RESULT PREVIEW Q4FY18

Looking up, but not enough

India Equity Research | Strategy

We expect Q4FY18 earnings to broadly mirror Q3FY18 trend of earnings improvement. We estimate our universe (235 companies) to post 12% earnings growth (9% in Q3FY18) during the quarter. While overall earnings are improving, the quality leaves much to be desired as commodities account for >80% of the profit growth. Core earnings (universe, ex-banks, commodities and telecom) are expected to inch up mere 6% on a low base (Q4FY17 profit had contracted 5%). We expect: a) The Good-commodities, consumer discretionary, retail lending banks & NBFCs to post >20% earnings growth; b) Bad-domestic investment and export-oriented companies (IT, pharma, Tata Motors) to post flat growth; and c) Ugly-corporate lending banks & telecom to report losses.

With this, FY18E earnings of our universe/Nifty will be 4%/7% respectively, implying 3% downgrade of FY18E earnings itself. This is the seventh consecutive year of EPS downgrade and sub-10% growth. Our FY18/19/20E Nifty EPS stand at INR475/600/705. Key monitorables are: a) banks' asset quality; b) impact of commodity prices on gross margins; c) commentary on E-way bill implementation; and d) capex outlook.

Coverage universe's profit to be in teens led by commodities

Q4FY18 is likely to post profit growth of 12% (9% in Q3FY18). Thus, we expect PAT growth of 4% for our universe in FY18. However, earnings quality is likely to still be sub-par with commodities accounting for >80% of incremental profit. Core profit growth (universe, ex-banks, commodities and telecom) is likely to be mere 6% on base of 5% contraction. Sector-wise, the story remains the same with commodities, retail banks and domestic consumption companies likely to post good profit growth, while domestic investment companies (cement, industrials, construction, etc), corporate lenders, telecom and export companies (IT, pharma, Tata Motors) likely to post subdued profits.

Top-line growth to remain steady

Our universe's top line is estimated to grow 15% YoY (12% in Q3FY18), primarily on low base and high commodity prices. Commodity companies are expected to post 20% top-line spurt led by rising commodity prices. Domestic consumption-oriented sectors (ex-telecom), such as auto and consumers, are likely to extend double digit top-line growth, while export-oriented sectors like IT and pharma are expected to remain soft. In banking, while credit growth is higher, it will be offset by lower investment gains. Further, higher cost of funds are likely to weigh on NIMs of NBFCs.

Nifty: Q4FY18 healthy; FY18E EPS growth pegged at 7%

Nifty companies are estimated to post top line, EBITDA and PAT growth of 14%, 23% and 15% YoY, respectively, implying 7% FY18 EPS growth. While earnings growth is improving, downgrades are likely for FY18 itself even if our numbers are met. Current estimates imply an asking rate of 25% plus for FY19, making earnings prone to downgrades.

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: Q4FY18—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	**40**	**31**	**20**	**21**	**13**	**254**	**(21)**
OMCs	12	68	10	25	14	374	0
Energy (ex OMC)	21	21	22	18	10	364	(94)
Metals & Mining	11	22	32	18	12	(10)	70
Exports/High global exposure	**22**	**1**	**16**	**12**	**9**	**(52)**	**26**
Auto (Export)	4	(10)	173	20	20	(115)	130
IT	16	5	5	6	2	10	59
Pharmaceuticals	4	(4)	(4)	4	(1)	121	(89)
Manufactured exports	1	11	12	9	6	76	109
Domestic Investment	**13**	**3**	**(1)**	**11**	**21**	**65**	**(22)**
Utilities	6	7	16	5	4	316	124
Engg & Cap Goods	6	6	68	14	38	42	93
Cement	1	(13)	(2)	19	11	(139)	(90)
Agro, fertiliser & Chemicals related	1	7	28	14	15	7	280
Construction	0	(27)	19	1	25	(116)	(111)
Real estate	0	(3)	(90)	7	13	680	480
Domestic consumption	**14**	**9**	**1**	**11**	**6**	**(7)**	**(115)**
Auto (Domestic)	7	21	18	23	13	189	4
Telecom	(1)	(175)	(113)	(11)	(2)	(313)	(247)
FMCG	6	12	2	7	5	138	45
Consumer Discretionary	3	27	(3)	14	5	65	(133)
Airlines	0	3	(54)	21	1	245	(400)
BFSI	**11**	**(1)**	**(26)**	**4**	**7**	**NA**	**NA**
PSU Banks	(4)	(35)	(97)	(10)	3	NA	NA
Private Banks	10	(3)	7	17	12	NA	NA
NBFC/Insurance	7	21	(32)	6	3	NA	NA
Coverage	**100**	**12**	**6**	**15**	**12**	**105**	**(27)**
ex OMCs	**89**	**8**	**6**	**12**	**11**	61	(28)
ex commodities	**60**	**3**	**(1)**	**10**	**11**	33	(9)
ex commodities, banks and telecom	**50**	**6**	**7**	**13**	**12**	33	(9)
Nifty		**15**	**12**	**14**	**12**	**110**	**(43)**

Source: Edelweiss research

Note: OMCs include BPCL, HPCL and IOCL

Contents

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

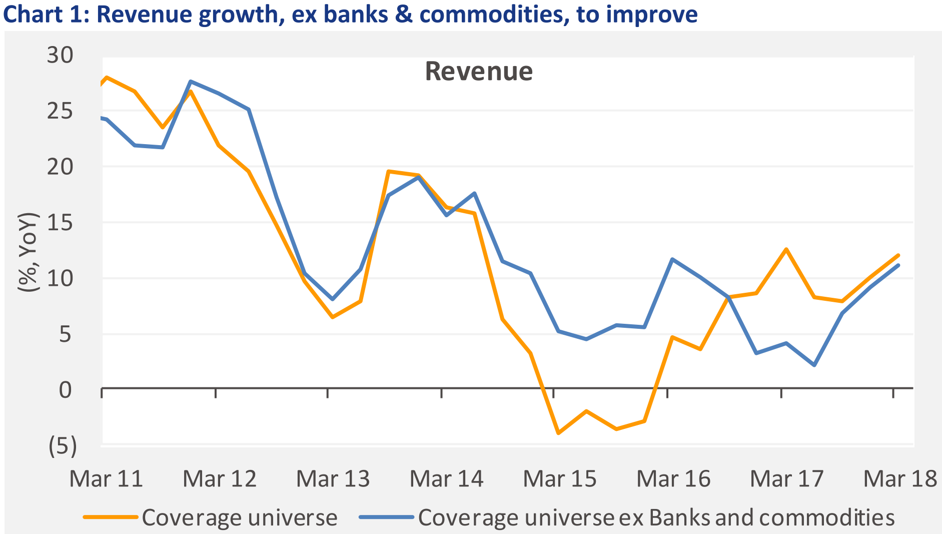
Top-line growth led by commodities, low base

Top line of coverage universe is likely to grow 15% YoY, higher than 12% in Q3FY18. Similar to Q3FY18, revenue growth is likely to be more broad-based for Q4FY18 and not limited to commodities and banks; revenue of our coverage universe, ex-commodities, banks and telecom, is likely to grow 13% YoY (14% in Q3FY18). Fading impact of GST is resulting in better top-line growth.

OMCs and autos (domestic and exports) are some of the sectors where top line is expected to jump 20% plus. On the other hand, top line of telecom sector and PSU banks are expected to contract 10% plus. IT/pharma, with sustenance of structural issues, are likely to post another disappointing quarter with low single digit growth of 6%/4%. Another disappointment will be from construction where top-line growth is expected to remain flat.

Top line of Nifty companies is estimated to grow ~14% YoY. However, revenue is likely to grow 11% YoY (ex OMCs). Eicher Motors, Bajaj Auto and Indiabulls Housing are expected to clock 30% plus top-line growth. However, SBI, Bharti Airtel, Sun Pharma and Lupin are likely to post most contraction in top line.

Chart 1: Revenue growth, ex banks & commodities, to improve



Source: Edelweiss research

Table 2: Revenue growth, ex-commodities, banks & telecom, likely to improve

Sector	# of companies	Q4FY18E INR bn	Q4FY17 INR bn	Y-o-Y (%)	Q3FY18 INR bn	Q-o-Q (%)
Commodity sectors	**20**	**5,519**	**4,557**	**21**	**4,899**	**13**
OMCs	3	2,616	2,089	25	2,288	14
Energy (ex OMC)	9	1,584	1,347	18	1,438	10
Metals & Mining	8	1,318	1,121	18	1,174	12
Exports/High global exposure	**40**	**2,444**	**2,188**	**12**	**2,241**	**9**
Auto (Export)	3	1,080	896	20	899	20
IT	13	914	861	6	893	2
Pharmaceuticals	17	360	347	4	363	(1)
Manufactured exports	7	90	83	9	85	6
Domestic Investment	**72**	**1,842**	**1,660**	**11**	**1,521**	**21**
Utilities	8	486	465	5	466	4
Engg & Cap Goods	30	849	744	14	614	38
Cement	6	204	171	19	184	11
Agro, fertiliser & Chemicals related	10	159	139	14	138	15
Domestic consumption	**71**	**1,962**	**1,769**	**11**	**1,851**	**6**
Auto (Domestic)	12	682	556	23	606	13
Telecom	5	308	345	(11)	315	(2)
FMCG	15	382	358	7	365	5
Consumer Discretionary	36	445	391	14	422	5
Airlines	3	145	119	21	143	1
BFSI	**30**	**1,119**	**1,075**	**4**	**1,041**	**7**
PSU Banks	3	411	456	(10)	399	3
Private Banks	12	556	476	17	495	12
NBFC/Insurance	15	152	143	6	147	3
Coverage	**233**	**12,886**	**11,249**	**15**	**11,555**	**12**
ex OMCs	**230**	**10,270**	**9,160**	**12**	**9,267**	**11**
ex commodities	**213**	**7,367**	**6,692**	**10**	**6,655**	**11**
ex commodities, banks & telecom	**183**	**5,940**	**5,272**	**13**	**5,299**	**12**
Nifty	**48**	**9,533**	**8,332**	**14**	**8,531**	**12**

Source: Edelweiss research

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

(2) OMCs includes BPCL, HPCL and IOCL

EBITDA margin, ex-commodities, to remain flat

EBITDA margin of our coverage universe is likely to expand by 100bps YoY (sequentially to contract 30bps). Margins of OMCs are likely to expand by ~400bps; excluding OMCs, margins of our universe are likely to expand by 60bps. Sectorally, telecom is likely to witness maximum margin contraction of 300bps followed by cement, auto (exports) and construction where margins are expected to dip by ~100-150bps. Commodities, utilities, airlines and auto (domestic) are likely to witness maximum margin expansion.

Margins of Nifty companies are estimated to expand by 110bps YoY, whereas ex OMCs margins are likely to expand by 50bps. While margins of ONGC, IOCL, Coal India and TechM are estimated to expand between 500-1,500bps, those of Tata Steel, Vedanta and Zee Entertainment are expected to contract the maximum in the region of 300-400bps YoY.

Table 3: EBITDA margins (ex OMCs) to expand marginally

Sector	# of companies	Q4FY18E (%)	Q4FY17 (%)	Y-o-Y (bps)	3FY18 (%)	Q-o-Q (bps)
Commodity sectors	**20**	**16**	**13**	**254**	**16**	**(21)**
OMCs	3	9	5	374	9	0
Energy (ex OMC)	9	23	20	364	24	(94)
Metals & Mining	8	22	22	(10)	21	70
Exports/High global exposure	**40**	**18**	**19**	**(52)**	**18**	**26**
Auto (Export)	3	13	14	(115)	11	130
IT	13	24	24	10	23	59
Pharmaceuticals	17	20	19	121	21	(89)
Manufactured exports	7	18	17	76	17	109
Domestic investment	**72**	**20**	**20**	**65**	**21**	**(22)**
Utilities	8	38	34	316	36	124
Engg & Cap Goods	30	12	12	42	11	93
Cement	6	16	18	(139)	17	(90)
Agro, fertiliser & Chemicals related	10	16	16	7	14	280
Construction	12	10	11	(116)	11	(111)
Real estate	6	38	31	680	33	480
Domestic Consumption	**71**	**20**	**20**	**(7)**	**21**	**(115)**
Auto (Domestic)	12	16	14	189	16	4
Telecom	5	31	34	(313)	33	(247)
FMCG	15	26	24	138	25	45
Consumer Discretionary	36	13	13	65	15	(133)
Airlines	3	18	16	245	22	(400)
Coverage	**203**	**17.8**	**16.7**	**105**	**18**	**(27)**
ex OMCs	**200**	**20.4**	**19.8**	**61**	**21**	**(28)**
ex commodities and telecom	**183**	**18.7**	**18.4**	**33**	**19**	**(9)**
Nifty	**39**	**17.9**	**16.8**	**110**	**18**	**(43)**

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

PAT growth likely to further accelerate

PAT of our coverage universe is likely to grow by 12%, an improvement over subdued 4% growth seen in 9mFY18. However, quality of earnings growth would be a little dissapointing with commodities accounting for >80% of incremental profit and coverage universe, ex banks, commodities and telecom (core earnings) likely to post only 6% profit growth (on a contraction base of 5%).

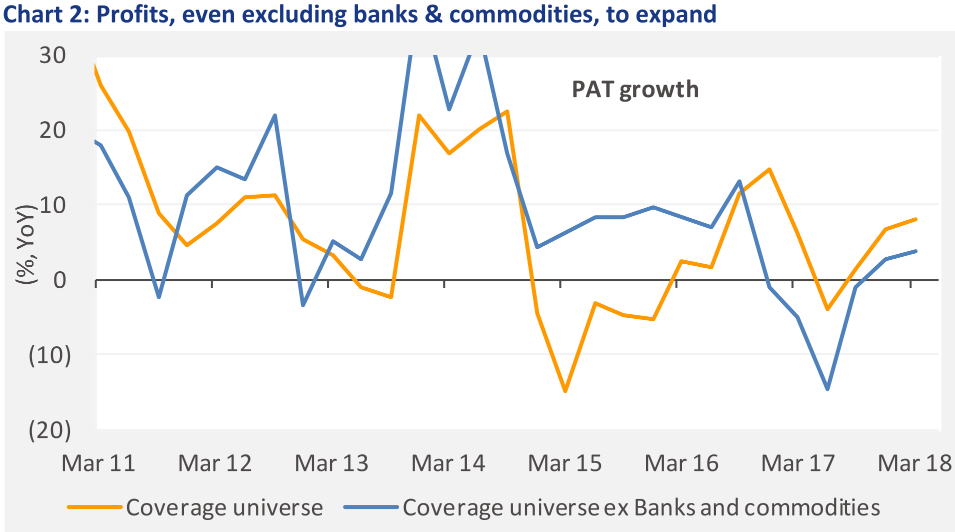
On domestic consumption side (ex telecom), earnings are likely to post another strong quarter of 18% profit growth similar to last quarter average, owing to low base of DeMon. This double digit profit growth is likely to occur after a long time. Apart from domestic consumption, retail lending private banks, NBFCs and commodities would be the only areas of reasonable profit growth. Domestic investment companies' profit is likely to remain subdued.

Earnings growth of export sectors still seems to be soft at 1% growth. Competitive pressure in pharma is likely to keep earnings subdued with 4% contraction, whereas structural issues in IT still persist owing to which earnigns are likely to grow by just 5%. Apart from this, PSU banks and corporate lenders are likely to see a big drop in profits.

Nifty companies are likely to post profit growth of 15% with IOCL, GAIL and TechM being the front-runners. The decline is likely to be maximum in Bharti Airtel, Sun Pharma and Axis Bank which are estimated to post 30% plus contraction.

While Q4FY18 would see an improvement, current numbers, if met, imply 2-3% downgrade in FY18E Nifty earnings itself. Further, current FY19E Nifty EPS growth forecast is above 25%, implying high risk of earnings downgrades given that FY18E EPS growth is likely to be 7% - the seventh straight year of earnings downgrade.

Chart 2: Profits, even excluding banks & commodities, to expand



Source: Edelweiss research

Table 4: Earnings growth to improve

Sector	# of companies	Q4FY18E INR bn	Q4FY17 INR bn	Y-o-Y (%)	Q3FY18 INR bn	Q-o-Q (%)
Commodity sectors	**20**	**481**	**366**	**31**	**400**	**20**
OMCs	3	132	79	68	120	10
Energy (ex OMC)	9	228	188	21	188	22
Metals & Mining	8	121	99	22	92	32
Exports/High global exposure	**40**	**261**	**259**	**1**	**225**	**16**
Auto (Export)	3	46	51	(10)	17	173
IT	13	169	161	5	161	5
Pharmaceuticals	17	39	40	(4)	40	(4)
Manufactured exports	7	7	7	11	7	12
Domestic investment	**72**	**160**	**155**	**3**	**162**	**(1)**
Utilities	8	59	55	7	51	16
Engg & Cap Goods	30	65	61	6	39	68
Cement	6	14	16	(13)	14	(2)
Agro, fertiliser & Chemicals related	10	14	13	7	11	28
Construction	12	4	5	(27)	3	19
Real estate	6	4	5	(3)	44	(90)
Domestic consumption	**71**	**173**	**159**	**9**	**171**	**1**
Auto (Domestic)	12	72	60	21	61	18
Telecom	5	(6)	7	(175)	(3)	(113)
FMCG	15	66	59	12	65	2
Consumer Discretionary	36	35	28	27	37	(3)
Airlines	3	5	5	3	12	(54)
BFSI	**30**	**136**	**138**	**(1)**	**183**	**(26)**
PSU Banks	3	(41)	(30)	(35)	(21)	(97)
Private Banks	12	106	110	(3)	100	7
NBFC/Insurance	15	71	59	21	104	(32)
Coverage	**233**	**1,213**	**1,078**	**12**	**1,141**	**6**
ex OMCs	**230**	**1,080**	**999**	**8**	**1,022**	**6**
ex commodities	**213**	**731**	**712**	**3**	**742**	**(1)**
ex commodities, banks & telecom	**183**	**600**	**566**	**6**	**561**	**7**
Nifty	**48**	**978**	**850**	**15**	**876**	**12**

Source: Edelweiss research

Note: OMCs includes BPCL, HPCL and IOCL

RESULT PREVIEW

AGRI INPUT

Margins to be key monitorable

India Equity Research | Strategy

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Ideas create, values protect

In a seasonally lower contribution quarter for agri input companies, we expect the domestic agrochemical industry to post moderate 6-8% growth. However, we expect our agrochemical universe (ex UPL and Bayer Cropscience) to post 17% YoY growth led by PI Industries (post recovery in CSM) and Sharda Cropchem, while Rallis would gain from low base. Our 11% growth estimate for UPL will be steered by N America. While high RM prices are a concern, we expect our universe, except Sharda Cropchem, to pass on same and post stable margins. Fertiliser players are expected to report stable growth, while margins would falter marred by high RM prices. With the government laying emphasis on doubling farm income, we remain positive on the sector. We like Jain Irrigation - beneficiary of the government's thrust on micro irrigation, Dhanuka Agritech - post the correction, and Deepak Fertilisers - driven by commissioning of new capex.

Agrochemicals: Build in strong quarter with margins to be stable

While in the previous quarter we had built in 13% YoY growth in agrochem revenues (ex UPL and Bayer Cropscience), this quarter our expectations are higher at 17% with PI Industries (high CSM growth of 27%) and Sharda Cropchem (estimate 18% YoY growth on expectations of the company achieving its 15-17% FY18 revenue guidance) at the forefront. We expect Rallis to extend its growth trend of Q3FY18 as we expect the sales push to continue, along with a lower base, and hence factor in 16% YoY growth. Dhanuka Agritech is expected to report a stable quarter. For Bayer, we estimate revenue to normalise (up 80% YoY) on an exceptionally bad Q4FY17. We estimate UPL to post strong growth in N America (11% YoY growth in revenues) in-line with the company's guidance. Except for Sharda Cropchem and Bayer Cropscience, we expect margin profile of our universe to remain stable YoY.

Fertilisers: Margins to be under pressure on high RM prices

For Coromandel International and Zuari Agrochemicals we estimate 15%/14% YoY growth in fertilizer revenues, respectively. Deepak Fertiliser is expected to report 31% YoY growth in fertiliser segment driven by higher share of manufactured revenues following the recently commissioned capacity. While Deepak Fertiliser is expected to improve margins on higher share of manufactured revenues, high raw material prices (primarily phos acid) are expected to impact margins of the other two players.

Outlook: Government thrust to drive sector

Given government's intent to double farm incomes, we expect agri input players to report strong growth in FY19, especially after this year's Kharif season hit by GST. In irrigation, higher funds allocation by government will support growth. Falling subsidy and DBT implementation brighten prospects of fertiliser companies.

Top Picks

Deepak Fertiliser, Dhanuka Agritech 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		Q4FY18E (INR mn)	Q4FY17 (INR mn)	Y-o-Y (%)	Q3FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Bayer Crop Science	Revenues	3,875	2,153	80.0	4,797	(19.2)	Q4FY17 was an exceptionally bad quarter for Bayer Cropscience with revenues having fallen ~50% YoY. However, we expect Q4FY18 to be a normal quarter and build in revenues of INR3.9bn (Q4FY16: INR4.5bn), implying a 80% YoY growth over Q4FY17. We also expect Gross margins to be 40%, similar to Q4FY16 (Q4FY17: 39%).
	EBITDA	66	(581)	NM	226	(70.7)	
	Core PAT	90	(361)	NM	107	(15.9)	
Coromandel International	Revenues	25,980	22,591	15.0	26,949	(3.6)	Coming of a strong Q3FY18 where the company reported a 21% YoY growth in revenues, we build in a 15% YoY growth in Q4FY18E with growth expected to be higher in the crop protection segment. However, with phos acid prices up 9% YoY and also increase in technical prices, we expect EBITDA margins to contract by ~70bps YoY.
	EBITDA	2,934	2,724	7.7	3,184	(7.8)	
	Core PAT	1,618	1,443	12.1	1,721	(6.0)	
Dhanuka agritech	Revenues	1,745	1,587	10.0	2,215	(21.2)	While YTD'18, Dhanuka has only delivered a revenue growth of 7%, we build in a 10% YoY growth in revenues driven by the traction of 8 products launched this year and expect margins to be marginally lower due to higher raw material prices.
	EBITDA	401	342	17.2	353	13.5	
	Core PAT	266	242	10.0	286	(6.8)	
Deepak Fertilisers and Petrochemicals	Revenues	14,617	12,154	20.3	16,449	(11.1)	Driven by capacity increase, we expect manufactured fertilizer revenues to come in at INR4.0bn this quarter whereas traded revenues are consequently expected to fall. Overall, we factor in a 31% YoY growth in revenues in this segment. We build in a 11% YoY growth in revenues in the Chemical segment. Margin in fertilizer segment are expected to increase on higher share of manufactured volumes.
	EBITDA	1,570	1,229	27.8	1,490	5.3	
	Core PAT	630	519	21.5	570	10.5	
Jain Irrigation	Revenues	24,766	22,316	11.0	18,896	31.1	We expect revenues to grow by 12% YoY driven by a 14% increase in MIS segment (Including consolidation of US acquisition) with piping and agro processing expected to clock 9%/11% growth respectively. Expect margins to remain stable YoY.
	EBITDA	3,927	3,452	13.7	2,222	76.8	
	Core PAT	1,351	771	75.2	670	101.7	
PI Industries	Revenues	7,246	6,056	19.6	5,377	34.7	In the CSM segment, while management has guided for 10% revenue growth in FY18, we are building in 8% post the Q3FY18 performance, implying 27% YoY growth in Q4FY18. In the domestic agrochemical segment, we expect revenues to increase by 13% YoY in Q4FY18. Expect EBITDA margins to remain stable YoY despite increasing raw material prices driven by higher share of CSM business. However, because of a low tax base, PAT is expected to increase by only 2% YoY.
	EBITDA	1,855	1,537	20.7	1,048	77.0	
	Core PAT	1,383	1,352	2.3	806	71.4	
Rallis Industries	Revenues	4,031	3,481	15.8	3,902	3.3	Contrary to the industry, Rallis India (Rallis) had seen a strong sales growth of 19% in Q3FY18. For Q4FY18E we build in 12% YoY growth in consolidated revenues. We also build in a 60bps YoY (300bps QoQ) improvement in EBITDA margins driven by Rallis' expectations of passing on the hike in raw material prices.
	EBITDA	508	416	21.9	375	35.4	
	Core PAT	345	311	10.9	251	37.6	
Sharda cropchem	Revenues	7,023	5,949	18.1	3,255	115.8	Sharda Cropchem remains confident of clocking a 15-17% revenue growth in FY18E. Considering that we build in a 18% YoY growth in revenues in FY18E.However, given the impact of increasing technical prices and the inability to pass them on, we build in a ~420bps YoY contraction in EBITDA margins. Expect PAT to contract 13% YoY due to higher depreciation.
	EBITDA	1,626	1,626	0.0	381	327.3	
	Core PAT	854	987	(13.5)	99	761.6	

Stock		Q4FY18E (INR mn)	Q4FY17 (INR mn)	Y-o-Y (%)	Q3FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
United Phosphorus	Revenues	59,172	53,414	10.8	41,940	41.1	Driven by higher acreages in North America for Soyabean and trend seen in RoW to continue, we build in a 10% YoY growth in revenues in-line with the guidance given. Also we expect the company to take a pricing increase as it had guided earlier. We expect EBITDA margins to be similar to Q4FY17 at 21%.
	EBITDA	12,426	11,261	10.3	8,290	49.9	
	Core PAT	7,161	7,407	(3.3)	5,810	23.3	
Zuari Agrochemicals	Revenues	10,721	9,443	13.5	14,343	(25.3)	After reporting 15% YoY growth in standalone revenues for 9MFY18, we are building in a 14% YoY growth in revenues for Q4FY18. Margins are expected to remain similar YoY.
	EBITDA	839	754	11.3	1,257	(33.2)	
	Core PAT	75	253	(70.4)	480	(84.4)	

Valuation snapshot

		Mkt Cap	Price	P/E (x)		P/B (x)		RoE (%)		Div yld (%)	
	Reco	USD mn	(INR)	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Bayer Cropscience	Hold	2,669	4,402	26.8	31.0	5.4	4.8	21.8	16.3	0.6	0.7
Coromandel International	Buy	2,380	530	18.5	15.7	3.7	3.1	22.0	21.6	1.1	1.1
Dhanuka Agritech	Buy	442	587	20.2	17.0	4.2	3.7	22.5	23.1	1.6	1.8
Deepak Fertilisers and Petrochemicals	Buy	412	304	8.7	7.5	1.3	1.1	15.8	16.3	2.6	2.6
Jain Irrigation Systems	Buy	862	111	15.4	10.2	1.1	0.9	8.5	11.1	0.6	0.6
PI Industries	Buy	1,865	881	25.4	22.0	5.1	4.2	22.1	21.0	0.5	0.5
Rallis India	Hold	685	229	19.8	16.0	3.3	2.9	17.5	19.2	1.8	1.8
Sharda cropchem	Hold	552	398	18.1	14.4	2.9	2.5	17.2	18.6	1.0	1.0
United Phosphorus	Buy	5,727	733	15.9	12.9	3.5	2.8	23.8	24.1	1.1	1.2
Zuari Agro Chemicals	Buy	319	495	9.2	8.8	1.2	1.1	12.7	12.0	0.7	0.7

RESULT PREVIEW

AUTOMOBILES

To end the year with a bang; cost pressure key monitorable

India Equity Research | Strategy

In Q4FY18, the passenger vehicle (PV) segment's volume growth improved to ~9% YoY (~6.5% YoY in Q3FY18). Medium & heavy commercial (M&HCV) segment also posted robust volume spurt—up ~21% YoY (~42% YoY in Q3FY18)—led by sustained strong replacement demand in favour of higher tonnage vehicles. Two-wheeler (2W) volumes also jumped ~26% YoY (~16% YoY in Q3FY18) driven by continued robust demand for scooters and improving demand for executive motorcycles. While strong volumes are expected to impart operating leverage benefits, focus will continue to remain on elevated commodity cost pressure.

Key highlights of the sector during the quarter

Maruti Suzuki (MSIL) continued to gain market share with volume jumping ~12% YoY driven by strong response to new launches (*Brezza, Baleno, Dzire, Swift*). Tata Motors (TML) also continued to gain market share with growth of 43% due to new launches (*Nexon*). M&M's volumes grew ~5% YoY, below industry print, but were up 10% QoQ we expect growth to pick up driven by new launches in FY19. In the M&HCV segment, TML outpaced Ashok Leyland (AL). Eicher Motor's (EIM) *Royal Enfield* volume growth picked up (up 10% QoQ) with production ramping up at Vallam Vadagal (new manufacturing facility). While Bajaj Auto's (BJAUT) 2W volumes grew ~20% YoY, Hero MotoCorp's (HMCL) surged 23% YoY.

Result expectations for stocks under coverage

TML is likely to report the strongest margin expansion of 130bps QoQ as Q4 is a seasonally strong quarter for JLR. We expect AL's margins to also expand 100bps driven by robust demand and lower discounts. While we estimate HMCL and BJAUT's margin to expand 50bps and 70bps QoQ, respectively, MSIL's margin is likely to be flat. EIM's margin is estimated to rise 70bps QoQ riding scale benefits and vendor consolidation.

Outlook over the next 12 months

We expect PV and 2W segments' volumes to be driven by government spending on rural infrastructure and sustenance of urban demand. We expect M&HCV volumes to remain strong driven by replacement demand and revival in economic activity. With four new utility vehicle (UV) launches lined up for FY19, M&M is positioned favourably to capture incremental market share. We expect EIM to maintain strong revenue trajectory led by burgeoning *RE* order book, new products and reach expansion.

Top Picks

Ashok Leyland, Mahindra & Mahindra and Eicher Motors.

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

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Stock		Q4FY18E (INR mn)	Q4FY17 (INR mn)	Y-o-Y (%)	Q3FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Ashok Leyland	Revenues	87,856	66,179	32.8	71,132	23.5	We expect revenue growth of 33% YoY driven by LCV volume growth of 59% YoY and M&HCV volume growth of 15% YoY, better tonnage mix and price hike taken to pass on higher commodity cost impact. We expect operating margins to see sequential expansion of 100bps to 12.1% to factor in operating leverage benefit as well as lower discounting and RM cost pressure.
	EBITDA	10,631	7,299	45.6	7,884	34.8	
	Core PAT	6,327	9,198	(31.2)	4,498	40.7	
Bajaj Auto	Revenues	68,011	48,973	38.9	63,693	6.8	We expect revenue growth of 39% YoY led by volume growth of ~33% YoY and realisation growth of 5% YoY. We expect operating margins to see sequential improvement of 70bps to 20% led by operating leverage benefit and better product mix (higher share of 3Ws)
	EBITDA	13,602	9,060	50.1	12,315	10.5	
	Core PAT	11,074	8,018	38.1	9,523	16.3	
CEAT Limited	Revenues	16,955	14,507	16.9	15,499	9.4	We expect revenue growth of 18% YoY driven by tonnage growth of 12% YoY and pricing growth of ~5% YoY. We expect operating margins to see a sequential improvement of 40bps to 12.8% on account of stable rubber prices and better pricing/mix.
	EBITDA	2,170	1,387	56.5	1,918	13.2	
	Core PAT	1,133	837	35.5	916	23.8	
Eicher Motors	Revenues	25,029	18,881	32.6	22,690	10.3	We expect consolidated revenue growth of 33% YoY driven by 27% YoY volume growth for Royal Enfield. We expect operating margins to improve sequentially by 70bps to 32% led by benefits of improving scale and vendor consolidation
	EBITDA	8,009	5,848	37.0	7,095	12.9	
	Core PAT	6,223	4,594	35.4	5,228	19.0	
Hero Motocorp	Revenues	86,412	69,152	25.0	73,055	18.3	We expect revenue growth of 25% YoY largely driven by volume growth of 23% YoY and higher realisations driven by price hikes taken to offset higher commodity costs. We expect operating margins to improve 50bps sequentially driven by higher operating leverage partially offset by higher commodity costs.
	EBITDA	14,172	9,576	48.0	11,580	22.4	
	Core PAT	10,073	7,178	40.3	8,054	25.1	
Minda Corporation	Revenues	9,136	7,614	20.0	6,362	43.6	YoY numbers are not comparable due to transition to INDAS
	EBITDA	1,096	338	224.8	717	52.9	
	Core PAT	682	114	500.7	363	88.2	
Mahindra & Mahindra (including MVML)	Revenues	136,033	106,121	28.2	114,912	18.4	We expect revenue growth of 28% YoY largely driven by volume growth of 28% YoY. We expect operating margins to see sequential decline of 80bps to 13.9% led by slightly unfavorable mix and higher commodity costs.
	EBITDA	18,909	12,368	52.9	16,923	11.7	
	Core PAT	10,952	7,800	40.4	9,197	19.1	
Maruti Suzuki India	Revenues	203,885	183,334	11.2	189,400	7.6	We expect revenue growth of 13% YoY driven by volume growth of 11.4% YoY and favorable mix. We expect operating margins to remain flat sequentially at 15.8% as benefits of favorable mix are offset by slightly lower volumes and Gujarat plant ramp up.
	EBITDA	32,830	25,607	28.2	30,378	8.1	
	Core PAT	20,405	17,090	19.4	17,990	13.4	
Motherson Sumi Systems	Revenues	163,728	112,839	45.1	143,979	13.7	We expect consolidated revenue growth of 45% YoY (including PKC) driven by 18%/20%/31% YoY for domestic, SMR and SMP businesses respectively. We expect operating margins to improve by 140bps QoQ to 10.1%.
	EBITDA	16,584	12,543	32.2	12,595	31.7	
	Core PAT	6,899	6,182	11.6	3,672	87.9	
Suprajit Engineering*	Revenues	4,667	3,646	28.0	3,663	27.4	Q4 is a seasonally strong quarter for the company. We expect consolidated (including Wescon) revenue growth of 28% YoY and expect operating margins to see sequential improvement of 210 bps to 18.0%
	EBITDA	840	653	28.7	582	44.4	
	Core PAT	497	404	22.9	282	75.9	

Stock		Q4FY18E (INR mn)	Q4FY17 (INR mn)	Y-o-Y (%)	Q3FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Tata Motors (Consol.)	Revenues	901,051	772,172	16.7	741,561	21.5	We expect consolidated revenue growth of 17% YoY. We expect consolidated operating margins to improve sequentially by 130bps to 12.8% YoY driven by operating leverage benefits in India and improving performance in JLR
	EBITDA	115,654	108,012	7.1	85,435	35.4	
	Core PAT	36,848	43,315	(14.9)	10,926	237.3	

Valuation snapshot

	Reco	Mkt Cap USD mn	Price (INR)	P/E (x) FY19E	P/E (x) FY20E	P/B (x) FY19E	P/B (x) FY20E	RoE (%) FY19E	RoE (%) FY20E	Div yld (%) FY19E	Div yld (%) FY20E
Ashok Leyland	Buy	6,553	146	22.0	17.6	5.2	4.4	25.3	27.2	0.0	0.0
Bajaj Auto	Hold	12,286	2,766	16.3	14.3	3.7	3.4	24.3	24.9	0.0	0.0
Ceat Ltd	Buy	977	1,573	13.3	11.5	2.1	1.8	17.3	17.3	0.0	0.0
Eicher Motors	Buy	12,105	28,934	27.9	22.7	8.3	6.4	33.8	31.7	0.0	0.0
Hero MotoCorp	Hold	11,242	3,667	18.7	16.2	6.1	5.5	33.8	35.5	0.0	0.0
Mahindra & Mahindra	Buy	14,437	757	18.4	16.5	2.6	2.3	15.1	14.8	1.1	1.3
Maruti Suzuki India	Buy	41,794	9,014	26.6	22.2	5.6	4.7	22.7	23.0	0.9	1.0
Minda corporation	Buy	586	182	17.3	14.0	3.7	3.0	23.1	22.9	0.0	0.0
Motherson Sumi Systems	Buy	10,767	333	25.3	21.8	6.5	5.4	28.1	27.3	0.0	0.0
Suprajit Engineering	Buy	626	292	25.0	21.0	5.0	4.2	22.4	22.3	0.0	0.0
Tata Motors (Consolidated)	Hold	17,315	356	8.9	7.3	1.6	1.3	19.3	19.4	0.0	0.0

RESULT PREVIEW

BANKING AND FINANCIAL SERVICES

A quarter of uncertainties

India Equity Research | Strategy

Q4FY18 could aptly be described as one of the most uncertain quarters for Indian banks, especially in the backdrop of: a) RBI's revised asset quality framework; b) sudden mushrooming of frauds; and c) volatile bond yield movement. We expect banks to post muted performance for the quarter (especially the corporate focused ones) led by high credit cost and slower revenue momentum, while impact of RBI's asset classification norms/pending divergence report will be a key monitorable. Earnings of retail-focused private banks are expected to be stable. The NBFCs are set to sustain their growth momentum amid a seasonally strong quarter and improve their asset quality with unwinding of funding cost benefits beginning to crystalise, albeit partially. Housing finance players are expected to sustain momentum. Vehicle financing players will see strong traction (particularly tractor and commercial vehicle (CV) financing).

NPL recognition, credit cost to rise…

Q4FY18 will be a challenging quarter for banks as credit cost will spike in turn straining profitability (especially of corporate focused banks). While incremental stress creation is unlikely to throw up any major negative surprises, volatility will arise out of RBI's recent directive on stress classification. We expect most of the slippages to come from stressed pool reported by banks earlier (viz., SDR, S4A, watch-list, drill down, etc). Resolution of NCLT cases will be a key monitorable as it will lead to upgrade of >25% system-wide GNPLs with minimal incremental provisioning requirement (few large steel cases have been resolved at better than expected valuations).

…in turn denting earnings

We expect our universe banks to report >15% YoY dip in earnings, with private banks set to report 5-6% YoY growth and public banks likely to post losses (on high credit cost, limited support from treasury (post recent move) and contributions for next wage settlement cycle). With interest rates tables turning, pressure on NIMs will continue going forward too as lagged impact of MCLR transition starts flowing in. Meanwhile, retail banks - HDFC Bank, IndusInd Bank and Kotak Mahindra Bank, will report a better quarter.

Outlook for next 12 months

The RBI's directive and slew of frauds have triggered a risk-off trend in Indian banks as investors lack credible information/tools to assess the negative impact. Amid such uncertainty and low risk appetite for banks, we expect earnings to be modest and valuations capped. Preference will be for banks with robust intrinsic franchise, stable retail and non-banking platform. Therefore, we prefer Kotak Mahindra Bank and HDFC Bank among banks and niche players like Shriram Transport among NBFCs.

Trading ideas from Q4FY18 earnings perspective

Long: HDFC Bank, Yes Bank, Kotak Mahindra Bank, Shriram Transport; **Short:** PSU banks.

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

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

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Stock		Q4FY18E (INR mn)	Q4FY17 (INR mn)	Y-o-Y (%)	Q3FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Axis Bank	NII + OI	78,590	77,418	1.5	73,246	7.3	Loan growth to be better than industry given the continued momentum in retail growth and opportunistic pick up in corporate. We expect asset quality to remain under pressure and moreover, RBI dispensation will be a dampner to overall headline
	PPOP	39,610	43,747	(9.5)	38,538	2.8	
	Core PAT	4,906	12,251	(60.0)	7,264	(32.5)	
Bank of Baroda	NII + OI	63,283	55,591	13.8	60,671	4.3	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 and impact of RBI dispensation will be key monitorable.
	PPOP	37,362	30,202	23.7	36,501	2.4	
	Core PAT	912	1,547	(41.0)	1,118	(18.4)	
Bharat Financial Inclusion	NII + OI	4,193	2,447	71.3	3,655	14.7	We expect company to improve on AUM growth. NIMs will likely see some stabilisation but fees might continue to be lower. Asset quality should see improving trajectory.
	PPOP	2,005	996	101.3	1,712	17.1	
	Core PAT	1,891	-2,349	180.5	1,626	16.3	
Capital First	NII + OI	6,289	4,628	35.9	6,154	2.2	Loan growth will continue to report strong momentum (~30% growth) with continued tilt towards retail segment (>30% growth); Asset quality would remain benign.
	PPOP	3,138	2,236	40.3	2,951	6.3	
	Core PAT	910	692	31.5	813	11.9	
DCB Bank	NII + OI	3,380	2,839	19.1	3,254	3.9	Loan growth to be significantly higher than industry. NIM likely to be stable. These will culminate in sustained revenue momentum. Asset quality to be on expected lines. Opex growth to be within control, as branch expansion plan is at the fag end of execution.
	PPOP	1,311	1,153	13.7	1,225	7.0	
	Core PAT	634	529	20.0	570	11.3	
Dewan Housing Finance	NII + OI	7,988	6,303	26.7	7,398	8.0	AUM growth expected at >25% levels; asset quality will likely remain stable; cost/income will be a key monitorable, we expect it to come down during the quarter.
	PPOP	6,028	4,586	31.5	5,620	7.3	
	Core PAT	3,220	22,177	(85.5)	3,060	5.2	
Equitas Holdings	NII + OI	2,829	2,409	17.5	2,731	3.6	Overall AUM is expected to see growth momentum improving, with good traction in SME/LAP/home loans along with buildup in MFI portfolio (run-down is done away with). Operating leverage benefit should start kicking in. Asset quality should also witness improving trend - Given improving collection efficiency, PaR should be contained, with provisioning at lower levels (upfronting of provisions already happened in Q3FY18).
	PPOP	484	520	(6.9)	416	16.3	
	Core PAT	262	69	280.0	-300	187.3	
Federal Bank	NII + OI	12,715	11,245	13.1	11,786	7.9	Loan growth to clock above average growth riding continued uptick in retail and SME portfolio supported by opportunistic growth in corporate segment. Slippages should be at normalised level, with recoveries/upgrades trend being a key monitorable. Moreover, RBI's divergence still remains a key monitorable.
	PPOP	6,443	5,492	17.3	5,614	14.8	
	Core PAT	2,662	2,566	3.7	2,600	2.4	
HDFC	NII + OI	35,483	32,280	9.9	31,332	13.3	Disbursement growth is likely to be strong benefitting from various government initiatives on affordable housing. Furthermore. no sell downs to HDFC Bank suggest that loan growth will also be higher at (we anticipate 19% plus individual loan growth). Spreads are likely to be stable. Gains from stake sale (in HDFC Developers and HDFC reality) will be used to shore up coverage.
	PPOP	33,420	30,376	10.0	28,937	15.5	
	Core PAT	23,886	20,442	16.8	56,702	(57.9)	
HDFC Bank	NII + OI	1,50,863	1,25,014	20.7	1,41,835	6.4	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	90,592	72,794	24.4	84,513	7.2	
	Core PAT	49,561	39,901	24.2	46,426	6.8	

Stock		Q4FY18E (INR mn)	Q4FY17 (INR mn)	Y-o-Y (%)	Q3FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
ICICI Bank	NII + OI	126,052	89,794	40.4	88,721	42.1	Loan off take will likely be improving (albeit still softer). Asset quality is likely to be under pressure (expect some pressure to emanate from power sector). The key thing to watch out for will be impact of RBI directive which may see significant re-classifcation from stress pool (including watchlist) to GNPLs and consequent higher credit cost. On the other hand, gain from stake sale in securities business is likely to cushion profitability.
	PPOP	85,044	51,120	66.4	50,576	68.1	
	Core PAT	15,263	20,246	(24.6)	16,501	(7.5)	
IDFC Bank	NII + OI	7,250	5,584	29.8	7,257	(0.1)	Business momentum will likely be on track. Asset quality may witness some volatility given stress accumulating in power segment. The momentum of liability franchise needs to be seen.
	PPOP	2,966	2,603	13.9	3,147	(5.8)	
	Core PAT	1,317	1,760	(25.2)	1,461	(9.9)	
Indiabulls Housing Finance (Standalone)	NII + OI	18,710	13,904	34.6	19,970	(6.3)	Earnings consistency expected to continue in line with guided range; AUM growth to continue to remain strong in the range of 29-30% YoY; Asset quality will be broadly stable.
	PPOP	16,799	12,617	33.1	17,651	(4.8)	
	Core PAT	10,768	8,217	31.1	10,840	(0.7)	
IndusInd Bank	NII + OI	33,824	28,788	17.5	30,816	9.8	Loan growth to be significantly higher than industry, with loan composition tilting towards the consumer finance segment. Commercial vehicle uptick has become a trend now. Margin to be supported by further tilt towards higher yielding consumer finance division. Asset quality trend will likely be stable.
	PPOP	18,785	15,722	19.5	16,647	12.8	
	Core PAT	9,795	7,516	30.3	9,362	4.6	
Karnataka Bank	NII + OI	6,689	6,639	0.8	6,461	3.5	Loan growth to average or marginally better industry rates. Incremental stress will be elevated, which will also feed into higher credit cost.
	PPOP	3,172	3,293	(3.7)	3,219	(1.5)	
	Core PAT	820	1,384	(40.7)	874	(6.1)	
Kotak Mahindra Bank	NII + OI	59,425	56,085	6.0	57,673	3.0	Growth momentum is likely to further improve this quarter (> 20% growth). Asset quality should be broadly stable, with in-line provisioning. NIMs may see some pressure following lower yields. Elevated marketing costs(towards 811), will keep opex elevated.
	PPOP	26,476	22,908	15.6	25,684	3.1	
	Core PAT	15,769	13,032	21.0	15,271	3.3	
LIC Housing Finance	NII + OI	10,327	10,919	(5.4)	9,528	8.4	Individual loan growth to improve momentum and we expect it to track 15-16% plus growth YoY; Asset quality following seasonality will see a decline QoQ; pending resolution in corporate loan book will be key monitorable.
	PPOP	8,460	8,954	(5.5)	8,050	5.1	
	Core PAT	5,297	5,292	0.1	4,911	7.9	
Manappuram Finance	NII + OI	5,579	5,487	1.7	5,458	2.2	We expect growth momentum to improve. Spreads are likely to sequentially improve. While asset quality in gold portfolio has been steady, we have seen stress percolate into MFI, CV and 2W segment. This trend will be key monitorable.
	PPOP	2,726	3,198	(14.8)	2,648	2.9	
	Core PAT	1,826	2,072	(11.9)	1,727	5.7	
M&M Financial Services	NII + OI	11,491	11,290	1.8	10,835	6.1	Disbursement trends are likely to be better, supported by tractor, which should result in improving AUM traction; Asset quality should see stabilising / improving trends as, better collection efficiency should keep asset quality under check;
	PPOP	6,949	7,252	(4.2)	6,553	6.1	
	Core PAT	4,035	2,341	72.4	3,420	18.0	
Multi Commodity Exchange of India	NII + OI	862	869	(0.8)	748	15.2	We expect revenue momentum to improve sequentially in line with better average daily volumes (up > 20% YoY and QoQ). We don't expect any exceptional item during this quarter.
	PPOP	376	374	0.6	279	34.9	
	Core PAT	238	219	8.9	178	33.8	
Muthoot Finance	NII + OI	10,604	11,672	(9.2)	10,978	(3.4)	We expect growth momentum to somewhat gain traction. Shorter duration loans (six months) and transient pressure points (demonetisation/GST challenges) will lead to volatility in headline asset quality numbers. The key monitorable is recovery and auctions which will reflect in head line asset quality numbers.
	PPOP	6,580	5,893	11.7	7,202	(8.6)	
	Core PAT	4,310	3,218	33.9	4,636	(7.0)	

Stock		Q4FY18E (INR mn)	Q4FY17 (INR mn)	Y-o-Y (%)	Q3FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Punjab National Bank	NII + OI	60,711	67,863	(10.5)	70,707	(14.1)	This will be a washout quarter for the bank as the uncertainty lingers on the liability pertaining to slew of fraud unearthed at the bank. While the clarity is still anticipated we do expect that liability will be bourne by PNB and with respect to this we have amortised the loss over next four quarters. Moreover, given this fiasco we expect that banks business momentum will see significant loss . We expect some run-down in overall loan book (despite this being seasonally strong quarter)
	PPOP	31,848	62,318	(48.9)	42,452	(25.0)	
	Core PAT	(31,069)	2,619	(1,286.3)	2,301	(1,450.2)	
Rural Electrification Corporation	NII + OI	22,437	25,558	(12.2)	21,686	3.5	Loan growth likely to sustain 10-12% growth ; NIMs should see stabilisation; asset quality will likely be stable with no major additions, having said that company has been highlighting about further upgrades in ensuing quarters (Singareni Collieries of Telangana of INR40bn), which in our view is a key monitorable
	PPOP	21,123	25,026	(15.6)	20,801	1.5	
	Core PAT	13,591	13,192	3.0	12,964	4.8	
Repco Home Finance	NII + OI	1,219	1,102	10.7	1,153	5.8	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 (albeit improving).Headline asset quality will improve QoQ (seasonal performance). Lower GNPLs, along with better NIMs due to funding cost benefit, will help cushion revenue momentum.
	PPOP	984	902	9.1	935	5.2	
	Core PAT	629	506	24.4	485	29.8	
State Bank of India	NII + OI	286,827	332,870	NA	267,717	7.1	Loan growth is expected to be softer (below system average), with support from retail portfolio. Incremental stress is likely to be elevated (few of the power stress accounts likely to slip). This along with RBIs directive on NPL classification will lead to rise in GNPLs and will keep credit cost elevated. However, Q4 is generally strong in terms of recovery which may cushion headline asset quality numbers to the extent. Meanwhile, the recent RBI directive to amortise MTM bond losses over 4 quarters may provide some cushion as Q3FY18 saw large MTM bon provisions (which could be reversed if bank chooses to use that).
	PPOP	131,242	173,090	NA	117,546	11.7	
	Core PAT	(10,732)	(34,420)	NA	(24,164)	55.6	
Shriram City Union Finance	NII + OI	8,667	7,139	21.4	9,308	(6.9)	Growth metrics will likely improve . But hardeining interest rates may put some pressure on NIMs. Asset quality will otherwise be stable; however, move towards 90dpd recognition norm will likely strain earnings.
	PPOP	5,285	4,324	22.2	5,449	(3.0)	
	Core PAT	1,364	120	1,032.6	2,255	(39.5)	
South Indian Bank	NII + OI	6,842	5,768	18.6	6,682	2.4	Pick up in loan growth due to improving traction in retail and SME segments . Margins to be broadly stable. Asset quality to be steady as the bank has done away with watch list accounts, also we dont anticipate any major impact of RBI dispensation. However higher provisions will keep credit cost elevated.
	PPOP	3,394	2,808	20.9	3,302	2.8	
	Core PAT	920	755	21.8	1,150	(20.0)	
Shriram Transport Finance	NII + OI	17,459	14,327	21.9	17,315	0.8	Growth momentum will perk up with disbursements growth likely to touch 40% levels (albeit on lower base) leading to AUM growth crossing 20% levels. Asset quality will likely be stable with no major hiccups. Having said that that, while we anticipate improvement in underlying trend we transition to 90dpd recognition norms will impact Q4FY18 earnings.
	PPOP	13,439	11,424	17.6	13,486	(0.3)	
	Core PAT	3,333	1,496	122.8	4,956	(32.7)	

Stock		Q4FY18E (INR mn)	Q4FY17 (INR mn)	Y-o-Y (%)	Q3FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Union bank of India	NII + OI	35,059	38,326	(8.5)	34,212	2.5	Growth is likely to sustain in the 8-10% range; Slippages will be likely be elevated (some stress expected in power segment). This wil RBI directive will push GNPLs up. Reversal of investment depreciation (for the hit already taken in Q3FY18) may cushion earnings. However, spurt in employee expenses will be key monitorable
	PPOP	17,119	21,341	(19.8)	16,544	3.5	
	Core PAT	(6,217)	1,082	(674.3)	(12,501)	50.3	
Yes Bank	NII + OI	35,786	28,971	23.5	33,111	8.1	Funnels of growth through corporate, SME and retail should result in higher-than-industry traction; Asset quality trends to be benign keeping credit costs at guided level. Additionally marginal stress baggage suggest no major fallouts pertaining to RBIs recent directive.
	PPOP	21,171	16,910	25.2	20,018	5.8	
	Core PAT	10,915	9,141	19.4	10,769	1.4	

Valuation snapshot

		Mkt Cap	Price	P/E (x)		P/B (x)		RoE (%)		Div yld (%)	
	Reco	USD mn	(INR)	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Axis Bank	Hold	19,391	492	14.9	12.2	1.7	1.5	12.0	13.2	1.6	1.6
Bank of Baroda	Buy	4,948	140	10.6	7.8	0.8	0.7	8.2	9.3	2.1	2.1
Bharat Financial Inclusion	Buy	2,355	1,101	16.8	14.5	3.6	2.8	19.8	19.5	0.0	0.0
Capital First	Buy	967	637	14.0	10.9	2.2	1.9	16.6	18.4	1.1	1.4
DCB Bank	Hold	786	166	15.6	13.1	1.8	1.5	11.9	12.6	0.0	0.0
Dewan Housing Finance	Buy	2,510	521	12.0	10.7	1.7	1.5	15.3	15.6	1.5	1.6
Equitas Holdings	Buy	764	146	25.8	14.7	2.0	1.7	8.0	12.6	0.0	0.0
Federal Bank	Buy	2,763	91	12.9	10.3	1.3	1.2	10.8	12.3	2.6	2.6
HDFC	Hold	46,389	1,803	31.9	27.4	4.7	4.3	16.9	16.4	1.3	1.5
HDFC Bank	Buy	75,018	1,883	22.7	17.9	3.5	3.0	17.9	18.0	0.9	1.1
ICICI Bank	Buy	26,507	269	12.4	9.2	1.6	1.4	13.2	16.3	3.2	3.2
IDFC Bank	Buy	2,521	48	11.2	10.0	1.0	0.9	9.1	9.5	1.8	2.0
Indiabulls Housing Finance	Buy	8,458	1,292	13.4	10.8	3.6	3.2	28.9	31.4	3.7	4.6
IndusInd Bank	Buy	16,578	1,799	23.7	19.2	3.9	3.3	17.7	18.6	0.5	0.5
Karnataka Bank	Buy	690	119	6.0	4.8	0.6	0.5	10.0	11.5	4.2	4.2
Kotak Mahindra Bank	Buy	31,542	1,078	27.6	22.7	3.8	3.3	15.0	15.9	0.5	0.6
LIC Housing Finance	Buy	4,146	535	12.5	10.6	1.9	1.6	17.8	18.1	1.6	1.9
M&M Financial Services	Hold	4,417	466	24.8	20.8	2.9	2.7	12.3	13.4	1.0	1.2
Manappuram Finance	Buy	1,484	115	11.6	9.9	2.4	2.1	22.0	22.7	3.2	3.7
Multi Commodity Exchange of India	Hold	566	723	23.3	18.6	2.3	2.1	9.9	11.8	1.9	2.4
Muthoot Finance	Buy	2,549	415	9.0	8.0	1.8	1.5	21.7	20.8	0.0	0.0
Punjab National Bank	Buy	3,515	94	6.7	4.1	0.5	0.5	8.8	12.5	3.2	3.2
Repco Home Finance	Buy	578	602	14.6	12.6	2.4	2.1	17.8	17.6	0.7	0.8
Rural Electrification Corporation	Buy	3,877	128	4.4	4.0	0.6	0.5	14.5	14.4	4.9	4.9
Shriram City Union Finance	Buy	2,330	2,301	13.1	11.1	2.5	2.1	18.8	18.9	1.0	1.0
Shriram Transport Finance	Buy	5,068	1,455	12.0	10.0	2.2	1.8	19.8	20.0	0.0	0.0
State Bank of India	Buy	32,767	247	14.7	10.5	0.9	0.8	7.6	9.5	1.6	1.6
South Indian Bank	Buy	662	24	6.7	5.6	0.8	0.7	12.5	13.5	3.1	3.1
Union Bank of India	Hold	1,256	96	5.8	3.5	0.4	0.4	7.8	10.9	3.1	3.1
Yes Bank	Buy	10,798	305	12.4	9.4	2.3	1.9	20.3	22.4	1.3	1.6

RESULT PREVIEW

CEMENT

No cheer despite busy season

India Equity Research | Strategy

The March end quarter is usually considered a busy season for the cement sector. Yet, we expect the cement industry to disappoint in Q4FY18, akin to Q4FY17. For the second consecutive year, cement prices failed to rise in the busy season (all India prices up mere ~1% QoQ) despite rising cost pressures (mainly crude oil related). Despite low base (owing to demonetisation), volume growth (adjusted to acquisitions) is expected to remain modest at ~6% for our coverage universe. While revenue is expected to grow by 19% YoY, combined EBITDA may rise ~10% and PAT, in fact, is likely to dip ~14%. With cessation of March-end volume push phase, industry-wide impact of further rise in energy cost, improving sand availability in impacted states and a pre-election boost to cement demand, we are hopeful of recovery in cement prices in ensuing months. We maintain our positive view on the sector.

Key highlights of sector during the quarter

Despite it being a busy season and rising cost pressures, cement prices disappointed in Q4FY18—rose mere ~1% QoQ (up mere 3% YoY). Prices in Central India rose the highest QoQ (~5%) while North region fared the worst with a drop of ~2% QoQ. Price growth was ~1% QoQ in all other regions. Adjusted to the low base, cement demand too is believed to have clocked modest growth with volume growth for coverage universe (ex-acquisitions) estimated to rise ~6%. Realisations of companies are likely to disappoint given increased exposure to low priced non-trade segment.

Result expectations for the sector and stocks under coverage

We expect our coverage universe to report volume growth of ~15% (6% adjusted to acquisition of JP Associates' assets by UltraTech Cement), while realisations are estimated to be flat QoQ. Coverage universe's EBITDA may grow mere ~10% YoY and PAT, in fact, may dip ~14% owing to interest and depreciation costs. Owing to low base, only Ambuja Cement is likely to report PAT growth. Estimated growth in Grasim is not comparable YoY due to merger with AB Nuvo. India Cement's performance is expected to be the worst with PAT estimated to plummet 66% YoY.

Outlook for the next 12 months

With improving availability of sand (in UP, Bihar and Tamil Nadu) and expected boost to infra demand in the run up to elections, demand outlook over the ensuing 12 months remains robust. Rise in demand will trigger price hikes as well. Factoring improvement in industry clinker utilisations, we maintain our positive view on the sector.

Top picks

UltraTech Cement in large caps. **JK Cement** and **India Cements** in mid caps.

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

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

April 5, 2018

Stock		Q4FY18E (INR mn)	Q4FY17 (INR mn)	Y-o-Y (%)	Q3FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
ACC	Revenues	35,734	31,740	12.6	34,941	2.3	Expect volumes to grow ~6.5% YoY. However, on continued weakness in cement prices across regions (except Central), realisations are likely to increase by mere ~1% QoQ (up 6% YoY). Consequently, top line is expected to grow by ~13% YoY. Nonetheless, we expect EBITDA to remain flat YoY led by strong surge in variable cost/t (up 11% YoY) with EBITDA/t of INR485 (down ~6% YoY).
	EBITDA	4,182	4,161	0.5	4,426	(5.5)	
	Core PAT	1,851	2,115	(12.5)	2,045	(9.5)	
Ambuja Cements	Revenues	29,210	25,624	14.0	27,126	7.7	Cement volumes expected to grow ~5% YoY primarily due to weak demand scenario in its key region—West—which accounts for ~40% of its sales volume. With realisations estimated to be flat QoQ (up 9% YoY), total revenue is expected to grow 14% YoY. We expect EBITDA to grow 20% YoY to INR4.7bn with EBITDA/t of INR747 (up 25% YoY).
	EBITDA	4,724	3,941	19.9	5,406	(12.6)	
	Core PAT	2,648	2,299	15.2	3,384	(21.8)	
Grasim Industries	Revenues	43,211	28,761	50.2	44,283	(2.4)	We expect VSF volumes (including VFY, acquired from Aditya Birla Nuvo - ABNL) to grow ~3.5% YoY with plants operating at full capacity. We expect realisations to dip ~1% QoQ led by sustained weakness in international pricing trends. Accordingly, we expect segment EBITDA margin to contract ~160bps QoQ. In the chemicals segment, while we expect volumes to grow 18% YoY (including ABNL), realisations may dip ~1.5% QoQ owing to weakness in global prices. Hence, we expect segment EBITDA margins to contract ~190bps QoQ, though expand ~660bps YoY. Overall, standalone EBITDA is estimated at INR8.4bn with margin contracting by ~30bps QoQ.
	EBITDA	8,385	5,254	59.6	8,735	(4.0)	
	Core PAT	4,902	3,155	55.4	4,739	3.4	
India Cements	Revenues	13,790	13,453	2.5	12,131	13.7	Cement volumes are expected to rise 8% YoY on improving sand availability in its key market Tamil Nadu post Supreme Court's intervention to stay the mining ban. Realisations may remain flat QoQ as weak demand in ICEM's major markets negated the sharp price hikes taken at the beginning of the quarter. Further, with rising cost trends, EBITDA may fall ~15% YoY to INR1.6bn with EBITDA/t of ~INR524 (INR656 in Q4FY17).
	EBITDA	1,640	1,917	(14.5)	1,673	(2.0)	
	Core PAT	117	343	(65.9)	152	(23.3)	
J K Cement	Revenues	12,377	10,648	16.2	11,261	9.9	We expect grey cement volumes to rise ~20% YoY aided by low base in Q4FY17 (down 0.9%) and increasing market share due to low operating rates at Binani plants (which has been referred to NCLT). Realisations may remain flat QoQ as marginal increase in South is expected to be offset by weak pricing in North markets. We expect white cement sales to grow ~3% YoY and putty volumes by ~10% YoY. An estimated grey cement EBITDA/t at ~INR365 is lower compared to ~INR662 in Q3FY17 primarily led by surge in power and fuel costs. Blended EBITDA/t is expected to be INR694, down 19% YoY.
	EBITDA	1,919	2,273	(15.6)	1,702	12.7	
	Core PAT	787	985	(20.0)	730	7.8	
Shree Cement	Revenues	27,368	23,803	15.0	22,962	19.2	We expect cement volumes to grow ~6% YoY despite commissioning of new capacities (~20% of existing capacity) as continued sand shortage in its key markets (Rajasthan and Bihar) impacted sales during the quarter. Realisations may dip 0.5% QoQ (up ~9% YoY) leading to 15% rise in total revenue. With expected 7% YoY increase in total cost/t led by spurt in freight and energy costs, cement EBIDTA/t is expected to surge 11% YoY to INR905.
	EBITDA	5,954	5,112	16.5	5,696	4.5	
	Core PAT	2,833	3,045	(7.0)	3,333	(15.0)	

Stock		Q4FY18E (INR mn)	Q4FY17 (INR mn)	Y-o-Y (%)	Q3FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Ultratech	Revenues	85,684	65,953	29.9	75,899	12.9	Expect volumes to jump ~28% YoY (including recent acquisition of JPA assets) and cement realisations estimated to rise ~0.5% QoQ (up ~6% YoY). YoY numbers are not comparable due to consolidation of JPA assets acquired in Q2FY18. Total EBITDA (including JPA assets) is estimated to grow 15% YoY at INR14.7bn with EBITDA/t at ~INR824 (down 9% YoY).
	EBITDA	14,736	12,782	15.3	12,691	16.1	
	Core PAT	5,371	6,883	(22.0)	4,215	27.4	

Valuation snapshot

		Mkt Cap	Price	P/E (x)		P/B (x)		RoE (%)		Div yld (%)	
	Reco	USD mn	(INR)	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
ACC	Buy	4,410	1,530	27.5	19.9	2.9	2.7	10.9	14.2	1.8	2.0
Ambuja Cement	Hold	7,211	237	33.7	25.9	2.3	2.2	6.9	8.6	1.5	1.5
India Cements	Buy	708	150	14.7	10.7	0.9	0.8	5.9	7.7	1.0	1.3
Grasim	Buy	10,689	1,059	33.8	32.1	1.5	1.4	4.5	4.6	0.5	0.5
JK Cement	Buy	1,068	996	20.3	14.7	3.1	2.6	16.2	19.2	0.8	0.8
Shree Cements	Buy	8,726	16,318	32.2	22.2	5.4	4.4	18.1	21.7	0.2	0.2
UltraTech Cement	Buy	16,361	3,881	28.8	20.8	3.6	3.1	13.3	16.1	0.3	0.3

RESULT PREVIEW

CONSTRUCTION

Execution likely to perk up

India Equity Research | Strategy

Edelweiss
Ideas create, values protect

After improvement in execution in Q3FY18, we expect our coverage universe's revenue growth to perk up further in Q4FY18. With a large number of projects getting awarded during the quarter, order books of construction companies are at all-time high. We expect execution for our coverage universe (ex-HCC) to jump 11% YoY in Q4FY18; this would have been higher, but for the GST impact. Companies with healthy balance sheets like Sadbhav Engineering, Ashoka Buildcon and J Kumar are expected to deliver strong performance going ahead. Our positive stance on the sector stems from: (a) strong revenue visibility that companies now enjoy; and (b) pick up in execution of awarded projects, translating into strong revenue growth over the next few quarters.

Key highlights of sector during the quarter

Project awards during Q4FY18 ramped up significantly. After a subdued 9mFY18, road project award by NHAI surged in the last quarter (~60% of the entire year's projects, in terms of cost, were awarded in Q4FY18), to end the year at a total of ~INR1.2tn, more than double that of FY17. Order awards from buildings and urban infra (metro rail) segments also continued to remain strong.

Result expectations for the sector and stocks under coverage

We estimate our coverage universe's (ex-HCC) revenue to grow 11% YoY. EBITDA margins are estimated to decline ~50bps YoY to ~10.9% (11.4% in Q4FY17). Companies with healthy balance sheets and strong order books like Sadbhav Engineering, Ashoka Buildcon and J Kumar Infra are expected to deliver strong performance going ahead riding significant pick up in execution.

Outlook for the next 12 months

We expect traction in the roads space to further improve with a large number of projects slated to be awarded by NHAI in the next few months—NHAI expects ~3,000km to be awarded in the first two months of FY19. Of the 232 projects costing ~INR2tn for which bids have been invited since October 2017, about half have been awarded in FY18, leaving ~INR1tn worth of projects to be awarded in FY19. We expect order award in sectors like housing, water/irrigation and metro rail to remain strong over the next year. With project awards likely to remain strong, we estimate revenue trajectory to improve going ahead.

Top picks

Sadbhav Engineering and Ashoka Buildcon.

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

April 5, 2018

Stock		Q4FY18E (INR mn)	Q4FY17 (INR mn)	Y-o-Y (%)	Q3FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Ahluwalia Contracts	Revenues	4,835	4,718	2.5	3,611	33.9	Order inflow along with execution on projects from private real estate developers remains key monitorable
	EBITDA	602	431	39.8	624	(3.6)	
	Core PAT	337	203	65.4	292	15.5	
Ashoka Buildcon	Revenues	7,718	6,100	26.5	6,589	17.1	Pick up in pace of execution remains key monitorable. Also, improvement in traffic growth for operational BOT projects need to be watched.
	EBITDA	929	636	46.0	796	16.7	
	Core PAT	599	658	(9.0)	520	15.2	
GMR Infra	Revenues	17,237	NA	NA	16,907	2.0	Traffic growth in airports and roads along with PLFs in the power plants are key monitorables for the company
	EBITDA	4,962	NA	NA	4,806	3.2	
	Core PAT	-3,853	NA	NA	-5,659	31.9	
HCC	Revenues	10,470	13,583	(22.9)	12,309	-15	Pick up in pace of execution needs to be watched. Award of arbiteration claims and consequent debt reduction remains key monitorable
	EBITDA	1,054	2,241	(53.0)	1,640	-36	
	Core PAT	-435	421	(203.2)	313	-239	
J Kumar Infraprojects	Revenues	5,564	3,555	56.5	4,572	21.7	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	936	602	55.5	776	20.6	
	Core PAT	409	263	55.6	329	24.1	
KNR construction	Revenues	5,273	4,821	9.4	4,332	21.7	The company's ability to maintain high level of execution growth rates and operating profitability will be a key monitorable
	EBITDA	943	722	30.5	984	(4.2)	
	Core PAT	269	524	(48.6)	657	(59.0)	
NBCC	Revenues	24,975	23,460	6.5	13,215	89.0	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	1,495	2,098	(28.8)	687	117.5	
	Core PAT	1,251	1,583	(20.9)	619	102.2	
PNC Infratech	Revenues	5,935	3,506	69.3	4,725	25.6	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	786	474	65.7	663	18.6	
	Core PAT	474	337	40.4	432	9.6	
Sadbhav Engineering	Revenues	11,066	10,329	7.1	9,351	18.3	The company's ability to sustain healthy execution pace need to be watched. Also improvement in working capital remains key monitorable
	EBITDA	1,287	1,096	17.4	1,056	21.8	
	Core PAT	532	682	(22.0)	618	(13.9)	
Simplex Infra	Revenues	16,064	15,501	3.6	13,601	18.1	Pick up in execution needs to be watched. The company's performance on the working capital front will determine the growth trajectory
	EBITDA	1,936	2,051	(5.6)	1,785	8.5	
	Core PAT	354	668	(47.0)	311	13.9	
Supreme Infrastructure	Revenues	2,352	3,255	(27.7)	2,014	16.8	Sustainability in execution along with performance on the working capital front needs to be watched
	EBITDA	251	442	(43.1)	212	18.6	
	Core PAT	399	-173	NA	-466	185.6	
Titagarh Wagons	Revenues	2,664	6,619	(59.8)	2,740	(2.8)	The ability to gain new orders in the Italian coach subsidiary Firema remains key monitorable. Further improvement in profitablility need to be watched
	EBITDA	-104	358	(128.9)	-253	59.1	
	Core PAT	-314	126	(350.0)	-387	18.8	
Texmaco Rail & Engineering	Revenues	2,362	2,860	(17.4)	2,269	4.1	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	123	131	(6.3)	93	32.3	
	Core PAT	42	59	(29)	41	4	

Valuation snapshot

		Mkt Cap	Price	P/E (x)		P/B (x)		RoE (%)		Div yld (%)	
	Reco	USD mn	(INR)	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Ahluwalia Contracts	Buy	401	390	17.5	13.9	3.4	2.7	21.3	21.6	0.0	0.0
Ashoka Buildcon	Buy	747	260	75.2	33.2	2.9	2.7	2.8	7.7	0.3	0.3
GMR Infra	Buy	1,694	18	NA	NA	4.1	6.6	(24.0)	(22.7)	0.0	0.0
Hindustan Construction Company	Buy	375	24	92.8	16.4	0.9	0.8	1.0	5.3	0.0	0.0
J Kumar Infraprojects	Buy	339	292	14.5	11.1	1.4	1.2	9.8	11.6	0.7	0.7
KNR construction	Buy	623	289	20.2	16.9	3.1	2.7	16.7	17.0	0.2	0.2
NBCC	Hold	2,804	203	43.9	34.0	8.5	7.3	20.7	23.2	0.7	0.9
PNC Infrateh	Buy	691	176	23.7	23.3	2.4	2.2	10.5	9.7	0.3	0.3
Sadbhav Engineering	Buy	1,036	393	29.1	27.8	3.3	2.9	11.8	11.1	0.2	0.2
Simplex Infrastructures	Buy	410	540	17.7	11.3	1.5	1.3	8.8	12.4	0.1	0.1
Supreme Infrastructure	Under	20	50	NM	NM	0.4	0.5	(27.5)	(36.0)	0.0	0.0
Titagarh Wagons	Buy	204	115	1,578.9	23.5	1.2	1.1	0.4	5.0	0.7	0.7
Texmaco Rail & Engineering	Buy	281	83	47.4	15.9	1.7	1.5	3.6	10.2	0.3	0.3

RESULT PREVIEW

CONSUMER DURABLES

Favourable quarter to provide impetus

India Equity Research | Strategy

We expect Q4FY18 performance of consumer durables companies to be driven primarily by a favourable summer season in fans, ACs, air coolers; they will continue to derive benefit of pick up in restocking. Also, the gradual pick up in construction activity (implied GDP construction growth of 9.1% in Q4FY18 versus 1.4% in Q4FY17) and GST rate cut (especially in cables segment) are expected to benefit consumer electrical segments like lighting, switches and cables & wires. Demand shift from unorganised to organised players is inevitable in the long run. However, it has been slow due to delay in implementation of government reforms (E-Way bill) as companies continue to face competition from unorganised players, impact of which was seen in the past two quarters. Most companies are focusing on brand revival, distribution focus (especially Tier II, III cities) and new product launches along with consolidation activities in order to grow. We prefer strong brands with potential business scalability. Our top picks are *Voltas, Havells, Whirlpool of India and Crompton Consumer.*

Key highlights of the sector during the quarter

While segments like AC, fans and air coolers are likely to evince higher demand given the harsh upcoming summer season, we expect growth in water heaters to be slower as Q4 is a non-seasonal quarter. White goods segments like refrigerators and washing machines are expected to reap benefits of pick up in restocking and new product launches by companies. Also, consumer electrical segments like lighting, switchgears and cables & wires are likely to be favourably affected by pick up in construction activity and GST rate cut.

Result expectations for stocks under coverage

We estimate ~22% revenue growth for the consumer durables sector under our coverage. While AC and air cooler companies are likely to post strong 25-30% spurt during the quarter due to favourable season, white goods companies (Whirlpool of India) are expected to grow ~20% led by pick up in restocking. Electrical companies, on the other hand, are likely to post ~15-18% growth led by GST rate cut and pick up in construction activity. We expect our coverage universe's margin to expand 60bps to 12.1% as most players hike prices given the commodity price impact.

Outlook over the next 12 months

We expect consolidation activity to sustain as companies focus on brand revival, distribution expansion and expanding product portfolio in order to grow. The shift from unorganised to organised market, we believe, is also likely to drive incremental value, which has been slow till now (faced by companies only in cables and air coolers) due to delay in implementation of government reforms like E-Way bill.

Top picks

Voltas, Havells, Whirlpool of India and Crompton Consumer.

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

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

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

April 5, 2018

Stock		Q4FY18E (INR mn)	Q4FY17 (INR mn)	Y-o-Y (%)	Q3FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Crompton Greaves Consumer Electrical	Revenues	12,457	10,762	15.8	9,382	32.8	We expect Crompton Consumer to post revenues of ~16% with the lighting segment posting growth of ~16% and the ECD segment posting growth of ~12% being a seasonal quarter for fans and new launches driving the incremental growth.
	EBITDA	1,633	1,386	17.9	1,165	40.2	
	Core PAT	1,012	885	14.3	695	45.6	
Finolex Cables	Revenues	8,285	7,153	15.8	6,568	26.2	Revenue growth of Finolex Cables is expected to revive to 16% (post a weak 6% growth in Q3FY18) led by GST rate cut from 28% to 18% and pickup in construction activity and higher off take by the government for communication cables. The margins are expected to be flat at ~14%. The PAT is expected to grow at a lower rate of 13% due to the higher tax rate.
	EBITDA	1,172	1,011	15.9	981	19.5	
	Core PAT	854	755	13.2	749	14.1	
KEI Industries	Revenues	8,785	7,398	18.7	8,887	(1.1)	KEI's revenues are expected to grow by ~19% with ~40% growth in Turnkey segment led by pick up in execution and ~18% growth in cables segment on the back of GST rate cut from 28% to 18% and the pick up in the construction activity leading to increasing retail sales. The margins are expected to be ~10%. The PAT however is expected to grow at 17% with the decline in other income.
	EBITDA	897	736	21.8	843	6.3	
	Core PAT	371	316	17.4	390	(4.8)	
Symphony	Revenues	2,446	1,841	32.9	2,176	12.4	We expect Symphony to post growth of 33% in Q4FY18 being a seasonal quarter for Air Coolers in the upcoming harsh summers. Margins are expected to be ~30% durign the quarter.
	EBITDA	732	495	47.7	868	(15.7)	
	Core PAT	649	467	38.9	663	(2.2)	
V Guard Industries	Revenues	7,824	6,233	25.5	5,235	49.4	V-guard's revenues are expected to grow ~26% in Q4FY18 driven by 30% YoY growth in Electricals (mainly Cables led by the pick up in construction activity) and Consumer Durables segment (mainly Kitchen applainces led by new launches and fans being a seasonal quarter). The margins are expected to be ~11% vs ~9.5% in Q4FY17 which was adversely affected due to the increase in raw material prices.
	EBITDA	856	594	44.2	494	73.3	
	Core PAT	571	419	36.5	358	59.7	
Whirlpool of India	Revenues	12,243	10,146	20.7	9,580	27.8	We expect the revenues of Whirlpool to grow by ~20% on the back of new product launches in the commercial refigeration space and expansion of existing capacity to cater to the higher demand. The margins are expected to be flat at ~12%. The PAT is expected to grow at 27% led higher growth in other income.
	EBITDA	1,512	1,246	21.3	891	69.6	
	Core PAT	942	744	26.6	531	77.2	
Voltas (Consolidated)	Revenues	24,243	20,351	19.1	13,747	76.4	We expect an overall revenue growth of ~19% for VOLT with ~26% growth in the UCP segment being the seasonal quarter for the AC industry. Margins are expected to be at 11.6% with cooling divison margins at ~16% also as it ramps up its production by almost 20% for the upcoming season. The PAT growth is expected to be lower at 18% yoy due to higher tax rate for the quarter (at ~28% vs 20% in Q4FY17)
	EBITDA	2,814	2,219	26.8	1,186	137.2	
	Core PAT	2,376	2,018	17.8	995	138.8	
Havells India (Standalone)	Revenues	23,390	17,102	36.8	19,658	19.0	We expect Havells' revenue to increase by ~11% mainly driven by 20%-18% growth in Electrical Consumer Durables (being the seaosnal quarter for fans) & Lighting division (mainly B2B lighting). Lloyd's CD segment shall be contributing to the balance growth in HAVL's revenue. The PAT growth however is higher exceptional loss of INR768mn in Q4FY17 (net of which the PAT growth is 20% YoY).
	EBITDA	3,245	2,296	41.3	2,622	23.7	
	Core PAT	2,054	947	116.9	1,944	5.7	

Stock		Q4FY18E (INR mn)	Q4FY17 (INR mn)	Y-o-Y (%)	Q3FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Bajaj Electricals	Revenues	14,126	12,639	11.8	11,451	23.4	Bajaj Electricals is expected to post revenues of 12% in Q4FY18 with the Consumer Durables segment expected to grow ~5% as the company launches new products to gain back its lost market share and leverages on its RREP programme. Whereas, the EMP segment is expected to post growth of 16%. Margins are expected to be ~6%. Profit growth is expected to be higher at ~33% due to ~6% drop in interest and ~33% growth in other income.
	EBITDA	879	739	18.9	703	25.0	
	Core PAT	512	384	33.2	368	38.9	

Valuation snapshot

		Mkt Cap	Price	P/E (x)		P/B (x)		RoE (%)		Div yld (%)	
	Reco	USD mn	(INR)	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Bajaj Electricals	Hold	954	609	35.0	26.6	5.6	4.7	17.0	19.2	0.6	0.6
Crompton Greaves Consumer Electrical	Buy	2,206	229	36.8	29.2	14.1	10.5	44.1	41.3	0.9	1.0
Finolex Cables	Buy	1,625	692	24.8	21.5	4.2	3.6	18.1	18.0	0.0	0.0
Havell's India	Buy	4,840	504	35.5	28.0	7.6	6.7	22.7	25.4	0.0	0.0
KEI Industries	Buy	494	411	18.1	13.5	4.2	3.3	25.8	27.2	0.0	0.0
Symphony	Hold	1,919	1,787	49.1	39.6	17.9	14.5	40.3	40.5	0.8	1.0
V Guard Industries	Hold	1,488	228	46.1	35.2	10.5	8.6	25.0	26.8	0.0	0.0
Whirlpool of India	Buy	2,940	1,510	42.0	33.3	8.3	6.7	22.1	22.3	0.0	0.0
Voltas	Buy	3,139	618	28.1	23.9	4.8	4.2	18.0	18.6	0.8	0.9

RESULT PREVIEW

CONSUMER GOODS

Volumes growth slowly improving; rural revival key

India Equity Research | Strategy

The consumer goods sector is likely to see mid-single digit volume growth for Q4FY18. The Edelweiss consumer goods pack's revenue, EBITDA and PAT growth is likely to be 6.9%, 13% and 12.1% respectively (on a softer base, Q3FY18 saw revenue, EBITDA and PAT growth of 8.6%, 16% and 18.2% YoY respectively). Volume growth this quarter is largely similar for rural and urban clusters. CSD channel is recovering but will take few quarters before it can recover completely. GST rate cuts announced in Nov 2017 had led to price cuts on wide spectrum of consumer goods products which are also aiding improved offtakes. On international front, the currency devaluation issue of MENA is now in the base and hence growth rate should look optically better. Gross margin expansion will be limited since companies have not taken material price hikes. EBITDA margin expansion will however be witnessed on the back of calibrated ad spends as well as cost rationalization measures.

Volumes on slow recovery trajectory; rural recovery key

Most of the companies are likely to report mid-single digit volume growth. We expect **HUL, Dabur, Emami, Bajaj Corp, Britannia, Nestle and Colgate to report volume growth in the range 4-8% YoY (except Britannia whose volume growth is likely ~10-11% YoY)**. GCPL is likely to see ~4-5% YoY domestic revenue growth whereas Marico is likely to see flattish to negative volume growth in Parachute and Saffola. We expect **ITC to post ~1% YoY decline in its cigarette business** on a flat base. For United Spirits, we expect its P&A segment to post ~5% YoY volume growth. Growth rates in rural and CSD is recovering, albeit slowly. Paint and adhesive companies are likely to clock high single digit, albeit on a strong base.

Calibrated margin expansion

Prices of raw materials like copra, TiO2, monomers, VAM, menthol, LLP have remained elevated. Prices of other RM like sugar, wheat flour, and milk have remained flat to slightly declining. To offset increasing RM cost, companies have slowly started taking price hikes which would offset gross margin pressure. This coupled with calibrated ad spends and cost rationalization initiatives will lead to EBITDA margin expansion.

Outlook for next 12 months

We expect consumer goods companies to see revival on both fronts, on volume growth and margin expansion from here on. With few state elections, expected populist budget, rural consumption should benefit. This coupled with improving macros and hopefully a good monsoon should also augur well.

Top picks

Pidilite, Dabur and HUL. We also like Nestle and ITC.

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

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

April 5, 2018

Stock		Q4FY18E (INR mn)	Q4FY17 (INR mn)	Y-o-Y (%)	Q3FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Asian Paints	Revenues	42,137	39,084	7.8	42,605	(1.1)	With improving macro scenario, we expect paint companies also to slowly start going back to historical trajectory of high single digit to low double digit volume growth. For the quarter, we expect Asian paints to report ~5% volume growth on a base of 10% (Q3FY18 saw 6% volume growth on a base of 3%). Price hike of 1.5% was taken from March 2018 but full effect of which would be seen in Q1FY19 onwards. On COGS front, prices of TiO2 and other monomers have continued to remain elevated which will likely continue to pur pressure on the gross margins. However some cost rationalization measures will aid to some extent on the EBITDA front. Performance of Ess Ess and Sleek will start to improve post abberation.
	EBITDA	7,922	7,078	11.9	8,912	(11.1)	
	Core PAT	5,141	4,761	8.0	5,672	(9.4)	
Bajaj Corp	Revenues	2,195	2,045	7.3	2,081	5.5	We expect a volume rebound for Bajaj Corp in this quarter - expect ~7-8% YoY volume growth on a base of - 6.9% (Q3FY18 saw 5.2% volume growth on a base od - 6.5%). Improvement in offtakes and improving rural macro environment should aid in overall growth. We are also expecting international segment to show decent growth (contributes ~5% of revenues) after almost 40-45% decline in revenue in Q3FY18. Performance of Nomarks should also improve on the back of renewed strategy. Thus, overall we expect revenue growth of ~7-8% YoY. RM prices have continued to remain elevated and hence there would be some pressure on margins. Base quarter saw some cut backs in ad spends and other expense which is not expected in this quarter. Thus, we do not expect EBITDA margin improvement as well. PAT would look healthier since base quarter had soft other income.
	EBITDA	707	662	6.7	678	4.2	
	Core PAT	597	527	13.4	552	8.3	
Berger Paints*	Revenues	12,489	11,129	12.2	13,386	(6.7)	With improving macro scenario, we expect paint companies also to slowly start going back to historical trajectory of high single digit to low double digit volume growth. For the quarter, we expect Berger paints to report ~7-8% volume growth on a base of 10% (Q3FY18 saw 8% volume growth on a base of 10%). Price hike of 1.5% was taken from March 2018 but full effect of which would be seen in Q1FY19 onwards. On COGS front, prices of TiO2 and other monomers have continued to remain elevated which will likely continue to pur pressure on the gross margins. However some cost rationalization measures will aid to some extent on the EBITDA front.
	EBITDA	1,861	1,611	15.5	2,226	(16.4)	
	Core PAT	1,072	1,055	1.6	1,304	(17.8)	

Stock		Q4FY18E (INR mn)	Q4FY17 (INR mn)	Y-o-Y (%)	Q3FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Britannia Industries	Revenues	25,213	22,444	12.3	25,675	(1.8)	We expect Britannia to post volume growth of ~11% YoY on a base of 2% (Q3FY18 saw 12% YoY volume growth on a base of 2%). Coupled with this we expect ~2-3% pricing led growth to also come by in this quarter. Thus, we expect overall revenues to grow at ~12-13% YoY. International growth will likely pick up as base has also become favourable. We expect competitive intensity to remain elevated, though not in the premium biscuit segment. Entry into new categories and geographies to also said some growth. RM prices have not inched up substantially (floor and sugar prices constitute 45% of RM basket) which should bode well from margins perspective. On cost side, savings will come from efficiencies and cost rationalisation. This will help improve margins by ~100bps YoY.
	EBITDA	3,738	3,081	21.3	3,984	(6.2)	
	Core PAT	2,524	2,109	19.7	2,637	(4.3)	
Colgate	Revenues	11,067	10,375	6.7	10,333	7.1	We expect Colgate to report volume growth of ~4% on a base of negative 3% (Q3FY18 recorded volume uptick of 12% YoY on a base of negative 12%). Volume pick up is likely on the back of soft base, nomalcy of trade channel, postive demand outlook in rural areas as well as decent offtakes for new launches; Volume MS however would be key monitorable. We thus expect overall revenues to clock ~7-7.5% YoY growth. We expect gross margins to expand which will be translated to EBITDA margins expansion too. EBITDA margin expansion will also be fuelled by ad spends remaining same though in absolute terms but dipping when seen as % of revenue and cost rationalisation measures.
	EBITDA	2,822	2,443	15.5	2,824	(0.1)	
	Core PAT	1,700	1,426	19.2	1,707	(0.4)	
Dabur	Revenues	20,123	19,147	5.1	19,664	2.3	We expect domestic volumes to see a volume growth of ~5-6% YoY on a base of 2.4% growth (Q3FY18 saw 13.0% YoY volume growth on a negative base of 5.0% YoY volume growth). All trade channels have normalised and company is seeing improving customer offtakes. Further, market share gains continues for Dabur. We expect international business to also report revenue growth of ~5% on a base of negative 4.5%. Currency devaluation in MENA geographies have anniversarised and hence is now in the base. We expect ad spends to be in the range of ~7-7.5% as compared to ~6.4% in the base - ad spends however is likely to be softer sequentially. This will keep EBITDA margin flat YoY. PAT growth would be more than EBITDA growth since Q4FY17 had lower other income as compared to quarterly run-rate.
	EBITDA	4,407	4,176	5.5	4,035	9.2	
	Core PAT	3,676	3,337	10.2	3,329	10.4	

Stock		Q4FY18E (INR mn)	Q4FY17 (INR mn)	Y-o-Y (%)	Q3FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Emami	Revenues	6,412	5,777	11.0	7,566	(15.3)	We expect the volumes to rebound marginally now that GST implementation pangs are over with trade channel too stabilizing. CSD channel has however not yet stabilised completely. Rural demand is on an uptick and hence overall we expect domestic volumes to grow at ~6.5-7% on a negative base of 1.5% YoY. We expect CSD channel to report flattish to marginally positive growth. Performance of Kesh King and Pancharishtha are seen improving; however full blown recovery will take some time due to higher competition and larger reliance on wholesale channel. Emami has also taken price hikes to the tune of ~2-3% which should also bode well. On RM front, prices of menthol is up (~40% YoY) and LLP prices are also up. With MENA currency devaluation now in the base, we expect international geography to also report ~35-40% revenue growth on a negative base of 38%. EBITDA growth is likely to be softer since base had scaled back on ad spends.
	EBITDA	1,859	1,781	4.4	2,647	(29.8)	
	Core PAT	858	833	3.0	1,472	(41.7)	
Godrej Consumer	Revenues	24,610	23,898	3.0	26,303	(6.4)	We expect domestic revenue growth of ~3-4% YoY owing to soft performance in HI (likely to clock negative 3-5% revenue growth on a base of 4%). Hair color on the back of strong Q3FY18 is likely to see relatively softer Q4FY18 and hence we expect revenue growth to be ~2-3% on a base of 13% (Q3FY18 saw 33% YoY growth on a base of -2%). We expect Personal care to clock ~12% revenue growth on a base of 9% YoY (Q3FY18 saw 24% YoY revenue growth on a base of -6%). Other categories such as freshners, etc are likely to post strong growth. On international front, we expect ~2-3% YoY revenue growth on a base of 18.6% (Q3FY18 saw 0.2% growth on a base of 19%). Within international, decline in Indonesia is likely to be lower sequentially since competitive intensity has receded and GCPL has regained most of MS lost. Within, US and Africa cluster, Kenya (~25% of US Africa cluster) is likely to see continuing pressure owing to 2 back to back presidential election - this would be coupled with margin squeeze as well). UK is likely to record good growth and LATAM is likely to be relatively softer. Overall commodity prices have continued to remain benign and we expect some expansion at gross margin level. We expect project PI to lead to some cost efficiencies which will help in EBITDA growth in double digit.
	EBITDA	6,029	5,458	10.5	5,890	2.4	
	Core PAT	4,310	3,847	12.0	4,322	(0.3)	
GSK Consumer	Revenues	11,277	11,019	2.3	10,347	9.0	We expect volumes for GSK to be in the range of ~3% on a base of -1% (Q3FY18 saw volume growth of 16% on a base of -17%). Price reduction of 1% is also there. On COGS front, inflationary pressures have remained benign which will ease off some pressure on gross margins. On EBITDA front, we expect expansion since base quarter had heightened ad spends of ~15.5% of revenue against ~11.5% expected in Q4FY18.
	EBITDA	2,515	2,171	15.8	2,040	23.3	
	Core PAT	1,912	1,759	8.7	1,637	16.8	

Stock		Q4FY18E (INR mn)	Q4FY17 (INR mn)	Y-o-Y (%)	Q3FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Hindustan Unilever	Revenues	87,920	82,130	7.0	85,900	2.4	We expect HUL to record a volume growth of ~5-6% YoY on a base of 4% reported in Q4FY17 (volumes grew at 11% YoY in Q3FY17 on a base of negative 4%). Volume growth is likely to be stronger on the back of: (i) improving sentiment and preference towards HUL products such as Lever Ayush, etc (ii) wholesale trade and CSD channel rebalancing; and (iii) MT and cash and carry channel continuing its good run. Rural has stepped up but not significantly but Urban growth has also started improving. With respect to pricing, a blended price hike of ~1-2% YoY can be expected. This will give an overall revenue growth of ~7% YoY. On RM cost, there is slight inflation but the cost savings continue to feed into margin expansion. Further, this quarter ad spends has also been curtailed which would also bode well for margins – we expect ~90bps expansion YoY. Sequentially, PAT growth is not evident since in Q3FY18 saw ETR at 21% against run-rate of ~31%.
	EBITDA	18,463	16,510	11.8	16,800	9.9	
	Core PAT	12,664	11,180	13.3	13,470	(6.0)	
ITC	Revenues	113,020	109,995	2.8	96,726	16.8	On a base of flat cig volume growth, we expect cigarette volumes to be ~-1% (Q3FY18 saw 5% volume decline on a flat base). No change in GST rates also leads to no price hikes which should aid in volume growth to some extent. FMCG business is expected to see ~15% YoY revenue growth on a base of 6.5% growth (Q3FY18 saw revenue growth of 11.8% on a base of 3.4%). We expect Hotels business to clock revenue growth of ~10% on a base of 6.5% (Q3FY18 saw 9.2% YoY revenue growth on a base of 7.3%). Agri and Paper business should be subdued with negative 4% and negative 6% on a base of 6.2% and 4.4% respectively. Sequential growth in PAT is relatively soft owing to higher other income in Q3FY18.
	EBITDA	43,174	38,754	11.4	39,040	10.6	
	Core PAT	29,343	26,695	9.9	28,197	4.1	
Marico	Revenues	15,355	13,146	16.8	16,243	(5.5)	We expect Parachute to clock volume decline of ~3% YoY on a base of 15% (Q3FY18 saw 15% volume growth on a base of -1%) This coupled with 2 price hikes of effectively ~17-18% will however propel overall revenue growth in this segment. For VAHO, we expect ~8-9% volume growth on a base of 10% (Q3FY18 saw 8% growth on a soft base of negative 12%). Saffola portfolio should see flattish volume growth on the back of 6% volume growth in the base. Youth portfolio has seen some pain over last 4-5 quarters but is expected to incrementally do well and we expect ~8-10% revenue growth. On international, the impact of currency devaluation is now in the base and we expect ~10-11% reported revenue growth on the base of negative 8%. In international, Bangladesh to continue its healthy growth run, however, MENA and Vietnam should be slow. We expect some EBITDA margin pressure on YoY basis since the base quarter saw some scale back of ad spends and staff expense which we are not factoring in this quarter. Having said this, EBITDA margin of 17% would be defended.
	EBITDA	2,672	2,595	3.0	3,021	(11.5)	
	Core PAT	1,854	1,709	8.5	2,233	(17.0)	

Stock		Q4FY18E (INR mn)	Q4FY17 (INR mn)	Y-o-Y (%)	Q3FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Nestle India	Revenues	29,114	24,919	16.8	26,015	11.9	Nestle is likely to see a ~17-18% YoY domestic revenue growth on a base of 9.4% (Q4CY17 saw 15.8% YoY domestic revenue growth on a base of 16.9%). Export revenue growth is likely to be ~10% on a base of 0.6% (Q4YCY17 export growth was 12.7% on a base of 7.9%). RM prices have remained benign which should bode well for gross margins. On the back of new launches, we expect ad spends to marginally increase. EBITDA growth is expected to be very strong.
	EBITDA	7,191	5,272	36.4	6,540	10.0	
	Core PAT	4,366	3,068	42.3	3,118	40.0	
Pidilite Industries	Revenues	14,444	12,954	11.5	15,429	(6.4)	Pidilite saw a healthy volume offtakes in Q3FY18. We expect the upwards volume trajectory to continue even in this quarter aided by improvement in demand scenario. Thus, we expect Pidilite to report ~10-11% YoY volume growth on a base of 7.8% growth in domestic business (Q3FY18 saw 23% YoY volume growth on a base of negative 0.7%). We expect international business to post 7% revenue growth post US recovery. VAM prices have continued to remain elevated which will lead to some pressure on margins. Some cost rationalization initiatives will however give comfort to EBITDA margins.
	EBITDA	3,105	2,579	20.4	3,703	(16.1)	
	Core PAT	2,115	1,554	36.1	2,386	(11.4)	
United Spirits	Revenues	20,971	20,250	3.6	22,633	(7.3)	We expect a revival in volumes for united spirits led by ~4-5% volume growth in prestige & above segment on a base of 4.9% (48% volume share). Base quarter had change in business model viz. franchising agreement for popular segment in few states and hence decline in volumes for popular segment should be ~5% on the base of negative 15.1%. We do not expect inflationary environment in RM cost. Price hikes will aid overall revenue growth. We expect EBITDA growth of ~10% led by product mix improvement as well as cost rationalisation. Interest cost to reduce which will help PAT growth. However, base quarter had tax write back which may not be this quarter and hence on PAT level there could be a decline.
	EBITDA	2,873	2,609	10.1	2,723	5.5	
	Core PAT	1,504	1,866	(19.4)	1,473	2.1	

Valuation snapshot

	Reco	Mkt Cap USD mn	Price (INR)	P/E (x) FY19E	P/E (x) FY20E	P/B (x) FY19E	P/B (x) FY20E	RoE (%) FY19E	RoE (%) FY20E	Div yld (%) FY19E	Div yld (%) FY20E
Asian Paints	Buy	16,726	1,136	42.2	35.3	11.0	9.5	26.6	27.9	1.0	1.2
Bajaj Corp	Hold	1,044	461	27.2	25.5	13.2	13.0	49.2	51.4	2.9	3.1
Berger paints	Buy	3,854	259	39.9	33.5	9.9	8.4	26.6	27.1	0.6	0.7
Britannia	Buy	9,259	5,024	48.6	39.5	15.7	13.1	35.2	36.2	0.6	0.8
Colgate	Hold	4,557	1,091	38.9	34.6	17.4	15.1	48.1	46.9	1.5	1.7
Dabur	Buy	9,072	336	36.5	31.3	9.1	7.9	26.7	26.9	1.0	1.2
Emami	Buy	3,811	1,094	48.1	37.5	11.2	9.7	24.8	27.7	0.8	1.1
GlaxoSmithKline Consumer Healthcare	Hold	3,910	6,057	31.4	28.2	6.5	5.8	22.0	21.9	1.3	1.4
Godrej Consumer	Buy	11,349	1,085	38.6	34.4	17.3	15.0	48.1	46.9	1.5	1.7
Hindustan Unilever	Hold	45,101	1,357	47.8	42.0	37.0	33.9	80.4	83.8	1.6	1.8
ITC	Hold	48,444	259	25.5	22.9	5.8	5.3	23.4	23.9	2.1	2.4
Marico	Buy	6,457	326	41.7	36.7	13.5	11.7	35.0	34.2	1.2	1.4
Nestle	Hold	12,359	8,351	53.0	43.6	21.5	19.5	42.4	47.0	1.2	1.5
Pidilite Industries	Buy	7,460	957	44.2	35.8	10.3	8.7	24.4	25.6	0.7	0.8
United Spirits	Buy	7,037	3,155	53.0	41.3	14.2	10.6	31.0	29.4	0.0	0.0

RESULT PREVIEW

ENGINEERING & CAPITAL GOODS

Momentum in infra projects to drive execution

Edelweiss
Ideas create, values protect

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Post demonetisation and GST impacting growth in H1, we expect execution ramp up to continue in Q4FY18, after 11% YoY growth in Q3FY18. We estimate 15% YoY revenue spurt aiding 50bps margin expansion. Among public spending verticals, railways and infra continued to see significant order finalisation, followed by T&D. While the private sector has sustained its opex spending (focus on improving efficiencies), there have been signs of revival with brown field projects in selective segments viz., cement, metals, among a few. Pick up in green field projects continues to remain a key monitorable as it is crucial to drive the next leg of growth of EPC companies, which we believe is ~12-15 months away. We prefer companies with improving growth visibility and scalable businesses—L&T, Cochin Shipyard, Kalpataru Power and KEC International—which we believe are likely to outperform over the next one-two years.

Key highlights of the sector during the quarter

Companies with diversified exposure, especially in power equipment, railways, roads etc., are likely to report robust ordering, while defence and oil & gas sectors are facing challenges in large order finalisation. Hence, we estimate our coverage universe to report 4% decline in order inflow led by muted orders in companies viz. Bharat Electronics, Engineers India, among a few. With robust opening order book, we expect revenue growth of 15% YoY in Q4FY18.

Result expectations for stocks under coverage

We estimate robust execution (up 15% YoY) to boost our coverage universe's margin by 50bps. Domestic automotive and strong US class 8 data are likely to drive higher 35-40% growth for forging companies. Announced order inflows indicate that KEC International, Kalpataru Power, BHEL (despite high base) and L&T will report robust order inflows. BEL and Engineers India's order inflows are likely to be impacted by delays in finalisation of large contracts (Akash/LR-SAM and Barmer, respectively).

Outlook over the next 12 months

With significant correction over the past three months (18 to 22% across major stocks - Va Tech Wabag, Cummins India and Bharat Electronics), these companies provide a favorable risk-reward. However, we believe companies with diversified exposure, strong competitive moat and scalable businesses will outperform over 12-24 months.

Top picks

L&T, Cochin Shipyard, Kalpataru Power and KEC International.

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

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

April 5, 2018

Stock		Q4FY18E (INR mn)	Q4FY17 (INR mn)	Y-o-Y (%)	Q3FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
ABB	Revenues	23,630	21,663	9.1	27,794	(15.0)	Execution of HVDC order to result in 9% YoY growth in revenues and margins to improve 30 bps to 7.7%.
	EBITDA	1,820	1,609	13.1	2,937	(38.1)	
	Core PAT	1,029	900	14.3	1,715	(40.0)	
Astra Microwave Products	Revenues	1,731	1,564	10.7	863	100.6	We expect revenue growth of 11% and margins of 30.6% for 4QFY18. Order intake continues to remain the key monitorable.
	EBITDA	529	426	24.2	350	51.1	
	Core PAT	340	303	12.3	165	106.3	
Bharat Electronics	Revenues	46,015	39,877	15.4	25,128	83.1	We expect revenue growth of ~15% with EBITDA margins declining 200bps to ~22.5% on account of VVPAT execution. Order intake (especially LR-SAM and Akash) continues to remain a key monitorable.
	EBITDA	10,369	9,796	5.8	4,452	132.9	
	Core PAT	7,708	7,917	(2.7)	3,028	154.5	
Bharat Forge	Revenues	15,166	11,257	34.7	13,906	9.1	Pickup in exports and industrial segment in the domestic market is likely to result in 35% YoY growth in revenues. We expect margins to improve 100bps to 29.5%.
	EBITDA	4,476	3,199	39.9	4,163	7.5	
	Core PAT	2,374	1,695	40.1	2,282	4.0	
Bharat Heavy Electricals	Revenues	103,643	96,882	7.0	66,264	56.4	Execution pickup for orders turning executable to result in 7% revenue growth. Reduction in debtors continue to remain the key monitorable.
	EBITDA	7,918	6,509	21.7	2,954	168.0	
	Core PAT	4,841	2,156	124.6	1,532	216.0	
Cochin Shipyard	Revenues	5,375	5,221	2.9	6,150	(12.6)	Cochin Shipyard's ship repair business is expected to be adversely impacted on back of the fire incident in the ONGC oil rig ading to low 3% revenue growth.
	EBITDA	733	297	146.5	1,372	(46.6)	
	Core PAT	585	418	39.9	1,138	(48.6)	
CG Power & Industrial solutions	Revenues	18,972	17,101	10.9	15,161	25.1	We expect revenues to grow ~11% YoY largely led by industrial segment. Improvement in international operations to result in margin improvement to 7.5%.
	EBITDA	1,427	1,181	20.8	1,271	12.3	
	Core PAT	647	376	72.0	868	(25.5)	
Cummins India	Revenues	12,591	11,844	6.3	13,547	(7.1)	We expect revenue growth of 6% led by the traction in the industrial activities and distribution segment.
	EBITDA	1,856	1,700	9.1	1,967	(5.7)	
	Core PAT	1,679	1,585	5.9	1,722	(2.5)	
Engineers India	Revenues	4,997	4,429	12.8	4,734	5.6	PMC segment growth momentum to continue and LSTK segment to pickup (low base) resulting in 13% YoY topline growth. Margins to remain healthy at 23.6% (Q3FY18 had provision of INR 900mn).
	EBITDA	1,178	543	117.1	1,348	(12.6)	
	Core PAT	1,070	660	62.2	1,084	(1.3)	
Greaves cotton	Revenues	4,337	3,907	11.0	4,473	(3.0)	We expect revenue growth of 11% YoY and margin expansion of ~60 bps to 14.2% on back growth in CV segment.
	EBITDA	615	533	15.3	622	(1.2)	
	Core PAT	435	404	7.8	330	31.9	
KEC International	Revenues	33,918	28,492	19.0	24,049	41.0	We expect 19% YoY growth in revenues with Railways and T&D business gaining traction. Margins to remain healthy at 10.1%. With robust announced order inflows, working capital to be the key monitorable.
	EBITDA	3,423	3,011	13.7	2,441	40.2	
	Core PAT	1,609	1,455	10.6	1,118	43.9	
Kalpataru Power	Revenues	17,920	14,963	19.8	14,174	26.4	We expect SA entity to post 20% YoY growth in revenues with Railways and T&D business gaining traction. Margins to remain healthy at 10.8%. Capital allocation and improvement in Shubham performance to remain the key monitorable.
	EBITDA	1,941	1,573	23.4	1,520	27.7	
	Core PAT	1,102	896	23.0	752	46.5	
L&T (Consol)	Revenues	428,159	366,187	16.9	287,475	48.9	We expect 17% YoY growth in revenues largely driven by infra segment. Key monitorables include - working capital, asset monetisation plans and order inflows.
	EBITDA	51,949	43,351	19.8	31,440	65.2	
	Core PAT	31,198	33,057	(5.6)	15,037	107.5	
Praj Industries	Revenues	2,707	3,016	(10.2)	2,483	9.0	We expect revenue to decline by 10% YoY on a high base and margins to decline to ~12%. 2G ethenol ordering to remain key monitorable
	EBITDA	321	383	(16.1)	168	91.4	
	Core PAT	204	228	(10.3)	75	171.2	

Stock		Q4FY18E (INR mn)	Q4FY17 (INR mn)	Y-o-Y (%)	Q3FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Ramkrishna Forgings	Revenues	4,365	2,887	51.2	4,001	9.1	Pickup in exports to sustain in Q4FY18 with the improved demand for Class 8 trucks in the NAFTA market, we thus expect revenue growth of ~50% in Q4FY18. Margins likely to improve 100bps YoY to ~20.4%.
	EBITDA	892	564	58.3	771	15.7	
	Core PAT	370	141	162.9	277	33.5	
Siemens	Revenues	31,700	29,288	8.2	24,295	30.5	We expect 8% YoY revenue growth led by growth in the energy and digital business on back of traction in T&D industry. Order intake would be a key monitorable.
	EBITDA	3,155	2,786	13.3	2,724	15.8	
	Core PAT	2,115	1,791	18.1	1,905	11.0	
Techno electric	Revenues	4,254	3,619	17.5	3,015	41.1	We expect 17% revenue growth with margins at 16%. Order inflow to be the key monitorable.
	EBITDA	679	544	24.8	736	(7.7)	
	Core PAT	357	333	7.4	435	(17.9)	
Thermax	Revenues	15,846	13,428	18.0	9,805	61.6	We expect execution ramp up of Q3FY18 to continue post 6% decline in H1 on back of GST glitches. EBITDA margins are expected to improve 30bps to 11.6%. Order inflow to remain key monitorable.
	EBITDA	1,844	1,521	21.3	924	99.5	
	Core PAT	1,333	1,161	14.7	632	110.8	
Triveni Turbines	Revenues	2,275	1,829	24.4	1,656	37.4	Dispatch under contracts which faced customer led delays in Q3FY18 to result in 24% YoY growth in revenues in Q4FY18. EBITDA margin to improve 80bps to 21.1%
	EBITDA	480	371	29.4	332	44.8	
	Core PAT	353	266	32.6	194	82.1	
Va Tech Wabag	Revenues	13,374	11,317	18.2	8,647	54.7	Execution of orders bagged in previous quarters to result in 18% YoY growth in revenues with margins stable at 11.5%. Order inflow and working capital levels to be the key monitorable.
	EBITDA	1,541	1,317	17.0	777	98.4	
	Core PAT	999	770	29.8	301	232.4	

Valuation snapshot

		Mkt Cap	Price	P/E (x)		P/B (x)		RoE (%)		Div yld (%)	
	Reco	USD mn	(INR)	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
ABB India	Buy	4,135	1,271	49.7	41.5	6.7	5.9	14.2	15.1	0.4	0.4
Astra Microwave Products	Buy	101	76	8.8	7.8	1.2	1.0	13.8	14.0	2.0	2.0
Bharat Electronics	Buy	5,376	144	17.4	14.4	3.4	2.9	21.4	21.9	0.0	0.0
Bharat Forge	Buy	5,119	716	26.8	23.0	6.3	5.4	25.5	25.6	1.4	1.4
Bharat Heavy Electronics	Buy	4,799	85	25.9	16.5	0.9	0.9	3.7	5.7	2.3	3.5
Cochin Shipyard	Buy	1,068	512	16.8	15.8	2.1	1.9	12.8	12.7	0.0	0.0
CG Power and Industrial solutions	Hold	759	79	21.0	14.2	1.2	1.1	5.5	7.7	0.6	0.6
Cummins India	Buy	3,129	735	24.8	20.8	4.8	4.3	19.9	21.7	2.0	2.0
Engineers India	Buy	1,580	163	21.3	18.9	4.4	4.1	21.1	22.5	3.1	3.1
Greaves Cotton	Hold	448	120	14.7	13.2	3.0	2.9	20.7	22.2	5.0	5.0
Kalpataru Power Transmission	Buy	1,137	483	18.3	14.7	2.4	2.0	13.7	14.9	0.7	0.7
KEC International	Buy	1,597	405	20.5	17.1	4.3	3.5	22.9	22.3	0.3	0.3
Larsen & Toubro	Buy	27,881	1,296	22.2	18.5	3.0	2.7	14.1	15.1	1.4	1.5
Praj Industries	Buy	238	86	28.1	19.4	2.1	2.1	7.6	10.8	2.5	2.8
Ramkrishna forgings	Buy	407	813	19.3	15.4	2.9	2.5	16.4	17.6	0.5	0.5
Siemens	Hold	6,103	1,117	47.7	40.6	4.9	4.5	10.5	11.5	0.8	0.6
Techno electric	Buy	637	368	16.3	14.0	2.9	2.5	19.1	19.1	1.4	1.4
Thermax	Reduce	2,050	1,121	33.9	26.2	4.4	3.9	13.4	15.6	0.7	0.7
Triveni Turbine	Buy	507	100	25.9	20.3	6.5	5.4	26.4	28.7	1.2	1.2
VA Tech Wabag	Buy	410	489	12.3	10.1	2.0	1.7	18.2	18.6	1.0	1.0

RESULT PREVIEW

ENERGY

All-round robust performance

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We expect the energy sector to clock an overall strong quarter post a subdued Q3. A 9% QoQ spike in oil bodes well for ONGC, while also raising subsidy concerns. Downstream companies (OMCs) will benefit from inventory gains. While refining segment will be subdued (Singapore refining margin at USD7/bbl is down 3% QoQ), marketing segment of OMCs will be strong following significant retail price hikes. GST headwinds, sustained ramp up in private competition and digital discounts are likely to continue to weigh on OMCs. Reliance (RIL) is envisaged to benefit from ramp up of new capacities and commencement of competitive projects. Some moderation in feedstock costs will benefit city gas players, which should see robust volume momentum. Sustained oil price rally will hinge on US shale ramp up and OPEC compliance.

Key highlights of the sector during the quarter

Brent has risen 9% QoQ to USD67/bbl (up 24% YoY). Singapore GRM at USD7/bbl is down 3% QoQ (up 8% YoY). High speed diesel and jet fuel cracks have been strong, offsetting lower motor spirit and LPG cracks.

Result expectations for stocks under coverage

RIL: We estimate standalone PAT to rise 2% QoQ to INR86.5bn. We expect 5% lower refining EBIT QoQ with GRM of USD11.1/bbl (Q3: USD11.6/bbl). Petchem earnings are likely to improve 11% as new capacities ramp up in addition to robust cracker and polymer margins. We expect continued benefit from US ethane imports and off-gas projects.

ONGC: We estimate flattish EBITDAX of INR127bn as higher oil price may be offset by subsidy (We factor in USD3/bbl subsidy). We estimate gas production to rise 4% YoY.

IGL: We estimate PAT of INR1.7bn, up 27% YoY, driven by strong volume momentum. We expect CNG/PNG volumes to clock a robust 11%/20% YoY growth. We foresee EBITDA margin higher at INR5.8/scm, benefitting from moderation in LNG prices.

Outlook over the next 12 months

We expect oil price to remain range-bound as robust OPEC compliance will be tested by strong US output. We believe, sustained uptick in oil will hinge on continuation of high OPEC + Russian compliance and growth rate of US shale output. We expect robust volume growth in city gas and strong domestic gas production. ONGC's higher production will benefit from 6% higher gas prices. Spike in LNG prices is likely to moderate, which will benefit Gujarat Gas (GUJGA) and GAIL. Stabilisation of BPCL's Kochi expansion will be a key monitorable.

Top picks

ONGC, RIL and GUJGA.

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

April 5, 2018

Stock		Q4FY18E (INR mn)	Q4FY17 (INR mn)	Y-o-Y (%)	Q3FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Bharat petroleum	Revenues	702,882	570,365	23.2	606,164	16.0	We estimate GRM of USD8 (USD2.5/bbl inventory gain) and throughput higher by 6% QoQ as Kochi ramps up. We expect marketing segment to be strong following sharp recovery in margins. Digital discounts and GST will continue to weigh on downstream companies.
	EBITDA	40,189	28,091	43.1	31,882	26.1	
	Core PAT	25,262	23,406	7.9	21,437	17.8	
GAIL	Revenues	146,930	134,217	9.5	144,143	1.9	We expect robust quarter with PAT to rise 72% YoY, 11% QoQ. We expect gas transmission volumes to remain strong while petchem and LPG will likely benefit from higher realisations and lower feedstock costs.
	EBITDA	22,150	15,250	45.2	19,699	12.4	
	Core PAT	14,003	8,118	72.5	12,622	10.9	
Gujarat Gas	Revenues	16,866	14,002	20.5	15,713	7.3	We expect a strong Q4 with PAT up 76% QoQ, following 10% price hike in Q3-end, moderation in feedstock costs and strong volumes. We estimate volumes at 6.6mmscmd (up 10% YoY) and EBITDA margin of INR4.2/scm (up 56% YoY)
	EBITDA	2,506	1,463	71.3	1,999	25.3	
	Core PAT	1,053	331	217.9	600	75.6	
Gujarat state petronet	Revenues	3,467	2,460	40.9	3,516	(1.4)	We estimate PAT of INR1.8bn down 2% QoQ. We estimate 4% lower volumes as coal-related disruptions normalize in Q4, offset by strong demand from other segments.
	EBITDA	2,937	2,027	44.9	2,985	(1.6)	
	Core PAT	1,771	1,270	39.5	1,816	(2.4)	
Mahanagar Gas Ltd	Revenues	5,971	5,253	13.7	5,814	2.7	We estimate PAT of INR1.3bn, up 4% QoQ. We expect CNG/PNG volumes to grow 6%/9% YoY in Q4. We could see EBITDA margin recover following moderation in feedstock prices
	EBITDA	2,081	1,631	27.6	2,009	3.6	
	Core PAT	1,285	995	29.2	1,240	3.6	
Hindustan petroleum	Revenues	635,002	515,248	23.2	574,743	10.5	We estimate GRM of USD8.5 (USD2.3/bbl inventory gain) and sequentially flattish throughputs . We expect marketing segment to be strong following sharp recovery in margins. Digital discounts and GST will continue to weigh on downstream companies.
	EBITDA	41,873	28,860	45.1	31,585	32.6	
	Core PAT	25,277	18,188	39.0	19,497	29.6	
Indian Oil corporation	Revenues	1,278,470	1,003,375	27.4	1,106,669	15.5	We estimate GRM of USD10 (USD2.5/bbl inventory gain) and throughputs down 5% sequentially. We expect marketing segment to be strong following sharp recovery in margins. Digital discounts and GST will continue to weigh on downstream companies.
	EBITDA	142,289	44,086	222.8	132,687	7.2	
	Core PAT	81,590	37,206	119.3	78,832	3.5	
Indraprastha gas	Revenues	12,316	10,019	22.9	11,839	4.0	We expect PAT of INR1.7bn, up 2% QoQ on strong volume momentum. We estimate CNG volumes to grow 11% and PNG by 20% YoY. We expect EBITDA margin to improve 3% QoQ following some moderation in feedstock costs.
	EBITDA	2,743	2,296	19.5	2,631	4.3	
	Core PAT	1,697	1,341	26.6	1,659	2.3	
ONGC	Revenues	231,301	217,140	6.5	229,959	0.6	We estimate EBITDAX of INR127bn (up 1% QoQ) as 9% rise in oil may be offset by subsidy (we factor in a USD3/bbl subsidy). We estimate a 4% YoY rise in gas production and flattish oil production. Dividends from associates / subsidiaries will prop up other income.
	EBITDA	126,598	86,692	46.0	125,247	1.1	
	Core PAT	77,133	62,842	22.7	50,147	53.8	
Petronet LNG	Revenues	99,846	60,381	65.4	77,571	28.7	We estimate PAT to rise 8% QoQ on 5% higher re-gas charges at Dahej w.e.f. January 2018. Estimate flattish LNG volumes QoQ at both terminals.
	EBITDA	8,878	7,063	25.7	8,474	4.8	
	Core PAT	5,717	4,708	21.4	5,288	8.1	
RIL	Revenues	796,594	671,460	18.6	732,560	8.7	We estimate standalone PAT to rise 2% QoQ to INR86.5bn. We expect 5% lower refining EBIT QoQ with GRM of USD11.1/bbl. Petchem earnings to likely improve 11% as new capacities ramp-up in addition to robust cracker and polymer margins. We expect continued benefit from US ethane imports and recently commissioned off-gas cracker.
	EBITDA	139,038	112,800	23.3	137,440	1.2	
	Core PAT	86,532	81,510	6.2	84,540	2.4	

Valuation snapshot

	Reco	Mkt Cap USD mn	Price (INR)	P/E (x) FY19E	P/E (x) FY20E	P/B (x) FY19E	P/B (x) FY20E	RoE (%) FY19E	RoE (%) FY20E	Div yld (%) FY19E	Div yld (%) FY20E
Bharat Petroleum Corporation	Buy	13,817	415	6.9	6.1	2.0	1.7	31.7	29.2	6.5	6.9
GAIL	Hold	11,362	328	9.8	9.0	1.4	1.3	13.4	14.5	4.3	4.7
Gujarat State Petronet	Buy	1,600	185	13.6	13.4	1.9	1.7	14.3	13.1	1.7	1.7
Gujarat Gas	Buy	1,786	845	22.3	16.5	5.0	4.1	24.6	27.1	0.9	1.2
HPCL	Hold	8,051	344	7.0	6.8	1.5	1.3	23.5	20.5	4.6	4.8
Indraprastha Gas	Buy	3,022	281	21.6	18.5	4.6	3.9	23.1	22.6	0.5	0.6
Indian Oil Corporation	Buy	25,514	171	3.6	3.5	0.7	0.6	19.1	17.6	15.8	16.4
Mahanagar Gas Ltd	Buy	1,499	988	18.2	16.3	4.0	3.4	23.7	22.6	1.9	1.2
ONGC	Buy	34,552	175	7.3	6.9	0.9	0.8	12.6	12.4	6.7	7.0
Petronet LNG	Hold	5,315	231	15.6	12.5	3.1	2.6	21.1	22.6	1.6	2.0
Reliance Industries	Buy	87,016	895	12.3	10.7	1.5	1.3	12.4	12.9	0.8	0.9

RESULT PREVIEW

HOME DECOR

Unorganised players play spoil sport

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Higher competitive intensity from unorganised players ahead of E-way bill implementation continued to impact performance of organised players in Q4FY18. Our channel checks in the tiles segment suggest Vibrant Ceramics exhibition held in November 2018 created price war mainly in GVT segment. Hence, for tiles companies we expect muted revenue growth of 7% led by higher volumes. In our view, growth in the wood panel category is likely to be higher at 19% YoY led by commissioning of new MDF plant by Century Plyboards. We expect growth rates to accelerate from H2FY18 riding improving macros and favourable base. Further, the unorganised segment will continue to be impacted by the recently implemented E-way bill. Gross margin expansion is likely to be soft since companies have deferred price hikes, but have effected price cuts (due to lower GST rate) and are facing higher gas cost. We believe, in the near term, plywood and PVC pipe segments will outperform as tile companies continue to face price pressure. Our top picks are Century Plyboards and Asian Granito.

Sluggish volume growth as unorganized players get aggressive

Tile companies (Kajaria, Somany, and Asian Granito) are likely to post single digit revenue growth impacted by increased competition from unorganised players ahead of E-way implementation and price pressure in GVT segment. Although Asian Granito is likely to report double digit volume growth, its revenues could be muted impacted by decline in trading revenues and price cuts in the GVT segment. Alternatively, companies in the wood panel category are likely to report stronger growth led by MDF and laminates segment. Century Plyboards is expected to report strongest revenue growth led by commissioning of new MDF plant. Supreme Industries will continue to report double digit volumes, in line with the company's strategy of gaining market share.

Margins to dip across segments

Margins in the tile segment are likely to fall due to pressure on GVT prices, increase in gas prices and inability of companies to raise price in a competitive scenario. The wood panel segment's margins too are likely to fall on account of commissioning of new MDF plant by Century Plyboards. Even pipes will see pressure on margins as companies continue to fight for market share. We expect Asian Granito to be the outlier with 170bps margin expansion led by rising operating leverage and change in product mix.

Outlook over the next 12 months

Although demand shift from unorganised to organised players has been delayed, we maintain our positive outlook on the home decor space as the sector is going through structural changes, which are positive in the long run. We expect home decor companies to see revival on all fronts—volumes, margins—from H2FY18 led by low base, E-way bill implementation from April 2018, recovery in rural demand (owing to good monsoon) and sustained government focus on affordable housing.

Top Picks

Century Plyboards and Asian Granito.

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

Sneha Talreja
+91 22 4040 7417
sneha.talreja@edelweissfin.com

April 5, 2018

Stock		Q4FY18E (INR mn)	Q4FY17 (INR mn)	Y-o-Y (%)	Q3FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Asian Granito	Revenues	3,696	3,412	8.3	2,638	40.1	We expect revenues to increase by 8% YoY led by volume growth in tiles segment as realisations continue to remain under pressure. Further increasing operating leverage is likely to result in EBITDA/PAT growth of 27%/28% YoY respectively
	EBITDA	431	339	27.1	362	19.1	
	Core PAT	178	139	28.6	117	52.3	
Century Plyboards	Revenues	6,361	4,885	30.2	5,099	24.8	We expect Century Plyboards to report strong 30% YoY topline growth led by commissioning of new MDF plant and healthy growth in plywood and Lamniates business. Further, due to the higher expenses related to commissioning of new plant, EBITDA growth is likely to be restricted at 17% YoY while higher interest and depreciation cost will lead to decline in PAT by 5% YoY
	EBITDA	985	838	17.6	878	12.2	
	Core PAT	532	559	(4.9)	467	13.9	
Greenlam Industries	Revenues	3,277	2,926	12.0	2,803	16.9	We expect Greenlam to report healthy 12% YoY topline growth led by increase in volumes. However, on account of high margin base of last year, EBITDA/PAT growth is likely to be restricted at 4% each.
	EBITDA	475	457	4.0	391	21.6	
	Core PAT	223	213	4.4	174	28.4	
Kajaria ceramics	Revenues	7,784	7,207	8.0	6,612	17.7	We expect revenues to increase by 8% YoY largely led by volume growth as realisations are likely to remain muted. With slightly lower margins on a YoY basis, we expect EBITDA/PAT to increase by only 4%/2% respectively.
	EBITDA	1,362	1,308	4.1	1,100	23.9	
	Core PAT	738	707	4.3	543	35.8	
Greenply Industries	Revenues	4,930	4,470	10.3	3,993	23.5	We expect Greenply to report healthy 10% YoY topline growth led by low base of last year impacted by demonitisation. Further, margins are likely to remain stable at 16% resulting in 11%/7% YoY growth in EBITDA/PAT respectively
	EBITDA	796	718	11.0	626	27.1	
	Core PAT	448	419	6.9	361	24.1	
Supreme Industries	Revenues	14,952	12,826	16.6	12,783	17.0	Supreme Industries is expected to report 17% YoY topline growth led by strong volume increase across pipes, industrial and consumer segment. However, margins are likely to remain under pressure as company focuses on increasing market share leading to increase in EBITDA/PAT by 8%/10% respectively.
	EBITDA	2,632	2,426	8.5	1,977	33.1	
	Core PAT	1,628	1,482	9.9	1,042	56.2	
Somany Tiles	Revenues	5,914	5,633	5.0	3,857	53.3	We expect revenues to increase by 5% YoY largely led by volume growth as realisations are likely to remain under pressure. With slightly lower margins on a YoY basis, we expect EBITDA to decline by 2% YoY. However, with lower interest and deoreciation cost, we expect PAT to increase by 11% YoY.
	EBITDA	532	545	(2.3)	288	84.7	
	Core PAT	276	250	10.6	143	92.9	

Valuation snapshot

		Mkt Cap	Price	P/E (x)		P/B (x)		RoE (%)		Div yld (%)	
	Reco	USD mn	(INR)	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Asian Granito		229	496	17.5	13.8	2.8	2.3	15.4	16.6	0.3	0.4
Century Plywood	Buy	1,138	334	29.5	20.4	7.0	5.3	26.3	29.6	0.4	0.4
Greenlam Industries	Buy	447	1,207	30.2	22.1	6.6	5.2	24.3	26.3	0.2	0.2
Kajaria Ceramics	Buy	1,377	564	24.9	18.8	5.5	4.5	22.9	25.4	0.9	1.2
Greenply Industries	Buy	600	319	24.7	17.7	3.7	3.1	16.1	18.9	0.2	0.2
Somany tiles	Buy	438	674	22.4	16.5	4.1	3.4	20.5	23.1	0.5	0.6
Supreme Industries	Buy	2,321	1,190	28.5	21.8	6.6	5.4	25.1	27.3	0.7	0.7

RESULT PREVIEW

HEALTHCARE

Apollo and Dr. Lal to shine

India Equity Research | Strategy

We estimate the healthcare sector's Q4FY18 top line to jump ~11% YoY driven by 10% growth in hospitals and 17% growth in diagnostics. Performance in the hospital space is likely to be led by Apollo Hospitals (APHS) with its EBITDA expected to increase by a strong 28%. However, overall EBTIDA for hospitals is expected to be dragged down by Max India (Max) due to regulatory issues and Fortis Healthcare (Fortis) which is midst of reshuffle. We estimate diagnostics' topline and EBITDA to grow 17% and 23% YoY respectively wherein Dr. Lal Pathlabs' (Dr. Lal) is expected to do little better than Thyrocare Technologies' (Thyrocare) with estimated 18% revenue and 25% EBITDA surge. To summarise, while APHS is expected to spearhead growth in hospitals, whereas Max, Fortis and HCG are likely to disappoint. In diagnostics space, Dr. Lal and Thyrocare are estimated to post a healthy EBITDA growth of 25% and 21% YoY driven by preventive healthcare.

Regulatory intervention continues to be an issue

Q4FY18, akin to Q3FY18, was characterised by negative news flow for most private hospitals. Fortis faced the highest number of issues ranging from management complications, changes in shareholding, to regulatory intervention, and the latest being its proposed merger with Manipal. In case of Max, talks of possible stake sale by Life Healthcare are going on and also the Appellate body imposed a stay on the Delhi government's order to cancel the license of Max's Shalimar Bagh hospital.

Max to drag down overall growth, followed by Fortis

APHS: Expect strong growth in EBITDA at 28% YoY on a base which had demonetisation effect. Topline to grow by 14% as new hospitals continues to ramp up. **Fortis:** Expect Fortis to report decline in EBITDA by 6% during the quarter despite demonetization effect in the base. The hospital business is estimated to grow at 8% and SRL at 7%; **Max:** Expect top line to grow 4% YoY/(4.7)% QoQ and EBITDA margins to decline by ~480bps YoY, as Max looks to make structural changes in an attempt to recalibrate its business model.; **HCG:** We expect EBITDA to remain flat YoY as new centres at Borivali & Nagpur to contribute losses; **Dr Lal**: Sales to jump 18% YoY on account of lower base and strong volume growth; **Thyrocare:** Expect top line to grow 15% YoY, led by 20% YoY spurt in the diagnostic business, driven mainly by volume spurge.

Outlook: Prefer APHS and Dr. Lal

We believe, APHS is well positioned for RoCE improvement as its capex cycle has come to an end and is well positioned to sweat assets. Also, we like Dr. Lal's shift in strategy with a more aggressive focus on market share gain versus premium pricing earlier.

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

Ankit Hatalkar
+91 22 2286 3097
ankit.hatalkar@edelweissfin.com

Videesha Mehta
videesha.mehta@edelweissfin.com

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Stock		Q4FY18E (INR mn)	Q4FY17 (INR mn)	Y-o-Y (%)	Q3FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Apollo Hospitals	Revenues	18,943	16,616	14.0	18,961	(0.1)	Expect top-line to grow 14% YoY as Navi Mumbai hospital continues to ramp up. EBITDA growth YoY will look very healthy on a base which had demonetization effect. However EBITDA margin QoQ is expected to remain at similar levels as Navi Mumbai and AHLL losses to continue.
	EBITDA	2,178	1,701	28.1	2,213	(1.5)	
	Core PAT	712	482	47.8	674	5.5	
Dr. Lal Pathlabs Ltd	Revenues	2,600	2,199	18.2	2,627	(1.0)	Expect top-line to grow 18% YoY, albeit on a low base, lead by a strong volume growth. EBITDA margin (~22%) is expected to grow ~70bps sequentially as Q3FY18 was a seasonally weak quarter.
	EBITDA	622	499	24.7	566	9.9	
	Core PAT	375	313	19.7	360	4.1	
Fortis Healthcare Ltd	Revenues	11,988	11,234	6.7	11,262	6.4	Expect Fortis Q4FY18 top-line to grow 7% YoY, on a base which had demonetization impact. Sequentially, hospitals business to improve as regulatory issues at FMRI has subsided. Expect SRL top-line to grow 7% YoY/5% QoQ. EBITDAC margin for hospitals is expected to remain stable at 11%, as company recoups from impact of price controls. SRL EBITDA margin to remain at ~18%.
	EBITDA	1,345	1,430	(5.9)	1,243	8.2	
	Core PAT	(361)	(671)	46.2	(133)	(170.4)	
HealthCare Global Enterprises Limited	Revenues	2,150	1,824	17.9	2,063	4.2	We expect top-line to grow 18% YoY driven by contribution from new centres at Borivali & Nagpur. Expect EBITDA margin to remound to 14% levels.
	EBITDA	306	300	1.9	261	17.2	
	Core PAT	50	69	(27.6)	32	56.6	
Max India Limited	Revenues	6,250	6,010	4.0	6,560	(4.7)	Revenue to decline 5% QoQ despite Q4 seasonally stronger quarter on back of decline in occupancy. This is due to -1) drop in referrals and tightening of EWS norms. EBITDA margins to decline by ~400bps YoY, as Max looks to make structural changes in an attempt to recalibrate its business model.
	EBITDA	500	780	(35.9)	560	(10.7)	
	Core PAT	(127)	170	(175.0)	(140)	9.0	
Thyrocare Technologies Ltd	Revenues	1,009	877	15.0	839	20.3	Expect top line to grow 15% YoY, lead by a 20% YoY growth in the diagnostic business, driven mainly by volume growth. We expect EBITDA margin to decline sequentially by ~225bps to ~40% as heightened competition leads to pricing pressure.
	EBITDA	403	332	21.4	354	13.8	
	Core PAT	320	190	68.7	215	49.0	

Valuation snapshot

		Mkt Cap	Price	P/E (x)		P/B (x)		RoE (%)		Div yld (%)	
	Reco	USD mn	(INR)	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Apollo Hospitals Enterprise	Buy	2,279	1,067	38.1	23.3	3.7	3.4	9.4	14.4	1.0	1.6
Max India Limited	Hold	350	85	NM	NM	4.8	5.3	-7.2	-11.1	-0.2	-0.2
HealthCare Global Enterprises Limited	Hold	404	303	236.9	285.9	5.6	5.5	4.0	5.1	0.0	0.0
FORTIS HEALTHCARE LTD	Buy	1,023	129	485.6	43.9	1.6	1.6	1.0	3.5	0.0	0.0
Thyrocare Technologies Ltd	Buy	486	590	30.6	27.4	6.3	5.6	21.6	21.6	1.3	1.5
Dr. Lal Pathlabs Ltd	Buy	1,090	852	32.5	25.6	7.2	5.9	24.6	25.4	0.5	0.6

RESULT PREVIEW

IT

Steady performance with improving outlook

India Equity Research | Strategy

We estimate the top-5 IT players—Tata Consultancy Services (TCS), Infosys, Wipro, HCL Technologies (HCLT) and Tech Mahindra (TECHM)—to clock 1.1-2.2% QoQ USD revenue growth in Q4FY18. This will get a further 100-120bps cross-currency tailwind boost as major global currencies—GBP, EUR, AUD—appreciated versus USD QoQ. While INR appreciated a marginal 0.5% against USD, it depreciated vis-à-vis other global currencies and is likely to lead to 30-50bps margin tailwinds. Margins are expected to remain steady QoQ (up 20-50bps QoQ for top-5 players). While we expect HCLT to lead the pack with 2.2% QoQ USD revenue growth (60bps inorganic), Infosys, TECHM, TCS and Wipro are estimated to clock 1.4%, 1.3%, 1.1% and 1.1%, respectively. <u>We will keenly monitor: i) FY19 revenue & margin guidance; ii) Infosys' strategic roadmap; iii) level of outsourcing in Europe; iv) clients' spending in legacy businesses; v) traction in digital services; and vi) demand outlook in BFS.</u> We maintain 'BUY' on Infosys, HCLT & TECHM and 'HOLD' on TCS & Wipro.

Cross-currency tailwinds; BFSI and Europe under scanner

With GBP, EUR and AUD appreciating 4.8%, 4.3% and 2.2%, respectively, QoQ against USD, we perceive cross-currency tailwinds of 100-120bps for top-5 IT companies. While we foresee growth uptick in BFSI for majority companies (except TCS), we expect commentary to be incrementally positive (especially by TCS) going forward. With rising outsourcing in Europe, we expect the geography to sustain its outperformance over North America.

Margins expected to remain steady

While closing rates indicate that INR has depreciated 2.0% QoQ versus USD, the quarterly average rate has appreciated 0.5%. But INR has depreciated 4.1% and 3.7% versus GBP and EUR, respectively, QoQ. Hence, we foresee positive 30-50bps margin movement for IT companies. We do not foresee pricing or cost pressures in existing or new deals. Accordingly, we estimate margins to remain broadly stable as automation and pyramid rationalisation efficiencies will be offset by higher onshore hiring.

Outlook: Revenue acceleration in FY19 on the cards

With improving economic outlook in US, higher adoption of outsourcing in Europe and digital services gaining scale, revenue acceleration looks certain for Indian IT companies. Also Retail and Energy & Utility verticals have turned around and growth revival in BFSI fuels strong prospects for IT industry. While mid caps are expected to outpace large peers during current quarter, we perceive positive bias to large caps in the medium-to-long run as digital gains scale on account of execution capabilities. We maintain **'BUY'** on Infosys, HCLT & TECHM and **'HOLD'** on TCS and Wipro.

Top picks

Infosys, HCL Technologies and Tech Mahindra

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

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

Nikunj Mandowara
+91 22 4040 7431
nikunj.mandowara@edelweissfin.com

April 5, 2018

Stock		Q4FY18E (INR mn)	Q4FY17 (INR mn)	Y-o-Y (%)	Q3FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Cyient	Revenues	10,477	9,410	11.3	9,834	6.5	Revenues to grow 7.1% in USD terms majorly due to strong growth in DLM business. We expect Services business to remain flat QoQ (Q3FY18 was very strong) with DLM business growing ~90% QoQ (due to major deals being pushed from previous quarter). Margins expected to decline 40bps QoQ. Commentary on deal pipeline, demand in ER&D and traction in DLM business to be keenly monitored.
	EBITDA	1,487	1,247	19.2	1,431	3.9	
	Core PAT	1,062	784	35.4	832	27.7	
e-Clerx	Revenues	3,482	3,315	5.0	3,399	2.5	Revenue expected to rise 3.1% QoQ in USD terms and 1.9% in cc terms as all key revenue headwinds are now behind. Despite company focussing of ramping up lower margin onsite and managed services business, we expect EBITDA margin expected to expand 50bps on tighter execution and return in revenue growth. Demand outlook, particularly for short-term projects, growth in top-10 clients, digital pipeline will be key monitorables.
	EBITDA	941	1,023	(8.0)	900	4.5	
	Core PAT	660	748	(11.8)	575	14.8	
HCL Tech	Revenues	132,277	120,530	9.7	128,080	3.3	Expect HCL Tech to post USD revenue growth of 3.4% (cross currency tail-wind of 120bps). Margins are expected to expand 30bps on account of operational efficiencies offsetting marginal impact of INR appreciation. Revenue and margin guidance for FY19, update on IP-deals, outlook in IMS, traction in ER&D traction to be keenly monitored.
	EBITDA	30,921	26,490	16.7	29,640	4.3	
	Core PAT	22,482	23,280	(3.4)	21,940	2.5	
Hexaware	Revenues	10,355	9,605	7.8	10,048	3.1	We expect revenues of Hexaware to grow 2.5% QoQ in cc terms and 3.1% QoQ in USD terms. EBITDA margins expected to expand 30bps on account of absense of partial impact of wage hike and operational efficiencies. Growth in IMS and BPS service offerings, outlook on the top-10 clients, demand environment in BFSI are key monitorables.
	EBITDA	1,681	1,623	3.6	1,599	5.2	
	Core PAT	1,276	1,139	12.0	1,210	5.4	
InfoEdge	Revenues	2,466	2,084	18.3	2,272	8.6	Revenue expected to grow 18.3% YoY due to strong growth in 99acres (base affected due to demonetisation) and Shiksha (>20% YoY). Expect growth to remain steady in Naukri business (13.5% YoY growth in billings). Considering substantial advertisements in all 4 businesses, we expect margin decline of 130bps QoQ. Commentary on competition in Naukri and 99acres, advertising strategy, investee companies' performance are key monitorables.
	EBITDA	824	632	30.4	788	4.5	
	Core PAT	730	329	122.0	533	36.8	
Infosys	Revenues	181,476	171,200	6.0	177,940	2.0	Revenues expected to grow 1.4% QoQ in cc terms, aided 100bps by currency movement (USD growth 2.4% QoQ). EBITDA margin expected to rise 30bps QoQ due to absense of wage hikes and operational efficiencies negating marginal impacts of ramping of US worforce and INR appreciation. Guidance for FY19, Mr. Salil Parekh strategy and long term roadmap for Infosys and deal wins will be key monitorables.
	EBITDA	49,692	46,580	6.7	48,170	3.2	
	Core PAT	38,157	36,030	5.9	36,970	3.2	
Just Dial	Revenues	1,988	1,817	9.4	1,968	1.0	Revenue growth to be 9.4% YoY, driven by higher realisations. Growth in campaigns is also anticipated as benefit from ads accrue and impact on SMEs (due to GST) recede. We expect margins to rationalise 60bps QoQ on higher variable pay. Management strategy on advertising campaign, traction in listings in core business and plan of action in JD Omni are key monitorables.
	EBITDA	459	322	42.8	466	(1.3)	
	Core PAT	400	254	57.8	286	39.9	

Stock		Q4FY18E (INR mn)	Q4FY17 (INR mn)	Y-o-Y (%)	Q3FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Persistent Systems	Revenues	7,634	7,271	5.0	7,919	(3.6)	USD revenues expected to decline 3.2% QoQ on account of USD8mn dip in IP revenues. While a USD3-4mn fall was anticipated on account of seasonal weakness in the Alliance, additional decline is on account of ramp down in one of its key IP products. Margins also expected to take 400bps QoQ hit as major part of IP revenue flow down to profitability. Outlook for IP revenues, commentary on IBM Watson deal, traction in digital, update on ISV business are key monitorables.
	EBITDA	1,033	1,188	(13.0)	1,375	(24.9)	
	Core PAT	683	728	(6.1)	917	(25.5)	
TCS	Revenues	315,077	296,420	6.3	309,040	2.0	CC revenue growth of 1.1% QoQ, further aided 120bps by cross currency (2.3% growth in USD terms). Revenue growth to be impacted due to softness in key BFSI clients, while rest of business will continue good momentum. EBITDA margins expected to rise 30bps QoQ on account of operational efficiencies. Commentary on spends by BFSI and Retail clients, level of outsourcing in Europe are key monitorables.
	EBITDA	85,288	81,330	4.9	82,880	2.9	
	Core PAT	67,264	66,080	1.8	65,310	3.0	
TechMahindra	Revenues	79,777	74,950	6.4	77,760	2.6	We estimate TECHM's revenue to grow 1.3% in cc terms and 2.5% in USD terms QoQ. Growth to be led by robust momentum in enterprise business, while telecom business is reviving. EBITDA margin to further expand 50bps QoQ, on account of operational efficiencies and improvement in performance of acquired companies. Commentary on Network business, capex in telecom industry, long term margin outlook will be keenly monitored.
	EBITDA	13,386	8,987	48.9	12,647	5.8	
	Core PAT	9,548	5,880	62.4	9,432	1.2	
L&T Technology Services	Revenues	10,005	8,123	23.2	9,691	3.2	Expect revenue to grow 2.0% QoQ in cc terms and 3.0% in USD terms. Margins are expected to improve 70bps on account of higher billing rates, better SG&A management and higher ofshoring. Management commentary on deal wins during the quarter, outsourcing in ER&D space, traction in telecom vertical and top-10 client performance are key monitorables.
	EBITDA	1,604	1,338	19.9	1,485	8.0	
	Core PAT	1,282	965	32.9	1,265	1.4	
L&T Infotech Ltd	Revenues	19,656	16,772	17.2	18,837	4.3	Revenue growth to be 4.1% QoQ- aided by inorganic revenues (140bps) and cross currency tailwinds (80bps). Margins to expand 60bps QoQ on account of operational efficiencies and strong revenue momentum. Management commentary on deal wins during the quarter, outlook for FY19, spendings in BFSI vertical, performance in top-10 clients are key monitorables.
	EBITDA	3,480	3,191	9.0	3,215	8.2	
	Core PAT	3,045	2,546	19.6	2,829	7.6	
Wipro	Revenues	139,071	139,875	(0.6)	136,690	1.7	Wipro to post USD revenue and cc revenue growth of 2.1% and 1.1% QoQ respectively, as customer related issues (in utility and telecom) will continue to impact the company. We foresee 20bps QoQ expansion in adjusted margins (margins were impacted by 240bps last quarter due to client insovency). Demand outlook in energy & utilities vertical, traction in BPM, demand from India & MEA geographies, are key monitorables.
	EBITDA	28,909	32,264	(10.4)	24,928	16.0	
	Core PAT	22,448	22,611	(0.7)	19,371	15.9	

Valuation snapshot

	Reco	Mkt Cap USD mn	Price (INR)	P/E (x) FY19E	P/E (x) FY20E	P/B (x) FY19E	P/B (x) FY20E	RoE (%) FY19E	RoE (%) FY20E	Div yld (%) FY19E	Div yld (%) FY20E
Cyient	Buy	1,133	656	15.8	13.7	2.8	2.5	18.6	19.1	2.6	3.0
eClerx Services	Hold	716	1,208	15.1	12.5	3.0	2.5	21.1	21.9	1.7	2.0
HCL Tech	Buy	20,499	959	14.1	12.5	3.2	2.7	24.4	23.5	2.1	2.3
Hexaware Technologies	Hold	1,805	396	20.8	17.5	5.1	4.4	26.4	26.9	1.9	2.0
Infosys Technologies	Buy	37,690	1,124	15.8	13.7	3.8	3.4	24.9	26.4	3.8	3.6
Info Edge	Buy	2,280	1,220	43.3	35.7	7.2	6.2	17.9	18.8	0.5	0.5
Just Dial	Hold	477	461	18.0	15.6	2.5	2.2	15.3	15.1	0.0	0.0
Persistent Systems	Buy	831	677	13.1	11.3	2.2	1.9	18.0	18.2	1.8	2.1
Tata Consultancy Services	Hold	85,534	2,911	20.0	17.9	6.0	5.4	31.9	31.6	2.6	3.1
Tech Mahindra	Buy	9,118	606	14.1	12.3	2.6	2.3	18.6	19.1	2.0	2.3
L&T Technology Services	Buy	1,918	1,220	21.4	17.3	6.0	5.1	30.5	31.8	1.7	2.4
L&T Infotech Ltd	Buy	3,735	1,415	19.2	16.2	5.6	4.8	31.8	32.2	2.1	2.5
Wipro	Hold	19,554	282	15.3	14.1	2.7	2.5	18.5	18.4	2.8	3.2

RESULT PREVIEW

MEDIA

Ad recovers; margins soft due to investments

India Equity Research | Strategy

In Q4FY18, we estimate revenue and EBITDA of our media universe (excluding Hathway and Dish TV) to jump 10.4% (7.4% in Q3FY18) and 7.8% YoY (6.6% in Q3FY18), respectively. This is expected to be led by broad-based ad spends across categories and low base. We peg the overall ad industry to report low double-digit growth. Generally, subscription deals are renegotiated during Q2 and Q3. We expect subscription revenues of TV broadcasters to clock mid teens growth YoY in Q4FY18 due to bunching up of deals pending clarity on the TV tariff order. Though Q4 is seasonally weak, we estimate Q4FY18 to be a very strong quarter for multiplexes aided by strong movies like *Padmavat, Sonu ki Titu ki Sweety, Raid and* screen expansion.

Ad growth likely to recoup strongly for most players

We expect **ZEE to clock 20% YoY LTL ad growth** (~23% YoY overall ad growth aided by RBNL and IWPL). **We estimate Sun TV to report 13.5% YoY ad growth** on a low base of 6.7% YoY dip, primarily due to low base and decent ratings. We estimate **PVR to report 2-3% YoY increase in overall footfalls and 30% YoY ad growth in Q4FY18.** While DB Corp is expected to report 9% YoY standalone print ad growth, Jagran is estimated to report 3% YoY dip in print ad growth as base had UP elections. Radio City is expected to report 10% YoY spurt on a small base of 3.6%. **Dish TV will report consolidated numbers (Videocon d2h + Dish TV) and hence is not comparable YoY**. We expect net subscriber addition of 0.40mn (0.20mn each added by Dish TV, Videocon d2h).

Margins of most players to dip

We expect ZEE to report 26.7% EBITDA margin (down 400bps YoY) in spite of good revenue growth **due to higher marketing cost on account of launch of ZEE5 and investment in original programming hours**. Sun TV is expected to report 67% EBITDA margin (60bps dip YoY). **PVR is estimated to report 14.2% EBITDA margin, up 451bps YoY.** Dish TV is estimated to report 27.3% EBITDA margin (26.9% in Q4FY17).

Outlook for the next 12 months

***Padmavat's* premier on Amazon Prime Video ahead of TV is a key monitorable with regards to the changing trend. Competition is likely to intensify in Tamil GECs** (*Colors Tamil* has already been launched). We expect competition in OTT to pick up as ZEE has plans to host over 90 plus original shows by March 2019 end on its new OTT platform *ZEE5* and further investments in original digital programming hours by ALT digital, Netflix and Amazon India. FMCG ad spends need to be closely tracked as companies are rationalising ad spends. With no clarity on renewal of channels on Freedish, private DTH players will strengthen subscriber share in Phase IV markets.

Top picks

ZEE, Sun TV and PVR.

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

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

April 5, 2018

Stock		Q4FY18E (INR mn)	Q4FY17 (INR mn)	Y-o-Y (%)	Q3FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
DB Corp	Revenues	5,663	5,171	9.5	5,986	(5.4)	We expect print ad growth to be 9% YoY in Q4FY18 on a negative base of 2.7% YoY (-5.8% YoY in Q3FY18 on a base of 2.4%). Circulation revenue is expected to grow by 11% YoY on a base of 7.1% (6.1% YoY in Q3FY18 on a base of 8.9%), led equally by copies and net realisation. Radio is expected to report 8% YoY ad growth. The company increased its circulation. Circulation expansion efforts have been delivering good growth since July, where copies have grown from 5.041mn to 5.639mn, (0.6mn increase).
	EBITDA	1,071	1,122	(4.6)	1,396	(23.3)	
	Core PAT	583	642	(9.1)	781	(25.3)	
DEN Networks	Revenues	3,366	3,172	6.1	3,282	2.6	Subscription revenue is expected to increase by 7.7% QoQ led by slightly higher DAS II ARPUs and better monetisation in Phase III. Activation revenue is expected to be steady QoQ at INR250mn (INR350mn in Q3FY18). Broadband business is expected to increase 17.5% QoQ as competition lowers, and we expect the company to add 10,000 broadband subscribers. Broadband ARPU is expected to fall to INR570 in Q4FY18 (INR579 in Q3FY18).
	EBITDA	801	565	41.9	788	1.6	
	Core PAT	30	(605)	NA	17	74.2	
Dish TV	Revenues	16,423	7,086	131.8	7,408	121.7	As Dish TV received MIB approval for Videocon d2h merger, Q4FY18 will report overall consolidated numbers (Dish TV + Videocon d2h). Hence, we cannot compare it YoY. We expect net additions to be 0.40mn (0.2mn for Dish TV and 0.2mn for Videocon d2h), while ARPU is expected to improve 3% QoQ to INR148 for Dish TV and 4% QoQ for Videocon d2h. EBITDA margin will be flattish as merger benefits will be realised going ahead.
	EBITDA	4,491	1,906	135.7	2,005	124.0	
	Core PAT	(414)	(283)	(46.1)	(36)	(1,055.6)	
Hathway Cable & Datacom	Revenues	1,462	3,467	NA	1,387	NA	We expect 30,000 broadband subscribers to be added in Q4FY18 with average ARPU of INR710 (lower ARPU QoQ due to increased competition). Hence, broadband revenue is expected to increase 14.7% YoY on a base of 18.38% (8.45% YoY in Q3FY18 on a high base of 62.3%). EBITDA margin is expected to improve QoQ due to operating leverage.
	EBITDA	651	745	NA	601	NA	
	Core PAT	276	(150)	NA	239	NA	
Jagran Prakashan	Revenues	5,574	5,620	NA	5,981	(6.8)	We expect dip in standalone print ad growth of 3% YoY on a base of 3.9% YoY due to demonetization and lingering GST impact. Slower government advertising (compared to base) and local advertising (due to GST rollout) impacted ad growth. Radio City is expected to report robust 10% YoY ad growth on small base of 3.6%. Circulation revenue is expected to be flattish on a base of 3.4% due to increased competition in Uttar Pradesh. Increase in newsprint cost is a fresh worry and Jagran is expected to take a hike in the Ad rate and increase the cover price to counter it.
	EBITDA	1,410	1,441	NA	1,629	(13.4)	
	Core PAT	743	811	NA	872	NA	
PVR	Revenues	5,400	4,826	11.9	5,573	(3.1)	The quarter commenced with blockbuster Padmaavat. The film alone reported INR3bn plus box office collection in India. Sonu Ke Titu Ki Sweety and Pad Man had a decent run. Overall, Q4FY18 was a decent quarter. We expect 7% YoY increase in ARPU because of Padmaavat and overall footfall is expected to increase by 2-3% YoY. LTL SPH is expected to increase by double digit YoY, while advertising will report robust 30% YoY growth. 25 new screens were added in this quarter and 90 screens are expected to be added in FY19.
	EBITDA	767	467	64.1	1,003	(23.6)	
	Core PAT	180	(0)	45,091.2	292	NA	

Stock		Q4FY18E (INR mn)	Q4FY17 (INR mn)	Y-o-Y (%)	Q3FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Sun TV	Revenues	6,703	5,825	15.1	6,833	(1.9)	We expect the company to report 13.5% YoY ad growth on a base of negative ad growth of 6.7% YoY due to demonetisation effect in the base (18.9% growth YoY in Q3FY18 on a negative base of 7.5%). DTH revenues would grow by 13.0% YoY in Q4FY18 on a base of 9.6%(12% YoY growth in Q3FY18 on a base of 10.7%). We expect content cost to inch up slightly due to change in business model (ad slot to commissioned model). Therefore, EBITDA margin will be slightly under pressure.
	EBITDA	4,494	3,936	14.2	4,920	(8.7)	
	Core PAT	2,400	2,359	1.7	2,670	(10.1)	
Zee Entertainment	Revenues	17,319	15,280	13.3	18,381	(5.8)	ZEE recorded ~INR268mn ad revenues, ~INR982mn subscription revenue from sports on a quarterly basis in FY17. With Ten Sports deal completed in Q4FY17, the company will report 21% YoY LTL ad growth in Q4FY18 on a negative base of 0.04%. Overall, ad growth will be 23.2% YoY aided by IWPL and RBNL properties (25.8% YoY in Q3FY18). LTL domestic subscription revenue growth is likely to grow by 17% YoY on a base of -2.7% YoY as renegotiation of deals are expected to be concluded in Q4FY18. However, due to Ten Sports present in the base, the company will report negative growth. International subscription is expected to report 4% YoY dip on a negative base of 18.7% YoY (-12.2% Yoy in Q3FY18). We expect EBITDA margin of ~26.7% versus 32.9% in base (non sports business) due to additional investments in original programming hours and higher marketing costs incurred for the launch of Zee5. .PAT growth is 19.6% YoY in Q4FY18 because of lower tax incidence and lower interest cost .
	EBITDA	4,624	4,687	(1.3)	5,944	(22.2)	
	Core PAT	2,915	2,438	19.6	3,476	(16.1)	

Valuation snapshot

		Mkt Cap	Price	P/E (x)		P/B (x)		RoE (%)		Div yld (%)	
	Reco	USD mn	(INR)	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
DB Corp	Buy	885	313	12.8	11.4	2.9	2.5	23.9	23.7	3.2	3.5
DEN Networks	Hold	312	104	NM	341.9	2.4	2.4	(2.9)	0.6	0.0	0.0
Dish TV India	Buy	1,156	71	82.0	54.0	9.5	8.0	17.5	16.1	0.0	0.0
Hathway Cable & Datacom	Buy	469	37	901.8	82.5	3.9	3.7	0.4	4.6	0.0	0.0
Jagran Prakashan	Buy	808	169	13.1	11.1	2.2	2.0	15.5	17.2	3.0	3.4
PVR	Buy	904	1,261	31.6	24.5	4.8	4.1	15.8	17.5	0.3	0.4
Sun TV Network	Buy	5,208	861	24.3	21.7	6.2	5.4	27.6	26.6	1.6	1.8
Zee Entertainment Enterprise	Buy	8,469	574	31.4	25.7	6.0	5.0	20.9	21.4	0.3	0.4

RESULT PREVIEW

METALS AND MINING

Not the first of spring, but there is song to sing

India Equity Research | Strategy

Edelweiss
Ideas create, values protect

We expect Jindal Steel & Power (JSPL) and NMDC to be the cynosure this time around, while our top picks—Vedanta, Hindalco and Tata Steel—are likely to clock stable performance. We envisage operating leverage and robust prices to continue to drive earnings spurt, though higher raw material and crude derivatives costs are likely to act as dampeners. Going ahead, we see near-term challenges owing to the slower-than-expected uptick in China's demand and overhang of tariff war. However, long-term outlook remains positive due to apparent consolidation & supply tightness in the domestic steel sector and cost efficiencies in the non-ferrous space. We reiterate our preference for non- ferrous stocks and zinc over aluminium.

JSPL and NMDC likely to post highest EBITDA spurt

We expect JSPL and NMDC to benefit from operating leverage and higher realisation, respectively. While JSPL is expected to post volume uptick in excess of 30% owing to Angul ramp up, NMDC is estimated to clock 82% YoY EBITDA spurt on account of price hikes effected in December 2017 and January 2018 (refer, ***Metals and Mining - The party continues: 3 stocks, 2 drivers and 1 outcome....; sector update***).

Margins though higher, restrained by cost escalation

In almost all companies, benefits of higher realisation are expected to be partially offset by higher cost of iron ore, thermal coal and crude derivatives. We expect stable performance from our top picks—Vedanta, Hindalco and Tata Steel—due to the base effect. However, we expect EBITDA margin of the entire ferrous space to improve. In the non-ferrous space, robust LME price growth is likely to be countered by higher power and fuel costs.

Outlook: Uncertainties weigh in short term

Though long-term outlook remains sanguine primarily due to supply constraints, we expect stocks to remain under pressure in the near term due to concerns on China's growth and impact of tariffs imposed by President Trump. Nevertheless, operating leverage and cost efficiencies remain key growth drivers for Vedanta and Hindustan Zinc. In case of ferrous stocks, we see an increasingly compelling domestic story driven by potential consolidation and limited new capacity coming up over the next two years. In mining companies, we continue to prefer NMDC over Coal India due to favourable supply landscape for the former.

Top picks

Vedanta, Hindalco and Tata Steel.

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

April 5, 2018

Stock		Q4FY18E (INR mn)	Q4FY17 (INR mn)	Y-o-Y (%)	Q3FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Coal India	Revenues	2,71,099	2,31,716	17.0	2,16,433	25.3	Expect better revenue primarily due to higher realisation. CIL took price hike of ~9.8% across the grades in January. E-auction premia also remained robust at 50-60% in the quarter.
	EBITDA	60,218	33,876	77.8	46,179	30.4	
	Core PAT	39,201	27,179	44.2	30,050	30.5	
Hindalco (Standalone)	Revenues	1,12,983	1,10,261	2.5	1,10,228	2.5	EBITDA driven by higher LME Al prices and lower Alumina cost. However, EBITDA growth is curtailed by higher cost of coal and oil derivatives
	EBITDA	14,129	13,472	4.9	13,117	7.7	
	Core PAT	5,044	5,027	0.3	4,505	12.0	
Hindustan Zinc	Revenues	60,724	61,819	(1.8)	59,220	2.5	Revenue driven by higher volume of Lead and Silver due to ramp of SK mine and Zawar mine. However, owing to the hedging of LME Zinc, the company is unable to get the full benefit of spot prices and thus revenue is expected to be lower YoY. However, adverse impact on EBITDA is expected to be partially offset by lower fuel and haulage cost.
	EBITDA	36,621	37,480	(2.3)	32,440	12.9	
	Core PAT	26,259	30,570	(14.1)	22,300	17.8	
JSPL (Consol)	Revenues	86,749	62,905	37.9	69,926	24.1	Expect the company to report profit for the first time since Q2FY15 driven by robust performance of steel division- domestic and international. Ramp up of Angul is expected to result in formidable operating leverage benefits for the company. Power division, however, is expected to disappoint with lower generation
	EBITDA	21,165	15,521	36.4	16,065	31.7	
	Core PAT	1,183	-4,977	NM	-2,727	143.4	
JSW (Consolidated)	Revenues	2,03,162	1,66,562	22.0	1,78,610	13.7	EBITDA growth expected to be curtailed partially by hike in domestic iron ore prices. However, higher steel prices and ramp up of longs volume is likely to ensure EBITDA/t of domestic operations at ~INR 10,000/t. Expect good performance of US subsidaries to sustain on the back of price hikes in the US.
	EBITDA	44,128	31,649	39.4	38,510	14.6	
	Core PAT	18,955	10,086	87.9	15,234	24.4	
NMDC	Revenues	34,791	28,717	21.2	24,690	40.9	Expect EBITDA to grow 2x on the back of price hike taken in December and January. Also, we expect volume uptick post restoration of railway line. Pellet plant has commenced operations but is expected to have only marginal impact on earnings.
	EBITDA	16,923	9,321	81.5	12,099	39.9	
	PAT	11,405	5,119	122.8	8,866	28.6	
SAIL	Revenues	1,87,140	1,26,905	47.5	1,53,237	22.1	Expect the company to enhance profitability due to higher prices (particularly longs), higher sales volume and reduced proportion of semis. Expect cost per tonne to come down as a result of improved operating efficiency
	EBITDA	18,387	-2,644	NM	14,402	27.7	
	Core PAT	3,148	-7,713	NM	865	263.9	
Tata Steel (Consol)	Revenues	3,84,092	3,38,960	13.3	3,34,466	14.8	Expect domestic steel division to continue posting strong performance with EBITDA/t at INR 15,500. However, ferrochrome division is expected to show subdued performance. Tata Steel Europe is expected to show an improved performance after lackluster preceding 2 quarters on the back of higher spot prices getting reflected in contract prices
	EBITDA	69,229	70,252	(1.5)	56,969	21.5	
	Core PAT	32,422	33,490	(3.2)	20,418	58.8	
Vedanta	Revenues	2,48,507	2,25,113	10.4	2,43,610	2.0	Expect better profitability from Aluminium and Oil & Gas divisions. Iron ore and Copper divisions, however, are likely to report lower volumes. International Zinc division is also expected to report higher cost (one-off) due to ongoing development
	EBITDA	70,365	73,501	(4.3)	67,330	4.5	
	Core PAT	22,500	27,426	(18.0)	22,363	0.6	

Valuation snapshot

		Mkt Cap	Price	P/E (x)		P/B (x)		RoE (%)		Div yld (%)	
	Reco	USD mn	(INR)	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Coal India	Hold	26,160	275	10.7	10.7	9.0	5.9	77.2	65.4	8.9	2.8
Hindalco Industries	Buy	6,920	201	7.9	7.5	0.8	0.7	10.3	9.8	0.5	0.5
Hindustan Zinc	Buy	19,928	307	11.6	10.4	4.2	3.9	36.4	38.7	0.0	0.0
Jindal Steel & Power	Buy	3,263	220	15.5	9.2	0.7	0.6	4.4	6.9	0.0	0.0
JSW Steel	Buy	10,977	296	10.5	9.8	2.1	1.8	22.8	20.0	0.4	0.4
NMDC	Buy	5,629	116	8.3	7.4	0.0	0.0	17.1	17.5	0.0	0.0
Steel Authority of India	Reduce	4,584	72	10.8	8.0	0.8	0.7	7.5	9.3	0.0	0.0
Tata Steel	Buy	9,856	561	7.2	7.0	1.2	1.1	18.3	16.2	1.4	1.4
Vedanta	Buy	15,651	274	8.9	8.2	1.6	1.6	19.0	19.0	0.0	0.0

RESULT PREVIEW

PHARMACEUTICALS

Tough times to continue

India Equity Research | Strategy

We estimate the pharma sector to report weak Q4FY18 numbers—while revenue is likely to grow at 3% YoY, PAT is expected to decline 9% YoY. We expect US revenue to dip 2% YoY in constant currency (cc)—five consecutive quarters of decline—led by sustained pricing pressure due to: i) customer consolidation; and ii) rise in competition. INR appreciation of ~4% YoY against the USD will put further pressure on realisations. However, this is likely to be partly offset by INR depreciation against the EUR/ZAR/JPY by ~11%/6%/1% YoY. We forecast domestic sales to grow 11% YoY on a low base. Overall, while CDH (*gTamiflu* and *gLialda*), NATP (*gCopaxone* and *gTamiflu*) and ARBP (Generis acquisition) are expected to post good growth, SUNP, LPC (*gFosrenol*) and GNP (*gZetia*) are estimated to clock the sharpest declines.

One-offs to fuel earnings growth despite waning approvals

New products approvals by USFDA declined drastically during Q4FY18 to 109 from 249 in Q3FY18 due to additional documentation requirements for elemental impurities. However, CDH and NATP are expected to benefit from the Q3FY18 launches of *gCopaxone* and *gLialda*. Also, US is experiencing one of the strongest flu seasons in recent times. NATP and CDH, the only players marketing *gTamiflu* tablet and suspension, are expected to benefit from it. On the regulatory front, USFDA inspections of Cadila (Moraiya, Ahmedabad) and Natco (Mekaguda) were favourable, while Aurobindo (Hyderabad unit-IV), Cipla (Goa), Dr. Reddy's (Telangana) and Sun (Halol) received observations.

CDH, NATP, ARBP, and IPCA's earnings to remain buoyant

CDH: Strong flu season to aid *gTamiflu,* delay in competition to boost *gLialda* sales; **NATP:** *gCopaxone* and *gTamiflu* to drive strong earnings growth; **ARBP:** Europe to be driven by Generis acquisition; **DRRD:** Declines in *gRenvela* and new competition in *gDacogen* and *gVitorin*; **Ipca**: Domestic rebound and EUR appreciation to fuel earnings growth; **SUNP:** US to remain flat, Taro revenue to decline; **Cipla**: ZAR appreciation and ramp-up in recent launches viz. *gRenvela*, *gPulmicort*, *gDacogen*, and *gViread*; **LPC:** Loss of exclusivity in *gFosrenol*, *metformin* franchise to decline; **TRP:** Domestic revenue to receive boost from Unichem acquisition; **GNP:** Full quarter of *gZetia* in base; **Divi's**: Margin to decline on operating deleverage and INR appreciation (refer table 4).

Outlook: Pricing challenges in US with stable domestic business

Though there are early signs of stability in the domestic business, management commentaries and guidance for FY19 for the US business are key to monitor in Q4FY18 results. Consensus downgrades continued in Q4FY18, with 9%/7%/5% cut in FY18/19/20E earnings. The pharma sector trades at ~17.2x rolling 1-year forward earnings/6% premium to Nifty versus ~30.7x/71% a year ago.

Top picks

DRRD and Ipca.

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

Ankit Hatalkar
+91 22 2286 3097
ankit.hatalkar@edelweissfin.com

Videesha Mehta
videesha.mehta@edelweissfin.com

April 5, 2018

Stock		Q4FY18E (INR mn)	Q4FY17 (INR mn)	Y-o-Y (%)	Q3FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Aurobindo	Revenues	43,344	36,416	19.0	43,361	(0.0)	Expect US sales (USD280mn) to decline 5% sequentially, as market share loss for gRenvela tablets is likely to be only partly offset by gArixtra (fondaparinux sodium injection) launch. On a YoY basis, US sales are likely to grow 14%. Expect Europe to grow 41% YoY in cc, driven by the Generis acquisition. We expect EBITDA margin to decline ~160bps sequentially to 22%.
	EBITDA	9,536	7,212	32.2	10,256	(7.0)	
	Core PAT	6,482	5,172	25.3	6,614	(2.0)	
Cipla	Revenues	38,053	35,820	6.2	39,138	(2.8)	US revenue (USD110mn) is expected to grow 13% YoY/10% QoQ, on ramp-up in recent launches viz. gRenvela, gPulmicort, gDacogen, and gViread. India business is expected to grow 12% YoY, on a low base. Expect South Africa to be driven by 6% appreciation in ZAR. Expect EBITDA margin to decline sequentially to ~17.3%, as favourable mix from GST-related inventory stuffing is unlikely to continue.
	EBITDA	6,579	5,062	30.0	8,187	(19.6)	
	Core PAT	3,220	2,042	57.7	3,832	(16.0)	
Cadila Healthcare	Revenues	31,635	24,782	27.7	32,596	(2.9)	US revenue (USD220mn) is likely to decline sequentially (Q3FY18: USD244mn), as gTamiflu growth, lead by a strong flu season, will be offset by decline in gLialda. Though Teva's gLialda hasn't launched yet, Shire's AG will compete with Cadila. We expect ~14% YoY growth in the domestic business. Also, we expect an EBITDA margin to remain flat sequentially at ~26%.
	EBITDA	8,198	4,636	76.8	8,412	(2.5)	
	Core PAT	5,384	3,855	39.7	5,433	(0.9)	
Divi's Laboratories	Revenues	10,441	10,667	(2.1)	10,379	0.6	We expect top-line to decline by ~2% YoY as quarterly run rate rebounds to INR10bn mark post lifting of import alert. However, regaining the pre-import alert EBITDA margin of 37% will be an uphill task. We expect margin to decline by ~150bps YoY, to 32%, on operating deleverage and ~4% INR YoY appreciation.
	EBITDA	3,392	3,620	(6.3)	3,261	4.0	
	Core PAT	2,327	2,825	(17.6)	2,374	(2.0)	
Dr Reddy's	Revenues	34,212	35,542	(3.7)	38,060	(10.1)	Expect US revenue (USD 297mn) to decline sequentially by 17% in cc, mainly from declines in gRenvela, and new competition in gDacogen (Cipla) and gVytorin (Alkem). Company launched gXenazine and gXyzal during the quarter. We expect India to grow 8% YoY. EBITDA margins to decline sequentially to ~16%.
	EBITDA	5,442	5,834	(6.7)	7,667	(29.0)	
	Core PAT	2,684	3,221	(16.7)	3,365	(20.2)	
Glenmark Pharma	Revenues	22,476	24,572	(8.5)	22,037	2.0	Expect US revenue (USD113mn) to decline 25% YoY as base contained full quarter of gZetia sales (GNP was first-to-file). Sequentially, US revenue is likely to remain flat as declines in gMupirocin CA offset full quarter of sales from new launches namely gMinastrin and gLoestrin. India business is likely to grow 9% YoY. EBITDA margin is expected to decline sequentially to 14%.
	EBITDA	3,172	4,438	(28.5)	3,227	(1.7)	
	Core PAT	1,737	2,404	(27.7)	1,047	65.9	
IPCA Laboratories	Revenues	7,951	6,658	19.4	8,592	(7.5)	We expect domestic formulations to grow 18% YoY. Export formulations is likely to grow 14% YoY from rebound in Europe business and 11% appreciation in EUR. We expect EBITDA margin to decline slightly, during the seasonally weak quarter, to 17.8% vs 18.8%/10.2% in Q3FY18/Q4FY17.
	EBITDA	1,417	677	109.4	1,612	(12.1)	
	Core PAT	838	271	209.3	1,093	NM	

Stock		Q4FY18E (INR mn)	Q4FY17 (INR mn)	Y-o-Y (%)	Q3FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Lupin	Revenues	38,951	42,533	(8.4)	39,756	(2.0)	Expect US sales (USD215mn) to remain stable sequentially as launch of gAxiron and gAncobon is expected to offset loss of gFosrenol exclusivity (in Mar '18) and increased competition in gMinastrin (Glenmark) and gFortamet (Nostrum). India business to grow 5% YoY. EBITDA margins expected to grow sequentially to ~18%, as the base was adversely impacted one-off forex volatility.
	EBITDA	7,018	7,814	(10.2)	6,883	2.0	
	Core PAT	3,098	3,802	(18.5)	3,152	(1.7)	
Natco Pharma	Revenues	7,451	5,778	29.0	5,711	30.5	Expect top-line to grow 30% sequentially, fuelled by market share gains in gCopaxone 20/40mg (expected profit share of ~USD35mn in Q4FY18), and gTamiflu growth on the back of a strong flu season. Consequently, we expect EBITDA margins to grow ~300bps sequentually to ~55%, due to high gross margins at gCopaxone.
	EBITDA	4,071	2,411	68.9	2,954	37.8	
	Core PAT	3,153	1,767	78.5	2,263	39.3	
Sun Pharma	Revenues	66,769	71,370	(6.4)	66,532	0.4	We expect US revenue (USD330mn) to remain flat sequentially, with Taro expected to decline by 4% (~USD5mn) sequentially. Base business erosion is likely to offset launch of gEpiduo and gDuac by Taro. Domestic sales expected to grow 6% YoY. EBITDA margins to decline sequentially to 19.6%.
	EBITDA	14,270	15,475	(7.8)	14,534	(1.8)	
	Core PAT	7,452	12,237	(39.1)	8,784	(15.2)	
Torrent Pharmaceuticals	Revenues	15,994	14,340	11.5	14,770	8.3	Expect domestic revenue to grow by 46% YoY, with ~INR170mn incremental contribution from Unichem's acquired business. We expect US (USD37mn) to decline 12% YoY/10% QoQ in CC. Expect EBITDA margin to decline sequentially by 240bps to ~22%.
	EBITDA	3,506	2,950	18.8	3,590	(2.3)	
	Core PAT	1,293	2,060	(37.3)	1,473	(12.2)	

Valuation snapshot

	Reco	Mkt Cap USD mn	Price (INR)	P/E (x) FY19E	P/E (x) FY20E	P/B (x) FY19E	P/B (x) FY20E	RoE (%) FY19E	RoE (%) FY20E	Div yld (%) FY19E	Div yld (%) FY20E
Aurobindo	Hold	5,310	590	13.5	13.5	2.5	2.1	19.8	16.9	0.5	0.5
Cadila Healthcare	Buy	6,202	395	18.9	15.6	4.1	3.4	23.1	23.6	1.2	1.4
Cipla	Hold	7,042	570	23.9	20.4	2.9	2.6	12.8	13.4	0.4	0.4
Divi's Laoratories	Reduce	4,469	1,097	27.6	24.7	4.3	3.8	16.6	16.5	0.9	1.0
Dr Reddy Labs	Buy	5,324	2,091	14.3	12.0	2.3	2.1	17.4	18.4	1.9	2.3
Glenmark Pharmaceuticals	Hold	2,375	548	18.0	16.0	2.5	2.2	15.1	14.8	0.3	0.4
IPCA Laboratories	Buy	1,301	672	18.7	14.3	2.7	2.4	15.6	17.9	1.1	1.4
Lupin	Hold	5,379	775	21.8	17.0	2.2	2.0	10.5	12.2	0.7	0.9
Natco Pharma	Buy	2,163	764	16.4	16.7	4.6	3.8	32.1	24.9	0.9	0.9
Sun Pharma	Hold	18,497	502	30.2	23.2	2.9	2.6	9.8	11.5	0.3	0.4
Torrent Pharmaceuticals	Hold	3,334	1,284	26.3	19.3	4.0	3.5	16.0	19.3	1.1	1.6

RESULT PREVIEW

REAL ESTATE

Improvement expected post RERA and GST

India Equity Research | Strategy

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Ideas create, values protect

We estimate residential sales and office space absorption to continue to improve in Q4FY18 on account of pick up in new sales post RERA implementation and registration. We expect an uptick in new bookings as well as QoQ revenue growth for most of our coverage stocks driven by POCM-based recognition in ongoing projects.

Key highlights of sector during the quarter

Post settling down of all uncertainties related to the impact of GST on purchase price, delays in implementation of RERA and finalisation of guidelines, we expect new residential sales to continue to improve in Q4FY18. On the commercial front, office space absorption is expected to continue to remain strong across markets with rising rentals and low vacancies.

Result expectations for the sector and stocks under coverage

Among our coverage stocks, we expect Sunteck Realty, Godrej Properties and Sobha to report QoQ rise in earnings. New sales are also expected to rise QoQ on account of commencement of bookings post RERA registration and launch of new projects. While Godrej Properties' revenue is likely to dip QoQ (due to significant spike in Q3FY18 top line on account of strong sales in Godrej BKC project), revenue of other coverage stocks is likely to improve QoQ and YoY driven by POCM-based revenue recognition from ongoing projects as well as some first-time project recognition.

Outlook for the next 12 months

Post settling down of uncertainties surrounding RERA implementation and impact of GST, we anticipate uptick in residential new sales in ensuing quarters across key markets. The spurt is envisaged to be driven by macro factors such as low interest rates and improving affordability as well as burgeoning new projects' pipeline. On the commercial front, rising rentals and low vacancies, which have shown a downward trend since 2012, are likely to lead to sustained robust demand for office space.

Top picks

Sunteck Realty, Sobha and Oberoi Realty.

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

April 5, 2018

Stock		Q4FY18E (INR mn)	Q4FY17 (INR mn)	Y-o-Y (%)	Q3FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
DLF	Revenues	22,307	22,252	0.2	16,937	31.7	We expect topline to improve post resumption of sales starting Nov 2017. Revenues would be driven by POCM based revenue recognition in ongoing projects. Net debt reduction would be key monitorable.
	EBITDA	9,810	7,102	38.1	7,013	39.9	
	Core PAT	1,150	1,421	(19.1)	40,913	(97.2)	
Brigade Enterprises	Revenues	5,019	5,537	(9.4)	4,239	18.4	We expect new sales to main their momentum during the quarter. Revenues should be driven by POCM based recognition in ongoing projects coupled with some first-time project recognition
	EBITDA	1,794	1,981	(9.4)	1,593	12.6	
	Core PAT	478	743	(35.6)	492	(2.9)	
Godrej Properties	Revenues	3,972	4,313	(7.9)	6,270	(36.7)	Revenue should mostly be driven by ongoing projects. Net gearing should likely decline driven by realisation of cash flows from commercial property sale undertaken over the last couple of quarters.
	EBITDA	620	664	(6.7)	462	34.2	
	Core PAT	430	624	(31.1)	303	41.9	
Oberoi Realty	Revenues	3,886	2,896	34.2	3,562	9.1	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	2,151	1,515	42.0	1,926	11.7	
	Core PAT	1,202	1,016	18.3	1,210	(0.6)	
Sobha Developers	Revenues	7,146	5,888	21.4	6,919	3.3	We expect revenues to be driven mostly by POCM based recognition in ongoing projects and some from first time project recognition. Balance sheet should mostly remain stable.
	EBITDA	1,572	1,202	30.8	1,375	14.3	
	Core PAT	606	466	30.0	538	12.6	
Sunteck realty	Revenues	2,755	1,379	99.7	2,015	36.7	Revenues should be driven by incremental sales in its BKC and Goregaon projects
	EBITDA	1,186	725	63.8	891	33.2	
	Core PAT	617	339	82.2	592	4.2	

Valuation snapshot

		Mkt Cap	Price	P/E (x)		P/B (x)		RoE (%)		Div yld (%)	
	Reco	USD mn	(INR)	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Brigade Enterprises	Buy	538	257	17.4	14.7	1.4	1.3	8.3	9.1	0.8	0.8
DLF	Buy	5,439	199	46.4	NA	1.4	0.0	3.1	NA	1.0	0.0
Godrej Properties	Hold	2,380	716	37.9	30.8	6.3	5.4	17.7	18.8	0.5	0.5
Oberoi Realty	Buy	2,586	496	13.7	11.9	2.3	2.0	18.4	18.0	0.7	0.8
Sobha Developers	Buy	722	496	19.6	16.2	1.6	1.4	8.2	9.2	0.7	0.7
Sunteck realty	Buy	922	410	18.8	12.9	2.0	1.8	11.4	14.8	0.6	0.8

RESULT PREVIEW

RETAIL

Grocery , retailers remain on strong wicket

India Equity Research | Strategy

We estimate our retail universe's Q4FY18 revenue and EBITDA to grow 12.9% and 37.1% YoY, respectively. End-of-season-sales (EOSS) started early in December and thus was for lesser number of weeks during the quarter as compared to base. Thus, SSSG for most of the apparel retailers is likely to be soft, except Trent. For grocery retailers, however, SSSG trend will continue to remain buoyant as always. For QSR companies, we expect the improvement in consumer sentiment to have sustained SSSG. We envisage Titan Company (Titan) to see pickup in sales on continued market share gains in jewellery and cut in GST rate for watches and eyewear. For Wonderla, we expect good growth in footfalls and ARPU across parks led by non F&B revenues. But, a higher GST rate (28% versus 8% in base) could make the company's sales growth appear optically lower.

SSSG – soft for apparel cos; buoyant for grocery, QSRs and jewelers

Titan's market share improvement will sustain in Q4FY18 as well. **We expect company's jewellery sales to grow ~15-17% YoY on a base of 55%.** For apparel retailers, we estimate soft SSSG – for Shoppers Stop and Pantaloons, we expect flat to negative SSSG, for FLF's Central format we expect ~5% SSSG, for V-Mart we expect ~negative 8% SSSG on a high base of 34% and for Trent and FLF's Brand Factory, we expect ~8-11% SSSG. ABFRL's brand business (Madura) is likely to post ~8% SSSG on flat base. For grocery retailers, the buoyant SSSG run rate to continue – while D'mart is expected to report SSSG of ~20%, the same for FRL will be ~10-11% (Demerger of Hometown will however make revenue growth optically lower). For Jubilant Foodworks, we **estimate SSSG at ~17-19% YoY (on a base of -7.5%), aided by Everyday value offer and impactful ads.**

Margin expansion envisaged

Sale period for apparel retailers was short which will aid in margin expansion. This coupled with cost rationalization initiatives, operating leverage benefit as well as pruning off losses / turnaround for select retail ventures is likely to aid in EBITDA margins. Broadly we are expecting EBITDA margin expansion in the range of 50-400bps across companies except for SSL and FLF.

Outlook for next 12 months

We are clearly seeing a positive change in consumer sentiments which is aiding growth rates for retail companies. Coupled with this, we believe that shift from unorganised to organised and mindset change to shop from mall set of culture is getting ingrained. Retail companies have also learnt the game pretty well and are adopting Click & Mortar as the strategy to reciprocate to threats from online channel.

Top picks

Titan Company, Jubilant Foodworks and Trent

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

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

April 5, 2018

Stock		Q4FY18E (INR mn)	Q4FY17 (INR mn)	Y-o-Y (%)	Q3FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Avenue Supermart	Revenues	40,697	31,106	30.8	40,948	(0.6)	We expect DMART to post 20% SSG growth for the quarter. We also expect new stores added over last 24 months to contune run-rate of ~INR400mn p.a. Led by favourable product mix, efficient inventory management through centralized sourcing as well as improving efficiencies we expect EBITDA margins to improve by ~250bps YoY. Jump in other income and reduction in interest expense should aid overall earning growth.
	EBITDA	3,785	2,077	82.2	4,217	(10.2)	
	Core PAT	2,205	967	128.1	2,518	(12.4)	
V-Mart	Revenues	2,686	2,518	6.7	3,680	(27.0)	We expect V-MART to report negative 8-10% SSSG on a base 34% (base was aided by demonetisation after effects where V MART had rolled out schemes to lure customers in era where cash was minimal and other schemes. Q3FY18 saw flat SSSG on the base of 17% SSSG. The company is likely to have added ~8-10 stores in the quarter which will aid sales. Sustenance in demand in Tier2 and 3 cities will aid its growth. EBITDA margin expansion story is likely to sustain even in this quarter, albeit not as much as seen in Q3FY18.
	EBITDA	150	133	12.8	640	(76.5)	
	Core PAT	63	50	25.3	367	(82.9)	
Trent Limited	Revenues	5,424	4,541	19.4	5,213	4.0	We expect 8-9% SSG for Westside. We expect the company to have added 5 Westside stores for the quarter. EBITDA margins will increase in the quarter due to closure of some loss-making landmark stores, better operative leverage as well as less season days and hence higher revenue per customer.
	EBITDA	249	140	78.6	685	(63.6)	
	Core PAT	93	6	1,551.3	378	(75.4)	
Jubilant Foodworks	Revenues	7,428	6,128	21.2	7,952	(6.6)	Dominos India's SSG growth is expected to be ~18% YoY in Q4FY18 (on a negative base of 7.5% YoY dip) aided by Everyday value offer (Q3FY18 SSSG was 17.8% on a base of negative 3.3%). GRoss margins improvement will not be much since the product offering has been change to have more cheese and other ingredients. Targeted marketing and renegotiation of rent and employee efficiency has resulted in lower costs which we see it continuing. Therefore EBITDA margin will see improvement due to cost initiatives and operating leverage of ~350-400bps YoY .
	EBITDA	1,018	605	68.2	1,369	(25.7)	
	Core PAT	413	168	145.6	660	(37.5)	
Shoppers Stop (Standalone)	Revenues	8,831	9,103	(3.0)	9,632	(8.3)	We expect flat to negative SSSG (expect -1% YoY) in departmental format (on base of -1.10% YoY growth) due to EOSS starting in December and with hardly any sale period in Q4. Further, January was negative across Industry and with some recovery in Feb and March. With Shoppers Stop's flagship Malad and kolkatta store continuing to see external issues in terms of infrastructure bottlenecks, walk ins are limited. Thus, overall sales growth will be flat to negative. There was 1 new store opening in Q4FY18. Interest cost coming down will be positive for PAT growth.
	EBITDA	503	525	(4.2)	794	(36.6)	
	Core PAT	109	117	(6.7)	330	(66.8)	

Stock		Q4FY18E (INR mn)	Q4FY17 (INR mn)	Y-o-Y (%)	Q3FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Titan	Revenues	37,676	34,297	9.9	41,366	(8.9)	We expect overall revenue growth to be 8.1% YoY on a high base of 43.9%. Segment wise we expect Jewellery segment to record revenue growth of 17% on a high base of 55% in Q4FY17 (Q3FY18 saw 7.6% YoY growth softer owing to INR2,500 mn of franchisee revenue booked in Q2FY18). Share of studded is expected to be 34% same as it was in Q4FY17. This gives us annual revenue growth of ~25-26% in jewellery segment. In watch segment we expect 7.5% revenue growth on the base of 10.8% and within eyewear we expect revenue growth of 5% on a base of 13.1%. Like previous quarters EBITDA margin expansion is likely to be continued on YoY basis.
	EBITDA	3,617	2,721	32.9	4,447	(18.7)	
	Core PAT	2,471	2,029	21.8	3,082	(19.8)	
Aditya Birla Fashion and Retail	Revenues	17,321	16,149	7.3	18,550	(6.6)	We expect Lifestyle brands to clock ~4-5% SSSG on a flat base of 0.2% (Q3FY18 saw 4% SSSG on negative 7% base). For Pantaloons, we expect SSG to be ~6% on a negative base of 5%, due to advancement of SSG (Q3FY18 saw flat SSG on a negative base of 1.8%). We expect winter festive season to aid in SSG growth in Q4FY18. We expect good pick up in February and March to overall boost sales. We also expect ABFRL's new segment such as Forever21, undergarment business to show good growth in Q4FY18.
	EBITDA	1,299	1,140	14.0	1,380	(5.9)	
	Core PAT	269	218	23.3	350	(23.1)	
Future Retail	Revenues	48,560	44,838	8.3	46,934	3.5	We expect overall same store sales growth to be ~10-11% YoY in Q4FY18 aided by Big Bazaar (75-78% of the revenues), Easy day (10-14% of the revenues). SSSG of Big Bazaar in Q4FY17 was 15.3% wereas overall SSSG was 13.3% whereas SSSG of Big Bazaar in Q3FY18 was 13.1% and overall was 10.4%. Demerger of HomeTown (revenue contribution from Hometown stood at INR5,500mn in FY17) is likely to optically make revenue growth little softer. We expect Easy Day to become EBITDA positive only from FY19 and hence the EBITDA margin improvement should be ~80bps YoY and 20bps QoQ. EBITDA margin will also be driven by higher apparel sales mix, inventory optimization and integration of Hypercity with existing structure.
	EBITDA	2,331	1,805	29.1	2,149	8.5	
	Core PAT	2,016	1,231	63.8	1,831	10.1	
Future Lifestyle Fashions Limited	Revenues	10,305	9,874	4.4	12,256	(15.9)	For Q4FY18, we expect Central to clock mid single digit (~5% SSSG) on a base of 23.3% (Q3FY18 saw 11.8% SSSG on a base of 21.7%). This quarter saw only 4 weeks of sale season compared to 8 weeks in the base. For BF we expect ~11% SSSG on a base of 9.6% (Q3FY18 saw 20.7% SSSG on a base of 6.6%). The power brands will continue to do well and we expect broad based performance across all power brands. The company added 1 Central and 3 Brand Factory in Q4FY18 which will aid sales. PAT growth is likely to be better due to credit rating upgrade which has enabled reduction in interest cost.
	EBITDA	886	948	(6.5)	1,149	(22.9)	
	Core PAT	212	189	11.8	444	(52.4)	
Wonderla Holidays	Revenues	557	612	(8.9)	638	(12.7)	We expect good growth in ARPU across parks led by non F&B revenues. Kochi and Hyderabad ARPU is expected to increase 10% YoY while Bengaluru ARPU will show 7% YoY jump. With reduction in GST rates we expect footfalls decline to abet. We expect March to be a good month due to early exam season. We expect Hyderabad to show 19% YoY increase in footfalls. EBITDA margins will increase significantly led by cost rationalization and inventory optimization.
	EBITDA	145	99	47.2	191	(23.6)	
	Core PAT	24	34	(29.2)	65	(62.7)	

Valuation snapshot

		Mkt Cap	Price	P/E (x)		P/B (x)		RoE (%)		Div yld (%)	
	Reco	USD mn	(INR)	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Aditya Birla Fashion and Retail	Buy	1,789	151	36.7	23.8	8.5	6.3	26.3	30.4	0.0	0.0
Avenue Supermart	Hold	13,020	1,359	82.4	62.7	15.0	12.1	20.0	21.4	0.0	0.0
Jubilant Foodworks	Hold	2,339	2,309	44.1	34.6	12.2	9.3	30.7	30.5	0.6	0.3
Future Lifestyle Fashions Limited	Buy	1,143	391	34.7	23.5	3.9	3.6	11.8	15.9	1.0	1.4
Future Retail	Buy	4,208	546	29.2	21.6	6.1	5.1	24.1	25.8	0.2	0.1
Shoppers' Stop	Buy	736	545	39.3	28.4	6.5	5.7	17.3	21.2	0.8	1.1
Titan Company	Buy	12,324	904	59.3	48.1	13.8	11.6	25.0	26.1	0.5	0.6
Trent Ltd.	Buy	1,757	344	50.5	36.5	5.9	5.1	12.5	15.0	0.0	0.0
Wonderla Holidays	Buy	312	360	37.0	26.2	4.0	3.6	11.3	14.4	0.6	0.9
V-Mart Ltd	Buy	599	2,158	46.8	36.7	9.6	7.8	22.6	23.5	0.3	0.3

RESULT PREVIEW

TELECOM

ARPU to continue to slip

India Equity Research | Strategy

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We estimate Q4FY18 revenues of Bharti Airtel's (Bharti) India mobility business and Idea Cellular (Idea) to decline 6.0% and 5.8%, respectively, QoQ. The dip, despite strong subscriber addition on account of migration of Aircel and Reliance Communications' (RCOM) subscribers, is attributable to sharp fall in ARPU as incumbent operators tackle higher adoption of bundled plans, Reliance Jio's feature phone plans and price cut in regular packages. EBITDA margins will continue to bear the brunt of revenue deceleration—estimate 300bps and 260bps dip in Bharti's and Idea's margins, respectively. Bharti Infratel's (BHIN) revenue is estimated to grow mere 3.6% YoY due to industry consolidation and incumbent operators' focus on enhancing capacity rather than coverage. Commentary on ARPU trajectory, timelines of Idea-Vodafone merger and update on Bharti's Africa business will be key monitorables.

ARPU down-trending to continue

With subscribers adopting low-priced bundled packages and RJIO cutting prices, we expect ARPUs of Bharti and Idea to decline 8.8% and 9.2% QoQ, respectively. However, subscriber addition during the quarter is expected to be strong with RCOM and Aircel deciding to shut operations. BHIN is estimated to have added 82 towers, while its tenancies are expected to drop by 149 QoQ due to industry consolidation. Accordingly, we foresee mere 2.2% growth YoY in rent revenue dragging down overall growth to 3.6% YoY. Revenue deceleration will also lead to 120bps QoQ decline in EBITDA margin.

Things to watch for….

With smaller operators—Aircel and RCOM—shutting shop, subscriber migration to large operators will be keenly monitored. RJIO's incremental subscriber market share and pricing outlook will be key factors to decide pricing pressure in the industry. Timelines on Idea-Vodafone merger and update on anticipated cost synergies will be key drivers for Idea. Also, Bharti's update on demerging Africa business will be in focus.

Outlook: RJIO to be the price setter

With accelerated consolidation in the telecom industry, smaller players are shutting operations and larger incumbents are gaining subscribers. However, with subscribers increasingly adopting cheap bundled packs and RJIO cutting rates, ARPU downslide is expected to continue. We believe, once RJIO is content with its subscriber share gains and begins to raise prices, the industry's overall ARPU will rise, in turn boosting revenues and margins.

Top picks

Bharti Airtel

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

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

Nikunj Mandowara
+91 22 4040 7431
nikunj.mandowara@edelweissfin.com

April 5, 2018

Stock		Q4FY18E (INR mn)	Q4FY17 (INR mn)	Y-o-Y (%)	Q3FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Bharti	Revenues	199,284	219,346	(9.1)	203,186	(1.9)	We expect Bharti's India mobility business revenues to further nosedive 6.0% QoQ on account of 8.8% decline in ARPU, as Bharti cut rates of bundled packages inorder to counter Reliance Jio and maintain existing subscribers. Revenues from Africa business is expected to rise 1.0% QoQ. We expect consolidated revenues to decline 1.9% QoQ. EBITDA margins expected to decline 300bps QoQ on account of revenue deceleration in India mobility business. Accordingly, we believe Bharti will report net loss of INR875mn during the quarter.
	EBITDA	67,359	78,600	(14.3)	74,688	(9.8)	
	Core PAT	(875)	3,734	(123.4)	3,058	(128.6)	
Bharti Infratel	Revenues	36,488	35,204	3.6	36,553	(0.2)	We estimate Bharti Infratel (BHIN) to report revenue growth of 3.6% YoY, on account of tepid growth in Rent revenues (up 2.2% YoY), while Energy revenues are expected to grow 5.9% YoY. We expect BHIN to add 82 towers during the quarter, while its tenancies are expected to decline by 149. EBITDA margin is expected to decline 120bps QoQ to 42.5%, on account of tepid revenue momentum. Commentary on possible acquisition of stake of Vodafone/Idea in Indus, consolidation in telecom industry and standalone 3G/4G data sites rollout will be key factors to watch.
	EBITDA	15,523	15,723	(1.3)	15,982	(2.9)	
	Core PAT	8,210	5,966	37.6	5,854	40.2	
Idea	Revenues	61,325	81,262	(24.5)	65,097	(5.8)	Idea's revenues expected to further decline by 5.8% QoQ on 9.2% dip in ARPU. We expect voice and data realisations to plummet 15.2% and 9.5% respectively, leading to 8.0% and 13.9% rise in voice and data volumes, respectively. EBITDA margin is expected to further nose-dive 260bps QoQ to 16.2%, which would swell net loss to INR14.4bn from INR12.8bn in previous quarter. Update on timelines regarding merger with Vodafone, strategy to tackle subscriber churn to RJIO will be key monitorables.
	EBITDA	9,940	21,200	(53.1)	12,235	(18.8)	
	Core PAT	(14,350)	(3,276)	(338.0)	(12,844)	(11.7)	
Sterlite technologies limtied	Revenues	9,300	7,072	31.5	8,352	11.4	We expect Sterlite's revenues to jump 31.5% YoY, with products revenues growing 31.2% YoY and software & services revenues clocking 33.2% YoY growth. EBITDA margins are expected to rationalise by 30bps QoQ to 23.8%. Product and services order book, commentary on adoption of 5G technologies are key monitorables.
	EBITDA	2,214	1,624	36.3	2,017	9.7	
	Core PAT	1,102	688	60.1	992	11.0	
Tejas Network Limited	Revenues	1,740	2,576	(32.5)	2,262	(23.1)	Tejas's Q4FY18 revenues are likely to decline by 32.5% YoY due to delays in receiving certain large orders. Considering large size of orders and customer concentration, revenues of Tejas are lumpy in nature. Due to massive decline in revenues, EBITDA margins are also expected to nose-dive 330bps YoY to 22.4%. Guidance for FY19, commentaries on deal-wins in BharatNet Phase II and outlook in emerging
	EBITDA	333	577	(42.3)	507	(34.3)	
	Core PAT	301	340	(11.5)	301	0.0	

Valuation snapshot

		Mkt Cap	Price	P/E (x)		P/B (x)		RoE (%)		Div yld (%)	
	Reco	USD mn	(INR)	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Bharti Airtel	Buy	24,240	395	59.2	35.9	2.1	2.0	4.2	6.2	0.0	0.0
Bharti Infratel	Hold	9,566	337	21.2	22.7	3.9	3.8	18.5	17.0	4.1	3.8
Idea Cellular	Hold	5,126	77	NM	NM	1.6	1.9	(16.2)	(11.2)	0.0	0.0
Sterlite technologies	Buy	2,000	325	30.1	21.6	9.5	7.3	36.9	39.4	0.8	1.2
Tejas Network	Buy	482	346	17.5	15.0	2.7	2.3	16.4	16.3	0.0	0.0

RESULT PREVIEW

UTILITIES

Coal issues resurface; M&A likely to gain traction

India Equity Research | Strategy

For FY18, all India power generation rose ~5% YoY to 1,307bn units (conventional grew 4% to 1,205bn units). All India thermal PLFs improved ~100bps to 60.7% and conventional installed capacity remained flat with ~ 4.5GW capacity retired during the year. FY18 exit seems to indicate that the coal issue is resurfacing, with CEA's coal stock report and merchant prices (up 40% YoY at ~INR3.75/unit) reflecting the same. <u>We expect merchant rates to remain high, in the near term at least, thus brightening prospects of revival of short-term, if not medium term, PPAs</u>. Over the next 12 months, we expect M&A activities to gather momentum as a result of RBI's new IRAC norms. Regulated utilities—NTPC (BUY) and Power Grid (BUY)—remain our preferred picks along with CESC. Maintain 'BUY' on Adani Ports as well.

Key highlights of the sector during the quarter

During Q4FY18, all India power generation rose ~5.5% to 321bn units (conventional grew 4.2% to ~299bn units). During the quarter, RBI's new IRAC norms were implemented, which can potentially send stressed power projects to NCLT. This could open up M&A opportunities in the power sector. On the ports front, major players sustained strong volume traction and recorded 8.5% cargo volume spurt (Jan-Feb).

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 6% generation growth, but its PAT is likely to take a hit on account of under-recoveries as a result of coal shortage in its Mausa and Solapur power plants.
3. Adani Power's losses are expected to widen due to shut down and higher coal prices. JSW Energy's profits are expected to remain robust led by 4% spurt in generation volumes on account of higher merchant sales.
4. Tata Power's earnings are estimated to be healthy led by renewable and coal businesses.
5. CESC's earnings are estimated to be subdued owing to lower generation in Q4FY18.
6. We estimate 14% volume growth in Adani Ports led by strong container volumes and new supplies of coal cargo.

Outlook over the next 12 months

Demand from industrial segment has gained some traction, but its sustainability needs to be monitored. Successful implementation of various schemes like SAUBHAGYA and DBT can usher distribution efficiencies and improve overall power sector value chain.

Top picks

NTPC, Power Grid, CESC and Adani Ports.

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

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Stock		Q4FY18E (INR mn)	Q4FY17 (INR mn)	Y-o-Y (%)	Q3FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Adani Power	Revenues	57,495	63,522	(9.5)	48,445	18.7	We expect a 8% decline in generation YoY mainly led shut down in Mundra and lower PLF's at other plants due to fuel availability constraints.
	EBITDA	12,074	13,216	(8.6)	7,280	65.9	
	Core PAT	(7,506)	(8,838)	15.1	(12,912)	41.9	
Adani Ports & SEZ	Revenues	25,740	22,315	15.4	26,889	(4.3)	We expect ~14% growth in overall cargo led by robust growth in container volumes. We expect the relisation to improve QoQ on account of higher container mix. PBT growth of 10% is expected though PAT would be flat due to Mundra coming into tax bracket. SEZ revenues and FCF would be a key monitorable.
	EBITDA	16,465	13,335	23.5	19,675	(16.3)	
	Core PAT	9,282	8,629	7.6	10,003	(7.2)	
CESC	Revenues	16,967	15,720	7.9	17,060	(0.5)	We expect generation volumes to see ~2% growth while average realisations to largely remian flat. Spencer and Dhariwal's Q3 performance would be a key monitorable
	EBITDA	3,136	2,040	53.7	3,140	(0.1)	
	Core PAT	1,289	2,950	(56.3)	1,540	(16.3)	
Gujarat Pipavav Port	Revenues	1,757	1,746	0.7	1,627	8.0	We expect the relisations pressure to sustain though volume is expected to improve 5% QoQ led by service from the new shipping line.
	EBITDA	1,042	1,147	(9.2)	947	10.0	
	Core PAT	550	662	(17.0)	500	10.0	
JSW Energy	Revenues	20,750	18,621	11.4	19,932	4.1	We expect 4% growth in revenues led by 3% growth in generation volumes and higher merchant realisations. Further announcement/divulging details w.r.t to EV is a key monitorbale.
	EBITDA	6,310	5,869	7.5	5,853	7.8	
	Core PAT	908	237	282.8	505	79.6	
NTPC	Revenues	208,191	204,167	2.0	207,744	0.2	We expect 6% growth in generation volumes on back of increased capacities , with average realisations expected at ~INR3.30/unit (down 3.5% YoY). Under recoveries in the Solapur and Mauda power plant is likley to impact the financials in Q4 as well though qunatum will be a key monitorable.
	EBITDA	56,576	54,628	3.6	52,770	7.2	
	Core PAT	24,052	28,624	(16.0)	23,608	1.9	
Power Grid	Revenues	78,006	67,120	16.2	75,069	3.9	We expect the capitalisation capex ratio to sustain above 1x and expect capitalisation in Q4 at ~ INR75bn (down 50% on a high base). Expect transmission revenue growth of ~15% YoY.
	EBITDA	68,645	56,185	22.2	67,383	1.9	
	Core PAT	23,473	19,164	22.5	21,427	9.5	
Tata Power	Revenues	76,935	71,668	7.3	69,499	10.7	We expect generation volumes to remain sluggish while realisations are expected to remain flattish. We expect coal business and renewable business to maintain strong momentum
	EBITDA	18,185	13,467	35.0	12,254	48.4	
	Core PAT	7,414	3,890	90.6	6,374	16.3	

Valuation snapshot

	Reco	Mkt Cap USD mn	Price (INR)	P/E (x) FY19E	P/E (x) FY20E	P/B (x) FY19E	P/B (x) FY20E	RoE (%) FY19E	RoE (%) FY20E	Div yld (%) FY19E	Div yld (%) FY20E
Adani Power	Hold	1,483	25	NM	26.9	7.9	6.1	(8.5)	25.5	0.0	0.0
Adani Ports and Special Economic Zone	Buy	11,692	368	17.6	14.9	3.0	2.5	18.3	18.2	0.4	0.4
CESC	Buy	1,988	977	16.3	15.1	1.5	1.4	5.6	5.8	1.2	1.3
Gujarat Pipavav Port	Buy	1,039	140	25.6	20.8	3.2	3.9	12.7	16.9	0.0	0.0
JSW Energy	Hold	2,038	81	16.9	12.9	1.2	1.1	7.3	9.2	2.5	2.5
NTPC	Buy	21,080	167	11.8	10.5	1.3	1.2	11.1	11.8	3.4	3.8
Power Grid Corp of India	Buy	15,744	196	10.3	9.2	1.7	1.5	17.0	17.0	2.9	3.3
Tata Power Co	Buy	3,448	83	12.9	11.9	1.6	1.6	14.4	16.4	1.3	1.9

Credit Rating

Stock		Q4FY18E (INR mn)	Q4FY17 (INR mn)	Y-o-Y (%)	Q3FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
CARE	Revenues	819	764	7.2	748	9.4	We expect revenue growth of ~7% YoY, however, after adjusting for accounting policy pertaining to survelliance income, growth is higher at 10%+ YoY led by improving credit and bond market outlook.
	EBITDA	467	465	0.4	464	0.7	
	Core PAT	373	384	(2.9)	373	0.2	
Crisil	Revenues	4,257	4,022	5.8	4,411	(3.5)	We forecast sales growth of 5.8% due to subdued research segment outlook (5% growth forecast) led by unfavourable currency movement while rating segment is improving (6% sales growth) driven by weak but improving credit growth. We forecast margin expansion leading to EBITDA growth of 11% YoY.
	EBITDA	1,232	1,106	11.4	1,343	(8.2)	
	Core PAT	821	721	13.8	956	(14.1)	
ICRA	Revenues	849	788	7.8	829	2.4	With the weak but improving credit environment, we estimate 8% growth in ratings revenue. We expect the overall revenue to grow by 8% YoY (~7.5% revenue growth in Outsourcing and flat growth in Consulting businesses)and EBITDA growth of ~12% YoY led by margin expansion due to operational improvements and cost control.
	EBITDA	333	296	12.5	338	(1.5)	
	Core PAT	274	256	7.2	264	3.9	

Valuation snapshot

		Mkt Cap	Price	P/E (x)		P/B (x)		RoE (%)		Div yld (%)	
	Reco	USD mn	(INR)	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Credit Research and Analysis	Buy	546	1,208	21.9	18.8	6.1	5.6	28.8	30.9	2.8	3.3
Crisil	Hold	2,059	1,870	37.5	32.4	12.0	11.2	32.9	35.6	1.9	2.1
ICRA	Buy	551	3,657	34.2	30.5	5.9	5.3	18.0	18.3	1.1	1.3

Leisure and Travel

Stock		Q4FY18E (INR mn)	Q4FY17 (INR mn)	Y-o-Y (%)	Q3FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Interglobe Aviation (Indigo)	Revenues	59,653	48,482	23.0	61,779	(3.4)	We expect subdued quarter as grounding of planes will result in loss of market share and higher cost owing to expensive short-term lease. We expect slower passenger growth at 16% (SJ: 21%, JAL: 18%) while yield will improve 6% YoY. We estimate overall "RASK - CASK" to moderate to INR0.2/km (vs. INR0.5/km in Q3FY18, INR0.2/km in Q4FY17).
	EBITDAR	14,927	13,322	12.0	19,357	(22.9)	
	Core PAT	3,771	4,403	(14.4)	7,620	(50.5)	
Jet Airways	Revenues	63,754	54,491	17.0	60,862	4.8	We expect JAL's passenger growth (ex Jet Lite) to recover to 18% YoY (vs. 14% last quarter, 5% in Q4FY17). We estimate yield to improve 2% YoY and PLF to improve to 89%.
	EBITDAR	6,953	2,538	174.0	7,082	(1.8)	
	Core PAT	78	368	(78.8)	1,653	(95.3)	
Mahindra Holidays	Revenues	2,979	3,105	(4.0)	2,675	11.4	Given the high base of Q4FY17 and the focus on selective member addition this year, we expect member addition to be ~5,000 i.e. down 19% YoY. However, driven by an increase in ASF and income from resorts, overall revenues are expected to fall by 4% YoY. Expect EBITDA to contract by 8% YoY.
	EBITDA	545	592	(8.0)	578	(5.8)	
	Core PAT	321	318	1.0	318	1.2	
Spice Jet	Revenues	21,421	16,257	31.8	20,820	2.9	overall "RASK - CASK" of INR0.2/km (vs. INR0.4/km in Q3FY18, slight loss in Q4FY17).
	EBITDAR	4,756	3,152	50.9	5,680	(16.3)	
	Core PAT	1,490	416	257.8	2,400	(37.9)	

Valuation snapshot

		Mkt Cap	Price	P/E (x)		P/B (x)		RoE (%)		Div yld (%)	
	Reco	USD mn	(INR)	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Jet Airways	Buy	1,053	604	18.9	4.9	(1.7)	(2.5)	(8.4)	(41.1)	0.0	0.0
Mahindra Holidays & Resorts	Buy	612	299	22.4	20.1	5.1	4.4	23.1	22.4	1.7	1.4
Interglobe Aviation (Indigo)	Buy	8,186	1,387	15.9	13.1	7.9	7.2	51.6	57.2	4.4	5.3
SpiceJet	Buy	1,219	133	11.7	9.2	12.0	5.2	191.2	79.1	0.0	0.0

Miscellaneous

Stock		Q4FY18E (INR mn)	Q4FY17 (INR mn)	Y-o-Y (%)	Q3FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
AIA Engineering	Revenues	6,245	6,476	(3.6)	5,722	9.2	We expect slight de-growth in revenues due to flat volume growth and realization due to relatively soft ferro-chrome prices . We expect EBITDA/MT to dip 10% YoY due to strategy to increase penetration.
	EBITDA	1,440	1,600	(10.0)	1,269	13.5	
	Core PAT	966	1,151	(16.1)	1,162	(16.9)	
Aarti Industries	Revenues	10,085	8,344	20.9	9,902	1.9	We expect revenues for Aarti Industries to increase by 21% YoY led by healthy growth in specialty chemicals and pharma segment. Further, with largely stable margings, EBITDA/PAT is expected to increase by 15% YoY each
	EBITDA	1,749	1,526	14.6	1,778	(1.6)	
	Core PAT	856	743	15.2	902	(5.1)	
Amara Raja	Revenues	15,327	13,445	14.0	15,535	(1.3)	Led by improving auto OEM production volumes, we expect a 14% YoY growth in revenue. Despite continuous increase in lead prices, we expect marginal EBITDA margin expansion YoY driven by operational efficiencies from higher volumes leading to EBITDA growth of 21% YoY.
	EBITDA	2,222	1,844	20.5	2,416	(8.0)	
	Core PAT	1,186	992	19.6	1,345	(11.8)	
Apar Industries	Revenues	12,857	13,060	(1.6)	14,989	(14.2)	We expect volume growth of 0%/-12% for conductors/Transformer oils, based on management's full year guidance, and 30% revenue growth in cables, leading to blended revenue de-growth of 2%. However, we expect EBITDA growth of 12% led by margin expansion due to operational imrovements and better product mix.
	EBITDA	1,097	981	11.8	975	12.5	
	Core PAT	480	401	19.7	395	21.3	
Balkrishna Industries	Revenues	12,113	10,489	15.5	11,613	4.3	Given the volume growth guidance for FY18 , we expect volumes to grow by 12% in Q4FY18. We expect revenue growth to be 15% and margins to expand to 32% due to fall in rubber price YOY and improving product mix.
	EBITDA	3,840	2,986	28.6	3,517	9.2	
	Core PAT	2,084	1,380	51.1	1,895	10.0	
Carborundum Universal	Revenues	6,385	5,599	14.0	6,116	4.4	We expect revenues to grow 14% led by steady continued growth in Abrasives (12%) and Ceramics (16%) as well as continued recovery in Electrominerals division (18%). Despite inflationary pressure on raw material cost, we expect improvement in EBITDA margin led by increased capacity utilization and pricing action
	EBITDA	1,193	923	29.3	1,047	14.0	
	Core PAT	644	444	45.2	543	18.6	
CCL Products India	Revenues	3,554	2,970	19.7	2,740	29.7	Net revenues of CCL Products is likely to increase by 20% YoY led focus on higher utilisation and transition of aglomarated capacity from India to Vietnam. Further, margins are expoected to improve by 150 bps YoY leadimg to increase in EBITDA/PAT by 28%/35% YoY.
	EBITDA	821	642	27.9	645	27.4	
	Core PAT	479	354	35.2	404	18.4	
Castrol India	Revenues	10,375	8,822	17.6	9,703	6.9	We expect volume growth of 12% following improvement in freight movement, with realisations to rise 5% YoY, leading to strong revenue growth of 18%. Due to slight margin contraction, we forecast EBITDA growth of 16%.
	EBITDA	3,067	2,633	16.5	3,066	0.0	
	Core PAT	2,086	1,790	16.5	1,967	6.0	
Essel Propack	Revenues	6,885	6,126	12.4	5,951	15.7	We expect Essel Propack (EPL) to report a 12% YoY growth in revenues driven by a 10% growth in AMESA, with growth in India also expected to pick-up and factor in a 10% growth in revenues there. While Europe has been a laggard in performance, we build in a 11% YoY growth (Acquisition of EDG in base) driven by the depreciation of INR with constant currency revenue growth expected to remain flat. Margins are expected to contract due to higher share of lower margin regions i.e. Americas and Europe. Overall, we expect Adj PAT to be flat YoY at INR515mn.
	EBITDA	1,257	1,199	4.9	1,143	10.0	
	Core PAT	515	520	(1.0)	434	18.7	

Stock		Q4FY18E (INR mn)	Q4FY17 (INR mn)	Y-o-Y (%)	Q3FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Exide	Revenues	23,414	19,717	18.8	22,765	2.8	Led by pick up in auto OEM production, we expect a 19% growth in revenue. However despite increasing YoY lead prices, we expect EBITDA margin to improve marginally led by improving product mix and cost efficiencies leading to EBITDA growth of 20%.
	EBITDA	3,091	2,578	19.9	2,826	9.4	
	Core PAT	1,845	1,648	11.9	1,543	19.6	
Schaeffler India Limited	Revenues	5,166	4,612	12.0	5,061	2.1	We expect revenue growth of 12% led by improving industrial activity. We forecast EBITDA growth of 14% on account of margin expansion YoY due to improving localisation
	EBITDA	1,007	885	13.9	1,013	(0.6)	
	Core PAT	682	575	18.7	679	0.4	
Gulf Oil	Revenues	3,684	2,996	23.0	3,559	3.5	We expect GOLI to continue its volume outperformance to the industry.We expect revenues to rise by 23% led by strong volume growth of 16%, in line with management guidance of double digit voume growth and EBITDA to grow by 31% YoY led by strong margin expansion.
	EBITDA	610	465	31.1	616	(1.0)	
	Core PAT	428	321	33.5	425	0.8	
Grindwell Norton	Revenues	3,792	3,264	16.2	3,654	3.8	We forecast revenue growth of 16% YoY driven by steady 10% growth in abrasives and a strong 25% growth in ceramics. We expect EBITDA margin to expand to 17.5% leading to EBITDA growth of 25%.
	EBITDA	663	529	25.3	644	2.9	
	Core PAT	412	337	22.2	400	3.0	
Orient refractories	Revenues	1,496	1,278	17.0	1,578	(5.2)	We expect the revnue growth rate to be at ~17% YoY (vs ~23% growth seen in Q3FY18), despite slowdown in steel production among the smaller mills, driven by traction in exports and trading of bricks domestically. We forecast margin to sustain at around 21%.
	EBITDA	314	263	19.5	331	(5.1)	
	Core PAT	213	177	20.5	220	(3.0)	
SKF India	Revenues	6,913	6,537	5.8	7,005	(1.3)	We expect 6% YoY revenue growth owing to decent growth in 2W, as well as recovery in CVs. We expect strong EBITDA growth led by margin expansion on account of increasing localisation
	EBITDA	1,058	795	33.0	1,230	(14.0)	
	Core PAT	752	579	29.9	861	(12.7)	
Solar Industries	Revenues	5,694	4,421	28.8	4,657	22.3	Revenues are expected to increase by 29% YoY led by strong growth in exports and overaseas market coupled with healthy revenue growth from coal and housing/infra projects. Further, with increase in margins by 40bps YoY, EBITDA/PAT is likely to increase by 31%/24% YoY respectively
	EBITDA	1,207	919	31.3	1,043	15.7	
	Core PAT	652	549	18.6	542	20.3	
SRF	Revenues	14,962	13,258	12.9	13,971	7.1	We expect SRF's revenues to increase by 13% YoY led by healthy revenue growth in Chemicals and Packaging films segment driven by capacity expansions. Further, led by margin expansion across segments compared to last year, EBITDA is expected to increase by 32% YoY
	EBITDA	2,837	2,157	31.5	2,316	22.5	
	Core PAT	1,530	1,147	33.4	1,152	32.8	
Vesuvius	Revenues	2,552	2,280	12.0	2,290	11.5	With continuing volume growth amongst the large steel mills , we forecast Vesuvius to register revenue growth of 12%. Further we expect margins to stabilise at ~18%, leading to 15% EBITDA growth
	EBITDA	459	399	15.0	414	11.0	
	Core PAT	277	234	18.1	243	13.9	
Prabhat Dairy	Revenues	3,998	3,772	6.0	4,039	(1.0)	We forecast 6% revenue growth YoY led by increased volume growth. Further we expect EBITDA margin to moderate at 9% leading to EBITDA growth of 17%
	EBITDA	350	298	17.3	375	(6.7)	
	Core PAT	136	(18)	862.5	148	(7.9)	
Parag Milk	Revenues	5,011	4,283	17.0	5,193	(3.5)	We expect the momentum of strong revenue growth in the last quarter to continue and expect ~17% revenue growth. We expect margin to moderate to 10.8% leading to EBITDA growth of 4% YoY
	EBITDA	539	519	3.9	588	(8.4)	
	Core PAT	247	328	(24.9)	255	(3.1)	

Stock		Q4FY18E (INR mn)	Q4FY17 (INR mn)	Y-o-Y (%)	Q3FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Heritage Foods	Revenues	6,072	4,930	23.2	5,789	4.9	We expect strong revenue growth of 23% (on continuing operations) led by increased volumes. We expect margins to expand YoY by ~100bps due to increased contribution of VADP and improvement in profitability from Reliance Dairy.
	EBITDA	413	287	43.8	376	9.8	
	Core PAT	205	105	94.9	163	25.4	
VIP	Revenues	3,441	3,072	12.0	3,380	1.8	We expect strong sales growth to continue this quarter with growth of 12%, supported by redutcion in GST rate and shift towards organised players. Margins are expected to expand by ~1% YoY due to a stronger INR YoY and cost controls, leading to EBITDA growth of 22%.
	EBITDA	375	307	22.1	412	(8.9)	
	Core PAT	227	189	20.1	269	(15.5)	

Valuation snapshot

		Mkt Cap	Price	P/E (x)		P/B (x)		RoE (%)		Div yld (%)	
	Reco	USD mn	(INR)	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Aarti Industries	Buy	1,441	1,155	22.5	17.0	4.9	3.9	23.6	25.3	0.7	0.7
AIA Engineering	Buy	2,085	1,440	27.0	22.6	4.0	3.6	15.7	16.7	0.7	1.2
Amara Raja Batteries	Buy	2,093	798	23.4	19.4	3.9	3.4	18.1	18.7	0.7	0.8
Apar Industries	Buy	447	760	13.1	10.8	2.2	1.9	18.0	19.0	1.6	1.8
Balkrishna Industries	Buy	3,417	1,151	22.7	17.4	4.5	3.8	21.7	23.9	1.0	1.4
Carborundum Universal	Buy	1,075	371	26.5	20.9	4.0	3.5	14.7	16.5	0.8	0.9
Castrol India	Buy	3,151	208	27.3	25.0	26.6	23.5	103.7	99.8	2.7	3.0
CCL Products India	Buy	576	282	18.6	15.5	4.3	3.6	25.0	25.1	1.4	1.4
Essel Propack	Buy	604	250	16.0	14.3	2.9	2.5	19.9	19.2	1.5	1.7
Exide Industries	Buy	3,013	231	23.0	19.7	3.1	2.9	14.7	15.2	1.3	1.6
Schaeffler India Limited	Buy	1,378	5,400	31.9	25.8	4.7	4.0	15.8	16.8	0.3	0.3
Grindwell Norton	Buy	880	518	32.8	27.4	5.4	4.8	17.1	18.6	1.2	1.4
Gulf oil	Buy	698	914	24.8	21.3	8.1	6.6	36.0	34.1	1.4	1.6
Orient Refractories	Buy	295	160	21.1	17.8	5.3	4.6	26.9	27.8	2.0	2.3
SKF India	Buy	1,427	1,811	26.9	23.6	4.5	4.0	17.8	18.0	1.0	1.2
Prabhat dairy Ltd	Buy	241	161	24.5	16.8	2.0	1.8	9.3	12.4	0.5	0.8
Parag Milk	Buy	320	248	20.4	16.1	2.5	2.2	12.9	14.4	0.2	0.8
Heritage foods	Buy	520	730	35.4	25.9	8.1	6.6	25.3	28.1	0.8	1.1
Solar Industries	Buy	1,478	1,064	38.8	25.7	7.9	6.4	22.6	27.9	0.7	0.8
SRF	Buy	1,763	2,000	18.4	15.2	2.9	2.5	16.6	17.6	1.0	1.2
Vesuvius India	Buy	406	1,303	22.0	18.3	3.5	3.0	17.2	17.9	0.7	0.8
VIP Industries	Buy	690	318	32.6	26.7	8.3	7.2	27.2	28.8	1.3	1.6

Textiles

Stock		Q4FY18E (INR mn)	Q4FY17 (INR mn)	Y-o-Y (%)	Q3FY18 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Arvind	Revenues	28,044	24,648	13.8	27,058	3.6	We expect the Textile segment to report stable growth driven by the garment segment. However, margins are expected to contract due to lower than expected increase in cotton prices and higher share of garment division. In the Brand & Retail segment, we expect revenues to increase by 10%/15% respectively in Power and other brands, excluding the consolidation of Tommy Hilfiger and CK. The growth also incorporates the impact of lower revenue realization due to GST (~5% impact). We expect B&R margins to further improve and build in a 50bps YoY (60bps QoQ) expansion.
	EBITDA	2,660	2,235	19.0	2,484	7.1	
	Core PAT	916	947	(3.3)	882	3.8	
Himatsingka Seide	Revenues	5,653	5,843	(3.3)	5,956	(5.1)	With the expansion of the new bed sheet unit in the base we expect revenue growth to be marginally fall due to lower incentives (9MFY18 growth of 10%). However, with the spinning unit expected to be fully operational this quarter, we expect a ~700bps increase in EBITDA margins to 23.8% and lead to a 39% YoY growth in EBITDA. However, higher interest and depreciation from the newly commissioned capex will lead to PAT growing by 26% YoY to INR576mn.
	EBITDA	1,344	968	38.8	1,167	15.1	
	Core PAT	576	456	26.4	501	14.9	
Welspun India	Revenues	15,814	17,572	(10.0)	13,980	13.1	While Welspun India was expecting the annual fall in revenues to be in 6-7% range, the impact of destocking has continued this quarter also and considering that we are building in a 10% YoY fall in revenues for Q4FY18E. On the margin front also, because of the increase in cotton prices, we expect only a 90bps QoQ improvement in EBITDA margins.
	EBITDA	3,007	3,829	(21.5)	2,523	19.2	
	Core PAT	840	1,533	(45.2)	774	8.5	

Valuation snapshot

		Mkt Cap	Price	P/E (x)		P/B (x)		RoE (%)		Div yld (%)	
	Reco	USD mn	(INR)	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Arvind	Buy	1,587	400	18.3	14.3	2.4	2.1	13.6	15.1	0.6	0.6
Himatsingka Seide	Buy	545	361	12.6	10.9	2.4	2.0	20.5	19.7	0.7	0.7
Welspun India	Buy	891	58	10.2	9.3	1.8	1.6	19.3	18.4	2.2	2.8

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
DN: c=IN, o=EDELWEISS SECURITIES LIMITED, ou=HEAD RESEARCH, cn=ADITYA NARAIN, serialNumber=e0576796072ad1a3266c27990f20bf0213f69235fc3f1bcd0fa1c30092792c20, postalCode=400005, 2.5.4.20=6b7d777d3c8c77e0e2c454e91543f9f4d9b8311cf0678cd975097fc645327865, st=Maharashtra
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Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240

* 1stocks under review

	> 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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