Sharekhan Special

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Q4FY2019 results preview

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Resurgence in banking sector to boost earnings

Aggregate profits of Sensex companies to soar in Q4: Despite a slowdown in consumption demand affecting earnings growth of sectors such as automobiles and the weakness expected in global cyclical sectors such as metals, we expect a healthy double-digit growth of close to 35% in aggregate Sensex earnings in Q4FY2019. A low base effect, turnaround in profitability of corporate lending banks and healthy growth in earnings of energy companies are expected to largely drive aggregate Sensex earnings during the quarter. Excluding the banking and energy sectors, however, Sensex earnings growth is expected to be flat or marginally negative. Thus, Q4 does mark a strong growth in earnings, though it is quite narrow and skewed by the banking and energy sectors.

Banks, a new beginning: Corporate sector lending banks such as Axis Bank, State Bank of India and ICICI Bank are likely to show a significant surge in profits (the former two had posted losses in Q4 FY18A, while the latter would have a low base) due to normalisation of earnings as asset quality issues have peaked out and the need for provisions for bad loans have come down sharply. In fact, banks would add over Rs. 20,000 crore in incremental profits in Q4 over the base of total Sensex companies net profits of around Rs. 60,000 crore in Q4FY2018. This amounts to an almost 33% growth at the aggregate Sensex level. Going ahead, a steady pick-up in non-food credit, lower competitive intensity from non-banking finance companies (NBFCs) and easing of interest rates by the Reserve Bank of India (RBI) are also supportive factors for the improvement in bank earnings. The RBI's monetary policy committee (MPC) stance is expected to be accommodative and given the lower retail inflation forecasts and slowing industrial activity, the probability of further rate cuts has brightened, which is favourable for banking sector.

Other heavyweights expected to pull their weight: In addition to banks, earnings growth would also get a kicker from the energy sector (oil & gas companies) and heavyweights such as Larsen & Toubro and Asian Paints. The long-term (FY20E and FY21E) corporate earnings scenario can improve further as the current underperformers such as automobiles, telecom, metals and pharmaceuticals are expected to remain weak in the near term, but at least a few of them are expected to bottom out and witness growth in the latter part of FY2020 and the full year FY2021.

Consensus building in a surge in earnings in FY2020: We expect that a lot of hope built on an earnings surge in FY2020 with a more than 20% growth rate expectation built into consensus estimates is not without substance. A large part of the delta in aggregate earnings would be driven by banks (especially normalisation of earnings of corporate lending banks), a glimpse of which is expected to be visible in Q4 itself, thereby validating the FY2020E expectations. While a pick-up in consumer demand and capex revival going ahead will be helpful, we don't expect them to manifest in the near term. In fact, we expect near-term volatility driven by significant domestic events (political, policy and reform-based risk) as well as uncertainties in global cyclical commodities like metals and crude oil and trade wars as key risks to Q4FY2019 results. The key however, will be to focus on fundamentals and earnings during volatility.

Valuations more reasonable post the time correction: The Sensex trades at ~19x FY2020E estimates (one-year forward earnings), which we find reasonable. Markets have staged a strong pre-election rally with buying interest in broader markets also. However, in spite of the rally, India is trying to play catch-up with emerging market peers. In the near term, the upside could be limited due to the surge in crude oil prices and important events like election outcome. However, the medium-term outlook remains constructive due to an expected revival in earnings growth (beginning Q4), reasonable valuations and cash sitting on sidelines waiting for the elections to get over.

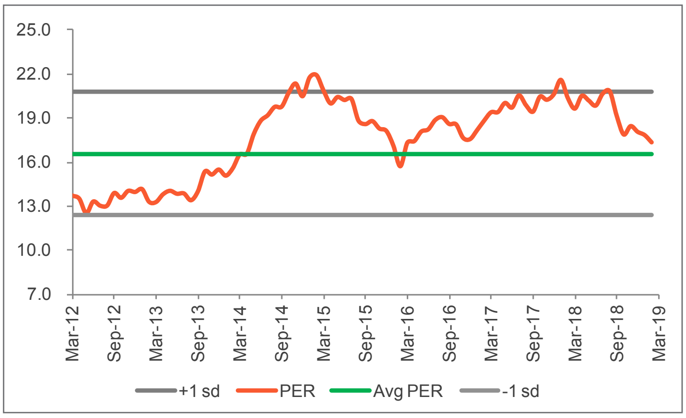
Portfolio strategy – Retain preference for corporate banks, Agri-Inputs/Specialty Chemicals, industrials: We retain our preference for the BFSI sector (especially corporate lending banks) and also agri-inputs and specialty chemicals. We are selective on NBFCs and PSU banks and sectors like construction, cement and industrials. We remain constructive for the year given a strong revival in earnings, reasonable valuations in certain pockets and favourable set up for equities globally. We believe its time to bargain hunt in mid-cap stocks in underperforming sectors like construction, cement, industrials and NBFCs.

Top ideas to play Q4 results:

Largecaps: L&T, ICICI Bank, Infosys, Titan, Bajaj Finance

Midcaps: Bata India, Marico, Ramco Cements, Inox Leisure, Indian Hotels, SRF

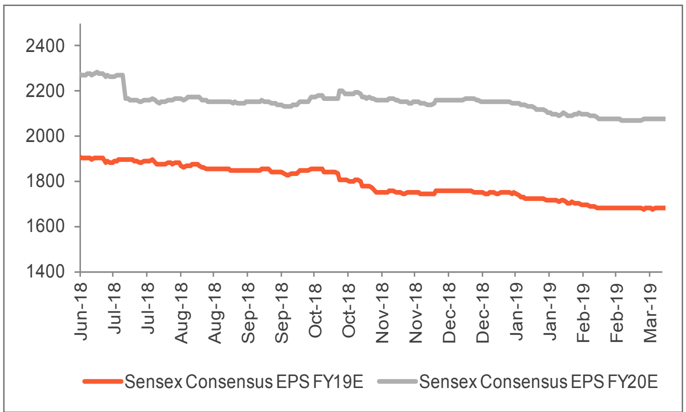
Sensex' one-year forward P/E band



Source: Bloomberg, Sharekhan Research

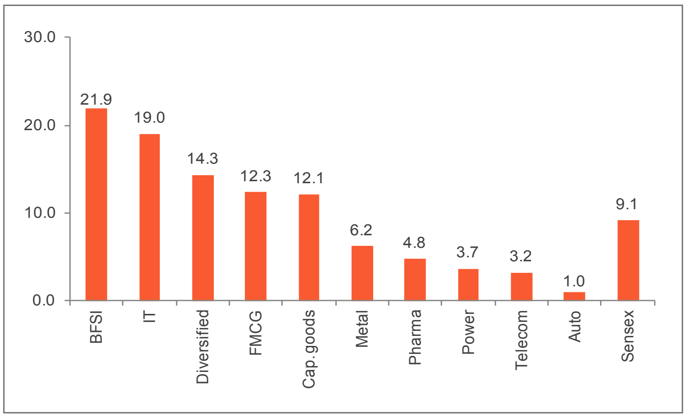
Leaders	Laggards
Aurobindo, Divis, Glenmark, Biocon, Dr Reddy & Granules	Cadila, Sun Pharma, Laurus & Suven
UltraTech Cement & The Ramco Cement	Grasim Industries & Shree Cement
HUL, Marico & Varun Beverages	Emami, Godrej Consumers & Jothy Laboratories
Jubilant Foodworks, Bata, Future Lifestyle & Shoppers Stop	Orbit Exports, Arvind & Relaxo Footwears
HDFC Bank, ICICI Bank, Axis Bank & SBI	Union Bank of India
L&T, Kalpataru Power, KEC international & Thermax	Va-Tech Wabag & V-guard
Ashok Leyland & Exide Industries	Hero Motocorp, M&M & Apollo Tyres
IOCL, BPCL, HPCL, IGL, MGL & Gujarat Gas	RIL, ONGC & Oil India
HCL Tech, Infosys & INOX Leisure	Persistent Systems, TCS
Aarti Industries, Atul, PI Industries & SRF	Bharti Airtel, JSW Steel

Sensex earnings (EPS) consensus estimates



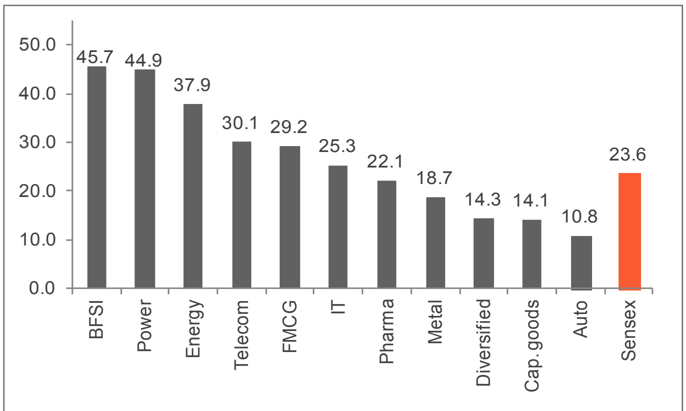
Source: Bloomberg

Estimated revenue growth by sector (%)



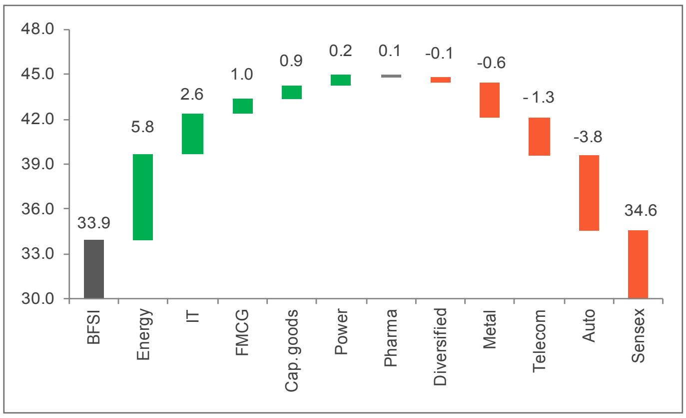
Source: Bloomberg, Sharekhan Research

Estimated EBITDA margin by sector (%)



Source: Bloomberg, Sharekhan Research

Estimated sector-wise contribution to Sensex' earnings growth (%)



Source: Bloomberg, Sharekhan Research

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Automobiles	
• In Q4, automobile sector growth is likely to more than halve to 4% registering the lowest growth in last nine quarters. Volume slowdown across categories to impact growth. • Margins are likely to drop 160 bps yoy due to higher commodity, marketing costs and operating deleverage. We expect Net Profit to decline 8% y-o-y making it first instance of earnings drop in the last six quarters. • With subdued volumes in Q1FY20 due to slowdown in economic growth and election uncertainty, we expect higher discounting and operating deleverage to continue. Earnings expected to remain under pressure in near term. **Preferred Investment Picks:** M&M, TVS Motors Apollo Tyres and Sundram Fasteners	**Leaders for Q4FY2019:** Ashok Leyland, Exide Industries **Laggards for Q4FY2019:** Hero Motocorp, M&M, Apollo Tyres
Banks and Financials	
• We expect a mixed bag quarter with broad positives emerging like easier liquidity, peaking of NPAs recognition etc, but challenges to continue for PSU Banks and NBFCs • We find retail focused and large corporate private banks attractive at present times, who would be helped by NPA cycle peaking and an improved credit outlook. • Despite the benefits of recapitalization etc, performance yet to improve for Public sector banks. • Challenges persist for NBFCs, Prefer customer oriented, parent backed or player with strong balance sheet in NBFC space. **Preferred Investment Picks:** HDFC Bank, Axis Bank, ICICI Bank, RBL Bank and Yes Bank	**Q4FY2019 Leaders:** HDFC Bank, ICICI Bank, Axis Bank and SBI **Q4FY2019 Laggards:** Union Bank of India
Capital Goods	
• Healthy order backlog due to 10% y-o-y order inflows during 9MFY2019 is expected to maintain execution momentum. We expect 12.1% y-o-y revenue growth for our coverage universe. • Mixed operating performance depending on exposure to commodity risk, product mix and geographical mix. Overall, net profit to grow by 12.6% y-o-y. • The slowing domestic tendering activity due to upcoming elections is expected to be compensated by international orders to a certain extent. Stable government and revival in private capex remain key variables. **Preferred Investment Picks:** L&T in the large-cap space and KPTL and KEC among others	**Leaders for Q4FY2019:** L&T, KEC, KPTL and Thermax **Laggards for Q4FY2019:** Va- Tech Wabag, V-guard
Cement	
• Our coverage universe (ex-Grasim) is expected to witness revenue growth of 13% y-o-y in Q4FY2019, led by healthy demand and better realisation. Benign cost environment to aid in margin expansion. • Regional players, especially those based in south, north and west, to outperform in operational performance due to higher increase in cement prices during Q4FY2019. • We maintain our Positive stance on the sector with revival in cement prices during Q4FY2019. Sustenance of cement prices along with monsoon performance to be key monitorable in the near to medium term. **Preferred Investment Picks:** UltraTech and Ramco Cements Limited	**Q4FY2019 Leaders:** UltraTech, Ramco Cement Limited and India Cements **Q4FY2019 Laggards**: Grasim and Shree Cement
Consumer Discretionary	
• In Q4FY2019, branded apparel and retail companies are expected to post revenue growth of 14.5% y-o-y on the back of EOSS and ongoing wedding season. However, the revenue growth will be lower than Q3FY2019, which was backed by consumption boost due to festive season. • Mixed profitability performance as companies with better revenue mix, higher sales volume and efficiencies to see margin improvement than the export oriented companies, which will see a margin dip due to a lag effect of higher cotton prices and rupee appreciation. • Possible deficient monsoon might affect discretionary consumption due to a likely increase in inflation. Stable government at center might provide some sentimental boost to the consumption. **Preferred Investment Picks:** Bata, Jubilant Foodworks, Future Lifestyle and Titan	**Q4FY2019 Leaders:** Jubilant Foodworks, Bata India, Future Lifestyle and Shoppers Stop **Q4FY2019 Laggards**: Orbit Exports, Arvind and Relaxo Footwears

Consumer Goods & Services	
• In Q4FY2019, revenue growth of consumer goods companies will be moderated to mid-single digit to low double digits in comparison to Q3FY2019 as a result of slowdown in rural demand due to liquidity issues and growing macro concerns (coupled with high base of Q4FY2018). • Key input prices such as copra, LLP and palm oil prices have corrected from their high, which will benefit few companies, resulting in improvement in operating margins (including Marico, HUL and Zydus Wellness). On the other hand, unfavorable revenue mix and slowdown in revenue growth would affect the margins of companies such as (Dabur India, ITC, Godrej Consumer Products [GCPL] and Emami) during the quarter. • Deficient monsoon will affect rural as well as urban demand due to cut in consumption/shift to low-price regional brands in the coming quarters. This would result in moderation in sales volume growth of most companies under our coverage. **Preferred Investment Picks:** HUL, Britannia Industries, Marico and Varun Beverages.	**Q4FY2019 Leaders:** HUL, Marico and Varun Beverages **Q4FY2019 Laggards:** Emami, GCPL and Jyothy Laboratories
IT	
• We expect steady revenue growth for the IT industry during Q4FY2019E; Expect CC revenue growth of 1.2-2.5% q-o-q for tier-I companies with cross-currency tailwinds of 30-40 BPS. • EBIT margin of top five IT companies would decline on a sequential basis owing to shortage of talent supply in key markets, higher investments and currency headwinds. • Though macroeconomic concerns have not impacted demand till now, tightening of visa renewals along with increasing onsite cost would impact profitability in FY2020E. • We maintain our Neutral stance on the IT sector; Remain selective in terms of our preferred picks, given unfavourable risk-reward ratio across many stocks post strong run-up in stock prices. **Preferred Investment Picks:** Infosys, Tech Mahindra, L&T Infotech, L&T Tech & Mastek	**Q4FY19 Leaders:** HCL Tech, Infosys and L&T Infotech **Q4FY19 Laggards:** Persistent Systems
Oil & Gas	
• In Q4FY2019, upstream PSUs are expected to report a sequential decline in earnings given lower oil realisation, appreciation of INR and lower other income (decline in dividend receipts). • OMCs likely to report a robust growth in earnings led by massive inventory gain and substantially higher auto fuel marketing margins. • CGD players to benefit from margin expansion given saving in gas cost from INR appreciation and sustained strong volume growth on a y-o-y basis. **Preferred Investment Picks:** Reliance Industries, ONGC, Gujarat Gas and Petronet LNG	**Q4FY2019 Leaders**: IOCL, BPCL, HPCL, IGL, MGL and Gujarat Gas **Q4FY2019 Laggards:** RIL, ONGC and Oil India
Pharma	
• Improved performance expected in Q4FY2019 for the pharma sector on account of a low base. The sector will witness its second improving quarterly performance despite pricing pressure. Softening of raw material prices will help mitigate some of the margin pressure. • Valuation wise, the companies under our coverage are trading in the range of 11x-26x FY2020E earnings, which is on the higher side. Management commentary and outlook for FY2020 will be key to watch for. • Hence we continue to maintain our neutral stance on the sector and see an opportunity in select quality companies as investment options. **Preferred Investment Picks:** Divis, Biocon, Granules	**Q4FY2019 Leaders**: Aurobindo, Divis, Glenmark, Biocon, Dr Reddy & Granules. **Q4FY2019 Laggards:** Cadila, Sun Pharma, Laurus & Suven
Chemicals (Agri + Speciality)	
• Revenue of Sharekhan chemical (agri + speciality) sector coverage universe is expected to grow at a healthy pace of 17.4% y-o-y led by 25.1% growth in speciality chemical space, as agri chemical space is expected to grow at a slightly slower pace at 13.2% y-o-y. • The profitability of Sharekhan chemical (agri + speciality) sector coverage universe is likely to show a strong growth of 18.6% y-o-y, as margin profile is expected to improve on a y-o-y basis across all companies except of UPL (marginal contraction of 59 bps). • We remain positive on the sector as signs of multiyear upcycle are visible due to an improved global environment. Also the space continues provide investment opportunities to investors. **Preferred Investment Picks:** Aarti Industries, Atul, PI Industries	**Q4FY2019 Leaders:** Aarti Industries, Atul, PI Industries, SRF

Automobiles

In reverse gear

Topline growth to moderate to mid single digits; lowest growth in past nine quarters: The automobile sector growth ex-TAMO is likely to moderate sharply and more than halve to 4% in Q4FY2019 (Q3FY2019 growth was 10%). Q4FY2019 growth is the lowest since Q3FY2017. Slowing economic growth, uncertainty before general elections, a financing crunch and increase in cost of ownership (due to mandatory insurance costs) have impacted volumes across automotive segments. PV and CV segment volumes were flattish during Q4FY2019. The 2W segment was the worst impacted with the volumes dropping by 8%. Inventory correction and slowing economic growth dented the volumes. While the automobile OEM volume offtake was weak, strong replacement and export sales at ancillaries and price hikes taken by OEM's significantly offset the impact of a volume slowdown. In our universe, TVS Motors and Ashok Leyland are expected to outperform reporting growth of 7% and 6% respectively due to market share gains. Hero Motocorp and Eicher Motors are expected to underperform reporting a decline of 9% and 2% respectively due to market share loss. Export focused ancillaries like Bharat Forge and Motherson Sumi and tyre players are expected to outperform the automobile industry growth posting close to a double digit topline growth.

Margin decline trend to continue due to higher commodity and discounts & operating deleverage; earnings growth to turn negative: Q4FY2019 would witness continuation of margin decline trend with 160 bps y-o-y drop in margins expected (ex-TAMO). Higher commodity costs and increased marketing expenses in the wake of sharp volume deceleration and OEM's efforts to gain market share would weigh on the margins. Further, operating deleverage on back of a mere 4% growth in universe topline is expected to impact the margins of the automotive universe. Operating profit of the universe is expected to drop 7% y-o-y. Bajaj Auto and HeroMotocorp are likely to see the maximum impact with the margins dropping by 410 and 260 bps respectively. In contrast, TVS Motors is expected to post 90 bps margin improvement driven by cost control initiatives. Tracking the weak operating performance, we expect automobile universe Net Profit to decline 8% y-o-y. This is the first instance of earnings drop in the last six quarters.

Outlook- Earnings pressures to sustain in near term given muted volume outlook: Automobile volumes have been under pressure across the segments. Slowing economic growth, increasing ownership costs due to regulatory changes (mandatory insurance and enhanced safety norms) coupled with uncertainty before the general elections have impacted the volumes. Given the weak consumer sentiments and continued higher inventory levels in the passenger segment (passenger vehicles and 2 wheelers), we expect automotive sales to remain muted in Q1FY2020 as well. With subdued volumes, we expect higher discounting and operating deleverage to continue to maintain pressure on earnings.

Preferred Picks: We prefer M&M, given its new launches in the auto segment, which would enable market share re-gains in the utility vehicle space and attractive valuations. We also like TVS Motors given its strong new product pipeline and the ability to improve margins leading to outperformance. In the auto ancillary space, we like Apollo Tyres given its leadership position in the Indian Commercial vehicles market and a strong ramp up at the European operations. We also like Sundram Fasteners given the increasing content per vehicle and strong expansion overseas.

Earnings outperformers: Ashok Leyland, Exide Industries

Earnings Underperformers: Hero Motocorp, M&M, Apollo Tyres

Q4FY2019 results estimates

Company	Sales (Rs cr)				EBIDTA margins (%)				PAT (Rs cr)			
	Q4 FY19E	Q4 FY18	YoY %	QoQ%	Q4 FY19E	Q4 FY18	YoY bps	QoQ bps	Q4 FY19E	Q4 FY18	YoY %	QoQ%
Maruti Suzuki	21,230.3	21,165.6	0.3	7.9	12.1	14.2	-214.9	227.7	1,764.3	1,882.1	-6.3	18.5
Hero Motocorp	7,818.8	8,564.0	-8.7	-0.6	13.4	16.0	-264.6	-68.9	698.3	967.4	-27.8	-9.2
Bajaj Auto	7,142.6	6,773.3	5.5	-3.6	15.3	19.4	-416.7	-35.2	1,017.1	1,079.9	-5.8	-7.7
TVS Motors	4,275.4	3,992.8	7.1	-8.3	7.9	7.0	90.8	-11.8	148.7	165.6	-10.2	-16.7
M&M #	13,571.2	13,188.8	2.9	5.3	12.9	15.1	-224	-31.8	931.1	1,107.0	-15.9	-36.9
Ashok Leyland	9,265.6	8,772.5	5.6	46.5	11.9	11.8	16.4	166.6	721.5	661.5	9.1	86.0
Apollo Tyres @	4,394.2	4,031.3	9.0	-6.9	11.8	12.8	-94.3	66.2	221.3	250.1	-11.5	-14.2
Greaves Cotton	554.2	486.2	14.0	9.4	14.4	14.4	1.5	45.3	55.0	43.3	26.9	15.3
Gabriel	506.7	496.8	2.0	-0.7	8.2	9.3	-108.3	-19.4	22.3	25.7	-13.2	1.0
Rico Auto @	349.1	332.4	5.0	4.3	10.7	11.6	-93.0	-22.0	13.5	20.6	-34.6	-9.2
Soft Coverage:												
Tata Motors @	92,605.4	91,279.1	1.5	20.3	9.7	11.9	-227.4	181.6	1,389.7	3,765.5	-63.1	36.0
Eicher Motors @	2,466.9	2,528.0	-2.4	5.4	30.5	31.5	-98.5	152.2	591.2	648.6	-8.8	10.9
Exide Industries	2,631.6	2,459.4	7.0	5.4	14.5	13.7	77.6	200.4	204.7	189.6	8.0	32.0
Bharat Forge	1,618.0	1,466.6	10.3	-4.4	27.8	28.5	-67.9	-97.0	243.4	233.5	4.2	-10.2
Ceat @	1,791.0	1,673.9	7.0	4.5	11.1	11.8	-68.4	280.2	98.1	101.7	-3.6	85.8
Jk Tyres @	2,375.3	2,284.0	4.0	-13.0	9.1	14.4	-530.8	-59.9	43.5	145.9	-70.2	-7.7
Minda Industries @*	1,499.5	1,370.9	9.4	2.0	12.5	12.4	13.1	22.3	84.3	97.2	-13.3	21.5
Subros	601.8	552.2	9.0	17.8	10.7	11.5	-81.1	-40.4	22.1	18.6	19.0	28.7
Sundram Fasteners	1,088.3	954.6	14.0	6.5	18.4	17.4	102.6	-45.8	118.0	95.2	23.9	6.1
Endurance Technologies @	1,943.2	1,735.0	12.0	7.2	15.1	14.8	27.4	115.0	138.4	116.4	18.9	17.9
Motherson Sumi @*	17,365.4	15,407.8	12.7	5.4	8.7	9.7	-103.6	24.1	516.7	539.0	-4.1	32.8
GNA Axles	241.3	204.5	18.0	-2.0	15.3	14.4	86.7	-50.1	17.5	16.4	6.5	-2.4
Escorts	1,652.5	1,436.1	15.1	-0.2	12.4	12.1	29.9	28.5	137.6	112.5	22.3	6.5
Suprajit Engineering @	434.8	406.4	7.0	7.2	15.6	18.1	-244.0	67.5	42.3	56.3	-24.9	8.0
Lumax Auto Technologies @	348.2	331.6	5.0	8.8	8.6	8.5	8.9	-32.5	18.8	17.4	8.1	2.2
Lumax Industries @	570.2	559.0	2.0	32.4	9.5	8.3	121.0	-8.3	23.9	17.7	34.9	92.5
Auto Universe	**198,341.5**	**192,452.7**	**3.1**	**11.9**	**11.2**	**13.1**	**-189.5**	**103.8**	**9,283.2**	**12,374.8**	**-25.0**	**6.1**
Auto universe (ex TAMO)	**105,736.1**	**101,173.6**	**4.5**	**5.5**	**12.5**	**14.1**	**-159.2**	**60.4**	**7,893.4**	**8,609.3**	**-8.3**	**2.2**

MM+MVML ; @ Consolidated; @* not comparable due to acquisition;

Valuation

Company	CMP (Rs)	EPS			P/E (x)			Reco	PT (Rs)
		FY18	FY19E	FY20E	FY18	FY19E	FY20E		
Maruti Suzuki	7,218	255.6	246.9	247.1	28.2	29.2	29.2	Hold	**
Hero Motocorp	2,627	185.1	172.7	177.3	14.2	15.2	14.8	Hold	2,800
Bajaj Auto	2,919	141.8	150.6	163.4	20.6	19.4	17.9	Hold	3,100
TVS Motors	482	13.4	15.4	23.1	36.0	31.3	20.9	Buy	650
M&M @	667	33.7	42.9	38	19.8	15.5	17.6	Buy	855
Ashok Leyland	91	5.4	5.8	5	16.9	15.7	18.2	Reduce	75
Apollo Tyres #	216	12.7	14.7	18	17.0	14.7	12.0	Buy	250
Greaves Cotton	146	6.3	7.2	7.7	23.2	20.3	19.0	Hold	**
Gabriel India	151	6.6	7.2	7.8	22.9	21.0	19.4	Hold	**
Rico Auto Industries #	65	4.8	5.1	5.8	13.5	12.7	11.2	Hold	69
Soft Coverage:									
Eicher Motors #	20,988	720.2	862.6	954.7	29.1	24.3	22.0	Neutral	
Exide Industries	218	8.4	8.7	10.6	26.0	25.1	20.6	Neutral	
CEAT #	1,094	67.2	68.7	81	16.3	15.9	13.5	Neutral	
Sundram Fasteners #	570	18.4	23.2	27.4	31.0	24.6	20.8	Positive	
Endurance Technologies #	1,168	27.8	36.2	46.8	42.0	32.3	25.0	Neutral	
JK Tyre & Industries #	92	2.9	12.36	16.94	31.7	7.4	5.4	Neutral	
Lumax Industries#	1,817	76.3	88.3	103.1	23.8	20.6	17.6	Positive	
Minda Industries #	346	10.7	11.4	13.9	32.3	30.4	24.9	Neutral	
Escorts	775	39.5	54.5	61.8	19.6	14.2	12.5	Book Profit	
Subros #	285	10.1	13.5	16.6	28.2	21.1	17.2	Neutral	
GNA Axles	327	23.7	29.9	33.4	13.8	10.9	9.8	Positive	
Suprajit Engineering #	235	9.9	9.8	10.7	23.7	24.0	22.0	Book Profit	
Lumax Auto Technologies#	136	7.9	12.5	11.5	17.2	10.9	11.8	Positive	
Tata Motors#	206	26.5	-3.6	11.9	7.8	-57.2	17.3	Neutral	
Tata Motors- DVR #	99	26.5	-3.6	11.9	3.7	-27.5	8.3	Neutral	
Bharat Forge #	507	18.2	23.6	26.5	27.9	21.5	19.1	Neutral	
Motherson Sumi #	151	5.1	5.4	6.2	29.6	28.0	24.4	Neutral	

@-MM & MVML; #- Consolidated; **-PT under review

Banking and NBFC

Broad positives emerging

Mixed bag quarter, but broad positives emerging: The Q4 FY19 was notable in the sense that we believe a clear performance distinction will be seen between Private banks (PBs), PSU Banks (PSBs) and NBFCs. Broad developments like ~40 BPS intra-quarter fall in bond yields (and therefore likely mark-to-market gains) and improving system-wide liquidity will benefit the players, though the degree of benefit accrued to segments would be different.

Also, the NPA recovery and resolution pace (although still slow, but has resulted in Creditor's negotiation power having improved significantly) indicates that the trend of net slippages peaking out for corporate banks should continue. However, during the quarter, we may see some moderation in fee income as the sale of mutual funds may likely be lower resulting in lower third-party distribution fees income.

RBI's stance on interest rates (courtesy the lower inflation numbers) has softened to a neutral stance. This has helped improve the liquidity which softened the impact of the risk aversion seen in certain asset classes and moderation in NBFCs' growth outlook that would mute the tailwind benefits for NBFCs on Q4FY19 earnings.

Private banks – multiple tailwinds to benefit: We believe that Private Banks (PB), especially corporate lenders like ICICI Bank, Axis Bank etc should see improved performance, where on one hand they themselves would see lesser NPA stress recognition (and thus lower provisions), they also will benefit from an improved credit outlook. The liquidity challenges, and the resultant growth tempering pressures on most NBFCs is likely to have resulted in shift in pricing power back in favor of banks, and PBs stand to gain which will allow their loan growth to improve sequentially.

The faster growing retail banks should continue to outperform the industry in terms of growth and maintain their profitability trend. However, banks like Indusind Bank etc, which have exposure to a beleaguered Infrastructure Finance conglomerate, will likely see the account slipping to NPAs, which will impact near term provision cost. The intra-quarter bond yields fall, will also result in MTM reversals/lower provisions which will help offset weak distribution fee income.

PSU Banks – despite benefits of recapitalization etc, performance yet to improve: We expect a steady performance from PSU banks (PSBs). PSU banks have been benefitted by the recapitalization by the Govt. as well as some marginal benefit from Employee Share purchase scheme (ESPS) as well, which has been another avenue to provide PSBs with capital. As a result, allowing most PSBs to show stable operating performance and also facilitate higher provisions, thereby keeping NPAs under check. However, hobbled with bad assets and constraints on capital, we don't expect PSBs to be targeting too many growth avenues, which is why we believe their pricing power, and thereby margins are also likely to be tepid, keeping the outlook subdued for most of the PSBs.

NBFCs – Men to be separated from boys: We believe that several structural changes and concerns have emerged for NBFCs. Though, liquidity and availability of funds scenario had improved at the fag end of the quarter, the sector continues to see challenges due to risk aversion, higher fund costs (compared from last year). This is likely to take a toll on NBFCs' growth rates and profitability going forward. Due to the regulatory indications, several NBFCs may need to tweak their borrowing profile in the near term, to be better aligned with respect to their asset profile which may impact their near to medium term growth outlook.

NBFCs dealing with consumer durable loans, microfinance, CVs, etc are looking well-placed to maintain margins. Those that have a strong own balance sheet (or their parent firm has), which will help them access market funding more easily and hence would be our picks in the NBFC sector. In Q4 FY19E, the wholesale Cost of Funds have cooled off (down ~30BPS intra-quarter) we believe that tepid assignment income for NBFCs, may offset the benefits.

Despite the past few quarters, where liquidity has been tight, we expect that NBFCs are enjoying high ratings and/or which are backed by strong parents like HDFC, Bajaj Finance, LIC Housing Finance etc who therefore, should see minimal impact either on their growth outlook or on margins.

Outlook: Favor private Banks, select PSU Banks and strong NBFCs for investment: We believe that the corporate banks are likely to begin to show improvement in earnings and profitability, aided by lower provisions pressures / recoveries. Capital infusion and PCA framework exits are positive for PSBs, but we believe that a business case at present exists only with SBI and PNB (amongst PSU Banks). Within banks, players with a robust deposit franchise, pricing flexibility and ability to mop-up and retain critical Retail Term deposits will have an edge. For NBFCs we expect a slower growth outlook for most players except some of the stronger NBFCs (with either balance sheet strength/ high credit ratings or strong parent) which should be able to continue to maintain trend growth.

Valuations: We believe that despite the recent run up, our hypothesis of earnings normalization leading to re-rating benefits is playing out. We continue to find retail focused banks and large corporate private banks attractive at present times as we maintain that the current environment has several tailwinds in their favour.

Earnings Outperformers: HDFC Bank, ICICI Bank, Axis Bank, SBI

Earnings Underperformers: Union Bank of India,

Preferred Investment picks: HDFC Bank, Axis Bank, ICICI Bank, RBL Bank, Yes Bank

Q4FY2019 results estimates Rs cr

Particulars	Net interest income				Pre-provisioning profit				Profit after tax			
	Q4 FY19	Q4 FY18	YoY %	QoQ %	Q4 FY19	Q4 FY18	YoY %	QoQ %	Q4 FY19	Q4 FY18	YoY %	QoQ %
Public												
State Bank of India	24,643	19,974	23.4	8.6	16,175	15,883	1.8	28.1	6,593	-7,718	NA	66.7
Punjab National Bank	4,347	3,063	41.9	1.3	3,317	-447	-841.3	7.0	419	-13,417	NA	70.1
Bank of Baroda	5,050	4,002	26.2	6.5	3,583	2,665	34.4	1.3	785	-3,102	NA	66.5
Bank of India	3,309	2,564	29.1	-0.7	1,998	1,172	70.5	-12.1	84	-3,969	NA	-101.8
Union Bank	2,490	2,193	13.5	-0.2	2,080	1,889	10.1	18.8	138	-2,583	NA	-9.9
PSBs total	**39,838.8**	**31,796.6**	**25.3**	**6.1**	**27,152.8**	**21,162.6**	**28.3**	**16.6**	**8,019.9**	**-30,789.9**	**NA**	**8,991.8**
PSBs total ex-SBI	**18,032**	**16,050**	**12.3**	**-2.7**	**12,877**	**8,524**	**51.1**	**-5.8**	**101**	**-25,535**	**NA**	**-102.6**
Private												
ICICI Bank	6,856	6,022	13.9	-0.3	6,252	7,514	-16.8	1.7	2,654	1,020	160.2	65.4
HDFC Bank	13,549	10,658	27.1	7.7	11,369	8,836	28.7	5.5	5,700	4,799	18.8	2.1
Axis Bank	5,617	4,730	18.7	0.2	5,034	3,672	37.1	-8.9	1,542	-2,189	NA	-8.2
Federal Bank	1,138	933	22.0	5.7	786	589	33.5	11.0	349	145	141.0	4.7
Yes Bank	2,752	2,154	27.8	3.2	2,488	2,135	16.5	25.0	954	1,179	-19.2	-4.8
Private banks total	29,912	24,497	22.1	3.9	25,928	22,746	14.0	3.1	11,199	4,955	126.0	9.7
All banks ex-SBI	**47,944**	**40,548**	**18.2**	**1.3**	**38,804**	**31,270**	**24.1**	**0.0**	**11,300**	**-20,580**	**NA**	**79.6**
Grand total	**69,751**	**56,294**	**23.9**	**5.1**	**53,080**	**43,908**	**20.9**	**9.6**	**19,219**	**-25,835**	**NA**	**86.7**
Soft Coverage												
IndusInd Bank	2,377	2,007.6	18.4	3.9	1,995	1,769	12.7	-5.8	684	953	-28.2	-30.5
RBL Bank	694	500	38.7	6.0	532	383	38.9	6.8	246	178	37.9	9.1
L&T Finance Holding	1,595	1,311.1	21.6	15.6	1,281	1,034	23.9	7.5	590	406	45.2	1.5
Kotak Mahindra Bank	3,118	2,580	20.9	6.1	2,324	2,018	15.1	19.9	1,313	1,124	16.8	1.7
PNB Housing Finance	655.8	553.2	18.5	11.3	502.3	387.1	29.7	11.5	270.9	220.5	22.9	1.5
NBFCs												
HDFC	13,960	9,813	42.3	32.1	6,016	3,697	62.7	101.6	2,623	2,846	-7.8	24.1
LIC Housing Finance	4,749	3,934	20.7	7.0	930	867	7.3	8.6	604	539	12.0	1.3
Bajaj Finance	4,960	3,451	43.7	6.1	2,130	1,368	55.8	4.8	1,149	743	54.7	12.3
PTC India Fin. Ser.	338	291	16.4	0.5	88	94	-5.6	18.3	50	-110	NA	19.7
NBFCs Total	**18,919.9**	**13,264.2**	**42.6**	**24.1**	**8,146.5**	**5,064.7**	**60.8**	**62.4**	**3,772.1**	**3,589.0**	**5.1**	**20.3**

Valuation

Banks	Reco.	Price target (Rs)	CMP (Rs)	RoA (%)			RoE (%)			P/BV(x)		
				FY18	FY19	FY20	FY18	FY19	FY20	FY18	FY19	FY20
Public												
State Bank of India	Buy	365	315	-0.2	0.2	0.5	-3.2	3.1	9.1	1.5	1.5	1.3
Punjab National Bank	Buy	110	94	-1.7	-0.6	-0.2	-29.9	-14.1	-5.3	0.7	0.8	0.9
Bank of Baroda	Buy	140	132	-0.3	0.3	0.5	-5.8	5.9	8.7	0.9	0.8	0.8
Bank of India	Hold	95	102	-1.0	-0.1	0.1	-17.8	-1.6	2.0	0.6	1.0	1.0
Union Bank	Reduce	70	95	-1.1	0.1	0.1	-21.4	2.2	2.5	0.5	0.3	0.3
PSBs total / avg.				**-0.9**	**0.0**	**0.2**	**-15.6**	**-0.9**	**3.4**	**0.82**	**0.89**	**0.86**
Soft Coverage												
IndusInd Bank	Positive		1,768	1.6	1.5	1.7	16.2	15.5	18.6	4.5	3.9	3.3
RBL Bank	Positive		666	1.1	1.1	1.2	11.5	12.1	15.4	4.2	3.8	3.3
L&T Finance Holding	Neutral		148	1.6	2.4	2.5	13.2	20.3	21.4	2.6	2.2	1.9
Kotak Mahindra Bank	Positive		1,343	1.7	1.7	1.7	12.5	11.9	12.6	6.8	6.1	5.4
PNB Housing Finance	Neutral		893	1.3	1.1	1.3	13.2	13.2	18.1	2.4	2.1	1.8
Private												
ICICI Bank	Buy	450	397	0.8	0.6	1.0	6.6	4.8	9.5	2.5	2.4	2.2
HDFC Bank	Buy	2,650	2,290	1.8	1.8	1.8	17.9	17.5	17.0	5.6	4.7	4.1
Axis Bank	Buy	850	764	0.0	0.5	0.7	0.5	6.0	9.3	3.1	2.9	2.7
Federal Bank	Buy	110	98	0.7	0.7	0.8	8.2	9.4	11.5	1.6	1.5	1.3
Yes Bank	Buy	300	271	1.7	1.3	1.4	17.7	16.3	18.1	2.4	2.1	1.9
Private banks total / avg.				**1.0**	**1.0**	**1.1**	**10.2**	**10.8**	**13.1**	**3.0**	**2.7**	**2.5**
Grand total / avg.				**0.1**	**0.5**	**0.7**	**-2.7**	**5.0**	**8.2**	**1.9**	**1.8**	**1.7**
NBFCs												
HDFC Ltd	Buy	2,300	2,065	4.3	2.1	3.2	25.8	13.8	20.8	5.6	5.1	4.4
LIC Housing Finance	Buy	590	550	1.6	1.5	1.7	16.7	16.2	18.5	2.2	1.9	1.6
Bajaj Finance	Buy	2,950	3,014	3.3	3.8	3.6	19.7	21.7	22.3	10.6	8.8	7.2
PTC India Fin. Ser.	Hold	16	17	1.6	1.3	1.1	7.8	7.4	7.6	0.4	0.4	0.4
NBFC's Total/ Avg				**2.5**	**2.1**	**2.3**	**16.7**	**14.7**	**17.3**	**3.8**	**3.2**	**2.7**

Capital Goods & Engineering

Mixed quarter

Healthy order backlog to maintain execution run rate: We expect Sharekhan universe to report 12.1% revenue growth for Q4FY2019, driven mostly by project-based companies owing to healthy order backlog at the end of Q3FY2019. After strong order inflows in 9MFY2019 (up ~10% y-o-y), aggregate inflows in Q4FY2019 have followed an expected trend of a decline due to lower ordering in view of elections. After strong performance in Q3FY2019 along with improvement and management commentary regarding visible green shoots in capex, we expect the performance to continue. Overall, we expect improvement in the operating performance of industrial companies, driven by healthy topline growth resulting in moderate improvement in capacity utilisation. Order inflow in the coming quarter is expected to be driven by public sector capex (especially in infrastructure and hydrocarbon) and consumer-facing industry. Further, companies in the consumer electrical space are expected to report double-digit growth in wake of a seasonally strong quarter. Expectation of a hotter summer season this time will likely benefit categories such as air conditioners, coolers and fans (Havells and Crompton Consumer).

Mixed operating margin profile: We estimate operating profit margin for our coverage universe to remain broadly stable. Going ahead, with stable steel and copper prices and rising material costs behind us, we expect margins to improve further in the coming quarters. We expect Triveni Turbines and V-Guard to fare poorly on the operating margin front on account of change in product mix and inability to pass on increased commodity prices, respectively. However, other companies are expected to witness range-bound variation in margins. Consequently, operating profit of our coverage universe is expected to grow by 14% y-o-y and earnings growth of 12.6% y-o-y.

Outlook – Stable government and revival of private capex remain key monitorables: The capital goods sector has seen increasing public sector spending, which in the near term is expected to slow down due to upcoming elections. However, strong international orders have compensated for slowing domestic tendering activities. Further, domestic private capex has not shown a confirmed uptrend. We believe post elections, with a stable government, domestic public sector spending is expected to pick up pace along with revival in private space capex. However, below-normal monsoon may pose a risk in slowdown of consumer-facing industry capex in the near term.

Valuation – Selectively positive: Most project-based companies in our coverage universe are trading at 12x-28x their FY2020E earnings. Electrical consumer goods companies continue to trade at higher multiples of 16x-45x their forward earnings. Hence, we prefer L&T in the large-cap space and KEC and KPTL in the mid-cap space.

Preferred picks: L&T, KPTL and KEC

Leaders for Q4FY2019: L&T, KEC, KPTL and Thermax

Laggards for Q4FY2019: Va- Tech Wabag, V-guard

Q4FY2019 results estimates Rs cr

Company	Sales		OPM (%)		PAT	
	Q4FY19	y-o-y growth	Q4FY19	BPS (YoY)	Q4FY19	y-o-y growth
Finolex cables*	863	8.5%	14.7	16	92	12.0%
KEC	4,146	13.2%	10.5	37	218	10.9%
KPTL*	2,304	19.3%	10.9	3	128	21.7%
L&T	45,597	12.1%	14.1	85	3,715	17.3%
Thermax	1,639	13.6%	9.2	(36)	109	44.1%
Triveni Turbines	262	7.3%	22.8	(156)	39	9.4%
Va Tech Wabag	1,059	2.1%	10.1	99	56	-6.6%
BEL	3,795	4.8%	20.2	(180)	491	-12.0%
AIA Engg	880	22.2%	23.2	10	140	-8.0%
JMC Projects	920	27.2%	11.7	20	40	16.5%
V-Guard*	764	16.0%	9.3	(191)	53	-16.7%
Crompton Consumer	1,259	11.7%	14.2	(38)	114	10.1%
Havells	2,845	12.2%	13.4	(69)	258	11.4%
Total	**66,335**	**12.1%**	**14.0**	**42**	**5,451**	**12.6%**

*- Standalone numbers, Loss to Profit

Valuations

Company	CMP (Rs)	PT (Rs)	Reco	EPS (Rs)			P/E (x)		
				FY18	FY19E	FY20E	FY18	FY19E	FY20E
Finolex Cables*	487	535	Hold	23.4	23.6	25.5	20.8	20.7	19.1
KEC	287	375	Buy	17.9	19.9	23.3	16.0	14.4	12.3
KPTL*	474	552	Buy	21.0	26.0	29.7	22.6	18.3	16.0
L&T	1,373	1,655	Buy	51.7	65.1	71.7	26.6	21.1	19.1
Thermax	976	1,125	Hold	20.5	26.4	33.6	47.5	36.9	29.0
Triveni Turbines	109	115	Hold	3.0	3.2	3.9	36.8	34.1	28.0
Va Tech Wabag	314	UR	Hold	24.1	23.3	28.1	13.0	13.5	11.2
BEL	95	103	Buy	5.8	7.1	7.7	16.4	13.4	12.4
AIA Engg	1,693	NA		47.0	49.8	58.9	36.0	34.0	28.7
JMC Projects#	116	NA		6.3	7.3	8.4	18.4	15.9	13.8
V-Guard*	221	250	Hold	4.0	3.6	4.9	55.5	60.6	44.8
Crompton Consumer	226	Positive View		5.2	6.0	7.0	43.7	37.7	32.3
Havells	758	Positive View		11.2	12.8	16.8	67.6	59.2	45.1

*- Standalone, UR -Under Review, # - Bloomberg consensus

Cement

Expect strong operational performance

Strong operational performance backed by improving realisation and benign cost environment: Cement companies under our coverage (ex-Grasim) are expected to see 13.1% y-o-y revenue growth in Q4FY2019. Growth is expected to be contributed by both healthy volume (up 9.8% y-o-y) and better realisation (up 3% y-o-y). As per DIPP data, cement production saw 9.5% y-o-y rise during January-February 2019, which shows healthy volume uptick for Q4FY2019. Further, as per our channel check, average pan-India cement prices have improved by 2.6% q-o-q (up 2.4% y-o-y) for Q4FY2019. Operating profit margin of our coverage universe is expected to increase by 46 BPS y-o-y (up 231 BPS q-o-q) mainly led by regional players such as Shree Cement, India Cement, JK Lakshmi Cement and Mangalam Cement. Better realisation along with benign operating costs (power and fuel and freight costs) is expected to result in better operating margin.

Regional players to outperform because of strong realisation growth: Average cement prices in south during Q4FY2019 saw 8.7% q-o-q rise (up 4.9% y-o-y), while prices in the northern and western regions increased by over 2% both on a y-o-y and q-o-q basis. Hence, along with healthy volume growth, regional companies such as India Cements, Ramco Cements Limited and JK Lakshmi Cement are expected to witness strong net earnings growth. Shree Cement's net earnings might be affected on account of higher depreciation, increased interest expense and higher tax outgo despite strong operational performance.

Outlook – Sustenance of cement prices and monsoon are key monitorables: Healthy uptick in pan-India cement prices during February 2019 and same being sustained during March 2019 have improved operating margin outlook for the cement sector. Further, sustenance of pricing discipline during Q1FY2020 and monsoon season spread remain key monitorables in the near to medium term. Government spending on infrastructure and focus on reviving affordable housing remain key positives in terms of demand outlook for the sector.

Valuation – Maintain Positive view on the sector: Stock prices of cement companies under our coverage have revived, with improving cement pricing environment since February 2019. We continue to believe on favourable business outlook for the cement sector in terms of improving utilisation, better pricing discipline and benign cost environment. Hence, we maintain our Positive view on the sector and have a Buy rating on Grasim, UltraTech Cement, Shree Cement and Ramco Cements Limited.

Preferred picks: UltraTech and Ramco Cements Limited

Leaders in Q4FY2019: UltraTech, Ramco Cement Limited and India Cements

Laggards in Q4FY2019: Grasim and Shree Cement

Q4FY2019 results estimates

Particulars	Sales (Rs cr)				OPM (%)				PAT (Rs cr)			
	Q4 FY19E	Q4 FY18	YoY (%)	QoQ (%)	Q4 FY19E	Q4 FY18	YoY (%)	QoQ (%)	Q4 FY19E	Q4 FY18	YoY (%)	QoQ (%)
Active Coverage												
Grasim*	5211	4606	13.1%	-1.6%	18.9%	18.3%	54	-101	556	592	-6.0%	-8.6%
UltraTech	10099	9002	12.2%	14.6%	18.3%	18.9%	-58	256	750	677	10.7%	66.9%
Shree Cement	3136	2811	11.6%	12.8%	24.8%	22.4%	237	-5	310	399	-22.4%	10.1%
Ramco Cements Limited	1543	1255	22.9%	27.5%	22.0%	21.7%	29	431	151	109	39.4%	49.8%
Soft Coverage												
India Cements	1572	1398	12.4%	19.4%	13.8%	11.3%	251	360	57	35	61.0%	1713.7%
JK Lakshmi Cement	1004	897	11.9%	7.3%	12.4%	11.3%	111	189	38	34	12.8%	158.9%
Mangalam Cement	363	303	19.8%	8.4%	6.2%	3.4%	278	253	2	-5	LTP	LTP
Total	**22926**	**20272**	**13.1%**	**10.8%**	**18.8%**	**18.3%**	**48**	**145**	**1864**	**1841**	**1.2%**	**28.7%**
Total (ex-Grasim)	**17,716**	**15,666**	**13.1%**	**15.1%**	**18.8%**	**18.3%**	**46**	**231**	**1308**	**1250**	**4.7%**	**55.8%**

*Standalone financials, PTL – Profit to Loss LTP – Loss To Profit

Valuation

Companies	Reco	Price target (Rs)	CMP (Rs)	EV/EBITDA (x)			P/E (x)		
				FY18	FY19E	FY20E	FY18	FY19E	FY20E
Shree Cement	Buy	20,800	18839	26.0	24.0	19.1	48.6	55.0	45.0
UltraTech	Buy	4,330	4142	20.6	20.9	15.9	44.3	66.2	43.7
Grasim*	Buy	985	838	7.9	5.2	4.4	27.9	20.7	18.8
Ramco Cements Limited	Buy	830	764	17.4	19.2	15.5	33.4	39.6	30.2
India Cements#	Not Rated		108	8.3	8.6	7.5	33.2	40.6	24.3
JK Lakshmi#	Not Rated		349	12.4	12.4	10.7	49.0	55.2	31.4
Mangalam Cement#	Not Rated		266	11.7	18.2	13.5	98.3	-	-

Soft coverage *Standalone estimates UR – Under Review

Consumer Discretionary

Revenue to grow to moderate, but will stay in double digits

Q4FY2019 revenue growth to be in double digits; but lower than Q3FY2019: We expect double-digit top line growth of branded apparel and retail companies in our coverage driven by End of Season Sale (EOSS) and the ongoing wedding season. However, growth in the current quarter would be lower than Q3FY2019; where growth was high due to the festive season. Textile companies like Kewal Kiran Clothing (KKCL) and Raymond are expected to post y-o-y revenue growth of 11.3% and 8.9% respectively. Arvind Ltd. is expected to post muted growth due to lower denim sales. Aditya Birla Fashion & Retail (ABFRL) is expected to report double-digit revenue growth and Shoppers Stop (SSL) is expected to post revenue growth of 6.2% y-o-y driven by same store sales growth (SSSG) of 7.5% and strong sales from non-apparel segments like beauty, jewellery, watches, etc. Footwear companies like Bata India (Bata) and Relaxo Footwears (Relaxo) are expected to report double-digit revenue growth of 13.5% and 14% y-o-y respectively as they will continue to reap the GST benefits. In Jubilant Foodworks (JFL), SSSG is expected at 9%, (down compared to last three quarters due to high base of 26% in Q4FY2018) which, along with expansion strategies in newer markets will drive its revenue growth to 12.2% y-o-y. Revenue growth of Titan is expected at 19.7% y-o-y backed by an uptick in demand in the jewellery segment driven by the ongoing wedding season. Future Lifestyle Fashions (FLF) is expected to post strong revenue growth of 23.1% y-o-y, mainly because of “Brand Factory” picking up sales. Overall, revenue growth for branded apparels and retail companies under Sharekhan coverage is expected to be at 14.5% y-o-y during Q4FY2019.

Profitability to remain mixed: Branded apparel and footwear companies are expected to score better margins due to better product mix, higher sales volume and operating efficiencies than the export oriented textile companies, which are likely to get affected by the lag effect of higher cotton prices and rupee appreciation in the last six months. Having said that, the margin expansion of branded apparel and retail companies is expected to moderate due to discounted sales of products in EOSS season. OPM for Arvind and KKCL is expected to decline by 78 BPS and 70 BPS respectively in Q4FY2019. Stable rubber prices, improving product mix and premiumisation strategy will aid in increasing the OPM for Bata by 148 BPS y-o-y whereas OPM for Relaxo is expected to fall by 77 BPS due to increased employee costs and other expenses. SSL is expected to report an increase of 93 BPS y-o-y in operating margin on the back of better product mix of third party brands and improvement in the share of private labels. OPM for Titan is expected to decline by 62 BPS y-o-y owing to increasing gold prices, jewellery being the major segment of the business. JFL is expected to report OPM of 17.3% in Q4FY2019 as against 16.4% in Q4FY2018 as a result of better cost efficiencies. Overall, OPM of companies under Sharekhan discretionary universe to remain flat at 12.1% y-o-y in Q4FY2019.

Outlook – Deficient monsoon might impact discretionary demand; Stable government will provide some support to the consumption theme in the near term: The branded apparel and retail companies are expected to end FY2019 on a strong note mainly led by festivities, EOSS and the wedding season. We expect the positive revenue trajectory to continue in the backdrop of a stable macro environment. However, the deficient monsoon might pull up the inflation (especially the food inflation), affecting the demand for discretionary products such as jewellery, branded apparel and footwear. But a stable government at the center will play a key role in placing good government policies and stable economy, which will give some support to consumer sentiments in the near term. EOSS and higher advertisement costs might have an impact on margins, but operating efficiencies and better revenue mix would help in mitigating the margin pressure to some extent. Recent amendments made by the government in the FDI policy for e-commerce will provide a level playing field to the brick and mortar retailers in the medium term. Retailers will now have to restructure their omni-channel strategy to grab stronger market and mind share (of consumers) in the consumer discretionary space. In the long run, GST implementation will lead to a large shift from non-branded to branded goods, thus, helping branded retail companies in terms of revenue.

Preferred picks: We prefer stocks having a lean balance sheet and that will benefit from GST implementation. Thus, our preferred picks are Bata, Jubilant Foodworks, Future Lifestyle and Titan. Bata will benefit because of its recent strategies towards being a branded footwear player from a conventional footwear player. JFL will benefit from the expected strong SSSG in Dominos, entry into the Chinese cuisine market and new strategic initiatives taken for the company as a whole. FLF will benefit from positive consumer sentiment as it is an integrated fashion company with a strong brand portfolio and extensive distribution channel with pan-India presence. Titan, being India’s largest specialty retail player with a lean balance sheet and strong financial background, is one of the best retail plays among peers.

Earnings Leaders in Q4FY2019: Jubilant Foodworks, Bata India, Future Lifestyle and Shoppers Stop

Earnings Laggards in Q4FY2019: Orbit Exports, Arvind and Relaxo Footwears

Q4FY2019 results estimates Rs cr

Companies	Net sales			OPM (%)		BPS	Adjusted PAT		
	Q4FY19E	Q4FY18	YoY %	Q4FY19E	Q4FY18	(YoY)	Q4FY19E	Q4FY18	YoY %
Branded Apparels & Retail									
Arvind*	1858.5	1842.8	0.9	8.8	9.5	-78	51.6	66.4	-22.3
KKCL	133.6	120.0	11.3	21.2	21.9	-70	21.1	19.5	8.3
Orbit Exports	30.8	30.2	2.2	25.0	28.2	-316	4.5	6.4	-29.4
Relaxo Footwear	634.5	556.6	14.0	16.8	17.6	-77	57.2	53.5	6.9
Total	**2657.5**	**2549.6**	**4.2**	**11.5**	**12.1**	**-60**	**134.4**	**145.7**	**-7.8**
Soft coverage									
ABFRL	1995.6	1753.6	13.8	9.4	9.3	9	59.8	44.3	35.0
Bata India	717.4	632.3	13.5	14.5	13.0	148	63.3	52.1	21.5
Future Lifestyle	1202.0	976.9	23.1	9.6	9.0	56	32.8	25.9	26.3
Indian Hotels Company	1252.7	1143.5	9.6	22.8	21.4	135	122.6	93.7	30.9
Jubilant FoodWorks	874.9	779.8	12.2	17.3	16.4	93	81.2	68.1	19.3
Raymond	1774.1	1629.8	8.9	9.5	9.2	26	52.0	52.1	-0.1
Shoppers Stop	902.4	849.6	6.2	7.0	6.1	93	23.5	20.8	12.9
Titan	4858.3	4059.6	19.7	10.0	10.6	-62	403.1	310.1	30.0
Trident	1324.8	1185.6	11.7	17.6	17.8	-20	77.7	50.9	52.8
Total	**14902.4**	**13010.6**	**14.5**	**12.1**	**12.0**	**11**	**916.1**	**717.9**	**27.6**
Media & Entertainment									
ZEE Entertainment	1896.8	1725.3	9.9	30.0	29.3	66	255.3	127.8	99.7
Inox Leisure	462.5	323.6	42.9	18.4	15.5	299	37.5	4.0	-
Total	**2359.2**	**2048.9**	**15.1**	**27.7**	**27.1**	**59**	**292.7**	**131.8**	**-**
Building Materials									
Kajaria Ceramics	869.0	750.0	15.9	15.3	16.0	-73	69.8	66.0	5.9
Supreme Industries	1631.2	1471.3	10.9	16.6	19.5	-289	150.1	166.2	-9.7
Century Plyboards	629.9	544.1	15.8	13.3	16.3	-297	44.9	41.0	9.3
Total	**3130.1**	**2765.5**	**13.2**	**15.6**	**17.9**	**-234**	**264.8**	**273.2**	**-3.1**
Grand total	**20391.7**	**17825.0**	**14.4**	**14.4**	**14.6**	**-21**	**1473.6**	**1123.0**	**31.2**

* The Q4FY18 numbers for Arvind Ltd. are derived numbers and Q4FY19E numbers are accordingly estimated

Valuations

Companies	CMP (Rs)	Reco.	Price Target (Rs)	EPS (Rs)			PE (x)		
				FY18	FY19E	FY20E	FY18	FY19E	FY20E
Branded Apparels & Retail									
Arvind	90	Buy	95	10.1	9.5	10.9	8.9	9.5	8.3
KKCL	1281	Hold	1415	59.4	66.3	74.1	21.6	19.3	17.3
Orbit Exports	112	Hold	177	9.6	9.8	11.1	11.7	11.4	10.1
Relaxo Footwears	845	Buy	870	13.4	15.2	19.4	63.1	55.6	43.6
Soft coverage									
Titan	1107	Buy	1200	12.6	16.4	20.2	87.9	67.5	54.8
ABFRL*	220	NR	NA	1.5	2.5	4.0	-	88.0	55.0
Bata India	1415	Positive	1500	17.4	23.5	26.4	81.3	60.2	53.6
Future Lifestyle	482	Positive	516	6.6	9.4	11.7	73.0	51.3	41.2
Indian Hotels	156	Positive	169	2.1	2.7	3.0	74.3	57.8	52.0
Jubilant FoodWorks	1420	Positive	1673	15.6	24.0	29.5	91.0	59.2	48.1
Raymond*	810	NR	NA	18.5	27.7	38.5	43.8	29.2	21.0
Trident*	68	NR	NA	5.3	7.7	8.8	12.8	8.8	7.7
Shoppers Stop	456	Positive	610	5.2	9.6	13.1	87.7	47.5	34.8
Media & Entertainment									
ZEE Entertainment**	411	Hold	UR	14.1	17.1	19.4	29.2	24.1	21.2
Inox Leisure	322	Buy	375	6.6	13.2	15.5	48.8	24.4	20.8
Building Materials									
Kajaria Ceramics	619	Positive	700	14.6	14.6	18.7	42.3	42.3	33.1
Supreme Industries	1137	Hold	1150	31.9	30.9	38.4	35.6	36.8	29.6
Century Plyboards**	213	Hold	UR	7.8	8.2	8.9	27.4	26.0	23.9

*Bloomberg Consensus, NR – Not Rated **Under review

Consumer goods and services

Revenue growth to moderate; Margins to remain mixed

Moderation in revenue growth due to slowdown in consumption: For Q4FY2019, we expect revenue growth of most consumer goods companies at moderate to mid-single digit to low double digits. The slowdown in rural India, extended winters (affecting few categories) and high base of Q4FY2018 would affect the growth of most companies under our coverage. Biggies such as HUL, ITC and Britannia Industries will deliver revenue growth of 9-12%. Growth will be predominantly led by volumes at around 6-8%. ITC's cigarette business is expected to post volume growth of 5% due to low base in Q4FY2019. Revenue of Dabur India, Emami and GCPL is expected to grow in single digits, mainly on account of extended winters and slowdown in rural consumption while some international markets are yet to see revival in growth. Overall, we expect Sharekhan's FMCG universe to grow by 10.5% in Q4FY2019 as against 12.3% revenue growth achieved in Q3FY2019.

Mixed margin performance expected in Q4FY2019: Key input prices such as copra, LLP and palm oil prices have corrected from their high by 17%, 5% and 20%, respectively, in Q4FY2019. In addition to this, operating efficiencies will benefit companies such as HUL, Marico and Zydus Wellness to post improvement in operating margins during the quarter. Britannia is expected to post stable margins because of operating efficiencies. However, on the other hand, lower revenue growth and unfavorable revenue mix will affect the margins of most companies under our coverage during the quarter. We expect operating profit and adjusted PAT of Sharekhan's FMCG universe to grow by 11.6% and 10.1%, respectively, during the quarter.

Outlook - Deficient monsoon will be a roadblock for growth in the near future: FY2019 was one of the better years for consumers with rural demand getting back on track, urban demand remaining stable and consumer goods companies gaining GST benefits in the form of shift in consumption to branded products. However, the fortunes of FY2020 depend on probability of good monsoon and stable government at the centre (focus on improving prospects of agri economy). Deficient monsoon will lead to lower agri production and would consequently spike inflation in the quarters ahead. This would affect rural as well as urban demand for consumer products in the near term. The increase in agri commodities and crude prices would affect gross margins of companies under our coverage. However, judicious price hikes, adequate media spends and operating efficiencies would reduce the pressure on OPM in the near term. The long-term growth story of the Indian consumer goods market is intact as low penetration in some of the categories (especially in rural India) and improving demographics provide visibility of better consumption growth in the stable macro environment.

Valuation – Remain selective: We maintain our selective stance in the consumer goods space in view of premium valuations and near-term growth headwinds. In the large-cap space, we continue to like HUL and Britannia because of its strong market positioning in key categories and visibility of steady earnings growth in the near term. In the mid-cap space, we like Marico mainly on account of its better margin visibility due to reduction in copra prices. Varun Beverages remains one of our preferred picks due to its recent acquisition of territories in western and southern parts of India (consolidating 80% of PepsiCo India's business), which will improve its growth prospects in the long run.

Preferred Picks: HUL, Britannia Industries, Marico and Varun Beverages

Earnings outperformers in Q4FY2019: HUL, Marico and Varun Beverages

Earnings underperformers in Q4FY2019: Emami, GCPL and Jyothy Laboratories

Q4FY2019 results estimates

Companies	Net sales (Rs cr)		YoY %	OPM (%)		BPS	Adjusted PAT (Rs cr)		YoY %
	Q4FY19E	Q4FY18		Q4FY19E	Q4FY18	(YoY)	Q4FY19E	Q4FY18	
FMCG companies under coverage									
HUL	10111.6	9097.0	11.2	24.1	22.5	163	1651.0	1402.2	17.7
ITC	12065.1	10813.2	11.6	37.9	38.3	-44	3202.4	2932.7	9.2
Britannia Industries	2756.3	2537.5	8.6	15.9	15.6	21	293.0	263.8	11.1
GSK Consumer	1297.5	1179.6	10.0	21.1	21.2	-6	242.0	211.8	14.2
Emami	646.8	617.0	4.8	27.0	28.1	-110	111.3	108.9	2.2
GCPL	2652.4	2528.9	4.9	23.3	23.9	-66	433.4	465.7	-6.9
Marico	1683.5	1480.1	13.7	18.1	17.0	108	219.5	183.2	19.8
Jyothy Laboratories	537.9	505.4	6.4	17.3	17.9	-66	61.6	60.4	2.0
Zydus Wellness	146.7	131.7	11.4	25.9	25.4	50	39.9	35.7	11.6
Under soft coverage									
Dabur India	2208.0	2032.9	8.6	23.5	23.9	-38	421.4	397.4	6.1
Varun Beverages	1284.6	1122.4	14.5	15.6	15.4	20	26.6	18.7	42.2
Prataap Snacks	306.9	274.1	12.0	4.0	7.5	-348	0.6	10.1	-
Total	**35697.2**	**32319.7**	**10.5**	**27.1**	**26.8**	**29**	**6702.8**	**6090.5**	**10.1**
Consumer Services									
Wonderla Holidays	64.4	54.9	17.3	34.4	27.8	656	9.3	3.7	-

Valuations

Company	CMP (Rs)	Reco	Target Price (Rs)	EPS (Rs)			P/E (x)		
				FY18	FY19E	FY20E	FY18	FY19E	FY20E
HUL	1679	Buy	2071	24.5	29.2	34.6	68.5	57.5	48.5
ITC	296	Buy	347	8.5	9.9	11.2	34.8	29.9	26.4
Britannia	2974	Buy	3630	41.7	49.3	61.4	71.3	60.3	48.4
GSK Consumer	7065	Hold	7931	166.5	211.3	236.9	53.0	33.4	29.8
Emami	405	Hold	460	11.1	12.1	14.7	45.7	33.5	27.6
GCPL	665	Hold	855	14.6	15.8	18.3	45.5	42.1	36.3
Marico	357	Buy	425	6.4	7.4	9.1	55.8	48.2	39.2
Zydus Wellness	1308	Buy	1472	34.9	38.0	46.4	37.5	34.4	28.2
Jyothy Laboratories	190	Buy	225	4.3	5.3	6.4	44.1	35.8	29.7
Under soft coverage									
Dabur India	403	Positive	520	7.8	8.8	10.5	51.7	45.8	38.4
Varun Beverages*	875	Positive	1069	11.6	16.3	20.2	75.4	53.7	43.3
Prataap Snacks	904	NR	NA	18.8	17.6	22.6	48.1	51.4	40.0
							EV/EBITDA (X)		
Wonderla Holidays	304	Hold	325	6.8	10.4	13.2	18.9	14.1	11.0

*December ending company, FY18 EPS is CY2017 EPS

IT

Steady quarter, FY2020 outlook holds the key

Steady quarter: During January-March 2019 quarter, top five IT companies are expected to deliver steady revenue growth despite soft seasonality, with constant currency (CC) revenue growth of 1.2-2.5% q-o-q. We expect Infosys, TCS and HCL Tech to report decent sequential CC revenue growth of 2%, 1.8% and 2.5%, respectively, on account of robust deal wins in the past few quarters, while Wipro and Tech Mahindra (Tech M) are likely to deliver modest revenue growth of 1.4% and 1.2% q-o-q, respectively, owing to seasonal weakness in certain verticals. In USD terms, reported dollar revenue growth (1.6-2.8% q-o-q) for tier-I companies is likely to be aided by cross-currency tailwinds (30-40 BPS q-o-q). Mid-cap companies (except Persistent Systems and NIIT Limited) are expected to deliver strong revenue growth. L&T Infotech and L&T Tech are expected to deliver strong USD revenue growth of 2.6% and 2.2% q-o-q, respectively, including incremental revenue from acquisitions. Notably, revenue of Persistent Systems is expected to decline by 4% q-o-q owing to drop in IP-led revenue.

Margins likely to decline q-o-q: We expect operating margins of top five IT companies to decline on a sequential basis during Q4FY2019E on account of rupee appreciation, continued aggressive investments to enhance digital capabilities, initiatives to arrest higher attrition rates and talent supply constraints in onsite locations. Further, pricing pressure in the legacy business along with tightening of visa norms in the developed market would have an adverse impact on the profitability of IT companies. Infosys is expected to report EBIT margin at the lower-end of its guidance band owing to investments for building digital capabilities, local hires and higher variable pay. TCS, HCL Tech, Wipro and Tech M are also expected to report a marginal decline in EBIT margin on a sequential basis owing to increasing onsite cost and currency headwinds. In mid-tier companies, L&T Infotech, L&T Tech and Persistent Systems are expected to report a decline in EBIT margin, while NIIT Limited and Mastek are expected to report marginal improvement on a sequential basis during Q4FY2019E.

Key issues to watch out for: (1) Commentary of FY2020E revenue growth guidance – Infosys to guide revenue growth of 8-10% y-o-y on CC terms, while HCL Tech is expected to provide 13-15% y-o-y growth, including revenue from IBM products' acquisition; Wipro is expected to provide revenue growth guidance of 0-2% q-o-q for Q1FY2020E; (2) Trend in client spends in key verticals, including BFSI, healthcare, communications and geographies, including Europe and U.S. (CY2019 budget); (3) outlook on margin trajectory to be keenly watched out for – we expect Infosys, TCS and HCL Tech to maintain their respective margin guidance for FY2019; (4) commentary on large deal win momentum and closure of mega deal TCVs; (5) commentary on progress in digital capabilities and their growth prospects; and (6) pricing outlook, local hires, challenges in visa renewal and progress on arresting the attrition rate to be tracked.

Outlook: Multiple headwinds exerting pressure on profitability, maintain Neutral stance: We expect sustainable growth momentum for the industry in FY2020E despite emerging macro issues, led by robust deal flows, healthy demand environment, increasing digital deal sizes and robust technology spending by clients. However, the decision-making cycle of technology spending by clients could be impacted due to macro concerns, including potential slower GDP growth in key markets, trade war and Brexit. In addition, Accenture's management witnesses soft trends in the BFSI vertical especially among banking and capital market clients in Europe. On the margin front, the operating profitability of IT companies is likely to be adversely impacted in FY2020E owing to shortage of onsite talents supply, higher retention pays, investments to drive growth, tightening of visa norms and rupee appreciation. These incremental expenses would be partially offset with the efficient pricing model for new-age technologies. Given the challenges to the sustenance of profitability in FY2020E, we maintain our Neutral stance on the IT sector.

Valuations: Macro worries surface, remain selective: The CNX IT index has underperformed the broader markets by around 5% in the past one month, after strong outperformance in the past one year. Recent underperformance was due to the risk of downward revision of earnings in FY2020/FY2021E on account of currency headwinds, multiple challenges to operating margins going forward and lack of triggers for growth acceleration in FY2020E. In addition, after strong run-up in stock prices, the risk-reward ratio does not seem favourable across many stocks. We continue to remain selective in terms of our preferred picks in the IT sector given potential revenue growth acceleration, long-runway for revenue growth momentum and attractive valuation post the recent correction.

Key risks: 1) INR appreciation vis-à-vis USD would impact earnings estimates in FY2020E/FY2021E and stock performance and 2) weaker macro including potential slower GDP growth in the U.S., trade wars and Brexit.

Preferred picks: Our preferred picks in the large-cap space are Infosys and Tech Mahindra, while L&T Infotech, L&T Tech and Mastek are our preferred in the mid-cap space.

Q4FY2019 results estimates

Particulars	Sales (Rs cr)				OPM (%)				Net profit (Rs cr)			
	Q4 FY19E	Q4 FY18	YoY (%)	QoQ (%)	Q4 FY19E	Q4 FY18	YoY (bps)	QoQ (bps)	Q4 FY19E	Q4 FY18	YoY (%)	QoQ (%)
TCS	37,837	32,075	18.0	1.3	26.8	27.0	-17	-20	7,959	6,904	15.3	-1.8
Infosys	21,575	18,083	19.3	0.8	24.5	27.3	-276	-78	3,935	3,690	6.6	-3.1
Wipro	15,256	13,769	10.8	1.3	21.2	17.8	339	-66	2,726	1,803	51.2	8.6
HCL Tech	15,951	13,179	21.0	1.6	22.8	23.0	-21	-40	2,524	2,227	13.3	-3.3
Persistent	818	753	8.7	-5.4	15.7	14.8	92	-403	82	74	11.6	-10.3
Soft coverage												
Tech M	9,031	8,055	12.1	1.0	19.0	17.5	146	-27	1,136	1,222	-7.0	-5.6
L&T Infotech	2,514	2,001	25.6	1.7	19.6	17.7	193	-98	379	338	12.1	0.9
L&T Tech	1,335	1,055	26.6	1.4	18.2	15.5	263	-18	183	159	15.1	-1.5
Mastek	267	224	19.6	0.9	12.9	12.4	48	10	27	19	37.1	0.2
NIIT Ltd.	229	223	3.0	0.7	8.9	9.9	-102	12	23	20	15.9	17.0
Not rated												
FSL Ltd.	997	897	11.1	1.1	14.2	14.8	-56	39	99	93	6.4	0.7

Source: Company, Sharekhan Research

Q4FY2019 USD revenue estimates

Particulars	Revenue (USD mn)					
	Q4FY19E	Q4FY18	YoY (%)	Q4FY19	QoQ (%)	CC QoQ (%)
TCS	5,367	4,972	7.9	5,250	2.2	1.8
Infosys	3,056	2,805	8.9	2,987	2.3	2.0
Wipro	2,084	2,062	1.1	2,047	1.8	1.4
HCL Tech	2,263	2,038	11.0	2,202	2.8	2.5
Persistent Systems	116	117	-0.8	121	-4.0	-
Soft coverage						
Tech M	1,281	1,244	2.9	1,261	1.6	1.2
L&T Infotech	357	309	15.4	347	2.8	2.6
L&T Tech	189	162	16.6	186	2.0	2.2

Source: Company, Sharekhan Research

Valuations

Particulars	Reco	Price target (Rs)	CMP (Rs)	EPS (Rs)			P/E (x)		
				FY18	FY19E	FY20E	FY18	FY19E	FY20E
TCS	Buy	2,400	2,051	68.8	84.1	93.0	29.8	24.4	22.1
Infosys	Buy	840	760	33.6	36.0	42.4	22.6	21.1	17.9
Wipro	Buy	293	262	13.3	14.5	17.0	19.8	18.1	15.5
HCL Tech	Hold	1,150	1,093	63.1	73.6	81.1	17.3	14.9	13.5
Persistent	Hold	720	626	40.4	42.1	48.7	15.5	14.9	12.9
Soft coverage									
Tech M	Positive		781	43.0	48.3	56.6	18.2	16.2	13.8
L&T Infotech	Positive		1,651	63.5	85.6	97.3	26.0	19.3	17.0
L&T Tech	Positive		1,607	48.2	71.5	76.9	33.3	22.5	20.9
Mastek	Positive		477	29.5	41.7	45.9	16.2	11.4	10.4
NIIT Ltd.	Positive		95	3.7	5.4	6.9	25.8	17.7	13.8
Not rated									
FSL Ltd.	NA		48	4.4	5.4	5.7	10.9	8.9	8.4

Source: Company, Sharekhan Research

Oil & Gas

Mixed quarter - Weak for Upstream; strong for OMCs and CGD

Upstream PSUs – Expect earnings to decline sequentially due to lower oil prices and INR appreciation: Upstream PSUs such as ONGC and Oil India are expected to witness a q-o-q decline in its operating profit due to lower lower oil realisation (Brent oil price declined by $5/bbl q-o-q), appreciation of Indian rupee (average of Rs70.5 in Q4FY2019 vs average of Rs72.1 in Q3FY2019) and higher operating expenses (especially for ONGC). We do not assume any subsidy burden on upstream PSUs during the quarter but imposition of subsidy would negatively impact earnings of the upstream PSUs. Moreover, we also expect a q-o-q decline in the other income on due to lower dividend income. We, thus, expect profit after tax (PAT) of ONGC/ Oil India to decline by 28%/33% q-o-q during the quarter.

OMCs –Inventory gain coupled with higher auto fuel marketing margin to boost earnings: We expect oil marketing companies (OMCs) to report a sharp improvement in its earnings on a sequential basis due to crude and product inventory gains given $15/bbl increase in the quarter-end closing oil prices and sharply higher auto fuel marketing margins partially offset by lower refining margin. Benchmark Singapore GRM declined sharply by 26% q-o-q to $3.2/bbl in Q4FY2019 due to the weakness in gasoline and gasoil crack spreads. We expect earnings of Reliance Industries (RIL) to be impacted by weakness in refining margin (expect GRM of $7.4/bbl in Q4FY2019 vs $8.8/bbl in Q3FY2019) and appreciation of Indian rupee partially offset by improvement in LLDPE and PVC margins. Overall, we expect Q4FY2019 earnings of RIL to decline by 5% q-o-q to Rs. 8,463 crore.

CGD players to report strong quarter led by sustained volume growth traction and improvement in per unit margins; mid-stream to report mixed quarter: We expect city gas distribution (CGD) companies such as Indraprastha Gas Limited (IGL) and Mahanagar Gas Limited (MGL) and Gujarat Gas to report strong quarter driven by higher margins (on the back of retention of gas cost saving driven by appreciation of Indian rupee) and sustained strong volume growth on y-o-y basis. Among the mid-stream companies, Petronet LNG (PLNG) is expected to report an increase in its earnings as we expect it benefit from marginally higher re-gas volumes, 5% tariff escalation at Dahej terminal and benefit of marketing margin on spot volumes. We expect GAIL to report a weak quarter due to lower margins in its gas trading business given unfavorable economics of US LNG contracts and lower profitability in LPG-LHC business.

Outlook: Clarity emerges on subsidy sharing for upstream PSUs; volatility to continue for OMCs; strong volume growth prospects for gas players; The Government has made fuel subsidy provision of Rs. 37493 crore for FY2020, which seems adequate to manage under-recoveries on LPG and kerosene till international oil price of $65/bbl and Rs/USD rate of Rs72. Hence, we do not expect any subsidy burden on upstream PSUs in FY2020E. We believe that clarity on net oil realisation and likely higher domestic gas price provides earnings visibility for upstream PSUs. Moreover, ONGC is expected to benefit from higher gas production (we expect 4% y-o-y growth gas production in FY2020 as compared to the management guidance of 11% growth).

We maintain our cautious stance on earnings outlook for OMCs given the weakness in the Asian refining margin, which is likely keep to keep the refining performance subdued in near term. Although marketing margin on auto fuels have recovered but the risk of a likely increase in the oil prices supported by OPEC production cut in the run up to the general election would continue to remain an overhang on earnings visibility from marketing business of OMCs.

CGD players (IGL, MGL and Gujarat Gas) are likely to witness strong volume growth traction given regulatory tailwinds, better economics of CNG vs. petrol and industrial PNG vs. alternative fuels and expansion into newer geographical areas. Gas utilities (such as PLNG) would benefit from higher volumes, led by Dahej capacity expansion and likely improvement in Kochi terminal utilisation along with annual re-gas tariff escalation

Valuation and preferred picks

We prefer RIL in the downstream space, as we expect a rebound in its refining margin on the back of a gradual ramp-up of petcoke gasification and implementation of IMO regulation from January 2020. We also remain optimistic about sustainable higher petrochemical margin on the back of advantage of low feedstock cost. Moreover, a likely strong subscriber addition in the telecom business and sustained high growth in the retail business would act as a key catalyst for the company.

We prefer, ONGC among upstream PSUs as the stock is discounting bear case net oil realisation and provides healthy dividend yield.

We prefer Gujarat Gas among CGD companies given strong volume growth tailwind from regulatory support (NGT order to shut down coal gasifiers or shift to natural gas at Morbi in Gujarat) and development of seven new geographical areas (won by Gujarat Gas in 9th and 10th CGD bidding round).

We prefer Petronet LNG among mid-stream companies, as it is expected to be a key beneficiary of rising share of LNG in India's gas consumption supported by Dahej terminal capacity expansion and likely improvement in utilisation for its loss-making Kochi terminal.

Preferred picks: RIL, ONGC, Gujarat Gas and Petronet LNG

Earnings outperformers in Q4FY2019: IOCL, BPCL and HPCL, IGL, MGL and Gujarat Gas

Earnings underperformers in Q4FY2019: RIL, ONGC and Oil India

Q4FY2019 results estimates (Standalone financials)

Particulars	Sales (Rs cr)				OPM (%)				PAT (Rs cr)			
	Q4 FY19E	Q4 FY18	YoY (%)	QoQ (%)	Q4 FY19E	Q4 FY18	YoY (BPS)	QoQ (BPS)	Q4 FY19E	Q4 FY18	YoY (%)	QoQ (%)
Coverage												
RIL	96,078	84,037	14.3	-4.0	14.3	16.0	-163	-14	8,463	8,697	-2.7	-5.2
Oil India	3,109	2,998	3.7	-11.5	38.1	26.7	1136	-524	822	867	-5.2	-33.4
Petronet LNG	9,055	8,636	4.8	-10.3	10.4	9.5	91	203	592	523	13.2	4.7
Soft-coverage												
IOCL	137,138	117,369	16.8	-2.0	7.8	9.4	-162	519	5,602	5,218	7.4	681.5
BPCL	76,508	65,239	17.3	-3.4	6.3	5.7	58	536	3143	2,674	17.5	534.7
HPCL	71,516	60,520	18.2	-0.4	5.7	4.3	133	476	2556	1,748	46.3	932.7
GAIL	19,814	15,431	28.4	0.1	11.9	11.0	96	-157	1448	1,021	41.8	-13.9
ONGC	24,776	23,970	3.4	-10.5	54.5	47.5	701	-534	5,944	5,915	0.5	-28.1
GSPL	464	350	32.5	2.3	83.8	82.5	131	602	201	157	27.9	16.0
Gujarat Gas	2,135	1,734	23.1	0.8	18.6	12.8	574	342	192	66	191.1	27.6
Indraprastha Gas Ltd	1,527	1,214	25.8	1.2	21.2	24.0	-284	9	225	175	29.0	13.9
Mahanagar Gas Ltd	790	587	34.7	5.0	34.8	30.0	478	303	169	105	61.2	13.9
Gulf Oil Lubricants	451	373	20.7	-2.5	18.8	16.8	191	297	53	41	28.4	6.7

Source: Company data, Sharekhan estimates

Valuation (consolidated)

Company	CMP (Rs)	EPS			CAGR over FY17-20E (%)	PE (x)			Reco	Price Target (Rs)
		FY18	FY19E	FY20E		FY18	FY19E	FY20E		
Coverage										
RIL	1,335	59.1	69.2	83.7	19.0	22.6	19.3	16.0	Buy	1,465
Oil India#	179	23.5	31.7	26.3	5.8	7.6	5.6	6.8	Buy	230
Petronet LNG#	240	13.9	15.1	16.6	9.4	17.3	15.9	14.5	Buy	270
Soft-coverage										
IOCL	155	20.6	19.5	19.2	-3.3	7.5	7.9	8.1	Neutral	
BPCL#	356	40.3	32.8	33.1	-9.4	8.8	10.8	10.8	Neutral	
HPCL*	256	47.4	35.3	37.1	-11.4	5.4	7.3	6.9	NA	NA
GAIL*#	344	20.5	28.1	29.9	20.8	16.8	12.2	11.5	NA	NA
ONGC#	158	15.5	22.6	21.1	16.5	10.1	7.0	7.5	Positive	
GSPL*#	179	15.8	14.7	14.3	-4.6	11.4	12.2	12.5	Neutral	
Gujarat Gas	156	4.2	6.5	7.6	34.0	36.6	24.0	20.4	Positive	
Indraprastha Gas Ltd#	311	9.6	10.8	12.7	14.9	32.4	28.7	24.5	Positive	
Mahanagar Gas Ltd#	1,017	48.4	58.1	60.3	11.6	21.0	17.5	16.9	Positive	
Gulf Oil Lubricants*	880	31.9	35.9	43.0	16.1	27.6	24.5	20.5	Neutral	

Source: Company data, Sharekhan estimates, *Bloomberg consensus estimates, #Standalone financials

Pharma

Low base to aid performance; continue to remain Neutral

Low base aids performance: We expect improved performance in Q4FY2019 due to 1) low base in Q4FY2018 which was affected by pricing pressure, increased competition and increased raw material cost; 2) new product launches and 3) softening of raw material prices. We expect our Pharma coverage universe to report sales growth of 13.5%; operating profit margin to improve by 217.8 bps to 21.5% (improved due to raw material cost softening & better product launches); adjusted profit to report growth of 10.3%.

US & Domestic businesses to stabilise: We feel the US generic business will witness easing of pricing pressure due to strong product launches. Also domestic business is expected to see single digit growth on back of new launches and better realisation. Hence, we expect that Q4FY2019 for both these businesses will see high single to low double digit growth aided by new limited competition launches and better pricing environment. Also softening of raw material prices will aid margins. Currency fluctuation was no longer supportive or disruptive during the quarter.

Outlook – Improving trend continues, but valuation remains high: The sector will witness its second improving quarterly performance despite pricing pressure (5-8% range) in the US business due to faster approval pace & stringent USFDA regulations. Also softening of raw material prices will help mitigate some of the margin pressure. However, valuation wise, companies under our coverage are trading in the range of 11x-26x FY2020E earnings, which is on the higher side. Thus, we continue to maintain our neutral stance on the sector and see an opportunity in select quality companies like Biocon, Divi's and Granules India as investment options. Management commentary and outlook for FY2020 will be key to watch for.

Preferred Picks in the sector: Divis, Biocon, Granules

Earnings outperformers in Q4FY2019: Aurobindo, Divis, Glenmark, Biocon, Dr Reddy & Granules.

Earnings laggards in Q4FY2019: Cadila, Sun Pharma, Laurus & Suven

Q4FY2019 results estimates Rs cr

Companies	Net sales				OPM (%)		BPS	BPS	Adjusted PAT			
	Q4FY19E	Q4FY18	YoY %	QoQ%	Q4FY19E	Q4FY18	(YoY)	(QoQ)	Q4FY19E	Q4FY18	YoY %	QoQ%
Active coverage												
Aurobindo	5125.0	4049.0	26.6	-2.8	19.9	19.9	4.6	-70.5	660.0	545.0	21.1	-3.5
Cadila	3625.0	3250.0	11.5	1.3	23.2	26.8	-354.2	-24.9	500.0	607.0	-17.6	-2.2
Cipla	4048.6	3698.0	9.5	1.0	17.2	16.4	75.2	-50.0	309.0	280.0	10.4	-4.6
Divis	1360.0	1088.0	25.0	1.3	40.5	35.6	490.1	-152.5	381.0	262.0	45.4	-9.5
Glenmark	2575.0	2280.0	12.9	0.8	16.9	14.3	251.2	-17.1	242.0	165.0	46.7	-1.6
Lupin	4750.0	4034.0	17.7	5.4	19.9	17.6	231.9	320.2	438.5	377.5	16.2	130.8
Sun Pharma	7309.0	6977.0	4.8	-5.6	22.1	24.1	-202.1	-570.1	945.0	1036.0	-8.8	-23.9
Torrent Pharma	2080.0	1722.0	20.8	4.6	27.2	24.0	317.0	75.3	222.0	228.0	-2.6	-9.8
Total - A	**30872.6**	**27098.0**	**13.9**	**-0.4**	**21.6**	**21.4**	**19.0**	**-119.6**	**3697.5**	**3500.5**	**5.6**	**-4.3**
Soft coverage												
Biocon	1667.2	1169.4	42.6	8.2	26.9	19.9	694.9	33.4	251.7	130.6	92.7	15.8
Dishman	507.0	453.0	11.9	5.8	27.0	16.8	1024.5	-74.4	56.0	51.0	9.8	8.7
Dr Reddy's Lab	3714.0	3554.0	4.5	-3.9	19.0	15.9	316.4	-179.5	389.0	292.0	33.2	-16.2
Granules	655.0	504.0	30.0	3.6	17.3	8.7	867.7	-59.9	59.8	17.2	247.7	2.7
Laurus Labs	616.0	560.0	10.0	16.2	18.0	20.7	-269.5	141.6	35.2	44.6	-21.1	102.3
Suven	154.0	314.0	-51.0	19.4	34.1	32.0	208.5	199.8	32.3	62.5	-48.3	28.1
Total - B	**7313.2**	**6554.4**	**11.6**	**1.9**	**21.4**	**17.3**	**416.6**	**-69.9**	**824.0**	**597.9**	**37.8**	**-1.2**
Grand Total (A+B)	**38185.8**	**33652.4**	**13.5**	**0.1**	**21.5**	**19.3**	**217.8**	**-110.3**	**4521.5**	**4098.4**	**10.3**	**-3.7**

Source: Sharekhan Research

Valuation

Companies	CMP (Rs)	Reco	EPS (Rs)			P/E (X)			Price target (Rs)
			FY18	FY19E	FY20E	FY18	FY19E	FY20E	
Aurobindo	781	Buy	41.6	54.4	74.5	18.8	14.4	10.5	895
Cadila	346	Hold	16.9	16.3	21.4	20.5	21.2	16.2	410
Cipla	526	Buy	17.6	19.7	29.1	29.9	26.7	18.1	635
Divis	1685	Buy	33.0	51.4	66.1	51.0	32.8	25.5	1900
Glenmark	644	Hold	26.2	26.4	35.3	24.6	24.4	18.3	650
Lupin	792	Reduce	32.5	32.7	40.1	24.4	24.2	19.8	UR
Sun Pharma	460	Hold	13.0	17.4	25.9	35.5	26.4	17.8	525
Torrent Pharma	1794	Buy	42.8	51.6	78.4	41.9	34.8	22.9	2115

Source: Sharekhan Research

Chemicals (Agri + Speciality)

Strong performance with improved margin profile

Growth momentum to continue: The revenue growth momentum is expected to continue for companies under Sharekhan chemical (agri + speciality) sector coverage universe in the range of 9% to 31% on a y-o-y basis with four companies registering growth above 15% y-o-y and remaining two posting growth below 15% y-o-y. The highest revenue growth of 31% is expected from SRF wherein chemicals & polymers and packaging film segment to contribute significantly to the growth whereas the lowest revenue growth of 9% would be seen in Insecticides India as it is a seasonal weak quarter for the company. PI Industries is expected to receive a revenue boost on account of growth in its CSM business whereas for UPL, Q4 is seasonally one of the strong quarters and consolidation of Arysta for 2 months is also expected to push growth higher.

Robust revenue performance improves margin profile: The profitability of Sharekhan chemical (agri + speciality) sector coverage universe is likely to show a strong growth of 18.6% y-o-y, as the margin profile is expected to improve on a y-o-y basis across all companies except of UPL (marginal contraction of 59 bps). Expansion in gross margins due to the easing of input cost pressures (except for PI industries & SRF) coupled with economies of scale is the key reason of improved profitability. EBITDA to witness a growth in excess of 25% y-o-y across all companies except for UPL which is expected to be up by 9% YoY.

Outlook: We believe that the sector continues to offer good investment opportunities as signs of multiyear upcycle are visible due to improved global environment and Chinese supply disruptions. Also the companies in our coverage universe have different growth triggers which are expected to drive the respective companies' performance at a robust pace. CSM business is expected to fuel growth and profitability in PI Industries, integration of Arysta and cost synergies coupled with new launches and increased branded product sales is expected to drive UPL performance, multi-year contracts to scale-up performance in Aarti Industries, ramp-up of expanded capacity in speciality chemical business in SRF to boost its performance.

Valuation: The companies in Sharekhan chemical (agri + speciality) sector coverage universe are trading in the range of 15x-25x FY20E earnings except for Insecticides India which is trading at 5.3x FY20 earnings. Most of the companies offer an upside in the range of 15-20% even from current levels. Hence we remain positive on the sector as the space continues provides investment opportunities to investors.

Leaders: Aarti Industries Atul, PI Industries, SRF

Preferred Stocks: Aarti Industries, Atul, PI Industries

Q4FY2019 results estimates Rs cr

Companies	Sales				OPM (%)				PAT			
	Q4 FY19E	Q4 FY18	YoY (%)	QoQ (%)	Q4 FY19E	Q4 FY18	YoY (BPS)	QoQ (BPS)	Q4 FY19E	Q4 FY18	YoY (%)	QoQ (%)
Agro Chem												
Insecticides India	185	169	9.3	(14.4)	13.9	11.0	289	(88)	13	8	66.1	(24.4)
PI Industries	761	625	21.8	7.5	22.5	21.6	90	145	129	105	22.7	20.4
UPL	6,397	5,691	12.4	30.0	24.4	25.0	(59)	531	894	736	21.5	93.9
Total - Agro Chem	**7,343**	**6,485**	**13.2**	**25.6**	**23.9**	**24.3**	**(36)**	**477**	**1,036**	**849**	**22.0**	**77.1**
Speciality Chem												
Aarti Industries	1,220	1,029	18.6	(3.8)	18.8	17.5	126	(73)	111	85	30.7	(16.5)
Atul	1,057	867	21.9	3.8	20.0	16.8	316	(71)	128	100	28.4	9.8
SRF	2,111	1,612	31.0	7.5	18.4	17.3	113	107	191	124	54.1	15.1
Total - Speciality Chem	**4,389**	**3,508**	**25.1**	**3.2**	**18.9**	**17.3**	**165**	**11**	**431**	**309**	**39.3**	**3.5**
Total - Chemicals	**11,732**	**9,993**	**17.4**	**16.2**	**22.0**	**21.8**	**23**	**304**	**1,466**	**1,158**	**26.7**	**46.5**

Valuation

Company	CMP (Rs.)	Reco	Price Target (Rs)	EPS (Rs)			PE (x)		
				FY18	FY19E	FY20E	FY18	FY19E	FY20E
Agro Chem									
Insecticides India	642	Positive		84.0	108.0	121.0	7.6	5.9	5.3
PI Industries	1013	Buy	1200	26.7	32.0	39.2	37.9	31.7	25.8
UPL	926	Buy	995	39.6	40.8	58.6	23.4	22.7	15.8
Speciality Chem									
Aarti Industries	1632	Positive		41.0	53.1	69.2	39.8	30.7	23.6
Atul	3550	Positive		94.8	144.0	179.7	37.4	24.7	19.8
SRF	2460	Positive		79.0	111.3	144.6	31.1	22.1	17.0

Miscellaneous

Q4FY2019 results estimates

Company	Net sales (Rs Cr)				OPM (%)				Adjusted PAT (Rs Cr)			
	Q4 FY19E	Q4 FY18	YoY (%)	QoQ (%)	Q4 FY19E	Q4 FY18	YoY BPS	QoQ BPS	Q4 FY19E	Q4 FY18	YoY (%)	QoQ (%)
Bharti Airtel	20,261	19,634	3.2	(1.3)	30.1	35.3	(519)	(20)	(1,129)	408	-	-
CESC	2,006	1,795	11.8	17.5	22.5	30.7	(820)	(110)	220	292	(24.7)	27.2
Gateway Distriparks	109	102	7.1	6.2	18.8	21.1	(228)	(4)	23	22	3.9	43.7
Gayatri Projects	1,101	933	17.9	25.4	16.0	16.7	(67)	(14)	61	73	(16.3)	27.1
Info Edge	289	241	20.0	2.8	29.7	24.7	504	6	77	57	36.7	4.1
IRB Infrastructure	1,743	1,382	26.1	(2.5)	43.8	47.7	(387)	127	266	240	11.1	21.7
JSW Steel	21,104	21,336	(1.1)	3.9	19.5	24.8	(529)	(265)	1,368	2,879	(52.5)	(14.7)
MOIL Ltd	433	398	9.0	30.2	49.2	43.3	594	278	159	128	24.7	32.5
Parag Milk Foods	607	518	17.2	1.0	9.4	10.6	(120)	(90)	29	26	11.5	(6.5)
PGCIL	8,789	7,811	12.5	3.8	85.0	83.5	150	(250)	2,305	2,005	15.0	(1.1)
PTC India	2,338	2,162	8.1	(20.0)	3.4	4.3	(90)	30	53	64	(17.2)	3.9
Quess Corp	2,353	1,891	24.5	8.3	5.8	5.8	1	35	85	77	10.9	21.5
Ratnamani Metal	725	619	17.1	(0.4)	14.2	15.0	(80)	50	64	56	14.3	1.6
Sadbhav Engineering	1,269	1,104	14.9	37.1	11.9	11.2	62	(12)	72	70	2.6	27.4

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Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;