Sharekhan Special

October 09, 2019

Index

Q2FY2020 results preview

Sobering quarter, yet again

After a positive sentiment boost from the corporate tax rate cut, the market will now look to take cues from the Q2FY20 earnings. On the back of weak high-frequency economic indicators, earnings expectations for Q2 FY20E are muted. We expect a sobering quarterly performance where headline aggregate earnings are likely to decline by 5.7% for Sensex companies. Internals show a fairly skewed picture with a handful of sectors (FMCG, financials – mainly a few private banks and some NBFCs like HDFC and Bajaj Finance) doing the heavy-lifting for aggregate earnings in Q2. On the other hand, negative growth is expected in sectors such as auto, telecom and metals, with energy heavyweight companies like Coal India and ONGC expected to see weakness. Notably, the quarter is likely to see significant one-offs affect the bottomline, like the impairment on deferred tax assets, write-back of Q1FY20 tax, positive effect of a lower tax rate on earnings etc. After the recent correction, the Sensex is trading at ~16.8x consensus earnings of FY2021E, which is near its long-term average. We believe that bold steps like the cut in corporate tax rate, an accommodative monetary policy, helped by relatively benign crude oil prices are factors that favour equity investors.

Getting the focus back on earnings: After the sentiment booster from the corporate tax cut, markets will now eye cues from Q2 FY20 earnings. We expect a sobering quarterly performance where headline aggregate earnings are likely to decline by 5.7% for Sensex companies. Expectations of a weak performance indicate the throes of slowdown that the economy finds itself in and also the effect impact of one-offs such write-downs of deferred tax assets, etc. Expectations of a healthy revival in corporate earnings appear to be further down the road. However, internals show a fairly skewed picture with a handful of sectors (FMCG, financials – mainly few private banks and some NBFCs like HDFC and Bajaj Finance) doing the heavy-lifting of aggregate earnings in Q2. However, sectors such as automobiles, telecom and metals are likely to clock losses or see profits shrink. Notably, the quarter is likely to see significant as one-offs affect the bottomline - impairment on deferred tax assets (DTA), write-backs of Q1FY20 tax, positive effect of a lower tax rate, etc, all of which are expected to keep earnings performance volatile.

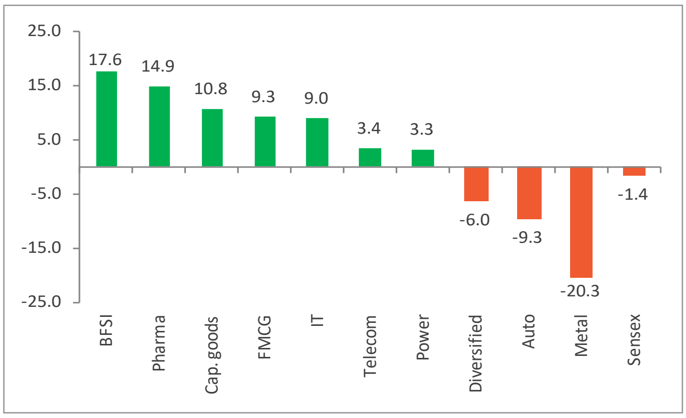
Some positives expected: We expect private banks (both retail and corporate) to see tailwinds and hence aggregate topline of the BFSI, consumer discretionary and pharmaceutical sectors are likely to grow in the mid to high teens, y-o-y. Apart from these, a sharp slowdown is likely in IT and industrial earnings to sub-5% (versus a mid-teens growth in FY19). Once again, broader earnings performance may be sobering, but the management commentary, especially relating to the festive / busy season will be keenly eyed. Weakness in corporate earnings would be more pronounced in the pharmaceutical, telecom and metals sectors. Moreover, –high-frequency indicators related to investment and consumption underline the slowdown in economic growth in last 2-3 quarters. Weak gross fixed capital formation (GFCF), declining IIP, faltering CV sales, tepid capex and new project announcements indicate the malaise. Moreover, tepid credit growth exacerbated by weakness in private final consumption and rising unemployment is indicating a continued consumption slowdown.

Expect reset in earnings estimates until revival happens: Of late there have been several government decisions, supported by monetary policy actions (rate cuts) as well. However, quite understandably, these measures will take time to trickle-down and translate into a demand revival. Hence, we expect that weakness in earnings could persist for most sectors in the near term. This essentially means that the forthcoming results season could witness some residual downgrades in consensus earnings as the street factors in the near-term slowdown in demand across various consumer-driven and export sectors. Over the long term, the government's efforts to listen and respond are a positive and its fiscal prudence are likely to attract foreign capital to at least partially fund huge infrastructure development projects, which would mean better times for industrials and building material companies, which would have a positive spill-over effect on the entire economy and the corporate sector.

Valuation – Buoyed by government initiatives, recent correction cushions downside risk: Despite continued disappointment on the earnings growth front, downside risk could be limited from current levels. After the recent correction, Sensex is already trading at ~16.8x consensus earnings of FY2021E, near its long-term average. We believe bold steps like the cut in corporate taxes and the accommodative monetary policy stance, helped by relatively benign crude oil prices are favourable factors for equity investors.

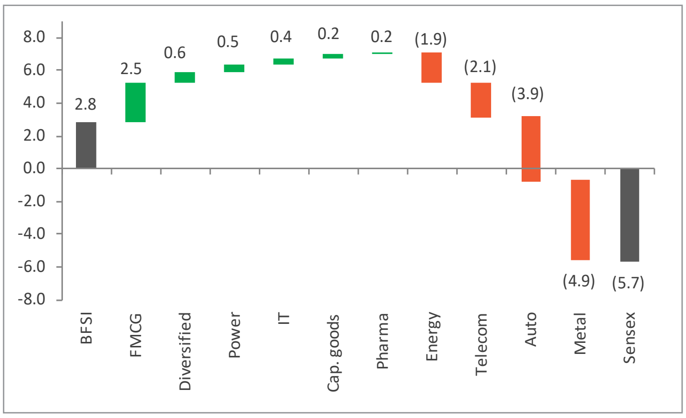
Leaders	Laggards
HCL Tech, Infosys	Wipro
HDFC Bank, Bajaj Finance, Kotak Mahindra Bank	Union Bank of India, Yes Bank
HUL, Marico, Colgate, Varun Beverages	Godrej Consumer Products, Emami
Relaxo, Bata, Inox	Arvind, Indian Hotels, Ashok Leyland, Maruti Suzuki
UPL, Atul, SRF	Aarti Industries
RIL, BPCL, HPCL, IGL	ONGC, Oil India
L&T, Kalpataru Power, Ahluwalia Contracts, KEI Industries	Sadbhav Engineering, IRB Infra
Ultratech, JK Lakshmi Cement	Grasim Industries, Shree Cement
Laurus Labs	Cadila, Glenmark

Estimated revenue growth by sector (%)



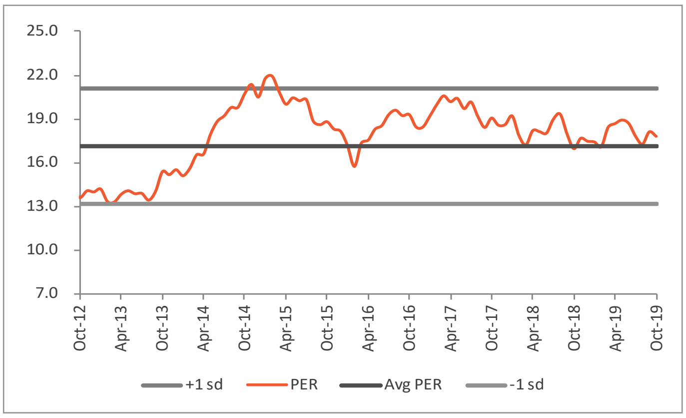
Source: Bloomberg estimates, Sharekhan Research

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



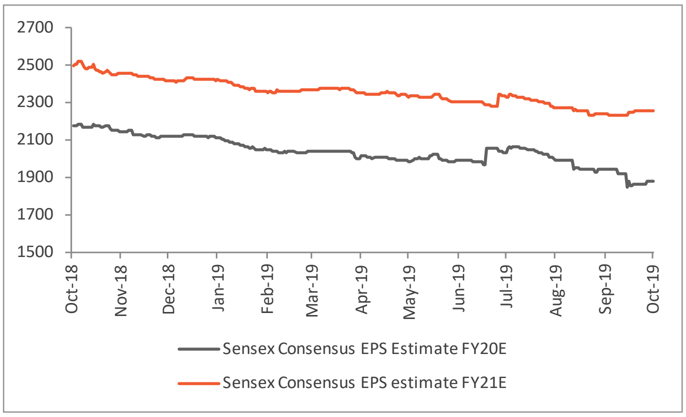
Source: Bloomberg estimates, Sharekhan Research

Sensex' one-year forward P/E band



Source: Bloomberg estimates, Sharekhan Research

Sensex earnings (EPS) consensus estimates



Source: Bloomberg estimates, Sharekhan Research

Sharekhan by BNP PARIBAS

Automobiles

Yet another painful quarter

Q2FY2020 Results Preview

Sector: Automobiles

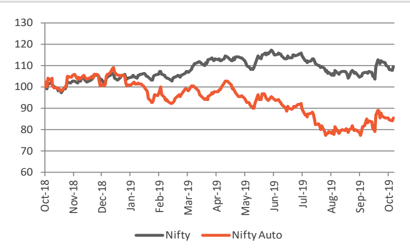
Sector View: Cautious

Active coverage universe

Companies	CMP (Rs)	Reco.	PT (Rs)
Maruti Suzuki	6,721	Hold	7,175
Hero Motocorp	2,604	Hold	2,900
Bajaj Auto	2,895	Reduce	2,760
TVS Motors	397	Reduce	385
M&M	576	Hold	595
Ashok Leyland	69	Reduce	68
Apollo Tyres	169	Hold	UR
Greaves Cotton	137	Hold	150

UR - Under review

Price chart



We expect Q2FY20 to be yet another painful quarter for the automotive sector with a sharp 16% y-o-y drop expected in revenues. Volumes dropped in double-digits across automotive segments viz (2W, PV and CV) due to slowing economic growth, increased cost of ownership and inventory correction by OEM's. Auto OEM's are the worst hit with topline expected to drop 21%. Ancillary companies (due to replacement demand and increasing exports) are better off and would report a much lower 5% fall in topline. Negative operating leverage due to the steep volume drop coupled with increased marketing expenses would drag the margins and we expect sharp 240 bps y-o-y fall in OPM. EBIDTA is expected to fall 31% y-o-y while the net profit is expected to drop 29%. Volume woes are expected to sustain over the next three to four quarters due to slower economic growth, increased cost of ownership (safety and upcoming BS6 norms) and higher channel inventory.

Outlook

Volume pressures to sustain; earnings to remain under pressure: The automotive industry's volumes growth is likely to remain under pressure over the next three to four quarters on the back of slower economic growth, increased cost of ownership (increased road tax and safety and insurance norms) and higher inventory levels. Moreover, the automotive industry is likely to witness another steep increase in the costs (~10-12% price hikes expected) with the advent of BS6 norms (wef from 1st April 2020). Negative operating leverage due to volume pressures coupled with increased discounts would impact earnings before tax. OEM's recent move to cut prices to spur demand can nullify the benefits of lower corporate tax rate. Earnings are likely to remain stressed with possibility of further downgrades.

Valuation

Most of the auto OEM stocks are trading at P/E of 17-22x which is at the higher end of the long term historical average. With the possibility of earnings cut looming, the current valuations are unlikely to sustain. Nifty Auto index has underperformed over the benchmark indices since we turned cautious on the sector (refer our report dated 20th Feb 2019). Nifty Auto index has corrected by 8% since our report as compared to 5% gain in the benchmark Nifty. Given the earnings pressures, we retain cautious stance on the sector.

Key risks:

Any change in personal income tax and incentives / scrappage policy announced by the government would result in a meaningful demand revival and is a key risk to our call.

Leaders in Q2FY2020: Exide Industries, Endurance Technologies, HeroMotocorp

Laggards in Q2FY2020: Ashok Leyland, Maruti Suzuki

Q2FY2020 results estimates

Company	Sales (Rs cr)				EBIDTA margins (%)				PAT (Rs cr)			
	Q2 FY20E	Q2 FY19	YoY %	QoQ %	Q2 FY20E	Q2 FY19	YoY bps	QoQ bps	Q2 FY20E	Q2 FY19	YoY %	QoQ %
Maruti Suzuki	17,219.8	22,433.2	-23.2	-12.7	8.7	15.3	-657.1	-166.0	935.5	2,240.4	-58.2	-34.8
Hero Motocorp	7,429.1	9,090.9	-18.3	-7.5	14.1	15.2	-104.1	-29.5	898.8	976.3	-7.9	17.9
Bajaj Auto	7,225.2	8,011.8	-9.8	-6.8	15.5	17.1	-153.6	9.0	1,100.5	1,152.5	-4.5	-2.2
TVS Motors	4,244.9	4,993.5	-15.0	-5.0	7.3	8.6	-129.7	-68.4	141.5	211.3	-33.0	-0.6
M&M #	10,925.4	12,790.2	-14.6	-14.7	13.5	14.5	-95	-49.8	1,279.7	1,641.2	-22.0	43.4
Ashok Leyland	3,817.8	7,621.1	-49.9	-32.8	4.4	10.9	-648.1	-504.9	29.2	545.1	-94.6	-88.3
Apollo Tyres @	4,158.8	4,257.4	-2.3	-4.0	11.0	11.0	-2.0	-1.1	130.8	186.0	-29.7	-7.6
Greaves Cotton	495.1	495.1	0.0	3.8	13.4	14.8	-137.0	58.3	49.9	49.4	1.1	30.7
Soft Coverage:												
Tata Motors @	70,051.3	72,112.1	-2.9	14.0	5.4	9.4	-399.1	50.7	-1,475.8	-518.5	NA	NA
Eicher Motors @	2,130.9	2,408.2	-11.5	-10.5	24.1	30.3	-621.5	-172.8	462.8	566.3	-18.3	2.4
Exide Industries	2,529.9	2,720.4	-7.0	-9.0	13.9	12.2	163.5	-80.4	238.5	160.1	49.0	6.4
Bharat Forge	1,436.7	1,679.2	-14.4	6.7	27.0	25.9	116.9	89.7	245.6	227.5	7.9	39.0
Ceat @	1,754.6	1,754.6	0.0	0.1	8.9	9.1	-16.3	-62.7	57.9	65.2	-11.2	-30.4
Minda Industries @*	1,310.2	1,521.7	-13.9	-9.0	11.2	12.4	-125.4	-77.2	47.8	72.7	-34.3	-10.7
Subros	524.5	564.0	-7.0	-8.3	8.4	10.5	-213.3	-125.1	17.5	23.8	-26.3	134.8
Sundram Fasteners	931.5	1,001.6	-7.0	-1.5	18.9	18.9	2.9	30.8	108.7	110.2	-1.4	16.8
Endurance Technologies @	1,801.2	1,936.7	-7.0	-2.1	14.8	14.4	31.0	0.0	167.1	125.2	33.5	74.8
Motherson Sumi @*	14,509.4	15,105.0	-3.9	-13.6	7.6	8.6	-100.7	12.6	262.2	371.1	-29.3	-20.9
GNA Axles	250.0	227.2	10.0	-3.2	15.9	15.8	13.0	-8.8	26.7	16.2	64.3	46.7
Escorts	1,357.8	1,398.4	-2.9	-4.6	9.5	11.3	-176.3	-50.8	94.4	102.6	-8.0	8.0
Suprajit Engineering @	364.0	391.4	-7.0	0.2	13.7	13.6	14.0	-39.6	30.4	24.1	26.2	22.2
Lumax Auto Technologies @	316.3	367.8	-14.0	10.0	8.4	9.6	-119.7	-29.4	16.1	28.3	-43.0	43.1
Alicon Castalloy @	256.7	305.7	-16.0	-3.6	9.6	12.1	-245.6	-60.5	4.7	13.8	-65.9	-7.3
Auto Universe	**155,041.1**	**173,187.0**	**-10.5**	**-1.4**	**8.6**	**11.9**	**-328.1**	**-55.0**	**4,870.4**	**8,390.7**	**-42.0**	**70.1**
Auto universe (ex TAMO)	**84,989.8**	**101,074.9**	**-15.9**	**-11.2**	**11.3**	**13.7**	**-241.8**	**-64.2**	**6,346.3**	**8,909.3**	**-28.8**	**-1.6**

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

Valuations

Company	CMP (Rs)	Reco/View	Price Target (Rs	EPS (Rs) FY19	EPS (Rs) FY20E	EPS (Rs) FY21E	P/E (x) FY19	P/E (x) FY20E	P/E (x) FY21E
Maruti Suzuki	6,721	Hold	7,175	248.3	233.9	256.3	27.1	28.7	26.2
Hero Motocorp	2,604	Hold	2,900	169.5	171.3	176.1	15.4	15.2	14.8
Bajaj Auto	2,895	Reduce	2,760	149.8	153.9	164.8	19.3	18.8	17.6
TVS Motors	397	Reduce	385	14.1	14.8	17.6	28.2	26.8	22.6
M&M @	576	Hold	595	43.6	36.3	34	13.2	15.9	16.9
Ashok Leyland	69	Reduce	68	7.0	4.5	3.4	9.9	15.3	20.3
Apollo Tyres #	169	Hold	UR	15.4	12.8	14.8	11.0	13.2	11.4
Greaves Cotton	137	Hold	150	7.5	7.2	7.2	18.3	19.0	19.0
Soft Coverage:									
Eicher Motors #	18,237	Not Under Coverage		809.5	733.8	817.1	22.5	24.9	22.3
Exide Industries	191	Neutral		8.7	9.9	10	22.0	19.3	19.1
CEAT #	938	Booked Profits		62.3	70.6	64.1	15.1	13.3	14.6
Sundram Fasteners #	455	Neutral		21.8	20.9	22.7	20.9	21.8	20.0
Endurance Technologies #	971	Booked Profits		35.2	43	44.3	27.6	22.6	21.9
Minda Industries #	340	Booked Profits		10.89	10.73	12.15	31.2	31.7	28.0
Escorts	608	Booked Out		53.2	48.7	50	11.4	12.5	12.2
Subros #	240	Booked Profits		11.7	8.9	11.97	20.5	27.0	20.1
GNA Axles	229	Positive		30.7	37.4	37.9	7.5	6.1	6.0
Suprajit Engineering #	180	Booked Profits		9.6	9.4	10.1	18.8	19.1	17.8
Lumax Auto Technologies#	91	Neutral		9.6	7.6	7.8	9.5	12.0	11.7
Tata Motors#	121	Not Under Coverage		-	4.4	10.3	-	27.5	11.7
Tata Motors- DVR #	54	Not Under Coverage		-	4.4	10.3	-	12.3	5.2
Bharat Forge #	432	Cautious		22.16	22.86	23.79	19.5	18.9	18.2
Motherson Sumi #	97	Cautious		5.1	4.4	4.5	19.0	22.0	21.6
Alicon Castalloy Limited #	335	Neutral		39.6	37.15	44.94	8.5	9.0	7.5

.@-MM & MVML; #- Consolidated; UR- PT under review

Sharekhan
by BNP PARIBAS

Banking and Financial Services

An eventful quarter

Q2FY2020 Results Preview

Sector: BFSI

Sector View: Neutral

The quarter is expected to continue with divergent trends in different segments' performance. The cut in corporate tax rate is a significant development and we expect banks to either take the benefit on their earnings or utilise the benefits by further cleanup and balance sheet strengthening. However, we expect a one-time negative impact on the PAT due to write down of deferred tax assets (DTA) on their balance sheet on post-tax earnings. Operationally, while most private banks (PBs) are likely to continue to see improvement in their core operating performance (lower NPA accretion and treasury gains), challenges persist for most NBFCs (risk aversion reflected in availability as well as cost of funds, tepid credit growth etc). Fall in bond yields (18 BPS) is positive, not only resulting in lower cost of funds (CoF) but also in treasury profit boost. Growth is likely to be relatively soft in most NBFCs and PSU banks. We expect advances momentum to be near-normal for strong NBFCs (those having a strong balance sheet/parent backed/highly rated) and normal for most private (including retail and corporate) banks. As balance sheet strengthening continues, corporate banks should continue to see improvement in core fundamentals, which will be reflected in improved profitability. We expect NIMs of private banks to be stable, but NBFCs' slowing growth outlook and PSU banks' weak asset book are likely to keep their profitability under pressure.

Outlook

Private banks better placed, NBFCs and PSU banks still under weather: We expect the core operating performance of PBs to continue to show improvement, with credit growth and asset-quality tailwinds benefitting the outlook, relatively speaking. Weakening competition from PSU banks and NBFCs, as well as portfolio buy-outs opportunity, bolster PB's growth prospects sans corresponding rise in incremental risk. Though we expect asset-quality stress to abate going forward, in the near term, resolution (mainly of the IBC cases has been slow) and recovery will be keenly monitored. Subdued private capex and higher stress in the corporate sector have led to sluggish credit growth at ~12% y-o-y for September 2019. Though bond yields fell, the correction was relatively small, by ~18BPS (as compared to ~47BPS in Q1FY2020). This provides a smaller opportunity for treasury profit gains (yields and price move in the opposite direction) for banks, NBFCs and insurance companies. We maintain our preference for banks (improving fundamentals, lesser competition and reducing NPA accretion providing tailwinds). We maintain our selective view on NBFCs (strong parent backed, higher rated); and in PSU banks, find SBI attractive. We find ICICI Lombard and HDFC Life attractive in the general and life insurance segment due to their healthy growth outlook as well as an expanding and growing market.

Valuation

We believe our hypothesis of earnings normalisation leading to re-rating benefits continues to hold for corporate banks. We find retail-focused PBs and large corporate PBs attractive at present, as we maintain that the current environment has several tailwinds in their favour.

Key risks:

- Larger-than-anticipated delay/haircut on stresses corporate exposures may impact near-term profitability.
- Prolonged liquidity issues for NBFCs and other borrower segments may dovetail into fresh stress.

Leaders for Q2FY2020: HDFC Bank, Bajaj Finance and Kotak Bank

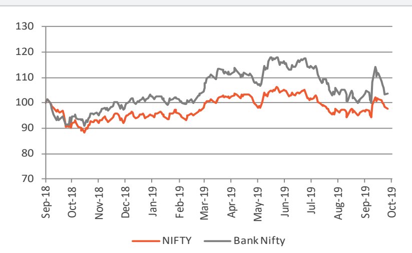
Laggards for Q2FY2020: Union Bank of India and Yes Bank

Preferred Picks: ICICI Bank, HDFC Bank, Bajaj Finance, Kotak Mahindra Bank, City Union Bank, ICICI Lombard

Our coverage universe

Companies	CMP (Rs)	Reco.	PT (Rs)
State Bank of India	249	Buy	380
Bank of Baroda	87	Hold	120
Punjab National Bank	57	Buy	85
Union Bank of India	50	Reduce	UR
Bank of India	59	Hold	80
ICICI Bank	416	Buy	564
Axis Bank	673	Buy	882
HDFC Bank	1188	Buy	1510
Federal Bank	85	Buy	122
Yes Bank	46	Hold	UR
IndusInd Bank	1242	Positive	1752
Kotak Mahindra Bank	1556	Positive	1910
RBL Bank	303	Positive	447
City Union Bank	221	Positive	265
L&T Finance Holding	80	Neutral	111
HDFC Ltd	1969	Buy	2550
LIC Housing	372	Hold	500
Bajaj Finance	3905	Buy	4500
HDFC Life Insurance	575	Positive	635
ICICI Lombard	1159	Positive	1420
Spandana Sphoorty	941	Positive	1130
Bajaj Finserv	8225	Buy	9200

Price chart



Q2FY2020 results estimates

Company	Net Interest Income				PPoP				PAT			
	Q2 FY20	Q2 FY19	YoY %	QoQ %	Q2 FY20	Q2 FY19	YoY %	QoQ %	Q2 FY20	Q2 FY19	YoY %	QoQ %
PSU Banks												
State Bank of India	23,551.2	20,905.7	12.7	2.7	13,889.6	12,344.3	12.5	4.9	990.8	944.9	4.9	(57.1)
Bank of Baroda	6,371.0	4,492.5	41.8	(2.0)	4,366.6	3,081.9	41.7	2.1	389.3	425.4	-8.5	-45.2
Punjab National Bank	4,232.0	3,974.1	6.5	2.2	3,075.6	2,839.5	8.3	(11.7)	43.2	(4,532.4)	NA	-95.8
Union Bank of India	2,602.1	2,493.1	4.4	3.3	1,912.7	1,771.9	7.9	1.4	150.9	139.0	8.5	(32.8)
Bank of India	3,388.1	2,926.8	15.8	(2.8)	2,078.9	1,647.0	26.2	(8.5)	81.9	(1,156.3)	(107.1)	(66.2)
Total												
Private Banks												
ICICI Bank	7,973.4	6,417.6	24.2	3.0	6,671.9	5,249.7	27.1	6.1	469.7	908.9	(48.3)	(75.4)
Axis Bank	5,985.4	5,232.1	14.4	2.4	5,385.8	4,094.0	31.6	(8.6)	484.0	789.6	(38.7)	(64.7)
HDFC Bank	14,232.6	11,763.4	21.0	7.1	11,715.9	9,480.0	23.6	5.1	6,123.7	5,005.7	22.3	10.0
Federal Bank	1,203.1	1,022.5	17.7	4.2	818.2	697.6	17.3	4.5	388.2	266.0	45.9	1.0
Yes Bank	2,193.8	2,417.6	(9.3)	(3.8)	1,993.2	2,366.4	(15.8)	1.7	97.3	964.7	(89.9)	(14.5)
Total												
Soft Coverage												
IndusInd Bank	2,807.4	2,203.3	27.4	(1.3)	2,496.9	1,992.4	25.3	(3.6)	1,409.1	920.3	53.1	-1.6
Kotak Mahindra Bank	3,216.6	2,689.1	19.6	1.4	2,376.2	2,095.0	13.4	(0.9)	1,490.8	1,141.7	30.6	9.6
RBL Bank	838.7	593.0	41.4	2.6	636.2	449.1	41.7	2.8	142.8	204.5	(30.2)	(46.5)
City Union Bank	447.5	398.0	12.4	7.3	357.7	295.9	20.8	1.8	194.5	168.0	15.8	4.8
L&T Finance Holding	1,677.9	1,503.5	11.6	20.7	1,283.9	1,164.9	10.2	0.8	489.7	559.1	(12.4)	(10.9)
NBFC												
HDFC Ltd	3,116.5	2,624.6	18.7	2.5	4,560.7	2,999.1	52.1	53.0	3,656.5	2,467.1	48.2	14.2
LIC Housing	1,129.0	1,049.3	7.6	(4.5)	875.6	834.7	4.9	(20.3)	598.7	573.2	4.4	(2.0)
Bajaj Finance	3,805.4	2,688.6	41.5	3.2	2,450.0	1,749.1	40.1	2.0	1,300.5	923.5	40.8	8.8
Insurance												
Company	**Net Earned Premium**				**PBT**				**PAT**			
	Q2 FY20	**Q2 FY19**	**YoY %**	**QoQ %**	**Q2 FY20**	**Q2 FY19**	**YoY %**	**QoQ %**	**Q2 FY20**	**Q2 FY19**	**YoY %**	**QoQ %**
ICICI Lombard	2416.0	2222.0	8.7	7.6	554.2	449.0	23.4	16.6	341.3	293.1	16.4	10.2

Source: Company, Sharekhan Research

Valuations

Company	CMP (Rs)	Reco/ View	Target Price (Rs)	BVPS			P/BV		
				FY19	FY20E	FY21E	FY19	FY20E	FY21E
PSU Banks									
State Bank of India	249	Buy	380	213.3	228.4	247.6	1.2	1.1	1.0
Bank of Baroda	87	Hold	120	179.5	168.1	185.2	0.5	0.5	0.5
Punjab National Bank	57	Buy	85	89.5	112.4	128.5	0.6	0.5	0.4
Union Bank of India	50	Reduce	UR	137.0	262.8	278.8	0.4	0.2	0.2
Bank of India	59	Hold	80	126.9	92.5	98.8	0.5	0.6	0.6
Private Banks									
ICICI Bank	416	Buy	564	163.0	176.9	194.2	2.6	2.4	2.1
Axis Bank	673	Buy	882	256.9	281.9	316.4	2.6	2.4	2.1
HDFC Bank	1188	Buy	1510	272.3	309.6	359.6	4.4	3.8	3.3
Federal Bank	85	Buy	122	65.6	73.7	82.8	1.3	1.2	1.0
Yes Bank	46	Hold	UR	116.4	110.7	117.8	0.4	0.4	0.4
Soft Coverage									
IndusInd Bank	1242	Positive	1752	438.4	454.9	558.5	2.8	2.7	2.2
Kotak Mahindra Bank	1556	Positive	1910	224.7	262.4	300.8	6.9	5.9	5.2
RBL Bank	303	Positive	447	176.5	193.2	218.2	1.7	1.6	1.4
City Union Bank	221	Positive	265	65.9	74.3	85.7	3.4	3.0	2.6
L&T Finance Holding	80	Neutral	111	67.3	76.2	86.3	1.2	1.1	0.9
NBFC									
HDFC Ltd	1969	Buy	2550	449.4	486.4	531.3	4.4	4.0	3.7
LIC Housing	372	Hold	500	322.0	333.6	387.2	1.2	1.1	1.0
Bajaj Finance	3905	Buy	4500	343.5	418.8	516.8	11.4	9.3	7.6
Insurance									
Company	**CMP (Rs)**	**View**	**Target Price (Rs)**	**EPS**			**P/EPS**		
				FY19	**FY20E**	**FY21E**	**FY19**	**FY20E**	**FY21E**
ICICI Lombard	1159	Positive	1420	23.1	30.9	41.6	50.2	37.5	23.1

Source: Company, Sharekhan Research

Sharekhan
by BNP PARIBAS

Capital Goods & Engineering

Moderate Quarter despite headwinds

Q2FY2020 Results Preview

Sector: Capital goods / Power

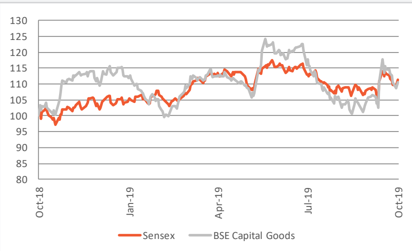
Sector View: Positive

Our coverage universe

Companies	CMP (Rs)	Reco.	PT (Rs)
Bharat Electronics	105	Buy	140
Finolex cables	359	Hold	412
KEC International	267	Buy	325
Kalpataru Power	451	Buy	590
L&T	1,427	Buy	1,765
Thermax	1,141	Hold	1,195
Triveni Turbines	100	Hold	115
Va Tech Wabag	247	Hold	300
V-Guard	226	Buy	280
Crompton Consumer	259	Neutral	UR
Havells	671	Positive	786
JMC Projects	106	Positive	148
KEI Industries	530	Positive	644
Polycab India	667	Positive	772

*UR - Under Review

Price chart



We expect our capital goods universe to report 9.3% y-o-y revenue growth for Q2FY2020, furthering lower execution as witnessed in Q1FY2020 (revenue growth of 10.2% y-o-y). For project-based companies, above-average rainfall and tight liquidity scenario is expected to lead to subdued execution. Consumer-facing companies are likely to relatively fare better (revenue growth of 10% y-o-y) owing to low inventory levels at the start of the quarter. Operating margin of our coverage universe is expected to decline marginally by 51 bps y-o-y helped by cost controls and favourable commodity prices. We expect a healthy performance from L&T, KEC and KPTL led by a strong order backlog and stable OPM. Overall, capital goods universe is expected to post 8.8% y-o-y growth in net profit. Consumer-facing companies are set to show strong net earnings growth of 28% y-o-y with the fillip of a corporate tax rate cut. We expect H2FY2020 to be better for our capital goods universe with the kickstart of government infrastructure spending, a gradual recovery in private capex (with the recent corporate tax rate cut) and improvement in consumer sentiments (normal monsoon and onset of festival season).

Outlook: H2FY2020 to be better; Remain Positive

The Sharekhan capital goods universe has been grappling with weak order inflows and a tightening liquidity scenario over the trailing four quarters. However, the government's focus on reviving infrastructure spending especially in roads, oil & gas, railways is likely to improve order inflow visibility for the companies from H2FY2020. Further, the government's efforts to improve consumer sentiments and a normal monsoon should provide healthy demand environment for consumer-facing companies. Hence, we remain constructive on the sector and retain our Positive stance.

Valuation: Positive triggers not very far off, remain selective

The S&P BSE Capital Goods Index marginally underperformed the Sensex over one year by ~1% on account of weakening order inflows (barring L&T) and declining consumer sentiments. Project-based companies are currently trading at a P/E of 9x-32x, while consumer-facing companies are trading at 13x-37x of their FY2021E earnings. We see an improvement in government project tendering, easing liquidity scenario, gradual improvement in private capex and consumer sentiments to be key positive triggers for the sector.

Preferred picks: L&T, KEC International, Kalpataru Power, JMC Projects, KEI Industries and Polycab India

Key risks: 1) Weak domestic macroeconomic environment leading to weak project tendering and 2) higher commodity prices affecting OPM.

Leaders: L&T, Kalpataru Power, KEC International and KEI Industries

Laggards: Va Tech Wabag

Q2FY2020 results estimates Rs cr

Companies	Revenue				OPM (%)				Net profit			
	Q2FY20E	Q2FY19	YoY %	QoQ%	Q2FY20E	Q2FY19	(YoY) BPS	(QoQ) BPS	Q2FY20E	Q2FY19	YoY %	QoQ%
Active coverage												
BEL	3,447	3,381	1.9	64.0	22.5	25.3	(277)	594	538	571	-5.9	162.7
Finolex Cables*	747	714	4.6	-7.5	12.7	12.0	68	(42)	114	93	22.6	39.6
KEC	2,658	2,408	10.4	10.2	10.2	10.5	(31)	(22)	131	98	33.5	47.3
KPTL*	1,759	1,574	11.8	6.3	10.9	10.9	4	(70)	118	91	28.7	27.8
L&T	35,545	32,081	10.8	19.9	11.3	11.8	(45)	10	2,079	1,936	7.4	32.7
Thermax	1,473	1,428	3.2	5.8	8.1	7.7	39	98	89	75	19.0	41.2
Triveni Turbines	236	217	8.6	10.5	20.7	20.7	(4)	24	35	30	16.7	15.0
Va Tech Wabag	657	752	-12.6	43.9	8.1	8.4	(25)	(9)	12	36	-66.9	354.2
V-Guard*	647	598	8.2	-7.5	9.7	8.3	136	(47)	46	38	19.6	-13.0
Soft coverage												
Crompton Consumer*	1,127	1,038	8.6	-16.3	12.1	11.9	16	(216)	114	77	48.6	-6.8
Havells*	2,411	2,191	10.0	-11.1	11.8	12.0	(18)	163	222	179	24.0	27.4
JMC Projects*	844	734	15.0	-6.7	10.9	10.6	34	(21)	27	30	-11.0	-24.5
KEI Industries*	1,097	997	10.1	1.5	10.2	10.1	8	(33)	56	41	35.7	22.6
Polycab India`*	2,035	1,801	13.0	5.3	11.0	11.4	(39)	38	160	129	24.5	18.4
AIA Engg	670	741	-9.5	-8.6	21.1	20.0	114	(189)	117	122	-4.3	-17.0
Total	**55,351**	**50,654**	**9.3**	**15.1**	**12.0**	**12.5**	**(51)**	**48**	**3,856**	**3,545**	**8.8**	**36.0**

*Source: Company, Sharekhan Research, *Standalone financials*

Valuations

Company	CMP (Rs)	Reco	PT (Rs)	EPS (Rs)			P/E (x)		
				FY19	FY20E	FY21E	FY19	FY20E	FY21E
BEL	105	Buy	104	7.7	8.3	9.0	13.7	12.7	11.7
Finolex Cables*	359	Hold	412	22.5	22.7	25.6	16.0	15.8	14.0
KEC	267	Buy	325	18.9	21.9	26.0	14.1	12.2	10.3
Kalpataru Power*	451	Buy	590	26.2	29.7	34.5	17.2	15.2	13.1
L&T	1,427	Buy	1,765	63.4	71.9	82.5	22.5	19.8	17.3
Thermax	1,141	Hold	1,195	28.9	31.4	36.0	39.5	36.3	31.7
Triveni Turbines	100	Hold	115	3.1	3.6	4.1	32.3	27.8	24.4
Va Tech Wabag	247	Hold	300	19.2	21.1	23.6	12.9	11.7	10.5
V-Guard*	226	Buy	280	3.9	4.9	6.1	58.2	46.5	37.2
Soft coverage									
Crompton Consumer	259	Neutral	UR	6.0	6.6	7.7	43.2	39.3	33.7
Havells*	671	Positive	786	12.7	15.0	18.5	53.0	44.9	36.2
JMC Projects*	106	Positive	148	8.5	9.6	11.8	12.5	11.1	9.0
KEI Industries*	530	Positive	644	23.0	33.4	42.4	23.0	15.9	12.5
Polycab India*	667	Positive	772	35.4	43.5	54.4	18.8	15.3	12.2
AIA Engg	1,644	NR	NR	54.2	60.0	71.6	30.4	27.4	23.0

*Source: Company, Sharekhan Research, *Standalone, NR- Not Rated, UR-Under Review*

Sharekhan
by BNP PARIBAS

Consumer Discretionary

Growth moderation, tax benefit to boost earnings

Q2FY2020 Results Preview

Sector: Consumer Discretionary

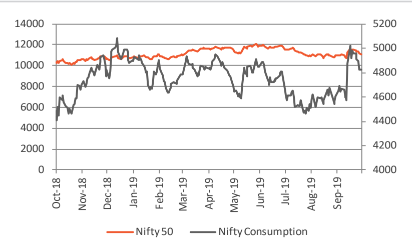
Sector View: Positive

Our coverage universe

Companies	CMP (Rs)	Reco.	PT (Rs)
Arvind	44	Hold	66
Bata India	1723	Positive	1950
Future Lifestyle	408	Positive	540
Indian Hotels	154	Positive	178
Inox Leisure	325	Buy	390
Jubilant FoodWorks	1297	Positive	1710
KKCL	970	Hold	1155
Orbit Exports	83	Hold	177
Relaxo Footwears	492	Buy	565
Shoppers Stop	411	Positive	437
Titan	1229	Buy	1445
Wonderla Holidays	270	Hold	318
ZEE Entertainment	246	Hold	UR

UR - Under Review

Price chart



We expect the branded apparel and retail companies to post moderate revenue growth of 4.3% y-o-y in Q2FY2020 due to a slowdown in discretionary demand. Footwear companies are expected to post relatively resilient performance compared to others. Comparable margins are likely to remain under pressure owing to higher raw-material costs and increased advertising and promotional spends. Profit before tax (PBT) for our coverage universe is expected to decline by 3.4% y-o-y. Implementation of Ind-AS 116 would affect the bottom line of most companies under our coverage in Q2FY2020. However, a reduction in corporate tax rate would help most companies clock double-digit earnings. We expect the companies to pass on the benefit of lower tax to consumers. The upcoming festive/wedding season will pull up demand and improve operating performance of companies in our coverage in the coming quarters (likely in H2FY2020).

Outlook

Demand slowdown to sustain, festive season might provide some push to sales: Same store sales growth (SSSG) of most companies is likely to remain in mid-single digits owing to soft discretionary demand, which would affect revenue growth in Q2FY2020. However, demand is expected to improve in H2FY2020 as the festive and wedding seasons begin. Higher advertising and promotional costs might result in muted margins, but operating efficiencies and a better revenue mix would help mitigate margin pressures to some extent in the near to medium term. The implementation of Ind-AS 116 would affect bottom line of most branded apparel and retail companies in our coverage. We expect companies to increase the pace of innovation and open more stores as the cash flows increase post the corporate tax rate cut. The shift in demand from unbranded to branded products due to improving consumer aspirations, omni-channel strategies and retailers' foray into tier-II and tier-III towns would help branded apparel and retail companies post decent operating performance in the medium to long term.

Valuation

We remain selective and prefer stocks having a lean balance sheet with strong growth prospects. Thus, **our preferred picks include Bata India (Bata), Indian Hotels Company (IHCL), Relaxo Footwears (Relaxo) and Inox Leisure (Inox).** We expect Bata to benefit because of its recent strategy to rebrand itself as a branded footwear player from a conventional player. IHCL will benefit from a pick-up in the hotels industry and its focus on management contract hotels. A demand shift towards the organised sector and distribution expansion would continue to drive growth for Relaxo. We remain positive on Inox Leisure given its strong balance sheet (net-debt free) along with healthy cash-flow generation, increasing footfall monetisation efforts and a gradually narrowing gap on certain business matrices with the largest player in the industry.

Key risks:

1) Stiff competition in key categories would affect revenue growth; 2) A sustained slowdown in discretionary demand environment would affect earnings estimates for the coming quarters; and 3) regulatory changes in e-commerce policies would affect online trade channel of certain companies.

Leaders in Q2FY2020: Relaxo, Bata, Inox Leisure and Wonderla Holidays (WHL)

Laggards in Q2FY2020: Arvind and IHCL

Q2FY2020 results estimates

Company	Net sales (Rs cr) Q2 FY20E	Q2 FY19	YoY (%)	OPM (%)# Q2 FY20E	Q2 FY19	BPS (Y-o-Y)	Profit Before Tax Q2 FY20E	Q2 FY19	Y-o-Y %	Adjusted PAT* Q2 FY20E	Q2 FY19	Y-o-Y %
Branded Apparels & Retail												
Arvind	1847.7	1792.9	3.1	9.4	10.2	-77	61.7	92.7	-33.5	49.3	66.9	-26.3
Kewal Kiran Clothing	160.2	152.3	5.2	29.7	31.4	-171	47.1	49.2	-4.3	35.8	33.6	6.6
Orbit Exports	33.8	34.8	-2.7	27.0	27.9	-90	6.7	7.9	-14.7	5.8	6.1	-4.2
Relaxo Footwears	599.7	545.2	10.0	13.6	13.5	11	64.0	63.0	1.5	54.8	39.5	38.9
Titan Company	4617.4	4567.2	1.1	10.7	10.9	-20	490.6	469.5	4.5	391.5	321.4	21.8
Wonderla Holidays	44.3	41.3	7.3	23.2	21.9	127	2.8	1.2	124.7	6.2	0.9	557.5
Total	**7303.2**	**7133.6**	**2.4**	**11.2**	**11.5**	**-32**	**672.8**	**683.6**	**-1.6**	**543.4**	**468.3**	**16.0**
Soft coverage												
Bata India	731.5	673.1	8.7	13.6	13.0	64	98.3	85.8	14.6	89.5	55.7	60.8
Future Lifestyle Fashions	1349.5	1222.4	10.4	8.5	8.4	11	38.2	39.1	-2.2	31.1	25.5	21.9
Indian Hotels Company	1007.9	964.5	4.5	12.2	10.3	188	-50.8	-12.0	322.1	-34.0	-7.7	341.7
Jubilant FoodWorks	965.3	881.4	9.5	16.2	16.7	-54	124.6	119.9	3.9	104.8	77.7	34.9
Shoppers Stop	886.1	864.5	2.5	6.6	6.3	35	23.7	22.9	3.6	17.7	13.2	34.2
Total	**12243.5**	**11739.5**	**4.3**	**11.2**	**11.2**	**1**	**906.8**	**939.2**	**-3.4**	**752.6**	**632.7**	**18.9**
Aditya Birla Fashion & Retail	2166.5	2007.3	7.9	7.5	7.1	34	61.4	42.7	43.7	46.2	42.7	8.1
Media & Entertainment												
Inox Leisure	492.1	365.3	34.7	30.6	12.3	1829	39.3	18.4	114.0	33.5	12.0	179.9
ZEE Entertainment	2097.9	1975.9	6.2	31.7	34.2	-274	626.2	648.3	-3.4	498.6	408.7	22.0
Total	**2590.0**	**2341.2**	**10.6**	**31.5**	**30.8**	**71**	**665.6**	**666.7**	**-0.2**	**532.1**	**420.7**	**26.5**
Grand total	**17000.0**	**16088.0**	**5.7**	**13.8**	**13.5**	**28**	**1633.8**	**1648.6**	**-0.9**	**1330.9**	**1096.1**	**21.4**

Source: Company, Sharekhan estimates
#OPM numbers for some companies are comparable, does not include impact of Ind AS 116
**Adjusted PAT numbers for some companies are derived without considering the impact of Ind AS 116 and after taking into account the benefit of lower tax rate of 25.17% and reversal of excess tax paid in Q1.*

Valuations

Company	CMP (Rs)	Reco/ View	Price Target (Rs.)	EPS (Rs) FY19	FY20E	FY21E	P/E (x) FY19	FY20E	FY21E
Discretionary companies under coverage									
Arvind	44	Hold	66	8.9	10.5	11.9	4.9	4.2	3.7
Kewal Kiran Clothing	970	Hold	1155	65.1	72.6	81.5	14.9	13.4	11.9
Orbit Exports	83	Hold	177	8.4	9.6	10.0	10.0	8.8	8.4
Relaxo Footwears	492	Buy	565	7.1	8.9	11.5	69.3	55.3	42.8
Titan Company	1229	Buy	1445	17.1	21.4	25.9	71.9	57.4	47.5
Wonderla Holidays	270	Hold	318	9.8	12.8	16.3	27.6	21.1	16.6
Soft coverage									
Bata India	1723	Positive	1950	25.6	28.0	32.2	67.3	61.5	53.5
Future Lifestyle Fashions	408	Positive	540	9.9	11.8	16.6	41.2	34.6	24.6
Indian Hotels Company	154	Positive	178	2.5	3.0	3.8	61.6	51.3	40.5
Jubilant FoodWorks	1297	Positive	1710	25.0	28.8	35.9	51.9	45.0	36.1
Shoppers Stop	411	Positive	437	10.8	12.9	15.6	38.1	31.9	26.3
Media & Entertainment									
Inox Leisure	325	Buy	390	14.1	10.8	13.6	23.0	30.1	23.9
ZEE Entertainment	246	Hold	UR	16.4	19.1	21.7	15.0	12.9	11.3

Source: Company, Sharekhan estimates
UR - Under Review

Sharekhan
by BNP PARIBAS

Consumer Goods

Muted revenue growth; lower tax rate to drive earnings

Q2FY2020 Results Preview

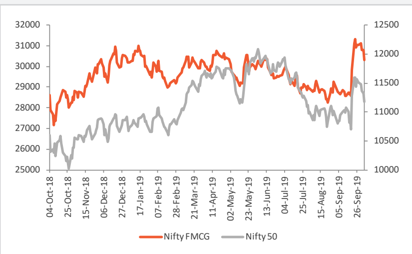
Sector: Consumer Goods

Sector View: Positive

Our coverage universe

Companies	CMP (Rs)	Reco.	PT (Rs)
Britannia Industries	2,954	Buy	3,350
Colgate-Palmolive (India)	1,461	Positive	1,826
Dabur India	432	Positive	506
Emami Limited	300	Hold	352
Godrej Consumer Products	670	Hold	717
GSK Consumer	8,311	Hold	9,300
Hindustan Unilever	1,939	Buy	2,240
ITC Limited	258	Buy	297
Jyothy Laboratories	160	Hold	180
Marico	379	Buy	442
Parag Milk Foods	153	Positive	178
Varun Beverages	611	Positive	760
Zydus Wellness	1,552	Hold	1,840

Price chart



We expect Q2FY2020 to be yet another subdued quarter for consumer goods companies as demand, especially in the rural markets remained sluggish. Further, excess rains in August resulted in floods in most part of India, further affecting domestic sales. Revenue of the Sharekhan consumer goods universe is expected to grow by 6.5% in Q2FY2020. Food companies are expected to see margins drop due to an increase in milk, sugar and agri-commodity prices, while soap manufacturers and hair oil companies are likely to post higher margins y-o-y. We expect PBT growth for the Sharekhan universe to be at 7.6% in Q2. However, earnings are likely to grow in double-digits for most companies due to a cut in corporate tax rates (Sharekhan consumer goods universe earnings to grow by 26.4%) boosting earnings for most companies. An above normal monsoon and a reduction in corporate tax rate can bring some cheer for consumer goods companies in the hopes of some recovery in rural demand environment. The festive season will see uptick in demand in Q3 but the sustenance of the same in subsequent quarters will be a key trigger for improvement in volume growth in the quarters ahead.

Outlook

Festive demand might cheer up Q3: Q2FY2020 performance of consumer goods companies is expected to be soft due to a sustained slowdown in rural markets. However, an above-normal rainfall would lead to better agriculture production, which will provide a breather to the rural economy. We expect consumer goods companies to pass on the benefits of the reduction in corporate tax rates through discounts/ higher promotional offerings to enthuse customers in the coming quarters. However, the positive effect of same would start flowing in the subsequent quarters. Q3FY2020 might see some uptick in the volume growth due to festive demand but performance needs to be keenly monitored in the quarters ahead. The recent tax rate cut would help companies show a better picture at the bottomline level.

Valuation

We remain selective in the space and prefer companies having better growth prospects and decent earnings visibility. In view of this, we continue to prefer Hindustan Unilever (HUL) as it will see revival in the sales volume by passing on benefits to consumers. We also like Colgate-Palmolive (India) [Colgate] as the reduction in competitive intensity from Patanjali, re-defined strategies and new leadership on board bodes well for the company for near to medium term. Among mid-caps we continue to like Marico (as earnings growth will be higher due to reduction in copra prices) and Dabur India (large product portfolio will help to achieve decent volume growth).

Key risks:

1) Slow recovery in the demand environment; 2) Significant increase in key input prices would put further put stress on margins; and 3) Slowdown in the macro environment of key international geographies (including Africa and Southeast Asia).

Leaders in Q2FY2020: HUL, Marico, Colgate and Varun Beverages

Laggards in Q2FY2020: Godrej Consumer Products and Emami

Sharekhan
by BNP PARIBAS

Q2FY2020 results estimates

Company	Net sales (Rs cr)			OPM (%)			Profit Before Tax			Adjusted PAT		
	Q2 FY20E	Q2 FY19	YoY (%)	Q2 FY20E	Q2 FY19	BPS (Y-o-Y)	Q2 FY20E	Q2 FY19	Y-o-Y %	Q2# FY20E	Q2 FY19	Y-o-Y %
FMCG companies under coverage												
Britannia Industries	3031.0	2869.6	5.6	14.5	15.8	-135	448.7	458.9	-2.2	377.6	303.0	24.6
Emami	660.8	628.0	5.2	28.1	30.2	-204	171.3	168.0	2.0	133.6	131.7	1.4
GCPL	2711.6	2659.2	2.0	19.3	18.3	101	435.4	409.0	6.5	359.2	369.8	-2.9
GSK Consumer	1349.3	1272.0	6.1	27.1	27.8	-70	449.0	427.4	5.1	371.6	275.5	34.9
Hindustan Unilever	9749.8	9234.0	5.6	23.7	21.9	187	2323.9	2187.0	6.3	1900.6	1549.5	22.7
ITC Limited	12489.3	11776.6	6.1	36.6	35.7	92	4805.4	4369.1	10.0	4006.8	2954.7	35.6
Jyothy Laboratories	446.7	427.7	4.4	18.2	17.1	105	61.1	56.9	7.4	50.1	45.3	10.5
Marico	1961.4	1836.8	6.8	17.9	16.0	187	333.6	295.2	13.0	249.5	218.3	14.3
Zydus Wellness*	149.2	138.2	8.0	28.1	27.9	20	49.3	46.2	6.7	44.6	42.2	5.8
Under soft coverage												
Colgate-Palmolive (India)	1233.3	1168.0	5.6	28.6	28.2	37	315.5	298.4	5.7	263.5	196.4	34.2
Dabur India	2266.2	2125.0	6.6	21.5	21.2	28	493.4	473.4	4.2	392.2	377.3	4.0
Parag Milk Foods	622.6	573.5	8.6	9.8	10.1	-34	41.5	38.6	7.6	31.0	30.4	2.0
Varun Beverages	1577.6	1204.5	31.0	17.2	17.5	-38	67.1	64.8	3.7	81.0	43.6	86.0
Total	**38248.7**	**35913.1**	**6.5**	**26.3**	**25.5**	**75**	**9995.3**	**9292.8**	**7.6**	**8261.4**	**6537.7**	**26.4**

Source: Company, Sharekhan estimates
#Adjusted PAT for Q2 is after considering lower tax rate of 25.17% and the write back of excessive tax paid in Q1
**Zydus Wellness financials does not include the consolidation of Heinz India Pvt. Ltd*

Valuations

Company	CMP (Rs)	Reco	Target Price (Rs)	EPS (Rs)			P/E (x)		
				FY19	FY20E	FY21E	FY19	FY20E	FY21E
Consumer Goods companies under coverage									
Britannia Industries	2,954	Buy	3,350	48.2	61.0	72.8	61.3	48.4	40.6
Emami Limited	300	Hold	352	11.3	13.1	16.0	26.5	22.9	18.8
Godrej Consumer Products	670	Hold	717	14.5	16.6	19.9	46.2	40.4	33.7
GSK Consumer	8,311	Hold	9,300	206.6	275.9	300.0	40.2	30.1	27.7
Hindustan Unilever	1,939	Buy	2,240	28.7	35.7	42.2	67.6	54.3	45.9
ITC Limited	258	Buy	297	10.1	12.4	13.8	25.5	20.8	18.7
Jyothy Laboratories	160	Hold	180	5.4	5.7	6.6	29.6	28.1	24.2
Marico	379	Buy	442	7.3	9.5	11.0	51.9	39.9	34.5
Zydus Wellness	1,552	Hold	1,840	29.7	41.8	55.6	52.3	37.1	27.9
Under soft coverage									
Colgate-Palmolive (India)	1,461	Positive	1,826	27.6	33.3	37.3	52.9	43.9	39.2
Dabur India	432	Positive	506	8.5	9.4	11.2	50.8	46.0	38.6
Parag Milk Foods	153	Positive	178	14.4	17.4	22.8	10.6	8.8	6.7
Varun Beverages*	611	Positive	760	10.9	15.9	19.5	56.1	38.4	31.3

Source: Company, Sharekhan Research
** Varun Beverages is December ending company, FY2019 EPS is CY2018 EPS*

Sharekhan
by BNP PARIBAS

IT

Mixed quarter, remain selective

Q2FY2020 Results Preview

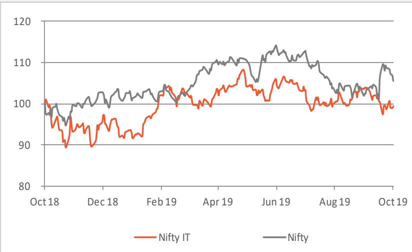
Sector: IT

Sector View: Neutral

Our coverage universe

Companies	CMP (Rs)	Reco.	PT (Rs)
HCL Tech	1,078	Buy	1,250
Infosys	793	Buy	880
L&T Infotech	1,507	Positive	1,698
L&T Tech	1,595	Positive	1,847
Mastek	326	Positive	513
Persistent	559	Hold	650
TCS	2,080	Buy	2,450
Tech M	708	Positive	830
Wipro	238	Hold	285

Price chart



We expect mixed revenue growth performance across tier-I IT companies, with constant currency (CC) revenue growth of 1.1-5.8% q-o-q (including inorganic contributions). Infosys is expected to report strongest organic growth (2.9% CC) among large peers, while HCL Tech is expected to lead the pack with 5.8% q-o-q CC growth, of which 0.6% would be organic, powered by contribution from select IBM products acquisition. We expect deceleration in y-o-y growth of TCS owing to softness in BFSI and client-specific challenges in the retail segment. However, weakness of global currency against USD is expected to create cross-currency headwinds of 50-80 BPS on USD revenue growth, implies USD revenue growth of 0.5-5.1% q-o-q. EBIT margin of top-five IT companies (except Wipro) is expected to improve by 70-184 BPS on a q-o-q basis on account of absence of wage revision and visa expenses, lower digital investments, and rupee tailwinds. We expect Infosys to upgrade its revenue growth guidance to 9.5-10.5% from 8.5-10% earlier, while HCL Tech and L&T Tech (LTTS) would retain their respective revenue growth guidance for FY2020E. TCS could announce a larger dividend instead of buyback (earlier buyback was completed in September 2018), given limited tax advantages via the buyback route.

Outlook – Cautious outlook on BFSI spending, maintain Neutral stance
We believe tech spends by financial firms in the U.S. and Europe would remain soft in the near term, owing to trade war concerns, Brexit, falling interest rate in North America, slower GDP growth, and uncertainties around central bank policies in developed markets. Note that most managements of large global BFS firms reiterated expectations of lower growth in tech spends in 2019. Further, managements of tier-I IT companies expect softness in BFSI spends, attributed to softness in capital markets and large banks in Europe and weak spends in U.S. regional banks undergoing M&A. Hence, we expect weakness in financial services to continue in Q2FY2020E. However, large IT companies also reaffirmed that they have not witnessed any material change in the demand environment owing to macro uncertainties. Accenture has reported extremely strong bookings, especially in the outsourcing segment at a time of macro uncertainties. Hence, we believe healthy demand environment for IT companies would continue with robust deal wins for companies with strong digital competencies. Operating profitability of IT companies is likely to be under pressure going ahead due to shortage of onsite talent supply and investments in sales and marketing and digital capabilities. We maintain our Neutral view on the sector.

Valuation-Stay selective: Though the CNX IT index has underperformed the broader markets by around 8.1% in the past one month owing to cut in corporate tax rate, which has negligible impact on IT companies earnings; the IT sector has outperformed the broader markets on year-to-date (YTD) basis because of its defensive characteristics and continued healthy demand environment. We continue to remain selective in terms of our preferred picks in the IT sector, given revival in growth from large deal wins, long runway for revenue growth momentum, stable performance, and reasonable valuation.

Key risks: 1) INR appreciation vis-à-vis USD would impact earnings estimates in FY2020E/FY2021E and stock performance; 2) slowdown in tech spending by large enterprises; and 3) weaker macros including potential slower GDP growth in the U.S., trade wars, and Brexit.

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

Q2FY2020 results estimates

Company	Sales (Rs cr)				OPM (%)				Net profit (Rs cr)			
	Q2 FY20E	Q2 FY19	YoY (%)	QoQ (%)	Q2 FY20E	Q2 FY19	YoY (bps)	QoQ (bps)	Q2 FY20E	Q2 FY19	YoY (%)	QoQ (%)
TCS	39,294	36,854	6.6	2.9	27.7	27.9	-23	136	8,413	7,901	6.5	3.5
Infosys	22,665	20,609	10.0	4.0	24.2	26.0	-177	60	3,963	4,110	-3.6	4.2
Wipro	14,905	14,568	2.3	1.3	20.0	16.3	372	2	2,288	1,889	21.1	-4.1
HCL Tech	17,465	14,861	17.5	6.3	23.4	23.5	-13	271	2,575	2,540	1.4	16.0
Persistent	877	836	4.9	5.3	13.7	17.2	-351	-77	79	88	-10.5	-4.3
Tech M	8,854	8,630	2.6	2.3	15.8	18.8	-298	59	913	1,064	-14.2	-4.8
L&T Infotech	2,529	2,331	8.5	1.8	17.9	20.5	-265	-53	344	400	-14.1	-3.3
L&T Tech	1,399	1,266	10.5	3.8	19.6	18.1	156	-60	202	191	5.5	-1.1
Mastek	247	257	-3.8	-0.1	12.3	12.2	12	-98	22	25	-11.2	-8.0

Source: Company, Sharekhan Research

Valuations

Company	CMP (Rs)	Reco	Target Price (Rs)	EPS (Rs)			P/E (x)		
				FY19	FY20E	FY21E	FY19	FY20E	FY21E
TCS	2,080	Buy	2,450	83.1	89.9	98.7	25.0	23.1	21.1
Infosys	793	Buy	880	35.4	38.6	43.7	22.4	20.6	18.1
Wipro	238	Hold	285	14.9	16.4	18.2	15.9	14.5	13.1
HCL Tech	1,078	Buy	1,250	73.6	74.6	82.6	14.7	14.5	13.0
Persistent	559	Hold	650	44.0	48.4	52.5	12.7	11.5	10.6
Under soft coverage									
Tech M	708	Positive	830	47.7	48.0	56.1	14.8	14.8	12.6
L&T Infotech	1,507	Positive	1,698	86.4	84.8	98.9	17.4	17.8	15.2
L&T Tech	1,595	Positive	1,847	72.9	75.7	86.4	21.9	21.1	18.5
Mastek	326	Positive	513	40.1	43.9	51.3	8.1	7.4	6.4

Source: Company, Sharekhan Research

Sharekhan by BNP PARIBAS

Cement/Infrastructure/Building material

Cement still better, infrastructure yet striving

Q2FY2020 Results Preview

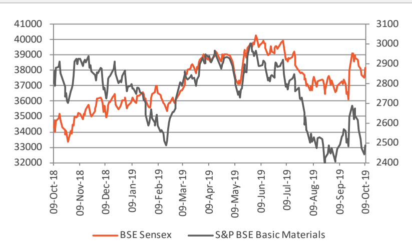
Sector: Cement/Infra/ Building material

Sector View: Positive

Our coverage universe

Companies	CMP (Rs)	Reco.	PT (Rs)
Shree Cement	18496	Hold	21560
Ultratech Cement	4041	Buy	5000
Grasim Industries	671	Hold	803
The Ramco Cement	705	Buy	870
JK Lakshmi Cement	286	Positive	415
IRB Infra	66	Buy	150
Sadbhav Engineering	132	Buy	200
KNR Constructions	221	Positive	293
Ashoka Buildcon	98	Positive	125
Ahluwalia Contracts	272	Positive	355
Century Plyboards	166	Buy	213
Supreme Industries	1211	Buy	1350
Kajaria Ceramics	559	Positive	655

Price chart



We expect cement to report strong net earnings growth (up 44% y-o-y) due to higher realizations (up 5% y-o-y) and lower key operating costs (lower pet coke and diesel prices) amidst weak demand environment (volume growth of 1.4% y-o-y) for Q2FY2020. The infrastructure space is expected to be affected by above average rainfall and delay in receipt of appointed dates for projects for some companies leading to marginal 4.5% y-o-y revenue growth. Further, lower utilization and a change in revenue mix is expected to affect operating margins (lower by 69 BPS y-o-y) and net profit (down 10.7% y-o-y). The building material segment is likely to be affected by weak pricing power amidst higher competitive intensity with revenues primarily driven by volume growth. The operating margin pressure is expected to lead to 2% y-o-y decline in net earnings. We see cement, infrastructure and building materials attuned with government spending on infrastructure and affordable housing segments, which is expected to revive from H2FY2020. We have a positive view on the sectors and select companies with strong net earnings growth and cheap valuation (especially for infrastructure space).

Outlook

Government infrastructure and housing spend a key trigger: We expect the cement sector to perform better, factoring in a demand revival from H2FY2020 especially post a good monsoon as government spending on infrastructure projects and affordable housing picks up. The recent correction in pet coke and coal prices provides additional benefit of improving upon OPM. In the infrastructure space, along with improvement in project tendering, the receipt of appointed dates for HAM projects should kick start execution. The faster settlement of arbitration claims, monetisation of assets and overall easing of liquidity scenario is expected to improve the balance sheet health of infrastructure companies. The recent cut in corporate tax rate is expected to yield twin benefits to building material segment with increase in net earnings immediately along with demand shift from unorganised sector (considering better tax compliance provides level playing field to organised sector).

Valuation

Sticking with strong earnings growth, quality balance sheet and cheap valuations: We maintain a positive stance on the cement space for the aforementioned reasons and prefer the sector and regional leaders within it. In the infrastructure space, we prefer companies having a relatively low balance sheet leverage, strong order book profile and credible management. Also, post the recent correction in infrastructure space, we see a favourable risk reward ratio in few companies and consider it as an opportunity for long term investors. In the building materials space, we prefer companies with a leadership position in their product category with capacity expansion plans in place to reap benefits from the unorganised segment.

Key risks:

1) Weak macroeconomic environment and rising interest rates are key risks across three sectors

Leaders in Q2FY2020: Ultratech, JK Lakshmi Cement, Kajaria Ceramics

Laggards in Q2FY2020: Grasim Industries, IRB Infrastructure, Sadbhav Engineering, Supreme Industries

Preferred Picks: Ultratech, The Ramco Cements, JK Lakshmi Cement, KNR Construction, Ahluwalia Contracts, Kajaria Ceramics

Q2FY2020 results estimates

Company	Revenues (Rs. cr)				OPM (%)				Net profit (Rs. cr)			
	Q2 FY20E	Q2 FY19	y-o-y (%)	q-o-q (%)	Q2 FY20E	Q2 FY19	y-o-q (bps)	q-o-q (bps)	Q2 FY20E	Q2 FY19	y-o-y (%)	q-o-q (%)
Cement												
Grasim*	5189	5118	1.4%	3.8%	16.6%	20.9%	-427	-26	640	817	-21.7%	45.6%
Ultratech	8485	7857	8.0%	-13.4%	21.9%	16.5%	540	-418	705	391	80.4%	-41.2%
Shree Cement	2815	2587	8.8%	-7.3%	27.6%	22.2%	545	-210	263	281	-6.4%	-27.6%
The Ramco Cements	1185	1184	0.1%	-14.4%	19.6%	20.9%	-128	-637	111	114	-2.8%	-42.0%
Soft coverage												
India Cements	1340	1387	-3.4%	-8.8%	10.7%	11.2%	-42	-574	4	1	-	-93.9%
JK Lakshmi Cement	927	851	8.9%	-11.0%	13.6%	10.8%	288	-265	35	8	-	-49.2%
Mangalam Cement	340	288	18.1%	2.0%	17.3%	5.6%	1171	-311	28	3	-	-16.0%
Total	**20281**	**19272**	**5.2%**	**-8.1%**	**20.0%**	**17.9%**	**212**	**-328**	**1787**	**1615**	**10.6%**	**-24.6%**
Total (ex-Grasim)	**15,092**	**14,153**	**6.6%**	**-11.5%**	**21.2%**	**16.8%**	**437**	**-399**	**1147**	**799**	**43.6%**	**-40.5%**
Infrastructure												
IRB Infrastructure	1,551	1,432	8.3%	-12.5%	44.4	46.8	-241	-387	150	173	-13.2%	-27.3%
Sadbhav Engineering*	700	691	1.3%	-16.5%	12.4	12.1	29	-13	27	38	-28.8%	-30.9%
Soft coverage												
KNR Constructions	465	416	11.7%	0.1%	18.9	20.0	-106	-47	42	45	-7.6%	-12.8%
Ashoka Buildcon*	792	764	3.7%	-9.6%	12.6	13.6	-92	16	60	62	-3.0%	-6.8%
Ahluwalia	404	439	-8.1%	27.4%	13.1	13.1	3	74	33	31	5.9%	85.1%
Total	**3,912**	**3,743**	**4.5%**	**-8.4%**	**26.0**	**26.7**	**-69**	**-211**	**312**	**349**	**-10.7%**	**-17.0%**
Building materials												
Century Plyboards	602	564	6.7%	5.0%	15.1	13.7	146	-89	49	45	9.3%	3.9%
Supreme Industries	1,278	1,316	-2.9%	-11.1%	12.3	16.1	-389	60	84	107	-21.6%	-3.5%
Soft coverage												
Kajaria Ceramics	791	725	9.1%	13.0%	14.8	15.0	-20	-33	69	54	27.8%	34.3%
Total	**2,671**	**2,606**	**2.5%**	**-1.5%**	**13.7**	**15.3**	**-164**	**18**	**202**	**206**	**-2.0%**	**8.8%**

Source: Company, Sharekhan Research
** Standalone estimates*

Valuations

Company	Reco	Price target (Rs.)	CMP (Rs.)	EV/EBITDA (x)			P/E (x)		
				FY19	FY20E	FY21E	FY19	FY20E	FY21E
Cement									
Shree Cement	Hold	21560	18496	23.5	17.7	15.3	56.6	46.8	37.6
Ultratech Cement	Buy	5000	4041	19.2	13.7	11.5	45.6	27.1	21.5
Grasim Industries*	Hold	803	671	4.6	4.5	4.0	15.3	16.8	15.4
The Ramco Cement	Buy	870	705	17.4	14.9	12.3	33.2	25.4	20.3
Soft coverage									
India Cements	Not Rated		81	7.5	5.9	5.4	36.3	13.4	10.6
JK Lakshmi Cement	Positive		286	9.5	7.5	5.6	42.3	17.5	12.1
Mangalam Cement	Not Rated		292	22.2	5.7	4.8	-	9.4	8.0
Infrastructure									
IRB Infrastructure	Buy	150	66	5.8	2.6	2.3	2.7	2.7	2.7
Sadbhav Engineering*	Buy	200	132	7.1	6.9	6.0	12.2	12.5	9.6
Soft coverage									
KNR Constructions	Positive		221	6.1	5.7	4.7	11.7	11.6	9.3
Ashoka Buildcon	Positive		98	5.7	2.7	1.7		27.2	15.2
Ahluwalia Contracts	Positive		272	8.0	6.6	5.4	15.6	11.2	9.0
Building Materials									
Century Plyboards	Buy	213	166	13.4	11.5	9.8	22.2	18.7	15.6
Supreme Industries	Buy	1350	1211	19.1	16.5	14.6	39.6	29.9	25.8
Soft Coverage									
Kajaria Ceramics	Positive		559	19.4	17.0	15.1	38.4	28.8	25.1

*Source: Company, Sharekhan Research, * Standalone financials*

Sharekhan
by BNP PARIBAS

Oil & Gas

Robust GRMs favour OMCs; soft crude to hit upstream PSUs

Q2FY2020 Results Preview

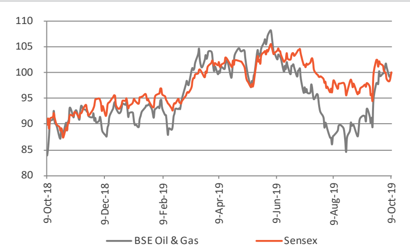
Sector: Oil & Gas

Sector View: Positive

Our coverage universe

Companies	CMP (Rs)	Reco.	PT (Rs)
Reliance Industries	1,326	Buy	1,630
BPCL	493	Positive	550
ONGC	126	Positive	165
Oil India	146	Buy	200
Petronet LNG	257	Buy	300
Indraprastha Gas	361	Positive	425
Mahanagar Gas	913	Positive	1,115
Gujarat Gas	175	Positive	210

Price chart



We expect OMCs - IOCL (Indian Oil Corporation), BPCL (Bharat Petroleum Corporation) and HPCL (Hindustan Petroleum Corporation) - to report strong numbers in Q2FY2020 supported by a sharp improvement in refining margins, marginal depreciation of Indian rupee and a lower effective income tax (partially offset by inventory losses due to decline in oil prices). However, decline in oil prices and subdued oil & gas sales volumes would drag down operating profit of upstream PSUs on y-o-y basis. CGD companies and gas utilities (especially Petronet LNG) are expected to report strong earnings growth in Q2FY2020 supported by volume growth and a lower effective tax rate. Earnings outlook for downstream companies has improved with a sharp recovery in the refining margins, lower oil prices and steady earnings contribution from marketing business. CGD companies are expected to continue its strong volume growth momentum led by regulatory support and low LNG prices along with resilient margins. We prefer Reliance Industries Limited (RIL), Mahanagar Gas Limited (MGL), Indraprastha Gas Limited (IGL), and Petronet LNG (PLNG).

Outlook

Sharp recovery in refining margins revives earnings outlook for downstream players; gas companies to sustain strong volume growth given regulatory tailwinds: Fundamentals of the refining business have improved considerably as benchmark Singapore complex GRM (SGRM) has nearly doubled to ~$6.5/bbl in Q2FY2020 (as compared to $3.5/bbl in Q1FY2020). We expect refining margins to stay strong as diesel crack spreads would remain robust at $14-18/bbl with the implementation of revised International Maritime Organisation (IMO) regulations for marine fuels from January 2020. Moreover, we expect a steady earnings contribution from the marketing business over FY2020-FY2021E. Higher refining margins and lower oil price bodes well for earnings revival of OMCs. CGD companies (IGL, MGL and Gujarat Gas) are likely to witness strong volume growth traction, given regulatory tailwinds, low Asian spot LNG prices and expansion into newer geographical areas. Gas utilities such as P-LNG would benefit from higher volumes, led by recently expanded Dahej capacity, likely improvement in Kochi terminal utilisation and annual rise in re-gas tariffs.

Valuation

We prefer RIL among downstream companies given efforts to deleverage consolidated balance sheet through divestments, target to increase share of high-growth consumer-centric business (retail and digital services) to 50% in the coming years (from 32% in Q1FY2020), and a likely rise in dividend and periodic bonus shares as the company would near its target of being a zero-net debt company (by March 2021). MGL and IGL are our preferred picks among CGD companies, as MGL is trading at attractive valuations despite industry-leading margins and a superior RoE, while IGL's volume growth outlook is robust supported by regulatory push. We prefer P-LNG among mid-stream companies, given its strong earnings visibility, led by Dahej capacity expansion and a likely higher Kochi terminal utilisation with the completion of Kochi-Mangalore gas pipeline

Key risks:

1) Sharp jump in Asian LNG prices may affect gas demand in India and volume outlook for P-LNG and CGD companies and 2) sharp correction in the refining margin could impact earnings outlook for downstream players.

Leaders for Q2FY2020: RIL, BPCL, HPCL, IOCL and IGL.

Laggards in Q2FY2020: ONGC and Oil India

Preferred Picks: RIL, MGL, IGL and Petronet LNG

Q2FY2020 results estimates

Company	Sales (Rs cr)				OPM (%)				PAT (Rs cr)			
	Q2 FY20E	Q2 FY19	y-o-y (%)	q-o-q (%)	Q2 FY20E	Q2 FY19	y-o-y (BPS)	q-o-q (BPS)	Q2 FY20E	Q2 FY19	y-o-y (%)	q-o-q (%)
RIL	90,397	96,167	-6.0	2.4	16.5	15.5	97	100	9,393	8,859	6.0	3.9
Oil India	3,299	3,744	-11.9	-2.2	37.7	39.4	-169	-242	688	862	-20.2	10.3
Petronet LNG	9,670	10,745	-10.0	12.3	11.1	8.4	271	43	726	563	29.0	22.1
Soft-coverage												
IOCL	131,820	132,035	-0.2	0.2	6.7	6.1	61	34	4,543	4,103	10.7	26.3
BPCL	72,210	72,292	-0.1	-5.4	3.9	3.3	59	130	1479	1,219	21.3	32.3
HPCL	64,956	67,207	-3.3	-8.1	2.8	2.7	11	87	1124	1,092	3.0	38.7
GAIL	18,286	19,275	-5.1	-0.1	11.3	15.2	-389	-104	1505	1,963	-23.3	16.9
ONGC	25,208	27,989	-9.9	-5.1	55.0	56.4	-142	-192	6,940	8,265	-16.0	16.2
GSPL	522	598	-12.8	1.8	78.9	86.3	-736	50	282	323	-12.9	36.7
Gujarat Gas	2,683	1,964	36.6	2.6	13.3	10.1	317	-453	210	63	235.6	-10.2
Indraprastha Gas Ltd	1,722	1,422	21.1	9.3	22.8	21.7	110	2	297	187	58.7	36.1
Mahanagar Gas Ltd	798	697	14.6	5.3	35.3	31.8	351	-62	224	136	64.2	31.1

Source: Company, Sharekhan Research

Valuations

Company	CMP (Rs)	Reco/ View	Price Target (Rs	EPS (Rs)			CAGR over FY19-21E(%)	P/E (x)		
				FY19	FY20E	FY21E		FY19	FY20E	FY21E
Coverage										
Reliance Industries	1,326	Buy	1,630	67.3	82.2	91.2	16.4	19.7	16.1	14.5
Oil India#	146	Buy	200	33.4	31.2	30.2	-4.8	4.4	4.7	4.8
Petronet LNG#	257	Buy	300	15.3	18.9	20.8	16.8	16.9	13.6	12.4
Soft-coverage										
IOCL*	148	Neutral	NA	18.5	17.9	20.5	5.3	8.0	8.3	7.2
BPCL	493	Positive	550	36.3	39.8	46.0	12.6	13.6	12.4	10.7
HPCL*	314	NA	NA	43.9	38.9	44.0	0.1	7.2	8.1	7.1
GAIL (India)*	132	NA	NA	12.9	15.4	16.2	12.3	10.3	8.6	8.2
Gujarat State Petronet Ltd*	207	NA	NA	14.1	16.3	16.8	9.2	14.7	12.7	12.3
ONGC#	126	Positive	165	21.2	24.4	26.8	12.3	5.9	5.2	4.7
Gujarat Gas	175	Positive	210	6.1	12.0	13.7	50.2	28.8	14.6	12.7
Indraprastha Gas Ltd#	361	Positive	425	11.2	14.3	16.4	20.9	32.1	25.2	22.0
Mahanagar Gas Ltd#	913	Positive	1,115	55.3	68.2	72.6	14.5	16.5	13.4	12.6

*Source: Sharekhan estimates, *Bloomberg consensus estimates; # standalone financials*

Sharekhan by BNP PARIBAS

Pharmaceuticals

Weak quarter; Maintain Neutral stance; Stay selective

Q2FY2020 Results Preview

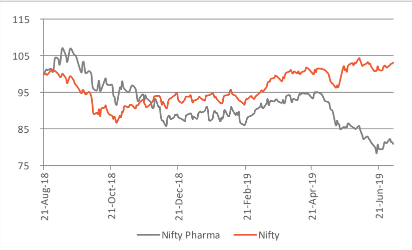
Sector: Pharmaceuticals

Sector View: Neutral

Our coverage universe

Companies	CMP (Rs)	Reco.	PT (Rs)
Aurobindo	474	Hold	710
Biocon	234	Positive	275
Cadila	237	Hold	275
Cipla	424	Buy	505
Divis	1652	Buy	1800
Glenmark	290	Reduce	350
Granules	102	Positive	115
Hikal	143	Positive	188
Ipca Labs	864	Buy	1135
Laurus Labs	332	Positive	415
Lupin	682	Reduce	UR
Sun Pharma	384	Hold	500
Torrent Pharma	1666	Hold	1720

Price chart



We expect pharma companies under our coverage to deliver aggregate revenue and adjusted profit after tax (PAT) growth of 11.8% and 2.9%, respectively, in Q2FY2020. Weak U.S. business growth continues to be the key pain point due to lack of meaningful launches and competition-led pricing pressure in base portfolios. Domestic growth is likely to be better with 10-12% growth as per industry sources. Operating profit margin (OPM) is also likely to witness pressure due to ramp-up in research and development (R&D) spends coupled with competition in high-margin products.

Outlook – Challenges persist; Continue to remain Neutral

Q2FY2020 earnings are likely to remain weak as the U.S. is expected to witness pressure despite domestic growth seems to have normalised to 10-12%. Margins of the U.S. business will remain under pressure due to increased competition because of GDUFA-led faster generic approval despite recovery in sales volumes. In addition, given increased focus on specialty portfolio, companies are inching up R&D spend in the forthcoming quarters. On the regulatory front, there was no respite from the USFDA and this continues to remain an overhang. Given the challenges to sustain profitability and lack of clarity on the regulatory front, we expect the trend of earnings downgrade to continue in Q2 as well. Hence, we maintain our Neutral stance on the pharma sector.

Valuation-Stay selective:

The Healthcare Index over the past one year has corrected by ~20% due to a continuous challenging environment (such as stringent USFDA audits, U.S. litigation case against companies and increased competition in the generics space), leading to earnings downgrade. Although valuation of most pharma companies has corrected, it is still expensive with the risk of earnings downgrade still persisting. Hence, we maintain our Neutral stance on the sector and see an opportunity to invest in select quality companies.

Our Preferred picks: Large caps: Biocon, Cipla and Divis Lab
Midcaps: IPCA, Hikal, Granules and Laurus Labs

Key risks: Any adverse regulatory changes/currency volatility will weigh on the sector negatively, thereby delaying revival chances of the sector.

Leaders in Q2FY2020: Cipla, IPCA, Torrent Pharma, Biocon, Granules, Hikal and Laurus Lab

Laggards in Q2FY2020: Cadila and Glenmark.

Q2FY2020 results estimates Rs cr

Companies	Net sales				OPM (%)		BPS	BPS	Adjusted PAT			
	Q2FY20E	Q2FY19	YoY %	QoQ%	Q2FY20E	Q2FY19	(YoY)	(QoQ)	Q2FY20E	Q2FY19	YoY %	QoQ%
Active coverage												
Aurobindo	5596.0	4751.0	17.8	2.8	20.6	21.6	-95.0	-40.9	661.4	677.8	-2.4	3.5
Cadila	3491.0	2961.0	17.9	-0.1	19.9	23.2	-329.5	-14.6	365.0	418.0	-12.7	0.6
Cipla	4251.0	4012.0	6.0	9.1	18.9	17.5	136.9	-435.1	418.7	367.2	14.0	-6.4
Divis	1349.3	1285.0	5.0	16.0	37.1	40.0	-295.2	325.6	353.5	344.7	2.6	27.0
Glenmark	2622.2	2581.3	1.6	12.9	14.9	17.0	-217.7	15.4	146.4	246.8	-40.7	34.0
IPCA	1112.4	997.8	11.5	3.2	21.0	17.3	368.2	171.8	157.7	119.7	31.7	21.9
Lupin	4289.0	3951.0	8.6	-2.9	16.2	13.9	229.2	-326.8	249.8	268.1	-6.8	-17.6
Sun Pharma	7971.0	6938.0	14.9	-4.8	21.1	22.1	-99.0	-195.0	1117.7	996.0	12.2	-15.6
Torrent Pharma	2096.8	1894.0	10.7	3.7	26.2	25.0	122.8	-55.4	209.5	179.0	17.0	-3.0
Total - A	**32778.7**	**29371.1**	**11.6**	**1.7**	**20.4**	**20.8**	**-31.3**	**-136.4**	**3679.7**	**3617.4**	**1.7**	**-3.4**
Soft coverage												
Biocon	1581.0	1321.0	19.7	7.9	28.8	25.7	309.7	-104.1	233.2	185.8	25.5	13.0
Dr Reddy's Lab	4150.0	3817.5	8.7	7.6	19.8	19.9	-4.9	61.7	460.8	507.4	-9.2	-30.2
Granules	668.0	581.0	15.0	12.2	19.0	17.3	166.9	-95.5	62.9	47.2	33.2	9.0
Hikal Ltd	493.6	394.8	25.0	22.4	18.4	18.9	-54.6	148.5	46.5	24.0	93.8	87.5
Laurus Labs	647.1	588.3	10.0	17.5	18.0	12.8	523.5	290.5	39.9	15.7	154.1	164.2
Total - B	**7539.7**	**6702.6**	**12.5**	**9.7**	**21.4**	**20.1**	**126.0**	**30.7**	**843.3**	**780.1**	**8.1**	**-12.5**
Grand Total (A+B)	**40318.4**	**36073.7**	**11.8**	**3.1**	**20.9**	**20.4**	**47.3**	**-105.9**	**4523.0**	**4397.5**	**2.9**	**-5.3**

Source: Company, Sharekhan Research

Valuation

Companies	CMP (Rs)	Reco	EPS (Rs)			P/E (X)			PT (Rs.) / %Upside
			FY19	FY20E	FY21E	FY19	FY20E	FY21E	
Active Coverage									
Aurobindo	474.0	Hold	42.9	54.8	64.2	11.0	8.6	7.4	710
Cadila	237.0	Hold	17.6	18.1	20.5	13.5	13.1	11.6	275
Cipla	424.0	Buy	18.7	25.8	36.1	22.6	16.4	11.7	505
Divis	1652.0	Buy	51.0	56.8	70.8	32.4	29.1	23.3	1800
Glenmark	290.0	Reduce	26.9	24.4	32.0	10.8	11.9	9.1	350
Ipca Labs	864.0	Buy	35.1	45.1	56.8	24.6	19.2	15.2	1135
Lupin	682.0	Reduce	20.9	28.1	35.1	32.6	24.3	19.4	UR
Sun Pharma	384.0	Hold	16.2	21.6	25.1	23.7	17.8	15.3	500
Torrent Pharma	1666.0	Hold	46.6	59.7	95.5	35.7	27.9	17.5	1720
Soft Coverage									
Biocon	234.0	Positive	6.1	9.6	13.0	38.4	24.4	18.0	18%
Granules	102.0	Positive	9.3	13.2	16.6	10.9	7.7	6.1	13%
Hikal	143.0	Positive	8.4	10.2	13.5	17.1	14.1	10.6	31%
Laurus Labs	332.0	Positive	8.8	18.0	34.0	37.7	18.5	9.8	25%

Source: Company, Sharekhan Research

Miscellaneous

Q2FY2020 result estimates

Company	Net sales (Rs Cr)				OPM (%)				Adjusted PAT (Rs Cr)			
	Q2 FY20E	Q2 FY19	YoY (%)	QoQ (%)	Q2 FY20E	Q2 FY19	YoY BPS	QoQ BPS	Q2 FY20E	Q2 FY19	YoY (%)	QoQ (%)
Aarti Industries	1154	1300	(11.2)	6.3	21.9	18.7	318	5	138	123	12.6	1.1
Atul	1092	1007	8.5	10.0	20.9	18.9	201	(98)	137	119	15.2	5.5
Bharti Airtel	21127	20423	3.4	1.9	39.2	30.6	863	(77)	-1362	-965	-	-
CESC	2302	2220	3.7	(2.4)	25.3	23.0	228	656	294	271	8.6	35.7
Coal India	19670	21884	(10.1)	(21.1)	14.2	19.7	(553)	(1,232)	2496	3085	(19.1)	(46.1)
Gateway Distriparks *	320	105	206.0	(13.3)	21.0	18.3	278	(1,068)	15	17	(15.6)	(77.6)
Info Edge	316	265	19.1	0.9	32.1	31.1	96	(19)	98	78	25.9	31.3
Insecticides (India)	492	458	7.5	37.5	15.3	15.1	25	(229)	50	43	16.7	39.4
JSW Steel	18242	21552	(15.4)	(7.9)	14.3	22.8	(846)	(446)	450	2087	(78.5)	(55.4)
Mahindra Logistics	892	927	(3.9)	(0.8)	4.5	3.7	81	1	21	19	10.4	12.1
MOIL Ltd	314	358	(12.1)	12.3	41.2	40.9	27	160	125	105	19.1	38.0
NTPC	22487	22261	1.0	(7.0)	27.6	25.1	252	97	2561	2426	5.6	(1.6)
Power Grid Corp	9072	8283	9.5	3.0	86.5	84.2	232	(319)	2522	2309	9.2	3.9
PI Industries	839	723	16.0	11.3	20.0	18.7	133	(3)	110	94	17.5	9.4
PTC India	3330	2922	14.0	(32.8)	2.8	3.2	(37)	74	69	51	34.7	10.2
Quess Corp	2446	2092	16.9	2.1	6.3	5.4	93	14	60	59	3.1	7.8
Ratnamani Metal	567	730	(22.4)	(3.6)	19.8	15.9	387	222	69	69	(0.4)	10.0
SRF	2079	1915	8.6	13.8	18.8	16.4	235	(122)	186	151	23.3	(1.5)
TCI Express	278	247	12.3	8.3	11.6	11.0	56	5	25	16	56.2	38.0
UPL *	8104	4257	90.4	2.5	20.0	18.5	151	432	506	270	87.4	184.3

* denotes numbers not comparable on YoY basis

Sharekhan

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