Motilal Oswal

December 2016

India Strategy

Decoding earnings impact

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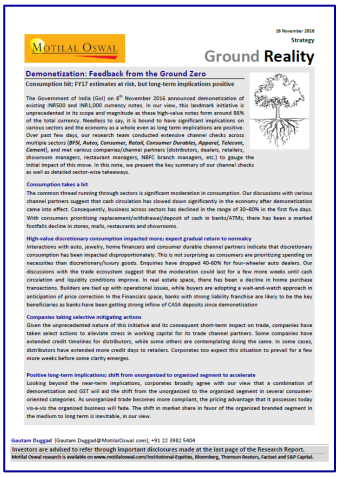
Contents: Demonetization – decoding earnings impact

Demonetization

Please refer to our Ground Reality report on Demonetization



16 November 2016

Strategy

Ground Reality

Demonetization: Feedback from the Ground Zero

Consumption hit; FY17 estimates at risk, but long-term implications positive

The Government of India (GoI) on 8th November 2016 announced demonetization of existing INR500 and INR1,000 currency notes. In our view, this landmark initiative is unprecedented in its scope and magnitude as these high-value notes form around 86% of the total currency. Needless to say, it is bound to have significant implications on various sectors and the economy as a whole even as long term implications are positive. Over past few days, our research team conducted extensive channel checks across multiple sectors (*BFSI, Autos, Consumer, Retail, Consumer Durables, Apparel, Telecom, Cement*), and met various companies/channel partners (distributors, dealers, retailers, showroom managers, restaurant managers, NBFC branch managers, etc.) to gauge the initial impact of this move. In this note, we present the key summary of our channel checks as well as detailed sector-wise takeaways.

Consumption takes a hit

The common thread running through sectors is significant moderation in consumption. Our discussions with various channel partners suggest that cash circulation has slowed down significantly in the economy after demonetization came into effect. Consequently, business across sectors has declined in the range of 30–80% in the first five days. With consumers prioritizing replacement/withdrawal/deposit of cash in banks/ATMs, there has been a marked footfalls decline in stores, malls, restaurants and showrooms.

High-value discretionary consumption impacted more; expect gradual return to normalcy

Interactions with auto, jewelry, home financers and consumer durable channel partners indicate that discretionary consumption has been impacted disproportionately. This is not surprising as consumers are prioritizing spending on necessities than discretionary/luxury goods. Enquiries have dropped 40-60% for four-wheeler auto dealers. Our discussions with the trade ecosystem suggest that the moderation could last for a few more weeks until cash circulation and liquidity conditions improve. In real estate space, there has been a decline in home purchase transactions. Builders are tied up with operational issues, while buyers are adopting a wait-and-watch approach in anticipation of price correction In the Financials space, banks with strong liability franchise are likely to be the key beneficiaries as banks have been getting strong inflow of CASA deposits since demonetization

Companies taking selective mitigating actions

Given the unprecedented nature of this initiative and its consequent short-term impact on trade, companies have taken select actions to alleviate stress in working capital for its trade channel partners. Some companies have extended credit timelines for distributors, while some others are contemplating doing the same. In some cases, distributors have extended more credit days to retailers. Corporates too expect this situation to prevail for a few more weeks before some clarity emerges.

Positive long-term implications; shift from unorganized to organized segment to accelerate

Looking beyond the near-term implications, corporates broadly agree with our view that a combination of demonetization and GST will aid the shift from the unorganized to the organized segment in several consumer-oriented categories. As unorganized trade becomes more compliant, the pricing advantage that it possesses today vis-a-vis the organized business will fade. The shift in market share in favor of the organized branded segment in the medium to long term is inevitable, in our view.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

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Demonetization – decoding earnings impact

Operating deleverage coming to the fore; B2C sectors impacted more

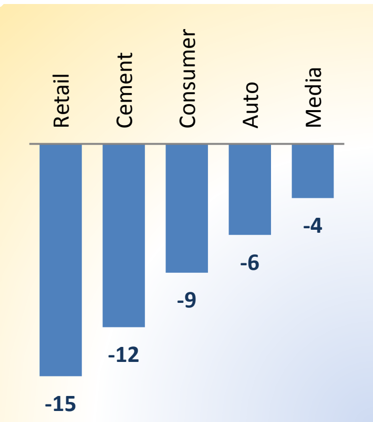
Demonetization is an unprecedented reform undertaken by the Government of India with significant implications for the Indian economy and markets. This is going to have a bearing on the investment frameworks in the near term and could drive several changes in the portfolios. In this report we try to assess the earnings impact for our MOSL Universe.

Demonetization; an unprecedented reform

We believe demonetization announced by the Government of India is an unprecedented reform that should have far-reaching implications for the Indian economy and in turn the corporate sector. We believe demonetization will cause some short-term pain (moderation in economic growth, disruption of trade, lower activity in informal sector, disturbance in supply chain and sundry other business activities, etc.), but long-term gain (better tax compliance across sectors, higher share of organized trade, enhanced transparency will benefit the corporate sector). Our research team has been continually interacting with many companies, channel partners, industry experts and business heads over the past three weeks. We have already **released a report highlighting detailed ground zero** feedback after the first week of demonetization.

In this note, we have tried to assess the prima facie impact on our coverage universe based on our discussions/meetings with stakeholders across sectors. As we write this report, the situation on ground is still fluid, and the government, regulators and corporates have been taking a number of initiatives to adapt to the tides of change this event has brought in. Our numbers thus have both upside/downside risks. We may have to make more adjustments to our numbers towards the end of the quarter.

2HFY17 EBIDTA cut (%)



Operating deleverage impact coming to the fore

Demonetization-driven sales moderation will bring to fore operating leverage/deleverage of the business model. We believe cost levers available to manage the adverse impact of revenue moderation are limited (cut in advertising/promotion expenses, shutdown of production lines). Thus, volume moderation or reduction in footfalls, as the case maybe, will cause disproportionate impact on EBITDA. We expect sectors like auto, cement and retail to bear the maximum brunt of operating deleverage, given inherent fixed costs residing in their respective P&L. For example, in auto, our 2HFY17 EBITDA estimates are cut by 6% for a 3% cut in sales. Similarly, in cement, our 2HFY17 EBITDA estimates are cut by 12% for a 10% cut in sales. In FMCG, our EBITDA estimates are cut by 9% for a 6% cut in sales, and in retail, we cut our EBITDA by 15% for a 6% cut in sales. Operating deleverage impact is also expected in mid-caps like Bata, Arvind, TTK, PVR and Inox Leisure, where we are building in sharper earnings cuts.

Exhibit 1: Operating leverage is prominent in several sectors

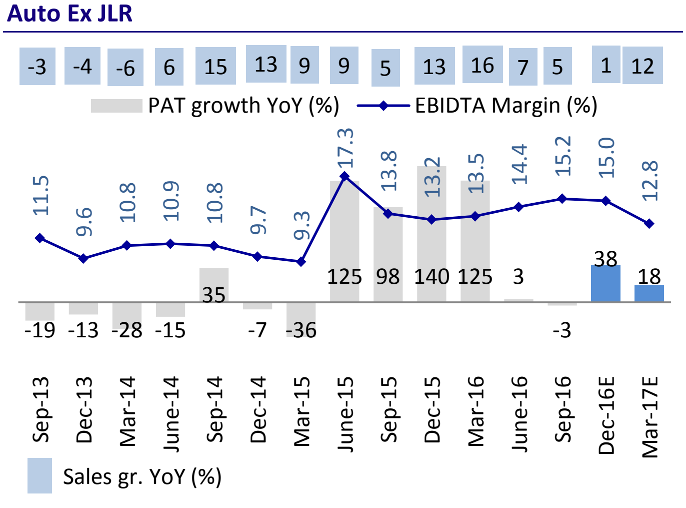
	Common Size: (Net Sales=100)			
Sector (FY16)	**Net Sales**	**RM/ Variable Cost**	**Fixed Cost**	**EBIDTA**
Auto & Auto Ancillaries	100	60	27	13
Building Materials	100	45	43	12
Cement	100	64	20	16
Consumer Durables	100	65	26	9
Consumer	100	49	33	19
Retail	100	59	33	7

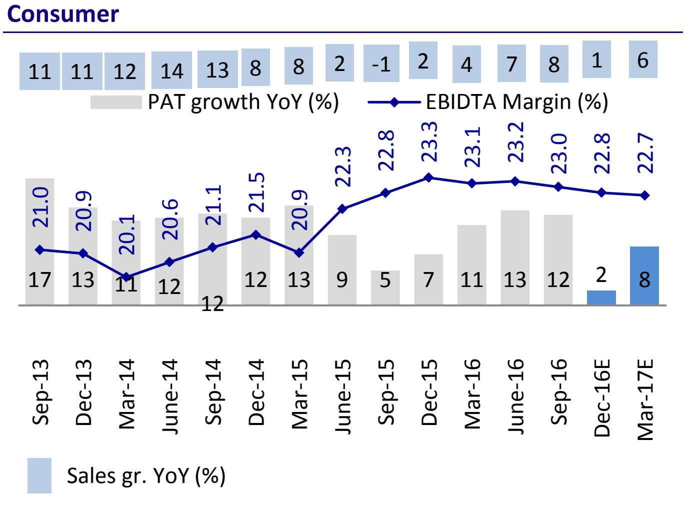
Source: Capitaline; Note: For Cement P&F & Selling Exp taken as Variable cost

Twist in the story – from normal monsoon and 7th Pay Commission-driven consumption boost to demonetization-led consumption disruption

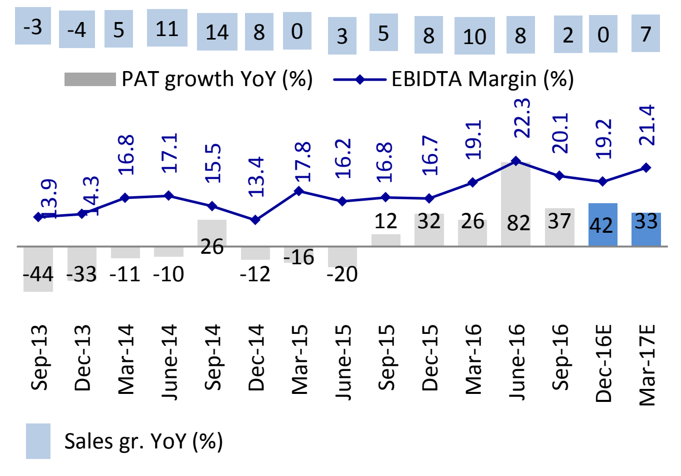
Consensus and our own expectations of 2HFY17 consumption boost from normal monsoon after two consecutive years of drought and from 7th Pay Commission payouts are partly mitigated by demonetization-driven consumption disruption. In our 2QFY17 preview note, we had articulated our expectation of 2HFY17 cyclical recovery, driven by narrowing WPI-CPI gap, moderating interest rates and very favorable base for select cyclicals like metals and PSU banks. However, the earnings narrative has now changed. Earnings and consequently market performance in the near term will be a function of pace of re-monetization and recovery in consumer-facing businesses, in our view. Needless to say, global factors like global bond yields, capital flows and currency movement will also weigh. Second, the phase of commodity cost tailwinds – which drove margin expansion over FY14-16 – is now behind as commodity costs have bottomed out. This could pose downside risks to margins in an environment of demand compression.

Exhibit 2: Bottoming out of commodity costs could pose threat to margins for sectors which reaped maximum benefits of commodity cost tailwinds over FY14-16

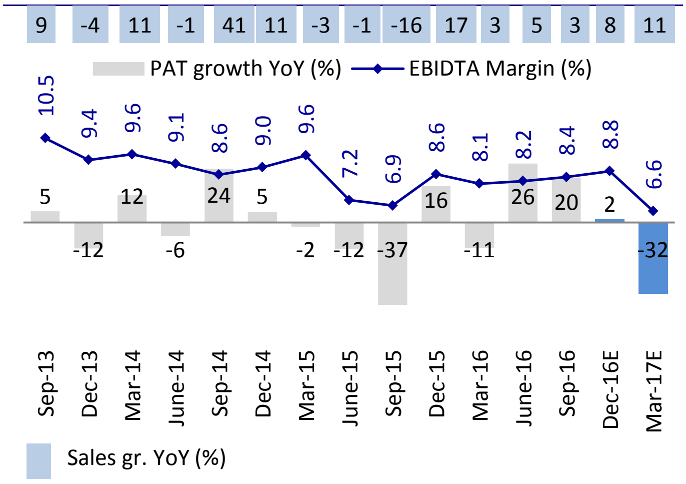




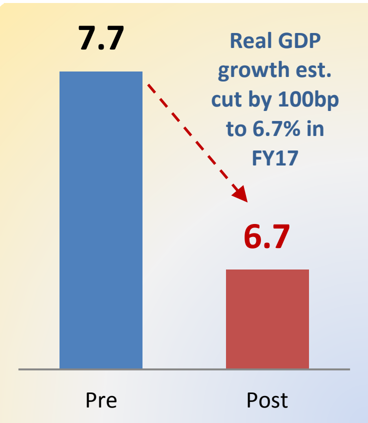
Cement



Retail



FY17 GDP growth (%)



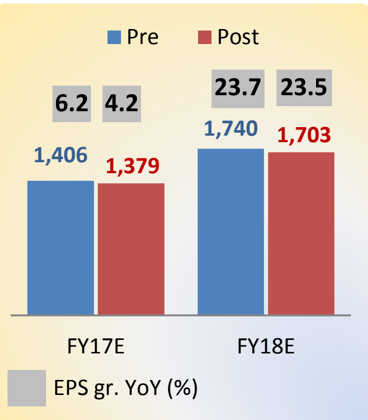
GDP growth for FY17 revised downward to 6.7%

In our earlier note, we had highlighted that M3 will be adversely impacted by the share of currency in circulation that does not come back to the system. We are lowering our M3 growth estimate for FY17 from 11.1% pre-demonetization to 10.3% now.

Also, we believe that the velocity could fall by 1% in FY17. Accordingly, as per QTM, nominal GDP growth will be downgraded by 130bp – from pre-demonetization forecast of 11.5% to 10.2%. Further, with slower demand and cautious spending kicking in, prices are likely to adjust downward.

Accordingly, GDP deflator could grow 3.3% in FY17, as against our pre-demonetization forecast of 3.6%. Consequently, with expected growth of 10.2% (down from 11.5%) in nominal GDP and 3.3% (down from 3.6%) in GDP deflator, real GDP growth is likely to be downgraded by 100bp to 6.7%, as against our pre-demonetization forecast of 7.7%. Our FY18 GDP growth forecast, however, remains unchanged at 7.4%.

~2% downgrade in Sensex EPS



Sensex EPS estimate cut by 2%; forecast 4% EPS growth in FY17

In the last three months our estimates have seen two rounds of downgrades. **Round one** is attributed to the continued pain from the NPA clean-up in Banks. SBI's consolidated earnings estimates were cut 30% owing to harmonization of asset book of its subsidiaries while Axis Bank's estimates were cut 58% post 2QFY17 earnings led by miss on asset quality. Together these two accounted for the 80% of the 5.8% earnings cut in Sensex earnings post 2QFY17 results. In **round two**, we further revise our Sensex EPS downward by 2% for both FY17E and FY18E to account for the demonetization impact. Our revised FY17/FY18 Sensex EPS stands at INR1,379/1,703. As 10 Sensex companies reported their 2QFY17 results after 8-November, our revised estimates also incorporate the changes pertaining to quarterly results.

In our MOSL universe, sectors contributing 46% of FY17E PAT are impacted by demonetization (Auto, Cement, Consumer, BFSI, Media, Metals and Retail). Oil & Gas (22% of PAT), Technology (15%), Utilities (7%) and Healthcare (5%) are insulated from the impact of demonetization, given their specific business models.

We now expect Sensex EPS to grow 4%/24% for FY17/18, as against our earlier expectations of 12%/21%.

We cut our Nifty EPS for FY17E/FY18E by 2% each. We now expect Nifty EPS to grow 8%/23% in FY17/18, as against our earlier forecast of 10%/24%, to INR424/523. From 2HFY17 perspective, we expect Nifty PAT to grow 14%, as against our earlier projection of 17%. In Nifty, sectors which have seen meaningful cut in 2HFY17 estimates are Cement (-12%), Auto (-7%), Consumer (-7%), PSU Banks (-5%), Media (-5%) and NBFC (-4%).

From 3QFY17/4QFY17 perspective, we expect Nifty PAT to grow 14%/13.7%, as against our earlier estimate of 19%/16%, a cut of 4%/2%. Cement (-15%), Auto (-14%), PSU Banks (-9%), Consumer (-9%) and NBFC (-6%) have seen the maximum earnings cut in 3QFY17 estimates.

MOSL universe estimates revised marginally downward; sectors contributing 47% of MOSL universe PAT impacted

Our broader MOSL universe PAT estimates have been revised marginally downward by 2%/3% for FY17/18. Cement, Autos, Consumer, PSU Banks, NBFC, Media, Metals and Retail estimates have been revised downward by 18%, 4%, 4%, 10%, 2%, 2%, 4% and 10%, respectively.

We now expect our MOSL universe PAT to grow by 19%/24%, as against earlier expectations of 22%/25%, in FY17/FY18. For 2HFY17, we now forecast 32% PAT growth v/s earlier expectations of 37% (cut of 4%).

For 3QFY17/4QFY17, our profit estimates are revised downward by 4%/3%, with estimated growth of 26%/38% v/s earlier projections of 31%/42%.

MOSL Universe PAT growth (%)

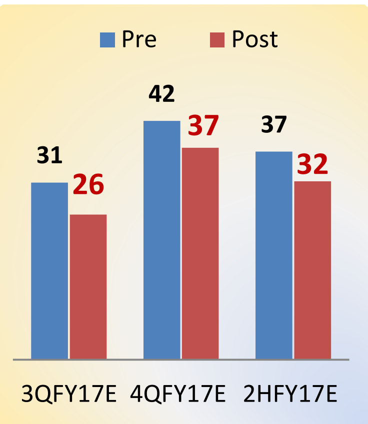


Exhibit 3: Sector-wise 3QFY17 estimate changes: Cement and auto most impacted in 3QFY17

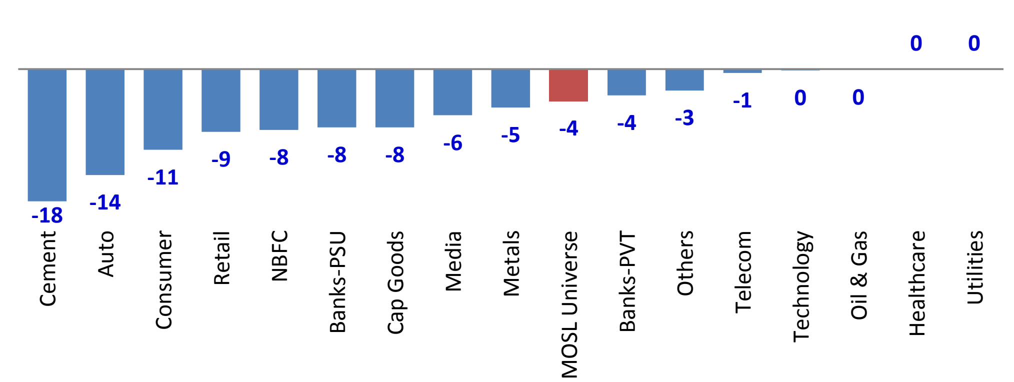


Exhibit 4: Sector-wise 2HFY17 estimate changes: Retail, cement and consumer most impacted

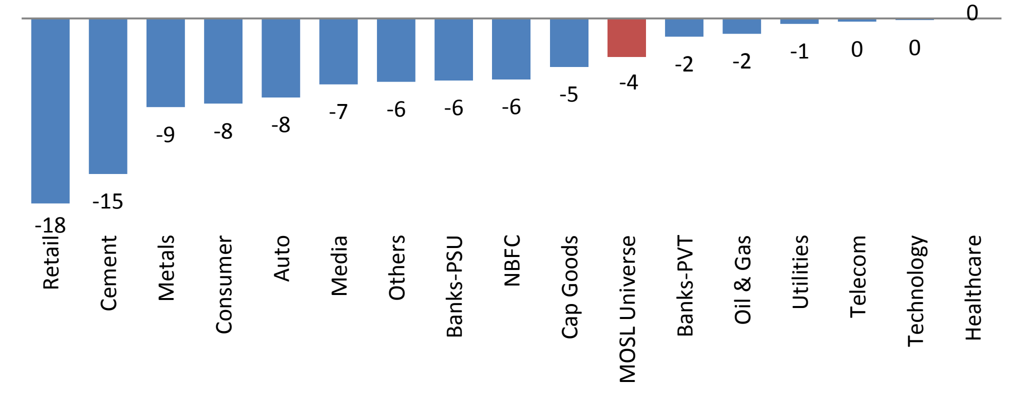
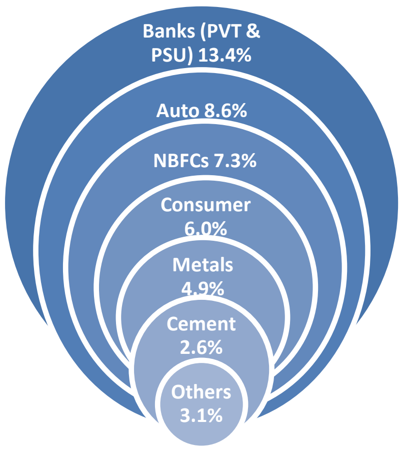


Exhibit 5: MOSL UNIVERSE - Pre- and post-demonetization estimate changes (INR B)

	PAT Pre demonetization		PAT-Post demonetization		% Change Post v/s pre (FY17E)			FY17E growth YoY (%) pre demonetization			FY17E Growth YoY (%) Post demonetization			FY17E Contribution to PAT (%)		FY17E Contribution to PAT Gr. (%)	
(No of Cos)	FY17E	FY18E	FY17E	FY18E	Sales	EBIDTA	PAT	Sales	EBIDTA	PAT	Sales	EBIDTA	PAT	Pre*	Post*	Pre*	Post*
Sector impacted by demonetization																	
Auto (13)	386	545	369	516	-1.7	-3.0	-4.4	7.1	5.3	14.1	5.3	2.2	9.0	8.8	8.6	5.9	4.4
Cement (13)	139	202	113	155	-5.1	-8.0	-18.4	8.8	31.9	78.2	3.3	21.3	45.4	3.2	2.6	7.6	5.1
Consumer (18)	272	325	260	310	-2.8	-4.4	-4.4	8.5	10.1	12.9	5.5	5.3	7.9	6.2	6.0	3.9	2.7
Financials (35)	920	1,259	891	1,222	-1.8	-0.2	-3.1	8.3	14.4	48.4	6.3	14.3	43.8	20.9	20.7	37.4	38.8
Pvt Banks (12)	417	515	413	510	-1.2	-0.8	-0.9	13.9	16.1	2.7	12.5	15.2	1.8	9.4	9.6	1.3	1.0
PSU Banks (10)	183	370	165	350	-2.2	1.3	-9.8	2.9	13.3	LP	0.6	14.7	LP	4.1	3.8	31.5	33.5
NBFC (13)	320	374	313	362	-1.9	-2.4	-2.2	15.2	14.4	13.0	13.0	11.6	10.5	7.3	7.3	4.6	4.3
Media (11)	38	56	38	55	-0.6	-1.1	-2.0	14.3	21.5	16.8	13.5	20.2	14.5	0.9	0.9	0.7	0.7
Metals (9)	218	293	209	298	-0.8	-1.4	-4.3	7.0	56.7	63.0	6.1	54.5	55.9	5.0	4.9	10.5	10.7
Retail (3)	10	12	9	11	-3.1	-8.7	-10.0	9.8	19.0	14.1	6.4	8.6	2.6	0.2	0.2	0.2	0.0
Others (29)	92	118	87	116	-1.5	-2.8	-4.6	11.7	12.0	14.4	10.0	8.9	9.2	2.1	2.0	1.4	1.0
Sector relatively less impacted by demonetization																	
Capital Goods (16)	123	160	126	157	-0.3	-1.4	2.8	10.5	32.7	39.9	10.1	30.8	43.8	2.8	2.9	4.4	5.5
Healthcare (16)	230	302	230	302	0.0	0.0	0.0	10.6	8.1	16.7	10.6	8.1	16.7	5.2	5.3	4.1	4.7
Oil & Gas (12)	953	1,041	947	1,027	-0.8	-0.5	-0.6	2.8	20.7	24.9	2.0	20.1	24.1	21.6	22.0	23.7	26.3
Technology (13)	629	711	628	711	0.0	0.0	-0.1	14.4	10.3	7.5	14.4	10.2	7.4	14.3	14.6	5.5	6.2
Telecom (3)	84	70	84	70	0.0	0.0	-0.1	3.1	3.0	-16.8	3.1	3.0	-16.9	1.9	1.9	-2.1	-2.4
Utilities (4)	287	350	287	345	-0.1	-0.2	-0.3	4.2	6.3	-9.4	4.2	6.1	-9.6	6.5	6.7	-3.7	-4.4
MOSL (204)	**4,410**	**5,489**	**4,308**	**5,338**	**-1.0**	**-1.0**	**-2.3**	**6.7**	**15.8**	**22.2**	**5.6**	**14.6**	**19.4**	**100**	**100**	**100**	**100**

*Demonetization

Sectors contributing 46% of universe PAT impacted



Key sector highlights

While index-level impact is limited, some sectors have seen disproportionate earnings cut, given inherent operating leverage in P&L. We can look at the auto sector, for example. EPS cut amounts to 15% for CV players like AL. CV companies have seen the highest EBITDA margin cut (of 130-140bp) due to higher fixed costs, while companies like TVSL, HMCL and MM have seen limited EBITDA margin cut due to better mix led by higher rural exposure.

We have cut our EBITDA/ton estimates for cement companies by up to 17% to factor in the impact of operating deleverage. This has resulted in downward earnings revision of 18% for FY17/FY18. In staples, FY17 earnings cuts range from 3-19%. However, as we expect normalcy to restore by FY18, the cut in target price is lower v/s cut in earnings estimates (our target prices are based on Dec'18 EPS). Aggregate consumer estimates have been revised downward by 4% for FY17.

Within consumer durables, we have seen higher cuts in electricals than durables, as most electrical categories have high dependence on cash sales (given the low ticket size, EMI sales are largely absent). We have cut our estimates by 20-27% for Havells and Crompton Greaves, but upgraded our rating to **Buy** given the recent correction in these stock prices. In BFSI, we have cut our estimates for PSU banks by 10%. FY17 estimates for NBFCs have been lowered by 3-15%, with material cuts for BHAFIN, Repco and Muthoot. In aggregate, NBFC profits have been revised downwards by 3%.

Exhibit 6: Top 25 3QFY17 earnings estimates downgrades

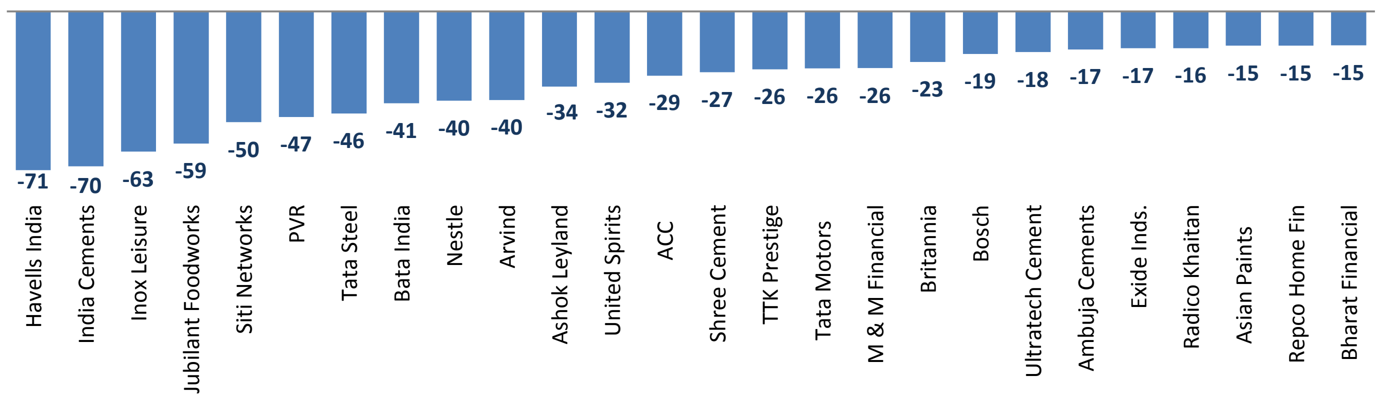
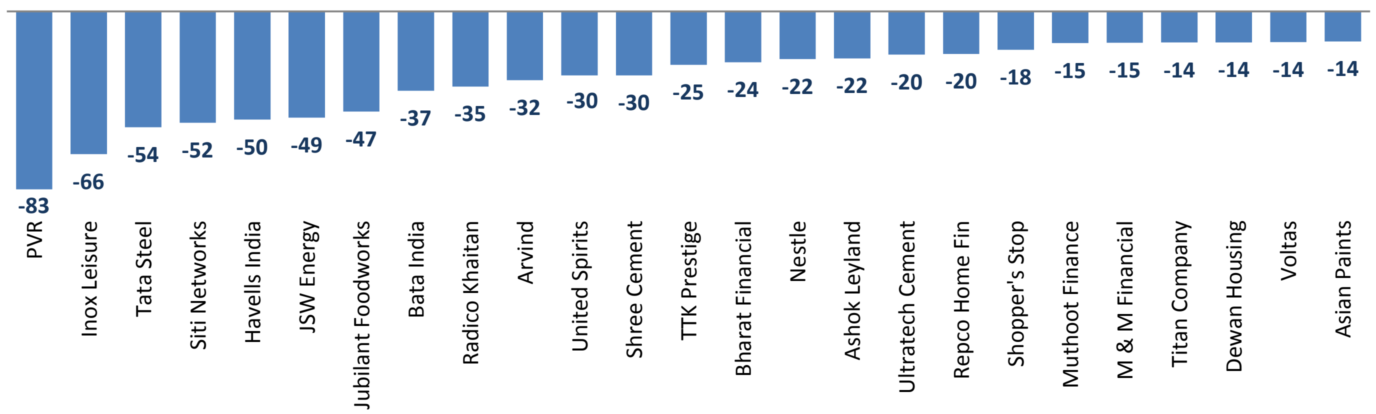


Exhibit 7: Top 25 2HFY17 earnings estimates downgrades



DEMONETIZATION: 46% of the universe is likely to get impacted

Sectors impacted by demonetization

	FY17E Growth YoY (%)				
	SALES	EBIDTA	PAT	FY17E Contr. to PAT (%)	IMPACT
PRIVATE BANKS	12.5	15.2	1.8	9.6	Growth to moderate; C/I to rise
AUTO	5.3	2.2	9.0	8.6	CVs to bear the maximum brunt
NBFC	13.0	11.6	10.5	7.3	Higher spreads to compensate for lower growth
CONSUMER	5.5	5.3	7.9	6.0	Staples to bounce-back earliest
METALS	6.1	54.5	55.9	4.9	Long steel products are worse impacted
PSU BANKS	0.6	14.7	LP	3.8	Higher opex to offset trading gains
CEMENT	3.3	21.3	45.4	2.6	One of the most impacted sectors
OTHERS	10.0	8.9	9.2	2.0	Mid-cap consumption stocks to be impacted
MEDIA	13.5	20.2	14.5	0.9	Ad-spends of clients being recalibrated
RETAIL	6.4	8.6	2.6	0.2	Lower footfalls to impact margins
TOTAL	6.0	15.9	28.8	46	

Sectors relatively less impacted by demonetization

	FY17E Growth YoY (%)				
	SALES	EBIDTA	PAT	FY17E Contr. to PAT (%)	IMPACT
OIL & GAS	2.0	20.1	24.1	22.0	OMCs benefited for a month
TECHNOLOGY	14.4	10.2	7.4	14.6	Export-oriented business model
UTILITIES	4.2	6.1	-9.6	6.7	No impact due to B2B models. Eventual beneficiaries of lower interest rates.
HEALTHCARE	10.6	8.1	16.7	5.3	Defensive sector with large proportion of export revenues
CAPITAL GOODS	10.1	30.8	43.8	2.9	B2B models
TELECOM	3.1	3.0	-16.9	1.9	Non-discretionary expense; old notes also allowed.
TOTAL	5.3	13.1	12.2	53	

Appendix

BSE Sensex: 26,237 **S&P CNX: 8,102** **December 2016**

Interesting Exhibits

Exhibit 8: Sensex estimate changes

		Pre demonetization PAT (INR b)		Post demonetization PAT (INR b)		Pre demonetization EPS (INR)		Post demonetization EPS (INR)		EPS Upgrade / Downgrade (%)	
Company	**Sector**	**FY17E**	**FY18E**	**FY17E**	**FY18E**	**FY17E**	**FY18E**	**FY17E**	**FY18E**	**FY17E**	**FY18E**
Bajaj Auto	Automobiles	42.6	51.5	40.6	48.4	147.3	177.9	140.3	167.3	-4.8	-6.0
Hero MotoCorp	Automobiles	37.8	44.4	36.5	41.7	189.2	222.4	182.7	208.7	-3.4	-6.1
Mahindra & Mahindra	Automobiles	43.1	56.3	40.5	51.3	72.0	94.1	67.7	85.7	-5.9	-8.9
Maruti Suzuki	Automobiles	80.3	97.4	78.1	94.8	265.7	322.3	258.6	313.8	-2.7	-2.6
Tata Motors	Automobiles	105.6	190.2	101.6	182.9	31.1	56.0	29.9	53.9	-3.7	-3.9
Axis Bank	Banks-Private	32.0	56.6	31.3	54.2	13.4	23.7	13.1	22.8	-2.2	-4.2
HDFC Bank	Banks-Private	147.8	177.7	147.2	178.7	58.5	70.3	58.2	70.7	-0.4	0.6
ICICI Bank	Banks-Private	100.2	106.0	99.0	104.9	17.2	18.2	17.0	18.0	-1.3	-1.1
State Bank	Banks-PSU	76.9	186.5	63.6	172.6	9.9	24.0	8.2	22.2	-17.3	-7.5
HDFC	NBFC	76.1	87.0	74.7	84.4	48.2	55.1	47.3	53.4	-1.9	-3.0
Larsen & Toubro	Capital Goods	53.9	62.9	53.9	62.9	57.7	67.3	57.7	67.3	0.0	0.0
Asian Paints	Consumer	20.8	24.8	19.3	22.0	21.7	25.8	20.2	23.0	-7.2	-11.0
Hind. Unilever	Consumer	44.1	49.7	43.1	48.5	20.4	23.0	19.9	22.4	-2.1	-2.3
ITC	Consumer	108.5	126.8	104.4	122.1	9.0	10.5	8.7	10.1	-3.7	-3.7
Cipla	Healthcare	14.5	20.5	14.5	20.5	18.1	25.6	18.1	25.6	0.0	0.0
Dr Reddy' s Labs	Healthcare	15.3	24.2	15.3	24.2	89.5	141.8	89.5	141.8	0.0	0.0
Lupin	Healthcare	27.7	34.7	27.7	34.7	61.6	77.0	61.6	77.0	0.0	0.0
Sun Pharma	Healthcare	69.4	94.8	69.4	94.8	28.8	39.4	28.8	39.4	0.0	0.0
Adani Ports	Infrastructure	29.1	31.1	33.6	34.2	14.1	15.0	16.2	16.5	15.2	10.0
Tata Steel	Metals	11.6	34.0	5.6	33.9	11.9	35.0	5.8	34.9	-51.6	-0.3
GAIL	Oil & Gas	35.9	46.2	35.9	46.2	28.3	36.4	28.3	36.4	0.0	0.0
ONGC	Oil & Gas	196.1	220.2	196.1	220.2	22.9	25.7	22.9	25.7	0.0	0.0
Reliance Inds.	Oil & Gas	312.0	327.9	306.2	313.4	105.8	111.2	103.9	106.3	-1.9	-4.4
Infosys	Technology	141.9	158.0	141.9	158.0	62.1	69.1	62.1	69.1	0.0	0.0
TCS	Technology	259.9	289.7	259.9	289.7	131.9	147.0	131.9	147.0	0.0	0.0
Wipro	Technology	85.4	97.9	84.9	97.9	34.7	40.3	34.5	40.3	-0.6	0.0
Bharti Airtel	Telecom	56.1	48.5	55.8	47.8	14.0	12.1	14.0	11.9	-0.5	-1.6
Coal India	Utilities	107.6	133.5	107.6	133.5	17.0	21.1	17.0	21.1	0.0	0.0
NTPC	Utilities	97.8	117.9	97.8	117.9	11.9	14.3	11.9	14.3	0.0	0.0
Power Grid Corp.	Utilities	74.4	87.8	74.4	87.8	14.2	16.8	14.2	16.8	0.0	0.0
SENSEX		**2,505**	**3,085**	**2,461**	**3,024**	**1,406**	**1,740**	**1,379**	**1,703**	**-2.0**	**-2.1**

Exhibit 9: Sensex 2HFY17 estimate changes

		PAT Pre demonetization (INR b)		PAT Post demonetization (INR b)		PAT growth Pre-Demo (%)	PAT growth Post-Demo (%)	Chg in 2HFY17
Company	**Sector**	**1HFY17**	**2HFY17**	**1HFY17**	**2HFY17**	**2HFY17**	**2HFY17**	**estimates (%)**
Bajaj Auto	Automobiles	21.0	21.6	21.0	19.6	16.8	5.8	-9.4
Hero MotoCorp	Automobiles	18.9	18.9	18.9	17.6	16.0	8.0	-6.9
Mahindra & Mahindra	Automobiles	21.5	20.5	21.5	17.8	40.0	21.2	-13.4
Maruti Suzuki	Automobiles	38.8	39.8	38.8	37.7	43.3	35.6	-5.4
Tata Motors	Automobiles	27.1	78.6	27.1	74.6	-3.8	-8.7	-5.1
Axis Bank	Banks-Private	18.7	13.3	18.7	12.6	-69.4	-71.0	-5.3
HDFC Bank	Banks-Private	66.9	80.9	66.9	80.2	20.1	19.2	-0.8
ICICI Bank	Banks-Private	53.3	46.9	53.3	45.6	26.1	22.7	-2.7
State Bank	Banks-PSU	50.6	57.0	50.6	54.1	139.4	127.2	-5.1
HDFC	NBFC	32.5	39.1	32.5	37.7	13.0	9.0	-3.6
Larsen & Toubro	Capital Goods	16.4	37.5	16.4	37.5	9.1	9.1	0.0
Asian Paints	Consumer	10.1	10.7	10.1	9.2	14.3	-1.6	-13.9
Hind. Unilever	Consumer	22.1	22.3	22.1	21.3	6.7	2.3	-4.1
ITC	Consumer	48.8	59.7	48.8	55.6	15.9	8.0	-6.8
Cipla	Healthcare	6.9	7.6	6.9	7.6	17.3	17.3	0.0
Dr Reddy' s Labs	Healthcare	4.5	11.0	4.5	11.0	15.4	15.4	0.0
Lupin	Healthcare	15.4	12.9	15.4	12.9	1.1	1.1	0.0
Sun Pharma	Healthcare	42.7	33.5	42.7	33.5	6.9	6.9	0.0
Adani Ports	Infrastructure	19.3	8.6	19.3	8.6	-44.9	-44.9	0.0
Tata Steel	Metals	2.3	11.1	2.3	5.1	LP	LP	-53.8
GAIL	Oil & Gas	17.7	18.2	17.7	18.2	27.1	27.1	0.0
ONGC	Oil & Gas	92.1	73.7	92.1	73.7	7.9	7.9	0.0
Reliance Inds.	Oil & Gas	152.5	156.0	152.5	150.1	7.3	3.2	-3.8
Infosys	Technology	70.4	71.4	70.4	71.4	1.2	1.2	0.0
TCS	Technology	129.0	130.9	129.0	130.9	5.1	5.1	0.0
Wipro	Technology	41.2	44.2	41.2	43.7	-1.0	-2.1	-1.1
Bharti Airtel	Telecom	31.4	24.7	31.4	24.5	-10.6	-11.6	-1.1
Coal India	Utilities	43.4	64.2	43.4	64.2	-19.0	-19.0	0.0
NTPC	Utilities	47.5	49.1	47.5	49.1	6.1	6.1	0.0
Power Grid Corp.	Utilities	36.7	36.6	36.7	36.6	14.0	14.0	0.0
SENSEX		**1,200**	**1,301**	**1,200**	**1,262**	**9.1**	**5.9**	**-2.9**

Exhibit 10: Nifty Earnings changes

		Pre demonetization PAT (INR b)		Post demonetization PAT (INR b)		Pre demonetization EPS (INR)		Post demonetization EPS (INR)		EPS Upgrade / Downgrade (%)	EPS Upgrade / Downgrade (%)
Company	**Sector**	**FY17E**	**FY18E**	**FY17E**	**FY18E**	**FY17E**	**FY18E**	**FY17E**	**FY18E**	**FY17E**	**FY18E**
Bajaj Auto	Automobiles	42.6	51.5	40.6	48.4	147.3	177.9	140.3	167.3	-4.8	-6.0
Bosch	Automobiles	16.5	21.4	15.5	20.1	539.7	700.9	507.6	657.7	-5.9	-6.2
Eicher Motors	Automobiles	17.4	25.1	16.7	24.1	641.9	925.1	615.7	886.1	-4.1	-4.2
Hero MotoCorp	Automobiles	37.8	44.4	36.5	41.7	189.2	222.4	182.7	208.7	-3.4	-6.1
Mahindra & Mahindra	Automobiles	43.1	56.3	40.5	51.3	72.0	94.1	67.7	85.7	-5.9	-8.9
Maruti Suzuki	Automobiles	80.3	97.4	78.1	94.8	265.7	322.3	258.6	313.8	-2.7	-2.6
Tata Motors	Automobiles	105.6	190.2	101.6	182.9	31.1	56.0	29.9	53.9	-3.7	-3.9
Axis Bank	Banks-Private	32.0	56.6	31.3	54.2	13.4	23.7	13.1	22.8	-2.2	-4.2
HDFC Bank	Banks-Private	147.8	177.7	147.2	178.7	58.5	70.3	58.2	70.7	-0.4	0.6
ICICI Bank	Banks-Private	100.2	106.0	99.0	104.9	17.2	18.2	17.0	18.0	-1.3	-1.1
IndusInd Bank	Banks-Private	28.8	36.3	28.5	35.2	48.4	60.9	47.9	59.2	-0.8	-2.8
Kotak Mahindra Bank	Banks-Private	48.9	60.7	48.7	59.4	26.7	33.1	26.6	32.4	-0.4	-2.0
Yes Bank	Banks-Private	32.6	42.1	32.1	41.7	77.4	100.0	76.3	99.0	-1.4	-1.0
Bank of Baroda	Banks-PSU	30.3	46.0	29.2	43.7	13.1	19.9	12.6	18.9	-3.6	-4.8
State Bank	Banks-PSU	76.9	186.5	63.6	172.6	9.9	24.0	8.2	22.2	-17.3	-7.5
HDFC	NBFC	76.1	87.0	74.7	84.4	48.2	55.1	47.3	53.4	-1.9	-3.0
BHEL	Capital Goods	9.7	13.5	9.7	13.5	3.9	5.5	3.9	5.5	0.0	0.0
Larsen & Toubro	Capital Goods	53.9	62.9	53.9	62.9	57.7	67.3	57.7	67.3	0.0	0.0
ACC	Cement	7.2	12.4	6.7	9.7	38.1	66.1	35.6	51.4	-6.5	-22.2
Ambuja Cements	Cement	12.7	18.7	12.2	15.5	6.4	9.4	6.1	7.8	-4.1	-17.3
Grasim Industries	Cement	36.5	45.1	35.2	42.2	78.1	96.6	75.4	90.4	-3.5	-6.4
Ultratech Cement	Cement	29.9	47.2	26.6	39.3	108.9	171.9	97.1	143.1	-10.9	-16.8
Asian Paints	Consumer	20.8	24.8	19.3	22.0	21.7	25.8	20.2	23.0	-7.2	-11.0
Hind. Unilever	Consumer	44.1	49.7	43.1	48.5	20.4	23.0	19.9	22.4	-2.1	-2.3
ITC	Consumer	108.5	126.8	104.4	122.1	9.0	10.5	8.7	10.1	-3.7	-3.7
Aurobindo Pharma	Healthcare	24.6	29.2	24.6	29.2	42.0	50.0	42.0	50.0	0.0	0.0
Cipla	Healthcare	14.5	20.5	14.5	20.5	18.1	25.6	18.1	25.6	0.0	0.0
Dr Reddy’ s Labs	Healthcare	15.3	24.2	15.3	24.2	89.5	141.8	89.5	141.8	0.0	0.0
Lupin	Healthcare	27.7	34.7	27.7	34.7	61.6	77.0	61.6	77.0	0.0	0.0
Sun Pharma	Healthcare	69.4	94.8	69.4	94.8	28.8	39.4	28.8	39.4	0.0	0.0
Adani Ports	Infrastructure	29.1	31.1	33.6	34.2	14.1	15.0	16.2	16.5	15.2	10.0
Zee Entertainment	Media	14.1	18.5	13.8	18.3	14.7	19.3	14.4	19.1	-2.1	-1.2
Hindalco	Metals	36.6	45.3	36.6	45.3	17.7	21.9	17.7	21.9	0.0	0.0
Tata Steel	Metals	11.6	34.0	5.6	33.9	11.9	35.0	5.8	34.9	-51.6	-0.3
BPCL	Oil & Gas	86.0	97.8	86.0	97.8	59.4	67.6	59.4	67.6	0.0	0.0
GAIL	Oil & Gas	35.9	46.2	35.9	46.2	28.3	36.4	28.3	36.4	0.0	0.0
ONGC	Oil & Gas	196.1	220.2	196.1	220.2	22.9	25.7	22.9	25.7	0.0	0.0
Reliance Inds.	Oil & Gas	312.0	327.9	306.2	313.4	105.8	111.2	103.9	106.3	-1.9	-4.4
HCL Technologies	Technology	81.3	91.8	81.3	91.8	57.2	64.2	57.2	64.2	0.0	0.0
Infosys	Technology	141.9	158.0	141.9	158.0	62.1	69.1	62.1	69.1	0.0	0.0
TCS	Technology	259.9	289.7	259.9	289.7	131.9	147.0	131.9	147.0	0.0	0.0
Tech Mahindra	Technology	28.6	34.8	28.6	34.8	32.1	39.2	32.1	39.2	0.0	0.0
Wipro	Technology	85.4	97.9	84.9	97.9	34.7	40.3	34.5	40.3	-0.6	0.0
Bharti Airtel	Telecom	56.1	48.5	55.8	47.8	14.0	12.1	14.0	11.9	-0.5	-1.6
Bharti Infratel	Telecom	31.2	32.8	31.2	32.8	16.9	17.7	16.9	17.7	0.0	0.0
Idea Cellular	Telecom	-3.5	-11.1	-3.3	-10.8	-1.0	-3.1	-0.9	-3.0	-4.9	-2.8
Coal India	Utilities	107.6	133.5	107.6	133.5	17.0	21.1	17.0	21.1	0.0	0.0
NTPC	Utilities	97.8	117.9	97.8	117.9	11.9	14.3	11.9	14.3	0.0	0.0
Power Grid Corp.	Utilities	74.4	87.8	74.4	87.8	14.2	16.8	14.2	16.8	0.0	0.0
Tata Power	Utilities	13.5	15.5	13.5	15.5	5.0	5.7	5.0	5.7	0.0	0.0
Nifty		**3,087**	**3,808**	**3,034**	**3,723**	**433**	**536**	**424**	**523**	**-1.9**	**-2.4**

Exhibit 11: Nifty 2HFY17 changes

Company	Sector	PAT Pre demonetization (INR b) 1HFY17	PAT Pre demonetization (INR b) 2HFY17	PAT Post demonetization (INR b) 1HFY17	PAT Post demonetization (INR b) 2HFY17	PAT growth Pre-Demo (%) 2HFY17	PAT growth Post-Demo (%) 2HFY17	Chg in 2HFY17 estimates (%)
Bajaj Auto	Automobiles	21.0	21.6	21.0	19.6	16.8	5.8	-9.4
Bosch	Automobiles	8.0	8.5	8.0	7.5	22.6	8.5	-11.5
Eicher Motors	Automobiles	7.9	9.5	7.9	8.8	51.4	40.0	-7.5
Hero MotoCorp	Automobiles	18.9	18.9	18.9	17.6	16.0	8.0	-6.9
Mahindra & Mahindra	Automobiles	21.5	20.5	21.5	17.8	40.0	21.2	-13.4
Maruti Suzuki	Automobiles	38.8	39.8	38.8	37.7	43.3	35.6	-5.4
Tata Motors	Automobiles	27.1	78.6	27.1	74.6	-3.8	-8.7	-5.1
Axis Bank	Banks-Private	18.7	13.3	18.7	12.6	-69.4	-71.0	-5.3
HDFC Bank	Banks-Private	66.9	80.9	66.9	80.2	20.1	19.2	-0.8
ICICI Bank	Banks-Private	53.3	46.9	53.3	45.6	26.1	22.7	-2.7
IndusInd Bank	Banks-Private	13.7	15.1	13.7	14.9	25.8	23.8	-1.6
Kotak Mahindra Bank	Banks-Private	15.6	17.8	15.6	17.6	33.9	32.4	-1.1
Yes Bank	Banks-Private	15.3	18.0	15.3	17.5	30.4	27.0	-2.6
Bank of Baroda	Banks-PSU	9.8	20.5	9.8	19.4	-131.2	-129.6	-5.4
State Bank	Banks-PSU	50.6	57.0	50.6	54.1	139.4	127.2	-5.1
HDFC	NBFC	32.5	39.1	32.5	37.7	13.0	9.0	-3.6
BHEL	Capital Goods	1.9	7.8	1.9	7.8	-205.8	-205.8	0.0
Larsen & Toubro	Capital Goods	16.4	37.5	16.4	37.5	9.1	9.1	0.0
ACC	Cement	3.2	6.2	3.2	5.4	84.0	61.0	-12.5
Ambuja Cements	Cement	6.8	7.8	6.8	7.4	79.9	70.8	-5.0
Grasim Industries	Cement	9.1	6.0	9.1	6.0	27.9	27.9	0.0
Ultratech Cement	Cement	13.8	16.1	13.8	12.9	35.5	8.3	-20.1
Asian Paints	Consumer	10.1	10.7	10.1	9.2	14.3	-1.6	-13.9
Hind. Unilever	Consumer	22.1	22.3	22.1	21.3	6.7	2.3	-4.1
ITC	Consumer	48.8	59.7	48.8	55.6	15.9	8.0	-6.8
Aurobindo Pharma	Healthcare	11.7	12.6	11.7	12.6	16.7	16.7	0.0
Cipla	Healthcare	6.9	7.6	6.9	7.6	17.3	17.3	0.0
Dr Reddy' s Labs	Healthcare	4.5	11.0	4.5	11.0	15.4	15.4	0.0
Lupin	Healthcare	15.4	12.9	15.4	12.9	1.1	1.1	0.0
Sun Pharma	Healthcare	42.7	33.5	42.7	33.5	6.9	6.9	0.0
Adani Ports	Infrastructure	19.3	8.6	19.3	8.6	-44.9	-44.9	0.0
Zee Entertainment	Media	4.6	7.7	4.6	7.3	43.4	37.0	-4.5
Hindalco	Metals	16.8	19.5	16.8	19.5	33.2	33.2	0.0
Tata Steel	Metals	2.3	11.1	2.3	5.1	-162.5	-128.9	-53.8
BPCL	Oil & Gas	39.3	42.3	39.3	42.3	4.7	4.7	0.0
GAIL	Oil & Gas	17.7	18.2	17.7	18.2	27.1	27.1	0.0
ONGC	Oil & Gas	92.1	73.7	92.1	73.7	7.9	7.9	0.0
Reliance Inds.	Oil & Gas	152.5	156.0	152.5	150.1	7.3	3.2	-3.8
HCL Technologies	Technology	40.6	40.7	40.6	40.7	5.9	5.9	0.0
Infosys	Technology	70.4	71.4	70.4	71.4	1.2	1.2	0.0
TCS	Technology	129.0	130.9	129.0	130.9	5.1	5.1	0.0
Tech Mahindra	Technology	13.0	15.5	13.0	15.5	-4.0	-4.0	0.0
Wipro	Technology	41.2	44.2	41.2	43.7	LP	LP	-1.1
Bharti Airtel	Telecom	31.4	24.7	31.4	24.5	-10.6	-11.6	-1.1
Bharti Infratel	Telecom	15.3	16.0	15.3	16.0	32.1	32.1	0.0
Idea Cellular	Telecom	3.1	-6.6	3.1	-6.5	-149.5	-148.2	-2.6
Coal India	Utilities	43.4	64.2	43.4	64.2	-19.0	-19.0	0.0
NTPC	Utilities	47.5	49.1	47.5	49.1	6.1	6.1	0.0
Power Grid Corp.	Utilities	36.7	36.6	36.7	36.6	14.0	14.0	0.0
Tata Power	Utilities	3.8	7.5	4.1	7.5	4.5	4.5	0.0
NIFTY		**1,453**	**1,589**	**1,453**	**1,543**	**17.3**	**13.9**	**-2.9**

Exhibit 12: Annexure – 3QFY17 and 4QFY17 earnings change

	*Pre PAT (INR M)		*Post PAT (INR M)		PAT gr. YoY (%)		Chg. in Estimates (%)	
Company	**3QFY17E**	**4QFY17E**	**3QFY17E**	**4QFY17E**	**3QFY17**	**4QFY17**	**3QFY17**	**4QFY17**
Automobiles								
Amara Raja Batt.	1,461	1,420	1,325	1,279	-2.7	17.8	-9.3	-9.9
Ashok Leyland	3,926	6,948	2,596	5,904	27.7	29.4	-33.9	-15.0
Bajaj Auto	10,384	11,231	9,272	10,312	2.9	8.6	-10.7	-8.2
Bharat Forge	1,333	1,718	1,198	1,577	-29.1	-4.2	-10.2	-8.2
Bosch	3,991	4,505	3,226	4,290	46.1	-9.1	-19.2	-4.8
Eicher Motors	4,562	4,984	4,265	4,563	57.5	26.8	-6.5	-8.5
Escorts	311	292	479	360	134.7	18.8	54.0	23.2
Exide Inds.	1,653	1,939	1,380	1,770	3.0	-0.3	-16.6	-8.7
Hero Motocorp	9,378	9,532	8,388	9,220	5.4	10.5	-10.6	-3.3
Mahindra & Mahindra	10,350	10,160	8,961	8,798	9.2	36.6	-13.4	-13.4
Maruti Suzuki	18,606	21,235	19,254	18,444	38.1	33.0	3.5	-13.1
Tata Motors	36,610	41,960	27,247	47,351	-21.5	0.8	-25.6	12.8
TVS Motor	1,502	1,871	1,408	1,565	30.7	32.9	-6.3	-16.3
Capital Goods								
ABB	1,424	869	1,424	869	4.8	10.0	0.0	0.0
Bharat Electronics	3,021	8,715	3,219	7,399	8.9	-7.7	6.6	-15.1
BHEL	-6,755	14,544	-6,755	14,544	Loss	298.0	0.0	0.0
CG Consumer Elect.	545	821	201	592	-52.6	-22.0	-63.1	-27.9
Crompton Greaves	284	609	284	609	-31.8	-39.6	0.0	0.0
Cummins India	1,740	2,094	1,740	2,094	7.1	25.4	0.0	0.0
GE T&D India	40	839	40	839	LP	180.7	0.0	0.0
Havells India	1,508	1,891	433	1,257	-63.7	-23.2	-71.3	-33.5
Larsen & Toubro	11,700	25,828	11,700	25,828	13.1	7.4	0.0	0.0
Siemens	1,308	1,887	1,308	1,887	14.7	6.4	0.0	0.0
Thermax	614	1,048	614	1,048	-9.5	-5.8	0.0	0.0
Voltas	525	1,360	475	1,140	-8.7	-23.2	-9.5	-16.2
Cement								
ACC	1,622	4,538	1,154	4,236	12.5	82.4	-28.9	-6.7
Ambuja Cements	3,051	4,753	2,529	4,884	74.0	69.3	-17.1	2.7
Grasim Industries	3,369	2,629	3,369	2,629	29.4	26.0	0.0	0.0
India Cements	112	394	34	477	-37.9	-6.8	-69.6	21.1
Ramco Cements	1,329	1,581	1,133	1,618	-3.8	-11.7	-14.8	2.4
Shree Cement	4,660	6,180	3,387	4,232	229.0	89.4	-27.3	-31.5
Ultratech Cement	7,428	8,700	6,066	6,819	19.3	0.1	-18.3	-21.6
Consumer								
Asian Paints	5,943	4,790	5,025	4,212	-3.6	0.9	-15.4	-12.1
Britannia	2,365	2,115	1,827	2,112	-19.5	6.2	-22.8	-0.1
Colgate	1,483	1,606	1,417	1,565	3.5	4.9	-4.4	-2.5
Dabur	3,455	3,439	3,007	3,165	-5.1	-4.6	-13.0	-8.0
Emami	2,041	1,378	1,911	1,317	-2.1	-14.5	-6.4	-4.4
Godrej Consumer	3,727	3,704	3,270	3,490	-1.2	9.1	-12.3	-5.8
GSK Consumer	1,401	1,860	1,356	1,831	1.8	-0.5	-3.2	-1.6
Hind. Unilever	10,736	11,522	10,383	10,954	6.9	-1.6	-3.3	-4.9
ITC	29,888	29,765	27,135	28,459	2.3	14.1	-9.2	-4.4
Jyothy Labs	317	425	296	390	92.8	163.6	-6.7	-8.3
Marico	2,144	1,536	1,977	1,433	-2.1	5.2	-7.8	-6.7
Nestle	3,010	4,040	1,803	3,685	-13.6	20.7	-40.1	-8.8
P&G Hygiene	1,274	1,164	1,208	1,145	-17.7	17.7	-5.2	-1.7
Page Industries	681	767	650	745	13.3	33.5	-4.5	-2.8
Parag Milk Foods	198	243	190	220	31.0	37.0	-4.2	-9.4
Pidilite Inds.	2,089	1,550	1,854	1,508	-0.6	-2.5	-11.3	-2.7
Radico Khaitan	250	140	208	45	-7.3	-52.6	-16.5	-67.8
United Spirits	1,661	1,593	1,128	1,159	2145.7	14.7	-32.1	-27.3
Banks-Private								
Axis Bank	6,452	6,813	6,170	6,395	-71.6	-70.3	-4.4	-6.1
DCB Bank	522	562	495	568	20.2	-18.3	-5.1	1.0
Equitas Holdings	551	629	551	629	28.1	34.5	0.0	0.0
Federal Bank	2,094	2,145	1,912	2,189	17.5	2033.0	-8.7	2.0

Exhibit 12: Annexure – 3QFY17 and 4QFY17 earnings change

	*Pre PAT (INR M)		*Post PAT (INR M)		PAT gr. YoY (%)		Chg. in Estimates (%)	
Company	3QFY17E	4QFY17E	3QFY17E	4QFY17E	3QFY17	4QFY17	3QFY17	4QFY17
HDFC Bank	40,346	40,520	39,687	40,552	18.2	20.2	-1.6	0.1
ICICI Bank	23,278	23,624	21,951	23,677	-27.3	237.3	-5.7	0.2
IDFC Bank	2,431	2,001	2,431	2,001	0.4	21.2	0.0	0.0
IndusInd Bank	7,303	7,810	7,056	7,815	21.4	26.0	-3.4	0.1
Kotak Mahindra Bank	8,528	9,282	8,049	9,564	26.8	37.5	-5.6	3.0
Yes Bank	8,802	9,171	8,431	9,074	24.8	29.2	-4.2	-1.1
Banks-PSU								
Bank of Baroda	8,807	11,722	8,361	11,065	LP	LP	-5.1	-5.6
Bank of India	-1,562	881	-1,699	64	LP	LP	LP	-92.7
Canara Bank	4,636	4,864	4,419	4,606	420.1	LP	-4.7	-5.3
Indian Bank	3,684	4,052	3,519	3,831	732.0	353.5	-4.5	-5.4
Oriental Bank of Commerce	2,038	2,432	1,924	2,155	LP	896.7	-5.6	-11.4
Punjab National Bank	7,279	8,331	6,661	8,107	1205.8	LP	-8.5	-2.7
State Bank	22,442	34,521	20,145	33,913	80.6	168.3	-10.2	-1.8
Union Bank	3,525	3,984	3,464	3,609	341.0	275.5	-1.7	-9.4
NBFC								
Bajaj Finance	5,478	4,883	4,764	4,525	16.6	43.6	-13.0	-7.3
Bharat Financial	1,232	1,438	1,043	995	31.2	17.8	-15.3	-30.8
Dewan Housing	2,468	2,613	2,122	2,227	14.1	17.4	-14.0	-14.8
GRUH Finance	650	1,034	640	989	19.2	12.7	-1.5	-4.3
HDFC	17,947	21,180	16,800	20,914	10.5	7.8	-6.4	-1.3
Indiabulls Housing	7,355	8,200	7,298	8,760	21.1	29.7	-0.8	6.8
LIC Housing Fin	5,505	5,850	5,100	5,966	21.7	33.2	-7.4	2.0
M & M Financial	2,030	4,203	1,512	3,815	125.1	3.0	-25.5	-9.2
Muthoot Finance	2,960	3,264	2,617	2,687	40.2	1.3	-11.6	-17.7
Repco Home Fin	486	549	411	420	6.6	-0.6	-15.4	-23.6
Shriram Transport Fin.	4,149	3,390	3,781	3,002	0.8	108.6	-8.9	-11.4
Healthcare								
Alembic Pharma	1,207	1,188	1,207	1,188	-55.1	30.5	0.0	0.0
Alkem Lab	2,160	1,799	2,160	1,799	15.3	14.1	0.0	0.0
Aurobindo Pharma	6,106	6,540	6,106	6,540	16.3	17.2	0.0	0.0
Biocon	1,382	923	1,382	923	34.2	24.3	0.0	0.0
Cadila Health	4,069	4,541	4,069	4,541	4.2	17.0	0.0	0.0
Cipla	3,677	3,931	3,677	3,931	6.7	29.3	0.0	0.0
Divis Labs	2,867	3,395	2,867	3,395	16.3	5.4	0.0	0.0
Dr Reddy’ s Labs	5,010	6,011	5,010	6,011	-13.5	59.8	0.0	0.0
Glenmark Pharma	2,500	7,428	2,500	7,428	47.1	399.4	0.0	0.0
Granules India	389	376	389	376	43.2	13.2	0.0	0.0
GSK Pharma	1,188	1,389	1,188	1,389	42.8	54.6	0.0	0.0
IPCA Labs.	475	498	475	498	97.5	23.0	0.0	0.0
Lupin	6,241	6,671	6,241	6,671	17.8	-10.8	0.0	0.0
Sanofi India	842	950	842	950	19.6	17.9	0.0	0.0
Sun Pharma	19,352	14,120	19,352	14,120	36.6	-17.6	0.0	0.0
Torrent Pharma	2,250	2,530	2,250	2,530	-35.4	-29.1	0.0	0.0
Media								
D B Corp	1,310	754	1,310	754	22.6	17.4	0.0	0.0
Dish TV	529	829	529	829	-22.8	-82.8	0.0	0.0
Hathway Cable	-304	-121	-288	-110	Loss	Loss	-5.0	-9.6
HT Media	433	403	433	403	-37.1	7.3	0.0	0.0
Jagran Prakashan	1,027	1,006	1,027	1,006	10.1	25.5	0.0	0.0
PVR	379	-20	199	-137	-34.8	Loss	-47.4	595.4
Siti Networks	575	856	289	403	-26.1	69.0	-49.8	-52.9
Sun TV	2,680	2,653	2,680	2,653	24.3	12.4	0.0	0.0
Zee Entertainment	3,348	4,331	3,170	4,164	15.3	59.8	-5.3	-3.8
Metals								
Hindalco	9,472	10,020	9,472	10,020	116.9	-2.4	0.0	0.0
Hindustan Zinc	24,873	26,469	24,873	26,469	37.3	23.1	0.0	0.0
JSPL	-3,406	-1,848	-3,398	-1,839	Loss	Loss	-0.2	-0.4
JSW Steel	7,937	-226	7,665	-498	LP	PL	-3.4	120.1

Exhibit 12: Annexure – 3QFY17 and 4QFY17 earnings change

	*Pre PAT (INR M)		*Post PAT (INR M)		PAT gr. YoY (%)		Chg. in Estimates (%)	
Company	**3QFY17E**	**4QFY17E**	**3QFY17E**	**4QFY17E**	**3QFY17**	**4QFY17**	**3QFY17**	**4QFY17**
Nalco	2,032	2,227	2,033	2,228	104.5	7.2	0.0	0.0
NMDC	7,186	6,808	7,363	6,979	12.2	1.3	2.5	2.5
SAIL	-6,935	-8,362	-7,352	-13,963	Loss	Loss	6.0	67.0
Tata Steel	7,150	3,927	3,872	1,241	LP	LP	-45.8	-68.4
Vedanta	23,793	26,915	23,793	26,915	LP	138.1	0.0	0.0
Oil & Gas								
BPCL	20,743	21,533	20,743	21,533	39.3	-15.5	0.0	0.0
Cairn India	7,088	7,553	7,088	7,553	8056.4	20.6	0.0	0.0
GAIL	9,162	9,067	9,162	9,067	37.9	17.8	0.0	0.0
Gujarat State Petronet	1,480	1,387	1,427	1,422	15.5	42.6	-3.6	2.5
HPCL	9,338	9,611	9,338	9,611	-10.4	-38.1	0.0	0.0
IOC	31,100	30,436	31,100	30,436	1.7	146.3	0.0	0.0
Indraprastha Gas	1,513	1,533	1,513	1,533	43.9	42.4	0.0	0.0
MRPL	6,077	6,440	6,077	6,440	103.3	-52.6	0.0	0.0
Oil India	6,290	6,523	6,189	6,006	50.7	28.0	-1.6	-7.9
ONGC	42,210	31,459	42,210	31,459	3.4	14.6	0.0	0.0
Petronet LNG	3,907	4,183	3,907	4,183	119.0	74.8	0.0	0.0
Reliance Inds.	77,675	78,291	77,675	72,425	7.6	-1.1	0.0	-7.5
Real Estate								
DLF	1,208	1,987	1,208	1,987	-26.3	50.1	0.0	0.0
Godrej Properties	550	1,002	550	1,002	5.7	183.2	0.0	0.0
Indiabulls Real Estate	920	-72	920	-72	14.3	-111.4	0.0	0.0
Mahindra Lifespace	343	410	343	410	11.9	147.5	0.0	0.0
Oberoi Realty	2,883	1,046	2,883	1,046	37.7	73.1	0.0	0.0
Phoenix Mills	640	694	640	694	95.1	-5013.7	0.0	0.0
Prestige Estates	837	1,150	837	1,150	31.6	59.1	0.0	0.0
Sobha	482	674	482	674	50.1	144.1	0.0	0.0
Retail								
Jubilant Foodworks	301	264	122	180	-58.3	-35.3	-59.4	-31.9
Shopper's Stop	311	490	288	370	22.1	264.0	-7.4	-24.5
Titan Company	2,484	1,517	2,420	1,001	7.2	-47.2	-2.6	-34.0
Technology								
Cyient	1,041	1,123	1,041	1,123	19.9	33.0	0.0	0.0
HCL Technologies	20,510	20,206	20,510	20,206	6.9	5.0	0.0	0.0
Hexaware Tech.	1,234	1,135	1,234	1,135	24.1	34.8	0.0	0.0
Infosys	35,946	35,490	35,946	35,490	3.7	-1.3	0.0	0.0
KPIT Tech.	788	804	788	804	7.2	-9.2	0.0	0.0
Mindtree	1,105	1,243	1,106	1,243	-26.7	-20.3	0.0	0.0
MphasiS	1,939	2,046	1,939	2,046	11.7	6.5	0.0	0.0
Persistent Systems	761	847	738	830	-4.8	2.7	-3.1	-2.1
Tata Elxsi	494	506	494	506	23.8	23.3	0.0	0.0
TCS	64,831	66,066	64,831	66,066	6.1	4.2	0.0	0.0
Tech Mahindra	7,816	7,716	7,816	7,716	2.9	-10.1	0.0	0.0
Wipro	22,213	22,021	21,969	21,765	-1.7	-2.6	-1.1	-1.2
Zensar Tech	901	857	901	857	25.9	21.9	0.0	0.0
Telecom								
Bharti Airtel	11,311	13,437	11,189	13,277	-12.0	-11.2	-1.1	-1.2
Bharti Infratel	7,877	8,152	7,877	8,152	59.1	13.5	0.0	0.0
Idea Cellular	-3,772	-2,856	-3,728	-2,727	PL	PL	Loss	Loss
Utilities								
Coal India	29,369	34,812	29,369	34,812	-20.3	-17.9	0.0	0.0
JSW Energy	976	649	990	-166	-69.1	-105.4	1.4	-125.6
NTPC	22,666	26,449	22,666	26,449	9.5	3.3	0.0	0.0
Power Grid Corp.	19,887	16,732	19,887	16,732	23.3	4.6	0.0	0.0
Others								
Allcargo Logistics	702	847	681	709	10.7	2.6	-3.0	-16.3
Arvind	1,148	1,346	691	1,005	-33.8	-8.9	-39.8	-25.3
Bata India	534	347	314	243	-29.5	-12.9	-41.2	-30.1
Castrol India	1,645	1,826	1,645	1,826	16.8	5.9	0.0	0.0

Exhibit 12: Annexure – 3QFY17 and 4QFY17 earnings change

	*Pre PAT (INR M)		*Post PAT (INR M)		PAT gr. YoY (%)		Chg. in Estimates (%)	
Company	**3QFY17E**	**4QFY17E**	**3QFY17E**	**4QFY17E**	**3QFY17**	**4QFY17**	**3QFY17**	**4QFY17**
Concor	1,924	2,015	1,924	2,015	-6.7	42.9	0.0	0.0
Coromandel International	962	1,131	962	1,131	49.4	22.0	0.0	0.0
Dynamatic Tech.	85	129	85	129	244.5	-32.9	0.0	0.0
Gateway Distriparks	280	346	280	346	-9.6	30.7	0.0	0.0
Indo Count Inds.	805	869	688	781	8.5	18.3	-14.5	-10.2
Info Edge	597	632	597	632	174.3	10.4	0.0	0.0
Inox Leisure	261	-62	97	-29	-49.2	PL	-63.0	-52.6
Interglobe Aviation	7,609	5,937	8,265	4,612	25.7	-20.4	8.6	-22.3
Jain Irrigation	198	1,621	198	1,621	LP	83.4	0.0	0.0
Just Dial	196	244	196	244	-27.4	-31.1	0.0	0.0
Kaveri Seed	-30	-76	-30	-76	PL	Loss	0.0	0.0
MCX	425	419	425	419	80.0	45.8	0.0	0.0
Monsanto India	505	184	505	184	9.1	-23.7	0.0	0.0
P I Industries	987	1,051	987	1,051	40.3	12.6	0.0	0.0
Sintex Inds.	2,153	2,284	2,153	2,284	19.5	-2.1	0.0	0.0
SRF	1,074	1,299	1,074	1,299	1.8	24.6	0.0	0.0
TTK Prestige	500	283	370	220	-0.7	1.6	-26.1	-22.5
MOSL Universe	**1,055,455**	**1,144,857**	**1,009,579**	**1,106,694**	**25.6**	**37.5**	**-4.3**	**-3.3**

***Demonetization**

Macroeconomic impact of demonetization

Real GDP growth could fall by 100bp to 6.7% in FY17…

To gauge the impact of demonetization on nominal/real GDP growth, we look at the QTM equation, which links money supply (M3) and its velocity with nominal GDP. The change in M3 and velocity decides the impact on nominal GDP growth.

Only 5% of outstanding currency to disappear…

As we have explained in our earlier **note**, M3 will be adversely impacted by the share of currency in circulation that does not come back into the system. We believe it is highly likely that most of the demonetized currency will come back into the banking system. Yet, the entire exercise will lead to some decline in the ability of citizens to transact, implying an adverse impact on velocity.

…but 1% fall in velocity to hurt nominal GDP growth

Assuming that INR900b (or 5% of outstanding currency) does not come back into the system, M3 growth will be revised down from pre-demonetization forecast of 11.1% to 10.3% for FY17. On the other hand, we believe that the velocity could fall by 0.5% in FY17. Accordingly, as per QTM, nominal GDP growth will be downgraded by 130bp – from pre-demonetization forecast of 11.5% to 10.2%.

Lower WPI to reduce GDP deflator…:

Further, with slower demand and cautious spending kicking in, prices are also likely to adjust downwards. Since the GDP deflator is a combination of wholesale price index (WPI) and consumer price index (CPI), an immediate fall in WPI could lead to some downward revision in GDP deflator. We do not expect significant impact on CPI. Accordingly, GDP deflator could grow 3.3% in FY17 as against our pre-demonetization forecast of 3.6%.

With an expected growth of 10.2% (down from 11.5%) in nominal GDP growth and 3.3% (down from 3.6%) in GDP deflator, real GDP growth is likely to be downgraded by 100bp to 6.7%

…containing the adverse impact on real GDP growth

Consequently, with an expected growth of 10.2% (down from 11.5%) in nominal GDP growth and 3.3% (down from 3.6%) in GDP deflator, real GDP growth is likely to be downgraded by 100bp to 6.7% as against our pre-demonetization forecast of 7.7%.

Exhibit 13: Impact of demonetization on GDP growth in FY17

	FY16	FY17		FY18	
		Pre-demonetization	Post-demonetization	Pre-demonetization	Post-demonetization
Broad money supply, M3 (INR bn)	116,176	129,088	128,200	144,370	142,943
M3 growth (% YoY)	10.1	11.1	10.3	11.8	11.5
M3 velocity	1.17	1.17	1.17	1.16	1.16
Nominal GDP (INR bn)	135,761	151,424	149,630	167,676	165,196
Nominal GDP growth (% YoY)	8.7	11.5	10.2	10.7	10.4
GDP deflator (% YoY)	1.0	3.6	3.3	3.1	2.8
Real GDP growth (% YoY)	7.6	7.7	6.7	7.4	7.4

Source: MOSL

…however, FY18 growth could remain unaffected

Lower inflation could help keep FY18 real GDP growth forecast unchanged…

Lower nominal GDP growth in FY18 could be entirely offset by lower GDP deflator keeping real GDP growth forecast unchanged at 7.4%

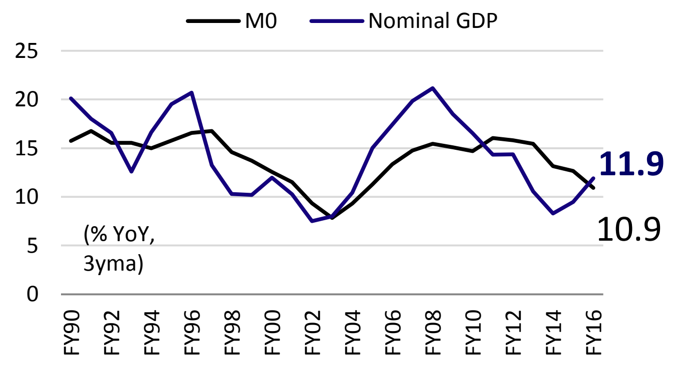
While we assume that the impact of demonetization will be short-lived, we believe the full adverse economic impact will be visible in 4QFY17 and 1QFY18, and not in the current quarter (3QFY17). Consequently, the money supply growth will return to a more normal level of 11.5% for FY18, close to the pre-demonetization forecast of 11.8%. Further, if the velocity of money falls by another 0.5% (from pre-demonetization forecast) in FY18, it would be 1.16, then the nominal GDP growth will be 10.4% as against our earlier forecast of 10.7%. Further, since the impact on inflation will be felt with some lag, we believe that GDP deflator forecast could ease from 3.1% to 2.8% for FY18. Consequently, lower nominal GDP growth in FY18 could be entirely offset by lower GDP deflator, keeping real GDP growth forecast unchanged at 7.4%.

…however, there will be a permanent loss to the economy

Due to a wealth destruction equivalent to the share of currency in circulation that does not come back into the banking system and lower velocity, there will be a permanent loss of about INR2,500b to the economy

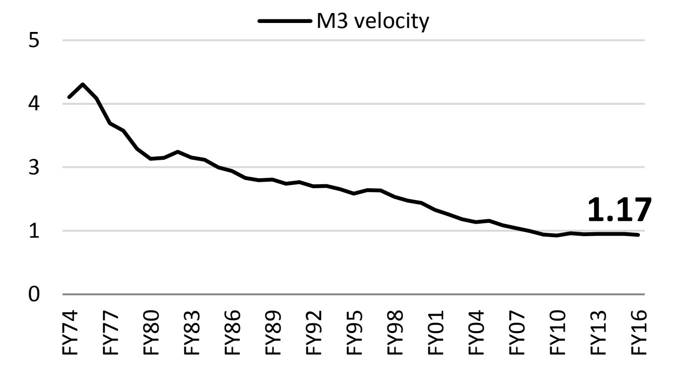
Please note that this does not mean that the adverse economic effect of demonetization will vanish. The e*xhibit* above also gives the absolute amount of expected GDP for FY18. The new nominal GDP is likely to be INR165.2t in FY18 as against pre-demonetization forecast of INR167.7t. It implies that due to a wealth destruction equivalent to the share of currency in circulation that does not come back into the banking system and lower velocity, there will be a permanent loss of about INR2,500b to the economy.

Exhibit 14: M0 and nominal GDP growth move in line with each other



Source: RBI, CSO, CEIC, MoSL

Exhibit 15: Velocity of M3 has been consistently falling in Indian economy



Source: RBI, CSO, CEIC, MoSL

Automobiles

Demand deferment to hurt 2HFY17

Rural markets to make faster comeback

Demand deferment to impact 2HFY17 performance

Demonetization measures are expected to result in deferment of demand for automobiles and auto ancillaries until liquidity in the system normalizes. Based on our interactions across channels, we expect volume growth to moderate considerably despite the low base of 2HFY17 for most segments (except M&HCVs). In 2HFY17 (refer exhibit-4), we expect 2Ws (ex RE) to grow ~5% (v/s our earlier estimate of 12% growth), 4Ws to grow ~7% (v/s 13% earlier) and CVs to grow 9% (v/s 15%), driven by pre-buying benefit ahead of BS IV implementation from Apr-17. Even for FY18, we have cut our volume estimates by 3-8%, with the highest impact for CVs due to an expected weak 1HFY18 (BS-IV and GST impact).

Lower operating leverage to impact margins

Lowering of volume growth assumptions for 2HFY17 and FY18 has led to lower benefit of operating leverage than expected earlier. With average fixed cost at 13-14% (refer exhibit-5), lowering of volume estimates has resulted in EBITDA margin cut of up to 140bp for FY17/FY18 (refer exhibit-6). CV companies have seen the highest EBITDA margin cut (of 130-140bp) due to higher fixed costs, while companies like TVSL, HMCL and MM have seen limited EBITDA margin cut due to mix improvement owing to higher rural exposure. For MSIL, EBITDA margin estimate is unchanged, as negative impact of lower volumes is offset by favorable JPY movement.

Cutting FY18 earnings estimates by up to 13%

Cut in volume and EBITDA margin estimates is reflecting in up to 13% cut in FY17/18E EPS for the auto/auto ancillary companies under our coverage (refer exhibit-7). EPS cut has been highest for AL (~13%) and 2W companies (6-7%). For companies with net cash balance sheet (MSIL, BJAUT, HMCL, BOS), we expect MTM of G-Sec/debt MF investments to dilute the impact of EBITDA cut.

Top picks: TTMT, MSIL, AMRJ and BHFC

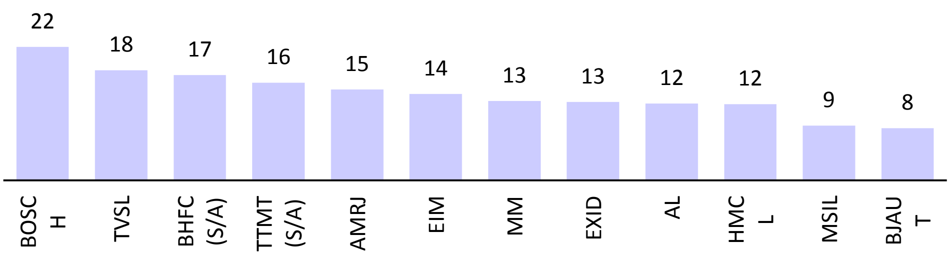
We are lowering our target multiples for most auto/auto ancillary companies under our coverage (except AMRJ and BHFC) to reflect the uncertainty arising due to demonetization. We now value these stocks near LPA (v/s 10-25% premium earlier), while we continue to value AMRJ and BHFC at premium to LPA due to multiple growth levers that are not yet factored in our estimates. We prefer **TTMT** (marginal impact of demonetization) and **MSIL** (limited impact on volumes over medium term, with multiple levers to offset short-term impact). In midcaps, we prefer **AMRJ** (GST and demonetization to enable market share gains from unorganized segment) and **BHFC** (ramp-up in new business areas of Aerospace and Railways, coupled with bottoming out of US CVs and Oil & Gas).

Exhibit 16: Demand deferment to impact 2HFY17 (volumes '000 units*)

	2HFY17 Growth (%)		FY17E			FY18E		
	Pre	Post	Pre	Post	Chg (%)	Pre	Post	Chg (%)
Ashok Leyland	20	7	155	145	-6.4	179	163	-8.7
Bajaj Auto	12	2	4068	3890	-4.4	4591	4325	-5.8
Eicher Motors	31	29	673	668	-0.6	841	835	-0.6
Hero Motocorp	8	3	7263	7067	-2.7	8185	7846	-4.1
Maruti	15	10	1614	1575	-2.4	1845	1822	-1.2
M&M	13	5	803	775	-3.5	907	848	-6.5
Tata Motors (S/A)	15	11	571	561	-1.8	679	659	-2.9
TVS Motor	22	13	3190	3071	-3.7	3652	3406	-6.7
Amara Raja	18	13	55	54	-2.2	66	64	-3.4
Bharat Forge (S/A)	-3	-8	38	37	-2.9	44	42	-2.6
Bosch	14	7	111	107	-3.1	134	128	-4.4
Exide	14	9	77	75	-2.2	87	85	-2.8

* Revenues (INR b) for Auto Component companies Source: Company, MOSL

Exhibit 17: Lower operating leverage to impact margins (fixed cost as % of sales*)



*includes Staff and Advertising cost Source: Company, MOSL

Exhibit 18: Lower operating leverage and commodity price inflation impacts EBITDA margins

	FY17E			FY18E		
	Pre	Post	Chg (%)	Pre	Post	Chg (%)
Ashok Leyland	12.7	11.8	-90bp	13.5	12.3	-120bp
Bajaj Auto	21.0	20.7	-30bp	21.2	20.8	-40bp
Eicher Motors (S/A)	31.7	31.2	-50bp	33.2	32.5	-70bp
Hero Motocorp	16.7	16.6	-20bp	16.8	16.5	-40bp
Maruti	15.9	15.9	0bp	16.4	16.5	0bp
M&M	13.9	13.6	-30bp	14.1	13.7	-40bp
Tata Motors (S/A)	5.8	4.9	-90bp	7.3	6.0	-140bp
TVS Motor	7.6	7.5	-10bp	8.5	8.4	0bp
Amara Raja	17.2	16.8	-40bp	18.3	17.7	-60bp
Bharat Forge (S/A)	27.7	27.5	-30bp	28.5	28.0	-50bp
Bosch	18.2	17.4	-70bp	20.4	19.1	-130bp
Exide	15.4	15.0	-40bp	15.8	15.5	-20bp

Exhibit 19: EPS cut across companies by up to 13%

INR/Share	FY17E			FY18E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Bajaj Auto	140.3	147.3	-4.8	167.3	177.9	-6.0
Hero MotoCorp	182.7	185.4	-1.5	208.7	223.0	-6.4
TVS Motor	12.5	13.4	-6.3	17.1	18.5	-7.5
Maruti *	258.6	265.7	-2.7	313.8	322.3	-2.6
M&M *	67.7	72.0	-5.9	85.7	94.1	-8.9
Tata Motors *	29.9	31.1	-3.7	53.9	56.0	-3.9
Ashok Leyland	4.8	5.4	-10.3	6.5	7.5	-13.3
Eicher Motors *	615.7	641.9	-4.1	886.1	925.1	-4.2
Amara Raja	30.9	32.5	-5.0	40.1	43.4	-7.5
Bharat Forge *	25.0	26.2	-4.5	34.2	35.8	-4.4
Exide Industries	8.1	8.6	-5.5	9.8	10.3	-4.6
BOSCH	507.6	539.7	-5.9	657.7	700.9	-6.2

* Consolidated Source: MOSL

Cement

Demand outlook grim

South players relatively better placed

Demand moderation on cards

The impact of demonetization is accentuated for ex-South markets, as the proportion of unorganized construction is higher

We expect all-India cement demand to decline 1.6% in FY17 against our earlier estimate of 5% YoY growth, which implies 7% YoY decline in 2HFY17. In 4QFY17, we expect demand to decline 10% YoY due to high base effect and the accentuation of the impact of demonetization. The housing segment accounts for ~60% of cement demand and a major portion of the housing demand comes from the individual house builder (IHB) segment, which is vulnerable to demonetization. While money under circulation should increase, we expect demand revival in the B2C segment to be impacted due to lower discretionary spend towards real estate and housing.

Volume estimates reduced for coverage companies

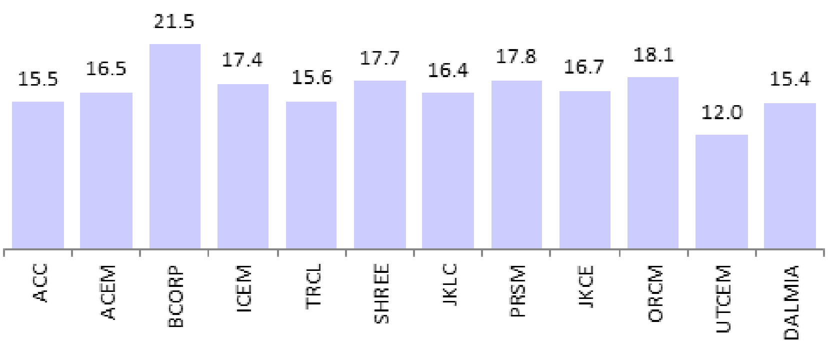
FY17/FY18 volume estimates for companies under coverage reduced up to 15%

To factor in demand destruction due to demonetization, we have cut our volume estimates by up to 15% for the cement companies under our coverage. We expect demand moderation to be higher for markets ex-South due to higher proportion of unorganized construction and retail sales. Additionally, Andhra Pradesh and Telangana would drive ~50% of incremental demand in the South; as the demand from these two states is largely from infrastructure, it is likely to be less impacted. The South is likely to see lower demand destruction than the rest of India.

Lower operating leverage to hurt margins

Lowering of volume growth assumptions for 2HFY17 and FY18 has led to lower benefit of operating leverage than expected earlier. With average fixed cost as % of sales at 16%, lowering of volume estimates has resulted in EBITDA/t cut of up to 23%/17% for FY17E/FY18E (refer exhibit below). The cut in FY18 EBITDA/t estimates for Orient and Birla Corp is higher at 17% and 13%, respectively, due to higher proportion of fixed cost as % of sales at 21% and 18%, respectively. UltraTech's proportion of fixed cost as % of sales is lowest at ~12% and hence is likely to see reduction in EBITDA/t estimate by only 5% in FY18.

Exhibit 20: Fixed Cost as a Percentage of Sales



** includes Staff and Advertising cost* Source: Company, MOSL

Cutting earnings estimates by 9-28% for companies under coverage

We have cut our EBITDA/ton estimates for cement companies under our coverage by up to 17% to factor in the impact of negative operating leverage. We have not revised the realization estimates meaningfully for FY18, as we believe cement prices would remain stable-to-positive in FY18 due to slowdown in capacity addition. The influx of new cement players is also slowing down, which should bode well for the pricing environment. Cement companies could increase prices to offset the impact of lower demand and cost push (partly built into our estimates).

For our large cap cement universe, we have cut our FY17/FY18 earnings estimates by ~14%. For our midcap cement universe, we have reduced our FY18E earnings by ~25%, as the impact of operating leverage is higher.

Top picks: Shree Cement and Ramco Cement

In the current scenario of uncertain demand, we believe companies with healthy balance sheet, cost-effective operations and higher exposure to the South market are likely to outperform. Ramco, with annual free cash generation of INR7b-8b (yield of 5-6%) and operating at under 60% utilization levels, remains one of our preferred picks. Shree Cement, given its strong balance sheet (net cash of INR10b), efficient cost control and superior return ratios, would continue to report earnings growth ahead of peers in the industry.

Exhibit 21: Pre v/s post demonetization volume (mt) variance

	Pre Demonetization		Post Demonetization		% Change	
	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
ACC	24.9	26.4	23.5	24.9	-5.76	-5.76
Birla Corp	8.8	9.3	8.2	8.7	-6.42	-7.30
Ultratech Cement	51.2	55.9	46.4	49.3	-9.28	-11.74
Dalmia Bharat	13.1	14.3	12.9	14.3	-1.17	-0.53
Ambuja Cement	23.5	25.2	21.9	23.4	-7.05	-7.05
India Cement	10.3	11.0	10.3	10.8	-0.66	-1.30
JK Cement	8.0	8.8	7.6	8.0	-5.98	-9.79
JK Lakshmi Cement	8.2	9.2	7.5	8.4	-8.93	-8.93
Ramco Cement	8.2	9.2	7.2	8.1	-12.01	-12.01
Orient Cement	5.7	6.4	5.3	6.1	-7.69	-5.22
Prism Cement	5.8	6.2	5.3	6.1	-8.17	-2.13
Shree Cement	21.4	24.8	19.1	21.0	-10.62	-15.24

Source: MOSL

Exhibit 22: Pre v/s post demonetization EBITDA/ton variance

	Pre Demonetization		Post Demonetization		% Change	
	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
ACC	759	994	647	882	-14.83	-11.26
Birla Corp	669	782	514	650	-23.20	-16.91
Ultratech Cement	1,037	1,357	1,025	1,292	-1.15	-4.83
Dalmia Bharat	1,248	1,422	1,195	1,341	-4.22	-5.71
Ambuja Cement	1,018	1,203	898	1,081	-11.87	-10.10
India Cement	807	862	818	835	1.43	-3.18
JK Cement	895	1,064	842	1,016	-5.96	-4.45
JK Lakshmi Cement	564	850	512	755	-9.18	-11.24
Ramco Cement	1,422	1,530	1,418	1,512	-0.28	-1.12
Orient Cement	470	670	387	585	-17.72	-12.71
Prism Cement	1,273	1,464	1,217	1,424	-4.40	-2.77
Shree Cement	759	994	647	882	-14.83	-11.26

Exhibit 23: Pre v/s post demonetization revenue (INR m) variance

	Pre Demonetization		Post Demonetization		% Change	
	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
ACC	128,238	147,136	118,729	136,412	-7.41	-7.29
Birla Corp	37,213	41,956	40,191	45,282	8.00	7.93
Ultratech Cement	255,666	302,303	232,325	265,542	-9.13	-12.16
Dalmia Bharat	72,961	84,793	71,494	83,119	-2.01	-1.97
Ambuja Cement	109,826	126,320	99,896	115,074	-9.04	-8.90
India Cement	44,600	48,936	49,732	53,751	11.51	9.84
JK Cement	39,738	46,234	37,225	41,758	-6.32	-9.68
JK Lakshmi Cement	30,984	37,875	28,218	34,116	-8.93	-9.92
Ramco Cement	39,027	45,217	38,469	42,606	-1.43	-5.77
Orient Cement	19,238	23,311	17,652	21,820	-8.24	-6.39
Prism Cement	58,853	65,394	56,937	60,753	-3.26	-7.10
Shree Cement	93,339	113,992	84,415	98,824	-9.56	-13.31

Exhibit 24: Pre v/s post demonetization EBITDA (INR m) variance

	Pre Demonetization		Post Demonetization		% Change	
	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
ACC	19,527	26,258	15,792	21,959	-19.13	-16.37
Birla Corp	6,091	7,292	4,431	5,612	-27.25	-23.04
Ultratech Cement	53,820	76,852	48,270	64,589	-10.31	-15.96
Dalmia Bharat	18,297	22,930	17,342	21,519	-5.22	-6.15
Ambuja Cement	23,948	30,259	19,618	25,285	-18.08	-16.44
India Cement	7,692	8,694	7,746	8,298	0.71	-4.55
JK Cement	6,928	9,026	6,111	7,745	-11.80	-14.20
JK Lakshmi Cement	4,628	7,817	3,828	6,319	-17.29	-19.17
Ramco Cement	11,689	14,086	11,487	13,114	-1.73	-6.90
Orient Cement	2,691	4,300	2,044	3,558	-24.05	-17.27
Prism Cement	5,123	8,217	3,558	5,831	-30.55	-29.03
Shree Cement	29,536	38,206	25,790	32,160	-12.68	-15.82

Exhibit 25: Pre v/s post demonetization PAT (INR m) variance

	Pre Demonetization		Post Demonetization		% Change	
	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
ACC	12,427	18,532	9,663	15,394	-22.24	-16.93
Birla Corp	4,515	5,449	3,076	3,942	-31.86	-27.66
Ultratech Cement	29,888	47,158	26,003	38,574	-13.00	-18.20
Dalmia Bharat	3,927	6,448	3,368	5,637	-14.23	-12.58
Ambuja Cement	18,737	22,648	15,490	19,018	-17.33	-16.03
India Cement	1,698	2,481	1,623	2,178	-4.42	-12.21
JK Cement	2,492	3,982	1,849	2,980	-25.78	-25.15
JK Lakshmi Cement	1,023	3,571	555	2,619	-45.69	-26.66
Ramco Cement	6,540	7,553	6,380	6,871	-2.44	-9.03
Orient Cement	481	1,277	-225	912	-146.74	-28.59
Prism Cement	1,424	3,542	250	1,872	-82.46	-47.15
Shree Cement	18,831	25,767	15,610	21,629	-17.11	-16.06

Exhibit 26: Pre v/s post demonetization target price variance

	Pre Demonetization	Post Demonetization	% Change
ACC	1538	1321	-14.11
Birla Corp		759	
Ultratech Cement	4675	4069	-12.96
Dalmia Bharat	2384	1736	-27.18
Ambuja Cement	309	234	-24.27
India Cement		118	
JK Cement	1107	767	-30.71
JK Lakshmi Cement	606	440	-27.39
Ramco Cement	713	698	-2.10
Orient Cement	216	175	-18.98
Prism Cement	122	92	-24.59
Shree Cement	20400	17096	-16.20

Source: MOSL

Consumer & Retail

Near term blip; long term intact

Staples to be resilient, retail and alcohol companies could be hit harder

Broad impact of demonetization on sales and operating leverage

- Three weeks since the demonetization, it is yet unclear how long the liquidity crunch will last. While there was a severe dent on demand across consumer categories in the first week of demonetization, there has been a gradual recovery since then, initially in staples and subsequently in more discretionary FMCG products in metropolitan cities. However, the scenario and outlook on demand recovery in rural and other urban regions is yet unclear.
- Traditional trade, which accounts for 90% of FMCG demand, has been hit because transactions are predominantly in cash and because transportation has been affected by unavailability of trucks. Britannia's management has spoken about 15-20% sales hit for 3QFY17 relative to earlier expectations. Dabur's management has also spoken about a severe destocking impact. 2HFY17 sales and earnings will be impacted, as the complete replacement of high value notes will take until the end of FY17. For staples, even in metropolitan cities, less than 10% of the payments are by cards and online shopping is as yet extremely small. It is necessary for cash to return to the system for faster recovery.
- Most consumer companies have, however, extended the credit period for distributors, who in turn have extended the credit period for retailers, leading to some recovery in demand in the last 10 days, particularly in metropolitan cities. Customers in large urban clusters have greater access to banking facilities, leading to quicker recovery of demand, as liquidity is gradually improving. There is also a regional skew in terms of demand recovery, as penetration of banking services is higher in South India and weak in Central and North India, leading to slower recovery in the latter regions. Modern trade (~10% of FMCG demand) as well as the chemist channel has not seen any severe impact on sales since demonetization.
- Broadly, we expect limited impact on staples demand in FY17 and FY18. Even for relatively more discretionary FMCG products, we do not expect high impact on sales either in FY17 or FY18. Since the sales impact is limited, so will be the earnings impact. Moreover, high advertisement and promotion spend to sales also provides a cushion to protect margins and contain earnings damage. Impact on sales is likely to be higher for retail and alcoholic beverage companies: their operating leverage also tends to be high due to higher fixed operating costs as well as high depreciation and interest costs.
- We reckon that the FY17 impact will be small and the medium-term (FY18 and beyond) impact will be even smaller in case of consumer staple companies like **Hindustan Unilever, Colgate, Marico and P&GHH. Page Industries** is unlikely to be severely affected by demonetization. Similarly, we do not think demand for products addressing kids' nutrition, like those of **Glaxo Consumer**; will witness any huge impact in FY17 or FY18. **GCPL** is also relatively insulated from the demonetization impact due to its large international business, though its domestic hair color and insecticides business could be affected by

postponement of demand. Operating leverage for most companies mentioned above is also typically not very high, which means that the loss of sales (small anyway) will not have a significant impact from an earnings perspective.

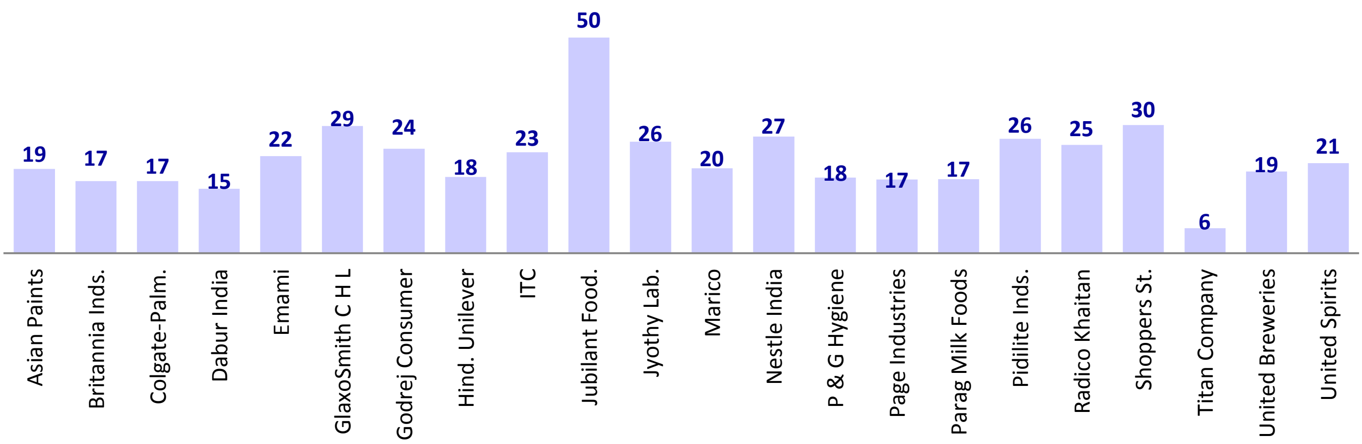
- **Nestle, Britannia, ITC and Emami**, which sell products that are relatively more discretionary compared to staples, are unlikely to be significantly impacted beyond the next 2-3 quarters. These companies are also not adversely impacted on operating leverage due to lower sales, and hence, earnings impact is limited. Our base case does not assume a failure of the Rabi crop due to the cash crunch issues affecting procurement of seeds and fertilizers, in which case FY18 demand could be worse off compared to base case expectations.
- In case of **Asian Paints and Pidilite**, there is uncertainty on how the crackdown on black money could affect demand for paints used in new construction and adhesives used for making customized furniture. While we have cut earnings for Asian Paints higher than for most consumer companies. However, we have not cut Pidilite's numbers sharply because our post results note was released after demonetization was announced, and a fair degree of conservatism on forecasts had already been built in.
- Alcoholic beverage companies like **United Spirits, United Breweries and Radico Khaitan** are likely to be affected more by the cash crunch and supply chain issues. These companies are also more vulnerable to the impact of lower operating leverage on earnings owing to higher operating fixed costs, depreciation and interest.
- The most affected both from a sales as well as earnings perspective because of high sensitivity to operating leverage are retail companies like **Jubilant Foodworks, Shoppers Stop and Titan**. These are likely to be adversely affected by low footfalls and postponement of discretionary demand.
- **Top picks:** We continue to like **Britannia and Emami**, where we believe the correction in stock prices offers an even better opportunity for investors, as there has been no material deterioration in fundamentals. The long-term attractiveness of **Pidilite** as an investment candidate remains high despite near-term uncertainties. The company is also likely to be a significant beneficiary of GST implementation. While **P&GHH** and **Colgate** may have corrected sharply, the investment case in both companies is compelling, in our view. **United Breweries** may have near-term challenges on uncertainty of demand revival, but here again; the opportunity for longer-term earnings growth and RoCE improvement is large. Since we are now valuing companies based on December 2018E EPS compared to September 2018E EPS earlier, it has resulted in lower target price cut relative to earnings cut (in some cases, there have been minor increases in target price) – the earnings cuts beyond FY17 have been miniscule.

Exhibit 27: Impact of demonetization on FY17 and FY18 earnings of our coverage universe (INR m)

	FY17E						FY18E					
Company	**Sales**	**% Chg.**	**EBITDA**	**% Chg.**	**PAT**	**% Chg.**	**Sales**	**% Chg.**	**EBITDA**	**% Chg.**	**PAT**	**% Chg.**
Consumer												
Asian Paints	153,368	-4.0	29,637	-6.8	19,348	-7.2	172,209	-7.8	33,304	-10.6	22,042	-11.0
Britannia	88,263	-4.7	11,476	-6.5	8,471	-6.0	107,419	-1.6	14,962	-1.2	10,918	-1.1
Colgate	41,276	-1.4	9,992	-1.5	6,053	-1.7	47,429	-1.4	12,842	-1.5	7,950	-1.7
Dabur	79,858	-2.2	14,980	-5.7	12,637	-5.4	90,961	-2.1	17,911	-3.8	15,266	-3.6
Emami	26,750	-2.0	7,736	-3.1	5,742	-3.2	30,556	-5.2	8,938	-6.0	7,070	-6.0
Godrej Consumer	94,897	-3.0	17,931	-4.6	12,522	-5.1	111,389	-3.0	22,826	-4.4	16,412	-4.8
GSK Consumer	40,212	-1.3	8,445	-1.3	6,630	-1.1	45,037	-1.4	9,548	-1.4	7,519	-1.2
Hind. Unilever	321,525	-1.0	59,787	-2.1	43,142	-2.1	351,859	-1.0	66,959	-2.3	48,537	-2.3
ITC	390,939	-2.7	145,369	-3.9	104,442	-3.7	440,590	-2.7	169,810	-3.9	122,124	-3.7
Jyothy Labs	17,776	-1.1	2,656	-2.7	1,446	-3.8	20,467	-1.1	3,022	-2.9	1,677	-4.0
Marico	61,174	-1.7	11,180	-3.3	7,895	-3.3	73,106	-1.7	13,726	-3.0	9,799	-3.0
Nestle	87,403	-5.7	17,259	-8.4	10,585	-10.2	103,448	-5.9	21,463	-8.4	13,292	-10.4
Page Industries	21,062	-1.5	4,239	-1.7	2,762	-1.9	26,095	-1.5	5,698	-1.7	3,640	-1.8
Parag Milk Foods	17,118	-2.0	1,568	-2.8	662	-4.5	20,036	-3.1	1,985	-4.4	892	-6.5
Pidilite Inds.	55,858	-2.7	12,465	-4.3	8,387	-3.2	64,780	-4.8	14,438	-6.6	9,807	-5.3
P&G Hygiene	28,226	-2.9	6,464	-4.2	4,480	-4.0	34,198	-2.3	8,037	-2.8	5,484	-2.7
Radico Khaitan	17,047	-4.0	1,890	-9.0	701	-16.2	19,297	-5.1	2,168	-10.4	939	-16.4
United Breweries	49,500	-4.2	6,875	-10.0	3,262	-12.4	57,420	-4.2	8,774	-6.9	4,324	-8.0
United Spirits	86,650	-5.4	9,185	-13.6	4,034	-19.3	98,018	-6.3	12,350	-9.9	6,635	-12.0
Retail												
Jubilant Food works	25,385	-5.2	2,443	-13.4	707	-27.1	30,357	-7.6	3,448	-14.2	1,219	-25.0
Shopper's Stop	36,180	-2.8	2,071	-10.2	630	-18.5	41,607	-3.6	2,478	-13.1	771	-22.9
Titan Company	119,594	-2.7	10,046	-7.1	7,494	-7.2	137,533	-5.2	11,553	-11.5	8,658	-11.5

Source: Company, MOSL

Exhibit 28: Fixed Costs/ Sales



Source: MOSL

Electricals and Consumer Durables

Higher impact on Electricals than on Durables

Return to normalcy begins

Room airconditoner sales relatively insultated from demonetization

- Our extensive channel interactions indicate that air conditioner sales have come off 50-60% following demonetization. 3Q is a seasonally weak quarter (November-December more so) for air conditioner sales, given the onset of winter. Also, the announcement came post the festive season (festive season sales got over in October). The impact is higher for TVs, washing machines and water heaters.
- ~40% of room air conditioner sales in tier-1/metropolitan cities are through financing and another ~20% are via cards/cheques. The ~40% sales on cash could be impacted by the current liquidity crunch. Yet, we believe that the impact would be limited in 3Q, as November-December are seasonally weak months. Liquidity should return from 4QFY17, resulting in sequential improvement in sales. FY18 could see a rebound, as pent-up demand comes through.
- We cut our estimate for Voltas by 6%/10% for FY17 and FY18 to factor in the impact of lower volumes and margins in Q3/Q417 and introduce our FY19 estimates. We roll over our target price to December, '18 and raise our SOTP based price to INR350. We revise our rating to BUY from Neutral earlier.

Exhibit 29: Voltas – SOTP valuation

Name of segment	FY19 EPS	Multiple	Value/Share
Unitary Colling Products	11	25	285
Engineered Products Services	3	15	38
Electro Mechanical Products	2	15	27
Total			**350**

Source:MOSL

Exhibit 30: Voltas – Change in estimates

Description	New Estimates		Old Estimates		Change in estimates	
	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
Sales	58,907	65,762	59,163	66,204	0%	-1%
EBITDA	4,732	5,610	5,124	5,978	-8%	-6%
Margins (%)	8.0%	8.5%	8.7%	9.0%	-0.6%	-0.5%
PAT	3,903	4,866	4,193	5156	-7%	-6%
EPS	11.8	14.7	12.6	15.5	-6%	-5%

Source:MOSL

Electricals sales to be impacted in near term; medium-term impact higher for categories with high dependency on new housing sales

- **Near-term demand to be impacted due to high dependence on cash sales:** Most electrical categories have high dependence on cash sales – given the low ticket size, EMI sales are largely absent. The impact of demonetizationhas been severe across all product categories.
- **Medium-term impact higher for products with higher dependence on new hoursing sales:** Product categories like residential cables and wires, switches and switchgear would see a higher impact of demonetization over the medium term, with likely slowdown in new housing sales. On the other hand, categories like fans and lighting are driven more by replacement demand and are likely to see lower impact of a slowing housing market.

Exhibit 31: Replacement demand across product categories

Description	% share of market
Fans	70%
Domestic Switchgear	50%
Switches	50%
Lighting	70%
Pumps	55%

Source: MOSL, Industry

- One benefit of demonetization would be a faster shift from the unorganized segment to the organized segment – this had already been happening over the past few years and would get further accelerated with demonetization and GST. Havells is already working with its distributors/dealers by offering them higher credit period and new offers/schemes to promote sales – this strenghtens the "company – distributor/dealer" relationship and develops a high degree of brand loyalty, leading to higer market share.

Exhibit 32: Unorganized players as % of overall sales

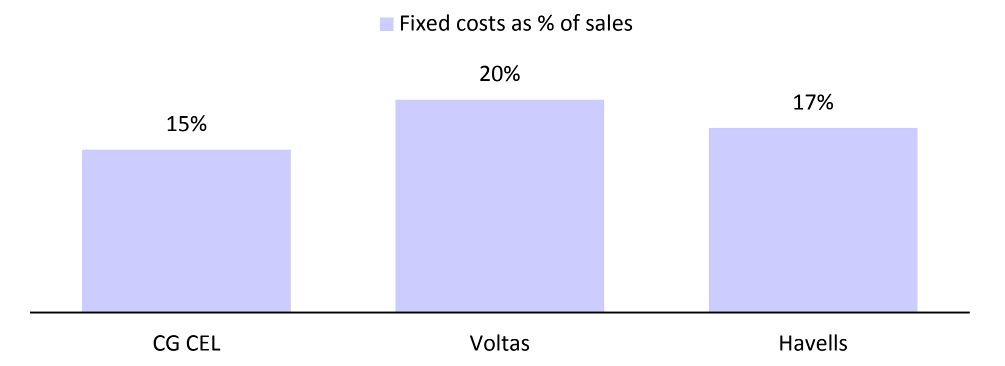
Description	FY06	FY10	FY15
Fans	60%	40%	25%
Lighting	75%	60%	40%
Pumps	55%	45%	30%
Domestic Switchgear	60%	20%	<5%
Industrial Switchgear	40%	20%	20-25%
Cables and Wires			30%
Switches	75%	50%	40%

Source: MOSL, Industry

Operating leverage to hit near-term earnings

- Given the likely decline in sales over 3QFY17, we have tried to model the impact on EBITDA margins assuming gross margins remain the same. For CGCEL, we assume gross margins remain at 31%, fixed costs at 15% of sales, and variable costs (warranty, freight, packing) at 3% of sales. For Voltas and Havells, fixed costs (as % of sales) stand at 20% and 17%, respectively.

Exhibit 33: Fixed costs as % of sales



Source: MOSL, Industry

- To account for (a) the weakness in sales in 2HFY17, and (b) higher raw material prices from 2HFY17, we cut our estimates for Havells and Crompton Greaves Consumer Electricals for FY17/FY18 by 20%/11% and 27%/11%, respectively. We roll forward our target prices to December 2018E. We upgrade Havells to BUY, with a target price of INR390 (30x December 2018E EPS, 20% premium to the 5-

year average of 25x) and CGCEL to BUY, with a target price of INR180 (30x December 2018E EPS, in line with Havells).

Exhibit 34: Crompton Greaves Consumer Electricals – Change in estimates

Description	New estimates		Old estimates		Change in estimates	
	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
Sales	37,561	42,904	40,726	46,726	-8%	-8%
EBITDA	4,047	5,265	5,003	5,999	-19%	-12%
Margin	10.8%	12.3%	12.3%	12.8%	-1.5%	-0.6%
PAT	2,342	3,222	2,915	3,630	-20%	-11%

Source: MOSL

Exhibit 35: Havells – Change in estimates

Description	New estimates		Old estimates		Change in estimates	
	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
Sales	59,860	68,926	64,192	75,315	-7%	-8%
EBITDA	7,677	9,749	8,981	11,253	-15%	-13%
Margin (%)	12.8%	14.1%	14.0%	14.9%	-1.2%	-0.8%
PAT	4,677	7,064	6,386	7,922	-27%	-11%

Source: MOSL

Financial: BFSI

CASA franchise to strengthen

Higher opex to impact 2HFY17; lower interest rates augurs well for trading gains

CASA expansion led by digitalization and financial inclusion

Government action to clamp down on black money through demonetization has increased the flow of deposits, especially CASA deposits in the system. Assuming 75% of the currency in circulation comes back into the system and 10% of that remains in the system (due to increased GoI effort on digitalization and increasing reliance on banking channels by individuals), CASA ratio would increase by 3-4%. Higher CASA ratio would lead to lower cost of funds in the long term. Proactive actions by mid-sized private sector banks would help them to gain share.

Credit-to-GDP ratio to rise; formalization of credit to organized sector

We expect loan growth to improve in the medium-to-long term, led by (a) shift from unorganized to organized sector, (b) increase in borrowing capacity of companies largely dealing in cash as they shift to banking channels, and (c) economic growth led by GoI actions. Further, demonetization is likely to be disinflationary, leading to lower interest rates and boosting credit as and when the economy improves.

Rates heading down; highly levered borrowers to benefit

The strong deposit intake has not been matched by credit offtake, with both consumers (especially discretionary purchases) and businesses recuperating from the effects of demonetization. In the last few days, there has been a sharp reduction in term deposit rates by banks, led by SBI (cutting bulk deposit rates by up to 190bp). Coupled with falling bond yields and strong CASA mobilization, this would lead to significant reduction in funding costs. This, in turn, is likely to be reflected in lending rates sooner than later. The degree of financial leverage and correspondent impact on profitability is likely to be huge for highly levered borrowers. In the near term, the degree of operating leverage is likely to be negative for the system.

Bond rally to help clean up books and provide capital

Demonetization is likely to be disinflationary and should improve efficiency (more digitalization) in the system, leading to lower interest rates. State-owned banks that typically run large AFS books with a good 3-year+ duration should gain from falling rates. While MTM gains are non-core income, they would attain significance should the state-owned banks use them to create buffers for their NPLs. The flip side of the argument relates to 'pension obligations' that would increase in a falling rate environment. Our analysis suggests that the gap between asset and liability has reduced; therefore, the net impact should be positive.

Cost/income ratios to increase sharply in the near term

Our interactions with banks have led us to believe that the servicing and replenishing of ATMs requires significant overheads in terms of both manpower and costs. Long queues in branches imply round-the-clock servicing efforts by branch employees. We believe demonetization will lead to costs flying through the roof for the banks and there could be a severe impact on cost efficiency ratios in 3Q. Further, significant decline in economic activity could lead to near-term cash flow issues and, in turn, impact the asset quality of banks.

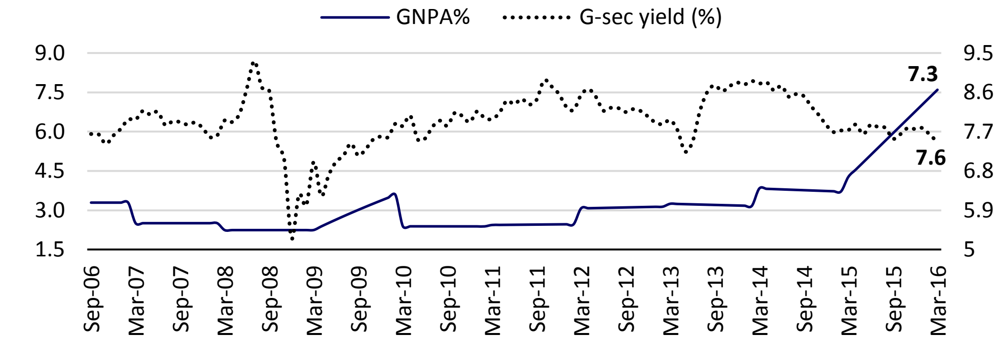
Muted NII growth led by margin compression and decline in C-D ratios

While medium to long term loan growth outlook remains positive, we believe that near term hiccups will arise due to a decline in economic activity in sectors such as consumer discretionary, automobile, housing and MSME businesses. Due to strong deposit intake, this could lead to a decline in C-D ratios in 2HFY17. We expect margins to compress led by a) falling C-D ratios b) decline in investment yields (owing to declining g-sec yields), and c) higher CRR requirement (temporary move by the RBI). This leads us to cut our estimates for NII for FY17 by 2.5% for state owned banks and 1.3% for private banks.

Credit cost to remain elevated

Delinquencies may increase in cash dominated segments like CV, SME, agriculture and microfinance. Hence, we conservatively increase credit cost estimates for FY17 to factor in both higher delinquencies and slower recoveries. We believe that trading gains could be the joker in the pack and has the potential to surprise earnings positively. Moreover, with a pick-up in economic activity, the banking system should be realizing the benefits of higher recoveries and upgrades in FY18 onwards.

Exhibit 36: Asset quality inversely related to interest rates



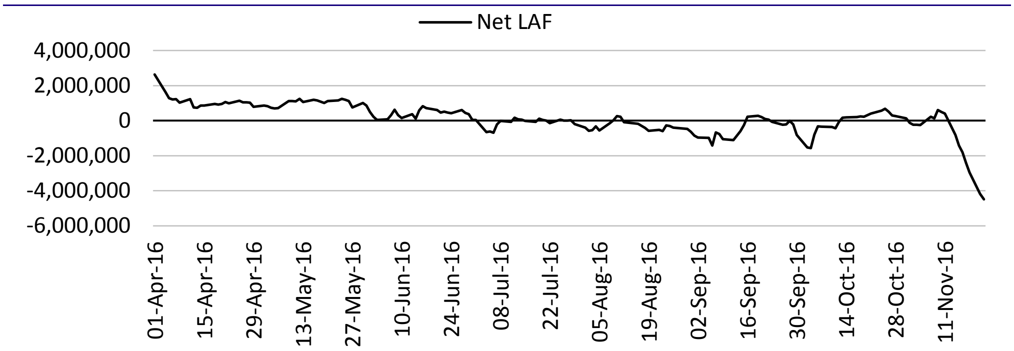
Source: MOSL, RBI, Bloomberg

Exhibit 37: Interest rates for deposits in the range of INR10-50m - Post demonetization, banks have cut bulk deposit rates across maturities

		Current interest rates			
	Magnitude of rate cut (across maturities)	< 1 year	1 year	2 year	3 year
SBI	125-190bp	3.75-4.00%	4.25%	4.25%	4.25%
ICICIB	15bp	5.00-6.05%	6.05%	6.15%	6.30%
HDFCB	25bp	5.50-6.25%	6.50%	6.50%	6.50%
AXSB	Upto 100bp	5.50-6.75%	7.00%	6.75%	6.75%
PNB	10-25bp	5.00-6.00%	6.25%	6.00%	6.00%

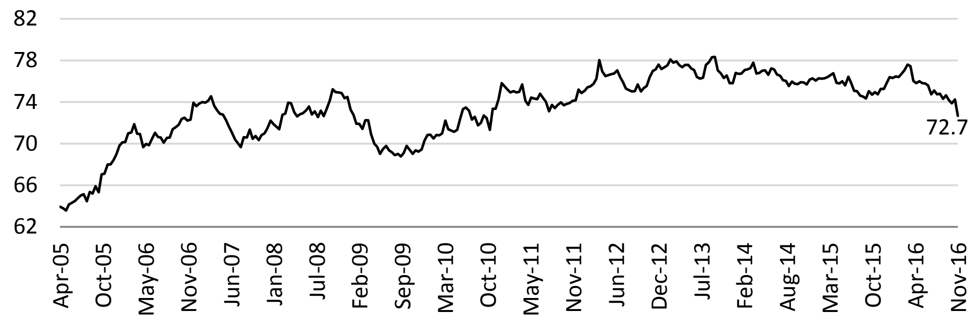
Source: MOSL, Company

Exhibit 38: Excess liquidity in the system



Source: MOSL, RBI

Exhibit 39: C-D ratio collapsed 154bp as on the fortnight ended November 11th, 2016 (%)



Source: MOSL, RBI

Revising Estimates; Prefer HDFCB, ICICIBC, SBIN and PNB

We have revised our estimate downward for FY17 by 3.7% for state-owned banks and 1% for private banks. While there would be higher trading gains, muted NII growth, higher opex and credit cost will keep earnings under pressure. For FY18 we have been conservative and reduced the growth and increased credit costs, leading to downward revision in earnings of 3.9% for state-owned banks and 1.2% for private banks. We continue to prefer HDFC Bank, ICICI Bank, SBIN and PNB.

Exhibit 40: Private banks – NII estimates: pre v/s post demonetization

NII	Old estimates		Revised estimates		Change (%)	
	FY17	FY18	FY17	FY18	FY17	FY18
ICICIBC	213	245	211	243	-1.0	-1.0
HDFCB	323	384	318	382	-1.5	-0.6
AXSB	184	216	181	212	-1.2	-1.6
KMB	81	95	81	94	-0.6	-1.7
YES	59	76	58	75	-1.6	-1.2
IIB	60	75	59	72	-1.7	-3.0
FB	29	35	29	33	-0.5	-4.4
DCBB	8	9	8	9	-2.9	-3.2
Total pvt sector banks	**957**	**1,135**	**945**	**1,120**	**-1.3**	**-1.3**

Exhibit 41: Private banks – PPoP estimates: pre v/s post demonetization

PPoP	Old estimates		Revised estimates		Change (%)	
	FY17	FY18	FY17	FY18	FY17	FY18
ICICIBC	262	232	261	231	-0.6	-0.7
HDFCB	250	301	249	303	-0.6	0.7
AXSB	171	193	167	188	-1.8	-2.6
KMB	57	72	57	71	-0.9	-2.3
YES	57	72	56	71	-1.6	-1.3
IIB	54	66	53	64	-1.0	-2.6
FB	18	21	19	21	3.0	-2.2
DCBB	4	5	4	5	-0.6	-2.2
Total pvt sector banks	**873**	**962**	**865**	**952**	**-0.9**	**-1.0**

Exhibit 42: Private banks – We largely maintain PAT estimates

PAT	Old estimates		Revised estimates		Change (%)	
	FY17	FY18	FY17	FY18	FY17	FY18
ICICIBC	100	106	99	105	-1.3	-1.1
HDFCB	148	178	147	179	-0.4	0.6
AXSB	32	57	31	54	-2.2	-4.2
KMB	33	43	33	41	-0.6	-2.9
YES	33	42	32	42	-1.4	-1.0
IIB	29	36	29	35	-0.8	-2.8
FB	8	10	8	9	-1.8	-2.4
DCBB	2	2	2	2	-1.0	-2.7
Total pvt sector banks	**385**	**473**	**381**	**468**	-1.0	-1.2

Exhibit 43: PSU banks - We cut our NII estimates marginally for FY17-18E

NII	Old estimates		Revised estimates		Change (%)	
	FY17	FY18	FY17	FY18	FY17	FY18
SBIN	590	678	579	677	-1.7	-0.1
PNB	159	176	156	169	-1.8	-4.0
BOI	115	137	110	138	-4.8	0.7
BOB	140	159	133	152	-5.1	-4.5
CBK	99	109	97	102	-1.6	-6.7
UNBK	91	103	89	98	-3.0	-4.2
OBC	53	58	51	55	-3.6	-5.5
INBK	52	57	51	56	-1.6	-1.5
Total PSU banks	**1,299**	**1,478**	**1,267**	**1,448**	-2.5	-2.0

Exhibit 44: PSU banks: We largely maintain PPoP estimates

PPoP	Old estimates		Revised estimates		Change (%)	
	FY17	FY18	FY17	FY18	FY17	FY18
SBIN	473	505	487	529	3.2	4.8
PNB	136	146	142	148	4.5	1.3
BOI	80	92	78	95	-2.0	3.2
BOB	112	123	109	120	-2.8	-2.7
CBK	85	96	88	95	3.4	-1.3
UNBK	68	78	66	75	-2.9	-3.9
OBC	38	39	38	37	0.7	-3.5
INBK	39	41	41	43	5.5	5.3
Total PSU banks	**1,031**	**1,120**	**1,050**	**1,142**	1.9	2.0

Exhibit 45: PSU banks: We downgrade estimates for FY17-18E factoring in lower loan growth and higher credit costs

PAT	Old estimates		Revised estimates		Change (%)	
	FY17	FY18	FY17	FY18	FY17	FY18
SBIN	108	146	105	140	-2.7	-4.3
PNB	24	29	23	28	-3.5	-2.4
BOI	-7	20	-8	20	NM	-4.2
BOB	30	46	29	44	-3.6	-4.8
CBK	15	20	15	20	-3.1	-0.8
UNBK	11	22	11	21	-4.0	-5.0
OBC	7	7	7	7	-5.6	-3.1
INBK	15	16	14	15	-2.6	-3.7
Total PSU banks	**203**	**307**	**196**	**295**	-3.7	-3.9

Source: MOSL, RBI

Financial: NBFCs

Temporary pain or structural breakdown?

LAP and vehicle financing to face immediate impact

Long-term growth intact

Post the announcement of demonetization on November 8, NBFC stocks have corrected by 15-30%. While demonetization will have a short-term impact on all NBFCs, we believe some are structural outperformers, and for these, the impact should be limited to 1-2 quarters. We believe growth and profitability will be back to normal for most of these companies in the next 2-4 quarters. While we cut our FY17/FY18 earnings estimates and our target prices, we believe the recent price correction offers a good entry point for most companies.

Impact across segments

HFCs' LAP portfolios could witness some stress, given the correction in property prices and cash flow constraints faced by the borrowers. Collections and disbursements in the VF segment would be impacted, as 60-70% of collections are in cash. However, the shift from the unorganized to the organized segment will have a positive impact on the CV industry in the medium term. Within the consumer durables financing segment, while business came to a halt in the first few days post demonetization, our recent interactions suggest a significant improvement since. Some financiers have also begun disbursing loans with zero down-payment. Microfinance lenders are facing collection issues due to unavailability of legal tender. However, they believe 'willingness to pay' remains strong and the collection delays will not translate to NPAs. Within gold finance, companies have witnessed a higher proportion of re-pledging by borrowers.

Emergence of structural winners

While NBFCs will experience some pain in the near term, we believe demonetization will have a structurally positive impact on the NBFC environment due to (a) shift from the informal unorganized segment to the organized segment (particularly in CV and MF), (b) de-risking of business model and reshuffling of portfolios (for instance, reducing portfolio exposure to LAP), leading to progressively lower *betas* in the long term, and (c) adoption of sound business practices (increased proportion of digital disbursements/collections). However, to account for the near-term pain, we cut our earnings estimates for FY17 and FY18 by 5-15%, but expect a recovery in FY19. Our top picks include LICHF, BHAFIN and MUTH.

Exhibit 46: Revised estimates and target price

	EPS estimate change (%)		Old Target	New Target	Change in
	FY17E	FY18E	Price (INR)	Price (INR)	TP (%)
HDFC	(1.9)	(3.0)	1,621	1,553	(4)
LICHF	(2.5)	(3.7)	748	719	(4)
DHFL	(7.8)	(5.1)	462	413	(11)
Repco	(0.3)	(4.3)	904	824	(9)
GRUH	(1.9)	(4.5)	381	339	(11)
BAF	(5.7)	(5.5)	1,281	1,109	(13)
BHAFIN	(9.6)	(14.8)	945	893	(6)
MUTH	(7.7)	(9.8)	415	373	(10)
MMFS	(11.2)	(16.1)	410	360	(12)
STF	(5.0)	(8.7)	1,460	1,302	(11)

Reiterating our top picks

LIC Housing Finance – Several drivers in the medium term

The demonetization move benefits LICHF in two ways: (a) property prices will correct, making homes more affordable for the salaried class, and (b) unorganized financing sector will be wiped out gradually. Additionally, the LAP book is low-risk, with average ticket size of INR1.2m and average LTV of 25%. Hence, there shouldn't be any negative asset quality impact. With G-Sec yields dropping further (10-year yield at 6.3%), we believe LICHF will be able to expand margins despite intense competition in the retail home loan segment. We cut our FY17/18 EPS estimates by 3%/4% to factor in the near-term impact of demonetization.

Bharat Financial Inclusion – Structural growth story

The management has indicated that collections have improved in the past few days. As most of its customers are traders of small-ticket essential commodities (like groceries), they have enough INR100 notes with them. The company has been re-cycling collections received into disbursements. The management has indicated that as and when the currency comes back into circulation, disbursements will pick up sharply. Additionally, RBI's recent moratorium on NPA recognition bodes well for all NBFCs, especially the MFIs. BHAFIN is one of the most conservative MFI players, with an average ticket size of INR17k, lower than most peers. We believe the medium-term growth story remains intact. We cut our FY17/18 EPS estimates by 10/15%, but expect a pick-up in FY19.

Muthoot Finance – Stable gold prices negate asset quality concerns

We believe gold financiers will be a large beneficiary of the demonetization move, which would wipe out several local moneylenders over the long term. The company is expanding its network into newer geographies and expects 18-20% AUM growth in FY17 despite demonetization (we factor in 16% AUM growth). Management has indicated that 50% of disbursements and 60% of collections are via non-cash sources. Additionally, cash received from repayments is being funneled back as disbursements. With gold prices remaining stable, we do not foresee any asset quality impact. We cut our FY17/18 EPS estimates by 8%/10% to factor in muted 2HFY17 loan growth and slightly higher operating expenses.

Metals & Mining

Domestic steel sales severely impacted

Non-ferrous primary smelters largely unaffected

Steel: Domestic sales impacted severely

Reducing estimates for TATA and SAIL; maintaining for JSTL

The impact is severe on long product demand as large part of the last mile activities is dependent upon cash transactions

Indian steel demand has taken a severe beating on demonetization of high-denomination currency. The impact is severe on long product demand, as large part of the last mile activities is dependent on cash transactions. Supply to OEMs is largely unaffected so far, but we believe it cannot remain unaffected for long because every part of the economy is impacted by demonetization. Secondary steel producers have started shutting down production due to mounting inventories. Iron-ore mines in Odisha are forced to cut production on piling up of inventories. Sponge iron prices have already corrected by 6% WoW. Iron ore prices too have started moving down in India.

Reducing FY17 estimates for Tata Steel and SAIL; maintaining for JSW Steel

We are reducing our 2HFY17 sales volume estimates by 10% for SAIL and Tata Steel (TATA). EBITDA/ton would also decline from USD124 to USD119 for TATA and from USD9 to a loss of USD3 for SAIL in FY17. We are keeping our volume estimates for JSW Steel (JSTL) unchanged, as loss of domestic sales would be offset by increased exports. SAIL's FY17E loss after tax has increased by 23% to INR34b. TATA's consolidated FY17 PAT would decline by 45% to INR7.4b. JSTL's estimates are largely unchanged. Economic activities are expected to normalize by the end of FY17. Therefore, we are keeping FY18 estimates and target prices unchanged. Additionally, steel companies are struggling with cost pressure, especially the spike in coking coal prices. Maintain **Buy** on JSTL and **Sell** on TATA and SAIL.

Exhibit 47: Tata Steel — INR million

	Pre-demonetization			Base case			Bear case			Remarks
	3Q	4Q	FY17	3Q	4Q	FY17	3Q	4Q	FY17	
India										**Base case, India business:** Volumes cut by 10%
Volumes - mt	2.9	3.0	10.6	2.6	2.7	10.0	2.3	2.4	9.5	
Realization - INR/t	43,000	44,000	42,524	43,000	44,000	42,466	43,000	44,000	42,401	
Revenue	122,550	132,000	456,073	110,295	118,800	426,318	98,040	105,600	400,863	
EBITDA	25,409	21,822	88,592	21,160	18,341	80,863	17,340	15,311	74,012	**Bear case, India business:** Volumes cut by 20%
(USD/t)	131	107	124	121	100	119	112	94	116	
PAT	7,405	4,847	22,700	4,127	2,162	16,736	1,179	-176	11,450	
Consolidated										
Revenue	292,272	360,609	1,125,888	280,017	304,409	1,100,433	267,762	291,209	1,074,978	
EBITDA	36,312	32,009	130,440	32,064	28,529	122,712	28,243	25,498	115,861	
(USD/t)	89	74	83	83	70	80	77	65	77	
PAT	7,150	3,927	13,349	3,872	1,241	7,386	924	-1,097	2,100	
change v/s pre - %				-46	-68	-45	-87	-128	-84	

Source: MOSL

Exhibit 48: JSW Steel **INR million**

	Pre-demonetization			Base case			Bear case			Remarks
	3Q	4Q	FY17	3Q	4Q	FY17	3Q	4Q	FY17	
Standalone										**Base case:** No impact on volumes as will increase exports
Volumes - mt	4.0	4.0	15.2	4.0	4.0	15.2	3.8	3.8	14.8	
Realization - INR/t	34,680	34,680	33,531	34,680	34,680	33,531	34,680	34,680	33,500	
(USD/t)	104	61	101	103	59	100	99	55	98	**Bear case:** Volumes cut by 5%
Consolidated										
Revenue	159,978	160,219	569,556	159,978	160,219	569,556	153,042	153,283	555,684	
EBITDA	29,980	18,224	110,484	29,580	17,824	109,684	27,177	16,006	105,464	
PAT	7,937	-226	26,065	7,665	-498	25,521	6,031	-1,734	22,651	
change v/s. pre - %				-3	120	-2	-24	666	-13	

Exhibit 49: SAIL **INR million**

	Pre-demonetization			Base case			Bear case			Remarks
	3Q	4Q	FY17	3Q	4Q	FY17	3Q	4Q	FY17	
Volumes - mt	3.7	3.9	14.0	3.3	3.5	13.2	3.0	3.1	12.5	**Base case:**
Realization - INR/t	35,028	35,028	33,892	35,028	35,028	33,827	35,028	35,028	33,754	Volumes cut by 10%
Revenue	129,604	136,610	474,490	116,644	122,949	447,869	103,683	109,288	421,247	
EBITDA	8,829	2,354	17,873	5,360	-699	11,350	1,927	-3,868	4,748	**Bear case:**
(USD/t)	35	9	19	24	-3	13	10	-18	6	Volumes cut by 20%
PAT	-3,987	-10,998	-27,455	-7,352	-13,963	-33,775	-10,682	-17,040	-40,175	
change v/s. pre - %				84	27	23	168	55	46	

Non-ferrous: Marginally impacted; top picks – Hindalco, Nalco

Estimates unchanged for non-ferrous companies because of ready export market

According to our interactions with industry, sales of primary aluminum smelters are largely unaffected so far. The impact is more evident in the secondary sector. There may be some impact on domestic sales with a lag; yet, it may not materially impact primary smelters like Hindalco, Nalco and Vedanta because there is a ready export market. Similarly, copper sales too may not be impacted. Therefore, we keeping our estimates unchanged for non-ferrous companies.

Hindalco and Nalco are our top picks

Hindalco is generating free cash flow (FCF) post-interest after nearly a decade, which is driving deleveraging. Declining interest rates will raise FCF further. Its aluminum smelters are benefitting from growth in domestic supply of coal, which has not only reduced the cost of coal, but has also helped in materially reducing the cost of logistics. Domestic coal supply has also helped in ramping new smelters; this would result in benefits from operating leverage and improve its position on global cost curves. Novelis is benefitting from tailwind in auto business. We value Hindalco at INR233/share based on SOTP.

Nalco will increase aluminum production by 15-18% in FY18 on increased supply of domestic linkage coal. Operating leverage and increase in alumina prices are the key drivers of earnings. The stock trades at attractive valuations.

Vedanta benefits from strong zinc prices, but it gets hurt by rising alumina prices.

Oil & Gas

Short term benefit to OMCs

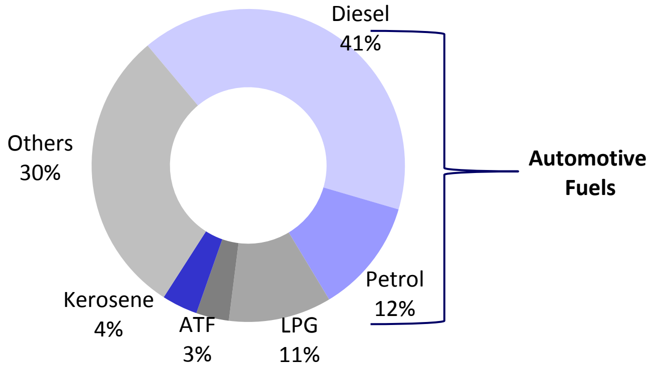
Majority of the sector will be un-impacted due to B-B transactions

Event: On November 8, 2016, the Indian government announced the demonetization of INR500/1,000 currency notes. However, it allowed the use of old INR500 and INR1,000 notes at petrol pumps and CNG stations till November 24, 2016. (Further extended to December 15, 2016 for INR500 notes).

Our view

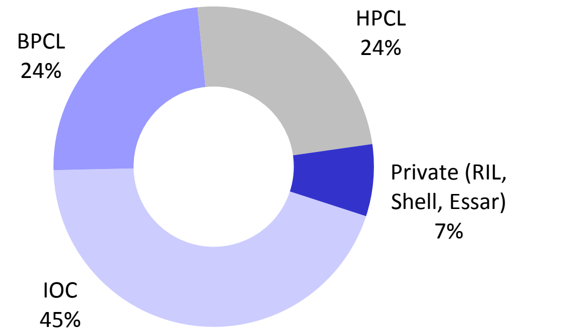
- **Limited impact on our Oil & Gas coverage universe:** Barring OMCs (HPCL, BPCL, IOCL) and CGD companies (IGL, MGL) the rest of our Oil & Gas coverage universe companies have a B-B business model, and hence, will not be impacted by demonetization. As the old notes are allowed at fuel stations, we expect OMCs and CGDs to benefit from increased fuel sales during the months of November and December.
- **Limited impact on upstream/midstream companies**: We do not see any impact on upstream and midstream companies in the sector – ONGC, OIL, CAIRN, PLNG and MRPL.
- **Slight positive for OMCs/CGDs:** There would be a positive impact on retail fuel stations in the initial period of demonetization, as the old notes are allowed for fuel purchases**.** Our channel checks show that fuel sales have spiked during November – the spike is higher for petrol (urban-centric fuel) versus diesel. However, with a broader disruption in other parts of the economy (lower freight movement), the net impact on the OMCs' sales would be mixed. We expect fuel demand to decline in the month of December, as the benefit to continued usage of old currency notes is phased away and also due slower goods movement, given the liquidity crunch. We expect demonetization to have a marginal positive impact on fuel sales growth in 3QFY17 and normalize later.
- **No change in estimates:** While there could be a jump in 3QFY17 volumes for OMCs, we believe the situation will normalize in 4QFY17 (offtake could be lower in 4Q due to inventory stocking in 3Q), leading to a marginal impact on numbers. We would await more clarity before changing our estimates for the full year FY17.

Exhibit 50: Auto fuels (petrol + diesel) account to 53% of India's petroleum product consumption



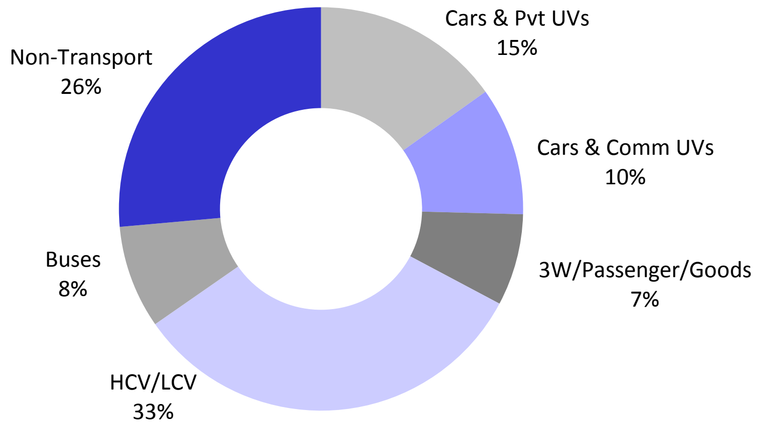
Source: Company, MOSL

Exhibit 51: OMCs (HPCL, BPCL, IOCL) control 93% of India's fuel stations



Source: Company, MOSL

Exhibit 52: Diesel retail sales: Transport segment contributes to 74% of retail sales



Source: MOSL, Company

Power

Revenues unaffected; cost of equity declining

Re-rating cycle ahead; raising target price for Power Grid

- **Revenues and earnings of power generation and distribution companies (PGDCs) remain unaffected by demonetization.**
- **Demonetization will impact GDP growth and reduce interest rates.**
- **Declining interest rates will reduce PGDCs' cost of equity and raise their DCF values.**
- **We prefer Power Grid (PWGR) because of lower execution risk; we raise our target price to INR227.**

Revenues unaffected by demonetization

Revenues and profitability of power generation and distribution companies (PGDCs) are unaffected. DISCOMs have been allowed to collect demonetized currency and their collections are rising. Even defaulting consumers are settling overdue bills.

Lower interest rates = lower cost of equity, higher DCF value

Falling interest rates are positive, as cost of equity reduces. Lower interest rates do not change earnings because interest cost is a pass through in the regulated businesses of PWGR and NTPC. Since these stocks are valued on DCF, cost of equity becomes an important driver of equity value.

Use 3-stage growth model to arrive at DCF-to-equity

Our 3-stage DCF model uses declining RoE to factor regulatory risk

- For the explicit period (up to FY22E), our estimates are based on the visibility of projects.
- For the next stage of 10 years, we assume lower RoE of 12% (to factor regulatory risk) and only 45% reinvestment rate, implying just 5.4% growth.
- The terminal value is based on even lower RoE of 10.75% and only 22% reinvestment rate or growth of ~2%.

Re-rating cycle ahead

PWGR and NTPC are at the end of de-rating cycle

Over the last ten years, both NTPC and PWGR have witnessed de-rating for various reasons. We believe that both stocks are at the end of the de-rating cycle.

Power Grid: ~15% EPS CAGR over FY16-20E

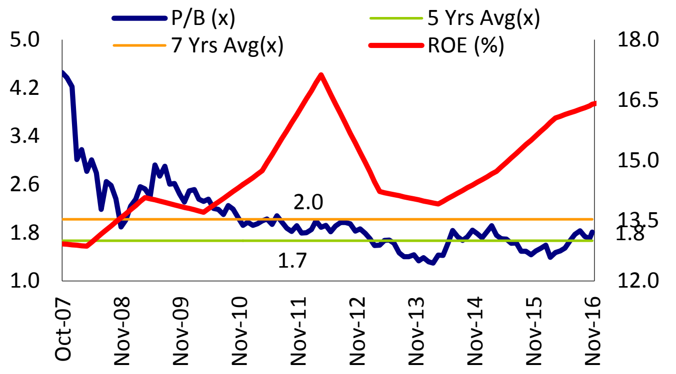
PWGR's RoE will increase gradually from 14.7% in FY16 to 17.3% in FY21

De-rating of PWGR was driven by (1) frequent equity dilution needed to fund required regulated equity in massive capex program under 12th Plan (FY12-17), (2) rising share of CWIP in capital employed, and (3) concern over lower equity IRR in tariff-based competitively-bid (TBCB) projects.

PWGR has taken various steps to assuage these concerns – it has reduced CWIP significantly, especially by attacking construction stores and expediting commissioning / capitalization. Capitalization far exceeds capex in FY16, FY17E and FY18E. The IRR in TBCB projects too is attractive because of falling interest rates and declining cost of equipment and materials for towers. As the internal generation of equity is now sufficient to meet regulatory requirements for normative equity in projects, there is no need for equity dilution. RoE has already started improving.

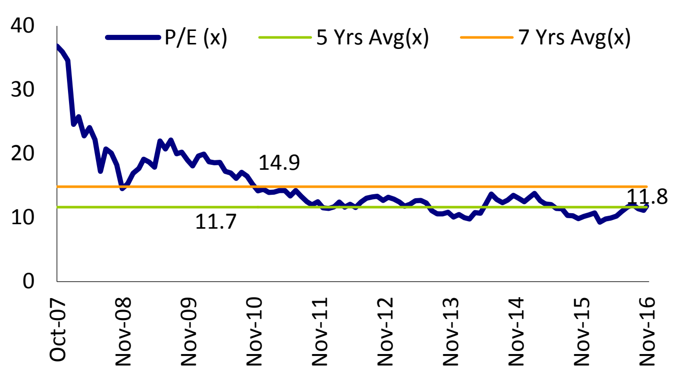
We expect PWGR's RoE to increase gradually from 14.7% in FY16 to 17.3% by FY21, resulting in a stock re-rating.

Exhibit 53: PWGR P/BV band



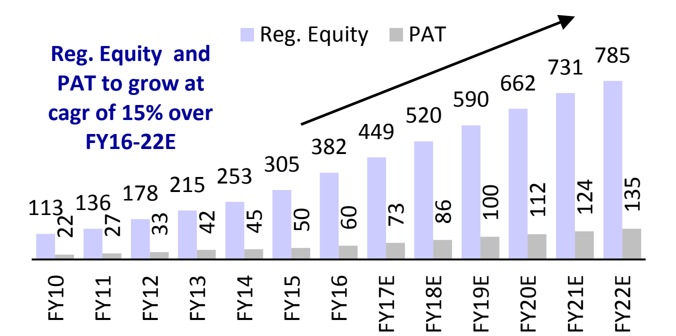
Source: MOSL

Exhibit 54: PWGR P/E band



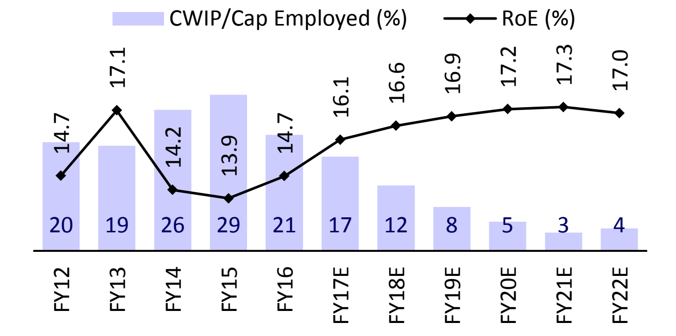
Source: MOSL

Exhibit 55: PWGR's regulated equity and PAT



Source: MOSL

Exhibit 56: PWGR's RoE is on recovery path



Source: MOSL

NTPC: RoE on recovery path

NTPC's RoE will increase gradually from 11.9% in FY16 to 13.9% by FY21

NTPC has continuously witnessed decline in RoE because of (1) increase in CWIP, as it undertook multiple Greenfield projects to expand capacities, (2) reduction in various incentives under revised regulation for command period 2014-19, and (3) decline in PLF due to overcapacity. We expect NTPC's RoE to start improving, as commissioning/capitalization of projects will outstrip capex and share of CWIP in capital employed will start to decline over FY18-21. As RoE increases gradually from 11.9% in FY16 to 13.9% by FY21, we expect NTPC to get re-rated. We value NTPC at INR191/share (1.5x FY18E BV).

Exhibit 57: NTPC P/BV band

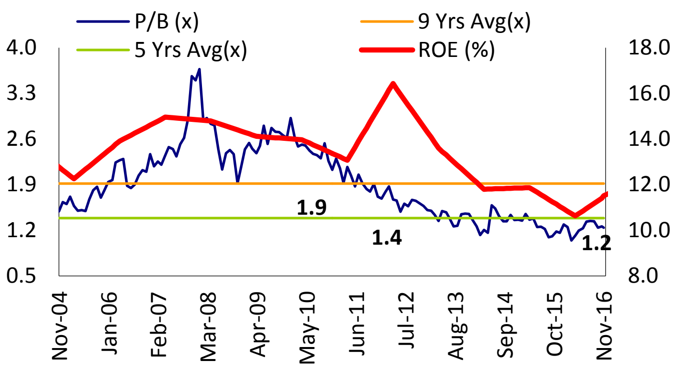


Exhibit 58: NTPC P/E band

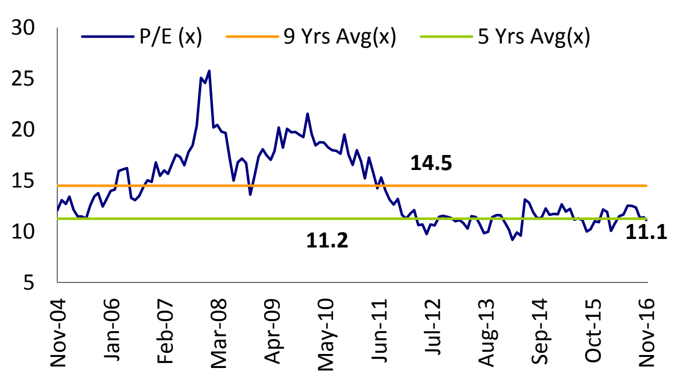
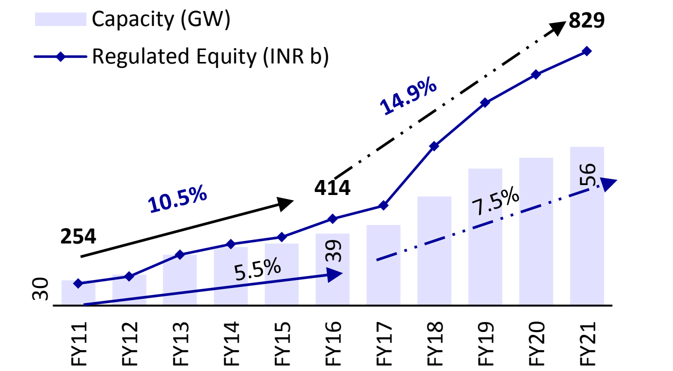
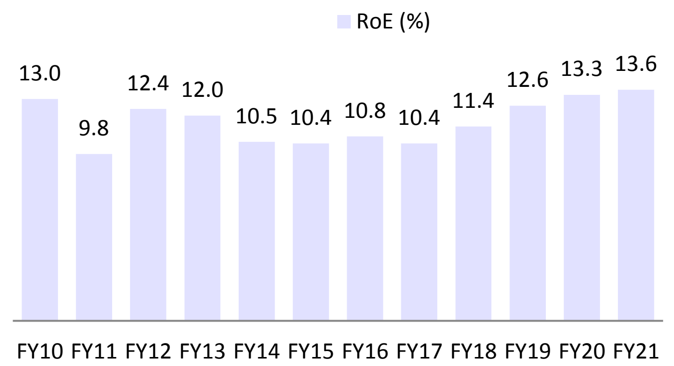


Exhibit 59: NTPC's capacity and regulated equity



Source: MOSL

Exhibit 60: NTPC's RoE (%)



Source: MOSL

Target price raised on decline in cost of equity

We raise target price for PWGR from INR209 to INR227

Lower interest rates (10-year G-Sec) drive up equity value for both PWGR and NTPC. In view of falling interest rates, we have recently cut estimate of risk-free rate by 50bp to 6.5% and raised our target price for PWGR from INR209 to INR227 (2.1x FY18E BV). Similarly, we value NTPC at INR191 (1.5x FY18E BV).

Exhibit 61: Sensitivity of DCF value with interest rates

	PWGR	NTPC	PWGR	NTPC	PWGR	NTPC	PWGR	NTPC
Risk Free rate (10yr Gsec) %		7.0		6.5		6.0		5.5
Cost of equity (%)	10.75	10.95	10.25	10.45	9.75	9.95	9.25	9.45
TP (INR/sh)	209	177	**227**	**191**	247	207	269	226

Source: MOSL

Power Grid is our top pick

PWGR is our top pick because of business tailwinds

We prefer Power Grid because of lower execution risk. Every state in India is putting pressure on Power Grid to complete transmission projects ahead of schedule so that they can access low cost power from Chhattisgarh, Odisha and Jharkhand. On the other hand, because of overcapacity in generation, states are not keen that NTPC completes its projects on schedule because they will have to start paying the additional fixed cost on commissioning as per PPA (power purchase agreement) commitments.

Exhibit 62: Valuation table

	Rating	CMP (INR)	TP (INR)	Up/ (dw) %	MCAP (USD M)	EPS			P/E (x)		P/B(x)		RoE (%)	
						FY16	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
Power Grid	Buy	184	227	23	14,256	11.5	14.2	16.8	13.0	11.0	1.9	1.7	16.1	16.6
NTPC	Buy	154	191	24	18,820	12.3	11.9	14.3	13.0	10.8	1.3	1.2	10.6	11.9
JSW Energy	Buy	54	86	58	1,319	8.5	4.6	6.7	11.9	8.1	1.0	0.9	8.6	11.8
CESC	Buy	575	940	64	1,133	27.8	40.9	64.7	14.1	8.9	1.3	1.2	9.1	14.1
Coal India	Neutral	304	327	8	28,375	22.6	17.0	21.1	17.8	14.4	5.5	5.3	31.3	37.5

Source: MOSL

Midcap

Restrained discretionary spending to impact demand

Apparels & Footwear: Sales impacted severely

Apparels, especially high-ticket items, to get impacted in the near term

Arvind: In the Brands & Retail (B&R) space, ~65% of Arvind's sales are via credit/debit cards. However, sales have been impacted by ~20% in the Brands space post demonetization. Demand is likely to be slow in Textiles due to the impact on end-user demand. Given a general slowdown in discretionary spend and de-stocking ahead of GST, we expect some impact in subsequent quarters too. There is a risk of advancement of end-of-season sales (EoSS), impacting margins for 2HFY17; the working capital cycle could stretch due to a rise in inventories and receivables from the trade channel. Factoring in lower demand due to the discretionary nature of spends, we cut our revenue estimates by 7%/5% (B&R revenues cut by 18%/16%) and PAT estimates by 24%/2% for FY17/FY18. We value the stock on SOTP basis – EV/EBITDA of 6x for Textiles, 25x for B&R, and 25x for share of profit from JV (Tommy and CK) – yielding a price target of INR415. Maintain **Buy** (15% upside).

Exhibit 63: Arvind — INR million

	Pre-demonetization		Post-demonetization		Change (%)	
	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
Revenue	93,888	107,114	87,692	101,400	-7%	-5%
EBITDA	10,891	12,854	9,471	12,776	-13%	-1%
Margin (%)	11.6%	12.0%	10.8%	12.6%	(80)	60
PAT	4,198	5,915	3,195	5,799	-24%	-2%

Source: MOSL

In footwear, impact would be greater on high street shops than on outlets in malls

Bata India: Bata's revenues have declined ~10-15% in November – sales were severely affected in the first week of demonetization, but somewhat improved thereafter. Bata rolled out some company-level schemes in the second week of demonetization, the response to which has been in line with management expectations. Ladies footwear witnessed healthy traction in sales, aided by new designs and wedding season demand. Bata also launched some wedding-specific designs to boost sales. 1HFY17 SSG growth has been ~3%, but revenue growth has been flattish due to unfavorable product mix. Usage of plastic money has increased in rural areas (from ~15% to ~40%) and nationally (from ~40% to ~60%).

Bata intends to increase its online sales contribution to higher single digit in FY18 from current 3% by launching products exclusively for e-com space (~400 products till now vs 130-150 last year) without compromising on margins. Rental costs too have come down, which has provided negotiation power to Bata. In line with this, it negotiated lower rentals for 130 stores (out of total ~1,200 stores) that were due for renewal. The current situation has led Bata to revisit its store expansion strategy (it now intends to open 70-75 stores annually – opened 65 stores and closed 30-35 smaller stores till November). Bata plans to once again focus on ad spends (~1% of revenues in FY16) to highlight its new launches without impacting margins. It has hired an expert to strategize its ad campaigns/strategy.

Factoring in the impact of demonetization, we cut revenue estimates by 10%/6% and PAT estimates by 15%/6% for FY17/FY18. We expect revenue CAGR of 16% and PAT CAGR of 26% over FY16-18E. Led by focused approach and aggression-led strategy, we value Bata at 34x (up from 30x) and upgrade our rating to Buy (16% upside).

Exhibit 64: Bata India INR million

	Pre-demonetization		Post-demonetization		Change (%)	
	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
Revenue	25,805	27,828	23,145	26,033	-10%	-6
EBITDA	2,993	3,423	2,361	2,994	-21%	-13%
Margin(%)	11.3%	12.3%	10.2%	11.5%	(110)	(80)
PAT	1,654	1,941	1,398	1,825	-15%	-6%

Source: MOSL

Century Plyboards

Expected slowdown in real estate activities likely to impact demand

Our interactions with the industry indicate that dealers/distributors have deposited cash collections. Accordingly, receivables for the company have improved. The dealers are also ordering for goods against their cash deposits, due to which the impact is likely to be low in 3QFY17. The company expects 10-15% volume decline. However, the real pain might come in from 4Q if the movement in dealer/distributor-level inventory slows considerably.

Additionally, the impact on real estate is expected to hit sales by 10-15%. The actual impact could have been higher, but many unorganized players who were operating in cash are facing serious problems, leading to quicker than expected shift from the unorganized to the organized segment. We expect small unorganized players to exit gradually; their capacities could be acquired by larger players. Factoring in volume decline due to discretionary nature of spend, we cut our revenue estimates by 13%/13% and PAT estimates by 44%/20% for FY17/FY18. Given strong return ratios (30% RoE in FY18), huge opportunity, and likely shift from unorganized to organized players in the wake of GST, we believe CPBI deserves multiples in line with similar building product leaders. **Buy** with a target price of INR211 (24x FY18E EPS; 16% upside).

Exhibit 65: Century Ply INR million

	Pre-demonetization		Post-demonetization		Change (%)	
	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
Revenue	18,403	22,700	16,072	19,771	-13%	-13%
EBITDA	3,257	4,313	2,202	3,737	-32%	-13%
Margin(%)	17.7%	19.0%	13.7%	18.9%	(400)	(10)
PAT	1,806	2,438	1,016	1,956	-44%	-20%

Source: MOSL

Multiplexes: PVR, INOX to see fall in occupancy rate

Occupancy rate to get impacted in 2HFY17

For multiplexes, cash transactions constituted ~40% of total transactions before the demonetization announcement (mainly on account of Food & Beverages). These have declined to 20% now. Overall business for the quarter seems to be impacted by 10-15%. Since (a) ticket size is low, (b) most customers are white collar/urban individuals, and (c) most transactions are digital, the industry is less vulnerable to disruption. Yet, there would be softness in occupancy rates for 2HFY17.

PVR: Factoring in near-term softness in footfalls and occupancy, we cut our revenue estimates by 6%/4% and PAT estimates by 37%/16% for FY17/FY18. We value PVR at 14x FY18E EV/EBITDA. Maintain **Buy** with a target price of INR1,318 (16% upside).

Exhibit 66: PVR **INR million**

	Pre-demonetization		Post-demonetization		Change (%)	
	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
Revenue	22,202	26,963	20,808	25,808	-6%	-4%
EBITDA	3,708	4,988	3,163	4,815	-15%	-3%
Margin(%)	16.7%	18.5%	15.2%	18.7%	(150)	16
PAT	1,239	2,003	778	1,691	-37%	-16%

Source: MOSL

Inox Leisure: Factoring in near-term softness in footfalls and occupancy, we cut our revenue estimates by 10%/9% and PAT estimates by 34%/13% for FY17/FY18. In view of expected decline in footfalls, poor performance of 2QFY17, and no immediate signs of advertisement revenue improvement, we retain **Sell** with a target price of INR179 (24x FY18E EPS) – 21% downside.

Exhibit 67: Inox Leisure **INR million**

	Pre-demonetization		Post-demonetization		Change (%)	
	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
Revenue	12,971	15,394	11,695	14,010	-10%	-9%
EBITDA	1,753	2,363	1,552	2,234	-11%	-5%
Margin (%)	13.5%	15.4%	13.3%	15.9%	(24)	60
PAT	439	783	289	685	-34%	-13%

Source: MOSL

TTK Prestige

Our interactions with the industry indicate likely demand disruption in 2HFY17 due to liquidity crunch at the customers' end. However, we expect demand to bounce back in FY18. Factoring in near-term demand pressure, we cut our revenue estimates by 10%/7% and PAT estimates by 16%/4% for FY17/FY18. We expect revenue CAGR of 12% and PAT CAGR of 22% over FY16-18, with EBITDA margin expanding 270bp to 14.7% in FY18. The impact on TTK will not be very sharp, as the current year will include incremental sales from the acquired entity, Horwood (a high margin business). Given rich valuations and in light of demonetization, we maintain **Neutral**. Our target price of INR5,114 (34x FY18E EPS) implies 1% downside.

Exhibit 68: TTK Prestige **INR million**

	Pre-demonetization		Post-demonetization		Change (%)	
	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
Revenue	18,174	20,700	16,445	19,284	-10%	-7%
EBITDA	2,399	2,939	2,056	2,835	-14%	-4%
Margin (%)	13.2%	14.2%	12.5%	14.7%	(70)	50
PAT	1,480	1,826	1,241	1,753	-16%	-4%

Source: MOSL

V-Guard

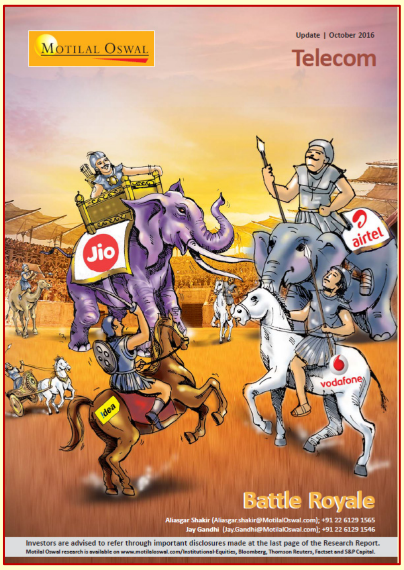
Sale of appliances, fans and water heaters (B2C segments) is most impacted. We expect V-Guard to go slow on ad spends and focus more on promotions and credit cycle extension to push demand. Recovery in demand for residential property is likely to be delayed beyond FY18; segments dependent on new housing demand (switchgears and cables) would be impacted more than segments where replacement demand is higher (lighting). Market leading players with strong channel connect and greater control over supply chain should gain market share. Factoring in near-term demand pressure, we cut our revenue estimates by 9%/10% and PAT estimates by 19%/16% for FY17/FY18. Given the rich valuations, we maintain **Neutral** with a target price of INR182 (30x FY18E EPS)**.**

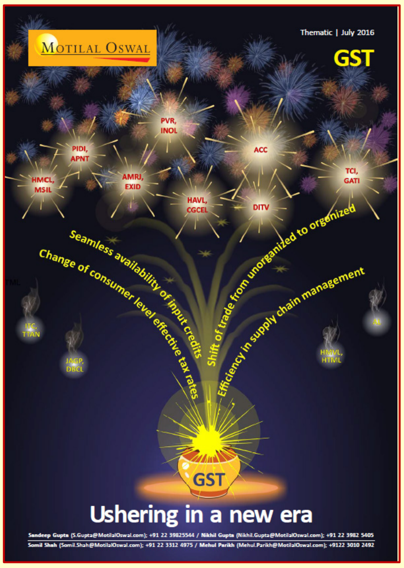
Exhibit 69: V Guard **INR million**

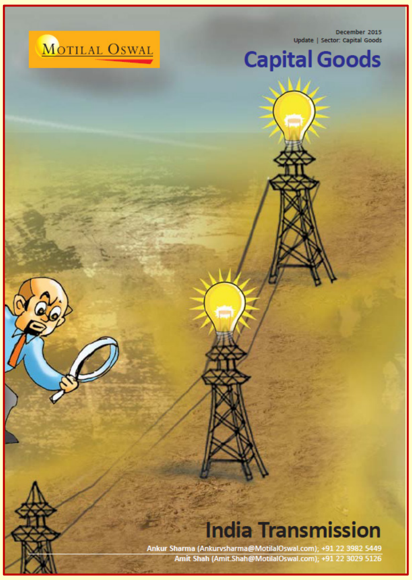
	Pre-demonetization		Post-demonetization		Change (%)	
	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
Revenue	21,399	24,796	19,471	22,246	-9%	-10%
EBITDA	2,439	3,075	1,986	2,603	-19%	-15%
Margin(%)	11.4%	12.4%	10.2%	11.7%	(120)	(70)
PAT	1,693	2,156	1,371	1,821	-19%	-16%

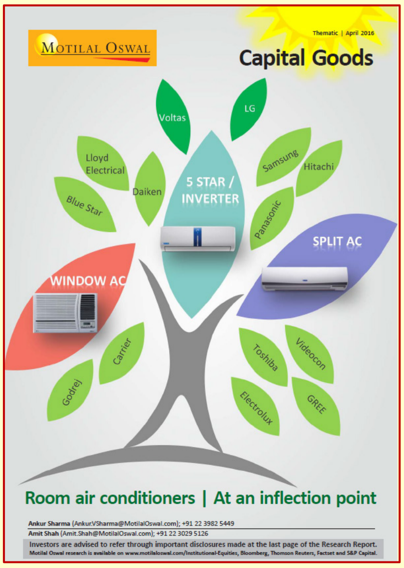
Source: MOSL

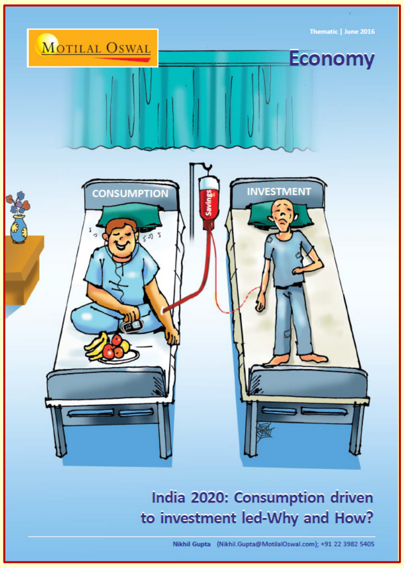
THEMATIC/SECTOR GALLERY











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