April to June 2019
Quarterly Preview

Slowdown Blues all around

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Contents

(All prices as on July 4, 2019)

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Slowdown Blues all around

1Q FY20E Adj. PAT to increase 6.9%: We estimate 3.5% sales growth, 1.3% EBIDTA growth and 6.9% Adj. PAT growth. Excluding BFSI sales, EBIDTA and PAT growth is estimated at 3.3%, -4% and -10.1%. Sales growth will be led by Agri, Aviation, Consumer Staples, Consumer Durables and IT. Aggregate margins will decline by 42bps. We expect muted performance from Autos, Agri, Metals, Oil and Gas and NBFC/HFC. Auto will be impacted by wide spread decline in volumes while Oil and Gas will show impact of lack of any inventory gains in this quarter. Banks will gain due to lower provisions and write backs while cement will show benefits of improved margins led by higher prices. Cap Goods, Staples and Durables will have a steady quarter.

Exhibit 1: PL Universe – Q1FY20E

	Revenue Growth (%)		PAT Growth (%)		EBITDA Growth (%)		EBITDA Margin (bps)	
	YoY	QoQ	YoY	YoY	QoQ	QoQ	YoY	QoQ
Agri Chemicals	52.1	(0.9)	(2.5)	51	56.0	32.7	51	522
Automobiles	(9.4)	(21.5)	(35.4)	(173)	(22.7)	(28.4)	(173)	(97)
Aviation	37.5	15.5	1,306.2	906	115.7	17.2	906	36
Banks	4.6	17.0	1,464.6					
Capital Goods	8.3	(26.4)	15.0	66	11.7	(21.7)	66	129
Cement	8.3	(4.5)	52.2	633	47.4	24.7	633	558
Consumer Durables	11.8	14.7	9.1	32	14.8	50.6	32	300
Consumer Staples	12.5	4.5	11.7	(27)	11.1	6.5	(27)	40
Education	9.6	14.8	40.5	301	26.0	(12.6)	301	(726)
Financial Services	8.1	16.2	0.1					
Information Tech.	12.4	0.1	1.2	(118)	6.0	(5.0)	(118)	(105)
Media	6.4	(18.4)	19.7	44	8.1	(22.3)	44	(140)
Metals	0.2	(11.9)	(14.6)	(191)	(8.6)	(15.9)	(191)	(94)
Oil & Gas	0.0	2.3	(21.4)	(209)	(16.1)	(9.9)	(209)	(147)
Pharma	10.5	(1.2)	1.7	(56)	7.1	1.0	(56)	40
Others	22.0	45.2	(13.9)	(518)	(12.0)	113.9	(518)	430
PL Universe	**3.5**	**(5.2)**	**6.9**	**(42)**	**1.3**	**(6.8)**	**(42)**	**(36)**
PL Universe (Excl. Oil & Gas)	**5.7**	**(9.2)**	**19.3**	**34**	**7.1**	**(6.0)**	**34**	**86**
PL Universe (Excl. BFSI)	**3.3**	**(6.7)**	**(10.1)**					

Source: Company, PL

Exhibit 2: NBFC crisis and slowdown in demand a big drag, capex recovery not in sight

Headwinds	Tailwinds
Poor Demand for core Industries like Auto, slowdown in Consumption	NPA's turning around, 75BPS cut in Interest rates
Capex Cycle is yet to pick up, Slow Govt spending post elections	Higher flows to EM due to slowdown in US and EU economies
Rising Contagion of NBFC and HFC crisis	Inflation at 3.05% and Brent of USD60-70

Source: PL

India faces a Mini LEHMAN crisis: We believe that current crisis is not a liquidity crisis as depicted but a mini LEHMAN of the Indian style. We have seen defaults cutting across NBFC's, HFC and corporates raising questions over solvency of many of Blue Chips of the past. We believe that the Indian NBFC, HFC and Banks are facing the worst crisis ever which will take its own course. While there are no short cuts, the delay in injecting liquidity in troubled enterprise and some targeted resolution mechanism is slowly spreading to other segments in the economy. We believe that the rising contagion of this menace can significantly derail the economic recovery, more so as it seen disruptions like Demonetization and GST not long ago.

MODI 2.0 raises Hopes amidst challenges: MODI 2.0 has raised hopes of economic revival due to continuation of Govt., however the environment remains uncertain given 1) slowdown in auto and consumption demand 2) spiraling effect of NBFC and HFC crisis 3) sustained rural distress 4) poor visibility on capex recovery and 4) slow global growth due to rising trade wars and protectionism. Although RBI has cut REPO rates and stance seems to be dovish, the economy needs significant pump priming given poor state of banking and lower than anticipated tax and GST collections. We believe that the economy needs practical solutions to tackle the current crisis of confidence.

Consumption demand uncertain, expect slow recovery; Consumption demand has entered a slow lane with categories like Auto and even consumer staples bearing the brunt of that. Poor farm income due to patchy monsoons last year and food deflation has added to troubles. Higher regulatory costs and NBFC crisis has also added to decline in Auto sales across MHCV, Passenger cars, SUV, Tractors and 2W. Consumer staples are growing but at a slower rate given pressures on rural growth (from 1.3-1.5x urban growth to flattish to decline in some cases). Overall business environment is uncertain and discretionary spends are under pressure. We note that most organized retailers in Apparel and accessories have pro-poned their end of season sales. The core sector growth last year was driven by Govt. thrust on Housing and roads as private capex recovery is not in sight. Given that Auto industry is battling with BSVI transition and consequent price increase, demand recovery is expected to be slow. We believe that earliest signs of recovery in demand would be visible only from the onset of festival season.

EL NINO chances fade away, watch out for spatial distribution: Monsoons have seen a sharp pick up in the past fortnight, however the probability of it being normal still remains uncertain. Bureau of Metrology (Australia) expects that the immediate likelihood of El Nino developing has passed which is likely to increase sowing. However, we would watch out for spatial distribution and trends in the prices of key Agri products in coming season.

Domestic Consumption remains core Theme: With trade wars looming large, we continue to prefer domestic consumption themes despite near term pressures on demand.

We shall be releasing the sectoral picks and Model Portfolio Post Budget.

Monsoons: Downgrading ENSO outlook to INACTIVE provides a silver lining

Monsoon has largely been in line with estimates (owing to pick up in the last 10-15 days) till date. Rainfall is June was anticipated to be in deficit (as per Skymet's initial forecast). With rains picking up now, momentum is expected to continue till September.

Bureau of Metrology (Australia) expects that the immediate likelihood of El Nino developing has passed and its ENSO (El-Nino Southern Oscillation) Outlook has now turned INACTIVE. This implies that the tropical Pacific Ocean is more likely to remain in an ENSO-neutral phase over the coming months. Indian Ocean Dipole (IOD) is also turning positive. IOD can either aggravate or weaken the impact of El Nino on Indian monsoon. In the given circumstances, with impact of El Nino phasing out, positive IOD is expected to further weaken the impact of El Nino.

Exhibit 3: Timeline of commentary of Bureau of Metrology

Date	ENSO Outlook	Indian Ocean Dipole (IOD)
25-Jun-19	El Nino Outlook downgraded to INACTIVE	Indicate a positive IOD
11-Jun-19	El Nino WATCH remains	Positive IOD likely
28-May-19	El Nino WATCH remains	Positive IOD likelihood increases
14-May-19	El Nino Outlook downgraded to WATCH	Positive IOD possible
30-Apr-19	Outlook remains at El Nino ALERT	Neutral IOD
16-Apr-19	Short lived El Nino likely	Neutral IOD
02-Apr-19	Outlook remains at El Nino ALERT	Neutral IOD
19-Mar-19	El Nino outlook upgraded from Neutral to ALERT	Neutral IOD
05-Mar-19	Neutral El Nino Outlook	Neutral IOD

Source: Bureau of Metrology

Exhibit 4: Skymet's forecast indicates pickup in Monsoons in coming months

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

Source: Skymet

Monthly distribution of rainfall is more significant than the headline number:

Timing and spatial distribution of rainfall (well spread across all four months) holds more significance from the agriculture and agrochemical consumption perspective than the absolute count of rainfall. Monsoon is expected to be in deficit only in the month of June @77% of LPA. Rainfall in July is expected to be marginally below normal rainfall @ 91% of LPA, while August/September are expected to be a period of normal rainfall (102%/99% of LPA). At this monthly precipitation break up, we are likely to follow a mix trend of FY16 & FY17.

Exhibit 5: 2019 monthly precipitation break up is likely to be a mix of FY16 & FY17 trend…

Months	FY15	FY16	FY17	FY18	FY19	FY20E
June	115.9%	89.0%	76.8%	100.0%	89.9%	77%
July	83.6%	107.0%	128.0%	107.0%	94.9%	91%
August	78.2%	91.0%	116.4%	86.4%	93.6%	102%
September	75.8%	97.0%	128.0%	83.3%	82.8%	99%

Source: IMD

Exhibit 6: Sowing picked up significantly last week and is expected to continue in the coming weeks

Crop (Area in lakh Ha)	Normal Kharif Area (DES)	Area sown till 28th Jun'19	Area sown till 28th Jun'18	YoY(%)	As a % of total normal kharif area
Rice	396.3	27.1	27.1	(0.1)	6.8
Pulses	119.9	3.4	8.9	(61.4)	2.9
Coarse Cereals	188.4	19.1	21.4	(10.7)	10.1
Oilseeds	182.4	13.4	14.1	(4.6)	7.4
Sugarcane	48.3	49.8	51.3	(2.8)	103.1
Jute & Mesta	7.9	6.7	7.1	(6.6)	84.6
Cotton	120.9	27.1	32.2	(15.9)	22.4
Total	**1,064.0**	**146.6**	**162.1**	**(9.5)**	**13.8**

Source: Ministry of Agriculture

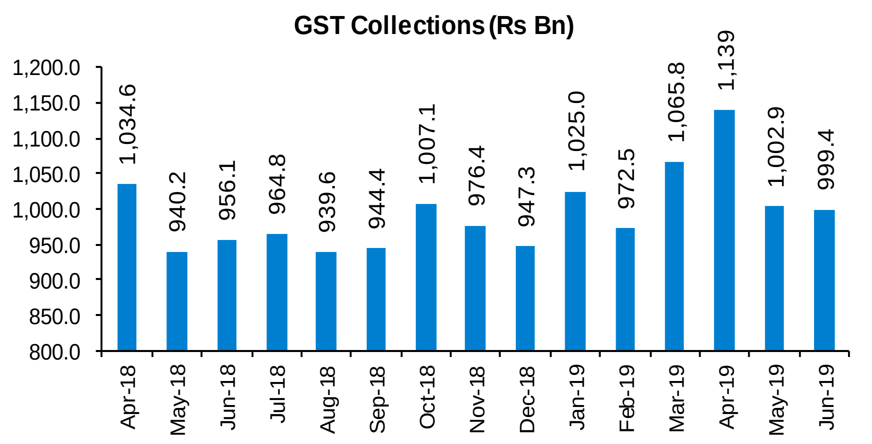
New GST filing from Jan-20; 1Q collections up 7%

GST collections below Rs 1000bn mark: GST Collections fell to Rs. 999.4bn in Jun'19, average monthly collection for Q1FY20 at Rs1047bn, exceeding Q1FY19 collection by 7%. Government has failed to achieve average monthly target of Rs 1142bn during FY20, fall in collection partly due to cut in tax rates.

Strengthening systems and processes: In 35TH GST Council Meeting, focus was on ease of adopting GST by 1) one-form GST filing system for B2B invoicing, from Jan-20 2) extension of due date for filing GSTR-9, GSTR-9A, and GSTR-9C for FY18 to 31st Aug and 3) eased the registration process by allowing the use of Aadhar. In addition, tenure of National Anti-Profiteering Authority (NAA) has been extended by two years and 10% penalty is proposed for delay in depositing profiteered amount by more than 10 days, in order to avoid tax evasion.

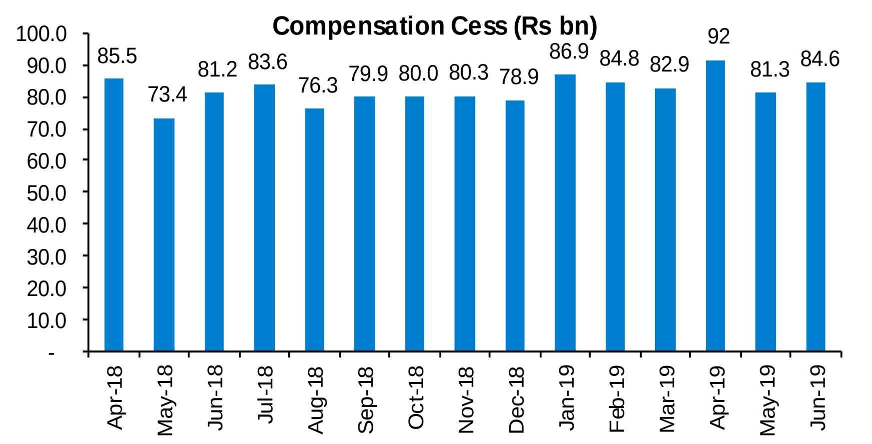
GST rate cuts expectation unmet: Council failed to come up with rate cut to boost consumer demand. Proposal for GST rate cut on Electric Vehicles, from 12% to 5% has been sent to fitment committee. Likewise, Council directed the valuation rules for goods and services in solar power generating systems and wind turbines to be placed before the next Fitment Committee.

Exhibit 7: GST Collection dips below Rs 1000bn mark



Source: GSTIN, PL

Exhibit 8: Cess Collection showing up by 4% YoY



Source: GSTIN, PL

Muted growth in GDP – Agri and Mfg. disappoint

GDP growth slowed to 6.8% in FY19 revised for second time from 7.2% in FY18, due to poor performance in agriculture and manufacturing sectors. GDP growth for Q4FY19 plunged to 5.8% from 8.1% in Q4FY18 and GVA growth also contracted to 5.7% from 7.9% in Q4FY19 YoY led by slowdown in **both agricultural and manufacturing.** However, service sector is at a better pace in Q4FY19.

- Agriculture and allied activities grew at 2.9% in FY19 vis-à-vis 5% in FY18. In Q4FY19, sector recorded a decline of 0.1% v/s growth of 6.5% in Q4FY18. Shortfall in rabi sowing last year impacted growth. Poor onset of monsoon in June can further inhibit agricultural sector growth rate.
- Construction sector performed well in FY19 with growth of 8.9% vis-à-vis 5.6% in FY18 with the strong boost from government through increase in roads, railway and metro projects. However, Q4 growth was tepid. Mining registered dip in growth to 1.3% in FY19.
- Within service sector, Govt. spending rose to double digit. While, financial, real estate, trade, hotel & professional services slowed down in Q4.

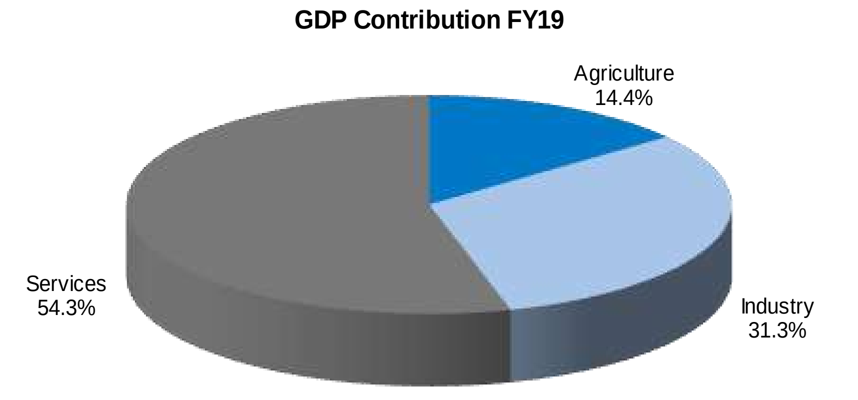
Fitch lowered India’s growth forecast to 6.6% for current fiscal from its earlier projection of 6.8%, as manufacturing and agriculture sector showed sign of slowing down. While, forecast for FY21 and FY22 is kept at 7.1% and 7% respectively.

Exhibit 9: Agricultural and Industrial activities contracted

SECTORS	FY18				FY19			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Agriculture	**4.2%**	**4.5%**	**4.6%**	**6.5%**	**5.1%**	**4.9%**	**2.8%**	**-0.1%**
Industry	**0.8%**	**6.9%**	**8.0%**	**8.1%**	**9.8%**	**6.7%**	**7.0%**	**4.2%**
Mining & quarrying	2.9%	10.8%	4.5%	3.8%	0.4%	-2.2%	1.8%	4.2%
Manufacturing	-1.7%	7.1%	8.6%	9.5%	12.1%	6.9%	6.4%	3.1%
Electricity, gas, water supply & other utilities	8.6%	9.2%	7.5%	9.2%	6.7%	8.7%	8.3%	4.3%
Construction	3.3%	4.8%	8.0%	6.4%	9.6%	8.5%	9.7%	7.1%
Services	**9.4%**	**6.8%**	**8.0%**	**8.2%**	**7.1%**	**7.3%**	**7.2%**	**8.4%**
Trade, hotels, transport & communication and services related to broadcasting	8.3%	8.3%	8.3%	6.4%	7.8%	6.9%	6.9%	6.0%
Financial, real est. & professional Services	7.8%	4.8%	6.8%	5.5%	6.5%	7.0%	7.2%	9.5%
Public administration, defense, others	14.8%	8.8%	9.2%	15.2%	7.5%	8.6%	7.5%	10.7%
GVA at Basic Price	**5.9%**	**6.6%**	**7.3%**	**7.9%**	**7.7%**	**6.9%**	**6.3%**	**5.7%**

Source: MOSPI, PL

Exhibit 10: Agriculture contributed only 14%



Source: MOSPI, PL

CPI at 7 month high, high risk of 2H20 uptick led by Food inflation

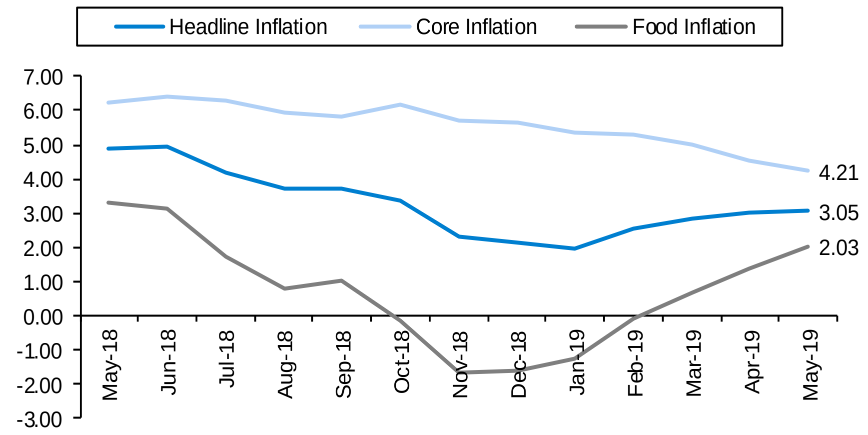
- CPI reported an uptick to 3.05% in May from 2.92% in April 2019, hits seven-month high due to rise in food and vegetable prices. **Food inflation** accelerated from 1.4% to 2% YoY basis. The inflation rate for meat and fish was highest at 8.12% in food and beverages sector while vegetable inflation was 1.24%. However, fruits recorded 5.2% YoY deflation in May2019.
- Corresponding inflation for rural areas reported at 1.86% and urban areas at 4.51% in May 2019 as against 1.87% and 4.23% in April 2019.
- The **core inflation** has declined to 22-month low of 4.21% in May19. Weakening of domestic and external demand conditions have led to decline of 201bps in core inflation YoY.
- **Headline inflation** is driven mainly because of rise in food inflation while core inflation continues to decline. Inflation rate remained within the target of 4% (+/-2%). RBI has forecast CPI at 3.0-3.1% for H1FY20 and 3.4-3.7% for H2FY20.
- RBI has changed its monetary policy stance to Accommodative. With high real interest rates, further rate cuts look likely. Volatility in oil prices, forecast of below normal monsoon and low base of food deflation in 2HFY19 can provide upside risk to food inflation in 2HFY20.

Exhibit 11: Food Inflation picks up; fuel inflation remains benign

Consumer Price Index (CPI)	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19
Combined Index	137.8	138.5	139.8	140.4	140.2	140.7	140.8	140.1	139.6	139.9	140.4	141.2	142.0
Food, Beverages and Tobacco	138.1	139.4	141.4	141.7	140.4	139.9	139.7	138.2	137.4	137.5	138.1	139.4	140.9
Pan Tobacco and Intoxicants	157.9	158.3	157.5	157.9	159.2	160.8	162.6	163.0	163.2	163.4	163.5	163.6	164.1
Clothing and Footwear	144.7	145.2	145.6	146.1	146.5	145.8	146.8	146.8	146.4	146.5	146.7	146.9	147.3
Housing	143.2	142.5	143.6	144.6	145.3	146.3	146.9	146.5	147.7	148.5	149	149.7	150.1
Fuel and Light	136.9	138.1	139.7	140.9	142.3	143.5	145.3	142.7	139.5	138.4	139.7	140.0	140.3
Miscellaneous	132.1	132.6	133.2	133.9	134.7	136.3	136.3	136.8	136.9	137.4	137.7	138.0	138.2
Combined: Consumer Food Price Index	136.5	138	140.1	140.5	138.9	138.2	137.8	136.0	135.2	135.1	135.9	137.3	139.0

Source: MOSPI, PL

Exhibit 12: Core inflation and Food inflation moving towards convergence



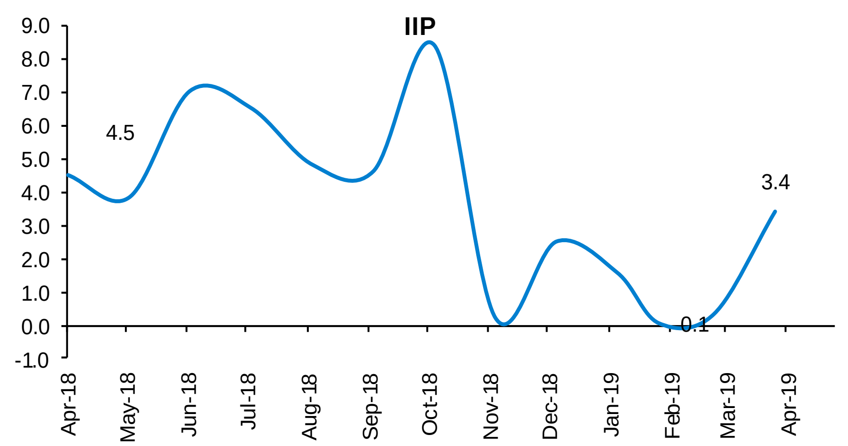
Source: MOSPI, PL

IIP showed positive surprise

Industrial production grew at six-month high of 3.4% in April from decline of 0.1% in March.

- Acceleration in IIP is mainly on account of improvement in mining (5.1%) and power generation (6%).
- **Manufacturing** having weightage of 77% grew by 2.8% in Apr19. 14 out of 23 industry groups in the manufacturing sector have shown positive growth during the month of April’19 as compared to April’18. In Manufacturing the industry group ‘wearing apparel’ has shown the highest growth of 33.6% YoY while ‘Electrical equipment and Machinery” have turned positive. Paper and paper products declined at maximum rate at 12.3% YoY, While Two wheeler sales are highest negative contributor with decline of -0.21%.
- As per **use-based classification**, Primary goods growth rates stood at 5.2% in Apr’19, Capital good at 2.5%, Intermediate goods at 1.0% and Infrastructure/ Construction Goods at 1.7%. The Consumer durables and Consumer non-durables have recorded growth of 2.4% and 5.2% respectively.
- Mar’19 IIP has been revised upward from -0.1% to 0.4%, as manufacturing decline of -0.4% was revised upward to a growth of 0.1%.

Exhibit 13: Mining and Electricity boosted IIP

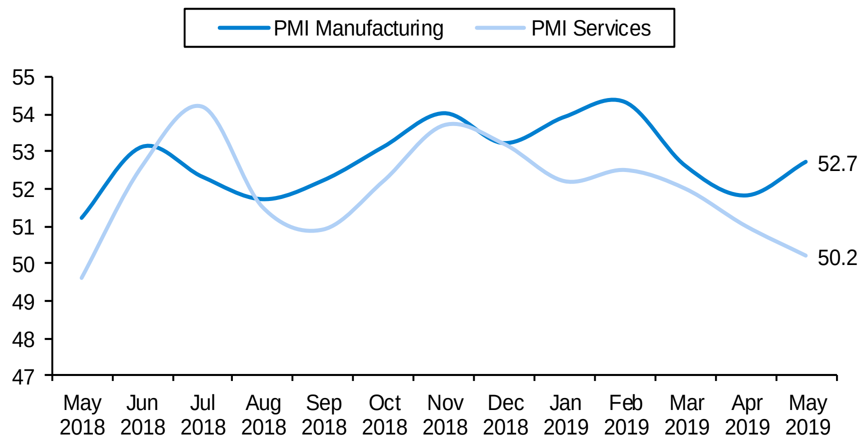


Source: MOSPI, PL

PMI unchanged, Consumer confidence fading out

Composite PMI remained unchanged at 51.7, lowest since Sept18. PMI Service showing decline since March19, May19 reading for PMI Service was 50.2 due to subdued growth of new business. However, PMI Manufacturing grew to 52.7 in May19 from 51.8 in Apr19 with strengthening of output, new orders and employment.

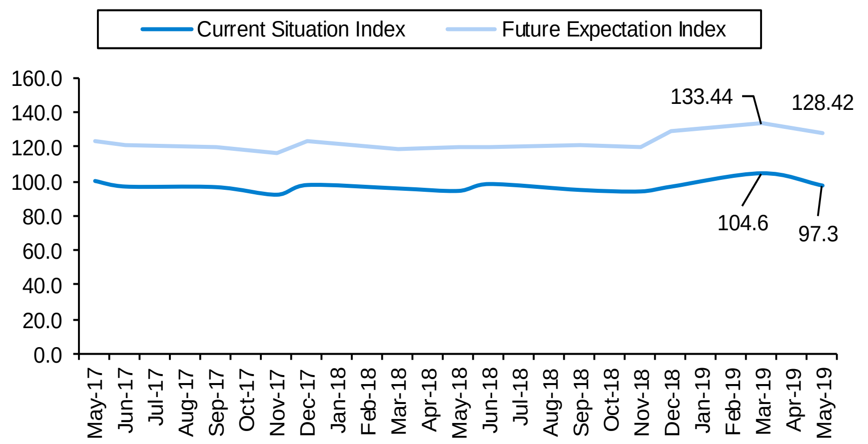
Exhibit 14: Service activity slipped to 12-month low, manufacturing showing improvement



Source: BLOOMBERG, PL

Adverse geopolitical developments and trade wars took toll on consumer confidence. Consumer Confidence survey conducted by RBI reported knock down in May19 to 97.3 from 104.6 in Mar19 round. The Current Situation Index returned to pessimist territory and Future Expectation Index slipped from its all-time in Mar19 to 128.4. Weakening confidence is mainly due to the deterioration in sentiments on the economic situation and employment.

Exhibit 15: CSI returning back to pessimist zone



Source: RBI, PL

Moderate export growth in sluggish global trade

Trade deficit widened by 5% to USD15.36bn in May19, a 6-month high due to fallout of escalating trade war between US and China.

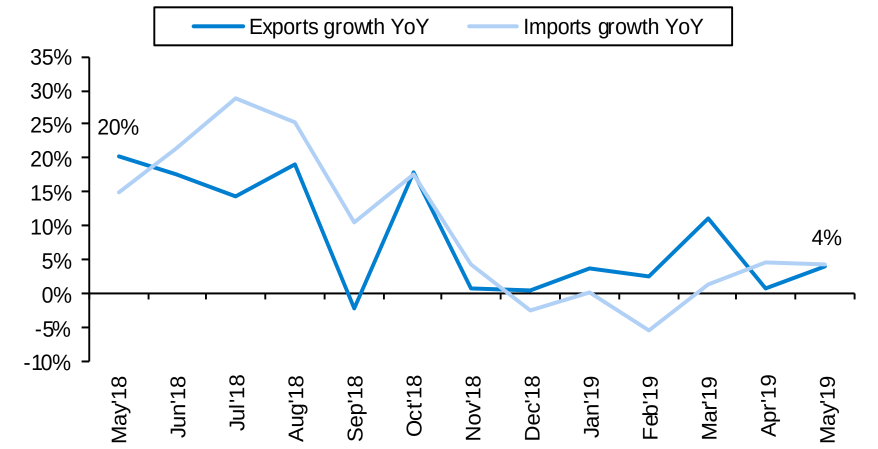
Gold import rose by 37.4% in May19, fall from April growth level of 54%. Surge in gold imports was mainly because of wedding season.

Oil import bill increased in May19 by 8.23% to USD12.44bn vs USD 11.50bn in May18, despite falling Brent prices ($/bbl) by 7.98% in May19 YoY basis.

Export increased 3.93% to USD29.99bn, growth led by Engineering goods (24.9%), Petroleum products (17.2%) and Gem & Jewellery (11.4%).

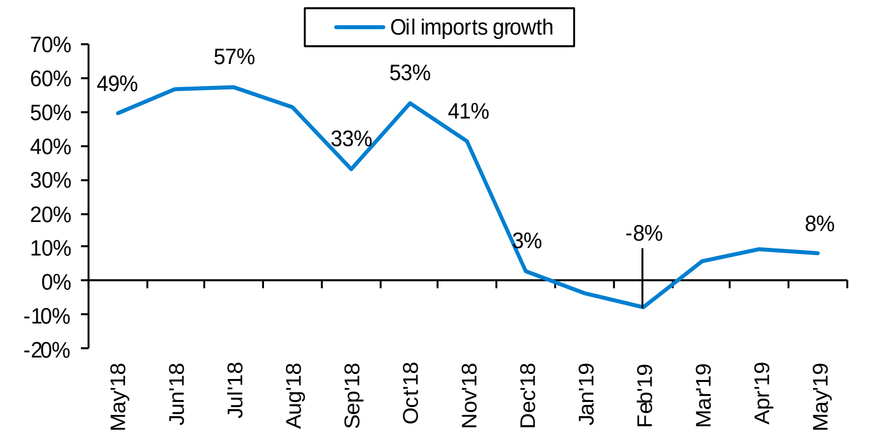
Imports in May19 were USD45.35bn up by 4.31% over USD43.48bn in May18. Major commodity groups showing negative growth YoY Were Pearls, precious & semi-precious stone (-24.7%), Fertilizers (-21.2%), Vegetable oil (-11.9%) and Electronic goods (-3.2%)

Exhibit 16: Exports and Imports both up by 4%



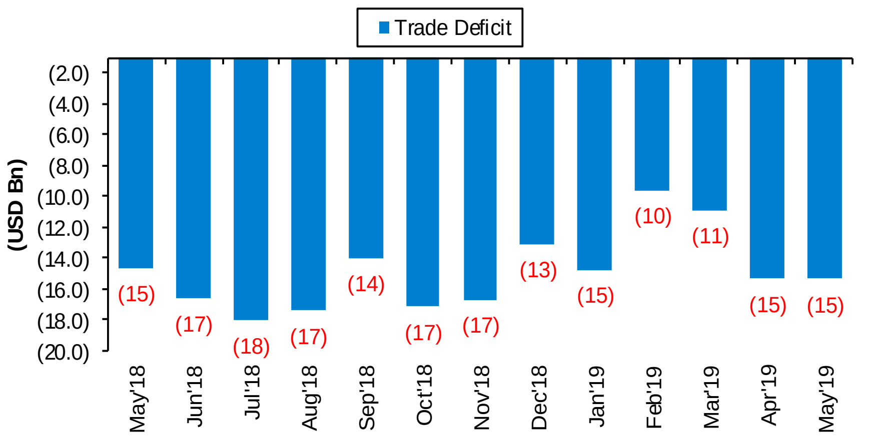
Source: Commerce Ministry, PL

Exhibit 17: Oil import up by 7% in May'19 YoY



Source: Commerce Ministry, PL

Exhibit 18: May Trade Deficit at ~USD15.36bn, up ~USD0.74bn YoY



Source: Commerce Ministry, PL

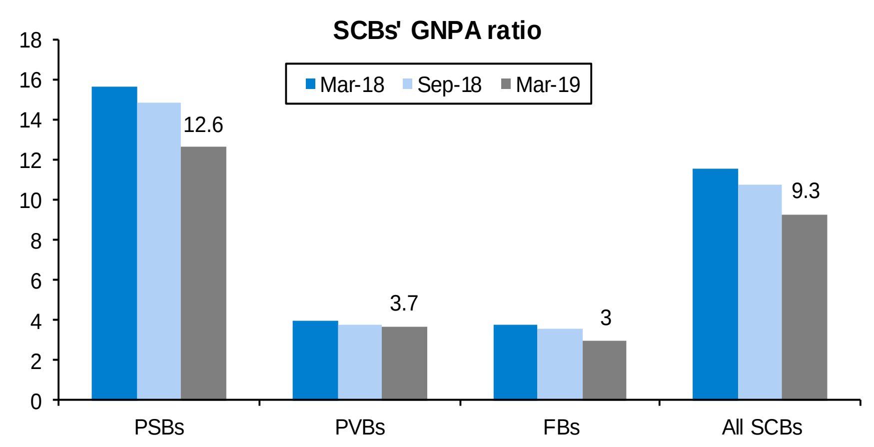
NPA Cycle turning around

Gross NPA of PSBs declined by Rs892bn from Rs8956bn in Mar18 to Rs8064bn in Mar19. Primary reason for fall in GNPA attributed to Government ‘s 4R’s strategy of recognition, resolution, recapitalization and reforms. The aggregate amount of gross NPAs of PSBs and Scheduled Commercial Banks (SCBs) were Rs8064bn and Rs9493bn respectively as on Mar’19.

- Enactment of IBC and changes in Banking Regulation Act and SARFAESI Act has enabled smooth and effective resolution of NPA of PSBs. Further, PSBs have 1) created Stressed Asset Management Verticals to focus attention on recovery 2) segregated monitoring from sanctioning roles in high-value loans, and 3) entrusted monitoring of loan accounts of above Rs250cr to specialized monitoring agencies.

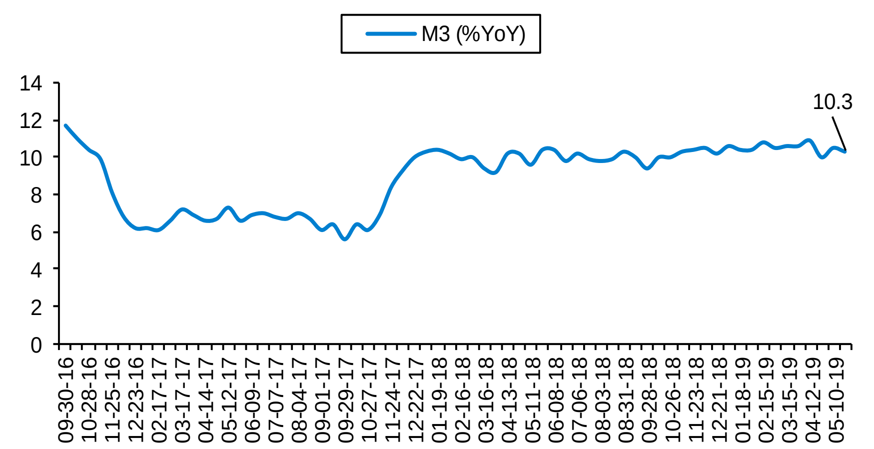
- PSBs have recovered Rs3595bn over the last four financial years. Assets quality has improved with 45% YoY reduction in slippage into NPAs in FY19, and 63% reduction in 31-90 days overdue corporate accounts by Mar19 from their peak in June17.

Exhibit 19: GNPA ratio declining across all bank group



Source: RBI, PL

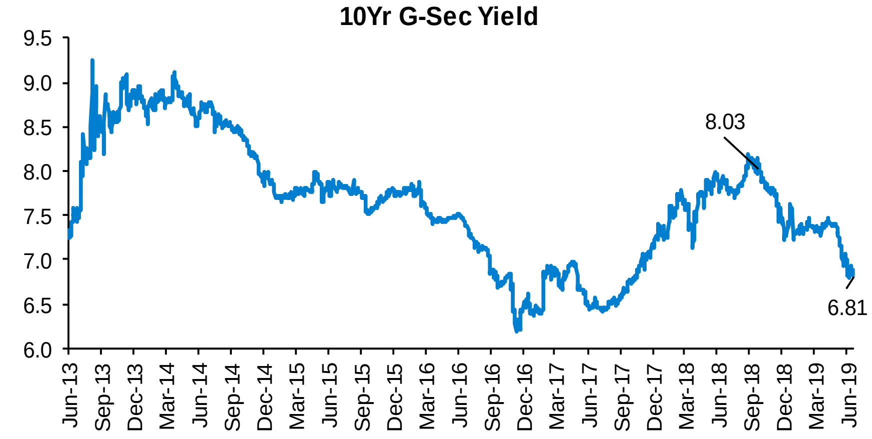
Exhibit 20: M3 growth at 10.3% YoY



Source: RBI, PL

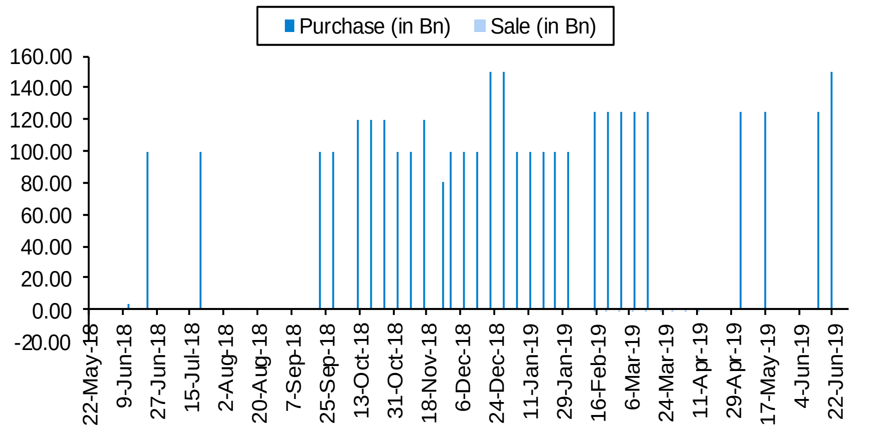
Benchmark Yield at 6.88%, earlier yield touched its minimum of FY20 at 6.79% on 20-Jun-19.

Exhibit 21: Benchmark Yield as of 28-Jun-19 stood at 6.88%



Source: RBI, PL

Exhibit 22: RBI injected durable liquidity through second open market purchase in June



Source: RBI, PL

2MFY20 Fiscal Deficit lower than trends attributed by fall in expenditure

- Fiscal deficit (FD) upto May'19 stood at Rs3,662bn which was 52% of the budgeted estimates which is lowest in last three years. FD for May'18 was at 55% of budgeted estimates.
- Revenue Deficit stood at 68% of budgeted target remained unchanged from previous year budgeted target.
- FD has been comparatively lower mainly as Capital expenditure declined from Rs638bn upto May'18 to Rs477bn in May'19, a decline by 25%. The decline in expenditure was seen from lower expenditure v/s budgeted in road & rural
- The total expenditure of the government recorded at Rs5,130bn or 18% of budget estimate.
- On the other hand, Cumulative May total revenue receipt accounted for Rs1,468bn or 7% of budgeted estimates unchanged from May'18. Cumulative GST collection decline by 7%.
- Total subsidies increased to 38.8% of May'19 budgeted estimate from 33.6% seen in May'18 and market borrowing to Budget estimate at 52.4%, absolute amount stood at Rs2,348bn.

Exhibit 23: Total expenditure at 18% of Budgeted Estimate

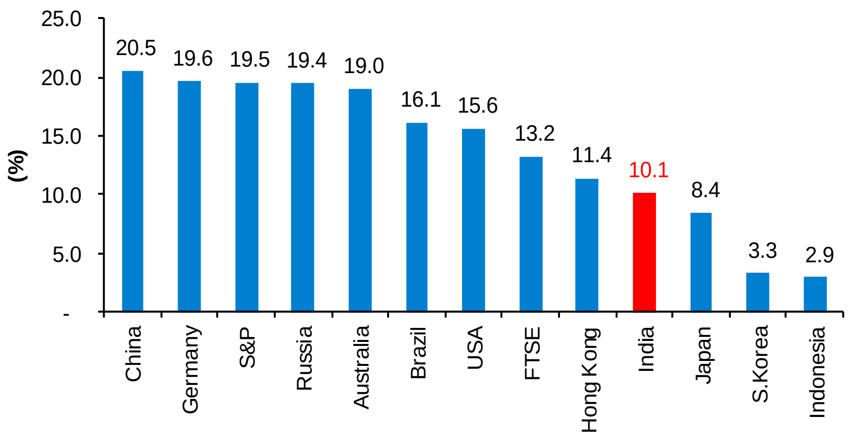
Government Accounts (Rs bn)	Upto May'19	Upto May'18	*YoY %*	Revised Budget Est	*% to total Budget Est.*
Revenue Receipts	**1,438**	**1,265**	***14%***	**19,777**	***7%***
Tax Revenue (Net)	1,153	1,024	*13%*	17,050	*7%*
Non-Tax Revenue	284	240	*18%*	2,726	*10%*
Non-Debt Capital Receipts	**31**	**10**	***205%***	**1,025**	***3%***
Recovery of Loans	7	6	*25%*	125	*6%*
Other Receipts	24	4	*443%*	900	*3%*
Total Receipts	**1,468**	**1,275**	***15%***	**20,802**	***7%***
Revenue Expenditure	**4,653**	**4,092**	***14%***	**24,484**	***19%***
(i) of which Interest Payments	748	736	*2%*	6,651	*11%*
Capital Expenditure	**477**	**638**	***-25%***	**3,358**	***14%***
(i) of which Loans disbursed	38	92	*-59%*	277	*14%*
Total Expenditure	**5,130**	**4,730**	***8%***	**27,842**	***18%***

Source: CGA, PL

FII’s outflow of Rs23bn hints at slowdown blues

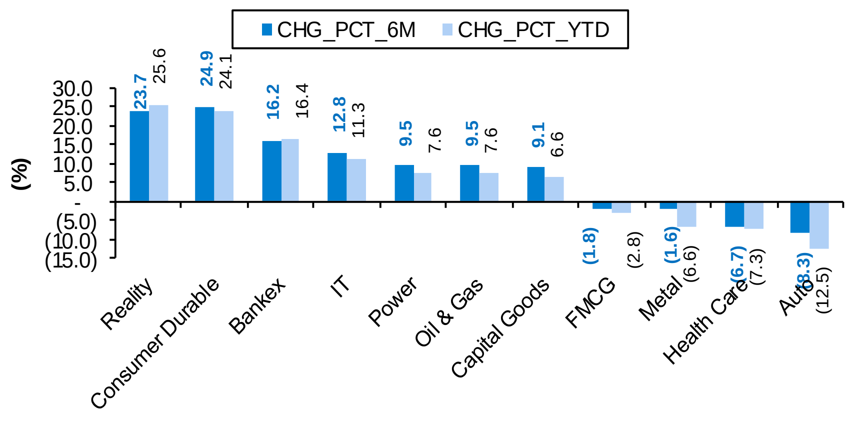
- NIFTY slipped in ranks in the past one month from fourth best performing market YTD to 6th best performing market. Incremental returns in the past one month has been just 0.9%, making India as the most underperforming market in the past one month.
- The NBFC crisis has hit the credit flow for auto purchase and HFC’s have hit the disbursements. Demand slowdown has hit Automobiles and Select consumer segments. This coupled with poor visibility of revival of broad based capex cycle is hurting the markets.
- BSE small cap has lost by ~6% in the past month showing rising risk aversion and markets getting concentrated to a few stocks.
- DII net cash outflows are lower by Rs49bn in past 1 month at Rs72bn (Rs121bn in YTDFY19 in June), FII net equity inflows are Rs767bn, however it has seen a decline of Rs23 bn in the past 1 month. Debt markets have seen revival with inflow of Rs84bn in the past 1 month, we expect further pick up in debt inflows given NBFC crisis and tight liquidity in the system.

Exhibit 24: India worst performing market in past 1 month



Source: Bloomberg, PL

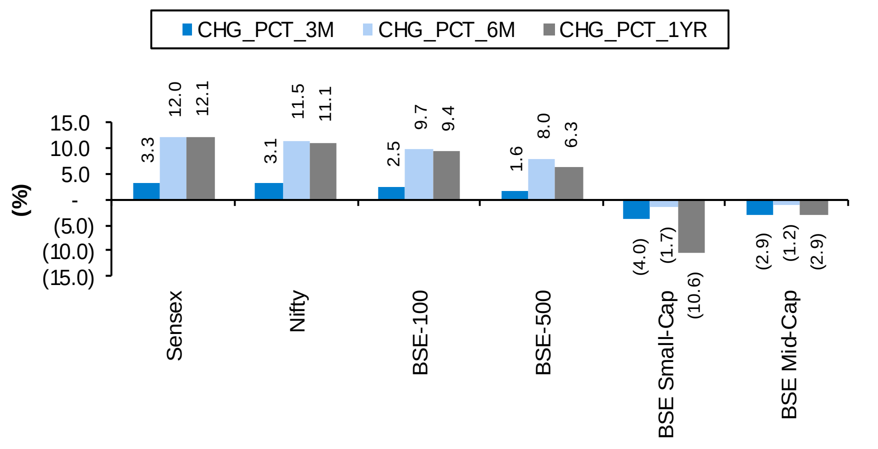
Exhibit 25: Bankex and Cap Goods steady, Auto and Healthcare suffer



Source: Bloomberg, PL

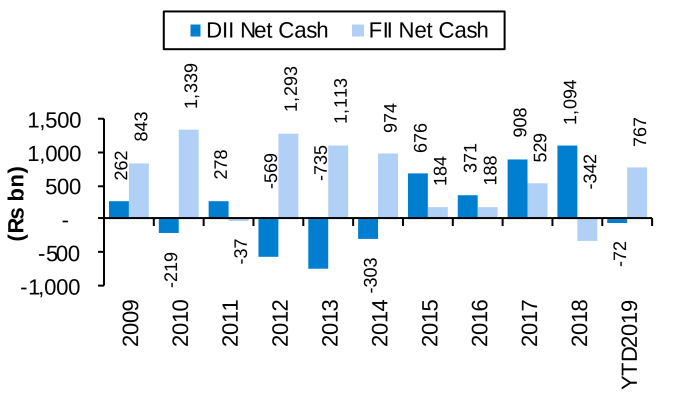
Small cap index has again gone into red (-4% for 3M as against 1.9% positive in previous month) showing rising risk aversion and market's continued flight to safety

Exhibit 26: Markets continue to center around select large caps



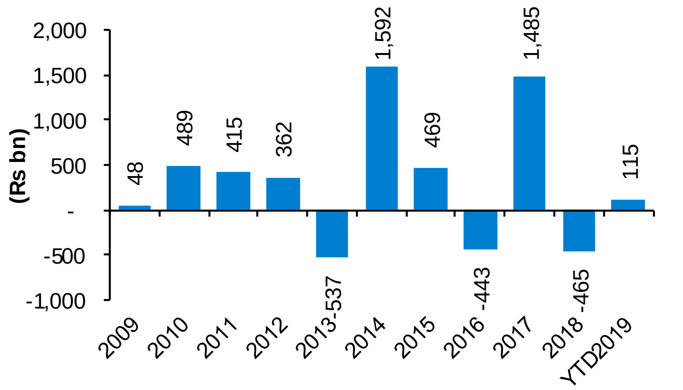
Source: Bloomberg, PL

Exhibit 27: FII equity outflows at Rs23bn over past month



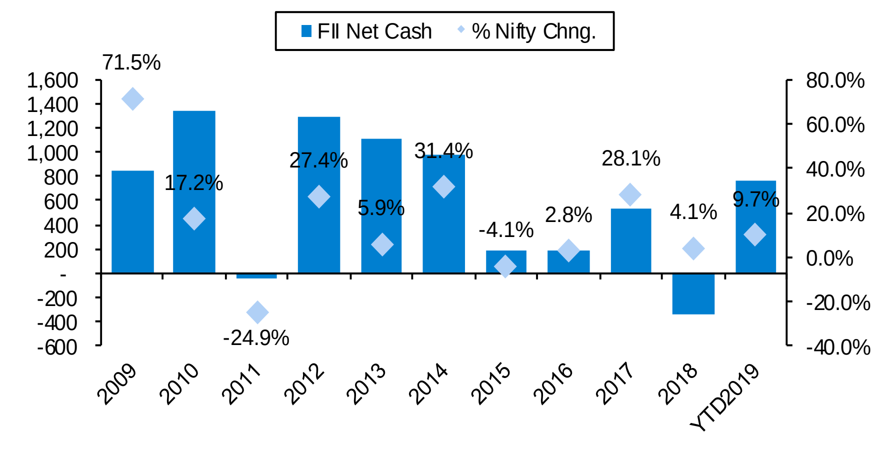
Source: Bloomberg, PL

Exhibit 28: FII Debt inflows up Rs84bn in past month



Source: Bloomberg, PL

Exhibit 29: NIFTY movement has strong correlation with FII inflows



Source: Company, PL

Key Sector Snapshots

Agri Inputs: Domestic performance of agrochemical companies will be in limelight over the next 6 months due to the onset of monsoon and the start of Kharif season. Business in 1Q is largely driven by placements. While placements in the initial 2.5 months was tepid, pick up in rainfall over the last 15 days led to increased seed sales and placement of agrochemicals. Season and sowing activity has delayed by 15-20 days which has also marginally impacted the placements for the agrochemical industry. We expect some tailwinds in gross margins due to decline in raw materials prices. Ex-UPL, we expect aggregate revenue and EBITDA to grow by 8.4% and 2.4% YoY for our coverage universe. Aggregate adjusted profit is expected to be flat YoY.

Automobiles: • The prevailing demand headwinds during 1QFY20 as reflected in PVs/2Ws/CVs volumes decline of 16%/6%/13 YoY to continue dent financial performance. We expect, impact of negative operating leverage and product mix to partially offset by ease in commodity inflation and cost control initiatives. Consequently, for our auto OEMs universe (ex-TTMT), we expect YoY revenue/EBITDA/PAT decline of -4%/-19%/-19.5% with margins contracting by 180bp YoY. We like MSIL and MSS among large caps and EXID from mid-caps.

Aviation: Capacity constraints in peak holiday season due to Jet's suspended operations and grounding of Boeing 737 Max aircrafts has led to a surge in air fares. Notwithstanding the flat domestic passenger traffic growth over April-May, airlines are expected to enjoy another stellar quarter and report strong margins & profitability on the back of high yield environment and soft ATF prices (down 1.2% YoY)

Banks: Banks will continue to see improvement in asset quality ratios from lower impairment ratios and see further improvement in PCR, though credit cost trends for most large banks should be heading downwards. Lowered benchmark yields could likely help treasury gains and MTM benefit on investment provisions, aiding overall operating performance. RBI's action on benchmark should act with positive bias on NIMs as pass on through MCLR has been minimal in last 6 months. NII growth would grow at 17% YoY but will continue to be led by private banks with growth of 23.5% YoY Key trends to watch for (i) Retail loan growth especially unsecured segment as base effect plays out (ii) any likely initiation in resolution plans post implementation of revised FRSA in Jun'19 and (iii) retail deposits trends which have been making life tougher for private banks. Key play continues to be corporate banks especially ICICI/SBI as risk-reward remains favorable, while IIB/BOB will see merged numbers it will be crucial to see the financial impact (also individual asset quality for IIB) & path ahead. Yes Bank will continue to see challenging time on asset quality, provisions and capital. In mid-cap banks we see lower concerns on Federal Bank

Capital Goods: We expect execution momentum to continue over the next 2-3 quarters, however order inflow (up ~10% YoY in FY19) could witness some slowdown (-4% YoY) in 1QFY20 due to cyclicality factors. We expect it to pick-up from 2QFY20 onwards. We expect revenue (Capital goods coverage universe) to grow 8% YoY mainly led by large cap companies like L&T (+9% YoY), SIEM (+15% YoY) and TMX (+12% YoY). On mid/small-cap we anticipate Apar (+16% YoY), ENGR (+19% YoY), KPP (+14% YoY) and VAMP (+20% YoY). We believe an overall 130bps YoY EBITDA margin improvement in 1QFY20, resulting ~12% YoY EBITDA growth. PAT is expected to grow ~15% YoY. We remain positive on the sector due to robust order back-log & order pipeline, better execution focus and reasonable valuations.

Cement: We expect EBITDA of our coverage universe to grow by 48% YoY, led by sharp increase in realizations negating fall in volumes. Volumes would fall by 1.6% YoY due to elections, lower government spending and continued sluggishness in real estate sector. Due to improvement in realizations, EBITDA/t of coverage universe to grow by 51% YoY to Rs1,235.

Consumer: Growth rates in rural have remained soft during the quarter considering last year's poor monsoons, food deflation and tight liquidity. Though liquidity scenario has improved QoQ, it remains far from being satisfactory. Despite delay in onset of monsoons by more than a week and forecasts of being below normal, spatial distribution in drought prone areas remains a key factor. Input costs headwinds are visible going forward. Food inflation coupled with higher government spends, benefits of PM Kisan Yojana and increase in MSP would increase farmers purchasing power and boost rural demand. Increase in margins from this levels would be in a calibrated manner only.

Consumer Durables: RAC industry is expected to report strong volume growth aided by harsh summer and a lower base. However, inability to take any price increase on the back of high channel inventory prior to start of the summer season & competitive scenario shall limit gains from softening of commodity prices. With sluggish demand scenario across products observed in 4Q19 continuing in 1Q20, gains derived from softening of commodity prices shall be limited. Industry continues to focus on providing a differentiated value proposition

Education: Navneet is expected to be in limelight as it derives ~50-55% of sales in 1Q. We believe the company is on track to achieve full year growth guidance amid rising share of exports and proposed syllabus changes in Gujarat & Maharashtra. In case of S Chand, focus will be on cash flow & working capital management.

Financial Services: With new challenges emerging for NBFCs, Q1FY20 is unlikely to show any respite from the trend of past couple of quarters. Even as concerns on high funding costs and sluggish growth persist, liquidity issues continue to cause problems. Since NBFCs recalibrate their balance sheets in order to limit credit risks and combat liquidity cycles, valuation multiples are likely to remain under pressure. Due to RBI's timely intervention (in OMOs & FX swaps) tightening liquidity is not a concern yet, however, increased risk perception adds to unease investor interest into NBFCs. ILFS fallout and slowdown in auto industry have led to moderate disbursements for asset financiers. Tight liquidity concerns, pressure on asset quality from developer side and riskier SME led LAP businesses have turned housing financiers cautious. With increased competition from banks, NBFCs will continue to focus on diversifying its assets.

Q1FY20 should witness a breather in terms of steady margins and flat credit costs QoQ to offset NBFC's benign credit growth. We continue to prefer HDFC Ltd in housing and Cholamandalam Finance in vehicle finance. We also like SHTF at compelling valuations with a key overhang behind.

Information Technology: We expect Q1FY20E to be a mixed quarter for Indian IT services with TCS & Infosys likely to post steady revenue growth in tier-1 & Hexaware, Mphasis, LTTS to post steady revenue growth in tier-2 IT services under our coverage universe. We expect revenue growth in CC between -0.7%-3.2% QoQ for Tier-1 IT companies. We expect TCS to deliver 3.2% QoQ CC broad-based growth across verticals & geographies. We expect Infosys to deliver steady growth of 2.5% QoQ CC with ~146 bps QoQ decline in margins led by wage hike, H-1B visa costs & INR appreciation.

Media: Radio companies are expected to report subdued growth as advertising environment across sectors like BFSI, auto, retail, real estate and FMCG is muted. Inventory utilization and pricing is expected to remain flat. Operating leverage benefit may not fully play out given growth concerns.

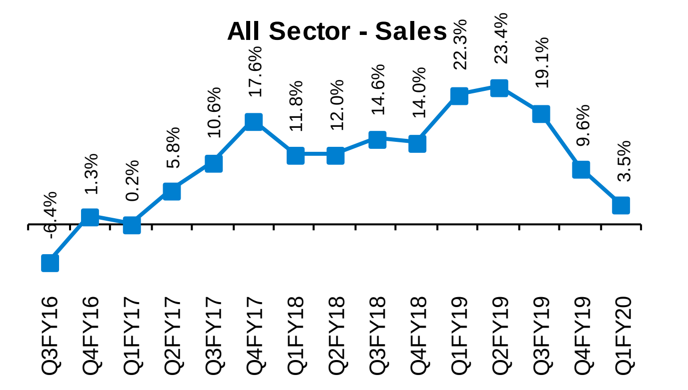
Metals: We expect EBITDA of our coverage universe to fall by 16% QoQ/9% YoY due to fall in steel prices (down by Rs300/t QoQ) and weak volumes. Trade disputes between USA and China, weak sentiments and overcapacity would keep earnings highly volatile for the sector. We do expect imposition of some safeguard measures by Govt to support margins of domestic steel industry given the sharp fall in steel prices and sharp cut in exports. Admittedly, these measures would provide boost to earnings for a very short period given the temporary nature of these tools. This would drive short-term rally in steel stocks. However, weak domestic demand, limited life (of around six months) of safeguard measures and volatile global environment would keep the up move under check. We expect short-livid run-up of 10-15% in stocks in reaction to likely introduction of provisional safeguard duty.

Oil and Gas: Q1FY20 Oil sector earnings are expected to be strong with healthy performance of gas players and upstream companies despite weak performance by OMCs. Upstream earnings will benefit from higher crude oil and gas prices while inventory losses will drag OMCs earnings. RIL earnings will recover by way of higher refining earnings and strong petrochemicals profitability. IGL, MGL and PLNG are likely to report healthy performance during the quarter.

Pharma/Healthcare: With appreciation of INR against major currencies, we expect reported growth and margins to be impacted in Q1FY20E. Emerging market (EM) sales are to remain tepid as all major EM currencies (against USD) declined further in Q1FY20E. India Formulations growth to be 8-10% 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

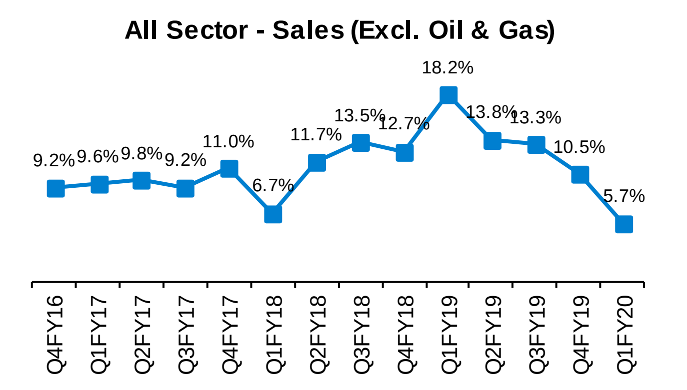
Sales and EBIDTA growth (ex Oil & Gas) slows down QoQ

Exhibit 30: Aviation and Agri drive sales; Auto a drag



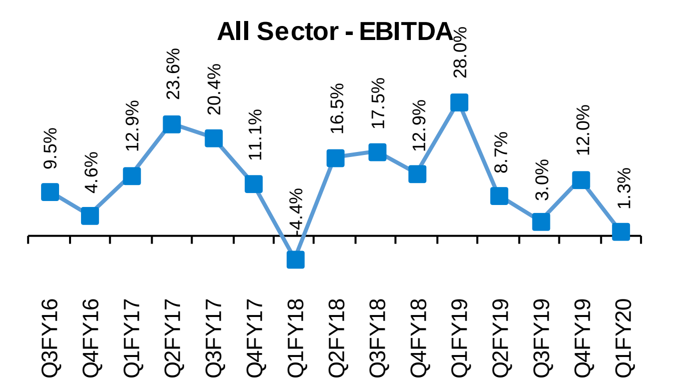
Source: Company, PL

Exhibit 31: Sales growth continues to soften



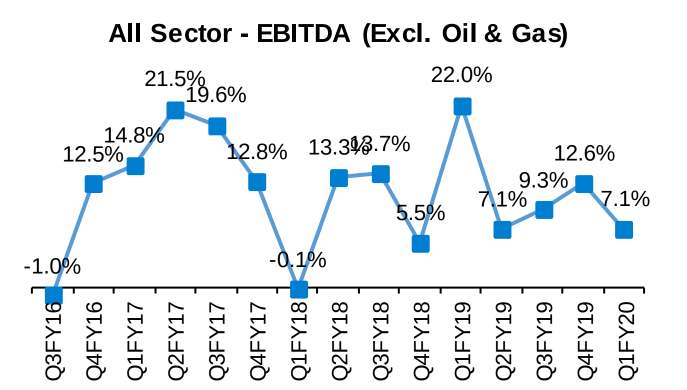
Source: Company, PL

Exhibit 32: Auto, Metals and Oil and Gas drag EBIDTA



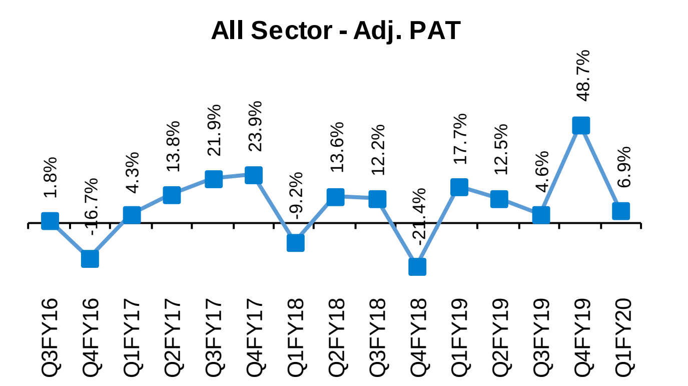
Source: Company, PL

Exhibit 33: EBIDTA growth softens QoQ



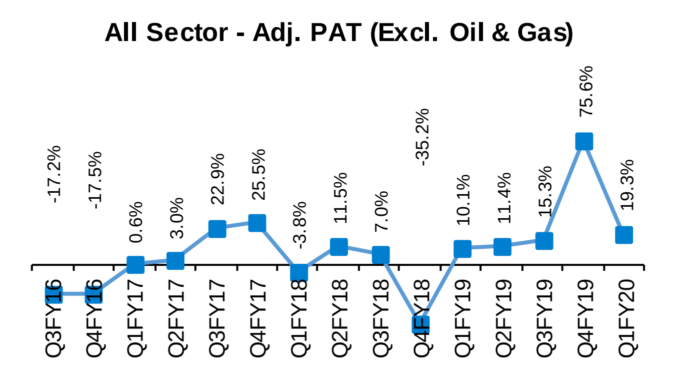
Source: Company, PL

Exhibit 34: Banks, Aviation and Cement drive PAT growth



Source: Company, PL

Exhibit 35: PAT growth normalises post bumper 4Q19

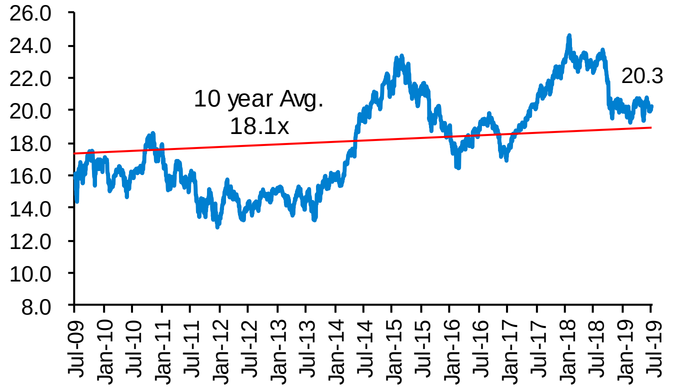


Source: Company, PL

NIFTY: Earnings expected to grow at 18.2% CAGR over FY19-21

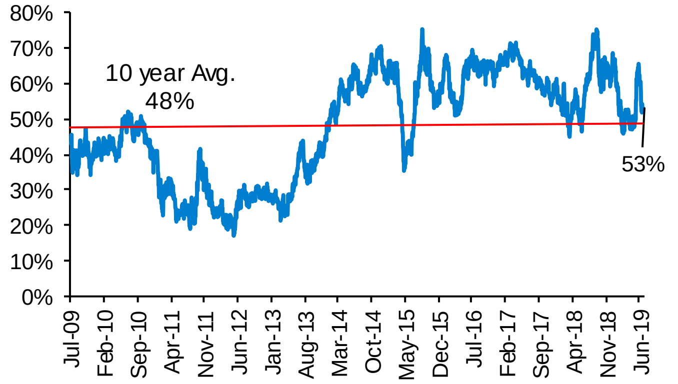
Against earnings growth of 8.5% in F19 NIFTY EPS is expected to increase by 18.7% in FY20 and 17.6% in FY21 to Rs563.1 and Rs662.3 which is 7.9% and 7.8% lower than consensus. NIFTY is currently trading at 20.3x 1 year forward earnings which shows 12.3% premium to long term average of 18.1. We note that the markets have not rallied after formation of a stable Govt due to NBFC crisis, slowdown in demand, rural distress and rising number of corporate defaults. We note that the markets have seen a FII outflow of Rs23bn in past one month. MSCI India premium over Asia is at 53% is higher than a 10-year average of 48%. we note that 18.7% CAGR for NIFTY for next 2 years are optimistic given that it has given EPS CAGR of ~6% in the past 10 years. We expect downgrade in NIFTY EPS unless demand starts to see meaningful acceleration from festival season. We retain our 12-month NIFTY target of 13272-13825 at peak P/E multiple of 24-25x, which would be subject to economic recovery. We expect flight to safety and large caps to sustain in the medium term.

Exhibit 36: Nifty 1-yr forward PE



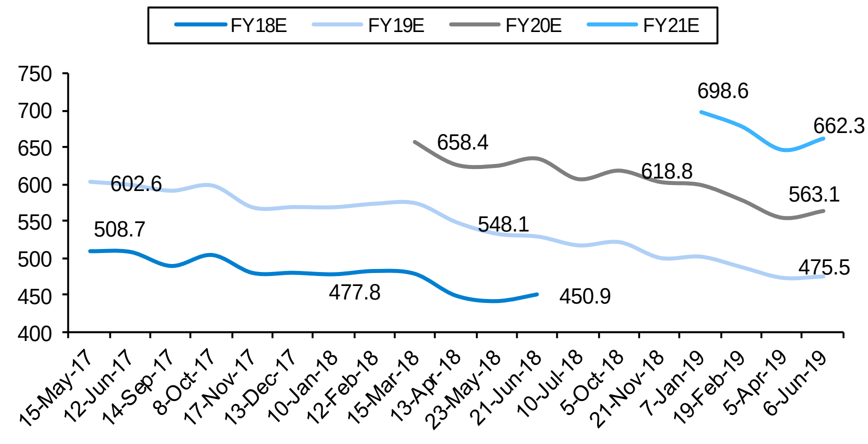
Source: Bloomberg, PL

Exhibit 37: MSCI India Premium to MSCI Asia (Ex-Japan)



Source: Bloomberg, PL

Exhibit 38: NIFTY has history of EPS Dowmgrades



Source: PL

Nifty Valuation

	Weight-age (%)	FY18	FY19	FY20E	FY21E
Banking & Fin.	**40.6%**				
PER (x)		54.8	44.3	26.0	20.2
PAT Growth (%)		(1.1)	23.5	70.3	28.9
Technology	**13.6%**				
PER (x)		25.3	22.1	21.0	18.7
PAT Growth (%)		1.1	14.4	5.0	12.5
Oil & Gas	**12.1%**				
PER (x)		14.2	13.3	12.7	11.6
PAT Growth (%)		2.0	6.2	4.7	10.2
Consumer	**10.6%**				
PER (x)		50.3	44.6	39.2	34.2
PAT Growth (%)		14.3	12.7	13.8	14.8
Auto	**5.7%**				
PER (x)		19.0	21.6	17.9	15.9
PAT Growth (%)		(7.3)	(12.1)	20.6	12.8
Eng. & Power	**6.3%**				
PER (x)		18.1	15.0	14.1	12.6
PAT Growth (%)		7.8	20.9	6.2	11.9
Metals	**3.5%**				
PER (x)		13.3	8.2	8.8	8.3
PAT Growth (%)		15.0	62.8	(6.6)	6.1
Pharma	**2.1%**				
PER (x)		39.2	28.3	21.0	19.3
PAT Growth (%)		(50.0)	38.7	34.4	8.9
Telecom	**1.9%**				
PER (x)		65.4	80.9	161.5	50.8
PAT Growth (%)		(45.1)	(19.2)	(49.9)	217.7

	Weight-age (%)	FY18	FY19	FY20E	FY21E
Cement	**1.0%**				
PER (x)		48.6	52.4	25.7	24.1
PAT Growth (%)		(3.4)	(7.2)	104.0	6.5
Others	**0.8%**				
PER (x)		12.8	19.3	7.0	5.8
PAT Growth (%)		(15.4)	(33.8)	174.8	21.0
Media	**0.4%**				
PER (x)		23.1	21.8	19.4	16.9
PAT Growth (%)		(33.4)	5.9	12.9	14.7
Ports & Logistics	**0.7%**				
PER (x)		9.3	8.6	7.4	6.4
PAT Growth (%)		(6.1)	8.6	15.7	15.5
Agro Chemicals	**0.8%**				
PER (x)		18.9	15.5	11.6	9.3
PAT Growth (%)		0.2	21.5	33.8	25.0
Nifty as on Jul 4	**11,947**				
EPS (Rs) - Free Float		**480.9**	**445.7**	**563.1**	**662.3**
Growth (%)		**(4.9)**	**8.5**	**18.7**	**17.6**
PER (x)		**27.3**	**25.2**	**21.2**	**18.0**
EPS (Rs) - Free Float - Nifty Cons.		**480.9**	**445.7**	**611.7**	**718.3**
Var. (PLe v/s Cons.) (%)		**-**	**-**	**(7.9)**	**(7.8)**
Sensex as on Jul 4	**39,908**				
EPS (Rs) - Free Float		**1,504.3**	**1,339.1**	**1,742.0**	**2,072.6**
Growth (%)		**(11.1)**	**6.2**	**18.4**	**19.0**
PER (x)		**26.5**	**29.8**	**22.9**	**19.3**
EPS (Rs) - Free Float - Sensex Cons.		**1,504.3**	**1,339.1**	**1,903.8**	**2,274.8**
Var. (PLe v/s Cons.) (%)		**-**	**-**	**(8.5)**	**(8.9)**

Source: Company Data, Bloomberg, PL Research

Note: Telecom Nos. is Bloomberg Consensus / Sector Weightages are updated as on July 04, 2019

SECTORS

July 4, 2019

Top Picks

PI Industries

UPL

Dhanuka Agritech

Insecticide India

Agro Chemicals

Jan-Mar'19 Earnings Preview

Domestic performance of agrochemical companies will be in limelight over the next 6 months due to the onset of monsoon and the start of Kharif season. Business in 1Q is largely driven by placements. While placements in the initial 2.5 months was tepid, pick up in rainfall over the last 15 days led to increased seed sales and placement of agrochemicals. Season and sowing activity has delayed by 15-20 days which has also marginally impacted the placements for the agrochemical industry. We expect some tailwinds in gross margins due to decline in raw materials prices. Ex-UPL, we expect aggregate revenue and EBITDA to grow by 8.4% and 2.4% YoY for our coverage universe. Aggregate adjusted profit is expected to be flat YoY.

Exhibit 1: Raw material prices have started to decline

In USD	Current Price	Price 1 Yr back	Price 2 yr back
Insecticides			
Acephate	7.0	6.2	5.2
Lambda	48.7	54	35
Imidacloprid	19.4	24	34
Emamectin Benzote	162	163	165
Fungicide			
Propiconazole (Rs)	1050	1165	1030
Tebuconazole	21.5	18.6	17.3
Mancozeb	2.6	-	-
Metribuzin	32.0	21.5	13.04
Hexaconazole	21.8	16.5	-
Herbicide			
Glyphosate	3.86	3.8	2.16
2 4 D	2.66	3.2	2.3
Pretilachlor	5.0	-	-
Glufocinate	19.0	27.0	-
Pendimethalin	7.1	7.9	6.9

Source: PL Research

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Exhibit 2: Q1FY20 Result Preview

Company Name		Q1FY20E	Q1FY19	YoY gr. (%)	Q4FY19	QoQ gr. (%)	Remark
Bayer Cropscience	Sales	8,734	8,318	*5.0*	1,288	*578.1*	We expect Bayer to report mid to high single-digit revenue growth driven by lower placement. We expect gross margins to contract by 150 bps to 51%. EBITDA is expected to decline by 11% YoY while margins are expected to contract 425 bps to 23.4%. PAT is expected to decline by 6% YoY.
	EBITDA	2,041	2,298	*(11.2)*	-1,218	*(267.5)*	
	Margin (%)	*23.4*	*27.6*		*-94.6*		
	Adj. PAT	1,389	1,472	*(5.7)*	-798	*(274.0)*	
Dhanuka Agritech	Sales	2,186	2,130	*2.7*	1,927	*13.5*	Revenue growth of 3% to be driven by North and Eastern region (South and West -subdued due to deficit rainfall). Gross margins are expected to expand by 80 bps YoY to 36%. Employee cost and other expenses are expected to drive cost savings. Other Income is expected to see sharp decline of 50% YoY to Rs 40 mn. Higher tax rate of 33% v/s 23% is expected to result in decline in profits by 5.2% YoY.
	EBITDA	222	159	*40.0*	330	*(32.8)*	
	Margin (%)	*10.2*	*7.4*		*17.1*		
	Adj. PAT	153	162	*(5.2)*	268	*(42.6)*	
Insecticides India	Sales	3,444	3,189	*8.0*	1,989	*73.1*	New launches will continue to drive growth for Insecticides India. Due to decline in price of technical, gross margins may be under pressure on a YoY basis. We expect ~300 bps decline in gross margins. Rising interest cost due to higher working capital requirements may lead to 2.5% decline in profits to Rs 331 mn.
	EBITDA	585	556	*5.3*	289	*102.8*	
	Margin (%)	*17.0*	*17.4*		*14.5*		
	Adj. PAT	331	340	*(2.5)*	286	*16.0*	
P.I. Industries	Sales	7,395	6,056	*22.1*	8,048	*(8.1)*	CSM segment will continue to drive the blended growth for PI with 35.0% YoY growth driven by ramp-up in offtake of new molecules. Domestic segment is expected to clock 10% growth. We expect gross margins to expand (after 7 consecutive quarters of contraction) by 90 bps to 47.5%.
	EBITDA	1,503	1,181	*27.3*	1,719	*(12.5)*	
	Margin (%)	*20.3*	*19.5*		*21.4*		
	Adj. PAT	1,042	817	*27.5*	1,244	*(16.2)*	
Rallis India	Sales	6,452	5,731	*12.6*	3,396	*90.0*	Revenue growth of 12.5% will be driven by both higher ag-chem and seed sales. Rallis has revised credit terms and is also offering very remunerative cash discounts to distributors/dealers which is resulting in higher demand for Rallis' products. Seed business growth will be aided by acreage expansion in Cotton. Gross margins are expected to expand by 345 bps to 43.0% due to weak base. Other expense is likely to shot up as a result of higher marketing expenses. Significant increase in revenue and profit in 1QFY20 is also a factor of weak base and not only a result of relaxation of credit terms.
	EBITDA	1,048	832	*26.0*	67	*1,452.4*	
	Margin (%)	*16.2*	*14.5*		*2.0*		
	Adj. PAT	685	548	*25.0*	15	*4,560.3*	
Sharda Cropchem	Sales	4,311	4,571	*(5.7)*	7,644	*(43.6)*	Agrochemical sales are expected to decline 12% whereas Belts will continue to see traction with 25% growth. 12% decline in agchem sales is driven by 10% decline in European business. NAFTA revenue is expected to decline by 5.0% largely due to the impact of recent tariff hike on imports from China by US. Gross margin will continue to be under pressure but with declining raw material price and increasing availability, Sharda is expected to be a key beneficiary.
	EBITDA	616	851	*(27.5)*	1,577	*(60.9)*	
	Margin (%)	*14.3*	*18.6*		*20.6*		
	Adj. PAT	211	482	*(56.3)*	1,056	*(80.1)*	
UPL	Sales	75,992	41,340	*83.8*	85,250	*(10.9)*	Numbers are not comparable due to incorporation of Arysta's financials. For UPL group we expect 8% topline growth while Arysta is expected to clock revenue Rs 31 bn. Including the step-up impact of Rs 1.5 bn on old inventory, we expect raw material costs to increase 180 bps to 46.3%. EBITDA is expected to nearly double (93% growth) to Rs 16.4 bn. Even as interest cost is expected to shot up significantly, benefits of dollar loan swap into Euro and Yen is expected to lower interest cost from 1Q itself. Other income is expected to decline 60% YoY. PBT is expected to clock 41% growth but comparatively higher tax rate and minority interest is expected to limit profit growth to 5% and APAT is expected to decline 4.0%. It is noteworthy that there could be many one-offs adjustments that could recur in FY20 due to the acquisition. Post the adjustment of bonus, our target price gets reduced to ~Rs 752.
	EBITDA	16,358	8,470	*93.1*	14,100	*16.0*	
	Margin (%)	*21.5*	*20.5*		*16.5*		
	Adj. PAT	5,365	5,590	*(4.0)*	6,510	*(17.6)*	

Source: Company, PL

Exhibit 3: Valuation Summary

Company Names	Rating	CMP (Rs)	TP (Rs)	Sales (Rs bn)				EBITDA (Rs bnm)				PAT (Rs bn)				EPS (Rs)				RoE (%)				PE (x)			
				FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E
Bayer Cropscience	HOLD	3,359	3,783	27.1	26.9	29.3	32.8	4.1	3.7	4.2	5.3	2.7	2.4	2.9	3.6	77.8	69.2	83.2	105.4	13.9	13.0	14.3	16.2	43.2	48.5	40.4	31.9
Dhanuka Agritech	Buy	432	578	9.6	10.1	11.1	12.1	1.7	1.5	1.9	2.2	1.3	1.1	1.3	1.5	25.7	23.7	26.5	32.1	21.8	17.7	18.1	18.9	16.8	18.3	16.3	13.5
Insecticides India	BUY	650	887	10.7	11.9	13.3	14.6	1.5	1.9	2.1	2.3	0.8	1.2	1.2	1.4	40.6	59.2	56.9	68.2	16.6	20.3	17.2	19.0	16.0	11.0	11.4	9.5
P.I. Industries	Buy	1,200	1,278	22.8	28.4	34.6	41.2	4.9	5.7	7.2	9.3	3.7	4.1	5.1	6.3	26.6	29.6	37.1	45.7	20.8	19.5	20.7	21.5	45.2	40.6	32.3	26.3
Rallis India	Acc	157	173	17.9	19.8	21.6	24.3	2.6	2.4	2.6	3.2	1.7	1.6	1.6	2.0	8.6	8.0	8.3	10.2	14.6	12.5	12.3	14.2	18.2	19.7	18.8	15.4
Sharda Cropchem	Acc	319	402	17.1	20.0	22.7	26.0	3.5	3.3	4.1	5.0	1.9	1.8	2.0	2.4	21.1	19.5	22.3	26.7	18.2	14.6	14.9	15.9	15.1	16.3	14.3	11.9
UPL	BUY	698	752	173.8	218.4	357.4	396.5	35.2	41.1	77.9	89.6	18.1	22.0	29.5	36.8	35.5	43.2	38.6	48.2	21.9	18.5	19.1	18.9	19.7	16.2	18.1	14.5

Source: Company, PL

Prabhudas Lilladher — POWERING YOUR FINANCIAL GROWTH

July 4, 2019

Top Picks

Maruti Suzuki

Motherson Sumi

Exide Industries

Deep Shah
deepshah@plindia.com | 91-22-66322235

Poorvi Banka
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Automobiles

Apr-Jun'19 Earnings Preview

The prevailing demand headwinds during 1QFY20 as reflected in PVs/2Ws/CVs volumes decline of 16%/6%/13 YoY to continue dent financial performance. We expect, impact of negative operating leverage and product mix to partially offset by ease in commodity inflation and cost control initiatives. Consequently, for our auto OEMs universe (ex-TTMT), we expect YoY revenue/EBITDA/PAT decline of -4%/-19%/-19.5% with margins contracting by 180bp YoY.

Impact of negative op. leverage, mix to partially offset by ease in RM: The positive impact of a decline in key commodity price over past couple of quarters is to help partially offset negative operating leverage (4W: -18.5% QoQ and 2W: +3% QoQ) and weak product mix. Consequently, we expect OEM EBITDA margins (ex-TTMT) for the quarter to inch up by ~20bps QoQ to 11.8%. However, on YoY margins are expected to be lower ~220bps led by negative operating leverage.

EIM and MSIL to see sharp EBITDA margins decline among OEMs: While all OEMs to see margins contraction, we expect EIM and MSIL to see sharpest decline of 480bps YoY (-40bp QoQ) to 27% and 450bp YoY (flat QoQ) to 10.5%, respectively. From mass market 2W space, we expect HMCL/BJAUT/TVSL to contract 150bp/90bp/50bp YoY while to increase 60bp/60bp/20bp QoQ.

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 for them despite the OEM demand slowdown. For ancillary universe, we expect YoY revenue/EBITDA/PAT growth of 5.5%/-7%/-8%.

Change in estimates: We cut FY20/21E MSIL volumes to 3%/5.5% and margins by 130bp/60bp resulting in earnings cut of 9%/4%. We slashed EIM FY20E volumes by 4% to flat, FY20/21E margins by 60bp/100bp resulting in EPS decline of 9%/10%. For TVS we cut FY20/21E volumes by 2%/1% and margins by 40bp/70bp resulting in EPS cut of 5%/11%.

Exhibit 1: Two & Three-wheeler companies

Volume (units)	Q1FY20	*YoY gr. (%)*	*QoQ gr. (%)*
Total	**4,196,878**	***-6.4***	***2.9***
Hero Motocorp	1,842,920	*-12.4*	*3.5*
Bajaj Auto	1,247,174	*1.7*	*4.5*
TVS Motors	923,195	*-0.5*	*1.7*
Royal Enfield	183,589	*-18.5*	*-6.4*

Source: Company, PL

Exhibit 2: Passenger Vehicle companies

Volume (units)	Q1FY20	*YoY gr. (%)*	*QoQ gr. (%)*
Total	**677,690**	***-15.7***	***-20.3***
Tata Motors (PV)	42,612	*-34.3*	*-35.3*
Jaguar Land Rover	100,795	*-7.3*	*-33.4*
Maruti Suzuki	402,594	*-17.9*	*-12.2*
M&M (Auto segment)	131,689	*-6.0*	*-24.6*

Source: Company, PL

Exhibit 3: Commercial Vehicle Companies

Volume (units)	Q1FY20	*YoY gr. (%)*	*QoQ gr. (%)*
Total	**148,168**	***-12.8***	***-28.6***
Tata Motors (CV)	94,997	*-14.9*	*-25.3*
Ashok Leyland	39,608	*-6.0*	*-33.5*
VECV	13,563	*-16.4*	*-35.4*

Source: Company, PL

Exhibit 4: Q1FY20 Result Preview

Company Name		Q1FY20E	Q1FY19	*YoY gr. (%)*	Q4FY19	*QoQ gr. (%)*	Remark
Ashok Leyland	Sales	57,589	62,501	*(7.9)*	88,459	*(34.9)*	AL reported a 6% YoY / 33.5% QoQ decline in volumes this quarter owing to excess capacity with fleet operators and limited freight availability in the segment. Anticipating realisations also to decline by 2% YoY on account of weaker product mix (lower MHCVs), we expect revenues to degrow by ~8% YoY and margins to contract by 30bps YoY / 100bps QoQ given the negative operating leverage.
	EBITDA	5,816	6,475	*(10.2)*	9,854	*(41.0)*	
	Margin (%)	*10.1*	*10.4*		*11.1*		
	Adj. PAT	3,167	3,910	*(19.0)*	6,647	*(52.4)*	
Bharat Forge	Sales	16,020	14,797	*8.3*	16,686	*(4.0)*	With user industries like North America trucks as well as domestic CVs witnessing weak demand, we expect shipment tonnage to be lower 6% YoY in Q1FY20E. Overall revenue for Bharat Forge is expected to increase by 8% YoY and EBITDA margin is expected at 30%, up 100bps YoY but lower 100bps QoQ.
	EBITDA	4,806	4,286	*12.1*	5,173	*(7.1)*	
	Margin (%)	*30.0*	*29.0*		*31.0*		
	Adj. PAT	2,711	2,345	*15.6*	2,995	*(9.5)*	
Bajaj Auto	Sales	77,862	74,193	*4.9*	73,952	*5.3*	Overall volume growth for BJAUT over Q1FY20 has inched up 1.7% YoY / 4.5% QoQ, however, the volume mix has not been favourable with higher share of domestic motorycles (Platina/CT100) and lower 3Ws. While exports were higher (44% of volumes v/s 40.3% in Q4FY19), growth has been from lower margin African geography. With favourable currency, we expect margins to inch-up 60bps QoQ but be lower 100bps YoY.
	EBITDA	12,718	12,814	*(0.8)*	11,623	*9.4*	
	Margin (%)	*16.3*	*17.3*		*15.7*		
	Adj. PAT	11,731	11,152	*5.2*	9,636	*21.7*	
CEAT	Sales	16,722	17,063	*(2.0)*	17,605	*(5.0)*	Ceat is expected to report 2% YoY / 5% QoQ de-growth in its revenues over Q1FY20 on account of negative volume growth in the OEM segment along with subdued replacement demand. Raw material prices too have been inching up (rubber prices up ~5% QoQ, crude up ~10% QoQ). We expect consol EBITDA margin to be at 8.7%, down 160bps YoY / 50bps QoQ.
	EBITDA	1,461	1,758	*(16.9)*	1,623	*(10.0)*	
	Margin (%)	*8.7*	*10.3*		*9.2*		
	Adj. PAT	539	731	*(26.3)*	798	*(32.5)*	
Eicher Motors	Sales	23,429	25,478	*(8.0)*	25,001	*(6.3)*	Royal Enfield's Q1FY20 volumes have recorded a de-growth of 18.5% YoY / 6.4% QoQ to 183.6K units, while VECV volumes have also de-grown ~16% YoY / 35% QoQ to 13.6K units. We expect EIM to report consolidated revenue decline of ~8% YoY, with EBITDA margin slipping to 27%, lower 480bps YoY/ 40bps QoQ, on account of the negative operating leverage.
	EBITDA	6,314	8,096	*(22.0)*	6,847	*(7.8)*	
	Margin (%)	*27.0*	*31.8*		*27.4*		
	Adj. PAT	4,957	5,762	*(14.0)*	5,448	*(9.0)*	
Exide Industries	Sales	26,338	27,725	*(5.0)*	25,987	*1.4*	On the high base of last year, with weakening OEM demand, we expect Exide to report ~5% YoY but inch up 1.4% QoQ on account of Q1 being seasonally better. Despite lead prices softening (down ~6% QoQ), our EBITDA margin expectation is at 14%, down 20bps YoY & 40bps QoQ.
	EBITDA	3,687	3,928	*(6.1)*	3,733	*(1.2)*	
	Margin (%)	*14.0*	*14.2*		*14.4*		
	Adj. PAT	1,988	2,099	*(5.3)*	2,107	*(5.7)*	
Hero Motocorp	Sales	82,293	88,098	*-6.6*	78,850	*4.4*	With volume de-growth of 12% YoY but expected realisation increase of ~7.5% YoY on account of the ABS/CBS related price hike over Q1FY20, revenue de-growth is expected at 6.6% YoY (up 4.4% QoQ given volumes inching up 3.5% QoQ). Operating margins are expected to contract 140bps YoY but, with better product mix, rise 60bps QoQ.
	EBITDA	11,667	13,773	*(15.3)*	10,693	*9.1*	
	Margin (%)	*14.2*	*15.6*		*13.6*		
	Adj. PAT	7,663	9,092	*(15.7)*	7,303	*4.9*	

Company Name		Q1FY20E	Q1FY19	*YoY gr. (%)*	Q4FY19	*QoQ gr. (%)*	Remark
Mahindra & Mahindra	Sales	127,884	135,199	*(5.4)*	140,352	*(8.9)*	M&M's overall volumes for the quarter were lower 9.5% YoY / 7.4% QoQ, where tractors were down ~14% YoY on high base (automotive volumes too dipped 6%), forming 39.6% of total volumes (v/s ~42% in Q1FY19 & 26% in Q4FY19) . With pick-ups being lower, we expect M&M's standalone revenues to dip 5.4% YoY / 9% QoQ but EBITDA margin to be at 12%, up 30bps QoQ / lower 13.8% YoY (higher share of tractors).
	EBITDA	15,346	18,716	*(18.0)*	16,458	*(6.8)*	
	Margin (%)	*12.0*	*13.8*		*11.7*		
	Adj. PAT	8,847	12,001	*(26.3)*	9,535	*(7.2)*	
Maruti Suzuki	Sales	191,054	224,594	*(14.9)*	214,594	*(11.0)*	MSIL volumes declined ~18% YoY (down ~12% QoQ). Taking slightly higher realisations YoY as well as QoQ on account of BS VI / safety norm complaint variants launched during the quarter, MSIL is expected to report 15% YoY / 11% QoQ decline in revenues over Q1FY20. Given the slight relief in commodity prices as well as favourable currency movement, margins are expected to be at 10.5%, flat QoQ (although lower 440bps YoY).
	EBITDA	19,965	33,511	*(40.4)*	22,634	*(11.8)*	
	Margin (%)	*10.5*	*14.9*		*10.5*		
	Adj. PAT	12,001	19,753	*(39.2)*	17,956	*(33.2)*	
Motherson Sumi Systems	Sales	159,617	147,755	*8.0*	171,695	*(7.0)*	For Q1FY20, we expect MSS to record an 8% YoY revenue growth to Rs159.6bn (down 7% QoQ). SMR and SMP margins are likely to be ~11.6% and ~3% (owing to the ramp-up & labour issues at the new plants, up ~100bps QoQ), respectively. We hence, expect consolidated EBITDA margin of 7.8% (up 60bps QoQ, lower 180bps YoY) while EBITDA is expected to decline ~12% YoY / flat QoQ.
	EBITDA	12,450	14,121	*(11.8)*	12,428	*0.2*	
	Margin (%)	*7.8*	*9.6*		*7.2*		
	Adj. PAT	3,581	4,431	*(19.2)*	4,100	*(12.6)*	
Tata Motors	Sales	558,521	667,011	*(16.3)*	864,220	*(35.4)*	Standalone TTMT volumes over Q1FY20 were down 22% YoY / 29% QoQ. Further, on account of unfavourbale product mix & higher discounting in the industry, we expect standalone margins to be at 7.8%, down 120bps YoY. JLR's Q1FY20E volumes are expected to be lower 7% YoY / 33% QoQ (Q4 is seasonally high base), with margins at 7.5%, higher 130bps YoY / lower 230bps QoQ.
	EBITDA	42,263	60,010	*(29.6)*	90,922	*(53.5)*	
	Margin (%)	*7.6*	*9.0*		*10.5*		
	Adj. PAT	-17,335	-8,951	*93.7*	17,944	*(196.6)*	
TVS Motors	Sales	44,773	41,685	*7.4*	43,840	*2.1*	With volumes being flat YoY (inching up ~2% QoQ) and ~8% YoY realisation improvement expected (price hike for ABS/CBS, higher share of exports in the product mix), TVS Motors' Q1FY20 revenue is expected to grow ~7% YoY. On the back of some currency benefit, we expect margins to inch up 20bps QoQ (down 50bps YoY owing to negative operating leverage).
	EBITDA	3,224	3,212	*0.4*	3,081	*4.6*	
	Margin (%)	*7.2*	*7.7*		*7.0*		
	Adj. PAT	1,362	1,466	*(7.1)*	1,338	*1.8*	

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	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E
Ashok Leyland	BUY	90	106	263.6	290.5	320.4	317.3	29.6	31.4	33.5	32.4	17.2	19.8	18.9	17.2	5.9	6.8	6.4	5.8	25.8	25.6	21.3	18.2	15.3	13.3	14.0	15.4
Bharat Forge	HOLD	476	513	83.6	101.5	104.0	111.4	17.3	20.6	22.3	23.5	8.3	10.3	12.8	13.7	17.9	22.2	27.5	29.4	19.0	20.6	22.3	21.1	26.6	21.5	17.3	16.2
Bajaj Auto	Reduce	2,895	2,823	251.6	302.5	325.8	347.9	47.8	49.8	53.2	56.7	40.9	44.4	47.2	50.1	141.4	153.3	163.2	173.0	22.6	21.7	20.4	19.2	20.5	18.9	17.7	16.7
CEAT	Reduce	936	886	62.8	69.8	75.2	81.2	6.1	6.4	6.7	7.2	2.7	3.0	2.6	2.6	67.2	73.4	63.4	63.3	10.8	11.1	8.9	8.3	13.9	12.7	14.8	14.8
Eicher Motors	HOLD	19,825	19,318	89.6	98.0	103.6	111.2	28.1	29.0	29.2	30.8	21.8	22.2	23.4	24.5	799.6	813.9	859.3	899.8	35.2	27.8	24.2	21.9	24.8	24.4	23.1	22.0
Exide Industries	Acc	207	231	91.9	105.9	112.5	117.1	12.4	14.1	15.5	16.2	7.1	7.4	8.8	9.0	8.4	8.7	10.3	10.6	13.7	12.9	13.9	13.0	24.7	23.9	20.0	19.6
Hero Motocorp	Acc	2,606	2,729	322.3	336.5	353.2	369.3	52.8	49.3	49.5	50.9	37.0	33.8	33.6	34.1	185.1	169.5	168.1	170.5	33.8	27.5	25.1	23.5	14.1	15.4	15.5	15.3
Mahindra & Mahindra	BUY	672	815	486.9	536.1	583.9	623.9	62.2	66.4	75.0	77.7	39.2	48.3	52.6	56.7	33.0	40.5	44.1	47.6	13.7	15.0	14.5	14.0	20.4	16.6	15.2	14.1
Maruti Suzuki	BUY	6,544	7,100	797.6	860.2	932.7	1,036.7	120.6	110.0	114.3	136.6	78.2	76.2	78.8	93.2	259.0	252.4	261.0	308.7	20.0	17.3	16.2	17.0	25.3	25.9	25.1	21.2
Motherson Sumi Systems	Acc	127	131	562.9	635.2	713.5	787.2	51.2	53.5	54.9	68.6	14.2	16.1	16.0	22.9	6.7	5.1	5.1	7.3	15.6	15.5	14.5	19.6	18.8	24.8	25.0	17.5
Tata Motors	Acc	165	189	2,946.2	3,019.4	3,193.3	3,438.1	369.7	297.9	363.3	386.5	58.3	17.3	56.6	71.1	17.2	5.1	16.7	20.9	7.6	2.2	9.0	10.2	9.6	32.4	9.9	7.9
TVS Motors	HOLD	433	423	151.3	182.1	205.4	229.3	11.3	14.3	16.6	18.5	6.6	6.7	8.0	9.1	13.9	14.1	16.9	19.2	25.1	21.5	21.9	21.2	31.0	30.7	25.7	22.5

Source: Company, PL

Aviation

Apr-Jun’19 Earnings Preview

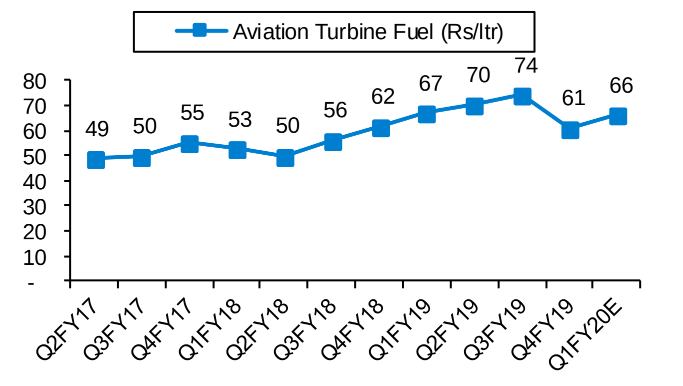
July 4, 2019

Capacity constraints in peak holiday season leads to higher yields: With Jet airways suspending operations & continued grounding of Boeing 737 Max over safety concerns has led to capacity pangs in peak holiday season thereby stirring up air fares. Although domestic passenger traffic growth was flat over April-May, higher yields and load factors are expected to more than compensate for the loss. We expect LCCs under over coverage i.e IndiGo/SpiceJet to report 42%/24% YoY growth in sales.

Incumbents look to fill vacuum created by Jet’s grounding: With Jet suspending operations, incumbents sensing an opportunity to garner market share accelerated their expansion plans. ~60 aircrafts have been inducted with SpiceJet/IndiGo leading the charge (~30/~17 inductions).

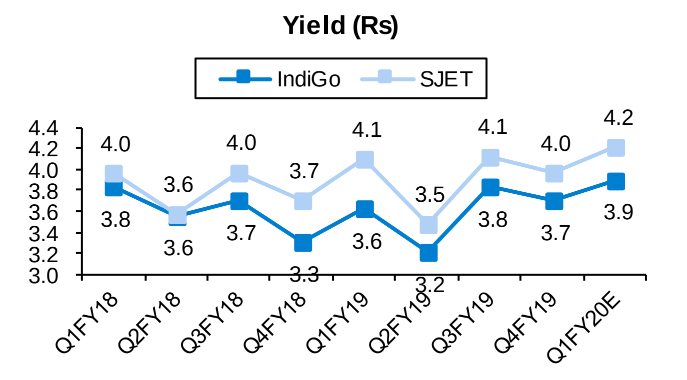
Margins expected to recover: ATF prices were down ~1.2% YoY for the quarter and on the back of high yield environment (due to capacity pangs), we expect airlines to report strong margins & profitability. We expect IndiGo & SJET to report EBITDAR margins of 26.5%/20% respectively.

Exhibit 1: ATF prices were down 1.2% YoY in 1Q20



Source: Company, PL

Exhibit 2: IndiGo/SJET’s yield to rise by 7.5%/3% YoY



Source: Company, PL

Exhibit 3: Q1FY20 Result Preview

Company Name		Q1FY20E	Q1FY19	*YoY gr. (%)*	Q4FY19	*QoQ gr. (%)*	Remark
InterGlobe Aviation	Sales	92,506	65,120	*42.1*	78,833	*17.3*	With net addition of ~17 aircrafts in the quarter, IndiGo continues to aggressively add capacity. Benefiting from Jet's fiasco, we expect IndiGo to report yield expansion (7.5% YoY) along with high load factors (~89%). With ATF prices in check (down ~1.2% YoY), we expect IndiGo to report strong EBITDAR margins & profitability
	EBITDAR	24,537	10,313	*137.9*	20,563	*19.3*	
	Margin (%)	*26.5*	*15.8*		*26.1*		
	Adj. PAT	6,084	278	*2,089.3*	5,896	*3.2*	
SpiceJet	Sales	27,783	22,358	*24.3*	25,313	*9.8*	Taking advantage from its fleet commonality with Jet, SpiceJet inducted ~30 aircrafts during the quarter (largely ex Jet) taking its overall fleet count to 106. On the back of 3% increase in yield & high load factors (92%), we expect SJET to report strong EBITDAR margins & profitability.
	EBITDAR	5,545	3,634	*52.6*	5,109	*8.5*	
	Margin (%)	*20.0*	*16.3*		*20.2*		
	Adj. PAT	1,397	254	*449.8*	563	*148.2*	

Source: Company, PL

Paarth Gala
paarthgala@plindia.com | 91-22-66322242

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	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E
InterGlobe Aviation	BUY	1,636	1,948	230.2	285.0	395.7	512.7	65.7	47.9	87.0	127.7	22.4	1.6	18.2	37.7	58.3	4.1	47.4	98.0	41.3	2.2	23.9	37.8	28.0	401.0	34.5	16.7
SpiceJet	BUY	123	211	77.6	91.1	166.8	207.4	17.9	12.9	27.1	38.1	5.7	-3.2	2.9	10.0	9.5	-5.3	4.8	16.6	-173.8	160.6	-139.9	228.4	13.1	-23.4	25.6	7.4

Source: Company, PL

July 4, 2019

Top Picks

HDFC Bank

ICICI Bank

IndusInd Bank

Federal Bank

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

Prabal Gandhi
prabalgandhi@plindia.com | 91-22-66322258

Banks

Apr-Jun'19 Earnings Preview

Banks will continue to see improvement in asset quality ratios from lower impairment ratios and observe a further improvement in PCR, even though credit cost trends for most large banks should be heading downwards. Decline in benchmark yields would likely help treasury gains and M-T-M benefit on investment provisions, while certain PSBs will benefit from gratuity & wage revisions one-offs in base, aiding overall operating performance. RBI's action on benchmark should act with positive bias on NIMs as pass on through MCLR has been minimal in last 6 months. Key trends to watch for in the quarter (i) Retail loan growth especially unsecured segment as base effect plays out (ii) any likely initiation in resolution plans post implementation of revised FRSA in Jun'19 and (iii) retail deposits trends which have been tough for private banks.

Key play continues to be corporate banks especially ICICI/SBI with favorable risk-reward, while IIB/BOB will see merged numbers it will be crucial to see its financial impact (also individual asset quality for IIB) & path ahead. Yes Bank will continue to see challenging time on asset quality, provisions and capital. In mid-cap banks we see lower concerns on Federal Bank.

- **Loan growth has moderated and skewed towards certain segments:** Overall systemic loan growth has moderated to 11-12% YoY although deposit growth was at 9-10%YoY. Loan growth continues to be skewed towards retail & services (NBFCs), while industry credit growth has improved for Power, Telecom & Roads. Bank continue to target retail deposits for granular liabilities, while CASA continues to remain challenging.

- **Asset quality for sector will continue to see improvement:** Overall asset quality & stress levels are coming off with lowering credit cost. Baring concerns amongst few banks, GNPA/NNPA should decline as PCR improves. Although recoveries/upgrades remain limited, banks will continue to do higher write-off. Any early stage indicators of stress will be watched as resolution plans will be initiated under revised framework.

- **Positive bias from lowered yields & rate cuts:** Banks should benefit from the low benchmark yields on treasury (Q1 banks also shift to HTM from AFS) helping other income and possibly positive MTM. Benchmark rate cuts from RBI has also seen limited pass on MCLRs, while some easing on deposits costs should help in positive bias on NIMs of banks.

- **Earnings picture – Recovery in earnings for most bank post weak FY19:** We build in sharp recovery in most banks earnings from a lower base seen in Q1FY19 and one off large recovery of Bhushan Steel. NII growth for Bank would grow at 17% YoY but will continue to be led by private banks with growth of 23.5% YoY with positive bias on NIMs. Other operating metrics for most will show improvement aided by treasury, steady opex and credit costs normalization- considering impairment is lowering. Among private banks, we expect HDFCB/KMB to report steady numbers, while IIB/Yes asset quality is watched. IIB/BOB will also see mergers. ICICI/Axis bank should witness much better earnings than previous quarters.

Q1FY20 Banks Preview:

- **Private Banks –** Loan growth for private banks (except ICICI/Axis) is expected to be at 20-25% YoY. ICICI/Axis loan growth should grow at 13-14% YoY but domestic is expected be better and led by retail segment. Private banks will continue to focus on retail term deposits while CASA growth should be slower at 10-12% YoY. Although intensity of raising at higher rates has come off with NBFCs facing issues on incrementally raising funds. **ICICI/Axis/SBI** should see strong improvement in operating performances, while HDFCB/KMB should continue to be steady, but with robust trends. **IIB/Yes** asset quality and credit cost will be closely watched, while IIB specifically will see benefit from merger with BHAFIN this quarter.

- **Public Sector Banks –** PSBs earnings will see sharp recovery, while it will be aided from lower benchmark yields from treasury gains & MTM gains (also banks could shift higher from HTM to AFS). Impairment ratios will come down sharply, although PSBs will continue to resort to higher write-offs to help improve asset quality trends. We expect NII growth of 11.4% YoY for PSBs & PPOP growth of 16.9% YoY. **SBI** to see sharp earnings recovery, while we build slippages of Rs80-82bn and credit cost of 200bps (annualized) which should improve PCR to 70% but also help in higher write-off. **BOB** should see merged financials of Vijaya & Dena, although recent disclosures on balance sheet does not showcase in large shock. **PNB/BOI/Union** should continue to be operationally weak with Union continuing to see higher deterioration in asset quality with lower PCR than its peers PSBs.

- **Regional/Mid-sized banks –** Region focused & mid-sized banks should see steady trends in most operating metrics similar to previous quarters. Asset quality pressure also seems to be under control, however different banks have applied diverse approach on slippages & coverage in the past since their collaterals have been different. Certain mid-sized banks will take higher provision route which have lower PCR and hence earnings will be under pressure. **Federal** will continue to showcase strong loan growth with better NII, (although we watch SME/Agri/corporate slippages) we don't expect any adverse case in asset quality and continue to have positive operating leverage helping earnings. For **IDFCFBK** key carefully tracked metrics have been CASA/retail deposits accretion, loan book mix and branch/network additions. There could likely be further credit cost on certain recent stress names from erstwhile IDFC Bank.

Exhibit 1: Valuation Summary for PL Banks & Insurance Coverage

Coverage Universe	Rating	MCap (Rs B)	CMP (Rs)	PT (Rs)	*Upside (%)*	P/ABV (x) FY19	P/ABV (x) FY20E	P/ABV (x) FY21E	RoE (%) FY19	RoE (%) FY20E	RoE (%) FY21E
Axis Bank	ACC	2,119	809	837	3.5	3.7	3.0	2.5	7.2	13.1	16.1
HDFC Bank	BUY	6,778	2,484	2,700	8.7	4.7	4.1	3.6	16.5	16.0	17.0
ICICI Bank	BUY	2,814	436	475	8.9	2.3	2.0	1.8	3.2	10.1	11.9
IndusInd Bank	BUY	901	1,493	1,800	20.6	3.6	3.0	2.4	15.9	18.0	18.3
Yes Bank	REDUCE	223	96	190	97.4	0.9	0.8	0.7	6.5	9.7	13.2
Kotak	HOLD	2,859	1,498	1,385	(7.5)	5.7	5.0	4.3	12.1	12.7	13.4
Federal	BUY	216	109	112	2.9	1.9	1.7	1.5	9.8	12.7	14.1
J&K Bank	BUY	23	41	80	95.4	0.8	0.6	0.4	8.1	9.5	11.7
South Indian Bank	BUY	24	13	18	38.5	0.8	0.7	0.6	4.9	5.4	7.3
IDFC First Bank	BUY	215	45	55	22.2	1.3	1.3	1.2	(11.6)	2.7	4.5
Bank of Baroda	BUY	498	129	161	24.4	0.9	0.7	0.5	(5.8)	0.9	19.8
Bank of India	REDUCE	310	95	90	(4.8)	0.9	1.0	1.0	(15.7)	(1.0)	(1.9)
Punjab National Bank	REDUCE	378	82	75	(8.6)	2.3	1.5	1.1	(26.6)	5.4	10.9
SBI	BUY	3,279	367	427	16.2	1.8	1.5	1.3	0.4	10.1	12.5
Union Bank	REDUCE	150	85	71	(16.3)	1.5	1.1	0.9	2.7	(24.0)	(13.3)
HDFC Life	BUY	987	489	464	(5.2)	5.4	4.4	3.6	22.0	23.4	23.4
ICICI Pru Life	BUY	566	394	511	29.6	2.6	2.3	1.9	15.1	16.2	15.6
Max Financial	BUY	112	414	629	52.0	1.3	1.1	0.9	19.9	21.0	21.6
SBI Life	BUY	757	757	787	3.9	3.4	2.9	2.4	17.5	17.3	17.9

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 2: Q1FY20 Results Preview – Lower credit cost to aid bottom line along with uptick in margins

Rs Million	NII	YoY	QoQ	PPOP	QoQ	YoY	PAT	YoY	QoQ
HDFC Bank	133,450	23.4%	2.0%	108,300	25.2%	-0.1%	58,649	27.5%	-0.3%
ICICI Bank	76,891	26.0%	0.9%	64,425	10.9%	3.4%	13,036	NA	34.5%
Axis Bank	59,244	14.7%	3.8%	53,433	22.2%	6.6%	18,603	165.3%	23.6%
Kotak	31,456	21.8%	3.2%	23,925	17.7%	4.8%	13,848	35.1%	-1.6%
IndusInd	26,843	26.5%	20.2%	23,029	20.5%	11.4%	10,644	2.8%	195.6%
Yes	26,763	20.6%	6.8%	16,147	-34.2%	22.0%	2,011	-84.0%	-113.3%
SIB	5,524	11.8%	10.6%	3,437	27.5%	4.9%	890	NA	26.2%
J&K	8,299	6.5%	-10.9%	5,404	54.5%	-10.0%	2,075	294.5%	-3.4%
Federal	11,512	17.5%	5.0%	7,627	26.5%	1.0%	3,948	50.3%	3.5%
IDFC First Bank	12,025	145.5%	8.1%	3,780	56.1%	34.3%	625	-65.6%	-128.7%
SBI	239,049	9.7%	4.1%	145,328	21.4%	-14.2%	29,378	NA	250.4%
PNB	44,943	-4.2%	7.0%	35,106	-16.3%	NA	3,827	NA	NA
BOI	40,011	19.3%	-1.1%	23,916	27.9%	3.8%	3,894	NA	NA
BOB	60,449	38.0%	19.3%	48,134	60.1%	24.7%	8,723	NA	NA
Union	26,001	-1.0%	-0.1%	17,957	-14.0%	3.8%	(5,987)	NA	NA
Total Banks	**802,461**	**17.0%**	**4.6%**	**579,946**	**16.4%**	**1.0%**	**164,162**	**314.5%**	**NA**
Total Private Banks	**392,008**	**23.5%**	**3.6%**	**309,505**	**16.0%**	**4.1%**	**124,327**	**37.8%**	**37.1%**
Total Public Banks	**410,453**	**11.4%**	**5.6%**	**270,441**	**16.9%**	**-2.3%**	**39,835**	**NA**	**NA**
Rs Billion	**Loans**	**YoY**	**QoQ**	**Margins**	**YoY**	**QoQ**	**Credit Cost**	**YoY**	**QoQ**
HDFC Bank	8,604	21.4%	5.0%	4.30%	0.10%	-0.10%	0.89%	-0.03%	-0.03%
ICICI Bank	5,913	14.5%	0.8%	3.62%	0.43%	-0.10%	3.15%	-1.48%	-0.57%
Axis Bank	5,047	14.4%	2.0%	3.45%	-0.01%	0.01%	1.98%	-1.05%	-0.21%
Kotak	2,141	21.0%	4.1%	4.40%	0.10%	-0.08%	0.55%	-0.51%	0.22%
IndusInd	2,020	34.1%	8.4%	3.90%	-0.02%	0.31%	1.39%	0.46%	-1.96%
Yes	2,487	15.8%	3.0%	3.20%	-0.10%	0.10%	2.12%	0.96%	-3.94%
SIB	633	14.2%	1.0%	2.50%	-0.10%	0.04%	1.32%	-0.35%	-0.08%
J&K	676	13.0%	2.0%	3.25%	-0.41%	-0.80%	1.34%	-0.37%	-0.94%
Federal	1,157	22.7%	5.0%	3.17%	0.05%	0.00%	0.55%	-0.29%	-0.09%
IDFC First Bank	880	60.6%	2.0%	3.10%	1.60%	0.07%	1.29%	1.04%	-1.95%
SBI	21,094	12.5%	-3.5%	2.80%	0.00%	0.02%	1.96%	-2.14%	-1.06%
PNB	4,399	5.9%	-4.0%	2.45%	-0.30%	0.04%	2.70%	-2.85%	-6.10%
BOI	3,325	1.4%	-2.5%	2.90%	0.41%	-0.03%	2.17%	-0.96%	-0.06%
BOB	6,579	58.7%	40.3%	2.88%	0.23%	-0.02%	2.16%	0.07%	-2.45%
Union	3,029	3.3%	2.0%	2.30%	0.04%	0.03%	3.57%	0.53%	-4.20%
Banks	**77,599**	**16.5%**	**3.0%**	**3.21%**	**0.13%**	**-0.03%**	**2.08%**	**-0.32%**	**-1.39%**

Source: Company, PL

Exhibit 3: Margins in Q1FY20E set to improve

	Q4FY19	Q1FY19	Q1FY20E	YoY	QoQ
HDFC Bank	4.40%	4.20%	4.30%	0.10%	-0.10%
ICICI Bank	3.72%	3.19%	3.62%	0.43%	-0.10%
Axis Bank	3.44%	3.46%	3.45%	-0.01%	0.01%
Kotak	4.48%	4.30%	4.40%	0.10%	-0.08%
IndusInd	3.59%	3.92%	3.90%	-0.02%	0.31%
Yes	3.10%	3.30%	3.20%	-0.10%	0.10%
SIB	2.46%	2.60%	2.50%	-0.10%	0.04%
J&K	4.05%	3.66%	3.25%	-0.41%	-0.80%
Federal	3.17%	3.12%	3.17%	0.05%	0.00%
IDFC First Bank	3.03%	1.50%	3.10%	1.60%	0.07%
SBI	2.78%	2.80%	2.80%	0.00%	0.02%
PNB	2.41%	2.75%	2.45%	-0.30%	0.04%
BOI	2.93%	2.49%	2.90%	0.41%	-0.03%
BOB	2.90%	2.65%	2.88%	0.23%	-0.02%
Union	2.27%	2.26%	2.30%	0.04%	0.03%

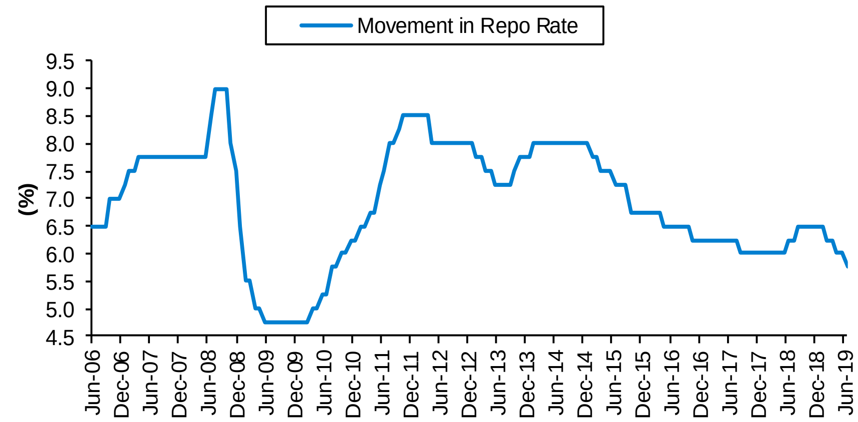
Source: Company, PL

Exhibit 4: PSBs to pull credit cost significantly down

	Q4FY19	Q1FY19	Q1FY20E	YoY	QoQ
HDFC Bank	0.92%	0.92%	0.89%	-0.03%	-0.03%
ICICI Bank	3.72%	4.63%	3.15%	-1.48%	-0.57%
Axis Bank	2.19%	3.03%	1.98%	-1.05%	-0.21%
Kotak	0.33%	1.06%	0.55%	-0.51%	0.22%
IndusInd	3.35%	0.93%	1.39%	0.46%	-1.96%
Yes	6.06%	1.17%	2.12%	0.96%	-3.94%
SIB	1.40%	1.67%	1.32%	-0.35%	-0.08%
J&K	2.28%	1.70%	1.34%	-0.37%	-0.94%
Federal	0.65%	0.84%	0.55%	-0.29%	-0.09%
IDFC First Bank	3.24%	0.25%	1.29%	1.04%	-1.95%
SBI	3.02%	4.10%	1.96%	-2.14%	-1.06%
PNB	8.79%	5.55%	2.70%	-2.85%	-6.10%
BOI	2.23%	3.13%	2.17%	-0.96%	-0.06%
BOB	4.61%	2.09%	2.16%	0.07%	-2.45%
Union	7.77%	3.04%	3.57%	0.53%	-4.20%

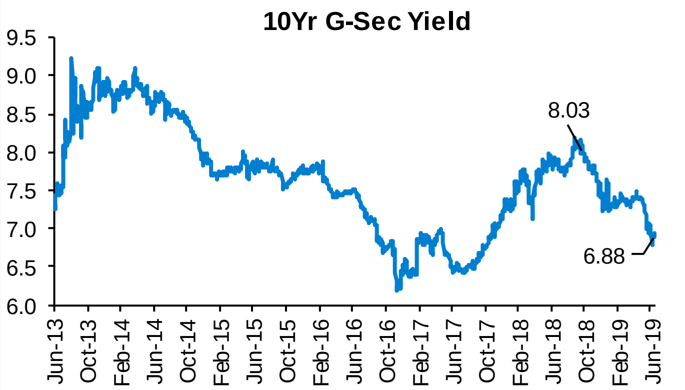
Source: Company, PL

Exhibit 5: Benign inflation & slower growth has compelled RBI to lower rates



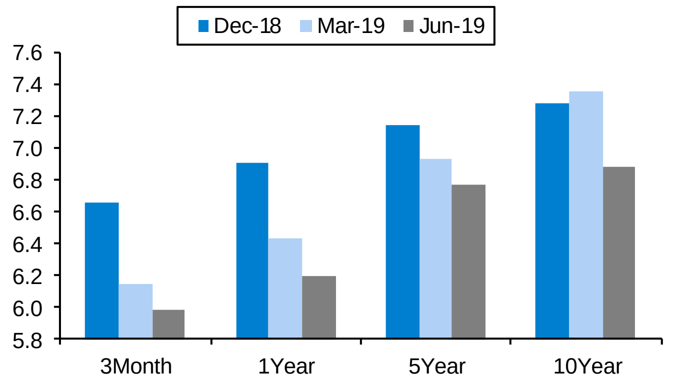
Source: Bloomberg, PL

Exhibit 6: G-sec aided by accommodative stance by RBI



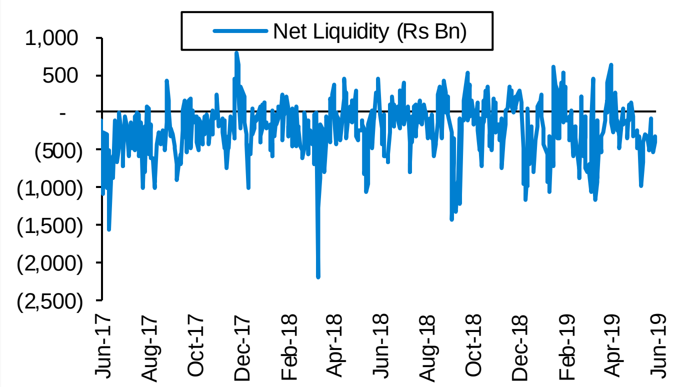
Source: Bloomberg, PL

Exhibit 7: Sharp decline in yields across tenures



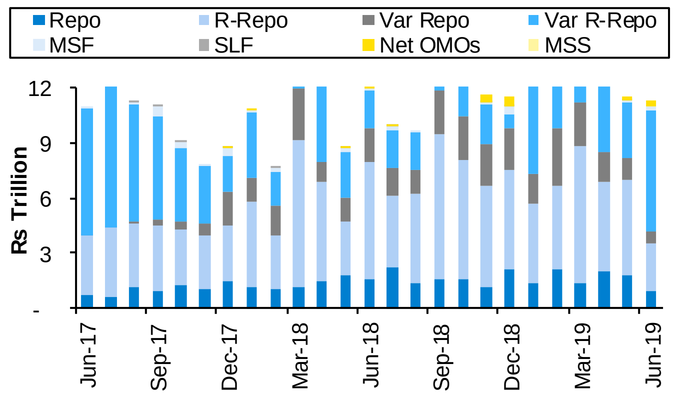
Source: Company, PL

Exhibit 8: Liquidity has been largely deficit..



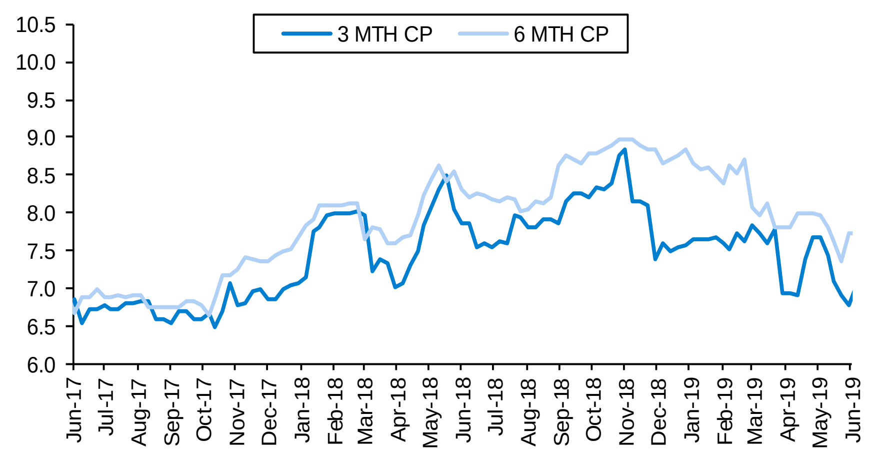
Source: Bloomberg, PL

Exhibit 9: …but RBI infused liquidity using occasional OMOs



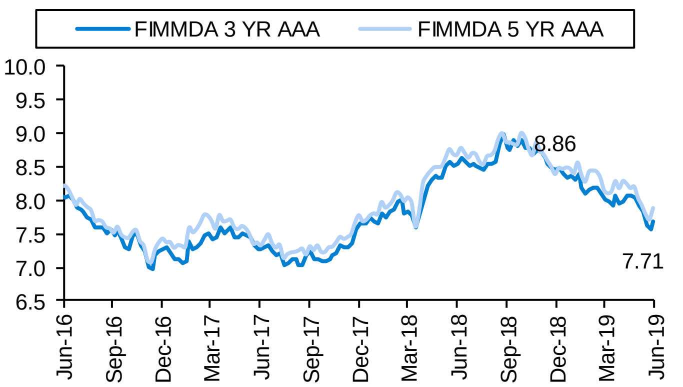
Source: Bloomberg, PL

Exhibit 10: Short term rates softened post RBI accommodative stance



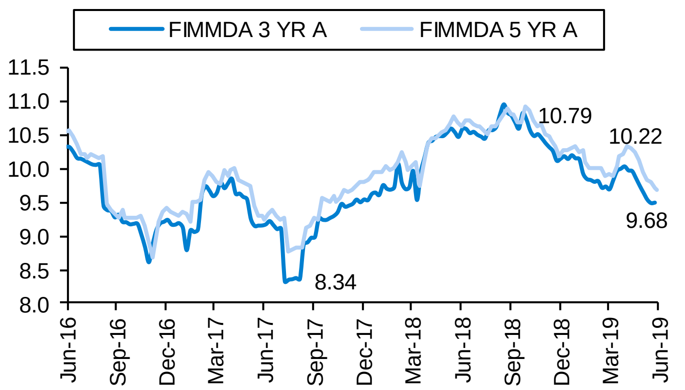
Source: Bloomberg, PL

Exhibit 11: AAA paper has seen decline in line with G-Secs



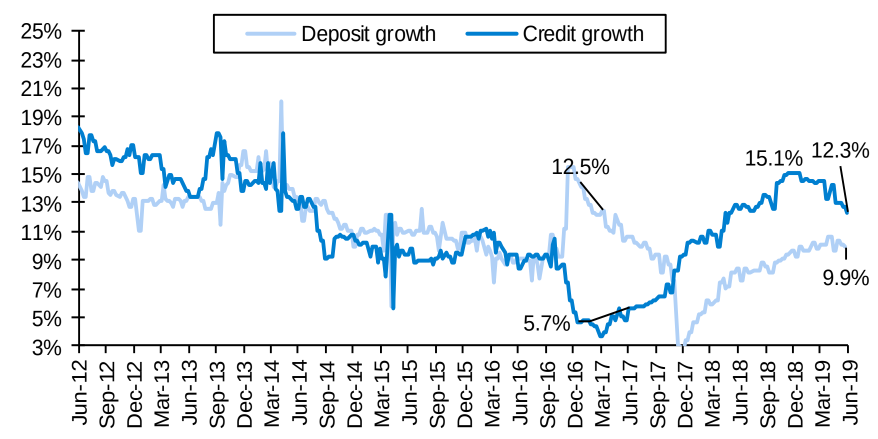
Source: Bloomberg, PL

Exhibit 12: …while A rated paper rates



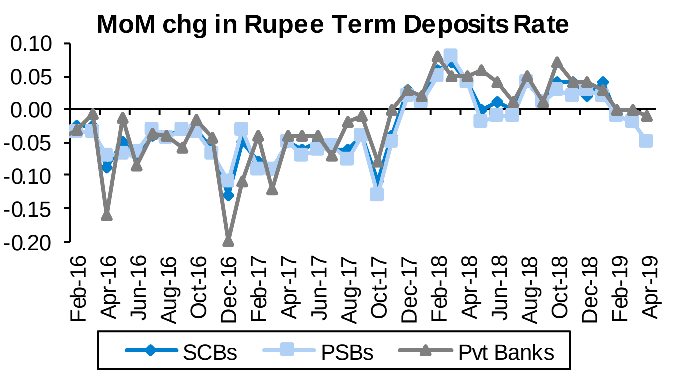
Source: Bloomberg, PL

Exhibit 13: Credit growth slowing as deposit growth moderates



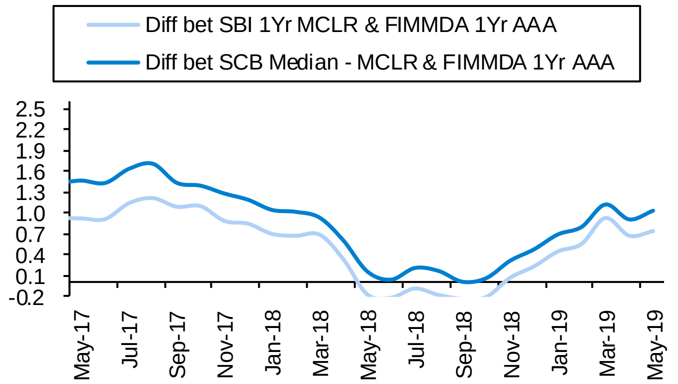
Source: Bloomberg, PL

Exhibit 14: Pvt banks hold up their deposit rates, PSBs are seen more inclined towards rate cut



Source: RBI, PL

Exhibit 15: NBFC crisis has lowered arbitrage between bank market rates and bank rates



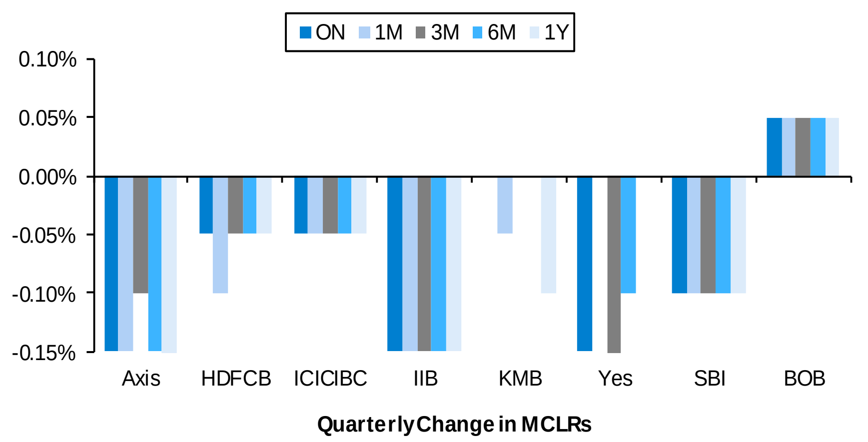
Source: RBI, PL

Exhibit 16: MCLRs has reduced across banks led by Private banks

Banks	MCLR 1YR			% Change	
	Dec-18	Mar-19	Jun-19	3Months	6Months
Axis Bank	8.70%	8.75%	8.70%	-0.05%	0.00%
HDFC Bank	8.85%	8.90%	8.70%	-0.20%	-0.15%
ICICI Bank	8.80%	8.80%	8.75%	-0.05%	-0.05%
KMB	9.00%	9.00%	8.90%	-0.10%	-0.10%
IndusInd Bank	9.80%	9.90%	9.75%	-0.15%	-0.05%
Yes Bank	9.85%	9.70%	9.70%	0.00%	-0.15%
SBI	8.55%	8.55%	8.45%	-0.10%	-0.10%
Bank of Baroda	8.65%	8.65%	8.70%	0.05%	0.05%
Bank of India	8.70%	8.65%	8.65%	0.00%	-0.05%
Punjab National Bank	8.50%	8.45%	8.45%	0.00%	-0.05%
Canara Bank	8.70%	8.65%	8.70%	0.05%	0.00%
Union Bank	8.70%	8.60%	8.60%	0.00%	-0.10%
Federal	9.20%	9.20%	9.15%	-0.05%	-0.05%
South Indian Bank	9.45%	9.45%	9.50%	0.05%	0.05%
J&K Bank	9.00%	9.00%	8.85%	-0.15%	-0.15%

Source: Company, PL

Exhibit 17: MCLRs reduced by most banks across tenors in last quarter



Source: Company, PL

Exhibit 18: Q1FY20 Result Review (Private Banks)

Company Name		Q1FY20E	Q1FY19	YoY Chg.	Q4FY19	QoQ Chg.	Remark
Axis Bank	NII (Rs mn)	59,244	51,668	*14.7*	57,056	*3.8*	Core performance for Axis will continue to improve with likely NII growth of ~15% YoY & PPOP growth of ~22% YoY.
	PPOP (Rs mn)	53,433	43,720	*22.2*	50,144	*6.6*	
	Provisions (Rs mn)	24,987	33,377	*(25.1)*	27,114	*(7.8)*	
	PAT (Rs mn)	18,603	7,011	*165.3*	15,051	*23.6*	Credit cost is likely to be at similar levels of 200bps as bank looks to improve PCR towards 70% (non-technical w.off)
	Loans (Rs bn)	5,047	4,411	*14.4*	4,948	*2.0*	
	Margin (%)	*3.45*	*3.46*	*(1)*	*3.44*	*1*	
	GNPA (%)	*5.26*	*6.52*	*(126)*	*5.26*	*0*	Liabilities growth in CASA/retail deposits while movement to BB & below will be key area to watch
	Credit Cost (%)	*1.98*	*3.03*	*(105)*	*2.19*	*(21)*	
HDFC Bank	NII (Rs mn)	1,33,450	1,08,136	*23.4*	1,30,895	*2.0*	Bank earnings should be higher than the usual +20% on back of some base effect.
	PPOP (Rs mn)	1,08,300	86,478	*25.2*	1,08,436	*(0.1)*	
	Provisions (Rs mn)	19,168	16,294	17.6	18,892	1.5	
	PAT (Rs mn)	58,649	46,014	*27.5*	58,851	*(0.3)*	Agri stress will be crucial where bank have been making higher provisions.
	Loans (Rs bn)	8,604	7,086	*21.4*	8,194	*5.0*	
	Margin (%)	*4.30*	*4.20*	*10*	*4.40*	*(10)*	Bank had indicated of being cautious on unsecured credit hence it will be crucial indicator of loan mix, margins & growth.
	GNPA (%)	*1.36*	*1.33*	*3*	*1.36*	*0*	
	Credit Cost (%)	*0.89*	*0.92*	*(3)*	*0.92*	*(3)*	
ICICI Bank	NII (Rs mn)	76,891	61,019	*26.0*	76,201	*0.9*	Loan growth will be better than industry led by domestic & retail growth, while NIMs could likely be lower QoQ on one of IT refund impact, however core NIMs should be steady.
	PPOP (Rs mn)	64,425	58,084	*10.9*	62,334	*3.4*	
	Provisions (Rs mn)	46,568	59,713	*(22.0)*	54,514	*(14.6)*	
	PAT (Rs mn)	13,036	(1,196)	*(1,190.4)*	9,691	*34.5*	
	Loans (Rs bn)	5,913	5,163	*14.5*	5,866	*0.8*	Adjusting to one-off stake sale gains of Q1FY19, core PPOP growth will be better
	Margin (%)	*3.62*	*3.19*	*43*	*3.72*	*(10)*	
	GNPA (%)	*6.61*	*8.81*	*(220)*	*6.70*	*(9)*	Strong PCR should relatively help lower credit cost helping earnings
	Credit Cost (%)	*3.15*	*4.63*	*(148)*	*3.72*	*(57)*	
IndusInd Bank	NII (Rs mn)	26,843	21,224	*26.5*	22,324	*20.2*	IIB should see integrated BHAFIN with itself post court approval which should sharp NIM improvement leading to better operating performance.
	PPOP (Rs mn)	23,029	19,111	*20.5*	20,677	*11.4*	
	Provisions (Rs mn)	7,023	3,500	100.7	15,607	(55.0)	
	PAT (Rs mn)	10,644	10,357	*2.8*	3,601	*195.6*	
	Loans (Rs bn)	2,020	1,507	*34.1*	1,864	*8.4*	We have conservatively build-in 100bps credit cost as Bank could likely make contingent provisions to cushion asset quality.
	Margin (%)	*3.90*	*3.92*	*(2)*	*3.59*	*31*	
	GNPA (%)	*1.95*	*1.15*	*80*	*2.1*	*(15)*	
	Credit Cost (%)	*1.39*	*0.93*	*46*	*3.35*	*(196)*	
Yes Bank	NII (Rs mn)	26,763	22,191	*20.6*	25,059	*6.8*	Yes bank could continue to face challenging quarter with key risky assets could turn NPA with risk of further provisioning.
	PPOP (Rs mn)	16,147	24,547	*(34.2)*	13,234	*22.0*	
	Provisions (Rs mn)	13,190	6,257	*110.8*	36,617	*(64.0)*	
	PAT (Rs mn)	2,011	12,604	*(84.0)*	(15,066)	*(113.3)*	
	Loans (Rs bn)	2,487	2,147	*15.8*	2,415	*3.0*	Most business metrics should see slow down as capital remains at critical levels
	Margin (%)	*3.20*	*3.30*	*(10)*	*3.10*	*10*	
	GNPA (%)	*3.71*	*1.31*	*240*	*3.22*	*49*	Increase in stress ratios could add to uncertainty of earnings
	Credit Cost (%)	*2.12*	*1.17*	*96*	*6.06*	*(394)*	
Kotak Mahindra Bank	NII (Rs mn)	31,456	25,829	*21.8*	30,479	*3.2*	Most metrics like business growth, CASA, NIMs and earnings will be strong, while also not see major hiccups in asset quality with credit cost close to 50-55bps.
	PPOP (Rs mn)	23,925	20,325	*17.7*	22,823	*4.8*	
	Provisions (Rs mn)	2,944	4,696	(37.3)	1,713	71.9	
	PAT (Rs mn)	13,848	10,249	*35.1*	14,078	*(1.6)*	Bank has been lower in its key savings interest rate on <1lk balances and hence its impact of cost of funds will be important
	Loans (Rs bn)	2,141	1,769	*21.0*	2,057	*4.1*	
	Margin (%)	*4.40*	*4.30*	*10*	*4.48*	*(8)*	
	GNPA (%)	*2.16*	*2.17*	*(1)*	*2.14*	*2*	Life insurance should do well, while capital market subs earnings will be slower
	Credit Cost (%)	*0.55*	*1.06*	*(51)*	*0.33*	*22*	

Company Name		Q1FY20E	Q1FY19	YoY Chg.	Q4FY19	QoQ Chg.	Remark
IDFC First Bank	NII (Rs mn)	12,025	4,898	*145.5*	11,129	*8.1*	IDFC First should continue do strong addition on liabilities & retail deposits, while continue to grow retail +20%. Earnings will be slower on higher provisions in the recent stress name but enhance the PCR Branch additions, opex cost and NIMs will be key areas to watch.
	PPOP (Rs mn)	3,780	2,421	*56.1*	2,815	*34.3*	
	Provisions (Rs mn)	2,833	340	*733.4*	6,982	*(59.4)*	
	PAT (Rs mn)	625	1,815	*(65.6)*	(2,180)	*(128.7)*	
	Loans (Rs bn)	880	548	*60.6*	863	*2.0*	
	Margin (%)	*3.10*	*-*	*310*	*3.03*	*7*	
	GNPA (%)	*2.47*	*3.24*	*(77)*	*2.43*	*4*	
	Credit Cost (%)	*1.29*	*0.25*	*104*	*3.24*	*(195)*	
Federal	NII (Rs mn)	11,512	9,801	*17.5*	10,965	*5.0*	Federal should see good tailwinds from operating levers with controlled opex, improving fees and NII growth of 17-18%. Asset quality will be keenly watched as last two quarters have been better off, while bank is relatively decent on PCR credit cost expected at 50-60bps
	PPOP (Rs mn)	7,627	6,029	*26.5*	7,548	*1.0*	
	Provisions (Rs mn)	1,600	1,992	(19.7)	1,778	(10.0)	
	PAT (Rs mn)	3,948	2,627	*50.3*	3,815	*3.5*	
	Loans (Rs bn)	1,157	943	*22.7*	1,102	*5.0*	
	Margin (%)	*3.17*	*3.12*	*5*	*3.17*	*-*	
	GNPA (%)	*2.99*	*3.00*	*(1)*	*2.92*	*7*	
	Credit Cost (%)	*0.55*	*0.84*	*(29)*	*0.65*	*(9)*	
J&K Bank	NII (Rs mn)	8,299	7,792	*6.5*	9,313	*(10.9)*	Loan growth expected to be at 13% YoY but J&K growth book will be strong. Other income & earnings could be benefitted from Govt yields Change in guard at bank will be closely watched for any asset quality issues especially in the restructured book Capital remains a key area to watch for
	PPOP (Rs mn)	5,404	3,498	*54.5*	6,006	*(10.0)*	
	Provisions (Rs mn)	2,259	2,550	*(11.4)*	3,780	*(40.2)*	
	PAT (Rs mn)	2,075	526	*294.5*	2,148	*(3.4)*	
	Loans (Rs bn)	676	598	*13.0*	663	*2.0*	
	Margin (%)	*3.25*	*3.66*	*(41)*	*4.05*	*(80)*	
	GNPA (%)	*8.94*	*9.83*	*(89)*	*8.97*	*(3)*	
	Credit Cost (%)	*1.34*	*1.70*	*(37)*	*2.28*	*(94)*	
South Indian Bank	NII (Rs mn)	5,524	4,943	*11.8*	4,994	*10.6*	We expect loan growth to be healthy at 14% YoY but NII growth will be slow as NIMs have been suboptimal. PPOP will be benefitted from some treasury gaians and lower opex. Earnings should continue to remain under pressure on higher provisions as bank enhances its PCR upwards and maintains a slippages rate.
	PPOP (Rs mn)	3,437	2,696	*27.5*	3,276	*4.9*	
	Provisions (Rs mn)	2,089	2,315	(9.8)	2,192	(4.7)	
	PAT (Rs mn)	890	230	*286.1*	705	*26.2*	
	Loans (Rs bn)	633	554	*14.2*	627	*1.0*	
	Margin (%)	*2.50*	*2.60*	*(10)*	*2.46*	*4*	
	GNPA (%)	*4.95*	*4.54*	*41*	*4.92*	*3*	
	Credit Cost (%)	*1.32*	*1.67*	*(35)*	*1.40*	*(8)*	

Source: Company, PL

Exhibit 19: Q1FY20 Result Review (PSU Banks)

Company Name		Q1FY20E	Q1FY19	YoY Chg.	Q4FY19	QoQ Chg.	Remark
Bank of Baroda	NII (Rs mn)	60,449	43,811	*38.0*	50,670	*19.3*	Robust growth on most parameters due to merged nos. Loan book, PAT to post 18%/86% growth. We also built in meaningful decline in credit cost given higher advance base. However, as Q1 is typically a lean quarter, sequential nos. seem reasonable. We don't foresee high quantum of slippages from consolidated book. We would be watchful for any additional capital infusion in the bank.
	PPOP (Rs mn)	48,134	30,056	*60.1*	38,608	*24.7*	
	Provisions (Rs mn)	35,492	21,656	*63.9*	53,993	*(34.3)*	
	PAT (Rs mn)	8,723	5,283	*65.1*	(9,914)	*(188.0)*	
	Loans (Rs bn)	6,579	4,145	*58.7*	4,688	*40.3*	
	Margin (%)	*2.88*	*2.65*	*23*	*2.90*	*(2)*	
	GNPA (%)	*9.56*	*12.46*	*(290)*	*9.61*	*(5)*	
	Credit Cost (%)	*2.16*	*2.09*	*7*	*4.61*	*(245)*	
Bank of India	NII (Rs mn)	40,011	33,543	*19.3*	40,444	*(1.1)*	Bank will likely see small loan growth v/s contraction earlier. Most operating metrics will see improvement mainly on lower base of last year but overall operations remain week Bank will continue to improve its asset quality ratios by lower GNPA/NNPA and enhancing PCR with most of it due to ageing related.
	PPOP (Rs mn)	23,916	18,692	*27.9*	23,032	*3.8*	
	Provisions (Rs mn)	18,016	25,642	(29.7)	18,974	(5.1)	
	PAT (Rs mn)	3,894	951	*309.4*	2,518	*54.6*	
	Loans (Rs bn)	3,325	3,278	*1.4*	3,410	*(2.5)*	
	Margin (%)	*2.90*	*2.49*	*41*	*2.93*	*(3)*	
	GNPA (%)	*15.84*	*16.66*	*(82)*	*15.84*	*(0)*	
	Credit Cost (%)	*2.17*	*3.13*	*(96)*	*2.23*	*(6)*	
Punjab National Bank	NII (Rs mn)	44,943	46,919	*(4.2)*	42,003	*7.0*	PNB to continue to suffer from capital issues and hence loan growth could be muted, while other operating metrics are likely to be weak. Bank has been able to post strong recovery/upgrades in FY19 which are also very crucial in FY20 to improve asset quality ratios and earnings improvement.
	PPOP (Rs mn)	35,106	41,947	*(16.3)*	28,612	*22.7*	
	Provisions (Rs mn)	29,640	57,582	*(48.5)*	1,00,711	*(70.6)*	
	PAT (Rs mn)	3,827	(9,400)	*NA*	(47,496)	*NA*	
	Loans (Rs bn)	4,399	4,153	*5.9*	4,582	*(4.0)*	
	Margin (%)	*2.45*	*2.75*	*(30)*	*-*	*245*	
	GNPA (%)	*15.93*	*18.26*	*(233)*	*15.50*	*43*	
	Credit Cost (%)	*2.70*	*5.55*	*(285)*	*8.79*	*(610)*	
State Bank of India	NII (Rs mn)	2,39,049	2,17,984	*9.7*	2,29,538	*4.1*	We expect loan growth of 13% YoY with steady NIMs leading to 10% NII growth. Base impact in staff opex from lower gratuity, wage should aid PPOP. Asset quality should improve as we expect slippages to remain moderate while PCR has been quite sufficient. SMA-2 and incremental stress from recent corporate downgrade to be watched
	PPOP (Rs mn)	1,45,328	1,19,731	*21.4*	1,69,331	*(14.2)*	
	Provisions (Rs mn)	1,03,359	1,92,283	(46.2)	1,65,019	(37.4)	
	PAT (Rs mn)	29,378	(48,759)	*(160.3)*	8,384	*250.4*	
	Loans (Rs bn)	21,094	18,758	*12.5*	21,859	*(3.5)*	
	Margin (%)	*2.80*	*2.80*	*-*	*2.78*	*2*	
	GNPA (%)	*7.23*	*10.70*	*(347)*	*7.53*	*(30)*	
	Credit Cost (%)	*1.96*	*4.10*	*(214)*	*3.02*	*(106)*	
Union Bank of India	NII (Rs mn)	26,001	26,261	*(1.0)*	26,015	*(0.1)*	Most metrics for Union bank will remain weak as bank continues to suffer from lower capital. Slower loan growth will keep NII lower, while other income is likely to be lower impacting PPOP Asset quality concerns should continue to remain high as slippages have been high from most segments, while PCR is relatively lower than PSB peers which should be enhanced further.
	PPOP (Rs mn)	17,957	20,888	*(14.0)*	17,302	*3.8*	
	Provisions (Rs mn)	27,029	22,291	*21.3*	57,662	*(53.1)*	
	PAT (Rs mn)	(5,987)	1,295	*(562.2)*	(33,692)	*(82.2)*	
	Loans (Rs bn)	3,029	2,931	*3.3*	2,969	*2.0*	
	Margin (%)	*2.30*	*2.26*	*4*	*2.27*	*3*	
	GNPA (%)	*14.36*	*16.00*	*(164)*	*14.98*	*(62)*	
	Credit Cost (%)	*3.57*	*3.04*	*53*	*7.77*	*(420)*	

Source: Company, PL

July 4, 2019

Top Picks

Larsen & Toubro

Kalpataru Power Transmission

Engineers India

Voltamp Transformers

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Capital Goods

Apr-Jun'19 Earnings Preview

We expect execution momentum to continue over the next 2-3 quarters, however order inflow (up ~10% YoY in FY19) could witness some slowdown (-4% YoY) in 1QFY20 due to seasonality factor. We expect it to pick-up from 2QFY20 onwards. We remain positive on the sector due to robust order back-log & order pipeline, better execution focus and reasonable valuations.

We expect revenue (Capital goods coverage universe) to grow 8% YoY mainly led by large cap companies like L&T (+9% YoY), SIEM (+15% YoY) and TMX (+12% YoY). On mid/small-cap we anticipate Apar (+16% YoY), ENGR (+19% YoY), KPP (+14% YoY) and VAMP (+20% YoY). We believe an overall 130bps YoY EBITDA margin improvement in 1QFY20, resulting ~12% YoY EBITDA growth. PAT is expected to grow ~15% YoY.

The corporate commentary remains positive to the past in terms of enquiry levels and project pipelines. Short cycle orders led inflow growth during FY19 which we expect to continue for another two quarters. The capex continues to be led by state government while private capex recovery continues to remain 8-9 months away. Most corporates continue to be confident of medium-term growth prospects, given the various initiatives taken by the government.

Exhibit 1: Expected order inflow to decline by 4% YoY in 1QFY20

	Q1FY19	Q1FY20	*YoY gr.*	FY18	FY19	*YoY gr.*
ABB*	24,740	18,690	*-24.5%*	75,400	85,090	*12.9%*
Bharat Electronics	35,830	28,664	*-20.0%*	100,000	234,310	*134.3%*
BHEL	43,710	27,000	*-38.2%*	409,320	238,300	*-41.8%*
Engineers India	832	6,000	*621.2%*	21,405	58,905	*175.2%*
KEC International	27,480	30,778	*12.0%*	151,433	140,840	*-7.0%*
Kalpataru Power	26,980	25,000	*-7.3%*	93,000	83,410	*-10.3%*
Larsen & Toubro	361,420	359,407	*-0.6%*	1,529,080	1,768,000	*15.6%*
Siemens	28,407	32,668	*15.0%*	116,746	135,867	*16.4%*
Thermax	16,530	14,000	*-15.3%*	63,800	56,330	*-11.7%*
Voltamp Transformers	2,000	2,300	*15.0%*	7,422	10,040	*35.3%*
GE T&D India	6,119	6,425	*5.0%*	39,237	37,496	*-4.4%*
Trvieni Turbine	2,397	2,400	*0.1%*	8,278	8,539	*3.2%*
Total	**576,445**	**553,332**	***-4.0%***	**2,615,121**	**2,857,127**	***9.3%***

Source: Company, PL

**Y/E=CY, ABB 2QCY18 includes Powergrid segment*

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.

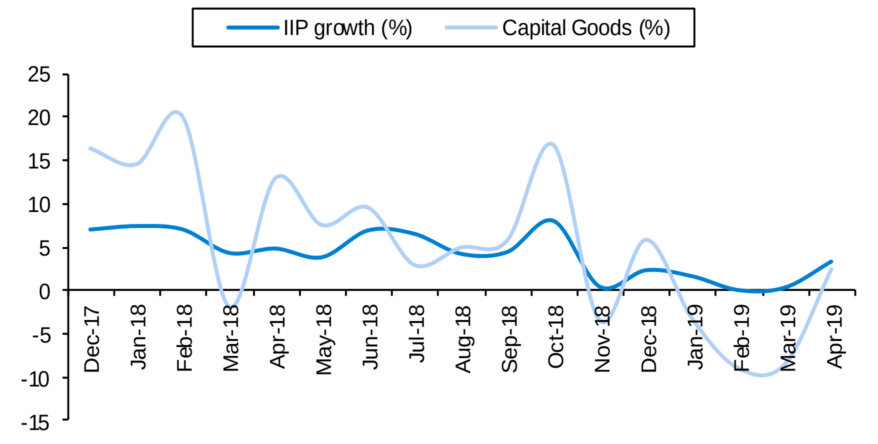
Capacity utilization raised to 75.9% in Dec 2018 from 74.8% in Sep 2018. This was the highest utilization rate reported by RBI's OBICUS in four years. As per CMIE data, new project announcement grew 23% YoY at Rs10.1 trn, while June 2019 witnessed decline of 87% due to elections. We expect pick-up in new projects from 2QFY20 onwards post general elections.

Exhibit 2: Quarterly Capex Aggregates

Rs trillion	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
	1.7	1.3	4.3	3.4	2.0	2.5	2.2	0.4	1.7
Completed projects	1.1	1.2	1.7	1.3	1.0	1.3	2.3	0.5	1.1
Stalled projects	0.9	0.9	4.0	0.4	0.5	3.2	2.7	0.1	0.9
Revived projects	0.3	0.2	0.3	0.3	0.5	0.9	0.1	0.1	0.3
Implementation stalled projects	NA	0.7	1.5	0.1	0.6	0.3	1.5	0.9	NA

Source: CMIE, PL

Exhibit 3: IIP Trends



Source: CMIE, PL

Exhibit 4: Q1FY20 Result Preview

Company Name		Q1FY20E	Q1FY19	*YoY gr. (%)*	Q4FY19	*QoQ gr. (%)*	Remark
ABB	Sales	19,256	27,127	*-29.0*	18,503	*4.1*	The company continues to expand its digitalization footprints across verticals and sectors by offering average efficiency between 20-30%. Its fives focus areas would be - Power, Manufacturing, Smart infrastructure, Hospitals, Retail, Schools etc.
	EBITDA	1,469	1,959	*(25.0)*	1,455	*0.9*	
	Margin (%)	*7.6*	*7.2*		*7.9*		
	Adj. PAT	937	1,022	*(8.2)*	890	*5.3*	
Apar Industries	Sales	17,373	14,956	*16.2*	24,646	*(29.5)*	Expects to improve its revenue mix by increasing share of high-margin products in all the three segments in FY20, thus leading to higher profitability. EBITDA margins are expected to improve sequentially on account of improvement in Transformer Oil /Conductor business.
	EBITDA	1,153	1,091	*5.7*	1,353	*(14.8)*	
	Margin (%)	*6.6*	*7.3*		*5.5*		
	Adj. PAT	334	290	*15.1*	437	*(23.7)*	
Bharat Electronics	Sales	24,594	21,021	*17.0*	38,846	*(36.7)*	Expect revenue to grow in the range of 13-15% in FY20 which will include execution of LRSAM project (deadline 4QFY20) which has relatively higher imported content.EBITDA margin to be in the range of 20-21%.
	EBITDA	5,288	3,105	*70.3*	9,290	*(43.1)*	
	Margin (%)	*21.5*	*14.8*		*23.9*		
	Adj. PAT	3,359	1,797	*86.9*	6,686	*(49.8)*	
BHEL	Sales	62,900	59,355	*6.0*	1,02,972	*(38.9)*	Expect a market potential of 20GW out of which 15GW has already been tendered and 5GW is expected to be tendered in few months. Company signed MoU for revenues of Rs330 bn for FY20. Expected order inflow for Q1FY20 is Rs27 bn
	EBITDA	3,774	2,872	*31.4*	13,952	*(73.0)*	
	Margin (%)	*6.0*	*4.8*		*13.5*		
	Adj. PAT	1,833	1,556	*17.8*	6,827	*(73.1)*	

Company Name		Q1FY20E	Q1FY19	YoY gr. (%)	Q4FY19	QoQ gr. (%)	Remark
Engineers India	Sales	6,848	5,733	*19.4*	6,126	*11.8*	Expect revenue to grow at 15% in FY20, mainly led by EPC segment. Order inflow for FY20 is expected to be Rs18 bn.
	EBITDA	938	864	*8.6*	933	*0.5*	
	Margin (%)	*13.7*	*15.1*		*15.2*		
	Adj. PAT	975	866	*12.5*	949	*2.7*	
GE T&D India	Sales	12,787	11,624	*10.0*	8,953	*42.8*	FY20 to be a challenging year due to lower order backlog both on the HVDC and other business.
	EBITDA	1,288	1,442	*(10.6)*	770	*67.3*	
	Margin (%)	*10.1*	*12.4*		*8.6*		
	Adj. PAT	602	821	*(26.6)*	261	*130.7*	
KEC International	Sales	23,276	21,043	*10.6*	38,412	*(39.4)*	Expect revenue to grow at 15-20%, EBITDA margin of 10.5% and 20% growth in order inflow for FY20. Domestic T&D market is expected to witness strong ordering. We expect order inflow of Rs31bn for Q1FY20
	EBITDA	2,421	2,163	*11.9*	3,990	*(39.3)*	
	Margin (%)	*10.4*	*10.3*		*10.4*		
	Adj. PAT	1,010	853	*18.4*	1,939	*(47.9)*	
Cummins India	Sales	14,546	13,280	*9.5*	13,404	*8.5*	Guided for domestic revenue growth of 10-15% YoY for FY20. Expects good growth in HHP segment mainly driven by data center, commercial realty, manufacturing etc. Seeing weak demand from exports markets
	EBITDA	2,166	2,147	*0.9*	1,718	*26.1*	
	Margin (%)	*14.9*	*16.2*		*12.8*		
	Adj. PAT	1,790	1,830	*(2.2)*	1,409	*27.0*	
Kalpataru Power Transmission	Sales	15,104	13,249	*14.0*	22,153	*(31.8)*	Expect revenue growth of 15%-20% and margin of 11% for FY20. Guided for order inflow of Rs100 bn for FY20 led by opportunities in Green Energy Corridor. Expected order inflow of Rs25 bn in Q1FY20
	EBITDA	1,790	1,571	*14.0*	2,405	*(25.5)*	
	Margin (%)	*11.9*	*11.9*		*10.9*		
	Adj. PAT	932	810	*15.1*	1,290	*(27.7)*	
Larsen & Toubro	Sales	3,08,565	2,82,835	*9.1*	4,49,340	*(31.3)*	We expect order inflow to remain flat YoY Rs359 bn in Q1FY20. PAT looks higher YoY due to adjustment in 1QFY19 on account of gains from Kattupalli Port.
	EBITDA	35,572	32,983	*7.9*	55,991	*(36.5)*	
	Margin (%)	*11.5*	*11.7*		*12.5*		
	Adj. PAT	19,703	15,998	*23.2*	40,434	*(51.3)*	
Power Grid Corporation of India	Sales	89,059	81,271	*9.6*	92,181	*(3.4)*	Guided for lower consolidated capex Rs150bn and capitalization of Rs200-250bn Opportunity of Rs190bn expected in FY20, from Green Energy Corridor. We expect capex/capitalization of Rs50/12 bn in Q1FY20
	EBITDA	76,818	69,271	*10.9*	77,934	*(1.4)*	
	Margin (%)	*86.3*	*85.2*		*84.5*		
	Adj. PAT	23,417	22,405	*4.5*	30,540	*(23.3)*	
Siemens	Sales	35,394	30,730	*15.2*	35,496	*(0.3)*	Has completed 66% of execution for HVDC order and is expected to fully execute in next 18 months-time frame. Expect order inflow to continue from Metro, Captive Power plant, F&B, Chemicals etc.
	EBITDA	3,979	3,023	*31.6*	4,100	*(2.9)*	
	Margin (%)	*11.2*	*9.8*		*11.6*		
	Adj. PAT	2,831	2,044	*38.5*	2,803	*1.0*	
Thermax	Sales	11,612	10,353	*12.2*	20,737	*(44.0)*	Expect a flat order inflow and high single digit revenue growth in FY20. Domestic market is expected to see tendering from 2Q/3QFY20 onwards.
	EBITDA	935	693	*34.9*	1,708	*(45.2)*	
	Margin (%)	*8.1*	*6.7*		*8.2*		
	Adj. PAT	688	487	*41.4*	1,289	*(46.6)*	
Triveni Turbine	Sales	1,889	1,718	*10.0*	2,396	*(21.1)*	Expect double digit revenue growth and expansion in margins in FY20 mainly led by growth in international geographies. GE Triveni JV continues to witness muted performance due to delay in shipment of dispatches
	EBITDA	303	303	*(0.1)*	400	*(24.4)*	
	Margin (%)	*16.0*	*17.7*		*16.7*		
	Adj. PAT	217	190	*14.1*	283	*(23.3)*	
Voltamp Transformers	Sales	1,990	1,659	*20.0*	2,588	*(23.1)*	Orders from several industries mainly Oil & Gas, Water, Fertilizer and Chemical. Renewables offers large opportunity from medium to long term perspective. Pricing environment has been challenging.
	EBITDA	199	165	*21.0*	344	*(42.1)*	
	Margin (%)	*10.0*	*9.9*		*13.3*		
	Adj. PAT	180	150	*19.7*	321	*(44.0)*	

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	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E
ABB	Reduce	f	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	83.4	68.5	56.0	45.7
Apar Industries	Acc	588	795	58.2	79.6	89.9	98.7	4.1	4.7	5.4	6.2	1.4	1.4	1.8	2.3	37.8	35.6	47.4	58.9	13.5	11.8	14.3	16.0	15.5	16.5	12.4	10.0
Bharat Electronics	Acc	114	120	103.2	120.8	137.7	153.0	20.0	28.6	29.3	31.5	14.0	19.3	18.8	20.2	5.7	7.9	7.7	8.3	18.3	23.4	20.6	20.0	19.8	14.4	14.7	13.7
BHEL	Hold	73	77	288.1	303.5	329.1	358.7	19.3	21.4	26.4	32.7	8.1	12.2	15.7	20.7	2.2	3.5	4.5	5.9	2.5	3.8	5.0	6.4	33.3	20.9	16.2	12.3
Engineers India	BUY	120	139	18.2	24.8	28.2	32.4	4.3	3.8	4.1	5.0	3.8	3.7	4.2	4.9	6.1	5.9	6.7	7.7	14.8	15.5	17.1	19.2	19.8	20.5	18.0	15.5
GE T&D India	Reduce	237	257	43.3	42.2	44.7	50.5	2.6	4.3	4.0	4.8	2.1	2.1	1.9	2.6	8.2	8.3	7.6	10.3	18.8	16.2	13.0	15.8	29.1	28.5	31.2	23.0
KEC International	BUY	333	352	100.5	110.0	126.5	142.0	10.1	11.5	13.2	14.9	4.6	4.9	6.0	6.9	17.8	18.9	23.3	26.9	25.6	21.9	22.3	21.5	18.7	17.6	14.3	12.4
Cummins India	Acc	760	841	50.8	56.6	61.6	68.5	7.3	8.6	9.4	10.5	7.1	7.2	7.9	9.0	25.6	26.1	28.6	32.3	18.3	17.8	18.8	20.1	29.7	29.2	26.6	23.5
Kalpataru Power Transmission	BUY	532	565	57.4	71.2	82.9	94.9	6.3	7.8	9.1	10.4	3.2	4.0	5.0	5.7	21.0	26.2	32.3	37.1	12.3	13.6	14.7	14.9	25.3	20.3	16.4	14.3
Larsen & Toubro	BUY	1,572	1,744	1196.8	1410.1	1588.3	1812.9	136.4	163.2	183.8	210.1	72.5	86.1	103.2	120.6	51.7	61.4	73.7	86.0	13.8	14.7	15.8	16.7	30.4	25.6	21.3	18.3
Power Grid Corporation of India	BUY	210	224	297.5	341.2	354.3	389.4	259.4	292.8	308.9	339.6	82.4	99.4	101.5	113.5	15.7	19.0	19.4	21.7	15.8	17.5	16.5	17.0	13.3	11.1	10.8	9.7
Siemens	Acc	1,358	1,263	110.6	128.0	142.6	162.3	10.5	13.3	15.3	17.8	11.4	9.0	10.2	12.0	31.9	25.3	28.6	33.7	15.7	11.3	11.8	12.8	42.5	53.6	47.5	40.3
Thermax	Acc	1,058	1,147	44.6	59.7	62.8	68.3	4.0	4.6	5.2	6.0	2.3	3.3	3.7	4.3	20.5	28.9	33.2	38.2	8.8	11.4	11.9	12.5	51.6	36.6	31.8	27.7
Triveni Turbine	Acc	105	124	7.5	8.4	9.5	10.5	1.6	1.5	1.8	2.1	1.0	1.0	1.2	1.4	2.9	3.1	3.7	4.4	22.4	22.6	25.7	25.9	36.0	33.8	27.9	23.7
Voltamp Transformers	BUY	1,160	1,505	6.4	8.3	9.4	10.5	0.7	0.9	1.1	1.2	0.7	0.8	1.0	1.1	72.6	83.4	98.0	107.5	12.4	13.0	13.9	13.8	16.0	13.9	11.8	10.8

Source: Company, PL

July 4, 2019

Top Picks

Ultratech Cement

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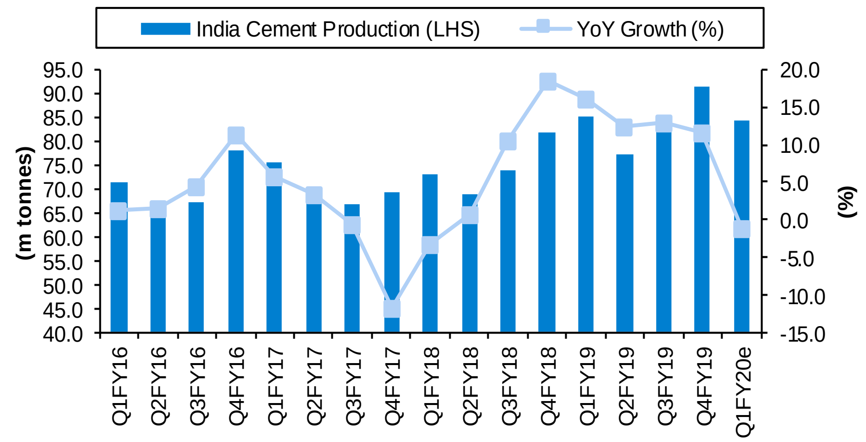
Cement

Apr-Jun'19 Earnings Preview

We expect EBITDA of our coverage universe to grow by 48% YoY, led by sharp increase in realizations negating fall in volumes. Volumes would fall by 1.6% YoY due to elections, lower govt spending and continued sluggishness in real estate sector. We continue to like **UTCEM** on the back of strong earnings growth, ample scope for narrowing price gap in Central region with its peers and consistent capacity growth.

Based on the DIPP data, cement production grew by 2.5% YoY (on a high base of 17.3% YoY in Apr-May'18) in Apr-May'19. Growth slowed down due to slow pace of construction activities and reduced government spending on infrastructure due to central government elections held in May'19. Demand would remain weak with growth in the range of 6-7% in FY20e, impacted due to tight liquidity and weak sentiments.

Exhibit 1: All India Cement Production



Source: Economic Advisor to Ministry of Commerce & Industry

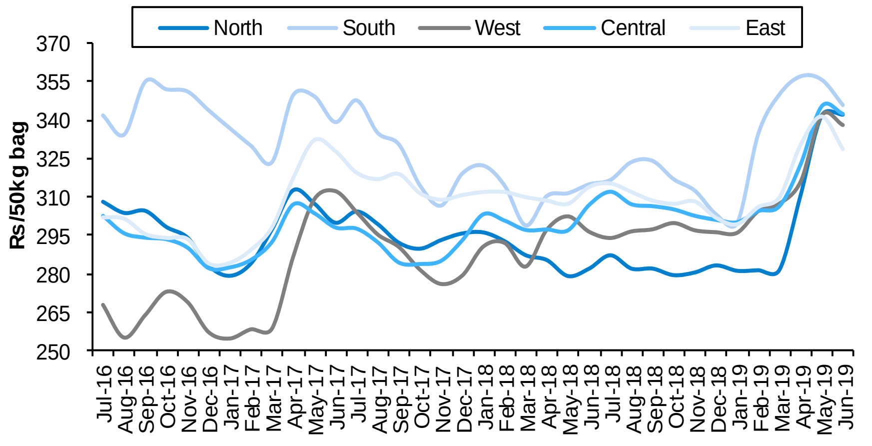
All India cement prices witnessed sharp hike across regions, led by tight industry discipline. Cement prices for the quarter grew 11%/Rs33 per bag QoQ (+12.2%/Rs37 per bag YoY). North India witnessed highest improvement in prices followed by Central and West. East remained laggard with lowest increase among regions due to intense competition, cyclone in Odisha and regulatory price hike restrictions in Chhattisgarh.

- **North – Discipline kicks in to support prices:** After multiple failed attempts, region's average prices moved up sharply by Rs50/bag QoQ. Prices in Delhi/Jaipur rose by Rs35/Rs45/bag QoQ. Prices in Punjab/Haryana moved up by Rs60/bag (higher compared to other states) due to low base.
- **Central – Prices rose on a high base:** Despite high prices, region witnessed meaningful hikes in reaction to sharp increase in North region. Prices in Central UP increased by Rs20/bag QoQ against Rs40/bag increase in Western UP. Prices in MP rose by Rs30/bag QoQ.
- **South – Prices up but much of the hike lost by quarter end:** Region's average price rose by Rs20/bag QoQ due to flow of hikes in early part of quarter. However, prices came off sharply in last one month with cut of

Rs30/Rs15/Rs15 in Hyderabad/Bengaluru/Chennai due to intense competition.

- **West – Prices in Gujarat and Maharashtra rebounds:** Prices in Gujarat rose by Rs30/bag in the month as the benefit of consolidation started emerging with Ultratech cement's acquisition of Binani cement. Prices in Mumbai rose by Rs30/bag in Q1. Prices in rest of Maharashtra held the ground with an increase of Rs25/bag QoQ on the back of high prices in South.
- **East – Price recovery low despite weak base:** Price in WB/Odisha/Bihar rose by Rs25/Rs20/Rs20 QoQ due to temporary discipline. Cyclone in Odisha, regulatory issues in Chhattisgarh and focus on volumes led to dissolve the prices.

Exhibit 2: Region-wise prices



Source: Company, PL

Exhibit 3: Q1FY20 Result Preview

Company Name		Q1FY20E	Q1FY19	YoY gr. (%)	Q4FY19	QoQ gr. (%)	Remark
ACC	Sales	38,957	37,679	*3.4*	38,496	*1.2*	Volume is expected to fall 2% YoY at 7.1m tonnes (t). Realisations are expected to improve by 5.5%/Rs286 YoY (+7%/Rs358/t QoQ) at Rs5,491/t. Due to better realisations, EBITDA/t is expected to expand 13.6%/Rs111 YoY at Rs923.
	EBITDA	6,550	5,884	*11.3*	4,622	*41.7*	
	Margin (%)	*16.8*	*15.6*		*12.0*		
	Adj. PAT	4,144	3,584	*15.6*	2,804	*47.8*	
	Volume (mn te)	7.1	7.2	*(2.0)*	7.5	*(5.4)*	
	Net Realisations (Rs/te)	5,491	5,204	*5.5*	5,133	*7.0*	
	EBITDA (Rs/te)	923	813	*13.6*	616	*49.8*	
Ambuja Cement	Sales	28,959	29,270	*(1.1)*	28,470	*1.7*	Volume is expected to fall 8.5% YoY at 5.9m tonnes. Realisations are expected to expand by 8%/Rs371 YoY (+10.5%/Rs468/t QoQ) at Rs4,937/t. Due to higher realisations and increase in costs, EBITDA/t is expected to increase 19%/Rs160 YoY to Rs990.
	EBITDA	5,802	5,324	*9.0*	3,826	*51.6*	
	Margin (%)	*20.0*	*18.2*		*13.4*		
	Adj. PAT	4,243	4,993	*(15.0)*	3,873	*9.6*	
	Volume (mn te)	5.9	6.4	*(8.5)*	6.4	*(7.9)*	
	Net Realisations (Rs/te)	4,937	4,566	*8.1*	4,469	*10.5*	
	EBITDA (Rs/te)	989	831	*19.1*	601	*64.7*	
Heidelberg Cement	Sales	5,666	5,369	*5.5*	5,347	*6.0*	Volume is expected to fall 5% YoY at 1.2m tonnes. Realisations are expected to improve by 11%/Rs470 YoY (+6.6%/Rs292/t QoQ) at Rs4,707/t. Due to increase in realisations, EBITDA/t is expected to expand by 23.8%/Rs218 YoY at Rs1,133.
	EBITDA	1,364	1,160	*17.6*	1,162	*17.4*	
	Margin (%)	*24.1*	*21.6*		*21.7*		
	Adj. PAT	747	511	*46.1*	609	*22.7*	
	Volume (mn te)	1.2	1.3	*(5.0)*	1.2	*(0.6)*	
	Net Realisations (Rs/te)	4,707	4,237	*11.1*	4,415	*6.6*	
	EBITDA (Rs/te)	1,133	915	*23.8*	959	*18.1*	
JK Lakshmi Cement	Sales	9,745	9,234	*5.5*	11,725	*(16.9)*	Volume is expected to fell 4% YoY at 2.2m tonnes. Realisations are expected to grow 10%/Rs400/t YoY (11.3%/Rs450/t QoQ) at Rs4,440/t. Led by better realisations, EBITDA/t is expected to expand 87.3%/Rs358 YoY at Rs769.
	EBITDA	1,688	939	*79.8*	1,312	*28.6*	
	Margin (%)	*17.3*	*10.2*		*11.2*		
	Adj. PAT	667	137	*385.1*	433	*54.2*	
	Volume (mn te)	2.2	2.3	*(4.0)*	2.9	*(25.3)*	
	Net Realisations (Rs/te)	4,439	4,038	*9.9*	3,989	*11.3*	
	EBITDA (Rs/te)	769	410	*87.3*	447	*72.2*	
Shree Cement	Sales	31,112	30,699	*1.3*	32,849	*(5.3)*	Cement volume is expected to fall sharply by 12.4% YoY at 6.1m tonnes. Realisations are expected to improve by 15.7% YoY/Rs647/t (+12.5%/Rs528/t QoQ) at Rs4,753. Due to sharp increase in realisations, cement EBITDA/t is expected to expand 77.7% YoY/Rs676 to Rs1,547.
	EBITDA	9,920	6,502	*52.6*	8,478	*17.0*	
	Margin (%)	*31.9*	*21.2*		*25.8*		
	Adj. PAT	5,296	3,447	*53.6*	3,210	*65.0*	
	Volume (mn te) - Cement	6.1	7.0	*(12.4)*	7.3	*(16.2)*	
	Volume (mn units) - Power	430	451	*(4.6)*	382	*12.7*	
	Net Realisations (Rs/te)	4,753	4,107	*15.7*	4,225	*12.5*	
	Realised rate (Rs/unit)	5	4.4	*5.6*	5.3	*(10.6)*	
	Cement EBITDA (Rs/te)	1,547	871	*77.7*	1,103	*40.3*	
The Ramco Cements	Sales	13,603	11,860	*14.7*	15,265	*(10.9)*	Volume is expected to grow 4.5% YoY at 2.7m tonnes. Realisations are expected to grow 9.8%/Rs443 YoY (+7.3%/Rs340 QoQ) at Rs4,980. Due to better realisations, EBITDA/t is expected to expand by 50%/Rs412 YoY at Rs1,240.
	EBITDA	3,388	2,164	*56.6*	3,192	*6.1*	
	Margin (%)	*24.9*	*18.2*		*20.9*		
	Adj. PAT	1,986	1,250	*58.9*	1,732	*14.7*	
	Volume (mn te)	2.7	2.6	*4.5*	3.3	*(17.0)*	
	Net Realisations (Rs/te)	4,980	4,537	*9.8*	4,640	*7.3*	
	EBITDA (Rs/te)	1,240	828	*49.8*	970	*27.8*	
UltraTech Cement	Sales	96,898	83,548	*16.0*	103,340	*(6.2)*	Blended realisations are expected to increase by 11.3%/Rs540 YoY (+9.5%/Rs462 QoQ) to Rs5,314/t. Grey cement volumes are expected to grow 4.1% YoY at 17.9m tonnes due to consolidation of acquired assets. On the back of improved realisations, EBITDA/t is expected to expand 66%/Rs544 to Rs1,371.
	EBITDA	24,974	14,448	*72.9*	20,470	*22.0*	
	Margin (%)	*25.8*	*17.3*		*19.8*		
	Adj. PAT	13,209	5,984	*120.7*	10,175	*29.8*	
	Volume (mn te)	17.9	17.2	*4.1*	20.9	*(14.3)*	
	Net Realisations (Rs/te)	5,318	4,774	*11.4*	4,852	*9.6*	
	EBITDA (Rs/te)	1,371	826	*66.0*	961	*42.6*	

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	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E
ACC	BUY	1,577	1,750	129.3	144.8	152.8	159.2	15.2	17.2	23.9	25.7	9.0	15.2	15.3	16.9	48.0	80.9	81.2	90.1	9.9	15.3	13.7	13.7	32.9	19.5	19.4	17.5
Ambuja Cement	Hold	216	210	231.0	254.2	271.9	286.1	32.7	33.9	40.9	44.7	14.4	22.8	20.6	21.4	7.3	11.5	10.4	10.8	7.1	10.6	8.9	8.6	29.8	18.8	20.8	20.0
Heidelberg Cement India	Acc	204	220	18.6	21.1	22.6	23.4	3.3	4.6	5.3	5.0	1.3	2.2	2.7	2.6	5.9	9.6	12.1	11.6	13.2	19.7	21.7	18.3	34.7	21.2	16.8	17.5
JK Lakshmi Cement	Acc	333	401	34.1	38.8	42.4	43.4	4.1	4.1	6.8	5.9	0.8	0.8	3.1	2.6	7.1	6.8	26.7	21.7	5.9	5.3	18.8	13.1	46.7	49.3	12.4	15.4
Shree Cement	Reduce	21,648	19,750	98.1	117.2	134.0	142.5	24.5	27.9	38.5	37.5	13.8	12.7	23.1	21.6	397.3	364.0	663.4	619.0	16.7	13.7	21.3	16.6	54.5	59.5	32.6	35.0
The Ramco Cements	Hold	790	820	43.2	50.6	58.2	66.8	10.1	9.5	13.8	15.7	5.5	5.1	8.2	9.1	23.3	21.8	34.9	38.6	14.1	12.1	16.9	16.1	33.9	36.2	22.6	20.5
Ultratech Cement	BUY	4,645	5,175	309.7	369.0	472.4	512.7	57.1	63.0	107.2	107.7	26.2	24.3	49.7	52.9	95.5	88.7	172.1	183.3	10.3	8.9	14.9	12.9	48.6	52.4	27.0	25.3

Source: Company, PL

Consumer Durables

Apr-Jun'19 Earnings Preview

July 4, 2019

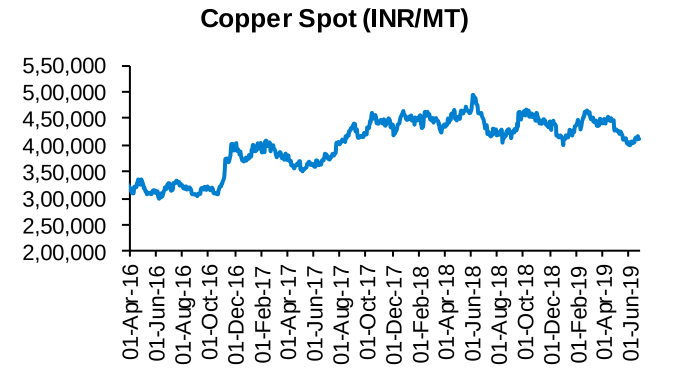
Top Picks

Crompton Greaves Consumer Electricals

RAC to report strong volume growth aided by harsh summer, lower base: After an erratic FY19 (industry de-grew by 3%), FY20 has started on a positive note. RAC industry is expected to report strong volume growth aided by a harsh summer and lower base. However, high channel inventory prior to the start of the summer season and competitive scenario has prevented brands from taking any price hikes. Margins are set improve with softening of commodity prices and appreciating INR.

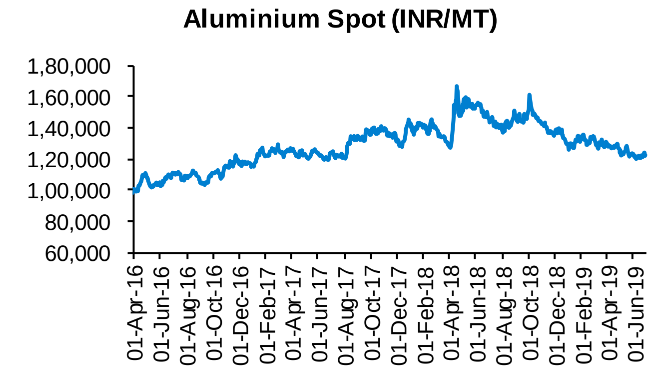
Slowdown in demand to curtail gains from falling commodity prices: Commodity prices have softened with spot copper prices down by 8% YoY/ 3% QoQ while aluminum spot prices are down by 18% YoY / 5% QoQ. However, with sluggish demand observed in 4Q19 (owing to liquidity crunch and general elections) continuing in 1Q20, gains derived from soft commodity prices shall be limited. Demand for fans is expected to be strong due to strong summer season sales. With rising competitive intensity, brands continue to focus on innovation, expanding distribution reach & optimizing costs improve margins.

Exhibit 1: LME copper spot prices down by 3% QoQ



Source: PL

Exhibit 2: LME aluminum sport prices down by 5% QoQ



Source: PL

Exhibit 3: Q1FY20 Result Preview

Company Name		Q1FY20E	Q1FY19	YoY gr. (%)	Q4FY19	QoQ gr. (%)	Remark
Crompton Greaves Consumer Electricals	Sales	13,316	12,039	*10.6*	12,069	*10.3*	ECD growth momentum to moderate due to demand slowdown. However, fans likely to benefit from a harsh summer. Lighting set to continue posting double digit margins on the back of moderating price erosion in LED bulbs and cost optimizing program
	EBITDA	1,931	1,673	*15.4*	1,685	*14.6*	
	Margin (%)	*14.5*	*13.9*		*14.0*		
	Adj. PAT	1,225	1,043	*17.5*	1,132	*8.2*	
Voltas	Sales	24,175	21,481	*12.5*	20,628	*17.2*	RAC volumes to report strong growth aided by harsh summer and a low base. Inability to take price hikes due to high competitive intensity and high inventory at start of season to limit margin expansion. MEP business to remain subdued as a result of general elections and higher base. Beko JV to remain a drag
	EBITDA	2,780	2,432	*14.3*	1,443	*92.6*	
	Margin (%)	*11.5*	*11.3*		*7.0*		
	Adj. PAT	1,920	1,839	*4.4*	1,396	*37.6*	

Source: Company, PL

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Exhibit 4: Valuation Summary

Company Names	Rating	CMP (Rs)	TP (Rs)	Sales (Rs m)				EBITDA (Rs m)				PAT (Rs m)				EPS (Rs)				RoE (%)				PE (x)			
				FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E
Crompton Greaves Consumer Electricals	BUY	234	284	40,797	44,789	50,425	56,669	5,310	5,858	6,883	8,019	3,238	3,741	4,490	5,394	5.2	6.0	7.2	8.6	49.5	39.6	36.0	34.2	45.2	39.1	32.6	27.1
Voltas	Hold	635	584	64,044	71,241	77,505	86,288	6,626	6,117	7,208	9,060	5,718	5,197	5,312	6,880	17.3	15.7	16.1	20.8	15.9	13.0	12.4	14.5	36.7	40.4	39.5	30.5

Source: Company, PL

Consumer

Apr-Jun'19 Earnings Preview

July 4, 2019

Top Picks

Jubilant Foodworks

Britannia Industries

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Q1FY20 Adj. PAT to increase 11.7%

1QFY20 performance is likely to be impacted by rural slowdown and poor consumer sentiments. Sales and Adj. PAT is expected to grow at 12.5% and 11.7% respectively (13.2% and 23.5% in 4QFY19) on 27bps decline in EBITDA margins (79bps decline in 4QFY19).

Avenue Supermart, Titan, Jubilant FoodWorks, Future retail and ITC are expected to report double digit sales growth. Raw material headwinds are emerging, so EBIDTA margin expansion will be a function of operating leverage and internal efficiencies. Jubilant Foodworks, Avenue Supermart, Titan and Marico are expected to report a strong profit growth.

Monsoons and liquidity remain key factors

Rural demand slowdown and liquidity crunch visible across segments: Despite the normal trend of increase in rural demand for FMCG during elections, growth rates have remained soft considering last year's poor monsoons, food deflation and tight liquidity have led to rural distress. Considering rural demand growth was below Urban demand growth (earlier 1.5x in 2Q19 and 1.1x in 4Q19), companies with higher rural share have witnessed subdued demand growth. Though liquidity scenario has improved QoQ, it remains far from being satisfactory.

Seasonality factors: Prolonged winters have impacted the onset and early demand for summer portfolio, although intense heat wave boosted a pickup in the later part. Dabur (Juices) and Emami (Personal care and other cooling products) are likely to be affected.

Spatial distribution of monsoons crucial for growth: Last year's monsoons remained below normal and patchy. Though there has been a delay in its onset by more than a week and forecasts of below normal monsoons, spatial distribution in drought prone areas remains a key factor. Dependence on monsoons has been decreasing over the years and agriculture is now just 30% of the total rural income.

Food inflation, increase in government spends to improve rural incomes: After five months of Food deflation, CPI food Inflation has turned positive from March'19. Food inflation coupled with higher government spends, benefits of PM Kisan Yojana and increase in MSP would increase farmers purchasing power and boost rural demand.

Implementation of IndAS 116 on Leases w.e.f. FY20: The existing distinction between Finance and operating lease would cease and the current lease payments will split into depreciation and interest expense. Reported EBITDA will increase while higher depreciation, Interest and front loading of lease will impact PBT. The lease asset would be recognised as asset for depreciation and a corresponding loan in the liabilities. This IndAS would mainly impact retail companies like Jubilant FoodWorks, Future retail, Titan (only for leased stores), ITC (WLS stores) etc. Impact on other consumer companies would be insignificant.

Crude has softened; Raw material headwinds visible

- Brent Crude has increased in 1QFY20 to USD65.5/barrel with an average of USD68.6/barrel (4QFY19 average at USD63/barrel). However, crude linked inputs would increase in tandem with a lag.
- VAM and Soda Ash have remained volatile and has declined gradually. HDPE has corrected by 27.4% from its peak. TiO2 and LLP prices have started declining.
- Wheat prices have started increasing post a short correction in April'19 and are up 11.9% YoY, however down by 6% QoQ.
- Sugar prices remain at high levels with 10.4% up YoY and 2.8% up QoQ.
- Barley prices remain at elevated levels and are up 23.4% YoY, however, down by 4% QoQ.
- Mentha prices have corrected by 11.4% in 1Q20, however, they still remain 10.2% up YoY and would continue to impact raw material costs of Emami.
- SMP prices have increased 59.4% in 1-year led by implementation of Export incentives.
- Palm oil prices are gradually declining and they remain down 18.7% YoY and 4.2% QoQ.

Exhibit 1: Crude linked Commodities for 1QFY20

Input	Price Trend (Y-o-Y)	Unit	52 Week H/L	Current Price	YoY change %	QoQ change %	Impact	Companies (% of sales)
Soda Ash	Down	INR/50Kg	1475/1160	1225	8.9%	2.2%	Negative	HUL, Jyothy Labs
VAM	Down	USD/MT	1315/896	898	-20.4%	-2.3%	Positive	PIDI (6.4%)
HDPE	Down	INR/MT	94206/68872	68872	-20.2%	-1.1%	Positive	All Companies for packaging (8-15%)
TiO2	Down	INR/Kg	284/263	270	6.2%	0.0%	Negative YoY, Flat QoQ	APNT (19%), Kansai Nerolac, and other paint companies
LLP*	Down	Rs/ltr	55/44	48	0.9%	2.6%	Flattish	Marico, Emami (8%), Dabur

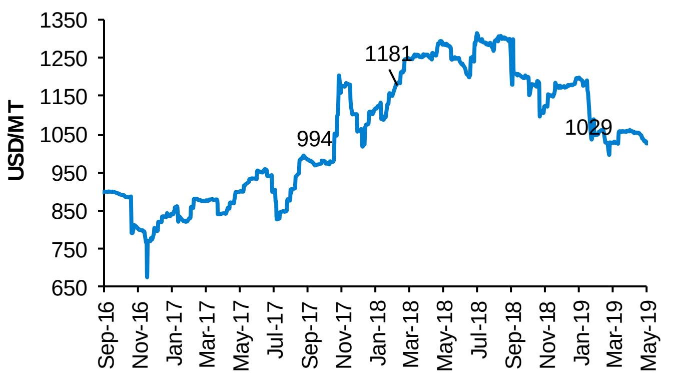
*Source: PL, Bloomberg, Marico *(upto May'19), YOY and QoQ nos are quarterly average*

Exhibit 2: Agri linked commodity for 1QFY20

Input	Price Trend (Y-o-Y)	Unit	52 Week H/L	Current Price	YoY change %	QoQ change %	Impact	Companies (% of sales)
Wheat	Up	INR/Qtl	2120/1775	2031	11.9%	-6.0%	Negative YoY, Positive QoQ	Nestle (5%) , Britannia (14%), ITC, GSK Consumer
Palm Fatty Acid	Down	INR/MT	40781/21893	25064	-16.0%	-6.1%	Positive	HUL (6.5%)
Palm Oil	Down	INR/MT	38977/29051	31196	-18.7%	-4.2%	Positive	Britannia (9%) , Nestle (3.5%), HUL
Sugar	Up	INR/Qtl	3395/3045	3195	10.4%	2.8%	Negative	Britannia (8.5%) , Nestle (1.5%) , GSK Consumer, Dabur, ITC, HUL
SMP	Up	Rs/kg	165/116	162	33.9%	1.9%	Negative	Nestle (2.6%) , GSK Consumer (5%), Britannia
Barley	Down	Rs/Quintal	1960/1494	1826	23.4%	-4.0%	Negative YoY, Positive QoQ	GSK Consumer (6%)
Mentha Oil	Down	INR/Kg	2010/1290	1380	10.2%	-11.4%	Negative YoY, Positive QoQ	Emami (22%), Colgate, HUL, Dabur
Gold	Up	INR/ 10gms	34329/29361	33549	4.0%	-1.1%	Negative YoY, Positive QoQ	Titan
Coffee	Up	US$/MT	122.6/86.7	108	-19.1%	-4.5%	Positive	Nestle (3.5%) , HUL (1%)
Kardi Oil*	Down	Rs/10kg	1580/1271	1565	19.8%	-0.4%	Negative YoY, Flat QoQ	Marico
Copra*	Down	INR/Qtl	13629/9543	10214	-23.9%	-11.6%	Positive	Marico (16%)

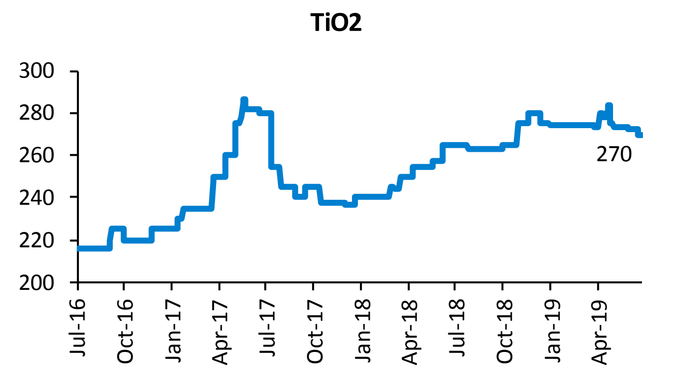
*Source: PL, Bloomberg, Marico, *(upto May'19), YOY and QoQ nos are quarterly average*

Exhibit 3: VAM prices fell 34.7% from peak; down 20.4% YoY



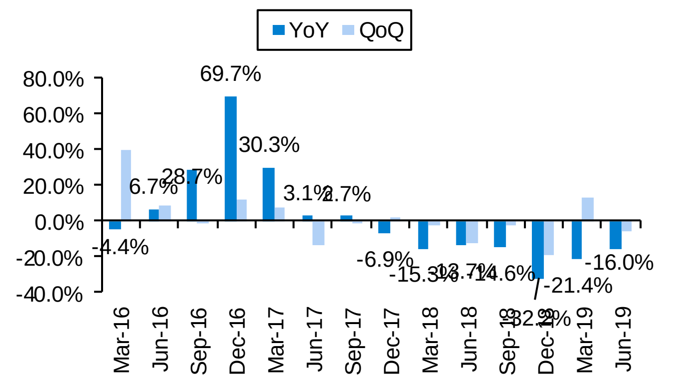
Source: Bloomberg, PL

Exhibit 4: Tio2 prices down to Rs270/kg from Rs280/kg peak



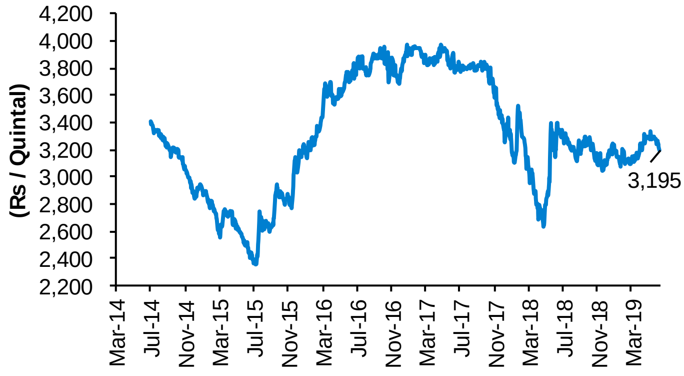
Source: Bloomberg, PL

Exhibit 5: PFAD prices correct; down 16% YoY & 6.1% QoQ



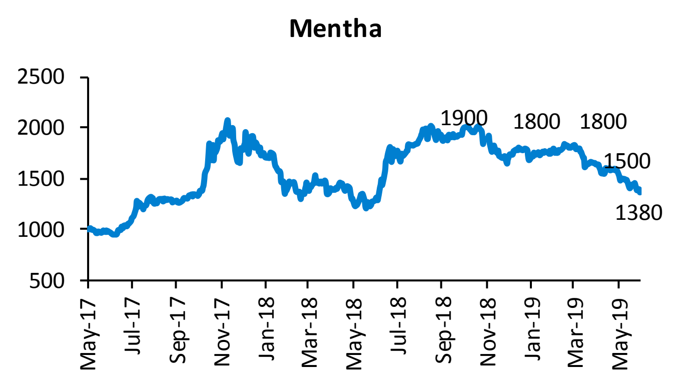
Source: Bloomberg, PL

Exhibit 6: Sugar prices remain range-bound; up 10.4% YoY



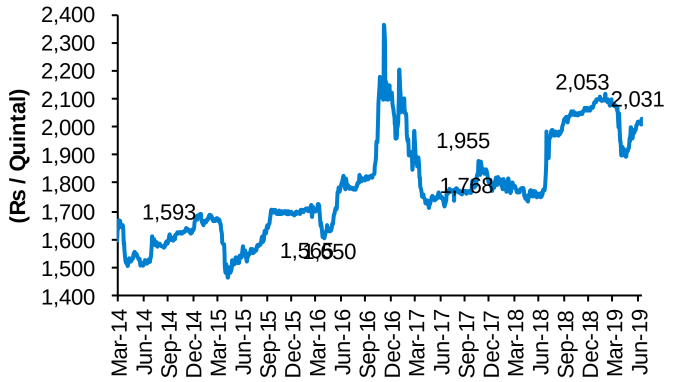
Source: Bloomberg, PL

Exhibit 7: Mentha prices at high levels despite softening



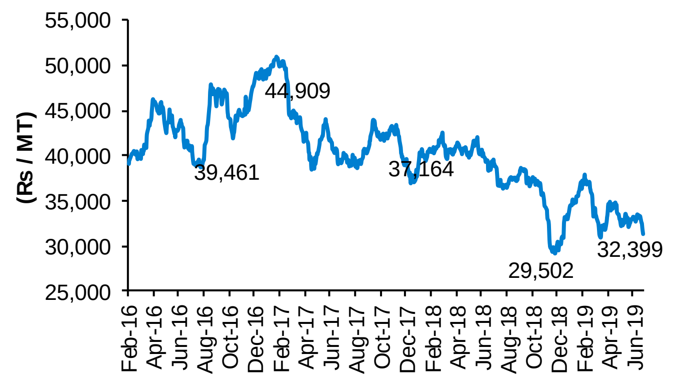
Source: Bloomberg, PL

Exhibit 8: Wheat prices to increase post small correction



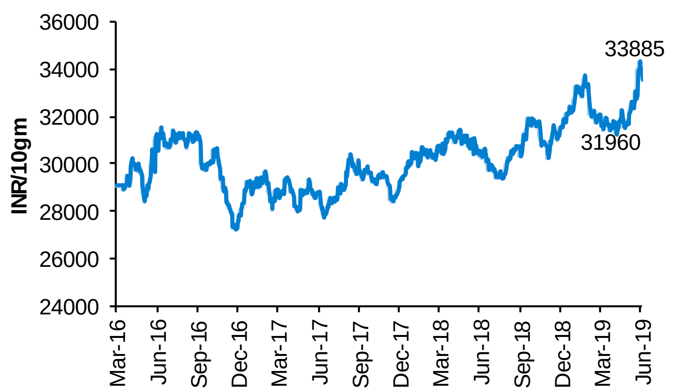
Source: Bloomberg, PL

Exhibit 9: Palm Oil decline; down 18.7% YoY & 4.2% QoQ



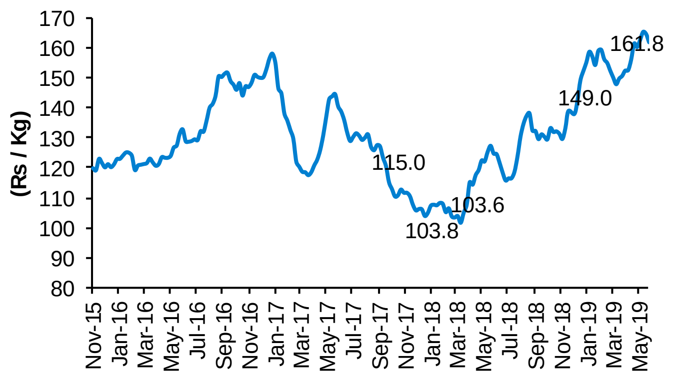
Source: Bloomberg, PL

Exhibit 10: Gold prices increase sharply in June; up 4% YoY



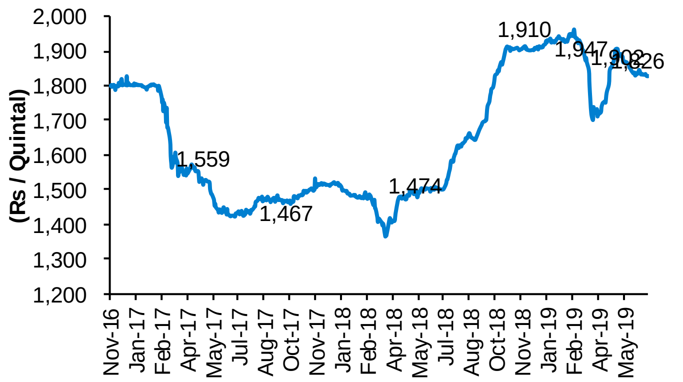
Source: Bloomberg, PL

Exhibit 11: SMP price up 59.4% in a year; up 33.9% YoY



Source: Bloomberg, PL

Exhibit 12: Barley price remain at high levels; up 23.4% YoY



Source: Bloomberg, PL

Exhibit 13: APNT, Future retail and TTAN are expected to report healthy volume growth

Volume growth (%)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20E
Asian Paints	3.0	9.0	7.5	10.5	12.0	11.0	24.0	10.0	9.0
Britannia	2.5	6.0	13.0	13.0	13.0	12.0	7.0	7.0	6.0
Colgate	-5.0	-0.9	12.0	4.0	4.0	7.0	7.0	5.0	3.5
Dabur India	-4.4	7.2	13.0	7.7	21.0	8.1	12.4	4.3	6.0
GSK Consumer	-6.5	2.5	17.0	8.0	12.8	13.7	9.6	6.5	6.0
ITC (Cigarettes)	1.5	-7.0	-5.0	-2.5	1.5	6.0	7.5	7.5	6.5
HUVR	0.0	4.0	11.0	11.0	12.0	10.0	10.0	7.0	5.5
Kansai Nerolac	10.0	18.0	14.5	14.5	15.0	9.0	15.0	4.0	4.0
MRCO - Parachute	-9.0	12.0	15.0	-5.0	9.0	8.0	9.0	6.0	7.0
- Saffola	-9.0	3.0	0.0	-1.0	10.0	5.0	2.0	18.0	5.0
- Hair Oil	-8.0	12.0	8.0	11.0	15.0	5.0	7.0	1.0	5.0
Pidilite (C&B)	-0.1	12.0	23.0	14.0	18.0	9.6	10.8	2.5	3.6
Titan - Jewellery	49.0	49.0	6.0	6.0	-3.0	24.0	34.0	15.0	20.0
Jubilant (Dominos)	6.5	5.5	17.8	26.5	26.5	20.5	14.6	6.0	6.0
Future Retail	11.8	10.2	10.4	6.0	3.6	5.9	5.9	11.2	9.0
-Big Bazaar	15.9	13.8	13.1	11.0	10.1	9.4	10.1	13.6	12.0

Source: Company, PL

Top Pick: Jubilant Foodworks and Britannia

We structurally prefer HUVR, Titan and Britannia in the consumer space. However, given the all-time high P/E valuations of HUVR and Titan, near term upside seems capped. We prefer Jubilant FoodWorks and Britannia as our top picks at current valuations.

Jubilant Foodworks: JUBI is on track to sustain steady growth led by 1) 100 Dominos store additions 2) strong consumer value under EDV offerings 3) sustained menu innovations 4) breakeven in Dunkin Donuts 4) increased focus on delivery and efficiencies to emerge as a Food Technology company. JUBI is creating multiple growth levers with Dominos Bangladesh and Hong's kitchen, however Dominos will remain cornerstone of profitable growth in medium term. We expect high single digit SSG and sales growth with Sales, EBIDTA and PAT CAGR of 17%, 18.6% and 24% over FY19-21. We believe that valuations at 18.1xFY21 EV/ EBIDTA and 32.3xFY21 EPS are at a discount to most consumer names, despite higher profit growth. We value the stock at 40xFY21 EPS and arrive at target price of Rs1541 (24% upside).

Britannia: We remain optimistic on demand acceleration and double digit volume growth led by 1) expected surge in rural demand post interim budget and normal monsoon forecast 2) targeted 9% contribution from innovations in FY20 (4.5% in FY19) 3) sustained levers of direct distribution expansion (0.25m addition/year) and 4) higher growth in Hindi heartland. Innovations pipeline remains strong led by 1) good response to new launches like Treat cream wafers, Winky Cow milk shakes 2) expansion of cakes portfolio in Brownie, Swiss Rolls and layered cakes 3) maiden entry into salted snacks under Timepass brand 4) launch of Treat croissants and 5) growth in core segments post launch of Treat stars, Treat bursts, Milk Bikis Choco cream, Whole Wheat Vita Marie Gold and GoodDay Cashew Almond. Although volume growth for 2H19 was only 7%, we estimate 17.9% PAT CAGR over FY19-21 and value the stock at 46xFY21 EPS given robust growth outlook and strong innovation pipeline. We arrive at a SOTP based target price of Rs3145.

Exhibit 14: Q1FY20 Result Preview

Company Name		Q1FY20E	Q1FY19	YoY gr. (%)	Q4FY19	QoQ gr. (%)	Remark
Asian Paints	Sales	48,381	43,903	*10.2*	50,182	*(3.6)*	Decorative paints demand momentum continues. Maintaining margins remains a challenge. We expect 9% volume growth in 1Q.
	EBITDA	9,531	8,744	*9.0*	8,230	*15.8*	
	Margin (%)	*19.7*	*19.9*		*16.4*		
	Adj. PAT	5,812	5,580	*4.2*	4,731	*22.8*	
	Volume Growth (%)	*9.0*	*12.0*		*10.0*		
Britannia Industries	Sales	26,594	24,067	*10.5*	26,681	*(0.3)*	We believe that rural slowdown would impact volume growth due to 40% rural exposure. There are raw material headwinds from next quarter onwards with sugar, milk and wheat prices ramping up. Watch out for new innovations
	EBITDA	4,175	3,677	*13.5*	4,222	*(1.1)*	
	Margin (%)	*15.7*	*15.3*		*15.8*		
	Adj. PAT	2,806	2,462	*14.0*	2,897	*(3.1)*	
	Gross Margin (%)	*40.5*	*39.1*		*40.9*		
	Volume Growth (%)	*6.0*	*13.0*		*7.0*		
Colgate Palmolive	Sales	11,007	10,413	*5.7*	11,538	*(4.6)*	Demand remains stable QoQ. Competitive activity remains high as Patanjali has been aggressive in Ad-spends. Watch out for toothpaste market share.
	EBITDA	2,884	2,816	*2.4*	3,104	*(7.1)*	
	Margin (%)	*26.2*	*27.0*		*26.9*		
	Adj. PAT	1,612	1,554	*3.7*	1,815	*(11.2)*	
	Volume Growth (%)	*3.5*	*4.0*		*3.0*		
Dabur India	Sales	22,263	20,807	*7.0*	21,282	*4.6*	Rural slowdown and weak performance of juices on delayed summers and high base would impact volume growth. Competitive intensity in Oral care and Juices remain high.
	EBITDA	4,252	3,861	*10.1*	4,572	*(7.0)*	
	Margin (%)	*19.1*	*18.6*		*21.5*		
	Adj. PAT	3,639	3,300	*10.3*	4,468	*(18.6)*	
	Volume Growth (%)	*6.0*	*21.0*		*4.3*		
Avenue Supermarts	Sales	56,500	45,594	*23.9*	50,334	*12.3*	We expect significant acceleration in store openings in 1Q. D'Mart is estimated to report 23.9% sales growth and 15.6% PAT growth as the focus on Low Cost Low Price strategy continues.
	EBITDA	4,859	4,227	*15.0*	3,765	*29.0*	
	Margin (%)	*8.6*	*9.3*		*7.5*		
	Adj. PAT	2,897	2,506	*15.6*	2,029	*42.8*	
	Cost of Retail (%)	*6.2*	*6.3*		*6.9*		
	Number of Stores added	*4.0*	*2.0*		*12.0*		
Future Retail	Sales	54,465	45,387	*20.0*	53,966	*0.9*	We expect a healthy 12% Big Bazaar SSG growth with stable demand situation. We expect EBITDA margins to expand given improving Hypercity performance. However, EasyDay will still take time to achieve EBITDA breakeven.
	EBITDA	3,050	2,208	*38.1*	2,907	*4.9*	
	Margin (%)	*5.6*	*4.9*		*5.4*		
	Adj. PAT	2,160	1,531	*41.1*	2,032	*6.3*	
	SSG %	*9.0*	*3.6*		*11.2*		
	Big Bazaar SSG %	*12.0*	*10.1*		*13.6*		
	Cost of Retail (%)	*21.6*	*22.6*		*21.4*		
Emami	Sales	6,350	6,144	*3.4*	6,396	*(0.7)*	We expect muted volume growth as delayed summers have hampered demand of summer portfolio. We expect gross margins to further decline as Mentha prices continue to remain at elevated levels.
	EBITDA	1,174	1,234	*(4.9)*	1,546	*(24.1)*	
	Margin (%)	*18.5*	*20.1*		*24.2*		
	Adj. PAT	285	267	*7.1*	560	*(49.0)*	
	Volume Growth (%)	*2.0*	*16.0*		*2.0*		
Hindustan Unilever	Sales	1,02,934	94,870	*8.5*	99,450	*3.5*	We estimate slowdown in rural demand to impact volume growth. Expect moderate margin expansion as crude prices have softened QoQ, food inflation is picking up and recent price increases.
	EBITDA	24,807	22,510	*10.2*	23,210	*6.9*	
	Margin (%)	*24.1*	*23.7*		*23.3*		
	Adj. PAT	17,310	15,670	*10.5*	15,900	*8.9*	
	Volume Growth (%)	*5.5*	*12.0*		*7.0*		
ITC	Sales	1,20,000	1,07,070	*12.1*	1,19,921	*0.1*	We estimate healthy cigarette volume growth on demand momentum and low base. Price increases in select brands is expected to improve profitability. FMCG business is picking up growth momentum.
	EBITDA	46,500	42,021	*10.7*	45,717	*1.7*	
	Margin (%)	*38.8*	*39.2*		*38.1*		
	Adj. PAT	31,429	28,187	*11.5*	34,819	*(9.7)*	
	Cigarette Volume Growth (%)	*6.5*	*1.5*		*7.5*		
	Cigarette EBIT Growth (%)	*11.1*	*8.7*		*10.0*		
	FMCG EBIT	*800*	*501*		*1,305*		

Company Name		Q1FY20E	Q1FY19	YoY gr. (%)	Q4FY19	QoQ gr. (%)	Remark
Jubilant FoodWorks	Sales	9,520	8,551	*11.3*	8,652	*10.0*	We expect decent SSG growth in JUBI backed by launch of 10 different Pizza variants to boost sales of the ongoing world cup season despite a high base. We estimate 18 store openings in 1Q
	EBITDA	1,571	1,421	*10.6*	1,476	*6.4*	
	Margin (%)	*16.5*	*16.6*		*17.1*		
	Adj. PAT	874	747	*17.1*	819	*6.8*	
	SSG %	*6.0*	*25.9*		*6.0*		
	Dominos Stores	1,245	1,144		1,227		
Kansai Nerolac Paints	Sales	14,447	13,759	*5.0*	11,532	*25.3*	Slowdown in Auto sector to continue impact industrial paints, while Decorative demand momentum is expected to continue We estimate Gross margin to decline on higher input costs, INR depreciation and lag in taking price increases in Industrial paints.
	EBITDA	2,095	2,205	*(5.0)*	1,496	*40.0*	
	Margin (%)	*14.5*	*16.0*		*13.0*		
	Adj. PAT	1,310	1,398	*(6.3)*	928	*41.1*	
	Volume Growth (%)	*4.0*	*15.0*		*4.0*		
	Gross Margin (%)	*36.7*	*38.3*		*36.3*		
Marico	Sales	21,889	20,268	*8.0*	16,090	*36.0*	We estimate 7% India and 7% parachute volume growth on a high base. We expect gross margins to expand given softening Copra prices 23.9% YoY. Rs 2 price cut taken in Parachute coconut oil pouch, Parachute Jasmine and Nihar naturals. Watch out for further price cuts taken in Parachute
	EBITDA	4,006	3,549	*12.9*	2,830	*41.5*	
	Margin (%)	*18.3*	*17.5*		*17.6*		
	Adj. PAT	2,964	2,554	*16.1*	2,170	*36.6*	
	Parachute Volume Growth %	*7.0*	*9.0*		*6.0*		
	Volume Growth (%)	*7.0*	*10.4*		*8.0*		
	Saffola Vol Gr (%)	*5.0*	*10.0*		*18.0*		
	VAHO Vol Gr (%)	*5.0*	*15.0*		*1.0*		
Nestle India	Sales	29,547	26,984	*9.5*	30,030	*(1.6)*	We estimate demand momentum to continue despite rural slowdown due to higher urban split with sustained traction in Maggi and chocolates. Innovations and new launches are expected to aid growth.
	EBITDA	7,032	6,648	*5.8*	7,495	*(6.2)*	
	Margin (%)	*23.8*	*24.6*		*25.0*		
	Adj. PAT	4,497	4,147	*8.4*	4,750	*(5.3)*	
Pidilite Industries	Sales	17,611	16,083	*9.5*	13,787	*27.7*	Estimate just 3.6% overall volume growth and in Consumer and Bazaar products on a high base. Margin is expected to expand on soft Input costs.
	EBITDA	4,139	3,576	*15.7*	2,619	*58.0*	
	Margin (%)	*23.5*	*22.2*		*19.0*		
	Adj. PAT	3,018	2,669	*13.1*	1,903	*58.5*	
	Volume Growth (%)	3.6	17.9		2.5		
GlaxoSmithKline Consumer Healthcare	Sales	12,068	11,071	*9.0*	12,861	*(6.2)*	We estimate 6% volume growth on sustained demand momentum. Market share remains a key factor to watch.
	EBITDA	2,715	2,303	*17.9*	3,185	*(14.7)*	
	Margin (%)	*22.5*	*20.8*		*24.8*		
	Adj. PAT	2,308	2,004	*15.1*	2,858	*(19.2)*	
	Volume Growth (%)	6.0	12.8		6.5		
Titan Company	Sales	52,000	43,189	*20.4*	46,721	*11.3*	Jewellery volume growth to remain strong due to Gudi Padwa and Akshay Tritiya both falling in 1Q20. Increase in gold prices in June end would not have significant impact in 1Q. We expect good performance led by market share gain from unorganised players and traction form product activations.
	EBITDA	6,050	4,953	*22.2*	4,556	*32.8*	
	Margin (%)	*11.6*	*11.5*		*9.8*		
	Adj. PAT	4,246	3,492	*21.6*	3,646	*16.5*	
	Jewellery Volume Growth (%)	*20.0*	*(3.0)*		*15.0*		
	Jewellery Margins (%)	*11.9*	*11.0*		*13.3*		
	Watch Volume Growth (%)	*3.0*	*10.0*		-		
	Watch Margins (%)	*15.0*	*18.8*		*8.5*		

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	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E
Asian Paints	Acc	1,360	1,433	168.2	193.5	215.0	245.1	32.0	35.2	41.5	49.8	19.7	21.4	25.4	30.5	20.6	22.3	26.5	31.8	24.7	23.9	25.1	26.7	66.1	60.9	51.3	42.7
Britannia Industries	Acc	2,841	3,145	93.0	104.8	120.6	138.8	14.3	16.4	19.7	23.5	9.6	10.8	12.8	15.6	40.0	45.0	53.4	64.8	33.1	29.7	31.5	33.5	71.0	63.2	53.2	43.8
Colgate Palmolive	Hold	1,152	1,220	41.9	44.6	49.4	55.0	11.1	12.4	14.0	15.6	6.6	7.2	8.2	9.2	24.2	26.3	30.3	33.9	47.1	48.2	53.7	59.8	47.5	43.7	38.0	34.0
Dabur India	Hold	403	430	77.2	86.8	95.6	107.5	16.2	17.7	19.9	22.9	13.7	14.8	16.7	19.4	7.8	8.4	9.5	11.0	25.9	25.6	26.2	26.2	51.9	47.9	42.6	36.6
Avenue Supermarts	HOLD	1,433	1,338	150.3	200.0	258.0	330.9	13.5	16.3	22.1	28.9	7.7	9.0	13.2	17.7	12.3	14.5	20.3	27.3	18.0	17.6	17.0	16.5	116.5	99.1	70.6	52.5
Future Retail	BUY	471	554	184.8	201.6	236.4	269.5	8.3	10.4	13.5	20.1	6.2	7.3	9.3	10.0	12.3	14.6	18.6	18.5	21.8	21.1	21.9	16.4	38.5	32.3	25.4	25.5
Emami	Acc	308	475	25.3	26.9	30.3	33.9	7.2	7.4	8.5	9.7	5.0	5.1	6.0	7.0	43.9	11.2	13.2	15.3	26.5	24.8	27.7	29.3	7.0	27.6	23.3	20.1
Hindustan Unilever	Hold	1,794	1,753	345.3	381.9	419.7	465.2	72.8	86.0	96.5	108.7	53.0	60.4	67.3	75.8	24.5	28.0	31.1	34.9	78.1	82.2	85.9	90.9	73.1	64.1	57.6	51.3
ITC	BUY	278	369	406.3	450.0	495.8	541.9	155.4	173.1	201.7	225.0	112.2	124.6	140.5	158.1	9.2	10.2	11.4	12.8	23.2	22.8	23.1	23.6	30.2	27.3	24.3	21.7
Jubilant FoodWorks	BUY	1,259	1,541	29.8	35.7	40.7	48.4	4.5	6.5	7.1	8.5	2.1	3.7	4.1	5.1	15.6	28.1	30.8	38.5	21.8	31.3	27.3	27.4	80.5	44.9	40.9	32.7
Kansai Nerolac Paints	Acc	442	464	45.9	51.7	57.2	64.6	7.9	7.4	8.6	10.0	5.2	4.5	5.3	6.3	9.6	8.4	9.8	11.6	17.4	13.9	14.8	16.1	46.1	52.5	45.0	38.1
Marico	HOLD	374	351	63.2	74.1	81.6	91.4	11.4	13.6	14.7	16.3	8.1	10.1	10.8	11.9	6.3	7.8	8.3	9.2	33.5	36.4	34.5	35.2	59.3	47.9	44.9	40.5
Nestle India	Acc	11,884	10,656	100.1	112.9	126.1	140.0	22.2	27.3	30.7	34.0	13.5	17.2	19.4	21.8	140.0	178.6	201.5	226.5	40.3	48.5	50.8	52.9	84.9	66.6	59.0	52.5
Pidilite Industries	Acc	1,227	1,184	53.5	62.5	69.7	79.7	12.9	13.6	15.9	18.3	9.6	9.6	11.2	13.1	18.8	18.9	22.1	25.9	27.4	24.8	24.7	24.7	65.2	64.9	55.5	47.4
GlaxoSmithKline Consumer Healthcare	Hold	7,805	7,744	43.1	47.8	55.0	61.2	8.7	11.4	12.9	14.3	7.0	9.3	10.0	11.2	166.5	221.9	237.1	266.2	21.2	24.6	22.8	22.7	46.9	35.2	32.9	29.3
Titan Company	BUY	1,290	1,267	156.2	190.7	228.2	274.0	17.4	21.8	27.8	34.8	12.5	16.2	19.8	25.0	14.1	18.3	22.3	28.1	26.4	28.6	28.7	29.4	91.3	70.5	58.0	45.9

Source: Company, PL

April 5, 2019

Education

Apr-Jun '19 Earnings Preview

Navneet is expected to be in limelight as it derives ~50-55% of sales in 1Q. Rising share of exports and syllabus changes in Gujarat & Maharashtra is expected to aid growth. The company is on track to achieve full year growth guidance of 14-15% for FY20E.

For S Chand, growth is expected to be tepid in a seasonally lean quarter as focus has now shifted to cash flow management to improve the working capital cycle. Nonetheless, system cleansing has already materialized and sales return are expected to be in line with past trends during the quarter.

Exhibit 1: Q1FY20 Result Preview

Company Name		Q1FY20E	Q1FY19	YoY gr. (%)	Q4FY19	QoQ gr. (%)	Remark
Navneet Education	Sales	7,353	6,700	*9.8*	2,455	*199.5*	Backed by steady 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 9.8% in a seasonally strong quarter.
	EBITDA	2,213	1,974	*12.1*	282	*684.6*	
	Margin (%)	*30.1*	*29.5*		*11.5*		
	Adj. PAT	1,436	1,263	*13.7*	147	*876.0*	
S Chand and Company (Standalone)	Sales	623	577	*8.0*	4,491	*(86.1)*	Focus on cash flow management and tightening of credit terms is expected to result in single digit top-line growth. Channel cleansing is more or less complete and sales return is expected to be in line with normal business trends (no exceptional returns expected). EBITDA loss is expected to be at Rs371mn in a seasonally lean quarter.
	EBITDA	-371	-512	*NM*	1,827	*NM*	
	Margin (%)	*NM*	*NM*		*NM*		
	Adj. PAT	-350	-490	*NM*	1,213	*NM*	

Source: Company, PL

Jinesh Joshi
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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	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E
Navneet Education	BUY	108	142	12,040	14,450	16,678	19,017	2,225	2,708	3,277	3,795	1,270	1,528	2,028	2,339	5.4	6.7	8.9	10.2	17.6	19.8	24.0	24.2	19.8	16.2	12.2	10.6
S Chand and Company	HOLD	85	125	7,944	5,220	6,159	7,271	1,927	-312	1,232	1,556	1,072	-645	546	748	30.7	-18.4	15.6	21.4	13.1	-6.7	5.7	7.4	2.8	-4.6	5.5	4.0

Source: Company, PL

Financial Services

Apr-Jun'19 Earnings Preview

July 4, 2019

Top Picks

HDFC Ltd

Cholamandalam Investment Finance Company

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With new challenges emerging for NBFCs, Q1FY20 is unlikely to show any respite from the trend of past couple of quarters. Even as concerns on high funding costs and sluggish growth persist, liquidity issues continue to cause problems. Since NBFCs recalibrate their balance sheets in order to limit credit risks and combat liquidity cycles, valuation multiples are likely to remain under pressure. Due to RBI's timely intervention (in OMOs & FX swaps) tightening liquidity is not a concern yet, however, increased risk perception adds to unease investor interest into NBFCs. ILFS fallout and slowdown in auto industry have led to moderate disbursements for asset financiers. Tight liquidity concerns, pressure on asset quality from developer side and riskier SME led LAP businesses have turned housing financiers cautious. With increased competition from banks, NBFCs will continue to focus on diversifying its assets.

Q1FY20 should witness a breather in terms of steady margins and flat credit costs QoQ to offset NBFC's benign credit growth. We continue to prefer HDFC Ltd in housing and Cholamandalam Finance in vehicle finance. We also like SHTF at compelling valuations with a key overhang behind.

- **Growth should be somber:** Q1FY20 progression for NBFCs looks relatively healthier with an average 16% YoY growth across coverage universe. However, lack of growth capital and high securitization of quality portfolios would imply tepid growth trends QoQ (avg. 5%). While cautious lending persists, NBFCs also have to deal with newer liquidity framework that require granular bucketing mismatches and new increased capital requirement norms for HFCs, further keeping growth in check.

- **NIMs stay soft:** Post Recalibrating funding mix and maintaining liquidity buffer on balance sheet (keeping the margins in check) we expect NIMS across coverage universe to stay flattish QoQ at 5.9% levels, for Q1FY20 despite QoQ funding costs declining by average 20bps.

- **Credit costs to remain flat:** While YoY credit cost looks elevated across coverage universe (led by one-offs due to MMFS low base last year), QoQ credit costs are expected to stay flattish (closer to avg. 1% levels), despite incorporating higher provisioning for NBFCs as industry woes in autos, RE and MSMEs refuse to abate.

- Under PL NBFC universe, we expect **CIFC/LTFH** to witness robust business traction at 22% and 17% YoY respectively. While HFCs continue to lose market share to private banks**, HDFC maintains strong positioning and is expected to clock 15% YoY growth,** LICHF to report 16% loan growth largely supported by non-core disbursements; retail loans run-rate catching up well too. Growth trends for SHTF remain somber at 13.1% YoY growth.

Exhibit 1: Valuation Summary for PL NBFC Coverage

Coverage Universe	Rating	MCap (Rs B)	CMP (Rs)	PT (Rs)	Upside (%)	P/ABV (x) FY19	P/ABV (x) FY20E	P/ABV (x) FY21E	RoE (%) FY19	RoE (%) FY20E	RoE (%) FY21E
CIFC	BUY	228	292	331	13.6	4.1	3.4	2.8	21.0	20.5	20.5
LTFH	Acc	240	120	178	48.0	2.0	1.7	1.4	17.6	17.0	17.6
HDFC	BUY	3,928	2,280	2,237	(1.9)	3.1	3.2	2.9	13.3	14.6	16.1
LIC Housing Finance	Acc	287	569	597	4.9	2.0	1.9	1.6	16.0	16.3	17.3
MMFS	Acc	244	396	527	33.2	2.7	2.2	1.9	15.2	16.5	17.5
Shriram Transport	BUY	241	1,063	1,481	39.3	1.8	1.5	1.3	17.4	16.1	15.5

Source: Company, PL

Exhibit 2: Q1FY20 Results Preview (Rs m) – Decent PPOP performance; credit cost to stay elevated

Rs Million	NII	YoY	QoQ	PPOP	YoY	QoQ	PAT	YoY	QoQ
HDFC	34,622	9.5%	20.1%	38,955	3.4%	26.1%	26,403	3.9%	20.6%
LIC Housing	12,887	5.4%	28.5%	11,445	5.1%	20.6%	6,645	-4.2%	17.0%
MMFSL	14,321	9.3%	33.0%	8,869	13.7%	25.6%	4,155	-29.3%	54.4%
Shriram Tran.	20,220	4.7%	11.0%	15,804	4.5%	12.4%	7,019	-5.9%	22.5%
Cholamandalam	10,003	11.3%	6.2%	6,054	17.1%	-8.3%	3,712	27.2%	-9.1%
LTFH	16,042	9.0%	1.9%	10,172	12.9%	-10.8%	5,876	13.5%	-27.0%
Total NBFCs (Incl HFCs)	**108,096**	**8.1%**	**16.2%**	**91,298**	**6.6%**	**14.8%**	**53,810**	**0.1%**	**11.8%**
Rs Billion	**Loans**	**YoY**	**QoQ**	**Margins**	**YoY**	**QoQ**	**Credit Cost**	**YoY**	**QoQ**
HDFC	4,269	5.0%	14.8%	2.98%	0.13%	-0.32%	0.35%	-0.04%	0.33%
LIC Housing	1,952	0.3%	15.8%	2.54%	0.00%	0.20%	0.40%	0.19%	0.02%
MMFSL	686	12.0%	16.8%	8.82%	0.05%	0.79%	1.50%	2.25%	-0.50%
Shriram Tran.	1,137	8.8%	13.1%	7.41%	0.00%	0.01%	2.02%	-0.04%	-0.05%
Chola	554	2.0%	22.1%	7.01%	0.14%	-0.36%	0.43%	0.43%	0.43%
LTFH	1,016	2.5%	17.4%	6.39%	0.32%	-0.93%	0.88%	0.27%	0.20%
NBFCs	**9,614**	**4.5%**	**15.6%**	**5.86%**	**0.11%**	**-0.10%**	**0.70%**	**0.10%**	**0.21%**

Source: Company, PL

Exhibit 3: Margins in Q4FY19E decline 75bps YoY as costs pressures persist

	Q4FY19	Q1FY19	Q1FY20E	YoY	QoQ
HDFC	2.85%	3.30%	2.98%	0.13%	-0.32%
LIC Housing	2.54%	2.34%	2.54%	0.00%	0.20%
MMFSL	8.78%	8.03%	8.82%	0.05%	0.79%
Shriram Tran.	7.42%	7.41%	7.41%	0.00%	0.01%
Cholamandalam	6.87%	7.36%	7.01%	0.14%	-0.36%
LTFH	6.07%	7.33%	6.39%	0.32%	-0.93%

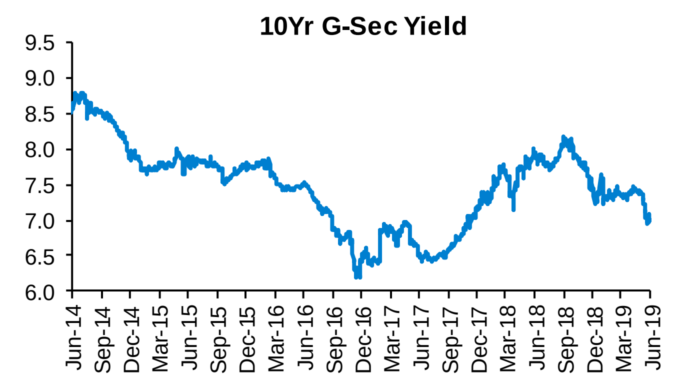
Source: Company, PL

Exhibit 4: INDAS provisioning normalizing; Q4 credit costs trend better

	Q4FY19	Q1FY19	Q1FY20E	YoY	QoQ
HDFC	0.39%	0.02%	0.35%	0.33%	-0.04%
LIC Housing	0.21%	0.38%	0.40%	0.02%	0.19%
MMFSL	-0.75%	2.00%	1.50%	-0.50%	2.25%
Shriram Tran.	2.07%	2.08%	2.02%	-0.05%	-0.04%
Cholamandalam	0.41%	0.87%	0.43%	-0.44%	0.02%
LTFH	0.61%	0.68%	0.88%	0.20%	0.27%

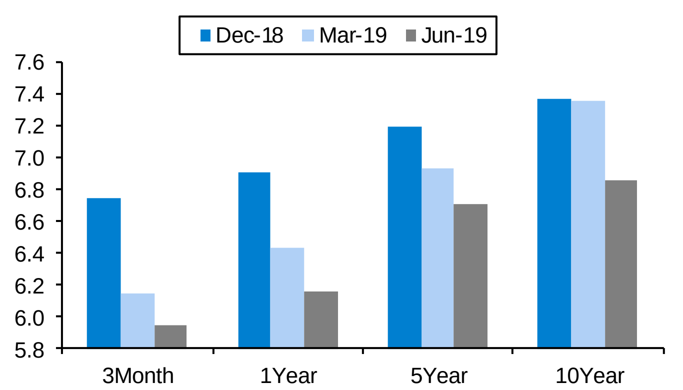
Source: Company, PL

Exhibit 5: G-sec yields continue to cool off…



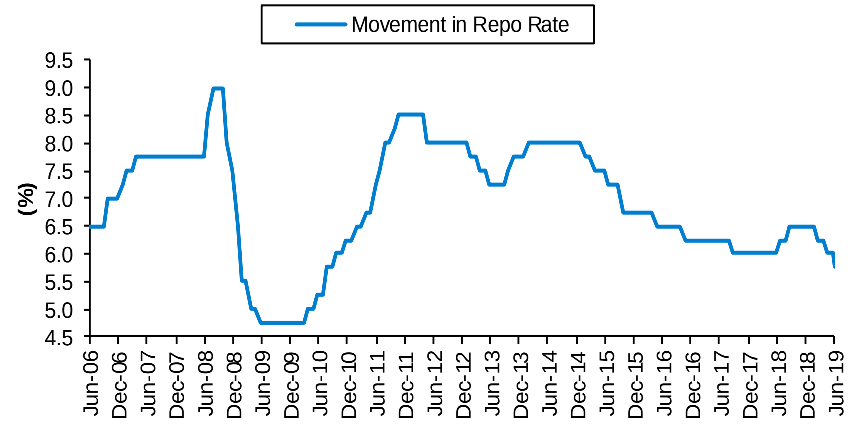
Source: Bloomberg, PL

Exhibit 6: …with moderation across tenure buckets



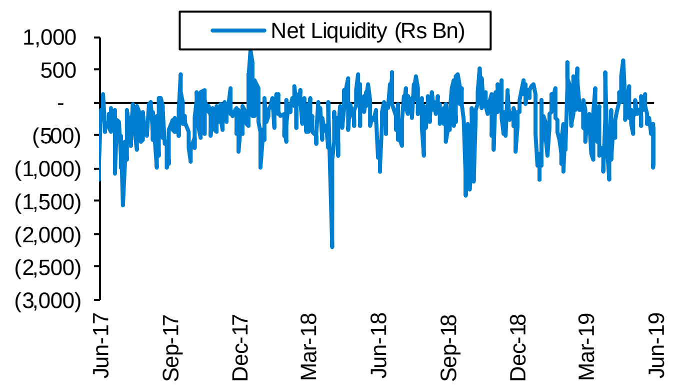
Source: Company, PL

Exhibit 7: RBI turning accommodative; cut 75bps from Jan'19



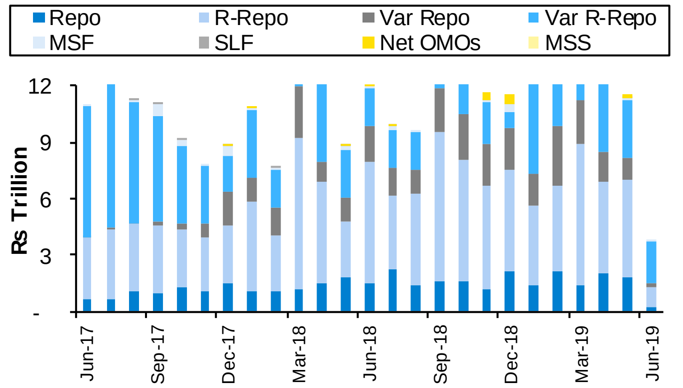
Source: Bloomberg, PL

Exhibit 8: RBI extracting liquidity from banks



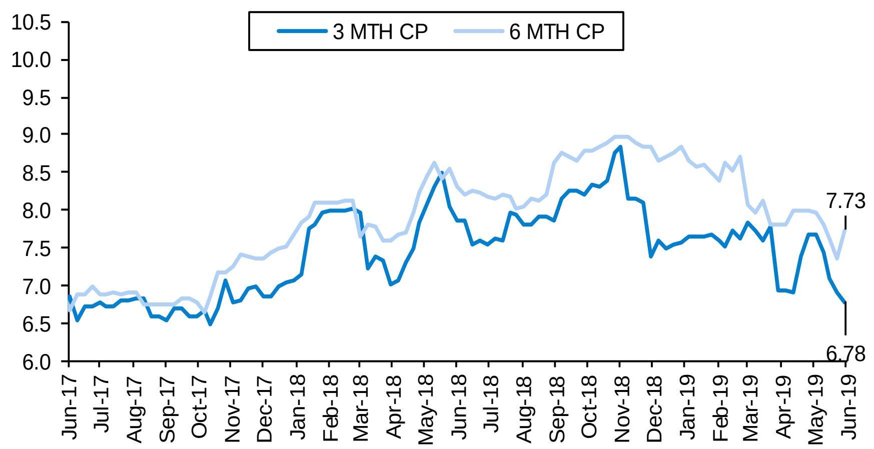
Source: Bloomberg, PL

Exhibit 9: Driven by reverse repos



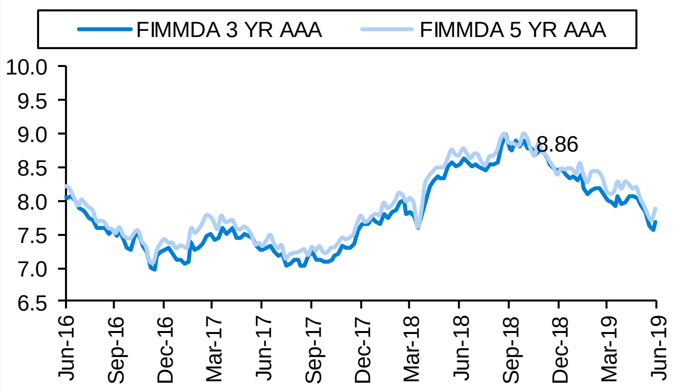
Source: Bloomberg, PL

Exhibit 10: Short term rates are easing post NBFC crisis



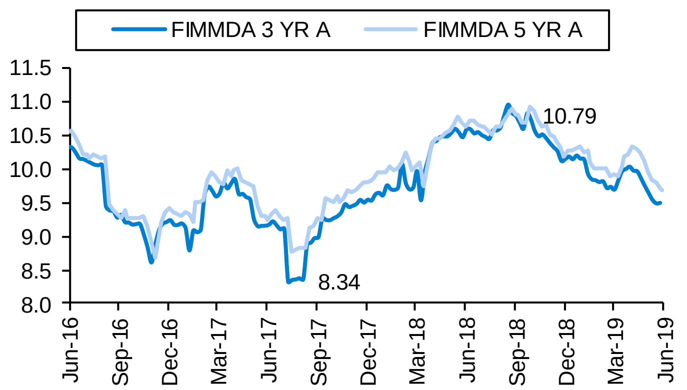
Source: Bloomberg, PL

Exhibit 11: AAA tenure spread contracts as demand of AAA paper shoots up



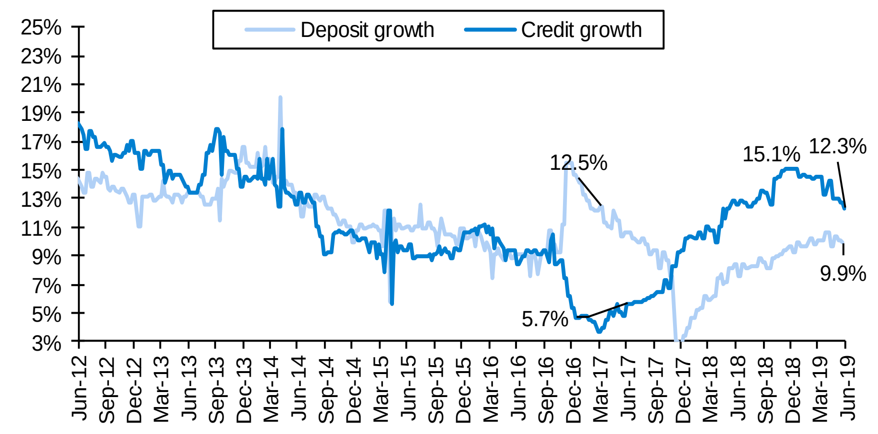
Source: Bloomberg, PL

Exhibit 12: ...while A tenure spread is giving arbitrage opportunity



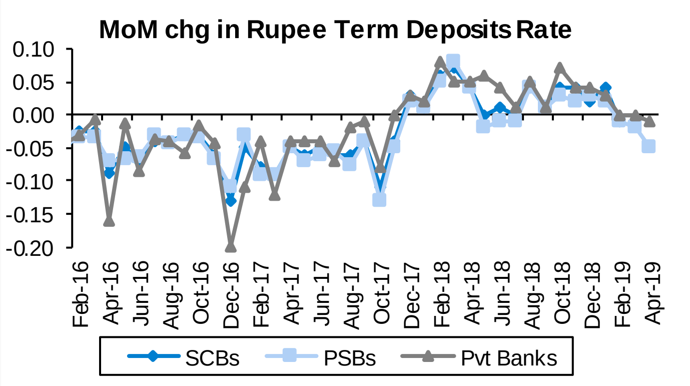
Source: Bloomberg, PL

Exhibit 13: Credit growth slowing as deposit growth moderates



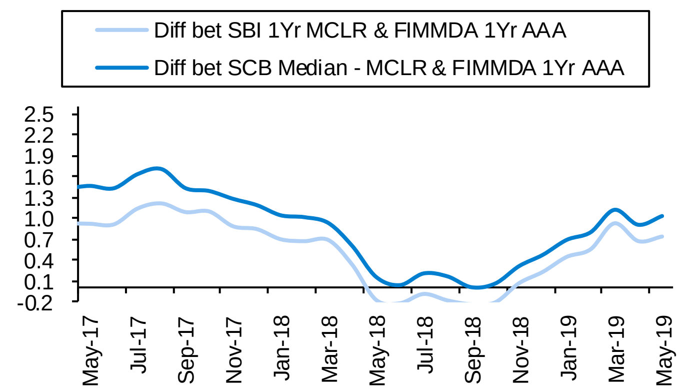
Source: Bloomberg, PL *Note – Data released upto mid Dec'18*

Exhibit 14: Pvt banks hold up their deposit rates, PSBs are seen more inclined towards rate cut



Source: Bloomberg, PL

Exhibit 15: NBFC crisis has lowered arbitrage between bank market rates and bank rates



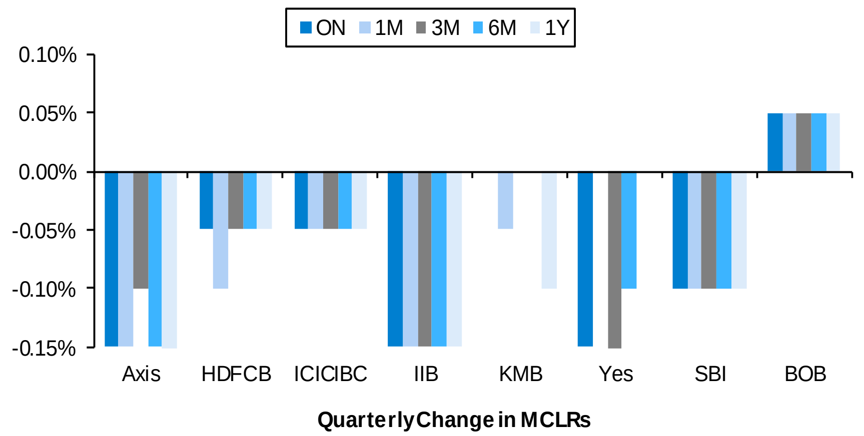
Source: Bloomberg, PL

Exhibit 16: MCLRs has reduced across banks led by Private banks

Banks	MCLR 1YR			% Change	
	Dec-18	Mar-19	Jun-19	*3Months*	*6Months*
Axis Bank	8.70%	8.75%	8.70%	-0.05%	0.00%
HDFC Bank	8.85%	8.90%	8.70%	-0.20%	-0.15%
ICICI Bank	8.80%	8.80%	8.75%	-0.05%	-0.05%
KMB	9.00%	9.00%	8.90%	-0.10%	-0.10%
IndusInd Bank	9.80%	9.90%	9.75%	-0.15%	-0.05%
Yes Bank	9.85%	9.70%	9.70%	0.00%	-0.15%
SBI	8.55%	8.55%	8.45%	-0.10%	-0.10%
Bank of Baroda	8.65%	8.65%	8.70%	0.05%	0.05%
Bank of India	8.70%	8.65%	8.65%	0.00%	-0.05%
Punjab National Bank	8.50%	8.45%	8.45%	0.00%	-0.05%
Canara Bank	8.70%	8.65%	8.70%	0.05%	0.00%
Union Bank	8.70%	8.60%	8.60%	0.00%	-0.10%
Federal	9.20%	9.20%	9.15%	-0.05%	-0.05%
South Indian Bank	9.45%	9.45%	9.50%	0.05%	0.05%
J&K Bank	9.00%	9.00%	8.85%	-0.15%	-0.15%

Source: Company, PL

Exhibit 17: MCLRs reduced by most banks across tenors in last quarter



Source: Company, PL

Exhibit 18: Q1FY20 Result Review

Company Name		Q1FY20E	Q1FY19	YoY Chg.	Q4FY19	QoQ Chg.	Remark
HDFC	NII (Rs mn)	34,622	31,611	9.5	28,830	20.1	While QoQ earnings stand tad moderate, YoY, PAT is expected to clock 21% YoY growth primarily led by steady market share gains and stable asset quality.
	PPOP (Rs mn)	38,955	37,679	3.4	30,897	26.1	
	Provisions (Rs mn)	3,751	3,980	(5.8)	197	1,804.0	
	PAT (Rs mn)	26,403	25,406	3.9	21,900	20.6	We expect 15% loan growth as corporate book consolidates.
	Loans (Rs bn)	4,269	4,066	5.0	3,720	14.8	
	Margin (%)	*2.98*	*2.85*	*13*	*3.30*	*(32)*	Improving spreads to help maintain NIMs closer to 3% levels despite sustenance of heavy liquidity on balance sheet
	GNPA (%)	*1.12*	*1.17*	*(6)*	*1.18*	*(6)*	
	Credit Cost (%)	*0.35*	*0.39*	*(4)*	*0.02*	*33*	
CIFC	NII (Rs mn)	10,003	8,987	11.3	9,416	6.2	Continued CV slowdown escalated by weak dealer profile and delayed monsoons will continue to have rub-on effect and hence we estimate 2% QoQ growth in AUMs, but will clock 22% YoY growth for Q1FY20.
	PPOP (Rs mn)	6,054	5,169	17.1	6,601	(8.3)	
	Provisions (Rs mn)	595	556	7.1	983	(39.4)	
	PAT (Rs mn)	3,712	2,919	27.2	4,084	(9.1)	Lower NPAs and steady credit costs QoQ at 42bps would aid PAT traction. YoY PAT looks sombre and may not prove a right comparison as it comes from a higher base.
	Loans (Rs bn)	554	543	2.0	453	22.1	
	Margin (%)	*7.01*	*6.87*	*14*	*7.36*	*(36)*	
	GNPA (%)	*2.25*	*2.3*	*(5)*	*3.10*	*(85)*	Sequential NIMs to remain steady as costs should report sequential decline with yields holding up as higher yielding assets share increase
	Credit Cost (%)	*0.43*	*0.41*	*2*	*0.87*	*(44)*	
LICHF	NII (Rs mn)	12,887	12,225	5.4	10,025	28.5	Growth should be maintained for LICHF at 16% YoY, however, sequentially looks tepid.
	PPOP (Rs mn)	11,445	10,894	5.1	9,492	20.6	
	Provisions (Rs mn)	1,952	1,032	89.3	1,608	21.4	
	PAT (Rs mn)	6,645	6,936	(4.2)	5,679	17.0	Sequential NIMs expected to remain steady with little scope ahead for improvement with negligible scope to tinker with lending rates
	Loans (Rs bn)	1,952	1,946	0.3	1,687	15.8	
	Margin (%)	*2.54*	*2.54*	*-*	*2.34*	*20*	
	GNPA (%)	*1.55*	*1.53*	*2*	*1.21*	*34*	Expect tad higher GNPAs this quarter on QoQ basis.
	Credit Cost (%)	*0.40*	*0.21*	*19*	*0.38*	*2*	
LTFH	NII (Rs mn)	16,042	14,717	9.0	15,746	1.9	Steady loan growth momentum should aid NII movement, however, higher provisions on account of concerned developer exposure will keep earnings in check
	PPOP (Rs mn)	10,172	9,009	12.9	11,405	(10.8)	
	Provisions (Rs mn)	2,232	1,516	47.2	1,465	52.3	
	PAT (Rs mn)	5,876	5,177	13.5	8,046	(27.0)	We expect higher credit costs for the quarter and believe the existing macro prudential provisions may prove insufficient against any critical account impacting earnings
	Loans (Rs bn)	1,016	991	2.5	865	17.4	
	Margin (%)	*6.39*	*6.07*	*32*	*7.33*	*(93)*	
	GNPA (%)	*6.20*	*5.90*	*30*	*7.93*	*(173)*	NIMs+fees should stay high at 6.4% in-line with incremental retaliation of balance sheet
	Credit Cost (%)	*0.88*	*0.61*	*27*	*0.68*	*20*	
MMFS	NII (Rs mn)	14,321	13,109	9.3	10,771	33.0	Expect 16% YoY loan growth for MMFS
	PPOP (Rs mn)	8,869	7,803	13.7	7,061	25.6	Coming from a higher base while QoQ PAT should look down, YoY MMFS should report 56%+ growth in PAT led by steady rural growth and higher yielding multi product strategy focused lending model.
	Provisions (Rs mn)	2,573	(1,145)	(324.8)	2,938	(12.5)	
	PAT (Rs mn)	4,155	5,880	(29.3)	2,691	54.4	
	Loans (Rs bn)	686	613	12.0	587	16.8	
	Margin (%)	*8.82*	*8.78*	*5*	*8.03*	*79*	
	GNPA (%)	*6.30*	*5.90*	*40*	*9.74*	*(344)*	Q1 may see tad spike in GNPAs given the auto slowdown and dealer business challenges
	Credit Cost (%)	*1.50*	*(0.75)*	*225*	*2.00*	*(50)*	
SHTF	NII (Rs mn)	20,220	19,313	4.7	18,220	11.0	Better than Q4FY19, SHTF should witness improved AUM traction at 13% YoY growth in Q1FY20 led by better disbursements
	PPOP (Rs mn)	15,804	15,120	4.5	14,057	12.4	
	Provisions (Rs mn)	5,754	5,398	6.6	5,227	10.1	
	PAT (Rs mn)	7,019	7,460	(5.9)	5,729	22.5	NIMs are expected to stay steady at 7.4% as funding costs pressures get allayed relatively.
	Loans (Rs bn)	1,137	1,045	8.8	1,005	13.1	
	Margin (%)	*7.41*	*7.42*	*(0)*	*7.41*	*1*	Credit costs are expected to remain flat QoQ, GNPA should stay at 8% levels given the rub-on effect of the current underlying tough macros
	GNPA (%)	*8.00*	*8.29*	*(29)*	*8.98*	*(98)*	
	Credit Cost (%)	*2.02*	*2.07*	*(4)*	*2.08*	*(5)*	

Source: Company, PL

Information Technology

Apr-Jun'19 Earnings Preview

July 4, 2019

Top Picks

Tata Consultancy Services

L&T Technology Services

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We expect Q1FY20E to be a mixed quarter for Indian IT services with TCS & Infosys likely to post steady revenue growth in tier-1 & Hexaware, Mphasis, LTTS to post steady revenue growth in tier-2 IT services under our coverage universe. We expect revenue growth in CC between -0.7%-3.2% QoQ for Tier-1 IT companies. We expect TCS to deliver 3.2% QoQ CC broad-based growth across verticals & geographies. We expect Infosys to deliver steady growth of 2.5% QoQ CC with ~146 bps QoQ decline in margins led by wage hike, H-1B visa costs & INR appreciation.

We downgrade Tech M from Accumulate to Hold as we believe FY20E growth prospects for Tech M are not looking exciting due to 1) Delayed spending in 5G due to global trade wars, 2) Slowdown in enterprise business, 3) Margins at peak levels. We downgrade Wipro from Hold to Reduce as we believe Wipro will continue to underperform its peers on revenue growth at 4.3-6% for FY20-21 vs peers of 8-14%. This, along with the uncertainty on revenue growth justifies the discount to its 5-year mean, only capital allocation strategy was supporting premium multiples. While Q1 is a seasonally strong quarter for IT services, we can observe pressure on YoY revenue momentum & there are headwinds on margins such as 1) Higher onsite costs, 2) Investments in digital, 3) Rupee advantage is weakening. We have already mentioned in detail in our IT services sector report (Clouded visibility, Tread cautiously) about the headwinds of IT sector in FY20E/21E. We continue to prefer only TCS as our top pick in tier-1 & LTTS in tier-2 IT services.

- **Mixed growth from tier-1 IT pack**: We expect constant currency growth of 3.2%, 2.5%, 1.6%, 1.5% & -0.7% for TCS, Infosys, Wipro, HCLT & Tech M respectively. We expect Tech M USD revenues to decline by 1% QoQ & CC revenues to decline by -0.7% QoQ due to weakness in communication segment. We expect Infosys to post CC revenue growth of 2.5% & cross currency headwind of 40bps, revenue growth will also be aided by Starter N.V deal. In HCLT, revenue from the IBM deal to accrue only 2Q onwards. We note that for Wipro revenue growth will be lower on reported basis due to divestment of Workday business that impacted revenues by US$9mn.

- **Muted growth for Tier-II IT companies:** In tier-II IT companies – Hexaware, Mphasis & LTTS are expected to deliver steady revenue growth whereas LTI Cyient, MTCL may post flat revenue growth. In LTI, growth momentum is impacted by one of its big client in BFS vertical based in US capital markets. We expect MTCL to post weak deal wins and soft TCV as uncertainty arising from LTI deal will delay client decisions.

- **Pressure on margins across the pack:** Wage hike, visa costs & INR appreciation to erode margins across our coverage. Amongst large caps, we expect Infosys, Tech M & HCLT margins to erode by 146bps, 256bps & 151bps QoQ respectively. Transition costs of large deals won in past 3-4 quarters may continue to put pressure on margins of Infosys, HCLT & Tech M. We expect companies to guide cautiously on FY20E margins.

- **Outlook on FY20 spending critical, guidance unlikely to change**: We believe that growth in Tech spends in BFS clients in US & European geography will be muted as compared to last year due to trade war concerns, uncertainty on central bank policy & interest rates, Brexit related uncertainty etc. Accenture bookings & ISG contracting data also indicated weakness in deals. Infosys and HCLT provided FY2020E revenue growth guidance of 7.5-9.5% and 14-16%, respectively. Both companies cut FY2020E EBIT margin guidance band by 100 bps each. We expect both of them to retain guidance. We believe TCS will be comfortable in reaching double digit revenue growth for FY20E (FY20E: 10.6% USD revs growth YoY)

Exhibit 1: Currency Movements

	USD/INR	GBP/INR	EUR/INR	EUR/USD	GBP/USD	AUD/USD	JPY/USD
Average Q1FY20	69.6	89.4	78.2	1.1	1.3	0.7	0.0
Average Q4FY19	70.5	91.7	80.1	1.1	1.3	0.7	0.0
Change (%)	1.3	2.6	2.5	1.1	1.3	1.8	(0.2)

Source: Bloomberg, PL

Exhibit 2: Model Sheet

Company Name	Market Cap (INR Bn)	Rating	TP (Rs)	Target Multiple	USD Revenue Growth CAGR (FY19E-21E)	EPS Growth CAGR (FY19E-21E)
Tier 1 Companies						
TCS	8,409.9	BUY	2,291	22.5x	10.6%	10.7%
Infosys	3,190.3	Acc	782	18.5x	8.8%	9.2%
Wipro	1,704.8	Reduce	242	14.5x	4.9%	8.2%
HCL Tech	1,431.3	BUY	1,186	14x	11.7%	7.0%
Tech M	621.2	Hold	690	13x	5.9%	4.7%
Tier 2 Companies						
LTI	284.8	BUY	1,947	18x	13.1%	11.7%
Mindtree	147.6	Reduce	817	15x	10.1%	9.0%
NIIT Tech	82.7	BUY	1539	17x	13.3%	16.0%
Persistent	49.1	HOLD	621	11x	6.3%	13.3%
LTTS	176.6	Acc	1,835	21x	15.0%	9.5%
Cyient	60.7	Acc	621	13x	8.0%	4.3%
Mphasis	192.2	Acc	1111	15x	11.6%	12.0%
Hexaware	110.9	Reduce	339	14x	18.2%	11.4%
Zensar	57.8	Acc	260	13x	13.5%	22.3%

Source: Company, PL

Exhibit 3: Change in Estimates

Company Name	USD Revenues		EBIT Margin		EPS	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
TCS	-0.3%	0.0%	-26 bps	0 bps	-1.2%	0.0%
Infosys	0.2%	0.2%	-124 bps	0 bps	-5.5%	-0.2%
Wipro	-1.5%	-1.6%	-1 bps	-1 bps	-1.7%	-1.4%
HCL Tech	-0.3%	-0.3%	-48 bps	0 bps	-2.4%	-0.3%
Tech M	-2.2%	-2.0%	-67 bps	-63 bps	-6.3%	-5.7%
Mindtree	-1.2%	-1.2%	-123 bps	-65 bps	-10.4%	-6.2%
Mphasis	0.0%	0.0%	-31 bps	0 bps	-6.3%	-0.1%
Hexaware	-0.7%	-0.9%	0 bps	0 bps	-0.7%	-0.9%
NIIT Tech	-2.0%	-1.9%	35bps	0 bps	-4.0%	-1.8%
LTTS	0.0%	0.0%	19 bps	0 bps	1.0%	0.0%
LTI	-1.9%	-1.9%	-47 bps	0 bps	-4.1%	-1.7%
Persistent	0.6%	0.6%	-37 bps	0 bps	-2.1%	0.7%
Cyient	-1.5%	-0.8%	-5 bps	3 bps	-2.2%	-0.9%
Zensar	0.0%	0.0%	24 bps	0 bps	2.4%	0.0%

Source: PL

Exhibit 4: Q1FY20 Result Preview

Company	Q1FY20E	Q4FY19	Q1FY19	*QoQ gr.*	*YoY gr.*	Comments
Tata Consultancy Services						
Revenues (US$mn)	5,541	5,397	5,051	*2.7%*	*9.7%*	We expect CC revenue growth of 3.2% & cross currency headwinds of 50bps. We expect TCS to post broad based revenue growth & expect strong deal momentum to continue. We expect EBIT margins to decline by ~90bps on account of wage hike, INR appreciation & visa cost. We will keep a watch on management commentary of BFSI vertical , outcome of budgeting cycle, growth outlook for US & European geography, progress on platform strategy.
Revenues	385,132	380,100	342,610	*1.3%*	*12.4%*	
EBITDA	99,287	100,730	90,710	*-1.4%*	*9.5%*	
EBITDA margin (%)	25.8%	26.5%	26.5%	*-72 bps*	*-70 bps*	
EBIT margin (%)	24.2%	25.1%	25.0%	*-88 bps*	*-82 bps*	
Adjusted net profit	77,462	81,260	73,400	*-4.7%*	*5.5%*	
EPS	20.7	21.7	19.2	*-4.7%*	*7.7%*	
Infosys						
Revenues (US$mn)	3,124	3,060	2,831	*2.1%*	*10.3%*	We expect CC revenue growth of 2.5% & cross currency headwind of 40bps, revenue growth will also be aided by Starter N.V deal. We expect EBIT margin to decline by ~146 bps to 20% due to wage revision of ~80% of employees, rupee appreciation impact, higher H-1 B visa applications. We expect FY20E EBIT margins for Infosys at lower band of ~21.5%. We expect investor to focus on BFSI revenue growth momentum, commentary on demand acceleration, talent strategy in US & attrition rate.
Revenues	217,300	215,390	191,280	*0.9%*	*13.6%*	
EBITDA	47,806	51,490	49,730	*-7.2%*	*-3.9%*	
EBITDA margin (%)	22.0%	23.9%	26.0%	*-191 bps*	*-400 bps*	
EBIT margin (%)	20.0%	21.4%	23.7%	*-146 bps*	*-374 bps*	
Adjusted net profit	34,271	40,740	36,120	*-15.9%*	*-5.1%*	
EPS	7.9	9.4	8.3	*-15.9%*	*-5.2%*	
HCL Technologies						
Revenues (US$mn)	2,304	2,278	2,055	*1.1%*	*12.1%*	We expect CC revenue growth of 1.5% & cross currency headwinds of 40bps. There is a delay in closure of acquisition of select IBM products by a month. (expected date of end was May 2019) so revenue from IBM deal will be recognized in next quarter. Management had expected organic revenue growth to be back-ended in FY20. We expect HCLT margins to decline by ~150bps QoQ on accounts of investments done in digital, people, infrastructure & systems. We expect the company to retain 14-16% revenue growth guidance despite delay in the acquisition by a month. We also expect the company to retain organic revenue growth guidance of 7-9% and EBIT margin guidance of 18.5-19.5%.
Revenues	160,123	159,900	138,780	*0.1%*	*15.4%*	
EBITDA	35,227	35,970	32,260	*-2.1%*	*9.2%*	
EBITDA margin (%)	22.0%	22.5%	23.2%	*-50 bps*	*-125 bps*	
EBIT margin (%)	17.5%	19.0%	19.7%	*-151 bps*	*-217 bps*	
Adjusted net profit	23,085	25,680	30,260	*-10.1%*	*-23.7%*	
EPS	17.0	18.9	17.3	*-10.1%*	*-1.4%*	

Company	Q1FY20E	Q4FY19	Q1FY19	*QoQ gr.*	*YoY gr.*	Comments
Wipro						We expect CC revenue growth of 0.4% & cross currency headwinds of 60bps. Wipro has guided -1%- +1% growth for Q1FY20E. We expect EBIT margin to fall ~110 bps on account of wage hike, visa cost & rupee appreciation. We expect Wipro to guide revenue growth of 0.5%-2.5% for Q2FY20E. We expect investor to focus on sustainability of margins & performance of its key verticals.
IT Revenue (US$ m)	2,055	2,076	1,989	*-1.0%*	*3.3%*	
Revenues	146,393	150,063	139,777	*-2.4%*	*4.7%*	
EBITDA	29,015	32,929	24,949	*-11.9%*	*16.3%*	
EBITDA margin (%)	19.8%	21.9%	17.8%	*-212 bps*	*197 bps*	
EBIT	23,220	25,458	20,006	*-8.8%*	*16.1%*	
EBIT margin (%)	15.9%	17.0%	14.3%	*-110 bps*	*155 bps*	
Adjusted net profit	20,891	24,833	21,206	*-15.9%*	*-1.5%*	
EPS	3.7	4.1	3.5	*-11.2%*	*3.9%*	
Tech Mahindra						We expect Tech M USD revenues to decline by 1% QoQ & CC revenues to decline by -0.7% QoQ. We have built revenue decline of 3.5% QoQ USD in communication segment due to Comviva seasonality & flat growth 0.7% QoQ USD in enterprise vertical. We expect EBITDA margin to fall by 260bps QoQ to 15.8% due to 1) Wage hike (impact of ~100bps QoQ), 2) Visa Cost (~40bps), 3) Comviva seasonality (impact of ~100bps QoQ), 4) INR appreciation, 5) large deal transition cost. We expect EBIT margins of 14.3% for FY20E decline of 67bps YoY. We expect investor to focus on large deal momentum, impact of trade war on communication business, enterprise revenue growth momentum.
Revenues (US$mn)	1,255	1,268	1,224	*-1.0%*	*2.5%*	
Revenues	87,217	88,923	82,763	*-1.9%*	*5.4%*	
EBITDA	13,802	16,387	13,569	*-15.8%*	*1.7%*	
EBITDA margin (%)	15.8%	18.4%	16.4%	*-260 bps*	*-57 bps*	
EBIT margin (%)	12.8%	15.4%	13.0%	*-256 bps*	*-18 bps*	
Adjusted net profit	9,406	11,325	8,979	*-16.9%*	*4.8%*	
EPS	10.6	12.7	10	*-16.9%*	*4.8%*	
Mindtree						We expect flat growth of 1% QoQ USD (1.2% QoQ CC)from MTCL on account from pressure from top client & disturbance from LTI's bid. We expect EBIT margins to decline ~150bps QoQ, due to the impact of wage hikes, visa costs and INR appreciation. We expect weak deal wins and soft TCV as uncertainty arising from LTI deal will delay client decisions. We expect investor to focus on growth outlook from top clients, management changes due to LTI acquisition , clarity over integration of verticals & business.
Revenues (US$mn)	265	262	242	*1.0%*	*9.5%*	
Revenues	18,402	18,394	16,395	*0.0%*	*12.2%*	
EBITDA	2,508	2,803	2,310	*-10.5%*	*8.6%*	
EBITDA margin (%)	13.6%	15.2%	14.1%	*-161 bps*	*-46 bps*	
EBIT margin (%)	11.4%	12.9%	11.6%	*-149 bps*	*-23 bps*	
Adjusted net profit	1,657	1,984	1,582	*-16.5%*	*4.8%*	
EPS	10.1	12.1	9.6	*-16.4%*	*4.7%*	
Mphasis						We expect CC revenue growth of 3.2% & cross currency tailwind of 30bps. We expect revenue growth will be driven by strong 4Q exit growth & DXC channel. We expect a marginal decline in margins by ~22bps QoQ led by wage hike and INR appreciation. We expect hedge gains will be a material margin lever from Q2FY20 . We expect investor to focus on BFS vertical outlook, growth outlook for DXC/HP channel, TCV of deal wins.
Revenues (US$mn)	300	292	*269*	*2.9%*	*11.7%*	
Revenues	21,158	20,250	*18,202*	*4.5%*	*16.2%*	
EBITDA	3,602	3,404	*3,221*	*5.8%*	*11.8%*	
EBITDA margin (%)	17.0%	16.8%	*17.7%*	*22 bps*	*-67 bps*	
EBIT margin (%)	15.6%	15.8%	*16.7%*	*-22 bps*	*-111 bps*	
Adjusted net profit	2,681	2,662	*2,603*	*0.7%*	*3.0%*	
EPS	13.7	13.8	*13.2*	*-0.5%*	*3.5%*	
Hexaware Technologies						We expect HEX to post organic growth of 3% QoQ USD & including Mobiquity growth of 4.9% QoQ USD. We expect Mobiquity to contribute US$ 3.4mn in HEX revenues. We expect HEX to post CC growth of 5.1% QoQ with cross currency headwinds of 20bps. We expect EBIT margins to decline by ~28bps on account of visa costs & INR appreciation. We expect investor to focus on TCV of new deal wins, integration of Mobiquity, BFS vertical outlook, top client growth , higher attrition.
Revenues (US$mn)	189	180	*162*	*4.9%*	*16.4%*	
Revenues	13,310	12,640	*10,490*	*5.3%*	*26.9%*	
EBITDA	2,063	1,930	*1,719*	*6.9%*	*20.0%*	
EBITDA margin (%)	15.5%	15.3%	*16.4%*	*23 bps*	*-89 bps*	
EBIT margin (%)	13.5%	13.8%	*14.1%*	*-28 bps*	*-59 bps*	
Adjusted net profit	1,443	1,385	*1,343*	*4.2%*	*7.4%*	
EPS	4.8	4.6	*4.5*	*4.2%*	*6.6%*	
Larsen & Toubro Infotech						We expect flat revenue growth of 1% QoQ USD (1.2% CC QoQ) growth & cross currency headwind of ~20bps. We expect organic growth ~0.5% QoQ USD. Revenue growth is likely to be impacted mainly due to 1) pressure on top client in BFS based in US , 2) June is a seasonally weak quarter. We expect ~217bps decline in EBIT margins mainly due to 1) ~100 bps impact from H1B visa cost, 2) ~90 bps impact from investment in sales, 3) ~20-30 bps impact from INR appreciation. Margins will remain soft in Q2 also as its a wage hike quarter. We expect recovery in 2HFY20. We expect investor to focus on growth outlook of large client in BFS based in US, large deal momentum, implications of LTI-MTCL deal & demand environment in BFS in US.
Revenues (US$mn)	357	354	*309*	*1.0%*	*15.6%*	
Revenues	25,192	24,860	*20,012*	*1.3%*	*25.9%*	
EBITDA	4,283	4,283	*3,536*	*0.0%*	*21.1%*	
EBITDA margin (%)	17.0%	19.2%	*17.7%*	*-217 bps*	*-67 bps*	
EBIT margin (%)	15.5%	17.7%	*15.9%*	*-217 bps*	*-37 bps*	
Adjusted net profit	3,451	3,787	*2,893*	*-8.9%*	*19.3%*	
EPS	19.7	21.7	*16.5*	*-9.4%*	*19.2%*	

Company	Q1FY20E	Q4FY19	Q1FY19	*QoQ gr.*	*YoY gr.*	Comments
NIIT Technologies						
Revenues (US$mn)	139	138	*125*	*0.9%*	*11.5%*	
Revenues	9,823	9,722	*8,249*	*1.0%*	*19.1%*	
EBITDA	1,621	1,707	*1,307*	*-5.0%*	*24.0%*	We expect USD revenue growth of 0.9% in Q1FY20E. We expect order intake to be at US$150mn.Organic growth will be led by insurance & travel vertical , BFS expected to remain tepid.
EBITDA margin (%)	16.5%	17.6%	*15.8%*	*-106 bps*	*66 bps*	
EBIT margin (%)	14.5%	14.9%	*14.6%*	*-40 bps*	*-10 bps*	
Adjusted net profit	1,070	1,100	*904*	*-2.7%*	*18.4%*	
EPS	16.8	17.2	*13.9*	*-2.3%*	*20.9%*	
L&T Technology Services						
Revenues (US$mn)	197	191	*169*	*3.0%*	*16.7%*	
Revenues	13,891	13,431	*11,522*	*3.4%*	*20.6%*	
EBITDA	2,542	2,492	*1,961*	*2.0%*	*29.6%*	We expect USD revenues to increase by 3% QoQ despite the ~2.6% revenue impact from client specific ramp-down in the hi-tech vertical. We expect CC revenue growth of 3.3% with cross currency headwinds of 30 bps. We expect EBIT margin to decline by 25bps due to wage hike and INR appreciation.
EBITDA margin (%)	18.3%	18.6%	*17.0%*	*-25 bps*	*128 bps*	
EBIT margin (%)	16.3%	16.5%	*14.8%*	*-25 bps*	*150 bps*	
Adjusted net profit	2,038	1,924	*1,981*	*5.9%*	*2.9%*	
EPS	19.2	18.1	*18.7*	*6.1%*	*2.7%*	
Cyient						
Revenues (US$mn)	166	165	*161*	*0.8%*	*3.5%*	
Revenues	11,569	12,438	*12,547*	*-7.0%*	*-7.8%*	
EBITDA	1,631	1,751	*1,316*	*-6.8%*	*24.0%*	We expect just 0.8% USD QoQ growth from Cyient due to delays in deal ramp-ups in A&D & communication segments. We expect EBIT margin to decline ~91bps QoQ on account of wage hike, INR appreciation, investment in business.
EBITDA margin (%)	14.1%	15.1%	*12.2%*	*-96 bps*	*191 bps*	
EBIT margin (%)	11.9%	12.8%	*9.5%*	*-91 bps*	*235 bps*	
Adjusted net profit	1,185	1,769	*825*	*-34.4%*	*42.3%*	
EPS	10.5	15.7	*7.3*	*-33.0%*	*43.7%*	
Persistent Systems						
Revenues (US$mn)	122	118	*124*	*3.2%*	*-1.3%*	
Revenues	8,482	8,319	*8,342*	*2.0%*	*1.7%*	
EBITDA	1,442	1,266	*1,401*	*13.9%*	*2.9%*	We expect PSYS' to post 3.2% QoQ USD revenue growth which will be mainly led by IP led business due to IBM seasonality. EBITDA margin in Q4FY19 adjusted for the Rs183mn provision related to IL&FS was 17.4%. We expect headwinds from wage hike, INR appreciation, visa cost on margins. We expect investors to focus on new CEO progress on outlined strategy.
EBITDA margin (%)	17.0%	15.2%	*16.8%*	*179 bps*	*21 bps*	
EBIT margin (%)	12.2%	10.7%	*12.0%*	*152 bps*	*21 bps*	
Adjusted net profit	908	845	*874*	*7.4%*	*3.9%*	
EPS	11.3	10.6	*10.9*	*7.4%*	*3.9%*	
Zensar Technologies						
Revenues (US$mn)	155	150	*135*	*3.0%*	*14.5%*	
Revenues	10,755	10,625	*9,116*	*1.2%*	*18.0%*	
EBITDA	1,291	1,321	*1,233*	*-2.3%*	*4.7%*	We expect Zensar to post USD revenue growth of 3% QoQ and 14.5% YoY. We expect margins to decline ~43bps on account of wage hike, onsite salary, visa cost & large deal transition cost.
EBITDA margin (%)	12.0%	12.4%	*13.5%*	*-43 bps*	*-152 bps*	
EBIT margin (%)	10.0%	10.1%	*11.5%*	*-7 bps*	*-150 bps*	
Adjusted net profit	791	829	*822*	*-4.6%*	*-3.8%*	
EPS	3.6	3.7	*3.7*	*-2.9%*	*-2.7%*	
Sonata Software						
Revenues (US$mn)	45	44	*38*	*3.0%*	*18.5%*	
Revenues	8,793	8,356	*6,883*	*5.2%*	*27.7%*	
EBITDA	1,001	884	*733*	*13.3%*	*36.5%*	
EBITDA margin (%)	11.4%	10.6%	*10.7%*	*81 bps*	*73 bps*	We expect 3% USD revenue growth in Sonata.
Adjusted net profit	731	654	*574*	*11.8%*	*27.3%*	
EPS	7.0	6.3	*5.6*	*11.8%*	*26.7%*	
TeamLease Services						
Revenues (Rs)	12,223	11,634	*10,213*	*5.1%*	*19.7%*	
EBITDA	281	257	*202*	*9.3%*	*39.3%*	
EBITDA margin (%)	2.3%	2.2%	*2.0%*	*9 bps*	*32 bps*	We expect margins to improve by ~10bps during the quarter.
Adjusted net profit	265	260	*218*	*1.9%*	*0 bps*	
EPS	15.5	15.2	*12.8*	*1.9%*	*21.6%*	

Company	Q1FY20E	Q4FY19	Q1FY19	*QoQ gr.*	*YoY gr.*	Comments
Redington (India)						
Revenues (US$mn)	1,068	1,115	*980*	*-4.2%*	*9.0%*	
Revenues	123,584	125,827	*102,140*	*-1.8%*	*21.0%*	
EBITDA	1,940	2554	*1663*	*-24.1%*	*16.6%*	
EBITDA margin (%)	1.6%	2.0%	*1.6%*	*-46 bps*	*-6 bps*	We expect Redington revenues at Rs123.6bn up 21% YoY. We expect consolidated EBIDTA margin at 1.6% down ~40bps QoQ.
EBIT margin (%)	1.4%	1.9%	*1.5%*	*-48 bps*	*-5 bps*	
Adjusted net profit	1,097	1,689	*850*	*-35.1%*	*29.1%*	
EPS	2.8	4.3	*2.2*	*-35.1%*	*29.1%*	

Source: Company, PL

Exhibit 5: Valuation Summary

Company Names	Rating	CMP (Rs)	TP (Rs)	Sales (Rs bn)				EBITDA (Rs bn)				PAT (Rs bn)				EPS (Rs)				RoE (%)				PE (x)			
				FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E
Cyient	Acc	539	621	39.2	46.2	49.4	54.6	5.5	6.4	6.9	7.9	4.1	4.9	5.1	5.3	36.3	43.5	44.9	47.3	18.3	19.7	18.2	17.3	14.8	12.4	12.0	11.4
HCL Technologies	BUY	1,041	1,186	505.7	604.3	698.4	764.4	114.4	139.7	155.6	172.0	87.8	101.2	103.4	114.2	62.7	73.6	76.2	84.2	25.0	25.8	22.4	20.6	16.6	14.1	13.7	12.4
Hexaware Technologies	Hold	373	339	39.4	46.5	56.3	67.2	6.9	7.7	8.8	10.4	5.0	5.8	6.2	7.3	16.8	19.6	20.8	24.4	26.6	26.5	24.1	24.5	22.2	19.0	17.9	15.3
Infosys	Acc	734	782	705.2	826.8	902.3	991.4	190.1	208.9	212.2	246.4	146.0	154.1	154.0	183.8	33.6	35.4	35.4	42.3	21.8	23.7	24.2	29.6	21.9	20.7	20.7	17.4
Larsen & Toubro Infotech	BUY	1,656	1,947	73.2	94.4	106.2	122.6	12.6	18.8	19.7	23.9	11.8	15.1	15.5	18.9	68.4	87.8	90.2	110.2	33.6	34.9	29.5	30.0	24.2	18.9	18.4	15.0
L&T Technology Services	Acc	1,698	1,835	37.5	50.8	58.6	67.9	5.8	9.2	10.9	12.9	5.1	7.7	8.5	9.2	49.5	73.7	81.4	88.8	29.6	34.7	31.0	28.3	34.3	23.0	20.9	19.1
Mphasis	Acc	994	1,111	65.5	77.3	89.0	100.1	10.6	13.2	15.8	17.9	8.5	10.7	11.9	13.8	43.3	55.4	63.8	74.0	14.6	20.0	21.1	21.2	23.0	17.9	15.6	13.4
Mindtree	Reduce	899	817	54.6	70.2	77.2	86.3	7.4	10.6	10.9	12.8	5.7	7.5	7.5	9.0	34.4	45.9	45.6	54.6	21.4	24.9	20.8	21.0	26.1	19.6	19.7	16.5
NIIT Technologies	BUY	1,338	1,539	29.9	36.8	41.6	48.3	5.0	6.5	7.3	8.7	2.8	4.1	4.7	5.4	45.6	67.1	75.3	87.7	16.2	21.5	21.0	21.5	29.4	20.0	17.8	15.3
Persistent Systems	Hold	621	621	30.3	33.7	35.4	38.6	4.7	5.8	6.1	6.9	3.2	3.5	3.9	4.5	40.4	44.5	49.8	57.1	16.0	15.7	15.9	16.3	15.4	14.0	12.5	10.9
Redington (India)	BUY	107	114	434.6	465.4	526.6	576.8	8.2	9.0	9.1	10.4	4.8	5.6	5.4	6.3	11.9	14.3	13.8	16.2	14.3	14.9	13.1	13.9	9.0	7.5	7.8	6.6
Sonata Software	Acc	352	400	24.5	29.6	37.5	40.6	2.3	3.4	4.2	4.6	1.9	2.5	3.0	3.3	18.5	24.0	29.3	32.0	30.9	35.4	37.4	35.3	19.0	14.7	12.0	11.0
TCS	BUY	2,243	2,291	1,231.0	1,464.6	1,624.5	1,815.7	325.2	395.1	441.2	495.9	258.3	314.7	346.4	386.0	67.1	83.0	91.4	101.8	29.8	36.1	35.9	34.3	33.4	27.0	24.5	22.0
TeamLease Services	HOLD	3,079	3,203	36.2	44.5	53.5	62.0	0.7	0.9	1.3	1.5	0.7	1.0	1.2	1.5	43.1	57.6	72.7	89.2	18.3	20.1	20.7	20.6	71.4	53.5	42.4	34.5
Tech Mahindra	Hold	701	690	307.7	347.4	363.6	395.9	47.2	63.4	63.3	70.3	38.0	43.6	43.1	47.3	43.0	49.2	48.6	53.3	21.5	22.3	19.7	18.6	16.3	14.2	14.4	13.1
Wipro	Reduce	284	242	544.9	585.8	603.6	645.0	103.1	111.8	119.9	128.2	81.2	85.7	87.7	95.0	12.8	14.3	15.4	16.7	16.2	16.3	14.8	14.7	22.1	19.9	18.4	17.0
Zensar Technologies	Acc	257	260	31.1	39.7	45.6	51.8	3.7	4.8	5.9	7.0	2.4	3.0	3.7	4.5	10.8	13.3	16.2	19.8	15.4	16.5	17.5	18.6	23.8	19.4	15.8	12.9

Source: Company, PL

Media

Apr-Jun'19 Earnings Preview

July 4, 2019

Radio space: For our coverage universe, we expect top-line growth to be subdued (both inventory utilization & pricing are expected to remain flat) considering advertising environment across BFSI, Auto, Retail, Real-estate and FMCG sectors is muted. Additionally, government's contribution is likely to be below expectations, this quarter.

ENIL's growth is projected to be higher than MBL considering its non-FCT business exposure. Profit growth is expected to show meaningful improvement for ENIL due to low base and incremental contribution from maturing batch 1 stations. However, profit growth for Music Broadcast Ltd is expected to be in single digits.

Exhibit 1: Q1FY20 Result Preview

Company Name		Q1FY20E	Q1FY19	*YoY gr. (%)*	Q4FY19	*QoQ gr. (%)*	Remark
Entertainment Network (India)	Sales	1,335	1,216	*9.8*	1,755	*(23.9)*	The radio business is expected to report flattish growth as advertising environment across sectors like BFSI, auto, retail, real estate and FMCG is muted. However, rising contribution from non-FCT business is expected to drive top-line. Margin dilutive nature of the non-FCT business and losses from batch 2 stations is expected to offset operating leverage benefit from traditional radio business and result in only 50bps EBITDA margin expansion.
	EBITDA	318	284	*12.1*	438	*(27.4)*	
	Margin (%)	*23.8*	*23.3*		*24.9*		
	Adj. PAT	127	92	*37.7*	198	*(35.9)*	
Music Broadcast	Sales	764	757	*1.0*	819	*(6.6)*	Top-line growth is expected to be flattish as advertising environment across sectors like BFSI, auto, retail, real estate and FMCG is muted. In addition, contribution from government has been below expectations. Operating leverage due to fixed cost nature of the business will aid in 100bps EBITDA margin expansion.
	EBITDA	271	261	*3.8*	320	*(15.4)*	
	Margin (%)	*35.4*	*34.4*		*39.0*		
	Adj. PAT	145	135	*7.4*	184	*(21.0)*	

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	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E
Entertainment Network (India)	Acc	424	645	5,371	6,205	6,967	7,890	1,166	1,398	1,749	1,980	352	539	765	896	7.4	11.3	16.1	18.8	4.0	5.8	7.6	8.2	57.5	37.5	26.4	22.5
Music Broadcast	BUY	57	75	2,983	3,247	3,609	3,974	971	1,132	1,278	1,431	517	616	713	831	9.1	2.2	2.6	3.0	8.6	10.2	10.6	11.0	6.2	25.4	21.9	18.8

Source: Company, PL

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

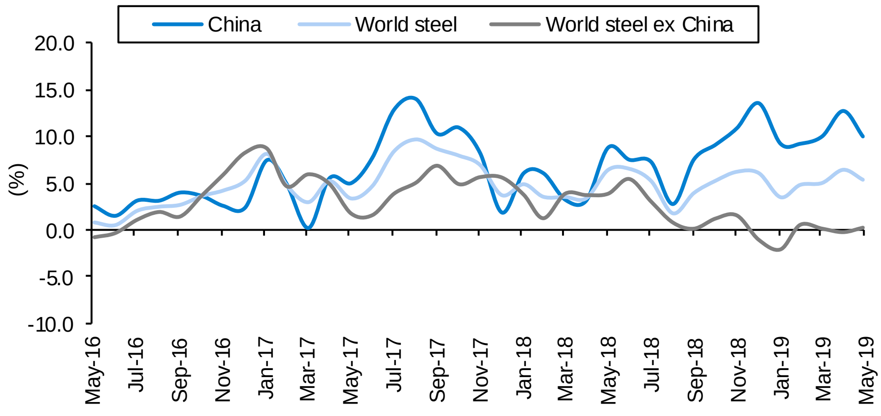
Metals & Mining

Apr-Jun'19 Earnings Preview

July 4, 2019

China resumed back to excess production with record level of output. Chinese steel production grew 11% YoY to 174mn tonnes (t) during Apr-May'19 due to relaxation of restrictions on production cuts by local authorities. World steel production rose 5.9% YoY to 319mn t in during the period. RoW's production remained flat YoY to 138mn t (v/s 1.5% YoY fall in Jan-Feb'19). Production in India rose 3.3% YoY to 18mn t on the back of firm demand and lower imports. South Korea's production grew by 1.8% YoY to 12.4mn t due to increase in domestic demand, partially negated by weakness in exports. EU's production continues to witness de-growth with a fall in production by 3.5% YoY to 28.5mn t due to increased imports, production cuts and sluggish demand. USA's production grew by 6.3% YoY to 15.1mn t, led by increased domestic intensity and reduced imports.

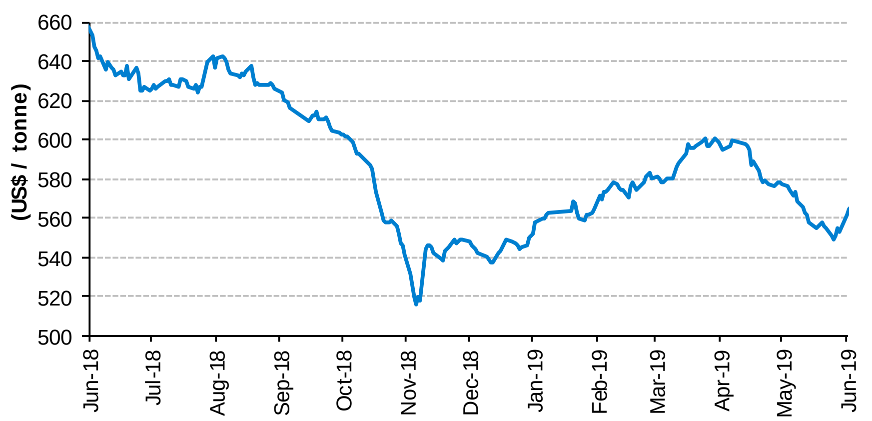
Exhibit 1: Movement in Crude Steel Production



Source: World Steel, PL

Average Chinese steel prices (including 17% VAT) rose by 2.7% QoQ or US$15/t to US$579/t due to high iron ore prices.

Exhibit 2: China HRC Price



Source: Bloomberg, PL

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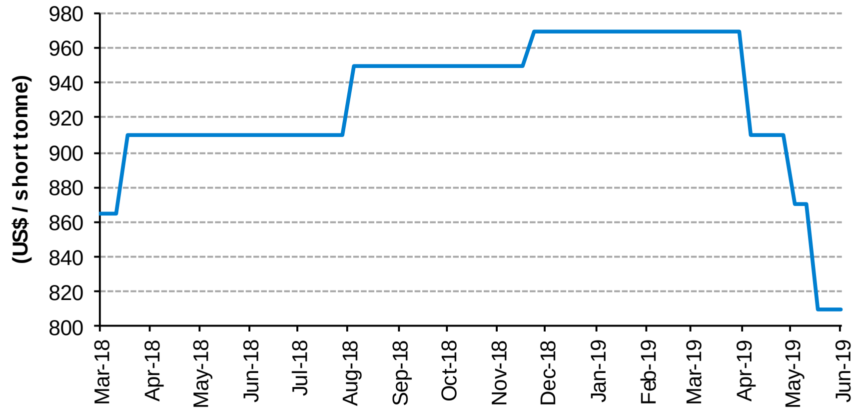
Average HRC prices in North America fell sharply by 7.3% QoQ or US$71/short t to US$900 because of excess production and weak demand.

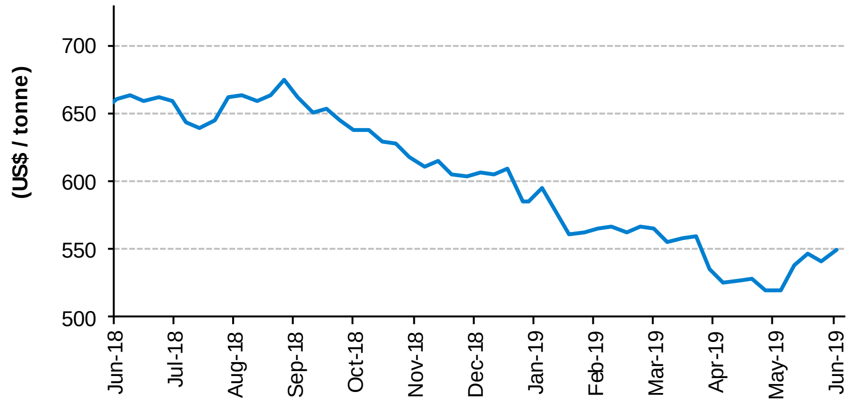
Exhibit 3: North America HRC Price



Source: Bloomberg, PL

Average HRC price in Europe fell further by 6.7% QoQ or US$39/t to US$539/t due to weak demand and increased imports. However, prices started to pick up during Jun'19 due to production cuts by ArcelorMittal.

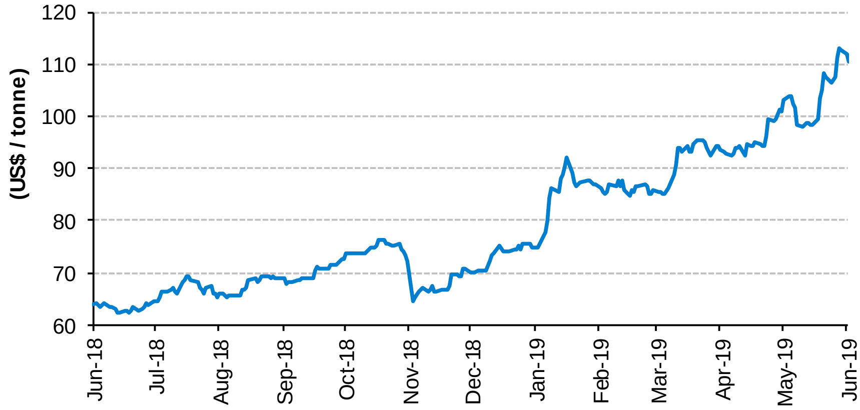
Exhibit 4: Europe HRC Price



Source: Bloomberg, PL

Average spot iron ore prices (CIF China) spiked sharply by 20% QoQ or US$16/t to US$99/t due to supply cuts in Brazil and Australia

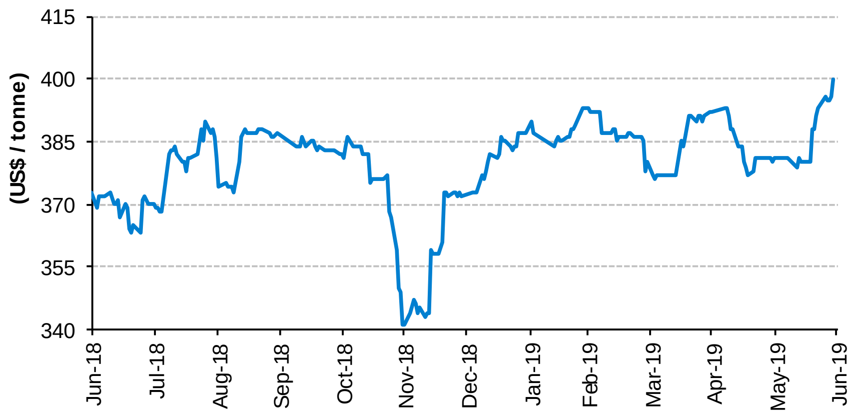
Exhibit 5: Indian origin Iron Ore (62% Fe) Export Prices (CIF) to China



Source: Bloomberg, PL

Average heavy steel scrap prices fell marginally by 0.2% QoQ or US$1/t to US$385/t, led by imposition of import duty by Chinese govt on US scrap leading to increased demand from other markets.

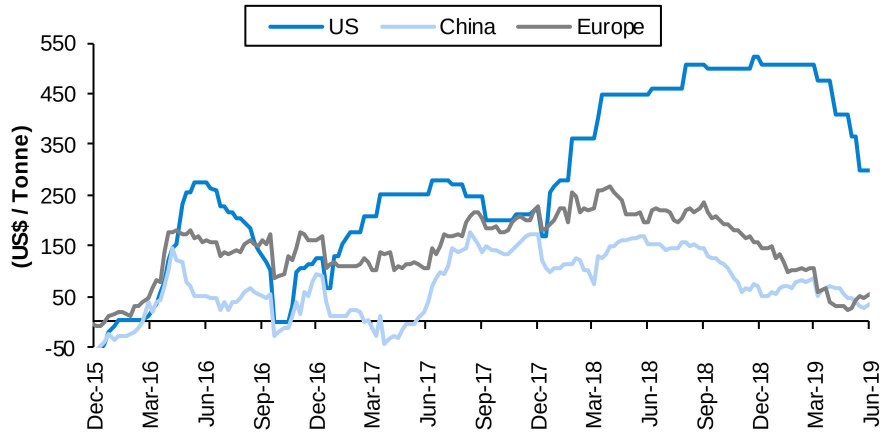
Exhibit 6: China Heavy Steel Scrap Prices



Source: Bloomberg, PL

Spreads in USA come off sharply due to fall in steel prices. 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.

Exhibit 7: Region-wise spreads of Blast furnace producers



Source: Bloomberg, PL

We expect EBITDA of our coverage universe to fall by 16% QoQ/9% YoY due to fall in steel prices (down by Rs300/t QoQ) and weak volumes. Trade disputes between USA and China, weak sentiments and overcapacity would keep earnings highly volatile for the sector. We do expect imposition of some safeguard measures by Govt to support margins of domestic steel industry given the sharp fall in steel prices and sharp cut in exports. Admittedly, these measures would provide boost to earnings for a very short period given the temporary nature of these tools. This would drive short-term rally in steel stocks. However, weak domestic demand, limited life (of around six months) of safeguard measures and volatile global environment would keep the up move under check. We expect short-livid run-up of 10-15% in stocks in reaction to likely introduction of provisional safeguard duty.

Exhibit 8: Q1FY20 Result Preview

Company Name		Q1FY20E	Q1FY19	YoY gr. (%)	Q4FY19	QoQ gr. (%)	Remark
Coal India	Sales	246,627	240,708	2.5	285,463	(13.6)	Coal dispatches are expected to fell 6.2% QoQ to 153.4mn tonnes on the back of higher base. Realisations are expected fall 8.3%/Rs135/t QoQ. Due to lower volume and weak realisations, EBITDA/t is expected to fall 12.2% QoQ to Rs441.
	EBITDA	67,651	56,600	19.5	82,122	(17.6)	
	Margin (%)	*27.4*	*23.5*		*28.8*		
	Adj. PAT	45,601	37,844	20.5	60,268	(24.3)	
	Coal desp. (mn tn)	153.4	153.5	0.0	163.5	(6.2)	
	Real. / tonne (Rs)	1,498	1,460	2.6	1,633	(8.3)	
	EBITDA / tonne (Rs)	441	369	19.6	502	(12.2)	
Hindalco Industries	Sales	109,631	105,932	3.5	123,727	(11.4)	Al production is expected to fall 5% QoQ. Cu production is expected to grow marginally by 0.2% QoQ. Al/Cu LME is expected to grow 0.15%/↓1.7% QoQ. Due to better realisations, Al EBITDA is expected to grow 10.9% QoQ to Rs6.8bn. However, weak realisations in Cu is expected to impact Cu EBITDA by 3.5% QoQ to Rs3.04bn. Total EBITDA is expected to grow 5.7% QoQ to Rs9.5bn.
	EBITDA	9,540	13,253	(28.0)	9,024	5.7	
	Margin (%)	*8.7*	*12.5*		*7.3*		
	Adj. PAT	1,936	4,135	(53.2)	2,358	(17.9)	
	Alum. (Al) prod (t)	305,000	323,000	(5.6)	321,000	(5.0)	
	Copper (Cu) prod (t)	89,187	82,409	8.2	89,000	0.2	
	EBITDA-Al (Rs m)	6,819	10,111	(32.6)	6,150	10.9	
	EBITDA-Cu (Rs m)	3,041	3,352	(9.3)	3,150	(3.5)	
	EBITDA-Utkal Alumina (Rs m)	3,130	5,200	(39.8)	4,280	(26.9)	
Hindustan Zinc	Sales	50,592	53,100	-4.7	54,910	(7.9)	Total refined zinc-lead volumes are expected to fall 4.3% QoQ to 219kt. Silver volumes are expected to fall 12.5% QoQ to 199t. Refined metal realisations are expected to fall 1.4% QoQ on the back of weak lead realisations partially offset by better Zinc realisations. Due to lower metal output and weak realisations, EBITDA would fall by 9% QoQ to Rs25.4bn
	EBITDA	25,417	27,130	(6.3)	27,890	(8.9)	
	Margin (%)	*50.2*	*51.1*		*50.8*		
	Adj. PAT	19,327	19,180	0.8	20,120	(3.9)	
	Ttl. Refined metal-tns	219,103	212,000	3.4	229,000	(4.3)	
	Silver Sales Vol. (kg)	174,179	141,000	23.5	199,000	(12.5)	
Jindal Steel & Power	Sales	99,125	95,396	3.9	100,942	(1.8)	Standalone volume is expected to grow 0.7% QoQ to 1.46m tonnes. Realisations are expected to remain flat QoQ. Due to lower costs, Standalone EBITDA/t is expected to grow 5.8%/Rs485 QoQ to Rs10,076. Jindal power (JPL) EBITDA/unit is expected to grow 14.6% QoQ to Rs1.28 largely due to higher power demand from states. Consolidated EBITDA is expected to grow 7.5% QoQ to Rs19.12bn.
	EBITDA	19,126	21,508	(11.1)	17,800	7.5	
	Margin (%)	*19.3*	*22.5*		*17.6*		
	Adj. PAT	-515	1,808	(128.5)	-4,119	(87.5)	
	Steel Sales Vol. (Tonne)	1.5	1	22.7	1	0.7	
	Standalone EBITDA	14,712	15,384	(4.4)	13,908	5.8	
	Standalone EBITDA / t (Rs)	10,076	12,928	(22.1)	9,591	5.1	
	JPL-Kwh sold (m)	2,742	2,531	8.4	2,400	14.2	
	JPL-Rate Rs/ Kwh	4.3	3.8	11.8	4.2	2.7	
JSW Steel	Sales	203,243	205,190	-0.9	223,680	(9.1)	Volume is expected to fall 9.8% QoQ at 3.9m tonnes. Realisations are expected to grow marginally by 0.2%/Rs101/t QoQ at Rs46,024/t. Due to lower volume growth, EBITDA/t is expected to fall 1.8%/Rs184 QoQ to Rs9,935. Consolidated EBITDA is expected to report fall of 8.8% QoQ to Rs40.5bn.
	EBITDA	40,511	51,050	(20.6)	44,400	(8.8)	
	Margin (%)	*19.9*	*24.9*		*19.8*		
	Adj. PAT	13,887	23,660	(41.3)	15,230	(8.8)	
	Sales Vol. (mt)	3.9	3.8	1.0	4.3	(9.8)	
	Real. / tonne (Rs)	46,024	49,514	(7.0)	45,923	0.2	
	EBITDA / tonne (Rs)	9,935	12,590	(21.1)	10,119	(1.8)	
NMDC	Sales	32,904	24,220	35.9	36,433	(9.7)	Iron ore volumes is expected to fall 14.2% QoQ to 8.7m tonnes. Realisations are expected to grow 5.7% QoQ to Rs3,725/t. Hence, EBITDA/t is expected to expand by 7.5% QoQ to Rs2,037. EBITDA is expected to fall 7.8% QoQ to Rs17.8bn.
	EBITDA	17,773	14,239	24.8	19,273	(7.8)	
	Margin (%)	*54.0*	*58.8*		*52.9*		
	Adj. PAT	18,478	9,753	89.5	13,448	37.4	
	Total Volume (mt)	8.7	6.8	28.7	10.2	(14.2)	
	Realization/t (Rs.)	3,725	3,536	5.4	3,525	5.7	
	EBITDA/t (Rs)	2,037	2,101	(3.0)	1,895	7.5	

Company Name		Q1FY20E	Q1FY19	YoY gr. (%)	Q4FY19	QoQ gr. (%)	Remark
Steel Authority of India	Sales	150,508	159,072	-5.4	185,063	(18.7)	Volumes are expected to fell 18.5% QoQ to 3.4m tonnes. Realisations are expected to fall marginally 0.3%/Rs122/t QoQ to Rs44,211/t. Due to higher costs and weak realisations, EBITDA/t is expected to fall 24.8%/Rs1,330 QoQ at Rs4,028. EBITDA is expected to fall 38.7% QoQ to Rs13.6bn.
	EBITDA	13,575	25,764	(47.3)	22,145	(38.7)	
	Margin (%)	*9.0*	*16.2*		*12.0*		
	Adj. PAT	-1,403	7,215	(119.4)	5,082	(127.6)	
	Sales Vol. (m tonnes)	3.4	3.3	3.0	4.1	(18.5)	
	Real. / Tonne (Rs)	44,211	48,130	(8.1)	44,333	(0.3)	
	EBITDA / Tonne (Rs)	4,028	7,877	(48.9)	5,358	(24.8)	
Tata Steel - India	Sales	164,619	164,055	0.3	191,296	(13.9)	Standalone volume is expected to fall 15.1% QoQ to 3m tonnes. Realisations are expected to grow 1.3% or Rs716/t QoQ to Rs54,151/t. Due to higher costs partially offset by increase in realisations, EBITDA/t is expected to fall 4.6%/Rs635 QoQ to Rs13,179.
	EBITDA	40,064	50,719	(21.0)	49,455	(19.0)	
	Margin (%)	*24.3*	*30.9*		*25.9*		
	Adj. PAT	18,892	25,353	(25.5)	24,982	(24.4)	
	Sales Vol. (m tonnes)	3.0	3.0	2.4	3.6	(15.1)	
	Realization/t (Rs.)	54,151	55,237	(2.0)	53,434	1.3	
	EBITDA / Tonne (Rs)	13,179	17,077	(22.8)	13,814	(4.6)	
Tata Steel - Consol	Sales	371,631	378,328	(1.8)	424,239	(12.4)	Tata Steel Europe (TSE) is expected to report 24% QoQ fall in EBITDA/t to US$50 due to weaker spreads and lower scale. Due to weak operating performance in European operations, we expect consolidated EBITDA to fall 24.2% QoQ to Rs56.9bn.
	EBITDA	56,942	64,677	(12.0)	75,133	(24.2)	
	Margin (%)	*15.3*	*17.1*		*17.7*		
	Adj. PAT	10,769	22,976	(53.1)	24,235	(55.6)	
	SalesVol.-Corus (mt)	2.5	2.5	2.0	2.6	(2.7)	
	EBITDA/Tn-Corus (US$)	50	101	(50.7)	66	(24.2)	
	Sales Vol.-South East (mt)	-	0.6	(100.0)	0.6	-	
	EBITDA/Tn-SEAN (US$)	-	27.3	(100.0)	-	-	

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	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E
Coal India	HOLD	251	265	858.6	995.5	1,013.2	1,064.6	129.2	300.5	296.8	315.4	66.9	162.7	157.8	167.0	10.8	26.4	25.6	27.1	30.1	73.8	60.3	54.9	23.3	9.5	9.8	9.3
Hindalco Industries	ACC	207	230	1,151.7	1,323.0	1,316.2	1,351.1	139.2	162.8	150.8	154.3	47.5	60.1	55.2	57.5	21.3	27.0	24.8	25.8	9.4	10.7	9.0	8.4	9.7	7.7	8.3	8.0
Hindustan Zinc	HOLD	240	240	220.8	211.2	220.3	237.0	122.7	106.7	112.5	118.4	91.0	79.6	81.4	86.8	21.5	18.8	19.3	20.5	27.3	22.9	22.5	21.2	11.1	12.7	12.5	11.7
Jindal Steel & Power	BUY	142	170	270.7	389.9	402.1	422.0	61.5	80.2	84.2	90.7	-8.2	-1.7	3.5	10.7	-8.1	-1.6	3.4	10.5	-2.7	-0.5	1.1	3.3	-17.6	-86.5	41.4	13.5
JSW Steel	Reduce	275	260	689.5	847.6	831.6	1,000.9	135.2	189.5	173.6	209.8	45.4	76.4	68.6	75.8	15.0	25.4	22.7	25.1	17.9	24.3	18.6	18.1	18.3	10.8	12.1	11.0
NMDC	Reduce	117	112	116.1	121.5	123.7	129.9	58.1	67.6	65.0	67.8	38.8	45.4	43.4	45.2	12.3	14.8	14.2	14.7	16.6	18.0	15.7	14.6	9.5	7.9	8.2	7.9
Steel Authority of India	Reduce	52	45	575.6	677.3	760.7	811.8	46.2	79.0	86.3	102.9	-5.0	8.7	10.7	18.1	-1.2	2.1	2.6	4.4	-1.4	2.4	2.9	4.8	-43.0	24.7	20.0	11.9
Tata Steel	BUY	495	600	1,223.9	1,576.7	1,731.4	1,748.9	205.7	293.8	267.8	270.3	28.0	104.0	77.6	78.6	24.4	90.9	67.8	68.6	5.7	16.0	10.8	10.1	20.3	5.5	7.3	7.2

Source: Company, PL

July 4, 2019

Oil & Gas

Apr-Jun'19 Earnings Preview

Top Picks

Petronet LNG

Indraprastha Gas

Q1FY20 Oil sector earnings are expected to be strong with healthy performance of gas players and upstream companies despite weak performance by OMCs. The sector revenues are expected to increase to Rs4,583bn vis-à-vis Rs4,476bn in Q4 whereas EBIDTA to decline by ~10% to Rs.458bn. Upstream earnings will benefit from higher crude oil and gas prices while inventory losses will drag OMCs earnings. RIL earnings will recover by way of higher refining earnings and strong petrochemicals profitability. IGL, MGL and PLNG are likely to report healthy performance during the quarter.

Exhibit 1: Q1FY20 sector aggregates impacted by OMCs performance

Total (Rs m)	Q1FY20E	Q4FY19	% chg	Q1FY19	% chg
Sales	4,583,066	4,476,227	*2%*	4,600,394	*0%*
EBITDA	458,700	509,179	*-10%*	546,204	*-16%*
PAT	225,566	279,208	*-19%*	286,615	*-21%*
Brent (USD/bbl)	68.5	63.3	*8%*	74.3	*-8%*
USD/Rs	69.5	70.4	*-1%*	66.9	*4%*

Source: Company, PL

- **RIL**: RIL's standalone earnings will possibly recover to Rs89.4bn led by recovery in refinery earnings and healthy petrochemicals profitability; factored in US$8.8/bbl (US$8.2/bbl in Q4). We have factored in higher refining throughput at 18MTPA (Q4FY19 16MTPA) post maintenance shutdown. Stable petrochemical spreads and higher volumes will support petrochemicals earnings. Appreciating exchange rate will also be drag for the company even though finance charges are expected to come off.

- **Downstream:** We expect OMCs to report Q1 profits of Rs56bn vis-à-vis Rs122bn in Q4 due to inventory losses and moderation in marketing margins after record high levels in Q4. Benchmark refining margins for Q1 were at US$3.5/bbl, US$3.2/bbl in Q4 due to recovery in gasoline spreads to US$8/bbl (US$4/bbl in Q4). We expect inventory loss of Rs600m in Q1 against gains of Rs39bn in Q4.

Exhibit 2: OMC earnings impacted by inventory losses

Total (Rs m)	Q1FY20E	Q4FY19	% chg	Q1FY19	% chg
Sales	3,047,376	3,015,640	*1%*	3,053,977	*0%*
EBITDA	122,752	208,471	*-41%*	196,420	*-38%*
PAT	56,392	121,941	*-54%*	108,439	*-48%*
Singapore GRM (US/bbl)	3.5	3.2	*9%*	6.0	*-42%*

Source: Company, PL

- **Upstream:** Upstream companies will see recovery in earnings at Rs57bn owing to high crude oil and gas prices. Production and sales volumes are likely to improve. We have not factored in any subsidy burden and expect net realization of ~US$67/bbl.

Exhibit 3: Upstream earnings supported by higher realisation

Total (Rs m)	Q1FY20E	Q4FY19	% chg	Q1FY19	% chg
Sales	295,281	298,454	*-1%*	306,033	*-4%*
EBITDA	149,663	135,099	*11%*	161,405	*-7%*
PAT	57,796	49,225	*17%*	68,471	*-16%*

Source: Company, PL

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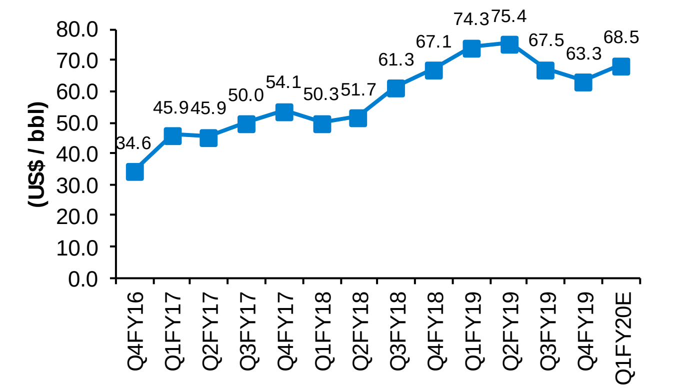
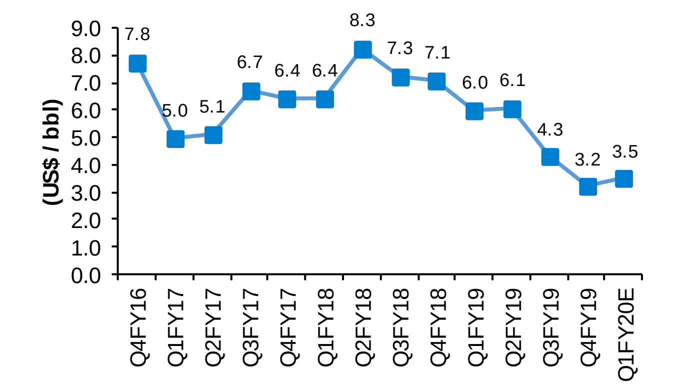
Exhibit 4: Brent prices have come down in Q3



Source: Company, PL

Exhibit 5: Singapore GRMs have come down sequentially



Source: Company, PL

Exhibit 6: Q1FY20 Result Preview

Company Name		Q1FY20E	Q1FY19	YoY gr. (%)	Q4FY19	QoQ gr. (%)	Remark
Bharat Petroleum Corporation	Sales	760,473	716,967	6.1	739,904	2.8	BPCL earnings to decline sequentially due to inventory loss and muted GRMs. Improved marketing earnings and depreciating exchange rate provide downside support.
	EBITDA	26,326	38,752	(32.1)	48,050	(45.2)	
	Margin (%)	3.5	5.4		6.5		
	Adj. PAT	14,298	22,933	(37.7)	31,249	(54.2)	
GAIL (India)	Sales	187,049	172,986	8.1	187,639	(0.3)	We expect improved earnings performance from GAIL due to higher LPG realisation. Transmission volumes will also remain healthy.
	EBITDA	21,867	22,436	(2.5)	16,845	29.8	
	Margin (%)	11.7	13.0		9.0		
	Adj. PAT	12,485	12,593	(0.9)	11,227	11.2	
Hindustan Petroleum Corporation	Sales	626,810	676,289	-7.3	679,381	(7.7)	HPCL earnings to decline sequentially due to inventory loss and muted GRMs. Improved marketing earnings and depreciating exchange rate provide downside support.
	EBITDA	26,069	31,907	(18.3)	51,662	(49.5)	
	Margin (%)	4.2	4.7		7.6		
	Adj. PAT	13,112	17,192	(23.7)	29,699	(55.9)	
Indraprastha Gas	Sales	15,475	12,874	20.2	15,427	0.3	We expect IGL margins to be maintained led by price hikes in the quarter and soft spot LNG prices. Volume momentum will also be maintained.
	EBITDA	3,453	2,951	17.0	3,312	4.3	
	Margin (%)	22.3	22.9		21.5		
	Adj. PAT	2,210	1,759	25.7	2,255	(2.0)	
I.G. Petrochemicals	Sales	3,000	3,509	-14.5	3,131	(4.2)	We expect earnings to remain sluggish given weak downstream demand and high cost inventory.
	EBITDA	330	847	(61.1)	367	(10.1)	
	Margin (%)	11.0	24.1		11.7		
	Adj. PAT	169	402	(58.0)	182	(7.4)	
Indian Oil Corporation	Sales	1,313,943	1,294,750	1.5	1,262,141	4.1	IOCL earnings to be impacted by lower inventory gains. Improved marketing earnings and depreciating exchange rate provide downside support.
	EBITDA	70,357	125,761	(44.1)	108,759	(35.3)	
	Margin (%)	5.4	9.7		8.6		
	Adj. PAT	28,982	68,314	(57.6)	60,993	(52.5)	
Mahanagar Gas	Sales	7,499	6,193	21.1	7,225	3.8	We expect MGL margins to improve led by price hikes in the quarter and soft spot LNG prices. CNG volumes to increase at ~7%YoY.
	EBITDA	2,319	2,109	9.9	2,140	8.4	
	Margin (%)	30.9	34.1		29.6		
	Adj. PAT	1,466	1,284	14.2	1,335	9.8	
NOCIL	Sales	2,400	2,681	-10.5	2,416	(0.7)	We expect margins to come off from FY19 levels led by lower volumes and increased competitive intensity.
	EBITDA	569	802	(29.1)	591	(3.7)	
	Margin (%)	23.7	29.9		24.5		
	Adj. PAT	351	508	(30.9)	358	(1.9)	

Company Name		Q1FY20E	Q1FY19	YoY gr. (%)	Q4FY19	QoQ gr. (%)	Remark
Oil India	Sales	31,951	33,905	-5.8	30,869	3.5	We have not factored in any subsidy burden on the company. Volume growth to be muted.
	EBITDA	12,777	14,084	(9.3)	11,389	12.2	
	Margin (%)	*40.0*	*41.5*		*36.9*		
	Adj. PAT	6,283	7,032	(10.7)	19,047	(67.0)	
Oil & Natural Gas Corporation	Sales	263,330	272,128	-3.2	267,585	(1.6)	We have not factored in any subsidy burden on the company. Gas volumes will record growth.
	EBITDA	136,886	147,321	(7.1)	123,710	10.7	
	Margin (%)	*52.0*	*54.1*		*46.2*		
	Adj. PAT	51,513	61,439	(16.2)	40,446	27.4	
Petronet LNG	Sales	80,273	91,692	-12.5	83,832	(4.2)	We expect earnings to be healthy due to healthy demand traction.
	EBITDA	8,729	9,344	(6.6)	6,272	39.2	
	Margin (%)	*10.9*	*10.2*		*7.5*		
	Adj. PAT	5,815	5,870	(0.9)	4,402	32.1	
Reliance Industries	Sales	947,659	954,720	-0.7	865,720	9.5	Earnings to recover led by recovery in refining and continued strength in petrochemicals earnings.
	EBITDA	149,917	151,540	(1.1)	137,040	9.4	
	Margin (%)	*15.8*	*15.9*		*15.8*		
	Adj. PAT	89,402	88,200	1.4	85,560	4.5	

Source: Company, PL

Exhibit 7: Valuation Summary

Company Names	Rating	CMP (Rs)	TP (Rs)	Sales (Rs bn)				EBITDA (Rs bn)				PAT (Rs bn)				EPS (Rs)				RoE (%)				PE (x)			
				FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E
BPCL	BUY	380	499	2,357.7	2,982.3	3,475.6	3,654.0	151.7	151.1	162.7	160.5	85.0	75.9	96.2	93.8	39.2	38.6	48.9	47.7	25.2	39.3	37.0	17.7	9.7	9.8	7.8	8.0
GAIL (India)	BUY	308	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	16.2	15.7	15.1	10.5	9.3	8.7
HPCL	BUY	289	326	2,195.1	2,754.7	3,234.1	3,526.4	107.1	115.7	123.3	131.5	72.2	66.9	45.5	50.3	47.4	43.9	29.9	33.0	31.0	23.9	14.1	13.9	6.1	6.6	9.7	8.7
Indraprastha Gas	BUY	303	360	45.9	57.6	64.1	72.8	11.1	12.6	13.6	15.2	6.7	7.9	8.2	9.2	9.6	11.2	11.8	13.2	20.8	20.6	18.5	18.0	31.6	26.9	25.7	23.0
I.G. Petrochemicals	BUY	257	477	11.4	13.0	14.2	18.4	2.7	2.3	2.2	2.8	1.5	1.3	1.2	1.5	47.6	40.9	37.7	48.4	31.8	21.8	16.9	18.2	5.4	6.3	6.8	5.3
Indian Oil Corporation	BUY	157	207	4,214.9	5,281.5	6,004.8	6,561.0	415.9	352.2	351.9	399.1	208.0	145.1	192.9	228.2	21.9	15.8	19.9	23.5	23.2	27.8	26.5	15.9	7.1	9.9	7.9	6.7
Mahanagar Gas	BUY	828	1,179	22.3	27.9	30.4	33.0	7.8	8.9	9.9	10.8	4.8	5.5	6.3	6.8	48.4	55.3	64.1	69.2	24.3	23.9	23.5	21.9	17.1	15.0	12.9	12.0
NOCIL	BUY	117	221	9.7	10.4	12.0	15.0	2.6	2.9	2.8	3.7	1.7	1.8	1.8	2.4	10.3	11.2	10.9	14.7	17.4	16.7	14.6	17.5	11.4	10.5	10.7	8.0
Oil India	Acc	178	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	6.4	6.8	7.5
ONGC	BUY	167	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	8.3	6.3	8.2	7.7
Petronet LNG	BUY	253	306	306.0	384.0	467.5	503.7	33.1	32.9	41.0	44.9	20.8	21.6	28.8	33.2	13.9	14.4	19.2	22.1	23.3	21.1	24.2	23.1	18.2	17.6	13.2	11.4
Reliance Industries	Acc	1,284	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	24.2	22.2	19.7	17.6

Source: Company, PL

Pharma

Apr-Jun'19 Earnings Preview

July 4, 2019

Top Picks

Aurobindo Pharma

Thyrocare Technologies

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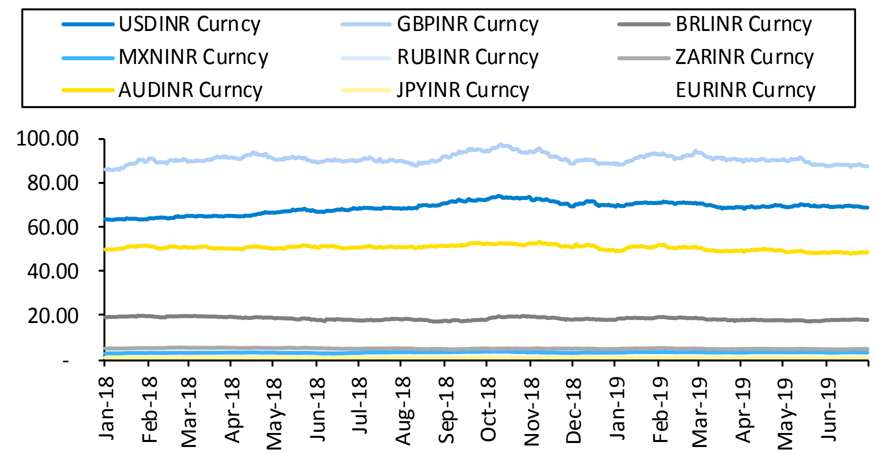
With competitive launches in US and QoQ appreciating INR against major economic currencies (including leading EM currencies), we expect moderate growth in exports. INR has appreciated QoQ against US Dollar, UK Sterling, Brazilian Real, South African Zar, Mexican Peso, Australian Dollar and Euro while it marginally depreciated QoQ only against Russian Rouble. Appreciating INR against USD and Euro will impact accounting growth of key headline numbers in regulated markets. Depreciating South African Zar (-3.8%) and Brazilian Real (-5.1%) will impact sales and margin of Cipla (in Cipla-Medpro) and Torrent/Dr. Reddy's Lab (DRL) in Brazil in Q1FY20. The appreciation of INR against Japanese Yen by (-1.1%) will also impact reported growth and margin of Lupin and Sun Pharma due to its exposure in branded and generic formulation business. The appreciating INR against EM currencies may result in reporting of lower sales growth for Sun Pharma, DRRD, GNP, IPCA, Torrent, ARBP and Lupin. The USD appreciation (vs. INR) in Q1FY20 was 1.3% lower in comparison to 2.1% Q4FY19, which may result in reporting of lower sales from US generics.

Exhibit 1: Emerging market currencies v/s USD in Q1FY20 v/s Q1FY19



Source: Bloomberg, PL

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

Exhibit 2: Contribution of US generics in Revenues in Q1FY20E

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, companies with no major manufacturing issues with USFDA will gain significant benefits. However, there were very few approvals with limited competitive opportunity in Q1FY20. 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 Q3FY19, such as *gTreximet* (Auro), *gTruvada* (Auro), *gNuvigil* (Auro) and *gArixtra* (Auro). While there is a 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 1-3% QoQ price correction across the companies in older US generics in Q1FY20. There were 69 and 65 ANDAs approval given to Indian companies in Q1FY20 and Q4FY19 respectively, vis-à-vis 70 ANDAs in Q3FY19. The number of key approvals (with sizeable market size and opportunity) remain far and few due to shrinking options of available molecules and increase in number of approvals on the first day of genericisation.

Among key launches, we expect DRL to report gain of full quarter from the relaunch of gSuboxone in the middle of 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 be moderated post launch of other generics in comparison to the solo launch in Q2FY19. We believe Aurobindo to benefit from the launch of gInvanz and gReyataz in Q4FY19 and expect major benefit to receive in Q1FY20. Aurobindo's surprising benefits in gReyataz will be lower as Mylan and Cipla received approvals and launched the drug in Q4FY19.

Exhibit 3: Movement of INR vs. major ROW currencies in Q1FY20

Foreign Exchange Rates vis-à-vis INR	Q1FY20 (Avg)	Q4FY19 (Avg)	*Growth (%)*
Euro	78.14	80.04	*2.4*
GB Pound Sterling	89.39	91.71	*2.5*
Japanese Yen	0.63	0.64	*1.1*
Russian Rouble	1.08	1.07	*(0.8)*
South African Zar	4.84	5.03	*3.8*
Brazilian Real	17.74	18.69	*5.1*
USD	69.55	70.47	*1.3*
Mexican Peso	3.64	3.67	*0.8*

Source: Company, PL

With no major disruption of sales due to festivity and no benefits of lower base YoY, we expect IPM growth to be 8-10% in Q1FY20. A vast majority of growth in Jan-Mar 2019 was due to increase in price while significant fall in volume of older products are noticed. We expect domestic formulation market will 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: Q1FY20 Result Preview

Company Name		Q1FY20E	Q1FY19	YoY gr. (%)	Q4FY19	QoQ gr. (%)	Remark
Aurobindo Pharma	Sales	48,630	41,816	*16.3*	52,020	*(6.5)*	gInvanz (Ertapenem) continue to be lead growth driver followed by revenues from new business opportunities (NBOs). We expects US inj sales to be US$50-55m in Q1FY20E, to be helped by additional sales of Tazo-pip and relaunch of Vancomycin and pantoprazole.
	EBITDA	7,824	7,105	*10.1*	9,701	*(19.3)*	
	Margin (%)	*16.1*	*17.0*		*18.6*		
	Adj. PAT	5,067	4,557	*11.2*	6,216	*(18.5)*	
Cadila Healthcare	Sales	32,961	28,937	*13.9*	37,328	*(11.7)*	With launch of three new generics, the US sales of CDH to be impacted due to lower sales (QoQ) of gLialda to US$230m. 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	7,022	6,450	*8.9*	8,004	*(12.3)*	
	Margin (%)	*21.3*	*22.3*		*21.4*		
	Adj. PAT	3,667	4,722	*(22.4)*	4,601	*(20.3)*	
Cipla	Sales	42,573	38,458	*10.7*	42,710	*(0.3)*	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	7,323	6,332	*15.6*	8,281	*(11.6)*	
	Margin (%)	*17.2*	*16.5*		*19.4*		
	Adj. PAT	4,651	4,470	*4.1*	3,672	*26.7*	
Dr. Lal PathLabs	Sales	3,361	2,923	*15.0*	3,011	*11.6*	Expect DLPL growth in Q1FY20 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	768	750	*2.4*	662	*16.0*	
	Margin (%)	*22.8*	*25.7*		*22.0*		
	Adj. PAT	521	494	*5.5*	471	*10.6*	
Dr. Reddy's Laboratories	Sales	38,203	37,365	*2.2*	40,296	*(5.2)*	The relaunch of gSuboxone will be key revenue driver and expand profitability in Q1FY19. Majority of its core portfolio in US have stability of price QoQ. Strong momentum of rationalizing overhead costs to help better and sustainable profit going forward.
	EBITDA	8,206	7,688	*6.7*	8,189	*0.2*	
	Margin (%)	*21.5*	*20.6*		*20.3*		
	Adj. PAT	5,408	4,761	*13.6*	4,554	*18.8*	
Eris Lifesciences	Sales	2,371	2,508	*-5.5*	2,111	*12.3*	Eris is gradually recovering lost sales in CNS portfolio acquired from Strides. Without the acquired portfolio, own sales to grow at 13-15% in Q1FY20. Margin to be rationalised more with focus on promotion of newly launched and acquired products.
	EBITDA	893	886	*0.9*	584	*52.9*	
	Margin (%)	*37.7*	*35.3*		*27.7*		
	Adj. PAT	738	713	*3.6*	541	*36.4*	
Glenmark Pharmaceuticals	Sales	22,479	21,294	*5.6*	25,261	*(11.0)*	With competitive intensity in gWelchol, we expect 5% QoQ decline in US sales to US$108m. Ebitda margin to remain subdued due to price erosion in its core portfolio in US. Domestic sales to grow by 10%-12%, excluding the divesting sales of Rs400m/quarter.
	EBITDA	2,949	3,106	*(5.1)*	3,267	*(9.7)*	
	Margin (%)	*13.1*	*14.6*		*12.9*		
	Adj. PAT	1,517	2,748	*(44.8)*	1,617	*(6.2)*	
Indoco Remedies	Sales	2,682	2,125	*26.2*	2,450	*9.5*	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	271	65	*315.3*	215	*26.1*	
	Margin (%)	*10.1*	*3.1*		*8.8*		
	Adj. PAT	96	-120	*(180.3)*	116	*(17.0)*	
Ipca Laboratories	Sales	9,735	8,539	*14.0*	8,338	*16.8*	IPCA conventionally received better growth and EBITDA margin in H1 of a fiscal year. We expect 15% YoY gr in India formulations along with initial sales in the Global Fund tender business. Expect Adj. EBITDA margin to be 15-16%.
	EBITDA	1,439	1,140	*26.2*	1,747	*(17.6)*	
	Margin (%)	*14.8*	*13.4*		*20.9*		
	Adj. PAT	879	655	*34.1*	1,095	*(19.7)*	
Jubilant Life Sciences	Sales	23,485	20,787	*13.0*	23,856	*(1.6)*	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	4,310	4,376	*(1.5)*	3,580	*20.4*	
	Margin (%)	*18.4*	*21.1*		*15.0*		
	Adj. PAT	1,814	2,025	*(10.4)*	1,355	*33.9*	

Company Name		Q1FY20E	Q1FY19	YoY gr. (%)	Q4FY19	QoQ gr. (%)	Remark
Lupin	Sales	43,242	37,746	*14.6*	43,259	*(0.0)*	While majority of its product 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. EBITDA margin traditionally lower due to accounting of higher overhead.
	EBITDA	7,581	4,456	*70.1*	7,919	*(4.3)*	
	Margin (%)	*17.5*	*11.8*		*18.3*		
	Adj. PAT	2,965	2,523	*17.6*	2,873	*3.2*	
Sun Pharmaceutical Industries	Sales	77,093	71,388	*8.0*	70,443	*9.4*	Exports from Halol unit remained at lower scale as SUNP has rationalised many products post receiving 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	13,101	15,214	*(13.9)*	8,971	*46.0*	
	Margin (%)	*17.0*	*21.3*		*12.7*		
	Adj. PAT	7,626	6,789	*12.3*	6,359	*19.9*	
Thyrocare Technologies	Sales	1,091	972	*12.3*	1,056	*3.3*	Traditionally, the Q1 quarter featured with weaker revenue growth (vs. Q4) with lower margin in a year. Management maintains that higher competitive intensity continue to impact growth and margin and Q1FY20 is not different to the guidance.
	EBITDA	418	412	*1.3*	345	*21.1*	
	Margin (%)	*38.3*	*42.4*		*32.7*		
	Adj. PAT	221	236	*(6.5)*	163	*35.2*	

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	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E
Aurobindo Pharma	BUY	605	932	162.3	192.9	212.8	227.7	35.2	37.2	42.6	49.6	24.0	24.5	30.0	34.1	40.9	41.8	51.2	58.2	22.8	19.1	19.6	18.8	14.8	14.5	11.8	10.4
Cadila Healthcare	Acc	237	341	116.3	126.8	137.5	145.2	25.4	26.9	29.6	31.6	17.8	18.8	20.4	21.8	17.3	18.4	20.0	21.3	22.6	19.7	18.9	17.9	13.7	12.9	11.9	11.1
Cipla	Reduce	552	470	147.5	156.7	170.4	185.3	27.6	24.7	30.3	33.5	18.1	14.9	17.3	18.9	22.5	18.5	21.5	23.5	13.5	10.2	11.0	10.9	24.5	29.8	25.7	23.5
Dr. Lal PathLabs	Acc	1,077	1,120	10.6	12.0	14.7	16.9	2.6	2.9	3.5	4.1	1.7	2.0	2.5	2.9	20.5	23.9	29.8	34.7	24.6	22.9	24.5	24.2	52.5	45.0	36.1	31.0
Dr. Reddy's Laboratories	Hold	2,602	2,997	142.8	154.5	169.8	189.8	23.5	31.8	39.9	46.5	9.5	19.5	23.6	27.6	57.0	117.5	142.2	166.5	7.6	14.7	15.6	15.8	45.6	22.2	18.3	15.6
Eris Lifesciences	Acc	498	812	8.3	10.2	12.0	13.7	2.9	3.6	4.3	5.0	2.9	3.4	4.0	4.6	21.4	25.1	28.7	33.2	41.2	34.3	29.5	26.1	23.3	19.9	17.3	15.0
Glenmark Pharmaceuticals	Reduce	440	589	89.7	99.4	109.5	117.0	14.8	16.9	18.9	20.8	8.4	9.9	7.5	11.9	29.8	35.0	26.6	42.1	17.4	18.3	12.6	17.3	14.8	12.6	16.5	10.5
Indoco Remedies	HOLD	159	182	10.2	9.4	11.4	12.8	1.1	0.5	1.5	1.9	0.5	-0.0	0.7	1.0	5.1	-0.2	7.8	11.2	7.1	-0.3	10.4	13.4	31.0	-696.1	20.4	14.2
Ipca Laboratories	BUY	949	908	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	33.6	42.5	51.2	9.3	14.6	15.8	16.3	50.0	28.2	22.3	18.5
Jubilant Life Sciences	Reduce	496	648	74.6	90.0	96.9	103.7	14.3	16.3	17.9	19.3	6.4	5.7	9.2	10.3	41.3	36.1	57.7	64.9	17.1	12.9	17.5	16.8	12.0	13.8	8.6	7.6
Lupin	Reduce	754	730	155.6	163.7	181.1	199.3	29.0	25.3	34.4	39.8	17.1	9.4	13.0	16.9	37.9	20.8	28.8	37.4	12.6	6.9	9.3	11.4	19.9	36.2	26.2	20.1
Sun Pharmaceutical Industries	Reduce	392	396	260.7	281.1	304.7	321.8	51.8	60.4	67.0	70.6	18.7	29.8	45.5	47.6	7.8	12.4	18.9	19.8	5.0	7.5	11.3	11.7	50.2	31.5	20.7	19.8
Thyrocare Technologies	BUY	466	595	3.6	4.0	4.6	5.2	1.4	1.5	1.6	1.9	0.9	0.9	1.0	1.1	17.4	16.1	18.6	20.6	21.9	19.4	21.7	22.1	26.8	28.9	25.0	22.6

Source: Company, PL

Others

Apr-Jun'19 Earnings Preview

July 4, 2019

Exhibit 1: Q1FY20 Result Preview

Company Name		Q1FY20E	Q1FY19	*YoY gr. (%)*	Q4FY19	*QoQ gr. (%)*	Remark
VIP Industries	Sales	6,317	5,178	*22.0*	4,350	*45.2*	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 adverse product mix.
	EBITDA	847	962	*(12.0)*	396	*113.9*	
	Margin (%)	*13.4*	*18.6*		*9.1*		
	Adj. PAT	545	634	*(13.9)*	253	*115.6*	

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	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E
V.I.P. Industries	BUY	440	564	14,096	17,847	21,731	26,494	1,934	2,247	2,890	3,683	1,268	1,453	1,871	2,417	9.0	10.3	13.2	17.1	25.6	25.0	26.4	27.7	49.1	42.8	33.2	25.7

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
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