July to September 2018
Quarterly Preview

Turbulent times

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Contents

(All prices as on October 4, 2018)

Amnish Aggarwal
amnishaggarwal@plindia.com | 91-22-66322233

Turbulent times

2Q FY19E Adj. PAT up 14%: We estimate 26.7% sales growth, 11.0% EBIDTA growth and 13.6% Adj. PAT growth. Sales growth will be led by oil and Gas and Metals. Aggregate margins will decline by 271bps. We expect muted performance from Auto, pharma and PSU banks. Demand is showing divergent trends as 2Q has also seen impact of Kerala floods, delayed festival season and high crude prices.

Exhibit 1: PL Universe - Q2FY19E

	Revenue (%)		PAT (%)		EBITDA Margin (bps)	
	YoY	QoQ	YoY	QoQ	YoY	QoQ
Automobiles	9.4	7.1	(27.9)	15.6	(325)	(92)
Banks	15.8	1.5	2.1	189.5		
Capital Goods	11.7	2.3	12.7	14.7	54	91
Cement	17.0	(9.2)	11.7	(24.5)	(171)	(117)
Consumer Staples	11.8	1.3	13.3	3.5	36	(12)
Financial Services	22.8	5.8	17.4	(1.0)		
Information Tech.	16.7	7.0	17.8	11.9	83	94
Media	18.2	9.7	124.7	45.1	286	155
Metals	24.0	3.2	108.6	(14.9)	430	(147)
Oil & Gas	49.2	8.1	15.4	(3.3)	(221)	(150)
Pharma	9.2	8.3	0.2	8.2	(140)	75
Others	14.5	17.5	12.0	58.3	(104)	528
PL Universe	**26.7**	**5.8**	**13.6**	**9.3**	**(274)**	**(90)**

Source: Company, PL

Markets likely to bottom-out much before Lok Sabha elections: We believe that state elections will be acid test of opposition's ability to cobble together a working alliance against the ruling dispensation. Recent postures indicate that it would require an extremely impressive performance by Congress to revive confidence of regional and smaller parties to forge a formidable alliance for FY19 Lok Sabha polls. We believe state elections could determine the trend for political configurations and markets could bottom out much before Lok Sabha elections in April/May2019.

Valuations remain expensive: bottom sometime away: Against earnings contraction of 4.8% in FY18, FY19 NIFTY EPS is expected to increase by 16.8% and 18.7% over the next two years rising to Rs521.5 and Rs618.8. NIFTY is currently trading at 18.6x 1 year forward earnings which shows 8% premium to long term average of 17.2. We note that the markets have tested the LTA on 2 occasions in the past 4 years. We believe that rising crude, falling INR/USD and liquidity crunch can lead to lower growth rates and cut in earnings in the coming quarters. MSCI India premium over Asia is at 50% against the 10-year average of 45x. We note that the market always overshoots averages on both upside and downside. So markets P/E multiples can correct to sub 17.2x levels (~16x) before it bottoms out. We expect the market to find support between NIFTY levels of ~10000 while the upside is capped in the near term.

Conflux of high crude, depreciating INR and liquidity squeeze markets: NIFTY has seen a decline of 8.8% in past 1 month (6.1% in 15 days) as markets have been spooked by confluence of several headwinds like 1) crude prices increasing to USD86/barrel 2) steady decline in INR/USD to Rs73.6 on rising US growth and interest rates 3) Increase in trade deficit to USD80bn YTDFY19 from USD64bn 4) tight liquidity aided by Rs788bn outflow by FII in debt and equity markets and 5) IL&FS crisis raising questions on the health of financial sector.

Crude prices to continue pinching: Tightening crude supply led by sanctions on Iran (2.5mn barrels/day) and production downturn in Venezuela (1.2mn barrel/day) is likely to keep crude prices elevated. We believe rising crude and strong US economy will exert further pressure on emerging market currencies, including India. US Fed's indication of steady increase in interest rates and deprecating INR will impact USD returns and keep FII's on the sidelines. RBI's cautious stance is likely to get a boost with 1) Likely increase in inflation led by higher MSP's 2) liquidity issue in banking system 3) impact on CAD/ currency led by rising crude. Consequently, we expect increase in Repo rates by another 25-50bps over the next 3 months.

Government finally bites the bullet, cuts fuel prices: In light of rising crude prices (10% increase in 1 month) and depreciating exchange rate (3.5% in 1 month), the government has finally decided to cut the excise duty on petrol and diesel by Rs1.5/liter (Rs19.48/15.33 duty on petrol and diesel before cut). The government has also decided that OMCs bear Rs1/liter on petrol and diesel. This will mean an annualized impact of Rs140bn by way of lower operating profits for the three OMCs. The government has not specified any burden sharing on the upstream companies as yet. We believe upstream sharing could be a reality if crude prices continue to move up as the exploration blocks were given on nomination basis to ONGC/OINL. This measure has the potential to severely dent the valuations of OMC's and oil exploration companies.

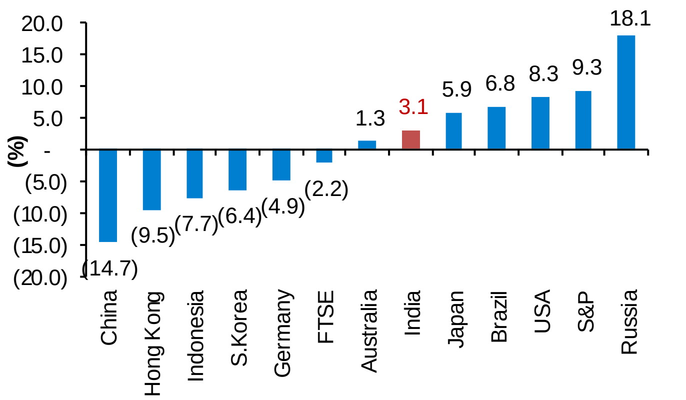
NBFC issue and weak Auto numbers raise growth concerns: NBFC's have been spooked by the IL&FS fiasco and we expect higher cost of funds and considerable slowdown in the lending growth for NBFC. As NBFC's were one of the fastest vehicles of growth in financing of durables, whitegoods, housing and automobiles, some impact of growth in these segments can't be ruled out. We have seen weak sales of Maruti, RE etc. which along with increase in third party insurance and fuel costs can impact near term growth rates. Although consumer staple sales and retail growth looks intact, further acceleration looks unlikely in the immediate term, despite strong tailwinds in rural demand.

Private capex still sometimes away: Capacity utilization in the economy has increased from 60% to 70-75% and bulk of capex is driven by spending by the Govt on roads, ports, metro projects and T&D. we believe that private capex is still sometime away which will continue to be drag on growth in capital goods and Engineering segments.

FII's pull out Rs788bn from Indian equity and debt markets in 1HFY19

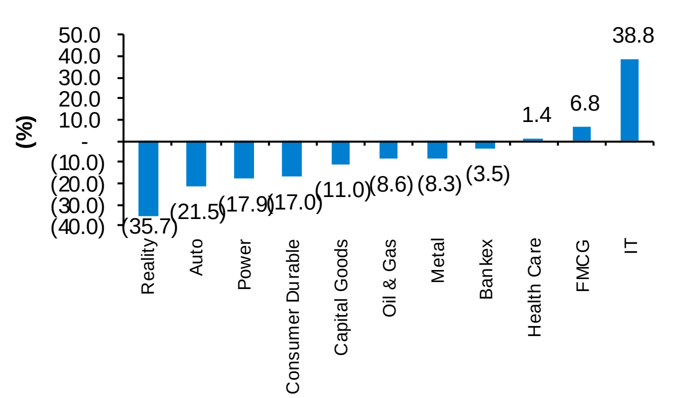
- Indian market (NIFTY) was best performing global index till August, however it has lost ground while Russia, USA, Brazil and Japan have shown improvement.
- IT is holding fort and Metals are steady, some of favorite sectors like FMCG, Private Banks, Consumer Durables and Auto have borne the brunt resulting in recent sell-off in the markets.
- Although Sensex and Nifty are still in the green YTD, mid-cap/ small cap indices have been mauled up by 25% and 17% YoY.
- DII net cash investments are Rs125bn in Sept (Rs572bn in YTDFY19), FII net cash is negative Rs96bn (Rs287bn YTD Sept) while FII net debt figures are a negative Rs105bn (Rs501bn YTD FY19). While FII had invested Rs220bn in the equity markets in FY18, they had invested Rs1200bn in debt markets in FY19 and Rs1000bn in 1HFY19. We believe FII outflow in debt markets relative to huge inflows in previous year has also led to liquidity squeeze.

Exhibit 2: India (Nifty) up 3.1% YTD (8.9% in Aug)



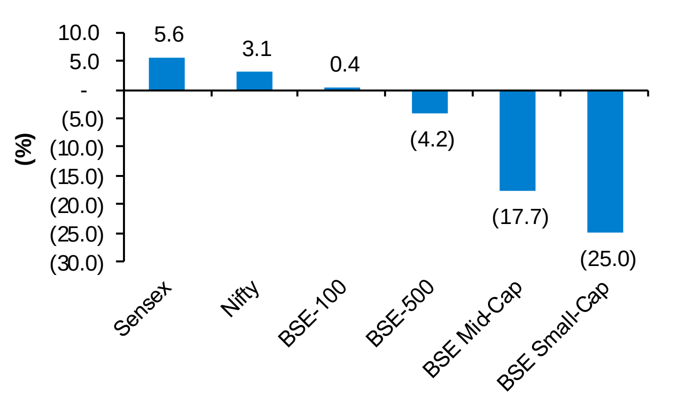
Source: Bloomberg, PL

Exhibit 3: IT holds, FMCG, Private Banks, Autos loose



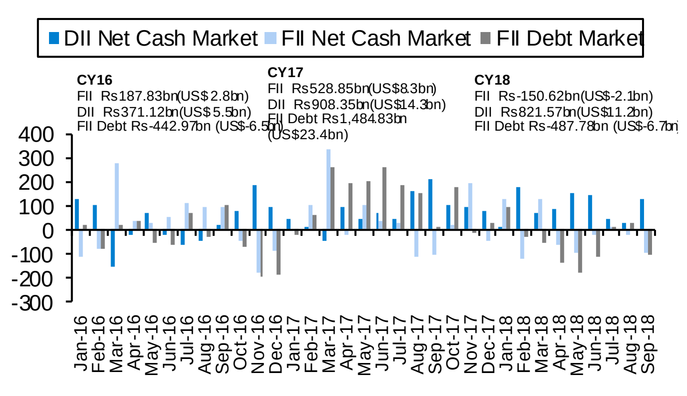
Source: Bloomberg, PL

Exhibit 4: Sensex/Nifty see sell off; Mid/small caps mauled



Source: Bloomberg, PL

Exhibit 5: FII's remain sellers in both Equity and Debt



Source: Bloomberg, PL

State Elections could be a key turning point

- 5 states including Madhya Pradesh, Chhattisgarh, Rajasthan, Mizoram and Telangana are likely to go to polls by Dec/Jan. BJP has the incumbent government in 3 large states in Hindi heartland. BJP is in power in MP and Chhattisgarh from the past 15 years, while Rajasthan has rarely elected a Govt. for second term.
- BJP swept through these states in the previous Vidhan Sabha with 377/520 seats and Lok Sabha with 59/66 constituencies.
- Telangana is expected to go to polls as the TRS government dissolved the state assembly on September 6.
- We believe recent postures by some of the regional and smaller national parties clearly point out to taking care of their local interests and regional aspirations.
- Performance of Congress in three key states would be a key factor to watch out for as it has to show really impressive performance to emerge as a binding force for the GRAND Alliance.
- We would keenly watch out for political developments over the coming 2-3 months as a failure by the opposition to stitch a working alliance (Grand Alliance) can tilt scales in favor of ruling NDA.

Exhibit 6: Upcoming state elections in 2018-2019

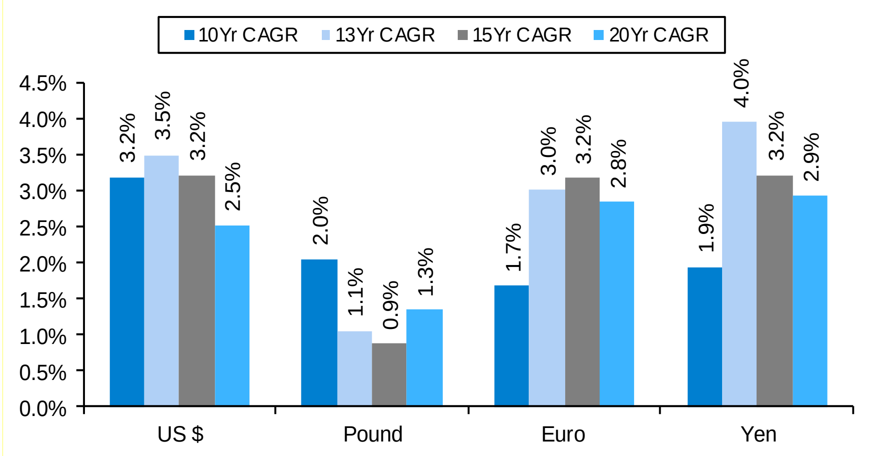
State	Term ends	Ruling Party	Constituencies won	Total no of constituencies	Major Opposition
MIZORAM	Dec-18	INC	34	40	MNF - 5
CHHATISGARH	Jan-19	BJP	49	90	INC - 39
MADHYA PRADESH	Jan-19	BJP	165	230	INC - 58
RAJASTHAN	Jan-19	BJP	163	200	INC - 21
SIKKIM	May-19	SDF	22	32	SKM -10
ARUNACHAL PRADESH	Jun-19	INC	42	60	BJP - 11
TELANGANA	Jun-19	TRS	90	119	INC - 13
ODISHA	Jun-19	BJD	117	147	INC - 16
ANDHRA PRADESH	Jun-19	TDP	103	175	YSRCP - 66
HARYANA	Nov-19	BJP	47	90	INLD - 19
MAHARASHTRA	Nov-19	BJP	122	288	SS - 63

Source: Lok Sabha

INR; Rising oil prices to sustain pressure

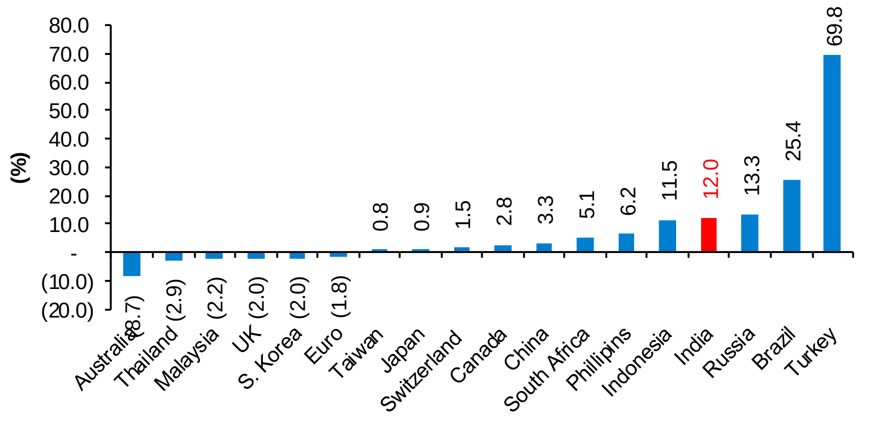
- INR has depreciated by ~2.5%-3.5% CAGR against USD over last 20 years. However, it has depreciated by 12% YoY and is falling steadily.
- India's trade deficit for August at 17bn USD is at near highest level since May 2013 (USD 20bn) and FYTD trade deficit is USD 80bn as against USD 64bn
- 54% higher crude bill for FTD19 and 85% for August 18 has impacted trade deficit although Gold imports are flattish YoY and non- oil non gold imports are up 9% YoY only.
- INR has depreciated by 12% YTD against USD which is much higher than LTA. USD continues to strengthen against all emerging markets led by steady growth and high probability of increase in interest rates.
- With crude prices hovering around USD85/barrel and high probability of further increase led by Iran sanctions and problems in Venezuela, we expect increasing pressure on INR in near term.
- GOI has cut fuel prices by Rs2.5/liter led by Rs1.5/liter reduction in excise duty and Rs1/liter burden on OMC's. This is expected to increase fiscal deficit by Rs105bn in 2HFY19.

Exhibit 7: INR movement with major currencies over last 20 years



Source: RBI, PL

Exhibit 8: INR depreciated by 12% YoY (9% in Aug)



Source: Bloomberg, PL

Crude imports lead 25% surge in trade deficit

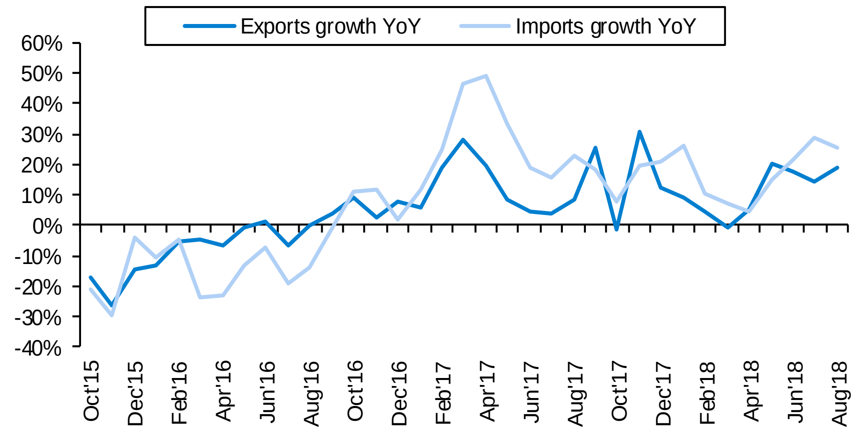
Trade deficit during April-August 2018 has increased by 25% to USD80bn as against USD64bn in same period last year.

Gold imports have been flattish YTD even as it has increased 93% in August, indicating some buildup ahead of festival season demand

Imports of Metals, Coke and coal has increased by ~25% due to higher steel production and prices

Machine Tools imports are up 44% while Electrical and non- electrical machinery imports are up 30% indicating higher level of economic activity

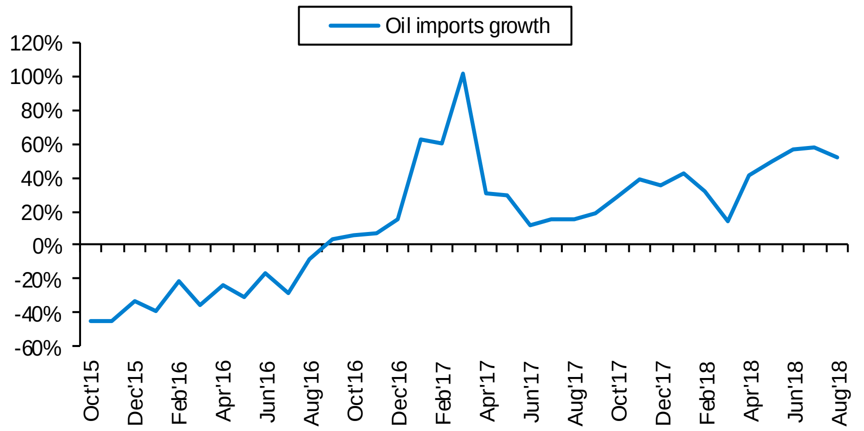
Exhibit 9: Imports up 17%, Gold Imports flat YTD



Source: Commerce Ministry, PL

Oil imports have increased 54% YTD to USD58bn, higher by USD20bn, August imports are up 85%, expect further surge in imports given sharp increase in crude prices

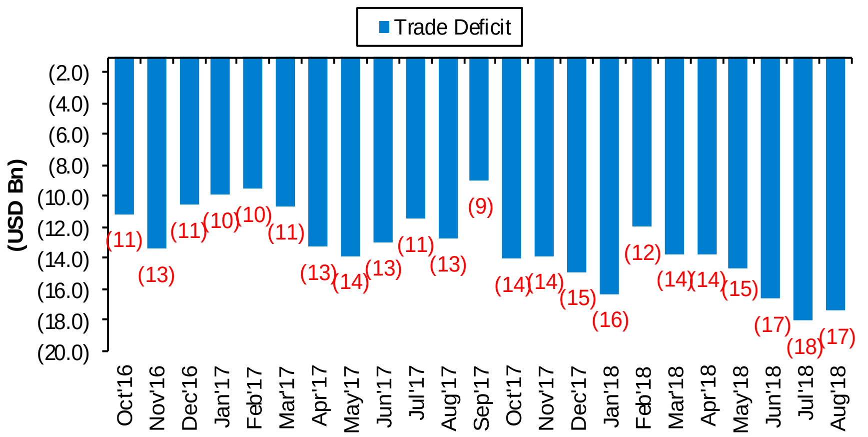
Exhibit 10: Oil imports up 54% in fiscal 19YTD



Source: Commerce Ministry, PL

Trade deficit at USD17-18bn/month is at a 5-year high level, expect this number to increase further given rising crude prices and higher consumer goods and gold imports in the festival season

Exhibit 11: Trade Deficit sustains at USD17-18bn/month



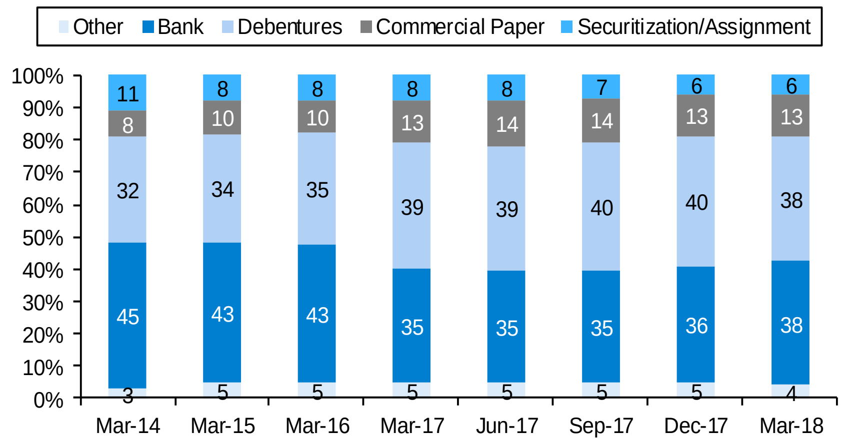
Source: Commerce Ministry, PL

Systemic liquidity tightening: an overhang

The systemic structural headwinds in the nature of tightened liquidity conditions, higher interest rates, weakening rupee and widening CAD have been seeing steady outflows in debt and as well as equity markets alike in the recent periods. This coupled with the recent ILFS credit default situation and redemption calls led to confidence crisis in the credit market. he concerns over redemptions of such borrowings and the subsequent drain on liquidity for NBFCs transpired into the liquidity crisis.

NBFCs borrowings paced up by 19.1% YoY (v/s credit growth 21.2% YoY) in FY18 resulting into rising leverage. Earlier periods observed liquidity flush with ratings upgrades leading to flourishing of debt markets. This also encouraged the NBFCs to borrow short in a higher interest rate scenario and therefore, in a matter of 6 months' borrowings from CP and MFs proliferated. The exhibit below clearly substantiates that while market-based instruments like debentures (38%) and commercial papers (13%) dominated the liability mix across NBFCs.

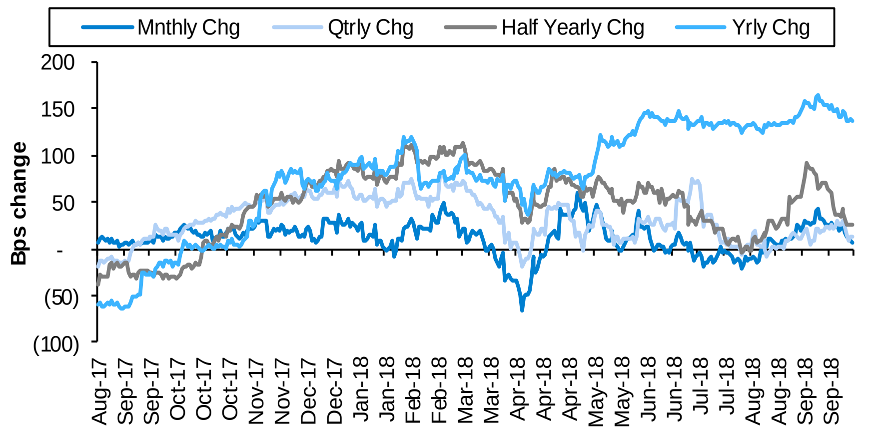
Exhibit 12: Liability mix tilting towards debentures/CPs



Source: RBI, BCG, PL

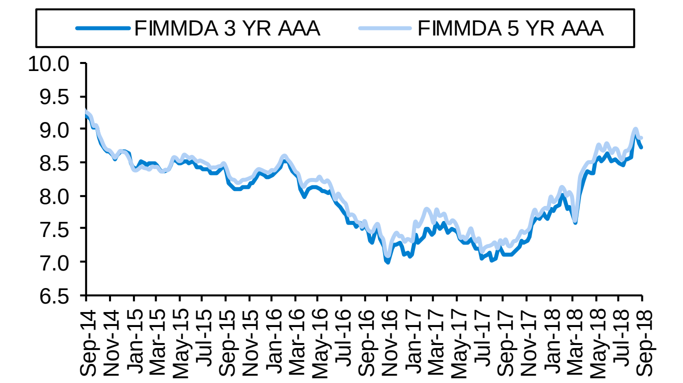
However, tight liquidity and macro headwinds domestic and globally (higher interest in US) pushed the longer tenure sovereign yields higher. Moreover, on shorter tenure still remain benign but recent turmoil, led to CPs and NCDs rates jumping ~180 bps increase in rates in past year, leading to increased incremental funding costs for NBFCs. With interest rate trajectory expected to stay elevated, spread pressures for NBFCs stand imminent especially to wholesale driven NBFCs.

Exhibit 13: India Benchmark Yields has been seeing upward trajectory



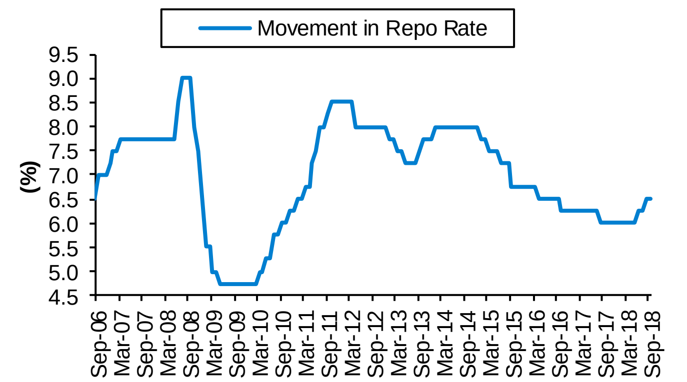
Source: Bloomberg, PL

Exhibit 14: Corporate Bond yields up 160bps over 1 year



Source: Bloomberg, PL

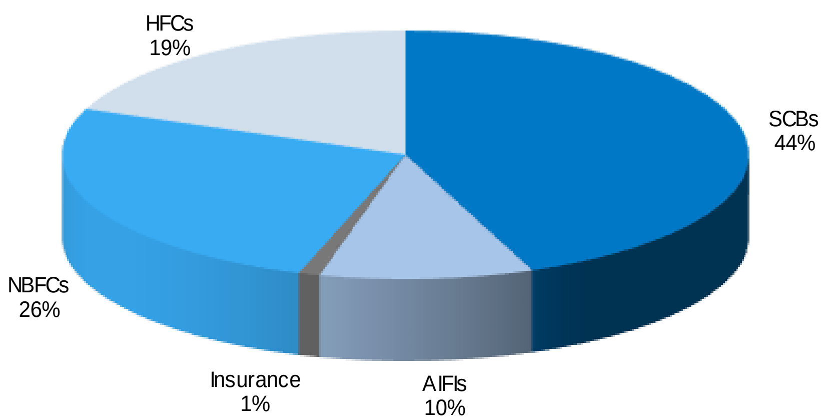
Exhibit 15: Benchmark rates moved up on macro headwinds



Source: Bloomberg, PL

Mutual funds also turned the victims of tightened liquidity scenario as their participation in the debt market has sharply increased over the past few years. MFs exposure stood as high as 26% towards NBFCs and 19% to HFCs in FY18.

Exhibit 16: Mutual Funds exposure to various segments



Source: RBI, PL

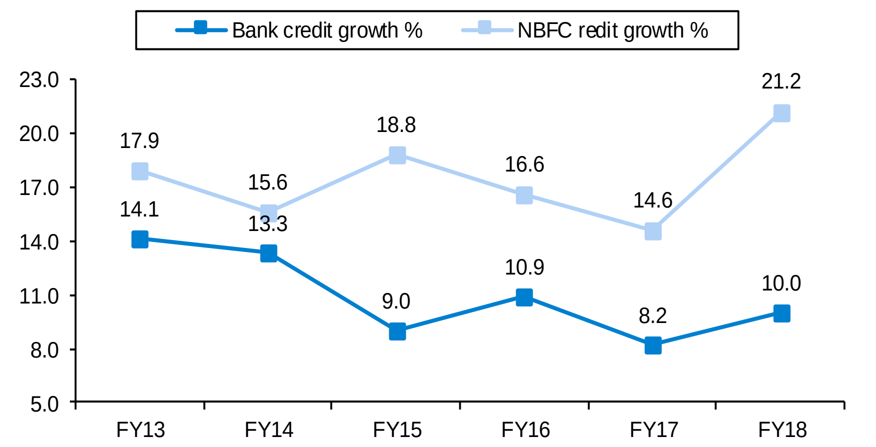
Besides, the liquidity pressures, ILFS credit default added to redemption pressures for MFs as the latter chose to exercise conservatism. Therefore, the recent liquidity squeeze led to meaningful portfolio adjustments in debt funds, further sending panic signals across equity markets.

Taking cognizance of the gravity of situation, the RBI intervened in the form of OMO purchase (targeted Rs 360bn - Oct'18; done Rs400bn YTD) to alleviate the stress and the GoI trimmed the borrowing program (gross borrowing has been cut down by Rs 700bn). Despite these proactive measures, the tightness in liquidity situation persists implying the likelihood of sustenance of higher short-term rates.

However, as short-term rates harden, the funding cost of most NBFCs (and companies) will stay higher. While borrowing costs pressures already persisted over the past few quarters for NBFCs, the elevated crude oil prices, weakening INR, tight domestic liquidity and expectations of tighter monetary policy are expected to keep short-end rates elevated. Overall, for NBFCs, this should push up the lending rates, however, competitive market positioning, product expertise and existing interest rates continue to be the key determinants.

While going forward, the quantum of MF funding to NBFCs are expected to slow, the ones with higher reliance could see pressures on incremental funding. NBFCs have been growing at a rate higher than banks for more than six years in a row banks were averse and NBFCs took market share. Tighter liquidity scenario hampers credit augmentation and hence the same should slow and we expect overall NBFC credit to decline to 15-18% over next two years as against 18-21% over past three years. Said that, the ones with pricing power (ability to pass on to the end consumer), market dominance and stronger ALM stand in a better position to wither the current liquidity crisis.

Exhibit 17: Bank & NBFC credit growth comparison



Source: RBI, BCG, PL

NBFCs' lending risks garnered more attention as infra lender IL&FS faced cash crunch and defaulted on multiple debt obligations. Further, as regulatory inspection of banks and NBFC exposures to risky sectors started raising clamor, the loan against property (LAP) market caught eyeballs given the stagnancy in real estate prices, uncertainty over underlying collateral valuations and the systemic liquidity crunch.

Exhibit 18: Sector-wise NBFC credit growth exposure

Segments	FY17 YoY growth (%)	FY18 YoY growth (%)
Micro-finance	40	53
Other unsecured	33	41
2/3- Wheeler	29	34
Home Loan	19	25
LAP+SME	16	24
Commercial Vehicle	11	21
Tractors	5	16
Construction Equipment	8	15
Passenger Vehicle	10	10
Gold Loan	13	7

Source: RBI, BCG, PL

Import duty up on Rs860bn worth of goods

The government on announced increase in the import duty on 19 items wef 27th September to curb imports that and help in bridging the widening current account deficit and reduce pressure on the already depreciated rupee. The total value of imports of these items in FY18 was about Rs860bn.

Customs duty on air-conditioners, household refrigerators and some washing machines has doubled to 20% from 10%. Duty on compressors used in air-conditioners and refrigerators has been raised to 10% from 7.5% and that on speakers to 15% from 10%. Duty on imported footwear has been raised to 25% from 20%.

Exhibit 19: Import Duty increased on 19 items

Sr. No	Items	Earlier Rate %	Increased Rate %
1	Air conditioners, Household Refrigerators, Washing machines less than 10 Kg	10	20
2	Compressor (air conditioners and refrigerators)	7.5	10
3	Plastic Items: Speakers, Bath, shower bath, sink, wash basin, Tableware, kitchenware and other household items, boxes, case, containers, bottles, insulated ware office stationery, fitting for furniture's, decorative sheets, statuettes, beads, bangles etc.	10	15
4	Trunks, Suitcase, Executive cases, Brief Cases, travel bags and other bags etc., Radial Car Tyres	10	15
5	Footwear's	20	25
6	Non industrial diamond (other than rough diamonds), i.e., cut and polished diamond, semi processed, half cut or broken, Lab grown diamonds, Cut and polished Colored gemstone	5	7.5
7	Articles of jewellery and parts, of precious metal/ metal clad with precious metal, Articles of Goldsmith/ silversmith wares and parts of precious metal/ metal clad with precious metal	15	20
8	Aviation turbine fuel	0	5

Source: Industry, PL

Import duty on Gold was not tinkered despite high expectations so as to put a check on unofficial gold imports into the country. This bodes well for Titan ahead of the festive season.

There would be pressure on margins of Consumer durable companies like Havells and Voltas post the duty hike on air conditioners, refrigerators and washing machines as large quantum of raw materials including compressors are imported.

In the near term, import duty increase will have a modest impact on trade deficit, as price elasticity remains low for these 19 items. However, increase in customs duties on footwear, luggage, and plastic products and various white goods will make domestic manufacturing more viable in the long term.

Agriculture: Spatial distribution of monsoon better YoY; record crop production expected

Monsoon ends 9% below normal: 9% all-India deficiency is mainly attributed to 24% rainfall deficiency in northeast India. Rainfall in Northwest, Central and South India has been satisfactory and well distributed with marginal deficiency of 2%, 7% and 2% respectively.

Exhibit 20: Status as on 20th Sep'18- Sowing up 0.6%

Crop (In lakh Ha)	Total normal Khareef area	Area sown in FY19	*% of total normal area*	Area sown in FY18	*YoY (%)*
Rice	396	386	*97.6%*	377	*2.4%*
Pulses	112	138	*123.2%*	139	*-1.1%*
Coarse Cereals	189	176	*93.4%*	183	*-3.9%*
Oilseeds	184	178	*96.8%*	173	*3.1%*
Sugarcane	50	52	*103.8%*	50	*4.2%*
Jute & Mesta	8	7	*86.6%*	7	*-1.0%*
Cotton	120	121	*100.7%*	122	*-0.9%*
TOTAL	**1,058**	**1,058**	***100.0%***	**1,051**	***0.6%***

Source: Ministry of Agriculture, PL

Exhibit 21: Food grain production expected to grow 0.6% over high base

Crop (Mn Tones)	FY17 Final Estimates	FY18 4th Advance Estimate	FY19 1st Advance Estimate	*YoY (%) Against 4th Advance Estimate*
Total Food grains	138.3	140.7	141.6	*0.60%*
Rice	96.3	97.5	99.2	*1.80%*
Coarse Cereals	32.4	33.9	33.1	*-2.20%*
Total Pulses	9.6	9.3	9.2	*-1.30%*
Oilseeds	21.5	21	22.2	*5.70%*
Cotton (bales)	32.6	34.9	32.5	*-6.90%*
Jute & Mesta (bales)	11	10.1	10.2	*0.30%*
Sugarcane	306.1	376.9	355	*-5.80%*

Source: Ministry of Agriculture

Exhibit 22: MSP increased 2-20% as GOI sticks to at-least 50% return over cost parameters

Rs/Quintal	FY17	FY18	FY19	*YoY%*	*5 Yr CAGR*	FY19 Cost of Production	*Return over Cost*	Sept All India Avg Wholesale price
Wheat	1,625	1,735	1,840	*6.10%*	*6.10%*	866	*112.50%*	2034*
Barley	1,325	1,410	1,440	*2.10%*	*5.80%*	860	*67.40%*	1901*
Gram	4,000	4,400	4,620	*5.00%*	*9.80%*	2,637	*75.20%*	2918*
Lentil (Masur)	3,950	4,250	4,475	*5.30%*	*9.80%*	2,532	*76.70%*	4707*
Rapeseed	3,700	4,000	4,200	*5.00%*	*7.90%*	2,212	*89.90%*	4009*
Safflower	3,700	4,100	4,945	*20.60%*	*12.80%*	3,294	*50.10%*	2667*

Source: Ministry of Agriculture, PL

** There may be wide divergence in price from state to state*

Key Sector Snapshots

Automobiles: For Q2FY19, volumes for 4Ws and Tractors came in flat YoY while 2Ws and CVs registered double digit YoY volume growth despite a mismatch in the festive season, resulting in moderate revenue growth of ~9% YoY. With commodity prices continuing to inch northwards, lower operating leverage and insufficient pricing action, we expect an EBITDA decline of ~15% YoY and PAT decline of ~28% YoY (up ~16% QoQ). Revenue growth (excluding Tata Motors), is expected to be ~11% YoY, with EBITDA margin decline of ~117bps YoY mainly due to increasing commodity prices.

BFSI: Earnings should be relatively better for banks on improving loan growth enabling NII growth to hold up, while relatively have lower MTM losses compared to Q1FY19. Trading income will be muted on higher G-Sec yields, while provisions will continue to be higher for many mainly on ageing of NPAs, expect steady asset quality. NBFCs should face volatility on margins on increased cost of funds but asset growth should hold up. Credit cost should be steady even as credit models get fine-tuned for expected credit loss.

Cement: Earnings in Q2 is expected to grow in single digit due to weak margins, partially offset by stronger volumes. Unabated increase in fuel cost and missing pick-up in prices would remain key downside risk for sector.

Capital Goods / Engineering: The sector continues to see healthy order inflow/ execution for last 2 3 quarters which is likely to continue even in current quarter before we enter the election season next quarter. While election uncertainty is likely to weigh in sector in near term however we believe it's a good time to accumulate

Consumer: Demand momentum continues with rural sales growth outpacing urban sales growth. Overall outlook remains positive given normal monsoons, higher government spending in the run-up to 2019 elections and higher income led by better MSP and crop prices. Input costs tailwind are now behind with crude and majority of raw materials firming up. Increase in margins from this levels would be in a calibrated manner only. We estimate sales, EBIDTA and PAT growth of 11.8%, 13.7% and 13.3% on 36bps margin expansion.

Information Technology: We expect Tier 1 IT vendors to show a steady execution in 2QFY19. TCS/Infosys/HCL Tech are expected to deliver steady results while Tech M could report softer USD revenue growth. Constant currency revenue growth for the quarter would be in the band of 0.7-3.5% QoQ for 2QFY19 (TCS to report the strongest growth and Tech M the weakest). We expect cross currency movements to be a headwind of 100-150bps for Tier 1 IT vendors (based on the mix of revenues) depreciation of Euro/GBP/AUD/CAR/INR vs USD. Hence, reported USD revenues would grow by (0.8)-2.2% QoQ. The average rate (USD v/s INR) for Q2FY19 is at 70.7 v/s 67.5 for Q1FY19. Hence, INR v/s USD has seen a steep 4.7% depreciation QoQ and hence likely to aid reported EBIDTA margins of IT vendors. We expect EBIDTA margins of IT vendors to improve by 30 to 150 bps QoQ.

Infrastructure / Construction: order inflow has increased by 20% on good demand for power T&D, Oil and Gas and urban infra like metros and Railways. There is considerable work across states and central Govt which provides good medium term visibility for growth.

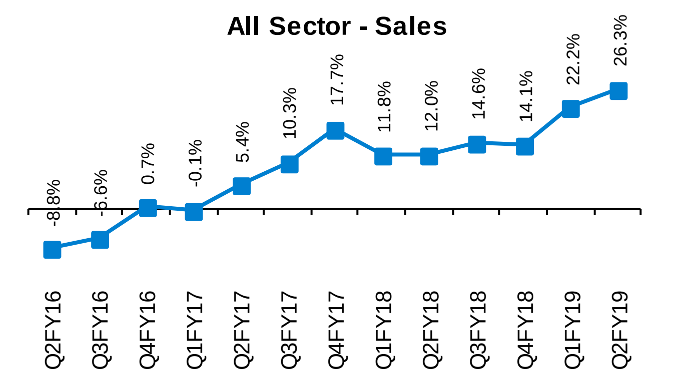
Metals: We expect PAT to double YoY, primarily led by expansion in margins. Driven by continued discipline in Chinese steel market and controlled increase in input prices, margins are expected to remain on strong footing in medium term.

Oil and Gas: Expect flat GRM's and weak nos for oil marketing companies due to lower inventory gains of Rs38.5bn versus Rs125bn in 1QFY19, although marketing margins will improve. RIL will report flat GRM's although INR depreciation will benefit it. PLNG will report strong nos as dabhol terminal closure has given it strong volumes. IGL and MGL will sustain double digit volume growth. GRM's were lower although inventory gains enabled strong growth.

Pharma/Healthcare: Domestic centric companies will report better growth in 2Q. Cross currency headwinds will impact companies which have presence in emerging markets. Pharma companies will have some inventory gains on conversion due to currency, however it will get adjusted in medium term. Valuations don't fully reflect the threat in generics and risk in success for specialty product launches.

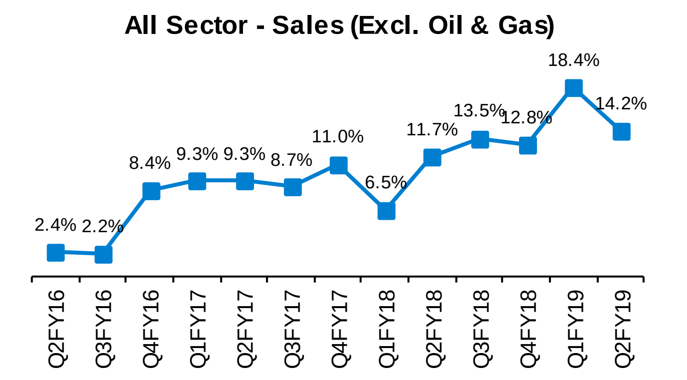
Sales and EBIDTA growth (ex Oil & Gas) slows down QoQ

Exhibit 23: Oil, Metals, IT lead growth, pharma and auto drag



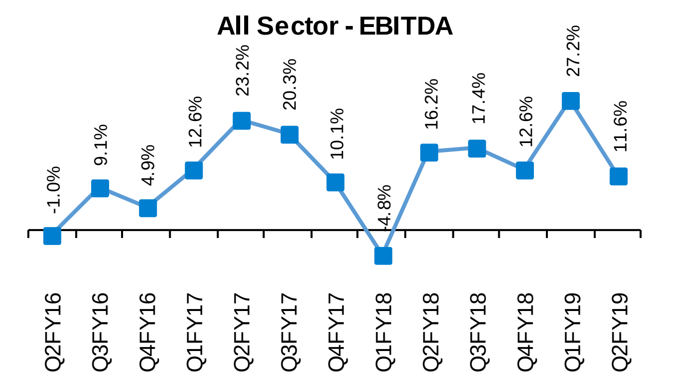
Source: Company, PL

Exhibit 24: Sales growth down QoQ



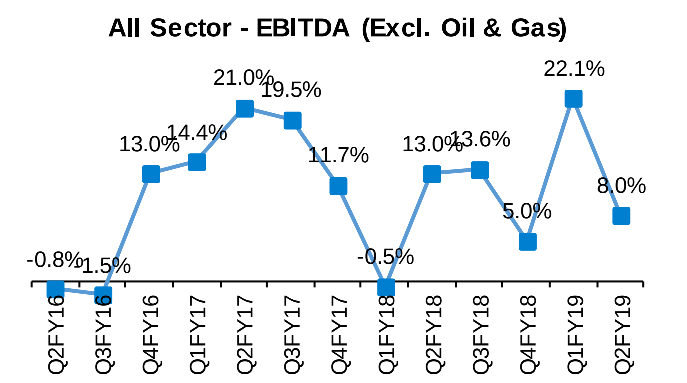
Source: Company, PL

Exhibit 25: Auto and PSU Banks drag EBIDTA



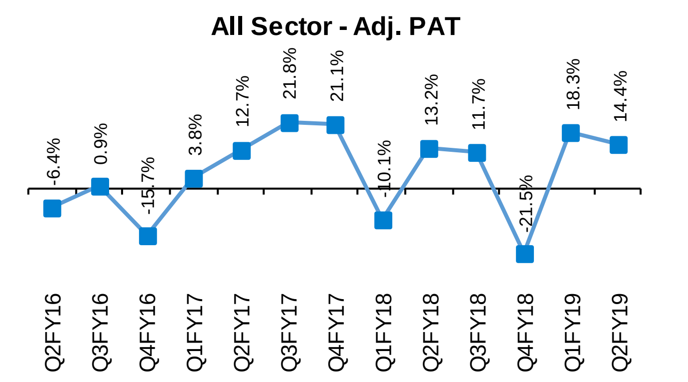
Source: Company, PL

Exhibit 26: EBIDTA growth declines sharply



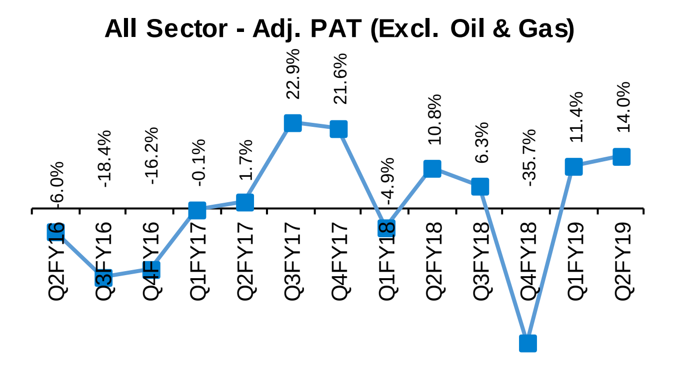
Source: Company, PL

Exhibit 27: Metals and NBFC lead, Auto, Pharma a drag



Source: Company, PL

Exhibit 28: PAT growth up QoQ



Source: Company, PL

Key Changes in Top Picks

New Inclusions

Ashok Leyland: With the uncertainty regarding the axle norm changes behind us, we expect Ashok Leyland to benefit from the CV sector growth ahead, company would also benefit from the change in product mix (shift towards higher tonnage) and strong overall demand drivers for the CV sector like increased government focus on infrastructure spend, pre-buying ahead of BS VI implementation and scrappage policy (expected to come in FY21) intact, we remain positive on the overall CV sector growth ahead. AL is currently trading at 10.4x FY19E and 8.3x FY20E EV/EBITDA (15.7x FY20E EPS). We have a TP of Rs146 at 12x FY20E EV/EBITDA.

Tech Mahindra: Tech M has been facing challenges on revenue growth front over the past three quarters owing to softness in Communication vertical (~39% of total revenues). We believe performance in this vertical has bottomed out and expect recovery from 2QFY19 onwards. Communication vertical IT spends tend to be cyclical led by Technology shifts, an upcycle led by 5G can lead to strong momentum. Hence, we see potential growth acceleration for Tech M in FY20E.We model Tech M to deliver 4.5% USD revenue growth for FY19E, which should accelerate to 8% in FY20E. Our EPS estimates are FY19/FY20E for Rs48/56. At CMP of Rs720, stock trades at 12.8x FY20E EPS which makes it cheapest stock in the sector. BUY with TP of Rs885 (15x Sep20E EPS).

Exclusions

Indian oil Corporation: In light of rising crude prices and depreciating exchange rate, the government has finally decided to cut the excise duty on petrol and diesel by Rs1.5/liter (Rs19.48/15.33 duty on petrol and diesel before cut). OMC's will have to bear a burden of Rs1/liter. This will mean an annualized impact of Rs140bn by way of lower operating profits for the three OMCs. Assuming Rs1/liter cut in marketing margins for H2FY19, we expect operating profit cut of 15-25% for three OMCs. Accordingly, we remove IOCL from out top pick list even as stock price corrections more than factor in earnings cut.

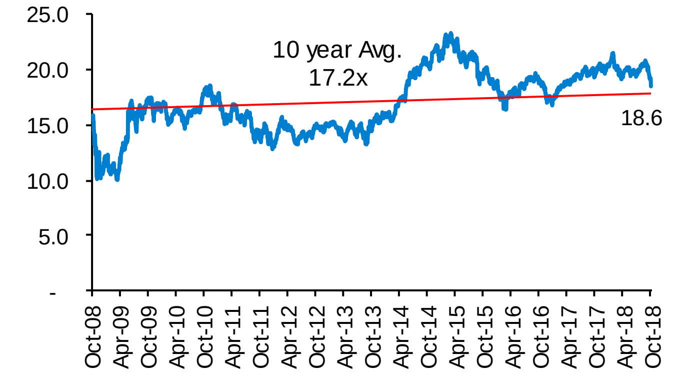
Y**es Bank**: We remove Yes Bank from our top picks post RBI 's gives extension to the existing MD & CEO only upto Jan'19 instead of three years, hence creating uncertainty on management and strategy of the bank. Moreover, we are varied on the asset quality impact & business growth bank could face if new MD & CEO (mainly external Candidate) were to take much conservative stance which is why it is important to get clear picture ahead for the bank to continue its previous robust strategy. We remain cautious with ACCUMULATE stance with TP of Rs250.

Navneet Education: We are removing Navneet Education from top picks given change in the analyst.

NIFTY: Earnings expected to grow at 17.6% CAGR over FY18-20

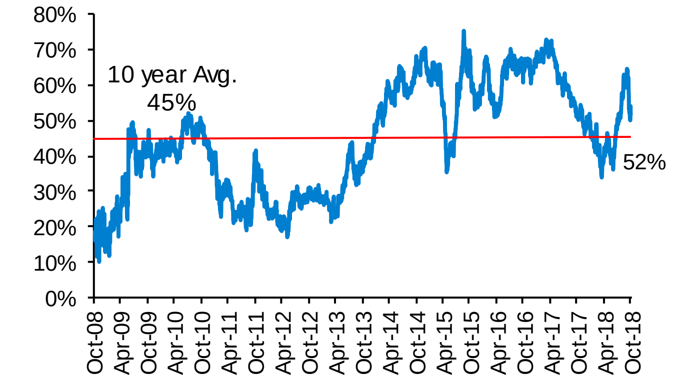
Against earnings contraction of 4.8% in FY18, FY19 NIFTY EPS is expected to increase by 16.8% and 18.7% over the next two years rising to Rs521.5 and Rs618.8. NIFTY is currently trading at 18.6x 1 year forward earnings which shows 8% premium to long term average of 17.2. We note that the markets have tested the LTA on 2 occasions in the past 4 years. We believe that rising crude, falling INR/USD and liquidity crunch can lead to lower growth rates and cut in earnings in the coming quarters. MSCI India premium over Asia is at 50% against the 10-year average of 45X. We note that the market always overshoots targets on both upside and downside. So markets P/E multiples can correct to sub 17.2x levels (~16.5x) before it bottoms out. We expect the market to find support between NIFTY levels of 10000-10200 while the upside is capped in the near term.

Exhibit 29: Nifty 1-yr forward PE



Source: Bloomberg, PL

Exhibit 30: MSCI India Premium to MSCI Asia (Ex-Japan)



Source: Bloomberg, PL

Nifty Valuation

	Weight-age (%)	FY17	FY18	FY19E	FY20E
Banking & Fin.	**35.0%**				
PER (x)		41.3	40.8	27.1	19.5
PAT Growth (%)		(21.4)	1.4	50.7	38.9
Technology	**15.1%**				
PER (x)		24.3	23.5	20.4	18.1
PAT Growth (%)		9.0	3.3	15.0	13.0
Auto	**7.4%**				
PER (x)		19.5	21.1	14.5	12.4
PAT Growth (%)		(12.8)	(7.4)	45.2	16.9
Consumer	**10.6%**				
PER (x)		50.9	44.5	38.7	33.1
PAT Growth (%)		8.0	14.3	14.9	16.9
Oil & Gas	**13.4%**				
PER (x)		12.6	12.5	12.0	11.0
PAT Growth (%)		51.8	0.8	4.2	8.9
Eng. & Power	**5.8%**				
PER (x)		17.1	16.0	13.6	12.0
PAT Growth (%)		12.0	7.2	17.5	13.4
Metals	**4.7%**				
PER (x)		18.7	16.2	9.4	8.8
PAT Growth (%)		838.4	15.5	72.0	6.5
Pharma	**3.0%**				
PER (x)		25.3	50.6	31.6	28.5
PAT Growth (%)		15.2	(50.0)	60.0	11.2
Telecom	**1.5%**				
PER (x)		26.2	47.7	73.8	36.7
PAT Growth (%)		(21.4)	(45.1)	(35.4)	101.3

	Weight-age (%)	FY17	FY18	FY19E	FY20E
Cement	**0.9%**				
PER (x)		39.9	41.3	38.4	29.7
PAT Growth (%)		9.6	(3.4)	7.6	29.1
Others	**0.9%**				
PER (x)		13.3	15.8	12.8	10.2
PAT Growth (%)		28.3	(15.4)	23.5	24.9
Media	**0.6%**				
PER (x)		19.0	28.5	26.7	22.6
PAT Growth (%)		169.8	(33.4)	7.0	17.9
Ports & Logistics	**0.6%**				
PER (x)		10.8	11.5	10.6	9.0
PAT Growth (%)		35.0	(6.1)	8.4	18.1
Agro Chemicals	**0.5%**				
PER (x)		24.4	20.9	18.1	15.4
PAT Growth (%)		83.7	17.1	15.2	17.2
Nifty as on Oct 4	**10,599**				
EPS (Rs) - Free Float		**469.0**	**446.6**	**521.5**	**618.8**
Growth (%)		**13.0**	**(4.8)**	**16.8**	**18.7**
PER (x)		**22.6**	**23.7**	**20.3**	**17.1**
EPS (Rs) - Free Float - Nifty Cons.		**469.0**	**446.6**	**537.2**	**665.7**
Var. (PLe v/s Cons.) (%)		**-**	**-**	**(2.9)**	**(7.1)**
Sensex as on Oct 4	**35,169**				
EPS (Rs) - Free Float		**1,479.0**	**1,308.2**	**1,637.9**	**1,960.6**
Growth (%)		**10.2**	**(11.6)**	**25.2**	**19.7**
PER (x)		**26.1**	**23.2**	**21.5**	**17.9**
EPS (Rs) - Free Float - Sensex Cons.		**1,479.0**	**1,308.2**	**1,640.7**	**2,076.9**
Var. (PLe v/s Cons.) (%)		**-**	**-**	**(0.2)**	**(5.6)**

Source: Company Data, Bloomberg, PL Research

Note: Telecom, Media, Ports & Agro Chemicals Nos. is Bloomberg Consensus / Sector Weightages are updated as on Oct 04, 2018

Top Picks

Bloomberg Code		CMP (Rs.)	TP (Rs)	*Upside*	Mcap (Rs bn)	Mcap (US$ m)	Revenue Gr. (%)		Earnings Gr. (%)		RoE (%)		RoCE (%)*		PER (x)		P/BV (x)*	
							2019E	2020E	2019E	2020E	2019E	2020E	2019E	2020E	2019E	2020E	2019E	2020E
	Large Cap																	
HDFCB IN	HDFC Bank	1,958	2,492	*27.3%*	5,296.7	71,838.6	19.3	18.4	18.1	17.8	16.7	16.2	1.8	1.9	24.4	20.8	3.8	3.3
ITC IN	ITC	287	346	*20.4%*	3,521.1	47,756.4	16.0	8.7	13.7	13.7	23.8	24.7	31.4	32.3	27.5	24.1	6.3	5.6
SBIN IN	State Bank of India	271	349	*28.6%*	2,421.7	32,845.4	20.1	8.5	(219.6)	134.8	3.5	7.8	0.2	0.5	30.9	13.2	1.7	1.5
MSIL IN	Maruti Suzuki	7,199	10,705	*48.7%*	2,174.0	29,486.3	28.1	12.1	36.5	13.6	23.2	22.3	28.0	27.2	20.6	18.2	4.4	3.7
ICICIBC IN	ICICI Bank	317	329	*3.9%*	2,034.8	27,597.9	10.0	12.1	(5.5)	47.1	6.2	8.6	0.7	1.0	30.3	20.6	2.5	2.2
LT IN	Larsen & Toubro	1,258	1,566	*24.5%*	1,762.8	23,908.3	13.0	12.0	12.4	14.9	14.0	14.6	8.0	8.6	21.6	18.8	2.9	2.6
HCLT IN	HCL Technologies	1,077	1,190	*10.5%*	1,459.5	19,794.8	17.6	13.0	17.3	10.6	26.1	24.6	30.6	29.0	14.5	13.1	3.6	2.9
IIB IN	IndusInd Bank	1,590	2,075	*30.5%*	954.1	12,939.8	19.9	22.4	22.4	25.8	17.2	18.4	1.8	1.9	21.6	17.1	3.6	3.0
MM IN	Mahindra & Mahindra	795	1,058	*33.2%*	945.6	12,825.8	21.3	15.3	39.2	16.1	17.3	18.3	19.0	20.1	17.3	14.9	2.9	2.6
TTAN IN	Titan Company	777	1,115	*43.5%*	689.6	9,352.4	21.2	20.3	8.7	31.4	23.5	25.2	32.7	35.2	50.6	38.5	10.8	8.8
TATA IN	Tata Steel	582	780	*33.9%*	700.6	9,502.7	22.3	5.2	167.2	2.7	10.9	9.1	12.1	10.7	8.6	8.3	0.8	0.7
BRIT IN	Britannia Industries	5,625	6,568	*16.8%*	675.4	9,160.1	14.3	14.4	19.9	18.4	36.1	37.7	44.2	43.6	58.6	49.5	21.4	16.5
SBILIFE IN	SBI Life Insurance Company	544	840	*54.3%*	666.9	9,044.5												
TECHM IN	Tech Mahindra	721	885	*22.8%*	636.7	8,635.7	12.7	10.5	10.7	17.6	20.8	21.4	22.6	23.5	15.1	12.9	3.0	2.6
AL IN	Ashok Leyland	118	146	*23.3%*	345.5	4,686.6	15.7	15.3	13.9	19.8	23.1	23.8	13.4	14.2	19.4	16.2	4.2	3.6
PLNG IN	Petronet LNG	214	300	*40.1%*	321.3	4,357.8	15.2	13.3	16.8	25.4	23.5	25.0	30.3	32.0	13.2	10.6	2.9	2.4
ACC IN	ACC	1,528	1,800	*17.8%*	287.2	3,895.7	20.1	12.1	31.9	31.1	9.9	12.3	9.7	12.2	31.8	24.3	3.1	2.9
	Mid Caps																	
JSP IN	Jindal Steel & Power	191	290	*51.9%*	194.2	2,634.5	41.3	8.0	(184.5)	148.8	2.3	5.4	6.6	8.1	28.0	11.2	0.6	0.6
IGL IN	Indraprastha Gas	235	333	*41.5%*	164.7	2,234.4	9.2	14.8	12.5	7.7	20.0	18.8	26.8	24.5	21.8	20.3	4.1	3.5
CROMPTON IN	Crompton Greaves Consumer	212	290	*36.5%*	132.9	1,802.7	15.3	15.3	25.0	18.0	46.0	44.4	41.0	42.2	32.9	27.8	13.7	11.2
	Small Caps																	
IPCA IN	Ipca Laboratories	642	829	*29.1%*	81.0	1,098.6	12.2	14.2	46.9	37.4	12.3	14.7	12.7	15.9	23.0	16.8	2.7	2.3
SADE IN	Sadbhav Engineering	216	300	*38.7%*	37.1	502.6	18.1	21.7	60.1	8.1	13.6	12.9	11.3	13.0	13.7	12.7	1.7	1.5
THYROCAR IN	Thyrocare Technologies	660	796	*20.6%*	35.5	481.0	20.4	21.1	7.3	22.1	21.7	24.1	27.7	31.0	35.4	29.0	7.4	6.6
HEIM IN	Heidelberg Cement India	139	200	*43.7%*	31.5	427.2	11.4	7.1	48.4	17.5	17.8	18.6	19.7	21.7	15.9	13.6	2.7	2.4

** For Banks P/BV = P/ABV & RoCE = RoAA*

SECTORS

Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

Automobiles

Jul-Sep'18 Earnings Preview

October 5, 2018

Top Picks

Mahindra & Mahindra

Ashok Leyland

Saksham Kaushal
sakshamkaushal@plindia.com | 91-22-66322235

Poorvi Banka
poorvibanka@plindia.com | 91-22-66322426

For Q2FY19, volume growth for auto companies varied across segments as 4Ws and Tractors came in flat YoY while 2Ws and CVs registered double digit YoY volume growth despite a mismatch in the festive season, resulting in moderate revenue growth of ~9% YoY. With commodity prices continuing to inch northwards, along with lower operating leverage and insufficient pricing action taken by the companies, we expect an EBITDA decline of ~15% YoY, resulting in net profit decline of ~28% YoY (up ~16% QoQ). Revenue growth of companies under our coverage, excluding Tata Motors, is expected to be ~11% YoY, with EBITDA margin likely to decrease by ~117bps YoY mainly due to increasing commodity prices.

Commodity and promotional offers to impact margins: With the quarter getting impacted by festive mismatch and slightly tepid consumer sentiment, we expect a mixed revenue growth for the OEMs in our coverage universe, with 2Ws expected to outperform 4Ws mainly on the back of higher volume growth for the segment (inventory push by companies ahead of the festive season). We expect OEM EBITDA margins for the quarter to decline by 375bps YoY mainly due to the inability to pass on the higher commodity costs (steel and aluminium up ~6% & 2% YoY respectively), lower operating leverage/unfavourable product mix and higher discounts/promotion.

Volume growth impacted due to festive mismatch: In the OEM players, two/three wheelers have recorded ~12% YoY growth (~6% QoQ) in volumes, while four-wheelers registered ~4% YoY growth in volumes (inching up ~1% QoQ) this quarter, while M&HCV growth, in particular, has been extremely robust, up ~26% YoY. Despite robust volume growth of ~27% YoY/ ~23% QoQ and a favourable mix, we expect a marginal improvement in EBITDA of 60bps YoY/ 30bps QoQ for Ashok Leyland, mainly owing to higher commodity pressures.

Diversified revenue mix to offset commodity pressure: For most of the Auto ancillary suppliers, we expect margin pressure to continue mainly due to adverse commodity costs and delay in passing of commodity prices, however we expect benefits to come in from the diversified revenue mix (exports, favourable currency). Overall, we expect auto ancillaries under our coverage universe to report ~14% YoY EBITDA growth led by ~12% YoY revenue growth.

Exhibit 1: Two & Three-wheeler companies

Volume (units)	Q2FY19	YoY gr. (%)	QoQ gr. (%)
Total	**4,785,358**	***12.4***	***6.4***
Hero Motocorp	2,134,047	*5.5*	*1.4*
Bajaj Auto	1,339,444	*25.0*	*9.2*
TVS Motors	1,088,374	*14.7*	*17.2*
Royal Enfield	210,102	*3.6*	*-6.8*
Atul Auto	13,391	*9.5*	*26.7*

Source: Company, PL

Exhibit 2: Four-wheeler companies

Volume (units)	Q1FY19	YoY gr. (%)	QoQ gr. (%)
Total	**1,112,229**	***3.7***	***1.3***
Tata Motors (Standalone)	190,472	*24.4*	*7.9*
Jaguar Land Rover	137,665	*-10.1*	*4.6*
Maruti Suzuki	484,848	*-1.5*	*-1.1*
M&M	228,590	*4.6*	*-5.1*
Ashok Leyland	51,958	*26.8*	*23.3*
VECV	18,696	*24.5*	*15.2*

Source: Company, PL

Exhibit 3: Q2FY19 Result Preview

Company Name		Q2FY19E	Q2FY18	YoY gr. (%)	Q1FY19	QoQ gr. (%)	Remark
Ashok Leyland	Sales	78,000	60,469	*29.0*	62,501	*24.8*	AL reported a robust 27% YoY growth in volumes this quarter despite the uncertainty regarding the axle norm changes. Anticipating realisations to improve by 1.75% YoY, we expect revenues to grow by ~29% YoY and margins to expand by 60bps YoY (up 30bps QoQ) despite the commodity cost pressure on the back of the robust volume growth.
	EBITDA	8,356	6,118	*36.6*	6,475	*29.0*	
	Margin (%)	10.7	10.1		10.4		
	Adj. PAT	5,092	3,369	*51.1*	3,910	*30.2*	
Atul Auto	Sales	1,828	1,599	*14.4*	1,373	*33.2*	ATA continued its growth momentum, growing a decent 9.5% YoY (on a comparable base) over Q2FY19. Anticipating a 4.5% improvement in realisations, ATA is expected to record a 14.4% YoY growth in revenues, with margins expected at 12.6%, lower 420bps YoY / up 180bps QoQ.
	EBITDA	231	269	*(14.1)*	148	*55.8*	
	Margin (%)	12.6	16.8		10.8		
	Adj. PAT	146	170	*(13.7)*	103	*42.0*	
Bharat Forge	Sales	15,197	12,580	*20.8*	14,797	*2.7*	With user industries like Oil & Gas and North America trucks doing well, we expect shipment tonnage to rise by a decent 17.5% YoY in Q2FY19E. Overall revenue for Bharat Forge is expected to increase by 20.8% YoY and EBITDA margin is expected at 29.2%, up 20bps QoQ but lower 20bps YoY.
	EBITDA	4,439	3,694	*20.2*	4,286	*3.6*	
	Margin (%)	29.2	29.4		29.0		
	Adj. PAT	2,468	2,037	*21.1*	2,345	*5.2*	
Bajaj Auto	Sales	83,309	65,799	*26.6*	74,193	*12.3*	While the overall volume growth for BJAUT over Q2FY19 has been strong at 25% YoY, the volume mix has not been very favourable with higher share of the CT100. With rising crude and favourable currency movement (exports for Q2FY19 were ~40% of sales, up 230bps YoY but down 340bps QoQ) along with stable contribution from 3Ws, we expect margins to be up 70bps QoQ (down 170bps YoY).
	EBITDA	15,029	12,984	*15.8*	12,814	*17.3*	
	Margin (%)	18.0	19.7		17.3		
	Adj. PAT	12,077	11,119	*8.6*	11,152	*8.3*	
CEAT	Sales	16,601	15,230	*9.0*	17,063	*(2.7)*	Ceat is expected to report ~7% YoY growth in its sales tonnage over Q2FY19. Expecting realisation improvement of 2.5% YoY, we anticipate the standalone revenues to grow ~10% YoY to Rs16.6bn. While rubber prices are near the corrected levels of Q1, on account of rising crude prices (up ~20% QoQ), we expect consol EBITDA margin to be at 9.9%, down 160bps YoY.
	EBITDA	1,648	1,747	*(5.6)*	1,758	*(6.3)*	
	Margin (%)	9.9	11.5		10.3		
	Adj. PAT	639	773	*(17.4)*	689	*(7.3)*	
Eicher Motors	Sales	23,906	21,673	*10.3*	25,478	*(6.2)*	Royal Enfield's Q2FY19 volumes have grown a modest 3.6% YoY to 210K units, while VECV volumes have grown a strong 24.5% YoY to 18.7K units. We expect EIM to report consolidated revenue growth of 10.3% YoY to Rs23.9bn, with an EBITDA margin of 31.1%, dipping 40bps YoY/ 70bps QoQ, on account of commdity cost pressures.
	EBITDA	7,440	6,825	*9.0*	8,096	*(8.1)*	
	Margin (%)	31.1	31.5		31.8		
	Adj. PAT	5,681	5,180	*9.7*	5,762	*(1.4)*	

Company Name		Q2FY19E	Q2FY18	YoY gr. (%)	Q1FY19	QoQ gr. (%)	Remark
Exide Industries	Sales	26,984	23,567	*14.5*	27,725	*(2.7)*	We expect Exide Industries to sustain the good performance delivered by it over the past 2 quarters and record a decent revenue growth of 14.5% YoY desptie some dip in OEM demand. With lead prices softening (down 10-11% YoY as well as QoQ), our EBITDA margin expectation is at 15.2%, higher 260bps YoY & 110bps QoQ.
	EBITDA	4,109	2,959	*38.9*	3,909	*5.1*	
	Margin (%)	15.2	12.6		14.1		
	Adj. PAT	2,365	1,774	*33.4*	2,099	*12.7*	
Hero Motocorp	Sales	89,828	83,620	*7.4*	88,098	*2.0*	With volume growth of 5.4% YoY and expected realisation inch up of 0.5% YoY over Q2FY19, revenue should grow ~7.4% YoY. Owing to commodity cost pressures, operating margins are expected to contract 200bps YoY / 20bps QoQ.
	EBITDA	13,828	14,557	*(5.0)*	13,773	*0.4*	
	Margin (%)	15.4	17.4		15.6		
	Adj. PAT	9,191	10,105	*(9.0)*	9,092	*1.1*	
Mahindra & Mahindra	Sales	134,495	121,821	*10.4*	135,199	*(0.5)*	M&M's overall volumes for the quarter were higher 4.6% YoY, where tractor declined 3.5% YoY (while automotive volumes were up 9.5%) mainly owing to the festive mismatch, forming ~34% of total volumes (v/s 42% in Q1FY19 & 37% in Q2FY18) . Resultantly, we expect M&M's standalone revenues to increase 10.4% YoY and EBITDA margin to be at 13.3%, lower 70bps YoY / 50bps QoQ.
	EBITDA	17,945	17,293	*3.8*	18,716	*(4.1)*	
	Margin (%)	13.3	14.2		13.8		
	Adj. PAT	13,971	13,316	*4.9*	12,001	*16.4*	
Maruti Suzuki	Sales	221,849	217,682	*1.9*	224,594	*(1.2)*	MSIL volumes were down 1.5% YoY and with no significant price hike taken along with higher discounts given during the quarter, MSIL is expected to report muted reveue growth of ~2% YoY over Q2FY19. Further, given the commodity price rise as well as unfavourable Yen movement, margins are expected to be lower 270bps YoY / 70bps QoQ.
	EBITDA	31,558	36,775	*(14.2)*	33,511	*(5.8)*	
	Margin (%)	14.2	16.9		14.9		
	Adj. PAT	20,315	24,843	*(18.2)*	19,753	*2.8*	
Motherson Sumi Systems	Sales	147,744	134,313	*10.0*	147,755	*(0.0)*	For Q2FY19, we expect MSS to record a 10% YoY revenue growth to Rs147.7bn. We expect consolidated EBITDA margin of 8.9% (flat YoY / down 70bps QoQ) while EBITDA growth is expected at 10% YoY. SMR and SMP margins are likely to be 10.3% and 8.2%, resepctively.
	EBITDA	13,162	11,962	*10.0*	14,121	*(6.8)*	
	Margin (%)	8.9	8.9		9.6		
	Adj. PAT	4,001	3,865	*3.5*	4,431	*(9.7)*	
Tata Motors	Sales	751,998	701,560	*7.2*	670,813	*12.1*	Standalone domestic volumes grew a strong 24.4% YoY, with a favourbale product mix (higher tonnage CVs). We thereby expect standalone margins to be at ~10%, up 70bps QoQ. JLR's Q2FY19E volumes are expected to be down 10% YoY / up ~5% QoQ, with margins at 7.5%, lower 430bps YoY / up 130bps YoY, owing commodity pressures and restructuring of the capitalisation structure.
	EBITDA	60,884	97,034	*(37.3)*	63,812	*(4.6)*	
	Margin (%)	8.1	13.8		9.5		
	Adj. PAT	-4,087	24,113	*(116.9)*	-8,951	*(54.3)*	
TVS Motors	Sales	48,689	40,524	*20.1*	41,537	*17.2*	With ~15% YoY volume growth and 4.8% YoY realisation improvement, TVS Motors' Q2FY19 revenue is expected to grow ~20% YoY. On the back of operating leverage, we expect margins to expand 60bps QoQ but be lower 60bps YoY (owing to commodity costs pressures).
	EBITDA	3,913	3,503	*11.7*	3,065	*27.7*	
	Margin (%)	8.0	8.6		7.4		
	Adj. PAT	2,052	2,132	*(3.8)*	1,466	*39.9*	
Wabco India	Sales	7,654	6,098	*25.5*	7,473	*2.4*	Given the growth in the domestic CV sector, we expect Wabco India's Q2FY19 revenue to rise ~25.5% YoY. Operating margins are expected to be lower 310bps YoY (on account of commodity cost rise and no pass on of the same) but inch up 40 bps QoQ.
	EBITDA	1,052	1,027	*2.4*	997	*5.5*	
	Margin (%)	13.7	16.8		13.3		
	Adj. PAT	738	776	*(4.9)*	748	*(1.3)*	

Source: Company, PL

Exhibit 4: Valuation Summary

Company Names	Rating	CMP (Rs)	TP (Rs)	Sales (Rs bn)				EBITDA (Rs bn)				PAT (Rs bn)				EPS (Rs)				RoE (%)				PE (x)			
				FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E
Ashok Leyland	BUY	118	146	200.2	262.5	303.6	349.9	22.0	27.4	30.9	36.6	12.2	15.6	17.8	21.3	4.3	5.3	6.1	7.3	21.2	23.5	23.1	23.8	27.5	22.1	19.4	16.2
Atul Auto	Acc	303	397	4.8	5.6	5.7	6.4	0.6	0.7	0.7	0.8	0.4	0.5	0.4	0.5	16.9	21.1	19.0	21.3	21.9	22.8	17.7	17.5	17.9	14.4	15.9	14.2
Bharat Forge	Acc	592	786	64.0	81.7	92.5	106.3	12.5	17.6	20.6	24.6	6.1	9.4	11.7	14.8	26.4	20.2	25.2	31.7	16.3	21.2	23.1	25.3	22.4	29.3	23.5	18.7
Bajaj Auto	Reduce	2,657	2,711	217.7	251.6	271.8	287.3	44.2	47.8	49.1	51.7	38.3	40.7	42.0	44.5	132.3	140.6	145.3	153.7	25.3	22.5	20.7	19.6	20.1	18.9	18.3	17.3
CEAT	Acc	1,055	1,451	57.7	62.3	67.7	82.4	6.6	6.1	7.1	8.8	3.7	2.7	3.3	3.9	92.6	67.2	82.1	96.7	16.8	10.8	12.2	13.0	11.4	15.7	12.8	10.9
Eicher Motors	Acc	21,908	30,296	70.3	89.6	104.6	117.6	21.7	28.1	33.6	38.1	17.1	21.8	26.0	29.5	629.6	799.6	955.4	1,083.4	38.1	35.2	32.7	29.9	34.8	27.4	22.9	20.2
Exide Industries	Acc	252	282	75.8	91.9	109.0	127.1	10.8	12.4	15.0	17.7	6.9	7.1	8.8	10.7	8.2	8.4	10.4	12.6	14.6	13.7	15.5	16.6	30.9	30.2	24.3	20.1
Hero Motocorp	Acc	2,764	3,824	285.0	322.3	369.5	408.9	46.3	52.8	57.7	64.6	33.8	37.0	38.2	42.4	169.1	185.1	191.2	212.5	35.7	33.8	30.2	29.3	16.3	14.9	14.5	13.0
Mahindra & Mahindra	BUY	795	1,058	440.5	486.9	590.4	680.6	45.1	62.2	81.7	93.4	30.9	39.2	54.6	63.4	52.1	33.0	45.9	53.3	12.6	13.7	17.3	18.3	15.2	24.1	17.3	14.9
Maruti Suzuki	BUY	7,199	10,705	680.3	797.6	1,021.7	1,145.5	102.5	119.6	155.7	176.2	73.5	77.2	105.4	119.7	243.4	255.7	348.9	396.5	22.2	19.8	23.2	22.3	29.6	28.2	20.6	18.2
Motherson Sumi Systems	Acc	242	348	424.8	562.9	607.8	689.7	42.7	51.2	59.0	67.9	14.8	14.2	20.7	30.7	10.5	6.7	9.9	14.6	23.3	16.6	22.3	28.8	23.0	35.9	24.6	16.6
Tata Motors	BUY	223	352	2,696.9	2,946.2	2,936.2	3,214.7	369.1	369.7	409.5	442.2	102.5	58.3	131.7	165.6	30.2	17.2	38.8	48.8	15.0	7.6	12.7	13.6	7.4	13.0	5.8	4.6
TVS Motors	Acc	527	497	121.4	151.3	177.8	207.8	8.6	11.3	12.0	15.8	5.6	6.6	6.8	9.4	11.7	13.9	14.3	19.9	25.6	25.1	21.6	25.1	44.9	37.8	37.0	26.5
Wabco India	Acc	6,422	7,111	20.7	25.7	29.8	34.1	3.3	3.9	4.6	5.5	2.1	2.7	3.3	3.9	112.5	143.8	175.4	203.2	18.3	19.5	19.8	19.1	57.1	44.6	36.6	31.6

Source: Company, PL

October 5, 2018

Preferred Picks

HDFC Bank

IndusInd Bank

ICICI Bank

State Bank of India

HDFC Life

BFSI

Jul-Sep'18 Earnings Preview

Banks should see relatively better earnings as (i) NII growth should hold up on back of improved industry loan growth of 12-13% YoY and (ii) should witness lower provisions compared to previous quarter on much lower fresh MTM losses (8-10bps impact v/s ~50bps in Q1FY19). Other income for bank will continue to suffer on moderate treasury income, keeping operating performance volatile. Asset quality should be steady across the sector with no shocks on slippages and see some recoveries from NCLT referred accounts. For NBFCs, business traction to remain intact, however, funding costs pressures should weigh upon margins. Also, that shift to IND AS has been smooth, earnings improvement still has to completely playout as provisioning models are still fine-tuned. Amongst our insurance coverage sector growth in APE should be 7-8%, slightly slower but should likely have steady VNB margins.

- **Improved loan growth should help but has been skewed towards few sectors:** System loan growth has improved to 13.0-13.5% YoY v/s from 11-12% in Q1FY19 and 7-8% in Q2FY18 with retail continuing to drive growth, while NBFCs and other service segments showcasing strong growth as well. Corporate growth has been towards working capital and refinancing of loans for certain banks taking market share. Loan growth should emerge stronger with some banks especially private on back of lower parity between wholesale borrowing rates and bank rates and on ongoing liquidity tightness.

- **Asset quality trends steady as slippages in-different from Q1FY19:** Slippages for banks are unlikely to be too off mark and remain similar to Q1FY19, while continue to see recovery/upgrades mainly from the resolutions of NCLT referred assets (Monnet, Uttam Galva & Amtek) which will keep overall headline asset quality stable. NPA Provisions albeit will continue to remain high as banks continue to face ageing of NPAs but MTM provisions should be comparatively lower (for those who have taken upfront earlier) which should ease overall provisioning slightly. Important focus will be on companies being referred to NCLT post deadline of 180days from Feb-12 circular.

- **Lower treasury income will keep operating performance volatile:** Continuing rise in G-Sec yields has led to much muted treasury income leading to lower other income, while opex trends has been mixed across banks which will keep PPOP growth volatile.

- **Earnings picture – Slightly better for banks, steady for NBFCs post IND-AS:** We expect 8% YoY earnings growth for our coverage universe with 2% YoY for banks and 17% YoY for NBFCs (not fully comparable on IND-AS). Growth and earnings stand in healthy position for NBFCs for Q2FY19, while Q1FY19 saw shift to IND AS based accounting wherein many companies accelerated provisioning on prudency grounds, we expect the Q2FY19 credit costs to stay soft (across NBFC coverage) cushioning the overwhelming funding costs pressures.

Pritesh Bumb
priteshbumb@plindia.com | 91-22-66322232

Shweta Daptardar
shwetadaptardar@plindia.com | 91-22-66322245

Q2FY19 Preview:

- **Private Banks –** We factor in strong loan growth of 21% YoY for private banks continued to be driven by retail, with some uptick in corporate led by working capital demand and in domestic operations for ICICI/Axis. Although, NII growth of 16% YoY will be weaker than loan growth as margin pressure still continue to persist as raised MCLRs still has to fully reflect on loans book. Opex will continue to remain key area of efficiency and improve operating performance. We do not expect large asset quality headwinds with stable slippage trends in corporate banks (Axis/ICICI/Yes). MTM losses for privates were taken upfront but Yes opted for dispensation of spreading in four quarters (Mar-18 losses) which will continue to hit in provisions.

- **Public Sector Banks –** PSU Banks should see some earnings recovery with NII holding up after good interest income booking from large recovery in Q1FY19. Also, PSBs should see lower MTM losses intensity compared to Q1FY19 with SBI/BOB/Union taking full losses upfront including shifting losses, while PNB/BOI spread over four quarters keeping provisions still higher. Other income should be a challenge with lower fees and muted trading income leading to PPOP decline of 18% YoY but control in opex growth could help arrest large decline. On Slippages, we factor in similar trends as last quarter while recoveries should continue in small portions keeping overall asset quality stable. Focus will be on assets supposed to go to NCLT post the 180day deadline from Feb-12 circular on stressed assets.

- **NBFCs –**While Q2FY19 should continue to see better AUMs (19% for PL NBFCs), spreads stay under pressure. We expect PL, NBFC Universe to witness 33 bps YoY compression in NIMs for Q2FY19. Decent NII and advent of credit quality improvement with decline in credit costs YoY to boost overall quarter earnings recording 17% YoY growth. Under PL BFSI universe, we expect NBFCs like **CIFC/LTFH** to witness robust business traction (23-26% YoY) followed by MMFS and SHTF (~19% YoY). While HFCs stand more vulnerable to high interest regime**, HDFC** should be least impacted given the deposit-led diversified liability mix and steady business. Tepid growth, tighter spreads and developer NPAs continue to weigh upon **LICHF** valuations**. CAPF** should maintain steady performance across growth and earnings; merger proceedings prompt us to maintain it under review**.**

Change in Estimates

Growth and valuation multiples have seen record highs for NBFCs since past 5 years. As challenges galore for NBFCs in the light of current tight liquidity scenario, FY19-20 should see higher funding costs, margins cut, growth curbs and therefore price multiple correction. Taking cognizance of the current challenging liquidity environment, as refinance risks accentuate with higher recent build-up of short–term funding by NBFCs jeopardizing their ALMs, we are modelling elevated funding costs into our estimates. Therefore, margin compression and resultant disbursements curb are expected to dent the premium multiple most NBFCs/HFCs enjoyed in past few years. While our full year estimates w.r.t. margins/growth should look down, the worst in terms of asset quality stands behind across PL NBFC Universe, we reckon. Said that, as IND AS clarity emerges higher in the forthcoming quarters, the transition is turning smoother with provisioning buffers with rapid improvement in credit quality for our coverage universe. Building in current market apprehensions, we cut our EPS estimates in 3%-8% range and consequent multiple correction for NBFCs barring LTFH (steep cut in Q1FY19) and MMFS (conservatism incorporated in estimates already).

Exhibit 1: Change in estimates for Financial Services

Financials	Rs (mn)	Old estimates		Revised estimates		*% change*	
		FY19E	**FY20E**	**FY19E**	**FY20E**	***FY19E***	***FY20E***
	NII	133,225	158,043	129,193	153,065	*(3.0)*	*(3.1)*
HDFC	PPOP	153,126	177,636	149,093	172,653	*(2.6)*	*(2.8)*
	PAT	102,875	118,622	100,071	115,158	*(2.7)*	*(2.9)*
	NII	43,715	50,796	41,941	47,238	*(4.1)*	*(7.0)*
LICHF	PPOP	38,420	44,760	36,645	41,201	*(4.6)*	*(8.0)*
	PAT	22,401	26,371	21,256	24,075	*(5.1)*	*(8.7)*
	NII	82,175	100,836	82,073	97,598	*(0.1)*	*(3.2)*
SHTF	PPOP	65,196	80,405	65,094	77,166	*(0.2)*	*(4.0)*
	PAT	25,032	32,849	24,966	30,746	*(0.3)*	*(6.4)*
	NII	37,220	44,224	36,199	42,842	*(2.7)*	*(3.1)*
CIFC	PPOP	24,119	27,982	23,098	26,600	*(4.2)*	*(4.9)*
	PAT	12,779	15,589	12,093	14,702	*(5.4)*	*(5.7)*

Source: Company, PL

Exhibit 2: Valuation Summary for PL BSI Coverage

Coverage Universe	Rating	MCap (Rs B)	CMP (Rs)	Old PT (Rs)	New PT (Rs)	*Upside (%)*	P/ABV (x) FY18	P/ABV (x) FY19E	P/ABV (x) FY20E	RoE (%) FY18	RoE (%) FY19E	RoE (%) FY20E
Axis Bank	ACC	1,506	586	624	624	*6.4*	3.1	2.6	2.2	0.5	7.5	11.7
HDFC Bank	BUY	5,320	1,958	2,492	2,492	*27.3*	5.0	3.8	3.3	17.9	16.7	16.2
ICICI Bank	ACC	2,037	317	329	329	*3.9*	1.7	1.5	1.4	6.8	6.4	9.0
IndusInd Bank	BUY	956	1,590	2,075	2,075	*30.5*	4.2	3.6	3.0	16.5	17.4	18.7
Yes Bank	BUY	496	215	250	250	*16.3*	2.0	1.7	1.5	17.7	18.0	18.4
Kotak	HOLD	2,049	1,075	1,398	1,398	*30.1*	4.2	3.7	3.2	10.9	11.6	13.0
Federal	BUY	135	68	119	119	*74.9*	1.3	1.2	1.1	8.3	9.6	11.3
J&K Bank	BUY	22	40	94	94	*135.0*	0.8	0.6	0.5	3.8	6.8	12.5
South Indian Bank	BUY	26	14	26	26	*82.5*	0.7	0.8	0.6	7.0	9.5	11.3
IDFC Bank	ACC	125	37	55	55	*49.9*	0.9	0.8	0.8	5.4	6.2	7.3
Bank of Baroda	ACC	273	103	165	165	*59.7*	1.2	1.0	0.8	3.4	(5.8)	9.0
Bank of India	REDUCE	138	79	89	89	*12.5*	1.3	1.1	0.8	(21.9)	(4.1)	6.1
Punjab National Bank	HOLD	179	65	79	79	*21.9*	5.4	2.6	1.3	(32.4)	(5.9)	6.6
SBI	BUY	2,422	271	349	349	*28.6*	1.5	1.2	1.0	(3.5)	3.9	8.6
Union Bank	REDUCE	80	68	79	79	*16.1*	1.4	1.2	0.8	2.7	(24.0)	3.3
Capital First	UR	49	495	NA	NA	*NA*	1.9	1.6	1.3	13.6	18.8	19.8
Cholamandalam	BUY	187	1,193	1,881	1,597	*33.9*	4.2	3.3	2.6	20.6	21.3	21.3
LTFH	BUY	252	126	203	200	*58.8*	2.2	2.5	2.0	14.9	18.8	22.0
HDFC	BUY	3,012	1,778	2,287	2,265	*27.4*	2.4	1.9	1.7	24.0	14.9	15.1
LIC Housing Finance	ACC	208	411	637	569	*38.3*	1.7	1.5	1.3	16.8	15.7	15.8
MMFS	ACC	246	399	553	543	*36.2*	2.8	2.5	2.2	11.3	15.4	18.1
Shriram Transport	BUY	248	1,094	1,787	1,692	*54.6*	2.4	2.0	1.6	13.2	17.7	18.0
HDFC Standard Life	ACC	750	372	500	500	*34.4*	4.9	4.0	3.2	23.6	24.5	25.4
ICICI PruLife	BUY	468	326	520	520	*59.3*	2.5	2.2	1.9	16.1	14.1	14.7
Max Financial Services	BUY	96	359	700	700	*94.8*	1.3	1.1	0.9	23.0	19.9	21.2
SBI Life	BUY	565	565	840	840	*48.6*	3.0	2.5	2.1	15.4	17.1	19.0

Source: Company, PL

*Note – *Kotak & SBI valuation on S'lone book*

Note – For Insurance companies, valuations are based on P/EV (x) and Op. RoEV (%)

Exhibit 3: Q2FY19 Results Preview (Rs m) – PPOP muted on lower other income, but NII should hold up

Rs Million	NII	YoY	QoQ	PPOP	YoY	QoQ	PAT	YoY	QoQ
HDFC Bank	116,140	*19.1%*	*7.4%*	93,428	*19.5%*	*8.0%*	49,994	*20.4%*	*8.6%*
ICICI Bank	62,483	*9.4%*	*2.4%*	48,826	*-30.1%*	*-15.9%*	4,532	*-78.0%*	*-479.1%*
Axis Bank	51,119	*12.6%*	*-1.1%*	40,873	*8.2%*	*-6.5%*	8,254	*90.9%*	*NA*
Kotak	27,375	*18.4%*	*6.0%*	21,610	*25.3%*	*6.3%*	11,852	*19.2%*	*15.6%*
IndusInd	22,308	*22.5%*	*5.1%*	19,863	*21.6%*	*3.9%*	10,812	*22.8%*	*4.4%*
Yes	24,596	*30.5%*	*10.8%*	26,863	*40.9%*	*9.4%*	13,506	*34.7%*	*7.2%*
SIB	4,860	*-3.4%*	*-1.7%*	2,690	*-41.6%*	*-0.2%*	660	*1426.9%*	*NA*
J&K	7,996	*10.6%*	*2.6%*	3,756	*3.1%*	*7.4%*	589	*-17.8%*	*12.0%*
Federal	9,756	*8.5%*	*-0.5%*	5,915	*1.4%*	*-1.9%*	2,374	*-10.0%*	*-9.6%*
IDFC Bank	5,294	*14.6%*	*8.1%*	5,070	*107.1%*	*109.4%*	142	*-93.9%*	*-92.2%*
SBI	216,437	*16.5%*	*-0.7%*	143,747	*-28.1%*	*20.1%*	9,678	*-38.8%*	*NA*
PNB	47,051	*17.2%*	*0.3%*	39,317	*19.9%*	*NA*	(1,871)	*NA*	*NA*
BOI	31,770	*9.2%*	*-5.3%*	17,095	*-23.4%*	*-8.5%*	(2,348)	*NA*	*NA*
BOB	43,440	*16.8%*	*-0.8%*	29,085	*-4.4%*	*-3.2%*	5,710	*60.7%*	*8.1%*
Union	26,011	*12.1%*	*-1.0%*	19,717	*1.7%*	*-5.6%*	618	*NA*	*-52.3%*
HDFC	33,423	*28.0%*	*13.4%*	31,051	*3.4%*	*0.5%*	21,680	*3.2%*	*-1.0%*
LIC Housing	10,060	*13.3%*	*1.2%*	9,613	*19.3%*	*1.3%*	5,643	*15.4%*	*-0.6%*
MMFSL	11,046	*21.3%*	*2.6%*	7,668	*36.0%*	*8.6%*	2,714	*248.0%*	*0.9%*
Shriram Tran.	19,382	*18.7%*	*5.3%*	14,826	*12.6%*	*4.8%*	5,898	*23.1%*	*3.2%*
Cholamandalam	8,155	*10.3%*	*2.5%*	5,500	*27.8%*	*2.4%*	2,978	*31.1%*	*4.4%*
LTFH	15,168	*39.5%*	*-0.7%*	11,573	*35.2%*	*-0.7%*	4,858	*34.0%*	*-10.0%*
Capital First	6,215	*12.3%*	*5.0%*	3,354	*21.8%*	*7.2%*	1,022	*30.2%*	*0.7%*
Total	**800,084**	***16.7%***	***2.1%***	**601,442**	***-4.9%***	***3.7%***	**159,294**	***5.8%***	***87.7%***
Total Private Banks	**331,926**	***16.0%***	***4.5%***	**268,894**	***5.5%***	***0.7%***	**102,714**	***1.8%***	***13.8%***
Total Public Banks	**364,709**	***15.6%***	***-1.0%***	**248,962**	***-18.4%***	***7.6%***	**11,787**	***2.9%***	***123.3%***
Total NBFCs (Incl HFCs)	**103,448**	***22.8%***	***5.8%***	**83,586**	***15.3%***	***2.3%***	**44,794**	***17.4%***	***1.0%***

Rs Billion	Loans	YoY	QoQ	Margins	YoY	QoQ	Credit Cost	YoY	QoQ
HDFC Bank	7,510	*24.2%*	*6.0%*	4.20%	*-0.10%*	*0.00%*	0.91%	*-0.07%*	*-0.01%*
ICICI Bank	5,421	*12.3%*	*5.0%*	3.25%	*-0.02%*	*0.06%*	3.13%	*-0.61%*	*-1.50%*
Axis Bank	4,667	*13.8%*	*5.8%*	3.32%	*-0.13%*	*-0.14%*	2.43%	*-0.63%*	*-0.60%*
Kotak	1,893	*24.1%*	*7.0%*	4.32%	*-0.01%*	*0.02%*	0.77%	*0.20%*	*-0.29%*
IndusInd	1,582	*28.4%*	*5.0%*	3.90%	*-0.10%*	*-0.02%*	0.91%	*-0.04%*	*-0.02%*
Yes	2,405	*61.8%*	*12.0%*	3.35%	*-0.35%*	*0.05%*	1.16%	*-0.04%*	*0.00%*
SIB	566	*15.5%*	*2.0%*	2.63%	*-0.32%*	*0.03%*	1.20%	*-2.51%*	*-0.47%*
J&K	607	*18.3%*	*1.5%*	3.69%	*-0.09%*	*0.03%*	1.89%	*-0.01%*	*0.18%*
Federal	957	*18.7%*	*1.5%*	3.10%	*-0.21%*	*-0.02%*	0.96%	*0.08%*	*0.11%*
IDFC Bank	565	*15.6%*	*3.0%*	1.60%	*-0.20%*	*0.10%*	3.45%	*4.27%*	*3.20%*
SBI	18,870	*4.7%*	*0.6%*	2.78%	*0.35%*	*-0.02%*	2.75%	*-1.49%*	*-1.35%*
PNB	4,266	*4.0%*	*2.7%*	2.50%	*0.15%*	*-0.25%*	3.94%	*1.56%*	*-1.61%*
BOI	3,311	*-9.2%*	*1.0%*	2.40%	*0.25%*	*-0.09%*	2.63%	*0.49%*	*-0.50%*
BOB	4,270	*10.2%*	*3.0%*	2.63%	*0.32%*	*-0.02%*	1.93%	*-0.48%*	*-0.16%*
Union	3,048	*4.8%*	*4.0%*	2.20%	*0.11%*	*-0.06%*	2.47%	*-2.42%*	*-0.57%*
HDFC	3,795	*17.1%*	*2.0%*	3.56%	*-0.34%*	*0.06%*	0.10%	*-0.02%*	*0.08%*
LIC Housing	1,719	*13.5%*	*1.9%*	2.34%	*-0.04%*	*0.00%*	0.25%	*0.09%*	*-0.13%*
MMFSL	594	*19.0%*	*1.2%*	7.48%	*0.07%*	*-0.05%*	2.55%	*-1.01%*	*0.55%*
Shriram Tran.	1,020	*19.3%*	*1.0%*	7.64%	*-0.13%*	*0.18%*	2.29%	*-0.46%*	*0.18%*
Chola	462	*26.7%*	*2.5%*	7.14%	*-1.15%*	*-0.03%*	0.85%	*0.85%*	*0.85%*
LTFH	895	*23.7%*	*3.4%*	6.89%	*0.77%*	*-0.29%*	2.46%	*-0.14%*	*0.44%*
Capital First	316	*37.8%*	*6.0%*	8.48%	*-1.50%*	*0.15%*	2.28%	*-0.46%*	*0.22%*
Banks	**68,738**	***11.8%***	***3.2%***	**4.06%**	***-0.12%***	***-0.01%***	**2.13%**	***-0.40%***	***-0.59%***
NBFCs	**8,801**	***18.5%***	***2.1%***	**6.22%**	***-0.33%***	***0.00%***	**0.91%**	***-1.87%***	***-2.10%***

Source: Company, PL

Exhibit 4: Margins in Q2FY19E – Margins to remain under pressure across the sector, NBFCs to be watched

	Q2FY18	Q1FY19	Q2FY19E	YoY	QoQ
HDFC Bank	4.30%	4.20%	4.20%	-0.10%	0.00%
ICICI Bank	3.27%	3.19%	3.25%	-0.02%	0.06%
Axis Bank	3.45%	3.46%	3.32%	-0.13%	-0.14%
Kotak	4.33%	4.30%	4.32%	-0.01%	0.02%
IndusInd	4.00%	3.92%	3.90%	-0.10%	-0.02%
Yes	3.70%	3.30%	3.35%	-0.35%	0.05%
SIB	2.95%	2.60%	2.63%	-0.32%	0.03%
J&K	3.78%	3.66%	3.69%	-0.09%	0.03%
Federal	3.31%	3.12%	3.10%	-0.21%	-0.02%
IDFC Bank	1.80%	1.50%	1.60%	-0.20%	0.10%
SBI	2.43%	2.80%	2.78%	0.35%	-0.02%
PNB	2.35%	2.75%	2.50%	0.15%	-0.25%
BOI	2.15%	2.49%	2.40%	0.25%	-0.09%
BOB	2.31%	2.65%	2.63%	0.32%	-0.02%
Union	2.09%	2.26%	2.20%	0.11%	-0.06%
HDFC	3.90%	3.50%	3.56%	-0.34%	0.06%
LIC Housing	2.38%	2.34%	2.34%	-0.04%	0.00%
MMFSL	7.41%	7.53%	7.48%	0.07%	-0.05%
Shriram Tran.	7.77%	7.46%	7.64%	-0.13%	0.18%
Cholamandalam	8.30%	7.17%	7.14%	-1.15%	-0.03%
LTFH	6.13%	7.18%	6.89%	0.77%	-0.29%
Capital First	9.98%	8.33%	8.48%	-1.50%	0.15%

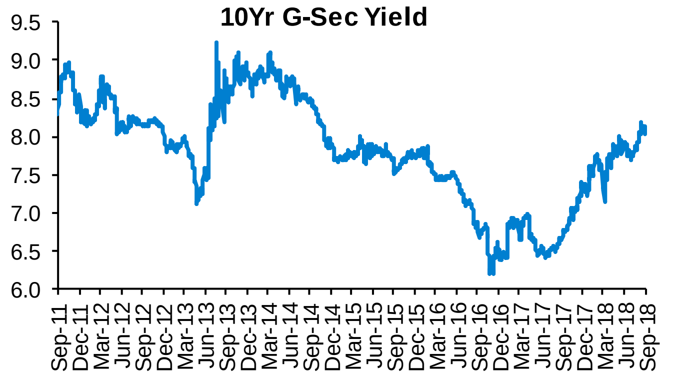
Source: Company, PL

Exhibit 5: Total provisions in Q2FY19E – Credit cost to come off marginally on lower MTM losses (and shifting losses) and maintain PCRs

	Q2FY18	Q1FY19	Q2FY19E	YoY	QoQ
HDFC Bank	0.98%	0.92%	0.91%	-0.07%	-0.01%
ICICI Bank	3.73%	4.63%	3.13%	-0.61%	-1.50%
Axis Bank	3.06%	3.03%	2.43%	-0.63%	-0.60%
Kotak	0.57%	1.06%	0.77%	0.20%	-0.29%
IndusInd	0.95%	0.93%	0.91%	-0.04%	-0.02%
Yes	1.20%	1.17%	1.16%	-0.04%	0.00%
SIB	3.71%	1.67%	1.20%	-2.51%	-0.47%
J&K	1.89%	1.70%	1.89%	-0.01%	0.18%
Federal	0.88%	0.84%	0.96%	0.08%	0.11%
IDFC Bank	-0.82%	0.25%	3.45%	4.27%	3.20%
SBI	4.25%	4.10%	2.75%	-1.49%	-1.35%
PNB	2.38%	5.55%	3.94%	1.56%	-1.61%
BOI	2.14%	3.13%	2.63%	0.49%	-0.50%
BOB	2.41%	2.09%	1.93%	-0.48%	-0.16%
Union	4.89%	3.04%	2.47%	-2.42%	-0.57%
HDFC	0.12%	0.02%	0.10%	-0.02%	0.08%
LIC Housing	0.15%	0.38%	0.25%	0.09%	-0.13%
MMFSL	3.56%	2.00%	2.55%	-1.01%	0.55%
Shriram Tran.	2.75%	2.11%	2.29%	-0.46%	0.18%
Cholamandalam	0.91%	0.87%	0.85%	-0.06%	-0.02%
LTFH	2.60%	2.01%	2.46%	-0.14%	0.44%
Capital First	2.74%	2.06%	2.28%	-0.46%	0.22%

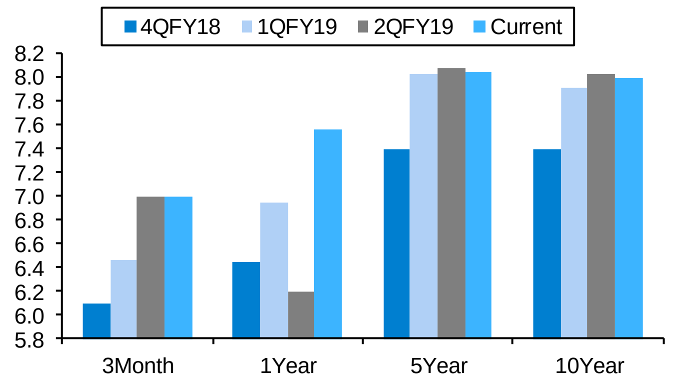
Source: Company, PL

Exhibit 6: G-sec yields continue to be on uptrend



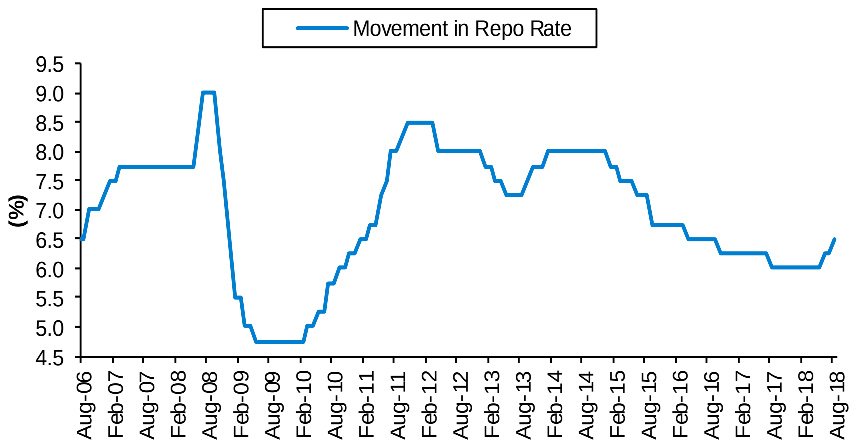
Source: Bloomberg, PL

Exhibit 7: Shorter tenure yields have seen spike, while longer tenure has seen relatively lower increase v/s last qtr



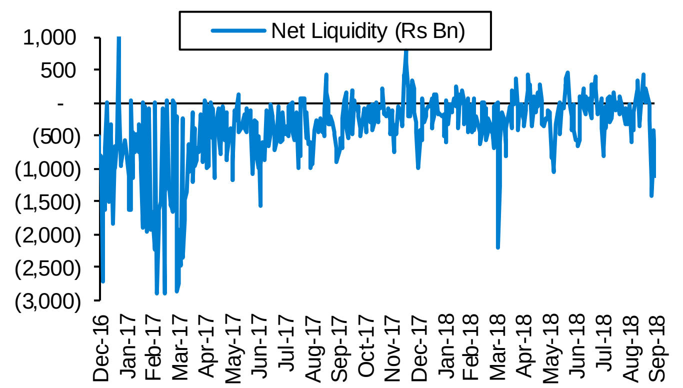
Source: Company, PL

Exhibit 8: RBI has been moving its benchmark rates in lieu of macro headwinds



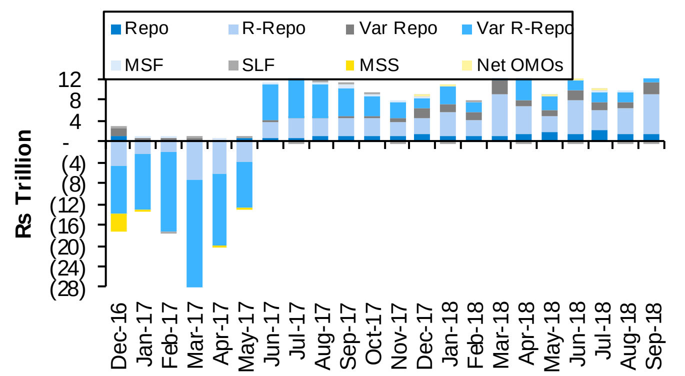
Source: Bloomberg, PL

Exhibit 9: Liquidity has been in surplus recently post seeing shortfall in May



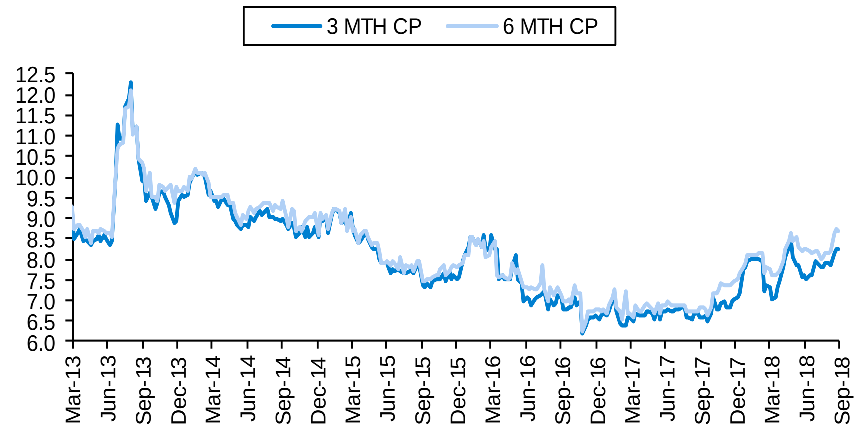
Source: Bloomberg, PL

Exhibit 10: Liquidity infusion managed through R-reps and OMOs



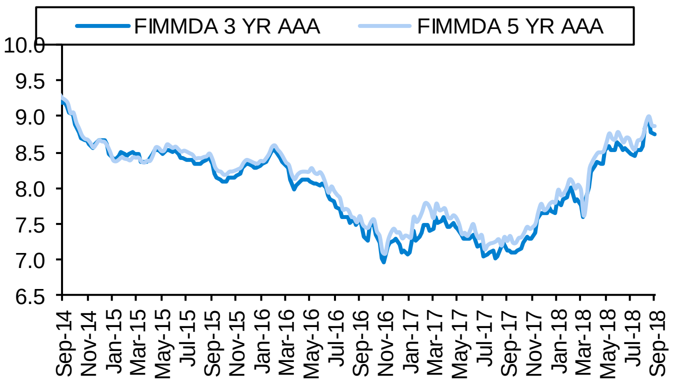
Source: Bloomberg, PL

Exhibit 11: Short term rates have seen sharp spike up on liquidity crunch



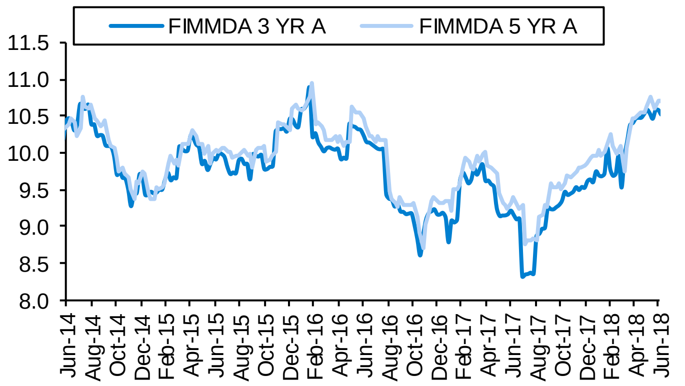
Source: Bloomberg, PL

Exhibit 12: AAA paper rates have moved to three-year high



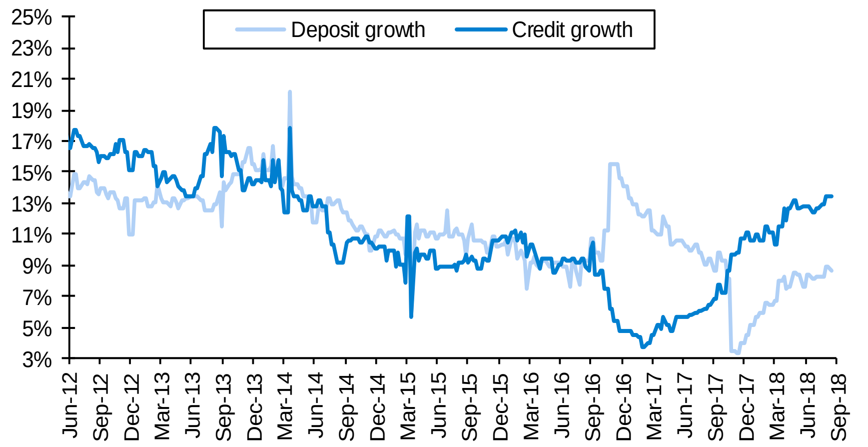
Source: Bloomberg, PL

Exhibit 13: …so has been on A rated bond



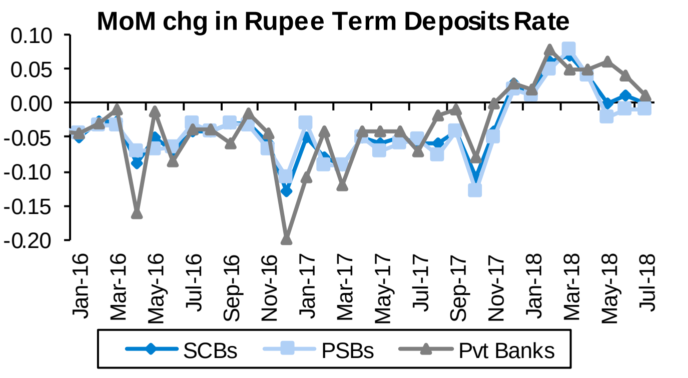
Source: Bloomberg, PL

Exhibit 14: Credit growth continues see strong improvement for system reaching 13-14% while deposits growth rate remain steady



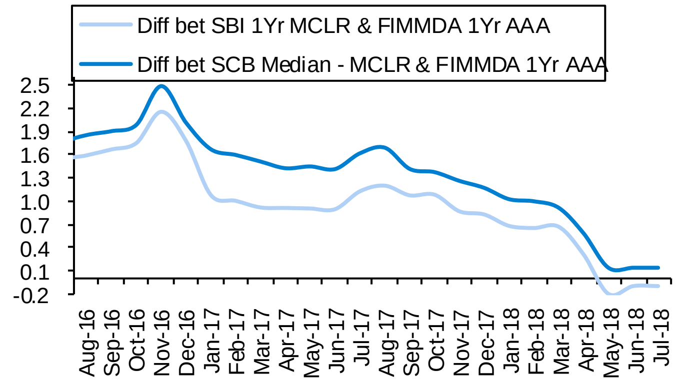
Source: Bloomberg, PL *Note – Data released upto mid sept'18*

Exhibit 15: Banks slow down on increasing term deposits rates



Source: Bloomberg, PL

Exhibit 16: After long time gap between AAA bonds and MCLR has turned neutral



Source: Bloomberg, PL

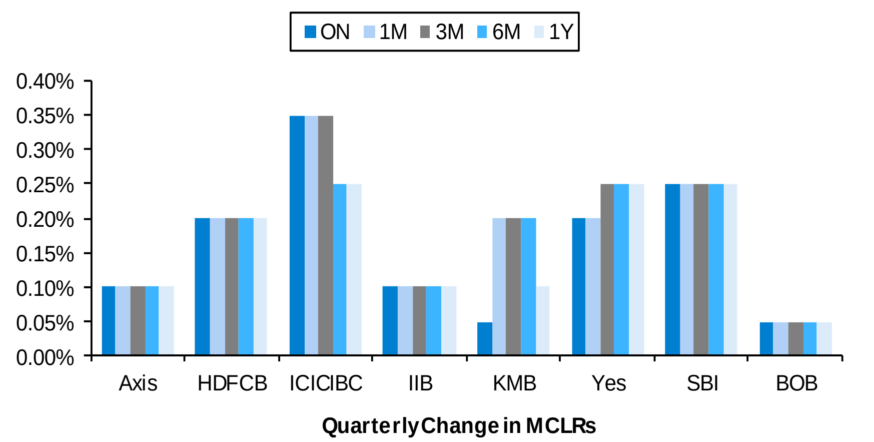
Exhibit 17: MCLRs have been increased across banks led by Private banks

Banks	MCLR 1YR			% Change	
	Mar-18	Jun-18	Sep-18	*3Months*	*6Months*
Axis Bank	8.30%	8.40%	8.60%	0.20%	0.30%
HDFC Bank	8.40%	8.60%	8.70%	0.10%	0.30%
ICICI Bank	8.30%	8.40%	8.65%	0.25%	0.35%
Kotak Mah	8.65%	8.90%	9.05%	0.15%	0.40%
Indusind Bank	9.25%	9.55%	9.65%	0.10%	0.40%
Yes Bank	9.25%	9.45%	9.70%	0.25%	0.45%
SBI	8.15%	8.25%	8.50%	0.25%	0.35%
Bank of Baroda	8.30%	8.45%	8.55%	0.10%	0.25%
Bank of India	8.30%	8.50%	8.60%	0.10%	0.30%
Punjab National Bank	8.30%	8.40%	8.45%	0.05%	0.15%
Canara Bank	8.40%	8.50%	8.60%	0.10%	0.20%
Union Bank	8.20%	8.45%	8.55%	0.10%	0.35%
Federal	8.90%	9.15%	9.20%	0.05%	0.30%
South Indian Bank	9.00%	9.20%	9.35%	0.15%	0.35%
J&K Bank	8.95%	8.80%	8.85%	0.05%	-0.10%

Source: Company, PL

Note – KMB, ICICIBC, Yes, SBI, PNB rates are as of 1st Oct'18

Exhibit 18: MCLRs raised by most banks across tenors in last quarter



Source: Company, PL

Exhibit 19: Q2FY19 Result Review (Private Banks)

Company Name		Q2FY19E	Q2FY18	YoY Chg.	Q1FY19	QoQ Chg.	Remark
Axis Bank	NII (Rs mn)	51,119	45,396	*12.6*	51,668	*(1.1)*	NII growth should hold up as margins stabilize (removing benefit of IT refund in 1Q19) and slight improvement in loan growth Provisions though should be coming off from previous levels, bank will take some PCR improvement and on likely front load of slippages mainly from watchlist
	PPOP (Rs mn)	40,873	37,773	*8.2*	43,720	*(6.5)*	
	Provisions (Rs mn)	28,367	31,404	*(9.7)*	33,377	*(15.0)*	
	PAT (Rs mn)	8,254	4,324	*90.9*	7,011	*17.7*	
	Loans (Rs bn)	4,667	4,102	*13.8*	4,411	*5.8*	
	Margin (%)	*3.32*	*3.45*	*(13)*	*3.46*	*(14)*	
	GNPA (%)	*6.31*	*5.90*	*41*	*6.52*	*(21)*	
	Credit Cost (%)	*2.43*	*3.06*	*(63)*	*3.03*	*(60)*	
HDFC Bank	NII (Rs mn)	116,140	97,521	*19.1*	108,136	*7.4*	Bank should continue to report steady earnings of 20% YoY benefitted from capital raise and lower bond losses Loan growth is expected at 24% YoY but NII growth should be 18-19% as NIM headwinds are not over yet as historical book is to get repricing benefit
	PPOP (Rs mn)	93,428	78,179	*19.5*	86,478	*8.0*	
	Provisions (Rs mn)	17,101	14,762	15.8	16,294	5.0	
	PAT (Rs mn)	49,994	41,510	*20.4*	46,014	*8.6*	
	Loans (Rs bn)	7,510	6,049	*24.2*	7,086	*6.0*	
	Margin (%)	*4.20*	*4.30*	*(10)*	*4.20*	*-*	
	GNPA (%)	*1.34*	*1.26*	*8*	*1.33*	*1*	
	Credit Cost (%)	*0.91*	*0.98*	*(7)*	*0.92*	*(1)*	
ICICI Bank	NII (Rs mn)	62,483	57,091	*9.4*	61,019	*2.4*	NII growth should hold up as loan growth improves slightly. Domestic loan growth should be strong continued to be led by retail Margins should be largely steady but other income likely to be muted. Some relief on provisions as investment MTM to be much lower than last quarter
	PPOP (Rs mn)	48,826	69,865	*(30.1)*	58,084	*(15.9)*	
	Provisions (Rs mn)	42,352	45,029	*(5.9)*	59,713	*(29.1)*	
	PAT (Rs mn)	4,532	20,582	*(78.0)*	(1,196)	*NA*	
	Loans (Rs bn)	5,421	4,828	*12.3*	5,163	*5.0*	
	Margin (%)	*3.25*	*3.27*	*(2)*	*3.19*	*6*	
	GNPA (%)	*8.46*	*7.87*	*59*	*8.81*	*(35)*	
	Credit Cost (%)	*3.13*	*3.73*	*(61)*	*4.63*	*(150)*	
IndusInd Bank	NII (Rs mn)	22,308	18,210	*22.5*	21,224	*5.1*	We expect Bank will continue to report strong set of numbers with loan growth of 28%, steady margins and stable asset quality Asset quality also should be stable leading to much stable credit cost We expect PAT growth of 22% YoY
	PPOP (Rs mn)	19,863	16,335	*21.6*	19,111	*3.9*	
	Provisions (Rs mn)	3,605	2,938	22.7	3,500	3.0	
	PAT (Rs mn)	10,812	8,801	*22.8*	10,357	*4.4*	
	Loans (Rs bn)	1,582	1,232	*28.4*	1,507	*5.0*	
	Margin (%)	*3.90*	*4.00*	*(10)*	*3.92*	*(2)*	
	GNPA (%)	*1.15*	*1.08*	*7*	*1.15*	*(0)*	
	Credit Cost (%)	*0.91*	*0.95*	*(4)*	*0.93*	*(2)*	
Yes Bank	NII (Rs mn)	24,596	18,851	*30.5*	22,191	*10.8*	Yes bank should continue to report robust earnings on back robust business momentum continuing (already announced) but NII should continue lagging B/s growth as bank moved to high rated assets Key areas to watch will be CET-1 levels after strong growth, NIMs and RBI asset quality audit report (if any)
	PPOP (Rs mn)	26,863	19,067	*40.9*	24,547	*9.4*	
	Provisions (Rs mn)	7,002	4,471	*56.6*	6,257	*11.9*	
	PAT (Rs mn)	13,506	10,027	*34.7*	12,604	*7.2*	
	Loans (Rs bn)	2,405	1,487	*61.8*	2,147	*12.0*	
	Margin (%)	*3.35*	*3.70*	*(35)*	*3.30*	*5*	
	GNPA (%)	*1.35*	*1.82*	*(47)*	*1.31*	*4*	
	Credit Cost (%)	*1.16*	*1.20*	*(4)*	*1.17*	*(0)*	
Kotak Mahindra Bank	NII (Rs mn)	27,375	23,127	*18.4*	25,829	*6.0*	Kotak Bank should continue show case strong loan growth of 20-25% led by both retail and corporate NII should lag slightly as higher bond yields will hit but lower than in previous quarter keeping margins steady, while operating profit will benefit from lower opex cost
	PPOP (Rs mn)	21,610	17,248	*25.3*	20,325	*6.3*	
	Provisions (Rs mn)	3,653	2,165	68.7	4,696	(22.2)	
	PAT (Rs mn)	11,852	9,943	*19.2*	10,249	*15.6*	
	Loans (Rs bn)	1,893	1,526	*24.1*	1,769	*7.0*	
	Margin (%)	*4.32*	*4.33*	*(1)*	*4.30*	*2*	
	GNPA (%)	*2.13*	*2.47*	*(34)*	*2.17*	*(4)*	
	Credit Cost (%)	*0.77*	*0.57*	*20*	*1.06*	*(29)*	

Company Name		Q2FY19E	Q2FY18	YoY Chg.	Q1FY19	QoQ Chg.	Remark
IDFC Bank	NII (Rs mn)	5,294	4,619	14.6	4,898	8.1	IDFC bank will continue to report tepid earnings as it makes ~Rs5-6.0bn of provisions to take stress book PCR to 90% before the merger
	PPOP (Rs mn)	5,070	2,448	107.1	2,421	109.4	
	Provisions (Rs mn)	4,868	(1,004)	(585.0)	340	1,332.0	
	PAT (Rs mn)	142	2,337	(93.9)	1,815	(92.2)	
	Loans (Rs bn)	565	488	15.6	548	3.0	NII should be better on back of improving loan growth which is being led by retail and emerging corporates, while other income should be better on gains from sale of investment from trading book
	Margin (%)	*1.60*	*1.80*	*(20)*	*1.50*	*10*	
	GNPA (%)	*3.23*	*3.92*	*(69)*	*3.24*	*(1)*	
	Credit Cost (%)	*3.45*	*(0.82)*	*427*	*0.25*	*320*	
Federal	NII (Rs mn)	9,756	8,989	8.5	9,801	(0.5)	
	PPOP (Rs mn)	5,915	5,832	1.4	6,029	(1.9)	We expect loan growth to taper down to 18-19% on back of floods impact in Kerala but outside Kerala market will help growth
	Provisions (Rs mn)	2,290	1,768	29.6	1,992	15.0	
	PAT (Rs mn)	2,374	2,637	(10.0)	2,627	(9.6)	
	Loans (Rs bn)	957	806	18.7	943	1.5	NII should suffer on lower interest payments and likely restructuring of loans of Kerala state. Commentary and impact will be closely watched
	Margin (%)	*3.10*	*3.31*	*(21)*	*3.12*	*(2)*	
	GNPA (%)	*3.31*	*2.39*	*92*	*3.00*	*31*	
	Credit Cost (%)	*0.96*	*0.88*	*8*	*0.84*	*11*	
J&K Bank	NII (Rs mn)	7,996	7,226	10.6	7,792	2.6	Loan growth should be at 18-19% slightly lower than previous quarter in lieu of capital constraints
	PPOP (Rs mn)	3,756	3,642	3.1	3,498	7.4	
	Provisions (Rs mn)	2,864	2,429	17.9	2,550	12.3	
	PAT (Rs mn)	589	716	(17.8)	526	12.0	Margins should be steady, other income to be lower while provisions should higher as bank moves higher on PCR with slight increase in asset quality
	Loans (Rs bn)	607	513	18.3	598	1.5	
	Margin (%)	*3.69*	*3.78*	*(9)*	*3.66*	*3*	
	GNPA (%)	*10.05*	*10.87*	*(82)*	*9.83*	*22*	
	Credit Cost (%)	*1.89*	*1.89*	*(1)*	*1.70*	*18*	We closely watch the restructured book
South Indian Bank	NII (Rs mn)	4,860	5,032	(3.4)	4,943	(1.7)	SIB should see higher impact from state floods on back of higher exposure to state. Loan growth should slow, while margins are likely to take some hit but will come with lag
	PPOP (Rs mn)	2,690	4,603	(41.6)	2,696	(0.2)	
	Provisions (Rs mn)	1,690	4,537	(62.7)	2,315	(27.0)	
	PAT (Rs mn)	660	43	1,426.9	230	186.3	
	Loans (Rs bn)	566	490	15.5	554	2.0	Provisions would likely be high to improve PCR which is at much lower levels
	Margin (%)	*2.63*	*2.95*	*(32)*	*2.60*	*3*	
	GNPA (%)	*4.86*	*3.57*	*129*	*4.54*	*32*	Commentary on loan growth and asset quality trends in SME/Retail will be crucial
	Credit Cost (%)	*1.20*	*3.71*	*(251)*	*1.67*	*(47)*	

Source: Company, PL

Exhibit 20: Q1FY19 Result Review (PSU Banks)

Company Name		Q2FY19E	Q2FY18	YoY Chg.	Q1FY19	QoQ Chg.	Remark
Bank of Baroda	NII (Rs mn)	43,440	37,205	*16.8*	43,811	*(0.8)*	BOB will continue to see recovery in loan growth of 9-10% YoY with steady margins. Other income will continue to suffer on lower bonds gains, while provisions will be marginally lower on relatively lower MTM
	PPOP (Rs mn)	29,085	30,418	*(4.4)*	30,056	*(3.2)*	
	Provisions (Rs mn)	20,563	23,294	*(11.7)*	21,656	*(5.0)*	
	PAT (Rs mn)	5,710	3,554	*60.7*	5,283	*8.1*	
	Loans (Rs bn)	4,270	3,873	*10.2*	4,145	*3.0*	
	Margin (%)	*2.63*	*2.31*	*32*	*2.65*	*(2)*	We factor in slippages of Rs31.5bn while slightly lower recoveries/upgrades from last quarter
	GNPA (%)	*12.19*	*11.16*	*103*	*12.46*	*(27)*	
	Credit Cost (%)	*1.93*	*2.41*	*(48)*	*2.09*	*(16)*	
Bank of India	NII (Rs mn)	31,770	29,082	*9.2*	33,543	*(5.3)*	We expect bank to continue its consolidation in loan book especially from international business
	PPOP (Rs mn)	17,095	22,331	*(23.4)*	18,692	*(8.5)*	
	Provisions (Rs mn)	21,791	19,533	11.6	25,642	(15.0)	
	PAT (Rs mn)	(2,348)	1,791	*(231.1)*	951	*(346.9)*	Operational performance will also be tepid on much lower other income, higher opex, while provisions will continue to be high.
	Loans (Rs bn)	3,311	3,645	*(9.2)*	3,278	*1.0*	
	Margin (%)	*2.40*	*2.15*	*25*	*2.49*	*(9)*	
	GNPA (%)	*16.71*	*12.62*	*409*	*16.66*	*5*	
	Credit Cost (%)	*2.63*	*2.14*	*49*	*3.13*	*(50)*	Asset quality should likely be stable
Punjab National Bank	NII (Rs mn)	47,051	40,152	*17.2*	46,919	*0.3*	Operational performance should see slow recovery but dispensations taken by bank on MTM losses, fraud related provisions and ageing of NPAs will keep provisions higher leading to losses
	PPOP (Rs mn)	39,317	32,791	*19.9*	41,947	*(6.3)*	
	Provisions (Rs mn)	41,989	24,408	*72.0*	57,582	*(27.1)*	
	PAT (Rs mn)	(1,871)	5,606	*(133.4)*	(9,400)	*(80.1)*	
	Loans (Rs bn)	4,266	4,103	*4.0*	4,153	*2.7*	We factor in slight improvement in headline asset quality with Rs62bn of slippages but should continue to see higher recoveries/upgrades as well
	Margin (%)	*2.50*	*2.35*	*15*	*2.75*	*(25)*	
	GNPA (%)	*17.91*	*13.31*	*460*	*18.26*	*(35)*	
	Credit Cost (%)	*3.94*	*2.38*	*156*	*5.55*	*(161)*	
State Bank of India	NII (Rs mn)	216,437	185,857	*16.5*	217,984	*(0.7)*	We factor in lower than industry loan growth but factor in steadier margins as MCLR effect comes in with lower interest reversals leading to 16.5% YoY NII growth. PPOP growth should be slower on much lower other income and some inch up in opex
	PPOP (Rs mn)	143,747	199,990	*(28.1)*	119,731	*20.1*	
	Provisions (Rs mn)	129,922	191,374	(32.1)	192,283	(32.4)	
	PAT (Rs mn)	9,678	15,814	*(38.8)*	(48,759)	*(119.8)*	
	Loans (Rs bn)	18,870	18,026	*4.7*	18,758	*0.6*	
	Margin (%)	*2.78*	*2.43*	*35*	*2.80*	*(2)*	We factor in slight improvement in asset quality as slippages trend will be stable and continue to see upgrades/recoveries
	GNPA (%)	*10.37*	*9.83*	*54*	*10.70*	*(33)*	
	Credit Cost (%)	*2.75*	*4.25*	*(149)*	*4.10*	*(135)*	
Union Bank of India	NII (Rs mn)	26,011	23,207	*12.1*	26,261	*(1.0)*	We factor in slower loan growth for the bank but stable margins will lead to better NII, but PPOP will be muted on lower other income and higher opex.
	PPOP (Rs mn)	19,717	19,390	*1.7*	20,888	*(5.6)*	
	Provisions (Rs mn)	18,835	35,547	*(47.0)*	22,291	*(15.5)*	
	PAT (Rs mn)	618	(15,307)	*NA*	1,295	*NA*	
	Loans (Rs bn)	3,048	2,909	*4.8*	2,931	*4.0*	Asset quality should be slightly under pressure along with higher provisions but lower than last quarter as MTM hit was already taken upfront
	Margin (%)	*2.20*	*2.09*	*11*	*2.26*	*(6)*	
	GNPA (%)	*16.12*	*12.35*	*377*	*16.00*	*12*	
	Credit Cost (%)	*2.47*	*4.89*	*(242)*	*3.04*	*(57)*	

Source: Company, PL

Exhibit 21: Q1FY19 Result Review (Financial Services)

Company Name		Q2FY19E	Q2FY18	*YoY Chg.*	Q1FY19	*QoQ Chg.*	Remark
Capital First	NII (Rs mn)	6,215	5,534	12.3	15,279	(59.3)	Continued strong loan growth coupled with steady spreads should aid helping NII traction, PAT should improve 30% YoY. While Opex stands higher, the asset quality should stabilize; however, credit costs under new methodology should inch higher.
	PPOP (Rs mn)	3,354	2,754	21.8	3,128	7.2	
	Provisions (Rs mn)	1,806	1,576	14.6	1,537	17.5	
	PAT (Rs mn)	1,022	785	30.2	1,015	0.7	
	Loans (Rs bn)	316	230	37.8	299	6.0	
	Margin (%)	8.48	9.98	(150)	8.33	15	
	GNPA (%)	1.61	1.63	(2)	1.57	4	
	Credit Cost (%)	2.28	2.74	(46)	2.06	22	
HDFC Ltd	NII (Rs mn)	33,423	26,108	*28.0*	29,472	*13.4*	NIMs to improve with lower sequential base and stable yields on account of increase rates which should rightly offset cost pressures HDFC AMC stake sale to the tune of Rs 9.5bn should largely boost the 2Q earnings. We maintain higher provisions as reported Stage 3 have stood higher.
	PPOP (Rs mn)	31,051	30,021	*3.4*	30,897	*0.5*	
	Provisions (Rs mn)	939	950	*(1.1)*	197	*376.8*	
	PAT (Rs mn)	21,680	21,011	*3.2*	21,900	*(1.0)*	
	Loans (Rs bn)	3,795	3,241	*17.1*	3,720	*2.0*	
	Margin (%)	*3.56*	*3.90*	*(34)*	*3.50*	*6*	
	GNPA (%)	*0.72*	*1.14*	*(42)*	*1.18*	*(46)*	
	Credit Cost (%)	*0.10*	*0.12*	*(2)*	*0.02*	*8*	
LICHF	NII (Rs mn)	10,060	8,875	13.3	9,940	1.2	Loan growth to be steady at 14% YoY, but will be driven by Retail LAP Margins will be stable as 20bps rate hike in Aug'18 should support spreads Sequential improvement in asset quality; slight improvement in developer NPAs
	PPOP (Rs mn)	9,613	8,059	19.3	9,492	1.3	
	Provisions (Rs mn)	1,064	578	84.0	1,608	(33.8)	
	PAT (Rs mn)	5,643	4,891	15.4	5,679	(0.6)	
	Loans (Rs bn)	1,719	1,514	13.5	1,687	1.9	
	Margin (%)	2.34	2.38	(4)	2.34	-	
	GNPA (%)	0.95	0.80	15	1.21	(26)	
	Credit Cost (%)	0.25	0.15	9	0.38	(13)	
L&T Finance Holdings	NII (Rs mn)	15,168	10,871	39.5	15,279	(0.7)	Strong NII at 39% YoY growth coupled with robust fees should translate into healthy 34% earnings growth YoY. Expect improvement QoQ NPAs as micro loan bad assets decline; provisioning however remains accelerated.
	PPOP (Rs mn)	11,573	8,561	35.2	11,650	(0.7)	
	Provisions (Rs mn)	5,500	4,707	16.9	4,359	26.2	
	PAT (Rs mn)	4,858	3,625	34.0	5,398	(10.0)	
	Loans (Rs bn)	895	723	23.7	865	3.4	
	Margin (%)	6.89	6.13	77	7.18	(29)	
	GNPA (%)	7.50	5.80	170	7.93	(43)	
	Credit Cost (%)	2.46	2.60	(14)	2.01	44	
MMFS	NII (Rs mn)	11,046	9,110	21.3	10,771	2.6	Seasonal weakness will see deterioration in asset quality and higher Stage 1/ 2 book will keep credit costs elevated. Yields should be maintained with rate hikes across few products & mix but to be offset by slight increase in funding costs implying steady NIMs. Loan growth will remain strong at 19% on back of stronger disbursements
	PPOP (Rs mn)	7,668	5,636	36.0	7,061	8.6	
	Provisions (Rs mn)	3,791	4,446	(14.7)	2,938	29.0	
	PAT (Rs mn)	2,714	780	248.0	2,691	0.9	
	Loans (Rs bn)	594	499	19.0	587	1.2	
	Margin (%)	7.48	7.41	7	7.53	(5)	
	GNPA (%)	10.70	12.50	(180)	9.75	95	
	Credit Cost (%)	2.55	3.56	(101)	2.00	55	

Company Name		Q2FY19E	Q2FY18	*YoY Chg.*	Q1FY19	*QoQ Chg.*	Remark
Shriram Transport	NII (Rs mn)	19,382	16,324	18.7	18,403	5.3	PAT growth at 23% should continue to exceed AUM at 19% YoY, however, sequential AUM expected to stay somber on seasonal weakness on heavy side.
	PPOP (Rs mn)	14,826	13,162	12.6	14,142	4.8	
	Provisions (Rs mn)	5,835	5,879	(0.7)	5,330	9.5	
	PAT (Rs mn)	5,898	4,791	23.1	5,717	3.2	While borrowing costs pressures exist, securitization should aid steady NIMs.
	Loans (Rs bn)	1,020	855	19.3	1,010	1.0	
	Margin (%)	7.64	7.77	(13)	7.46	18	YoY provisions stay steady as Co. has traditionally maintained higher PCR, asset quality should improve too with GNPAs expected at 8.3%.
	GNPA (%)	8.30	8.06	24	8.98	(68)	
	Credit Cost (%)	2.29	2.75	(46)	2.11	18	
Cholamandalam Finance	NII (Rs mn)	8,155	7,392	*10.3*	7,952	*2.5*	While we expect AUM growth to record 27% YoY, NIMs continue to stay under pressure given the higher funding costs and hence NII to report 10% YoY growth.
	PPOP (Rs mn)	5,500	4,304	*27.8*	5,370	*2.4*	
	Provisions (Rs mn)	987	832	18.7	983	0.5	
	PAT (Rs mn)	2,978	2,273	*31.1*	2,853	*4.4*	
	Loans (Rs bn)	462	365	*26.7*	451	*2.5*	GNPAs, on the other hand, are expected to decline 24 bps QoQ as HE NPAs decelerate and credit costs are expected at 0.91%.
	Margin (%)	*7.14*	*8.30*	*(115)*	*7.17*	*(3)*	
	GNPA (%)	*2.75*	*4.46*	*(171)*	*2.99*	*(24)*	
	Credit Cost (%)	*0.85*	*0.91*	*(6)*	*0.87*	*(2)*	

Source: Company, PL

Capital Goods

Jun'18-Sep'18 Earnings Preview

October 5, 2018

Top Picks

Larsen & Toubro

Crompton Greaves Consumer

Kunal Sheth
kunalsheth@plindia.com | 91-22-66322257

Corporates believe awarding activity/momentum is likely to stay for next 2-3 quarters as government tries to award increased number of projects with an eye on elections. The fact that government is in the last year of its current term in our view will expedite execution to show case their achievement. Most corporates continue to be confident of medium-term growth prospects, given the various initiatives taken by the government.

Capacity utilisation rose to 75 per cent in March 2018. This was the highest utilisation rate reported by RBI's OBICUS in four years. New orders received by companies peaked in March 2018 and they also shot up in August 2018 when machinery orders zoomed to their highest level. Year-on-year growth in cement production has been in double-digits consistently since November 2017 and steel production showed a spark with 6.8 per cent y-o-y growth in August 2018.

However, new investment proposals continued to remain very low at around Rs.1.5 trillion during the quarter ended September 30, 2018. After revisions with more data, this is likely to end up a little lower than the average new investments of about Rs.2.3 trillion per quarter seen in the past four quarters.

Exhibit 1: Project investments (Rs tn)

Year	New	Completed	Stalled
2012-13	10.1	3.69	6.03
2013-14	10	3.53	6.47
2014-15	18.7	4.08	5.29
2015-16	16.5	5.76	5.11
2016-17	13.8	6.34	3.94
2017-18	6.62	3.7	7.63

Source: Company, PL

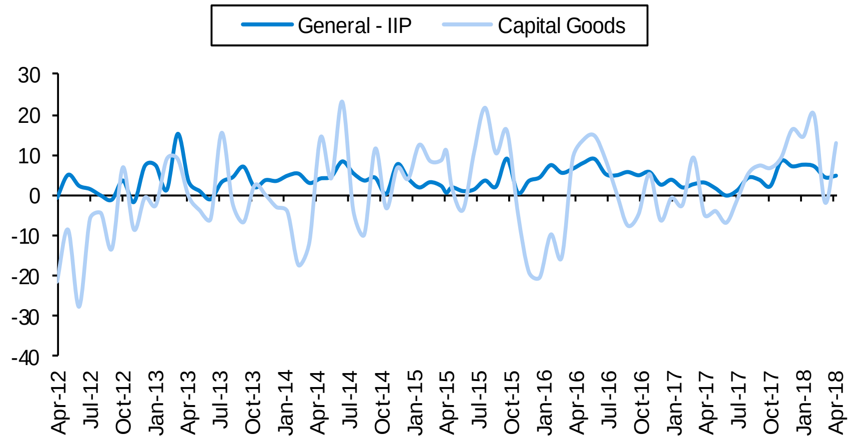
Exhibit 2: Quarterly Capex Aggregates

(Rs.tn)	Dec-17	Mar-18	June-18	Sept-18
New projects	1.32	3.17	2.08	1.6
Completed projects	1.15	1.40	0.78	0.76
Stalled projects	0.88	3.41	0.30	0.42
Revived projects	0.22	0.26	0.21	0.49
Implementation stalled projects	0.71	1.05	0.03	0.59

Source: Company, PL

Commentary on end markets like Power T&D led by SEB / O&G / Roads / Urban transport (metro) / Railways / Defence / Water / Genset / B&F was positive for the year ahead with improved viability of pipeline for fresh orders. Road sector saw record ordering for FY18 with more than Rs1.4tn projects awarded. Sector ordering is expected to enter consolidation phase after huge bump and few land issues faced by sector. The public spending in infrastructure, water, hydrocarbon, fertilizers continues to drive capex, while private capex has seen some green shoots in sector like steel, cement and consumption related industries. Many state governments are focusing on infrastructure development and emerging as important source of fresh orders for the sector. Most companies believe awarding activity/momentum should pick up over next 2-3 quarters before we enter a lean period ahead of elections. Commentary on international markets was also better. Order inflow/enquiries from South East ASIA/Europe/USA /Africa continue to look up

Exhibit 3: IIP trend



Source: MOPSI

L&T continues to be the best play in the Indian Capital goods space, given its strong execution capabilities and relatively healthy/large balance sheet. Strong order carry gives additional comfort on earnings visibility. The stock is trading at 20.6x FY20E earnings. The company continues to focus on its strategic plan of achieving profitable growth and improving RoE in medium term and improving capital allocation We like the company given its strong business model, diverse skill sets, strong execution capabilities and relatively healthy/large balance sheet and being the go to company in the Indian infrastructure space.

Crompton Consumer continues to gain healthy market share in core categories of Fans and the Lighting (LED) segment. While the Fan market has been flat (against historical growth rate of 7-8%), CGCEL continues to grow in double-digits led by premium fans and have a 27% market share in the segment (300bps market share gain in last 2-3 years). We expect sales to grow at a CAGR of 12% and earnings CAGR of 20% over FY17-20E.

Exhibit 4: Q2FY19 Result Preview

Company Name		Q2FY19E	Q2FY18	YoY gr. (%)	Q1FY19	QoQ gr. (%)	Remark
ABB	Sales	21,835	19,154	14.0	27,127	(19.5)	Expect 14% revenue growth led by the execution of HVDC project of Raigarh-Pugalur which has started to mature in its execution cycle. Margins to improve YoY led by cost savings and better absorption
	EBITDA	1,817	1,342	35.4	1,959	(7.3)	
	Margin (%)	8.3	7.0		7.2		
	Adj. PAT	1,026	834	23.0	1,021	0.4	
Ashoka Buildcon	Sales	4,336	3,787	14.5	6,725	(35.5)	Strong execution led by ramp-up in HAM projects. ASBL is expected to have strong order inflows for the quarter and expect Rs80bn worth order flows for FY19.
	EBITDA	499	506	(1.5)	701	(28.8)	
	Margin (%)	11.5	13.4		10.4		
	Adj. PAT	302	327	(7.5)	527	(42.7)	
Bharat Electronics	Sales	29,219	24,762	18.0	21,021	39.0	Expect steady execution led by strong orderbook. Reduction in non-operating income will lead to de-growth in PAT.
	EBITDA	3,992	5,950	(32.9)	3,105	28.6	
	Margin (%)	13.7	24.0		14.8		
	Adj. PAT	2,403	4,124	(41.7)	1,797	33.7	
BHEL	Sales	69,268	62,971	10.0	59,355	16.7	Improved Execution led by reduction in the slow-moving order book. Improved execution should help margins.
	EBITDA	4,681	-954	(590.7)	2,872	63.0	
	Margin (%)	6.8	-1.5		4.8		
	Adj. PAT	2,813	1,154	143.7	1,556	80.8	
Crompton Greaves Consumer Electricals	Sales	10,235	9,597	6.6	12,039	(15.0)	growth expected to be slightly muted due to implementation of GTM strategy. Pricing pressure in lighting also likely to impact growth and margins.
	EBITDA	1,279	1,207	6.0	1,673	(23.5)	
	Margin (%)	12.5	12.6		13.9		
	Adj. PAT	759	708	7.2	1,043	(27.2)	
Engineers India	Sales	4,935	4,291	15.0	5,733	(13.9)	Execution to see a steady pick up on the base of a large order book. YoY dip in margin led by high base due to write back in same quarter last year
	EBITDA	715	1,390	(48.6)	864	(17.2)	
	Margin (%)	14.5	32.4		15.1		
	Adj. PAT	751	1,192	(37.0)	866	(13.3)	
J.Kumar Infraprojects	Sales	3,392	3,170	7.0	6,184	(45.1)	Pick-up in execution, led by a ramp-up in Line-3, JNPT and Mumbai Metro to spur Sales growth.
	EBITDA	678	614	10.4	1,000	(32.1)	
	Margin (%)	20.0	19.4		16.2		
	Adj. PAT	262	230	13.8	402	(34.8)	
KEC International	Sales	23,880	21,322	12.0	21,047	13.5	Expect a strong Q2on the back of a strong Order Book (up 30% yoy). Margins likely to be stable YoY as margin in new business improves.
	EBITDA	2,461	2,158	14.0	2,162	13.8	
	Margin (%)	10.3	10.1		10.3		
	Adj. PAT	1,056	894	18.1	868	21.6	
Cummins India	Sales	12,346	11,539	7.0	13,280	(7.0)	Expecting ~8% growth in domestic market and ~6% growth in exports . Margins likley to improve YoY due price hike taken and pick up in exports
	EBITDA	1,975	1,675	18.0	2,147	(8.0)	
	Margin (%)	16.0	14.5		16.2		
	Adj. PAT	1,663	1,529	8.8	1,830	(9.1)	
Kalpataru Power Transmission	Sales	13,573	12,228	11.0	13,249	2.4	Pick-up in execution in the domestic markets to spur Sales and EBITDA growth of 11% and 16% respectively. Margins likley to improve due to better margin in new business segments.
	EBITDA	1,545	1,329	16.2	1,571	(1.6)	
	Margin (%)	11.4	10.9		11.9		
	Adj. PAT	840	715	17.6	810	3.7	
Larsen & Toubro	Sales	296,204	264,468	12.0	282,835	4.7	Expect healthy execution led by E&C and Services business. Expect margins to improve by 30bps due to operating efficiencies and better margin in services business
	EBITDA	33,916	29,604	14.6	29,133	16.4	
	Margin (%)	11.5	11.2		10.3		
	Adj. PAT	20,774	16,831	23.4	14,720	41.1	
Power Grid Corporation of India	Sales	83,570	72,528	15.2	81,271	2.8	Expect strong capitalization to continue
	EBITDA	71,960	64,749	11.1	69,271	3.9	
	Margin (%)	86.1	89.3		85.2		
	Adj. PAT	23,262	21,410	8.6	22,405	3.8	

Company Name		Q2FY19E	Q2FY18	YoY gr. (%)	Q1FY19	QoQ gr. (%)	Remark
RPP Infra Projects	Sales	1,209	1,079	*12.0*	1,004	*20.4*	Expect Execution growth to be moderate due to some impact of Kerala floods. Margin likely to improve due to better mix. Roads and Affordable Housing to provide growth opportunities
	EBITDA	170	137	*24.4*	136	*24.8*	
	Margin (%)	14.1	12.7		13.6		
	Adj. PAT	83	67	*24.2*	64	*30.0*	
Sadbhav Engineering	Sales	7,485	6,931	*8.0*	9,114	*(17.9)*	Strong execution led by ramp-up in HAM projects. Increased contribution of HAM projects to lead to margin improvement
	EBITDA	861	788	*9.3*	1,070	*(19.6)*	
	Margin (%)	11.5	11.4		11.7		
	Adj. PAT	408	335	*21.7*	634	*(35.7)*	
Siemens	Sales	32,989	31,418	*5.0*	30,730	*7.4*	Base Business orders will continue to grow leading to an 5% increase in Revenues. Expect 120bps improvement in margins due to operating efficiencies. Public spending to continue to drive capex.
	EBITDA	3,708	3,172	*16.9*	3,023	*22.7*	
	Margin (%)	11.2	10.1		9.8		
	Adj. PAT	2,576	2,008	*28.3*	2,044	*26.0*	
Thermax	Sales	11,252	10,331	*8.9*	10,353	*8.7*	Expect execution to ramp up and margins to improve. TMX will continue to see positive traction in sectors like Fertilizer, Steel, O&G and Cement.
	EBITDA	1,069	952	*12.3*	693	*54.2*	
	Margin (%)	9.5	9.2		6.7		
	Adj. PAT	719	572	*25.7*	490	*46.9*	
Voltas	Sales	10,899	10,367	*5.1*	21,481	*(49.3)*	UCP sales to be impacted due to erratic weather and inventory buildup in system last quarter, UCP margin also likely to be impacted by low volumes and high competition. MEP margins to continue upward trajectory
	EBITDA	1,090	857	*27.2*	2,432	*(55.2)*	
	Margin (%)	10.0	8.3		11.3		
	Adj. PAT	1,056	954	*10.7*	1,871	*(43.6)*	

Source: Company, PL

Exhibit 5: Valuation Summary

Company Names	Rating	CMP (Rs)	TP (Rs)	Sales (Rs bn)				EBITDA (Rs bn)				PAT (Rs bn)				EPS (Rs)				RoE (%)				PE (x)			
				FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E
ABB	ACC	1,383	1,415	86.4	90.9	106.5	123.8	6.9	7.4	9.0	11.1	3.7	4.2	5.0	6.4	17.7	19.8	23.6	30.1	11.9	12.2	13.2	15.1	78.3	69.8	58.7	45.9
Ashoka Buildcon	BUY	107	175	20.1	24.5	32.0	40.0	2.4	2.9	3.8	4.8	1.8	2.4	2.5	3.0	6.3	8.4	9.0	10.7	10.3	13.0	12.3	12.9	17.1	12.7	11.9	10.0
Bharat Electronics	BUY	82	112	86.1	103.2	117.9	135.6	17.6	20.0	21.8	25.8	15.5	14.0	15.3	18.2	6.9	5.7	6.3	7.5	18.8	18.3	18.5	19.5	11.9	14.3	13.1	11.0
BHEL	Reduce	74	73	284.5	289.3	329.1	378.5	10.6	19.3	23.4	31.8	4.7	7.2	15.0	20.7	1.9	2.0	4.1	5.6	1.4	2.2	4.6	6.1	38.5	37.3	18.0	13.1
Engineers India	BUY	113	165	14.5	17.9	21.5	26.3	3.0	4.1	4.0	5.3	3.3	3.8	3.7	4.7	4.8	5.6	5.5	7.0	11.7	13.1	12.0	14.3	23.4	20.1	20.5	16.0
J.Kumar Infraprojects	BUY	138	NA	16.0	20.5	23.3	27.5	2.5	3.2	3.9	4.6	1.1	1.4	1.6	2.0	14.2	18.0	21.7	26.5	8.0	9.5	10.5	11.6	9.7	7.7	6.4	5.2
KEC International	BUY	270	400	85.8	100.6	115.7	133.0	8.2	19.9	11.4	13.3	3.0	14.4	5.4	6.3	11.9	56.1	20.9	24.7	21.2	80.5	24.2	23.4	22.8	4.8	12.9	10.9
Cummins India	BUY	676	836	50.8	50.8	56.0	61.9	8.0	7.3	8.6	9.7	7.3	6.5	7.4	8.3	26.5	23.5	26.8	29.8	20.3	16.9	18.2	19.1	25.5	28.7	25.2	22.6
Kalpataru Power Transmission	ACC	304	472	48.9	57.4	66.9	77.0	5.3	6.3	7.3	8.4	2.6	3.2	3.5	4.1	17.2	20.6	22.9	26.8	11.2	12.1	12.1	12.8	17.7	14.7	13.3	11.4
Larsen & Toubro	BUY	1,258	1,566	1093.1	1196.8	1352.4	1514.7	111.3	135.7	155.6	177.0	59.2	72.5	81.4	93.5	63.5	51.7	58.1	66.7	12.5	13.7	14.0	14.6	19.8	24.3	21.6	18.8
Power Grid Corporation	ACC	189	229	257.2	297.5	329.6	357.3	226.0	259.4	300.4	323.9	74.5	80.3	100.0	110.9	14.2	15.4	19.1	21.2	15.9	15.3	17.0	16.7	13.3	12.3	9.9	8.9
RPP Infra Projects	BUY	139	268	3.7	5.0	6.7	8.2	0.5	0.7	0.9	1.1	0.2	0.1	0.5	0.6	10.6	6.0	20.7	24.4	14.6	7.5	22.3	21.2	13.1	23.3	6.7	5.7
Sadbhav Engineering	BUY	216	300	33.2	35.1	41.4	50.4	3.6	4.2	4.9	6.1	1.9	1.7	2.7	2.9	10.9	9.8	15.8	17.0	11.9	9.6	13.6	12.9	19.7	21.9	13.7	12.7
Siemens	ACC	963	1,401	99.2	110.1	165.7	187.9	0.8	10.5	17.4	19.7	16.6	11.3	11.7	13.4	46.5	31.8	32.9	37.6	26.8	15.6	14.5	15.1	20.7	30.3	29.2	25.6
Thermax	Hold	920	1,138	44.8	44.6	54.0	66.5	4.3	4.0	5.1	6.5	2.2	2.3	3.5	4.5	19.2	20.5	30.9	40.2	8.7	8.8	12.3	14.6	47.9	44.8	29.7	22.9
Voltas	ACC	516	658	60.3	64.0	71.0	81.4	5.7	6.6	6.7	8.3	5.2	5.8	5.6	6.9	15.7	17.5	17.1	20.9	17.0	16.0	13.8	15.2	32.9	29.5	30.2	24.7

Source: Company, PL

Cement

Jul-Sep'18 Earnings Preview

October 5, 2018

Top Picks

ACC

Heidelberg Cement India

We expect EBITDA of our coverage universe to improve by 5.9% YoY largely on account of higher volumes with compressed margins. PAT is expected to expand 11.7% YoY due to higher EBITDA and lower interest costs. We continue to like **ACC and Heidelberg Cement (HEIM)** on the back of attractive valuations and strong earnings outlook.

Cement demand grew in double digit, thanks to strong demand from Govt sponsored infra and affordable housing sector. However, retail demand remained subdued due to weak investment demand and weak sentiments. Led by strong prices in Central and South region, prices rose 1.6%/Rs5 per bag QoQ (↓1%/Rs3 per bag YoY) given the weak base and higher costs.

- **North – Unsustainable price levels led the recovery:** Region prices rose 3% QoQ/Rs10 bag (↓5.2%/Rs15 per bag YoY). Rajasthan witnessed highest increase of Rs12/bag among the states due to increased Govt spending ahead of state elections.

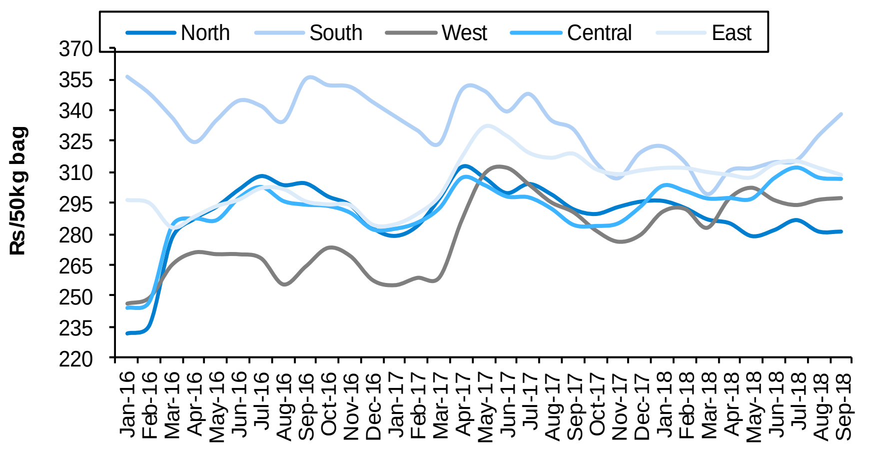
- **Central – Prices on strong footing:** Average prices in the region rose by Rs8/bag QoQ (↑6%/Rs17 per bag YoY). Prices in UP rose by Rs11 per bag QoQ on the back of strong demand across the sectors. While, prices remained flat QoQ in MP.

- **South – Rise in prices after a long spell:** Average prices in the region rose 3%/Rs10 QoQ (↓3.2%/Rs11/bag YoY) due to depressed margins and better demand. Kerala witnessed the highest increase in prices of ~Rs20/bag QoQ. Tamil Nadu/Karnataka/AP witnessed increase of Rs10/Rs6/Rs10/bag QoQ.

- **West – Prices failed to recover:** Prices continued to remain weak in this region due to stiff competition and weak demand. Average prices in Gujarat remained flat QoQ while prices in Maharashtra fell 3% QoQ or Rs10/bag.

- **East – All happy with volume growth:** The region saw continued boom in demand on the back of higher government and private spending. However, due to higher capacities, prices remained flat QoQ as lower margins are being offset by higher scale.

Exhibit 1: Region-wise prices



Source: Company, PL

Kamlesh Bagmar
kamleshbagmar@plindia.com | 91-22-66322237

Amit Khimesra
amitkhimesra@plindia.com | 91-22-66322244

Exhibit 2: Q2FY19 Result Preview

Company Name		Q2FY19E	Q2FY18	YoY gr. (%)	Q1FY19	QoQ gr. (%)	Remark
ACC	Sales	34,372	30,545	*12.5*	37,679	*(8.8)*	Volume is expected to grow 8% YoY at 6.4m tonnes. Realisations are expected to improve by 4.2%/Rs215 YoY (+2.6%/Rs136/t QoQ) at Rs5,340/t. Due to strong realisations, EBITDA/t is expected to expand 20.4%/Rs120 YoY at Rs715.
	EBITDA	4,601	3,538	*30.1*	5,884	*(21.8)*	
	Margin (%)	*13.4*	*11.6*		*15.6*		
	Adj. PAT	2,717	1,810	*50.1*	3,584	*(24.2)*	
	Volume (mn te)	6.4	6.0	*8.0*	7.2	*-11.1*	
	Net Realisations (Rs/te)	5,340	5,125	*4.2*	5,204	*2.6*	
	EBITDA (Rs/te)	715	594	*20.4*	813	*(12.0)*	
Ambuja Cement	Sales	24,764	23,200	*6.7*	29,270	*(15.4)*	Volume is expected to grow 7.3% YoY at 5.4m tonnes. Realisations are expected to fall marginally by 0.5%/Rs24/t YoY (+0.5%/Rs22/t QoQ) at Rs4,588/t. EBITDA/t is expected to grow of 9.8%/Rs60 YoY to Rs677.
	EBITDA	3,654	3,102	*17.8*	5,324	*(31.4)*	
	Margin (%)	*14.8*	*13.4*		*18.2*		
	Adj. PAT	2,717	2,734	*(0.6)*	4,993	*(45.6)*	
	Volume (mn te)	5.4	5.0	*7.3*	6.4	*-15.8*	
	Net Realisations (Rs/te)	4,588	4,612	*(0.5)*	4,566	*0.5*	
	EBITDA (Rs/te)	677	617	*9.8*	831	*(18.5)*	
Heidelberg Cement	Sales	5,012	4,200	*19.3*	5,369	*(6.6)*	Volume is expected to grow 6.3% YoY at 1.1m tonnes. Realisations are expected to improve by 12.2%/Rs484 YoY (+4.7%/Rs198/t QoQ) at Rs4,435. Due to higher volume and sharp improvement in realizations, EBITDA/t is expected to expand by 36%/Rs277 YoY at Rs1,046.
	EBITDA	1,182	818	*44.6*	1,160	*1.9*	
	Margin (%)	*23.6*	*19.5*		*21.6*		
	Adj. PAT	538	296	*81.6*	511	*5.2*	
	Volume (mn te)	1.1	1.1	*6.3*	1.3	*(10.8)*	
	Net Realisations (Rs/te)	4,435	3,951	*12.2*	4,237	*4.7*	
	EBITDA (Rs/te)	1,046	769	*36.0*	915	*14.3*	
JK Lakshmi Cement	Sales	8,689	7,767	*11.9*	9,234	*(5.9)*	Volume is expected to increase 11% YoY at 2.1m tonnes. Realisations are expected to grow marginally 0.7%/Rs28/t YoY (+2.5%/Rs100/t QoQ) at Rs4,137/t. Due to higher costs, EBITDA/t is expected to fall 12%/Rs60 YoY at Rs445.
	EBITDA	935	954	*(2.1)*	939	*(0.4)*	
	Margin (%)	*10.8*	*12.3*		*10.2*		
	Adj. PAT	133	132	*0.4*	137	*(3.4)*	
	Volume (mn te)	2.1	1.9	*11.1*	2.3	*-8.2*	
	Net Realisations (Rs/te)	4,137	4,109	*0.7*	4,038	*2.5*	
	EBITDA (Rs/te)	445	505	*(11.9)*	410	*8.4*	
Shree Cement	Sales	26,175	21,368	*22.5*	30,699	*(14.7)*	Cement volumes is expected to grow 14.2% YoY at 5.6m tonnes. Realisations are expected to improve by 3.3% YoY/Rs138/t (+5%/Rs200/t QoQ) at Rs4,308. Marred by higher costs, cement EBITDA/t is expected to fall 14.6% YoY/Rs165 to Rs968.
	EBITDA	5,808	5,605	*3.6*	6,502	*(10.7)*	
	Margin (%)	*22.2*	*26.2*		*21.2*		
	Adj. PAT	2,646	2,115	*25.1*	2,795	*(5.3)*	
	Volume (mn te) - Cement	5.6	4.9	*14.2*	7.0	*-20.3*	
	Volume (mn units) - Power	445	295	*51.0*	451	*(1.2)*	
	Net Realisations (Rs/te)	4,308	4,170	*3.3*	4,107	*4.9*	
	Realised rate (Rs/unit)	5	3.5	*40.9*	4.4	*10.1*	
	Cement EBITDA (Rs/te)	968	1,133	*(14.6)*	871	*11.1*	
The Ramco Cements	Sales	11,191	10,293	*8.7*	11,860	*(5.6)*	Volume is expected to grow 11.5% YoY at 2.4m tonnes, realisations are expected to fall 2.5%/Rs120 YoY (+2.8%/Rs126 QoQ) at Rs4,663. Due to lower realisations and higher costs, EBITDA/t is expected to fall by 31.7%/Rs380 YoY at Rs814.
	EBITDA	1,954	2,568	*(23.9)*	2,164	*(9.7)*	
	Margin (%)	*17.5*	*24.9*		*18.2*		
	Adj. PAT	1,074	1,626	*(34.0)*	1,250	*(14.1)*	
	Volume (mn te)	2.4	2.2	*11.5*	2.6	*-8.2*	
	Net Realisations (Rs/te)	4,663	4,783	*(2.5)*	4,537	*2.8*	
	EBITDA (Rs/te)	814	1,193	*(31.7)*	828	*(1.6)*	
UltraTech Cement	Sales	79,553	64,780	*22.8*	84,760	*(6.1)*	Blended realizations are expected to increase marginally by 0.4%/Rs18 YoY to Rs4,478/t. Grey cement volumes are expected to grow 24% YoY at 15.9m tonnes. Marred by higher costs, EBITDA/t is expected to fall 18%/Rs172 to Rs785.
	EBITDA	12,740	12,580	*1.3*	14,448	*(11.8)*	
	Margin (%)	*16.0*	*19.4*		*17.0*		
	Adj. PAT	4,720	4,312	*9.4*	5,984	*(21.1)*	
	Volume (mn te)	15.9	12.8	*23.9*	17.2	*(7.5)*	
	Net Realisations (Rs/te)	4,478	4,460	*0.4*			
	EBITDA (Rs/te)	785	957	*(18.0)*	826	*(4.9)*	

Source: Company, PL

Exhibit 3: Valuation Summary

Company Names	Rating	CMP (Rs)	TP (Rs)	Sales (Rs bn)				EBITDA (Rs bn)				PAT (Rs bn)				EPS (Rs)				RoE (%)				PE (x)			
				FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E
ACC	BUY	1,528	1,800	107.7	129.3	145.0	156.3	12.6	15.2	18.4	21.9	6.8	9.0	11.8	14.4	36.4	48.0	62.9	76.7	7.9	9.9	12.3	14.1	42.0	31.8	24.3	19.9
Ambuja Cement	ACC	214	251	198.4	230.9	255.8	277.4	29.2	32.7	36.6	44.1	11.4	14.4	17.7	21.8	5.7	7.3	8.9	11.0	5.9	7.1	8.4	9.8	37.3	29.5	24.0	19.4
Heidelberg Cement India	BUY	139	200	16.9	18.6	20.7	22.2	2.5	3.3	4.3	4.6	0.8	1.3	2.0	2.3	3.3	5.9	8.7	10.3	8.2	13.2	17.8	18.6	41.5	23.7	15.9	13.6
JK Lakshmi Cement	Hold	298	359	29.1	34.1	37.3	40.6	3.7	4.1	4.2	5.2	0.8	0.8	1.0	1.8	7.0	7.1	8.2	15.2	6.1	5.9	6.4	11.1	42.7	41.7	36.4	19.5
Shree Cement	Hold	16,384	18,100	85.8	98.1	122.0	141.9	24.9	24.5	28.3	33.6	13.4	13.8	14.0	20.4	384.4	397.3	402.9	585.1	18.4	16.7	14.8	18.7	42.6	41.2	40.7	28.0
The Ramco Cements	Hold	638	735	38.6	43.2	50.8	60.3	11.0	10.1	9.6	12.1	6.5	5.6	5.3	7.0	27.3	23.6	22.6	29.7	19.0	14.3	12.5	14.6	23.4	27.1	28.2	21.5
Ultratech Cement	Hold	3,944	4,000	250.9	309.7	367.7	414.0	49.3	57.1	64.8	75.2	27.1	26.2	28.2	36.4	98.9	95.5	102.8	132.7	11.7	10.3	10.2	12.0	39.9	41.3	38.4	29.7

Source: Company, PL

October 5, 2018

Top Picks

Britannia Industries

ITC

Titan Company

Amnish Aggarwal
amnishaggarwal@plindia.com | 91-22-66322233

Nishita Doshi
nishitadoshi@plindia.com | 91-22-66322381

Consumer

Jul-Sep'18 Earnings Preview

Q2FY19 Adj. PAT to increase 13.3%

2Q is likely to show steady performance with 11.8% increase in sales (11.6% in 1Q19) and 13.3% increase in PAT (19.7% in 1Q19) on 40bps EBIDTA margin expansion (154bps expansion in 1Q19). Asian Paints, Britannia, HUVR, Kansai and Jubilant FoodWorks are expected to sustain the sales momentum. However, EBITDA margin expansion will be muted on rising input costs inflation and INR depreciation. Avenue Supermarts, Jubilant FoodWorks and GSK Consumer will show strong profit growth.

Rural Demand steady, Distribution hassles over

Rural demand continues to grow faster than Urban demand. Even as the momentum continues, the disparity in rural and urban demand growth rate that persisted in last 2 quarters has now narrowed down. Overall demand is showing steady improvement on hopes of 1) normal monsoons for the 3rd consecutive year leading to higher agricultural production 2) higher government spending on Housing, rural and urban infrastructure in the run-up to 2019 elections and 3) higher income led by better MSP and crop prices.

Distribution issues mostly over: Modern trade and E-commerce continues to grow at a faster rate. Companies who had expanded their direct reach om the past few years are at an advantage. Increasing number of players have started aligning their products as per regional demand, tastes and preferences. Companies have started rationalizing their supply chain to reap benefits from the last year GST changes.

Paint sector demand to get a boost on GST rate reduction: GST rate reduction to 18% in paints is likely to boost paint demand as prices has come down by 7-8%. However, gains will happen only over a period of time as compliance improves just as seen in other sectors where rates were reduced. Major gains from GST looks unlikely before 2019 general elections.

Crude remains firm; Raw material tailwinds are behind

Crude has increased to the USD85/barrel and continues to remains firm. Consequently, most crude linked inputs are showing strength. Though VAM prices (China) has remained flattish QoQ, it remains up 29.7% YoY. LAB and Titanium dioxide prices are up by only 2-2.7% QoQ. However, packaging costs are moving up steadily.

Input costs tailwinds are behind with most of the Agri commodities firming up: Wheat prices are up 11.4% QoQ. Sugar prices increased 22.1% to Rs. 3216/quintal from the bottom in mid-May and Barley prices have jumped 31% in 1H19. We expect sugar and Barley prices to remain at these levels. Mentha prices has seen a sharp increase of 55% from the bottom and would impact raw material costs of Emami. Global cocoa prices have corrected 22.5% in 1H19. SMP prices remain soft and we believe users of Milk and SMP stand to gain in the near term.

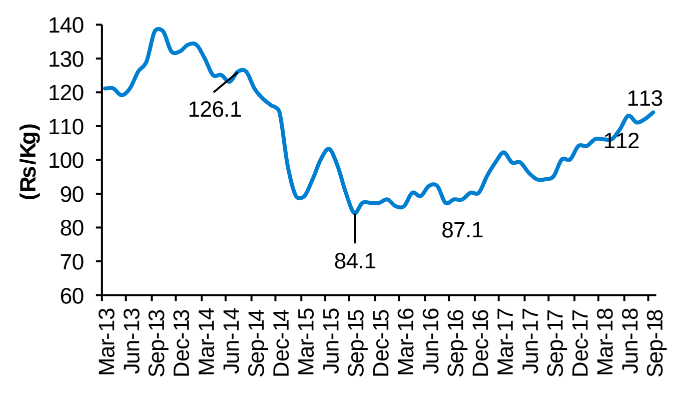
Top Pick: Britannia, ITC, Titan Company

Britannia Industries: BRIT is on a cusp of significant acceleration in profit growth led by 1) gradual recovery in volume growth 2) sustained gains from cost efficiency programs and 3) benefits from sustained traction in premium products at lower price points. Input costs tailwinds are over as wheat, sugar, palm oil, packaging and cashewnuts prices are moving up. Product portfolio remains robust as premium brands like GoodDay, Treat, Bourbon etc. continue to drive volumes in small packs. We strongly believe in BRIT achieving double digit sales growth and sustained margin expansion which will enable 16.9% PAT CAGR over FY18-20. We value the stock at 47x Sept20 EPS given strong growth outlook and visibility. The stock price has corrected 16% in a month which gives a lucrative entry point. Maintain BUY

ITC: ITC trades at ~40% discount to consumer universe given investor's fears of frequent increase in GST rates on cigarettes post 20% increase under excise and introduction of GST. Strong compensation cess collections remove the urgency to increase taxes on cigarettes in near term. Stabilization of sales mix and gradual improvement in volumes bodes well for acceleration in profit growth. FMCG profits are expected to increase by 2-3x in coming few years given scaled up foods business, peaked out losses in lifestyle retailing and personal care. While Agri is likely to remain under pressure, INR depreciation should provide some relief. Hotels have bottomed out and expect gradual recovery given steady improvement in ARR and occupancy levels. Risk reward is highly favorable at 25.3xFY20 EPS, 25% ROE, ~65% dividend payout with 2.3% dividend yield. Maintain BUY

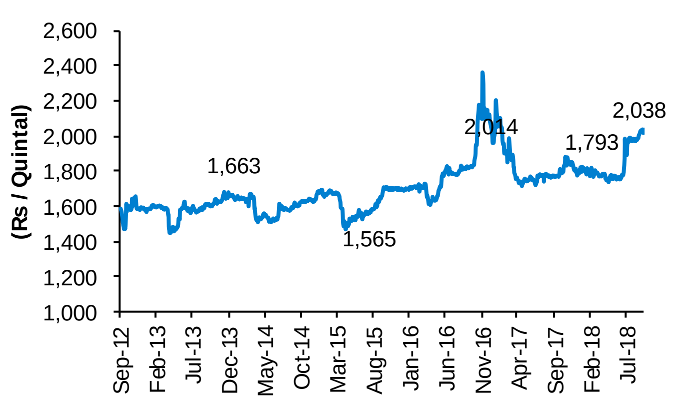
Titan Company: Titan is creating building blocks to achieve Vision 2023 with focus on factors like Digital, Youth and GEN-A, Omni channel, Rural India, Premiumisation and rising affluence and emerging women power. The conversion of Gold plus stores into Tanishq and the shift to organized sector led by fear of buying from unknown and without bills will foster sales growth in FY19. Watch business is on steady recovery post the restructuring and investments of past couple of years which has started yielding results. However, the high investments in Eyewear will add value to Titan only in the long term. The significant increase in ad-spend would increase pressure on margins in the near term. With the expectations of 26.5% PAT CAGR over FY18-20, we value the stock at 45xSept20 EPS and arrive at a target price of Rs1115 given the good growth outlook and strong tailwinds.

Exhibit 1: LAB: Prices increase steadily as crude remains firm, up 2.7% QoQ



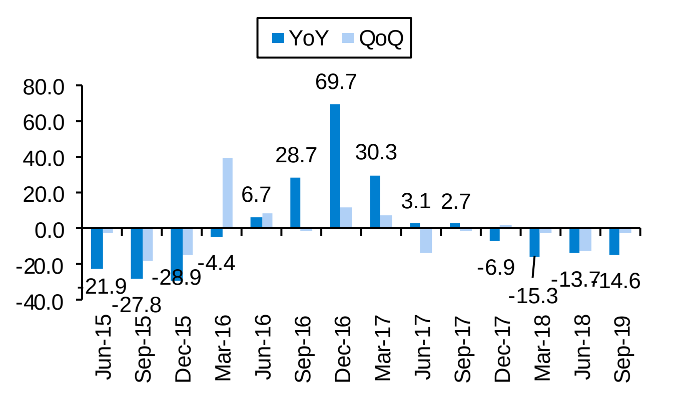
Source: Bloomberg, PL

Exhibit 2: Wheat: Prices up 11.1% YoY and 11.4% QoQ



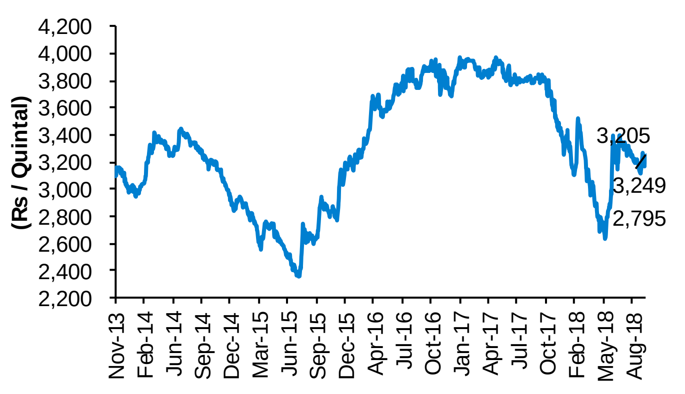
Source: Bloomberg, PL

Exhibit 3: PFAD: Soft trend sustains; down 14.6% YoY and 2.4% QoQ



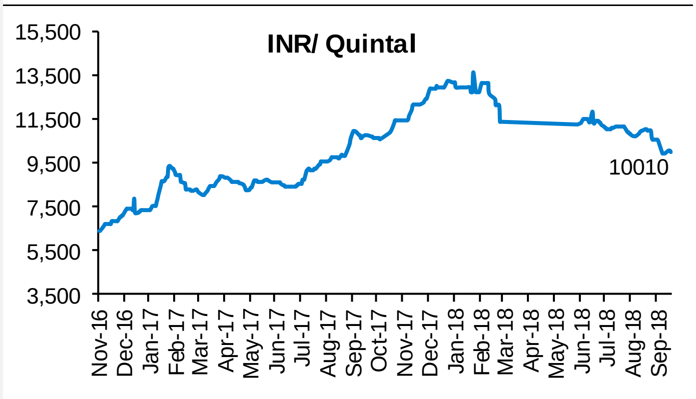
Source: Bloomberg, PL

Exhibit 4: Sugar: up 23.3% from the bottom, up 10.9% QoQ and down 14.4% YoY



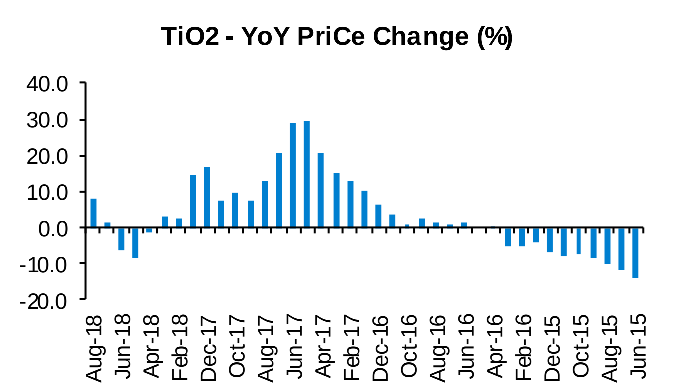
Source: Bloomberg, PL

Exhibit 5: Copra: Prices down 5.1% QoQ, up 12.9% YoY



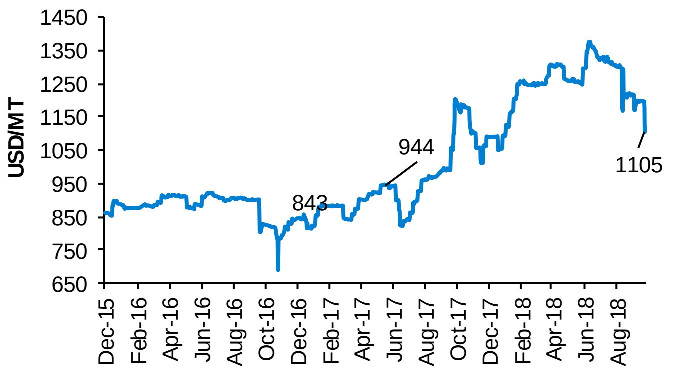
Source: Bloomberg, PL

Exhibit 6: Tio2: prices stable at 263 levels since July; up 5.9% YoY and 2.7% QoQ



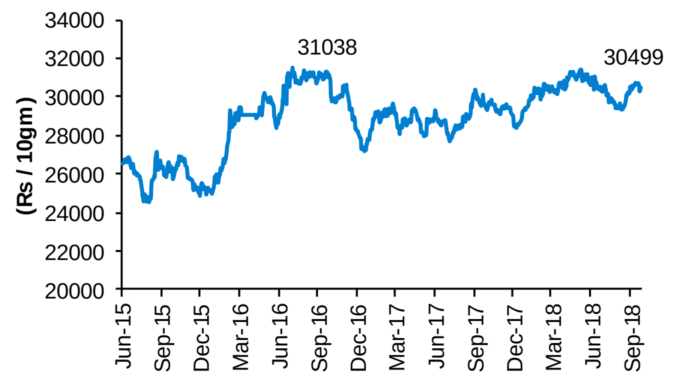
Source: Bloomberg, PL

Exhibit 7: VAM prices sliding, down 18.7% to 1105$/ton from the peak in mid-June



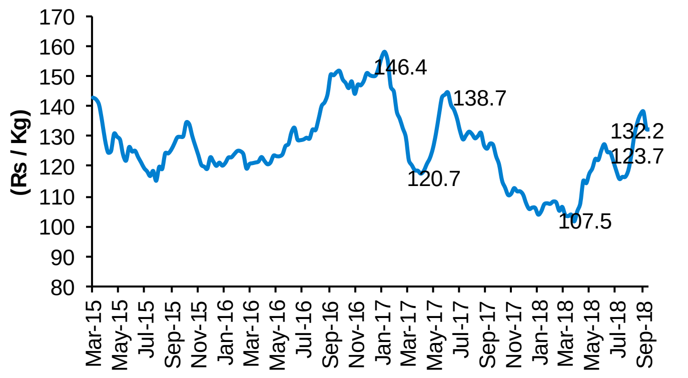
Source: Bloomberg, PL

Exhibit 8: Gold: Prices on an upwards march, up 3.7% YoY and down 2.7% QoQ



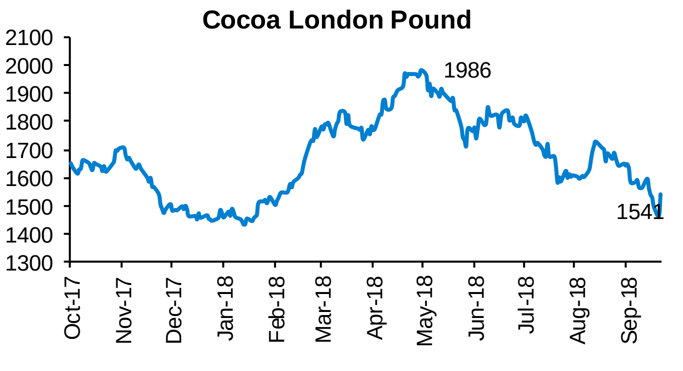
Source: Bloomberg, PL

Exhibit 9: SMP: Benign, up 30.2% from the bottom in April-18; down 3.4% YoY



Source: Bloomberg, PL

Exhibit 10: Cocoa prices down 22.4% from the peak in April, down 10.6% QoQ



Source: Bloomberg, PL

Exhibit 11: Volume growth; BRIT, Kansai, PIDI, JUBI and TTAN sustain momentum

Volume growth (%)	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19E
Asian Paints	12.0	3.0	11.0	3.0	9.0	7.5	10.5	12.0	10.0
Britannia	7.0	1.5	2.0	2.5	6.0	13.0	13.0	13.0	11.5
Colgate	4.0	(12.0)	(3.0)	(5.0)	(0.9)	12.0	4.0	4.0	4.5
Dabur India	4.5	(5.0)	2.4	(4.4)	7.2	13.0	7.7	21.0	9.5
GSK Consumer	(3.0)	(17.0)	(1.0)	(6.5)	2.5	17.0	8.0	12.8	7.5
ITC (Cigarettes)	3.5	(0.5)	0.0	1.5	(7.0)	(5.0)	(2.5)	1.5	3.5
HUVR	(1.0)	(4.0)	4.0	0.0	4.0	11.0	11.0	12.0	9.0
Kansai Nerolac	10.0	9.5	14.9	10.0	18.0	14.5	14.5	15.0	14.0
MRCO - Parachute	(6.0)	(1.0)	15.0	(9.0)	12.0	15.0	(5.0)	9.0	7.5
- Saffola	8.0	6.0	6.0	(9.0)	3.0	0.0	(1.0)	10.0	6.5
- Hair Oil	11.0	(12.0)	10.0	(8.0)	12.0	8.0	11.0	15.0	11.0
Pidilite (C&B)	8.5	(0.7)	8.2	(0.1)	12.0	23.0	14.0	18.0	10.0
Titan - Jewellery	(32.0)	4.0	37.0	49.0	49.0	6.0	6.0	(3.0)	15.0
Jubilant (Dominos)	4.2	(3.3)	(7.5)	6.5	5.5	17.8	26.5	26.5	21.0
Future Retail	13.1	12.5	13.3	11.8	10.2	10.4	6.0	3.6	4.0

Source: Company, PL

Exhibit 12: Q2FY19 Result Preview

Company Name		Q2FY19E	Q2FY18	YoY gr. (%)	Q1FY19	QoQ gr. (%)	Remark
Asian Paints	Sales	47,771	42,652	12.0	43,903	8.8	Demand improvement post GST rate reduction would enable double digit volume growth despite late Diwali. INR Depreciation and rising crude prices will put pressure on margins QoQ
	EBITDA	9,267	8,011	15.7	8,744	6.0	
	Margin (%)	*19.4*	*18.8*		*19.9*		
	Adj. PAT	5,889	5,084	15.8	5,580	5.5	
	Volume Growth (%)	*10.0*	*9.0*		*12.0*		
Britannia Industries	Sales	26,955	23,854	13.0	24,067	12.0	Britannia is estimated to maintain double digit volume growth, cost efficiencies will enable 13.3% EBIDTA growth on 120bps Gross Margins expansion (down30bps QoQ).
	EBITDA	4,286	3,702	15.8	3,677	16.5	
	Margin (%)	*15.9*	*15.5*		*15.3*		
	Adj. PAT	2,973	2,623	13.3	2,462	20.7	
	Gross Margin (%)	*38.8*	*37.6*		*39.1*		
	Volume Growth (%)	*11.5*	*6.0*		*13.0*		
Colgate Palmolive	Sales	11,717	10,849	8.0	10,413	12.5	We estimate 4.5% volume growth on low base. Toothpaste Market share trend in 2Q remains a key monitorable
	EBITDA	3,281	3,006	9.1	2,816	16.5	
	Margin (%)	*28.0*	*27.7*		*27.0*		
	Adj. PAT	1,961	1,776	10.4	1,554	26.2	
	Volume Growth (%)	*4.5*	*(0.9)*		*4.0*		
Dabur India	Sales	21,352	19,589	9.0	20,807	2.6	We estimate 9.5% volume growth on a high base. Margin expansion looks unlikely due to input cost inflation. International business is recovering although Hobi will remain subdued.
	EBITDA	4,527	4,199	7.8	3,861	17.2	
	Margin (%)	*21.2*	*21.4*		*18.6*		
	Adj. PAT	3,903	3,627	7.6	3,300	18.3	
	Volume Growth (%)	*9.5*	*7.2*		*21.0*		
Avenue Supermarts	Sales	45,500	35,083	29.7	45,594	(0.2)	D'Mart is estimated to report 29.7% sales growth, 10bps margin expansion and 28.2% PAT growth.
	EBITDA	4,200	3,179	32.1	4,227	(0.6)	
	Margin (%)	*9.2*	*9.1*		*9.3*		
	Adj. PAT	2,449	1,910	28.2	2,506	(2.3)	
Future Retail	Sales	47,316	45,063	5.0	45,387	4.3	Stores renovations and food deflation continues to impact sales growth. Demand situation is seeing steady improvement.
	EBITDA	2,271	2,111	7.6	2,208	2.8	
	Margin (%)	*4.8*	*4.7*		*4.9*		
	Adj. PAT	1,631	1,532	6.5	1,531	6.5	
	SSG %	*4.0*	*10.2*		*3.6*		
	Big Bazaar SSG %	*10.0*	*13.8*		*10.1*		
Emami	Sales	6,564	6,281	4.5	6,144	6.8	We estimate 3% volume growth on high base and muted season. Kesh King recovery is on track post successful re-launch in 2Q. Watch out for price increases as Input costs inflation in LLP, Mentha Oil and Packaging continue.
	EBITDA	2,034	2,013	1.0	1,234	64.8	
	Margin (%)	*31.0*	*32.1*		*20.1*		
	Adj. PAT	955	987	(3.2)	267	258.2	
	Volume Growth (%)	*3.0*	*10.0*		*16.0*		
Hindustan Unilever	Sales	93,061	83,090	12.0	94,870	(1.9)	We estimate 12% sales growth on 9% volume growth and 12.6% PAT growth. Margin expansion to remain modest. We would watch out for Anti-profiteering order and crude price inflation
	EBITDA	19,264	16,820	14.5	22,510	(14.4)	
	Margin (%)	*20.7*	*20.2*		*23.7*		
	Adj. PAT	13,917	12,360	12.6	15,670	(11.2)	
	Volume Growth (%)	*9.0*	*4.0*		*12.0*		
ITC	Sales	112,500	103,141	9.1	107,070	5.1	We estimate 13.1% PAT growth on 3.5% growth in Cigarette volumes and improved profitability in FMCG and Hotels.
	EBITDA	42,500	37,615	13.0	42,021	1.1	
	Margin (%)	*37.8*	*36.5*		*39.2*		
	Adj. PAT	29,856	26,398	13.1	28,187	5.9	
	Cigarette Volume Growth (%)	*3.5*	*(7.0)*		*1.5*		
	Cigarette EBIT Growth (%)	*6.6*	*2.3*		*8.7*		
	FMCG EBIT	707	205		501		

Company Name		Q2FY19E	Q2FY18	YoY gr. (%)	Q1FY19	QoQ gr. (%)	Remark
Jubilant FoodWorks	Sales	8,901	7,266	*22.5*	8,551	*4.1*	We estimate 22.5% sales growth on 21% SSG led by gains from extension of "Everyday value Offer" to small Pizzas. Watch out for losses in Dunkin Donuts and Dominos store openings given low additions in last 2 years
	EBITDA	1,495	1,022	*46.3*	1,421	*5.3*	
	Margin (%)	*16.8*	*14.1*		*16.6*		
	Adj. PAT	771	422	*82.7*	747	*3.2*	
	SSG %	*21.0*	*5.5*		*25.9*		
	Dominos Stores	1,164	1,125		1,144		
Kansai Nerolac Paints	Sales	13,507	11,644	*16.0*	13,759	*(1.8)*	We estimate 14% volume growth and 210bps decline in gross margins on rising input costs and INR depreciation.
	EBITDA	2,256	2,213	*1.9*	2,205	*2.3*	
	Margin (%)	*16.7*	*19.0*		*16.0*		
	Adj. PAT	1,469	1,446	*1.6*	1,398	*5.0*	
	Volume Growth (%)	*14.0*	*18.0*		*14.0*		
	Gross Margin (%)	*38.1*	*40.2*		*38.3*		
Marico	Sales	17,852	15,363	*16.2*	20,268	*(11.9)*	We estimate 7.5% India and parachute volume growth. We expect GM to start expanding meaningfully in 2H only given softening Copra prices due to inventory lag.
	EBITDA	3,035	2,591	*17.1*	3,549	*(14.5)*	
	Margin (%)	*17.0*	*16.9*		*17.5*		
	Adj. PAT	2,140	1,850	*15.7*	2,554	*(16.2)*	
	Parachute Volume Growth %	*7.5*	*12.0*		*9.0*		
	Volume Growth (%)	*7.5*	*8.0*		*10.4*		
Nestle India	Sales	27,655	25,141	*10.0*	26,984	*2.5*	We estimate 10% sales growth led by sustained traction in Maggi and recovery in chocolates. Margin expansion looks unlikely QoQ given rising input costs
	EBITDA	6,582	5,678	*15.9*	6,648	*(1.0)*	
	Margin (%)	*23.8*	*22.6*		*24.6*		
	Adj. PAT	4,095	3,498	*17.1*	4,147	*(1.3)*	
Pidilite Industries	Sales	15,275	13,638	*12.0*	16,083	*(5.0)*	Estimate 10% overall volume growth in Consumer and Bazaar products (15% in 2Q18). VAM price decline has been set off by rupee depreciation.
	EBITDA	4,124	3,729	*10.6*	3,576	*15.3*	
	Margin (%)	*27.0*	*27.3*		*22.2*		
	Adj. PAT	2,846	2,610	*9.1*	2,448	*16.2*	
	Volume Growth (%)	*10.0*	*12.0*		*17.9*		
GlaxoSmithKline Consumer Healthcare	Sales	12,269	11,153	*10.0*	11,071	*10.8*	We estimate 7.5% volume and 20% PAT growth on low base. Development related to sale of Horlicks and other MFD brands is key factor to watch out for.
	EBITDA	2,846	2,614	*8.9*	2,303	*23.6*	
	Margin (%)	*23.2*	*23.4*		*20.8*		
	Adj. PAT	2,309	1,924	*20.0*	2,004	*15.2*	
	Volume Growth (%)	*7.5*	*3.0*		*12.8*		
Titan Company	Sales	37,000	33,785	*9.5*	43,189	*(14.3)*	High base, poor sentiment, no wedding days and delayed festival season will impact jewellery sales. watch out for profitability in watches and Tanishq store openings.
	EBITDA	4,850	4,206	*15.3*	4,953	*(2.1)*	
	Margin (%)	*13.1*	*12.4*		*11.5*		
	Adj. PAT	3,425	3,063	*11.8*	3,492	*(1.9)*	
	Jewellery Volume Growth (%)	*8.0*	*49.0*		*(3.0)*		
	Jewellery Margins (%)	*13.3*	*13.6*		*11.0*		
	Watch Margins (%)	*15.0*	*16.0*		*18.8*		

Source: Company, PL

Exhibit 13: Valuation Summary

Company Names	Rating	CMP (Rs)	TP (Rs)	Sales (Rs bn)				EBITDA (Rs bn)				PAT (Rs bn)				EPS (Rs)				RoE (%)				PE (x)			
				FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E
Asian Paints	Hold	1,225	1,431	150.6	168.2	196.6	226.8	29.9	32.0	38.6	46.1	19.6	19.7	24.2	29.0	20.5	20.6	25.2	30.2	27.8	24.7	26.6	27.2	59.8	59.5	48.5	40.5
Britannia Industries	Acc	5,625	6,568	84.1	93.0	106.4	121.7	12.0	14.3	17.2	20.7	8.4	9.6	11.5	13.6	70.3	80.1	96.0	113.7	36.7	33.1	36.1	37.7	80.0	70.2	58.6	49.5
Colgate Palmolive	Reduce	1,069	1,084	39.8	41.9	46.3	51.5	9.4	11.1	12.3	13.9	5.8	6.9	7.4	8.4	21.2	25.2	27.3	30.8	50.1	49.0	51.0	56.7	50.3	42.4	39.2	34.7
Dabur India	Hold	415	440	76.1	77.2	87.9	99.9	15.1	16.2	18.5	21.5	12.8	13.7	16.2	18.8	7.2	7.8	9.2	10.7	28.3	25.9	27.7	28.7	57.3	53.5	45.3	39.0
Avenue Supermarts	Reduce	1,346	1,301	119.0	150.3	195.3	252.4	9.8	13.5	18.4	24.6	4.8	7.7	10.5	14.3	7.7	12.3	16.9	23.0	17.9	18.0	20.6	23.1	175.5	109.4	79.7	58.6
Future Retail	BUY	443	613	170.8	184.8	200.1	231.7	5.8	8.3	10.7	13.0	3.7	6.2	8.6	10.4	7.8	12.3	17.2	20.7	16.6	21.8	24.8	24.2	56.8	36.2	25.8	21.4
Emami	Acc	474	603	24.9	25.3	28.4	32.0	7.6	7.2	8.3	9.4	5.5	5.1	6.2	7.2	24.3	22.3	13.6	15.9	32.7	26.8	29.7	31.1	19.5	21.3	34.9	29.8
Hindustan Unilever	Hold	1,574	1,703	318.9	345.3	391.4	435.2	60.5	72.8	86.2	100.3	42.5	53.0	60.9	71.8	19.7	24.5	28.2	33.2	66.6	78.1	86.2	100.4	80.0	64.2	55.9	47.4
ITC	BUY	287	346	400.9	406.3	471.1	512.3	145.8	155.4	181.2	204.9	102.0	112.2	128.3	146.6	8.4	9.2	10.5	11.9	23.5	23.2	23.8	24.7	34.2	31.2	27.5	24.1
Jubilant FoodWorks	Acc	1,126	1,570	25.5	29.8	36.1	40.4	2.5	4.5	6.1	6.9	0.8	2.1	3.1	3.8	11.4	31.3	23.8	28.7	9.1	21.8	27.1	26.8	98.4	36.0	47.2	39.2
Kansai Nerolac Paints	Acc	435	549	40.0	45.9	54.4	63.6	7.3	7.9	9.0	10.9	5.1	5.2	5.9	7.1	9.4	9.6	10.9	13.1	19.1	17.4	17.7	18.9	46.3	45.4	40.0	33.2
Marico	Hold	314	366	59.2	63.2	74.1	83.2	11.6	11.4	13.8	16.3	8.0	8.1	9.7	11.4	6.2	6.3	7.5	8.8	36.8	33.5	36.4	38.9	50.7	49.8	41.7	35.5
Nestle India	Hold	9,348	10,996	91.4	100.1	112.5	125.7	20.3	22.2	28.4	31.6	11.9	13.5	17.6	20.2	123.7	140.0	182.3	209.2	37.7	40.3	48.7	48.4	75.6	66.8	51.3	44.7
Pidilite Industries	Acc	968	1,175	48.7	53.5	60.8	70.2	12.2	12.9	14.7	17.1	8.7	9.1	10.3	12.3	16.9	17.9	20.3	24.2	28.7	26.1	24.9	23.9	57.2	54.1	47.6	40.0
GlaxoSmithKline Consumer Healthcare	Hold	6,552	7,382	39.9	43.1	49.1	55.0	8.3	8.7	10.1	11.4	6.6	7.0	7.9	8.8	156.1	166.5	188.3	210.2	22.2	21.2	21.5	21.5	42.0	39.4	34.8	31.2
Titan Company	BUY	777	1,115	129.0	156.2	189.4	227.8	12.0	17.4	20.2	26.4	8.6	12.5	13.6	17.9	9.7	14.1	15.4	20.2	21.9	26.4	23.5	25.2	80.3	55.0	50.6	38.5

Source: Company, PL

Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

Information Technology

Jul-Sep'18 Earnings Preview

October 5, 2018

Top Picks

HCL Technologies

Tech Mahindra

Madhu Babu
madhubabu@plindia.com | 91-22-66322300

Rajat Gandhi
rajagandhi@plndia.com | 91-22-66322246

Cross currency headwinds to hurt reported USD revenues: We expect Tier 1 IT vendors to show a steady execution in 2QFY19. TCS/Infosys/HCL Tech are expected to deliver steady results while Wipro/Tech M could report softer USD revenue growth. Constant currency revenue growth for the quarter would be in the band of 0.5-3.5% QoQ for 2QFY19 (TCS to report the strongest growth and Tech/Wipro the weakest). Cross currency movements would be a headwind for reported USD revenues owing to depreciation of Euro/GBP/ AUD/INR vs USD. We expect cross currency movements to be a headwind of 90-150bps for Tier 1 IT vendors (based on the mix of revenues). Hence, reported USD revenues would grow by (0.8)-2.2% QoQ. In 1QFY19, traction in BFSI remained company specific (TCS/Wipro showed steady growth while Infosys/HCL Tech showed tepid performance). Hence, traction and momentum in BFSI vertical would be keenly watched. We expect Infosys to maintain its revenue growth guidance of 6-8% in constant currency for FY19E. Infosys has announced a slew of deals over the past few months and hence we expect continued confidence in revenue momentum.

Margins to improve on sequential basis: The average rate (USD v/s INR) for Q2FY19 is at 70.7 v/s 67.5 for Q1FY19. Hence, INR v/s USD has seen a steep 4.7% depreciation QoQ and hence likely to aid reported EBIDTA margins of IT vendors. Wipro would have additional two months' impact of wage hikes in 2QFY19. HCL Tech would also have partial impact of wage hikes for the quarter. However, strong INR depreciation should provide tailwinds. We expect EBIDTA margins of IT vendors to improve by 30 to 150 bps QoQ. While steep rupee depreciation might aid medium term margins, companies might have to gradually pass on the benefits to clients over long term.

View: Retain BUY on Infosys/HCL Tech/Tech M and Accumulate rating on TCS. Infosys trades at 17.8x FY20E EPS and 16.9x Sep20E EPS. TCS stock trades at 23.2x FY20E EPS and 22.1x Sep 20E EPS (two years forward EPS). Valuations are rich and company needs to guide for continued strength in revenue growth in 2HFY19 as well for stock to retain momentum. TCS stock is up 50% in last six months. Our Rating is Accumulate. Confidence in revenue momentum key for Infosys to rerate further. Infosys trades at 26% discount to TCS. Rating is BUY. Infosys likely to announce buyback in Jan 2019 as cited in its capital allocation strategy. Net cash on balance sheet stands at Rs287bn as on 1QFY19. As per company's capital allocation policy, we expect company to spend ~Rs100bn on buyback in January 2019. However, at the current price Infosys would be able to buyback only 3% of equity.

Wipro trades at 14.8x FY20E EPS. Potential for turnaround in growth as well as scope for Buyback announcement in January 2019 (Net cash on balance sheet at Rs203bn as on 1QFY19) are triggers. Retain Neutral.

HCL Tech trades at 13.7x FY20E EPS and valuations remain reasonable. Retain BUY.

While 2QFY19 is likely to remain weak quarter, Communication vertical is likely to start showing recovery from hereon which is trigger. Expect Tech M 2QFY19 EBIDTA margin at 18% up 150bps QoQ. At CMP of Rs750/sh, stock trades at 13.5x FY20E EPS and 12.8x Sep20E EPS. Retain BUY

Among midcaps, NIIT Tech (--x FY20E EPS), Mindtree (--x FY20E EPS) looks attractive. We like LTTS (trading –x FY20E EPS) within the Engineering Design Services. Cyient (--x FY20E EPS) is also trading at reasonable valuations. Hexaware is upgraded to Neutral post the steep correction from the peak.

Exhibit 1: Consolidated USD revenues for the quarter

US$ mn	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19E
Infosys	2407	2446	2501	2587	2551	2569	2651	2728	2755	2,805	2831	2890
Growth (%)	*0.6*	*1.6*	*2.2*	*3.5*	*(1.4)*	*0.7*	*3.2*	*2.9*	*1.0*	*1.8*	*0.9*	*2.1*
TCS	4145	4207	4362	4374	4387	4452	4591	4739	4787	4,972	5051	5162
Growth (%)	*(0.3)*	*1.5*	*3.7*	*0.3*	*0.3*	*1.5*	*3.1*	*3.2*	*1.0*	*3.9*	*1.6*	*2.2*
Wipro	1838	1882	1931	1916	1903	1955*	1971	2014*	2013	2062	2027	2010
Growth (%)	*0.3*	*2.4*	*2.6*	*(0.8)*	*(0.7)*	*2.7*	*0.9*	*2.1*	*0.0*	*2.4*	*(1.7)*	*(0.8)*
HCL Tech	1566	1587	1691*	1722	1756	1817	1884*	1928*	1987	2038	2055	2084
Growth (%)	*1.4*	*1.4*	*6.6*	*1.9*	*1.9*	*4.1*	*3.7*	*2.3*	*3.1*	*2.5*	*0.8*	*1.5*
Tech M	1015.0	1022.6	1031.5	1072.4	1116.1	1131.2	1138.0	1179.2	1209.0	1244.3	1224.1	1222.2
Growth (%)	*0.4%*	*0.7%*	*0.9%*	*4.0%*	*4.1%*	*1.4%*	*0.6%*	*3.6%*	*2.5%*	*2.9%*	*-1.6%*	*-0.2%*

Source: Company, PL

Exhibit 2: Average Exchange rates

	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19E
Euro/ US$ (Average)	1.09	1.1	1.12	1.11	1.08	1.07	1.09	1.175	1.178	1.23	1.19	1.16
% Change	*(1.8)*	*0.9*	*1.8*	*(0.9)*	*(3.2)*	*(1.2)*	*2.7*	*6.9*	*0.3*	*5.1*	*(3.2)*	*(2.5)*
GBP/US$ (Average)	1.51	1.43	1.43	1.31	1.24	1.24	1.27	1.31	1.32	1.39	1.35	1.30
% Change	*(2.6)*	*(5.3)*	*0.7*	*(8.4)*	*(5.3)*	*-*	*3.1*	*2.4*	*1.3*	*5.3*	*(3.1)*	*(4.4)*
AUD/US$ (Average)	0.72	0.72	0.74	0.76	0.75	0.76	0.75	0.79	0.768	0.787	0.756	0.73
% Change	*-*	*-*	*2.7*	*2.7*	*(1.2)*	*1.2*	*(1.3)*	*5.2*	*(2.4)*	*2.4*	*(3.9)*	*(2.7)*
US$/INR (Average)	65.9	67.6	66.93	66.95	67.4	67.01	64.5	64.4	64.7	64.4	67	70.5
% Change	*1.5*	*2.4*	*(1.0)*	*-*	*0.7*	*(0.6)*	*(3.7)*	*(0.1)*	*0.5%*	*(0.5%)*	*4.2*	*4.7*

Source: Company, PL

Exhibit 3: Constant Currency QoQ growth (%)

	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19E
Infosys	1.1	1.9	1.7	3.9	(0.3)	0.0	2.7	2.2	0.8	0.6	2.3	2.9
TCS	0.5	2.1	3.1	1.0	2.0	1.7	2.0	1.7	1.3	2.0	4.1	3.5
Wipro	1.4	2.7	2.0*	0.9*	0.6	1.7*	0.3	0.3	1.5	1.1	0.1	0.5
HCL Tech	2.1	1.7	6.0*	2.8	3.0	3.8*	2.6	0.9	3.3	1.2	2.7*	2.9

Source: Company, PL ** - HCL Tech organic cc growth would be 1.6% and rest owing to C3i acquisition.*

We expect margins for the Tier 1 IT vendors to drop only modestly on a sequential basis owing to steep rupee depreciation.

Exhibit 4: EBITDA Margins v/s Average exchange rate

EBIDTA Margin (%)	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19E
Avg Rate (USD v/s INR)	67.7	67.1	66.9	67.7	66.6	64.5	64.4	64.6	64.7	67.5	70.7
Infosys	28.0	26.5	27.3	27.6	27.2	26.7	26.8	27.1	27.3	26.0	27.2
TCS	27.8	26.7	27.7	27.7	27.4	25.1	26.7	26.8	27.0	26.5	28.0
Wipro (Consolidated Margin)	20.6	19.5	19.3	20.4	20.1	19.6	20.7	18.3*	17.8	17.4	18.6
HCL Tech	22.2	22.2	21.8	22.2	22.0	22.1	22.2	23.1	23.0	23.3	23.4
Tech Mahindra	16.9	14.9	14.9	15.7	12.0	12.7	14.5	16.3	17.5	16.4	18.0

Source: Company, PL

Exhibit 5: USD revenues estimates for IT vendors

Fig in USD mn	2QFY19E	1QFY19	2QFY18	*QoQ gr.*	*YoY gr.*	Constant currency revenue growth (QoQ)	Inorganic Component for the quarter in revenues
TCS	5,071	4,972	4,591	*2.0%*	*10.5%*	3.5% cc growth	
Infosys	2,853	2,805	2,651	*1.7%*	*7.6%*	2.7% cc growth	
Wipro	2,017	2,062	1,972	*-2.2%*	*2.3%*	(1.2%) drop	
HCL Tech*	2,070	2,038	1,884	*1.6%*	*9.9%*	3.1% cc growth (1.5% organic cc growth)	C3I revenues (~USD35mn)
Tech M	1,219	1,244	1,138	*-2.0%*	*7.1%*	(1%) decline in cc revenues	
Total Large cap revenues	13,230	13,121	12,236	*0.8%*	*8.1%*		
Mindtree	234	226	200	*3.5%*	*17.0%*	4% cc growth	
Hexaware	169	162	153	*4.5%*	*11.1%*	4.5% cc growth	
Mphasis	272	264	231	*3.0%*	*17.8%*	3.7% cc growth	
NIIT Tech	122.6	121.4	107	*1.0%*	*14.4%*	2% cc growth	
Persistent	122.4	117.0	113.0	*4.6%*	*8.4%*		
Zensar*	133.6	126.6	114.3	*5.5%*	*16.9%*	2.2% organic growth	Cynosure (USD4.5mn)
Sonata Software(IT services only)	38.5	37.4	33	*3.0%*	*17.7%*	4% cc growth	
Cyient	161	165	141	*-2.2%*	*14.5%*		
LT Technology Services	167	162	128	*3.0%*	*30.4%*	4% cc growth	

Source: Company, PL

Exhibit 6: Q2FY19 Result Preview

Company Name		Q2FY19E	Q2FY18	YoY gr. (%)	Q1FY19	QoQ gr. (%)	Remark
Cyient	Sales	11,861	9,654	*22.9*	10,800	*9.8*	We expect Cyient's services business (~90% of total revenues) to grow by 4.5% QoQ in cc. Growth in Services business would be led recovery in Communication vertical. Cross currency would be a headwind of ~100bps. Hence, reported USD revenues in services business would grow by 3.5% for the quarter. EBIDTA margin for 1QFY19 was abysmally low at 12.2% led by drop in onsite utilization). Hence, recovery in margin performance is key.
	EBITDA	1,601	1,410	*13.6*	1,316	*21.7*	
	Margin (%)	13.5	14.6		12.2		
	Adj. PAT	1,120	1,115	*0.5*	825	*35.8*	
HCL Technologies	Sales	147,752	124,340	*18.8*	138,780	*6.5*	We expect HCL Tech to report 3.2% QoQ cc growth (2.1% organic and rest owing to Actian acquisition and revenue from new IP deal signed in 1QFY19). Seasonal softness in Products business will weigh on organic growth for HCL Tech. Cross-currency would be a headwind of ~150bps for 2QFY19. Hence, USD revenue growth would be 1.7% QoQ. Headwinds from wage hikes and seasonal softness in Products business will negate tailwinds from INR depreciation.
	EBITDA	34,574	27,590	*25.3*	32,260	*7.2*	
	Margin (%)	23.4	22.2		23.2		
	Adj. PAT	24,313	21,880	*11.1*	24,040	*1.1*	
Hexaware Technologies	Sales	12,315	9,931	*24.0*	11,367	*8.3*	We expect Hexaware's USD revenues to grow by 3.5% QoQ as 3QCY18. Commentary on new deal wins would be keenly watched. Hexaware has guided for USD revenue growth of 10-12% for CY18E. We await details on whether company would upgrade its guidance.
	EBITDA	2,058	1,734	*18.7*	1,773	*16.1*	
	Margin (%)	16.7	17.5		15.6		
	Adj. PAT	1,656	1,420	*16.6*	1,534	*8.0*	
Infosys	Sales	204,355	175,670	*16.3*	191,280	*6.8*	We expect Infosys to report 2.9% QoQ cc revenue growth for 2QFY19. Cross currency headwind would be ~80bps for the quarter. Hence, reported USD revenues would grow by 2.1% QoQ. We expect Infosys to maintain its guidance for 6-8% cc revenue growth for FY19E and EBIT margin guidance of 22-24% for FY19E.
	EBITDA	55,585	47,020	*18.2*	49,730	*11.8*	
	Margin (%)	27.2	26.8		26.0		
	Adj. PAT	41,748	37,260	*12.0*	36,120	*15.6*	
L&T Technology Services	Sales	12,419	9,006	*37.9*	11,522	*7.8*	We expect LTTS to report steady growth and model 4% QoQ USD revenue growth for the quarter. Traction in Process Industry and ramp up of large deal in Aerospace vertical is likely to aid growth. Headwinds from wage hikes in the quarter. However, tailwinds from INR depreciation would aid margins.
	EBITDA	2,173	1,374	*58.2*	1,961	*10.8*	
	Margin (%)	17.5	15.3		17.0		
	Adj. PAT	1,643	1,230	*33.6*	1,981	*(17.1)*	
Mphasis	Sales	19,536	16,046	*21.7*	18,202	*7.3*	We expect Mphasis to report consolidated revenue growth of 3.5% QoQ in USD driven by traction Direct Channel (Mature markets) as well as HP channel. Commentary on traction in Blackstone Portfolio companies would also be keenly watched.
	EBITDA	3,653	2,463	*48.3*	3,221	*13.4*	
	Margin (%)	18.7	15.3		17.7		
	Adj. PAT	2,874	1,958	*46.8*	2,578	*11.5*	
Mindtree	Sales	17,928	13,316	*34.6*	16,395	*9.3*	We expect Mindtree to report 4.5% QoQ USD revenue growth for 2QFY19. Company indicated that 2QFY19 USD revenue growth would be lesser than 1QFY19. Momentum in revenue growth in top account (Microsoft) would be keenly watched as this account has been showing strong momentum.
	EBITDA	2,868	1,541	*86.1*	2,310	*24.2*	
	Margin (%)	16.0	11.6		14.1		
	Adj. PAT	1,924	1,247	*54.3*	1,582	*21.6*	
NIIT Technologies	Sales	9,087	7,373	*23.2*	8,249	*10.2*	We expect NIIT Tech USD revenues to grow by 3.5% QoQ (We model 5% cc growth). Cross currency would be a headwind of 150bps QoQ. We expect EBIDTA margins to improve by 120bps QoQ led by currency tailwinds led by currency tailwinds.
	EBITDA	1,545	1,191	*29.7*	1,307	*18.2*	
	Margin (%)	17.0	16.2		15.8		
	Adj. PAT	894	672	*33.0*	858	*4.2*	
Persistent Systems	Sales	8,661	7,613	*13.8*	8,342	*3.8*	We expect Persistent USD revenues to decline 0.9% QoQ led by softer growth in Digital SBU led by slower off take in Appian as well as sequential weakness in IBM alliance business. Expect EBIDTA margin to drop by 100bps QoQ with tailwinds from rupee depreciation negated by headwinds from wage hikes.
	EBITDA	1,360	1,158	*17.4*	1,401	*(2.9)*	
	Margin (%)	15.7	15.2		16.8		
	Adj. PAT	801	826	*(3.0)*	874	*(8.3)*	

Company Name		Q2FY19E	Q2FY18	YoY gr. (%)	Q1FY19	QoQ gr. (%)	Remark
Redington (India)	Sales	117,344	105,440	11.3	102,140	14.9	We expect Redington revenues at Rs117.3bn up 11.3% YoY. India business had a low base in 2QFY18 owing to GST destocking. We expect consolidated EBIDTA margin at 1.74% up 10bps QoQ.
	EBITDA	2,040	1,984	2.8	1,663	22.7	
	Margin (%)	1.7	1.9		1.6		
	Adj. PAT	1,074	1,157	(7.2)	850	26.3	
Sonata Software	Sales	6,918	4,269	62.1	6,883	0.5	We expect Sonata Software's IT services at US$39.1mn, up 3.5% QoQ. Cc growth for the quarter would be 5% QoQ. Sonata derives ~20% of revenues from GBP and We expect consol revenues to 1% QoQ led by weakness in IT products business as well and expect Consol EBITDA margin at 12% up 130bps QoQ with INR depreciation aiding IT services margins .
	EBITDA	832	547	52.0	733	13.4	
	Margin (%)	12.0	12.8		10.7		
	Adj. PAT	606	454	33.5	574	5.6	
Tata Consultancy Services	Sales	364,962	305,410	19.5	342,610	6.5	We expect TCS' Revenues to grow by 3.5% QoQ in constant currency for 2QFY19. Cross currency would be a headwind of 130bps QoQ. Hence, we expect reported USD revenues to grow by 2.2% QoQ. Traction in BFSI vertical, Retail vertical and digital business would be keenly watched.
	EBITDA	102,189	81,630	25.2	90,710	12.7	
	Margin (%)	28.0	26.7		26.5		
	Adj. PAT	80,645	64,460	25.1	73,400	9.9	
TeamLease Services	Sales	10,632	8,756	21.4	10,213	4.1	We expect steady growth in Teamlease led by steady growth in staffing business. Organic YoY revenue growth would be 16.5% and rest is owing to Evolve acquisition (which was consolidated from 3QFY18). We model EBIDTA margin at 2.2% up 20bps QoQ led by improvement in Evolve business margins.
	EBITDA	234	151	54.5	202	15.9	
	Margin (%)	2.2	1.7		2.0		
	Adj. PAT	230	174	32.2	218	5.5	
Tech Mahindra	Sales	86,186	76,064	13.3	82,763	4.1	Leakage in Enterprise vertical owing to softness in HCI business would be negated by strong recovery in communication vertical which is likely to start showing recovery from hereon which is trigger. We expect Tech M to deliver 0.7% cc revenue growth and Cross currency would be a headwind of 100bps for the quarter. Hence, USD revenues would decline by 0.3% QoQ owing to cross currency headwinds.
	EBITDA	15,513	11,057	40.3	13,569	14.3	
	Margin (%)	18.0	14.5		16.4		
	Adj. PAT	11,066	8,362	32.3	9,097	21.6	
Wipro	Sales	146,266	134,234	9.0	139,777	4.6	Adjusted for last quarter Data centre divestments, we expect Wipro cc revenue to grow 1.5% QoQ (1% organic and 0.5% from one month of Alight deal revenues). However, reported cc growth would be only 0.3% QoQ as 1QFY19 has partial revenue from data center business. Reported USD revenues would decline by 0.7% QoQ owing to cross currency headwind. Wipro would have additional two-month impact of wage hikes which would be negated by INR tailwinds. Wipro will also impact of USD75mn write off national grid which is an exceptional impact and hence impact PAT.
	EBITDA	27,205	27,788	(2.1)	24,343	11.8	
	Margin (%)	18.6	20.7		17.4		
	Adj. PAT	22,764	21,770	4.6	18,677	21.9	
Zensar Technologies	Sales	10,064	7,626	32.0	9,116	10.4	We expect Zensar Technologies USD revenues to grow by 5.5% QoQ (Organic growth of 3% and rest from IndigoSlate acquisition). We build USD3.3mn from Indigo Slate acquisition. Headwinds from wage hikes to be given effective 2Q would be negated by tailwinds from INR depreciation.
	EBITDA	1,359	884	53.7	1,233	10.2	
	Margin (%)	13.5	11.6		13.5		
	Adj. PAT	852	640	33.3	822	3.8	

Source: Company, PL

Exhibit 7: Valuation Summary

Company Names	Rating	CMP (Rs)	TP (Rs)	Sales (Rs bn)				EBITDA (Rs bn)				PAT (Rs bn)				EPS (Rs)				RoE (%)				PE (x)			
				FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E
Cyient	BUY	759	860	36.0	39.2	47.7	55.7	4.8	5.5	6.7	7.7	3.4	4.1	4.7	5.6	30.6	36.3	41.5	49.7	17.4	18.3	18.9	20.1	24.8	20.9	18.3	15.3
HCL Technologies	BUY	1,077	1,255	468.4	505.7	594.9	672.1	103.3	114.4	139.0	153.0	84.8	87.8	100.4	111.0	59.4	63.1	74.1	81.9	28.1	25.3	26.1	24.6	18.1	17.1	14.5	13.1
Hexaware Technologies	Hold	409	475	35.3	39.4	46.9	55.8	6.0	6.9	8.0	9.8	4.2	5.0	6.2	7.2	13.8	16.8	21.0	24.1	25.6	26.6	28.5	27.8	29.6	24.3	19.5	16.9
Infosys	BUY	707	790	684.9	705.2	815.5	911.8	186.1	190.1	219.5	244.1	143.5	160.3	164.9	184.4	31.4	36.8	37.9	42.4	22.0	23.9	24.9	25.7	22.5	19.2	18.7	16.7
L&T Technology Services	ACC	1,651	1,780	32.5	37.5	50.1	59.7	5.9	5.8	8.6	10.7	4.3	5.1	6.8	7.6	41.9	49.5	66.3	74.4	33.0	29.6	31.8	29.6	39.4	33.4	24.9	22.2
Mphasis	ACC	1,148	1,250	60.8	65.5	78.6	92.1	9.7	10.6	13.8	16.1	7.9	8.3	10.6	12.1	37.6	43.2	57.0	65.3	13.2	14.3	20.2	22.7	30.5	26.6	20.1	17.6
Mindtree	ACC	1,063	1,270	52.4	54.6	71.2	83.9	7.0	7.4	11.3	14.1	4.4	5.9	7.5	9.5	26.1	35.8	45.8	57.7	17.5	22.1	25.2	26.8	40.8	29.7	23.2	18.4
NIIT Technologies	BUY	1,198	1,300	28.0	29.9	36.6	43.4	4.8	5.0	6.2	7.4	2.5	2.8	3.8	4.6	40.7	45.6	61.0	75.1	15.4	16.2	19.9	21.6	29.4	26.3	19.6	15.9
Persistent Systems	BUY	717	860	28.8	30.3	35.4	40.9	4.5	4.7	5.9	6.8	3.0	3.2	3.7	4.4	37.7	40.4	45.8	55.3	16.9	16.0	16.2	17.4	19.0	17.8	15.7	13.0
Redington (India)	BUY	92	140	411.1	434.6	476.9	530.6	8.2	8.2	8.5	9.2	4.6	4.8	4.7	5.8	11.6	11.9	11.9	14.4	15.2	14.3	12.8	14.1	7.9	7.7	7.7	6.4
Sonata Software	BUY	330	420	25.2	24.5	28.1	31.8	1.9	2.3	3.2	3.7	1.5	1.9	2.4	2.7	14.8	18.5	23.1	26.3	28.8	30.9	34.1	34.0	22.2	17.8	14.3	12.5
TCS	ACC	2,065	2,300	1,179.7	1,231.0	1,457.4	1,647.7	323.1	325.2	408.5	461.6	262.9	258.3	324.6	366.3	66.7	67.5	84.8	95.7	32.6	29.4	33.7	31.7	30.9	30.6	24.3	21.6
TeamLease Services	HOLD	2,219	2,740	30.4	36.2	43.3	50.4	0.4	0.7	0.9	1.2	0.6	0.7	0.9	1.2	33.7	43.1	54.0	68.7	17.0	18.3	18.9	19.8	65.9	51.4	41.1	32.3
Tech Mahindra	BUY	721	885	291.4	307.7	346.9	383.2	41.8	47.1	61.1	70.4	28.1	38.0	42.1	49.5	32.1	43.0	47.6	56.0	18.1	21.5	20.8	21.4	22.5	16.8	15.1	12.9
Wipro	HOLD	325	350	550.4	544.9	592.6	640.2	109.1	104.1	109.5	120.0	84.8	79.7	86.0	100.1	17.5	17.6	19.0	22.1	17.1	15.8	16.4	16.5	18.6	18.5	17.1	14.7
Zensar Technologies	BUY	297	330	30.6	31.1	40.0	46.0	3.9	3.7	5.4	6.6	2.3	2.4	3.4	4.2	10.5	10.8	15.2	18.6	17.2	15.4	19.0	20.0	28.3	27.5	19.5	15.9

Source: Company, PL

Media

Jul-Sep’18 Earnings Preview

October 5, 2018

Radio space: Key categories namely government and real estate are yet to witness the desired uptick. Even spends in the auto and media sector continue to remain muted. Thus, we expect single digit top-line growth for our coverage universe (For ENIL the growth will be higher due to lower base effect). We believe growth will be driven by increase in utilization from batch 1 stations as taking price hike in this environment appears challenging (MBL took a hike in the last quarter).

Profit growth is expected to show meaningful improvement as batch 1 stations for majority of the players have broken even in phases during FY18 (Incremental contribution to EBITDA from new stations will drive growth).

News broadcasting space: Traction is expected to be good with elections nearing, excessive market volatility (viewership of business news rises) and busy sports schedule (Asian Games & India tour of England) during the quarter. We believe growth will be driven by rise in yields as utilization of national channels (especially in the Hindi news) was already at healthy levels.

Exhibit 1: Q2FY19 Result Preview

Company Name		Q2FY19E	Q2FY18	YoY gr. (%)	Q1FY19	QoQ gr. (%)	Remark
Entertainment Network (India)	Sales	1,403	1,257	*11.6*	1,216	*15.4*	Topline growth will be driven by increase in utilization in 35 legacy stations and 17 batch 1 stations. In 2QFY19, 9 out of the 21 batch 2 stations have begun operations which will further aid top-line growth. We expect margins to show strong recovery as batch 1 stations have broken even. Further, with batch 2 stations being of networking nature we do not expect their operating losses to be significantly higher during the quarter.
	EBITDA	348	284	*22.5*	284	*22.7*	
	Margin (%)	*24.8*	*22.6*		*23.3*		
	Adj. PAT	134	60	*124.7*	92	*45.1*	
Music Broadcast	Sales	817	758	*7.8*	757	*8.0*	Top-line growth will be predominantly driven by increase in utilization as price hike of 8% was taken in 12 (out of 28 legacy) markets in the previous quarter. Increase in utilization in the balance 16 legacy markets and 11 new batch 1 stations where more inventory is waiting to be sold should aid growth. We expect margins to show strong improvement on YoY basis as batch 1 stations have broken even (these stations were into losses in 2QFY18).
	EBITDA	291	242	*20.1*	261	*11.7*	
	Margin (%)	*35.6*	*31.9*		*34.4*		
	Adj. PAT	134	60	*124.7*	92	*45.1*	
Zee Media Corporation	Sales	1,449	1,089	*33.0*	1,372	*5.6*	Expect strong topline growth on the back of improvement in channel rankings and effective rate. All national channels are witnessing steady traction except for WION (global channel) in terms of yields and average time spent (ATS). Yield for Zee News has increased to Rs3,500 per 10 seconds. Even Zee Hindustan has witnessed a 50% increase in yield in the last quarter. The regional channel portfolio is also witnessing rise in yields (4 regional channels witnessed rate increase of 25% in the last quarter) and improvement in channel rankings. Margins are expected to improve as 1) new channels have broken even sooner than expected 2)operating leverage benefits coming in from increase in yields.
	EBITDA	313	190	*64.3*	272	*15.2*	
	Margin (%)	*21.6*	*17.5*		*19.8*		
	Adj. PAT	134	60	*124.7*	92	*45.1*	

Source: Company, PL

Jinesh Joshi
jineshjoshi@plindia.com | 91-22-66322238

Exhibit 2: Valuation Summary

Company Names	Rating	CMP (Rs)	TP (Rs)	Sales (Rs m)				EBITDA (Rs m)				PAT (Rs m)				EPS (Rs)				RoE (%)				PE (x)			
				FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E
Entertainment Network (India)	BUY	640	843	5,558	5,371	6,153	7,104	1,259	1,166	1,606	2,018	545	352	625	925	11.4	7.4	13.1	19.4	6.4	4.0	6.6	9.0	56.0	86.8	48.8	33.0
Music Broadcast	BUY	309	409	2,714	2,983	3,447	3,818	913	971	1,203	1,367	367	517	679	809	6.4	9.1	11.9	14.2	6.7	8.6	10.2	10.9	48.1	34.1	26.0	21.8
Zee Media Corporation	BUY	24	39	3,981	5,102	5,918	7,102	857	1,025	1,225	1,640	419	406	483	734	1.0	0.9	1.0	1.6	6.7	6.1	6.9	9.6	24.7	27.3	23.0	15.1

Source: Company, PL

Metals & Mining

Jul-Sep'18 Earnings Preview

October 5, 2018

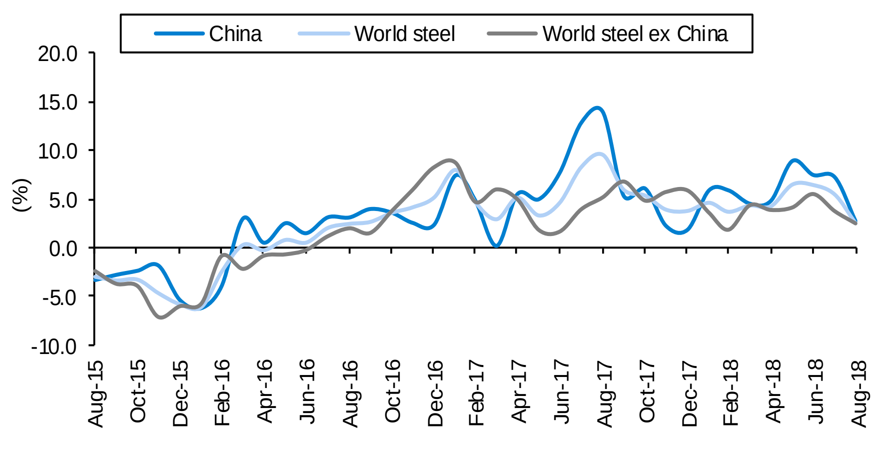
Top Picks

Tata Steel

Jindal Steel & Power

Chinese steel production grew 5% YoY to 162mn tonnes (t) above the world steel production growth of 4% YoY to 306mn t in Jul-Aug 2018. RoW's production growth grew 3% to 144mn tonnes. Growth in RoW was predominantly led by India and USA. Production in India grew by 5% YoY to 18mn t on the back of 8% growth in demand, partially negated by fall in exports. South Korea's production remained flat YoY at 12mn t due to weakness in exports. EU's production grew by 1.5% YoY to 27mn t because of reduced imports. USA's production grew by 5.6% to 15mn t owing to heavy restrictions imposed on imports.

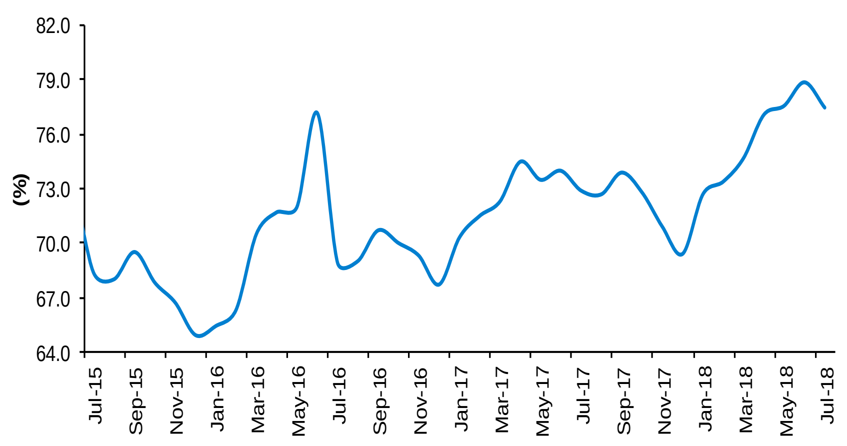
Exhibit 1: Movement in Crude Steel Production



Source: World Steel, PL

Average capacity utilisation levels in Jul'18 increased by 630bps YoY to 77.5%, touching a three-year high.

Exhibit 2: Movement in World Steel capacity utilisation



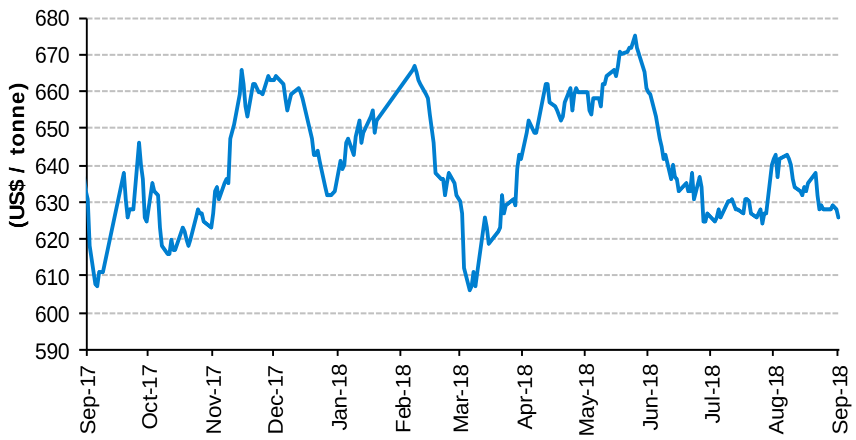
Source: World Steel, PL

Kamlesh Bagmar
kamleshbagmar@plindia.com | 91-22-66322237

Amit Khimesra
amitkhimesra@plindia.com | 91-22-66322244

Average Chinese steel prices (including 17% VAT) fell 3% QoQ or US$21/t to US$632 due to depreciation of currency, escalating trade wars and fall in exports. However, margins of Chinese steel mills sustained at near decade high on the back of tight discipline in prices and under control input prices.

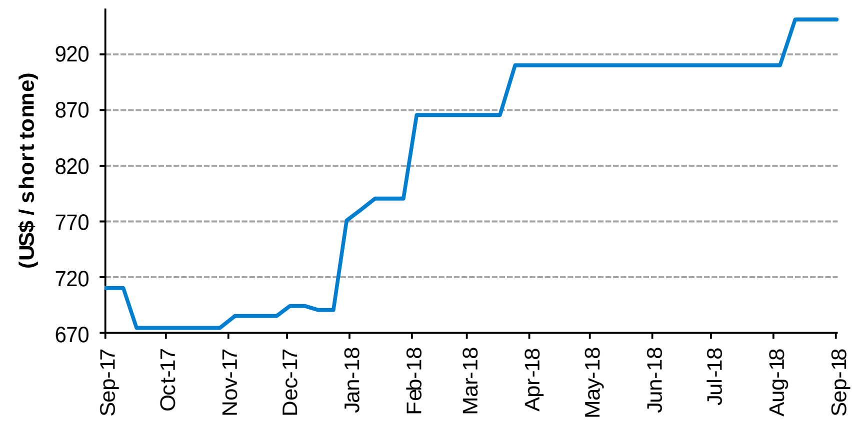
Exhibit 3: China HRC Price



Source: Bloomberg, PL

Average HRC prices in North America grew by 2% QoQ or US$17/short t to US$923 on account of imposition of hefty duties on imports and strong demand.

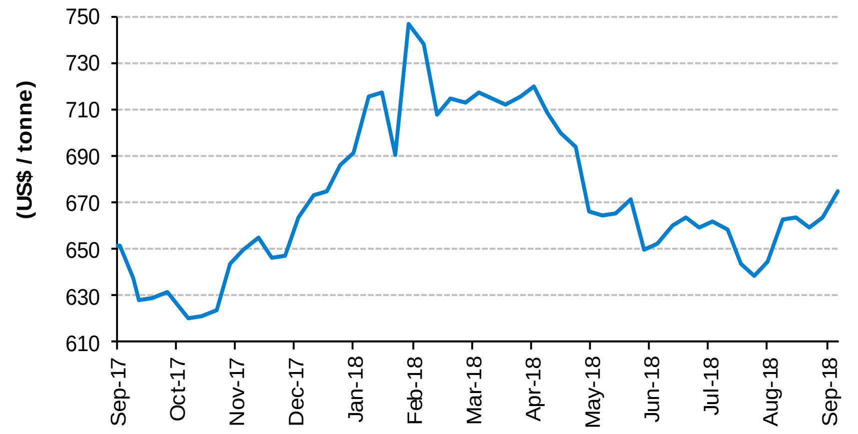
Exhibit 4: North America HRC Price



Source: Bloomberg, PL

Average HRC price in Europe fell by 3.7% QoQ or US$25/t to US$658 on the back of depreciation of € and depressed demand for exports.

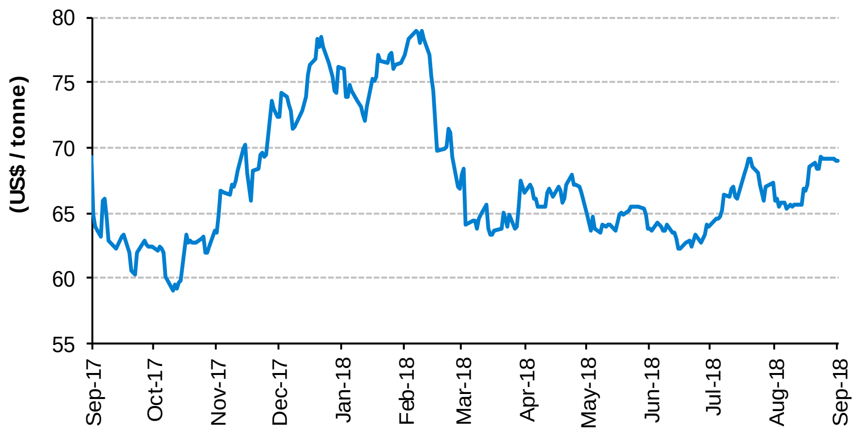
Exhibit 5: Europe HRC Price



Source: Bloomberg, PL

Average spot iron ore prices (CIF China) surged by 1.5% QoQ or US$1/t to US$66 due to strong Chinese demand and increase in freight rates.

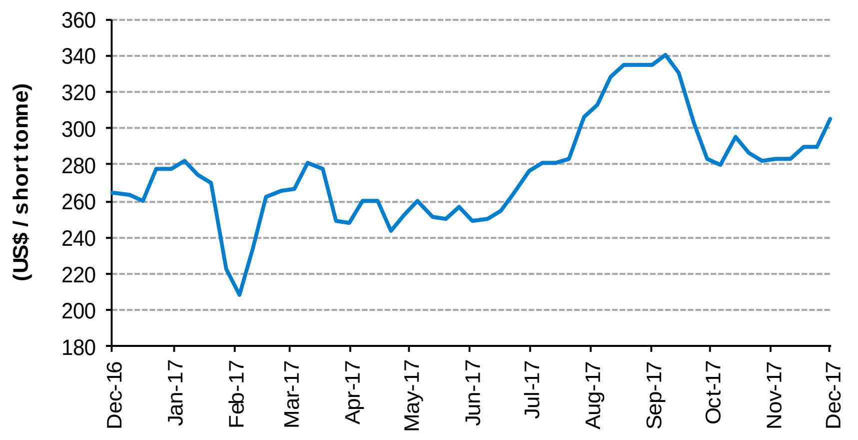
Exhibit 6: Indian origin Iron Ore (62% Fe) Export Prices (CIF) to China



Source: Bloomberg, PL

Average Ferrous scrap prices fell by 7.6% QoQ or US$24/t to US$288/t, impacted by deteriorating profitability of EAF producers and increase in import duty on US scrap leading to flow of supplies to other markets.

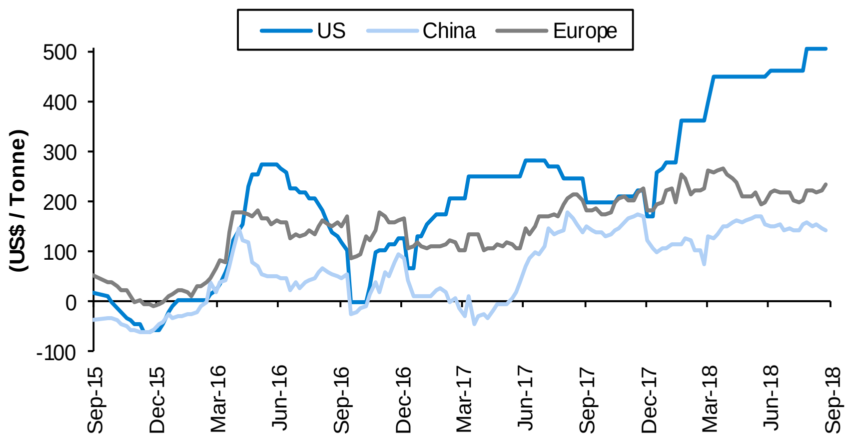
Exhibit 7: Rotterdam Scrap Prices



Source: Bloomberg, PL

Spreads improved to near decade high in USA due to spurt in prices on the back of additional duties imposed on imports under Sec-232. Spreads in China remained stable in the range of USD100-110/t. Spreads in Europe marginally softened due to seasonal weakness and currency depreciation.

Exhibit 8: Region-wise spreads of Blast furnace producers



Source: Bloomberg, PL

We continue to maintain our **Overweight** outlook on the sector on the back of improved global demand and structural shift in Chinese steel mill's focus on profitability. We continue to expect steel companies to report strong EBITDA margins on the back of firm prices and limited increase in input prices. **Tata Steel** and **JSPL** remains our top pick in the space.

Exhibit 9: Q2FY19 Result Preview

Company Name		Q2FY19E	Q2FY18	YoY gr. (%)	Q1FY19	QoQ gr. (%)	Remark
Coal India	Sales	224,891	181,483	23.9	242,609	(7.3)	Coal despatches are expected to fall 10.7% QoQ to 137mn tonnes due to seasonal weakness. Realisations are expected to increase 4.4%/Rs64/t QoQ on account of hike in FSA prices and increase in E-auction realisations. Due to increase in costs, EBITDA/t is expected to fall by 1% QoQ to Rs370.
	EBITDA	50,649	12,310	311.5	57,325	(11.6)	
	Margin (%)	22.5	6.8		23.6		
	Adj. PAT	34,591	3,689	837.8	37,843	(8.6)	
	Coal desp. (mn tn)	137.0	131.6	4.1	153.5	(10.7)	
	Real. / tonne (Rs)	1,537	1,328	15.7	1,472	4.4	
	EBITDA / tonne (Rs)	370	94	295.2	374	(1.0)	
Hindalco Industries	Sales	104,017	103,082	0.9	105,932	(1.8)	Al production is expected to rise 2.2% QoQ. Cu production is expected to fall 7.2% QoQ. Al/Cu LME is expected to fall 9%/fall by 11% QoQ. Due to higher costs, Al EBITDA is expected to fall 15.2% QoQ to Rs8.6bn. Cu EBITDA is expected to rise 6.9% QoQ to Rs3.6bn. Total EBITDA is expected to fall 10% QoQ to Rs11.9bn
	EBITDA	11,941	13,899	(14.1)	13,253	(9.9)	
	Margin (%)	11.5	13.5		12.5		
	Adj. PAT	3,411	4,612	(26.1)	4,135	(17.5)	
	Alum. (Al) prod (t)	330,000	326,000	1.2	323,000	2.2	
	Copper (Cu) prod (t)	75,162	96,575	(22.2)	81,000	(7.2)	
	EBITDA-Al (Rs m)	8,579	9,566	(10.3)	10,111	(15.2)	
	EBITDA-Cu (Rs m)	3,582	4,666	(23.2)	3,352	6.9	
Hindustan Zinc	Sales	45,931	53,090	-13.5	53,100	(13.5)	Total refined zinc-lead volumes are expected to fall 2.5% QoQ to 206.6kt. Silver volumes are expected to grow 11.6% QoQ to 157t. Refined metal realisations are expected to fall by 14% QoQ on the back of lower Zinc realisations. Impacted by lower realisations, EBITDA would fall by 17% QoQ to Rs22.5bn.
	EBITDA	22,548	30,240	(25.4)	27,130	(16.9)	
	Margin (%)	49.1	57.0		51.1		
	Adj. PAT	15,539	23,222	(33.1)	19,180	(19.0)	
	Ttl. Refined metal-tns	206,612	233,000	(11.3)	212,000	(2.5)	
	Silver Sales Vol. (kg)	157,349	146,000	7.8	141,000	11.6	
Jindal Steel & Power	Sales	85,205	60,352	41.2	95,396	(10.7)	Standalone volume is expected to grow 6.7% QoQ to 1.27m tonnes. Realisations are expected to fall 10.8%/Rs6,017/t QoQ due to seasonal impact. Hence, Standalone EBITDA is expected fall 20.5% QoQ to Rs12.2bn. Due to lower realisations in domestic operations, consolidated EBITDA is expected to fall 18.5% QoQ to Rs17.5bn
	EBITDA	17,521	12,852	36.3	21,508	(18.5)	
	Margin (%)	20.6	21.3		22.5		
	Adj. PAT	-1,880	-2,982	(36.9)	1,808	(204.0)	
	Steel Sales Vol. (Tonne)	1,270,000	830,000	53.0	1,190,000	6.7	
	Standalone EBITDA	12,237	7,212	69.7	15,384	(20.5)	
	JPL-Kwh sold (m)	2,233	2,233	0.0	2,531	(11.8)	
	JPL-Rate Rs/ Kwh	4.2	3.9	6.8	3.8	9.8	
JSW Steel	Sales	227,691	168,180	35.4	205,190	11.0	Volume is expected to grow by 10% QoQ at 4.1m tonnes. Realisations are expected to fall 7.4%/Rs3,588 at Rs45,105/t. Led by lower realisations, EBITDA/t is expected to fall 13.3%/Rs1,638 QoQ to Rs10,706. Consolidated EBITDA is expected to grow 4.3% QoQ to Rs53.3bn.
	EBITDA	53,257	30,360	75.4	51,050	4.3	
	Margin (%)	23.4	18.1		24.9		
	Adj. PAT	24,430	8,390	191.2	23,660	3.3	
	Sales Vol. (mt)	4.1	3.9	4.3	3.7	10.0	
	Real. / tonne (Rs)	45,105	38,056	18.5	48,694	(7.4)	
	EBITDA / tonne (Rs)	10,706	7,448	43.8	12,344	(13.3)	
NMDC	Sales	24,554	24,213	1.4	24,220	1.4	Iron ore volumes is expected to fall 2.3% QoQ to 6.6m tonnes. Realisations are expected to grow 3.6% QoQ to Rs3,663/t. Led by higher realisations partially negated by increase in costs, EBITDA/t is expected to increase by 1.8% QoQ to Rs2,138. Due to marginal increase in costs, EBITDA is expected to fall 0.5% QoQ to Rs14.2bn.
	EBITDA	14,167	12,030	17.8	14,239	(0.5)	
	Margin (%)	57.7	49.7		58.8		
	Adj. PAT	9,595	8,444	13.6	9,753	(1.6)	
	Total Volume (mt)	6.6	8.3	-20.1	6.8	(2.3)	
	Realization/t (Rs.)	3,663	2,887	26.9	3,535	3.6	
	EBITDA/t (Rs)	2,138	1,450	47.4	2,100	1.8	
Steel Authority of India	Sales	158,737	136,174	16.6	159,072	(0.2)	Volumes are expected to grow 0.9% QoQ to 3.3m tonnes. Realisations are expected to fall 1.1%/Rs528/t QoQ to Rs47,602/t. Due to weak realisations, EBITDA/t is expected to remain flat QoQ at Rs7,880. EBITDA is expected to report growth of 0.9% QoQ to Rs26bn
	EBITDA	26,004	9,143	184.4	25,764	0.9	
	Margin (%)	16.4	6.7		16.2		
	Adj. PAT	7,131	-3,427	(308.1)	8,178	(12.8)	
	Sales Vol. (m tonnes)	3.3	3.5	(6.9)	3.3	0.9	
	Real. / Tonne (Rs)	47,602	37,929	25.5	48,130	(1.1)	
	EBITDA / Tonne (Rs)	7,880	2,580	205.5	7,877	0.0	

Company Name		Q2FY19E	Q2FY18	YoY gr. (%)	Q1FY19	QoQ gr. (%)	Remark
Tata Steel - India	Sales	167,940	142,209	*18.1*	164,055	*2.4*	Standalone volume is expected to grow 3.4% QoQ to 3.07m tonnes. Realisations are expected to fall 1% or Rs534/t QoQ to Rs54,704/t. EBITDA/t is expected to grow 1.5%/Rs248 QoQ to Rs17,325.
	EBITDA	53,188	33,753	*57.6*	50,719	*4.9*	
	Margin (%)	31.7	23.7		30.9		
	Adj. PAT	26,577	13,021	*104.1*	25,353	*4.8*	
	Sales Vol. (m tonnes)	3.1	3.1	*-0.2*	3.0	*3.4*	
	Realization/t (Rs.)	54,704	46,247	*18.3*	55,237	*(1.0)*	
	EBITDA / Tonne (Rs)	17,325	10,976	*57.8*	17,077	*1.5*	
Tata Steel - Consol	Sales	432,640	324,641	*33.3*	378,328	*14.4*	Tata Steel Europe (TSE) is expected to report 39% QoQ fall in EBITDA/t to US$62 due to weaker spreads and lower scale. Led by higher earnings in Indian operations and consolidation of Bhushan Steel's biz, we expect consolidated EBITDA to grow 5.7% QoQ at Rs68.4bn.
	EBITDA	68,387	47,207	*44.9*	64,677	*5.7*	
	Margin (%)	15.8	14.5		17.1		
	Adj. PAT	15,776	10,112	*56.0*	22,976	*(31.3)*	
	SalesVol.-Corus (mt)	2.4	2.6	*(9.6)*	2.5	*(4.1)*	
	EBITDA/Tn-Corus (US$)	62	45	*37.7*	101	*(38.9)*	
	Sales Vol.-South East (mt)	0.6	0.7	*(10.4)*	0.6	-	
	EBITDA/Tn-SEAN (US$)	25.0	31.3	*(20.2)*	27.3	*(8.6)*	

Source: Company, PL

Exhibit 10: Valuation Summary

Company Names	Rating	CMP (Rs)	TP (Rs)	Sales (Rs bn)				EBITDA (Rs bn)				PAT (Rs bn)				EPS (Rs)				RoE (%)				PE (x)			
				FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E
Coal India	BUY	273	340	784.2	858.6	976.4	1,037.5	151.1	129.2	275.4	298.3	89.8	66.9	162.9	171.5	14.5	10.8	26.3	27.6	30.3	30.1	79.4	79.5	18.9	25.4	10.4	9.9
Hindalco Industries	ACC	252	308	1,001.8	1,151.7	1,319.6	1,345.2	124.5	139.2	170.1	168.9	19.0	47.5	68.7	68.3	8.5	21.3	30.8	30.6	4.4	9.4	11.8	10.6	29.5	11.8	8.2	8.2
Hindustan Zinc	ACC	289	315	170.5	216.5	230.6	231.9	95.1	118.4	126.5	120.4	80.9	86.6	95.9	91.6	19.1	20.5	22.7	21.7	23.7	26.0	24.8	20.8	15.1	14.1	12.7	13.3
Jindal Steel & Power	BUY	191	290	210.1	270.7	382.4	413.1	40.7	61.5	88.9	99.3	-19.7	-8.2	6.9	17.3	-21.5	-8.1	6.8	17.0	-6.3	-2.7	2.3	5.4	-8.9	-23.6	28.0	11.2
JSW Steel	BUY	378	450	556.0	689.5	842.2	874.9	121.7	135.2	197.4	198.2	35.2	45.4	87.4	87.2	11.7	15.0	28.9	28.9	16.9	17.9	27.4	22.0	32.3	25.1	13.1	13.1
NMDC	ACC	115	138	88.3	116.1	112.9	135.2	36.0	58.1	60.2	77.0	28.6	38.8	40.6	51.4	9.1	12.3	12.8	16.3	11.1	16.6	16.0	18.3	12.7	9.4	9.0	7.1
Steel Authority of India	Hold	69	81	444.5	575.6	706.5	775.8	0.4	46.2	114.6	125.0	-27.1	-5.0	33.3	37.3	-6.6	-1.2	8.1	9.0	-7.2	-1.4	8.9	9.1	-10.6	-57.4	8.6	7.7
Tata Steel	BUY	582	780	1,123.0	1,313.0	1,605.6	1,689.2	170.1	210.3	287.1	303.2	39.5	29.2	81.9	84.1	40.7	25.5	68.1	69.9	9.7	5.9	10.9	9.1	14.3	22.9	8.6	8.3

Source: Company, PL

Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

October 5, 2018

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GAIL

Petronet LNG

Indraprastha Gas

Avishek Datta
avishekdatta@plindia.com | 91-22-66322254

Oil & Gas

Jul-Sep'18 Earnings Preview

Q2FY19 Oil sector earnings are likely to be muted due to lower inventory gains by the Oil Marketing Companies (OMCs) despite healthy performance by gas players and by upstream companies. Upstream earnings are likely to benefit from higher crude oil prices along with higher volumes for ONGC. GAIL's earnings are likely to be strong, given improved LPG profitability and higher gas trading earnings. IGL, MGL and PLNG are likely to report healthy performance during the quarter.

Exhibit 1: Q2FY19 sector aggregates impacted by OMCs performance

Total (Rs m)	Q2FY19E	Q1FY19	% chg	Q2FY18	% chg
Sales	4,962,369	4,600,394	8%	3,443,132	44%
EBITDA	521,539	546,204	-5%	417,208	25%
PAT	277,112	286,615	-3%	240,222	15%
Brent (USD/bbl)	74.3	74.0	0%	51.7	9%
USD/Rs	69.9	66.9	4%	64.3	-25%

Source: Company, PL

- **RIL**: RIL's standalone earnings are likely to be strong at Rs92.2bn led by healthy petrochemicals profitability and depreciating exchange rate even as refining earnings will be muted; factored in US$10.5/bbl (US$10.5/bbl in Q1). We have factored in refining thruput at 18MTPA (Q1FY19 16.6MTPA). Firm petrochemical spreads and higher volumes will support petrochemicals earnings. Depreciating exchange rate will also be positive for the company even though finance charges will increase.

- **Downstream:** We expect OMCs to report Q2 PAT of Rs79.4bn vis-à-vis Rs108.4bn in Q1 led primarily by lower inventory gains even as core operations are likely to be better. Refining margins for Q2 were at US$6.2/bbl, flat QoQ; and key product spreads were muted. However, marketing margins will increase after a weak Q1 when price controls during Karnataka elections impacted margins. With minimal crude and product price movement during the quarter, we expect inventory gains to be at Rs38.5bn against Rs124.5bn in Q1.

Exhibit 2: OMC earnings impacted by lower inventory gains

Total (Rs m)	Q2FY19E	Q1FY19	% chg	Q2FY18	% chg
Sales	3,241,455	3,053,977	6%	2,291,002	41%
EBITDA	142,965	196,420	-27%	138,064	4%
PAT	79,346	108,439	-27%	77,884	2%
Singapore GRM (US/bbl)	6.2	6.2	0%	8.3	-25%

Source: Company, PL

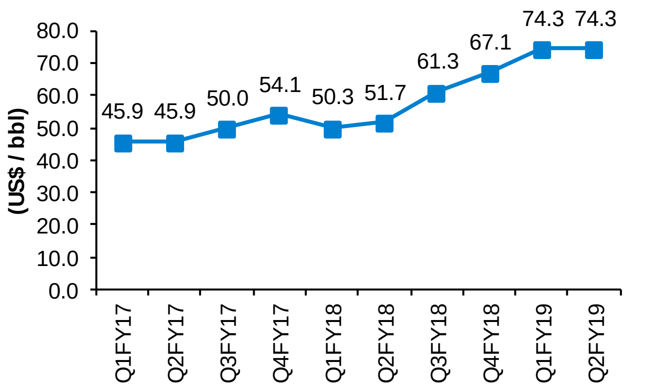
- **Upstream:** Upstream companies are expected to report strong earnings of Rs81.5bn due to strength in crude oil prices and depreciating exchange rate. Production and sales volumes are likely to improve. We have not factored in any subsidy burden and expect net realization of ~US$74/bbl.

Exhibit 3: Upstream earnings supported by higher realisation

Total (Rs m)	Q2FY19E	Q1FY19	% chg	Q2FY18	% chg
Sales	334,275	306,033	9%	214,386	56%
EBITDA	181,119	161,405	12%	114,813	58%
PAT	81,485	68,471	19%	57,767	41%

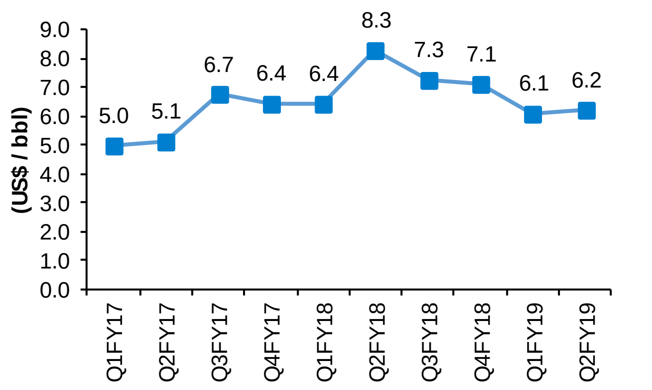
Source: Company, PL

Exhibit 4: Brent prices have moved up in Q3



Source: Company, PL

Exhibit 5: Singapore GRMs have been flat sequentially



Source: Company, PL

Exhibit 6: Q2FY19 Result Preview

Company Name		Q2FY19E	Q2FY18	*YoY gr. (%)*	Q1FY19	*QoQ gr. (%)*	Remark
Bharat Petroleum Corporation	Sales	7,59,866	5,33,252	*42.5*	7,16,967	*6.0*	BPCL earnings to decline sequentially due to lower inventory gains and muted GRMs. Improved marketing earnings and depreciating exchange rate provide downside support.
	EBITDA	28,546	35,276	*(19.1)*	38,752	*(26.3)*	
	Margin (%)	*3.8*	*6.6*		*5.4*		
	Adj. PAT	18,163	23,574	*(23.0)*	22,933	*(20.8)*	
GAIL (India)	Sales	1,80,726	1,24,097	*45.6*	1,72,986	*4.5*	We expect strong earnings performance from GAIL due to higher LPG realisation and gas trading earnings. Transmission volumes will also increase.
	EBITDA	23,921	20,694	*15.6*	22,436	*6.6*	
	Margin (%)	*13.2*	*16.7*		*13.0*		
	Adj. PAT	14,671	13,096	*12.0*	12,593	*16.5*	
Hindustan Petroleum Corporation	Sales	7,20,267	4,75,226	*51.6*	6,76,289	*6.5*	HPCL earnings to decline sequentially due to lower inventory gains and muted GRMs. Improved marketing earnings and depreciating exchange rate provide downside support.
	EBITDA	24,441	29,056	*(15.9)*	31,907	*(23.4)*	
	Margin (%)	*3.4*	*6.1*		*4.7*		
	Adj. PAT	14,299	17,347	*(17.6)*	17,192	*(16.8)*	
Indraprastha Gas	Sales	13,879	11,261	*23.3*	12,874	*7.8*	We expect IGL margins to be maintained led by price hikes in the quarter. Volume momentum will also be maintained.
	EBITDA	3,150	2,816	*11.9*	2,951	*6.7*	
	Margin (%)	*22.7*	*25.0*		*22.9*		
	Adj. PAT	1,975	1,689	*16.9*	1,759	*12.3*	
I.G. Petrochemicals	Sales	3,432	2,409	*42.5*	3,509	*(2.2)*	Higher volumes post unplanned shutdown in Q4FY18 and better margins will drive earnings.
	EBITDA	771	601	*28.4*	847	*(9.0)*	
	Margin (%)	*22.5*	*24.9*		*24.1*		
	Adj. PAT	446	336	*32.7*	402	*10.9*	
Indian Oil Corporation	Sales	13,74,625	9,05,667	*51.8*	12,94,750	*6.2*	IOCL earnings to be impacted by lower inventory gains and muted GRMs. Improved marketing earnings and depreciating exchange rate provide downside support.
	EBITDA	89,977	73,732	*22.0*	1,25,761	*(28.5)*	
	Margin (%)	*6.5*	*8.1*		*9.7*		
	Adj. PAT	46,885	36,963	*26.8*	68,314	*(31.4)*	
Mahanagar Gas	Sales	6,374	5,338	*19.4*	6,193	*2.9*	We expect MGL margins to be maintained led by price hikes in the quarter. CNG volumes to increase at ~5%YoY.
	EBITDA	2,078	2,003	*3.8*	2,109	*(1.5)*	
	Margin (%)	*32.6*	*37.5*		*34.1*		
	Adj. PAT	1,302	1,248	*4.3*	1,284	*1.4*	
Oil India	Sales	35,429	24,737	*43.2*	33,905	*4.5*	We have not factored in any subsidy burden on the company. Volume growth to be muted.
	EBITDA	14,417	10,122	*42.4*	14,084	*2.4*	
	Margin (%)	*40.7*	*40.9*		*41.5*		
	Adj. PAT	8,520	6,460	*31.9*	7,032	*21.2*	

Company Name		Q2FY19E	Q2FY18	*YoY gr. (%)*	Q1FY19	*QoQ gr. (%)*	Remark
Oil & Natural Gas Corporation	Sales	2,98,846	1,89,649	*57.6*	2,72,128	*9.8*	We have not factored in any subsidy burden on the company. Gas volumes will record growth.
	EBITDA	1,66,703	1,04,692	*59.2*	1,47,321	*13.2*	
	Margin (%)	*55.8*	*55.2*		*54.1*		
	Adj. PAT	72,965	51,307	*42.2*	61,439	*18.8*	
Petronet LNG	Sales	1,01,233	77,702	*30.3*	91,692	*10.4*	We expect earnings to be strong as PLNG benefits from closure of Dabhol LNG terminal for monsoon.
	EBITDA	9,368	8,987	*4.2*	9,344	*0.3*	
	Margin (%)	*9.3*	*11.6*		*10.2*		
	Adj. PAT	6,089	5,888	*3.4*	5,870	*3.7*	
Reliance Industries	Sales	10,82,385	7,17,610	*50.8*	9,54,720	*13.4*	Healthy earnings growth due to strong petrochemicals earnings even as refining earning is muted. Rupee depreciation will add to earnings.
	EBITDA	1,58,937	1,29,830	*22.4*	1,51,540	*4.9*	
	Margin (%)	*14.7*	*18.1*		*15.9*		
	Adj. PAT	92,244	82,650	*11.6*	88,200	*4.6*	

Source: Company, PL

Exhibit 7: Valuation Summary

Company Names	Rating	CMP (Rs)	TP (Rs)	Sales (Rs bn)				EBITDA (Rs bn)				PAT (Rs bn)				EPS (Rs)				RoE (%)				PE (x)			
				FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E
BPCL	ACC	331	326	2,012.5	2,357.7	3,386.7	3,811.9	135.1	151.7	133.4	148.6	85.6	85.0	86.4	94.4	65.3	43.2	43.9	48.0	29.2	25.2	21.6	20.4	5.1	7.7	7.5	6.9
GAIL (India)	BUY	368	435	481.5	536.6	623.0	753.9	64.1	76.3	85.8	105.7	38.0	45.9	52.7	67.6	22.5	20.4	23.4	30.0	10.4	11.7	12.6	14.9	16.4	18.1	15.7	12.3
HPCL	ACC	217	193	1,874.3	2,195.1	3,271.0	3,633.0	108.1	107.1	99.2	102.9	82.4	72.2	36.8	34.5	81.0	47.4	24.1	22.7	43.7	31.0	13.5	11.3	2.7	4.6	9.0	9.6
Indraprastha Gas	BUY	235	333	38.1	45.9	50.2	57.6	9.6	11.1	12.4	13.3	5.7	6.7	7.5	8.1	8.2	9.6	10.8	11.6	21.0	20.8	20.0	18.8	28.8	24.6	21.8	20.3
I.G. Petrochemicals	BUY	388	810	10.4	11.4	12.0	14.2	1.7	2.7	2.8	3.2	1.0	1.5	1.7	1.9	33.1	47.6	54.0	62.5	29.8	31.4	26.7	24.0	11.7	8.2	7.2	6.2
Indian Oil Corporation	ACC	140	142	3,553.8	4,214.9	6,062.4	6,768.0	339.8	415.9	326.5	358.0	191.1	208.0	160.0	194.7	40.3	21.9	16.5	20.0	23.6	23.2	15.6	16.8	3.5	6.4	8.5	7.0
Mahanagar Gas	BUY	794	1,179	20.3	22.3	25.6	27.7	6.4	7.8	8.0	8.5	3.9	4.8	5.6	6.1	39.8	48.4	57.1	61.6	22.1	24.3	24.5	22.6	19.9	16.4	13.9	12.9
Oil India	ACC	209	238	95.1	106.6	125.7	133.3	33.8	41.9	45.2	44.3	27.0	26.7	26.5	23.7	33.7	23.5	23.4	20.9	10.0	9.4	10.0	9.2	6.2	8.9	8.9	10.0
ONGC	BUY	172	223	3,256.7	3,622.5	1,840.6	1,929.0	580.2	643.3	666.0	666.0	285.8	258.2	281.5	260.5	22.3	20.1	21.9	20.3	14.6	13.0	12.2	9.9	7.7	8.6	7.9	8.5
Petronet LNG	BUY	214	300	246.2	306.0	352.5	399.6	25.9	33.1	36.7	43.5	17.1	20.8	24.3	30.5	22.7	13.9	16.2	20.3	23.2	23.3	23.5	25.0	9.4	15.5	13.2	10.6
Reliance Industries	ACC	1,122	1,152	2,420.3	2,900.4	3,510.3	3,772.3	432.6	517.4	619.0	661.6	314.3	336.1	380.9	412.7	96.7	53.1	60.1	65.1	11.6	11.1	12.0	12.7	11.6	21.2	18.7	17.2

Source: Company, PL

Pharma

Jul-Sep'18 Earnings Preview

October 5, 2018

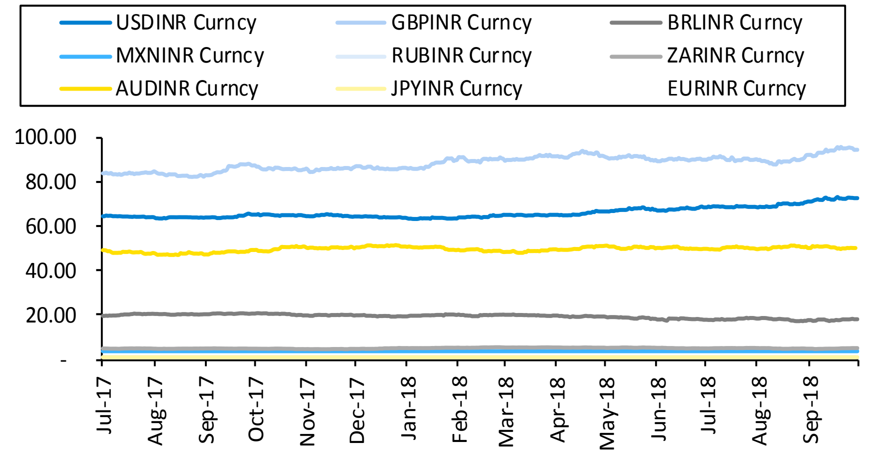
Top Picks

IPCA Laboratories

Thyrocare Technologies

With few major launch in the US, depreciating currency across the emerging markets (including INR) vs. appreciation of USD v/s INR QoQ, we expect moderate growth in exports. Most emerging market currencies had a weak performance against the USD. USD appreciated by 4.7% QoQ in Q2FY19 and we expect gain from appreciated USD will be passed on to adjust price erosion in US generics over a period of time. Depreciating South African Zar (-6%) and Brazilian Real (-4.5%) will impact sales and margin of Cipla (in Cipla-Medpro) and Torrent/Dr. Reddy's Lab (DRL) in respective countries in Q1FY19. Lupin will benefit from 2.4% Yen appreciation for its sales in Japan while falling EM currencies to impact sales and margin in its ROW business. With marginally depreciating Russian Rouble by 1.2% and appreciating Euro by 1% QoQ against INR, the growth factor in Russia and Europe will be majorly unaffected from currency volatility for Aurobindo, Glenmark, IPCA, DRL and Sun Pharma. USD depreciation of 4.7% may not be fully beneficial enough to drive growth in US generic business of Indian pharma companies as price competition from channel partners have intensified further.

Exhibit 1: Emerging market currencies v/s USD in Q1FY19 v/s Q4FY18



Source: Bloomberg, PL

US continue to be major market for Indian Pharma companies with 37% of the revenues coming from the USA.

Exhibit 2: Contribution of US generics in Revenues in Q2FY19E

Companies	US rev (%)
Aurobindo	45
Cipla	19
Dr Reddy's	42
Glenmark	33
Indoco Remedies	1
Jubilant Life	55
Lupin	37
Sun Pharma	37
Zydus Cadila	53
Average	36

Source: Company, PL

Surajit Pal
surajitpal@plindia.com | 91-22-66322259

Major approvals for Indian Peers: With significant improvement in the flow of generic approvals for Indian peers in the US, there will be major benefits for companies with no major manufacturing issues with USFDA. There were however very few approvals with limited competition opportunity in Q2FY19: *gInvanz* Inj and gReyataz (Auro), gIsuprel (Cipla), gWelchol (Glenmark), and gSuboxone (DRL). There will be additional benefits from few drugs, which were launched at the fag end of Q4FY18/Q1FY18, such as *gTreximet* (Auro), *gTruvada* (Auro), *gNuvigil* (Auro) and *gArixtra* (Auro). While there is marginal growth in US for our coverage universe, we expect varied growth for individual companies due to uneven distribution of competitive intensity in individual products in US. We assume 2-4% QoQ price correction across the companies in older US generics in Q2FY19. There were approvals for 73 and 67 ANDAs given to Indian companies in Q2FY19 and Q1FY19, respectively, vis-à-vis 47 ANDAs in Q4FY18. The number of key approvals (with sizeable market size and opportunity) remains far and few due to shrinking options of available molecules and increase in number of approvals in the first day of genericisation. With large number of Pending approvals, Zydus Cadila received largest (10 ANDAs) number of approvals followed by Aurobindo's 8 approvals among the Indian pharma companies in Q2FY19.

Among key launches, DRL may still get some residual benefits post withdrawal of gSuboxone which were launched at risk (in Q1FY19) and consequently restricted by US Appeal Court through preliminary injunction. Aurobindo launched gInvanz and gReyataz in the last week of Q1FY19 and expect major benefit to receive in Q2FY19E. Aurobindo surprisingly received benefits limited competition in gReyataz as expected approvals to Mylan and Emcure delayed due to plant-related issues with USFDA.

Exhibit 3: Movement of INR vs. major ROW currencies in Q2FY19

Foreign Exchange Rates vis-à-vis INR	Q2FY19 (Avg)	Q1FY18 (Avg)	*Growth (%)*
Euro	81.48	79.87	*(2.0)*
GB Pound Sterling	91.34	91.14	*(0.2)*
Japanese Yen	0.63	0.61	*(2.4)*
Russian Rouble	1.07	1.08	*1.2*
South African Zar	4.99	5.31	*6.0*
Brazilian Real	17.78	18.61	*4.5*
USD	70.12	67.00	*(4.7)*
Mexican Peso	3.70	3.46	*(7.0)*

Source: Company, PL

With the implementation of GST in Q1FY18, there were large part of sales were reported in Q2FY18 and that will lead to lower growth than expected in the quarter for India formulation business. With disadvantage of higher base in domestic sales in Q2FY18, we expect average domestic sales growth (YoY) to be more than 8-12% in Q2FY19E. We expect domestic formulation market to continue to be challenging, especially for the companies which are highly dependent on acute therapy drugs. It would be more challenging for large Indian Pharma companies due to large base and strong restriction on churning out of new combination drugs.

Exhibit 4: Q2FY19 Result Preview

Company Name		Q2FY19E	Q2FY18	YoY gr. (%)	Q1FY19	QoQ gr. (%)	Remark
Aurobindo Pharma	Sales	46,116	43,542	*5.9*	41,816	*10.3*	Better sequential growth driven by US launch of Ertapenem as well as more supply of Injectable from Unit-4. Absence of recall in US to help in Sales and margin growth. MTM Fx loss on loan may impact PAT.
	EBITDA	9,543	10,356	*(7.9)*	7,105	*34.3*	
	Margin (%)	*20.7*	*23.8*		*17.0*		
	Adj. PAT	6,106	7,812	*(21.8)*	4,557	*34.0*	
Cadila Healthcare	Sales	32,217	32,340	*-0.4*	28,937	*11.3*	Full quarter of benefits from the launch of only generic of Asacol HD In to help in growth in sales, EBITDA and headline margins. India sales to be at per with industry rate. MTM Fx loss on loan may impact PAT.
	EBITDA	7,249	8,571	*(15.4)*	6,450	*12.4*	
	Margin (%)	*22.5*	*26.5*		*22.3*		
	Adj. PAT	4,974	5,033	*(1.2)*	4,605	*8.0*	
Cipla	Sales	42,784	39,882	*7.3*	38,458	*11.2*	Major growth to be driven by benefits from the launch of 3-4 limited competition drugs in US. Margin to remain stable as benefits from USD to be offset from lower reported sales in South Africa due to 6% QoQ depreciation of Zar.
	EBITDA	7,478	7,102	*5.3*	6,332	*18.1*	
	Margin (%)	*17.5*	*17.8*		*16.5*		
	Adj. PAT	5,212	4,226	*23.3*	4,513	*15.5*	
Dr. Lal PathLabs	Sales	3,337	2,781	*20.0*	2,923	*14.2*	Traditionally, DLPL draws growth in Q2 from the increase in the incidences of vector-borne disease (Dengue, Malaria) tests. Commission of Kolkata Labs however marginallt reduce EBITDA margin.
	EBITDA	851	779	*9.2*	750	*13.5*	
	Margin (%)	*25.5*	*28.0*		*25.7*		
	Adj. PAT	553	506	*9.2*	494	*11.9*	
Dr. Reddy's Laboratories	Sales	38,406	35,598	*7.9*	37,365	*2.8*	One-off sales of gSuboxone in Q1FY19 has kept QoQ growth lower. The higher base also kept its India fromulations growth at 9-11%. Operating cost control and rationalisation of assets to be key for margin growth.
	EBITDA	8,236	6,694	*23.0*	7,688	*7.1*	
	Margin (%)	*21.4*	*18.8*		*20.6*		
	Adj. PAT	4,381	3,054	*43.5*	4,761	*(8.0)*	
Eris Lifesciences	Sales	2,866	2,492	*15.0*	2,508	*14.3*	Maintain steady growth with the help from integration of acquired sales from Strides. EBITDA margin to begin reflecting benefits of synergy from the acquisition by rationalising free prod and productions in Guwahati plant.
	EBITDA	1,067	978	*9.1*	886	*20.5*	
	Margin (%)	*37.2*	*39.2*		*35.3*		
	Adj. PAT	857	929	*(7.8)*	713	*20.2*	
Glenmark Pharmaceuticals	Sales	24,350	22,234	*9.5*	21,294	*14.4*	Lower base YoY in India formulations and full benefit from the launches of limited competition drug gWelchol to drive sales growth QoQ. Exposure in EM (Russia, LatAm) to offset the benfits of higher USD and maintain EBITDA stable.
	EBITDA	3,528	3,552	*(0.7)*	3,106	*13.6*	
	Margin (%)	*14.5*	*16.0*		*14.6*		
	Adj. PAT	1,904	2,141	*(11.1)*	2,330	*(18.3)*	
Indoco Remedies	Sales	3,010	2,800	*7.5*	2,125	*41.7*	Lower base YoY in India formulations and benefits from the internal restructuring to reflect in growth. Higher contribution of India sales in absence of US export to drive EBITDA margin expansion.
	EBITDA	446	362	*23.4*	65	*583.5*	
	Margin (%)	*14.8*	*12.9*		*3.1*		
	Adj. PAT	214	198	*8.3*	-120	*(278.0)*	
Ipca Laboratories	Sales	9,379	8,643	*8.5*	8,539	*9.8*	Lower generic sales in EU, delayed pickup in international tender business and tepid malaria season to keep sales growth below 10%. EBITDA margin to improve QoQ due to rationalised assets and workforce.
	EBITDA	1,475	1,490	*(1.1)*	1,140	*29.3*	
	Margin (%)	*15.7*	*17.2*		*13.4*		
	Adj. PAT	919	965	*(4.7)*	655	*40.3*	
Jubilant Life Sciences	Sales	21,751	16,420	*32.5*	20,787	*4.6*	Tepid growth in LSI business, especially in Life science chemical products, and lower demand in Vit-B products to restrict overall growth in Q2FY19E. Rest of business verticles to remain similar though margin to be impacted.
	EBITDA	4,354	3,061	*42.2*	4,376	*(0.5)*	
	Margin (%)	*20.0*	*18.6*		*21.1*		
	Adj. PAT	1,986	1,283	*54.9*	2,025	*(1.9)*	
Lupin	Sales	38,304	38,742	*-1.1*	37,746	*1.5*	US headwinds remain strong for its generic portfolio. The launch of Sun's gGlumetza to reduce revenues from one of its key contributors in US. India sales growth to be 10-12%. EBITDA margin to increase with ongoing rationalisations.
	EBITDA	4,714	7,752	*(39.2)*	4,456	*5.8*	
	Margin (%)	*12.3*	*20.0*		*11.8*		
	Adj. PAT	2,956	4,550	*(35.0)*	2,523	*17.2*	

Company Name		Q2FY19E	Q2FY18	*YoY gr. (%)*	Q1FY19	*QoQ gr. (%)*	Remark
Sun Pharmaceutical Industries	Sales	77,388	65,901	*17.4*	71,388	*8.4*	Resolution on Halol plants to increase exports to US and higher USD to improve sales growth. The launch of specialty products in US to increase overheads. Also exposure in EMs to impact sequential margin in Q2FY19E.
	EBITDA	15,970	13,153	*21.4*	15,214	*5.0*	
	Margin (%)	*20.6*	*20.0*		*21.3*		
	Adj. PAT	9,842	9,121	*7.9*	9,825	*0.2*	
Thyrocare Technologies	Sales	1,080	880	*22.7*	972	*11.1*	With more promotion costs to target B-2-B segment of Aarogyam business, we expect growth traction in Q2FY19, despite Q2 is traditionaly weaker quarter. Higher contribution from PET-CT to expand margin.
	EBITDA	435	357	*21.8*	412	*5.6*	
	Margin (%)	*40.3*	*40.6*		*42.4*		
	Adj. PAT	245	247	*(0.5)*	234	*4.7*	

Source: Company, PL

Exhibit 5: Valuation Summary

Company Names	Rating	CMP (Rs)	TP (Rs)	Sales (Rs bn)				EBITDA (Rs bn)				PAT (Rs bn)				EPS (Rs)				RoE (%)				PE (x)			
				FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E
Aurobindo Pharma	BUY	757	909	148.4	162.3	176.8	194.4	31.9	35.2	39.4	43.3	23.0	24.0	27.0	29.6	39.3	40.9	46.1	50.5	27.6	22.8	20.8	19.0	19.3	18.5	16.4	15.0
Cadila Healthcare	Acc	383	437	94.2	116.3	127.7	140.6	16.9	25.4	28.2	31.1	14.9	17.8	19.9	22.4	14.5	17.3	19.4	21.9	23.5	22.6	21.8	21.2	26.4	22.1	19.7	17.5
Cipla	Reduce	638	525	142.8	147.5	165.8	180.0	21.3	27.6	29.8	34.3	10.1	18.1	20.2	22.2	12.6	22.5	25.0	27.6	8.4	13.5	13.3	13.0	50.7	28.4	25.5	23.1
Dr. Lal PathLabs	Acc	928	1,009	9.1	10.6	12.5	14.7	2.4	2.6	3.0	3.5	1.5	1.7	2.0	2.4	18.6	20.5	24.3	28.7	29.0	24.6	23.9	24.1	50.0	45.3	38.1	32.3
Dr. Reddy's Laboratories	Reduce	2,372	1,780	142.0	142.8	152.1	168.0	24.7	23.5	26.5	30.2	12.9	9.5	11.9	13.8	77.9	57.0	71.9	83.0	10.4	7.6	9.1	9.8	30.4	41.6	33.0	28.6
Eris Lifesciences	BUY	685	849	7.5	8.6	13.0	15.2	3.0	3.2	5.1	6.1	2.9	2.9	3.9	5.0	21.1	21.4	28.2	36.3	67.2	41.2	37.0	33.8	32.5	32.0	24.3	18.9
Glenmark Pharmaceuticals	Reduce	602	472	91.9	89.7	95.6	104.6	20.4	14.8	16.3	18.1	11.1	8.0	8.8	10.0	39.3	28.4	31.1	35.5	27.3	16.6	15.8	15.5	15.3	21.2	19.3	16.9
Indoco Remedies	Reduce	178	184	10.7	10.2	10.7	12.2	1.3	1.1	1.5	1.8	0.6	0.5	0.7	0.9	6.8	5.1	7.4	10.2	10.3	7.1	9.7	12.2	26.1	34.7	23.9	17.4
Ipca Laboratories	BUY	642	829	30.9	32.8	36.9	42.1	3.8	4.5	6.2	7.9	1.9	2.4	3.5	4.8	15.2	19.0	27.9	38.3	8.1	9.3	12.3	14.7	42.2	33.8	23.0	16.8
Jubilant Life Sciences	Acc	705	880	59.1	74.6	86.1	95.2	12.5	11.8	15.2	18.9	5.8	4.1	7.6	10.2	37.0	26.3	48.8	65.6	18.0	10.9	17.1	19.4	19.1	26.8	14.5	10.8
Lupin	Reduce	855	727	171.2	155.6	166.2	182.0	41.2	29.0	31.6	36.4	25.5	17.1	15.4	17.7	56.4	37.9	34.1	39.2	20.7	12.6	11.1	11.8	15.1	22.6	25.0	21.8
Sun Pharmaceutical Industries	Reduce	599	447	302.6	260.7	280.0	299.9	87.8	51.8	60.2	66.0	69.6	18.7	42.0	46.4	29.0	7.8	17.5	19.3	20.0	5.0	11.3	12.2	20.6	76.7	34.2	31.0
Thyrocare Technologies	BUY	660	796	3.0	3.6	4.3	5.2	1.2	1.4	1.5	1.9	0.4	0.9	1.0	1.2	8.0	17.4	18.6	22.7	10.8	21.9	21.7	24.1	82.7	38.0	35.4	29.0

Source: Company, PL

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Others

Jul-Sep'18 Earnings Preview

October 5, 2018

Exhibit 1: Q1FY19 Result Preview

Company Name		Q2FY19E	Q2FY18	YoY gr. (%)	Q1FY19	QoQ gr. (%)	Remark
Rallis India	Sales	6,733	5,879	*14.5*	5,731	*17.5*	Cons revenues are expected to grow by 14.5% led by growth in standalone business. Pressure on gross margin is expected to continue (exp. Of 230 bps decline YoY @ 37.5%) due to cost inflation and rupee depreciation. EBITDA margin is expected to decline by 104 bps YoY to 19.8%.
	EBITDA	1,333	1,225	*8.8*	832	*60.2*	
	Margin (%)	*19.8*	*20.8*		*14.5*		
	Adj. PAT	867	774	*12.0*	548	*58.3*	

Source: Company, PL

Jinesh Joshi
jineshjoshi@plindia.com | 91-22-66322238

Exhibit 2: Valuation Summary

Company Names	Rating	CMP (Rs)	TP (Rs)	Sales (Rs m)				EBITDA (Rs m)				PAT (Rs m)				EPS (Rs)				RoE (%)				PE (x)			
				FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E
Rallis India	Acc	177	262	16,635	17,909	20,212	22,296	2,636	2,645	3,141	3,654	1,866	1,676	2,002	2,329	9.6	8.6	10.3	12.0	18.7	14.6	15.9	16.6	18.4	20.5	17.2	14.8

Source: Company, PL

PL’s Recommendation Nomenclature (Absolute Performance)

Buy	:	> 15%
Accumulate	:	5% to 15%
Hold	:	+5% to -5%
Reduce	:	-5% to -15%
Sell	:	< -15%
Not Rated (NR)	:	No specific call on the stock
Under Review (UR)	:	Rating likely to change shortly

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3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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