January 07, 2021

SENSE & SENTIMENT

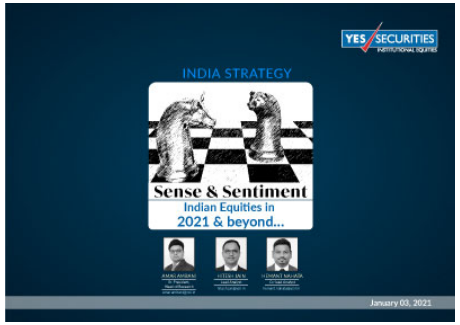
Q3 FY21 Earnings Preview

- ✓ Q3 FY21 expected to better previous quarter numbers; 10.4% q/q growth in revenue and 7.8% in PAT (ex. Financials) on account of improving pace of normalization of the economy and strong festive demand.
- ✓ Banks to deliver 2.6% q/q and 9.7% y/y growth in NII in the wake of strong retail loan growth across the board. Falling cost of funds and no material COVID provisioning will lead to 4.4% y/y PAT growth during the quarter.
- ✓ EBITDA margins (ex-Financials) to expand by ~180bps y/y basis, despite rise in many input costs; significant cost management during COVID period and improved utilization rates the key.

Exhibit 1: YSEC Universe – Stocks on the Radar

Sector	Earning Expectations	
	Strong	Weak
Capital Goods & Defense	Bharat Electronics	Cummins India
	Larsen & Toubro	-
Consumer	DIXON Tech.	ITC
	PAGE Ind.	-
	TATA Consumer	-
Cement	Sagar Cements	Star Cement
	India Cements	-
Financials	HDFC Bank	RBL Bank
	Chola Finance	Ujjivan SFB
Non-Lending Financials:		
AMC	-	HDFC AMC
Life Insurance	SBI Life	-
	ICICI Pru Life	-
Healthcare	Dr. Reddy	Lupin
Infrastructure	PNC Infra	-
	Dilip Buildcon	-
Logistics	-	Concor

Our take on Indian Equities



Sense & Sentiment
Indian Equities in 2021 & beyond...

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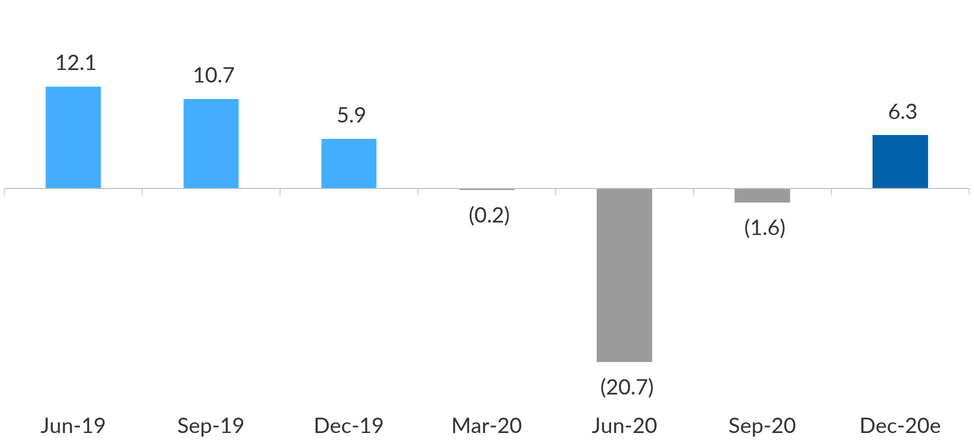
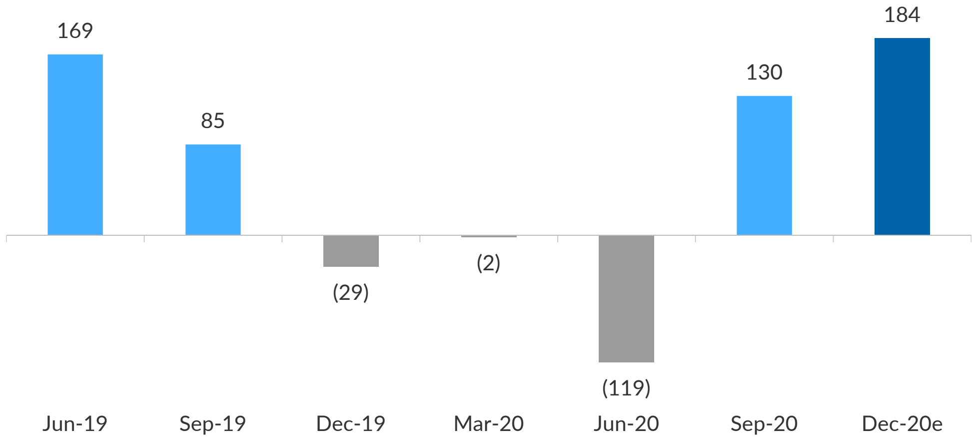
Exhibit 2: Topline growth and solid expansion in operating margins to trigger a robust revival in PAT growth

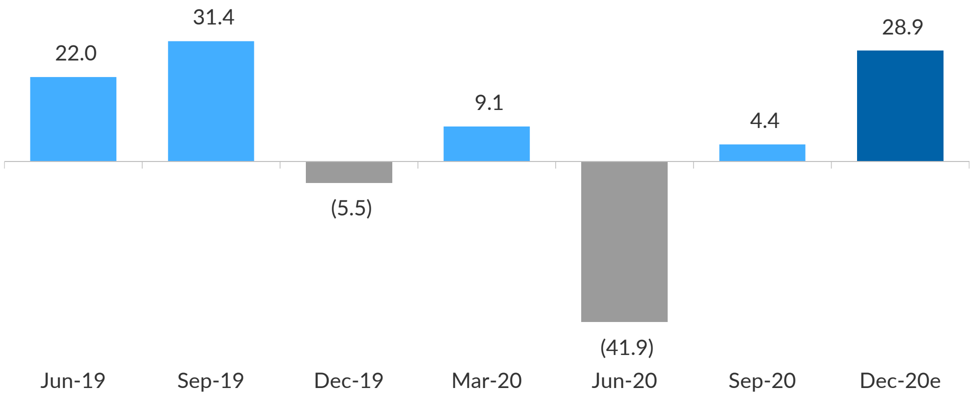
YSEC Universe - Revenue y/y Growth (Ex. Financials)



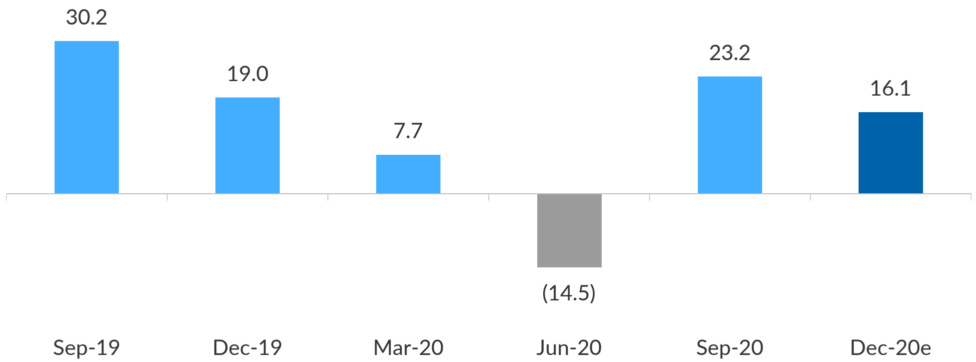
YSEC Universe - OPM y/y bps chng (Ex. Financials)



YSEC Universe - PAT y/y Growth (Ex. Financials)

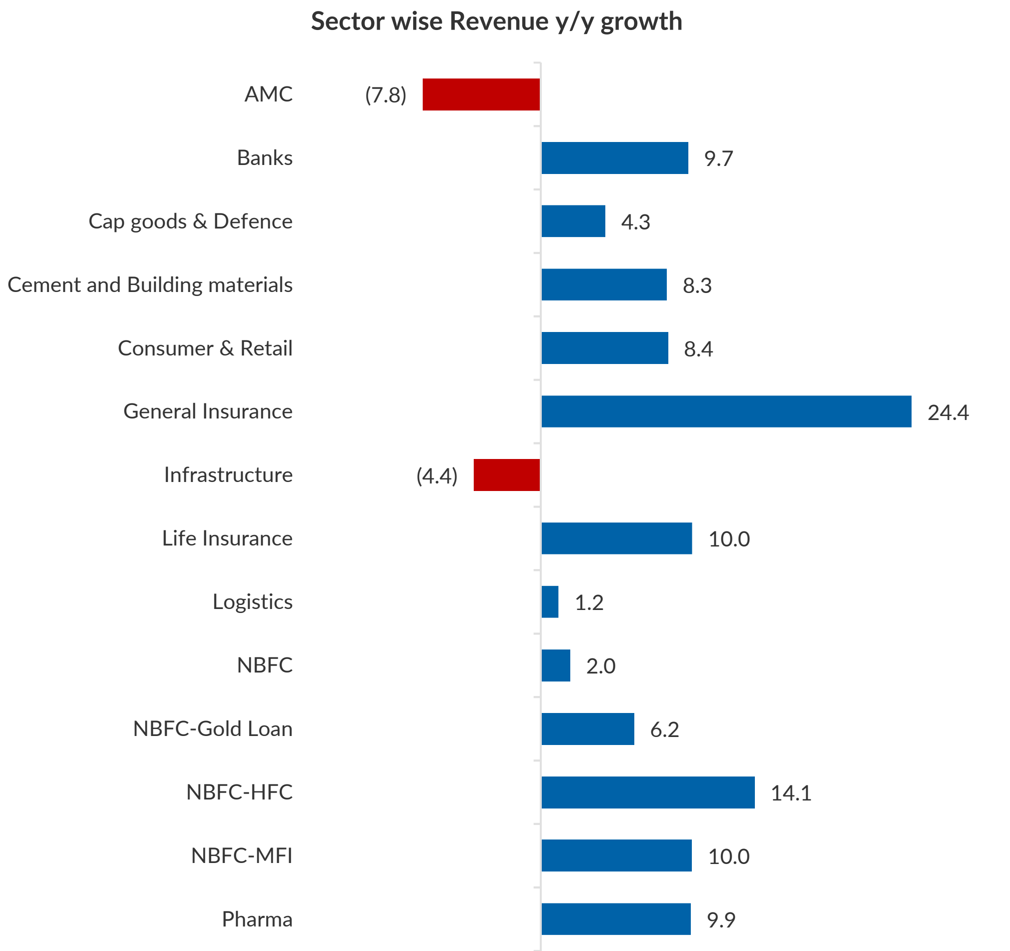


YSEC Universe - PAT y/y Growth (incl. Financials)



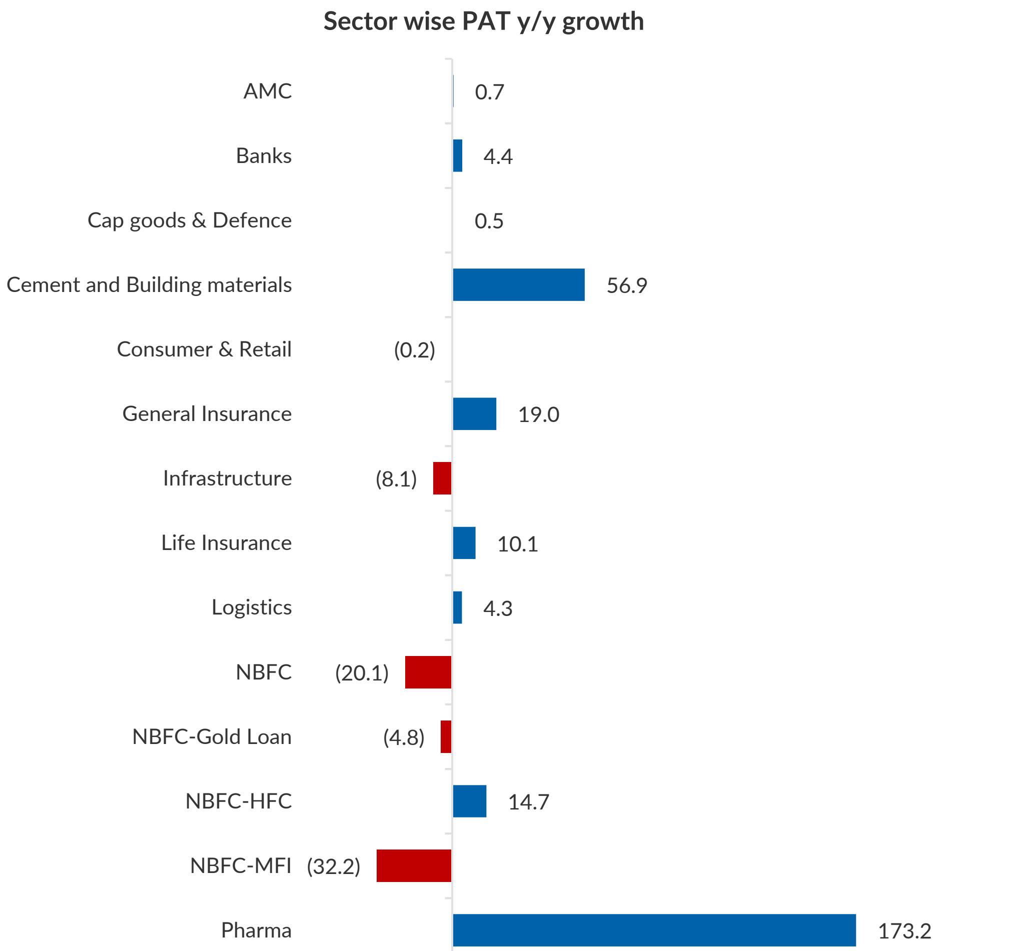
Source: Capitaline, YES Sec – Research; Note: Financials includes Banks, NBFC, HFC, MFI, Gold Loan, Life Insurance, General Insurance & AMC

Exhibit 3: Barring AMC & Infra, Topline growth seen reviving for all other sectors in YSEC Universe



Source: Capitaline, YES Sec – Research; Note: Taken NII for Financials, NBP for Life Insurance, NEP for General Insurance while calculating revenues

Exhibit 4: Strong rebound in Pharma earnings thanks to depressed base in Dr Reddy & Lupin



Source: Capitaline, YES Sec – Research; Note: Taken VNB for Life Insurance while calculating PAT

Capital Goods & Defense

We expect Q3FY21 to be a better quarter as compare to H1FY21, as ordering activity gained traction due to a revival in economic activity. Normalization of supply chain, onsite labour availability, favorable govt. policies & pick up in core sectors like realty are the key driving factors. Overall commentary from management suggests: i) focus on automation/digitalization, i) prudent working capital management, iii) focus on re-working cost structure, and iv) improvement in order pipelines in the domestic and international markets. Early signs for private sector capex recovery are now visible, however we believe it would be more of gradual in nature. We believe automation/digitalization would be the focus area for private capex as companies would look to maximize efficiency (to defer capex). We expect ordering from GoI mainly from railways, metros, highways and water projects. On the export front, healthy ordering is expected from the Middle East/Africa/SAARC. Within our coverage universe, we expect Revenues/EBITDA/PAT growth of (excluding L&T) 5.3%/8.3%/3.5% y/y respectively. L&T, Honeywell Automation, AIA Engineering, Bharat Electronics, Engineers India, Mazagon Dock and GRSE are our top picks in the sector.

There is increasing emphasis on indigenization, driven by the recent slogan "Aatmanirbhar Bharat" (self-dependent India). It will take a multi-pronged approach, encompassing aspects such as duties, procurement, taxes, SMEs, and technology, etc., over longer run to gain share. India is expected to invest significantly for infrastructure creation over the next few years with governments' thrust on domestic manufacturing through 'Make in India' initiative, the companies with focus on domestic market are in a sweet spot compared to export-centric companies. Planned Rs102tn National Infrastructure Pipeline (NIP) for India over FY20-FY25 is a major boost for the sector with focus towards key segments of energy, roads, urban infrastructure, railways and irrigation. The measures announced so far are oriented towards improving the structural growth prospects for the industry and may result in a cyclical uptick in ordering for the capital goods industry. We still await the measures that can address chronic challenges of funding, land acquisition, regulatory clearances and time/cost overruns which would trigger a significant cyclical demand uptick. The companies having healthy balance sheet, strong cash and long-term scalability throughout disruptions will sail through this challenging phase with potential market share gains

Exhibit 5: Capital Goods & Defense - Earnings expectation snapshot

Co. name (Rs mn)	Revenue			EBITDA			PAT			Remarks
	Q3 FY21	y/y (%)	q/q (%)	Q3 FY21	y/y (bps)	q/q (bps)	Q3 FY21	y/y (%)	q/q (%)	
ABB	18,072	(7.5)	12.1	1,344	35.0	(9.5)	965	(28.2)	12.8	Expect margin improvement led by cost control measures. Management's commentary on short cycle order recovery remains a key variable.
AIA Engineering	7,175	3.4	(3.3)	1,652	(187.3)	(260.1)	1,360	(12.9)	(7.9)	Expect Volume growth & Realization decline of 10%/6% respectively
KEC Int.	32,899	7.1	1.0	2,796	(186.4)	(49.7)	1,332	(8.1)	(6.6)	9MFY21 order inflow likely to be at ~Rs58bn (excluding L1 of ~Rs60bn), SAE business expected to report decline in sales growth, margins are likely to be at ~8.5%
Cummins India	12,577	(13.5)	8.4	1,446	(334.4)	(292.9)	1,254	(38.0)	(13.9)	Powergen & Exports sales recovery remain key things to watch out for Q3FY21
Kalpataru Power	20,186	2.0	7.3	2,140	9.0	(13.3)	1,219	7.9	(15.9)	Improvement in execution q/q, while margins expected to remain steady. Debt reduction remains key monitorable.
Larsen & Toubro	375,951	3.7	21.1	42,456	(6.9)	54.8	21,180	(2.0)	91.4	Order inflow likely to be at ~Rs720bn. Core EPC business likely to grow by 8% y/y with marginal decline in EBIT margin.
Thermax	13,122	(6.9)	15.0	919	(102.7)	4.8	662	(22.1)	18.5	Given the declining orderbook, order inflow remains key monitorable.
Honeywell Auto	8,749	(2.9)	15.2	1,750	(92.7)	100.7	1,421	(1.8)	31.5	Cost control measures to support margins
Bharat Dynamics	6,614	30.0	138.9	1,225	802.6	(32.6)	944	77.5	259.5	Execution expected to improve significantly q/q with normalization in operations
Bharat Electron	32,249	42.0	1.1	6,290	388.5	(4.9)	4,159	93.4	4.7	Robust sales growth on a favorable low base of Q3FY20
GRSE	4,170	12.8	53.0	290	-	(530.7)	513	73.9	(12.3)	Execution expected to improve significantly q/q with normalization in operations
Cochin Shipyard	9,268	3.4	41.0	1,828	(241.1)	59.3	1,521	(11.1)	40.4	Key monitorable include new orders in the pipeline
Engineers India	8,461	(5.0)	23.8	1,015	239.2	69.6	1,143	5.2	23.3	Expect sequential ramp up in topline led by both LSTK & PMC segments
Siemens	27,415	2.1	(22.1)	3,140	(119.8)	(141.6)	2,383	(10.4)	(28.5)	Minimal sales growth with ~100bps decline in EBITDA margin on a higher base of Q1SY20. The company's outlook on automation/optimization capex remains key monitorable.

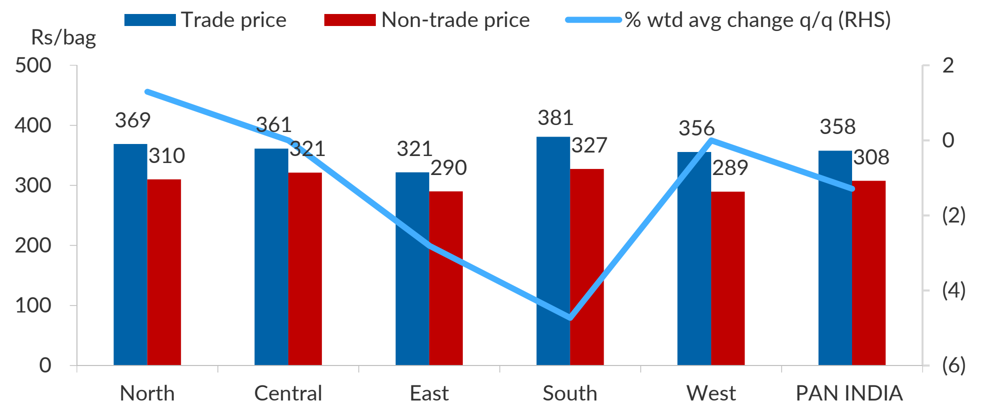
Cement and Building Materials

We expect cement industry growth during Q3FY21E to hover around 4-5% y/y with sustenance of rural demand and distinct pick-up of infrastructure activities in few regions. Although demand witnessed softness during November 2020, it was more of a seasonal phenomenon with very sharp rebound in December 2020. In terms of region specific outlook, we expect East (growth of ~8% y/y) and West markets (growth of 6-7% y/y) to outperform followed by North and Central (growth of 3-5% y/y) while South continues to be in negative territory (de-growth of 3-5% y/y). On the basis of our dealer survey, we estimate PAN India prices (wtd average of trade and nontrade prices) to be down 2% sequentially and up ~2-2.5% on y/y basis. Price drag on q/q basis was primarily led by East and South which witnessed cuts of ~3%/5% respectively while prices were largely flat on sequential basis in North, Central and West.

Overall, total volumes of companies under our coverage universe should witness a growth of 6.8% y/y while the decline in weighted average NSR should hover around 2% sequentially. In terms of cost, we expect clinker production cost/te to start inching up led by 7-10% sequential hike in power and fuel costs. However, due to healthy pricing scenario and lower cost curve compared to last year, we expect EBITDA/te to witness strong improvement of 23.2% y/y while sequential decline should be limited to ~15% q/q for our coverage universe. Weighted average EBITDA/te for coverage universe should stand at Rs 1,116 in Q3FY21E as against Rs 906 in Q3FY20. This would translate into overall EBITDA growth of 32% y/y.

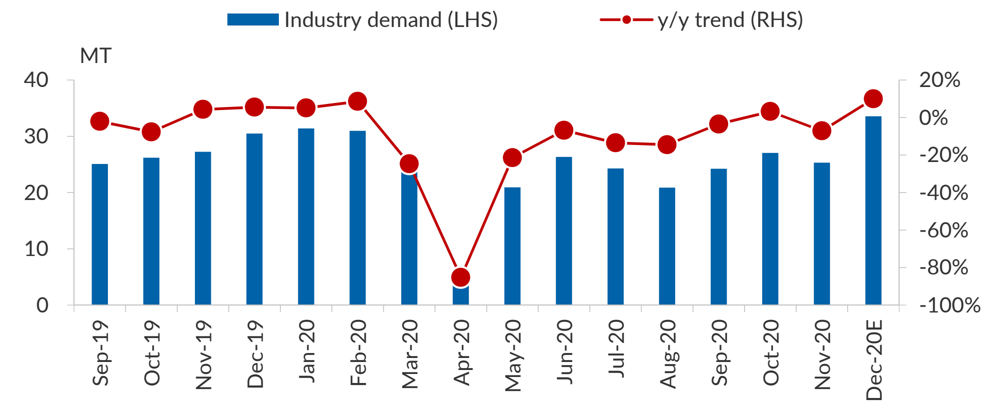
In terms of building material segments, we expect MDF category to showcase extremely strong volume growth of 17-20% y/y led by sturdy rural demand and aggressive product penetration strategies of top MDF companies. We believe laminate industry to achieve normalization during the quarter with flattish growth y/y led by marginal de-growth in domestic markets and outperformance in overseas markets. For the ply industry, we expect volume de-growth in the range of 5-10% y/y.

Exhibit 6: PAN India Wtd. Avg. prices down ~2% sequentially



Source: Companies, YES Sec – Research

Exhibit 7: Demand growth to hover around 4-5% y/y in Q3FY21E



Source: Companies, YES Sec – Research

Exhibit 8: Cement and Building materials - Earnings expectation snapshot

Co. name (Rs mn)	Revenue			EBITDA			PAT			Remarks
	Q3 FY21	y/y (%)	q/q (%)	Q3 FY21	y/y (bps)	q/q (bps)	Q3 FY21	y/y (%)	q/q (%)	
India Cements	12,458	0.1	14.3	2,214	732.4	(450.4)	616	LP	(11.0)	Expect volumes at 2.53 MT; a decline of 5% y/y and pick up of 20% q/q. Despite q/q NSR drop of 4.7%, last year base remains low. Hence y/y NSR improvement is 5.4%. Expect EBITDA/te at Rs 876, an improvement of 79.3% y/y due to low base and healthy pricing scenario
ACC	44,342	9.2	25.4	6,978	241.3	(324.4)	3,795	41.4	4.3	Expect volumes at 8.2 MT; increase of 6% y/y primarily driven by buoyant demand scenario in Eastern markets. Expect pricing decline of 2.5% q/q but improvement of 3% y/y. EBITDA/Te should hover around Rs 816, an improvement of 22% y/y
Ambuja Cements	34,523	10.1	21.0	7,521	433.0	(206.4)	4,601	1.1	4.4	Expect volumes at 7 MT; an increase of of 7.1% y/y. Expect realization decline of 2% q/q but improvement of 2.8% y/y. EBITDA/Te should hover around Rs 1,074, an improvement of 28% y/y
UltraTech Cements	113,698	9.8	9.8	26,108	390.7	(306.5)	11,500	61.5	28.0	Expect volumes at 22.4 MT; a y/y growth of 7% as compared to PAN India industry growth of 4-5% y/y. Expect pricing decline of 1.5% q/q and improvement of 2.5% y/y. Factor in EBITDA/te of Rs 1,167, an improvement of 24% y/y
Dalmia Bharat	26,272	8.7	9.0	6,536	597.8	(425.0)	2,141	792.1	(7.7)	Expect volumes at 5.51 MT; a growth of 8% on y/y basis due to major presence in fast growing eastern market. Expect realization fall of 5% q/q while flattish on y/y basis. EBITDA/Te at Rs 1187, an improvement of 32% y/y and fall of 19% q/q
Birla Corp.	17,665	3.0	6.8	3,555	294.8	(300.9)	1,527	87.4	(8.3)	Expect volumes at 3.53 MT; growth of 3% y/y basis due to healthy demand scenario in North, Central and East markets. Expect pricing cut of 1.5% q/q and flat y/y due to weak pricing scenario in East markets and flattish pricing scenario in North and Central markets. EBITDA/Te at Rs 1,006, healthy improvement of 17.2% y/y while decline of 16.5% q/q
Sanghi Ind.	2,326	24.3	35.4	487	21.1	(13.4)	166	201.8	304.9	Expect volumes at 0.53 MT; growth of 20% y/y led by weak base and buoyant non-trade demand in Gujarat market. Realizations should be up 3.6% y/y and flat q/q. EBITDA/Te at around Rs 923, an improvement of 5% y/y
Sagar Cements	3,612	37.8	13.9	961	1,901.3	(596.0)	428	LP	(10.1)	Expect volumes at 0.85 MT; growth of 12% on y/y basis led by pick-up in govt infra activities especially in Andhra. Despite expected realization fall of 7% sequentially, base remains low translating into y/y improvement of 22% y/y. EBITDA/Te at Rs 1,113 would translate into sharp rise of 328% on y/y basis

Co. name (Rs mn)	Revenue			EBITDA			PAT			Remarks
	Q3 FY21	y/y (%)	q/q (%)	Q3 FY21	y/y (bps)	q/q (bps)	Q3 FY21	y/y (%)	q/q (%)	
Star Cement	4,913	8.9	22.2	1,014	(17.2)	100.7	818	14.9	35.7	Expect volumes at 0.81 MT; growth of 8% y/y due to stable demand scenario in North east market while healthy growth in Eastern market. Realizations expected to be flat on y/y basis but sequential decline of 2% y/y. EBITDA/te at Rs 1247 should be flat on y/y basis
Century Plyboard	5,956	(1.6)	14.1	923	159.6	(108.7)	552	7.2	9.7	Overall revenues should be largely flat on y/y basis with growth driven by MDF segment. Adjusted EBITDA growth should stand at ~10% y/y. Adjusted PAT should grow by 7.2% y/y
Greenpanel Inds.	2,589	9.9	15.1	445	241.7	(339.9)	110	2,100.0	(40.2)	Expect MDF volumes to witness 17% y/y growth while overall revenues should be up by 10% y/y. EBITDA margins should hover around 17% while overall EBITDA should grow by 28% y/y. PAT should stand at Rs 110 mn as against Rs 5 mn same quarter last year
Greenply Inds.	3,149	(9.0)	6.6	362	(0.7)	53.1	209	(2.3)	12.4	Expect India business revenue to decline by 13% y/y while Gabon revenues to grow by 43% y/y. Overall revenues to be down 9% y/y. We reckon overall EBITDA should witness decline of 9% y/y with margins being largely flattish on y/y basis. Net profit should witness a decline of 2.3% y/y
Greenlam Inds.	3,322	(7.2)	14.8	493	(41.1)	84.1	242	(16.8)	30.1	Expect topline to decline by 7.2% y/y. Laminate division should witness flat volume trajectory while veneer and wood flooring division to remain subdued. Expect EBITDA to decline by ~10% y/y as base of last year remains strong due to sturdy margins in laminate division. PAT should witness decline of ~17% on y/y basis

Consumer Staples and Discretionary

We expect overall growth rates to be better than earlier expectations for staples as demand has held up reasonably well even post festive season helped further by cost inflation led increase in realizations in few categories. Margins should be flattish as input cost pressures would be offset by savings on A&P and cost optimization initiatives. We expect 3Q to see double-digit growth for the staples space led by a faster than expected recovery in consumer sentiment, with the gains seen during the festive season expected to hold up well even beyond the festive period. While segments like nutrition, hygiene and packaged foods should continue growing above historical growth rates, even more discretionary categories like skin care, hair care and cosmetics should come close to normalization. A severe winter season is also likely to be a key driver for winter-related products. E-commerce and general trade should continue to be the fastest growing channels with rural markets continuing to grow ahead of urban for another quarter. Some margin pressures can be seen for a few companies given rise in prices of palm oil and HDPE which have been passed on to some extent, while soft dairy and wheat prices should help food companies. Most staples companies should deliver double-digit revenue growth for the quarter with food, health and hygiene categories continuing to outperform.

On the discretionary side, while expectations were to get back to neutral territory, most categories seem to have come back to a positive growth trajectory a quarter earlier than expected. Festive season demand was quite strong as expected, growth seems to have sustained even after the festive period with recovery in sales in metros, sustenance of growth in smaller markets and digital initiatives pursued by most companies. Some categories like jewellery, innerwear, footwear, QSR and paints should see double-digit growth for the quarter, while others like apparel retail, luggage should also get back close to normalcy. An important trend across categories would be the top brands gaining market share form the smaller brands and unorganized players who have weak digital capabilities and weak liquidity and distribution. Another key trend across categories would be a stronger growth in value for money/ mass segments and low-ticket consumption items. Margins are likely to remain resilient despite an increase in discretionary spends with some cost saving initiatives continuing to benefit companies.

Our top picks in the staples space would be HUL, Marico and Emami while in the discretionary space, we continue to like Jubilant Foods, Page Industries, Relaxo and V-Mart. Another space to witness solid growth is the outsourcing/ contract manufacturing space, where we prefer stocks like Dixon Tech, CCL Products and Varun Beverages.

Exhibit 9: Consumer Staples and Discretionary - Earnings expectation snapshot

Co. name (Rs mn)	Revenue			EBITDA			PAT			Remarks
	Q3 FY21	y/y (%)	q/q (%)	Q3 FY21	y/y (bps)	q/q (bps)	Q3 FY21	y/y (%)	q/q (%)	
Aditya Birla Fashion	21,781	(15.0)	113.8	2,396	(496.4)	-	(153)	PL	LL	Expect strong festive recovery to deliver 85% of normal sales, cost controls and low discounting to limit losses
CCL Products	3,269	8.0	1.5	817	(282.4)	93.2	522	11.1	9.9	Expect 8% revenue growth led by Vietnam and Chitoor FDC, margins impacted by high base and MEIS removal despite better mix
Avenue Super.	69,545	3.0	33.3	5,336	(111.1)	144.6	3,670	(6.9)	74.3	Expect growth to return to positive trajectory at 3% with SSG still negative, margins remain impacted due to negative operating leverage and inferior mix
Tata Consumer	28,488	14.3	2.4	4,444	283.8	123.2	2,663	43.6	(10.4)	Expect 20% plus growth in both India tea and foods, 12% in Tetley and flattish in EOC with margins normalizing, losses to continue in Starbucks
Page Industries	8,732	10.0	18.0	1,746	251.0	(234.7)	1,157	33.0	4.3	Expect 10% revenue growth led by athleisure sales, strong festive recovery and better realizations, margins stable around 21%
V-Mart Retail	5,059	(10.0)	188.3	858	(381.6)	1,713.1	414	(28.9)	LP	Expect strong winter and festive sales despite weak footfalls to get revenue to 90% of normal, limited discounting to mitigate EBITDA impact
Nestle India	34,957	11.0	(1.3)	8,390	196.1	(94.8)	5,580	18.1	(5.0)	Revenue momentum to continue driving 11% growth led by Maggi and coffee, margins to remain strong led by RM benefits and cost controls
Dixon Tech.	13,641	37.3	(16.8)	729	16.2	(11.1)	400	52.1	(23.7)	Expect 37% growth led by client additions in mobiles, TVs and washing machines, margins impacted by component pricing and availability issues
Hind. Unilever	116,715	19.0	2.0	29,762	57.1	42.5	21,365	24.6	2.2	Expect 7% organic volume growth ex-GSK led by foods and home care and 19% overall, margins to continue improving led by cost savings
Britannia Inds.	32,511	9.0	(4.9)	5,527	17.0	(275.3)	4,142	12.1	(16.4)	Expect further normalization of growth to 9%, increased spends to normalize margins as well to 17%
ITC	122,779	4.0	9.8	46,656	(107.2)	169.0	37,113	(13.2)	14.8	Expect 4% growth led by 15% growth in FMCG and marginally negative revenue in cigarettes, margins remain impacted by negative operating leverage

Financials

- Sequential loan growth would be strong for most banks/SFBs under coverage due to a) surprisingly strong pick-up in economic activity, b) better-than-expected festive season and c) sharp recovery in demand for all categories of retail loans. Thus, Q3 may not witness any meaningful deceleration in annual loan growth (this will surprise the Street).
- Large private banks are expected to report firm NIM on the back of absorption of BS liquidity, retail-led growth and reduction in deposit cost. Smart recovery in fee income would also continue.
- Our channel checks indicate that both restructuring and NPL spike would be much lower than feared before due to better-than-anticipated bounce trends and encouraging resolutions in collection buckets. Consequently, the large private banks are unlikely to see a material increase in credit cost run-rate. Also, they had created meaningful provisioning buffer in preceding quarters.
- SFBs could report significant AUM expansion in Q3 FY21. However, their earnings performance would be impeded by a likely higher credit cost as they witness relatively larger restructuring and NPL accruals. Further, the had built limited provisioning buffer.
- NBFCs & HFCs in our coverage to report disparate growth trends underpinned by dynamics like portfolio mix, stance on liquidity and growth, vulnerability to competition and required focus on collections/customer engagement.
- BAF should report a heathy portfolio accretion given seasonally robust period for its large consumer finance segment. Diversified and less impacted (from Covid) vehicle financiers like CIFC could report an overall resilient performance.
- Large HFCs like HDFC and LIC HF who are gaining market share will report better disbursement and loan growth. Well-run MFIs such as CREDAG and SPANDANA likely to report robust disbursements and a reasonably large cycle-completing provisions.
- Gold loan companies may witness a modest growth with not much tailwind from gold prices during the quarter and sluggish tonnage trends.

Key things to watch out:

- Monthly collection efficiency trends and gap from pre-COVID levels
- Quantum of restructuring and increase in proforma NPLs (w/o SC dispensation)
- Commentary on sustainability of demand recovery in various retail products and consequent loan growth outlook
- Assessment of improvement in financial health of the self-employed and business class.

Exhibit 10: Private Banks to report strong NII growth

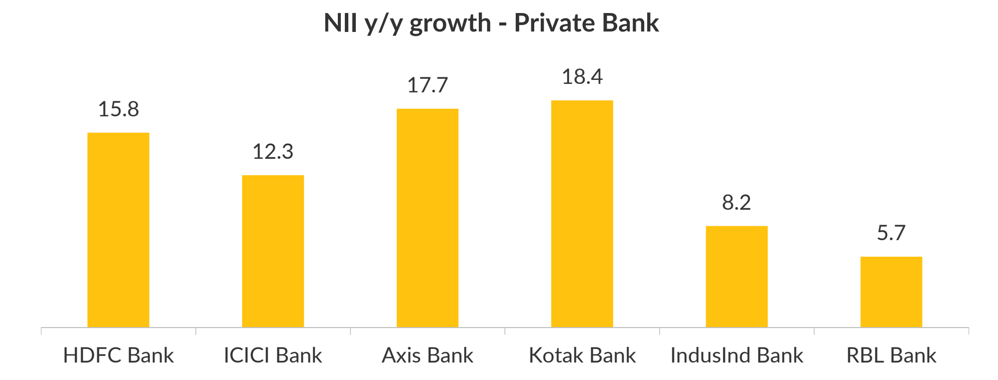


Exhibit 11: Financials - Earnings expectation snapshot

Co. name (Rs mn)	NII			PPOP			PAT			Remarks
	Q3 FY21	y/y (%)	q/q (%)	Q3 FY21	y/y (%)	q/q (%)	Q3 FY21	y/y (%)	q/q (%)	
HDFC Bank	164,065	15.8	4.0	148,435	14.7	7.5	80,300	8.3	6.9	Bank reported 4% q/q loan growth and 3% q/q deposits growth for Q3. Acceleration in retail loan growth and sustained traction in corporate portfolio growth is likely to have driven growth. Stable NIM and provisioning likely. No significant restructuring and NPL spike
ICICI Bank	95,986	12.3	2.5	88,631	17.4	7.3	39,098	(5.7)	(8.0)	Strong growth momentum in retail (led by housing) and SME segments to continue. Stake sale in I-Sec to cushion PPOP. Provisioning could be higher than Q2, but asset quality deterioration to be limited
Axis Bank	75,957	17.7	3.7	68,020	18.4	(1.4)	23,596	34.3	40.2	Retail and SME to lead growth. NIM will be stable. Provisioning to be lower than Q2, given substantial buffer held by the bank.
Kotak Bank	40,597	18.4	3.7	31,985	33.9	(3.0)	17,719	11.0	(18.9)	Mortgages, CV/CE and Agri Finance to drive healthy q/q loan growth. Provisioning to be higher than Q2, but asset quality deterioration to be limited
IndusInd Bank	33,270	8.2	1.5	29,769	7.9	4.4	10,032	(23.4)	51.3	Bank reported 3% q/q loan growth and 5% q/q deposits growth for Q3. Vehicle & CE Finance, Microfinance and BB & LAP likely to have contributed a large part of growth. While elevated, provisioning could be lower than preceding quarters.
RBL Bank	9,756	5.7	4.7	7,594	3.7	5.5	1,430	104.4	(0.8)	Growth to be driven by MFI, Cards and LAP products. Caution in corporate lending to continue. NIM will expand aided by growth mix and a sharp recovery in fee could continue. Provision run-rate could increase, particularly for MFI and Cards portfolio.
St Bk of India	285,884	2.9	1.4	181,042	(0.6)	10.0	53,626	(4.0)	17.2	Housing, Auto, PL and MSME to be large contributors in Q3 growth. NIM will be stable, while swift recovery in fees to continue. Estimate steady provisions as bank does not foresee much restructuring/NPL increase.
AU Small Finance	5,799	14.4	3.4	8,395	168.3	80.0	4,783	151.5	48.6	SBL-MSME, BB, Home Loan and newer products to aid bank in reporting healthy loan growth. Stake sale in Aavas Housing to generate substantial profits which could be partly utilized for making higher provisions

Co. name (Rs mn)	NII			PPOP			PAT			Remarks
	Q3 FY21	y/y (%)	q/q (%)	Q3 FY21	y/y (%)	q/q (%)	Q3 FY21	y/y (%)	q/q (%)	
Equitas SFB	4,784	24.7	3.7	2,242	41.5	2.1	802	(14.7)	(22.1)	SBL, Used Vehicle Finance and MSE Finance to be key growth segments. NIM can expand on decline in CoD. Higher provisions likely given lower buffer and vulnerability of customer segment.
Ujjivan SFB	4,804	12.6	2.2	2,370	64.5	2.1	651	(27.4)	(32.2)	Recovery in MFI lending to lead growth. NIM can expand on decline in CoD. Higher provisions likely given inadequate buffer and crystallization of MFI NPLs
Bajaj Finance	44,894	(0.9)	8.0	31,593	5.3	5.1	12,473	(22.7)	29.3	AUM growth was 5% q/q as reported. Believe consumer finance and mortgages would have driven the growth. NIM could increase with funding cost benefits manifesting. Credit cost will remain elevated.
Chola. Inv & Fin	12,947	19.6	3.5	9,075	37.9	0.9	4,130	6.3	(4.4)	Disbursements to surge with traction in all products barring HCVs. NIM to improve on reduction in funding cost and surplus liquidity. Provisions estimated to be in-lin with Q2 due to stress recognition.
M & M Fin	14,467	5.5	4.0	10,352	16.5	0.4	3,368	(7.8)	11.0	Diversified product portfolio (low share of new CV finance) to help report marginal q/q loan growth despite improvement in collections. NIM to improve on reduction in funding cost and surplus liquidity. Provisions will remain elevated on crystallization of COVID-related stress.
Shriram Trans.	20,545	(5.2)	(1.5)	15,456	(5.2)	(1.9)	6,050	(31.2)	(11.6)	Tepid loan growth to continue with focus on collections. Provisions could be elevated, despite augmented ECL cover, as clarity on stress loans emerges
Can Fin Homes	2,104	18.8	(0.8)	1,821	21.3	(2.7)	1,287	20.7	0.2	While disbursements will recover, BT out will curtail loan portfolio expansion. NIM will remain firm, despite decline in yields, courtesy further reduction in funding cost. Provisions will be lower due to upfront provisions done in H1.
Repco Home Fin	1,413	7.7	1.7	1,164	11.0	0.7	736	5.6	(8.9)	Higher disbursements sequentially could lead to some expansion in loan portfolio. NIM/Spread to improve with reduction in the cost of funds. Credit cost could be higher than usual.
Credit Access Gram.	3,550	15.5	4.6	2,055	2.4	4.4	527	(51.2)	(33.4)	Disbursements to surge in Q3 and be higher y/y, leading to robust portfolio expansion. Large cycle-completing provisions likely, which will suppress earnings

Co. name (Rs mn)	NII			PPOP			PAT			Remarks
	Q3 FY21	y/y (%)	q/q (%)	Q3 FY21	y/y (%)	q/q (%)	Q3 FY21	y/y (%)	q/q (%)	
Spandana	2,678	3.4	5.5	2,168	1.9	4.2	1,060	(15.9)	68.4	Disbursements to be better q/q, driving healthy portfolio growth. Provisions will be under control as sizeable buffer already created in preceding quarters.
Manappuram Fin.	10,112	6.2	1.7	6,517	9.8	(0.1)	3,827	(4.8)	(5.6)	Growth in Gold Loans portfolio to come-off due to stabilization of gold prices and modest tonnage increase. Focus on collections to restrict growth of MFI and CV portfolios. Asset quality challenges in these portfolios to underpin increase in provisions.

Non-Lending Financials

AMC Industry Overview

- ✓ Industry QAUM is expected to grow by 10-11% on y/y basis driven by healthy inflows in Debt schemes accompanied with strong equity market movement.
- ✓ Share of Equity AUM to decline on y/y basis, which will impact the yield, however the same is expected to see some improvement on sequential basis.
- ✓ Profitability is seeing improvement on the back of operating leverage benefits coupled with structural cost changes implemented in the past couple of quarters such as lower rentals and cut in operating costs led by lower travelling and adoption of work from home culture.
- ✓ CAMS which is a direct play on the AMC's AUM is likely to report healthy performance on a sequential basis. We maintain that NAM India and CAMS are our top picks in this space.

Exhibit 12: AMC - Earnings expectation snapshot

Rs mn	Revenue			EBITDA Margin			PAT			Remarks
	Q3 FY21	y/y (%)	q/q (%)	Q3 FY21	y/y (bps)	q/q (bps)	Q3 FY21	y/y (%)	q/q (%)	
HDFC AMC	4,839	(7.8)	6.1	80.7	192	63	3,419	(3.0)	1.1	QAUM to grow by 2% y/y with mix shifting towards Debt funds, Share of equity AUM to improve sequentially on back of strong market performance, Unfavorable product mix to lead to fall in yields y/y, EBITDA margin expansion of 192bps driven by operating leverage
Nippon Life Ind.	2,796	(7.8)	8.1	54.7	613	196	1,636	9.6	12.7	QAUM to grow by 4% y/y with product mix shifting towards Debt funds. Increased share of Debt and Equity to be offset by lower share of Liquid funds on sequential basis, yields to contract by 7bps driven by unfavorable product mix, EBITDA to grow by 4% with operating leverage in play
UTI AMC	2,135		7.1	38.2		280	1,249		5.3	QAUM to grow by 6% q/q with product mix shifting towards Equity and Debt funds, Revenue expected to grow by 7% on q/q basis driven by AUM growth, EBITDA to grow by 16% with operating leverage in play.
CAMS	1,817		6.2	42.9		(25)	539		10.1	Revenue expected to grow by 6% q/q on back of 5% growth AUM serviced and favourable AUM mix with 92bps increase in share of Equity AUM, EBITDA to grow by 6% with EBITDA margin to contract by 25bps on back of increase in Paperbased transactions, PAT to grow by 10% on back of higher other income on q/q basis driven by positive market movement

LIFE INSURANCE SECTOR

- ✓ Premium growth is likely to be muted for the industry during the quarter led by slowdown in protection business and y/y decline in ULIP (sequential recovery is healthy). Non-par demand continues to be strong but insurers have been reluctant to sell this product aggressively. ICICI Pru Life could see some traction in the segment.
- ✓ Credit protect momentum has been strong in this quarter on the back of recovery in retail lending. SBI Life will have the biggest advantage in this segment.
- ✓ VNB Margin improvement on y/y basis is likely to be strong given that the share of protection and non-par remains higher on y/y basis for most insurers. Sequentially though we expect some moderation given the rising share of ULIPs and controlled selling of non-par products.
- ✓ In terms of costs, the declining trend should continue given the control on rental and operating costs. However, stronger performance of agency channel in the quarter could lead to slightly higher costs sequentially.
- ✓ ICICI Pru Life is our top pick in the space given that it will be back to growth ways from January 2021. We expect its valuation gap to narrow down with the leader.

Exhibit 13: Life Insurance Sector - Earnings expectation snapshot

Rs mn	NBP			APE			VNB Margins			Remarks
	Q3 FY21	y/y (%)	q/q (%)	Q3 FY21	y/y (%)	q/q (%)	Q3 FY21	y/y (bps)	q/q (bps)	
HDFC Life Insurance	51,886	21.5	(12.2)	20,163	10.2	(5.5)	26.1	154	50	APE growth of 10% led by growth in protection segment, 150bps VNB Margin expansion owing to favorable product mix
SBI Life Insurance	53,428	7.4	(10.1)	28,407	(16.0)	4.8	20.7	233	74	APE decline of 16% led by y/y weakness in credit protect business, VNB Margin y/y & q/q expansion driven higher share retain protection
ICICI Pru Life	29,186	(3.4)	(1.3)	17,150	(15.8)	17.1	26.9	604	(43)	APE fall of 16% driven by decline in ULIPs but offset by growth in protection, VNB Margin y/y & q/q expansion driven higher share of protection
Max Financial	15,821	12.7	(0.8)	11,119	10.1	(3.6)	27.4	641	(77)	APE growth of 10% y/y led by strong growth in protection & non-par, VNB Margin q/q expansion led by improved margins for protection

GENERAL INSURANCE SECTOR

- ✓ Growth in general insurance industry has been muted in the first two months of Q3 FY21. While the retail health, motor segment and fire insurance have done well. Other segments have witnessed some pressure.
- ✓ Claim ratios in motor and health segments are likely to increase substantially on a sequential basis driven by higher number of vehicles plying on the street and rising number of elective surgeries in hospitals.
- ✓ Expense ratios are likely to be under control given that structural changes have been seen over the past couple of quarters.
- ✓ ICICI Lombard, while the current valuations are rich, its long term potential of delivering industry beating premium growth, reduction in combined ratios below 100% over the next couple of years and healthy RoEs of 17-19% qualifies it to be a portfolio stock.

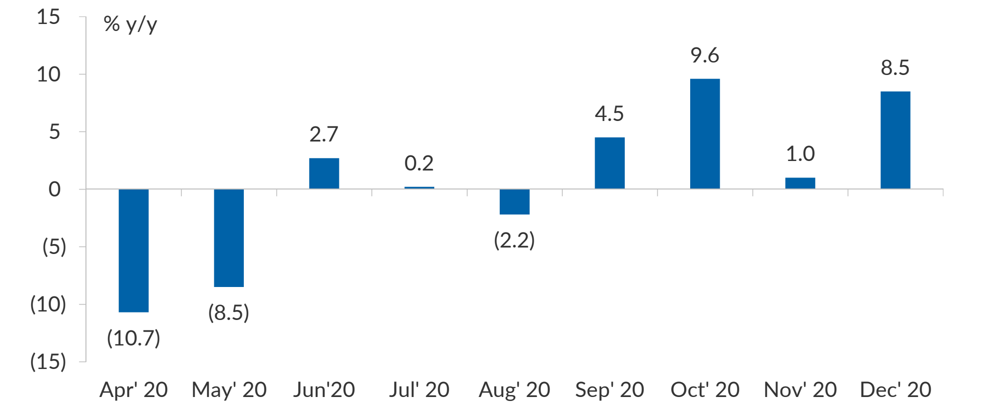
Exhibit 14: General Insurance Sector - Earnings expectation snapshot

Rs mn	NEP			Underwriting Profit			PAT			Remarks
	Q3 FY21	y/y (%)	q/q (%)	Q3 FY21	y/y (bps)	q/q (bps)	Q3 FY21	y/y (%)	q/q (%)	
ICICI Lombard	30,564	24.4	24.1	(45)	(220)	(34)	3,500	19.0	(15.8)	Strong 7% growth in GWP led by growth across all segments except Marine, PA and crop, Combined ratios to be higher by 100bps driven by higher commission expenses

Healthcare

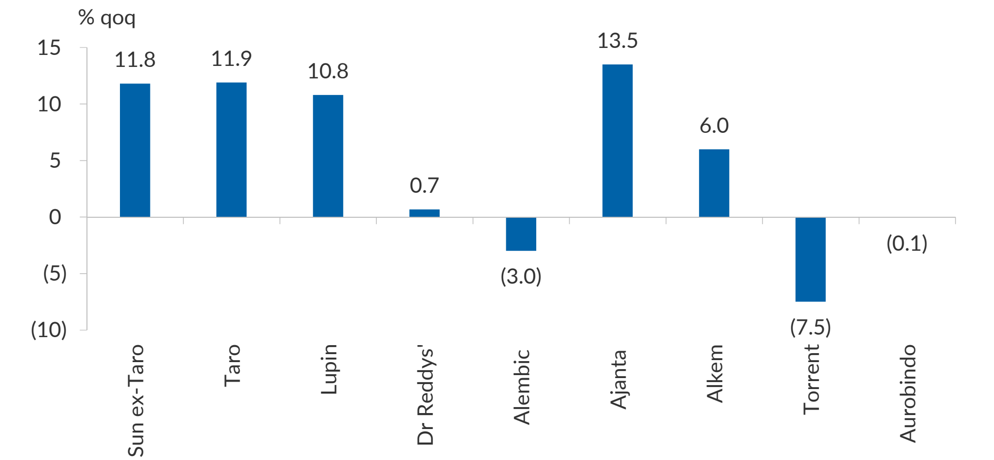
Q3 FY21 would build upon the recovery seen in previous quarter as our previewed companies would clock a combined ~10% rise in revenues while margins would stay firm y/y pretty much across the board with 26% jump in EBIDTA. US performance would continue to be strong for DRL on back of few good approvals in Oct-Nov while Lupin would benefit from Tamiflu and Albuterol opportunities. Sun specialty portfolio would maintain growth on a low base even as we built in fuller recovery in Taro. Aurobindo US sales exclude 1 month of Natrol upon completion of transaction in Nov. Domestic business would chug along at 5-6% run rate for larger players while select ones like Torrent would enjoy faster growth due to cardiac and vitamins heavy portfolio. US sales for Alkem, Ajanta to sustain at 15-18% y/y on back of approvals and small base. We presume sartans led growth would also persist for Alembic Pharma. Key positive/negative surprises - expect positive surprise in DRL if US business logs strong growth while negative surprise can lurk in Lupin if Albuterol sales lag expectation.

Exhibit 15: IPM Q3 growth better than Q2 per AIOCD data



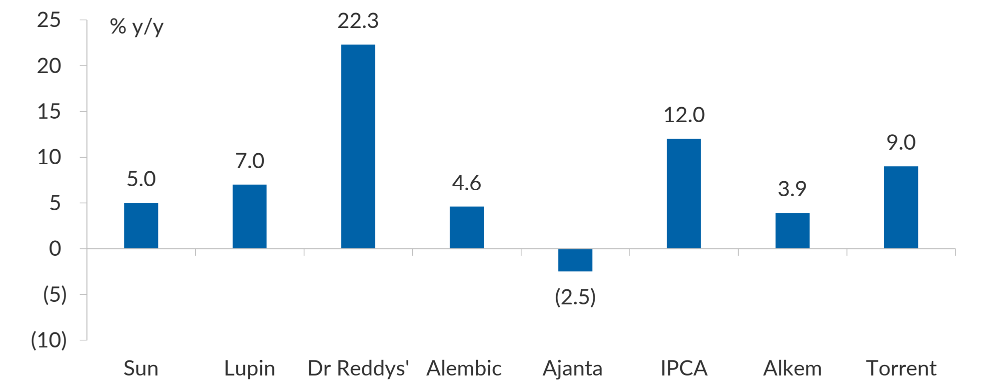
Source: Companies, YES Sec – Research

Exhibit 16: Trend in US growth across players



Source: Companies, YES Sec – Research

Exhibit 17: Domestic growth forecast across previewed cos



Source: Companies, YES Sec – Research

Exhibit 18: Healthcare - Earnings expectation snapshot

Co. name (Rs mn)	Revenue			EBITDA			PAT			Remarks
	Q3 FY21	y/y (%)	q/q (%)	Q3 FY21	y/y (bps)	q/q (bps)	Q3 FY21	y/y (%)	q/q (%)	
Alkem Lab	23,337	7.0	(1.2)	5,134	122.5	(341.4)	3,501	(10.2)	(27.3)	Seasonally weak domestic quarter after strong Q2; US growth to be aided by notable approvals like Ranexa, Tacrolimus and Metoprolol Succinate; margins to come off from elevated level in Q2
Alembic Pharma	14,237	17.7	(2.3)	3,877	35.1	(319.8)	2,782	63.5	(16.6)	US sales to come off marginally while domestic growth seen at 5-6% y/y; strength seen in API and ROW sales
Apollo Hospitals	28,250	(3.0)	2.3	3,740	(152.8)	237.8	575	(36.1)	(2.5)	Improved traction q/q as reflected in better revenues q/q; extent of cost savings can spring a surprise on EBIDTA and result in large PAT swing
Aurobindo Pharma	66,589	13.0	2.7	14,413	274.7	(45.5)	8,865	43.1	10.0	US sales include 2 months of Natrol coupled with few launches on back of several approvals in Q3; Europe includes 12% currency benefit y/y
Cipla	49,850	14.0	(1.1)	10,430	357.4	(243.0)	6,120	74.3	(8.0)	Sequential moderation in revenues after strong Q2; Albuterol sales trajectory would be key to US growth
Divi's Lab	17,115	22.6	(2.2)	6,705	380.3	(319.2)	4,701	30.9	(9.5)	Revenues would sustain at elevated level though some pullback in margin expected due to expansion in custom synthesis capacity in lieu of fast track order execution
Dr Reddy's Labs	51,218	16.5	4.3	12,993	191.5	23.7	7,297	LP	(5.5)	Febuoxstat, niche injectables like Carmustine and several approvals in Oct should assist US growth y/y; Adding Wockhardt sales and 6% growth organic basis y/y to domestic sales
Ipca Labs	12,590	3.8	(7.5)	2,930	70.8	(318.5)	2,072	4.9	(22.3)	Expect revenue decline q/q along with margin moderation to 23% from 26% in Q2 as domestic costs continue to revive
Lupin	40,767	8.2	6.3	7,135	611.8	234.8	2,909	LP	37.8	ProAir, Tamiflu and Levo will be key drivers of US growth; Europe momentum should sustain on back of Enbrel launch in France
Sun Pharma Inds.	87,821	7.7	2.7	22,854	444.6	(98.0)	14,315	56.7	(21.0)	Continued rebound in Taro sales and specialty portfolio growth to drive 12% q/q rise in US sales; tax payout vs tax credit in Q2 would lead to lower PAT q/q.
Syngene Intl.	6,050	16.6	16.4	1,845	294.7	184.3	980	6.5	16.5	A stronger H2 awaits Syngene as we bake in 16% y/y growth along with improved margin on back of operating leverage. Commentary on Mangalore ramp up will be eyed
Torrent Pharma	19,943	1.4	(1.1)	6,014	269.2	(132.4)	2,757	9.8	(11.1)	US sales to decline on lack of fresh approvals; Domestic revenue growth seen at 9% y/y while Brazil constant currency growth to be eroded by 20% Real depreciation
Ajanta Pharma	6,837	5.0	(4.5)	2,119	776.0	(731.1)	1,436	33.5	(15.7)	US to continue on strong growth trajectory while India to remain under pressure; margins seen at 31% after strong show in H1

Infrastructure

The infrastructure companies are poised to witness decent improvement in execution in Q3 FY21 with most monsoon impact receding and labor availability at maximum levels. The order flows from Government authorities continued to be robust through Q3 FY21 and most companies are sitting on all time high order books. Execution to some extent would also be supported by contribution from the recently won projects. The pick-up in toll traffic (with opening up of economy) would also lead to strong toll revenues for Companies in that segment. The operating margins are likely to move to normalized levels for most of the Companies with execution picking up.

Exhibit 19: Infrastructure - Earnings expectation snapshot

Co. name (Rs mn)	Revenue			EBITDA			PAT			Remarks
	Q3 FY21	y/y (%)	q/q (%)	Q3 FY21	y/y (bps)	q/q (bps)	Q3 FY21	y/y (%)	q/q (%)	
PNC Infratech	12,302	1.0	16.8	1,655	(60.0)	(3.2)	893	15.8	28.9	Post monsoon execution to pickup; Order book robust
KNR Construct.	6,137	10.0	2.1	1,225	(233.3)	(66.9)	573	22.1	(6.2)	Improved labor availaibility to support execution. Strong order book to support
Capacit'e Infra.	3,240	(20.0)	78.7	583	15.8	(353.5)	188	(20.0)	311.9	Labor availaibility improving; Decent execution expected with new projects starting
HG Infra Engg.	5,902	3.0	26.3	944	61.5	(46.0)	469	12.9	43.5	Post monsoon execution to pickup; Order book robust
Dilip Buildcon	20,930	(12.1)	8.7	3,349	(164.3)	10.6	666	(47.6)	40.9	Improved labor availaibility to support execution. Strong order book to support
PSP Projects	3,977	(6.0)	63.6	418	(229.6)	41.7	268	(27.3)	85.9	Post monsoon execution to pickup; Order book robust
JMC Projects	8,823	(5.0)	9.8	838	(159.4)	42.2	189	(51.1)	164.5	Well diversified order book. Execution to pick up post monsoon
Apar Inds.	17,498	(4.7)	18.2	1,242	39.8	(94.3)	540	47.3	1.0	Conductor and Oil segment volumes to recover with better offtake post lockdown
Sterlite Tech.	12,267	2.0	5.8	2,085	(307.4)	(45.8)	635	20.7	8.6	Inline with guidance. Offtake to improve

Logistics

The demand for logistics gathered pace in Q3 driven by healthy festive demand and some pent-up demand (post lockdown). E-way bill data suggests sharp uptick in October activity followed by stabilization in November. The strong growth in the E-commerce segment likely continued during the quarter. With better driver and truck availability, the freight rates which spiked during lockdown have now stabilized but continue to be on higher side primarily due to elevated fuel cost. Overall, we expect decent revenues driven by pent up demand and festive season support. Margins are likely to remain under check with increase in diesel costs which transporters were not able to completely pass on.

Exhibit 20: Logistics - Earnings expectation snapshot

Co. name (Rs mn)	Revenue			EBITDA			PAT			Remarks
	Q3 FY21	y/y (%)	q/q (%)	Q3 FY21	y/y (bps)	q/q (bps)	Q3 FY21	y/y (%)	q/q (%)	
TCI Express	2,818	5.0	32.3	370	36.0	(214.9)	270	5.6	14.7	Express business to recover fast as truck/driver availability at almost pre-COVID levels
Transport Corp.	6,681	(5.4)	(4.1)	581	(48.7)	(24.0)	334	(2.8)	(10.4)	Some of Pent up demand seen in Q2 would stabilize.
Mahindra Logistics	9,023	(0.6)	8.4	393	(32.2)	(13.2)	149	(4.3)	(0.7)	Improvement in Auto demand (Key client) to support performance
Container Corp.	14,393	(6.8)	8.5	1,737	(1,228.4)	204.0	799	(55.5)	37.6	Improving freight movement to drive volumes.
Blue Dart Express	8,836	3.0	2.0	1,746	321.2	(661.4)	292	LP	(30.9)	Pick up in freight volumes to support growth; Margins to stabilize
Adani Ports	35,364	6.0	21.8	22,987	(355.5)	124.3	14,581	7.8	5.1	Pick up in Cargo volumes to support growth

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