BFSI, defensives to deliver steady growth…

ICICI direct Research

Result Preview – Q3FY20E

ICICI Securities – Retail Equity Research

January 7, 2020

Overall economic slowdown and structural issues continue to mirror on the corporate performances which is likely to be reflected in the muted Q3 result expectations. I-direct coverage universe (ex-BFSI) is likely to register revenue and PAT de-growth of 4.8% and 1.5%, respectively. Sectors like oil & gas, auto, metals, and construction are likely to register negative revenue growth. On the other hand, sectors like capital goods, IT, FMCG, Consumer discretionary, Retail and healthcare are likely to report decent numbers. However, if we consider only Sensex companies (ex-HDFC) the scenario looks much better with revenue and PAT growth expectation of 3.9% and 23% respectively, due to higher weight of BFSI components which are likely to maintain decent revenue and profitability growth tempo.

The BFSI sector is likely to continue with healthy performances driven by resolution of large stressed asset besides moderation in overall slippages and better performance expectation from retail-centric players. Reduction in corporate tax rate is also expected to improve profitability.

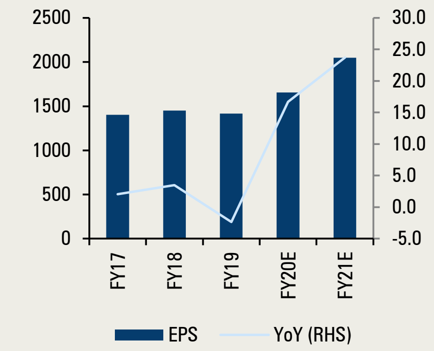
Among other positive growth drivers, the FMCG segment is expected to register YoY revenue growth of 6.3% on the back of 4-6% volume growth on a higher base. In the IT space, we expect YoY revenue growth of 7.9% on the back of healthy deal pipeline. In the capital goods space we expect 9.7% YoY revenue growth to be driven by reasonable execution trend by EPC T&D companies and L&T. Similarly, in healthcare, steady domestic formulations growth is likely to drive YoY revenue growth of 6.3%. In consumer discretionary space we expect revenue growth of 7.4% on the back of volumes growth where as in Retail the YoY 12% growth would be driven by leg-up from decent festive season.

Among draggers, the auto sector is likely to witness YoY de-growth of 2.1% due to volume de-growth across segments. Metals sector is also likely to register 14% YoY de-growth on the back of slowdown at home. Among others, Oil & Gas, Power and Infrastructure are likely to register negative YoY growth of 11%, 10% and 38% respectively.

The government's recent announcement of a cut in the corporate tax rate from ~34% to 25.2% is likely to provide an immediate benefit in the form of increased cash flows to Corporate India that will be either channelised into debt reduction or incremental investments in increasing capacity, going ahead. Also, taxing new production facilities (that come up by 2023) at 15% will enable attraction of global capital and spur a beleaguered investment cycle.

Post the recent corporate tax cut, the consensus Sensex EPS CAGR expectation during FY19-21E is 20%. Similarly for Nifty EPS we expect 18% CAGR during FY19-21E.

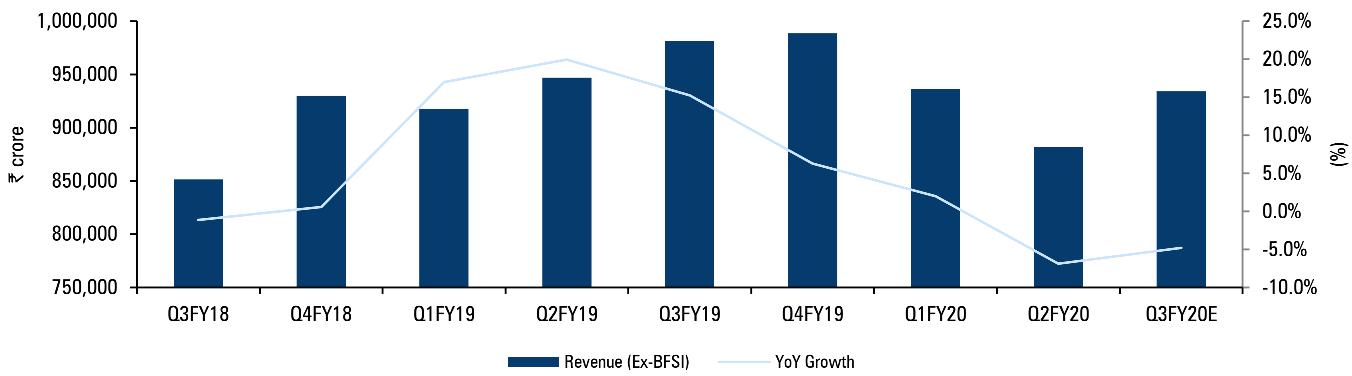
Trend in Sensex EPS



Research Analyst

Pankaj Pandey
Head Research
pankaj.pandey@icicisecurities.com

Trend in revenue growth of I-direct coverage universe (ex- BFSI)



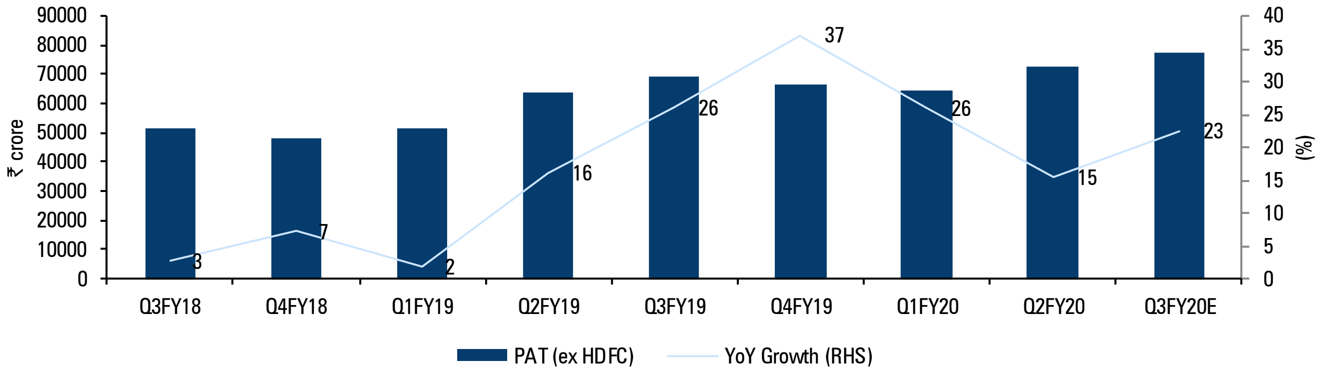
Source: ICICI Direct Research, Company

Performance of Sensex companies

For Q3FY20E, we expect Sensex companies (ex-HDFC) to register 3.9% YoY revenue growth. Again, as was the case in Q2, the growth driver will be BFSI segment, with some leg-up from IT and FMCG sectors. On the flip side, companies from Oil & Gas and Auto (except Maruti) are likely to be laggards. The auto sector continues to face demand challenge, specifically in domestic sales, resulting in pressure in overall sales. On the bright side, banking is expected to continue to arrest topline fall for Sensex companies, driven by resolution of large stressed asset. Companies from IT, FMCG space are likely to register decent growth as also capitals goods players. Among individual players HDFC Bank, Kotak Mahindra Bank, SBI, L&T, Infosys, Bajaj Finance are likely to be the main drivers. Conversely Hero Honda, Tata Steel, NTPC, ONGC among others are likely draggers.

The scenario at the bottomline level is likely to be better where YoY growth (ex-HDFC) is likely to be at 23%. This positive delta is likely to be on the back of strong profitability expected in the BFSI companies and leg-up in manufacturing on account of benign commodity prices, lower scalability and shift towards the new favourable tax regime. Axis Bank, HDFC Bank, SBI, Kotak Mahindra Bank, Bajaj Finance, Maruti, Nestle, Ultratech are likely to be the drivers. On the other hand ONGC, Tata Steel, Sun Pharma are likely laggards among others.

Exhibit 1: Trend in profitability of Sensex companies…



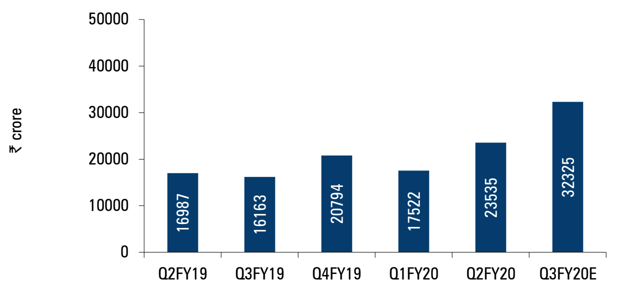
Source: Company, ICICI Direct Research

BFSI to lead coverage growth again

I-direct coverage universe (ex-BFSI) is likely to register revenue and PAT de-growth of 4.8% and 1.5%, respectively. Sectors like auto, metals, oil & gas and construction are likely to register negative revenue growth. On the other hand, sectors like retail, IT, FMCG, consumer discretionary, healthcare and capital goods are likely to report decent numbers. BFSI will continue to remain a key driver of overall growth of coverage universe.

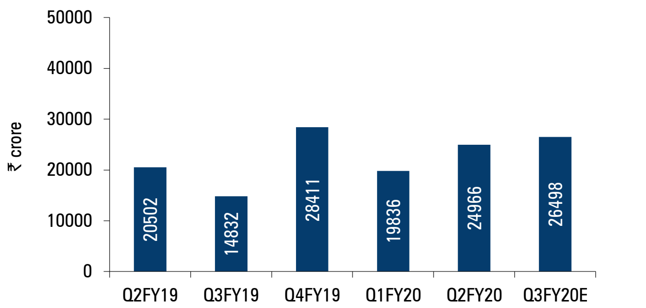
In BFSI, resolution of large stressed asset (Essar Steel) pending in NCLT is expected to provide breather to NPA ratios and provide a boost to earnings with large recovery. Incremental slippages will come from the HFC account. For our coverage universe, we expect absolute GNPA to increase marginally at 1% YoY to ~₹ 292205 crore in Q3FY20E. PAT seen growing 54% YoY and 63% QoQ in Q3. In terms of growth, festive season & lower NBFC competition is seen favouring retail centric banks. Stance of PSU banks on reduction in tax rate is to be watched which is anticipated to shore up profitability in medium term. Operationally, we expect banking sector to clock steady operational performance on the back of sturdy margins and moderation in slippages. Recovery from large stressed accounts is expected to be utilized by banks to increase coverage ratio on slippage of large HFC, thereby cushioning substantial impact on earnings. Consequently, private banks are seen to report healthy traction in earnings at ~38% YoY. SBI is seen as biggest beneficiary of resolution of Essar steel and report highest quarterly PAT of ~ ₹7787 crore up almost 158% YoY.

Exhibit 2: Pre provisioning profit (PPP) of banks



Source: Company, ICICI Direct Research

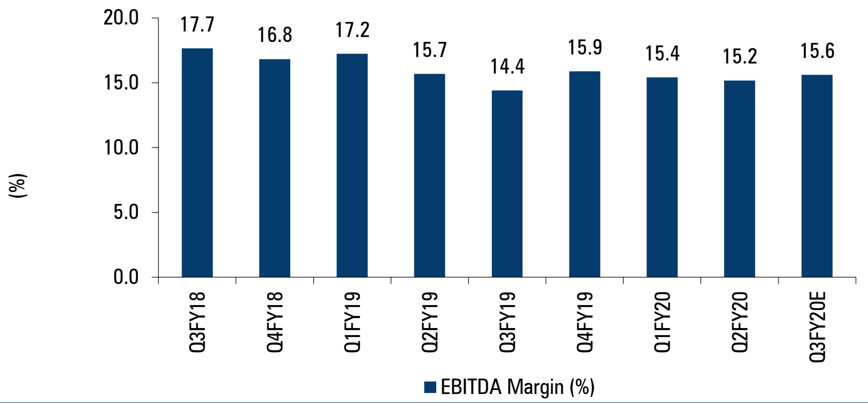
Exhibit 3: Provisions of banks



Source: Company, ICICI Direct Research

The EBITDA margins of the coverage universe (ex-BFSI) are likely to expand 120 bps YoY to 15.6%, also aided by Ind-AS 116 reporting and cost control measures in selected sector companies.

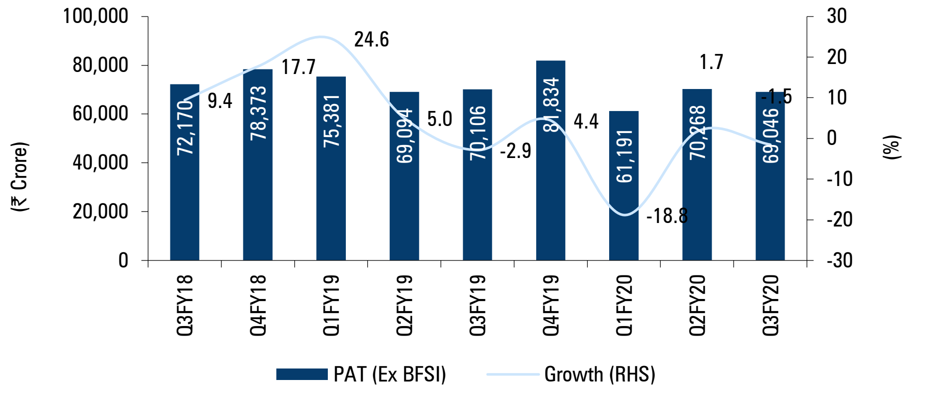
Exhibit 4: Trend in EBITDA margins of I-direct coverage universe (ex- BFSI)



Source: Company, ICICI Direct Research

The dent on the universe profitability (ex-BFSI) is likely to be less severe vis-à-vis revenue. The universe (ex BFSI) is likely to report YoY de-growth of 1.5% YoY. This (lower dent) could be attributable to 1) 120 bps EBITDA margin expansion which would be on account of cost rationalisation measures, better realisation besides implementation of IndAS 116, and 2) lowering of corporate tax rates.

Exhibit 5: Trend in coverage PAT (ex BFSI)



Source: Company, ICICI Direct Research

Defensives: Steady revenue growth to provide cushion

(Sector composition: IT, FMCG, consumer discretionary, retail, healthcare)

Key highlights:

We expect defensives to continue to provide cushion to the universe financials as cyclicals continue to face headwinds. I-direct defensive universe is likely to report 7.3% YoY revenue growth. However, the growth rate is likely to be slowest in the last few quarters as issues at the distribution level and consumption slowdown continue to weigh. Among defensives, healthcare is likely to post ~6% growth, which is likely to be driven by domestic formulations but dragged down by high US base business. The FMCG coverage universe is expected to post sales growth of ~7% on the back of 4-6% volume growth. The consumer discretionary sector is likely to grow at 7% on the back ~10% volume growth. IT pack is expected to deliver ~8% YoY growth which would be driven by sizeable deal wins.

For IT companies, weak seasonality of the quarter coupled with slowdown in banking financial services and retail segments is likely to lead to moderation in growth rates especially for Tier-1 IT companies. We expect Tier-1 IT companies to report revenue growth in the range of 1-1.8% QoQ in constant currency (CC) terms. Cross currency would act as a tailwind of average 30-60 bps to reported dollar growth mainly on the back of GBP appreciating 4.5% QoQ vs. US dollar. On a YoY basis, the universe is likely to grow at 7.9%. Of top tier, Wipro is expected to lead followed by rest. Mid-tier is expected to drive better revenue performance compared to Tier-1, with L&T Infotech leading the growth with 4.5% sequential dollar revenue growth. On the margin front, currency tailwind would provide cushion to margins for most companies. To be keenly watched would be, outlook for CY20E in direction of clients IT budgets, demand environment for banking and retail verticals, deal funnel and managing margins in wake of increasing cost pressures.

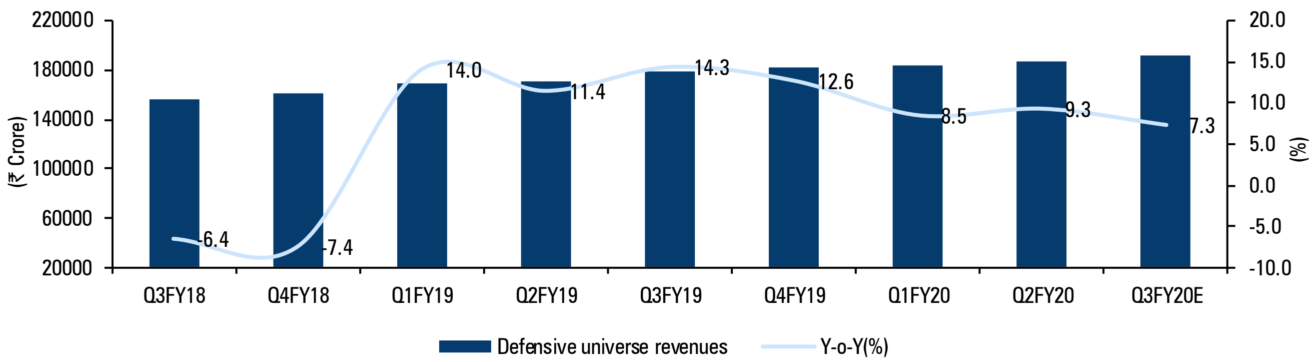
Due to rural slowdown and liquidity issues at wholesale level, **I-direct FMCG coverage universe** would witness muted growth in Q3FY20E as witnessed in previous quarter. The coverage companies are expected to report muted organic volume growth in the range of 4-6% YoY on a high base whereby sales is expected to grow by 6.3% YoY. Raw material prices have been on an upward trend over last few months. Palm oil, cocoa, barley, milk, wheat and sugar prices have increased by 29%, 12%, 11%, 10%, 8% and 5% YoY respectively. However, few commodities such as crude oil (used for packaging), copra and robusta, which are down by 9%, 5% and 18% respectively on a YoY basis, are providing some respite. Coverage companies have taken a few price hikes to mitigate higher input cost prices that should help in slight margin expansion of 14 bps. We estimate 11.5% YoY net profit growth for our coverage companies driven by optimisation of ad spends and cost rationalisation measures.

I-direct consumer discretionary universe is likely to report volume growth of 10% YoY in Q3FY20 while change in product mix and benign raw material prices restricted realization growth during the same period. We believe, paint and adhesive companies likely to report expansion in gross margin between 100 to 300 bps YoY owing to benign raw material prices, which would help EBITDA margin expansion by ~100 bps YoY. Under our coverage universe, Astral poly and Kansai Nerolac likely to report PAT growth of 28% each supported by EBITDA margin expansion and low base of last year.

In case of I-direct retail coverage universe, with decent festive season coupled with higher number of wedding dates in the quarter, we expect companies to report double digit top-line growth (12% YoY) in Q3FY20. Furthermore, various branded players (except Trent) commenced their end of season sale period from mid-December, a similar trend which was visible in the previous year as well. We expect Tent and ABFRL to be the outperformers with revenue growth of 27% and 11%, respectively.

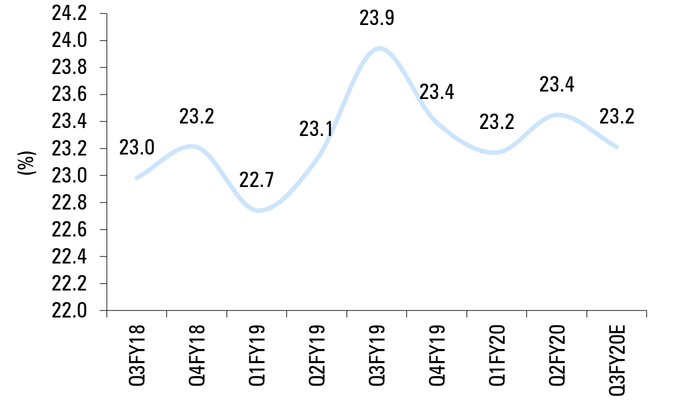
I-direct healthcare universe is expected to register 6.1% YoY growth to ₹ 35025 crore. While domestic formulations are likely to maintain growth tempo on the back of extension of acute season and price hikes, the US pack on the other hand is likely to drag numbers due to higher base. On the companies' front, only 4 out of 10 companies are likely to report double digit growth. For Q3FY20, average YoY rupee appreciation vis-à-vis US$ was 1.2%. In case of Apollo hospitals, the growth is likely to be driven by newly commissioned hospitals and Pharmacy additions. Owing to higher base, EBITDA of the I-direct healthcare universe is expected to de-grow at 6.6% YoY to ₹7099.3 crore. EBITDA margins are likely to decline 277 bps to 20.3%. However, improved operational leverage, better product mix and efficient cost control measures is likely to restrict further fall in margins. Adjusted Net profit is expected to be decline 10% YoY to ₹3826 crore mainly due to weak operational performance and impact of Ind-AS.

Exhibit 6: Trend in revenue growth of defensives



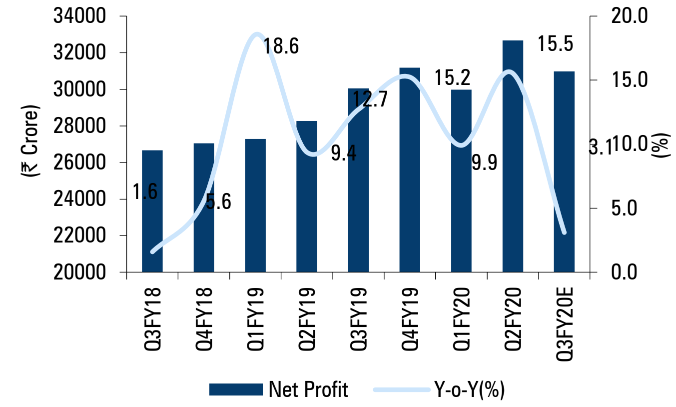
Source: Company, ICICI Direct Research

Exhibit 7: Trend in EBITDA margins



Source: Company, ICICI Direct Research

Exhibit 8: Trend in profitability



Source: Company, ICICI Direct Research

Cyclicals: Likely to feel heat due to slowdown in demand

(Sector composition: auto, capital goods, oil & gas, metals, cement, construction)

Key highlights:

I-direct cyclical universe is again expected to register negative revenue growth of 7.9% YoY (as was the case in Q2), mainly dragged by almost all heavyweights except capital goods and cement sectors. The auto space, one of the major sectors in cyclicals, is expected to decline 2.1% due to volume de-growth across segments. Metals sector is also likely to register 14% negative growth on the back of slowdown at home. On the positive side, the capital goods segment is likely to register 9.7% growth on the back of reasonable execution trend by at EPC T&D companies and L&T. Similarly cement companies are likely to deliver ~5% growth on the back of 2.7% volume growth.

For Auto universe, wholesale volume de-growth trend continued for the domestic automobile space with volume declining ~13% YoY in Q3FY20, amidst sharp retail uptick in the festive period (October 2019). CV segment remains to be the worst hit with volumes declining at ~30% YoY while the PV segment was the key outlier with neutral to positive volume growth on YoY basis in Q3FY20. Consequently, top-line decline for the coverage universe is anticipated at 2.1% YoY, outperforming the volume de-growth courtesy increase in ASPs due to regulatory changes and successful launch of BS-VI variants. On the margins front, benign raw material prices (Steel, Rubber) will aid gross margin recovery for most of the coverage companies, the extent however limited by perils of negative operating leverage. We expect coverage margins to expand to 13.2% in Q3FY20, up 60 bps QoQ & 230 bps YoY. Ex-Tata Motors, PAT growth for the coverage in Q3FY20E is expected at 3.0% YoY.

I-direct capital goods coverage universe is are expected to post reasonable execution trend led by EPC T&D companies and L&T. Revenues are expected to grow by 9.7% owing to accelerated execution rates at engineering and T&D companies like L&T, KEC, Kalpataru and Bharat Electronics (BEL). On the EBITDA front however we expect muted growth of 1.3% YoY due to expected dismal performance by product companies amid auto and industrial slowdown. The PAT is expected to grow by 5.5% aided by corporate tax rate cut benefit.

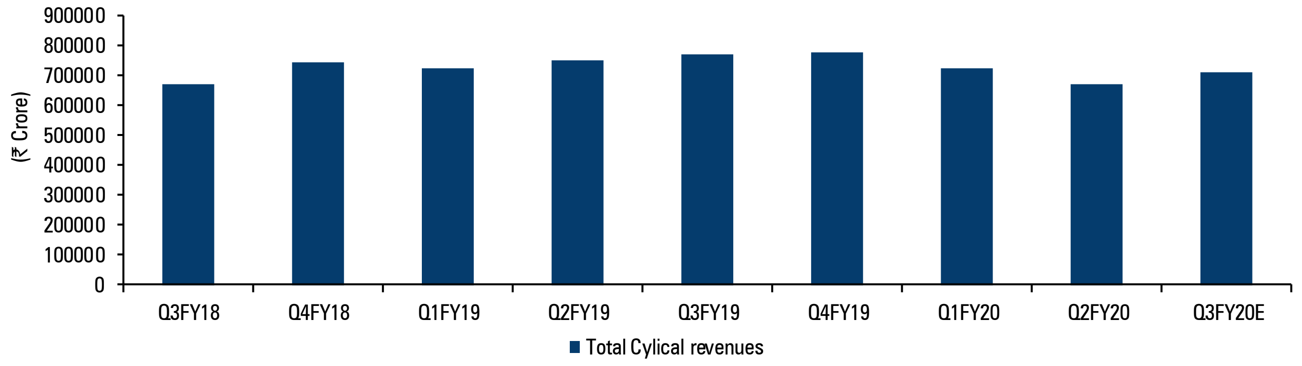
Regarding **oil & gas space**, the global crude oil prices reported a bullish trend in the quarter after witnessing a decline in Q2FY20. Global events such as OPEC+ decision to cut the oil production by 2.1 million barrels per day and easing of US-China trade tensions led to the rise of crude oil prices in Q3FY20. As a result, Brent crude oil prices on a closing basis increased by US$ 6.3/bbl QoQ at US$ 66.4/bbl at end of Q3FY20. However, the average Brent crude oil prices increased only marginally by US$ 0.7/bbl QoQ to US$ 62.6/bbl. Hence, net realisations of upstream companies is expected to some increase QoQ. The benchmark Singapore GRMs witnessed a sharp decline during the quarter from US$ 6.5/bbl in Q2FY20 to US$ 1.7/bbl in Q3FY20. Sharp decline in fuel oil spreads from US$ -0.7/bbl to US$ -19.6/bbl QoQ mainly led to the decline in Singapore GRMs. However, the Indian refiners would be less impacted as fuel oil forms a lower percentage of the product slate. Inventory gains, increase in gasoline spreads will provide respite to the GRMs. City gas distribution (CGD) companies are expected to continue to report steady volume growth YoY due to sustainable conversion to CNG vehicles and rising concerns with respect to current pollution issues. High margin base in Q2FY20, small increase in spot LNG prices and rupee depreciation will lead to marginal decline in gross margins QoQ. However, on a YoY basis, higher margins per unit are expected for all CGD companies. All CGD players in our coverage universe availed the option of write back of tax liabilities after implementation of new corporate tax regime. Therefore, on QoQ basis, lower net profits are expected.

In Metals After a healthy Q1FY20, the domestic steel demand has been on a declining trend on the back of muted growth from key user industries such as Automobiles, real estate etc. In the current fiscal, domestic steel demand has steadily decelerated from a YoY growth of 6.9% in Q1FY20, to 3.1% YoY in Q2FY20 and a negative growth of 1.8% in first couple of months of Q3FY20 (October-November 2019).However despite weak demand environment, domestic steel mills were able to undertake moderate steel price hikes in first two months of the third quarter of FY20 on the back of firming up trend witnessed in international steel prices .On the back of uptick in steel prices coupled with softening trend in coking coal prices, we expect EBITDA/tonne for Q3FY20 to inch upward on QoQ basis. The EBITDA per tonne of Tata Steel (standalone operations) is expected come in at ₹12000 per tonne (₹ 11200 per tonne in Q2FY20), while domestic operations of JSW steel is likely to report an EBITDA per tonne of ₹7500 per tonne (₹6472 per tonne in Q2FY20).

I-direct cement coverage universe is expected to report a 2.7% growth in volumes YoY. While the volume growth remains weak, we expect the cement companies to benefit from 1. Realizations being higher YoY (despite witnessing sequential reduction in cement prices) and 2. Softening of input costs thus leading to improved profitability. Companies with exposure in the north are expected to outperform given the strong pricing scenario while south-based cement companies to underperform owing to delayed monsoons and demand slump in Andhra Pradesh. We expect the cement coverage universe to post a 4.8% growth in revenues to ₹ 23,040 crore. EBITDA/t is expected to grow 26% YoY with overall EBITDA margins expanding 370bps YoY. Thus EBITDA is expected to grow ~30% YoY to ₹ 4458 crore.

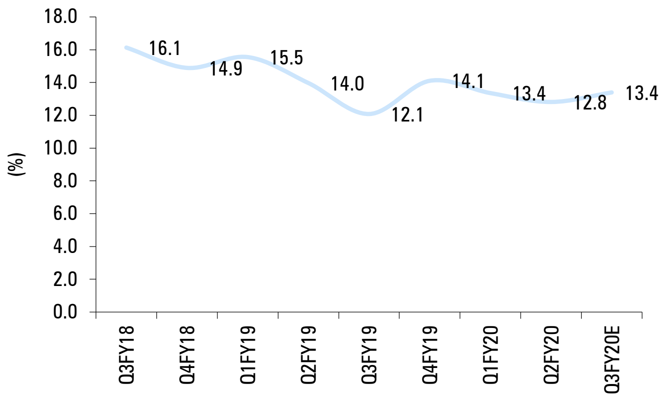
I-direct road & construction universe is expected to post revenue de-growth of 2.1% YoY to ₹ 5,351.9 crore mainly on account of NCC's performance which is expected to remain affected in Q3FY20E due to standstill position in Andhra Pradesh orders. Ex-NCC, the universe revenues are expected to grow 36.5% YoY to ₹ 3,058.8 crore led by PNC Infratech, KNR Constructions that are expected to report 71.5%, 39.6% YoY revenue growth, respectively, in Q3FY20E.

Exhibit 9: Trend in growth of cyclical



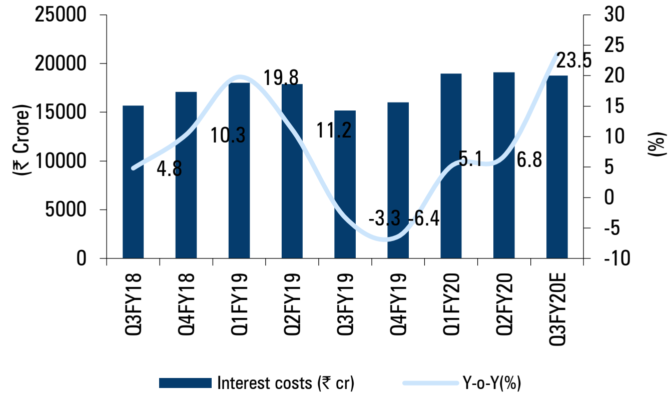
Source: Company, ICICI Direct Research

Exhibit 10: Trend in EBITDA margins



Source: Company, ICICI Direct Research

Exhibit 11: Interest cost..



Source: Company, ICICI Direct Research

Auto and auto ancillary

Dark clouds return post festive uptick …

Q3FY20 began on a positive note for the auto space. The seasonally strong festive period (entirely in October this time) and intense price incentives combined to provide some relief to the industry, with several leading OEMs reporting encouraging climb downs in inventory levels amid healthy retail offtake. However, the respite proved short lived as volumes suffered again in succeeding months of November and December despite continued high discounting, indicating absence of meaningful improvement in underlying demand. Nevertheless, system inventory is leaner today compared to September levels (particularly for PV), which is a positive ahead of upcoming BS-VI changeover.

Soft commodity prices to lend support amid volume declines!

Wholesale volume decline continued in varying degrees at key OEMs during Q3FY20, with PV heavyweight MSIL being the sole exception, reporting 2% YoY growth. M&M and Tata Motors posted 7.6% and 31.6% drop in their PV divisions respectively. Elsewhere, HMCL registered 14.3% decline while rival Bajaj Auto posted 4.7% dip in its 2-W portfolio (aided by healthy exports). Eicher Motors' Royal Enfield volumes fell by 6% YoY. Among CVs, Ashok Leyland recorded 28.7% decline, faring worse than Tata Motors' 19.3% CV segment drop. Fortunately for the auto pack, input commodity prices remained supportive, continuing the trend of the past quarter. Steel and rubber prices were soft in particular, thus helping gross margins for OEMs and tyre ancillaries. Lagged pass through of firmer lead prices from Q2FY20, however, is seen weighing on margins of battery makers.

Another poor showing expected for coverage universe …

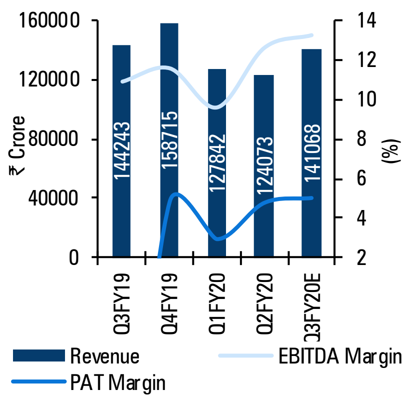
Our coverage universe is expected to endure yet more pain during Q3FY20, with top line seen declining by 2.2% YoY to ₹ 1.4 lakh crore tracking ~13% decline in overall auto industry volumes for the quarter. While gross margin expansion is likely for most coverage companies (ex-batteries), the benefit would be limited on account of negative operating leverage. EBITDA margin for the universe is expected to expand by 60 bps QoQ to 13.2%. Ex-Tata Motors, our coverage universe is expected to post 2.1% YoY top line decline with EBITDA margins of 14.1% and PAT increase of 3.0% YoY. On the back of strong gross margin led gains, OEM pack is seen outperforming ancillaries despite steady state aftermarket support to the value chain. Among OEMs (ex-Tata Motors), top line is expected to dip by 1.9% YoY while total PAT is seen increasing by 5.6% YoY, while in ancillary pack, top line and bottom line de-growth is expected at 3.6% & 18.4 % respectively. Some respite in PAT is also on account of transition to lower tax rate (25.2%) for the quarter.

Exhibit 12: Estimates for Q3FY20E (₹ crore)

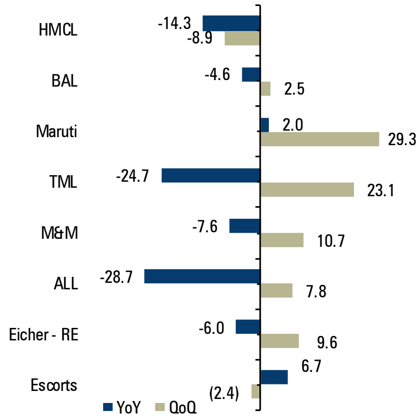
Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q3FY20E	YoY	QoQ	Q3FY20E	YoY	QoQ	Q3FY20E	YoY	QoQ
Apollo Tyre	4,414.3	-6.4	10.7	473.0	-10.3	9.5	98.6	-50.2	18.8
Ashok Leyland	4,120.0	-34.9	4.8	344.2	-47.0	50.6	161.5	-57.6	315.6
Bajaj Auto	7,646.2	3.2	-0.8	1,298.7	12.3	1.6	1,160.8	5.3	-17.2
Bharat Forge	1,389.7	-17.9	10.3	373.5	-29.0	16.6	215.8	-30.3	-11.9
Eicher Motors	2,343.0	0.1	6.9	632.9	-6.9	16.9	536.0	0.6	-6.4
Escorts	1,573.6	-4.9	18.9	188.8	-5.8	49.0	129.7	-7.4	24.0
Exide	2,782.6	11.4	6.6	388.4	24.3	5.8	226.9	46.4	-4.4
Hero Motocorp	6,896.8	-12.3	-8.9	965.8	-12.6	-12.3	724.3	-5.8	-17.2
M & M	12,303.3	-5.9	11.1	1,745.0	15.0	25.4	1,036.7	-3.7	-14.5
Maruti Suzuki	22,346.0	13.6	31.6	2,895.5	49.9	80.3	2,047.1	37.5	50.7
Tata Motors	75,252.4	-2.3	15.0	9,379.5	30.8	13.6	766.5	LP	LP
Total	**141,068.0**	**-2.2**	**13.7**	**18,685.2**	**18.4**	**19.4**	**7,104.0**	**LP**	**19.6**

Source: Company, ICICI Direct Research;

Top line & Profitability (Coverage Universe)



Key players volume growth for Q3FY20 (%)



Average commodity price movement (₹/kg)

Commodity	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)
Steel	40	51	-22.0	42	-4.8
Aluminium	140	142	-1.6	143	-2.4
Rubber	125	124	1.4	142	-11.6
Plastics	72	79	-8.5	73	-1.5
Lead	145	143	1.9	145	0.3

Average currency movement against INR

	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)
USD/INR	71.2	72.0	-1.1	71.2	0.0
EUR/INR	78.9	82.2	-4.0	79.2	-0.4
GBP/INR	91.8	92.6	-0.9	87.8	4.6
JPY/INR	0.7	0.6	6.7	0.7	0.0

Top Picks

Exide Industries

Research Analysts

Shashank Kanodia, CFA
shashank.kanodia@icicisecurities.com

Jaimin Desai
jaimin.desai@icicisecurities.com

Exhibit 13: Company Specific view - OEMs

Company	Remarks
Ashok Leyland	Ashok Leyland is expected to report dismal performance in Q3FY20E courtesy 29% YoY decline in volumes to 31,200 units. Product mix remains adverse with MHCV:LCV ratio at ~60:40 vs. its usual run rate of ~70:30. Blended ASP's are also expected to decline ~3% QoQ primarily tracking high discounting in the market place. Consequent Net sales for the quarter is expected at ₹ 4,120 crore, down 35% YoY, with corresponding EBITDA margins at 8.4% (up 260 bps QoQ, down 190 bps YoY). Resultant PAT is expected at ₹ 162 crore, down 58% YoY
Bajaj Auto	Bajaj Auto is expected to report a decent Q3FY20E courtesy single digit decline in volumes and benign raw material costs. Total volumes for the quarter came in at 12.0 lakh units, down 4.6% YoY with 2-W volumes down 5% YoY to 10.3 lakh units and 3-W volumes down 3% YoY at 1.75 lakh units. Consequent net sales in Q3FY20E is expected at ₹ 7646 crore, up 3.2% YoY. EBITDA margins are seen at ₹ 17.0% (up 140 bps YoY & 40 bps QoQ) respectively. Consequent PAT is expected at ₹ 1161 crore, up 5.3% YoY
Eicher Motors	Eicher Motors is expected to report muted performance in Q3FY19E amidst sales volume decline (RE sales volume at 1.83 lakh units, down 6% YoY; VECV sales volume at 12.5 K units, down 26% YoY), although consequent operating income in Q3FY20E is anticipated at ₹ 2343 crore, flat YoY. EBITDA for the quarter is expected at ₹ 633 crore with corresponding EBITDA margins at 27.0% (up 230 bps QoQ and down 200 bps YoY). Resultant PAT is expected at ₹ 536 crore, flat YoY. Share of profits from VECV segment is expected at ₹ 14.5 crore (vs. ₹ 41.5 crore in Q3FY19 and ₹ 8.3 crore in Q2FY20)
Escorts	Escorts is expected to report muted performance in Q3FY20E primarily tracking decline in tractor sales volume at 25,109 units (down 2.5% YoY) and muted prospects in the construction equipment industry. Net sales for the quarter is expected at ₹ 1574 crore, down 5% YoY. EBITDA in Q3FY20E is expected at ₹ 189 crore with corresponding EBITDA margins at 12.0% (up 240 bps QoQ and 10 bps YoY). Sequential improvement in margins is on account of operating leverage benefit in a seasonally strong quarter and muted raw material prices. Resultant PAT is expected at ₹ 130 crore, down 7.4% YoY
Hero MotoCorp	Hero Motocorp is expected to report muted performance in Q3FY20E primarily tracking decline in volumes and associated perils of negative operating leverage amidst benign raw material costs. Sales volume in Q3FY20E came in at 15.4 lakh units, down 14% YoY and 9% QoQ with scooters witnessing a steep volume decline of 42% YoY. Consequent net sales for the quarter is expected at ₹ 6897 crore, down 12.3% YoY. EBITDA in Q3FY20E stood at ₹ 966 crore with corresponding EBITDA margins at 14.0% (down 50 bps QoQ). PAT for the quarter is expected at ₹ 724 crore, down 6% YoY
M&M	Subdued performance trend is likely to continue at M&M. For Q3FY20E, automobile segment volumes are down 7.6% YoY to 1.3 lakh units while tractor sales volume are down 6.9% YoY to 0.8 lakh units. Consequent net sales at the standalone level is expected at ₹ 12,303 crore down 6% YoY. Benign raw material prices and sequential growth in volumes are seen supporting operating margins. Consequent EBITDA & EBITDA margins are expected at ₹ 1745 crore and 14.2% respectively (up 260 bps YoY). PAT in Q3FY20E is expected at ₹ 1037 crore, down 4% YoY
Maruti Suzuki	Dark clouds of subdued performance seems to be largely behind Maruti, with company expected to report healthy numbers in Q3FY20E courtesy recovery in sales volume and benign raw material prices. Total dispatches in Q3FY20E came in at 4.4 lakh units, up 2.0% YoY, the volumes however are tilted in favour of PC segment. ASP's for the quarter are expected to improve on account of wide acceptance of BS-VI variants. Total operating income in Q3FY20E is expected at ₹ 22,346 crore, up 13.6% YoY. EBITDA for the quarter is expected at ₹ 2,896 crore with corresponding EBITDA margins at 13.0%, up 320 bps YoY. Consequent PAT is expected at ₹ 2047 crore, up 37.5% YoY. PAT growth both YoY as well as QoQ exceeds 30% courtesy low margins (9.8% in Q3FY19 & 9.5% in Q2FY20)
Tata Motors	Tata Motors is expected to report stable performance in Q3FY20E with sequential growth in volumes and benign raw material costs. Sustainability of margins at JLR will be the key monitorable for the quarter. Domestic sales volume (MHCV + PV) declined 25% YoY to 1.3 lakh units while JLR volumes are expected at 1.43 lakh units, up 1.3% YoY. Jaguar to Land Rover mix is expected to be stable at 26:74. Consequent consolidated net sales is expected at ₹ 75,252 crore, down 2.3% YoY. EBITDA in Q3FY20E is expected at ₹ 9,380 crore with corresponding EBITDA margins at 12.5% (down 10 bps QoQ and up 320 bps YoY). Consolidated PAT is expected at ₹ 767 crore as against substantial loss in base quarter i.e. Q3FY19 (courtesy impairment charge)

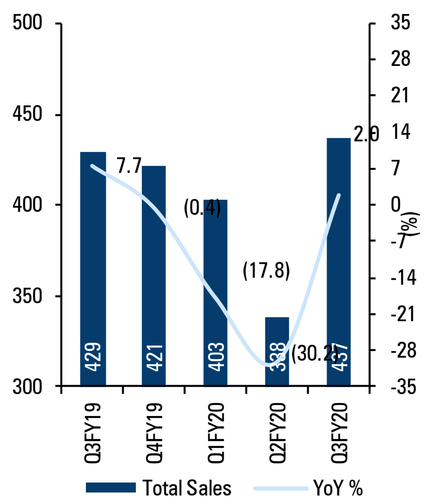
Source: Company, ICICI Direct Research

Exhibit 14: Company Specific views – Ancillaries

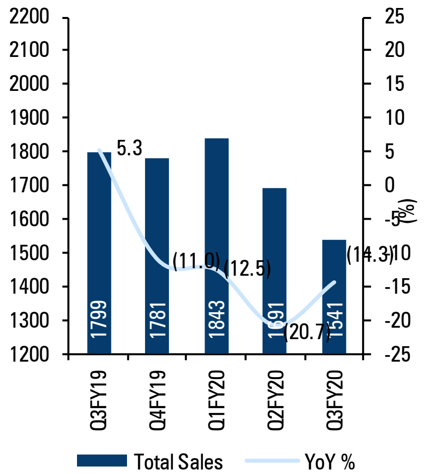
Company	Remarks
Apollo Tyres (APL)	We expect consolidated revenues to dip 6.4% YoY to ₹ 4,414 crore, tracking persistent weakness in the domestic OEM space on the PV and CV side. during Q3FY20. However, soft rubber prices on the back of muted demand scenario is seen aiding gross margins, with the benefit expected to be countered by negative operating leverage. Consolidated EBITDA margins are expected to contract 10 bps QoQ to 10.7%, Consequent consolidated PAT is expected at ₹ 98.6 crore.
Bharat Forge (BFL)	Total operating income is expected to drop 18% YoY to ₹ 1,390 given weakness in most of the company's core business segments, viz. domestic CV, global CV and Oil & Gas. Revenues from India are seen declining 25% YoY to ₹ 505 crore while revenues from outside India are expected to drop 14% YoY to ₹ 844 crore. The company is expected to benefit from benign steel prices during the quarter, with the associated gross margin uptick seen counteracting negative operating leverage, leading to 140 bps QoQ EBITDA margin expansion to 26.9%. Consequent PAT is expected to fall 30% YoY to ₹ 216 crore
Exide Industries (EIL)	Topline is seen growing by 11.4% YoY to ₹ 2,783 crore, supported by healthy replacement demand and rise in ASPs on account of spurt in lead prices (delayed pass through of ~7.6% QoQ rise during Q2FY20). However, the same would have a negative impact on gross margins. Additionally, limited operating leverage due to continued weak OEM sales are seen hurting EBITDA margins, which we expect to dip by 10 bps QoQ to 14.0%. Consequent PAT in Q3FY20 is expected at ₹ 227 crore, up 46% YoY, courtesy low margins (12.5%) in the base quarter and increase in blended realisations on YoY basis

Source: Company, ICICI Direct Research

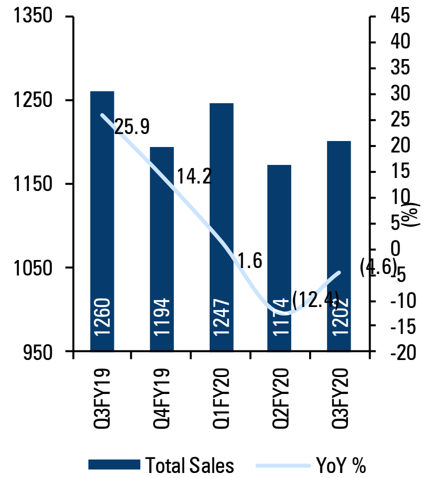
Maruti Suzuki's sales performance ('000 units)



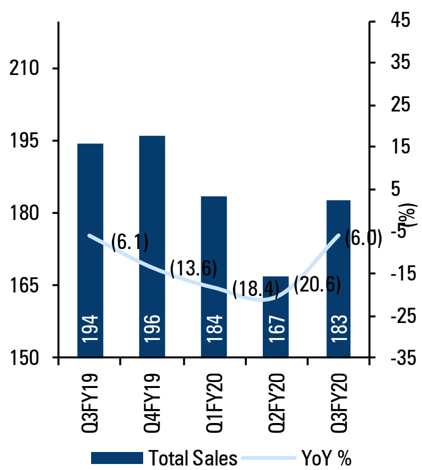
Hero MotoCorp's sales performance ('000 units)



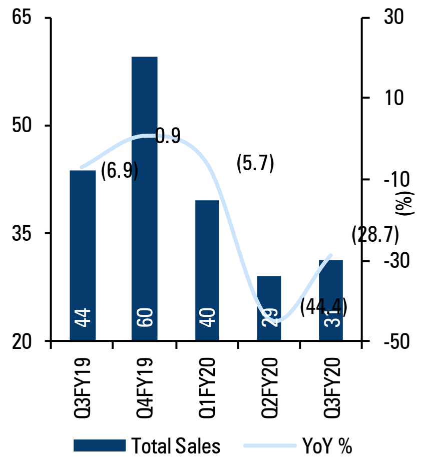
Bajaj Auto's sales performance ('000 units)



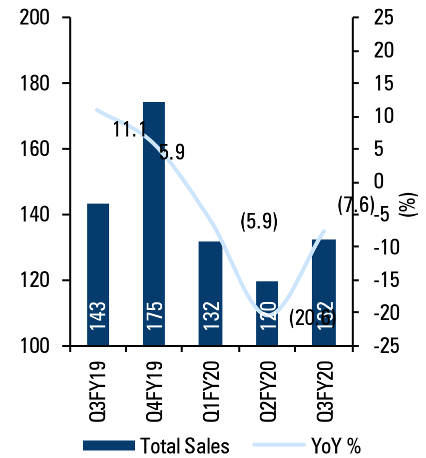
Eicher Motors' sales performance ('000 units)



Ashok Leyland's sales performance ('000 units)



M&M's sales performance ('000 units)



Banking & Financial Services (BFSI)

Resolution of large stressed asset (Essar Steel) pending in NCLT is expected to provide breather to NPA ratios and provide a boost to earnings with large recovery. Incremental slippages will come from the HFC account. In terms of growth, festive season & lower NBFC competition is seen favouring retail centric banks. Stance of PSU banks on reduction in tax rate is to be watched which is anticipated to shore up profitability in medium term.

Recovery to provide fillip to PAT; fresh slippages stay high

Exposure to DHFL is expected to be downgraded (from currently standard category) leading to elevated slippages during the quarter. However, resolution of long awaited stressed cases including Essar Steel and Rattan India Power is seen to provide respite thereby paring down headline GNPA numbers. Performance of agri and SME portfolio is expected to remain steady during the quarter. Recent tension in North East remains a concern for Bandhan bank with material exposure in Assam. Overall, corporate centric banks are poised to witness revival in asset quality. For our coverage universe, we expect absolute GNPA to increase marginally at 1% YoY to ~₹ 292205 crore in Q3FY20E. PAT seen growing 54% YoY and 63% QoQ in Q3.

Credit growth remains uneven and patchy

Slower economic growth & sluggish private capex kept credit growth on a moderate pace at 7.7% YoY in 20th December 2019 compared to earlier run rate of ~9%. Though, traction in large corporate loans have revived at 3.4% YoY; slowdown in MSME segment has impacted overall growth. Retail loan segment recorded an improvement in growth to ~17% YoY in October 2019, primarily on the back of home loans. However, slowdown in auto sector and cautious stance on unsecured lending kept growth in high yielding segment down to 24-25% from previous peaks of 32-35% YoY. Large private banks like HDFC bank, Axis and Kotak to report high double digit credit growth while PSU banks to report subdued credit growth.

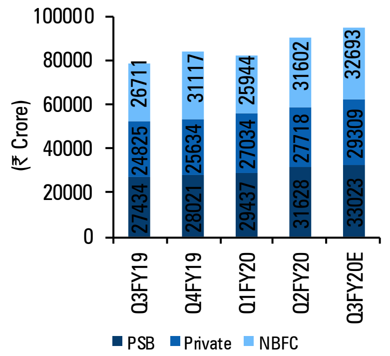
Resolution of stressed asset to revive earnings trajectory

Operationally, we expect banking sector to clock steady operational performance on the back of sturdy margins and moderation in slippages. Narrow movement in G-sec is seen to keep treasury income muted during the quarter. Recovery from large stressed accounts is expected to be utilized by banks to increase coverage ratio on slippage of large HFC, thereby cushioning substantial impact on earnings. Credit cost to incorporate divergence related provision as per RBI Asset Quality Review (AQR). Reduction in tax rate is seen to shore up YoY growth in profitability for private banks, though stance of PSU banks needs to be watched. Consequently, private banks are seen to report healthy traction in earnings at ~36% YoY. PSU banks are expected to report steady operational performance coupled with recovery to benefit PSU banks. SBI is seen as biggest beneficiary of resolution of Essar steel and report highest quarterly PAT of ~ ₹7787 crore up almost 96.9% YoY.

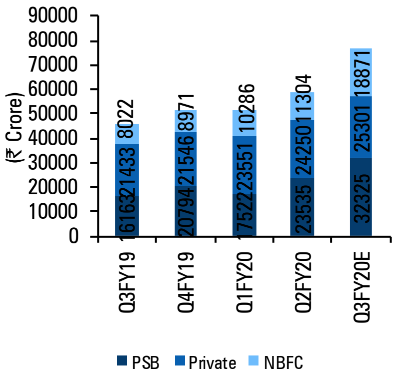
Among NBFCs, growth moderation to continue. HDFC Ltd earnings to include a one-off due to stake sale in Gruh Finance. Bajaj finance & HDFC Ltd being leaders in their segments are better off on liability side enabling them to report reasonable growth and healthy earnings.

Recognition DHFL as NPA is seen to keep slippages elevated. However, earnings trajectory is improving amid recovery from Essar Steel during the quarter; PSU banks remain key beneficiaries. Private banks are expected to continue to garner higher market share in credit. Therefore, banks with retail centric business and strong distribution strength including HDFC Bank, Kotak Bank, Axis and SBI are seen to report better performance. Stance of PSU banks on tax reduction is to be watched. Numbers of Bank of Baroda and Bandhan Bank will not be fully comparable owing to mergers.

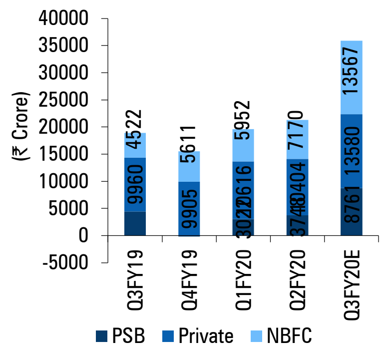
NII



PPP



PAT



Top Picks

HDFC Bank

SBI

Research Analysts

Kajal Gandhi
kajal.gandhi@icicisecurities.com

Vishal Narnolia
Vishal.narnoliai@icicisecurities.com

Harsh Shah
Shah.harsh@icicisecurities.com

Exhibit 15: Estimate for Q3FY20E (₹ crore)

	NII	Change (%)		PPP	Change (%)		NP	Change (%)	
	Q3FY20E	YoY	QoQ	Q3FY20E	YoY	QoQ	Q3FY20E	YoY	QoQ
Public Sector Banks									
Bank of Baroda#	7318.0	54.3	4.1	5427.0	53.4	1.7	973.0	106.5	32.1
SBI	25705.4	13.3	4.5	26898.3	113.1	47.8	7787.5	96.9	158.6
Total	**33023.4**	**20.4**	**4.4**	**32325.3**	**100.0**	**37.3**	**8760.5**	**98.0**	**133.7**
Private Banks									
Axis Bank	6513.2	16.2	6.7	6156.3	11.4	3.4	2534.1	50.8	NA
Bandhan Bank#	1522.5	35.5	-0.4	1296.4	44.0	-0.8	803.8	142.7	-17.3
DCB	328.0	11.7	4.7	191.0	9.9	3.5	107.9	25.3	18.0
HDFC Bank	14409.5	14.6	6.6	12380.1	14.9	5.8	6949.6	24.4	9.5
Indusind Bank#	3050.0	33.3	4.8	2721.0	28.5	4.7	1566.0	59.0	13.2
Kotak Bank	3486.0	18.6	4.1	2556.5	31.9	1.9	1618.5	25.4	-6.1
Total	**29309.2**	**18.1**	**5.7**	**25301.2**	**18.1**	**4.3**	**13579.8**	**36.3**	**30.5**
Total Banks	**62332.7**	**17.0**	**3.0**	**57626.6**	**50.5**	**18.7**	**22340.4**	**52**	**53.7**
NBFCs									
HDFC*	2829.5	5.0	4.1	12337.0	313.9	133.5	10083.4	378.0	154.5
Bajaj Finance	4393.8	37.3	9.9	2922.2	40.2	11.7	1690.1	60.3	12.2
Bajaj Finserv	13735.0	23.3	-3.4	2737.5	23.1	4.2	1174.9	38.1	-2.4
SBI Life Insurance	11162.1	22.1	10.4	429.8	17.8	23.2	287.7	8.9	121.6
HDFC AMC	572.6	7.4	4.3	444.4	20.7	4.0	331.1	36.1	-10.1
Total	**32693.0**	**22.4**	**3.5**	**18870.9**	**135.2**	**66.9**	**13567.2**	**200.0**	**89.2**

** HDFC Ltd PAT includes one-off of ₹9020 crore led by revaluation of stake sale related to Gruh Finance*

 # Numbers not comparable YoY due to merger

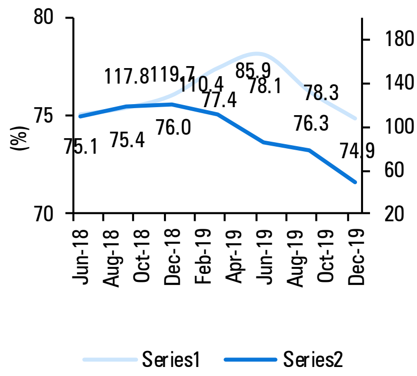
Source: Company, ICICI Direct Research

Company Specific Views (BFSI)

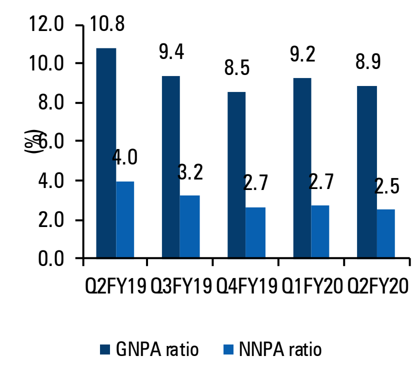
Banks	
Bank of Baroda	We expect Bank of Baroda's loan growth to remain subdued at 0.5% QoQ to ₹ 6.41 lakh crore, as the merger integration process continues. Margins are expected to remain steady QoQ. Consequently, NII is seen at ₹ 7318 crore. Bank will not be benefitted from resolution of Essar steel as bank has already sold its loans to ARC. Further, DHFL is expected to slip leading to elevated slippages & surge in GNPA ratio by 29 bps QoQ to 10.54%. Accordingly, credit cost is seen continuing at elevated level of 62 bps. PAT is seen at ₹ 973 crore. Going ahead, resolution of other NCLT cases are expected to be resolved in Q4FY20. Update on selection of new MD & CEO is still awaited
State Bank of India	Essar steel resolution to remain highlght of the quarter, proceeds of ~₹11000 crore is expected. We believe SBI may make huge general provisions for future delinquency and for DHFL using the Essar funds which will be classified as other income in P&L. Accordingly we park almost 80% of the provisions as general provisions. Slippages will likely include HFC exposure of ~10000 crore leading to ~total slippages of ₹18000 crore. Resolution of Essar is seen to offset slippages from DHFL leading to decline in GNPA and NNPA ratio by 16 bps and 3 bps respectively to 7.03% and 2.76%. Expect loan and deposit growth at 6% and 7.9% YoY respectively. NII growth seen at 13.3% YoY and PAT is expected to surge to ₹25700 crore and ₹7963 crore respectively.
Axis Bank	Axis bank's credit growth is seen steady at 15% YoY to ₹ 5.46 lakh crore largely led by festive demand. Margins are estimated at 3.55% levels leading to NII growth of 16.2% YoY to ₹ 6513 crore. With moderation in slippages & adequate contingent provision credit cost is seen declining to 50 bps vs 67 bps & 77 bps in Q2FY20 & Q1FY20 respectively. With one time impact of DTA already considered benefit of lower tax rate is set to kick in from the current quarter & accordingly, PAT is seen at ₹ 2534 crore, up ~51% YoY, led by muted earnings in base year. Asset quality is seen improving as during the quarter company has not seen any large account being downgraded or upgraded. GNPA ratio is likely to marginally improve 3 bps to 5% vs 5.03% in Q2FY20. However, we remain cautious on the stressed asset cropped up recently & delay or failure for resolution in near term could endure higher provisions in coming quarter.
DCB Bank	DCB Bank's credit growth is expected to remain at pace similar to last quarter at 13% YoY, led by cautious lending in mortgage and MSME segment. Margins are anticipated to remain steady at ~3.8%. Accordingly, NII is seen to report 12% YoY growth to ₹ 328 crore. PPP is anticipated at ₹ 191 crore, led by steady operating efficiency with CI ratio at ~55%. Reduction in tax rate is expected to push up earnings by 25% YoY to ₹ 108 crore. GNPA is seen to remain broadly stable in Q3FY20E at 2.1%. In the current enviornment, slippages in SME segment and management commentary with respect to same is to be watched
HDFC Bank	Led by aggressive festive campaign, HDFC Bank is set to maintain its superior credit growth compared to the industry & increase market share. Credit & deposit growth is seen at ~20% & ~25% YoY to ₹ 9.34 lakh crore & 10.68 lakh crore respectively. Operating profit is seen at ₹ 12380 crore, up 15% YoY led by healthy growth of 14.6% YoY in NII & 17% in other income, while margins are likely to remain stable QoQ at 4.2% on back of strong growth in retail segment & term deposit. Accordingly, PAT growth to remain healthy at 24% YoY to ₹ 6950 crore. Asset quality is likely to remain steady with GNPA & NNPA ratio at 1.40% & 0.44% respectively. However, slippages in agriculture & auto sector to be closely watched.
Kotak Mahindra Bank	For Kotak Bank, slowdown in auto sales and cautious approach in MSME segment is seen to keep credit growth at ~15% YoY to ₹ 2.25 lakh crore. Easing of CD ratio and reduction in MCLR to be offset by decline in deposit rate, thereby margin at ~4.5-4.6%. PPP is seen at ₹ 2556 crore; up 31% YoY, supproted by steady other income and controlled cost matrices. With credit cost steady at ~17 bps of advances, earnings is seen to grow at 25% YoY to ₹ 1618 crore. Broad asset quality numbers to remain constant with GNPA at 2.3%. Commentary on auto and MSME segment is to be watched

Source: Company, ICICI Direct Research

C-D ratio (Industry)



Asset Quality (Coverage Universe)



NPA trend (Coverage Universe)

Q3FY20E (₹ crore)	GNPA	QoQ Growth(%	NNPA	QoQ Growt
PSB				
Bank of Baroda	72469	3.6	25194	1.2
SBI	167636	3.7	62939	5.0
Private Banks				
Axis Bank	27327	-6.0	10693	-4.0
Bandhan Bank	1192	12.0	1192	12.0
DCB	549	5.0	247	4.0
HDFC Bank	13208	5.6	4191	10.6
Indusind Bank	4538	3.8	2287	3.8
Kotak Mahindra	5286	5.0	1883	4.0

IndusInd Bank	IndusInd Bank's advances growth is seen at 19.4% YoY to ~₹ 2.07 lakh crore, though numbers are not comparable YoY owing to merger of Bharat Financial Inclusion Ltd. Continued slack in the auto sales volume is likely to keep pressure in auto segment. Contrary, owing to festive season unsecured retail lending may witness higher traction. Owing to higher growth within retail & MFI segment margins are likely to improve by 5 bps to 4.15% leading to 33% YoY growth in NII to ₹ 3050 crore. Further, healthy growth in other income is likely to keep operational performance healthy with operating profit growth of 29% YoY & 5% QoQ to ₹ 2721 crore. With repayment from high profile stressed asset witnessed, pressure on asset quality & provisioning is seen subsiding marginally. Accordingly GNPA & NNPA ratio are seen steady at 2.2% & 1.11% respectively. Credit cost for quarter is likely to lower at 30 bps vs 37 bps in Q2FY20. PAT growth to remain healthy at ₹ 1566 crore
Bandhan Bank	Bandhan Bank's business traction is expected to remain healthy at ~30% YoY to ₹ 65679 crore. However, protest in Assam which is substantial part of MFI AUM is seen impacting pace of overall growth & asset quality of the lender. Robust deposit growth is expected to continue, however margins could remain under pressure due to change in asset mix & cut in MCLR. Accordingly, NII is seen at ₹ 1523 crore, up 36% YoY. Asset quality could marginally increase on back of stress in state of Assam & floods in other state. GNPA ratio is seen rising 5 bps QoQ to 1.81% vs 1.76% in Q2FY20. This is likely to increase credit cost on sequential basis to 32 bps compared to 23 bps in Q2FY20. Increased provisions are seen denting earnings for the quarter as we estimate 17% QoQ decline in PAT to ₹ 803 crore. Going ahead, management's commentary on stress in Assam & integration status with Gruh are to be closely watched.

Source: Company, ICICI Direct Research

NBFC	
HDFC Ltd	Loan growth expected at ~13% y-o-y to ₹435637 crore. NII seen growing at 5% YoY to ₹2830 crore factoring spreads contained around 2.26% and lower growth in non individual loans. Thereby expect flat NIM at around 2.27%. There is fair value gain of ₹ 9200 crore led by Gruh finance stake sold to Bandhan. Accordingly, standalone profit seen at ~₹1800 crore ex these gains. Including gains, expected profit is ~₹10083 crore. Bandhan MTM will be shown in comprehensive income. Asset quality to remain largely stable with GNPA ratio at 1.37% up 4 bps. Going ahead, outlook on developer loan portfolio & revival of real estate sector demand to be keenly watched. Expect performance from AMC to remain consistent and growth in life insurance is strong led by non participatory products.
HDFC AMC	For HDFC AMC, AUM is seen to remain flattish on sequential basis at ₹ 3.7 lakh crore. Inflow in SIP book is expected to continue, however, redemtion from non-SIP book is seen to offset the inflow and recent gains in equity. Operationally, performance is to remain steady with yield on MF AUM at ~53-55 bps to ₹ 518 crore. Continued focus on operational efficiency is seen to support profitability with PBT at ₹ 444 crore or ~46 bps of AAUM. With tax rate aligned to newer regime, PAT is seen at ₹ 331 crore, up 36% YoY, ~34
Bajaj Finance	Expected credit growth seen at 32% YoY to ₹145200 crore led by housing and rural. Consumer durable financing remained competitive this festive season capping strong growth. Capital raise of ₹ 8500 crore to enable loan growth at better NIM (margins) around 11.8% up15-20 bps. NII growth seen at 37%YoY and PAT rising 60% YoY to ₹1690 crore supported by decline in tax rate. Asset quality expected to be stable.
Bajaj Finserv	Bajaj Finservs consolidated revenue is expected to grow at 23.3% YoY, primarily led by lending business, though insurance business are seen to support top-line. AUM growth is sen at ~31% YoY, with home loan growing at higher pace. General insurance premium growth is expected at 16% YoY, led by traction in health insurance. Healthy traction in both group single and regular individual new business may lead to ~18% YoY growth in life insurance premium. On the profitability front, consolidated PBT is seen remaining robust at ~23% YoY to ₹ 2737 crore, with lending business remaining the main contributor. Claims in general insurance related to floods in last quarter needs to be watched. Led by healthy growth in lending business profitability and decline in tax rate is seen to keep earnings growth robust at 38.1% YoY to ₹ 1175 crore
SBI Life Insurance	SBI Life insurance premium growth is seen to continue to remain healthy at ~22% YoY, led by continued traction in single premium business (though slower compared to previous run rate). Healthy persistency is seen to keep growth in renewal premium at healthy pace at 33.6% YoY. While management expense is expected to be broadly steady at 10.1% of premium, claims needs to be watched given floods in the last quarter. Healthy traction in topline to lead to continued accretion in surplus at ₹ 430 crore and earnings at ₹ 288 crore; up 9% YoY.

Source: Company, ICICI Direct Research

Cement

Continuity of feeble volume growth; but better profitability

While cement demand tends to pick-up from the third quarter, with the monsoon waning off, cement industry is expected to report flattish volumes owing to continued weakness in the economy. Double whammy of delayed monsoon in some southern states combined with ongoing issues in Andhra Pradesh, related to the cancellation of projects, are expected to adversely affect volumes for companies operating in the south. Despite weak volume growth, companies are expected to showcase better profitability supported by healthy realisations combined with benign fuel and petcoke & coal prices. While cement prices continue the downward spiral, they remain higher on a YoY basis. Thus for Q3FY20E, I-direct cement coverage universe is expected to report ~5% growth in revenues and ~30% in EBITDA to ₹ 23,058 crore and ₹ 4,460 crore respectively.

Volume growth remains weak; realisations soften sequentially

Cement companies have failed to see improvement in demand amid slowing down growth in the economy. YTD (Apr-Nov) cement production for the industry remains flat YoY. We expect the industry to end Q3FY20 with flattish cement production growth. Strongest volume growth is expected in Ultratech Cement and Shree Cement led by ramping up additional capacities. Considering delayed monsoon in certain states in the south and the slowdown in AP, we expect Ramco Cement to report 1.6% volume growth, while Sagar Cement's volumes are expected to decline ~17% YoY. I-direct cement coverage universe is expected to report a 2.8% growth in volumes to 46.4 MT. Channel checks suggest cement prices have corrected further in Q3FY20. Sequential correction in excess of 5% is expected in the East, West and Central regions during Q3FY20E. Prices in the North remain resilient, standing ~15% higher YoY (flattish on QoQ basis), however, prices in the eastern region have corrected significantly over the last few quarters, taking Q3FY20E average prices in the region below Q3FY19 levels. I-direct cement universe's realisations are expected to remain 2.5% higher YoY, after correcting 2.6% sequentially. Attributing to captive consumption of excess clinker for cement production, higher share of cement volumes coupled with presence in the north, is expected to push JK Lakshmi Cement's realisations higher by ~9% YoY. Shree Cement and Ambuja Cement are also expected to report ~5% YoY growth in realisation.

Benefit from benign input costs to continue

With prices of petcoke and international coal standing significantly lower YoY, I-direct cement coverage universe is expected to report significant improvement in profitability. EBITDA margins are set to expand by 370bps YoY for our coverage universe. This comes on the back realisations being 2.4% higher YoY and total costs per tonne softening by 2% YoY. Hence, we expect coverage companies to report ~30% YoY growth in EBITDA to ₹ 4460 crore and a ~17% growth in PAT to ₹ 2126 crore. Overall EBITDA/t is expected to grow ~26% YoY to ₹ 962/t with the strongest growth expected in JK Lakshmi Cement (82% YoY).

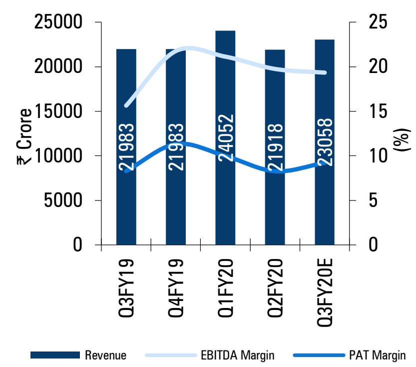
Exhibit 16: Estimates for Q3FY20E: (Cement) (₹ Crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q3FY20E	YoY	QoQ	Q3FY20E	YoY	QoQ	Q3FY20E	YoY	QoQ
ACC ^	3,763.5	-0.7	8.6	403.1	5.9	-18.3	318.6	-56.5	5.3
Ambuja ^	3,004.9	4.9	14.4	526.3	30.3	19.7	376.9	127.9	60.6
JK Cement	1,323.8	4.0	5.5	241.5	14.7	-4.9	89.9	47.6	-17.3
JK Laxmi Cement	1,063.2	13.7	13.7	186.1	89.4	25.2	93.4	533.2	103.4
Ramco Cements	1,263.6	4.4	-4.0	254.6	19.0	-13.8	104.8	3.7	-37.7
Sagar Cements	267.8	-16.1	1.0	31.3	3.9	-26.1	4.9	LP	-1.4
Shree Cement	3,012.2	8.3	7.5	851.5	19.9	0.9	311.9	3.5	0.9
UltraTech Cem	9,359.2	6.2	1.1	1,965.4	41.4	8.4	825.2	83.8	29.1
Total	**23,058.2**	**4.9**	**5.2**	**4,459.8**	**29.7**	**3.0**	**2,125.6**	**16.7**	**17.2**

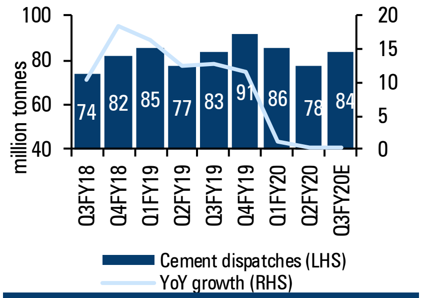
^Q4CY19E

Source: Company, ICICI Direct Research

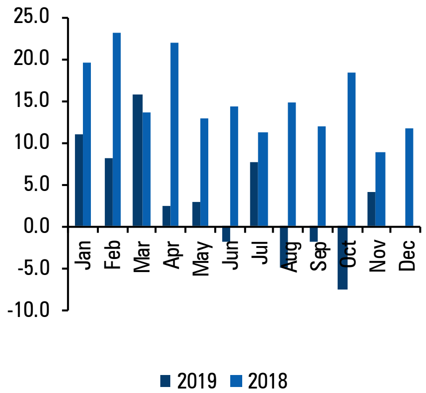
Top line & Profitability (Coverage Universe)



All-India cement production marginally higher YoY at ~84 MT in Q3FY20E



Monthly production growth YoY(%)- Till Nov19



Top Picks

JK Lakshmi Cement

Research Analysts

Rashesh Shah
rashes.shah@icicisecurities.com

Romil Mehta
romil.mehta@icicisecurities.com

Company specific view

Company	Remarks
ACC	ACC is expected to end Q4CY19 with a negative volume growth of ~3.5%. Realisations per tonne are estimates ot be ~3% higher YoY at ~₹ 5200/t leaidng to a marginal dip in topline by ~1% YoY to ₹ 3764 crore. Owing to higher production costs, ACC is expected to post ~70bps expansion in EBITDA margins to 10.7%, the lowest among the I-direct cement coverage universe. EBITDA growth of ~6% YoY is expected while owing to significant tax write-back in Q4CY18, PAT is expected to decline by 56% YoY.
Ambuja Cement	Led by the company's higher exposure to the north, Ambuja Cement is expected to witness 5.1% growth in realisation. We expect the topline to grow by 4.9% YoY to ₹ 3005 crore with a marginal dip of 0.2% YoY in volumes. EBITDA margins are expected to expand 340bps YoY leadng to 30% YoY growth in EBITDA to ₹ 526 crore. Owing to a low base of last year due to exceptional items, PAT is expected to grow at 128% YoY
UltraTech Cement	With consoliation of Century and Binani assets into its portfolio, UltraTech is expected to report a volume growth 6.7%. This combined with a marginal dip in realisations is expected to drive the company's topline higher by 6.2% YoY. Strong reduction in production costs owing to softening of petcoke and international coal combined with reduction in logistics related costs are expected to drive margin improvement. We expect the company's EBITDA/t to grow 33% YoY to ₹ 1077/t. EBITDA and PAT are expected to grow 41% and 84% YoY to ₹ 1965 crore and ₹ 825 crore respectively
Shree Cement	WIth a strong hold in the northern markets, the company's realisations are expected to grow 5.1% YoY to ~₹ 4540/t. We expect the company's cement volumes to grow 6.5% YoY which parlly offset by lower power revenues would lead to 8.3% growth in total revenues for the company to ₹ 3012 crore. The company is expected to report 12.6% higher EBITDA/t at ~₹ 1350 crore and EBITDA margins are expected to expand to 28.3% (highest in the industry). PAT growth however is expected to be 4% YoY owing to higehr depreciation and finance costs.
JK Cement	JK Cement is expected to report a 4% YoY growth in revenues to ₹ 1324 crores. Supported by higher realizations in the north the company's realsations are expected to grow 3.3% YoY (softened by lower realisations in south and flattish realisations for white cmeent). We expect the company’s profitability to improve with EBITDA/t expected to grow 14% YoY and EBITDA margins expected to expand 170bps YoY. On absolue levels, EBITDA and PAT are expected to grow 14.7% and 48% YoY to ₹ 242 crore and ₹ 90 crore respectively
JK Lakshmi Cement	For Q3FY20E, with a forecasted realisations growth of 9.2% combined with 4.2% volume growth, JK Lakshmi Cement is expected to report 13.7% growth in revenues to ₹ 1063 crore. Realisation growth is expected to be strong owing to its presence in the northern region combined with lower clinker sales. EBITDA/t for the company is expected to grow 82% YoY to ₹ 775/t and EBITDA margins are expected to expand 700bps YoY to 17.5%. Led by a strong growth of 89% expected in EBITDA, PAT is expected to grow 530% YoY to ₹ 93.4 crore.
Ramco Cement	Considering the weak demand in the southern region and weak pricing in the eastern region, we expect Ramco Cement to report a 4.4% growth in revenues to ₹ 1264 crore. Softening of input costs are expected to lead to 17% growth in EBITDA/t for the company to ₹ 912/t. Absolute EBITDA is expected to grow 19% YoY to ~₹ 255 crore while higher depreciation cost are expected ot keep PAT growth restricted to 3.7% YoY to ~₹ 105 crore with PAT margins remaining broadly flat YoY
Sagar Cement	Significant decline in demand in Andhra Pradesh is expected to lead to 17% decline in Sagar Cement's sales volumes YoY. We expected the topline to decline ~16% YoY to ~₹ 268 crore. Led by a low base of last year combined with softening of input costs, the company is expected to report a 25% growth in EBITDA/t to ₹ 410/t, however, steep decline in volumes is expected to keep EBITDA growth low at 4% YoY to ~₹ 31 crore. On the expectations that the company shifts to the new tax regime, reduction in tax expenses is expected to lead to a PAT of ~₹ 5 crore for Q3FY20E.

Source: Company, ICICI Direct Research

Sales Volume (Coverage Universe)

In MT	Q3-20E	Q3-19	YoY (%)	Q2-20	QoQ (%)
ACC	7.2	7.5	-3.5	6.4	12.4
Ambuja	6.1	6.1	-0.2	5.2	17.0
UltraTech*	18.2	17.1	6.7	17.8	2.7
Shree Cem	6.3	5.9	6.5	5.7	10.4
JK Cement*	2.5	2.5	0.6	2.2	12.3
JK Lakshmi	2.4	2.3	4.1	2.1	16.5
Ramco Cem	2.8	2.7	1.6	2.7	2.5
Sagar Cem	0.8	0.9	-17.1	0.8	0.0
Total	46.4	45.1	2.8	42.9	8.0

Region-wise cement retail prices

₹/50 kg bag	Q3-20E	Q3-19	YoY (%)	Q2-20	QoQ (%)
North	349	301	15.8	351	-0.4
East	349	353	-1.1	370	-5.7
South	332	324	2.3	354	-6.2
West	323	309	4.8	341	-5.1
Central	355	339	4.7	363	-2.3
North East	401	398	0.6	408	-1.9
Pan India	343	328	4.8	358	-4.1

Cement Realizations (Coverage Universe)

₹/tonne	Q3-20E	Q3-19	YoY (%)	Q2-20	QoQ (%)
ACC	5200	5051	2.9	5380	-3.3
Ambuja	4910	4671	5.1	5021	-2.2
UltraTech	5129	5154	-0.5	5208	-1.5
Shree Cem	4538	4316	5.1	4654	-2.5
JK Cement*	5266	5097	3.3	5604	-6.0
JK Lakshmi	4430	4056	9.2	4541	-2.4
Ramco Cem	4496	4392	2.4	4708	-4.5
Sagar Cem	3510	3469	1.2	3734	-6.0
Average	4937	4821	2.4	5068	-2.6

EBITDA per tonne (Coverage Universe)

₹ per tonne	Q3-20E	Q3-19	YoY (%)	Q2-20	QoQ (%)
ACC	557	508	9.7	766	-27.3
Ambuja	860	659	30.5	841	2.3
UltraTech*	1077	813	32.5	1020	5.6
Shree Cem ^	1348	1197	12.6	1424	-5.3
JK Cement*	961	843	14.0	1135	-15.4
JK Lakshmi	775	426	81.9	722	7.4
Ramco Cem ^	912	779	17.1	1084	-15.9
Sagar Cem	410	328	25.2	596	-31.2
Average	961	761	26.3	1002	-4.1

Capital Goods and Power

Capital Goods:

Decent execution, muted inflows expected in capital goods

Q3FY20E has been a muted quarter for capital goods universe in terms of order inflows except for railway and T&D EPC companies like KEC International and Kalpataru power. KEC received decent order inflows while L&T, Kalpataru, Bharat Electronics (BEL), Thermax received muted order inflows. Overall, coverage EPC companies (BEL, KEC, KPTL, Thermax) ex-L&T, announced order inflows worth ₹ 6210 crore which declined by 23% on YoY owing to less than expected public sector and government order conversions. L&T has announced orders ranging between ₹ 3000 crore to ₹ 7500 crore (Ex-services) and expected to report decline in order inflows considering less than expected conversion of tendering pipeline as on date for the quarter. L&T has secured orders across Heavy civil infrastructure, power T&D, water & effluent treatment and transportation business. Order inflows in power T&D EPC space (KEC, Kalpataru) came in strong at ₹ 5779 crore, collectively led by KEC. Thermax core order inflows continues to remain sluggish while it received FGD order worth ₹ 431 crore. Overall, order inflows were affected by slower pace of award and tendering in some segments while reasonable order intake came in across railways, Urban Transpiration (MRTS), T&D, water and infrastructure segments.

Revenue likely to grow 9.7% while EBITDA to grow by 1.3%

Overall, the coverage universe revenue is expected to grow by 9.7% owing to accelerated execution rates at engineering and T&D companies like L&T, KEC, Kalpataru and BEL. We expect EBITDA to grow by 1.3% YoY mainly due to expected dismal performance by product companies amid auto and industrial slowdown while EPC companies expected to post decent performance. Consequently, Overall PAT is expected to grow by 5.5% YoY factoring in dismal performance by product companies.

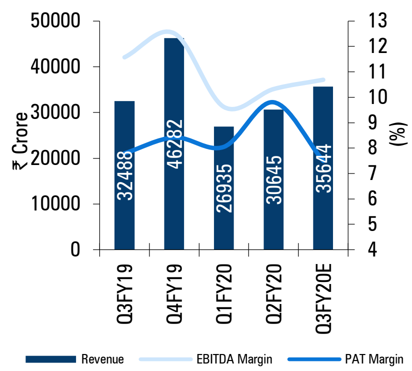
Reasonable performance expected among EPC companies

Overall, EPC companies (KEC, Kalpataru, L&T) expected to post revenue, EBITDA PAT growth of 10.2%, 7.4%, 11.9% respectively. Power T&D EPC companies (KEC, Kalpataru) are expected to report strong revenue, EBITDA, PAT growth of 15.1%, 13.9%, 22.6% YoY, respectively led by decent order execution rate. L&T (standalone, ex- E&A) is likely to report a decent performance with revenue expected to grow by 9.2% YoY, EBITDA to grow by 5.8% and Adj. PAT expected to grow by 8.2% at ₹ 1534.0 crore adjusting for exceptional items and aided by corporate tax rate cut benefit. While Thermax's revenue, EBITDA expected to grow by 5.4%, 8.2%, respectively owing to slower execution. On the Defense front, BEL is expected to report top line growth of 20% owing to spillover of previous quarter execution while PAT is expected to decline by 10.9% to ₹ 452.4 crore YoY.

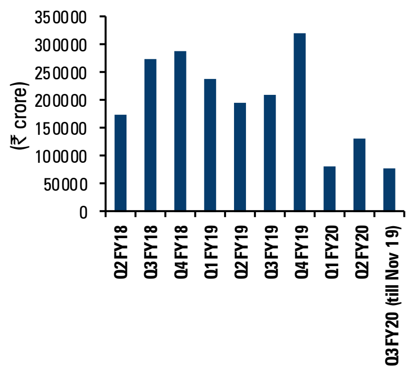
Product companies likely to post subdued performance

In the bearing space, companies are likely to post dismal performance amid auto slowdown. NRB's revenue is expected to decline 25.5% YoY to ₹ 180.7 crore while Timken and SKF expected to post revenues of ₹ 400.4 crore (up 4.0% YoY) and ₹ 740.8 (down 3.5%YoY) crore respectively supported by rail segment. EBIDTA margins for SKF and NRB is expected to contract on account of de-growth in volume and product mix. While for Timken EBITDA margin is expected to expand by 630 bps to 20.7% on account of overall yield improvement of steel. Greaves Cotton is expected to report revenue decline of 2.0% while EBITDA is expected to decline by 13.5%, owing to sluggish 3-W volume growth. However, companies like AIA Engineering are expected to report revenue, EBITDA growth of 5.3%, 2.3%, respectively.

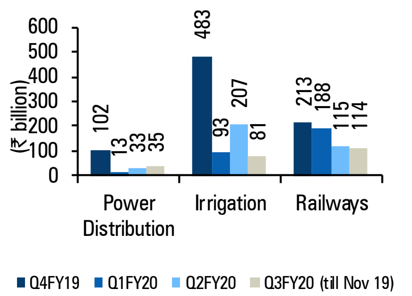
Topline & Profitability (Capital Goods Universe)



Trend in quarterly tenders (both govt. & private)



Trend in segment wise tenders



Top Picks

L&T
Kalpataru Power
Timken India

Research Analysts

Chirag Shah
shah.chirag@icicisecurities.com

Amit Anwani
amit.anwani@icicisecurities.com

Exhibit 17: Estimates for Q3FY20E: (Capital Goods) (₹ Crore)									
Company	**Revenue**	**Change (%)**		**EBITDA**	**Change (%)**		**PAT**	**Change (%)**	
	Q3FY20E	**YoY**	**QoQ**	**Q3FY20E**	**YoY**	**QoQ**	**Q3FY20E**	**YoY**	**QoQ**
AIA Engineering	764.9	5.3	9.8	169.0	2.3	9.7	125.0	-3.1	-19.1
Bharat Electronics	3,259.5	20.0	18.8	671.0	-12.6	23.2	452.4	-10.9	33.3
Greaves Cotton	496.1	-2.0	1.2	61.0	-13.5	3.2	44.2	-4.1	4.6
Elgi Equipments	463.3	-1.5	4.2	39.4	-17.1	17.8	17.2	-26.4	47.7
Kalpataru Power	2,007.6	16.4	2.1	210.8	14.7	1.8	126.1	37.1	-0.7
KEC Internnational	3,024.9	14.3	7.7	319.0	13.4	8.5	153.6	36.7	10.1
L&T	22,990.0	9.2	22.6	2,034.6	5.8	31.0	1,534.0	8.2	-22.7
NRB Bearings	180.7	-25.5	-4.3	18.1	-57.0	-4.7	6.1	-76.2	-10.1
SKF India	740.8	-3.5	-0.9	94.2	-22.5	-0.8	73.1	-17.3	-13.6
Thermax Ltd	1,315.4	5.4	-6.4	109.2	8.2	-4.1	95.5	50.4	47.1
Timken India	400.4	4.0	-0.2	82.9	49.2	-7.6	44.6	68.8	-10.4
Total	**35,643.8**	**9.7**	**16.3**	**3,809.3**	**1.3**	**20.4**	**2,671.9**	**5.5**	**-11.1**

Source: Company, ICICI Direct Research

Power:

Exhibit 18: Estimates for Q3FY20E: (Power Universe)									
Company	**Revenue**	**Change (%)**		**EBITDA**	**Change (%)**		**PAT**	**Change (%)**	
	Q3FY20E	**YoY**	**QoQ**	**Q3FY20E**	**YoY**	**QoQ**	**Q3FY20E**	**YoY**	**QoQ**
CESC	1,659.8	-2.8	-26.1	225.2	11.5	-51.4	158.9	-7.9	-42.2
NTPC	21,504.7	-10.8	-5.5	6,202.0	-5.7	-2.3	2,206.0	-7.5	-32.4
Total	**23,164.5**	**-10.3**	**-7.4**	**6,427.2**	**-5.2**	**-5.6**	**2,364.9**	**-7.5**	**-33.1**

Source: Company, ICICI Direct Research

Topline & Profitability (Power Universe)

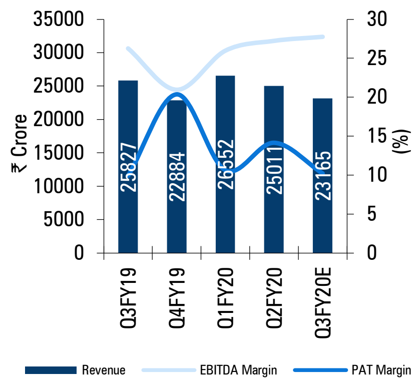


Exhibit 19: Company Specific Views (Capital Goods)

AIA Engineering	In Q3FY20E, we expect AIA Engineering to report volume numbers at 66081 MT with 11.6% YoY growth amid low base. However, the mining segment is expected to deliver volume growth of around 13%. We expect realization to moderate at ₹ 112.3 per kg on account of a change in the product mix and foreign exchange. Revenue is expected to grow by 5.3% to ₹ 764.9 crore. EBITDA margin is expected to sustain at ~ 22.1% owing to input cost normalization. PAT is expected to decline by 3.1% to ₹ 125 crore impacted by lower volumes and corporate tax rate adjustment.
Bharat Electronics	We expect BEL to report stronger growth of 20% YoY to ₹ 3259.5 crore on the back of continued order execution and spillover of execution of previous quarter. EBITDA margins are expected to decline at 20.6% vs. 28.3% (which were one off margins) YoY owing to product mix, resulting in absolute EBITDA to decline by 12.6% YoY. Accordingly, we expect PAT to decline by 10.9% on YoY basis to ₹ 452.4 crore. No new order received by BEL as on date for the quarter. Overall, a strong order backlog of ₹ 56178 crore is likely to augur well for BEL in medium term.
Greaves Cotton	For Q3FY20E, we expect Greaves Cotton to report muted volumes at 66144 in 3W (passenger, goods) while 4W volumes are expected to be around 9330 units while New business initiatives and Ampere sales is likely to support growth. Revenues are expected to de-grow by 2% YoY to ₹ 496.1 crore impacted by Auto slowdown across 3W segment. Consequently, EBITDA is expected to decline by 13.5% to ₹ 61 crore with subdued margins of 12.3% while Adj. PAT is expected to decline by 4.1% YoY to ₹ 44.2 crore with PAT margin of 8.9%.
Elgi Equipments	Elgi Equipments is likely to continue its subdued performance in Q3FY20E partly due to slowdown in domestic air compressor market, Automotive and aftermarket business while international air compressor market is likely to support growth. Consolidated revenues are expected to de-grow by 1.5% YoY to ₹ 463.3 crore while EBITDA margins are expected to decline to 8.5% YoY due to industrial slowdown. Accordingly, EBITDA is expected to decline by 17% YoY while PAT is expected to decline by 26.5% to 17.2 crore for the quarter.
Kalpataru Power	KPTL has announced orders worth ₹ 979 crore as on date for Q3FY20E, which includes T&D orders from international clients and railway electrification order while YTD order inflows now stands at ~6000 crore. KPTL is expected to report strong revenue which is expected to grow by 16.4% to ₹ 2007.6 crore driven by strong order book and execution rate across railways, pipeline and T&D segment. EBITDA margin is expected to remain stable at 10.5% with EBITDA growth of 14.7% while PAT is expected grow by 37.1% to ₹ 126.1 crore with PAT margin of 6.3%, aided by corporate tax cut benefit.
KEC International	KEC has registered strong order wins worth ~ ₹ 4800 crore as on date for the quarter across Urban transport (MRTS), railway infrastructure and T&D segment while YTD order inflows now stands at more than ~ ₹ 8500 crore. For Q3FY20E, we expect revenues to grow 14.3% to ₹ 3024.9 crore on the back of decent order execution rate in key segments. EBITDA is expected to grow by 13.4% to ₹ 319.0 crore with EBITDA margin expected to remain stable at 10.5% YoY. PAT is expected to grow by 36.7% to ₹ 153.6 crore with PAT margin of 5.1%, boosted by corporate tax cut benefit.
L&T	During Q3FY20E, so for L&T has received order inflows within the range of ₹ 3000 crore to ₹ 7500 crore (as on date, ex-services segment) which remained soft and includes orders across Heavy civil infrastructure, power T&D, water & effluent treatment and transportation infrastructure business namely Dhanbad urban water supply scheme, Expressway in Qatar and Rishikesh-Karanprayag tunnel 2 package from RVNL. L&T's order backlog suggests better execution rate in domestic market in Q3FY20E. Consequently, we expect L&T's adjusted standalone revenue (excluding E&A discontinued operations) to grow by 9.2% to ₹ 22990.0 crore. EBITDA is expected to grow by 5.8% to ₹ 2034.6 crore with margin expected at 8.8% and adjusted PAT expected to grow by 8.2% at ₹ 1534 crore, adjusting for exceptional items and aided by corporate tax rate cut benefit.

Source: ICICI Direct Research, Company

Exhibit 20: Company Specific Views (Capital Goods) Continued...

NRB Bearings	For Q3FY20E, we expect NRB to post dismal performance with revenues expected at ₹ 180.7 crore, down 25.5% YoY as the auto sector (which contributes ~ 70% to NRB's topline) blues continued in the third quarter. Given the declining topline led by volume de-growth, we expect negative operating leverage to contract EBIDTA margins by 730 bps YoY, with an EBIDTA margin of 10% for the quarter. We expect absolute EBIDTA and PAT at ₹ 18.1 crore and ₹ 6.1 crore respectively.
SKF India	For Q3FY20E, SKF is expected to report revenue at ₹ 740.8 crore, down -3.5% YoY on account of slowdown in Industrial and auto sector. However, we expect industrials (gearbox etc) and exports should cushion the topline. On the margin front, we expect EBIDTA margin to contract by 310 bps to 12.7% on the back of increased share of traded goods in the overall product mix. We expect absolute EBIDTA and PAT to come in at ₹ 94.2 crore and ₹ 73.1 crore respectively.
Thermax	For Q3FY20E, Thermax received order worth ₹ 431 crore for FGD systems. In terms of financial performance, we expect revenues to grow by 5.4% to ₹ 1315.4 crore on the back of moderation in execution rate due to muted order backlog which remains a key concern. We expect EBITDA to grow by 8.2% to ₹ 109.2 crore with EBITDA margins expected to marginally improve to 8.3% YoY. PBT (before exceptional items) is expected to grow by 11% while adjusted PAT is expected to grow by 50.4% to₹ 95.5 crore with PAT margin of 7.3% also aided by corporate tax rate cut benefit and high tax base in Q3FY19.
Timken India	Timken India is expected to report a modest performance amid the slowdown in auto segment on account of strong traction from Railways and Exports. For Q3FY20E, we expect revenues to grow 4% YoY to ₹ 400.4 crore. On the margin front we expect EBIDTA margin at 20.7% expanding 630 bps on account of shift towards localization and improvement in the overall yield of steel. We expect absolute EBIDTA and PAT to come in at ₹ 82.9 crore and ₹ 44.6 crore respectively.

Source: Company, ICICI Direct Research

Exhibit 21: Company Specific Views: (Power)

NTPC	During Q3FY20E, the company has installed capacity to the tune of 1050 MW and is well on track to achieve target of 5000 MW of capacity addition in FY20E. However, on account of economic slowdown, better hydro generation and LC payment mechanisms issues for SEB's has hurt the operational performance for Q3FY20E. We expect NTPC to post a YoY decline in gross generation to the tune of 13.5% at 60.65 billion units while energy sold is likely to decline 13.4% to the tune of 56.6 billion units (BUs). Tariff/KwHr for Q3FY20E is expected at ₹ 3.8/KwHr. Hence, revenues and PAT are expected at ₹21504.7 crore (down 10.8% YoY) and ₹ 2206 crore, respectively. Improvement in under recovery on account of fuel costs will be a key monitarable.
CESC	CESC is expected to report weak Q3FY20E results on back of lower generation in the base business. We expect gross generation in its standalone operations to decline 10.5% at 122.1 crore units. However, energy sold is likely to decline at a lower pace of 2.9% YoY at 222.8 crore units on back of higher power purchased. We built in tariff of ₹ 7.45/KwHr. Standalone revenues are expected to decline 2.8% YoY to ₹1659.8 crore. PAT is expected at ₹158.9 crore on the back of weak operational performance.

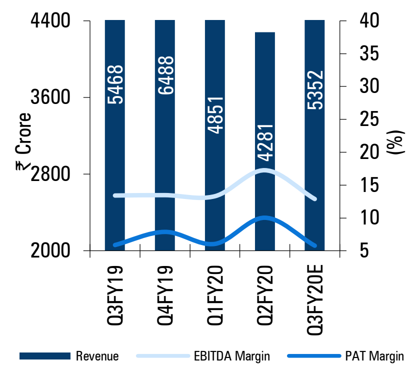
Source: Company, ICICI Direct Research

Road & Construction

Government tags ₹ 19.6 lakh crore capex for road projects

Overall tendering has continued to remain muted with total ₹ 2,92,784 crore worth tenders floated in 8MFY20 vs. ₹ 5,61,962 crore YoY. The overall tendering seems muted in 8MFY20 due to lower average monthly tendering at ~₹ 27,000 crore during April-July, 2019 due to impact of central elections. Nonetheless, with the average value of tenders floated standing at ~₹ 46,000 crore in August-November, 2019, we believe this could further pick up as the Finance Minister recently announced a roadmap for infrastructure investment in FY20-25 under the National Infrastructure Pipeline (NIP). As per this, capital expenditure in infrastructure sector in FY20-25 is projected at ₹ 102 lakh crore, which could lead to strong ramp up in tendering activity, going ahead. Of the total, the government has proposed ₹ 19.6 lakh crore capex towards roads. We anticipate this could lead to strong ramp up in tendering and awarding activity of the road projects, going ahead.

Topline & Profitability



Road awarding activity expected to pick up pace in Q4FY20E

Total road tendering in 8MFY20 stood at just ₹ 95,387 crore vs. ₹ 2,15,270 crore YoY. Also, only ₹ 22,262 crore worth road projects were awarded in 8MFY20 vs. ₹ 43,527 crore YoY. Slower awarding has been on account of central government elections, change in land acquisition policy and bank aversion to fund HAM projects. Nonetheless, the government is making stringent efforts to sort out the land acquisition issues. NHAI is looking to award total ~6,000 km in FY20E. However, with only ~1,100 km road projects awarded so far, road awarding activity is expected to pick up pace in Q4FY20E. On the toll collection front, media reports indicate that post strict implementation of toll payment through FASTag, transactions have almost doubled to 64 million and worth ₹ 1,256 crore in December, 2019 vs. 34 million transactions worth ₹ 774 crore in November, 2019. Also, the average toll collections are reported to have risen to ~₹ 80 crore per day vs. ₹ 60-65 crore per day earlier, which could positively impact revenues of players having BOT toll assets in their portfolio.

Universe expected to show PAT de-growth in Q3FY20E

We expect our road & construction universe to post revenue de-growth by 2.1% YoY to ₹ 5,351.9 crore mainly on account of 28.9% YoY de-growth in NCC's revenues to ₹ 2,293.1 crore in Q3FY20E. EBITDA margin of our universe is expected to contract 50 bps YoY to 12.9% in Q3FY20E. Overall, we expect our universe PAT to de-grow 3.8% YoY to ₹ 309.6 crore during the same period on account of sharp 52.7% decline anticipated in NCC's PAT.

Top Picks

PNC Infratech, KNR Constructions

Research Analysts

Deepak Purswani, CFA
deepak.purswani@icicisecurities.com

Harsh Pathak
harsh.pathak@icicisecurities.com

Exhibit 22: Estimates for Q3FY20E: (Roads & Construction) (₹ Crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q3FY20E	YoY	QoQ	Q3FY20E	YoY	QoQ	Q3FY20E	YoY	QoQ
Ashoka Buildcon	1,185.1	11.3	44.1	148.1	-0.4	20.5	97.0	56.0	33.4
PNC Infratech	1,247.0	71.5	5.7	168.3	64.8	-34.6	83.0	75.3	-59.9
NCC	2,293.1	-28.9	32.4	263.7	-32.8	13.2	75.8	-52.7	-5.3
KNR Construction	626.7	39.6	14.7	109.5	21.5	-13.0	53.8	3.2	-23.3
Total	**5,351.9**	**-2.1**	**25.0**	**689.6**	**-6.0**	**-6.7**	**309.6**	**-3.8**	**-27.9**

Source: Company, ICICI Direct Research

Exhibit 23: Exhibit 2: Company Specific Views (Roads & Construction)

Company	Remarks
Ashoka Buildcon	ABL has received appointed date for all seven HAM proejcts which should support execution momentum in Q3FY20E. Hence, we expect ABL's revenue to grow by 11.3% YoY to ₹ 1,185.1 crore in Q3FY20E. EBITDA margins are expected to contract 147 bps YoY to 12.5%, in line with management guidance margin band of 11.0%-12.5%. On the profitability front, we expect PAT to grow strongly by 56.0% YoY to ₹ 97.0 crore on account of higher other income expected (due to interest income to be received from Ashoka Concessions Ltd) in Q3FY20E and migration to new lower tax regime. **Key monitorable:** Management commentary on execution ahead and status on monetization of Ashoka Concessions Ltd.
NCC Ltd	With standstill position in AP orders, NCC's performance is expected to remain affected in Q3FY20E as well. Hence, we expect NCC's topline to de-grow 28.9% YoY to ₹ 2293.1 crore in Q3FY20E. EBITDA margin is expected to contract 66 bps YoY to 11.5% in-line with the management's guided range of 11.2-11.5%. Overall, NCC's bottom line is expected to decline 52.7% YoY to ₹ 75.8 crore. **Key monitorable**: Management commentary on order inflows, execution, status on Andhra Pradesh orders, receivables and net debt
PNC Infratech	PNC's execution is expected to be strong in Q3FY20E as construction on six out of seven HAM projects is going on in full swing. Hence, we expect PNC Infratech's topline to grow strongly by 71.5% YoY to ₹ 1,247.0 crore in Q3FY20E. The EBITDA margins are expected at 13.5% broadly in-line with management guidance of 13.5%-14.0%. Overall, PNC's bottomline is expected to grow 75.3% YoY to ₹ 83.0 crore in Q3FY20E. **Key monitorable**: Management commentary on order inflows, progress on HAM projects,
KNR Constructions	With the execution of large fast track irrigation orders and overall strong execution on three HAM projects during the quarter, we expect KNR's revenues to grow strongly by 39.6% YoY to ₹ 626.7 crore. Its EBITDA margin is expected to contract 260 bps YoY to 17.5%. Overall, we expect its bottom line to grow 3.2% YoY to ₹ 53.8 crore due to EBITDA margin contraction in Q3FY20E and higher other income & lower tax rate in Q3FY19, **Key monitorable:** Land acquisition status on balance HAM projects, progress on monetisation of Kerala BOT project

Source: Company, ICICI Direct Research

Consumer Discretionary

Volume growth to drive revenue in Q3FY20E

We model revenue growth of ~7% YoY for our discretionary universe, led by volume growth of ~10% in Q3FY20. Paint companies likely to record volume growth of ~10% YoY led by ~11% YoY growth in the decorative segment, while industrial category performance likely to remain tepid. Our channel check suggests paint companies have passed on benefit of low raw material prices to the extent of 3% to its dealers during Q3FY20E. On the piping front, we believe though the volume growth likely to remain higher at 11%-12% the value growth would be largely impacted by decline in PVC prices by 7% during Q3FY20. However, the CPVC prices remained firm during Q3FY20. Besides, under the electrical goods segments while Q3 happens to be a lean period the major growth has been driven by new launches and water heater product categories.

Lower raw material prices to benefit paints and adhesive segment

We believe paints and adhesive companies likely to witnessed gross margin expansion in the range of 100 bps to 300 bps YoY as TiO2 and VAM prices declined by 7% and 18% YoY in Q3FY20. However, higher employee cost and other expenses during Q3FY20 would restrict any sharp expansion in EBITDA margin for Asian Paints and Pidilite Industries during the same period. Further, drop in PVC prices by 7% during Q3FY20E is likely to result in flattish gross margin for Supreme Industries, whereas higher CPVC prices (due to anti-dumping duty by government) would result expansion in gross margin by 300 bps YoY for Astral Poly. On the electrical goods front, we believe Havells EBITDA margin to decline by 70 bps YoY to 11% due to lower utilisation of industrial products, while Voltas to report increase in EBITDA margin by 60 bps YoY to 8.4% largely on account of better profitability in the UCP segment.

PAT to grow at 18% YoY

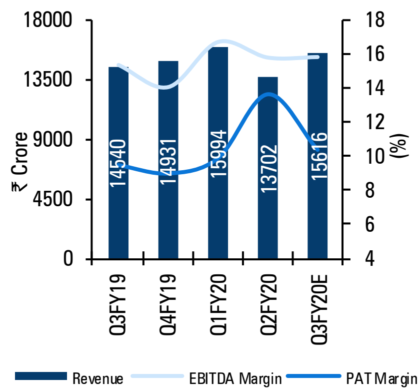
Despite a flattish EBITDA margin, our coverage universe likely to post bottom-line growth of 18% YoY by supported by recent cut in corporate tax rate (tax reduced from ~33% to ~25%). We believe, Astral poly and Kansai Nerolac likely to report PAT growth of 28% each supported by EBITDA margin expansion and low base of last year.

Exhibit 24: Estimates for Q3FY20E: (Consumer Discretionary) (₹ crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q3FY20E	YoY	QoQ	Q3FY20E	YoY	QoQ	Q3FY20E	YoY	QoQ
Asian Paints	5,806.3	9.7	15.0	1,166.1	11.8	22.1	779.2	20.4	-7.5
Astral Poly Technik	716.2	13.0	5.6	120.3	28.5	1.1	65.5	23.3	-20.5
Havells	2,674.9	6.2	19.9	294.2	-0.1	25.7	201.0	2.7	10.8
Kansai Nerolac	1,415.4	5.3	13.8	215.7	21.9	1.3	144.1	27.9	-25.5
Pidilite Industries	1,916.7	3.7	6.1	373.9	11.0	1.5	255.1	17.0	-21.5
Supreme Industries	1,513.4	7.3	19.1	191.0	8.8	10.5	103.8	28.1	-25.6
Voltas Ltd	1,572.9	5.4	10.6	132.3	14.4	25.0	92.4	18.3	-13.9
Total	**15,615.7**	**7.4**	**14.0**	**2,493.6**	**11.5**	**15.0**	**1,641.0**	**18.4**	**-12.3**

Source: Company, ICICI Direct Research

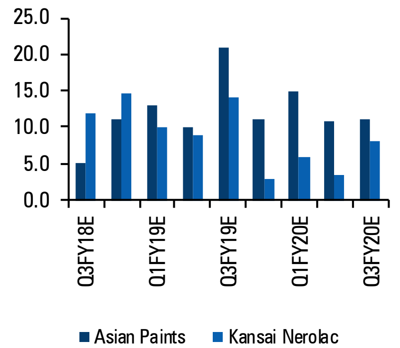
Topline & Profitability (Coverage Universe)



EBITDA Margin (%) movement

EBITDA margin	Q3'19	Q4'19	Q1'20	Q2'20	Q3'20
Asian Paints	19.7	17.6	22.7	18.9	20.1
Kansai Nerolac	13.1	13.0	17.0	17.1	15.2
Pidilite Ind	18.2	17.0	22.0	20.4	19.5
Havells	11.7	11.7	10.2	10.5	11.0
Voltas	7.8	7.0	11.0	7.4	8.4
Supreme Ind	12.7	13.2	11.6	13.6	12.6
Astral Poly	14.8	15.4	15.3	17.5	16.8

Volume growth movement of paint companies



Research Analysts

Sanjay Manyal
sanjay.manyal@icicisecurities.com

Hitesh Taunk
hitesh.taunk@icicisecurities.com

Exhibit 25: Company Specific Views (Consumer Discretionary)

Company	Remarks
Asian Paints	Asian Paints is likely to record sales growth of ~10% YoY to~₹ 5806 crore in Q3FY20E on the back of volume growth of ~11% YoY. We believe, change in product mix coupled with passing on the benefit of lower raw material prices partially, will restrict realisation growth during Q3FY20. Further, company's gross margin likely to improve (by upto 100 bps YoY, which will drive EBITDA margin up by 40 bps YoY at 20.1%. We believe, company's PAT may increase by 20% YoY at ₹ 779 crore in Q3FY20E led by corporate tax rate cut
Astral Poly	Astral Poly's revenue likely to increase by ~13% YoY to ~₹ 716 crore. On the segment front, the piping segment is likely to grow ~14% YoY to ₹ 530 crore, led by volume growth of ~12% YoY. Besides adhesive segment revenue likely to increase by 10% YoY at ₹ 173 crore supported by streamling of distribution strategy. The gross margin would grow by ~300 bps YoY supported by price hikes in the CPVC proudct category as a result EBITDA margin may increase by ~200 bps YoY to 16.8% . Margin improvement coupled with lower corporate tax rate likely to drive PAT up by 22% YoY to ₹ 65 crore
Havells India	Havells consolidated sales likely to grow by ~6% YoY at ₹ 2675 crore in Q3FY20E supported by 17% YoY growth in revenue of the electrical consumer durable (Excl. Lloyd) segment to ₹ 649 crore. We believe low government capex may lead to moderate revenue growth of 7% and 5% in both cable and switchgear segment to ₹ 878 crore and ₹ 439 crore, respectively. Lloyd revenue likely to decline by 12% YoY to ₹ 315 crore due to muted TV sales. We believe higher fixed cost likely to dent EBITDA margin, to the extent of 70 bps YoY at 11%. PAT is likely to grow ~3% YoY to ₹ 201 crore supported by a reduction in corporate tax rate
Kansai Nerolac	Kansai's topline growth likely to remain muted at 5% YoY at ₹1415 crore due to flattish growth in the industrial paint segment. However, company's decroative sales volume likely to grow by ~11% YoY in line with industry leader. The EBITDA margin is likely to increase by 200 bps YoY at 15% supported benign raw material prices. Higher depreciation charges (up 29% YoY) and muted sales growth would be partly offset by a reduction in the corporate tax rate, which would lead to PAT growth of ~28% YoY at ₹ 144 crore during Q3FY20E
Pidilite Industries	Pidilite's consolidated sales likely to increase by 4% YoY ~₹ 1917 crore during Q3FY20E owing to muted performance of consumer & bazaar (C&B) segment. C&B segment likely to grow by which is likely to grow by 3% YoY at ₹ 1640 crore. We believe benign VAM prices (down by ~18% YoY in Q3FY20) will benefit the company in terms of higher gross margin (up 300 bps YoY), which would result in an increase in EBITDA margin by 130 bps YoY to ~19.5%. Increase in EBITDA margin coupled with tax rate cut benefit would drive PAT growth at 16% YoY at ₹ 255 crore
Supreme Industries	SIL is likely to record revenue growth of ~7% YoY to ~₹ 1514 crore in Q3FY20E led by ~11% volume growth. We believe the piping segment will record revenue growth of 11% YoY at ₹ 885 crore led by volume growth of ~12%. On the other hand, Industrial and consumer segment performance likely to remain muted due to lower product demand. Further, EBITDA margin likely to remain flat at 12.6% owing to flattish gross margin (PVC prices dropped by ~7% QoQ). Finally, reduction in corporate tax rate would drive company's PAT up by 28% YoY at ~₹ 104 crore in Q3FY20E
Voltas	In a lean season, Voltas is likely to record muted sales growth of ~5% YoY at ~₹ 1574 crore in Q3FY20E. Prjoect business likely to report muted revenue growth of ~3% YoY at ₹ 898 crore. However, unitary cooling product (UCP) segment sales likely to grow by 10% at ₹ 580 crore mainly on the back of low base of same period last year. Better operating leverage in UCP business would help drive EBITDA margin up by 60 bps YoY at 8.4%. Despite losses from JV/associated, the company is likely to record PAT growth of 18% YoY at ₹ 92 crore supported by improvement in margin

Source: Company, ICICI Direct Research

FMCG

Volume growth to remain soft, margins flattish

Due to rural slowdown and liquidity issues at wholesale level, our FMCG coverage companies would witness muted growth in Q3FY20E as witnessed in previous quarter. Our coverage companies are expected to report slower organic volume growth in the range of 4-6% YoY on a high base whereby sales is expected to grow by 6.3% YoY. Impact of weak rural growth would be felt the most by HUL and Marico, as rural sales contributes a sizeable portion of their overall sales in addition to shift towards lower priced alternatives. HUL is expected to witness slower YoY revenue growth of 6.5% and 5.8% respectively. Marred by tepid hair oil demand, Marico is expected to witness muted domestic volume growth of 4%. On account of price cuts taken in core categories, we expect Marico to post 2.5% YoY sales growth. On the positive side, Nestlé is expected to witness strong YoY sales growth of 9.5% driven by broad based growth across categories and due to lower salience of rural sales. Dabur is expected to post 6% YoY volume growth on the back of good sales growth driven by promotional offers in Diwali period in October. ITC is expected to post 4% YoY volume growth in cigarettes driven by stable tax environment. Though growth from its FMCG segment would be lower in line with other consumer companies' growth, we expect ITC to post 6% YoY sales growth on the back of good growth from cigarettes & paper segments.

Rising commodity inflation to impact margins

Raw material prices have been on an upward trend over last few months. Palm oil, cocoa, barley, milk, wheat and sugar prices have increased by 29%, 12%, 11%, 10%, 8% and 5% YoY respectively. However, few commodities such as crude oil (used for packaging), copra and robusta, which are down by 9%, 5% and 18% respectively on a YoY basis, are providing some respite to our FMCG coverage companies. Our coverage companies have taken a few price hikes to mitigate higher input cost prices that should help in slight margin expansion of 14 bps. Late surge in palm oil prices (towards the fag end of the quarter), would impact HUL's margins whereas higher milk and cocoa prices would affect Nestlé's gross margins. On the other hand, benign copra prices should continue to aid Marico's margins. We believe companies will use the benefit from reduction in corporate tax rates, to pass on some benefits to consumers. We estimate 11.5% YoY net profit growth for our coverage companies driven by optimisation of ad spends and cost rationalisation measures.

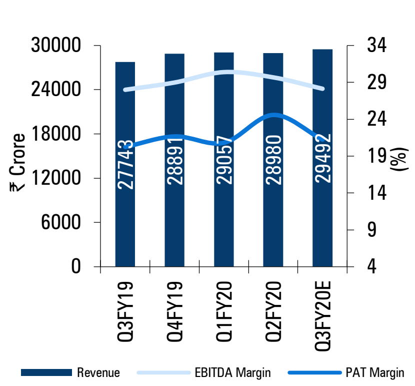
We expect volume growth to improve for our FMCG universe by Q4FY20E led by above normal monsoons and encouraging government policies to lift rural incomes. However, on account of surge in crude oil prices in January, we reckon our FMCG universe would feel its pinch in Q4FY20E. We believe our coverage companies' strive to increase rural penetration and focus on new launches amidst tough economic environment would reap rich dividends for our FMCG universe in the forthcoming quarters.

Exhibit 26: Estimates for Q3FY20E: (FMCG) (₹ Crore)

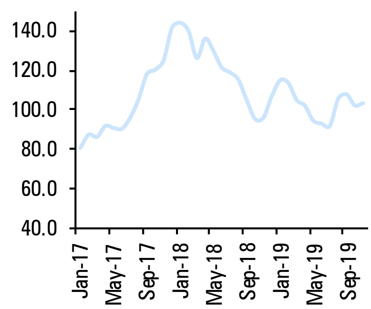
Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q3FY20E	YoY	QoQ	Q3FY20E	YoY	QoQ	Q3FY20E	YoY	QoQ
Dabur India Ltd	2,327.6	5.8	5.2	483.7	8.6	-1.2	405.0	10.3	0.3
HUL	10,179.6	6.5	3.3	2,136.4	4.4	-12.5	1,502.4	4.0	-18.7
ITC	11,905.2	6.0	0.3	4,620.2	6.8	1.3	3,615.9	12.7	-10.1
Marico Ltd	1,907.3	2.5	4.3	369.3	5.8	4.6	265.7	5.6	5.0
Nestle India	3,172.6	9.5	-1.3	686.1	14.5	-8.7	470.7	37.7	-20.9
Total	**29,492.3**	**6.3**	**1.8**	**8,295.8**	**6.8**	**-3.5**	**6,259.7**	**11.5**	**-12.1**

Source: Company, ICICI Direct Research

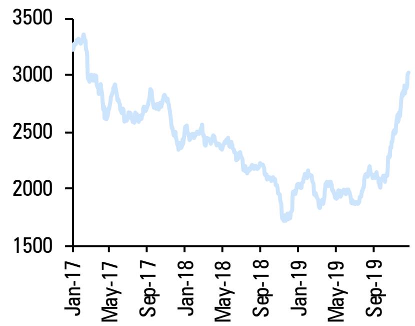
Topline & Profitability (Coverage Universe)



Copra price trend (₹/kg)



Surge in palm oil prices (₹/kg)



Top Picks

Research Analysts

Sanjay Manyal
sanjay.manyal@icicisecurities.com

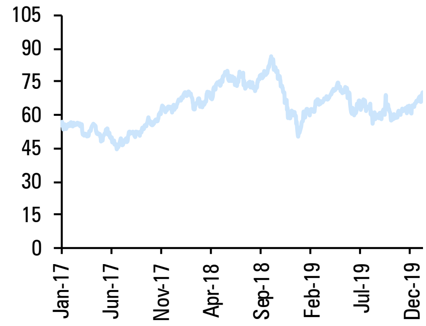
Kapil Jagasia, CFA
kapil.jagasia@icicisecurities.com

Exhibit 27: Company Specific Views (FMCG)

Company	Remarks
Dabur	We expect Dabur to post 5.8% YoY revenue growth led by 6% volume growth. Dabur's volume growth is expected to improve on a sequential basis on account of higher A&P spends to support new launches and its strong focus on power brands to drive growth. International operations are expected to witness 5.1% YoY sales growth on account of a revival in Turkey, MENA and Nepal regions. We expect EBITDA margins to increase by 49 bps to 20.8% driven by tight control over operational costs. PAT is expected to increase by 10.3% to ₹ 405 crore on the back of higher operating profit
HUL	HUL is expected to witness 6.5% YoY sales growth mainly driven by 4% volume growth in addition to product mix improvement of 2%. We believe muted sales growth would be due to weak growth in personal care segment (~50% of sales), impacted by intensified competition in soaps category. Home care and foods & refreshment segment should witness better sales growth owing to premiumisation trend. We expect HUL to witness slight operating margin decline of 42 bps to 21% due to upsurge in palm oil prices. We expect net profit growth of 4% YoY to ₹ 1502.4 crore.
ITC	ITC is expected to post sales growth of 6% YoY driven by good growth from cigarettes & paper segment. Cigarette segment sales growth would be driven by volume growth of 4% and price hikes of 1.5-2% taken in the segment recently. FMCG segment should witness slower growth of 6% sales growth as compared to its erstwhile quarters, affected by demand slowdown in rural regions. With select price hikes in cigarettes segment, rapid improvement in FMCG operating margins and reduction in corporate tax rates, we expect net profit to show strong growth of 12.7% to ₹ 3615.9 crore
Marico	Marico is expected to post muted revenue growth of 2.5% YoY sales growth due to weak domestic business environment. We expect volume growth of 4% on the back of double digit growth in Saffola and Foods segment. Parachute and VAHO segments are expected to report flattish volume gorwth during the quarter. International business is also expected to witness sales growth in a similar trajectory driven by strong growth from Bangladesh; however, other regions are expected to witness some softness. Due to a decline in copra prices of ~5% YoY, we expect 61 bps expansion in operating margins to 19.4%. Net profit is expected to increase by 5.6% YoY to ₹ 265.7 crore
Nestlé India	Led by robust growth in Maggi and chocolates segment in addition to aggressive new launches and higher advertising spend, we expect Nestlé to post 9.5% YoY sales growth to ₹ 3,172.6 crore. Despite higher input cost prices (milk & cocoa), we expect operating margins to expand by 95 bps to 21.6% YoY on a low base base of 20.7%. A&P spend was up by ~25% in base quarter. We expect net profit to grow by 37.7% YoY to ₹ 470.7 crore during the quarter mainly led by reduction in tax rates. Adjusted for one-offs in base quarter, net profit is expected to grow by 27.6% YoY.

Source: Company, ICICI Direct Research

Crude oil prices trend ($/barrel)



Hotels

FTAs growth to rebound in Q3FY20E after four quarters of low single digit growth

After reporting average low single digit growth of ~3% in the past 18 months, foreign tourist arrivals (FTA) growth is expected to rebound to over 6.5% YoY during the quarter. This improvement we believe is partly attributed to recent measures taken by the government in terms of reducing the E-visa fees and bringing down the GST rates for hotels which has made India more competitive in the South East Asian regions. This, coupled with balanced room supply across business and leisure destinations, would have a positive impact on occupancy levels of the premium segment hotel rooms. On the other hand, moderate room demand from domestic travellers and business segment would keep the room rates under check during the quarter. In terms of individual performances, we expect premium player Indian Hotels to report revenue growth of over 6% YoY backed by improvement in FTAs while budget hotel Lemon tree hotels would report revenue growth of over 32% YoY led by launch of new properties in Udaipur, Kolkata and Mumbai) and consolidation of revenues from Key Hotels during the quarter. On the other hand, EIH would report 11% YoY drop in revenues mainly due to lower income from flight catering business that was affected due to closure of Jet Airways. Overall, we expect I-direct hotel universe to report 4.1% YoY revenue growth during the quarter.

Margins to broadly remain flattish YoY

Margins of the I-direct hotel universe are expected to broadly remain flat YoY. During the quarter, we expect Indian Hotels to report margin expansion of 173 bps mainly due to improved business of international segment (healthy RevPAR in US) while EIH may report 370bps dip in margins YoY due to lower income from high margin flight catering business. Margins to Lemon tree to get impacted marginally due to launch of new properties during the quarter. Overall, we expect margins of I-direct universe to remain flat YoY at 27.5% during the quarter.

Leisure and select business destinations to drive growth during the quarter

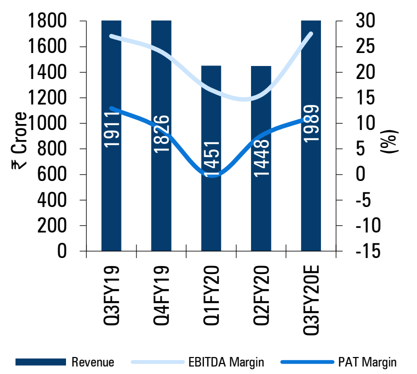
Average occupancy levels continued to remain higher at leisure destinations compared to business destinations during the quarter due to the onset of peak season. However, select business destinations are expected to report marginally better occupancy levels during the quarter. Among leisure destinations Goa and Jaipur would report healthy improvement in occupancy levels during the quarter. In business destinations, Mumbai, Hyderabad and Bengaluru would register better occupancies compared to the previous year.

Exhibit 28: Estimates for Q3FY20E: (Hotels) (₹ Crore)

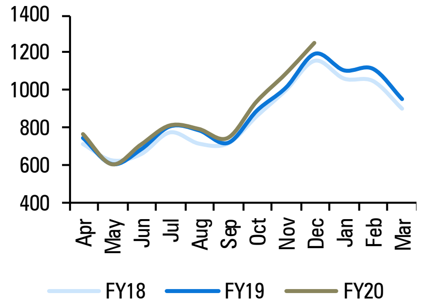
Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q3FY20E	YoY	QoQ	Q3FY20E	YoY	QoQ	Q3FY20E	YoY	QoQ
EIH	395.1	-11.0	37.3	103.3	-22.0	530.8	49.3	-22.8	20.3
Indian Hotel	1,404.2	6.1	39.4	380.3	13.3	137.0	169.6	-0.3	137.8
Lemon Tree Hotels	189.6	32.3	24.1	64.1	30.7	32.3	2.9	-78.4	LP
Total	**1,988.9**	**4.1**	**37.4**	**547.7**	**5.9**	**143.1**	**221.8**	**-10.3**	**102.4**

Source: Company, ICICI Direct Research

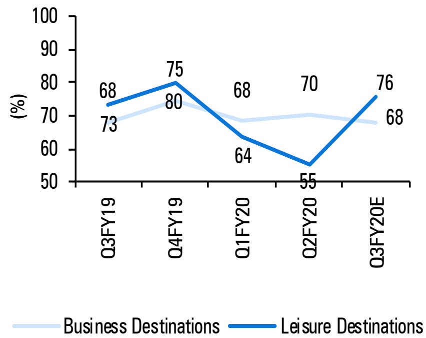
Topline & Profitability (Coverage Universe)



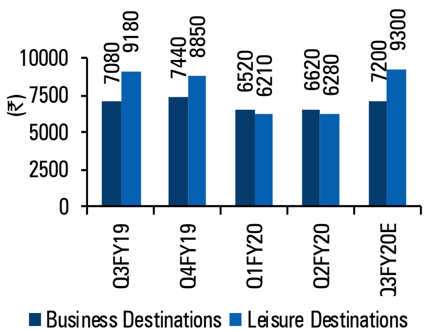
FTAs growth to rebound to 6.5% YoY vs. 2% YoY growth reported last year



Trend in average occupancy level (%)



Trend in average room rates (In ₹)



Top Picks

Indian Hotels
Lemon Tree Hotels

Research Analysts

Rashesh Shah
rashes.shah@icicisecurities.com

Romil Mehta
romil.mehta@icicisecurities.com

Company specific view

Company	Remarks
Indian Hotels	On the revenue front, we expect domestic revenue growth of 7.2% YoY in line with industry growth vs 5.6% YoY growth reported last year. The marginal improvement in the growth is backed by improvement in foreign tourist arrivals with likely growth of 6.5% YoY vs 2.0% YoY growth reported last year. The international segment is expected to grow by 5% YoY. Margins are expected to improve 173bps YoY depsite challenges in the domestic segment which will be offset by turnaround of international subsidiaries. PAT growth to remain flat YoY as LY net profit included exceptional gain of ₹41 crore
EIH	Earnings of EIH to continue to get impacted due to lower revenues from catering businss during the quarter. On the other hand, stabilisation of Delhi property which was reopened in January 2018 would help in stabilising revenues. With lower-than-expected revenue from catering business, we expect revenue to decline by 11% YoY. The margins to decline by 370bps YoY to 26.1% mainly due to lower income from high margin catering segment.
LemonTree	Launch of premium properties in Udaipur, Mumbai and Kolkata along with integration of Keys hotel, we expect the revenue to grow at 32.3% YoY. On the other hand, we expect margins to get impacted due to high fixed operating overheads vis-o-vis lower incremental revenues from new properties in intial stages. Also, with higher interest and depreciation charge, we expect net profitability to get impacted during the quarter.

Source: Company, ICICI Direct Research

Information Technology

Seasonally weak quarter, deal wins key thing to watch

Weak seasonality of the quarter coupled with slowdown in banking financial services and retail segments is likely to lead to moderation in growth rates especially for Tier-1 IT companies. We expect Tier-1 IT companies to report revenue growth in the range of 1-1.8% QoQ in constant currency (CC) terms. Cross currency would act as a tailwind of average 30-60 bps to reported dollar growth mainly on the back of GBP appreciating 4.5% QoQ vs. US dollar. Of top tier, Wipro is expected to lead followed by rest. Mid-tier is expected to drive better revenue performance compared to Tier-1, with L&T Infotech leading the growth with 4.5% sequential dollar revenue growth. On the margin front, currency tailwind would provide cushion to margins for most companies. Outlook for CY20E in direction of clients IT budgets, demand environment for banking and retail verticals, deal funnel and managing margins in wake of increasing cost pressures would be keenly watched. We prefer Infosys and Wipro among tier-1 and L&T Infotech among midcap.

Currency tailwind to ease pressure on margins

INR depreciation of 1.2% against US dollar on QoQ basis and cross currency tailwind would provide comfort to margins for most companies. Along this, pyramid optimization would also aid in some. On the other hand, HCL Tech and TechM could see a dip in margins with partial wage hike, higher amortization and large deal cost playing out for respective companies. We estimate EBIT margins to increase 30-80 bps sequentially for Tier-1 companies while HCLT could witness a decline of 100 bps QoQ.

Among mid-cap, LTI to lead in revenue & Mindtree in margins

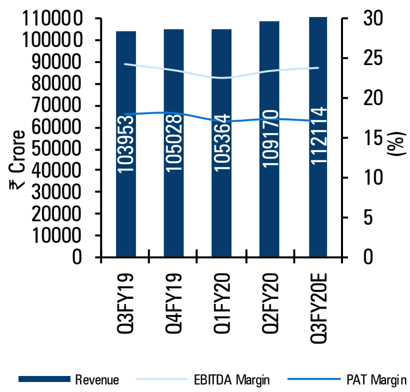
Among our midcap universe, we expect L&T Infotech to lead the dollar revenue growth (4.5% QoQ) on account of bottoming out of client specific issues coupled with small acquisitions integration. On the EBITDA margin front, Mindtree is likely to witness the expansion of 150 bps QoQ led by pyramid optimization, absence of one time compensation, waning of deal associated costs and currency benefit.

Exhibit 29: Estimates for Q3FY20E (₹ crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q3FY20E	YoY	QoQ	Q3FY20E	YoY	QoQ	Q3FY20E	YoY	QoQ
HCL Tech	18,006.0	14.7	2.7	4,141.0	13.5	0.9	2,714.0	3.9	2.4
Infosys	23,204.5	8.4	2.5	5,917.0	9.4	4.9	4,223.7	17.0	4.6
InfoEdge *	329.5	17.2	4.1	106.9	28.3	7.7	93.0	25.2	900.0
L&T Infotech	2,707.6	9.5	5.3	506.3	-0.5	8.7	378.0	0.7	4.9
Mindtree	1,968.7	10.2	2.8	285.5	0.8	15.0	160.9	-15.8	19.2
NIIT Technologies	1,080.2	11.2	4.0	202.0	11.9	6.4	120.3	20.1	0.7
TCS	39,920.7	6.9	2.4	10,778.6	6.9	5.4	8,118.5	0.2	0.9
Mindtree	1,968.7	10.2	2.8	285.5	0.8	15.0	160.9	-15.8	19.2
Tech Mahindra	9,396.6	5.1	3.6	1,522.0	-11.6	1.4	1,006.9	-16.3	-10.4
Wipro	15,500.5	2.9	2.5	3,306.4	-2.3	4.8	2,449.3	-2.4	-4.0
Total	**112,114.3**	**7.9**	**2.7**	**26,765.7**	**5.8**	**4.4**	**19,264.6**	**2.6**	**1.2**

*On adjusting for Exceptional item in Q2FY20, Adjusted PAT grew 10.5% QoQ for InfoEdge; Source: Company, ICICI Direct Research

Topline & Profitability (Coverage Universe)



Dollar growth, QoQ

IT Services	Q3FY20E	Q2FY20	Growth (%)
TCS	5,605.3	5,517.0	1.6
Infosys	3,258.2	3,210.0	1.5
Wipro ^	2,094.0	2,048.9	2.2
HCL Tech	2,528.0	2,486.0	1.7
Tech M	1,319.4	1,287.2	2.5
LTI	380.2	363.8	4.5
Mindtree	276.4	271.0	2.0
NIIT Tech	151.7	148.7	2.0
Internet (in ₹)			
Info Edge	329.5	316.6	4.1

^ IT services

Top Picks

Infosys, Wipro
L&T Infotech

Research Analysts

Devang Bhatt
devang.bhatt@icicisecurities.com

Deepti Tayal
deepti.tayal@icicisecurities.com

Commentary on various fronts for CY20E of major interest

Recent few quarters have been impacted by weakness in banking financial services (specifically capital markets), auto, retail & client specific issues in some. Going ahead, commentary related to pattern in clients IT budgets, demand environment for banking and retail verticals, deal funnel and managing margins in wake of increasing cost pressures would be the key factors to watch out for FY21E.

Exhibit 30: Company Specific view

Company	Remarks
TCS	Constant currency revenues are expected to grow by mere 1% sequentially mainly on the back of weakness in pockets of banking & retail segments along with quarter seasonality. Cross currency would act as a tailwind of 60 bps leading to US$ revenue growth of 1.6% QoQ to $5,605 million. Further, rupee revenue growth is expected to grow at 2.4% QoQ (to ₹ 39,920 crore) mainly due to rupee depreciation. EBIT margins could expand 80 bps QoQ to 24.8% mainly driven by rupee depreciation, cross currency benefit along with utilization of employees hired in H1FY20. Lower other income (mainly on account of special dividend) may lead to 0.9% QoQ growth in PAT. Investor interest: Demand update across verticals, IT budgets outlook for CY20E, commentary regarding deal ramp ups and margin trajectory
Infosys	Revenues is expected to grow 1.2% QoQ in constant currency terms. US$ revenue may increase 1.5% QoQ to $3,258 million while dollar appreciation would lead to rupee revenue growth of 2.5% QoQ at ₹ 23,204 crore. Currency tailwind coupled with absence of acquisition costs incurred in Q2 would likely lead to EBIT margins expansion of 60 bps QoQ to 22.3% in the quarter. Investor interest: Revision in upper band revenue guidance for FY20E (9-10%), demand commentary on BFSI (especially capital markets) and European auto verticals, measures to control attrition and update on investigations in light of whistleblower complaints
Wipro	We expect global IT services revenues to grow 1.8% QoQ in constant currency well in the guided range of 0.8-2.8%. With cross currency tailwind of 0.4%, US$ revenues in IT services segment to grow 2.2% QoQ to US$2094 million supported by full quarter consolidation of ITI acquisition (0.3%). In rupee terms, consolidated revenues could grow 2.5% QoQ to ₹ 15,501 crore. Global IT services EBIT margins is expected to expand by 30 bps QoQ to 18.4%. Lower other income (mainly on account of share buyback) is leading to 4% QoQ de-growth in PAT. Investor interest: Q4FY20E guidance taking into account strong quarter for company, deal renewals, top client trajectory, demand outlook across various operating segments and margin momentum
HCL Tech	We expect dollar revenues to grow 1.7% QoQ to $2,528 million led by organic growth aided by Sankalp acquisition (0.2%). This accompanied with rupee depreciation benefit, rupee revenues is expected to grow by 2.7% QoQ to ₹ 18,006 crore. EBIT margins could decline 100 bps QoQ to 19% owing to impact from partial wage hike (spread across Q2 & Q3), amortization pertaining to IBM acquisition partially countered by currency benefit. Investor interest: Momentum in IMS business, magnitude of investments in acquisition led strategy, digital deal pipeline and margin sustainability
Tech Mahindra	We expect US$ revenues to grow by 2.5% QoQ to $1319 million mainly driven by partial contribution by acquisition of Born group and AT&T deal. Rupee revenues may grow 3.6% QoQ to ₹ 9,397 crore. EBITDA margins could decline 30 bps QoQ to 16.2% on account of large deal transition cost and normalization of SG&A expenses. Investor Interest: Update on large deal won of AT&T in Sep 2019, momentum in portfolio companies, attrition rates and timeline progress on 5G roll out
Larsen & Toubro Infotech	US$ revenues is expected to witness a strong growth of 4.5% QoQ to $380 million on account of bottoming out of client specific issues coupled with small acquisitions integration. Rupee revenues may grow by 5.3% QoQ to ₹ 2,707 crore. EBITDA margins likely to expand 60 bps QoQ to 18.7% mainly due to currency tailwind. Investor Interest: Growth outlook for CY20E, top client trajectory, deal pipeline and margin course in the wake of increased cost pressure

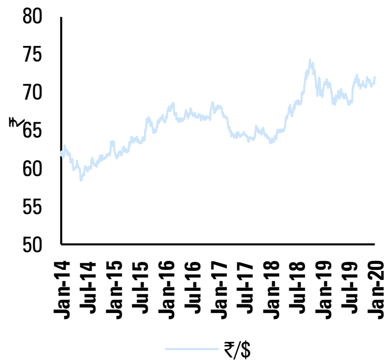
Source: Company, ICICI Direct Research

EBIT margin impact

EBIT margins	Q3FY20E	Q2FY20	Change (bps)
TCS	24.8	24.0	80
Infosys	22.3	21.7	60
Wipro ^	18.4	18.1	30
HCL Tech	19.0	20.0	(100)
EBITDA margins			
Tech M	16.2	16.5	(30)
LTI	18.7	18.1	60
Mindtree	14.5	13.0	150
NIIT Tech	18.7	18.3	40
Internet (in ₹)			
Info Edge	32.4	31.4	100

^ IT services

₹/$



$ vs. global currencies

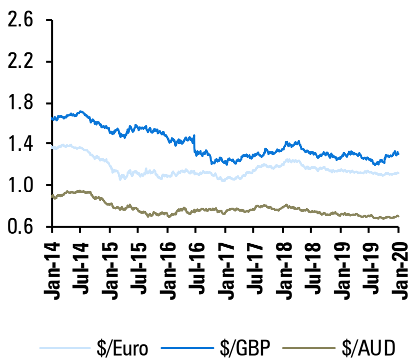


Exhibit 31: Company Specific views

Company	Remarks
Info Edge	Rupee revenues are expected to grow 17.2% YoY to ₹ 330 crore led by continued growth momentum in Naukri business (18% YoY) and 99 acres (15% YoY). EBITDA margins may increase 100 bps QoQ at 32.4% owing to productivity enhancements in Naukri business partially countered by cash burn at Jeevansathi and continuity in ad expenses in Naukri business. Investor interest: Hiring viewpoint in IT and non IT segments, growth outlook in 99 acres, update on Zomato & PolicyBazaar and any new investments
MindTree	We expect dollar revenues to grow 2% QoQ to $276 million led by deal ramp ups and growth in top client. Rupee revenue may grow 2.8% QoQ to ₹ 1,969 crore. EBITDA margins may expand by 150 bps QoQ to 14.5% in the quarter mainly led by absence of one time compensation cost, waning of deal associated costs and currency benefit. Investor interest: Update of strategy by new management, margin trajectory post sharp dip in Q1FY20, attrition in senior leadership, client mining opportunity and order pipeline
NIIT Tech	On account of healthy traction in insurance and transportation segment, dollar revenue is expected to increase 2% QoQ to US$152 million partially offset by seasonal weakness in banking vertical. Following that, rupee revenues may witness a growth of 4% QoQ to ₹ 1080 crore. EBITDA margins may see an expansion of 40 bps to 18.7% due to operational efficiency and currency benefit. Investor interest: Commentary on top 5 clients amid softness in banking financial space, order book conversion, margin course and traction in digital segments

Source: Company, ICICI Direct Research

Logistics

EXIM rail container volumes show growth spurt

Q3 has seen mixed trends in container volumes in rail and ports such as Major as well as Gujarat based ports. While the rail CTOs and Gujarat based ports (container) showed positive growth numbers at 6% and 2% YoY respectively (for the month of October and November); the major ports (Govt) declined 3% (JNPT declined 7%). Also within rail CTOs, mixed trends were seen between the EXIM and Domestic containers which grew 9% and -6% respectively. Although, the overall growth in the container volumes (Q3 vs Q2) at ports declined, the EXIM volumes at rail CTOs grew, indicating gain in market share for the rail vs the road segment. The average indexed freight rates have declined from 88.9 in Sept to 88.1 in Nov, 2019 (was 103.4 in Nov, 2018), inspite of the indexed diesel prices remaining at similar levels QoQ, indicating contraction in profitability for the road players.

Surface players continue to remain impacted by slowdown

Q3 in particular remained impacted due to floods in few southern states, lower liquidity in the market and anti-CAA protests in the Eastern region. Surface players in the business of Supply Chain (TCI Supply chain division & Mahindra Logistics) are expected to report lower growth due to continued YoY volume decline in Auto sector impacting all the three legs of SCM (inbound, outbound and infactory logistics), although on a QoQ basis, SIAM data showed greenshoots in specific automobile segments. The Freight and the Express segment is expected to show moderation in growth due to general slowdown in economic activity.

Major ports cargo traffic has slowed down further

The YTD growth in the major port traffic (12 ports) has tapered down from 1.5% in April-September, 2019 to 1% in April-December, 2019 to 524 MMT in overall cargo handled. The 17% decline in the thermal coal to 65 MMT is effectively neutralised by 32% growth in the iron ore segment to 39 MMT. Other segments such as other liquids, Crude, LPG, Coking coal and containers and other miscellaneous cargo grew in 1-3% levels in April-December, 2019.

Financial performance expected to remain largely flat

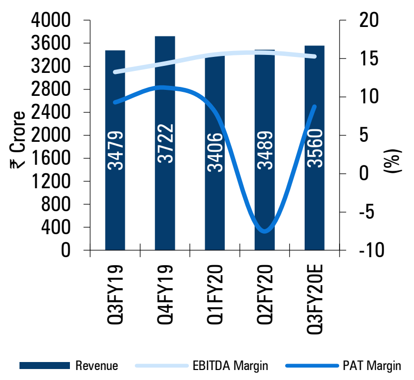
Revenues of our logistics coverage universe are expected to grow 2% YoY to ₹ 3560 crore. On profitability front we expect overall EBITDA and PAT to grow 18% (IND-AS effect) and -4% to ₹ 544 crore and ₹ 311 crore respectively. We do not expect the Government of India to provide incentives (exceptional income) to Container Corporation during the quarter.

Exhibit 32: Estimates for Q3FY20E: (Logistics) (₹ crore)

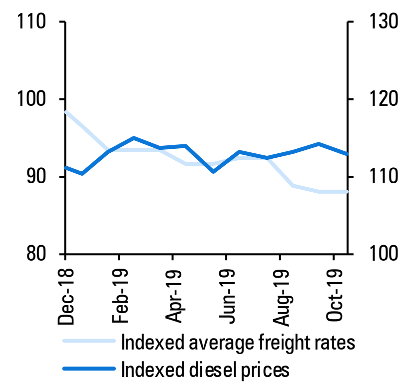
Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q3FY20E	YoY	QoQ	Q3FY20E	YoY	QoQ	Q3FY20E	YoY	QoQ
Container Corporation	1,670.1	6.2	-3.9	409.2	22.7	-3.8	254.8	-7.2	LP
Mahindra Logistics	937.8	-4.4	10.0	43.1	20.2	14.2	18.7	-2.2	67.2
TCI Express	273.7	4.0	1.6	30.7	-1.0	-0.2	22.3	19.2	-14.5
Transport Corp	678.3	2.4	8.0	61.0	0.9	7.9	34.0	13.6	2.3
Total	**3,559.9**	**2.3**	**2.0**	**544.0**	**18.0**	**-1.2**	**311.1**	**-3.8**	**LP**

Source: Company, ICICI Direct Research

Topline & Profitability (Coverage Universe)

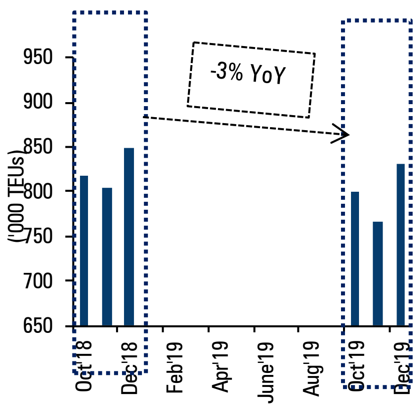


Average road freight rates vs diesel prices



Source: CRISIL, ICICI Direct Research

Indian Major Ports Container data



Source: IPA, ICICI Direct Research

Top Picks

Mahindra Logistics

Research Analysts

Bharat Chhoda
bharat.chhoda@icicisecurities.com

Harshal Mehta
harshal.mehta@icicisecurities.com

Exhibit 33: Company Specific Views (Logistics)

Company	Remarks
Container Corporation	Core revenues are expected to grow 6% YoY to ₹1670 crore due to 5% YoY growth in both Exim and domestic realisation, whereas the EXIM volumes are expected to grow mere 2% and the domestic volumes are expected to de-grow by 2%. EBITDA margins are expected to grow 350 bps YoY to 22.7% (due to lower empties and a better product mix). Absolute EBITDA is expected to decline 23% YoY to ₹ 409 crore. However, adjusted PAT is expected to decline 7% YoY to ₹ 255 crore owing to presence exceptional income of ₹ 186 crore in Q3FY19
Transport Corporation of India	Freight segment, which witnessed strong growth in FY19 (17% revenue growth), is expected to grow at a slower pace of 7% YoY in Q3FY20 due to lower growth in the manufacturing sector. SCM revenues continued to be impacted by a slowdown in the auto Industry. However, shipping segment revenues are expected to grow 8% YoY due to improved fleet utilisation. Resultant revenues are expected to grow mere 2% YoY to ₹ 678 crore. EBITDA is expected to grow 1% YoY to ₹ 61 crore (EBITDA margin expected to remain rangebound at 9%). Due to lower tax rate (for freight & supply chain division) and lower interest expense, PAT growth is expected to clock 14% YoY to ₹ 34 crore
Mahindra Logistics	Revenue is expected to remain subded with 4% YoY decline amid a continued slowdown in the auto sector (~65% exposure). EBITDA margins are expected to remain rangebound at 4.5%. Subsequently, EBITDA is expected to grow 20% YoY to ₹ 43 crore (mainly due to IND-AS effect). However, PAT is expected to decline 2% YoY to ₹ 19 crore (due to higher depreciation and interest expense related to the IND-AS effect), inspite of benefit of lower corporate tax rate announced by the government recently (effective tax rate reduced from 35% to 25.2%)
TCI Express	Revenues are expected to grow mere 4% YoY to ₹274 crore, mainly due to a slowdown in the auto sector (transports spare parts to auto companies) and a general consumption based slowdown in the economy. EBITDA margins are expected to remain steady at 11.2%. Subsequently, PAT is expected to grow 19% YoY, amid lower tax rate

Source: Company, ICICI Direct Research

Media

Another quarter of healthy box office; regionals disappoint

Q3FY20 witnessed healthy content performance with five movies collecting ₹ 100 crore+. However, regional slate performance was weak which will weigh on PVR's footfalls. We expect footfalls for Inox to grow by ~10% YoY, given the strong content, while we expect gross ATP to decline by 1% (net ATP growth of ~7%), leading to 18.3% YoY growth in box office revenues. Weak macroeconomic environment is likely to impact ad revenues, which is expected to witness a muted 2% YoY growth. We expect EBITDA margins (Ex- IND AS) for Inox to expand by 100 bps YoY to 20.3%. PVR is expected to report 2% YoY growth in Footfalls (low double digits in Hindi footfalls offset by sharp decline in regional segment), while gross ATP is expected to decline by 2% YoY (net ATP growth of ~5%) to ₹207. Box office collections are expected to grow by ~7% while advertisement is expected to grow by 8% YoY. We expect PVR to report 50 bps YoY decline in EBITDA margins to 19%

Weak Q3 for Broadcasters; news category insulated

Advertisement revenue of GEC channels will be impacted by weak macroeconomic setup. Subscription revenue, however, will be boosted on YoY basis given the continued tailwinds of NTO, albeit new amendments will impact subscription growth in FY21E. Zee entertainment is expected to report 22% YoY domestic subscription growth while overall subscription is expected to grow by 15% YoY. Domestic advertisement revenue is expected to decline by 12% YoY, with overall ad decline of 13% YoY. We expect Zee to witness EBITDA margins at 29.8%, 500 bps decline YoY owing to higher content costs and negative operating leverage due to revenue decline. Sun TV is expected to report ad revenues decline by 9% YoY, while subscription revenues are expected to grow by 15% YoY. We are building in 1280 bps YoY EBITDA margin decline to 61% for the quarter largely due to higher content costs, new channel costs and OTT spends. News segment with key state elections and events led quarter, will be largely insulated from ad slowdown. TV Today is likely to report 5% YoY revenue growth in TV broadcasting, with digital revenues also expected to grow by 20% YoY. TV Today is expected to report ~6% YoY EBITDA growth while EBITDA margin is expected to be at 29.7% (up 50 bps YoY).

ENIL faces dual impact of ad slowdown and high non-FCT base

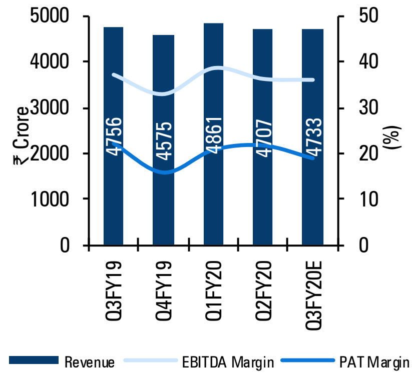
Revenue for radio players is expected to be hit by weak ad environment. We expect ENIL to post top line decline of 19% YoY, also impacted by concert revenues (non-FCT business) in the base quarter. We expect EBITDA to be flattish YoY basis. Given the losses from concert in base quarter as well as IND As led benefits, we expect ENIL EBITDA margin to expand by 490 bps YoY at 25%.

Exhibit 34: Estimates for Q3FY20E: (Media) (₹ Crore)

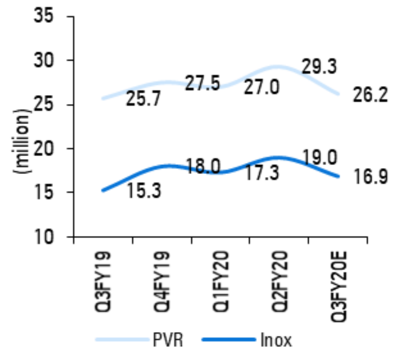
Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q3FY20E	YoY	QoQ	Q3FY20E	YoY	QoQ	Q3FY20E	YoY	QoQ
ENIL	162.6	-19.1	40.7	40.7	0.8	45.1	9.0	-44.4	4,599.1
Inox Leisure	500.9	15.7	-3.7	162.7	94.9	-3.0	31.2	-14.4	-11.2
PVR	908.6	7.8	-6.6	298.1	81.4	-6.3	35.6	-31.1	-25.7
Sun TV	851.8	-5.8	7.1	519.6	-22.1	10.9	328.8	-6.4	-10.3
TV Today	216.0	4.1	19.8	64.1	5.7	88.7	40.9	6.7	77.7
Zee Ent.	2,093.1	-3.4	-1.4	623.7	-17.3	-10.0	453.2	-19.4	-18.0
Total	**4,733.0**	**-0.5**	**0.6**	**1,708.9**	**-3.5**	**0.0**	**898.7**	**-14.9**	**-12.4**

Source: Company, ICICI Direct Research YoY EBITDA & PAT numbers are not comparable owing to IND-AS 116*

Topline & Profitability (Coverage Universe)



Multiplex Footfalls trends



Top Picks

Inox Leisure
PVR

Research Analysts

Bhupendra Tiwary, CFA
bhupendra.tiwary@icicisecurities.com

Amogh Deshpande
Amogh.deshpande@icicisecurities.com

Exhibit 35: Company Specific view - Media

Company	Remarks
ENIL	We expect ENIL revenues to decline 19% YoY to ₹ 162.6 crore. The key radio business revenue is expected to decline with pressure on utilisation given the weak ad environment. Moreover, Q3FY19 had a heavy base of Non-FCT revenues. We expect EBITDA margins to increase by 490 bps YoY to 25% given the IND-AS benefits and losses from international concert in the base quarter. **Key Monitorable**: ad recovery outlook
Inox Leisure	The quarter witnessed strong content performance with five movies collecting ₹ 100 crore+. We expect footfalls for Inox to grow by 10.4% YoY to 16.9 mn, aided by strong content performance compared to Q3FY19. We expect net box office collections to grow 18.3% YoY. We estimate 9.7% YoY increase in SPH to ₹81.2, while F&B revenue are expected to grow by 21.1% YoY to ₹128.7 crore . Ad revenues will continue to be impacted by cautious spending by advertisers amidst weak macroeconomic environment. Therefore, we expect marginal increase of 2% YoY in ad revenues. EBITDA margins (ex-IND AS) are expected to increase by 100 bps YoY to 20.3%. **Key Monitorable:** Commentary on screen addition momentum and ad growth outlook
PVR	Solid performance from Hindi films such as War, Housefull 4, Dabangg 3 and Good Newwz, etc. has driven box office collections YoY. However, regional cinema, specifically Tamil witnessed a muted quarter which will limit footfall growth for PVR (on a consolidated basis). We expect footfalls to grow at 2% YoY to 26.2 mn while gross ATP is expected to decline 2% YoY (net ATP up 5%) to ₹ 207. Consequently, we expect box office revenue to grow at ~7% YoY at ₹ 454 crore. We expect F&B revenue to grow at 12.4% YoY to ₹ 244 crore. Ad income is expected to grow at 8% YoY to ₹ 120.7 crore. EBITDA margins(ex-IND AS) are expected to decline by 50 bps YoY to 19%. **Key Monitorable:** Commentary on capital raised, ad growth outlook and screen addition
Sun TV	We expect the ad revenues to decline by 9% YoY given the challenging ad sentiments. However, subscription revenues are expected to remain robust (up 15% YoY) on account of strong monetisation post NTO implementation (specifically in Tamil market). We expect EBITDA margins to decline sharply by 1280 bps YoY to 61% owing to higher spend on content building (both broadcasting & OTT) as well as weak top line. **Key Monitorable:** Commentary on newly amended tariff order, SunNXT traction, ad recovery
TV Today Network	The news segment was largely insulated from overall ad weakness owing to elections in key states of Maharashtra/Haryana and news heavy events during the quarter. The company is expected to report TV broadcasting revenue growth of 5% YoY to ₹ 179 crore while radio business to decline by 30% YoY to ₹ 4.9 crore. The digital revenues are expected to grow by 20% YoY to ₹ 24.8 crore. We expect company to report 5.8% YoY EBITDA growth to ₹ 64.1 crore, while we estimate EBITDA margin of 29.7% for the quarter. **Key Monitorable:** TV broadcasting revenue outlook, Digital revenue growth
Zee Ent.	Zee's ad revenue is expected to decline by 13% YoY amidst macroeconomic challenges. The domestic ad is expected to decline by ~12% YoY. We expect ZEE Ent to report domestic subscription growth at 22% YoY to ₹ 633.4 crore driven by NTO tailwinds while international subscription revenue growth to decline sharply by 21% YoY. The overall subscription growth, consequently, is expected at ~15% YoY. We expect EBITDA margins to decline 500 bps YoY to 29.8% owing to aggressive spend on building content library as well as negative operating leverage due to revenues decline. **Key Monitorable:** Commentary on newly amended tariff order, regional channels launch, ad growth outlook

Source: Company, ICICI Direct Research

Metals and Mining

EBITDA to Inch upward on QoQ basis….

After a healthy Q1FY20, the domestic steel demand has been on a declining trend on the back of muted growth from key user industries such as Automobiles, real estate etc. In the current fiscal, domestic steel demand has steadily decelerated from a YoY growth of 6.9% in Q1FY20, to 3.1% YoY in Q2FY20 and a negative growth of 1.8% in first couple of months of Q3FY20 (October-November 2019).However despite weak demand environment, domestic steel mills were able to undertake moderate steel price hikes in first two months of the third quarter of FY20 on the back of firming up trend witnessed in international steel prices .On the back of uptick in steel prices coupled with softening trend in coking coal prices, we expect EBITDA/tonne for Q3FY20 to inch upward on QoQ basis. The EBITDA per tonne of Tata Steel (standalone operations) is expected come in at ₹12000 per tonne (₹ 11200 per tonne in Q2FY20), while domestic operations of JSW steel is likely to report an EBITDA per tonne of ₹7500 per tonne (₹6472 per tonne in Q2FY20).

Non-ferrous prices to remain flattish on a QoQ basis….

For Q3FY20, the prices of Non-ferrous metals have remained flattish. During this quarter, in US$ terms the average price of Aluminium declined by 10.7% YoY & marginally by 0.5% QoQ to US$1966/tonne. As for Lead, its average price stood at US$1966/tonne, up by 3.9% YoY, & 0.6% QoQ. Average Zinc prices for Q3FY20 stood at US$2387/tonne, down 9.2% YoY, albeit up by 1.4% QoQ, while average copper prices for quarter under review stood at US$5891/tonne, down 3.7% YoY, while up by 1.4% QoQ. Overall in Q3FY20 most of the Non-ferrous prices were flattish due to macroeconomic uncertainties in regards to trade tussle between US and China.

Operating performance to improve sequentially…

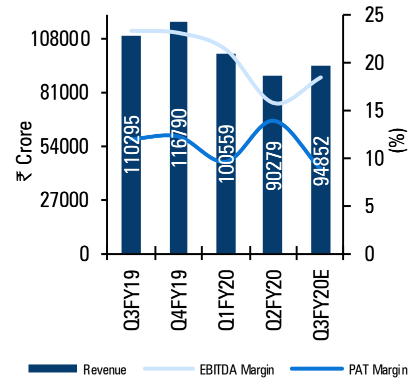
We expect the aggregate topline of coverage companies to increase 5.1% QoQ. On the back of benign trend witnessed in prices of key raw materials (especially coking coal) we expect aggregate EBITDA margin to increase 270 bps QoQ to 18.5%. The EBITDA/tonne of domestic miners like Coal India is likely to come in at ₹ 360/tonne with NMDC expected to report the same at ₹ 1800/tonne. We expect Novelis (Hindalco's subsidiary) to clock an EBITDA/tonne of US$425/tonne.

Exhibit 36: Estimates for Q3FY20E: (Metals) (₹ Crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q3FY20E	YoY	QoQ	Q3FY20E	YoY	QoQ	Q3FY20E	YoY	QoQ
Coal India	23,480.0	-6.3	15.2	5,099.9	NA	41.2	4,340.0	NA	23.2
Graphite India	492.5	-73.5	-44.2	68.6	-93.7	-51.0	66.9	-91.2	-63.8
Hindalco	10,119.1	-15.2	1.5	1,154.6	-32.8	5.4	211.8	-70.3	26.8
Hindustan Zinc	4,688.6	-15.4	3.9	2,317.0	-18.4	9.4	1,650.1	-25.4	-20.7
JSW Steel	16,777.9	-17.4	-1.9	2,584.5	-42.6	14.1	431.2	-73.1	-83.0
NMDC	3,192.0	-12.5	42.4	1,512.0	-29.8	42.6	1,145.0	-27.4	62.9
Tata Steel	35,361.3	-14.2	2.3	4,668.0	-30.6	22.2	494.0	-71.8	-85.0
Ratnamani Metals & Tu	740.1	1.6	21.3	133.2	32.0	14.3	93.7	49.2	22.6
Total	**94,851.5**	**-14.0**	**5.1**	**17,537.8**	**-32.3**	**23.3**	**8,432.7**	**-36.4**	**-32.9**

Source: Company, ICICI Direct Research, Hindalco results are Hindalco Standalone + Utkal

Topline & Profitability (Coverage Universe)



Movement of base metal prices on LME

US$/t	Q3FY20	Q3FY19	YoY %	Q2FY20	QoQ %
Zinc	2,387	2,630	(9.2)	2,353	1.4
Lead	2,042	1,966	3.9	2,029	0.6
Alum.	1,756	1,966	(10.7)	1,765	(0.5)
Copper	5,891	6,120	(3.7)	5,808	1.4

Source: Bloomberg, ICICI Direct Research,

₹/t	Q3FY20	Q3FY19	YoY %	Q2FY20	QoQ %
Zinc	169,961	189,611	(10.4)	165,438	2.7
Lead	145,392	141,726	2.6	142,638	1.9
Alum.	125,011	141,746	(11.8)	124,062	0.8
Copper	419,433	441,224	(4.9)	408,270	2.7

Source: Bloomberg, ICICI Direct Research,

Research Analysts
Dewang Sanghavi
Dewang.sanghavi@icicisecurities.com

Exhibit 37: Company Specific Views – Metals and Mining

Company	Write Up
Coal India	For Q3FY20, Coal India reported coal offtake of 141.5 million tonne (MT), down 8.1% YoY, albeit higher by 16.0% QoQ. We expect the topline to decrease 6.3% YoY to ₹23480.0 crore. The EBITDA margin is likely to come in at 21.7% (vs. 17.7% in Q2FY20 and 27.1% in Q3FY19). We expect the company to clock an EBITDA/tonne of ₹360/tonne (as compared to ₹441/tonne in Q3FY19 and ₹296/tonne in Q2FY20).
Graphite India	For Q3FY20, we expect blended realisations to decline QoQ on the back the fall witnessed in graphite electrodes prices for both UHP grade electrodes as well as HP grade electrodes. For Q3FY20, we expect Graphite India to report consolidated capacity utilisation of ~50% (80% in Q3FY19 and 61% in Q2FY20). Topline is expected to come in at ₹492.5 crore down 44.2% QoQ, 73.4% YoY. We expect the higher price needle coke to increase raw material costs. Thus, EBITDA is likely to come in at ₹ 68.6 crore, implying an EBITDA margin of 13.9% (vs. 58.4% in Q3FY19 and 15.9% in Q2FY20). We expect the company to report a PAT of ₹ 66.9 crore.
Hindalco	For Q3FY20 we expect Novelis to continue to report healthy performance, while the Indian operations EBITDA margins are likely to register a marginal uptick on a sequential basis. For the quarter under review, Hindalco's domestic operations to report aluminium sales of ~328094 tonne (vs. 328,000 tonne Q2FY20), while copper sales are likely to come in at 90000 tonne (vs. 82000 tonne Q2FY20). We expect the topline to increase 1.5% QoQ to ₹ 10119.1 crore. The EBITDA (Hindalco standalone + Utkal) is likely to increase by 5.4% QoQ to ₹ 1154.6 crore. Novelis for Q3FY20 is expected to report FRP shipments of ~825 KT and clock EBITDA/tonne of US$425/tonne
Hindustan Zinc	Operationally on a sequential basis, we expect Hindustan Zinc to report a steady performance for Q3FY20. In dollar terms, LME zinc prices during the quarter were up by 1.4% QoQ while lead prices were up by 0.6% YoY. We expect zinc sales of ~179000 tonne (187000 in Q3FY19 and 168000 in Q2FY20), lead sales of ~40000 tonne (54000 in Q3FY19 and 44000 in Q2FY20) and silver sales of ~145000 kg (178000 in Q3FY19 and 135000 in Q2FY20). The topline is likely to increase by 3.9% QoQ to ₹4688.6 crore, EBITDA is likely to increase by 9.4% QoQ to ₹2317.7 crore. We expect the EBITDA margin to come in at 49.4% (as compared to 51.2% in Q3FY19 and 46.9% in Q2FY20).
JSW Steel	For Q3FY20, on the back of decline in prices of key raw material (especially coking coal) we expect JSW Steel's EBITDA/tonne to inch up from Q2FY20 levels . We expect standalone operations to report an EBITDA/tonne of ₹7500/tonne (vs. ₹ 6472/tonne in Q2FY20). The sales volume of the domestic operations is likely to come in at 3.6 million tonne (MT), down by 3.6% YoY and 1.5% QoQ. We expect the consolidated topline to decrease by 1.9% QoQ to ₹16777.9 crore.. The consolidated EBITDA is likely to increase 14.1% QoQ to ₹2584.4 crore. The consolidated EBITDA margin is likely to come in at 15.4% (vs. 13.2% in Q2FY20 and 22.2% in Q3FY19)
NMDC	We expect NMDC to report sales volume of 8.4 MT for Q3FY20, up 44.8% QoQ. Topline is expected to come in at ₹ 3192 crore, up 42.4% QoQ. EBITDA is expected to come in at 1512 crore, up 42.6% QoQ, The subsequent EBITDA/tonne is expected to come in at ~₹ 1800/tonne (₹1828/tonne in Q2FY20)

Source: Company, ICICI Direct Research

Hindustan Zinc Sales volume trend

Sales	unit	Q3FY20	Q3FY19	Q2FY20
Zinc	Tonne	178918	187000	168000
Lead	Tonne	40066	54000	44000
Silver	Kg	145397	178000	135000

Source: Company, ICICI Direct Research,

JSW Steel: Sales Volume; EBITDA/tonne….

	Q3FY20	Q3FY19	YoY	Q2FY20	QoQ
Sales Vol.	3.5	3.7	-4%	3.6	-1%
EBITDA/t	7500	12060	-38%	6472	16%

Source: Company, ICICI Direct Research, Sales volume in MT, EBITDA/tonne in ₹/tonne.

Tata Steel: Sales Volume; EBITDA/tonne….

	Q3FY20	Q3FY19	YoY	Q2FY20	QoQ
Sales Vol.					
India	3.2	3.0	7%	3.0	7%
Europe	2.4	2.3	4%	2.3	4%
Bhushan	1.2	0.9	30%	1.0	15%
EBITDA/t					
India	12000	16404	-27%	11200	7%
Europe	10	56	-82%	10	0%
Bhushan	5500	10992	-50%	4600	20%

*Source: Company, ICICI Direct Research, Sales volume in MT, Indian and Bhushan EBITDA/tonne in ₹/tonne, *- Europe EBITDA/tonne in US$ /tonne.*

Exhibit 38: Exhibit 2: Company Specific Views- Metals & Mining

Ratnamani Metals & Tubes	We expect Ratnamani Metals to report a steady state performance for Q3FY20, wherein the capacity utilisation levels of both the segment are likely to track the orderbook execution. We expect the capacity utilisation of stainless steel segment to come in at ~83%, and that of carbon steel segment at ~70%. Subsequently, the stainless steel segment is expected to report volumes of 5775 tonne and carbon steel segment of 61250 tonne. Ratnamani's topline is likely to increase 1.6% YoY to ₹740.1 crore, while the EBITDA is likely to increase 32.0% % YoY to ₹133.2 crore. We expect the EBITDA margin to increase notably to~18.8% driven by execution of higher margin oil and gas orders (13.9% in Q3FY19). The company is also likely to benefit from lower corporate tax rate resulting in a PAT of ₹93.7 crore, up by 49.2% YoY.
Tata Steel	For Q3FY20, on the back of decline in prices of key raw material (especially coking coal) we expect Tata Steel's EBITDA/tonne to inch up from Q2FY20 levels. We expect standalone operations to report an EBITDA/tonne of ₹ 12000/tonne (as compared to an EBITDA/tonne of ₹ 11200/tonne in Q2FY20). Indian operations (standalone) are expected to report steel sale of 3.2 million tonne (MT) while European operation steel sales are likely to come in at 2.4 MT. Additionally, Bhushan Steel is expected to report a sales volume of 1.2 MT. We expect European operations to report EBITDA/tonne of US $10/tonne. On a consolidated basis, the topline is expected to increase 2% QoQ to ₹ 35361.3 crore. The consolidated EBITDA is expected to increase 22% QoQ to ₹ 4668 crore. Consolidated EBITDA margins are likely to come in at 13.2% (as compared to 11.0% in Q2FY20)

Source: Company, ICICI Direct Research

Oil & Gas

Bullish trend in crude oil prices

The global crude oil prices reported a bullish trend in the quarter after witnessing a decline in Q2FY20. Global events such as OPEC+ decision to cut the oil production by 2.1 million barrels per day and easing of US-China trade tensions led to the rise of crude oil prices in Q3FY20. As a result, Brent crude oil prices on a closing basis increased by US$ 6.3/bbl QoQ at US$ 66.4/bbl at end of Q3FY20. However, the average Brent crude oil prices increased only marginally by US$ 0.7/bbl QoQ to US$ 62.6/bbl. We do not expect upstream as well as downstream oil companies to bear any subsidy burden. Hence, net realisations of upstream companies is expected to some increase QoQ.

Singapore GRMs decline; inventory gains to provide relief

The benchmark Singapore GRMs witnessed a sharp decline during the quarter from US$ 6.5/bbl in Q2FY20 to US$ 1.7/bbl in Q3FY20. Sharp decline in fuel oil spreads from US$ -0.7/bbl to US$ -19.6/bbl QoQ mainly led to the decline in Singapore GRMs. However, the Indian refiners would be less impacted as fuel oil forms a lower percentage of the product slate. The spread for gas oil (diesel major product for Indian refiners) declined by US$ 1.6/bbl to US$ 12.8/bbl which will negatively impact GRMs QoQ. We expect benefits of IMO regulations on gas oil spreads from Q4FY20 onwards. Higher product spreads for petrol by US$ 1.8/bbl QoQ to US$ 15.5/bbl and for LPG (small weight for Indian refiners) by US$ 8.7/bbl QoQ to US$ to US$ 17.2/bbl will provide respite to the GRMs. Also, inventory gains will uplift the reported GRMs during the quarter. The marketing segment volumes are expected to increase 2-2.5% YoY and marketing margins are expected to decline marginally QoQ.

City Gas Distribution to continue growth momentum

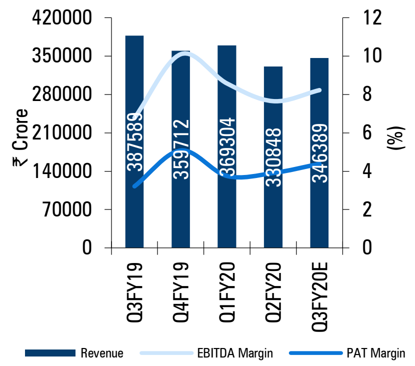
City gas distribution (CGD) companies are expected to continue to report steady volume growth YoY due to sustainable conversion to CNG vehicles and rising concerns with respect to current pollution issues. High margin base in Q2FY20, small increase in spot LNG prices and rupee depreciation will lead to marginal decline in gross margins QoQ. However, on a YoY basis, higher margins per unit are expected for all CGD companies. Gas utility sector volumes will be driven mainly by LNG imports, which has seen strong growth over the past few years. All CGD players in our coverage universe availed the option of write back of tax liabilities after implementation of new corporate tax regime. Therefore, on QoQ basis, lower net profits are expected.

Exhibit 39: Estimates for Q3FY20E: (Oil & Gas) (₹ Crore)

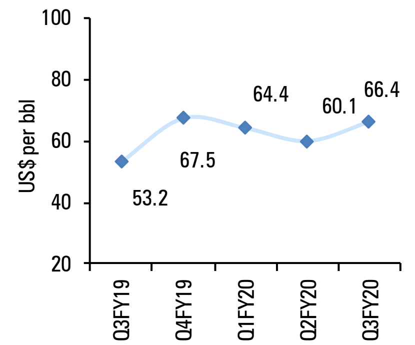
Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q3FY20E	YoY	QoQ	Q3FY20E	YoY	QoQ	Q3FY20E	YoY	QoQ
Bharat Petroleum	79,222.1	-10.2	5.5	3,171.9	330.2	33.6	1,940.4	291.9	13.6
Gail India	18,520.9	-6.4	2.7	1,744.7	-34.7	11.6	1,162.5	-30.9	9.2
Gujarat Gas	2,525.2	19.3	0.5	350.5	9.1	-5.4	186.5	35.1	-63.9
HPCL	71,553.5	-7.3	7.7	2,680.6	178.3	15.6	1,490.2	502.0	41.6
IOC	139,816.3	-12.7	5.6	7,041.9	95.0	97.1	3,307.1	361.4	487.0
Indraprastha Gas Ltd	1,674.5	11.0	-1.1	376.7	18.5	-4.1	267.5	35.1	-29.8
Mahanagar Gas Ltd	839.2	1.8	-2.6	273.0	14.2	-0.2	190.1	28.2	-29.7
ONGC	22,823.2	-17.6	-6.8	11,708.7	-29.3	-11.9	5,932.9	-28.2	-5.3
Petronet LNG	9,414.4	-6.8	0.6	1,148.7	35.4	-1.0	707.7	25.2	-35.8
Total	**346,389.4**	**-10.6**	**4.7**	**28,496.6**	**8.4**	**12.6**	**15,185.0**	**21.9**	**17.5**

Source: Company, ICICI Direct Research

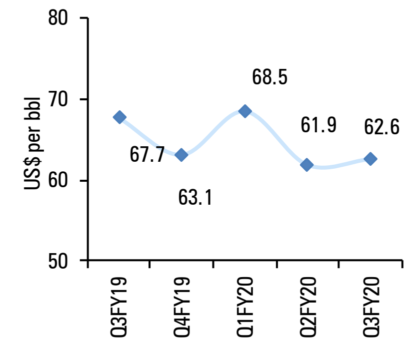
Topline & Profitability (Coverage Universe)



Closing Brent crude oil prices



Average Brent crude oil prices



Top Picks

Mahanagar Gas

Petronet LNG

Research Analysts

Mayur Matani

Mayur.matani@icicisecurities.com

Amogh Deshpande

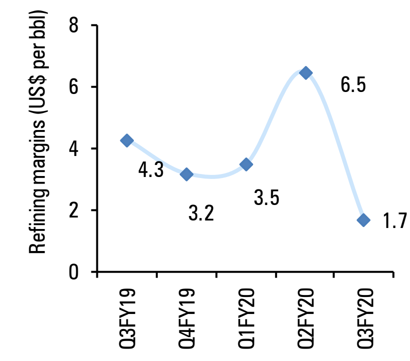
Amogh.deshpande@icicisecurities.com

Exhibit 40: Company Specific Views (Oil & Gas)

Company	Remarks
BPCL	Crude throughput is expected at 7.9 MMT, an increase of 3.1% QoQ. Marketing segment volumes are expected to increase 2.5% YoY with marginally reduced margins QoQ. GRMs are expected at $5.1/bbl vs. $3.4/bbl in Q2FY20 on account of inventory gains, better efficiency and increase in gasoline spreads. Hence, PAT is expected to improve 13.6% QoQ to ₹ 1940.4 crore.
Gail	GAIL's operational performance is expected to remain weak mainly on account of subdued profits from petrochemicals and LPG business segments. On the LPG liquid hydrocarbon front, EBIT is expected to decline 31.9% to ₹ 567.2 crore on account of lower realisations. Lower realisations will continue to impact petchem segment as well, which is expected to post losses on EBIT front. On the gas business front, gas transmission volumes are expected to remain flattish YoY at 107 mmscmd with its EBIT at ₹ 805.5 crore. We expect lower EBIT from the gas trading business segment at ₹ 342.2 crore due to lower margins on US volumes
Gujarat Gas	We expect revenues to increase 19.3% YoY on account of higher volumes. Volumes are expected to grow at 42.7% YoY to 9.4 mmscmd due to higher volumes from Morbi. On a QoQ basis volumes will remain flattish. Gross margins will decline YoY by ₹1.8/scm to ₹ 6.3/scm as gross margins were exceptionally high in Q3FY19 owing to price hike in that quarter. On a QoQ basis, we expect gross margins to decline marginally by 0.2/scm on some increase in spot LNG prices and rupee depreciation. Subsequently, we expect PAT at ₹ 186.5 crore, 35.1% up YoY
Hindustan Petroleum	Crude throughput is expected at 4.3 MMT, a decrease of 5.7% QoQ. Marketing segment volumes are expected to increase 2.5% YoY while margins are expected to decline marginally QoQ. GRMs are expected at $4.5/bbl vs $2.8/bbl in Q2FY20 on account of inventory gains, better efficiency and increase in gasoline spreads. Also, lower tax rate will help company to report increase in PAT by 41.6% QoQ to ₹ 1490.2 crore
Indian Oil	Crude throughput is expected at 18 MMT, an increase of 2.6 % QoQ. Marketing segment volumes are expected to increase 2.4% YoY with marginally reduced margins QoQ. GRMs are expected at $4.7/bbl vs. $1.3/bbl in Q2FY20 on account of inventory gains, better efficiency and increase in gasoline spreads. Also, lower tax rate will help company to report increase in PAT by 487% QoQ to ₹ 3307.1 crore.
Indraprastha Gas	With encouraging CNG vehicle conversions and Delhi's pollution issues, IGL's volumes are expected to grow 11.5% YoY. Total volumes are expected at 6.6 mmscmd (CNG: 4.9 mmscmd, PNG: 1.7 mmscmd). We expect gross margins to increase by ₹ 0.4/scm YoY to ₹ 11.4/scm. However, on a QoQ basis, margins are expected to be marginally lower by ₹0.1/scm on some increase in spot LNG prices and rupee depreciation. EBITDA/scm is expected at ₹ 6.2 per scm with PAT up 35.1% YoY to ₹ 267.5 crore.
Mahanagar Gas	We expect better volume growth of 5.4% YoY supported by continuous conversion rate of CNG vehicles. Volumes are expected at 3.1 mmscmd (CNG : 2.3 mmscmd, PNG : 0.8 mmscmd). Gross margins are expected to increase by ₹ 0.8/scm to ₹ 14.3/scm on better pricing power. However, on QoQ basis, gross margins will decline marginally by ₹ 0.4/scm as Q2FY20 margins were exceptionally high and had benefit of low LNG prices. EBITDA/scm is expected to increase by ₹ 0.7/scm YoY to ₹ 9.5/scm.
ONGC	Oil production is expected to decline 2.4% QoQ and 5.6% YoY. Similarly, Gas production is estimated to decline 3.2% QoQ and 9.3% YoY. Oil production is estimated at 5.7 MMT, with gas output expected at 6.1 MMT in Q3FY20E. We expect marginal increase in realisations QoQ at $61.1/bbl due to higher average crude oil prices. We do not expect any subsidy during the quarter. PAT is expected to decline by 5.3% QoQ as volumes are expected to remain lower.
Petronet LNG	We expect the topline to decline 6.8% YoY to ₹ 941.4 crore on account of lower LNG realisations. Total volumes are expected to increase 20.9% YoY to 244.2 trillion British thermal units (tbtu) (~4.7 MMT). However, on QoQ basis, volumes are expected to decline by 2.3%. Blended margins are expected to increase by 9.7% YoY to ₹54.2/mmbtu. On a QoQ basis, blended margins are expected to increase by 3.2%. PAT is expected to increase by 25.2% YoY to ₹ 707.7 crore. However, on QoQ basis, profitability is expected to decline by 35.8% on account of tax writeback in Q2FY20.

Source: Company, ICICI Direct Research

Singapore gross refining margins (GRMs)



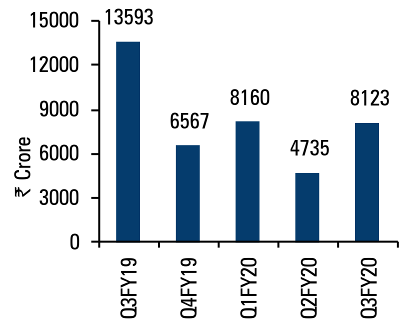
Source: Reuters

Singapore benchmark product spreads ($/bbl)

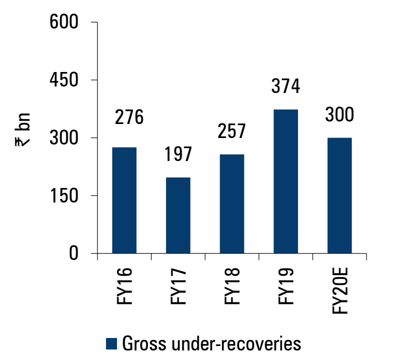
Product Spreads	Q3FY19	Q2FY20	Q3FY20
Gasoline	7.4	13.7	15.5
Naphtha	-5.3	-7.4	-1.7
Jet Kerosene	16.7	16.2	14.7
Gas Oil	14.3	14.4	12.8
Fuel Oil	0.1	-0.7	-19.6
LPG	-21.1	-25.9	-17.2

Source: Reuters

Gross under-recoveries of petroleum products



Gross under-recoveries of petroleum products



Sharing of oil under-recoveries (₹ crore)

	Q3FY19	Q2FY20	Q3FY20
Upstream	0	0	0
Downstream	0	0	0
Government	13593	4735	8123
Total	**13593**	**4735**	**8123**

Healthcare

India growth likely to persist but US could drag numbers…

I-direct healthcare universe is expected to register ~6% YoY growth to ₹ 35098 crore. While domestic formulations are likely to maintain growth tempo on the back of extension of acute season and price hikes, the US pack on the other hand is likely to drag numbers due to higher base.

Domestic formulations (select pack) are expected to grow 12.6% YoY to ₹5881 crore mainly due to extension of acute season and price hikes across portfolio to adjust for higher raw material prices. US (select pack) portfolio is expected to decline 1.3% YoY to ₹10232 crore due to 1) base effect mainly in Cadila and Sun pharma, 2) strengthening of INR vs US$ and 3) sharp decline in Sartan portfolio. The decline in the US could have been sharper but for strong ramp-up in gTamiflu and steady base business performance in some US focused players. Europe is expected to grow 12% YoY. Growth in other emerging markets and Europe is likely to be driven by new launches. However, due to high base effect, APIs segment growth is expected to remain muted. For Q3FY20, average YoY rupee appreciation vis-à-vis US$ was 1.2%. In case of Apollo hospitals, the growth is likely to be driven by newly commissioned hospitals and Pharmacy additions.

On the companies' front, only 4 out of 10 companies are likely to report double digit growth. Among key outliers, IPCA (Strong Domestic formulations and APIs), Biocon (Biologics traction) and Apollo Hospitals (Ramp up in new hospitals and addition of new pharmacies) are likely to register above 15% growth in revenues.

EBITDA to decline 7% YoY; margins likely to contract 285 bps

Owing to higher base, EBITDA of the I-direct healthcare universe is expected to de-grow at 6.8% YoY to ₹7085.3 crore. EBITDA margins are likely to decline 285 bps to 20.2%. However, improved operational leverage, improvement in product mix and efficient cost control measures is likely to restrict further fall in margins.

Adjusted Net profit to de-grow 11%

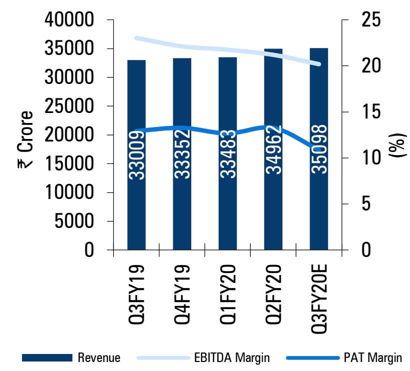
Adjusted Net profit is expected to be decline 11% YoY to ₹3816 crore mainly due to weak operational performance and impact of Ind-AS.

Exhibit 41: Estimates for Q3FY20E (₹ Crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q3FY20E	YoY	QoQ	Q3FY20E	YoY	QoQ	Q3FY20E	YoY	QoQ
Aurobindo Pharma	5,876.3	11.5	4.9	1,162.9	6.8	2.0	667.8	-9.4	2.3
Biocon	1,774.4	15.2	12.9	446.0	17.2	10.7	211.1	-0.6	11.7
Cadila Healthcare	3,439.7	-3.9	2.2	646.7	-23.0	3.4	331.4	-35.1	4.5
Divi's Lab	1,466.6	9.2	1.5	491.6	-6.1	0.2	360.5	-5.0	1.1
Dr. Reddys	4,194.5	8.5	-12.8	849.2	5.5	-20.2	466.6	-6.7	-57.8
IPCA Labs	1,127.8	19.0	-7.0	248.1	7.1	-5.1	174.1	8.7	-11.2
Lupin	4,256.6	-5.5	-2.4	660.1	-12.4	-9.8	202.7*	4.4	-51.7
Sunpharma	8,386.3	8	3.2	1,627.9	-24	-9.0	1,045.6	-16	-1.7
Torrent Pharma	2,074.9	1.2	3.5	574.1	2.3	6.1	255.6	3.9	4.7
Apollo Hospitals	2,501.3	15.3	1.5	378.7	41.4	3.9	100.6	15.7	11.0
Total	**35,098.4**	**6.3**	**0.4**	**7,085.3**	**-6.8**	**-4.4**	**3,815.9**	**-10.6**	**-17.7**

*Source: Company, ICICI Direct Research, *Lupin's reported PAT is expected to be ~₹2360.3 crore due to Kyowa divestment proceeds*

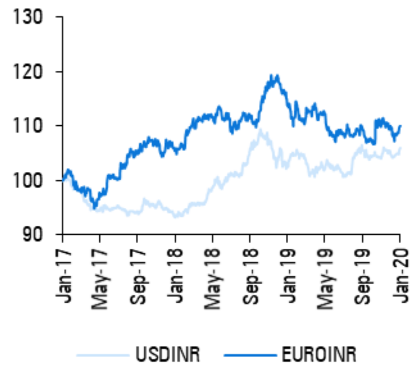
Topline & Profitability (Coverage Universe)



US approvals for Q3FY20 (Select pack)

Company	Final	Tentative
Aurobindo Pharma	4	1
Cadila Healthcare	6	4
Dr. Reddy's Labs	0	0
Lupin	4	0
Sun Pharma	2	1

Currency Movement



Source: Bloomberg

Top Picks

Apollo Hospitals
Ipca Laboratories

Research Analysts

Siddhant Khandekar
siddhant.khandekar@icicisecurities.com

Mitesh Shah, CFA
Mitesh.sha@icicisecurities.com

Sudarshan Agarwal
Sudarshan.sgarwal@icicisecurities.com

Exhibit 42: Company Specific view

Company	Remarks
Apollo Hospitals	Standalone sales are likely to grow ~15% YoY to ₹2501 crore on the back of 12% growth in healthcare service business and 19% growth in pharmacy business. The pharmacy business is expected to be largely driven by addition of new pharmacies while the hospital segment is expected to be driven by strong growth at new hospitals. EBITDA margins are likely to improve 279 bps YoY to 15.1% mainly due to improvement in new hospitals margins and impact of IndAs 116. Net profit is expected to increase ~16% YoY to ~₹101 crore mainly due to better operational performance which could be partially offset by impact of IndAs 116
Aurobindo Pharma	Revenues are expected to grow ~12% YoY to ₹5876 crore mainly due to 19% growth in US led by strong growth in injectables and consolidation of Spectrum business. The growth is likely to offset partially by decline in ARV and muted growth in RoW. EBITDA margins are likely to decline 88bps to ~20%. Net profit is expected to decline 6% YoY to ~₹ 668 crore. Delta vis-a-vis operational growth is mainly due to higher depreciation and taxation
Biocon	Revenues are likely to grow ~15% YoY ₹1774 crore mainly on the back of continuing traction in the biologics. Similarly, contract research business (Syngene) is expected to grow 15% YoY to ₹537.1 crore. EBITDA margins are expected to improve 43 bps YoY to 25.1% mainly due to better product mix. However, net profit is expected to decline ~1% YoY to ₹ 211 crore due to higher tax rate (23% vs 16.7% in Q3FY19).
Cadila Healthcare	Revenues are expected to decline 4% YoY ₹3440 crore mainly due to seasonality impact at Craft portfolio. EBITDA margins are likely to decline 467 bps YoY to ~22% mainly due to higher employee expenses and other expenditure. Subsequently, Net profit is expected to decline 35% YoY to ₹331 crore on the back of lower operational performance and higher interest cost.
Divi's Lab	Revenues are expected to grow 9% YoY to ₹1467 crore mainly due to strong growth in Carotenoid segment. EBITDA margins are expected to decline 545 bps to ~34% YoY due to lower gross margins. Net profit is expected to decline ~5% YoY to ₹ 360 crore on the back of lower operational performance
Dr Reddy's	Revenues are likely to grow ~9% YoY to ₹4194 crore mainly due to 12% growth in domestic formulations and 15% growth in PSAI. US growth on the other hand is likely to be muted. EBITDA margins are likely to decline 57 bps YoY to 20.2% due to lower gross margins. Net profit is expected to decline ~7% YoY to ₹467 crore mainly due to higher other income in base year.
Ipca Lab	Revenues are expected to grow 19% YoY to ₹1128 crore mainly due to strong growth in APIs, domestic formulations and exports institution business. Domestic formulations are expected to grow 16% YoY to ₹489 crore. Export formulations to grow 14% to ₹322 crore mainly due to strong growth in institutional formulations. EBITDA margins are likely to decline 245 bps YoY to 22.0% mainly due to lower gross margins. Net profit is expected to increase 9% YoY to ₹174 crore
Lupin	Revenues are expected to decline ~6% YoY to ₹4257 crore due to divestment of Kyowa business in Japan and muted US growth. India business is expected to grow 13%. EBITDA margins are likely to contract 122 bps to 15.5% mainly due to lower gross margins. Adjusted net profit (excluding net income of ₹ 2157 crore from Kyowa divestment proceeds) is expected to grow 4% YoY to ₹203 crore. Delta vis-a-vis operational performance is mainly due to base effect of tax outgo in Q3FY19
Sun Pharma	Revenues are likely to grow 8% YoY to ₹8386 crore mainly due to 18% YoY in domestic formulations and consolidation of Pola Pharma, which is likely to partially offset by 5% decline in US business. Owing to higher base, Taro's sales are expected to decline ~11% YoY to ₹1130 crore. EBITDA margins are expected to decline to 840 bps YoY to 19.4% mainly mainly due to incremental cost of specialty products launched in the US. Subsequently, net profit is expected to decline ~16% to ₹1046 crore
Torrent Pharma	Revenues are expected grow mere ~1% YoY to ₹2075 crore. 10% YoY growth in domestic formulations is likely to get offset by 24% de-growth in US business. EBITDA margins are expected to improve 32 bps to ~27.7%. Net profit is expected to increase just 4% YoY to ₹256 crore, due to higher tax rate.

Source: Company, ICICI Direct Research

Expected growth in Domestic formulations

(₹ cr)	Q3FY20E	Q3FY19	%	Q2FY20	%
Biocon	138	212	-35.0	128	7.4
Cadila	947	846	12.0	978	-3.1
Ipca	489	422	16.0	543	-10.0
Lupin	1,345	1,190	13.0	1,342	0.2
Dr Reddy	755	674	12.0	751	0.5
Sun Pha	2,634	2,235	17.8	2,515	4.7
Torrent	919	835	10.0	899	2.2
Total	5881	5224	12.6	10369	-43.3

Expected growth in US formulations

(₹ cr)	Q3FY20E	Q3FY19	%	Q2FY20	%
Aurobind	2,890	2,433	18.8	2,836	1.9
Cadila	1,564	1,934	-19.1	1,448	8.0
Lupin	1,413	1,417	-0.3	1,324	6.7
Dr Reddy	1,518	1,483	2.3	1,427	6.4
Sun Pha	2,476	2,606	-5.0	2,390	3.6
Torrent	372	490	-24.1	380	-2.2
Total	10232	10364	-1.3	9805	4.4

Expected growth in Europe formulations

(₹ cr)	Q3FY20E	Q3FY19	%	Q2FY20	%
Aurobind	1,454	1,293	12.4	1,401	3.7
Cadila	47	60	-21.0	41	15.5
Dr Reddy	274	203	35.0	276	-0.9
Lupin	159	142	12.0	172	-7.4
Torrent	264	267	-1.0	250	5.7
Total	2198	1965	11.9	2141	2.7

Expected growth in API segment

(₹ cr)	Q3FY20E	Q3FY19	%	Q2FY20	%
Aurobind	830	922	-10.0	806	3.0
Cadila	104	130	-20.0	105	-0.9
Divi's La	712	678	5.0	701	1.6
Ipca Lab	304	230	31.9	314	-3.4
Lupin	326	362	-10.0	305	6.9
Dr Reddy	683	594	15.0	711	-3.9
Sun Pha	447	426	5.0	468	-4.4
Total	2693	2664	1.1	2709	-0.57

Real Estate

Commercial real estate marching towards a new record

As per CBRE report, commercial real estate has shown robust leasing activity with total absorption rising by 30% to 47 million sq ft (msf) in 9MCY19. We note that this is almost equivalent to the 47.4 msf leasing seen in entire CY18, which is indicative of the strong demand for office space in India. Leasing activity was led by Bengaluru, followed by Hyderabad, NCR and Mumbai, which together accounted for 80% of the activity. Furthermore, the total office space supply has lagged the overall office space absorption at 43.5 msf in 9MCY19, which has been pivotal in declining office space vacancy rates vis-à-vis pushing the rental rates upwards majorly in Bengaluru, Hyderabad and NCR. With leasing activity expected to remain strong and expected to touch record high in CY19, our coverage stocks like Brigade Enterprises and The Phoenix Mills are poised to be key beneficiaries of this trend.

Government support expected to revive real estate sentiment

An Anarock report suggest that residential sales has risen albeit at a slower rate in CY19, continuing the uptrend set forth in CY18. Residential sales across top seven cities rose 5% YoY to 2.61 lakh units in CY19. While the yearly trend seems to be on the up rise, sales were slower in H2CY19, which showed a 22% decline as compared to H1CY19. On the supply front, compared to H1CY19 it slowed down by 31% to 97,000 units in H2CY19. Overall, on a yearly basis, supply increased by 21% YoY to 2.37 lakh units in CY19. We note that overall demand & supply slowdown in residential market seen in H2CY19 is reflective of the sector being entangled in the liquidity crunch following NBFC crisis & the effects of the ban on subvention schemes. However, on a positive note, government has announced several measures to revive the residential market. The most prominent is the recent ₹ 25,000 crore Alternate Investment Fund announced by government to provide support to ~4.58 lakh stalled housing units. This move could lead to completion of more than 50% stuck projects which could revive homebuyer sentiment, going ahead.

Sales volume expected to grow 15.6% YoY in Q3FY20E

In accordance with the broader market dynamics, our real estate universe is expected to report sales volume de-growth of 6.3% QoQ to 10.7 lakh sq ft (lsf) in Q3FY20E. Nonetheless, prudent large developers with strong experience in the sector are expected to perform relatively better compared to the overall market. Accordingly, sales volume of our real estate universe players is expected to grow 15.6% YoY as Brigade Enterprises is expected to clock 15.8% YoY sales volumes growth to 9.0 lsf in Q3FY20E. Also, Oberoi Realty is expected to show 14.4% YoY growth in sales volumes to 1.7 lsf in Q3FY20E on account of lower sales volume base in Q3FY19.

Real estate PAT expected to remain flattish in Q3FY20E…

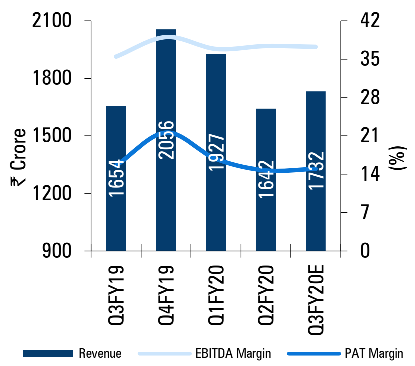
Our real estate universe revenue is expected to grow 4.7% YoY to ₹ 1,731.7 crore. EBITDA margins are expected to expand 180 bps to 37.2%. Overall, we expect our universe PAT to remain flattish YoY at ₹ 259.5 crore.

Exhibit 43: Estimates for Q3FY20E: (Real Estate) (₹ Crore)

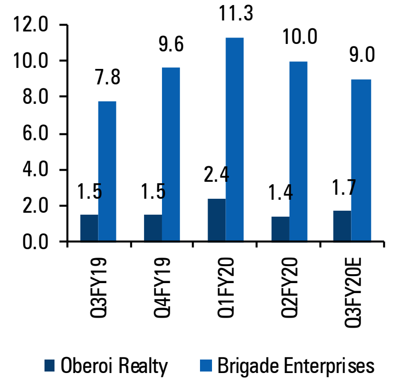
Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q3FY20E	YoY	QoQ	Q3FY20E	YoY	QoQ	Q3FY20E	YoY	QoQ
Oberoi Realty	497.6	-5.5	1.3	209.0	11.1	-1.8	136.9	-0.7	-0.8
Brigade Enterprises	754.6	9.7	2.6	196.2	11.5	3.2	41.4	-15.3	10.7
The Phoenix Mills	479.5	8.9	15.5	239.7	7.7	13.7	81.2	14.6	23.4
Total	**1,731.7**	**4.7**	**5.5**	**644.9**	**10.0**	**5.1**	**259.5**	**0.7**	**7.6**

Source: Company, ICICI Direct Research

Topline & Profitability (Real Estate Universe)



Sales volumes



Top Picks

Brigade Enterprises

Research Analysts

Deepak Purswani, CFA
deepak.purswani@icicisecurities.com

Harsh Pathak
harsh.pathak@icicisecurities.com

Exhibit 44: Company Specific Views (Real Estate)

Company	Remarks
Oberoi Realty	We anticipate Oberoi' (ORL) sales volumes to grow 14.2% YoY to 1.68 lakh sq ft (lsf) given lower sales clocked in Q3FY19. On financial front, we expect topline to de-grow 5.8% YoY to ₹ 495.6 crore on account of lower revenue recognition expected in Q3FY20E. Overall, we anticipate ORL net income to remain flattish YoY at ₹ 136.9 crore in Q3FY20E. **Key Monitorable:** Progress on new launches such as Thane & Exquisite-III in Goregaon, progress on annuity portfolio
The Phoenix Mills	We expect The Phoenix Mills' (Phoenix) revenues to grow steadily by 8.9% YoY to ₹ 479.5 crore led by 13.7% YoY growth in retail segment income to ₹ 329.6 crore on account of healthy consumption trend during festive season in Q3FY20E. In the residential segmental, the revenues are expected at ₹ 28.8 crore in Q3FY20E vs. ₹ 19.9 crore in Q3FY19. The company's EBITDA margin is expected to contract 50 bps to 50% in Q3FY20E. Overall, we expect Phoenix's PAT to grow 4.1% YoY to ₹ 81.2 crore in Q3FY20E. **Key Monitorable:** Progress on under construction mall assets
Brigade Enterprises	Brigade Enterprises' (BEL) sales momentum is expected to remain strong on the back of recently launched big ticket projects in the affordable and mid premium category such as Brigade Orchards Kino, Brigade Utopia and El Dorado. Hence, we expect its sales volume to grow 15.8% YoY to 0.9 mn sq ft in Q3FY20E despite challenging environment. On the financial front, we expect the company's topline to grow 9.7% YoY to ₹ 754.6 crore in Q3FY20E. Overall, we expect BEL's net income to decline 15.3% YoY to ₹ 41.4 crore. **Key Monitorable:** Pre-leasing and construction progress on Brigade Tech Garden and WTC, Chennai

Source: Company, ICICI Direct Research

Retail

Festive fervour, higher wedding dates to spur revenue growth

In the backdrop of the challenging market environment, retail sector witnessed mixed results in Q2FY20, wherein high ticket discretionary items were impacted the most. However, apparel segment appeared to be more resilient in the discretionary spending. With festive season having panned out decently, coupled with higher number of wedding dates in the quarter, we expect retail coverage universe to report double digit topline growth (12% YoY) in Q3FY20. Furthermore, various branded players (except Trent) commenced their end of season sale period from mid-December, a similar trend which was visible in the previous year as well. While majority of the companies have incorporated in the new tax regime (major beneficiaries: Bata, Page Industries, Titan Company), certain companies (Trent, ABFRL) are still evaluating the tax rate to be adopted.

Green shoots in consumer sentiment visible; Trent to outperform

While elevated gold prices (up 18% YTD) materially impacted the grammage growth, the management of Titan indicated that festive season had panned out to be reasonably moderate (September 28–October 31) with retail sales growth of ~ 10% (regional jewellers sales declined 12-22% during the festive period). Furthermore, green shoots were visible in November-December, wherein demand for wedding jewellery (22% revenue contribution) started gaining traction. We expect the jewellery division for Titan to register revenue growth of 12% YoY in Q3FY20. Trent has been one of the few companies that has consistently reported industry best same stores sales growth (Westside: 13% SSSG in H1FY20), coupled with aggressive store addition trends. We expect the growth momentum to sustain and expect standalone revenues (Westside + Zudio) to grow 28% YoY in Q3FY20. We expect ABFRL to report revenue growth of 10.8% YoY to ₹ 2497.7 crore, albeit on a high base of Q3FY19 (23% YoY revenue growth). We expect revenues from Pantaloons division (40% of revenues) to cross ₹ 1000 crore quarterly run rate mark with growth of ~11% YoY.

Retail footprint expansion momentum to sustain

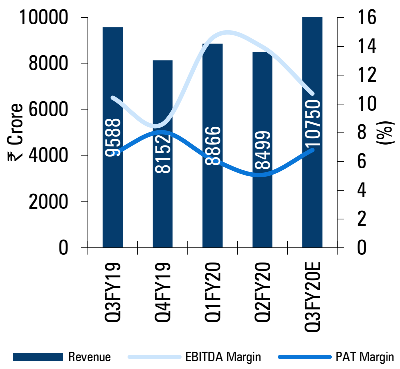
In H1FY20, ABFRL added 23 Pantaloons stores taking the total store count to 331 stores. We expect the company to add another ten Pantaloons stores in Q3FY20 (39 store addition YoY) with square feet addition of 1.2 lakh sq ft QoQ (4.3 lakh sq ft YoY). Trent's value fashion business, Zudio has witnessed exceptional ramp up with company adding ~44 new stores (added 33 stores in FY19) in YTDFY20, taking the total store count to 84 Zudio stores. For FY20, the management has guided at adding ~100 Zudio stores. For Titan, the management has trimmed down its store addition guidance from 65 to 50 Tanishq stores in FY20, mainly due to operational delays. It has already added 34 stores (1.17 lakh sq ft) in YTDFY20, which is equivalent to FY19 store addition.

Exhibit 45: Estimates for Q3FY20E: (Retail) (₹ crore)

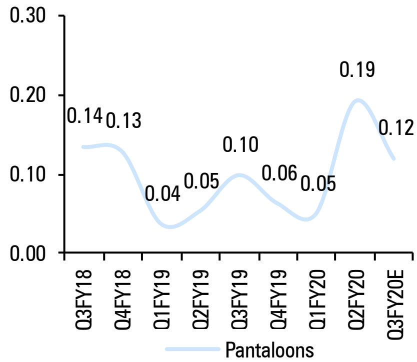
Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q3FY20E	YoY	QoQ	Q3FY20E	YoY	QoQ	Q3FY20E	YoY	QoQ
Aditya Birla Fashion & I	2,528.3	10.8	10.1	204.8	18.4	-40.8	60.4	-14.1	775.0
Bata India	849.2	9.1	17.6	179.6	9.8	-3.1	133.1	29.0	86.5
Titan Company	6,537.0	11.3	40.2	681.1	15.2	30.4	477.3	16.1	51.9
Trent Ltd	835.0	27.2	2.1	86.8	19.6	-34.6	60.1	49.1	56.9
Total	**10,749.6**	**12.1**	**26**	**1,152.4**	**15.2**	**-2.9**	**730.8**	**17.0**	**69.6**

Source: Company, ICICI Direct Research. We have not incorporated impact of IND-AS 116 accounting, hence QoQ variance are not comparable.

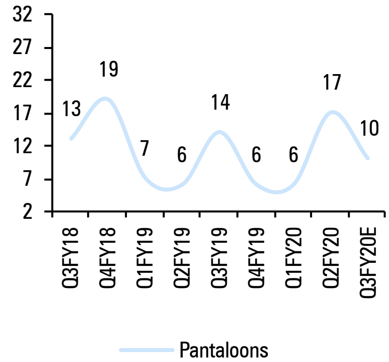
Topline & Profitability (Coverage Universe)



Space addition- million sq. ft. (QoQ)



Store addition –(QoQ) Pantaloons (ABFRL)



Top Picks

Bata & Trent

Research Analysts

Bharat Chhoda
bharat.chhoda@icicisecurities.com

Cheragh Sidhwa
cheragh.sidhwa@icicisecurities.com

Exhibit 46: Company Specific Views (Retail)

Company	Remarks
Bata India	Having built a strong portfolio of premium brands, the management has now enhanced its focus on maintaining a balance between value and volume growth. We expect Bata to register steady revenue growth of 9.1% YoY to ₹ 849.3 crore in Q3FY20. In Q3FY19, Bata had reported its highest ever EBITDA margin of 21.0%, mainly driven by robust expansion in gross margins (up 350 bps YoY to 58.6%). Hence, on a high base, we anticipate limited scope of margin expansion. We expect EBITDA margins to remain steady YoY at 21.2%, with gross margins increasing by 40 bps YoY to 59.0%. Reduction in tax rate and higher other income is expected to boost PAT. We expect PAT to increase by 29% YoY to ₹ 133.1 crore.
Titan Company	H1FY20 has been a challenging period for Titan's jewellery division, mainly owing to significant surge in gold prices and weak consumer sentiments impacting higher discretionary items. With gold prices up by ~ 18% on a YTD basis, substantial decline in grammage has led to subdued topline growth. In the previous conference call, the management indicated that the festive season (28th Sep-31st Oct) panned out to be moderate with retail sales growth of ~10%. Higher number of wedding dates in H2FY20 is expected to perk up demand for wedding jewellery in the quarter (22% revenue contribution). Hence, we expect Titan's jewellery division to report revenue growth of 12% YoY. We expect watches division to report muted revenue growth of 1%. In Q3FY19, the company had provided for IL&FS exposure (₹ 70.0 crore), which negatively impacted the profitability at the EBITDA level. Hence, on a low base, we expect EBITDA margins to improve 30 bps YoY to 10.4%. Reduction in taxation rate (25.2% vs. 31.3% in Q2FY19) is expected to assist PAT growth, to a certain extent. Subsequently, PAT is expected to grow 16.1% YoY to ₹ 477.3 crore
Trent Ltd	Trent is one of the few companies that has consistently delivered robust performance with healthy same stores sales growth coupled with aggressive store addition trends. We expect standalone revenues (Westside + Zudio) to report healthy topline growth of 27.2% YoY to ₹ 835.0 crore. We expect Westside format (~85% of revenues) to report revenue growth of 19% YoY driven by SSSG of 12%. Trent's value fashion business, Zudio has witnessed exceptional ramp up with the company adding 33 stores in FY19. For FY20, the management has guided at adding ~100 Zudio stores (44 stores added in YTDFY20). Revenue contribution from Zudio has almost doubled to ~15%. We expect EBITDA margins to decline 70 bps YoY to 10.4% owing to an increase in share of revenue from Zudio format and front loading expenses of new store additions. Higher other income is expected to assist PAT growth. We build in PAT growth of 49% YoY to ₹ 60.1 crore (we have factored in tax rate of 34.0%).
ABFRL	ABFRL reported strong performance in Q2FY20 (14% topline growth) driven by early festive buying and enhanced momentum of sales promotion. We expect ABFRL to report revenue growth of 10.8% YoY to ₹ 2528.3 crore, albeit on a high base of Q3FY19 (23% YoY revenue growth). We expect revenues from Pantaloons (40% of revenues) to cross ₹ 1000 crore quarterly run rate mark with growth of ~11% YoY. In H1FY20, ABFRL added ~ 23 Pantaloons stores and is expected to add another 10 stores in Q3FY20 taking the total count to 341 stores. We expect revenue from lifestyle brand to report steady growth of 9% YoY. We expect EBITDA margins to improve by 50 bps YoY to 8.1%, with EBITDA increasing 18.4% YoY to ₹ 204.8 crore.

Source: Company, ICICI Direct Research

Telecom

Tariff hike to flow through largely from Q4 onwards

In December, 2019, both Bharti Airtel (Airtel) and Vodafone Idea (VIL) raised tariffs by ~15-47% across packs. The hike in tariff is likely to translate into FY21E revenue/ EBITDA upgrade of ~17%/ 35% and 9%/17% for VIL and Airtel, respectively. We expect the benefits of the same to flow through from Q4FY20 onwards.

Airtel adds strong data subs

We expect Vodafone to again face subscriber churn pressure (~10 mn net sub loss) amid integration challenges, while for Airtel, we expect net sub addition of ~3 million. However, we expect strong data sub addition for Airtel at ~13 million , while a modest 4 mn data sub addition for VIL. We expect ARPU for VIL to grow 3% QoQ at ₹ 110, while for Airtel India wireless ARPU is expected to grow by 4% QoQ to ₹ 133. For VIL, we expect overall revenues to witness muted growth of 0.7% QoQ at ₹ 10,921 crore, while we build in sequentially growth of 4% at ₹ 11,407 crore for Airtel Indian wireless revenues. Airtel Africa is likely to witness revenue growth of 4% QoQ to ₹ 6154 crore, resulting in 3.9% QoQ growth for consolidated revenues at ₹ 21,961 crore, also aided by stable non-wireless revenues.

EBITDA to improve QoQ

For Airtel, we expect ~130 bps sequential decline in India EBITDA margins at 39.6% on normalisation of SG&A costs. Africa margins are expected to be robust at 43.7%. Consequent EBIDA margins are expected at 40.9%, down 90 bps QoQ. For Airtel, we expect net loss of ₹ 722.6 crore. Vodafone Idea's we expect margins of 32.1%, up 120 bps QoQ given the integration led benefits. At bottomline level, the company is expected to post a net loss of ₹ 4641.9 crore.

Infratel to report muted numbers

For Infratel, we expect net tenancy addition of ~1000. We expect 1.7% QoQ fall in rental revenues at ₹ 2200 crore, largely due to full impact of exits during previous quarters. Overall margins are expected at 52.6% (up 100 QoQ) owing to negative energy margins in Q2FY20, while bottomline will witness sharp decline of 17.5% QoQ owing to tax rate normalisation.

Sterlite to report PAT decline; Tcom to witness muted EBITDA

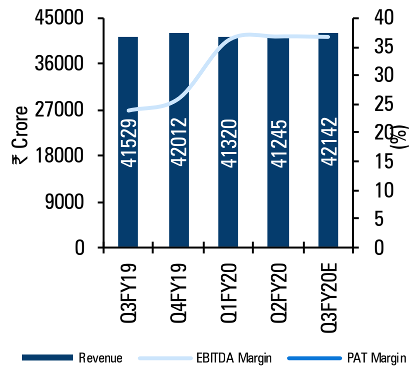
Sterlite Tech will witness the impact of weak product demand resulting in 1.5% growth in topline and 3% decline in EBITDA. PAT is expected to decline by ~20% YoY given the incremental depreciation and interest of new capacity. Tata Communication (TCom) in a seasonally weak quarter will report muted performance. Overall revenue is expected to grow 0.7% QoQ (0.6% YoY) at ₹ 4299 crore largely led by 2.5% QoQ (~5% YoY) growth in data segment topline, while voice business is expected to decline ~7% QoQ (down 14% YoY). Overall margins are expected at 19% (down 50 bps QoQ) owing to lower data segment margins.

Exhibit 47: Estimates for Q3FY20E: (Telecom) (₹ Crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q3FY20E	YoY	QoQ	Q3FY20E	YoY	QoQ	Q3FY20E	YoY	QoQ
Bharti Airtel	21,960.7	7.0	3.9	8,983.1	NA	1.7	-722.6	PL	NA
Bharti Infratel	3,606.5	-0.9	-0.9	1,896.1	26.1	1.0	794.8	22.6	-17.5
Vodafone Idea	10,920.6	-7.2	0.7	3,502.9	NA	4.7	-4,641.9	NA	NA
Sterlite Technologies	1,355.4	1.5	-0.3	284.6	-3.2	-1.3	116.3	-20.2	-27.1
Tata Comm	4,298.8	0.7	0.6	816.8	-3.1	-2.0	64.2	NM	19.2
Total	**42,141.9**	**1.5**	**2.2**	**15,483.6**	**56.0**	**2.0**	**-4,389.2**	**NA**	**NA**

*Source: Company, ICICI Direct Research * YoY numbers are not comparable owing to IND-AS 116*

Topline & Profitability (Coverage Universe)



Research Analysts

Bhupendra Tiwary, CFA
bhupendra.tiwary@icicisecurities.com

Exhibit 48: Company Specific view - Telecom

Company	Remarks
Bharti Airtel	While overall subscriber base is expected to witness a modest addition of 3 million , we expect data sub addition at a healthy 13 milllion largely aided by conversion from own base. With higher proportion of data subs, reported ARPU is likely to witness ~4% QoQ growth at ₹ 133. Indian wireless revenues are expected to witness 4% QoQ growth at ₹ 11,407 crore. Africa is likely to witness revenue growth of 4% QoQ to ₹ 6154 crore. Consolidated revenues are expected to be up 3.9% QoQ at ₹ 21961 crore, further aided by stable non-wireless revenues traction. We expect ~130 bps sequential decline in India EBITDA margins at 39.6%. Africa margins are expected to be stable at 43.7%. Reported EBIDA margins are expected at 40.9%, down 90 bps QoQ. Expected loss at bottmline level is ~₹ 723 crore. **Key monitorable**: AGR issue outcome
Bharti Infratel	For Bharti Infratel, we bake in net tenancy addition of ~1000. We expect 1.7% QoQ decline in rental revenues at ₹ 2200 crore, largely due to full impact of exits during previous quarters. Energy revenues would be flattish QoQ at ₹ 1406 crore. Overall margins are expected at 52.6% (up 100 bps QoQ) owing to negative energy margins in Q2FY20. **Key monitorable**: future outlook and growth plans
Vodafone Idea	We expect churn for Vodafone Idea to continue amid integration led challenges and consequently bake in ~10 million customer exit on a QoQ basis. WIth ARPU growth of ~3% QoQ at ₹112, we expect overall revenues to be up 0.7% QoQ at ₹ 10,921 crore. Reported margins are expected at 32.1%, up 120 bps QoQ given the integration led opex benefits. The company is expected to post a net loss of ₹ 4642 crore. **Key monitorable**: AGR issue outcome
Sterlite Tech	Given the weak demand in product segment and management guidance of challenging H2FY20, we bake in muted topline growth of 1.5% YoY to ₹ 1355 crore. Consolidated EBITDA is expected to decline by 3% YoY at ₹ 285 crore while EBITDA margins for the quarter are expected to decline 100 bps YoY to 21%, given the increased proportion of services revenues, which have lower margins as well as price moderation in product segment. PBT is expected to decline by ~29% YoY to ₹ 172 crore given the incremental depreciation and interest of new capacity. The report PAT at ₹ 116 crore, down 20% YoY with decline partially offset by lower tax rate. **Key monitorable**: Management commentary on overall demand
Tata Comm	Revenue for the voice business is expected to decline ~7% QoQ (down 14% YoY) to ₹ 814 crore. The data business, however, is expected to post 2.5% QoQ (~5% YoY) growth in topline at ₹ 3485 crore. Revenue growth was driven by growth services (expected to be up~10% YoY) while traditional data segment is likely to witness ~3% YoY growth, with stabilisation of operator consolidation. The overall revenue, therefore, is expected to grow 2.8% QoQ (4.8% YoY) at ₹ 4299 crore. Overall margins are expected at 19% (down 50 bps QoQ) owing to normalisation of traditional data segment margins. The data segment margins is expected at 21.5% (down 60 bps QoQ). **Key monitorable**: Growth outlook commentary

Source: Company, ICICI Direct Research

Others

Exhibit 49: Estimates for Q3FY20E: (Others) (₹ Crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q3FY20E	YoY	QoQ	Q3FY20E	YoY	QoQ	Q3FY20E	YoY	QoQ
Kajaria Ceramics	799.0	5.3	11.8	117.9	-2.4	12.1	69.3	5.9	-25.6
Page Industries	772.1	4.6	-0.4	154.4	-6.6	3.6	110.2	8.2	-3.8
TTK Prestige	579.9	5.0	1.1	87.9	3.0	1.6	64.2	12.9	-20.1
TeamLease Services	1,328.6	13.3	4.8	23.8	-2.9	-2.9	19.6	-22.4	-3.0
United Spirits	2,448.7	-1.9	6.6	428.5	19.6	3.1	254.5	32.3	13.3
United Breweries	1,550.3	6.8	-1.8	217.0	-12.4	12.8	107.8	-1.3	-6.4
Total	**7,478.6**	**4.3**	**3.8**	**1,029.5**	**2.8**	**5.8**	**625.6**	**13.5**	**-3.4**

Source: Company, ICICI Direct Research

Topline & Profitability (Coverage Universe)

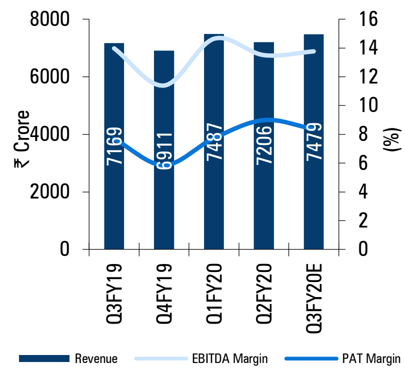


Exhibit 50: Company views

Company	Remarks
Page Industries	We expect Page Industries to report moderate set of results in Q3FY20, mainly owing to challenging market conditions (Liquidity issues faced by MBO's) and high base of Q3FY19 (company had reported 12% YoY volume growth). We expect revenues to increase by 4.6% YoY to ₹ 757.3 crore, driven by 3% volume growth at 45.7 million pieces and 2% hike in blended realisation at ₹ 166/piece. We expect EBITDA margins to decline 240 bps YoY to 20.0% (Q2FY20: 18.0%) mainly owing to negative operating leverage. Reduction in taxation rate (25.2% vs. 37.0% in Q3FY19) is expected to assist PAT growth. Subsequently, we expect PAT to increase 8.0% YoY to ₹ 110.2 crore
TTK Prestige	H1FY20 has been a challenging period for TTK Prestige owing to sluggish demand environment (especially in the rural segment) and increasing competiveness in entry-level products. Cooker segment (32% of revenues) has been the most impacted category, with revenue declining 5% in H1FY20. In a bid to address the challenges, the management is undertaking various initiatives such as expanding distribution network, launching new products across categories. We expect TTK to report revenue growth of 5% YoY to ₹ 579.9 crore, albeit on high base of Q3FY20 (20% YOY growth). We expect cookers and appliance segment to report revenue growth of 3% and 5%, respectively. EBITDA margins are expected to decline 30 bps YoY at 15.2%. Reduction in tax rate (25.2% vs. 33% in Q3FY19) is expected to assist PAT growth. Hence, we expect PAT to grow 13% YoY to ₹ 64.2 crore
TeamLease Financials	For Q3FY20E, revenues are expected to grow 4.8% sequentially to ₹ 1329 crore driven by 4.2% QoQ growth in general staffing, 9.9% QoQ growth in specialised staffing (supported by IMSI acquisition) and 12.6% QoQ growth in other HR services. Further, we expect EBITDA margins to decline 10 bps QoQ to 1.8% mainly led by an improvement in margin in specialised staffing. PAT is expected to dip 2.6% QoQ to ₹ 19.6 crore mainly on account of dip in operating margins
United Spirits	Overall volumes are expected to remain flat YoY at 21.9 million cases, on the back of mere 2% YoY growth in the Prestige and Above segment, while the popular segment volumes are expected to de-grow at 2% YoY. We expect 2% de-growth in the net revenues to ₹ 2449 crore. Continued higher inflation in the raw material (ENA) may cap the gross margin in the 47-48% range. However, absolute EBITDA is expected to grow 20% YoY (from operational efficiencies and IND-AS impact). Subsequently PAT is expected to grow 32% to ₹ 255 crore (better operational performance and lower tax rate)
United Breweries	Volumes are expected to grow 6% to 42 million cases while net revenues are expected to grow 7% YoY to ₹ 1550 crore. EBITDA margins are expected to decline by 310 bps to 14% due to higher input cost (Barley & Glass) with absolute EBITDA likely to decline 12% YoY to ₹ 217 crore. Subsequently, PAT is expected to de-grow 1% YoY to ₹ 108 crore (tax rate expected at 25.2%)
Kajaria Ceramics	The overall demand dynamics in the ceramic tiles sector still seems to be subdued following stress in real estate sector.Competition intensity continues to remain high in the sector. In this scenario, prudent ceramic players like Kajaria have given due attention to their credit control at the expense of sales to maintain their healthy balance sheet. Hence, we anticipate Kajaria's sales volume to grow at a slow rate of 5.6% YoY to 21.2 MSM. On the revenues front, we expect it to grow 5.3% YoY to ₹ 799.0 crore mainly led by volume growth. Additionally, with stable gas prices expectation in Q3FY20E, we expect EBITDA margin to remain flat QoQ at 14.8%.

Source: Company, ICICI Direct Research

ICICI Direct Research Coverage Universe

Sector / Company	CMP	TP	Rating	MCap	EPS (Rs)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
Apparels																			
Page Industries	22,920	23,430	Hold	25,565	353.2	413.4	488.4	64.9	55.4	46.9	42.4	40.4	34.7	72.4	62.2	60.6	50.8	48.2	46.5
Asset Management Company																			
HDFC AMC	3,097	3,040	Hold	65,847	43.9	61.5	70.3	70.6	50.4	44.1	-	-	-	-	-	-	30.3	36.3	35.6
Auto																			
Apollo Tyres	161	180	Hold	9,224	11.9	10.3	12.0	13.6	15.6	13.4	7.2	7.5	6.3	8.0	5.8	6.7	8.3	5.7	6.3
Ashok Leyland	82	75	Hold	24,013	6.8	3.9	4.1	12.1	20.7	20.2	7.1	10.9	10.2	26.9	14.5	14.2	24.3	13.9	13.1
Bajaj Auto	3,043	3,300	Hold	88,060	161.6	175.0	189.0	18.8	17.4	16.1	14.9	13.9	11.9	21.0	19.5	25.9	19.9	20.6	19.8
Eicher Motors	20,861	22,215	Hold	56,958	808.1	848.2	1,007.4	25.8	24.6	20.7	19.3	20.4	16.0	32.5	25.7	26.5	24.8	21.5	21.1
Hero Motocorp	2,346	3,110	Buy	46,848	169.5	195.0	182.9	13.8	12.0	12.8	10.0	10.5	9.7	37.1	30.1	29.8	26.3	23.9	23.0
Tata Motors	184	175	Hold	57,053	-84.6	-2.3	8.9	NM	NM	20.6	4.0	4.0	3.5	5.4	7.7	8.9	7.1	0.0	10.8
Exide Industries	183	230	Buy	15,555	9.9	11.2	12.7	18.4	16.3	14.4	11.2	9.8	8.5	18.4	18.8	19.2	12.9	14.3	14.6
Maruti	7,075	6,420	Reduce	213,720	248.3	212.7	257.9	28.5	33.3	27.4	17.1	21.7	17.6	16.3	9.4	11.5	16.3	12.9	14.3
Bharat Forge	490	450	Hold	22,829	22.2	18.5	18.8	22.1	26.5	26.1	11.4	14.0	13.4	17.9	13.2	13.2	19.1	14.4	13.8
Mahindra & Mahindra	526	680	Buy	65,429	38.6	46.2	34.5	13.6	11.4	15.3	10.2	10.1	10.1	17.3	14.7	13.2	14.1	12.1	10.3
Building Materials																			
Kajaria Ceramics	529	580	Hold	8,402	14.2	18.5	21.5	37.1	28.5	24.6	5.3	4.7	4.1	20.2	19.0	21.1	14.4	16.4	16.7

Source: Company, ICICI Direct Research, Bloomberg

ICICI Direct Research Coverage Universe

Sector / Company	CMP	TP	Rating	MCap	EPS (Rs)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
Capital Goods																			
SKF Bearing	2,139	1,840	Reduce	10,572	67.9	65.6	70.9	31.5	32.6	30.2	6.2	5.5	4.8	29.4	22.3	21.3	19.8	16.7	15.9
Timken India	911	1,020	Buy	6,852	19.8	25.9	29.1	46.1	35.1	31.3	5.1	4.5	4.0	15.7	18.1	17.9	11.1	12.8	12.7
NRB Bearing	95	95	Reduce	922	11.2	4.0	6.4	8.5	23.6	14.9	2.0	1.9	1.7	21.0	9.7	12.3	19.5	7.9	11.4
Thermax	1,091	1,215	Hold	13,003	23.1	29.6	36.2	47.2	36.9	30.1	4.8	4.3	3.9	18.0	16.3	18.0	11.2	11.7	12.9
KEC International	305	335	Buy	7,832	19.2	25.0	31.4	15.8	12.2	9.7	3.2	2.6	2.2	24.8	24.3	25.5	20.1	21.7	22.2
Kalpataru Power	415	600	Buy	6,421	26.1	35.3	39.2	15.9	11.7	10.6	2.0	1.7	1.5	19.6	19.4	18.9	12.7	14.5	13.9
Greaves Cotton	139	135	Hold	3,214	6.9	7.4	8.0	20.1	18.9	17.3	3.3	3.2	3.2	27.4	23.4	25.6	18.7	17.5	19.3
Larsen & Toubro	1,320	1,740	Buy	185,252	44.6	59.3	63.9	29.6	22.3	20.7	3.6	3.2	2.9	16.0	16.2	16.3	11.4	12.7	13.4
AIA Engineering	1,632	1,770	Hold	15,392	54.4	58.1	63.2	30.0	28.1	25.8	4.4	3.9	3.6	18.8	17.3	17.4	14.6	13.9	13.8
Bharat Electronics Ltd	96	130	Buy	23,379	7.9	7.2	8.2	12.1	13.3	11.7	2.6	2.4	2.1	30.0	24.9	25.8	21.4	17.8	18.3
Elgi Equipments	271	270	Hold	4,286	6.5	6.8	8.9	41.6	39.7	30.5	5.6	5.1	4.5	13.8	13.8	15.9	13.4	13.0	14.8
cement																			
Ambuja	200	190	Hold	39,772	5.6	7.2	7.9	35.7	28.0	25.5	1.9	1.9	1.8	11.6	14.4	15.8	6.0	6.7	7.2
Ultratech	4,250	5,350	Buy	122,660	83.7	143.8	163.0	50.8	29.6	26.1	3.7	3.3	3.0	9.0	12.5	13.6	7.6	11.2	11.4
JK Lakshmi	308	425	Buy	3,618	6.8	19.5	28.8	45.5	15.8	10.7	11.7	6.5	5.3	9.3	17.7	20.6	5.2	14.9	16.4
Jk cement	1,300	1,360	Buy	10,045	42.0	65.3	75.8	31.0	19.9	17.1	11.8	8.8	7.4	12.5	15.4	16.7	11.2	15.3	15.4
Shree cement	21,944	23,060	Buy	79,176	273.3	546.0	647.3	80.3	40.2	33.9	25.7	18.3	15.3	11.5	17.8	20.1	11.5	17.0	17.1
ACC	1,460	1,900	Buy	27,408	80.9	77.8	90.8	18.0	18.8	16.1	14.5	11.5	10.3	14.7	18.6	19.3	10.0	13.5	14.6
The Ramco Cement	789	1,020	Buy	18,589	21.5	30.6	34.6	36.7	25.8	22.8	19.7	14.7	12.3	8.1	10.4	11.6	11.7	14.9	15.0
Sagar Cements	555	700	Buy	1,219	6.2	29.1	35.6	89.9	19.1	15.6	11.1	8.0	7.8	6.4	9.8	9.8	1.6	6.5	6.8
Construction																			
NCC Limited	55	75	Buy	3,313	9.4	6.1	7.1	5.9	9.0	7.7	3.6	4.9	4.6	21.2	15.0	15.2	11.9	7.3	7.9
KNR Constructions	258	300	Buy	3,621	18.7	17.0	19.0	13.8	15.2	13.6	8.7	7.9	6.5	19.0	16.2	17.8	18.6	14.5	14.0

Source: Company, ICICI Direct Research, Bloomberg

ICICI Direct Research Coverage Universe

Sector / Company	CMP	TP	Rating	MCap	EPS (Rs)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
Consumer Discretionery																			
Havells India	641	720	Hold	40,142	12.7	13.3	18.0	50.6	48.3	35.6	34.5	35.4	26.5	25.3	23.7	27.5	18.7	19.0	22.0
Voltas Ltd	656	765	Hold	21,694	15.5	18.7	24.3	42.2	35.1	27.0	35.3	26.3	22.5	17.3	22.5	23.6	12.7	16.3	18.1
Asian Paints Ltd	1,729	2,050	Buy	165,855	23.0	32.1	38.5	75.1	53.8	44.9	45.2	38.4	31.8	30.4	32.1	33.6	23.2	28.1	28.2
Kansai Nerolac	508	620	Buy	27,391	8.7	11.9	13.7	58.6	42.8	37.2	39.0	32.1	26.5	20.2	21.6	22.9	13.6	17.4	17.5
Pidilite Industries	1,402	1,475	Hold	71,208	18.1	25.1	29.5	77.4	55.9	47.6	49.5	38.4	33.1	29.6	32.8	32.8	22.7	26.7	26.3
Supreme Industries	1,140	1,420	Buy	14,481	35.3	43.0	49.3	32.3	26.5	23.1	19.2	18.0	14.5	25.0	24.7	27.6	18.7	23.1	22.8
Astral Poly Technik Ltd	1,150	1,275	Hold	17,332	13.1	18.1	23.7	87.8	63.6	48.6	44.8	35.4	27.6	20.8	22.2	25.4	15.5	17.8	19.2
FMCG																			
Hindustan Unilever	1,923	2,075	Hold	416,326	27.9	34.7	40.7	68.8	55.4	47.3	50.6	41.7	36.6	85.3	103.9	111.2	80.9	89.7	96.5
Dabur India	453	550	Buy	80,110	8.2	9.3	10.3	55.4	48.9	44.1	48.5	43.9	39.5	29.6	29.9	30.0	25.7	26.8	26.7
ITC	235	320	Buy	289,356	10.3	12.3	13.8	22.9	19.1	17.1	17.5	16.1	14.4	30.8	30.9	30.9	21.5	23.8	23.8
Marico	333	410	Hold	43,001	8.8	8.5	9.3	37.9	39.4	35.8	39.1	32.8	29.8	38.0	41.4	43.5	31.6	34.1	35.7
Nestle India	14,343	14,575	Hold	138,285	166.7	209.8	254.4	86.1	68.4	56.4	49.4	46.3	39.1	42.9	41.8	43.3	45.6	47.2	47.6
Hospital																			
Apollo Hospital	1,481	1,800	Buy	20,606	17.0	25.3	43.7	87.3	58.6	33.9	21.2	13.4	10.9	8.8	11.4	14.8	7.1	9.7	14.9

Source: Company, Bloomberg, ICICI Direct Research

ICICI Direct Research Coverage Universe

Sector / Company	CMP	TP	Rating	MCap	EPS (Rs)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
Hotels																			
EIH	142	195	Buy	8,131	2.6	3.1	4.4	55.2	46.2	32.3	22.4	25.9	20.1	9.2	7.7	10.1	6.4	5.7	7.8
Indian Hotels	141	175	Buy	16,727	2.5	4.1	4.2	56.7	34.0	33.7	23.0	18.4	14.8	8.0	9.5	11.3	6.7	11.0	10.1
Lemon Tree Hotels	59	73	Buy	4,698	0.7	0.9	1.3	83.0	63.8	46.7	34.0	23.2	18.6	5.5	6.8	7.8	6.7	8.1	10.1
Insurance																			
SBI Life Insurance Company Ltd	985	1,000	Buy	98,510	13.4	13.9	17.1	73.4	71.0	57.7	-	-	-	17.8	17.9	18.2	19.2	17.4	18.6
IT																			
HCL Technologies	585	600	Hold	158,749	37.3	38.3	42.7	15.7	15.3	13.7	10.5	9.3	8.0	26.9	25.2	24.6	24.5	21.3	20.6
Infosys	733	855	Buy	312,045	35.4	39.1	44.8	20.7	18.8	16.4	13.7	12.3	10.6	32.9	32.4	34.3	23.7	24.2	25.6
Larsen & Toubro Infotech Ltd	1,835	2,025	Buy	31,939	87.5	89.4	103.8	21.0	20.5	17.7	14.8	13.4	11.2	40.4	34.5	33.6	31.0	26.4	25.8
Mindtree Ltd	840	690	Hold	13,829	45.9	33.7	45.8	18.3	25.0	18.3	10.3	10.9	8.5	29.8	22.1	26.5	22.8	15.3	18.6
NIIT Technologies	1,657	1,415	Hold	10,348	65.7	73.6	83.2	25.2	22.5	19.9	12.4	10.6	9.2	25.2	23.5	23.8	19.5	19.2	19.2
Tata Consultancy Services	2,208	2,005	Hold	828,677	84.1	86.4	95.7	26.3	25.6	23.1	17.7	16.6	14.8	43.8	42.6	43.9	34.4	33.4	34.4
Tech Mahindra	778	900	Buy	75,087	47.7	47.6	54.9	16.3	16.3	14.2	9.9	9.8	8.3	23.6	21.2	21.9	21.2	18.5	18.7
Wipro Technologies	255	300	Buy	145,825	15.0	17.3	20.5	17.0	14.8	12.4	10.2	9.9	7.9	17.8	18.7	20.0	15.8	18.0	19.1
InfoEdge	2,549	2,630	Hold	31,227	23.1	23.1	36.6	110.2	110.3	69.6	90.9	70.1	55.8	18.6	20.0	21.8	12.1	11.2	15.8
TeamLease Services	2,500	2,670	Hold	4,274	57.1	51.5	78.6	43.8	48.5	31.8	46.0	40.1	27.7	18.6	15.4	19.1	18.3	14.1	17.9

Source: Company, Bloomberg, ICICI Direct Research

ICICI Direct Research Coverage Universe

Sector / Company	CMP	TP	Rating	MCap	EPS (Rs)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
Logistics																			
Container Corporation of India	557	620	Buy	33,938	19.3	23.5	24.0	28.9	23.7	23.2	15.8	14.6	11.6	15.4	13.9	14.9	11.4	13.1	11.5
Transport Corporation of India	270	330	Buy	2,072	15.8	17.7	21.5	17.1	15.2	12.6	9.8	9.0	7.5	14.2	12.8	14.2	16.3	16.6	15.9
TCI Express	718	900	Buy	2,754	19.0	24.7	30.0	37.7	29.1	24.0	24.7	22.1	18.4	41.9	33.7	32.6	27.3	27.3	25.7
Mahindra Logistics	410	450	Buy	2,932	12.0	13.8	16.9	34.2	29.7	24.3	17.2	16.6	13.3	25.8	22.4	23.4	17.2	17.0	17.7
Media																			
Sun TV Limited	426	500	Hold	16,782	36.4	36.7	41.7	11.7	11.6	10.2	6.3	7.0	5.8	38.5	30.3	30.0	25.9	23.1	22.8
Entertainment Network Limited	256	270	Hold	1,220	11.3	8.8	12.2	22.6	29.2	21.0	7.2	5.6	4.3	9.0	7.3	9.2	5.8	4.4	5.9
Inox Leisure Ltd	377	465	Buy	3,875	13.0	10.8	16.9	28.9	34.9	22.2	13.4	10.3	8.4	19.6	11.8	14.1	14.2	15.4	20.0
PVR Limited	1,865	2,200	Buy	9,572	39.2	25.3	43.8	47.6	73.8	42.6	18.8	12.2	10.4	13.8	9.5	11.3	14.8	9.6	14.4
Zee Entertainment Enterprises Ltd	268	352	Hold	25,746	16.1	19.5	22.0	16.7	13.7	12.2	12.5	11.7	10.3	25.7	24.5	22.4	15.7	17.3	15.9
TV Today Network Limited	243	380	Buy	1,450	22.0	24.1	31.7	11.1	10.1	7.7	8.0	7.4	5.9	26.2	28.7	29.8	16.9	18.4	21.8
Metals, Mining & Pipes																			
Tata Steel	477	470	Buy	54,164	78.6	42.1	67.7	6.1	11.3	7.0	4.5	6.0	4.8	12.7	7.5	9.3	13.0	7.4	10.5
JSW Steel	266	235	Hold	64,262	31.3	20.7	19.9	8.5	12.9	13.4	6.2	9.7	8.5	15.8	9.0	10.3	21.7	15.0	13.1
NMDC	128	110	Hold	39,085	14.7	12.1	10.9	8.7	10.6	11.8	4.3	5.0	5.5	26.7	19.3	16.4	17.9	12.7	10.8
Hindalco	209	210	Hold	47,043	24.7	20.4	25.3	8.5	10.3	8.3	5.2	5.8	5.0	10.3	8.6	9.6	9.6	7.2	8.3
Hindustan Zinc	213	235	Hold	90,063	18.8	18.2	20.6	11.3	11.7	10.3	6.9	6.8	5.3	29.2	24.8	25.4	23.7	19.8	19.6
Graphite India	296	330	Buy	5,773	173.8	40.1	55.0	1.7	7.4	5.4	0.6	3.3	2.1	88.8	20.6	24.8	63.5	15.6	18.7
Coal India	207	225	Hold	127,353	27.6	28.4	30.4	7.5	7.3	6.8	8.2	10.1	9.2	94.5	67.3	58.9	66.2	53.5	45.8
Ratnamani Metals and Tubes	1,114	1,150	Buy	5,205	54.1	70.8	79.1	20.6	15.7	14.1	10.9	10.1	8.6	24.3	22.9	23.4	16.6	18.4	17.5

Source: Company, Bloomberg, ICICI Direct Research

ICICI Direct Research Coverage Universe

Sector / Company	CMP	TP	Rating	MCap	EPS (Rs)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
Oil & Gas																			
GAIL	124	125	Hold	56,061	13.4	10.3	11.3	9.3	12.1	11.0	6.1	8.6	9.0	18.0	11.9	10.5	13.7	10.0	10.3
HPCL	243	295	Hold	36,983	39.5	33.2	33.9	6.1	7.3	7.2	6.3	8.0	7.8	16.1	11.5	10.2	21.4	16.6	15.7
IGL	414	410	Hold	28,977	11.2	16.2	15.8	36.8	25.6	26.1	22.9	18.9	17.7	23.8	23.6	21.4	15.4	19.1	15.4
ONGC	126	130	Hold	158,574	21.2	18.5	18.7	5.9	6.8	6.7	3.2	3.8	3.9	16.8	13.1	11.9	13.2	10.7	10.2
Petronet LNG	271	315	Hold	40,658	14.4	20.7	21.3	18.9	13.1	12.8	12.4	9.5	8.2	27.4	25.1	27.2	16.9	23.8	22.2
Gujarat Gas	255	220	Hold	17,544	6.1	16.5	12.8	42.1	15.5	19.9	15.7	9.2	8.5	14.6	21.3	19.8	14.0	32.7	20.4
BPCL	464	515	Hold	100,652	36.3	35.1	46.6	12.8	13.2	10.0	11.4	11.5	12.3	17.7	14.9	12.0	19.4	17.2	20.3
Mahanagar Gas Ltd	1,041	1,230	Buy	10,285	55.3	83.1	78.3	18.8	12.5	13.3	11.4	8.6	8.0	32.2	32.5	28.3	19.5	24.6	19.6
Indian Oil Corporation	125	160	Hold	117,489	18.4	13.3	21.1	6.8	9.4	5.9	6.4	7.7	5.7	14.0	11.2	14.8	15.5	10.9	16.0
Others																			
United Spirits	565	720	Buy	41,081	9.4	11.1	16.2	59.9	50.8	35.0	34.2	30.9	25.0	21.0	21.7	25.7	22.3	20.9	23.3
United Breweries	1,274	1,620	Buy	33,675	21.3	26.2	35.5	59.8	48.7	35.9	29.1	28.0	21.3	27.8	23.7	27.3	17.7	18.4	20.5
Pharma																			
Sun Pharma	443	470	Hold	106,384	10.8	17.9	20.4	41.1	24.7	21.7	16.7	15.0	13.5	10.3	10.8	11.3	9.2	9.5	9.9
Lupin	758	810	Hold	34,330	13.5	13.4	75.2	56.2	56.8	10.1	14.3	12.8	10.2	9.4	8.5	10.6	5.4	6.4	9.2
Aurobindo Pharma	453	475	Hold	26,514	40.6	44.4	55.4	11.1	10.2	8.2	7.8	6.5	5.7	15.9	16.2	15.7	17.7	16.0	16.7
Biocon	285	310	Buy	34,248	7.5	8.0	10.6	37.8	35.8	26.9	21.9	16.1	12.0	10.9	13.7	16.7	12.2	13.0	15.7
Cadila Healthcare	257	260	Hold	26,326	18.1	11.0	16.6	14.2	23.3	15.5	10.2	11.4	9.4	13.0	10.1	11.7	17.8	11.9	13.5
Dr Reddy's Lab	2,899	3,000	Hold	48,149	114.8	162.5	140.0	25.3	17.8	20.7	14.8	12.9	11.0	11.1	13.3	13.9	13.6	16.6	12.7
Divi's Lab	1,844	1,850	Hold	48,963	51.0	49.4	59.1	36.2	37.3	31.2	22.4	22.9	18.6	25.5	21.6	22.1	19.4	16.5	17.0
Ipca Lab	1,137	1,355	Buy	14,368	35.1	50.4	60.7	32.4	22.6	18.7	19.9	14.8	12.3	15.0	18.9	19.9	14.2	17.5	18.0
Torrent Pharma	1,872	2,020	Buy	31,682	31.8	55.6	74.0	58.8	33.7	25.3	16.5	15.1	12.7	14.2	15.8	18.7	17.5	17.3	19.6

Source: Company, Bloomberg, ICICI Direct Research

ICICI Direct Research Coverage Universe

Sector / Company	CMP	TP	Rating	MCap	EPS (Rs)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
Power																			
CESC	729	845	Hold	9,667	89.9	92.8	97.7	8.1	7.9	7.5	7.8	6.8	6.1	9.1	10.0	10.5	11.8	11.1	10.7
NTPC	121	129	Hold	119,823	14.5	12.0	12.9	8.4	10.1	9.4	8.8	8.1	7.9	7.8	7.9	7.8	10.1	10.5	10.7
Real Estate																			
Oberoi Realty	519	550	Hold	18,880	22.5	20.2	28.2	23.1	25.7	18.4	14.2	17.1	11.4	12.4	9.1	12.5	10.1	7.2	9.9
The Phoenix Mills Ltd	855	870	Buy	13,110	27.5	22.4	24.8	31.1	38.2	34.5	14.8	14.4	13.1	9.6	8.3	8.5	10.7	8.7	9.0
Brigade Enterprises	226	250	Buy	4,618	11.7	9.5	4.5	19.2	23.8	50.5	9.9	10.6	9.9	11.8	10.3	8.4	11.1	8.5	3.9
Retail																			
TTK Prestige	5,687	7,220	Buy	7,883	138.7	178.1	206.3	41.0	31.9	27.6	23.5	20.4	17.5	23.5	24.9	26.7	16.5	18.7	19.1
Titan Industries	1,160	1,350	Buy	102,997	15.7	18.4	22.9	74.1	63.0	50.7	47.7	45.0	36.2	43.1	37.0	38.6	23.2	23.0	24.1
Bata India	1,718	1,955	Buy	22,080	25.7	33.0	38.8	67.0	52.0	44.3	43.6	36.9	31.2	53.1	57.5	63.7	18.9	20.6	21.3
Trent Ltd.	535	600	Buy	19,003	2.9	3.4	5.2	187.2	158.2	101.9	77.8	60.3	45.9	10.1	9.9	12.0	5.8	4.5	6.7
Aditya Birla Fashion & Retail	234	240	Buy	18,073	4.2	2.3	3.6	56.2	101.9	64.9	32.4	27.8	22.3	10.7	12.3	15.1	22.5	11.0	14.8

Source: Company, Bloomberg, ICICI Direct Research

Sector / Company	CMP	TP	Rating	MCap	EPS (Rs)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
Road																			
Ashoka Buildcon	104	120	Buy	2,931	-1.4	-0.5	2.0	NM	NM	52.7	5.8	5.6	4.8	13.9	14.8	16.5	6.9	-4.8	16.9
PNC Infratech	192	250	Buy	4,932	11.9	18.2	17.1	16.2	10.6	11.2	10.8	6.7	6.6	15.6	25.0	20.7	14.4	18.4	15.0
Telecom																			
Tata Communications	421	380	Hold	11,999	-2.9	10.5	15.1	NM	40.2	27.9	7.0	5.8	5.3	5.4	8.4	9.0	127.7	-230.8	217.0
Bharti Infratel	239	295	Hold	44,196	13.5	18.2	16.8	17.7	13.1	14.2	8.2	6.6	6.5	21.2	20.0	21.4	17.2	25.3	24.3
Bharti Airtel	459	550	Buy	235,307	1.0	-64.2	6.7	447.7	-7.1	68.2	13.6	9.1	7.1	2.1	4.0	7.1	-3.5	-3.6	5.8
Vodafone Idea	8	9	Buy	22,414	-16.7	-22.3	-5.3	-0.5	-0.3	-1.5	34.8	8.3	6.4	-5.0	-4.7	-3.0	-25.9	-96.5	-81.6
Sterlite Technologies Ltd.	131	120	Reduce	5,257	14.0	13.9	13.0	9.3	9.4	10.1	6.2	5.7	5.3	27.8	25.4	25.8	33.0	26.6	21.2
Banks											**P/BV(x)**			**RoA (%)**			**RoE (%)**		
IndusInd Bank	1,461	1,400	Buy	101,264	60.9	83.4	110.7	24.0	17.5	13.2	3.3	2.6	2.2	1.6	1.9	2.1	14.5	16.8	18.4
Bank of Baroda	96	130	Buy	44,288	1.8	5.0	18.0	53.6	19.1	5.3	0.7	0.6	0.6	0.1	0.2	0.6	0.9	2.9	9.4
State Bank of India	318	400	Buy	283,669	1.0	18.4	31.1	331.0	17.3	10.2	2.0	1.6	1.3	0.0	0.5	0.7	0.5	8.5	12.5
Axis Bank	725	865	Buy	204,304	18.1	21.3	49.0	40.1	34.0	14.8	3.8	3.7	3.2	0.6	0.7	1.4	7.1	7.7	14.6
DCB Bank	185	220	Buy	5,739	10.5	12.6	16.7	17.6	14.7	11.1	3.2	2.6	2.0	1.0	1.0	1.2	12.2	12.9	14.8
HDFC Limited	2,396	2,200	Hold	414,274	57.5	73.6	75.8	41.7	32.6	31.6	12.1	11.2	7.4	2.3	2.6	2.3	16.4	19.2	18.3
Kotak Mahindra Bank	1,661	1,700	Hold	317,346	25.5	33.7	39.8	65.1	49.3	41.8	11.5	11.5	8.5	1.7	1.9	1.9	12.1	14.0	14.4
HDFC Bank	1,256	1,440	Buy	687,696	38.7	47.7	56.8	32.4	26.3	22.1	9.5	7.7	6.5	1.8	1.9	1.9	16.5	16.3	17.0
Bajaj Finserv Limited	9,125	8,800	Hold	145,213	196.9	286.7	358.8	46.3	31.8	25.4	10.8	9.2	7.0	1.6	1.8	1.9	14.1	17.5	18.3
Bajaj Finance Limited	4,022	4,350	Hold	241,984	69.3	96.7	119.7	58.1	41.6	33.6	32.6	25.2	15.2	3.6	3.9	3.7	22.4	21.7	19.4
Bandhan Bank	496	680	Buy	79,860	16.4	22.0	28.2	30.3	22.5	17.6	13.2	11.5	10.0	17.8	17.9	18.2	19.0	27.2	26.7

Source: Company, Bloomberg, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%;

Hold: -5% to 15%;

Reduce: -5% to -15%;

Sell: <-15%

Pankaj Pandey **Head – Research** **pankaj.pandey@icicisecurities.com**

ICICI Direct Research Desk,

ICICI Securities Limited,

1st Floor, Akruti Trade Centre,

Road No 7, MIDC,

Andheri (East)

Mumbai – 400 093

research@icicidirect.com

ANALYST CERTIFICATION

We /I Pankaj Pandey, MBA, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a SEBI registered Research Analyst with SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

ICICI Securities has received an investment banking mandate from Government of India for disinvestment in Bharat Heavy Electricals Limited. This report is prepared based on publicly available information