

Q3FY15 Results Review



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Disappointment continues

Key highlights

- INSPL universe aggregate sales growth was flat YoY (-0.10%) v/s our expectation of 2.3% growth. Oil & Gas sector was the biggest laggard which dragged overall aggregate numbers.
- Excluding oil & Gas & Financials the sales growth for the quarter gone by was 7.6 % YoY in line with our expectation.
- Banking & financials performed well on top line recording growth of 11.6% YoY.
- However OIL & Gas witnessed severe decline in revenues due to steep fall in crude prices. The sector witnessed decline of 19% YoY in revenues for the quarter.
- In terms of EBITDA the overall disappointment remained. Against our expectation of growth of ~6% in EBITDA on aggregate basis for INSPL Universe, the reported EBITDA actually witnessed de-growth of ~0.3% YoY.
- On back of stable NIMs, higher treasury & other income banks/financials witnessed 17% YoY growth in pre provisioning profit.
- Falling top line coupled with higher E&P expenses, increased staff expenses & other expenditure, lower refining margins etc resulted in steep decline of 29% in EBITDA of Oil & Gas sector companies under our coverage.
- On adjusted PAT level the picture was no different. Our universe's adjusted PAT for the quarter was down by ~6.3% v/s our expectation of growth of 5%.

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- Banks acted smartly in using high gains from treasury for making higher provisions. Although the provisions on aggregate basis have gone up but the PAT was not disturbed too much as higher investment income provided cushion.
- Government accorded yet another blow to upstream oil companies by asking them to share under recoveries to the extent of ~70% v/s our expectation of 50% & normal rate of 33-40%. Contrary to the talks of no subsidy sharing by upstream companies for H2FY15 in view of steep fall in crude prices the govt actually asked them to pay more than normal. Consequently INSPL Oil & Gas universe witnessed 41% fall (YoY) in adjusted net profit.
- Financials, Cement & IT were the best performers amongst INSPL universe in terms of revenue growth while Oil/Gas & Capital Goods were worst performers.
- On EBITDA front Financials, FMCG & telecom were 3 fastest growing sectors in that order while the 2 laggards here were Oil/Gas & Capital goods.
- Similarly on adjusted PAT basis Telecom, Cement & Financials were top 3 while the bottom 3 was Cap Goods, Oil/Gas & Autos.

Post the Q3FY15 results rating & target price revisions are as follows:

	Rating	Target
Upgrade	23	35
Downgrade	5	8
No Change	75	60

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- Pharma & Financials have seen maximum upgrades in target price mainly due to roll over of valuation multiples to FY17E.

Conclusion:

Overall Q3FY15 results were disappointing on all parameter with major blow coming from oil/gas sector. Now that 9 months of current fiscal are over, it is clear that full year consensus earnings estimates for Sensex/Nifty are bound to be down-graded. Currently we do not have our own estimates for these. As of now street is still bullish on FY16 & FY17. In our opinion the expected growth in earnings for FY16 & FY17 is too high & there is a high risk of missing the expectation. Union Budget on Feb 28, 2015 may provide further direction on whether the estimates will be cut or not. We believe corporate earnings will catch up only if some impetus is provided to macro level growth leading to revival in revenue growth. Unless the finance Minister comes out with some kind of transformational ideas in budget to revive capex cycle & growth, corporate earnings are likely to remain depressed. Global uncertainty from Euro region & confused macro-economic policy of US FED may also spook markets in near term. While we remain invested in markets, we are cautious of stretched valuations. We stick to stock specific approach.

INSPL UNIVERSE Q3FY15 PERFORMANCE

Auto

Sr No	Rs Mn	Net Sales			EBITDA			Adjusted Net Profit			Hit / Miss	Target Price (Rs)		Rating	
		Actual	INSPL Estimates	Variance (%)	Actual	INSPL Estimates	Variance (%)	Actual	INSPL Estimates	Variance (%)		Before	After	Before	After
1	Bajaj Auto	55,200	54,820	0.7	12,268	10,503	16.8	8,612	7,982	7.9	↑	2,840	2,840	BUY	BUY
2	Exide Ind	15,579	15,600	-0.1	1,802	2,052	-12.2	972	1,203	-19.2	↓	242	242	BUY	BUY
3	Hero Moto	67,925	67,097	1.2	8,218	9,482	-13.3	5,830	7,164	-18.6	↓	3,157	2,840	HOLD	HOLD
4	Lumax Auto	2,093	2,045	2.4	177	179	-1.0	83	85	-2.9	↔	575	575	BUY	BUY
5	M&M*	94,659	93,550	1.2	9,942	10,684	-6.9	6,428	6,608	-2.7	↔	1,212	1,212	HOLD	HOLD
6	Maruti Suzuki	1,22,631	1,21,142	1.2	15,926	15,642	1.8	8,022	8,364	-4.1	↔	2,840	3,218	SELL	SELL
7	SKF India	6,154	6,356	-3.2	526	877	-40.0	409	623	-34.4	↓	1,076	1,076	HOLD	HOLD
8	Tata Motors*	6,91,216	6,68,367	3.4	1,00,537	1,10,066	-8.7	40,338	49,746	-18.9	↓	-	-	NR	NR
9	TVS Motor	26,529	24,906	6.5	1,602	1,597	0.3	902	929	-2.9	↔	158	158	SELL	SELL
	Total	10,81,988	10,53,883	2.7	1,50,999	1,61,082	-6.3	71,595	82,704	-13.4					

*Bloomberg Est.

BFSI

Sr No	Rs Mn	NII			PPP			Adjusted Net Profit			Hit / Miss	Target Price (Rs)		Rating	
		Actual	INSPL Estimates	Variance (%)	Actual	INSPL Estimates	Variance (%)	Actual	INSPL Estimates	Variance (%)		Before	After	Before	After
1	Allahabad Bank	16,071	15,516	3.6	10,747	11,703	-8.2	1,641	1,903	-13.8	↔	87	91	Sell	Hold
2	Axis Bank	35,896	35,985	-0.2	33,146	32,673	1.4	18,998	18,233	4.2	↑	450	600	Hold	Buy
3	Bank of Baroda	32,861	34,559	-4.9	23,390	24,611	-5.0	7,473	12,356	-39.5	↓	258	247	Buy	Buy
4	Canara Bank	23,805	24,144	-1.4	17,973	17,945	0.2	6,560	7,305	-10.2	↔	UR	420	UR	Hold
5	Corporation Bank	10,290	10,375	-0.8	7,265	7,930	-8.4	1,472	1,990	-26.0	↓	NR	NR	NR	NR
6	DCB Bank	1,219	1,223	-0.3	684	668	2.4	425	444	-4.3	↑	UR	120	Hold	Hold
7	Federal Bank	5,872	6,274	-6.4	3,974	4,187	-5.1	2,647	2,482	6.6	↔	175	175	Buy	Buy
8	HDFC Bank	56,999	57,740	-1.3	47,786	43,267	10.4	27,945	25,631	9.0	↑	997	1,264	Hold	Buy
9	ICICI Bank	48,117	48,835	-1.5	50,370	48,292	4.3	28,890	28,439	1.6	↔	380	440	Hold	Buy
10	Karur Vysya Bank	3,911	3,662	6.8	2,627	2,237	17.4	1,139	1,056	7.8	↑	633	672	Buy	Buy
11	PNB	42,331	44,102	-4.0	27,507	27,497	0.0	7,746	7,594	2.0	↔	165	173	Sell	Hold
12	SBI	1,37,766	1,37,051	0.5	92,945	87,031	6.8	29,101	31,264	-6.9	↑	396	396	Buy	Buy
13	Bajaj Finance	8,240	7,464	10.4	5,009	4,758	5.3	2,584	2,444	5.7	↑	3,418	5,500	Hold	Buy
14	CARE Ratings	624	637	-2.0	384	410	-6.2	278	307	-9.3	↔	1,551	1,800	Hold	Buy
15	Capital First	1,723	1,394	23.6	736	630	16.9	314	264	18.8	↑	400	460	Hold	Buy
16	L&T Finance	6,770	6,192	9.3	4,918	4,068	20.9	1,810	1,625	11.4	↑	80	84	Buy	Buy
17	LIC Housing Finance	5,486	5,376	2.0	5,283	5,160	2.4	3,444	3,311	4.0	↑	485	551	Hold	Buy
18	Max India	34,830	33,604	3.6	1,050	1,711	-38.6	470	1,027	-54.2	↓	518	NR	Hold	Exit
	Total	4,72,811	4,74,133	-0.3	3,35,795	3,24,778	3.4	1,42,935	1,47,676	-3.2					

↑ Hit | ↓ Miss | ↔ Neutral

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Capital Goods

Sr No	Rs Mn	Net Sales			EBITDA			Adjusted Net Profit			Hit / Miss	Target Price (Rs)		Rating	
		Actual	INSPL Estimates	Variance (%)	Actual	INSPL Estimates	Variance (%)	Actual	INSPL Estimates	Variance (%)		Before	After	Before	After
1	BHEL	61,980	73,128	-15.2	2,938	6,400	-54.1	2,126	4,256	-50.0	↓	NR	245	NR	HOLD
2	Crompton Greaves	33,332	35,810	-6.9	1,518	2,181	-30.4	2,742	973	181.8	↓	NR	210	NR	BUY
3	Alstom T&D	7,661	9,690	-20.9	405	1,026	-60.5	26	393	-93.4	↓	444	485	HOLD	HOLD
4	Kalpataru Power	11,471	11,876	-3.4	1,118	1,139	-1.8	410	445	-7.9	↑	332	332	BUY	BUY
5	BGR Energy Systems	9,886	6,683	47.9	772	706	9.3	145	88	64.8	↓	172	172	HOLD	HOLD
6	Greaves Cotton	4,300	4,556	-5.6	504	581	-13.3	424	282	50.4	↓	NR	105	NR	SELL
7	Voltas	9,511	10,096	-5.8	574	818	-29.8	617	555	11.2	↓	NR	277	NR	HOLD
8	Engineers India	3,983	4,130	-3.6	358	449	-20.3	599	881	-32.0	↓	280	280	BUY	BUY
9	ABB	22,384	21,973	1.9	1,800	1,470	22.4	842	592	42.2	↑	NR	NR	NR	NR
10	Siemens	21,860	23,225	-5.9	1,890	1,469	28.7	1,061	656	61.7	↑	NR	NR	NR	NR
Total		1,86,368	2,01,167	-7.4	11,877	16,239	-26.9	8,992	9,121	-1.4					

Cement

Sr No	Rs Mn	Net Sales			EBITDA			Adjusted Net Profit			Hit / Miss	Target Price (Rs)		Rating	
		Actual	INSPL Estimates	Variance (%)	Actual	INSPL Estimates	Variance (%)	Actual	INSPL Estimates	Variance (%)		Before	After	Before	After
1	Ultratech Cement	56,014	57,599	-2.8	9,573	9,619	-0.5	3,644	4,550	-19.9	↑	3,029	3,029	HOLD	HOLD
2	ACC	28,370	30,436	-6.8	2,570	4,261	-39.7	3,262	2,283	42.9	↓	NR	1,556	NR	HOLD
3	Ambuja Cement	23,790	24,278	-2.0	3,324	4,346	-23.5	3,286	2,719	20.8	↓	NR	266	NR	HOLD
4	Mangalam Cement	2,076	2,068	0.4	37	220	-83.2	-24	47	-151.1	↓	426	426	BUY	BUY
5	Prism Cement	13,284	13,060	1.7	272	884	-69.2	-407	-114	257.0	↓	103	103	HOLD	HOLD
Total		1,23,534	1,27,441	-3.1	15,776	19,330	-18.4	9,761	9,485	2.9					

↑ Hit | ↓ Miss | ↔ Neutral

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FMCG

Sr No	Rs Mn	Net Sales			EBITDA			Adjusted Net Profit			Hit / Miss	Target Price (Rs)		Rating	
		Actual	INSPL Estimates	Variance (%)	Actual	INSPL Estimates	Variance (%)	Actual	INSPL Estimates	Variance (%)		Before	After	Before	After
1	Marico	14,489	14,805	-2.1	2,334	2,295	1.7	1,599	1,496	6.8	↑	355	355	355	HOLD
2	GCPL*	22,258	22,047	1.0	3,885	3,686	5.4	2,651	2,468	7.4	↑	UR	UR	NR	NR
3	Dabur India*	20,736	21,450	-3.3	3,519	3,529	-0.3	2,828	2,843	-0.5	↔	244	244	244	HOLD
4	BCL*	2,054	1,862	10.3	601	527	14.0	418	380	10.0	↑	317	427	HOLD	HOLD
5	TGBL*	21,439	21,120	1.5	1,992	2,070	-3.8	842	1,188	-29.1	↔	180	180	BUY	BUY
6	Radico*	4,125	4,161	-0.9	460	563	-18.3	213	220	-3.2	↔	165	165	BUY	BUY
Total		85,101	85,446	-0.4	12,791	12,670	1.0	8,550	8,595	-0.5					

*Bloomberg Est.

INFORMATION TECHNOLOGY (IT)

Sr No	Rs Mn	Net Sales			EBITDA			Adjusted Net Profit			Hit / Miss	Target Price (Rs)		Rating	
		Actual	INSPL Estimates	Variance (%)	Actual	INSPL Estimates	Variance (%)	Actual	INSPL Estimates	Variance (%)		Before	After	Before	After
1	Infosys	1,37,960	1,37,821	0.1	39,540	39,003	1.4	32,500	32,388	0.3	↔	1,976	2,377	HOLD	HOLD
2	TCS	2,45,010	2,46,600	-0.6	70,861	71,021	-0.2	54,441	55,485	-1.9	↔	2,609	2,666	HOLD	HOLD
3	Wipro	1,20,850	1,20,934	-0.1	27,681	27,471	0.8	21,930	21,357	2.7	↔	611	Neutral	HOLD	HOLD
4	HCL Technologies	92,830	88,739	4.6	23,190	22,096	5.0	19,160	18,017	6.3	↑	1,697	1,954	HOLD	HOLD
5	Tech Mahindra	57,520	56,976	1.0	11,601	11,395	1.8	7,769	7,806	-0.5	↔	2,629	2,996	HOLD	HOLD
6	NIIT Technologies	5,950	5,985	-0.6	862	898	-4.0	480	419	14.6	↑	326	326	SELL	326
7	KPIT Cummins	7,800	7,950	-1.9	1,085	1,105	-1.8	653	747	-12.6	↔	190	178	BUY	HOLD
8	Mastek	2,666	2,647	0.7	281	265	6.0	87	106	-17.9	↔	550	554	BUY	BUY
9	NIIT Ltd	2,482	2,348	5.7	57	169	-66.3	19	94	-79.8	↓	55	37	HOLD	SELL
10	SQS India BFSI	538	608	-11.5	103	127	-18.9	66	79	-16.5	↓	665	665	HOLD	HOLD
11	Onmobile Global	2,270	2,085	8.9	465	313	48.6	74	21	252.4	↑	82	101	BUY	BUY
Total		6,75,876	6,72,693	0.5	1,75,726	1,73,863	1.1	1,37,179	1,36,519	0.5					

↑ Hit | ↓ Miss | ↔ Neutral

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Oil & Gas

Sr No	Rs Mn	Net Sales			EBITDA			Adjusted Net Profit			Hit / Miss	Target Price (Rs)		Rating	
		Actual	INSPL Estimates	Variance (%)	Actual	INSPL Estimates	Variance (%)	Actual	INSPL Estimates	Variance (%)		Before	After	Before	After
1	Cairn India	35,041	32,049	9.3	20,269	19,657	3.1	9,961	14,315	-30.4	↑	317	317	BUY	BUY
2	GAIL	1,49,694	1,47,951	1.2	9,857	13,500	-27.0	5,412	8,560	-36.8	↓	509	435	BUY	HOLD
3	OIL	21,948	27,915	-21.4	6,519	11,840	-44.9	4,983	8,224	-39.4	↓	605	605	BUY	BUY
4	ONGC	1,89,245	2,28,900	-17.3	71,297	1,15,242	-38.1	35,711	67,118	-46.8	↓	411	411	BUY	BUY
5	RIL	8,01,960	8,76,373	-8.5	72,080	73,500	-1.9	50,850	52,530	-3.2	↓	1,111	1,111	BUY	BUY
	Total	11,97,888	13,13,188	-8.8	1,80,022	2,33,739	-23.0	1,06,917	1,50,747	-29.1					

Pharmaceuticals

Sr No	Rs Mn	Net Sales			EBITDA			Adjusted Net Profit			Hit / Miss	Target Price (Rs)		Rating	
		Actual	INSPL Estimates	Variance (%)	Actual	INSPL Estimates	Variance (%)	Actual	INSPL Estimates	Variance (%)		Before	After	Before	After
1	Ajanta Pharma	3,563	3,544	0.5	1,251	1,095	14.3	821	751	9.4	↓	1,846	2,402	HOLD	HOLD
2	Alembic Pharma	5,110	5,558	-8.1	1,025	1,138	-9.9	707	781	-9.6	↓	412	467	HOLD	HOLD
3	Aurobindo Pharma	31,425	30,744	2.2	6,122	6,687	-8.5	4,026	4,464	-9.8	↓	1,293	1,412	BUY	BUY
4	Biocon	7,600	7,743	-1.8	1,520	1,695	-10.3	910	1,029	-11.6	↓	479	463	HOLD	HOLD
5	Cadila	21,595	21,506	0.4	4,472	4,505	-0.7	2,773	3,098	-10.5	↓	1,636	1,767	BUY	BUY
6	Cipla	26,247	25,680	2.2	4,131	4,998	-17.4	3,279	2,881	13.8	↑	644	653	HOLD	HOLD
7	Divis Lab	7,881	8,936	-11.8	2,841	3,289	-13.6	2,094	2,440	-14.2	↓	1,802	1,868	HOLD	HOLD
8	Dr Reddy	38,431	37,458	2.6	7,420	6,700	10.7	5,551	5,881	-5.6	↑	3,581	3,819	BUY	BUY
9	Glenmark	17,013	19,120	-11.0	2,657	3,909	-32.0	1,147	2,087	-45.0	↓	775	795	HOLD	HOLD
10	Indoco Remedies	2,129	2,240	-4.9	390	460	-15.3	216	256	-15.5	↓	392	392	BUY	BUY
11	Ipca Lab	7,341	8,715	-15.8	1,211	1,649	-26.5	527	937	-43.8	↓	573	598	HOLD	HOLD
12	JB Chemicals	2,568	2,764	-7.1	423	522	-18.9	261	393	-33.5	↓	295	295	BUY	BUY
13	Jubilant LifeSciences	14,303	14,903	-4.0	1,701	1,576	7.9	-110	32	-444.6	↓	131	162	SELL	BUY
14	Lupin	31,449	32,462	-3.1	8,502	9,286	-8.4	6,015	5,478	9.8	↑	1,710	1,767	BUY	BUY
15	Shilpa Medicare	1,545	1,667	-7.3	337	301	11.8	203	202	0.6	↑	473	690	HOLD	HOLD
16	Sun Pharma	42,795	51,551	-17.0	19,125	23,481	-18.5	14,250	17,496	-18.6	↓	831	921	HOLD	HOLD
17	Torrent Pharma	11,560	12,962	-10.8	2,280	2,845	-19.9	1,670	2,045	-18.3	↓	1,010	1,132	HOLD	HOLD
	Total	2,72,554	2,87,552	-5.2	65,406	74,136	-11.8	44,341	50,251	-11.8					

↑ Hit | ↓ Miss | ↔ Neutral

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Power

Sr No	Rs Mn	Net Sales			EBITDA			Adjusted Net Profit			Hit / Miss	Target Price (Rs)		Rating	
		Actual	INSPL Estimates	Variance (%)	Actual	INSPL Estimates	Variance (%)	Actual	INSPL Estimates	Variance (%)		Before	After	Before	After
1	Coal India	1,77,629	1,73,194	2.6	39,404	41,036	-4.0	38,092	38,940	-2.2	↓	467	467	BUY	BUY
2	NTPC	1,85,887	1,79,221	3.7	36,342	46,558	-21.9	18,224	28,613	-36.3	↑	190	190	BUY	BUY
3	PGCIL	43,536	43,500	0.1	36,900	33,887	8.9	12,140	12,392	-2.0	↑	605	605	BUY	BUY
4	Reliance Power	17,315	19,802	-12.6	6,675	5,972	11.8	2,990	2,531	18.1	↓	110	110	BUY	BUY
5	JSPL	50,447	52,200	-3.4	14,247	12,800	11.3	2,296	2,280	0.7	↔	201	201	HOLD	HOLD
6	GPIL	5,644	5,650	-0.1	873	760	14.9	76	90	-15.6	↓	198	198	BUY	BUY
7	TATA Power	88,066	89,200	-1.3	18,279	17,866	2.3	1,176	848	38.7	↓	104	104	BUY	BUY
	Total	5,68,524	5,62,767	1.0	1,52,720	1,58,879	-3.9	74,994	85,694	-12.5					

TELECOM

Sr No	Rs Mn	Net Sales			EBITDA			Adjusted Net Profit			Hit / Miss	Target Price (Rs)		Rating	
		Actual	INSPL Estimates	Variance (%)	Actual	INSPL Estimates	Variance (%)	Actual	INSPL Estimates	Variance (%)		Before	After	Before	After
1	Bharti	2,32,281	2,36,149	-1.6	77,857	79,763	-2.4	14,365	15,225	-5.6	↔	399	399	HOLD	HOLD
2	Idea	80,175	80,421	-0.3	27,527	26,797	2.7	7,670	8,236	-6.9	↔	167	160	HOLD	HOLD
	Total	3,12,456	3,16,570	-1.3	1,05,384	1,06,560	-1.1	22,035	23,461	-6.1					

↑ Hit | ↓ Miss | ↔ Neutral

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Others

Sr No	Rs Mn	Net Sales			EBITDA			Adjusted Net Profit			Hit / Miss	Target Price (Rs)		Rating	
		Actual	INSPL Estimates	Variance (%)	Actual	INSPL Estimates	Variance (%)	Actual	INSPL Estimates	Variance (%)		Before	After	Before	After
1	Liberty Shoes	1,444	1,526	-5.4	117	137	-14.6	42	52	-20.5	↓	336	338	BUY	BUY
2	BASF India Ltd.	9,776	11,832	-17.4	81	384	-78.9	-396	-207	91.3	↓	UR	UR	HOLD	HOLD
3	UPL	30,472	29,827	2.2	5,746	5,295	8.5	2,517	2,167	16.2	↑	480	BUY	480	BUY
4	Coromandel International Ltd.	29,749	30,144	-1.3	2,380	2,502	-4.9	1,207	1,236	-2.3	↔	353	353	HOLD	HOLD
5	Meghmani Organics Ltd	3,039	3,372	-9.9	413	472	-12.5	-45	202	-122.3	↓	34	34	BUY	BUY
6	Aditya Birla Nuvo Ltd.	66,400	68,611	-3.2	13,914	16,292	-14.6	3,682	3,743	-1.6	↔	2,729	2,729	BUY	BUY
7	Kaveri Seed Ltd	907	1,505	-39.7	361	444	-18.7	358	429	-16.6	↔	795	908	HOLD	BUY
8	HIL Ltd	2,460	2,491	-1.2	236	1,026	-77.0	75	121	-38.4	↓	898	898	BUY	BUY
9	HSIL	4,555	4,238	7.5	877	737	19.0	303	199	52.5	↑	385	385	BUY	BUY
10	Kajaria Ceramics	5,538	5,617	-1.4	851	798	6.7	456	372	22.7	↑	635	755	HOLD	BUY
11	Somany Ceramics	3,712	3,991	-7.0	206	240	-14.3	110	103	7.5	↔	335	344	HOLD	HOLD
12	Pennar Industries	2,950	3,187	-7.4	256	262	-2.3	77	83	-7.2	↓	81	81	BUY	BUY
13	KPR Mills	5,979	6,288	-4.9	867	943	-8.1	422	322	31.0	↑	570	570	BUY	BUY
	Total	1,66,981	1,72,629	-3.3	26,305	29,532	-10.9	8,808	8,822	-0.2					

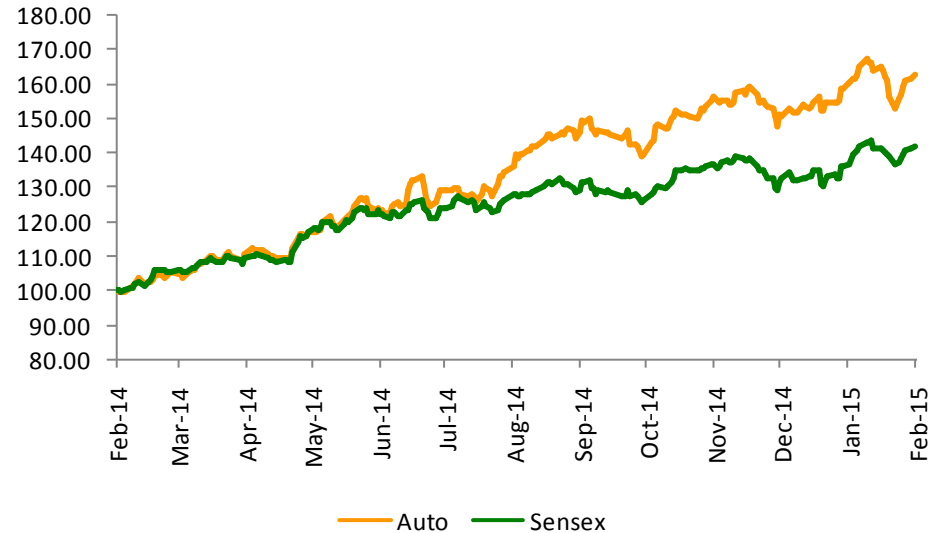
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AUTO SECTOR

Volume growth under pressure

Volumes growth remained muted for the entire sector, except for Maruti and TVS which reported double digit yoy growth

Particulars	Q3FY15	QoQ %	YoY %
Bajaj Auto	984520	(6.7)	(0.9)
Hero	1648566	(2.6)	(1.9)
M&M	173110	(2.1)	(16.7)
Maruti	323911	0.6	12.4
Tata Motors	127484	0.2	(3.5)
TVS Motors	655571	(3.0)	23.0



Sensex VS BSE Auto			
	1m	3m	12m
BSE Auto	8.3%	11.5%	55.5%
Sensex	6.2%	6.7%	36.0%

EBITDA margin remained under pressure on account of muted volume growth, higher raw material cost and other expenses

- Auto companies posted mixed set of numbers. Most of the companies underperformed expectations. Volume growth remained under pressure on duty benefits taken back, price hikes undertaken by the companies and weak consumer sentiments.
- Tata motors showed muted performance due to weak performance in domestic business and lower than expected EBITDA margin from JLR segment. Maruti Suzuki posted strong set of number due to revival in volume and cost reduction initiatives. M&M showed further pressure on volume growth with 16.7% yoy de-growth.
- In two wheeler segment, Bajaj Auto and Hero Motocorp EBITDA margin contracted YoY due to higher marketing and advertisement expenses
- In Auto ancillaries, Exide and Lumax Auto both reported impressive bottomline growth led by EBITDA margin expansion and operating leverage.

AUTO SECTOR (contd...)

Q3FY15 Review

Company	Q3FY15			Margin %		Change in EBITDA margin (bps)		QoQ % Change			YoY % Change			Comments
	Rs. Mn	Sales	EBITDA	Adj. PAT	EBITDA	Adj. PAT	Q-o-Q	Y-o-Y	Sales	EBITDA	Adj. PAT	Sales	EBITDA	
Bajaj Auto	55,200	12,268	8,612	22.2	15.6	289	-37	-5.3	8.9	45.8	9.9	8.1	-4.8	Higher exports, favourable currency movements and better product mix were the key catalysts for the company's performance, which was above expectations
Exide Ind	15,579	1,802	972	11.6	6.2	-23	61	-11.5	-13.2	-22.7	19.7	26.4	25.4	Impressive topline growth of 19.7% with 61bps EBITDA margin expansion. However, disappointing results due to performance below expectation on poor product mix, higher other expenses and lower other income.
Hero Moto	67,925	8,218	5,830	12.1	8.6	-152	-102	-1.0	-12.1	-23.6	-0.8	-8.5	11.1	Lower operating margin on account of higher other expenses and employee cost impacted performance. Volume growth was also muted.
Lumax Auto	2,093	177	83	8.5	3.9	2	102	-4.7	-4.5	-9.6	8.5	23.4	29.6	Sales growth was led by volume. EBITDA margin expanded due to lower raw material prices
M&M	94,659	9,942	6,428	10.5	6.8	-21	-278	0.5	-1.5	-32.1	-9.0	-28.1	-31.2	Though weak performance, it was in-line with expectations. Higher realisation from better product mix led to lower de-growth in revenue, despite huge volume de-growth. Higher employee and other cost led to EBITDA margin contraction.
Maruti Suzuki	1,22,631	15,926	8,022	13.0	6.5	31	5	2.2	4.7	-7.0	20.1	20.5	19.7	Strong performance on absolute basis with sales driven by volume growth. EBITDA margin remained flat on yoy basis.
SKF India	6,154	526	409	8.6	6.6	-481	-313	-0.2	-36.1	-30.3	2.6	-24.9	-15.5	Disappointing performance led by muted topline growth and EBITDA margin contraction.
Tata Motors	6,91,216	1,00,537	40,338	14.5	5.8	-136	-113	14.9	5.1	23.6	8.8	1.0	-18.2	Performance was below street expectation on the back of weak performance from domestic business and lower than expected EBITDA margin of JLR.
TVS Motor	26,529	1,602	902	6.0	3.4	-3	4	-1.1	-1.5	-4.9	28.9	29.8	31.1	Sales growth was driven by volume growth of 23%. Operating margin was below expectation due to higher raw material expenses.

Source: Company Filings; Indianivesth Research; * Q3CY14, All standalone numbers except Eicher and Tata Motors

- In Q3FY15, auto companies under our coverage reported 8% topline growth led by price increases.
- On the EBITDA margin front, almost all (except Exide and Lumax) Auto related companies witnessed contraction on YoY basis due to higher raw material cost along with higher marketing and advertisement expenses
- Though total sales of Maruti Suzuki jumped significantly, management is cautious on sustainability of the growth in coming months

AUTO SECTOR (contd...)

Valuation & Outlook

Company	Sales	EBITDA	PAT	Mcap	P/E(x)	M cap/Sales(x)	EBITDA%	NPM%	ROE %	CMP	Target Price	Rating
Name	FY16E	FY16E	FY16E	FY16E	FY16E	FY16E	FY16E	FY16E	FY16E	Rs.	Rs.	Recom.
	(Rs. Mn)	(Rs. Mn)	(Rs. Mn)	(Rs. Mn)								
Bajaj Auto	250948	48063	41098	643379	15.7	2.6	19.2	16.4	33.3	2223	2840	Buy
Exide Industries	84989	13213	8362	155975	18.7	1.8	15.5	9.8	18.1	184	242	Buy
Hero MotoCorp	330858	47989	33117	533555	16.9	1.6	14.5	10.0	44.7	2665	2840	HOLD
Lumax Auto	10285	1028	566	4696	8.3	0.5	10.0	5.5	18.8	345	575	BUY
Mahindra & Mahindra *	874427	118409	55902	776987	13.4	0.9	13.5	6.4	17.7	1251	1212	HOLD
Maruti Suzuki India	487937	77319	46274	1080827	35.6	2.2	15.8	9.5	16.4	3578	3218	Sell
SKF India #	31391	4126	2831	73826	26.0	2.4	13.1	9.0	18.1	1400	1076	HOLD
Tata Motors Company *	3033643	494153	216095	1751025	8.6	0.6	16.3	7.1	23.2	582	-	NR
TVS Motor Company	123334	8608	4979	140341	28.1	1.1	7.0	4.0	29.5	295	158	Sell

Source: Company Filings; IndiaNivesh Research; CMP-19-2-2015; # CY15E; All consolidated numbers except Hero Motocorp; * Bloomberg Estimates

- We believe good governance and faster reform would lead to higher employment/ disposable income that will improve consumer sentiment. As consumer sentiments are improving, post general elections passenger vehicle demand has improved considerably. Lead indicators of CV industry such as freight rates, fleet operators' utilization are turning positive over the last few months. Recovery in two-wheeler industry continues with double digit growth led by scooters.
- We expect the new government would have more focus on rural employment and development. Thus we expect rural market to be a key source of sustained automotive demand in coming years. Rural demand and new launches would act as a positive trigger for two wheeler and PV segment. In two wheeler Scooter segment is likely to outperform Motorcycle.
- We believe long term volume outlook of auto companies remain positive driven by new product launches and exports potential.
- We maintain our neutral stance on the sector as companies are trading at / near their fair valuation.

Top Pick: Bajaj auto would be beneficiary of increase in export sales. Exide industries would be benefited from higher capacity utilization due to revival in OEM's segment demand.

BANKING & FINANCIAL SERVICES

BANKING: Asset quality pain continues...

Moderate business growth:

Banks from our (INSPL) banking coverage universe reported better credit growth of 11.1% y-o-y in Q3FY15 as compared to industry's 10.5%* y-o-y credit growth. Deposits growth was ahead of credit growth as our banking universe reported 11.9% y-o-y growth in Q3FY15 as compared to industry's 11.5%* y-o-y deposit growth. Private sector banks continue to outperform public sector banks (PSBs) in terms of overall business growth.

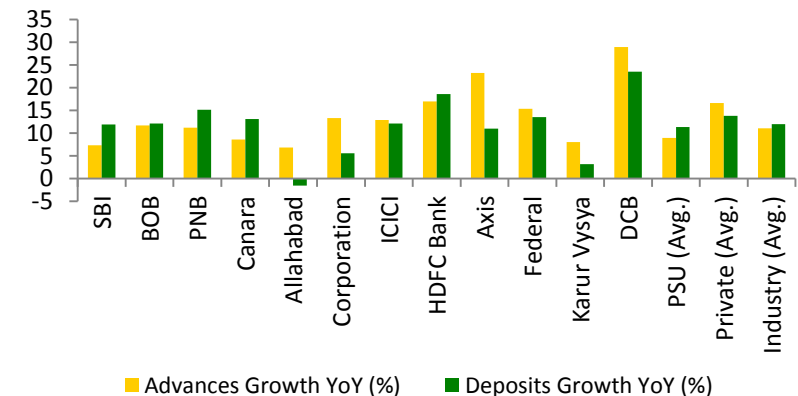
Stable NIMs but low credit growth led to moderate NII growth:

The NIM of INSPL's banking universe was almost stable as it was muted q-o-q and increased 4 bps y-o-y to 3.3%. NIM of Private Sector Banks decreased by 3 bps sequentially and stood at 3.9% whereas NIM of PSB increased by 2 bps sequentially and stood at 2.9%. Karur Vysya reported the highest sequential growth of 41 bps to 3.1% mainly led by capital raised through QIP in Q2FY15.

On the NII front, while Private sector banks continue to report a healthy performance with 19% y-o-y growth, PSBs witnessed much slower growth of 8% y-o-y due to asset quality pressures. Within private banking space, DCB reported the highest growth of 30% y-o-y (due to low base) whereas among PSBs, Allahabad Bank reported 17% y-o-y growth.

	Advances		Deposits	
	YoY (%)	QoQ (%)	YoY (%)	QoQ (%)
SBI	7	2	12	2
BOB	12	2	12	0
PNB	11	2	15	2
Canara	9	0	13	0
Allahabad	7	2	-2	0
Corporation	13	3	6	-2
PSU (Avg.)	9	2	11	1
ICICI	13	4	12	1
HDFC Bank	17	6	19	6
Axis	23	8	11	3
Federal	15	-1	14	2
Karur Vysya	8	1	3	1
DCB	29	8	24	9
Private (Avg.)	17	5	14	3
Industry (Avg.)	11	3	12	2

Source: Company Filings, IndiaNivesh Research



INSPL: IndiaNivesh Securities Private Limited; * Outstanding as on December 26, 2014 as per RBI

BANKING & FINANCIAL SERVICES (contd...)

	NII (Rs mn)					NIM (%)				
	Q3FY15	Q3FY14	YoY (%)	Q2FY15	QoQ (%)	Q3FY15	Q3FY14	YoY (bps)	Q2FY15	QoQ (bps)
SBI	1,37,766	1,26,164	9	1,32,746	4	3.1	3.2	-7	3.1	1
BOB	32,861	30,571	7	34,011	-3	2.2	2.4	-17	2.4	-20
PNB	42,331	42,211	0	41,512	2	3.2	3.6	-36	3.2	3
Canara	23,805	22,270	7	23,678	1	2.4	2.2	15	2.2	12
Allahabad Corporation	16,071	13,377	20	15,042	7	3.3	2.8	52	3.1	22
	10,290	10,016	3	9,831	5	2.1	2.2	-9	2.0	9
PSU (Total)	2,63,125	2,44,610	8	2,56,821	2	2.9	3.0	-8	2.9	2
ICICI	48,117	42,551	13	46,566	3	3.5	3.3	14	3.4	4
HDFC Bank	56,999	46,348	23	55,110	3	4.4	4.2	20	4.5	-10
Axis	35,896	29,840	20	35,249	2	3.9	3.7	22	4.0	-4
Federal	5,872	5,456	8	6,058	-3	3.3	3.3	-4	3.5	-20
Karur Vysya	3,911	3,051	28	3,374	16	3.1	2.6	52	2.7	41
DCB	1,219	940	30	1,177	4	3.7	3.6	15	3.7	-2
Private (Total)	1,52,013	1,28,185	19	1,47,534	3	3.9	3.7	20	3.9	-3
Industry (Total)	4,15,138	3,72,795	11	4,04,354	3	3.3	3.2	4	3.3	0

Source: Company Filings, IndiaNivesh Research

BANKING & FINANCIAL SERVICES (contd...)

Higher treasury income helped other income to grow:

Other Income of INSPL's banking universe increased by 20% y-o-y led by higher treasury income. The y-o-y robust growth in treasury income was mainly due to yields on 10 years G-Secs have come off by 40-50 bps in Q3FY15. However, there were two exceptions. Allahabad Bank and Corporation Bank. Allahabad reported 18% y-o-y de-growth as it booked income of Rs ~2.0 bn from sale of assets to ARCs in Q3FY14.

Asset quality continued to deteriorate sequentially:

Asset quality continued to deteriorate further in Q3FY15. Most of the private banks maintained a better asset quality though some stress was evident in Q3FY15 with ICICI and Karur Vysya reporting sharp increase in NPAs.

Gross NPA of PSBs and private sector banks increased 15 bps and 21 bps sequentially and stood at 4.9% and 2.6%, respectively. Within our banking universe, BOB's asset quality deteriorated the most as it reported 47 bps q-o-q increase in its Gross NPA to 3.9%. On the other hand, DCB Bank surprised positively with decline of 3 bps and 7 bps q-o-q in its Gross and Net NPA to 1.9% and 1.0%, respectively.

Provision Coverage Ratio (PCR) was almost stable sequentially for both PSBs and private sector banks universe.

	Other Income (Rs mn)				
	Q3FY15	Q3FY14	YoY (%)	Q2FY15	QoQ (%)
SBI	52,378	42,148	24	45,708	15
BOB	10,904	9,321	17	9,917	10
PNB	12,908	9,384	38	15,584	-17
Canara	11,762	8,514	38	10,213	15
Allahabad	4,457	5,423	-18	5,156	-14
Corporation	3,283	3,386	-3	2,889	14
PSU (Total)	95,691	78,176	22	89,466	7
ICICI	30,917	28,010	10	27,384	13
HDFC Bank	25,349	21,483	18	20,471	24
Axis	20,391	16,444	24	19,476	5
Federal	2,199	1,563	41	1,959	12
Karur Vysya	1,471	1,056	39	1,360	8
DCB	480	328	46	370	30
Private (Total)	80,807	68,884	17	71,019	14
Industry (Total)	1,76,498	1,47,060	20	1,60,485	10

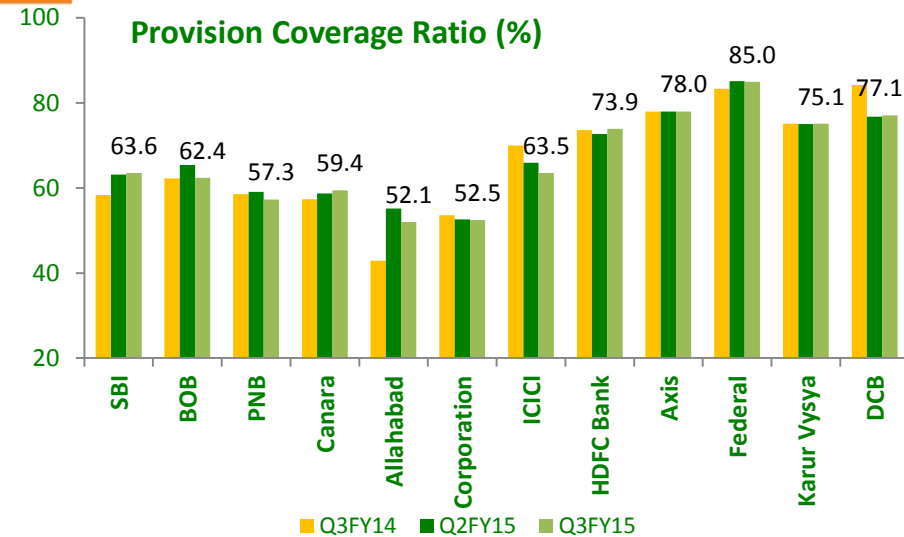
Source: Company Filings, IndiaNivesh Research

BANKING & FINANCIAL SERVICES (contd...)

	GNPA (%)				
	Q3FY15	Q3FY14	YoY (bps)	Q2FY15	QoQ (bps)
SBI	4.9	5.7	-83	4.9	1
BOB	3.9	3.3	53	3.4	47
PNB	6.0	5.0	101	5.7	32
Canara	3.4	2.8	56	2.9	43
Allahabad	5.5	5.5	-1	5.4	10
Corporation	4.9	3.1	180	4.5	43
PSU (Avg.)	4.9	5.1	-20	4.7	15
ICICI	3.4	3.1	35	3.1	28
HDFC Bank	1.0	1.0	0	1.0	0
Axis	1.3	1.3	9	1.3	0
Federal	2.2	2.8	-64	2.1	9
Karur Vysya	1.9	1.5	44	1.4	55
DCB	1.9	2.8	-90	1.9	-3
Private (Avg.)	2.6	2.4	20	2.3	21
Industry (Avg.)	4.5	4.7	-18	4.4	15

	NNPA (%)				
	Q3FY15	Q3FY14	YoY (bps)	Q2FY15	QoQ (bps)
SBI	2.8	3.2	-44	2.7	7
BOB	2.1	1.9	23	1.7	37
PNB	3.8	2.8	102	3.3	56
Canara	2.4	2.4	3	2.3	11
Allahabad	3.9	4.2	-30	3.5	35
Corporation	3.3	2.2	112	2.9	35
PSU (Avg.)	3.0	3.0	-1	2.7	24
ICICI	1.3	0.9	33	1.1	18
HDFC Bank	0.3	0.3	0	0.3	0
Axis	0.4	0.4	2	0.4	0
Federal	0.7	0.9	-17	0.7	3
Karur Vysya	0.7	0.5	25	0.6	14
DCB	1.0	0.8	23	1.1	-7
Private (Avg.)	1.0	0.7	24	0.8	14
Industry (Avg.)	2.8	2.8	-3	2.6	22

Source: Company Filings, IndiaNivesh Research



Source: Company Filings, IndiaNivesh Research

During Q3FY15, fresh addition to restructuring books for PSBs and private sector banks increased sequentially. Amongst our coverage, SBI witnessed the highest restructuring during the quarter at Rs 41 bn (Rs 35 bn)* followed by Allahabad at Rs 26 bn (Rs 14 bn)* and PNB at Rs 25 bn (Rs 33 bn)*.

*figures in brackets () are of Q2FY15

Overall, considering the last quarter to take the benefit of lower provisions on restructured assets and given the stress in the corporate segment, we expect that there would be sharp increase in restructured advances in Q4FY15E.

BANKING & FINANCIAL SERVICES (contd...)

Earnings divergence continues:

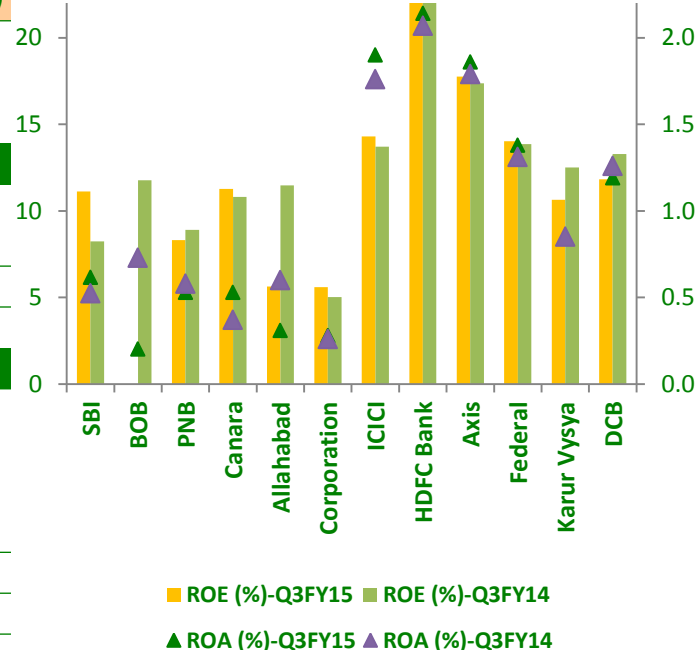
Pre Provisioning Profit (PPP) of our INSPL banking universe grew 16% y-o-y led by stable growth of 21% y-o-y in private sector banks and 13% y-o-y in PSBs. Net profit of INSPL banking universe improved 11% y-o-y mainly led by 17% y-o-y growth in private sector banks as compared to only 2% y-o-y growth in PSBs. However, provision expenses of Private sector banks increased 60% y-o-y led by significant increase in provisioning expenses in Q3FY15.

ROE and ROA of our universe was stable on y-o-y basis at 11% and 1% respectively. Banks with superior ROE / ROA profile include HDFC bank (22% / 2%), Axis Bank (18% / 1.9%) and ICICI Bank (14% / 1.9%) in Q3FY15.

	Pre Pro. Profit (Rs mn)			Provisions (Rs mn)			Net Profit (Rs mn)		
	Q3FY15	Q3FY14	YoY (%)	Q3FY15	Q3FY14	YoY (%)	Q3FY15	Q3FY14	YoY (%)
SBI	92,945	76,185	22	52,349	41,496	26	29,101	22,343	30
BOB	23,390	21,819	7	12,623	7,619	66	3,340	10,478	-68
PNB	27,507	27,024	2	14,678	15,900	-8	7,746	7,554	3
Canara	17,973	15,909	13	8,413	10,515	-20	6,560	4,093	60
Allahabad Corporation	10,747	10,098	6	6,437	5,569	16	1,641	3,254	-50
	7,265	7,435	-2	6,462	8,263	-22	1,472	1,267	16
PSU (Total)	1,79,828	1,58,470	13	1,00,961	89,363	13	49,859	48,990	2
ICICI	50,370	44,390	13	9,797	6,946	41	28,890	25,322	14
HDFC Bank	47,786	38,880	23	5,604	3,888	44	27,945	23,257	20
Axis	33,146	26,150	27	5,072	2,025	150	18,998	16,041	18
Federal	3,974	3,559	12	-8	73	NA	2,647	2,301	15
Karur Vysya	2,627	1,530	72	1,062	507	110	1,139	1,068	7
DCB	684	464	47	184	100	84	425	364	17
Pvt. (Total)	1,38,586	1,14,973	21	21,710	13,539	60	80,044	68,353	17
Ind. (Total)	3,18,414	2,73,442	16	1,22,671	1,02,902	19	1,29,903	1,17,343	11

Source: Company Filings, IndiaNivesh Research; NA: Not Applicable

ROE / ROA (%)



Source: Company Filings, IndiaNivesh Research

BANKING & FINANCIAL SERVICES (contd...)

Valuation and recommendation:

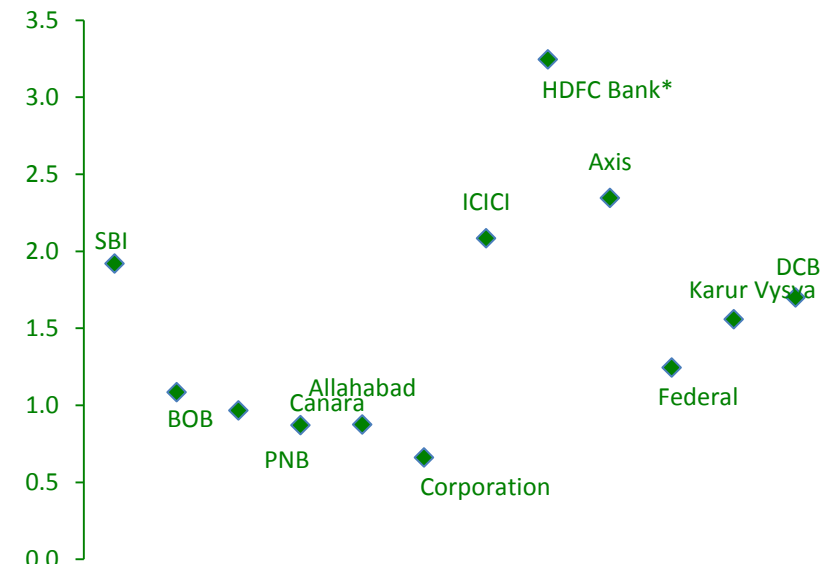
The banking sector continues to face slowdown in credit growth and persistent asset quality issues along with lower profitability specifically for PSBs. We believe asset quality pressure is likely to continue in Q4FY15 as well. Any meaningful recovery in the long term will only be driven by revival in the economy. However private sector banks continue to maintain their asset quality.

From a cyclical perspective, improvement in the macro environment is likely to benefit all the banks. However, we continue to remain selective in space. We have hold rating on PNB, Canara, Allahabad and DCB. We continue to prefer SBI and BOB among PSBs and we have buy rating on both the stocks. Among private sector banks, we have buy rating on ICICI, Axis, Federal, Karur Vysya and HDFC Bank.

	P/ABV (x)		CMP (Rs.)	Recom	Target Price (Rs.)
	FY16E	FY17E	Latest		
SBI	2.2	1.9	302	BUY	396
BOB	1.2	1.1	179	BUY	247
PNB	1.1	1.0	165	HOLD	173
Canara	0.9	0.9	406	HOLD	420
Allahabad Corporation	0.9	0.9	109	HOLD	91
	0.8	0.7	63	NR	NR
ICICI	2.4	2.1	339	BUY	440
HDFC Bank	3.8	3.2	1,080	BUY	1,264
Axis	2.7	2.3	565	BUY	600
Federal	1.4	1.2	137	BUY	175
Karur Vysya	1.7	1.6	581	BUY	672
DCB	1.9	1.7	112	HOLD	120.0

Source: IndiaNivesh Research; NR: Not Rated; CMP as of Feb. 19, 2015

FY16E P/ABV



Source: IndiaNivesh Research

BANKING & FINANCIAL SERVICES (contd...)

**FINANCIAL SERVICES: Healthy Performance continues.. |
Top Pick: CFL, Bajaj Finance and LIC Housing**

Given the diversified business models of stocks under our coverage, we have discussed them individually.

Company	Key highlights
LIC Housing Finance	Consistent performance continues with healthy loan growth of 19% y-o-y, stable NIMs of 2.2%. Asset quality improvement was key positive.
Bajaj Finance	Higher than expected AUM growth of 37% y-o-y led to beat on all metrics. NII grew by 33% y-o-y with healthy NIMs (Calc) of 11.2%. Asset quality continues to remain stable.
L&T Finance	Consolidated results were ahead of expectations with Loan growth of 20% y-o-y and NII growth of 42% y-o-y. Asset quality on consolidated basis was stable at 3% Gross NPA and 2% Net NPA, infra financing improved by 23 / 19 bps q-o-q in Gross / Net NPA while in retail financing deteriorated with increase of 40 / 16 bps q-o-q respectively
Capital First	AUM growth was healthy at 29% y-o-y. Robust NII growth of 61% y-o-y. Stable asset quality with Gross NPA of 0.6% and Net NPA of 0.01%.
Max India	Adjusted revenues were slightly ahead of expectation. Lower than expected growth in Insurance business was key negative, however healthcare business does well. Adjusted for one off expense and income, Consolidated financials were below expectation on EBITDA and PBT front.
CARE	Results were below expectation. However there was one off expense during the quarter, adjusted for same, earnings were largely inline with expectation

BANKING & FINANCIAL SERVICES (contd...)

Valuation

	P/ABV (x)		CMP (Rs.)	Recom	Target Price
	FY16E	FY17E	Latest		(Rs.)
LIC Housing	2.4	2.1	455	BUY	551
Bajaj Finance	3.7	3.2	4,309	BUY	5,500
L&T Finance*	1.4	1.3	67	BUY	83
Max India*	3.4	3.1	465	EXIT	NR
CARE	13.0	10.9	1,620	BUY	1,800
CFL	2.3	2.0	407	BUY	460

Source: IndiaNivesh Research; *Consolidated; CMP as of Feb. 19, 2015

Outlook:

NBFCs under our coverage universe have delivered reasonable performance despite current challenging macro environment. Bajaj Finance and Capital First continue to outperform in terms of growth followed by reasonable performance by LIC housing and L&T finance. We believe that the growth momentum of NBFCs like Bajaj Finance, Capital First, L&T Finance and LIC housing finance are likely to continue. However asset quality will be key monitorable for L&T Finance. However other NBFCs are likely to maintain their asset quality.

Max India's performance was disappointing led by one off income and expense. Further Insurance business growth was lower than expectation. However healthcare business continues to do well. Even adjusted numbers on consolidated basis was below our expectation. CARE ratings Q3FY15 performance was slightly below our expectations led by one offs. However, adjusted for one offs, earnings were largely in-line with our expectations. We are positive on huge long term opportunities for the credit rating sector on the back of development in Indian debt market over next two to three years and we believe that CARE ratings is the best pick among all listed rating agencies.

Within our NBFCs universe, we have buy rating on Bajaj Finance, LIC Housing, Capital First, CARE Ratings and L&T Finance.

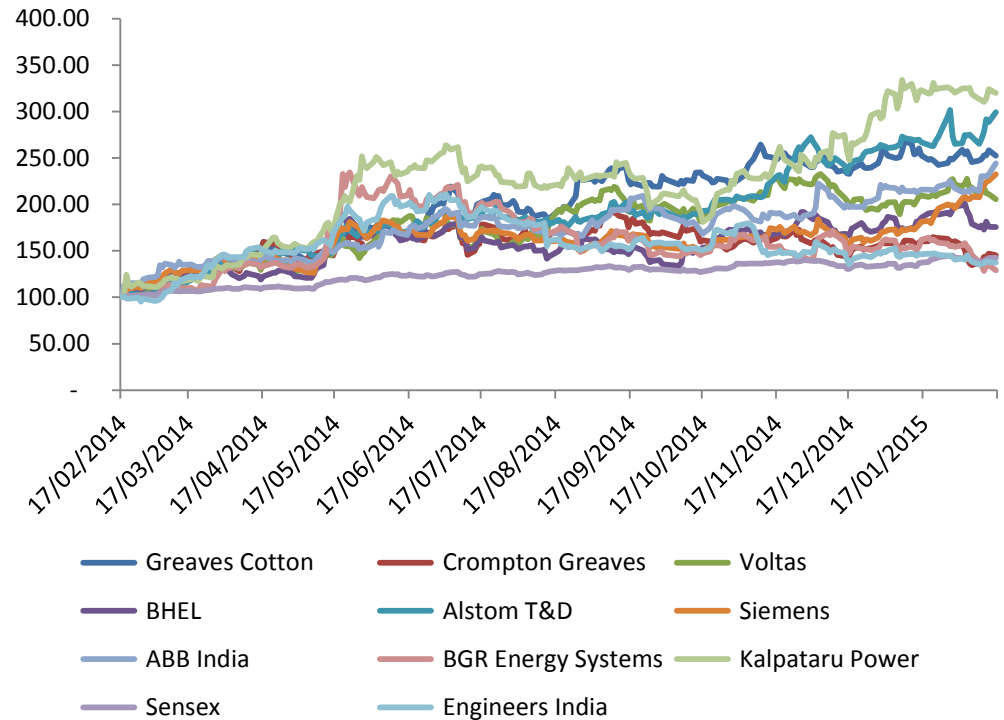
CAPITAL GOODS SECTOR

Reforms Still Awaited

CG stocks from our coverage in last 1-year have delivered 29.1%-219.9% returns vs. 42.4% returns for Sensex

Cap-Good stocks Vs Sensex

	1m	3m	12m
Sensex	3.6%	3.4%	42.4%
Greaves Cotton	-0.1%	1.6%	152.4%
Crompton Greaves	-9.2%	-11.4%	45.3%
Voltas	-2.0%	-10.5%	105.6%
BHEL	-5.4%	4.1%	75.6%
Alstom T&D	12.1%	29.6%	199.2%
Siemens	28.2%	34.5%	132.5%
ABB India	13.0%	28.5%	144.0%
BGR Energy Systems	-20.3%	-16.6%	29.1%
Kalpataru Power	-1.0%	25.7%	219.9%
Engineers India	-6.2%	-7.4%	37.2%



Source: Cline, IndiaNivesh Research

Capital Goods stocks under our coverage have given 29.1%-219.9% (vs. 42.4% Sensex returns) return in the last 1-year. Stocks in the Capital goods sector have run mainly on hope of structural reforms by new government and likely capex revival, however we believe further advancement of stock price from current levels will depend on concrete action by the government on reform front and individual operational & financial performance of the company

Within capital goods space we remain positive on the companies in the power T&D and automation sector.

CAPITAL GOODS SECTOR (*contd...*)

What was recent quarter performance in Capital Goods (CG) Sector?

Q3FY15 Performance disappointing due to Constrained Order Book, Execution Pressure, High Fixed Cost.

- In Power BTG/ BoP Sector,
 - BHEL reported drop in top-line (-26.8%) whereas BGR Energy Systems reported positive growth (+18.3%) in the top-line.
 - However margins of both the companies were under pressure due to low margin order books and high fixed cost.
- In Power Transmission and automation Sector,
 - Siemens (-8.7%) and Alstom T&D (-9.7%) reported de-growth in top-line whereas Crompton greaves (-0.6%) and ABB (+1.6%) reported marginal Y-o-Y change in top-line due to flat order book.
 - Despite muted top-line , Siemens and ABB continue to improve profitability on back of internal cost saving measures.
 - Kalpataru power reported higher top-line (+9.1%) and profitability on back of strong order book and reduction in losses in infra segment.
- In non-Power Capital Goods Sector,
 - Muted engine growth and de-growth in infra segment kept top-line under pressure for Greaves cotton (+1.7%) . Voltas top-line also declined (-14.7%) on account of fall in EMPS segment revenue.
 - Both Greaves Cotton and Voltas improved margins due to lower raw material costs.

CAPITAL GOODS SECTOR (contd...)

Q3FY15 Results Review

Company Rs. Mn	Q3FY15			Margin %		QoQ %			YoY %			Comments
	Sales	EBITDA	Adj. PAT	EBITDA	Adj. PAT	Sales	EBITDA	Adj. PAT	Sales	EBITDA	Adj. PAT	
BHEL	61,980	2,938	2,126	4.7	3.3	2.8	0.8	70.4	(26.8)	(70.2)	(69.4)	Decline In revenue on account of lower order book and slower execution. Profitability of both power and Industry segments declined.
Crompton Greaves	33,332	1,518	67	4.6	0.2	(2.8)	(9.9)	(90.4)	(0.6)	(9.2)	(89.2)	De-growth in y/y revenues is mainly due to 3.1% decrease in Indian Power Systems business and 1.9% decrease in Indian Industrial Systems business. Decline in EBITDA margins is mainly due to lower sales coupled with 2.4% increase in raw material expenses
Alstom T&D	7,661	405	26	5.3	0.3	(16.2)	(56.9)	(92.7)	(9.7)	(43.9)	(86.4)	top-line and EBITDA margin of the company were under pressure as company withheld reporting of some revenue (where cash realisation could be an issue).
Kalpataru Power	11,471	1,118	410	9.7	3.5	0.6	7.7	(4.0)	9.1	18.8	21.6	Steady growth in T&D Segment. EBIT margin of T&D segment improved. Infra segment reduces losses.
BGR Energy Systems	9,886	772	145	7.8	1.5	42.4	6.9	52.6	18.3	(24.2)	(52.5)	Better execution on Y-o-Y and Q-o-Q basis. However EBITDA margin declined by 437 bps to 7.8% due to high material cost.
Siemens	21,860	1,890	1,061	8.6	4.9	(31.4)	(14.6)	(29.9)	(8.7)	26.8	94.8	All segment reported y/y top-line de-growth led by lower order book. However internal efficiency resulted in margin expansion in all segments except power and metals
ABB	22,384	1,800	842	8.0	3.7	21.3	45.0	87.1	1.6	20.5	43.6	Flat y/y order book led to marginal growth in top-line. Control over other expenses and improvement in margin of power systems and discrete automation segments resulted in improved profitability.
Greaves Cotton	4,300	504	424	11.7	9.9	(2.5)	(9.9)	239.6	1.7	8.0	8.5	Muted growth in engine segment and degrowth in infra segment kept top-line under pressure. EBITDA margin improved by 70 bps y/y on account of lower raw material cost
Voltas	9,511	574	617	6.0	6.5	(3.4)	(26.2)	24.7	(14.7)	(10.3)	7.0	Revenue decline in EMPS segment by 28.2% led to topline to degrow by 14.7%. EBITDA margin of the company increased by 30 bps to 6% due to Increase in margin of EMPS and UCP segment.
Engineers India	3,983	358	599	9.0	13.0	2.0	349.1	1.9	(5.2)	(63.8)	(55.6)	Decline in revenue due to lower order book in consultancy segment. Consultancy segment margin declined y/y by 1667 bps to 20.1%. Turnkey segment was at break-even for the quarter.

Source: Company filings, IndiaNivesh research

CAPITAL GOODS SECTOR (contd...)

Valuation

Company Name	M-Cap (Rs Mn.)	Sales FY16E	EBITDA FY16E	PAT FY16E	NPM (%)	P/E FY16E	CMP (as of 18/02/15)	Rating	Price Target (Rs.)
BHEL	6,33,928	3,44,103	35,332	27,073	7.9%	23.4	259	HOLD	245
Crompton Greaves	1,09,054	1,57,823	12,626	5,538	3.5%	19.7	174	BUY	210
Alstom T&D	1,37,241	48,284	5,679	2,925	6.1%	46.9	536	HOLD	485
Kalpataru Power	35,756	49,343	5,052	2,542	5.2%	14.1	233	BUY	332
BGR Energy Systems	9,742	36,092	3,718	906	2.5%	10.8	135	HOLD	172
Greaves Cotton	35,654	22,932	2,523	1,697	7.4%	21.0	146	SELL	105
Voltas	82,721	63,424	3,805	3,353	5.3%	24.7	250	HOLD	277
Engineers India	71,767	20,437	3,997	4,896	24.0%	14.7	213	BUY	280
Siemens	4,50,492	1,31,425	12,153	7,336	5.6%	61.4	1,265	NR	NR
ABB	3,01,758	99,075	9,061	5,075	5.1%	59.5	1,424	NR	NR

Source: Company, IndiaNivesh Research, Bloomberg

Outlook

Government of India has many ambitious plans like Make in India, Smart Cities, Solar etc. which if implemented with concrete policy framework and effective execution plan can hugely benefit companies in the capital goods sector. Overall financial performance and Order book of the company in 9MFY15 has remain muted due to delay in much expected investment and execution revival.

However in current tough times many companies have improved there cost structures and margins, despite muted top-line growth. In capital goods space we prefer companies in power T&D and automation sector due to inherent demand in the country and high technology barriers.

Preferred Picks: Kalpataru Power, Alstom T&D, Engineers India, Crompton Greaves

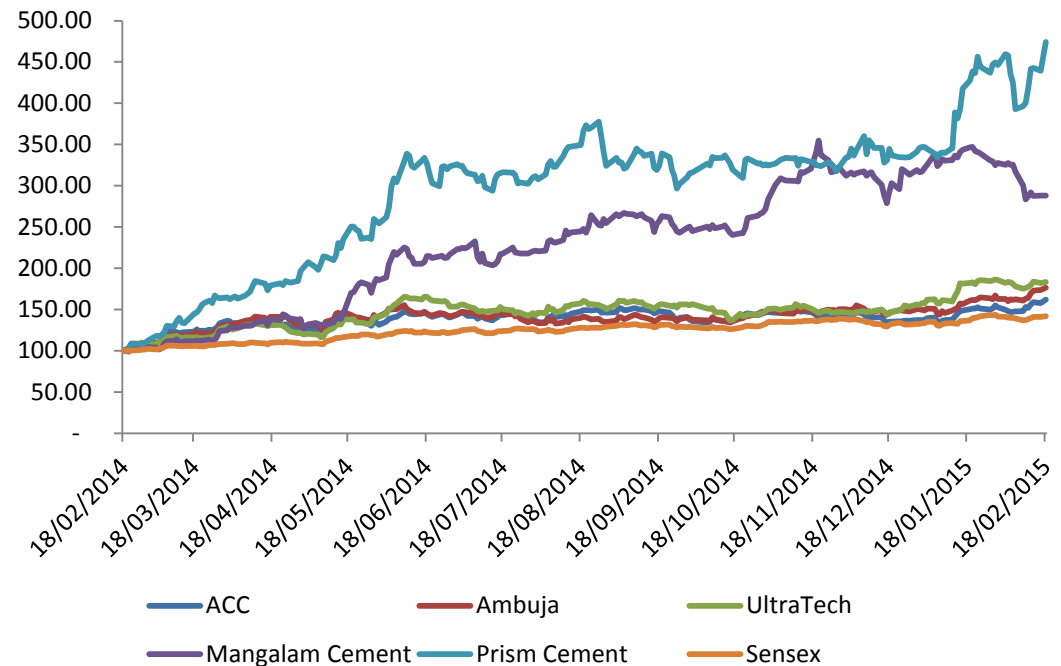
CEMENT SECTOR

Good times ahead....

Cement stocks in last 12-months delivered return of 62%-374.1% vs. 42.4% return for Sensex

Sensex Vs Cement stocks			
	1m	3m	12m
Sensex	3.6%	3.4%	42.4%
ACC	8.9%	11.1%	62.0%
Ambuja	12.6%	19.0%	76.3%
UltraTech	1.1%	22.4%	83.5%
Mangalam Cement	-16.1%	-12.7%	188.1%
Prism Cement	13.5%	43.9%	374.1%

Source:Cline, IndiaNivesh Research



In last 3 months-top 3 players (ACC, Ambuja & Ultratech) delivered absolute return in range of +11.1% to +22.4%. Prism Cement has given absolute return of +43.9%, whereas Mangalam cement has fallen by 12.7% due to weak performance in the quarter.

In Q3FY15, Cement companies reported sales growth in the range of 1.8% to 29.3%. Amongst our coverage, Ultratech cement has been top performer in Q3FY15; due to strong top-line and margin growth. Mangalam Cement and Prism cement reported Adj net loss of Rs 24 mn and Rs 407 mn, respectively.

CEMENT SECTOR (contd...)

Q4CY14/Q3FY15 Results Review

Company	Q3FY15/Q4CY14			Margin %		QoQ %			YoY %			Comments
	Sales	EBITDA	Adj. PAT	EBITDA	Adj. PAT	Sales	EBITDA	Adj. PAT	Sales	EBITDA	Adj. PAT	
Ultratech	56,014	9,573	3,644	17.1	6.5	3.2	9.2	(11.0)	16.3	20.3	(1.5)	Revenue increased by 16.3% y/y due to increase in dispatches. average blended realization stood at Rs 3,961/tn (-17.3% y/y). EBITDA margin of the company increased by 94 bps q/q to 17.1% due to decrease in other expenses
ACC	28,370	2,570	1,418	9.1	5.0	0.8	(32.2)	(26.3)	1.8	(29.0)	(48.6)	Muted growth reflects 1.5% y/y decrease in dispatch numbers and 3.4% y/y increase in avg. blended realization. EBITDA margins declined by 392 bps y/y due to increase in raw material Employee cost and Freight expenses
Ambuja Cements	23,790	3,324	3,286	14.0	13.8	8.8	(5.3)	55.7	8.7	15.0	3.8	Net revenue increased y/y by 8.7% on back of 12% y/y increase in dispatches (to 5.93 mn tn). Surge in y/y EBITDA/tn is owing to decline in power & fuel expenses, freight expenses and other expenses.
Mangalam Cement	2,076	37	(24.0)	1.8	(1.1)	(12.7)	(82.6)	(151.7)	29.3	<i>nmf</i>	(612.4)	q/q dispatches and realisation per tn declined by ~6% each to 0.55 mnt and Rs 3,761. Inventory pile up and higher power/fuel cost led to margin decline
Prism Cement	13,284	272	(407.0)	2.0	(2.8)	(0.3)	(32.8)	<i>nmf</i>	15.6	16.3	<i>nmf</i>	Cement and TBK segment top-line increased by 18.2% and 23.9%. However losses in TBK and RMC segment led to net loss

Source: Company filings, IndiaNivesh research

CEMENT SECTOR (contd...)

Valuation

Company Name	M-Cap (Rs Mn.)	Sales FY16E/CY15E	EBITDA FY16E/CY15E	Adj. PAT FY16E/CY15E	EV/EBITDA FY16E/CY15E	\$ EV/tonne FY16E/CY15E (x)	CMP (as of 18/02/15)	Rating	Price Target (Rs.)
ACC	3,10,155	1,31,646	22,979	16,698	9.30	111	1,652	Hold	1,556
Amb. Cem.	4,15,836	1,21,630	23,110	15,922	17.89	179	269	Hold	266
Mangalam	7,554	13,112	2,229	1,152	4.46	51	283	Buy	426
Prism Cem.	54,866	65,646	5,510	1,429	9.96	NA	109	Hold	103
Ultratech Cem.	8,50,971	2,61,998	59,101	31,873	14.15	156	3,103	Hold	3,029

Source: Company, IndiaNivesh Research

Outlook:

- Within our coverage, we expect strong Y-o-Y PAT growth across smaller players (vs. larger players).
- New Capacity added (1.25 mnt) by Mangalam Cement is currently operating at 40% utilization levels. Increase in utilization of this new facility along with plant modification (for cost saving) would further drive the PAT growth for Mangalam Cement (Current Total capacity-3.25 mnt)
- Turnaround in TBK (Gas Pipeline started in Dec-2014) and RMC segment should contribute to PAT growth for Prism Cement.
- In large cap stocks, we prefer Ultratech Cement due to recent capacity addition of 5 mnt which would drive volume growth in FY16E (Total Capacity FY16E-70.7 mnt)

Preferred Picks: Ultratech Cement, Mangalam Cement, Prism Cement

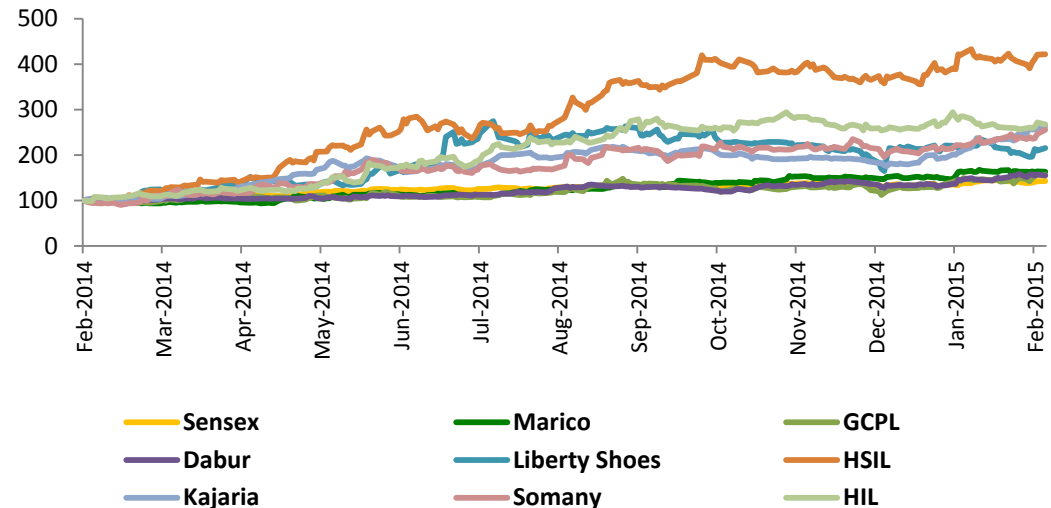
CONSUMPTION SECTOR

EBITDA margin of FMCG companies expanded 102 bps yoy while that of building product companies witnessed ~194 bps yoy improvement

YoY % Growth	Sales	EBITDA	PAT
Marico	20.9	17.0	18.1
Godrej Consumer	12.5	25.7	34.9
Dabur India	9.2	18.3	16.4
Liberty Shoes	20.5	19.5	14.0
HIL	23.1	373.2	LP
HSIL	26.1	57.8	156.9
Kajaria Ceramics	29.6	28.9	55.2
Somany Ceramics	30.9	28.3	226.0

Source: Bloomberg, IndiaNivesh Research

Urban demand to be the key catalyst for FMCG companies and increasing thrust on sanitation to improve growth for building products companies | Top Picks: HIL, HSIL and Liberty



Source: Capitaline, IndiaNivesh Research

- Consumption stocks in our universe reported mixed set of results. In FMCG sub-category, Marico and GCPL outperformed while Liberty disappointed. In building products sub-category, Kajaria and HSIL outperformed on bottomline front. Though on yoy basis these companies reported stellar set of results.
- Though HIL underperformed on our estimates, it reported stellar set of results in absolute terms with sales growth of 23.1% and EBITDA growth of 373.2%. PAT

CONSUMPTION SECTOR (contd...)

Q3FY15 Review

Company	Q3FY15			Margin %		YoY % Change			QoQ % Change			Comments
Rs. Mn	Sales	EBITDA	Adj. PAT	EBITDA	Adj. PAT	Sales	EBITDA	Adj. PAT	Sales	EBITDA	Adj. PAT	
Marico	14,489	2,334	1,599	16.1	11.0	20.9	17.0	18.1	1.4	20.8	35.2	Sales growth driven by strong growth of 26% yoy in domestic business and 6% yoy in international business (constant currency terms). Lower finance cost and effective tax rate aided higher PAT growth
GCPL	22,258	3,885	2,651	17.5	11.9	12.5	25.7	34.9	8.7	18.1	14.6	GCPL reported stellar Q3FY15 results with 14% yoy domestic business and 12.5% yoy international business growth (best in the FMCG industry). Margins expanded due to lower input cost and ad expenses.
Dabur India	20,736	3,519	2,828	17.0	13.6	9.2	18.3	16.4	7.8	0.3	-1.6	Dabur performance was driven by domestic business which grew by 11.7% yoy with double digit growth across most of the sectors while international business grew at muted 2.3% yoy, EBITDA margin expanded due to benign input cost and lower growth in other expenses; overall results in-line with expectation.
Liberty Shoes	1,444	117	42	8.1	2.9	20.5	19.5	14.0	0.4	36.1	56.5	Disappointing results due to lower than expected margin. The company gave a time line (effective 1st April 2015) for restructuring its group companies, though this is partial restructuring.
HIL Ltd	2,460	194	75	7.9	3.0	23.1	373.2	LP	8.0	16.2	-6.0	HIL results missed our expectations, though it performed well on an absolute basis. This miss was on account of higher than expected other expenses.
HSIL	4,555	877	303	19.3	6.6	26.1	57.8	156.9	9.2	28.9	58.8	HSIL outperformed our expectations due to better than expected performance in packaging products segment. Building Products segment surprised negatively.
Kajaria Ceramics	5,538	851	456	15.4	8.2	29.6	28.9	55.2	3.0	9.3	14.7	Kajaria outperformed on profitability front due to lower input cost and better financial leverage. Volume growth of 23.4% yoy was better than our expectations.
Somany Ceramics	3,712	206	110	5.5	3.0	30.9	28.3	226.0	0.3	4.2	137.0	Somany Ceramics reported mixed set of results which underperformed on topline and EBITDA front while outperformed at PAT level. Higher other operating income and other income and lower interest expense aided this outperformance.

Source: Company Filings; Indianivesh Research;

CONSUMPTION SECTOR (*contd...*)

Key Inferences from Q3FY15 performance

■ **FMCG Companies**

- Volume growth in the coverage universe remained muted and sales growth was driven by increase in average realization. In all the three companies, the growth was driven by domestic business. International businesses performed well on constant currency basis, but they grew in mid single digits in INR terms due to negative currency impact.
- Input cost remained benign in this quarter for our universe FMCG companies. The companies managed to maintain its EBITDA margin by better cost management strategies including reducing advertisement expenditure (as there were few launches).
- FMCG companies are expecting the H2FY15E to be better than H1FY15E on the back of expected revival in urban demand and benign input prices.

■ **Building Product Companies**

- All Building product companies in our coverage universe reported average healthy topline growth of 27.9% yoy. This was driven by robust volume growth and minor price increases.
- EBITDA margin of our coverage universe improved to 13.1% against 11.1% in Q3FY14. EBITDA growth for the universe stood at 50.1% yoy. This was primarily driven by improving profitability of HSIL and HIL.
- PAT margin of our coverage universe increased to 5.8% in Q3FY15 from 3.5% in Q3FY14, an improvement of 231 bps. The bottomline increment was at a higher pace due to benefits arising from operating and financial leverage .

CONSUMPTION SECTOR (contd...)

Valuation & Outlook

Company	CMP (Rs)	TP (Rs)	Reco	Sales		EBITDA		EPS		ROE		P/E	
				FY15E	FY16E	FY15E	FY16E	FY15E	FY16E	FY15E	FY16E	FY15E	FY16E
Marico	359	355	HOLD	58475	67781	8830	10777	9.2	10.8	39.3	37.6	39.1	33.3
GCPL*	1169	UR	NR	84610	97671	13758	16659	26.7	33.2	22.1	23.4	43.7	35.2
Dabur India*	269	244	HOLD	79564	91153	13408	16389	6.1	7.5	35.5	35.2	44.0	36.0
Liberty Shoes	269	338	BUY	5808	7410	450	654	8.8	16.9	10.5	17.7	30.4	15.9
HIL	673	898	BUY	10984	13840	1074	1748	75.2	136.1	15.7	22.9	8.9	4.9
HSIL	414	485	BUY	21320	25935	3093	3979	14.2	22.5	8.8	12.7	29.1	18.4
Kajaria Ceramics	803	755	HOLD	22000	28847	3399	4536	21.3	30.2	26.7	28.4	37.6	26.6
Somany Ceramics	367	344	HOLD	15011	18380	841	1029	10.8	15.0	17.6	20.4	33.9	24.5

Source: Company Filings; IndiaNivesh Research; * Bloomberg estimates

Low volume growth has been a cause of concern for FMCG companies in past 2 quarters. Revival in demand from urban areas is expected to drive the growth of the companies as some improvement is visible; while rural demand is seen to remain under pressure for few more quarters. EBITDA margin is likely to improve in H2FY15E on account of decline in input prices and crude oil price. The companies are likely to manage their profitability on the back of cost management initiatives taken both on Indian as well as international businesses.

On building products companies, we are positive on the increasing demand both at consumer and government level. With focus on capacity expansion and higher margin products and diversification into new product lines, we are of the opinion that these companies would be able to harness the current boost in demand.

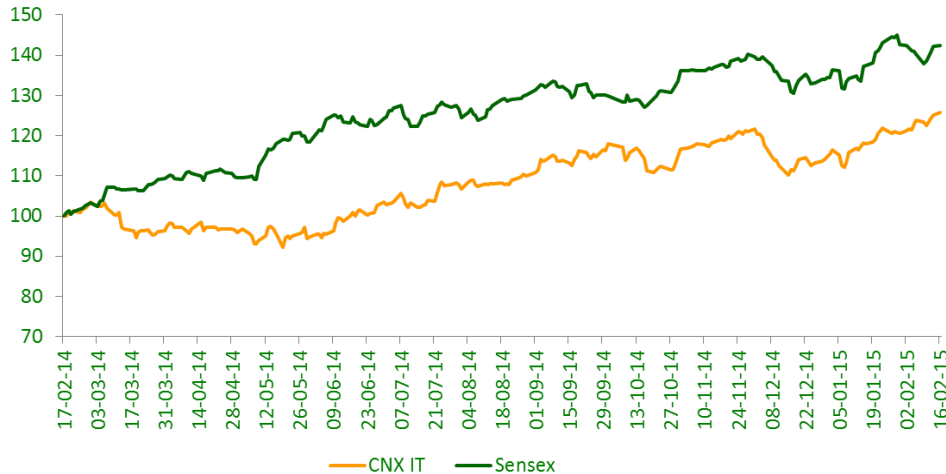
Preferred Picks: HSIL, HIL, Liberty Shoes

Key concerns

- **Rupee appreciation** – For FMCG companies it will reduce the revenue in INR terms. For building product companies, it increases the possibility of higher imports, thereby creating more competition
- **Input prices** – Input prices for FMCG companies have declined significantly which may bring in unorganized players in business. The companies may not realize full benefit of decline in prices, if prices start increasing again.

IT SECTOR

Robust outlook | Top Picks: Mastek & OnMobile



Source: BSE India (as on 16 Feb. 2015)

- IT companies (Tier-I & Tier-II) sounded positive on future revenue outlook on back of strong order booking, large size deal wins in Europe, stable US outlook, and high growth potential in new-age IT.
- We upgraded target price of six companies under our coverage universe. However, maintaining HOLD rating on 5 companies out of 6 due to limited upside potential from current valuations.
- As a result, we are of the view that IT index shall underperform broader index over medium-term. We believe stock specific approach will only lead to alpha creation.

Chart: Key Metrics (Q/Q Gr %)

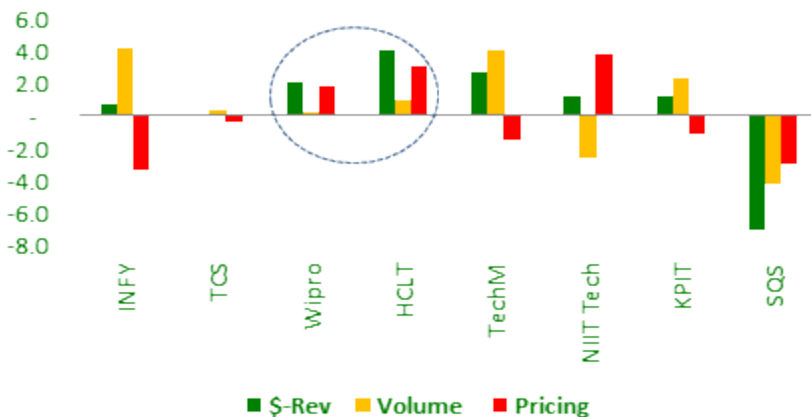
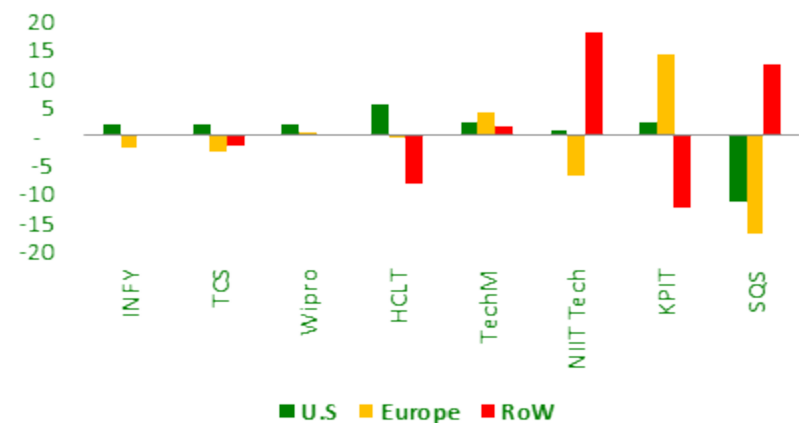


Chart: Geo-Wise (Q/Q Gr %)



IT SECTOR (contd...)

Tier-I: Key Result Take Away

- **TCS:** Strong FY16 revenue outlook – expect \$-rev growth ahead of Industry average.
- **HCLT:** Positive revenue & margin outlook on back of \$7 bn of TCV. During the quarter, HCLT announced 1:1 bonus.
- **Infosys:** Maintaining FY15 \$-rev guidance of 7-9% Y/Y implies 2.5-11.9% Q/Q \$-rev growth in Q4FY15.
- **Wipro:** Guided \$-rev growth in the range of 0.8% to 3.0% Q/Q in Q4FY15.
- **TechM:** Solid deal pipeline on back of existing four prong growth strategy. During the quarter, TechM announced 2:1 stock split and 1:1 bonus.

Tier II: Key Result Take Away

- **KPIT:** KPIT reduced its FY15E \$-rev growth guidance to 12.0% Y/Y (v/s 12.5%) asking rate is 3.6% Q/Q in Q4FY15.
- **NIIT Tech:** 12M Executable order book de-grew (-1.0% Q/Q to \$296 mn). This reduces FY15/FY16 revenue outlook.
- **Mastek:** Robust FY16 revenue outlook on back of cross-selling and up-selling opportunity post M&A announcements (Agile & Coverall).
- **SQS:** Near-term pain long-term gain, given the parental back-up.
- **OnMobile:** Corporate restructuring story very well played clarity on growth will be next key trigger (likely to be announced in Q4FY15).
- **NIIT Ltd:** Business uptick likely to take time.

Company Rs. Mn	Q3FY15			Margin %		QoQ %			YoY %			Comments
	Sales	EBITDA	PAT	EBITDA	PAT	Sales	EBITDA	PAT	Sales	EBITDA	PAT	
INFY	1,37,960	39,540	32,500	28.7	23.6	3.4	2.9	2.7	5.9	9.2	13.0	FY16 is likely to better than FY15
TCS	2,45,010	70,861	54,441	28.9	22.2	2.9	3.6	0.6	15.1	6.0	2.1	Bellow Est. Performance; Strong FY16 revenue outlook
WIPRO	1,20,850	27,681	21,930	22.9	18.1	2.3	4.2	5.2	6.6	2.6	9.1	Above est. performance; poor Q4FY15 guidance (+0.8 -3.0%)
HCL TECH*	92,830	23,190	19,160	25.0	20.6	6.3	5.8	2.2	13.4	9.1	28.1	Strong performance across vertical
TECHM	57,520	11,601	7,769	20.2	13.5	4.8	5.7	8.0	17.4	2.1	-23.1	Above expectation performance; Solid Deal Pipeline
KPIT	5,950	862	480	14.5	8.1	3.0	7.4	-7.5	15.0	4.1	7.5	Below expectation performance; Downgraded to HOLD
NIIT	7,800	1,085	653	13.9	8.4	-4.7	-68.5	-82.0	6.3	-60.1	54.2	Below Est. Performance; Downgraded to SELL
NIIT Tech	2,666	281	87	10.5	3.3	1.2	4.9	20.3	1.4	-9.9	-9.2	In-line Performance
Mastek	2,482	57	19	2.3	0.8	9.1	12.8	386.2	11.8	-21.5	-52.7	In-line performance; Strong growth in Insurance Vertical
SQS BFSI	538	103	66	19.1	12.3	-4.7	-12.1	-7.3	5.6	-7.6	-5.7	Below Est. Performance
OnMobile	2,270	465	74	20.5	3.3	9.3	67.4	NA	0.6	57.4	NA	Above est. performance; TP revised Upward to Rs.101

Source: Company Filings; IndiaNivesh Research Note : * Q2FY15 – June ending

IT SECTOR (contd...)

Valuation

Company Name	Mcap (Rs Mn)	Sales (Rs. Mn)		EBITDA (Rs.Mn)		PAT (Rs. Mn)		EPS (Rs.)		P/E		RECO	CMP Rs	TARGET Rs
		FY15E	FY16E	FY15E	FY16E	FY15E	FY16E	FY15E	FY16E	FY15E	FY16E			
Infosys	26,71,174	5,40,520	5,99,728	1,54,815	1,78,187	1,27,515	1,38,293	111.5	121.4	20.9	19.3	HOLD	2,326	2,377
TCS	52,10,314	9,64,354	11,39,105	2,81,405	3,34,035	2,16,382	2,53,790	110.6	125.7	24.1	20.5	HOLD	2,660	2,666
Wipro	16,28,138	4,75,570	5,35,297	1,08,010	1,21,980	86,072	92,831	34.9	37.7	18.9	17.5	HOLD	659	611
HCL Technologies	14,37,997	3,75,517	4,24,095	90,649	97,891	73,569	79,872	52.5	57.0	19.5	18.0	HOLD	2,047	1,954
Tech Mahindra	6,82,261	2,22,632	2,59,815	43,779	50,880	29,801	31,851	30.3	32.4	22.9	21.4	HOLD	2,843	2,996
NIIT Technologies	23,062	23,732	26,239	3,377	3,936	1,827	2,181	30.4	36.3	12.6	10.6	SELL	378	326
KPIT Cummins	40,812	30,347	34,331	4,051	4,778	2,549	2,896	12.8	14.5	16.0	14.1	HOLD	208	178
Mastek	8,881	10,335	12,846	552	819	293	538	13.1	24.0	30.3	16.5	BUY	396	554
NIIT Ltd	7,400	10,023	12,105	546	847	387	554	1.4	3.4	19.1	13.4	SELL	45	37
SQS BFSI India	6,190	2,123	3,238	422	576	235	406	22.3	36.3	26.3	15.2	HOLD	596	665
Onmobile Global	9,460	8,687	9,555	924	576	104	1,025	0.9	9.0	95.6	9.7	BUY	87	101

Source: Company Fillings; IndiaNivesh Research

Note: CMP as of 16 Feb 2015

Sector Outlook

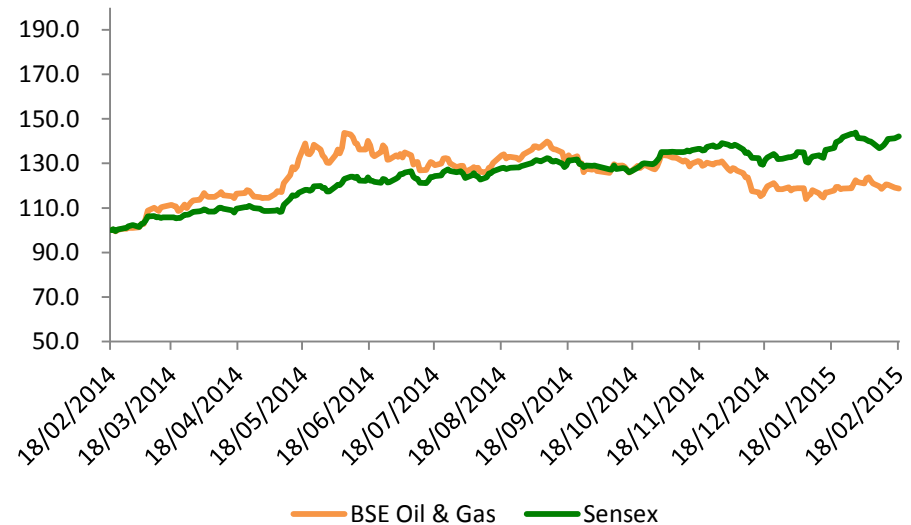
- On back of improved global economic situation, positive management commentary and strong order intake we maintain our positive view on overall IT sector. Further, revival in discretionary budget, inorganic expansion and diversification in new age IT services could foster revenue growth going-ahead. However, on back of valuation comfort, we like Mid-cap IT over larger cap universe (**Top Picks: Mastek & OnMobile**).

OIL & GAS SECTOR

*Performance marked by double blow-
High Subsidy sharing and falling Crude Oil Prices.*

On account of falling Oil prices and higher fixed costs, Oil and Gas sector companies reported de-growth in sales and profitability.

Performance (%)	1m	3m	12m
Sensex	3.6%	3.4%	42.4%
BSE Oil & Gas	1.5%	-9.4%	18.7%



In Q3FY15, Gross under recovery for OMCs stood at Rs 154 bn, of this the total upstream share was at Rs 109 bn (70.7% of the total under-recovery).

Oil & Gas sector posted subdued performance in Q3FY15. Gross under recovery for OMCs stood at Rs 154 bn, of this the total upstream share was at Rs 109 bn (70.7% of the total under-recovery). Net profit of ONGC and Oil India impacted by higher than expected subsidy burden. Cairn India reported top-line of Rs 35 bn on account of ramp up of production in Aishwarya field to 30 kboepd and revival of production in Mangala and Ravva field. On operational front, the company achieved total gross oil production of 215.11 kboepd (thousand barrels of oil equivalent per day) vs. 190.55 kboepd in Q2FY15. RIL Q3FY15 (standalone) numbers were mixed bag as lower than expected revenue was offset by 117 bps expansion in EBITDA margin due to focus on operational efficiency. GRM for the quarter stood at \$ 7.3/bbl vs \$ 7.6 bbl in Q3FY14 and \$ 8.3/bbl in Q2FY15.

OIL & GAS SECTOR (contd...)

Q3FY15 Review

Company Rs Mn	Q3FY15			Margin %		Q-o-Q % Change			Y-o-Y % Change			Comments
	Sales	EBITDA	Adj PAT	EBITDA	Adj PAT	Sales	EBITDA	Adj PAT	Sales	EBITDA	Adj PAT	
Cairn India	35,041	20,269	9,961	57.8	28.4	-12.0	-23.7	-51.1	-29.9	-43.6	-68.6	Decline in profitability due to fall in crude prices and higher production expenses
GAIL	1,49,694	9,857	5,412	6.6	3.6	6.2	-51.3	-53.6	-6.6	-56.9	-64.0	Weak Performance in Petchem and Natural Gas Marketing margin.
OIL	21,948	6,519	4,983	29.7	22.7	0.2	-19.4	-18.1	-19.5	-48.0	-44.8	Fall in Crude oil and Natural gas production coupled with lower net realisation led to steep Y-o-Y fall in top-line and profitability.
ONGC	1,89,245	71,297	35,711	37.7	18.9	-7.4	-21.0	-34.4	-9.2	-32.1	-49.9	Lower net realisation led to top-line de-growth. Higher other expenses and exploration cost resulted in lower profitability.
RIL	8,01,960	72,080	50,850	9.0	6.3	-16.9	-12.5	-11.4	-22.5	-5.4	-7.7	All segments, Petchem, Refining and Oil and Gas segment reported y/y top-line de-growth.

Source: Company, IndiaNivesh Securities Note: All Standalone numbers except Cairn India

RIL

- Singapore average GRM was up 47% YoY and 31% QoQ at USD 6.3/bbl led by higher diesel/jet fuel and FO cracks. However, sharp fall in crude and product prices will lead to inventory losses and impact refinery profitability. Total petchem production decreased by 5.4% YoY to 5.3 MMT. RIL's polymer production was lower at 1.0 MMT due to planned shutdown at Hazira.

GAIL

- Natural gas transmission revenue increased by 29% YoY due to higher volume (stood at 94 MMSCMD against 91.1MMSCMD in Q2FY15) along with higher realization. PBT margin also increased to 51% vs 34% in Q2FY15.

OIL & GAS SECTOR (contd...)

Valuation

Company	Mcap (Rs Bn)	Sales (Rs Bn)	EBITDA (Rs Bn)	Adj PAT (Rs Bn)	P/E (x)	Mcap/Sales (x)	EBITDA (%)	NPM (%)	CMP	Target	Rating
		FY16e	FY16e	FY16e	FY16e	FY16e	FY16e	FY16e			
Cairn India	474	153	88	70	6.8	3.1	57.4	45.7	253	317	BUY
GAIL	515	579	56	40	13.0	0.9	9.6	6.8	406	435	HOLD
OIL	298	122	59	40	7.4	2.4	48.2	32.7	495	605	BUY
ONGC	2,849	1,796	663	304	9.4	1.6	36.9	16.9	333	411	BUY
RIL	2,915	3,577	437	234	12.5	0.8	12.2	6.5	901	1111	BUY

Source: Company Filings; IndiaNivesh Research; Bloomberg All consolidated numbers

Outlook

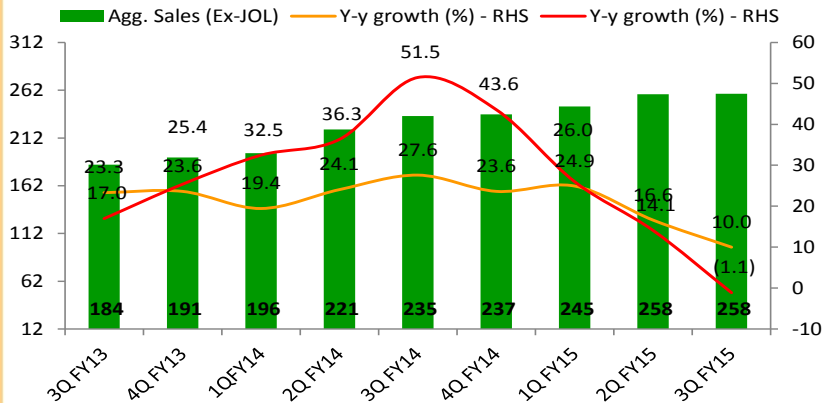
Despite strong rally in oil & Gas sector, we continue with our positive stance on the sector on the back of ongoing reforms like rationalization of subsidy, increase in natural gas prices and potential reserve accretion from large E&P acreage. Further fall in crude prices will lead to lower under-recovery in coming quarters. ONGC and Oil India is expected to outperform due to reduction in subsidy burden and volume growth from new fields. We believe GAIL would be able to overcome constrains of gas supply shortages and maintain growth due to dominant market position in gas transmission as well as diversified business model. We expect Cairn to deliver strong production growth from Rajasthan field, that will enable Cairn to generate strong free cash flows. We believe that hike in natural gas price and plans to invest Rs. 1.5t in the next 3 years in petcoke gasification, polyester expansion & off-gases crack, E&P activities, telecom and retail businesses are big trigger in medium term for RIL.

Preferred Pick

Among Oil & Gas space we prefer Reliance, ONGC, GAIL, Cairn India and OIL India due to stable business, strong balance sheet and low valuations.

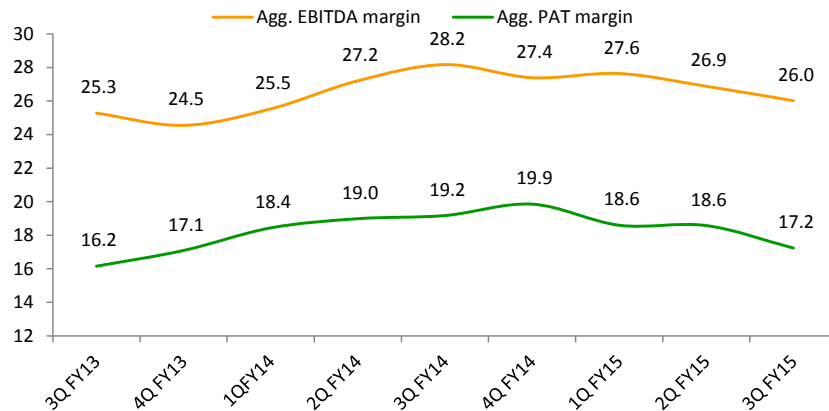
PHARMA SECTOR

Coverage Pharma universe growth (%):



Source: Company Filings; IndiaNivesh Research

Coverage Pharma universe Margins (%):



Source: Company Filings; IndiaNivesh Research

Subdued performance for the quarter; witnessed (revenue growth of 9.4%, EBITDA growth of 1.6% & PAT contraction of 4.3%).

Preferred Picks: Aurobindo Pharma, Cadila Healthcare, Lupin, Shilpa Medicare.

Performance			
	1 Months	3 Months	1 year
Healthcare	6.1%	6.9%	54.3%
Sensex	4.3%	4.1%	43.3%

Source; Bse India

Performance in Q3FY15:

- Aggregate PAT of seventeen companies under INSPL coverage contracted for the first time in past fifteen quarters. The aggregate sales and adjusted PAT for the quarter came in at Rs272bn , up 9.4% y-y and Rs44.4bn, down 4.3% y-y, respectively.
- The y-y growth in sales as well as adjusted PAT has been on downtrend for four consecutive quarters now.
- Lower sales growth, coupled with decrease in EBITDA margin led to y-y contraction in adjusted PAT for the quarter.
- The outperformers for the quarters were AJP, ALPM, CDH, Cipla, INDR and LPC whose earnings grew positively on y-y basis for the quarter.
- The underperformers were ARBP, BIOS, DIVI, DRRD, GNP, IPCA, JBCP, JOL, SLPA and SUNP whose earnings contracted on y-y basis

PHARMA SECTOR (contd...)

Individual company's performance in Q3FY15

Company Rs. Mn	Dec-14			Margin %		QoQ %			YoY %			Comments
	Sales	EBITDA	Adj.PAT	EBITDA	Adj.PAT	Sales	EBITDA	Adj.PAT	Sales	EBITDA	Adj.PAT	
Ajanta Pharma	3,563	1,251	821	35.1	23.1	7.6	19.6	6.0	21.8	37.6	27.5	Superior performance in DF and emerging markets as well as lower material cost led to highest ever quarterly PAT in past 14 quarters
Aurobindo	31,425	6,122	4,046	19.5	12.9	9.8	(3.9)	(2.3)	47.2	(4.9)	(2.3)	Sales up 47% y-y due to addition of Actavis' Europe operation, but PAT down 2.3% y-y due to high base of past year
Alembic Pharma	5,110	1,025	708	20.1	13.8	(6.5)	(5.3)	(8.4)	5.6	0.4	7.4	The subdued growth in DF and international generics led to lower overall sales growth. Lower interest and tax outgo led adj. PAT grow higher than sales on y-y basis
Biocon	7,600	1,520	910	20.0	12.0	2.6	(7.9)	(10.8)	9.0	(10.4)	(13.3)	Inferior show in Bio-pharma and branded formulation affected performance; better growth in CRAMS segment offset inferior performance to some extent
Cadila	21,595	4,472	2,773	20.7	12.8	4.7	6.2	0.2	17.5	51.5	54.7	Though y-y rise in sales was on downtrend for past two quarters, y-y rise in adj. PAT remained on uptrend, led by higher US sales and superior product mix.
Cipla	26,247	5,538	3,337	21.1	12.7	(0.2)	(0.8)	6.9	2.2	18.5	30.1	Weak operational performance, led by moderate exports, off-set to some extent by higher other operating income
Divi's Lab	7,881	2,841	2,094	36.0	26.6	(5.0)	(6.4)	(7.0)	14.6	(0.7)	(6.7)	Lower sales growth coupled with y-y contraction in EBITDA margin, partly due to high base of past year, adversely affected overall performance
Dr Reddy	38,431	9,461	5,502	24.6	14.3	7.1	16.0	(6.1)	8.8	(3.1)	(6.1)	Though sales grew by 8.8% y-y, adj. PAT declined by 6.1% y-y due to 325bps y-y contraction in EBIT margin, driven by y-y fall in EBIT margin in PSAL segment.
Glenmark	17,013	2,657	1,148	15.6	6.7	1.2	(20.7)	(30.4)	6.3	(27.2)	(46.5)	Muted performance in US, ROW and API sales coupled with considerable forex loss in Russia affected overall performance for the quarter
Indoco Remedies	2,129	390	216	18.3	10.2	(6.0)	(16.4)	(3.5)	13.0	27.9	53.1	Formulation-Exports and API sales coupled with better operating margin drive earnings for the quarter
Ipsa Lab	7,341	1,211	528	16.5	7.2	(5.3)	(10.1)	(25.2)	(9.9)	(44.3)	(62.5)	Regulatory concerns adversely impacted performance US, Insti-AM and currency devaluation affected business in CIS countries. Better UK sales was a breather for the quarter.

Sources: Company filings; IndiaNivesh Research

PHARMA SECTOR (contd...)

Individual company's performance in Q3FY15

Company Rs. Mn	Dec-14			Margin %		QoQ %			YoY %			Comments
	Sales	EBITDA	Adj.PAT	EBITDA	Adj.PAT	Sales	EBITDA	Adj.PAT	Sales	EBITDA	Adj.PAT	
JB Chemicals	2,568	423	261	16.5	10.2	(6.6)	(19.3)	(34.6)	9.6	3.1	(49.3)	DF sales remained robust; however, muted y-y growth in exports and API sales and higher tax outgo led to 49% y-y drop in adjusted PAT
Jubilant LifeScience	14,303	1,701	(110)	11.9	(0.8)	5.0	66.8	NA	0.2	(27.5)	NA	Sequential improvement in Pharma segment coupled with better operating margin led 67% q-q growth in EBITDA
Lupin	31,449	8,502	6,015	27.0	19.1	0.9	9.6	(4.5)	5.4	15.8	26.3	Though y-y sales growth was muted due to lower US, Japan and API sales, superior product mix and lower R&D spend led 26.3% y-y growth in Adj. PAT
Shilpa Medicare	1,545	337	203	21.8	13.2	0.5	21.5	17.9	0.1	0.7	(6.8)	Though q-q sales growth was muted, operating margin improved sharply and resulted in 17.9% q-q growth in adj. PAT
Sun Pharma	42,795	19,125	14,250	44.7	33.3	(9.9)	(12.3)	(9.4)	(0.2)	(3.2)	(6.9)	Taro and DF drive earnings for the quarter; however; temporary supply constraints and high base of past year impacted US business, affecting overall performance to some extent
Torrent	11,560	2,280	1,670	19.7	14.4	(3.9)	(12.0)	(15.7)	16.8	20.0	5.7	Decent performance in key markets of US, DF and Brazil and addition of Elder portfolio led to 16.8% y-y and 20% y-y growth in sales and EBITDA; while higher interest cost led lower y-y growth in adjusted PAT
Total	2,72,554	68,855	44,373	25.3	16.3	0.4	(2.0)	(5.3)	9.4	0.5	(4.3)	
Ex-JOL	2,58,252	67,154	44,483	26.0	17.2	0.2	(3.0)	(7.1)	9.9	1.5	(1.2)	

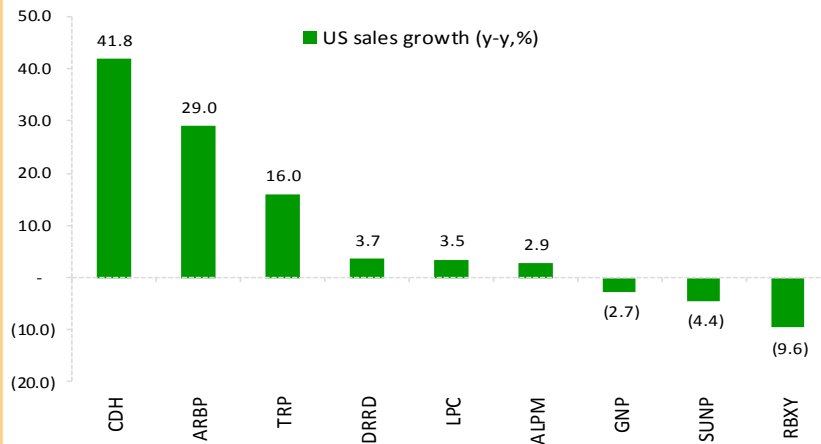
Sources: Company filings; IndiaNivesh Research

PHARMA SECTOR (contd...)

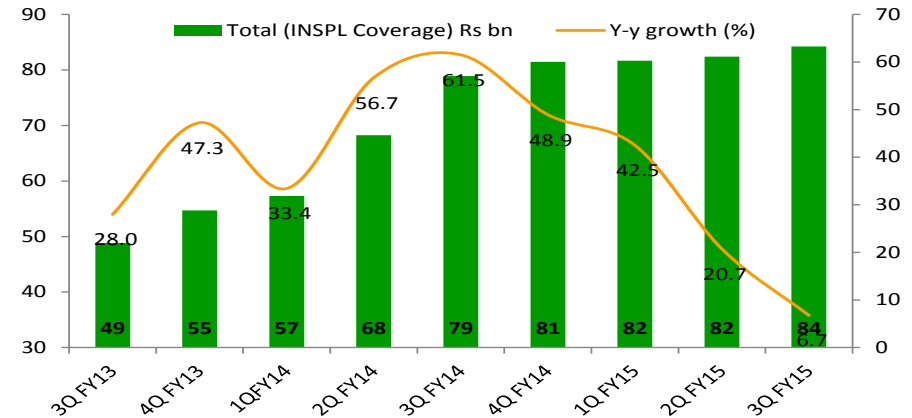
Lesser approvals and high base impacts US sales growth

- The slow pace of potential approvals and high base of past year continued to impact y-y growth of US sales of most of the pharma companies under INSPL coverage.
- The outliers were ARBP and CDH, which showed 29% y-y and 42% y-y growth in US sales for the quarter. The higher growth for ARBP and CDH has been primarily due to superior execution.
- The regulatory hurdle impacted US sales of IPCA, RBXY, and WPL. Temporary supply constraints impacted SUNP's US sales..
- We believe that lower growth in US sales is temporary and expect to pick-up as approvals pace improves.

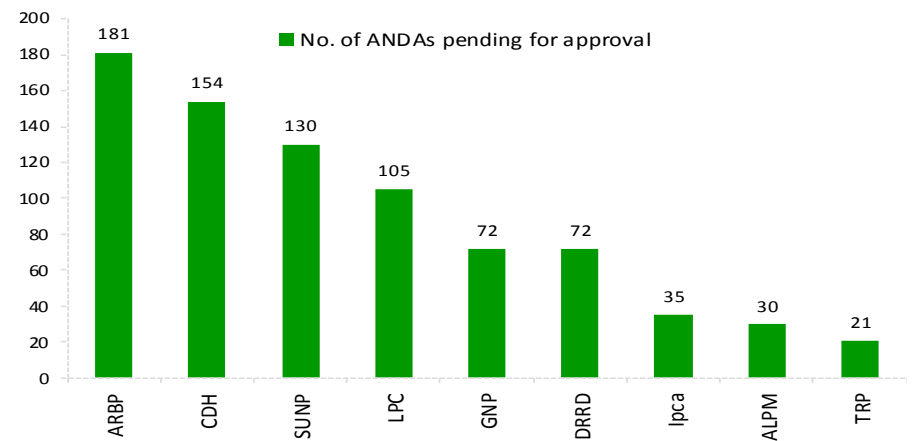
3 out of 9 companies showed y-y fall in US sales



The y-y growth continues to fall



ARBP has highest number of ANDA pending for approval



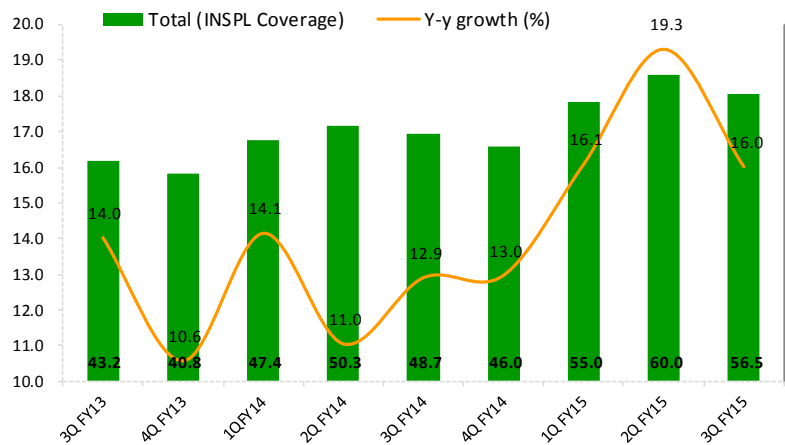
Source: Company Filings; IndiaNivesh Research

PHARMA SECTOR (contd...)

Uptrend in Domestic formulation (DF) takes a short break

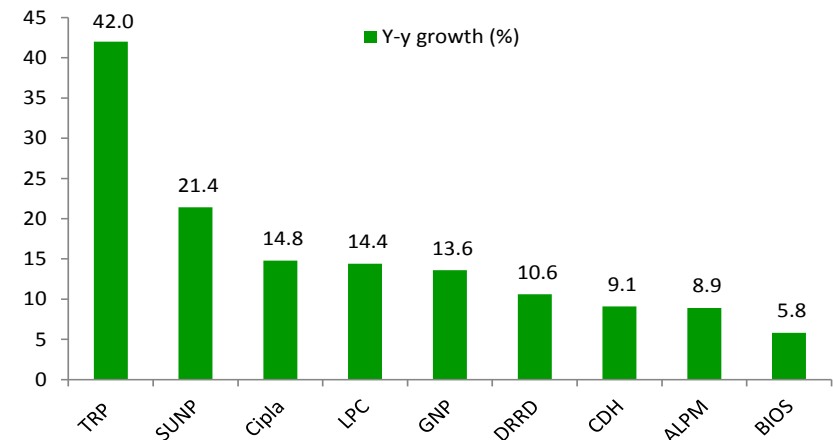
- The uptrend in y-y growth in DF sales took a pause in Q3FY15 and y-y growth moderated to 16% y-y for companies under INSPL coverage.
- The aggregate sales for companies under INSPL coverage came in at Rs56.5bn for the quarter.
- Company-wise, BIOS showed least y-y growth of 5.8% y-y and TRP showed highest y-y growth of 42% y-y for the quarter. The sharp y-y growth in TRP has been due to addition of ELDER portfolio. Adjusting for the same, TRP grew at 15% y-y. Adjusting for Elder portfolio, SUNP showed maximum y-y growth of 21.4% y-y for the quarter.
- The chronic therapeutic categories continued to show better growth, in terms of volume as well as value, than acute therapeutic categories.
- CDH's y-y growth remained impacted due to absence of Boehringer Ingelheim products for the quarter. However, adjusting for the same, the growth was 10% y-y
- We expect y-y growth in DF to continue and remain focus area for most of the pharma companies under coverage.

DF sales up 16% y-y



Source: Company Filings; IndiaNivesh Research

SUNP had highest and BIOS had least y-y growth



PHARMA SECTOR (*contd...*)

Sector outlook: Positive

- Though the y-y growth has been affected due to lack of approvals in US market and relatively moderate growth in DF segment, we continue to maintain positive stance on pharma sector, as long term structural drivers remain intact.
- The robust ANDA pipeline for US market gives us enough confidence for better growth going forward, subject to USFDA approvals.
- Pharma companies have been moving up the value curve in US market, with remarkable shift in quality of product filing for US market. The product filing has been towards limited competition products which would not only maintain sustainable revenue but also improve operating margin considerably.
- New product launches with increased traction in existing products would maintain sales momentum for Pharma companies in DF segment.
- Pharma companies continue to explore other emerging market, which are expected to show superior growth than regulated markets in medium term.
- During the quarter, we initiated coverage on INDR with BUY rating and price target of Rs392, based on 20x FY17E EPS of Rs19.6
- During the quarter, we upgraded JOL from SELL to HOLD, based on better business outlook.
- During the quarter, we terminated coverage on Sharon Bio-medicine based on lower business visibility and delay in key trigger to pan out.
- Our preferred picks are ARBP, CDH, LPC and SLPA as key triggers in each of the stocks are yet to play out and valuation has also not yet factored it.
- The unfavorable currency movement, delay in ANDA approvals and failure in R&D effort remains the key risk to our call and estimates.

PHARMA SECTOR (contd...)

Valuations & Recommendations:

Company	Bloomberg Code	Sales (Rs mn)			EBITDA Margin(%)			Adj. PAT (Rs mn)			EPS (Rs)			ROE (%)			P/E (x)			CMP (Rs)	Target Price (Rs)	Reco
		FY15E	FY16E	FY17E	FY15E	FY16E	FY17E	FY15E	FY16E	FY17E	FY15E	FY16E	FY17E	FY15E	FY16E	FY17E	FY15E	FY16E	FY17E			
Ajanta Pharma	AJP IN	14,329	17,159	20,095	37.9	15.0	13.7	3,128	3,498	4,244	88.5	99.0	120.1	30.3	27.1	22.3	22.3	23.6	19.5	2,340	2,402	HOLD
Alembic Pharma	ALPM IN	21,510	25,105	29,459	19.9	20.6	19.9	2,932	3,534	4,351	15.6	18.7	23.1	27.8	26.2	25.4	28.5	23.6	19.2	443	467	HOLD
Aurobindo Pharma	ARBP IN	120,180	138,858	156,682	21.4	0.2	0.2	16,029	19,805	22,828	55.1	68.1	78.4	34.9	34.2	31.6	19.8	16.0	13.9	1,088	1,412	BUY
Biocon	BIOS IN	31,231	36,207	41,928	21.0	20.7	22.7	4,001	4,488	5,184	20.2	22.7	26.2	12.1	12.4	13.0	22.0	19.7	17.0	446	466	HOLD
Cadila	CDH IN	84,145	99,013	114,370	20.1	21.0	21.1	10,887	13,933	16,448	53.2	68.1	80.3	25.6	26.4	25.3	30.5	23.9	20.2	1,624	1,767	BUY
Cipla	CIPLA IN	108,277	127,400	144,964	21.3	23.1	23.3	13,105	17,778	20,957	16.3	22.1	26.1	12.4	15.0	15.6	41.4	30.6	25.9	677	653	HOLD
Divis Lab	DIVI IN	30,485	36,437	43,590	37.0	37.5	37.9	8,267	10,148	12,390	62.3	76.4	93.3	25.2	26.5	27.6	26.7	21.7	17.8	1,663	1,868	HOLD
Dr Reddy	DRRD IN	150,023	169,881	192,914	22.6	22.2	21.9	22,035	24,401	28,281	129.4	143.3	166.0	25.7	24.1	23.7	25.9	23.4	20.2	3,355	3,819	BUY
Glenmark	GNP IN	67,804	80,458	94,056	20.0	20.7	20.4	7,077	9,669	10,824	25.9	35.5	39.8	24.8	25.8	25.1	30.1	22.0	19.6	780	710	HOLD
Indoco Remedies	INDR IN	8,793	11,126	13,174	20.0	20.8	21.0	1,072	1,519	1,805	11.6	16.5	19.6	20.2	23.8	23.7	27.4	19.3	16.3	319	392	BUY
Ipca Lab	IPCA IN	31,504	36,862	42,851	19.0	19.6	20.2	3,678	4,724	5,395	29.1	37.4	42.7	23.1	24.8	26.2	24.1	18.7	16.4	702	598	HOLD
JB Chemicals	JBCP IN	11,282	12,734		16.1	16.6	-	1,491	1,709		17.6	20.2		15.1	17.1	0.0	11.1	9.7		195	282	BUY
Jubilant LifeSciences	JOL IN	61,173	66,589	74,521	10.8	13.6	14.0	(1,162)	1,840	3,005	-7.3	11.6	18.9	1.8	10.5	15.2	-21.0	13.2	8.1	153	162	HOLD
Lupin	LPC IN	131,415	156,631	180,958	26.9	26.5	27.1	23,978	28,315	31,871	53.5	63.1	71.1	26.5	26.7	22.7	31.4	26.6	23.7	1,681	1,777	BUY
Shilpa Medicare	SLPA IN	6,114	7,642	11,032	20.5	21.6	22.1	809	1,118	1,631	21.0	29.0	42.3	17.1	19.3	22.2	42.5	30.8	21.1	893	690	HOLD
Sun Pharma	SUNP IN	186,437	209,053	235,272	44.9	44.2	44.0	63,949	70,932	80,506	30.9	34.2	38.9	49.2	51.8	56.0	29.7	26.8	23.6	917	921	HOLD
Torrent	TRP IN	47,452	56,145	63,140	22.3	21.9	22.1	7,899	9,120	10,210	46.7	53.9	60.3	30.8	27.7	25.0	24.5	21.2	18.9	1,143	1,010	HOLD

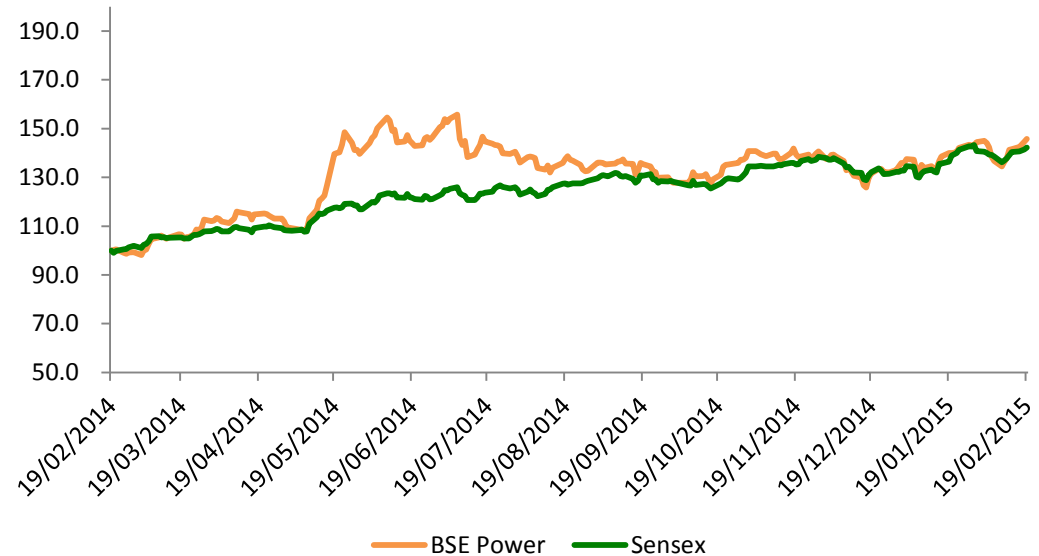
Sources: Company filings; IndiaNivesh Research

POWER SECTOR

PSU's performed well Vs Private players

Top line grew on back of capacity addition and tariff hike, however bottom line was impacted by increase in depreciation and interest expenses.

Performance (%)	1m	3m	12m
BSE Power	3.6%	3.4%	42.4%
Sensex	4.2%	5.1%	42.2%



International coal prices were favorable for independent power producers

Power sector posted mixed performance in Q3FY15. International coal prices were favorable during the quarter leading to lower fuel prices.

Among PSUs, NTPC's and PGCIL showed decent revenue growth on the back of higher capitalization of assets . Coal India reported number lower than our expectation due to lower e-auction volume.

Among IPP's JSW Energy witnessed higher volume which was offset by lower realization. Adani power and Tata power's earning was impacted due to lower volume coupled with lower tariff. CESC reported EBITDA margin improvement from 22.9% to 23.1% yoy on account of improved operational performance at Spencer.

POWER SECTOR (contd...)

Q3FY15 Review

Company	Q3FY15			Margin %		QoQ %			YoY %			Comments
	Sales	EBITDA	Adj. PAT	EBITDA	Adj. PAT	Sales	EBITDA	Adj. PAT	Sales	EBITDA	Adj. PAT	
Coal India	1,77,629	34,800	32,625	19.6	18.4	13.0	68.0	49.0	5.0	(15.0)	(16.0)	Revenue increased 5% y/y to Rs 177.62 bn due to increased volume. EBITDA margin contracted significantly y-o-y by 465 bps to 19.6% due to increase in employee cost, overburden removal adjustment and contractual expenses.
NTPC	1,85,887	46,597	23,815	25.1	12.8	17.0	9.0	20.0	4.0	22.0	17.0	On back of higher generation ~60.75 bn units (+3.7% y/y; 10% q/q), topline grew by 4% y/y. EBITDA margin expanded 534 bps QoQ to 24.7% due to lower fuel and staff cost. Adj PAT stood at Rs 23.81 bn (-17% y/y) on account of higher depreciation and interest cost.
Powergrid	43,536	37,697	12,387	86.6	28.5	4.2	5.0	3.1	8.9	11.2	0.0	Total Revenue increased by 8.85% y-o-y and 4.2% q-o-q to Rs. 43.53 bn due to higher income from transmission business though offset by lower income from consultancy and telecom business. EBITDA margins for the quarter went up 186 bps y-o-y to 86.6% led by absence of purchase of stock in trade. Company reported net profit of Rs. 12.38bn (-0.04% y/y; +3.10% q/q) due to higher interest expenses and depreciation
Rpower	17,315	6,279	2,544	36.3	14.7	(2.9)	5.1	0.5	26.1	25.5	(4.8)	Revenue increased by 26.1% y-o-y to Rs. 17.3 bn due to higher volumes (Sasan project). • Reported net profit stood at Rs 2.54 bn (+0.5% q/q; -4.8% y/y). This reflects Interest cost (+3.3% q/q; 49.9% y/y) to Rs 2.69 bn and Depreciation (+33.4% y/y) to Rs 1.38 bn.
Tatapower	88,066	15,120	1,979	17.2	2.2	5.0	(11.0)	nmf	1.0	6.0	nmf	Net sales increased on the back of higher revenue from CGPL and TPTCL. EBITDA margin decline due to higher cost of fuel and power purchase during the quarter.

Source: Company, IndiaNivesh Research

Imported coal prices fell , ST prices increased Average Imported coal prices (during the quarter) stood at ~USD 58/ton against USD68/ton in Q2FY15 and USD78/ton in Q3FY14. The short term prices stood at Rs. 3.5/unit in Q3FY15 vs. Rs. 3.6/unit in Q3FY14
Appreciation of INR favorable for IPP's: International coal prices were favorable sequentially for independent power producers like Tata Power, JSW Energy and Adani power. These companies have higher exposure on imported coal and large dollar-denominated debt

Tata power non recognition of compensatory tariff: Among IPP's PAT growth of Tata power and Adani power would be suppressed due to losses from Mundra Plant. Although CERC had allowed a tariff hike, it has been referred back to the Appellate Tribunal for Electricity by the Supreme Court and will be reviewed. As the final tariff award is pending, Tata power is not booking the approved compensatory tariff

POWER SECTOR (contd...)

Valuation

Company Name	M-Cap (Rs Mn)	Sales (Rs Mn) FY16E	EBITDA (Rs Mn) FY16E	Adj. PAT (Rs Mn) FY16E	P/E FY16E (x)	EPS (Rs) FY16E	P/BV FY16E (x)	CMP (Rs)	Rating	Price Target (Rs.)
Coal India	23,81,585	8,90,546	1,91,494	1,80,161	13.2	28.5	4.5	380	BUY	467
NTPC	11,87,347	8,97,736	2,09,120	99,621	11.9	12.0	1.3	146	BUY	190
Powergrid	7,99,125	2,10,265	1,80,051	66,617	12.0	12.7	1.9	153	BUY	164
Reliance power	1,68,308	89,011	39,784	19,735	8.5	7.0	0.8	63	BUY	110
Tata power	2,27,459	3,75,140	78,611	14,038	16.2	5.5	1.5	84	BUY	104

Source: Company, IndiaNivesh Research

Outlook

While the capacity addition and the private participation have been encouraging developments in the sector, there have been several problems plaguing the sector. The inadequate domestic fuel availability and the weak financial condition of the state electricity boards (which own more than 90% of the distribution in the country) are the key investment deterrents. Most private producers' projects are jeopardized due to non-availability of fuel, both coal and gas. Most power units are operating at below optimal plant load factors, leading to bleeding profit and loss accounts and debt-laden balance sheets.

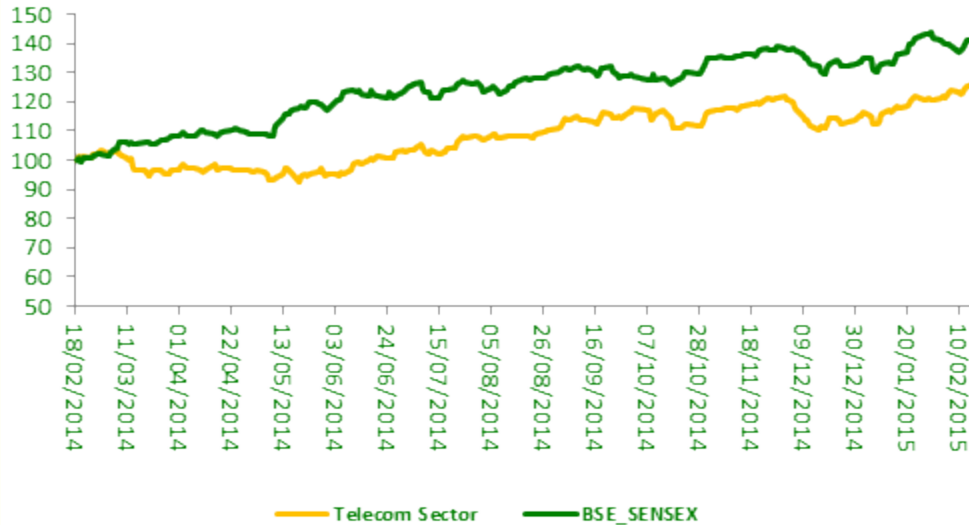
We expect government will come up with policy measures to address the key issues plaguing the growth of power sector and help kick-start the weak investment cycle. Likely policy actions by government would be 1) Ensure availability of fuel, both coal and gas. 2) Auction of coal blocks 3) Easing of environment norms to help in ramp up coal and gas production and 4) Restructuring of SEB's to make them profitable.

Top Pick

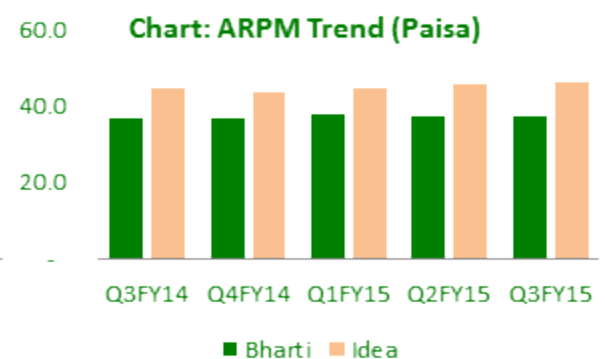
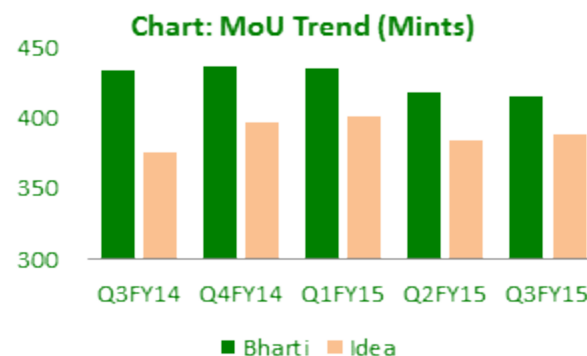
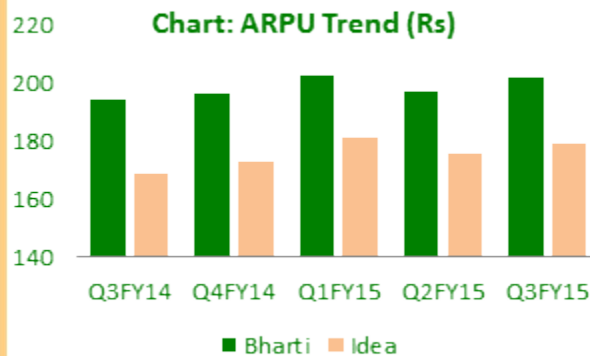
We prefer Tata power, Power Grid, RPower, Coal India and NTPC.

TELECOM SECTOR

Competitive Intensity Key Risk | Top Picks: Bharti/Idea



- Telecom sector reported strong quarterly performance along with constant improvement in KPIs. The strong EBITDA margin uptick during last eleven quarters was on back on conscious strategy to curtail discount minutes.
- The key hangover for telecom sector is Reliance-JIO launch, which could lead to increase in competitive intensity. This may increase price war in high margin and high growth data business.
- As a result, we are of the view that Telecom stocks are likely to underperform the broader index over medium-term. We maintain HOLD rating on Bharti and Idea.



Source: Company filings; IndiaNivesh Research

TELECOM SECTOR (contd...)

Bharti: Key Result Take Away

- Q3FY15 performance was mixed-bag. Revenue growth was driven by 2.5% Q/Q increase in India business, partially offset by 1.1% Q/Q decline in the international (Africa/South-Asia) segment.
- The company's net-debt during the quarter stood at Rs.572 bn (v/s Rs.677 bn in Q2FY15). Finance cost (Incl forex) stood at Rs.10.5 bn (v/s Rs.10.2 bn in Q2FY15). Non-voice share stood at 22.6% (v/s 20.2% in Q2FY15) led by strong growth in data business.
- Bharti (Africa-Mobile) EBIDTA went down 180 bps Y/Y to 21.9% due to increase in the operating cost. Revenue stood at Rs.68.3bn, down 1.0% Q/Q due to currency depreciation relative to USD. Subscriber base increased 4.5% Q/Q despite promotional bans in Nigeria and KYC changes in Uganda. Voice ARPU during the quarter stood at \$3.9 (v/s \$4.1 in Q2FY15). Voice MoU/per user per month increased to 1.6% Q/Q to 140.0 minutes.

Idea: Key Result Take Away

- Q3FY15 result was mixed-bag. Top-line grew by 21.2% Y/Y (+5.9% Q/Q) to Rs.80.2bn on account of 5.1% Q/Q increase in volume (Total MoU) and 4.7% Q/Q increase in subscriber addition.
- ARPM went-up to 46.3 paisa (v/s 45.9 paisa in Q2FY15). VAS share increased sequentially to 23.1% v/s 21.1% in Q2FY15 led by increase in data subscribers and stability in messaging business.
- During the quarter, the consolidated net debt stood at Rs.142bn (v/s Rs.146 in Q2FY15). During the quarter, the capex and net debt amounts were higher by around Rs.814 million each due to forex loss on account of currency fluctuation. ARPU during the quarter went up by 1.1% Q/Q to Rs.178 (v/s Rs.176 in Q2FY15).

Company	Q3FY15			Margin %		QoQ %			YoY %			Comments
	Sales	EBITDA	PAT	EBITDA	PAT	Sales	EBITDA	PAT	Sales	EBITDA	PAT	
Bharti	2,32,281	77,857	14,365	33.5	6.2	1.7	1.0	3.9	5.9	9.8	135.4	Mixed set of performance–Africa business de-grew
Idea	80,175	27,527	7,670	34.5	9.6	5.9	10.5	1.5	21.2	33.9	64.0	Mixed Set of Performance; Maintain HOLD

Source: Company filings; IndiaNivesh Research

TELECOM SECTOR (contd...)

Valuations

Company Name	Mcap (Rs Mn)	Sales (Rs. Mn)		EBITDA (Rs.Mn)		PAT (Rs. Mn)		EPS (Rs.)		EV/EBITDA		RECO	CMP Rs	TARGET Rs
		FY15E	FY16E	FY15E	FY16E	FY15E	FY16E	FY15E	FY16E	FY15E	FY16E			
Bharti Airtel	14,14,080	9,60,690	10,47,152	3,14,757	3,49,474	29,683	36,650	8.7	10.7	6.5	5.9	HOLD	354	399
Idea Cellular	5,50,434	3,10,272	3,50,608	1,02,390	1,15,701	27,925	33,308	7.9	9.4	6.3	5.4	HOLD	153	160

Source: Company Fillings; IndiaNivesh Research

Note: CMP as of 16 Feb 2015

Outlook

Industry wide rational decision making like - (I) increase in headline tariffs, and (II) curtailment of freebies remains positive for the overall sector. Further, the softened stance from regulators towards telcos should resolve various unfavourable pending issues (one-time penalty). Additionally, high growth in data revenue and improving voice ARPM remains the key positives. However, Reliance-JIO 4G launch may increase the competitive intensity, which may lead to price war in high margin data business. Additionally, the competitive intensity in the upcoming spectrum action would be key watchable. We continue to maintain HOLD rating on Bharti & Idea.

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