Prabhudas Lilladher
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January to March 2019
Quarterly Preview

Walking on a RAZOR'S EDGE

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(All prices as on April 5, 2019)

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Walking on a RAZOR'S EDGE

4Q FY19E Adj. PAT to increase 76.2%: We estimate 8.6% sales growth, 13.8% EBIDTA growth and 76.2% Adj. PAT growth. Excluding BFSI sales, EBIDTA and PAT growth is estimated at 7.9%, 19.9% and 9.6%. Sales growth will be led by Agri, Aviation, Banks, IT and Consumer Staples. Aggregate margins will expand by 163bps. We expect muted performance from Autos and Pharma. Oil and Gas will show impact of inventory gains while Banks will gain due to lower provisions and write backs in 4Q19. IT, Cap Goods, Staples and Metals will have a steady quarter.

Exhibit 1: PL Universe – Q4FY19E

Growth	Revenue (%)		PAT (%)		EBITDA Margin (bps)	
	YoY	QoQ	YoY	QoQ	YoY	QoQ
Agri Chemicals	45.1	55.4	30.7	62.2	27	253
Automobiles	(4.9)	4.9	(37.6)	(9.0)	(245)	49
Aviation	36.0	2.4	188.0	91.8	432	311
Banks	20.4	1.5	(186.5)	47.2		
Capital Goods	4.8	18.5	23.2	45.8	(28)	(91)
Cement	14.5	14.3	15.2	47.1	5	221
Consumer Durables	9.8	38.2	10.2	42.8	(79)	278
Consumer Staples	14.2	(1.0)	22.2	0.4	(4)	106
Education	5.6	165.7	(0.5)	(4,909.8)	64	3,566
Financial Services	3.1	3.4	14.0	16.9		
Information Tech.	16.5	0.7	28.6	13.4	217	161
Media	15.9	(0.4)	19.3	0.4	170	38
Metals	12.0	10.7	21.1	7.5	302	(102)
Oil & Gas	7.9	(9.8)	5.5	26.4	100	392
Pharma	9.5	(3.5)	(11.6)	(14.6)	21	(210)
Others	21.9	2.8	(27.7)	6.3	(598)	21
PL Universe	**8.6**	**(0.0)**	**76.2**	**19.5**	**95**	**215**
PL Universe (Excl. Oil & Gas)	**9.0**	**6.3**	**120.9**	**17.5**	**88**	**27**
PL Universe (Excl. BFSI)	**7.9**	**(0.2)**	**9.6**	**15.1**		

Source: Company, PL

Exhibit 2: High FII Flows and NDA win positives; Poor Demand, farm distress and lack of capex cycle visibility a drag

Headwinds	Tailwinds
Poor Demand for core Industries like Auto, slowdown in Consumption	High Probability of NDA coming back to Power
Tight Money supply, higher Govt borrowing program in 1H20	NPA's have peaked out, 50BPS cut in Interest rates
Capex Cycle is yet to pick up, Govt spending might slowdown post May2019	Higher flows to EM due to slowdown in US and EU economies
Farm Distress given low food prices	Inflation at 2.6% and Brent of USD60-70
Uncertainty on Monsoons	NBFC crisis – worst is over

Source: PL

Markets factoring in NDA victory: We had cautious view on markets on account of political uncertainty, high US interest rates, rising rural distress and delay in much awaited capex cycle. However, rising probability of NDA win in 2019 elections, 50bps REPO rate cut by RBI and dovish stance of FED on slowdown in US economy have resulted in Rs444bn FII inflow and sharp reversal in markets, taking NIFTY to life time high levels. Fundamentals remain fragile with poor demand, rural distress and uncertainty on monsoons. We believe markets have mostly factored in a NDA victory and any adverse election results can result in 10% loss of NIFTY to 10500 levels. However, a rally in event of a surprise BJP win can take the markets towards all time high PE multiples of 24-25x and a NIFTY level of 13272-13825.

Rate cuts difficult to come from now on, Crude approaching USD70/barrel, inflation has bottomed out: RBI has announced two rate cuts of 24bps each in past 3 months given benign crude, need to improve liquidity in the system and low inflation. However, we believe that the room for further cut in interest rates looks difficult in near term given that 1) retail inflation has risen to 2.6% after falling continuously for 4 months 2) crude prices are up 36% from the bottom 3) RBI is factoring in normal monsoons which is an uncertainty.

Consumption demand uncertain in 1QFY20; Contrary to expectations of acceleration in demand growth, demand has seen slowdown in core sectors like automobiles. In consumer staples, rural demand is now growing in line with urban demand, as against earlier trend of 1.3-1.5x growth a couple of quarters back. The demand in real estate and construction has been poor and cement demand is led mainly by Govt contracts. 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 significant inventory pile up.

PM Kisan holds key as monsoons an uncertainty: Skymet has given initial signals of a below normal monsoons and poor start to the rainy season in June. We believe PM Kisan Yojana will be put to test in the coming year itself as it was expected to be a major driver for rural demand. We expect subdued rural demand in 1QFy20, any pick up will be a function of monsoons and improvement in general sentiments post elections in May.

Global slowdown can improve fund flows; Rising chances of a global slowdown due to falling growth in US, EU and UK can result in higher inflows to emerging markets. Rising probability of interest rate cut in US given dovish stance of FED and slowing economic activity is a negative for global demand. Inverted yield curve and, decline in business confidence and poor consumption demand in UK and Brexit uncertainty have added to the woes. We believe such a scenario can result in higher fund flow to emerging markets which can benefit India, if the elections provide a stable Govt.

Prefer Private Banks, Consumer, Metals: ***We believe Nifty will have a strong support at ~10500. We believe markets are factoring in NDA victory in elections. Strong BJP win will take markets towards 13272-13825 based on all time high multiples of 24-25x, a weak third front Govt can make it test 10000 over time.*** We remain overweight on Consumer, Banks, Metals and turn slightly overweight on Auto. We are equal weight on IT and Pharma. We remain under weight on NBFC, Cap Goods, Cement and Oil & Gas. We have added TCS and increased weightage on HUL, HDFC Bank, HDFC and Maruti in our model portfolio.

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

- We are overweight on Consumers, Banks and Metals. Our stance is underweight on NBFC's, Oil and Gas, Cement, Construction and Pharma. We are equal weight on IT and Automobiles.
- **Banks:** we are positive on select private banks and have HDFC and IIB as play on retail growth. We believe corporate banks will continue to gain due to lower incremental stress and rising recoveries. ICICI and Axis Bank are our picks to play the corporate bank recovery. We are increasing the weight of HDFC Bank by 50bps in our portfolio.
- **NBFC and Housing Finance**: We believe worst is over for HFC's and NBFC's and we turn equal weight on HDFC Ltd. NBFC's and HFC's backed by strong industrial houses and promoters will continue to outperform.
- **Automobiles:** Poor demand and rising inventories are taking toll on auto companies. However, we believe that current trends are temporary in segments like Passenger vehicles and 2W. we expect BSVI led demand for CV's starting from 2QFY20. We remain equal weight on the sector but we increase the weight significantly in favor of Maruti given strong franchisee and amongst first gainers of demand recovery.
- **Consumer:** we are overweight given steady demand and likely tailwinds from uptick in rural demand post 1Q and benign input costs. We continue to like ITC given 30% valuation discount to coverage universe, TTAN on long term structural story in Jewellery, Britannia on strong product pipeline and steady growth and Crompton Consumer on play on small durables, improving distribution and new launches. We increase our weight on HUL given strong ecosystem of brands, distribution, logistics and strong presence in emerging categories. We would use any weakness in stock on volume and demand concerns to increase our positions.
- **Oil and Gas:** Our underweight stance emanates from rising crude prices and uncertainty on stance on Iran crude supply to select countries. Although we believe that overhang due to elections is over for OMC's, we structurally prefer Gas marketing companies like PLNG and IGL.
- **Metals:** Ferrous metals continue to look good due to strong domestic demand and likely uptick in global prices. We believe consolidation in domestic industry augurs well for key players in coming periods.
- **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. We add TCS as a part of model portfolio and assign it an overweight.
- In addition to stocks in the model portfolio, we are adding VIP Inds, Kalpataru Power, Shriram Transport and Maruti in Top picks. We are removing M&M, ITC and Cholamandalam Investment from our top picks, although we are positive on these in the long term.

Top Pick Changes

Maruti Suzuki

Maruti remains a compelling play on demand recovery despite near term issues related to demand, high inventory and discounting. With the new Ertiga & WagonR receiving good response and inventory correction efforts taken by the company, we expect discounts to come off sequentially. Further, with the softening in commodities as well as forex rates, we expect margins to improve. While volume growth is expected to remain muted in near term, we feel this slowdown is temporary in nature and expect recovery from H2FY20 onwards (festive season, monsoon, pre-buy, favourable base). We remain structurally positive on domestic passenger car industry and Maruti's ability to roll out blockbuster products to maintain its dominant market position given its strong franchise and dealer network. We value the stock at 25x Sep21E EPS and continue to maintain our BUY rating with a target price of Rs7,600.

Shriram Transport Finance Company

While we incorporate near term market headwinds expect AUM growth to accelerate to 17% over FY20-21E led by consistent rural demand for used CV & used CV replacement cycle remaining intact. Near term margin pressures (20bps in FY19) are expected to get offset by improving credit costs (down 90bps in FY19 and 40bps by FY21E) and decent operating leverage (24% cost-income in FY20-21E; MMFS ~30% and CIFC 38% for FY21). Expect ROA's to climb to 2.5% over FY21E and RoEs will stabilize at 17%% over FY20-21E. Valuations of 1.4x FY21E P/BV, price-in current apprehensions, we reiterate BUY with a price target at Rs1,568 valuing SHTF at 1.8x Mar-21 ABV.

Kalpataru Power Transmission

One of the leading integrated player in T&D EPC space. The share of new businesses (Oil & Gas pipeline and Railways Infrastructure) continues to increase from ~7% in FY14 to 20% in FY18, diversifying itself from a pure T&D EPC player into new high-growth infrastructure areas. We believe this would bring growth visibility from a long term perspective and stable growth in earnings. We expect revenue/PAT to grow at CAGR of 16%/18% over the next two years (FY19-21E). We recommend BUY on the stock with SOTP based target price of Rs547 which is summation of Rs427 (12xFY21E Standalone Earnings) and Rs120 from holding in other group companies and investments.

VIP Industries

VIP is a market leader (~50% share) in the organized luggage industry with a well-diversified portfolio consisting of six brands and multiple SKUs. Strong distribution network (~11,000 touch points), GST implementation and entry into under penetrated ladies' handbags and backpacks market is likely to drive sales/PAT at a CAGR of 23.7%/25.1% over FY18-21E. While headwinds from currency & crude volatility prevail, product Premiumisation (rising share of Caprese and Carlton) and increase in production from captive facilities at Bangladesh will aid in 40bps EBITDA margin expansion over FY18-21E. BUY with a TP of Rs579.

Sector	Mcap (Rs bn)	Nifty Weightage (%)	PL Weightage (%)	Weights
Automobiles		**6.3**	**6.6**	**Overweight**
Maruti Suzuki		2.0	3.5	
Mahindra & Mahindra		1.3	2.0	
Ashok Leyland			1.1	
Banks / Insurance		**28.4**	**28.5**	**Overweight**
HDFC Bank		10.5	11.5	
ICICI Bank		5.4	6.0	
Axis Bank		3.2	3.5	
IndusInd Bank		1.9	3.5	
HDFC Life Insurance			4.0	
Cement		**1.6**	**1.0**	**Underweight**
ACC			1.0	
Construction & Engineering		**5.8**	**5.0**	**Underweight**
Larsen & Toubro		3.6	5.0	
Consumer		**10.4**	**17.5**	**Overweight**
ITC		5.4	5.0	
Titan Company		1.0	3.5	
Hindustan Unilever		2.6	4.0	
Britania Industries			3.0	
Crompton Consumer Electricals			2.0	
Healthcare		**2.4**	**2.4**	**Equalweight**
Aurobindo Pharma			1.0	
Dr. Reddy's Laboratories			1.4	
IT		**13.8**	**13.8**	**Equalweight**
Infosys		6.1	2.5	
Tata Consultancy Services		4.5	5.3	
Tech Mahindra		1.0	3.0	
L&T Technology Services			3.0	
Metals		**3.7**	**4.5**	**Overweight**
Tata Steel		0.9	3.5	
Jindal Steel & Power			1.0	
NBFC		**10.4**	**8.7**	**Underweight**
HDFC		7.2	7.2	
Cholamandalam Finance			1.5	
Oil & Gas		**13.0**	**12.0**	**Underweight**
Reliance Industries		9.9	6.0	
Petronet LNG			2.5	
Indraprastha Gas			2.5	
GAIL			1.0	
Others		**1.9**	**-**	**NA**
Telecom		**1.6**	**-**	**NA**

Market exuberant on likely NDA Victory

In addition to strong FII inflows of Rs444bn in past one quarter, changing political equations have been a key factor contributing to increase in investor confidence and improvement in sentiments. We note that the ruling dispensation has taken some effective steps like PM Kisan scheme of Rs720bn/annum and 10% reservation based on income levels which have gone a long way in providing relief to some of the disgruntled sections of the society.

NDA has gained quite a bit of psychological advantage post Pulwama attacks and the GOI response to the same. We believe that impact of such incidents is usually more in Hindi heartland and central Indian states which are key to BJP coming to power at the center.

Exhibit 3: Nationalism, Farmers and Reservations steal the focus

Key concerns raised prior to election	BJP's response	Comments
Corruption – Rafale Deal	Lokpal appointment and progress in various corruption cases	The Rafale Rhetoric has lost its way
Farmer Distress	PM-KISAN scheme, PMSYM (Pension scheme)	Poor farm prices and drought in select states has been an issue, PM Kisan provides some relief, more so to marginal farmers
Middle Class dissatisfaction	10% reservation for general category, income tax relief for earnings up to Rs5 lakh	10% reservation and tax break and been able to take care of middle class sentiments to a reasonable extent
Terrorism and Foreign Policy	Air force strike post Pulwama attack	Post Pulwama attack, the focus shifts to nationalism
Lack of Job creation	Job Creation high in unorganized sector	Organized job creation has become more of a slogan during elections in a liberal economy
Inflation	Crude down ~30% after reaching highs of~$80/brl in Nov 2018	Food Deflation has bottomed out, inflation under control broadly

Source: PL

We note that NIFTY returns ahead of elections have been positive only on two occasions, 2009 and 2014. While 2009 was on a low base post Lehman crisis, 2014 returns were driven by hopes of NDA coming to power. The NIFTY returns of past few months suggest that market is factoring in NDA victory, although the level of confusion prevails relative to 2009 and 2014. We believe that momentum wrests with NDA as of now given a fragile opposition and likely benefits of schemes providing electricity connections, Gas cylinders, PM Kisan and nationalistic fervor post Pulwama.

Exhibit 4: Nifty Returns

Pre-Election Return %			Month/Year	Post-Election Return %		
1M	3M	6M		1M	3M	6M
6.2%	8.7%	13.0%	April 2019	NA	NA	NA
8.0%	15.2%	17.1%	May-14	3.9%	9.8%	18.8%
28.1%	61.0%	61.5%	May-09	-1.3%	6.4%	11.1%
-16.0%	-16.2%	-6.6%	May-04	-0.2%	6.6%	28.6%
-6.2%	1.2%	35.5%	Oct-99	3.8%	16.7%	6.1%
5.3%	3.5%	-0.6%	Mar-98	3.8%	-15.7%	-19.0%
-2.2%	9.8%	26.4%	May-96	2.9%	-5.6%	-23.8%

Source: PL

Exhibit 5: Opinion Polls show a swing of ~36 seats in favor of NDA

Date Published	Polling agency	NDA	UPA	Others	NDA	UPA	Others
Mar-19	Times Now-VMR	283	135	125			
Mar-19	News Nation	273	133	137			
Mar-19	ABP News – C voter	264	141	138	274	140	129
Mar-19	India TV-CNX	285	126	132			
Mar-19	Zee 24 Taas	264	165	114			
Feb-19	VDP Associates	242	148	153			
Jan-19	Times Now-VMR	252	147	144			
Jan-19	ABP News -Cvoter	233	167	143	238	159	146
Jan-19	India Today -Karvy	237	166	140			
Jan-19	VDP Associates	225	167	150			
Dec-18	India Today	257	146	140			
Dec-18	ABP News – C Voter	247	171	125			
Dec-18	India TV – CNX	281	124	138	264	134	144
Nov-18	ABP News – C Voter	261	119	163			
Oct-18	ABP News	276	112	155			
Jan-18	Republic-CVoter	335	89	119	322	96	126
Jan-18	India Today	309	102	132			

Source: PL

Exhibit 6: State Elections post 2014 – NDA was winning most state polls till loss of 3 Big states in Dec2018

Sr. No.	State	Year	No. of Constituencies	Winning Party	No of Seats	% of vote share	Major Opposition Party	No of Seats	Ruling Party before Elections
1	Arunachal Pradesh	2014	60	NDA					
2	Haryana	2014	90	BJP	47	33.2	INLD	19	INC
3	Jharkhand	2014	81	BJP	37	31.3	JMM	19	JMM
4	Maharashtra	2014	288	NDA	186	47.2	INC	42	INC
5	Orissa	2014	147	BJD	117	43.4	INC	16	BJD
6	Sikkim	2014	32	SDF	22	55.0	SKM	10	SDF
7	Andhra Pradesh	2014	294	TDP	117	32.5	TRS	63	INC
8	Bihar	2015	243	NDA	124	41.3	RJD	80	JDU+BJP
9	Delhi	2015	70	AAP	67	54.3	BJP	3	INC
10	Assam	2016	126	BJP	60	29.5	INC	26	INC
11	Kerala	2016	140	LDF	91		UDF		UDF
12	Puducherry	2016	30	INC	15	30.6	AINRC	8	AINRC
13	Tamil Nadu	2016	234	AIADMK	135	40.8	DMK	88	AIADMK
14	West Bengal	2016	294	AITC	211	44.9	INC	44	AITC
15	Goa	2017	40	NDA	22	60.6	INC	14	BJP
16	Himachal Pradesh	2017	68	BJP	44	48.8	INC	21	INC
17	Manipur	2017	60	NDA	43	51.1	INC	28	INC
18	Punjab	2017	117	INC	77	38.5	AAP	20	Akali Dal + BJP
19	Uttar Pradesh	2017	403	BJP	312	39.7	SP	47	SP
20	Uttarakhand	2017	70	BJP	57	46.5	INC	11	INC
21	Gujarat	2017	182	BJP	99	49.1	INC	78	BJP
22	Karnataka	2018	223	INC+JD(S)	118	56.4	BJP	104	INC
23	Chhattisgarh	2018	90	INC	68	43.0	BJP	15	BJP
24	Madhya Pradesh	2018	230	INC	114	40.9	BJP	109	BJP
25	Mizoram	2018	40	MZF	26	37.6	INC	5	INC
26	Rajasthan	2018	200	INC	100	39.3	BJP	73	BJP
27	Telangana	2018	60	TRS	88	46.9	INC	19	TRS

Source: Election Commission of India, PL

Monsoon likely at 93% of normal; June rainfall tepid at 77% of LPA

Skymet weather expects 2019 monsoon at 93% of LPA impacted by devolving El Nino. We believe that the timing and spatial distribution of rainfall spread across all four months is key to agriculture production. Monsoons are likely to be below-normal in July and normal in August/September (v/s deficit in June @77% of LPA). Rainfall in July is expected to be marginally below normal rainfall @ 91% of LPA, while August/September are expected to have normal rainfall (102%/99% of LPA).

2019 Monsoon to be below normal: Skymet weather expects 2019 monsoon @ 93% of LPA i.e below normal, impacted by devolving El Nino. It expects probability of occurrence of El Nino to be ~80% during March – May which would be dropping to 60% for June- August. Skymet expects El Nino to be declared anytime now as moderate El Nino conditions are prevailing over the Pacific Ocean. However, IOD (Indian Ocean Dipole), which currently is in neutral phase could turn positive during the monsoon season. Positive IOD is generally associated with higher rainfall.

Exhibit 7: Rainfall probabilities during Monsoon (June – September’19)

Category	Probability
Excess Rainfall	0%
Above Normal Rainfall	0%
Normal Rainfall	30%
Below Normal Rainfall	55%
Draught	15%

Source: Skymet, PL

Exhibit 8: Expected Monthly precipitation during Monsoon 2019

Month	LPA
June	77%
July	91%
August	102%
September	99%

Source: Skymet, PL

Exhibit 9: 2019 monthly precipitation (% of LPA) break up is likely to be a mix of FY16 & FY17 trend…

Months	FY15	FY16	FY17	FY18	FY19	FY20E
Jun-17	115.9%	89.0%	76.8%	100.0%	89.9%	77%
Jul-17	83.6%	107.0%	128.0%	107.0%	94.9%	91%
Aug-17	78.2%	91.0%	116.4%	86.4%	93.6%	102%
Sep-17	75.8%	97.0%	128.0%	83.3%	82.8%	99%

Source: Skymet, IMD, PL

Farmers may defer sowing in case of deficit rainfall in June: Incase of inadequate rainfall farmers defer sowing by ~15 days and/or switch from long duration crops to short duration crops. We expect similar pattern to recur this year again. Hence, Kharif sowing area and production of food grains & horticulture crops are unlikely to change materially as has been the case in FY16 & FY17 as well.

Exhibit 10: Sowing are unlikely to be impacted materially

Particulars	FY15	FY16	FY17	FY18	FY19
Kharif Sowing Area (Lakh Ha)	1,049	1,027	1,039	1,073	1,052
YoY (%)		*-2.2%*	*1.2%*	*3.3%*	*-1.9%*
Kharif Food grain production (Mn T)	147	142	160	162	164
YoY (%)		*-3.7%*	*12.7%*	*1.2%*	*1.1%*
Horticulture Production (Mn MT)	278	286	301	312	315
YoY (%)		*3.1%*	*5.0%*	*3.7%*	*0.9%*

Source: Skymet, IMD, PL

Bureau of Metrology (Australia) too upgraded ENSO Outlook from El Nino WATCH to El Nino ALERT due to weakening of tropical pacific trade winds which resulted in warmer water in the tropical pacific region (Americas) not flowing towards west (Asian-Australian region). This is generating moisture in the tropical pacific region leading to rainfall there. However, the Bureau has also cautioned that current outlook has minimal validity for the period beyond May, and therefore predictions for the latter months should be viewed with some caution.

Farm Distress visible as income levels flattish; Rural India has been 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, it forms a significant part of income for small farmers (<2-hectare land holdings) who are 80% of total farming community in India.

Exhibit 11: 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*

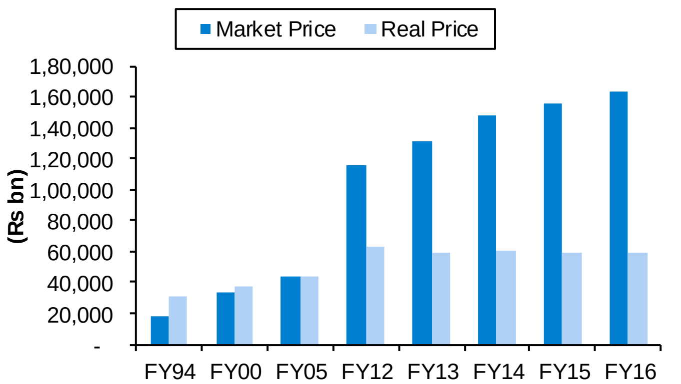
Source: Ministry of Agriculture, PL

Exhibit 12: 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 13: Real farm income largely flat since FY2012



Source: GOI, PL

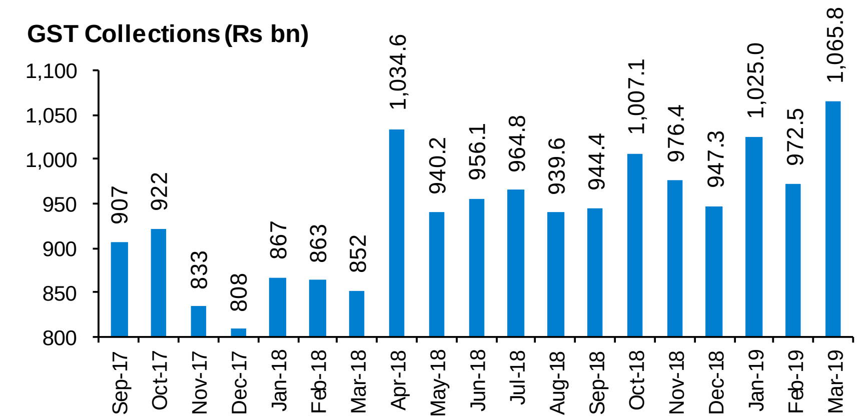
GST March collections at Rs1065bn

GST collections exceed revised target: GST Collections have averaged Rs 981.1bn exceeding the revised monthly target of Rs 955.8bn (Original budgeted at Rs1123bn/ month). FY19 budget target for compensation cess on SIN goods was accomplished in Nov'18 itself. Unless some change in distribution of compensation cess is coined, any significant change in compensation cess rates looks unlikely.

Strengthening systems and processes: Post implementation of E-way bills, government has started testing efficiencies from RFID. A new return filing system to be implemented by April'19 will have 1 return/month as against 3/month currently where input tax credit will be claimed only to the extent it is reflected on the GST portal. GST officers are now cautious in accepting returns and are planning a fresh crackdown on traders evading payment by seeking new registration for their businesses without revoking an earlier application. Plans include creating a centralized body to address issues on contradicting litigations by different states.

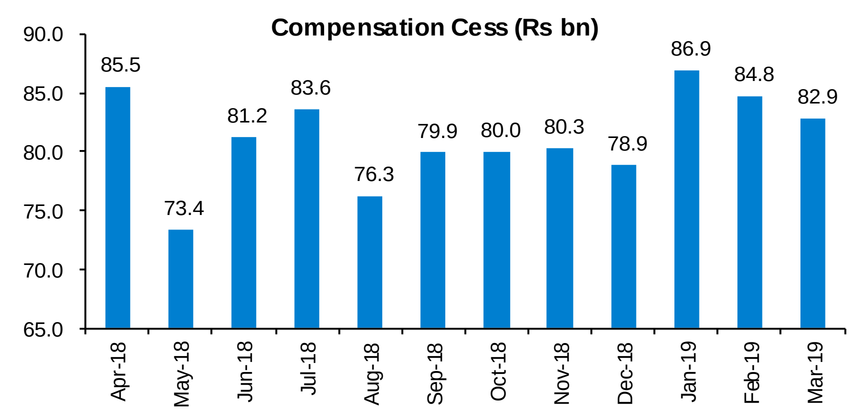
Further GST rate cuts unlikely: In the past 6 months, GOI has done a slew of rate cuts in July'18 and Dec'18 (111 items) leaving only 28 products in the 28% bracket. GOI intends to restrict the 28% rate to super luxury and demerit goods and bring majority of the items at 18% or lower GST rates.

Exhibit 14: Highest ever GST collection in March'19



Source: GSTIN, PL

Exhibit 15: Compensation cess collections targets achieved



Source: GSTIN, PL

Divestment target achieved, aggressive borrowing program to keep money supply tight

GOI has been able to achieve the divestment target of FY19 at Rs853bn buoyed by stake sale in REC and CPSE ETF. There is likely to be a shortfall upto Rs500bn in the personal income tax collections. Although GST collections during March2019 have been a record high, overall fiscal condition remains stretched.

- Money Supply might remain tight: we expect tight money supply as 1HFY20 borrowing program of the GOI at Rs4400bn (FY10 est at Rs7100bn) is 62.3% of the annual borrowings. In addition there is a repayment of Rs1000bn in 1H20 and while 2H repayment is Rs1440bn. First half borrowings are higher as higher Govt borrowings in 2H might crowd out private investments in busy season of the economy.

- 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: Poor growth in Personal Income tax hits tax collections

Tax Revenue (Rs bn)	Upto Feb'19	Upto Feb'18	*YoY %*	Budget Est	*% to total Budget Est.*
Corporate Tax	4,754	4,118	*15%*	6,210	*77%*
Income Tax	3,604	3,157	*14%*	5,290	*68%*
GST	5,267	3,866	*36%*	7,439	*71%*
Customs	1,167	1,279	*-9%*	1,125	*104%*
Union Excise Duties	1,933	2,210	*-13%*	2,596	*74%*
Service Tax	66	808	*-92%*	-	
Other Tax	131	244	*-46%*	52	*250%*
Gross Tax Revenue	**16,921**	**15,684**	***8%***	**22,712**	***75%***
Surcharges	15	32	*-53%*	25	*61%*
Assignment to states	5,967	5,296	*13%*	7,881	*76%*
Net Tax Revenue	**10,939**	**10,355**	***6%***	**14,806**	***74%***

Source: CGA, PL

Exhibit 17: PSU Disinvestment target achieved

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	853.1

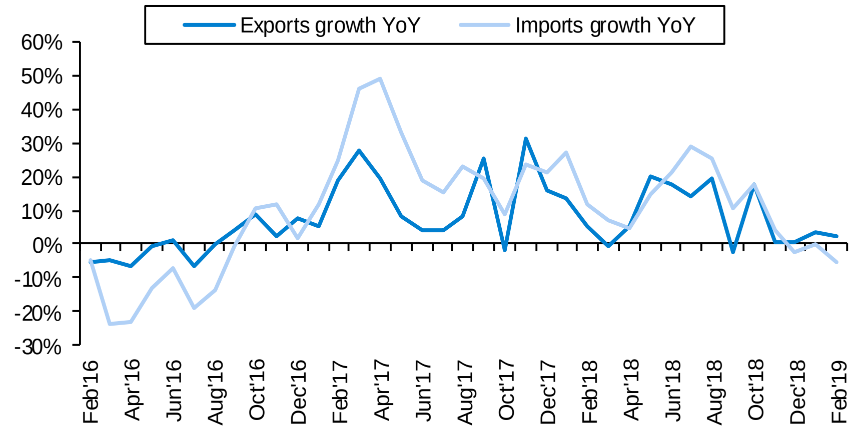
Source: GOI, PL

Trade deficit at lowest since Sept17, aided by low crude and gold imports

Trade deficit during April-Feb 2019 has increased by 14% to USD169.7bn as against USD145.5bn 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

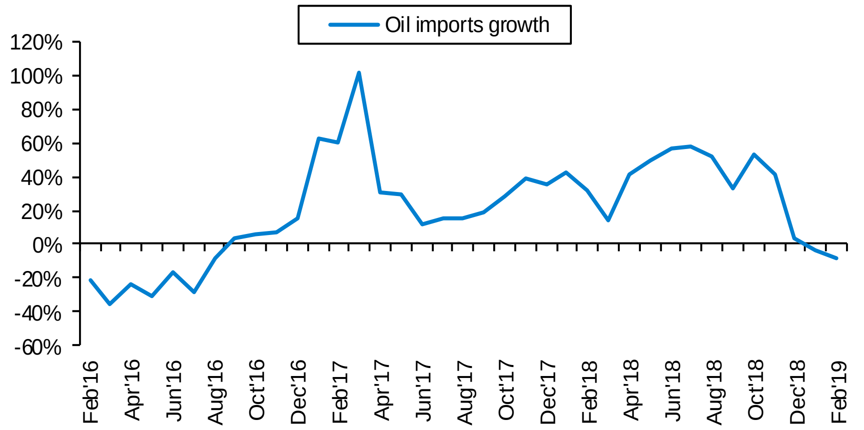
Exhibit 18: FYTD Imports up 9.8%, Gold Imports decline 5.2% FYTD



Source: Commerce Ministry, PL

Oil imports have increased 32% YTD to USD97bn, higher by USD31.2bn, imports are down 8% in Feb19 and 5.8% in Jan and Feb19

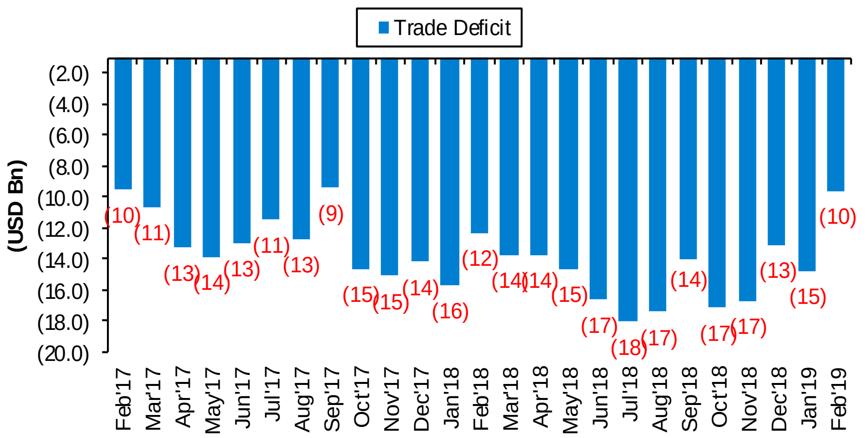
Exhibit 19: Oil imports up 32% in fiscal 19YTD, down 16.6% MOM in Feb19



Source: Commerce Ministry, PL

Trade deficit at ~USD9.6bn is lowest since Sept17 led by 11% decline in Gold Imports and 8% decline in Oil imports, expect increase in deficit given hardening crude prices

Exhibit 20: Feb Trade Deficit at ~USD9.6bn down USD5bn MOM

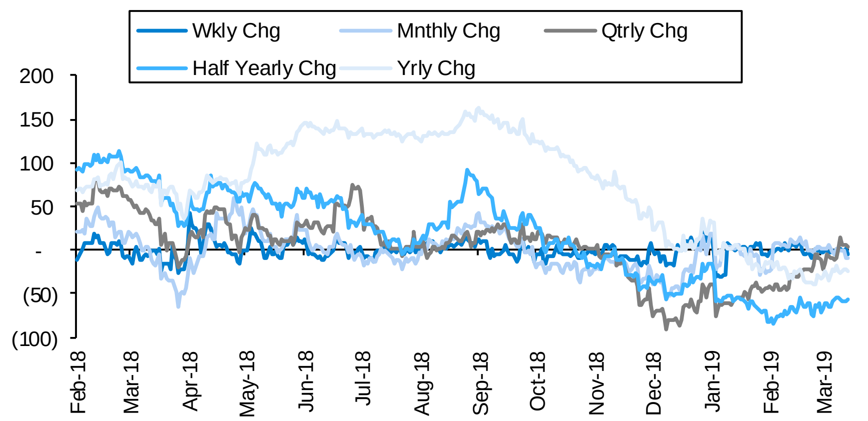


Source: Commerce Ministry, PL

Benchmark rates cut 50bps since Feb: upmove in crude, bottomed out food deflation a risk

- RBI has cut the repo rate by 25bps to 6.0%, reverse repo to 5.75% and bank rate to 6.25% and it retained its stance as Neutral.
- US and EU have seen slowdown in economic activity with inverted yield curve. EU is witnessing soft domestic demand, contracting manufacturing activity and uncertainty on Brexit
- Crude prices have jumped by 36% from the bottom made in Dec on production cuts by OPEC and Russia and impact of US sanctions on Venezuela. Crude is also showing firm trend as 6 monthly waiver time for Iran crude exports to select countries in coming to an end in May19.
- Housing and roads led by Govt initiatives is driving growth as GFCF to GDP has risen from 31.8% in 3Q18 to 33.1% in 3Q19. Slowdown in consumption (public and private) has impacted GDP growth in past 3 quarters.
- Manufacturing IIP has slowed down to 1.3% in Jan2019 led by Automobiles, pharma and capital goods. Capacity utilization, however improved 75.9% in 3Q from 74.8% in 2Q. Indicators of transport showed pressure whereas indicators of construction like steel, cement etc showed growth.
- CPI inflation inched up to 2.6% in feb after four months of decline due to lower deflation in food and increase in prices of non-food. CPI excluding food and fuel declined to 5.2% in January19 but increased to 5.4% in Feb.
- RBI has cut inflation target to 2.4 for 4Q19, 2.9-3% in 1H20 and 3.5-3.8% in 2H20. This factors in recent increase in crude prices and lower than expected nonfood non fuel inflation. RBI assumed normal monsoons which seems a big task given that last two years have shown below normal monsoons.
- Economic activity has slowed down in past few months, however private consumption is expected to get a flip from public spending in rural areas and higher disposable incomes due to lower taxes

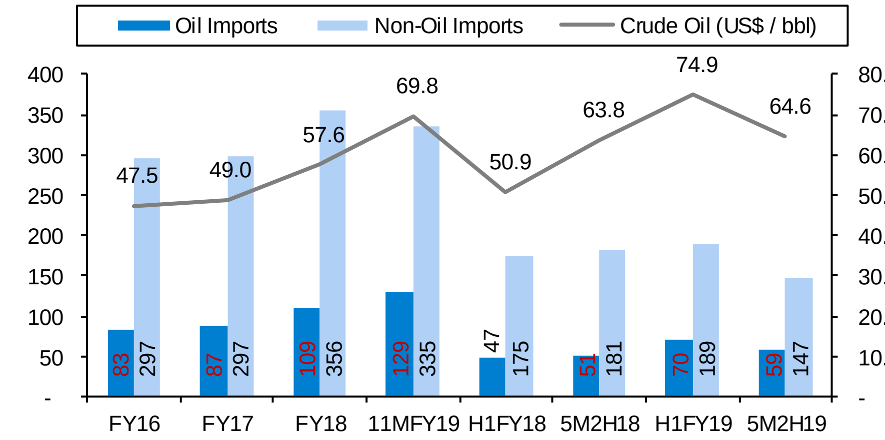
Exhibit 21: India Benchmark Yields stabilised around 7.3-7.5% after peak of 8.215% in Oct



Source: Bloomberg, PL

Crude price increase has pushed up the import bill by USD 42bn in past two years, impact of recent softening yet to play out

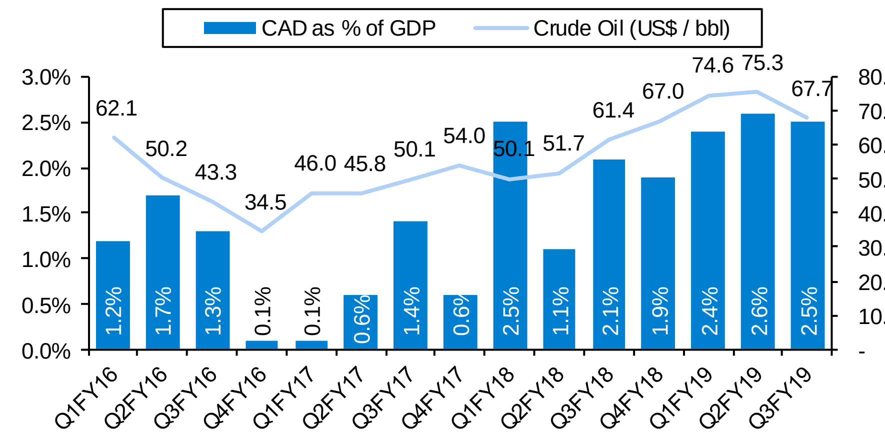
Exhibit 22: Crude Import bill up USD30bn in 11MFY19



Source: Commerce Ministry, PL

Benign crude has enabled 10%bps decline in CAD from 2.6% to 2.5%

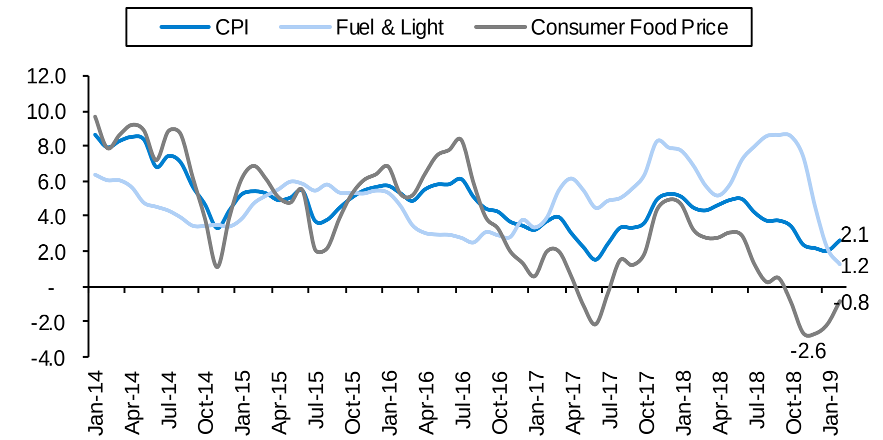
Exhibit 23: CAD dips to 2.5% of GDP on benign crude prices



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 24: Food Deflation coming down, fuel and light inflation benign

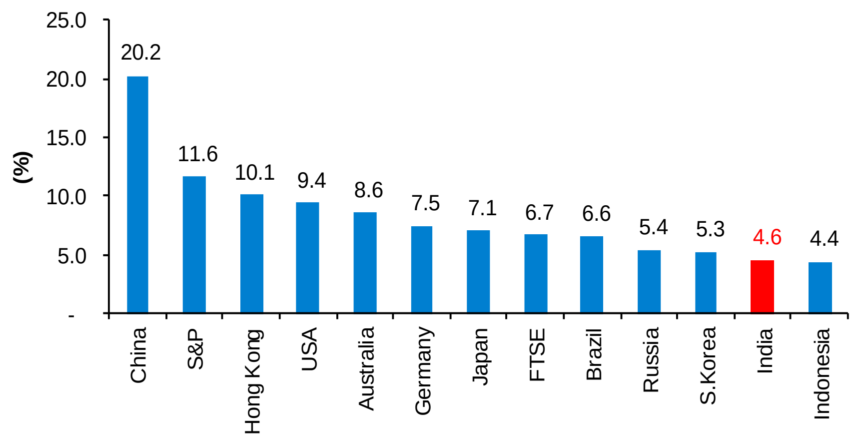


Source: MOSPI, PL

FII’s pour in Rs444bn in 4Q, boost markets

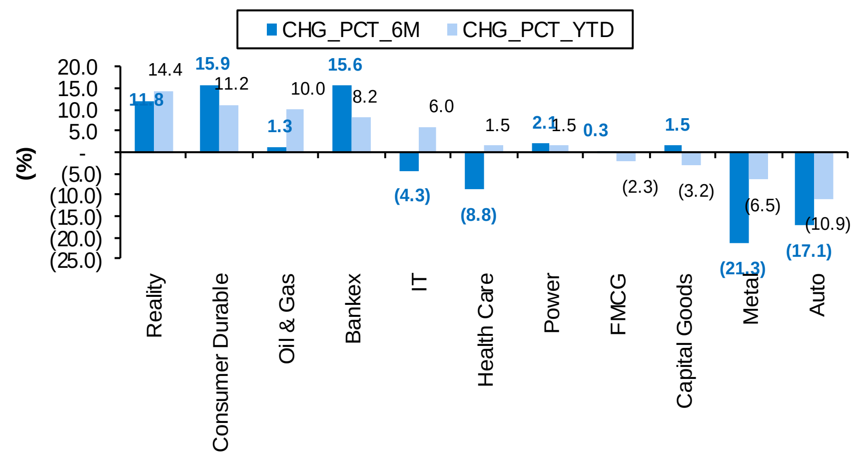
- Indian market (NIFTY) was best performing global index till August, however it has lost ground while Russia, USA, Brazil and Japan have shown improvement.
- IT is holding fort and Metals are steady, some of favorite sectors like FMCG, Private Banks, Consumer Durables and Auto have borne the brunt resulting 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 25: India is 3rd best performing market in CY18



Source: Bloomberg, PL

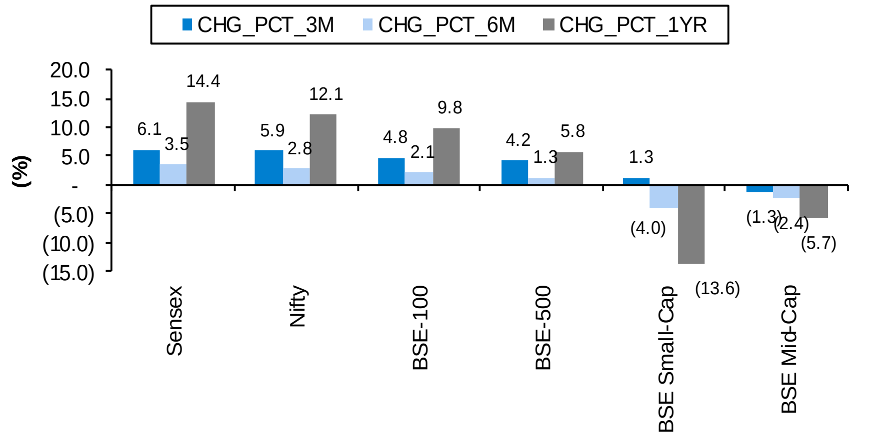
Exhibit 26: Durable, Banks, Realty and Oil & Gas lead recovery, Auto FMCG, Cap Goods a drag



Source: Bloomberg, PL

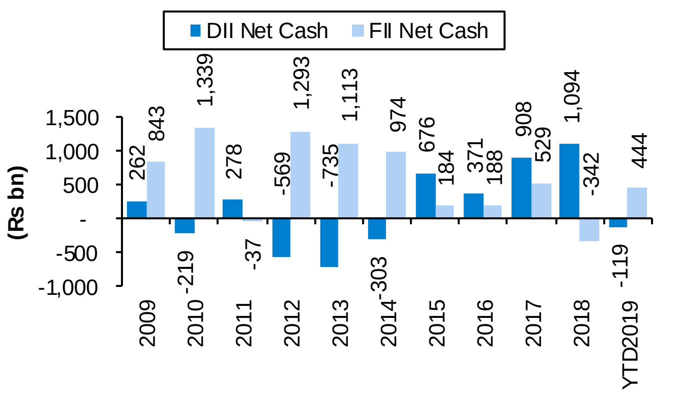
Small cap index turned positive, however it still underperforming other indices by 290-480bps

Exhibit 27: Small Cap and Mid Cap continue to underperform



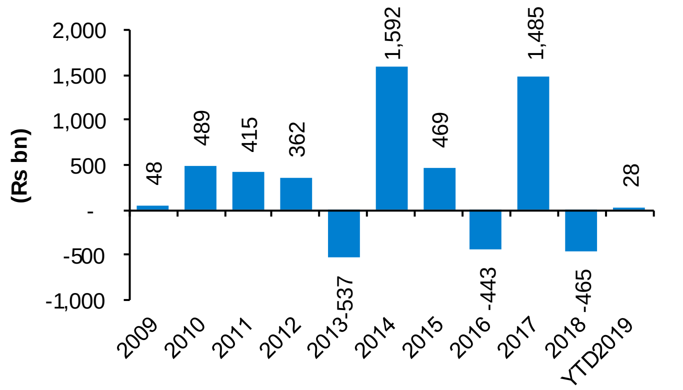
Source: Bloomberg, PL

Exhibit 28: CY19 has seen Rs444bn inflow so far



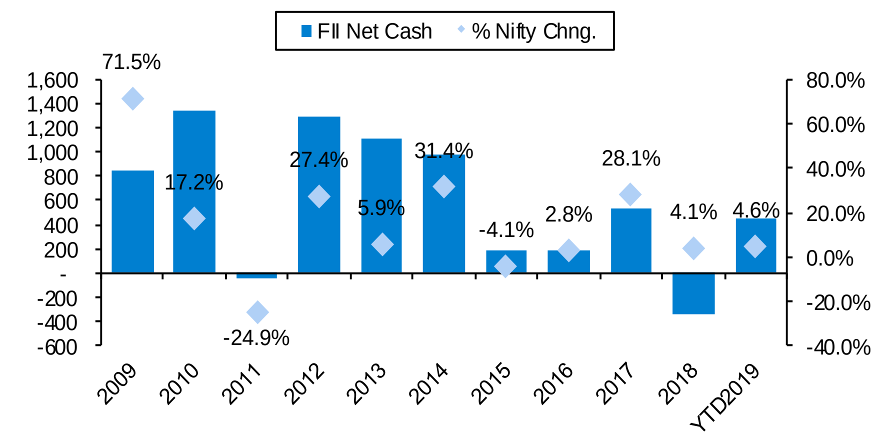
Source: Bloomberg, PL

Exhibit 29: FII Debt pullout has been halted



Source: Bloomberg, PL

Exhibit 30: NIFTY move backed by strong FII inflows



Source: Company, PL

Key Sector Snapshots

Agri: 4Q has been a lackluster quarter for the agrochemical companies. Lower liquidation of molecules has led to inventory piling at various pockets in India. The sector is expected to drive growth largely alongside companies having significant exports/international business share. Industry exports have grown by ~17.4% and 22.8% YoY in volumes and value respectively for 11MFY19. Companies have reported volume growth mostly driven by the South American market, even though other geographies except European region have also managed to do well.

Automobiles: For Q4FY19, we yet again anticipate a muted quarter for auto companies in our coverage, since EBITDA/profit is expected to witness a sharp decline of 22%/37% YoY (on a high base). Volumes for the quarter across 4Ws/2Ws/CVs have registered a decline of ~1%/2%/2% YoY respectively, due to production cuts taken by most OEMs for inventory clearance given the continued weak retail demand. Tractors too witnessed weak quarter wherein M&M tractor volumes plummeted by 14% YoY. Commodity cost pressure has somewhat eased sequentially in Q4FY19 but full benefit should come in the next quarter. With lower operating leverage along with high discounts/incentives over Q4FY19, we expect an EBITDA margin decline of ~245bps YoY (rise of ~50bps QoQ), resulting in net profit fall of 37% YoY (down ~9% QoQ) in our coverage universe.

Aviation: The recent disruptions in form of partial shutdown of Mumbai airport, grounding of Jet Airways fleet and Boeing 737 Max aircrafts has led to capacity pangs thereby stirring up air fares. While domestic passenger traffic slowed down for the second consecutive month in February, airlines are expected to report strong margins & profitability on the back of yield increase due to capacity pangs and marginal increase in ATF prices (2% YoY).

Banks: NII is expected to improve across banks on the back of steady margins, steady loan growth and due to last year’s low base (impacted due to Feb’12 circular), however, low treasury gains may lead to lower other income. We expect PCR to shoot up given bank’s emphasis on containing NNPA and with recent capital infusion from Govt. Important metrics to monitor will be liabilities growth (CASA/Retail liabilities) and change in mix. Banks would also be providing guidance for FY20 and their strategy going forward.

Capital Goods: We expect execution momentum to continue over the next 2-3 quarters despite upcoming general elections, however order inflow, which remained buoyant (+20% YoY in 9MFY19), could witness some slowdown in 4QFY19. We expect order inflow to pick-up from 2QFY20 onwards post general election. For 4QFY19, we expect our capital goods coverage universe to report revenue/EBITDA/PAT growth of 6%/11%/19%. We remain positive on the sector due to robust order back-log & order pipeline, better execution focus and reasonable valuations.

Cement & Metals: Cement underweight stance continues due to marginal increase in prices and rising input costs. In Metals space, Ferrous metals continue to look good due to strong domestic demand and likely uptick in global prices.

Consumer: Demand remains stable QoQ, with Rural and Urban demand growing more or less at the same pace. However, rural demand witnesses sign of slowdown as against expectations of acceleration. Prolonged winters has affected summer portfolio of companies like Emami, Dabur etc. Competitive activities have marginally picked up in 4Q. Input costs remain a mixed bag this quarter. Increase in margins from this levels would be in a calibrated manner only.

Consumer Durables: Notwithstanding the extended winters, RAC inventory levels have managed to normalize as brands offered heavy discount (~20-30%). However, this shall have a bearing on the margins. Competitive intensity remains high in the LED market; companies continue to innovate & focus on optimizing cost to improve margins. Structurally Demand outlook continues to remain positive given the low penetration levels across categories. Industry continues to focus on providing a differentiated value proposition

Education: While for Navneet 4QFY19 is expected to be a non-event (derives 50-55% of sales in 1Q) S Chand would be in focus as ~75-80% of the revenue accrues in the last quarter. Though paper prices are on a rise, higher realization (passing on cost inflation) and pre-stocking of paper inventory in advance is expected to cushion margins.

Financial Services: Largely mirroring trends of Q3FY19, Q4FY19 should also prove to be a sombre quarter on loans and margins with elevated funding costs but should be offset to an extent by the improving credit costs this quarter. While recalibration of balance sheets stands imminent for NBFCs, the risk perception continues to hurt the earnings and multiples likewise. We like HDFC, CIFC for their steady performance across key parameters, and remain cautiously optimistic on SHTF from our NBFC coverage universe.

Information Technology: We saw a strong demand environment for most of the Tier-1 & Tier-2 companies in our IT universe which will led to revenue conversion in coming quarters. Indian IT companies have indicated strong order pipeline & trends of increasing digital sizes was visible early in 2018 & now has picked up its pace. US slowdown is a reality, but impact is yet to filter its way into decision making process or budgeting cycle. Clients budgets & spends are now of 3 months-6 months' span only, any change in external environment can create a pressure on IT spends. We expect some pressure on EBIT margins due INR appreciation, projects ramp-ups & continued supply side constraints. Also, we expect companies to accelerate investments training & onsite talent despite recent INR appreciation. We advise defensiveness & Selectivity in Indian IT Services, as valuations of most of the large cap and midcap IT companies are at heady levels & slowdown in US/Euro can impact on the demand environment of IT services.

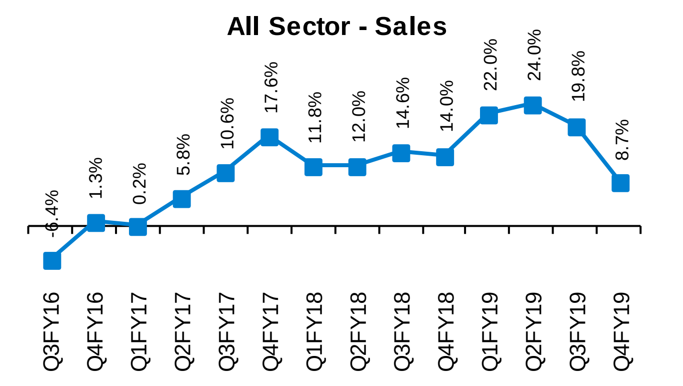
Media: Radio companies are expected to report strong growth due to pick up in political/government ad spends. Top-line will be driven by increase in utilization from legacy and batch 1 stations as pricing environment is subdued. In the news broadcasting space, traction is expected to be strong driven by improvement in yields & utilization since Lok Sabha elections are around the corner. However, competitive pressure has intensified due to launch of Republic Bharat.

Oil and Gas: Oil sector earnings are likely to be strong due to healthy marketing margins and inventory gains by the Oil Marketing Companies (OMCs) and healthy performance by gas players. Upstream earnings are likely to be hit by lower crude oil prices despite stable 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 depreciation of USD vs INR, we expect limited headwinds in sales of US sales. Emerging market (EM) sales are to be tepid as all major EM currencies (against USD) declined further in Q4FY19. India Formulations growth to be 11-13% vs below 10% in Q3FY19 in our coverage universe. An increase in volume and bigger growth in price were the reason for better India formulations growth in Q4FY19. The sector valuation remains unaffected and fails to reflect unfavorable risk-return matrices.

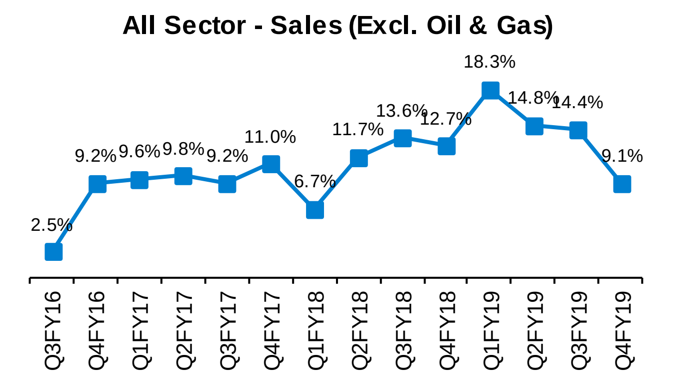
Sales and EBIDTA growth (ex Oil & Gas) slows down QoQ

Exhibit 31: Aviation, Banks and IT drive sales



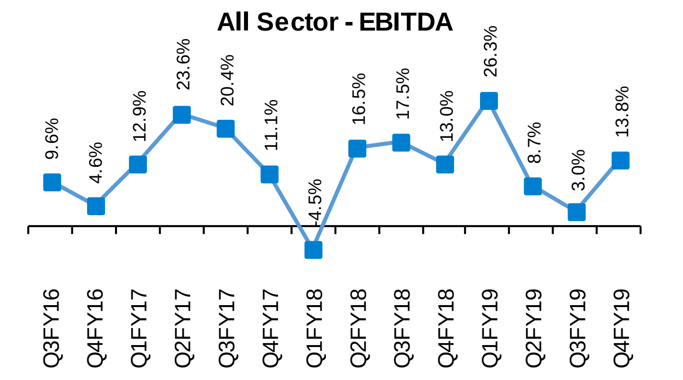
Source: Company, PL

Exhibit 32: Sales growth continues to soften



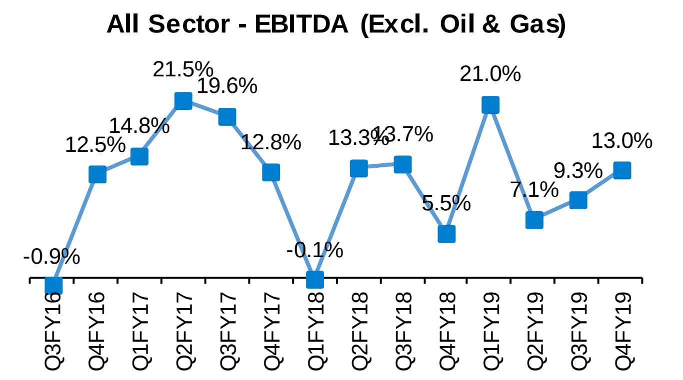
Source: Company, PL

Exhibit 33: Auto, Cap Goods drag EBIDTA



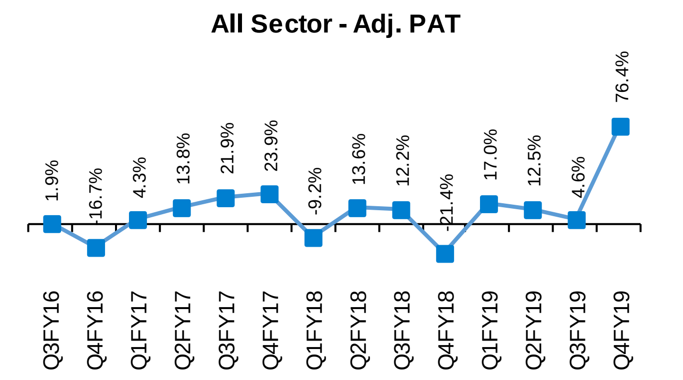
Source: Company, PL

Exhibit 34: QoQ improvement in EBIDTA growth



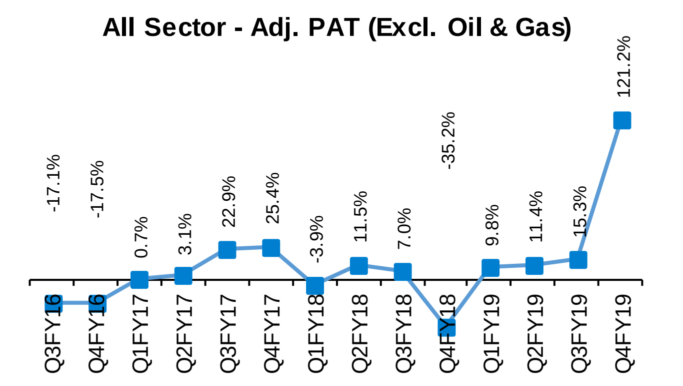
Source: Company, PL

Exhibit 35: Banks, IT & Metals drive growth, Auto & Pharma drag



Source: Company, PL

Exhibit 36: PAT growth up QoQ

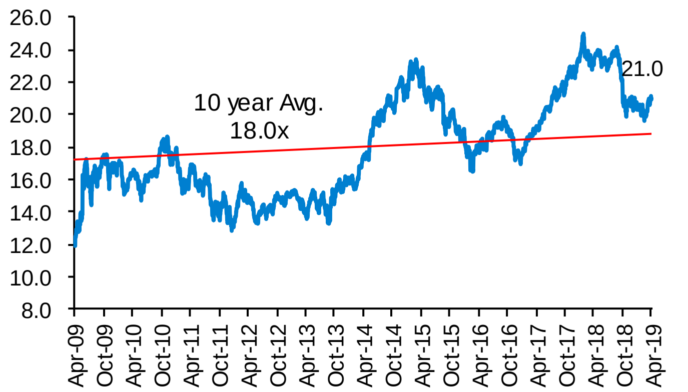


Source: Company, PL

NIFTY: Earnings expected to grow at 16.8% CAGR over FY19-21

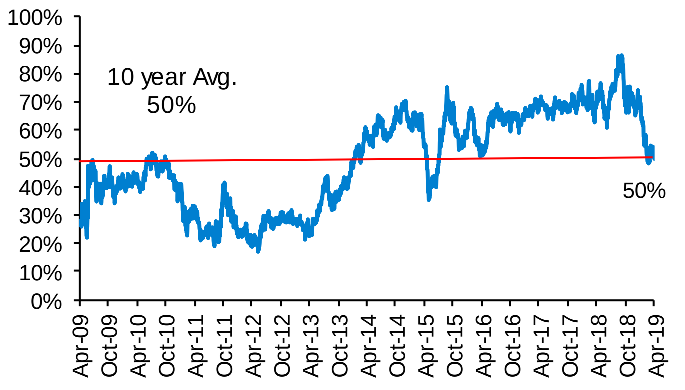
Against earnings contraction of 3.8% in FY18, FY19 NIFTY EPS is expected to increase by 8.4%. FY20 and FY21 NIFTY EPS is expected to grow by 16.9% and 16.8% to Rs553.6 and Rs646.7 which is 11.4% and 11.6% lower than consensus. NIFTY is currently trading at 21x 1 year forward earnings which shows 16.6% premium to long term average of 18. We note that the markets had recently gone down to 19x earnings on rising uncertainty on election outcome, NBFC crisis and poor demand scenario. However, decline in crude prices, rising chances of NDA coming to power in 2019 elections and Rs444bn FII inflow have resulted in PE rising to 21x, still below 23x achieved post 2014 victory of BJP and 25x touched in Jan2018. MSCI India premium over Asia is at 50% is at a 10-year average of 50X. we note that 16.8% 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 5.6% and 7.6% since Dec 2018. EPS est for Fy21 have also seen a cut of 7.4%. Any adverse political outcome in elections and global volatility can take P/E multiples to pre rally levels of 19x which means strong market support at 10500 levels. Rally post a stable NDA Govt can make markets test 24-25x earnings which gives a target of 13272-13825.

Exhibit 37: Nifty 1-yr forward PE



Source: Bloomberg, PL

Exhibit 38: MSCI India Premium to MSCI Asia (Ex-Japan)



Source: Bloomberg, PL

Nifty Valuation

	Weight-age (%)	FY18	FY19E	FY20E	FY21E
Banking & Fin.	38.8%				
PER (x)		48.8	36.5	25.3	20.1
PAT Growth (%)		2.3	33.6	44.7	26.0
Technology	13.8%				
PER (x)		24.1	21.1	19.1	17.3
PAT Growth (%)		1.1	14.6	10.0	11.0
Oil & Gas	13.0%				
PER (x)		14.5	12.9	12.9	11.7
PAT Growth (%)		2.0	12.4	0.1	10.1
Consumer	11.2%				
PER (x)		49.9	44.4	38.1	33.1
PAT Growth (%)		14.3	12.3	16.6	15.1
Auto	6.3%				
PER (x)		20.0	26.0	22.5	18.7
PAT Growth (%)		(7.3)	(22.8)	15.6	19.9
Eng. & Power	5.8%				
PER (x)		16.4	14.6	13.0	11.4
PAT Growth (%)		7.8	12.1	12.9	13.5
Metals	3.7%				
PER (x)		13.6	8.5	8.5	8.2
PAT Growth (%)		15.5	59.2	0.1	3.4
Pharma	2.4%				
PER (x)		43.2	31.1	23.3	21.6
PAT Growth (%)		(50.0)	39.0	33.8	7.6
Telecom	1.6%				
PER (x)		55.9	114.6	208.1	67.6
PAT Growth (%)		(45.1)	(51.2)	(45.0)	207.9

	Weight-age (%)	FY18	FY19E	FY20E	FY21E
Cement	0.9%				
PER (x)		43.4	50.5	39.1	31.7
PAT Growth (%)		(3.4)	(14.1)	29.2	23.2
Others	0.7%				
PER (x)		14.9	10.8	8.9	7.1
PAT Growth (%)		(15.4)	37.2	22.2	25.6
Media	0.5%				
PER (x)		26.9	24.4	21.3	18.5
PAT Growth (%)		(33.4)	10.4	14.6	15.1
Ports & Logistics	0.6%				
PER (x)		10.8	10.3	8.7	7.5
PAT Growth (%)		(6.1)	5.0	19.2	15.4
Agro Chemicals	0.7%				
PER (x)		20.4	16.7	14.8	13.1
PAT Growth (%)		7.7	22.6	12.7	12.6
Nifty as on Apr 05	**11,598**				
EPS (Rs) - Free Float		**436.8**	**473.6**	**553.6**	**646.7**
Growth (%)		**(3.6)**	**8.4**	**16.9**	**16.8**
PER (x)		**26.6**	**24.5**	**21.0**	**17.9**
EPS (Rs) - Free Float - Nifty Cons.		**436.8**	**497.6**	**625.1**	**731.4**
Var. (PLe v/s Cons.) (%)		**-**	**(4.8)**	**(11.4)**	**(11.6)**
Sensex as on Apr 05	**38,862**				
EPS (Rs) - Free Float		**1,380.8**	**1,456.8**	**1,753.7**	**2,073.7**
Growth (%)		**(10.7)**	**5.5**	**20.4**	**18.2**
PER (x)		**28.1**	**26.7**	**22.2**	**18.7**
EPS (Rs) - Free Float - Sensex Cons.		**1,380.8**	**1,518.7**	**1,969.9**	**2,339.2**
Var. (PLe v/s Cons.) (%)		**-**	**(4.1)**	**(11.0)**	**(11.4)**

Source: Company Data, Bloomberg, PL Research

Note: Telecom Nos. is Bloomberg Consensus / Sector Weightages are updated as on Apr 05, 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																	
HDFCB IN	HDFC Bank	2,306	2,371	*2.8%*	6,270.0	90,673.1	20.2	20.6	18.5	21.1	16.1	17.1	1.8	1.9	24.7	20.4	3.9	3.4
HUVR IN	Hindustan Unilever	1,659	1,854	*11.8%*	3,583.7	51,824.4	11.2	11.4	15.5	14.4	99.3	112.1	131.8	149.1	50.9	44.5	50.2	49.2
ICICIBC IN	ICICI Bank	391	427	*9.3%*	2,515.9	36,383.8	15.7	15.5	145.7	36.0	9.1	11.3	1.0	1.2	24.8	18.2	2.7	2.4
MSIL IN	Maruti Suzuki	7,108	7,600	*6.9%*	2,146.5	31,041.6	9.3	8.7	10.6	12.2	17.6	17.6	19.9	19.9	24.8	22.1	4.1	3.7
LT IN	Larsen & Toubro	1,374	1,728	*25.8%*	1,925.2	27,840.6	13.9	NA	19.5	NA	16.2	NA	9.6	NA	18.3	NA	2.8	NA
TTAN IN	Titan Company	1,106	1,195	*8.0%*	982.3	14,204.8	19.8	20.1	26.5	26.5	28.0	28.9	37.2	38.3	49.7	39.3	12.7	10.3
TECHM IN	Tech Mahindra	777	886	*14.0%*	690.0	9,978.4	9.5	9.3	12.7	9.0	21.5	19.9	24.5	23.2	14.3	13.1	2.8	2.4
TATA IN	Tata Steel	549	652	*18.7%*	660.9	9,557.9	8.2	1.0	0.7	3.3	8.7	8.4	10.2	10.1	8.2	7.9	0.7	0.6
UPLL IN	UPL	941	975	*3.6%*	479.9	6,940.1	9.1	8.5	12.7	12.6	25.5	25.0	20.3	21.4	17.8	15.8	4.4	3.6
PLNG IN	Petronet LNG	239	306	*28.3%*	357.8	5,173.5	8.6	8.9	20.5	15.2	23.8	22.8	30.2	27.5	12.5	10.8	2.7	2.3
	Mid Caps																	
SHTF IN	Shriram Transport Finance	1,224	1,562	*27.7%*	277.7	4,015.5	21.8	16.3	26.2	14.6	17.0	16.5	2.4	2.3	9.1	7.9	1.4	1.2
AL IN	Ashok Leyland	88	103	*17.5%*	256.9	3,714.4	11.4	(1.1)	11.7	(9.0)	22.3	19.0	13.4	11.2	13.0	14.3	2.7	2.7
IDFCFB IN	IDFC First Bank	54	60	*10.7%*	213.7	3,090.9	54.3	27.3	(145.7)	39.3	4.2	5.6	0.4	0.5	32.5	23.3	1.4	1.3
LTTS IN	L&T Technology Services	1,609	1,807	*12.3%*	164.9	2,384.6	17.4	17.9	7.8	15.9	30.0	29.1	36.3	35.2	21.0	18.2	5.8	4.9
CROMPTON IN	Crompton Greaves Consumer	232	272	*17.3%*	145.2	2,099.3	15.3	14.0	22.0	18.0	38.6	35.4	43.6	46.7	31.8	26.9	10.8	8.5
	Small Caps																	
KPP IN	Kalpataru Power Transmissior	460	547	*19.0%*	70.6	1,020.7	14.5	17.3	15.0	20.8	13.6	14.5	18.4	19.5	15.6	12.9	2.0	1.8
VIP IN	V.I.P. Industries	477	579	*21.5%*	67.4	974.3	22.2	21.9	32.1	29.2	26.6	27.8	38.2	40.0	35.1	27.2	9.3	7.6
HEIM IN	Heidelberg Cement India	182	214	*18.0%*	41.2	595.6	4.0	5.0	2.5	1.6	17.7	16.3	20.8	20.1	18.3	18.0	3.1	2.8
NOCIL IN	NOCIL	141	252	*78.7%*	23.2	335.4	20.8	26.0	16.2	24.5	17.8	19.4	27.0	29.4	10.4	8.4	1.7	1.5

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

SECTORS

April 5, 2019

Top Picks

PI Industries

UPL

Dhanuka Agritech

Insecticide India

Prashant Biyani
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Agro Chemicals

Jan-Mar'19 Earnings Preview

Q4 generally is a slow moving quarter for the agrochemical companies as placement for the Rabi season happens mostly in Q3. At the fag-end of March, placement for the Kharif season starts for few geographies. Overall, 4Q has been a lacklustre quarter for the agrochemical companies. The sector is expected to drive growth largely alongside companies having significant exports/international business share. Industry exports have grown by ~17.4% and 22.8% YoY in volumes and value respectively for 11MFY19.

Rabi sowing for FY19 has been down by 4.0% to 618 lakh hectares led by 15%/14%/10% decline in sowing of Coarse Cereals, Rice and Maize. Pulses acreage is down by 6% while it continues to remain the same for Wheat as per last year.

The key factors contributing towards the tepid demand are; Lower Rabi sowing, extended winter & pleasant weather conditions causing low pest infestation, deficit rainfall in South India & prolonged effect of draught in various parts of India and pressure on farm income. Lower liquidation of molecules has led to inventory piling at various pockets in India. Channel inventory is expected to be higher by 10% after the end of Rabi season. At other places carry forward stock of Kharif is also being liquidated.

Last year, the global macroeconomic set up for the agrochemical industry has been quiet decent. Companies have reported volume growth mostly driven by the South American market, even though other geographies except European region have also managed to do well. Europe & Australia had witnessed severe draught last year and Brazil had also seen dry weather towards the end of calendar year, which impacted their crop yields.

Outlook

As we enter into the Kharif season - monsoon, pest infestation and crop prices would be the key factors to monitor. Also, Investment support by various state governments and Central government in the form of cash credit is expected to give a fillip to the agri-inputs industry in future.

Improving availability and reduction in raw material prices is expected to ease pressure on EBITDA margins. However, the recent blast in China's Jiangsu province can once again cause disruptions in the medium term supply as the government may increase further inspections. But the same is unlikely to impact the availability of agrochemicals for the upcoming Kharif season.

While the Bureau of Metrology (Australia) has upgraded the El Nino's outlook to El Nino ALERT, the validity of the same beyond May is minimal. Indian Ocean Dipole (IOD) is also expected to turn positive (currently neutral) from June. Hence it would be too early to assess the impact of monsoon.

Exhibit 1: Q4FY19 Result Preview

Company Name		Q4FY19E	Q4FY18	YoY gr. (%)	Q3FY19	QoQ gr. (%)	Remark
Bayer Cropscience	Sales	3,152	3,002	*5.0*	6,210	*(49.2)*	We expect Bayer to report mid-single digit revenue growth of ~5% on the back of lower pest infestation and pleasant weather. Incremental revenue is expected to have been driven by exports. Gross margins may continue to expand (exp 120 bps YoY improvement) on the back of benefits from internal sourcing from the parent and price hikes on select products.
	EBITDA	3	-163	*(101.9)*	466	*(99.3)*	
	Margin (%)	*0.1*	*-5.4*		*7.5*		
	Adj. PAT	-37	-129	*(71.6)*	275	*(113.3)*	
Dhanuka Agritech	Sales	1,805	1,851	*(2.5)*	2,168	*(16.8)*	Revenue decline of ~2.5% will be led by ~5.0% decline in volume. Incremental pressure on gross margin is expected to reduce with 150 bps decline to 43.6%. EBITDA is expected to decline by 7.2% to Rs 292 mn due to impact of negative operating leverage. Margins are expected to contract by 81 bps to 16.2%.
	EBITDA	292	314	*(7.2)*	215	*35.9*	
	Margin (%)	*16.2*	*17.0*		*9.9*		
	Adj. PAT	254	286	*(11.5)*	146	*73.9*	
Insecticides India	Sales	1,964	1,689	*16.2*	2,157	*(9.0)*	New launches will continue to drive growth for Insecticides India. Gross margin is expected to expand by 69 bps to driven by higher realisation for Phorate & DDVP and better profitability on new products. Incremental expansion in EBITDA margin will be contained to 34 bps (@ 11.4%) due to high base last year. Interest cost is expected to increase by 25% YoY as working capital is expected to have been increased on YoY basis.
	EBITDA	224	187	*19.8*	320	*(30.0)*	
	Margin (%)	*11.4*	*11.0*		*14.8*		
	Adj. PAT	98	77	*27.1*	168	*(41.9)*	
P.I. Industries	Sales	7,960	6,251	*27.3*	7,075	*12.5*	Blended topline growth of 27.3% would be driven by 27.0% growth in the CSM business and 13.1% growth in the domestic business. Gross margin is expected to contract by 60 bps to 47.8%. Employee cost and Other expenses are expected to contract by 46 bps & 40 bps to 10.5% & 15.5% of sales respectively.
	EBITDA	1,737	1,347	*29.0*	1,486	*16.9*	
	Margin (%)	*21.8*	*21.5*		*21.0*		
	Adj. PAT	1,294	1,054	*22.7*	1,073	*20.6*	
Rallis India	Sales	3,896	3,711	*5.0*	4,174	*(6.6)*	Consolidated revenue is expected to grow by 5.0% driven largely by the standalone business. Gross margin pressure is expected to ease marginally on the back of improvement in supply and reduction in price of raw materials. Standalone EBITDA is expected to grow by 7.9% YoY to Rs 461 mn YoY while margins are expected to expand by 33 bps to 12.6%. 4Q is off-season for Metahelix and the company may continue to report EBITDA loss.
	EBITDA	363	336	*8.1*	276	*31.7*	
	Margin (%)	*9.3*	*9.1*		*6.6*		
	Adj. PAT	220	198	*11.3*	139	*59.0*	
Sharda Cropchem	Sales	8,823	7,687	*14.8*	4,714	*87.1*	Agrochemical segment revenue is expected to grow 13.4% to Rs 7.9 bn led by 30% & 10% growth in NAFTA & European region. Despite garnering registrations in Q3FY19, Sharda is unlikely to see healthy revenue growth in the European region due to tepid demand and some molecule specific issues. LatAM may continue to see sharp decline in revenue due to dollar availability issues in Argentina. Belts segment is expected to grow at ~30.0% YoY. Gross margins are likely to contract by 130 bps to 33.4% due to lower sales in the European region (high margin geography).
	EBITDA	2,138	1,975	*8.2*	473	*352.0*	
	Margin (%)	*24.2*	*25.7*		*10.0*		
	Adj. PAT	1,295	1,176	*10.1*	201	*543.1*	
UPL	Sales	90,064	56,910	*58.3*	49,210	*83.0*	Q4FY19 nos of UPLL will not be comparable YoY as the company will consolidate ~2 month financials of Arysta for the first time. For UPL group we expect 7.5% YoY revenue growth to Rs 61 bn. India, LatAM and North America are likely to show tepid mid-single digit growth while Europe and RoW are expected to grow in double digits. Arysta is expected to clock revenue of Rs 28.9 bn (US $ 410 mn). For UPL group we expect ~60 bps reduction in gross margin but on a consolidated level it is expected to largely remain unchanged at 50.9%. At Consolidated EBITDA of Rs 19 bn, we expect EBITDA margins to contract by ~30 bps to 21.1% on the back of higher other expenses.
	EBITDA	19,035	12,180	*56.3*	10,160	*87.3*	
	Margin (%)	*21.1*	*21.4*		*20.6*		
	Adj. PAT	10,359	7,650	*35.4*	6,310	*64.2*	

Source: Company, PL

Exhibit 2: Valuation Summary

Company Names	Rating	CMP (Rs)	TP (Rs)	Sales (Rs bn)				EBITDA (Rs bnm)				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
Bayer Cropscience	Acc	4,240	4,517	27.1	28.5	31.0	34.4	4.1	4.8	5.5	6.4	2.7	3.1	3.7	4.4	77.8	90.3	107.8	129.2	13.9	16.4	17.2	18.0	54.5	46.9	39.3	32.8
Dhanuka Agritech	Buy	388	624	9.6	10.3	11.4	12.5	1.7	1.6	2.0	2.2	1.3	1.2	1.5	1.6	25.7	25.5	30.8	34.7	21.8	19.1	21.3	20.7	15.1	15.2	12.6	11.2
Insecticides India	BUY	640	896	10.7	11.8	13.0	14.3	1.5	1.8	2.1	2.3	0.8	1.1	1.2	1.4	40.6	51.3	59.2	68.9	16.6	17.3	17.1	17.5	15.7	12.5	10.8	9.3
P.I. Industries	Buy	1,052	1,023	22.8	28.3	33.9	40.4	4.9	5.8	7.3	9.0	3.7	4.2	5.1	6.1	26.6	30.3	37.1	44.5	20.8	20.1	20.8	21.0	39.6	34.8	28.3	23.7
Rallis India	BUY	162	242	17.9	20.2	22.5	24.7	2.6	3.0	3.6	4.0	1.7	1.8	2.3	2.6	8.6	9.4	11.6	13.5	14.6	14.6	16.3	16.9	18.8	17.2	13.9	12.0
Sharda Cropchem	BUY	387	444	17.1	19.6	22.7	25.8	3.5	3.6	4.2	4.9	1.9	1.9	2.3	2.7	21.1	21.5	25.9	29.7	18.2	16.1	17.0	17.0	18.3	18.0	14.9	13.0
UPL	Buy	941	975	173.8	191.1	208.4	226.1	35.2	39.5	43.9	47.4	19.5	23.9	26.9	30.3	38.2	46.8	52.8	59.4	23.5	24.6	25.5	25.0	24.6	20.1	17.8	15.8

Source: Company, PL

Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

April 5, 2019

Top Picks

Maruti Suzuki

Mahindra & Mahindra

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Automobiles

Jan-Mar'19 Earnings Preview

For Q4FY19, we yet again anticipate a muted quarter for auto companies in our coverage, since EBITDA/profit is expected to witness a sharp decline of 22%/37% YoY (on a high base). Volumes for the quarter across 4Ws/2Ws/CVs have registered a decline of ~1%/2%/2% YoY respectively, due to production cuts taken by most OEMs for inventory clearance given the continued weak retail demand. Tractors too witnessed weak quarter wherein M&M tractor volumes plummeted by 14% YoY. Commodity cost pressure has somewhat eased sequentially in Q4FY19 but full benefit should come in the next quarter. With lower operating leverage along with high discounts/incentives over Q4FY19, we expect an EBITDA margin decline of ~245bps YoY (rise of ~50bps QoQ), resulting in net profit fall of 37% YoY (down ~9% QoQ) in our coverage universe. Revenue growth of companies under our coverage (excluding Tata Motors) is expected to be ~2% YoY with EBITDA margin likely to decrease by ~170bps YoY.

Commodity pressures easing should help margins inch up sequentially: With low commodity costs QoQ (Steel / Aluminium down ~11%/6% QoQ assuming a 2-month inventory lag), we expect OEM EBITDA margins to inch up by ~50bps QoQ. However, YoY margins are expected to be lower ~270bps on account of (1) higher discounts, consumer offers & dealer incentives across segments and (2) negative operating leverage.

Weak consumer sentiment continues to hamper volume growth: With 2Ws seeing the maximum impact of the slowdown in demand leading to huge inventory built-ups, we expect EBITDA of Hero/Eicher to decline by ~24%/11% YoY, owing to their volume decline of ~11%/13% YoY. On the other hand, TVS is expected to see a YoY rise in OPM on the back of operating leverage benefits. In the 4Ws segment, we expect Maruti margins to be lower by 220bps YoY (owing to high discounts) but up by 220bps QoQ given volume growth of 7% QoQ. However, M&M is likely to report weakest operating performance with margins slipping 320bps YoY/160bps QoQ given the adverse product mix as well as one-time launch costs.

Diversified revenue mix cushions ancillaries against low OEM demand: For most of the Auto ancillary suppliers, we expect some benefits to come in from the diversified revenue mix (aftermarket, exports & industrial segments) which should help revenue growth, despite the OEM demand slowdown. We, therefore expect revenue growth of ~9.5% YoY for ancillaries under our coverage while their EBITDA is expected to grow ~4% YoY (+8% QoQ).

Exhibit 1: Two & Three-wheeler companies

Volume (units)	Q4FY19	*YoY gr. (%)*	*QoQ gr. (%)*
Total	**4,090,612**	***-2.0***	***-3.9***
Hero Motocorp	1,781,250	*-11.0*	*-1.0*
Bajaj Auto	1,193,590	*14.2*	*-5.3*
TVS Motors	907,328	*2.0*	*-8.3*
Royal Enfield	196,162	*-13.6*	*0.9*
Atul Auto	12,282	*5.7*	*-11.1*

Source: Company, PL

Exhibit 2: Four-wheeler companies

Volume (units)	Q4FY19	YoY gr. (%)	QoQ gr. (%)
Total	**1,113,182**	***-2.8***	***8.6***
Tata Motors (Standalone)	193,015	*-5.4*	*12.4*
Jaguar Land Rover	145,598	*-10.3*	*12.0*
Maruti Suzuki	458,481	*-0.7*	*7.0*
M&M	235,557	*-0.1*	*0.7*
Ashok Leyland	59,521	*1.3*	*36.0*
VECV	21,010	*-9.1*	*24.1*

Source: Company, PL

Exhibit 3: Q4FY19 Result Preview

Company Name		Q4FY19E	Q4FY18	YoY gr. (%)	Q3FY19	QoQ gr. (%)	Remark
Ashok Leyland	Sales	86,232	87,725	*-1.7*	63,252	*36.3*	Despite the high base, AL reported a 1% YoY growth in volumes this quarter while they were up a strong 36% QoQ. Anticipating realisations to decline by 3% YoY, we expect revenues to dip ~2% YoY and margins to contract by 30bps YoY given the continued discounting (up 120bps QoQ on account of some commodity price relief & higher operating leverage).
	EBITDA	9,917	10,327	*(4.0)*	6,496	*52.7*	
	Margin (%)	*11.5*	*11.8*		*10.3*		
	Adj. PAT	6,556	6,615	*(0.9)*	3,879	*69.0*	
Bharat Forge	Sales	16,921	14,666	*15.4*	16,925	*(0.0)*	With user industries like North America trucks as well as domestic MHCVs lower YoY, we expect shipment tonnage to rise by a modest 5% YoY in Q4FY19E. Overall revenue for Bharat Forge is expected to increase by 15.4% YoY and EBITDA margin is expected at 29.3%, up 80bps YoY but lower 180bps QoQ (although up 50bps QoQ v/s adjusted Q3FY19 margins).
	EBITDA	4,949	4,177	*18.5*	5,258	*(5.9)*	
	Margin (%)	*29.3*	*28.5*		*31.1*		
	Adj. PAT	2,697	1,003	*168.8*	3,098	*(13.0)*	
Bajaj Auto	Sales	74,688	67,733	*10.3*	74,094	*0.8*	Given the weak industry demand, BJAUT's overall volume growth over Q4FY19 has been decent at 14.2% YoY (down 5.3% QoQ). Product mix has been favourable sequentially (adverse YoY) with higher share of 3Ws (at 16.1% v/s 14.4%), however, overall exports are at 40.3% of total volumes over Q4FY19 against 41.6% in Q3FY19 / 40.7% in Q4FY18. We expect margins to decline 310bps YoY but inch up 50bps QoQ.
	EBITDA	12,019	13,152	*(8.6)*	11,561	*4.0*	
	Margin (%)	*16.1*	*19.4*		*15.6*		
	Adj. PAT	10,484	10,799	*(2.9)*	11,019	*(4.9)*	
CEAT	Sales	17,366	16,739	*3.8*	17,139	*1.3*	Owing to the weak OEM demand, Ceat is expected to report a modest 2.5% YoY growth in its sales tonnage over Q4FY19. Expecting realisation improvement of 1.5% YoY, we anticipate the standalone revenues to grow ~3% YoY to Rs16.9bn. With rubber prices as well as crude level lower QoQ (~6%/7% respectively), we expect consol EBITDA margin to be at 10.5%, down 130bps YoY but higher 220bps QoQ.
	EBITDA	1,823	1,976	*(7.7)*	1,426	*27.9*	
	Margin (%)	*10.5*	*11.8*		*8.3*		
	Adj. PAT	714	1,012	*(29.4)*	517	*38.0*	
Eicher Motors	Sales	24,052	25,280	*-4.9*	23,411	*2.7*	Royal Enfield's Q4FY19 volumes have recorded a de-growth yet again, down a sharp 13.6% YoY (up 1% QoQ) to 196K units, while VECV volumes were lower 9% YoY (up 24% QoQ) to 21K units. We expect EIM to report consolidated revenue dip of ~5% YoY to Rs24bn, with EBITDA margin slipping to 29.5%, lower 200bps YoY (lower operating leverage)/ higher 50bps QoQ (commodity pressures easing sequentially, better product mix).
	EBITDA	7,095	7,972	*(11.0)*	6,795	*4.4*	
	Margin (%)	*29.5*	*31.5*		*29.0*		
	Adj. PAT	5,351	6,486	*(17.5)*	5,330	*0.4*	

Company Name		Q4FY19E	Q4FY18	YoY gr. (%)	Q3FY19	QoQ gr. (%)	Remark
Exide Industries	Sales	26,439	24,594	7.5	24,968	5.9	We expect Exide Industries to record a moderate revenue growth of 7.5% YoY / 6% QoQ on account of dip in OEM demand but some support from the Automotive replacement segment as well as the industrial segment (telecom / inverter). With lead prices softening (down 3% QoQ assuming a 2 month inventory lag), our EBITDA margin expectation is at 13.5%, higher 100bps QoQ but dipping 20bps YoY.
	EBITDA	3,569	3,380	5.6	3,125	14.2	
	Margin (%)	*13.5*	*13.7*		*12.5*		
	Adj. PAT	2,009	1,896	6.0	1,550	29.6	
Hero Motocorp	Sales	75,451	85,640	-11.9	78,648	(4.1)	With volume decline of 11% YoY (-1% QoQ) and expected realisation dip of ~1% YoY over Q4FY19, revenue is likely to decline ~12% YoY. Operating margins are expected to contract 230bps YoY / 30bps QoQ (high discounts/dealer incentives for inventory clearance, volume decline).
	EBITDA	10,375	13,706	(24.3)	11,048	(6.1)	
	Margin (%)	*13.7*	*16.0*		*14.0*		
	Adj. PAT	7,228	9,674	(25.3)	7,691	(6.0)	
Mahindra & Mahindra	Sales	129,570	133,079	-2.6	130,704	(0.9)	M&M's overall volumes for Q4FY19 were flat YoY & QoQ, however, tractors degrew ~14% YoY (auto vol up 5.7% YoY), forming ~26% of total volumes (v/s 30% in Q4FY18 & 39% in Q3FY19). Resultantly, we expect M&M's standalone revenues to dip ~3% YoY and margin to slip to 10%, lower 320bps YoY / 160bps QoQ on account of weak segmental mix, higher share of low margin new UV launches & high one-time XUV3oo launch costs.
	EBITDA	12,957	17,542	(26.1)	15,172	(14.6)	
	Margin (%)	*10.0*	*13.2*		*11.6*		
	Adj. PAT	7,874	10,112	(22.1)	11,568	(31.9)	
Maruti Suzuki	Sales	213,150	211,656	0.7	196,683	8.4	MSIL volumes dipped 0.7% YoY (up 7% QoQ). Expecting realisaitons to inch up ~1% YoY/2% QoQ on account of better product mix with higher share of new launches (Ertiga/WagonR), we expect MSIL to report revenue growth of ~1% YoY/8% QoQ. With discounts being lower QoQ (higher YoY) and slight QoQ commodity relief, we expect margins to be at ~12%, up 220bps QoQ but lower 220bps YoY .
	EBITDA	25,578	30,150	(15.2)	19,311	32.5	
	Margin (%)	*12.0*	*14.2*		*9.8*		
	Adj. PAT	16,744	18,821	(11.0)	14,893	12.4	
Motherson Sumi Systems	Sales	170,370	154,078	10.6	164,730	3.4	For Q4FY19, we expect MSS to record a 10.6% YoY revenue growth to Rs170bn. We expect consolidated EBITDA margin of 9% (up 50bps QoQ but lower 70bps YoY). SMR / SMP revenue growth & margins are likely to be 5%/10% (SMR growth to be supported by Reydel business) & 11.8%/6.1%, respectively (ramp up costs to again hamper SMP margins).
	EBITDA	15,333	15,001	2.2	13,934	10.0	
	Margin (%)	*9.0*	*9.7*		*8.5*		
	Adj. PAT	8,805	5,390	63.4	3,891	126.3	
Tata Motors	Sales	809,282	912,791	-11.3	770,009	5.1	Standalone domestic volumes over Q4FY19 were down 5% YoY but higher ~12% QoQ. With continued high discounting in the industry but some sequential commodity relief, we expect standalone margins to be at 9.2%, down 330bps YoY but up 50bps QoQ. JLR's Q4FY19E volumes are expected to be down 10% YoY but up ~12% QoQ (Q4 seasonally the best quarter for JLR), with margins at 8.8%, higher 150bps QoQ (down 350bps YoY).
	EBITDA	79,018	119,252	(33.7)	71,733	10.2	
	Margin (%)	*9.8*	*13.1*		*9.3*		
	Adj. PAT	-3,178	34,098	(109.3)	8,506	(137.4)	
TVS Motors	Sales	42,890	39,928	7.4	46,640	(8.0)	With ~2% YoY volume growth (lower 8% QoQ) and ~5% YoY realisation improvement expected (higher share of exports as well as mopeds in the product mix, price hike taken), TVS Motors' Q4FY19 revenue is expected to grow ~7% YoY. On the back of operating leverage and some currency benefit, we expect margins to expand 130bps YoY. With better product mix & some commodity cost relief, we expect OPM to inch up 20bps QoQ too.
	EBITDA	3,538	2,807	26.1	3,757	(5.8)	
	Margin (%)	*8.3*	*7.0*		*8.1*		
	Adj. PAT	1,601	1,656	(3.3)	1,784	(10.2)	
Wabco India	Sales	7,524	7,849	-4.1	6,999	7.5	Given the decline in the domestic M&HCV sector (down ~15% YoY, up ~20% QoQ), expecting weaker realisations, Wabco India's Q4FY19 revenue is likely to decline 4% YoY. Operating margins are expected to be higher 50bps YoY / 40bps QoQ on account of commodity cost relief.
	EBITDA	1,110	1,122	(1.1)	1,005	10.5	
	Margin (%)	*14.8*	*14.3*		*14.4*		
	Adj. PAT	755	772	(2.2)	598	26.3	

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	88	103	262.5	291.7	325.0	321.3	27.4	30.7	34.4	32.1	15.6	17.7	19.7	17.9	5.3	6.0	6.7	6.1	23.5	22.9	22.3	19.0	16.4	14.5	13.0	14.3
Bharat Forge	HOLD	512	504	81.7	96.8	103.9	109.9	17.6	21.8	22.7	23.4	9.4	12.6	13.4	13.9	20.2	27.0	28.8	30.0	21.2	24.5	22.9	20.9	25.4	19.0	17.8	17.1
Bajaj Auto	Reduce	2,862	2,362	251.6	286.5	301.2	316.7	47.8	47.4	50.1	52.8	40.9	40.8	43.3	44.5	141.4	141.1	149.7	153.8	22.6	20.2	19.2	17.8	20.2	20.3	19.1	18.6
CEAT	Acc	1,124	1,178	62.3	66.7	78.7	94.2	6.1	6.6	7.7	9.4	2.7	2.9	3.1	3.3	67.2	72.3	75.8	81.3	10.8	10.8	10.5	10.4	16.7	15.6	14.8	13.8
Eicher Motors	HOLD	20,980	20,021	89.6	99.0	105.7	111.8	28.1	29.3	31.7	32.9	21.8	23.2	25.2	26.6	799.6	850.2	925.0	977.0	35.2	29.7	26.9	24.4	26.2	24.7	22.7	21.5
Exide Industries	Acc	219	238	91.9	105.2	119.1	124.6	12.4	13.7	15.7	16.6	7.1	7.7	9.0	9.5	8.4	9.0	10.6	11.2	13.7	13.6	14.5	13.9	26.2	24.3	20.6	19.5
Hero Motocorp	Acc	2,618	2,947	322.3	339.3	364.7	383.6	52.8	50.4	54.3	57.4	37.0	33.4	35.9	37.7	185.1	167.4	179.6	188.8	33.8	27.0	26.3	25.1	14.1	15.6	14.6	13.9
Mahindra & Mahindra	BUY	658	878	486.9	548.5	609.6	668.6	62.2	70.0	79.3	87.3	39.2	48.8	54.7	61.4	33.0	41.0	46.0	51.6	13.7	15.6	16.3	16.9	20.0	16.1	14.3	12.7
Maruti Suzuki	BUY	7,108	7,600	797.6	868.7	949.7	1,032.5	120.6	116.5	128.7	142.0	78.2	78.3	86.6	97.1	259.0	259.2	286.7	321.5	20.0	17.8	17.6	17.6	27.4	27.4	24.8	22.1
Motherson Sumi Systems	ACC	151	150	562.9	527.3	643.6	696.2	51.2	46.1	61.4	66.8	14.2	14.3	25.8	28.2	6.7	4.5	8.2	8.9	15.6	14.2	23.6	23.0	22.4	33.4	18.5	16.9
Tata Motors	BUY	205	207	2,946.2	2,986.6	3,257.5	3,538.7	369.7	283.7	349.8	395.8	58.3	-12.1	0.9	27.6	17.2	-3.6	0.3	8.1	7.6	-1.3	0.1	2.9	12.0	-57.7	808.6	25.2
TVS Motors	Acc	485	665	151.3	181.3	214.0	251.9	11.3	15.3	19.7	24.0	6.6	8.9	11.6	14.7	13.9	18.7	24.5	30.9	25.1	27.3	28.5	28.2	34.8	26.0	19.8	15.7
Wabco India	ACC	6,326	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	44.0	36.1	31.1	28.5

Source: Company, PL

Aviation

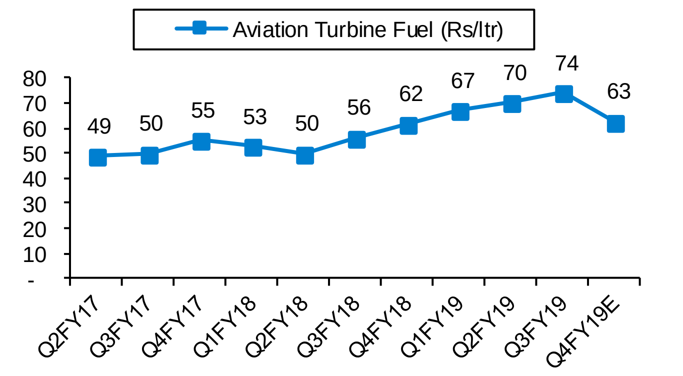
Jan-Mar'19 Earnings Preview

April 5, 2019

Capacity pangs leads to higher yields: The recent disruptions in form of partial shutdown of Mumbai airport (6 hrs - thrice a week), grounding of Jet Airways fleet due to financial crisis and over safety concerns of Boeing 737 Max aircrafts has led to capacity pangs thereby stirring up air fares. While domestic passenger traffic slowed down for the second consecutive month in February, higher yields and load factors compensated for the loss.

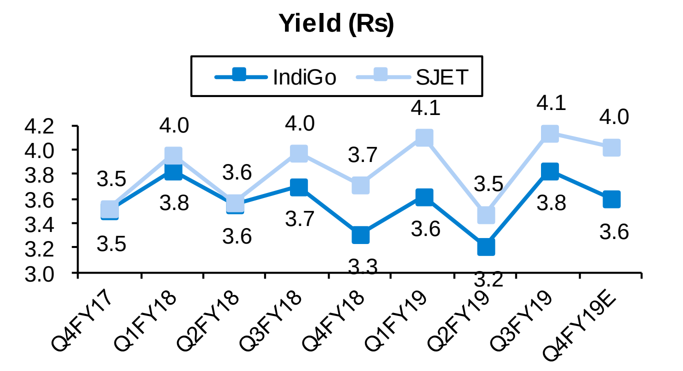
Margins expected to recover: With ATF prices up by ~2% YoY for the quarter and on the back of yield increase due to capacity pangs, we expect airlines to report strong margins & profitability. We expect IndiGo & SJET to report EBITDAR margins of 23.7%/20.1% respectively.

Exhibit 1: In 4Q19 ATF up by 2%



Source: Company, PL

Exhibit 2: IndiGo/SJET's yield to rise by 8.5%/8.3% YoY



Source: Company, PL

Exhibit 3: Q4FY19 Result Preview

Company Name		Q4FY19E	Q4FY18	YoY gr. (%)	Q3FY19	QoQ gr. (%)	Remark
InterGlobe Aviation	Sales	80,299	57,991	*38.5*	79,162	*1.4*	With net addition of ~9 aircrafts in the quarter, IndiGo continues to lead the industry growth. Due to the recent capacity pangs in the industry, we expect IndiGo to report yield expansion (8.5% YoY) along with high load factors (88%). With ATF prices in check (up ~2% YoY), we expect IndiGo to report strong EBITDAR margins & profitability
	EBITDAR	19,048	10,821	*76.0*	15,953	*19.4*	
	Margin (%)	*23.7*	*18.7*		*20.2*		
	Adj. PAT	3,411	1,176	*189.9*	1,909	*78.7*	
SpiceJet	Sales	26,196	20,293	*29.1*	24,868	*5.3*	With deliveries ramping up only towards the end of 3Q19 (13 net additions), we expect SJET to report robust revenue growth aided by ~8.3% YoY increase in yields & high load factors (92%). With B737 Max being grounded only during the end of March, impact of grounding to be minimal in the quarter
	EBITDAR	5,271	3,676	*43.4*	4,563	*15.5*	
	Margin (%)	*20.1*	*18.1*		*18.4*		
	Adj. PAT	1,306	462	*183.1*	551	*137.2*	

Source: Company, PL

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Exhibit 4: Valuation Summary

Company Names	Rating	CMP (Rs)	TP (Rs)	Sales (Rs bn)				EBITDAR (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
InterGlobe Aviation	BUY	1,419	1,552	230.2	286.4	368.4	473.4	65.7	46.4	76.3	109.1	22.4	-0.9	15.4	31.3	58.3	-2.4	40.2	81.4	41.3	-1.3	20.3	32.3	24.3	-590.8	35.3	17.4
SpiceJet	BUY	97	123	78.0	92.2	116.2	141.8	17.9	13.0	18.8	25.4	5.7	-1.8	1.7	5.6	9.5	-3.0	2.9	9.4	-173.8	134.9	-127.4	242.2	10.3	-32.6	33.8	10.3

Source: Company, PL

Banks

Jan-Mar'19 Earnings Preview

April 5, 2019

Top Picks

HDFC Bank

ICICI Bank

Axis Bank

Banks are likely to head into a steady Q4FY19 quarter and continue to see improvement in asset quality metrics with low stress and constant provisioning, leading to high PCRs. Though the recent large resolutions are not likely to reflect in Q4FY19 they should not even attract ageing provisions. While operating wise- NII are expected to improve across banks on back of steady margins, steady loan growth and last year's low base (due to impact from Feb'12 circular), lack of material treasury gains may lead to low other income. Important metrics to monitor will be liabilities growth (CASA/Retail liabilities) while most bank provide crucial FY20 guidance.

- **Loan growth has been at a steady pace for system:** Overall systemic loan growth has been at a steady rate of 14-15% YoY, although it has been skewed towards selective sectors & segments. Also, deposit growth rate has lagged for some time now at 9-10% YoY increasing C-D ratio to multi-year high of 78%. Hence, banks will continue to be aggressive on deposit accretion especially retail deposits (incl. CASA).

- **Asset quality for sector will continue to see improvement:** Stress assets ratios have been coming off as the unrecognized stress has been eliminated, also discipline enforced due to Feb-12 circular along with some resolutions in recent times would result in improvement of asset quality. Similar trends on low stress should continue to lower the GNPAs, while continued provisions to improve PCR will help NNPAs. We continue to watch and worry on Agri/SME related stress which may not be as large as corporate segments but some banks have shared certain discomfort in a last few quarters.

- **Margins should remain steady for most Banks, other income should be under pressure:** Adjusting to a one-off interest recoveries, NIMs are expected to be stable (similar to Q3FY19) since banks are very selective in cutting MCLRs across durations, while o/s weighted deposit rates also haven't moved up much. Bank's other income will remain under pressure as low volatility has limited treasury gains, whereas fee income streams have narrowed on to regulatory and asset mix changes.

- **Earnings picture – Improvement in topline, relatively lower credit cost to boost earnings:** We expect coverage Bank's NII to grow by 20% YoY on back of lower interest reversals, steady margins and lower base in Q4FY18. NII for both private and PSBs to grow at 23% YoY & 18% YoY respectively. Although PPOP growth will lower at 14% YoY due to low treasury and fee pressures, bottom line across banks will improve due to lower credit cost and improvement in asset quality. Among private banks, we expect HDFCB/KMB to report steady numbers, while IIB/Yes are likely to accelerate provisions. IIB due to provisioning arising from IL&FS exposure will witness impact on bottom line. Yes Bank commentary from new management will be very crucial. ICICI/Axis bank should witness much better earnings than previous quarters whereas PSBs are likely to have a profitable quarter on back of capital infusion support from Govt. thus encouraging higher provisions .

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Q4FY19 Banks Preview:

- **Private Banks –** Loan growth for private banks (except ICICI/Axis) are expected to be 20-30% YoY and much above industry, while ICICI/Axis loan growth should be near to industry growth of 13-14% YoY. It is difficult for banks to garner CASA deposits, hence in order to stabilize the deposit base banks have started growing its retail deposits (also benefit on LCR). Hence CASA ratio may likely come off but continue to grow at 12-13% YoY for banks. Although chasing deposits will increase cost of funds but banks have been very selective in cutting MCLRs across tenure post RBI rate cut leading to stable margins and NII growth of 23% YoY. **ICICI/Axis** PPOP are expected to have low growth since base quarter of Q4FY18 had gains from ICICI Sec listing and Axis had seen strong recovery from write off in Q3FY19, while **IIB** could accelerate provisions of IL&FS to impact earnings. **Yes** should likely slowdown its business growth due to low capital thresholds.

- **Public Sector Banks –** PSBs are recovering steadily with improvement in stress/impairment ratios and continued provisions to enhance PCR. Provisions will continue to remain bit high due to higher write offs, while slow resolutions are attracting ageing based provisions. We expect NII growth of 18% will further improve (on lower base quarter), while earnings are expected be positive considering the dipping provisions and capital infusions. **SBI** to see sharp earnings recovery but we do not expect recent resolution reflecting in Q4FY19 and should flow through in Q1FY20, while **BOB** to be operationally better however the merger integration will be a key factor to watch. **PNB** should benefit from stake sale of PNBHF, while **BOI/Union** should see steady quarter with lower slippages and improving asset quality.

- **Regional/Mid-sized banks –** Regional focused & mid-sized banks should continue to be stable on all parameters with their loan growth near-to-slightly above the industry growth. SME/Agri/Retail with region specific issues will continue to display subdued but steady margins and hence we do not expect any offbeat earnings skewness from their individual reporting trends. **Federal** will continue to showcase strong loan growth with better NII but we will watch SME/Agri slippages. For **IDFCFBK** metrics should further improve on earnings, liabilities and loan mix. For **SIB** we expect earnings to be under pressure as bank will keep high provisions and enhance PCR which is quite low, while **JKBK** should continue with better loan growth, better margins and benefit from insurance stake sale in PNB Met Life.

Change in Estimates & PTs for BFSI

- **Change in earnings for IndusInd Bank & Yes bank on back of credit cost-** 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 retain our rating and TP currently and review the same post result. We also adjust earning for Yes Bank mainly while slightly increasing credit cost as bank will likely increase PCR levels.
- **Change in earnings for JKBK & PNB on back of stake sale –** We incorporate stake sale gains for JKBK from PNB Met life of Rs1.95bn and for PNB from PNB HF subsidiary and capital infusion from government. Hence we increase TP to Rs98 with rating unchanged at HOLD**.**

Exhibit 1: Change in estimates table for select banks in coverage universe

Banks	Rs (mn)	Old estimates			Revised estimates			*% change*		
		FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	*FY19E*	*FY20E*	*FY21E*
IIB	NII	90,017	1,09,474	1,32,958	90,425	1,09,402	1,33,075	*0.5*	*-0.1*	*0.1*
	PPOP	81,116	1,00,312	1,22,482	81,524	1,00,241	1,22,599	*0.5*	*-0.1*	*0.1*
	PAT	39,076	50,803	67,918	35,508	55,960	67,995	*-9.1*	*10.1*	*0.1*
	ABV	413.7	494.8	593.0	417.4	503.8	600.2	*0.9*	*1.8*	*1.2*
Yes	NII	1,01,109	1,26,347	1,54,686	1,01,078	1,26,289	1,54,624	*(0.0)*	*(0.0)*	*(0.0)*
	PPOP	91,400	1,10,954	1,33,884	91,369	1,10,896	1,33,822	*(0.0)*	*(0.1)*	*(0.0)*
	PAT	44,541	55,956	67,206	43,747	55,917	67,164	*(1.8)*	*(0.1)*	*(0.1)*
	ABV	119.0	140.0	167.0	118.9	139.9	166.4	*(0.1)*	*(0.0)*	*(0.4)*
JKBK	NII	32,893	37,946	43,688	32,905	37,972	43,718	*0.0*	*0.1*	*0.1*
	PPOP	14,599	16,278	18,342	15,800	16,341	18,413	*8.2*	*0.4*	*0.4*
	PAT	3,800	6,341	8,302	4,137	6,389	8,355	*8.9*	*0.8*	*0.6*
	ABV	55.0	73.0	92.0	55.6	74.1	93.1	*1.1*	*1.5*	*1.2*
IDFCB	NII	33,438	51,355	67,382	32,403	50,002	63,654	*(3.1)*	*(2.6)*	*(5.5)*
	PPOP	11,162	21,847	29,401	9,408	16,394	21,829	*(15.7)*	*(25.0)*	*(25.8)*
	PAT	(11,502)	12,283	16,001	(14,948)	7,977	11,109	*NA*	*(35.1)*	*(30.6)*
	ABV	36.0	37.0	40.0	37.6	38.4	40.5	*4.6*	*3.7*	*1.2*
PNB	NII	1,69,411	1,91,157	2,12,816	1,69,742	1,92,160	2,14,502	*0.2*	*0.5*	*0.8*
	PPOP	1,29,295	1,43,811	1,58,696	1,44,724	1,57,345	1,71,241	*11.9*	*9.4*	*7.9*
	PAT	(51,201)	20,004	43,360	(41,635)	29,207	51,891	*NA*	*46.0*	*19.7*
	ABV	48.3	71.0	90.6	54.0	84.9	106.1	*11.8*	*19.5*	*17.1*
BOI	NII	1,08,388	1,20,068	1,27,196	1,27,405	1,22,447	1,27,196	*17.5*	*2.0*	*-*
	PPOP	75,541	83,136	75,884	85,074	75,388	75,884	*12.6*	*(9.3)*	*-*
	PAT	(12,176)	18,063	12,663	(55,891)	12,639	12,663	*NA*	*(30.0)*	*-*
	ABV	70.0	94.0	96.2	83.0	90.5	96.2	*18.6*	*(3.7)*	*-*

Source: Company, PL

Exhibit 2: Valuation Summary for PL Banks & Insurance Coverage

Coverage Universe	Rating	MCap (Rs B)	CMP (Rs)	Old PT (Rs)	New PT (Rs)	*Upside (%)*	P/ABV (x)			RoE (%)		
							FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Axis Bank	ACC	1,960	762	845	845	10.9	3.3	2.8	2.4	7.1	12.9	15.7
HDFC Bank	BUY	6,279	2,306	2371	2,371	2.8	4.5	3.9	3.4	16.5	16.1	17.1
ICICI Bank	BUY	2,518	391	427	427	9.3	2.1	1.9	1.7	4.0	9.3	11.6
IndusInd Bank	BUY	1,066	1,768	1765	1,791	1.3	4.2	3.5	2.9	14.2	19.3	19.7
Yes Bank	ACC	618	267	245	245	(8.2)	2.2	1.9	1.6	15.9	17.6	18.2
Kotak	HOLD	2,550	1,336	1291	1,291	(3.4)	5.1	4.5	3.9	11.5	12.3	13.3
Federal	BUY	196	99	102	102	3.3	1.8	1.6	1.4	9.5	11.7	13.0
J&K Bank	BUY	33	59	76	76	29.4	1.1	0.8	0.6	7.2	10.3	12.1
South Indian Bank	BUY	32	18	22	22	25.7	1.0	0.8	0.7	5.3	8.3	8.2
IDFC First Bank	ACC	259	54	55	60	10.7	1.3	1.2	1.3	1.4	2.6	1.5
Bank of Baroda	BUY	346	131	161	161	23.3	1.2	1.0	0.8	5.5	10.5	13.6
Bank of India	REDUCE	278	101	89	90	(10.7)	1.2	1.1	1.0	(16.0)	3.2	3.1
Punjab National Bank	HOLD	354	93	83	98	5.3	1.7	1.1	0.9	(10.4)	6.7	11.1
SBI	BUY	2,830	317	361	361	13.9	1.4	1.2	1.1	2.5	7.4	9.4
Union Bank	REDUCE	109	93	79	79	(15.1)	1.8	1.3	1.0	(24.0)	1.1	4.2
HDFC Life	BUY	779	386	438	438	13.3	4.2	3.4	2.8	23.3	23.8	24.4
ICICI Pru Life	BUY	523	364	471	471	29.2	2.5	2.2	1.9	11.5	13.8	14.4
Max Financial	BUY	118	439	629	629	43.3	1.3	1.1	1.0	19.9	21.0	21.6
SBI Life	BUY	612	612	779	779	27.2	2.8	2.4	2.0	15.3	17.5	18.1

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: Q4FY19 Results Preview – Better NII growth across banking universe; lowering credit cost to support earnings

Rs Million	NII	YoY	QoQ	PPOP	YoY	QoQ	PAT	YoY	QoQ
HDFC Bank	128,845	*20.9%*	*2.4%*	107,525	*21.1%*	*-0.2%*	57,724	*19.2%*	*3.3%*
ICICI Bank	70,782	*17.5%*	*3.0%*	61,449	*-18.2%*	*0.0%*	17,324	*69.8%*	*7.9%*
Axis Bank	58,389	*23.4%*	*4.2%*	42,234	*15.0%*	*-23.6%*	15,694	*-171.7%*	*-6.6%*
Kotak	30,799	*19.4%*	*4.8%*	23,891	*18.4%*	*23.2%*	14,013	*24.7%*	*8.6%*
IndusInd	24,287	*21.0%*	*6.1%*	21,315	*20.5%*	*0.7%*	6,094	*-36.1%*	*-38.1%*
Yes	28,047	*30.2%*	*5.2%*	23,253	*8.9%*	*16.8%*	11,478	*-2.7%*	*14.6%*
SIB	5,514	*12.0%*	*6.1%*	3,422	*10.1%*	*3.1%*	919	*-19.5%*	*NA*
J&K	8,378	*27.8%*	*-5.0%*	4,627	*73.7%*	*8.9%*	1,635	*475.7%*	*57.6%*
Federal	11,134	*19.3%*	*3.3%*	7,369	*25.2%*	*4.1%*	3,414	*135.5%*	*2.3%*
IDFC First Bank	11,320	*149.8%*	*-1.2%*	5,126	*809.1%*	*66.5%*	3,086	*635.9%*	*-70.9%*
SBI	233,085	*16.7%*	*2.7%*	136,287	*-14.2%*	*8.0%*	50,937	*-166.0%*	*28.8%*
PNB	40,182	*31.2%*	*-6.3%*	43,384	*NA*	*40.0%*	10,623	*NA*	*NA*
BOI	31,272	*22.0%*	*-6.2%*	27,184	*131.9%*	*19.6%*	2,096	*NA*	*NA*
BOB	45,043	*12.5%*	*-5.0%*	29,140	*9.3%*	*-17.6%*	10,206	*NA*	*NA*
Union	25,508	*16.3%*	*2.3%*	16,529	*-12.5%*	*-5.6%*	(1,785)	*NA*	*NA*
Total Banks	**752,585**	***20.4%***	***1.5%***	**552,735**	***14.3%***	***3.2%***	**203,458**	***-186.5%***	***47.2%***
Total Private Banks	**377,495**	***23.0%***	***3.2%***	**300,211**	***10.3%***	***-0.8%***	**131,381**	***81.0%***	***-4.3%***
Total Public Banks	**375,090**	***18.0%***	***-0.1%***	**252,524**	***19.3%***	***8.4%***	**72,077**	***-123.4%***	***NA***
Rs Billion	**Loans**	***YoY***	***QoQ***	**Margins**	***YoY***	***QoQ***	**Credit Cost**	***YoY***	***QoQ***
HDFC Bank	8,163	*24.0%*	*4.5%*	4.40%	*0.10%*	*0.10%*	0.93%	*-0.01%*	*-0.21%*
ICICI Bank	5,816	*13.5%*	*3.1%*	3.36%	*0.12%*	*-0.04%*	2.36%	*-2.82%*	*-0.65%*
Axis Bank	5,012	*14.0%*	*5.5%*	3.43%	*0.10%*	*-0.04%*	1.45%	*-5.08%*	*-1.12%*
Kotak	2,088	*23.0%*	*6.3%*	4.35%	*0.00%*	*0.02%*	0.51%	*-0.21%*	*0.58%*
IndusInd	1,884	*30.0%*	*8.8%*	3.85%	*-0.12%*	*0.02%*	2.69%	*1.76%*	*1.29%*
Yes	2,544	*25.0%*	*4.3%*	3.35%	*-0.05%*	*0.05%*	0.85%	*0.06%*	*-0.05%*
SIB	627	*15.0%*	*5.9%*	2.75%	*0.02%*	*0.09%*	1.34%	*0.25%*	*-0.03%*
J&K	666	*17.0%*	*2.4%*	3.90%	*0.71%*	*-0.01%*	1.64%	*-0.12%*	*0.09%*
Federal	1,136	*23.5%*	*7.6%*	3.15%	*0.04%*	*-0.02%*	0.76%	*-0.86%*	*0.04%*
IDFC First Bank	861	*65.0%*	*-15.4%*	2.08%	*0.58%*	*2.08%*	0.98%	*-0.88%*	*0.15%*
SBI	21,574	*11.5%*	*5.4%*	2.78%	*0.28%*	*0.02%*	1.34%	*-4.47%*	*0.17%*
PNB	4,424	*2.0%*	*1.8%*	2.45%	*0.75%*	*-0.08%*	2.64%	*-16.13%*	*0.10%*
BOI	3,380	*-1.0%*	*2.1%*	2.20%	*0.55%*	*-0.35%*	2.60%	*-5.22%*	*-8.27%*
BOB	4,787	*12.0%*	*6.7%*	2.59%	*0.08%*	*-0.10%*	1.25%	*-4.99%*	*-1.24%*
Union	3,090	*7.0%*	*5.9%*	2.20%	*0.21%*	*-0.03%*	1.89%	*-5.96%*	*-0.33%*
Banks	**75,346**	***13.4%***	***4.7%***	**3.12%**	***0.22%***	***0.11%***	**1.70%**	***-3.15%***	***-0.17%***

Source: Company, PL

Exhibit 4: Margins in Q4FY19E – Steady to slight better margins mainly from mix changes

	Q4FY18	Q3FY19	Q4FY19E	YoY	QoQ
HDFC Bank	4.30%	4.30%	4.40%	*0.10%*	*0.10%*
ICICI Bank	3.24%	3.40%	3.36%	*0.12%*	*-0.04%*
Axis Bank	3.33%	3.47%	3.43%	*0.10%*	*-0.04%*
Kotak	4.35%	4.33%	4.35%	*0.00%*	*0.02%*
IndusInd	3.97%	3.83%	3.85%	*-0.12%*	*0.02%*
Yes	3.40%	3.30%	3.35%	*-0.05%*	*0.05%*
SIB	2.73%	2.66%	2.75%	*0.02%*	*0.09%*
J&K	3.19%	3.91%	3.90%	*0.71%*	*-0.01%*
Federal	3.11%	3.17%	3.15%	*0.04%*	*-0.02%*
IDFC First Bank	1.50%	3.27%	3.30%	*1.80%*	*0.03%*
SBI	2.50%	2.76%	2.78%	*0.28%*	*0.02%*
PNB	1.70%	2.53%	2.45%	*0.75%*	*-0.08%*
BOI	1.65%	2.55%	2.20%	*0.55%*	*-0.35%*
BOB	2.51%	2.69%	2.59%	*0.08%*	*-0.10%*
Union	1.99%	2.23%	2.20%	*0.21%*	*-0.03%*

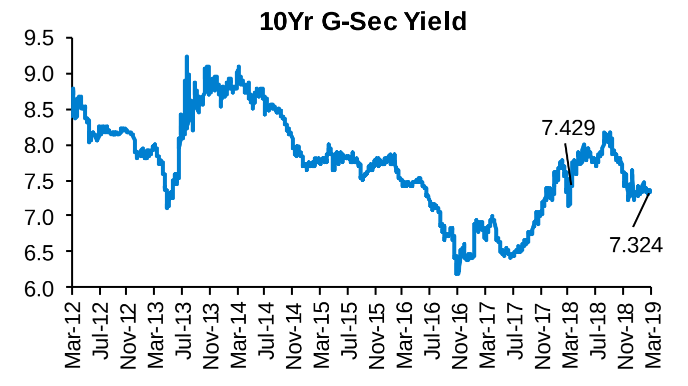
Source: Company, PL

Exhibit 5: Credit cost in Q4FY19E to come off relatively on lower slippages but banks to maintain high PCR

	Q4FY18	Q3FY19	Q4FY19E	YoY	QoQ
HDFC Bank	0.94%	1.13%	0.93%	*-0.01%*	*-0.21%*
ICICI Bank	5.17%	3.01%	2.36%	*-2.82%*	*-0.65%*
Axis Bank	6.53%	2.57%	1.45%	*-5.08%*	*-1.12%*
Kotak	0.72%	-0.07%	0.51%	*-0.21%*	*0.58%*
IndusInd	0.93%	1.40%	2.69%	*1.76%*	*1.29%*
Yes	0.79%	0.90%	0.85%	*0.06%*	*-0.05%*
SIB	1.09%	1.37%	1.34%	*0.25%*	*-0.03%*
J&K	1.76%	1.56%	1.64%	*-0.12%*	*0.09%*
Federal	1.62%	0.72%	0.76%	*-0.86%*	*0.04%*
IDFC First Bank	1.86%	0.84%	0.98%	*-0.88%*	*0.15%*
SBI	5.81%	1.17%	1.34%	*-4.47%*	*0.17%*
PNB	18.77%	2.54%	2.64%	*-16.13%*	*0.10%*
BOI	7.82%	10.87%	2.60%	*-5.22%*	*-8.27%*
BOB	6.24%	2.49%	1.25%	*-4.99%*	*-1.24%*
Union	7.85%	2.22%	1.89%	*-5.96%*	*-0.33%*

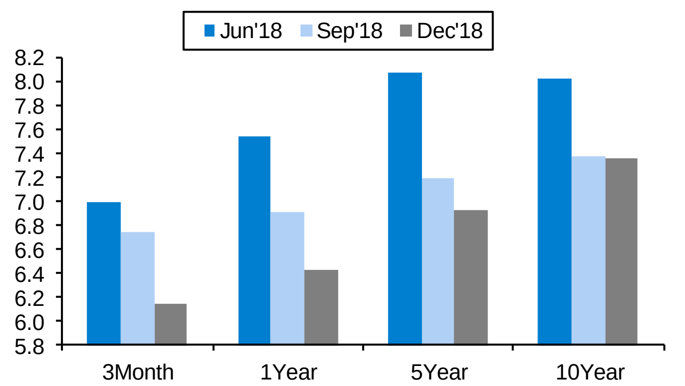
Source: Company, PL

Exhibit 6: Benchmark G-sec yields have been stable



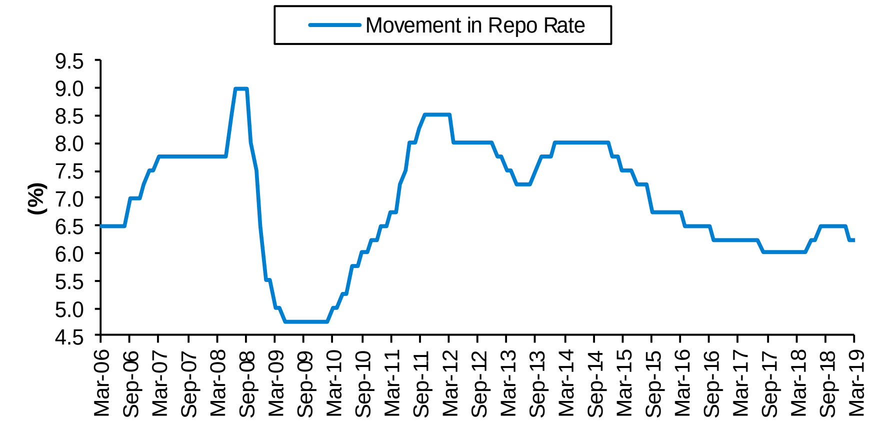
Source: Bloomberg, PL

Exhibit 7: Moderation has been in lower tenure yields



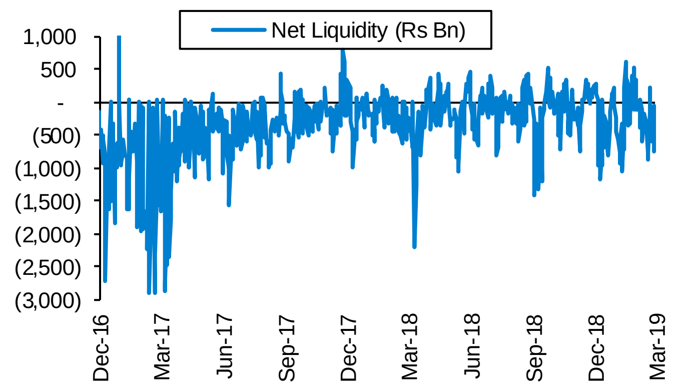
Source: Company, PL

Exhibit 8: RBI has been moving its benchmark rates in lieu of benign inflation and support growth



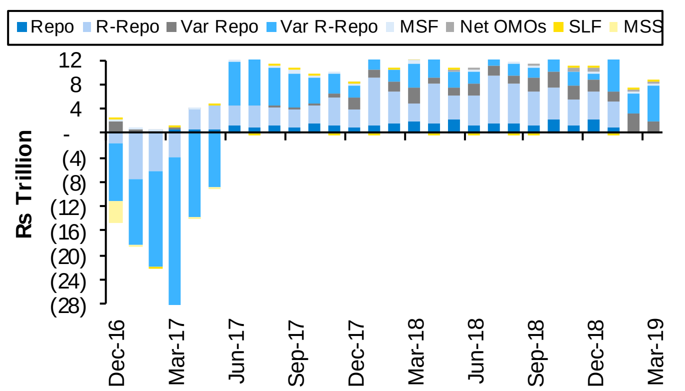
Source: Bloomberg, PL

Exhibit 9: Systemic liquidity supported by RBI intervention...



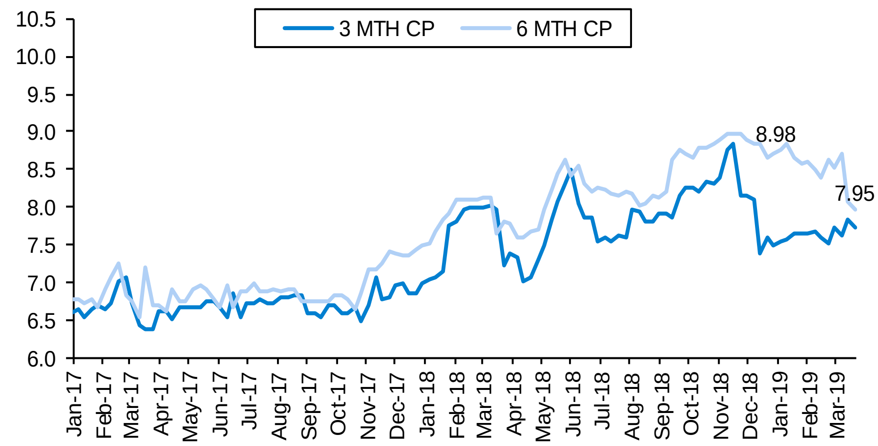
Source: Bloomberg, PL

Exhibit 10: …via OMOs & forex swap



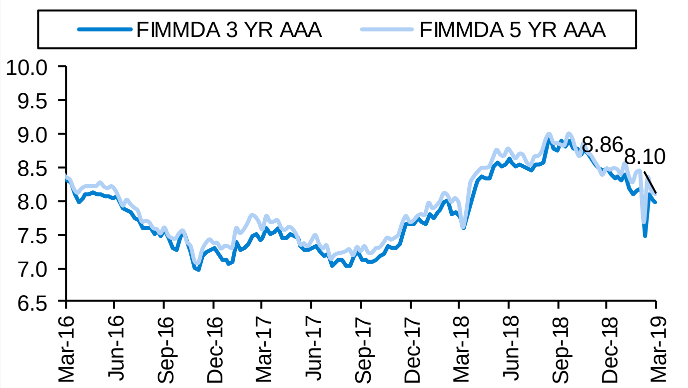
Source: Bloomberg, PL

Exhibit 11: Short term rates softening post liquidity crisis



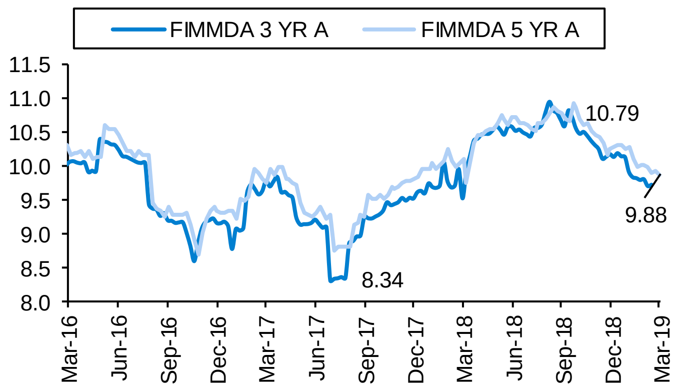
Source: Bloomberg, PL

Exhibit 12: Long term rates similarly sliding for AAA issuers



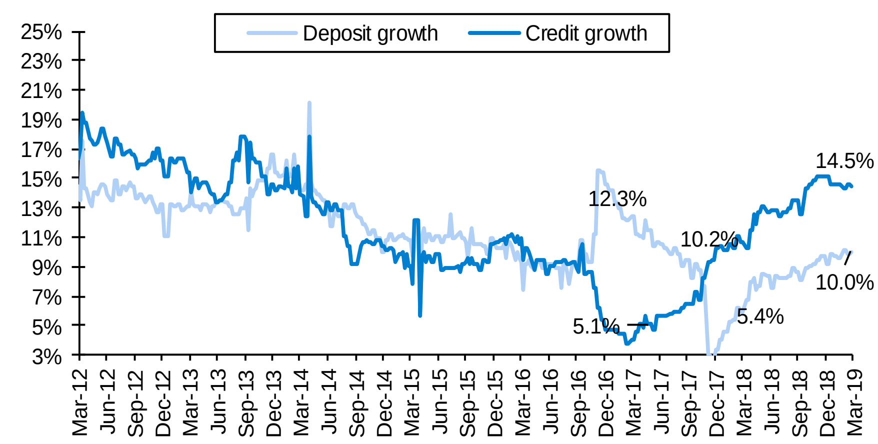
Source: Bloomberg, PL

Exhibit 13: A-rated issuers witnessing bigger drop in rates



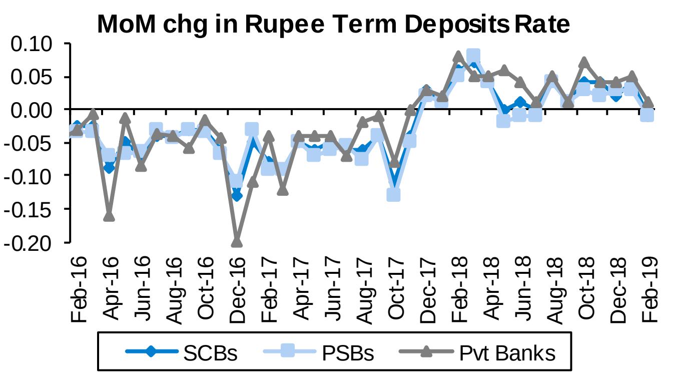
Source: Bloomberg, PL

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



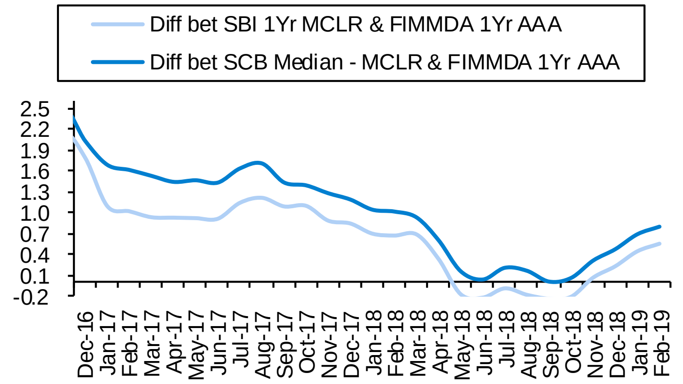
Source: Bloomberg, PL *Note – Data released upto mid Dec'18*

Exhibit 15: Term deposit rates movement has been steady and buckets



Source: Bloomberg, PL

Exhibit 16: Bond market rates have cooled hence expanding gap between MCLR and AAA rated paper



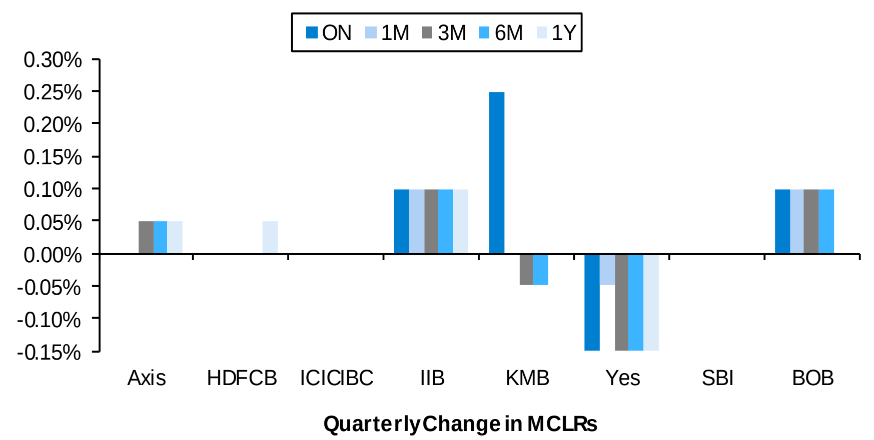
Source: Bloomberg, PL

Exhibit 17: Mixed cuts has been seen by respective banks post RBI's change in stance

Banks	MCLR 1YR			% Change	
	Sept-18	Dec-18	Mar-19	*3Months*	*6Months*
Axis Bank	8.60%	8.70%	8.90%	0.20%	0.30%
HDFC Bank	8.70%	8.85%	8.75%	-0.10%	0.05%
ICICI Bank	8.55%	8.80%	8.80%	0.00%	0.25%
KMB	8.95%	9.00%	9.00%	0.00%	0.05%
IndusInd Bank	9.65%	9.80%	9.90%	0.10%	0.25%
Yes Bank	9.65%	9.85%	9.70%	-0.15%	0.05%
SBI	8.45%	8.55%	8.55%	0.00%	0.10%
Bank of Baroda	8.55%	8.65%	8.65%	0.00%	0.10%
Bank of India	8.60%	8.70%	8.65%	-0.05%	0.05%
Punjab National Bank	8.45%	8.50%	8.45%	-0.05%	0.00%
Canara Bank	8.60%	8.70%	8.70%	0.00%	0.10%
Union Bank	8.55%	8.70%	8.60%	-0.10%	0.05%
Federal	9.20%	9.20%	9.20%	0.00%	0.00%
South Indian Bank	9.35%	9.45%	9.45%	0.00%	0.10%
J&K Bank	8.85%	9.00%	9.00%	0.00%	0.15%

Source: Company, PL

Exhibit 18: Banks have been selective on rate



Source: Company, PL

Exhibit 19: Q4FY19 Result Review (Private Banks)

Company Name		Q4FY19E	Q4FY18	YoY Chg.	Q3FY19	QoQ Chg.	Remark
Axis Bank	NII (Rs mn)	58,389	47,305	23.4	56,037	4.2	Lower credit cost and lowering slippages should drive earnings. NII growth to also accelerate on back of rise in MCLRs and changing loan mix. PPOP may likely moderate sequentially as recovery from NPA is likely to be lower in Q4FY19. Important area to watch will be liabilities growth in both CASA and retail deposits and on BB & below book upgrades/downgrades.
	PPOP (Rs mn)	42,234	36,722	15.0	55,247	(23.6)	
	Provisions (Rs mn)	18,185	71,795	(74.7)	30,545	(40.5)	
	PAT (Rs mn)	15,694	(21,887)	(171.7)	16,809	(6.6)	
	Loans (Rs bn)	5,012	4,397	14.0	4,751	5.5	
	Margin (%)	*3.43*	*3.33*	*10*	*3.47*	*(4)*	
	GNPA (%)	*5.60*	*6.77*	*(117)*	*5.75*	*(15)*	
	Credit Cost (%)	*1.45*	*6.53*	*(508)*	*2.57*	*(112)*	
HDFC Bank	NII (Rs mn)	128,845	106,577	20.9	125,768	2.4	Bank should continue to deliver stable 20% YoY earnings growth on robust loan growth & best-in-peers margins. Fee income would continue to be under pressure. Credit cost and asset quality should see improvement as Agri stress is expected to be lower.
	PPOP (Rs mn)	107,525	88,797	21.1	107,784	(0.2)	
	Provisions (Rs mn)	18,913	15,411	22.7	22,115	(14.5)	
	PAT (Rs mn)	57,724	48,433	19.2	55,859	3.3	
	Loans (Rs bn)	8,163	6,583	24.0	7,810	4.5	
	Margin (%)	*4.40*	*4.30*	*10*	*4.30*	*10*	
	GNPA (%)	*1.27*	*1.30*	*(3)*	*1.38*	*(11)*	
	Credit Cost (%)	*0.93*	*0.94*	*(1)*	*1.13*	*(21)*	
ICICI Bank	NII (Rs mn)	70,782	60,217	17.5	68,753	3.0	Loan growth will continue to match industry growth with slower growth in corporate and lower growth in overseas book while retail continues to grow strong. PPOP looks optically lower on back of gains from ICICI Sec listing but core PPOP to be better. Lowering stress should help lower credit cost and asset quality improvement.
	PPOP (Rs mn)	61,449	75,140	(18.2)	61,464	(0.0)	
	Provisions (Rs mn)	34,241	66,258	(48.3)	42,442	(19.3)	
	PAT (Rs mn)	17,324	10,200	69.8	16,049	7.9	
	Loans (Rs bn)	5,816	5,124	13.5	5,643	3.1	
	Margin (%)	*3.36*	*3.24*	*12*	*3.40*	*(4)*	
	GNPA (%)	*7.61*	*8.84*	*(123)*	*7.75*	*(14)*	
	Credit Cost (%)	*2.36*	*5.17*	*(282)*	*3.01*	*(65)*	
IndusInd Bank	NII (Rs mn)	24,287	20,076	21.0	22,881	6.1	We see impact on earnings on back of accelerated provisioning on IL&FS exposure as we build in Rs7.5bn of provisions. Operationally the bank will continue to deliver strong performance on loan growth, margins and PPOP with a continued 25% YoY growth. Loan growth continues to be robust at 30%.
	PPOP (Rs mn)	21,315	17,694	20.5	21,170	0.7	
	Provisions (Rs mn)	12,660	3,356	277.3	6,067	108.7	
	PAT (Rs mn)	6,094	9,531	(36.1)	9,850	(38.1)	
	Loans (Rs bn)	1,884	1,450	30.0	1,732	8.8	
	Margin (%)	*3.85*	*3.97*	*(12)*	*3.83*	*2*	
	GNPA (%)	*2.18*	*1.17*	*101*	*1.13*	*105*	
	Credit Cost (%)	*2.69*	*0.93*	*176*	*1.40*	*129*	
Yes Bank	NII (Rs mn)	28,047	21,542	30.2	26,664	5.2	New MD at helm should guide investors path ahead for the bank and especially on capital raising, asset quality and PCR. We expect loan growth of 25% YoY as base quarter remains high, while NII to be better but fee/other income to be much lower. We are also building higher credit cost as bank will look to enhance its PCR ratio.
	PPOP (Rs mn)	23,253	21,354	8.9	19,904	16.8	
	Provisions (Rs mn)	5,399	3,996	35.1	5,502	(1.9)	
	PAT (Rs mn)	11,478	11,794	(2.7)	10,019	14.6	
	Loans (Rs bn)	2,544	2,035	25.0	2,439	4.3	
	Margin (%)	*3.35*	*3.40*	*(5)*	*3.30*	*5*	
	GNPA (%)	*2.11*	*1.28*	*83*	*2.10*	*2*	
	Credit Cost (%)	*0.85*	*0.79*	*6*	*0.90*	*(5)*	
Kotak Mahindra Bank	NII (Rs mn)	30,799	25,798	19.4	29,391	4.8	Business performance should continue to be strong with loan growth of 24% YoY, steady margins, steady asset quality and reasonable credit cost. Bank has been leading CASA accretion from the top and hence we keep a watch. Capital market subsidiaries should be better off but financial savings driven should see small weaknesses.
	PPOP (Rs mn)	23,891	20,180	18.4	19,384	23.2	
	Provisions (Rs mn)	2,683	3,069	(12.6)	(323)	(930.7)	
	PAT (Rs mn)	14,013	11,241	24.7	12,909	8.6	
	Loans (Rs bn)	2,088	1,697	23.0	1,964	6.3	
	Margin (%)	*4.35*	*4.35*	*-*	*4.33*	*2*	
	GNPA (%)	*1.98*	*2.22*	*(24)*	*2.07*	*(9)*	
	Credit Cost (%)	*0.51*	*0.72*	*(21)*	*(0.07)*	*58*	

Company Name		Q4FY19E	Q4FY18	YoY Chg.	Q3FY19	QoQ Chg.	Remark
IDFC First Bank	NII (Rs mn)	11,320	4,532	*149.8*	11,452	*(1.2)*	IDFC First Bank should report small improvement in NII but start seeing much higher opex cost on branch additions and product marketing. Although early in stage but liabilities build-up will be a key area to watch.
	PPOP (Rs mn)	5,126	564	*809.1*	3,080	*66.5*	
	Provisions (Rs mn)	2,115	2,425	*(12.8)*	2,125	*(0.5)*	
	PAT (Rs mn)	3,086	419	*635.9*	10,613	*(70.9)*	
	Loans (Rs bn)	861	522	*65.0*	1,017	*(15.4)*	
	Margin (%)	*2.08*	*1.50*	*58*	-	*208*	
	GNPA (%)	*1.28*	*3.35*	*(207)*	*1.97*	*(69)*	
	Credit Cost (%)	*0.98*	*1.86*	*(88)*	*0.84*	*15*	
Federal	NII (Rs mn)	11,134	9,332	*19.3*	10,773	*3.3*	FB will continue to have strong PPOP on back of steady NII growth led by steady margins and a continued strong loan growth of 25%. Agri/SME slippages to remain on elevated run rate but within the bank's guidance. We also watch any lagged impact from Kerala floods on asset quality.
	PPOP (Rs mn)	7,369	5,886	*25.2*	7,078	*4.1*	
	Provisions (Rs mn)	2,152	3,715	(42.1)	1,901	13.2	
	PAT (Rs mn)	3,414	1,450	*135.5*	3,336	*2.3*	
	Loans (Rs bn)	1,136	920	*23.5*	1,056	*7.6*	
	Margin (%)	*3.15*	*3.11*	*4*	*3.17*	*(2)*	
	GNPA (%)	*3.02*	*3*	*2*	*3.14*	*(12)*	
	Credit Cost (%)	*0.76*	*1.62*	*(86)*	*0.72*	*4*	
J&K Bank	NII (Rs mn)	8,378	6,558	*27.8*	8,816	*(5.0)*	Loan growth expected to be at 17% YoY but J&K growth book will be strong. Other income & earnings will be benefitted from insurance stake sale. Asset quality should see improvement on back of recovery/write-offs and bank will continue to build PCR towards 70%. We watch movement in restructured book as the moratorium based performance ends.
	PPOP (Rs mn)	4,627	2,665	*73.7*	4,249	*8.9*	
	Provisions (Rs mn)	2,731	2,511	*8.7*	2,528	*8.0*	
	PAT (Rs mn)	1,635	284	*475.7*	1,038	*57.6*	
	Loans (Rs bn)	666	569	*17.0*	650	*2.4*	
	Margin (%)	*3.90*	*3.19*	*71*	*3.91*	*(1)*	
	GNPA (%)	*9.04*	*9.96*	*(92)*	*9.94*	*(90)*	
	Credit Cost (%)	*1.64*	*1.76*	*(12)*	*1.56*	*9*	
South Indian Bank	NII (Rs mn)	5,514	4,922	*12.0*	5,196	*6.1*	We expect loan growth to be healthy at 15% YoY but NII will be slow on low treasury yields. PPOP is likely to be impacted from continued wage & gratuity provision and low other income. Credit cost though should come off but PCR continues to be low and we expect bank will gradually improve it.
	PPOP (Rs mn)	3,422	3,109	*10.1*	3,320	*3.1*	
	Provisions (Rs mn)	2,099	1,486	41.2	2,031	3.3	
	PAT (Rs mn)	919	1,141	*(19.5)*	838	*9.6*	
	Loans (Rs bn)	627	546	*15.0*	593	*5.9*	
	Margin (%)	*2.75*	*2.73*	*2*	*2.66*	*9*	
	GNPA (%)	*4.54*	*3.59*	*95*	*4.88*	*(34)*	
	Credit Cost (%)	*1.34*	*1.09*	*25*	*1.37*	*(3)*	

Source: Company, PL

Exhibit 20: Q4FY19 Result Review (PSU Banks)

Company Name		Q4FY19E	Q4FY18	YoY Chg.	Q3FY19	QoQ Chg.	Remark
Bank of Baroda	NII (Rs mn)	45,043	40,023	*12.5*	47,432	*(5.0)*	BOB earnings should continue to see good recovery on lowered provisions, while higher write-offs to result in a decline in GNPA. PPOP growth should be lower on back of lower other income (treasury) while NII should see slower growth with small decline in margins.
	PPOP (Rs mn)	29,140	26,655	*9.3*	35,385	*(17.6)*	
	Provisions (Rs mn)	15,006	66,724	*(77.5)*	27,942	*(46.3)*	
	PAT (Rs mn)	10,206	(31,023)	*(132.9)*	4,712	*116.6*	
	Loans (Rs bn)	4,787	4,274	*12.0*	4,487	*6.7*	
	Margin (%)	*2.59*	*2.51*	*8*	*2.69*	*(10)*	
	GNPA (%)	*10.24*	*12.26*	*(202)*	*11.01*	*(77)*	
	Credit Cost (%)	*1.25*	*6.24*	*(499)*	*2.49*	*(124)*	
Bank of India	NII (Rs mn)	31,272	25,639	*22.0*	33,322	*(6.2)*	High and continuous capital infusion by Govt would help BOI improve its operations and improve PCR further, while we expect asset quality improve on back of relatively lower slippages and recovery/w.offs. Loan growth is likely to see de-growth YoY but improve sequentially as bank have come of PCA in Q4FY19.
	PPOP (Rs mn)	27,184	11,721	*131.9*	22,728	*19.6*	
	Provisions (Rs mn)	21,979	66,741	(67.1)	90,007	(75.6)	
	PAT (Rs mn)	2,096	(39,693)	*(105.3)*	(47,376)	*(104.4)*	
	Loans (Rs bn)	3,380	3,414	*(1.0)*	3,311	*2.1*	
	Margin (%)	*2.20*	*1.65*	*55*	*2.55*	*(35)*	
	GNPA (%)	*15.91*	*16.58*	*(67)*	*16.31*	*(40)*	
	Credit Cost (%)	*2.60*	*7.82*	*(522)*	*10.87*	*(827)*	
Punjab National Bank	NII (Rs mn)	40,182	30,634	*31.2*	42,901	*(6.3)*	Key operating metrics to see improvement mainly on back of lower base in Q4FY18 especially in NII and stake sale in PNB housing. Bank has been showcasing strong recovery/upgrades trends for last few quarters which should continue, while recent capital infusion will help provisioning and PCR enhancement.
	PPOP (Rs mn)	43,384	(4,474)	*(1,069.7)*	30,999	*40.0*	
	Provisions (Rs mn)	29,179	203,531	*(85.7)*	27,538	*6.0*	
	PAT (Rs mn)	10,623	(134,169)	*(107.9)*	2,465	*330.9*	
	Loans (Rs bn)	4,424	4,337	*2.0*	4,344	*1.8*	
	Margin (%)	*2.45*	*1.70*	*75*	*2.53*	*(8)*	
	GNPA (%)	*15.07*	*18.38*	*(331)*	*16.33*	*(126)*	
	Credit Cost (%)	*2.64*	*18.77*	*(1,613)*	*2.54*	*10*	
State Bank of India	NII (Rs mn)	233,085	199,743	*16.7*	226,910	*2.7*	We expect loan growth at steady 11-12% YoY with largely steady NIMs leading to 16-17% NII growth. Asset quality should improve as we expect very similar slippages as seen in Q3FY19 but do not see recent announced resolutions factoring in this quarter. We expect bank will continue to enhance PCR.
	PPOP (Rs mn)	136,287	158,832	*(14.2)*	126,250	*8.0*	
	Provisions (Rs mn)	72,235	280,961	(74.3)	60,062	20.3	
	PAT (Rs mn)	50,937	(77,182)	*(166.0)*	39,548	*28.8*	
	Loans (Rs bn)	21,574	19,349	*11.5*	20,478	*5.4*	
	Margin (%)	*2.78*	*2.50*	*28*	*2.76*	*2*	
	GNPA (%)	*7.92*	*10.91*	*(299)*	*8.71*	*(79)*	
	Credit Cost (%)	*1.34*	*5.81*	*(447)*	*1.17*	*17*	
Union Bank of India	NII (Rs mn)	25,508	21,931	*16.3*	24,942	*2.3*	Loan growth should see improvement of 6-7% YoY leading to better NII (also Q4FY18 was low base). PPOP to see decline on lower treasury and lower benefit on pension liabilities (staff cost). Asset quality to see improvement on lower slippages from corporate but Agri/MSME stress should remain evident.
	PPOP (Rs mn)	16,529	18,894	*(12.5)*	17,504	*(5.6)*	
	Provisions (Rs mn)	14,581	56,679	*(74.3)*	16,171	*(9.8)*	
	PAT (Rs mn)	(1,785)	(25,834)	*NA*	1,532	*NA*	
	Loans (Rs bn)	3,090	2,888	*7.0*	2,919	*5.9*	
	Margin (%)	*2.20*	*1.99*	*21*	*2.23*	*(3)*	
	GNPA (%)	*14.92*	*15.73*	*(81)*	*15.66*	*(74)*	
	Credit Cost (%)	*1.89*	*7.85*	*(596)*	*2.22*	*(33)*	

Source: Company, PL

Capital Goods

Jan-Mar'19 Earnings Preview

April 5, 2019

Top Picks

Larsen & Toubro

Kalpataru Power Transmission

We expect execution momentum to continue over the next 2-3 quarters despite upcoming general elections, however order inflow, which remained buoyant (+20% YoY in 9MFY19), could witness some slowdown in 4QFY19. We expect order inflow to pick-up from 2QFY20 onwards post general election. We remain positive on the sector due to robust order back-log & order pipeline, better execution focus and reasonable valuations.

The optimism amongst corporates continue to be high and expect awarding activity/momentum to prevail. Most corporates continue to be confident from medium-term growth prospects, given the various initiatives taken by the government. For 9MFY19, companies under our coverage witnessed robust execution (except GE T&D) with a revenue growth of ~18% YoY. Generally, the execution is highest in 4Q (35-40%) due to year end deadlines/targets. With an improvement in liquidity situation plus upcoming elections, we expect the trajectory to continue in 4QFY19 and ahead.

Exhibit 1: Pick up in execution led to higher revenue growth (Rs m)

	9MFY18	9MFY19	YoY gr.
ABB India (CY)	58,655	61,707	5.2%
Apar Industries	41,425	54,993	32.8%
Bharat Electronics	67,005	82,000	22.4%
BHEL	186,735	200,518	7.4%
Cummins India	38,493	43,186	12.2%
Engineers India	12,779	18,317	43.3%
KEC International	64,286	71,594	11.4%
Kalpataru Power Transmission	38,098	46,237	21.4%
Larsen & Toubro	791,840	960,732	21.3%
Siemens (SY)	82,221	98,193	19.4%
Thermax	30,219	38,995	29.0%
Voltamp Transformers	4,195	5,700	35.9%
GE T&D	35,178	33,235	-5.5%
Triveni Turbines	5,070	6,003	18.4%
Total	**1,456,197**	**1,721,410**	**18.2%**

Source: PL

Commentary on end markets like Power T&D led by SEB/Urban Transport/Renewable/Railways/Defence/Water/O&G continues to be positive. Government recently approved power projects worth Rs310bn and announced several initiatives to revive 40GW of stressed power assets. Corporates are relatively positive as compared to the past, in terms of enquiry levels and project pipelines. Commentary on international markets continues to be a mixed bag, while investment environment may improve once crude oil stabilizes. Order inflow/enquiries from South East ASIA/Europe/USA /Africa continue to look up.

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Exhibit 2: Overview of stressed assets

Total No. of projects (Nos.)	34
Total Stressed Capacity (MW)	40,130
Commissioned Capacity (MW)	24,405
Under Construction Capacity (MW)	15,725
PPAs tied up (MW)	18,516
PPAs not tied up (MW)	21,614
Linkage available (MW)	29,190
Linkage required	10,940
Resolved project's (08 nos.) capacity (MW)	8,820

Source: Power Ministry, PL

T&D EPC companies to benefit from tendering capex under Green Corridor: The domestic transmission sector remained subdued in the last two years due to PGCIL's lower capex. However, activities have picked up in the last six months due to increased tendering under Green Corridor. Overall, the targeted tendering stood at Rs100-120bn, out of which Rs50-60bn has already been awarded. Remaining targets are expected to be tendered out by end of 1QFY20. Secondly, states like Jharkhand, Bihar, UP, West Bengal, Southern States etc. are likely to announce tenders worth Rs50-70bn within next six months. Likewise, modernization/upgradation of existing transmission lines from lower KV range to higher KV range will determine the future ordering activity.

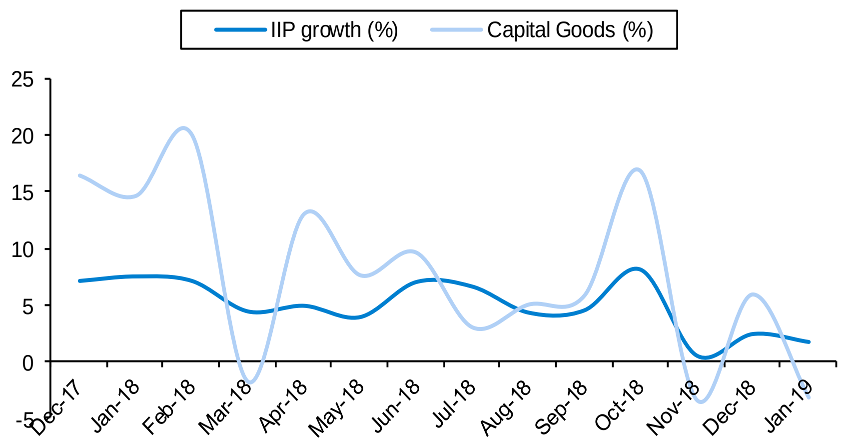
Capacity utilization raised to 74.8% in Sep 2018 from 73.4% in June 2018. This was the highest utilization rate reported by RBI's OBICUS in four years. While new orders received by companies in FY19 are higher - 14% YoY at Rs9.4trn, 4QFY19 are at lowest level in the last five quarters. This indicates front-ending of orders (33% in 1QFY19) in the first 9Months of the year due to general elections ahead. We expect pick-up in new projects from 2QFY20 onwards post general elections.

Exhibit 3: Quarterly Capex Aggregates

Rs trillion	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
New projects	1.7	0.9	1.3	4.3	3.1	2.0	2.3	2.0
Completed projects	1.1	0.5	1.2	1.7	1.3	1.0	1.3	1.9
Stalled projects	0.9	0.2	0.9	4.0	0.4	0.5	3.2	2.7
Revived projects	0.3	0.1	0.2	0.3	0.3	0.5	0.9	0.1
Implementation stalled projects	NA	NA	0.7	1.5	0.1	0.6	0.3	1.5

Source: CMIE, PL

Exhibit 4: IIP Trends



Source: CMIE, PL

Exhibit 5: Q4FY19 Result Preview

Company Name		Q4FY19E	Q4FY18	YoY gr. (%)	Q3FY19	QoQ gr. (%)	Remark
ABB	Sales	17,318	25,255	-31.4	19,663	(11.9)	The numbers are not comparable due to demerger of the Power grid business. We expect steady growth in residual business of ABB. The residual business has higher service content which could result into higher margin going ahead.
	EBITDA	1,250	1,890	(33.8)	2,154	(42.0)	
	Margin (%)	*7.2*	*7.5*		*11.0*		
	Adj. PAT	1,157	1,025	12.9	1,286	(10.0)	
Apar Industries	Sales	19,337	17,675	9.4	21,191	(8.7)	Revenue is expected to grow at 9% mainly led by Conductor segment (45% of revenue). EBITDA margins are expected to improve sequentially on account of rising contribution of HEC segment.
	EBITDA	1,257	1,259	(0.1)	1,144	9.9	
	Margin (%)	*6.5*	*7.1*		*5.4*		
	Adj. PAT	430	400	7.4	347	23.8	
Bharat Electronics	Sales	36,094	36,085	0.0	27,165	32.9	Expect flat revenue growth which is in line with 12-14% full year growth guidance. Margins could come lower than 9MFY19 average margin due to pre-ponement of FERV claim in 3QFY19.
	EBITDA	6,447	7,962	(19.0)	7,681	(16.1)	
	Margin (%)	*17.9*	*22.1*		*28.3*		
	Adj. PAT	4,469	5,587	(20.0)	5,076	(12.0)	
BHEL	Sales	118,264	101,470	16.6	73,364	61.2	Expect revenue growth of 17% YoY mainly led by improved executable order book. Improved execution should help margins. Key monitorable would be debtors days and commentary on order inflow.
	EBITDA	10,022	12,316	(18.6)	2,187	358.2	
	Margin (%)	*8.5*	*12.1*		*3.0*		
	Adj. PAT	6,334	4,572	38.6	1,920	230.0	
Engineers India	Sales	5,833	5,097	14.4	5,770	1.1	Expect revenue growth of 14%YoY mainly led by dip in margin led by growth in Lump-sum Turnkey Project segment. Margins improvement due to lower base and provision during the last quarter.
	EBITDA	818	575	42.3	949	(13.8)	
	Margin (%)	*14.0*	*11.3*		*16.4*		
	Adj. PAT	973	689	41.2	908	7.2	
GE T&D India	Sales	10,387	8,139	27.6	11,678	(11.1)	Expect revenue growth of 28% YoY mainly due to lower base in 4QFY18. Margin pressure to be seen on QoQ basis due to near completion execution of HVDC order.
	EBITDA	834	119	601.8	1,126	(26.0)	
	Margin (%)	*8.0*	*1.5*		*9.6*		
	Adj. PAT	308	278	10.9	531	(41.9)	
KEC International	Sales	41,009	36,642	11.9	26,466	54.9	key monitorable would be guidance on interest cost/sale. Expect a steady Q4 on the back of a strong Order Book (up 30% yoy). Margins likely to be stable YoY as margin in new business improves.
	EBITDA	4,215	3,699	14.0	2,814	49.8	
	Margin (%)	*10.3*	*10.1*		*10.6*		
	Adj. PAT	2,237	1,963	14.0	1,109	101.7	
Cummins India	Sales	14,106	12,332	14.4	15,038	(6.2)	Expecting ~16% growth in domestic market and ~8% growth in exports . Margins likely to improve YoY due to pick up in both domestic and exports.
	EBITDA	2,451	1,731	41.7	2,267	8.1	
	Margin (%)	*17.4*	*14.0*		*15.1*		
	Adj. PAT	2,076	1,612	28.8	1,871	11.0	
Kalpataru Power Transmission	Sales	22,153	19,314	14.7	17,247	28.4	Expect revenue growth of 15% on the back of robust order backlog and improved execution in domestic/international markets. Margins likley to improve due to better margin in new business segments.
	EBITDA	2,405	2,092	15.0	1,839	30.8	
	Margin (%)	*10.9*	*10.8*		*10.7*		
	Adj. PAT	1,290	1,048	23.1	920	40.2	
Larsen & Toubro	Sales	413,245	406,781	1.6	357,089	15.7	Expect healthy execution led by E&C and Services business. Expect company to achieve full year guidance of 25bps YoY margin expansion. Key monitorable would be FY20 guidance and commentary.
	EBITDA	46,135	53,905	(14.4)	39,963	15.4	
	Margin (%)	*11.2*	*13.3*		*11.2*		
	Adj. PAT	26,605	31,675	(16.0)	20,416	30.3	
Power Grid Corporation of India	Sales	80,848	78,113	3.5	84,712	(4.6)	Expectation of Rs100 bn during the quarter, taking FY19 capialization of Rs250 bn.
	EBITDA	72,775	65,241	11.5	75,694	(3.9)	
	Margin (%)	*90.0*	*83.5*		*89.4*		
	Adj. PAT	29,488	20,047	47.1	23,312	26.5	
Siemens	Sales	36,946	32,834	12.5	28,071	31.6	Base Business orders will continue to grow leading to an 13% increase in Revenues. Expect 90bps improvement in margins due to operating efficiencies. Public spending to continue to drive capex.
	EBITDA	3,965	3,228	22.8	3,065	29.4	
	Margin (%)	*10.7*	*9.8*		*10.9*		
	Adj. PAT	2,843	2,197	29.4	2,280	24.7	

Company Name		Q4FY19E	Q4FY18	YoY gr. (%)	Q3FY19	QoQ gr. (%)	Remark
Thermax	Sales	16,607	14,430	*15.1*	14,366	*15.6*	Expect execution to ramp up and margins to improve. TMX will continue to see positive traction in sectors like Fertilizer, Steel, O&G and Cement. Key monitorable would be subsidiary performance and outlook.
	EBITDA	1,367	1,382	*(1.0)*	1,073	*27.4*	
	Margin (%)	*8.2*	*9.6*		*7.5*		
	Adj. PAT	877	757	*15.8*	750	*16.8*	
Triveni Turbine	Sales	2,530	2,441	*3.6*	2,113	*19.7*	Expect revenue growth of 3.6% YoY mainly led by growth in international geographies. Key monitorables would be performance GE Triveni JV.
	EBITDA	520	594	*(12.6)*	359	*44.8*	
	Margin (%)	20.5	24.3		17.0		
	Adj. PAT	348	354	*(1.6)*	228	*52.5*	
Voltamp Transformers	Sales	2,296	2,196	*4.6*	2,152	*6.7*	Expect revenue growth of 5% on higher base. Steady demand from the industrial segment, however solar continues to be slow. Pricing scenario continues to be competitive, hence flat margin on QoQ.
	EBITDA	268	290	*(7.7)*	241	*11.0*	
	Margin (%)	*11.7*	*13.2*		*11.2*		
	Adj. PAT	256	201	*27.5*	222	*15.3*	

Source: Company, PL

Exhibit 6: 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
ABB	Hold	1,378	1,320	60.9	66.9	77.0	88.9	4.1	4.6	5.5	6.8	4.2	5.1	6.2	7.7	19.8	24.1	29.5	36.2	12.2	13.4	15.2	17.8	69.5	57.1	46.7	38.1
Apar Industries	Acc	681	762	58.2	74.3	81.1	88.9	4.1	4.6	5.4	6.1	1.4	1.4	1.8	2.2	37.8	35.4	46.0	56.4	13.5	11.7	13.9	15.4	18.0	19.3	14.8	12.1
Bharat Electronics	BUY	97	112	103.2	118.1	132.1	142.9	20.0	25.8	27.1	28.6	14.0	16.9	17.5	18.2	5.7	6.9	7.2	7.5	18.3	20.6	19.2	18.1	16.9	13.9	13.5	13.0
BHEL	Reduce	73	78	288.1	318.8	354.8	378.5	19.3	17.9	25.6	29.6	8.1	12.1	17.0	19.4	2.2	3.5	4.9	5.6	2.5	3.8	5.4	6.1	33.1	20.9	14.9	13.0
Engineers India	BUY	120	136	18.2	24.2	27.0	31.7	4.3	3.5	3.9	4.8	3.8	3.7	4.0	4.8	6.1	5.9	6.4	7.6	14.8	15.6	16.8	20.5	19.7	20.3	18.8	15.8
GE T&D India	Reduce	278	278	43.3	43.6	47.5	52.9	2.6	4.3	4.7	5.2	2.1	2.5	2.5	2.8	8.2	9.7	9.7	11.1	18.8	19.6	17.2	17.3	34.1	28.5	28.5	25.0
KEC International	BUY	290	400	100.6	112.6	129.0	145.2	10.1	11.7	13.2	14.6	4.6	5.2	5.9	7.0	17.9	20.1	22.9	27.0	25.7	23.3	22.1	21.7	16.2	14.4	12.6	10.7
Cummins India	Acc	715	867	50.8	57.3	62.8	69.3	7.3	9.0	10.0	11.1	7.1	7.6	8.5	9.2	25.6	27.4	30.6	33.3	18.3	18.5	19.3	19.7	28.0	26.1	23.4	21.4
Kalpataru Power Transmission	BUY	460	547	57.4	68.4	78.3	91.9	6.3	7.5	8.7	10.2	3.2	3.9	4.5	5.5	21.0	25.6	29.5	35.6	12.3	13.4	13.6	14.5	21.9	17.9	15.6	12.9
Larsen & Toubro	BUY	1,374	1,728	1196.8	1374.0	1564.3	1769.1	135.7	163.8	188.9	212.3	73.7	87.9	105.0	120.8	52.6	62.7	74.9	86.2	13.9	15.0	16.2	16.9	26.1	21.9	18.3	15.9
Power Grid Corporation of India	BUY	196	247	297.5	329.7	370.4	411.1	259.4	287.5	323.0	358.5	82.4	90.4	103.7	116.9	15.7	17.3	19.8	22.3	15.8	15.5	15.6	15.4	12.5	11.4	9.9	8.8
Siemens	Acc	1,147	1,146	128.0	142.1	160.7	178.5	13.3	14.9	17.3	19.7	9.0	10.0	11.7	13.3	25.3	28.0	32.7	37.3	11.3	11.5	12.5	13.0	45.3	41.0	35.0	30.8
Thermax	Acc	960	1,164	44.6	55.6	61.3	69.4	4.0	4.2	5.4	6.5	2.3	2.9	3.7	4.4	20.5	25.4	32.6	38.8	8.8	10.2	12.2	13.3	46.8	37.8	29.5	24.8
Triveni Turbine	BUY	111	132	7.5	8.5	10.0	11.5	1.6	1.6	2.2	2.5	1.0	1.1	1.4	1.7	2.9	3.3	4.5	5.3	22.4	24.5	31.6	30.9	38.1	33.8	24.7	21.0
Voltamp Transformers	BUY	1,125	1,380	6.4	8.0	8.9	9.7	0.7	0.9	0.9	1.0	0.7	0.8	0.9	0.9	72.6	77.4	84.8	92.0	12.4	12.0	12.0	11.9	15.5	14.5	13.3	12.2

Source: Company, PL

Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

April 5, 2019

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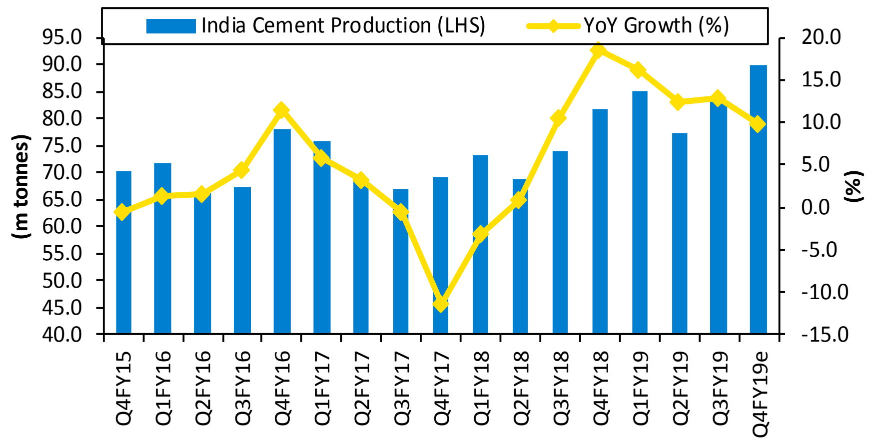
Cement

Jan-Mar'19 Earnings Preview

We expect EBITDA of our coverage universe to grow by 14.6% YoY on the back of bottomed out earnings in the base year. Our coverage universe volume is expected to grow at 11.8% YoY largely due to the increased demand ahead of Central Govt. Elections. We continue to like **ACC and Heidelberg Cement (HEIM)** basis their attractive valuations and strong earnings outlook.

Based on the DIPP data, cement production grew by 9.5% YoY in Jan-Feb'19. The growth was led by strong demand from Government sponsored infra and affordable housing sector. However, retail demand remained subdued due to weak sentiments and sluggish private spending.

Exhibit 1: All India Cement Production



Source: Economic Advisor to Ministry of Commerce & Industry

All India cement prices grew 1.6%/Rs6 per bag QoQ (+2%/Rs5 per bag YoY). During Feb19, South India witnessed highest price hike followed by marginal increase in West (specifically Maharashtra) region. Except for some pockets in South, the prices had softened across markets in Mar19.

- **North – Muted Prices:** Efforts to hike prices by Rs5/bag failed to reap any benefit in the region due to weak demand. Prices in Jaipur/Delhi remained unchanged QoQ. Prices in Punjab and Haryana dipped by Rs5/bag in a month. Region's average is down by Rs1/bag QoQ.

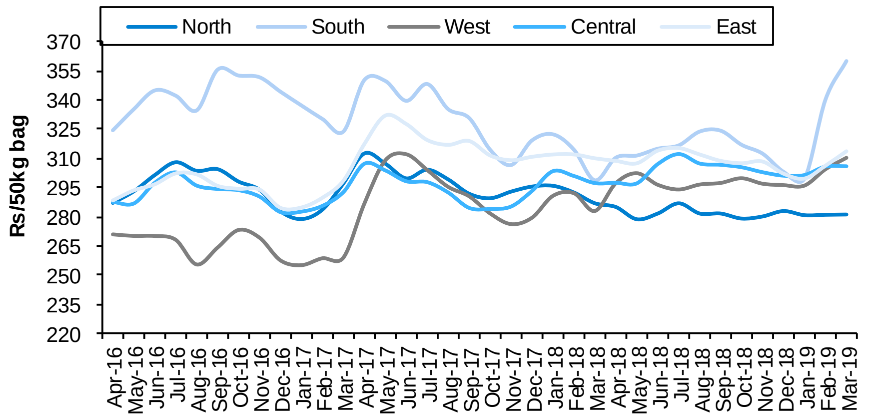
- **Central – High base and slow pick-up hit the prices:** Regions average prices rose by Rs3/bag QoQ. Prices in Central UP/MP fell by Rs4/bag QoQ due to softer demand and tight liquidity. Prices in rest of UP were up by Rs6-8/bag QoQ.

- **South – Strongest region:** After a long spell of weakness in prices, during February the South region witnessed a sharp increase of Rs80/Rs60/Rs80/ Rs50 in Hyderabad/Chennai/Bengaluru/Trivandrum respectively. However due to intense competition, prices have softened by Rs10/Rs15/Rs10/Rs25 in March. Region's average prices rose by Rs22/bag QoQ.

- **West – Maharashtra prices rebounds; Gujarat remains weak:** Prices in Gujarat fell by Rs20/bag in the month due to sharp fall in demand and increase in supplies from Ultratech owned Binani plant. Prices in Mumbai rose by Rs25/bag in February however, reversed back by Rs10 in March due to poor demand. Prices in rest of Maharashtra held the ground with an increase of Rs10-15/bag QoQ on the back of high prices in South.

- **East – Strong on demand but prices remain flat:** Price in Bihar/Odisha/WB/Chhattisgarh fell by Rs5/Rs5/Rs10/Rs5 QoQ due to intense competition and restriction on prices by Chhattisgarh Govt. Average prices in Eastern region remained flat QoQ despite being the best performing region on demand front.

Exhibit 2: Region-wise prices



Source: Company, PL

Outlook

Among large caps, we continue to be positive on ACC due to its Pan-India presence with a better regional mix and strong cost control. Backed by quality operations and attractive valuations, stock trades at EV/t of US$105 of CY20e, significantly lower than US$152 of UTCEM. We maintain BUY rating on the stock with TP of Rs1,735, EV/EBITDA of 13x CY20e.

We prefer HeidelbergCement (HEIM) due to positive demand outlook in Central region basis strong government spending on rural and affordable housing/infrastructure sector and better sentiments compared to other regions. Overall, led by strong outlook on Central region, efficiency improvements through debottlenecking, quality operations and attractive valuations, we have BUY rating on the stock with TP of Rs214, EV/EBITDA of 10x FY21e.

Exhibit 3: Q4FY19 Result Preview

Company Name		Q4FY19E	Q4FY18	YoY gr. (%)	Q3FY19	QoQ gr. (%)	Remark
ACC	Sales	38,258	35,570	7.6	37,886	1.0	Volume is expected to grow 4.5% YoY at 7.4m tonnes (t). Realisations are expected to improve by 3%/Rs146 YoY (+1.9%/Rs98/t QoQ) at Rs5,150/t. Due to lower input costs and better realisations, EBITDA/t is expected to expand 12.2%/Rs73 YoY at Rs670.
	EBITDA	4,975	4,243	17.3	4,038	23.2	
	Margin (%)	*13.0*	*11.9*		*10.7*		
	Adj. PAT	3,120	2,504	24.6	2,471	26.3	
	Volume (mn te)	7.4	7.1	4.5	7.5	-0.9	
	Net Realisations (Rs/te)	5,149	5,003	2.9	5,051	1.9	
	EBITDA (Rs/te)	670	597	12.2	538	24.4	
Ambuja Cement	Sales	29,545	27,630	6.9	27,650	6.9	Volume is expected to grow 4% YoY at 6.5m tonnes. Realisations are expected to expand by 2.8%/Rs125 YoY (+1.2%/Rs52/t QoQ) at Rs4,563/t. Due to higher realisations, EBITDA/t is expected to increase 7.8%/Rs51 YoY to Rs705.
	EBITDA	4,567	4,075	12.1	3,056	49.5	
	Margin (%)	*15.5*	*14.7*		*11.1*		
	Adj. PAT	3,120	2,718	14.8	2,415	29.2	
	Volume (mn te)	6.5	6.2	4.0	6.1	5.6	
	Net Realisations (Rs/te)	4,563	4,438	2.8	4,511	1.2	
	EBITDA (Rs/te)	705	655	7.8	498	41.5	
Heidelberg Cement	Sales	5,634	5,254	7.2	5,584	0.9	Volume is expected to grow 2.4% YoY at 1.3m tonnes. Realisations are expected to improve by 4.8%/Rs197 YoY (+0.4%/Rs18/t QoQ) at Rs4,334/t. Due to marginally increase in realisations, EBITDA/t is expected to expand by 6.2%/Rs56 YoY at Rs955.
	EBITDA	1,242	1,143	8.7	1,133	9.7	
	Margin (%)	*22.0*	*21.7*		*20.3*		
	Adj. PAT	635	521	21.9	561	13.2	
	Volume (mn te)	1.3	1.3	2.4	1.3	0.5	
	Net Realisations (Rs/te)	4,334	4,137	4.8	4,315	0.4	
	EBITDA (Rs/te)	955	900	6.2	875	9.2	
JK Lakshmi Cement	Sales	10,875	8,970	21.2	9,350	16.3	Volume is expected to increase 20% YoY at 2.7m tonnes due to low base. Realisations are expected to grow marginally 1%/Rs42/t YoY (flat QoQ) at Rs4,060/t. EBITDA/t is expected to increase 5.4%/Rs25 YoY at Rs478.
	EBITDA	1,281	1,013	26.5	983	30.4	
	Margin (%)	*11.8*	*11.3*		*10.5*		
	Adj. PAT	360	338	6.3	148	144.0	
	Volume (mn te)	2.7	2.2	20.0	2.3	16.2	
	Net Realisations (Rs/te)	4,060	4,019	1.0	4,056	0.1	
	EBITDA (Rs/te)	478	454	5.4	426	12.2	
Shree Cement	Sales	32,553	28,111	15.8	27,806	17.1	Cement volume is expected to grow 9.4% YoY at 7.1m tonnes. Realisations are expected to improve by 4.3% YoY/Rs179/t (+0.5%/Rs22/t QoQ) at Rs4,337. Due to increase in realisations, cement EBITDA/t is expected to expand 14.8% YoY/Rs141 to Rs1,096.
	EBITDA	8,170	6,294	29.8	6,901	18.4	
	Margin (%)	*25.1*	*22.4*		*24.8*		
	Adj. PAT	3,896	3,993	(2.4)	2,813	38.5	
	Volume (mn te) - Cement	7.1	6.4	9.4	5.9	18.8	
	Volume (mn units) - Power	440	345	27.7	446	(1.4)	
	Net Realisations (Rs/te)	4,337	4,157	4.3	4,315	0.5	
	Realised rate (Rs/unit)	5	3.8	17.3	5.0	-9.2	
	Cement EBITDA (Rs/te)	1,096	955	14.8	1,067	2.7	
The Ramco Cements	Sales	13,851	12,508	10.7	12,065	14.8	Volume is expected to grow 13% YoY at 3.1m tonnes. Realisations are expected to fall 2%/Rs91 YoY (+2%/Rs88 QoQ) at Rs4,480. Due to lower realisations and higher costs, EBITDA/t is expected to fall by 20.5%/Rs200 YoY at Rs780.
	EBITDA	2,410	2,682	(10.1)	2,101	14.7	
	Margin (%)	*17.4*	*21.4*		*17.4*		
	Adj. PAT	1,204	1,374	(12.4)	1,011	19.1	
	Volume (mn te)	3.1	2.7	13.0	2.7	12.5	
	Net Realisations (Rs/te)	4,480	4,571	(2.0)	4,392	2.0	
	EBITDA (Rs/te)	780	980	(20.5)	765	1.9	
UltraTech Cement	Sales	106,157	88,810	19.5	86,850	22.2	Blended realisations are expected to increase by 2%/Rs98 YoY (+1.2%/Rs57 QoQ) to Rs4,910/t. Grey cement volumes are expected to grow 17.5% YoY at 21.2m tonnes due to consolidation of acquired assets. On the back of higher costs, EBITDA/t is expected to fall 3.7%/Rs31 to Rs825.
	EBITDA	17,846	15,813	12.9	12,624	41.4	
	Margin (%)	*16.8*	*17.8*		*14.5*		
	Adj. PAT	8,131	6,319	28.7	4,491	81.1	
	Volume (mn te)	21.2	18.1	17.5	17.5	21.0	
	Net Realisations (Rs/te)	4,909	4,811	2.0	4,852	1.2	
	EBITDA (Rs/te)	825	857	(3.7)	705	17.0	

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	1,664	1,735	129.3	144.8	153.3	161.5	15.2	17.2	19.3	21.9	9.0	10.7	12.1	14.1	48.0	56.8	64.2	75.1	9.9	10.7	11.0	11.8	34.7	29.3	25.9	22.2
Ambuja Cement	Hold	224	205	231.0	254.2	268.1	283.2	32.7	33.9	36.9	42.0	14.4	22.8	17.5	20.5	7.3	11.5	8.8	10.3	7.1	10.6	7.6	8.4	30.9	19.5	25.4	21.7
Heidelberg Cement India	BUY	182	214	18.6	21.2	22.0	23.1	3.3	4.6	4.5	4.5	1.3	2.2	2.3	2.3	5.9	9.7	9.9	10.1	13.2	19.6	17.7	16.3	30.9	18.7	18.3	18.0
JK Lakshmi Cement	Hold	357	320	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	50.1	47.4	27.8	22.2
Shree Cement	Hold	18,950	16,824	98.1	116.9	130.2	144.0	24.5	27.7	31.5	34.5	13.8	14.5	16.9	19.5	397.3	416.8	485.6	560.7	16.7	15.3	15.6	15.8	47.7	45.5	39.0	33.8
The Ramco Cements	Hold	759	654	43.2	49.8	57.2	66.0	10.1	9.4	10.9	12.6	5.6	5.1	6.1	6.7	23.6	21.7	25.8	28.3	14.3	12.0	12.8	12.6	32.2	34.9	29.4	26.8
Ultratech Cement	Hold	4,190	3,725	309.7	372.5	469.1	501.3	57.1	60.7	78.3	85.5	26.2	22.5	29.1	35.9	95.5	82.1	100.9	124.3	10.3	8.2	9.0	9.4	43.9	51.1	41.5	33.7

Source: Company, PL

Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

Consumer Durables

Jan-Mar'19 Earnings Preview

April 5, 2019

Top Picks

Crompton Greaves Consumer Electricals

Inventory levels normalizing as brands offer a heavy discount: Though extended winters have additionally compiled to RAC industry's woes (poor summer & subdued festive sales), the inventory levels have still managed to normalize since brands started offering a heavy discount of ~20-30%. Due to this, the margins shall be under pressure. However, for the upcoming summer season, brands have launched new SKUs without any fresh discounts. Overall, intensity of upcoming summer season and its ensuing demand will remain the key determinants for price rise, if any.

Price erosion continues in LED battens; completive intensity high: Price erosion continues in LED battens while prices of LED bulbs have stabilized. With competitive intensity continuing to remain high, companies continue to innovate (Crompton launched anti-bacterial bulbs) and focus on optimizing cost to improve margins. Structurally the demand for LED's continues to remain high as the conversion rate to LED lighting stands at ~40%.

Exhibit 1: Q4FY19 Result Preview

Company Name		Q4FY19E	Q4FY18	*YoY gr. (%)*	Q3FY19	*QoQ gr. (%)*	Remark
Crompton Greaves Consumer Electricals	Sales	12,451	11,263	*10.5*	10,303	*20.8*	ECD to continue to grow on the back of strong performance in fans, pumps and further aided by product gaps filled in the appliances - revamped geyser portfolio to benefit from extended winters.
	EBITDA	1,793	1,645	*9.0*	1,261	*42.2*	
	Margin (%)	*14.4*	*14.6*		*12.2*		
	Adj. PAT	1,137	1,032	*10.2*	797	*42.8*	
Voltas	Sales	22,412	20,484	*9.4*	14,918	*50.2*	RAC Inventory in the channel brought down to 1 month by offering higher discounts. Although demand remains subdued in the north on account of extended winters, pickup in demand witnessed in the southern regions. Commodity pressures easing out, however inability to take price hikes shall hurt margins
	EBITDA	2,519	2,532	*(0.5)*	1,157	*117.8*	
	Margin (%)	*11.2*	*12.4*		*7.8*		
	Adj. PAT	1,787	1,940	*(7.9)*	927	*92.8*	

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	232	272	40,797	45,171	52,070	59,361	5,310	5,965	7,076	8,073	3,238	3,746	4,570	5,392	5.2	6.0	7.3	8.6	49.5	41.1	38.6	35.4	44.8	38.8	31.8	26.9
Voltas	Acc	609	600	64,044	73,024	80,424	88,845	6,626	7,193	8,042	8,885	5,718	5,588	6,365	7,208	17.3	16.9	19.2	21.8	15.9	13.6	14.0	14.3	35.3	36.1	31.7	28.0

Source: Company, PL

Consumer

Jan to Mar'19 Earnings Preview

April 5, 2019

Top Picks

ITC

Titan Company

HUVR

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Q4FY19 Adj. PAT to increase 22.2%; 31% excluding ITC

4Q is likely to show a steady performance with 14.2% increase in sales (17.4% in 3Q19) and 22.2% increase in PAT (13.8% in 3Q19) on a 4bps decline in EBIDTA margin (75bps decline in 3Q19). Excluding ITC, the sales and Adj. PAT are expected to increase by 14% and 31% respectively on 16bps EBITDA margin expansion EBITDA margins.

Avenue Supermart, Titan, Jubilant FoodWorks, Marico and ITC are expected to sustain the sales momentum. Raw materials remain a mixed bag with tailwinds for Nestle, and HUVR. Jubilant Foodworks, Avenue Supermart, Asian paints and Marico are expected to report a strong profit growth.

Rural distress and prolonged winters hit demand

Stable demand with signs of Rural distress: Despite elections being round the corner, overall demand has remained stable QoQ on the back of tight liquidity and rural distress witnessed in some pockets as against expectations of demand acceleration. The Rural and Urban demand gap has been constantly narrowing post 2QFY19, with both now growing more or less at par.

Prolonged winters hampers sales: Prolonged winters and delay in onset of summers has affected summer portfolio of companies. Generally, summer portfolio is picked up by trade channels from mid Feb. However, this year the process has been hampered by more than a month. We expect companies like Dabur (Juices) and Emami (Personal care and other cooling products) are likely to be affected.

Elections and Smaller SKUs remain key: With elections round the corner, government has announced various direct benefit schemes for farmers and poor section of the society. Considering previous track records, rural demand for staples and FMCG generally surges during the election phase. Hence companies have started expanding their reach in Rural and Tier III cities while launching smaller SKU products for catering to this price sensitive market. We believe that companies like HUVR, BRIT, Emami etc., with higher share of rural distribution and more offerings at smaller SKUs are likely to reap benefits from increased Rural demand.

Crude has softened; Raw material remains a mix bag

- Brent Crude has softened 38.4% from the peak of USD86/barrel to the current USD68/barrel bringing the 4QFY19 average to USD63/barrel (3QFY19 average at USD68/barrel). Consequently, most crude linked inputs have declined in 4Q.
- VAM prices (China) remained range-bound around USD1058/MT during entire March'19. It is down by 14.7% YoY and 8.6% QoQ.
- TiO2 prices have slid 0.4% to Rs 273/kg in last week of March'19 on the back of stable crude prices. It had remained at Rs 274/kg level for entire 4Q19.

- Wheat prices remained range bound for 4Q19 averaging at Rs2091/Quintal levels, up 16.6% YoY and 1.7% QoQ
- Sugar prices remain flattish QoQ and down 3% YoY. Barley prices took a sharp dip of 12.1% in March'19 from Rs 1960/Quintal to now Rs 1722/Quintal. It is up 29.7% YoY and remains flattish QoQ in 4Q19. We expect sugar and Barley prices to remain benign.
- Mentha prices have seen a sharp increase of 50% from the bottom which would impact Emami's raw material costs.
- Export incentives had increased SMP prices by Rs20/- in Dec'18. It has increased by 44.8% YoY and 16.5% QoQ.
- Palm oil prices fell 18.4% in March'19 and made a bottom at Rs 30830/ton. It remains down 14.5% YoY however up by 4% QoQ in 4QFY19.

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	INR/Kg	123/101	101	-4%	-14.2%	Positive	HUL, Jyothy Labs
VAM	Down	USD/MT	1355/989	1058	-15.0%	-9.0%	Positive	PIDI (6.4%)
HDPE	Down	INR/MT	94920/73012	74475	-12.7%	-12.7%	Positive	All Companies (8-15%)
TiO2	Down	INR/Kg	280/250	273	14%	3.4%	Negative	APNT (19%), Kansai Nerolac, and other paint companies

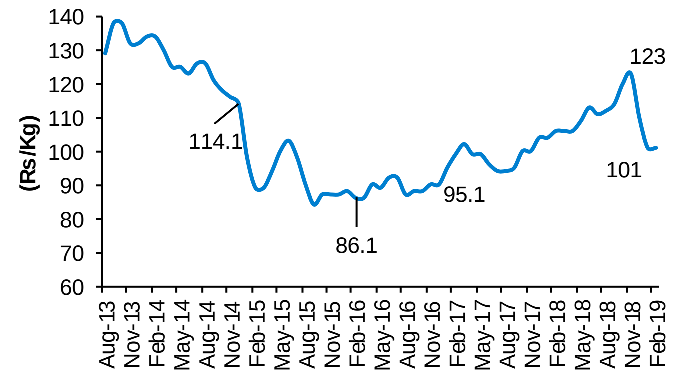
Source: PL, Bloomberg

Exhibit 2: Agri linked commodity remains a mixed bag

Input	Price Trend (Y-o-Y)	Unit	52 Week H/L	Current Price	YoY change %	QoQ change %	Impact	Companies (% of sales)
Mentha Oil	Up	INR/Kg	2010/1210	1815	11%	-5.4%	Negative YoY	Emami (22%)
PFAD Acid	Up	INR/MT	40781/21893	32079	-21.4%	13.5%	Positive YoY	HUL (6.5%)
Palm Oil	Down	INR/MT	41958/29051	32024	-14.4%	4.1%	Positive YoY	Britannia (9%) , Nestle (3.5%), HUL
Sugar	Flattish	INR/Qtl	3395/2635	3145	-3.0%	-0.3%	Flattish	Britannia (8.5%) , Nestle (2.5%) , GSK Consumer, Dabur, ITC
Wheat	Up	INR/Qtl	2120/1735	2060	16.9%	2.0%	Negative	Nestle (5%) , Britannia (14%), ITC
SMP	Up	Rs/kg	159/101	152	44.8%	16.5%	Negative	Nestle (5%) , GSK Consumer (5%)
Barley	Up	Rs/Quintal	1960/1366	1722	29.9%	0.7%	Negative	GSK Consumer (6%)

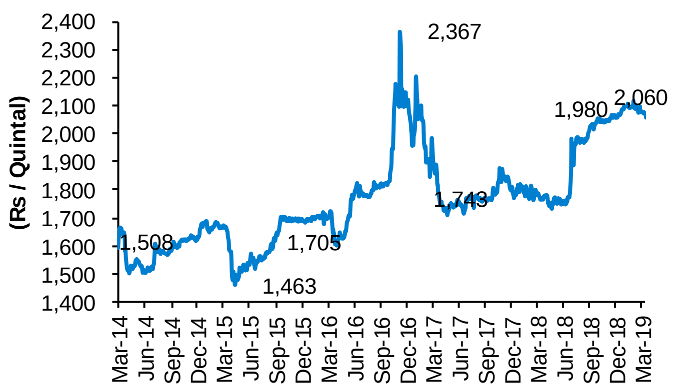
Source: PL, Bloomberg

Exhibit 3: LAB prices decline in Dec'18 post softening of crude prices, down 4.1% QoQ and 14.2% YoY



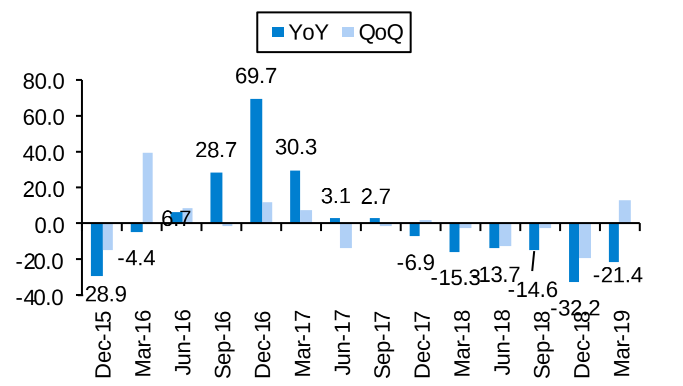
Source: Bloomberg, PL

Exhibit 4: Wheat Prices have marginally increased QoQ, up 16.9% YoY



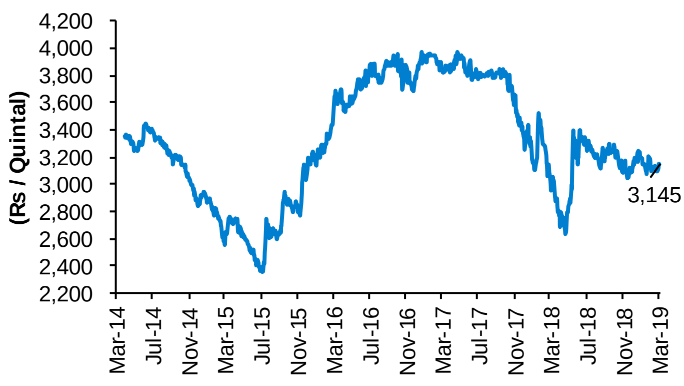
Source: Bloomberg, PL

Exhibit 5: PFAD prices have rallied from the bottom; down 21.4% YoY and up 13.5% QoQ



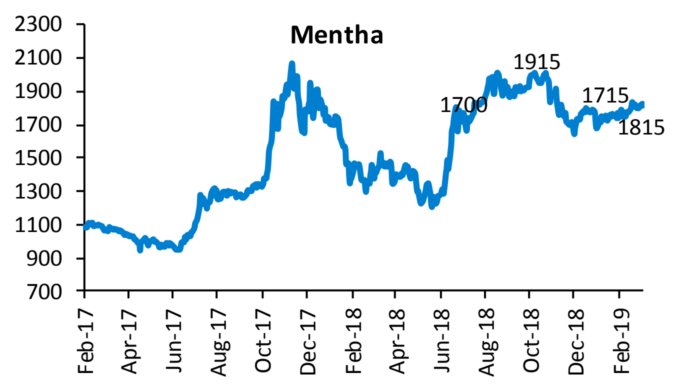
Source: Bloomberg, PL

Exhibit 6: Sugar prices remain benign. It is down 3% YoY and remain flattish QoQ



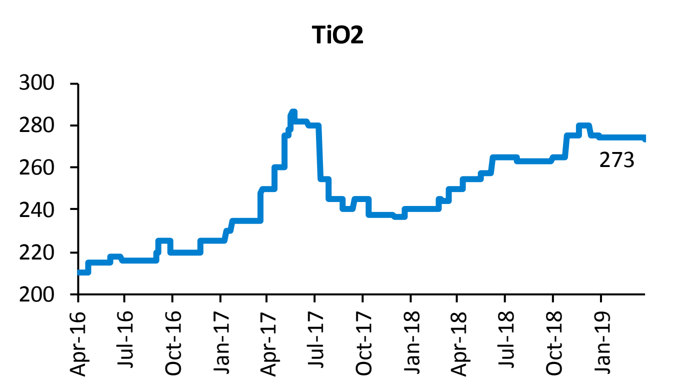
Source: Bloomberg, PL

Exhibit 7: Mentha prices have softened a little yet remain at high levels, up 11% YoY and down 5.4% QoQ



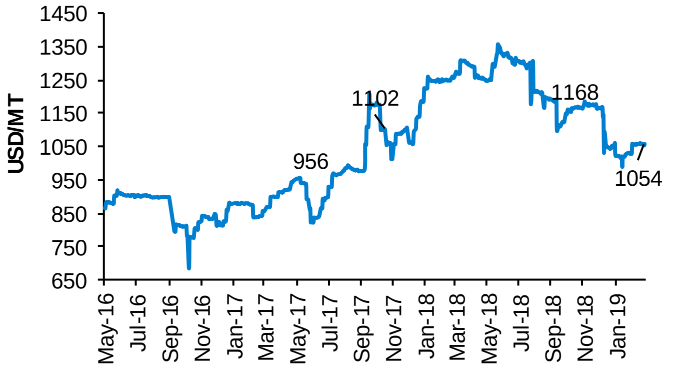
Source: Bloomberg, PL

Exhibit 8: Tio2 price remained at Rs 274/kg entire quarter post increasing to Rs 280/kg in Dec'18;



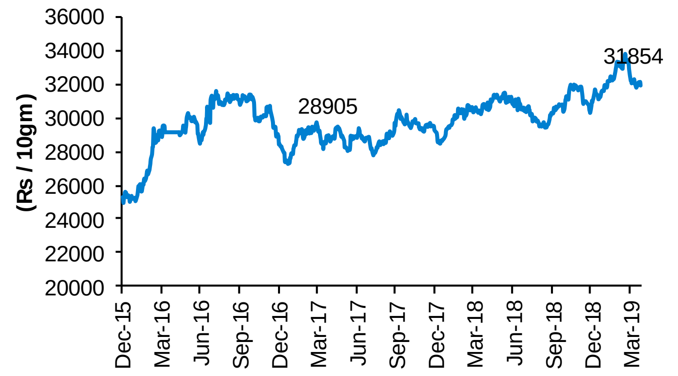
Source: Bloomberg, PL

Exhibit 9: VAM prices soften 23% from the peak in June'18 post softening in crude prices



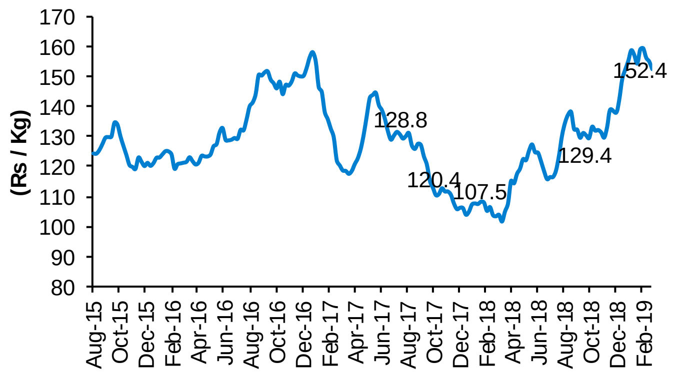
Source: Bloomberg, PL

Exhibit 10: Gold prices continue to increase ahead of wedding season, up 7% YoY and 4% QoQ



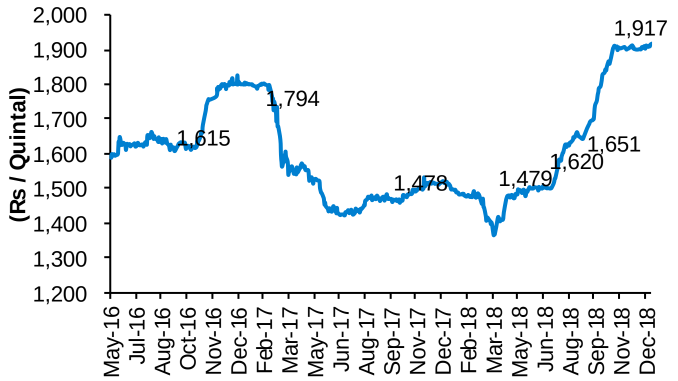
Source: Bloomberg, PL

Exhibit 11: SMP price up 44.8% YoY and 16.5% QoQ



Source: Bloomberg, PL

Exhibit 12: Barley price up 29% YoY and flattish QoQ



Source: Bloomberg, PL

Exhibit 13: APNT, MRCO, JUBI and TTAN is expected to report healthy volume growth

Volume growth (%)	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19E
Asian Paints	11.0	3.0	9.0	7.5	10.5	12.0	11.0	24.0	14.5
Britannia	2.0	2.5	6.0	13.0	13.0	13.0	12.0	7.0	8.5
Colgate	(3.0)	(5.0)	(0.9)	12.0	4.0	4.0	7.0	7.0	6.5
Dabur India	2.4	(4.4)	7.2	13.0	7.7	21.0	8.1	12.4	9.0
GSK Consumer	(1.0)	(6.5)	2.5	17.0	8.0	12.8	13.7	9.6	9.0
ITC (Cigarettes)	0.0	1.5	(7.0)	(5.0)	(2.5)	1.5	6.0	7.5	5.0
HUVR	4.0	0.0	4.0	11.0	11.0	12.0	10.0	10.0	8.5
Kansai Nerolac	14.9	10.0	18.0	14.5	14.5	15.0	9.0	15.0	11.0
MRCO - Parachute	15.0	(9.0)	12.0	15.0	(5.0)	9.0	8.0	9.0	12.0
- Saffola	6.0	(9.0)	3.0	0.0	(1.0)	10.0	5.0	2.0	3.0
- Hair Oil	10.0	(8.0)	12.0	8.0	11.0	15.0	5.0	7.0	8.0
Pidilite (C&B)	8.2	(0.1)	12.0	23.0	14.0	18.0	9.6	10.8	10.0
Titan - Jewellery	37.0	49.0	49.0	6.0	6.0	(3.0)	24.0	34.0	32.0
Jubilant (Dominos)	(7.5)	6.5	5.5	17.8	26.5	26.5	20.5	14.6	13.5
Future Retail	13.3	11.8	10.2	10.4	6.0	3.6	5.9	5.9	6.0

Source: Company, PL

Top Pick: ITC, HUVR and Titan Company

ITC: ITC continues to trade at ~40% discount to consumer universe given investor fears of frequent increase in GST rates of cigarettes right from introduction of GST and 20% increase in excise. Compensation cess collections have already exceeded the budgeted expectations thereby removing the urgency to increase taxes on cigarettes in the near term. Cigarette volumes are gradually recovering on stabilization of sales mix, stable taxation regime and low base. Post 2 years of stable pricing, ITC has recently hiked prices of select cigarette brands which enhances our confidence on the company's ability to take price increase. 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 and 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 23.4xFY21 EPS, ~65% dividend payout with 2.2% 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, 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 restructuring and investment since a 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 25.8% PAT CAGR over FY19-21, we value the stock at 45xDec20 EPS and arrive at a target price of Rs1195 given the good growth outlook and strong tailwinds. Maintain BUY.

Hindustan Unilever: HUVR remains one of the key consumer stocks to gain from 1) expected pick-up in rural demand during elections 2) lower GST rates on more than 2/3rd of its portfolio and 3) benefits from sustained cost-savings programs. HUVR should drive a strong growth, given comprehensive portfolio across categories and price points, right to win in emerging categories, significant distribution expansion in low penetration states of North and Central India (WIMI – 20% of the market which is growing at 1.5x rate) and strong push in high growth natural segment. We estimate 16% EBITDA CAGR and 15.2% PAT CAGR over FY19-21. Maintain "Hold".

Exhibit 14: Q4FY19 Result Preview

Company Name		Q4FY19E	Q4FY18	YoY gr. (%)	Q3FY19	QoQ gr. (%)	Remark
Asian Paints	Sales	51,334	44,836	14.5	52,940	(3.0)	Demand momentum continues post GST rate reduction. Recent price increases in Oct'18 and Dec'18 would enable margin expansion.
	EBITDA	9,925	8,399	18.2	10,430	(4.8)	
	Margin (%)	19.3	18.7		19.7		
	Adj. PAT	5,879	4,959	18.5	6,356	(7.5)	
	Volume Growth (%)	14.5	10.5		24.0		
Britannia Industries	Sales	26,638	23,884	11.5	27,032	(1.5)	We believe that rural slowdown to dampen volume growth of BRIT. Raw material has been benign YoY and would aid gross margin expansion of 190bps. However, EBITDA margin would remain flat on increased ad-spends
	EBITDA	4,147	3,699	12.1	4,463	(7.1)	
	Margin (%)	15.6	15.5		16.5		
	Adj. PAT	2,763	2,447	12.9	3,027	(8.7)	
	Gross Margin (%)	39.5	37.6		41.1		
	Volume Growth (%)	8.5	12.0		7.0		
Colgate Palmolive	Sales	11,572	10,917	6.0	10,994	5.3	Demand remains stable QoQ as against the expected Rural demand pickup. Competitive activity remains high as Patanjali has been aggressive in Ad-spends. Watch out for toothpaste market share
	EBITDA	3,353	3,075	9.0	3,145	6.6	
	Margin (%)	29.0	28.2		28.6		
	Adj. PAT	2,095	1,826	14.7	1,831	14.4	
	Volume Growth (%)	6.5	4.0		7.0		
Dabur India	Sales	22,173	20,329	9.1	21,992	0.8	Demand has slowed down in some pockets of Rural. Prolonged winter has resulted in poor performance in Juices. Competitive intensity in Oral care and Juices remain high.
	EBITDA	5,173	4,852	6.6	4,454	16.2	
	Margin (%)	23.3	23.9		20.3		
	Adj. PAT	4,294	3,972	8.1	3,672	16.9	
	Volume Growth (%)	9.0	7.7		12.4		
Avenue Supermarts	Sales	49,266	38,100	29.3	54,509	(9.6)	D'Mart is estimated to report 29.3% sales growth and 24.6% PAT growth as the focus on Low Cost Low Price strategy continues. We estimate significant acceleration in store openings as it has opened only 9 stores in 9MFY19
	EBITDA	3,964	2,945	34.6	4,533	(12.6)	
	Margin (%)	8.0	7.7		8.3		
	Adj. PAT	2,082	1,671	24.6	2,571	(19.0)	
	Cost of Retail (%)	6.6	7.1		6.4		
	Number of Stores added	18.0	14.0		4.0		
Future Retail	Sales	51,281	45,747	12.1	53,011	(3.3)	We expect 9% SSG growth in Big Bazaar as demand situation is steadily improving. We expect Hypercity performance to improve QoQ though EasyDay will still take time to achieve EBITDA breakeven.
	EBITDA	2,635	2,015	30.8	2,778	(5.2)	
	Margin (%)	5.1	4.4		5.2		
	Adj. PAT	1,920	(4,636)	(141.4)	2,014	(4.7)	
	SSG %	6.0	6.0		5.9		
	Big Bazaar SSG %	9.0	11.0		10.1		
	Cost of Retail (%)	22.2	22.6		20.8		
Emami	Sales	6,514	6,170	5.6	8,109	(19.7)	We expect muted volume growth of 3.5% as extended winters have hampered demand of summer portfolio. We expect gross margins to decline as Mentha prices continue to remain at elevated levels.
	EBITDA	1,724	1,733	(0.5)	2,665	(35.3)	
	Margin (%)	26.5	28.1		32.9		
	Adj. PAT	675	597	13.1	1,476	(54.2)	
	Volume Growth (%)	3.5	9.0		3.5		
Hindustan Unilever	Sales	100,937	90,970	11.0	95,580	5.6	We estimate 8.5% volume growth due to slowdown in rural demand. Crude prices have moderated QoQ and food inflation is picking up. Price increase has been taken for Skin care and Face wash to maintain margins.
	EBITDA	23,254	20,480	13.5	20,460	13.7	
	Margin (%)	23.0	22.5		21.4		
	Adj. PAT	16,118	14,090	14.4	14,010	15.0	
	Volume Growth (%)	8.5	11.0		10.0		
ITC	Sales	122,040	105,867	15.3	112,277	8.7	We estimate healthy cigarette volume growth on demand momentum and low base. Price increases in select brands from March to improve profitability.
	EBITDA	46,584	41,440	12.4	43,258	7.7	
	Margin (%)	38.2	39.1		38.5		
	Adj. PAT	32,300	29,327	10.1	32,091	0.7	
	Cigarette Volume Growth (%)	5.0	(2.5)		7.5		
	Cigarette EBIT Growth (%)	9.1	7.6		8.8		
	FMCG EBIT	1,209	912		767		

Company Name		Q4FY19E	Q4FY18	YoY gr. (%)	Q3FY19	QoQ gr. (%)	Remark
Jubilant FoodWorks	Sales	9,047	7,798	*16.0*	9,291	*(2.6)*	JUBI has launched 10 different Pizza variants to boost sales of the ongoing IPL season. Gains from EDV offer and new innovations to deliver 13.5% SSG growth despite a high base. We estimate 39 store openings in 4Q in-line with the guided 75 openings in FY19.
	EBITDA	1,618	1,278	*26.6*	1,706	*(5.1)*	
	Margin (%)	*17.9*	*16.4*		*18.4*		
	Adj. PAT	862	681	*26.6*	965	*(10.7)*	
	SSG %	*13.5*	*26.5*		*14.6*		
	Dominos Stores	1,239	1,134		1,200		
Kansai Nerolac Paints	Sales	12,582	11,036	*14.0*	13,507	*(6.8)*	We estimate Decorative demand momentum to continue on the back of GST rate cuts. Recent slowdown in Auto sector shall impact Industrial paints. We estimate Gross margin to decline on higher input costs, INR depreciation and lag in taking price increases in Industrial paints.
	EBITDA	1,761	1,689	*4.2*	1,770	*(0.5)*	
	Margin (%)	*14.0*	*15.3*		*13.1*		
	Adj. PAT	1,134	1,058	*7.2*	1,127	*0.6*	
	Volume Growth (%)	*11.0*	*14.5*		*15.0*		
	Gross Margin (%)	*36.0*	*38.0*		*34.5*		
Marico	Sales	17,127	14,801	*15.7*	18,610	*(8.0)*	We estimate 6% India and 12% parachute volume growth on a low base. We expect gross margins to expand given recent softening Copra prices. Watch out for any price cuts taken in Parachute
	EBITDA	3,161	2,523	*25.3*	3,489	*(9.4)*	
	Margin (%)	*18.5*	*17.0*		*18.8*		
	Adj. PAT	2,169	1,832	*18.4*	2,517	*(13.8)*	
	Parachute Volume Growth %	*12.0*	*(5.0)*		*9.0*		
	Volume Growth (%)	*6.0*	*1.0*		*5.0*		
	Saffola Vol Gr (%)	*3.0*	*(1.0)*		*2.0*		
	VAHO Vol Gr (%)	*8.0*	*11.0*		*7.0*		
Nestle India	Sales	30,330	27,572	*10.0*	28,973	*4.7*	We estimate demand momentum of CY18 to continue in CY19 with sustained traction in Maggi and recovery in chocolates. Innovations and new launches to aid growth.
	EBITDA	7,734	7,119	*8.6*	6,137	*26.0*	
	Margin (%)	*25.5*	*25.8*		*21.2*		
	Adj. PAT	4,937	4,391	*12.4*	4,049	*21.9*	
Pidilite Industries	Sales	14,278	12,736	*12.1*	15,897	*(10.2)*	Estimate 10% overall volume growth and in Consumer and Bazaar products. Prolonged winters had no significant impact. Input costs are expected to remain soft on stable currency rate.
	EBITDA	3,097	2,552	*21.4*	3,259	*(5.0)*	
	Margin (%)	*21.7*	*20.0*		*20.5*		
	Adj. PAT	2,198	1,917	*14.7*	2,247	*(2.2)*	
	Volume Growth (%)	*10.0*	*13.0*		*10.8*		
GlaxoSmithKline Consumer Healthcare	Sales	13,000	11,796	*10.2*	11,168	*16.4*	We estimate 9% volume on sustained demand momentum. Market share remains key factor to watch.
	EBITDA	2,810	2,500	*12.4*	2,385	*17.8*	
	Margin (%)	*21.6*	*21.2*		*21.4*		
	Adj. PAT	2,258	2,118	*6.6*	2,211	*2.1*	
	Volume Growth (%)	*9.0*	*8.0*		*9.6*		
Titan Company	Sales	46,518	39,168	*18.8*	56,722	*(18.0)*	Though Industry consumption demand remained weak on increasing Gold prices and financing issues, we expect good performance led by market share gain from unorganised players and traction form product activations. We expect Titan to continue the pace of its store openings.
	EBITDA	5,486	4,554	*20.5*	6,542	*(16.2)*	
	Margin (%)	*11.8*	*11.6*		*11.5*		
	Adj. PAT	3,720	3,628	*2.5*	4,862	*(23.5)*	
	Jewellery Volume Growth (%)	*13.5*	*6.0*		*34.0*		
	Jewellery Margins (%)	*13.3*	*13.7*		*11.0*		
	Watch Volume Growth (%)	*7.0*	*(1.0)*		*16.0*		
	Watch Margins (%)	*8.5*	*7.1*		*18.4*		

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	1,514	1,480	168.2	194.6	221.2	254.2	32.0	36.9	43.6	52.4	19.7	22.7	27.1	32.8	20.6	23.7	28.3	34.2	24.7	25.1	26.1	27.4	73.6	63.9	53.5	44.3
Britannia Industries	Acc	2,994	3,142	93.0	104.8	120.6	138.8	14.3	16.5	19.7	23.4	9.6	11.1	12.8	15.5	40.0	46.2	53.5	64.7	33.1	35.0	36.3	34.7	74.8	64.8	56.0	46.3
Colgate Palmolive	Hold	1,227	1,258	41.9	44.7	49.4	55.0	11.1	12.6	13.9	15.5	6.6	7.4	8.2	9.4	24.2	27.4	30.3	34.5	47.1	46.9	47.5	49.8	50.6	44.8	40.5	35.6
Dabur India	Hold	400	454	77.2	86.2	96.1	108.6	16.2	18.0	21.1	24.6	13.7	15.0	17.6	20.9	7.8	8.5	10.0	11.9	25.9	25.9	27.4	27.5	51.5	46.9	40.0	33.8
Avenue Supermarts	Reduce	1,449	1,270	150.3	198.1	256.6	329.4	13.5	16.6	23.2	32.1	7.7	9.4	13.5	19.0	12.3	15.1	21.6	30.4	18.0	18.6	22.3	25.4	117.8	96.1	67.2	47.6
Future Retail	BUY	446	554	184.8	199.0	231.2	267.6	8.3	10.1	12.5	15.2	6.2	7.2	9.6	9.2	12.3	14.4	19.1	18.2	21.8	21.2	23.3	18.9	36.4	31.0	23.3	24.4
Emami	Acc	412	484	25.3	27.0	30.3	33.9	7.2	7.5	8.5	9.7	5.1	5.1	6.0	7.0	22.3	11.3	13.3	15.4	26.8	24.7	27.0	28.8	18.5	36.4	31.1	26.8
Hindustan Unilever	Hold	1,659	1,854	345.3	383.7	426.6	475.2	72.8	86.4	99.1	113.6	53.0	61.0	70.5	81.0	24.5	28.2	32.6	37.3	78.1	86.3	99.3	112.1	67.6	58.7	50.9	44.5
ITC	BUY	295	362	406.3	452.1	495.5	541.5	155.4	173.9	201.4	224.7	112.2	122.1	140.9	157.8	9.2	10.0	11.4	12.7	23.2	22.5	23.5	23.8	32.0	29.6	25.8	23.1
Jubilant FoodWorks	Acc	1,418	1,458	29.8	35.7	40.6	48.1	4.5	6.2	7.2	8.6	2.1	3.4	4.0	5.1	31.3	25.4	30.5	38.3	21.8	28.6	27.8	28.2	45.3	55.8	46.5	37.0
Kansai Nerolac Paints	Acc	467	498	45.9	52.8	59.7	68.9	7.9	7.7	9.3	11.1	5.2	4.9	5.8	7.0	9.6	9.1	10.7	12.9	17.4	15.0	16.2	17.7	48.8	51.6	43.6	36.1
Marico	HOLD	357	371	63.2	74.4	83.6	94.1	11.4	13.1	16.7	18.4	8.1	9.4	11.7	12.9	6.3	7.3	9.1	10.0	33.5	35.5	40.1	40.2	56.5	48.9	39.4	35.7
Nestle India	Acc	10,981	10,828	100.1	112.9	126.7	141.9	22.2	26.8	30.6	34.9	13.5	16.7	19.5	22.7	140.0	173.5	202.6	235.4	40.3	47.2	48.3	48.2	78.4	63.3	54.2	46.6
Pidilite Industries	Acc	1,287	1,163	53.5	61.4	71.0	81.6	12.9	13.4	16.2	18.8	9.6	9.6	11.6	13.4	18.8	18.8	22.8	26.5	27.4	24.8	25.6	25.3	68.4	68.3	56.4	48.6
GlaxoSmithKline Consumer Healthcare	Hold	6,996	8,139	43.1	48.0	53.9	60.8	8.7	11.0	12.8	14.4	7.0	9.2	9.9	11.1	166.5	219.4	235.7	264.4	21.2	24.6	23.1	22.9	42.0	31.9	29.7	26.5
Titan Company	BUY	1,106	1,195	156.2	190.5	228.2	274.0	17.4	22.1	27.8	34.8	12.5	15.6	19.8	25.0	14.1	17.6	22.3	28.2	26.4	27.1	28.0	28.9	78.3	62.9	49.7	39.3

Source: Company, PL

Education

Jan-Mar '19 Earnings Preview

April 5, 2019

4QFY19 will be more or less a non-event for Navneet (derives 50-55% of sales in 1Q). However, S Chand would be in focus since it derives 75-80% of sales in 4Q. Rising share of exports and syllabus changes in Gujarat & Maharashtra is expected to aid growth for Navneet. However, for S Chand, the growth is expected to be tepid as focus has now shifted to cash flow management in order to improve the working capital cycle.

Exhibit 1: Q4FY19 Result Preview

Company Name		Q4FY19E	Q4FY18	*YoY gr. (%)*	Q3FY19	*QoQ gr. (%)*	Remark
Navneet Education	Sales	2,237	2,126	*5.2*	1,816	*23.2*	Backed by steady double digit growth in publishing aided by syllabus changes in the states of Gujarat & Maharashtra and strong visibility for stationery export orders we expect top-line growth to be in the region of 5% in a seasonally lean quarter.
	EBITDA	291	238	*22.3*	157	*85.3*	
	Margin (%)	*13.0*	*11.2*		*8.6*		
	Adj. PAT	163	151	*8.4*	75	*116.5*	
S Chand and Company (Standalone)	Sales	2,662	2,511	*6.0*	28	*NM*	Focus on cash flow management and tightening of credit terms is expected to result in single digit top-line growth. EBITDA margin is expected to decline marginally due to loss of operating leverage resulting from lower growth partially offset by locking in paper inventory at ~5-6% higher value (rise in paper prices in open market is higher).
	EBITDA	1,137	1,084	*4.9*	-277	*NM*	
	Margin (%)	*42.7*	*43.2*		*NM*		
	Adj. PAT	729	746	*(2.3)*	-94	*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	110	157	12,040	14,039	15,798	17,810	2,225	2,780	3,208	3,648	1,270	1,715	1,996	2,261	5.4	7.5	8.7	9.9	17.6	21.4	22.1	22.2	20.2	14.7	12.6	11.1
S Chand and Company	HOLD	180	234	7,944	8,426	9,110	9,927	1,927	1,898	2,029	2,178	1,072	864	1,021	1,101	30.7	24.7	29.2	31.5	13.1	8.3	9.1	9.0	5.9	7.3	6.2	5.7

Source: Company, PL

Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

Financial Services

Jan-Mar'19 Earnings Preview

April 5, 2019

Top Picks

HDFC Ltd

Shriram Transport Finance Company

Cholamandalam Investment Finance Company

Shweta Daptardar
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After largely mirroring the Q3FY19 trends, Q4FY19 should also prove to be a somber quarter on loans and margins with elevated funding costs but should be offset to an extent by the improving credit costs. While recalibration of balance sheets stands imminent for NBFCs, the risk perception continues to hurt the earnings and multiples likewise. We are positive on HDFC, CIFC for their steady performance across key parameters, and remain cautiously optimistic on SHTF from our NBFC coverage universe.

Tightened liquidity concerns are now concluded due to RBI's timely intervention (OMOs, FX swaps) however increased risk perception continues to haunt investors interest into NBFCs. We strongly believe, it is time for recalibration of both asset and liability side of balance sheets for NBFCs to limit credit risks and combat liquidity cycles.

While cautious lending towards MSME, real estate, LAP and higher ticket wholesale exposures have resulted into slower disbursements, NBFCs have been adopting retailization of balance sheets limiting credit risks. With increased competition from banks, NBFCs now have to focus on diversification of assets.

On the liability side - overseas borrowings and co-lending with banks and securitization shall continue to support funding structure for NBFCs. With the diminishing reliance on capital market instruments, bank term loans too have been coming at elevated rates. While policy rates are expected to soften and inflation turning relatively benign, funding costs pressures have taken a breather.

Q4FY19 should witness improving credit costs offsetting the benign credit growth and soft margins for NBFCs. Headwinds in the form of elections and aftermath, not so desirable demand scenario in the CV and RE space prompt us to place confidence on large caps with strong management pedigree and hence place our bets on HDFC, Bajaj Finance. While, we derive greater confidence in diversified vehicle finance business model like CIFC, the valuations run-up would imply tad consolidation in momentum there. We also like SHTF at compelling valuations of 1.4x FY21E P/BV that adequately price-in most of the current apprehensions and hence, we reiterate BUY with a price target at Rs1,568.

- **Growth should be somber:** Underscored by tough market conditions, competitive intensities on retail side and higher diligence on lending to certain business segments, we reckon NBFCs to clock 6% sequential loan growth and 15% YoY for Q4FY19 across our coverage universe.
- **Costs pressures up, NIMs soft:** Recalibration of funding mix with higher share of bank term loans, securitization & external borrowings should take precedence. ***Q4FY19 is expected to see 30-40 bps increase in incremental funding costs as against 60-80bps incremental increase in funding costs for Q3FY19. Margins, therefore, look weaker YoY while for QoQ remains flattish given the lending rate transmission by most NBFCs and renewed liquidity conditions.***

- **Credit costs improve:** With INDAS accounting normalizing, we expect credit costs to increase mere 5 bps YoY led by improved recoveries in seasonally strong quarter across our coverage universe. Q4 improved credit costs' trends should also help offset the NIM and growth pressures.

- **CIFC to outperform; SHTF at compelling valuations:** Under PL NBFC universe, we expect **CIFC/LTFH** to witness robust business traction (17-18% YoY) followed by MMFS (16% YoY). While HFCs continue to lose market share to private banks**,** HDFC maintains strong positioning with an expectation to clock 16% YoY growth, LICHF to report 14.6% loan growth largely supported by LAP/developer disbursements and retail loans run-rate catching up well too. We expect moderation in growth trends for SHTF at 13.3% YoY growth. While credit costs YoY should improve across coverage universe, we expect MMFS to report sharper recoveries for Q4FY19 as rural market holds up. **We reckon CIFC to clock healthy performance across key operational parameters for Q4FY19 from the PL, NBFC Universe. We also find SHTF attractive at compelling valuations of 1.4x FY21E P/BV that adequately price-in most of the current apprehensions, we reiterate BUY with a price target at Rs1,568 valuing SHTF at 1.8x Mar-21 ABV. Consistent rural demand for used CV & used CV replacement cycle remaining intact provides a business stability.**

Change in Estimates & PTs for BFSI

- **HDFC - TP increase:** We fine-tune HDFC estimates to incorporate slightly higher funding costs, however should be offset by improved recoveries and investment income aiding operating profit over FY20-21. Consolidation in small HFCs and market share gains, should imply steady business and improved RoEs trends for FY20-21E. We are watchful of key developer/ILFS exposures. We roll over our TP to Mar'21 Rs2,275 (from Rs 2,265) based on SOTP valuing core book at 2.6x Mar-21 ABV.

- **MMFS – TP maintained:** While we roll over our TP on MMFS to Mar'21E ABV to Rs 519 (from Rs 516) and continue to value at 3.1x multiple as part of SoTP, we do incorporate certain sluggishness on vehicle business in terms of growth. Having said that, better recoveries with expectations of improved rural farm income should support PAT and we maintain ACCUMULATE stance.

Two of NBFC universe stocks met their target prices; CIFC and LICHF

- **LICHF –** We incorporate stable lending yields and margins with steady-state 16% loan growth as there lies scope for individual growth improvement ahead. Also, we recent price momentum, we step-up valuation multiple to 1.7x (1.5x) and roll over TP to Mar-21E to Rs 597 (earlier Rs 537). **However, we remain watchful of sustainable strong business and earnings trends. Reiterate ACCUMULATE**

- **CIFC –** Superior performance across key business parameters and prudent asset quality management has also been reflecting into increased trading multiples that the company enjoy (3.5x PABV FY20E, 2.9x PABV FY21E). While the stock momentum has caught up well and key positives building in price, we trim the target multiple slightly to 3.2x (3.3x earlier) and roll over our TP to Mar'21 PBV estimates to Rs 1,666. **Having said that, we reiterate BUY as CIFC remains as one of the better placed auto financiers sailing successfully across credit and liquidity cycles with clear execution skills.**

Exhibit 1: Change in Estimates

Banks	Rs (mn)	Old estimates		Revised estimates		*% change*	
		FY20E	FY21E	FY20E	FY21E	*FY20E*	*FY21E*
HDFC	NII	1,43,080	1,69,591	1,48,470	1,76,609	*3.8*	*4.1*
	PPOP	1,65,274	1,91,834	1,76,170	2,04,093	*6.6*	*6.4*
	PAT	1,10,976	1,28,753	1,12,588	1,30,267	*1.5*	*1.2*
	ABV	453.9	504.3	451.8	503.1	*(0.5)*	*(0.2)*
MMFS	NII	53,542	64,267	55,066	64,553	*2.8*	*0.4*
	PPOP	36,348	44,639	38,243	46,249	*5.2*	*3.6*
	PAT	15,867	19,335	16,170	19,305	*1.9*	*(0.2)*
	ABV	129.1	151.9	127.6	149.5	*(1.2)*	*(1.6)*
LICHF	NII	49,960	57,893	51,844	59,702	*3.8*	*3.1*
	PPOP	44,225	51,264	46,183	53,249	*4.4*	*3.9*
	PAT	25,915	29,449	26,685	30,759	*3.0*	*4.4*
	ABV	301.5	350.6	308.4	359.9	*2.3*	*2.6*
CIFC	NII	42,842	49,407	41,310	49,407	*(4)*	-
	PPOP	26,600	30,048	25,615	30,048	*(4)*	-
	PAT	14,702	16,020	14,065	16,020	*(4)*	-
	ABV	442.6	516.1	435.9	516.1	*(2)*	-

Source: PL

Exhibit 2: Valuation Summary for PL NBFC 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
Cholamandalam	BUY	232	1,484	1,562	1,666	*12.2*	4.1	3.5	3.5	21.3	20.4	20.4
LTFH	ACC	304	152	172	172	*13.2*	3.0	2.4	2.0	23.6	20.8	19.3
HDFC	BUY	3,545	2,059	2,265	2,275	*10.5*	2.6	2.4	2.1	14.5	15.4	16.1
LIC Housing Finance	ACC	278	550	537	597	*8.5*	2.0	1.8	1.5	17.0	17.1	17.2
MMFS	ACC	257	416	516	519	*24.6*	3.3	2.8	2.4	14.3	15.3	16.4
Shriram Transport	BUY	278	1,224	1,657	1,568	*28.2*	2.0	1.6	1.4	16.2	17.2	17.2

Source: Company, PL

Exhibit 3: Q4FY19 Results Preview (Rs m) – Decent PPOP performance; earnings to be skewed on INDAS adjustments

Rs Million	NII	*YoY*	*QoQ*	PPOP	*YoY*	*QoQ*	PAT	*YoY*	*QoQ*
HDFC	29,740	*-7.4%*	*3.6%*	42,955	*16.2%*	*43.9%*	27,435	*-3.6%*	*29.8%*
LIC Housing	11,240	*12.0%*	*3.7%*	8,502	*-1.9%*	*-14.0%*	5,739	*6.4%*	*-3.3%*
MMFSL	12,535	*-3.9%*	*4.1%*	9,198	*11.4%*	*23.6%*	4,097	*-3.5%*	*28.6%*
Shriram Tran.	20,809	*15.1%*	*2.1%*	17,730	*13.7%*	*9.4%*	6,134	*324.2%*	*-3.5%*
Cholamandalam	9,365	*11.2%*	*7.1%*	5,577	*20.0%*	*-0.2%*	3,550	*18.3%*	*16.6%*
LTFH	14,012	*6.9%*	*1.6%*	13,605	*31.6%*	*14.2%*	6,193	*51.4%*	*6.6%*
Total NBFCs (Incl HFCs)	**97,701**	***3.1%***	***3.4%***	**97,567**	***15.5%***	***20.6%***	**53,148**	***14.0%***	***16.9%***
Rs Billion	**Loans**	***YoY***	***QoQ***	**Margins**	***YoY***	***QoQ***	**Credit Cost**	***YoY***	***QoQ***
HDFC	4,156	*15.6%*	*7.8%*	2.80%	*-1.20%*	*0.10%*	0.75%	*0.55%*	*0.63%*
LIC Housing	1,906	*14.6%*	*4.9%*	2.42%	*-0.07%*	*0.09%*	0.16%	*0.09%*	*-0.13%*
MMFSL	647	*16.0%*	*2.6%*	7.85%	*-1.86%*	*-0.01%*	1.67%	*0.54%*	*0.24%*
Shriram Tran.	1,093	*13.3%*	*5.3%*	7.81%	*0.10%*	*-0.02%*	3.36%	*-2.31%*	*0.91%*
Chola	516	*18.3%*	*2.3%*	7.35%	*-0.81%*	*0.22%*	0.64%	*0.64%*	*0.64%*
LTFH	978	*16.9%*	*4.3%*	5.85%	*-0.65%*	*-0.09%*	2.29%	*0.02%*	*0.51%*
NBFCs	**9,295**	***15.4%***	***5.8%***	**5.68%**	***-0.75%***	***0.05%***	**1.16%**	***-4.22%***	***-0.88%***

Source: Company, PL

Exhibit 4: Margins in Q4FY19E decline 75bps YoY as costs pressures persist

	Q4FY18	Q3FY19	Q4FY19E	YoY	QoQ
HDFC	4.00%	2.70%	2.80%	-1.20%	0.10%
LIC Housing	2.49%	2.33%	2.42%	-0.07%	0.09%
MMFSL	9.71%	7.86%	7.85%	-1.86%	-0.01%
Shriram Tran.	7.72%	7.83%	7.81%	0.10%	-0.02%
Cholamandalam	8.16%	7.13%	7.35%	-0.81%	0.22%
LTFH	6.50%	5.94%	5.85%	-0.65%	-0.09%

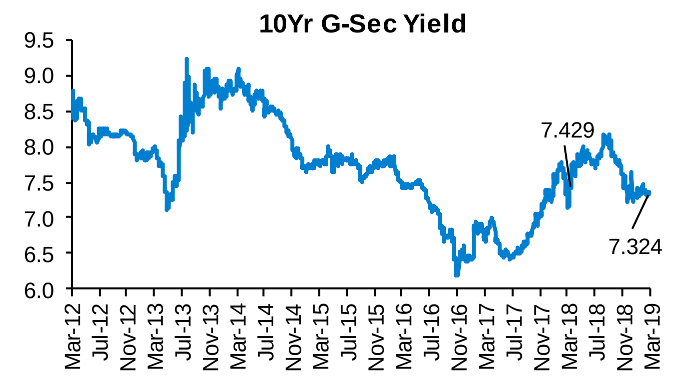
Source: Company, PL

Exhibit 5: INDAS provisioning normalizing; Q4 credit costs trend better

	Q4FY18	Q3FY19	Q4FY19E	YoY	QoQ
HDFC	0.20%	0.12%	0.75%	0.55%	0.63%
LIC Housing	0.07%	0.29%	0.16%	0.09%	-0.13%
MMFSL	1.13%	1.43%	1.67%	0.54%	0.24%
Shriram Tran.	5.67%	2.45%	3.36%	-2.31%	0.91%
Cholamandalam	0.11%	0.76%	0.64%	0.53%	-0.12%
LTFH	2.27%	1.78%	2.29%	0.02%	0.51%

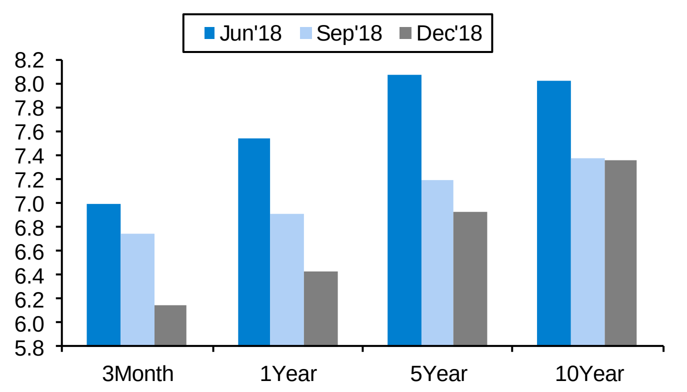
Source: Company, PL

Exhibit 6: Benchmark G-sec yields have been stable



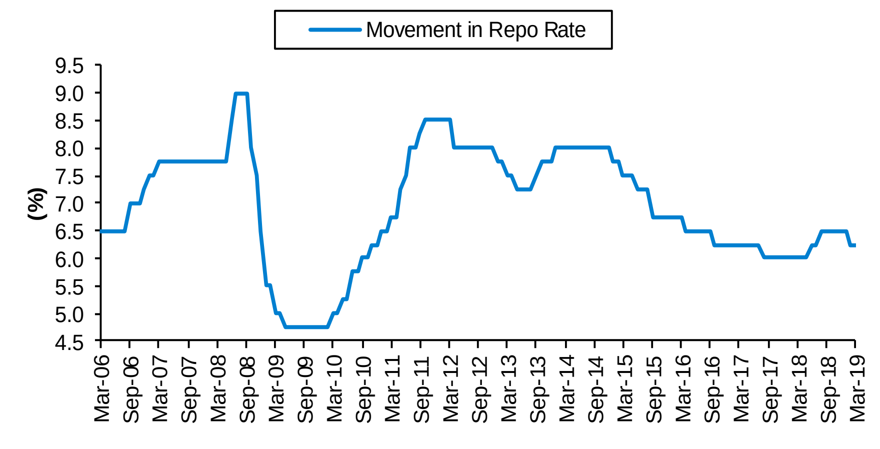
Source: Bloomberg, PL

Exhibit 7: Moderation has been in lower tenure yields



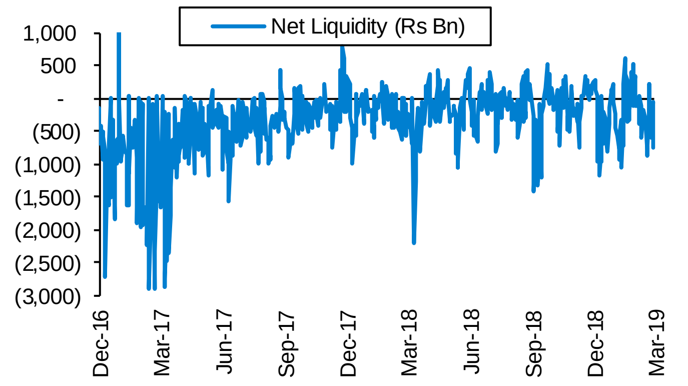
Source: Company, PL

Exhibit 8: RBI has been moving its benchmark rates in lieu of benign inflation and support growth



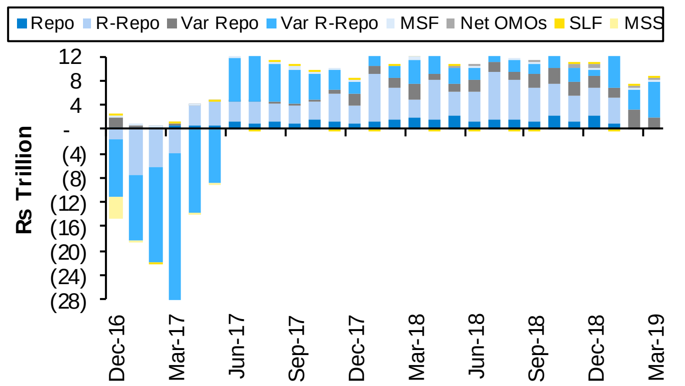
Source: Bloomberg, PL

Exhibit 9: Systemic liquidity supported by RBI intervention...



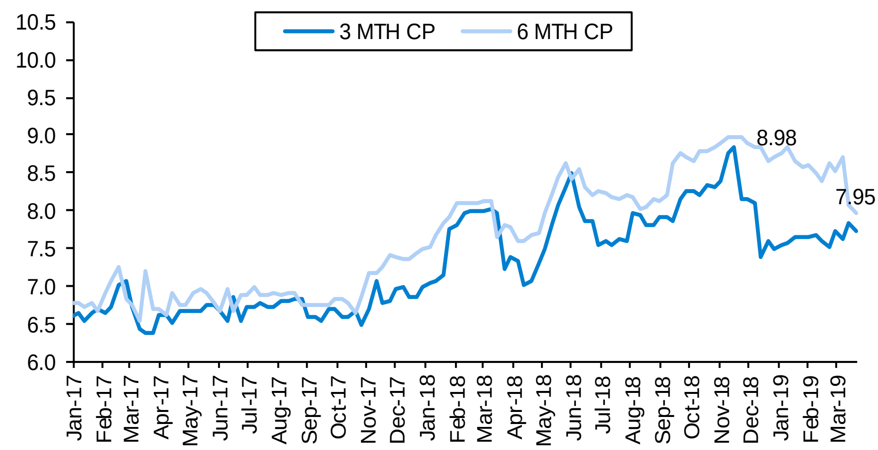
Source: Bloomberg, PL

Exhibit 10: …via OMOs & forex swap



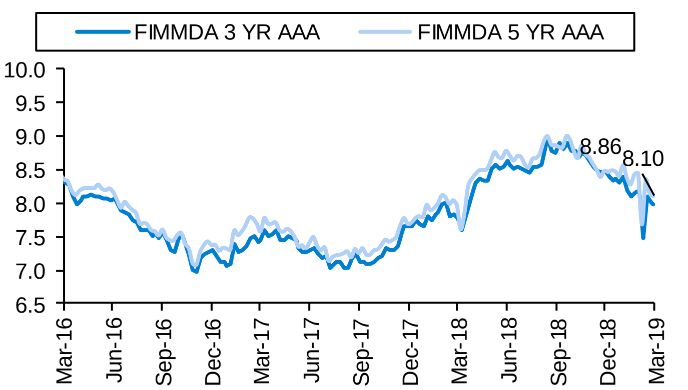
Source: Bloomberg, PL

Exhibit 11: Short term rates softening post liquidity crisis



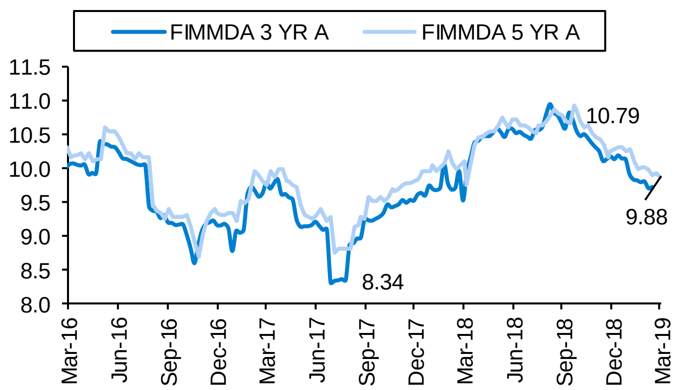
Source: Bloomberg, PL

Exhibit 12: Long term rates similarly sliding for AAA issuers



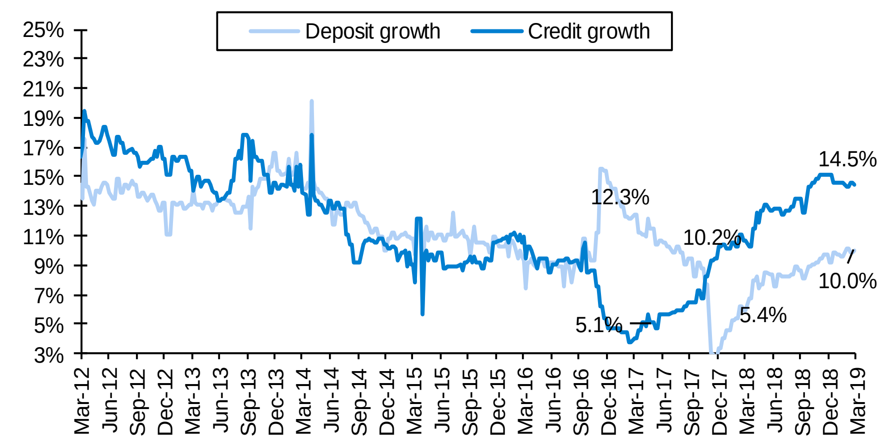
Source: Bloomberg, PL

Exhibit 13: A-rated issuers witnessing bigger drop in rates



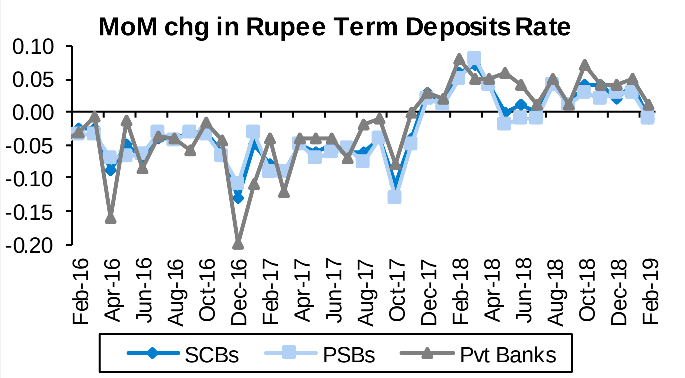
Source: Bloomberg, PL

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



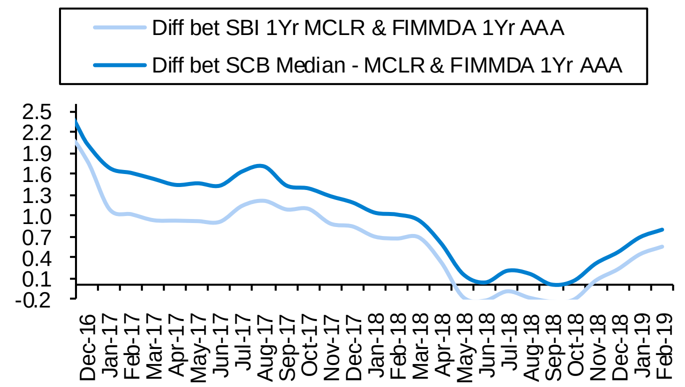
Source: Bloomberg, PL Note – Data released upto mid Dec'18

Exhibit 15: Term deposit rates movement has been steady and buckets



Source: Bloomberg, PL

Exhibit 16: Bond market rates have cooled hence expanding gap between MCLR and AAA rated paper



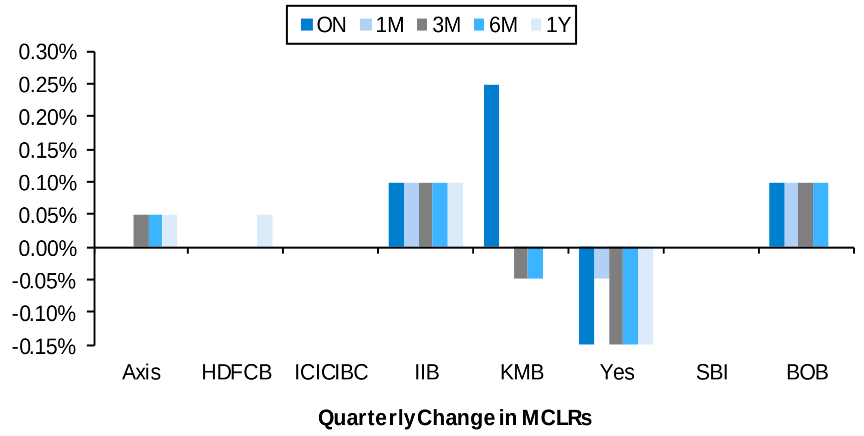
Source: Bloomberg, PL

Exhibit 17: Mixed cuts has been seen by respective banks post RBI's change in stance

Banks	MCLR 1YR			% Change	
	Sept-18	Dec-18	Mar-19	*3Months*	*6Months*
Axis Bank	8.60%	8.70%	8.90%	0.20%	0.30%
HDFC Bank	8.70%	8.85%	8.75%	-0.10%	0.05%
ICICI Bank	8.55%	8.80%	8.80%	0.00%	0.25%
KMB	8.95%	9.00%	9.00%	0.00%	0.05%
IndusInd Bank	9.65%	9.80%	9.90%	0.10%	0.25%
Yes Bank	9.65%	9.85%	9.70%	-0.15%	0.05%
SBI	8.45%	8.55%	8.55%	0.00%	0.10%
Bank of Baroda	8.55%	8.65%	8.65%	0.00%	0.10%
Bank of India	8.60%	8.70%	8.65%	-0.05%	0.05%
Punjab National Bank	8.45%	8.50%	8.45%	-0.05%	0.00%
Canara Bank	8.60%	8.70%	8.70%	0.00%	0.10%
Union Bank	8.55%	8.70%	8.60%	-0.10%	0.05%
Federal	9.20%	9.20%	9.20%	0.00%	0.00%
South Indian Bank	9.35%	9.45%	9.45%	0.00%	0.10%
J&K Bank	8.85%	9.00%	9.00%	0.00%	0.15%

Source: Company, PL

Exhibit 18: Banks have been selective on rate



Source: Company, PL

Exhibit 19: Q4FY19 Result Review

Company Name		Q4FY19E	Q4FY18	*YoY Chg.*	Q3FY19	*QoQ Chg.*	Remark
HDFC	NII (Rs mn)	29,740	32,110	*(7.4)*	28,711	*3.6*	While YoY earnings look down due to base effect, Q4 should also prove to be a healthy quarter with 30% PAT growth QoQ led by improved margins and stable GNPA. Expect credit costs on higher side.
	PPOP (Rs mn)	42,955	36,972	*16.2*	29,848	*43.9*	
	Provisions (Rs mn)	7,785	1,800	*332.5*	1,160	*571.2*	
	PAT (Rs mn)	27,435	28,462	*(3.6)*	21,138	*29.8*	
	Loans (Rs bn)	4,156	3,594	*15.6*	3,855	*7.8*	
	Margin (%)	*2.80*	*4.00*	*(120)*	*2.70*	*10*	
	GNPA (%)	*1.20*	*1.12*	*8*	*1.23*	*(3)*	
	Credit Cost (%)	*0.75*	*0.20*	*55*	*0.12*	*63*	
CIFC	NII (Rs mn)	9,365	8,424	*11.2*	8,746	*7.1*	Continued strong AUM momentum at 18% YoY growth; pre-closure cases to see a decline. Sequential growth looks somber at 2% growth on account of tough environs in past few months and greater thrust on asset quality. Sequential NIMs improve as yields should be maintained. RoA should be maintained at healthy levels. Lower NPA and provs YoY on SARFAESI execution should largely aid PAT growth; however, expect credit costs stay at 60-70bps levels on account of focus on higher yielding mix.
	PPOP (Rs mn)	5,577	4,647	*20.0*	5,588	*(0.2)*	
	Provisions (Rs mn)	824	116	612.2	953	(13.6)	
	PAT (Rs mn)	3,550	3,001	*18.3*	3,044	*16.6*	
	Loans (Rs bn)	516	436	*18.3*	504	*2.3*	
	Margin (%)	*7.35*	*8.16*	*(81)*	*7.13*	*22*	
	GNPA (%)	*2.65*	*2.9*	*(25)*	*2.70*	*(5)*	
	Credit Cost (%)	*0.64*	*0.11*	*53*	*0.76*	*(12)*	
LICHF	NII (Rs mn)	11,240	10,036	*12.0*	10,843	*3.7*	Expect 14.6% YoY loan growth largely led by LAP and developer loans. Said that retail home loans should grow at 10% YoY+ 70bps PLR hike in current FY should aid NIMs expansion this quarter offsetting funding cost pressures Expect GNPAs to stabilize at 1.2% levels
	PPOP (Rs mn)	8,502	8,669	*(1.9)*	9,891	*(14.0)*	
	Provisions (Rs mn)	764	281	*171.5*	1,325	*(42.3)*	
	PAT (Rs mn)	5,739	5,393	*6.4*	5,933	*(3.3)*	
	Loans (Rs bn)	1,906	1,664	*14.6*	1,817	*4.9*	
	Margin (%)	*2.42*	*2.49*	*(7)*	*2.33*	*9*	
	GNPA (%)	*1.2*	*0.78*	*41*	*1.26*	*(7)*	
	Credit Cost (%)	*0.16*	*0.07*	*9*	*0.29*	*(13)*	
LTFH	NII (Rs mn)	14,012	13,111	*6.9*	13,793	*1.6*	NIMs should be maintained at 5.9% QoQ with market share gains across key products; CoF continue to climb. We expect the credit costs to climb up to 2.3% from 1.8% a quarter ago. Higher provisions but healthy loan traction at 17% YoY should support overall profitability YoY.
	PPOP (Rs mn)	13,605	10,341	*31.6*	11,918	*14.2*	
	Provisions (Rs mn)	5,599	4,746	18.0	4,160	34.6	
	PAT (Rs mn)	6,193	4,091	*51.4*	5,810	*6.6*	
	Loans (Rs bn)	978	837	*16.9*	937	*4.3*	
	Margin (%)	*5.85*	*6.50*	*(65)*	*5.94*	*(9)*	
	GNPA (%)	*6.57*	*4.80*	*177*	*6.74*	*(17)*	
	Credit Cost (%)	*2.29*	*2.27*	*2*	*1.78*	*51*	

Company Name		Q4FY19E	Q4FY18	YoY Chg.	Q3FY19	QoQ Chg.	Remark
MMFS	NII (Rs mn)	12,535	13,050	*(3.9)*	12,040	*4.1*	Expect 16% YoY loan growth for MMFS. We expect NIMs to decline to 7.9% from 9.8% a year ago, but a flat QoQ as Co. maintains pricing power. Better recoveries stand supportive of PAT and hence GNPA to fall down this quarter.
	PPOP (Rs mn)	9,198	8,261	*11.4*	7,444	*23.6*	
	Provisions (Rs mn)	2,699	1,572	*71.6*	2,247	*20.1*	
	PAT (Rs mn)	4,097	4,245	*(3.5)*	3,187	*28.6*	
	Loans (Rs bn)	647	558	*16.0*	631	*2.6*	
	Margin (%)	*7.85*	*9.71*	*(186)*	*7.86*	*(1)*	
	GNPA (%)	*7.50*	*8.50*	*(100)*	*7.70*	*(20)*	
	Credit Cost (%)	*1.67*	*1.13*	*54*	*1.43*	*24*	
SHTF	NII (Rs mn)	20,809	18,076	*15.1*	20,373	*2.1*	Growth remains constrained at 13.3% for this quarter as CV demand remains tepid NIMs stand maintained QoQ as incrementally higher yielding used CV component adds to the business. Lower provisioning and INDAS adjustments YoY presents a skewed PAT on YoY basis.
	PPOP (Rs mn)	17,730	15,599	*13.7*	16,201	*9.4*	
	Provisions (Rs mn)	9,174	13,666	(32.9)	6,362	44.2	
	PAT (Rs mn)	6,134	1,446	*324.2*	6,354	*(3.5)*	
	Loans (Rs bn)	1,093	965	*13.3*	1,038	*5.3*	
	Margin (%)	*7.81*	*7.72*	*10*	*7.83*	*(2)*	
	GNPA (%)	*8.70*	*9.15*	*(45)*	*7.36*	*134*	
	Credit Cost (%)	*3.36*	*5.67*	*(231)*	*2.45*	*91*	

Source: Company, PL

April 5, 2019

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Information Technology

Jan-Mar'19 Earnings Preview

We expect a steady quarter with strong growth from TCS, HCLT, Infosys & muted growth for Wipro & Tech M in Tier-1 IT services pack. In Tier-II, we expect steady growth from NIIT Tech, MTCL, Hexaware & weak growth from Cyient, Persistent & Zensar. We expect revenue growth in CC between 0.8-2.3% QoQ for Tier-1 IT companies. Despite seasonality, we expect strong deal closures in-line with the previous quarter and anticipate some pressure on EBIT margins due to INR appreciation, projects ramp-ups & continued supply side constraints. We reiterate TCS as our top pick in tier-1 IT sector since it's likely to gain more market share using its specific core strengths viz. lowest cost/attrition, large agile workforce, early investments in building digital capabilities & strong execution. Among large-caps, we continue to prefer TCS, HCLT & Tech M while among mid-caps we remain positive on LTTS & LTI as a growth champions along with NIIT Tech as a value picks. We also remain positive on Infosys but would wait for a better entry price.

- **Strong revenue growth for Tier-1 IT companies:** We expect constant currency growth of 2.3%, 2.3%, 2.8%, 1.6% & 0.8% for TCS, Infosys, HCLT, Wipro & Tech M respectively. Tech M is expected to report muted numbers due to seasonal weakness in retail & weak growth in manufacturing. In HCLT, revenue performance will be driven by IMS segment due to ramp-up of large deals. Q4FY19 performance will be determined by steady ramp-ups deals, stable sales cycle & strong demand commentary.

- **Muted growth for Tier-II IT companies:** In tier-II IT companies - MTCL & NIIT Tech are expected to deliver steady revenue growth whereas Persistent & Cyient may witness a revenue decline. In Cyient, growth momentum is impacted by order delay in DLM (USD 5mn) in Q4FY19E. LTTS could be impacted by client specific issues (impact USD 2.8mn in Q4FY19) and may guide a revenue of high-teens (18%-20%) in FY20E. We expect a pressure on EBIT margin of MTCL due to scale up of investments in digital talents.

- **Infosys & HCLT to guide better growth guidance for FY20E**: We expect Infosys to guide a revenue growth of 8-10% in constant currency as on FY2020E. We expect HCLT to guide for 14-16% revenue growth which will include an inorganic component of 5.4% revenues from the IBM products buyout. Excluding revenues from IBM products but including revenues from other inorganic components, we expect HCLT to guide for 9.0-11.0%. We expect the company to retain 19.5-20.5% EBIT margin guidance band. We expect Wipro to guide a revenue growth of 0.5%-2.5% for Q1FY20E. The management commentaries will remain positive due to the strong tailwind of demand provided by digital business.

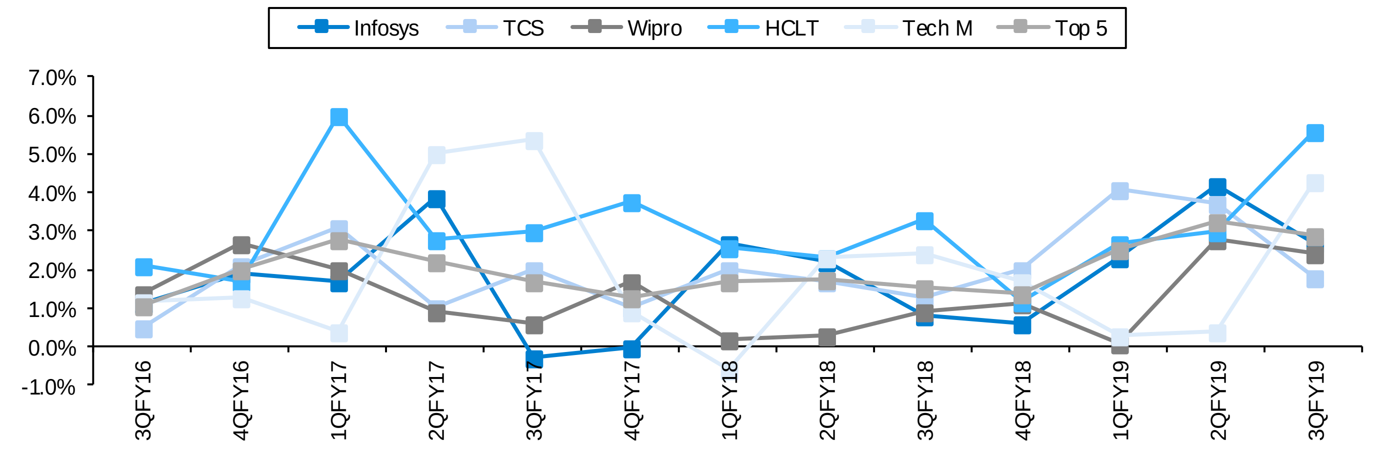
- **Pressure on EBIT margins:** We expect some pressure on EBIT margins due INR appreciation, projects ramp-ups & continued supply side constraints. Also, we expect companies to accelerate investments training & onsite talent despite recent INR appreciation.

Exhibit 1: Currency Movements

	USD/INR	GBP/INR	EUR/INR	EUR/USD	GBP/USD	AUD/USD	JPY/USD
Average Q4FY19	70.5	91.7	80.1	1.1	1.30	0.71	0.01
Average Q3FY19	72.1	92.8	82.3	1.1	1.29	0.72	0.01
Change (%)	2.3	1.1	2.7	0.4	(1.0)	1.1	(2.3)

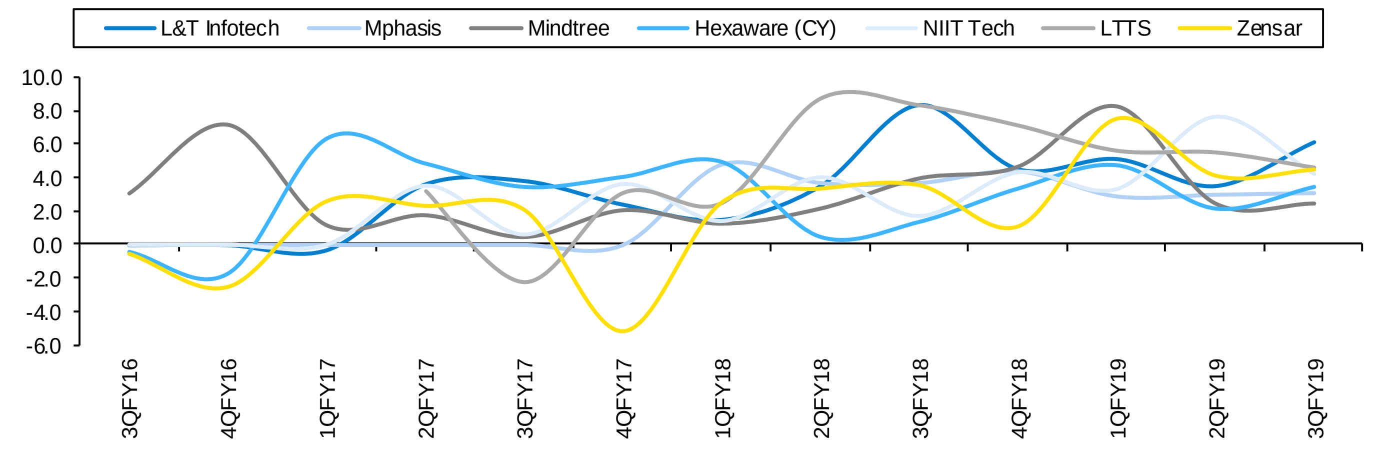
Source: Bloomberg, PL

Exhibit 2: Constant Currency growth (QoQ) of Tier-1 IT Companies



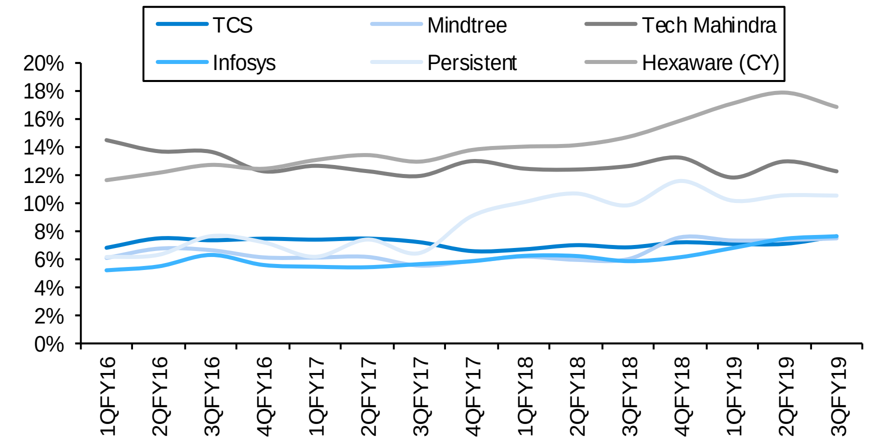
Source: Company, PL

Exhibit 3: Constant currency growth (QoQ) of Tier-2 IT Companies



Source: Company, PL

Exhibit 4: Sub-contracting Cost as a % of sales



Source: Company, PL

Exhibit 5: Q4FY19 Result Preview

Company Name		Q4FY19E	Q4FY18	*YoY gr. (%)*	Q3FY19	*QoQ gr. (%)*	Remark
Cyient	Sales	11,386	10,618	*7.2*	11,876	*(4.1)*	Expect growth momentum to be impacted by order delay in DLM (USD 5 mn). Deferment of orders by key customers in A&D and Communications (Services segment). Margin to decline due to investments and INR appreciation
	EBITDA	1,662	1,492	*11.4*	1,749	*(5.0)*	
	Margin (%)	*14.6*	*14.1*		*14.7*		
	Adj. PAT	1,091	1,212	*(10.0)*	923	*18.2*	
HCL Technologies	Sales	1,58,730	1,31,790	*20.4*	1,56,990	*1.1*	CC revenue growth of 2.8% & cross currency tailwind of 20bps. Margins to decline due to INR appreciation. Company to guide 14-16% revenue growth, inorganic component 5.5% from IBM products. We expect Company to guide 9-11% revenue growth, including organic & inorganic excluding inorganic component 5.5% from IBM products.
	EBITDA	36,345	30,360	*19.7*	36,470	*(0.3)*	
	Margin (%)	*22.9*	*23.0*		*23.2*		
	Adj. PAT	25,364	22,290	*13.8*	26,110	*(2.9)*	
Hexaware Technologies	Sales	12,635	10,490	*20.4*	12,524	*0.9*	We expect CC revenue growth of 2.9% & cross currency tailwind of 30bps. Key margin headwinds include wage cost inflation owing to talent scarcity in the US, which can to some extent be mitigated by passing on these costs to clients for better skill sets.
	EBITDA	1,851	1,626	*13.8*	1,913	*(3.3)*	
	Margin (%)	*14.6*	*15.5*		*15.3*		
	Adj. PAT	1,447	1,343	*7.7*	1,234	*17.2*	
Infosys	Sales	2,14,475	1,80,830	*18.6*	2,14,000	*0.2*	CC revenue growth of 2.3% & cross currency tailwind of 30bps. EBIT margin to decline due to large deal ramp-ups costs, cost on hiring digital talent & INR appreciation. Infosys to guide for 8-10% revenue growth in CC for FY2020E. Investor will mainly focus on TCV, attrition rate & commentary on BFSI vertical.
	EBITDA	52,757	49,300	*7.0*	54,100	*(2.5)*	
	Margin (%)	*24.6*	*27.3*		*25.3*		
	Adj. PAT	41,997	36,900	*13.8*	36,090	*16.4*	
Larsen & Toubro Infotech	Sales	24,890	20,012	*24.4*	24,729	*0.7*	CC revenue growth of 2.2% with cross currency tailwind of 30 bps. Growth momentum to reduce due to softness in BFSI (challenges with top client) Acquisition of Neilsen Partner & Ruletronics will add ~60 bps revenue to growth. Investor will focus on large deal momentum, implication of MTCL & growth outlook in top client.
	EBITDA	4,829	3,536	*36.6*	5,090	*(5.1)*	
	Margin (%)	*19.4*	*17.7*		*20.6*		
	Adj. PAT	3,643	2,893	*25.9*	3,755	*(3.0)*	
L&T Technology Services	Sales	12,960	10,548	*22.9*	13,169	*(1.6)*	Expect growth momentum to be impacted due to client-specific issue (impact USD 2.8 mn). Margin to be impacted by weak revenue growth. Guidance for FY20 likely to be high teens (18%-20%)
	EBITDA	2,203	1,695	*30.0*	2,417	*(8.8)*	
	Margin (%)	*17.0*	*16.1*		*18.4*		
	Adj. PAT	1,535	1,646	*(6.8)*	1,861	*(17.5)*	
Mphasis	Sales	20,470	17,445	*17.3*	19,710	*3.9*	We expect CC revenue growth of 2.9% & cross currency tailwind of 30bps. Mphasis to post a flat EBITA margin. Investors will mainly focus on TCV of deal wins, revenue contribution from Blackstone portfolio companies & outlook for digital risk practice.
	EBITDA	3,697	3,095	*19.5*	3,306	*11.8*	
	Margin (%)	*18.1*	*17.7*		*16.8*		
	Adj. PAT	2,704	2,507	*7.9*	2,780	*(2.7)*	
Mindtree	Sales	18,252	14,640	*24.7*	17,872	*2.1*	We expect CC revenue growth of 3.2% & cross currency tailwind of 50bps.Pressure on EBITDA margin in this quarter due to investments in digital & talent. We expect investor to focus on management commentary on L&T takeover bud & growth outlook for top client.
	EBITDA	2,639	2,355	*12.1*	2,833	*(6.8)*	
	Margin (%)	*14.5*	*16.1*		*15.9*		
	Adj. PAT	1,958	1,822	*7.5*	1,912	*2.4*	

Company Name		Q4FY19E	Q4FY18	YoY gr. (%)	Q3FY19	QoQ gr. (%)	Remark
NIIT Technologies	Sales	9,770	7,888	23.9	9,717	0.5	We expect CC revenue growth of 3.2% & cross currency tailwind of 30bps. Margin to decline due to INR appreciation & investments
	EBITDA	1,807	1,418	27.5	1,805	0.1	
	Margin (%)	*18.5*	*18.0*		*18.6*		
	Adj. PAT	1,052	861	22.2	1,002	5.0	
Persistent Systems	Sales	8,546	7,525	13.6	8,642	(1.1)	Expect USD revenue to de-grew by 1.0% on weakness in IP revenue. Margin to decline by 30 bps owning to weak revenue momentum
	EBITDA	1,641	1,111	47.7	1,703	(3.7)	
	Margin (%)	*19.2*	*14.8*		*19.7*		
	Adj. PAT	1,078	738	46.0	917	17.4	
Redington (India)	Sales	1,26,616	1,13,140	11.9	1,26,301	0.3	We expect Redington revenues at Rs126.6bn up 11.9% YoY. We expect consolidated EBIDTA margin at 1.6% down ~60bps QoQ.
	EBITDA	2,033	2,321	(12.4)	2,766	(26.5)	
	Margin (%)	*1.6*	*2.1*		*2.2*		
	Adj. PAT	1,184	1,436	(17.5)	1,301	(9.0)	
Sonata Software	Sales	8,728	6,258	39.5	8,440	3.4	We expect 2.5% USD revenue growth in Sonata.
	EBITDA	943	635	48.4	998	(5.5)	
	Margin (%)	*10.8*	*10.2*		*11.8*		
	Adj. PAT	672	543	23.8	639	5.1	
Tata Consultancy Services	Sales	3,78,086	3,20,750	17.9	3,73,380	1.3	We expect CC revenue growth of 2.3% & cross currency tailwind of 60bps. Strong deal momentum to continue. We expect stable margins, there will a slight impact of rupee appreciation. We will keep a watch on management commentary of BFSI vertical & outcome of budgeting cycle.
	EBITDA	1,02,386	86,520	18.3	1,00,830	1.5	
	Margin (%)	*27.1*	*27.0*		*27.0*		
	Adj. PAT	80,244	69,040	16.2	81,050	(1.0)	
TeamLease Services	Sales	12,115	9,774	24.0	11,722	3.4	We expect 3.4% revenue growth in teamlease services.In last quarter Revenue growth was highest in the last eight quarter led by core staffing.
	EBITDA	279	228	22.4	245	13.7	
	Margin (%)	*2.3*	*2.3*		*2.1*		
	Adj. PAT	259	212	22.2	252	2.8	
Tech Mahindra	Sales	89,392	80,545	11.0	89,437	(0.0)	We expect CC revenue growth of 0.8% & cross currency tailwind of 50bps. Revenue growth will be led by telecom vertical, enterprise vertical to report weak growth. Weak growth in retail due to strong last quarter. Expect less forex gain in Q4FY19E. EBIT margin to decline due to rupee appreciation. TCV to be around US$ 280-300mn range.
	EBITDA	16,970	14,119	20.2	17,226	(1.5)	
	Margin (%)	*19.0*	*17.5*		*19.3*		
	Adj. PAT	10,785	12,221	(11.7)	12,161	(11.3)	
Wipro	Sales	1,50,720	1,37,686	9.5	1,50,595	0.1	We expect CC revenue growth of 1.6% & cross currency tailwind of 30bps. We expect EBIT margin to remain flat on account of rupee appreciation. We expect Wipro to guide revenue growth of 0.5%-2.5% for Q1FY20E.
	EBITDA	56,357	24,028	134.5	32,700	72.3	
	Margin (%)	*37.4*	*17.5*		*21.7*		
	Adj. PAT	48,576	18,028	169.4	25,103	93.5	
Zensar Technologies	Sales	10,210	8,185	24.7	10,376	(1.6)	We expect revenue growth of 1.5% QoQ. Deal ramp up and INR appreciation to hurt margins further. Key focus will be on management commentary on improving the margins. Last quarter margin dropped by 220bps.
	EBITDA	1,123	999	12.4	1,126	(0.2)	
	Margin (%)	11.0	12.2		10.8		
	Adj. PAT	630	726	(13.3)	555	13.6	

Source: Company, PL

Exhibit 6: Valuation Summary

Company Names	Rating	CMP (Rs)	TP (Rs)	Sales (Rs bn)				EBITDA (Rs bnm)				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	Acc	595	621	39.2	45.9	50.1	56.3	5.5	6.4	7.2	8.4	4.1	4.1	4.7	5.4	36.3	36.5	41.6	47.7	18.3	16.7	17.2	17.9	16.4	16.3	14.3	12.5
HCL Technologies	BUY	1,093	1,186	505.7	603.1	669.9	741.7	114.4	140.1	152.5	166.9	87.8	100.9	105.8	115.3	62.7	73.3	77.8	84.8	25.0	25.7	22.9	20.7	17.4	14.9	14.1	12.9
Hexaware Technologies	Reduce	360	325	39.4	46.5	53.7	60.6	6.9	7.7	8.4	9.6	5.0	5.8	6.4	7.0	16.8	19.7	21.6	23.7	26.6	26.8	25.3	24.1	21.4	18.3	16.7	15.2
Infosys	Acc	759	808	705.2	825.8	910.5	997.1	190.1	210.2	232.2	256.6	146.0	155.3	167.2	190.1	33.6	35.7	38.5	43.7	21.8	25.1	28.8	33.0	22.6	21.3	19.7	17.4
Larsen & Toubro Infotech	BUY	1,652	2,032	73.2	94.4	110.4	126.6	12.6	18.8	21.8	24.4	11.8	15.0	17.0	19.2	68.4	87.0	98.7	111.8	33.6	34.6	32.0	30.0	24.2	19.0	16.7	14.8
L&T Technology Services	Acc	1,609	1,807	37.5	50.3	59.1	69.6	5.8	8.9	10.9	12.6	5.1	7.3	7.8	9.1	49.5	70.9	76.5	88.6	29.6	33.7	30.0	29.1	32.5	22.7	21.0	18.2
Mphasis	Acc	975	1,090	65.5	77.5	88.7	100.1	10.6	13.6	16.2	18.1	8.5	10.8	12.3	14.1	43.2	55.1	62.9	71.8	14.6	19.8	21.1	20.9	22.6	17.7	15.5	13.6
Mindtree	Reduce	953	873	54.6	70.1	77.5	87.0	7.4	10.5	12.0	13.5	5.7	7.5	8.4	9.6	34.4	45.8	50.9	58.3	21.4	25.0	23.2	22.0	27.7	20.8	18.7	16.3
NIIT Technologies	BUY	1,348	1,539	29.9	36.8	43.1	49.9	5.0	6.6	7.8	9.0	2.8	4.0	4.8	5.6	45.6	65.5	77.7	90.4	16.2	21.3	22.1	22.5	29.6	20.6	17.4	14.9
Persistent Systems	Hold	627	653	30.3	33.9	37.3	40.9	4.7	6.2	6.6	7.3	3.2	3.8	4.2	4.8	40.4	46.9	52.8	59.4	16.0	16.6	16.6	16.7	15.5	13.4	11.9	10.5
Redington (India)	BUY	98	108	434.6	466.1	508.7	557.2	8.2	8.3	7.3	8.3	4.8	5.0	4.3	5.1	11.9	12.5	10.7	12.7	14.3	13.4	10.6	11.6	8.2	7.9	9.2	7.7
Sonata Software	Acc	346	400	24.5	30.0	39.0	42.1	2.3	3.4	4.1	4.6	1.9	2.5	3.0	3.3	18.5	24.2	29.0	32.1	30.9	35.6	37.0	35.4	18.7	14.3	11.9	10.8
TCS	BUY	2,048	2,265	1,231.0	1,462.6	1,629.6	1,823.4	324.8	396.7	449.2	502.6	258.3	313.7	352.1	394.1	67.5	81.9	92.0	102.9	30.9	36.3	34.9	33.5	30.4	25.0	22.3	19.9
TeamLease Services	HOLD	3,031	3,203	36.2	45.0	53.5	62.0	0.7	1.0	1.3	1.5	0.7	1.0	1.2	1.5	43.1	57.4	72.7	89.2	18.3	20.0	20.6	20.6	70.3	52.8	41.7	34.0
Tech Mahindra	BUY	777	886	307.7	347.9	380.8	416.3	47.2	64.0	70.8	78.0	38.0	42.8	48.3	52.6	43.0	48.2	54.4	59.2	21.5	21.7	21.5	19.9	18.1	16.1	14.3	13.1
Wipro	Hold	262	247	544.9	586.5	629.1	663.7	103.1	114.8	128.5	132.9	81.2	87.5	96.8	102.5	12.8	14.6	16.1	17.1	16.2	16.9	16.7	16.1	20.5	18.0	16.3	15.4
Zensar Technologies	Acc	231	256	31.1	39.3	44.8	50.6	3.7	4.6	5.9	7.0	2.4	2.8	3.6	4.5	10.8	12.6	16.1	19.9	15.4	15.9	17.9	19.1	21.4	18.4	14.4	11.6

Source: Company, PL

Media

Jan-Mar'19 Earnings Preview

April 05, 2019

Radio space: We expect double digit top-line growth in our coverage universe considering pickup in political/government ad spends (largest category) for the upcoming Lok Sabha elections. For ENIL, growth will be higher due to back ended revenue accretive nature of the non-FCT business. Since pricing environment is subdued, top-line will be driven by increase in utilization from legacy and batch 1 stations. Profit growth is expected to show meaningful improvement for ENIL due to low base and incremental contribution from batch 1 stations (broke-even in phases during FY18). In case of Music Broadcast, profit growth is expected to be in single digits.

News broadcasting space: While the weekly impressions data is not available due to black out amid new TRAI regulations, we believe that the viewership for news channels would have risen as Lok Sabha elections are around the corner. However, competitive pressure has intensified with the launch of Republic Bharat in the Hindi news genre space. We expect growth to be driven by rise in yields coupled with increasing utilization in lower rung channels that have regional presence.

Exhibit 1: Q4FY19 Result Preview

Company Name		Q4FY19E	Q4FY18	*YoY gr. (%)*	Q3FY19	*QoQ gr. (%)*	Remark
Entertainment Network (India)	Sales	1,996	1,594	*25.2*	2,009	*(0.7)*	Back ended revenue accretive nature of the non-FCT business and improving utilization in batch 1 and batch 2 stations is expected to result in 25% YoY growth in top-line. However, margin dilutive nature of the non-FCT business and losses from batch 2 stations will partially offset the operating leverage benefit arising from higher revenue growth.
	EBITDA	428	354	*21.0*	404	*6.1*	
	Margin (%)	*21.5*	*22.2*		*20.1*		
	Adj. PAT	172	117	*46.6*	160	*7.5*	
Music Broadcast	Sales	865	759	*14.0*	870	*(0.5)*	Top-line growth will be aided by increase in utilization in both legacy and batch 1 stations. EBITDA is expected to grow by 12.5% YoY due to operating leverage benefit and improving profitability of batch 1 stations.
	EBITDA	308	274	*12.5*	286	*7.6*	
	Margin (%)	*35.6*	*36.0*		*32.9*		
	Adj. PAT	171	163	*5.4*	164	*4.6*	
Zee Media Corporation (Standalone)	Sales	1,709	1,590	*7.5*	1,707	*0.1*	Topline growth will be aided by upcoming Lok Sabha elections and strong performance from regional channels. 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	392	279	*40.6*	425	*(7.8)*	
	Margin (%)	*22.9*	*17.5*		*24.9*		
	Adj. PAT	162	143	*12.7*	179	*(9.8)*	

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	534	776	5,371	6,446	7,313	8,131	1,166	1,389	1,828	2,114	352	513	794	989	7.4	10.8	16.6	20.8	4.0	5.5	7.9	9.0	72.4	49.6	32.1	25.7
Music Broadcast	BUY	58	81	2,983	3,294	3,696	4,166	971	1,120	1,320	1,525	517	604	764	918	9.1	2.2	2.8	3.3	8.6	9.2	10.8	11.9	6.4	26.7	21.1	17.5
Zee Media Corporation	BUY	18	38	5,102	6,275	7,530	8,999	1,025	1,387	1,732	2,106	406	540	721	903	0.9	1.1	1.5	1.9	6.1	7.7	9.4	10.6	20.7	15.6	11.7	9.3

Source: Company, PL

PS: The EPS figure for MBL for FY18 is pre-split and hence not comparable with the ensuing years.

Metals & Mining

Jan-Mar'19 Earnings Preview

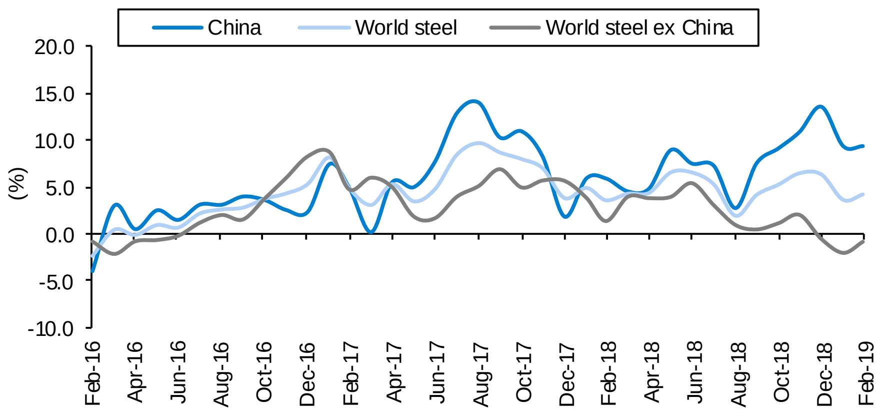
April 5, 2019

Top Picks

Tata Steel

Chinese steel production grew by 9.2% YoY to 150mn tonnes (t), which is above the growth rate of world steel production of 3.8% YoY to 288mn t in Jan-Feb 2019. RoW's production witnessed a fall of 1.5% to 138mn t. Production in India rose marginally by 0.12% YoY to 17.9mn t on the back of muted demand. South Korea's production grew by 1% YoY to 11.9mn t due to increase in domestic demand, partially negated weakness in exports. EU's production witnessed a further de-growth of 3.9% YoY to 26.9mn t due to increased imports, shutdown of some of the capacities and sluggish demand. USA's production grew by 6.9% YoY to 14.4mn t, led by hefty duties imposed on imports.

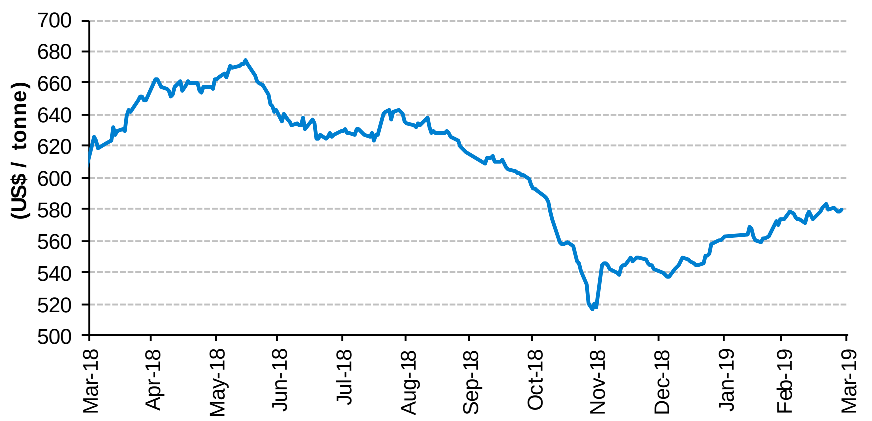
Exhibit 1: Movement in Crude Steel Production



Source: World Steel, PL

Average Chinese steel prices (including 17% VAT) fell marginally by 0.7% QoQ or US$4/t to US$580 due to increase in production during the peak March-April season and less harsh production restrictions in Chinese steel producing province. Higher 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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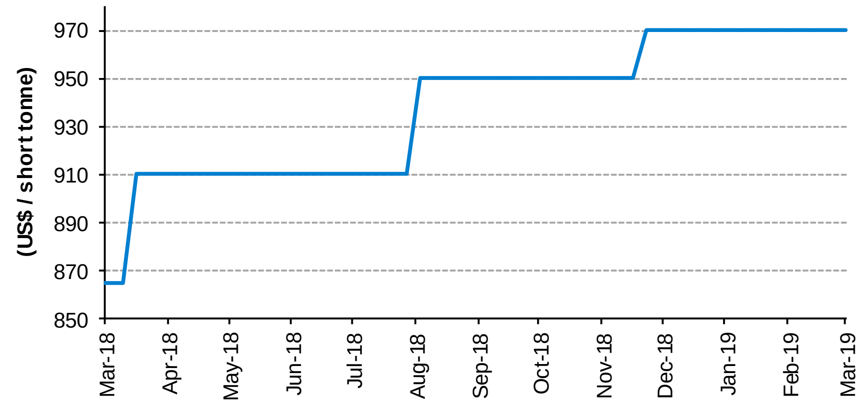
Average HRC prices in North America grew by 1.6% QoQ or US$16/short t to US$970 on account of import constraints and strong demand.

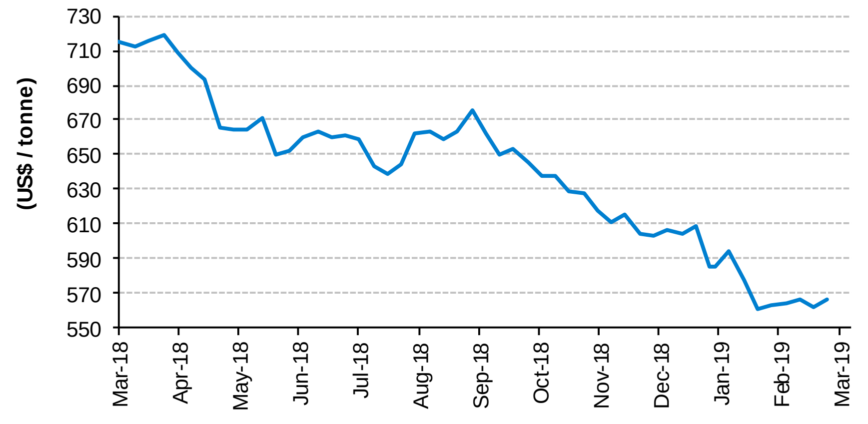
Exhibit 3: North America HRC Price



Source: Bloomberg, PL

Average HRC price in Europe fell further sharply by 7.7% QoQ or US$48/t to US$566 due to depreciation of € against dollar and slowing domestic demand.

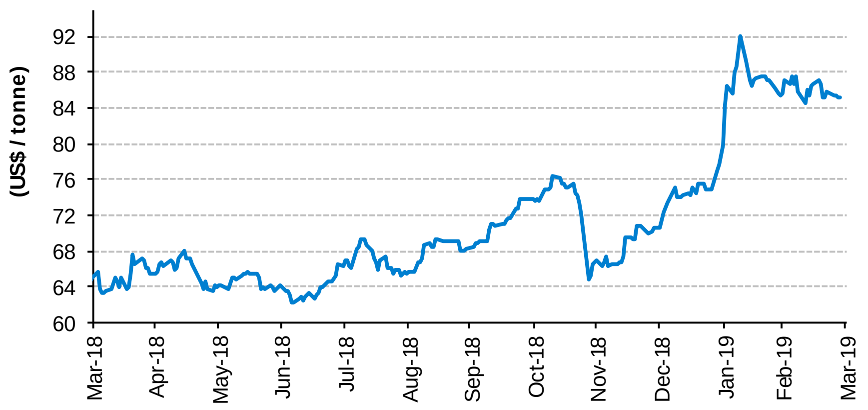
Exhibit 4: Europe HRC Price



Source: Bloomberg, PL

Average spot iron ore prices (CIF China) spurred sharply by 16.5% QoQ or US$12/t to US$85 due to global supply concerns post dam disaster in Brazil mines owned by Vale SA.

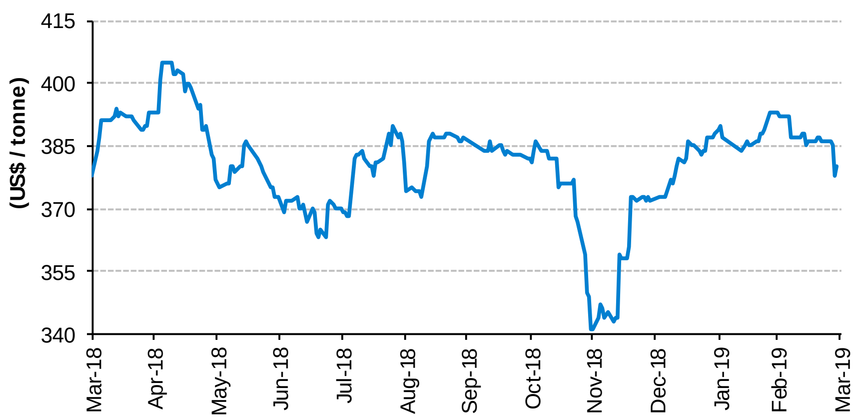
Exhibit 5: Indian origin Iron Ore (62% Fe) Export Prices (CIF) to China



Source: Bloomberg, PL

Average eavy steel scrap prices rose by 3.9% QoQ or US$14/t to US$380/t, led by imposition of import duty by Chinese govt on US scrap leading to increased demand from other markets.

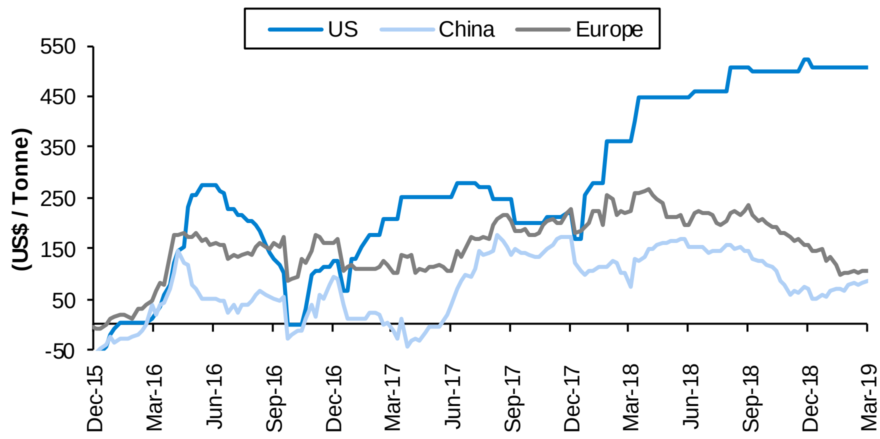
Exhibit 6: China Heavy Steel Scrap Prices



Source: Bloomberg, PL

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

Exhibit 7: Region-wise spreads of Blast furnace producers



Source: Bloomberg, PL

We expect EBITDA of our coverage universe to grow by 3.4% QoQ on the back of firm domestic demand. Chinese steel HR/Rebar prices have corrected by 0.7%/↓6.3% QoQ due to weak demand. However, we believe that any further elimination of steel capacity by Chinese authorities to reduce the pollution levels and ease of trade frictions between China and USA. This will help in sustainable price improvement and significant demand pick-up. We continue to maintain our **Overweight** outlook on the sector with TATA Steel (TATA) as the top pick.

Exhibit 8: Q4FY19 Result Preview

Company Name		Q4FY19E	Q4FY18	YoY gr. (%)	Q3FY19	QoQ gr. (%)	Remark
Coal India	Sales	278,412	269,092	*3.5*	250,458	*11.2*	Coal dispatches are expected to grow 5.5% QoQ to 162.3mn tonnes on the back of higher demand from power sector. Realisations are expected grow 5.8%/Rs88/t QoQ. Due to increased volume and better realisation in e-auction, EBITDA/t is expected to grow 25% QoQ to Rs552.
	EBITDA	89,607	1,955	*4,483.5*	67,878	*32.0*	
	Margin (%)	32.2	0.7		27.1		
	Adj. PAT	60,065	12,942	*364.1*	45,658	*31.6*	
	Coal desp. (mn tn)	162.3	158.9	*2.1*	153.8	*5.5*	
	Real. / tonne (Rs)	1,608	1,581	*1.7*	1,520	*5.8*	
	EBITDA / tonne (Rs)	552	12	*4,387.2*	441	*25.1*	
Hindalco Industries	Sales	117,852	116,811	*0.9*	119,377	*(1.3)*	Al production is expected to grow 0.3% QoQ. Cu production is expected to remain flat QoQ. Al/Cu LME is expected to fall 5.8%/+0.6% QoQ. Due to weak realisations, Al EBITDA is expected to fall 5% QoQ to Rs4.8bn. Due to better realisations, Cu EBITDA is expected to grow 7% QoQ to Rs4.6bn. Total EBITDA is expected to grow 1.6% QoQ to Rs9.4bn.
	EBITDA	9,431	12,576	*(25.0)*	9,282	*1.6*	
	Margin (%)	8.0	10.8		7.8		
	Adj. PAT	2,084	3,770	*(44.7)*	2,020	*3.2*	
	Alum. (Al) prod (t)	325,000	320,000	*1.6*	324,000	*0.3*	
	Copper (Cu) prod (t)	105,000	106,466	*(1.4)*	105,000	-	
	EBITDA-Al (Rs m)	4,888	9,204	*(46.9)*	5,148	*(5.0)*	
	EBITDA-Cu (Rs m)	4,616	3,291	*40.2*	4,311	*7.1*	
	EBITDA-Utkal Alumina (Rs m)	6,212	3,450	*80.0*	7,710	*(19.4)*	
Hindustan Zinc	Sales	53,608	62,770	*-14.6*	55,400	*(3.2)*	Total refined zinc-lead volumes are expected to fall 6% QoQ to 227kt. Silver volumes are expected to grow 7.3% QoQ to 191t. Refined metal realisations are expected to grow 1% QoQ on the back of better Zinc & Lead realisations. Due to lower metal output, EBITDA would fall by 5.2% QoQ to Rs27.2bn.
	EBITDA	27,187	36,200	*(24.9)*	28,380	*(4.2)*	
	Margin (%)	50.7	57.7		51.2		
	Adj. PAT	20,010	25,410	*(21.3)*	22,110	*(9.5)*	
	Ttl. Refined metal-tns	226,944	260,000	*(12.7)*	241,000	*(5.8)*	
	Silver Sales Vol. (kg)	191,000	167,000	*14.4*	178,000	*7.3*	
Jindal Steel & Power	Sales	104,396	85,228	*22.5*	94,350	*10.6*	Standalone volume is expected to grow 20.8% QoQ to 1.45m tonnes. Realisations are expected to fall 4%/Rs2,200/t QoQ due to higher volume. Standalone EBITDA is expected grow 2.8% QoQ to Rs14.3bn. Due to expected higher volume growth in domestic operations, consolidated EBITDA to grow 2.7% QoQ to Rs20bn.
	EBITDA	19,992	20,605	*(3.0)*	19,463	*2.7*	
	Margin (%)	19.1	24.2		20.6		
	Adj. PAT	11	1,295	*(99.2)*	-240	*(104.5)*	
	Steel Sales Vol. (Tonne)	1.5	1	*22.9*	1	*20.8*	
	Standalone EBITDA	14,274	14,695	*(2.9)*	13,888	*2.8*	
	Standalone EBITDA / t (Rs)	9,844	12,454	*(21.0)*	11,574	*(14.9)*	
	JPL-Kwh sold (m)	2,469	2,125	*16.2*	2,400	*2.9*	
	JPL-Rate Rs/ Kwh	4.2	4.5	*(6.2)*	4.2	*0.8*	
JSW Steel	Sales	202,786	209,740	*-3.3*	203,180	*(0.2)*	Volume is expected to grow 12.2% QoQ at 4.1m tonnes. Realisations are expected to fall 4.7%/Rs2,362/t QoQ at Rs47,619/t. Due to weak realisations, EBITDA/t is expected to fall 16.8%/Rs2,032 QoQ to Rs10,028. Consolidated EBITDA is expected to report marginal fall of 0.4% QoQ to Rs44.8bn.
	EBITDA	44,849	49,280	*(9.0)*	45,010	*(0.4)*	
	Margin (%)	22.1	23.5		22.2		
	Adj. PAT	17,062	21,903	*(22.1)*	16,240	*5.1*	
	Sales Vol. (mt)	4.1	4.2	*-2.1*	3.7	*12.2*	
	Real. / tonne (Rs)	47,619	46,917	*1.5*	49,981	*(4.7)*	
	EBITDA / tonne (Rs)	10,028	11,097	*(9.6)*	12,060	*(16.8)*	
NMDC	Sales	32,260	38,830	*-16.9*	36,494	*(11.6)*	Iron ore volumes is expected to grow 17.1% QoQ to 10.2m tonnes. Realisations are expected to fall 24.6% QoQ to Rs3,135/t. Hence, EBITDA/t is expected to fall 44.5% QoQ to Rs1,373. EBITDA is expected to fall 35% QoQ to Rs14bn.
	EBITDA	13,995	19,010	*(26.4)*	21,544	*(35.0)*	
	Margin (%)	43.4	49.0		59.0		
	Adj. PAT	9,583	11,064	*(13.4)*	15,768	*(39.2)*	
	Total Volume (mt)	10.2	10.5	*-3.3*	8.7	*17.1*	
	Realization/t (Rs.)	3,135	3,653	*(14.2)*	4,157	*(24.6)*	
	EBITDA/t (Rs)	1,373	1,804	*(23.9)*	2,475	*(44.5)*	
Steel Authority of India	Sales	228,000	170,378	*33.8*	158,358	*44.0*	Volumes are expected to grow 50.7% QoQ to 4.9m tonnes. Realisations are expected to fall 4.6%/Rs2,228/t QoQ to Rs46,150/t. Due to weak realisations, EBITDA/t is expected to fall 30.5%/Rs2,431 QoQ at Rs5,534. EBITDA is expected to grow 4.7% QoQ to Rs27bn.
	EBITDA	26,987	23,473	*15.0*	25,782	*4.7*	
	Margin (%)	11.8	13.8		16.3		
	Adj. PAT	7,482	4,381	*70.8*	6,324	*18.3*	
	Sales Vol. (m tonnes)	4.9	3.7	*30.5*	3.2	*50.7*	
	Real. / Tonne (Rs)	46,150	44,973	*2.6*	48,378	*(4.6)*	
	EBITDA / Tonne (Rs)	5,534	6,280	*(11.9)*	7,965	*(30.5)*	

Company Name		Q4FY19E	Q4FY18	YoY gr. (%)	Q3FY19	QoQ gr. (%)	Remark
Tata Steel - India	Sales	188,011	162,809	*15.5*	171,739	*9.5*	Standalone volume is expected to grow 13.8% QoQ to 3.4m tonnes. Realisations are expected to fall 3.8% or Rs2,200/t QoQ to Rs55,625/t. Due to weak realisations, EBITDA/t is expected to fall 13.5%/Rs2,063 QoQ to Rs13,255.
	EBITDA	44,801	48,093	*(6.8)*	45,494	*(1.5)*	
	Margin (%)	23.8	29.5		26.5		
	Adj. PAT	21,158	19,747	*7.1*	22,871	*(7.5)*	
	Sales Vol. (m tonnes)	3.4	3.0	*11.6*	3.0	*13.8*	
	Realization/t (Rs.)	55,625	53,732	*3.5*	57,824	*(3.8)*	
	EBITDA / Tonne (Rs)	13,255	15,872	*(16.5)*	15,318	*(13.5)*	
Tata Steel - Consol	Sales	454,862	361,323	*25.9*	412,199	*10.4*	Tata Steel Europe (TSE) is expected to report 1.5% QoQ fall in EBITDA/t to US$55 due to weaker spreads and lower scale. Benefitted by higher volume growth partially offset by weaker realisations lower realisations in domestic business, we expect consolidated EBITDA to grow 1% QoQ to Rs67.9bn.
	EBITDA	67,949	64,989	*4.6*	67,233	*1.1*	
	Margin (%)	14.9	18.0		16.3		
	Adj. PAT	24,156	35,203	*(31.4)*	22,751	*6.2*	
	SalesVol.-Corus (mt)	2.6	2.6	*1.4*	2.4	*10.0*	
	EBITDA/Tn-Corus (US$)	55	70	*(21.8)*	56	*(1.5)*	
	Sales Vol.-South East (mt)	0.5	0.6	*(16.1)*	0.5	-	
	EBITDA/Tn-SEAN (US$)	10.0	23.8	*(58.0)*	2.7	*275.0*	

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	265	858.6	988.3	1,004.1	1,056.3	95.7	257.3	228.8	222.7	66.9	174.5	154.7	149.6	10.8	28.3	25.1	24.3	30.1	77.1	56.9	49.1	21.8	8.3	9.3	9.7
Hindalco Industries	ACC	215	245	1,151.7	1,328.8	1,348.2	1,378.3	139.2	165.0	158.0	157.0	47.5	65.4	60.2	59.3	21.3	29.3	27.0	26.6	9.4	11.3	9.4	8.5	10.1	7.3	8.0	8.1
Hindustan Zinc	ACC	289	275	220.8	215.4	218.7	238.9	122.7	112.6	110.8	119.7	91.0	86.7	80.2	87.8	21.5	20.5	19.0	20.8	27.3	24.6	22.0	21.5	13.4	14.1	15.2	13.9
Jindal Steel & Power	BUY	187	221	270.7	366.7	402.1	422.9	61.5	83.4	86.4	92.7	-8.2	2.0	5.2	12.8	-8.1	1.9	5.1	12.6	-2.7	0.6	1.7	3.9	-23.1	96.8	36.8	14.9
JSW Steel	BUY	294	364	689.5	826.7	856.5	1,047.4	135.2	190.0	181.5	219.8	45.4	78.2	73.9	82.5	15.0	25.9	24.5	27.3	17.9	24.9	19.5	18.5	19.6	11.4	12.0	10.8
NMDC	Reduce	105	86	116.1	119.9	105.2	106.2	58.1	67.0	53.4	50.9	38.8	45.2	35.7	33.7	12.3	14.8	11.7	11.0	16.6	17.8	13.0	11.4	8.6	7.1	9.0	9.6
Steel Authority of India	Hold	59	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	-49.1	12.4	10.8	11.0
Tata Steel	BUY	549	652	1,313.0	1,585.3	1,715.4	1,732.9	210.3	280.0	281.4	286.8	29.2	80.1	80.7	83.3	25.5	66.6	67.1	69.3	5.9	10.7	8.7	8.4	21.6	8.2	8.2	7.9

Source: Company, PL

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Jan-Mar'19 Earnings Preview

Q4FY19 Oil sector earnings are likely to be strong- led by inventory gains for the Oil Marketing Companies (OMCs) and healthy performance by gas players despite a weak show of upstream companies. Upstream earnings will be impacted by lower crude oil prices. GAIL's earnings are likely to be weak, given weak LPG profitability and subdued gas trading earnings. IGL, MGL and PLNG are likely to report healthy performance during the quarter.

Exhibit 1: Q4FY19 sector aggregates impacted by OMCs performance

Total (Rs m)	Q4FY19E	Q3FY19	% chg	Q4FY18	% chg
Sales	44,41,429	49,31,403	-10%	4,196,844	6%
EBITDA	5,41,216	4,19,884	29%	462,581	17%
PAT	2,84,273	2,24,766	26%	269,137	6%
Brent (USD/bbl)	62.9	67.5	-7%	67.1	-6%
USD/Rs	70.6	72.1	-2%	64.4	10%

Source: Company, PL

- **RIL**: Despite healthy petrochemicals profitability, RIL's standalone earnings are likely to be weak at Rs84.8bn led by weak refinery earnings and appreciating exchange rate; factored at US$8.4/bbl (US$8.8/bbl in Q3). We have factored in lower refining thruput at 16.8MTPA (Q3FY19 18MTPA) due to maintenance shutdown. Strong petrochemical spreads and higher volumes will support petrochemicals earnings. Appreciating exchange rate will also be a drag for the company even though finance charges are expected to come off.

- **Downstream:** Despite weak GRMs due to crash in gasoline spreads, we expect OMCs to report Q4 profits of Rs118bn vis-à-vis Q3 profits of Rs15bn due to inventory gains and high marketing margins. Marketing margins have recovered sharply on the back of falling crude prices and appreciating exchange rate of ~Rs5/liter. Benchmark refining margins for Q4 were at US$3.1/bbl, US$4.3/bbl in Q4 due to weak gasoline spreads of US$3.5/bbl (US$12/bbl in H1). With recovery in crude and product price, we expect inventory gains to be at Rs88bn against loss of Rs175bn in Q3.

Exhibit 2: OMC earnings impacted by inventory losses

Total (Rs m)	Q4FY19E	Q3FY19	% chg	Q4FY18	% chg
Sales	2,973,033	3,255,582	-9%	2,794,406	6%
EBITDA	210,332	53,106	296%	176,655	19%
PAT	118,044	14,595	709%	96,396	22%
Singapore GRM (US/bbl)	3.1	4.3	-28%	7.1	-56%

Source: Company, PL

- **Upstream:** Upstream companies will see drop in earnings at Rs57bn due to drop in average crude oil prices and appreciating exchange rate. Production and sales volumes are likely to improve. We have not factored in any subsidy burden and expect net realization of ~US$62/bbl.

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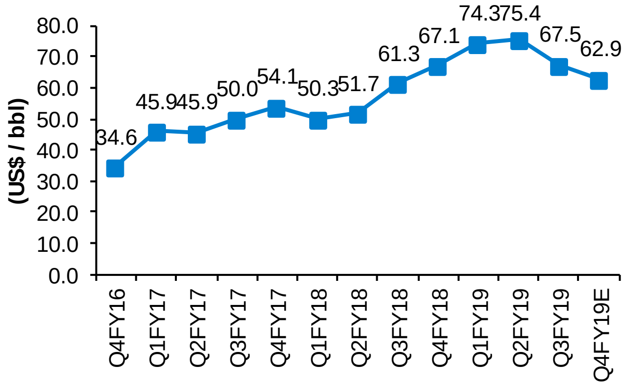
Exhibit 3: Upstream earnings supported by higher realisation

Total (Rs m)	Q4FY19E	Q3FY19	% chg	Q4FY18	% chg
Sales	281,203	312,081	-10%	269,683	4%
EBITDA	149,625	180,923	-17%	121,828	23%
PAT	57,436	94,962	-40%	67,816	-15%

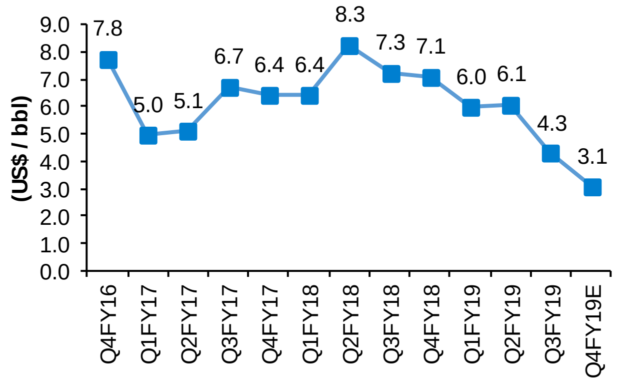
Source: Company, PL

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: Q4FY19 Result Preview

Company Name		Q4FY19E	Q4FY18	YoY gr. (%)	Q3FY19	QoQ gr. (%)	Remark
Bharat Petroleum Corporation	Sales	741,599	652,393	13.7	791,688	(6.3)	BPCL earnings to increase sequentially led by inventory gains and higher marketing margins. Core GRMs will come off led by lower gasoline spreads.
	EBITDA	53,779	37,216	44.5	7,374	629.4	
	Margin (%)	*7.3*	*5.7*		*0.9*		
	Adj. PAT	33,656	26,736	25.9	4,951	579.7	
GAIL (India)	Sales	196,506	154,307	27.3	197,890	(0.7)	GAIL earnings will see a decline due to soft LPG spreads and muted gas trading earnings. However, petrochemicals earnings will revive post shutdown in Q3.
	EBITDA	24,292	16,953	43.3	26,735	(9.1)	
	Margin (%)	*12.4*	*11.0*		*13.5*		
	Adj. PAT	14,847	9,932	49.5	16,812	(11.7)	
Hindustan Petroleum Corporation	Sales	656,489	608,101	8.0	721,118	(9.0)	HPCL earnings to increase sequentially led by inventory gains and higher marketing margins. Core GRMs will come off led by lower gasoline spreads.
	EBITDA	53,966	29,226	84.6	9,632	460.3	
	Margin (%)	*8.2*	*4.8*		*1.3*		
	Adj. PAT	31,735	17,479	81.6	2,475	1,182.1	
Indraprastha Gas	Sales	14,755	12,141	21.5	15,084	(2.2)	IGL earnings to be better led by appreciating exchange rate and soft LNG prices. Volume trajectory likely to be at double digit for the Q4.
	EBITDA	3,334	2,914	14.4	3,179	4.9	
	Margin (%)	*22.6*	*24.0*		*21.1*		
	Adj. PAT	2,135	1,747	22.2	1,980	7.8	
I.G. Petrochemicals	Sales	3,160	3,128	1.0	3,154	0.2	IGPL earnings to revive from Q3 levels due to spreads revival.
	EBITDA	526	637	(17.5)	335	56.8	
	Margin (%)	*16.6*	*20.4*		*10.6*		
	Adj. PAT	300	334	(10.3)	176	70.6	
Indian Oil Corporation	Sales	1,273,950	1,173,685	8.5	1,399,689	(9.0)	IOCL earnings to increase sequentially led by inventory gains and higher marketing margins. Core GRMs will come off led by lower gasoline spreads.
	EBITDA	102,587	110,213	(6.9)	36,101	184.2	
	Margin (%)	*8.1*	*9.4*		*2.6*		
	Adj. PAT	52,653	52,181	0.9	7,168	634.6	

Company Name		Q4FY19E	Q4FY18	YoY gr. (%)	Q3FY19	QoQ gr. (%)	Remark
Mahanagar Gas	Sales	7,361	5,870	*25.4*	7,527	*(2.2)*	MGL earnings to be better led by appreciating exchange rate and soft LNG prices. Volume trajectory likely to be steady albeit strike by bus transporter.
	EBITDA	2,439	1,762	*38.5*	2,391	*2.0*	
	Margin (%)	*33.1*	*30.0*		*31.8*		
	Adj. PAT	1,554	1,048	*48.3*	1,484	*4.7*	
NOCIL	Sales	2,600	2,759	*-5.8*	2,612	*(0.5)*	Nocil earnings to be soft due to high cost inventory from the previous quarters and sluggish sales.
	EBITDA	680	846	*(19.6)*	725	*(6.2)*	
	Margin (%)	*26.2*	*30.7*		*27.8*		
	Adj. PAT	434	510	*(14.8)*	447	*(2.8)*	
Oil India	Sales	30,341	29,984	*1.2*	35,140	*(13.7)*	OINL earnings to be impacted by lower crude oil realisation and appreciating exchange rate. Volume growth will be muted.
	EBITDA	11,555	8,006	*44.3*	15,215	*(24.1)*	
	Margin (%)	*38.1*	*26.7*		*43.3*		
	Adj. PAT	5,799	8,665	*(33.1)*	12,334	*(53.0)*	
Oil & Natural Gas Corporation	Sales	250,862	239,698	*4.7*	276,941	*(9.4)*	ONGC earnings to be impacted by lower crude oil realisation and appreciating exchange rate. Crude oil volume growth will be muted, however, gas volumes might inch up.
	EBITDA	138,071	113,822	*21.3*	165,708	*(16.7)*	
	Margin (%)	*55.0*	*47.5*		*59.8*		
	Adj. PAT	51,637	59,151	*(12.7)*	82,628	*(37.5)*	
Petronet LNG	Sales	100,243	86,362	*16.1*	100,977	*(0.7)*	Steady quarter expected as soft spot LNG prices will support earnings.
	EBITDA	8,416	8,221	*2.4*	8,481	*(0.8)*	
	Margin (%)	*8.4*	*9.5*		*8.4*		
	Adj. PAT	5,471	5,227	*4.7*	5,653	*(3.2)*	
Reliance Industries	Sales	865,988	872,270	*-0.7*	1,039,980	*(16.7)*	RIL standalone earnings to be weak led by soft refining margins and lower throughput. Petrochemicals earnings to be resilient.
	EBITDA	142,776	134,250	*6.4*	145,070	*(1.6)*	
	Margin (%)	*16.5*	*15.4*		*13.9*		
	Adj. PAT	84,785	86,970	*(2.5)*	89,280	*(5.0)*	

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	BUY	358	499	2,357.7	3,090.4	3,475.6	3,654.0	151.7	160.6	180.0	178.5	85.0	94.5	108.6	106.4	39.2	43.6	50.1	49.1	25.2	23.3	22.6	19.3	9.1	8.2	7.2	7.3
GAIL (India)	BUY	349	482	536.6	683.1	812.7	918.6	76.3	103.7	113.8	119.2	45.9	66.0	74.8	79.5	20.4	29.3	33.2	35.3	11.7	15.6	16.1	15.7	17.1	11.9	10.5	9.9
HPCL	BUY	264	326	2,195.1	2,958.6	3,234.1	3,526.4	107.1	141.6	129.8	138.2	72.2	62.5	49.8	54.7	47.4	41.0	32.6	35.9	31.0	22.4	15.4	14.9	5.6	6.4	8.1	7.3
Indraprastha Gas	BUY	306	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	32.0	28.4	26.0	22.5
I.G. Petrochemicals	BUY	305	530	11.4	12.0	14.2	18.4	2.7	2.3	2.4	3.1	1.5	1.3	1.4	1.7	47.6	43.3	44.1	56.0	31.8	22.4	18.6	19.5	6.4	7.0	6.9	5.4
Indian Oil Corporation	Acc	158	207	4,214.9	5,470.8	6,004.8	6,561.0	415.9	358.3	351.9	399.1	208.0	184.5	192.9	228.2	21.9	19.0	19.9	23.5	23.2	16.6	14.5	15.7	7.2	8.3	8.0	6.7
Mahanagar Gas	BUY	1,002	1,179	22.3	27.5	29.8	31.9	7.8	8.9	9.5	10.1	4.8	5.6	6.1	6.8	48.4	57.1	61.6	68.4	24.3	24.5	22.6	21.7	20.7	17.6	16.3	14.7
NOCIL	BUY	141	252	9.7	11.2	13.5	17.0	2.6	3.0	3.4	4.3	1.7	1.9	2.2	2.8	10.3	11.7	13.5	16.9	17.4	17.3	17.8	19.4	13.7	12.1	10.4	8.4
Oil India	Acc	180	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	7.6	6.5	6.8	7.6
ONGC	BUY	157	223	3,622.5	2,053.6	2,051.5	2,227.2	643.3	792.7	710.1	772.3	258.2	338.3	261.9	280.1	20.1	26.4	20.4	21.8	13.0	14.5	9.7	9.7	7.8	5.9	7.7	7.2
Petronet LNG	BUY	239	306	306.0	352.5	383.0	417.0	33.1	36.0	41.1	45.0	20.8	23.8	28.7	33.1	13.9	15.9	19.1	22.0	23.3	23.1	23.8	22.8	17.2	15.0	12.5	10.8
Reliance Industries	Acc	1,354	1,406	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	25.5	23.4	20.8	18.6

Source: Company, PL

Pharma

Jan-Mar'19 Earnings Preview

April 5, 2019

Top Picks

Aurobindo Pharma

Thyrocare Technologies

IPCA Laboratories

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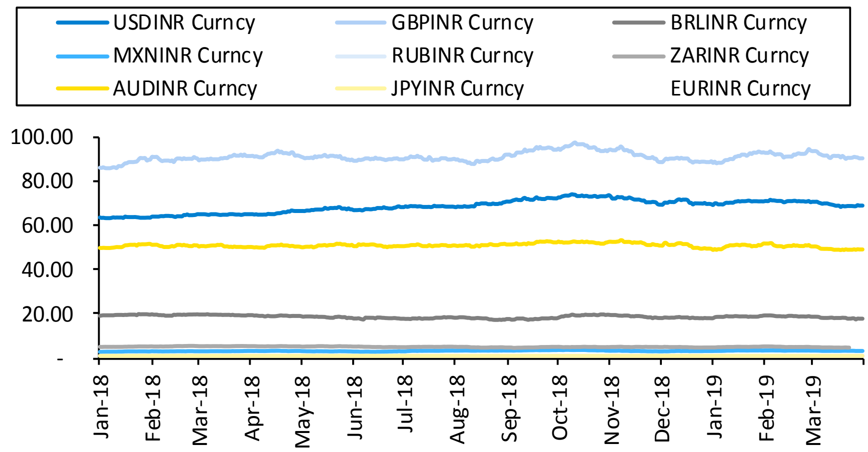
With few important launches in US and QoQ appreciating INR against major economic currencies, we expect moderate growth in exports. INR has appreciated QoQ against US Dollar, UK Sterling, Brazilian Real, Russian Rouble, South African Zar, Australian Dollar and Euro while it depreciated QoQ only against Japanese Yen and Mexican Peso. Depreciating South African Zar (-0.1%) and Brazilian Real (-1.2%) will impact sales and margin of Cipla (in Cipla-Medpro) and Torrent/Dr. Reddy's Lab (DRL) in relevant countries as on Q4FY19. The depreciation of INR against Japanese Yen by (-0.1%) 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. The appreciating INR against Rouble and Euro may result in reporting of lower sales growth of the geographies by Sun Pharma, DRRD, GNP, IPCA, Torrent, ARBP and Lupin. The USD depreciation (vs. INR) in Q4FY19 was 2.1% lower in comparison to 2.7% appreciation in Q3FY19, which may result in reporting of lower sales from US generics.

Exhibit 1: Emerging market currencies v/s USD in Q4FY19 v/s Q4FY18



Source: Bloomberg, PL

US continue to be major market for Indian Pharma companies with 32% of the revenues coming from the USA in our coverage universe.

Exhibit 2: Contribution of US generics in Revenues in Q4FY19E

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 Q4FY19. The new approvals in Q4FY19 Levothyroxyn (Lupin) along with few ones in Q3FY19 (*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 Q2FY19, 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 of individual products in US. We assume 2-4% QoQ price correction across the companies in older US generics in Q4FY19. There were 65 and 70 ANDAs approval given to Indian companies in Q4FY19 and Q3FY19 respectively, vis-à-vis 73 ANDAs in Q2FY19. 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 on the first day of genericisation. With large number of pending approvals, Zydus Cadila received largest (9 ANDAs) number of approvals followed by Aurobindo's six approvals among the Indian pharma companies in Q4FY19.

Among key launches, we expect DRL to report partial gain from the relaunch of gSuboxone in Q4FY19 as it competes with three generics and one authorized generic post vacation of the injunction order by the Appeal Court in US. The initial earnings estimate from gSuboxone will most likely to be moderated post launch of other generics in comparison to the solo launch in Q2FY19. We believe Aurobindo launched gInvanz and gReyataz in the last week Q2FY19 and expect major benefit to receive in Q3FY19 and Q4FY19 as major part of injectable are procured during 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 Q4FY19

Foreign Exchange Rates vis-à-vis INR	Q4FY19 (Avg)	Q3FY19 (Avg)	*Growth (%)*
Euro	80.05	82.21	*2.6*
GB Pound Sterling	91.71	92.68	*1.0*
Japanese Yen	0.64	0.64	*(0.1)*
Russian Rouble	1.07	1.08	*1.2*
South African Zar	5.03	5.04	*0.1*
Brazilian Real	18.69	18.93	*1.2*
USD	70.47	72.02	*2.1*
Mexican Peso	3.67	3.64	*(0.9)*

Source: Company, PL

With no major disruption of sales due to festivity (as it was in Q3FY19) IPM growth and no benefits of lower base (due to GST implementation) YoY, we expect IPM growth to be 10-12% in Q4FY19. 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: Q4FY19 Result Preview

Company Name		Q4FY19E	Q4FY18	YoY gr. (%)	Q3FY19	QoQ gr. (%)	Remark
Aurobindo Pharma	Sales	50,207	39,886	*25.9*	51,753	*(3.0)*	gInvanz (Ertapenem) continue to be lead growth driver followed by revenues from new business opportunities (NBOs). We expects US inj sales to be US$60-65m in Q4FY19E, to be helped by additional sales of Tazo-pip and relaunch of Vancomycin and pantoprazole.
	EBITDA	9,682	7,436	*30.2*	9,920	*(2.4)*	
	Margin (%)	*19.3*	*18.6*		*19.2*		
	Adj. PAT	6,249	5,285	*18.2*	7,373	*(15.2)*	
Cadila Healthcare	Sales	31,348	32,502	*-3.6*	35,779	*(12.4)*	With launch of three new generics, the US sales of CDH to be impacted due to lower sales (QoQ) of gLialda to US$225m. EBITDA margin to be lower due to higher R&D costs from the trials of complex products in US. India sales to remain subdued.
	EBITDA	7,232	8,704	*(16.9)*	8,399	*(13.9)*	
	Margin (%)	*23.1*	*26.8*		*23.5*		
	Adj. PAT	4,199	5,908	*(28.9)*	5,107	*(17.8)*	
Cipla	Sales	38,291	34,958	*9.5*	39,062	*(2.0)*	Expect steady growth in US sales to US$125m. India formulations sales to remain tepid at 8-10% vs peers of 11-13%. Overhead costs remain high due to initiation of high costs trials in complex injectables and inhalers in US.
	EBITDA	5,386	3,547	*51.8*	6,063	*(11.2)*	
	Margin (%)	*14.1*	*10.1*		*15.5*		
	Adj. PAT	2,831	1,786	*58.5*	3,322	*(14.8)*	
Dr. Lal PathLabs	Sales	3,474	2,668	*30.2*	2,925	*18.8*	Expect DLPL growht in Q4FY19 to be driven by sales from packaged of Tests offer, a new set of products with 13% sales contribution and lower EBITDA margin. Higher overhead to be maintained due to commissioning of Kolkata central lab.
	EBITDA	763	640	*19.2*	656	*16.3*	
	Margin (%)	*22.0*	*24.0*		*22.4*		
	Adj. PAT	506	401	*26.2*	458	*10.5*	
Dr. Reddy's Laboratories	Sales	39,943	35,539	*12.4*	38,646	*3.4*	The relaunch of gSuboxone will be key revenu driver and expand profitability in Q4FY19. Majority of its core portfolio in US have stability of price QoQ. Storng momentum of rationalizing overhead costs to help better and sustainable profit going forward.
	EBITDA	8,188	5,636	*45.3*	8,046	*1.8*	
	Margin (%)	*20.5*	*15.9*		*20.8*		
	Adj. PAT	5,127	2,721	*88.4*	5,003	*2.5*	
Eris Lifesciences	Sales	2,540	2,122	*19.7*	2,524	*0.6*	Eris is gradually recovering lost sales in CNS portfolio acquired from Strides. Without the acquired portfolio, own sales to grow at 13-15% in Q4FY19. Margin to be rationalised more with focus on promotion of newly launched and acquired products.
	EBITDA	819	717	*14.1*	935	*(12.5)*	
	Margin (%)	*32.2*	*33.8*		*37.1*		
	Adj. PAT	642	558	*15.1*	801	*(19.9)*	
Glenmark Pharmaceuticals	Sales	24,902	22,479	*10.8*	25,098	*(0.8)*	With competitive intensity in gWelchol, we expect 5% QoQ decline in US sales to US$112m. Ebitda margin to remain subdued due to price erosion in its core portfolio in US. Domestic sales to grow by 10%-12%, exluding the divesting sales of Rs400m/quarter.
	EBITDA	2,887	2,947	*(2.0)*	3,894	*(25.9)*	
	Margin (%)	*11.6*	*13.1*		*15.5*		
	Adj. PAT	1,964	1,511	*30.0*	1,163	*68.8*	
Indoco Remedies	Sales	2,386	2,589	*-7.8*	2,480	*(3.8)*	Domestic formulation sales growth to remain impacted with decline YoY. EBITDA margin to be 3-5%. Management expects normalised sales growth expected in FY20E post its revamp in sales team. The benefits of EIR from USFDA to reflect from Q1FY20E onwards.
	EBITDA	110	387	*(71.6)*	102	*7.5*	
	Margin (%)	*4.6*	*14.9*		*4.1*		
	Adj. PAT	-7	205	*(103.4)*	53	*(112.9)*	
Ipca Laboratories	Sales	9,708	7,816	*24.2*	9,476	*2.5*	IPCA conventionally received lowest growth and weakest EBITDA margin in Q4 of a fiscal year. We expect 10% YoY gr in India formulations along with initial sales in the Global Fund tender business. Expect Adj. EBITDA margin to be 13-14%.
	EBITDA	1,676	1,087	*54.2*	2,317	*(27.7)*	
	Margin (%)	*17.3*	*13.9*		*24.5*		
	Adj. PAT	1,058	513	*106.1*	1,602	*(34.0)*	
Jubilant Life Sciences	Sales	23,365	22,520	*3.8*	23,771	*(1.7)*	Radiology continue to lead its growth in pharmaceutical business while LSI sales to be laggard due to subdued pricing environment globally. Formulations and API sales to be lower post warning letter from USFDA. EBITDA margin to be lower on higher overhead.
	EBITDA	4,501	4,579	*(1.7)*	4,933	*(8.7)*	
	Margin (%)	*19.3*	*20.3*		*20.8*		
	Adj. PAT	2,112	1,549	*36.3*	2,608	*(19.0)*	

Company Name		Q3FY19E	Q3FY18	YoY gr. (%)	Q2FY19	QoQ gr. (%)	Remark
Lupin	Sales	40,610	39,785	*2.1*	43,779	*(7.2)*	While majority of its porduct in US portfolio witnessed bottom of the price erosion cycle, we expect US sales to be subdued due to warning letter in four plants. India sales to gr 13% YoY. EBITD margin traditionally lower due to acccounting of higher overhead.
	EBITDA	5,601	6,534	*(14.3)*	6,256	*(10.5)*	
	Margin (%)	*13.8*	*16.4*		*14.3*		
	Adj. PAT	2,532	6,808	*(62.8)*	1,905	*32.9*	
Sun Pharmaceutical Industries	Sales	72,529	67,110	*8.1*	76,567	*(5.3)*	Exports from Halol unit remained at lower scale as SUNP has rationalised many products post receiveing resolution on the plant. Major focus on launch and promotion of specialty generics and R&D costs on trials to keep overhead higher and margin lower.
	EBITDA	15,549	14,174	*9.7*	20,694	*(24.9)*	
	Margin (%)	*21.4*	*21.1*		*27.0*		
	Adj. PAT	8,370	13,090	*(36.1)*	12,419	*(32.6)*	
Thyrocare Technologies	Sales	1,305	967	*35.0*	963	*35.5*	Traditionally, the Q4 quarter featured with strong revenue growth with lower margin vs. other quarters in a year. Management maintains that higher competitive intensity continue to impact growth and margin and Q4FY19 is not different to the guidance.
	EBITDA	505	372	*35.8*	355	*42.3*	
	Margin (%)	*38.7*	*38.5*		*36.9*		
	Adj. PAT	297	251	*18.1*	202	*47.3*	

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	787	952	162.3	192.9	212.8	227.7	35.2	37.2	42.6	49.6	24.0	24.7	30.2	34.9	40.9	42.2	51.5	59.5	22.8	19.3	19.7	19.1	19.2	18.6	15.3	13.2
Cadila Healthcare	ACC	345	362	116.3	126.8	137.5	145.2	25.4	26.9	29.6	31.6	17.8	19.0	21.6	23.2	17.3	18.6	21.1	22.7	22.6	20.9	20.8	18.7	19.9	18.6	16.3	15.2
Cipla	REDUCE	532	475	147.5	156.7	170.4	185.3	27.6	24.7	30.3	33.5	18.1	14.9	17.6	19.1	22.5	18.5	21.8	23.7	13.5	10.0	10.8	10.6	23.7	28.8	24.4	22.4
Dr. Lal PathLabs	ACC	1,034	1,070	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	50.4	42.5	36.0	34.1
Dr. Reddy's Laboratories	REDUCE	2,754	2,558	142.8	152.6	165.9	183.9	23.5	31.1	34.8	38.6	9.5	19.6	20.4	22.3	57.0	118.4	123.0	134.6	7.6	14.6	13.4	13.0	48.3	23.3	22.4	20.5
Eris Lifesciences	Acc	625	695	8.6	10.2	12.0	13.7	3.2	3.6	4.3	5.0	2.9	3.0	3.6	4.3	21.4	21.9	26.2	31.2	41.2	30.0	27.3	25.3	29.2	28.5	23.8	20.0
Glenmark Pharmaceuticals	Reduce	645	591	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	22.7	19.6	17.1	15.3
Indoco Remedies	REDUCE	204	111	10.2	9.5	10.4	11.3	1.1	0.4	0.8	1.0	0.5	-0.2	0.2	0.3	5.1	-1.6	2.0	3.7	7.1	-2.3	2.9	5.1	39.6	-124.3	100.4	55.2
Ipca Laboratories	BUY	957	921	32.8	37.7	43.3	49.6	4.5	6.8	8.1	9.6	2.4	4.3	5.4	6.5	19.0	33.7	42.5	51.6	9.3	14.7	15.9	16.4	50.4	28.4	22.5	18.5
Jubilant Life Sciences	Reduce	709	703	74.6	89.6	96.9	103.7	11.8	17.3	17.9	19.3	4.1	9.3	10.0	11.2	26.3	59.9	64.2	71.7	10.9	20.6	18.4	17.4	26.9	11.8	11.1	9.9
Lupin	REDUCE	788	820	155.6	160.9	178.2	193.5	29.0	21.4	31.2	37.7	17.1	9.9	13.9	18.5	37.9	22.0	30.8	41.0	12.6	7.4	10.0	12.3	20.8	35.9	25.6	19.2
Sun Pharmaceutical Industries	Reduce	463	427	260.7	281.1	304.7	321.8	51.8	60.4	67.0	70.6	18.7	29.8	48.2	51.3	7.8	12.4	20.1	21.4	5.0	8.2	13.1	12.4	59.3	37.2	23.1	21.7
Thyrocare Technologies	BUY	536	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	30.9	28.3	23.2	19.4

Source: Company, PL

Others

Jan-Mar’19 Earnings Preview

April 5, 2019

Exhibit 1: Q4FY19 Result Preview

Company Name		Q4FY19E	Q4FY18	*YoY gr. (%)*	Q3FY19	*QoQ gr. (%)*	Remark
VIP Industries	Sales	4,420	3,626	*21.9*	4,301	*2.8*	We expect top-line growth to be upwards of 20% given upscaling visible at the mass end of the luggage industry post GST implementation & ensuing product premiumsation. However, gross margins are expected to remain under pressure due to high cost inventory on books.
	EBITDA	398	543	*(26.8)*	378	*5.2*	
	Margin (%)	*9.0*	*15.0*		*8.8*		
	Adj. PAT	253	351	*(27.7)*	238	*6.3*	

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
V.I.P. Industries	BUY	477	579	14,096	17,917	21,897	26,695	1,934	2,249	2,934	3,764	1,268	1,453	1,920	2,481	9.0	10.3	13.6	17.6	25.6	25.0	26.6	27.8	53.2	46.4	35.1	27.2

Source: Company, PL

PL's Recommendation Nomenclature (Absolute Performance)

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

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