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Quarterly Preview

Fasten Seat Belts, High Volatility Ahead

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Contents

(All prices as on January 7, 2019)

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Fasten Seat Belts, High Volatility Ahead

3Q FY19E Adj. PAT to decline 2.2%: We estimate 13.3% sales growth, 11.0% EBIDTA growth and 2.2% Adj. PAT decline in 3QFY19. Sales growth will be led by Metals, oil and Gas, Consumer and Banks. Aggregate margins will decline by 312bps. We expect muted performance from Oil and Gas, NBFC's and Autos. Oil and Gas will show impact of inventory losses while Banks will gain due to lower provisions in 3Q19. PAT growth excluding Oil and Gas amounts to 19.9%.

Exhibit 1: PL Universe – Q3FY19E; OMC, NBFC and Auto to drag growth

Growth	Revenue (%)		PAT (%)		EBITDA Margin (bps)	
	YoY	QoQ	YoY	QoQ	YoY	QoQ
Automobiles	6.4	0.1	(2.3)	(8.9)	(163)	(51)
Banks	13.7	2.9	151.4	124.7		
Cement	12.3	9.2	9.3	9.6	37	91
Consumer Durables	11.8	5.2	11.2	0.5	(18)	53
Consumer Staples	14.9	4.1	12.7	4.5	(33)	7
Education	10.8	(11.6)	(59.2)	(77.3)	(183)	(423)
NBFC/ HFC	9.5	1.2	(34.1)	0.1		
Information Tech.	17.9	4.5	13.3	4.2	108	(3)
Media	17.1	22.3	14.3	43.4	(161)	114
Metals	20.5	4.7	30.8	4.5	17	(27)
Oil & Gas	13.2	(6.1)	(69.1)	(65.2)	(736)	(401)
Pharma	6.5	2.5	24.9	46.2	(177)	(39)
Others	9.4	(12.3)	(6.9)	(9.8)	(42)	(217)
PL Universe	**13.3**	**(0.3)**	**(2.2)**	**(2.8)**	**(312)**	**(109)**
PL Universe (Excl. Oil & Gas)	**13.4**	**(0.3)**	**19.9**	**14.7**	**(97)**	**(9)**
PL Universe (Excl. BFSI)	**13.3**	**(0.6)**	**(10.1)**	**(13.2)**		

Source: Company, PL

Exhibit 2: Political uncertainty, GST shortfall and Agri package can impact fiscal situation for FY19

Headwinds	Tailwinds
Political Uncertainty in run upto 2019 Lok Sabha elections	NBFC crisis – worst is over
Strong US interest rates and resultant FII outflows from India and EM	NPA's have peaked out, expect recovery in FY19
Capex Cycle is yet to pick up, Govt spending might slowdown post May2019	Crude has softened by 42% from the peak
FY19 GST shortfall in excess of Rs1700bn (excl Compensation cess)	Strong domestic flows of Rs1094bn in CY18
Agriculture/ Rural package can increase fiscal deficit by100-120bps	Inflation at 2.3% and Brent of USD50-60 are positives
High fiscal deficit can reduce chances of rate cuts	

Source: PL

Cautious view on markets: We have cautious view on markets in 1HCY19 given headwinds like 1) political uncertainty in run upto 2019 elections 2) volatile global markets given high US interest rates and trade war between US and China 3) rising rural distress given low Agri prices and drought in parts of Maharashtra, Karnataka and Gujarat 4) GST shortfall (excluding compensation cess) in excess of Rs1750bn and 4) delay in much awaited capex cycle. 32% decline in Brent prices, 2.3% inflation (food deflation) and 80bps decline in bond yields have provided headroom for RBI to cut rates. However, expected farm package of Rs2000bn can increase fiscal deficit by 100-120bps which can increase bond yields and reduce the chances of monetary easing. Markets at 18.7xFY20 still trade at premium to LTA (17.3) after factoring in 19.3% PAT growth for FY20 (5.8% CAGR in last 10 years) and don't factor in any negative surprise in 2019 elections or slowdown in demand.

Crude cool off and Low inflation and easing liquidity a positive: Markets have got support from decline in crude from USD86/barrel to USD58/barrel, decline in inflation to 2.3% and Rs500bn liquidity injection by RBI. However major correction in crude seems over given planned production cuts by OPEC and Canada in Jan19. liquidity is easing and worst seems over for NBFC's, however 2H growth is likely to be stunted.

Consumption demand shows mixed trend; Despite near normal monsoons, stabilization post Demonetization/ GST and state intervention to boost farm income, demand trends don't give a very comforting picture. The core sector growth is driven by Govt. thrust on Housing and roads as private capex is yet to pick up. Consumer companies have indicated QoQ slowdown in sales in rural India and Auto companies on the passenger and 2Wheeler segments show pressure on volumes and inventory pile up. Festival season does not indicate any big gains in discretionary segments, except Jewellery companies and premium white goods. Our recent channel checks in UP (The road less travelled) and Kisan (Maharashtra) indicate somber mood which will prevent any meaningful acceleration in rural demand in the near term.

Expect big announcements in run upto 2019 elections; Post farm loan waivers in Rajasthan, Chhattisgarh and Madhya Pradesh and other incentive schemes in Telangana, Odisha and west Bengal, we expect a mega farm incentive scheme of central Govt which might cost Rs2000bn. Political scenario looks dicey and a lot depends upon how the alliances in key sates of UP, Bihar and Maharashtra will work in 2019 elections. While markets will welcome any strong coalition led by either BJP or Congress, third front rule in any form can result in negative sentiment.

Prefer Private Banks, Consumer, Metals: ***We believe Nifty will have a strong support at ~10000. We see markets being range bound in run upto 2019 elections. BJP led strong Govt post elections in 2019 will take markets towards 12500, while a weak third front Govt can make it test 9500.*** We remain overweight on Consumer, Banks, IT and Metals. Pharma, Cement and Oil & Gas are under weights. We would vouch for front line names with high margin of safety given volatile economic and political scenario.

Model Portfolio – Overweight on Consumer, Banks, IT and Metals

- We are overweight on Consumers, Banks, IT, Auto and Metals. Our stance is underweight on NBFC's, Oil and Gas, Cement, Construction and Pharma
- **Banks:** we are positive on select private banks and have HDFC and IIB as play on retail growth. We believe corporate banks will gain due to lower incremental stress and rising recoveries. ICICI and Axis Bank are our picks to play the corporate bank recovery.
- **NBFC and Housing Finance**: We believe NBFC's will see lower growth rates in 2HFY19, even as worst seems over for them. NBFC's and HFC's backed by strong industrial houses and promoters will outperform.
- **Automobiles:** Poor festival season, rising inventories and reduced Fy19 sales volume guidance for Maruti make us a cautious for near term leading to an underweight on the stock. Mahindra continues to ride on likely push for Marazzo, new UV launches entry in high HP bikes under Java and expected reduction in losses in CV and 2W. Ashok Leyland is a play on pre buying ahead of BSVI in 2020.
- **Consumer:** we are overweight given steady demand and likely tailwinds from benign input costs for both crude and Agri linked inputs. We prefer ITC due to 40% valuation discount to coverage universe, TTAN on long term structural story in Jewellery, Britannia on strong product pipeline and steady growth and Crompton Consumer as a play on small durables, improving distribution and new launches. Any uptick in rural demand from farm package can provide some upside to our estimates.
- **Oil and Gas:** Our underweight stance emanates from poor visibility on oil marketing companies in the near term due to volatile prices in an election year and downstream companies from uncertainty on subsidy overhang. We are positive on Petchem business of RIL, however we believe market is valuing Jio at much higher levels and have underweight on the stock.
- **Cement/ Metals:** Cement underweight stance is due to inability to increase prices in line with rising input costs. Ferrous metals continue to look good due to strong domestic demand and likely uptick in global prices post recent correction.
- **Pharma:** we are underweight given poor visibility in the generics business and specialty products for leading players.
- **IT:** we are overweight on the sector. LTTS seems a structural story on EDS and TechM could gain from new deals lead by traction in 5G.
- In addition to stocks in the model portfolio, we are positive on ***Heidelberg Cement, Thyrocare, NOCIL and IDFC Bank***. We remove Kansai Nerolac from this list, post 11% return since our strategy note, although it remains a good long term bet.

Sector	Mcap (Rs bn)	Nifty Weightage (%)	PL Weightage (%)	Overweight / Underweight
Automobiles		**7.3**	**7.8**	**Overweight**
Maruti Suzuki	2,330	2.3	1.8	
Mahindra & Mahindra	1,610	1.7	2.5	
Motherson Sumi Systems	647		1.5	
Ashok Leyland	324		2.0	
Banks / Insurance		**27.0**	**28.0**	**Overweight**
HDFC Bank	5,449	10.1	11.0	
ICICI Bank	2,330	5.4	6.0	
Axis Bank	1,610	2.5	3.5	
IndusInd Bank	923	1.8	3.5	
HDFC Life Insurance	779		4.0	
Cement		**1.8**	**1.5**	**Underweight**
ACC	282		1.5	
Construction & Engineering		**6.2**	**5.0**	**Underweight**
Larsen & Toubro	1,986	4.1	5.0	
Consumer		**10.8**	**15.0**	**Overweight**
ITC	3,489	5.7	6.0	
Titan Company	817	0.9	3.5	
Britania Industries	719		3.5	
Crompton Consumer Electricals	128		2.0	
Healthcare		**2.7**	**2.0**	**Underweight**
Aurobindo Pharma	465		2.0	
IT		**13.8**	**15.0**	**Overweight**
Infosys	2,836	5.8	5.0	
Tech Mahindra	647	1.1	5.0	
L&T Technology Services	158		5.0	
Metals		**4.4**	**5.8**	**Overweight**
Tata Steel	701	1.0	3.8	
Jindal Steel & Power	183		2.0	
NBFC		**9.9**	**8.5**	**Underweight**
HDFC	4,817	7.2	6.0	
Cholamandalam Finance	293		2.5	
Oil & Gas		**12.6**	**11.5**	**Underweight**
Reliance Industries	7,285	9.2	6.0	
Petronet LNG	324		3.0	
Indraprastha Gas	187		2.5	
Others		**1.9**	**-**	**NA**
Telecom		**1.6**	**-**	**NA**

Farm Distress can derail economic momentum

Rural India has been much in focus in the past few years given that it houses more than 60% of India's population but accounts for ~30% of consumption demand. Although rural income has become significantly broad based and farm income now accounts for only ~25-30% of rural income, it forms a significant part of income for small farmers (<2-hectare land holdings) who are 80% of total farming community in India. we analyze the farm distress and its implication for Indian economy.

MSP up but realizations down: GOI had launched a grand plan to double farm income by 2022. The scheme was looking at multipronged approach to increase the farm income by:

- Fixing MSP which provides 50% return to farmers over the cost of production
- Market interventions like increase in import duty, aggressive buying by states and managing export quotas to increase farm realizations
- E-Nam and other marketing initiatives which will lower the gap between the farm realizations and consumer prices
- Crop Insurance scheme to reduce the impact of droughts and other natural calamities on agriculture

Exhibit 3: 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

The initiatives have helped increase the farm prices of Oil seeds, Soybeans etc. last year, however the impact has been mitigated by significant decline in farm gate prices of onions, fresh food, vegetables and milk in the current year. We note that farmer realizations of milk are down by 20% in the current year while onion and potato prices are down by 80% and 40% versus last year. Crop insurance has not been able to be a success as the sampling based approach and reluctance on part of farmers to pay insurance premium has been a major drag.

Real farm income flat since 2012

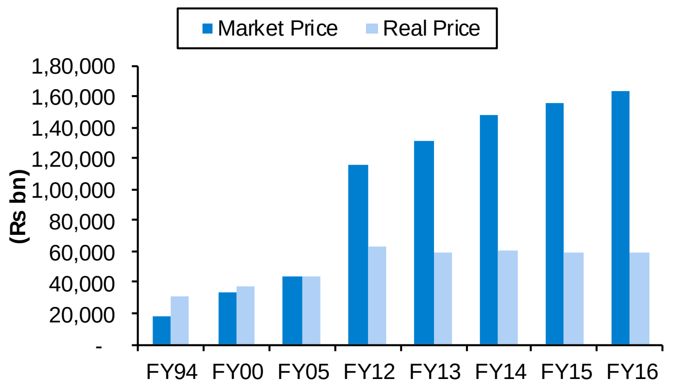
- While farmers' nominal income increased 9.2x in the last 22 years, real farm income (excluding inflation) has only doubled over the same period and is flat since FY12.
- Cost of production has increased at a CAGR of 4.3% between FY16-19E led by higher prices of key inputs and labour, which is putting severe strain on farm income.

Exhibit 4: Input Price Index of Kharif Crop

Input	FY16	FY17	FY18	FY19E	CAGR
Human Labour	157	165	172	179	*4.5%*
Bullock Labour	180	186	193	199	*3.4%*
Machine Labour	113	119	124	131	*4.9%*
Seeds	146	155	165	176	*6.5%*
Fertilisers	150	154	158	163	*3.0%*
Manures	149	154	158	163	*2.9%*
Agrochemicals	120	125	131	137	*4.5%*
Irrigation charges	106	108	109	111	*1.6%*
Input Price Index of Kharif	147	154	161	167	*4.3%*

Source: GOI, PL

Exhibit 5: Real farm income largely flat since FY2012



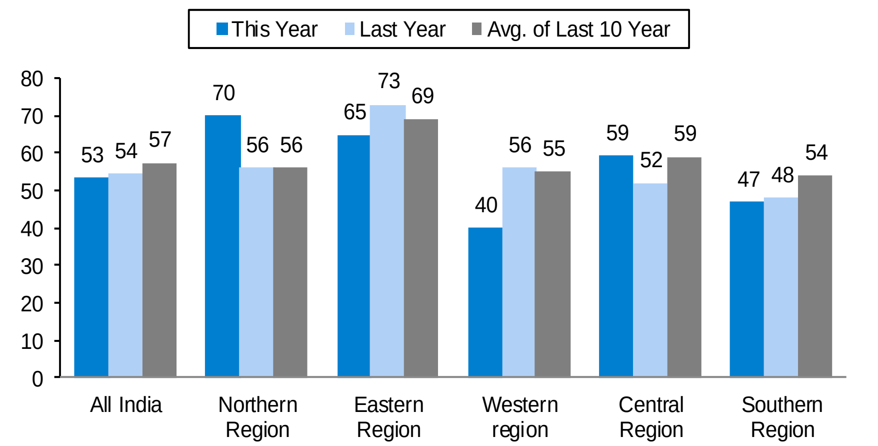
Source: GOI, PL

Trouble ahead given poor Sept rains and Rabi sowing

Agriculture is in for some tough times in coming months given that monsoons were 91% of LPA. Moreover, Sept 2018 monsoons were ~17% lower than LPA which has resulted in inadequate soil moisture for the Rabi crop. Our recent channel checks in Kisan fair in Pune ratifies this as footfalls were down 20% given that ~50% taluka's in Maharashtra are under drought. Consequently, Rabi cultivation is likely to suffer in states like Maharashtra and Karnataka, which are suffering from a partial drought. We note that water reservoir levels in western region are ~30% lower than 10-year average while it is lower by 10-15% in south. Rabi sowing so far is down 3.5% YoY. Rice sowing is down by 24.8% while cereals is down 17.3%. Sowing has been impacted in most crops except wheat.

Overall Reservoir level marginally lower led by Western, Southern and Eastern Region

Exhibit 6: Reservoir level significantly lower in Western Region



Source: GOI, PL

Exhibit 7: Sowing impacted most in Rice and Coarse Cereals

Crops	FY15	FY16	FY17	FY18	YTD FY18	YTD FY19	YoY
Wheat	306	297	318	304	284	288	1.70%
Rice	27	24	27	32	19	14	-24.80%
Pulses	142	145	161	169	153	144	-6.50%
Coarse Cereals	57	62	58	57	52	43	-17.30%
Oil Seeds	82	80	85	81	76	75	-1.50%

Source: Ministry of Agri, PL

Expect mega farm package in season of loan waivers

Telangana have rolled out Rythu Bandhu scheme and is followed by Odisha which is going one step ahead by including land less labourers and allied Agri activities in the same.

Farm distress has emerged as a big political issue in this election season and several states have announced farm loan waivers. Actual implementation has been patchy given operational difficulties. The farm loan waived is only 20% in Punjab, 60% in Maharashtra and very little in Karnataka so far. Our channel checks in recent UP trip also suggested a lot of angst among farmers due to lower proportional loan waivers and delays in the same. Some states like Telangana have rolled out Rythu Bandhu scheme and is followed by Odisha which is going one step ahead by including land less labourers and allied Agri activities in the same. We expect a big Agri package shortly from the central Govt given the high noise levels created around farm distress. Media reports indicate that a scheme on the lines of Telangana could cost more than Rs2000bn/annum.

Exhibit 8: Election season is showering Loan waivers

State	Year	Loan Waived (Rs. Bn)	Government
A.P.	2014	430	TDP
Assam	2018	6	BJP
Chhattisgarh	2018	61	Congress
Karnataka	2018	81.6	Congress
M.P.	2018	380	Congress
Maharashtra	2017	340	BJP
Punjab	2018	100	Congress
Telegana	2014	170	TRS
Tamil Nadu	2016	60.9	AIADMK
Rajasthan	2017-18	80/180	BJP/Congress
U.P.	2017	36.4	BJP

Source: PL Research

State Sponsored Agri Schemes

Telangana's Rythu Bandhu scheme: It involves giving grant of Rs 4000 per acre per farmer each season for purchase of inputs like Seeds, Fertilizers, Pesticides, Labour and other investments in the field operations of Farmer's crop season. A budget of Rs 120bn has been provided for the FY19. The scheme has been rolled out in 10874 villages benefitting more than 5.7 mn farmers. The Govt is also running Rythu Bima scheme under which it provides Group Life Insurance Scheme (Rs5 lakh) to provide financial relief and social security to the family members/ dependents, in case of loss of farmer's life due to any reason with claim processing in a period of 10 days from the intimation of death.

Mukhyamantri Krishi Ashirwad Yojana (Jharkhand): Jharkhand government has launched Mukhyamantri Krishi Ashirwad Yojana under which it will pay Rs 5000 per acre for the upcoming Kharif crop. The state government estimates that the scheme will benefit 22.76 lakh small and marginal farmers, and it is expected to cost the exchequer Rs 22.5bn.

Odisha' s KALIA Scheme: Odisha government has launched Krushak Assistance for Livelihood and Income Augmentation (KALIA) scheme under which it will provide Rs 25,000 per farm family over five seasons will be provided to small and marginal farmers so that they can purchase seeds, fertilizers, pesticides and use assistance towards labour. This scheme has come into effect from the ongoing (2018-19) Rabi season. Financial assistance of Rs 12500/ will be provided to each landless agricultural household for agricultural allied activities such as goat rearing, small layer poultry units, duckery units, fishery kits for fishermen, mushroom cultivation, bee-keeping and so on. Life and Personal accident scheme worth Rs 2 lakh each will also be provided at a very nominal premium and Crop loan of Rs 50000 at 0% interest will also be provided.

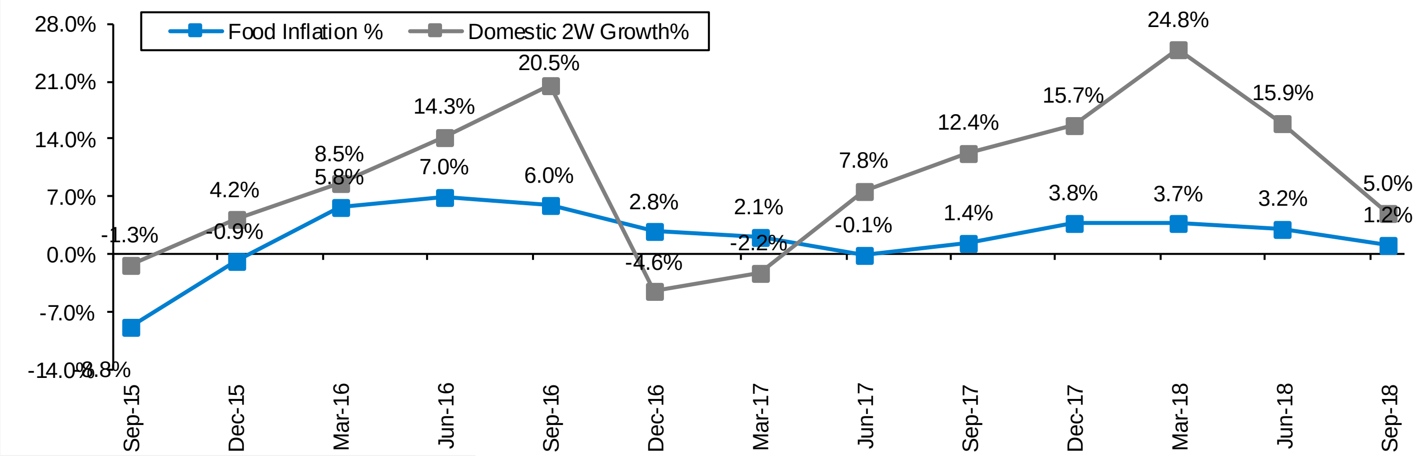
West Bengal government will give an annual financial assistance of ₹5,000 per acre in two instalments – one during Kharif and another during Rabi – for a single crop. Farmers can take the financial assistance at one go too. Life Insurance cover worth Rs 2 lakh is also being provided. The scheme will benefit 72 lakh farmers in the state and may cost ~Rs 30bncr to the exchequer.

Farm package can prop up rural demand

Rural demand had shown an acceleration in 1QFY19, however the growth rates have stabilised. We note that food inflation directly impacts the farm incomes and impacts rural demand. We have plotted food inflation numbers with the domestic 2W and FMCG demand growth which shows that farm prices and income have direct bearing on rural income and consequently rural demand.

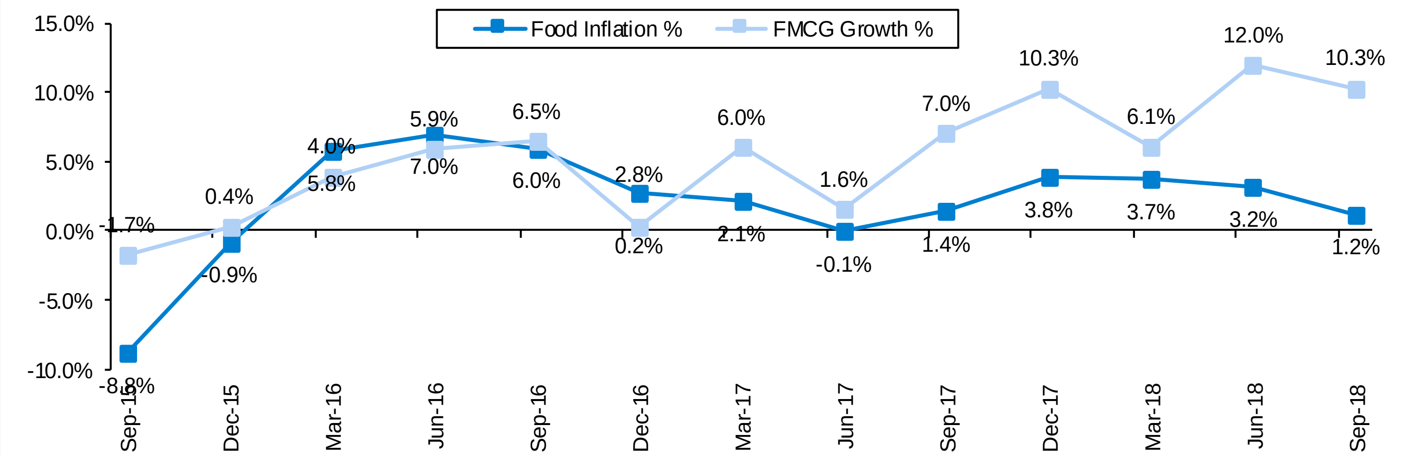
We note that several states have undertaken farm waivers given farm distress and noise about the same in the current political season. Rajasthan, Chhattisgarh and Madhya Pradesh have announced farm loan waiver. Telangana, Odisha, West Bengal and Jharkhand have announced a comprehensive mechanism to improve the financial situation of farming community. We expect mega package to come from central Govt which could be as high as Rs2000bn. Although it will push up fiscal deficit, however it will go a long way in propping up rural demand.

Exhibit 9: Domestic 2W sales show strong buoyancy during higher food prices



Source: RBI, PL

Exhibit 10: FMCG (Staple) sales are positively co-related to food prices

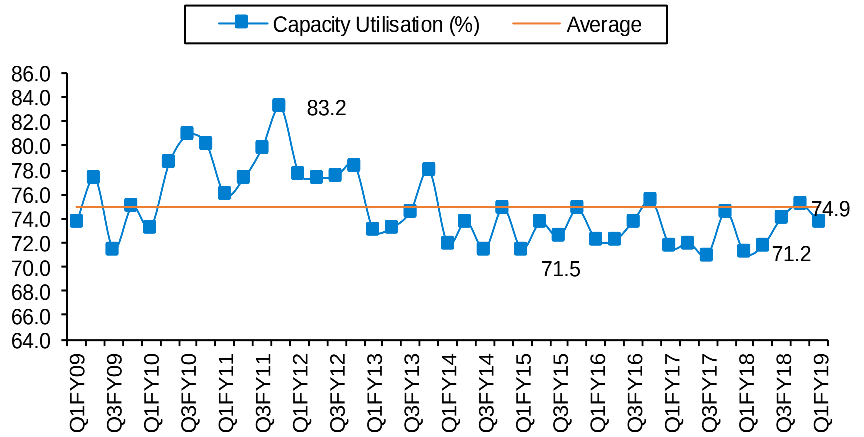


Source: RBI, PL

Capex cycle recovery uncertain

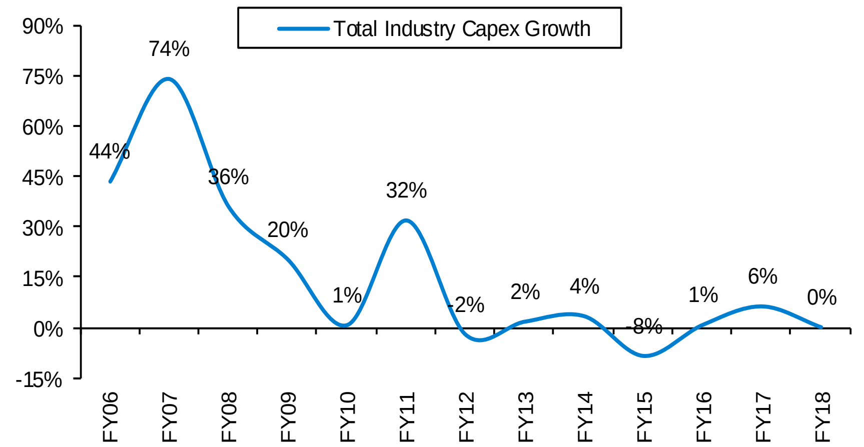
Much awaited capex cycle still remains a pipe dream. Although capacity utilisation in past few quarters have inched upto 75%, it is moving in this range from the past 4 years. Consequently, industry capex growth has failed to pick up. We note that core sector industries in Steel, Oil and Gas etc. are better placed to commence next phase of capex, however power and Telecom have huge burden of bad loans. Although lower incremental slippages and NCLT resolutions show some promise, significant capex recovery is some time away.

Exhibit 11: Capacity utilization picking but still at average levels



Source: RBI, PL

Exhibit 12: Industry Capex growth has remained tepid



Source: MOSPI, Ace Equity, PL

Exhibit 13: Summary of asset quality in last few years

	FY15	FY18	1H19	Comments
GNPA	4.3%	11.6%	10.6%	Reaching peak cycle of 2001 of 11-12%
Dispensation book	6.4%	1.1%	0.8%	Remains negligible
SMA 1-2 Loans	>6%	1.3%	<1%	Much lower. Even 1D defaults have been coming lower
Industry PCR	44.2%	47.4%	50.9%	At much better footing with corporate banks having much higher
Slippages Rate	2.8%	7.1%	3.0%	Slippages have come off substantially but above normalized levels
NCLT Recoveries	0%	49%	> 20%	New recovery channel is yielding results

Source: Company, PL

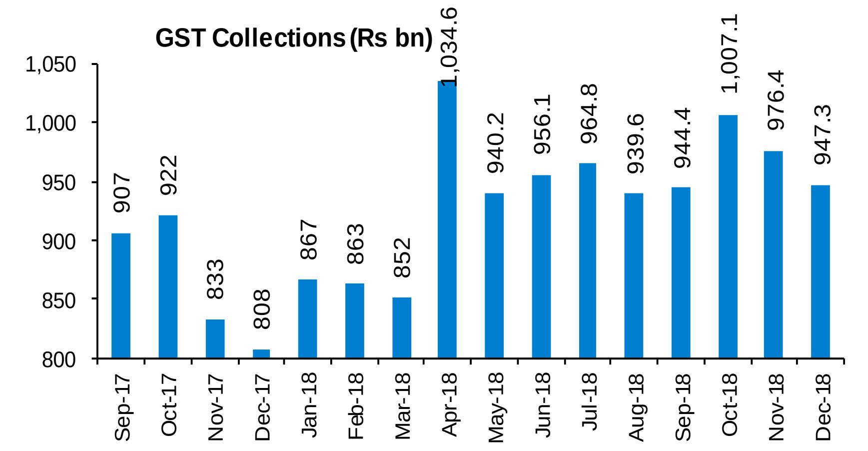
GST shortfall likely at more than Rs1750bn

GST collections to fall short the budgeted: The average monthly GST collections of Rs967.8bn falls short of the budgeted Rs1123bn per month. With the uncertainties and liquidity crunches witnessed in the economy, GST collections are likely to fall short of the target in excess of Rs1750bn. Pre-GST. Only six states (Mizoram, Arunachal, Manipur, Nagaland, Sikkim and Andhra Pradesh) are facing revenue surplus, 25 states with shortfall will need compensation by the Centre.

Further rate cuts unlikely: GST rates of 23 goods were rationalized on 22nd December leaving only 28 products remain in the 28% basket. The annual revenue implication of the rate cuts is ~Rs 55bn. Government wants to restrict the 28% rate to super luxury and Demerit goods and bring majority of the items at 18% or lower GST rates. Cement and auto parts are major items in the 28% slab. GST rate on cements was not tinkered as it brings Rs 130bn to the exchequer.

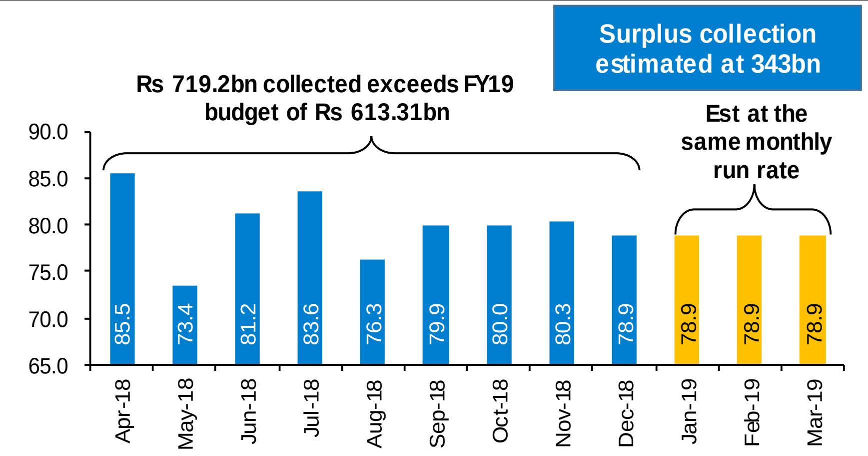
Compensation cess collections targets achieved: Rs 719.2bn of compensation cess has been collected upto Nov'18 which has exceeded FY19 budget's target of Rs613bn. With the same run rate of collections, there is likely to be a surplus of Rs. 343bn. We don't expect any significant change in compensation cess rates.

Exhibit 14: GST collections remain tepid



Source: GSTIN, PL

Exhibit 15: Compensation cess collections targets achieved



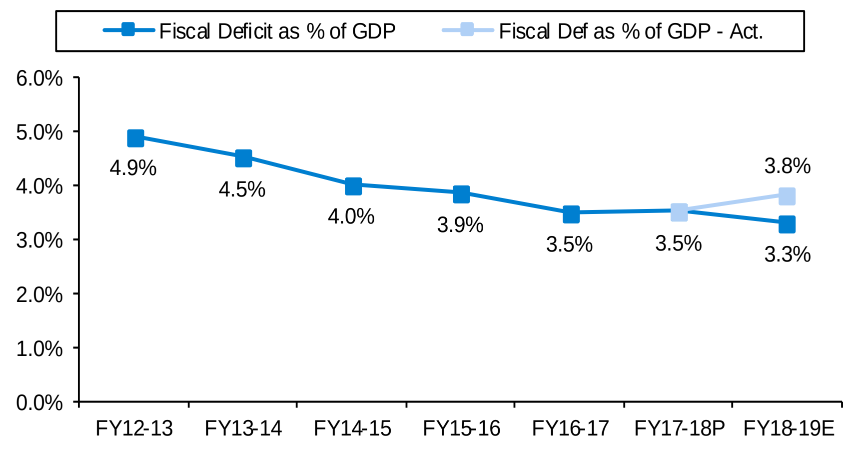
Source: GSTIN, PL

Fiscal Deficit to shoot up

Fiscal deficit at Rs7166bn till Nov is 115% of the annual estimates. We expect significant fiscal pressures to build up in balance fiscal led by:

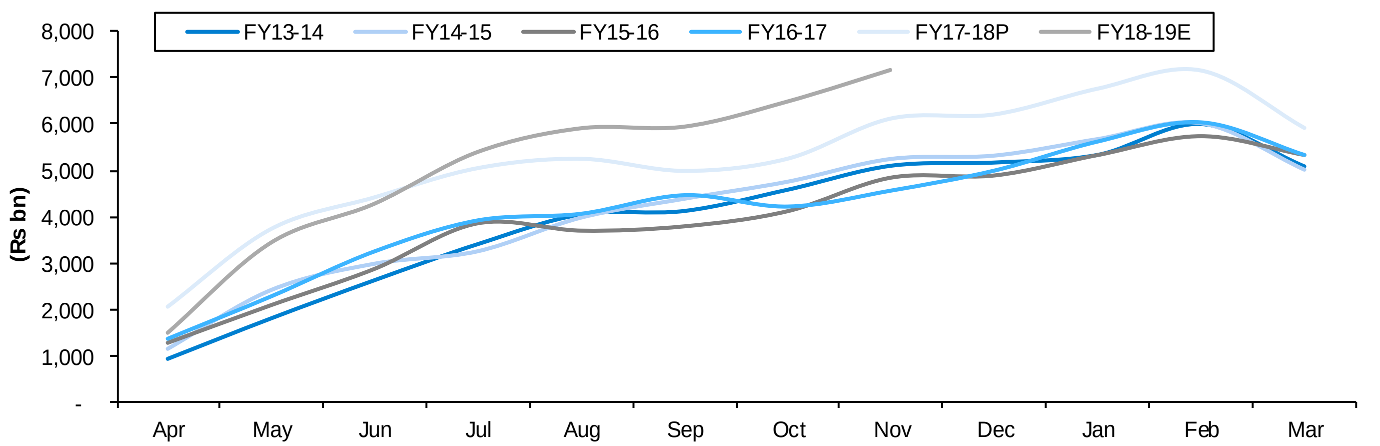
- GOI has fixed divestment target of Rs800bn whereas only Rs341bn has been raised so far. Including receipts from PFC stake purchase in REC, Buyback of shares by ONGC/IOC and ETF's, shortfall is likely at ~Rs200bn
- GST collections are averaging Rs967.8bn/month which indicate a shortfall in excess of Rs1750bn even if one assumes some pick up towards the year end. If the GST collections are at the current rate, deficit could be upto Rs1900bn.
- Farm sector is under significant pressure as below normal monsoons, poor spatial distribution, decline in prices of several crops and sustained increase in input costs. Given that agriculture employs ~60% of population, we expect a mega relief package which might be on lines of the one in Telangana and Odisha. Reports suggest that such a package could cost upto Rs1500-2300bn which can increase fiscal deficit by 100-120bps.

Exhibit 16: Fiscal deficit likely to overshoot the target



Source: RBI, PL

Exhibit 17: Fiscal deficit running ahead of estimates significantly



Source: RBI, PL

58% decline in non-debt capital receipts pushes up the fiscal deficit to 115% of FY19 targets

Exhibit 18: Fiscal deficit rung at 115% of estimates

Government Accounts (Rs bn)	Upto Nov'18	Upto Nov'17	*YoY %*	Budget Est	*% to total Budget Est.*
Revenue Receipts	**8,703**	**8,049**	***8%***	**17,257**	***50%***
Tax Revenue (Net)	7,317	6,994	*5%*	14,806	*49%*
Non-Tax Revenue	1,386	1,055	*31%*	2,451	*57%*
Non-Debt Capital Receipts	**263**	**618**	***-58%***	**922**	***29%***
Recovery of Loans	105	95	*11%*	122	*86%*
Other Receipts	158	524	*-70%*	800	*20%*
Total Receipts	**8,966**	**8,667**	***3%***	**18,179**	***49%***
Revenue Expenditure	**14,218**	**12,947**	***10%***	**21,423**	***66%***
(i) of which Interest Payments	3,482	3,098	*12%*	5,758	*60%*
Capital Expenditure	**1,914**	**1,841**	***4%***	**2,999**	***64%***
(i) of which Loans disbursed	144	220	*-35%*	217	*66%*
Total Expenditure	**16,132**	**14,788**	***9%***	**24,422**	***66%***
Fiscal Deficit	**7,166**	**6,121**	***17%***	**6,243**	***115%***
Revenue Deficit	**5,515**	**4,898**	***13%***	**4,165**	***132%***
Primary Deficit	**3,684**	**3,023**	***22%***	**485**	***760%***

Source: CGA, PL

Direct tax receipts have grown by 16-17% while custom duties are down 16%. GST+ Excise is flattish.

Exhibit 19: Poor growth in indirect tax revenues hits tax collections

Tax Revenue (Rs bn)	Upto Nov'18	Upto Nov'17	*YoY %*	Budget Est	*% to total Budget Est.*
Corporate Tax	2,913	2,498	*17%*	6,210	*47%*
Income Tax	2,504	2,152	*16%*	5,290	*47%*
GST	3,829	2,548	*50%*	7,439	*51%*
Customs	868	1,028	*-16%*	1,125	*77%*
Union Excise Duties	1,381	1,652	*-16%*	2,596	*53%*
Service Tax	56	791	*-93%*	-	
Other Tax	96	204	*-53%*	52	*183%*
Gross Tax Revenue	**11,647**	**10,873**	***7%***	**22,712**	***51%***
Surcharges	11	26	*-60%*	25	*42%*
Assignment to states	4,320	3,853	*12%*	7,881	*55%*
Net Tax Revenue	**7,317**	**6,994**	***5%***	**14,806**	***49%***

Source: CGA, PL

Exhibit 20: PSU Disinvestment likely to see Rs200bn shortfall

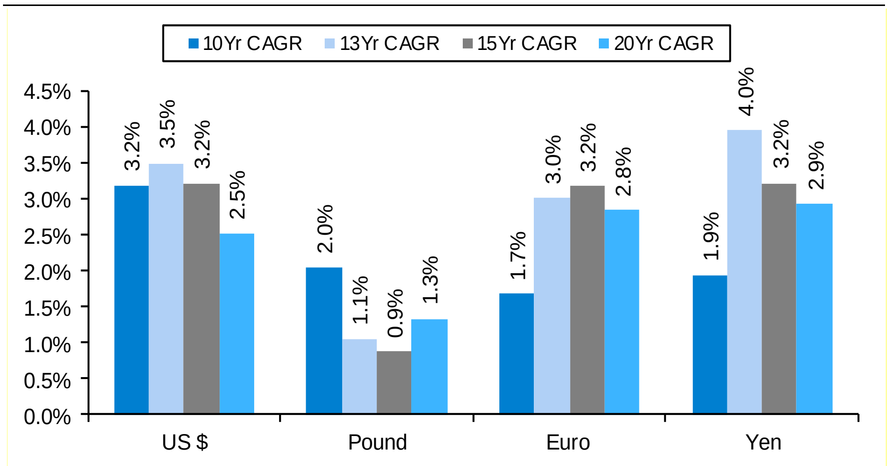
Year	Target	Actual
2010-11	400.0	221.4
2011-12	400.0	138.9
2012-13	300.0	239.5
2013-14	400.0	158.2
2014-15	434.2	242.8
2015-16	695.0	240.0
2016-17	560.0	349.4
2017-18	1,000.0	1,005.6
2018-19	800.0	341.4

Source: GOI, PL

32% lower Brent, food deflation provide respite

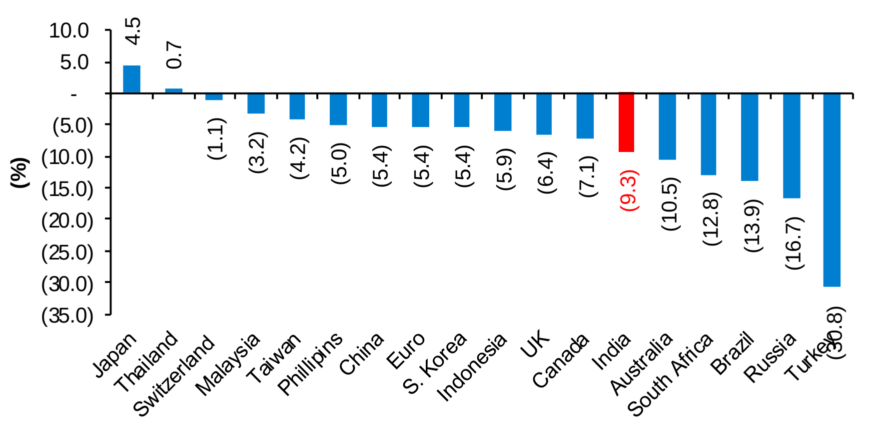
- INR depreciated 9.3% YoY against USD which is significantly above the LTA (2.5-3.5% CAGR over past 20 years) despite 4% recovery from USD72.5 to 69.9.
- India's trade deficit for Nov at ~16.7bn USD has softened 3% MOM as due to 41% increase in oil imports (53% in Oct) and 6% decline in non-oil non Gold imports 9up 16% in Oct). FYTD trade deficit at USD128bn is higher by USD23bn (22.9%) over the same period last year.
- 49% higher crude bill for FTD19 and 41% for Nov 18 has impacted trade deficit despite just 11% higher gold imports and 5% in non-oil non gold imports
- Strong economic growth in USA and global uncertainty are leading to volatility, although worst seems over for NBFC and INR has stabilized in past 2 months.
- CPI has increased by 2.3% in Nov (3.3% in Sept) as 15.9% decline in vegetable and 9% in sugar/pulses prices has resulted in 1.9% decline in food inflation despite 8.8% and 6% inflation in fuel and housing.

Exhibit 21: INR movement with major currencies over last 20 years



Source: RBI, PL

Exhibit 22: INR depreciated by 9.3% YoY in CY18



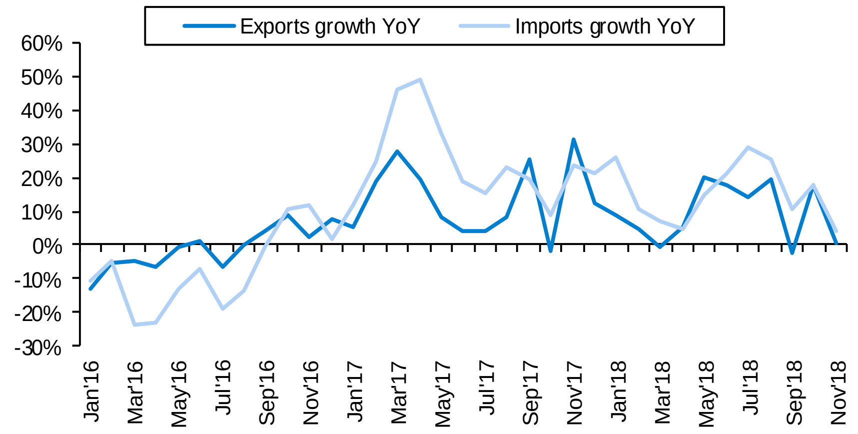
Source: Bloomberg, PL

Crude imports lead 20% surge in trade deficit

Trade deficit during April-November 2018 has increased by 20.7% to USD128bn as against USD106bn in same period last year.

Gold imports are up 11% YTD even as it has increased 64% in Nov, indicating some buildup ahead of marriage season in 4Q

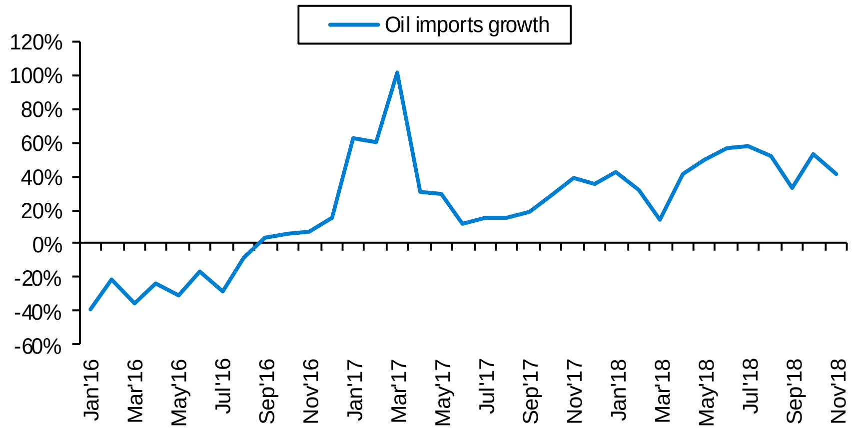
Exhibit 23: FYTD Imports up 15%, Gold Imports up 11% FYTD



Source: Commerce Ministry, PL

Oil imports have increased 49% YTD to USD97bn, higher by USD32bn, November imports are down 5% MOM

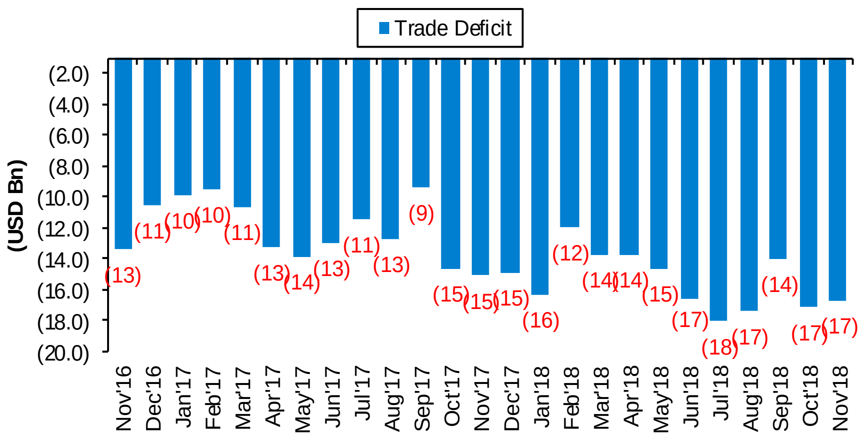
Exhibit 24: Oil imports up 49% in fiscal 19YTD, down 5% MOM in Nov



Source: Commerce Ministry, PL

Trade deficit at ~USD17bn/month is at a 5-year high level. It is down 2.7% MOM despite 64% jump in gold imports, expect softening in trade deficit given decline in crude prices

Exhibit 25: Trade Deficit sustains at ~USD17bn/month, up by USD22bn

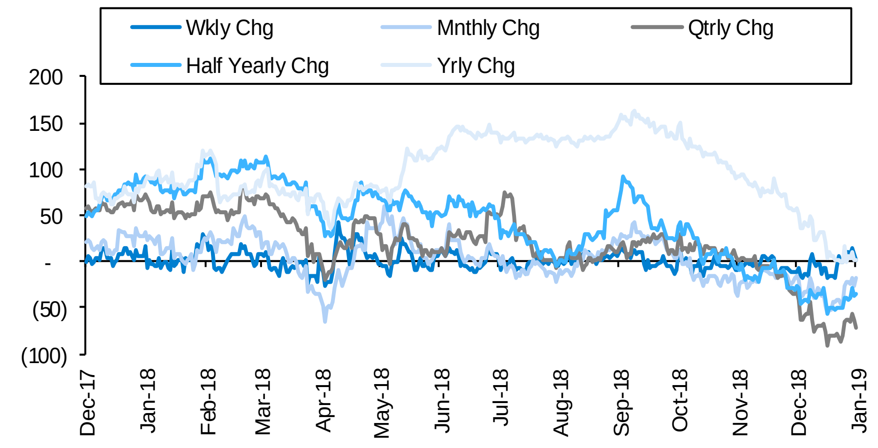


Source: Commerce Ministry, PL

Interest rates: Benign crude, food deflation provide comfort

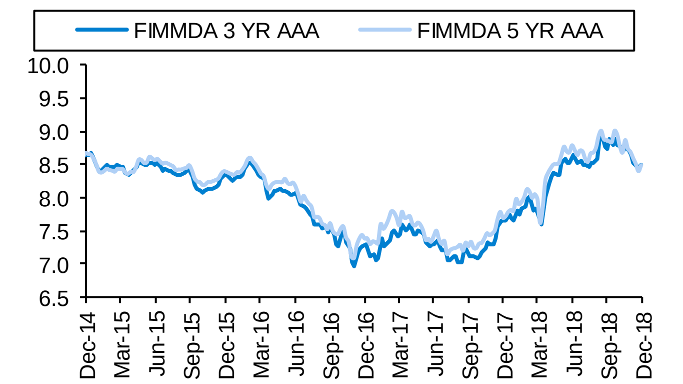
- RBI held on to 6.5% repo rates, reverse repo at 6.25% and bank rate at 6.75% although it retained stance of calibrated tightening.
- Housing and roads led by Govt initiatives is driving growth. RBI has cut inflation target to 2.7-3.2% on the back of soft crude prices and food deflation, although change in policy stance depends upon sustenance of this inflation trend.
- RBI has hinted at OMO at Rs500bn in January 2019, which has resulted in softening of yields by 92bps to 7.23% from the peak of 8.157% in Oct2018.
- We expect liquidity conditions to ease gradually, select NBFC's and banks might be an advantage in the near term.

Exhibit 26: India Benchmark Yields softened to 7.23% from 8.215% in Oct



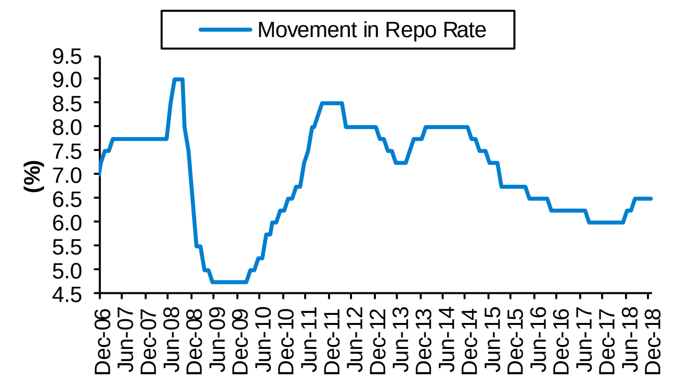
Source: Bloomberg, PL

Exhibit 27: Corporate Bond yields down 50-60bps from peak



Source: Bloomberg, PL

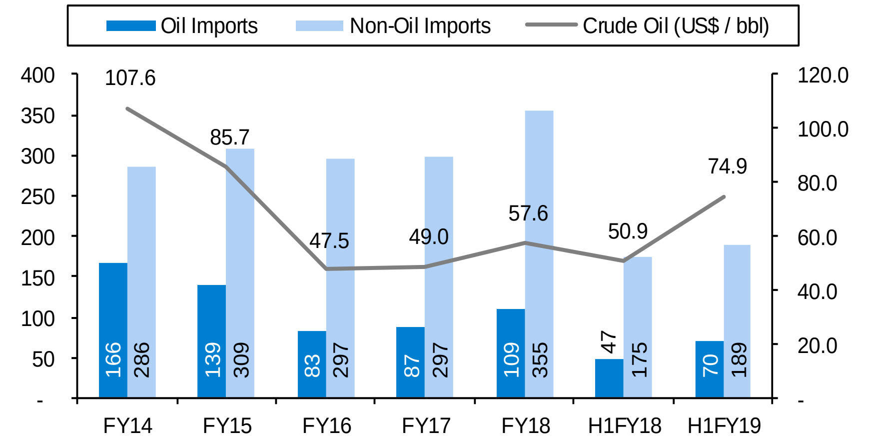
Exhibit 28: Benchmark rates retained by RBI



Source: Bloomberg, PL

Crude price decline reduced import bill by USD56bn in FY16 while it has hit by USD22bn in FY18 and USD23bn in 1HFY19

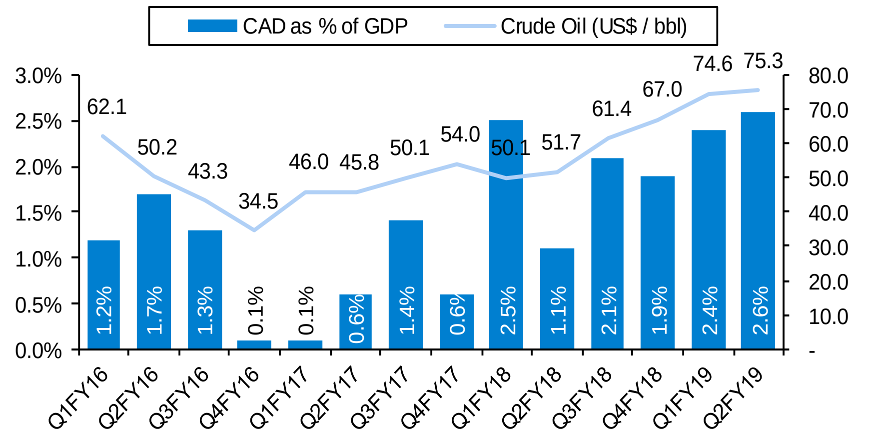
Exhibit 29: Crude Import bill up USD23bn in 1HFY19



Source: Commerce Ministry, PL

50% increase in crude price has pushed CAD by 2.5x to 2.6%

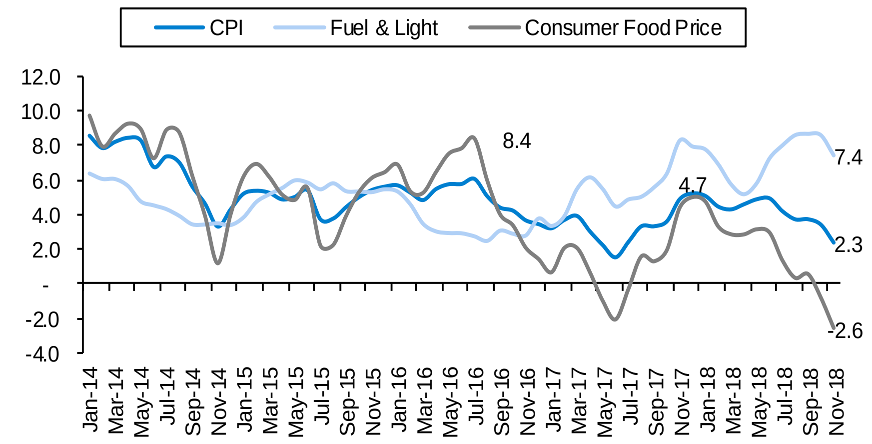
Exhibit 30: CAD up to 2.6% of GDP as crude continues to move up



Source: RBI, PL

CPI has softened from 4.7% to 2.3% led by food deflation of 2.6% as against an inflation of 4.7% last year

Exhibit 31: Food Deflation drags CPI to 2.3%

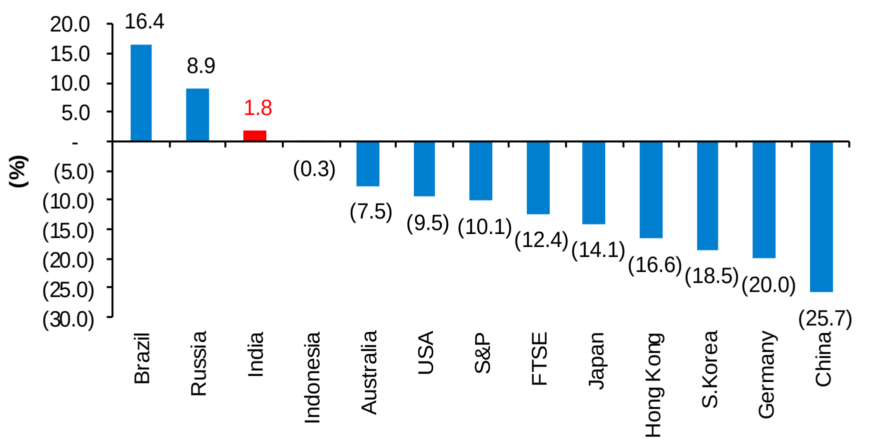


Source: MOSPI, PL

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

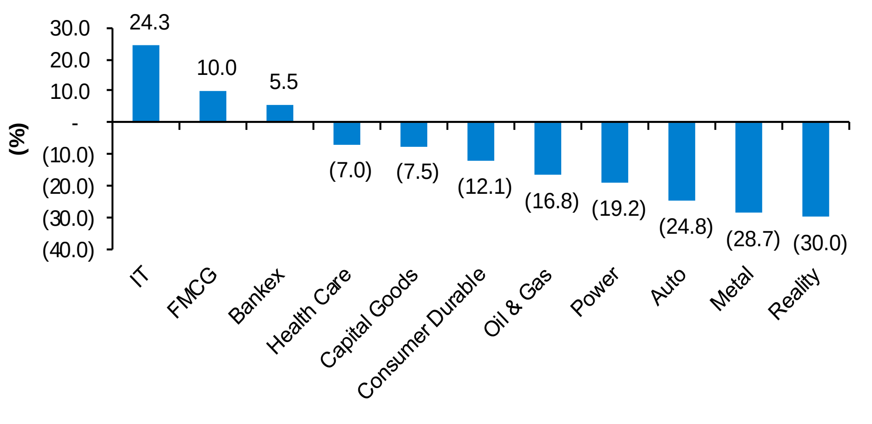
- Indian market (NIFTY) was best performing global index till August, however it has lost ground while Russia, USA, Brazil and Japan have shown improvement.
- IT is holding fort and Metals are steady, some of favorite sectors like FMCG, Private Banks, Consumer Durables and Auto have borne the brunt resulting 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 32: India is 3rd best performing market in CY18



Source: Bloomberg, PL

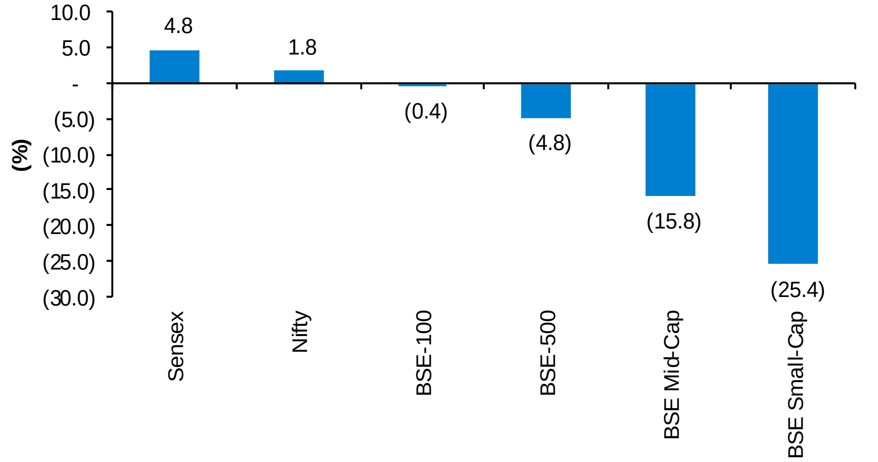
Exhibit 33: IT, FMCG and Banks in Green, Auto, Metals, Power and Oil drag



Source: Bloomberg, PL

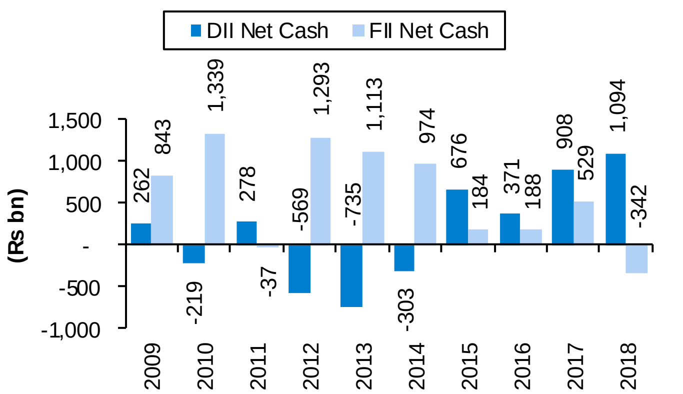
Small cap and Mid-caps get hammered even as large caps stay put

Exhibit 34: Small Cap and Mid Cap see meaningful pain



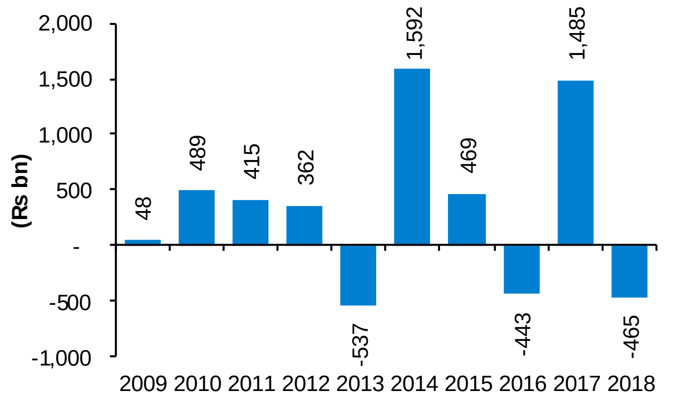
Source: Bloomberg, PL

Exhibit 35: CY18 has seen Rs342bn outflow, first after 2011



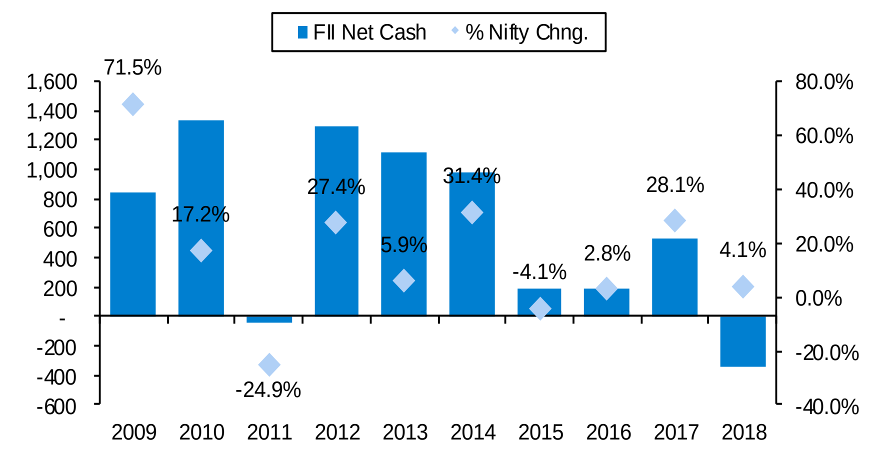
Source: Bloomberg, PL

Exhibit 36: FII Debt pullout has been Rs465bn



Source: Bloomberg, PL

Exhibit 37: NIFTY decoupled with FII Inflows



Source: Company, PL

Key Sector Snapshots

Agri: Q3 is expected to be a tough quarter for the agrochemical industry. Delayed winter played the spoilsport resulting into lower than expected liquidation till Q3 end. Inventory has accumulated in the channel due to (a) lower liquidation during the end of Kharif season (as a result of below normal rainfall in Sept) and (b) commencement of placement for Rabi season. Domestic industry is expected to clock mid-single digit volume growth. Aggregate revenue growth for the 7 agrochemical companies that we track is expected to be ~9.4% YoY largely led by robust growth in exports/ international business. Gross and EBITDA margin are expected to decline 39 bps and 60 bps YoY respectively.

Automobiles: For Q3FY19, we expect a muted quarter for auto companies with volumes growth of 0%/14%/3% across 4Ws/ 2Ws/CVs while tractors registered a double digit growth of ~16%. While the commodity cost pressure might have eased up, the full benefit should come in Q4FY19. With lower operating leverage over Q3FY19, we expect an EBITDA decline of 6.5% YoY, resulting in net profit decline of 2.3% YoY (down ~9% QoQ). Revenue growth of companies under our coverage, excluding Tata Motors, is expected to be ~8% YoY, with EBITDA margin likely to decrease by ~111bps YoY.

Banks: Earnings should be relatively better for banks on improving loan growth enabling NII growth to hold up with steady margins, while relatively lower MTM losses compared to H1FY19 will boost earnings. We also expect NPA provisions also to be relatively lower as slippages will be contained but recovery/upgrades should be also limited keeping asset quality stable. Key things which will be closely watched are IL&FS exposure classification & provisions, Banks exposure to NBFCs & loan buyouts, slippages from outside the watch list and Agri/SME/Retail.

Cement: Earnings in Q3 is expected to grow in double digit due to bottomed out earnings in base year and volume push led by strong demand from government sponsored infra segment. However, subdued demand from retail segment, increasing fuel cost and failed attempts to increase prices remains key concerns.

Consumer: Rural demand growth still outpaces Urban demand though the gap is reducing due to food deflation and drought in several parts of Maharashtra, Karnataka and likely impact on Rabi crop due to poor sept rains. Crude related input costs tailwind is likely to start reflecting from 4QFY19 and some of Agri-related raw materials are also benign. We estimate sales, EBIDTA and PAT growth of 14.9%, 13.1% and 12.7% on 33bps decline in margins.

Consumer Durables: Festive season of Diwali saw sales increasing in double digits for several white goods. The demand outlook continues to remain positive given the low penetration levels across categories. Higher than normal inventory in the channel, a high base on account of pre-buying, commodity price pressures and increase in custom duty will impact RAC margins. Structural demand for LED lights remains intact. However, intense competitive rivalry and price erosion will affect value growth and margins.

Education: 3QFY19 will be more or less a non-event due to seasonality factor. While paper prices are on a rise, higher realization (passing on cost inflation) and pre-stocking of paper inventory in advance is expected to aid margins.

Financial Services: Cautious lending particularly towards industries such as MSME, real estate, LAP and higher ticket exposures would imply slower disbursements for NBFC. Fresh lending has contracted and we foresee just 2.7% credit growth QoQ for our coverage universe of financial services. While vehicle financiers are expected to show mixed performance, we derive greater confidence in diversified vehicle finance business model like CIFC to deliver better on relative basis. With INDAS transitioning impact smoothening out, incremental credit provisions are climbing down for most NBFCs. Despite liquidity already showing signs of normalization and credit demand remaining robust, yet calibration of growth and therefore suppressed margins should weigh upon Q3 earnings.

Information Technology: We expect IT sector to show steady performance during the quarter with modest constant currency growth of 1-3% QoQ in Q3FY19. Q3 is usually soft quarter owing to lower number of working days and furloughs. USD revenue growth are expected to be relatively muted for the quarter due to headwind from cross-currency movement owing to depreciation of EURO/GBP/AUD/INR vs USD. Margins to expand for Top 5 IT vendors by 20-50bps aided by tailwind from INR depreciation and operational efficiency. The current demand environment looks cautious especially with global economy slowdown and macro uncertainties.

Media: Radio companies will report a better performance led by delayed festivities. Inventory utilization and yields on legacy stations is likely to witness a rise. Profit growth is expected to be in double digits as batch 1 stations will incrementally contribute to the EBITDA. In the news broadcasting space, traction is expected to be strong driven improvement in yields & utilization since five states went for elections during the quarter.

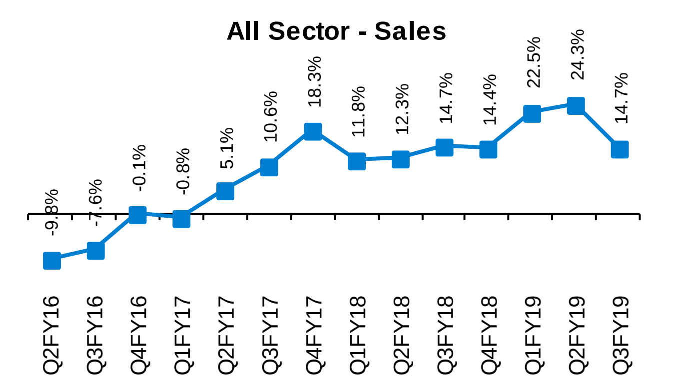
Metals: We expect EBITDA of our coverage universe to grow 3.3% QoQ due to firm domestic demand. PAT to grow 30% YoY, primarily led by expansion in margins. Chinses steel prices witnessed sharp correction due to escalating trade tensions and slow-down in domestic demand however, attempts by Chinese govt to ease liquidity and steel production restrictions will support domestic steel market in medium term.

Oil and Gas: Oil sector earnings are likely to be muted due to inventory losses 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 weak, given muted LPG profitability and lower gas trading earnings. IGL, MGL and PLNG are likely to report healthy performance during the quarter.

Pharma/Healthcare: With lower appreciation of USD vs INR, we expect limited tailwind for US sales realisations. Emerging market (EM) sales are to be tepid as all major EM currencies (against USD) declined further in Q3FY19. India Formulations growth to be tepid with average industry growth of the last three months are likely to be below 10%. A significant decline in volume (especially in established/older molecules) led by festive season is a key reason for lower India sales. The sector valuation remains unaffected and fails to reflect unfavourable risk-return matrices in comparison to the global generic peers.

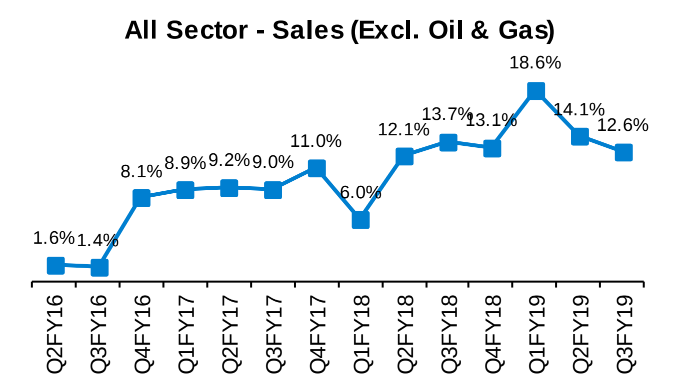
Sales and EBIDTA growth (ex Oil & Gas) slows down QoQ

Exhibit 38: Oil, Metals drive sales, pharma and auto drag



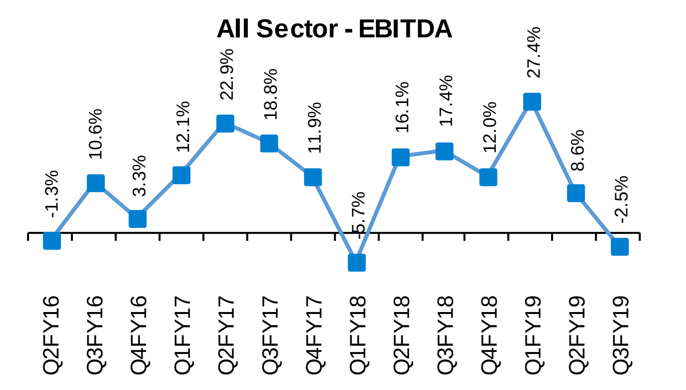
Source: Company, PL

Exhibit 39: Sales growth continues to soften



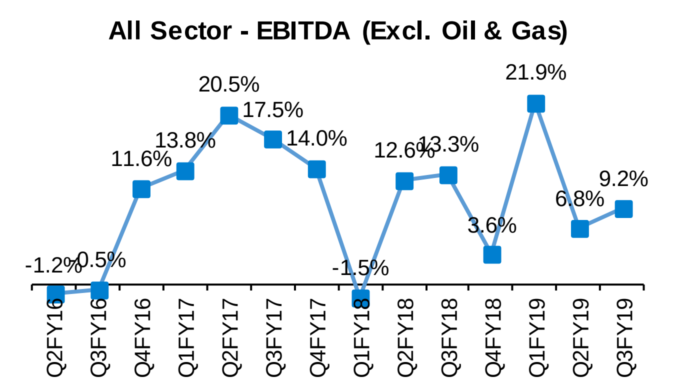
Source: Company, PL

Exhibit 40: Auto, Oil and Gas drag EBIDTA



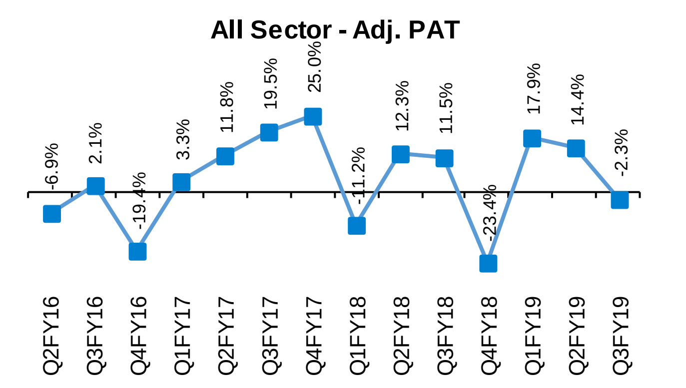
Source: Company, PL

Exhibit 41: QoQ improvement in EBIDTA growth



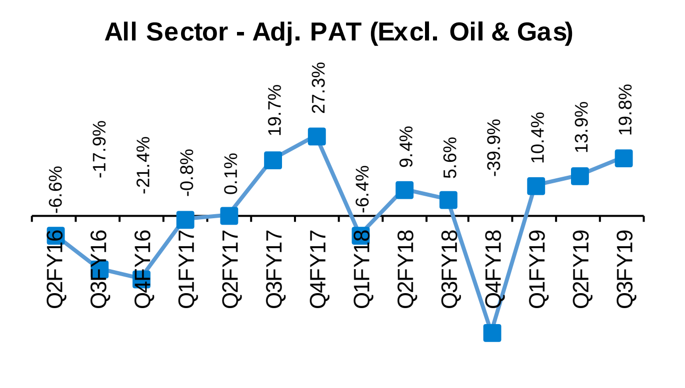
Source: Company, PL

Exhibit 42: Banks and Metals drive growth, Auto and Oil drag



Source: Company, PL

Exhibit 43: PAT growth up QoQ

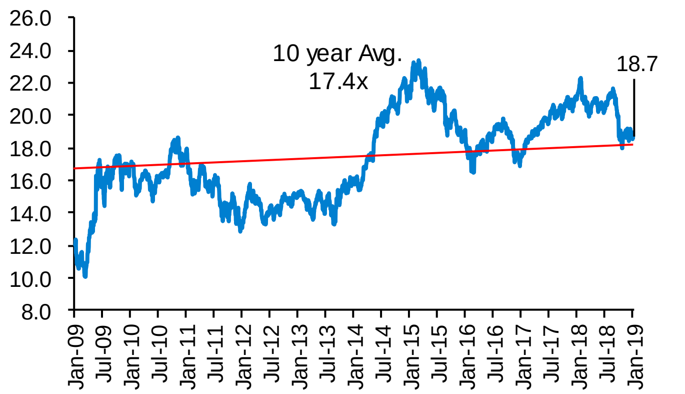


Source: Company, PL

NIFTY: Earnings expected to grow at 18% CAGR over FY19-21

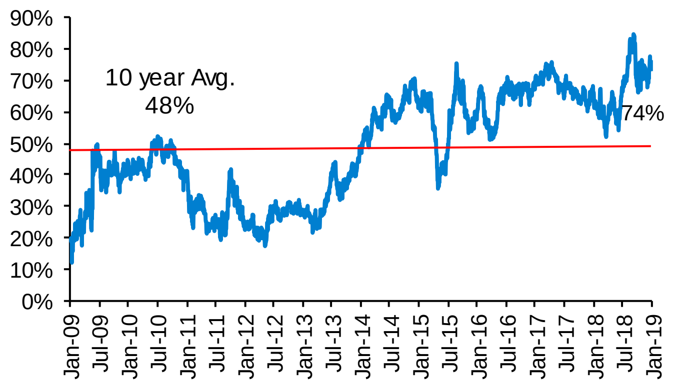
Against earnings contraction of 3.8% in FY18, FY19 NIFTY EPS is expected to increase by 11.1% and 19.3% and 16.6% in FY20 and FY21 to Rs599 and Rs698 which is 8.2 and 8.3% lower than consensus. NIFTY is currently trading at 18.7x 1 year forward earnings which shows 7.5% premium to long term average of 17.4. We note that the markets have tested the LTA on 2 occasions in the past 4 years. Although crude is softening and Inflation is benign, huge GST deficit and mega farm package can increase fiscal deficit and increase bond yields. MSCI India premium over Asia is at 74% against the 10-year average of 48X. we note that 18% CAGR for NIFTY for next 2 years are optimistic given that it has given EPS CAGR of less than 6% in the past 10 years. We have already seen EPS estimates for FY19 and FY20 being cut by 7.2% and 4.7% since April 2018. Any adverse political outcome in elections and global volatility can take P/E multiples to sub 17.4x levels (~16.5x). We expect the market to find strong support at NIFTY levels of 10000, while it is expected to remain range bound in near term.

Exhibit 44: Nifty 1-yr forward PE



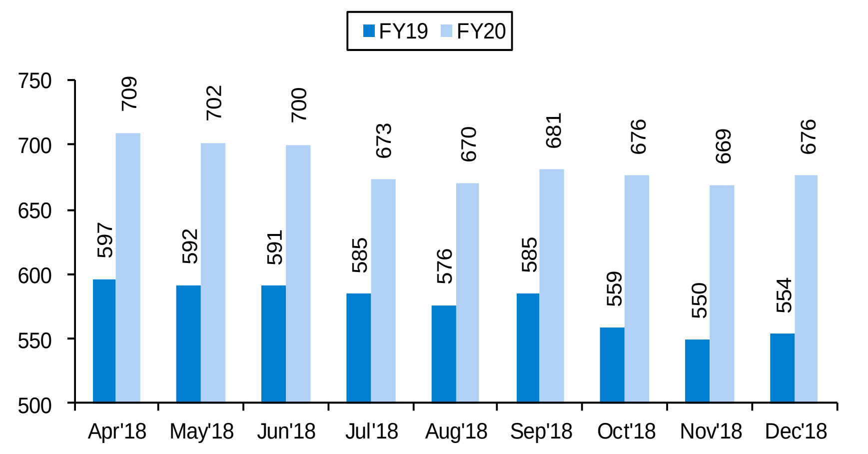
Source: Bloomberg, PL

Exhibit 45: MSCI India Premium to MSCI Asia (Ex-Japan)



Source: Bloomberg, PL

Exhibit 46: NIFTY EPS cut by 7.2% and 4.7% since April 2018



Source: Bloomberg, PL

Nifty Valuation

	Weight-age (%)	FY18	FY19E	FY20E	FY21E
Banking & Fin.	**38.3%**				
PER (x)		44.6	34.8	23.7	18.3
PAT Growth (%)		2.4	28.0	47.2	29.2
Technology	**13.5%**				
PER (x)		21.5	18.6	16.6	15.2
PAT Growth (%)		3.3	15.6	12.3	9.3
Oil & Gas	**12.4%**				
PER (x)		12.1	12.2	11.3	10.1
PAT Growth (%)		0.8	(1.1)	8.8	11.7
Consumer	**10.9%**				
PER (x)		48.2	42.2	36.1	31.8
PAT Growth (%)		14.3	14.2	16.7	13.8
Auto	**7.0%**				
PER (x)		20.3	17.0	14.3	12.8
PAT Growth (%)		(7.3)	19.9	18.9	11.4
Eng. & Power	**6.2%**				
PER (x)		16.1	13.9	12.4	11.2
PAT Growth (%)		7.8	16.0	11.9	10.5
Metals	**4.0%**				
PER (x)		13.4	8.2	7.8	7.4
PAT Growth (%)		15.5	63.3	5.4	4.9
Pharma	**2.5%**				
PER (x)		40.6	24.8	21.9	20.4
PAT Growth (%)		(50.0)	63.9	13.4	7.2
Telecom	**1.6%**				
PER (x)		51.0	232.1	100.3	37.6
PAT Growth (%)		(45.1)	(78.0)	131.5	166.5

	Weight-age (%)	FY18	FY19E	FY20E	FY21E
Cement	**1.0%**				
PER (x)		41.5	45.2	33.0	27.4
PAT Growth (%)		(3.4)	(8.1)	37.0	20.4
Others	**0.7%**				
PER (x)		16.5	12.3	9.9	8.1
PAT Growth (%)		(15.4)	34.1	24.0	21.7
Ports & Logistics	**0.7%**				
PER (x)		12.0	12.1	9.8	8.5
PAT Growth (%)		(6.1)	(0.5)	23.2	15.0
Media	**0.6%**				
PER (x)		29.8	28.3	23.9	20.8
PAT Growth (%)		(33.4)	5.4	18.2	15.3
Agro Chemicals	**0.6%**				
PER (x)		21.8	19.2	16.4	13.9
PAT Growth (%)		17.1	13.6	17.0	18.4
Nifty as on Jan 7	**10,777**				
EPS (Rs) - Free Float		**451.8**	**502.0**	**599.0**	**698.6**
Growth (%)		**(3.8)**	**11.1**	**19.3**	**16.6**
PER (x)		**23.9**	**21.5**	**18.0**	**15.4**
EPS (Rs) - Free Float - Nifty Cons.		**451.8**	**519.6**	**652.4**	**761.4**
Var. (PLe v/s Cons.) (%)		**-**	**(3.4)**	**(8.2)**	**(8.3)**
Sensex as on Jan 7	**35,850**				
EPS (Rs) - Free Float		**1,349.0**	**1,547.1**	**1,879.3**	**2,194.0**
Growth (%)		**(10.2)**	**14.7**	**21.5**	**16.7**
PER (x)		**26.6**	**23.2**	**19.1**	**16.3**
EPS (Rs) - Free Float - Sensex Cons.		**1,349.0**	**1,518.7**	**2,078.3**	**2,438.0**
Var. (PLe v/s Cons.) (%)		**-**	**1.9**	**(9.6)**	**(10.0)**

Source: Company Data, Bloomberg, PL Research

Note: Telecom, Media, Ports & Agro Chemicals Nos. is Bloomberg Consensus / Sector Weightages are updated as on Jan 7, 2019

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)*	
							2020E	2021E	2020E	2021E	2020E	2021E	2020E	2021E	2020E	2021E	2020E	2021E
	Large Cap																	
RIL IN	Reliance Industries	1,105	1,238	*12.1%*	6,998.6	100,597.8	9.2	7.1	12.7	12.0	12.7	13.8	12.6	13.3	17.0	15.1	2.1	2.0
HDFCB IN	HDFC Bank	2,121	2,310	*8.9%*	5,737.4	82,469.2	19.6	19.9	19.5	22.2	16.2	17.3	1.8	1.9	22.5	18.5	3.6	3.1
HDFC IN	HDFC	1,973	2,265	*14.8%*	5,020.2	72,161.0	16.5	18.5	11.4	16.0	15.1	15.8	2.3	2.3	45.2	39.0	6.5	5.9
ITC IN	ITC	282	364	*29.3%*	3,471.1	49,894.2	8.7	9.1	13.7	9.9	24.7	24.4	32.3	31.7	23.7	21.5	5.5	5.0
INFO IN	Infosys	672	790	*17.6%*	2,923.2	42,018.7	11.8	6.2	11.6	7.6	25.8	24.9	31.0	30.0	15.8	14.7	3.9	3.5
ICICIBC IN	ICICI Bank	368	415	*12.9%*	2,364.0	33,979.6	13.5	16.5	151.8	39.0	8.6	11.0	0.9	1.2	24.7	17.7	2.6	2.3
MSIL IN	Maruti Suzuki	7,362	8,510	*15.6%*	2,223.3	31,958.3	9.3	8.6	12.7	5.8	20.1	18.6	23.6	21.5	21.6	20.4	4.1	3.6
LT IN	Larsen & Toubro	1,384	1,566	*13.2%*	1,939.2	27,873.9	12.0	NA	14.9	NA	14.6	NA	8.6	NA	20.7	NA	2.9	NA
AXSB IN	Axis Bank	637	681	*6.8%*	1,665.0	23,932.1	19.1	16.9	91.2	33.9	12.3	14.7	1.1	1.3	18.2	13.6	2.4	2.0
IIB IN	IndusInd Bank	1,559	1,750	*12.2%*	935.8	13,451.7	22.5	22.5	29.7	36.0	17.3	19.9	1.7	2.0	18.4	13.6	3.1	2.6
MM IN	Mahindra & Mahindra	730	984	*34.8%*	868.1	12,478.4	13.2	12.3	13.7	14.4	17.5	18.2	18.7	19.3	14.5	12.7	2.4	2.2
TTAN IN	Titan Company	944	1,115	*18.1%*	838.1	12,047.3	19.8	20.1	29.0	26.5	28.1	28.9	37.3	38.4	42.4	33.5	10.8	8.8
HDFCLIFE IN	HDFC Standard Life Insurance	393	440	*11.9%*	793.6	11,407.1												
BRIT IN	Britannia Industries	3,144	3,231	*2.8%*	754.9	10,850.7	14.4	14.9	17.4	22.1	36.9	35.3	42.9	41.8	57.6	47.2	18.9	14.9
TECHM IN	Tech Mahindra	688	885	*28.7%*	607.3	8,729.9	10.6	6.3	17.9	11.0	21.7	21.0	24.0	23.1	12.1	10.9	2.4	2.1
TATA IN	Tata Steel	486	785	*61.8%*	584.2	8,396.8	8.2	1.3	1.7	6.7	9.6	9.5	10.9	10.9	6.5	6.1	0.6	0.6
MSS IN	Motherson Sumi Systems	157	179	*13.7%*	496.0	7,130.1	13.5	13.5	51.5	16.4	24.6	24.9	21.8	23.5	17.6	15.1	4.1	3.5
ARBP IN	Aurobindo Pharma	725	994	*37.2%*	424.6	6,103.7	11.3	8.5	11.1	5.2	20.3	18.0	20.2	18.8	13.1	12.5	2.4	2.1
PLNG IN	Petronet LNG	217	300	*38.2%*	325.6	4,679.8	13.3	8.5	25.4	15.1	25.0	23.7	32.0	28.8	10.7	9.3	2.4	2.0
AL IN	Ashok Leyland	93	146	*55.8%*	273.5	3,931.8	15.3	3.2	19.8	8.4	23.8	24.0	14.2	14.2	12.8	11.8	2.8	2.8
CIFC IN	Cholamandalam Investment ar	1,198	1,561	*30.3%*	281.0	4,038.6	20.8	19.4	20.3	16.5	20.4	19.8	2.4	2.4	13.5	11.6	2.5	2.1
ACC IN	ACC	1,478	1,710	*15.7%*	277.8	3,993.7	12.1	6.1	21.7	18.7	11.3	12.5	11.4	12.3	25.3	21.3	2.7	2.6
	Mid Caps																	
IGL IN	Indraprastha Gas	274	360	*31.6%*	191.5	2,752.4	14.8	15.1	9.2	15.7	19.0	19.0	24.8	23.9	23.2	20.1	4.1	3.6
LTTS IN	L&T Technology Services	1,637	1,780	*8.7%*	167.8	2,411.9	20.8	12.6	9.6	14.0	30.6	29.1	37.1	36.2	20.9	18.4	5.9	4.9
JSP IN	Jindal Steel & Power	152	239	*57.0%*	154.6	2,222.5	7.9	5.0	(585.9)	126.0	1.5	3.2	6.5	7.3	34.2	15.1	0.5	0.5
CROMPTON IN	Crompton Greaves Consumer	227	276	*21.5%*	142.3	2,045.6	15.3	14.0	19.8	24.5	38.3	36.8	41.2	48.2	31.3	25.1	10.6	8.2
	Other Preferred Picks																	
IDFCBK IN	IDFC Bank	46	55	*19.2%*	157.1	2,258.1	12.3	12.9	88.0	(41.7)	2.6	1.5	0.3	0.1	38.7	66.3	1.1	1.1
HEIM IN	Heidelberg Cement India	150	200	*33.1%*	34.0	488.8	5.0	5.0	9.0	1.8	18.8	17.1	22.0	21.2	14.2	13.9	2.5	2.3
THYROCAR IN	Thyrocare Technologies	541	795	*47.0%*	28.5	410.2	21.1	20.5	22.1	19.5	24.1	25.3	30.9	33.1	23.4	19.5	5.3	4.6
NOCIL IN	NOCIL	161	270	*68.1%*	26.4	379.8	31.3	26.0	31.1	25.2	19.0	20.6	25.9	30.3	11.1	8.9	2.0	1.7

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

SECTORS

Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

January 7, 2019

Top Picks

Mahindra & Mahindra

Ashok Leyland

Saksham Kaushal
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Automobiles

Oct-Dec'18 Earnings Preview

For Q3FY19, we expect a muted quarter for auto companies in our coverage, as we expect EBITDA/profit are likely to decline by 6.5%/2.3% YoY. Volumes for the quarter across segments 4Ws/ 2Ws/CVs registered a moderate growth of 0%/14%/3% YoY, on account of challenges like higher insurance costs and lower financing available, whereas tractors registered a decent double digit growth of ~16% YoY. While the commodity cost pressure might have eased up, the full benefit should come in Q4FY19. With lower operating leverage over Q3FY19, we expect an EBITDA decline of 6.5% YoY, resulting in net profit decline of 2.3% YoY (down ~9% QoQ). Revenue growth of companies under our coverage, excluding Tata Motors, is expected to be ~8% YoY, with EBITDA margin likely to decrease by ~111bps YoY.

Commodity costs and promotional offers to impact margins: With the quarter getting impacted by a tepid consumer demand in the festive periods, we expect OEM EBITDA margins for the quarter to decline by ~190bps YoY mainly due to (a) lagged impact of decrease in RM costs costs (steel and aluminium down ~11% & 6% YoY respectively over Q3FY19) (2) increase in consumer offers and discounts across segments and (3) negative operating leverage.

Volume growth impacted due to weak consumer sentiment: In the OEM players, we expect EBITDA of Ashok Leyland/Eicher/Maruti to decline by ~22%/6%/14% YoY respectively, mainly due to volume decline of ~6%/5%/1% YoY owing to the increased cost of ownership and lack of financing. In the 4Ws segment, we expect M&M to report a decent set of numbers mainly on account of 11.6% YoY increase in tractor volumes. For 2Ws, TVS is expected to report YoY rise EBITDA margins on back of a volume growth of ~20% YoY aided by new product launches.

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 (lag effect) and delay in passing of commodity prices. However, we expect some benefits to come in from the diversified revenue mix (favourable currency benefit in exports). Overall, we expect auto ancillaries under our coverage universe to report ~10% YoY increase in EBITDA.

Exhibit 1: Two & Three-wheeler companies

Volume (units)	Q3FY19	*YoY gr. (%)*	*QoQ gr. (%)*
Total	**4,256,801**	***13.4***	***-11.0***
Hero Motocorp	1,798,905	*5.3*	*-15.7*
Bajaj Auto	1,259,828	*25.8*	*-5.9*
TVS Motors	989,787	*19.8*	*-9.1*
Royal Enfield	194,473	*-5.9*	*-7.4*
Atul Auto	13,808	*39.2*	*3.1*

Source: Company, PL

Exhibit 2: Four-wheeler companies

Volume (units)	Q3FY19	YoY gr. (%)	QoQ gr. (%)
Total	**1,029,169**	***2.0***	***-5.8***
Tata Motors (Standalone)	171,777	*0.3*	*-9.8*
Jaguar Land Rover	134,049	*0.2*	*14.0*
Maruti Suzuki	428,643	*-0.6*	*-11.6*
M&M	234,001	*11.3*	*2.4*
Ashok Leyland	43,763	*-6.1*	*-15.8*
VECV	16,936	*4.3*	*-9.4*

Source: Company, PL

Exhibit 3: Q3FY19 Result Preview

Company Name		Q3FY19E	Q3FY18	YoY gr. (%)	Q2FY19	QoQ gr. (%)	Remark
Ashok Leyland	Sales	64,760	71,132	*(9.0)*	76,080	*(14.9)*	AL reported a 6% YoY dip in volumes this quarter owing to base impact along with the liquidity crunch in the segment. Anticipating realisations also to decline by 3% YoY, we expect revenues to degrow by 9% YoY and margins to contract by 110bps YoY (lower 160bps QoQ) on account of commodity cost pressures.
	EBITDA	6,175	7,884	*(21.7)*	8,059	*(23.4)*	
	Margin (%)	*9.5*	*11.1*		*10.6*		
	Adj. PAT	3,462	4,499	*(23.1)*	4,755	*(27.2)*	
Atul Auto	Sales	1,810	1,290	*40.3*	1,765	*2.6*	ATA continued its growth momentum, growing a robust 39% YoY over Q3FY19. Anticipating a 1% improvement in realisations, ATA is expected to record a 40% YoY growth in revenues, with margins expected at 13%, higher 90bps YoY / flat QoQ.
	EBITDA	236	156	*51.2*	229	*2.9*	
	Margin (%)	*13.0*	*12.1*		*13.0*		
	Adj. PAT	158	97	*62.9*	149	*5.9*	
Bharat Forge	Sales	17,159	13,906	*23.4*	16,792	*2.2*	With user industries like North America trucks as well as domestic CVs recording decline sequentially, we expect shipment tonnage to rise by a modest 9% YoY in Q3FY19E. Overall revenue for Bharat Forge is expected to increase by 23.4% YoY and EBITDA margin is expected at 26.1%, up 20bps QoQ but lower 380bps YoY.
	EBITDA	4,473	4,164	*7.4*	4,344	*3.0*	
	Margin (%)	*26.1*	*29.9*		*25.9*		
	Adj. PAT	2,370	2,282	*3.8*	2,275	*4.2*	
Bajaj Auto	Sales	78,937	63,693	*23.9*	79,868	*(1.2)*	While the overall volume growth for BJAUT over Q3FY19 has been strong at 26% YoY, the volume mix has not been very favourable with higher share of domestic motorycles (CT100) and lower 3Ws. Despite favourable currency movement (exports for Q3FY19 were ~42% of sales, up 170bps QoQ but down 80bps YoY), we expect margins to decline 270bps YoY / 20bps QoQ.
	EBITDA	13,078	12,315	*6.2*	13,430	*(2.6)*	
	Margin (%)	*16.6*	*19.3*		*16.8*		
	Adj. PAT	11,025	9,524	*15.8*	11,525	*(4.3)*	
CEAT	Sales	17,867	15,742	*13.5*	17,546	*1.8*	Ceat is expected to report 9.3% YoY growth / ~1% QoQ de-growth in its sales tonnage over Q3FY19 on account of lower OEM demand. Expecting realisation improvement of 2.5% YoY, we anticipate the standalone revenues to grow ~12% YoY to Rs17.4bn. While rubber prices are near the corrected levels of Q1, on account of higher priced crude inventory, we expect consol EBITDA margin to be at 9.4%, down 250bps YoY.
	EBITDA	1,677	1,870	*(10.3)*	1,592	*5.3*	
	Margin (%)	*9.4*	*11.9*		*9.1*		
	Adj. PAT	662	826	*(19.9)*	592	*11.7*	
Eicher Motors	Sales	22,250	22,690	*(1.9)*	24,082	*(7.6)*	Royal Enfield's Q3FY19 volumes have recorded a de-growth (first ever volume de-growth) of 6% YoY to 194K units, while VECV volumes have grown a modest 4.3% YoY to 17K units. We expect EIM to report consolidated revenue dip of ~2% YoY to Rs22.25bn, with EBITDA margin slipping to 29.7%, dipping 150bps YoY/ 60bps QoQ, on account of commodity cost pressures, launch costs as well as lower operating leverage.
	EBITDA	6,617	7,072	*(6.4)*	7,293	*(9.3)*	
	Margin (%)	*29.7*	*31.2*		*30.3*		
	Adj. PAT	5,140	5,309	*(3.2)*	5,663	*(9.2)*	

Company Name		Q3FY19E	Q3FY18	YoY gr. (%)	Q2FY19	QoQ gr. (%)	Remark
Exide Industries	Sales	25,042	22,765	*10.0*	27,204	*(7.9)*	We expect Exide Industries to sustain the decent performance delivered by it over the past 3 quarters and record a revenue growth of 10% YoY but decline of ~8% QoQ owing to the dip in OEM demand. With lead prices softening (down 10-11% YoY as well as QoQ), our EBITDA margin expectation is at 13%, higher 60bps YoY & 80bps QoQ.
	EBITDA	3,267	2,826	*15.6*	3,327	*(1.8)*	
	Margin (%)	*13.0*	*12.4*		*12.2*		
	Adj. PAT	1,782	1,543	*15.5*	1,601	*11.3*	
Hero Motocorp	Sales	77,586	73,142	*6.1*	90,909	*(14.7)*	With volume growth of 5.3% YoY and expected realisation inch up of ~1% YoY over Q3FY19, revenue should grow ~6% YoY. Owing to commodity cost pressures, operating margins are expected to contract 100bps YoY / 40bps QoQ.
	EBITDA	11,505	11,580	*(0.6)*	13,787	*(16.6)*	
	Margin (%)	*14.8*	*15.8*		*15.2*		
	Adj. PAT	7,712	8,054	*(4.2)*	9,763	*(21.0)*	
Mahindra & Mahindra	Sales	138,539	115,778	*19.7*	129,886	*6.7*	M&M's overall volumes for the quarter were higher 11.3% YoY, where tractors were up 11.6% YoY (automotive volumes too were up 11%), forming 38.8% of total volumes (v/s 38.7% in Q3FY18 & 34.1% in Q2FY19) . Resultantly, we expect M&M's standalone revenues to increase ~20% YoY but EBITDA margin to be at 12.3%, lower 60bps YoY / 10bps QoQ on account of commodity costs pressures.
	EBITDA	16,986	14,953	*13.6*	16,050	*5.8*	
	Margin (%)	*12.3*	*12.9*		*12.4*		
	Adj. PAT	9,987	8,302	*20.3*	15,153	*(34.1)*	
Maruti Suzuki	Sales	193,503	192,832	*0.3*	224,332	*(13.7)*	MSIL volumes dipped 0.6% YoY (down ~12% QoQ) and with no significant price hike taken along with higher discounts given during the quarter, MSIL is expected to report flat revenues over Q3FY19. Further, given the commodity price rise as well as unfavourable Yen movement, margins are expected to be lower 230bps YoY / 180bps QoQ.
	EBITDA	26,189	30,378	*(13.8)*	34,313	*(23.7)*	
	Margin (%)	*13.5*	*15.8*		*15.3*		
	Adj. PAT	15,208	17,990	*(15.5)*	22,404	*(32.1)*	
Motherson Sumi Systems	Sales	154,808	143,979	*7.5*	151,050	*2.5*	For Q3FY19, we expect MSS to record a 7.5% YoY revenue growth to Rs154.8bn. We expect consolidated EBITDA margin of 9.2% (up 50bps YoY / 60bps QoQ) while EBITDA growth is expected at 12.6% YoY. SMR and SMP margins are likely to be 11.3% and 7.1%, respectively.
	EBITDA	14,180	12,595	*12.6*	13,001	*9.1*	
	Margin (%)	*9.2*	*8.7*		*8.6*		
	Adj. PAT	4,413	3,666	*20.4*	3,711	*18.9*	
Tata Motors	Sales	774,651	741,561	*4.5*	721,121	*7.4*	Standalone domestic volumes over Q3FY19 were flat YoY / down ~10% QoQ. Further, on account of higher discounting in the indutry, we expect standalone margins to be at 7.3%, down 120bps YoY as well as QoQ. JLR's Q2FY19E volumes are expected to be flat YoY / up ~14% QoQ, with margins at 11.4%, higher 50bps YoY / up 230bps QoQ.
	EBITDA	81,778	94,672	*(13.6)*	78,260	*4.5*	
	Margin (%)	*10.6*	*12.8*		*10.9*		
	Adj. PAT	8,757	10,766	*(18.7)*	-186	*(4,805.3)*	
TVS Motors	Sales	45,426	36,850	*23.3*	49,935	*(9.0)*	With ~20% YoY volume growth and ~3% YoY realisation improvement (higher share of exports in the product mix), TVS Motors' Q3FY19 revenue is expected to grow ~23% YoY. On the back of operating leverage and some currency benefit, we expect margins to expand 70bps YoY.
	EBITDA	3,863	2,868	*34.7*	4,282	*(9.8)*	
	Margin (%)	*8.5*	*7.8*		*8.6*		
	Adj. PAT	1,890	1,543	*22.4*	2,113	*(10.6)*	
Wabco India	Sales	6,751	6,499	*3.9*	7,428	*(9.1)*	Given the decline in the domestic M&HCV sector (down ~13% YoY / 20% QoQ), we expect Wabco India's Q3FY19 revenue to inch up ~4% YoY. Operating margins are expected to be lower 10bps YoY / 130bps QoQ (on account of commodity cost rise and no pass on of the same).
	EBITDA	1,032	1,003	*2.9*	1,231	*(16.2)*	
	Margin (%)	*15.3*	*15.4*		*16.6*		
	Adj. PAT	714	638	*11.9*	955	*(25.3)*	

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)			
				FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E
Ashok Leyland	BUY	93	146	262.5	303.6	349.9	361.2	27.4	30.9	36.6	39.4	15.6	17.8	21.3	23.1	5.3	6.1	7.3	7.9	23.5	23.1	23.8	24.0	17.5	15.4	12.8	11.8
Atul Auto	Acc	347	397	5.6	5.7	6.4	7.1	0.7	0.7	0.8	0.8	0.5	0.4	0.5	0.5	21.1	19.0	21.3	22.8	22.8	17.7	17.5	16.6	16.5	18.3	16.3	15.2
Bharat Forge	Acc	480	696	81.7	90.3	100.9	109.8	17.6	19.2	22.2	23.5	9.4	10.7	13.0	14.0	20.2	23.0	28.0	30.1	21.2	21.3	23.0	21.7	23.7	20.8	17.2	15.9
Bajaj Auto	Reduce	2,659	2,394	251.6	286.5	301.2	316.7	47.8	48.2	51.0	53.8	40.9	41.4	44.0	45.2	141.4	143.2	152.0	156.3	22.6	20.5	19.4	18.0	18.8	18.6	17.5	17.0
CEAT	Acc	1,285	1,255	62.3	67.5	81.5	98.2	6.1	6.7	8.2	10.1	2.7	3.0	3.4	3.8	67.2	74.5	83.7	93.0	10.8	11.1	11.5	11.6	19.1	17.2	15.4	13.8
Eicher Motors	HOLD	19,830	23,137	89.6	99.9	109.9	117.3	28.1	29.6	33.3	35.0	21.8	23.4	26.3	28.1	799.6	858.1	965.1	1,029.0	35.2	29.9	27.8	25.2	24.8	23.1	20.5	19.3
Exide Industries	Acc	262	268	91.9	106.3	123.9	130.7	12.4	14.3	16.9	17.8	7.1	8.3	10.1	10.5	8.4	9.8	11.9	12.3	13.7	14.7	15.9	14.8	31.4	26.7	22.1	21.3
Hero Motocorp	Acc	2,958	3,385	322.3	355.9	392.1	420.9	52.8	53.5	59.6	63.7	37.0	35.8	39.8	42.3	185.1	179.2	199.1	211.7	33.8	28.6	28.2	26.6	16.0	16.5	14.9	14.0
Mahindra & Mahindra	BUY	730	984	486.9	559.5	633.2	711.3	62.2	74.1	86.4	97.0	39.2	52.6	59.8	68.3	33.0	44.2	50.2	57.4	13.7	16.7	17.5	18.2	22.1	16.5	14.5	12.7
Maruti Suzuki	BUY	7,362	8,510	797.6	960.3	1,049.3	1,139.7	120.6	135.0	151.4	161.4	78.2	91.3	102.8	108.8	259.0	302.2	340.5	360.3	20.0	20.4	20.1	18.6	28.4	24.4	21.6	20.4
Motherson Sumi Systems	Acc	157	179	562.9	607.4	689.7	782.7	51.2	57.3	67.2	76.3	14.2	18.6	28.2	32.8	6.7	5.9	8.9	10.4	15.6	18.0	24.6	24.9	23.3	26.7	17.6	15.1
Tata Motors	BUY	175	267	2,946.2	3,084.7	3,410.4	3,774.9	369.7	429.5	468.6	506.1	58.3	85.7	120.1	144.9	17.2	25.2	35.4	42.7	7.6	8.6	10.9	11.8	10.2	6.9	5.0	4.1
TVS Motors	Acc	535	618	151.3	176.4	208.1	244.9	11.3	14.7	19.1	23.8	6.6	8.7	11.7	15.1	13.9	18.3	24.7	31.8	25.1	26.9	28.8	28.9	38.3	29.2	21.6	16.8
Wabco India	Acc	6,475	7,111	25.7	29.8	34.1	37.0	3.9	4.6	5.5	5.9	2.7	3.3	3.9	4.2	143.8	175.4	203.2	221.8	19.5	19.8	19.1	17.5	45.0	36.9	31.9	29.2

Source: Company, PL

January 7, 2019

Preferred Picks

HDFC Bank

ICICI Bank

Axis Bank

Cholamandalam

BFSI

Oct-Dec'18 Earnings Preview

Banks

Banks should see improvement in earnings on (i) Continued improvement in loan growth and lagged improvement in yields should benefit on margins (ii) cooling off in benchmark yields should help eliminate/lower MTM losses for most banks, while better prospects of higher treasury gains sequentially and (iii) lower credit provisions on stable asset quality. Key factors to watch out for will be NBFCs exposure & buyout of loans, slippages outside the watch list & Agri/SME/Retail, any recognition on IL&FS exposure and CASA growth. Other non-operational factors will be any guidance change in ICICI/Axis on back recent management changes; IIB provisions on IL&FS; Yes bank's management changes & divergence report.

- **Strong loan growth will be apple of the eye:** Overall system growth of 14-15% in Q3FY19 continued to improve v/s 13-13.5% in Q2FY19 on steady growth from retail, strong growth in services led by NBFCs and pick up in industrial credit. Market borrowing rates remained higher than bank rate in most of Q3FY19 and hence large shift in credit is likely to have been seen.

- **MCLR increases should aid yields v/s marginal deposit increases:** Banks increased MCLRs on various duration from 10-25bps QoQ especially on shorter tenure loans and 20-30bps by certain banks over six months which should start helping yields which were on lagging basis, while deposit rates have been steady with selective bucket increases and hence both factors should help marginal upward bias on margins of most banks.

- **Softening yields should help treasury & MTM provisions –** Benchmark yields have cooled off by 65bps sequentially and ~73bps from peak and hence should help banks to see negligible provisions on investment MTM who had already undertaken provisions and lower for amortizing banks. Also lower treasury yields are likely to benefit on other income as bank would have participated in RBI's OMOs of Rs1.36 trillion in Q3FY19.

- **Slippages will be continued to be contained:** We are building in slightly higher slippages of that seen sequentially, mostly on some seasonality in Agri/SME, but corporate slippages will continue to be lower and we do not expect large fallouts from existing watch list. We are also not expecting large recoveries/upgrades especially NCLT related but banks will continue to see write-offs and improvement in PCR ratios. Selective banks will see lower credit costs compared to H1FY19 but most bank will continue with higher provisions from ageing and improve PCR.

- **Earnings picture – Contrast performances on earnings but PPOP should be better:** Earnings will be contrasting across banks both within private and PSBs and hence we will keep tab on operational performance of most banks. We expect private banks PPOP to grow at 15% YoY on back of 17% YoY NII growth and PSBs PPOP to grow at 5-6% YoY on back of 10-11% NII growth with offsets from slower other income relatively across the sector. We also build-in steady loan growth of 20-21% in private banks and improvement in PSBs loan growth 7% YoY.

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Q3FY19 Banks Preview:

- **Private Banks –** We continue to build in steady loan growth of 20-21% YoY helping continue to gain market share on assets and higher participation in loan buyouts. While liabilities accretion will remain tough mainly on CASA and should see much stable growth. MCLR increases have been higher from private banks in last six months and hence should see the lagged benefit in yields helping marginal upward bias on margin. This we expect will help deliver 17-18% YoY growth in NII helping improve PPOP which has been impacted from subdued other income. We expect **ICICI/Axis** to see lower provisions relatively helping strong recovery in earnings, while **IIB/Yes** could likely to see higher provisions. **KMB/HDFCB** shall see improvement in other income on lower yields.

- **Public Sector Banks –** PSU banks also should continue to see gradual recovery in operating metrics as we expect loan growth of 7.0% YoY with SBI leading at 9-10% YoY. The primary reason being higher loan buyouts from NBFCs and lending for liquidity strapped corporates. Although we do not expect large margin improvements hence keeping NII growth subdued from growth and is likely to be driven by lower base effects. Importantly, lowered yields should benefit on treasury income and lower MTM on investments and stabilizing asset quality should require lower intensity on NPA provisions and hence we expect sharper recovery in earnings of PSBs. We expect **SBI** to see much sharper recovery in earnings, but deferral of ~Rs50bn of provision on Essar steel on transfer to lower bucket in Q2FY19 may likely be at risk in Q3FY19; while **BOB** will further improvement operationally, **PNB/BOI** should continue to be in loss (remainder of provisions) and **Union Bank** should not see much of change either.

- **Regional/Mid-sized banks –** Regional focused & mid-sized banks should continue to be on steady course on all parameters with loan growth near to slightly above industry growth, subdued but steady margins and region specific issues in SME/Agri/Retail will continue and hence we do not expect any offbeat earnings skewness from their individual reporting trends. **Federal** will continue to showcase strong loan growth but NII will lag to B/s growth for even **SIB/JKBK**. For **IDFCBK** things will be looking different due to merger but it will be more driven by strategy than earnings.

Financial Services

Sep-Nov-2018 period came as a big blow to financial services industry with the tightened liquidity scenario with increased risk perception leading to mounting funding costs pressures. While both liquidity and credit demand has already shown signs of normalization, calibration of growth and therefore suppressed margins should weigh upon Q3 earnings for financials services. Cautious lending particularly towards industries such as MSME, real estate, LAP and higher ticket exposures would imply slower disbursements for Q3 we reckon. While HFCs, largely should be bigger victims of the recent tightness in liquidity scenario, the fresh lending has contracted and against this backdrop we foresee 2.7% credit growth for our coverage universe of financial services. While vehicle financiers, are expected to show mixed performance, we derive greater confidence in diversified vehicle finance business model like CIFC to deliver on relative basis. Growth for wholesale financiers should take a back-seat in near term with proactive participation from the banking than NBFC channels. Q3 should also see recalibration of liability side of balance sheets for NBFCs with securitization and other sources of funding (ECB, masala bonds, deposits for deposit taking entities) gaining prominence. With INDAS transitioning impact smoothening out, incremental credit provisions are climbing down barring LTFH wherein we estimate tad higher provision requirement given the sensitive sectoral exposures. With risk perception persisting among lenders and investors alike, we maintain cautious stance on NBFCs and believe investors to side over flight to safety bets in the space.

- **Growth to calibrate:** RBI's liquidity cushion through timely OMOs, increased bank lending to NBFCs are indicative of stabilizing of liquidity scenario for NBFCs. Said that, with decline in loan to value metrics and increased cost of financing (~ almost 100bps to-date in current FY) and clamping down of lumpy exposures would mean lenders should tread cautiously. Against this backdrop, we reckon NBFCs to clock 2.7% sequential loan growth for Q3FY19.

- **NIMs to come under pressure:** The tight liquidity periods saw NBFCs facing asset-liability management challenges. With refinancing coming at a higher price and smaller ones unable to transmit the cost pressures through assets' repricing, NIMs have come under pressure for many. For PL, NBFC Universe while the ALM structure may not be majorly worrisome, funding costs have definitely seen a spike in the range of 30-100 bps and with lenders expected to stay cautios, NIMs are expected to see 24bps decline QoQ and ~80bps decline YoY.

- **Earnings picture – soft, CIFC to stand out:** While credit should consolidate to 16% growth for NBFCs, spreads stay under pressure translating into negative to flattish sequential earnings growth in Q3FY19. The advent of credit quality improvement with decline in credit costs YoY to support overall quarter earnings that otherwise look subdued largely due to fall in bottom-line for HDFC Ltd coming from a higher base. Under PL NBFC universe, we expect **CIFC/LTFH** to witness robust business traction (23% YoY each) followed by MMFS and SHTF (17% YoY and 16% YoY). While HFCs stand more vulnerable to interest rate and liquidity turmoil**, HDFC** should be least impacted given the deposit-led diversified liability mix and steady business. Expect 16%+

YoY growth led by strong individual loan book traction at 17% YoY as the company augments market share while the smaller ones consolidate. LICHF to report 14.5% loan growth largely supported by LAP/developer disbursements; retail loans run-rate catching up well too. Tepid growth, margin compression and anticipated regulatory interference in light of current liquidity turmoil continue to weigh upon valuations of NBFCs**. We reckon CIFC to clock healthy performance across key operational parameters for Q3FY19 from the PL, NBFC Universe.**

Change in Estimates & PTs for BFSI

- **Indusind Bank -** We adjust our earnings for Indusind Bank to factor in higher provisions on the infra account – IL&FS where it has exposure to Holdco and SPVs keeping credit cost higher and earnings under pressure. We are currently not envisaging the exposure to be recognized into NPA and hence expect asset quality to be maintained. Considering the estimates change we reduce our TP to Rs1,750 (from Rs2,000) based on 3.2x (from 3.4x) Sep-20 ABV.
- **ICICI Bank –** We increase our TP on ICICI to Rs415 (from Rs365) as we increase our multiple to 1.8x from 1.6x Sep-20 ABV & SoTP, mainly as we see this business cycle will lead to higher multiples unlike last two cycles which had effects from Retail (2005-2008) and corporate cycle (from 2012-2018) and discount to peer banks should narrow as earnings will see sharper recovery.

Exhibit 1: IIB – Change in estimates table

(Rs mn)	Old			Revised			*% Change*		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	*FY19E*	*FY20E*	*FY21E*
Net interest income	90,087	110,297	138,768	90,243	110,561	135,457	*0.2*	*0.2*	*(2.4)*
Operating profit	80,845	98,111	123,171	81,780	101,060	124,709	*1.2*	*3.0*	*1.2*
Net profit	42,391	54,382	68,307	39,120	50,759	69,042	*(7.7)*	*(6.7)*	*1.1*
EPS, Rs.	70.6	90.6	113.8	65.2	84.6	115.0	*(7.7)*	*(6.7)*	*1.1*
ABV per share, Rs.	437.7	519.6	619.3	431.4	503.7	605.5	*(1.4)*	*(3.1)*	*(2.2)*
Price target, Rs.		2,000			1,750			*-12.5%*	
Recommendation		BUY			BUY				

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)			RoE (%)		
							FY18	FY19E	FY20E	FY18	FY19E	FY20E
Axis Bank	ACC	1,638	637	681	681	*6.8*	3.3	2.7	2.4	0.5	7.1	12.3
HDFC Bank	BUY	5,767	2,121	2,310	2,310	*8.9*	5.5	4.1	3.6	17.9	16.5	16.2
ICICI Bank	BUY	2,368	368	365	415	*12.9*	2.2	1.9	1.7	6.8	3.7	8.8
IndusInd Bank	BUY	939	1,559	2,000	1,750	*12.2*	4.1	3.6	3.1	16.5	15.6	17.5
Yes Bank	ACC	433	187	231	231	*23.4*	1.7	1.5	1.3	17.7	17.6	18.5
Kotak	HOLD	2,378	1,247	1,291	1,291	*3.6*	5.3	4.8	4.2	10.9	11.3	12.7
Federal	BUY	188	95	102	102	*7.8*	1.8	1.7	1.5	8.3	9.3	12.0
J&K Bank	BUY	21	38	94	94	*150.3*	0.8	0.6	0.5	3.8	6.8	12.5
South Indian Bank	BUY	28	15	22	22	*44.3*	0.8	0.8	0.7	7.0	6.5	8.6
IDFC Bank	ACC	157	46	55	55	*19.2*	1.1	1.1	1.1	5.7	1.4	2.6
Bank of Baroda	BUY	325	123	161	161	*31.2*	1.4	1.2	0.9	(5.8)	6.5	10.8
Bank of India	REDUCE	185	106	89	89	*(16.4)*	1.8	1.5	1.1	NA	NA	6.1
Punjab National Bank	HOLD	299	81	79	79	*(1.9)*	6.7	3.2	1.6	NA	NA	6.6
SBI	BUY	2,644	296	355	355	*19.8*	1.7	1.4	1.2	NA	0.8	7.0
Union Bank	REDUCE	106	91	79	79	*(12.8)*	1.8	1.6	1.1	2.7	(24.0)	3.3
Cholamandalam	BUY	187	1,198	1,597	1,597	*33.3*	4.2	3.3	2.6	20.6	21.3	21.3
LTFH	ACC	291	146	170	170	*16.7*	2.6	2.9	2.4	16.1	16.6	19.1
HDFC	BUY	3,392	1,973	2,265	2,265	*14.8*	2.9	2.3	2.1	24.5	15.1	15.1
LIC Housing Finance	ACC	242	479	537	537	*12.0*	2.0	1.8	1.6	16.8	15.5	15.2
MMFS	ACC	288	467	516	516	*10.6*	4.0	3.5	3.0	11.3	12.9	15.1
Shriram Transport	BUY	267	1,176	1,660	1,660	*41.1*	2.3	1.9	1.6	19.9	18.2	18.6
HDFC Standard Life	BUY	793	393	440	440	*11.9*	5.2	4.3	3.5	23.6	22.3	24.7
ICICI PruLife	BUY	459	320	507	507	*58.3*	2.4	2.2	1.9	16.1	12.4	15.4
Max Financial Services	BUY	117	436	629	629	*44.4*	1.6	1.3	1.1	23.0	19.9	21.0
SBI Life	BUY	602	602	779	779	*29.2*	3.2	2.7	2.3	15.4	15.2	17.4

Source: Company, PL

*Note – *Kotak & SBI valuation on S'lone bookNote – For Insurance companies, valuations are based on P/EV (x) and Op. RoEV (%)*

Exhibit 3: Q3FY19 Results Preview (Rs m) – Better PPOP performance; earnings to be skewed

Rs Million	NII	YoY	QoQ	PPOP	YoY	QoQ	PAT	YoY	QoQ
HDFC Bank	124,242	20.5%	5.6%	101,995	20.7%	7.6%	55,795	20.2%	11.5%
ICICI Bank	65,078	14.1%	1.4%	55,934	10.6%	6.5%	13,836	-16.2%	52.2%
Axis Bank	53,735	13.6%	2.7%	41,716	8.2%	1.9%	12,478	71.8%	NA
Kotak	27,512	14.9%	2.3%	21,317	17.1%	1.8%	12,263	16.4%	7.4%
IndusInd	23,012	21.4%	4.4%	20,835	25.2%	4.6%	9,969	6.5%	8.3%
Yes	25,068	32.7%	3.7%	24,944	24.6%	5.4%	11,166	3.7%	15.7%
SIB	5,219	2.5%	3.1%	3,064	-7.2%	-1.1%	857	-25.5%	NA
J&K	8,352	7.0%	5.5%	3,708	-3.1%	8.2%	1,074	48.2%	14.6%
Federal	10,806	13.7%	5.7%	7,158	27.4%	2.6%	2,986	14.6%	12.2%
IDFC Bank	4,747	-4.1%	5.2%	872	-72.3%	366.1%	439	-70.0%	-111.9%
SBI	213,019	14.0%	1.9%	137,860	17.3%	-0.9%	20,517	-184.9%	117.1%
PNB	40,460	1.4%	1.8%	30,255	-28.7%	6.6%	(20,362)	NA	NA
BOI	30,289	21.1%	3.5%	21,223	56.7%	28.9%	(4,706)	NA	NA
BOB	45,223	2.9%	0.7%	32,010	-12.3%	3.9%	8,166	630.6%	92.0%
Union	25,861	1.5%	3.7%	18,035	9.0%	1.8%	1,606	NA	15.5%
HDFC	32,902	12.3%	8.7%	38,465	-41.6%	-1.1%	26,736	-52.8%	8.4%
LIC Housing	9,626	7.2%	-4.9%	9,268	15.1%	-3.8%	5,385	9.7%	-6.0%
MMFSL	11,420	6.6%	-2.1%	7,569	15.5%	-3.8%	3,284	18.6%	-13.9%
Shriram Tran.	19,418	13.6%	-5.5%	15,131	12.2%	-6.8%	6,065	22.4%	-0.5%
Cholamandalam	8,915	12.4%	-0.3%	5,775	7.4%	-4.2%	3,253	30.5%	-15.9%
LTFH	12,669	-0.3%	2.9%	10,476	11.3%	10.4%	5,111	32.9%	-8.6%
Total	**797,573**	**12.2%**	**1.9%**	**607,606**	**4.3%**	**2.9%**	**175,918**	**38.9%**	**64.6%**
Total Private Banks	**347,771**	**17.2%**	**3.8%**	**281,541**	**15.2%**	**5.7%**	**120,863**	**13.2%**	**23.4%**
Total Public Banks	**354,853**	**10.5%**	**2.0%**	**239,383**	**5.6%**	**3.0%**	**5,221**	**-109.2%**	**112.5%**
Total NBFCs (Incl HFCs)	**94,949**	**9.5%**	**1.2%**	**86,682**	**-20.3%**	**-1.7%**	**49,834**	**-34.1%**	**0.1%**
Rs Billion	**Loans**	**YoY**	**QoQ**	**Margins**	**YoY**	**QoQ**	**Credit Cost**	**YoY**	**QoQ**
HDFC Bank	7,810	23.7%	4.0%	4.32%	0.02%	0.02%	0.88%	0.02%	-0.09%
ICICI Bank	5,717	13.1%	5.0%	3.30%	0.16%	0.00%	2.55%	-0.28%	-0.38%
Axis Bank	4,753	12.9%	4.2%	3.38%	0.00%	0.02%	1.96%	-0.71%	-0.61%
Kotak	1,951	22.7%	5.5%	4.15%	-0.05%	-0.05%	0.56%	0.03%	-0.20%
IndusInd	1,680	30.7%	3.0%	3.80%	-0.19%	-0.04%	1.39%	0.66%	-0.06%
Yes	2,490	45.2%	3.9%	3.28%	-0.22%	-0.02%	1.37%	0.39%	-0.20%
SIB	599	16.0%	5.9%	2.63%	-0.25%	0.02%	1.18%	-0.02%	-0.27%
J&K	669	15.4%	5.0%	3.70%	-0.32%	0.01%	1.24%	-0.48%	0.16%
Federal	1,060	24.8%	5.0%	3.17%	-0.16%	0.02%	0.98%	0.22%	-0.16%
IDFC Bank	552	17.2%	2.5%	1.55%	-0.35%	-0.05%	0.21%	-0.71%	-4.26%
SBI	20,102	10.1%	2.7%	2.75%	0.30%	0.02%	2.16%	-1.97%	-0.31%
PNB	4,482	-0.9%	4.0%	2.30%	0.02%	-0.04%	5.30%	1.34%	-3.76%
BOI	3,471	-1.1%	2.0%	2.29%	0.41%	0.02%	3.27%	-2.32%	-0.66%
BOB	4,474	12.0%	3.2%	2.63%	-0.09%	0.02%	1.77%	-1.66%	-0.47%
Union	3,018	2.8%	3.0%	2.20%	-0.14%	0.02%	2.11%	-2.33%	-0.15%
HDFC	3,946	15.3%	4.1%	3.09%	-0.77%	0.06%	0.10%	-0.01%	-0.33%
LIC Housing	1,788	14.5%	1.7%	2.17%	-0.16%	-0.17%	0.25%	0.12%	-0.25%
MMFSL	609	17.6%	2.4%	7.59%	-1.07%	-0.31%	1.84%	0.31%	0.29%
Shriram Tran.	1,047	16.4%	0.3%	7.43%	-0.33%	-0.76%	2.21%	-0.39%	-0.40%
Chola	483	23.6%	1.2%	7.01%	-1.39%	0.01%	0.67%	0.67%	0.67%
LTFH	939	23.7%	3.0%	5.47%	-1.33%	-0.07%	1.77%	-0.82%	1.11%
Banks	**71,641**	**12.6%**	**3.0%**	**3.03%**	**-0.06%**	**0.00%**	**2.22%**	**-0.42%**	**-0.19%**
NBFCs	**8,813**	**16.7%**	**2.7%**	**5.46%**	**-0.84%**	**-0.20%**	**0.71%**	**-2.20%**	**-1.91%**

Source: Company, PL

Exhibit 4: Margins in Q3FY19E – Margins on upward bias as MCLR increase benefit overall yields

	Q3FY18	Q2FY19	Q3FY19E	YoY	QoQ
HDFC Bank	4.30%	4.30%	4.32%	0.02%	0.02%
ICICI Bank	3.14%	3.30%	3.30%	0.16%	0.00%
Axis Bank	3.38%	3.36%	3.38%	0.00%	0.02%
Kotak	4.20%	4.20%	4.15%	-0.05%	-0.05%
IndusInd	3.99%	3.84%	3.80%	-0.19%	-0.04%
Yes	3.50%	3.30%	3.28%	-0.22%	-0.02%
SIB	2.88%	2.61%	2.63%	-0.25%	0.02%
J&K	4.02%	3.69%	3.70%	-0.32%	0.01%
Federal	3.33%	3.15%	3.17%	-0.16%	0.02%
IDFC Bank	1.90%	1.60%	1.55%	-0.35%	-0.05%
SBI	2.45%	2.73%	2.75%	0.30%	0.02%
PNB	2.28%	2.34%	2.30%	0.02%	-0.04%
BOI	1.88%	2.27%	2.29%	0.41%	0.02%
BOB	2.72%	2.61%	2.63%	-0.09%	0.02%
Union	2.34%	2.18%	2.20%	-0.14%	0.02%
HDFC	3.86%	3.03%	3.09%	-0.77%	0.06%
LIC Housing	2.33%	2.34%	2.17%	-0.16%	-0.17%
MMFSL	8.66%	7.90%	7.59%	-1.07%	-0.31%
Shriram Tran.	7.75%	8.19%	7.43%	-0.33%	-0.76%
Cholamandalam	8.40%	7.00%	7.01%	-1.39%	0.01%
LTFH	6.80%	5.54%	5.47%	-1.33%	-0.07%

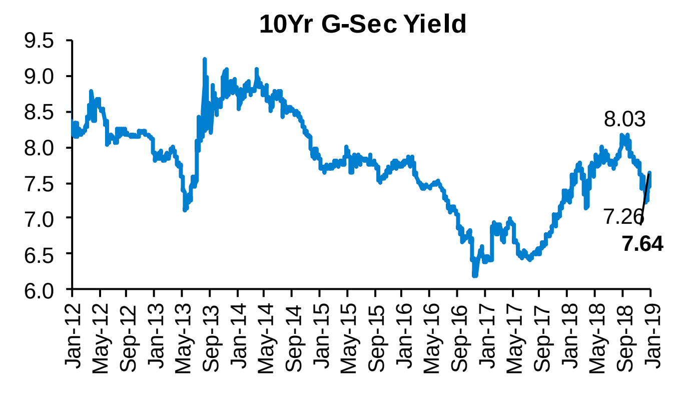
Source: Company, PL

Exhibit 5: Total provisions in Q3FY19E – Credit cost to come off marginally on lower MTM losses and stable asset quality

	Q3FY18	Q2FY19	Q3FY19E	YoY	QoQ
HDFC Bank	0.86%	0.97%	0.88%	0.02%	-0.09%
ICICI Bank	2.83%	2.93%	2.55%	-0.28%	-0.38%
Axis Bank	2.67%	2.57%	1.96%	-0.71%	-0.61%
Kotak	0.54%	0.77%	0.56%	0.03%	-0.20%
IndusInd	0.73%	1.45%	1.39%	0.66%	-0.06%
Yes	0.98%	1.57%	1.37%	0.39%	-0.20%
SIB	1.20%	1.45%	1.18%	-0.02%	-0.27%
J&K	1.73%	1.08%	1.24%	-0.48%	0.16%
Federal	0.76%	1.14%	0.98%	0.22%	-0.16%
IDFC Bank	0.92%	4.47%	0.21%	-0.71%	-4.26%
SBI	4.13%	2.47%	2.16%	-1.97%	-0.31%
PNB	3.95%	9.06%	5.30%	1.34%	-3.76%
BOI	5.58%	3.93%	3.27%	-2.32%	-0.66%
BOB	3.43%	2.24%	1.77%	-1.66%	-0.47%
Union	4.43%	2.26%	2.11%	-2.33%	-0.15%
HDFC	0.11%	0.42%	0.10%	-0.01%	-0.33%
LIC Housing	0.12%	0.50%	0.25%	0.12%	-0.25%
MMFSL	1.54%	1.55%	1.84%	0.31%	0.29%
Shriram Tran.	2.60%	2.62%	2.21%	-0.39%	-0.40%
Cholamandalam	0.92%	0.51%	0.67%	-0.25%	0.16%
LTFH	2.60%	0.66%	1.77%	-0.82%	1.11%

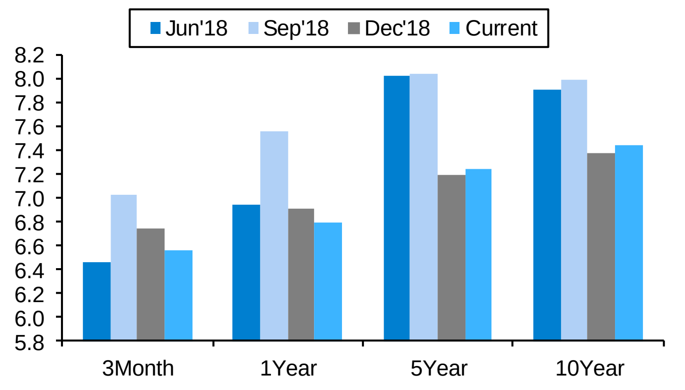
Source: Company, PL

Exhibit 6: G-sec yields gradually cooling off



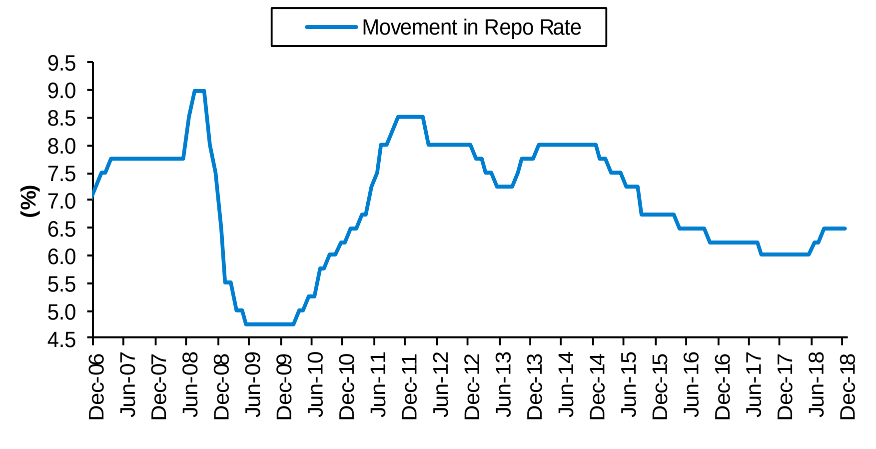
Source: Bloomberg, PL

Exhibit 7: Moderation in rates across all buckets



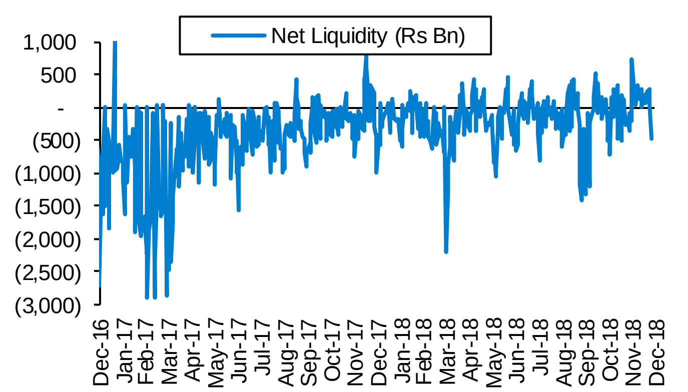
Source: Company, PL

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



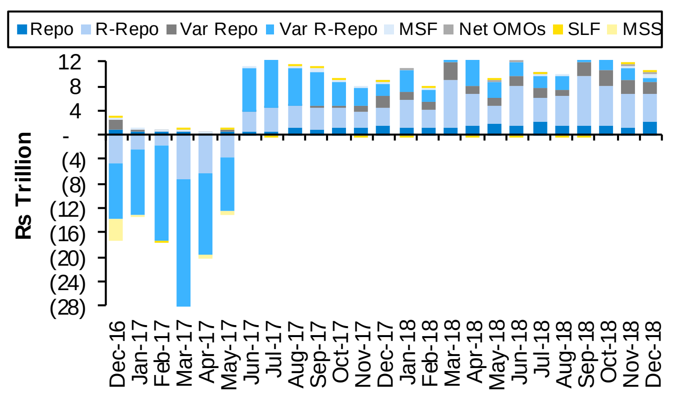
Source: Bloomberg, PL

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



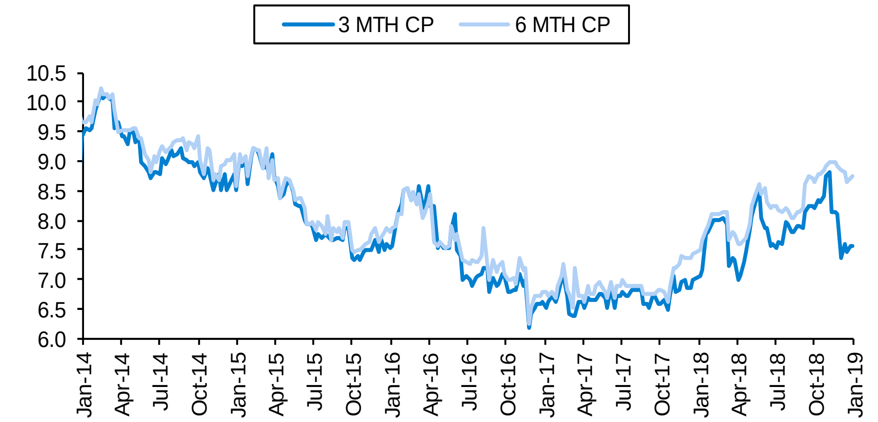
Source: Bloomberg, PL

Exhibit 10: Rs1.3trillion of OMOs help liquidity



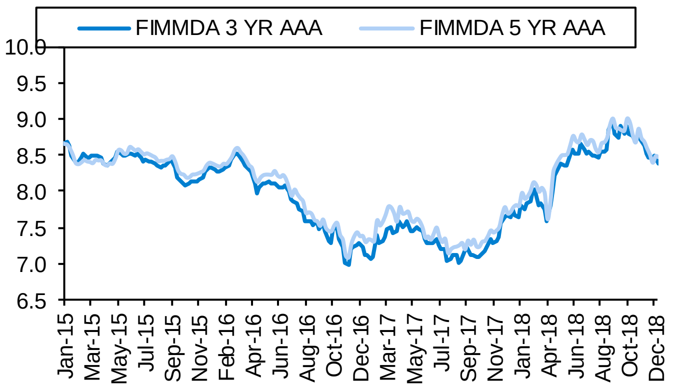
Source: Bloomberg, PL

Exhibit 11: Short term rates are easing post climb up on NBFC crisis



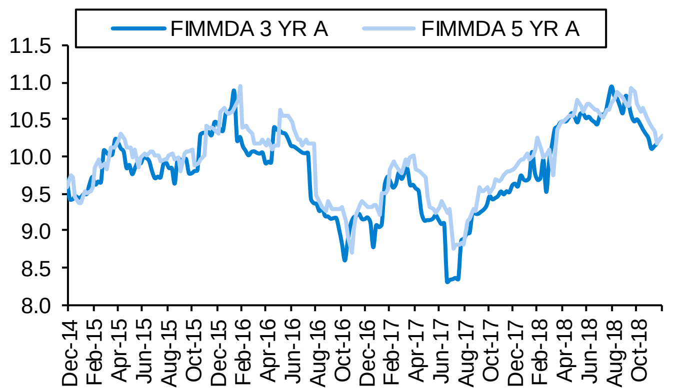
Source: Bloomberg, PL

Exhibit 12: Longer tenure rates tracking G-sec yields…



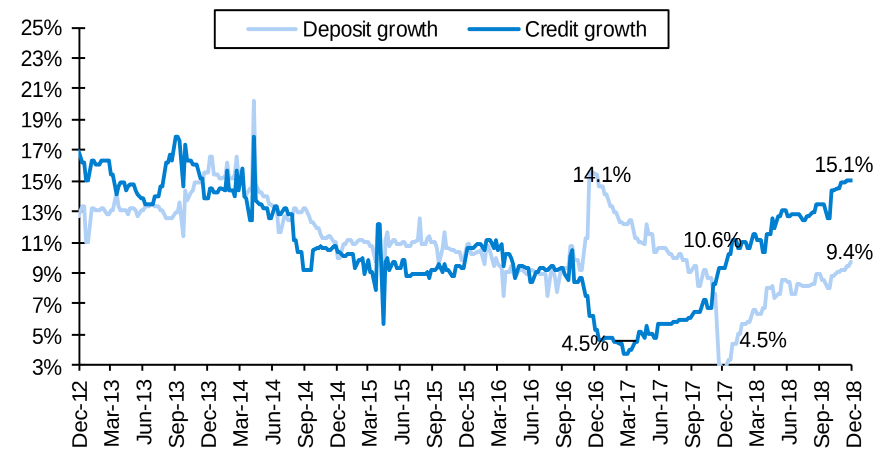
Source: Bloomberg, PL

Exhibit 13: …so has been on A rated bond



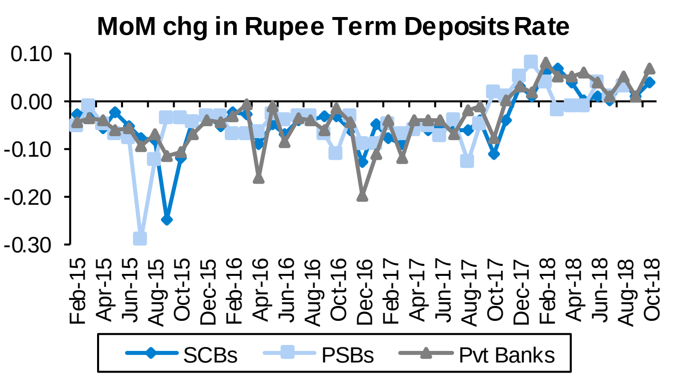
Source: Bloomberg, PL

Exhibit 14: Credit growth on strong footing; deposits seeing steady growth



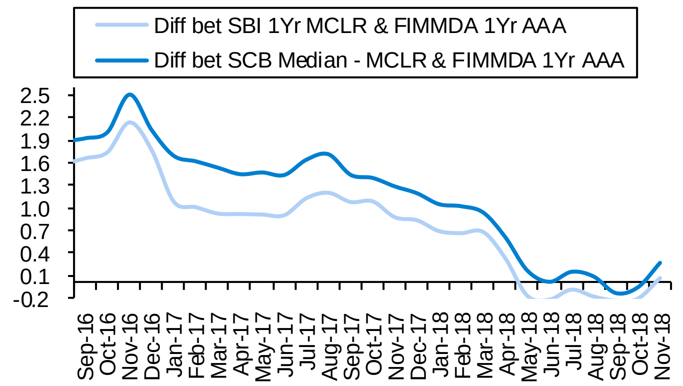
Source: Bloomberg, PL *Note – Data released upto mid Dec'18*

Exhibit 15: Term deposit rates movement has been slower and in selective buckets



Source: Bloomberg, PL

Exhibit 16: NBFC crisis has lowered arbitrage between bank market rates and bank rates



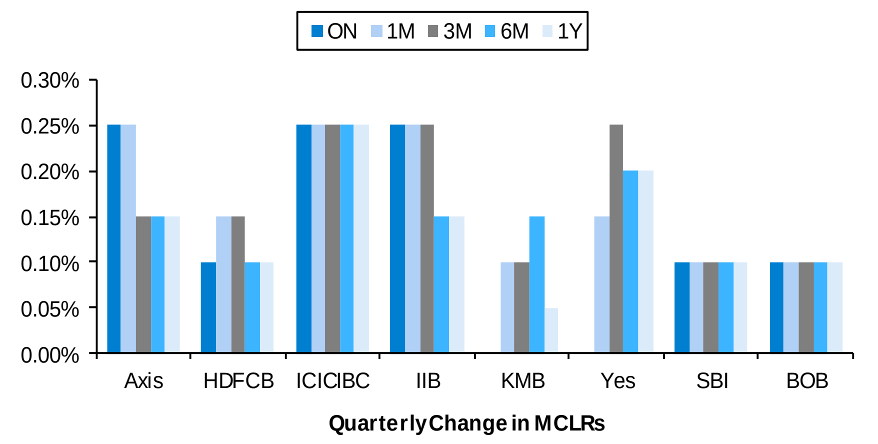
Source: Bloomberg, PL

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

Banks	MCLR 1YR			% Change	
	Jun-18	Sep-18	Dec-18	*3Months*	*6Months*
Axis Bank	8.40%	8.60%	8.70%	*0.10%*	*0.30%*
HDFC Bank	8.60%	8.70%	8.85%	*0.15%*	*0.25%*
ICICI Bank	8.40%	8.55%	8.80%	*0.25%*	*0.40%*
KMB	8.90%	8.95%	9.00%	*0.05%*	*0.10%*
IndusInd Bank	9.55%	9.65%	9.80%	*0.15%*	*0.25%*
Yes Bank	9.45%	9.65%	9.85%	*0.20%*	*0.40%*
SBI	8.25%	8.45%	8.55%	*0.10%*	*0.30%*
Bank of Baroda	8.45%	8.55%	8.65%	*0.10%*	*0.20%*
Bank of India	8.50%	8.60%	8.70%	*0.10%*	*0.20%*
Punjab National Bank	8.40%	8.45%	8.50%	*0.05%*	*0.10%*
Canara Bank	8.50%	8.60%	8.70%	*0.10%*	*0.20%*
Union Bank	8.45%	8.55%	8.70%	*0.15%*	*0.25%*
Federal	9.15%	9.20%	9.20%	*0.00%*	*0.05%*
South Indian Bank	9.20%	9.35%	9.45%	*0.10%*	*0.25%*
J&K Bank	8.80%	8.85%	9.00%	*0.15%*	*0.20%*

Source: Company, PL

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



Source: Company, PL

Exhibit 19: Q3FY19 Result Review (Private Banks)

Company Name		Q3FY19E	Q3FY18	YoY Chg.	Q2FY19	QoQ Chg.	Remark
Axis Bank	NII (Rs mn)	53,735	47,315	*13.6*	52,321	*2.7*	Loan growth should be better on loan buyouts from NBFCs and raised MCLRs should benefit yields and marginally NIMs leading to 13-14% NII growth
	PPOP (Rs mn)	41,716	38,538	*8.2*	40,940	*1.9*	
	Provisions (Rs mn)	23,285	28,110	*(17.2)*	29,274	*(20.5)*	
	PAT (Rs mn)	12,478	7,264	*71.8*	7,896	*58.0*	
	Loans (Rs bn)	4,753	4,209	*12.9*	4,561	*4.2*	Credit cost should come off sharply QoQ on lower than trending slippages and stable asset quality driving earnings
	Margin (%)	*3.38*	*3.38*	*-*	*3.36*	*2*	
	GNPA (%)	*5.62*	*5.28*	*34*	*5.96*	*(34)*	
	Credit Cost (%)	*1.96*	*2.67*	*(71)*	*2.57*	*(61)*	
HDFC Bank	NII (Rs mn)	1,24,242	1,03,143	*20.5*	1,17,634	*5.6*	Bank should continue to deliver stable 20% YoY earnings growth on stable margins & loan growth. Other income could improve on treasury gains
	PPOP (Rs mn)	1,01,995	84,512	*20.7*	94,799	*7.6*	
	Provisions (Rs mn)	17,200	13,514	27.3	18,200	(5.5)	
	PAT (Rs mn)	55,795	46,425	*20.2*	50,057	*11.5*	
	Loans (Rs bn)	7,810	6,312	*23.7*	7,508	*4.0*	Provisions could slightly higher despite MTM gains as bank could likely have an exposure on IL&FS and could make provisions on the same
	Margin (%)	*4.32*	*4.30*	*2*	*4.30*	*2*	
	GNPA (%)	*1.36*	*1.29*	*7*	*1.33*	*3*	
	Credit Cost (%)	*0.88*	*0.86*	*2*	*0.97*	*(9)*	
ICICI Bank	NII (Rs mn)	65,078	57,053	*14.1*	64,176	*1.4*	NII recovery should continue to be good as loan growth improves incl. the loan buyouts from NBFCs, but PPOP growth should be lower than NII as other income will remain tepid
	PPOP (Rs mn)	55,934	50,578	*10.6*	52,497	*6.5*	
	Provisions (Rs mn)	36,447	35,696	*2.1*	39,943	*(8.8)*	
	PAT (Rs mn)	13,836	16,502	*(16.2)*	9,089	*52.2*	
	Loans (Rs bn)	5,717	5,054	*13.1*	5,445	*5.0*	
	Margin (%)	*3.30*	*3.14*	*16*	*3.30*	*-*	Credit cost to slightly come off as slippages should be under control and asset quality should be stable
	GNPA (%)	*8.28*	*7.82*	*46*	*8.54*	*(26)*	
	Credit Cost (%)	*2.55*	*2.83*	*(28)*	*2.93*	*(38)*	
IndusInd Bank	NII (Rs mn)	23,012	18,948	*21.4*	22,033	*4.4*	IIB's earnings could be under pressure as it does higher provisions on IL&FS similar to last quarter but we are likely to not see any recognition of IL&FS in NPA
	PPOP (Rs mn)	20,835	16,647	*25.2*	19,924	*4.6*	
	Provisions (Rs mn)	5,844	2,362	147.4	5,903	(1.0)	
	PAT (Rs mn)	9,969	9,362	*6.5*	9,203	*8.3*	
	Loans (Rs bn)	1,680	1,285	*30.7*	1,631	*3.0*	Operationally the bank will continue to deliver strong performance on loan growth, margins and PPOP with a continued 25% YoY growth
	Margin (%)	*3.80*	*3.99*	*(19)*	*3.84*	*(4)*	
	GNPA (%)	*1.11*	*1.16*	*(5)*	*1.09*	*2*	
	Credit Cost (%)	*1.39*	*0.73*	*66*	*1.45*	*(6)*	
Yes Bank	NII (Rs mn)	25,068	18,888	*32.7*	24,176	*3.7*	Expect loan growth to slow on high base and as focus will be on capital usage. Margins should be steady leading to NII growth slower than B/s growth.
	PPOP (Rs mn)	24,944	20,018	*24.6*	23,664	*5.4*	
	Provisions (Rs mn)	8,522	4,213	*102.3*	9,400	*(9.3)*	
	PAT (Rs mn)	11,166	10,769	*3.7*	9,647	*15.7*	Overall provisions could come down as benefit from lower yields should benefit on investment MTM
	Loans (Rs bn)	2,490	1,715	*45.2*	2,396	*3.9*	
	Margin (%)	*3.28*	*3.50*	*(22)*	*3.30*	*(2)*	
	GNPA (%)	*1.59*	*1.72*	*(13)*	*1.60*	*(1)*	Asset quality will depend on RBI's asset quality review report
	Credit Cost (%)	*1.37*	*0.98*	*39*	*1.57*	*(20)*	
Kotak Mahindra Bank	NII (Rs mn)	27,512	23,937	*14.9*	26,891	*2.3*	Business performance should continue to be strong with loan growth of 23% YoY, steady margins, steady asset quality and lower credit cost on lower MTM
	PPOP (Rs mn)	21,317	18,201	*17.1*	20,950	*1.8*	
	Provisions (Rs mn)	2,736	2,128	28.6	3,538	(22.7)	
	PAT (Rs mn)	12,263	10,532	*16.4*	11,417	*7.4*	CASA should be closely watched as 811 product has slowed process down
	Loans (Rs bn)	1,951	1,591	*22.7*	1,849	*5.5*	
	Margin (%)	*4.15*	*4.20*	*(5)*	*4.20*	*(5)*	Capital market subsidiaries should be better off but financial savings driven should see small weaknesses
	GNPA (%)	*2.12*	*2.31*	*(19)*	*2.15*	*(3)*	
	Credit Cost (%)	*0.56*	*0.54*	*3*	*0.77*	*(20)*	

Company Name		Q3FY19E	Q3FY18	*YoY Chg.*	Q2FY19	*QoQ Chg.*	Remark
IDFC Bank	NII (Rs mn)	4,747	4,950	*(4.1)*	4,512	*5.2*	IDFC Bank (Non-Capital First) will continue to be tepid on overall basis, but retail loan growth and CASA accretion should see better build-up Asset quality should be stable and hence lowering credit cost as bank has reached much required provisions Merger & integration guidance will be important
	PPOP (Rs mn)	872	3,147	*(72.3)*	187	*366.1*	
	Provisions (Rs mn)	286	1,086	*(73.6)*	6,014	*(95.2)*	
	PAT (Rs mn)	439	1,461	*(70.0)*	(3,697)	*(111.9)*	
	Loans (Rs bn)	552	471	*17.2*	539	*2.5*	
	Margin (%)	*1.55*	*1.90*	*(35)*	*1.60*	*(5)*	
	GNPA (%)	*1.67*	*5.62*	*(395)*	*1.63*	*4*	
	Credit Cost (%)	*0.21*	*0.92*	*(71)*	*4.47*	*(426)*	
Federal	NII (Rs mn)	10,806	9,500	*13.7*	10,225	*5.7*	FB will continue to have strong PPOP on back of steady NII growth on steady margins, lower opex. We also expect provisions to come down on no MTM losses. Asset quality to slight deteriorate as SME/Agri slippage are likely to be higher but should be under control and within guidance
	PPOP (Rs mn)	7,158	5,619	*27.4*	6,976	*2.6*	
	Provisions (Rs mn)	2,599	1,624	60.0	2,888	(10.0)	
	PAT (Rs mn)	2,986	2,605	*14.6*	2,660	*12.2*	
	Loans (Rs bn)	1,060	850	*24.8*	1,009	*5.0*	
	Margin (%)	*3.17*	*3.33*	*(16)*	*3.15*	*2*	
	GNPA (%)	*3.16*	*2.52*	*64*	*3.11*	*5*	
	Credit Cost (%)	*0.98*	*0.76*	*22*	*1.14*	*(16)*	
J&K Bank	NII (Rs mn)	8,352	7,802	*7.0*	7,919	*5.5*	Loan growth previously has been strong but we expect it at 15-16% as higher growth will lead to higher capital use. J&K book growth will be strong with steady margins Asset quality should not be big issue and we expect bank will continue to build its PCR. We watch out restructured book as moratorium based performance ends
	PPOP (Rs mn)	3,708	3,827	*(3.1)*	3,427	*8.2*	
	Provisions (Rs mn)	2,081	2,501	*(16.8)*	1,724	*20.7*	
	PAT (Rs mn)	1,074	725	*48.2*	938	*14.6*	
	Loans (Rs bn)	669	579	*15.4*	637	*5.0*	
	Margin (%)	*3.70*	*4.02*	*(32)*	*3.69*	*1*	
	GNPA (%)	*8.68*	*10.08*	*(140)*	*9.00*	*(32)*	
	Credit Cost (%)	*1.24*	*1.73*	*(48)*	*1.08*	*16*	
South Indian Bank	NII (Rs mn)	5,219	5,094	*2.5*	5,065	*3.1*	We expect loan growth to be good at 16% YoY but NII will be slow on subdued margins. PPOP is likely to be impacted from continued wage & gratuity provision and lower other income, Credit cost though should come off but PCR continues to be low and we expect bank will gradually improve it. We do not expect Kerala floods impacting with lag.
	PPOP (Rs mn)	3,064	3,302	*(7.2)*	3,098	*(1.1)*	
	Provisions (Rs mn)	1,765	1,543	14.4	2,047	(13.8)	
	PAT (Rs mn)	857	1,150	*(25.5)*	701	*22.2*	
	Loans (Rs bn)	599	516	*16.0*	566	*5.9*	
	Margin (%)	*2.63*	*2.88*	*(25)*	*2.61*	*2*	
	GNPA (%)	*4.59*	*3.40*	*119*	*4.61*	*(2)*	
	Credit Cost (%)	*1.18*	*1.20*	*(2)*	*1.45*	*(27)*	

Source: Company, PL

Exhibit 20: Q3FY19 Result Review (PSU Banks)

Company Name		Q3FY19E	Q3FY18	YoY Chg.	Q2FY19	QoQ Chg.	Remark
Bank of Baroda	NII (Rs mn)	45,223	43,940	2.9	44,925	0.7	BOB earnings should continue to see good recovery on lowered provisions PPOP is likely be slower as NII growth remains subdued despite better loan growth and lower other income We build in slightly higher slippages from last quarter despite exchange rate impact on NPAs will be lower
	PPOP (Rs mn)	32,010	36,501	(12.3)	30,819	3.9	
	Provisions (Rs mn)	19,822	34,265	(42.2)	24,295	(18.4)	
	PAT (Rs mn)	8,166	1,118	630.6	4,254	92.0	
	Loans (Rs bn)	4,474	3,994	12.0	4,335	3.2	
	Margin (%)	2.63	2.72	(9)	2.61	2	
	GNPA (%)	11.20	11.31	(11)	11.78	(58)	
	Credit Cost (%)	1.77	3.43	(166)	2.24	(47)	
Bank of India	NII (Rs mn)	30,289	25,012	21.1	29,268	3.5	BOI will improve its operating performance on lower base and as B/s should see lower rate of de-growth. Though asset quality is likely to be stable, credit cost will continue to be higher also v/s peers on ageing of NPA and improvement in PCR
	PPOP (Rs mn)	21,223	13,543	56.7	16,470	28.9	
	Provisions (Rs mn)	28,353	48,997	(42.1)	33,433	(15.2)	
	PAT (Rs mn)	(4,706)	(23,412)	(79.9)	(11,563)	(59.3)	
	Loans (Rs bn)	3,471	3,509	(1.1)	3,403	2.0	
	Margin (%)	2.29	1.88	41	2.27	2	
	GNPA (%)	16.15	16.93	(78)	16.36	(21)	
	Credit Cost (%)	3.27	5.58	(232)	3.93	(66)	
Punjab National Bank	NII (Rs mn)	40,460	39,887	1.4	39,741	1.8	PNB will continue to report losses as continues to do the residual fraud related provisions and other provisions like MTM losses, gratuity and wage Lack of capital will also lead to tepid loan growth and slower NII We do not envisage higher slippages than seen from last quarter
	PPOP (Rs mn)	30,255	42,452	(28.7)	28,395	6.6	
	Provisions (Rs mn)	59,344	44,667	32.9	97,579	(39.2)	
	PAT (Rs mn)	(20,362)	2,301	(984.9)	(45,324)	(55.1)	
	Loans (Rs bn)	4,482	4,521	(0.9)	4,310	4.0	
	Margin (%)	2.30	2.28	2	-	230	
	GNPA (%)	16.52	12.11	441	17.16	(64)	
	Credit Cost (%)	5.30	3.95	134	9.06	(376)	
State Bank of India	NII (Rs mn)	2,13,019	1,86,879	14.0	2,09,057	1.9	We expect slight improvement in loan growth helped by loan buyouts from NBFCs and continued retail growth Operational should see improvement on NII from steady margins, better treasury gains and control on opex Asset quality should be stable as slippages should be largely similar QoQ and not too large recoveries
	PPOP (Rs mn)	1,37,860	1,17,549	17.3	1,39,049	(0.9)	
	Provisions (Rs mn)	1,08,550	1,88,762	(42.5)	1,20,922	(10.2)	
	PAT (Rs mn)	20,517	(24,160)	(184.9)	9,449	117.1	
	Loans (Rs bn)	20,102	18,262	10.1	19,573	2.7	
	Margin (%)	2.75	2.45	30	2.73	2	
	GNPA (%)	9.39	10.35	(96)	9.95	(56)	
	Credit Cost (%)	2.16	4.13	(197)	2.47	(31)	
Union Bank of India	NII (Rs mn)	25,861	25,483	1.5	24,931	3.7	Bank will continue to witness slower NII and slower loan growth but to be better on other income and controlled opex, helping PPOP Asset quality will be stable with both slippages and reductions should be similar to last quarter
	PPOP (Rs mn)	18,035	16,546	9.0	17,719	1.8	
	Provisions (Rs mn)	15,893	32,544	(51.2)	16,556	(4.0)	
	PAT (Rs mn)	1,606	(12,499)	NA	1,390	NA	
	Loans (Rs bn)	3,018	2,937	2.8	2,930	3.0	
	Margin (%)	2.20	2.34	(14)	2.18	2	
	GNPA (%)	15.70	13.03	267	15.74	(4)	
	Credit Cost (%)	2.11	4.43	(233)	2.26	(15)	

Source: Company, PL

Exhibit 21: Q1FY19 Result Review (Financial Services)

Company Name		Q3FY19E	Q3FY18	YoY Chg.	Q2FY19	QoQ Chg.	Remark
HDFC Ltd	NII (Rs mn)	32,902	29,287	12.3	30,261	8.7	
	PPOP (Rs mn)	38,465	65,852	(41.6)	38,904	(1.1)	While YoY earnings look down due to base effect, Q3 should also prove to be a healthy quarter with 10% PAT growth QoQ led by lower provisions and healthy 17% YoY growth in retail home loans.
	Provisions (Rs mn)	967	950	1.8	4,013	(75.9)	
	PAT (Rs mn)	26,736	56,702	(52.8)	24,671	8.4	
	Loans (Rs bn)	3,946	3,421	15.3	3,791	4.1	Spreads to remain steady and the increase in rates already benefiting both individual & non-individual book.
	Margin (%)	*3.09*	*3.86*	*(77)*	*3.03*	*6*	
	GNPA (%)	*1.00*	*1.15*	*(15)*	*1.13*	*(13)*	GNPAs are expected to look down at 1%
	Credit Cost (%)	*0.10*	*0.11*	*(1)*	*0.42*	*(33)*	
LICHF	NII (Rs mn)	9,626	8,976	7.2	10,123	(4.9)	
	PPOP (Rs mn)	9,268	8,050	15.1	9,633	(3.8)	Expect 14.5% YoY loan growth largely led by LAP and developer loans. Said that retail home loans should grow at 10% YoY v/s 9% the previous quarter.
	Provisions (Rs mn)	1,108	484	128.8	2,180	(49.1)	
	PAT (Rs mn)	5,385	4,911	9.7	5,732	(6.0)	70bps PLR hike in current FY should aid yields expansion (20bps QoQ/YoY), NIMs should stabilize at 2.2%, expect 15-20bps sequential inching up in CoF.
	Loans (Rs bn)	1,788	1,562	14.5	1,758	1.7	
	Margin (%)	*2.17*	*2.33*	*(16)*	*2.34*	*(17)*	
	GNPA (%)	*0.90*	*0.87*	*3*	*1.27*	*(37)*	Expect GNPAs to decline to ~1% levels from 1.27% a quarter ago.
	Credit Cost (%)	*0.25*	*0.12*	*12*	*0.50*	*(25)*	
L&T Finance Holdings	NII (Rs mn)	12,669	12,706	(0.3)	12,315	2.9	
	PPOP (Rs mn)	10,476	9,409	11.3	9,486	10.4	NIMs should be maintained at 5.5% with market share gains across key products; expect 20bps increase in CoF.
	Provisions (Rs mn)	4,166	4,928	(15.5)	1,509	176.0	
	PAT (Rs mn)	5,111	3,845	32.9	5,591	(8.6)	We expect the credit costs to climb up to 1.7%+ from 0.7% a quarter ago.
	Loans (Rs bn)	939	760	23.7	912	3.0	
	Margin (%)	*5.47*	*6.80*	*(133)*	*5.54*	*(7)*	Higher provisions but steady loan traction at 24% YoY should support overall profitability YoY.
	GNPA (%)	*7.50*	*5.49*	*201*	*7.10*	*40*	
	Credit Cost (%)	*1.77*	*2.60*	*(82)*	*0.66*	*111*	
MMFS	NII (Rs mn)	11,420	10,711	6.6	11,666	(2.1)	
	PPOP (Rs mn)	7,569	6,553	15.5	7,869	(3.8)	Expect 18.6% YoY loan growth for MMFS
	Provisions (Rs mn)	2,809	1,989	41.2	2,311	21.5	We expect NIMs to decline to 7.8% from 8.3% a quarter ago with marginal dip in yields and tad increase in CoF with ability to transmit higher rates.
	PAT (Rs mn)	3,284	2,770	18.6	3,814	(13.9)	
	Loans (Rs bn)	609	518	17.6	595	2.4	
	Margin (%)	*7.59*	*8.66*	*(107)*	*7.90*	*(31)*	While GNPAs are expected to decline to 8.7% in Q3 from 9% a quarter ago, credit costs to inch higher to 2% from 1.7% a quarter ago.
	GNPA (%)	*8.77*	*11.60*	*(283)*	*9.00*	*(23)*	
	Credit Cost (%)	*1.84*	*1.54*	*31*	*1.55*	*29*	

Company Name		Q3FY19E	Q3FY18	*YoY Chg.*	Q2FY19	*QoQ Chg.*	Remark
Shriram Transport	NII (Rs mn)	19,418	17,094	*13.6*	20,553	*(5.5)*	Expect 16% AUM growth led by continued traction in new CV segment. Used CV run-rate too should be maintained. Oct new CV has slowed down. With new CV component in AUM mix declining, yields are expected to move up supportive of NIMs. Lower NPAs and lower provisioning to aid 20%+ PAT traction for the Co.
	PPOP (Rs mn)	15,131	13,486	*12.2*	16,226	*(6.8)*	
	Provisions (Rs mn)	5,800	5,854	(0.9)	6,836	(15.2)	
	PAT (Rs mn)	6,065	4,956	*22.4*	6,096	*(0.5)*	
	Loans (Rs bn)	1,047	900	*16.4*	1,044	*0.3*	
	Margin (%)	*7.43*	*7.75*	*(33)*	*8.19*	*(76)*	
	GNPA (%)	*7.47*	*7.98*	*(51)*	*8.77*	*(130)*	
	Credit Cost (%)	*2.21*	*2.60*	*(39)*	*2.62*	*(40)*	
Cholamandalam Finance	NII (Rs mn)	8,915	7,930	*12.4*	8,938	*(0.3)*	Continued strong AUM momentum at 24% YoY growth; pre-closure cases to see a decline. Sequential growth looks somber at 1% growth on account of tough environs in past few months and greater thrust on asset quality. Lower NPA and provs YoY on SARFAESI execution should largely aid PAT growth; however, expect sequential modest increase in credit costs on account of focus on higher yielding mix. Sequential NIMs steady at 7% as yields should be maintained. RoA, said that, should be maintained at healthy levels.
	PPOP (Rs mn)	5,775	5,377	*7.4*	6,026	*(4.2)*	
	Provisions (Rs mn)	809	902	(10.4)	612	32.2	
	PAT (Rs mn)	3,253	2,492	*30.5*	3,866	*(15.9)*	
	Loans (Rs bn)	483	391	*23.6*	477	*1.2*	
	Margin (%)	*7.01*	*8.40*	*(139)*	*7.00*	*1*	
	GNPA (%)	*2.70*	*3.7*	*(100)*	*2.84*	*(14)*	
	Credit Cost (%)	*0.67*	*0.92*	*(25)*	*0.51*	*16*	

Source: Company, PL

Cement

Oct-Dec'18 Earnings Preview

January 7, 2019

Top Picks

ACC

Heidelberg Cement India

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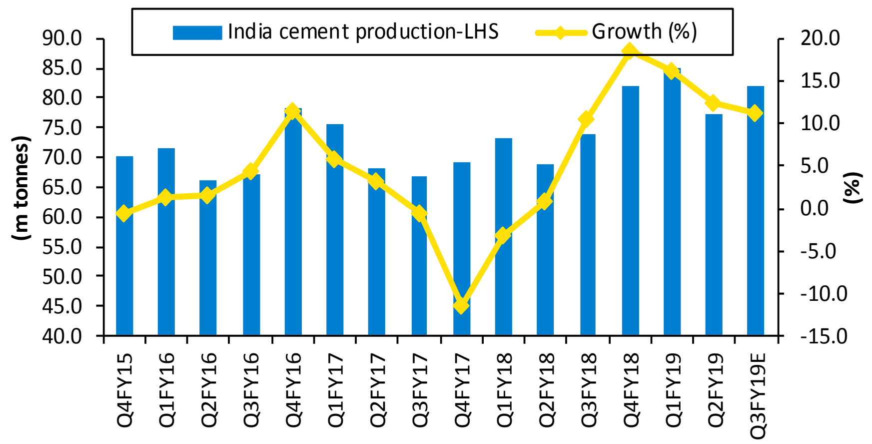
We expect EBITDA of our coverage universe to grow by 15% YoY on the back of bottomed out earnings in base. However, the growth on PAT would be restricted to 9% YoY due to higher depreciation and interest cost. We continue to like **ACC and Heidelberg Cement (HEIM)** on the back of attractive valuations and strong earnings outlook.

Based on the DIPP data, cement production grew by 13% YoY in October-November'18. The growth was led by strong demand from Govt sponsored infra and affordable housing sector. However, retail demand remained subdued due to weak sentiments and sluggish private spending. Average prices fell 1.5%/Rs5 per bag QoQ (+1%/Rs3 per bag YoY).

Exhibit 1: All India Cement Production



Source: Economic Advisor to Ministry of Commerce & Industry

- **North – Prices lost momentum post Diwali:** Efforts to hike prices by Rs5/bag failed to fructify in the region due to weak demand and elections in Rajasthan. Region's average is down by Rs3/bag QoQ.

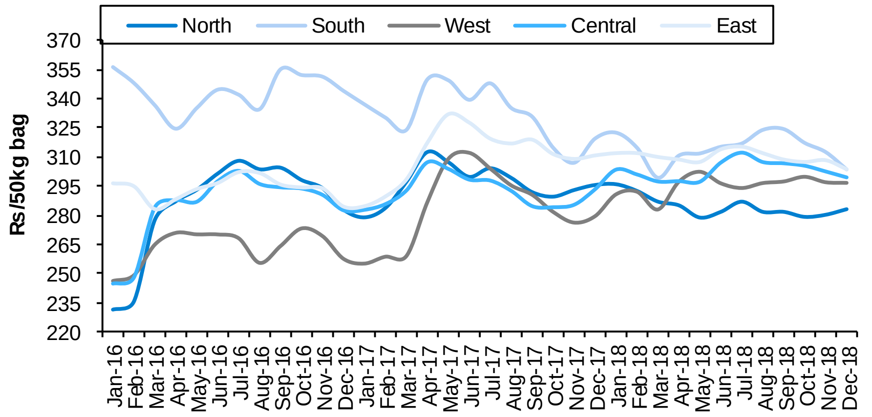
- **Central – High base and slow pick-up hit the prices:** Prices in Central UP fell for the first time after a gap of year due to softer demand, slow release of contractor's money by state govt and steep increase in flow of material from Rajasthan due to better NSRs. MP suffered fall of Rs10/bag at par with UP due to slow demand in state elections and tight liquidity.

- **South – Worst hit due to intense competition:** Due to intense competition, Region's average prices softened by Rs12/bag QoQ. AP/Tamil Nadu were the worst impacted states with cut of Rs20/Rs10 per bag. Historically, prices remain weak in Q4 due to volume push.

- **West – Maharashtra remains weak, Gujarat stable:** Sluggish housing demand continued to hamper ability of cement companies to hike prices in Maharashtra. On a weak base, average price in Maharashtra fell by Rs6/bag QoQ. Prices remained stable QoQ in Gujarat. Region's average fell by Rs3/bag QoQ. However, prices are expected to soften due to increase in volumes with the acquisition of Binani cement by UTCEM.

- **East – Strong on demand but weak on prices:** Eastern region is the best performing region on the demand front. However, prices remained weak due to unabated capacity addition across the region. Despite low base, prices fell by Rs5 QoQ.

Exhibit 2: Region-wise prices



Source: Company, PL

Exhibit 3: Q3FY19 Result Preview

Company Name		Q3FY19E	Q3FY18	YoY gr. (%)	Q2FY19	QoQ gr. (%)	Remark
	Sales	37,341	34,171	*9.3*	33,640	*11.0*	
	EBITDA	4,246	3,317	*28.0*	3,780	*12.3*	
	Margin (%)	*11.4*	*9.7*		*11.2*		
ACC	Adj. PAT	2,577	1,824	*41.3*	2,116	*21.8*	Volume is expected to grow 6.2% YoY at 7.3m tonnes. Realisations are expected to improve by 3%/Rs143 YoY (↓1%/Rs55/t QoQ) at Rs5,081/t. Due to lower input costs and better realisations, EBITDA/t is expected to expand 20.5%/Rs98 YoY at Rs578.
	Volume (mn te)	7.3	6.9	*6.2*	6.6	*12.2*	
	Net Realisations (Rs/te)	5,081	4,938	*2.9*	5,136	*(1.1)*	
	EBITDA (Rs/te)	578	479	*20.5*	577	*0.1*	
	Sales	28,030	26,120	*7.3*	25,220	*11.1*	
	EBITDA	4,469	4,401	*1.6*	2,662	*67.9*	
	Margin (%)	*15.9*	*16.8*		*10.6*		
Ambuja Cement	Adj. PAT	2,577	2,898	*(11.1)*	1,786	*44.3*	Volume is expected to grow 5% YoY at 6.2m tonnes. Realisations are expected to expand by 2.2%/Rs98/t YoY (↓1%/Rs46/t QoQ) at Rs4,548/t. Due to higher costs, EBITDA/t is expected to fall 3.3%/Rs25 YoY to Rs725.
	Volume (mn te)	6.2	5.9	*5.0*	5.5	*12.3*	
	Net Realisations (Rs/te)	4,548	4,450	*2.2*	4,594	*(1.0)*	
	EBITDA (Rs/te)	725	750	*(3.3)*	485	*49.5*	
	Sales	5,433	4,839	*12.3*	4,795	*13.3*	
	EBITDA	1,043	754	*38.3*	1,102	*(5.3)*	
	Margin (%)	*19.2*	*15.6*		*23.0*		
Heidelberg Cement	Adj. PAT	480	318	*51.1*	500	*(4.1)*	Volume is expected to grow 7% YoY at 1.3m tonnes. Realisations are expected to improve by 5%/Rs197 YoY (↓2.1%/Rs89/t QoQ) at Rs4,173. Due to growth in volume and sharp improvement in realizations, EBITDA/t is expected to expand by 29.3%/Rs181 YoY at Rs801.
	Volume (mn te)	1.3	1.2	*7.0*	1.1	*15.7*	
	Net Realisations (Rs/te)	4,173	3,976	*5.0*	4,262	*(2.1)*	
	EBITDA (Rs/te)	801	620	*29.3*	979	*(18.2)*	
	Sales	9,216	8,374	*10.1*	8,514	*8.2*	
	EBITDA	1,074	943	*13.9*	916	*17.3*	
	Margin (%)	*11.7*	*11.3*		*10.8*		
JK Lakshmi Cement	Adj. PAT	171	86	*99.2*	78	*119.1*	Volume is expected to increase 9.1% YoY at 2.3m tonnes. Realisations are expected to grow marginally 0.9%/Rs36/t YoY (flat QoQ) at Rs4,007/t. EBITDA/t is expected to increase 4.4%/Rs20 YoY at Rs467.
	Volume (mn te)	2.3	2.1	*9.1*	2.1	*8.1*	
	Net Realisations (Rs/te)	4,007	3,971	*0.9*	4,003	*0.1*	
	EBITDA (Rs/te)	467	447	*4.4*	431	*8.4*	
	Sales	26,725	22,962	*16.4*	25,866	*3.3*	
	EBITDA	6,396	5,293	*20.8*	6,037	*5.9*	
	Margin (%)	*23.9*	*23.1*		*23.3*		
	Adj. PAT	1,997	3,018	*(33.8)*	3,115	*(35.9)*	
Shree Cement	Volume (mn te) - Cement	5.9	5.3	*11.0*	5.6	*4.8*	Cement volumes is expected to grow 11% YoY at 5.9m tonnes. Realisations are expected to improve by 2.4% YoY/Rs98/t (↓1.2%/Rs50/t QoQ) at Rs4,217. Due to increase in realisations, cement EBITDA/t is expected to expand 1% YoY/Rs10 to Rs1,015.
	Volume (mn units) - Power	400	273	*46.5*	400	*0.0*	
	Net Realisations (Rs/te)	4,217	4,120	*2.4*	4,268	*(1.2)*	
	Realised rate (Rs/unit)	5	3.8	*19.7*	4.5	*0.2*	
	Cement EBITDA (Rs/te)	1,015	1,005	*1.0*	999	*1.6*	
	Sales	11,891	10,475	*13.5*	11,413	*4.2*	
	EBITDA	2,097	2,217	*(5.4)*	2,049	*2.4*	
	Margin (%)	*17.6*	*21.2*		*18.0*		
The Ramco Cements	Adj. PAT	985	1,114	*(11.6)*	1,208	*(18.4)*	Volume is expected to grow 16% YoY at 2.6m tonnes. Realisations are expected to fall 2.1%/Rs100 YoY (↓2.5%/Rs115 QoQ) at Rs4,508. Due to lower realisations and higher costs, EBITDA/t is expected to fall by 18.5%/Rs180 YoY at Rs795.
	Volume (mn te)	2.6	2.3	*16.0*	2.5	*6.8*	
	Net Realisations (Rs/te)	4,508	4,606	*(2.1)*	4,622	*(2.5)*	
	EBITDA (Rs/te)	795	975	*(18.5)*	830	*(4.2)*	
	Sales	85,372	74,710	*14.3*	77,320	*10.4*	
	EBITDA	13,361	11,503	*16.2*	11,683	*14.4*	
	Margin (%)	*15.7*	*15.4*		*15.1*		
UltraTech Cement	Adj. PAT	5,148	3,489	*47.5*	3,908	*31.7*	Blended realizations are expected to increase by 3.5%/Rs148 YoY to Rs4,418/t. Grey cement volumes are expected to grow 11.5% YoY at 17.3m tonnes. Due to better realisations, EBITDA/t is expected to improve 4.4%/Rs32 to Rs758.
	Volume (mn te)	17.3	15.5	*11.5*	15.5	*11.8*	
	Net Realisations (Rs/te)	4,418	4,270	*3.5*			
	EBITDA (Rs/te)	758	726	*4.4*	739	*2.5*	

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)			
				FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E
ACC	BUY	1,478	1,710	129.3	144.9	153.7	160.8	15.2	17.8	20.3	21.6	9.0	11.0	13.0	13.4	48.0	58.4	69.3	71.2	9.9	11.3	12.5	12.1	30.8	25.3	21.3	20.8
Ambuja Cement	Hold	218	220	230.9	254.5	268.8	283.4	32.7	35.0	39.5	43.2	14.4	17.0	18.7	20.3	7.3	8.5	9.4	10.2	7.1	8.0	8.4	8.7	30.0	25.5	23.1	21.3
Heidelberg Cement India	BUY	150	200	18.6	21.2	22.2	23.3	3.3	4.6	4.7	4.7	1.3	2.2	2.4	2.4	5.9	9.7	10.6	10.8	13.2	19.6	18.8	17.1	25.5	15.5	14.2	13.9
JK Lakshmi Cement	Hold	315	340	34.1	36.6	39.6	41.5	4.1	4.1	4.9	5.2	0.8	0.9	1.5	1.9	7.1	7.5	12.8	16.1	5.9	5.9	9.4	10.8	44.2	41.8	24.6	19.6
Shree Cement	Hold	16,900	17,500	98.1	115.8	128.4	142.5	24.5	26.9	30.4	33.8	13.8	13.8	15.9	18.9	397.3	396.3	457.7	542.0	16.7	14.6	15.0	15.6	42.5	42.6	36.9	31.2
The Ramco Cements	Hold	629	660	43.2	49.7	57.4	66.3	10.1	9.5	11.3	13.0	5.6	5.2	6.3	7.1	23.6	21.9	26.8	30.0	14.3	12.1	13.3	13.3	26.7	28.7	23.5	20.9
Ultratech Cement	Hold	3,927	4,040	309.7	374.6	469.8	502.1	57.1	62.8	81.2	88.2	26.2	24.1	33.0	39.8	95.5	87.7	114.4	137.8	10.3	8.8	10.1	10.2	41.1	44.8	34.3	28.5

Source: Company, PL

Consumer

Oct to Dec'18 Earnings Preview

January 7, 2019

Top Picks

ITC

Titan Company

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Q3FY19 Adj. PAT to increase 12.7%; 13.6% excluding ITC

3Q is likely to show steady performance with 14.9% increase in sales (13.9% in 2Q19) and 12.7% increase in PAT (13.3% in 2Q19) despite 33bps EBIDTA margin decline (14bps decline in 2Q19). Excluding ITC, sales and adj. PAT are expected to increase 16.2% and 13.6% on 20bps decline in EBITDA margins.

Britannia, Avenue Supermart, Jubilant FoodWorks, Nestle and Titan are expected to sustain the sales momentum. Raw material basket tailwinds have re-emerged, however, margin expansion will happen with a lag only. Britannia, Avenue Supermarts, Future retail, HUVR, Jubilant FoodWorks Marico and Titan will show strong profit growth.

Rural demand acceleration might take a breather

Rural demand acceleration might take a breather: Rural demand growth still outpaces Urban demand though the gap is reducing. Patchy monsoons have impacted sales. Drought in several parts of Maharashtra, Karnataka and likely impact on Rabi crop along with low global Agri prices and food deflation gives an early sign that growth acceleration might slow down.

Transformation in distribution: The dependence on wholesale channel is coming down as Modern trade and E-commerce continues to grow at a faster rate. Companies who had expanded their direct reach in 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. CSD channel was impacted in 2Q19 due to changes in ordering pattern. We expect CSD sales to remain flattish in FY19.

Paint sector demand to get a boost on GST rate reduction: Paint sector demand momentum is expected to continue with festive season in 3Q and GST rate reduction to 18% as prices has come down by 7-8%.

Crude remains Soften; Raw material tailwinds re-emerge

Brent Crude has softened 38.4% from the peak of USD86/barrel to the current USD53/barrel. Consequently, most crude linked inputs have declined after a short term ramp up in prices. LAB and VAM prices (China) have decreased by 10.65 and 2.6% respectively in Dec'18.

Wheat prices are up 13.2% YoY and 4.7% QoQ. Sugar prices remain benign QoQ and Barley prices continue to inch upwards and create new peaks. We expect sugar and Barley prices to remain at these levels. Mentha prices has seen a sharp increase of 43% from the bottom and would impact raw material costs of Emami. Export incentives has led to increase in SMP prices by Rs20/- in Dec'18, however, it still remains soft YoY. We believe users of Milk and SMP stand to gain in the near term. Palm Oil prices has started increasing after making a 3-year bottom at Rs 29,051/ton in Nov end. It remains down 18.7 % YoY and 11.1% QoQ. Import duty on crude and refined palm oil has been cut by 4-9%. Low international prices may further reduce domestic palm oil prices. Copra prices bounce up by 6% post increase in MSP last week. It remains down 19.1% YoY and 12.2% QoQ

Exhibit 1: Crude linked Commodities see softening in prices after Crude prices cooled

Input	Price Trend (Y-o-Y)	Unit	52 Week H/L	Current Price	YoY change %	QoQ change %	Impact	Companies (% of sales)
LAB	Down	Rs/Kg	123/104	110	16%	4.8%	Positive	HUL, Jyothy Labs
VAM	Down	USD/MT	1375/1063	1134	7.5%	-9.9%	Positive	PIDI (6.4%)
HDPE	Down	Rs/MT	94920/76268	76928	13.8%	-4.7%	Positive	All Companies (8-15%)
TiO2	Down	Rs/Kg	284/240	274	14%	8.3%	Negative	APNT (19%), Kansai Nerolac, and other paint companies

Source: PL, Bloomberg

Exhibit 2: Agri linked commodity tailwinds re-emerge

Input	Price Trend (Y-o-Y)	Unit	52 Week H/L	Current Price	YoY change %	QoQ change %	Impact	Companies (% of sales)
Mentha Oil	Up	Rs/Kg	2010/1210	1735	13%	3.8%	Negative	Emami (22%)
Palm Fatty Acid	Down	Rs/MT	58227/14376	24292	-32%	-19%	Positive	HUL (6.5%)
Palm Oil	Down	Rs/MT	42448/29051	33339	-17.9%	-11.1%	Positive	Britannia (9%) , Nestle (3.5%), HUL
Sugar	Down	Rs/Quintal	3520/2635	3170	-13.0%	-2.9%	Positive	Britannia (8.5%) , Nestle (2.5%) , GSK Consumer, Dabur, ITC
Wheat	Up	Rs/Quintal	2207/1713	2080	13.2%	4.7%	Negative	Nestle (5%) , Britannia (14%), ITC
SMP	Up	Rs/kg	138.8/101.5	138.8	17.6%	4.8%	Negative	Nestle (5%) , GSK Consumer (5%)
Barley	Up	Rs/Quintal	1917/1366	1917	26.3%	16.4%	Negative	GSK Consumer (6%)
Copra	Down	Rs/Quintal	13700/8845	10550	-19.1%	-12.2%	Positive	Marico (16%)

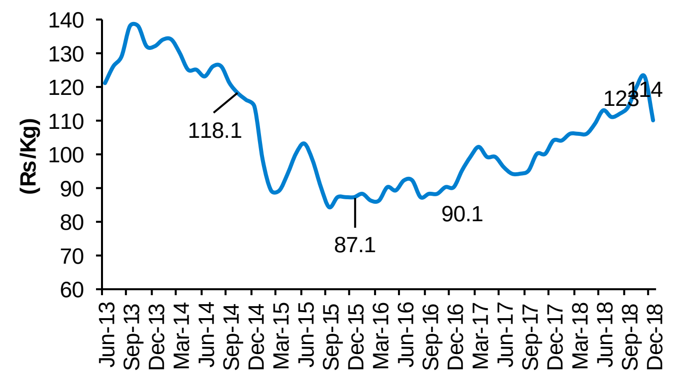
Source: PL, Bloomberg

Top Pick: ITC and Titan Company

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. Compensation cess collections has already exceeded the budgeted thereby removing the urgency to increase taxes on cigarettes in near term. Cigarette volumes are gradually recovering on stabilization of sales mix and cigarette prices, stable taxation regime and low base post 17% volume erosion in 5 years. We expect 3% volume growth in FY18-20. FMCG profits are expected to increase by 2-3x in coming few years given scaled up foods business, peaked out losses in lifestyle retailing. Paperboard margins are expected to improve on benign input costs, gains of refurbishment of Décor machine and revamp of 1.5lakh TPA value added paperboard machine. While Agri is likely to remain under pressure, INR depreciation should provide some relief. Hotels profitability is likely to improve on higher ARR and occupancy and growth in F&B sales. Retain Buy at 21.6xFY21 EPS, ~65% dividend payout with 2.9% dividend yield. Maintain BUY

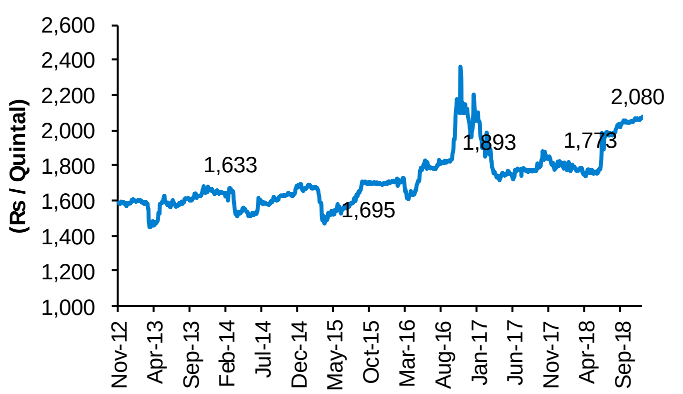
Titan Company: Titan is creating building blocks to achieve Vision 2023 with focus on factors like Digital, Youth and GEN-A, Omni channel, Rural India, Premiumisation and rising affluence and emerging women power. The conversion of Gold plus stores into Tanishq and the shift to organized sector led by 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. Eyewear business has seen strong traction and is on track to achieve 3.7mn customers in FY19 and 5mn in FY20, benefits of backward integration and scale should enable profitable growth by FY20. The significant increase in ad-spend would increase pressure on margins in the near term. With the expectations of 25.9% PAT CAGR over FY18-21, we value the stock at 45xSept20 EPS and arrive at a target price of Rs1115 given the good growth outlook and strong tailwinds. Maintain BUY

Exhibit 3: LAB prices decline in Dec'18 post softening of crude prices, up 4.8% QoQ



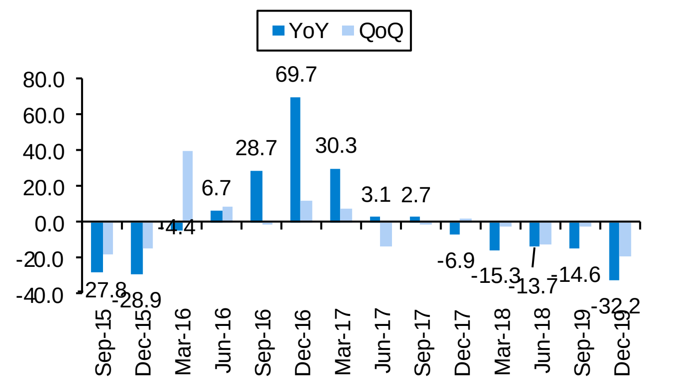
Source: Bloomberg, PL

Exhibit 4: Wheat Prices inch upwards, up 13.2% YoY and 4.7% QoQ



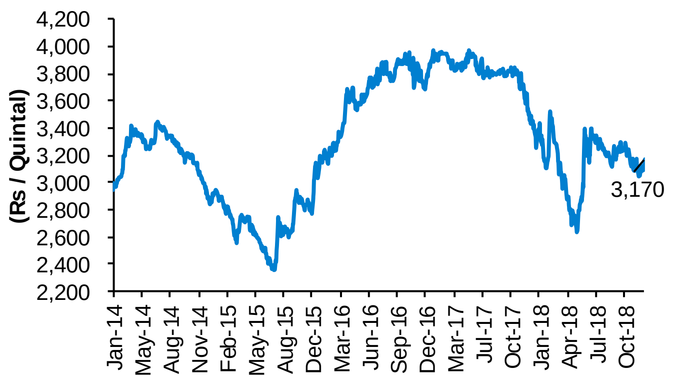
Source: Bloomberg, PL

Exhibit 5: PFAD prices reach the bottom; down 32.2% YoY and 19.3% QoQ



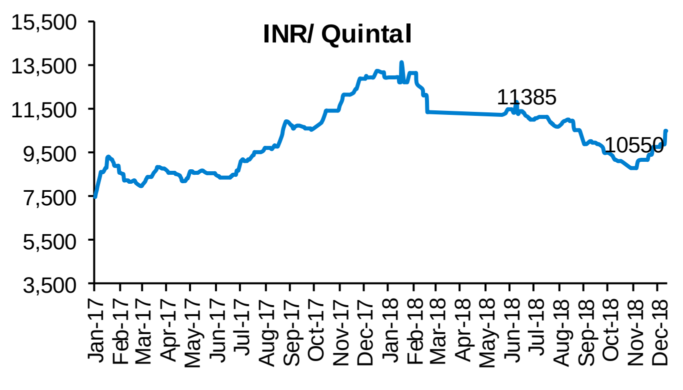
Source: Bloomberg, PL

Exhibit 6: Sugar prices remain benign. It is down 13% YoY and 2.9% QoQ



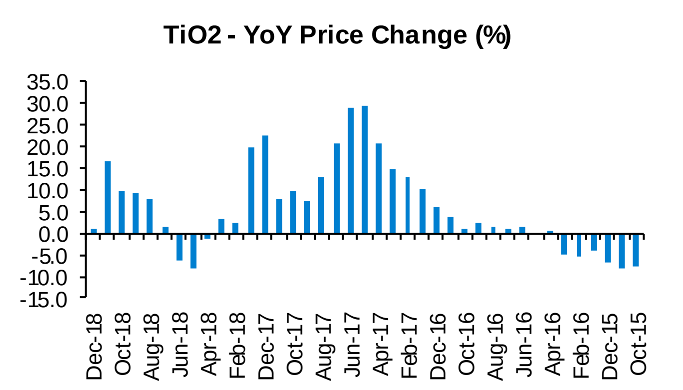
Source: Bloomberg, PL

Exhibit 7: Copra prices bounce up by 6% post increase in MSP last week; down 19.1% YoY and 12.2% QoQ



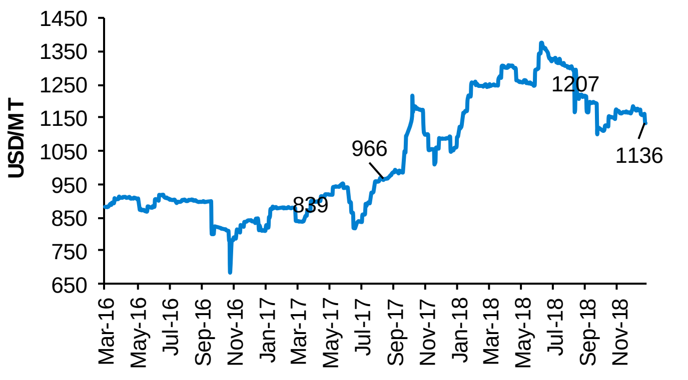
Source: Bloomberg, PL

Exhibit 8: Tio2 price reduce by 2.1% from 280/kg to 274/kg in last 20 days of Dec'18;



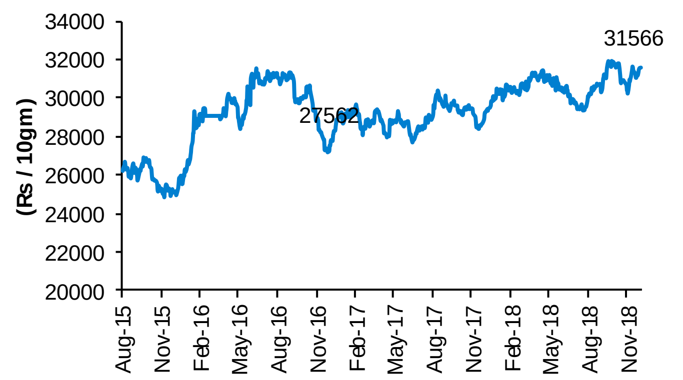
Source: Bloomberg, PL

Exhibit 9: VAM prices soften 17.6% from the peak in June'18



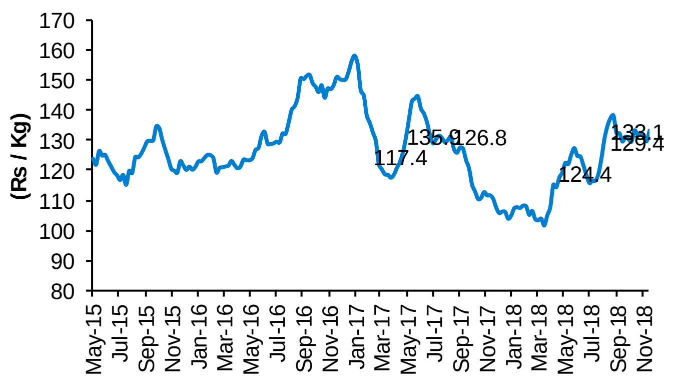
Source: Bloomberg, PL

Exhibit 10: Gold prices rising, up 6.9% YoY and 4% QoQ



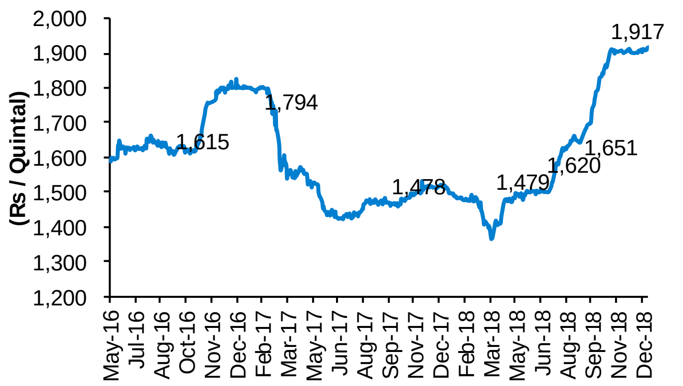
Source: Bloomberg, PL

Exhibit 11: SMP price firm up by Rs20/kg in Dec'18 following export incentives



Source: Bloomberg, PL

Exhibit 12: Barley price march upwards making new peaks; up 23.6% YoY and 16.4% QoQ



Source: Bloomberg, PL

Exhibit 13: APNT, BRIT, HUVR, Kansai, PIDI, JUBI and TTAN is expected to report double digit volume growth

Volume growth (%)	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19E
Asian Paints	3.0	11.0	3.0	9.0	7.5	10.5	12.0	11.0	13.0
Britannia	1.5	2.0	2.5	6.0	13.0	13.0	13.0	12.0	13.0
Colgate	(12.0)	(3.0)	(5.0)	(0.9)	12.0	4.0	4.0	7.0	4.5
Dabur India	(5.0)	2.4	(4.4)	7.2	13.0	7.7	21.0	8.1	7.5
GSK Consumer	(17.0)	(1.0)	(6.5)	2.5	17.0	8.0	12.8	13.7	8.5
ITC (Cigarettes)	(0.5)	0.0	1.5	(7.0)	(5.0)	(2.5)	1.5	6.0	5.0
HUVR	(4.0)	4.0	0.0	4.0	11.0	11.0	12.0	10.0	10.0
Kansai Nerolac	9.5	14.9	10.0	18.0	14.5	14.5	15.0	9.0	10.0
MRCO - Parachute	(1.0)	15.0	(9.0)	12.0	15.0	(5.0)	9.0	8.0	7.0
- Saffola	6.0	6.0	(9.0)	3.0	0.0	(1.0)	10.0	5.0	6.0
- Hair Oil	(12.0)	10.0	(8.0)	12.0	8.0	11.0	15.0	5.0	8.0
Pidilite (C&B)	(0.7)	8.2	(0.1)	12.0	23.0	14.0	18.0	9.6	10.0
Titan - Jewellery	4.0	37.0	49.0	49.0	6.0	6.0	(3.0)	24.0	34.0
Jubilant (Dominos)	(3.3)	(7.5)	6.5	5.5	17.8	26.5	26.5	20.5	15.0
Future Retail	12.5	13.3	11.8	10.2	10.4	6.0	3.6	5.9	7.0

Source: Company, PL

Exhibit 14: Q3FY19 Result Preview

Company Name		Q3FY19E	Q3FY18	YoY gr. (%)	Q2FY19	QoQ gr. (%)	Remark
Asian Paints	Sales	47,505	42,605	*11.5*	46,391	*2.4*	Diwali festive sales and Demand improvement post GST rate reduction would enable APNT to continue double digit volume growth momentum
	EBITDA	8,978	8,912	*0.7*	7,842	*14.5*	
	Margin (%)	*18.9*	*20.9*		*16.9*		
	Adj. PAT	5,650	5,672	*(0.4)*	4,928	*14.7*	
	Volume Growth (%)	*13.0*	*7.5*		*11.0*		
Britannia Industries	Sales	27,727	24,110	*15.0*	27,046	*2.5*	Britannia is estimated to mainain double digit volume growth, cost efficiencies will enable 18.4% EBIDTA growth on 120bps Gross Margins expansion
	EBITDA	4,436	3,746	*18.4*	4,247	*4.5*	
	Margin (%)	*16.0*	*15.5*		*15.7*		
	Adj. PAT	2,950	2,492	*18.4*	2,836	*4.0*	
	Gross Margin (%)	*39.2*	*38.0*		*39.2*		
	Volume Growth (%)	*13.0*	*13.0*		*12.0*		
Colgate Palmolive	Sales	11,009	10,333	*6.5*	11,680	*(5.7)*	We estimate 4.5% volume despite high base. Colgate Vedshakti is witnessing positive response and continues to gain market share. Toothpaste Market share trend remains a key monitorable
	EBITDA	3,039	2,824	*7.6*	3,296	*(7.8)*	
	Margin (%)	*27.6*	*27.3*		*28.2*		
	Adj. PAT	1,821	1,707	*6.7*	1,964	*(7.2)*	
	Volume Growth (%)	*4.5*	*12.0*		*7.0*		
Dabur India	Sales	21,533	19,664	*9.5*	21,250	*1.3*	We estimate 7.5% volume growth on a high base. Margin expansion looks unlikely due to input cost inflation. Domestic business improve however, IBD pressures continue dragged by Namaste
	EBITDA	4,371	4,035	*8.3*	4,508	*(3.0)*	
	Margin (%)	*20.3*	*20.5*		*21.2*		
	Adj. PAT	3,663	3,330	*10.0*	3,776	*(3.0)*	
	Volume Growth (%)	*7.5*	*13.0*		*8.1*		
Avenue Supermarts	Sales	54,855	40,939	*34.0*	48,725	*12.6*	D'Mart is estimated to report 34% sales growth and 18.6% PAT growth as the focus on Low Cost Low Price strategy continues
	EBITDA	5,000	4,217	*18.6*	3,896	*28.3*	
	Margin (%)	*9.1*	*10.3*		*8.0*		
	Adj. PAT	2,974	2,518	*18.1*	2,258	*31.7*	
Future Retail	Sales	52,331	46,934	*11.5*	49,285	*6.2*	Demand situation is seeing steady improvement though food deflation continues to impact sales growth. We expect Adj. PAT growth of 20.3% lead by sales growth of 11.5% and margin expansion of 70bps.
	EBITDA	2,774	2,149	*29.1*	2,476	*12.0*	
	Margin (%)	*5.3*	*4.6*		*5.0*		
	Adj. PAT	2,204	1,831	*20.3*	1,751	*25.8*	
	SSG %	*7.0*	*10.4*		*5.9*		
	Big Bazaar SSG %	*11.0*	*13.1*		*9.4*		
Emami	Sales	8,134	7,566	*7.5*	6,280	*29.5*	Overall demand has remained subdued on late onset of winter. Kesh King recovery is on track post successful re-launch in 2Q. Input costs pressures are expected to remain despite menthol and crude softening in Dec'18.
	EBITDA	2,683	2,647	*1.4*	1,893	*41.7*	
	Margin (%)	*33.0*	*35.0*		*30.1*		
	Adj. PAT	1,443	1,472	*(1.9)*	827	*74.6*	
	Volume Growth (%)	*5.0*	*6.0*		*(4.0)*		
Hindustan Unilever	Sales	96,638	85,900	*12.5*	92,340	*4.7*	We estimate 12.5% sales growth on 10% volume growth and 19% PAT growth. We expect margins to expand given softening of crude prices
	EBITDA	20,101	16,800	*19.6*	20,190	*(0.4)*	
	Margin (%)	*20.8*	*19.6*		*21.9*		
	Adj. PAT	14,262	11,980	*19.0*	15,220	*(6.3)*	
	Volume Growth (%)	*10.0*	*11.0*		*10.0*		
ITC	Sales	106,831	97,720	*9.3*	110,689	*(3.5)*	We estimate 11.2% PAT growth on 5% growth in Cigarette volumes and improved profitability in FMCG and Hotels. Cigarette margins are expected to improve marginally on benefit of price increase taken in Q2 in RST filters
	EBITDA	43,000	39,045	*10.1*	42,060	*2.2*	
	Margin (%)	*40.3*	*40.0*		*38.0*		
	Adj. PAT	31,356	28,202	*11.2*	29,547	*6.1*	
	Cigarette Volume Growth (%)	*5.0*	*(5.0)*		*6.0*		
	Cigarette EBIT Growth (%)	*9.8*	*7.8*		*8.7*		
	FMCG EBIT	*711*	*470*		*585*		

Company Name		Q3FY19E	Q3FY18	YoY gr. (%)	Q2FY19	QoQ gr. (%)	Remark
Jubilant FoodWorks	Sales	9,264	7,952	16.5	8,814	5.1	Gains from extention of "Everyday value Offer" to small Pizzas is expected to continue with 15% SSG despite high base of 17.8% SSG. We estimate 23 store openings in 3Q inline with the guided 75 openings in FY19.
	EBITDA	1,667	1,369	21.8	1,475	13.0	
	Margin (%)	18.0	17.2		16.7		
	Adj. PAT	885	660	34.1	777	13.9	
	SSG %	15.0	17.8		20.5		
	Dominos Stores	1,190	1,127		1,167		
Kansai Nerolac Paints	Sales	12,847	11,450	12.2	12,939	(0.7)	We estimate demand momentum to continue on the back of GST rate cuts and festive season. Gross margin is expected to decline on higher input costs and INR depreciation and lag in taking price increases in Industrial paints.
	EBITDA	1,876	1,922	(2.4)	1,950	(3.8)	
	Margin (%)	14.6	16.8		15.1		
	Adj. PAT	1,173	1,252	(6.3)	1,220	(3.9)	
	Volume Growth (%)	10.0	14.5		9.0		
	Gross Margin (%)	35.4	40.0		35.5		
Marico	Sales	19,005	16,243	17.0	18,368	3.5	We estimate 7.5% India and 7% parachute volume growth. We expect mgorss margins to expand given recent softening Copra prices. Watch out for any price increase taken in Parachute
	EBITDA	3,706	3,021	22.7	2,941	26.0	
	Margin (%)	19.5	18.6		16.0		
	Adj. PAT	2,592	2,233	16.1	2,183	18.8	
	Parachute Volume Growth %	7.0	15.0		8.0		
	Volume Growth (%)	7.5	9.4		6.0		
Nestle India	Sales	30,075	26,015	15.6	29,394	2.3	We estimate 15.6% sales growth led by sustained traction in Maggi and recovery in chocolates. Margin expansion likely on benign raw material basket.
	EBITDA	7,659	6,449	18.8	7,420	3.2	
	Margin (%)	25.5	24.8		25.2		
	Adj. PAT	4,803	4,233	13.5	4,629	3.8	
Pidilite Industries	Sales	15,381	13,758	11.8	15,180	1.3	Estimate 10% overall volume growth and in Consumer and Bazaar products. VAM price decline has been set off by rupee depreciation.
	EBITDA	3,461	3,580	(3.3)	3,465	(0.1)	
	Margin (%)	22.5	26.0		22.8		
	Adj. PAT	2,327	2,390	(2.6)	2,446	(4.9)	
	Volume Growth (%)	10.0	22.0		9.6		
GlaxoSmithKline Consumer Healthcare	Sales	11,433	10,347	10.5	12,720	(10.1)	We estimate 8.5% volume and 17.1% PAT growth on a high base. Market share remains key factor to watch.
	EBITDA	2,458	2,040	20.5	3,537	(30.5)	
	Margin (%)	21.5	19.7		27.8		
	Adj. PAT	1,916	1,637	17.1	2,755	(30.5)	
	Volume Growth (%)	8.5	17.0		13.7		
Titan Company	Sales	53,180	41,366	28.6	44,068	20.7	Diwali and ongoing wedding season will boost jewellery sales. Watch out for profitability in watches and Tanishq store openings.
	EBITDA	6,056	4,447	36.2	4,961	22.1	
	Margin (%)	11.4	10.8		11.3		
	Adj. PAT	4,138	3,082	34.3	3,434	20.5	
	Jewellery Volume Growth (%)	34.0	6.0		24.0		
	Jewellery Margins (%)	11.0	11.0		10.9		
	Watch Margins (%)	18.4	15.5		18.0		

Source: Company, PL

Exhibit 15: Valuation Summary

Company Names	Rating	CMP (Rs)	TP (Rs)	Sales (Rs bn)				EBITDA (Rs bn)				PAT (Rs bn)				EPS (Rs)				RoE (%)				PE (x)			
				FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E
Asian Paints	Acc	1,396	1,300	168.2	187.5	215.4	248.3	32.0	33.7	40.5	48.5	19.7	21.1	25.1	30.3	20.6	22.0	26.2	31.6	24.7	23.5	24.8	26.4	67.8	63.6	53.2	44.2
Britannia Industries	Acc	3,144	3,231	93.0	106.4	121.7	139.9	14.3	16.8	20.1	24.0	9.6	11.2	13.1	16.0	40.0	46.5	54.6	66.7	33.1	35.2	36.9	35.3	78.5	67.6	57.6	47.2
Colgate Palmolive	Hold	1,303	1,157	41.9	46.3	51.5	57.4	11.1	12.6	14.2	16.0	6.6	7.4	8.4	9.5	24.2	27.3	30.8	35.1	47.1	51.1	56.6	58.3	53.7	47.7	42.4	37.1
Dabur India	Hold	420	427	77.2	85.7	96.3	108.7	16.2	17.9	20.8	23.8	13.7	15.1	17.5	20.4	7.8	8.6	9.9	11.6	25.9	26.0	27.2	26.9	54.1	49.0	42.4	36.4
Avenue Supermarts	Reduce	1,571	1,286	150.3	195.3	252.4	324.0	13.5	18.0	24.2	32.1	7.7	10.4	14.2	19.1	12.3	16.7	22.7	30.5	18.0	20.4	23.0	24.9	127.7	94.2	69.2	51.4
Future Retail	BUY	459	604	184.8	200.4	232.9	269.5	8.3	10.7	13.0	15.6	6.2	8.6	10.4	9.8	12.3	17.2	20.7	19.5	21.8	24.8	24.2	19.2	37.4	26.7	22.1	23.5
Emami	Acc	419	521	25.3	27.8	31.0	34.7	7.2	7.8	8.8	10.0	5.1	5.5	6.4	7.5	22.3	12.2	14.2	16.5	26.8	26.4	28.2	29.8	18.8	34.4	29.5	25.4
Hindustan Unilever	Hold	1,785	1,880	345.3	391.4	435.2	484.5	72.8	86.2	100.3	114.7	53.0	60.9	71.8	82.3	24.5	28.2	33.2	37.9	78.1	86.2	100.4	111.1	72.8	63.4	53.7	47.1
ITC	BUY	282	364	406.3	471.1	512.3	559.1	155.4	181.2	204.9	223.7	112.2	128.3	146.6	161.9	9.2	10.5	11.9	13.1	23.2	23.8	24.7	24.4	30.6	26.9	23.7	21.5
Jubilant FoodWorks	Acc	1,217	1,395	29.8	36.1	40.4	46.9	4.5	6.1	6.9	8.4	2.1	3.1	3.8	4.9	31.3	23.8	28.7	36.8	21.8	27.1	26.8	28.0	38.9	51.1	42.4	33.0
Kansai Nerolac Paints	Acc	467	474	45.9	52.2	59.2	68.3	7.9	7.8	9.2	11.2	5.2	4.9	5.7	7.0	9.6	9.2	10.6	13.0	17.4	15.1	16.0	17.8	48.7	51.0	44.0	35.9
Marico	Buy	387	387	63.2	74.4	83.6	94.1	11.4	13.5	16.5	18.4	8.1	9.6	11.5	12.8	6.3	7.4	8.9	9.9	33.5	35.9	39.3	40.2	61.3	52.2	43.5	38.9
Nestle India	Acc	10,786	11,129	100.1	114.0	128.5	145.0	22.2	28.8	31.8	35.9	13.5	18.0	20.3	23.3	140.0	186.4	210.3	241.9	40.3	49.5	48.1	47.7	77.0	57.9	51.3	44.6
Pidilite Industries	Acc	1,103	1,121	53.5	60.8	70.3	80.8	12.9	13.6	16.2	18.8	9.6	9.6	11.5	13.4	18.8	18.9	22.7	26.5	27.4	24.9	25.5	25.2	58.6	58.2	48.5	41.6
GlaxoSmithKline Consumer Healthcare	Hold	7,488	8,520	43.1	48.6	54.1	61.0	8.7	11.5	12.8	14.4	7.0	9.1	9.9	11.1	166.5	216.4	236.1	264.5	21.2	24.3	23.2	22.9	45.0	34.6	31.7	28.3
Titan Company	BUY	944	1,115	156.2	190.5	228.2	274.0	17.4	22.1	27.8	34.8	12.5	15.3	19.8	25.0	14.1	17.2	22.2	28.1	26.4	26.6	28.1	28.9	66.8	54.7	42.4	33.5

Source: Company, PL

Consumer Durables

Oct-Dec'18 Earnings Preview

January 7, 2019

Top Picks

Crompton Greaves Consumer Electricals

High channel inventory, high base to impact RAC growth: Inventory in the channel remains at higher than normal levels as sales were affected due to 1) poor summer season coupled 2) unseasonal rains in September and 3) subdued Onam festival. This along with a higher base on account on pre-buying due to revision in energy rating last year, commodity pressures and increase in custom duty, RAC margins are expected to remain under pressure. Focus remains on liquidating the inventory by the end of the fiscal.

LED growth in value terms to be flat; focus on optimizing cost: With only 40% conversion to LED lighting, structurally the demand for LEDs remain high. LEDs are expected to grow in higher double digits in volume terms. However, in terms of value, the growth shall remain flat on account of price erosion and ensuing price war. With competitive rivalry at all-time high and increasing commodity pressures, companies have taken a price hike of ~2-5% at the start of the quarter and increased focus on optimizing cost to improve margins.

After improved Diwali sales, lull returns in white goods: This Diwali season reported encouraging numbers with sales increasing in double digits over the past year. This can be attributed to cut in GST rates for appliances in July, aggressive ecommerce discounting, increased consumer financing and higher sales of premium products.

Exhibit 1: Q3FY19 Result Preview

Company Name		Q3FY19E	Q3FY18	*YoY gr. (%)*	Q2FY19	*QoQ gr. (%)*	Remark
Crompton Greaves Consumer Electricals	Sales	10,367	9,382	*10.5*	10,378	*(0.1)*	ECD to continue to grow on the back of strong performance in fans, pumps and further aided by product gaps filled in the appliances. Price hikes and focus on cost optmizing strategies to ease pressure of ensuing price war
	EBITDA	1,265	1,165	*8.6*	1,239	*2.1*	
	Margin (%)	*12.2*	*12.4*		*11.9*		
	Adj. PAT	773	695	*11.2*	769	*0.5*	
Voltas	Sales	15,498	13,747	*12.7*	14,214	*9.0*	High inventory in the channel due to erratic summer and a higher base (revision in energy norms) to impact UCP sales. Margins also likely to be impacted due to low volumes and high competition
	EBITDA	1,317	1,186	*11.1*	1,085	*21.4*	
	Margin (%)	*8.5*	*8.6*		*7.6*		
	Adj. PAT	1,163	1,004	*15.8*	1,070	*8.7*	

Source: Company, PL

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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)			
				FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E
Crompton Greaves Consumer Electricals	Buy	227	276	40,797	47,032	54,210	61,790	5,310	6,109	7,096	8,403	3,238	3,797	4,550	5,662	5.2	6.1	7.3	9.0	49.5	41.6	38.3	36.8	44.0	37.5	31.3	25.1
Voltas	Acc	542	658	64,044	70,961	81,437	93,466	6,626	6,670	8,307	9,534	5,773	5,646	6,908	7,899	17.5	17.1	20.9	23.9	16.0	13.8	15.2	15.6	31.0	31.7	25.9	22.7

Source: Company, PL

January 7, 2019

Education

Oct-Dec’18 Earnings Preview

3QFY19 will be more or less a non-event for the both Navneet (derives 50-55% of sales in 1Q) & S Chand (derives 75-80% of sales in 4Q). Rising share of exports in stationery business and revenue accretion from sale of 21 sets (sale typically happens in Dec) coupled with volume cushion from sale of term 2 supplementary books for Gujarat State Board should aid growth for Navneet. For S Chand, the growth is expected to be tepid while inventory is expected to be at peak for the upcoming academic session.

Exhibit 1: Q3FY19 Result Preview

Company Name		Q3FY19E	Q3FY18	YoY gr. (%)	Q2FY19	QoQ gr. (%)	Remark
Navneet Education	Sales	1,971	1,744	*13.0*	2,635	*(25.2)*	Rising share of exports in stationery business and revenue accretion from sale of 21 sets (sale typically happens in Dec) coupled with volume cushion from sale of term 2 supplementary books for Gujarat State Board should aid growth for Navneet in an otherwise seasonally lean quarter.
	EBITDA	248	205	*21.4*	463	*(46.4)*	
	Margin (%)	*12.6*	*11.7*		*17.6*		
	Adj. PAT	145	119	*22.3*	289	*(49.8)*	
S Chand and Company	Sales	473	461	*2.5*	131	*261.9*	In a seasonally lean quarter, S Chand is expected to report flattish top-line growth (standalone). Pre-stocking of paper in an environment where prices have been rising is likely to keep a check on EBITDA losses. However, inventory is likely to be at peak as the company gears up for the upcoming academic session.
	EBITDA	-203	-124	*NM*	-295	*NM*	
	Margin (%)	*NM*	*NM*		*NM*		
	Adj. PAT	-120	-58	*NM*	-180	*NM*	

Source: Company, PL

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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)			
				FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E
Navneet Education	BUY	109	150	12,040	13,690	15,278	17,088	2,225	2,660	3,061	3,421	1,270	1,664	1,945	2,167	5.4	7.3	8.5	9.5	17.6	20.8	21.6	21.4	20.1	15.0	12.8	11.5
S Chand and Company	BUY	214	400	7,944	9,021	10,897	12,210	1,927	2,239	2,703	3,015	1,071	1,165	1,398	1,577	30.6	33.3	40.0	45.1	13.0	11.0	11.9	12.0	7.0	6.4	5.4	4.8

Source: Company, PL

Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

Information Technology

Oct-Dec'18 Earnings Preview

January 7, 2019

Top Picks

Tech Mahindra

Infosys

L&T Technology Services

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We expect IT sector to show steady performance during the quarter with modest constant currency growth of 1-3% QoQ in Q3FY19. Q3 is usually soft quarter owing to lower number of working days and furloughs. USD revenue growth are expected to be relatively muted for the quarter due to headwind from cross-currency movement owing to depreciation of EURO/GBP/AUD/INR vs USD. Margins to be expanded for Top 5 IT vendors by 20-50bps aided by tailwind from INR depreciation and operational efficiency. The current demand environment for the sector looks cautious especially with global economy slowdown and macro uncertainties. We have to closely monitor the commentary of Indian players on this concerns.

Headwinds from Cross Currency to weigh on USD revenues: Tailwind from Rupee depreciation would be negated by headwinds from cross currency movement. We expect cross-currency movements to impact USD revenue over Q3FY19 to the tune of 40-80bps for tier 1 IT vendors (based on the mix of revenues). Hence reported USD revenues would grow by 0.6-2.8%QoQ.

INR depreciation to expand margins: The average rate (USD v/s INR) for Q3FY19 is at 71.2 v/s 70.7 for Q2FY19. This steep 1% depreciation QoQ is likely to aid reported EBIDTA margins of IT vendors. However, this margin tailwind will be negated by furloughs in retail and manufacturing verticals during the quarter.

Digital deal wins to drive growth: Augmentation of spending in transformation deals from legacy business to digital has led to stronger deal pipeline over the last few quarters and are critical points to watch out for in FY20.Top IT vendors showed strong deal wins in 1HFY19. We expect digital wins and rising deal sizes of new digital deals to be the key growth driver in 3QFY19.

Accenture performance in BFSI sector continues to remain weak for the quarter. As per management commentary, weak performance in banking & capital market and contraction of demand in European market are dragging growth. BFSI and Retail vertical remained volatile over the past few quarters and IT vendors showed strong bounce back in 2QFY19. Sustenance of growth momentum in these verticals by IT vendors needs to be watched out for over H2FY19.

View: Retain BUY on Infosys/Tech M and accumulate rating on TCS/Wipro and HCL Tech. Infosys trades at 15.8x FY20E EPS and 15.3x Sep20E EPS. TCS stock trades at 19.7x FY20E EPS and 18.8x Sep 20E EPS (two years forward EPS). Confidence in revenue momentum key for Infosys to rerate further. Infosys trades at 20% discount to TCS. We rate it a BUY. Infosys is likely to announce buyback in this quarter as cited in its capital allocation strategy. Net cash on balance sheet stands at Rs304bn as on 2QFY19. As per company's capital allocation policy, we expect the company to spend ~USD1.6bn on buyback. However, at the current price, Infosys would be able to buyback only ~3% of equity.

Wipro trades at 14.3x FY20E EPS. Potential for turnaround in growth as well as scope for Buyback announcement in this quarter (Net cash on balance sheet at Rs214bn as on 2QFY19) are triggers. Retain Accumulate.

HCL Tech trades at 11.5x FY20E EPS and valuations remain reasonable. Retain Accumulate.

While 3QFY19 is likely to remain strong quarter for Tech M, Communication vertical is likely to start showing recovery from hereon which is trigger. Expect Tech M 3QFY19 EBIDTA margin at 19.3% up 50bps QoQ. At CMP of Rs688/sh, stock trades at 12.2x FY20E EPS and 11.6x Sep20E EPS. Tech M trades at 38% discount to TCS. Retain BUY.

Among midcaps, NIIT Tech (14.5x FY20E EPS), Zensar (13x FY20E EPS) looks attractive. Hexaware is currently trading at 14.5x FY20E EPS, Mphasis at 14.4x FY20E EPS and Mindtree at 15x FY20E EPS. We like LTTS (trading 21.4x FY20E EPS) within the Engineering Design Services. Cyient 12.4x FY20E EPS) is also trading at reasonable valuations.

Exhibit 1: Consolidated USD revenues for the quarter

US$ mn	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19E
Infosys	2446	2501	2587	2551	2569	2651	2728	2755	2,805	2831	2921	2965
Growth (%)	*1.6*	*2.2*	*3.5*	*(1.4)*	*0.7*	*3.2*	*2.9*	*1.0*	*1.8*	*0.9*	*3.2*	*1.5*
TCS	4207	4362	4374	4387	4452	4591	4739	4787	4,972	5051	5215	5283
Growth (%)	*1.5*	*3.7*	*0.3*	*0.3*	*1.5*	*3.1*	*3.2*	*1.0*	*3.9*	*1.6*	*3.2*	*1.3*
Wipro	1882	1931	1916	1903	1955*	1971	2014*	2013	2062	2027	2041	2053
Growth (%)	*2.4*	*2.6*	*(0.8)*	*(0.7)*	*2.7*	*0.9*	*2.1*	*0.0*	*2.4*	*(1.7)*	*0.7*	*0.6*
HCL Tech	1587	1691*	1722	1756	1817	1884*	1928*	1987	2038	2055	2099	2158
Growth (%)	*1.4*	*6.6*	*1.9*	*1.9*	*4.1*	*3.7*	*2.3*	*3.1*	*2.5*	*0.8*	*2.2*	*2.8*
Tech M	1022.6	1031.5	1072.4	1116.1	1131.2	1138.0	1179.2	1209.0	1244.3	1224.1	1218	1254
Growth (%)	*0.7%*	*0.9%*	*4.0%*	*4.1%*	*1.4%*	*0.6%*	*3.6%*	*2.5%*	*2.9%*	*-1.6%*	*-0.5%*	*2.3*

Source: Company, PL

Exhibit 2: Average Exchange rates

	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19E
Euro/ US$ (Average)	1.1	1.12	1.11	1.08	1.07	1.09	1.175	1.178	1.23	1.19	1.16	1.13
% Change	*0.9*	*1.8*	*(0.9)*	*(3.2)*	*(1.2)*	*2.7*	*6.9*	*0.3*	*5.1*	*(3.2)*	*-2.5*	*-2.6*
GBP/US$ (Average)	1.43	1.43	1.31	1.24	1.24	1.27	1.31	1.32	1.39	1.35	1.3	1.27
% Change	*(5.3)*	*0.7*	*(8.4)*	*(5.3)*	*-*	*3.1*	*2.4*	*1.3*	*5.3*	*(3.1)*	*-4.4*	*-2.3*
AUD/US$ (Average)	0.72	0.74	0.76	0.75	0.76	0.75	0.79	0.768	0.787	0.756	0.73	0.71
% Change	*-*	*2.7*	*2.7*	*(1.2)*	*1.2*	*(1.3)*	*5.2*	*(2.4)*	*2.4*	*(3.9)*	*-2.7*	*-2.7*
US$/INR (Average)	67.6	66.93	66.95	67.4	67.01	64.5	64.4	64.7	64.4	67	70.5	72.1
% Change	*2.4*	*(1.0)*	*-*	*0.7*	*(0.6)*	*(3.7)*	*(0.1)*	*0.5%*	*(0.5%)*	*4.2*	*4.7*	*1.0*

Source: Company, PL

Exhibit 3: Constant Currency QoQ growth (%)

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

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

Exhibit 4: EBITDA Margins v/s Average exchange rate

EBIDTA Margin (%)	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19E
Avg Rate (USD v/s INR)	67.1	66.9	67.7	66.6	64.5	64.4	64.6	64.7	67.5	70.7	72.1
Infosys	26.5	27.3	27.6	27.2	26.7	26.8	27.1	27.3	26.0	26.0	26.2
TCS	26.7	27.7	27.7	27.4	25.1	26.7	26.8	27.0	26.5	27.9	28.3
Wipro (Consolidated Margin)	19.5	19.3	20.4	20.1	19.6	20.7	18.3*	17.8	17.4	19.7	19.5
HCL Tech	22.2	21.8	22.2	22.0	22.1	22.2	23.1	23.0	23.3	23.5	23.8
Tech Mahindra	14.9	14.9	15.7	12.0	12.7	14.5	16.3	17.5	16.4	18.8	19.3

Source: Company, PL

Exhibit 5: USD revenues estimates for IT vendors

Fig in USD mn	3QFY19E	2QFY19	3QFY18	*QoQ gr.*	*YoY gr.*	Constant currency revenue growth (QoQ)
TCS	5,283	5,215	4,787	*1.3%*	*10.4%*	1.9% cc revenue growth
Infosys	2,965	2,921	2,755	*1.5%*	*7.6%*	2.0% cc revenue growth
Wipro	2,053	2,041	2,013	*0.6%*	*2.0%*	1.2% cc revenue growth
HCL Tech	2,158	2,099	1,986	*2.8%*	*8.7%*	3.3% cc revenue growth
Tech M	1,253	1,218	1,209	*2.9%*	*3.7%*	2.9% cc revenue growth
Total Large cap revenues	13,712	13,494	12,750	*1.6%*	*7.6%*	
Mphasis	281	276	251	*2.1%*	*11.9%*	2.5% cc revenue growth
Mindtree	253	246	215	*2.5%*	*17.7%*	2.6% cc revenue growth
L&T Technologies	184	177	151	*3.7%*	*21.7%*	3.8% cc revenue growth
Cyient	169	169	152	*0.0%*	*11.1%*	0.0% cc revenue growth
Hexaware	176	171	156	*3.0%*	*12.9%*	3.3% cc revenue growth
NIIT Tech	136	132	115	*3.0%*	*18.2%*	3.3% cc revenue growth
Zensar	142	138	123	*3.0%*	*16.0%*	3.1% organic growth
Persistent	124	118	123	*5.0%*	*1.3%*	2.9% cc growth
Sonata Software	40.7	39.1	37.4	*4.0%*	*8.7%*	4.5% cc revenue growth

Source: Company, PL

Exhibit 6: Q3FY19 Result Preview

Company Name		Q3FY19E	Q3FY18	YoY gr. (%)	Q2FY19	QoQ gr. (%)	Remark
Cyient	Sales	12,026	9,834	*22.3*	11,869	*1.3*	We expect Cyient's services business (~90% of total revenues) to grow by 2.5% QoQ in cc. Growth in Services business would be mainly led by recovery in Communication vertical. Cross currency would be a headwind of ~50bps. Hence, reported USD revenues in services business would grow by 2.0% for the quarter. We expect consolidated revenues will be flat QoQ and improvement in margins aided by INR depreciation.
	EBITDA	1,684	1,431	*17.7*	1,626	*3.5*	
	Margin (%)	14.0	14.6		13.7		
	Adj. PAT	1,334	876	*52.3*	1,271	*5.0*	
HCL Technologies	Sales	153,634	128,080	*20.0*	148,610	*3.4*	We expect HCL Tech to report 3.3% QoQ cc growth led by strong recovery in IMS business and seasonally strong Mode-3 business. Cross-currency would be a headwind of ~50bps for 3QFY19. Hence, USD revenue growth would be 2.8% QoQ. We expect margins to expand by 30bps led by higher margin IP business and tailwind from INR depreciation.
	EBITDA	36,565	29,640	*23.4*	34,990	*4.5*	
	Margin (%)	23.8	23.1		23.5		
	Adj. PAT	25,984	21,940	*18.4*	25,400	*2.3*	
Hexaware Technologies	Sales	12,548	10,048	*24.9*	12,096	*3.7*	We expect Hexaware's USD revenues to grow by 3.0% QoQ as 4QCY18. We expect margins to decline by 30bps QoQ. Commentary on new deal wins, Top-10 clients and demand environment in BFSI vertical would be keenly watched.
	EBITDA	2,053	1,599	*28.4*	2,023	*1.5*	
	Margin (%)	16.4	15.9		16.7		
	Adj. PAT	1,517	1,211	*25.2*	1,722	*(11.9)*	
Infosys	Sales	213,763	177,940	*20.1*	206,090	*3.7*	We expect Infosys to report 2% QoQ cc revenue growth for 3QFY19. Cross currency headwind would be ~50bps for the quarter. Hence, reported USD revenues would grow by 1.5% 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	56,006	48,170	*16.3*	53,580	*4.5*	
	Margin (%)	26.2	27.1		26.0		
	Adj. PAT	42,914	51,290	*(16.3)*	41,100	*4.4*	
L&T Technology Services	Sales	13,020	9,691	*34.4*	12,661	*2.8*	We expect LTTS to report steady growth and model 3.2% QoQ USD revenue growth for the quarter. Tailwinds from INR depreciation would marginally aid margins. Company is having Robust pipeline and strong top client network. We expect company will easily surpass the guidance.
	EBITDA	2,383	1,485	*60.5*	2,288	*4.1*	
	Margin (%)	18.3	15.3		18.1		
	Adj. PAT	1,761	1,265	*39.2*	1,918	*(8.2)*	
Mphasis	Sales	19,781	16,607	*19.1*	19,149	*3.3*	We expect Mphasis to report consolidated revenue growth of 2.1% QoQ in USD driven by traction Direct Channel (Mature markets) as well as HP channel. We expect company to maintain its guidance of EBOT margin in band of 15-17% after absorbing wage hike effective from this quarter.
	EBITDA	3,185	2,741	*16.2*	3,338	*(4.6)*	
	Margin (%)	16.1	16.5		17.4		
	Adj. PAT	2,410	2,136	*12.8*	2,718	*(11.3)*	
Mindtree	Sales	17,877	13,777	*29.8*	17,554	*1.8*	We expect Mindtree to report 1.9% QoQ USD revenue growth for 3QFY19. Momentum in revenue growth in top account would be keenly watched as these accounts has been showing strong momentum. We expect margins to improve by 60 bps aided by INR depreciation.
	EBITDA	2,860	2,074	*37.9*	2,699	*6.0*	
	Margin (%)	16.0	15.1		15.4		
	Adj. PAT	1,912	1,461	*30.9*	2,062	*(7.3)*	
NIIT Technologies	Sales	9,601	7,565	*26.9*	9,074	*5.8*	We expect NIIT Tech USD revenues to grow by 3.0% QoQ (We model 3.3% cc growth). Cross currency would be a headwind of 50bps QoQ. We expect EBIDTA margins to remain flat QoQ with tailwinds from currency depreciation negated by headwinds from furloughs in the quarter.
	EBITDA	1,728	1,296	*33.4*	1,634	*5.8*	
	Margin (%)	18.0	17.1		18.0		
	Adj. PAT	1,063	757	*40.5*	1,118	*(4.9)*	
Persistent Systems	Sales	8,313	7,918	*11.6*	8,355	*3.5*	We expect Persistent USD revenues 2.7% QoQ led by strong growth in Alliance business which is seasonally strong. Expect EBIDTA margin to increase by 80bps QoQ with tailwinds from rupee depreciation and operational efficiency.
	EBITDA	1,556	1,374	*15.8*	1,437	*8.3*	
	Margin (%)	18.0	17.4		17.2		
	Adj. PAT	1,005	916	*11.8*	882	*14.0*	

Company Name		Q3FY19E	Q3FY18	YoY gr. (%)	Q2FY19	QoQ gr. (%)	Remark
Redington (India)	Sales	129,814	117,284	10.7	111,085	16.9	We expect Redington revenues at Rs129.8bn up 10.7% YoY. India business had a low base in 3QFY18 owing to GST destocking. We expect consolidated EBIDTA margin at 2.02% up ~30bps QoQ.
	EBITDA	2,628	2,101	25.1	1,874	40.3	
	Margin (%)	2.0	1.8		1.7		
	Adj. PAT	1,583	1,262	25.4	961	64.7	
Sonata Software	Sales	6,448	7,667	-15.9	5,931	8.7	We expect Sonata Software's IT services at US$40.7mn, up 4% QoQ. Cc growth for the quarter would be 4.5% QoQ impacted by cross currency headwind as Sonata derives ~20% of revenues from GBP. We expect Consol EBITDA margin at 12.9% up 40bps QoQ with INR depreciation aiding IT services margins .
	EBITDA	834	651	28.2	740	12.7	
	Margin (%)	12.9	8.5		12.5		
	Adj. PAT	603	494	22.0	622	(3.0)	
Tata Consultancy Services	Sales	376,135	309,040	21.7	368,540	2.1	We expect TCS' Revenues to grow by 1.9% QoQ in constant currency for 3QFY19. Cross currency would be a headwind of 60bps QoQ. Hence, we expect reported USD revenues to grow by 1.3% QoQ. Traction in BFSI vertical, Retail vertical, European market and digital business would be keenly watched.
	EBITDA	106,446	82,880	28.4	102,780	3.6	
	Margin (%)	28.3	26.8		27.9		
	Adj. PAT	83,128	65,310	27.3	79,010	5.2	
TeamLease Services	Sales	11,446	9,181	24.7	10,907	4.9	We expect steady growth in Teamlease led by steady growth in staffing business. Organic YoY revenue growth would be 21.5% and rest is owing to Evolve acquisition (which was consolidated from 3QFY18). We model EBIDTA margin at 2.2% flat QoQ. 3Q is generally strong led by demand generated through festive season.
	EBITDA	252	179	40.8	240	4.8	
	Margin (%)	2.2	1.9		2.2		
	Adj. PAT	232	184	26.0	249	(7.0)	
Tech Mahindra	Sales	89,237	77,760	14.8	86,298	3.4	We expect recovery in Enterprise vertical and strong momentum in telecom is trigger and we expect Tech M to deliver 2.9% cc revenue growth and Cross currency would be a headwind of 60bps for the quarter. Hence, USD revenues would grew by 2.3% QoQ owing to cross currency headwinds.
	EBITDA	17,223	12,638	36.3	16,186	6.4	
	Margin (%)	19.3	16.3		18.8		
	Adj. PAT	11,893	9,432	26.1	10,774	10.4	
Wipro	Sales	152,126	136,690	11.3	145,410	4.6	We expect Wipro cc revenue to grow 1.2% QoQ. Reported USD revenues would grow by 0.6% QoQ owing to cross currency headwind. This translates to sequential growth outlook of 1-3%. Commentary on BFSI vertical, growth in European market, large deal wins and Digital business would be keenly watched.
	EBITDA	29,665	25,062	18.4	28,639	3.6	
	Margin (%)	19.5	18.3		19.7		
	Adj. PAT	24,380	19,229	26.8	23,761	2.6	
Zensar Technologies	Sales	10,108	7,952	27.1	9,708	4.1	We expect Zensar Technologies USD revenues to grow by 2.8% QoQ. We build additional one-month revenue of USD1mn from Indigo Slate acquisition. Tailwind from INR depreciation will aid margins.
	EBITDA	1,334	1,069	24.8	1,249	6.8	
	Margin (%)	13.2	13.4		12.9		
	Adj. PAT	762	589	29.4	933	(18.3)	

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)			
				FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E
Cyient	BUY	609	810	39.2	47.1	54.6	59.6	5.5	6.5	7.7	8.7	4.1	4.8	5.5	6.4	36.3	43.0	49.1	56.5	18.3	19.5	19.8	20.3	16.8	14.2	12.4	10.8
HCL Technologies	Acc	942	1,100	505.7	595.9	672.7	721.4	114.4	139.9	153.2	165.3	87.8	100.9	112.1	122.2	63.1	74.4	82.7	90.2	25.3	26.2	24.8	22.3	14.9	12.6	11.4	10.4
Hexaware Technologies	Acc	332	430	39.4	46.5	54.9	60.9	6.9	7.8	9.5	10.8	5.0	6.1	6.9	8.0	16.8	20.6	23.3	26.8	26.6	28.0	27.0	26.6	19.7	16.1	14.2	12.4
Infosys	BUY	672	790	705.2	827.5	925.3	982.5	190.1	216.4	241.5	259.9	160.3	165.6	184.8	198.9	36.8	38.0	42.5	45.7	23.9	25.0	25.8	24.9	18.2	17.7	15.8	14.7
L&T Technology Services	Acc	1,637	1,780	37.5	50.5	61.0	68.7	5.8	8.9	10.9	12.6	5.1	7.3	8.0	9.1	49.5	71.3	78.1	89.1	29.6	33.9	30.6	29.1	33.1	23.0	20.9	18.4
Mphasis	Acc	925	1,220	65.5	77.1	90.8	100.3	10.6	13.0	15.7	17.5	8.3	10.3	11.9	13.3	43.2	55.1	64.0	71.4	14.3	19.5	22.3	22.2	21.4	16.8	14.5	13.0
Mindtree	BUY	835	1,140	54.6	70.0	82.5	91.0	7.4	10.9	13.3	15.5	5.9	7.6	9.1	10.7	35.8	46.1	55.7	65.0	22.1	25.3	25.9	25.6	23.3	18.1	15.0	12.8
NIIT Technologies	BUY	1,141	1,460	29.9	37.0	44.1	48.9	5.0	6.5	7.6	8.6	2.8	4.1	4.8	5.6	45.6	67.3	78.8	91.6	16.2	21.8	22.3	22.7	25.0	17.0	14.5	12.5
Persistent Systems	Acc	570	725	30.3	34.0	37.8	40.7	4.7	5.8	6.3	7.3	3.2	3.6	4.2	4.9	40.4	45.6	52.7	60.8	16.0	16.2	16.7	17.1	14.1	12.5	10.8	9.4
Redington (India)	BUY	86	140	434.6	470.9	521.6	558.2	8.2	8.5	9.2	9.7	4.8	4.8	5.8	6.1	11.9	12.1	14.4	15.2	14.3	13.0	14.0	13.5	7.2	7.1	6.0	5.7
Sonata Software	BUY	296	410	24.5	25.6	28.3	30.6	2.3	3.1	3.7	4.1	1.9	2.4	2.7	3.0	18.5	23.2	26.4	28.9	30.9	34.3	34.0	32.7	16.0	12.8	11.2	10.2
TCS	Acc	1,898	2,300	1,231.0	1,470.4	1,671.2	1,780.8	325.2	413.0	461.8	503.2	258.3	323.8	361.9	396.1	67.5	86.3	96.4	105.5	29.4	36.7	36.5	32.9	28.1	22.0	19.7	18.0
TeamLease Services	HOLD	2,884	2,740	36.2	44.1	51.4	59.4	0.7	1.0	1.3	1.5	0.7	1.0	1.2	1.5	43.1	55.7	69.9	85.9	18.3	19.5	20.0	20.1	66.9	51.8	41.3	33.6
Tech Mahindra	BUY	688	885	307.7	348.6	385.6	409.8	47.1	63.2	71.8	77.9	38.0	42.6	50.3	55.8	43.0	48.3	56.9	63.2	21.5	21.1	21.7	21.0	16.0	14.2	12.1	10.9
Wipro	Acc	324	350	544.9	589.8	648.6	674.6	104.1	112.4	121.6	129.9	79.7	88.8	101.2	112.3	17.6	19.6	22.4	24.8	15.8	16.9	16.5	15.9	18.4	16.5	14.5	13.1
Zensar Technologies	BUY	229	290	31.1	39.0	45.0	49.5	3.7	5.1	6.5	7.3	2.4	3.3	4.0	4.6	10.8	14.5	17.7	20.6	15.4	18.2	19.2	19.3	21.2	15.7	12.9	11.1

Source: Company, PL

Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

Media

Oct-Dec'18 Earnings Preview

January 7, 2019

Radio space: We expect double digit top-line growth for our coverage universe due to delayed festive cheer and pick up in political/government ad spends (largest category) as five states went for elections during the quarter. For ENIL, growth will be higher due to back ended revenue accretive nature of the non-FCT business & lower base effect. Top-line will be driven by increase in utilization from legacy and batch 1 stations as pricing environment is subdued. (MBL has already taken a hike of 8% in top 12 markets during 1QFY19 while ENIL's yield on 35 legacy stations has been flattish in the last two quarters).

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). In addition, revenue deferment due to delayed festive impact will result in operating leverage and drive profit growth.

News broadcasting space: Traction is expected to be good as five states went for elections during the quarter. Weekly impressions for the top 5 Hindi news channels witnessed meteoric rise from week 46 (built up to the elections) having reached a peak in week 50 (election results were out in this week). We expect growth to be driven by rise in yields coupled with increasing utilization in lower rung channels that have regional presence (election oriented states).

Exhibit 1: Q3FY19 Result Preview

Company Name		Q3FY19E	Q3FY18	*YoY gr. (%)*	Q2FY19	*QoQ gr. (%)*	Remark
Entertainment Network (India)	Sales	1,800	1,479	*21.7*	1,225	*46.9*	Revenue deferment of Rs120-140mn from the preceding quarter on account of delay in festive season, higher share of non-FCT business and low base effect is expected to result in 21.7% YoY growth during 3QFY19. Higher share of non-FCT revenue which is margin dilutive and continued losses on batch 2 stations will partially offset the operating leverage benefit arising from higher revenue growth.
	EBITDA	428	356	*20.4*	273	*56.7*	
	Margin (%)	*23.8*	*24.1*		*22.3*		
	Adj. PAT	176	131	*34.6*	89	*96.5*	
Music Broadcast	Sales	853	762	*12.0*	801	*6.5*	Top-line growth will be aided by delayed festive impact and pick up in political/government spends as 5 states went for elections during the quarter. Increase in utilization in both legacy and batch 1 stations will drive top-line (price hike of 8% is already taken in top 12 markets earlier in the year). We expect margins to improve on YoY basis due to operating leverage benefit and improving profitability of batch 1 stations.
	EBITDA	281	233	*20.4*	266	*5.7*	
	Margin (%)	*32.9*	*30.6*		*33.1*		
	Adj. PAT	155	119	*30.4*	134	*15.8*	
Zee Media Corporation (Standalone)	Sales	1,643	1,429	*15.0*	1,487	*10.5*	Topline growth will be aided by the recently concluded elections in 5 states. In 3 states, namely MP, Chattisgarh & Rajasthan, ZMCL has regional channels which should report strong performance. Rise in yields for Zee News and Zee business (channel ranking is improving) will further aid topline. However, continued losses from WION (global channel) is expected to dent profitability.
	EBITDA	363	386	*(5.9)*	298	*21.9*	
	Margin (%)	*22.1*	*27.0*		*20.0*		
	Adj. PAT	138	160	*(14.1)*	104	*33.1*	

Source: Company, PL

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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)			
				FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E
Entertainment Network (India)	BUY	620	832	5,371	6,153	7,104	7,907	1,166	1,489	1,989	2,333	352	556	899	1,133	7.4	11.7	18.9	23.8	4.0	5.9	8.8	10.1	84.1	53.2	32.9	26.1
Music Broadcast	BUY	307	401	2,983	3,286	3,690	4,153	971	1,127	1,317	1,520	517	594	762	915	9.1	10.4	13.4	16.0	8.6	9.0	10.4	11.2	33.8	29.4	22.9	19.1
Zee Media Corporation	BUY	24	38	5,102	6,173	7,408	8,852	1,025	1,303	1,682	2,080	406	493	699	900	0.9	1.0	1.5	1.9	6.1	7.0	9.2	10.7	27.6	22.8	16.1	12.5

Source: Company, PL

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Metals & Mining

Oct-Dec'18 Earnings Preview

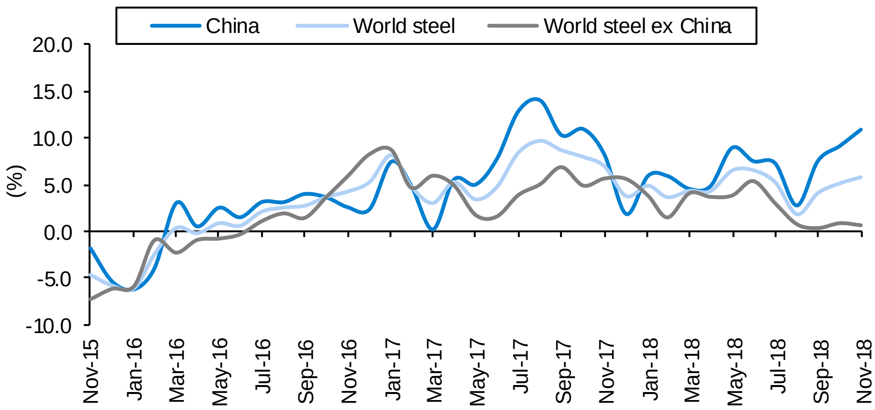
January 7, 2019

Top Picks

Tata Steel

Chinese steel production grew 10% YoY to 160mn tonnes (t) above the world steel production growth of 5.4% YoY to 304mn t in Oct-Nov 2018. RoW's production grew marginally 0.8% to 144mn tonnes. Production in India rose 2% YoY to 17.3mn t on the back of strong demand growth and ramp-up of some of the newly added capacities. South Korea's production grew 2% YoY to 12mn t due to increase in domestic demand, partially negated by weakness in exports. EU's production witnessed de-growth of 0.5% YoY to 29mn t due to increase in imports, shutdown of some of the capacities and sluggish demand. USA's production grew 11% YoY to 15mn t, led by hefty duties imposed on imports.

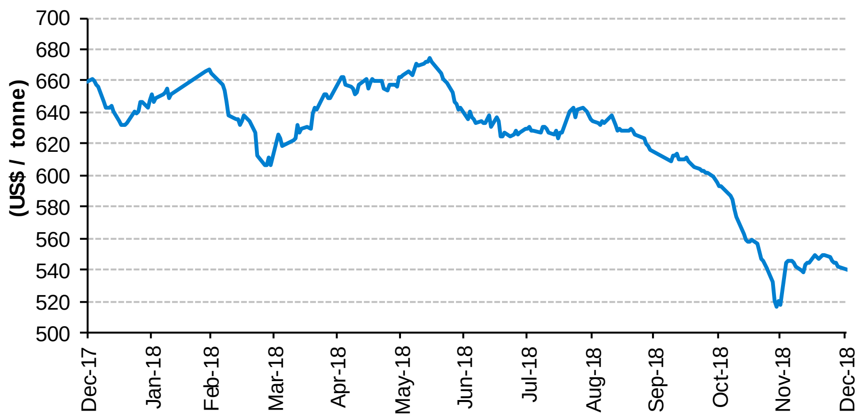
Exhibit 1: Movement in Crude Steel Production



Source: World Steel, PL

Average Chinese steel prices (including 17% VAT) fell sharply by 10% QoQ or US$64/t to US$567 due to over production, escalating trade wars and slow-down in domestic demand. Weak prices and high raw material prices pulled spreads of Chinese mills to near 12-month low.

Exhibit 2: China HRC Price



Source: Bloomberg, PL

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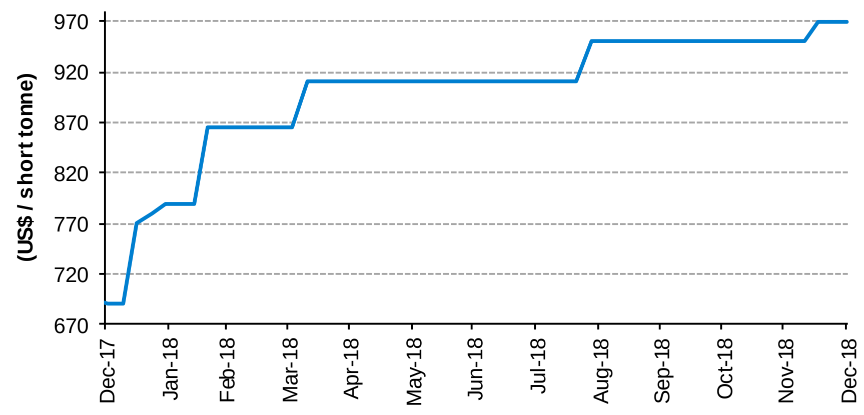
Average HRC prices in North America grew by 3.1% QoQ or US$29/short t to US$954 on account of import constraints and strong demand.

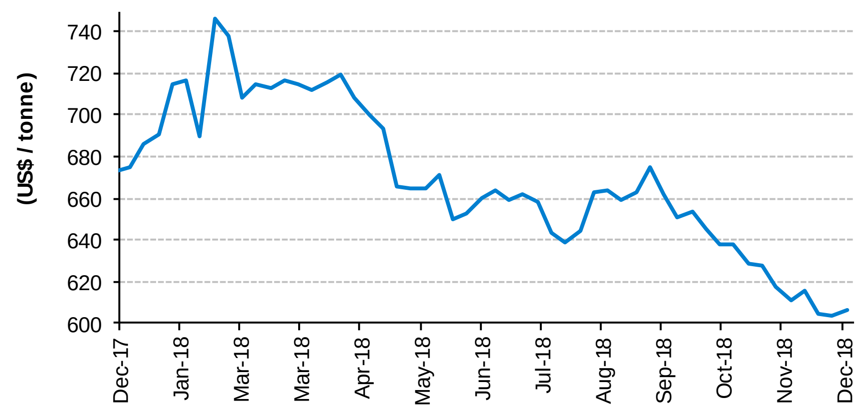
Exhibit 3: North America HRC Price



Source: Bloomberg, PL

Average HRC price in Europe fell by 5% QoQ or US$32/t to US$626 due to depreciation of € against dollar and slowing domestic demand.

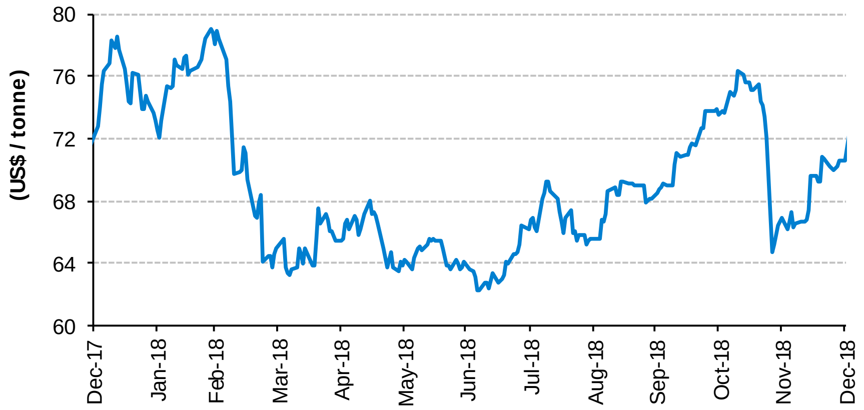
Exhibit 4: Europe HRC Price



Source: Bloomberg, PL

Average spot iron ore prices (CIF China) surged sharply by 7.2% QoQ or US$5/t to US$71 due to strong production activity in China, low inventory and surge in ocean freights.

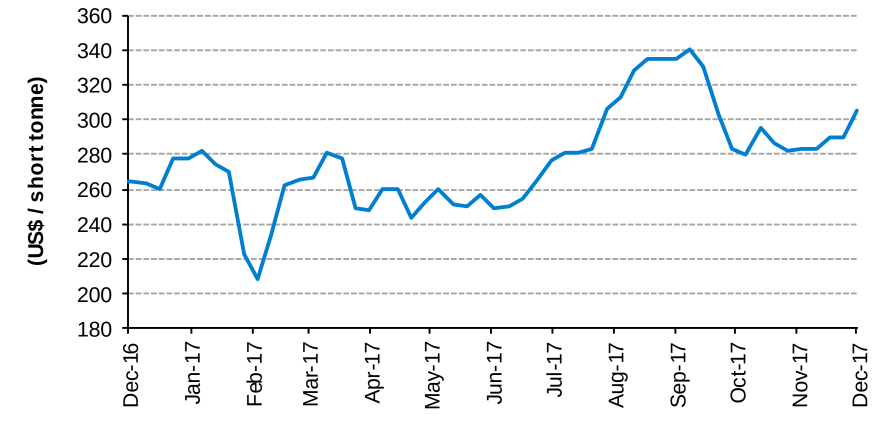
Exhibit 5: Indian origin Iron Ore (62% Fe) Export Prices (CIF) to China



Source: Bloomberg, PL

Average Ferrous scrap prices fell by 8% QoQ or US$24/t to US$288/t, impacted by imposition of import duty by Chinese govt on US scrap leading to flow of supplies to other markets.

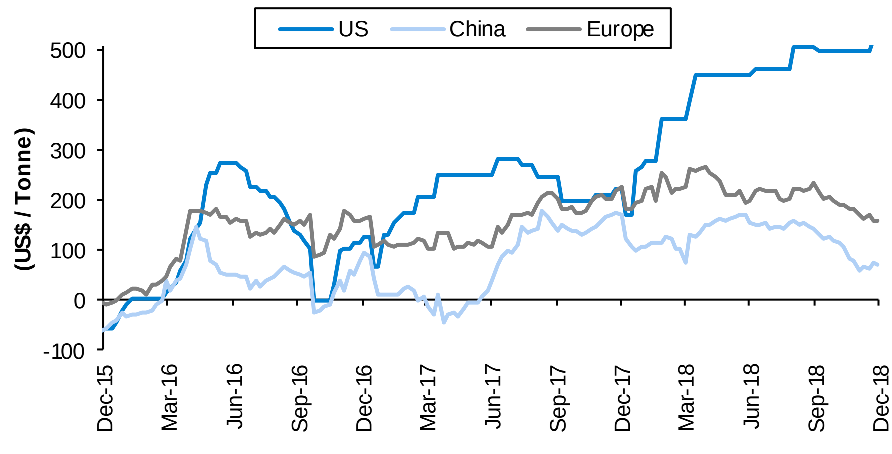
Exhibit 6: Rotterdam Scrap Prices



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 softened to yearly low due to weakness in prices and high input costs. Spreads in Europe remained under pressure due to seasonal weakness and currency depreciation.

Exhibit 7: Region-wise spreads of Blast furnace producers



Source: Bloomberg, PL

Global steel prices plummeted by 15% in last couple of months due to surge in Chinese steel exports and sluggish demand. This led to steep correction in Metal names. However, we believe that current prices are unsustainable given the unfeasible price levels. We expect meaningful recovery in prices post Chinese Lunar holiday as easing of trade frictions between China and USA, rationalization of Chinese production and pick-up in demand would play out. We continue to maintain our **Overweight** outlook on the sector with TATA Steel (TATA) as the top pick.

Exhibit 8: Q2FY19 Result Preview

Company Name		Q3FY19E	Q3FY18	YoY gr. (%)	Q2FY19	QoQ gr. (%)	Remark
Coal India	Sales	247,646	216,433	14.4	221,981	11.6	Coal despatches are expected to grow 12% QoQ to 153.8mn tonnes on the back of increase in demand. Realisations are expected inch down marginally by 0.4%/Rs6/t QoQ. Due to increased volume and better realisation in e-auction, EBITDA/t is expected to grow 30% QoQ to Rs370.
	EBITDA	56,944	46,179	23.3	39,142	45.5	
	Margin (%)	*23.0*	*21.3*		*17.6*		
	Adj. PAT	43,100	30,050	43.4	30,861	39.7	
	Coal desp. (mn tn)	153.8	152.4	0.9	137.3	12.0	
	Real. / tonne (Rs)	1,502	1,359	10.6	1,508	(0.4)	
	EBITDA / tonne (Rs)	370	303	22.2	285	29.9	
Hindalco Industries	Sales	124,214	110,228	12.7	108,330	14.7	Al production is expected to fall 0.3% QoQ. Cu production is expected to grow 45% QoQ. Al/Cu LME is expected to fall 2.4%/+1.1% QoQ. Due to weak realisations, Al EBITDA is expected to fall 26% QoQ to Rs5.5bn. Due to higher volume growth, Cu EBITDA is expected to rise 40% QoQ to Rs5.4bn. Total EBITDA is expected to grow 1.6% QoQ to Rs11.1bn
	EBITDA	11,087	13,117	(15.5)	10,907	1.6	
	Margin (%)	*8.9*	*11.9*		*10.1*		
	Adj. PAT	2,999	4,442	(32.5)	3,086	(2.8)	
	Alum. (Al) prod (t)	325,000	323,000	0.6	326,000	(0.3)	
	Copper (Cu) prod (t)	105,000	101,991	3.0	72,445	44.9	
	EBITDA-Al (Rs m)	5,507	9,455	(41.8)	7,440	(26.0)	
	EBITDA-Cu (Rs m)	5,424	4,206	29.0	3,880	39.8	
	EBITDA-Utkal Alumina (Rs m)	6,491	6,200	4.7	2,470	162.8	
Hindustan Zinc	Sales	58,454	59,220	-1.3	47,770	22.4	Total refined zinc-lead volumes are expected to grow 21% QoQ to 253.2kt. Silver volumes are expected to grow 18.7% QoQ to 191t. Refined metal realisations are expected to grow 4% QoQ on the back of better Zinc & Lead realisations. Due to better realisations, EBITDA would grow by 26.6% QoQ to Rs29.5bn.
	EBITDA	29,543	32,440	(8.9)	23,340	26.6	
	Margin (%)	*50.5*	*54.8*		*48.9*		
	Adj. PAT	22,209	22,300	(0.4)	18,150	22.4	
	Ttl. Refined metal-tns	253,203	245,000	3.3	209,000	21.1	
	Silver Sales Vol. (kg)	191,158	132,000	44.8	161,000	18.7	
Jindal Steel & Power	Sales	94,125	69,038	36.3	99,218	(5.1)	Standalone volume is expected to fall 4% QoQ to 1.23m tonnes. Realisations are expected to fall 1.4%/Rs750/t QoQ due to seasonal impact. Hence, Standalone EBITDA is expected fall 10.1% QoQ to Rs12.7bn. Due to weak realisations in domestic operations, consolidated EBITDA is expected to fall 11.8% QoQ to Rs18.9bn.
	EBITDA	18,939	15,177	24.8	21,469	(11.8)	
	Margin (%)	*20.1*	*22.0*		*21.6*		
	Adj. PAT	-717	-2,660	(73.0)	882	(181.3)	
	Steel Sales Vol. (Tonne)	1,230,000	940,000	30.9	1,280,000	(3.9)	
	Standalone EBITDA	12,713	8,634	47.2	14,147	(10.1)	
	JPL-Kwh sold (m)	2,403	2,743	(12.4)	2,233	7.6	
	JPL-Rate Rs/ Kwh	4.2	4.3	(1.7)	4.1	2.9	
JSW Steel	Sales	211,869	178,610	18.6	215,520	(1.7)	Volume is expected to fall marginally by 0.3% QoQ at 4m tonnes. Realisations are expected to fall 0.8%/Rs405/t QoQ at Rs49,265/t. Due to weak realisations, EBITDA/t is expected to fall 10.8%/Rs1,306 QoQ to Rs10,820. Consolidated EBITDA is expected to report fall of 8.6% QoQ to Rs44.9bn.
	EBITDA	44,861	38,510	16.5	49,060	(8.6)	
	Margin (%)	*21.2*	*21.6*		*22.8*		
	Adj. PAT	18,119	13,537	33.8	21,260	(14.8)	
	Sales Vol. (mt)	4.0	4.0	-0.5	4.0	(0.3)	
	Real. / tonne (Rs)	49,265	41,443	18.9	49,669	(0.8)	
	EBITDA / tonne (Rs)	10,820	9,000	20.2	12,126	(10.8)	
NMDC	Sales	34,804	24,690	41.0	24,379	42.8	Iron ore volumes is expected to grow 29.4% QoQ to 8.7m tonnes. Realisations are expected to grow 10.5% QoQ to Rs3,953/t. Due to higher realisations and lower costs, EBITDA/t is expected to increase 27.2% QoQ to Rs2,390. EBITDA is expected to move up 64.6% QoQ to Rs20.7bn.
	EBITDA	20,736	12,099	71.4	12,594	64.6	
	Margin (%)	*59.6*	*49.0*		*51.7*		
	Adj. PAT	13,976	7,934	76.2	6,365	119.6	
	Total Volume (mt)	8.7	8.1	7.7	6.7	29.4	
	Realization/t (Rs.)	3,953	3,014	31.2	3,576	10.5	
	EBITDA/t (Rs)	2,390	1,501	59.2	1,878	27.2	
Steel Authority of India	Sales	169,690	153,237	10.7	167,180	1.5	Volumes are expected to grow 2.2% QoQ to 3.6m tonnes. Realisations are expected to fall marginally 0.6%/Rs300/t QoQ to Rs47,300/t. Due to weak realisations and marginally increase in costs, EBITDA/t is expected to fall 9.2%/Rs628 QoQ at Rs6,178. EBITDA is expected to fall 7.3% QoQ to Rs21.9bn
	EBITDA	21,933	14,402	52.3	23,650	(7.3)	
	Margin (%)	*12.9*	*9.4*		*14.1*		
	Adj. PAT	4,543	1,222	271.6	5,760	(21.1)	
	Sales Vol. (m tonnes)	3.6	3.8	(5.8)	3.5	2.2	
	Real. / Tonne (Rs)	47,300	40,300	17.4	47,600	(0.6)	
	EBITDA / Tonne (Rs)	6,178	3,820	61.7	6,806	(9.2)	

Company Name		Q3FY19E	Q3FY18	YoY gr. (%)	Q2FY19	QoQ gr. (%)	Remark
Tata Steel - India	Sales	184,771	155,958	*18.5*	179,020	*3.2*	Standalone volume is expected to grow 3.8% QoQ to 3.3m tonnes. Realisations are expected to fall marginally 0.5% or Rs304/t QoQ to Rs55,991/t. Due to weak realisations, EBITDA/t is expected to fall 13.9%/Rs2,615 QoQ to Rs16,241.
	EBITDA	53,595	46,281	*15.8*	59,961	*(10.6)*	
	Margin (%)	*29.0*	*29.7*		*33.5*		
	Adj. PAT	26,550	20,452	*29.8*	32,862	*(19.2)*	
	Sales Vol. (m tonnes)	3.3	3.3	*0.1*	3.2	*3.8*	
	Realization/t (Rs.)	55,991	47,303	*18.4*	56,296	*(0.5)*	
	EBITDA / Tonne (Rs)	16,241	14,037	*15.7*	18,856	*(13.9)*	
Tata Steel - Consol	Sales	440,463	334,466	*31.7*	435,441	*1.2*	Tata Steel Europe (TSE) is expected to report 42.8% QoQ fall in EBITDA/t to US$40 due to weaker spreads and lower scale. Impacted by lower realisations in domestic business and weak TSE operations, we expect consolidated EBITDA to fall 17% QoQ to Rs74.1bn.
	EBITDA	74,147	56,969	*30.2*	89,195	*(16.9)*	
	Margin (%)	*16.8*	*17.0*		*20.5*		
	Adj. PAT	22,451	20,016	*12.2*	34,894	*(35.7)*	
	SalesVol.-Corus (mt)	2.2	2.4	*(9.8)*	2.3	*(3.1)*	
	EBITDA/Tn-Corus (US$)	40	40	*(0.1)*	70	*(42.8)*	
	Sales Vol.-South East (mt)	0.6	0.6	*(3.2)*	0.7	*(7.7)*	
	EBITDA/Tn-SEAN (US$)	20.0	45.9	*(56.4)*	24.6	*(18.7)*	

Source: Company, PL

Exhibit 9: Valuation Summary

Company Names	Rating	CMP (Rs)	TP (Rs)	Sales (Rs bn)				EBITDA (Rs bn)				PAT (Rs bn)				EPS (Rs)				RoE (%)				PE (x)			
				FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E
Coal India	Hold	235	262	858.6	962.3	1,005.6	1,057.9	129.2	265.4	275.3	290.9	66.9	149.5	152.8	159.4	10.8	24.1	24.6	25.7	30.1	68.2	59.6	54.4	21.8	9.7	9.5	9.1
Hindalco Industries	ACC	209	280	1,151.7	1,357.0	1,365.5	1,414.4	139.2	174.0	166.2	167.8	47.5	71.6	66.2	66.8	21.3	32.1	29.7	29.9	9.4	12.3	10.2	9.4	9.8	6.5	7.0	7.0
Hindustan Zinc	ACC	275	312	220.8	231.4	238.9	246.7	122.7	127.0	126.8	126.1	91.0	96.0	91.5	92.1	21.5	22.7	21.7	21.8	27.3	26.9	24.2	21.7	12.8	12.1	12.7	12.6
Jindal Steel & Power	BUY	152	239	270.7	375.7	405.3	425.7	61.5	81.9	87.4	92.3	-8.2	-0.9	4.5	10.2	-8.1	-0.9	4.4	10.1	-2.7	-0.3	1.5	3.2	-18.8	-166.2	34.2	15.1
JSW Steel	BUY	290	360	689.5	827.5	855.7	1,046.6	135.2	184.3	180.8	219.0	45.4	78.9	76.0	86.4	15.0	26.1	25.2	28.6	17.9	25.1	19.9	19.1	19.3	11.1	11.5	10.1
NMDC	Reduce	95	86	116.1	108.0	105.2	106.2	58.1	58.0	53.4	50.9	38.8	39.2	35.9	33.8	12.3	12.4	11.3	10.7	16.6	15.3	12.9	11.4	7.7	7.7	8.4	8.9
Steel Authority of India	Hold	53	50	575.6	694.9	764.7	806.7	46.2	95.7	104.4	109.3	-5.0	19.8	22.6	22.3	-1.2	4.8	5.5	5.4	-1.4	5.4	5.8	5.4	-44.2	11.2	9.7	9.9
Tata Steel	BUY	486	785	1,313.0	1,598.7	1,730.2	1,753.0	210.3	293.2	296.1	306.7	29.2	88.9	90.4	96.5	25.5	73.9	75.1	80.2	5.9	11.8	9.6	9.5	19.1	6.6	6.5	6.1

Source: Company, PL

Oil & Gas

Oct-Dec'18 Earnings Preview

January 7, 2019

Top Picks

Petronet LNG

Indraprastha Gas

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Q3FY19 Oil sector earnings are likely to be muted due to inventory losses 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 weak, given muted LPG profitability and lower gas trading earnings. IGL, MGL and PLNG are likely to report healthy performance during the quarter.

Exhibit 1: Q3FY19 sector aggregates impacted by OMCs performance

Total (Rs m)	Q3FY19E	Q2FY19	% chg	Q3FY18	% chg
Sales	45,32,151	47,07,746	*16%*	39,00,159	*-4%*
EBITDA	3,24,028	4,77,994	*-36%*	5,03,899	*-32%*
PAT	1,44,397	2,63,958	*-49%*	2,82,315	*-45%*
Brent (USD/bbl)	67.7	75.4	*-10.2%*	61.2	*10.6%*
USD/Rs	72.1	70.1	*2.9%*	64.8	*11.3%*

Source: Company, PL

- **RIL**: RIL's standalone earnings are likely to be weak at Rs82bn led by healthy petrochemicals profitability and depreciating exchange rate even as weak refining earnings will be drag; factored in US$8.5/bbl (US$9.5/bbl in Q2). We have factored in refining thruput at 18MTPA (Q2FY19 17.7MTPA). 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 Q3 loss of Rs32.5bn vis-à-vis profits of Rs164bn in H1 led primarily by inventory loss and weak GRMs due to crash in gasoline spreads. Benchmark refining margins for Q2 were at US$4.3/bbl, US$6.2/bbl in Q2 due to weak gasoline spreads of US$5.2/bbl (US$11.8/bbl in Q2). However, marketing margins recovered on the back of falling crude prices and appreciating exchange rate. With sharp drop in crude and product price, we expect inventory loss to be at Rs130bn against Rs195bn in H1.

Exhibit 2: OMC earnings impacted by inventory losses

Total (Rs m)	Q3FY19E	Q2FY19	% chg	Q3FY18	% chg
Sales	28,77,989	30,78,275	*9%*	26,41,364	*-7%*
EBITDA	-20,173	1,13,033	*NA*	1,96,155	*NA*
PAT	-32,530	55,606	*NA*	1,19,767	*NA*
Singapore GRM (US/bbl)	4.3	6.1	*-29.9%*	7.3	*-41.2%*

Source: Company, PL

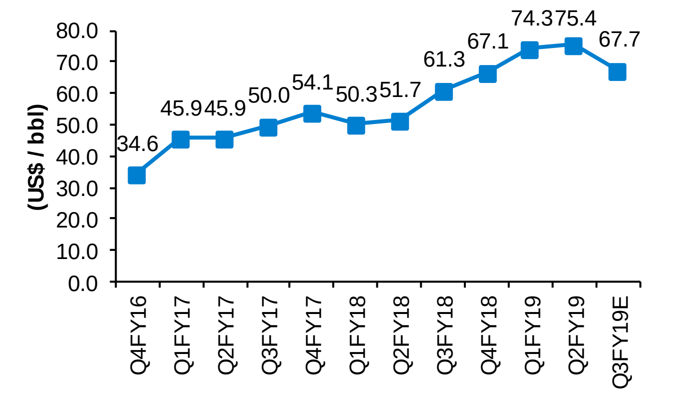
- **Upstream:** Upstream companies are expected to report strong earnings of Rs73bn due to strength in crude oil prices and depreciating exchange rate. Production and sales volumes are likely to improve. We have not factored in any subsidy burden and expect net realization of ~US$70/bbl.

Exhibit 3: Upstream earnings supported by higher realisation

Total (Rs m)	Q3FY19E	Q2FY19	% chg	Q3FY18	% chg
Sales	3,16,168	3,17,328	*22%*	2,58,484	*0%*
EBITDA	1,68,043	1,72,634	*22%*	1,37,492	*-3%*
PAT	73,193	91,266	*28%*	57,199	*-20%*

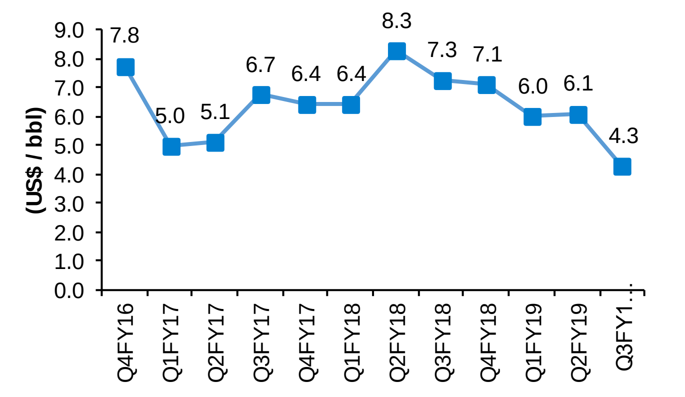
Source: Company, PL

Exhibit 4: Brent prices have come down in Q3



Source: Company, PL

Exhibit 5: Singapore GRMs have come down sequentially



Source: Company, PL

Exhibit 6: Q3FY19 Result Preview

Company Name		Q3FY19E	Q3FY18	*YoY gr. (%)*	Q2FY19	*QoQ gr. (%)*	Remark
Bharat Petroleum Corporation	Sales	6,77,734	6,06,164	*11.8*	7,22,918	*(6.3)*	BPCL earnings to decline sequentially due to inventory loss and muted GRMs. Improved marketing earnings and depreciating exchange rate provide downside support.
	EBITDA	-3,537	31,882	*(111.1)*	24,194	*(114.6)*	
	Margin (%)	*-0.5*	*5.3*		*3.3*		
	Adj. PAT	-6,237	21,437	*(129.1)*	12,217	*(151.1)*	
GAIL (India)	Sales	1,86,372	1,44,143	*29.3*	1,92,753	*(3.3)*	We expect muted earnings performance from GAIL due to lower LPG realisation and weak gas trading earnings. Transmission volumes will also increase.
	EBITDA	21,407	19,699	*8.7*	29,276	*(26.9)*	
	Margin (%)	*11.5*	*13.7*		*15.2*		
	Adj. PAT	13,297	12,622	*5.3*	19,630	*(32.3)*	
Hindustan Petroleum Corporation	Sales	6,06,321	5,74,743	*5.5*	6,75,180	*(10.2)*	HPCL earnings to decline sequentially due to inventory loss and muted GRMs. Improved marketing earnings and depreciating exchange rate provide downside support.
	EBITDA	-6,618	31,585	*(121.0)*	21,220	*(131.2)*	
	Margin (%)	*-1.1*	*5.5*		*3.1*		
	Adj. PAT	-8,052	19,497	*(141.3)*	10,920	*(173.7)*	
Indraprastha Gas	Sales	14,574	11,839	*23.1*	14,215	*2.5*	We expect IGL margins to be maintained led by price hikes in the quarter. Volume momentum will also be maintained.
	EBITDA	3,013	2,631	*14.5*	3,080	*(2.2)*	
	Margin (%)	*20.7*	*22.2*		*21.7*		
	Adj. PAT	1,893	1,659	*14.1*	1,873	*1.1*	
I.G. Petrochemicals	Sales	3,200	2,946	*8.6*	3,242	*(1.3)*	We expect margins to come off sharply due to increased production in China due to relaxation in environment norms due to on going US-China trade war.
	EBITDA	510	714	*(28.6)*	713	*(28.4)*	
	Margin (%)	*15.9*	*24.2*		*22.0*		
	Adj. PAT	274	405	*(32.3)*	405	*(32.3)*	
Indian Oil Corporation	Sales	12,34,428	11,06,669	*11.5*	13,20,348	*(6.5)*	IOCL earnings to be impacted by inventory loss and muted GRMs. Improved marketing earnings and depreciating exchange rate provide downside support.
	EBITDA	-10,017	1,32,687	*(107.5)*	67,620	*(114.8)*	
	Margin (%)	*-0.8*	*12.0*		*5.1*		
	Adj. PAT	-20,111	78,832	*(125.5)*	32,469	*(161.9)*	
Mahanagar Gas	Sales	7,158	5,814	*23.1*	6,965	*2.8*	We expect MGL margins to be maintained led by price hikes in the quarter. CNG volumes to increase at ~5%YoY.
	EBITDA	2,214	2,009	*10.2*	2,215	*(0.0)*	
	Margin (%)	*30.9*	*34.6*		*31.8*		
	Adj. PAT	1,410	1,240	*13.7*	1,364	*3.4*	
NOCIL	Sales	2,720	2,493	*9.1*	2,720	-	We expect margins to come off from H1FY19 levels led by easing of environment norms in China.
	EBITDA	699	696	*0.4*	789	*(11.5)*	
	Margin (%)	*25.7*	*27.9*		*29.0*		
	Adj. PAT	453	450	*0.8*	528	*(14.2)*	

Company Name		Q3FY19E	Q3FY18	YoY gr. (%)	Q2FY19	QoQ gr. (%)	Remark
Oil India	Sales	35,223	28,526	*23.5*	37,436	*(5.9)*	We have not factored in any subsidy burden on the company. Volume growth to be muted.
	EBITDA	14,148	12,245	*15.5*	14,746	*(4.1)*	
	Margin (%)	*40.2*	*42.9*		*39.4*		
	Adj. PAT	7,603	7,052	*7.8*	8,620	*(11.8)*	
Oil & Natural Gas Corporation	Sales	2,80,944	2,29,959	*22.2*	2,79,892	*0.4*	We have not factored in any subsidy burden on the company. Gas volumes will record growth.
	EBITDA	1,53,895	1,25,247	*22.9*	1,57,887	*(2.5)*	
	Margin (%)	*54.8*	*54.5*		*56.4*		
	Adj. PAT	65,590	50,147	*30.8*	82,646	*(20.6)*	
Petronet LNG	Sales	1,09,377	77,571	*41.0*	1,07,453	*1.8*	We expect earnings to be healthy due to healthy demand traction.
	EBITDA	8,029	8,474	*(5.2)*	8,837	*(9.1)*	
	Margin (%)	*7.3*	*10.9*		*8.2*		
	Adj. PAT	5,192	5,288	*(1.8)*	5,629	*(7.8)*	
Reliance Industries	Sales	10,26,240	7,59,130	*35.2*	9,88,620	*3.8*	Muted earnings growth due to weak refining earnings even as strong petrochemicals earnings and rupee depreciation will support earnings.
	EBITDA	1,41,495	1,37,440	*3.0*	1,48,920	*(5.0)*	
	Margin (%)	*13.8*	*18.1*		*15.1*		
	Adj. PAT	81,942	84,540	*(3.1)*	88,590	*(7.5)*	

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)			
				FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E
BPCL	Acc	356	326	2,357.7	3,079.7	3,472.4	3,660.6	151.7	136.0	161.2	167.7	85.0	89.0	106.3	108.0	43.2	45.2	54.0	54.9	25.2	22.2	22.5	19.9	8.2	7.9	6.6	6.5
GAIL (India)	BUY	357	475	536.6	673.1	812.0	918.0	76.3	93.7	113.1	118.5	45.9	58.2	72.9	78.0	20.4	25.8	32.3	34.6	11.7	13.9	15.9	15.5	17.5	13.8	11.1	10.3
HPCL	Hold	250	219	2,195.1	2,923.7	3,215.2	3,525.3	107.1	106.7	109.8	134.8	72.2	41.7	39.2	57.4	47.4	27.4	25.7	37.6	31.0	15.2	12.6	16.4	5.3	9.1	9.7	6.6
Indraprastha Gas	BUY	274	360	45.9	50.2	57.6	66.3	11.1	12.4	13.5	15.1	6.7	7.5	8.2	9.5	9.6	10.8	11.8	13.6	20.8	20.0	19.0	19.0	28.5	25.4	23.2	20.1
I.G. Petrochemicals	BUY	398	700	11.4	12.0	13.4	18.3	2.7	2.4	2.7	3.3	1.5	1.4	1.5	1.9	47.6	45.5	49.7	60.9	31.8	23.4	20.5	20.5	8.4	8.7	8.0	6.5
Indian Oil Corporation	Acc	133	142	4,214.9	5,452.1	6,024.3	6,629.9	415.9	326.5	350.5	418.9	208.0	161.2	190.5	252.8	21.9	16.6	19.6	26.0	23.2	14.4	14.2	17.2	6.1	8.0	6.8	5.1
Mahanagar Gas	BUY	906	1,179	22.3	27.0	29.0	31.3	7.8	8.3	8.8	9.7	4.8	5.6	6.1	7.3	48.4	57.1	61.3	73.8	24.3	24.6	22.5	23.3	18.7	15.9	14.8	12.3
NOCIL	BUY	161	270	9.7	11.2	14.7	18.5	2.6	3.0	3.7	4.6	1.7	1.8	2.4	3.0	10.3	11.0	14.4	18.0	17.4	16.4	19.0	20.6	15.6	14.6	11.1	8.9
Oil India	Acc	175	236	106.6	134.1	141.8	150.6	41.9	52.2	51.4	50.6	26.7	31.3	29.8	26.8	23.5	27.6	26.3	23.6	9.4	11.7	11.5	9.9	7.4	6.3	6.6	7.4
ONGC	BUY	148	223	3,622.5	1,945.9	2,051.5	2,161.6	643.3	703.3	710.1	729.9	258.2	278.4	260.4	249.8	20.1	21.7	20.3	19.5	13.0	12.1	9.8	8.8	7.3	6.8	7.3	7.6
Petronet LNG	BUY	217	300	306.0	352.5	399.6	433.6	33.1	36.7	43.5	47.6	20.8	24.3	30.5	35.0	13.9	16.2	20.3	23.4	23.3	23.5	25.0	23.7	15.7	13.4	10.7	9.3
Reliance Industries	Acc	1,105	1,238	2,900.4	3,664.9	4,002.0	4,284.7	517.4	596.0	659.4	710.5	336.1	366.1	412.5	462.1	53.1	57.8	65.1	72.9	11.1	11.5	12.7	13.8	20.8	19.1	17.0	15.1

Source: Company, PL

Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

Pharma

Oct-Dec'18 Earnings Preview

January 7, 2019

Top Picks

Aurobindo Pharma

Thyrocare Technologies

IPCA Laboratories

Surajit Pal
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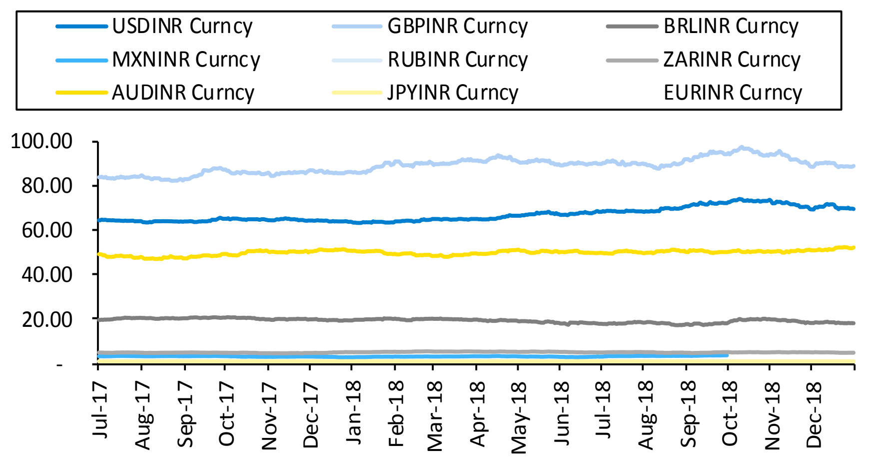
With few major launches along with multiple competitors in the US, depreciating currencies of emerging markets as well as INR against appreciating USD QoQ, we expect moderate growth in exports. Most emerging market currencies had a weak performance against the USD. USD appreciated by 2.6% QoQ in Q3FY19 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 (-1%) and Brazilian Real (-6%) will impact sales and margin of Cipla (in Cipla-Medpro) and Torrent/Dr. Reddy's Lab (DRL) in respective countries in Q3FY19. The depreciation of INR against Japanese Yen by 1.6% may help to report better sales for Lupin's generic business in Japan while we expect impact in revenues and margin of ROW business due to depreciating EM currencies against USD. With depreciating INR against both Russian Rouble (-1.2%) and Euro (-1%) QoQ, the growth factor in Russia and Europe will be benefitted in Q3FY19 for Aurobindo, Glenmark, IPCA, DRL and Sun Pharma. The USD appreciation (vs. INR) in Q3FY19 was 2.6% lower in comparison to 4.5% appreciation in Q2FY19, which may result in marginal currency benefits for US revenues of India generics

Exhibit 1: Emerging market currencies v/s USD in Q3FY19 v/s Q2FY18



Source: Bloomberg, PL

US continue to be major market for Indian Pharma companies with 33% of the revenues coming from the USA in our coverage universe.

Exhibit 2: Contribution of US generics in Revenues in Q3FY19E

Companies	US rev (%)
Aurobindo	46
Cipla	19
Dr Reddy's	38
Glenmark	35
Indoco Remedies	1
Jubilant Life	47
Lupin	30
Sun Pharma	34
Zydus Cadila	47
Average	33

Source: Company, PL

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 Q3FY19. The new approvals in Q2FY19 (*gInvanz* Inj and gReyataz (both for Auro), gIsuprel (Cipla), gWelchol (Glenmark), and gSuboxone (DRL)) will also draw benefits of full quarter sales. There will be additional benefits from few drugs, which were launched at the fag end of 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 Q3FY19. There were approvals for 70 and 73 ANDAs given to Indian companies in Q3FY19 and Q2FY19, respectively, vis-à-vis 67 ANDAs in Q1FY19. 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 (9 ANDAs) number of approvals followed by Aurobindo's 7 approvals among the Indian pharma companies in Q3FY19.

Among key launches, DRL's residual benefits post withdrawal of gSuboxone which were launched at risk (in Q1FY19) will be largely absent and expect no new sales despite originator lost its appeal in the Court for preliminary injunction. Aurobindo launched gInvanz and gReyataz in the last week Q2FY19 and expect major benefit to receive in Q3FY19 as major part of injectable are procured in winter season in US. Aurobindo surprising benefits in gReyataz will be lower as Mylan and Cipla received approvals and launched the drug in Q3FY19

Exhibit 3: Movement of INR vs. major ROW currencies in Q3FY19

Foreign Exchange Rates vis-à-vis INR	Q3FY19 (Avg)	Q2FY19 (Avg)	*Growth (%)*
Euro	82.21	81.48	*(0.9)*
GB Pound Sterling	92.68	91.34	*(1.4)*
Japanese Yen	0.64	0.63	*(1.6)*
Russian Rouble	1.08	1.07	*(1.1)*
South African Zar	5.04	4.99	*(0.9)*
Brazilian Real	18.93	17.78	*(6.1)*
USD	72.02	70.12	*(2.6)*
Mexican Peso	3.64	3.70	*1.7*

Source: Company, PL

With festive season led lower IPM growth and no benefits of lower base (due to GST implementation) YoY, we expect IPM growth to be below 10% in Q3FY19. IPM growth in Oct and Nov 2018 was 12.2% and 6.3% (IPM-AIOCD) respectively and we expect growth in Dec-2018 will not be vastly different than the other two months of the quarter. A vast majority of growth in Oct-Nov 2018 was due to increase in price while significant fall in volume of older products are noticed. 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: Q3FY19 Result Preview

Company Name		Q3FY19E	Q3FY18	YoY gr. (%)	Q2FY19	QoQ gr. (%)	Remark
Aurobindo Pharma	Sales	47,473	42,690	*11.2*	46,671	*1.7*	Ertapenem as well as larger quantum of supply of Injectable (post resolution of observations) from Unit-4 to drive Auromedic sales in US in Q3FY19. No major recall in US to help in better revenues and margin growth QoQ. MTM Fx loss on loan to be lower sequentially.
	EBITDA	9,666	9,585	*0.8*	9,417	*2.6*	
	Margin (%)	*20.4*	*22.5*		*20.2*		
	Adj. PAT	6,582	5,950	*10.6*	6,383	*3.1*	
Cadila Healthcare	Sales	31,727	32,596	*-2.7*	29,612	*7.1*	Better traction of gAsacol HD to help in growth in sales, EBITDA and headline margins. India sales to be at par with industry rate. MTM Fx loss on loan may impact PAT.
	EBITDA	7,649	8,412	*(9.1)*	6,878	*11.2*	
	Margin (%)	*24.1*	*25.8*		*23.2*		
	Adj. PAT	4,774	5,433	*(12.1)*	4,175	*14.3*	
Cipla	Sales	40,886	38,345	*6.6*	39,479	*3.6*	Tepid growth with no major boost in US nor in India formulations. Expect US revenues to be US$115m with launches of 3-4 limited competition drugs in 12 months. Margin to remain stable at 16% as benefits from USD to be offset from lower sales in EMs (SA).
	EBITDA	6,534	7,393	*(11.6)*	6,383	*2.4*	
	Margin (%)	*16.0*	*19.3*		*16.2*		
	Adj. PAT	3,824	4,005	*(4.5)*	3,771	*1.4*	
Dr. Lal PathLabs	Sales	3,047	2,627	*16.0*	3,175	*(4.0)*	DLPL draws growth in Q2 and Q3 from vector-borne disease (Dengue, Malaria) tests. The second part of Q3FY19 are generally impacted due to festive season. New Kolkata Lab as well as its traditional lean period in Q3 to keep EBITDA margin at 21-22%.
	EBITDA	668	566	*18.0*	868	*(23.1)*	
	Margin (%)	*21.9*	*21.5*		*27.3*		
	Adj. PAT	431	360	*19.6*	570	*(24.4)*	
Dr. Reddy's Laboratories	Sales	37,694	38,341	*-1.7*	38,175	*(1.3)*	The benefits from the one-off sales of gSuboxone to be absent in Q3FY19 has kept QoQ growth lower. The India formulation growth to be at par with industry average. Operating cost control and rationalisation of assets to be key for long term margin growth.
	EBITDA	7,268	7,927	*(8.3)*	7,593	*(4.3)*	
	Margin (%)	*19.3*	*20.7*		*19.9*		
	Adj. PAT	4,136	3,027	*36.6*	5,183	*(20.2)*	
Eris Lifesciences	Sales	2,361	2,090	*13.0*	2,642	*(10.6)*	Slower growth in CNS TA, Eris to miss out synergy benefits from the merger of Strides' business of pcsychotic drugs in India. Current portfolio of CVS/Diabetes and other acute therapy drugs to growt in line with industry average, lower than its guidance.
	EBITDA	882	811	*8.8*	1,007	*(12.4)*	
	Margin (%)	*37.3*	*38.8*		*38.1*		
	Adj. PAT	739	741	*(0.3)*	853	*(13.4)*	
Glenmark Pharmaceuticals	Sales	23,793	21,715	*9.6*	25,399	*(6.3)*	New launches and traction in limited competition drug to drive US sales QoQ. Lower base YoY to drive growth in India formulations. Exposure in EM (Russia, LatAm) to partially offset the benefits of higher USD though increase EBITDA higher QoQ.
	EBITDA	3,963	2,905	*36.4*	3,986	*(0.6)*	
	Margin (%)	*16.7*	*13.4*		*15.7*		
	Adj. PAT	2,879	1,047	*174.9*	796	*261.5*	
Indoco Remedies	Sales	2,764	2,742	*0.8*	2,359	*17.2*	Tepid export formulations, absence of US revenues and lower than industry average growth in India formulation to keep revenue growth tepid. Nevertheless, benefits from the internal restructuring to reflect in headline margin improvement.
	EBITDA	371	393	*(5.6)*	121	*207.0*	
	Margin (%)	*13.4*	*14.3*		*5.1*		
	Adj. PAT	119	227	*(47.6)*	-78	*(252.2)*	
Ipca Laboratories	Sales	9,195	8,592	*7.0*	9,978	*(7.8)*	Better international tender business and tepid malaria season to keep sales growth below 10%. EU generics sales to be lean due to regulatory issues with partner. Branded generics in EM may see better traction. EBITDA margin to improve marginally QoQ.
	EBITDA	1,604	1,612	*(0.5)*	1,728	*(7.2)*	
	Margin (%)	*17.4*	*18.8*		*17.3*		
	Adj. PAT	1,075	1,056	*1.8*	1,197	*(10.2)*	
Jubilant Life Sciences	Sales	23,284	20,678	*12.6*	22,695	*2.6*	Tepid growth in LSI business, especially in Life science chemical products, and lower demand in Vit-B products to restrict overall growth in Q3FY19E. Rest of business verticals to remain similar though margin to be impacted.
	EBITDA	4,639	4,168	*11.3*	4,502	*3.1*	
	Margin (%)	*19.9*	*20.2*		*19.8*		
	Adj. PAT	2,216	2,125	*4.2*	2,104	*5.3*	

Company Name		Q3FY19E	Q3FY18	*YoY gr. (%)*	Q2FY19	*QoQ gr. (%)*	Remark
Lupin	Sales	38,429	39,004	*-1.5*	38,909	*(1.2)*	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 be impacted due to higher overhead costs.
	EBITDA	4,602	6,131	*(24.9)*	4,895	*(6.0)*	
	Margin (%)	*12.0*	*15.7*		*12.6*		
	Adj. PAT	1,858	2,217	*(16.2)*	2,660	*(30.1)*	
Sun Pharmaceutical Industries	Sales	75,319	65,982	*14.2*	68,465	*10.0*	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 Q3FY19E.
	EBITDA	14,227	13,984	*1.7*	14,401	*(1.2)*	
	Margin (%)	*18.9*	*21.2*		*21.0*		
	Adj. PAT	8,669	3,654	*137.3*	-2,188	*(496.2)*	
Thyrocare Technologies	Sales	946	839	*12.8*	1,039	*(8.9)*	With more promotion costs to target B-2-B segment of Aarogyam business, we expect growth traction in Q3FY19E, despite Q3 is traditionally weaker quarter. Higher contribution from PET-CT to expand margin.
	EBITDA	403	354	*13.9*	430	*(6.3)*	
	Margin (%)	*42.6*	*42.2*		*41.4*		
	Adj. PAT	230	215	*7.0*	253	*(9.1)*	

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)			
				FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E
Aurobindo Pharma	BUY	725	994	162.3	189.4	210.9	228.9	35.2	42.2	47.0	49.9	24.0	29.1	32.4	34.0	40.9	49.7	55.2	58.1	22.8	22.3	20.3	18.0	17.7	14.6	13.1	12.5
Cadila Healthcare	ACC	349	371	116.3	126.8	137.5	145.2	25.4	25.1	27.6	29.1	17.8	17.8	20.0	21.2	17.3	17.4	19.5	20.7	22.6	19.7	19.6	17.6	20.1	20.1	17.8	16.9
Cipla	REDUCE	514	415	147.5	156.7	170.4	185.3	27.6	26.3	30.3	33.0	18.1	16.1	17.6	18.7	22.5	20.0	21.8	23.2	13.5	10.8	10.7	10.4	22.8	25.8	23.6	22.1
Dr. Lal PathLabs	ACC	948	1,009	10.6	12.5	14.7	16.9	2.6	3.0	3.5	3.7	1.7	2.0	2.4	2.5	20.5	24.3	28.7	30.3	24.6	23.9	24.1	21.4	46.2	39.0	33.0	31.2
Dr. Reddy's Laboratories	REDUCE	2,559	2,170	142.8	152.1	169.1	187.4	23.5	30.4	35.5	39.3	9.5	17.8	20.3	22.3	57.0	107.6	122.7	134.4	7.6	13.4	13.6	13.1	44.9	23.8	20.9	19.0
Eris Lifesciences	ACC	667	704	8.6	11.2	13.2	15.0	3.2	4.1	4.9	5.4	2.9	3.0	4.0	4.4	21.4	22.0	28.8	31.8	41.2	30.1	29.6	25.1	31.2	30.3	23.2	21.0
Glenmark Pharmaceuticals	Reduce	654	528	89.7	99.4	109.5	117.0	14.8	16.9	18.9	20.8	8.0	9.3	10.6	11.9	28.4	32.9	37.7	42.2	16.6	16.6	16.3	15.7	23.1	19.9	17.3	15.5
Indoco Remedies	REDUCE	217	103	10.2	10.0	11.0	12.0	1.1	0.9	1.5	1.6	0.5	0.1	0.6	0.7	5.1	0.9	6.8	7.5	7.1	1.3	8.9	9.2	42.2	235.6	31.9	28.8
Ipca Laboratories	BUY	784	899	32.8	37.7	43.3	49.6	4.5	6.4	8.1	9.6	2.4	3.6	5.0	6.1	19.0	28.7	39.7	48.2	9.3	12.6	15.2	15.8	41.3	27.3	19.7	16.3
Jubilant Life Sciences	ACC	710	829	74.6	87.8	96.4	104.9	11.8	16.6	17.8	19.8	4.1	8.2	9.4	10.9	26.3	52.5	60.6	70.3	10.9	18.3	17.9	17.5	27.0	13.5	11.7	10.1
Lupin	REDUCE	820	713	155.6	162.8	180.0	195.1	29.0	26.1	35.1	37.1	17.1	13.7	16.1	17.1	37.9	30.3	35.6	37.8	12.6	9.9	10.9	10.7	21.7	27.0	23.0	21.7
Sun Pharmaceutical Industries	Reduce	431	464	260.7	281.1	304.7	321.8	51.8	60.4	67.0	70.6	18.7	42.0	48.2	51.3	7.8	17.5	20.1	21.4	5.0	11.3	12.6	12.1	55.2	24.6	21.5	20.2
Thyrocare Technologies	BUY	541	795	3.6	4.3	5.2	6.3	1.4	1.5	1.9	2.3	0.9	1.0	1.2	1.5	17.4	19.0	23.1	27.7	21.9	21.7	24.1	25.3	31.2	28.5	23.4	19.5

Source: Company, PL

Others

Oct-Dec'18 Earnings Preview

January 7, 2019

Exhibit 1: Q3FY19 Result Preview

Company Name		Q3FY19E	Q3FY18	YoY gr. (%)	Q2FY19	QoQ gr. (%)	Remark
Bayer Cropscience	Sales	4,557	4,797	*(5.0)*	11,041	*(58.7)*	Bayer's disappointing performance is expected to continue with ~5.0% decline in revenue amidst pressure on the industry. Bayer AG has started to feel the pinch of higher raw material prices which is expected to trickle down to Bayer cropscience as well. We expect gross margin to decline by ~25 bps to 40.5% in Q3FY19.
	EBITDA	27	226	*(88.0)*	2,186	*(98.8)*	
	Margin (%)	*0.6*	*4.7*		*19.8*		
	Adj. PAT	-45	107	*NA*	1,427	*NA*	
Dhanuka Agritech	Sales	2,164	2,215	*(2.3)*	3,834	*(43.5)*	Revenue decline of ~2.3% will be led by ~5.0% decline in volume. Incremental pressure on gross margin is expected to reduce with only 30 bps decline to 43.0%. EBITDA is expected to decline due to impact of negative operating leverage. We have assumed effective tax rate of 26.0% in Q3FY19 v/s 20.7% YoY.
	EBITDA	303	353	*(14.3)*	756	*(60.0)*	
	Margin (%)	*14.0*	*15.9*		*19.7*		
	Adj. PAT	236	286	*(17.5)*	550	*(57.2)*	
Insecticides India	Sales	1,865	1,759	*6.0*	4,583	*(59.3)*	New launches will continue to aid growth for the company. Gross margins are expected to expand by 125 bps to driven by higher realisation for Phorate & DDVP and better profitability on new products. Interest cost may start to inch up QoQ as working capital requirement is expected to increase for the company.
	EBITDA	252	230	*9.5*	692	*(63.6)*	
	Margin (%)	*13.5*	*13.1*		*15.1*		
	Adj. PAT	120	96	*24.2*	430	*(72.1)*	
P.I. Industries	Sales	6,428	5,377	*19.5*	7,230	*(11.1)*	Blended topline growth of 19.5% would be driven by 23.0% growth in the CSM business and 12.0% growth in the domestic business. 304 bps YoY contraction in gross margin is expected to be partially offset by ~200 bps (% of sales) reduction in other expenses. EBITDA margin is expected to contract by 100 bps to 18.5%.
	EBITDA	1,189	1,048	*13.5*	1,346	*(11.7)*	
	Margin (%)	*18.5*	*19.5*		*18.6*		
	Adj. PAT	870	807	*7.8*	944	*(7.9)*	
Rallis India	Sales	4,201	3,902	*7.7*	6,538	*(35.8)*	Consolidated revenue growth would be driven by 8.0% growth in the standalone revenues to Rs 3.9 bn. Gross margin pressure is expected to continue on the standalone business with 110 bps contraction YoY to 41.1%. Standalone EBITDA is expected to remain flat YoY while margins are expected to contract 106 bps to 12.1%. Q3 is not significant quarter for Metahelix.
	EBITDA	371	378	*(1.8)*	1,234	*(69.9)*	
	Margin (%)	*8.8*	*9.7*		*18.9*		
	Adj. PAT	251	251	*0.1*	852	*(70.5)*	
Sharda Cropchem	Sales	3,854	3,255	*18.4*	3,097	*24.4*	Agrochemical segment is expected to grow 14.0% to Rs 3084 mn led by 30% & 15% growth in NAFTA & LatAM region. Europe is expected to decline by 10.0% to Rs 857 mn. Belts segment is expected to grow at ~40.0% YoY.
	EBITDA	500	357	*40.2*	347	*44.0*	
	Margin (%)	*13.0*	*11.0*		*11.2*		
	Adj. PAT	207	75	*176.4*	162	*28.1*	
UPL	Sales	46,094	41,940	*9.9*	42,570	*8.3*	LatAM (13.0% g YoY) and RoW (13.4% g) are expected to lead growth for UPLL in Q3. UPLL is expected to be a beneficiary of the soyabean acreage expansion in LatAM (Brazil in particular). North America & India business are expected to grow by 5.7% & 7.0% respectively. Europe is expected to remain flat YoY. On blended basis we expect gross margins to contract up 25 bps to 54.3%.
	EBITDA	8,965	8,290	*8.1*	8,390	*6.9*	
	Margin (%)	*19.5*	*19.8*		*19.7*		
	Adj. PAT	5,711	6,270	*(8.9)*	3,780	*51.1*	

Source: Company, PL

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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)			
				FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E
Bayer Cropscience	HOLD	4,261	4,523	27,099	28,467	31,030	34,443	4,094	5,039	5,523	6,441	2,671	3,276	3,706	4,443	77.8	95.4	107.9	129.4	13.9	17.2	17.1	18.0	54.8	44.7	39.5	32.9
Dhanuka Agritech	Buy	418	605	9,626	10,293	11,425	12,453	1,661	1,626	1,977	2,229	1,262	1,212	1,467	1,649	25.7	24.7	29.9	33.6	21.8	17.9	19.0	18.8	16.3	16.9	14.0	12.4
Insecticides India	BUY	572	896	10,733	11,786	13,044	14,349	1,478	1,768	2,061	2,296	840	1,061	1,223	1,424	40.6	51.3	59.2	68.9	16.6	17.3	17.1	17.5	14.1	11.1	9.7	8.3
P.I. Industries	Acc	864	924	22,771	27,433	32,810	37,984	4,920	5,336	6,660	8,072	3,665	3,774	4,575	5,538	26.6	27.4	33.2	40.2	20.8	18.3	19.0	19.6	32.5	31.6	26.1	21.5
Rallis India	BUY	170	242	17,909	20,212	22,467	24,713	2,645	2,970	3,588	4,023	1,676	1,827	2,261	2,616	8.6	9.4	11.6	13.5	14.6	14.6	16.3	16.9	19.7	18.1	14.6	12.7
Sharda Cropchem	BUY	303	486	17,134	19,627	22,679	25,835	3,454	3,523	4,293	5,046	1,908	1,891	2,370	2,748	21.1	21.0	26.3	30.5	18.2	15.7	17.3	17.5	14.3	14.4	11.5	9.9
UPL	Buy	764	975	173,780	191,059	208,409	226,098	35,160	39,454	43,870	47,368	22,050	24,590	27,533	30,962	43.2	48.2	54.0	60.7	26.6	25.3	26.1	25.6	17.7	15.8	14.1	12.6

Source: Company, PL

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