KRChoksey | INSTITUTIONAL

Q4 FY18 RESULT PREVIEW

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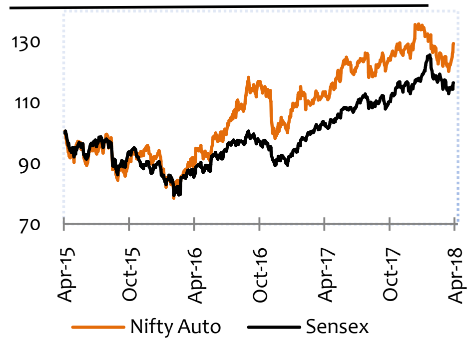
AUTO Sector

Well poised to end FY18 on high note!

MARKET DATA

Nifty	10,402
Sensex	33,880
Nifty AUTO	11,387
USD / INR	64.98

SECTOR PERFORMANCE



Earnings expectation for Q4 FY18:

The automobile industry is expected to conclude FY18 on a high note led by robust volume growth in Q4FY18 as compared to Q4FY17. The growth was majorly driven by commercial vehicle (CVs) which continued to post buoyant growth (33% y-o-y) on the back of increase in Government of India's (GOI) spending in infrastructure, increase in agriculture activities and pickup in mining segments. Surge in demand from logistics and e-commerce segment also provided boost to CV growth cycle. Two wheelers (2Ws) also reported a stellar growth (27% y-o-y) which was mainly on account of consistent rise in demand from rural sectors and passenger vehicles (PVs) displayed a moderate growth (8.2% y-o-y) which was due to new models launched by OEMs and sharp surge in UV segment (~15% y-o-y).

Expect a healthy top line growth in Q4FY18:

Riding on high volumes, OEM companies are expected to report a healthy growth in their top-line as compared to Q4FY17. Considering our universe, we expect Bajaj Auto and Ashok Leyland to report better growth rate as compared to other OEMs as we estimate both the companies to display a top-line growth of 37.4% y-o-y and 32.5% y-o-y respectively in Q4FY18. Auto-ancillary companies are also likely to register a decent revenue growth as compared to same quarter last year. We expect Minda Corporation Ltd/Minda Industries Ltd to deliver healthy growth of 15% /17% respectively as compared to Q4FY17 in our auto-ancillary space.

Higher Input cost to weigh on EBITDA margins:

While revenue growth is expected to be robust, we believe operational margins to majorly remain under-pressure on account of rising input cost led by increase in commodity prices. However, among the OEMs, we expect margins to improve for Maruti Suzuki/Hero Motocorp by 214bps y-o-y/145bps y-o-y respectively. In auto-ancillary segment, we believe margins to remain range bound for our universe.

Q4 FY18 Earnings Outlook of companies under coverage:

Maruti Suzuki Ltd:

We expect Maruti Suzuki to report a top-line growth of 16.6% y-o-y and 10.8% q-o-q on account healthy volume growth. Company reported a 11.3% y-o-y growth in its sales volumes during Q4FY18 which was majorly driven by its compact and UV segment. EBIDTA is expected to grow by 34.2% y-o-y and 12.5% q-o-q. We believe company to post net profit of INR 21,033 Mn displaying a growth of 13% y-o-y and 17.8% q-o-q. PAT margins are expected to remain range bound ~10%. **We currently have an "Accumulate" rating on the stock with a target of INR 10,162.**

Bajaj Auto Ltd:

Bajaj Auto Ltd reported sales of 10,45,378 units in Q4FY18 showing a growth of 32.7% y-o-y and 4.4% q-o-q which was majorly led by growth in company's CV sales. Owing to this we reckon the company to post revenue of INR 66,007 Mn and display a growth of 34.7% y-o-y and 5.7% q-o-q. We expect operational margins to come in at 19.8%. Net profit of the company is likely to increase by 38.7% y-o-y and 9.9% q-o-q to INR 11,956 Mn and margins are expected to improve to 18.1%. **Currently we have an "Accumulate" rating on the stock with a target price of INR 3,504**.

Hero Motocorp Ltd:

We expect Hero Motocorp to report sales of INR 85,022 Mn showing a growth of 22.9% y-o-y and 16.4% q-o-q due to increase in volumes by 23.4% y-o-y and 17.1% q-o-q which was majorly on account of healthy demand from rural markets. We believe company to post EBIDTA of INR 13,008 Mn reporting a growth of 35.8% y-o-y and 12.3% q-o-q. Operational margins are expected to be at 15.3%. We believe company to report net profit of INR 8,798 Mn registering a growth of 23.2% y-o-y and 8.6% q-o-q. **We currently have an "Accumulate" rating on the stock with a target price of INR 4,167.**

Tata Motors Ltd:

We expect revenues to grow by 25% q-o-q and 20% y-o-y on account of strong commercial vehicle sales and increase in demand for Tata Hexa and Tata Tigor along with healthy Jaguar-Land Rover (JLR) sales. The EBIDTA is expected to come in at INR 111,192.8 Mn registering a growth of 28.5% q-o-q and a minimal growth of 2.5% y-o-y, margins are expected to increase by 31 bps q-o-q but decline by 205 bps y-o-y to 12%. We believe the company to report net profit of INR 25,324 Mn showing a growth of 31.6% q-o-q and net profit margins are likely to remain at 2.7%. **We currently have a "BUY" rating on the stock with a target price of INR 490.**

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AUTO Sector

Ashok Leyland Ltd:

Ashok Leyland is expected to report revenue of INR 87,709 Mn showcasing a growth of 32.5% y-o-y and 23.3% q-o-q. Top-line is estimated to increase on the back of increase in sales volumes of 23.3% y-o-y and 25.9% q-o-q. EBIDTA is expected to increase by 26.2% y-o-y and 16.8% q-o-q to INR 9,209 Mn. Operational margins are likely to decline by 53bps y-o-y and 58bps q-o-q. We reckon, net profit to stand at INR 5,560 Mn growing by 12.3% y-o-y and 20.2% q-o-q and margins are expected to decline by 114bps y-o-y and 16bps q-o-q. **We currently have a "BUY" rating on the stock with a target price of INR 162.**

Minda Corp Ltd:

We expect company's top-line to increase by 15% y-o-y and 36% q-o-q to INR 8,649 Mn on the back of improved performance across segments and strong order book. EBIDTA of the company is expected to stand at INR 951 Mn in Q4FY18 reporting a growth of 32.7% q-o-q and 181.8% y-o-y. Operational margins are likely to improve by 651 bps y-o-y but decline marginally by 27bps q-o-q to 11%. We believe net profit of the company to increase by 42.8% q-o-q and 126.7% y-o-y to INR 432 Mn with margins improving by 246bps y-o-y and 24bps q-o-q. The growth of EBIDTA/PAT may appear to be robust as compared to Q4FY17 on account of low base effect. **We currently have a "BUY" rating on the stock with a target price of INR 248.**

Minda Industries Ltd:

Minda Industries is likely to report healthy numbers for Q4FY18. We expect company's revenue to increase by 17% y-o-y and 5% q-o-q to INR 11,092 Mn. EBIDTA/net profit are expected to increase by 23.2%/21.5% y-o-y respectively and as compared to Q3FY18 EBIDTA/net profit are estimated to increase by 8%/11% respectively. We believe operational margins to register a minimal growth of 61bps y-o-y and 33bps q-o-q and net profit margins are also expected to improve by 23bps y-o-y and 34bps q-o-q to 6.3%. **We currently have an "Accumulate" rating on the stock with a target price of INR 1,117.**

CEAT Ltd:

The company is expected to report a top-line of INR 16,765 Mn showcasing a growth of 15% y-o-y and 6.5% q-o-q. EBIDTA is estimated to grow by 27.8% y-o-y but de-grow by 9.4% as compared to Q3FY18 to INR 1,693 Mn. On the EBIDTA margins front we expect a 101 bps y-o-y growth but a 178 bps q-o-q decline. Net profit is likely to increase by 23.1% y-o-y and 8.3% q-o-q to INR 892 Mn and we believe margins to improve marginally by 35 bps y-o-y and 9bps q-o-q to 5.3%. **We currently have an "Accumulate" rating on the stock with a target price of INR 1,898.**

JK Tyre & Industries Ltd:

We expect JK Tyre's top-line to grow by 16% y-o-y and 16.4% q-o-q to INR 24,712 Mn. EBIDTA is likely to increase by 18.6% y-o-y and 11.4% q-o-q to INR 2,372 Mn. Operational margins are expected to improve by 21bps y-o-y but contract by 43bps q-o-q to 9.6%. We believe net profit to stand at INR 173 Mn with net profit margins improving 62bps q-o-q. **We currently have a "BUY" rating on the stock with a target price of INR 215.**

Quarterly result expectation for companies under coverage

INR Million	Q4FY17	Q3FY18	Q4FY18E	Q-o-Q	Y-o-Y	Remarks
Maruti Suzuki						
Sales	180052	189400	209869	10.8%	16.6%	We expect Maruti Suzuki to report a top-line growth of 16.6% y-o-y and 10.8% q-o-q on account of healthy volume growth. Company reported a 11.3% y-o-y growth in its sales volumes during Q4FY18 which was majorly driven by its compact and UV segment. EBIDTA is expected to grow by 34.2% y-o-y and 12.5% q-o-q. Operational margins are likely to improve by 214 bps y-o-y and 25bps q-o-q to 16.3%. We believe company to post net profit of INR 21,033 Mn displaying a growth of 13% y-o-y and 17.8% q-o-q. PAT margins are expected to remain range bound at ~10% resulting in an improvement of 60bps q-o-q but a decline of 31bps y-o-y.
EBIDTA	25473	30378	34184	12.5%	34.2%	
Net Profit	18609	17851	21033	17.8%	13.0%	
OPM (%)	14.1%	16.0%	16.3%	25bps	214bps	
NPM (%)	10.3%	9.4%	10.0%	60bps	-31bps	
Bajaj Auto						
Sales	48050	62462	66007	5.7%	37.4%	Bajaj Auto Ltd reported sales of 10,45,378 units in Q4FY18 showing a growth of 32.7% y-o-y and 4.4% q-o-q. Owing to this we reckon the company to post revenue of INR 66,007 Mn and display a growth of 37.4% y-o-y and 5.7% q-o-q. We expect operational margins in Q4FY18 to improve by 95bps y-o-y but remain inline q-o-q at 19.8%. Net profit of the company is likely to increase by 38.7% y-o-y and 9.9% q-o-q to INR 11,956 Mn and margins are expected to improve by 17bps y-o-y and 69bps q-o-q.
EBIDTA	9049	12306	13061	6.1%	44.3%	
Net Profit	8622	10884	11956	9.9%	38.7%	
OPM (%)	18.8%	19.7%	19.8%	9bps	95bps	
NPM (%)	17.9%	17.4%	18.1%	69bps	17bps	

AUTO Sector

INR Million	Q4FY17	Q3FY18	Q4FY18E	Q-o-Q	Y-o-Y	Remarks
Hero MotoCorp						
Sales	69152	73055	85022	16.4%	22.9%	We expect Hero Motocorp to report sales of INR 85,022 Mn showing a growth of 22.9% y-o-y and 16.4% q-o-q due to increase in volumes by 23.4% y-o-y and 17.1% q-o-q. We believe company to post EBIDTA of INR 13,008 Mn reporting a growth of 35.8% y-o-y and 12.3% q-o-q. Operational margins are likely to improve by 145bps y-o-y but decline by 55bps q-o-q. Net profit margins are expected to remain in line with margins of Q4FY17 but decline by 74 bps q-o-q.
EBIDTA	9576	11580	13008	12.3%	35.8%	
Net Profit	7142	8098	8798	8.6%	23.2%	
OPM (%)	13.8%	15.9%	15.3%	-55bps	145bps	
NPM (%)	10.3%	11.1%	10.3%	-74bps	2bps	
Tata Motors						
Sales	772172	741561	926606	25.0%	20.0%	We expect revenues to grow by 25% q-o-q and 20% y-o-y on account of strong commercial vehicle sales and increase in demand for Tata Hexa and Tata Tigor along with healthy Jaguar-Land Rover (JLR) sales. The EBIDTA margins are expected to increase by 31 bps q-o-q but decline by 205 bps y-o-y. We believe the company to report Net Profit of INR 25,324 Mn showing a growth of 31.6% q-o-q and net profit margins are likely to remain at 2.7%.
EBIDTA	108464	86703	111193	28.2%	2.5%	
Net Profit	62069	19237	25324	31.6%	-59.2%	
OPM (%)	14.0%	12%	12.0%	31bps	-205bps	
NPM (%)	8.0%	2.6%	2.7%	14bps	-531bps	
Ashok Leyland						
Sales	66179	71132	87709	23.3%	32.5%	Ashok Leyland is expected to report revenue of INR 87,709 Mn showcasing a growth of 32.5% y-o-y and 23.3% q-o-q. EBIDTA is expected to increase by 26.2% y-o-y and 16.8% q-o-q to INR 9,209 Mn. Operational margins are likely to decline by 53bps y-o-y and 58bps q-o-q. We reckon net profit to stand at INR 5,560 Mn and margins are expected to decline by 114bps y-o-y and 16bps q-o-q to 6.3%.
EBIDTA	7299	7884	9209	16.8%	26.2%	
Net Profit	4952	4624	5560	20.2%	12.3%	
OPM (%)	11.0%	11.1%	10.5%	-58bps	-53bps	
NPM (%)	7.5%	6.5%	6.3%	-16bps	-114bps	
Minda Corp						
Sales	7521	6362	8649	36.0%	15.0%	We expect company's top-line to increase by 15% y-o-y and 36% q-o-q to INR 8,649 Mn on the back of improved performance across segments and strong order book. EBIDTA of the company is expected to stand at INR 951 Mn reporting a growth of 32.7% q-o-q and 181.8% y-o-y. Operational margins are likely to improve by 651 bps y-o-y but decline marginally by 27bps q-o-q. We believe net profit of the company to increase by 42.8% q-o-q and 126.7% y-o-y to INR 432 Mn with margins improving by 246bps y-o-y and 24bps q-o-q to 5%.
EBIDTA	338	717	951	32.7%	181.8%	
Net Profit	191	303	432	42.8%	126.7%	
OPM (%)	4.5%	11.3%	11.0%	-27bps	651bps	
NPM (%)	2.5%	4.8%	5.0%	24bps	246bps	
Minda Industries						
Sales	9481	10562	11092	5.0%	17.0%	Minda industries is likely to report healthy numbers for Q4FY18. We expect company's revenue to increase by 17% y-o-y and 5% q-o-q to INR 11,092 Mn. EBIDTA/Net profit are expected to increase by 23.2%/21.5% y-o-y respectively. We believe operational margins to register a minimal growth of 61bps y-o-y and 33bps q-o-q and net profit margins are also expected to improve by 23bps y-o-y and 34bps q-o-q.
EBIDTA	1108	1264	1364	8.0%	23.2%	
Net Profit	578	633	702	11.0%	21.5%	
OPM (%)	11.7%	12.0%	12.3%	33bps	61bps	
NPM (%)	6.1%	6.0%	6.3%	34bps	23bps	
CEAT						
Sales	14578	15742	16765	6.5%	15.0%	The company is expected to report a top-line of INR 16,765 Mn showcasing a growth of 15% y-o-y and 6.5% q-o-q. EBIDTA is estimated to grow by 27.8% y-o-y but de-grow by 9.4% q-o-q. On the EBIDTA margins front we expect a 101 bps y-o-y growth but a 178 bps q-o-q decline. Net profit is likely to increase by 23.1% y-o-y and 8.3% q-o-q to INR 892 Mn and we believe margins to improve marginally by 35 bps y-o-y and 9bps q-o-q.
EBIDTA	1325	1870	1693	-9.4%	27.8%	
Net Profit	725	823	892	8.3%	23.1%	
OPM (%)	9.1%	11.9%	10.1%	-178bps	101bps	
NPM (%)	5.0%	5.2%	5.3%	9bps	35bps	

AUTO Sector

INR Million	Q4FY17	Q3FY18	Q4FY18E	Q-o-Q	Y-o-Y	Remarks
JK Tyre						
Sales	21311	21232	24712	16.4%	16.0%	We expect JK Tyre's topline to grow by 16% y-o-y and 16.4% q-o-q to INR 24,712 Mn. EBIDTA is likely to increase by 18.6% y-o-y and 11.4% q-o-q to INR 2,372 Mn. Operational margins are expected to improve by 21bps y-o-y but contract by 43bps q-o-q. We believe net profit to stand at INR 173 Mn with PAT margins improving by 62bps q-o-q.
EBIDTA	2001	2129	2372	11.4%	18.6%	
Net Profit	888	16	173	981.1%	-80.5%	
OPM (%)	9.4%	10.0%	9.6%	-43bps	21bps	
NPM (%)	4.2%	0.1%	0.7%	62bps	-347bps	

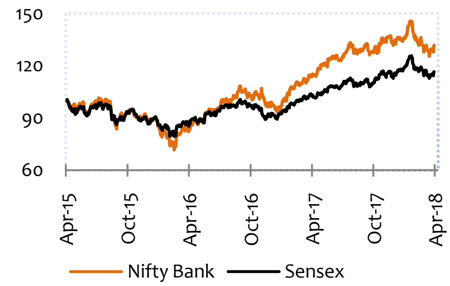
BFSI Sector

Painful Quarter

MARKET DATA

Nifty	10,402
Sensex	33,880
CNX BANK	25,227
USD / INR	64.98

SECTOR PERFORMANCE



Earnings expectation for Q4FY18 and sector outlook

No relief from asset quality pressures; rising yields and escalation in number of frauds further dampeners

Q4FY18 could be labeled as one of the worst quarters in recent history of Indian banking. The sector was reeling under enormous pile up of bad corporate debt along with temporary blips from the disturbances caused by demonetisation and GST-implementation. Rising yields have impacted non-interest income. Sudden proliferation of frauds towards the end of Q4FY18 has caused a lot of uncertainty regarding the operational strengths and risks at banks, especially the PSBs. Lastly, RBI's February 2018 directive regarding NPA classification is a trigger for volatility. Although we do not expect the total pool of stressed loans (NPAs + SDR, S4A, watch-lists, etc.) to change materially as a result of the new directive, we do anticipate a spike-up in credit costs. As a result of these developments, ultimately showing up in provisions created by the banks (especially the corporate-focused banks), we expect PAT performance to be poor.

Uncertainties around asset quality – emanating from frauds, RBI directive – leading to high credit costs

The banking sector has witnessed a number of frauds being unearthed in Q4FY18, questioning the lending practices at some of the large PSBs. The large quantum of frauds during the quarter would result in high credit costs, adversely impacting PAT. Apart from this, another blow would be the RBI directive, calling for reclassification of stressed accounts as NPAs. As the pool of SDR, S4A and other watch-list accounts gets classified as NPA, we expect slippages to be high. Credit cost for Axis, ICICI, SBI and BoB is expected to be higher than their counterparts owing to the corporate-heavy nature of their lending books. For HDFC Bank, Kotak and IndusInd, we expect credit costs to remain within comfortable levels.

Asset quality pressure, competition and rising rates to weaken NIMs

Given the anticipated asset quality pressure, the rising competition in retail from NBFCs and considering hardening rates, we are expecting some NIM compression for Q4FY18. For the corporate-focused banks, we are expecting higher compression in NIMs compared to more retail-focused ones, largely attributable to asset quality issues. We expect support from treasury income to be muted on account of recent climb up in yields.

Retail continues to dominate

Banks with retail focus, such as HDFC Bank, Kotak, IndusInd are expected to post healthy growth in advances – averaging 22% yoy. In the backdrop of continued silence with respect to capex, we expect lower growth from the corporate focused banks. However, with Axis and ICICI significantly changing gears in terms of their incremental exposures, we expect 18% and 12% growth respectively. For PSBs – SBI and BOB – we expect retail growth to outpace the corporate segment, however, overall credit growth will lag private sector peers.

NCLT turning out to be a long-drawn process..

Starting out early during FY18, we are yet to see banks making any major recoveries from NCLT list 1. Over the period since it came into play, resolutions have been a victim of legal hurdles and loopholes. The recovery under IBC has been slower than expected. However we stay positive on this front as we expect resolutions for list 1 to materialize over the next 1-2 quarters, followed by recoveries under list 2. With respect to the steel sector, what is comforting is that haircuts may not be to the extent envisaged earlier.

In the wake of the above circumstances – corporate slippages on account of recent uncovering of frauds and RBI directive wrt to NPA classification and their consequent impact on asset quality casting a cloud of uncertainty – we believe corporate-focused private banks and PSBs will continue to report poor earnings over the next few quarters. We continue to stay positive on the large private sector banks focused on retail lending, namely HDFC Bank and Kotak Mahindra Bank. With the CV cycle turning the corner, we expect IndusInd Bank to continue to report robust growth and earnings numbers. Also, RBI directive to allow banks to spread MTM bond losses over 4 quarters is expected to provide some relief.

Life insurance sector to clock high growth rates on account of under-penetration, increasing financial literacy and overall financialization of the economy: On back of strong macro fundamentals and opportunity size, we expect life insurance companies to continue to clock high growth rates. In terms of premium collected, we expect life insurers to grow around 15-20%. We expect VNB margins to improve as life insurers continue to improve their underwriting quality, operational expenses and infrastructure productivity.

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BFSI Sector

Q4FY18 Earnings Outlook of companies under coverage:

State Bank Of India

Expect advances growth to remain muted. Asset quality stress is likely to increase on back of new NPA classification guidelines. High credit costs, low NIMs and weak non-interest income should translate into another loss-bearing quarter for the bank. Expecting NPAs to increase without any meaningful resolutions having come through during the quarter. **We currently have a BUY rating on the stock with a target price of INR 379.**

Bank Of Baroda

Expecting recent pick-up in advances growth to sustain. Stable NIMs should aid higher NII growth, though treasury gains are expected to take a hit on back of rising yields. Opex to remain stable. Although NPA stress continues to be elevated, the bank maintains a comfortable PCR, alleviating concerns of high credit costs during the quarter. New RBI guidelines around NPA classification will increase NPAs. **We currently have a BUY rating on the stock with a target price of INR 226.**

HDFC Bank

Expect NII to grow at 20% on back of stable NIMs and 20% growth in advances. Fee income should be healthy. Stable opex and normal run-rate on the credit costs should aid profitability. ROA to remain steady at 2%. Asset quality is likely to hold up. **We currently have a BUY rating on the stock with a target price of INR 2288.**

Kotak Mahindra Bank

Expect advances growth at 22% yoy, NII growth at 17%. Expec NIMs to stay largely stable. Expect cost structure to slightly improve as merger synergies continue to play-out. Low stock of NPAs should result in lower credit costs compared to peers. Expect ROA to improve by 8 bps to 1.8% qoq. **We currently have an ACCUMULATE rating on the stock with a target price of INR 1172.**

IndusInd Bank

The bank is expected to maintain its momentum – expecting 25% advances growth especially on back of strong CV cycle. NII growth at 22% yoy will be led by stable NIMs. Credit costs at 60 bps should translate into superior earnings – in line with the bank's own performance. Negligible exposure to NCLT cases and retail nature of the book alleviates asset quality concerns. **We currently have an ACCUMULATE rating on the stock with a target price of INR 1998.**

Yes Bank

Expect 32% growth in advances along with slight contraction in NIMs should lead to 30% growth in NII. Slight deterioration in cost structure along with elevated credit costs could result in de-growth at PAT level. Expecting NPA to inch up. **We currently have a BUY rating on the stock with a target price of INR 381.**

ICICI Bank

Expect advances to grow 12% yoy. Recent RBI guidelines on NPA classification should impact ICICI Bank – expect NPAs to deteriorate further. NIMs are expected to contract on back of high slippages with NII growing 1% yoy. Stake sale gains from ICICI Securities IPO should help provide some buffer – gains to be used towards improving PCR. Expect high credit costs to dent PAT considerably. **We currently have a BUY rating on the stock with a target price of INR 395.**

Axis Bank

Advances growth expected at 18%, though continued high slippages on account of new RBI NPA classification guidelines are likely to dent NIMs, resulting in flat NII growth. High credit costs will impact PAT, which is expected to de-grow sharply. Asset quality is expected to deteriorate. **We currently have a BUY rating on the stock with a target price of INR 691.**

Karur Vysya Bank

Advances should growth at 12% yoy. Expect contraction in NIMs on account of high slippages from the watch-list resulting in slight de-growth in NII. Stock of NPA is likely to increase / Asset quality will deteriorate further. Fee income is expected to continue to show robust traction. Opex should remain stable. Credit costs will inch upwards on back of watch-list slippages. Expect PAT to de-grow sharply. **We currently have a BUY rating on the stock with a target price of INR 145.**

Bajaj Finance

We expect 36% growth yoy in AUM, maintaining the strong quarterly momentum. Stable NIMs should deliver strong NII growth. We expect credit to inch up slightly during the quarter. Despite this, earnings should continue to be strong. **We currently have an ACCUMULATE rating on the stock with a target price of INR 2184.**

BFSI Sector

Quarterly result expectation for companies under coverage

INR Million	Q4FY17	Q3FY18	Q4FY18E	QoQ	YoY	Remarks
State Bank Of India Ltd.						
NII	-	1,86,875	2,00,596	7%	-	Expect advances growth to remain muted with retail continuing to drive majority of the growth. Asset quality stress is likely to increase on back of new NPA classification guidelines. NIMs will be under pressure. High credit costs, low NIMs and weak non-interest income should translate into another loss-bearing quarter for the bank. Expecting NPAs to increase without any meaningful resolutions having come through during the quarter.
PPOP	-	1,17,546	1,29,357	10%	-	
PAT	-	-24,164	-22,957	-5%	-	
Bank Of Baroda Ltd.						
NII	35,819	43,940	47,582	8%	33%	Expecting recent pick-up in advances growth to sustain. Stable NIMs should aid higher NII growth, though treasury gains are expected to take a hit on back of rising yields. Opex to remain stable. Although NPA stress continues to be elevated, the bank maintains a comfortable PCR, alleviating concerns of high credit costs during the quarter. New RBI guidelines around NPA classification will increase NPAs.
PPOP	30,202	36,501	37,249	2%	23%	
PAT	1,547	1,118	1,195	7%	-23%	
HDFC Bank Ltd.						
NII	90,551	1,03,143	1,08,871	6%	20%	Expect NII to grow at 20% on back of stable NIMs and 20% growth in advances. Fee income should be healthy. Stable opex and normal run-rate on the credit costs should aid profitability. ROA to remain steady at 2%. Asset quality is likely to hold up.
PPOP	72,794	84,513	90,343	7%	24%	
PAT	39,901	46,426	49,877	7%	25%	
Kotak Mahindra Bank Ltd.						
NII	21,614	23,937	25,300	6%	17%	Expect advances growth at 22% yoy, NII growth at 17%. Expec NIMs to stay largely stable. Expect cost structure to improve slightly as merger synergies continue to play-out. 811 expense will continue to weigh in though. Low stock of NPAs should result in lower credit costs compared to peers. Expect ROA to improve by 8 bps qoq to 1.8%.
PPOP	17,020	18,201	19,610	8%	15%	
PAT	9,765	10,532	11,593	10%	19%	
IndusInd Bank Ltd.						
NII	16,675	18,948	20,262	7%	22%	The bank is expected to maintain its momentum – expecting 25% advances growth especially on back of strong CV cycle. NII growth at 22% yoy will be led by stable NIMs. Credit costs at 60 bps should translate into superior earnings – in line with the bank's own performance. Negligible exposure to NCLT cases and retail nature of the book alleviates asset quality concerns.
PPOP	15,722	16,647	17,598	6%	12%	
PAT	7,516	9,363	9,591	2%	28%	

BFSI Sector

INR Million	Q4FY17	Q3FY18	Q4FY18E	QoQ	YoY	Remarks
Yes Bank Ltd.						
NII	16,397	18,888	21,257	13%	30%	Expect 32% growth in advances along with slight contraction in NIMs should lead to 30% growth in NII. Slight deterioration in cost structure along with elevated credit costs could result in de-growth at PAT level. Expecting NPA to inch up.
PPOP	16,910	20,018	19,812	-1%	17%	
PAT	9,141	10,769	8,881	-18%	-3%	
ICICI Bank Ltd.						
NII	59,622	57,053	60,099	5%	1%	Expect advances to grow 12% yoy. Recent RBI guidelines on NPA classification should impact ICICI Bank – expect NPAs to deteriorate further. NIMs are expected to contract on back of high slippages with NII growing 1% yoy. Stake sale gains from ICICI Securities IPO should help provide some buffer – gains to be used towards improving PCR. Expect high credit costs to dent PAT considerably.
PPOP	51,120	50,578	78,047	54%	53%	
PAT	20,246	16,502	2,769	-83%	-86%	
Axis Bank Ltd.						
NII	47,286	47,315	46,932	-1%	-1%	Advances growth expected at 18%, though continued high slippages on account of new RBI NPA classification guidelines are likely to dent NIMs, resulting in flat NII growth. High credit costs will impact PAT, which is expected to de-grow sharply. Asset quality is expected to deteriorate.
PPOP	43,747	38,538	43,026	12%	-2%	
PAT	12,251	7,264	495	-93%	-96%	
Karur Vysya Bank Ltd.						
NII	5,800	5,616	5,589	0%	-4%	Advances are expected to grow at 12% yoy. Expect contraction in NIMs on account of high slippages from the watch-list resulting in slight de-growth in NII. Stock of NPA is likely to increase / asset quality will deteriorate further. Fee income is expected to continue to show robust traction. Opex should remain stable. Credit costs will inch upwards on back of watch-list slippages. Expect PAT to de-grow sharply.
PPOP	5,071	4,212	4,174	-1%	-18%	
PAT	2,176	715	41	-94%	-98%	
Bajaj Finance Ltd.						
NII	14,770	23,724	22,875	-3.6%	54.9%	We expect 36% growth yoy in AUM, maintaining the strong quarterly momentum. Stable NIMs should deliver strong NII growth. We expect credit to inch up slightly during the quarter. Despite this, earnings should continue to be strong.
PPOP	9,715	14,230	13,611	-4.4%	40.1%	
PAT	4,492	7,668	6,198	-19.2%	38.0%	

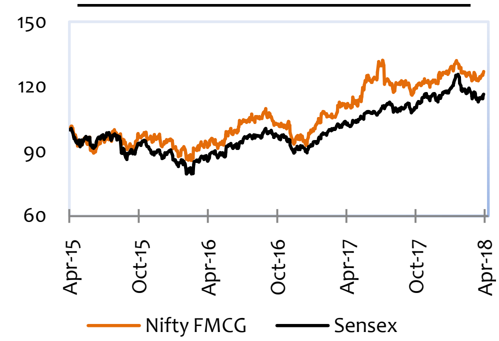
FMCG Sector

Sector- Gaining Momentum

MARKET DATA

Nifty	10,402
Sensex	33,880
CNX FMCG	27,103
USD / INR	64.98

SECTOR PERFORMANCE



Earnings expectation for Q4FY18

During the quarter we expect moderate growth in the FMCG category, the purchases of consumer products have recorded its fastest growth in nearly five years, better monsoon and improving consumer sentiments were the key driving factors for the growth in FMCG sector. Demand for FMCG products like home and personal care products have witnessed good volume pick-up during the quarter. We expect mid double digit growth for food FMCG products and low single digit growth for non-food FMCG products. The consumer durables category is expected to perform well ahead of the summer season. While pressure on margins still remains our concern due rising crude prices, an increase in argi based raw material prices due to the introduction of MSP of 1.5x of cost of production. However, we expect that companies under our coverage will manage to maintain their margins mainly due to their operational efficiencies, economies of scale, better product mix, improvement in average realization and several cost saving strategies adopted by the companies. Now, after GST the concern for FMCG companies is anti-profiteering GST rule.

For Q4FY18, we expect average revenue growth of the FMCG universe to be in the range of 9-10% YoY we expect average EBITDA growth to be in the range of 22-23% on YoY basis. We have divided the FMCG universe into three major categories, namely 1) Consumer Staple which includes stocks like Britannia, ITC, HUL, Nestle, Colgate and GCPL, 2) Consumer Durables (White Goods) which includes stocks like Blue Star, Symphony and Whirlpool, and 3) Dairy which includes stocks like Hatsun Agro, Heritage Foods, Prabhat Dairy, Parag Milks and Kwality. The revenue of Consumer Staples category is expected to grow in the range of 2-4% during this quarter, we expect 14-18% growth in the category as consumer demands is picking up gradually. However, on the other hand, we expect that the summer season will give boost to the top line growth of Consumer Durables and White Goods category. The Dairy sector is expected to grow in the range of 12-15% during this quarter.

Outlook: We remain positive on Britannia industries Ltd, Hatsun Agro Ltd, Heritage foods Ltd, HUL, Nestle, GCPL, Whirlpool, Symphony and Blue Star while on the other hand we remain concerned on Colgate, Kwality Ltd etc. We believe that Q4FY18 will be a moderate quarter for FMCG sector as we have seen mixed sentiments from the past 2-3 quarter. Furthermore, we believe that GST has been positive on most of the segment like dairy, soaps, personal care, etc. While some segment like hotels and restaurants, detergents, chocolates, etc. will be facing higher GST rates than before. Our analysis say's that consumer space has a bright future for expansion.

Key Parameter to watch in for Q4FY18 and onwards:

•Increase in companies spends on Advertisements & promotional activities.

•Consumer spending on discretionary and non-discretionary goods.

Q4FY18 Earnings Outlook of companies under coverage:

Britannia Industries Ltd remains one of the largest FMCG players with its major presence in premium biscuits segment. During Q4FY18, It focused on growing its portfolio with new innovative products and also re-furnishing current products in the premium segment, capturing new markets and geography, increasing reach in the distribution channel, focus to increase penetration in rural areas, untapped opportunities in the domestic and international market. With a revival in consumer demand we expect Britannia to cross total revenue of INR 100,000 Mn in FY18, and a better quarter with digit volume growth. Britannia will post revenue of INR 27,942.5 Mn with growth of 20.8% YoY and 8.8% QoQ. EBITDA and PAT margins to be around 15.7% and 10.4% respectively. **At CMP INR 5,164 we maintain "HOLD" rating on the stock with a target price of INR 5,240 an upside of 1.5%.**

Colgate Ltd has been a market leader in both toothbrush and toothpaste category with the highest volume market share of around 55% and 47%. Market share of Colgate has been reduced from many years due to stiff competition from unlisted players. Demand for Colgate products has picked up since last quarter and expect the trend to continue, with implementation of GST it is positive for the company as the tax rate will be 18% for both the categories. We expect revenue of INR 13,002.6 Mn with growth of 10.5% YoY. We expect EBITDA and PAT margin around 29.7% and 18.7% respectively. **At CMP INR 1,094, we recommended "ACCUMULATE" rating on the stock with a target price of INR 1,200 an upside of 9.7%.**

HUL remains one of the largest consumer company which has a presence across personal care, household, food and refreshment, etc. With GST company had faced slowdown in Q1FY18 as well as Q2FY18 and had grown in single digit, however, it witnessed good volume growth during Q3FY18. We expect that demand for its product would improve in both rural and urban areas with strategies like investing in its brands, focusing on core business with innovative products, managing cost which will help in improving margins. We expect revenue to be around INR 93,747.3 Mn with growth of 5.5% and 9.1% on YoY and QoQ basis respectively. With companies' effort for cost saving we expect improvement in EBITDA and PAT margins, Its margins will be around 21.1% and 14.8%. **At CMP INR 1,392, we recommended "ACCUMULATE" rating on the stock with a target price of INR 1,500 an upside of 7.8%.**

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FMCG Sector

ITC Ltd has many diversified businesses and its revenue is majorly dependent on its cigarette business. In Q4FY18 and in FY18, we believe that management has shifted its focus from cigarettes business to grow its FMCG business and its target is to become the largest player in the segment. Also, we expect improvement in its other business like Hotel, Paper and Agri which is growing at a slow pace. We expect overall revenue to be around INR 104,775 Mn with growth of 5.3% QoQ. In Q4FY18, we expect EBITDA and PAT margins to be around 40.5% and 28.1%, respectively. **At CMP INR 266, we recommended "BUY" rating on the stock with a target price of INR 349, an upside of 31.2%.**

GCPL: During Q4FY18, we expect GCPL to record revenue of INR 27,011 Mn, a 8.5% YoY growth and 2.7% QoQ growth. Post GST the consumer demand in India has started picking up gradually. While there is not much improvement in HI business due to slack season, its Soap and Hair care category is doing well and expected to post a good set of numbers in Q4FY18. The Africa business is expected to normalize post elections being held in Kenya. While the Indonesia business is expected to improve, but still it remains the major concern for GCPL because of low consumer demand and intense competition in the region. We expect the revenue of GCPL on a consolidated basis to grow at mid to high single digit growth rate. **At CMP of INR 1,081, we recommend "HOLD" rating on the stock with a target price of INR 1,120 an upside of 3.6%.**

Nestle India Ltd is expected to post revenue of around INR 27,531.1 Mn with growth of 6.2% YoY and 5.8% QoQ due to recovery in market share of its noodles segment and also of its presences in other segments like Ketchup, Coffee, milk Powder, Chocolates, etc. In Q4CY17 companies focus is to aggressively launch new products. With products in different segments we expect GST tax would be majorly around 18%, except for chocolates which is taxed at 28%. The sales of KitKat boosted during the quarter due to challenges faced by Cadbury from its distribution channel. We expect EBITDA & PAT margin for Q4CY17 to be at 20.6% and 12.5% respectively. **At CMP INR 8,375, we recommended "ACCUMULATE" rating on the stock with a target price of INR 8,990 an upside of 7.4%.**

Hatsun Agro remains one of the largest and strongest south based dairy company. Its major business contribution is out of milk and milk products and have recently started generating renewable energy. For Q4FY18, we remain optimistic about the growth of the company as we foresee expansion in industry as well as India is a largest producer and Consumer of Dairy, also rise in demand for different value added products, increase in disposable income, shift of unorganized to organized sector will bring in the progress of the dairy sector in India. GST tax remained positive for the dairy companies. We expect revenue to be around INR 14,003 Mn with growth of 15% YoY. For Q4FY18, we expect EBITDA and PAT margins will be around 10.4% and 3.4%, respectively. **At CMP INR 700, we recommended "BUY" rating on the stock with a target price of INR 845 an upside of 20.7%.**

Heritage Foods Ltd remains one of the strong players in the south and remains focus to grow its core category – dairy. Revenue of dairy is contributed in ratio 75% to 25% among the milk and value added products. With the acquisition and expansion in its dairy segment and value added products we expect improvement in revenue and as well as margins in the future. With GST tax would vary for different products from 0% to 18%. We expect revenue to be around INR 7,808.2 Mn with growth of 11.5% YoY and 34.9% QoQ. EBITDA and PAT margins will be around 6.2% and 3.2%, respectively. **At CMP INR 733, we recommended "BUY" rating on the stock with a target price of INR 850, an upside of 16%.**

Kwality Dairy Ltd is changing its strategy to become B2C player and also is one of the largest Dairy players in north India. In Q4FY18, its focus more on procurement of milk, helping farmers and bringing them under direct sourcing model, developing value added products under its own brand and increasing distribution network. GST remained benefitting the company with the tax rate for milk from 05 to 18% for value added products. We expect revenue to be at INR 16,954.8 Mn and growth to be around 10.5% YoY. We expect EBITDA and PAT margins to be at around 7.8% and 1.8%. **At CMP INR 55, we recommended "BUY" rating on the stock with a target price of INR 75, an upside of 35.4%.**

Parag milk foods Ltd is a private and organized dairy player which has its major presence in west India. Its major business revenue is derived from value added products and increase in milk price has led to decrease in margins. For Q4FY18 we expect a recovery in both revenue and margins. Its revenue to be around INR 5,139.6 Mn which is a growth of 20% YoY. We expect EBITDA and PAT margin to be around 12.3% and 5.8% respectively. **At CMP INR 248, we recommended "BUY" rating on the stock with a target price of INR 304, an upside of 22.6%.**

Prabhat dairy Ltd is a dairy player in the west and is transforming its business model to B2C segment. Its focus and Strategy is to enter a new category and innovative products, add more value added products, improve its direct procurement channel, etc. We expect its revenue to be around INR 4,337.6 Mn with growth of 15% YoY and 7.4% QoQ. We expect its EBITDA and PAT margins to be around 9.4% and 3.6%. **At CMP INR 182, we recommended "BUY" rating on the stock with a target price of INR 220, an upside of 21%.**

Symphony Ltd: During Q4FY18, we expect Symphony to record revenue of INR 2,208.6 Mn, with 20% YoY growth. The USP of Symphony is its focus on single product business. Unlike Symphony, other players have an air cooler as one of its products amongst many others. A successful business model has turned Symphony into an asset-light, zero-debt company; which has enabled the business to generate very high RoE and RoCE. Lower penetration of Industrial and Centralized Air coolers in India as well as Asset light and 100% advance business model are the key drivers. However, the company is facing some challenges due to intense competition and roll out of its new products at introductory price level which has impacted the margins adversely. The company is likely to increase the price of its new products during this quarter, which will improve its top line as well as the bottom line. **At CMP INR 1,793, we recommended "BUY" rating on the stock with a target price of INR 2,285, an upside of 27.4%.**

Whirlpool of India Ltd: During Q4FY18, we expect Whirlpool to record revenue of INR 11,313.1 Mn with growth of 1.5% YoY and 18.1% QoQ. The growth in top line during Q4FY18 is mainly due to higher demand of white goods during summer season. We expect to increase in price of white goods in coming quarters as tax under the GST on white goods will be higher, this shall improve the top line and the average realization of the company but it may impact the bottom line. Whirlpool continues to remain debt free, cash rich and fundamentally strong. The company has expanded its product portfolio by including kitchen appliances, water purifier and air treatment. **At CMP of INR 1,556, we recommend "HOLD" rating on the stock with a target price of INR 1,600, an upside of 2.8%.**

FMCG Sector

Blue Star Ltd: During Q4FY18, we expect Blue Star to record revenue of INR 16,603.4 Mn, a 20% YoY growth. Blue Star provides new and innovative cooling solution products to its customers. Despite the economic slowdown in the past few years, the cooling product segment has always outperformed the market; this segment is expected to grow at 18.2% CAGR during FY18E-FY19E. We expect the top line growth to be driven by the Unitary Products segment and Electro-Mechanical Projects & Packaged AC because of a surge in the order book and better execution of these orders, also increase in disposable income, shift in consumption pattern and standard of living, the higher growth coming from Unitary products, Professional Electronics and industrial systems and growing order book is likely increase the top line and bottom line as well. **At CMP of INR 794, we recommend "ACCUMULATE" rating on the stock with a target price of INR 890, an upside of 12.1%.**

Talwalkars Better Value Fitness (TBVFL): During Q4FY18, we expect TBVFL to record revenue of INR 994 Mn on a consolidated basis, a growth of 10.5% YoY and growth of 81.2% QoQ basis. We also expect growth from the recent business tie ups done with brands like Snap Fitness and Mickey Mehta, with focus on increasing its presences in Asian Countries. Post the approval of NCLT received for the de-merger of GYM business and Value Added Business, we remain positive on the growth of the company, assuming that more number of people look forward to get fit and enroll with TBVFL brand and also utilize it value added service. **We are awaiting for revised Financials from the company, which is expected to be published along with the Q4FY18 results. We shall recommend new target price post detailed analysis of the de-merged entities.**

FMCG Sector

Quarterly result expectation for companies under coverage

INR Million	Q4FY17	Q3FY18	Q4FY18E	Y-o-Y	Q-o-Q	Remarks
Britannia Industries Ltd						
Sales	23,161	25,675	27,943	20.6%	8.8%	During Q4FY18, we expect Britannia to post revenue of around INR 27,943 Mn with 20.6% and 8.8% growth on YoY and QoQ basis respectively. EBITDA during the quarter is expected to be around INR 4,387 Mn with 42.4% growth on YoY and 10.1% on QoQ basis. We expect the EBIDTA margins to increase by 240 bps YoY due increase in prices and better realization. PAT during the period is expected to be around INR 2,914 Mn with a growth of 38.3% YoY and growth of 10.6% QoQ. PAT margin is expected to improve by 133 bps on YoY basis.
EBITDA	3,081	3,984	4,387	42.4%	10.1%	
Net Profit	2,108	2,635	2,914	38.3%	10.6%	
OPM (%)	13.3%	15.5%	15.7%	240 bps	18 bps	
NPM (%)	9.1%	10.3%	10.4%	133 bps	17 bps	
Colgate India Ltd						
Sales	11,767	10,333	13,003	10.5%	25.8%	During Q4FY18, we expect Colgate to post revenue of around INR 13,003 Mn with 10.5% growth on YoY and 25.8% on QoQ basis. EBITDA during the quarter is expected to be around INR 3,860 Mn with 58% growth on YoY basis. We expect the EBIDTA margins may improve by 892 bps YoY. PAT during the period is expected to be around INR 2,433 Mn with a growth of 70.6% YoY. PAT margin is expected to improve by 659 bps and 220 bps on YoY and QoQ basis respectively.
EBITDA	2,443	2,824	3,860	58.0%	36.7%	
Net Profit	1,426	1,707	2,433	70.6%	42.6%	
OPM (%)	20.8%	27.3%	29.7%	892 bps	235 bps	
NPM (%)	12.1%	16.5%	18.7%	659 bps	220 bps	
HUL Ltd						
Sales	88,860	85,900	93,747	5.5%	9.1%	During Q4FY18, we expect HUL to post revenue of around INR 93747 Mn with 5.5% and 9.1% growth on YoY and QoQ basis respectively. EBITDA during the quarter is expected to be around INR 19,781 Mn with 19.8% growth on YoY basis. We expect the EBIDTA margins to improve by 252 bps YoY. PAT during the period is expected to be around INR 13,873 Mn with a growth of 17.2% YoY. PAT margin is expected to improve by 147 bps YoY.
EBITDA	16,510	16,800	19,781	19.8%	17.7%	
Net Profit	11,840	13,470	13,873	17.2%	3.0%	
OPM (%)	18.6%	19.6%	21.1%	252 bps	154 bps	
NPM (%)	13.3%	15.7%	14.8%	147 bps	-88 bps	
ITC Ltd						
Sales	150,088	99,522	104,775	-30.2%	5.3%	During Q4FY18, we expect ITC to post revenue of around INR 104,775 Mn with de-growth of 30.2% YoY and 5.3% growth QoQ basis. EBITDA during the quarter is expected to be around INR 42,434 Mn with de-growth of 42.4% YoY and growth of 8.8% on QoQ basis. We expect the EBIDTA margins to decline by 861 bps YoY and increase by 127 bps QoQ. PAT during the period is expected to be around INR 29,421 Mn with a de-growth of 60.3% YoY and growth of 9.9% QoQ. PAT margin is expected to increase by 118 bps on QoQ basis.
EBITDA	73,703	39,045	42,434	-42.4%	8.7%	
Net Profit	74,043	26,773	29,421	-60.3%	9.9%	
OPM (%)	49.1%	39.2%	40.5%	-861 bps	127 bps	
NPM (%)	49.3%	26.9%	28.1%	-2125 bps	118 bps	
GCPL						
Sales	24,895	26,303	27,011	8.5%	2.7%	During Q4FY18, we expect GCPL to post revenue of around INR 27,011 Mn with 8.5% and 2.7% growth on YoY and QoQ basis respectively. EBITDA during the quarter is expected to be around INR 6,483 Mn with growth of 10.1% on QoQ basis. We expect the EBIDTA margins to increase by 161 bps QoQ. PAT during the period is expected to be around INR 4,548 Mn and PAT margin is expected to improve by 41 bps on QoQ basis.
EBITDA	6,504	5,890	6,483	-0.3%	10.1%	
Net Profit	4,871	4,322	4,548	-6.6%	-5.2%	
OPM (%)	26.1%	22.4%	24.0%	-213 bps	161 bps	
NPM (%)	19.6%	16.4%	16.8%	-273 bps	41 bps	
Nestle	**Q1CY17**	**Q4CY17**	**Q1CY18**	**Y-o-Y**	**Q-o-Q**	
Sales	25,919	26,015	27,531	6.2%	5.8%	During Q1CY18, we expect Nestle to post revenue of around INR 27,531 Mn with 6.2% and 5.8% growth on YoY and QoQ basis respectively. EBITDA during the quarter is expected to be around INR 5,665 Mn with growth of 5.9% and 6.2% on YoY and QoQ basis respectively. We expect the EBIDTA margins to marginally decline by 6 bps YoY. PAT during the period is expected to be around INR 3,445 Mn with a growth of 10.5% on QoQ basis. PAT margin is expected to increase by 53 bps QoQ.
EBITDA	5,349	5,335	5,665	5.9%	6.2%	
Net Profit	3,243	3,118	3,445	-206.3%	10.5%	
OPM (%)	20.6%	20.5%	20.6%	-6 bps	7 bps	
NPM (%)	12.5%	12.0%	12.5%	0 bps	53 bps	
Hatsun Agro Ltd						
Sales	12,177	10,129	14,003	15.0%	38.2%	During Q4FY18, we expect Hatsun Agro to post revenue of around INR 14,003 Mn with 15% and 38.2% growth on YoY and QoQ basis respectively. EBITDA during the quarter is expected to be around INR 1,456 Mn with 24.3% growth YoY. We expect EBIDTA margins to improve by around 78 bps and 182 bps on YoY and QoQ basis respectively. PAT during the period is expected to be around INR 476 Mn with a growth of 9.9% on YoY. PAT margin is expected to improve by 192 bps QoQ basis.
EBITDA	1,172	870	1,456	24.3%	67.5%	
Net Profit	433	150	476	9.9%	-217.6%	
OPM (%)	9.6%	8.6%	10.4%	78 bps	182 bps	
NPM (%)	3.6%	1.5%	3.4%	-16 bps	192 bps	

FMCG Sector

INR Million	Q4FY17	Q3FY18	Q4FY18E	Y-o-Y	Q-o-Q	Remarks
Heritage foods Ltd						
Sales	7,003	5,789	7,808	11.5%	34.9%	During Q4FY18, we expect Heritage Foods to post revenue of around INR 7,808 Mn with 11.5% and 34.9% growth on YoY and QoQ basis respectively. EBITDA during the quarter is expected to be around INR 480 Mn with 41.8% growth on YoY basis. We expect the EBIDTA margins to improve by 131 and 14 bps YoY and QoQ basis respectively. PAT during the period is expected to be around INR 274 Mn with a growth of 68.2% YoY. PAT margin is expected to improve by 107 bps YoY basis.
EBITDA	339	348	480	41.8%	38.0%	
Net Profit	147	167	247	68.2%	47.8%	
OPM (%)	4.8%	6.0%	6.2%	131 bps	14 bps	
NPM (%)	2.1%	2.9%	3.2%	107 bps	28 bps	
Kwality Ltd						
Sales	15,344	17,733	16,955	10.5%	-4.4%	During Q4FY18, we expect Kwality to post revenue of around INR 16,955 Mn with 10.5% growth on YoY and de-growth of 4.4% QoQ. EBITDA during the quarter is expected to be around INR 1,322 Mn with 25.5% growth on YoY and 3.8% on QoQ basis. We expect the EBIDTA margins to improve by 93 bps YoY. PAT during the period is expected to be around INR 309 Mn with a growth of 47.4% QoQ. PAT margin is expected to improve by 64 bps QoQ basis.
EBITDA	1,054	1,274	1,322	25.5%	3.8%	
Net Profit	349	209	309	-11.5%	47.4%	
OPM (%)	6.9%	7.2%	7.8%	93 bps	61 bps	
NPM (%)	2.3%	1.2%	1.8%	-45 bps	64 bps	
Parag Foods Ltd						
Sales	4,283	5,193	5,140	20.0%	-1.0%	During Q4FY18, we expect Parag Foods to post revenue of around INR 5,140 Mn with 20% growth on YoY basis. EBITDA during the quarter is expected to be around INR 630 Mn with positive growth on YoY basis. We expect the EBIDTA margins to improve by 14 bps and 92 bps on YoY and QoQ basis respectively. PAT during the period is expected to be around INR 296 Mn. PAT margin is expected to improve by 85 bps on QoQ basis.
EBITDA	519	588	630	21.4%	-7.1%	
Net Profit	328	255	296	-9.8%	-16.2%	
OPM (%)	12.1%	11.3%	12.3%	14 bps	92 bps	
NPM (%)	7.7%	4.9%	5.8%	-191 bps	85 bps	
Prabhat Dairy Ltd						
Sales	3,772	4,039	4,338	15.0%	7.4%	During Q4FY18, we expect Prabhat Dairy to post revenue of around INR 4,338 Mn with 15% and 7.4% growth on YoY and QoQ basis respectively. EBITDA during the quarter is expected to be around INR 408 Mn with 36.7% growth on YoY basis. We expect the EBIDTA margins to improve by 149 bps and 12 bps on YoY and QoQ basis respectively. PAT during the period is expected to be around INR 156 Mn with a growth of 6% QoQ. PAT margin is expected to improve by 408 bps on YoY basis.
EBITDA	298	375	408	36.7%	8.8%	
Net Profit	-18	148	156	-977.8%	6.0%	
OPM (%)	7.9%	9.3%	9.4%	149 bps	12 bps	
NPM (%)	-0.5%	3.7%	3.6%	408 bps	-5 bps	
Symphony Ltd						
Sales	1,841	2,176	2,209	20.0%	1.5%	During Q4FY18, we expect Symphony Ltd. to post revenue of around INR 2,209 Mn with 20% and 1.5% growth on YoY and QoQ basis respectively. EBITDA during the quarter is expected to be around INR 718 Mn with 44.9% growth on YoY basis. We expect the EBIDTA margins to improve by 559 bps YoY. PAT during the period is expected to be around INR 557 Mn with a growth of 19.2% and 16.1% on YoY and QoQ basis respectively. PAT margin is expected to decline by 17 bps YoY basis.
EBITDA	495	868	718	44.9%	17.3%	
Net Profit	467	663	557	19.2%	16.1%	
OPM (%)	26.9%	39.9%	32.5%	559 bps	-738 bps	
NPM (%)	25.4%	30.5%	25.2%	-17 bps	-527 bps	
Blue Star Ltd						
Sales	13,836	9,813	16,603	20.0%	69.2%	During Q4FY18, we expect Blue Star Ltd. to post revenue of around INR 16,603 Mn with 20% and 69.2% growth on YoY and QoQ basis respectively. EBITDA during the quarter is expected to be around INR 896 Mn with 24.8% growth on YoY basis. We expect the EBIDTA margins to improve by 21 bps YoY. PAT during the period is expected to be around INR 374 Mn with a growth of 0.6% YoY. PAT margin is expected to improve by 34 bps QoQ.
EBITDA	718	513	896	24.8%	74.6%	
Net Profit	372	188	374	0.6%	99.1%	
OPM (%)	5.2%	5.2%	5.4%	21 bps	17 bps	
NPM (%)	2.7%	1.9%	2.3%	-43 bps	34 bps	
Whirlpool Ltd						
Sales	11,143	9,580	11,313	1.5%	18.1%	During Q4FY18, we expect Whirlpool to post revenue of around INR 11,313 Mn with 1.5% and 18.1 growth on YoY and QoQ basis respectively. EBITDA during the quarter is expected to be around INR 1,131 Mn with 26.9% growth on QoQ basis. We expect the EBIDTA margins to improve by 70 bps QoQ. PAT during the period is expected to be around INR 706 Mn with a growth of 32.8% QoQ. PAT margin is expected to improve by 69 bps QoQ basis.
EBITDA	1,246	891	1,131	-9.2%	26.9%	
Net Profit	744	531	706	-5.1%	32.8%	
OPM (%)	11.2%	9.3%	10.0%	-118 bps	70 bps	
NPM (%)	6.7%	5.5%	6.2%	-44 bps	69 bps	
Talwalkars Better Value Fitness Ltd						
Sales	900	548	994	10.5%	81.2%	During Q4FY18, we expect Talwalkars Better Value Fitness to post revenue of around INR 994 Mn with 10.5% growth on YoY basis. EBITDA during the quarter is expected to be around INR 576 Mn with8.8% de-growth on YoY basis and 132% growth on QoQ basis. We expect the EBIDTA margins to improve by 1,273 bps QoQ. PAT during the period is expected to be around INR 279 Mn with a growth of 15% YoY. PAT margin is expected to improve by 113 bps YoY basis.
EBITDA	631	248	576	-8.8%	132.2%	
Net Profit	242	56	279	15.1%	401.4%	
OPM (%)	70.2%	45.2%	57.9%	-1223 bps	1273 bps	
NPM (%)	26.9%	10.1%	28.0%	113 bps	1790 bps	

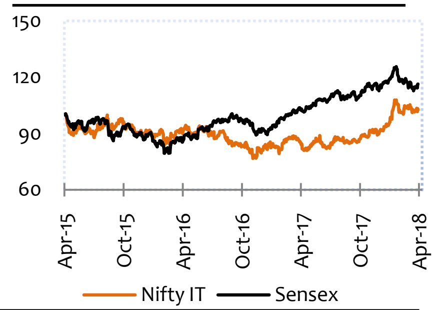
IT Sector

Moderate growth buoyed by currency tailwind

MARKET DATA

Nifty	10,402
Sensex	33,880
Nifty IT	12,577
USD / INR	64.98

SECTOR PERFORMANCE



Earnings expectation for Q4 FY18

We expect the Q4 FY18 to be relatively moderate over the previous quarter owing to improvement in almost all the business verticals (except BFSI) coupled with strengthening dollar against the major currencies – GBP, EUR, and CAD. The business environment in the US region has improved amidst the changes in the tax code, thereby provides more cash for businesses to increase their spending towards IT and digital services. The management of tier-1 companies have guided that the Retail, Healthcare and Manufacturing sectors have seen a moderate deal wins and an improvement in TCVs during the quarter supported by increase in consumer spending and improved PMI. However, the performance of BFSI segment continues to remain muted over the last 18-24 months due to major banks shifting their IT spending towards captives and in-sourcing. In the near term we expect the contribution from BFSI to decline further amidst significant increase in liquidity driven by tax reform, thereby influence businesses to fund investments through internal accruals over debt. However, we remain positive for the sector in the mid/long-term, as the incremental cash flows from capex need to be supported by borrowings for further investments. We believe that the favourable economic environment, strengthening dollar against rupee, and increase in deal wins in Q3-Q4FY18 favour tier-1 companies – TCS, Infosys, HCL Tech, TechM – to recoup against slippages in the top-line and margins. The average contribution of digital services for Indian IT companies stood around 25%, as per the previous quarter. The major portion of its revenues are still dominated by traditional service which are seeing a tremendous value compression due to increase in demand for automation, cloud, IoT, and other digital services. However, the increase in utilization coupled with automations have provided some respite to improve their profitability.

Going ahead, we expect the companies to maintain their US workforce to less than 15%, if "HR 170 Bill" comes under regulation, which mandates a minimum salary for H1-B visa holders from $60,000 to $90,000 on crossing the benchmark. The regulation would definitely increase cost of onsite effort and it might influence companies to opt for third-party contracts. The tier-1 IT companies are reducing their dependencies on US region by setting-up development centres in Central and Eastern Europe for pocketing major clients and hunting talents for engineering space. Last year, at least 20 development centres have built up in the countries like Poland, Romania, Austria and Ireland. Additionally, the BFSI clients in the European region continue to allocate larger portion of their budget towards building IT and digital services, which again influences IT companies to migrate some part of their operations to Europe. We believe, the near term drag in the BFSI especially in the US region would offset to some extent by gaining momentum in the Europe.

In Q4 FY18, we have envisaged the tier-1 IT companies to grow within a range of ~1%-3.3% in USD revenues, wherein we expect HCL Tech, TCS and Tech Mahindra to outperform industry average based on the operational stability and the the inorganic capabilities that have built over the period. We expect the currency tailwind of around ~140 bps to support their top-line growth and margins in Q4 FY18. During the quarter, the INR weakened against the major currencies GBP/EUR by 4.1%/3.6%. US Dollar has depreciated against Indian Rupee by 60 basis points, whereas GBP and EUR have depreciated against US Dollar by 4.8% and 4.3% respectively. We expect the cross-currency tailwind to be with in a range of ~100 bps - 140 bps to support the revenue growth for tier-1 companies.

Key things to watch out during the management discussions: (1) The incremental effect of post-tax reform in terms of deal conversions and client additions during the quarter, and the performance of segmental revenues thereon (2) Any significant changes in budgeted projections and fund allocation for IT spending, especially for BFSI, Healthcare and Retail Segments. (3) We would be keenly watching the roadmap set by newly appointed Infosys's CEO Mr. Salil Parekh for manoeuvring the challenging IT service business, and any changes to the guidance that has been set by his predecessor. (4) Any significant deals or contracts in the pipeline for Digital Services, and any incremental revenues that will be coming from investments or M&A activities.

Outlook on IT Sector: After the regulatory changes made to trim down tax rate, impose heavy import duty on metals and introduce stringent visa policies, the US economic environment is cautiously positive, which could be translate into a greater IT spending for business enterprises. The major companies or MNCs are shifting their operations to the US subsidiaries for reaping benefits against the tax reform and eliminating import duty which otherwise would have been paid through captives or in-house operations. We believe the regulatory changes above would left US business enterprises with adequate cash to streamline their operations by incorporating IT and digital services around them. However, the protectionist policies to curb H1-B visa holders are still remain the pain-point for Indian IT companies, which would significantly increase their onsite effort. We believe the challenges would still persist for IT companies to increase their volume(employees) while mitigating the pricing pressure and the cost of onsite hiring. Both these parameters (preferably the latter) would pressurised the margins that are likely to get offset with the increase in utilization, internal automation, and reskilling employees, which we believe are firm-oriented.

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IT Sector

Q4 FY18 Earnings Outlook of companies under coverage:

TCS: We are expecting TCS to report a revenue growth of 1.5% qoq in USD terms that is buoyed by the positive cross-currency impact of 127 bps. The company has witnessed a strong volume growth over the last four quarters, however, the realization has always been a pain point owing to pricing pressure from incumbents, value compression from automation/platforms, and large contribution of legacy services (~75%) over digital. The company has bagged a large number of deals –M&G Prudential, Transamerica, Scottish Windows– in Q4 FY18 under different verticals along with an improved TCV within a range of ~$400 Mn-$2.5 Bn. We believe that once the deals get materialised they would further support its organic growth and improve margins aided by larger TCV. We expect the operating margins to be reported at 25.6%, an increase of 50 bps qoq. **We had an 'ACCUMALATE' rating on the stock and we have achieved our previous target price, we would re-rate the stock after the detailed analysis of Q4 FY18 results.**

Infosys: We are expecting Infosys to report a revenue growth of 1.0% qoq in USD terms that is buoyed by the positive cross-currency impact of 104 bps. We expect the company to deliver moderate growth owing to deferment of large deals on management issues, majority of the deals are on renewal basis and compression on TCVs. Although, the management remained positive on BFSI segment, we don't expect any significant deal wins in the near term until the new management completely settles to drive growth. We would be keenly watching the roadmap set by newly appointed Infosys's CEO Mr. Salil Parekh for manoeuvring the challenging IT service business, and any changes to the guidance that has been set by his predecessor. **We had a "Accumulate" rating on the stock with a target price of INR 1,187, we would re-rate the stock after the detailed analysis of Q4 FY18 results.**

Wipro: We are expecting Wipro to report a revenue growth of 1.8% qoq in USD terms that is buoyed by the positive cross-currency impact of 114 bps. The company has been aggressively involved in consolidation activities to broaden its service line and improve digital offerings, however, the effort hasn't been reflected in its top-line growth. The company has encountered several company-specific (restructuring India and Middle-East businesses, client-specific (insolvency of client in Utility front) and macro-oriented issues (Affordable Care Act in the US) over the last two years, which have deteriorated its growth. On the margin front, the company has improved significantly owing to decline in volume driven by improved utilization and reduction in onsite effort. We expect the company to report an operating margin of 16.1% in Q4 FY18, an increase on 161 bps from a lower base (due to one-off). **We had a "Hold" rating on the stock with a target price of INR 337, we would re-rate the stock after the detailed analysis of Q4 FY18 results.**

HCL Tech: We are expecting HCL Tech to report a revenue growth of 3.3% qoq in USD terms that is buoyed by the positive cross-currency impact of 132 bps. The company has been effective in strengthening its Mode 2 and Mode 3 services through consolidation and acquiring IPs. The company's digital services (Mode 2 and Mode 3) contribute more than 25% to the overall revenues, and we expect it to increase further owing to increase in deal wins on digital front, offer a wide range of service in emerging areas and strong hold in ER&D space over its peers. We expect the investments in IP partnership with IBM and DXC to materialise in a couple of quarters and would augment its growth for Mode 3 services, however, at the same time we expect the capitalisation of IPs to pressurise margins. The management has guided that the Mode 1 service would be started to pick up post 2HFY19, as the company is planning to expand its service line to other geographies such as Germany and Australia. **We had a "BUY" rating on the stock with a target price of INR 1,276, we would re-rate the stock after the detailed analysis of Q4 FY18 results.**

Tech Mahindra: We are expecting TechM to report a revenue growth of 2.0% qoq in USD terms that is buoyed by the positive cross-currency impact of ~133 bps. The company has taken broader initiatives in strengthening its telecom vertical which is reflected in its top-line growth , however the margin remains pressurised owing to restructuring of its LCC business and assets capitalization of previous acquisitions. The completion of LCC restructuring coupled with Comviva reaching its break-even, hereon we expect the company to improve its margins. We expect the company to report an operating margin of 13.4% in Q4 FY18. We believe the company's initiatives to carve out non-profit making assets and shifting its business from traditional services to an Engineering (Pininfarina) and IP-led model, would help the company achieve a high-end single digit growth annually. **We had a "Buy" rating on the stock with a target price of INR 785, we would re-rate the stock after the detailed analysis of Q4 FY18 results.**

Persistent Systems: The management has guided that Persistent is expecting a drop in its IP revenue by $8 Mn, which we have already factored into its top-line and margins. In Q4 FY18, we expect a decline in revenue by 3.4% qoq in USD term, and as a result its operating margin to decline by 225 bps to 10.1% qoq. We believe the drop is cyclical and it is expected to revive on the back of company's initiative to shifting from effort-based service business to a value-based solution business. The management has guided that the company's key focus would be on Accelerite and Alliance businesses , whereas ISV business is expected to decline going forward. **We had a "BUY" rating on the stock with a target price of INR 1,082, we would re-rate the stock after the detailed analysis of Q4 FY18 results.**

Tata Elxsi: We are expecting Tata Exlsi to report a revenue growth of 4.6% qoq in USD term and an operating margin of 27.6%. The company has played out very well in shifting its business model to EPD (Embedded Product Design) that is margin accretive from SI (System Integration), thereby improved its margins to a large extent. However, the top-line growth remained subdued over the last three quarters. The company has guided that there are few products and solutions which are in the pipeline and it will take a couple of quarters to market and reap benefits out of them. The company is finding solution to use its IPs - Autonomai, V2X Emulator and Vdrive - for application in agriculture and fleet transportation apart from passenger cars. We believe the initiative would broaden its IP-led revenues while exploring other verticals. **We had a 'Buy' rating on the stock and we have achieved our previous target price, we would re-rate the stock after the detailed analysis of Q4 FY18 results.**

Infibeam: We are expecting Infibeam to report a revenue growth of 12.2% qoq in INR term and an operating margin of 18.8%. We expect the company's top-line to be supported by its core service(IWS) and transaction-based business (CCAvenue and Project-Based). In Q4 FY18, we expect that the GeM and BBPS to increase its contribution (not-majorly) to the company's top-line and build-up gradually with the increase in volume in a couple of quarters. The service business contributes 66% to its overall revenues which commands a better control over its margins. We expect it to improve further as the transaction-based business, which operates under assets-light model, start to contribute majorly to its top-line. **We had a "BUY" rating on the stock with a target price of INR 248, we would re-rate the stock after the detailed analysis of Q4 FY18 results.**

IT Sector

Sterlite Tech: We are expecting Sterlite Tech to report a revenue growth of 5.8% qoq in INR term and an operating margin of 19.4%. The company has been delivering stellar performance for the last couple of quarters owing to increase in volume for OF, improved utilization for OFC, and increase in exports (60%). The management has guided that its newly bagged project (Next-Gen Communication Network for Indian Navy) worth of INR 35 Bn is expected to commence from Q1 FY19, however the revenue would be reflected from Q2 FY19 onwards. We believe the company initiative to increase its capacity from 30x fkm to 50x fkm by Q2 FY19 would further broaden its top-line growth, however the margins would remain pressurised from capitalizing its capex for capacity expansion and cost of servicing debt. **We have a "BUY" rating on the stock with a target price of INR 439, we would re-rate the stock after the detailed analysis of Q4 FY18 results.**

Majesco: We are expecting Majesco to report a revenue growth of 5.1% qoq in INR term and an operating margin of 3.3%. Over the last four quarters, the company has been shifting its business model from on-premise to cloud-based solution providers, which has been the major reason for muted top-line growth. From this quarter onwards, we expect the transition phase to wane and Subscription & Support revenues from Cloud service to contribute majorly to its top-line. Apart from this, we expect the IBM-MetLife deal to contribute $9 Mn (majorly implementation) to its top-line in Q4 FY18 and it is expected to increase gradually with the increase in Subscription and Support based revenues. Additionally, we expect the margins to improve owing to reduction in revenue percentage of R&D and gaining operating efficiency from cloud-based service. **We have a "BUY" recommendation on the stock with a target price of INR 626, we would re-rate the stock after the detailed analysis of Q4 FY18 results.**

Quarterly result expectation for companies under coverage

INR Million	Q4FY17	Q3FY18	Q4FY18E	QoQ	YoY	Remarks
TCS						
Sales (USD Mn)	4,452	4,787	4,861	1.54%	9.18%	We expect TCS to report a growth of 1.5% qoq at USD 4,861 revenue in Q4 FY18E and expect a positive cross-currency impact of ~127 bps. We expect the Retail, Healthcare, and Manufacturing segment to gain momentum from Q4 FY18E onwards owing to changes in tax-code, increase in consumer spending and improvement in PMI. However BFSI still remains a pain-point due to major banks shifting their IT spending to captives and in-house implementation. We will be closely watching the performance of which the company has recently bagged a deal for –Transamerica, Prudential and Scottish. **Key Parameters: (1)** Incremental spending towards IT and digital services after changes in tax-code **(2)** Number of deals in the pipeline and average deal size **(3)** Performance of different business verticals sand contribution of digital services.
Sales (INR Mn)	296,420	309,040	313,036	1.29%	5.61%	
EBIT	76,270	77,810	80,337	3.25%	5.33%	
Net Profit	69,770	65,310	68,224	4.46%	-2.22%	
OPM (%)	25.73%	25.18%	25.66%	49	-7	
NPM (%)	23.54%	21.13%	21.79%	66	-174	
Infosys						
Sales (USD Mn)	2,569	2,755	2,783	1.00%	8.31%	We expect Infosys to report a growth of 1.0% at USD 2,783 Mn revenues in Q4 FY18E and expect a positive cross-currency tailwind of ~104 bps. We expect the company to deliver moderate growth owing to deferment of large deals on management issues, majority of the deal are on renewal basis and compression on TCVs. We would be keenly watching the roadmap set by newly appointed Infosys's CEO Mr. Salil Parekh for manoeuvring the challenging IT service business, and any changes to the guidance that has been set by his predecessor. **Key Parameters:** (1)Revenue and margin guidance for FY19 (2) Changes in the business strategy and roadmap set by the new management (3) Number of client addition and deal wins during the quarter
Sales (INR Mn)	171,200	177,940	179,478	0.86%	4.84%	
EBIT	42,120	43,190	43,689	1.16%	3.72%	
Net Profit	36,255	51,290	39,230	-23.51%	8.21%	
OPM (%)	24.60%	24.27%	24.34%	7.0	-26.1	
NPM (%)	21.18%	28.82%	21.86%	-697	68	
HCL Tech						
Sales (USD Mn)	1,817	1,988	2,053	3.31%	13.02%	We expect HCL Tech to report a growth of 3.3% at USD 2,053 Mn in Q4 FY18E and expect a positive cross-currency tailwind of 132 bps. We expect the investments in IP partnership with IBM and DXC to materialise in a couple of quarters and would augment its growth for Mode 3 services, however, at the same time we expect the capitalisation of IPs to pressurise margins. The management has guided that the Mode 1 service would be started to pick up post 2HFY19, as the company is planning to expand its service line to other geographies such as Germany and Australia. **Key Parameters: (1)**Contribution of ER&D business, especially Butler America and Geometric. **(2)** Incremental revenue inflows from investments in IBM and DXC services for IP-led partnership **(3)** Number of deals in the pipeline.
Sales (INR Mn)	120,530	128,090	132,235	3.24%	9.71%	
EBIT	24,160	23,370	26,892	15.07%	11.31%	
Net Profit	23,280	20,750	23,803	14.71%	2.25%	
OPM (%)	20.04%	18.24%	20.34%	209.1	29.1	
NPM (%)	19.31%	16.20%	18.00%	180	-131	

IT Sector

INR Million	Q4FY17	Q3FY18	Q4FY18E	QoQ	YoY	Remarks
Wipro						
Sales (USD Mn)	1,955	2,013	2,049	1.77%	4.82%	We expect Wipro to report a growth of 1.8% at USD 2,049 Mn in Q4 FY18E and expect a positive cross-currency tailwind of ~114 bps. The company has encountered several company-specific (restructuring India and Middle-East businesses, client-specific (insolvency of client in Utility front) and macro-oriented issues (Affordable Care Act in the US) over the last two years, which have deteriorated its growth. We expect the challenges above to continue for a couple of quarters, however, we expect the margins to improve owing to decline in volume. We expect the company to report an operating margin of 16.1% in Q4 FY18, an increase on 161 bps from a lower base (due to one-off). **Key Parameters: (1)** Updates on its restructuring businesses **(2)** Guidance for FY19 **(3)** Incremental revenues from its acquisitions **(4)** Guidance for FY19 Deal wins and Client addition during the quarter.
Sales (INR Mn)	140,620	136,815	138,119	0.95%	-1.78%	
EBIT	24,828	19,775	22,185	12.19%	-10.65%	
Net Profit	22,611	19,371	21,634	11.68%	-4.32%	
OPM (%)	17.66%	14.45%	16.06%	161	-159	
NPM (%)	16.08%	14.16%	15.66%	150	-42	
NPM (%)	7.8%	12.1%	11.4%	-77	351	
Infibeam Incorporation Ltd.						
Sales (INR Mn)	1,209	2,135	2,397	12.3%	98.3%	We expect Infibeam to report a revenue of INR 2,397Mn in Q4 FY18E, an increase of 12.3% qoq. We expect the company's top-line to be supported by its core service(IWS) and transaction-based business (CCAvenue and Project-Based). In Q4 FY18, we expect that the GeM and BBPS to increase its contribution (not-majorly) to the company's top-line and build-up gradually with the increase in volume in a couple of quarters. The service business contributes 66% to its overall revenues which commands a better control over its margins. We expect it to improve further as the transaction-based business, which operates under assets-light model, start to contribute majorly to its top-line. **Key Parameters: (1)** Addition of merchants during the quarter **(2)**Revenue contribution from GeM and BBPS **(3)**Volume and Value of transaction executed through CCAvenue (4) Updates on .OOO, and logistics businesses.
EBITDA	171	365	451	23.6%	163.5%	
Net Profit	135	286	315	10.1%	132.7%	
OPM (%)	14.2%	17.1%	18.8%	173	466	
NPM (%)	11.2%	13.4%	13.1%	-26	194	
Persistent Systems						
Sales (USD Mn)	109	123	118	-3.4%	8.6%	We expect Persistent to report a de-growth of 3.4% qoq at USD 118 revenue in Q4 FY18E and as a result its operating margin to decline by 225 bps to 10.1% qoq. We believe the drop is cyclical and it is expected to revive on the back of company's initiative to shifting from effort-based service business to a value-based solution business. The management has guided that the company's key focus would be on Accelerite and Alliance businesses, whereas ISV business is expected to decline going forward. **Key Parameters:** (1) Revenues from IP-Led business, especially from DXC and IBM (2) Performance of Accelerite business (3) Major deal wins and Client addition.
Sales (INR Mn)	7,271	7,919	7,635	-3.6%	5.0%	
EBIT	908	983	776	-21.1%	-14.5%	
Net Profit	728	917	734	-19.9%	0.9%	
OPM (%)	12.5%	12.4%	10.16%	-225	-232	
NPM (%)	10.0%	11.6%	9.6%	-196	-39	
Tata Elxsi						
Sales (USD Mn)	49	54	56	4.6%	14.4%	We expect Tata Elxsi to report a growth of 4.6% qoq at USD 56 revenue in Q4 FY18E on the back of strong growth for semi-autonomous and autonomous vehicles in US and Europe. The company has guided that there are few products and solutions which are in the pipeline and it will take a couple of quarters to market and reap benefits out of them. In Q4 FY18, We expect EPD revenue to deliver moderate growth from the lower-base in the previous quarter, which was a bit cyclical. **Key Parameters: (1)** Updates on new products which are in the pipeline (2) Revenue contribution from EPD segment and margin improvement thereon (3) Any major client addition during the quarter (4) Updates on healthcare space.
Sales (INR Mn)	3,260	3,455	3,619	4.7%	11.0%	
EBITDA	807	903	1,000	10.7%	23.9%	
Net Profit	445	627	675	7.6%	51.6%	
EBITDA (%)	24.8%	26.1%	27.6%	149	287	
NPM (%)	13.7%	18.1%	18.6%	50	500	

IT Sector

INR Million	Q4FY17	Q3FY18	Q4FY18E	QoQ	YoY	Remarks
Sterlite Technologies						
Sales (INR Mn)	7,005	8,352	8,833	5.8%	26.1%	We expect Sterlite Tech to report a revenue of INR 8,833 Mn in Q4 FY18E, an increase of 5.8% qoq on the back of strong order book and rolling out of 4G/5G technologies. The management has guided that its newly bagged project (Next-Gen Communication Network for Indian Navy) worth of INR 35 Bn is expected to commence from Q1 FY19, however the revenue would be reflected from Q2 FY19 onwards. We believe the company initiative to increase its capacity from 30x fkm to 50x fkm by Q2 FY19 would further broaden its top-line growth, however the margins would remain pressurised from capitalizing its capex for capacity expansion and cost of servicing debt. **Key Parameters: (1)** Clarity on Indian Navy deal for Next-Gen communication Network (2) Updates on its capacity expansion (3) Revenue contribution from International market (3) Any major deal wins on fiber in the domestic and foreign markets.
EBIT	1,180	1,569	1,712	9.1%	45.1%	
Net Profit	639	901	983	9.1%	53.8%	
OPM (%)	16.8%	18.8%	19.4%	59	254	
NPM (%)	9.1%	10.8%	11.1%	34	200	
Majesco Ltd.						
Sales (INR Mn)	1,909	2,073	2,179	5.1%	14.2%	We are expecting Majesco to report a revenue growth of 5.1% qoq in INR term and an operating margin of 3.3%. From this quarter onwards, we expect the transition phase to wane and Subscription & Support revenues from Cloud service to contribute majorly to its top-line. Apart from this, we expect the IBM-MetLife deal to contribute $9 Mn (majorly implementation) to its top-line in Q4 FY18 and it is expected to increase gradually with the increase in Subscription and Support based revenues. Additionally, we expect the margins to improve owing to reduction in revenue percentage of R&D and gaining operating efficiency from cloud-based service. **Key Parameters: (1)**Contribution of revenues from IBM –MetLife deal (2) Revenue contribution from Cloud service (3) Application of QIP fund (3) ROCE of UK and US businesses.
EBIT	6.0	51.4	72.4	40.9%	1106.8%	
Net Profit	20	-126	49	NA	138.2%	
OPM (%)	0.3%	2.5%	3.3%	84	301	
NPM (%)	1.1%	-6.1%	2.2%	NA	116	

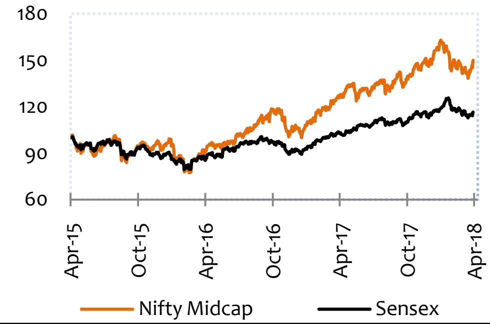
Midcap Sector

Earnings growth to sustain backed by favourable base

MARKET DATA

Nifty	10,402
Sensex	33,880
Nifty Midcap	5,290
USD / INR	64.98

SECTOR PERFORMANCE



Earnings expectation for Q4FY18

We have fifteen companies under our midcap coverage namely UPL, Apcotex, Suzlon, Inox Wind, Jain Irrigation, VA Tech Wabag, Emmbi Industries, ABB India, GE T&D, Schneider Electric, Himadri Specialty Chemicals, Alkyl Amines Chemicals, Aarti industries, IG Petrochemicals and Solar Industries. We expect quarterly performance for broad based indices will be better largely on account of low base post demonetization last year. In terms of the sector wise outlook, we expect government's strong support to increase farmers' income could aid consumption of agri inputs in the coming season. Further, IMD has forecasted normal monsoons for this year, providing some sentimental relief to the overall market. We expect better Rabi season could have assisted domestic agro-chemical players to report double digit volume growth in last quarter. In terms of renewable energy, we believe, wind players had reported strong execution in Q4FY17 primarily on account of reduction of accelerated depreciation benefits post FY17. Further, change in the tariff regime from fixed to auction based has also impacted the overall sentiment of the industry. This in turn reduced execution and commissioning for the wind players. Thus, we believe YoY growth would not be comparable for wind companies in Q4FY18. In terms of micro-irrigation, government's impetus to increase coverage area under MIS through various benefits such as reduction of tax rate, increasing budget outlay could have improved demand scenarios for retail segment. Further, many state governments have come up with decent order announcements for irrigation, which could have augured well for piping industry in last quarter. In terms of Capgoods/infra, as per CMIE data, stalled projects have been increased to INR 3.34 trillion at the end of Mar'18 from INR 0.93 trillion at the end of Dec'17. Additionally, completed projects at the end of Q4FY18 remained at mere INR 0.9bn against INR 1.04bn at the end of Q3FY18. Given the Q4 remains the strong quarter for infra/capgood companies, fall in the execution & increase in the stalled projects could hurt financial performance of India focused companies. Further, increase in the commodity pricing could dent gross margins of the businesses during the quarter. Going ahead, we expect introduction of e-way bill could improve tax revenues of the government and thereby, government expenditure for various projects resulting into better growth outlook for the entire economy. Further, improvement in the market share of organized players through this initiative can also not be overlooked.

Favourable base effect to pose better top-line growth:

We expect the sales under our midcap coverage companies (excl. wind players) to increase by 15.7% YoY to INR 168.5bn. The growth will be largely driven by chemical and agriculture focused sectors, while expecting lower growth from Capgoods owing to subdued infra activity hurting overall growth to certain extent. In terms of renewable energy, we believe the industry has commissioned around 1.1-1.2 GW during Q4FY18 and Suzlon being the market leader with 35-40% market share can post better commissioning volumes.

Margins to improve:

We expect closure of facilities in China due to environmental concerns could have supported better volume growth for domestic commodity companies. Further, increase in commodity prices could also provide fillip to the overall gross margins for commodity players. Hence, we expect OPM (excl. wind players) to expand by 173bps YoY to 16.3% resulting into EBITDA to increase by 29.5% YoY to INR 27.5bn.

Q4FY18 Earnings Outlook of companies under coverage:

UPL:

We expect UPL to report revenue growth of 10.1% YoY to INR 58.80bn. The growth will be largely led by North America and India markets. OPM could expand by 80bps YoY to 21.9%, which could lead the EBITDA to grow by 14.3% YoY to INR 12.85bn. We expect the company to post PAT at INR 7.45bn (+0.9% YoY). Key thing to watch out for will be the increase in prices once the inventory dries out. **We have 'BUY' rating on the stock with a target price of INR 1030.**

Apcotex:

Workers' strike and loss of a key paper customer led to a fall in revenue during Q4FY17, hence, YoY numbers will not be comparable. We expect revenue to grow at 55.6% YoY to INR 1.35bn, led by exports and NBR segment. We expect EBITDA to remain at INR 0.16bn (+123.0% YoY) while OPM could expand by 372bps YoY to 12.3% owing to operating leverage. PAT could grow by 196.3% YoY to INR 0.10bn largely on account of better operational performance. **We have 'BUY' rating on the stock with a target price of INR 598.**

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Midcap Sector

Suzlon:

Owing to transition in the wind sector, the execution numbers in Q4FY17 are not comparable with Q4FY18. However, improved visibility from SECI 3 and SECI 4 can provide stronger revenue visibility in the upcoming fiscal. Furthermore, India's commissioning for the quarter is around 1.1-1.2 GW and Suzlon being the market leader with around 35-40% market share can commission around 400 MW during the quarter. We expect a combined wind and solar execution of around 350MW. This could translate into overall revenue of around INR 29.58bn (-40.8% YoY). We expect EBITDA (excl. Forex) to remain at INR 3.94bn (-61.8% YoY) while bottom line is expected to turn profitable at INR 0.11bn (-98.0% YoY). The improvement in bottom line on QoQ basis is primarily on account of better Wind execution during the quarter. **We have 'BUY' rating on the stock with a target price of INR 21**.

Inox wind:

The company has received new orders under SECI 3 and SECI 4 which has improved the overall order book, thereby, improving the revenue visibility. The company had an order backlog of 950MW at the end of SECI 4 auction, resulting in strong revenue visibility for FY19. The revenue will be supported by the O&M revenue in this quarter. We expect the revenue to come in around INR 1.51bn (-85.2% YoY), EBITDA at INR 0.12bn (-94.5% YoY) while the bottom line will remain in loss at around INR 0.19bn (-115.4% YoY).**We have 'BUY' rating on the stock with a target price of INR 163.**

Jain Irrigation:

We expect revenue to grow by 22.5% YoY at INR 27.32bn mainly driven by the MIS and Piping segments. We expect EBITDA to grow by 21.9% YoY to INR 4.20bn while PAT to remain at INR 1.43bn (+84.8% YoY). Key thing to watch for is the reduction in overall debt, growth in revenue from Agro-Processing segment and domestic MIS revenues. **We have 'BUY' rating on the stock with a target price of INR 162.**

ABB India:

We expect ABB to report revenue growth of 19.7% YoY to INR 25.65bn. We expect the growth will be supported by decent order execution from HVDC projects (Raigarh-Pugalur HVDC link). OPM could expand by 239bps YoY to 9.9% resulting into better operational performance. EBITDA is expected to go up by 57.8% YoY to INR 2.53bn while PAT is expected to remain at INR 1.55bn (+72.4% YoY). **We have 'BUY' rating on the stock with a target price of INR 1823.**

VA Tech Wabag:

We expect revenues for VA tech to increase at 6.9% YoY to INR 12.10bn. The subdued growth can be mainly attributed to certain large contracts from India International segment which are still in nascent stages (i.e. Dangote in Nigeria, Polgahawela in Sri Lanka, KNC Valley, India etc.). We expect OPM to improve by 32bps YoY at 12.0% mainly on account of WABAG Overseas operational performance. We expect EBITDA to come in around INR 1.45bn (+9.9% YoY) while PAT to remain at INR 0.87bn (+14.8% YoY). Order inflows and working capital cycle for the quarter will be the key things to watch out for. **We have 'BUY' rating on the stock with a target price of INR 722.**

Emmbi Industries:

We expect the company's topline to grow by 14.2% YoY to INR 0.72bn. We believe company's EBIDTA will come in at INR 0.10bn (+14.2% YoY). We expect PAT to increase by 16.1% YoY to INR 47mn. **We have 'BUY' rating on the stock with a target price of INR 281.**

Schneider Electric:

We expect company's top line to grow by 7.3% YoY at INR 3.13bn. EBIDTA is expected to remain at INR 0.11bn (-107.5% YoY) while the company's PAT will remain in loss of INR 0.17bn (-88.5% YoY).

GE T&D:

We expect the company's topline to increase by 15% YoY to INR 13.75bn on account of recent pickup in infrastructure sector. EBIDTA is expected to come in around INR 0.79bn (-27.4% YoY) while we expect the company to post PAT of INR 0.53bn (19.3% YoY).**We have 'BUY' rating on the stock with a target price of INR 483**.

Himadri Speciality Chemical Ltd.:

We expect HSCL to report a steady quarter witnessing volume growth of 4% q-o-q and 5% y-o-y supported by increase in aluminium production thereby rising demand for CTP. With Carbon Black (CB) segment driving the realizations, we expect the topline for the company to grow at 8% q-o-q and 43% y-o-y. Consequently, we estimate EBITDA/tonne to remain buoyed at INR 13,000/tonne. **We currently have a "BUY" rating on the stock with a target price of INR 230.**

Alkyl Amines Chemicals Ltd.:

We expect the topline for AACL to decline by 5% q-o-q but grow by 11% y-o-y on account of steady demand scenario coupled with delay in commencement of methylamines plant. Further, we expect EBITDA to increase to INR 276 mn up 3% q-o-q; 30% y-o-y with EBITDA margins at 19% on account of stable ethanol prices due to rising sugarcane production. Further, we estimate the bottom line to grow by 8% q-o-q and 45% y-o-y. **We currently have a "BUY" rating on the stock with a target price of INR 762.**

Midcap Sector

I G Petrochemicals Ltd.:

We expect net sales for IGPL to grow by 8% q-o-q and 10% y-o-y supported by higher volumes on account of increase in capacity by 6,000 MTPA accompanied with PAN and OX prices moving in tandem. We factor an equivalent increase in raw material costs and consequently expect EBITDA to increase by 4% q-o-q and 63% y-o-y . Further, we estimate the bottom line to grow by 6% q-o-q and 53% y-o-y. **We currently have a "BUY" rating on the stock with a target price of INR 931.**

Aarti Industries Ltd.:

We expect the topline for AIL to grow at 8% q-o-q and 28% y-o-y aided by consistent volume growth. On raw material front, we expect costs to remain on a higher side on account of surge in benzene prices during the quarter. Consequently, we expect the EBITDA margins to witness a fall by 46 bps q-o-q and 79 bps y-o-y to 17.5%. Further, we estimate PAT to increase by 2% q-o-q and 24% y-o-y with PAT margins at 8.6%. **We currently have a "BUY" rating on the stock with a target price of INR 1455.**

Solar Industries India Ltd.:

We expect the company to report a steady quarter with revenue growth of 6% q-o-q and 12% y-o-y on the back of pickup in infrastructure activities combined with increase in coal mining production. Likewise, we expect EBITDA to grow by 9% q-o-q and 24% y-o-y with operating margins at 23% up 60 bps q-o-q and 221 bps y-o-y. Further, we estimate PAT growth of 14% q-o-q and 12.5% y-o-y with PAT margin to remain flattish at 12.5%. **We currently have a "BUY" rating on the stock with a target price of INR 1340.**

Quarterly result expectation for companies under coverage

INR Million	Q4FY17	Q3FY18	Q4FY18E	Q-o-Q	Y-o-Y	Remarks
UPL						
Net Sales	53,410	41,940	58,803	40.2%	10.1%	We expect UPL to report revenue growth of 10.1% YoY to INR 58.80bn. The growth will be largely led by North America and India markets. OPM could expand by 80bps YoY to 21.9%, which could lead the EBITDA to grow by 14.3% YoY to INR 12.85bn. We expect the company to post PAT at INR 7.45bn (0.9% YoY). Key thing to watch out for will be the increase in prices once the inventory dries out.
EBIDTA	11,250	8,290	12,857	55.1%	14.3%	
Net Profit	7,390	5,740	7,454	29.9%	0.9%	
OPM (%)	21.1%	19.8%	21.9%	210	80	
NPM (%)	13.8%	13.7%	12.7%	-101	-116	
Apcotex						
Net Sales	867	1,379	1,350	-2.1%	55.6%	Workers' strike and loss of a key paper customer led to a fall in revenue during Q4FY17, hence, YoY numbers will not be comparable. We expect revenue to grow at 55.6% YoY to INR 1.35bn, led by exports and NBR segment. We expect EBITDA to remain at INR 0.16bn (+123.0% YoY) while OPM could expand by 372bps YoY to 12.3% owing to operating leverage. PAT could grow by 196.3% YoY to INR 0.10bn largely on account of better operational performance.
EBIDTA	74	174	166	-4.4%	123.0%	
Net Profit	35	133	105	-21.3%	196.3%	
OPM (%)	8.6%	12.6%	12.3%	-29	372	
NPM (%)	4.1%	9.6%	7.8%	-189	368	
Suzlon						
Net Sales	49,926	22,039	29,580	34.2%	-40.8%	Owing to transition in the wind sector, the execution numbers in Q4FY17 are not comparable with Q4FY18. However, improved visibility from SECI 3 and SECI 4 can provide stronger revenue visibility in the upcoming fiscal. Furthermore, India's commissioning for the quarter is around 1.1-1.2 GW and Suzlon being the market leader with around 35-40% market share can commission around 400 MW during the quarter. We expect a combined wind and solar execution of around 350MW. This could translate into overall revenue of around INR 29.58bn (-40.8% YoY). We expect EBITDA (excl. Forex) to remain at INR 3.94bn (-61.8% YoY) while bottomline is expected to turn profitable at INR 0.11bn (-98.0% YoY). The improvement in bottomline on QoQ basis is primarily on account of better Wind execution during the quarter.
EBIDTA	10,329	3,441	3,945	14.7%	-61.8%	
Net Profit	5,948	-327	117	-135.9%	-98.0%	
OPM (%)	20.7%	15.6%	13.3%	-227	-735	
NPM (%)	11.9%	-1.5%	0.4%	188	-1152	
Inox Wind						
Net Sales	10,192	909	1,510	66.0%	-85.2%	The company has received new orders under SECI 3 and SECI 4 which has improved the overall order book, thereby, improving the revenue visibility. The company had an order backlog of 950MW at the end of SECI 4 auction, resulting in strong revenue visibility for FY19. The revenue will be supported by the O&M revenue. We expect the revenue to come in around INR 1.51bn (-85.2% YoY), EBITDA at INR 0.12bn (-94.5% YoY) while the bottomline will remain in loss at around INR 0.19bn (-115.4% YoY).
EBIDTA	2,295	-180	126	-169.8%	-94.5%	
Net Profit	1,275	-461	-196	-57.5%	-115.4%	
OPM (%)	22.5%	-19.8%	8.3%	2816	-1419	
NPM (%)	12.5%	-50.7%	-13.0%	3775	-2548	
Jain Irrigation						
Net Sales	22,316	18,896	27,327	44.6%	22.5%	We expect revenue to grow by 22.5% YoY at INR 27.32bn mainly driven by the MIS and Piping segments. We expect EBITDA to grow by 21.9% YoY to INR 4.20bn while PAT to remain at INR 1.43bn (+84.8% YoY). Key thing to watch for is the reduction in overall debt, growth in revenue from Agro-Processing segment and domestic MIS revenues.
EBIDTA	3,452	2,222	4,208	89.4%	21.9%	
Net Profit	776	670	1,435	114.2%	84.8%	
OPM (%)	15.5%	11.8%	15.4%	364	-7	
NPM (%)	3.5%	3.5%	5.2%	170	177	

Midcap Sector

INR Million	Q4FY17	Q3FY18	Q4FY18E	Q-o-Q	Y-o-Y	Remarks
ABB India						
Net Sales	21,435	27,398	25,658	-6.3%	19.7%	We expect ABB to report revenue growth of 19.7% YoY to INR 25.65bn. We expect the growth will be supported by decent order execution from HVDC projects (Raigarh-Pugalur HVDC link). OPM could expand by 239bps YoY to 9.9% resulting into better operational performance. EBITDA is expected to go up by 57.8% YoY to INR 2.53bn while PAT is expected to remain at INR 1.55bn (+72.4% YoY).
EBIDTA	1,609	2,937	2,539	-13.5%	57.8%	
Net Profit	900	1715	1,551	-9.6%	72.4%	
OPM (%)	7.5%	10.7%	9.9%	-82	239	
NPM (%)	4.2%	6.3%	6.0%	-21	185	
VA Tech						
Net Sales	11,317	8,647	12,101	39.9%	6.9%	We expect revenues for VA tech to increase at 6.9% YoY to INR 12.10bn. The subdued growth can be mainly attributed to certain large contracts from India International segment which are still in nascent stages (i.e. Dangote in Nigeria, Polgahawela in Sri Lanka, KNC Valley, India etc.). We expect OPM to improve by 32bps at 12.0% YoY mainly on account of WABAG Overseas operational performance. We expect EBITDA to come in around INR 1.45bn (+9.9% YoY) while PAT to remain at INR 0.87bn (+14.8% YoY). Order inflows and working capital cycle for the quarter will be the key things to watch out for.
EBIDTA	1320	785	1450	84.7%	9.9%	
Net Profit	757	301	869	189.2%	14.8%	
OPM (%)	11.7%	9.1%	12.0%	291	32	
NPM (%)	6.7%	3.5%	7.2%	371	49	
Emmbi Industries						
Net Sales	632	666	722	8.5%	14.2%	We expect the company's topline to grow by 14.2% YoY to INR 0.72bn. We believe company's EBIDTA will come in at INR 0.10bn (+14.2% YoY). We expect PAT to increase by 16.1% YoY to INR 47mn.
EBIDTA	90	93	102	10.4%	14.2%	
Net Profit	41	40	47	17.9%	16.1%	
OPM (%)	14.2%	13.9%	14.2%	25	-1	
NPM (%)	6.4%	6.0%	6.5%	52	10	
Schneider Electric						
Net Sales	2,924	4,705	3,136	-33.3%	7.3%	We expect company’s topline to grow by 7.3% YoY at INR 3.13bn. EBIDTA is expected to remain at INR 0.11bn (-107.5% YoY) while the company's PAT will remain in loss of INR 0.17bn (-88.5% YoY).
EBIDTA	-1471	18	110	503.1%	NM	
Net Profit	-1496	-72	-172	NM	NM	
OPM (%)	-50.3%	0.4%	3.5%	311	NM	
NPM (%)	-51.2%	-1.5%	-5.5%	-397	NM	
GE T&D						
Net Sales	11,963	14,386	13,757	-4.4%	15.0%	We expect the company's topline to increase by 15% YoY to INR 13.75bn on account of recent pickup in infrastructure sector. EBIDTA is expected to come in around INR 0.79bn (-27.4% YoY) while we expect the company to post PAT of INR 0.53bn (19.3% YoY).
EBIDTA	1097	728	797	9.4%	-27.4%	
Net Profit	461	521	550	5.6%	19.3%	
OPM (%)	9.2%	5.1%	5.8%	73	-338	
NPM (%)	3.9%	3.6%	4.0%	38	14	
Himadri Specialty Chemical Ltd						
Net Sales	3,756	5,001	5,379	7.6%	43.2%	We expect HSCL to report a steady quarter witnessing volume growth of 4% q-o-q and 5% y-o-y supported by increase in aluminium production thereby rising demand for CTP. With Carbon Black (CB) segment driving the realizations, we expect the topline to grow at 8% q-o-q and 43% y-o-y with EBITDA/tonne to remain buoyed at INR ~13,000/tonne. Further, we estimate net profit to grow at 3% q-o-q and 137% y-o-y.
EBIDTA	724	1205	1260	4.6%	74.0%	
Net Profit	304	701	719	2.6%	136.5%	
OPM (%)	19.3%	24.1%	23.4%	-67	415	
NPM (%)	8.1%	14.0%	13.4%	-65	527	
Alkyl Amines Chemicals Ltd.						
Net Sales	1,311	1,531	1,455	-5.0%	11.0%	We expect the topline for AACL to decline by 5% q-o-q but grow by 11% y-o-y on account of steady demand scenario coupled with delay in commencement of methylamines plant. Further, we expect EBITDA to increase to INR 276 mn up 3% q-o-q; 30% y-o-y with EBITDA margins at 19% on account of stable ethanol prices due to rising sugarcane production. Further, we estimate the bottom line to grow by 8% q-o-q and 45% y-o-y.
EBIDTA	212	267	276	3.4%	30.2%	
Net Profit	113	152	164	7.9%	45.1%	
OPM (%)	16.2%	17.4%	19.0%	153	280	
NPM (%)	8.6%	9.9%	11.3%	134	265	

Midcap Sector

INR Million	Q4FY17	Q3FY18	Q4FY18E	Q-o-Q	Y-o-Y	Remarks
I G Petrochemicals Ltd						
Net Sales	2,893	2,946	3,182	8.0%	10.0%	We expect net sales for IGPL to grow by 8% q-o-q and 10% y-o-y supported by higher volumes on account of increase in capacity by 6,000 MTPA accompanied with PAN and OX prices moving in tandem. We factor an equivalent increase in raw material costs and consequently expect EBITDA to increase by 4% q-o-q and 63% y-o-y. Further, we estimate the bottom line to grow by 6% q-o-q and 53% y-o-y with PAT margins to remain flattish at 13.5%.
EBIDTA	456	714	743	4.1%	62.9%	
Net Profit	281	404	430	6.4%	53.0%	
OPM (%)	15.8%	24.2%	23.4%	-89	759	
NPM (%)	9.7%	13.7%	13.5%	-20	380	
Aarti Industries Ltd						
Net Sales	8,344	9,902	10,694	8.0%	28.2%	We expect the topline for AIL to grow at 8% q-o-q and 28% y-o-y aided by consistent volume growth. On raw material front, we expect costs to remain on a higher side on account of surge in benzene prices during the quarter. Consequently, we expect the EBITDA margins to witness a fall by 46 bps q-o-q and 79 bps y-o-y to 17.5%. Further, we estimate PAT to increase by 2% q-o-q and 24% y-o-y with PAT margins at 8.6% .
EBIDTA	1526	1778	1872	5.3%	22.7%	
Net Profit	743	902	919	1.9%	23.7%	
OPM (%)	18.3%	18.0%	17.5%	-46	-79	
NPM (%)	8.9%	9.1%	8.6%	-52	-31	
Solar Industries Ltd						
Net Sales	4,421	4,657	4,952	6.3%	12.0%	We expect the company to post a topline growth of 6% q-o-q and 12% y-o-y at INR 4,952 mn. We estimate company to deliver EBITDA growth of 9.2% q-o-q and 23.9% y-o-y. We expect operating margins to improve by 60 bps q-o-q and 221 bps y-o-y. We expect PAT to grow by 14.3% q-o-q and 12.5% y-o-y with PAT margin to remain flattish at 12.5%.
EBIDTA	919	1043	1139	9.2%	23.9%	
Net Profit	550	542	619	14.2%	12.5%	
OPM (%)	20.8%	22.4%	23.0%	60	221	
NPM (%)	12.4%	11.6%	12.5%	86	6	

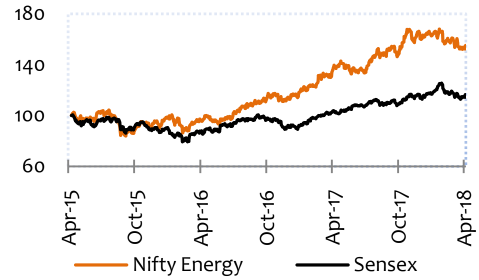
OIL & GAS Sector

Steady performance to be seen ahead

MARKET DATA

Nifty	10,402
Sensex	33,880
Nifty Energy	13,637
USD / INR	64.98

SECTOR PERFORMANCE



Earnings expectation for Q4FY18

The upwards trend in crude prices is expected to benefit the upstream companies – ONGC and OIL. Brent soared 10% QoQ to \$66.5/barrel and Dubai Fateh was up by 8.2% to \$64.0/bbl. With nil subsidy burden for the state-owned companies combined with improved realisation prices for the oil companies, we expect better financial performance for these companies for the year.

We expect OMCs to report decent earnings with stable gross refining margins coupled with inventory gains resulting from the increase in the crude oil prices. After a price pressure on the petroleum products in the previous quarters, marketing margins for the OMCs have improve for the quarter thus positively impacting their margins. Singapore GRM stood at \$7.0/barrel as compared to \$7.2/barrel QoQ and \$6.4/barrel YoY. Furthermore in this quarter, Gasoline cracks are down 8.8% to USD 9.6/bbl while Diesel cracks are up 18.0% QoQ to \$14.6/bbl. Arab L-H differential curve stood at \$2.9/barrel as compared to \$2.3/barrel.

We remain optimistic on Petronet LNG given the huge demand-supply gap in India and PLNG's efforts for capacity expansion at its Dahej terminal and the progress on the Kochi-Mangaluru pipeline. We believe the financial impact of these projects should be visible by FY20.

The City Gas Distribution companies are expected to deliver strong performance on the back of robust volume growth primarily as a result of the rising concerns to curb pollution and the govt's initiatives to adopt the cleaner fuel resulting in conversion to CNG vehicles. We expect the profitability of these companies to grow on a sustainable basis. We expect the demand for CNG and PNG to grow faster than both oil-based and coal-based energy with sustainable growth in the future. In addition, stability in gas prices for the quarter will help improve the CGD companies to maintain their EBITDA/scm. With more government initiatives (Smart cities, CNG for 2 wheelers) and thrust on cleaner fuel, we expect the share of gas in the energy mix in India to increase in the coming years, thus benefiting CGS companies – Indraprastha Gas Ltd and Mahanagar Gas Ltd.

Q4 FY18 Earnings Outlook of companies under coverage:

Reliance Industries Ltd (RIL)

Reliance Industries is expected to report a GRM of USD 13.7/bbl in the refining segment supported by higher crude prices and higher crude throughput at 17.9 MMT as against 17.7 MMT in the previous quarter. We expect the petchem segment to perform well owing to improved margins supported by a strong volume growth in production at 8.1 MMT (up 30.6% YoY, 1.3% QoQ). We expect increased revenues from the telecom segment (INR 1,04,602) due to increase in the subscriber base. We expect the PAT to be at around INR 1,09,953 mln (up 36.5% YoY, 16.4% QoQ) with contribution increased due to the off gas cracker project as well as US ethane imports. **At a CMP of INR 916, we have a "BUY" rating on the stock with a target price of INR 1,600.**

Oil and Natural Gas Corp. (ONGC)

We expect the company to post a top-line growth of 17.1% YoY and 10.6% QoQ on the back of improved crude and gas price realisations as well as increase in the gas production. We estimate the crude production to increase by 3.3% YoY (6.6 MMT) while the gas production to increase by 9.4% YoY (6.5 BCM). The EBITDA is expected to be up 12.3% QoQ with subsidy burden assuming to be nil. A higher income could contribute to the PAT at INR 71,495 mln with a PAT margin of 28.1%. **At a CMP of INR 178, we have a "BUY" rating on the stock with a target price of INR 250.**

Oil India Ltd (OIL)

We expect an increase in both crude and oil production by 5.9% and 9.4% YoY respectively to 0.862 MMT and 0.755 BCM resulting in a top-line growth of 22.8% YoY and 8.1% QoQ to INR 30,856 mln. The EBITDA estimated is INR 12,994 mln, up 93.6% YoY and 6.1% QoQ. We expect the company to report a PAT of INR 8,100 mln with a PAT margin of 26.2%. **At a CMP of INR 216, we have an "BUY" rating on the stock with a target price of INR 280.**

Gas Authority of India Ltd (GAIL)

We expect a strong performance for the quarter with revenues increased by 10.4% YoY and 3.07% QoQ to INR 1,48,575 mln boosted by robust gas transmission volumes and better petchem prices. We expect the gas transmission volumes to increase to 115 mmscmd, up 13.3% YoY and 5.3% QoQ supported by increased transmission rates. We also expect the increase in the crude prices for the quarter to improve petchem product prices contributing to increased revenues. We expect the PAT to be INR 14,850 mln with a PAT margin of 10%. **At a CMP of INR 331, we have a "BUY" rating on the stock with a target price of INR 450.**

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OIL & GAS Sector

Indian Oil Corporation Ltd (IOCL)

We expect the company's revenues to increase sequentially by 15.6% to INR 12,79,139 mln aided by higher throughput and increase in marketing sales. For the refining segment we expect a GRM of USD 10.6/bbl and an increase in the crude prices could result in potential inventory gains. We expect the throughput to advance to 18.8 MMT, up 3.1% sequentially due to increasing contribution from the Paradip refinery. We expect IOCL to report an EBITDA of INR 1,38,199 mln, up 4.2% QoQ. A higher depreciation and lower other income is expected to decrease the PAT by a marginal 1.6% QoQ to INR 77,581 mln resulting in a PAT margin of 6.1%. **At a CMP of INR 180, we have a "BUY" rating on the stock with a target price of INR 235.**

Bharat Petroleum Corporation Ltd (BPCL)

We expect BPCL to report a higher throughput on a sequential basis, up 11.4% at 8.1 MMT supported by an increase in the ramp up from Kochi Refinery. We expect the GRM to be about USD 8.6/bbl supported by increase in crude prices and possible inventory gains. We expect the PAT for the quarter to be at INR 22,928 mln, up 24.5% YoY and 7.0% QoQ with a PAT margin of 3.7%. **At a CMP of INR 450, we have a "BUY" rating on the stock with a target price of INR 650.**

Hindustan Petroleum Corporation Ltd (HPCL)

We expect the GRM for the quarter at USD 8.8/bbl vs USD 9.03/bbl in Q3FY18 and USD 6.83/bbl for Q4FY17. The decline in the GRM, however can be expected to be offset by a higher crude throughput on a sequential basis, up 6.2% QoQ. EBITDA is expected to be at INR 37,826 mln, up 31.1% YoY and 19.8% QoQ boosted by healthy recovery in the marketing margins. We expect the PAT to be INR 24,263 mln, up 34.4% YoY and 24.4% QoQ. **At a CMP of INR 367, we have a "BUY" rating on the stock with a target price of INR 500.**

Mangalore Refinery Petroleum Corporation (MRPL)

We expect the revenues for the quarter at INR 1,41,901 mln, up 6.4% YoY and 0.6% QoQ. The throughput is expected to advance to 5.2 MMT, a growth of 15.2% on a sequential basis. We expect MRPL to post inventory gains for the quarter resulting in a GRM of USD 8.9/bbl. In terms of profitability, we expect the PAT to stand at INR 2,799 mln, lower on a YoY and QoQ basis due to higher depreciation and higher finance costs with a PAT margin of 1.4%. **At a CMP of INR 114, we have a "BUY" rating on the stock with a target price of INR 160.**

Chennai Petro Corp Ltd (CPCL)

We expect CPCL to post revenues at INR 88,756 mln, up 30% YoY and 3.4% QoQ. The EBITDA is expected to be reported at INR 9,509 mln, up 14.1% on a sequential basis supported by higher GRM. We expect the company to report a GRM at USD 9/bbl. There can be potential inventory gains due to increase in the crude prices. On the profitability front, we expect the company to report at PAT of INR 4,752 mln, up 23% QoQ. **At a CMP of INR 356, we have a "BUY" rating on the stock with a target price of INR 510.**

Gujarat State Petronet Ltd (GSPL)

We expect the gas transmission volumes to increase 1.5% QoQ (45.4% YoY) to 34 mmscmd with increased demand coming in from the industrial consumers. The expected revenues are INR 3,612 mln up 3.1% QoQ and 47.6% YoY with the average realization at INR 1.16/scm. In terms of profitability, we expect the PAT to be at INR 1,813 mln, down only by a marginal 0.1% on a sequential basis. **At a CMP on INR 191, we have a "BUY" rating on the stock with a target price of INR 260.**

Petronet LNG Ltd (PLNG)

We expect the combined throughput for both the terminals to be at 226 TBTU. The throughput at the Dahej terminal can be estimated to be 218 TBTU, an increase of 1.5% over the previous quarter. We expect the revenues to stand at INR 89,673 mln, up 15.6% on a sequential basis backed by higher regasification price at the Dahej terminal. We expect PLNG to report PAT at INR 5,949 mln, up 12.5% QoQ and 26.3% YoY with a PAT margin of 6.6% . **At a CMP on INR 239, we have a "BUY" rating on the stock with a target price of INR 480.**

Indraprastha Gas Ltd (IGL)

We expect the gas volumes to show a robust sales growth of 8.9% for CNG and 11.9% for PNG, both on a sequential basis backed by the Delhi govt's push to use the cleaner fuel leading to effective and higher conversions of CNG vehicles. Total sales volumes expected are 4.7 mmscmd - 3.1 mmscmd for CNG and 1.6 mmscmd for PNG. The EBITDA is expected to be about INR 3,078 mln up 34.1% YoY and 17% QoQ aided by stability in the domestic gas prices. **At a CMP of INR 303, we have a "BUY" rating on the stock with a target price of INR 400.**

Mahanagar Gas Ltd (MGL)

MGL is expected to post revenues of INR 5,923 mln up 12.7% YoY and 1.9% QoQ. CNG and PNG volumes are expected to grow at 2.4% and 3.5% respectively, both on a sequential basis. The sales volumes expected are 2.9 mmscmd - 2.1 mmscmd for CNG and 0.8 mmscmd for PNG. We expect the company to post a strong PAT performance of INR 1,312 (up 32% YoY and 5.9% QoQ) backed by increased demand for CNG resulting from conversion of vehicles. The EBITDA margin is expected to be at INR 2,137 mln, up 31% YoY and 6.4% QoQ. **At a CMP of INR 979, we have a "BUY" rating on the stock with a target price of INR 1280.**

OIL & GAS Sector

Quarterly result expectation for companies under coverage

INR Million	Q4FY17	Q3FY18	Q4FY18E	YoY	QoQ	Remarks
Reliance Industries (RIL)						
Sales	9,28,890	10,25,000	10,97,424	18.1%	7.1%	Reliance Industries is expected to report a GRM of USD 13.7/bbl in the refining segment supported by higher crude prices and higher crude throughput at 17.9 MMT as against 17.7 MMT in the previous quarter. We expect the petchem segment to perform well owing to improved margins supported by a strong volume growth in production at 8.1 MMT (up 30.6% YoY, 1.3% QoQ). We expect increased revenues from the telecom segment (INR 1,04,602) due to increase in subscriber base. We expect PAT to be at around INR 1,09,953 mln (up 36.5% YoY, 16.4% QoQ) with contribution increased due to the off gas cracker project as well as US ethane imports.
EBIDTA	1,22,330	1,75,880	1,93,798	58.4%	10.2%	
Net Profit	80,530	94,450	1,09,953	36.5%	16.4%	
OPM (%)	13.2%	17.2%	17.7%	449	50	
NPM (%)	8.7%	9.2%	10.0%	135	80	
Oil and Natural Gas Corp. (ONGC)						
Sales	2,17,140	2,29,955	2,54,324	17.1%	10.6%	We expect the company to post a top-line growth of 17.1% YoY and 10.6% QoQ on the back of improved crude and gas price realisations as well as increase in gas production. We estimate crude production to increase by 3.3% YoY (6.6 MMT) while gas production to increase by 9.4% YoY (6.5 BCM). The EBITDA is expected to be up 12.3% QoQ with subsidy burden assuming to be nil. A higher income could contribute to the PAT at INR 71,495 mln with a PAT margin of 28.1%.
EBIDTA	45,425	1,09,189	1,22,634	170.0%	12.3%	
Net Profit	43,402	50,143	71,495	64.7%	42.6%	
OPM (%)	20.9%	47.5%	48.2%	2730	74	
NPM (%)	20.0%	21.8%	28.1%	812	631	
Oil India (OIL)						
Sales	25,119	28,526	30,856	22.8%	8.2%	We expect an increase in both crude and oil production by 5.9% and 9.4% YoY respectively to 0.862 MMT and 0.755 BCM resulting in a top-line growth of 22.8% YoY and 8.1% QoQ to INR 30,856 mln. The EBITDA estimated is INR 12,994 mln, up 93.6% YoY and 6.1% QoQ. We expect the company to report a PAT of INR 8,100 mln with a PAT margin of 26.2%.
EBIDTA	6,712	12,245	12,994	93.6%	6.1%	
Net Profit	193	7,052	8,100	4094.8%	14.9%	
OPM (%)	26.7%	42.9%	42.1%	1539	-81	
NPM (%)	0.8%	24.7%	26.3%	2548	153	
Gas Authority of India Ltd (GAIL)						
Sales	1,34,520	1,44,143	1,48,575	10.4%	3.1%	We expect a strong performance for the quarter with revenues increased by 10.4% YoY and 3.07% QoQ to INR 1,48,575 mln boosted by robust gas transmission volumes and better petchem prices. We expect the gas transmission volumes to increase to 115 mmscmd, up 13.3% YoY and 5.3% QoQ supported by increased transmission rates. We also expect the increase in the crude prices for the quarter to improve petchem product prices contributing to increased revenues. We expect the PAT to be INR 14,850 mln with a PAT margin of 10%.
EBIDTA	15,553	19,699	22,102	42.1%	12.2%	
Net Profit	2,602	12,622	14,850	470.8%	17.7%	
OPM (%)	11.6%	13.7%	14.9%	331	121	
NPM (%)	1.9%	8.8%	10.0%	806	124	
Indian Oil Corporation Ltd (IOCL)						
Sales	10,03,375	11,06,669	12,79,139	27.5%	15.6%	We expect the company's revenues to increase sequentially by 15.6% to INR 12,79,139 mln aided by higher throughput and increase in marketing sales. For the refining segment we expect a GRM of USD 10.6/bbl and an increase in the crude prices could result in potential inventory gains. We expect the throughput to advance to 18.8 MMT, up 3.1% sequentially due to increasing contribution from the Paradip refinery. We expect IOCL to report an EBITDA of INR 1,38,199 mln, up 4.2% QoQ. A higher depreciation and lower other income is expected to decrease the PAT by a marginal 1.6% QoQ to INR 77,581 mln resulting in a PAT margin of 6.1%
EBIDTA	44,086	1,32,687	1,38,199	213.5%	4.2%	
Net Profit	37,206	78,832	77,581	108.5%	-1.6%	
OPM (%)	4.4%	12.0%	10.8%	641	-119	
NPM (%)	3.7%	7.1%	6.1%	236	-106	
Bharat Petroleum Corporation Ltd (BPCL)						
Sales	5,70,365	6,06,164	6,21,057	8.9%	2.5%	We expect BPCL to report a higher throughput on a sequential basis, up 11.4% at 8.1 MMT supported by an increase in the ramp up from Kochi Refinery. We expect the GRM to be about USD 8.6/bbl supported by increase in crude prices and possible inventory gains. We expect the PAT for the quarter to be at INR 22,928 mln, up 24.5% YoY and 7.0% QoQ with a PAT margin of 3.7%.
EBIDTA	22,123	31,882	33,742	52.5%	5.8%	
Net Profit	18,417	21,437	22,928	24.5%	7.0%	
OPM (%)	3.9%	5.3%	5.4%	155	17	
NPM (%)	3.2%	3.5%	3.7%	46	16	

OIL & GAS Sector

INR Million	Q4FY17	Q3FY18	Q4FY18E	YoY	QoQ	Remarks
Hindustan Petroleum Corporation Ltd (HPCL)						
Sales	5,15,248	5,74,742	6,05,189	17.5%	5.3%	We expect the GRM for the quarter at USD 8.8/bbl vs USD 9.03/bbl in Q3FY18 and USD 6.83/bbl for Q4FY17. The decline in GRM, however can be expected to be offset by a higher crude throughput on a sequential basis, up 6.2% QoQ. EBITDA is expected to be at INR 37,826 mln, up 31.1% YoY and 19.8% QoQ boosted by healthy recovery in the marketing margins. We expect PAT to be INR 24,263 mln, up 34.4% YoY and 24.4% QoQ.
EBIDTA	28,860	31,586	37,826	31.1%	19.8%	
Net Profit	18,188	19,497	24,263	33.4%	24.4%	
OPM (%)	5.6%	5.5%	6.3%	65	75	
NPM (%)	3.5%	3.4%	4.0%	48	62	
Mangalore Refinery Petroleum Corporation (MRPL)						
Sales	1,33,349	1,41,010	1,41,901	6.4%	0.6%	We expect the revenues for the quarter at INR 1,41,901 mln, up 6.4% YoY and 0.6% QoQ. The throughput is expected to advance to 5.2 MMT, a growth of 15.2% on a sequential basis. We expect MRPL to post inventory gains for the quarter resulting in a GRM of USD 8.9/bbl. In terms of profitability, we expect the PAT to stand at INR 2,799 mln, lower on a YoY and QoQ basis due to higher depreciation and higher finance costs with a PAT margin of 1.4%.
EBIDTA	15,540	17,485	7,181	-53.8%	-58.9%	
Net Profit	19,424	9,699	2,799	-85.6%	-71.1%	
OPM (%)	11.7%	12.4%	5.1%	-659	-734	
NPM (%)	14.6%	6.9%	2.0%	-1259	-491	
Chennai Petroleum Corp Ltd (CPCL)						
Sales	68,279	85,872	88,756	30.0%	3.4%	We expect CPCL to post revenues at INR 88,756 mln, up 30% YoY and 3.4% QoQ. The EBITDA is expected to be reported at INR 9,509 mln, up 14.1% on a sequential basis supported by higher GRM. We expect the company to report a GRM at USD 9/bbl. There can be potential inventory gains due to increase in the crude prices. On the profitability front, we expect the company to report at PAT of INR 4,752 mln, up 23% QoQ.
EBIDTA	3,166	8,336	9,509	200.4%	14.1%	
Net Profit	1,708	3,862	4,752	178.2%	23.0%	
OPM (%)	4.6%	9.7%	10.7%	608	101	
NPM (%)	2.5%	4.5%	5.4%	285	86	
Gujarat State Petronet Ltd (GSPL)						
Sales	2,446	3,502	3,612	47.6%	3.1%	We expect the gas transmission volumes to increase 1.5% QoQ (45.4% YoY) to 34 mmscmd with increased demand coming in from the industrial consumers. The expected revenues are INR 3,612 mln up 3.1% QoQ and 47.6% YoY with the average realization at INR 1.16/scm. In terms of profitability, we expect the PAT to be at INR 1,813 mln, down only by a marginal 0.1% on a sequential basis.
EBIDTA	2,013	2,971	3,064	52.2%	3.1%	
Net Profit	1,270	1,816	1,813	42.8%	-0.1%	
OPM (%)	82.3%	84.8%	84.8%	255	0	
NPM (%)	51.9%	51.8%	50.2%	-170	-164	
Petronet LNG (PLNG)						
Sales	63,651	77,571	89,673	40.9%	15.6%	We expect the combined throughput for both the terminals to be at 226 TBTU. The throughput at the Dahej terminal can be estimated to be 218 TBTU, an increase of 1.5% over the previous quarter. We expect the revenues to stand at INR 89,673 mln, up 15.6% on a sequential basis backed by higher regasification price at the Dahej terminal. We expect PLNG to report PAT at INR 5,949 mln, up 12.5% QoQ and 26.3% YoY with a PAT margin of 6.6%
EBIDTA	6,163	8,474	9,795	58.9%	15.6%	
Net Profit	4,708	5,288	5,949	26.4%	12.5%	
OPM (%)	9.7%	10.9%	10.9%	124	0	
NPM (%)	7.4%	6.8%	6.6%	-76	-18	
Indraprastha Gas Ltd (IGL)						
Sales	10,019	11,839	12,376	23.5%	4.5%	We expect the gas volumes to show a robust sales growth of 8.9% for CNG and 11.9% for PNG, both on a sequential basis backed by the Delhi govt's push to use the cleaner fuel leading to effective and higher conversions of CNG vehicles. Total sales volumes expected are 4.7 mmscmd - 3.1 mmscmd for CNG and 1.6 mmscmd for PNG. The EBITDA is expected to be about INR 3,078 mln up 34.1% YoY and 17% QoQ aided by stability in the domestic gas prices.
EBIDTA	2,296	2,631	3,078	34.1%	17.0%	
Net Profit	1,345	1,659	1,882	39.9%	13.4%	
OPM (%)	22.9%	22.2%	24.9%	196	265	
NPM (%)	13.4%	14.0%	15.2%	178	119	

OIL & GAS Sector

INR Million	Q4FY17	Q3FY18	Q4FY18E	YoY	QoQ	Remarks
Mahanagar Gas Ltd (MGL)						
Sales	5,253	5,814	5,923	12.7%	1.9%	MGL is expected to post revenues of INR 5,923 mln up 12.7% YoY and 1.9% QoQ. CNG and PNG volumes are expected to grow at 2.4% and 3.5% respectively, both on a sequential basis. The sales volumes expected are 2.9 mmscmd - 2.1 mmscmd for CNG and 0.8 mmscmd for PNG. We expect the company to post a strong PAT performance of INR 1,312 (up 32% YoY and 5.9% QoQ) backed by increased demand for CNG resulting from conversion of vehicles. The EBITDA margin is expected to be at INR 2,137 mln, up 31% YoY and 6.4% QoQ.
EBIDTA	1,631	2,009	2,137	31.0%	6.4%	
Net Profit	995	1,240	1,312	31.9%	5.8%	
OPM (%)	31.1%	34.6%	36.1%	503	153	
NPM (%)	18.9%	21.3%	22.2%	322	83	

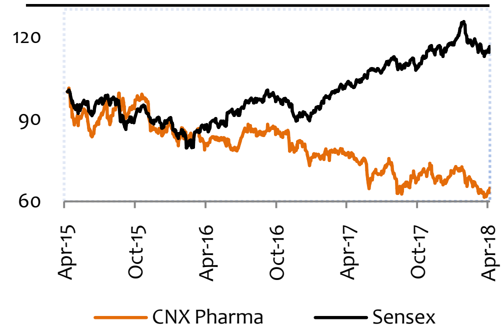
Pharma Sector

Continuous price erosion in the US will lead to weak quarter

MARKET DATA

Nifty	10,402
Sensex	33,880
CNX Pharma	8,720
USD / INR	64.98

SECTOR PERFORMANCE



Earning expectation in Q4 FY18:

We believe that Q4 FY18 will be a muted quarter for pharma companies due to continuous pressure on US business, consolidation of channels and slow momentum in ANDA approvals. However, we expect growth of 11% in domestic business of companies owing to healthy product mix and seasonal mix. In this quarter the USFDA approvals also fell to 109 in Q4FY18 from 249 in Q3FY18 due to additional documentation requirement coupled with delays in USFDA compliance resolution.

The current quarter also saw rupee appreciation of 4% y-o-y against the USD while had put dent on margins. We expect muted earnings growth in the quarter due to lack of meaningful approvals contributing to revenues along with delay in launches. The pricing pressure in the US seems to continue for next couple of quarters which would impact the earnings growth.

However, we believe that the growth from international markets will be robust along with strong business from domestic market.The steady performance in other markets such as European Union, Japan and emerging markets of Russia, China and Brazil will help to sustain margins.

The strengthening Rupee will have forex impact on the P/L. Overall, we believe that the pharma companies will deliver sluggish growth.

Expect mild price erosion for the US business:

The US business of the companies are expected to deliver muted growth in the quarter due to increasing competition and price erosion of nearly 10% of the product portfolio along with slow traction in approvals. Currently, few companies such as Natco Pharma, Dr Reddy's and Zydus Cadila has received some value approvals which will help them to sustain the margins.

However in terms of approvals, companies such as Aurobindo Pharma, Zydus Cadila, Lupin and Sunpharma has received higher number of approvals in this quarter which will help the companies to survive and offset the pressure in the US market.

Valuation:

Post second half of FY18 the CNX Pharma index has undergone correction and has underperformed in the quarter due to delay in approvals, issue of observations by the US regulators . However, many companies has been able to successfully lift the warning letters and CRL such as Cadila Healthcare Moraiya facility, DRL'S Srikakulam plant, Biocon Bangalore's facility and Divis Vizag unit which has showed a sign of relief. Many pharma companies have completed remediation process and have strengthen their compliance systems which has made them bounce back strongly in the market. Currently, the pharma sector is trading under lower valuations which provides a good entry point for select companies.

Cipla ,Zydus Cadila , and Indoco remedies remain our top picks.

Q4FY18 Earnings Outlook of our top picks:

Cipla: We expect a better quarter for the company with rise in revenues by 17.24 % y-o-y and 6.6% q-o-q due to good market share from Viread and Pulmicort and the company's increasing presence in emerging markets along with stabilised revenues from domestic market. The company has launched gRenvela along with other products which can get a good market share so improvement in US business could be seen. The EBITDA margin is expected to grow by 9.2% q-o-q to 22% and PAT margins are expected to be at 8%. The PAT margins may see a decline due to a one off of US taxation. At CMP of INR 558, we recommend **"BUY"** rating on the stock with a target price of INR 643 translating into an upside of 15.3%.

Zydus Cadila : We expect the quarter to be muted quarter for Cadila due to lower sales from gLialda which will be offset by sales from Tamiflu. However, Teva was about to launch its own version of gLialda but has not been able to launch it yet but we expect competition from Shire (Innovator). The topline is expected to show muted performance of 0.69% Q-o-Q due to high price erosion in base business. EBITDA margins are expected to grow by 1.75% q-o-q and 108% y-o-y due to low base effect in Q4FY17. Key things to watch out: Competition in gLialda coming in . At CMP of INR 390, we recommend **"ACUUMULATE"** rating on the stock with a target price of INR 435 translating into an upside of 9.5%.

Indoco remedies: We expect Indoco remedies to post robust growth of 11.7% y-o-y on account of higher revenues from international market due to healthy product mix. EBITDA margins are expected to expand by ~171 bps q-o-q to 15.8% while PAT margins are expected to increase significantly by 1163 bps q-o-q to 9.1% due to improvement in gross margins. At CMP of INR 230, we recommend **"BUY"** rating on the stock with a target price of INR 276 translating into an upside of 16.9%.

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Pharma Sector

Quarterly result expectation for companies under coverage

INR Million	Q4FY17	Q3FY18	Q4FY18E	Q-o-Q	Y-o-Y	Remarks
Sunpharma						
Total Sales	68252	65982	66641	1.0%	-2.4%	We expect the company to deliver muted results in the quarter with a growth of 1% q-o-q o due to decline in sales of Taro Pharma which is under pressure due to price erosion in the US. We expect EBITDA margins of 23% and net profit margins of 14% for the quarter. Key things to watch: Guidance on action taken for Halol's remediation and launch plan of Tildrakizumab.
EBIDTA	15475	14534	15594	7.3%	0.8%	
PAT	13445	3653	9444	158.5%	-29.8%	
EBITDA margins (%)	22.7%	22.0%	23.4%	6.2%	3.2%	
Net profit margins (%)	19.7%	5.5%	14.2%	156.0%	-28.1%	
Lupin Ltd						
Total Sales	41619	39003	40379	3.5%	-3.0%	We expect the company to post muted growth with their topline displaying a growth of 3.5% q-o-q and degrowth of 2.98% y-o-y. We expect the US sales to remain stable due to launch of new products such as Tamiflu and Kapvay. We expect that the Japan and Row markets will also grow strongly which will help to boost the margins. We expect the EBITDA margins to rise by 224 bps y-o-y and 865 bps q-o-q at 19.2%. We expect the net profit to be at INR 3407 and net profit margins to reduce to be at 8.4%. Key things to watch : Performance of Gavis in US and resolution of its Goa and Indore plant
EBIDTA	7806	6884	7743	12.5%	-0.8%	
PAT	3591	2218	3407	53.6%	-5.1%	
EBITDA margins (%)	18.8%	17.6%	19.2%	8.6%	2.2%	
Net profit margins (%)	8.6%	5.7%	8.4%	48.4%	-2.2%	
Zydus Cadila						
Total Sales	21973	32596	32372	-0.7%	47.3%	We expect the quarter to be muted quarter for Cadila due to lower sales from gLialda which will be offset by sales from Tamiflu. However, Teva was about to launch its own version of gLialda but has not been able to launch it yet but we expect competition from Shire (Innovator). The topline is expected to show muted performance of 0.69% Q-o-Q due to high price erosion in base business. EBITDA margins are expected to grow by 1.75% q-o-q and 108% y-o-y due to low base effect in Q4FY17. Key things to watch out: Competition in gLialda coming in
EBIDTA	2773	8412	8500	1.0%	206.5%	
PAT	1251	5429	5370	-1.1%	329.3%	
EBITDA margins (%)	12.6%	25.8%	26.3%	1.7%	108.1%	
Net profit margins (%)	5.7%	16.7%	16.6%	-0.4%	191.4%	
Cipla						
Total Sales	34870	38345	40881	6.6%	17.2%	We expect a better quarter for the company with rise in revenues by 17.24 % y-o-y and 6.6% q-o-q due to good market share from Viread and Pulmicort and the company's increasing presence in emerging markets along with stabilised revenues from domestic market. The company has launched gRenvela along with other products which can get a good market share so improvement in US business could be seen. The EBITDA margin is expected to grow by 9.2% q-o-q to 22% and PAT margins are expected to be at 8%. The PAT margins may see a decline due to a one off of US taxation. Key things to watchout: Commentary on Indore plant which is under USFDA radar
EBIDTA	6465	8187	8941	9.2%	38.3%	
PAT	-609	4043	3200	-20.9%	-625.5%	
EBITDA margins (%)	18.5%	21.4%	21.9%	2.4%	18.0%	
Net profit margins (%)	-1.7%	10.5%	7.8%	-25.8%	-548.2%	
Dr Reddy's Labs						
Total Sales	32985	38060	36637	-3.7%	11.1%	We expect the quarter to be of moderate growth for DRRD due to lack of meaningful launches in the quarter and rising price pressure in the US markets revenues. The competition in gRenvela and Dacogen along with delay in launch of Aloxi would hit the topline. EBITDA margins are expected to degrow by 19% q-o-q at 17.4% while PAT margins are expected to degrow by 4% q-o-q at 7.4%. Key events to watch: Commentary on Duvvada facility and visibility of key drugs such as Suboxone and Copaxone
EBIDTA	5905	7927	6389	-19.4%	8.2%	
PAT	3274	2942	2694	-8.4%	-17.7%	
EBITDA margins (%)	17.9%	20.8%	17.4%	-16.3%	-2.6%	
Net profit margins (%)	9.9%	7.7%	7.4%	-4.9%	-25.9%	

Pharma Sector

INR Million	Q4FY17	Q3FY18	Q4FY18E	Q-o-Q	Y-o-Y	Remarks
Alembic Pharma						
Total Sales	7414	8400	8988	7.0%	21.2%	We expect topline to grow steadily by 7% q-o-q and 21% y-o-y mainly due to pick up in launch momentum and higher earnings growth from domestic business. We estimate EBITDA margins at 20% and PAT margins to be at 13%. We expect the domestic business to showcase growth of 12% q-o-q to healthy product mix. We expect EBITDA margins to be at 23.7% registering a growth of 6.17% q-o-q and PAT margins to be at 16.5% - a growth of 5.8% q-o-q. Key things to watch out: Performance of domestic business and commentary ANDA pipeline for international business.
EBIDTA	1346	1875	2130	13.6%	58.2%	
PAT	953	1309	1483	13.3%	55.6%	
EBITDA margins (%)	18.2%	22.3%	23.7%	6.2%	30.5%	
Net profit margins (%)	12.9%	15.6%	16.5%	5.9%	28.4%	
Granules India						
Total Sales	3553	4107	4327	5.4%	21.8%	We expect Granules to post revenues growth of ~21.7% y-o-y to INR 4.3bn due robust revenues from the domestic markets and healthy growth from international markets. We expect EBITDA margins to be recorded at 18.5%, down 1500 bps y-o-y due to increase in R&D spend and other expenses. Net Profit is expected to be at 8.6% at INR 374 mn. The company has expanded its capacity so the depreciation could be high in the quarter which could lead to sluggish growth in PAT margins.
EBIDTA	774	740	801	8.2%	3.5%	
Net Profit	363	350	374	6.9%	3.0%	
EBITDA margins (%)	21.8%	18.0%	18.5%	2.7%	-15.0%	
Net profit margins (%)	10.2%	8.5%	8.6%	1.4%	-15.4%	
Indoco Remedies						
Total Sales	2769	2781	3095	11.3%	11.8%	We expect Indoco remedies to post robust growth of 11.7% y-o-y on account of higher revenues from international market due to healthy product mix. EBITDA margins are expected to expand by ~171 bps q-o-q to 15.8% while PAT margins are expected to increase significantly by 1163 bps q-o-q to 9.1% due to improvement in gross margins.
EBIDTA	326	432	489	13.2%	50.0%	
Net Profit	179	227	282	24.2%	57.5%	
EBITDA margins (%)	11.8%	15.5%	15.8%	1.7%	34.2%	
Net profit margins (%)	6.5%	8.2%	9.1%	11.6%	40.9%	
Vivimed Labs						
Total Sales	4366	2996	3176	6.0%	-27.3%	We expect Vivimed Labs to post moderate growth of 6% q-o-q and a degrowth of 27% y-o-y mainly due to high base in FY17 which had sales from Clariant. We expect the pharma segment of the company to register growth of 11.5% q-o-q due to pick up in international business. EBITDA margins are expected to expand by ~417 bps q-o-q to 17% while PAT margins are expected to decrease marginally by 476 bps q-o-q to 6.6% due lower other income. Key things to watch out: Commentary on ANDA filings with Strides JV and Sales booked till date through this JV.
EBIDTA	1863	489	540	10.4%	-71.0%	
Net Profit	1148	209	211	1.0%	-81.6%	
EBITDA margins (%)	42.7%	16.3%	17.0%	4.2%	-60.2%	
Net profit margins (%)	26.3%	7.0%	6.6%	-4.8%	-74.7%	

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