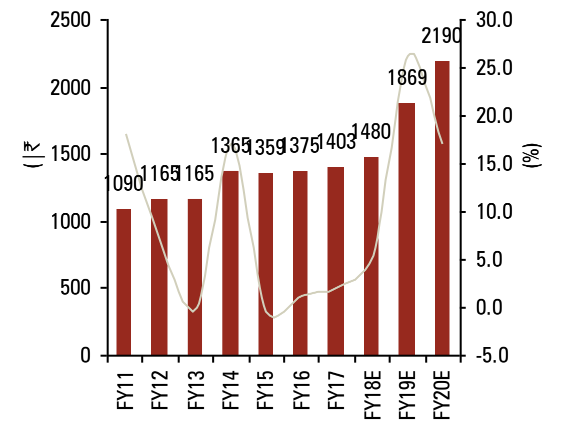
July 6, 2018

India Inc. embarks on growth acceleration

Trend in Sensex EPS



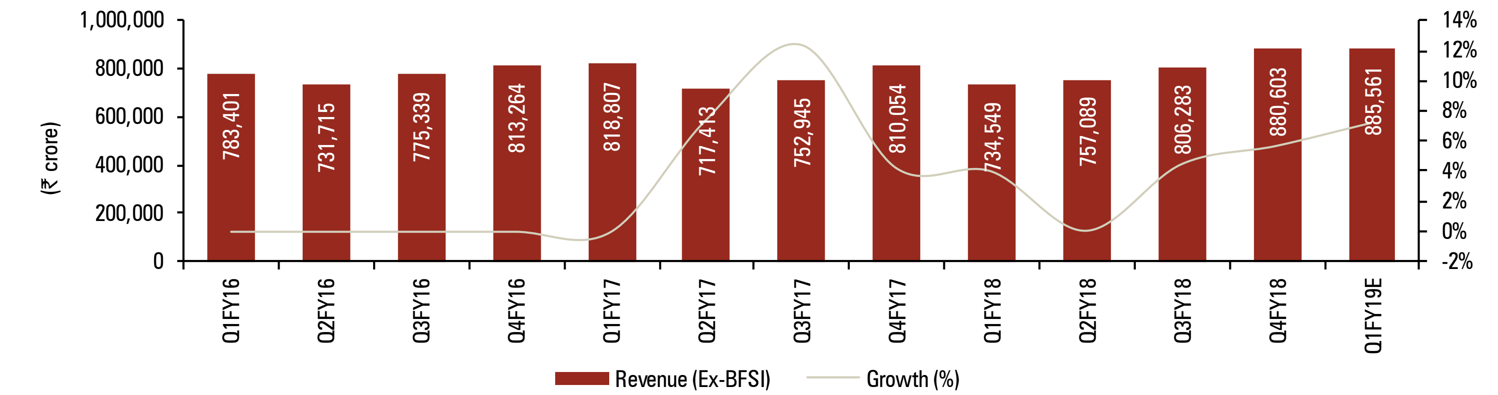
Source: Bloomberg, ICICI Direct Research

Research Analyst

Pankaj Pandey
Head – Research
pankaj.pandey@icicisecurities.com

- The economy has witnessed a significant improvement in the demand environment over the last four quarters, is evident from revenue growth of Sensex companies that are up ~10% YoY vs. average growth of ~2% YoY over the past 12 quarters. We expect revenue growth to further accelerate to 15% YoY in Q1FY19E given broad based pick-up across sectors (except telecom). The revenue growth of I-direct sectors - oil & gas (expect growth of ~40% YoY), auto (18% YoY), metals (16% YoY) and IT (13% YoY). The healthy growth in the consumption space is not only on a YoY basis, (due to low base - GST impacted de-stocking by trade channels) but also on QoQ basis. Therefore, we believe structurally demand is moving northwards. The above is reiterated by auto volumes that are up ~18% YoY & ~7% QoQ, volume growth in FMCG that is expected to be 8-10% YoY in Q1FY19E (4.6% in Q4FY18), consumer discretionary (ex-cooling) likely to grow 10% YoY. A further sharp up-tick in economic activity is also evident from the capital goods space, which had robust orders wins (₹40,105 crore) in Q1FY19
- The revival in rural demand (on the back of normal monsoon, higher MSPs & positive sentiment) is benefitting domestic consumption theme. The I-direct Healthcare universe is poised to deliver high teens growth, mainly due to 30% YoY growth in India (albeit on lower base), volume gain base business and lower competition launches in the US and robust growth in the Europe owing to currency tailwinds and new launches. Further, with significant stress recognition already done by banks, asset quality would be relatively better in Q1FY19E. The same is visible in the provisioning on bad assets, which are likely to decline 50% QoQ
- Rupee depreciation & higher current account deficit (due to high crude prices) remain a concern, going ahead. Further, uncertainty on the current trade war across countries remains a contingent risk. Also, with rising interest rates, cyclical sectors having a weaker balance sheet are expected to face challenges due to increase in financing cost
- Revenues of our I-direct coverage (ex-BFSI & TML) are expected to grow ~20% YoY in Q1FY19, with all sectors (ex-telecom) expected to report double digit growth. EBITDA margins of our universe are likely to expand 80 bps YoY to 18.4%. PAT is expected to grow 30% YoY. Going forward, with much of the asset quality pain already recorded and IBC resolutions under way in the banking space coupled with firm rural demand and industrial activity pick-up, we expect earnings to stage an impressive recovery, growing in excess of 20% CAGR in FY18-20E

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

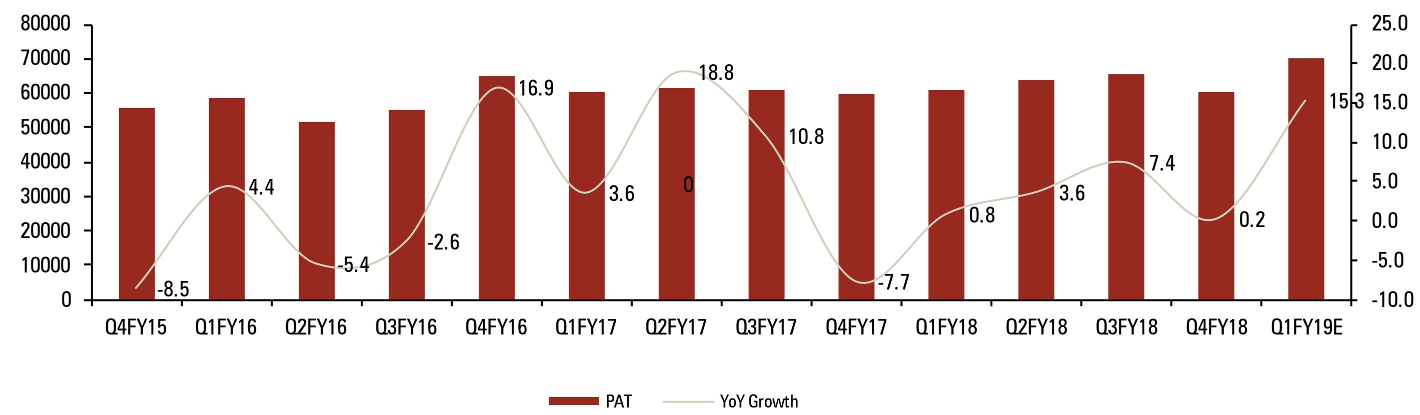


Source: Company, ICICI Direct Research

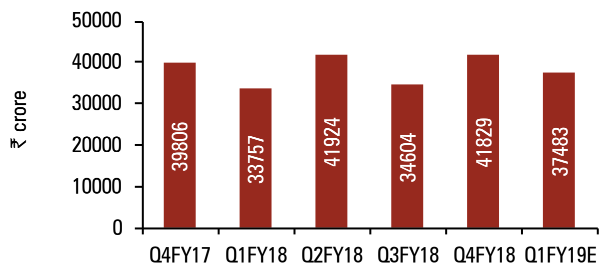
Performance of Sensex companies

- For Q1FY19E, we expect Sensex earning (ex-BFSI) to report healthy growth of 22% YoY, highest ever growth over the last six quarters. Profitability of BFSI is likely to report de-growth of 8% YoY. The silver lining is that provisioning intensity is expected to moderate reasonably. Growth is largely supported by oil & gas and auto sector (ex-TML), which are likely to report earnings growth of 37% YoY each. Further, excluding Tata Motors & SBI (that are more volatile with their performance), the Sensex earning is likely to grow ~20% YoY, which will again be highest ever growth over the last six quarters
- The five companies that are among top contributors in terms of profitability growth include Tata Steel (due to higher volume & realisation), ONGC (higher crude prices is resulting in higher realisation), Sun Pharma (mainly due low base & strong operational performance), Maruti Suzuki (driven by strong volume and higher ASPs) and Bajaj Auto (largely volume driven)
- Bharti Airtel once again leads the pack of possible bottom five companies in terms of PAT de-growth, mainly attributable to price erosion and interconnect usage charge cut on a YoY basis. It would be further followed by Axis Bank & SBI (higher provisioning and lower treasury gains) and Tata Motors (as last year the company had one-time credit with respect to a change in pension plan)

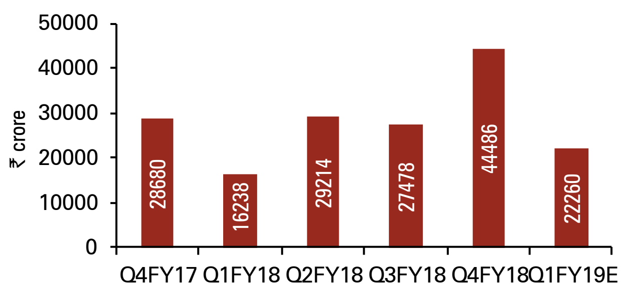
Exhibit 2: Trend in profitability of Sensex companies…



Pre provisioning profit (PPP) of banks in Sensex companies



Provisions of banks in Sensex companies



Source: Company, ICICI Direct Research

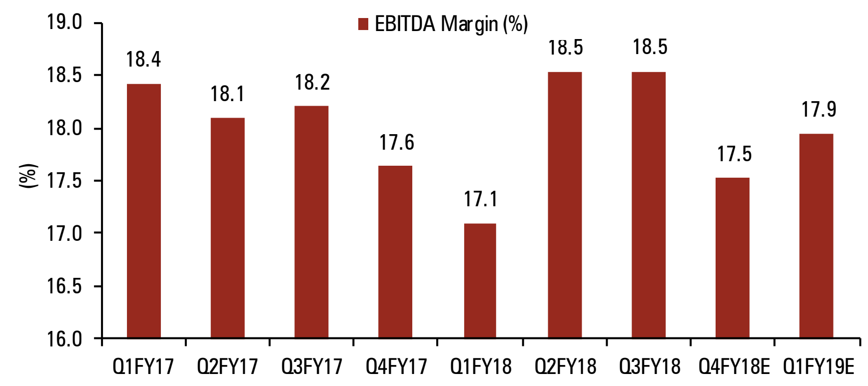
What we expect our coverage universe to report; emerging trends

- Revenue of our I-direct coverage (ex BFSI & TML) are expected to grow ~20% YoY in Q1FY19, with all sectors (ex-telecom) expected to report double digit growth. Revenue growth is largely supported by the top four revenue contributing sectors (account for ~69% of its coverage universe's (ex-BFSI) revenue) viz. oil & gas (expect growth of ~40% YoY), auto (18% YoY), metals (16% YoY) and IT (12.5% YoY). For capital goods companies, Q1FY19E is expected to be strong with robust order wins (₹ 40,105 crore) across companies. Telecom is the only sector that is expected to witness revenue de-growth of 11% YoY, impacted by competitive pressure as well as interconnect usage charge cut
- For the banking sector, Q1FY19E is expected to witness ease in asset quality pressure vs. Q4FY18. We expect GNPA of our coverage banks to increase 21% YoY to ~₹ 336134 crore vs. 30% YoY traction seen in Q4FY18. The high stress in Q4FY18 was on account of large scale stress recognition done by banks on account of events like frauds in Q4FY18 and primarily led by new NPA framework introduced by RBI (discarding past restructuring formats like SDR, S4A, 5/25 restructuring scheme, CDR, etc). Despite an ease in NPA pain, credit cost i.e. provisioning expenses is estimated to stay higher owing to ageing of recognised NPAs. Thus, earnings would remain muted for PSU & corporate based private banks. Further, ~50 bps rise in G-sec yields in Q1FY19E would impact earnings, due to lower treasury gains & rise in MTM provisions
- During the quarter, healthy credit traction of the sector at ~12.8% YoY and steady to slightly improving margins QoQ is positive. NIM improvement would be on account of lower slippages QoQ and increase in MCLR rates by banks. Thus, NII growth is expected to be healthy at ~14% YoY to ₹ 47938 crore vs. ~5% YoY traction seen in Q4FY18. Private banks are seen clocking NII growth of ~19.3% YoY. Despite healthy NII, PAT for the coverage universe seems subdued YoY & QoQ owing to elevated provisioning & lower treasury gains expected as mentioned above. With respect to NBFCs, it must be noted that Q1FY19E would be the first quarter of Ind-As based reporting. Thus, estimates for provisioning (that will be based on expected credit loss) and other income (impacted by amortisation vs. upfront accounting earlier) may be different
- We expect companies in the auto & auto ancillary space to report strong performance. For Q1FY19E, OEMs reported healthy volume growth of ~18% YoY & ~7% QoQ, mainly due to the low base of Q1FY18 where OEMs had lower dispatches of vehicles to dealer (to ensure clearance of channel inventory), ahead of GST implementation. The volume growth is across segments, with 2-W volumes up ~17% YoY, supported by motorcycle space, which was driven by higher demand from under-penetrated low income states. PV volumes grew ~13% YoY, driven by new launches. Market leader MSIL reported robust volume growth of 24% YoY. The 3-W volume grew >60% YoY, due to a revival in export & positive industry development in key domestic states. CV volumes grew ~50% YoY, primarily led by strong M&HCV demand. Apart from multiple existing demand drivers, CV production growth was aided by the low base of Q1FY18 where production was impacted by supply constraints of fuel injection pumps for BS-IV engines. Tractor volumes continued to remain healthy up ~21% YoY, due to positive rural sentiment & higher use in non-agriculture space. Thus, we estimate our universe [ex-Tata Motors (TML)] will report topline growth of ~27% YoY. The EBITDA margin of our universe (ex-TML) is likely to expand ~198 bps YoY to 15.3%. For the I-direct universe, (ex-TML) profits are

expected to increase ~54% YoY, led by OEMs (like MSIL & BAL) and ancillary companies (like Bosch & MSSL).

- For capital goods companies, Q1FY19E is expected to be strong with robust order wins across companies. The coverage companies (Bhel, KEC, KPTL, L&T, Thermax) have registered strong order inflows worth ₹ 40105 crore led by order uptake in L&T and Bhel. Overall, the coverage universe revenue is expected to grow by 12.2% owing to stable execution rates at power T&D EPC companies like KEC, Thermax and Kalpataru Power. EBITDA for the coverage universe is expected to grow 21.2% with some margin expansion, whereas PAT is expected to grow 13.6%. In the bearings space, companies like SKF, Timken and NRB are likely to report strong double digit top-line growth of 12-18% on account of robust volume growth of ~15%, ~65%, and ~15% in passenger vehicles, commercial vehicles and two-wheeler segments, respectively. We also expect EBITDA margins to inch up YoY on account of improving utilisation and pass-through in commodity prices during the quarter
- EBITDA margins of the coverage universe (ex-BFSI) are likely to expand 95 bps YoY to 18.1%

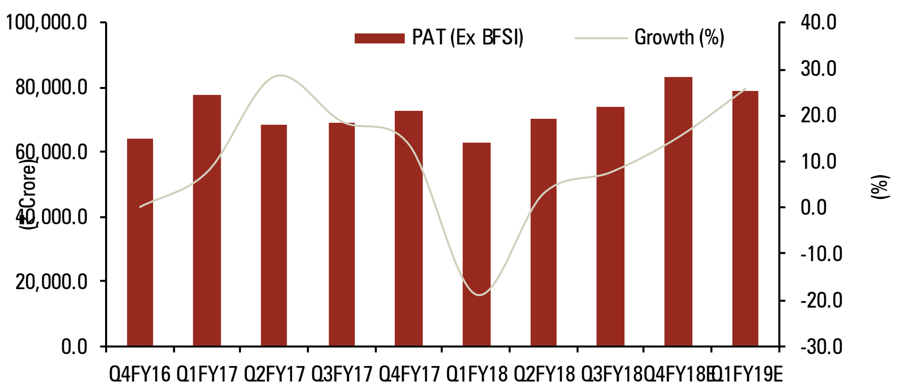
Exhibit 3: Trend in EBITDA margins of I-direct coverage universe (ex- BFSI)



Source: Company, ICICI Direct Research

- On the profitability front, the bottomline of the I-direct coverage universe (ex-BFSI) is expected to increase 26.7% YoY mainly driven by the oil & gas, metals and auto sectors

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



Source: Company, ICICI Direct Research

Defensives: Consumption sectors - beneficiary of low base…

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

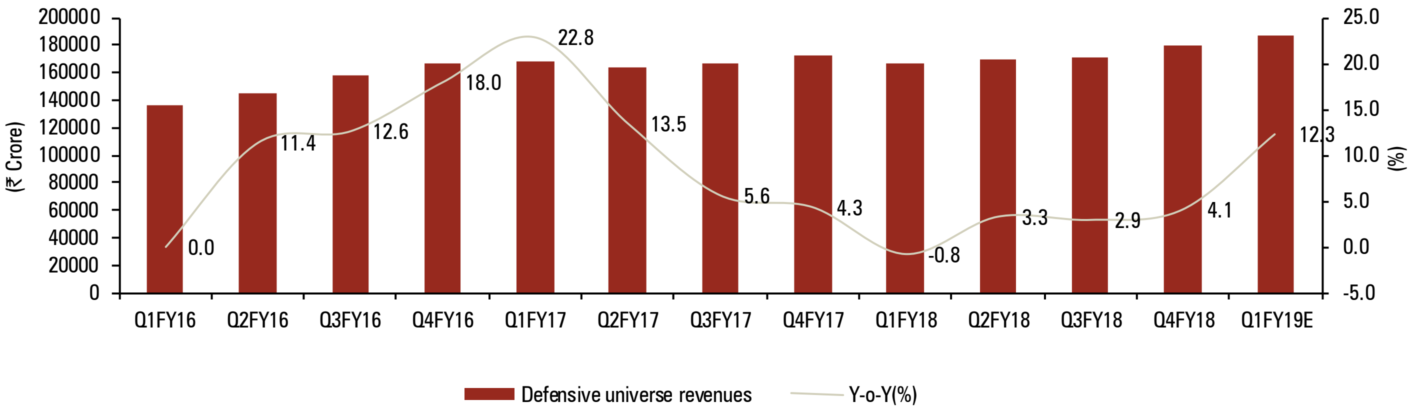
Key highlights:

After six consecutive quarter of subdued YoY growth, the I-direct defensive universe is likely to grow in double digits at 12.3% YoY and is largely broad based within the space. In the IT space, Tier-1 IT companies are expected to start FY19E with constant currency (CC) growth of (-1 to 3.5%) in a seasonally strong Q1FY19E while on the margin front, rupee depreciation by 4% QoQ vs. US$ would partly counter the cross currency headwind in addition to moderate wage hikes and visa costs. The healthcare sector is poised to deliver strong double digit growth after subdued growth in the last few quarters due to a high base, steep price erosion in the US and GST implementation in the domestic market. Currency tailwind is also likely to support growth. The growth in FMCG & consumer discretionary is mainly on the back of low base of Q1FY18, which was impacted by de-stocking by trade channels in the wake of implementation of GST. Further, growth in the consumer goods space would also be supplemented by price cuts due to lower GST rates (announced in November 2017), pick-up in rural demand led by higher government spending, newer launches and increased consumer promotions. EBITDA margin of I-direct Defensive universe is likely to expand 144 bps YoY to 22.6% supported by the healthcare sector, which had a low base and had implemented cost control measures

- In the IT space, Tier-1 IT companies are expected to start FY19E with constant currency (CC) growth of (-1 to 3.5%) in a seasonally strong Q1 with TCS expected to witness a healthy growth on the back of recently won deals while HCLT growth would be supported by consolidation of an acquisition. Taking into consideration for US$ appreciation against all major currencies, cross currency could act as a headwind of 70-100 bps to reported $ growth. Across midcap coverage, MindTree and NIIT Tech are expected to continue its growth momentum on the back of healthy deal pipeline, persistent is expected to recover after a weak Q4FY18. TechM is anticipated to witness a decline of 2% in $ terms owing to seasonal weakness in Comviva business. On the operating margin front, cross currency headwind coupled with moderate wage hikes and visa costs could create margin headwinds in Q1FY19E. However, rupee depreciation by 4% QoQ would partially counter the headwinds. For FY19E, although change in annual revenue guidance (in CC terms) by companies (Infosys: 6-8%, HCLT: 9.5-11.5% in CC terms) is unlikely, additional commentaries in direction of demand trends in core and digital deal sizes would be key monitorable
- Our FMCG coverage universe is expected to post sales growth of 13.3% mainly on the back of low base of Q1FY18 which was impacted by de-stocking by trade channels in the wake of implementation of GST. The growth would also be propelled by price cuts due to lower GST rates (announced in November 2017), pickup in rural demand led by higher government spending, newer launches and increased consumer promotions. We expect organic volume growth of 8-10% across companies. We expect a demand revival in the overall sector driven by normalcy in trade channels, demand recovery in rural regions considering expected normal monsoons in 2018. Milk, sugar, Robusta, barley prices declined 10%, 24%, 14%, 2%, respectively, on a YoY basis. However, a steep increase in crude oil prices (~50% YoY) would restrict operating margins expansion to 42 bps for our FMCG universe. Continued focus on digital advertisement should help. restrict marketing spend thereby improving operating margins. We estimate 18.8% YoY net profit growth for our coverage universe

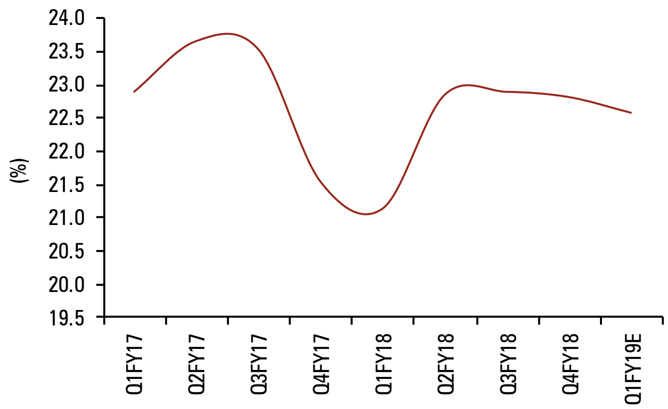
- After anaemic growth in the last few quarters due to a high base, steep price erosion in the US and GST implementation in the domestic market (impacted H1FY18), the I-direct healthcare universe is poised to deliver strong double digit growth. Currency tailwinds are also likely to support growth. I-direct healthcare universe is expected to register 18.8% YoY growth to ₹ 41403 crore. Domestic formulations are likely to grow 30% YoY (select pack) due to GST impact. US revenues (select pack) are also expected to grow 9% YoY mainly due to currency tailwinds, limited competition launches and volume gain in the base business that is likely to mitigate continued base business price erosion. In Q1FY19, average YoY rupee depreciation vis-à-vis US$ was 3.8% whereas vs. € it was 12.7%. Growth in emerging markets is likely to be driven by new launches. On the hospitals front, growth is likely to be driven by newly commissioned hospitals

Exhibit 5: Trend in revenue growth of defensives over last three years



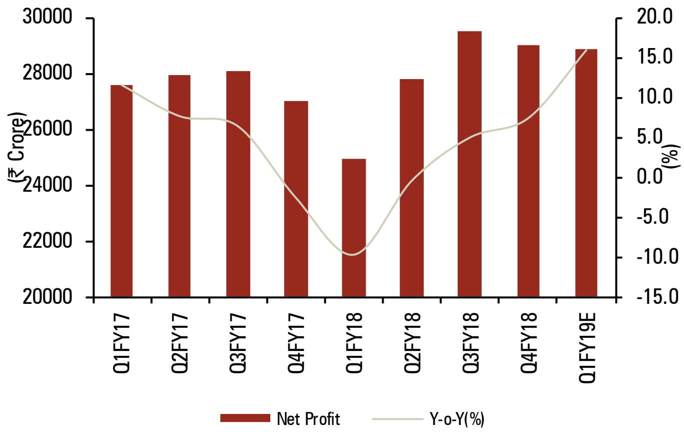
Source: Company, ICICI Direct Research

Exhibit 6: Trend in EBITDA margins



Source: Company, ICICI Direct Research

Exhibit 7: Trend in profitability



Source: Company, ICICI Direct Research

Cyclicals: Uptick in capacity utilisation driving cyclical recovery

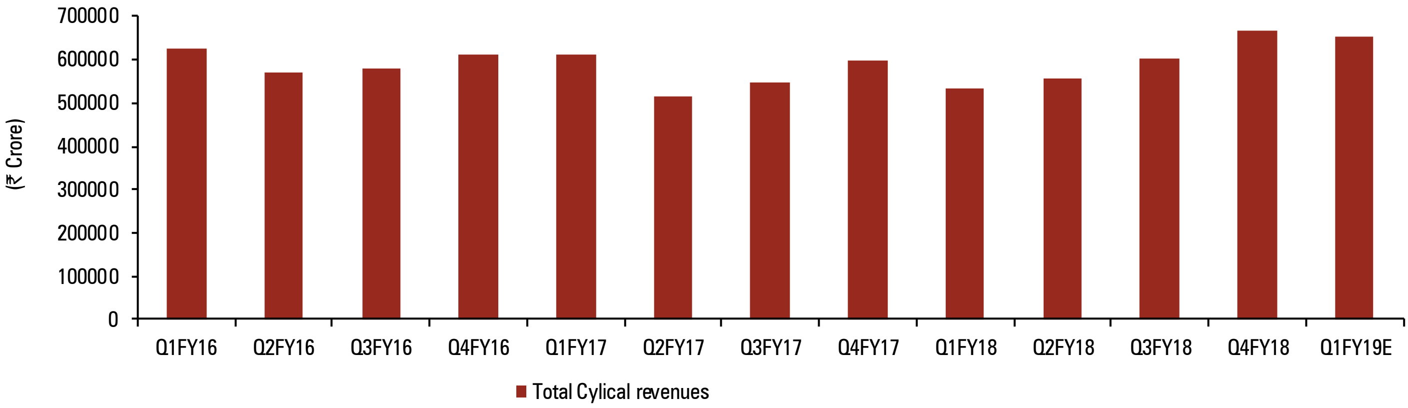
(Sector composition: auto, cement, capital goods, metals, power, infrastructure, real estate, oil & gas and telecom)

Key Highlights

- The revenue of our cyclical universe is likely to grow 21.8% YoY and is likely to be the fourth consecutive quarter of YoY positive growth. All sectors (except telecom) are likely to report double digit growth in Q1FY19E. The growth is primarily led by the top the sectors namely Auto, Oil & Gas and Metals (account for ~79% of the cyclicals revenue) is likely to grow by 18%, 40% and 15%, respectively. The growth in the auto sector is largely volume driven while Oil & Gas revenue is driven by downstream Oil marketing companies (OMCs) on account of a rise in product realisation due to high crude oil prices. Revenues of metal companies is supported by higher volume and realisations during the quarter. Our capital goods universe revenue is expected to grow 12.2% YoY owing to stable execution rates across EPC based companies. The growth in the cement space will largely be from the non-trade segment (institutional segment) coupled with high infrastructure spend and improved sand availability in some of the key states. The telecom sector is likely to witness continued pricing pressure mainly due to downgrading to bundled packs which will impact ARPU. The operational profitability of our cyclical universe is expected to improve with EBITDA margin likely to expand 84bps YoY to 17.1%, largely supported by auto, oil & gas and metals sectors
- Brent crude oil prices increased 11.2 % QoQ driven by various geo-political events like renewed sanctions on Iran. As a result, the realisations of the upstream oil companies are expected to report an improvement on QoQ basis. We expect gross under-recoveries during the quarter at ₹ 8719 crore. However, the share of upstream sector in the same is expected at lower levels of 3%. On the refining and marketing front, we expect GRMs of the oil marketing companies (OMC) to remain muted in Q1FY19 on account of weak product spreads. The marketing segment performance will remain key given the contraction in marketing margins. We expect gas segment to report stable growth YoY given the continued increase in gas demand. Rising pollution concerns and robust CNG vehicle conversions will continue to support the profitability of city gas distribution (CGD) companies
- In the metals space, we expect ferrous players to report a healthy performance on the back of firm realisations and healthy domestic demand. We expect the domestic operations of Tata Steel to clock a healthy EBITDA/tonne of ₹ 16500/tonne (vs. Q1FY18: ₹ 10786/tonne and Q4FY18: ₹ 15872/tonne), while that of JSW Steel to come in at ₹ 12000/tonne (vs. Q1FY18: ₹ 6262/tonne and Q4FY18: ₹ 11950/tonne). On the non-ferrous front, the trade tussle between the US and China resulted in decline in prices on a sequential basis. During Q4FY18, average zinc prices were at US$3111/tonne (down 8.8% QoQ). The decline in zinc prices is also attributable to an anticipated increase in supply owing to additional zinc mine capacity coming on stream during the current year. For the quarter, the average lead prices were at US$2384/tonne (down 5.3% QoQ), while copper prices were down 1.1% QoQ to US$6881/tonne. Aluminium prices were the only exception, increasing 5.1% QoQ to US$2264/tonne. Going forward, the global trade related developments are likely to have a bearing on major global commodity prices which thus remains a key monitorable

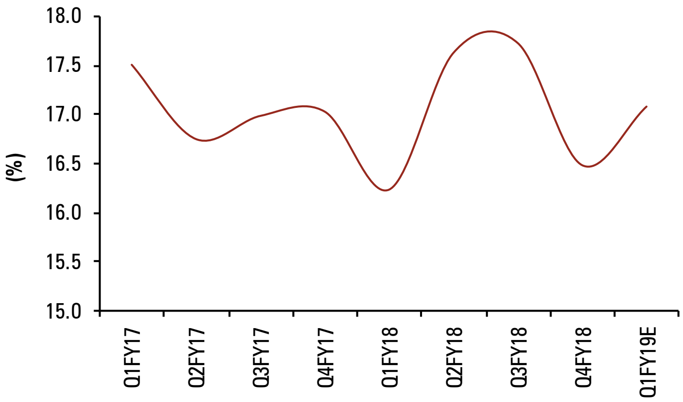
- In the cement sector, volume growth under our coverage universe looks optically higher (up 16.2% YoY) mainly due to ramp up in capacity utilisation of Jaypee (17.1 mt acquired by Ultratech) and capacity expansion in Rajasthan (3.6 mt) and Bihar (2 mt) by Shree Cement. However, on an organic basis volume growth is expected to remain in single digit (up 6.5% YoY). We believe the majority of this organic growth will be coming from higher sales to infra segment. Higher demand from infra segment is expected to keep pricing under pressure (down 1.1% YoY). This coupled with increase in input cost led by higher pet coke prices (up 15% YoY) and rise in diesel prices (up ~20% YoY) is expected to dent EBITDA/t by 150-200/t. Hence, EBITDA/t of our coverage universe is expected to decline by 20.7% YoY to ₹ 817/t.

Exhibit 8: Trend in revenue growth of cyclicals



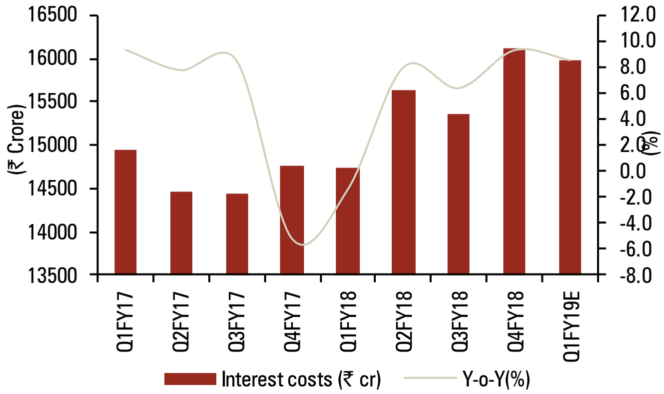
Source: Company, ICICI Direct Research

Exhibit 9: Trend in EBITDA margins



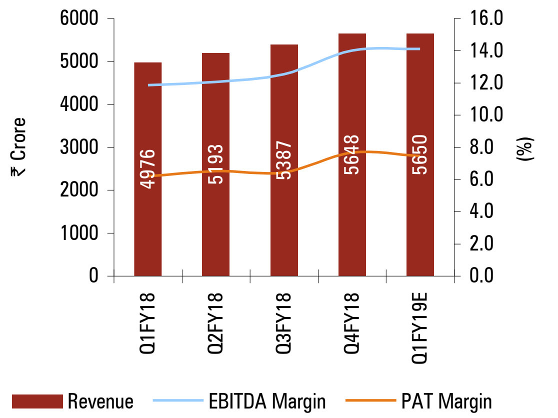
Source: Company, ICICI Direct Research

Exhibit 10: Interest costs…

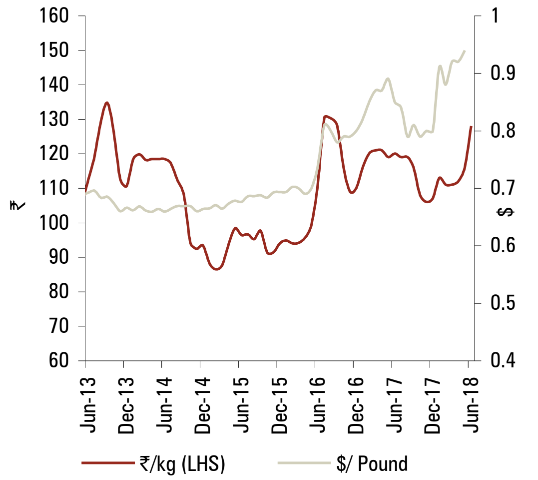


Source: Company, ICICI Direct Research

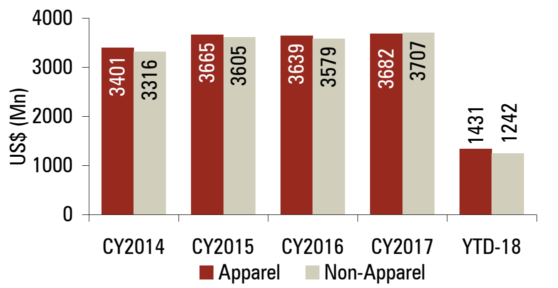
Topline & Profitability (Coverage Universe)



Cotton prices (domestic & international)



Indian textile exports to US



Research Analyst

Bharat Chhoda
bharat.chhoda@icicisecurities.com

Cheragh Sidhwa
cheragh.sidhwa@icicisecurities.com

Apparel

Stabilisation of trade channels to aid revenue growth

We expect companies in our coverage universe to witness revenue recovery in Q1FY19 on account of stabilisation of wholesale and trade channels, post GST blips. The base quarter was impacted by lower offtake by trade channels on account of uncertainty related to the implementation of GST. Hence, on a favourable base, we expect our coverage universe to report revenue growth of 14% YoY in Q1FY19. We anticipate Kewal Kiran Clothing (KKCL) will report revenue growth of 10% YoY to ₹ 86 crore, mainly driven by volume growth, while realisations are expected to remain flattish. In Q1FY18, KKCL reported volumes to the tune of 7.6 lakh pieces, which was the lowest in the last five years. Hence, we expect low base effect to kick in. We expect Arvind's textile division to report revenue growth of 7% YoY mainly led by new garmenting facility commissioned in Ethiopia. Arvind's brand & retail segment is expected to sustain its strong revenue trajectory. We anticipate revenue growth of 20% YoY in Q1FY19. Page is expected to register revenue growth of 16% YoY (albeit on a high base), led by 7% volume growth and 9% increase in average selling price. With no immediate capacity coming on stream, we expect Vardhman Textiles to report revenue growth 5% YoY. We expect Rupa to report healthy revenue growth of 18% YoY on a favourable base of Q1FY18 (25% decline in revenues).

Cotton prices expected to stay firm on tight demand-supply scenario

Average cotton prices (Shankar-6) over the last couple of weeks have been on an upward trajectory, currently hovering around ~130/kg (up 21% from the beginning of the procurement season). Increase in cotton prices was largely on the back of damage by pink bollworm and delayed monsoon in some states. Going forward, cotton prices are expected to remain elevated for cotton season 2018-19 on account of a decline in acreage by ~7%, firm domestic demand and anticipated stock rebuilding by China. However, in anticipation of the same, various textile players such as Vardhman and Siyaram have procured low cost cotton in the previous quarter and built an inventory for five to six months as on March 31, 2018.

We expect EBITDA margins of Vardhman Textiles to improve 490 bps YoY to 19% (up 180 bps QoQ) on account of low cost cotton inventory. For Page, over the past couple of quarters, it has increased the proportion of outsourced products leading to lower gross margins. However, it has exhibited commendable cost rationalisation measures, which have yielded better EBITDA margins. Hence, we expect Page to report margin expansion to the tune of 180 bps YoY. We expect KKCL to report margin expansion of 390 bps YoY to 13.2% vs. 9.3% (reported lowest ever EBITDA margins in Q1FY18).

Exhibit 11: Estimates for Q1FY19E: (Apparel) (₹ Crore)

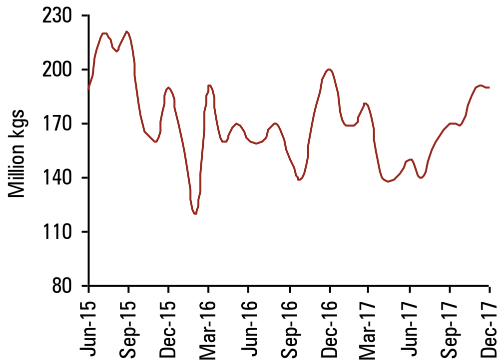
Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q1FY19E	YoY	QoQ	Q1FY19E	YoY	QoQ	Q1FY19E	YoY	QoQ
Arvind Ltd	2,927.5	18.3	-2.1	270.9	30.9	-7.1	91.7	61.6	-20.6
Kewal Kiran	85.9	9.6	-28.4	11.3	55.0	-57.0	10.5	27.8	-46.0
Page Industries	805.2	15.5	32.4	171.9	25.9	17.1	106.9	25.3	13.5
Rupa & Co.	192.4	17.7	-54.2	24.1	27.5	-64.4	12.7	36.5	-68.3
Vardhman Tex	1,639.4	5.0	8.6	311.0	41.0	20.0	193.9	30.2	18.4
Total	5,650.5	13.6	0.0	789.2	33.7	-0.3	415.7	34.8	-4.0

Source: ICICI Direct Research

Lower export incentives result in subdued exports for YTD-18

According to the data provided by Office of Textile and Apparel (OTEXA), India's textile exports to the US in YTD 18 (January-April) witnessed subdued growth owing to intense competition from countries like Bangladesh & Vietnam and recent cut in duty drawback rates. India's apparel exports to the US for YTD18 grew marginally by 3.8% YoY to US$1431 million while non-apparel exports increased by 0.5% YoY to US$1242 million.

China's cotton yarn import



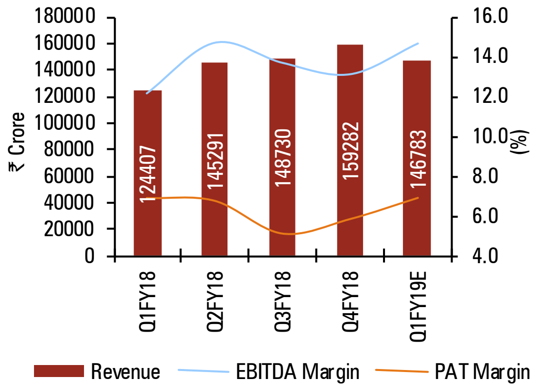
China's cotton yarn imports grew by a mere 0.6% YoY in YTDCY18, which would impact revenue growth and margins of Indian cotton yarn exporters

Exhibit 12: Company specific view (Apparel)

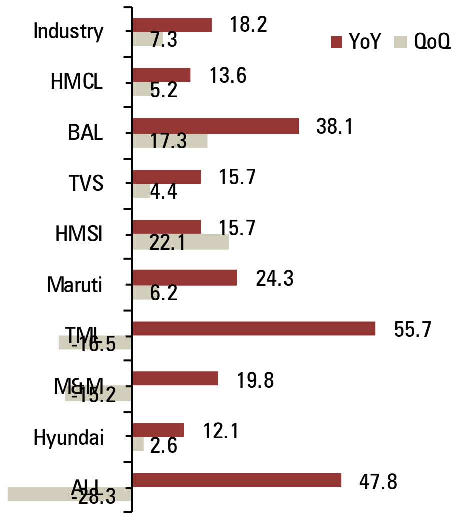
Company	Remarks
Kewal Kiran	In Q1FY18, KKCL reported one of its lowest ever volume offtake (7.6 lakh pieces) owing to de-stocking of inventory at the dealer's level, prior to GST implementation. On a low base, we expect KKCL to report moderate topline growth of 10% YoY to ₹ 86 crore, mainly driven by volume growth of 8.5% YoY to 8.2 lakh pieces. Realisations are expected to remain flattish at ₹ 1050/piece. We expect EBITDA margins to get enhanced by 390 bps YoY to 13.2% vs. 9.3% in Q1FY18 (reported lowest ever EBITDA margin in Q1FY18). PAT is expected to increase 28% YoY to ₹ 10.5 crore
Page Industries	We expect Page to register healthy topline growth of 16.0% YoY to ₹ 805.2 crore, driven by volume growth of 7% to 49.4 million pieces and realisation growth of 9% YoY to ₹ 163/piece. On the segmental front, we expect revenues from the women's segment to increase 12% YoY while the men's segment is expected to grow 20% YoY. Positive operating leverage is expected to enhance EBITDA margins by 180 bps YoY to 21.4%. Consequently, we expect PAT to grow 25.3% YoY to ₹ 106.9 crore
Rupa & Company	On a low base of Q1FY18 (25% revenue de-growth), we expect Rupa to register topline growth of 18% YoY to ₹ 192.4 crore. With positive operating leverage kicking in, we expect EBITDA margins to improve 100 bps YoY to 12.5%. Subsequently, we expect PAT to increase by 37% YoY to ₹ 12.7 crore
Vardhman Textiles	With no immediate capacity coming on stream, we expect revenues to increase 5% YoY to ₹ 1639.4 crore. In the previous quarter (Q4FY18), the company had stocked up low cost cotton inventory for ~four to five months. Hence, we expect EBITDA margins to improve 490 bps YoY (up 180 bps sequentially) to 19.0%. We expect PAT to increase 30% YoY to ₹ 194 crore
Arvind Ltd	On a consolidated basis, we expect Arvind to register revenue growth rate of 18% YoY to ₹ 2927.4 crore, mainly driven by 20% growth rate in the brands and retail segment. We expect the textile segment to grow 7% YoY mainly on account of commissioning of new garmenting facility in Ethiopia. EBITDA margins are likely to expand 90 bps YoY to 9.3%, with absolute EBITDA increasing 31% YoY to ₹ 271 crore

Source: Company, ICICI Direct Research

Topline & Profitability (Coverage universe)



Key players & industry volume June'18 quarter growth



Average Commodity price movement

Commodity (₹/kg)	Q1FY19	Q1FY18	YoY (%)	Q4FY18	QoQ (%)
Steel	49	41	21.0	47	4.4
Aluminium	152	123	23.4	139	9.5
Rubber	124	132	-6.5	125	-1.4
Plastics	70	83	-15.1	70	0.8
Lead	160	140	14.8	162	-1.0

Average Currency movement against INR

Currency	Q1FY19	Q1FY18	YoY (%)	Q4FY18	QoQ (%)
USD / INR	67.0	64.5	4.0	64.3	4.2
EUR / INR	79.9	71.0	12.5	79.1	1.1
GBP / INR	91.2	82.5	10.6	89.6	1.8
JPY / INR	0.61	0.58	5.8	0.59	3.3

Top Picks

Maruti Suzuki, Hero Motocorp & Bajaj Auto

Research Analyst

Nishit Zota
nishit.zota@icicisecurities.com

Vidrum Mehta
vidrum.mehta@icicisecurities.com

Auto and auto ancillary

Strong growth momentum accentuated by low base

The OEM reported healthy volume growth of ~18% YoY & ~7% QoQ, mainly due to the low base of Q1FY18 where OEMs had lower dispatches of vehicles to dealer (to ensure clearance of channel inventory), ahead of GST implementation. The volume growth is across segments, with 2-W volumes up ~17% YoY, supported by motorcycle space, which was driven by higher demand from under-penetrated low income states. PV volumes grew ~13% YoY, driven by new launches. Market leader MSIL reported robust volume growth of 24% YoY. The 3-W volume grew >60% YoY, due to a revival in export & positive industry development in key domestic states. CV volumes grew ~50% YoY, primarily led by strong M&HCV demand. Apart from multiple existing demand drivers, CV production growth was aided by the low base of Q1FY18 where production was impacted by supply constraints of fuel injection pumps for BS-IV engines. Tractor volumes continued to remain healthy up ~21% YoY, due to positive rural sentiment & higher use in non-agriculture space. Thus, we estimate our universe [ex-Tata Motors (TML)] will report topline growth of ~27% YoY, with OEMs & ancillary likely to grow ~31% & ~21%, respectively. We expect Maruti Suzuki and Hero MotoCorp to report good results.

Operating leverage to offset higher input cost!

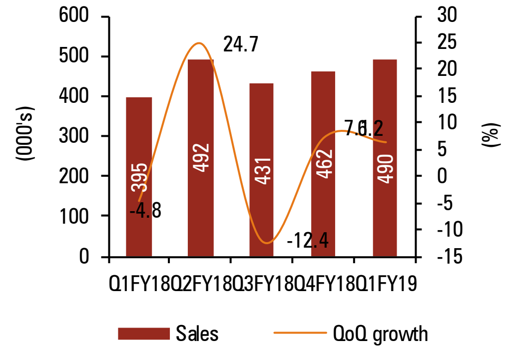
Average prices of key inputs like steel, aluminium & lead were up 21%, 23%, 15% YoY while prices of rubber & plastics declined 7% & 15% YoY, respectively. Higher volumes are expected to result in strong operating leverage, which will offset negative impact of rising input cost. Thus, the EBITDA margin of our universe (ex-TML) is likely to expand ~198 bps YoY to 15.3%, with OEM & ancillary margins likely to expand 156 bps YoY & 242 bps YoY, respectively. For the I-direct universe, (ex-TML) profits are expected to increase ~54% YoY, led by OEMs (like MSIL & BAL) and ancillary companies (like Bosch & MSSL). The muted volume performance for JLR will continue with QoQ margin contraction due to negative operating leverage.

Exhibit 13: Estimates for Q1FY19E: Auto and auto ancillary (₹ Crore)

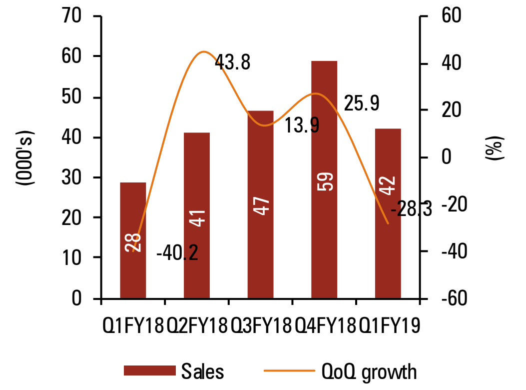
Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q1FY19E	YoY	QoQ	Q1FY19E	YoY	QoQ	Q1FY19E	YoY	QoQ
Amara Raja	1746.6	16.6	6.7	247.8	28.5	-3.4	135.3	35.5	-5.3
Apollo Tyre`	3921.7	19.5	-2.7	503.5	84.3	-2.3	212.9	141.1	-14.9
Ashok Leyland	6,519.2	53.8	-25.7	651.4	112.8	-36.9	364.0	227.3	-45.5
Bajaj Auto'	7,978.7	46.6	17.6	1,528.0	62.8	18.8	1,370.2	48.4	27.3
Balkrishna Ind	1285.2	26.9	13.2	335.7	55.3	4.0	224.8	46.8	5.9
Bharat Forge	1392.8	15.8	-6.4	388.8	16.1	-12.5	215.7	22.0	-12.8
Bosch India	3657.0	38.1	15.9	751.5	71.2	10.4	520.6	72.0	17.7
Eicher Motors*	2,562.1	28.1	1.3	812.9	29.5	-0.5	660.7	35.8	-6.3
Exide	2456.8	16.8	-2.0	354.8	9.4	9.6	205.8	8.9	7.3
Hero Motocorp	9,141.3	14.7	5.8	1,507.3	16.3	9.5	1,068.2	16.9	10.9
JK Tyre `	2163.7	19.8	-8.4	311.0	LP	28.0	100.1	LP	92.5
Mahindra CIE `	1772.6	17.4	-1.5	255.0	23.9	4.4	125.6	45.5	7.9
Maruti Suzuki	22,599.6	28.8	6.9	3,475.7	49.1	10.8	2,368.9	52.2	14.6
Motherson`	15825.1	20.5	1.7	1535.5	29.4	-1.2	522.5	88.0	1.5
Tata Motors`	71,293.3	21.9	-7.0	8,809.2	37.5	3.3	1,815.4	-43.3	21.5
Wabco India	715.8	36.2	0.1	117.9	49.1	6.9	83.0	53.0	7.6
Total	155031.5	24.6	-2.4	21586.2	42.4	3.4	9993.6	17.4	8.4

*Source: Company, ICICI Direct Research, Consolidated numbers, *Eicher's PAT is consolidated, Highlighted rows depict auto ancillary companies*

Maruti Suzuki's sales performance



Ashok Leyland's sales performance



Eicher Motor's sales performance

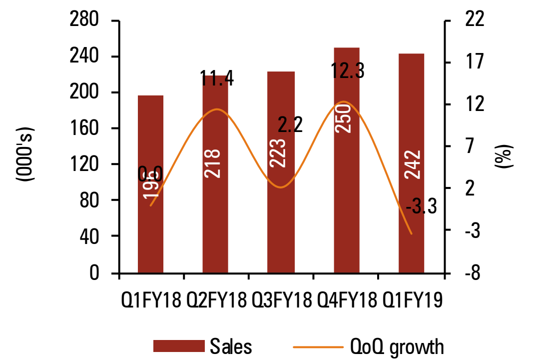
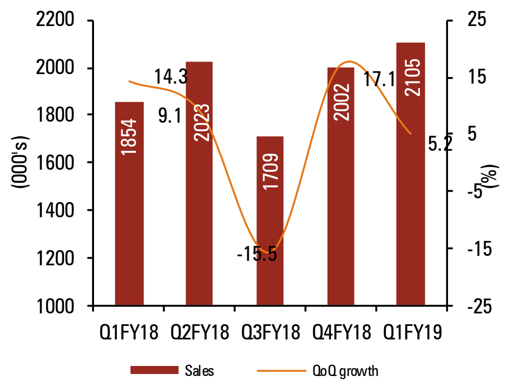


Exhibit 14: Company specific view- OEM)

Company	Remarks
Ashok Leyland	The topline is expected to grow 53.8% YoY to ₹ 6519 crore as overall volumes have increased 48% YoY to 42127 units. Apart from demand drivers, one more factor that led to high volume growth is the low base of Q1FY18, where there was supply shortage of critical auto parts. The net vehicle realisation is expected to decline 2% QoQ due to poor product mix. M&HCV volumes have grown 54% YoY to 30646 units while LCV volumes are up 33% YoY to 11481 units. EBITDA margins are likely to expand 280 bps YoY to 10% on account of positive operating leverage. Reported PAT is expected at ₹ 364 crore
Bajaj Auto	Revenues are expected to increase 46.6% YoY to ₹ 7979 crore on account of 38% YoY volume growth to ~1.23 million units. Blended realisations are expected to be down 1% YoY, flat QoQ due to a poor product mix. Growth was broad based (in both domestic & export market), with domestic 2W, 3W growing 39%, 80% YoY, respectively, while in the export market growth of 2W, 3W was 25%, 69% YoY, respectively. Growth in domestic 2W was on account of low base, when volumes were impacted by GST implementation, while export 2-W was supported by volume growth in Nigeria. EBITDA margins are likely to contract 20 bps QoQ to 19.2% due to higher contribution from economy segment. PAT is expected to increase 43% YoY to ₹ 1370 crore
Eicher Motors	RE business (motorcycles) volumes have stabilised with volume growth of ~22.5% YoY (down ~1% QoQ) to ~225361 units. On the back of strong CV demand (supported by low base), VECV (truck business) volumes at ~16416 units, grew ~42% YoY. Revenues are expected to grow 28% YoY to ₹ 2562 crore. EBITDA margins may come in at 31.7%, down 60 bps QoQ, due to negative operating leverage & adverse impact of input costs. We expect VECV business margins of 8.8%. Consolidated PAT is expected at ~₹ 661 crore
Hero MotoCorp	In Q1FY19, the company witnessed highest ever volumes of ~2.1 million, growth of ~13.6% YoY, with possible de-growth of ~11.6% YoY in the scooter segment (0.19 million units) & 16.9% YoY growth in motorcycle segment (1.91 million units). EBITDA margins are expected to expand 50 bps QoQ to 16.5% as operating leverage benefit and price increase may be partly offset by an increase in input cost. Topline and PAT are seen at ~₹ 9141 & ~₹ 1068 crore, respectively
Maruti Suzuki	Volumes have grown ~24.3% YoY to ~4.9 lakh units where strong domestic demand of 24.9% YoY was driven by ~50% YoY growth in compact segment (Swift, DZire, Baleno) & ~25% YoY growth in the van segment. EBITDA margins are expected to expand 114 bps QoQ to 15.4% as the positive impact of operating leverage (there were few one-off expenses in previous quarter) may be offset by higher input cost, partly elevated by a stronger yen. The topline is expected to grow 28.8% to ₹ 22600 crore. Net ASPs are expected to increase ~1.4% QoQ due to 2% price hike taken by company in May end. PAT for the quarter is expected at ~₹ 2369 crore
Tata Motors	JLR's retail & wholesale volumes are expected to grow ~5%, 1.2% to ~144024, 140222 units, respectively, with growth attributable to newer models like E-Pace, Discovery & Velar. JLR is likely to post topline of ~£5.7 billion, exhibiting growth of ~1.6% YoY. JLR's margins are expected to contract ~70 bps QoQ to 11.5% due to higher input cost & negative operating leverage. JLR's PAT is estimated at ~£211 million. Standalone revenues are expected to increase 73% YoY to ₹ 15709 crore due strong volume growth of 61% YoY backed by low base. EBITDA margins are expected to contract sequentially to 3.7% due to high input cost and negative operating leverage attributable to ~14% QoQ volume decline. Standalone loss is expected at ~₹ 177 crore

Source: Company, ICICI Direct Research

Hero MotoCorp's sales performance



Bajaj Auto's sales performance

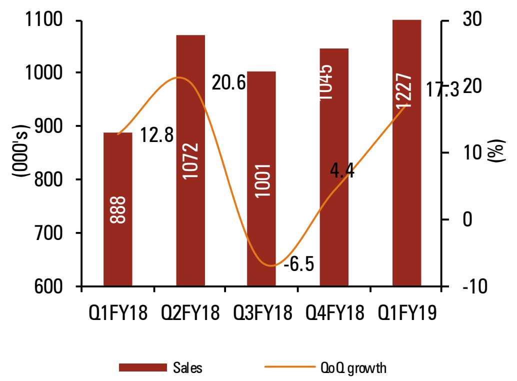
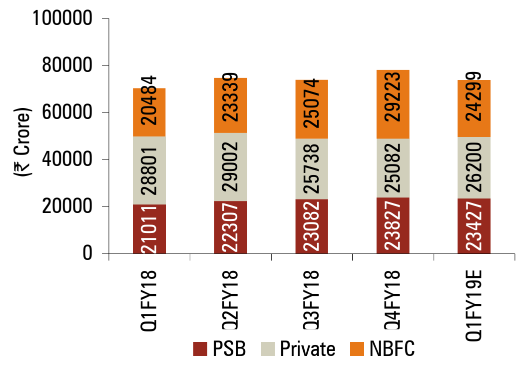


Exhibit 15: Company specific view- Ancillaries

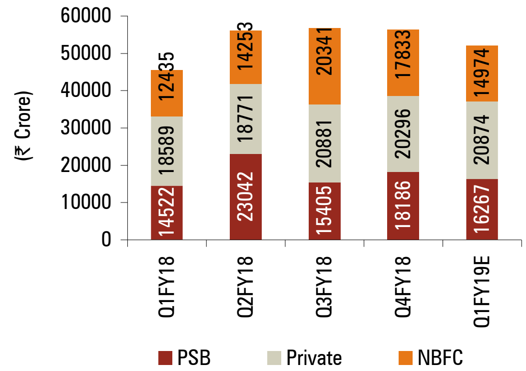
Company	Remarks
Amara Raja Batteries (ARBL)	We expect ARBL's revenue to grow 17% YoY to ₹1,747 crore, driven by automotive segment (both 4-W & 2-W space). Prices of its key raw material - lead has been stable over the past six months (average prices of lead is down 1% QoQ but up 14.8% YoY to ₹ 160/kg). The low base of Q1FY18 coupled with some price hikes taken in the past are likely to expand its EBITDA margins by 131 bps YoY and 85 bps QoQ to 14.2%. Thus, PAT is expected to grow 35.5% YoY to ₹ 135 crore
Apollo Tyres (APL)	APL's consolidated revenue is likely to grow 19.5% YoY to ₹ 3,922 crore supported by strong domestic CV - OEM demand. EBITDA margins in Q1FY18 were impacted for most tyre player including ATL mainly due to high cost raw material inventory in the system. Hence, due to a low base, the EBITDA margin is likely to expand 451 bps YoY to 12.8%. However, QoQ we expect EBITDA margins to remain flat. PAT is expected to increase 41% YoY to ₹ 213 crore
Balkrishna Industries (BIL)	BIL is likely to report strong all round performance. Its revenues are expected to grow 26.9% YoY to ₹ 1,285 crore, with volumes likely to rise 17% YoY to 54,203 MT (in line with management guidance). EBITDA margins are likely to expand 477 bps YoY & 212 bps QoQ to 26.1% post higher utilisation at its Bhuj plant & higher Euro realisation. PAT is expected to increase 46.8% YoY to ₹ 225 crore
Bharat Forge	In Q1FY19, net domestic revenues are expected to grow 17% YoY, down 5% QoQ to ₹ 588 crore, tracking the trend in user M&HCV industry, which constitutes ~50% of domestic revenues. Export revenues are likely to grow 16% YoY, down 5% to ₹ 778 crore as class 8 truck volumes have seen a sequential decline. EBITDA margins are expected to decline 60 bps QoQ to 27.9% due to increasing input cost & negative operating leverage. PAT is likely to grow 19% YoY to ₹ 216 crore
Bosch	Strong OEM production - CV (>60% YoY), PV (15% YoY) & Tractor (21% YoY) may drive Bosch's performance. We believe the company is likely to report highest ever quarterly revenue at ₹ 3,657 crore (up 38% YoY). Operating leverage benefit is expected to drive its EBITDA margin, which may expand 400 bps YoY to 20.6%. Subsequently, PAT is expected to grow 72.5% YoY to ₹ 521 crore
Exide Industries (EIL)	EIL's revenue is expected to grow 17% YoY to ₹ 2457 crore mainly driven by the automotive - OEM and replacement segment. Its EBITDA margin is likely to expand 70 bps QoQ to 14.4%. Higher depreciation is likely to impact its profitability, which is expected to increase 9% YoY to ₹ 206 crore
JK Tyre (JKTIL)	Consolidated revenues are expected to grow 19.8% YoY to ₹ 2,164 crore and is mainly after strong CV OEM demand & lower Chinese import. Its Mexican subsidiary had a major labour restructuring activity in the past. Hence, we expect an improvement in its performance. The company in Q1FY18 (last year) reported an operational loss mainly impacted by high raw material cost. For Q1FY19E, we expect EBITDA margins at 14.4%, flat QoQ. Subsequently, JKTIL is likely to report PAT of ₹100 crore vs. loss of ₹108 crore in Q1FY18
Mahindra CIE Automotive	Standalone business is expected to be driven by healthy production volumes of its top three clients, which account for >50% of its revenue. Thus, its revenue is expected to grow 25.5% YoY to ₹ 564 crore. The EBITDA margin is likely to expand 250 bps YoY to 12%. PAT is expected at ₹ 35 crore. At the consolidated level, we expect revenue & EBITDA of ₹ 1773 crore & ₹ 255 crore, respectively
Motherson Sumi	MSSL's consolidated revenue is expected to grow 20.5% YoY driven across business segments. With the rupee depreciating against the Euro by 12.5% YoY in Q1FY19, its European subsidiary (SMR, SMP & PKC) may see some translation gain during the quarter. Consolidated EBITDA margins are likely to expand 67 bps YoY to 9.7%. The company in Q1FY18 had reported an exceptional expense of ₹ 150 crore. Thus, PAT is expected at ₹ 523 crore vs. ₹ 278 crore in Q1FY18
Wabco India (WIL)	The strong domestic M&HCV volume (mainly due to low base of last year Q1FY18) is likely to drive WIL's performance. Its revenue is expected to increase 36.2% YoY to ₹ 716 crore. EBITDA margin is likely to expand 143 bps YoY & 218 bps QoQ to 16.5%. Strong revenue growth & margin expansion are likely to boost PAT. WIL is likely to report highest ever quarterly PAT of ₹ 83 crore (up 53% YoY)

Source: Company, ICICI Direct Research

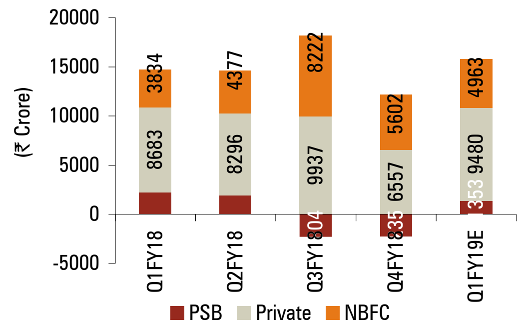
Net interest income (Coverage Universe)



PPP (Coverage Universe)



Net Profit (Coverage Universe)



Top Picks

Bandhan Bank

Research Analyst

Kajal Gandhi
kajal.gandhi@icicisecurities.com

Vasant Lohiya
vasant.lohiya@icicisecurities.com

Vishal Narnolia
vishal.narnolia@icicisecurities.com

Banking and Financial Institutions

NPA pressure to ease QoQ; though provisioning to remain elevated

Lower fresh slippages in Q1FY19E are expected to provide relief in headline GNPA and NNPA numbers. This is led by large scale stress recognition done by banks, on account of events like fraud occurring in Q4FY18 and primarily due to a new NPA framework introduced by RBI (discarding past restructuring formats like SDR, S4A, 5/25 restructuring scheme, CDR, etc). We expect GNPA of coverage banks to increase 21% YoY to ~₹ 336134 crore in Q1FY19E compared to 30% YoY traction seen in Q4FY18. However, provisions would remain elevated for the sector owing to ageing of NPLs. Most large PSU & private banks have already provided ~50% of NCLT exposure. However, many midcap & small banks had utilised the RBI dispensation of lower provisioning of 40% on NCLT exposure. Thus, these banks would have to provide more in Q1FY19E. However, resolution of two steel accounts under IBC like Bhushan Steel & Electrosteel would support recoveries, mainly in the case of PSU & corporate based private banks.

Further rise in G-Sec yields to lead to higher MTM provisions

G-sec yields in Q1FY19E rose further by 50 bps to 7.9%. Thus, banks treasury gains would be muted. In most cases it would be negative. Especially PSU banks would have to face higher MTM provisions. Though RBI allowed banks to spread MTM losses over four quarters, we expect a sharp rise of ~120 bps in yields since Q3FY18 would keep such provisions elevated for banks. For the banking sector, as a whole, we estimate MTM losses of ~₹ 30000 crore on the AFS book, on account of ~120 bps rise in yields since Q3FY18.

NII growth to be healthy led by improved credit traction & steady margins; provisions to keep earnings muted

Credit traction for the industry improved and was healthy at ~12.8% YoY as on Q1FY19E. Further, due to increase in MCLR rates by banks, lower slippages estimated in Q1FY19E, we expect margins to stay steady or improve a bit vs. Q4FY18. This would enable healthy NII growth for banking sector. For coverage universe, NII growth of ~14% YoY to ₹ 47938 crore is estimated vs. ~5% YoY traction in Q4FY18. Private banks are seen clocking NII growth of ~19.3% YoY.

Despite healthy NII, PAT for the coverage universe seems subdued on a YoY and QoQ basis owing to elevated provisioning & lower treasury gains expected as mentioned above. Bandhan Bank is expected to continue to report a healthy set of numbers.

Earnings of retail based private banks like IndusInd Bank, and Kotak Mahindra Bank are expected to remain strong both on the business and PAT front. Mid-sized bank like City Union Bank would continue to deliver a healthy set of numbers. Federal Bank should sustain >20% YoY credit growth though earnings would increase at a lower rate owing to higher credit cost. Axis Bank's earnings are estimated to turn green on account of relatively lower slippages and provisioning estimated on a QoQ basis.
Banks like SBI with high Bhushan Steel exposure (₹12000 crore) can see reduction in absolute GNPA and NNPA numbers if fresh slippages remain contained.

NBFC's enter 1st quarter of IND AS reporting

With respect to NBFCs, it must be noted that Q1FY19E would be the first quarter of Ind-As based reporting. As it warrants Expected Credit Loss (ECL) basis provisioning, a lot of assumptions are invoved, which can lead to our assumed numbers may vary. Similarly mark to market of investments for NBFC was not always the case, which can lead to both positive and negative impact. Particularly NBFC's may have to show some adjustments on its listed subsidiaries gains and ESOP accounting. Even, estimates for other income and few expenses which will be needing amortisation vs upfront recognition can alter P&L estimates.

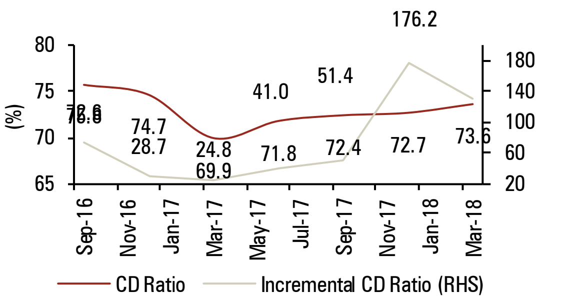
Exhibit 16: Estimates for Q1FY19E (₹ Crore)

	NII	Change (%)		PPP	Change (%)		NP	Change (%)	
	Q1FY19E	YoY	QoQ	Q1FY19E	YoY	QoQ	Q1FY19E	YoY	QoQ
Public Sector Banks									
Bank of Baroda	4100.2	20.4	2.4	2862.8	8.1	7.4	134.7	-33.8	-104.3
SBI	19326.3	9.8	-3.2	13404.7	12.9	-15.6	1046.0	LP	LP
Total	23426.5	11.5	-2.3	16267.5	12.0	-12.3	1180.7	LP	LP
Private Banks									
Axis Bank	4911.4	6.4	3.8	3859.9	-10.0	5.1	197.7	-84.9	-109.0
Bandhan Bank	805.9	24.6	-7	649.2	25.2	-7.8	355.0	20.0	-8.5
City Union Bank	389.7	13.8	5.9	311.0	4.7	5.9	162.7	16.0	7.0
DCB	277.6	19.1	5.3	140.5	3.0	-0.8	67.8	3.9	5.5
Federal Bank	926.0	15.7	-0.8	568.5	1.9	-3.4	202.2	-3.8	39.5
Indusind Bank	2136.9	20.5	6.4	1851.0	16.5	4.6	1028.5	23.0	7.9
J&K Bank	692.3	-2.8	5.6	271.9	-26.2	2.0	55.0	LP	93.5
Kotak Bank	2664.1	18.6	3.3	1988.8	24.7	-1.4	1169.6	28.1	4.0
Yes Bank	2238.8	23.8	3.9	2140.9	25.6	0.3	1229.1	27.3	4.2
Total	26142.3	19.3	7.4	20819.5	15.3	5.6	9146.8	9.4	46.2
Total Banks	49568.8	13.8	0.8	37087.0	12.0	-4.8	10327.5	-5.0	-347.4
NBFCs									
LIC HF	928.1	1.7	-7.5	842.0	2.3	-2.9	504.0	7.2	-6.6
Rel Cap	4776.5	-1.7	-4.6	430.0	17.5	-12.6	316.0	32.8	-26.2
Bajaj Finance	2653.2	40.9	27.4	1652.3	36.4	20.3	869.2	44.4	20.6
Bajaj Finserv	8358.1	27.0	-5.3	1900.5	29.9	17.7	852.4	30.1	24.3
SBI Life Insurance	4733.3	25.8	-48.8	6819.1	11.3	-30.3	351.2	12.0	-7.9
Total	24298.9	18.6	-16.9	14974.2	20.4	-16.0	4962.6	29.4	-11.4

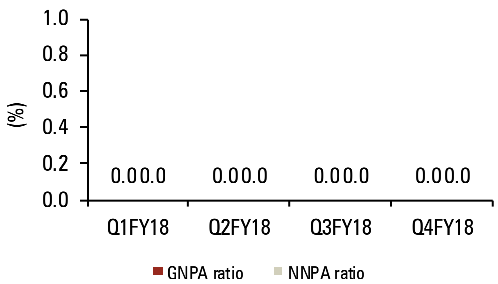
LP denotes loss to profit,

Source: Company, ICICI Direct Research

C-D Ratio (Industry)



Asset Quality (Coverage Universe)



NPA trend (Coverage Universe)

Q1FY19E	GNPA (₹ crore)	QoQ Growth(%)	NNPA (₹ crore)	QoQ Growth(%)
PSB				
Bank of Baroda	57820	16.5	24203	3.1
SBI	216127	-3.3	107705	-2.8
Private Banks				
Axis Bank	34591	1.0	16758	1.0
City Union Bank	891	4.0	489	3.0
DCB	387	5.0	154	5.0
Federal Bank	2879	3.0	1599	3.0
Indusind Bank	1841	8.0	798	7.0
J&K Bank	6074	1.1	2800	0.3
Kotak Mahindra Banl	3978	4.0	1732	4.0
Yes Bank	2837	8.0	1405	7.0

Exhibit 17: Company specific view (Banks)

Bank of Baroda	On asset quality, surge in GNPA accretion seen in Q4FY18 is not expected to continue in Q1FY19. However, slippage from watchlist (₹ 10039 crore) could not be ruled out. Despite moderation in slippages, credit cost is seen to remain elevated at 93% of PPP, owing to ageing of stressed assets. Write-back of ₹ 208 crore from resolution of Bhushan Steel (Exposure - ₹ 1600 crore) to partially offset pressure on profitability. Credit traction is seen to continue at healthy pace of 11.5% YoY, led by continuance of robust growth in retail segment. Therefore, NII growth is expected at ~20% YoY. Rise in G-sec yield to impact treasury income and thereby non-interest income. PAT expected at ₹ 134.6 crore compared to loss in Q4FY18.
State Bank of India	SBI expected to report NII growth of 10% to ₹19326 crore as incremental slippages should be lower than Q4 and MCLR hike of 10 bps to support NIM. Also with slippages seen around ₹6000-8000 crore, provisions should also be lower QOQ. Benefit of Bhushan Steel recovery can refllect in writeback of provisions of ~₹1000-1500 crore leading to overall NPA provisions at ₹9200 crore, Investment provisions are expected to stay elevated at ₹3500 crore. WIth system credit growth at ~12% SBI should have grown around 7-8% in credit to ₹2058600 crore. Deposits growth is seen around 6% YoY. Thereby we expect marginal PAT at ₹1046 crore vs loss in Q4FY18.
Axis Bank	For Axis Bank, healthy growth in advances would continue at 17% YoY to ₹ 451012 crore. This will be led by retail & SME segments. With bulk of the stress assets recognised during Q4FY18 (slippages in Q4 were ₹ 16356 crore), incremental slippages in Q1FY18 is estimated to be lower QoQ. Accordingly, credit cost would also witness a decline in Q1FY19E but would still be on a higher side. We expect the bank to report muted earnings of ₹ 198 crore in Q1FY19E vs. loss of ₹ 2189 crore seen in Q4FY18.
City Union Bank	Consistent performance in seen on business growth as well as operational performance. Advances growth is expected steady at ~16.8% YoY to ₹ 28103 crore, led by retail and SME. On operational front, NII growth is seen at 13.8% YoY to ₹ 390 crore. Rise in G-sec yields to impact non-interest income during the quarter. Credit cost is seen to remain lower on YoY and QoQ basis at ₹ 82 crore (26% of PPP). Led by steady operational performance and marginally lower provision, PAT is seen at ₹ 263 crore; up 16% YoY. Incremental slippage to remain in 1.7-2% range, in-line with management guidance. Asset quality to remain broadly stable with GNPA at 3-3.2%.
DCB Bank	For Q1FY19, core operational performance is seen to remain healthy with NII growth of 19.1% YoY, led by stable margin above ~4% and 28% YoY growth in advances. Healthy traction in credit is to be led by growth in mortgage and SME segment. Treasury income is seen to keep non-interest income growth muted at ₹ 73.5 crore, down 14% YoY, led by higher trading income in Q1FY18. Factoring in steady run rate of net GNPA accretion at ~₹20 crore, GNPA ratio is expected to remain below 2%. With credit cost remaining steady at ₹ 36 crore (26% of PPP), PAT is expected at ₹ 67.8 crore, up 3.9% YoY, owing to higher trading income in Q1FY18

Source: Company, ICICI Direct Research

Exhibit 18: Company specific view contd. (Banks)

Federal Bank	Federal Bank's healthy credit growth trend of ~23% YoY to ₹ 93858 crore would continue in Q1FY19E. This would be led by retail & SME segments. With NIM estimated to be stable QoQ at ~3.1% levels, NII is expected to increase by 15.7% YoY to ₹ 926 crore. Slippages & provisions are expected to be lower QoQ, as accelerated recognition of stressed assets on account of a revised framework was done in Q4FY18. Expect PAT of ₹ 202 crore in Q1FY19
Jammu & Kashmir Bank	For J&K Bank, operational performance is expected to remain muted, however, provision writeback is seen to provide support to bottom-line. NII is expected at ₹ 692 crore; -3% YoY, owing to interest reversal on rehabilated accounts at ₹ 102.6 crore. Rise in G-sec yields and absence of higher miscellaneous income, as seen in Q4FY18, is seen to keep non-interest income growth subdued at ~7% YoY. Muted NII and other income is expected to lead to ~26% YoY de-growth in PPP. Credit cost is seen to decline 44% YoY, owing to write-back of ~₹ 108 crore from resolution of Bhushan Steel (exposure of ₹ 830 crore). Led by lower provision, PAT is seen at ₹ 81 crore; up 169% YoY and 186% QoQ. Recovery from NCLT account and seasonality will keep balance sheet growth muted on a sequential basis. With AQR from RBI been completed and resolution of stressed account asset quality is seen to remain stable. Exposure to rehabilated account at ~₹ 4000 crore continues to remain under watch.
Kotak Mahindra Bank	Healthy traction in business along with prudent asset quality is seen to continue. Operational performance is seen to remain healthy with NII growth at 18.6% YoY. Hike in MCLR (1 year MCLR revised 20 bps to 8.9%) to support margins, though full impact to be seen from Q3FY19 onwards. Northwards movement of ~50 bps in G-sec yield to keep provision on investment higher, however, overall credit cost is seen at ~15 bps or 12.2% of PPP. Advances growth to remain robust at 22% YoY to ₹ 173678 crore, led by retail and small business segment. Customer addition in '811' to continue and enable building liability franchise. Asset quality to remain resilient with GNPA stable at 2.3%
Yes Bank	Healthy traction in business growth as well as profitability is expected to continue. Advances growth is seen to remain robust at 49.8% YoY to ₹ 209640 crore; growth in retail segment is expected more than 100%, however, corporate segment is seen to contribute major proportion. Healthy growth at 23.8% YoY in NII and 20.4% YoY in non-interest income to keep operational performance ahead. With steady slippages and lower proportion of stressed assets, credit cost is seen at ~17 bps (17% of PPP). Therefore, earnings trajectory is seen to remain healthy at 27% YoY to ₹ 1229 crore. Resolution of Bhushan Steel (with exposure of ₹ 325 crore) is seen to lead to write back of₹ 42 crore
IndusInd Bank	We expect Indusind Bank to continue to report healthy operational performance vs. peers. Credit traction estimated to be healthy at 26% YoY to ₹ 146727 crore led by both corporate & consumer segments. Within consumer, CV financing, credit cards & personal loans would continue with healthy growth. With NIMs estimated strong at~3.8-4% levels, healthy NII increase of 20.5% YoY to ₹ 2137 crore is expected. Asset quality in Q1FY19E expected to be under control with GNPA ratio ~1.1% levels. PAT of ₹ 1029 crore (up 23% YoY) is expected.
Bandhan Bank	Bandhan Bank is expected to continue to report healthy set of numbers. Business traction expected to be robust with both AUM and deposits increasing by >30 % YoY in Q1FY19E. The growth in AUM would continue to be led micro finance segment which accounts for ~85% of the AUM. Margins would stay strong at 9-10% levels. NII growth of 24.6% YoY to ₹ 806 crore is estimated. Asset quality to remain under control with GNPA ratio at ~1.3% levels. PAT of ~ ₹ 355 crore is estimated, up 20% YoY

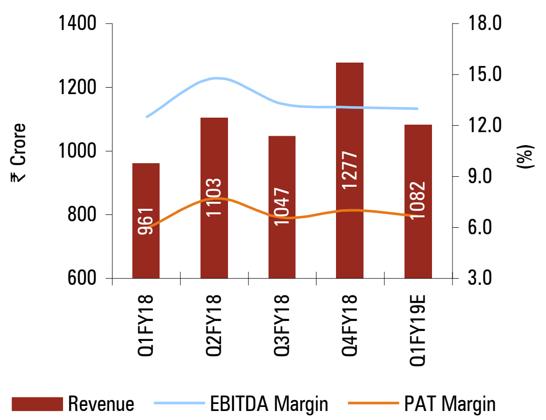
Source: Company, ICICI Direct Research

Exhibit 19: Company specific view (NBFCs)

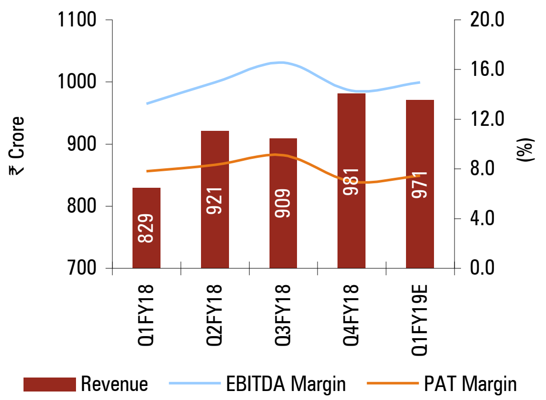
LIC Housing Finance	For LIC HF, we expect advances growth of ~15% YoY (₹ 169109 crore) to be maintained. Individual home loans (~95% of the portfolio) are also expected to increase 13.6% YoY while developer loans traction is expected to be at higher rate YoY. Margins, which had risen to ~3%, have fallen back to <2.5% levels in FY18 owing to a rise in NPAs. We expect GNPA to be higher than 0.78% levels seen in Q4FY18. Thus, we estimate NIMs at ~2.4% levels vs. 2.49% seen in Q4FY18. PAT growth of 7.2% YoY to ₹ 504 crore is estimated
Reliance Capital	Reliance capital total income not comparable as AMC was consolidated in Q1FY18 and is an associate in Q1FY19. Total revenues seen at ₹4776 crore. With markets underperformance, AUM growth has moderated in the system and expect same for AMC, with PAT at around ₹125 crore, up 23% YoY. Housing finance AUM to grow 30% YoY to ₹17000 crore with PBT seen at ~ ₹100 crore. Overall a normal quarter with PAT seen at ₹ 316 crore with no major capital gains. Inflow of funds from overseas listing of a gaming entity by ADAG group can result in reduction of debt (~₹1000 crore) for Reliance Capital. However, as this is the first quarter of IND AS and provisions in finance subsidiaries can vary due to ECL (expected credit loss). AFS and HFT investments at MTM and income changes due to amortization of certain fee based incomes and expenses can impact the final profit numbers.
Bajaj Finance	For Bajaj Finance, Q1 and Q3 are seasonally strong quarters in terms of asset growth. We expect AUM to increase by 37% YoY to ₹ 94093 crore led by the consumer finance segment and in that mainly aided by the consumer durable segment. Calculated NIMs are expected at >11% levels. No negative surprise is expected on the asset quality front. PAT of ₹ 869 crore is estimated, up 44% YoY. IND AS would have impact on other income & provisioning number as it will be the first quarter of implementation.
Bajaj Finserv	Bajaj Finserv's consolidated revenue is seen to grow at heatlhy pace of 27% YoY, led by continued healthy traction in lending AUM at 37% YoY. General insurance premium growth is expected to remain healthy at 22% YoY, led by traction in health insurance. With steady renewal and focus on individual new business, life insurance premium growth on YoY basis is seen at 15%. On profitability front, finance business PBT is seen to remain robust at 42% YoY to ₹ 1337 crore. With combined ratio expected to continue below 100%, general insurance earnings is expected to remain healthy at 13.9% YoY, while life insurance profitability is seen to remain under pressure. Consequently, overall PAT is expected to grow at 30% YoY to ₹ 852 crore
SBI Life Insurance	Expect net premium income growth at 25% YoY to ₹ 4733 crore led by steady renewals and growth in single premium. Growth in single premium is expected at 16.9% YoY vs 13.1% YoY in regular premium. Therefore, APE growth is seen at ~13.3% YoY. Healthy renewals at ~85% is seen to support overall revenue momentum. Expect opex ratio to improve YoY at 8.2%. Policyholders Surplus seen at ₹ 297 crore supported by steady growth in APE and managed expense ratios. Shareholders PAT seen to grow at 12% YoY to ₹ 351 crore.

Source: Company, ICICI Direct Research

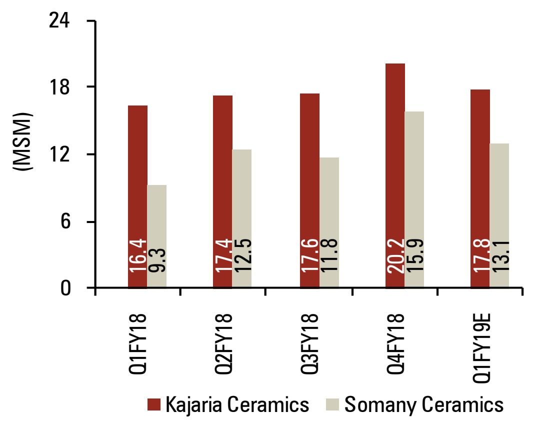
Topline & Profitability (Tiles universe)



Topline & Profitability (Plywood universe)



Sales volume trend (Tiles universe)



Research Analyst

Deepak Purswani, CFA
deepak.purswani@icicisecurities.com

Vaibhav Shah
vaibhav.shah@icicisecurities.com

Building materials

E-way bill implementation to benefit over longer term…

It has been a year since GST implementation started. However, the anticipated shift from unorganised to organised segment has not played out due to a delay in implementation of the e-way bill. With the rollout of inter-state e-way bill from April, 2018 & intra-state e-way bill from June, 2018, we believe compliance should improve. This would enable faster movement from unorganised to organised players. Also, the real estate demand environment is expected to improve led by affordable housing segment. For Q1FY19E, we expect our building material universe topline to grow 13.6% YoY to ₹ 2033.9 crore.

Gujarat High Court asks GPCB to stop Morbi's coal gasifiers...

A division bench of the Gujarat High Court has directed Gujarat Pollution Control Board (GPCB) to take appropriate action against ceramic units who use coal gasifiers particularly those using Type-B gasifiers in violation of norms and consent terms. The court said the move was necessary to ensure that no further damage is caused to the environment by such ceramic industries in Morbi and Wankaner. Around 60-70% of ceramic tiles manufacturers in Morbi use coal gasifiers. Hence, post this ruling, they may have to shift to natural gas, which may take some switching time. Eventually it would lead to price hike for all tiles players in coming quarters. Meanwhile, organised players like Somany and Kajaria, whose plants are all gas based, are well placed to capture the incremental opportunity.

Tiles universe revenues expected to grow 12.6% YoY...

Our tiles universe is expected to post volume growth of 20.2% YoY to 30.9 MSM mainly led by 40.1% volume growth of Somany Ceramics due to low base impact. Consequently, revenues are expected to grow 12.6% YoY to ₹ 1081.7 crore. Furthermore, we expect EBITDA margins to expand 30 bps YoY to 12.8%. Hence, we expect the bottomline to de-grow 23.9% YoY to ₹ 70.6 crore.

Plywood universe revenues expected to grow 14.9% YoY...

With Century's revenues expected to grow robustly by 24.4% YoY on account of incremental revenues from the new MDF plant, we expect the topline of the plywood universe to grow 14.9% YoY to ₹ 952.2 crore. EBITDA margins are expected to improve 230 bps YoY to 15.5%. However, we expect the PAT of our plywood universe to grow moderately by 7.1% YoY to ₹ 69.3 crore.

Exhibit 20: Estimates for Q1FY19E (Tiles) (₹ crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q1FY19E	YoY	QoQ	Q1FY19E	YoY	QoQ	Q1FY19E	YoY	QoQ
Kajaria Ceramics	646.6	3.0	-13.8	101.5	-2.2	-15.5	51.6	1.3	-21.7
Somany Ceramics	435.1	30.5	-17.4	37.0	128.8	-20.7	19.0	216.1	-19.2
Total	1,081.7	12.6	-15.3	138.4	15.5	-16.9	70.6	23.9	-21.1

Source: Company, ICICI Direct Research

Exhibit 21: Estimates for Q1FY19E (Plywood) (₹ crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q1FY19E	YoY	QoQ	Q1FY19E	YoY	QoQ	Q1FY19E	YoY	QoQ
Century Plyboards	545.5	24.4	0.2	90.4	48.0	8.7	36.8	7.9	3.0
Greenply Industries	406.7	4.2	-7.0	57.0	17.1	-0.2	32.5	6.1	-0.4
Total	952.2	14.9	-3.0	147.4	34.3	5.1	69.3	7.1	1.4

Source: Company, ICICI Direct Research

Major News during Q1FY19

Kajaria Ceramics	Kajaria Ceramics has made an investment up to 8% of paid up equity shares of Clean Solar Power (Jaipur) Pvt Ltd, a wholly-owned subsidiary of Hero Future Energies Pvt Ltd aggregating up to ₹ 2 crore. Clean Solar has informed it is expected to get clearance for its solar power project from the concerned authorities by July, 2018
Greenply Industries	Greenply Industries has commenced commercial production of decorative plywood/decorative veneers at the manufacturing unit at Bamanbore, Gujarat
Somany Ceramics	Somany Ceramics' Amora JV with wall tile capacity of 3.8 MSM has started commercial production
Tiles Sector	Media reports indicate that the Gujarat High court has asked the Gujarat Pollution Control Board to stop Morbi's coal gasifiers. Around 60-70% of 850 tile makers in Morbi use coal gasifiers for tile production

Exhibit 22: Company specific view (Tiles coverage universe)

Company	Remarks
Kajaria Ceramics	We expect Kajaria Ceramics to post moderate sales volume growth of 8.9% YoY to 17.8 million square metre (MSM), given some improvement in the demand scenario and a low base. However, we expect revenues to grow 3% YoY to ₹ 646.6 crore as realisations have softened over the past year with a significant drop in GVT prices post Vibrant Ceramic Expo held in Gujarat last year. Also, with rising fuel costs, we expect EBITDA margins to contract 80 bps to 15.7%. Consequently, the bottomline is expected to post flattish growth of 1.3% YoY to ₹ 51.6 crore
Somany Ceramics	We expect Somany to post exceptional volume growth of 40.1% YoY to 13.1 MSM given the lower base. Volumes in base quarter were impacted on account of de-stocking at dealer's level amid GST implementation and SAP implementation in the company. Hence, revenues are also expected to grow strongly by 30.6% to ₹ 431.4 crore. Also, EBITDA margins are expected to expand 370 bps YoY to 8.5%. Consequently, we expect PAT to triple to ₹ 19.0 crore, given the strong topline growth and margin expansion

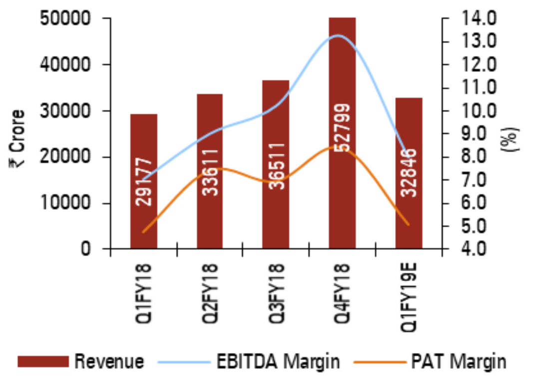
Source: Company, ICICI Direct Research

Exhibit 23: Company specific view (Plywood coverage universe)

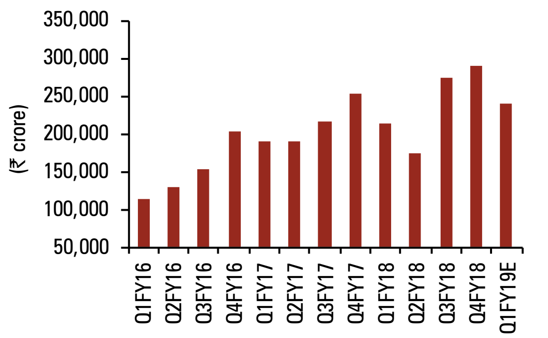
Company	Remarks
Century Plyboard	With incremental contribution from MDF division, which commenced operations in Q3FY18, we expect the topline to grow robustly by 24.4% YoY to ₹ 545.5 crore. We expect MDF division to operate at 70% capacity utilisation and clock revenues of ₹ 71.3 crore. Plywood & allied division revenues are expected to grow 4.3% YoY at ₹ 330.8 crore. Furthermore, we expect laminate revenues to grow robustly by 26.8% YoY to ₹ 99.5 crore given the lower base. Further, we expect EBITDA margins to expand 260 bps YoY to 16.6% with high margin MDF division contributing to revenues. However, the bottomline is expected to grow at a slower pace of 7.9% YoY to ₹ 36.8 crore given the higher depreciation and interest expenses with commissioning of new MDF unit
Greenply Industries	The topline is expected to grow moderately by 4.2% YoY to ₹ 406.7 crore as its MDF division revenues are expected to contract 10.5% YoY to ₹ 116.7 crore given the high base effect. On a positive note, plywood division revenues are expected to grow 14.5% YoY to ₹ 290.0 crore. We expect EBITDA margins to expand 150 bps YoY to 14.0%. Given the sluggish topline growth, we expect the bottomline to grow 6.1% YoY to ₹ 32.5 crore

Source: Company, ICICI Direct Research

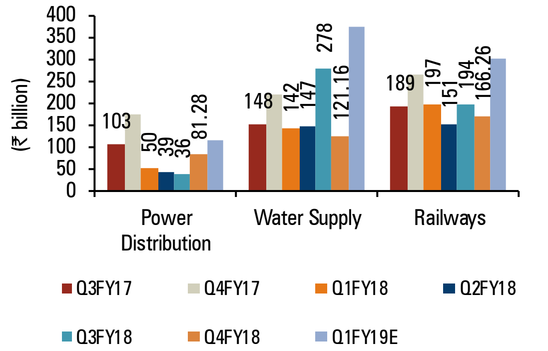
Topline & Profitability (Coverage universe)



Trend in quarterly tenders (both govt.+private players)



Trend in segment wise tenders



Top pick of the sector

L&T
Kalpataru Power
NRB Bearings

Analyst

Chirag Shah
shah.chirag@icicisecurities.com

Sagar Gandhi
sagar.gandhi@icicisecurities.com

Amit Anwani
amit.anwani@icicisecurities.com

Capital Goods

L&T, Bhel lead strong order inflows in Q1FY19E

Q1FY19E has been a strong quarter for the capital goods universe with robust order wins across segments. Coverage companies (Bhel, KEC, KPTL, L&T, Thermax) registered strong order inflows worth ₹ 40105 crore with YoY growth of 28% led by order uptake in L&T and Bhel. L&T has secured orders worth ₹ 29197 crore led by ₹ 7748 crore in water and effluent business, ₹ 4500 crore in hydrocarbon and rest in various segment across construction business. Bhel received robust orders worth ₹ 6198 crore in Q1FY19E including one large order of ₹ 4400 crore for 660 MW of super critical thermal power plant in UP. Power T&D companies maintained their consistency by continuing their order wins. KEC, Kalpataru bagged orders worth ₹ 1392 crore and ₹ 2699 crore, respectively. Thermax managed to receive orders worth ₹ 619 crore. The order inflows remained strong across railways electrification and infra, power, irrigation and hydrocarbon segments.

Revenue to grow 11.6% with PAT to grow 14.9%

Overall, the coverage universe revenue is expected to grow 11.6% YoY owing to stable execution by power T&D companies like KEC, Thermax and Kalpataru Power. EBITDA for coverage universe is expected to grow 22.4% with some margin expansion whereas PAT is expected to grow 14.9%.

EPC companies expected to report strong growth

Power T&D EPC companies are expected to report strong revenue growth with KEC, Kalpataru, Thermax expected to report 19.4% collectively. PAT for these companies is also expected to register strong growth 37.7% led by financial leverage gains and pick up in order executions. In terms of individual performance, L&T is likely to report a modest performance with revenue expected to grow 8.8% and margins expected to remain stable. Thermax is expected to report a strong performance with revenue, PAT expected to grow 20.0%, 75.9%, respectively. Bhel's revenue is expected to grow 11.1% but operating performance is still a major concern.

Companies like Bharat Electronics, Cochin Shipyard, Engineers India and VA Tech Wabag are likely to report topline growth of 11-19% for the quarter. Q1 being a seasonally weak quarter for capital goods companies, we expect muted EBITDA margins (BEL and VA Tech Wabag) or stable margins (EIL and CSL) for the quarter.

Product companies, especially bearing to post robust performance

Bearings companies like SKF, Timken and NRB are likely to report strong double digit topline growth of 12-18% due to robust (production) volume growth of ~15%, ~60%, and ~15% in passenger vehicles, commercial vehicles and two-wheeler segments, respectively, amid low base. We also expect EBITDA margins to inch up YoY due to improving utilisation and pass-through in commodity prices in the quarter. Companies like AIA Engineering are expected to report strong revenue, PAT growth of 19.3%, 20.2%, respectively, led by expected strong growth in sales volume growth and net realisation in mining segment. Greaves Cotton is expected to report revenue, PAT growth of 13.6%, 17.5%, respectively, backed by volume growth amid low base pickup in 3-W segment with OEM customers.

Interest expense is expected to increase 4.7% in Q1FY19E. Interest rates may harden in coming quarters as rising input cost and focus on execution are likely to increase the working capital cycle.

Exhibit 24: Estimates for Q1FY19E (Capital Goods) (₹ Crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q1FY19E	YoY	QoQ	Q1FY19E	YoY	QoQ	Q1FY19E	YoY	QoQ
AIA Engineering	680.1	19.3	-8.6	152.4	17.9	-8.2	105.4	20.0	-30.6
Bharat Electronics	1,943.8	12.7	-46.1	185.3	13.5	-76.7	137.2	9.4	-75.5
BHEL	6,078.2	10.4	-40.1	39.9	LP	-96.8	79.0	-2.3	-82.8
Cochin Shipyard Ltd	643.6	15.7	7.2	131.4	15.2	14.2	111.7	22.5	21.9
Engineers India Ltd	444.9	18.5	-12.7	89.0	8.9	54.7	87.7	7.8	27.2
Greaves Cotton	461.4	13.6	9.2	66.6	20.4	18.2	48.4	17.6	11.2
Grindwell Norton	387.3	14.7	1.0	61.9	19.2	-14.8	36.7	22.2	-16.6
Kalpataru Power	1,438.9	23.0	-25.5	164.0	19.5	-21.6	85.0	20.7	-18.9
KEC Internnational	2,169.7	16.9	-40.8	206.1	16.9	-44.3	86.5	37.3	-55.9
KSB Pumps	244.8	16.4	15.2	29.4	23.4	46.3	14.7	-4.7	31.3
L&T	15,162.3	8.8	-43.7	1,076.5	11.5	-68.9	613.3	9.9	-74.9
NRB Bearings	210.1	17.3	-10.7	36.2	32.2	-14.0	16.2	27.8	-38.5
SKF India	750.7	12.6	6.7	113.0	20.7	6.5	76.9	19.7	7.5
Thermax Ltd	855.9	20.0	-34.7	72.7	69.5	-51.5	57.0	75.7	-33.5
Timken India	340.7	13.6	-1.3	48.6	14.7	5.6	25.2	14.8	6.2
Va Tech Wabag	747.6	11.8	-27.9	46.4	10.8	-51.1	11.0	11.1	-82.3
Total	32,560.0	11.6	-38.3	2,519.5	22.4	-64.0	1,592.0	14.9	-64.2

Source: Company, ICICI Direct Research

Exhibit 25: Company specific view : Capital Goods

Company	Remarks
AIA Engineering	In Q1FY19E, we expect AIA Engineering to report volume growth of 10.8% to 61695 tonnes on a YoY basis, mainly led by a ramp up in the mining segment. We expect realisation per tonne to improve 7.4% YoY to ₹ 107000 per tonne during the quarter on account of a change in the product mix and favourable exchange rate. As a result, revenues are expected to grow 19.3% to ₹ 680.1 crore. EBITDA margins are expected to remain muted on a YoY basis at 22.4%. Consequently, PAT is expected to grow 20% to ₹ 105.4 crore
Bharat Electronics	We expect BEL to report topline growth of 12.7% YoY to ₹ 1943.8 crore on the back of continued execution of orders like electronic voting machines, voter verifiable paper audit trail, integrated air command and control system, L70 gun upgrade, etc. However, the first quarter being a seasonally weak quarter, EBITDA margins are expected at 9.5% during the quarter. PAT for the quarter is likely to grow 9.4% YoY to ₹ 137.2 crore due to declining other income of the company (cash balance at ₹ 739 crore in March 18)
Bhel	In Q1FY19E, Bhel managed to bag orders worth ₹ 6198 crore including 660 MW super critical thermal plant order worth ₹ 4400 crore in UP and order worth ₹ 1000 crore for emission control equipment from TNGENCO. Revenues are expected to grow 10.4% to ₹ 6078.2 crore. EBITDA margin is expected at 0.7% as structural changes in power segment are expected to pose challenges for Bhel. PAT is expected at ₹ 79 crore mainly due to increased effective tax rate to 34%.
Cochin Shipyard	We expect CSL to report revenue of ₹ 643.6 crore, up 15.7% YoY on the back of continued execution of orders like IAC (Phase II), passenger cum cargo vessels, technology demonstrator vessel, etc. We also expect healthy EBITDA margins of 20.4% vs. 20.5% YoY on account of a stable mix in shipbuilding and ship repair booking during the quarter. Thus, EBITDA is likely to grow 15.2% YoY. PAT is expected to grow 22.5% YoY to ₹ 111.7 crore due to higher other income (expected to grow 28.8%YoY) during the quarter
Engineers India	We expect EIL to report topline growth of 18.5% YoY to ₹ 444.9 crore on the back of higher execution in the turnkey segment. EBITDA margins are expected at 20% vs. 21.8% YoY. Decline in margins is expected due to increasing proportion of turnkey revenue to the overall business (order backlog break-up: consultancy 53%, turnkey 47%). Thus, EBITDA is likely to grow 8.9% YoY to ₹ 89 crore. PAT is expected to grow at 7.8% YoY to ₹ 87.7 crore
Greaves Cotton	For Q1FY19E, we expect Greaves Cotton to report better-than-expected volume growth in the auto segment due to the expected better performance by its OEM customers in 3W (passenger and goods segment) while non-auto segment is likely to post reasonable growth. Auto segment market share is expected to inch up on the back on recovering 3W volumes in Q1FY19. Revenues are expected to grow 13.6% on YoY to ₹ 461.4 crore. EBITDA margins are expected to improve 80 bps to 14.4%. PAT is expected to grow 17.6% YoY to ₹ 48.4 crore whereas PAT margin is expected to improve 40 bps to 10.5%
Grindwell Norton	GNL is expected to report topline growth of 14.7% YoY to ₹ 387.3 crore on the back of expected growth of 13% and 17% in abrasive and ceramic segment, respectively. EBITDA margins are expected at 16% vs. 15.4% YoY due to improving utilisation in the ceramic and new initiative segment of the business. Accordingly, EBITDA and PAT are expected to grow 19.2% YoY and 22.2% YoY respectively. We expect absolute PAT of ₹ 36.7 crore for the quarter
Kalpataru Power	KPTL received better-than-expected order inflows worth ₹ 2699 crore for Q1FY19E, which includes ₹ 1018 crore worth order in T&D, ₹ 732 crore in pipeline and ₹ 948 crore in railway infra and electrification. KPTL is expected to report strong Q1FY19E performance with revenues likely to grow 23% to ₹ 1438.9 crore driven by strong order inflows and execution in railway infra and pipeline segment. EBITDA margins are expected to marginally decline 30 bps to 11.4%, PAT margin is expected to remain stable at 5.9%

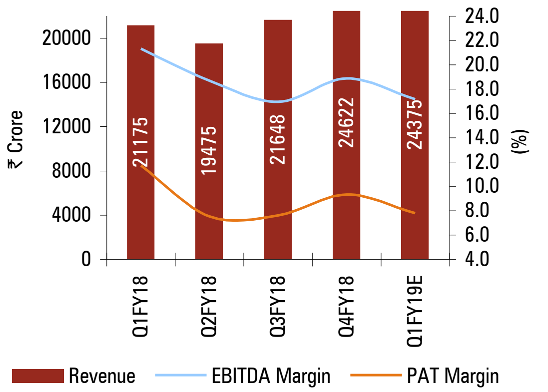
Source: Company, ICICI Direct Research

Exhibit 26: Company specific view : Capital Goods (Continued)

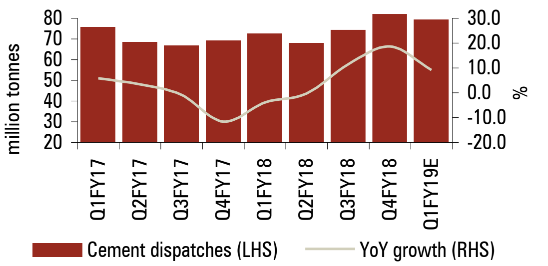
KEC International	During Q1FY19E, KEC received orders worth ₹ 1392 crore. We expect revenues to grow 16.9% to ₹ 2169.7 crore led by better order execution in key segments. EBITDA is expected to grow 16.9% to ₹ 206.1 crore with EBITDA margin expected to remain stable at 9.5%. PAT is expected to grow 37.3% to ₹ 86.5 crore with PAT margin of 4.0%, an improvement of 60bps on a YoY basis
KSB Pumps	KSB Pumps is expected to post operationally healthy performance in Q2CY18 primarily tracking new capacity in place and spill over orders from power sector from last quarter. Pump segment sales are expected at ₹ 204 crore (up 14.4% YoY) while valves segment sales are expected at ₹ 41 crore (up 25.9% YoY). At the EBITDA level, we expect operating leverage benefits to kick in with 70 bps expansion in EBITDA margins to 12.0% for the quarter. For Q2CY18, EBITDA is expected at ₹ 29.4 crore while PAT is expected at ₹ 14.7 crore, down 4.5% YoY. PAT for the quarter looks optically lower on account of lower other income and higher depreciation charge
L&T	L&T has announced healthy order inflows of ₹ 29197 crore during Q1FY19E which includes ₹ 4500 crore in hydrocarbon, ₹ 2987 crore in power segment, ₹ 7748 crore in water & effluent treatment segment and rest in various segment across construction business. We expect L&T's revenues to grow 8.8% on a YoY basis to ₹ 15162.3 crore on a standalone basis owing to reasonable execution rate. EBITDA margin is expected to improve marginally by 20 bps to 7.1%. Consequently, we expect PAT margins to remain stable at 4.0%
NRB Bearings	NRB is expected to report robust topline growth of 17.3% YoY to ₹ 210.1 crore, on the back of strong volume growth of ~15% and ~60% in two-wheeler and commercial vehicle segment, respectively. EBITDA margins are expected higher at 17.3% vs. 15.3% YoY due to pass through in input prices and improving utilisations for the quarter. Accordingly, EBITDA and PAT are expected to grow 27.8% YoY and 31.7% YoY, respectively. We expect absolute PAT of ₹ 16.2 crore for the quarter
SKF India	SKF is expected to deliver robust revenue growth of 12.6% YoY to ₹ 750.7 crore on the back of strong volume growth of ~15%, ~65% and ~15% in the two-wheeler, commercial vehicle and passenger segment, respectively. Higher utilisation in the automotive segment coupled with stable growth in the industrial segment (~11%) is likely to help SKF post strong EBITDA margins of 15.1% vs. 14% YoY. Accordingly, EBITDA and PAT are likely to witness healthy growth of 20.7% YoY and 19.7% YoY. We expect absolute PAT of ₹ 76.9 crore for the quarter
Thermax	Thermax has received orders worth ₹ 619 crore during Q1FY19E, which includes ₹ 279 crore for captive cogeneration plant and ₹ 340 crore for specially designed boiler and turbo generator. In terms of financial performance, we expect revenue to grow 20% to ₹ 855.9 crore. We expect EBITDA margins to improve 250 bps to 8.5% on a YoY basis owing to an expected pick-up in execution. PAT margin is also expected to improve 210 bps to 6.7%. PAT is expected at ₹ 57.0 crore
Timken India	We expect Timken to report revenue growth of 13.6% YoY to ₹ 340.7 crore on the back of a strong domestic performance. This is on the back of robust growth of ~112.3% in the M&HCV segment in Q1FY19. Exports are also likely to witness robust growth of ~15% YoY. EBITDA margins are expected higher at 14.3% vs. 14.1% YoY due to improving utilisation at its Jamshedpur facility. Accordingly, absolute EBITDA is likely to witness growth of 14.7% YoY. PAT is expected to increase 14.8% YoY to ₹ 25.2 crore
VA Tech Wabag	Wabag is expected to report topline growth of 11.8% YoY to ₹ 747.6 crore on the back of continued execution in both domestic and overseas orders. First quarter being a seasonally weak quarter, Wabag is likely to report EBITDA margins of 6.2%. Absolute EBITDA is likely to grow 10.8% YoY to ₹ 46.4 crore. We expect PAT to grow 11.1% to ₹ 11 crore for the quarter

Source: Company, ICICI Direct Research

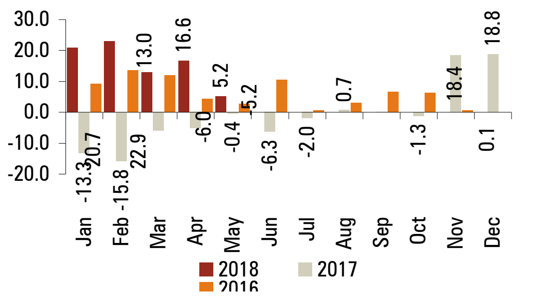
Topline & Profitability (Coverage universe)



All-India quarterly cement dispatches



Monthly production growth YoY (%) – Till May 2018



Top pick of the sector

UltraTech Cement
Heidelberg Cement India

Research Analyst

Rashesh Shah
rashes.shah@icicisecurities.com

Devang Bhatt
devang.bhatt@icicisecurities.com

Cement

Organic cement growth to remain muted….

Volume growth under our coverage universe looks optically higher (up 16.2% YoY) mainly due to ramp up in capacity utilisation of Jaypee (17.1 mt acquired by Ultratech) and capacity expansion in Rajasthan (3.6 mt) and Bihar (2 mt) by Shree Cement. However, on an organic basis volume growth is expected to remain in single digit (up 6.5% YoY). We believe the majority of this organic growth will be coming from higher sales to non trade segment. Region-wise, north, south and west are expected to witness volume growth mainly led by higher infra spending and improved availability of sand in Uttar Pradesh & Tamil Nadu. In eastern markets, improved demand in low cost housing & individual house builders are expected to be key catalysts for cement growth.

… higher share from non-trade segment to keep pricing under pressure

As per our channel check, realisation at the pan-India level, has declined 3.5% YoY to ₹ 317/bag. The fall in pan-India realisation was mainly due to pricing pressure in north (down 7.0% YoY), east (down 6.2% YoY) and south (7.3% YoY). However, the fall in pricing has been relatively lower in the western and central regions due to the low base of the previous year. Consequently, we expect companies in our coverage universe to report 1.1% YoY decline in realisation to ₹ 4,748/t.

Improving sand availability in central region, Jaypee acquisition to drive Heidelberg, UltraTech topline

Our coverage universe is expected to report 15.1% YoY increase in cement revenues led by 16.2% YoY increase in volumes. Company wise, we expect UltraTech to report volume growth of 29.8% YoY mainly due to acquisition of Jaiprakash Associate. Further, Shree Cement is expected to register volume growth of 18.9% YoY mainly led by capacity expansion. In addition, the low base of last year and higher demand in the central region is expected to drive Heidelberg's revenues (up 11.2% YoY) in Q1FY19E. The bottomline of our universe is expected to decline 23.6% YoY to ₹ 1,895.6 crore led by lower operating margins and higher interest expenses.

Higher input cost to dent EBITDA/t

Higher pet coke prices (up 15% YoY) and rise in diesel prices (up ~20% YoY) is expected to dent EBITDA/t by 150-200/t. Hence, EBITDA/t is expected to decline by 20.7% YoY to ₹ 817/t.

Exhibit 1: Estimates for Q1FY19E (₹ Crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q1FY19E	YoY	QoQ	Q1FY19E	YoY	QoQ	Q1FY19E	YoY	QoQ
ACC ^	3,559.1	7.4	-4.7	423.0	-14.6	-10.6	262.8	-18.3	-1.3
Ambuja ^	2,953.6	3.3	1.1	503.8	-22.6	-7.6	283.3	-27.8	-6.2
Heidelberg	479.9	11.2	-5.3	77.5	34.8	-10.7	32.1	96.9	-10.3
India Cement *	1,377.0	-5.8	1.2	150.4	-19.0	-29.5	14.3	-46.0	-71.5
JK Cement	1,097.1	5.3	-12.2	149.1	-24.6	-28.6	43.8	-45	-55
JK Laxmi Cement	954.1	5.9	-6.6	105.2	-12.5	-19.7	21.0	-25.6	-48.0
Mangalam Cement	269.1	6.5	-7.4	9.0	-77.0	-76.1	-5.6	PL	PL
Ramco Cements	1,178.9	14.6	-2.3	261.1	-10.1	-7.2	123.1	-21.0	-12.5
Sagar Cements	271.6	4.9	-7.9	34.6	-18.6	-10.8	4.5	-54.4	-4.0
Shree Cement *	3,016.5	17.3	10.0	662.2	-7.2	-8.0	353.1	-19.8	-21.0
Star Cement	466.2	8.8	0.4	126.2	-20.6	-20.9	71.6	-33.4	-30.6
UltraTech Cem	8,752.2	32.1	-0.9	1,677.4	7.5	-4.0	691.6	-22.3	-11.8
Total	24,375.2	15.1	-1.0	4,179.4	-7.4	-10.0	1,895.6	-23.6	-17.2

Source: Company, ICICI Direct Research ^Q2CY18 result

Sales volume (Coverage Universe)

Million tonnes	Q1FY19E	Q1FY18	YoY (%)	Q4FY18	QoQ (%)
ACC	7.2	6.7	6.1	7.1	0.6
Ambuja	6.4	6.1	5.5	6.2	2.7
UltraTech*	17.1	13.2	29.8	17.6	-2.9
Shree Cem	7.0	5.9	18.9	6.4	8.7
India Cem	3.1	2.7	14.9	3.1	-1.2
JK Cement*	2.3	2.1	9.6	2.7	-15.9
JK Lakshmi	2.4	2.3	4.7	2.2	7.0
Mangalam	0.7	0.6	11.1	0.8	-10.8
Heidelberg	1.2	1.1	5.5	1.3	-8.7
Star Cement	0.7	0.7	3.3	0.8	-8.7
Ramco Cement	2.5	2.2	17.5	2.7	-7.7
Sagar Cement	0.75	0.6	19.1	0.8	-6.5
Total	51.3	44.1	16.2	51.8	-1.1

** blended sales volume (grey & white)*

Region-wise cement retail prices

₹/50 kg bag	Q1FY19	Q1FY18	YoY (%)	Q4FY18	QoQ (%)
North	275	296	-7.0	277	-0.8
East	247	263	-6.2	251	-1.6
South	357	385	-7.3	362	-1.5
West	321	324	-1.0	310	3.4
Central	300	309	-3.0	299	0.1
North East	402	394	2.0	388	3.6
Average	317	328	-3.5	315	0.7

Cement Realisations (Coverage Universe)

₹ per tonne	Q1FY19E	Q1FY18	YoY (%)	Q4FY18	QoQ (%)
ACC	4978	4915	1.3	5003	-0.5
Ambuja	4625	4727	-2.2	4602	0.5
UltraTech	5109	5020	1.8	5103	0.1
Shree Cem	4131	4205	-1.8	4160	-0.7
India Cem ^	4465	5452	-18.1	4510	-1.0
JK Cement*	4794	4988	-3.9	4838	-0.9
JK Lakshmi	3994	3949	1.2	4019	-0.6
Mangalam	3844	4009	-4.1	3875	-0.8
Heidelberg	4137	3922	5.5	4137	0.0
Star Cement	6384	6052	5.5	6560	-2.7
Ramco Cement	4515	4607	-2.0	4571	-1.2
Sagar Cement	3644	4136	-11.9	3700	-1.5
Average	4748	4802	-1.1	4770	-0.5

** Blended realisations (grey cement +white cement), ^ including excise duty in Q1FY18*

EBITDA per tonne (Coverage Universe)

₹ per tonne	Q1FY19E	Q1FY18	YoY (%)	Q4FY18	QoQ (%)
ACC	592	735	-19.5	597	-0.9
Ambuja	789	1076	-26.7	815	-3.2
UltraTech*	979	1182	-17.2	965	1.4
Shree Cem	927	1214	-23.6	956	-3.0
India Cem	493	699	-29.5	513	-4.0
JK Cement*	652	947	-31.2	669	-2.6
JK Lakshmi	441	527	-16.4	454	-2.9
Mangalam	129	621	-79.3	148	-13.3
Heidelberg	668	522	27.8	900	-25.8
Star Cement	1724	2243	-23.1	1836	-6.1
Ramco Cement ^	1033	1351	-23.5	995	3.9
Sagar Cement	464	679	-31.6	486	-4.6
Average	817	1029	-20.7	825	-1.0

**blended (grey + white), ^Blended (Cement +Power)*

Exhibit 2: Company specific view

Company	Remarks
ACC	Improving demand in East (accounts for 27% of ACC's capacity) and low base in south (accounts for 30% of ACC's capacity) are expected to drive cement volumes (up 6.1% YoY) in Q1FY19. However, higher power & freight cost is expected to dent EBITDA/t (down 19.5% YoY) in the quarter. In addition, net profit is expected to decline 18.3% YoY mainly led by lower other income
Ambuja Cement	Higher infra spend in the company's area of operation is expected to drive Ambuja's volume (up 5.5% YoY) in Q1FY19E. However, pricing decline of 2.2% YoY is expected to limit topline growth to 3.3% YoY to ₹ 2,953.6 crore. Further, a 10.1% YoY increase in power cost/t and 11.5% YoY rise in freight cost/t is expected to dent EBITDA/t (down 26.7% YoY to ₹ 789) in Q1FY19E. Net profit is expected to fall 27.8% YoY mainly led by lower operating profit
UltraTech Cement	UltraTech Cement is expected to report volume growth of 29.8% YoY in Q1FY19E mainly led by organic growth of 5.0% YoY and acquisition of Jaypee assets (utilisation up from 35% in Q2FY18 to 77.0% in Q1FY19E). Hence, the topline is expected to increase 32.1% YoY to ₹ 8,752.2 crore. However, EBITDA/t is expected to decline 17.2% YoY to ₹ 979/t mainly led by higher pet coke and diesel prices. In addition, PAT is expected to decline 22.3% YoY to ₹ 691.6 crore mainly led by higher interest and depreciation expenses (led by acquisition of Jaypee assets)
Shree Cement	Capacity expansion of 3.6 MT in Rajasthan and 2 MT in Bihar is expected to result in 18.9% YoY increase in cement volumes. As a result, Shree Cement's revenues are expected to increase 17.3% YoY to ₹ 3,016.5 crore. However, blended EBITDA/t is expected to decline 21.9% YoY mainly led by 23.6% YoY decline in cement EBITDA/t partly offset by higher power margins. PAT is expected to fall 19.8% YoY mainly due to higher interest and depreciation expenses
India Cement	India Cement is expected to report 14.9% YoY increase in volumes mainly led by better sand availability in Tamil Nadu and higher infra spending in AP & Telangana regions. However, EBITDA/t is expected to decline 29.5% YoY to ₹ 493/t on account of higher input cost and pricing pressure. PAT is expected to decline 46.0% YoY to ₹ 14.3 crore led by lower operating margins
JK Cement	JK Cement is expected to report 9.6% YoY increase in volumes mainly led by 9.1% YoY growth in grey cement and 13.1% YoY rise in white cement. However, price decline of 3.9% YoY is expected to limit topline growth to 5.3% YoY to 1,097.1 crore in Q1FY19E. Blended EBITDA/t is expected to fall 31.2% YoY mainly led by 60.8% YoY decline in grey cement EBITDA/t. PAT is expected to decline 44.9% YoY due to lower operating margins
JK Lakshmi Cement	JK Lakshmi is expected to report topline growth of 5.9% YoY to ₹ 954.1 crore mainly led by 4.7% YoY growth in volumes (driven by higher infra demand in company's area of operations). However, EBITDA/t is expected to decline 16.4% YoY ₹ 441/t mainly led by 16.8% YoY and 14.7% YoY increase in power cost/t and freight cost/t, respectively. In addition, PAT is expected to decline 25.6% YoY on account of a fall in operating profit
Mangalam Cement	Higher sales to the non trade segment, ramp up in expanded capacity and better sand availability in Uttar Pradesh are expected to drive Mangalam Cement's volumes (up 11.1% YoY) in Q1FY19E. However, higher sales to non-trade segment is expected to result in pricing decline of 4.1% YoY. This coupled with higher input cost is expected to result in a fall in EBITDA/t of 79.3% YoY to ₹ 129/t. Further, the company is expected to report loss at the net level mainly led by lower operating margins and higher depreciation

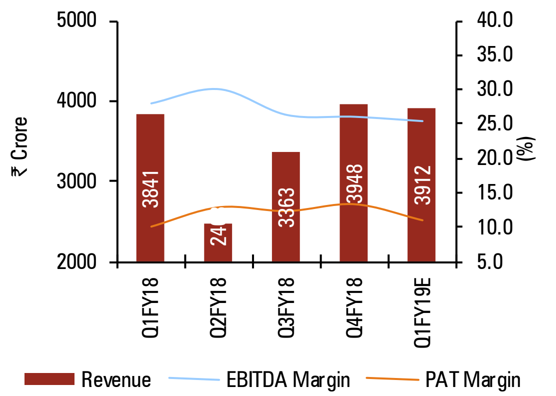
Source: Company, ICICI Direct Research

Exhibit 3: Company specific view

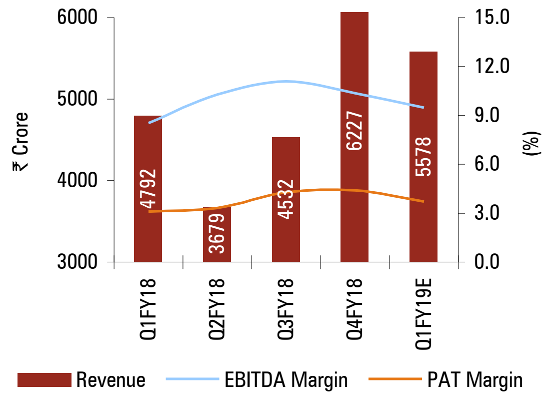
Company	Remarks
Heidelberg Cement	The company is expected to report topline growth of 11.2% YoY to ₹ 479.9 crore mainly led by volume growth of 5.5% YoY (driven by higher retail & infra demand) and 5.5% YoY increase in realisation (due to consolidation in the industry and low base in last year). In addition, EBITDA/t is expected to increase 27.8% YoY on account of power cost rationalisation and low base last year. PAT is expected to increase from ₹ 16.3 crore to ₹ 32.1 crore driven by lower interest expenses
Star Cement	Improving demand in north east and higher pricing is expected to result in topline growth of 8.8% YoY to ₹ 466.2 crore in Q1FY19E. However, EBITDA/t is expected to decline 23.1% YoY to ₹ 1,724/t mainly led by cessation of transport subsidy. Further, higher tax expenses is expected to result in net profit decline of 33.4% YoY
Ramco Cement	Better sand availability in Tamil Nadu and higher sales in eastern region to drive cement volumes (up 17.5% YoY) in Q1FY19E. However, absence of low cost pet coke inventory and higher diesel prices is expected to result in a fall of EBITDA/t by 23.5% YoY to ₹ 1,033/t. PAT is expected to decline 21% YoY mainly led by higher depreciation expenses (up 5.4% YoY)
Sagar Cement	Sagar Cement is expected to report volume growth of 19.1% YoY mainly led by capacity expansion and higher infra demand in the AP and Telangana region. However, pricing pressure (down 11.9% YoY) is expected to result in topline growth of 4.9% YoY to ₹ 271.6 crore. In addition, higher pet coke prices and freight cost are expected to dent EBITDA/t (down 31.6% YoY to ₹ 464/t) in Q1FY19E. Further, PAT is expected to fall 54.4% YoY due to higher depreciation expenses

Source: Company, ICICI Direct Research

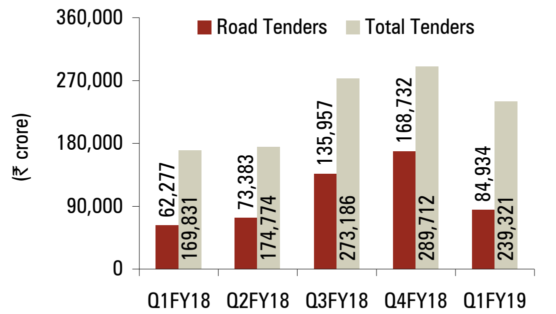
Topline & profitability (Road Coverage)



Topline & profitability (Construction Coverage)



Strong pickup in tendering activity…



Top pick of the sector

NCC, PNC Infratech

Research Analyst

Deepak Purswani, CFA
deepak.purswani@icicisecurities.com

Vaibhav Shah
vaibhav.shah@icicisecurities.com

Construction & Roads

Roads Ministry sets ambitious road construction/awarding targets…

In FY18, the Roads Ministry constructed, awarded a record 10000 km, 17055 km against 8232 km, 15948 km in FY17, respectively, with the construction pace rising from 22.5 km/day in FY17 to 27.5 km/day. The strong awarding pace was led by awarding under the Bharatmala project picking up pace. Given the huge size of the Bharatmala Pariyojana, we believe the awarding should remain robust, going forward. Consequently, the Roads Ministry has set road construction/awarding target of 16420 km/20000 km, respectively, for FY19E. In our view, this strong awarding activity could translate into robust awarding opportunities for various construction players. Key beneficiaries: PNC Infratech, Simplex Infra, Sadbhav Engineering, Ashoka Buildcon & IRB Infrastructure.

Road tendering activity improves significantly in Q1FY19…

On the tendering side, there has been a strong pick-up in the road sector with road tenders growing 36.4% YoY to ₹ 85,000 crore in Q1FY19. This strong tendering activity suggests order inflows could remain robust, going ahead, as well, boding well for our road and construction universe companies. A similar trend has been seen across sectors as overall tenders also grew 40.9% YoY to ₹ 2.4 lakh crore in Q1FY19.

Road universe revenues to remain flattish YoY…

We expect our road universe to report flattish revenue growth of 1.9% YoY to ₹ 3912.1 crore due to 20.9% YoY de-growth in IRB's revenues to ₹ 1437.2 crore in Q1FY19E. Further, revenues of our construction universe are expected to grow 16.1% YoY to ₹ 5563.5 crore led by 19.8% YoY growth in NBCC's topline.

PAT of road universe to grow 11.4% YoY…

Our road universe is expected to post bottom line growth of 11.4% YoY to ₹ 428.9 crore due to 55.3% YoY growth in PNC's bottom line. Our construction universe bottom line is expected to grow robustly by 54.0% YoY to ₹ 228.2 crore due to 73.6% growth in the bottom line of NBCC.

Exhibit 4: Estimates for Q1FY19E (Road) (₹ Crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q1FY19E	YoY	QoQ	Q1FY19E	YoY	QoQ	Q1FY19E	YoY	QoQ
Ashoka Buildcon	865.2	19.7	23.2	108.2	10.9	34.0	75.0	21.1	-28.8
IRB Infra	1,437.2	-20.9	4.0	684.4	-16.3	3.9	246.2	3.5	2.7
PNC Infratech	605.4	69.7	-20.2	81.6	56.8	-49.3	46.4	55.3	-58.4
Sadbhav Eng.	1,004.3	6.3	-9.1	115.5	8.2	-6.9	61.3	10.6	-12.3
Total	3,912.1	1.9	-0.9	989.6	-7.9	-3.4	428.9	11.4	-18.5

Source: Company, ICICI Direct Research

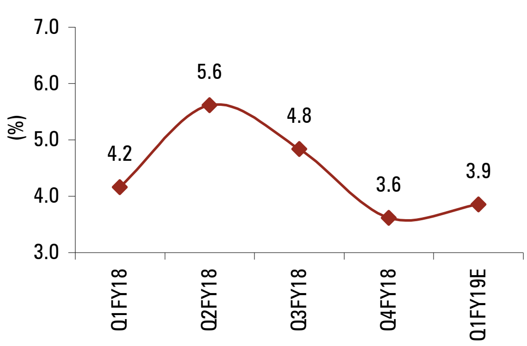
Exhibit 5: Estimates for Q1FY19E (Construction) (₹ Crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q1FY19E	YoY	QoQ	Q1FY19E	YoY	QoQ	Q1FY19E	YoY	QoQ
NBCC	1,517.8	19.8	-30.5	146.9	126.4	-19.1	97.1	73.6	-31.5
NCC	2,377.1	18.0	-0.7	237.7	39.0	-21.9	98.1	54.7	-4.4
Simplex Infra	1,668.6	10.4	1.2	183.5	6.2	15.6	32.9	14.5	12.1
Total	5,563.5	16.1	-10.7	568.2	39.0	-11.9	228.2	54.0	-16.6

Source: Company, ICICI Direct Research

Road Coverage Universe

Interest expense* trend



**Interest Expenses as %age of Sales*

Major news during Q1FY19

Ashoka Buildcon	Ashoka Infrastructure, a subsidiary of Ashoka Buildcon, which executed Pune Shirur road project, has received arbitral award of ₹ 383.8 crore
	Ashoka Buildcon has fixed July 13, 2018 as record date for bonus issue, which is in ratio of 1:2
Sadbhav Engineering	Sadbhav Infrastructure, a subsidiary of Sadbhav Engineering, has reported a 10.7% YoY growth in toll collections for Q4FY18 to ₹ 262.0 crore
	Sadbhav declared successful bidder for mining project (over-burden removal work and other allied activities) for contract value of ₹ 317.1 crore in Chhattisgarh
	Sadbhav Engineering has won HAM project for two laning with paved shoulder of Gadag to Honnali in Karnataka worth ₹ 995 crore
	Sadbhav Engineering has won EPC project for construction of Package 5 of Mumbai Nagpur super expressway worth ₹ 1665 crore with construction period of 2.5 years
	Sadbhav Infrastructure's board has approved allotment of securities up to ₹ 3000 crore
PNC Infratech	Declared lowest bidder for 55.7 km long four laning of Challakere to Hariyur section of NH 150 A under HAM for a bid project cost of ₹ 1157 crore in Karnataka
	The UP government has decided to re-invite bids for Purvanchal Expressway. PNC was lowest bidder for a package worth ₹ 1738.4 crore, which now stands cancelled
Road Sector	Media reports indicate that Roads Ministry has set road construction, awarding target of 16420 km, 20000 km, respectively, for FY19E with total capex programme entailing an investment of ~₹ 2 lakh crore in FY18
	Media reports indicate that the government is eyeing more than $2 billion by placing two more bundles of road projects next month for monetisation under toll, operate and transfer (TOT) model
	Total 13 packages of the Mumbai-Nagpur expressway have been awarded. Three companies from our coverage universe namely:- Sadbhav Engineering, PNC Infratech and NCC have bagged one package each

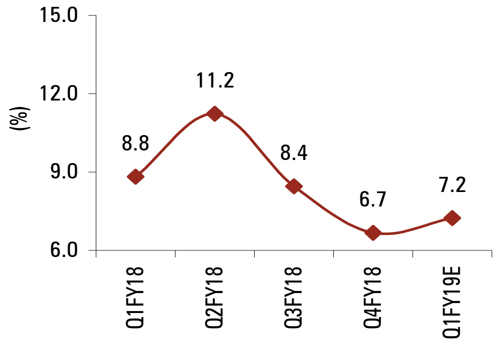
Exhibit 6: Company specific view (Road coverage universe)

Company	Remarks
Ashoka Buildcon	We expect revenue growth of 19.7% YoY to ₹ 865.2 crore led by improved execution. Further more, we expect EBITDA margins to contract 100 bps YoY to 12.5% in line with management guided band of 12.5-13%. On the profitability front, we expect PAT to grow robustly by 21.1% YoY to ₹ 75.0 crore led by strong topline growth. **Key monitorable**: Management guidance on execution ahead
IRB Infrastructure	We expect topline to decline 20.9% YoY to ₹ 1437.2 crore as construction revenues are expected to decline 31.1% YoY to ₹ 910.5 given the high base. With new projects starting tolling, toll revenues are expected to grow 6.2% YoY to ₹ 526.7. Further, we expect EBITDA margins to expand 260 bps YoY to 47.6% as the share of comparatively lower margin construction division has reduced from 72.7% in Q1FY18 to 63.3% in Q1FY19E. The bottomline is expected to grow 3.5% YoY at ₹ 246.2 crore despite topline decline, due to lower depreciation and interest costs following the transfer of seven BOT projects to IRB InVIT. **Key monitorable**: Management guidance on execution
PNC Infratech	Given the receipt of appointed dates of several big ticket projects, we expect the topline to grow significantly by 69.7% YoY to ₹ 605.4 crore. EBITDA margins are expected to contract 110 bps YoY to 13.5%. Consequently, we expect the bottomline to grow 55.3% YoY to ₹ 46.4 crore. **Key monitorable**: Management commentary on HAM projects status
Sadbhav Engineering	We expect the topline to grow moderately by 6.3% YoY to ₹ 1004.3 crore in Q4FY18E given the higher base. Moreover, EBITDA margins are expected to expand 20 bps YoY at 11.5%. Consequently, we expect the bottomline to grow moderately at 10.6% YoY to ₹ 61.3 crore led by moderate topline growth and margin expansion **Key monitorable**: Improvement in execution

Source: Company, ICICI Direct Research

Construction Coverage Universe

De-leveraging on top of mind of construction players…



**Interest Expenses as %age of Sales*

Major news during Q1FY19

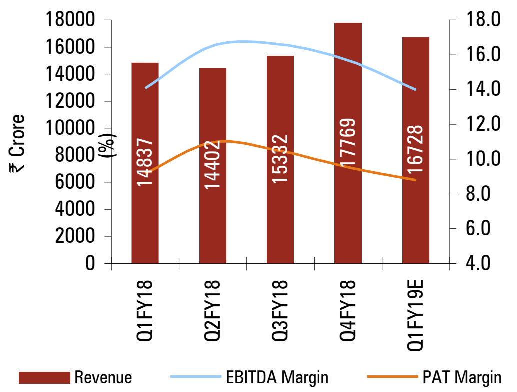
Construction Sector	Media reports indicate that KKR is buying a 60% stake in Hyderabad based environmental and waste management solutions provider Ramky Enviro Engineers in a deal worth ~₹ 4000 crore
Infrastructure sector	Media reports indicate that as many as 356 infrastructure projects, each worth ₹ 150 crore or above, have shown cost overrun of ₹ 2.19 lakh crore owing to delay in land acquisition, forest clearance, supply of equipment, fund constraint, Maoist incursion, legal cases and law and order situation
NCC	The company received order worth ₹ 330.9 crore from Bihar Rajya Pul Nirman Nigam Ltd in the roads division on EPC basis
Simplex Infrastructure	Simplex Infrastructure received order inflows worth ₹ 2595 crore in Q4FY18
NBCC	NBCC won orders worth ₹ 481 crore in May, 2018
	NBCC sold office space measuring 27,769 sq ft at NBCC Centre, Okhla, Phase-1, New Delhi to M/s Balmer Lawrie & Co for total value of ₹ 83.3 crore. The profit available to NBCC against the said deal will be ~₹ 55 crore

Exhibit 7: Company specific view (Construction coverage universe)

Company	Remarks
NBCC	The company recently concluded a real estate deal where it managed to sell properties worth ₹ 83.3 crore in Okhla with a bottomline of ~₹ 55 crore. On the PMC front, revenues are expected to grow 15.4% YoY to ₹ 1325.7 crore. Overall, we expect the topline to grow 19.7% YoY to ₹ 1509.0 crore. With strong contribution from high margin real estate division, we expect the margins to improve significantly by 460 bps YoY to 9.7%. Consequently, the bottomline is expected to grow robustly by 73.6% YoY to ₹ 97.1 crore. **Key monitorable**: Ramp-up in execution
Simplex Infrastructure	With money inflow from QIP worth ~₹ 402 crore, we expect the execution to improve and expect the topline to grow 10.4% YoY to ₹ 1668.6 crore. Further more, we expect EBITDA margins to contract 40 bps YoY at 11%. We expect the bottomline to grow 14.5% YoY to ₹ 32.9 crore mainly led by topline growth. **Key monitorable**: Management commentary on debtors recovery
NCC Ltd	With a strong orderbook position and lean balance sheet, we expect NCC to maintain its strong execution momentum during the quarter. Consequently, we expect the topline to grow at 18.0% YoY to ₹ 2377.0 crore. Further more, EBITDA margins are expected to expand 150 bps YoY at 10.0% as new orders have better margin profile. Overall, we expect bottomline to grow robustly by 54.7% YoY to ₹ 98.1 crore **Key monitorable**: Management commentary on debt reduction

Source: Company, ICICI Direct Research

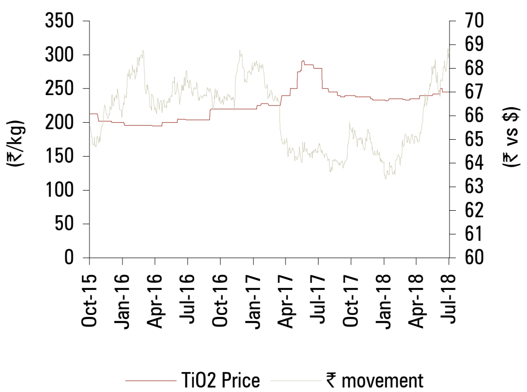
Topline & Profitability (Coverage universe)



EBITDA margin (%) movement

EBITDA margin	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Asian Paints	17.5	18.7	20.9	18.7	18.1
Kansai Nerolac	17.7	19.0	16.8	15.3	16.1
Pidilite Ind	21.0	24.6	24.0	18.4	20.0
Essel Propack	18.2	20.7	19.2	18.5	17.4
Havells	9.3	14.5	13.3	14.1	10.2
Bajaj Ele	4.4	4.6	6.1	8.4	5.3
V-Guard	5.8	12.0	9.4	5.7	5.0
Voltas	10.9	8.3	8.6	12.4	9.4
Supreme Ind	13.7	13.6	15.5	19.5	13.2
Astral Poly	11.9	14.7	13.9	18.2	12.3
Symphony	15.0	34.8	39.9	31.9	16.6
Time Techno	14.7	14.9	15.1	15.4	15.5

Titanium dioxide (₹/kg) price trend



Research Analyst

Sanjay Manyal
sanjay.manyal@icicisecurities.com

Hitesh Taunk
hitesh.taunk@icicisecurities.com

Consumer Discretionary

Low base of GST related de-stocking to drive sales growth in Q1

I-direct consumer discretionary (CD) universe is likely to record sales growth of ~13% YoY on a low base (GST related de-stocking during Q1FY18). The CD-universe volume growth at ~8% YoY would be largely driven by paint and piping segments (volume growth at ~11% YoY each) while abrupt monsoon is expected to hurt the volume offtake of cooling products during Q1FY19. We believe Asian Paints and Kansai Nerolac are likely to record sales growth of ~15% and ~14% YoY, respectively. On the electrical goods front, Bajaj Electrical and Havells are likely to record CD sales growth of 12% and 16% YoY, respectively, supported by increase in dealer penetration and new product launches, respectively. Industrial packaging major Time Technoplast is likely to record sales growth of ~15% YoY supported by strong growth in its value added product category by ~46% YoY (led by composite cylinder). On the other hand, seasonally, with a strong quarter for Pidilite Industries, sales growth would be higher at ~15% led by strong performance by consumer and bazaar segment.

Gross margin under pressure owing to rising input cost

The I-direct CD universe is likely to face pressure in gross margin owing to a change in product mix and increase in input cost owing to higher price of polymer (up ~18% YoY) and copper (up ~22% YoY) with depreciation in rupee (~4% YoY). We believe companies under our coverage will gradually pass on higher raw material prices to customers. However, pressure on lower gross margin would be partly offset by lower overhead expenditures for companies like Havells India, Bajaj Electricals and Symphony with expansion in EBITDA margin to the tune of ~93 bps, ~85 bps and ~160 bps YoY, respectively. On the other hand, rising proportion of value added product category in the topline would help maintain the EBITDA margin of Time Technoplast during Q1FY19E.

Low EBITDA margin to translate to moderate PAT growth

Considering the core factor such as seasonality (for cooling products) and rising input cost, we build in moderate profit growth in selected CD counters in-spite of lower base. Among company specific, profitability of Kansai Nerolac and V-Guard is likely to be hit due to lower EBITDA margin while cooling product profitability would be under pressure owing to low demand. However, we believe Bajaj Electricals will post strong growth in PAT by ~30% YoY owing to a recovery in profitability of the consumer durable segment.

Exhibit 8: Estimates for Q1FY19E (Consumer Discretionary) (₹ Crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q1FY19E	YoY	QoQ	Q1FY19E	YoY	QoQ	Q1FY19E	YoY	QoQ
Asian Paints	4,387.7	15.2	-2.1	795.6	19.6	-5.3	495.0	12.3	-0.2
Astral Poly Technik	455.8	11.9	-29.9	56.2	16.0	-52.5	29.0	16.8	-55.6
Bajaj Electricals	1,183.7	16.0	-26.3	62.6	38.3	-53.6	26.7	30.1	264.8
Essel Propack	603.7	7.7	-3.9	105.2	3.3	-9.4	37.1	5.9	-18.4
Havells	2,076.3	11.6	-18.1	211.8	22.8	-40.8	135.2	11.4	-40.1
Kansai Nerolac	1,338.0	14.0	21.2	215.6	4.0	27.6	140.5	-0.2	32.8
Pidilite Industries	1,755.8	14.8	18.2	351.2	9.4	28.2	248.7	9.8	0.5
Supreme Industries	1,318.7	13.5	-10.4	173.6	9.4	-39.4	89.2	13.8	-50.2
Symphony	144.3	11.2	-7.1	24.0	23.2	-51.6	25.5	6.1	-39.2
V-Guard Industries	597.5	6.8	-9.3	29.9	-8.5	-21.1	21.2	-8.6	-23.0
Voltas Ltd	2,080.4	7.0	1.6	196.4	-7.5	-22.4	178.6	-5.0	-8.0
Time Technoplast	785.6	15.4	-16.7	115.2	13.5	-21.0	42.1	16.1	-24.4
Total	16,727.5	12.7	-5.9	2,337.2	12.0	-16.0	1,468.7	8.0	-13.2

Source: Company, ICICI direct Research

Volume growth movement of paint companies

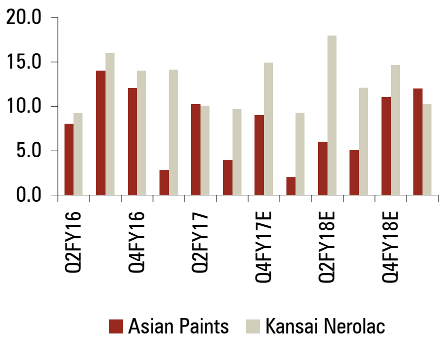


Exhibit 9: Company specific view for Q1FY19E

Asian Paints	Asian Paints is likely to record sales growth of ~15% YoY to~₹ 4388 crore in Q1FY19 mainly due to ~12% YoY volume growth. Higher volume growth would be largely on account of lower base (GST related de-stocking of inventory). The company has taken a price hike at different intervals (~3% YoY) mainly to offset higher raw material prices. As a result, the EBITDA margin is likely to increase 66 bps YoY to18%. Higher sales growth and expansion in EBITDA margin may result in PAT growth of 12% YoY to ₹ 495 crore
Astral Poly Technik	Astral Poly is likely to record net sales growth of ~12% YoY to ₹ 456 crore led by stabilisation of new capacity. On the segment front, piping segment revenue growth of ~12% YoY to ₹ 348 crore would largely be driven by volume growth of ~12% YoY while revenue growth of the adhesive division may be ~14% YoY to ~₹ 131 crore led by addition of new capacity. We believe lag of passing on higher raw material prices will keep gross margin under pressure, which would be partly offset by saving in fixed cost (due to stabilisation of adhesive plants). As a result, the EBITDA margin is likely to remain flat at 12.3%. Finally, PAT is likely to increase ~17% YoY at ~₹ 29 crore
Bajaj Electricals	Sales is expected to grow ~16% YoY to ~₹ 1184 crore in Q1FY19E, led by both consumer durable and E&P segment. We believe CD sales will grow ~12% YoY to ₹ 524 crore on the back of lower base (on account of GST related de-stocking during Q1FY18) and steady growth in coverage of dealers (through Range Reach Expansion Program). We believe E&P business will grow ~18% YoY to ₹ 660 crore owing to strong order book. EBITDA margin may increase ~100 bps YoY to 5.3%, mainly due to higher profitability from E&P segment. PAT may grow ~30% YoY ~₹ 27 crore on slight recovery in sales and EBITDA margin
Essel Propack	EPL's revenue is likely to grow ~8% YoY to ₹ 604 crore in Q1FY19E led by ~6% YoY revenue growth in each of AMESA and Europe regions to ~₹ 256 crore and ~₹ 125 crore, respectively. We believe sales growth would largely be driven by a slight pick-up in demand after stabilisation of GST related issues in India and increase in customer offtake in Europe. The EBITDA margin is likely to decline ~70 bps YoY to 17.4% mainly due to rising raw material prices, which would be passed on to customers with the lag of a quarter. PAT is likely to increase ~6% YoY to ~₹ 37 crore supported by higher other income
Havells India	On a lower base, Havells is likely to record consolidated sales growth of ~12% YoY to ₹ 2076 crore supported by growth in lighting & ECD segment by 18% & 12% YoY to ~₹ 307 crore and ~₹ 697 crore, respectively. Further, improved infrastructure spending by government would lead to higher sales of industrial product category like cable and switchgear by ~9% and ~11% YoY, respectively. Despite lower gross margin (owing to higher raw material prices) EBITDA margin is likely to increase ~90 bps YoY to ~10% mainly due to saving in other expenditure. Finally, PAT is likely to grow ~11% YoY to ~₹ 135 crore
Kansai Nerolac	Sales growth of 13.5% YoY to ~₹ 1338 crore in Q1FY19E is expected to be led by ~10% YoY volume growth. The volume growth would be driven by both decorative and industrial paints segments led by lower base of Q1FY18 owing to GST related de-stocking. We believe a change in product mix coupled with lower operating leverage (on account of commissioning of new capacity in Gujarat) would lead to a contraction in EBITDA margin by ~155 bps YoY to ~16% in Q1FY19E. As a result, PAT is likely to remain flat at ~₹ 140 crore

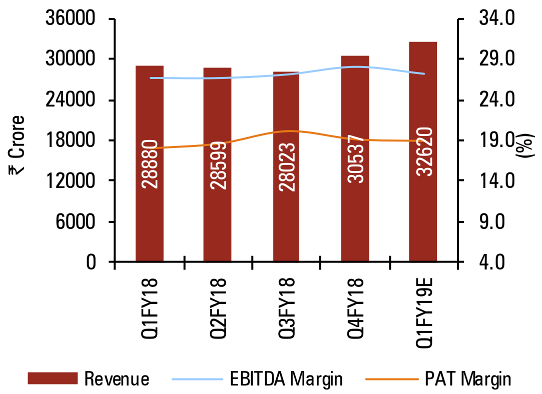
Source: Company, ICICI Direct Research

Exhibit 10: Company specific view for Q1FY19E

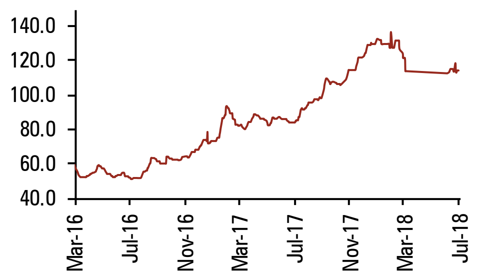
Pidilite Industries	Consolidated sales are likely to grow ~15% YoY to ~₹ 1756 crore in Q1FY19E supported by 15% and 12% YoY growth in revenue of consumer & bazaar and industrial product segment to ₹ 1653 crore and ₹ 279 crore, respectively. We believe higher raw material prices (VAM prices up ~19% YoY) would lead to a decline in EBITDA margin by ~100 bps YoY to ~20%. As a result, PAT is likely to grow at a moderate rate of ~10% YoY to ~₹ 249 crore
Supreme Industries	Sales are likely to grow 13.5% YoY to ~₹ 1319 crore in Q1FY19E led by ~10% YoY growth in overall volume. Volume growth would largely be due to low base (owing to GST related de-stocking) and a demand recovery in packaging and piping segments to 12% and 10% YoY respectively. Segment wise, piping, packaging, industrial & consumer durable segment sales may grow 12%, 14%, 16% & 16% YoY, respectively. We believe a sharp rise in raw material prices would result in a decline in gross margin of ~200 bps YoY. However, saving in other costs (due to higher operating leverage) would help maintain EBITDA margin at 13.2% (down ~50 bps YoY). Finally, PAT is likely to increase ~14% YoY to ~₹ 89 crore
Symphony	Despite a lower base, Symphony is likely to record moderate volume growth of ~8% YoY mainly due to lower offtake on a weak summer season in Q1FY19E. The company is likely to post sales growth of ~11% YoY to ₹ 144 crore supported by ~3% YoY increase in realisation during Q1FY19E (withdrawal of promotional incentives provided during Q1FY18). We believe the EBITDA margin will increase ~162 bps YoY to 16.6% supported by price hike and higher operating leverage. PAT is likely to grow at a moderate rate of ~6% YoY to ₹ 26 crore mainly due to a decline in other income
V-Guard	We expect the topline to grow ~7% YoY to ~₹ 598 crore in Q1FY19E led by ~7% YoY increase in sales of consumer durable sales to ₹ 115 crore led by launch of new product categories (air cooler, kitchen appliances). Despite the lower base of Q1FY18, electronics products sales are likely to grow muted rate of 3% YoY to ₹ 147 crore (sales of stabilisers segment to be impacted by lower AC volume offtake). Further electricals segment sales are also likely to grow at a moderate rate of 6% YoY to ~₹ 250 crore. We believe, higher raw material prices coupled with a rise in advertisement expenditure are likely to impact EBITDA margin, which is likely to dip ~80 bps YoY to 5%. As a result, PAT is likely to decline ~9% YoY to ~₹ 21 crore
Voltas	Voltas is likely to record sales growth of ~7% YoY to ~₹ 2080 crore in Q1FY19E supported by increase in sales EMPS segment ~7% YoY to ₹ 708 crore. We believe that despite a lower base and strong season for cooling products, UCP segment sales (up ~5% YoY) are likely to be hurt by lower volume offtake (up ~3% YoY) in the wake of a weak summer in most parts of the country. Lower volume of UCP segment coupled with higher raw material prices (copper prices up ~22% YoY) would lead to a decline in gross margin. As a result, EBITDA margins are likely to decline ~150 bps YoY to 9.4%. Finally, PAT is likely to decline ~5% YoY at ~₹ 179 crore
Time Technoplast	Sales may grow ~15% YoY to ₹ 786 crore supported by ~46% YoY increase in sales of value added products to ₹ 168 crore. Growth may largely be driven by ~80% YoY jump in sales of composite cylinders. On the other hand, the established product category may grow ~9% YoY to ₹ 617 crore mainly due to lower offtake of piping products from the government. However, EBITDA margin may remain flat at 14.7% mainly due to flattish gross margin (as higher raw material prices would be passed on with the lag of a quarter). Finally, PAT is likely to grow ~16% YoY to ~₹ 42 crore

Source: Company, ICICI Direct Research

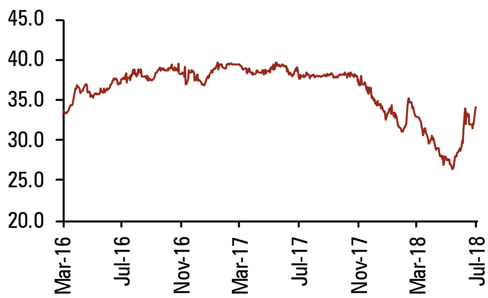
Topline & profitability (Coverage Universe)



Copra price continues to remain elevated (₹ per kg)



Benign sugar prices (₹/kg)



Top Picks

Marico
Dabur
Jyothy Laboratories

Research Analyst

Sanjay Manyal
sanjay.manyal@icicisecurities.com

Kapil Jagasia, CFA
kapil.jagasia@icicisecurities.com

FMCG

Better volumes and operating margins expected on low base quarter

Most FMCG companies posted double digit volume growth in FY18. Our FMCG coverage universe is expected to post sales growth of 12.9% mainly on the back of low base of Q1FY18, impacted by de-stocking by trade channels in the wake of implementation of GST. The growth would also be propelled by price cuts due to lower GST rates (announced in November 2017), pick-up in rural demand led by higher government spending, newer launches and increased consumer promotions. We expect organic volume growth at 8-10% across companies. ITC is expected to witness sales growth of 9.3% largely due to strong growth from FMCG segment. Its cigarettes volumes are expected to grow 2% on a low base. HUL, Colgate, Dabur and Jyothy Laboratories are expected to witness sales growth of 12.9%, 14.0%, 14.4% and 26.3%, respectively, mainly due to low base of Q1FY18 due to de-stocking across trade channels. Nestlé and Varun Beverages are expected to see 18.4% and 25.7% growth, respectively, due to new product launches/acquisition of new territories recently. Marico is expected to witness 10.3% sales growth led by ~25% increase in Parachute prices as the company passed on ~60% YoY increase in copra prices. Prabhat Dairy is likely to post sales growth of 13.6% YoY on the back of high volume growth led by better capacity utilisation. We expect a demand revival in the overall sector driven by normalcy in trade channels, demand recovery in rural regions considering expected normal monsoons in 2018.

Soft commodity prices to continue to perk up operating margins

Milk, sugar, Robusta, barley prices have declined 10%, 24%, 14%, 2%, respectively, on a YoY basis. However, a steep increase in crude oil prices (~50% YoY) would restrict operating margins expansion to 42 bps for our FMCG universe. HUL, Varun Beverages and Nestlé are expected to be positively impacted by a decline in sugar, cocoa prices. Similarly, a decline in milk prices would help improve GSK Consumer's margins during the quarter. Lower milk procurement prices would benefit Prabhat Dairy. Though copra prices have corrected 18% from their peak in January 2018, it is still up 40% YoY, which would negatively impact operating margins for Marico. Continued focus on digital advertisement should help restrict marketing spend thereby improving operating margins. We estimate 18.8% YoY net profit growth for our coverage universe.

Exhibit 11: Estimates for Q1FY19E (FMCG) (₹ crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q1FY19E	YoY	QoQ	Q1FY19E	YoY	QoQ	Q1FY19E	YoY	QoQ
Colgate Palmolive	1,114.7	14.0	2.1	296.3	33.6	-3.7	186.6	36.9	-1.1
Dabur India Ltd	2,048.7	14.4	0.8	422.3	36.7	-13.0	357.4	35.0	-10.0
GSK Consumer	1,068.7	8.5	-9.4	219.5	31.9	-12.2	177.7	34.4	-16.1
HUL	9,626.7	12.9	5.8	2,088.2	11.9	2.0	1,494.6	16.5	10.6
ITC	10,881.8	9.3	2.8	4,120.5	10.0	-0.6	2,915.7	13.9	-0.6
Jyothy Laboratories	450.4	26.3	-10.9	79.9	83.0	-11.8	49.8	141.6	-17.5
Marico Ltd	1,855.2	10.3	25.3	327.6	1.0	29.9	232.9	-1.3	27.1
Nestle India	2,844.3	18.4	3.2	682.5	46.3	-3.2	403.3	53.1	-4.9
Prabhat Dairy	408.4	13.6	0.9	34.3	21.2	-14.8	12.4	111.8	-29.7
Varun Beverages Ltd	2,052.8	25.7	82.9	530.6	10.4	207.3	281.2	14.5	1,324.8
VST Industries	267.9	28.1	-4.0	82.0	25.6	3.0	53.7	35.0	11.1
Total	32,619.6	12.9	6.8	8,883.7	15.1	3.6	6,165.4	18.8	5.7

Source: Company, ICICI Direct Research

Palm oil prices continue to remain soft (MYR/ton)

*MYR – Malaysian Ringgit

Crude oil prices has risen sharply (US$/barrel)

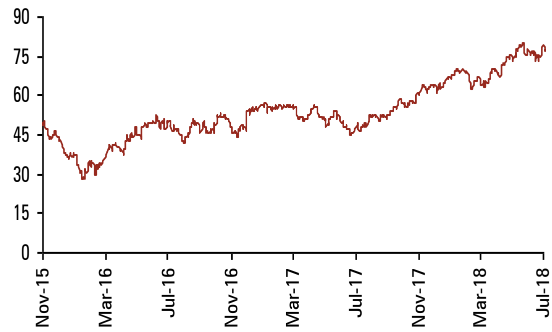


Exhibit 12: Company specific view (FMCG)

Company	
Colgate	The company is likely to post an impressive 14% YoY growth on the back of robust volume growth of 10% mainly due to the low base quarter which witnessed a 5% de-grwoth in volumes. It had taken a price cut of ~10% in July 2017 after an indirect tax rate cut from 24% to 18% post GST implementation. We expect operating margin expansion by 145 bps to 19.8% on account of GST related supply chain benefits. Net profit is likely to grow 8.5% YoY to ₹ 136.4 crore
Dabur	We expect 14.4% YoY sales growth on the back of 18% growth in domestic operations with volumes growing at 10%. We expect this growth would be contributed by strong demand from rural regions. The base quarter witnessed 4.4% decline in volumes impacted by de-stocking across trade channels. Along with the healthy sales growth, smaller increase of 7% in advertisement spend would result in EBITDA margin expansion of 337 bps to 20.6%. PAT is estimated to surge 34.8% to ₹ 357.4 crore
GSK Consumer Healthcare	We expect GSK Consumer to post GST adjusted sales growth of 8.5% YoY (7% de-growth witnessed in the corresponding quarter) benefitted by price cuts taken by the company as GST rates were cut from 28% to 18% on malt based beverages in November 2017. We expect a 365 bps improvement in operating margins mainly due to control in operating costs i.e. lower employee costs & advertisement spend during the quarter. Net profit is likely to grow 34.4% to ₹ 177.7 crore
HUL	We expect HUL to post 12.9% comparable sales growth mainly led by volume growth of 8% as GST rate cut on detergents in November 2017 has led to price cuts by the company during the quarter along with its focus on premiumisation and market share gains. Due to higher raw material and advertisement costs, the operating margin is expected to remain flat at 21.7%. We expect net profit to grow 16.5% to ₹ 1494.6 crore
ITC	ITC is expected to post 9.3% growth during the quarter mainly due to robust growth from its FMCG segment, which is likely to grow 15%. We expect cigarette volume growth of 2% on the back of low base in the corresponding quarter. Paper business is likely to post 6% growth in sales. With the increase in margins in the FMCG business and price hike taken in cigarette business, net profit is likely to grow 13.9% to ₹ 2915.7 crore
Jyothy Labs	The company is likely to witness 26.3% YoY sales growth backed by strong growth in the dishwashing and fabric care segments. GST related trade channel disruption witnessed in H1FY18 normalised in Q3FY18, driving volume growth in Q4FY18 and is expected to drive volumes for Q1FY19 also (Q1FY18 witnessed steep volume de-growth of 17%). We expect margins to surge 550 bps on robust topline numbers. On similar lines, we expect net profit to grow strongly to ₹ 49.8 crore
Marico	We expect Marico to grow 10.3% on the back of strong growth in the domestic business on account of ~25% increase in Parachute prices. The price increase has been on account of ~40% YoY increase in copra prices. The international business is expected to decline 9% during the quarter. Due to a steep increase in copra prices, we expect a 163 bps contraction in operating margins. The company has been able to partly pass on RM increase through Parachute price hikes. Net profit is expected to remain flat at ₹ 232.9 crore

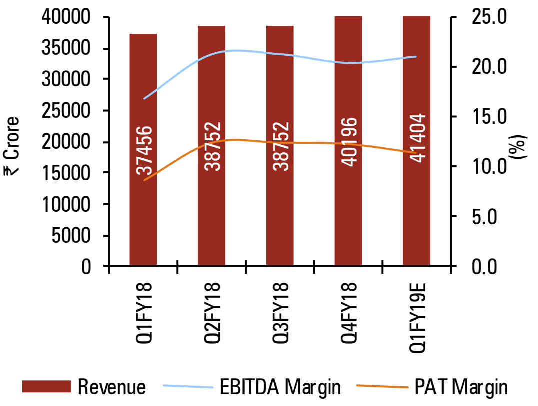
Source: Company, ICICI Direct Research

Exhibit 13: Company specific view (FMCG)

Company	
Nestlé India	We expect Nestlé India to grow 18.4% YoY to ₹ 2,844.3 crore on the back of new launches last year. These new launches would help drive volume growth for the quarter. Its operating margins are likely to improve 457 bps to 24% as its major raw materials i.e. milk, coffee and sugar prices are in a downward trajectory. The company has been aggressively investing in brands through effective advertisements. We expect net profit to grow 53.1% to ₹ 403.3 crore during the quarter
Prabhat Dairy	Higher volume on the back of increasing capacity utilisation of the cheese facility would drive sales growth of 13.6% YoY to ₹ 408.4 crore. Milk procurement prices have been down ~10% YoY to ₹ 22. We expect operating margins of the company to improve 52 bps YoY to 8.4%. Net profit during the quarter is expected to grow to ₹ 12.4 crore
Varun Beverages	Revenue is expected to grow 25.7% to ₹ 2052.8 crore on the back of acquisition of new territories and inclusion of Tropicana Juices in the company's portfolio. However, with new territories taking time to stabilise and Tropicana juices not being margin accretive currently, operating margins are expected to decline 357 bps to 25.9%. The company is expected to report a net profit growth of 14.5% to ₹ 281.2 crore
VST Industries	The company is expected to post 27.8% sales growth during the quarter on the back of a shift towards high priced cigarettes ('Total' at ₹ 6/stick and 'Edition' at ₹ 10/stick). We expect volumes to grow 3% during the quarter on the back of low base in the corresponding quarter (6% volume de-growth in Q1FY18). We expect 50% contribution from 64 mm cigarettes with the remaining 50% volume contribution from 69 mm or above category. Operating margins are expected to contract 55 bps to 30.6% mainly due to higher margins in base quarter. We expect net profit to grow 35% to ₹ 53.7 crore

Source: Company, ICICI Direct Research

Topline & Profitability (Coverage universe)

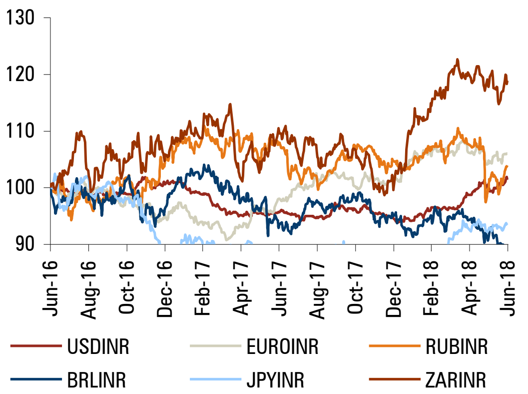


USFDA approvals for Apr-Jun 2018 (Coverage Universe)

Company	Final	Tentative
Ajanta Pharma	1	2
Aurobindo Pharma	4	3
Cadila Healthcare	10	1
Cipla	4	0
Dr. Reddy's Labs	2	0
Glenmark Pharma	3	0
Jubilant Life	1	0
Lupin	2	2
Natco	0	0
Sun Pharma	4	2

Source: USFDA, ICICI Direct Research

Currency Movement



Top picks of sector

Syngene Int.
IPCA Lab

Research Analyst

Siddhant Khandekar
siddhant.khandekar@icicisecurities.com

Mitesh Shah
mitesh.sha@icicisecurities.com

Healthcare

Lower base, currency tailwinds to drive Q1

After anaemic growth in the last few quarters due to a high base, steep price erosion in the US and GST implementation in the domestic market (impacted H1FY18), the I-direct universe is poised to deliver strong high teens growth. Currency tailwinds are also likely to support growth. I-direct healthcare universe is expected to register 18.8% YoY growth to ₹ 41403 crore. Domestic formulations are likely to grow 30% YoY (select pack) due to lower base (GST impact). US revenues (select pack) are also expected to grow 9% YoY mainly due to currency tailwinds, limited competition launches and volume gain in the base business that is likely to mitigate continued base business price erosion. In Q1FY19, average YoY rupee depreciation vis-à-vis US$ was 3.8% whereas vs. € it was 12.7%. Europe (select pack) is likely to grow 28% YoY on the back of currency tailwinds, new launches and acquisition. Growth in other emerging markets is likely to be driven by new launches. On the hospitals front, growth is likely to be driven by newly commissioned hospitals.

On the companies front, Syngene (lower base), Cadila (strong growth in gLialda exclusivity), Natco (windfall of Copaxone) and Jubilant Life (recovery in LSI business sales and consolidation of pharmacy business) are expected to register above 40% growth. Glenmark is the only company in I-direct healthcare universe that is likely to report negative growth due to high base of gZetia exclusivity in the US.

EBITDA to increase 38% YoY

EBITDA of the I-direct healthcare universe is expected to increase 37.7% YoY to ₹ 8693 crore. EBITDA margins are likely to improve 289 bps YoY to 21%. Lower base and implementation of cost control measures are likely to improve overall margins during the quarter.

Adjusted net profit to increase 44% YoY

Net profit is expected to increase 44.4% YoY to ₹ 4741 crore, mainly due to improvement in operational performance, which is likely to be partly offset by higher tax rate (23.4% vs. 16.7% in Q1FY18).

Exhibit 14: Estimates for Q1FY19E (₹ Crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q1FY19E	YoY	QoQ	Q1FY19E	YoY	QoQ	Q1FY19E	YoY	QoQ
Ajanta Pharma	473.6	0.1	-10.7	122.3	-6.4	-12.4	83.8	-11.6	-11.3
Alembic Pharma	816.9	26.0	-4.3	163.4	61.1	-5.7	104.7	57.1	11.7
Aurobindo Pharma	4,191.8	13.9	3.5	887.2	5.4	12.6	528.2	-1.7	-0.1
Biocon	1,213.9	30.0	3.8	250.8	30.6	7.7	127.6	57.0	-2.1
Cadila Healthcare	3,221.9	44.6	-0.9	698.8	152.0	-19.7	471.0	240.3	-22.4
Divi's Lab	1,151.2	40.2	5.8	414.4	69.3	7.2	308.1	74.5	17.8
Cipla	4,174.9	18.4	12.9	848.7	31.3	52.4	443.9	8.6	86.4
Dr. Reddys	3,577.4	7.3	0.7	617.3	91.0	9.5	310.2	365.7	14.0
Glenmark	2,201.3	-6.8	-3.4	374.2	-35.2	14.5	169.2	-49.2	11.7
Indoco Remedies	277.2	32.6	2.8	43.7	3,284.2	-11.7	18.2	LP	-11.3
IPCA Labs	891.7	25.1	13.9	147.1	583.7	33.9	81.4	LP	58.7
Jubilant Life Sc.	2,240.0	43.9	-0.5	453.7	34.4	-0.9	216.0	46.8	39.5
Lupin	4,328.6	11.9	7.3	936.1	21.8	31.8	450.7	25.9	25.7
Narayana Hrudayalaya	609.4	16.9	-5.8	50.4	0.0	-3.6	5.8	-46.7	-27.7
Natco Pharma	659.6	54.1	-14.1	330.1	141.5	-13.9	248.5	164.4	-17.1
Sunpharma	7,131.4	14.9	2.2	1,533.3	39.9	-8.9	840.9	60.0	-35.8
Syngene International	425.9	46.3	4.1	136.9	42.6	6.1	91.0	46.8	7.7
Torrent Pharma	1,895.5	38.0	10.1	464.4	56.4	27.6	170.2	-9.4	-25.3
Apollo Hospitals	1,921.6	14.1	3.1	220.3	26.9	3.1	71.9	104.1	20.5
Total	41,403.6	18.8	3.0	8,693.2	37.7	6.1	4,741.4	44.4	-4.2

Source: Company, ICICI Direct Research

Expected growth (%) in Domestic formulation

(₹ crore)	Q1FY19E	Q1FY18	Var. (%)	Q4FY18	Var. (%)
Ajanta	167.0	135.0	23.7	141.0	18.4
Alembic	294.1	210.0	40.0	273.6	7.5
Biocon	150.0	130.4	15.0	149.0	0.6
Cadila	905.4	637.6	42.0	883.8	2.4
Glenmark	690.4	616.4	12.0	608.7	13.4
Indoco	159.5	99.7	60.0	151.1	5.6
Ipca	413.0	295.0	40.0	322.8	28.0
Lupin	1,212.1	932.4	30.0	964.7	25.6
Cipla	1,588.8	1,271.0	25.0	1,353.0	17.4
Dr Reddy's	609.3	468.7	30.0	613.8	-0.7
Sun Pharma	2,130.5	1,760.8	21.0	1,962.6	8.6
Torrent	824.9	464.0	77.8	693.0	19.0
Total	9,144.9	7,021.0	30.3	8,117.1	12.7

Expected growth (%) in the US

(₹ crore)	Q1FY19E	Q1FY18	Var. (%)	Q4FY18	Var. (%)
Aurobindo	1,879.2	1,694.9	10.9	1,738.8	8.1
Cadila	1,594.9	965.0	65.3	1,642.4	-2.9
Cipla	750.4	646.0	16.2	676.2	11.0
Glenmark	727.5	1,045.0	-30.4	699.6	4.0
Lupin	1,512.6	1,601.8	-5.6	1,499.0	0.9
Dr Reddy's	1,516.9	1,494.6	1.5	1,448.7	4.7
Sun Pharma	2,543.0	2,264.6	12.3	2,371.6	7.2
Torrent	343.8	272.0	26.4	307.0	12.0
Total	10,868.3	9,984.0	8.9	10,383.2	4.7

Expected growth (%) in Europe

(₹ crore)	Q1FY19E	Q1FY18	Var. (%)	Q4FY18	Var. (%)
Aurobindo	1254.7	917.6	36.7	1151.6	9.0
Cadila	68.1	60.8	12.0	60.2	13.1
Glenmark	186.4	162.1	15.0	319.0	-41.6
Dr Reddy's	228.3	207.5	10.0	171.1	33.4
Lupin	167.2	123.8	35.0	184.5	-9.4
Torrent	232.3	202.0	15.0	248.0	-6.3
Total	2136.9	1673.8	27.7	2134.4	0.1

Expected growth (%) in Latin America

(₹ crore)	Q1FY19E	Q1FY18	Var. (%)	Q4FY18	Var. (%)
Cadila	61.1	50.9	20.0	66.3	-7.9
Glenmark	101.4	84.5	20.0	127.6	-20.5
Torrent	181.0	181.0	0.0	215.0	-15.8
Total	343.5	316.4	8.6	408.9	-16.0

Exhibit 15: Company specific view

Ajanta Pharma	Revenues, on a YoY basis, are expected to remain flat at ₹ 474 crore as strong growth in domestic formulations (~24% YoY) is likely to be offset by a shrinking African tender opportunity. EBITDA margins are expected to decline 180 bps to 25.8% YoY on account of higher fixed overheads at new facilities. Net profit is likely to decline ~12% YoY to ₹ 83.8 crore mainly due to a below expected operational performance
Alembic Pharma	Revenues are expected to grow 26% YoY to ₹ 817 crore mainly due to 40% growth in domestic formulations on a lower base. EBITDA margins are expected to improve 435 bps to 20% on account of a better product mix. Net profit is expected to increase 57% YoY mainly due to better operational performance
Apollo Hospitals	Standalone sales are likely to grow ~14% YoY mainly due to ~19% growth in the pharmacy business and 10% growth in the healthcare service business. The pharmacy business is expected to be largely driven by addition of new pharmacies while the hospital segment is expected to be driven by strong growth in new hospitals. EBITDA margins are likely to grow 116 bps YoY to at 11.5% mainly due to an expected decline in losses at new facilities and a lower base. Net profit is expected to increase 104% YoY mainly due to a strong operational performance and lower tax rate (21% vs 29.3% in Q1FY18)
Aurobindo Pharma	Revenues are expected to grow 14% YoY to ₹ 4192 crore mainly due to strong growth in Europe (37% YoY) on the back of currency tailwinds and acquisition. The US business is expected to grow 11% YoY. EBITDA margins are likely to decline 171 bps to 21.2% due to higher employee cost and other expenditure. Subsequently, net profit is expected to decline ~2% YoY to ₹ 528 crore
Biocon	Revenues are likely to grow 30% YoY to ₹ 1214 crore on the back of strong growth expectation in Syngene (due to currency tailwinds and lower base) and biologics segment. EBITDA margins are expected to remain at ~21%. Net profit is expected to increase 57% YoY to ₹ 128 crore mainly due to a strong operational performance and lower tax rate (22% vs. 28.7% in Q1FY18)
Cadila Healthcare	Revenues are expected to grow 45% YoY to ₹ 3229 crore mainly due to continued windfall of gLialda (GI) and strong growth in domestic formulations (albeit on lower base). EBITDA margins are likely to improve 925 bps YoY to 21.2% mainly due to a better product mix, lower R&D spend and base effect (GST impact). Net profit is expected to increase ~240% YoY to ₹ 471 crore mainly due to a strong operational performance
Cipla	Revenues are expected to grow ~17% YoY to ₹ 4137 crore mainly due to 25% growth in domestic formulations and 16% growth in the US. On the other hand, 5% YoY decline in RoW and muted growth in Europe are likely to pull down overall growth. EBITDA margins are expected improve 200 bps YoY to 20.3% mainly due to better operational leverage. Net profit is expected to increase 7% YoY ~₹ 438 crore due to a strong operational performance, lower interest expenses and tax rate
Divi's Laboratories	Revenues are expected to increase 35% YoY to ₹ 1110 crore mainly due to the base effect of import alert in Q1FY18. EBITDA margins are expected to increase 619 bps to ~36% YoY due to a better product mix and favourable currency movement. Net profit is expected to increase ~67% YoY to ₹ 296 crore mainly due to a strong operational performance
Dr Reddy's	Revenues are likely to increase ~7% YoY to ₹ 3577 crore mainly due to 30% growth in India, which is likely to be partially offset by muted growth in the US. EBITDA margins are expected to improve 756 bps YoY to 17%, mainly due to a better product mix and lower base (GST impact). Net profit is expected to increase to ₹ 310 crore against ₹ 67 crore in Q1FY18 mainly due to a strong operational performance and lower tax rate (23% vs 29.4% in Q1FY18)
Glenmark Pharma	Revenues are expected to decline ~7% YoY to ₹ 2201 crore mainly due to 30% de-growth in the US led by high base of gZetia exclusivity in Q1FY18. Domestic revenues are expected to grow 12% YoY. EBITDA margins are likely to decline 744 bps to 17%. Net profit is expected to decline 49% YoY to ₹ 169.2 crore due to the high base of gZetia exclusivity

Source: Company, ICICI Direct Research

Expected growth (%) in API

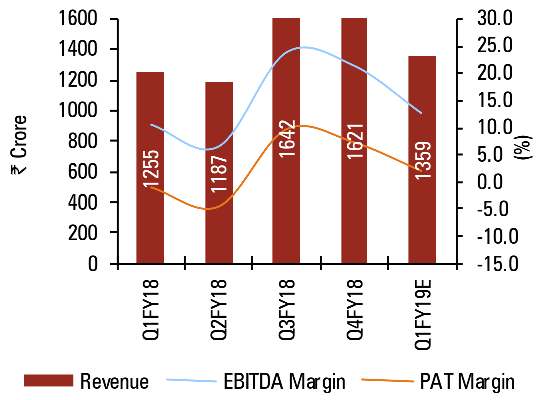
(₹ crore)	Q1FY19E	Q1FY18	Var. (%)	Q4FY18	Var. (%)
Aurobindo	718.8	625.0	15.0	799.6	-10.1
Alembic	143.0	130.0	10.0	198.0	-27.8
Cadila	86.8	68.9	26.0	90.0	-3.5
Glenmark	215.0	204.8	5.0	204.9	5.0
Divi's Lab	564.1	402.9	40.0	532.3	6.0
Indoco	15.6	14.9	5.0	14.4	8.3
Ipca Labs	188.6	171.5	10.0	191.9	-1.7
Lupin	284.9	279.3	2.0	280.8	1.5
Cipla	136.5	130.0	5.0	135.2	0.9
Dr Reddy's	511.6	465.1	10.0	625.1	-18.2
API	90.6	86.3	5.0	59.7	51.8
Sun Pharma	382.1	318.4	20.0	353.8	8.0
Unichem	25.0	24.5	2.0	21.9	14.1
Total	3362.7	2921.6	15.1	3507.7	-4.1

Exhibit 16: Company specific view

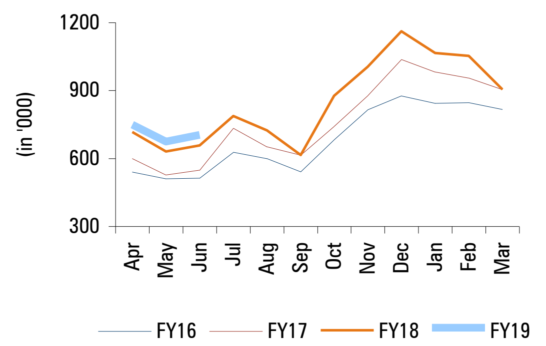
Indoco Remedies	Revenues are likely to increase 31% YoY to ₹ 274 crore mainly due to 60% YoY growth in domestic sales (GST effect). However, a 9% decline in export formulation is likely to partly arrest overall growth. EBITDA margins are likely at ~15.8% against 0.6% in Q1FY18 (GST impact). Net profit is expected at ~₹ 18 crore against net loss of ₹ 21.7 crore
Ipca Laboratories	Revenues are expected to grow 25% YoY to ₹ 892 crore mainly due to 40% growth in domestic formulations and 20% growth in export formulations. Q1FY18 financials were impacted due to GST implementation. EBITDA margins are likely to be ~16.5% against 3% in Q1FY18. Net profit is expected at ~81 crore against net loss of ₹ 20.2 crore
Jubilant Life Science	Revenues are expected grow ~43% YoY to ₹ 2240 crore mainly due to consolidation of Triad Pharmacy. An 18% YoY growth in LSI segment growth is likely to be driven by better growth in vitamins and advanced intermediates whereas pharma growth (~55% YoY) is likely to be driven by the specialty and pharmacy businesses. Margins are expected to decrease 144 bps to ~20% YoY mainly due to consolidation of low margins pharmacy business. Net profit is expected to grow ~47% YoY to ₹ 216 crore due to a strong operational performance and a lower tax rate
Lupin	Revenues are expected to increase ~12% YoY to ₹ 4329 crore on the back of 30% YoY in growth in domestic formulation. On the other hand, US sales are likely to decline 6% YoY due to continued pricing headwinds. EBITDA margins are likely to increase 177 bps to 21.6% mainly due to one-off licensing income of US$15 million received from Mylan. Net profit is expected to increase ~26% YoY to ₹ 451 crore owing to a better operational performance and lower tax rate
Narayana Hrudalaya	Revenues are likely to grow ~17% YoY to ₹ 609 crore mainly due to strong growth in new hospitals and acquisition of remaining stake in the Cayman Islands hospital. EBITDA margins are likely to decline 140 bps to 8.3% YoY mainly due to increase in doctor payouts and expenses related to new facilities. Net profit is expected to decline ~47% YoY mainly due to lower operational performance, higher interest cost and depreciation
Natco Pharma	Revenues are expected to grow 54% YoY to ₹ 660 crore mainly due to complex products launches in the US (gCopaxone, gDoxil) under partnership. EBITDA margins are likely to increase to 50% from 31.9% YoY mainly due to continued gCopaxone windfall. Subsequently, net profit is expected to increase ~164% YoY to ₹ 249 crore
Sun Pharma	Revenues are likely to increase 15% YoY mainly due to 21% expected increase in domestic sales and 12% growth in the US. EBITDA margins are expected to increase 385bps YoY to 21.5%. Adjusted net profit (excluding exceptional expenses of ₹ 951 crore in Q1FY18) is expected to increase 60% YoY to ₹ 841 crore due to a strong operational performance
Syngene	Revenues are likely to grow 46% YoY to ₹ 426 crore on the back of currency tailwinds and lower base of the fire incident in Q1FY18. EBITDA margins are expected to be in the range of 32-34%. Net profit is expected to increase 47% to ₹ 91 crore mainly due to strong operational performance
Torrent Pharma	Revenues are expected to increase ~38% YoY to ₹ 1896 mainly due to consolidation of Unichem's domestic sales. Excluding Unichem consolidation, domestic sales are expected to grow 30% YoY. EBITDA margins are expected to increase 288 bps YoY to 24.5% mainly due to a better product mix. Net profit is expected to decline ~9% YoY to ₹ 170 crore mainly due to higher interest cost and depreciation

Source: Company, ICICI Direct Research

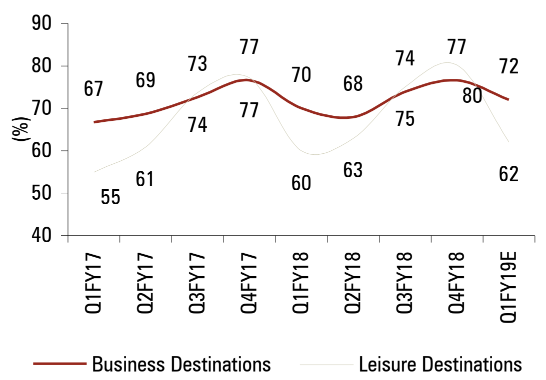
Topline & Profitability (Coverage universe)



FTAs to grow at 6.1% YoY during Q1FY19E



Trends in average occupancy levels



Top pick of sector

EIH
Taj GVK Hotels

Research Analyst

Rashesh Shah
rashes.shah@icicisecurities.com

Devang Bhatt
devang.bhatt@icicisecurities.com

Hotels

Foreign tourist arrivals (FTA) growth to moderate, up 6.1% YoY

After witnessing healthy traction in FY18, foreign tourist arrivals (FTAs) growth is expected to moderate to 6.1% YoY following the onset of lean season and high base of last year (up 19.7% in Q1FY18). However, in absolute terms, the trend of foreign tourist arrivals continues to remain healthy. This coupled with balanced room supply across business and leisure destination would continue to keep occupancy levels healthy. With demand growth outpacing supply growth, we expect average room rates to also improve 2-3% YoY leading to over 10% revenue growth in the domestic market. **EIH** and **TajGVK** being pure domestic play would likely report healthy double digit revenue growth whereas **Indian Hotels'** revenue growth would improve YoY on account of a turnaround of international subsidiaries. Overall, we expect our I-direct hotel coverage universe to report 8.2% YoY revenue growth during the quarter.

Operating margin to improve YoY mainly on operating leverage benefit

Margins of the I-direct hotel universe are expected to improve 185 YoY on account of cost control measures and improvement in ARRs. During the quarter, we expect **Indian Hotels** (sale of loss making unit & subsidiary turnaround) to report margin expansion of 190 bps while **EIH** is expected to report margin expansion of 318 bps YoY on re-opening of the Delhi property. **TajGVK** is expected to continue to report healthy traction in margins led by cost controls and improvement in ARR in the Hyderabad region during the quarter.

Business destinations, select leisure destinations to drive growth in quarter

Average occupancy levels continued to remain higher at business destinations compared to leisure destinations during the quarter due to the onset of lean season. However, select leisure destinations are expected to report marginally better occupancy levels during the quarter. Among leisure destinations, Kerala and Goa are expected to report healthy improvement in occupancy levels during the quarter. In business destinations, Mumbai, Hyderabad and Chennai are expected to register better occupancy compared to the previous year.

Exhibit 17: Estimates for Q1FY19E: (Hotels) (₹ Crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q1FY19E	YoY	QoQ	Q1FY19E	YoY	QoQ	Q1FY19E	YoY	QoQ
EIH	322.6	13.4	-25.2	41.9	50.2	-57.5	14.5	26.2	-74.1
Indian Hotel	970.4	6.5	-15.1	126.2	39.3	-48.4	10.3	LP	-86.4
Taj GVK Hotels	65.7	10.2	-23.0	15.3	13.8	-28.5	1.7	1,203.0	-82.3
Total	1,358.7	8.2	-18.2	183.4	39.0	-49.7	26.5	LP	-81.2

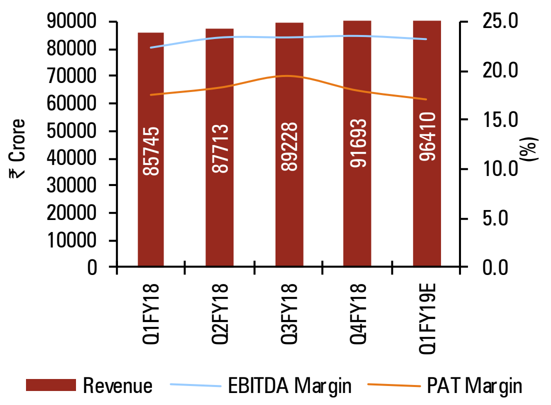
Source: ICICI Direct Research

Exhibit 18: Company specific view

Company	Remarks
Indian Hotels	On the revenue front, we expect domestic revenue growth of 10% YoY in line with industry growth following improved RevPAR while international segment is expected to witness growth of 1.8%. Margins are expected to improve mainly led by cost control measures and a better operating matrix in the domestic segment. Lower depreciation and interest costs are expected to lead to growth in profitability during the quarter
EIH	With the re-opening of the Delhi property, we expect EIH to report healthy revenue growth of over 13% YoY vs. growth of 4% last year. ARR is expected to increase ~3% YoY. Occupancy levels are expected to also remain healthy vs. last year. Margins are likely to improve 320 bps YoY on account of leverage benefit and low base of last year
Taj GVK Hotel	On the standalone front, we expect revenue growth of 10.2% YoY led by improved ARRs. OPM margins are expected to improve 70 bps YoY led by controlled costs. Reduced losses from JV are expected to improve the profitability of the company during the quarter

Source: ICICI Direct Research

Topline & profitability (Coverage universe)



Dollar growth, QoQ

IT Services	Q1FY19E	Q4FY18	Growth (%)
TCS	5,095.2	4,972.0	2.5
Infosys	2,853.1	2,805.0	1.7
Wipro ^	2,026.9	2,062.0	(1.7)
HCL Tech	2,082.8	2,038.0	2.2
Tech Mahindra	1,219.2	1,244.3	(2.0)
Mindtree	1,561.1	1,464.0	6.6
KPIT Technologies	152.9	150.2	1.8
Cyient	162.8	164.6	(1.1)
NIIT Technologies	126.6	122.2	3.6
Persistent Systems	120.4	117.0	3.0
eClerx	51.6	52.5	(1.7)
BPO (in ₹)			
Firstsource	885.1	897.3	(1.4)
Internet (in ₹)			
Info Edge	253.4	240.7	5.3

^ IT services

Top picks of the sector

TCS
Firstsource Solutions

Research Analysts

Deepak Purswani, CFA
deepak.purswani@icicisecurities.com

Deepti Tayal
deepti.tayal@icicisecurities.com

Information Technology

TCS to lead the growth in seasonally strong Q1FY19…

We expect Tier-1 IT companies to start FY19E with constant currency (CC) growth of (-1 to 3.5%) in a seasonally strong Q1 with TCS expected to witness healthy growth on the back of recently won deals while HCLT's growth would be supported by consolidation of an acquisition. Taking into consideration US$ appreciation against all major currencies, cross currency could act as a headwind of 70-100 bps to reported dollar growth. Inter-quarter, average US$ has appreciated 4%, 3%, 2.3% and 3.7% against rupee, Euro, GBP and AU$, respectively. Although change in annual revenue guidance for FY19E (in CC terms) by companies (Infosys: 6-8%, HCLT: 9.5-11.5% in CC terms) is unlikely, additional commentaries in direction of demand trends would be watched.

Rupee depreciation partly offsets headwinds from wage hike, visa cost

Cross currency headwinds coupled with moderate wage hikes and visa costs could create margin headwinds in Q1. However, rupee depreciation by 4% QoQ would partly counter headwinds. We expect EBIT margins to decline 40-90 bps for Infosys (wage hike), TCS (wage hike) and Wipro (one-month impact of wage hike) while expanding 50 bps for HCL Tech owing to absence of wage hike in Q1.

Midcap- MindTree, Persistent to lead, TechM to be weak…

Our midcap coverage universe is expected to witness a mixed bag of results. While MindTree and NIIT Tech are expected to continue their growth momentum on the back of a healthy deal pipeline, Persistent is expected to recover after a weak Q4FY18. On the other hand, TechM is anticipated to witness a decline of 2% in $ terms owing to seasonal weakness in Comviva business while Cyient revenues may witness softness on account of seasonality in Rangsons business. On the EBITDA margin front, most midcap companies are expected to witness a decline resulting from a wage hike and visa costs in the quarter.

Additional commentary on BFSI, Digital demand to watch…

Taking cues from IT companies' Q4FY18 commentary, FY19E may be better compared to FY18 in terms of demand trends, revenue growth. However, what needs to be kept in sight is improvement in client spending in most company's major vertical, BFSI. Also, a close watch needs to be kept on how digital deals pan out in terms of deal sizes and IT players strengthening role in that direction. In our view, investor interest would be outlook for FY19E, significant improvement across demand trends in BFSI and retail, spending in digital and deal pipeline.

Exhibit 19: Estimates for Q1FY19E (₹ Crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q1FY19E	YoY	QoQ	Q1FY19E	YoY	QoQ	Q1FY19E	YoY	QoQ
Cyient	1,090.6	20.2	2.7	152.5	31.5	2.2	111.9	27.5	-7.9
Eclerx	356.2	6.9	-1.4	83.3	-17.0	3.5	59.6	-24.8	-7.4
Firstsource Sol	885.1	0.8	-1.4	119.5	18.6	-9.8	80.2	22.4	-13.6
HCL Tech	13,957.1	14.9	5.9	3,279.9	22.3	8.0	2,284.0	5.2	2.6
Infosys	19,118.9	12.0	5.7	5,018.7	10.0	1.8	3,728.1	7.0	1.0
InfoEdge	253.4	13.9	5.3	68.7	-2.2	15.8	66.1	3.0	LP
KPIT Tech	1,024.8	17.7	6.0	121.6	53.0	10.7	79.8	43.9	5.0
Mindtree	1,561.1	21.1	6.6	227.9	58.8	-3.2	145.2	19.3	-20.3
NIIT Technologies	848.3	19.7	7.5	142.2	28.3	0.3	91.3	78.0	6.0
Persistent Systems	807.0	10.8	7.2	129.1	23.7	16.3	75.1	0.0	1.9
TCS	34,142.9	15.4	6.4	8,979.6	21.1	3.8	6,931.5	16.6	0.4
Tech Mahindra	8,169.8	11.4	1.4	1,290.8	39.0	-8.6	861.3	8.7	-29.5
Wipro	14,195.1	3.9	3.1	2,727.2	0.9	8.7	1,979.1	-4.6	9.8
Total	96,410.1	12.4	5.1	22,341.2	16.9	3.6	16,493.2	9.5	-0.2

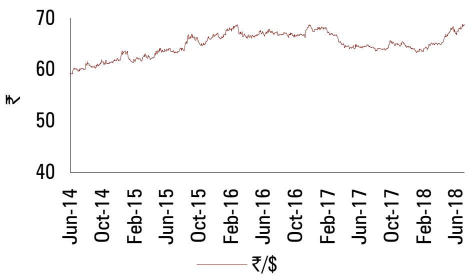
Source: Company, ICICI Direct Research

EBIT margin impact

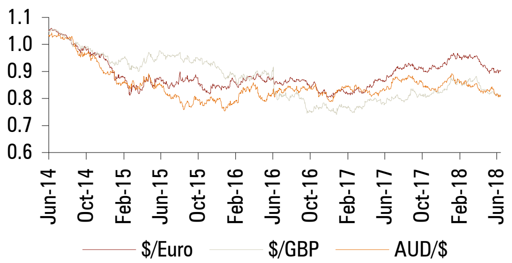
EBIT margins	Q1FY19E	Q4FY18	Change (bps)
TCS	24.6	25.4	(80)
Infosys	23.8	24.7	(90)
Wipro ^	15.6	14.4	120
HCL Tech	20.1	19.6	50
EBITDA margins			
Tech Mahindra	15.8	17.5	(170)
Mindtree	14.6	16.1	(150)
KPIT Technologies	11.9	11.4	50
Cyient	14.0	14.1	(10)
NIIT Technologies	16.8	18.0	(120)
Persistent Systems	16.0	14.8	120
eClerx	23.4	22.3	110
BPO			
Firstsource	13.5	14.8	(130)
Internet (in ₹)			
Info Edge	27.1	24.7	240

^ IT Services

$/₹



$ vs. global currencies



Inter-quarter, average US$ has appreciated 4%, 3%, 2.3% and 3.7% against ₹, Euro, GBP and AU$ respectively.

Exhibit 20: Company specific view

Company	Remarks
TCS	Constant currency revenues are expected to grow 3.5% QoQ with a drag of 100 bps to dollar growth. US$ revenue is expected to grow 2.5% to $5,095.2 million led by ramp up of recently won deals and increasing contribution of digital in overall revenue pie. Rupee revenues may grow 6.4% QoQ to ₹ 34,142.9 crore. EBIT margins may decline 80 bps QoQ to 24.6% on account of wage hike, visa cost partly offset by rupee depreciation and operational efficiency. Investor interest: Demand trajectory for FY19E across BFSI and retail, margin enhancement levers, deal pipeline and traction in digital business
Infosys	Constant currency revenues are expected to grow 2.5% QoQ while US$ revenues may grow 1.7% QoQ to $2,853 million owing to cross currency headwind of 80 bps. Rupee revenue may grow 5.7% to ₹ 19,118.9 crore owing to 4% QoQ rupee depreciation against US$. EBIT margins could decline 90 bps QoQ to 23.8% primarily owing to wage hike, visa cost and cross currency headwind partially offset by rupee tailwind. We expect Infosys to maintain constant currency revenue guidance of 6-8% for FY19E. Investor interest: TCV of deal wins, digital deal pipeline, attrition at key positions, outlook for BFSI
Wipro	Global IT services US$ revenues could decline 1.7% QoQ to $2,026.9 million mainly on account of ramp down due to client insolvency, weakness in HPS (healthcare) business. Global IT services rupee revenue may grow 2.9% while consolidated revenues could grow 2.7% to ₹ 14,195 crore. Global IT services EBIT margins may decline 40 bps QoQ (on adjusted basis from 16%) to 15.6% mainly due to one-month wage hike impact. The company has divested its data centre services for consideration of $405 million, which could negatively impact revenue growth by ~3% in Q2FY19E. Investor interest: Outlook beyond Q1FY19E taking into company specific issues in FY18, demand across digital ecosystem and healthcare segment
HCL Tech	Dollar revenues are expected to grow 2.2% QoQ to $2,083 million mainly on the back of consolidation of C3i acquisition (~$45 million) in the quarter while organic growth is expected to be weak (1% QoQ). Rupee revenue could increase 5.9% to ₹ 13,957 crore. EBIT margins may expand 50 bps QoQ to 20.1% on account of rupee tailwind and absence of wage hike in this quarter. Investor interest: Commentary on growth recovery in IMS and margin momentum
Tech Mahindra	We expect US$ revenues to decline 2% QoQ to $1,219.2 million on account of seasonal weakness in Comviva business. Rupee revenues may grow 1.4% QoQ to ₹ 8,170 crore. EBITDA margins could decline 170 bps QoQ to 15.8% owing to Comviva seasonality, partial wage hike and visa cost partially aided by rupee benefit. Investor Interest: Outlook on telecom vertical and 5G opportunity, margin trajectory and deal pipeline
Info Edge	We expect revenues to grow 13.9% YoY to ₹ 253.4 crore led by good growth in 99 acres (25% YoY) and steady growth in Naukri business (12.5% YoY). EBITDA margins could expand 240 bps QoQ to 27.1% post a sharp decline of 1000 bps QoQ in Q4FY18 due to a sharp increase in advertising & promotion expenses. Investor interest: update on Zomato and PolicyBazaar, outlook on IT hiring slowdown in Naukri
MindTree	We expect $ revenues to increase 3% QoQ to $233 million led by deal ramp ups and improved execution. Rupee revenue may grow 6.6% QoQ to ₹ 1,561 crore. EBITDA margins may decline 150 QoQ to 14.6% owing to wage hike (vs. usually spread across Q2 & Q3) and visa cost partly offset by rupee tailwind. Investor interest: FY19E revenue outlook, digital pipeline trajectory, update on acquired entities and top clients trajectory
Persistent Systems	We expect dollar revenues to grow 3% QoQ to $120.4 million led by 10% QoQ growth in IP led revenues post a decline of ~$7 million in IP led revenues in Q4FY18. Rupee revenues may grow 7.2% QoQ to ₹ 807 crore. EBITDA margins may expand 120 bps sequentially to 16% due to rupee depreciation benefit and operational efficiency. Investor interest: FY19E revenue outlook, update on IP revenues IBM partnership, deal traction in emerging technologies

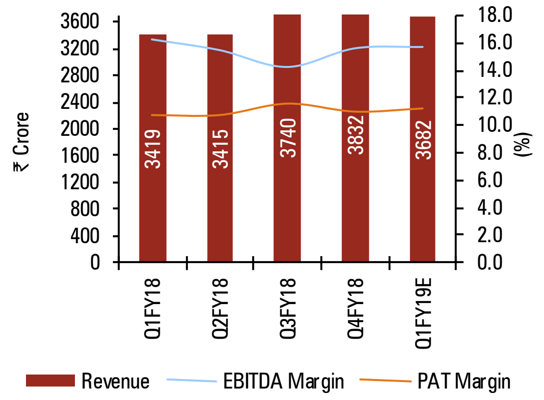
Source: Company, ICICI Direct Research

Company specific view

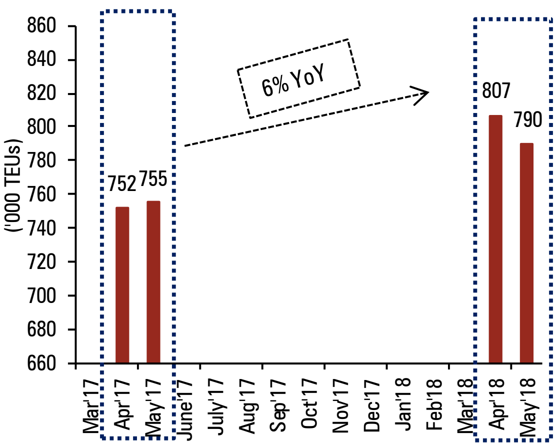
Company	Remarks
Cyient	We expect dollar revenues to decline 1.1% QoQ to $162.8 million mainly on account of 25% de-growth in seasonally weak Design Led Manufacturing (DLM) business. Rupee revenues may grow 2.7% QoQ to ₹ 1,090.6 crore. EBITDA margins may decline 10 bps QoQ to 14.1% owing to partial wage hike partly countered by rupee benefit. Investor interest: Update on New Business Accelerator initiative, demand in DLM and view on specific business verticals
eClerx	Dollar revenues are expected to decline 1.7% QoQ to $51.6 million owing to higher base in Q4FY18 wherein revenues grew 7.4% QoQ due to short term specific projects. Rupee revenues may de-grow 1.4% sequentially to ₹ 356.2 crore. EBITDA margins may expand 110 bps QoQ to 23.4% owing to sharp decline of 430 bps in Q4FY18 partly evened out by wage hike impact. Investor interest: FY19E revenue and margin trajectory, demand update on BFSI, top clients outlook
NIIT Tech	Dollar revenues may grow 3.6% QoQ to US$126.6 million led by order book conversion and deal win momentum. Rupee revenues may grow 7.5% QoQ to ₹ 848.3 crore. EBITDA margins may decline 120 bps QoQ to 16.8% on account of wage hike partly offset by rupee benefit and operational efficiency. Investor interest: update on FY19E revenue and margin outlook, order book conversion, update on transport vertical and traction in digital business
KPIT Tech	Dollar revenues may grow 1.8% QoQ to $152.9 million while rupee revenue could grow 6% QoQ to ₹ 1024.8 crore. EBITDA margins could expand 50 bps QoQ to 11.9% mainly on account of rupee benefit and absence of wage hike in Q1. Investor Interest: Update on merger with Birlasoft, revision in FY19E revenue guidance, margin trajectory
Firstsource Solutions	We expect rupee revenues to grow marginally by 0.8% YoY to ₹ 885 crore on account of quarter seasonality in collection business and partial impact of exit from domestic business. EBITDA margins may witness decline 130 bps QoQ to 13.5% in the quarter on the back of sharp 170 bps expansion to 14.8% in Q4FY18. Investor interest: Revenue guidance update for FY19E, healthcare business update and top client trajectory

Source: Company, ICICI Direct Research

Topline & Profitability (Coverage universe)



Port container volumes in uptrend…



Top Pick

Transport Corporation of India

Research Analyst

Bharat Chhoda
bharat.chhoda@icicisecurities.com

Logistics

Strong container volume growth but lead distance continues to shrink

FY19 has begun with strong container volumes for Indian Railways in the Exim segment while domestic volumes remained largely flat YoY. On a YTD basis (April and May), Indian Railways has grown 7.3% to 200 MMT in overall cargo volumes while it has grown 11% to 9.6 MMT in container volumes. Majority of YTD growth in the cargo volumes was derived from bulk commodities like coal (51% of overall tonnage), which grew 18% whereas cement and iron ore (10% each of the overall tonnage) grew -11% and 0.4%, respectively. In the container segment, Exim volumes remained robust with growth of 14% YoY to 7.7 MT, whereas, domestic volumes remained flat at 1.9 MT. Indian Railways is also a beneficiary of rising diesel prices, as cargo volumes tend to shift from road to railways during such times. However, with the pickup in ports along the East coast, the lead distance for railways has declined and is expected to remain muted.

Surface players benefit from E-Way bill; fuel hike to be passed on

Government of India implemented inter-state E-Way bill from April 1, 2018. As per an Icra report, it has improved the operational efficiency of major surface players and improved the turnaround times by 18-20%. Interaction with the management of our coverage companies (Gati, TCI and TCI Express) has revealed an element of smooth transition (with minor glitches) to the new system, with the help of their robust IT infrastructure and trained staff. Also, players were able to pass through higher crude prices (average price $75.5 per barrel), with a formula driven tariff generation (revised twice each month).

Major port traffic and air freight volumes show good performance

Major port traffic data (12 ports) has shown FY19 YTD (April, May) growth of 2.4% to 116.3 MMT in overall cargo handled and 7.7% in container volumes to 23.7 MMT (1597 TEUs ('000) – up 6%). Also, air freight data (domestic) has grown strongly at 11.4% YoY (for April, May) to 0.12 MMT. However, at the same time, the market share for our coverage company (BlueDart) has de-grown to 16.4% (earlier 18.4%) to 0.02 MMT.

Sector to be driven by surface players, margins to remain range-bound

Revenues of our logistics coverage universe are expected to grow 7.7% YoY to ₹ 3682 crore (₹ 3832 crore in Q4FY18). Profitability of surface players would drive overall EBITDA and PAT growth of 4.1% and 12.3% to ₹ 581 crore and ₹ 414 crore, respectively.

Exhibit 21: Estimates for Q1FY19E: (Logistics) (₹ crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q1FY19E	YoY	QoQ	Q1FY19E	YoY	QoQ	Q1FY19E	YoY	QoQ
Blue Dart	700.0	5.0	-2.3	70.0	52.7	23.3	39.2	86.0	14.9
Container Corporation	1,546.3	6.1	-5.7	313.8	-3.9	-9.4	274.1	12.6	-6.6
GATI Ltd	439.9	3.1	-3.2	19.8	8.9	28.0	2.9	-84.3	LP
Gujarat Pipavav	168.3	-0.5	1.7	95.9	-7.5	3.1	50.6	-9.2	4.1
TCI Express	243.8	20.0	-2.2	25.8	39.8	-9.2	16.7	37.6	-6.4
Transport Corp	583.3	17.4	-3.6	55.4	22.6	-8.3	30.1	71.0	-7.7
Total	3,681.6	7.7	-3.9	580.7	4.1	-3.3	413.6	12.3	-2.0

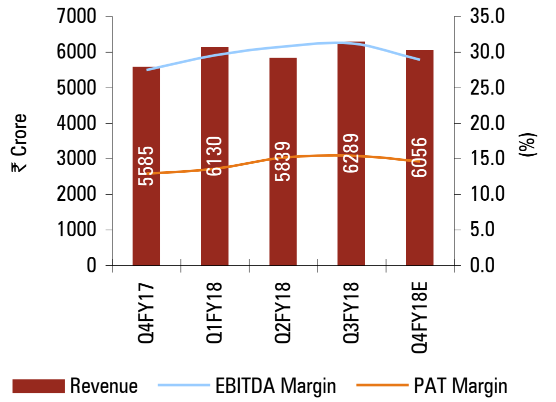
Source: Company, ICICI Direct Research

Exhibit 22: Company specific view

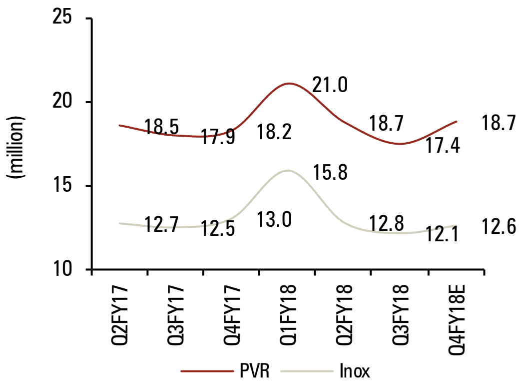
Company	Remarks
Container Corporation	Throughput container volumes are expected to grow 11% YoY to 930843 TEUs. Robust Exim volumes (up 12% YoY) are expected to be moderated by relatively flat domestic volumes (up 2% YoY). Resultant core revenues are expected to remain flat YoY, mainly due to expected 10% YoY decline in Exim realisation (ex-incentives), whereas domestic realisation is expected to remain flat. EBITDA margins may remain impacted by lower lead distances and subdued realisations resulting in moderation of 113 bps YoY to 21.3% with absolute EBITDA of ₹ 314 crore (down 4% YoY). However, the presence of export incentives during the quarter could result in 13% growth in reported PAT
Transport Corporation of India	Freight revenues are expected to grow 10% YoY while shipping and supply chain are expected to grow 30% and 22% YoY, respectively. Hence, resultant revenues are expected to grow 17% YoY to ₹ 583 crore, aided by smooth transitioning to E-way system. Increased contribution from high margin SCS, shipping business and effective passage of increased crude prices to customers, is expected to lead to improvement of 40 bps in EBITDA margin to 9.5%. Absolute EBITDA is expected to grow 23% YoY. Robust operational performance coupled with higher other income may result in robust PAT growth of 71% YoY
BlueDart	Revenues are expected to grow 5% YoY to ₹ 700 crore. The company had incurred an expenditure of ₹ 35 crore spread over Q4FY17 and Q1FY18 to prepare its business for the next level of growth. Following this, EBITDA margins is expected to expand 300 bps YoY and revert to its normalised levels at 10%. Absolute EBITDA may grow 53% YoY to ₹ 70 crore. Subsequently, PAT is expected to grow 86% mainly due to YoY improvement in operational performance, lower interest expense and a lower base quarter
Gujarat Pipavav Port	Post addition of a liner from parent in Q4FY18, container volumes for Q1FY18 are expected to grow 15% to ~190000 TEUs. However, bulk volumes are expected to remain flat. Higher competition from ports in the vicinity would keep a tab on realisations. Ancillary revenues (RoRo, liquid) would remain supportive to softness in the mainstream business. Overall revenues are expected to be flat YoY. EBITDA margins are expected to decline ~430 bps YoY mainly due to higher contribution from lower margin cargo, leading to EBITDA de-growth of 7% YoY. PAT is expected to decline 9% YoY at ₹ 51 crore
Gati	KWE is expected to clock ₹ 321 crore, entailing YoY growth of 15%. However, subdued e-commerce revenues would impact standalone revenues, which are expected to de-grow 10% YoY. Fuel sales may surprise positively. Kausar revenues are expected to grow 5% YoY. Consolidated revenues are expected to grow 3% YoY to ₹ 440 crore. Operating margins may expand 20 bps to 4.5%, as the company is expected to pass on hiked crude prices to customers. Resultant EBITDA is expected to grow 9% YoY. However, PAT is expected to de-grow 84%, mainly due to the presence of an exceptional income of ₹ 24.8 crore in Q1FY18
TCI Express	Robust growth in the auto industry would provide tailwinds for revenue growth. Revenues are expected to grow 20% YoY to ₹ 244 crore. EBITDA margins are expected to expand 150 bps to 10.6% with absolute EBITDA growth of 40% YoY. Resultant PAT is expected at ₹ 17 crore (up 38% YoY)

Source: ICICI Direct Research

Topline & Profitability (Coverage universe)



PVR & Inox – Footfalls



Top pick of sector

Inox Leisure
PVR
Sun TV

Research Analysts

Bhupendra.Tiwary
bhupendra.tiwary@icicisecurities.com

Sameer.Pardikar
sameer.pardikarl@icicisecurities.com

Media

PVR to outperform in box office collections, Inox in ad revenues

Q1FY19 is expected to be another strong quarter for PVR and Inox owing to healthy box office collections (surpassing Q1FY18 numbers, despite *Baahubali 2* in the base). Better-than expected collections came in from *Avengers*, *Raazi* & *Baaghi 2*, which more or less made up for lower-than-expected collections for *Race 3*. The footfalls for PVR are expected to grow 7% YoY while that of Inox are expected to decline 1% YoY on account of lower share in Hollywood content. We expect both Inox and PVR to report 2% and 1% YoY growth, respectively, in ATP owing to base effect. We expect Inox' outperformance in ad revenues to continue wherein Inox expects to report 20% YoY growth in ad revenues while ad revenues for PVR are expected to be flattish YoY. Box office collections for PVR are expected to grow 10.3% YoY while for Inox, growth is expected at ~1% YoY. On the EBITDA margin front, we expect PVR and Inox to post 90 bps and 110 bps, respectively, expansion on a YoY basis.

Broadcasters continue to report strong ad growth

We expect broadcasters to continue their strong growth momentum as far as advertisement revenue is concerned owing to base effect (low base post demonetisation) coupled with high single digit volume expectations from some of its key clients in the FMCG space. Zee Entertainment is expected to post 18.5% YoY ad revenue growth to ₹ 1144 crore. Subscription revenues are expected to post strong ~13% YoY growth to ₹ 540.3 crore. On the EBITDA margin front, Zee is likely post flattish EBITDA margin of 31.5% owing to continuous investments in the digital platform restricting operating leverage benefits. Advertisement revenue for Sun TV is expected to grow 18% YoY to ₹ 357.2 crore. Considering the full impact of its deal with Arasu for digitisation, subscription revenue growth for the quarter is expected to be strong at 24.3% YoY to ₹ 336.2 crore.

ENIL to bounce back on low base, MBL to continue steady growth

Ad revenue for ENIL is expected to recover from the negative trajectory on account of resolution of one of its key clients as well as continued traction from its new stations. Ad revenues are expected to report a bump up of ~19% YoY to ₹ 117.6 crore. Overall revenues are expected to grow 15% YoY to ₹ 120.1 crore. The company is expected to post 500 bps YoY EBITDA margin improvement to 21%. MBL, on the other hand, is expected to post ad revenue growth of 8.2% YoY to ₹ 76.3 crore, largely owing to continued balanced growth in volume and pricing. EBITDA margins are expected to expand 250 bps YoY to 34% on operating leverage.

Newsprint cost to hit print margins; Dish to report margin expansion

The print sector is expected to suffer from twin problems of sluggish ad revenue growth and elevated newsprint costs. DB Corp is expected to post ad revenue growth of 6.9% YoY to 463.7 crore while circulation revenues are expected to grow 8% YoY to ₹ 133.4 crore. DB Corp is expected to post 550 bps YoY decline in EBITDA margins to 25.9%. Dish TV's financials are not comparable on a YoY basis as it would now report merged entity numbers. On a QoQ basis, we expect 2.7% growth in revenues. We expect the company to report 470 bps expansion in EBITDA margins for the quarter on account of operating leverage playing out owing to higher number of days in this quarter and also owing to exclusion of merger related one-off costs (₹ 60 crore) in Q4FY18.

Exhibit 23: Estimates for Q1FY19E (Media) (₹ Crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q1FY19E	YoY	QoQ	Q1FY19E	YoY	QoQ	Q1FY19E	YoY	QoQ
DB Corp	636.1	7.0	12.1	165.0	-11.5	68.5	95.8	-13.0	67.8
Dish TV	1,574.4	NC	2.7	501.9	NC	25.3	24.0	NC	-80.2
ENIL	120.1	15.1	-24.6	25.2	51.1	-28.7	7.5	64.7	-36.3
Inox Leisure	410.7	6.0	26.9	84.2	11.9	91.9	37.4	16.5	NM
Music Broadcast Ltd	76.3	8.5	0.5	25.9	17.0	-5.2	13.5	24.7	-16.9
PVR	690.8	8.5	18.1	127.7	14.0	35.3	45.3	1.8	72.7
Sun TV	1,007.8	28.2	40.6	660.8	47.4	26.5	369.6	46.9	27.6
TV Today	186.8	23.7	3.1	58.8	28.2	12.4	36.4	87.8	11.6
Zee Ent.	1,780.1	15.6	3.2	560.7	15.8	10.8	349.4	38.9	51.3
Total	6,406.8	29.7	10.6	2,184.4	39.1	24.6	965.3	37.5	16.7

Exhibit 24: Company specific view

Company	Remarks
DB Corp	DB Corp is expected to post muted ad revenue growth on account of slower recovery of the local print ad market. Ad revenues are expected to grow 7% YoY to ₹ 417.6 crore. Circulation growth is expected to grow 8.1% YoY to ₹ 133.4 crore, aided by expansion drive. Radio is expected to grow 7% YoY to ₹ 33.4 crore. Margins are expected to decline 550 bps YoY to 25.9% impacted mainly by elevated newsprint costs
Dish TV	On account of merger of Dish TV and Videocon d2h in Q4FY18, the numbers are not comparable on a YoY basis. Despite a sports heavy quarter, we expect Dish TV to add 250,000 net subscribers for the quarter as guided by the management. We build 2% QoQ growth in ARPU to ₹ 205. We expect the combined entity (Dish TV Videocon) to post consolidated revenue of ₹ 1574 crore, which is 2.7% QoQ growth. We expect the company to report 470 bps expansion in EBITDA margins for the quarter on account of operating leverage playing out owing to higher number of days in this quarter and also owing to exclusion of merger related one-off costs (₹ 60 crore) in Q4FY18
ENIL	We expect ENIL to recover on the revenue front on base effect (de-growth in the last four quarter on account of issues with government advertising). We expect ENIL to post a overall revenue growth of 15% YoY to ₹ 120.1. We expect the company to report 500 bps YoY EBITDA margin expansion to 21%, largely driven by operating leverage

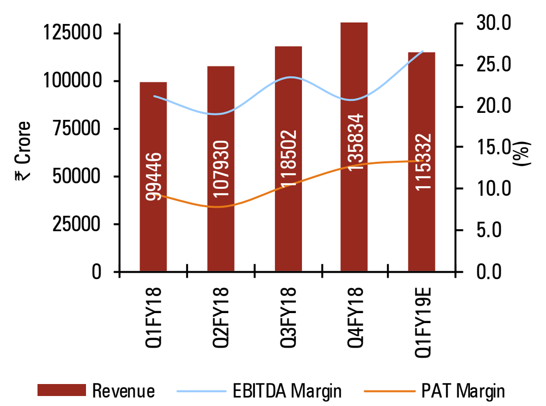
Source: Company, ICICI Direct Research

Exhibit 25: Company specific view

Company	Remarks
Inox Leisure	Box office collections for the quarter were strong owing to healthy collections from *Avengers*, *Raazi*, *Baaghi 2*, which led to superior collections despite *Baahubali 2* in the base. On a footfall basis, Inox is expected to report a marginal decline of 1.0% YoY on account of lower share in Hollywood movies vs. PVR. ATP is expected to grow 2% YoY. Net box office collections are expected to improve 1% YoY to ₹ 241.5 crore while F&B revenues are expected to witness 20.2% YoY growth. Inox is expected to report 20% YoY growth in ad revenues. We expect EBITDA margins to improve 110 bps YoY to 20.5%, largely driven by operating leverage from healthy revenues growth
PVR	Better-than-expected collections for the quarter came in from *Avengers*, *Baaghi 2*, *Raazi*, which drove overall collections despite *Baahubali 2* in the base. On the footfalls front, we expect the company to report strong 7.0% YoY growth to 22.5 million while ATP is expected to grow 1% YoY to ₹ 216. Net ticketing revenues are expected to post healthy growth of 10.3% YoY to ₹ 378.8 crore, driven by strong footfall growth. F&B revenues to continue its healthy traction and expected to grow 20.2% YoY to ₹ 197.7 crore. Advertising revenues are expected to be flat for the quarter YoY. We expect EBITDA margin expansion of 90 bps YoY to 18.5%
Sun TV	We expect Sun TV to continue strong ad revenue growth momentum on a favourable base (-3.9% YoY ad revenue decline in the base quarter). Subscription revenues are expected to continue their strong momentum on digitisation drive. We expect ad revenues to grow 18% YoY to ₹ 357.2 crore while subscription revenues are expected to grow 24.3% YoY to ₹ 336.3 crore. We expect EBITDA margins of 65.6% for the quarter, a sharp expansion of 860 bps largely owing to IPL profits (vs. losses in earlier years) and operating leverage
TV Today Network	We expect broadcasting revenues to benefit from Karnataka elections for the quarter. We expect advertising revenues to grow ~13% YoY to ₹ 162.4 crore. The radio business is expected to continue its momentum and is expected to post revenue of ₹ 7 crore, resulting in total revenue of ₹ 186.8 crore, growth of 24% YoY, also aided by inclusion of digital revenues. We expect EBITDA margins to improve 110 bps YoY to 31.5%
Zee Entertainment	Zee is expected to post healthy ad revenue growth of 18.5% YoY to ₹ 1148.8 crore to be largely driven by domestic ad revenue growth of 20% YoY on base effect as well as steady volume growth expectations for FMCG companies in the quarter. Subscription revenue is expected to post growth of ~13% YoY (there was a decline of 9.3% base quarter owing to exit of sports business). Incremental cost related to digital investments, however, will restrict operating leverage benefits, resulting in flat YoY EBITDA margin of 31.5%
Music Broadcast	We expect the company to report 8.5% YoY revenue growth to ₹ 76.3 crore. Majority of the growth is expected to come from new stations. We expect the company to post 250 bps YoY margin expansion to 34%, largely driven by operating leverage and improved profitability of new stations. We expect the company to report a net profit of ₹ 13.5 crore for the quarter

Source: Company, ICICI Direct Research

Topline & profitability (Coverage universe)

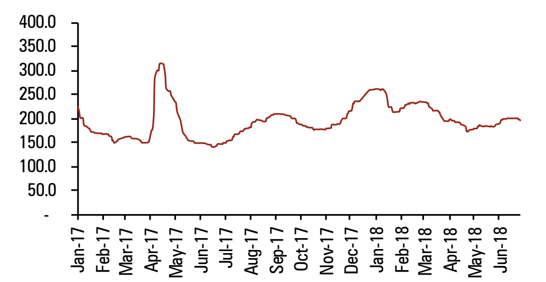


Movement of base metal prices on LME (US$ per tonne)

	Q1FY19E	Q1FY18	YoY %	Q4FY18	QoQ %
Zinc	3,111	2,591	20.1	3,413	(8.8)
Lead	2,384	2,156	10.6	2,518	(5.3)
Aluminium	2,264	1,905	18.8	2,154	5.1
Copper	6,881	5,668	21.4	6,958	(1.1)

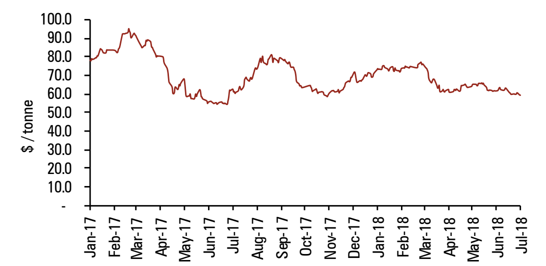
ource: Bloomberg, ICICI Direct Research

Spot coking coal prices (US$/tonne)



Source: Bloomberg, ICICI Direct Research

Iron ore spot price (62% Import Fine Ore CFR Qingdao)



ource: Bloomberg, ICICI Direct Research, Prices in US$/tonne

Research Analyst

Dewang Sanghavi
dewang.sanghavi@icicisecurities.com

Akshay Kadam
akshay.kadam@icicisecurities.com

Metals & Mining

Steel demand remains buoyant, grows ~8.5% YoY in April-May 2018

Cumulatively for the first two months of April-May 2018, the domestic finished steel consumption reported healthy growth of ~8.5% YoY. Major Indian steel players over the last year reported a consistent increase in EBITDA/tonne marked by increasing domestic steel prices. While steel prices (both global, domestic) remained firm during the quarter, going forward, increasing trade tensions globally could have a bearing on steel prices and, thus, remain a key monitorable.

Major non ferrous prices decline QoQ (except aluminium)

The trade tussle between the US and other major economies (including China) that began in March 2018 post the announcement of duties on steel and aluminium product, resulted in an overhang, impacting global metal prices. During Q4FY18, average zinc prices were at US$3111/tonne (up 20.1% YoY, down 8.8% QoQ). The decline in zinc prices is also attributable to an anticipated increase in supply owing to additional zinc mine capacity (~880000 tonnes) coming on stream during the current year as per ILZSG. The lead prices during Q1FY19 were at US$2384/tonne up 10.6% YoY, down 5.3% QoQ, while copper prices were up 21.4% YoY, down 1.1% QoQ to US$6881/tonne. Aluminium prices were the only exception, increasing 21.4% YoY, 5.1% QoQ to US$2264/tonne.

EBITDA to continue to remain robust for graphite electrode players...

We expect HEG and Graphite India to continue to report a healthy performance on the back of increasing realisations. HEG's topline is likely to increase ~649% YoY, ~19% QoQ while Graphite India's topline is expected to increase ~347% YoY and ~29% QoQ. We expect companies to report a robust EBITDA. HEG and Graphite India are likely to report strong EBITDA margins of 66.7% and 63.5%, respectively.

Aggregate EBITDA margins to increase YoY, QoQ...

We expect the aggregate topline of coverage companies to increase 16.0% YoY while the aggregate EBITDA margin is likely to increase 578 bps QoQ to 26.6% (vs. 21.2% in Q1FY18 and 20.8% in Q4FY18). We expect domestic operations of Tata Steel to clock EBITDA/tonne of ₹ 16500/tonne while we expect JSW Steel to clock ₹ 12000/tonne. EBITDA/tonne of domestic miners like Coal India is likely to come in at ₹ 350/tonne while that of NMDC is expected to come in at ₹ 1750/tonne.

Exhibit 26: Estimates for Q1FY19E: (Metals & Mining) (₹ Crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q1FY19E	YoY	QoQ	Q1FY19E	YoY	QoQ	Q1FY19E	YoY	QoQ
Coal India	23,265.8	21.4	-13.5	5,370.0	52.5	2,646.8	3,678.0	56.4	184.1
Graphite India	1,567.8	346.7	29.3	995.0	2,702.7	48.8	662.7	2,146.5	46.1
HEG	1,537.7	648.8	19.0	1,025.1	4,282.6	7.8	670.1	LP	5.7
Hindalco	8,966.4	-8.2	-23.2	1,119.0	-2.5	-11.0	335.9	16.0	-10.9
Hindustan Zinc	5,178.3	13.2	-17.5	2,790.0	17.0	-22.9	1,953.3	4.1	-22.0
JSW Steel	19,399.0	32.0	-6.8	4,925.0	88.2	-6.9	2,412.0	286.5	-15.8
NMDC	2,486.0	-12.5	-36.0	1,312.8	-12.2	-30.9	904.3	-6.7	-18.2
Vedanta Ltd	19,181.8	4.9	-30.6	6,194.1	27.1	-21.0	1,995.3	30.8	-58.4
Tata Steel	33,749.0	14.2	-6.6	6,899.2	38.7	6.2	2,797.7	82.6	-15.5
Total	115,331.7	16.0	-15.1	30,630.1	45.4	8.5	15,409.3	67.7	-11.2

Source: Company, ICICI Direct Research, Hindalco numbers are excluding Novelis & Utkal Alumina

Hindustan Zinc: Sales Volume Trend

		FY18				FY19
Sales	Unit	Q1	Q2	Q3	Q4	Q1E
Zinc	Tonne	190000	193000	200000	210000	175000
Lead	Tonne	34000	40000	46000	50000	40000
Silver	Kg	110000	146000	135000	167000	135000

JSW Steel: EBITDA/tonne & Sales

	FY18				FY19
	Q1	Q2	Q3	Q4	Q1E
Sales Volume	3.5	3.9	4.0	4.2	3.9
EBITDA/tonne	6,262	7,467	9,000	11,950	12,000

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

Tata Steel: EBITDA/tonne & Sales

	FY18				FY19
Sales Volume	Q1	Q2	Q3	Q4	Q1E
Tata Steel India	2.8	3.1	3.3	3.0	3.1
Tata Steel Europe	2.4	2.6	2.4	2.6	2.4
Tata Steel Group	5.8	6.5	6.6	6.7	6.2
EBITDA/tonne					
Tata Steel India	10,786	10,959	14,025	15,872	16,500
Tata Steel Europe	80	45	40	70	100

Sales volume in million tonne
Tata Steel India EBITDA/tonne denoted in ₹/tonne
Tata Steel Europe EBITDA/tonne denoted in US$/tonne

Exhibit 27: Company specific view

Company	Remarks
Coal India	For Q1FY19, Coal India reported a healthy coal offtake of 153.4 million tonne (MT) up 11.7% YoY. On the back of healthy realisations in both FSA and e-auction sales, we expect the topline to increase 21.4% YoY. The EBITDA is also likely to increase 52.5% YoY. EBITDA margins are, thus, likely to come in at 23.1%. We expect the corresponding EBITDA/tonne to come in at ₹ 350/tonne
Graphite India	For Q1FY19E, we expect the company's capacity utilisation levels to remain elevated at ~90%. The consistent increase in realisations are likely to boost the topline to ₹1567.8 crore, up 346.7% YoY and 29.3% QoQ. We expect the EBITDA to come in at ₹ 995.0 crore, implying an EBITDA margin of 63.5% (vs. 55.2% in Q4FY18 and 10.1% in Q1FY18). We expect the company to report a healthy PAT of ₹ 662.7 crore
HEG	We expect HEG to continue to report robust profitability for Q1FY19E supported by consistently increasing realisations. We expect the company to report a healthy capacity utilisation level of ~85%. The topline is likely to increase 648.8% YoY and 19.0% QoQ to ₹ 1537.7 crore while EBITDA is likely to come in at ₹ 1025.1 crore, implying an EBITDA margin of 66.7% (vs. Q4FY18: 73.6% and Q1FY18:11.4%). We expect the company to report a PAT of ₹ 670.1 crore
Hindustan Zinc	For Q1FY19, we expect Hindustan Zinc's PAT to remain flattish YoY. On account of seasonally weak quarter, zinc volumes for the quarter are likely to come in at ~175000 tonnes, down ~8% YoY and ~17% QoQ. Lead volumes are likely to come in at ~40000 tonne (up 18% YoY, down 20% QoQ). Silver volumes are expected to come in at ~135000 kg. Also the Q1FY19 sales volume will include forward sales of zinc and lead to the tune of 70 KT and 15 KT booked at US$3076/tonne and US$2374/tonne, respectively. We expect HZL's EBITDA margin to come in at 53.9% (vs. Q1FY18: 52.1% and Q4FY18: 57.7%)
JSW Steel	We expect JSW Steel to report a strong performance with standalone operations clocking an EBITDA/tonne of ₹ 12000/tonne (vs. Q1FY18: ₹ 6262/tonne and Q4FY18: ₹ 11950/tonne) driven by a healthy increase in domestic steel prices. We expect domestic operations to report steel sales of 3.9 million tonne (MT). We expect the consolidated topline and EBITDA to increase ~32% and 88% on a YoY basis, respectively. The corresponding consolidated EBITDA margin is, thus, likely to remain flattish at 25.4% YoY
Hindalco	For Q1FY19, we expect EBITDA margins to increase to 12.5% (vs. 10.8% in Q4FY18 and 11.7% in Q1FY18). Domestic operations are likely to report aluminium sales of ~315000 tonne. Copper sales are likely to come in at ~70000 tonne impacted by a maintenance shutdown of a month taken during the quarter. We expect the topline to decline 8.2% YoY, 23.2% QoQ. Novelis for Q1FY19 is likely to report FRP shipments of ~825 KT with an EBITDA/tonne of US$400/tonne. In addition, we expect Utkal Alumina to report an EBITDA of ₹375 crore.

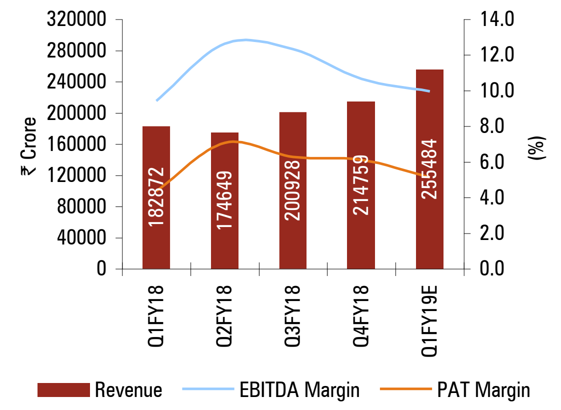
Source: ICICI Direct Research

Exhibit 28: Company specific view

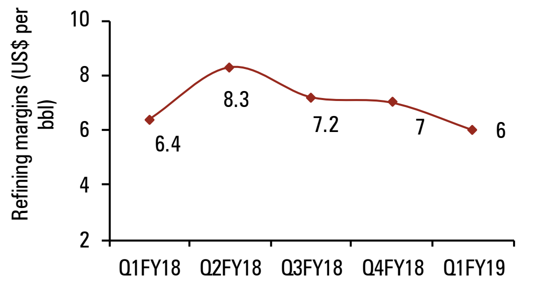
NMDC	For the quarter, we expect NMDC to report a sales volume of 7.5 MT. On account of lower volumes, we expect the topline to decline ~13% YoY and ~36% QoQ. The EBITDA is likely to decline ~12% YoY and ~31% QoQ, EBITDA margins are likely to come in at 52.8% (vs. Q1FY18: 52.6% and Q4FY18: 49%). The company is expected to clock an EBITDA/tonne of ₹ 1750/tonne
Vedanta	Vedanta's Q1FY19 performance will be marked by a decline in the nonferrous prices on a QoQ basis (except aluminium) and shutdown of its copper operations at Tuticorin. However, the increase in crude oil prices is likely to aid performance of the oil & gas segment. We expect the topline to increase 4.9% YoY and decline 30.6% QoQ. The EBITDA margin is likely to come in at 32.3%
Tata Steel	We expect domestic operations to report a robust EBITDA/tonne of ₹ 16500/tonne. The Indian operations are expected to report steel sales of 3.1 million tonne (MT) up 13.8% YoY while European operation's sales volumes are likely to come in at 2.4 MT (flattish YoY). We expect the European operations to clock an EBITDA/tonne of ~US$100/tonne. The consolidated topline and EBITDA are likely to increase 14.2% and 38.7% on a YoY basis, respectively. The consolidated EBITDA margin is likely to increase 361 bps YoY to 20.4%

Source: ICICI Direct Research

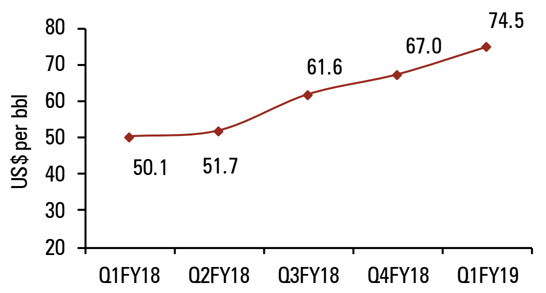
Topline & profitability (Coverage universe)



Singapore gross refining margins (GRMs)



Average Brent crude oil prices



Top picks of sector

Petronet LNG
GAIL
Gujarat Gas

Research Analyst

Mayur Matani
mayur.matani@icicisecurities.com

Akshay Gavankar
akshay.gavankar@icicisecurities.com

Oil and gas

Growth momentum continues for gas sector

The demand for domestic gas and LNG imports from consuming sectors has remained on a steady growth path on a YoY basis and augurs well for volumes of gas utility companies. City gas distribution companies are expected to continue to report good volume growth due to sustainable conversion to CNG vehicles and rising concerns with respect to current pollution issues. However, spot LNG prices remained high during the quarter and it will have an impact on margins YoY. Sequentially, margins are expected largely stable due to price hikes.

Crude oil prices rise QoQ on the back of geopolitical volatility

The quarter witnessed various geopolitical events supporting the upward trajectory in crude oil prices. Opec countries continued to adhere to the production cut agreements in Q1FY19. Although US' oil production witnessed an increase during the quarter, developments like renewed sanctions on Iran and lower production from countries like Venezuela led to speculation on further tightening of oil supply. As a result, average Brent crude prices increased 10.9% QoQ from US$67.1/bbl in Q4FY18 to US$74.5/bbl in Q1FY19. This may lead to an improvement in realisations of upstream oil companies. We estimate gross crude oil under-recoveries at ₹ 8719 crore with respective shares of government and upstream sector at 97% and 3%.

Weak product spreads pull GRMs in Q1FY19

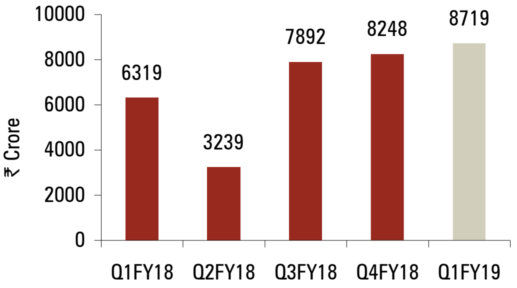
Product spreads for a majority of petroleum products weakened in Q1FY19. As a result, benchmark Singapore GRMs witnessed a decline from US$7.0/bbl in Q4FY18 to US$6/bbl in Q1FY19. While crack spreads for gasoline (petrol) declined by US$1.1/bbl QoQ to US$13.4/bbl, spreads for gas oil (diesel major product for Indian refiners) declined by US$0.5/bbl, thus having impact on operational GRMs of OMCs. On the marketing front, marketing margins of OMCs contracted over the past few months as petrol and diesel final prices to customers have not increased in tandem with the rise in international fuel prices. This is likely to have an impact on overall profitability. We assume an average growth rate of 4.5% YoY for marketing volumes of major petroleum products.

Exhibit 29: Estimates for Q1FY19E: (Oil and Gas) (₹ Crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q1FY19E	YoY	QoQ	Q1FY19E	YoY	QoQ	Q1FY19E	YoY	QoQ
Bharat Petroleum	93,067.8	39.4	22.3	3,537.0	188.7	-5.0	2,158.1	189.8	-19.3
Castrol India Ltd	1,017.5	16.9	9.8	280.4	33.9	2.2	185.6	34.6	2.1
Gail India	16,671.1	44.1	8.0	1,905.9	0.3	12.4	1,143.9	11.5	12.0
Gujarat Gas	1,762.5	19.2	1.7	227.7	-15.6	2.3	81.7	-21.7	23.9
GSPL	337.7	14.0	-3.6	298.2	8.1	3.1	142.7	-6.5	-9.4
Gulf Oil	367.0	31.0	-1.7	57.2	16.0	-9.0	36.9	7.7	-10.7
HPCL	85,559.9	42.7	28.4	2,554.5	56.9	-12.6	1,322.5	43.0	-24.3
Indraprastha Gas Ltd	1,324.2	26.2	7.4	295.8	6.7	1.5	174.8	8.4	0.0
Mahanagar Gas Ltd	663.4	13.8	3.0	191.7	-5.7	8.8	117.1	-5.9	11.7
MRPL	19,465.2	34.3	3.8	891.9	53.1	-14.6	422.8	80.7	-22.0
ONGC	26,375.3	38.3	10.0	14,437.4	46.1	26.8	6,842.3	76.1	15.7
Petronet LNG	8,872.4	37.9	2.7	791.0	6.3	-3.8	487.5	11.4	-6.7
Total	255,483.9	39.7	19.0	25,468.8	47.7	11.2	13,115.9	64.7	-0.2

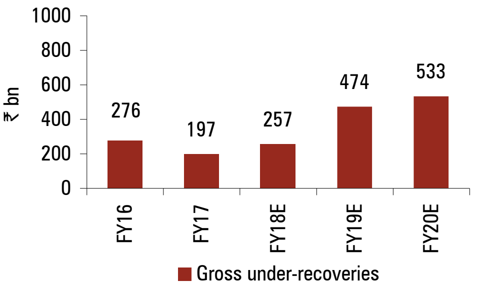
Source: Company, ICICI Direct Research

Gross under-recoveries of petroleum products (QoQ)



** Under-recoveries includes Cash Subsidy under DBTL*

Gross under-recoveries of petroleum products (YoY)



Sharing of crude oil under-recoveries (₹ Crore)

	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Upstream	0	0	0	0	280
Downstream	0	0	0	0	0
Government	6319	3239	7892	8248	8439
Total	6319	3239	7892	8248	8719

Sharing of crude oil under-recoveries (%)

	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Upstream	0.0	0.0	0.0	0.0	3.2
Downstream	0.0	0.0	0.0	0.0	0.0
Government	100.0	100.0	100.0	100.0	96.8
Total	100.0	100.0	100.0	100.0	100.0

Singapore benchmark product spreads (US$/bbl)

Product Spreads	Q4FY18	Q1FY19	Chg YoY	Chg QoQ
Gasoline	14.5	13.4	-2.2	-1.1
Naphtha	-0.8	-1.6	-0.3	-0.8
Jet Kerosene	15.8	15.4	4.5	-0.4
Gas Oil	13.7	13.2	2.6	-0.5
Fuel Oil	-7.4	-7.7	-3.6	-0.3
LPG	-18.9	-23.8	-8.3	-4.9

Source: Bloomberg, Reuters

Exhibit 30: Company specific view

Company	Remarks
BPCL	Revenues are expected to increase 22.3% QoQ to ₹ 93067.8 crore on account of a rise in product realisations due to high crude oil prices. BPCL's Q4FY18 GRMs ($6.5/bbl) were weak on account of higher stabilisation expenses. Hence, GRMs are expected to improve marginally to $6.7/bbl. However, core operational product spreads have weakened. Crude throughput is expected to remain stable at 7.8 MMT vs. 7.9 MMT in Q4FY18. PAT is expected to decline 19.3% QoQ to ₹ 2158.1 crore on a higher base of Q4FY18 as it included lower tax rates and higher other income
Castrol India	We expect revenues to increase 16.9% YoY mainly on account of higher volumes and realisations. Volume growth is expected to be 8.1% YoY on a lower base of Q2CY17, which was impacted by GST related de-stocking. Gross margins are expected to increase 7.7% YoY to ₹ 93.3/litre with EBITDA per litre at ₹ 51/litre. However, on a QoQ basis, we expect margins to decline marginally due to a rise in base oil (raw material prices). On the profitability front, we expect PAT to increase 34.6% YoY to ₹ 185.6 crore vs. ₹ 137.9 crore in Q2CY17 (Q1CY18: ₹ 181.8)
Gail	Profitability is expected to improve 11.5% YoY supported by a stable performance in majority of the business segments. Gas transmission volumes are expected to increase 6.1% YoY to 106 mmscmd with its EBIT increasing 3% YoY to ₹ 656.3 crore. The EBIT of the petchem segment is expected at ₹ 101 crore supported by better realisations due to a rise in crude oil prices and volume growth. On the LPG liquid hydrocarbon front, EBIT is expected to remain stable and increase marginally YoY to ₹ 540.5 crore. However, on a QoQ basis, relatively subdued LPG prices is expected to have an impact on the realisations and EBIT of the segment
GSPL	GSPL's gas transmission volumes are expected at 32.5 mmscmd in Q1FY19 vs. 34.2 mmscmd QoQ as there was higher offtake from the power sector in Q4FY18. With transmission tariffs remaining flat at ₹ 1.13/scm, we expect revenues at ₹ 337.7 crore vs ₹ 350.4 crore in Q4FY18. On the profitability front, higher interest costs (due to acquisition of more stake in Gujarat Gas) are likely to have an impact on PAT. This is expected to decline 9.4% QoQ to ₹ 142.7 crore
Gujarat Gas	We expect revenues to increase 19.2% YoY on account of higher realisations coupled with steady volume growth of 7.2% YoY at 6.6 mmscmd. Although the company has taken price hikes during the quarter, higher LNG prices on a YoY basis will have an impact on gross margins. We expect gross margins at ₹ 6.4/scm vs. ₹ 7.5/scm in Q1FY18. However, on a QoQ basis, due to price hikes gross margins are expected to improve (Q4FY18: ₹ 6.2/scm). We expect profitability at ₹ 81.7 crore, down 21.7% YoY (increase 23.9% QoQ) mainly on account of lower YoY gross margins
Gulf Oil Lubricants	Revenues are expected to increase 31% YoY mainly on account of higher volumes and realisations. We expect core volumes to report growth of 14% YoY on a lower base of Q1FY18, which witnessed GST de-stocking. EBITDA per litre is expected to increase marginally to ₹ 23.9/litre vs ₹ 23.5/litre in Q1FY18. PAT is expected to increase 7.7 % YoY to ₹ 36.9 crore
Hindustan Petroleum	We expect revenues to increase 28.4% QoQ to ₹ 85559.9 crore mainly due to higher product prices. Crude throughput is expected to remain stable QoQ at 4.5 MMT in Q1FY19. We expect a decline in refining margins to $6.2/bbl vs. $7.1/bbl in Q4FY18 mainly on account of weak product spreads. Subsequently, PAT is expected to decline 24.3% QoQ to ₹ 1322.5 crore
Indraprastha Gas	With encouraging CNG vehicle conversions and Delhi's pollution issues, IGL's volumes are expected to grow 12.8% YoY. Total volumes are expected at ~5.5 mmscmd (CNG: 4.1 mmscmd, PNG: 1.4 mmscmd). We expect gross margins to continue to remain strong YoY at ₹ 14.1 per scm, up ₹ 0.5 per scm led by the pricing power. However, on a QoQ basis, higher levels of LNG prices for a prolonged period will restrict any improvement in the same. EBITDA per scm is expected to remain strong YoY at ₹ 5.9 per scm with PAT growth at 8.4% YoY to ₹ 174.8 crore

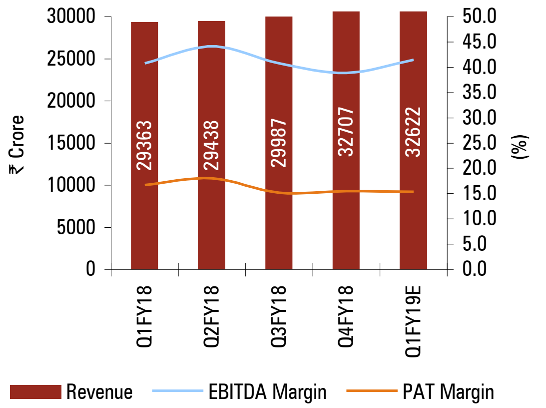
Source: ICICI Direct Research

Exhibit 31: Company specific view

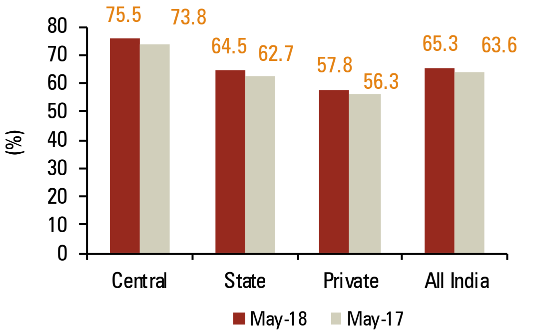
Mahanagar Gas	We expect MGL's growth momentum to remain steady with volume growth of 6.4% YoY supported by robust conversion rate of CNG vehicles. Volumes are expected at 2.73 mmscmd (CNG: 2 mmscmd, PNG: 0.73 mmscmd). Gross margins are expected to remain stable at ₹ 14.6 per scm in Q1FY19 vs. higher base of ₹ 15.1 per scm in Q1FY18. Higher other expenses YoY will have an impact on PAT, which is expected to decline 5.9% YoY to ₹ 117.1 crore
MRPL	Reported GRMs are expected at $8.8/bbl vs. $7.9/bbl in Q4FY18. Although there was QoQ improvement in reported GRMs, core operational GRMs are expected to remain low at $6/bbl vs. $6.5/bbl in Q4FY18 mainly on account of weak product spreads. Inventory gains for the quarter are expected at $ 2.8/bbl vs. $ 1.4/bbl in Q4FY18. Throughput in Q1FY19 is expected at 3.7 MMT vs. 4.3 MMT in Q3FY18. PAT is expected to decline 22% QoQ to ₹ 422.8 crore owing to lower operational GRMs
ONGC	Oil & gas production is expected to witness QoQ growth of 2.4% and 1.5%, respectively. While oil production is estimated at 6.4 MMT, gas output is expected at 6.2 MMT in Q1FY19. We expect net realisations to improve 9.5% QoQ at $73/bbl due to rise in crude oil prices. Net realisations include subsidy burden of $1/bbl (₹ 245 crore). PAT is expected to increase 15.7% QoQ to ₹ 6842.3 crore mainly on account of higher realisation
Petronet LNG	We expect the topline to increase 37.9% YoY to ₹ 8872.4 crore on account of robust volume growth. Total volumes are expected to increase 10.2% YoY to 211.2 trillion British thermal units (tbtu) (~4.1 MMT). However, on a QoQ basis, volumes are expected to remain flat. Blended margins are expected to decline 1.9% YoY to ₹ 45.5/mmbtu mainly due to lower margins on relatively costlier spot LNG. PAT is expected to increase 11.4% YoY to ₹ 487.5 crore mainly on account of higher volumes

Source: ICICI Direct Research

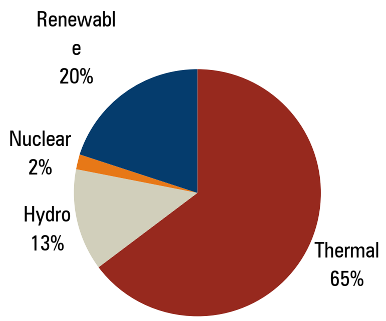
Topline & Profitability (Coverage universe)



Trend in all India sectoral PLF



Segment wise break up of total installed capacity



Data as on May 2018

Top pick of sector

CESC

Research Analyst

Chirag Shah
shah.chirag@icicisecurities.com

Power

Sector witnesses muted capacity addition in April-May 2018

The capacity addition trend has been lacklustre across the power sector as only capacity to the tune of 110 MW (hydro capacity) was added in YTDFY18 vs. 3756 MW in YTDFY17, implying a decline of 97% YoY. The current installed capacity as of May 2018 was at 343898 MW out of which thermal capacity was at 222693 MW. The share of renewables in overall base was at 20% (69022 MW), way above hydro capacity, which was at 45403 MW. The share of private sector was at 45% of the overall installed base. Going ahead, the government has further upped the ante on renewable capacity addition and expects to add 40000 MW capacity per annum till 2028 and takes the share of the same at 55% of overall installed base by 2028. For Q1FY19E, NTPC has not commercialised any capacity even though target for FY19E is expected over 4000 MW while Power Grid is expected to add assets to the tune of ₹ 6000-7000 crore.

Power generation up ~2% in YTDFY18 as hydro declines significantly

Overall power generation in April-May 2018 was up 2% YoY while in May 2018 the same was up 3.1% YoY. In terms of segmental (YTD) basis, thermal generation was up 4.6% YoY. The key negative surprise came in from hydro wherein generation witnessed a decline to the tune of 20% YoY. On the other hand, renewable segment witnessed 22% YoY growth in generation in April 2018, mainly on the back of strong capacity addition in FY16-18. Base and peak deficit were at 0.6% and 1.4%, respectively, in May 2018. On an all-India level, PLFs for May 2018 were up 180 bps at 65.3%. On a segmental basis, central and state level utilities saw robust PLFs at 75.4% and 64.5% while that of private IPPs after many months improved from 56.3% to 57.8%.

Performance of coverage companies to be mixed

On an overall basis, Q1FY19E is expected to pan out well for companies under coverage. We expect the coverage universe to report revenue growth of 11.1% YoY while PAT growth is expected at 2.3% YoY. NTPC on the back of strong capacity addition in FY18 and recovery in demand will lead to generation growth at 7.45% whereas revenues are expected to grow 10.8% YoY (on the back of higher realisations YoY). Power Grid may continue its reasonable asset capitalisation trend of ₹ 6000-7000 crore for Q1FY19E. Similarly, revenues, PAT are expected to grow 14.6%, 12.5% YoY, respectively, in Q1FY19E. CESC may report 6.3% growth in energy sold (volume from base business plus power purchase from subsidiary). EBITDA is expected to decline marginally on account of higher cost of power purchase (rise in coal prices). We expect PAT to grow 10.2%, mainly due to negative other income in the corresponding quarter of last year.

Exhibit 32: Estimates for Q1FY19E: (Power) (₹ Crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q1FY19E	YoY	QoQ	Q1FY19E	YoY	QoQ	Q1FY19E	YoY	QoQ
CESC	2,234.1	2.3	24.5	587.6	-3.2	121.7	196.2	10.2	-33.5
NTPC	22,022.2	10.8	-4.7	5,696.7	13.0	-3.6	2,452.4	-6.3	-16.2
Power Grid Corp	8,366.0	14.6	7.1	7,236.6	14.6	10.9	2,350.9	12.5	27.9
Total	32,622.3	11.1	-0.3	13,520.9	13.0	6.5	4,999.5	2.3	-1.2

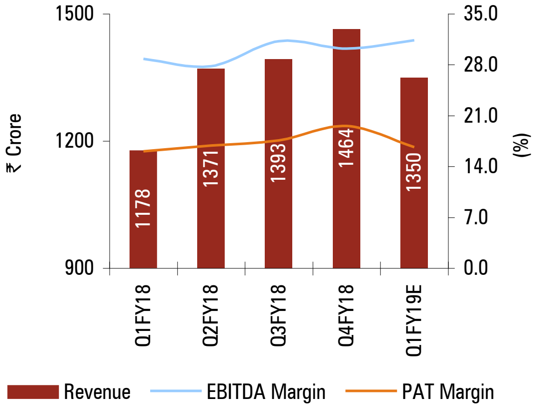
Source: Company, ICICI Direct Research

Exhibit 33: Company specific view

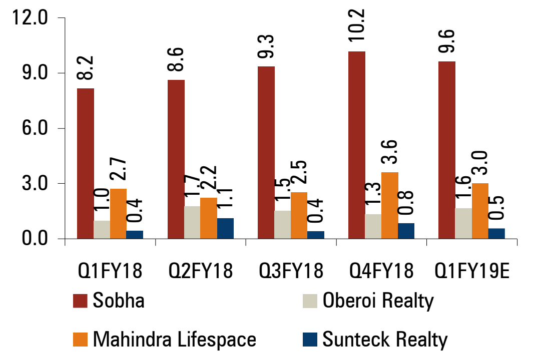
Company	
NTPC	Strong capacity addition and consistent recovery in demand are expected to drive NTPC's generation growth by 7.4% to 69.2 billion units (BUs) in Q1FY19E. We expect energy sold to grow 8.3% YoY to 64.8 BUs. We build in realisation of ₹ 2.4 Kw/hr and expect revenues to grow 10.8% YoY to ₹ 22022.2 crore. EBITDA is expected to grow 13% YoY to ₹ 5696.7 crore. However, other income is expected to decline 21.9% YoY, which will optically exhibit PAT decline of 6.3% YoY to 2452.4 crore. The company has not declared any addition in capacity in Q1FY19E
Power Grid	We expect the company to capitalise transmission assets to the tune of ₹ 6000-7000 crore in Q1FY19E. Backed by robust capitalisation in the past two to three years, we expect transmission revenues to grow 15% YoY to ₹ 7970 crore whereas segments like telecom and consultancy are expected to grow 10% and 5% YoY, respectively. EBITDA is expected to grow 15% YoY whereas finance costs are expected to go up 13.6% YoY. Consequently, profitability is expected to grow 12.5% YoY to ₹ 2350.9 crore
CESC	CESC is expected to report reasonable gross generation growth in its standalone operations. Generation is likely to grow 13.9% YoY at 170.8 crore units. Similarly, energy purchased is also likely to be up 2%, which will result into 6.3% YoY growth in energy sold. Revenues are expected to grow 2.3% YoY to ₹ 2234.1 crore. PAT is expected to grow by 10.2% YoY at ₹196.2 crore. The key monitorable will be the outlook on the PPA signing at the Chandrapur plant and performance of the retail subsidiary

Source: Company, ICICI Direct Research

Topline & Profitability (Coverage universe)



Sales Volume Trend (Coverage Universe)



**Actual sales volumes for Sobha in Q1FY19*

Top Pick

Oberoi Realty

Research Analyst

Deepak Purswani, CFA
deepak.purswani@icicisecurities.com

Vaibhav Shah
vaibhav.shah@icicisecurities.com

Real Estate

Implementation of Ind-As 115 to impact financials of RE players…

Real estate companies will have to follow Ind-As-115 effective from April 1, 2018. Under Ind-As-115, real estate companies will have to migrate their revenue recognition policies from percentage completion method to project completion method even for ongoing projects. Consequently, real estate companies may have to reverse the profit booked from the ongoing project in its financials for previous years. This would erode their networth and, hence, their leverage position (D/E) could look optically very high. This could act as an overhang for our real estate universe companies (except Oberoi Realty) in the near term as they have higher exposure to the residential segment.

Sales volumes of real estate universe to improve YoY…

We expect sales volumes of our universe to post robust growth of 20.8% to 14.8 lakh sq ft in Q1FY19E led by 69.6% growth in sales volumes of Mahindra Lifespace to 3.0 lakh sq ft. Also, Sobha reported strong sales volume growth of 17.8% YoY to 9.6 lakh square feet. Overall, given the low interest rate regime and gradual improvement in consumer sentiments, we expect a meaningful recovery in sales volumes in the real estate sector largely led by the affordable housing segment, going forward.

Topline of real estate coverage universe to grow 55.8% YoY…

Real estate universe revenues are expected to grow robustly by 55.8% YoY to ₹ 1836.2 crore. This growth is mainly on account of robust topline growth of Oberoi Realty of 206.7% YoY to ₹ 799.7 crore as SkyCity project is expected to hit revenue recognition threshold in Q1FY19E. Furthermore, the universe is expected to post EBITDA margins of 37.2%. Consequently, we expect our universe PAT to grow robustly by 110.5% YoY to ₹ 398.8 crore.

Exhibit 34: Estimates for Q1FY19E (Real Estate) (₹ crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q1FY19E	YoY	QoQ	Q1FY19E	YoY	QoQ	Q1FY19E	YoY	QoQ
Oberoi Realty	799.7	206.7	133.4	426.8	214.8	132.8	283.1	209.8	98.2
Mahindra Lifespace	79.5	-27.3	-45.3	8.6	-26.1	-43.6	9.5	-10.4	-42.1
Sobha Dev.	778.6	15.4	1.2	140.4	15.5	2.9	56.1	17.7	-14.1
Sunteck Realty	178.4	33.8	-13.7	107.4	51.8	0.0	49.9	25.9	-19.0
Total	1,836.2	55.8	25.4	683.1	101.3	54.4	398.8	110.5	39.2

Source: Company, ICICI Direct Research

Major News during Q1FY19

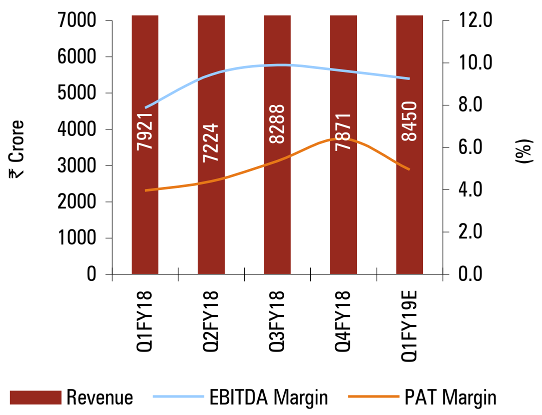
Real Estate Sector	A CBRE report indicates that office space leasing has jumped ~25% YoY to 11 million square feet in Q1CY18 in top eight cities of India. In line with the increasing demand, supply addition more than tripled to 9.7 million sq ft indicating continued occupier interest for quality office spaces across the country
	The government is set to achieve it ambitious target of 'Housing for All' by middle of 2019, much earlier than its stated deadline of 2022 given the rapid pace of sanctions. It aims to sanction 1.1 crore homes, of which 0.45 crore units have already been sanctioned. In addition to this, the government is also sanctioning around 3-5 lakh urban units every month
	Residential sales across top eight tier I cities of India has grown 13% in FY18 with Mumbai Metropolitan Region witnessing maximum growth of 25%, showed data from Liases Foras Ratings & Research
	The affordable housing segment will get a boost as RBI has revised housing loan limits for priority sector lending eligibility from ₹ 28 lakh to ₹ 35 lakh in metropolitan centres and from ₹ 20 lakh to ₹ 25 lakh in other centres
	Media reports indicate that implementation of a new accounting standard Ind As-115 from this fiscal will force listed real estate companies to write back profits made over the past few years from all projects that are not complete. Under Ind-As 115, listed real estate companies will have to write back ~₹ 20000 crore from their net worth in FY19E itself
	The Ministry of Housing & Urban Affairs has enhanced the carpet area of houses eligible for subsidy under CLSS from 120 sq mt to 160 sq mt for MIG -I and from 150 sq mt to 200 sq mt for category MIG-II
Mahindra Lifespace	Mahindra Lifespace Developers announced the inauguration of Multi-product Special Economic Zone at Mahindra World City, Jaipur (MWCJ). MWCJ is a joint venture of Mahindra Lifespace Developers and Rajasthan State Industrial Development and Investment Corporation. The company also signed MoUs with two new customers viz. Sigma Electric and Aro Granite
	The company is looking to launch a residential project "Roots" in Kandivali with saleable area of ~1.4 lakh sq ft with configuration of 1BHK and 2 BHK
Oberoi Realty	Subsequent to the approval by the board of directors and special resolution passed by shareholders, the QIP Committee of Oberoi Realty has authorised the opening of issue today and set floor price at ₹ 509.2/ share. Furthermore, media reports indicate the company would be raising ₹ 1200 crore through QIP
Sobha Ltd	Sobha has forayed into Gujarat market. The company will make an investment of ~₹ 500 crore towards residential development in Gujarat International Finance Tee-City. It entails development of ~1000 units with total built-up area of 1.3 million square feet

Exhibit 35: Company specific view (Real Estate coverage universe)

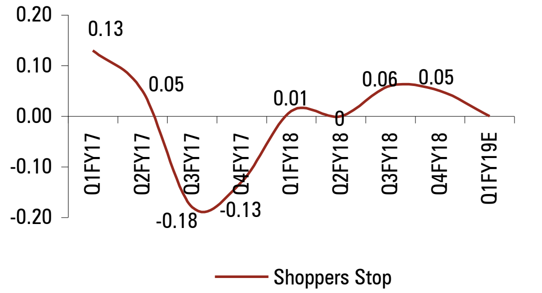
Company	Remarks
Oberoi Realty	With a gradual improvement in the demand environment, we expect Oberoi to post sales volumes of 1.65 lakh sq ft. Further, on the financial front, we expect the topline to triple to ₹ 818.7 crore as the SkyCity project is expected to hit revenue recognition threshold in Q1FY19. Furthermore, EBITDA margins are expected to contract 700 bps YoY to 45.0%. With strong topline growth, we expect its bottomline to grow 167.2% YoY to ₹ 244.2 crore
Sobha Ltd	Sobha reported strong sales volume growth of 17.8% YoY to 9.6 lakh sq ft led by strong performance in the Bangalore market (6.1 lakh sq ft). On the financial front, with implementation of Ind-As 115 in Q1FY19, the real estate segment revenues could be impacted and may vary from our estimates. On a broader basis, we expect topline to grow robustly by 14.9% YoY to ₹ 775.5 crore. Further, we expect EBITDA margins to remain flattish YoY at 18.0%. We expect the bottomline to grow 16.9% YoY to ₹ 55.8 crore led by strong topline growth
Mahindra Lifespace	With a strong response at its newly launched affordable housing project at Palghar, we expect MLD to post sales volumes of 3 lakh sq ft. On the financial front, with implementation of Ind-As 115 in Q1FY19, the real estate segment revenues could be impacted and may vary from our estimates. We expect MLDL's topline to decline 27.3% YoY to ₹ 79.5 crore. Further, we expect the EBITDA margins to expand 190 bps to 12.5%. We expect the bottomline to de-grow 2.2% YoY to ₹ 12.4 crore due to a poor topline performance
Sunteck Realty	With a strong sales performance at BKC and "Avenue City" projects, we expect Sunteck to post sales volumes of 0.67 lakh sq ft in Q1FY19. On the financial front, revenues may be impacted due to implementation of Ind-As 115. We expect topline to grow robustly by 33.8% YoY to ₹ 178.4 crore with incremental revenue recognised from Avenue City projects. Further, we expect the company to post EBITDA margin of 44.3% in Q4FY19E. Consequently, the bottomline is expected to grow 25.9% YoY to ₹ 49.9 crore

Source: Company, ICICI Direct Research

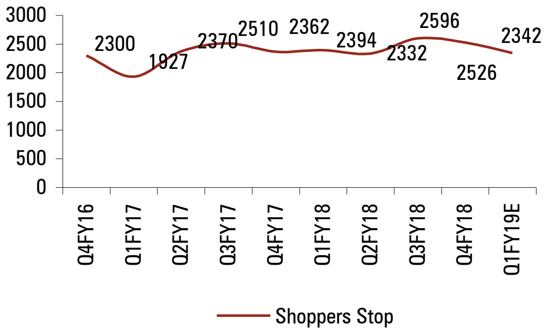
Topline & Profitability (Coverage Universe)



Space addition – million square feet (QoQ)



Revenue per sq ft



Research Analyst

Bharat Chhoda
bharat.chhoda@icicisecurities.com

Cheragh Sidhwa
cheragh.sidhwa@icicisecurities.com

Retail

Revenue growth expected to moderate on high base effect

We anticipate the revenue trajectory will soften in Q1FY19 on the back of the strong base of the previous quarter. In Q1FY18, several branded players had advanced their clearance sale by a month in June. This led to robust topline growth for the retail industry. Hence, we expect our retail coverage universe to report high single digit revenue growth of 7% YoY in Q1FY19E. For Shoppers Stop, ongoing renovations in certain key malls are expected to continue to impact footfalls in the current quarter. We expect SSL to report negative LTL sales growth of -3% in Q1FY19 (the company had reported 19.8% LTL in Q1FY18). We expect ABFRL to report moderate topline growth of 6% YoY, led by growth in lifestyle and Pantaloons segment to the tune of 8% and 5%, respectively. Trent (Westside) was among the very few companies that had not preponed its EOSS in Q1FY18. Hence, we expect Trent to sustain its healthy trajectory and expect revenues to grow 18% YoY to ₹ 589 crore. Also, inclusion of Zudio (value fashion) is expected to aid revenue growth for Trent. Among speciality retail, we expect Bata to register healthy revenue growth of 11% YoY on the back of Bata's new launches and strong demand for school shoes. For Titan, we expect topline to grow 7% YoY albeit on a high base of Q1FY18 (42% revenue growth) and weak consumer demand for jewellery in Q1FY19.

Less discounting days to assist margin expansion

On the profitability front, fewer numbers of discounting days coupled with cost rationalisation measures like space rationalisation and better inventory management are expected to improve the operating margins of companies in our universe. We expect EBITDA margins for our coverage universe to increase ~130 bps YoY. We anticipate operating margins on a YoY basis for Trent, ABFRL, Titan, Shoppers Stop and Bata to expand 50 bps, 280 bps, 60 bps, 160 bps and 140 bps, respectively.

Healthy store expansion plans in place for FY19E

Companies such as Shoppers Stop, Titan, ABFRL and Trent (Westside) have aggressive store expansion in place for FY19E. With rising income and increasing demand for aspirational offerings, various retailers are now expanding their footprint in Tier II and Tier III cities. Trent has chalked out aggressive store expansion plans for Westside, where it intends to open 30 new stores in FY19E vs. run rate of ~17 stores added in FY18. For Shoppers Stop, the management expects to take the total store count of departmental stores from 80 to 100 over the next three years (five to six store additions annually). ABFRL added 66 Pantaloon stores in FY18. The management expects to open stores at existing run-rate (60 stores in FY19E), with 20% store addition being through franchise route.

Exhibit 36: Estimates for Q1FY19E: (Retail) (₹ Crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q1FY19E	YoY	QoQ	Q1FY19E	YoY	QoQ	Q1FY19E	YoY	QoQ
Aditya Birla Fashion & R	1857.0	5.5	5.9	130.0	75.7	-20.4	11.9	LP	-89.444
Bata India	815.0	10.7	28.9	117.4	22.8	42.6	72.8	20.6	39.9
Shopper Stop	930.1	-1.2	9.5	44.6	48.4	-13.4	10.1	LP	-51.3
Titan Company	4,259.3	6.9	3.7	417.4	14.4	-4.1	274.9	15.1	-10.3
Trent Ltd	589.0	18.0	11.4	71.8	22.8	188.4	47.3	23.9	305.3
Total	8,450.5	6.7	7.4	781.2	25.4	3.1	417.0	33.0	-17.2

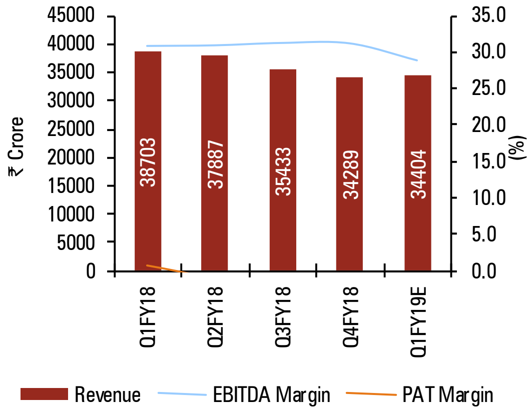
Source: ICICI Direct Research

Exhibit 37: Company specific view (Retail)

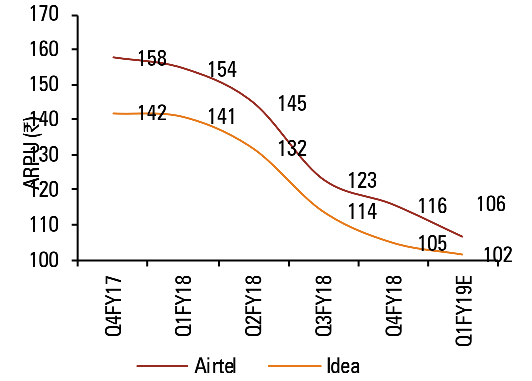
Company	Remarks
Bata India	Q1 generally tends to be a strong quarter for Bata mainly on account of strong demand in the school shoes segment. Furthermore, Bata's latest collection 'Red Label' is expected to provide additional growth impetus this quarter. We expect Bata to register healthy revenue growth of 11% YoY to ₹ 815 crore. With positive operating leverage kicking in, we expect EBITDA margins to improve 140 bps YoY to 14.4%. Consequently, we expect PAT to increase 21% YoY to ₹ 72.8 crore
Shoppers Stop	SSL had reported one of its highest ever like to like sales growth (+19.8%) in Q1FY18 on account of advancement of EOSS in June. Given the high base effect, we expect SSL to report negative LTL sales growth of 3% in Q1FY19. Furthermore, the negative impact of ongoing renovation in certain key malls are expected to persist this quarter. We expect standalone revenues to decline 1.2% YoY to ₹ 930 crore. On the profitability front, we expect lower discounting days to assist margin expansion. We expect EBITDA margins to improve 160 bps YoY to 4.8%. Decline in finance cost is further expected to boost the profitability. Hence, we expect SSL to report PAT of ₹ 10.1 crore vs. loss of ₹ 3.7 crore in Q1FY18
Titan Company	Q1FY18 turned out to be a robust quarter for Titan's jewellery division (56% revenue growth) on account of 1) advancement of sales on account of introduction of GST (₹ 250 crore) and 2) favourable base of Q1FY17. Hence, on a strong base effect, we anticipate Titan's jewellery segment to report moderate revenue growth of 6% YoY to ₹ 3537 crore in Q1FY19. Furthermore, the management stated that the consumer demand remained weak, which was reflected in ~40% decline in India's gold imports in H1 2018. Watches segment is expected to report revenue growth of 4% YoY in Q1FY19. Overall revenues for Titan are expected to increase 7% YoY to ₹ 4259.3 crore. We expect EBITDA margins to improve 60 bps YoY to 9.8% YoY, with PAT growing 15% YoY to ₹ 275 crore.
Trent Ltd	We expect Trent to sustain its healthy revenue trajectory with revenues expected to grow 18% YoY to ₹ 589 crore on the back of healthy store addition in Q1FY19 (five stores) and inclusion of Zudio (value fashion format) with effect from Q3FY18. We expect EBITDA margins to improve 50 bps YoY to 12.2%. PAT is expected to increase 24% YoY to ₹ 47.3 crore
ABFRL	We expect ABFRL to report moderate topline growth of 6% YoY to ₹ 1857 albeit on a strong base of Q1FY18. On the segmental front, we expect Lifestyle brands and Pantaloons to report revenue growth of 8% and 5%, respectively. Rationalisation of unprofitable stores and less discounting period is expected to improve EBITDA margins by 280 bps YoY to 7.0%. Consequently, we expect ABFRL to report PAT of ₹ 11.9 crore vs. loss of ₹ 20 crore in Q1FY18

Source: Company, ICICI Direct Research

Topline & Profitability (Coverage Universe)



ARPU trend



Top pick of sector

Sterlite Technolgies

Research Analysts

Bhupendra Tiwary
Bhupendra.tiwary@icicisecurities.com

Sameer Pardikar
Sameer.pardikar@icicisecurities.com

Telecom

Weakness persists; albeit in moderate way…

Downgrading to bundled packs is likely to impact the ARPU erosion for telecom operators again, albeit moderately. However, beyond the normal erosion, the trajectory is likely to be different for Airtel and Idea. For Airtel, consolidation of Telenor customers (who have ARPU of ~₹ 50/month) is likely to be the key dilutive factor in bringing about 8% QoQ decline in monthly ARPU to ₹ 106. Consequently, for Airtel, we expect 1.3% QoQ decline in India mobility revenues at ₹ 10,214 crore. Airtel's Africa revenues are expected at ₹ 5196 crore, up 4.5% QoQ, also aided by a depreciating rupee. For Idea, we expect ~3% QoQ decline in ARPU to ₹ 102, However, consummation of the owned tower deal is expected to result in exclusion of some rental revenues from external tenants, thereby impacting revenues. Consequently, we expect ~2.4% decline in revenue at ₹ 5990 crore.

Margins to continue their slide

The weakness in topline is likely to pressurise margins of telecom operators again, given the negative operating leverage amid increasing network opex cost and access charges (higher adoption of bundled offers). Idea is expected to post margins at 15.3%, down 830 bps QoQ on a reported basis (~110 bps on adjusted basis), expanding losses. On the other hand, consolidated margins for Airtel are seen at 34%, down 120 bps QoQ, impacted by margin decline in Indian mobility business (margins down 340 bps QoQ to 32%) but partly offset by Africa margins that are expected to be robust at 35%. Steep EBITDA erosion for Airtel is likely to result in loss at PAT level.

Infratel to bear brunt of consolidation with tenancy exits again

We expect industry consolidation pangs to impact Bharti Infratel again. Consequently, it is expected to report another quarter of tenancy exits. We expect gross exits of ~6000 tenancies given the pressure of industry consolidation. Moreover, weaker addition momentum owing to slow addition by Jio and incumbents is likely to result in net tenancy exits of 4000.

Sterlite to report robust results; muted show for Tata Communication

Sterlite Technologies is likely to report heathy topline growth of ~17%, driven by strong traction in export demands of products. The superior growth of high margins product segment is likely to drive 450 bps YoY margins improvement to 25.6% in Q1FY19, resulting in ~81% growth in bottom line. Tata Communication, on the other hand, would again be impacted by weak growth in the voice business and impact on traditional data business (owing to Tata Teleservices exit). As a result, we expect a muted 1% topline growth coupled with 30 bps sequential decline in margins to 13.6%.

Exhibit 38: Estimates for Q1FY19E (Telecom) (₹ Crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q1FY19E	YoY	QoQ	Q1FY19E	YoY	QoQ	Q1FY19E	YoY	QoQ
Bharti Airtel	19,872.8	-9.5	1.2	6,750.6	-13.4	-2.3	-309.1	PL	PL
Bharti Infratel	3,623.4	2.8	-1.1	1,475.6	-6.3	-7.3	626.3	-5.7	3.4
Idea Cellular	5,989.6	-26.7	-2.4	913.8	-51.3	-36.9	-1,515.4	NA	NA
Sterlite Technologies	871.1	17.0	2.9	223.0	42.0	1.2	109.8	81.2	-2.3
Tata Comm	4,047.1	-6.1	1.0	550.4	-1.5	-0.9	28.4	-11.9	LP
Total	34,404.0	-11.1	0.3	9,913.4	-17.1	-7.6	-1,059.9	PL	NA

Exhibit 39: Company specific view (Telecom)

Company	Remarks
Bharti Airtel	The downgrading to bundled offer is likely to impact Bharti's ARPU again in Q1FY19, albeit at a moderate pace. However, consolidation of Telenor customers (who have ARPU of ~₹ 50/month) is likely to be the key dilutive factor in bringing about 8% QoQ decline in monthly ARPU to ₹ 106. The resultant India wireless revenues are expected to decline 1.3% QoQ at ₹ 10,214 crore. Given the higher network operating costs and access charges (driven by bundled offer adoption) and muted topline, we expect ~340 bps sequential decline in India EBITDA margins at 32%. Africa revenues are expected at ₹ 5196 crore, up 4.5% QoQ, also aided by a depreciating rupee. Africa margins are expected to be robust at 35%. The consequent consolidated margins are seen at 34%, down 120 bps QoQ, mainly impacted by weak India margins
Bharti Infratel	Closure of business by marginal players is again likely to hit Bharti Infratel's tenancy during Q1FY19. We expect gross exits of ~6000 while weaker addition momentum owing to slow addition by Jio and incumbents would also play spoilsport resulting in net tenancy exits of 4000 during the quarter. We expect 2% QOQ decline in rental revenues at ₹ 2209 crore. Energy revenues are also expected to be flattish QoQ (in a seasonally weak quarter, largely due to higher diesel price) at 1481 crore. Overall margins at 40.7% are expected to decline 280 bps QoQ, largely impacted by lower energy margins (5% in Q1FY19 vs. 11% in Q4FY18)
Idea Cellular	With moderating impact of downgrading by customers, we expect lower ARPU erosion of ~3% QoQ to ₹ 102. However, consummation of owned tower deal is expected to result in exclusion of some rental revenues from external tenants, thereby impacting revenues. Consequently, we expect ~2.4% decline in revenue at ₹ 5990 crore. On the EBITDA front, higher network opex (Q4FY18 had certain one-offs and write-backs) coupled with negative operating leverage would result in ~830 bps decline in margins at 15.3% during the quarter, thereby further widening losses at the bottomline level
Sterlite Technologies	We expect healthy topline growth of ~17% YoY for Sterlite Tech to ₹ 871 crore, largely owing to strong momentum from the product segment, especially on the exports front. Given the higher growth trajectory of the product segment, which has a higher margin profile, the EBITDA margin at 25.6% is expected to expand 450 bps YoY. Consequently, PAT at ₹ 110 crore is expected to grow ~81% YoY, driven by operating leverage
Tata Comm	Tata Communication is expected to report muted topline growth of ~1% QoQ to ₹ 4047 crore. Data segment revenues are expected to grow ~2.3% QoQ to ₹ 2940 crore, largely driven by growth services (expected to grow 24% YoY) while traditional services are expected to witness a muted 1% QoQ growth. The other subsidiaries are expected to witness weaker traction, thereby pulling down the data growth. Data margins are expected at 16.7% vs. 16.5% in Q4FY18 while improvement in growth services margins may be offset by a fall in traditional services margins. The weakness in the voice business is expected to continue. We expect voice revenue to decline ~3% QoQ to ₹ 1084 crore. Voice margins are expected at 6%, down 40 bps sequentially. Hence, overall margins are expected at 13.6%, down 30 bps sequentially. We expect the company to report PAT of ₹ 28.4 crore

Source: Company, ICICI Direct Research

Others

Exhibit 40: Estimates for Q1FY19E (₹ Crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q1FY19E	YoY	QoQ	Q1FY19E	YoY	QoQ	Q1FY19E	YoY	QoQ
Cox & Kings	813.0	15.2	53.7	380.8	2.0	263.6	159.9	10.4	LP
CARE	68.7	12.0	-19.3	44.9	14.6	-18.6	40.1	12.9	-1.9
DRECOR	150.0	-5.0	-1.8	33.0	-11.6	-15.4	1.5	-62.7	-91.4
Mah. Seamless	630.4	40.0	-0.1	118.2	94.4	-4.9	77.6	108.1	-12.2
Navneet Publications	620.9	9.9	192.0	174.5	7.4	634.0	115.2	5.0	664.8
Rallis India	421.3	-5.4	13.5	64.4	-7.2	91.7	40.1	-11.5	104.6
Ratnamani Metals &	584.6	98.5	-5.6	93.5	98.6	0.8	55.6	140.9	-1.1
Solar Industries	541.3	16.0	-5.9	116.5	15.4	-1.4	63.3	15.6	-3.9
Swaraj Engines	232.6	19.9	25.5	39.1	21.2	36.7	25.2	17.3	40.8
TTK Prestige	426.3	11.1	-3.9	55.4	17.6	-8.3	34.4	-74.6	-8.0
TeamLease Services	1,029.5	20.7	5.3	23.7	81.8	4.1	27.4	66.7	29.0
United Spirits	2,079.5	16.7	-4.3	269.7	71.3	-1.6	144.8	133.1	-31.4
United Breweries	1,848.3	10.4	25.8	345.5	8.5	65.9	177.0	9.3	94.7
VST Tillers & Tractors	143.5	-20.8	-40.6	17.2	-29.8	-58.8	6.3	-77.6	-81.3
Wonderla Holidays	108.0	5.6	62.4	49.4	13.2	138.9	28.3	9.2	208.5
Total	9,698.0	15.8	11.0	1,825.9	19.6	46.3	996.6	10.0	39.0

Source: Company, ICICI Direct Research

Exhibit 41: Company specific view (Others)

Cox & Kings	Q1 is a seasonally strong quarter for Cox and Kings. The company is expected to report 15.2% YoY growth in revenues mainly led by 25.0% YoY increase in Meininger revenues (led by bed additions) and 15.0% YoY increase in leisure revenues. However, we expect EBITDA margins to decline from 52.9% to 46.8% in Q1FY19 mainly due to higher operating expenses at Meininger and absence of forex gains in the quarter. Further, PAT margin is expected to decline from 20.5% to 19.7% mainly led by higher interest expenses (on account of increase in working capital requirement)
CARE	We expect rating revenue to increase at 12% YoY to ₹ 68.7 crore. The pace of growth in Q1 is better than seen last year owing to improved volume traction. However, surveillance income is on the lower side in Q1. Owing to steady operating costs, EBITDA is expected to increase by 14.6% YoY. We expect PAT at ₹ 40.1 crore while PAT margin at >50% is expected
Dredging Corporation of India	Revenues for the quarter are expected to de-grow 5% YoY on the back of lower fleet utilisation amidst uncertainty related to privatisation of company. Higher crude would further impact the operational performance (EBITDA), which is expected to de-grow 12%. PAT is expected to decline 63% YoY to ₹ 1.5 crore

Source: Company, ICICI Direct Research

Exhibit 42: Company specific view (Others)

Maharashtra Seamless	For Q1FY19, we expect Maharashtra Seamless to report a decent performance on the back of stable realisations. Total pipes sales are likely to come in at ~90000 tonne. Sales of seamless pipes are expected to come in at 75000 tonne (up 4.5% YoY, 3.4% QoQ), while ERW pipes volume is likely to be ~15000 tonne (up 25.4% YoY, 3.4% QoQ). We expect the topline and EBITDA to increase 40% and 94.4% on a YoY basis, respectively. The company is expected to report an EBITDA margin of 18.8% (vs. Q1FY18: 13.5% and Q4FY18: 19.7%)
Navneet Education	Q1 is the strongest quarter for Navneet Education (Navneet) as majority of books are purchased by students at the beginning of the academic year, which usually starts in June. Navneet's publication revenues tend to increase in mid-teens in years when there is a syllabus change. However, for Q1FY19, in spite of syllabus changes for first, eighth and tenth standard, publication segment is expected to register a revenue growth of 6% YoY to ₹ 394 crore owing to delay in printing of books due to issues related with acquiring license for publishing from state Board (Balbharati). For the stationery segment, we expect revenues to grow 18% YoY to ₹ 226 crore driven by strong growth in exports. EBITDA margins are expected to contract 60 bps YoY to 28.1% on account of an increase in paper prices and higher share of stationery segment in the product mix. Subsequently, we expect PAT to increase 5% YoY to ₹ 115.2 crore
Rallis India	We expect muted rainfall activing (~-7% of LPA) and consequent low sowing (down 22% YoY) in June 2018 to take a toll on Rallis India's performance for the quarter. In Q1FY19, in the agro-chemical segment, conservatively, we expect sales to de-grow 6.6% YoY to ₹ 230.9 crore. On the Metahelix front, in a seasonally important quarter, we expect a 3.9% YoY de-growth in sales to ₹ 190.4 crore. On the consolidated level, we expect sales to de-grow 5.4% YoY to ₹ 421.3 crore while EBITDA margins are expected at 15.3% down 30 bps YoY. Consequent EBITDA & PAT is expected at ₹ 64.4 crore & ₹ 40.1 crore respectively. PAT is expected to be down 11.5% YoY
Swaraj Engines	Swaraj Engines is expected to report healthy performance in Q1FY19 on the back of robust tractor sales at parent group level (up 19% YoY). Engine sales volume are expected at 27,309 up 17% YoY given the normalisation of inventory levels in FY18 thereby largely mimicking the growth at the leading tractor player. Consequent net sales are expected at ₹ 232.6 crore, up 20% YoY. EBITDA margins are expected at 16.8%, up 20 bps on the back of operating leverage benefits as fixed costs gets apportioned over a higher base. EBITDA & PAT for the quarter are expected at ₹ 39.1 crore (up 21.1% YoY) and ₹ 25.2 crore (up 17.2% YoY), respectively
Solar Industries	Solar Industries is expected to post revenue growth of 16% YoY to ₹ 541.3 crore driven by continued strong performance in the overseas segment. We expect this segment to grow 20% YoY. We expect the domestic performance to be stable on account of cartridge volume growth of 15.2% YoY. Volume growth in the bulk segment is expected to remain muted at 8%. Realisations in both segments are expected to remain flat YoY. EBITDA margins are also likely to remain stable at 21.5%. PAT is likely to increase 15.6% YoY to ₹ 63.3 crore

Source: Company, ICICI Direct Research

Exhibit 43: Company specific view (Others)

TTK Prestige	We expect TTK Prestige to report revenue growth of 11.1% YoY to ₹ 426 crore, driven by 17% growth in appliances segment. Cooker and cookware segments are likely to grow 2% and 8%, respectively. New segments like home cleaning are further expected to support revenue growth. We expect EBITDA margins to improve 70 bps YoY to 13.0% mainly on account of positive operating leverage, which would lead to an 18% YoY growth in EBITDA to ₹ 55.4 crore. On account of higher other income, PBT before exceptional income is expected to increase by 25% to ₹ 52.6 crore. However, as there was an exceptional income (income from sale of property rights) to the tune of ₹ 129 crore in Q1FY18, hence, PAT is optically expected to decline 75% YoY to ₹ 34.4 crore
United Spirits	Overall volumes are expected to grow 8% YoY to 19.5 million cases, on the back of 12% growth in the Prestige and Above segment, change in Route to Market in few key states (especially UP) and low base due to continued highway ban impact in Q1FY18. Premiumisation and price hikes in FY18 would drive the revenue per case resulting in net revenue growth of 17% YoY. Also, the changes in the operating model would cushion gross margins and result in 413 bps expansion in EBITDA margins with an absolute EBITDA growth of 71%. Subsequently, higher operational performance and lower interest expense YoY is expected to result in 130% growth in PAT
United Breweries	Volumes are expected to grow 10% to 53.5 million cases due to uptick in beer consumption in summer season. Similarly, revenues are expected to grow 10% YoY. EBITDA margins are expected to remain strong at 18.7% (decline ~30 bps YoY) with absolute EBITDA growth of 9%. Subsequently, PAT is expected to grow 9% to ₹ 177 crore
VST Tillers & Tractors	VST Tillers and Tractors is expected to report a muted Q1FY19 performance largely tracking de-growth in both the power tiller and tractor segments. In Q1FY19, power tillers sales volume came in at 5367 units (down 25% YoY) while tractor sales volume was at 1927 units (down 25% YoY). Consequent sales are expected at ₹143.5 crore (down 20.8% YoY). EBITDA margins are expected to taper down by 150 bps to 12.0% due to lower sales volumes with consequent EBITDA at ₹ 17.2 (down 29.8% YoY) crore. PAT for the quarter is expected at ₹ 6.3 crore vs. ₹ 28.2 crore. PAT drop is substantial in Q1FY19 as we expect VST to witness MTM losses on its equity investment book vs. the gain recorded in Q1FY18
Wonderla Holidays	Q1 is a seasonally strong quarter. This, coupled with a reduction in GST rates from 28% to 18.0% in amusement parks is expected to drive footfalls in the quarter. Consequently, we expect revenues to increase 5.6% YoY to 108.0 crore driven by 5.8% YoY growth in footfalls. In addition, we expect EBITDA margins to improve 308 bps YoY to 45.8% in Q1FY19 mainly led by operating leverage benefit and improving margins at the Hyderabad park. Further, we expect PAT to increase from ₹ 25.9 crore to ₹ 28.3 crore mainly led by higher operating margins
TeamLease Financials	TeamLease is expected to report rupee revenue growth of 5.3% QoQ to ₹ 1029.5 crore owing to revenue growth in general staffing and increasing contribution from IT staffing. EBITDA margins may remain flat QoQ to 2.3% while PAT is expected to increase 29% QoQ to ₹ 27.4 crore on account of operating performance and 80 JJAA tax benefits
Ratnamani Metals & Tubes	We expect Ratnamani to report a steady performance for Q1FY19 on the back of consistent orderbook execution. We expect the capacity utilisation of the stainless steel segment to come in at 70% (vs. Q1FY18: 64%, Q4FY18: 76%), while that of the carbon steel segment at 90% (vs. Q1FY18: 36% Q4FY18: 85%). Stainless steel volumes are likely to come in at ~4900 tonne (up 9.1% YoY), while carbon steel volumes are expected at ~78750 tonne (up 149% YoY). We expect topline, EBITDA and PAT to increase 98%, 95% and 136% on a YoY basis, respectively. The EBITDA margin for the quarter is likely to come in at 15.8% (vs. Q1FY18: 16%, Q4FY18: 15%)

Source: Company, ICICI Direct Research

ICICI Direct Research Coverage Universe

Valuation Matrix

Sector / Company	CMP	TP	Rating	M Cap	EPS (Rs)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
Apparels																			
Kewal Kiran Clothing Ltd	1,380	1,775	Buy	1,701	59.4	72.7	84.4	23.2	19.0	16.3	18.2	15.6	13.6	25.9	28.4	28.8	18.3	20.4	21.4
Vardhman Textiles Ltd	1,215	1,280	Hold	6,979	103.0	126.3	141.0	11.8	9.6	8.6	10.0	8.0	7.2	9.2	10.9	11.3	11.7	13.0	13.0
Page Industries	27,970	25,550	Hold	31,197	311.1	397.7	511.0	89.9	70.3	54.7	49.9	40.1	31.5	58.8	61.6	64.8	41.0	43.0	45.0
Arvind Limited	398	510	Buy	10,297	12.1	16.2	23.6	32.8	24.5	16.9	13.6	11.2	8.9	9.5	11.3	13.8	8.3	10.1	12.9
Rupa	388	520	Buy	3,089	10.8	13.2	16.3	35.9	29.5	23.9	21.9	18.3	15.0	19.5	22.6	25.6	17.3	18.9	20.7
Auto																			
Amara Raja Batteries	770	875	Hold	13,149	27.6	32.8	41.0	27.9	23.4	18.8	15.5	13.2	10.6	23.3	23.4	25.0	16.0	16.3	17.3
Apollo Tyres	252	325	Buy	14,439	12.7	19.9	25.0	19.9	12.7	10.1	11.3	7.9	6.5	7.8	11.1	12.6	7.4	10.6	12.0
Ashok Leyland	125	180	Buy	36,718	5.3	7.7	9.3	23.4	16.3	13.5	13.3	9.7	7.7	28.5	34.9	35.4	21.9	26.0	25.9
Bajaj Auto	2,946	2,900	Hold	85,258	140.6	169.1	194.5	21.0	17.4	15.1	15.1	12.0	10.3	29.6	31.3	31.5	21.5	22.5	22.5
Bharat Forge	622	800	Buy	28,941	16.2	24.7	29.0	38.4	25.2	21.5	18.1	14.4	12.1	23.0	27.5	26.6	17.5	24.2	22.2
Mahindra CIE	259	280	Buy	9,816	9.5	12.8	15.3	27.4	20.3	16.9	12.3	10.0	8.4	11.2	13.4	15.1	9.8	11.6	12.3
Eicher Motors	28,103	35,600	Buy	76,626	725.5	1,114.9	1,325.3	38.7	25.2	21.2	28.2	21.3	16.9	39.1	36.9	34.6	29.9	31.3	28.1
Hero Motocorp	3,504	4,300	Buy	69,979	185.1	221.9	254.2	18.9	15.8	13.8	12.8	10.8	9.0	43.7	43.9	44.0	32.1	32.7	31.7
Tata Motors	259	355	Buy	82,736	26.8	32.2	39.8	9.7	8.1	6.5	2.8	2.7	2.4	10.5	10.7	11.3	10.3	12.6	13.1
Balkrishna Industries	1,152	1,215	Hold	22,262	38.2	52.3	63.9	30.1	22.0	18.0	20.2	14.5	11.9	22.4	26.5	27.4	18.1	20.1	20.2
Bosch	17,815	19,500	Hold	54,371	449.1	573.8	645.4	39.7	31.0	27.6	24.9	20.2	17.7	21.4	23.7	24.0	14.4	15.9	16.1
Exide Industries	261	300	Buy	22,189	7.9	10.1	12.4	33.0	25.8	21.1	18.1	15.2	12.5	19.1	20.1	21.9	13.0	14.2	15.5
JK Tyre & Industries	123	150	Hold	2,786	2.9	14.6	24.3	42.2	8.4	5.1	10.8	6.7	4.9	7.8	12.0	15.7	3.7	14.9	20.4
Maruti Suzuki	9,276	10,500	Buy	280,222	255.6	340.0	403.6	36.3	27.3	23.0	21.8	17.5	14.5	25.9	28.2	28.5	18.5	21.0	21.1
Motherson Sumi	289	335	Hold	60,932	7.6	12.0	14.5	38.2	24.2	20.0	13.9	10.0	8.1	16.3	23.5	27.0	17.4	24.2	24.5
Wabco	7,027	7,700	Hold	13,328	143.8	174.2	213.9	48.9	40.3	32.9	34.0	28.7	23.1	25.1	25.4	25.8	17.9	18.2	18.4
Building Materials																			
Century Plyboard	247	275	Hold	5,497	7.1	8.9	11.0	35.1	27.8	22.5	6.6	5.6	4.7	18.2	20.8	21.4	18.7	20.0	20.9
Kajaria Ceramics	459	550	Hold	7,297	14.8	17.6	21.8	31.0	26.1	21.0	5.4	4.7	4.0	22.7	23.5	25.6	17.4	17.9	18.9
Somany Ceramics	472	600	Hold	2,000	18.3	23.0	29.9	25.8	20.5	15.8	15.1	12.1	10.0	12.2	13.9	16.1	13.3	14.8	16.6
Greenply Industries	222	315	Buy	2,722	11.2	11.9	15.7	19.7	18.7	14.1	15.7	12.6	9.5	11.9	12.4	15.9	14.8	13.7	15.5

*CMP as on Jul 5 , 2018, * UR= Under Review*

Valuation Matrix

Sector / Company	CMP	TP	Rating	M Cap	EPS (Rs)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
Capital Goods																			
VA Tech Wabag	375	550	Buy	2,049	26.4	33.2	40.4	14.2	11.3	9.3	8.4	6.8	5.7	21.4	21.4	22.4	11.5	12.3	13.3
SKF Bearing	1,714	2,225	Buy	8,799	57.6	64.8	69.8	29.7	26.5	24.6	20.3	17.3	15.4	23.7	23.6	22.7	16.1	15.9	15.2
Timken India	735	835	Hold	4,999	13.5	16.7	19.3	54.3	44.1	38.1	29.1	23.3	20.1	18.9	20.4	20.8	13.1	14.1	14.3
NRB Bearing	173	215	Buy	1,680	9.4	10.4	11.7	18.5	16.7	14.8	10.1	9.2	8.2	26.7	25.0	24.3	24.0	22.1	20.8
Grindwell Norton	500	560	Buy	5,536	13.5	15.4	17.5	37.0	32.4	28.5	21.3	18.8	16.4	22.2	23.0	23.4	15.1	15.6	15.9
Thermax	1,024	1,335	Buy	12,202	19.4	31.4	40.8	52.7	32.6	25.1	35.7	23.8	18.0	14.2	17.6	19.8	9.0	12.3	13.8
KEC International	334	480	Buy	8,587	17.8	20.5	24.0	18.7	16.3	13.9	9.3	7.8	6.8	19.6	20.6	21.2	20.0	19.0	18.6
Kalpataru Power	397	600	Buy	6,085	20.6	25.7	30.7	19.2	15.4	12.9	10.9	9.2	7.9	16.3	17.6	18.6	11.2	12.4	13.1
Greaves Cotton	140	140	Hold	3,407	8.5	8.5	8.9	16.4	16.4	15.7	10.4	9.2	8.5	28.2	32.0	32.1	19.9	22.9	22.9
Larsen & Toubro	1,256	1,700	Buy	176,072	39.1	47.6	54.3	32.1	26.4	23.1	26.8	0.7	0.9	15.7	17.5	18.2	12.5	14.2	15.0
Bharat Heavy Electrical Limitec	68	95	Hold	24,929	2.0	4.1	5.7	33.4	16.5	11.8	7.5	7.0	5.8	5.2	6.5	8.7	2.2	4.3	5.8
AIA Engineering	1,540	1,880	Hold	14,524	46.7	53.5	62.8	33.0	28.8	24.5	25.2	19.9	16.8	24.2	26.5	27.2	20.2	20.0	20.2
Bharat Electronics Ltd	103	140	Buy	25,121	5.9	6.6	8.3	17.5	15.7	12.5	15.0	13.3	12.1	23.5	24.0	29.2	17.0	17.0	20.1
Engineers India Ltd	124	160	Buy	7,804	6.0	6.2	6.7	20.7	19.8	18.4	14.1	13.5	11.8	22.7	23.4	22.4	16.7	16.8	17.5
Cochin Shipyard	435	725	Buy	5,910	29.2	36.2	39.6	14.9	12.0	11.0	7.7	6.7	6.3	13.4	14.8	14.5	12.2	14.1	14.3
cement																			
India cements	108	160	Buy	3,325	3.3	6.4	8.4	32.9	16.9	12.8	10.4	8.8	7.9	5.1	6.3	7.0	1.9	3.7	4.6
Ambuja	206	285	Buy	40,805	6.3	6.8	8.7	32.7	30.1	23.5	19.4	17.2	14.2	11.3	13.7	17.2	6.3	6.6	8.2
Ultratech	3,880	5000	Buy	106,545	81.3	130.9	164.5	47.7	29.6	23.6	19.5	14.6	12.2	10.0	13.3	15.1	9.5	12.3	13.6
Heidelberg cement	139	180	Buy	3,142	5.9	7.7	9.2	23.4	17.9	15.1	11.7	10.5	9.2	14.8	18.0	20.6	12.8	15.4	16.5
JK Lakshmi	320	440	Buy	3,765	7.1	12.5	16.6	44.9	25.6	19.3	14.2	11.1	9.5	8.8	11.6	13.1	5.8	9.3	11.0
Jk cement	855	1,150	Buy	5,979	48.9	56.0	64.3	17.5	15.3	13.3	11.0	10.4	9.3	14.6	14.5	14.5	16.7	15.9	15.9
Mangalam cement	221	275	Hold	590	4.3	10.1	14.8	51.9	22.0	15.0	12.2	9.7	8.3	7.2	8.9	10.4	2.2	5.0	6.9
Shree cement	16,120	18,500	Hold	56,159	397.8	456.1	596.9	40.5	35.3	27.0	22.8	17.8	15.0	15.3	17.3	19.1	15.6	15.5	17.3
ACC	1,387	1,900	Buy	26,046	49.2	60.4	77.6	28.2	23.0	17.9	14.0	11.9	9.2	14.0	16.3	19.4	9.9	11.6	14.0
Star Cement	121	150	Buy	5,073	7.9	6.6	7.5	15.3	18.3	16.1	11.3	11.3	9.7	21.6	18.4	19.1	22.4	16.3	16.0
The Ramco Cement	699	930	Buy	16,468	23.5	29.1	35.0	29.8	24.1	20.0	17.8	15.0	12.5	10.4	11.5	12.2	13.7	15.2	16.1
Sagar Cements	794	1,100	Buy	1,620	12.9	21.8	30.0	61.7	36.5	26.4	15.3	12.3	10.4	8.1	10.3	11.9	3.4	5.4	7.0
Construction																			
NBCC	69	115	Buy	12,393	1.9	2.4	3.5	37.1	28.2	19.8	38.7	28.0	18.2	26.5	31.3	38.9	18.3	21.5	26.6
NCC Limited	95	160	Buy	5,679	4.8	6.7	8.3	19.8	14.0	11.4	9.9	8.7	7.5	15.9	15.7	16.9	6.8	8.8	9.9
Simplex Infrastructure	424	500	Buy	2,395	23.6	12.3	28.6	17.9	34.4	14.8	7.7	8.4	7.4	11.8	10.5	12.5	7.2	3.6	7.6

*CMP as on Jul 5 , 2018, * UR= Under Review*

Valuation Matrix

Sector / Company	CMP	TP	Rating	M Cap	EPS (Rs)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
Consumer Discretionery																			
Havells India	547	595	Hold	34,235	11.4	13.5	15.7	47.9	40.6	34.9	32.3	25.8	21.4	25.2	28.5	28.2	18.8	21.1	20.5
Voltas Ltd	518	600	Hold	17,137	17.5	20.1	23.6	29.6	25.7	21.9	24.9	22.1	17.8	19.8	23.7	24.4	14.8	18.2	18.5
Asian Paints Ltd	1,300	1,350	Hold	124,672	21.9	24.1	28.9	59.4	53.9	44.9	38.2	33.6	28.8	31.6	29.5	29.0	24.9	23.7	24.0
Kansai Nerolac	474	550	Hold	25,542	9.6	11.4	13.0	49.5	41.6	36.5	34.7	29.0	25.2	24.5	26.5	26.5	16.5	18.3	18.2
Bajaj Electricals Ltd	519	650	Buy	5,301	8.2	21.2	24.2	63.3	24.5	21.4	21.2	16.2	14.0	18.1	17.4	17.5	13.7	20.5	19.5
Symphony Ltd	1,406	1,795	Buy	9,838	27.5	35.9	42.3	51.1	39.1	33.2	46.0	31.2	25.8	41.3	41.1	42.7	31.5	35.8	36.0
Essel Propack Ltd	109	138	Hold	3,419	5.5	7.5	8.5	19.6	14.5	12.8	9.5	7.8	6.9	18.0	21.2	22.7	15.2	17.3	18.2
V-Guard Ltd	189	220	Hold	8,035	3.1	4.7	5.5	60.2	40.6	34.5	47.0	32.3	27.3	23.7	31.3	30.2	17.7	23.7	23.0
Pidilite Industries	1,060	1,045	Hold	53,824	18.8	19.4	23.3	56.2	54.7	45.6	42.4	38.5	32.2	33.6	30.4	32.3	27.0	22.4	23.6
Supreme Industries	1,090	1,543	Buy	13,846	33.9	43.9	47.6	32.1	24.8	22.9	21.7	17.4	15.4	27.9	32.5	31.2	22.7	26.1	23.6
Astral Poly Technik Ltd	969	903	Hold	11,603	14.7	18.9	24.6	66.0	51.3	39.4	36.5	29.3	23.3	22.9	23.7	25.2	17.2	17.4	18.7
Time Technoplast	126	200	Buy	2,845	8.0	10.3	12.3	15.7	12.2	10.3	8.6	7.4	6.2	14.9	16.5	17.5	12.2	14.0	14.4
FMCG																			
Hindustan Unilever	1,685	1,550	Hold	364,806	24.2	29.2	35.0	69.5	57.6	48.1	44.2	36.3	30.9	79.9	106.1	127.6	74.7	87.5	104.5
Colgate Palmolive	1,159	1,250	Hold	31,512	24.8	26.0	30.7	46.8	44.6	37.7	29.5	29.0	25.2	62.9	62.9	62.6	44.7	45.4	45.3
Dabur India	378	415	Buy	66,756	7.7	8.8	10.3	49.0	43.0	36.8	40.6	36.2	31.4	26.2	27.7	29.7	23.8	24.8	26.2
GSK Consumer Healthcare	6,451	7,000	Buy	27,130	166.5	184.0	201.0	38.8	35.1	32.1	24.0	22.0	19.6	29.8	29.8	30.2	20.1	20.5	20.6
ITC	268	330	Buy	327,524	9.2	10.2	11.2	29.1	26.4	23.9	22.2	19.6	17.8	30.9	34.6	37.1	21.3	24.0	25.7
Jyothy Laboratories	239	260	Buy	8,672	8.8	5.1	6.3	27.0	46.6	37.6	27.5	25.3	21.8	35.1	33.4	46.0	23.5	25.0	36.6
Marico	344	362	Buy	44,451	6.4	7.8	9.0	53.7	44.1	38.4	35.3	28.3	24.6	38.9	44.1	44.5	32.5	35.7	35.7
Nestle India	9,935	9,950	Buy	95,789	127.1	164.0	198.4	78.2	60.6	50.1	37.9	32.8	27.4	34.9	46.3	47.6	37.6	43.1	42.7
VST Industries	2,912	3,900	Buy	4,497	117.8	139.1	160.5	24.7	20.9	18.1	16.1	13.8	11.9	46.9	47.5	48.4	31.3	33.4	34.0
Prabhat dairy	133	220	Buy	1,294	4.8	8.7	11.5	27.4	15.2	11.5	13.1	11.7	9.4	9.6	13.6	16.8	7.0	10.0	12.3
Varun Beverage	753	840	Buy	13,755	11.7	15.5	22.4	64.2	48.4	33.6	18.1	14.6	12.3	12.7	16.0	19.7	12.1	14.6	19.1
Hospital																			
Apollo Hospital	1,080	990	Hold	15,019	10.8	23.0	32.5	100.4	46.9	33.2	20.2	16.8	13.5	6.3	7.8	9.9	4.0	8.0	10.4
Narayana Hrudalaya	234	310	Buy	4,787	2.5	6.4	9.9	92.2	36.6	23.6	26.2	15.6	11.6	6.4	12.7	16.4	5.1	11.4	15.1
Hotels																			
EIH	164	215	Buy	9,374	3.1	4.2	4.6	52.3	39.5	36.0	33.8	24.3	21.6	8.0	10.3	11.1	6.2	7.9	8.2
Indian Hotels	128	160	Buy	17,755	0.8	1.2	1.6	150.7	105.0	82.2	28.3	25.8	24.3	5.5	6.2	6.5	2.2	3.4	4.2
Taj GVK	220	270	Buy	1,379	3.3	5.4	7.1	67.7	40.5	30.9	21.3	18.9	16.5	9.0	10.2	11.5	5.5	8.7	10.4
Insurance																			
SBI Life Insurance Company Lt	666	760	Buy	66,635	9.5	11.5	14.2	69.8	57.9	47.1	-	-	-	23.0	17.9	18.8	18.6	19.1	20.2

*CMP as on Jul 5 , 2018, * UR= Under Review*

Valuation Matrix

Sector / Company	CMP	TP	Rating	M Cap	EPS (Rs)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
IT																			
Cyient	717	870	Hold	8,099	36.0	40.0	48.3	19.9	17.9	14.9	14.7	12.9	10.4	22.0	20.8	21.9	17.1	17.1	18.2
eClerx Services	1,308	1,180	Hold	5,057	72.9	72.2	84.4	17.9	18.1	15.5	12.0	11.8	9.7	23.2	22.1	23.9	19.3	17.0	18.4
Firstsource Solutions	68	87	Buy	4,647	4.8	5.1	6.2	14.2	13.2	10.9	10.7	9.2	7.4	12.7	14.7	16.0	13.9	13.6	15.1
HCL Technologies	927	1,000	Hold	129,006	62.6	64.9	71.5	14.8	14.3	13.0	11.1	9.4	8.1	27.3	26.7	26.4	23.8	21.7	21.2
Infosys	1,279	1,180	Hold	279,328	71.0	67.5	73.7	18.0	18.9	17.3	13.0	12.1	10.9	33.3	31.3	31.5	26.4	22.2	22.4
KPIT Technologies	269	275	Hold	5,314	12.9	16.0	18.3	20.9	16.8	14.7	13.9	11.0	9.4	15.9	18.3	18.9	14.2	15.6	15.4
MindTree	990	830	Hold	16,234	34.3	38.9	45.7	28.9	25.4	21.6	19.2	14.0	11.6	24.9	25.8	26.6	20.8	20.2	20.4
NIIT Technologies	1,093	1,075	Hold	6,722	45.6	52.9	63.2	24.0	20.7	17.3	5.6	4.4	3.3	18.4	19.0	19.6	15.1	15.4	16.1
Persistent Systems	820	825	Buy	6,560	40.5	44.7	51.5	20.3	18.3	15.9	11.4	9.5	7.9	19.9	19.5	20.0	15.2	15.0	15.4
Tata Consultancy Services	1,872	1,850	Hold	716,690	67.6	76.9	84.8	27.7	24.3	22.1	20.4	17.4	15.4	37.6	42.0	38.5	29.6	33.0	29.9
Tech Mahindra	650	735	Hold	63,677	42.7	42.2	49.0	15.2	15.4	13.3	12.6	9.9	8.0	21.9	20.0	20.1	20.0	17.3	17.0
Wipro Technologies	264	315	Buy	119,320	17.7	18.3	20.8	14.9	14.4	12.7	11.5	10.5	9.1	16.8	15.5	15.7	16.7	15.0	15.1
InfoEdge	1,192	1,330	Hold	14,532	15.0	26.1	32.2	79.6	45.7	37.0	47.3	38.1	30.1	17.9	19.7	21.8	8.7	13.8	15.3
TeamLease Services	2,965	3,120	Buy	5,069	42.8	65.4	89.1	69.3	45.3	33.3	66.8	43.7	32.0	15.4	18.9	20.7	16.3	19.7	21.6
Logistics																			
Blue Dart Express	3,650	4,200	Buy	8,661	60.9	77.6	91.9	59.9	47.0	39.7	24.1	20.1	17.3	31.0	35.3	37.7	29.8	33.1	34.1
Container Corporation of India	639	780	Buy	31,164	20.7	23.7	30.7	30.9	26.9	20.8	19.0	16.4	13.1	13.9	14.9	17.4	10.8	11.3	13.2
Gati Ltd	83	130	Buy	896	3.2	3.3	4.7	26.0	24.8	17.4	19.0	11.8	8.9	10.5	8.1	10.7	9.5	5.6	7.3
Gujarat Pipavav Port	109	135	Hold	5,245	4.1	6.3	6.8	26.4	17.2	16.1	15.4	11.1	9.6	12.1	15.0	16.0	9.2	12.4	12.3
Transport Corporation of India	285	350	Buy	2,180	13.2	17.3	22.8	21.5	16.5	12.5	11.6	9.5	7.9	13.4	14.4	16.1	16.3	17.3	18.3
Dredging Corporation of India	503	540	Sell	1,409	6.1	14.6	27.0	82.2	34.4	18.6	17.0	15.0	12.5	1.3	1.9	2.8	1.1	2.5	4.5
TCI Express	555	665	Buy	2,125	15.3	17.4	22.0	36.3	31.8	25.2	23.2	19.0	14.8	35.5	32.5	32.9	28.3	24.4	23.6
Media																			
Sun TV Limited	785	1,150	Buy	30,922	28.8	36.1	42.6	27.2	21.8	18.4	18.0	14.3	11.5	35.5	37.0	36.2	24.2	25.2	24.5
DB Corp Ltd	257	280	Hold	4,730	17.6	18.7	23.3	14.6	13.7	11.0	8.2	7.6	5.9	23.5	23.0	25.7	16.8	16.4	18.3
Dish TV Limited	72	84	Buy	13,285	-0.4	1.5	2.6	NM	49.7	27.9	12.1	7.5	6.5	3.1	8.1	10.0	0.1	4.0	6.6
Entertainment Network Limite	698	750	Buy	3,327	7.5	16.4	24.4	93.4	42.5	28.6	26.4	17.5	12.9	6.2	11.5	16.1	3.5	8.2	10.9
Inox Leisure Ltd	255	360	Buy	2,455	12.0	10.2	12.2	21.2	24.9	20.9	15.0	12.6	10.9	13.3	14.6	15.2	10.6	12.8	13.2
PVR Limited	1,373	1,540	Hold	6,417	26.4	33.1	39.4	52.0	41.4	34.8	18.8	16.4	14.2	14.7	15.5	16.9	11.5	12.7	13.2
Zee Entertainment Enterprises	542	630	Hold	52,057	15.4	17.3	21.0	35.2	31.3	25.8	25.7	21.5	17.6	25.6	24.9	25.6	15.3	15.9	16.5
TV Today Network Limited	437	425	Hold	2,606	19.9	25.4	28.3	21.9	17.2	15.4	11.5	9.4	7.7	30.4	29.7	28.4	19.3	19.3	18.2
Music Broadcast	307	450	Buy	1,752	9.1	12.8	16.0	33.9	23.9	19.1	18.5	14.1	11.6	14.3	16.7	20.7	8.6	10.9	13.6

*CMP as on Jul 5 , 2018, * UR= Under Review*

Valuation Matrix

Sector / Company	CMP	TP	Rating	M Cap	EPS (Rs)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
Metals, Mining & Pipes																			
Tata Steel	556	700	Buy	63,631	154.6	70.8	78.7	3.6	7.8	7.1	6.0	6.2	5.6	10.0	9.1	9.5	13.4	11.8	11.7
JSW Steel	309	375	Buy	74,680	25.3	29.0	31.8	12.2	10.6	9.7	3.0	2.6	2.6	16.7	18.3	17.1	21.8	23.2	20.7
NMDC	102	130	Hold	32,208	12.0	13.2	13.4	8.5	7.7	7.6	5.7	5.4	5.6	23.8	22.0	20.8	15.6	15.1	14.2
Hindalco	221	275	Buy	49,560	27.3	24.8	29.2	8.1	8.9	7.6	6.3	6.1	5.3	9.4	10.4	11.1	8.1	9.6	10.0
Vedanta Ltd	222	315	Buy	82,596	20.0	31.8	38.9	11.1	7.0	5.7	4.7	4.2	3.4	17.6	18.0	20.8	11.7	16.1	16.9
Hindustan Zinc	272	350	Buy	114,950	22.0	23.8	28.6	12.4	11.4	9.5	8.8	7.7	5.9	34.0	31.5	32.3	25.8	23.6	23.9
Graphite India	971	1,000	Buy	18,972	52.8	56.1	69.7	18.4	17.3	13.9	9.4	8.7	7.2	47.8	53.5	57.4	37.8	38.5	40.0
HEG	3,706	4,200	Buy	14,809	270.6	289.9	300.7	13.7	12.8	12.3	7.4	7.0	6.9	74.7	64.6	54.3	59.8	45.2	37.6
Maharashtra Seamless	440	535	Buy	2,947	29.9	38.8	43.6	14.7	11.3	10.1	10.6	7.7	6.7	7.8	9.9	10.6	6.8	8.2	8.6
Coal India	264	320	Hold	163,782	11.1	24.4	25.0	23.7	10.8	10.6	21.4	9.0	9.4	51.3	81.1	90.0	35.4	54.2	60.4
Ratnamani Metals and Tubes	907	1,150	Buy	4,236	32.5	42.3	55.2	27.9	21.4	16.4	17.8	13.8	10.6	17.1	19.9	22.3	11.6	13.4	15.2
MidCap																			
Rallis India	186	265	Buy	3,617	8.6	10.2	12.0	21.6	18.3	15.5	14.5	12.0	10.1	19.1	20.5	21.7	14.0	15.0	15.9
Swaraj Engines	1,879	2,500	Buy	2,279	66.1	74.4	82.8	28.4	25.3	22.7	17.6	15.2	13.5	45.9	53.1	58.3	35.1	39.0	42.3
VST Tillers & Tractors	2,308	2,220	Hold	1,994	129.6	106.5	138.8	17.8	21.7	16.6	15.1	14.0	11.1	24.0	18.2	20.7	18.8	13.7	15.5
KSB Pumps	788	980	Buy	2,744	20.4	22.1	28.1	38.7	35.6	28.0	24.8	20.1	16.2	10.6	11.9	13.7	10.0	10.1	11.7
Oil & Gas																			
GAIL	345	375	Buy	77,800	21.2	22.1	24.3	16.3	15.6	14.2	9.7	9.5	8.7	14.8	14.3	14.6	11.8	11.5	11.8
Gulf Oil	850	920	Hold	4,224	31.9	34.6	40.8	26.6	24.6	20.8	19.0	16.6	14.1	36.9	40.3	39.8	36.7	32.2	30.9
HPCL	255	280	Hold	38,880	41.7	35.8	35.1	6.1	7.1	7.3	6.1	6.4	6.7	18.1	15.6	14.3	28.7	23.8	22.5
IGL	255	280	Hold	17,878	9.6	10.0	10.5	26.7	25.6	24.4	15.8	14.5	13.4	24.8	22.4	21.0	16.6	15.9	14.8
MRPL	77	100	Buy	13,407	12.8	10.7	11.4	6.0	7.2	6.7	4.1	4.8	4.5	22.5	17.4	17.5	19.6	15.0	14.7
ONGC	157	190	Hold	201,097	15.5	18.8	19.4	10.1	8.3	8.1	6.4	5.4	5.1	12.4	14.7	14.3	10.3	11.8	11.4
Petronet LNG	218	285	Buy	32,738	13.9	14.6	17.9	15.8	14.9	12.2	9.6	8.6	6.7	27.8	28.8	30.2	18.8	17.7	19.1
Castrol	159	165	Hold	15,671	7.0	7.4	7.8	22.7	21.6	20.3	17.0	16.0	15.1	250.1	350.1	529.7	139.6	186.6	263.1
GSPL	177	200	Hold	9,989	11.9	10.2	12.3	14.9	17.4	14.5	10.8	10.4	8.9	11.4	11.8	13.2	11.8	8.3	9.3
Gujarat Gas	746	1,000	Buy	10,269	21.2	31.5	39.9	35.2	23.7	18.7	15.9	13.0	11.0	13.0	16.3	18.7	14.0	18.5	20.0
BPCL	371	370	Hold	80,543	40.3	42.7	42.6	9.2	8.7	8.7	8.8	8.5	7.6	20.9	19.4	21.2	25.3	24.7	27.2
Mahanagar Gas Ltd	813	945	Buy	8,029	48.4	48.9	52.4	16.8	16.6	15.5	9.5	9.3	8.5	32.3	29.7	28.7	20.0	18.0	17.3
Others																			
Cox and Kings	207	220	Hold	3,657	20.3	12.8	15.1	10.2	16.2	13.7	5.8	5.7	5.1	11.5	10.5	11.4	11.4	6.5	7.1
Solar Industries India Ltd	1,154	1,080	Hold	10,438	24.4	29.0	33.7	47.3	39.8	34.2		20.4	17.6		25.0	26.3		21.9	22.8
United Spirits	641	750	Buy	46,556	50.1	49.0	67.9	12.8	13.1	9.4	9.8	7.6	5.5	23.8	33.4	39.3	30.3	25.4	27.0
United Breweries	1,151	1,330	Buy	30,429	14.9	17.6	24.3	77.1	65.3	47.4	34.1	30.9	24.2	22.5	22.6	26.5	14.7	15.2	17.6
Wonderla Holidays	321	415	Buy	1,815	6.8	9.0	11.0	47.1	35.7	29.2	21.8	18.5	16.3	7.2	8.1	9.2	5.0	6.3	7.3
Navneet Education Ltd.	129	170	Buy	3,004	5.5	7.8	9.5	23.6	16.4	13.5	13.6	10.3	8.4	22.4	27.1	29.5	16.9	21.2	22.0

*CMP as on Jul 5 , 2018, * UR= Under Review*

Valuation Matrix

Sector / Company	CMP	TP	Rating	M Cap	EPS (Rs)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
Pharma																			
Sun Pharma	574	510	Hold	137,814	9.0	18.1	21.6	63.8	31.7	26.7	19.2	15.8	13.5	9.8	11.5	12.7	8.1	10.4	11.2
Ajanta Pharma	1,011	1,190	Hold	8,898	53.0	46.4	59.6	19.1	21.8	17.0	17.2	18.9	15.2	31.0	23.3	24.8	23.8	18.0	19.7
Lupin	937	760	Hold	42,370	5.7	34.0	40.4	165.2	27.6	23.2	12.6	11.9	10.1	10.6	11.0	12.6	4.4	10.4	11.2
Aurobindo Pharma	624	640	Hold	36,566	41.6	36.7	40.7	15.0	17.0	15.3	10.1	10.4	9.3	20.5	16.7	16.9	21.0	15.7	15.0
Biocon	629	740	Buy	37,743	6.2	9.3	14.0	101.4	67.6	45.0	46.8	32.3	24.6	8.4	11.3	14.7	7.2	9.8	13.0
Cadila Healthcare	395	380	Hold	40,387	17.5	16.8	19.0	22.5	23.5	20.7	14.6	15.5	13.4	17.1	14.7	15.5	21.5	17.8	17.5
Cipla	634	530	Hold	51,009	17.5	21.3	26.4	36.2	29.8	24.0	15.6	12.9	10.8	9.9	12.0	14.5	10.8	11.4	12.7
Dr Reddy's Lab	2,332	2,170	Hold	38,690	57.0	80.3	120.5	40.9	29.0	19.3	15.4	13.2	11.1	6.1	7.5	9.3	7.2	9.4	12.6
Divi's Lab	1,099	1,070	Hold	29,171	32.8	41.0	48.6	33.5	26.8	22.6	21.3	17.5	14.8	19.8	21.1	21.9	14.8	16.3	16.9
Glenmark	589	500	Hold	16,628	28.5	30.4	33.3	20.6	19.4	17.7	11.1	10.5	9.6	14.2	13.8	14.0	15.4	14.2	13.6
Indoco	174	190	Hold	1,606	4.5	8.2	13.5	39.0	21.3	12.9	15.0	11.2	8.0	5.7	8.8	13.9	6.0	10.2	15.0
Ipca Lab	722	760	Buy	9,124	19.0	30.4	42.2	38.0	23.8	17.1	19.6	13.9	10.4	9.1	13.7	17.2	9.0	12.9	15.6
Jubilant Life	719	1,080	Buy	11,459	41.3	61.2	77.0	17.4	11.7	9.3	11.0	8.8	7.2	14.9	18.9	21.1	16.0	19.4	19.8
Natco	800	860	Hold	14,752	37.7	42.7	27.5	21.2	18.7	29.0	15.8	13.6	21.0	27.3	27.3	16.1	22.6	21.5	12.6
Torrent Pharma	1,438	1,420	Hold	24,334	40.1	46.5	64.6	35.9	30.9	22.3	20.0	13.8	11.3	11.6	13.7	17.4	13.8	14.3	17.2
Alembic Pharma	532	460	Hold	10,035	21.9	22.6	25.5	24.3	23.6	20.9	15.1	15.7	12.5	17.9	14.6	16.5	18.5	16.6	16.3
Syngene International	601	735	Buy	12,020	15.3	18.6	20.4	39.4	32.4	29.4	26.3	22.2	18.6	16.6	18.5	18.7	18.0	18.1	16.7
Power																			
Power Grid Corporation	181	235	Buy	94,744	17.4	20.8	22.5	10.4	8.7	8.1	9.6	8.7	8.1	9.2	9.6	9.7	16.0	16.5	15.5
CESC	905	1,200	Buy	12,000	6.3	103.5	109.9	142.9	8.7	8.2	12.0	8.2	7.5	5.8	11.9	12.1	0.2	9.7	10.1
NTPC	152	175	Hold	125,578	11.9	12.7	13.4	14.3	13.4	12.7	11.2	11.6	11.4	7.9	7.7	7.4	9.9	10.0	10.0
Real Estate																			
Oberoi Realty	480	550	Hold	17,458	13.5	27.4	25.1	35.5	17.5	19.1	27.3	13.0	14.2	8.5	15.3	12.9	7.5	12.0	9.6
Mahindra Lifespace	560	525	Buy	2,932	19.5	19.1	26.3	28.7	29.4	21.3	33.0	28.5	16.8	5.1	5.2	6.7	4.9	4.6	6.1
Sobha Ltd	461	550	Hold	4,370	22.9	25.8	29.1	20.1	17.8	15.8	13.7	12.1	10.7	9.7	10.3	11.2	7.8	8.3	8.8
Sunteck Realty Ltd	370	475	Buy	5,416	15.2	17.8	25.2	24.3	20.8	14.7	16.5	14.5	10.4	12.0	12.7	16.1	8.1	8.8	11.3
Retail																			
TTK Prestige	5,861	6,500	Buy	6,770	228.1	158.3	185.6	25.7	37.0	31.6	27.1	22.6	19.4	19.8	20.5	22.4	25.8	16.1	16.9
Shopper Stop	540	650	Buy	4,752	1.3	11.0	14.0	409.5	49.2	38.6	23.5	19.0	15.5	10.5	13.8	17.5	1.2	9.3	10.8
Titan Industries	845	1,090	Buy	75,018	12.4	16.2	20.4	67.9	52.3	41.5	46.9	36.7	29.4	34.9	38.4	40.2	22.2	23.5	24.8
Bata India	835	860	Buy	10,726	17.4	23.0	27.7	48.0	36.4	30.1	25.6	21.5	17.6	38.7	40.8	45.1	15.1	17.6	18.6
Trent Ltd.	310	380	Buy	10,307	2.6	5.5	7.6	118.4	56.1	40.8	55.5	41.1	34.2	10.0	13.2	15.1	5.5	10.8	13.7
Aditya Birla Fashion & Retail	136	195	Buy	10,507	1.5	2.5	3.1	89.2	54.8	43.4	24.7	19.7	16.1	8.9	10.8	12.2	10.8	14.9	15.9

*CMP as on Jul 5 , 2018, * UR= Under Review*

Valuation Matrix

Sector / Company	CMP	TP	Rating	M Cap	EPS (Rs)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
Road																			
IRB Infrastructure	210	290	Hold	7,382	27.7	23.2	28.1	7.6	9.0	7.5	6.5	5.8	3.8	6.6	7.0	8.1	15.2	11.6	12.6
Ashoka Buildcon	224	290	Buy	4,191	-6.2	1.3	4.4	NM	173.4	50.4	8.0	7.1	6.0	16.8	20.8	25.3	-36.9	7.1	19.7
PNC Infratech	141	215	Buy	3,617	9.8	8.0	9.9	14.4	17.6	14.3	13.6	12.8	9.4	13.4	11.9	14.8	13.9	10.3	11.4
Sadbhav Engineering	280	430	Buy	4,801	12.9	17.1	15.0	21.8	16.4	18.7	18.0	14.7	12.7	9.9	11.4	12.5	11.8	13.8	10.9
Telecom																			
Bharti Airtel	362	480	Buy	144,646	2.5	3.4	8.5	142.8	106.4	42.4	8.8	8.8	7.5	5.7	5.9	7.5	2.6	2.1	5.1
Bharti Infratel	299	330	Hold	55,229	13.5	13.3	14.0	22.1	22.4	21.3	8.4	9.0	9.0	21.0	19.7	20.7	14.7	15.4	17.1
Idea Cellular	55	63	Hold	23,979	-9.6	-11.7	-10.6	NM	NM	NM	13.6	16.7	13.0	-2.3	-3.8	-3.1	-15.3	-23.1	-26.4
Tata Communications	596	690	Hold	16,975	-11.5	9.3	16.9	NM	64.1	35.3	11.2	10.2	8.6	5.9	6.9	9.7	9.4	50.1	62.2
Sterlite Technologies Ltd.	266	440	Buy	10,675	8.4	10.3	14.7	31.7	25.8	18.1	19.3	16.2	12.1	21.6	22.3	26.1	29.6	28.1	29.9

Sector / Company	CMP	TP	Rating	M Cap	EPS (Rs)			P/E (x)			P/BV (x)			RoA (%)			RoE (%)		
					FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
Banks																			
IndusInd Bank	1,970	2,050	Buy	118,283	48.0	60.1	79.7	41.1	32.8	24.7	6.7	5.8	5.0	1.8	1.8	2.0	15.1	16.5	18.7
Yes Bank	345	375	Hold	79,605	14.9	18.3	23.3	23.2	18.8	14.8	5.8	3.6	3.1	1.8	1.6	1.6	19.0	17.6	18.9
Bank of Baroda	113	185	Buy	29,881	6.0	-9.2	12.5	18.9	NM	9.0	0.7	0.7	0.7	0.2	-0.3	0.4	3.4	-5.8	7.5
State Bank of India	256	340	Buy	228,826	-2.2	-7.3	11.3	NM	NM	22.6	1.6	1.1	1.0	-0.1	-0.2	0.3	-0.9	-3.0	4.5
City Union Bank	186	200	Buy	12,362	8.4	8.9	9.9	22.2	20.9	18.7	4.1	3.5	3.0	1.5	1.6	1.6	15.4	15.6	15.1
Axis Bank	511	600	Buy	131,312	15.4	1.1	21.4	33.3	476.2	23.9	2.5	2.4	2.1	0.6	0.0	0.7	6.8	0.5	8.3
DCB Bank	169	215	Hold	5,219	7.0	7.9	10.2	24.2	21.5	16.5	2.9	2.4	1.8	0.9	0.9	1.0	11.1	10.9	11.7
Federal Bank	82	105	Buy	16,159	4.8	4.5	6.2	17.0	18.3	13.3	1.9	1.8	1.3	0.8	0.7	0.8	9.6	8.2	9.3
Jammu & Kashmir Bank	51	75	Buy	2,820	-31.3	3.6	8.9	NM	13.9	5.7	0.4	0.5	0.5	-2.0	0.2	0.5	-27.0	3.4	7.8
Kotak Mahindra Bank	1,371	1,440	Buy	261,264	18.5	21.4	27.2	74.0	63.9	50.4	9.5	9.5	7.0	1.6	1.7	1.8	12.4	12.5	13.2
LIC Housing Finance	473	600	Hold	23,886	38.2	39.4	46.0	12.4	12.0	10.3	2.6	2.2	1.9	1.4	1.2	1.3	19.1	16.7	16.9
Reliance Capital	365	660	Buy	9,216	41.4	68.6	81.6	8.8	5.3	4.5	0.6	0.6	0.5	1.5	1.5	1.7	8.7	10.0	12.0
CARE	1,250	1,400	Hold	3,681	54.7	61.5	69.7	22.7	20.3	17.9	6.1	5.9	5.3	34.4	37.2	38.1	27.0	29.1	29.7
Bajaj Finserv Limited	6,092	6,500	Buy	96,942	142.2	172.3	231.2	42.9	35.4	26.3	7.2	6.1	4.7	1.9	1.9	2.0	15.5	15.0	16.3
Bajaj Finance Limited	2,334	2,400	Buy	134,912	33.9	47.2	61.6	68.8	49.5	37.9	18.2	14.1	8.1	3.3	3.6	3.7	21.6	20.2	19.0
Bandhan Bank	541	600	Buy	64,549	10.2	11.3	16.9	53.3	48.0	32.0	13.3	6.9	5.8	4.4	3.6	4.0	28.6	19.5	19.6

*CMP as on Jul 5 , 2018, * UR= Under Review*

Pankaj Pandey **Head – Research** **pankaj.pandey@icicisecurities.com**

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

Disclaimer

ANALYST CERTIFICATION

We /I, Pankaj Pandey, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a Sebi registered Research Analyst with Sebi Registration Number – INH000000990. ICICI Securities is a wholly-owned subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial
instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

It is confirmed that Pankaj Pandey Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

It is confirmed that Pankaj Pandey Research Analysts do not serve as an officer, director or employee of the companies mentioned in the report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities
described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.
ICICI Securities has received an investment banking mandate from Government of India for disinvestment in ONGC. This report is prepared based on publicly available information.
ICICI Securities has received an investment banking mandate from Government of India for disinvestment in Bharat Heavy Electricals Limited. This report is prepared based on publicly available information.
ICICI Securities has received an investment banking mandate for disinvestment in NMDC Ltd. The report is prepared on the basis of publicly available information.
'The Company has received an investment banking related mandate from a group company of HDFC Bank. However, the report is prepared based on publicly available information'."