const.	Revenues	19,837	19,479	1.8	20,137	(1.5)	The company's ability to achieve operating margin expansion is a key monitorable. Also, expansion in profit margins due to lower debt levels needs to be watched
	EBITDA	1,745	1,711	2.0	1,710	2.0	
	Core PAT	516	464	11.1	510	1.1	
PNC Infratech	Revenues	3,686	3,599	2.4	3,567	3.4	Land acquisition issued have impacted company's topline; pick up in execution thus needs to be watched. In addition its ability to maintain stable operating profitability remains key monitorable
	EBITDA	494	463	6.6	520	(4.9)	
	Core PAT	257	352	(27.0)	298	(13.7)	
Sadbhav Engineering	Revenues	8,310	6,156	35.0	9,444	(12.0)	The company's ability to sustain healthy execution pace need to be watched. Also improvement in working capital remains key monitorable
	EBITDA	848	654	29.7	1,068	(20.6)	
	Core PAT	342	185	84.5	555	(38.4)	
Simplex Infra	Revenues	14,080	12,635	11.4	15,119	(6.9)	Pick up in execution needs to be watched. The company's performance on the working capital front will determine the growth trajectory.
	EBITDA	1,577	1,598	(1.3)	1,728	(8.8)	
	Core PAT	151	178	(15.4)	287	(47.6)	
Supreme Infrastructure	Revenues	2,255	1,940	16.2	2,666	(15.4)	Sustainability in revenue growth along with performance on the working capital front needs to be watched
	EBITDA	297	106	180.8	369	(19.5)	
	Core PAT	(289)	(434)	NA	(225)	(28.2)	
Titagarh Wagons	Revenues	3,426	4,114	(16.7)	3,288	4.2	The ability to maintain strong operating performance of the Italian coach subsidiary Firema remains key monitorable. Further improvement in profitablility need to be watched
	EBITDA	244	325	(24.9)	214	14.0	
	Core PAT	24	113	(79.3)	4	517.6	
Texmaco Rail & Engineering	Revenues	2,101	3,649	(42.4)	2,275	(7.7)	Order inflow from the rolling stock business and the company's ability to sustain healthy execution pace in its EPC business (Kalindee) need to be watched.
	EBITDA	37	188	(80.6)	(49)	175.0	
	Core PAT	(7)	182	(104)	(86)	92	

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	302	293	16.9	13.5	3.1	2.5	20.6	20.8	0.0	0.0
Ashoka Buildcon	Buy	561	195	70.8	28.5	2.1	2.0	0.9	5.1	0.4	0.4
Hindustan Construction Company	Buy	511	33	NM	21.6	1.3	1.2	(3.4)	5.7	0.0	0.0
J Kumar Infraprojects	Buy	246	211	13.5	10.0	1.1	1.0	8.2	10.2	0.9	0.9
KNR construction	Buy	441	204	17.1	16.4	2.7	2.3	17.2	15.2	0.1	0.1
NBCC	Hold	2,975	215	46.3	31.9	10.0	8.3	23.1	28.4	0.6	0.9
Nagarjuna Construction Co	Buy	708	83	19.1	12.8	1.3	1.2	6.8	9.4	0.5	0.5
PNC Infrateh	Buy	583	148	28.3	20.0	2.2	2.0	8.2	10.6	0.3	0.3
Sadbhav Engineering	Buy	764	290	24.8	28.9	2.7	2.5	11.4	8.9	0.2	0.2
Simplex Infrastructures	Buy	368	484	26.1	13.7	1.5	1.3	5.8	10.3	0.1	0.1
Supreme Infrastructure	Under	38	96	NM	21.6	0.4	0.4	(7.7)	1.9	0.0	0.0
Titagarh Wagons	Buy	221	125	118.4	17.1	1.4	1.3	1.3	7.9	0.6	0.6
Texmaco Rail & Engineering	Buy	348	103	135.3	19.5	2.1	1.9	1.6	10.3	0.2	0.2

RESULT PREVIEW

CONSUMER DURABLES

Recovery on cards, is it enough?

India Equity Research | Strategy

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Ideas create, values protect

Post a weak Q1FY18 impacted by GST, there has been recovery led by channel re-stocking as per our channel checks. Segments like white goods and lighting ahead of festive season are likely to do much better in Q2FY18, while cables & wires that posted a strong Q1FY18 led by pre-buying are likely to normalise. Barring few large players, AC/air cooler segment is likely to remain muted due to seasonality. Unorganised distributors have started facing disruption, especially in air coolers & cables/wires, etc., which is likely to drive higher growth for large organised players. We place our bets on strong brands with potential business scalability. Our top picks are Crompton Consumer, Voltas, Havells, Whirlpool and Symphony.

Key highlights of the sector during the quarter

We expect secondary sales of segments that have higher seasonal influence (air coolers/air conditioners) to be subdued, while most of our channel checks indicate a flattish to mid single digit YoY growth in Q2FY18 due to restocking . Segments (lighting and white goods) that are driven by festive season and government's focus on power for all (cables & wire) are likely to do much better. This is likely to help cables & wire companies clock decent growth in revenues even as sales normalise after robust pre-buying in Q1FY18. Our channel checks also opined that unorganised dealers across segments are facing disruption, and looking at shifting to organised dealerships.

Result expectations for stocks under coverage

Revenue misses in 1QFY18 on GST implementation are likely to be recouped in Q2FY18, resulting in ~12-14% YoY growth. Despite normalisation of cable and wire sales in Q2FY18, we expect segment companies (KEI Industries, Finolex Cables) to post decent top-line growth (>15%). While companies impacted by seasonality (Voltas) may register muted growth, white goods and lighting companies (Whirlpool of India) are likely to benefit from higher sales ahead of the festive season. Our coverage universe's margins are likely to remain flat at ~10% due to the push model adopted by companies (requiring both companies and dealers to offer higher incentives).

Outlook over the next 12 months

While sector valuations have clearly run up in past 6-8 months, we believe incremental value driver for the sector will largely be consolidation opportunities which according to us seems to have just begun.

Top picks

Crompton Consumer, Voltas, Havells, Whirlpool of India and Symphony.

Amit Mahawar
+91 22 4040 7451
amit.mahawar@edelweissfin.com

Darshika Khemka
+91 22 4063 5544
darshika.khemka@edelweissfin.com

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Stock		Q2FY18E (INR mn)	Q2FY17 (INR mn)	Y-o-Y (%)	Q1FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Crompton Greaves Consumer Electrical	Revenues	9,485	8,900	6.6	10,555	(10.1)	We expect Crompton Consumer to post revenues of ~7% with the lighting segment posting growth of ~10% due to higher sales in the festive season and the ECD segment posting growth of ~5% being a seasonally weak quarter. The margins are expected to be flat yoy and down ~150 bps sequentially at ~10.5% due to the recognition of ESOP cost.
	EBITDA	1,011	974	3.9	1,294	(21.8)	
	Core PAT	613	554	10.7	803	(23.6)	
Finolex Cables	Revenues	6,872	6,142	11.9	6,740	2.0	Revenues of Finolex Cables are expected to grow at ~12% in Q2FY18 led by rise in price, re-stocking post GST and potential infra growth both rural and urban. The margins are expected to be flat at ~16%.
	EBITDA	1,103	998	10.6	1,100	0.3	
	Core PAT	924	1,048	(11.8)	1,019	(9.3)	
KEI Industries	Revenues	7,524	6,245	20.5	7,909	(4.9)	We expect the revenues of KEI to grow by ~21% on the back of price rise taken by the company and increasing retail sales along with the execution of tunkey projects. The margins are expected to be ~11%.
	EBITDA	776	669	16.0	768	1.1	
	Core PAT	293	229	27.8	275	6.5	
Symphony	Revenues	1,681	1,504	11.7	1,298	29.6	With Symphony witnessing a good off-season demand from delears in July & August at higher prices, the launch of new 'Sense' range of Air Coolers in August and a visible shift from unorganised to organised players in the Air coolers industry, we expect the revenues of SYML to grow 12%. We expect the company to post margins of ~26% given the increase in price undertaken by the company.
	EBITDA	439	513	(14.4)	194	125.7	
	Core PAT	400	393	1.7	240	66.3	
V Guard Industries	Revenues	5,372	4,951	8.5	5,595	(4.0)	We expect the revenues of V-guard to post growth of ~8.5% being a seasonally weak quarter. The margins are expected to be ~10%.
	EBITDA	537	533	0.8	326	64.6	
	Core PAT	372	392	(5.0)	232	60.2	
Whirlpool of India	Revenues	9,073	8,434	7.6	14,640	(38.0)	We expect the revenues of Whirlpool to grow by ~8% on the back of festiv season. The margins are expected to be ~10%.
	EBITDA	925	897	3.1	2,108	(56.1)	
	Core PAT	609	587	3.7	1,327	(54.1)	
Voltas (Consolidated)	Revenues	10,370	9,672	7.2	19,446	(46.7)	We expect a revenue growth of ~7% mainly driven by the non-cooling business being a seasonally weak quarter for the cooling business thus leading to flat margins at ~7%.
	EBITDA	689	687	0.4	2,123	(67.5)	
	Core PAT	769	673	14.2	1,842	(58.3)	
Havells India (Standalone)	Revenues	19,858	15,593	27.4	18,605	6.7	We expect Havells' revenue to increase by ~9.5% mainly driven by the lighting, cables and switchgear (and the effect of increase in prices taken by HAVL in these segments) and lloyd's CD segment contributing to the balance growth in HAVL's revenue (thus making the yoy numbers non-comparable). The EBITDA margins are expected to decline yoy led by the low margin Lloyds segment.
	EBITDA	2,077	2,104	(1.3)	1,724	20.4	
	Core PAT	1,398	1,458	(4.1)	1,214	15.2	
Bajaj Electricals	Revenues	10,642	9,966	6.8	10,205	4.3	The revenues of Bajaj Electricals are expected to grow ~7% as per our expectations with the Consumer Durables segment expected to grow ~6% (RREP rollout gaining traction)and the EMP growing at 8%. The margins are expected to be ~4%.
	EBITDA	438	453	(3.2)	452	(3.2)	
	Core PAT	196	167	17.3	205	(4.6)	

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
Bajaj Electricals	Hold	572	367	26.7	20.0	3.8	3.3	15.0	17.6	1.0	1.0
Crompton Greaves Consumer	Buy	2,079	216	37.5	28.7	17.1	11.9	54.2	48.9	0.8	0.9
Finolex Cables	Buy	1,268	539	24.0	19.7	3.8	3.3	17.0	17.9	0.0	0.0
Havell's India	Buy	4,868	506	42.6	34.0	8.5	7.5	21.3	23.5	0.0	0.0
KEI Industries	Buy	425	356	24.7	18.8	4.8	3.8	21.1	22.6	0.0	0.0
Symphony	Buy	1,421	1,321	42.4	33.3	16.2	12.9	42.2	43.1	0.9	1.2
V Guard Industries	Hold	1,229	188	46.0	38.3	10.4	8.6	24.7	24.6	0.0	0.0
Whirlpool of India	Buy	2,598	1,332	43.3	35.2	9.0	7.2	23.2	22.7	0.0	0.0
Voltas	Buy	2,640	519	28.8	25.5	4.6	4.0	16.8	16.7	0.8	0.9

RESULT PREVIEW

CONSUMER GOODS

Off take to recover

India Equity Research | Strategy

The Edelweiss consumer goods pack's revenue, EBITDA and PAT growth is likely to be soft at 1.6%, 2.1% and -0.7% (Q1FY18: 0.9%, -1.1% and -0.9%), respectively in Q2FY18. Volumes of consumer goods companies, which had faced huge destocking in Q1FY18 (e.g., Emami), are likely to rebound slightly. Recalibration of the trade channel to the new taxation regime (GST) has been slow and, hence, primary off take remained subpar. Rural market continues to remain soft, but is anticipated to recover. <u>Revenues will optically appear lower by 2.5–7.5% owing to recognition of revenue net-off GST</u>. Gross margin expansion will be soft since companies have deferred price hikes but price cuts on account of beneficial GST tax rates have been passed on immediately. Structurally, ad spends will continue to remain soft (as corroborated by media companies), which to some extent will aid EBITDA margins. We expect growth rates to be back on track from H2FY18 riding improving macros and favourable base.

Off take recovers, but wholesale trade still under stress

While end-consumer demand had not taken a hit, the wholesale channel had leaned their inventory levels in the run up to GST implementation. While North, Central and East based wholesalers continued to operate at sub-par levels, West and South based wholesalers have largely returned to normalcy. The CSD channel continues to remain muted with pick up only in September. Paint companies are likely to clock high single digit volume growth aided by an early festive season. While Emami is estimated to register mid-to-high single digit volume growth, Marico, Dabur and Britannia are expected to clock mid-single digit volume growth. HUL is likely to post low-single digit volume growth. We expect ITC's cigarette volumes to dip 6-7% YoY and United Spirits' (USL) overall volume to dip ~5-7% YoY. Post GST, refund proportion for companies claiming area-based exemption (refund to the extent of 58%) is likely to be reduced to only the CGST portion thereby blocking working capital.

Gross margin expansion unlikely

Prices of raw materials like copra, TiO2, monomers, VAM, sugar and wheat have remained elevated for most of the quarter with negligible price hikes. Hence, gross margin expansion is likely to be delayed. Companies have effected multiple cost saving initiatives and rationalised ad spends which should aid EBITDA margin to some extent.

Outlook for next 12 months

Though consumer off take has remained resilient, disruption in trade channels continues which should settle in H2FY18. With improving macros, we expect rural demand to recover and urban consumption to sustain.

Top picks

Emami, Dabur, Britannia. We also like Nestle and HUL.

Abneesh Roy
+91 22 6620 3141
abneesh.roy@edelweissfin.com

Alok Shah
+91 22 6620 3040
alok.shah@edelweissfin.com

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Stock		Q2FY18E (INR mn)	Q2FY17 (INR mn)	Y-o-Y (%)	Q1FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Asian Paints	Revenues	40,374	37,633	7.3	38,152	5.8	While GST after effects are largely behind, we expect paint companies to clock ~8% volume growth on a base of 12%. Price hikes of ~4-4.5% taken earlier will however bode well for the company - paint companies need to take further price hike in order to absorb increased GST rates (28% from erstwhile effective indirect tax rate of 25-26%. Optically revenue growth will be lower owing to GST based revenue recognition - we expect ~3% revenue hit owing to revenues being recognised net off GST. On COGS front, prices of TiO2 and other monomers have cooled off but that is largely closer to quarter end and hence expect COGS to remain elevated. Weaker rupee is also a concern. Performance of Ess Ess and Sleek will start to improve post abberation seen in Q1FY18. PAT will look a bit soft since tax rate in the base quarter was 31.5% against effective tax rate in the range of 32.5-33.5%.
	EBITDA	7,742	7,130	8.6	6,654	16.4	
	Core PAT	5,178	4,948	4.7	4,382	18.2	
Bajaj Corp	Revenues	1,985	1,968	0.9	1,974	0.5	Post 3 quarters of volume declines, we expect some rebound this quarter with volume growth of ~3% YoY on a base of negative 0.1% YoY overall volume and 1.2% YoY ADHO volume growth (Q1FY18 saw 7.8% volume dip on a base of 0.8%). Price hikes for Bajaj Corp is largely absent. We are factoring in ~2% revenue hit on account of revenues getting recognised net off GST. Nomarks will continue to remain under pressure due to rationalisation of SKUs. A&P spends will be rationalised and should pick up once company sees improving demand. PAT decline is lower than EBITDA decline largely owing to NIL amortisation of Normarks.
	EBITDA	648	672	(3.6)	606	6.9	
	Core PAT	566	583	(2.9)	550	3.0	
Berger Paints*	Revenues	12,448	11,466	8.6	12,471	(0.2)	While GST after effects are largely behind, we expect paint companies to clock ~8% volume growth on a base of 10%. Price hikes of ~4-4.5% taken earlier will however bode well for the company - paint companies need to take further price hike in order to absorb increased GST rates (28% from erstwhile effective indirect tax rate of 25-26%). Optically revenue growth will be lower owing to GST based revenue recognition - we expect ~3% revenue hit owing to revenues being recognised net off GST. On COGS front, prices of TiO2 and other monomers have cooled off but that is largely closer to quarter end and hence expect COGS to remain elevated. Weaker rupee is also a concern. Performance of new ventures have been showing good traction and should aid in revenues.
	EBITDA	1,963	1,788	9.8	1,851	6.1	
	Core PAT	1,187	1,092	8.7	1,129	5.2	
Britannia Industries	Revenues	25,190	23,870	5.5	22,637	11.3	We expect Britannia to post volume growth of ~6% YoY on a base of 7% (Q1FY18 saw 3% YoY volume growth on a base of 8%). Some positive pricing impact will also bode well for company. GST based revenue accounting will however shave off ~2% of revenues. We expect competitive intensity to remain elevated in biscuit category. International growth will continue to remain soft. RM prices continue to remain elevated - Flour and sugar prices (~45% of raw material basket) have only cooled off in last forthnight of the quarter and hence will pinch gross margins to some extent since consequent price hikes have not been taken. On cost side, savings will come from rationalisation of ad spends and other cost.
	EBITDA	3,770	3,389	11.2	3,285	14.8	
	Core PAT	2,533	2,339	8.3	2,161	17.2	

Stock		Q2FY18E (INR mn)	Q2FY17 (INR mn)	Y-o-Y (%)	Q1FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Colgate	Revenues	10,559	10,566	(0.1)	9,781	8.0	Colgate has been seeing volume dip over the last 3 quarters - first demonetisation and then GST transition. In this quarter, July was quite soft but Aug and September was comparatively better. However, volume dip is likely to continue even for this quarter– we expect ~2% YoY volume dip on the base of 4% (reported 5% YoY dip in Q1FY18 on a base of negative 5% YoY growth). Colgate had taken ~5-6% price hikes in January, positive impact of the same should be seen in this quarter. To some extent, impact of price hikes will be offset by reimbursement to stockist to the extent of ~1-1.5%. Due to GST based revenue accounting, there could be ~2% further revenue hit. Thus, we expect overall revenue to be flattish. Ad spends should be in the range of ~14% of revenues. For Q2FY18, we believe Colgate would be able to regain some lost MS.
	EBITDA	2,510	2,748	(8.7)	2,218	13.2	
	Core PAT	1,586	1,813	(12.5)	1,364	16.3	
Dabur	Revenues	19,411	19,816	(2.0)	17,901	8.4	We expect domestic volumes to see a volume growth of ~3-4% YoY on a base of 4.5% YoY growth (Q1FY18 saw 4.4% YoY volume dip on a base of 4.1% YoY volume growth). This volume revival would partially be aided by re-stocking in trade channels as well as steady secondary sales. CSD channel started improving only from September month and hence continues to remain at sub-par levels when compared with historical levels. Further international business is expected to report flattish revenue growth on a base of negative 2.3% with pain continuing to prevail in MENA region. We expect ~5% impact on revenues owing to revenue recognition net off GST. A&P spends will continue to remain soft, as was seen in Q1FY18 and promotional activity too is likely to be muted. Earnings growth will largely map revenue growth.
	EBITDA	4,127	4,087	1.0	2,944	40.2	
	Core PAT	3,494	3,583	(2.5)	2,649	31.9	
Emami	Revenues	6,298	5,846	7.7	5,411	16.4	Q1FY18 for Emami was subdued (volumes down 18% YoY) owing to huge destocking undertaken by wholesalers (wholesale contributes ~50-55% of revenues). We expect Emami to report ~8-9% YoY volume growth on a base of 11% largely owing to restocking (strong July followed by decent August and September) after a subdued 9 months. Kesh king sales should see some comeback which is also largely wholesale backed. Emami has also taken price hikes to the tune of ~2-2.5% which should also bode well. However, on a reported basis, revenues are likely to be in the range of 7.5-8% YoY owing to reported revenues seeing the impact of GST based accounting (~7% shave off in revenues likely). We expect gross margin to be largely maintained inspite of Mentha prices going up. In light of slower growth and currency devaluation in MENA region, international business will show about 3% dip on a base of 11% decline. We expect A&P spends to remain slightly elevated on the back of increased ad spends for HE Face wash, Zandu Gel and Roll-on. EBITDA growth would be softer than revenue growth since A&P spends in the base quarter was muted. PAT growth optically will look strong largely owing to higher tax rate in the base quarter because of higher tax rate on dividends received from subsidiaries.
	EBITDA	1,787	1,752	2.0	802	122.9	
	Core PAT	741	661	12.1	10	7,028.9	

Stock		Q2FY18E (INR mn)	Q2FY17 (INR mn)	Y-o-Y (%)	Q1FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Godrej Consumer	Revenues	24,713	23,602	4.7	21,773	13.5	Volumes would be somewhat impacted by destocking in the initial period, but subsequent pickup has been good enough to report performance which would be better than Q1FY18 performance. We expect soaps to see ~8-10% YoY revenue growth on a negative base of 10% - this segment has seen some reduction in promotional activity which would aid in revenue growth (Q1FY18 saw 7% revenue growth on a base of 1%); hair colour business too is expected to be strong on the back of new product launches in crème and powder and restocking and we expect revenue growth of ~8-10% YoY growth on a flattish base (Q1FY18 saw 5% growth on a base of 4%). Q2 is typically seasonally strong quarter for HI, however we expect HI business to remain muted is expected to see ~5-6% YoY revenue growth owing to high base of 18% YoY as well as monsoon season remaining little erratic (Q1FY18 saw 4% YoY growth on a base of negative 11%). For overall domestic business, we expect revenue growth of 9-10% YoY (there would be ~4-5% price led growth); there would however be ~2.5% revenue impact on account of revenues being recognized as per GST. We expect international business to see mixed trends with Indonesia remaining soft (increased competitive intensity however promotions have reduced) but other businesses showing good growth. Business of SON is now in the base. Overall international business is expected to grow 6% on a base of 7%. Overall commodity prices have continued to remain benign and so no pressure at gross margin level would be seen. We expect project PI to led to some cost efficiencies and thus EBITDA and PAT to definitely be stronger than revenue growth.
	EBITDA	5,145	4,658	10.5	3,494	47.3	
	Core PAT	3,512	3,185	10.3	2,327	50.9	
GSK Consumer	Revenues	10,774	10,803	(0.3)	9,853	9.4	Over the last 10 quarters, volume growth for GSk has largely been negative to flattish owing to strong competition. We expect volumes to contiue to remain flattish even in this quarter - price hikes of ~3% YoY will likely aid revenues, however, revenue recognition which would be net off GST is likely to net off positive impact of price hikes. Thus, we expect, revenues to be largely flat. On COGS front, inflationary pressures continue to persist which will lead to gross margin expansion becoming difficult. Auxiliary income too will be subdued. Margins will see some pressure owing to lack of operating leverage benefit coming through.
	EBITDA	2,274	2,452	(7.2)	1,664	36.7	
	Core PAT	1,729	1,837	(5.9)	1,322	30.8	

Stock		Q2FY18E (INR mn)	Q2FY17 (INR mn)	Y-o-Y (%)	Q1FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Hindustan Unilever	Revenues	78,183	78,427	(0.3)	85,290	(8.3)	We expect HUL to record a volume growth of ~3% on a base of negative 1% reported in Q2FY17 (volumes remained flat in Q1FY18 on a base of 4% YoY). Volume growth was partially impacted owing to: (i) wholesale trade channel remaining impacted in the first 15-20 days of Q2FY18 with Central, North & East still operating at sub-par levels; (ii) CSD channel too remaining soft in the first month of Q2FY18 and post that too offtakes being below historical levels; (iii) some relief however has come by increased offtakes in cash & carry and MT channels. We believe some part of volume growth will be aided by HUL's pan India rollout of Ayush brand and increasing ad spends on Indulekha post successful completion of clinical tests. On pricing, HUL has not taken price hikes wherever there has been rate increase, however rates have been reduced in cases of GST rates being lower than effective excise and VAT. Ad spends will broadly remain range bound inspite of heightened advertisements of Ayush & Indulekha. On cost savings, HUL continues to curtail cost and build efficiencies thereby aiding margins. On EBITDA margins front, company has called out there would be ~150 bps expansion solely because of the way revenues are recognised under GST regime and ~150bps expansion would be on the back of cost saving measures undertaken. PAT growth looks soft since base quarter had other income to the tune of INR2,528 mn against run-rate of ~INR1,000mn.
	EBITDA	16,198	14,046	15.3	18,660	(13.2)	
	Core PAT	11,256	10,837	3.9	12,960	(13.2)	
ITC	Revenues	96,698	96,607	0.1	99,547	(2.9)	On a base of 3% volume growth, we expect cigarette volumes to decline by ~6-7% YoY in Q2FY18 (Q1FY18 saw 1% volume growth on a base of 3% growth in base quarter). We expect such decline in volumes largely owing to increase in GST rate on cig leading to price hikes which has been corroborated by decline in cigarette production as mentioned by CMIE. FMCG business is expected to see ~5% revenue growth on a base of 13.3% growth (Q1FY18 saw revenue growth of 9.0% on a base of ~9.5%). We expect Hotels business to remain soft - revenue growth of ~3-4% ona base of 2.5% with impact of highway liquor ban still persisting in initial period of Q2FY18 (Q1FY18 saw revenue growth of 6.1% on a flat base). Agri and Paper business should show growth of about 2% YoY on a base of 2% and flattish respectively.
	EBITDA	35,005	36,300	(3.6)	37,464	(6.6)	
	Core PAT	24,046	25,000	(3.8)	25,605	(6.1)	

Stock		Q2FY18E (INR mn)	Q2FY17 (INR mn)	Y-o-Y (%)	Q1FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Marico	Revenues	15,080	14,428	4.5	16,815	(10.3)	We expect Parachute to clock ~5-6% YoY volume growth on a negative base of 6% dip (Q1FY18 saw 9% volume dip on a base of 7% growth). This will be twin aided: (i) heavy destocking in Q1FY18; and (ii) no price hikes inspite of Copra prices spiking (up ~70% YoY) thus gaining MS from unorganized segment. This would however lead to some compression at gross margin levels since Copra prices are up 10% QoQ (~70% YoY) but no price hikes have been taken except for ~8% price hike taken in March 2017. For Saffola and VAHO company has taken price cuts in the range of ~3-5% owing to beneficial rates in GST. On volumes front, we expect ~7-8% YoY volume growth for Saffola and VAHO on a base of 8% and 11% respectively. International business on CCY basis may be decent - with Bangladesh in high single digit CCY and SA in mid single digit. SE Asia performance may be little soft owing to male shampoo as a category remaining soft, though has not lost market share. MENA region will continue to remain soft. On a reported basis, international business may post negative growth. on a base of 5% YoY. (Q1FY18 saw dip of 1% on a base of 6%). After 3 quarters of slow A&P spends, ad spends for the quarter would be in the range of 11-12% YoY owing to spends towards NPDs. Owing to this, broader earnings is likely to remain weak.
	EBITDA	2,592	2,531	2.4	3,243	(20.1)	
	Core PAT	1,823	1,806	1.0	2,359	(22.7)	
Nestle India	Revenues	23,447	23,635	(0.8)	24,022	(2.4)	Nestle is likely to see a flattish to 2% revenue growth on a strong base of 37.9% (Q2CY17 saw 8.4% YoY domestic revenue growth on a base of 17.5%. Milk prices has been consistently moving up; Sugar prices have however cooled down almost at the end of quarter and hence some contraction at gross margin level can be expected. The company has done more than 43 new launches over the last 18 months; but A&P spends is likely to be soft since the media presence has not only been restricted to high cost TV medium.
	EBITDA	4,373	4,660	(6.2)	4,586	(4.7)	
	Core PAT	2,377	2,694	(11.8)	2,634	(9.8)	
Pidilite Industries	Revenues	14,638	14,177	3.3	15,289	(4.3)	Pidilite has been one of the beneficiaries of GST with rate of adhesives being fixed at 18% against existing effective rate of ~25% and hence saw huge destocking at wholesalers level. We expect some restocking coupled with overall demand pick up taking overall volume growth to 6% on a base of 7.8% (Q1FY18 saw volume decline of 0.3% on a base of 9%). International business is undergoing some stress (pressure in North and South America) but better sales is expected in other geographies - overall we expected international business to report revenue decline of ~3% YoY. Pidilite has taken price hikes to the tune of ~1.5% YoY which should aid revenue growth partially. We expect ~2.5-3% impact on revenue recognition on account of GST based reporting of revenues. VAM prices have continued to remain elevated which will compress gross margins. Base quarter had historical high levels of EBITDA margins and some compression in EBITDA margins too is expected. Base quarter had tax rate of 28.3% whereas we are building tax rate of 30% and hence PAT is likely to be much softer than EBITDA growth.
	EBITDA	3,275	3,225	1.5	3,210	2.0	
	Core PAT	2,264	2,324	(2.6)	2,263	0.1	

Stock		Q2FY18E (INR mn)	Q2FY17 (INR mn)	Y-o-Y (%)	Q1FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
United Spirits	Revenues	20,010	20,483	(2.3)	17,818	12.3	United Spirits has seen volume decline for last 3 quarters and we expect this quarter to be no different. Volumes will continue to be impacted in Q2FY18 owing to highway liquor ban policy. Volumes will also optically look weak owing to transition of popular segment to franchisee model for some of the states. We thus expect overall volumes for USL to be down ~7% YoY on a base of 1% (Q1FY18 saw 19% YoY volume decline on a flat base). The volume decline would be lower for P&A category. 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 limited operating leverage will result into limited EBITDA margins expansion.
	EBITDA	2,061	2,077	(0.8)	1,574	30.9	
	Core PAT	802	841	(4.6)	637	25.9	

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
Asian Paints	Buy	17,010	1,153	53.0	41.6	12.8	11.1	24.4	27.4	0.8	1.0
Bajaj Corp	Hold	892	393	24.3	23.8	11.5	11.3	47.9	47.9	3.3	3.4
Berger paints	Buy	3,826	256	49.6	37.2	12.8	11.0	27.5	31.7	0.7	0.9
Britannia	Buy	8,058	4,365	52.0	42.6	16.4	13.8	34.2	35.1	0.6	0.7
Colgate	Hold	4,551	1,088	43.2	36.9	21.1	18.0	52.8	52.7	1.3	1.6
Dabur	Buy	8,569	316	40.3	33.7	9.9	8.6	26.3	27.2	0.9	1.1
Emami	Buy	3,827	1,097	62.7	42.3	13.9	11.8	23.5	30.2	0.6	0.9
GlaxoSmithKline Consumer Healthcare	Hold	3,230	4,994	30.3	27.1	6.8	6.0	23.6	23.4	1.3	1.5
Godrej Consumer	Buy	10,096	964	44.5	35.6	9.9	8.5	23.5	25.5	0.8	1.0
Hindustan Unilever	Hold	39,529	1,188	49.7	41.7	35.3	32.4	73.6	80.8	1.5	1.8
ITC	Hold	49,680	265	27.7	24.4	7.7	6.9	28.9	29.6	2.0	2.2
Marico	Buy	6,225	314	46.4	38.4	15.0	12.9	35.1	36.3	1.1	1.3
Nestle	Hold	10,759	7,257	58.0	46.4	21.4	19.6	38.4	44.1	1.1	1.4
Pidilite Industries	Buy	6,265	795	44.5	36.1	10.3	8.7	24.9	26.1	0.7	0.8
United Spirits	Hold	5,354	2,396	59.4	39.8	14.1	10.4	26.9	30.1	0.0	0.0

RESULT PREVIEW

ENGINEERING & CAPITAL GOODS

Public capex momentum holds; selective approach key

India Equity Research | Strategy

The industrial sector, currently banking on public sector capex, is likely to extend the ongoing momentum in segments such as railways, T&D, defence, oil & gas, public civil infra, etc. Sluggishness in private sector capex is a key hurdle, and we believe it could remain sluggish over next 12-15 months. While temporary deterrents like demonetisation and GST have had their impact, companies with strong capabilities have circumvented these hiccups well. Consequently, we place our bets on industry leaders in their respective segments - ones having strong competitive moat and execution capabilities. Our top picks are L&T, ABB India, Kalpataru Power, Bharat Forge, Cummins India and Bharat Electronics.

Key highlights of the sector during the quarter

Sector order intake may not clock double digit growth, with limited large awards in key segments like power generation and T&D. In T&D space, a clear shift in tendering is visible from PGCIL to the states and TBCB. PGCIL's tendering (ex-HVDC) dropped by 59% YoY in 1HFY18, while companies are reporting T&D order inflows from various states. While spillover of execution from 1QFY18 on account of GST implementation is likely to push revenues, companies may also witness elevated working capital requirement which could result in higher finance costs.

Result expectations for stocks under coverage

We expect 11% YoY revenue growth predominantly on strong order book. Our coverage universe's margins are likely to remain flat at ~9% on higher commodity prices. Domestic automotive and exports are likely to drive higher teen's growth for forging companies. Companies dependent on power generation are likely to witness muted order inflows, while those dependent on T&D and railways could see robust order inflows. Overall, we expect 7% YoY jump in order inflows for our coverage universe, resulting into 8% YoY growth in order book.

Outlook over the next 12 months

While valuations of most companies in our coverage universe have run up significantly, we still believe there is scope for further re-rating with improving revenue visibility and companies addressing their respective specific issues. Our approach continues to be bottoms-up rather than play on the cycle.

Top picks

L&T, ABB India, Kalpataru Power, Bharat Forge, Cummins India and Bharat Electronics.

Amit Mahawar
+91 22 4040 7451
amit.mahawar@edelweissfin.com

Swarnim Maheshwari
+91-22-4040 7418
swarnim.maheshwari@edelweissfin.com

Ashutosh Mehta
+91-22-6141 2748
ashutosh.mehta@edelweissfin.com

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Stock		Q2FY18E (INR mn)	Q2FY17 (INR mn)	Y-o-Y (%)	Q1FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
ABB	Revenues	23,766	20,550	15.6	22,237	6.9	Execution of orders won in 4QCY16, to result in 16% YoY growth in revenues and margins improving to 8%.
	EBITDA	1,907	1,457	30.9	1,473	29.4	
	Core PAT	1,006	812	24.0	751	34.1	
Astra Microwave Products	Revenues	904	868	4.2	497	82.0	We expect revenue growth of 4% and margins of 32.3% for 2QFY18. Ordr intake continues to remain the key monitorable.
	EBITDA	292	291	0.5	115	154.5	
	Core PAT	167	160	4.4	42	299.3	
Bharat Electronics	Revenues	19,315	17,946	7.6	17,248	12.0	We expect revenue growth of ~8% with sequentially stable EBITDA margins at ~9.5% riding the execution of its VVPAT orders received in the last quarter. Order intake continues to remain a key monitorable.
	EBITDA	1,851	3,384	(45.3)	1,633	13.3	
	Core PAT	1,536	3,463	(55.6)	1,253	22.6	
Bharat Forge	Revenues	11,135	8,909	25.0	12,008	(7.3)	Pickup in exports and industrial segment in the domestic market is likely to result in 33% YoY growth in revenues. We expect margins to remain flat at 27.9%.
	EBITDA	3,119	2,477	26.0	3,333	(6.4)	
	Core PAT	1,723	1,269	35.8	1,751	(1.6)	
Bharat Heavy Electricals	Revenues	71,079	66,645	6.7	55,056	29.1	With reduction in slow moving orders, we expect 7% YoY revenue growth and margins to remain 2.5%. Order inflows and clearance of unexecutable order book to be the key monitorables.
	EBITDA	1,746	1,551	12.5	(883)	297.8	
	Core PAT	1,173	1,090	7.6	808	45.1	
Crompton Greaves (Consolidated)	Revenues	14,592	13,233	10.3	14,364	1.6	With deferrals on back of Ramadan festival ramping up in 2QFY18, we expect 10.3% YoY growth in revenues. Improvement in international operations to result in margin improvement to 7.6%.
	EBITDA	1,105	844	31.0	451	144.9	
	Core PAT	399	470	(15.1)	(474)	184.1	
Cummins India	Revenues	14,084	12,790	10.1	13,408	5.0	We expect revenue growth of 1 led by the traction in the industrial activities, power gen and distribution segment.
	EBITDA	2,233	1,990	12.2	1,953	14.4	
	Core PAT	2,083	1,969	5.8	1,660	25.4	
Engineers India	Revenues	3,890	3,389	14.8	3,754	3.6	We expect 15% YoY growth in revenues, largely driven by PMC segment. 2QFY17 had provision write backs amounting to INR 500mn. Order inflow to be the key monitorable.
	EBITDA	928	937	(1.0)	817	13.5	
	Core PAT	925	938	(1.4)	814	13.6	
Greaves cotton	Revenues	4,537	4,393	3.3	4,063	11.7	We expect muted revenue growth of 3% YoY and margin contraction of ~100 bps to 14.8% on back of rise in commodity prices.
	EBITDA	670	698	(4.0)	554	21.0	
	Core PAT	477	513	(7.1)	352	35.6	
KEC International (Consolidated)	Revenues	23,099	20,742	11.4	18,568	24.4	We expect 11% YoY growth in revenues with Railways and T&D business gaining traction. Margins to remain healthy at 9.1%. Working capital levels and order intake to be the key monitorable.
	EBITDA	2,103	1,853	13.5	1,763	19.3	
	Core PAT	740	652	13.5	630	17.5	
Kalpataru Power	Revenues	12,204	11,154	9.4	11,696	4.3	We expect SA entity to post 9% YoY growth in revenues with Railways and T&D business gaining traction. Margins to remain healthy at 11.2%. Order inflows to remain the key monitorable.
	EBITDA	1,366	1,220	11.9	1,372	(0.5)	
	Core PAT	686	578	18.7	704	(2.6)	
L&T (Consol)	Revenues	276,926	250,223	10.7	238,109	16.3	We expect 11% YoY growth in revenues largely driven by infra segment. Key monitorables include - working capital, asset monetisation plans and order inflows.
	EBITDA	25,486	22,972	10.9	20,567	23.9	
	Core PAT	11,761	11,241	4.6	8,925	31.8	
Praj Industries	Revenues	2,119	1,967	7.8	1,859	14.0	We expect revenue growth of 8% YoY and flat margins at 3.2% for 2QFY18.
	EBITDA	68	61	12.5	10	612.4	
	Core PAT	34	30	13.0	4	737.8	
Ramkrishna Forgings	Revenues	2,252	1,564	44.0	2,576	(12.6)	Pickup in exports to sustain in Q2FY18 with the improved demand for Class 8 trucks in the NAFTA market, we thus expect a revenue spurt of ~45% in Q2FY18. We expect operaing leverage benefits to flow to the EBITDA margin as the management passes on the rising raw material prices leading to a margin expansion of ~300 bps yoy.
	EBITDA	451	268	68.4	508	(11.1)	
	Core PAT	78	(41)	290.1	91	(13.8)	

Stock		Q2FY18E (INR mn)	Q2FY17 (INR mn)	Y-o-Y (%)	Q1FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Siemens	Revenues	34,193	30,906	10.6	26,508	29.0	We expect 11% YoY revenue growth led by growth in the energy and mobility business on back of traction in railways and T&D industry. Order intake would be a key monitorable.
	EBITDA	3,180	2,711	17.3	2,255	41.1	
	Core PAT	1,904	2,040	(6.7)	1,629	16.9	
TD power systems	Revenues	1,157	1,058	9.3	552	109.4	We expect revenue growth of 9% and margins at 2.8% for 2QFY18.
	EBITDA	32	21	49.8	(188)	NA	
	Core PAT	17	13	25.7	(210)	NA	
Techno electric	Revenues	4,051	3,676	10.2	4,123	(1.7)	We expect 1 revenue growth with margins flat at 30.2%. Order inflow to be the key monitorable.
	EBITDA	1,224	1,116	9.7	1,016	20.5	
	Core PAT	812	714	13.8	693	17.1	
Thermax	Revenues	9,445	8,708	8.5	7,134	32.4	We expect revenue growth of ~9% with margins at 9%. With reducing revenue visibility, order inflow remains the key monitorable.
	EBITDA	855	773	10.5	429	99.1	
	Core PAT	618	597	3.6	324	90.5	
Triveni Turbines	Revenues	2,236	2,018	10.8	1,217	83.8	We expect 11% revenue growth on back of spillover of dispatches from 1QFY18. Margins to remain at 21.6%. Commissioning of turbines in international market and transalation of enquiry order book to actual order flows to be the key monitorables.
	EBITDA	483	424	13.7	183	163.4	
	Core PAT	342	343	(0.3)	128	166.9	
Va Tech Wabag	Revenues	8,860	7,776	13.9	6,686	32.5	Execution of orders bagged in previous quarters to result in 14% YoY growth in revenues. Margins to improve to 7.8%. Order inflow and working capital levels to be the key monitorable.
	EBITDA	688	580	18.6	418	64.6	
	Core PAT	314	258	21.6	102	209.0	

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
ABB India	Buy	4,523	1,388	58.4	45.9	8.0	7.0	14.5	16.2	0.3	0.3
AIA Engineering	Buy	2,018	1,391	28.6	21.5	4.3	3.7	15.8	18.4	0.6	0.7
Astra Microwave Products	Buy	170	128	16.1	13.0	2.2	1.9	14.3	15.6	1.2	1.2
Bharat Electricals	Buy	6,187	164	22.3	18.2	4.2	3.6	20.2	21.1	0.0	0.0
Bharat Heavy Electronics	Buy	4,722	84	18.6	11.7	0.6	0.6	3.4	5.3	2.4	3.6
Crompton Greaves	Hold	775	80	30.5	20.1	1.2	1.2	4.0	5.8	0.6	0.6
Cummins India	Buy	3,921	920	30.4	25.4	6.1	5.2	21.1	22.2	1.6	1.6
Engineers India	Buy	1,528	147	26.8	18.3	3.5	3.4	13.3	18.8	2.7	3.4
Greaves Cotton	Hold	503	134	17.1	14.6	3.2	2.8	19.7	20.5	2.2	2.2
Kalpataru Power Transmission	Buy	872	370	17.1	13.6	2.0	1.8	12.6	14.0	0.9	0.9
KEC International	Buy	1,228	311	22.4	18.3	4.2	3.5	20.4	20.7	0.4	0.4
Larsen & Toubro	Buy	24,381	1,132	23.9	20.0	2.9	2.6	12.7	13.8	1.4	1.6
Praj Industries	Buy	182	66	22.3	15.9	1.6	1.6	7.3	10.0	3.0	3.3
Ramkrishna forgings	Buy	321	641	31.9	18.2	2.8	2.5	10.6	14.4	0.5	0.6
Siemens	Hold	6,660	1,216	62.5	49.8	6.3	5.8	10.3	12.1	0.7	0.7
SKF India	Buy	1,249	1,540	27.8	23.0	4.4	3.9	15.7	17.9	0.9	1.2
TD Power Systems	Hold	104	204	35.2	19.4	1.4	1.4	4.1	7.2	1.8	2.0
Techno electric	Buy	574	327	15.4	13.2	2.9	2.4	20.2	20.2	1.5	1.2
Thermax	Reduce	1,685	920	35.1	27.5	3.9	3.5	10.8	12.6	0.8	0.8
Triveni Turbine	Buy	644	127	31.6	25.1	8.9	7.3	30.0	31.2	0.9	0.9
VA Tech Wabag	Buy	491	585	16.4	13.9	2.7	2.3	18.1	18.3	0.9	0.9

RESULT PREVIEW

ENERGY

Strong refining boost

India Equity Research | Strategy

We expect a robust Q2FY18 performance for the Oil & Gas sector, following an operationally strong Q1FY18. Oil price rose 2% QoQ, which should benefit ONGC. Singapore refining margins surged 30% QoQ amid disruption in US refining capacity from Hurricane Harvey. Downstream oil companies (OMCs, Reliance), therefore are expected to post a very strong refining performance. OMCs marketing earnings however will be impacted by continued ramp-up in private competition, lower marketing margin and digital discounts on fuel retail, while GST headwinds will continue to weigh as well. For Reliance Industries' (RIL), strong refining will be somewhat offset by subdued polyester spreads. However ramp-up in new capacities and benefit of ethane imports will buoy earnings. City gas will see volume pick up, with the exception of Gujarat Gas, which has been affected by monsoon disruptions. Sustained oil price momentum will depend on OPEC compliance and ramp-up in US shale.

Key highlights of the sector over the quarter

Brent has increased 2% QoQ, to USD52/bbl (up 12% YoY). Singapore GRMs at USD8.3/bbl is up 30% QoQ (61% YoY). Disruptions in the US due to Hurricane Harvey have propped up international fuel prices, gasoline and gasoil in particular, resulting in strong benchmark margins.

Result expectations for stocks under coverage

RIL: We estimate a strong quarter with standalone PAT of INR88bn, up 7% QoQ. We expect GRM at USD12.4/bbl (up 4% QoQ), a USD4/bbl premium over Singapore benchmark. We estimate refining and petchem EBIT to increase 10% / 4% QoQ, respectively, on strong GRMs, petchem capacity ramp-up and benefits of ethane imports.

ONGC: We expect PAT to increase 34% QoQ to INR52bn on ~4% higher net realisation. We estimate flattish oil and 6% higher gas production sequentially.

IGL: We expect earnings to improve 6% QoQ on 3% higher volumes. We estimate EBITDA margin at 6.3/scm, down marginally QoQ.

Outlook over the next 12 months

We, expect oil price to remain range bound. We believe sustained uptick in oil will hinge on continuation of high rates of OPEC compliance and growth rate of US shale output. We expect robust volume growth in city gas and petrochemicals. GAIL's petrochemical segment will benefit from benign feedstock and better realisation, while benign LNG prices will encourage gas demand and consequently higher transmission volumes. Stabilisation of BPCL's Kochi expansion will be a key monitorable.

Top picks: RIL, IOCL, IGL.

Jal Irani
+91-22-6620 3087
jal.irani@edelweissfin.com

Yusufi Kapadia
+91 22 4063 5407
yusufi.kapadia@edelweissfin.com

Vivek Rajamani
+91 22 4040 7415
vivek.rajamani@edelweissfin.com

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Stock		Q2FY18E (INR mn)	Q2FY17 (INR mn)	Y-o-Y (%)	Q1FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Bharat petroleum	Revenues	607,204	446,927	35.9	571,258	6.3	We estimate strong refining to be offset by poor marketing performance. We estimate reported GRM of USD9.3 (USD0.6/bbl premium to benchmark and USD0.4/bbl inventory gain). Throughputs will be higher on account of Kochi ramp-up. We expect marketing to take a hit given trend in marketing margins and digital discounts, while GST will continue to weigh on downstream companies.
	EBITDA	26,080	13,814	88.8	12,250	112.9	
	Core PAT	16,335	13,052	25.2	7,446	119.4	
GAIL	Revenues	138,894	118,582	17.1	114,065	21.8	We estimate PAT to rise 15% QoQ, led by strong petchem and LPG performance, while trading and transmission will be subdued. Petchem to benefit from better realisation and production ramp-up. Expect a strong showing for the LPG segment given ramp-up in ONGC's gas production.
	EBITDA	18,252	15,155	20.4	17,404	4.9	
	Core PAT	10,594	10,309	2.8	9,197	15.2	
Gujarat Gas	Revenues	13,900	12,371	12.4	14,780	(6.0)	We expect a subdued quarter due to flooding in Q2-end, with PAT of INR1bn, down 5% QoQ. We estimate CNG and PNG volumes to be flat/ down 3% QoQ, EBITDA margin to dip 5%.
	EBITDA	2,492	2,129	17.1	2,698	(7.6)	
	Core PAT	991	718	37.9	1,044	(5.1)	
Gujarat state petronet	Revenues	3,221	2,580	24.9	2,982	8.0	We expect a robust quarter, with PAT of INR1.7bn. We forecast strong volumes (up 8% QoQ), while tariff will likely moderate 2% QoQ.
	EBITDA	2,887	2,262	27.7	2,778	3.9	
	Core PAT	1,663	1,298	28.1	1,525	9.0	
Mahanagar Gas Ltd	Revenues	5,354	5,209	2.8	5,309	0.9	We estimate PAT of INR1.3bn, up 5% QoQ. We expect CNG volumes to recover in Q2 and residential PNG volumes will be robust, up 8%/2% QoQ respectively. We estimate EBITDA margin to correct 4% QoQ on higher operating expenses.
	EBITDA	2,080	1,615	28.8	2,033	2.3	
	Core PAT	1,301	1,022	27.2	1,243	4.6	
Hindustan petroleum	Revenues	572,745	421,025	36.0	534,685	7.1	We estimate strong refining to be offset by poor marketing performance. We estimate reported GRM of USD9.8 (USD1/bbl premium to benchmark, inventory gain of USD0.5/bbl). Throughputs however will be flat QoQ. We expect marketing to take a hit given trend in marketing margins and digital discounts, while GST will continue to weigh on downstream companies.
	EBITDA	26,571	12,609	110.7	16,280	63.2	
	Core PAT	15,388	7,013	119.4	9,247	66.4	
Indian Oil corporation	Revenues	969,289	803,701	20.6	1,026,262	(5.6)	We estimate strong refining to be offset by poor marketing performance. We estimate GRM of USD9.9 (USD1/bbl premium to benchmark and USD0.6/bbl inventory gain). However, we estimate throughputs to be 8% lower QoQ due to maintenance shutdowns in July. We expect marketing to take a hit given trend in marketing margins and digital discounts, while GST will continue to weigh on downstream companies.
	EBITDA	84,185	57,722	45.8	51,915	62.2	
	Core PAT	47,628	31,219	52.6	26,668	78.6	
Indraprastha gas	Revenues	11,032	9,665	14.1	10,492	5.1	We expect a robust quarter with PAT of INR1.7bn, up 6% QoQ. We estimate CNG volumes to show 10% YoY growth, while PNG will be impacted due to GST. We expect EBITDA margin to moderate given higher maintenance expenses
	EBITDA	2,827	2,449	15.4	2,773	1.9	
	Core PAT	1,713	1,442	18.8	1,613	6.2	
ONGC	Revenues	206,797	182,866	13.1	190,735	8.4	We expect a strong quarter for ONGC, with PAT of INR52bn, up 34% QoQ. We estimate oil and gas production to rise 2%/11% YoY. We also estimate oil realisation to increase 4% QoQ.
	EBITDA	106,856	95,391	12.0	98,807	8.1	
	Core PAT	52,079	49,749	4.7	38,847	34.1	
Petronet LNG	Revenues	67,736	66,144	2.4	64,351	5.3	We estimate PAT of INR4.6bn, up 3% QoQ. We expect LNG volumes to rise 4% QoQ, led by Dahej and higher utilization at Kochi. However we expect subdued trading gains.
	EBITDA	7,606	7,264	4.7	7,442	2.2	
	Core PAT	4,608	4,596	0.3	4,376	5.3	

Stock		Q2FY18E (INR mn)	Q2FY17 (INR mn)	Y-o-Y (%)	Q1FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
RIL	Revenues	642,705	595,770	7.9	642,170	0.1	We expect a strong quarter, with standalone PAT of INR88bn, up 7% QoQ. We estimate robust GRM of USD12.4 (up 4% QoQ), throughput up 4%. Consequently, we estimate refining EBIT to rise 10% QoQ. While cracker margins are strong QoQ (up 12%), polymer and polyester margins are down vs. Q1FY18. We expect some benefit from US ethane imports, and estimate petchem EBIT to grow 5% QoQ.
	EBITDA	124,725	105,550	18.2	115,890	7.6	
	Core PAT	87,659	77,040	13.8	81,960	7.0	

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
Bharat Petroleum Corporation	Buy	16,016	480	11.3	8.0	3.0	2.4	25.8	32.3	2.9	4.2
GAIL	Buy	11,206	431	16.3	14.5	1.8	1.6	10.9	11.2	1.8	1.9
Gujarat State Petronet	Buy	1,697	196	17.6	16.7	2.2	2.0	13.2	12.7	1.4	1.4
Gujarat Gas	Buy	1,919	906	30.6	22.3	6.3	5.1	22.3	25.3	0.7	0.9
HPCL	Hold	10,208	436	11.4	9.6	2.3	2.0	23.3	22.1	3.3	3.9
Indraprastha Gas	Buy	3,095	1,438	27.0	23.9	5.8	5.0	22.9	22.3	0.7	0.8
Indian Oil Corporation	Buy	30,304	406	11.4	9.5	1.8	1.7	16.7	18.3	3.9	4.8
Mahanagar Gas Ltd	Buy	1,658	1,092	23.4	21.4	4.9	4.3	22.8	21.5	1.7	1.6
ONGC	Buy	33,784	171	10.2	8.1	1.0	1.0	9.9	12.3	4.7	6.2
Petronet LNG	Hold	5,501	239	18.4	16.6	4.0	3.4	22.8	22.0	1.0	1.5
Reliance Industries	Buy	82,422	824	15.5	12.4	1.5	1.4	10.6	11.6	1.3	1.7

RESULT PREVIEW

IT

Cross currency to aid revenue momentum

India Equity Research | Strategy

In a seasonally strong quarter, we estimate the top-5 IT players, Tata Consultancy Services (TCS), Infosys, Wipro, HCL Technologies (HCLT) and Tech Mahindra (TECHM) to clock 1.6-4.1% QoQ USD revenue growth in Q2FY18. While appreciation of GBP, EUR and AUD against USD will lead to 90-140bps revenue tailwind, weakness in BFSI and retail verticals would be a key headwind. While HCLT and TECHM are expected to lead the pack with 4.1% and 3.5% QoQ USD revenue growth, Infosys, TCS and Wipro are expected to grow at lower pace of 3.1%, 1.6% and 1.7%, respectively. We would keenly track: 1) Revenue growth traction of digital services; 2) Client spending in BFSI, retail, E&U and healthcare segments; 3) Nandan Nilekani's commentary on strategic roadmap for Infosys; 4) Management commentary on pricing environment and deal pipeline; 5) Pace of local hiring in US; and 6) Growth in legacy business. We maintain 'BUY' on HCLT, TECHM and Wipro and 'HOLD' on Infosys and TCS.

Cross currency tailwind; BFSI and retail on the radar

With GBP/EUR/AUD appreciating by 2.3%/6.8%/5.2% QoQ against USD, we expect cross-currency tailwind of 90-140bps for top-5 Indian IT companies. While softness in BFSI and retail may sustain on account of lower discretionary spending by big banks and online transition by large retailers, traction is expected to be strong in manufacturing. While revenue momentum is expected to be steady in North America, we believe revenue growth would be robust in Europe (ex-UK) and emerging markets. We back HCLT to lead the pact with 4.1% QoQ USD growth on higher exposure to high-growth ER&D vertical and European markets. TECHM is expected to grow 3.5% QoQ on strong traction in non-telecom business and stabilising network business.

Margin trajectory to be keenly monitored

With INR appreciating by another 0.3% QoQ against USD following the 3.9% jump in the previous quarter, currency is not expected to provide relief to margins this quarter. While margins are expected to rise 20-40bps due to absence of visa costs, increase in local hirings in the US, though gradual, should be a key margin headwind. While we expect TECHM's margin to expand by 120bps on pyramid rationalisation and operational efficiencies, Infosys' margin is likely to dip 90bps QoQ on wage hikes.

Outlook: Return of spends in BFSI and retail key

With Accenture reporting robust 19.6% YoY jump in new bookings in outsourcing contracts, outlook for IT appears to be improving. While return of spends in BFSI and retail are key revenue drivers, we believe companies will continue to report robust growth in digital services with higher number of digital transformation deals. We maintain **'BUY'** on HCLT, TECHM and Wipro, and **'HOLD'** on Infosys and TCS.

Sandip Agarwal
+91 22 6623 3474
sandip.agarwal@edelweissfin.com

Pranav Kshatriya
+91 22 4040 7495
pranav.kshatriya@edelweissfin.com

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Stock		Q2FY18E (INR mn)	Q2FY17 (INR mn)	Y-o-Y (%)	Q1FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Cyient	Revenues	9,576	9,136	4.8	9,070	5.6	Revenues to grow 5.9% in USD terms and 5.1% in cc terms, as Q2 is seasonally strong quarter for DLM business. Non-DLM business expected to grow 3.1% QoQ with DLM business growing 20% YoY. Expect margins to remain similar to Q1 levels. Commentary on deal pipeline, demand in ER&D and traction in DLM business to be keenly monitored.
	EBITDA	1,216	1,283	(5.2)	1,160	4.8	
	Core PAT	887	973	(8.8)	877	1.2	
e-Clerx	Revenues	3,285	3,335	(1.5)	3,332	(1.4)	Revenue expected to decline 1.1% QoQ in USD terms and 2.5% in cc terms. EBITDA margin to jump 170bps on account of pricing resets and operational efficiencies. Demand outlook, particularly for short-term projects, impact of insourcing and automation and digital pipeline will be key monitorables.
	EBITDA	1,032	1,269	(18.7)	990	4.3	
	Core PAT	792	972	(18.5)	792	(0.0)	
HCL Tech	Revenues	126,083	115,190	9.5	121,490	3.8	Expect HCL Tech to post cc revenue growth of 2.7% QoQ and 4.1% growth in USD terms (currency tail-wind of 140bps). Expect EBITDA margin to contract 60bps on account of higher wage cost. Management commentary on traction in Mode 2 and 3 revenues, demand outlook in IMS, traction in revenues from IBM deals to be keenly monitored.
	EBITDA	27,138	25,110	8.1	26,810	1.2	
	Core PAT	21,510	20,150	6.7	21,710	(0.9)	
Hexaware	Revenues	9,883	9,041	9.3	9,836	0.5	USD revenue growth to grow 0.8% in USD terms and 0.4% in cc terms. Revenue growth to be subdued on account of strong base and loss of portion of business from top client. EBITDA margin to expand 30bps on account of absense of visa costs and operational efficiencies. Outlook on the top-10 clients , demand environment are key monitorables.
	EBITDA	1,630	1,576	3.5	1,598	2.0	
	Core PAT	1,218	1,114	9.4	1,225	(0.5)	
InfoEdge	Revenues	2,379	2,100	13.3	2,225	6.9	Revenue expected to grow 13.3% YoY on account of strong growth in Jeevansathi and Shiksha (>20% YoY) and steady growth in Naukri (~12.5% YoY). 99acres expected to remain bit soft due to weakness in NCR-region and RERA uncertainty. Commentary on competition in recruitment and matrinmony business, investee companies' performance, strategy for Zomato are key monitorables.
	EBITDA	778	695	12.0	703	10.6	
	Core PAT	670	801	(16.3)	642	4.4	
Infosys	Revenues	175,622	173,100	1.5	170,780	2.8	Expect revenue to growth 1.9% QoQ in cc terms, further aided 120bps by currency movement (USD growth 3.1% QoQ). EBITDA margin to contract by 90bps QoQ on account of wage hikes during the quarter, partially set-off by operational efficiencies and absense of visacosts. Commentary on recruitments in top management, hirings in US, client budgets and deal wins will be key monitorables.
	EBITDA	45,350	47,305	(4.1)	45,610	(0.6)	
	Core PAT	34,345	36,060	(4.8)	34,830	(1.4)	
Just Dial	Revenues	1,951	1,803	8.2	1,900	2.7	Revenue growth to be 8.2% YoY, driven by increase in campaigns, as benefit from advertisements accrue. We expect margin to expand by 50bps QoQ. Management commentary on strategy in core business and advertising campaign, plan of action in JD Omni and traction in JD-lite App key monitorables
	EBITDA	343	224	52.8	325	5.6	
	Core PAT	378	296	27.7	382	(0.8)	
Persistent Systems	Revenues	7,582	7,040	7.7	7,280	4.2	USD revenues to grow 4.4% QoQ; organic revenues to grow 2.9% while inorganic revenues expected to contribute further 1.5%. Margin are expected to expand by 100bps on account of operational efficiencies and pyramid rationalisation. Commentary on IBM Watson deal, new acquisitions, contribution from IP-led revenue are key monitorables.
	EBITDA	1,159	1,108	4.6	1,044	11.0	
	Core PAT	780	735	6.1	751	3.8	

Stock		Q2FY18E (INR mn)	Q2FY17 (INR mn)	Y-o-Y (%)	Q1FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
TCS	Revenues	299,772	292,840	2.4	295,840	1.3	CC revenue growth of 0.7% QoQ and aided 90bps by cross currency (1.6% growth in USD terms). EBITDA margins expected to expand by 140bps QoQ on account of absense of wage hikes and visa costs. Commentary on client budgets, spends by BFSI and Retail clients are key monitorables.
	EBITDA	79,430	81,110	(2.1)	74,130	7.1	
	Core PAT	61,349	65,860	(6.8)	59,450	3.2	
TechMahindra	Revenues	75,748	71,674	5.7	73,361	3.3	We estimate TECHM's revenue to grow 2.5% in cc terms and 3.5% in USD terms QoQ. Revenue growth to be led by Enterprise business. EBITDA margin to expand 120bps QoQ, on account of operational efficiencies (realignment of workforce and better utilisations) and absense of visa costs. Commentary on Network business, capex in telecom industry, margin outlook for rest of the year will be keenly monitored.
	EBITDA	10,548	10,701	(1.4)	9,347	12.9	
	Core PAT	7,399	6,447	14.8	7,985	(7.3)	
Wipro	Revenues	138,334	137,657	0.5	136,261	1.5	Wipro to post cc revenue growth of 0.6% QoQ and USD growth of 1.7% QoQ. EBITDA margins to expand by 30bps QoQ due to absense of one-time expense of 70bps in previous quarter offset by carried-forward impact of 2-month wage hike. Demand outlook in energy & utilities vertical, traction in BPM and demand from India and MEA geographies are key monitorables.
	EBITDA	27,550	26,539	3.8	26,683	3.2	
	Core PAT	20,951	20,672	1.3	20,765	0.9	

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	879	508	13.7	12.1	2.4	2.1	18.5	18.4	2.0	2.0
eClerx Services	Hold	761	1,241	13.9	12.5	3.4	2.8	26.5	24.8	1.8	2.0
HCL Tech	Buy	19,598	893	13.9	12.7	3.3	2.9	25.2	24.3	2.9	3.4
Hexaware Technologies	Hold	1,232	265	16.5	15.2	4.4	4.0	27.4	27.3	0.0	0.0
Infosys Technologies	Hold	31,896	903	13.7	12.5	3.0	2.7	21.8	22.8	4.4	4.8
Info Edge	Buy	1,977	1,059	48.6	40.5	7.2	6.4	15.8	16.9	0.5	0.6
Just Dial	Reduce	422	394	21.5	19.7	2.7	2.3	13.2	12.7	0.0	0.0
Persistent Systems	Buy	787	640	14.6	12.4	2.4	2.1	17.4	18.0	1.9	1.9
Tata Consultancy Services	Hold	73,615	2,430	18.2	16.8	5.7	4.7	30.0	30.5	2.0	2.2
Tech Mahindra	Buy	6,766	451	13.2	11.6	2.2	2.0	17.2	17.6	2.2	2.7
Wipro	Buy	21,223	284	15.7	13.7	2.7	2.2	16.9	17.2	0.0	0.0

RESULT PREVIEW

MEDIA

Sluggish ad growth; early festive comes to rescue

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We estimate revenue and EBITDA of our media universe (excluding Hathway and Jagran) to dip 0.7% (1.9% YoY growth in Q1FY18) and 3.1% YoY (flattish in Q1FY18), respectively. Post GST roll out, ad growth in July and August remained muted due to transition issues in the wholesale channel. However, due to early festive season, ad spends picked up in September. We expect the ad industry to report flattish to low single digit ad growth in Q2FY18. Generally, subscription deals are renegotiated during Q2. However, pending clarity on the TV tariff order, content deals have been postponed. Hence, we expect the broadcasting industry to clock high single digit to low double digit subscription growth. In case of multiplexes, the dull performance of Q1FY18 extended in Q2FY18 as well, with *Toilet: Ek Prem Katha* being the sole performer towards the fag end.

Soft ad growth

GST roll out led to lower ad spends in Q2FY18. We expect **ZEE to clock 2% YoY LTL ad growth** (0.8% YoY growth overall). We estimate Sun TV to report 2.0% YoY ad growth on low base of 2.3% YoY growth primarily due to robust ratings in Telugu genre. While Jagran Prakashan is likely to report 2% YoY print ad growth, DB Corp is estimated to clock 5% YoY ad growth on high base of 7.3% YoY. Radio City is expected to report robust 9.0% YoY spurt on base of 28.9% even though new stations will be fully operational. **Dish TV's subscription revenue is expected to jump 4.4% QoQ aided by net subscriber addition of 0.24mn and increase in ARPU by 3% QoQ to INR152.** We estimate PVR to report 7% YoY LTL footfalls dip and flattish YoY ad growth in Q2FY18 due to weak content.

Margins to remain under pressure

We expect ZEE to report 28.9% EBITDA margin in Q2FY18 (flattish YoY) due to investment in new content on *Zee TV* and *&TV*. Further, the company's 25th anniversary celebration will result in high marketing spends. **Sun TV's EBITDA margin is estimated to dip 255bps YoY due to lower ad growth and high content cost.** Dish TV is likely to report 29% EBITDA margin (33.9% in Q2FY17) impacted by lower revenue growth. PVR is likely to report 15.5% EBITDA margin (129bps YoY dip).

Outlook for the next 12 months

Experiments will continue to monetise the FTA market as seen in Star India rebranding its second Hindi GEC *Life OK* as *Star Bharat*. **Ad rates for marquee content are likely to rise led by increase in IPL ad rates.** Pick up in wired broadband is likely as Atria will invest up to INR7bn to expand infrastructure. Further, RJio will launch its wired broadband service. We expect Tamil Nadu digitization to pick up. Lastly, competitive intensity will rise in Tamil GEC (*Colors Tamil* likely to be launched in Q4CY17) and Hindi GEC will see new entrant *Discovery Jeet*. Gujarat election to benefit DB Corp in Q3FY18.

Top picks: **ZEE, Sun TV and PVR.**

Abneesh Roy
+91-22-6620 3141
abneesh.roy@edelweissfin.com

Rajiv Berlia
+91-22-6623 3377
rajiv.berlia@edelweissfin.com

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Stock		Q2FY18E (INR mn)	Q2FY17 (INR mn)	Y-o-Y (%)	Q1FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
DB Corp	Revenues	5,663	5,391	5.0	5,943	(4.7)	Due to implementation of GST and RERA registration issues, we expect 5% YoY print ad growth in Q2FY18 on a base of 7.3% YoY. Circulation revenues are expected to grow 7% YoY in Q2FY18 (4.9% YoY in Q1FY18 and 11.5% YoY in Q2FY17), primarily led by higher net realisations and increase in copies in Rajasthan and Gujarat. Radio is expected to report 8% YoY ad growth. Newsprint cost is expected to increase due to increase in circulation copies.
	EBITDA	1,502	1,505	(0.2)	1,864	(19.4)	
	Core PAT	893	885	0.9	1,101	(18.9)	
DEN Networks	Revenues	3,214	2,724	18.0	3,141	2.3	Subscription revenue is estimated to increase 2.7% QoQ led by slightly higher DAS II ARPUs and better monetisation in Phase III. Activation revenue is expected to remain steady QoQ at INR230mn (INR230mn in Q1FY18). Broadband business is expected to be muted due to increased competition. We expect the company to add 20,000 broadband subscribers. Broadband ARPU is expected to fall slightly to INR720 in Q2FY18.
	EBITDA	595	288	106.5	611	(2.7)	
	Core PAT	(115)	(479)	NA	(100)	(15.4)	
Dish TV	Revenues	7,715	7,793	(1.0)	7,389	4.4	We expect 4.4% QoQ growth in subscription revenue (Q2 is generally soft quarter due to lower additions impacted by monsoon). Net addition of 0.24mn subscribers is expected in Q2FY18 (0.16mn in Q1FY18 and 0.26mn in Q2FY17). ARPU is expected to increase 3% QoQ to INR152 (still lower than peak of INR165).
	EBITDA	2,240	2,642	(15.2)	2,012	11.4	
	Core PAT	(136)	701	(119.4)	(139)	2.3	
Hathway Cable & Datacom	Revenues	1,321	1,203	9.8	1,290	NA	We expect 30,000 broadband subscribers to be added in Q2FY18 with an average ARPU of INR725 (lower ARPU QoQ due to increased competition from competitors). Hence, broadband revenue is expected to increase 9.8% YoY. EBITDA margin is higher QoQ due to lower operational cost.
	EBITDA	528	NA	NA	491	NA	
	Core PAT	138	NA	NA	100	NA	
Jagran Prakashan	Revenues	5,806	NA	NA	5,913	(1.8)	We expect standalone print ad growth of 2% YoY on base of 4.7% YoY, lower than normal run rate of 7-8% YoY due to GST implementation and lingering impact of demonetisation. RERA continues to impact real estate advertising till registrations are completed. Radio City is expected to report robust 9% YoY ad growth on base of 28.9%. Circulation revenue is expected to grow 2.5% YoY on a base of 5.8% due to increased competition in its main market. Newsprint prices are expected to be stable.
	EBITDA	1,480	NA	NA	1,613	(8.2)	
	Core PAT	778	NA	NA	866	NA	
PVR	Revenues	5,580	5,542	0.7	6,366	(12.3)	Q2FY18 was a muted quarter. Except Toilet: Ek Prem Katha, none of the movies where able to cross INR1bn. Further, the base is strong with movies like Sultan, Pink and Rustom. Thus, we expect 4% YoY increase in ARPU. While LTL SPH is expected to increase 8.0% YoY, advertising is likely to be flattish due to weak July and August. LTL footfalls are estimated to dip 7% YoY. As DT Cinemas was consolidated from June 2016, it was present in the base.
	EBITDA	865	930	(7.0)	1,120	(22.8)	
	Core PAT	257	291	(11.9)	445	NA	

Stock		Q2FY18E (INR mn)	Q2FY17 (INR mn)	Y-o-Y (%)	Q1FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Sun TV	Revenues	6,624	6,255	5.9	7,863	(15.8)	We estimate Sun TV to report mere 2% YoY ad growth due to GST rollout (cautious ad spends by regional advertisers). DTH revenues are expected to grow 12.0% YoY in Q2FY18 (9.4% YoY in Q1FY18, 15.1% in Q2FY17). We expect content cost to inch up slightly due to change in business model (from ad slot to commissioned model). Therefore, EBITDA margins are likely to be slightly under pressure.
	EBITDA	4,769	4,663	2.3	4,484	6.4	
	Core PAT	2,676	2,704	(1.0)	2,517	6.3	
Zee Entertainment	Revenues	15,542	16,954	(8.3)	15,403	0.9	ZEE recorded ~INR268mn ad revenue and ~INR982mn subscription revenue from sports on a quarterly basis in FY17. With the Ten Sports deal sealing off in Q4FY17, the company will report 2% YoY LTL ad growth in Q2FY18. Overall, ad growth is estimated to dip 0.8% YoY. LTL domestic subscription revenue is likely to grow 7% YoY on a base of 24.6% YoY. However, due to Ten Sports' presence in the base, the company is likely to post negative growth. International subscription revenue is expected to dip 3% YoY on high base of 11.5% YoY. We expect EBITDA margin at ~28.9% due to investments in new shows on Zee TV and &TV. Further, 25th anniversary celebration will aslo result in high marketing spends. Other income is estimated to jump YoY due to in flow of consideration of the Ten Sports deal.
	EBITDA	4,492	4,892	(8.2)	4,844	(7.3)	
	Core PAT	3,329	2,936	13.4	2,815	18.2	

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
DB Corp	Buy	1,063	376	15.9	14.1	4.0	3.7	26.3	27.5	3.8	4.3
DEN Networks	Hold	264	88	NM	NM	1.9	2.2	(9.2)	(7.1)	0.0	0.0
Dish TV India	Buy	1,171	71	111.0	27.5	13.6	7.0	13.1	39.8	0.0	0.0
Hathway Cable & Datacom	Buy	386	30	NM	NM	3.3	3.7	(17.6)	(11.1)	0.0	0.0
Jagran Prakashan	Buy	886	176	15.0	13.3	2.9	2.7	20.1	21.0	2.6	2.9
PVR	Buy	930	1,293	50.0	27.5	5.6	4.7	11.4	18.1	0.2	0.3
Sun TV Network	Buy	4,731	781	26.3	22.3	7.2	6.7	28.1	31.0	2.5	3.0
Zee Entertainment Enterprise	Buy	7,708	522	35.8	28.5	6.5	5.5	19.4	20.8	0.3	0.3

RESULT PREVIEW

METALS AND MINING

Non-ferrous companies to fare better

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We expect YoY earnings growth momentum to sustain in Q2FY18 for most players in the sector. This spurt will be largely on account of price hikes & lower coking coal cost for ferrous players and higher LME prices for non–ferrous companies. Despite Q2 being a seasonally weak quarter, we expect Vedanta, Tata Steel and Hindustan Zinc to gain from operating leverage benefits. Going ahead, while we expect ferrous players to clock earnings growth on better spreads, volumes of non-ferrous companies are likely to surge amidst steady LME prices. Among mining companies under coverage, while we expect Coal India to benefit from higher volumes and e-auction premium, NMDC is likely to benefit from price hike effected in September. We prefer Vedanta, Hindalco and Tata Steel.

Non-ferrous players likely to have relative edge

LME zinc (up 31% YoY), aluminium (up 24% YoY) and lead (up 25% YoY) prices remained firm in Q2FY18. This is likely to result in better top line for non-ferrous companies. In case of ferrous players, HRC and longs prices jumped 21% and 23% YoY, respectively. However, seasonally weak demand amidst imports surge in August is expected to result in muted volume growth. Also, firm coking coal prices offset some benefits of higher prices.

Vedanta and HZL likely to gain from operating leverage benefits

We expect Vedanta to benefit from mined metal production ramp up at Hindustan Zinc and ramp up at Jharsuguda-II smelter. Also, the data from Ministry of Mines reveals that nearly 50% pots at Jharsuguda-I may be back in operation by August. Tata Steel is also expected to benefit from volume ramp up at Kalinganagar. Among mining companies, above 15% YoY growth in off take in August and September is likely to result in improved EBITDA YoY. However, we do not see operating leverage benefits in Hindalco as all the smelters were already operating at rated capacity even a year ago.

Outlook: Stable spreads and robust LME prices to drive growth

Over the 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 will be major growth drivers. On the macro front, supply constraints in zinc and crackdown on steel & aluminium capacities in China are likely to maintain a healthy supply-demand balance. In the near term, we expect earnings of Coal India also to get a boost from higher thermal coal prices as China is expected to curtail coal mining capacity during winter months.

Top picks

Vedanta, Hindalco and Tata Steel.

Amit A Dixit
+91 22 6620 3160
amita.dixit@edelweissfin.com

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Stock		Q2FY18E (INR mn)	Q2FY17 (INR mn)	Y-o-Y (%)	Q1FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Coal India	Revenues	200,878	162,126	23.9	205,678	(2.3)	YoY EBITDA growth is driven by volume growth in excess of 15% in both August and September. FSA Realisation is expected to be slightly down YoY, however, we expect E-auction premium at 30-32% in Q2FY18 owing to the robust international thermal coal prices.
	EBITDA	24,934	7,426	235.8	35,220	(29.2)	
	Core PAT	20,192	6,002	236.4	23,517	(14.1)	
Hindalco (Standalone)	Revenues	105,852	95,619	10.7	104,070	1.7	Benefits of higher LME Al are expected to be offset by higher Alumina and thermal coal cost. Also, Al volume is expected to be broadly static. In case of Copper division, TC/RC margins are expected to be lower owing to concentrate shortage during most of the quarter
	EBITDA	11,917	11,564	3.1	11,477	3.8	
	Core PAT	3,953	3,802	4.0	3,575	10.6	
Hindustan Zinc	Revenues	61,810	38,775	59.4	50,130	23.3	Expect EBITDA growth driven by higher volumes and spike in LME Zinc prices. We expect COP/t also to decline QoQ owing to better Zn grades. Other income is expected to be lower due to lower cash balance
	EBITDA	29,980	20,767	44.4	23,840	25.8	
	Core PAT	23,412	19,019	23.1	18,760	24.8	
JSPL (Consol)	Revenues	56,131	46,655	20.3	56,687	(1.0)	Expect soft performance from domestic steel division as longs prices were relatively subdued as compared to flats. However, higher pellet prices and commencement of blast furnace at Angul expected to keep performance stable. Further, high merchant power prices are expected to result n better profitability at JPL
	EBITDA	13,740	8,604	59.7	13,527	1.6	
	Core PAT	(4,012)	(7,372)	45.6	(3,871)	(3.6)	
NMDC	Revenues	25,974	17,392	49.3	28,415	(8.6)	Expect earnings to take hit owing to lower volume and price cuts taken by the company in July. However, stable cost base should help the company post healthy EBITDA margin during the quarter
	EBITDA	13,634	8,258	65.1	14,949	(8.8)	
	PAT	9,604	7,708	24.6	9,693	(0.9)	
SAIL	Revenues	136,870	125,776	8.8	129,835	5.4	Expect company to again be profitable at EBITDA level as share of semis is expected to go down and volume is expected to go up. We expect coking coal price pressure to recede as higher priced quarterly contracts are not there anymore
	EBITDA	1,238	1,114	11.1	(839)	247.5	
	Core PAT	(7,261)	(7,316)	0.7	(7,913)	8.2	
Tata Steel (Consol)	Revenues	293,791	274,711	6.9	309,733	(5.1)	Expect EBITDA/t for domestic operations to increase owing to price hikes and higher ferrochrome prices. European operations are expected to post yet another good quarter as price hikes were taken there are likley to offset bulk of the cost escalation. Higher Chinese prices should help boost SEA operations' profitability
	EBITDA	43,759	29,699	47.3	49,740	(12.0)	
	Core PAT	11,253	(1,426)	NA	13,316	(15.5)	
Vedanta	Revenues	227,722	167,777	35.7	193,420	17.7	EBITDA expected to get a boost from Zinc-India and International and Aluminium division. During the quarter, TSPL also came back to operations. This is likely to boost Power division's earnings. Oil & Gas production volume declined, however, stable oil prices are expected to result in stable margins
	EBITDA	49,987	46,632	7.2	48,740	2.6	
	Core PAT	13,944	12,521	11.4	15,250	(8.6)	

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	26,082	273	15.5	14.0	8.6	9.7	48.6	63.7	7.3	7.3
Hindalco Industries	Buy	8,306	241	11.0	10.3	1.0	0.9	9.9	9.5	0.4	0.4
Hindustan Zinc	Buy	20,310	313	13.6	12.5	3.8	3.4	29.8	28.7	3.8	3.8
Jindal Steel & Power	Buy	2,077	148	NM	10.2	0.5	0.4	(1.4)	4.1	0.0	0.0
NMDC	Hold	5,802	119	11.0	11.6	1.6	1.5	14.7	13.1	4.1	3.9
Steel Authority of India	Reduce	3,433	54	NM	12.9	0.6	0.6	(2.0)	4.7	0.0	0.0
Tata Steel	Buy	9,872	661	13.1	11.1	1.7	1.4	13.2	13.9	1.5	1.5
Vedanta	Buy	18,199	318	11.3	9.6	1.7	1.4	15.4	15.3	0.0	0.0

RESULT PREVIEW

PHARMACEUTICALS

INR appreciation to impact performance

India Equity Research | Strategy

Pharma sector's Q2FY18 revenue is expected to remain flat YoY as rebound in domestic growth is likely to be offset by decline in US revenue. EBITDA and PAT are expected to decline 19% and 27%, respectively, as sharp INR appreciation (~INR2.7 YoY) will hurt earnings. India sales will rebound QoQ post the GST headwind and we expect our coverage to grow at 15% YoY. While US revenue is likely to tumble 11% YoY in CC on a high base (comprise gGleevec, gGlumetza and gFortamet), it will grow 2% QoQ in CC driven by new launches of gLialda, gRenvela, gVytorin offsetting the decline in gZetia and gTamiflu. The latest wave of consolidation (WBAD-Econdisc alliance) poses risk to this. Overall, while CDH and NATP are anticipated to post best growth, SUNP, GNP and LPC will clock worst declines. In the healthcare space, hospital players will be impacted by price regulation on stents and knee implants and diagnostic players will reel under high base effect.

Earnings to remain subdued YoY, sequential improvement likely

Sequentially earnings will benefit from: (1) Rebound in India business post the slump in Q1FY18; and (2) Sales of gLialda (CDH), gRenvela (ARBP) and gVytorin (DRRD), although impact due to end of gTamiflu, gZetia and competition in gGlumetza (LPC) is anticipated. The sector is grappling with structural business challenges (further customer consolidation, rising competition) in the US and has de-rated since FY16 highs—27% premium to Nifty at Q2FY18 end versus high of ~70% in September 2015. During the quarter, versus the INR on an average, USD/ JPY depreciated ~4%/11% YoY, RUB/ZAR appreciated 5%/3% YoY, while EUR and BRL were nearly flat. In the healthcare space, margins of hospital players to be impacted by price regulation for stents and knee implants (13% YoY EBITDA decline for our coverage universe).

Glad tidings for CDH, NATP likely

SUNP: gGleevec in base; Cipla: Steady performance; CDH: Benefit from gLialda; DRRD: QoQ benefit from gDoxil, gVytorin and rebound in domestic sales; ARBP: Benefit from gRenvela; TRP: High erosion in US to hurt earnings; GNP: High R&D and employee expense to impact profitability; Divi's: Import alert headwinds; NATP: gTamiflu in base; Ipca: Low exports to offset good domestic growth; APHS: EBITDA margin to remain under pressure due to commissioning of hospital at Navi Mumbai and price capping of stents; Fortis: EBITDAC margin to decline on a high base; Max: Top line to grow 10% YoY; HCG: Top line to grow 16%; DLPL, THC: Top lines to grow 10%, 19%, respectively; however, DLPL's performance to be weaker on a strong base.

Outlook: FY18 to be a challenging year

FY18 is likely to be a disappointing year with INR appreciation being an additional headwind along with business woes in US and India. Our top picks are DRRD/SUNP in pharma and HCG/Apollo in healthcare.

Deepak Malik
+91 22 6620 3147
deepak.malik@edelweissfin.com

Archana Menon
+91 22 6620 3020
archana.menon@edelweissfin.com

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Stock		Q2FY18E (INR mn)	Q2FY17 (INR mn)	Y-o-Y (%)	Q1FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Apollo Hospitals	Revenues	18,792	16,341	15.0	16,845	11.6	Expect topline to grow 15% YoY as Navi Mumbai hospitals ramps up. EBITDA margin to remain under pressure due to subdued growth in Chennai cluster and price control on knee implants. However, losses from Navi Mumbai is expected to decline to INR100mn (INR140mn in Q1FY18).
	EBITDA	1,973	2,219	(11.1)	1,736	13.6	
	Core PAT	651	920	(29.3)	352	84.8	
Aurobindo	Revenues	40,912	37,755	8.4	36,788	11.2	Expect US sales (USD290mn) to grow 10% QoQ in CC as the quarter would include sales of Renvela tablets can contribute ~30mn. Expect EBITDA margin to improve by ~235bps to 25%.
	EBITDA	10,397	9,292	11.9	8,416	23.5	
	Core PAT	6,677	5,895	13.3	5,246	27.3	
Cipla	Revenues	41,599	37,510	10.9	35,251	18.0	Revenue is expected to grow 11%YoY/18% QoQ. While US revenue (USD100mn) is expected to be stable YoY and QoQ in CC, India business is expected to grow 15%. South Africa/ Europe/ Emerging market is expected to grow 12%/43%/3%. Expect EBITDA margin to improve ~115bps YoY and ~140bps QoQ benefitting from the rebound in the domestic business.
	EBITDA	8,211	6,807	20.6	6,465	27.0	
	Core PAT	4,435	3,543	25.2	3,209	38.2	
Cadila Healthcare	Revenues	29,390	23,531	24.9	21,973	33.8	US revenue (USD200mn) to grow 34% sequentially in CC (USD150mn in Q1FY18) as it benefits from launch of gLialda (expected to contribute ~USD40-50mn). Expect ~15% growth in India revenue. EBITDA margin of ~27% (~560bps YoY improvement).
	EBITDA	8,033	5,118	57.0	2,773	189.7	
	Core PAT	5,517	3,376	63.4	1,384	298.6	
Divi's Laboratories	Revenues	9,058	10,054	(9.9)	8,212	10.3	Expect topline to decline by ~10% YoY due to import alert. Last years base had higher employee cost fop INR179mn. Adjusted for this, EBITDA margin to decline ~500bps YoY due to higher remediation cost.
	EBITDA	2,900	2,912	(0.4)	2,448	18.5	
	Core PAT	2,243	2,872	(21.9)	1,709	31.2	
Dr Reddy's	Revenues	37,327	35,857	4.1	33,159	12.6	Expect US revenue (USD 245mn) to grow 6%QoQ benefitting from new launches like Vytorin and Doxil which can cumalitively contribute ~USD10-12mn in the quarter. Post GST impact in Q1FY18, we expect India to grow 15% YoY and increase by INR2.5bn sequentially. Post the dip in EBITDA margin in Q1FY17 due to GST and seasonality in PSAI business, we expect margin to improve ~700bps to 16%.
	EBITDA	6,025	6,023	0.0	3,058	97.0	
	Core PAT	2,717	2,924	(7.1)	584	365.2	
Glenmark Pharma	Revenues	22,720	22,241	2.2	23,630	(3.9)	US revenue (USD110mn) to decline by 32% sequentially due to end of benefit of FTF sales of Zetia (~USD55mn in Q1FY18). While we expect India business to grow 14%. EBITDA margin to decline ~1150bps sequentially to 13.4% due to end of high margin Zetia sales, higher R&D (~INR500mn) and one time bonus of ~INR1.6bn to employees in the quarter.
	EBITDA	3,001	4,487	(33.1)	5,774	(48.0)	
	Core PAT	1,426	2,236	(36.2)	3,334	(57.2)	
IPCA Laboratories	Revenues	8,939	8,851	1.0	7,130	25.4	India sales to grow 12% YoY and increase by INR1.6bn sequentially. We expect the export formulation business to decline 4% YoY impacted by sales in US and challenges in the UK market. We expect EBITDA margin of 14.5% compared to 3% and 12.6% in Q1FY18 and Q2FY17 respectively.
	EBITDA	1,300	1,280	1.5	215	503.9	
	Core PAT	700	676	3.5	(237)	NM	

Stock		Q2FY18E (INR mn)	Q2FY17 (INR mn)	Y-o-Y (%)	Q1FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Lupin	Revenues	41,592	42,905	(3.1)	38,696	7.5	Expect US sales (USD240mn) to decline 18% YoY due to increase in competition and pricing pressure in Glumetza (AG launched in Feb'17, Teva in May'17) and Fortamet (Mylan launched in Sept'16). Sequentially we expect US revenues to be flat as new launches like Fosrenol, Benicar, Seroquel XR among others, offset impact of Teva's Glumetza launch (half quarter impact in Q1FY18). India business to grow 15%. We expect APAC/ EMEA to grow 10%/15%. EBITDA margins to improve ~QoQ as higher margin India business rebounds.
	EBITDA	8,940	10,281	(13.0)	7,684	16.4	
	Core PAT	4,483	6,622	(32.3)	3,581	25.2	
Natco Pharma	Revenues	4,397	4,679	(6.0)	4,453	(1.3)	Expect topline to decline 8% YoY and be flat QoQ as decline in Tamiflu profit share (~INR1bn in Q2FY17 and INR720mn in Q1FY18) will be offset by launch of Doxil, Fosrenol and rebound in India revenues (15% YoY growth). EBITDA margin expect to be stable QoQ (~31%).
	EBITDA	1,369	1,048	30.6	1,367	0.2	
	Core PAT	949	330	188.1	940	1.0	
Max India Limited	Revenues	7,040	6,400	10	6,660	6	Expect topline to grow at 10% and EBITDA margin to be under pressure due to price controls on stents and knee implants. We expect EBITDA to be flat YoY in absolute terms.
	EBITDA	804	800	0	640	26	
	Core PAT	131	150	(13)	(10)	1,408.8	
HealthCare Global Enterprises Limited	Revenues	2,012	1,740	15.6	1,911	5.3	We expect topline to grow 16%YoY/ 5%QoQ. Expect EBITDA margin to be stable YoY and QoQ.
	EBITDA	302	254	18.8	295	2.3	
	Core PAT	47	49	(5.7)	47	(1.6)	
Fortis Healthcare Ltd	Revenues	12,840	11,957	7.4	11,566	11.0	Expect topline to grow at 8% for the hospital business. Expect SRL to grow 10% YoY given the high base for last year which benefitted from high incidence of seasonal fever in North India. We expect EBITDAC margin to
	EBITDA	1,793	2,188	- 18.1	861	108.2	
	Core PAT	289	305	(5.0)	59	393	
Thyrocare Technologies Ltd	Revenues	940	787	19.4	878	7.1	Expect top line to grow 19% YoY/ 7% QoQ. We expect an EBITDA margin of 41%.
	EBITDA	385	305	26.5	364	5.8	
	Core PAT	241	202	19.4	207	16.8	
Dr. Lal Pathlabs Ltd	Revenues	2,884	2,622	10.0	2,493	15.7	Expect top line to grow 10%YoY/16% QoQ. EBITDA margin (~27.5%) to decline by ~285bps YoY as the base benefitted from the high incidents of seasonal fever in Delhi region.
	EBITDA	795	798	(0.4)	655	21.4	
	Core PAT	521	525	- 0.8	441	18.1	
Sun Pharma	Revenues	66,080	82,651	(20.1)	62,088	6.4	We expect US revenue (USD339mn) to decline 4% sequentially in CC given decline in Taro (USD10mn QoQ dip) and incremental competition in Doxil (DRRD/Natco launch in May'17); 39%YoY decline in CC owing to presence of gGleevec in the Q2FY17 base. While RoW sales will benefit from additional sales in Japan, India is expected to rebound post GST impact in Q1FY18 and grow 15% YoY.
	EBITDA	13,133	31,677	(58.5)	10,957	19.9	
	Core PAT	7,231	22,351	(67.6)	5,256	37.6	
Torrent Pharmaceuticals	Revenues	15,702	14,290	9.9	13,740	14.3	Expect India to grow 15%YoY and increase by INR1.06bn sequentially. We expect US (USD44mn) to decline 9% YoY and grow 4% QoQ in CC. Expect EBITDA margin of ~22% to decline ~140bps YoY and be stable QoQ.
	EBITDA	3,407	3,300	3.3	2,970	14.7	
	Core PAT	2,086	2,070	0.8	1,880	11.0	

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
Apollo Hospitals Enterprise	Buy	2,312	1,081	52.3	29.8	3.9	3.6	7.1	11.9	0.7	1.2
Aurobindo	Hold	6,687	742	20.4	18.8	3.8	3.2	20.6	18.7	0.3	0.4
Cadila Healthcare	Buy	7,883	501	24.0	17.3	6.0	4.8	27.0	30.3	0.9	1.3
Cipla	Hold	7,243	585	26.3	23.3	3.3	3.0	13.2	13.3	0.3	0.3
Divi's Laoratories	Reduce	3,524	863	26.0	23.8	3.8	3.4	15.5	15.2	0.9	1.0
Dr Reddy Labs	Buy	6,091	2,389	32.2	16.3	3.0	2.7	9.6	17.3	0.9	1.7
Glenmark Pharmaceuticals	Hold	2,648	610	14.9	14.5	3.1	2.6	22.9	19.3	0.3	0.4
IPCA Laboratories	Reduce	1,024	528	30.9	22.4	2.5	2.3	8.4	10.7	0.3	0.9
Lupin	Hold	7,150	1,029	25.7	20.3	3.1	2.8	12.7	14.4	0.6	0.7
Natco Pharma	Buy	2,633	982	33.5	20.9	8.3	6.1	27.4	33.5	0.4	0.7
Sun Pharma	Buy	18,956	514	33.5	21.6	3.2	2.8	9.9	13.4	0.3	0.5
Max India Limited	Buy	568	138	306.8	178.0	7.1	6.8	2.1	3.6	0.0	0.1
HealthCare Global Enterprises Limited	Buy	351	266	94.2	65.4	5.0	4.6	5.1	8.3	0.0	0.0
FORTIS HEALTHCARE LTD	Buy	1,196	150	NM	159.2	1.9	1.8	0.2	1.6	0.0	0.0
Thyrocare Technologies Ltd	Buy	553	670	39.4	30.8	7.9	7.0	21.2	24.1	1.0	1.3
Dr. Lal Pathlabs Ltd	Buy	990	773	38.7	30.9	8.0	6.6	22.7	23.6	0.4	0.5
Torrent Pharmaceuticals	Buy	3,250	1,249	22.6	17.2	4.2	3.6	20.0	22.7	1.3	1.7

RESULT PREVIEW

REAL ESTATE

Operations flat QoQ, but earnings uptick anticipated

India Equity Research | Strategy

We estimate Q2FY18 new sales to remain flat QoQ across markets on account of very few new launches, uncertainty related to GST impact on property prices and sales being stalled pending RERA registration. Our channel checks indicate good sales traction for developers transferring GST benefits via lower pricing. However, the ongoing festival season has not led to meaningful enthusiasm for property purchases. Office space absorption remains robust. We expect QoQ uptick in earnings of most of our coverage players driven by POCM-based recognition in ongoing projects.

New residential sales likely to be flat QoQ; office space robust

Residential new sales have recovered sharply across most markets post the demonetisation-led slowdown. However, with GST becoming effective from July 1, 2017, prospective buyers were uncertain of its impact on their purchase price, leading to deferment of planned purchases. Additionally, uncertainty around RERA implementation and delay in finalising its guidelines by key states led to tepid sales in these markets coupled with very few new launches. Our channel checks, however, indicate that developers who announced passing of GST benefits to buyers via lower pricing clocked good sales traction. Hence, we expect Q2FY18 new sales to be largely flat QoQ. On the other hand, office space absorption is expected to remain good across key markets with rising rentals and stable vacancies.

POCM-based recognition could boost earnings QoQ

We expect most of our under coverage companies to report some QoQ rise in earnings driven by POCM-based recognition in ongoing projects and some contribution from first-time project recognition. DLF's earnings could dip QoQ owing to soft new sales due to RERA uncertainty. Oberoi's revenue is likely to be driven by existing projects with Mulund, Borivali and Worli projects unlikely to hit the revenue recognition threshold during the quarter. Sunteck's revenue is dependent on incremental sales in its BKC projects, while the Goregaon project is unlikely to come for recognition during the quarter. Godrej Properties' (GPL) new sales could dip QoQ given limited new launches during Q2FY18 versus strong new launches/sales in Q1FY18.

Outlook over the next 12 months

Key uncertainties (RERA & GST) appear to have largely settled. Despite near-term sluggishness, we expect uptick in residential new sales in ensuing quarters across key markets. This, we believe, is likely to 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

Brigade Enterprises, Sobha and Oberoi Realty.

Harshal Pandya
+91-22- 6620 3163
harshal.pandya@edelweissfin.com

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Stock		Q2FY18E (INR mn)	Q2FY17 (INR mn)	Y-o-Y (%)	Q1FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
DLF	Revenues	19,453	20,707	(6.1)	20,477	(5.0)	We expect some fall in revenues given DLF had stalled sales across projects in view of RERA implementation.
	EBITDA	8,559	10,204	(16.1)	9,031	(5.2)	
	Core PAT	847	2,000	(57.7)	1,119	(24.3)	
Brigade Enterprises	Revenues	5,828	4,502	29.4	5,550	5.0	We expect revenues to be driven by POCM based revenue recognition in ongoing projects and some first-time project recognition as well.
	EBITDA	1,515	1,286	17.9	1,263	20.0	
	Core PAT	445	286	55.5	317	40.4	
Godrej Properties	Revenues	3,730	3,296	13.2	2,487	50.0	We expect Trees - Residential to drive revenues.
	EBITDA	895	236	280.1	(183)	589.4	
	Core PAT	557	234	138.0	233	139.3	
Oberoi Realty	Revenues	2,868	2,520	13.8	2,607	10.0	Revenues should be driven by incremental construction & sales in its Goregaon and Splendor projects. We do not expect other ongoing projects to hit recognition during the quarter.
	EBITDA	1,491	1,258	18.5	1,355	10.0	
	Core PAT	979	840	16.6	912	7.4	
Sobha Developers	Revenues	6,955	5,411	28.5	6,789	2.4	We expect revenues to be driven mostly by POCM based recognition in ongoing projects and some from first-time project recognition.
	EBITDA	1,321	1,034	27.8	1,215	8.8	
	Core PAT	492	386	27.5	470	4.7	
Sunteck realty	Revenues	1,300	2,061	(36.9)	1,334	(2.5)	Revenues should be driven by incremental sales in its BKC projects. We do not expect Goregaon project to commence recognition during the quarter.
	EBITDA	689	1,264	(45.5)	707	(2.6)	
	Core PAT	424	961	(55.8)	352	20.6	

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	513	246	NA	NA	1.5	1.3	10.8	11.0	0.8	0.8
DLF	Hold	4,688	171	32.8	29.3	1.1	1.0	3.3	3.6	0.8	0.9
Godrej Properties	Hold	2,078	624	41.9	33.4	6.0	5.3	15.2	16.9	0.6	0.6
Oberoi Realty	Buy	2,191	420	16.7	15.4	2.2	1.9	14.0	13.4	0.6	0.6
Sobha Developers	Buy	584	394	17.9	14.4	1.3	1.2	7.7	9.0	1.3	1.6
Sunteck realty	Buy	633	327	12.9	11.3	1.9	1.6	15.9	15.5	0.0	0.0

RESULT PREVIEW

RETAIL

Temporary slowdown

India Equity Research | Strategy

We estimate our retail universe's Q2FY18 revenue and EBITDA to jump 11.8% and 13%, respectively. Due to GST rollout in July, retail companies had advanced their end of season sales (EOSS) to June. Hence, July and August were slack months. However, retail companies clocked healthy growth in September on account of early festive season. Due to early EOSS, we expect lower footfalls in malls in Q2FY18, which will partly impact SSG of quick service restaurants. We envisage Titan to continue to gain market share aided by GST rollout. Footfalls at Wonderla are likely to be aided by lower base and improve marginally. Disruption in trade continued in Q2FY18 on account of GST implementation, which we expect to normalise in Q3FY18.

Early end of season sales likely to nip SSG

Titan's market share improvement is envisaged to sustain in Q2FY18 aided by GST rollout. **We expect the company's jewellery sales to jump ~17% YoY on a base of 0.2% (excluding INR2,500mn impact due to advancement of sales, growth will be 30.0% YoY).** While we estimate footfalls at Wonderla's Bengaluru park to grow 3% YoY on base of 27.5% YoY, footfalls at Kochi park are expected to dip 5% YoY on a base of 6.4% YoY. Due to advancement of sale season, SSG of all apparel companies is likely to slacken (versus high double digit growth in Q1FY18). Shoppers Stop is expected to clock 4% YoY LTL SSG dip in departmental format (on base of 2.2% YoY). In ABFRL, while we expect Madura to clock ~3% SSG on base of 10% YoY dip, Pantaloons is estimated to post SSG of ~3% on a base of 6.2%. We estimate 15% YoY SSG in Brand Factory and ~9-10% YoY SSG spurt in Central. We expect Future Retail's SSG to be 12% YoY in Q2FY18 aided by Big Bazaar, fbb and Easy day. Heritage stores are likely to further boost Future Retail's revenue. **Dominos India's SSG is estimated at 1-2% YoY in Q2FY18 (on a base of 4.2% YoY) aided by Everyday value offer.**

Outlook for next 12 months

Homegrown brand *Spykar Lifestyles* is planning to expand its retail footprint by adding more stores in metro markets and open new ones in tier II and III cities. It will take the total store count to over 350 by 2020-21. The company is also working on expanding presence in the online space. Exclusive tie ups with Amazon India and Shoppers Stop have opened additional growth avenues. **We expect integration of online and offline channels to provide seamless experience to consumers (omni-channel strategy) will be the next step ahead.** While demerger of Spencer's from CESC will result in value unlocking, acquisition of HyperCity by Future Retail from Shoppers Stop is a win-win proposition for both.

Top picks

Shoppers Stop, Future Retail, Future Lifestyle and Titan.

Abneesh Roy
+91 22 6620 3141
abneesh.roy@edelweissfin.com

Rajiv Berlia
+91 22 6623 3377
rajiv.berlia@edelweissfin.com

Alok Shah
+91 22 6620 3040
alok.shah@edelweissfin.com

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Stock		Q2FY18E (INR mn)	Q2FY17 (INR mn)	Y-o-Y (%)	Q1FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Jubilant Foodworks	Revenues	7,006	6,655	5.3	6,788	3.2	Dominos India's SSG is estimated at ~1-2.0% YoY in Q2FY18 (on a base of 4.2% YoY growth) aided by Everyday value offer. Heavy marketing of Everyday value offer, change in taste/increase in toppings and closure of non-profitable stores will be key positives. We do not expect any impact on revenue growth due to quality issues raised by 1 standalone event. The company addressed the issue quickly and effectively. Gross margins will continue to be under pressure due to increase in raw material prices. However, EBITDA margin is likely to improve slightly due to cost cutting initiatives
	EBITDA	701	643	9.0	796	(11.9)	
	Core PAT	151	216	(30.1)	238	(36.7)	
Shoppers Stop (Standalone)	Revenues	10,178	10,133	0.4	9,411	8.1	We expect 4% YoY LTL SSG dip in departmental format (on base of 2.2% YoY growth). Overall sales growth is expected to be flattish YoY. Due to GST implementation, sales season was advanced to Q1FY18, which garnered benefit of sales growth. July and August were slack due to GST rollout. 1 new store was opened in Q2FY18. HyperCity is likely to clock decent performance
	EBITDA	509	479	6.2	301	69.2	
	Core PAT	77	107	(27.7)	(37)	307.9	
Titan	Revenues	30,649	26,524	15.6	39,099	(21.6)	Titan will continue to gain market share in Q2FY18 aided by GST rollout. We expect jewellery sales to jump ~17% YoY on a base of 0.2% (ex-impact of INR2500mn, growth will be 30.0% YoY). Studded jewellery's share is estimated at 35% in Q2FY18. In watches, retail formats will record healthy revenue growth, but exports could be tardy. We expect 7% YoY growth in watches division. Eye plus retail format should continue to post healthy LTL growth in Q2FY18. However, reported sales may be muted to a large extent because the division compensated business associates for increase in GST rate without hiking prices in Q2FY18. We estimate 1% YoY dip in Q2FY18 in eyewear division on a base of 6.6% YoY growth.
	EBITDA	3,065	2,764	10.9	3,888	(21.2)	
	Core PAT	2,175	1,808	20.3	2,669	(18.5)	
Aditya Birla Fashion and Retail	Revenues	20,467	18,777	9.0	17,600	16.3	EOSS started early compared to base. Therefore, part of EOSS benefit was captured in Q1FY18. Post a tepid August, ABFRL ran promotional offers for a few more days in September. Further, we envisage an early festive season to benefit the company. We expect core Madura to clock ~3% SSG on a base of -10%. We estimate Pantaloons' SSG at ~3% on a base of 6.2%. We also expect ABFRL's new segments such as Forever21 and undergarment business to post tepid growth in Q2FY18
	EBITDA	1,228	1,648	(25.5)	740	65.9	
	Core PAT	278	649	(57.2)	(200)	239.0	
Future Retail	Revenues	48,202	41,915	15.0	47,049	2.4	We expect SSG to be 12% YoY in Q2FY18 aided by Big Bazaar, fbb and Easy day. Heritage stores will further boost revenue. Ad spends are expected to be high in Q2FY18 due to increased advertising on fbb. Further, other expenses may slightly inch up due to integration with Heritage stores. While there is no end of season sales in Q2FY18 (was absent in Q1FY18 as well), it was present in base. Therefore, we expect 124bps YoY EBITDA margin expansion
	EBITDA	2,073	1,282	61.7	2,096	(1.1)	
	Core PAT	1,443	736	95.9	1,479	(2.4)	

Stock		Q2FY18E (INR mn)	Q2FY17 (INR mn)	Y-o-Y (%)	Q1FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Future Lifestyle Fashions Limited	Revenues	11,299	10,222	10.5	10,830	4.3	We estimate 15% YoY SSG in Brand Factory and ~9-10% YoY SSG in Central. Power brands will continue to do well and we expect revival in primary sales for Indigo Nation and John Millers. Ad spends is expected to be robust in Q2FY18. Due to presence of sale season in the base, we expect the company's EBITDA margin to improve in Q2FY18 versus Q2FY17.
	EBITDA	1,051	848	24.0	980	7.2	
	Core PAT	293	73	303.0	320	(8.4)	
Wonderla Holidays	Revenues	518	502	3.2	1,023	(49.3)	In Q2FY17, footfalls at Bengaluru were impacted by the Cauvery issue between Tamil Nadu and Karnataka. Hyderabad park footfalls had been impacted by flood and rains for 2 weeks in Q2FY17. Hence, we estimate the Bengaluru park to clock 3% YoY growth in footfalls on a base of 27.5% YoY decline, while footfalls at Kochi park are expected to dip 5% YoY on a base of 6.4% YoY. Due to higher GST rate of 28%, Wonderla hiked prices marginally in September, which will flow in Q3FY18. In Q2FY18, average revenue per user is likely to be flattish YoY.
	EBITDA	150	102	47.5	437	(65.6)	
	Core PAT	49	30	65.1	260	(81.1)	

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
Aditya Birla Fashion and Retail	Buy	1,910	161	79.2	37.5	10.7	8.3	14.6	25.0	0.0	0.0
Jubilant Foodworks	Hold	1,504	1,482	71.2	53.6	10.7	9.4	15.9	18.7	0.3	0.5
Future Lifestyle Fashions Limited	Buy	1,003	343	51.0	30.2			7.4	11.5	0.2	0.2
Future Retail	Buy	3,974	528	42.7	28.3	8.3	6.5	21.3	25.7	0.1	0.2
Shoppers' Stop	Buy	651	507	56.7	32.0	6.3	5.6	13.1	18.3	0.5	0.9
Titan Company	Buy	8,133	596	52.9	40.8	10.8	9.2	21.8	24.3	0.6	0.7
Wonderla Holidays	Buy	314	362	37.2	25.7	4.3	3.8	12.2	15.9	0.6	0.9

RESULT PREVIEW

TELECOM

Decline in realisations persists

India Equity Research | Strategy

Edelweiss
Ideas create, values protect

We estimate Q2FY18 revenues of Bharti Airtel's (Bharti) India mobility business and Idea Cellular (Idea) to decline 4.6% and 6.5%, respectively, QoQ. The sharp drop in revenues is attributable to deceleration in subscriber additions and further cut in realisation rates as incumbents look to sustain existing customers from shifting to highly discounted RJIO offers by giving similar offers. Continued revenue drop aggravated by operating leverage is expected to take a toll on margins – estimate 100bps and 160bps decline in Bharti's India and South Asia businesses and Idea's margins, respectively. Bharti Infratel (BHIN) will continue to benefit from aggressive data roll out by telecom operators with expected addition of 6,521 tenancies during Q2FY18. Commentary on regulatory changes and cut in IUC charges, acquisition of Vodafone/Idea towers and their stake in Indus and strategy to tackle *JioPhone* will be key monitorables.

RJIO aggravates realisation woes

We are building in voice and data realisation dip of 6.5%/8.2% and 14.8%/18.0% for Bharti/Idea QoQ, respectively, as operators continue to offer cheap-bundled offers to stop customers getting lured to RJIO's offers. Consequently, we expect voice and data volume to further jump by 2.4%/1.2% and 13.9%/15.5% QoQ for Bharti/Idea. On sustained revenue dip (4 consecutive quarters) aggravated by cost pressures, we estimate EBITDA margins of Bharti's India and South Asia businesses and Idea to further decline by 100bps and 160bps QoQ, respectively. BHIN is estimated to have added 224 towers and 6,521 tenancies during the quarter, aided by aggressive data roll out by telecom operators. EBITDA margin of BHIN is set to expand by 100bps QoQ on strong revenue momentum and normalisation of energy margins.

Subscriber additions facing the heat

We believe Idea's and Vodafone's subscriber base will see substantial decline of ~5.7mn each QoQ in Q2FY18, while Bharti's susbriber base is expected to rise by mere 0.6mn. We believe RJIO will continue to witness strong subscriber addition, despite starting to charge its customers. With RJIO's offerings still at a discount to competition, we believe new subscribers are opting for RJIO while some cost conscious subscribers may also be consolidating their usage to single RJIO Sims.

Outlook over the next 12 months

We maintain that heightened competitive intensity will lead to sustained pressure on subscriber acquisitions and retention costs. Competitive intensity is expected to stay high, despite anticipated consolidation in industry. Cut in IUC charges and bundled unlimited voice offerings would lead to steep fall in voice revenues as realisations will further plummet. Further, incumbents will focus more on data revenue given the opportunity to further penetrate their existing customer base. Stability in competitive environment is one of the most important aspects for profitable growth. We will watch for stabilisation in churn ratio of incumbents as proxy for competitive intensity.

Sandip Agarwal
+91 22 6623 3474
sandip.agarwal@edelweissfin.com

Pranav Kshatriya
+91 22 4040 7495
pranav.kshatriya@edelweissfin.com

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Stock		Q2FY18E (INR mn)	Q2FY17 (INR mn)	Y-o-Y (%)	Q1FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Bharti	Revenues	217,835	246,515	(11.6)	219,581	(0.8)	We expect Bharti's India mobility business revenues to decline 4.6% QoQ on account of heightened competitive intensity triggered by RJIO. We believe voice and data realisations will further decline 6.8% and 14.8% QoQ respectively, partly offset by 2.4% and 13.9% voice and data volume spurt. Africa business is expected to clock revenue growth of 4.3% QoQ. We believe consolidated revenues will decline 0.8% QoQ with 40bps decline in EBITDA margins on account of revenue deceleration in Indian mobility business. Regulatory intervention to revive industry, trajectory of churn and realisations, traction in 4G business and update on payment bank will be key monitorables.
	EBITDA	76,126	94,403	(19.4)	77,584	(1.9)	
	Core PAT	3,706	14,608	(74.6)	3,673	0.9	
Bharti Infratel	Revenues	36,034	32,919	9.5	35,239	2.3	Bharti Infratel (BHIN) is expected to report 2.3% QoQ revenue growth led by the 3.4% QoQ spurt in rental revenues, while energy revenues expected to grow at 0.2% QoQ. We expect BHIN to add 224 towers and 6,521 tenancies during the quarter. EBITDA margin is expected to rise 100bps QoQ to 45.7%. 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	16,484	14,498	13.7	15,750	4.7	
	Core PAT	7,765	7,738	0.3	6,639	17.0	
Idea	Revenues	76,392	93,002	(17.9)	81,665	(6.5)	Idea's revenues expected to decline of 6.5% QoQ on account of sharp cut in voice and data realisations of 8.2% and 18.0% respectively, as incumbents look to maitain existing customers from shifting to highly discounted RJIO offers. We expect voice and data volumes to jump 1.2% and 15.5% respectively, on account of unlimited bundled packages. EBITDA margin is expected to nose-dive by 160bps QoQ to 21.4%, which would swell net loss to INR9.7bn from INR8.1bn in previous quarter. Commentary on possible regulatory interventions, update on merger with Vodafone, strategy to tackle subscriber churn to RJIO and trajectory of data realisations will be key monitorables.
	EBITDA	16,358	28,401	(42.4)	18,754	(12.8)	
	Core PAT	(9,743)	915	(1,164.8)	(8,159)	(19.4)	

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
Bharti Airtel	Hold	23,216	378	53.7	43.8	2.2	2.1	4.2	4.9	0.3	0.0
Bharti Infratel	Hold	11,509	405	24.6	22.1	4.7	4.6	19.4	21.3	3.7	4.0
Idea Cellular	Hold	4,090	74	NM	NM	1.2	1.4	(12.4)	(8.0)	0.0	0.0

RESULT PREVIEW

UTILITIES

Demand recovering, but is it enough?

India Equity Research | Strategy

During Q2FY18 (July & August), all India power demand rose ~5.2% YoY to 201BU, led by 9.5% jump in thermal power generation. However, hydro and nuclear generation declined 5.5% and 20.0%, respectively. Overall power deficit during the quarter stood at ~0.6%. All India thermal PLFs, however, remained flattish YoY at ~65% even though all India conventional installed capacity expanded by ~7GW (up 3%) during Q2FY18. Merchant rates clocked sustained improvement with peak of INR4.5/unit and average of ~INR2.8/unit (INR2.3 in Q2FY17). While initial signs of revival in power demand are apparent, sustainability of the same is pivotal and key monitorable. Regulated utilities—Power Grid (BUY) & NTPC (BUY)—remain our preferred picks. We also maintain 'BUY' on Adani Ports.

Key highlights of the sector during the quarter

Post clocking 4.6% spurt in Q1FY8, power demand sustained healthy momentum at 5.2% in Q2FY18. During the quarter, the government launched Saubhagya scheme (INR160bn projected outlay) with an objective of last mile connectivity providing household electrification, especially in rural areas. The scheme's successful implementation is envisaged to positively impact energy demand by 3%.

Result expectations for stocks under coverage

1. Power Grid's earnings growth is estimated to remain strong on healthy commissioning activity.
2. NTPC is estimated to report 7% YoY earnings growth following improvement in generation volumes.
3. Adani Power is expected to extend losses post decline in generation volumes and base impact of recognition of CT. 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 & Ratnagiri plants and firm international coal prices.
5. CESC's earnings are estimated to be subdued owing to lower generation in Q2FY18.
6. Our channel checks indicate that cargo volumes were weak due to GST-led disruptions in Q2FY18. We estimate 2-3% cargo volume growth.

Outlook over the next 12 months

Overall, demand has improved YoY and merchant prices & volumes have also improved. However, sustained demand from industrial and commercial segments is still awaited and is a key monitorable.

Top picks

Power Grid, NTPC and Adani Ports.

Swarnim Maheshwari
+91 22 4040 7418
swarnim.maheshwari@edelweissfin.com

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Stock		Q2FY18E (INR mn)	Q2FY17 (INR mn)	Y-o-Y (%)	Q1FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Adani Power	Revenues	52,223	57,761	(9.6)	55,902	(6.6)	We expect a 6% decline in generation YoY coupled with flat realisations
	EBITDA	14,776	18,211	(18.9)	15,603	(5.3)	
	Core PAT	(4,927)	(1,134)	(334.5)	(4,539)	(8.6)	
Adani Ports & SEZ	Revenues	22,681	21,831	3.9	27,451	(17.4)	Our channel checks suggest that the cargo volumes were weak due to GST lead disruptions in Q2FY18. We expect 2% cargo volume growth riding 15% growth in container volumes on increased market share. Overall, we expect 4% growth in revenues. While we do expect some tax write back on account of tug business, nevertheless, due to higher blended tax rate of 15%, we expect PAT to decline by 20% Yoy.
	EBITDA	14,359	14,515	(1.1)	15,983	(10.2)	
	Core PAT	8,877	10,908	(18.6)	7,034	26.2	
CESC	Revenues	20,128	20,160	(0.2)	21,840	(7.8)	We expect generation volumes to see ~2% growth while average realisations to largely remain flat. Demerger details and Spencer Q2 performance would be a key monitorable
	EBITDA	5,623	5,910	(4.9)	6,070	(7.4)	
	Core PAT	2,481	2,420	2.5	1,780	39.4	
Gujarat Pipavav Port	Revenues	1,761	1,722	2.3	1,691	4.2	Our channel checks suggest that the cargo volumes were weak due to GST lead disruptions in Q2FY18.We expect flat volume growth and flat volume growth for GPPVL.
	EBITDA	1,014	986	2.9	1,037	(2.2)	
	Core PAT	571	594	(3.9)	557	2.5	
JSW Energy	Revenues	21,011	20,470	2.6	22,316	(5.8)	We expect 2% growth in generation volumes with realisation flat at ~ INR3.5/unit. Further announcement/divulging details w.r.t to EV is a key monitorbale.
	EBITDA	8,308	9,627	(13.7)	8,688	(4.4)	
	Core PAT	1,685	2,174	(22.5)	2,173	(22.5)	
NTPC	Revenues	204,095	193,979	5.2	198,793	2.7	We expect 5% growth in generation volumes, with average realisations expected to remain flatish at ~INR3.41/unit. Overall, quarter is expected to be good.
	EBITDA	53,453	53,958	(0.9)	50,401	6.1	
	Core PAT	24,012	23,410	2.6	26,182	(8.3)	
Power Grid	Revenues	71,931	62,549	15.0	71,810	0.2	We expect the capitalisation capex ratio to sustain above 1.2x and expect ~15% growth in capitalisation in Q2. Expect transmission revenue growth of ~16% YoY.
	EBITDA	63,327	56,041	13.0	62,000	2.1	
	Core PAT	20,648	18,720	10.3	20,521	0.6	
Tata Power	Revenues	73,451	72,089	1.9	69,686	5.4	We expect generation volumes to remain sluggish while realisations are expected to remain flattish. Renewable performance would be a key monitorable.
	EBITDA	14,829	14,616	1.5	18,311	(19.0)	
	Core PAT	3,462	3,362	3.0	1,638	111.4	

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
Adani Power	Hold	1,806	30	40.1	21.1	3.6		9.3	15.6	0.0	0.0
Adani Ports and Special Economic	Buy	12,289	386	20.6	17.7	3.8	3.2	19.7	19.3	0.4	0.5
CESC	Buy	2,046	1,004	19.5	17.0	1.6	1.5	5.0	5.5	1.0	1.2
Gujarat Pipavav Port	Buy	1,052	142	21.5	17.8	3.3	3.2	15.6	18.3	0.0	0.0
JSW Energy	Hold	1,933	77	19.5	14.1	1.2	1.1	6.1	8.0	1.0	1.4
NTPC	Buy	21,656	171	12.3	10.8	1.4	1.3	11.6	12.6	4.0	4.6
Power Grid Corp of India	Buy	16,487	205	11.7	10.0	1.9	1.7	17.4	18.1	2.6	3.0
Tata Power Co	Buy	3,284	79	26.1	19.0	1.6	1.5	7.0	9.3	1.8	2.5

Credit Rating

Stock		Q2FY18E (INR mn)	Q2FY17 (INR mn)	Y-o-Y (%)	Q1FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
CARE	Revenues	883	810	9.0	614	43.8	Due to the slow but improving credit outlook, we expect revenue growth of 9% YoY, slight improvement over 7% growth in Q1FY18. On account of slight dip in margins YoY, we expect EBITDA growth of 3%.
	EBITDA	618	598	3.3	392	57.6	
	Core PAT	448	432	3.6	355	26.2	
Crisil	Revenues	4,258	3,887	9.5	4,073	4.5	Despite subdued ratings segment outlook (6% growth forecast) we forcast sales growth of 10% led by continued growth in research (15% revenue growth). We forecast marginal margin expansion leading to EBITDA growth of 12% YoY.
	EBITDA	1,215	1,080	12.5	1,034	17.6	
	Core PAT	849	798	6.3	673	26.2	
ICRA	Revenues	798	921	(13.4)	697	14.4	With the slow credit environment, we estimate 10% growth in ratings revenue. Due to the sale of low margin IT business we expect strong EBITDA margin expansion of ~450bps YoY.
	EBITDA	287	290	(1.0)	247	16.5	
	Core PAT	223	217	2.8	225	(0.7)	

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	627	1,385	27.2	23.8	7.6	7.0	29.1	30.5	2.3	2.6
Crisil	Hold	1,955	1,775	35.4	29.6	11.9	10.5	35.7	37.8	1.6	2.0
ICRA	Buy	600	3,940	45.0	36.3	7.1	6.4	16.6	18.6	0.8	1.0

Leisure and Travel

Stock		Q2FY18E (INR mn)	Q2FY17 (INR mn)	Y-o-Y (%)	Q1FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Interglobe Aviation (Indigo)	Revenues	52,322	41,669	25.6	57,529	(9.1)	We expect slower passenger growth at 14% (vs. 27% last quarter, 37% in Q2FY17) as Indigo faced issues due to grounding of NEOs which resulted in loss of market share, primarily to SpiceJet. We therefore estimate lower PLF at 83% (vs. 88% last quarter, 82% in Q2FY17) and expect yield to improve 8% YoY. We estimate overall "RASK - CASK" at INR0.33/km (vs. INR0.61/km in Q1FY18, INR0.01/km in Q2FY17).
	EBITDAR	15,697	9,677	62.2	19,507	(19.5)	
	Core PAT	4,809	1,398	243.8	8,111	(40.7)	
Jet Airways	Revenues	58,655	54,204	8.2	56,489	3.8	We expect JAL's passenger growth (ex Jet Lite) at 8% YoY (vs. 10% last quarter, 6% in Q2FY17) due to continued subdued Gulf business. We estimate PLF and yield, to remain flat. We estimate net loss at "RASK - CASK" of INR0.07/km (vs. net loss or INR0.15/km in Q1FY18, loss of INR0.13/km in Q2FY17).
	EBITDAR	8,853	8,680	2.0	7,155	23.7	
	Core PAT	1,834	1,626	12.8	1,101	66.7	
Mahindra Holidays	Revenues	2,884	2,581	11.7	2,702	6.7	We expect net member addition to grow at a stable 10% YoY (Q1FY18: 10%, FY18E: 12%). With GST rates very much similar to the earlier service tax regime, we don't expect any major impact due to the transition. AUR's are expected to remain similar YoY.
	EBITDA	669	611	9.4	573	16.6	
	Core PAT	389	329	18.5	323	20.4	
Spice Jet	Revenues	18,916	14,004	35.1	18,695	1.2	We expect robust passenger growth at 29% (vs. 18% last quarter, 27% in Q2FY17) as SpiceJet gained market share from Indigo. We therefore estimate continued industry-leading PLFs at 93% and expect yields to improve 7% YoY. We estimate overall "RASK - CASK" at INR0.21/km (vs. INR0.34/km in Q1FY18, INR0.11/km in Q2FY17).
	EBITDAR	4,559	3,180	43.4	4,593	(0.7)	
	Core PAT	1,388	589	135.5	1,752	(20.8)	

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
Jet Airways	Hold	854	489	8.0	7.0	(1.3)	(1.6)	(15.2)	(20.5)	0.0	0.0
Mahindra Holidays & Resorts	Buy	698	341	24.0	20.6	6.4	5.3	27.7	27.2	1.5	1.5
Interglobe Aviation (Indigo)	Hold	6,118	1,100	15.6	14.2	8.2	8.0	59.1	56.9	3.1	4.9
SpiceJet	Buy	1,302	141	19.2	10.2	(55.6)	12.5	(129.7)	315.6	0.0	0.0

Miscellaneous

Stock		Q2FY18E (INR mn)	Q2FY17 (INR mn)	Y-o-Y (%)	Q1FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
AIA Engineering	Revenues	6,260	5,295	18.2	5,700	9.8	We expect 18% growth in revenues led by 15% growth in volumes as strong growth in mining volumes is expected to continue. EBITDA/MT will dip YoY do to strategy to increase penetration and strenghtening INR.
	EBITDA	1,399	1,594	(12.3)	1,299	7.7	
	Core PAT	977	1,124	(13.1)	885	10.4	
Aarti Industries	Revenues	8,263	7,103	16.3	7,918	4.4	We expect the revenues to increase by 16% YoY led by healthy growth in specialty and pharma segment. However, margins are expected to fall by ~200 bps YoY mainly on account of rupee appreciation. Resulting, EBITDA and PAT are expected to increase by 6% and 5% respectively
	EBITDA	1,594	1,509	5.6	1,384	15.2	
	Core PAT	797	760	4.8	631	26.3	
Amara Raja	Revenues	15,070	13,455	12.0	14,975	0.6	Led by improving auto OEM production volumes, we expect a 12% YoY growth in revenue. However due to continuing increasese in lead prices, we expect a dip in EBITDA margin YoY, leading to EBITDA decline of 11% YoY.
	EBITDA	2,034	2,297	(11.4)	1,928	5.5	
	Core PAT	1,101	1,363	(19.2)	999	10.3	
Apar Industries	Revenues	13,510	12,643	6.9	12,364	9.3	We expect volume growth of 6%/10% for conductors/Transformer oils and 30% growth in cables leading to blended revenue growth of 7% due to lower realisations. We expect EBITDA growth of 17% as margins recover from Q1FY18.
	EBITDA	1,170	1,003	16.7	936	25.1	
	Core PAT	516	457	13.0	399	29.2	
Balkrishna Industries	Revenues	10,848	9,515	14.0	10,758	0.8	Given the strong growth guidance given for FY18, we expect volumes to grow by 11% in Q2FY18, higher than the 7% growth seen in Q1FY17. We expect revenue growth to be 14%. Given the correction in rubber prices we expect margins to recover over Q1FY18.
	EBITDA	3,146	3,265	(3.6)	2,749	14.4	
	Core PAT	1,851	2,429	(23.8)	1,535	20.5	
Carborundum Universal	Revenues	5,728	5,198	10.2	5,195	10.3	We expect revenues to grow 10% led by steady continued growth in Abrasives (7%) and Ceramics (8%) as well as continued recovery in Electrominerals division (12%). We expect EBITDA margin improvement led by recovery in Electrominerals.
	EBITDA	935	803	16.5	724	29.3	
	Core PAT	509	467	9.0	402	26.7	
CCL Products India	Revenues	2,490	1,423	75.0	2,454	1.5	We expect Revenue/EBITDA/PAT to jump by 75%/73%/119% YoY mainly led by low base of last year. Despite low base of last year, margins are likely to remain largely stable YoY at ~20% mainly as company continues to supply agglomerated coffee from India to Vietnam as seen in Q4FY17 and Q1FY18.
	EBITDA	495	286	73.2	457	8.3	
	Core PAT	284	130	119.2	270	5.0	
Castrol India	Revenues	8,352	7,617	9.6	8,704	(4.0)	We expect volume growth to recover to 8% following recovery from GST related destocking, with realisations to rise 2% YoY, leading to revenue growth of 10%. Due to strong margin expansion, we forecast EBITDA growth of 18%.
	EBITDA	2,506	2,129	17.7	2,095	19.6	
	Core PAT	1,710	1,398	22.3	1,379	24.0	
Essel Propack	Revenues	6,037	5,736	5.2	5,607	7.7	While growth in India was impacted last quarter due to GST, we expect a marginal pick-up this quarter. Given the pick-up in EAP in Q1FY18, we expect the momentum to sustain and expect a 8% constant currency growth in that region (Q1FY18: 13% YoY). Off take issues in Americas is expected to sustain and we expect constant currency revenue growth to be flat this quarter. Expect margins to remain stable QoQ.
	EBITDA	1,063	1,114	(4.6)	1,019	4.3	
	Core PAT	403	524	(23.1)	343	17.5	

Stock		Q2FY18E (INR mn)	Q2FY17 (INR mn)	Y-o-Y (%)	Q1FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Exide	Revenues	21,604	19,289	12.0	21,029	2.7	Led by pick up in auto OEM production, we expect a 12% growth in revenue. However due to jump in YoY lead prices we expect a EBITDA margin to decline leading to EBITDA growth of 7%.
	EBITDA	3,133	2,927	7.0	3,243	(3.4)	
	Core PAT	1,954	1,813	7.8	1,890	3.4	
Schaeffler India Limited	Revenues	5,246	4,769	10.0	4,592	14.2	We expect revenue growth of 10% as per recent trajectory. However we forecast EBITDA growth of 23% on account of continued margin expansion YoY, led by a stronger INR.
	EBITDA	944	770	22.7	861	9.6	
	Core PAT	653	504	29.4	540	20.9	
Gulf Oil	Revenues	3,104	2,742	13.2	2,800	10.8	We expect GOLI to continue its volume outperformance to the industry.We expect revenues to rise by 13% led by strong volume growth of 12% and EBITDA to grow by 26% YoY led by strong margin expansion.
	EBITDA	552	439	25.9	493	12.0	
	Core PAT	379	302	25.3	343	10.5	
Grindwell Norton	Revenues	3,369	3,113	8.2	3,377	(0.2)	We forecast revenue growth of 8% YoY driven by steady 6% growth in abrasives and 13% in ceramics. We expect an EBITDA margin to expand to 15.3% leading to EBITDA growth of 13%.
	EBITDA	517	459	12.6	519	(0.4)	
	Core PAT	314	292	7.4	300	4.4	
Kajaria ceramics	Revenues	6,749	6,301	7.1	6,282	7.4	We estimate revenue to increase by 7% YoY led by increase in volumes, while realisations are expected to remain muted. Further, margin are expected to plummet ~170bps YoY primarily due to increase in fuel cost, resulting in EBITDA decline by 2% YoY, while lower tax rate compared to last year is likely to result in PAT growth of 2% YoY
	EBITDA	1,240	1,267	(2.2)	1,043	18.9	
	Core PAT	634	636	(0.4)	498	27.3	
Orient refractories	Revenues	1,468	1,322	11.0	1,417	3.6	Despite the continued slowdown in steel production among the smaller mills, growth trajectory is expected to remain strong. We expect the revenues to grow 11% YoY. We forecast margin to recover from one offs in Q1FY18.
	EBITDA	279	251	11.1	238	17.0	
	Core PAT	192	168	14.1	163	17.6	
SKF India	Revenues	7,051	6,621	6.5	6,665	5.8	We expect 7% YoY revenue growth owing to decent growth in PVs and 2W, as well as recovery in CVs. We expect EBITDA to grow by 16% YoY led on account continued margin expansion.
	EBITDA	973	840	15.8	936	4.0	
	Core PAT	700	603	16.2	643	8.9	
Solar Industries	Revenues	3,897	3,283	18.7	4,667	(16.5)	We expect sales growth of 19% YoY on account of low base and improved performance from export & overseas revenue. Margin are likey to increase by around 80 bps YoY resulting in EBITDA and PAT jumping 24% and 25% YoY respectively.
	EBITDA	812	656	23.9	1,010	(19.6)	
	Core PAT	491	369	33.0	548	(10.4)	
Somany tiles	Revenues	4,894	4,474	9.4	3,334	46.8	We expect revenue to increase by around 9% YoY as 13% increase in volumes will be marginally offest by decline in realisations. Volume growth is likely to be healthy led by restocking at dealers' level post GST and SAP implementation. Further, riding 20bps YoY improvement in EBITDA margin, EBITDA and PAT are likely to jump 12% and 8% YoY, respectively.
	EBITDA	460	409	12.5	162	184.0	
	Core PAT	249	230	8.3	61	308.2	

Stock		Q2FY18E (INR mn)	Q2FY17 (INR mn)	Y-o-Y (%)	Q1FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
SRF	Revenues	13,401	11,438	17.2	12,926	3.7	Revenue is expected to grow at a healthy 17% 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 2% and 4% fall in EBITDA and PAT, respectively.
	EBITDA	2,283	2,326	(1.9)	1,977	15.5	
	Core PAT	1,091	1,135	(3.9)	945	15.4	
Supreme Industries	Revenues	9,323	8,829	5.6	11,617	(19.7)	We estimate revenue to rise by 6% YoY largely led by increase in volumes. We expect EBITDA margin at 15.5% (Similar to Q2 FY17) resulting in EBITDA and PAT growth of 8% and 13% YoY, respectively.
	EBITDA	1,441	1,333	8.1	1,587	(9.2)	
	Core PAT	746	662	12.7	784	(4.8)	
Vesuvius	Revenues	2,529	2,230	13.4	2,400	5.4	With continuing volume growth amongst the large steel mills and strong export growth, we forecast Vesuvius to register revenue growth of 13%. Further we expect slight dip in margins YoY and QoQ do to rise in input prices, leading to EBITDA growth of 12% YoY.
	EBITDA	481	429	12.1	461	4.2	
	Core PAT	290	255	14.1	272	6.8	
Prabhat Dairy	Revenues	3,829	3,245	18.0	3,596	6.5	In line with the continuing strong growth trajectory, we forecast 18% revenue growth. We forecast a dip in margins YoY due to falling SMP prices, leading to EBITDA growth of 11%.
	EBITDA	306	276	11.1	283	8.3	
	Core PAT	73	89	(18.1)	58	25.5	
VIP	Revenues	3,226	2,855	13.0	3,998	(19.3)	We expect strong sales growth to continue this quarter with growth of 13%. Margins are expected to expand strongly YoY due to a stronger INR this quarter, leading to EBITDA growth of 35%.
	EBITDA	355	263	35.1	613	(42.1)	
	Core PAT	229	183	25.1	410	(44.1)	

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
Aarti Industries	Buy	1,095	868	19.9	15.6	4.3	3.5	23.7	24.6	0.9	0.9
Amara Raja Batteries	Buy	1,852	705	24.1	19.1	4.0	3.4	17.9	19.3	0.6	0.8
Apar Industries	Buy	450	765	14.9	11.6	2.5	2.1	17.6	19.7	1.4	1.6
Balkrishna Industries	Buy	2,479	1,668	21.5	16.8	3.9	3.3	19.4	21.0	0.6	1.0
Bharat Forge	Buy	4,528	632	15.9	13.2	3.1	2.6	21.0	21.9	1.9	1.6
Carborundum Universal	Hold	917	316	26.9	20.4	3.8	3.3	13.7	16.2	0.7	0.9
Castrol India	Buy	2,699	355	25.7	23.3	25.8	22.8	107.1	103.8	2.9	3.2
CCL Products India	Buy	629	308	26.8	21.1	5.5	4.7	22.1	24.0	1.0	1.3
Essel Propack	Buy	648	268	19.8	15.5	3.5	3.0	20.5	22.1	1.2	1.5
Exide Industries	Buy	2,668	204	22.5	18.9	3.2	2.7	14.8	15.4	1.3	1.5
Schaeffler India Limited	Buy	1,255	4,912	32.7	27.0	4.9	4.2	16.0	16.7	0.3	0.3
Grindwell Norton	Buy	715	420	32.6	25.9	4.8	4.4	15.3	17.7	1.3	1.5
Gulf oil	Buy	592	774	25.0	21.3	8.6	6.9	38.3	35.9	1.3	1.6
Kajaria ceramics	Buy	1,781	729	35.8	28.8	8.1	6.6	23.5	24.1	0.5	0.5
Orient Refractories	Buy	275	149	23.7	19.4	5.8	5.0	25.9	27.7	1.8	2.1
Prabhat dairy Ltd	Buy	204	136	27.9	16.3	1.8	1.7	7.4	11.7	0.5	0.8
Solar Industries	Hold	1,282	921	34.2	27.4	7.5	6.2	23.9	24.7	0.7	0.8
Somany tiles	Buy	552	847	33.2	23.6	5.8	4.8	19.0	22.3	0.4	0.4
SRF	Hold	1,374	1,557	19.8	14.5	2.5	2.2	13.5	16.4	1.0	1.3
Supreme Industries	Buy	2,088	1,069	26.3	23.0	6.7	5.6	27.7	26.3	0.8	0.8
Vesuvius India	Buy	412	1,320	25.1	20.7	4.1	3.5	17.4	18.3	0.6	0.7
VIP Industries	Buy	557	256	34.1	26.0	7.8	6.8	24.3	27.9	1.2	1.6

Textiles

Stock		Q2FY18E (INR mn)	Q2FY17 (INR mn)	Y-o-Y (%)	Q1FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Arvind	Revenues	25,024	23,311	7.3	24,750	1.1	We expect growth in the textile segment to be come down QoQ as last quarter had seen a sharp surge in the denim segment. Expect textile segment margins to be similar to Q1FY18. In the Brand & Retail segment, growth is expected to moderate this quarter after due to the EOSS sales in Q1FY18.
	EBITDA	2,540	2,266	12.1	2,070	22.7	
	Core PAT	871	721	20.8	623	39.9	
Himatsingka Seide	Revenues	5,735	5,260	9.0	5,351	7.2	We expect the strong trend seen in the standalone revenue growth, seen since the commissioning of the new bed sheet unit in Q3FY17, to continue in this quarter also, Growth in the Retail & Distribution segment is expected to be stable at 3.5%. Margins are expected to remain stable QoQ.
	EBITDA	1,158	905	27.9	1,085	6.7	
	Core PAT	576	461	25.0	506	13.8	
Welspun India	Revenues	17,613	17,899	(1.6)	15,394	14.4	Similar to the previous quarters, Q2FY18 will also see the impact of withdrawal of orders by Target (impact will be in the base starting Q3FY18). As a result, growth in revenues is expected to be similar to Q1FY18. While high cost cotton inventory will impact margins, benefits from recently launched ROSL scheme will see margins being stable QoQ.
	EBITDA	3,641	4,318	(15.7)	3,242	12.3	
	Core PAT	1,459	3,420	(57.3)	1,243	17.4	

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
Arvind	Buy	1,519	382	22.0	14.7	2.5	2.2	11.8	15.5	0.6	0.6
Himatsingka Seide	Buy	503	332	17.1	11.9	2.7	2.2	16.6	20.3	0.8	0.8
Welspun India	Buy	1,016	66	9.8	8.4	2.3	1.9	25.2	24.4	1.9	2.5

Edelweiss Securities Limited, Edelweiss House, off C.S.T. Road, Kalina, Mumbai – 400 098.
Board: (91-22) 4009 4400**,** Email*: research@edelweissfin.com*

Aditya Narain

Head of Research

aditya.narain@edelweissfin.com

ADITYA NARAIN

Digitally signed by ADITYA NARAIN
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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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