India Strategy & Earnings Review

Earnings Season: Outlook getting better

- ☑ 1QFY19 MOSL aggregates: Profits excluding Corporate Banks in-line; Sales growth at 25 quarter high
- ☑ Consumption and Commodities strong pillars of growth; NBFC's continue to shine
- ☑ Nifty EPS estimate moderated to factor in miss at corporate banks

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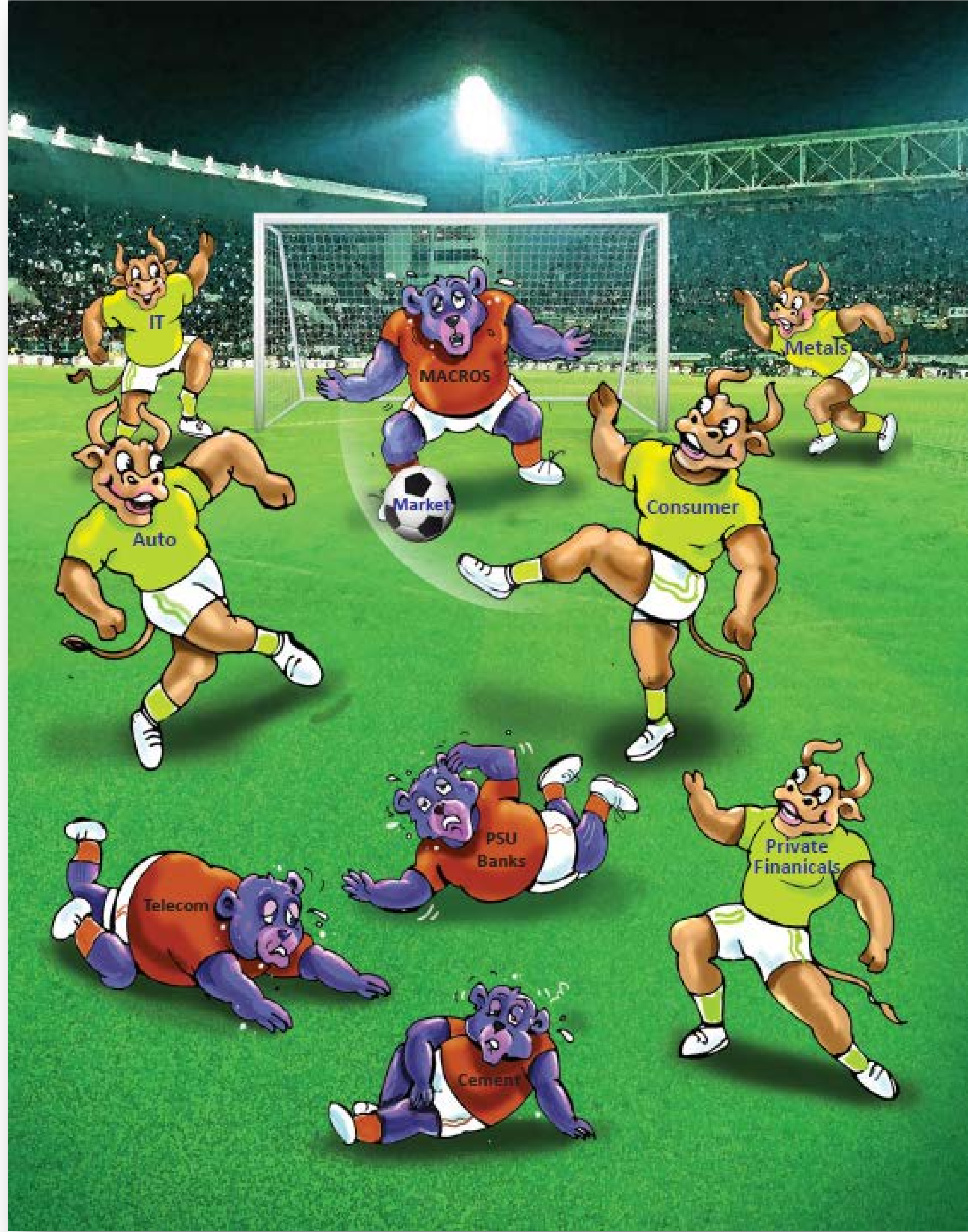


Discussion points

- **India Strategy & Earnings Review**
  - Aggregate performance – Outlook getting better
  - Ten key takeaways from 1QFY19 earnings season
  - Ten focus stocks from 1QFY19 earning season

- **Sector: Key surprises and guidance**
  Sector-wise positive/negative surprises and guidance highlights

- **Sector highlights**
  1QFY19 review and outlook

- **Annexure**
  MOSL Universe: Annual performance and valuations

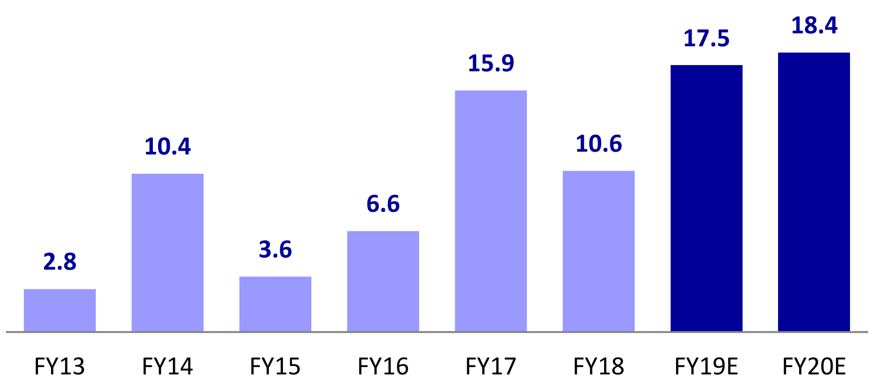
Key takeaways from 1QFY19 earnings season….

- India Inc has ended the last leg of its earnings season for the quarter ended June 2018. Although some interesting trends were observed during the course of the earning-report season, we note that the underlying narrative stays the same – a healthy performance from the Consumption- and Commodity-oriented sectors marred by higher provisioning costs at Corporate Banks. A low base of 1QFY18 indeed provided some succor to several sectors. **Key trends of 1QFY19: [1] Asset quality woes of PSU and Corporate Banks appear to be stabilizing. Fresh slippages moderated, and Corporate Banks raised the provisioning coverage ratio further. [2] Consumption – both urban and rural – remains strong, with companies from FMCG, Auto, Durables and Retail pointing toward a healthy demand outlook. [3] Cyclicals continue leading from the front, with Metals and O&G driving more than 100% of incremental earnings for the MOSL Universe. [4] IT delivered a healthy quarter, with improved commentaries on demand in the US BFS market. [5] In Healthcare, pricing pressure in US generics is stabilizing even as earnings downgrades haven't abated.**
- While aggregate sales and EBITDA growth was healthy and in-line, profits missed our estimates. The miss at the PAT level for both the MOSL and Nifty Universe can be entirely ascribed to Corporate Banks, which were impacted by elevated provisions. Strong inventory gains in OMCs boosted the aggregate profits.
- Among the 19 sectors we track, 2/8/9 posted profits that were above/in-line/below our estimates.
- The proportion of companies reporting 30%+ PAT growth (at 41% of MOSL Universe) is the highest since Mar-10, partly aided by the low base of 1QFY18 in several consumption-oriented sectors.
- One of the important takeaways from this earning season is the peaking of asset quality stress for corporate banks. Provisioning costs could moderate significantly beginning 2HFY19 and provide a lift to broader earnings for 2HFY19 and FY20, in our view. In **BFSI**, while NBFCs maintained their earnings growth trajectory (44% PAT growth, multi-quarter-high), Private Banks missed our estimates owing to higher provisions at ICICI and Axis. Early signs of margins pressures on Retail lenders were evident. Improving asset quality of corporate banks and margin pressures on Retail banks could potentially drive a near-term performance divergence in Financials space.

Key takeaways from 1QFY19 earnings season

- Recent currency depreciation has added to the prevailing macro concerns. However, from the earnings perspective, we note that ~50% of Nifty profits are positively co-related with the depreciating INR.
- For the quarter, earnings were led by Consumption and Commodity, with Metals and Oil & Gas accounting for more than 100% of incremental earnings growth for our MOSL Universe. Within the Consumption pack, Auto lagged with a broad-based miss on profits and consequent earnings downgrades.
- **Global Cyclicals** single-handedly drove the quarterly performance, led by Metals and OMCs (inventory gains drove profits). **Defensives** posted double-digit earnings growth for the first time since Jun-16, buoyed by Healthcare and Consumer, while **Domestic Cyclicals** posted a 12% YoY PAT decline dragged by corporate banks.
- **Telecom** posted the fourth consecutive quarter of loss, while **Healthcare** profits rebounded off a low.
- **Earning moderate led by drag in Corporate Banks**: 90 companies saw earnings cut of 3%+ (78 in 4QFY18), while 39 companies saw earnings upgrades of 3%+ (53 in 4QFY18). Our FY19/20 Nifty EPS estimates have been cut by 5.6%/1% to INR547/688 v/s INR580/694 earlier. Broader market earnings estimates have held on well. However, higher provisioning by ICICI and SBI and big margin miss at Tata Motors played culprits. Nearly 80% of the FY19 Nifty earnings cut is driven by ICICI, SBI and Tata Motors. We are building in 19/26% EPS growth for Nifty for FY19/20. Excluding corporate banks, Nifty earnings growth is expected at 16%/17% for FY19/20 vs. 11%/16%/10% in FY16/17/18.

MOSL Universe (Ex Corp Banks) PAT change YOY (%)



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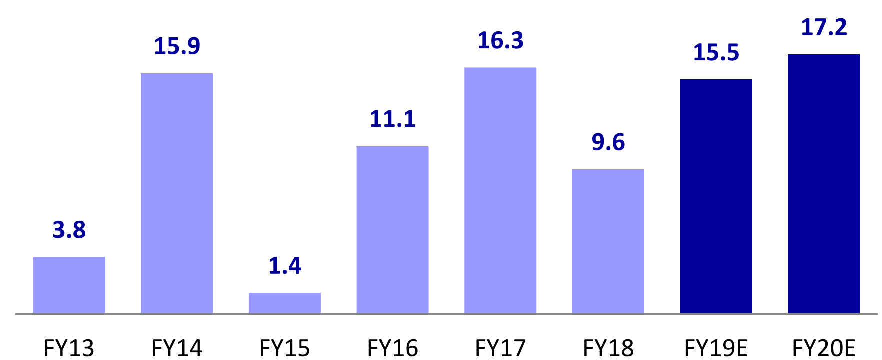


Ten focus stocks from 1QFY19 earnings season

- **ICICI Bank**: ICICIBC is in the midst of an improvement in operating environment (stressed asset resolution and growth pick-up) and overcoming the transitory management/regulator issues. The bank has substantially increased coverage on NCLT exposure (87.9%/60.7% coverage on NCLT list-1/list-2, thus increasing probability of higher write-backs) and is on track to achieve 70% NPL coverage as guided. Net stressed assets declined to a multi-year-low of 6.8% of loans v/s 7.8% in 4QFY18. Near-term loan growth would be driven by the retail business. With a gradual decline in credit cost and a pick-up in revenue growth, we expect ICICIBC to report ~1.2% RoA over FY20. ICICIBC is our preferred pick to play the recovery in corporate banks.

- **Hindalco**: Novelis is now reaping the benefit of the USD2b investment in auto lines and recycling facilities across the world a few years ago. The recently announced acquisition of Aleris strengthens its position further and brings synergies and growth option in aerospace and in China. Indian smelting business continues benefiting from bauxite and coal mines and plans to grow through value addition. Strict management focus on high-IRR projects should drive the stock outperformance, in our view.

- **Petronet:** Dahej continued over utilization despite the fact that LNG prices had almost doubled YoY. We expect the same to continue. Kochi terminal's utilization would increase as Kochi refinery stabilizes and Kochi-Mangalore pipeline gets completed. Dahej would get further boost when it's expansion from 15mmtpa to 17.5mmtpa completes early next calendar year. Reiterate Buy with target of INR312.

- **ACC:** The company posted 34%QoQ improvement in EBITDA/t of INR 922 beating our estimate of INR 698/t, led by higher proportion of (a) premium sales and (b) sales from its new cost-efficient units of Jamul and Sindri. Additionally, ACC has managed to limit the cost increase, driven by its higher proportion of linkage coal, lower lead distance and route optimization. The company has also made efforts toward cost rationalization of fixed costs, resulting in improved profitability. We value ACC at 9x (30% discount to peers vs present discount of 45%) to arrive at a TP of INR1,633. Upgrade to Buy

- **Ashok Leyland:** AL is highly focused on making business acyclical by reducing India truck business revenues to 50% in 5 years (from ~62% currently), by growing share of LCVs, Exports, Spare parts and Defence. This will not only reduce dependence on domestic trucks, but also drive strong revenue growth. In 1QFY19, overall results were above estimate led by full benefits of cumulative price hike of ~5% from Jan-Apr, better mix, ~28% growth in aftermarket and ~24% in exports revenues leading to EBITDA margins of 10.4% (est 9.3%). In FY18-20E, we estimate revenue/EBITDA/PAT CAGR of 14%/22%/27%.

Ten focus stocks from 1QFY19 earnings season

- **Titan:** Jewellery business continued gaining market share in 1QFY19, with reported growth of 6.3%. Jewellery sales miss v/s estimate of 14-15% means that full-year growth may be ~22-23% now. Jewelry business growth prospects remain robust, with Watches and now Eyewear starting to contribute to growth. The 18.8% margin achieved in the Watches segment during the quarter may not be sustainable, but the company is confident of delivering double-digit margins in the segment.

- **Sun Pharma**: The overall results has been in line. However, US sales (Ex-Taro) surprised positively by growing at 17% YoY/15% QoQ (23% of sales). With increased traction from the Halol facility and new launches (specialty portfolio and ANDA approvals), we expect US sales run-rate to gain further momentum. Even emerging market business (18% of sales) had broad-based growth across regions. Operating cost is expected to increase at a lower rate compared to sales growth and provide enough scope for improving operating leverage, and thus, profitability. **Buy** with a target price of INR700.

- **Infosys:** With the quarter largely in-line, INFO remains on track to deliver on its guidance of 6-8% YoY CC growth in FY19. Our EPS estimates have remained intact. Although lower half of the guided band appears more likely in FY19, we continue believing that the margin band is conservative, with the share of Digital inching up, recent INR depreciation, and investments already defined internally. Our TP of INR1,550 discounts forward earnings by 17x, based on our thesis of a narrowing gap with tier-I Indian and global peers such as TCS, Cognizant and Accenture. Maintain **Buy**.

- **BOB:** BOB has reported steady improvement in asset quality as watchlist size has reduced to INR86b (includes SMA in stressed accounts) while the provisioning coverage has increased to ~69% (one of the highest among peers). This provides comfort on strength of the balance-sheet as ~85% of slippages for BOB during 1QFY19 occurred from the watchlist. We expect stress addition and credit costs to moderate from 2HFY19 - SBI results further reinforces our confidence in broader recovery in corporate NPL cycle. This coupled with steady improvement in margins (robust retail growth and rundown in overseas business) will drive healthy earnings recovery. We maintain Buy with a target price of INR175 (1.3x FY20E ABV).

- **L&T Finance:** LTFH has scripted an impressive turnaround and delivered strong growth with a consistent improvement in profitability. The company has grown well in the high-RoE business and continues allocating more capital to it. The hit on networth due to ECL, which was expected to be taken over FY19 and FY20, has been taken upfront. Hence, while this would be neutral to FY20 networth, it would be accretive to FY20 EPS. Despite elevated provisioning, we arrive at 19% RoE for FY19/20. Maintain Buy with a TP of INR240 (3.0x FY20E BVPS).

Top ideas

Preferred Large-cap ideas

Company	Mkt Cap (USD b)	CMP (INR)	TP (INR)	Upside %	52 wk High	Corr. From 52 wk (%)	EPS (INR) FY18	EPS (INR) FY19E	EPS (INR) FY20E	EPS CAGR (%) FY18-20	PE (x) FY18	PE (x) FY19E	PE (x) FY20E	ROE (%) FY18
Infosys	46.8	1,431	1,550	8	1,437	0	64.8	72.7	85.8	15.1	22.1	19.7	16.7	24.1
HDFC	45.2	1,884	2,335	24	2,051	-8	42.3	46.5	55.6	14.6	44.5	40.5	33.9	18.6
Maruti Suzuki	39.5	9,148	10,805	18	10,000	-9	266.7	311.2	409.2	23.9	34.3	29.4	22.4	18.5
State Bank	38.6	302	360	19	352	-14	-5.3	7.9	30.5	LP	-56.5	38.2	9.9	-3.5
ICICI Bank	31.3	340	355	4	366	-7	11.1	9.9	20.8	37.0	30.7	34.5	16.4	6.8
Larsen & Toubro	24.9	1,240	1,540	24	1,470	-16	51.7	56.8	72.1	18.1	24.0	21.8	17.2	13.7
IOC	21.6	160	254	59	231	-31	23.9	17.9	18.8	-11.3	6.7	8.9	8.5	21.0
Titan Company	12.0	941	1,130	20	1,006	-6	12.6	16.2	20.5	27.4	74.5	58.0	45.9	24.0
Hindalco	7.0	220	331	51	284	-23	18.9	24.4	27.8	21.2	11.6	9.0	7.9	12.8
Ashok Leyland	5.4	128	149	16	168	-24	5.4	6.6	8.7	26.9	23.8	19.3	14.8	23.7

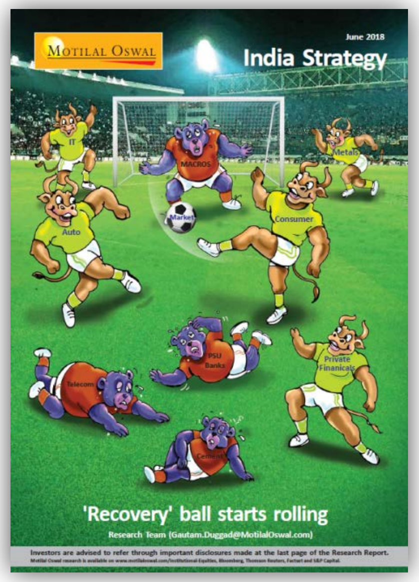
Preferred Mid-cap ideas

Company	Mkt Cap (USD b)	CMP (INR)	TP (INR)	Upside %	52 wk High	Corr. From 52 wk (%)	EPS (INR) FY18	EPS (INR) FY19E	EPS (INR) FY20E	EPS CAGR (%) FY18-20	PE (x) FY18	PE (x) FY19E	PE (x) FY20E	ROE (%) FY18
Petronet LNG	4.7	218	312	43	275	-21	13.9	17.2	19.3	18.0	15.7	12.6	11.3	23.3
Emami	3.7	574	665	16	714	-20	12.1	14.4	17.2	19.2	47.3	39.8	33.3	29.2
RBL Bank	3.4	573	650	14	591	-3	15.1	20.4	28.8	38.0	37.8	28.1	19.9	11.6
JSPL	2.7	199	327	65	294	-32	-8.5	1.9	3.8	LP	-23.4	104.5	51.9	-2.7
Tata Chemicals	2.6	708	957	35	787	-10	48.2	49.7	58.8	10.5	14.7	14.3	12.0	24.9
Mindtree	2.5	1,030	1,225	19	1,102	-7	34.4	46.3	64.4	36.9	30.0	22.2	16.0	18.8
Oberoi Realty	2.5	474	616	30	609	-22	12.6	24.5	35.8	68.5	37.5	19.3	13.2	7.8
CG Consumer Elect.	2.3	262	305	17	295	-11	5.2	6.4	7.8	23.0	50.7	41.1	33.5	48.7
Team Lease Serv.	0.6	2,617	3,500	34	3,339	-22	43.0	60.4	94.8	48.4	60.8	43.3	27.6	17.6
MCX	0.6	857	1,000	17	1,160	-26	21.2	23.0	33.7	26.1	40.4	37.3	25.4	7.9

LP: Loss to profit

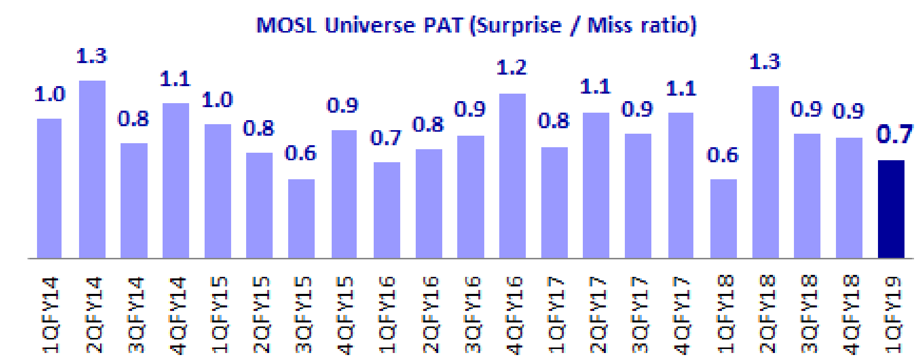
Key highlights for 1QFY19 – Profit miss; Consumption and Commodities strong; Corporate Banks drag

Refer our June-18 Quarter Preview

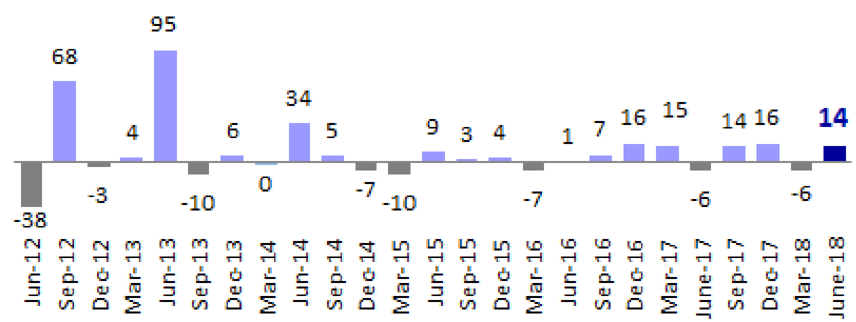


- **MOSL Universe aggregate PAT in-line (excl. Corporate Banks):** Aggregate sales of MOSL Universe grew 22.9% YoY, at a 25 quarter high (est. of 22.2%), EBITDA rose 19.3% YoY (est. of +23.5%) and PAT increased 13.8% YoY (est. of +25.2%). Performance was disproportionately impacted by Corporate Banks. Excluding Corporate Banks, MOSL Universe sales/EBITDA/PAT grew 23.0%/21.1%/26.7% v/s estimate of 22.6%/24.1%/31.3%. Of the 19 sectors we track, 2/8/9 posted profits that were above/in-line/below our estimates. Capital goods and Retail universe posted profits ahead of expectations, while Autos, Banks, Life Insurance, Healthcare and Utilities missed expectations.
- **Nifty PAT up 10% YoY; Ex-Corporate Banks, Nifty profit up 24.6%:** Nifty sales/EBITDA/PAT grew 23.7%/17.0%/10.0% v/s our estimate of 22.7%/22.7%/25.9%, dragged by Corporate Banks (SBI, ICICI, Axis). Excluding them, Nifty PAT growth was 24.6% (est. of 29.3%). Strong inventory gains in OMCs also helped Nifty profitability. EBITDA/profit of Nifty ex-OMCs and Corporate Banks grew 26.1%/16.3% v/s est. of 26.2%/23.9%.
- **Major earnings surprises**: Dr. Reddy, BPCL, Hindalco, IOC, NTPC, HPCL and Titan.
- **Major earnings disappointments:** Coal India, Tata Steel, Maruti Suzuki, SBI, Axis, ICICI Bank, Vedanta and Bajaj Auto.
- **Rating and estimate downgrades/upgrades:** Our FY19/20 Nifty EPS estimates have been cut by 5.6%/1% to INR547/688 v/s INR580/694 earlier. Nearly 80% of the earnings cut is driven by ICICI, SBI and Tata Motors. We are building in 19/26% EPS growth for Nifty for FY19/20. Excluding corporate banks, Nifty earnings growth is expected at 16%/17% for FY19/20.

MOSL Universe surprise/miss ratio for 1QFY19 stood at 0.7x



MOSL Universe PAT growth missed estimates, dragged by PSBs and Private Corporate Banks



Jun-18 Vs Jun-16: Metals, Capital Goods lead the pack, while Autos and Healthcare disappoint

- As Jun-18 profit growth numbers benefit from a low base of Jun-17, the more relevant metric to check is two-year CAGR for each sector.
- MOSL Universe PAT CAGR for two years is flattish at 3.4%, whereas MOSL Universe ex Corporate Banks PAT CAGR is 8.3%.
- Metals/Capital Goods led the pack with 91%/36% growth in PAT, while Automobile/Healthcare were a drag with 13%/16% PAT de-growth.

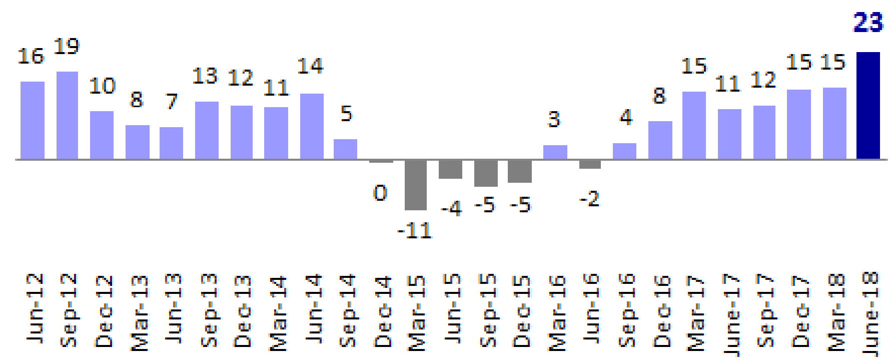
Sectoral actual v/s expected - MOSL universe (INR b)

Sector	Sales				EBITDA				2 Year	PAT				2 Year	EBIDTA Margin	
(no of companies)	June 2018	Chg. % QoQ	Chg. % YoY	Var. over Exp. (%)	June 2018	Chg. % QoQ	Chg. % YoY	Var. over Exp. (%)	CAGR (%)	June 2018	Chg. % QoQ	Chg. % YoY	Var. over Exp. (%)	CAGR (%)	June 2018 (%)	Chg. YoY bp
High growth sectors	**8,660**	**2**	**27**	**1**	**1,465**	**-3**	**28**	**-2**	**19**	**764**	**-6**	**44**	**1**	**14**	**16.9**	**2**
Metals (10)	1,520	-3	28	4	326	-6	49	1	**40**	124	-15	81	3	**91**	21.5	294
Oil & Gas (14)	4,733	10	34	0	504	3	18	-4	**19**	300	5	50	4	**5**	10.7	-143
Capital Goods (14)	548	-25	16	5	55	-41	38	9	**29**	32	-41	50	8	**36**	10.0	165
Retail (2)	53	9	12	4	6	11	41	11	**35**	4	6	48	14	**30**	11.8	241
NBFC (12)	148	2	30	-1	112	0	30	-3	**25**	68	2	44	3	**32**	75.7	8
Healthcare (22)	422	1	14	-3	80	3	26	-7	**-8**	45	-17	33	-7	**-16**	19.0	187
Media (9)	72	12	28	2	24	29	42	9	**19**	10	63	25	-6	**16**	33.5	330
Utilities (7)	694	-2	15	4	242	-5	23	0	**11**	103	-12	22	-8	**9**	34.9	224
Consumer (17)	469	3	12	-4	115	2	21	-1	**10**	77	-1	20	-3	**10**	24.5	170
Med/Low growth sectors	**1,081**	**5**	**12**	**0**	**244**	**2**	**15**	**-2**	**7**	**185**	**2**	**14**	**1**	**7**	**22.6**	**64**
Technology (15)	1,013	5	13	1	230	2	17	-1	**7**	178	2	15	1	**7**	22.7	74
Infrastructure (4)	37	-3	-7	-18	10	6	-5	-16	**4**	5	-9	8	3	**24**	28.3	42
Logistics (2)	31	1	6	-4	4	0	-2	-11	**3**	3	26	0	-3	**13**	13.5	-109
PAT de-growth sectors	**3,339**	**-7**	**16**	**0**	**875**	**-6**	**9**	**-7**	**1**	**149**	**LP**	**-45**	**-44**	**-27**	**26.2**	**-175**
Automobiles (16)	1,612	-13	20	-2	190	-22	26	-9	**0**	62	-47	-13	-35	**-13**	11.8	63
Banks - Private (10)	311	3	15	2	265	-2	15	-1	**15**	91	24	-13	-20	**-3**	85.2	30
Life Insurance (2)	104	-41	23	2	6	-5	-8	-6	**26**	7	-4	-8	-14	**1**	6.1	-210
Others (22)	347	6	18	-2	57	6	0	-17	**2**	27	5	-8	-23	**1**	16.3	-295
Cement (10)	302	1	24	0	57	5	6	5	**8**	28	2	-1	3	**1**	19.0	-334
Telecom (4)	336	0	-12	-1	95	-10	-20	-2	**-20**	-14	LP	PL	LP	**PL**	28.2	-281
Banks - PSU (4)	327	14	24	10	205	6	8	-14	**0**	-51	Loss	PL	Loss	**PL**	62.6	-950
MOSL Universe (196)	**13,080**	**0.1**	**22.9**	**0.5**	**2,584**	**-3.4**	**19.3**	**-3.4**	**10.9**	**1,099**	**9.9**	**13.8**	**-9.1**	**3.4**	**19.8**	**-59**
MOSL Univ Ex Corp Banks (190)	**12,641**	**-0.2**	**23.0**	**0.3**	**2,277**	**-4.0**	**21.1**	**-2.5**	**12.5**	**1,144**	**-8.7**	**26.7**	**-3.5**	**8.3**	**18.0**	**-28**
Sensex (30)	**5,942**	**-3.2**	**23.8**	**2.7**	**1,573**	**-7.1**	**23.3**	**-3.9**	**10.5**	**587**	**-9.2**	**-2.2**	**-19.2**	**0.9**	**26.5**	**-10**
Nifty (50)	**9,881**	**0.8**	**23.7**	**0.9**	**1,973**	**-7.5**	**17.0**	**-4.7**	**10.5**	**830**	**-5.4**	**10.0**	**-12.6**	**1.5**	**20.0**	**-115**
Nifty Ex Corporate Banks (47)	**9,551**	**0.6**	**23.9**	**0.7**	**1,752**	**-5.9**	**18.9**	**-2.8**	**12.7**	**873**	**-9.7**	**24.6**	**-3.6**	**6.9**	**18.3**	**-77**

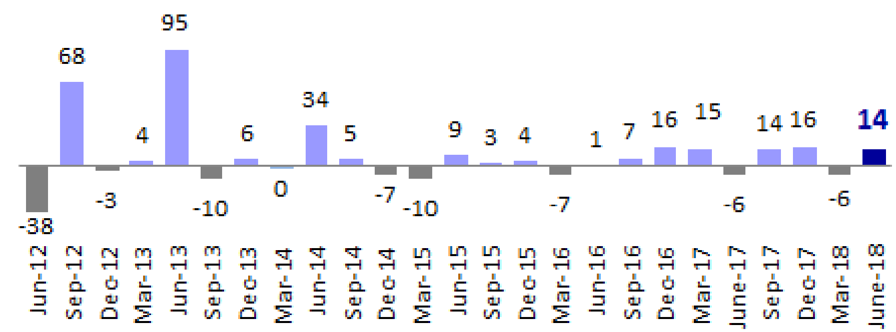
Key highlights: Top-line recovery continues; EBITDA margin expands

- The key highlight of the 1QFY19 results season was the continued pick-up in revenue growth and margin expansion in an inflationary environment. However, higher provisions in PSU Banks and Private Corporate Banks led to a drag on PAT.
- 12/19 sectors reported EBITDA in line or better than expectations. Autos and Healthcare missed EBITDA estimates. 10/19 sectors reported PAT in line or better than expectations. Autos, Private Banks, PSU Banks and Healthcare missed PAT estimates.
- EBITDA margin for the MOSL Universe (ex Financials and OMCs) expanded 70bp YoY to 20.1% (est. of 20.4%).
- 1QFY19 performance was entirely driven by Cyclicals. PAT for Defensives, Domestic Cyclicals and Global Cyclicals expanded 10.9%, (12.1)% and 46.6%, respectively.

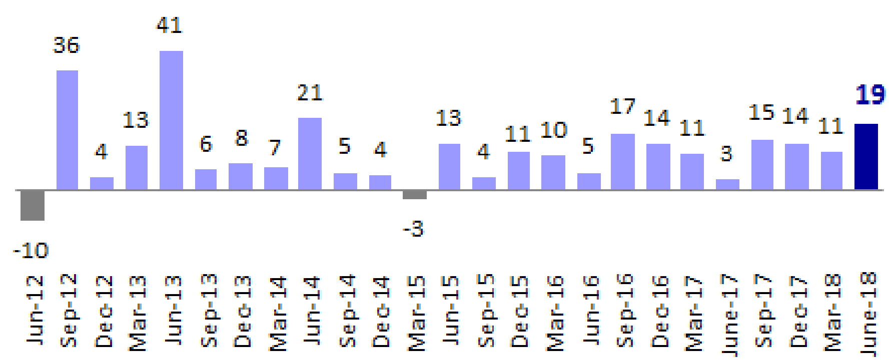
MOSL Universe sales growth at 23% (YoY, %)



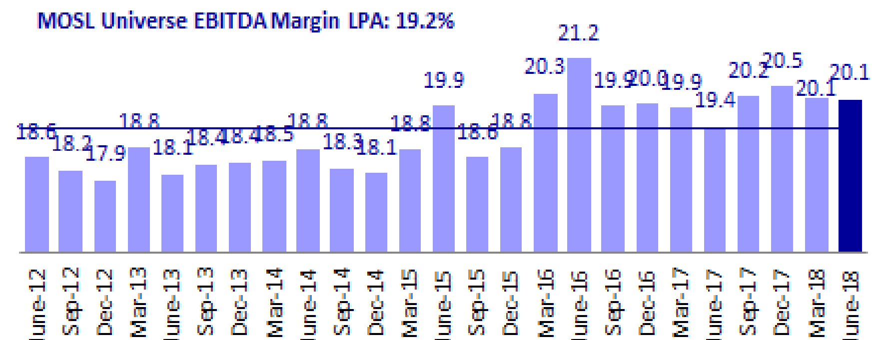
MOSL Universe PAT growth missed estimates; dragged by Corporate Banks



MOSL Universe EBIDTA growth of 19% was in-line



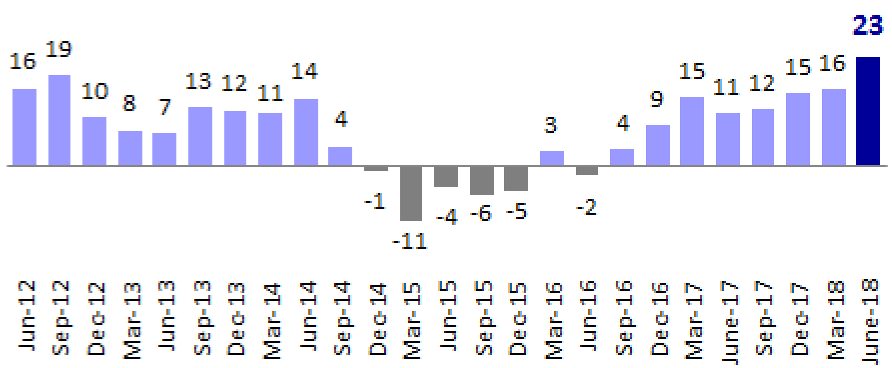
EBITDA margin (ex-Financials & OMCs) expands 70bp to 20.1%



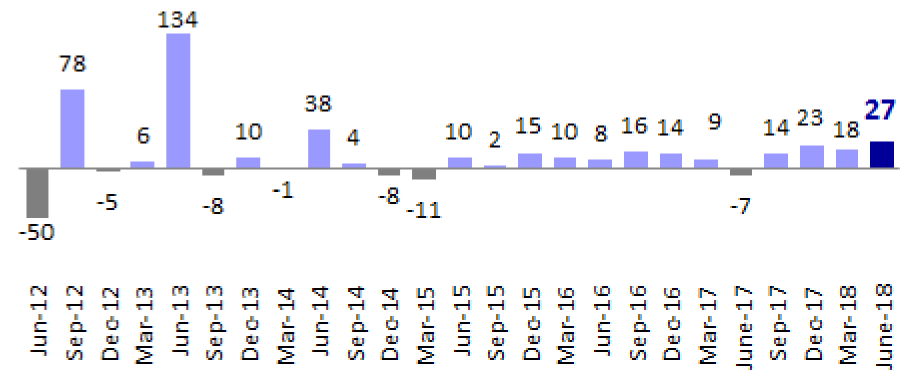
Key Highlights: MOSL Universe ex Corporate Banks: Growth at multi-quarter high

- Excluding PSU and Private Corporate Banks, MOSL Universe sales, EBITDA and PAT grew 23.0%, 21.1% and 26.7% v/s estimates of 22.6%, 24.1% and 31.3%, respectively.
- Sales growth for this universe is at multi-year high aided by commodity inflation and good volume growth in some B2C sectors.
- EBITDA and PAT growth for this universe is highest since June'14, partially aided by low base of June'17.
- This was the fourth consecutive quarter of double-digit growth in sales, EBITDA and PAT for this universe.

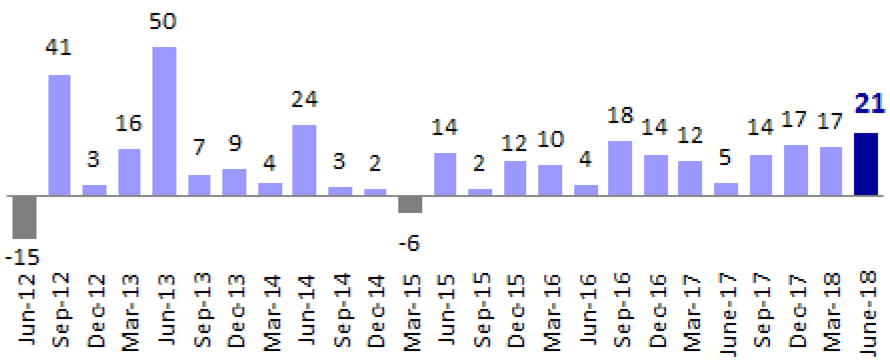
MOSL (Ex PSU and Corporate Banks) sales growth at 23% (YoY)



MOSL (Ex PSU and Corporate Banks) PAT growth (%)



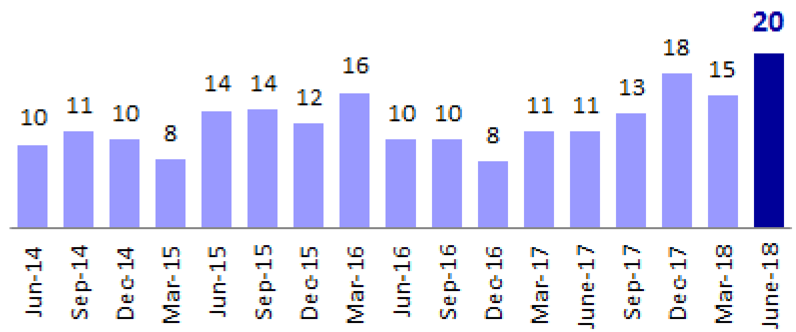
MOSL (Ex PSU and Corporate Banks) EBITDA growth at 21%



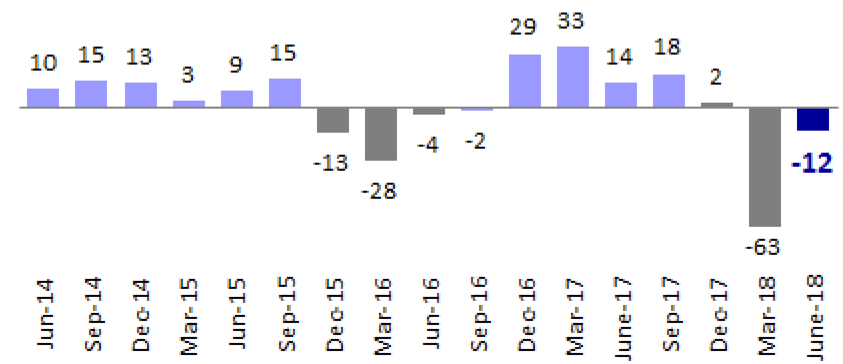
Key highlights: Domestic Cyclicals' contribution to PAT impacted by losses at PSU Banks

- Domestic Cyclicals disappointed for the third straight quarter with 12% YoY PAT decline (PSU Banks posted losses of INR 51b), after four consecutive quarters of double-digit profit growth. EBITDA growth came in at 17.1%, while sales growth was at 20.3% (multi-quarter-high). In 1QFY19, the contribution of Domestic Cyclicals to MOSL Universe earnings stood at 28%.
- Profit decline in Domestic Cyclicals is driven by PSU Banks, which posted a loss of INR51b v/s expectations of INR3b loss. In BFSI, though slippages have moderated, corporate banks shored up the provisions, dragging the aggregates.
- Autos, Private Banks and PSU Banks profits missed estimates by 35%, 20% and (loss of INR51b vs expectations of INR3b), respectively. Auto's performance was below estimates (with only Ashok Leyland and Escorts beating the estimates), whereas cement numbers were flattish but in-line.

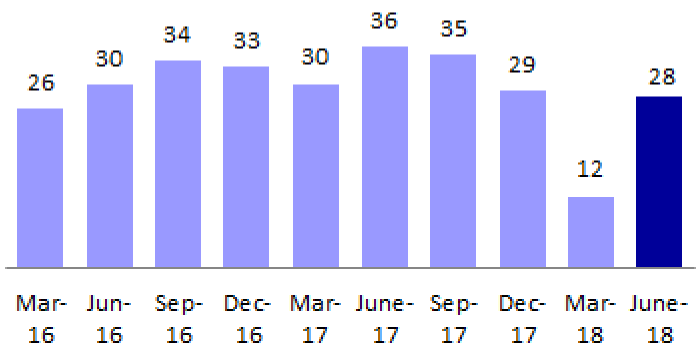
Domestic Cyclicals sales growth stays strong at 20%



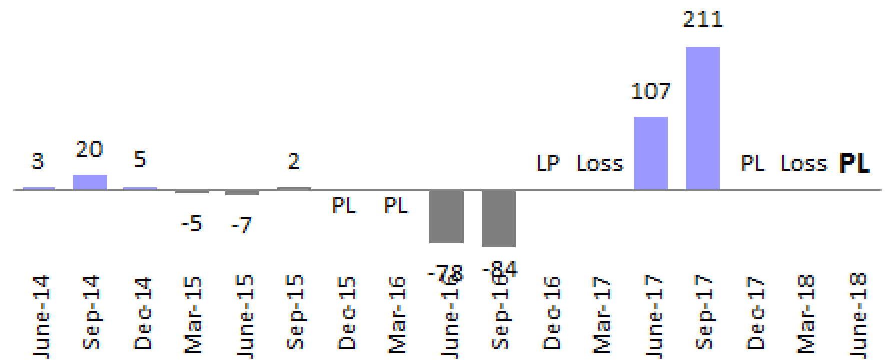
Domestic Cyclicals PAT marred by PSBs and Private Corporate Banks



Domestic Cyclicals' PAT contribution to MOSL Universe at 28%



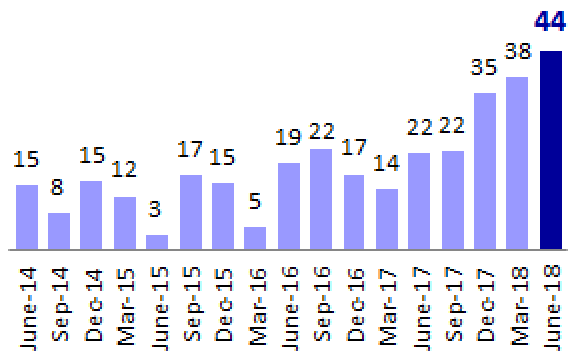
PSU Banks posted losses of INR51b v/s expectations of INR3b loss



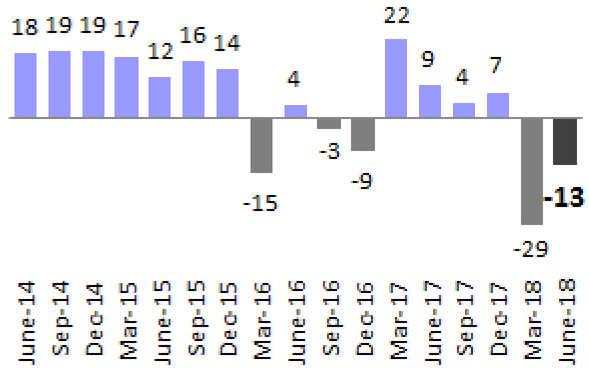
Key highlights: NBFCs shine once again, Private Banks miss led by ICICI, Axis

- **NBFCs** witnessed another steady quarter, with PAT growth at a multi-quarter high of 44% YoY. Performance was broad-based, with 11/12 companies in NBFCs posting either in-line/above-estimated PAT.
- **Cement** sector posted (1)% YoY PAT growth –in line with estimates. 6/10 companies missed our PAT expectations.
- **Auto Ex TTMT** posted 31.1% PAT growth, below our estimate of 40.9%. Amongst our coverage universe, only Ashok Leyland and Escorts beat our estimates.
- **Private Banks** posted PAT de-growth of 13% YoY, below our estimate of +9.4%, dragged by corporate lenders. Excluding Axis and ICICI, profits were up 20.4% YoY (in-line).

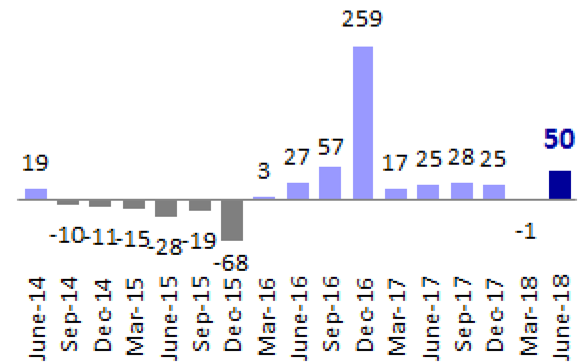
NBFCs PAT growth YoY (%)



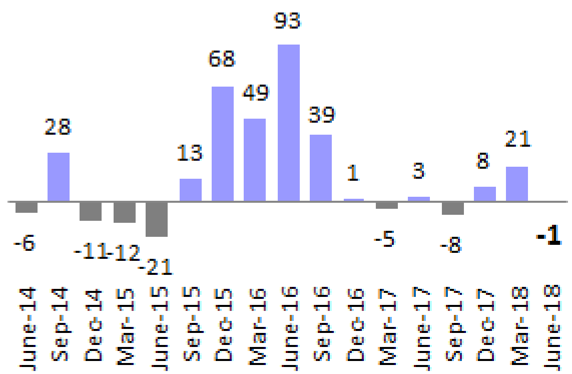
Private Banks PAT growth YoY (%)



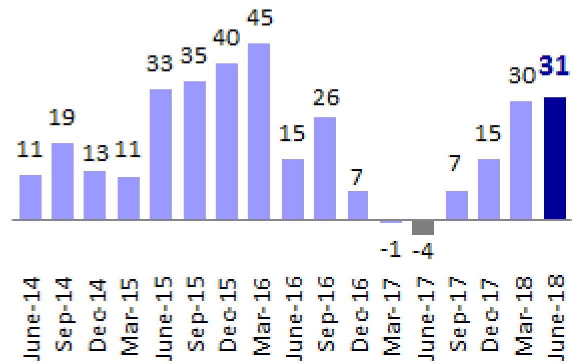
Capital Goods PAT growth YoY (%)



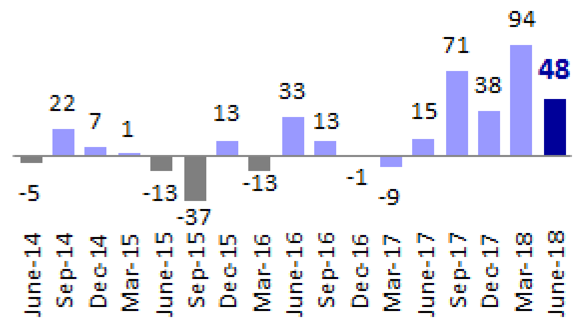
Cement PAT growth YoY (%)



Auto Ex TTMT PAT growth YoY (%)



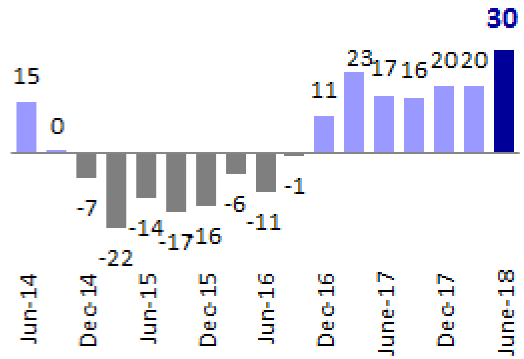
Retail PAT growth YoY (%)



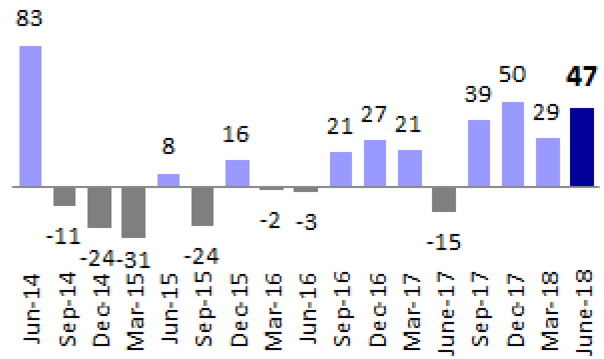
Key highlights: Global Cyclicals' PAT contribution at multi-quarter high

- **Global Cyclicals** posted sales growth of 30% YoY – the seventh consecutive quarter of strong double-digit growth, whereas EBITDA and PAT grew by 30% and 47% on a base of 10% and (15)% growth, respectively. PAT growth remains robust, led by OMCs and Metals.
- **Global Cyclicals'** contribution to MOSL Universe PAT stands at 40%, supported by Metals and Oil & Gas. O&G posted PAT growth of 50% (in-line), led by a strong performance from OMCs.
- **Metals** posted another solid quarter, with PAT growth of 81% YoY (exceeding our estimate by 3%), despite a strong base of 1QFY18. Nalco, JSPL, Hindalco, JSW and SAIL reported a strong beat.

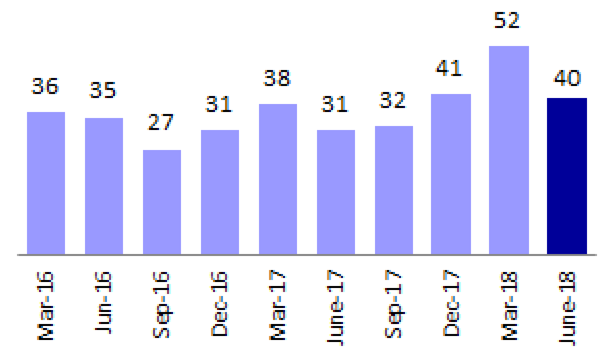
Global cyclicals sales growth remains strong (%)



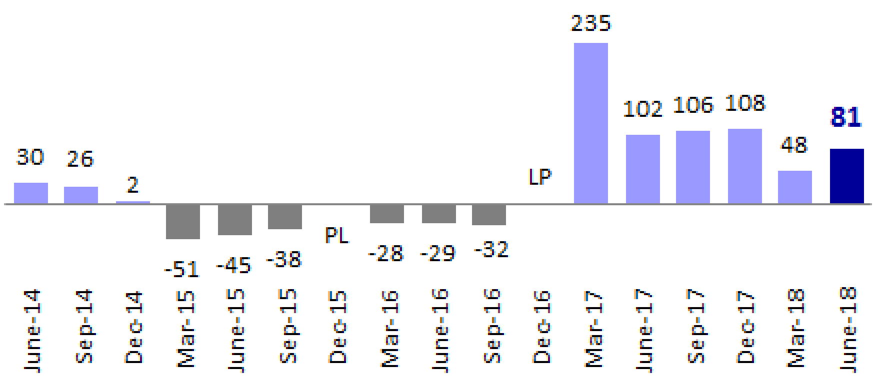
Global cyclicals profit continue to surprise (%)



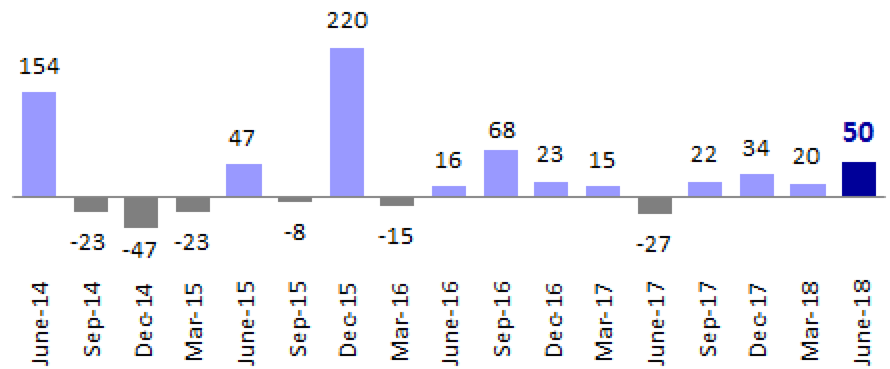
Global cyclicals' PAT contribution to MOSL Universe stands at 40%



Metals – Strong profit growth on high base (%)



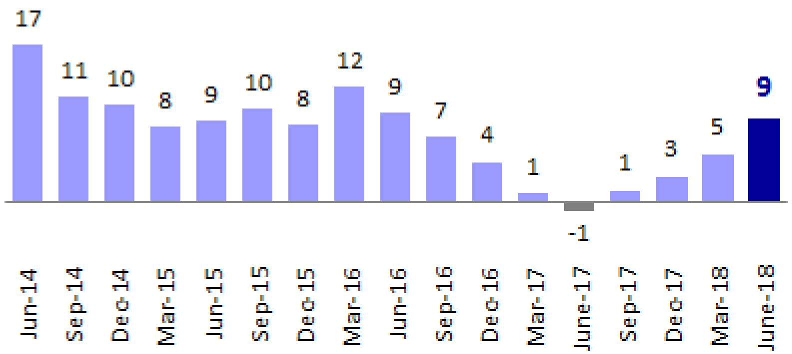
Oil & Gas – Profit growth in-line



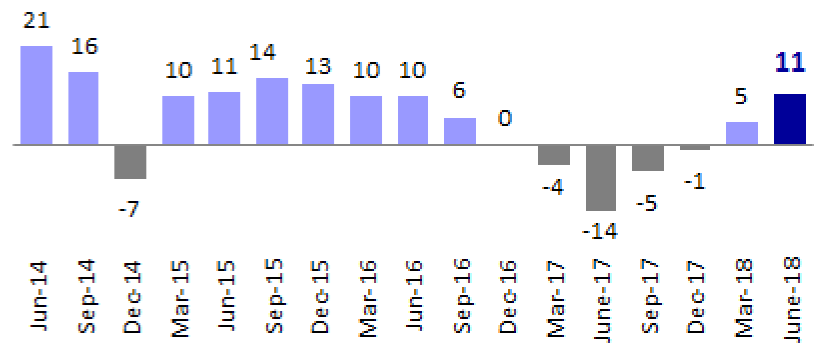
Key highlights: Defensives post double-digit PAT growth after seven quarters

- Defensives posted sales growth of 8.8%, EBITDA growth of 9.5% and PAT growth of 10.9%. Double digit PAT growth for Defensives pack is first in seven quarters, aided by low b ase.
- This is the second consecutive quarter of PAT growth after five consecutive quarters of PAT decline for Defensives, aided by Healthcare, which posted PAT growth of 33%. Consumer reported 20% profit growth, the highest since Dec-12 quarter. IT posted an in-line quarter with PAT growth of 14.6%.
- Contribution of Defensives to MOSL PAT stands at 32%, in line with the previous quarters.

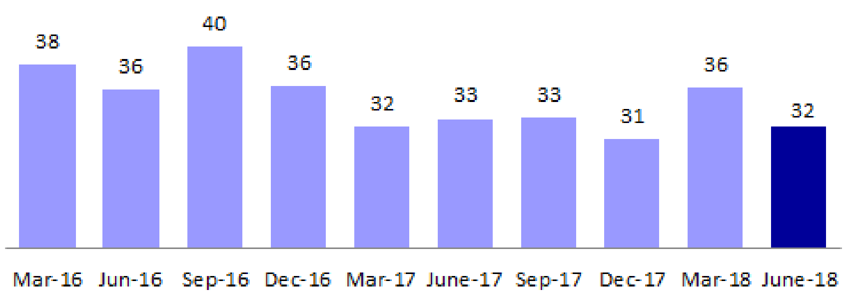
Defensive sales growth: Strongest since Jun-16



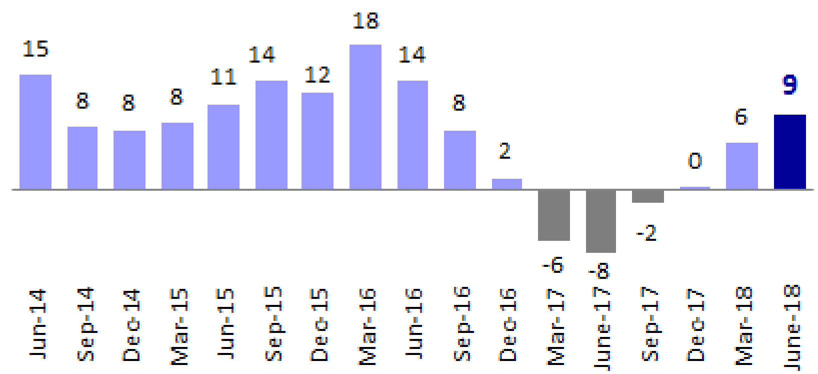
Defensive PAT: Double-digit PAT growth after seven quarters(%)



Defensives' PAT contribution to MOSL Universe stands at 32%



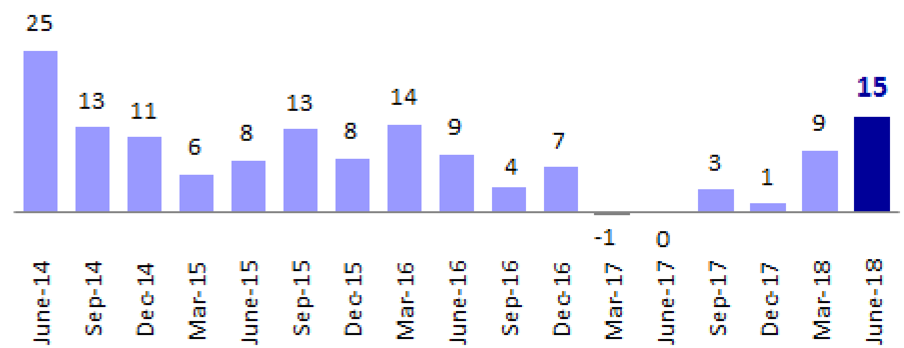
Defensive EBIDTA growth at eight quarter high



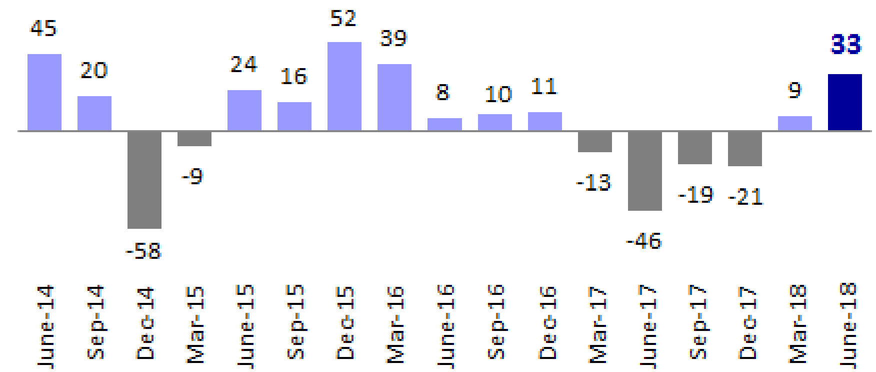
Key highlights: Consumer and Technology posted strong set of numbers

- **Technology** posted a strong quarter with 15% PAT growth, the highest since Jun-14. Mid-caps continue to outdo large-caps on growth front.
- **Healthcare** posted PAT growth of 33%, the highest since Mar-16, but the performance was below estimates. June'18 profits for our universe is lesser v/s June'16 profits.
- **Consumer universe's** PAT growth came in at 20% YoY, buoyed by a low base, strong rural demand and operating leverage. The performance, however, was mixed, with eight among our universe of 18 stocks missing estimates.
- **Telecom** posted fourth consecutive quarter of loss, dragged by continued elevated competitive intensity, resulting in a sequential ARPU drop for another quarter.

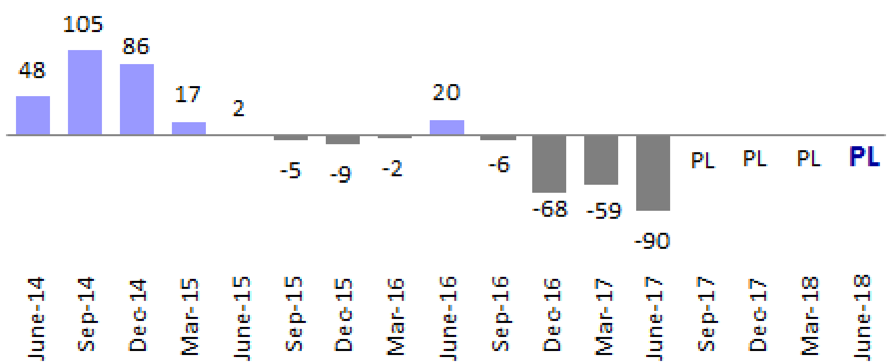
Technology posted 16-quarter-high profit growth(%)



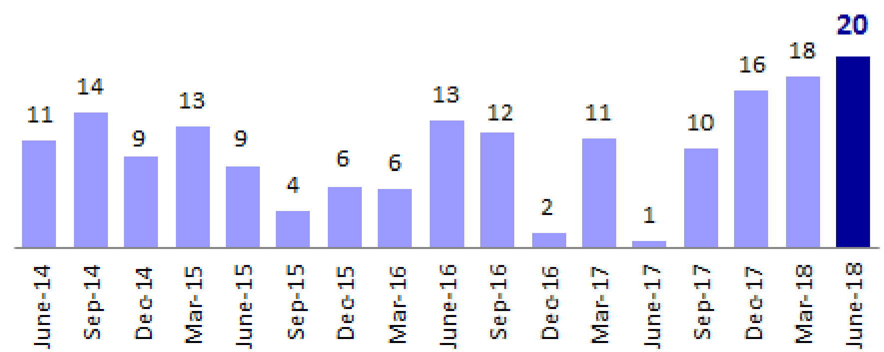
Healthcare PAT grew 33%, highest since Mar-16



Telecom – fourth consecutive quarter of PAT loss

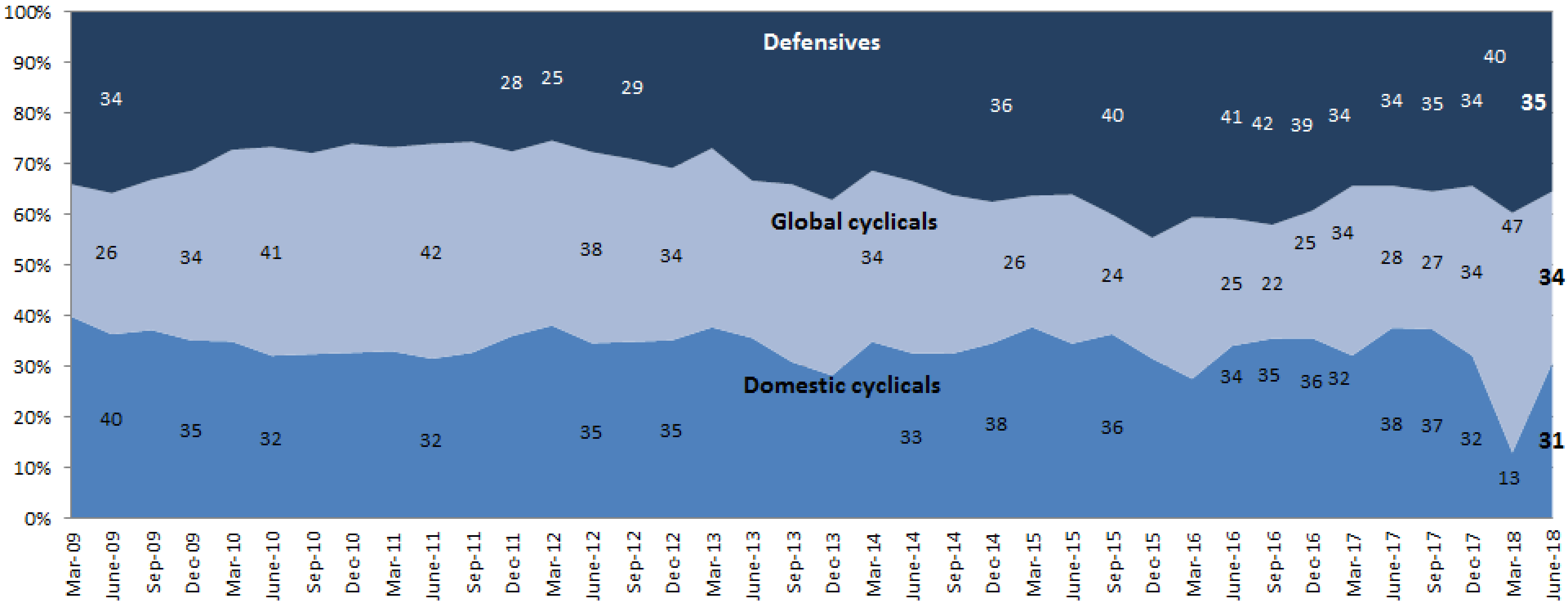


Consumer Universe posted 20% PAT growth, highest since Dec-12



Share of Domestic Cyclicals bounces back

Domestic cyclicals' contribution, which had come off due to PSU Banks' significant profit miss in 4QFY18, returned to 30% range



Defensives include Consumer, Healthcare, Technology, Telecom and Utilities
Global Cyclicals include Metals, Oil & Gas and JLR
Domestic Cyclicals include Automobiles, Banks, Capital Goods, Cement, Media, NBFCs, Real Estate and Retail

June 2018 Results Review: Outlook getting better; Corporate banks drag the aggregates

Losses in Corporate Banks mar an otherwise decent quarter

- Aggregate sales of MOSL Universe grew 22.9% YoY (our estimate: +22.2%), EBITDA was up 19.3% YoY (our estimate: +23.5%) and PAT was up 13.8% YoY (our estimate: +25.2%). Performance was dragged disproportionately by PSU Banks, which posted a loss of INR51b v/s expectations of a loss of INR3b. Excluding Corporate Banks, MOSL Universe sales, EBITDA and PAT has grown 23.0%, 21.1% and 26.7% v/s expectations of 22.6%, 24.1%, 31.3%, respectively.
- Similarly, the aggregate performance was disproportionately aided by a strong performance from OMCs. Excluding OMCs and Corporate Banks, MOSL Universe posted EBITDA/PAT growth of 26.7%/20.5% v/s expectations of 27.3%/27.3%.
- Out of the 19 sectors we track, 2/8/9 posted profits that were above/in-line/below expectations. Capital goods and Retail universe posted profits ahead of expectations, while Autos, Private Banks, PSU Banks, Life Insurance, Healthcare and Utilities posted profits below expectations.
- EBITDA margin for the MOSL Universe (Ex Financials and OMCs) expanded 70bp YoY to 20.1% (est. of 20.4%). This was led by margin expansion in NBFCs, Media, Retail and Utilities.
- Out of 196 companies, 59 reported PAT beat (69 in 4QFY18), 84 missed estimates (78 in 4QFY18) and 53 reported in-line PAT.

Sector performance: Metals, Oil & Gas, Capital Goods, NBFC stand out; Corporate Banks disappoint

- Sales growth was led by Oil & Gas (34%), NBFCs (30%), Metals (28%) and Media (28%), whereas Infra (-7%) and Telecom (-12%) dragged sales.
- EBITDA growth was led by Metals (49%), Media (42%), Retail (41%), Capital Goods (38%) and NBFC (30%). Cement, Logistics, Infra and Telecom reported EBITDA growth of 6%, (2)%, (5)% and (20)%, respectively.
- PAT growth was led by Metals (81%), Oil & Gas (50%), Capital Goods (50%), Retail (48%) and NBFC (44%). PSBs and Telecom reported losses, and Auto reported a 13% YoY PAT decline.

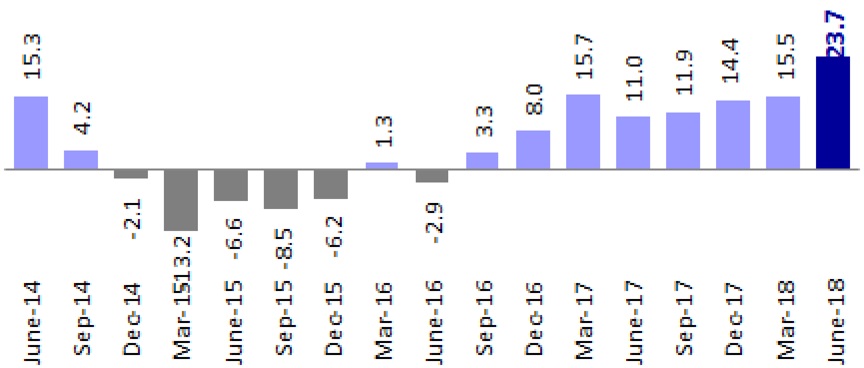
Nifty performance: 10% PAT growth; excluding Corporate Banks, PAT growth at 25% aided by a low base

- Nifty aggregate sales grew 23.7% YoY (our estimate: +22.7%), EBITDA grew 17.0% (our estimate: +22.7%) and PAT grew 10.0% (our estimate: +25.9%). Excluding these, Nifty PAT growth for the rest of the 47 companies came in at 24.6% v/s estimate of 29.3%, highest in 16 quarters.
- OMCs' strong performance boosted Nifty's profitability. Nifty ex-OMC and Corporate banks posted EBITDA and profit growth of 26.1% and 16.3 % v/s expectations of 26.2% and 23.9%, respectively.
- 10 Nifty companies reported PAT above estimates, 19 below estimates and 21 in-line.
- **Highest PAT growth companies**: Dr.Reddy's, BPCL, IOC, Sun Pharma and HPCL.
- **Top PAT de-growth companies**:.Bharti Airtel, SBI, ICICI, Tata Motors and Axis Bank.

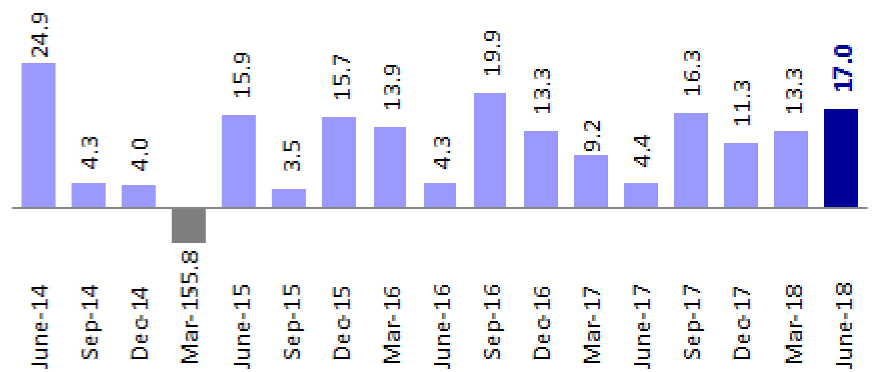
Nifty: 1QFY19 performance highlights

- Nifty sales/EBITDA/PAT grew 23.7%/17.0%/10.0% v/s our estimate of 22.7%/22.7%/25.9%, dragged by Corporate Banks.
- Excluding Corporate Banks, Nifty PAT growth came in at 24.6% v/s our estimate of +29.3%.
- Nifty EBITDA margin (Ex-Financials, OMCs) contracted 80bp YoY to 15.8%.
- 62% of Nifty Universe posted in-line or higher-than-estimated PAT; 72% posted in-line or higher-than-estimated EBITDA.
- Earnings downgrades overweigh upgrades (4:1). Five out of the 50 Nifty companies saw upgrades (> 3%) in FY19E EPS, while 23 companies saw EPS downgrades.

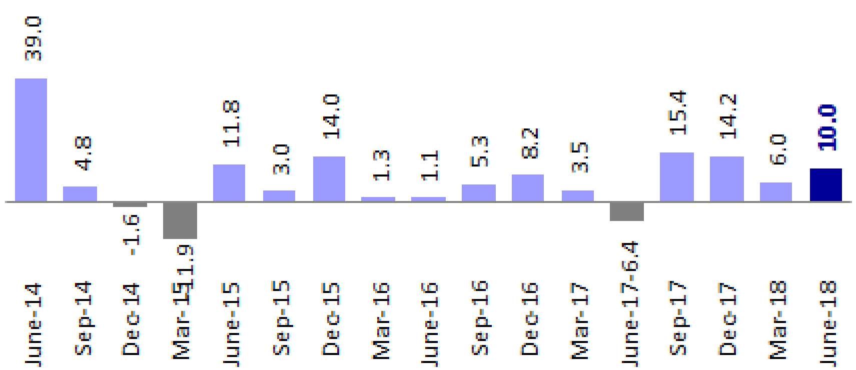
Nifty sales growth at multi-quarter high



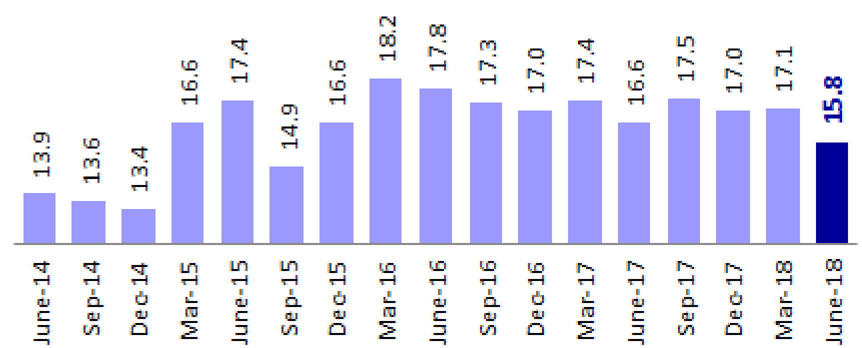
Fourth consecutive quarter of robust growth in Nifty EBITDA



Nifty PAT growth at 10.0%; dragged by Corporate Banks



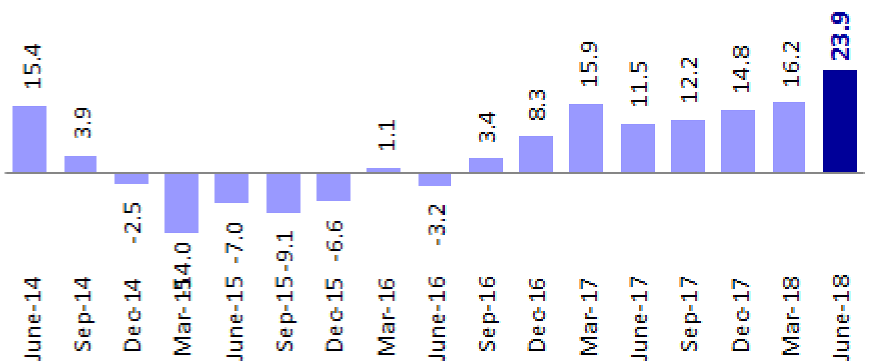
Nifty EBIDTA margin ex Financials and OMCs shrank 80bps YoY (%)



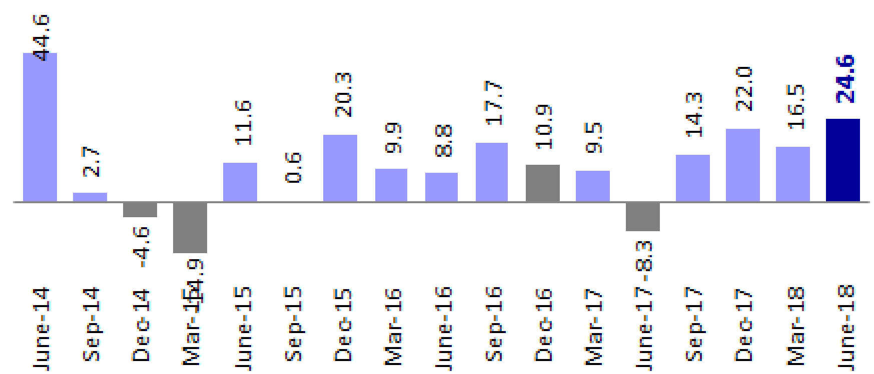
Nifty ex Corporate Banks: In-line performance; profit growth highest in 16 quarters

- Excluding Corporate Banks, the 1QFY19 results season was in-line, delivering sales/EBITDA/PAT growth of 23.9%/18.9%/24.6% v/s our estimate of 23.1%/22.3%/29.3%.
- This was the fourth consecutive quarter of double-digit growth in sales, EBITDA and PAT, with sales growth coming in at a multi-quarter-high.
- Profit growth for Nifty-ex Corporate banks was highest since June'14, aided by low base.

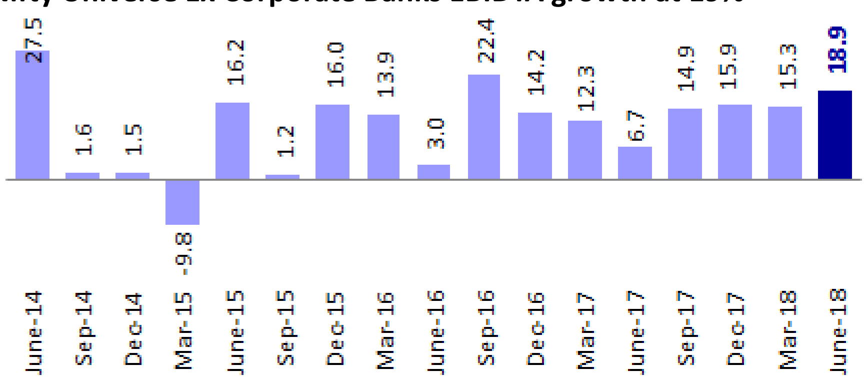
Nifty Universe Ex Corporate Banks sales growth at 24% (YoY)



Nifty Universe Ex Corporate Banks PAT growth came in robust at 25%



Nifty Universe Ex Corporate Banks EBIDTA growth at 19%



Nifty FY19 and FY20 EPS cut on drag from Corporate banks

EPS downgrade de-construct

- Our FY19/20 Nifty EPS estimates have been cut by 5.6%/1% to INR547/688 v/s INR580/694 earlier. We expect Nifty EPS to grow 19.3% in FY19 and 25.7% in FY20. Nearly 90% of the earnings cut is driven by ICICI, SBI and Tata Motors.
- **Top Upgrades:** HPCL and BPCL have seen healthy upgrades of 18% and 10%, respectively.
- **Top downgrades:** SBI, ICICI, Tata Motors and Lupin have seen EPS downgrades of 56%, 40%, 25% and 19%, respectively.

Nifty stock revision since preview

Company	Current EPS (INR)			EPS UPGRADE / DOWNGRADE (%)		EPS GR. (%)		
	FY18	FY19E	FY20E	FY19E	FY20E	FY18	FY19E	FY20E
HPCL	47.4	50.6	51.8	18.2	10.4	-12.4	6.7	2.4
BPCL	49.8	48.6	48.9	9.8	0.3	3.0	-2.3	0.5
Reliance Inds.	60.9	76.6	94.9	4.4	16.7	20.7	25.7	23.9
ONGC	20.2	28.3	31.5	4.2	-2.4	-9.9	40.1	11.3
HCL Technologies	62.6	72.0	81.5	3.5	4.2	4.5	15.2	13.1
NTPC	13.2	15.3	16.3	2.6	0.0	6.8	16.0	6.4
GAIL	20.4	26.6	32.5	2.4	3.2	20.5	30.6	21.9
Wipro	17.9	18.8	21.5	2.0	2.1	7.7	5.2	14.2
Hindalco	18.9	24.4	27.8	1.3	1.9	120.5	29.4	13.6
TCS	66.0	81.9	93.5	1.2	1.6	-1.0	24.1	14.1
Hind. Unilever	24.5	29.2	35.6	1.1	1.1	24.7	19.5	21.8
Bajaj Finance	43.4	62.7	82.9	0.7	-0.2	35.9	44.5	32.2
ITC	8.9	10.0	11.4	0.3	0.7	5.5	13.2	13.8
UPL	44.2	46.7	50.6	0.2	-9.0	5.9	5.7	8.3
IndusInd Bank	60.2	81.8	108.2	0.0	0.0	25.2	36.0	32.2
Yes Bank	18.4	23.8	30.7	0.0	0.0	26.3	29.0	29.2
Coal India	19.2	26.2	30.6	0.0	0.0	28.3	36.6	16.7
Bajaj Finserv	172.3	222.4	277.7	0.0	0.0	21.2	29.1	24.8
Titan Company	12.6	16.2	20.5	-0.1	0.2	39.9	28.4	26.5
Larsen & Toubro	51.7	56.8	72.1	-0.7	4.4	22.4	9.9	27.0
Power Grid Corp.	16.5	18.6	20.6	-1.1	0.0	16.1	12.5	10.7
Infosys	64.8	72.7	85.8	-1.8	-0.4	3.1	12.3	18.0
Eicher Motors	799.6	966.3	1238.1	-2.0	-4.0	27.0	20.9	28.1
Adani Ports	18.3	19.3	22.8	-2.1	-1.2	-3.3	5.8	17.8

Company	Current EPS (INR)			EPS UPGRADE / DOWNGRADE (%)		EPS GR. (%)		
	FY18	FY19E	FY20E	FY19E	FY20E	FY18	FY19E	FY20E
Indiabulls Housing	90.2	106.4	126.6	-2.2	-3.7	31.5	18.0	19.0
Zee Entertainment	14.6	16.1	19.5	-2.6	-0.7	-7.0	10.6	21.3
Tech Mahindra	42.7	43.3	52.6	-3.1	-0.8	33.6	1.3	21.6
Sun Pharma	13.5	18.4	25.6	-3.4	2.2	-48.5	36.7	39.3
Mah& Mah	41.0	48.3	55.5	-4.2	0.4	49.8	17.8	14.8
Hero MotoCorp	185.1	193.4	219.0	-4.4	-4.8	9.5	4.5	13.2
HDFC	42.3	46.5	55.6	-4.5	-4.1	6.2	10.1	19.4
Bharti Infratel	13.6	13.5	13.8	-4.6	-5.2	-8.1	-1.2	2.4
Cipla	20.3	23.2	30.2	-6.8	0.5	31.2	14.3	29.8
Axis Bank	1.1	20.1	35.9	-7.6	-2.5	-92.8	1704.6	79.2
Maruti Suzuki	266.7	311.2	409.2	-7.8	-4.7	7.3	16.7	31.5
Vedanta	20.4	21.6	27.0	-8.4	-6.1	34.6	6.2	24.9
Tata Steel	71.9	85.1	68.7	-8.5	1.8	76.5	18.4	-19.3
Dr Reddy' s Labs	64.7	99.3	120.6	-8.6	-9.2	-10.9	53.6	21.4
Asian Paints	21.1	23.3	28.3	-9.1	-6.9	1.9	10.1	21.6
IOC	23.9	17.9	18.8	-9.8	-13.4	11.0	-24.9	4.7
Bajaj Auto	151.3	153.9	174.6	-10.0	-11.8	7.3	1.7	13.5
Ultratech Cement	85.7	103.3	141.4	-13.4	-15.4	-10.9	20.5	36.9
Kotak Mahindra Bank	32.5	37.2	45.7	-14.5	-17.1	21.3	14.2	22.9
Grasim Industries	57.4	101.4	129.0	-17.2	-12.0	-15.4	76.8	27.2
Lupin	46.8	29.2	45.1	-19.4	-6.0	-17.4	-37.6	54.5
Tata Motors	22.9	30.1	38.2	-25.1	-15.1	15.7	31.3	26.9
ICICI Bank	11.1	9.9	20.8	-39.9	-10.4	-34.3	-10.8	110.5
State Bank	-5.3	7.9	30.5	-56.0	-0.2	PL	LP	286.2
Bharti Airtel	4.1	-0.8	1.2	-160.3	-77.1	-63.3	-120.1	-247.1
Nifty (50)	**459**	**547**	**688**	**-5.6**	**-1.0**	**8.4**	**19.3**	**25.7**

Sectoral quarterly PAT trend (INR b)

MOSL Universe quarterly PAT trend (INR b)

Sector	FY15				FY16				FY17				FY18				FY19
	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun
Auto	95	80	80	64	102	72	88	123	82	88	57	109	70	110	82	116	61
Capital Goods	19	20	22	46	14	16	7	46	16	25	25	55	21	32	31	54	31
Cement	18	14	10	16	14	16	16	24	27	22	16	22	28	20	18	27	28
Consumer	52	55	58	56	56	57	62	59	64	64	63	66	64	71	73	77	77
Financials	184	174	178	200	191	195	123	56	149	151	169	126	182	185	148	-100	110
Private Banks	82	85	95	100	91	98	106	83	94	94	97	102	102	98	104	71	88
PSU Banks	70	57	50	60	65	59	-23	-72	14	9	27	-27	29	29	-18	-241	-51
NBFC	32	32	33	40	33	37	38	42	39	45	44	48	47	55	60	67	68
Healthcare	47	51	35	39	56	57	54	54	60	62	60	47	32	49	47	52	43
Infrastructure	2	2	2	3	3	3	3	2	3	3	3	4	4	3	4	5	5
Logistics	3	3	4	3	3	3	3	4	2	2	2	3	3	3	2	2	3
Media	6	6	8	6	7	8	9	11	8	8	8	8	8	10	8	6	10
Metals	88	91	78	41	48	57	-13	30	34	38	54	99	69	78	113	146	124
Oil & Gas	160	131	58	242	233	119	185	204	271	200	226	236	198	245	303	283	298
Oil & Gas Ex OMCs	122	126	82	129	136	120	132	149	140	148	146	163	155	167	183	187	189
Retail	2	3	2	2	2	2	3	2	2	2	3	2	3	3	3	4	4
Technology	132	137	144	141	141	152	153	158	153	158	164	157	153	163	165	171	174
Telecom	23	27	28	29	23	26	26	28	28	24	8	12	3	0	-2	-3	-14
Utilities	85	66	76	98	89	87	88	93	87	72	81	83	85	73	89	118	103
Others	15	14	14	5	16	13	15	16	19	17	17	22	19	18	23	22	23
MOSL Universe	**931**	**871**	**797**	**993**	**997**	**879**	**819**	**909**	**1,003**	**933**	**954**	**1,047**	**938**	**1,061**	**1,107**	**978**	**1,076**

Note: Comparable Universe, excludes Alkem Labs, Interglobe Aviation, CG Consumer Electricals, Equitas Holding, IDFC Bank, RBL Bank, L&T Infotech, SH Kelkar, Endurance Tech, Gujarat Gas, Music Broadcast, Avenue Supermarts, Quess Corp, Teamlease Service, HDFC St. Life, Mahanagar Gas, PC Jeweller, Mas Financials and Laurus Labs.

Sectoral quarterly PAT trend YoY (%)

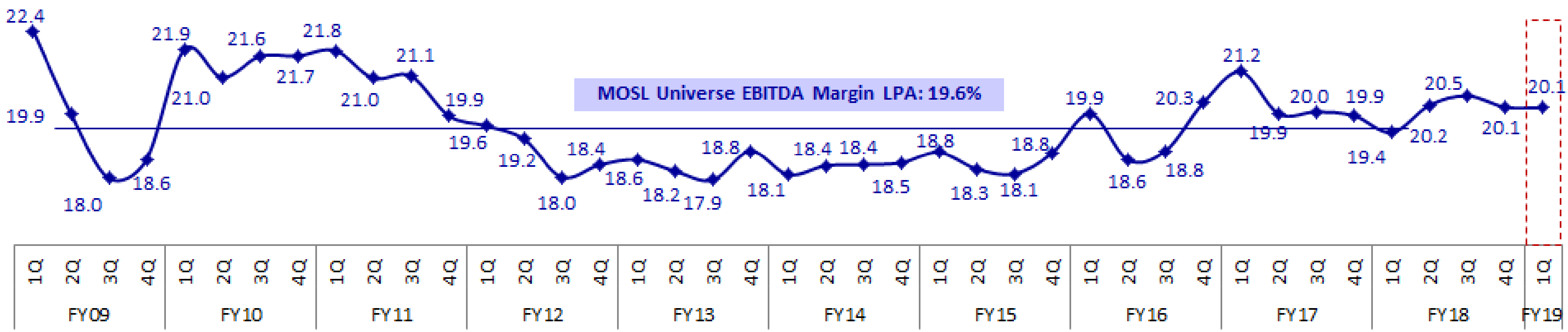
Sectoral quarterly PAT growth trend (%)

Sector	FY15				FY16				FY17				FY18				FY19
	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun
Auto	70	4	-7	-23	8	-10	10	92	-20	22	-36	-12	-14	25	46	7	-14
Capital Goods	19	-10	-11	-15	-28	-19	-70	1	20	53	274	17	27	28	25	-2	50
Cement	-6	28	-11	-12	-21	13	68	49	93	39	1	-5	3	-8	8	21	-1
Consumer	11	14	9	13	9	4	6	6	13	12	2	11	1	10	16	18	20
Financials	11	17	14	8	3	12	-31	-72	-22	-22	38	124	22	23	-12	PL	-40
Private Banks	18	19	19	17	10	14	12	-16	3	-3	-9	22	9	4	8	-30	-14
PSU Banks	3	20	5	-5	-7	2	PL	PL	-78	-84	LP	Loss	107	211	PL	Loss	PL
NBFC	15	8	15	12	3	17	15	5	19	22	17	14	22	22	35	38	44
Health Care	45	20	-59	-12	20	11	53	38	7	9	11	-13	-46	-21	-21	10	33
Infrastructure	19	5	10	-6	16	60	27	-14	10	-8	27	70	43	10	33	26	8
Logistics	12	-7	28	20	-8	12	-31	6	-17	-24	-11	-28	27	28	-25	-9	0
Media	-3	3	30	19	33	42	6	71	3	2	-4	-24	8	24	-4	-22	25
Metals	30	26	2	-51	-45	-38	PL	-28	-29	-32	LP	235	102	106	108	48	81
Oil & Gas	154	-23	-47	-23	46	-9	218	-16	16	68	22	16	-27	22	34	20	50
Oil & Gas Ex OMCs	14	-10	-44	-4	11	-5	61	15	3	24	10	9	10	12	26	15	22
Retail	-5	22	7	1	-13	-37	13	-13	33	13	-1	-9	15	71	38	94	48
Technology	25	13	11	6	7	11	7	12	9	4	7	-1	0	3	1	9	14
Telecom	48	105	86	17	2	-5	-9	-2	20	-6	-68	-59	-90	PL	PL	PL	PL
Utilities	1	-15	-14	6	5	31	16	-5	-2	-17	-8	-11	-3	2	11	42	22
Others	17	10	14	-54	7	-6	11	191	15	33	9	35	0	8	36	1	25
MOSL Universe	**34**	**5**	**-7**	**-11**	**7**	**1**	**3**	**-8**	**1**	**6**	**17**	**15**	**-6**	**14**	**16**	**-7**	**15**

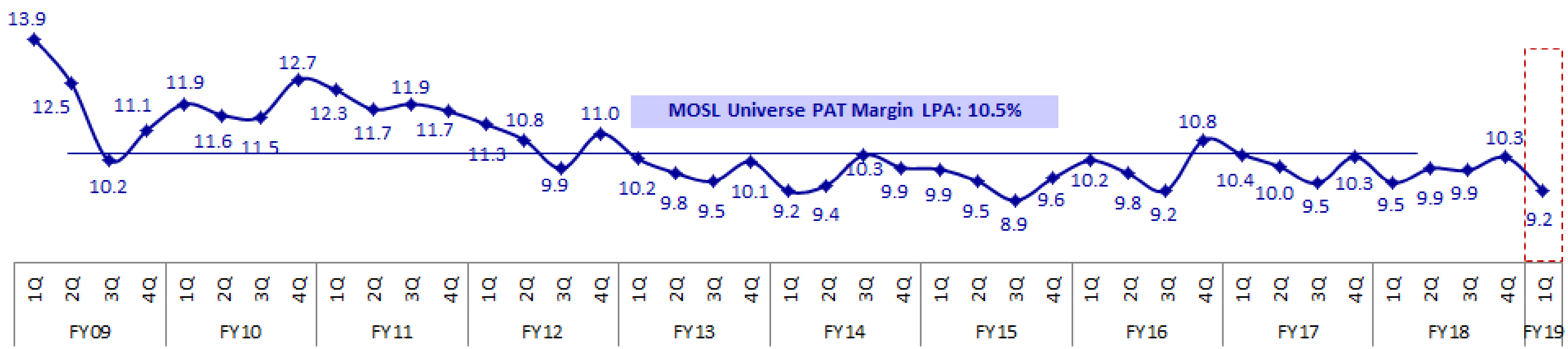
Note: Comparable Universe, excludes Alkem Lab, Avenue Supermarts, CG Consumer Elect, Endurance Tech, Equitas Holdings, Gujarat Gas, HDFC Stand. Life, ICICI Pru Life, Interglobe Aviation, Laurus Labs, Mahanagar Gas, Music Broadcast, Quess Corp, RBL Bank, S H Kelkar and Team Lease.

1QFY19: Operating margin expands 70bp YoY

Jun-18 EBITDA margin (ex OMCs and Financials) at 20.1% (v/s estimate of 20.4%)



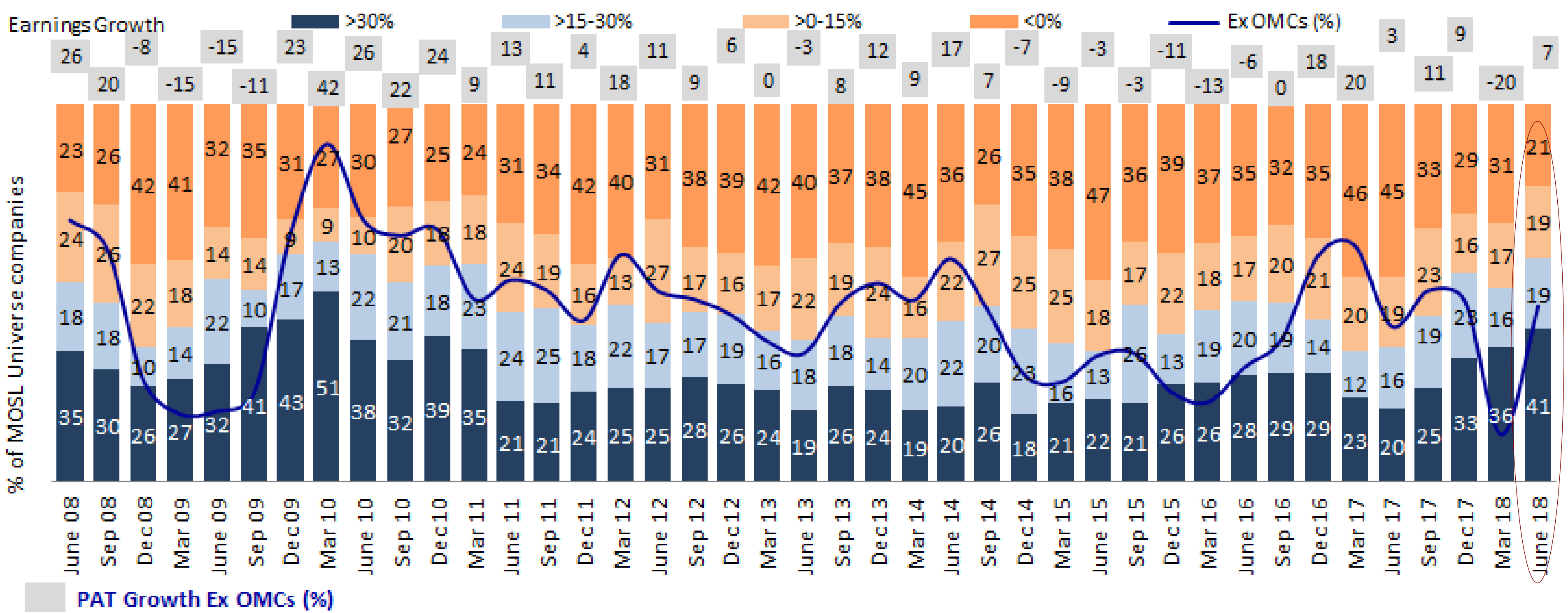
Jun-18 PAT margin (ex OMCs and Financials) contracted 30bp to 9.2% (v/s estimate of 9.9%)



No. of companies reporting >30% YoY PAT growth highest since Mar-10

- 41% of the companies reported >30% PAT growth, highest since Mar'10. Low base of 1QFY18 aided the performance to an extent.
- 19% of the companies reported >15% and <30% growth. 21% of the companies in the MOSL Universe reported a YoY decline in earnings.

Distribution of PAT growth



FY18-20 estimates: Expect 28% profit CAGR for MOSL Universe

Sector	Sales Gr. / CAGR (%)	EBIDTA Margin (%)	EBIDTA CAGR (%)	EBITDA margin change (bp)	PAT Gr. / CAGR (%)				PAT delta Share (%)
(No of Companies)	(FY18-20)	FY19E	(FY18-20)	FY18-20	FY18	FY19E	FY20E	(FY18-20)	FY18-20
High PAT CAGR (>20%)	15	27.6	18	168	-19	66	44	54	65
Financials (38)	18	69.7	17	-52	-47	174	62	111	47
PSU Banks (7)	14	74.9	13	-74	PL	LP	291	LP	28
Private Banks (12)	20	85.0	21	105	-1	31	43	37	13
Life Insurance (2)	20	4.5	15	-37	6	11	15	13	0
NBFC (17)	22	82.2	20	-230	28	25	22	23	5
Cement (14)	20	17.9	22	67	0	42	34	38	3
Logistics (2)	13	14.2	20	168	5	45	20	32	0
Media (10)	15	32.5	21	323	-3	25	33	29	1
Retail (2)	20	11.8	26	117	51	31	26	29	0
Healthcare (22)	14	20.9	22	289	-18	16	30	23	4
Auto (16)	13	14.0	18	122	15	19	25	22	7
Capital Goods (17)	12	11.5	17	107	15	16	24	20	2
Medium PAT CAGR (15-20%)	9	24.7	16	286	28	22	12	17	16
Others (23)	23	18.4	23	-3	18	6	32	18	2
Consumer (19)	14	24.6	17	130	10	16	18	17	4
Utilities (7)	8	35.5	19	621	13	22	13	17	5
Metals (10)	5	21.4	12	268	73	31	2	16	5
Low PAT CAGR (up to 15%)	19	13.8	13	-136	2	11	16	13	19
Oil & Gas (14)	21	11.1	14	-127	6	15	14	14	13
Excl. OMCs (11)	21	14.1	20	-29	6	26	16	21	15
Technology (15)	14	23.4	16	96	5	10	15	13	7
Infrastructure (4)	23	30.5	12	-522	43	9	9	9	0
Telecom (4)	1	29.4	1	-11	-99	PL	Loss	PL	-1
MOSL (217)	15	20.4	16.1	24.5	0	30	25	28	100
MOSL Excl. OMCs (214)	15	22.7	17.0	97.5	-1	34	26	30	NA
Sensex (30)	13	25.8	16.0	132.7	7	23	28	25	NA
Nifty (50)	15	21.5	15.8	35.2	8	20	26	23	NA

Nifty FY18-20 free float PAT CAGR at 23%; sales CAGR at 16%

Company	Sales (INR b)			Sales	EBIDTA Margin (%)			EBITDA	PAT (INR b)			PAT YoY (%)			PAT	Contbn to
	FY18	FY19E	FY20E	CAGR % 18-20	FY18	FY19	FY20	CAGR % 18-20	FY18	FY19E	FY20E	FY18	FY19	FY20	CAGR % 18-20	Delta %
High PAT Growth (20%+)	**17,719**	**22,184**	**24,804**	**18**	**23**	**23**	**24**	**20**	**1,512**	**2,124**	**2,875**	**2**	**41**	**35**	**38**	**79**
State Bank	749	836	962	13	80	73	74	10	-46	70	272	PL	LP	286	LP	19
Axis Bank	186	208	244	14	84	84	89	18	3	52	94	-93	1,783	81	484	5
Grasim Industries	562	710	871	24	18	17	17	23	27	47	60	-15	77	27	50	2
IndusInd Bank	75	110	150	41	89	88	91	43	36	53	75	26	46	43	45	2
ICICI Bank	230	256	296	13	107	93	95	7	68	63	133	-31	-6	111	40	4
Bajaj Finance	72	100	133	36	68	70	70	38	25	36	48	36	45	32	38	1
Sun Pharma	261	309	358	17	20	22	25	32	32	44	62	-49	37	39	38	2
Dr Reddy’ s Labs	142	157	179	12	16	21	22	30	11	16	20	-11	54	21	37	1
Ultratech Cement	298	364	468	25	20	19	19	24	24	28	41	-11	20	44	32	1
Yes Bank	77	101	128	29	100	102	103	31	42	55	71	27	30	29	29	2
Tata Motors	2,946	3,216	3,600	11	13	13	14	16	78	102	130	16	31	27	29	3
Titan Company	161	194	235	21	10	11	11	27	11	14	18	40	28	27	27	0
Bajaj Finserv	87	98	111	12	84	89	93	18	27	35	44	21	29	25	27	1
Coal India	859	942	1,003	8	20	25	28	28	119	163	190	28	37	17	26	4
GAIL	537	641	748	18	14	15	13	15	46	60	73	20	31	22	26	2
ONGC	3,622	4,733	5,016	18	18	19	19	23	259	363	404	-10	40	11	25	8
Reliance Inds.	3,917	5,849	6,382	28	16	14	15	22	361	453	562	21	26	24	25	12
Eicher Motors	89	106	125	18	31	32	33	21	22	26	34	27	21	28	24	1
Maruti Suzuki	798	929	1,090	17	15	15	16	20	81	94	124	7	17	32	24	3
Cipla	152	173	197	14	19	21	21	22	16	19	24	31	14	30	22	0
HDFC Bank	401	478	571	19	81	84	86	23	175	210	258	20	20	23	21	5
Hindalco	1,152	1,282	1,492	14	12	12	12	15	42	54	62	121	29	14	21	1
Hind. Unilever	345	393	447	14	21	23	24	21	53	63	77	25	19	22	21	1

Nifty FY18-20 free float PAT CAGR at 23%; sales CAGR at 16%

Company	Sales (INR b)			Sales	EBIDTA Margin (%)			EBITDA	PAT (INR b)			PAT YoY (%)			PAT	Contbn to
	FY18	FY19E	FY20E	CAGR % 18-20	FY18	FY19	FY20	CAGR % 18-20	FY18	FY19E	FY20E	FY18	FY19	FY20	CAGR % 18-20	Delta %
Medium PAT Growth (10-20%)	**7,284**	**8,104**	**9,016**	**11**	**27**	**29**	**29**	**16**	**1,128**	**1,284**	**1,487**	**11**	**14**	**16**	**15**	**21**
Indiabulls Housing	54	65	81	23	113	98	97	14	38	45	54	32	18	19	18	1
Kotak Mahindra Bank	95	110	135	19	75	78	79	22	62	71	87	26	14	23	18	1
Larsen & Toubro	1,197	1,346	1,462	11	11	12	12	15	72	80	101	22	10	27	18	2
TCS	1,231	1,446	1,634	15	26	27	28	18	258	309	351	-2	20	14	17	5
Mahindra & Mahindra	921	1,044	1,159	12	14	15	16	17	49	58	66	50	18	15	16	1
HDFC	113	123	145	13	93	92	93	13	71	80	95	12	12	19	16	1
Zee Entertainment	67	76	87	14	31	32	33	17	14	15	19	-7	11	21	16	0
Asian Paints	168	184	221	15	19	19	19	16	20	22	27	2	10	22	16	0
Vedanta	919	923	984	4	22	25	28	16	76	80	101	35	6	25	15	1
ITC	406	450	510	12	38	39	40	14	108	122	139	6	13	14	14	2
HCL Technologies	506	588	661	14	23	23	23	16	88	98	111	4	12	13	12	1
Adani Ports	113	111	126	6	62	63	64	7	38	40	47	-3	6	18	12	1
Power Grid Corp.	299	342	385	13	88	89	89	14	87	97	108	16	12	11	12	1
Tech Mahindra	308	350	399	14	15	17	17	21	38	39	47	38	3	21	12	1
NTPC	886	945	1,027	8	26	31	32	20	109	126	134	7	16	6	11	1
Low PAT Growth (<10%)	**13,221**	**16,059**	**17,323**	**14**	**13**	**11**	**11**	**3**	**891**	**828**	**884**	**6**	**-7**	**7**	**0**	**0**
Hero MotoCorp	322	362	398	11	16	16	16	10	37	39	44	9	4	14	9	0
UPL	174	194	359	44	20	21	21	46	22	24	26	6	6	9	8	0
Bajaj Auto	252	281	317	12	19	17	17	7	44	45	51	7	2	13	7	0
Wipro	545	576	631	8	20	19	20	9	85	82	97	2	-3	18	7	1
Infosys	705	797	898	13	27	26	27	13	161	159	180	12	-1	13	6	1
HPCL	2,195	2,809	2,982	17	5	4	4	4	72	77	79	-12	7	2	5	0
Bharti Infratel	145	146	152	3	44	41	40	-3	25	25	26	-8	-1	2	1	0
Tata Steel	1,316	1,411	941	-15	17	20	23	-1	82	102	83	108	24	-19	0	0
BPCL	2,358	2,989	3,184	16	6	6	5	6	98	96	96	3	-2	1	-1	0
Lupin	158	169	196	11	20	17	21	15	21	13	20	-17	-38	54	-2	0
IOC	4,215	5,524	6,401	23	10	7	6	-6	226	170	178	11	-25	5	-11	-3
Bharti Airtel	837	801	866	2	36	34	36	2	16	-3	5	-63	PL	LP	-46	-1
Nifty (PAT free float)	**38,224**	**46,348**	**51,142**	**16**	**20**	**20**	**20**	**15**	**1,795**	**2,151**	**2,704**	**8**	**20**	**26**	**23**	**100**

Rating upgrades/downgrades

➢ In our universe, we upgraded our ratings for two stocks and downgraded ratings for six stocks.

Company	Mkt Cap (USDb)	RECO Pre-1QFY19	RECO Post-1QFY19	EPS (INR) FY18	EPS (INR) FY19E	EPS (INR) FY20E	% revision since preview FY18	% revision since preview FY19E	% revision since preview FY20E	EPS Growth YoY (%) FY18	EPS Growth YoY (%) FY19E	EPS Growth YoY (%) FY20E
UPGRADE IN RATING												
ACC	4.2	Neutral	Buy	46.9	72.5	92.4	-1.1	19.4	15.7	27.7	54.7	27.4
Navneet Education	0.4	Neutral	Buy	5.4	7.9	8.9	0.0	4.1	5.2	-26.1	45.7	12.8

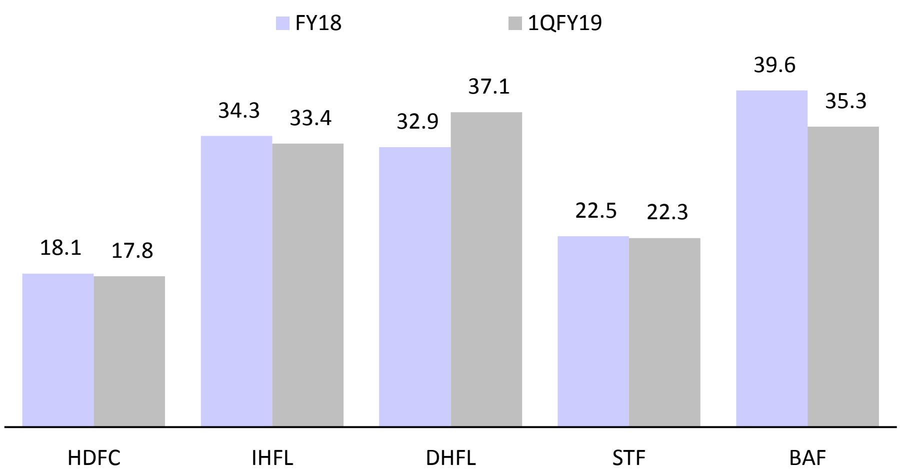
Company	Mkt Cap (USDb)	RECO Pre-1QFY19	RECO Post-1QFY19	EPS (INR) FY18	EPS (INR) FY19E	EPS (INR) FY20E	% revision since preview FY18	% revision since preview FY19E	% revision since preview FY20E	EPS Growth YoY (%) FY18	EPS Growth YoY (%) FY19E	EPS Growth YoY (%) FY20E
DOWNGRADE IN RATING												
Kotak Mahindra Bank	35.2	Buy	Neutral	32.5	37.2	45.7	0.0	-14.5	-17.1	21.3	14.2	22.9
Bajaj Finance	23.3	Buy	Neutral	43.4	62.7	82.9	-6.6	0.7	-0.2	35.9	44.5	32.2
Dabur	11.4	Buy	Neutral	7.8	8.5	10.1	0.0	-5.4	-2.7	7.2	9.7	18.9
Page Industries	5.3	Buy	Neutral	311.1	412.2	529.4	0.0	-2.6	-6.2	30.3	32.5	28.5
Quess Corp	2.1	Buy	Neutral	21.8	23.0	35.0	0.0	-20.3	-13.1	115.7	5.3	52.1
D B Corp	0.6	Buy	Neutral	17.6	18.4	23.1	0.0	-10.4	-7.3	-13.8	4.3	25.7

Sector Miss/Hits: NBFC Shines/Auto disappoints

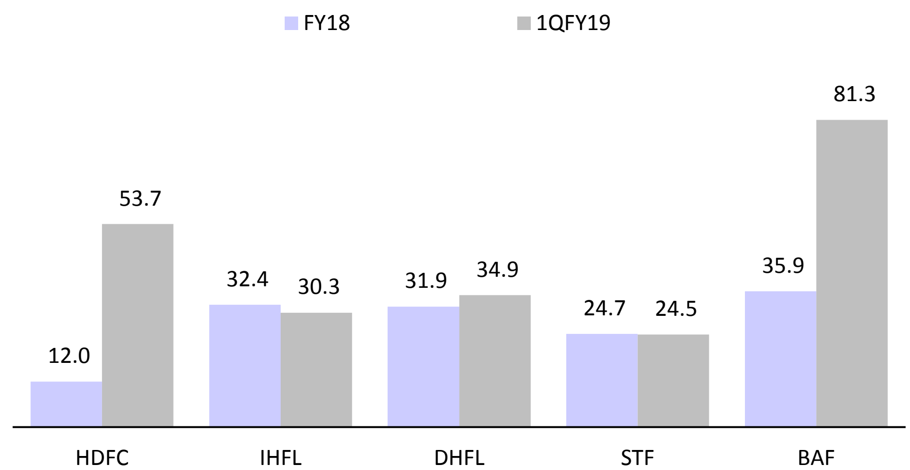
NBFC: Business momentum intact; Ind-AS transition smooth

- Ind-AS implementation has been smooth for NBFC as against market fear of a rise in provisions due to the implementation of the ECL methodology and the resultant impairment on networth. As expected (Link to our report), we have seen stable-to-higher networth across NBFCs, barring LTFH and BAF, due to lower provisioning requirement and reversal of DTL (for HFCs) . Lower aggregate provisioning requirement under Ind-AS led to significant networth accretion for SHTF.
- Business growth remains strong across the board (except REPCO). DEWH surprised positively with 37% AUM growth.
- Gross stage 2&3 reporting did not throw any negative surprises. BAF and SHTF surprised positively on this front. Repco's ECL of 66bp v/s GNPL ratio of 4% implies that LGDs are small.
- Due to the change in methodology of reporting income and expenses, QoQ comparisons are not relevant. In aggregate, operating profit grew by 30% and PAT by 44% YoY.
- Our top picks are **HDFC, LTFH, PIEL and SHTF**.

AUM growth for Top 5 players



PAT growth for Top 5 players



Note: HDFC PAT growth strong due to timing difference in dividend received from HDFCB

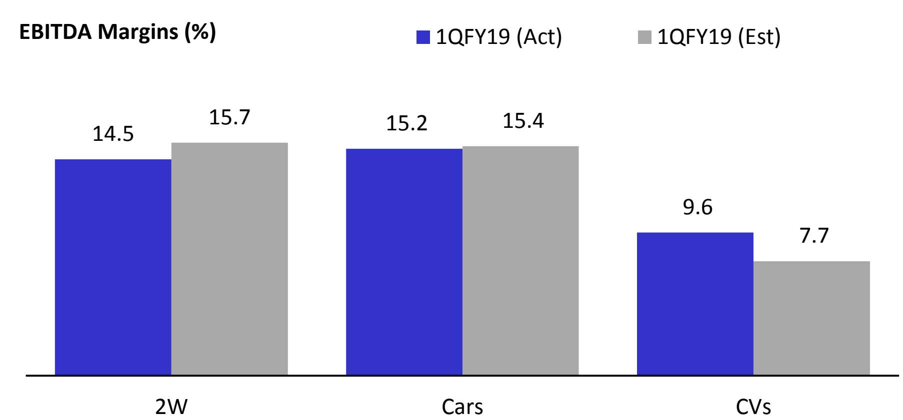
Autos: Op. performance in-line; lower other income and higher tax hurt PAT

- Auto sector performance in 1QFY19 was largely impacted by an exceptionally weak performance in JLR for Tata Motors, resulting in a miss at the EBITDA level (by ~9%) and the PAT level (by ~35%).
- Excluding JLR, the operating performance at the aggregate sector level was in-line (beat of 1.1% at EBITDA level). However, lower other income (due to MTM impact of higher G-Sec yield on treasury) and higher tax (due to lower other income and waning of tax incentives like R&D benefit and area based tax holidays) resulted in adj. PAT surprising negatively (by ~13.4%).
- RM cost inflation was marginally higher than estimated, but it was fully offset by the benefit of operating leverage. As a result, the EBITDA margin for OEMs was at ~14%, implying an expansion of ~220bp YoY (+80bp QoQ).
- Weak operating performance for select companies was largely due to either a weaker mix (AMRJ, BJAUT, TTMT), RM cost inflation (AMRJ, HMCL, TVSL), or weak market/high competitive intensity (BJAUT, TTMT).
- The impact of RM cost inflation and a weaker INR would continue to reflect in 2HCY19. Most of the OEMs have been trying to pass-through the impact of higher cost inflation by taking price increases, though with a lag.

Auto sector performance was dragged by JLR, lower other and higher tax; Auto (ex TTMT) operating performance was in-line

INR m	Actual	Estimate	Var (%)
Auto Aggregate			
Revenues	1,611,755	1,642,913	-1.9
EBITDA	190,269	208,962	-8.9
EBITDA Margins (%)	11.8	12.7	-90bp
PAT	61,903	95,482	-35.2
Auto Aggregate (ex TTMT)			
Revenues	940,942	952,048	-1.2
EBITDA	135,963	139,717	-2.7
EBITDA Margins (%)	14.4	14.7	-30bp
PAT	80,927	86,955	-6.9

2W segment disappointed on operating performance, CVs surprised positively, whereas PV performance was in line



Sector: Key surprises and guidance

Sector-wise positive/negative surprises and guidance highlights

AUTO

Positive/negative surprises

- ✓ **Ashok Leyland:** Above-estimate; price hikes and a better mix drive gross margin of 30.45 (v/s est. of 28.2%).
- ✓ **Escorts:** Above-estimate; healthy growth across segments – Tractors grew by 25%, CE by 50% and Railway by 35%.
- ✓ **MSIL:** In-line op. performance; EBITDA margin at 14.9% v/s est. of 15.2%; other income drags PAT growth to 27% YoY (at INR19.7b v/s est. of INR23b).
- ✓ **MM:** In-line. Auto PBIT margin shrank ~130bp QoQ (+240bp YoY) to 9.4%. Tractor EBIT margin improved ~140bp QoQ (+360bp YoY) to 20.9%.
- ✓ **Eicher Motors:** Op. performance in-line; strong margins in RE at 32.35 (est. of 31.7%) and VECV at 9.2% (est. of 8%).
- ✓ **Hero MotoCorp:** EBITDA margins below estimate at 15.6% (est. of 16%) led by adverse mix; higher RM cost dent performance.
- ✓ **Bajaj Auto:** EBITDA margin at 17.3% (est. of 19.5%), impacted by adverse product mix, RM inflation, lower spare sales and high employee cost.
- ✓ **Tata Motors:** Below-estimate. JLR records all-time low margins of 6.2% (est. of 10.4%). S/A - solid performance in CV; PV near EBITDA break-even.
- ✓ **TVS Motors:** Margins disappoint once again. RM inflation and Ind-AS accounting change impact realizations and margins.
- ✓ **Exide:** Operating performance better than expected; EBITDA margins in-line at 14.1% and PAT in-line at INR2.1b.
- ✓ **Motherson Sumi:** Below est. Weak SMP margins drag consol. EBITDA margin. Sharp improvement in PKC margins was a positive, though.
- ✓ **Amara Raja:** Below-estimate. Revenues growth healthy. Product mix and RM inflation lead to decade-low EBITDA margin of 12.4% (est. of 14.6%).

Guidance highlights

- **Ashok Leyland:** M&HCV industry likely to grow 8-10% in FY19. ~50-60% of volumes will not get impacted by an increase in axle norms.
- **Escorts:** Domestic tractor industry to grow at 12-15% (v/s 9-11% earlier) in FY19, and ESC to outperform led by new product launches.
- **MSIL:** Expects 8-9% growth for industry in FY19, with MSIL continuing to grow faster. Retails in rural markets grew 15% in 1QFY19.
- **MM:** Expects tractor industry to grow 12-14% in FY19 (v/s 8-10% growth earlier). Expect new axle load norms to impact near-term CV demand.
- **Eicher Motors:** Supply is now aligning with demand, with waiting period of <1 month. Higher-priced variants form ~50% of bookings.
- **Hero MotoCorp:** Indicates double-digit growth for 2W industry in FY19, driven by continued momentum in rural markets. Not perturbed and not participating in price competition in the economy segment.
- **Bajaj Auto:** Targets total sales of 4.8m units in FY19 (+20%); targets 45-50% market share (v/s 35% currently) in M1 segment led by CT100.
- **Tata Motor:** Expects higher sales growth and improved profitability in balance of FY19 due to receding impact of one-offs.
- **TVS Motors:** Expects industry to grow at 10-12% in FY19, with TVSL expected to grow faster. Not to react to price discount in entry-level 2W.
- **Motherson Sumi:** No impact of WLTP from Sep-18 – no customer yet has indicated a decline in production volumes.
- **BOSCH:** BOS is acquiring market share with OEMs in 2Ws. 2Ws will play a prominent role in BOS' future growth opportunity.
- **Bharat Forge**: Outlook for both US Class 8 trucks and India CV positive. Expects strong ramp-up in defense and aerospace from 2QFY19.
- **Endurance**: Witnessing huge growth in rear disc brake, with revenue potential from this segment expected to be larger than ABS.
- **CEAT**: Expect further RM cost inflation in 2QFY19 by 2-3% QoQ, which would be mitigated by price increase of ~1% in 2Q.

Sector-wise positive/negative surprises and guidance highlights

CAPITAL GOODS / INFRASTRUCTURE

Positive/negative surprises

- **Bharat Electronics:** Beat on all fronts. Revenue above estimate by 13%, EBIDTA above estimate by 88% and PAT above estimate by 79%. Better-than-estimated execution of better-margin orders led to above-estimated performance for the company.
- **BHEL:** Revenue in line with estimates, EBIDTA ahead of estimates by 69% and PAT ahead of estimate by 48%. EBIDTA and PAT beat was on account of execution of supercritical equipment orders, where BHEL has improved indigenization level and has reduced sourcing cost leading to margin improvement.
- **Blue Star:** In-line revenue, beat at EBIDTA/PAT level by 49/32% on account of 230bp improvement of margin in EMP segment led by higher volumes and execution of better-margin orders.
- **Crompton Consumer:** Beat at EBIDTA and PAT level by 11 and 14%, respectively. Beat mainly supported by a better revenue mix and cost-rationalization measures taken by the company over the last two years.
- **GE T&D:** Beat on revenue by 10%, on EBIDTA by 37% and on PAT by 86%. Beat driven by closure of multiple projects and better-margin projects getting executed during the quarter.
- **Thermax:** Miss on all fronts. Revenue below estimate by 7%. EBIDTA miss of 33% and PAT miss of 23%. Below-estimated performance was on account of a weak performance on the overseas subsidiaries front, mainly Danstocker and Thermax Europe Limited.

Infrastructure

- **KNR:** Strong beat on all parameters. Revenue growth of 16% (v/s estimate of 1.1%), driven by speedy execution of projects in hand. EBIDTA beat was 49% and PAT beat was 78%. Profitability beat was on account of execution of better-margin irrigation projects and closure of multiple road projects which led to better-than-expected margins.
- **Sadbhav Engineering:** Miss on all fronts. Revenue miss of 17% and PAT miss of 15%. Revenue miss on account of weaker-than-estimated execution of projects in hand. PAT miss was on account of negative operating leverage.

Guidance highlights

- **L&T maintains guidance on all fronts.** 10-12% growth in order inflow and 12-14% revenue growth for FY19. Expects 25bp margin expansion (excluding Services and IDPL).
- **KKC maintains its overall guidance for FY19.** 8-10% domestic business growth and 0-5% export growth in FY19.
- **KNR maintains its** revenue guidance of INR20b (4% growth) for FY19, with operating margin of 14-15%.

Sector-wise positive/negative surprises and guidance highlights

CEMENT

Positive/Negative surprises

- × **Dalmia Cement:** Below estimate; blended EBITDA/t stood at INR 1162 marginally lower than est of INR 1,184 due to higher than estimated cost
- × **Ultratech:** Below estimates; while volumes grew 33% YoY with JPA operating at 70% utilization, EBITDA/t remained stable QoQ at INR928 lower than est. of INR950 due to lower-than-estimated realizations
- × **India Cement:** Below estimates; EBITDA/t stood at INR 508 lower than est. of INR 558 due to lower than estimated realizations
- × **Shree Cement:** Below estimate; with volume growth of 19%YoY and realizations in line with est, EBITDA/t stood at INR 763 lower than est of INR 934 due to a forex loss of INR700m as also cost push
- × **Ramco Cements:** Below estimate; realization miss along with higher than estimated cost on account of higher power and fuel and freight cost/t resulted in EBITDA/t of INR 899 lower than est of INR 1,045
- ✓ **ACC:** Above estimates; Cement realizations stood at INR4,872/t higher than estimate of INR 4,731/t due to a higher proportion of premium sales (+44% YoY) resulting in EBITDA/t of INR 922, higher than est of INR 698.
- × **Birla Corporation:** Below estimates; consol EBITDA/t stood at INR 701 lower than estimate of INR 744 due to lower than estimated realizations as also cost push
- ✓ **Ambuja Cements:** Above estimates; while volumes were in line; realization beat (better pricing in East and higher sales of premium products) and cost savings led to EBITDA/t of INR971 higher than our estimate of INR776.

Guidance highlights

- Demand to be favorable in the coming years due to housing, infra and irrigation projects.
- With no capacity additions coming up for the next 18-24 months in the North, utilization should improve, leading to better prices, and thus, better realizations. With the sand mining ban lifted in many states like UP, Bihar and Tamil Nadu, significant traction is expected from the central and southern regions.
- Recent increase in petcoke prices likely to affect power & fuel cost. Additionally, an increase in diesel prices would further raise freight cost. With 2QFY19 being a weak quarter due to monsoon, profitability would continue to suffer for the companies due to negative operating leverage.

Sector-wise positive/negative surprises and guidance highlights

CONSUMER

Positive /Negative surprises

- ✓ **HUVR:** Broad based double-digit comparable growth led by volumes; operating margins continue to expand (+180bp YoY in 1QFY19).
- ✓ **ITC:** Cig volumes (~1% growth YoY) marginally exceed estimate, margins surprise positively; FMCG – Others post EBIT of INR501m.
- ✓ **APNT**: Operating performance in-line, with double digit domestic deco. volume growth.
- × **BRIT:** Performance below estimates but delivers double-digit volume growth. Operating margin expands 80bp YoY to 15.3% in 1QFY19.
- ✓ **PAGE:** Overall volumes grew 9% YoY; operating margins expand 360bp YoY but fair valuations limit upside. Downgrade to **Neutral**.
- × **EMAMI:** Miss on all accounts. Domestic volumes grew just 18% YoY (on low base of 18% decline). EBITDA margin expanded 490bp YoY.
- × **PIDI:** Underlying volume & mix grew 20%, in-line with estimates. Op. margins (-20bp YoY) dragged by gross margin contraction (-120bp YoY).
- ✓ **UBL:** Volumes grew healthy 23% ahead of the industry. Surprises with all-time high EBITDA margin of 21.5%.
- × **FCL:** Miss on all fronts; loss in PAT level continues.
- × **CLGT:** Volumes disappoint again at 4% growth; toothpaste market share saw continued contraction at 190bp YoY and 100bp QoQ.
- × **DABUR:** Volume growth at an all time high (21%) on a low base; high ad-spends restrict margins; downgrade to **Neutral** on fair valuations.
- ✓ **MRCO:** Performance largely in-line; EBITDA margin contracts 180bp YoY as gross margin shrinks 550bp YoY led by a 40% rise in copra cost.
- × **UNSP:** Disappointing quarter despite soft base. Prestige & Above volumes grew 13.1% YoY. Reported EBITDA margin expanded 180bp YoY.
- ✓ **GCPL:** In-line quarter with decent growth across categories; operating margin up 210bp YoY, led by gross margin expansion (+230bp YoY).
- ✓ **NEST:** Operating performance above estimate led by strong gross margins (+460bp YoY) due to benign commodity costs.
- ✓ **JYL:** Moderate performance given a low base; gross margins contract sharply while operating margin expanded 240bp led by cost savings.
- ✓ **GSKC:** Operating performance above expectations (EBITDA margin expanded 390bp); PAT saw beat on account of a 75% rise in other income.

Sector-wise positive/negative surprises and guidance highlights

CONSUMER

Guidance highlights

- **HUVR:** Management seeing gradual improvement in demand.
- **APNT**: Some disruptions are expected in the trade channels due to GST rate reduction.
- **BRIT**: Demand environment is seeing an uptrend.
- **PAGE**: Proportion of outsourcing is likely to be at 30-35% by FY19 and 40% by FY20.
- **EMAMI:** There are no plans to take any further price hikes. Capex is likely to be in the range of INR0.8-1b.
- **PIDI**: Focus will be on achieving volume growth of 14-15% in the Consumer Bazaar segment for the full year.
- **Dabur:** Double-digit volume growth is likely in domestic business for full year. Gross margin is unlikely to expand for the rest of the year.
- **MRCO:** Management is targeting volume growth of 8-10% for the full year.
- **GCPL:** Management expects rural business to continue growing faster than urban.
- **JYL**: There has been an improvement in the demand scenario compared to the previous two years, led by rural.
- **GSKC**: Confident of mid-to-high-single-digit category volume growth over the medium term.

Sector-wise positive/negative surprises and guidance highlights

Financials - Banks

Positive/Negative surprises

- ✓ **ICICIBC:** ICICIBC reported a sharp improvement in coverage ratio which led to a miss on net earnings. The bank remains committed to achieve 70% PCR and bulk of the improvement is likely to be front-ended.
- ✓ **AXSB:** Net earnings stood largely inline aided by controlled slippages and sustained growth in retail fees. However rating downgrades resulted in an increase in the vulnerable asset pool to 122.4b (+34% QoQ)
- ✓ **KMB:** Net earnings missed estimates on account of elevated provisions as KMB guided for increasing stress in the business banking/SME segment.
- ✓ **IIB:** Earnings stood inline led by controlled opex despite slight margin pressure. C/I ratio thus moderated 80bp QoQ and is expected to moderate further.
- ✓ **RBL:** NIM's expanded 6bp QoQ (one of the very few banks to report NIM expansion) which coupled with strong fee growth enabled inline earnings. RBL further provided on its MFI portfolio taking the PCR up by 284bp QoQ to 60.4% even as the credit cost in rest of the portfolio has moderated.
- ✓ **YES:** Reported earnings stood inline led by strong revenue growth even as margins declined 10bp QoQ. However the bank amortized MTM losses as allowed by the RBI adjusted for which the net earnings stood below our estimates.
- ✓ **SBI:** SBI reported loss of ~INR49b as it recognized the entire MTM losses during the quarter. Fresh slippages though moderated with 91% of corporate slippages coming from the watchlist and outlook on asset quality is improving. SBI holds 71% provision on NCLT exposure and is expecting write backs here.
- ✓ **BOB:** Net earnings stood largely inline though NCLT related recoveries aided margin expansion. SMA-2 advances declined 25bp QoQ to 0.94% of the loans and asset quality outlook is getting better

Sector-wise positive/negative surprises and guidance highlights

Financials - Banks

Guidance highlights

- **ICICIBC :** Aims to reach 70% PCR by FY20 and much of the improvement in the PCR will happen in FY19. Bank guided for 15% ROE by June'20.
- **AXSB:** Rating downgrade cycle has normalized and credit cost should revert to mean levels from 2HFY19 levels.
- **KMB:** Management sounded cautious on the SME/business banking segments and cited risks from the inflated collateral value. Corporate loan growth of 20-25% should be sustainable. Bank is planning to add 100 branches in FY19.
- **IIB:** NIMs will stabilize going forward as the re-pricing of the loan book happens over the next six months. Opex growth will be controlled due to various digital initiatives taken in the past.
- **RBL:** RBL guided for further provisions toward the balance one-third stressed MFI loans over 2Q/3Q; bank guided for 1.5% ROA for FY20E and 40-45bp of tier 1 capital consumption per quarter.
- **Yes:** Management guided for ~20/25bp improvement in margins till 1HFY20, ~30% - 40% CASA growth; CI ratio to be in the range of 39% to 40%.
- **SBI:** Management guided for 12% loan CAGR until FY20E, 2% guidance for slippages and credit cost; planning to sell stake in three of the subsidiaries in the coming quarters; ROA target by FY20: 0.9% to 1%
- **BoB:** Rundown in the international book is likely to continue; BOB is planning to raise INR60b over and above the government infusion.

Sector-wise positive/negative surprises and guidance highlights

Financials - NBFC

Positive/Negative Surprises

- ✓ **BAF:** BAF reported PAT of INR8.36b under Ind-AS accounting (INR10.2b (+69% YoY) under IGAAP v/s our estimate of INR8.7b). The quarter was marked by continued new client addition (+33% YoY), improving spreads YoY and stable asset quality. Due to migration to Ind-AS reporting, FY17 networth declined ~6%, mostly due to amortization of up-fronted income (net basis INR7.97b, pre-tax) and hit due to adoption of ECL (INR2.7b pre-tax).
- ✓ **CIFC:** 1QFY19 PAT grew 36% YoY to INR2.9b (under Ind-AS). Disbursements increased 45% YoY to INR70b, driven by 48% YoY growth in vehicle finance (VF) and 27% YoY growth in home equity (HE). However, margin in VF compressed 130bp YoY to 6.9%, driven by a 90bp decline in yields.
- ✓ **MMFS:** MMFS reported PAT of INR2.7b (+34% YoY) under Ind-AS. Continuing the trend of the prior quarter, value of assets financed grew 35% YoY to INR103b. For the first time since 2012, disbursement growth has been above 30% for two consecutive quarters. Consequently, reported AUM grew 7% QoQ/23% YoY to INR587b. Gross stage 3/net stage 3 loans declined YoY from 14.5%/9.3% to 9.4%/6.3%.
- ✓ **LTFH:** 1QFY19 PAT grew 71% YoY to INR5.4b (our estimate under IGAAP was INR4.1b), driven by strong AUM growth (+27% YoY) and flat credit costs during the quarter. The focused loan book grew 27% YoY to INR854b. In the Infra portfolio, LTFH took the entire Expected Credit Loss on its legacy stressed portfolio (INR18b) and adjusted against FY17 reserves.

Guidance Highlights

- ✓ **SHTF:** AUM growth to be 18%+ YoY, going forward. Margins to be stable. Credit costs to decline 50-70bp in FY19.
- ✓ **MMFS:** Targeting 7% GNPL ratio by end-FY19. AUM growth to remain 17-18% if monsoons are good. Credit costs could decline below 2% in FY19.
- ✓ **CIFC:** Expects 18-20% YoY growth in overall loan book over the medium term. PAT growth should be in line with AUM growth.
- ✓ **LTFH:** Credit costs in housing finance should decline to 1% in the near term. Growth in rural lending to slow down from 2Q due to higher base.
- ✓ **BAF:** Expect AUM growth of 25%+ over the medium term. Expects ~40% C/I ratio in FY19.

Sector-wise positive/negative surprises and guidance highlights

HEALTHCARE

Positive/negative surprises

- ✓ **AJP:** Performance exceeded expectation due to strong domestic formulation sales and Asia branded generic sales.
- ✓ **BIOS:** Earnings better than estimates. Healthy sales growth and lower R&D spend drive earnings.
- ✓ **CIPLA:** Operationally in line; one-offs in other income boost profitability.
- ✓ **DRRD:** Above expectations. Better product mix and improved leverage led earnings for the quarter.
- ✓ **GLXO:** Better-than-estimates. Low base and improved margins drive earnings growth.
- ✓ **GRAN:** Earnings better than estimates. Revenue growth, and higher income from JVs and other sources drive profitability.
- ✓ **JLS:** Results in-line. Improved operating efficiency in the pharmaceuticals business led to 36% YoY growth in earnings.
- ✓ **SANL:** Results better than estimates. Increase in volumes and new launches led to strong revenue growth. Stable operating cost improved margins by ~480bp YoY.
- ✓ **SUNP:** Higher-than-expected US revenues led to healthy growth. Margins remained stable sequentially.
- ✓ **SLPA:** Revenues in-line. Operationally better than expected due to significant expansion in gross margin. However, higher depreciation cost on increased capacity utilization of formulations facility led to slower growth in earnings.
- ✓ **TRP:** Beat on EBITDA margin drove better-than-expected earnings.

- × **ALKEM:** Earnings miss due to deferred domestic formulation sales.
- × **ALPM:** Earnings below estimates. Change in product mix and increased operating expenses led to lower-than-expected profitability.
- × **ARBP:** Lower gross margin leads to earnings miss.
- × **CDH:** Lower-than-expected US sales impacted revenues; margins too came in below expectation due to higher raw material prices (negative).
- × **DIVI:** In-line operational performance. Higher depreciation and lower other income led to lower-than-expected earnings.
- × **GNP:** In-line operating margin; PAT decline capped by higher other income.
- × **IPCA:** In-line operational performance. Higher other income and lower tax rate led to better-than-expected earnings.
- × **LAURUS:** Earnings below estimates. Though sales were in line, increased raw material process impacts profitability.
- × **LPC:** Miss in revenues, supply constrains increase raw material prices impacting margins.
- × **STR:** Revenue in line. Australia and US drove growth, offset by Africa and Institutional business. Better operating efficiency was offset by high depreciation, lower other income and loss in JV/associates.

Sector-wise positive/negative surprises and guidance highlights

HEALTHCARE

Guidance highlights

- **SUNP maintains** guidance of low double-digit growth in FY19 revenue. There could be increased operating expenses associated with the launch of specialty products and higher R&D spends.
- **LPC** has guided for single-digit growth in revenue; it lowered EBITDA margin guidance by 1% to 18-20% for FY19. Company is on track regarding its warning letter resolution. It has sent last update to the US FDA in July, post which it will have a discussion with the US FDA and invite for inspection.
- **CIPLA** guided for 15 product launches in the US in FY19. It expects R&D expense to increase with the start of Advair clinical trials, but it should not exceed ~8% of sales. Gross margin to improve with new launches in the US and reduced share of B2B products.
- **BIOS:** On Biologics sales of ~36m in 1QFY19, BIOS maintained its guidance of USD200m in FY19. Trastuzumab and Pegfilgrastim filings for the EU market are on track and would be presented to Committee for Medicinal Products for Human Use (CHMP) in CY18.
- **STR** on track to bring 50% of the partnered business in the US to own front-end by FY19. Due diligence in progress for the merger of Arrow and Australia
- business of Apotex. The transaction is under review by Australia Competition and Consumer Commission (ACCC).
- **GNP** guided for ~15 ANDA filings over the next two years from Monroe facility. Breakeven of investment in Monroe facility would be by FY21. GNP guided for ~15% CAGR in Latin America over 2-3 years.
- **CDH:** Though US sales were lower for the quarter, CDH is confident of exceeding FY18 US sales of USD~900m in the current year, led by product launches and increased traction in existing products.
- **DRRD:** DRRD is expected to submit a response on g-Copaxone in a few weeks, and expects to launch in 2HCY19. DRRD has requested USFDA for inspection at Duvvada. Data investigation and analysis at Srikakulam site are expected to be completed by Sep'18.
- **ARBP:** Although 1QFY19 US injectable sales were subdued, ARBP remains confident to grow by 30% YoY on USD163m sales in FY18. ARBP remains confident to grow its US business in FY19.
- **TRP** is on track to reduce the attrition rate of field force acquired from Unichem and improve brand sales and productivity. After two launches in the US in 1QFY19, TRP is confident of launching 15 ANDAs in FY19.

Sector-wise positive/negative surprises and guidance highlights

HEALTHCARE

Guidance highlights

- **ALKEM:** Domestic business to grow at mid-teens in medium term. ALKEM guided for 8-9 launches in the US market.
- **ALPM:** ALPM has guided for 15 product launches in FY19 in the US market (launched one in 1QFY19). Oncology facility is complete and onco injectable and general injectable facility will be complete by 2HFY19.
- **DIVI:** Lower remediation related cost to continue to drive profitability. Revenues from Unit 1 to improve in coming quarters.
- **JLS:** JLS guided for better traction in specialty pharma on higher radio pharma business. New launches, favorable pricing and expanded capacity to drive Life Science Ingredient segment performance.
- **SLPA:** ANDA approvals to drive strong growth in earnings.
- **AJP:** maintained the guidance of subdued FY19 performance compared to that in FY18.
- **GRAN:** GRAN expects share of income from JV to be ~INR400m in FY19; Guided for revenue of INR1b in FY19 and INR2.5b in FY20 from the US market
- **SANL:** Expects healthy growth in existing brands. New launches to drive growth in CY19.
- **GLXO:** Product diversification and increased in-house manufacturing to drive revenue as well as profitability.
- **IPCA:** Low base to benefit domestic formulation business. With lower remediation cost, EBITDA margin should expand 200bp in FY19.
- **LAURUS:** Backward integration initiatives to aid better margins from 3QFY19.

Sector-wise positive/negative surprises and guidance highlights

MEDIA

Positive/negative surprises

- ✓ **Zee Entertainment:** In-line. Strong 22% growth in domestic ad revenue growth drove 50bp uptick in EBITDA margin to 31.9% (est. 31.8%).
- ✓ **SUN TV:** Above-expectations. Robust IPL revenue growth of 1.7x led to overall revenue/EBITDA beat. Ad revenue grew at a healthy 20% (in-line), but subscription revenue growth of 15% marginally missed estimates.
- ✓ **Jagran Prakashan:** In-line. Ad/circulation revenue was flat; drop in circulation copies and use of old (low-priced) inventory restricted EBITDA margin contraction to 15bp at 27.1%.
- × **D B Corp:** Below expectations. Despite healthy ad/circulation growth, a steep (28%) rise in newsprint cost pulled down EBITDA margin to 26.6% (estimate: 29.8%).
- ✓ **Music Broadcast:** In-line. Higher contribution from new (phase-III) stations led to 290bp expansion in EBITDA margin to 34.4%.
- ✓ **ENIL:** Above expectations. Low base and higher contribution from new (phase-III) stations led to 16% EBITDA beat.

Guidance highlights

- **Zee Entertainment:** FY19 ad growth to be higher than industry growth (12%); subscription growth likely to be in low teens. Maintains 30%+ margin guidance. Malayalam channel to be launched by Sept-18.
- **SUN TV:** Expects to launch 2nd GEC channels in TN/AP market; new channel in Bengal market before end-FY19. TN market still has ~8m analog subscribers who are yet to be digitized.
- **Jagran Prakashan:** Expects 8% print ad revenue growth for FY19; 4-5% circulation revenue growth; 12-13% rise in newsprint cost.
- **D B Corp:** Circulation revenue for FY19 to grow in double-digit. FY19 newsprint cost to be ~20% higher.
- **Music Broadcast:** Management expects 12-15% revenue growth in FY19.
- **ENIL:** Expects to grow ahead of radio industry (10-12%). Remaining 16 of 21 batch-2 - phase III stations to be launched by mid-3QFY19.

Sector-wise positive/negative surprises and guidance highlights

METALS

Positive/negative surprises

- ✓ **Tata Steel:** Margins in Europe expanded sharply. Losses at raw material and other subsidiaries on forex movement.
- ✓ **JSW Steel:** Strong performance on healthy increase in steel product spreads and minimum impact of iron ore imports.
- ✓ **Hindalco:** Expansion in EBITDA per ton QoQ was 64% more than increase in LME. Novelis benefited from tailwind of recycling spreads.
- ✓ **Vedanta:** Aluminum continues to suffer from cost inflation, stoppage of copper smelter and iron ore mines in Goa. CoP at Zinc-int remains very high.
- ✓ **Nalco:** Historically best operating performance was driven by high alumina prices.
- ✓ **NMDC:** Dispatches suffered as its largest customer i.e. JSW Steel resorted to imports unhappy over domestic pricing in Karnataka.
- ✓ **Hind Zinc:** Cost of production remains elevated.

Guidance highlights

- **Tata Steel:** Expect margin compression in 2Q on some correction in steel prices and stable cost of production.
- **JSW Steel:** Volume growth would be muted in FY19. All five captive iron ore mines are likely to be commissioned in FY19. Steel realization would be lower in 2Q on seasonal factors.
- **Hindalco:** India aluminum cost of production will increase by 3-4% in 2Q on input cost inflation. Copper production will remain low again in 2Q due to spillover of maintenance shutdown. Novelis to deliver 2% volume growth and incur USD450m capex in FY19.
- **SAIL:** Volume guidance of ~17mt for FY19, skewed in second half. Expect INR40b capex.
- **Vedanta:** Zinc India – mine production to be slightly higher in FY19, with the targeted 1.2mt rate likely in FY20. Silver production to be 650-700t and CoP to be USD950-975/t in FY19 (v/s USD976 in FY18). Zinc International – Gamsberg producton start delayed to Oct 2018. Production volume guidance of ~100kt in FY19 and 250kt in FY20.
- **Nalco:** Outlook strong on higher alumina prices. Captive coal mine to start sometime in FY19/20.
- **JSPL:** Steel production of 6mt in FY19.

Sector-wise positive/negative surprises and guidance highlights

OIL & GAS

Positive/negative surprises

- **Marketing segment shines for OMCs:** Shoving aside the worries of the investors in a high crude oil environment, all the OMCs reported an improvement in their marketing margins inclusive of inventory gains. Core refining margins were, however a disappointment for all refining companies. However, strong inventory gains resulted in profit ahead of estimates. Companies have guided that marketing margins are likely to stay strong going forward.
- **Petrochem shines for all:** Led primarily by highest product deltas for PET in the last decade, RIL reported petrochemical EBITDA much ahead of estimates. Petrochemical EBITDA/mt has improved sequentially for IOCL as well. GAIL also showed improvement in its petrochemical segment.
- **Gas stocks, all the way up:** All gas stocks reported good operating performance as well as good EBITDA/PAT. IGL topped its peers with impressive 13% volume growth and stable EBITDA/scm, while GUJGA reported a sharp increase in its EBITDA/scm. GAIL improved its trading volume sharply due to commencement of new overseas long-term contracts from the US and Gazprom. Gujarat State Petronet also reported increase in transmission volumes in the quarter. As the focus on pollution increases and government comes up with more initiatives for usage of gas, we expect to see the gas stocks doing well.
- **Muted upstream performance:** ONGC witnessed a 3.5% YoY decline in its oil production and a 3% YoY increase in gas production. It expects ~10% increase in gas production going forward, while oil production is expected to remain flat. Oil India reported flat YoY oil production and a decline of 4% YoY in its gas production.

Key actionable

- Expect high utilization for Petronet to continue. Low LNG prices would also help. Near-term triggers on completion of Kochi-Mangalore pipeline, Dahej expansion would help the stock further.
- IGL would clock 12% CAGR in volume for FY18-20 and EBITDA/scm at INR5.9 for FY19/20. Volume growth is expected to continue. Remains one of our top picks.
- Post the Karnataka elections, OMCs have been gradually increasing retail prices. We believe that attractive valuations offer opportunity to add OMCs. Positive on all OMCs, with preference for Indian Oil.

Sector-wise positive/negative surprises and guidance highlights

RETAIL

Positive/negative surprises

- ✓ **Titan:** Jewellery business saw further market share gains (segment sales grew 6.3% YoY); Watches EBIT margin expanded sharply (+900bp).
- ✓ **Jubilant Foodworks:** Strong SSSG delivered at 25.9%; gross margin contracted 180bp YoY, while EBITDA margin expanded 490bp YoY.

Guidance highlights

- **Titan:** 1QFY19 sales miss versus expectations of 14-15% means that full-year growth may be ~22-23% for the jewellery business, as the company maintained its earlier target for the remaining nine months.
- **JUBI:** Store addition likely to accelerate from 2QFY19. JUBI aims to add 75 stores in FY19.

TELECOM

Positive/negative surprises

- ✓ **Bharti Airtel:** In-line. India wireless business impact subsides as ARPU decline gets offset by Telenor biz. contribution. ARPU fell 9% to INR105 (est. of INR112).
- ✓ **Bharti Infratel:** In-line. Rental EBITDA margin expanded 115bp QoQ. However, 730bp contraction in energy EBITDA margin (due to seasonality) dragged consol. margins to 41.1% (-210bp).
- ✓ **Tata Communications:** In-line. Data EBITDA margin at 16.8% (v/s est. of 17.2%), impacted by subdued transformation and payment business.
- × **Idea Cellular:** Below expectations. Adjusted for one-offs in 4QFY18, EBITDA fell 35%, impacted by double whammy of ARPU decline and higher opex.

Guidance highlights

- **Bharti Airtel:** FY19 capex guidance maintained at INR270b. Targets to have ~2m incremental FTTH home-passes in FY19.
- **Idea Cellular:** Vodafone-Idea merged operations to be effective from Aug-18. ~INR3.5-4b annualised EBITDA from tower business will not form part of FY19 consol. EBITDA.
- **Bharti Infratel:** Expects Bharti Infratel-Indus merger to get concluded by Mar-19.
- **Tata Communications:** Expect ~35% YoY increase in Growth segment revenue for FY19. Capex guidance for FY19 maintained at USD250-275m. Expect land de-merger to get completed in CY18.

Sector-wise positive/negative surprises and guidance highlights

TECHNOLOGY

Positive/Negative Surprises

- × **INFO:** After having cut its margin guidance by 100bp to 22-24% last quarter, there was no upward revision despite favourable currency movement QoQ (~4.5% depreciation). Flattish FS (QoQ CC) was a disappointment.
- × **WPRO:** WPRO's performance remained lop-sided, continues to be led by BFSI (+14% YoY CC), while four out of the remaining six verticals declined YoY.
- ✓ **TCS:** TCS' 3.7% QoQ CC growth in BFSI was a positive, demonstrating long-awaited revival within the segment. It announced deals worth TCV of USD4.9b, of which USD1.6b came from BFSI.
- ✓ **MTCL:** MTCL's revenue growth of 8.2% QoQ was positive surprise to our already high estimate of 5.1% : Dollar revenue growth in 2Q is expected to marginally lag growth of 1Q (+6.8% QoQ) – even 5% QoQ growth in 2Q would translate into 23% YoY growth.

Guidance highlights

- **TCS** cited that it remains on track for double-digit growth. This was substantiated by its strong deal wins, recovery in BFSI and inching up of YoY growth every quarter..
- **CTSH** guided for 8.4-10% growth in CY18. It retained its guidance this quarter, even though growth was at the lower end of the guided band.
- **INFO** FY19 guidance of 6-8% was unchanged, and also the margin guidance for the full year (EBIT margin of 22-24%).
- For **WPRO,** although the guidance of 0-2% QoQ CC for 2QFY19 failed to enthuse, it implies a stemming of the downward trend on a YoY basis (2.6-4.7% YoY CC for 2Q v/s 2.6% YoY CC achieved in 1Q).
- For FY19, **HCLT** guided for CC revenue growth of 9.5-11.5%. At the midpoint of 10.5%, 5.25% would be the contribution of inorganic growth. This remained unchanged despite the best ever quarter of deal wins and two out of last three quarters have been significant on that front.

Sector-wise positive/negative surprises and guidance highlights

UTILITIES

Positive/negative surprises

- **Power Grid:** It was a dull quarter from the perspective of capitalization, while capex remains strong.
- **NTPC:** Underlying performance was impacted by fixed charge under-recovery, which has started shrinking.
- **NHPC:** Lower availability of water impacted generation. Wage bill benefitted from 656 retirements.
- **TATA Power:** Spike in interest cost despite peaking of debt; Indonesia's regulation to cap coal prices at 25% of production will impact hedge equation for Mundra under recoveries. Regulated equity declined 10% in Mumbai as unit-6 was taken out of service on expiry of PPA.
- **CESC:** Standalone performance impacted by absence of tariff hike; Spencer returns to growth.
- **JSW Energy:** Lower hydro generation drives operating weakness; But saving in interest cost drives PAT growth.

Guidance highlights

- **Power Grid:** Maintains full-year capitalization guidance of INR280b-300b for FY19 (including TBCB).
- **NTPC:** Targets commercialization of ~5GW in FY19 and expect fixed cost under-recoveries to disappear by year-end.
- **NHPC:** Recently commissioned 330MW Kishanganga hydro project will add INR17b to regulated equity, but it will have PAT breakeven initially pending approval of revised project.
- **Tata Power:** Focusing on renewable and distribution space for growth.
- **CESC:** Expect approval from regulator for demerger of Kolkata distribution and generation business by September 2018.
- **JSW Energy:** Expect lower water flow due to hydrology; plans to commission 200MW solar plants ; capex in EV will be lower than past guidance of INR10b.

Sector highlights

AUTO: RM inflation dents margins, healthy growth outlook across OEMs in FY19

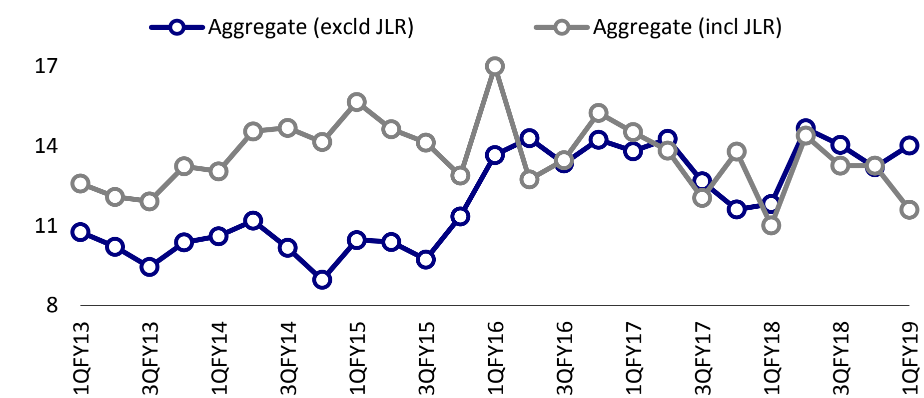
Summary

- **Strong growth in rural markets, low base drive volumes:** In 1QFY19, the auto industry witnessed robust demand across segments, led by (a) strong growth in rural markets driving PV and 2W demand, (b) healthy infrastructure activity supporting CV demand and (c) a relatively low base (GST impact). In FY19, demand momentum is expected to remain intact, as most OEMs are indicating 8-10% demand growth across segments, while tractor industry is expected to grow at 12-14%.
- **Fourth consecutive quarter of EBITDA margin expansion (ex JLR):** In 1QFY19, the EBITDA margin expanded 220bp YoY to 14% for our Auto Universe (ex JLR), as the impact of higher RM costs was offset by price hikes and operating leverage. Margins in 1QFY18 were impacted by GST-related compensation to dealers. All auto OEMs (ex JLR, HMCL and BJAUT) witnessed margin expansion, particularly TTMT S/A (+9.2pp), AL (+3.2pp) and MM (+2.6pp). JLR margin shrank 1.7pp YoY (-7.3% QoQ). On a QoQ basis, EBITDA margin expanded 80bp (ex JLR), primarily led by operating leverage.
- **RM cost inflation partially mitigated by price hikes:** RM cost (as % of sales) rose 50bp YoY (+70bp QoQ) to 69.5% for our Auto Universe. However, the impact was partially mitigated by price hikes. Sales mix impact remained mixed for companies under our coverage. While most OEMs indicated partial pass-through of higher RM costs, further price hikes are likely to follow in 2QFY19 to cover incremental costs.
- **EPS downgrade for BJAUT, MSS, TTMT and TVSL:** We lower FY19/20 earnings estimates for BJAUT (10%/11%), MSS (13% each), TTMT (25%/15%) and TVSL (12% each). We cut FY19/20E earnings for MSIL by 8%/5% and for CEAT by 6%/5%.
- **Top picks:** We prefer PVs over 2Ws and CVs due to stronger volume growth and a stable competitive environment. Our top picks are MSIL, EIM and MSS among large caps. Among midcaps, we prefer AL, ENDU and EXID.

Trend in key operating indicators

	Volumes ('000 units)			EBITDA margins (%)			Adj PAT (INR M)		
	1QFY19	YoY (%)	QoQ (%)	1QFY19	YoY (bp)	QoQ (bp)	1QFY19	YoY (%)	QoQ (%)
BJAUT	1227	38.1	17.3	17.3	0	-210	11,152	17.8	3.3
HMCL	2105	13.3	5.4	15.6	-60	-40	9,092	-0.5	-6.0
TVS Motor	928	15.7	4.4	7.4	120	30	1,466	13.2	-11.5
MSIL	490	24.3	6.2	14.9	160	70	19,753	26.9	-4.2
MM	241	19.2	1.9	15.8	260	70	12,406	65.0	10.5
TTMT (S/A)	176	60.8	-13.7	9.3	920	250	11,877		-115.4
TTMT (JLR) *	132	-5.0	-28.0	6.2	-170	-730	-264	NM	NM
TTMT (Cons)				8.1	-40	-380	-25,842	NM	-165
Ashok Leyland	42	47.9	-28.3	10.4	320	-140	3,805	217.2	-43.0
Eicher (RE)	225	22.5	-0.7	32.3	90	0	5,912	19.6	42.6
Eicher (VECV)	16	40.9	-29.3	9.2	90	-30	1,180	76.1	-33.8
Eicher (Consol.)				32.3	90	0	5,761	22.4	-11.2
Agg. (ex JLR)	**5451**	**21.7**	**6.0**	**14.0**	**220**	**80**	**72,641**	**61.2**	**22.6**

EBITDA margin (ex JLR) expands YoY for the fourth consecutive quarter



CAPITAL GOODS: Performance beat on all fronts

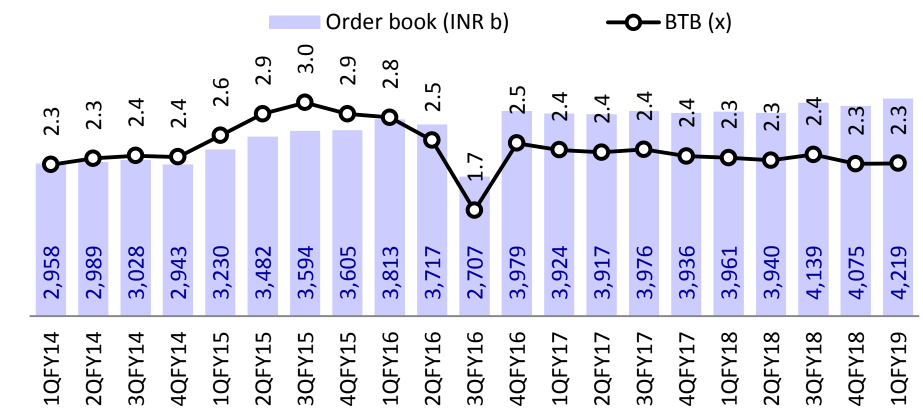
Summary

- **Healthy revenue growth for industry:** Revenue growth stood at 16% YoY for the industry, exceeding our estimate by 5%. Most players performed well on the execution front – projects were getting timely executed. Barring the weak performance from players in the room AC segment (given unseasonal rains), other sectoral players did not face any delays on the execution front.
- **Operating leverage drives profitability:** Operating profit growth for the quarter stood at 38%, supported by better operating leverage, cost-rationalization measures, and a better revenue mix. This is commendable at a time when the industry is witnessing intense competition, raw material prices are increasing significantly and price hikes are difficult to come by. Net profit growth for the quarter stood at 50% YoY. Operating profit and net profit growth for the industry was influenced by LT's results, where adjusted profitability was ahead of our estimate on account of multiple one-offs.
- **Order inflow improves; cautiously optimistic commentary given green shoots in a few industrial segments:** Order inflows improved with strong ordering by LT and BHEL. Order inflow for LT was up 37% YoY to INR367. Order inflow for BHEL stood at INR44b (+143% YoY). Management commentary in terms of ordering outlook has been cautiously optimistic, given the green shoots in terms of capex revival being witnessed in industrial segments like steel, cement and oil & gas.
- **Infrastructure:** Excluding KNR, the performance for the sector at the operating level was below our expectation. Sectoral revenue (Ex KNR) declined 10.0% YoY, impacted by weak execution of projects in hand and as multiple project awarding has happened on a HAM basis which is yet to enter the execution cycle. Profitability has remained stable for EPC players, with the moderation in competitive intensity helping players to bag projects at better margins. Operating profit for the sector declined 5.2% YoY, as against revenue decline of 6.6%. Net profit grew 8% YoY.
- **Top Picks:** We maintain our positive stance on LT in the capital goods sector, given (i) an improvement in domestic execution, (ii) ordering from ME is likely to revive with crude prices firming up, (iii) working capital cycle improvement and (iv) a leaner balance sheet due to non-core asset divestment.
- In the infrastructure space, we like KNR given the improvement in revenue visibility, the healthy balance sheet and the robust execution track record.

1QFY19 performance snapshot

	Sales		EBIDTA		PAT	
INR Million	**June-18**	**YoY Chg (%)**	**June-18**	**YoY Chg (%)**	**June-18**	**YoY Chg (%)**
ABB	27,127	21.5	1,959	32.6	1,022	35.2
Bharat Electronics	21,021	22.1	3,105	87.5	1,797	43.4
BHEL	59,355	6.3	2,872	41.6	1,556	92.5
Blue Star	15,078	-0.2	1,367	23.6	764	0.3
CG Consumer Elect.	12,039	14.1	1,673	29.3	1,043	30.0
CG Power & Indl.	11,798	-6.4	909	39.2	354	91.0
Cummins India	13,280	-1.0	2,147	9.9	1,830	10.2
Engineers India	5,733	52.7	864	5.5	866	6.3
GE T&D India	11,624	-3.9	1,442	36.7	820	33.0
Havells India	25,963	39.5	3,208	84.0	2,189	78.4
Larsen & Toubro	282,835	18.8	29,133	40.4	15,828	77.3
Siemens	30,730	15.9	3,023	33.4	2,044	25.5
Thermax	10,353	18.7	693	-3.9	490	20.6
Voltas	21,481	10.5	2,432	16.7	1,839	0.2
Capital Goods	**548,417**	**15.6**	**54,825**	**38.4**	**32,441**	**49.6**

Book-to-bill ratio stands at 2.3x



CEMENT: Better realizations drive profitability

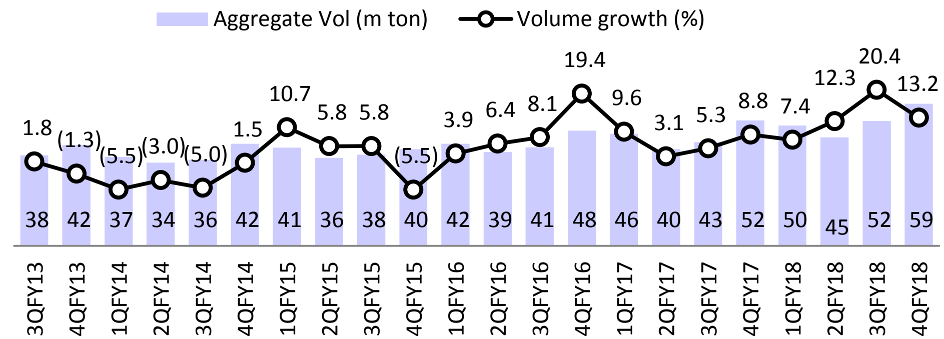
Summary

- **Profitability improvement led by better realizations:** MOSL Cement Universe reported volume growth of 13.2% YoY (incl. Ultratech's JPA assets). EBITDA increased 20% YoY (+25% QoQ), led by better realizations. PAT increased 5% YoY.
- **Healthy volume growth:** MOSL Cement Universe reported healthy volume growth of 13% YoY. Growth was led by a 31% YoY increase in volumes by Ultratech due to JPA capacity expansion. Players like Dalmia and Ramco registered growth of 14% YoY and 20% YoY, respectively, led by growth in east and south.
- **EBITDA/t up 5% YoY:** Cement companies reported aggregate sales of INR286b (+20% YoY; +16% QoQ), led by higher volumes and 7% YoY/2% QoQ increase in realizations. The increase in realization was due to firm prices in central and east, offset by weaker prices in north and south. Cost/t increased 7% YoY to INR3,781, driven by higher power & fuel and freight cost/t. However cost/t remained flat QoQ, as an increase in fuel prices was mitigated by better operating leverage. Hence, EBITDA/tonne stood at INR840 (+5% YoY, +9% QoQ).
- **Top picks: Shree Cement:** Best placed for a recovery in cement prices in north India, as utilization improvement will be the highest in north.
- **Dalmia Cement:** Strong EBITDA growth led by margin improvement and volume growth in east operations.
- **Birla Corporation:** Strong performance by acquired subsidiary likely to drive earnings outperformance.
- **Ultratech Cement:** UTCEM is likely to witness strong growth in EBITDA, led by ramp-up of acquired capacities. With a 20% market share, UTCEM will be the key beneficiary of the likely upturn in the Indian cement cycle over FY18-20.

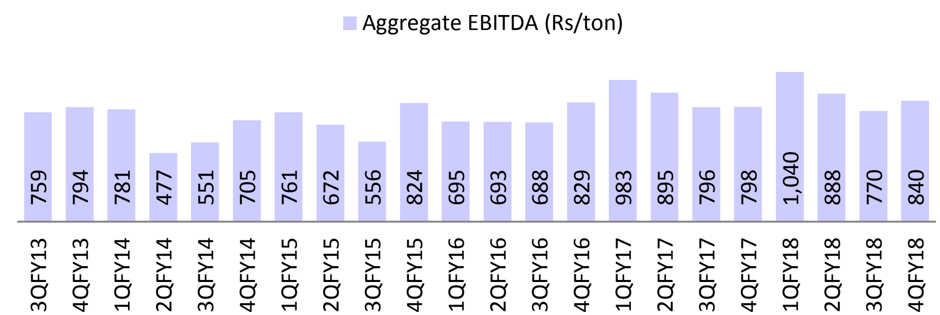
Trend in key operating parameters

	Volume (m ton)			Realization (INR/ton)			EBITDA (INR/ton)		
	4QFY18	YoY (%)	QoQ (%)	4QFY18	YoY (INR)	QoQ (INR)	4QFY18	YoY (INR)	QoQ (INR)
ACC	7.1	7.7	2.7	4631	254.1	43.2	691	60.2	100.6
Ambuja Cement	6.2	3.3	6.0	4602	399.2	33.5	815	208.8	-49.4
UltraTech	18.5	31.2	16.5	4877	188.0	88.2	922	13.7	121.7
Birla Corp	3.4	4.0	12.5	4554	509.2	190.1	735	19.1	277.2
India Cement	3.1	5.4	13.0	4524	-76.1	73.6	515	-135.6	-98.9
Shree Cement	6.4	8.7	21.0	4157	287.6	25.5	956	47.8	-47.5
Dalmia Bharat	5.2	13.8	24.8	5093	298.8	55.3	1137	-69.3	42.4
JK Lakshmi Cem.	2.2	-2.4	5.7	4022	490.8	53.4	454	140.9	7.1
Madras Cement	2.7	20.2	20.3	4571	121.6	-35.0	1000	-75.2	4.1
Orient Cement	1.7	-3.2	22.5	3696	253.6	-41.0	445	8.8	158.9
Prism Cement	1.7	8.0	23.2	4485	-21.5	307.7	819	-89.0	239.0
Sanghi Industries	0.6	-20.1	-14.9	4091	912.3	252.6	665	119.7	-183.3
Sector Agg.	**59**	**13**	**14**	**4,621**	**289**	**74**	**840**	**42**	**70**

Volume growth of 13% YoY for MOSL Cement Universe



Profitability increased led by healthy realizations



CONSUMER: Visible resurgence in consumer demand

Summary

- **Sales below expectations for coverage universe (excl. PGHH):** Our Consumer universe (excl. PGHH) reported 12.3% YoY revenue growth (v/s est. of +17.1% YoY), 20.7% YoY EBITDA growth (v/s est. of +22.1% YoY) and 20.1% YoY adjusted PAT growth (v/s est. of +23.5%). Only Dabur and ITC surprised positively on the volume growth front. 12 out of 17 companies in our Universe posted EBITDA in-line/above our estimates. Coverage companies' aggregate EBITDA margin expanded 170bp YoY (v/s est. of +100bp YoY).
- **Revival in demand scenario:** Most of our coverage companies called out a revival in consumer demand as well as normalization of the trade channels, resulting in a much more positive outlook going forward.
- **Downgraded Page and Dabur:** We downgrade Page and Dabur to Neutral from Buy as valuations are now fair.
- **Top picks: BRIT, HUL, Emami and UBL**
  - **BRIT** - Given (a) continuing investment in R&D and own manufacturing facilities and (b) leveraging of its enviable and consistently improving distribution, BRIT remains one of our top picks in the sector.
  - **HUL** - HUL will be a key beneficiary of the confluence of positive factors likely to drive rural volumes and the strong premiumization trend.
  - **Emami** - We believe that HMN remains a credible long-term play due to (a) likely healthy growth in existing product categories, where it has a dominant market share, (b) best-of-breed R&D and A&P spend resulting innovative products as well as ability to back up innovation with strong marketing, and (c) much-needed efforts on improving its direct distribution reach.
  - **UBL -** Long-term volume and earnings growth opportunity (FY18 PAT at USD58m) is immense for India's largest beer player with strong barriers to entry in the form of distribution, brewery reach, scale and brands. Operating environment appears to be improving at a healthy pace, market share gains continue, and profitability is on an uptrend, indicating continuing strong pace of earnings growth, going forward.

1QFY19 performance snapshot

	Sales		EBIDTA		PAT	
INR Million	June-18	YoY Chg (%)	June-18	YoY Chg (%)	June-18	YoY Chg (%)
Asian Paints	43,903	15.1	8,744	31.4	5,713	30.4
Britannia	25,438	12.4	3,894	18.5	2,581	19.5
Colgate	10,413	6.5	2,815	26.7	1,669	22.4
Dabur	20,807	16.2	3,861	25.0	3,292	18.1
Emami	6,144	16.2	1,235	54.1	879	45.3
Future Consumer	8,406	26.9	201	133.4	-61	Loss
Godrej Consumer	24,760	13.7	4,491	28.4	3,177	36.5
GSK Consumer	11,071	12.3	2,303	38.0	1,772	34.0
Hind. Unilever	94,870	11.2	22,510	20.6	15,670	21.3
ITC	107,070	7.6	42,021	12.2	28,187	10.1
Jyothy Labs	4,053	17.8	610	39.8	324	57.1
Marico	20,268	20.5	3,549	9.2	2,601	10.2
Nestle	26,984	12.3	6,648	44.9	4,147	59.3
Page Industries	8,153	17.1	1,893	38.6	1,244	45.9
Pidilite Inds.	18,341	20.0	3,817	18.9	2,404	6.4
United Breweries	18,659	11.2	4,004	25.8	2,219	37.1
United Spirits	20,119	12.9	2,283	34.0	1,054	45.6
Consumer	**469,458**	**12.3**	**114,878**	**20.7**	**76,873**	**20.1**

Quarterly volume growth trend

Quarterly volume growth (%)	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19
Asian Paints (Domestic decorative)*	11.0	12.0	2.0	10.0	4.0	9.0	6.0	10.0	10.0
Britannia (Base business)	8.0	10.0	2.0	2.0	2.0	5.0	11.0	11.0	11.0
Colgate (Toothpaste)	5.0	4.0	(12.0)	(3.0)	(5.0)	(0.9)	12.0	4.0	4.0
Dabur (Domestic FMCG)	4.1	4.5	(5.0)	2.4	(4.4)	7.2	13.0	7.7	21.0
Emami (Domestic)	18.0	11.0	0.2	(1.5)	(18.0)	10.0	6.0	8.0	18.0
Godrej Consumer (Soaps)*	LDD	(MSD)	(8.0)	5.0	(9.0)	15.0	15.0	15.0	10.0
GSK Consumer (MFD)	(6.0)	(3.0)	(17.0)	(1.0)	0.0	2.5	15.0	8.0	12.0
Hindustan Unilever (Domestic)	4.0	(1.0)	(4.0)	4.0	0.0	4.0	11.0	11.0	12.0
ITC (cigarette)*	3.0	4.0	(1.0)	0.0	1.0	(6.0)	(2.0)	(2.0)	1.0
Marico									
Domestic	8.0	3.0	(4.0)	10.0	(9.0)	8.0	9.4	1.0	12.4
Parachute	7.0	(6.0)	(1.0)	15.0	(9.0)	12.0	15.0	(5.0)	9.0
VAHO	9.0	11.0	(12.0)	10.0	(8.0)	3.0	8.0	11.0	15.0
Saffola	11.0	8.0	6.0	6.0	(9.0)	12.0	0.0	(1.0)	10.0
Pidilite (Consumer bazaar)	9.0	7.8	(1.5)	7.0	0.0	15.0	23.0	13.0	20.2

*Our estimate

FINANCIALS-Banks: NPL cycle nearing completion; earnings to gain pace from FY20

Summary

Systemic loan growth of 12% was one of the highest in three years, mainly driven by retail loans, as capex recovery appears to be a few quarters away. Net slippages moderated in 1QFY19, mainly driven by recoveries from the resolution of NCLT-related accounts, while the operating performance was mainly hit by tepid treasury income, and gratuity provisions. Margins were largely stable for private banks and expanded marginally for PSU banks, as recoveries were accounted through the interest income. CASA ratios have moderated for several private banks owing to sequentially weak SA deposit growth, while the credit-deposit ratio remains elevated.

- **Private Banks – mixed asset quality:** Asset quality trends were mixed, with AXSB and ICICIBC disclosing marginally higher quantum of stressed assets (fund + non-fund), while KMB, HDFCB , YES and IIB maintaining largely stable asset quality – mixed trends in Agri/SME.
- **Public Sector Banks – stress addition to moderate in 2HFY19:** Overall NSL remains at elevated levels. We expect majority of the slippages to come from the disclosed watch list/vulnerable pool. We expect PSU Banks' credit costs to remain elevated in FY19, while private corporate banks are likely to report normalization from 2HFY19. Recoveries from the NCLT-related cases and resolution of stressed power assets will be a big positive for PSU banks.
- **View:** In the near term, retail lenders with granular loan book are better placed than corporate lenders due to the moderate economic growth environment. However, the outlook for corporate banks is improving, given moderation in slippages from standard corporate portfolio and a sharp decline in SMA-2 assets for the system. Within corporate lenders, we prefer **ICICIBC** and **SBIN** as we expect strong buoyancy in earnings from FY20. **Top picks: PBs – YES, RBK and ICICIBC. PSBs – SBIN.**

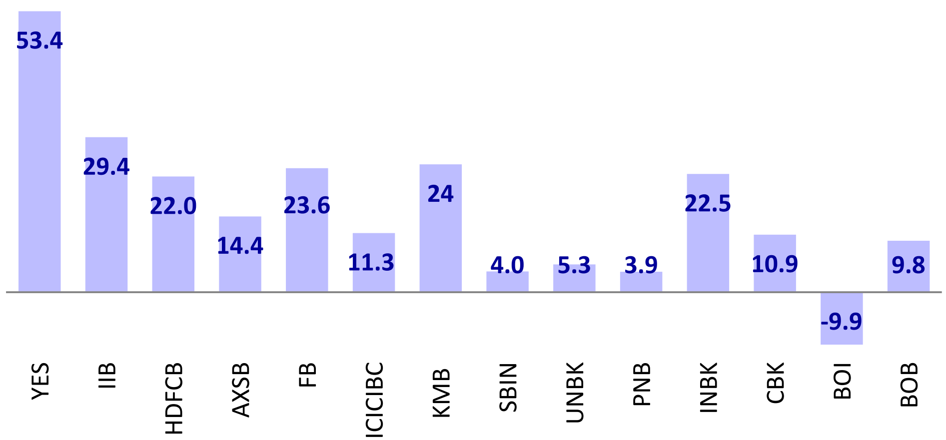
1QFY19	NII Growth (%)		PPP Growth (%)		PAT Growth (%)	
	YoY	QoQ	YoY	QoQ	YoY	QoQ
PSBs						
SBIN	24	9	1	(25)	NA	NA
PNB	22	53	30	NA	NA	NA
CBK	43	30	19	66	12	(106)
BOB	29	9	13	13	160	(117)
BOI	32	31	(21)	59	8	(102)
UNBK	17	20	2	11	11	(105)
INBK	24	10	4	11	(44)	59
PBs						
AXSB	12	9	2	19	(46)	(132)
FB	22	5	8	2	25	81
HDFCB	15	1	15	(2)	18	(4)
ICICIBC	9	1	12	(23)	(106)	(112)
IIB	20	6	20	8	24	9
KMB	15	0	27	1	12	(9)
YES	23	3	44	15	31	7

1QFY19	NIM (%)		Loan Growth (%)		Net Stress Loans (%)*	
	1QFY19	4QFY18	YoY	QoQ	1QFY19	4QFY18
SBIN	2.8	2.5	4.0	-3.1	6.6	7.2
PNB	2.9	1.7	3.9	-4.2	10.6	11.2
CBK	2.5	2.4	10.9	1.2	9.4	9.4
BOB	2.7	2.5	9.8	-3.0	7.9	8.5
BOI	2.5	1.7	-9.9	-4.0	11.2	12.8
UNBK	2.3	1.9	5.3	1.5	8.7	8.7
INBK	3.1	2.8	22.5	1.2	5.1	5.1
AXSB	3.5	3.3	14.4	0.3	6.7	6.4
FB	3.1	3.1	23.6	2.5	3.1	3.5
HDFCB	4.2	4.3	22.0	7.6	0.5	0.5
ICICIBC	3.2	3.2	11.3	0.8	6.8	7.8
IIB	3.9	4.0	29.4	3.9	0.7	1.0
KMB	4.3	4.4	24.3	4.2	0.9	1.0
YES	3.3	3.4	53.4	5.5	1.5	1.7

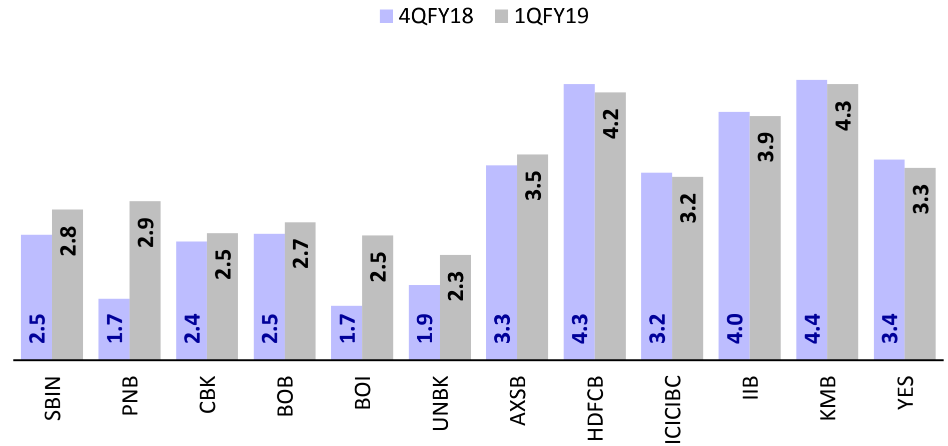
*Net Stress loans = NPA + watchlist + Stressed assets under various dispensations less overlap

FINANCIALS – Banks: Clean-up act continues for PSBs and private corporate lenders

PSBs consolidate, while PBs continue gaining market share (loan growth – YoY %)



Margins improved marginally for PSBs due to resolution of NCLT-related cases, while several private banks reported margin compression



Net slippage ratio – Several PSU banks reported a decline in their GNPL portfolio

	FY16				FY17				FY18				FY19
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q
SBIN	1.5	1.4	6.4	8.8	2.5	3.1	2.4	2.2	1.1	0.4	1.2	1.3	(0.1)
PNB	1.2	1.7	12.3	24.1	3.4	1.5	1.7	2.3	4.0	2.2	2.8	6.7	(0.0)
CBK	1.8	2.1	6.6	16.8	2.5	2.3	2.3	2.9	5.7	3.2	2.5	2.2	(0.0)
BOB	1.1	6.8	15.7	2.6	3.5	0.2	1.5	1.7	4.0	3.5	4.0	1.9	1.7
BOI	5.1	3.8	7.4	13.4	3.1	1.3	0.8	4.5	1.3	1.1	4.7	(0.6)	0.6
UNBK	2.1	2.7	5.2	8.8	4.9	4.3	4.5	2.9	5.8	3.0	5.3	2.9	4.4
INBK	1.1	1.1	5.2	6.0	1.6	2.3	2.5	1.9	1.1	0.4	0.6	1.5	(0.5)

Net stressed loans have moderated for several PSBs

% of loans	GNPA		NNPA		NSL	
	4QFY18	1QFY19	4QFY18	1QFY19	4QFY18	1QFY19
SBIN	10.9	10.7	5.7	5.3	7.2	6.6
PNB	18.4	18.3	11.2	10.6	11.2	10.6
CBK	11.8	11.1	7.5	6.9	9.4	9.4
BOB	12.3	12.5	5.5	5.4	8.5	7.9
BOI	16.6	16.7	8.3	8.5	12.8	11.2
UNBK	15.7	16.0	8.4	8.7	8.7	8.7
INBK	7.4	7.2	3.8	3.8	5.1	5.1

FINANCIALS – NBFCs: Mixed quarter on transition to Ind-AS

Summary

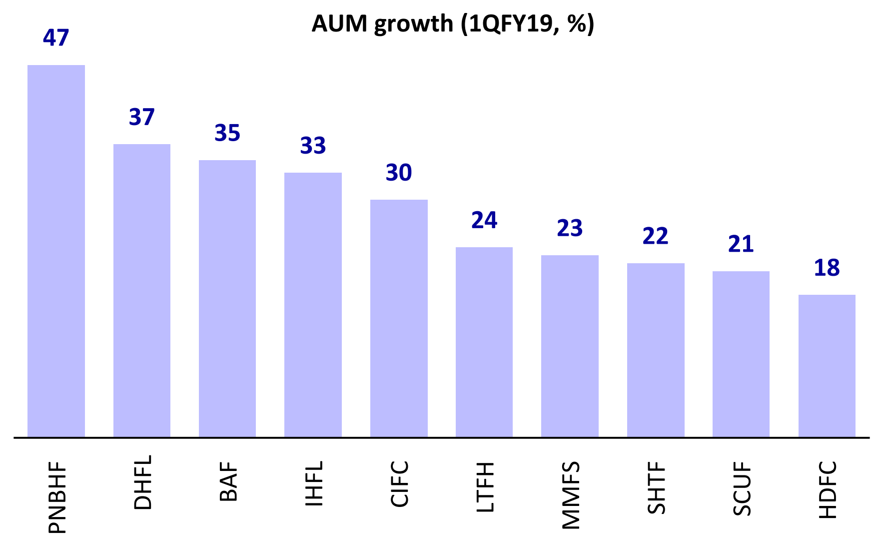
1QFY19 was a mixed quarter for our coverage universe. On the business front, growth was strong and asset quality was largely stable. Most companies have also managed spreads despite the impact of rising GSec yields. However, the transition to Ind-AS has been mixed – it has resulted in lower profitability for some companies, but boosted networth for others.

- **HFCs witnessing stable growth and margins:** Growth has remained in line with trend. Some companies, like IHFL, had a networth benefit from Ind-AS transition (revaluation of investments).
- **Vehicle financiers riding on secular CV upcycle:** Vehicle financiers continue to reap the benefits of a CV upcycle, with growth remaining strong and asset quality improving YoY. Branch expansion by most vehicle financiers is likely to augur well in FY19.
- **Diversified/corporate financiers:** Diversified/corporate financiers have been on a strong growth path, given the emerging opportunities in corporate lending due to asset quality issues at corporate banks. Further, most entities are adequately capitalized in this space.
- **Our view:** We remain bullish on vehicle financiers, which are enjoying strong tailwinds from the CV upcycle. We, however, remain concerned about fuel price increase and recent axle load norms. Our top pick in this segment is SHTF. We maintain our positive long-term view on housing finance sector, but see near-term headwinds to margins. Our top pick in this space is HDFC. In corporate lending, we like PIEL and LTFH – both these companies offer attractive entry point at current valuations, in our view.

Impact on 1QFY18 PAT due to Ind-AS transition (%)

MMFS	425
LTFH	9
SHTF	3
SCUF	3
IHFL	3
CIFC	2
BAF	-6
HDFC	-8
PNBHF	-8

AUM growth robust across NBFCs



HEALTHCARE: Earnings reverse the downtrend

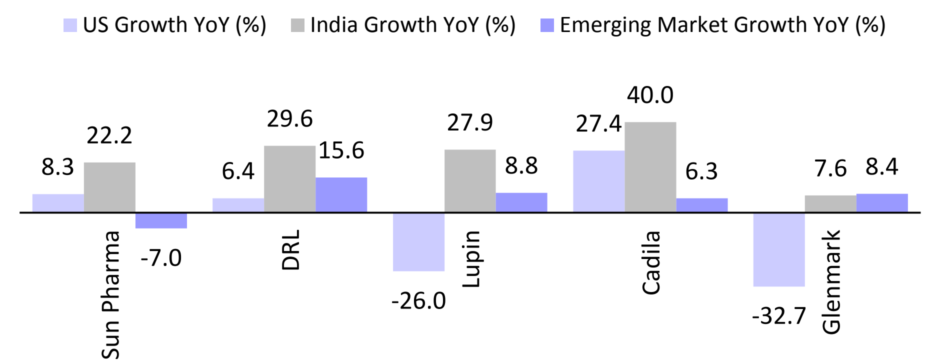
Summary

- After declining for five quarters, PAT increased 33% YoY in 1QFY19, partly on a low base of past year. Companies having exposure to the domestic formulation business exhibited strong YoY growth in earnings off a low base (1QFY18 was adversely impacted by GST-led disruption).
- Companies under our coverage delivered 28% YoY growth in revenue from the domestic formulation segment on an aggregate basis. The increase in revenue at stable operating cost led to profitability improvement.
- Companies under our coverage delivered moderate ~2% YoY revenue growth in the US generics segment in 1QFY19, reversing the downtrend on an aggregate basis. CDH, TRP, SUNP and ARBP delivered much higher YoY growth, driving overall growth in US generics. However, the ongoing YoY decline in US sales of LPC and GNP dragged overall growth.
- Pricing pressure remained stable at mid-to-high single-digits.
- The low base of FY18 and better prospects in both regulated and emerging markets would lead to a better performance in FY19 compared to FY18.
- **Top picks:** Sun Pharma, Aurobindo Pharma.

1QFY19 performance snapshot

	Sales		EBIDTA		PAT	
INR Million	**June-18**	**YoY Chg (%)**	**June-18**	**YoY Chg (%)**	**June-18**	**YoY Chg (%)**
Ajanta Pharma	5,110	8.0	1,575	20.5	1,058	7.9
Alembic Pharma	8,625	33.1	1,510	48.8	905	35.7
Alkem Lab	16,695	28.9	2,142	127.0	1,362	90.3
Aurobindo Pharma	42,503	15.5	7,792	-7.4	5,203	-0.4
Biocon	11,240	20.4	2,380	23.9	1,097	34.6
Cadila Health	28,937	31.7	6,450	132.6	4,605	232.7
Cipla	39,390	11.7	7,264	12.4	3,363	-17.7
Divis Labs	9,953	21.2	3,519	43.7	2,456	39.1
Dr Reddy' s Labs	37,207	12.2	7,575	147.7	4,561	671.7
Fortis Health	10,420	-9.9	81	-90.6	-715	PL
Glenmark Pharma	21,294	-8.6	3,106	-42.9	1,442	-56.7
Granules India	4,532	17.4	726	-13.8	372	10.0
GSK Pharma	7,357	21.2	1,404	613.3	969	603.0
IPCA Labs.	8,539	19.8	1,370	697.0	885	LP
Jubilant Life	20,787	30.2	4,376	29.6	2,004	36.2
Laurus Labs	5,390	9.7	806	-16.5	165	-57.5
Lupin	38,559	-0.4	5,270	-31.4	2,028	-43.4
Sanofi India	6,836	13.8	1,645	42.5	996	35.1
Shilpa Medicare	1,982	17.6	547	58.2	336	40.1
Strides Shasun	6,635	0.8	808	28.4	-41	PL
Sun Pharma	71,388	15.8	15,214	44.4	9,825	86.9
Torrent Pharma	18,720	36.2	4,770	60.6	1,630	-13.3
Healthcare	**422,098**	**14.1**	**80,328**	**26.5**	**44,506**	**33.0**

Low base supports India growth



*Sun Pharma numbers include Ranbaxy, hence not comparable

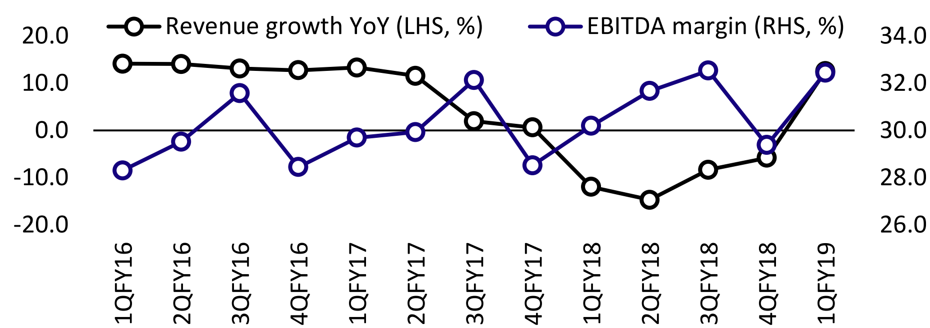
Summary

- **Media sector revenue up 13% YoY:** Our Media Universe (ex Dish TV – as it reported merged co. figures) reported aggregate YoY revenue/EBITDA growth of 13%/21%. Aggregate PAT grew at a strong 26% YoY.
- **Broadcasters continue driving overall sector margin:** EBITDA margin for our Media universe (ex-Dish TV) expanded 230bp YoY, mainly led by an uptick in broadcasters' EBITDA (~50% of our media universe EBITDA). SUNTV reported robust 860bp margin expansion to 66% on the back of positive surprise from IPL, while ZEE saw a 50bp uptick in margins to 32%. Amongst the print pack, higher newsprint cost and circulation copies took a toll on DB Corp's EBITDA margin (-490bp YoY); drop in circulation copies however, provided support to Jagran's margins (-15bp). Within radio category, ENIL/MBL reported 690bp/290bp margin expansion, led by higher contribution from new stations.
- **Low base provides support to ad growth:** Entire Media universe (except HT media) witnessed an uptick in ad revenue, partly attributed to the low base. Although broadcasters have recouped, the print and radio categories are still unclear on momentum.
- **EPS downgrade for DB Corp:** Jagran is reducing copies to lower the impact of the rise in newsprint prices; however, DB Corp remains firm on increasing circulation. This would magnify the impact on DB's EBITDA margins. Thus, we have lowered our FY19/20 EPS estimate by 7-10%, and consequently, downgraded to **Neutral**.
- **Top picks:** We prefer Zee Entertainment and SUNTV.

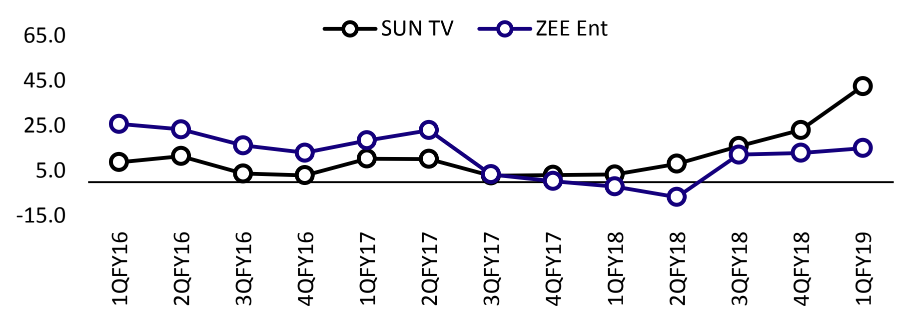
1QFY19: Actual v/s estimates

	Sales		EBIDTA		PAT	
INR Million	**June-18**	**YoY Chg (%)**	**June-18**	**YoY Chg (%)**	**June-18**	**YoY Chg (%)**
D B Corp	6,324	6.7	1,680	-9.9	976	-11.4
Dish TV	16,556	124.1	5,568	176.7	279	LP
Ent.Network	1,216	16.4	284	65.0	72	331.4
HT Media	5,424	-7.1	360	-48.7	12	-96.8
Jagran Prakashan	6,026	1.9	1,636	1.4	854	-1.4
Music Broadcast	757	7.6	261	17.5	135	24.5
PVR	6,963	9.4	1,372	22.5	521	17.3
Sun TV	11,204	42.5	7,347	63.9	4,091	62.6
Zee Entertainment	17,720	15.0	5,657	16.8	3,477	15.3
Media	**72,189**	**27.9**	**24,163**	**41.9**	**10,417**	**24.9**

Media universe (ex-Dish TV) revenue growth and EBITDA margin trend (%)



Broadcaster's consol. revenue growth trend (%)



METALS: Steel margins at historical highs

Summary

- The Metals pack continues exhibiting a strong performance. EBITDA grew 49% YoY, while PAT increased 81% YoY (despite a high base) led by robust demand and higher prices. The performance was led by steel companies, where EBITDA grew 81% YoY, driven by historically high spreads. Underlying indicators remain positive on supply-side measures in China and an unexpected surge in demand.
- **Metal and alumina prices drove gains:** Steel companies' aggregate realization increased 21% YoY (5% QoQ) due to strong domestic demand. Global steel prices were also supportive for majority period during the quarter. Aluminum and alumina prices were also higher, benefiting HNDL and Nalco. Realization for steel companies is expected to be lower in 2Q due to seasonal weakness in demand during monsoon.
- **Volume growth strong:** Volumes for steel companies increased 11% YoY (-7% QoQ) to 11.3mt. Growth was led by strong 47% volumes growth by JSP. Tata, SAIL and JSW Steel too reported 8-9% growth. The outlook is strong, driven by a pick-up in infrastructure spending by the government and growth in the auto segment. Aluminum volumes increased ~24% YoY, led by ramp-up at Vedanta and Nalco.

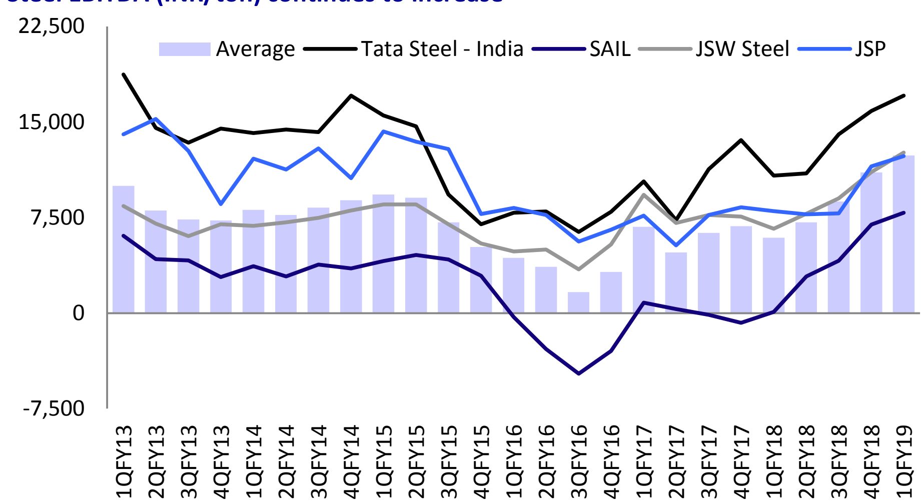
Top Pick

- **Hindalco**: Novelis reported a strong performance, benefiting from tailwinds in autos and healthy recycling spreads. India smelting operations remain strong with captive mines of bauxite/coal and higher share of value-added products. Focus remains on higher-IRR projects and grade mines. Aleris acquisition will strengthen business.
- **JSW Steel:** It is most efficient in opex and capex, which enables it to grow fastest in industry.

1QFY19 performance snapshot

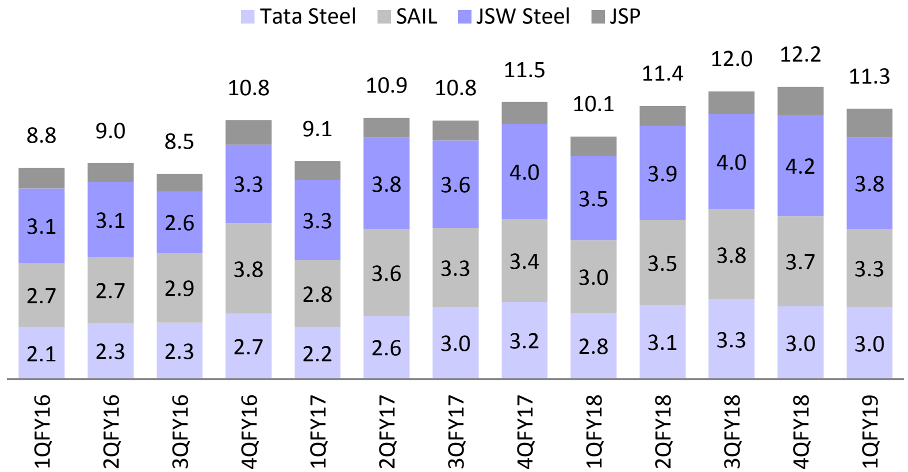
	Sales		EBIDTA		PAT	
INR Million	June-18	YoY Chg (%)	June-18	YoY Chg (%)	June-18	YoY Chg (%)
Hindalco	312,812	18.9	40,022	23.5	15,058	51.4
Hindustan Zinc	53,100	16.0	27,130	13.8	19,180	2.2
JSPL	97,282	63.9	22,766	68.3	1,808	LP
JSW Steel	205,190	38.4	51,050	85.9	23,660	257.2
Nalco	29,733	64.9	10,111	344.4	6,270	386.0
NMDC	24,220	-14.8	14,788	-8.7	9,691	-9.6
Rain Industries	38,033	44.2	6,924	48.0	2,948	94.6
SAIL	159,072	37.4	25,764	9,806.8	7,215	LP
Tata Steel	378,328	28.0	64,677	30.0	22,976	49.7
Vedanta	222,060	21.4	62,840	28.9	15,330	0.5
Metals	**1,519,829**	**28.4**	**326,072**	**48.8**	**124,136**	**80.6**

Steel EBITDA (INR/ton) continues to increase

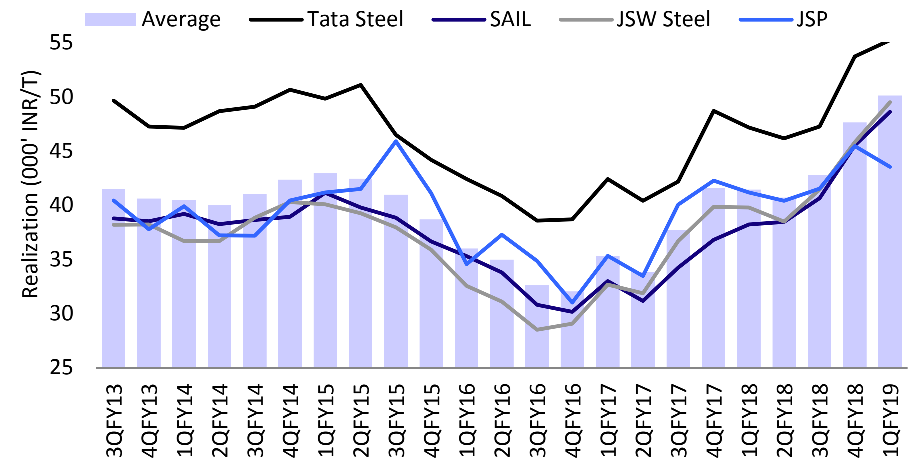


METALS: Volumes and realization

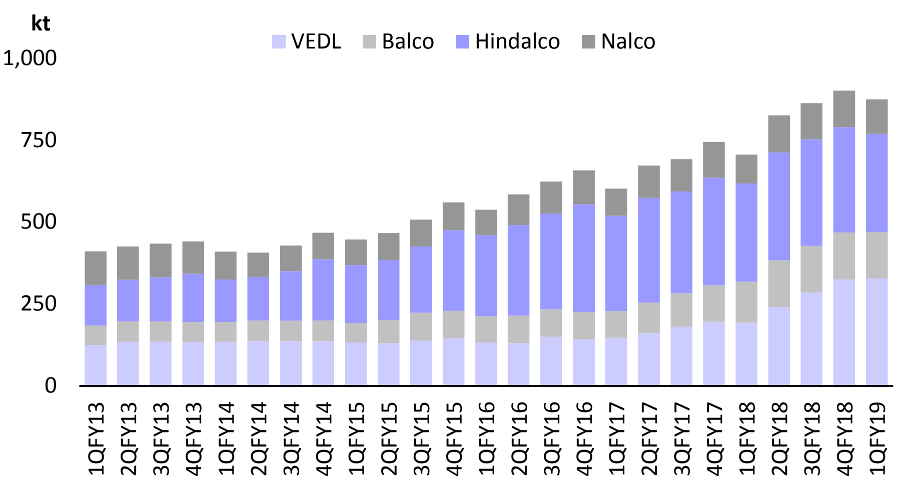
Steel sales (mt)



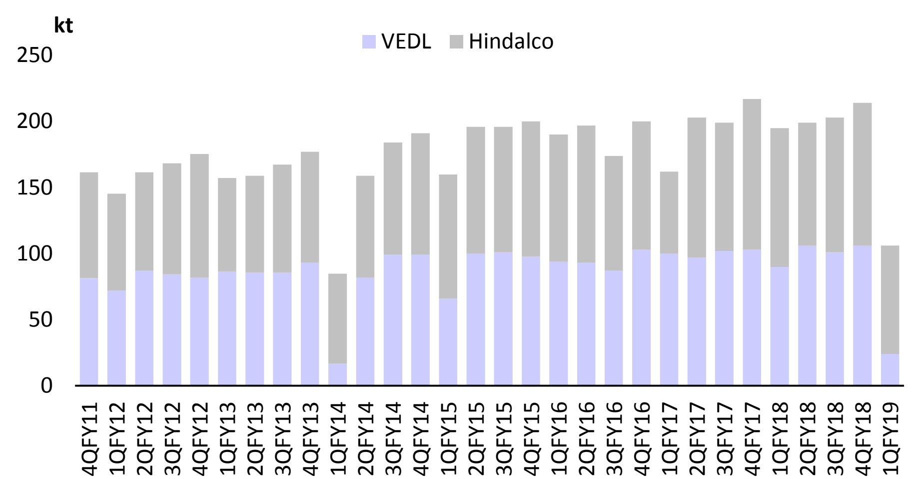
Steel realization (INR/T)



Aluminum sales (kt)



Copper sales (kt) – Vedanta's smelter is mothballed



OIL & GAS: Improved earnings for OMCs; volume growth continues for gas companies

Summary

- **Improved earnings for OMCs:** Core GRMs were lower than expected for all, but inventory gains on both refining and marketing segments resulted in better-than-expected PAT.
- **Petrochem drives earnings for RIL:** RIL reported GRM of USD10.5/bbl in the quarter. Petrochem profitability was driven by strong volume growth and favorable deltas. Profitability in telecom and retail also boosted consolidated earnings.
- **Dahej utilization at 113%:** Petronet registered 113% utilization at Dahej. Kochi utilization stood at 9%. Expect Kochi utilization to improve with completion of Kochi-Mangalore pipeline.
- **Strong CGD volume growth at NCR:** Despite a high base, IGL showed strong 12% YoY growth in CNG and 18% growth in PNG-domestic. EBITDA/scm increased to INR5.8 from INR5.7 in the previous quarter.

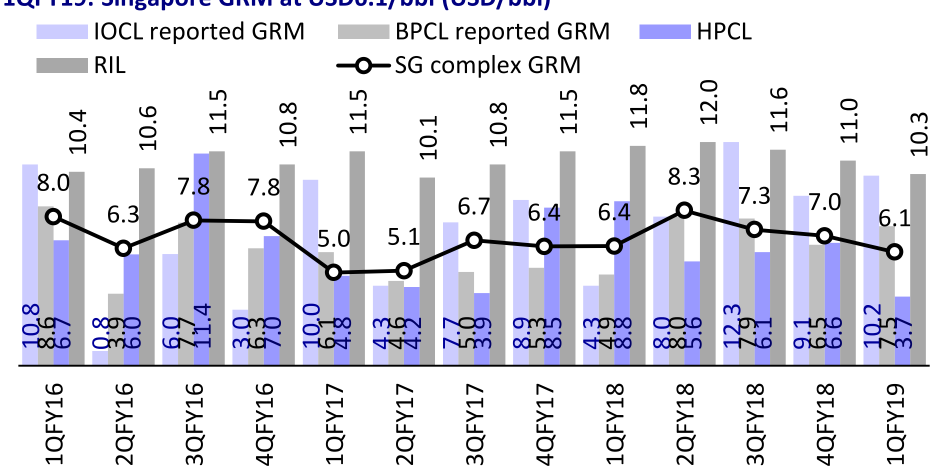
Valuation view

- Expect high utilization for Petronet to continue. Low LNG prices would also help. Near-term triggers on completion of Kochi-Mangalore pipeline and Dahej expansion would help the stock further.
- IGL would clock 12% CAGR in volume for FY18-20 and EBITDA/scm at INR5.9 for FY19/20. Volume growth is expected to continue. IGL remains one of our top picks.
- Post the Karnataka elections, OMCs have been gradually increasing retail prices. We believe that the sharp correction in the stock prices offers an attractive opportunity to add OMCs. Positive on all OMCs, with preference for Indian Oil.
- RIL's near-term future will be contingent on telecom/retail business ramp-up.

1QFY19: Earnings snapshot and Actual v/s Estimate

	EBIDTA				PAT			
INR Million	Jun-18	QoQ Chg (%)	YoY Chg (%)	Var (%)	Jun-18	QoQ Chg (%)	YoY Chg (%)	Var (%)
Strong performance of RIL								
Reliance Inds. (conso)	206,610	11.9	64.6	13.5	94,850	0.3	4.5	0.5
ONGC	147,321	29.4	49.1	0.5	61,439	3.9	58.2	-2.0
Oil India	14,084	75.9	61.1	-12.7	7,032	-18.8	56.2	-33.7
OMCs: Inventory gain impacts OMCs profit								
IOC	47,098	-37.9	-49.0	-41.4	68,311	30.9	155.2	18.4
BPCL	19,013	-41.9	-27.8	-29.6	22,933	-14.2	208.0	22.6
HPCL	18,234	-34.1	-43.1	-28.3	17,192	-1.6	85.9	13.2
Gas: Strong volume growth benefited gas companies								
GAIL	22,436	32.3	18.1	8.9	12,593	25.2	22.8	-0.3
Petronet LNG	9,344	13.7	25.6	9.4	5,870	12.3	34.1	5.0
Gujarat State Petronet	3,438	18.9	24.6	14.9	1,444	-8.2	-5.3	-12.9
Indraprastha Gas	2,951	7.1	6.4	1.0	1,759	7.0	9.1	-3.1
Pure Refiners: GRM led by inventory gains								
MRPL	8,131	-22.1	39.5	-23.0	3,788	-30.1	61.9	-29.9

1QFY19: Singapore GRM at USD6.1/bbl (USD/bbl)



RETAIL: Jewelry growth prospects remain strong

Summary

- **Overall performance above expectations:** Our Retail Universe sales grew 11.8% YoY (v/s our est. of +7.2%), EBITDA increased 40.6% YoY (v/s our est. of +26.6%) and adj. PAT grew 47.8% YoY (v/s our est. of +29.3%).
- **Coverage retail companies did well on SSS :** JUBI's SSS grew 25.9% (our estimate: 18%), while Tanishq's SSS increased by 2% off a high base of 51%.
- **Continued operating margin expansion in 1QFY19; pace of store addition increased:** Operating margin expanded sharply by 490bp YoY for JUBI and Titan saw operating margin expansion of 190bp YoY. TTAN added 10 World of Titan stores in 1QFY19. Tanishq stores, excluding three Zoya stores, stood at 262 in 1QFY19. JUBI added 10 Domino's stores this quarter, with store addition target maintained at 75 for FY19.
- **We remain positive on Titan and maintain neutral on JUBI**
  - **Titan -** Titan is among the biggest beneficiary of growth offered by the shift toward the organized jewellery market in India with its leadership in the branded jewellery space, national presence, strong franchise and quality management.
  - **JUBI –** SSSG continues to beat expectations. However, we maintain Neutral as it remains to be seen if JUBI will be able to improve its EBITDA margin and SSSG to the FY11/FY12 levels of ~30% once the effect of everyday value schemes, product revamp, favourable base and low-hanging fruit (as a result of Dunkin Donuts store closures) runs its course over the next 2-3 quarters.

1QFY19 performance snapshot

	Sales		EBIDTA		PAT	
INR Million	June-18	YoY Chg (%)	June-18	YoY Chg (%)	June-18	YoY Chg (%)
Jubilant Foodworks	8,551	26.0	1,421	78.5	747	213.2
Titan Company	44,510	9.4	4,829	32.3	3,286	31.9
Retail	**53,061**	**11.8**	**6,249**	**40.6**	**4,033**	**47.8**

SSSG for coverage companies

LTL Growth (%)	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19
Jubilant Foodworks	(3.2)	4.2	(3.3)	(7.5)	6.5	5.5	17.8	26.5	25.9
Tanishq	3.0	4.0	15.0	52.0	51.0	18.0	12.0	17.0	2.0

Margins contracted for our Retail universe

Company	Expansion/Contraction in (bp)	
	Gross Margin	EBITDA Margin
Jubilant Foodworks	(180)	490
Titan Industries	290	190

Store network for Retail universe

Company	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19
Jubilant Foodworks	1,049	1,081	1,107	1,117	1,125	1,125	1,127	1,134	1,144
Titan Industries									
World of Titan	458	467	470	474	482	485	481	486	496
Tanishq	197	198	202	208	219	229	240	253	262

TECHNOLOGY: Growth – better; outlook – even better

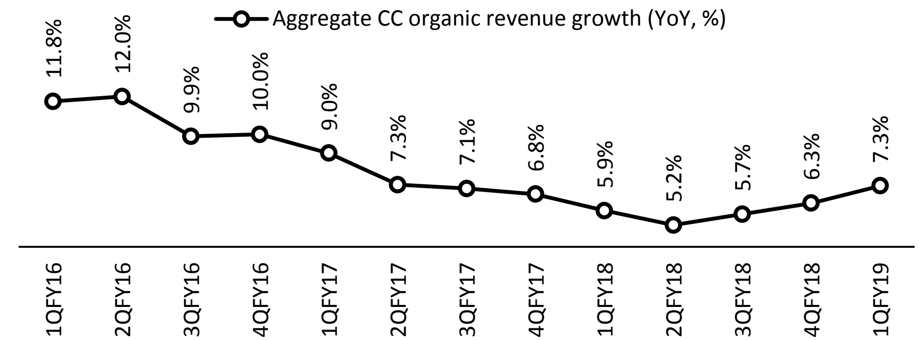
Summary

- **Gradual improvement…:** Revenue growth continued its upward trajectory for the third consecutive quarter, after being in a downward spiral for the last two years. Aggregate CC organic revenue for the Tier-I companies grew by 7.3% YoY versus 6.3% in the previous quarter.
- **…problem areas still there:** With the exception of TCS, which saw strength in BFS, problem areas across vendors remained intact. Growth for INFO in BFS, for HCLT in IMS and for TECHM in Communications remained weak, restricting a steeper improvement.
- **Outlook positive…:** The outlook was uniformly positive across all the vendors. Some even substantiated this with colour on TCV of deal wins. For TCS, USD4.9b of deal wins was promising; INFO's USD1.1b in wins was coupled with a strong pipeline. For HCLT, although the quantum of wins wasn't specified, TCV was the highest-ever, and substantially higher than its previous peak.
- **…especially in crucial pieces:** The more encouraging part was that INFO stated 40% of its wins this quarter were in BFS. Similarly, HCLT sees a pick-up in organic growth (inc. IMS) next quarter onwards. For TECHM, deal wins in Communications were particularly strong, and so was the pipeline.
- **Efficiency gains continue:** 1Q saw some benefits of INR depreciation, which partly offset pressure from wage hikes. Despite a steep comeback in headcount growth, continued efficiency improvement kept supporting margins.
- **Acceleration seen in Tier II:** Several Tier-II vendors (KPIT, MTCL, MPHL, CYL, NITEC, ZENT and LTI) have seen acceleration in growth throughout FY18. The trend continued for many of them, taking growth to the high teens, and even the 20s for MTCL and LTI.
- **Prefer INFO, TECHM in Tier-I:** We remain selective in terms of our picks, balancing between valuation comfort and performance visibility. Both INFO and TECHM are at the lower end of the valuation bracket. Among the mid-caps, we prefer MTCL, PSYS and ZENT.

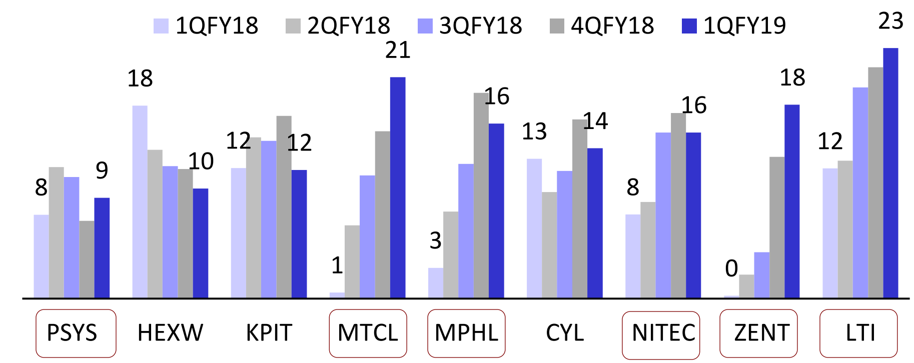
1QFY19 performance snapshot

	USD revenue - m			EBIT margin (%)			PAT - INR b		
	Act.	Est.	% beat	Act.	Est.	bp beat	Act.	Est.	% beat
TCS	5,051	5,059	-0.2	25.0	24.7	30	73.4	69.2	6.0
Infosys	2,831	2,837	-0.2	23.7	23.8	-10	38.8	37.8	2.6
Wipro	2,026	2,011	0.8	14.3	15.5	-120	21.2	20.4	3.9
HCL Tech	2,055	2,075	-1.0	19.7	19.9	-20	24.0	23.5	2.3
TECHM	1,224	1,213	0.9	13.0	12.5	50	9.0	9.3	-3.6

Growth ex-acquisitions picking up (CC revenue gr. YoY, %)



YoY revenue growth accelerated across most tier-II players



TELECOM: No respite for margins

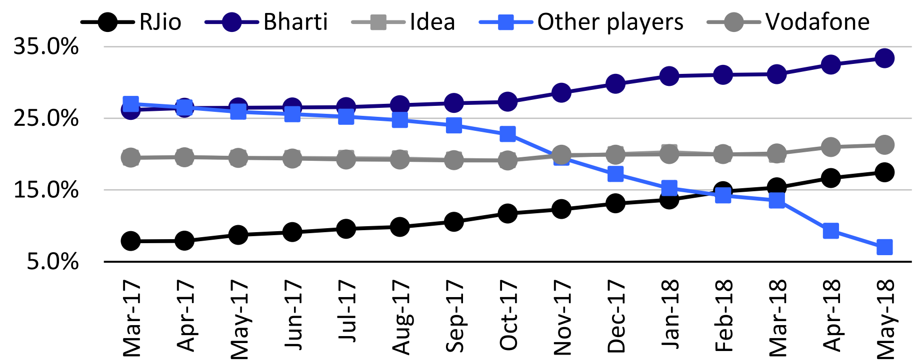
Summary

- **Bharti's India wireless business improves, but Idea continues to bleed:** Contribution from the Telenor biz. offset the impact of a 9% QoQ decline in ARPU (INR105), leading to marginal 1% growth in Bharti's India wireless revenue. India wireless EBITDA margin, however, contracted 200bp, dragging the consol. margin by 180bp to 33.5%. Idea's EBITDA margin stood at 11.2% (-11.7pp QoQ), impacted by a 5% QoQ decline in APRU to INR100, coupled with a 3% drop in the subscribers base. However, RJio reported 100bp QoQ margin expansion to 38.8%. This was on the back of a strong 15% increase in the subscriber base, partly offset by a 2% QoQ decline in ARPU to INR135.
- **Energy weakness impacts BHIN's consol. EBITDA margin:** Despite 4,818 tenancy exits, the rental EBITDA margin for BHIN expanded 110bp QoQ on the back of revenue from 6,672 discontinued tenants. Yet, seasonality hit Energy EBITDA margin (-730bp), pulling down the consol. EBITDA margin by 210bp QoQ.
- **TCOM data margin continues disappointing:** Data EBITDA margin expanded by a meager 10bp QoQ to 16.8%, as the improvement in the Traditional/Growth segment EBITDA margin was largely offset by a contraction in the Transformation/Payments margins.
- **RJio's renewed aggression:** RJio's renewed focus on the feature phone market – with a revised scheme of INR501 for buying JioPhone and the launch of JioPhone 2 – is expected to keep competitive intensity high over the near term.
- **Top picks:** We believe that the merger synergies should aid incumbents in sustaining competition and provide some solace to earnings. Post FY19, as the flux gets settled and all the three big players have similar financial and operational wherewithal to compete with each other, we believe ARPU accretion should kick in, driving FCF. **Bharti and Idea are our top picks.**

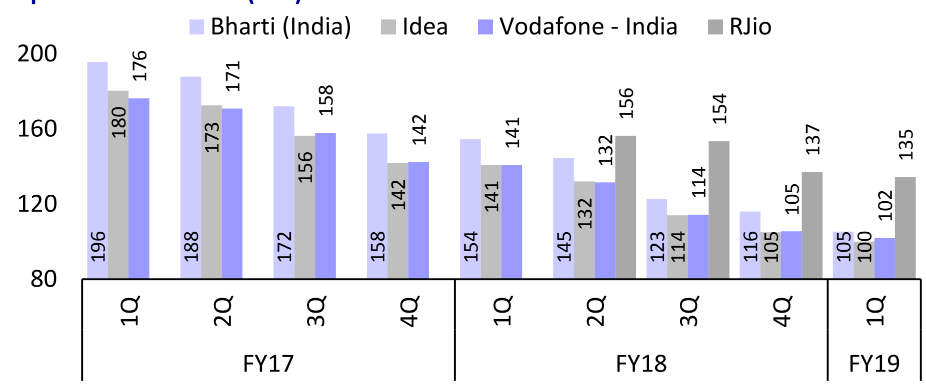
1QFY19: Actual v/s estimates

	Sales		EBIDTA		PAT	
INR Million	**June-18**	**YoY Chg (%)**	**June-18**	**YoY Chg (%)**	**June-18**	**YoY Chg (%)**
Bharti Airtel	200,800	-8.6	67,258	-13.3	-1,711	PL
Bharti Infratel	36,735	4.2	15,196	-3.5	6,380	-3.9
Idea Cellular	58,892	-27.9	6,594	-64.8	-17,837	Loss
Tata Comm	39,123	-9.2	5,554	-0.6	-585	PL
Telecom	**335,550**	**-11.6**	**94,602**	**-19.6**	**-13,753**	**PL**

Operator-wise active subscriber market share (%)



Operator-wise ARPU (INR)



UTILITIES: Coal grows faster as it offsets hydro power decline

Summary

Electricity generation (excluding RE) growth was just 2.9% YoY during the quarter. Hydro generation declined 13.5% YoY due to lower availability of water, which impacted both JSW Energy and NHPC adversely and benefitted Coal India and NTPC. Coal-based power generation increased by 5.2%. Coal India's dispatches increased 12% YoY, aided by restocking demand and declining imports. Aggregate PAT grew 22% YoY.

Major highlights

- **NTPC:** Power generation increased 7.5% YoY to 69b kwh, while coal plants' PLF declined 110bp YoY to 78%, yet best in country. Under recoveries of fixed charge due to low availability at some plants impacted PAT growth.
- **Power Grid**: Underlying growth in the transmission business was strong, but volatility in consultancy revenue and some under recoveries of fixed cost impacted PAT.
- **NHPC:** Lower water availability impacted power generation and PAT growth. 330MW Kishanganga project started commercial generation.
- **Coal India:** Coal India reported a very strong set of numbers as EBITDA doubled YoY on price hike, 12% volume growth and strong E-auction prices.
- **JSW Energy:** EBITDA was down on lower hydro generation, yet PAT increased 5% YoY due to lower interest cost and tax rate, partly offset by lower other income and higher depreciation. Net debt (ex-acceptances) was unchanged QoQ.

1QFY19 performance snapshot

	Sales		EBIDTA		PAT	
INR Million	**June-18**	**YoY Chg (%)**	**June-18**	**YoY Chg (%)**	**June-18**	**YoY Chg (%)**
CESC	21,590	-1.1	4,950	-18.5	1,820	2.2
Coal India	242,609	26.6	66,160	93.7	37,843	60.9
JSW Energy	23,606	5.8	7,762	-10.7	2,292	5.5
NHPC	21,290	-8.5	12,904	-6.9	7,376	-14.5
NTPC	228,637	13.7	61,149	16.1	29,472	16.1
Power Grid Corp.	83,365	15.0	71,365	13.8	22,076	3.2
Tata Power	73,134	4.9	17,708	-3.3	2,213	35.1
Utilities	**694,230**	**15.3**	**241,998**	**23.2**	**103,092**	**22.0**

MOSL Universe: Annual performance (INR b)

SECTOR	Sales (INR B)			Change YoY (%)			EBIDTA (INR B)			Change YoY (%)			PAT (INR B)			Change YoY (%)		
	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
Auto (16)	6,836	7,662	8,725	14.2	12.1	13.9	922	1,074	1,283	10.6	16.5	19.5	394	467	584	15.2	18.6	24.9
Capital Goods (17)	2,384	2,694	2,971	8.7	13.0	10.3	257	309	352	21.5	20.1	14.1	148	171	213	15.1	16.1	24.0
Cement (14)	1,603	1,928	2,319	29.0	20.3	20.2	287	344	431	17.9	19.9	25.1	103	147	198	-0.1	42.2	34.5
Consumer (19)	1,784	2,009	2,321	6.6	12.6	15.5	423	494	580	10.1	16.8	17.5	289	336	397	10.5	16.3	18.4
Financials (38)	3,705	4,330	5,147	12.0	16.9	18.9	2,647	3,017	3,650	5.7	14.0	21.0	368	1,006	1,631	-47.0	173.6	62.1
Private Banks (12)	1,167	1,388	1,680	15.1	19.0	21.0	1,010	1,180	1,471	8.4	16.9	24.7	410	536	766	-1.3	30.7	42.9
PSU Banks (7)	1,435	1,618	1,859	2.9	12.7	14.9	1,110	1,212	1,425	-3.5	9.1	17.5	-335	109	426	-849.4	-132	291.2
Life Insurance (2)	502	597	720	21.1	18.9	20.6	25	27	33	46.1	9.4	21.3	27	30	35	6.0	10.8	14.8
NBFC (17)	601	727	888	23.6	21.0	22.1	502	598	721	24.1	19.1	20.7	266	331	405	27.8	24.7	22.3
Healthcare (22)	1,626	1,832	2,105	0.8	12.7	14.9	319	383	474	-11.2	20.0	23.7	189	219	284	-18.2	15.9	29.6
Infrastructure (4)	147	170	224	7.7	15.1	31.9	46	52	58	0.8	11.9	13.1	12	13	14	43.5	9.2	8.7
Logistics (2)	119	135	153	8.8	13.3	13.3	16	19	23	8.5	18.5	21.8	10	15	18	4.7	45.1	20.4
Media (10)	251	297	331	9.8	18.1	11.4	77	96	111	10.2	25.9	15.6	37	47	62	-3.0	25.5	33.2
Metals (10)	5,488	6,130	6,014	22.1	11.7	-1.9	1,049	1,310	1,311	29.8	24.9	0.1	398	522	534	73.3	31.2	2.2
Oil & Gas (14)	17,932	23,896	26,194	18.3	33.3	9.6	2,193	2,660	2,872	19.9	21.3	8.0	1,155	1,329	1,514	5.5	15.1	13.9
Excl. OMCs (11)	11,474	15,503	16,731	18.3	35.1	7.9	1,667	2,179	2,382	21.0	30.7	9.4	855	1,080	1,254	5.9	26.3	16.1
Retail (2)	191	229	275	20.8	19.5	20.4	21	27	33	49.3	29.3	23.3	13	17	22	51.2	31.3	26.2
Technology (15)	3,708	4,257	4,804	4.3	14.8	12.9	849	997	1,146	3.3	17.4	15.0	678	749	860	5.3	10.4	14.8
Telecom (4)	1,431	1,345	1,459	-11.7	-6.0	8.5	448	395	455	-16.9	-11.8	15.2	1	-44	-24	PL	Loss	LP
Utilities (7)	2,657	2,887	3,117	8.8	8.7	8.0	826	1,026	1,163	12.7	24.2	13.3	369	449	506	12.9	21.8	12.6
Others (23)	1,345	1,612	2,032	14.4	19.9	26.0	255	296	385	14.6	16.0	30.1	130	137	182	17.8	5.8	32.1
MOSL (217)	**51,209**	**61,413**	**68,190**	**13.5**	**19.9**	**11.0**	**10,635**	**12,499**	**14,329**	**10.4**	**17.5**	**14.6**	**4,294**	**5,581**	**6,994**	**-0.2**	**30.0**	**25.3**
MOSL Excl. OMCs (214)	**44,752**	**53,020**	**58,727**	**12.9**	**18.5**	**10.8**	**10,110**	**12,018**	**13,839**	**10.1**	**18.9**	**15.2**	**3,993**	**5,331**	**6,734**	**-0.5**	**33.5**	**26.3**
Sensex (30)	**12,368**	**14,634**	**15,841**	**12.2**	**18.3**	**8.2**	**3,221**	**3,776**	**4,335**	**10.0**	**17.3**	**14.8**	**1,395**	**1,711**	**2,193**	**7.0**	**22.6**	**28.2**
Nifty (50)	**17,899**	**21,436**	**23,627**	**13.6**	**19.8**	**10.2**	**3,956**	**4,603**	**5,305**	**10.8**	**16.4**	**15.3**	**1,795**	**2,151**	**2,704**	**7.8**	**19.9**	**25.7**

Note: For Banks : Sales = Net Interest Income, EBIDTA = Operating Profits; Note: Sensex & Nifty Numbers are Free Float.

MOSL Universe: Valuations

	PE (x)			EV / EBIDTA (x)			P/BV (x)			ROE (%)			Div Yield (%)	EARN. CAGR
Sector	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY17	(FY18-FY20)
Auto (16)	25.0	21.1	16.9	9.9	8.6	6.9	3.9	3.4	3.0	15.5	16.3	17.8	1.0	21.8
Capital Goods (17)	30.4	26.2	21.1	20.4	16.4	13.9	3.3	3.1	2.7	11.0	11.9	12.6	1.2	19.9
Cement (14)	37.2	26.1	19.4	13.8	11.4	9.0	3.1	2.8	2.5	8.4	10.8	12.8	0.5	38.3
Consumer (19)	55.4	47.6	40.2	29.9	31.7	26.8	14.7	13.2	12.2	26.6	27.7	30.3	1.5	17.3
Financials (38)	76.4	27.9	17.2	N.M	N.M	N.M	2.8	2.5	2.2	3.6	9.0	13.0	1.0	110.6
Private Banks (12)	35.2	26.9	18.8	N.M	N.M	N.M	3.7	3.1	2.7	10.4	11.6	14.6	0.9	36.7
PSU Banks (7)	-11.5	35.5	9.1	N.M	N.M	N.M	0.9	0.9	0.8	-8.0	2.5	9.1	0.9	LP
Life Insurance (2)	55.4	50.0	43.6	N.M	N.M	N.M	13.0	11.0	9.4	23.5	22.0	21.6	0.0	12.8
NBFC (17)	31.2	25.0	20.4	N.M	N.M	N.M	4.4	3.8	3.3	14.3	15.3	16.4	1.3	23.5
Healthcare (22)	30.9	26.7	20.6	17.2	15.5	12.3	3.9	3.5	3.1	12.6	13.2	15.1	0.5	22.6
Infrastructure (4)	15.2	13.9	12.8	8.0	6.6	6.3	1.9	1.7	1.5	12.8	12.5	12.1	1.0	9.0
Logistics (2)	33.8	23.3	19.3	19.1	16.1	13.0	3.0	2.8	2.6	8.9	12.0	13.3	1.4	32.2
Media (10)	30.7	24.5	18.4	16.1	11.1	9.2	3.9	3.6	3.2	12.7	14.7	17.2	0.7	29.3
Metals (10)	12.7	9.7	9.5	7.3	6.0	5.8	1.5	1.3	1.2	11.5	13.5	12.7	4.0	15.8
Oil & Gas (14)	12.3	10.6	9.3	7.1	6.1	5.4	1.8	1.6	1.5	14.9	15.3	15.6	2.9	14.5
Excl. OMCs (11)	14.2	11.2	9.7	7.8	6.4	5.5	1.9	1.7	1.5	13.4	15.0	15.5	2.2	21.1
Retail (2)	77.4	59.0	46.7	47.0	37.2	30.1	16.8	16.2	13.8	21.8	27.4	29.5	0.7	28.7
Technology (15)	23.2	21.1	18.3	13.0	14.6	12.5	5.6	5.3	4.8	24.2	25.1	26.1	2.0	12.6
Telecom (4)	2839	-53	-99.2	9.2	9.8	8.4	2.1	2.2	2.3	0.1	-4.1	-2.3	1.4	PL
Utilities (7)	12.7	10.5	9.3	9.6	7.7	6.8	1.9	1.8	1.6	14.9	16.8	17.4	4.1	17.1
Others (23)	30.1	28.4	21.5	15.3	13.0	10.2	4.0	3.6	3.2	13.2	12.5	14.8	1.4	18.2
MOSL (217)	**27.2**	**20.9**	**16.7**	**N.M**	**N.M**	**N.M**	**3.2**	**2.9**	**2.6**	**11.6**	**13.7**	**15.4**	**1.7**	**27.6**
MOSL Excl. OMCs (214)	**28.7**	**21.5**	**17.0**	**N.M**	**N.M**	**N.M**	**3.2**	**2.9**	**2.6**	**11.2**	**13.6**	**15.4**	**1.6**	**29.9**
Sensex (30)	**27.3**	**21.9**	**17.1**	**N.M**	**N.M**	**N.M**	**3.4**	**3.0**	**2.6**	**12.3**	**13.5**	**15.4**	**1.5**	**18.9**
Nifty (50)	**24.9**	**20.9**	**16.6**	**N.M**	**N.M**	**N.M**	**3.2**	**2.9**	**2.6**	**13.0**	**14.0**	**15.7**	**1.5**	**17.6**

N.M. - Not Meaningful

NOTES

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