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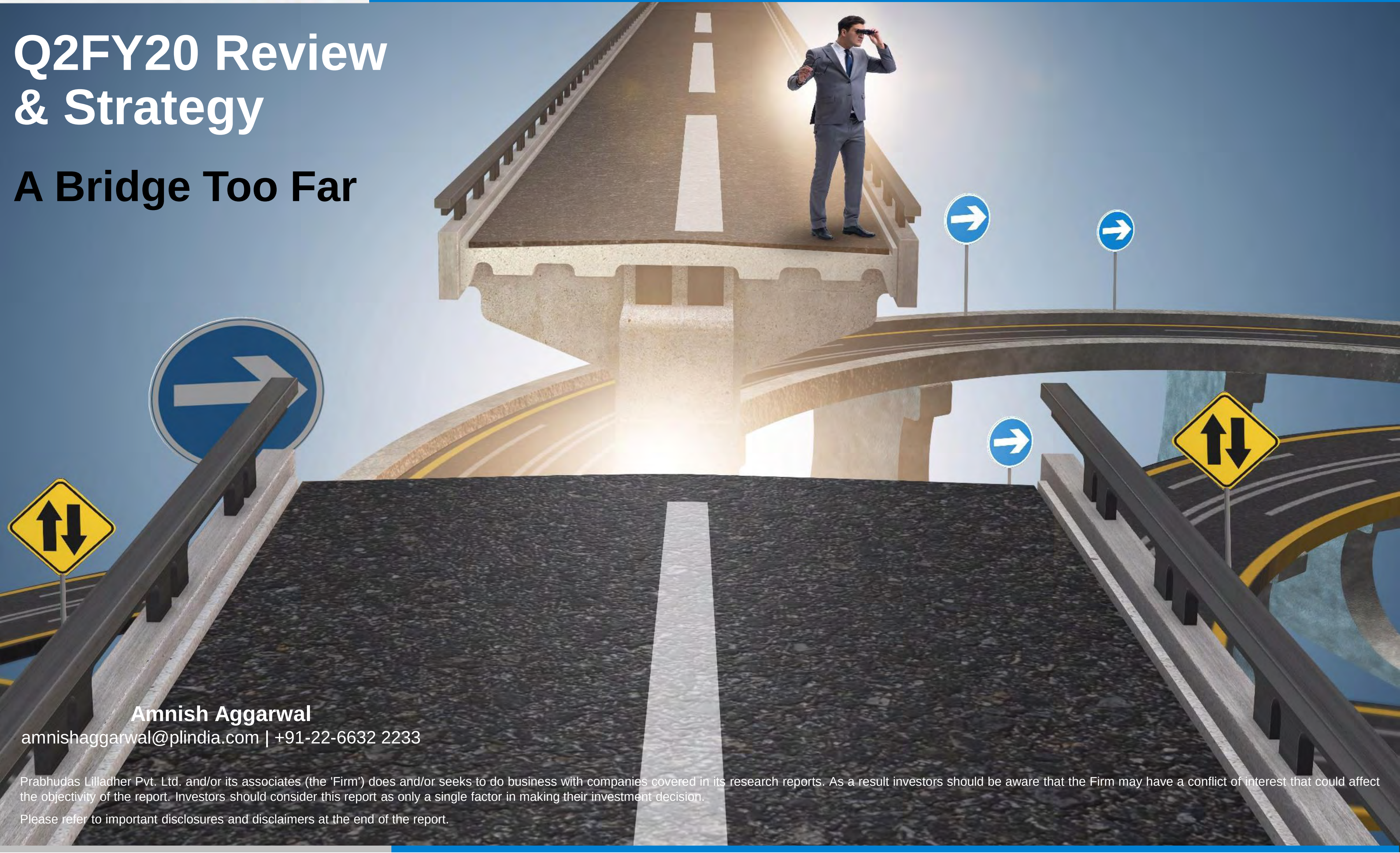

Q2FY20 Review & Strategy

A Bridge Too Far

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A Bridge Too Far

- **2Q FY20 sales and PBT disappoint:** 2Q sales excluding banks and NBFC declined by 5.2% while PBT declined by 17.4%. Agro chemicals, Aviation and media reported 52%, 35.9% and 30.8% increase in sales YoY. Auto, Metals Oil and Gas and Specialty chemicals reported a decline of 14.4%, 13.6%, 11.4% and 21.1% in sales. Media (led by multiplexes) and cement were best performers in terms of PBT with 29.2% and 55.3% growth in PBT. Metals, Auto, Oil and Gas and Specialty chemicals reported a sharp decline of 65.5%, 23%, 22% and 24.7% in PBT. Among defensives consumers reported PBT growth of 9.6%, while Pharma and IT grew by 3.9% and 0.1% respectively.
- **2HFY20 recovery – A bridge too far:** All eyes are on 2H recovery amidst faint signs of pick up in festival season. However we remain skeptical of any sharp recovery in demand. We believe that the economy is in the midst of a structural adjustment which started with demonetization, clampdown on black money and real estate sector and got worse with NBFC crisis, GST transition and trade wars. Although Govt is taking aggressive measures like 1) PSU banks recapitalization 2) export promotion schemes 3) corporate tax cut 4) withdrawal of FPI surcharge and 5) package for real estate sector, these will start impacting the real demand after a while only. As against GDP growth of 5% in 1QFY20, we estimate ~4.5% growth in 2Q and gradual recovery there after.
- **Unseasonal rains spoil chances of early rural demand revival:** Rural demand for staples is growing at just 50% of urban demand, a phenomenon seen after many years, it can't be blamed purely on agriculture. While poor crop/dairy prices and droughts have impacted farm income, agriculture is not more than 25% of rural income. Meagre increase in rural wages and lower need of labor due to slowdown in real estate and impact on SME due to demonetization and GST has also contributed to poor rural demand. We believe that unseasonal rains in Maharashtra, Karnataka and MP have reduced chances of revival even as food inflation of 6.9% and 20-25% higher milk prices give some confidence of higher rural demand in coming quarters.
- **Fiscal deficit likely to cross 4.2% of GDP, Govt running out of options:** Economy is standing outside ICU with just 4% growth in tax revenues in 1HFY20 with 3% decline in GST collections, 5% in excise duty and 9% in corporate taxes. Govt is stepping up the accelerator as Capex has increased by 15%, but tax revenues need to grow by 42% in 2H to reach the budget estimates of FY20. As against an estimate of 25% in budgeted tax revenues, we estimate 8% growth, even if there is a growth bounce back in 2H. Even if GOI is able to achieve disinvestment target of Rs1050bn for FY20, fiscal deficit is all set to cross 4.2%, in our view. Although INR/USD has been relatively stable due to benign crude prices, rising probability of fiscal deficit slippage can result in INR coming under pressure.

A Bridge Too Far

- **Income tax cut and PSU divestment seems need of the hour:** while measures taken so far will strengthen economy in long term, India today needs some drastic measures to supplement the new economic order which has been on the top of Govt agenda:

1. Implementation of DTC which could increase disposable income of middle class and re-start growth engine. Increase in consumer demand and higher capacity utilization will pave way for revival of industrial capex and job creation.
2. We believe sale of PSU's like BPCL is a step in the right direction (EV revolution), else some of these might end up turning much less valuable like an Air India, MTNL and BSNL have been in the past.
3. Serious PSU divestment with reduction in stakes below 51% with operational autonomy to managements would go a long way in reducing Govt involvement in running enterprise.
4. A new social order as rising gap between haves and have-nots is likely to increasingly pressurize polity in taking populist measures in a democracy like India.

- **NIFTY EPS cut by 1% for FY20:** NIFTY EPS has been cut by 1% for FY20 while FY21 has seen 2% upgrade. we now estimate NIFTY EPS growth of 16.1% in FY20 and 27.3% in FY21 (led by Banks and Auto). We also introduce FY22 EPS at Rs761.8 and estimate 19.6% EPS CAGR over FY19-22. Our estimates are 4.6%, 3.4% and 3.5% lower then consensus for FY20,21 and 22.
- NIFTY is currently trading at 19.7x 1-year forward EPS (19.4 earlier) which shows 7.6% premium (12.3% in July4) to LPA of 18.3. ***We assign multiple of 18.3xSept21 EPS and arrive at 12 month NIFTY target of 12993 (12488 earlier at 19xFY21 EPS).***
- ***Our model portfolio has out performed NIFTY by 4.12% in the past 12 months while it has underperformed NIFTY by 0.8% since 2Q Preview. The underperformance has been chiefly due to sharp correction in prices of Interglobe Aviation, Infosys, Titan, UPL and LTTS, however our long term call on these names remains unchanged. We are not adding any new stock in Model portfolio. We are increasing weightage of Reliance Industries, ICICI Bank while cutting on consumer names like HUL, Titan and ITC.***

Model Portfolio – Lower weight on Consumer, higher on Banks, Oil and Gas

- We remain overweight on Consumers, Banks and Construction and Engineering. We increase our weightage on Oil and Gas and Banks by 170bps and 90bps respectively. We reduce our weightage on consumer by 150bps and Cap Goods/Engineering by 100bps. We turn equal weight on Auto and underweight on IT, Metals, Healthcare and Others.
- **Banks:** We are increasing weightage of ICICI Bank to 7.5% given strong tailwinds across businesses. We also turn equal weight on Indusind bank as gradual settlement of stress assets and clarity on new management will provide support after long underperformance. We reduce weightage of HDFC Life by 50bps post recent outperformance. We remain equal weight on HDFC Bank and Kotak Mahindra bank while retaining under weight on Axis bank.
- **NBFC and Housing Finance**: we remain selective in NBFC's and HFC's We continue to like HDFC in Housing and Cholamandalam in vehicle finance and Bajaj Finance as a play on broad based consumer finance.
- **Automobiles:** Auto sales have shown some recovery in October, although revival remains uncertain in near term. We are witnessing some early signs of pre-buying in Diesel cars. CVs recovery hinges on effective scrappage policy or incentives as BSVI transition has coincided with adverse CV cycle. Maruti remains best pick on auto on recovery in consumer demand given that it has been able to launch BSVI compliant products with minimum price increases. Despite near term challenges in CV segment, we retain Ashok Leyland as a play on CV recovery in medium term.
- **Consumer:** Although staples have seen growth slowdown, chances of rural recovery have seen some setback due to unseasonal rains and cyclone impact in various parts of country. Although slowdown seems to be bottoming out, valuations for most names leave little scope for further re-rating. We are reducing weight by 150bps with 50bps reduction each in Titan, HUL and ITC. Britannia, Crompton Consumer and Jubilant FoodWorks remains part of consumer portfolio.
- **Oil and Gas:** We turn slight overweight on Oil and Gas. We reduce weight for Petronet LNG by 50bps and increase weightage on Reliance by 140bps. We believe that increase in tariffs by telecom majors is positive and will improve the consolidated financials and will reduce pressures on balance sheet of the company. We retain significant overweight on BPCL on expectations of value unlocking from disinvestment.
- **IT:** We retain underweight on IT, we cut weightage on TCS by 50bps and increase weightage of Infosys by 30bps.
- **Constriction and Engineering:** We are cutting our weightage on this space by 100bps mainly in L&T even as we retain significant overweight stance on the sector given our strong conviction in Automation and Digitization story in Siemens and ABB.
- **Metals;** We remain underweight although we retain JSPL as out pick in the space. Clarity on Coal and iron ore mines remains a key determinant.
- **Top Picks:** We are replacing HCL by Infosys in Top picks give attractive valuations post recent correction while other picks remain same.

Model Portfolio

Sector	Mcap (Rs bn)	Nifty Weightage (%)	PL Weightage (%)	Weights
Automobiles		**5.7**	**5.7**	**Equalweight**
Ashok Leyland	244		1.7	
Maruti Suzuki	2,161	1.9	4.0	
Banks / Insurance		**30.0**	**30.8**	**Overweight**
Axis Bank	2,111	3.4	2.0	
HDFC Bank	6,970	11.2	11.2	
HDFC Life Insurance	1,160		2.0	
ICICI Bank	3,199	6.5	7.5	
IndusInd Bank	1,018	1.7	1.7	
Kotak Mahindra Bank	3,055	4.4	4.4	
SBI Life Insurance Co.	940		2.0	
Cement		**0.9**	**1.0**	**Overweight**
UltraTech Cement	1,187	0.9	1.0	
Construction & Engineering		**5.4**	**9.0**	**Overweight**
ABB	307		2.0	
Larsen & Toubro	1,938	3.4	5.0	
Siemens	550		2.0	
Consumer		**11.7**	**13.5**	**Overweight**
Britannia Industries	749	0.8	2.0	
Crompton Consumer Electricals	161		1.5	
Hindustan Unilever	4,387	3.0	3.5	
ITC	3,081	4.4	2.5	
Jubilant FoodWorks	210		2.0	
Titan Company	1,032	1.0	2.0	
Healthcare		**2.1**	**1.2**	**Underweight**
Dr. Reddy's Laboratories	471	0.7	1.2	

Sector	Mcap (Rs bn)	Nifty Weightage (%)	PL Weightage (%)	Weights
IT		**12.8**	**11.3**	**Underweight**
HCL Tech	1,537	1.3	1.0	
Infosys	3,036	5.3	4.3	
L&T Technology Services	150		2.0	
TCS	7,912	4.5	4.0	
Metals		**2.9**	**1.0**	**Underweight**
Jindal Steel & Power	143		1.0	
NBFC		**10.9**	**11.0**	**Overweight**
Bajaj Finance	2,490	2.0	3.5	
Cholamandalam Finance	250		1.5	
HDFC	3,802	7.7	6.0	
Oil & Gas		**13.3**	**13.5**	**Overweight**
BPCL	1,181	0.9	2.0	
Indraprastha Gas	295		2.0	
Petronet LNG	413		1.5	
Reliance Industries	9,811	10.5	8.0	
Others		**2.2**	**2.0**	**Underweight**
Inter Globe Aviation	549		1.0	
UPL	422	0.6	1.0	
Telecom		**2.1**	**-**	**NA**

Returns	Model Portfolio	Nifty	Performance
Since Nov'18	15.61%	11.48%	4.12%
Since Last Report – Novt'19	5.25%	6.06%	-0.81%

Top Picks

Bloomberg Code		CMP (Rs.)	TP (Rs)	Upside	Mcap (Rs bn)	Mcap (US$ m)	Revenue Gr. (%)		Earnings Gr. (%)		RoE (%)		RoCE (%)*		PER (x)		P/BV (x)*	
							2020E	2021E	2020E	2021E	2020E	2021E	2020E	2021E	2020E	2021E	2020E	2021E
	Large Cap																	
HDFCB IN	HDFC Bank	1,273	1,406	*10.4%*	6,935.4	96,526.7	18.8	19.0	23.3	25.3	16.7	18.2	2.0	2.1	26.0	20.8	4.3	3.7
ICICIBC IN	ICICI Bank	495	541	*9.3%*	3,191.4	44,417.7	18.5	18.7	193.8	95.3	7.8	13.8	0.8	1.4	36.8	18.8	3.3	2.9
INFO IN	Infosys	713	819	*14.9%*	3,039.2	42,299.2	9.5	9.8	5.1	16.2	25.7	31.2	31.2	37.8	19.1	16.5	5.2	5.1
MSIL IN	Maruti Suzuki	7,153	7,809	*9.2%*	2,160.7	30,072.4	(8.1)	22.1	(12.0)	32.5	13.7	17.2	10.9	15.0	33.4	25.2	4.5	4.2
LT IN	Larsen & Toubro	1,381	1,800	*30.3%*	1,935.0	26,930.9	12.6	14.1	25.8	16.8	16.4	17.2	9.0	9.3	17.9	15.3	2.8	2.5
UTCEM IN	Ultratech Cement	4,114	4,850	*17.9%*	1,187.3	16,525.0	23.3	4.3	89.2	1.3	14.5	12.0	12.9	11.7	24.5	24.2	3.1	2.8
BRIT IN	Britannia Industries	3,116	3,433	*10.2%*	748.9	10,423.2	8.2	12.9	25.9	12.4	33.9	32.8	35.8	34.3	53.0	47.1	17.4	13.9
SIEM IN	Siemens	1,543	1,722	*11.6%*	549.4	7,646.2	6.7	9.5	17.9	30.7	12.3	14.7	15.3	15.9	51.7	39.6	6.1	5.5
UPLL IN	UPL	553	740	*33.9%*	422.4	5,878.7	63.7	10.1	(21.7)	54.7	14.4	19.7	10.1	15.3	19.0	12.3	2.6	2.3
PLNG IN	Petronet LNG	275	352	*27.8%*	413.0	5,748.4	17.6	8.0	55.0	4.4	31.9	27.1	33.9	30.3	12.4	11.8	3.5	2.9
	Mid Caps																	
SHTF IN	Shriram Transport Finance	1,127	1,441	*27.9%*	255.6	3,557.6	6.0	11.5	4.2	11.0	15.6	14.8	2.4	2.3	9.6	8.6	1.4	1.2
JUBI IN	Jubilant FoodWorks	1,591	1,753	*10.2%*	209.9	2,922.1	13.3	16.7	20.2	31.0	26.4	27.3	43.1	39.0	52.8	40.3	12.5	9.8
CROMPTON IN	Crompton Greaves Consumer	257	303	*17.7%*	161.2	2,244.0	9.2	12.4	26.7	22.1	37.6	36.0	44.9	47.6	34.0	27.9	11.3	9.0
PVRL IN	PVR	1,769	2,131	*20.4%*	82.7	1,150.8	20.3	14.1	(6.6)	47.6	24.9	28.2	13.5	16.1	48.2	32.6	12.6	9.2
	Small Caps																	
KPP IN	Kalpataru Power Transmissior	450	662	*47.2%*	69.0	960.6	16.8	14.4	33.3	17.1	15.8	16.1	20.0	20.4	12.9	11.0	1.9	1.7
SJET IN	SpiceJet	111	163	*47.0%*	66.7	928.2	42.7	21.0	23.2	(253.3)	61.5	(112.7)	0.9	7.7	(21.4)	14.0	(10.1)	(36.1)
VIP IN	V.I.P. Industries	445	530	*19.1%*	62.9	875.5	8.9	13.0	18.1	23.1	19.2	26.8	32.9	33.8	36.7	29.8	9.8	8.0

** For Banks P/BV = P/ABV & RoCE = RoAA*

Beaten Down Stocks

Bloomberg Code		CMP (Rs.)	TP (Rs)	*Upside*	Mcap (Rs bn)	Mcap (US$ m)	52 Week High	All Time High	% Chng from 52 W / CMP	% Chng from All Time High / CMP	EPS (Rs)		RoE (%)		PER (x)	
											2020E	2021E	2020E	2021E	2020E	2021E
ITC IN	ITC	251	344	*37.1%*	3,088.3	43,054.1	310	368	-19.1%	-31.8%	12.9	13.5	25.7	24.0	19.4	18.6
IIB IN	IndusInd Bank	1,469	1,640	*11.6%*	1,017.6	14,186.1	1,835	2,038	-19.9%	-27.9%	87.4	108.7	17.9	18.4	16.8	13.5
GAIL IN	GAIL (India)	125	188	*51.0%*	561.5	7,828.1	183	200	-32.1%	-37.7%	13.8	16.6	13.5	14.8	9.0	7.5
MPHL IN	Mphasis	909	1,038	*14.2%*	169.2	2,359.4	1,063	1,279	-14.5%	-28.9%	61.3	71.3	21.6	23.0	14.8	12.7
MAHGL IN	Mahanagar Gas	1,035	1,339	*29.3%*	102.3	1,425.8	1,067	1,378	-3.0%	-24.8%	77.8	84.6	28.5	26.0	13.3	12.2
ENGR IN	Engineers India	104	156	*49.2%*	66.0	919.7	130	269	-19.6%	-61.2%	7.4	8.7	20.3	22.5	14.0	12.1

We are removing kansai Nerolac and Ashok Leyland from Beaten down list post 28% and 13.5% appreciation since inclusion.

- **ITC:** Valuations attractive at 50% PE discount to coverage universe, ~3% dividend yield with
- **IndusInd Bank:** Benefits from Bharat Financial Integration, steady growth and corrected valuations
- **GAIL (India):** Downside limited at current valuations, lack of clarity on Gas pipeline business de-merger has de-rated the stock
- **Mphasis:** Mid tier IT company which has stable growth and margins, strong cash generation and ROE of 20%.
- **Mahangar Gas:** Looks attractive at 12.2xFY21 EPS as overhang of British Gas is now behind
- **EIL:** Strong Order backlog of Rs114 bn (42% Consultancy), key beneficiary of refinery capex, RoE/RoCE of ~19%, 4% dividend yield available at PE of 12.1x FY21E.

Negatives outweigh despite slew of packages

Negatives

- **Automobile:-** Auto demand remains depressed since Dec'18 due to NBFC crisis and Increase in Insurance costs. . Overall decline of 12.7% was led by CV with 34.4%, PV by 2.3%, tractors by 2.9%.
- **Stuck projects in Real Estate-** Currently, 2000 projects with ~0.5mn units are stuck due to lack of funds. According to Liases Foras report, over last 10 years sales grew 1.56x while inventory increased by 4.72x.
- **Trade War-** Sino-US Trade war is showing no signs settling down, thus posing challenge on global demand. Indian exports remained negative for third straight month with 1% decline in Oct'19.
- **Rural Demand Depressed-** Despite PM-Kisan Yojna and other rural incentives, rural demand remains tepid. Rural demand for consumer staples grew at 0.5x of urban demand as against 1.5x an year back.
- **Consumer Confidence remained pessimistic-** Both current situation index (CSI) and the future expectation index (FEI) witnessed decline of 6pps and 6.7pps respectively. Consumers expect higher price levels and lower discretionary spending in coming months.
- **Unseasonal rainfall:** There has been extensive crop damage due to unseasonal rains in Maharashtra, MP (60lakh hectare) and Karnataka (9 lakh hectare). This has impacted soybean, pulses, cotton and groundnut crops. We believe crop damage and deflationary base will keep food inflation (6.9% in Oct'19) at elevated levels in coming months.
- **Poor Monetary Transmission:** Despite cumulative repo rate cut of 135bps, monetary transmission remains poor and incomplete. Repo-rate cut of 110bps till Aug'19 has resulted in decline of just 29bps in weighted average lending rate (WALR) by banks.

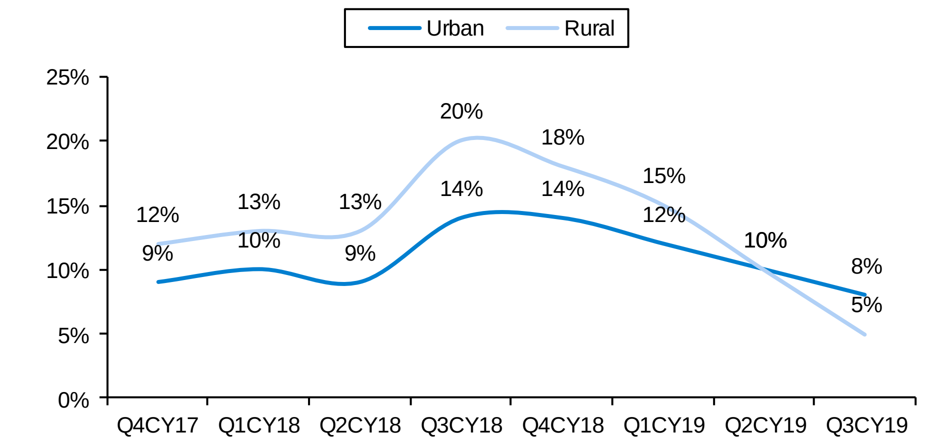
Positives

- **Fiscal stimulus:** GOI continue to provide fiscal stimulus like corporate tax cut, export incentives, recapitalization and merger of public sector banks and increase in capex which will help in economic revival with a lag.
- **Monetary easing to continue:** Benign core inflation (3.5% in Oct'19) and soft crude prices (Average Brent prices down 26% YoY in Oct'19) will provide room for rate cut. We except 25bps repo rate cup in Dec'19 MPC meeting. Monetary easing by RBI is likely to revive demand with a lag.
- **Benign Oil prices:** Despite some volatility, it is expected that oil prices will remain range bound due to trade tensions and global economic slowdown. Reduction in average oil prices (18% FYTD) has led to 15% reduction in oil import bill in FY20 till Oct'19.
- **Banking liquidity:** The banking liquidity remains in surplus mode from June with a quantum of Rs1tn and above. Net absorption in month of Oct'19 (till 20-Oct) stood at Rs1.98tn.
- **Real estate package:** Recent measure by GOI to kick start stuck projects by forming AIF Category II fund with Rs250bn likely to have a multiplier effect on economy and revive ailing real estate sector.
- **Normal monsoons:** With water reservoirs are at its optimum levels and improved soil moisture, the stage is set for higher rabi crop which will help revive rural demand.

Consumer Demand – No clear signs of a revival as yet

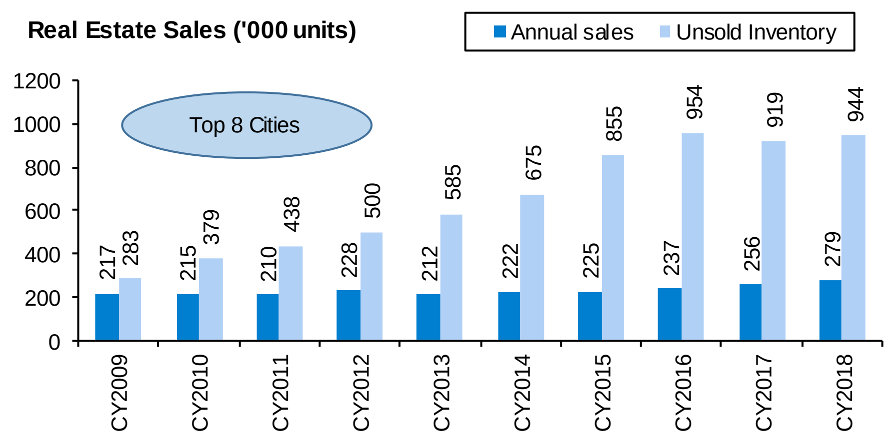
- Consumer demand remains tepid, Nielsen suggests that rural demand is now growing at 0.5x of urban demand for consumer staples as against 1.5x an year back, although it is still in positive territory.
- Automobile sales growth remain in negative zone since Dec2018, festival season has shown some recovery with MOM growth in October, however sustainability of the same is yet to established given poor momentum and impending BS VI transition.
- Real estate sales in top 8 cities have grown by just 5.7% CAGR in past 5 years. Ratio of unsold inventory to total units sold has increased by 22% in the past five years.
- Although GOI is taking various measures to revive growth, unseasonal rains may delay recovery in rural demand.

FMCG - Rural growth dropping below Urban growth



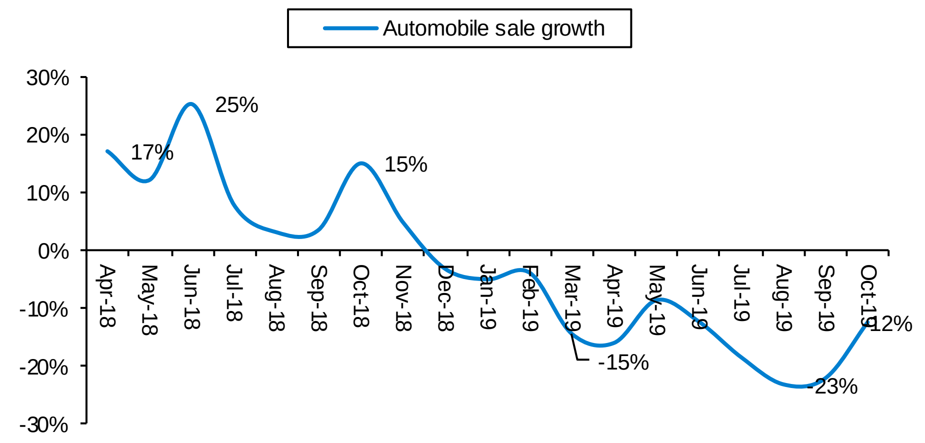
Source: PL

Over 10 years, sales grew by 1.56x while inventory by 4.72x



Source: PL

Automobile sector facing demand crisis from Dec'18



Source: SIAM, PL

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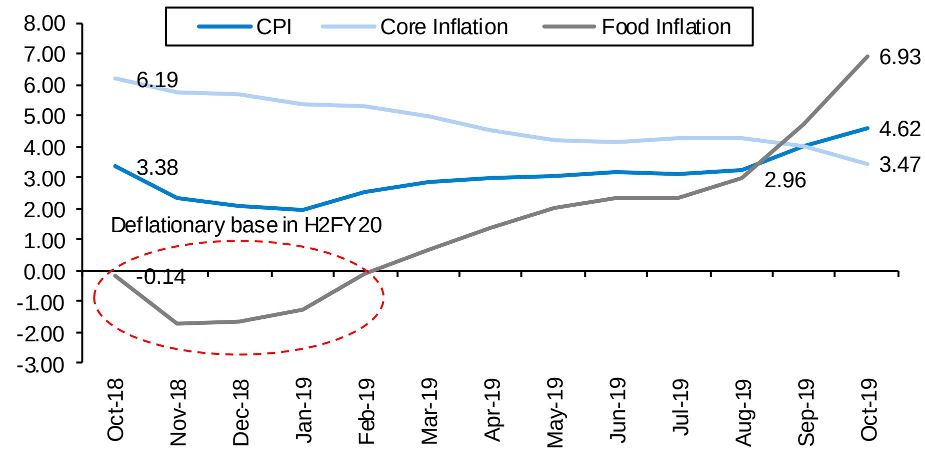
Core Inflation remains low – Food inflation set to rise further

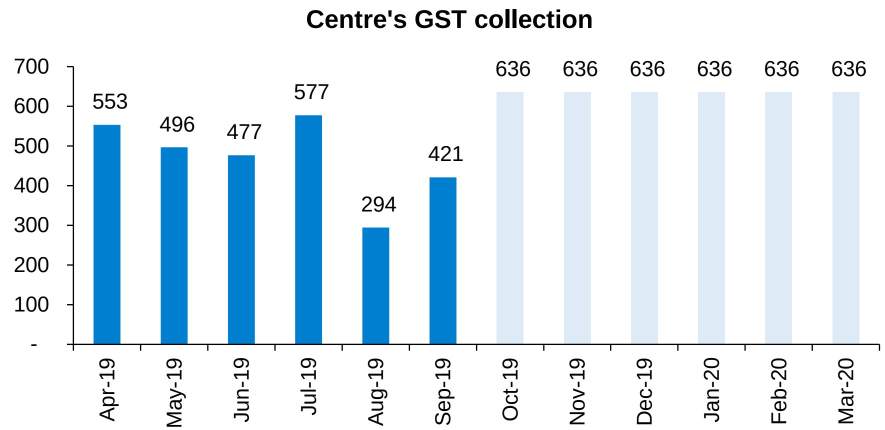
- Core inflation remains under control at 3.47% and benign oil prices are helping contain inflation. Food inflation has zoomed to 6.93% and low base in coming months will ensure that it remains above 5-6%. Unseasonal rains in a few states is likely to add to food inflation in coming months.
- Repo rate has been cut by 135bps since Feb2019 and we expect another 25bps rate cut in the near term given slowdown in economy and benign core inflation.
- Although oil prices have been a savior in this environment, any steep increase in food inflation and hence CPI may derail the scope of sustained cut in interest rates after December.

Inflation uptick to continue on account of deflationary food base



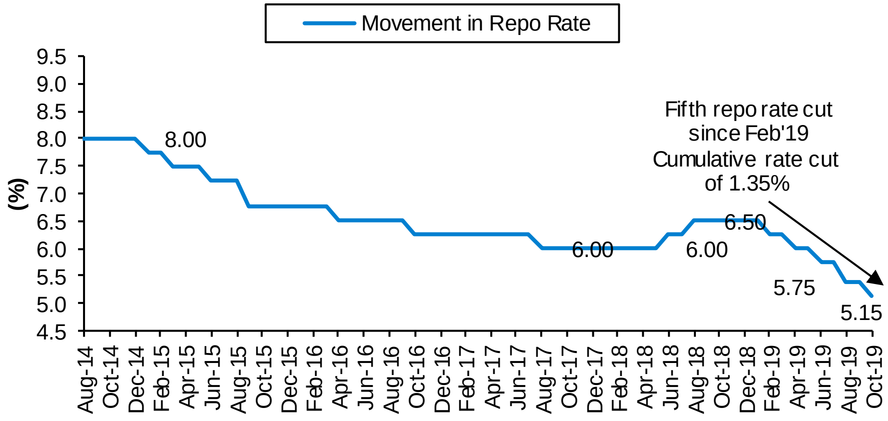
Source: MOSPI, PL

H1FY20 centre's GST Collection down by 3% on account of weak demand



Source: CGA, PL

135bps rate so far but transmission remained poor



Source: RBI, PL

Fiscal deficit - Set to cross 4% easily, Disinvestment top priority

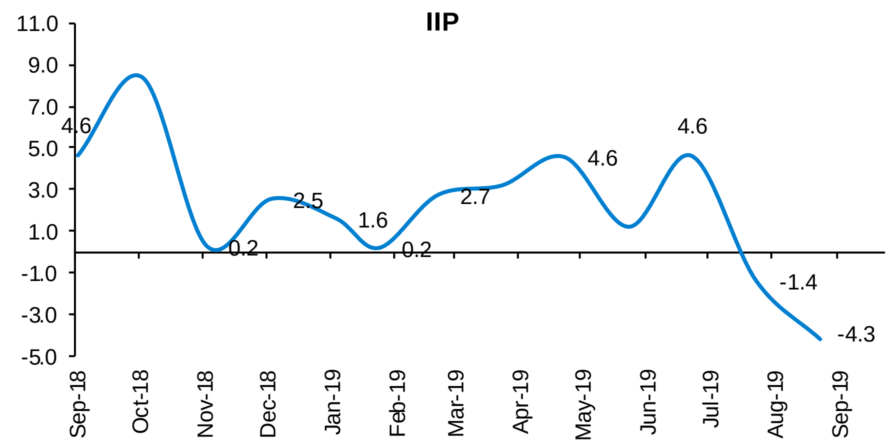
(Rs bn)	H1FY20	H1FY19	YoY gr.	H2FY20 Residual	H2FY19A	Growth	FY19A	FY20 BE	Growth	PL Est	Growth
Gross tax revenue	**9,195**	**9,058**	***2%***	**15,417**	**11,744**	***31%***	**20,802**	**24,611**	***18%***	**22,293**	***7%***
Corporation tax	2,493	2,437	*2%*	5,167	4,198	*23%*	6,636	7,660	*15%*	6,660	*0%*
Income tax	2,130	1,956	*9%*	3,560	2,661	*34%*	4,617	5,690	*23%*	5522	*20%*
Goods & Services Tax (GST)	2,818	2,899	*-3%*	3,815	2,941	*30%*	5,840	6,633	*14%*	6200	*6%*
Excise duties	959	1,006	*-5%*	2,041	1,304	*56%*	2,310	3,000	*30%*	2524	*9%*
Customs	718	645	*11%*	841	535	*57%*	1,179	1,559	*32%*	1387	*18%*
Less transfer to NDRF	8	8	*0%*	17	10	*71%*	18	25	*38%*	20.0	*11%*
Less states share	3,112	3,222	*-3%*	4,979	4,393	*13%*	7,615	8,091	*6%*	8091	*6%*
Net tax revenue	**6,074**	**5,828**	***4%***	**10,421**	**7,342**	***42%***	**13,170**	**16,495**	***25%***	**14,182**	***8%***
Total nontax revenue	2,090	1,090	*92%*	1,042	1,373	*-24%*	2,462	3,132	*27%*	3712	*51%*
Total revenue receipts	**8,165**	**6,918**	***18%***	**11,463**	**8,714**	***32%***	**15,632**	**19,627**	***26%***	**17,894**	***14%***
Non-debt Capital Receipts	**206**	**177**	***16%***	**992**	**852**	***17%***	**1,029**	**1,198**	***16%***	**1198**	***16%***
Recoveries of Loans	82	78	*6%*	66	101	*-34%*	178	148	*-17%*	148	*-17%*
Other receipts (Disinvestment)	124	99	*24%*	926	751	*23%*	850	1,050	*23%*	1050	*23%*
Total Receipts	**8371**	**7095**	***18%***	**12455**	**9566**	***30%***	**16661**	**20826**	***25%***	**19092**	***15%***
Revenue Expenditure	13011	11416	*14%*	11472	8669	*32%*	20085	24483	*22%*	24102	*20%*
Capital Expenditure	1875	1626	*15%*	1505	1403	*7%*	3030	3381	*12%*	3636	*20%*
Total Expenditure	**14,886**	**13,042**	***14%***	**12,977**	**10,072**	***29%***	**23,114**	**27,863**	***21%***	**27737**	***20%***
Fiscal Deficit								**7038**		**8645**	
% of GDP								*3.3%*		*4.2%*	
GDP implied								**2,11,006**		**2,05,364**	

- 1HFY20 net tax revenue has grown by just 4% as slowdown in economy is reflected in poor GST collections. Excise collections have dipped as July excise increase has not been able to fully compensate the impact of benign prices and poor volume growth. Special dividend from RBI of Rs0.58tn 0.58tn (after deducting already budgeted amount of Rs0.9tn from total of Rs1.48tn) has been a savior. 1H revenue and capital expenses have grown by 14-15% as Govt pushes for growth to bring the economy back on rails.
- Residual growth in net tax revenue for 2H is estimated at 42% which incudes 56%, 57%, 23%, 34% and 30% increase in excise duty, customs, corporate tax, Income tax and GST. We believe achieving corporate tax number is impossible given Rs1450bn tax cuts announced recently.
- Even if GOI is able to garner Rs1050bn from disinvestment, fiscal deficit is likely to cross 4.2% of GDP (assuming 5.5% GDP growth in FY20 (5% in 1Q and ~4.5% in 2Q)). Our estimates are still conservative and assume flattish corporate tax despite tax cuts, 6% GST collections despite 3% decline in 1H. We expect all out effort by GOI to expedite the divestment of stakes in BPCL, Air India and part stake in Concor to control deteriorating fiscal situation.

Industries in contractionary mode; recovery to take time

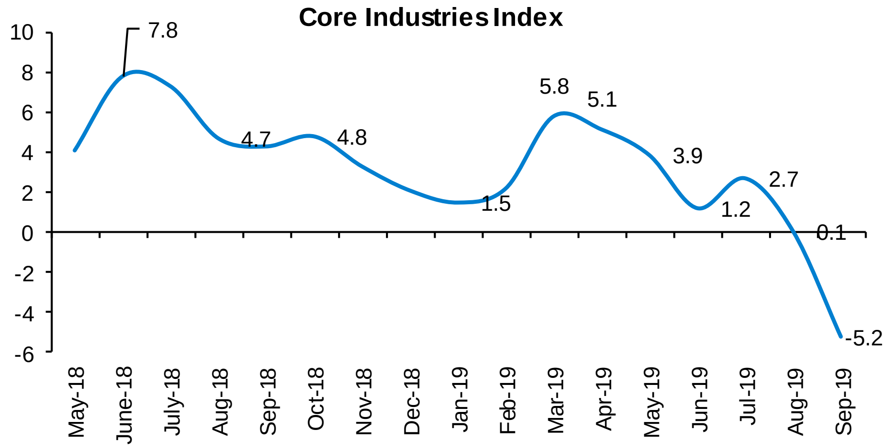
- **Industrial production (IIP)** shrinkage expanded to -4.3% in Sep'19 from -1.4% in Aug'19 and 4.6% in Sep'18 YoY due to severe contraction in mining and electricity. Mining activities and electricity generation contracted by 8.5% as a result of floods in major areas & lack of industrial demand.
- **Core sector** contracted by 8.5% in Sep'19 with major de-growth in coal by 20% and refinery products by 6.6% due to floods impacting mining activities. Only fertilizer recorded positive growth of 5.5% in Sep'19.
- **Composite PMI remained in contractionary phase** with index at 49.6 in Oct'19 vs 49.8 in Sep'19 as manufacturing activity slipped from 51.4 in Sep'19 to 50.6 in Oct'19 due to weaker factory order & falling job creation. PMI Service remained contractionary in Oct'19 to 49.2 vs 48.7 in Sep'19 indicating subdued demand.

Worst performance of Industrial output since Oct'11; H1FY20 IIP at 1.3%



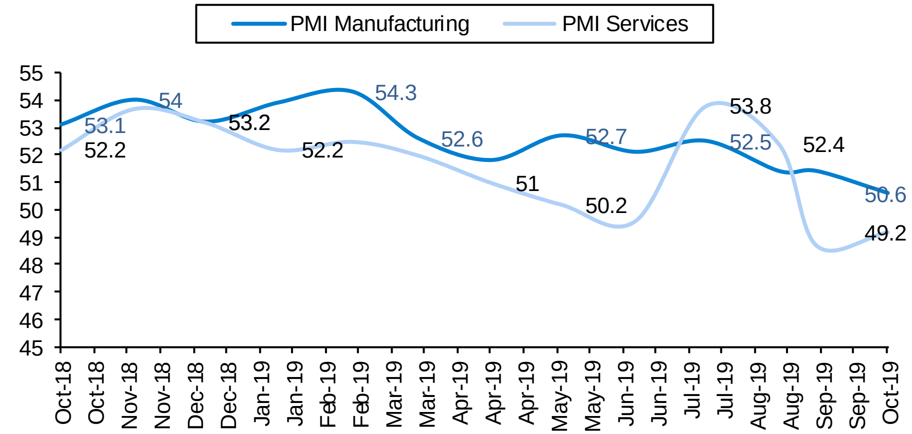
Source: Ministry of Commerce, PL

Core industries contracted by 5% on account of floods in India



Source: Ministry of Commerce, PL

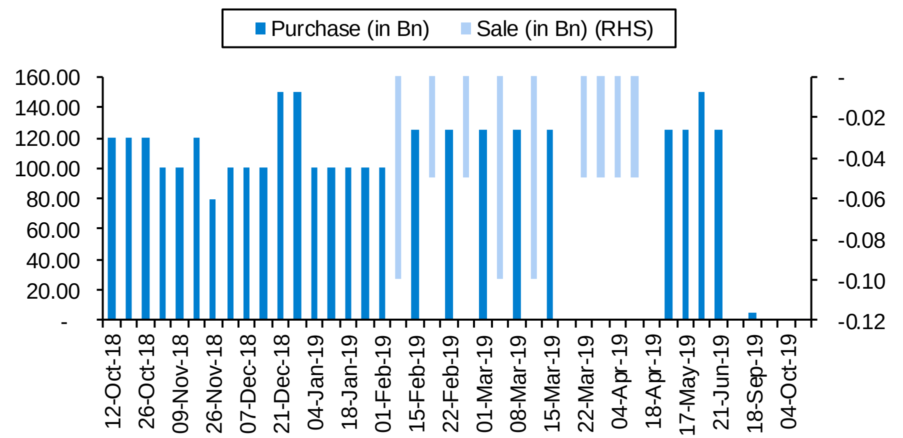
Subdued demand and fragile economic scenario impacts PMI



Source: Ministry of Commerce, PL

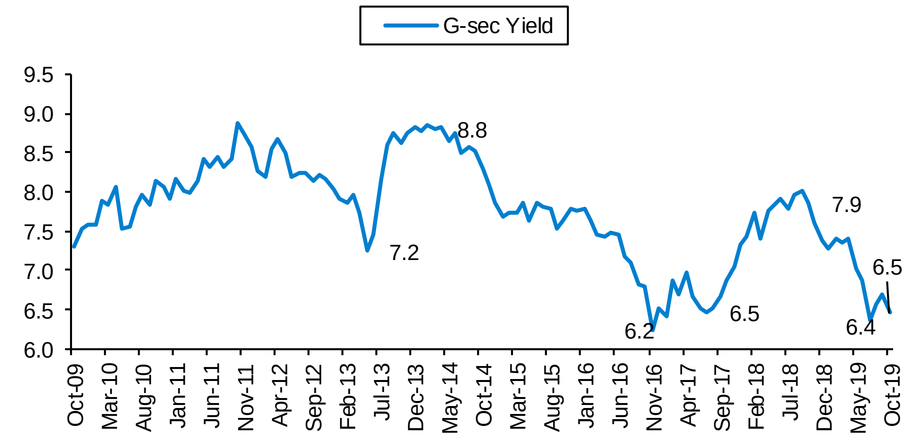
Liquidity remained in surplus mode

RBI injected Rs400mn durable liquidity through OMO in Oct



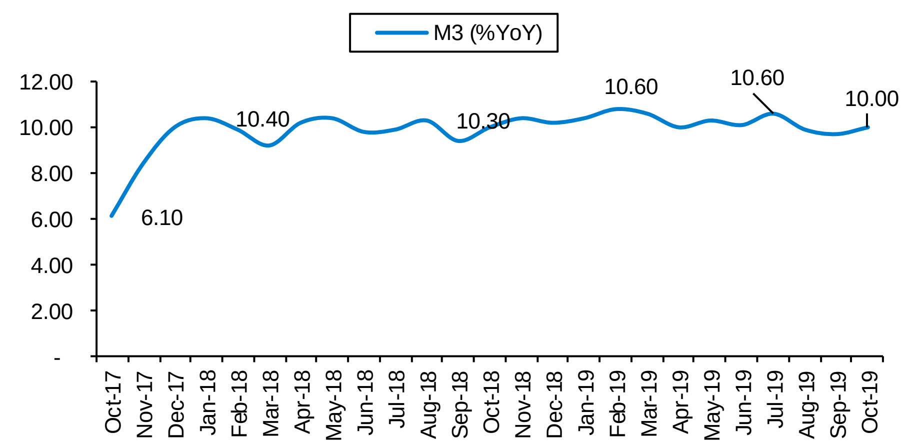
Source: RBI, PL

G-sec yield fell by 25bps in Oct'19 MoM



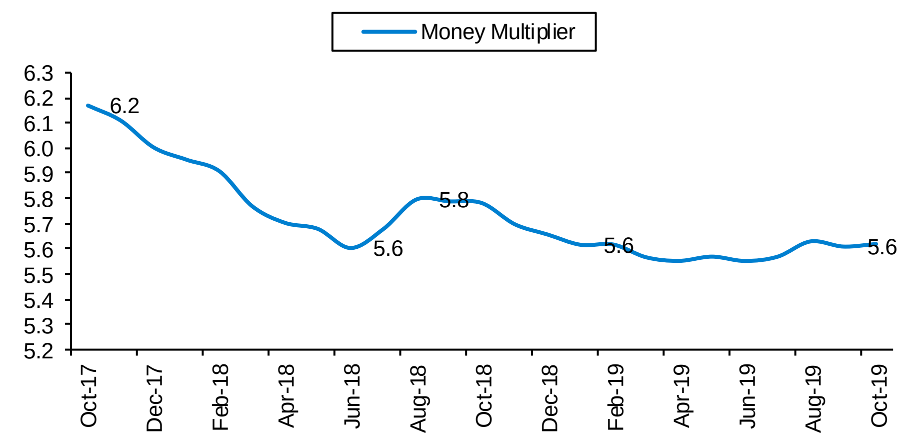
Source: Bloomberg, PL

Money supply hovering in range of 10-11% in last 22 months



Source: RBI, PL

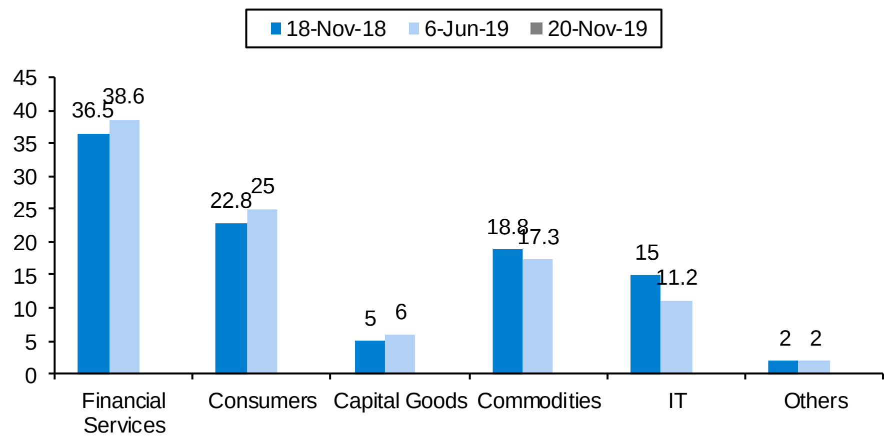
Money multiplier stable at 5.6 for past 10-months



Source: RBI, PL

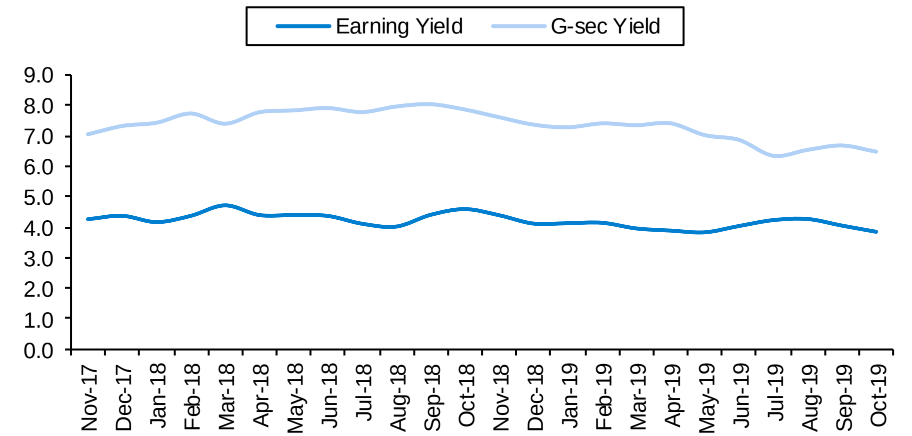
Market Scenario

PL Model Portfolio changes



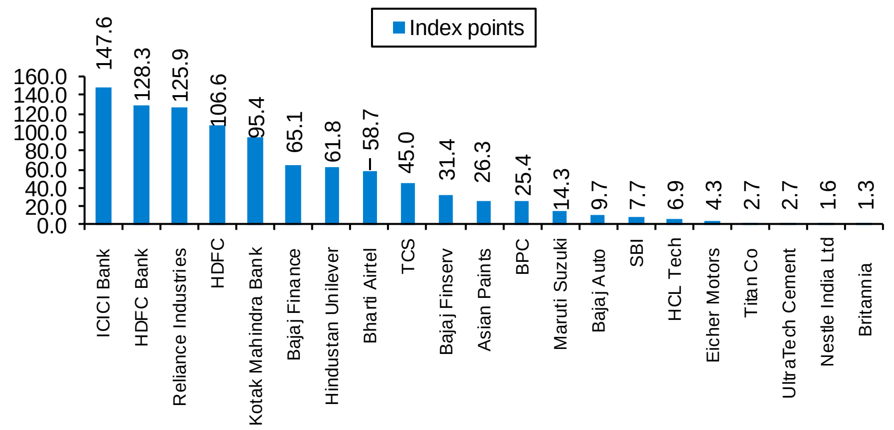
Source: PL

Both earning yield and G-sec yield eased by 20bps (MoM) in Oct'19



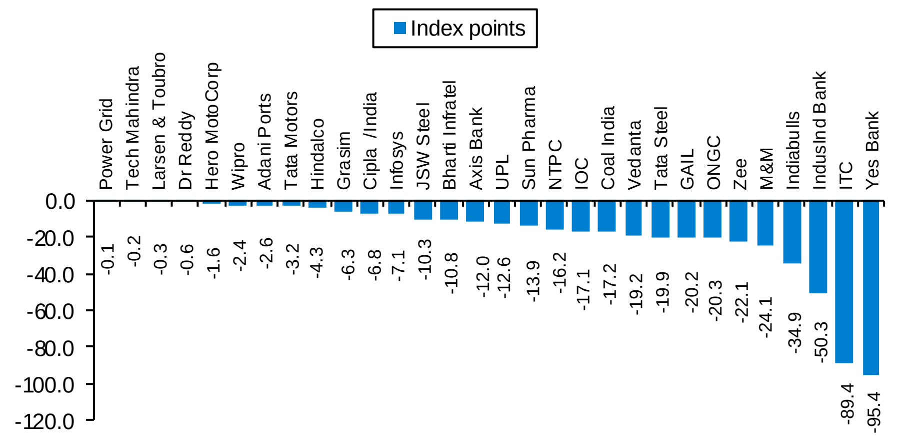
Source: Bloomberg, PL

Nifty 50 - positive contributors (FYTD)



Source: PL

Nifty 50 - negative contributor (FYTD)

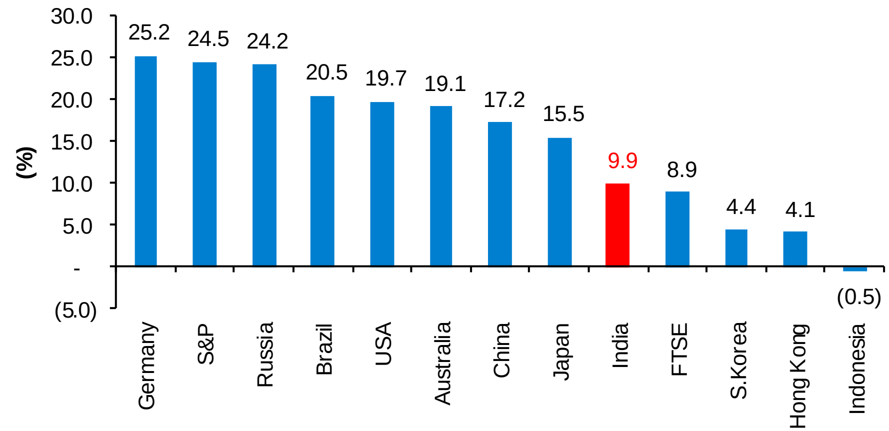


Source: PL

NIFTY 5th worst preforming Index on slowdown bites

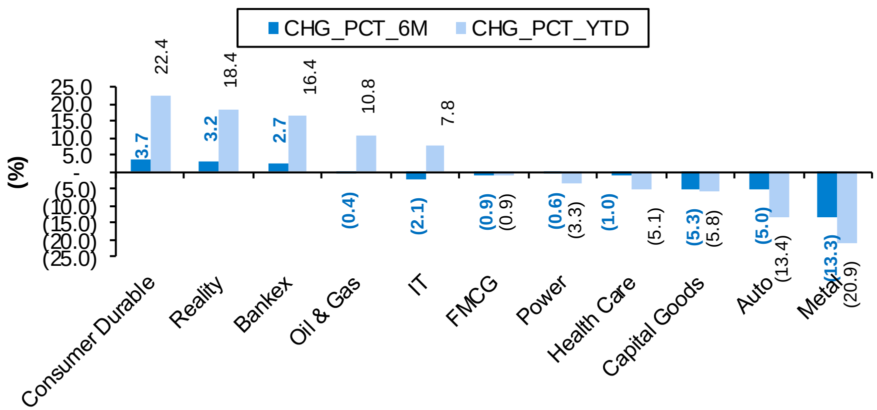
- Nifty gained a bit of momentum and is now 5th worst performing market YTD with 9.9% return as against 4.1% return and 4th worst performer in Oct on impact of slowdown on economy.
- Auto, Metals, Cap Goods, Healthcare, FMCG are in red. Real Estate and Oil and Gas seen a catch-up in past couple of months.
- Markets still remain large cap focused, NIFTY and Sensex have outperformed BSE 100 and BSE 500. BSE Mid Cap and Small cap have seen some catch up, although they still remain negative.
- Recent meltdown has spread to large caps also even as small caps are suffering big time, without any relief

Nifty has given just 1.8% return YTD, 4th worst performing market



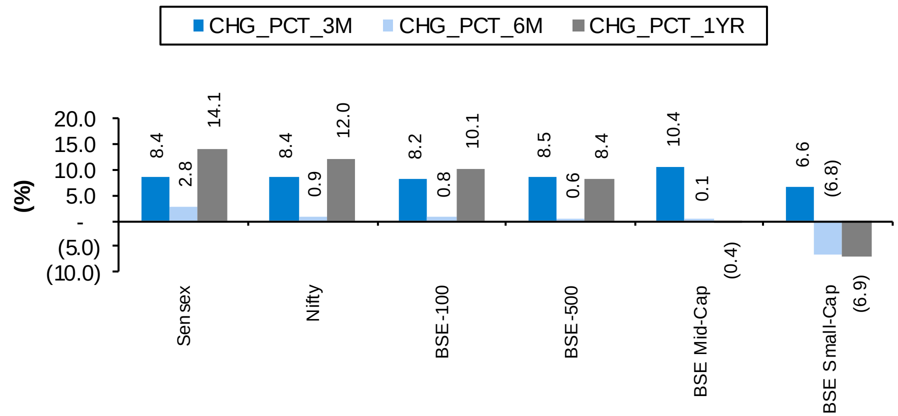
Source: Bloomberg, PL

Consumer Durables, Realty, Bankex and Oil and Gas outperform



Source: Bloomberg, PL

Market remains focused on large caps, small and mid caps underperform

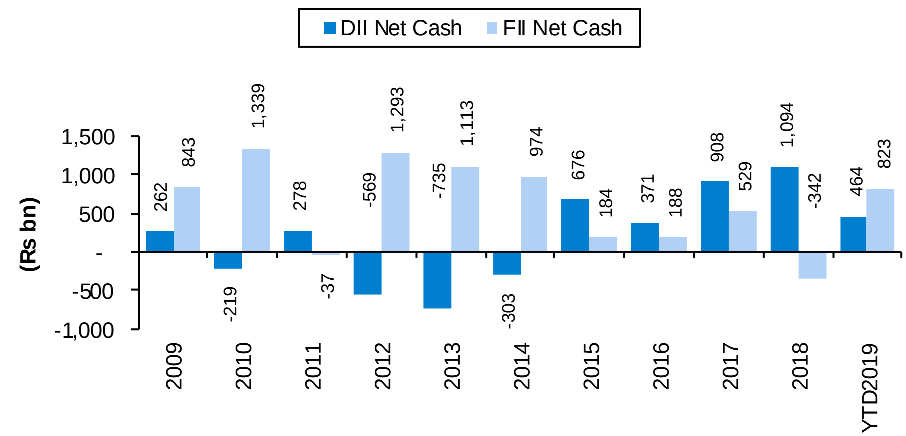


Source: Bloomberg, PL

FII Inflows at Rs254bn in past 7 weeks, highest since 2014, DII net sellers

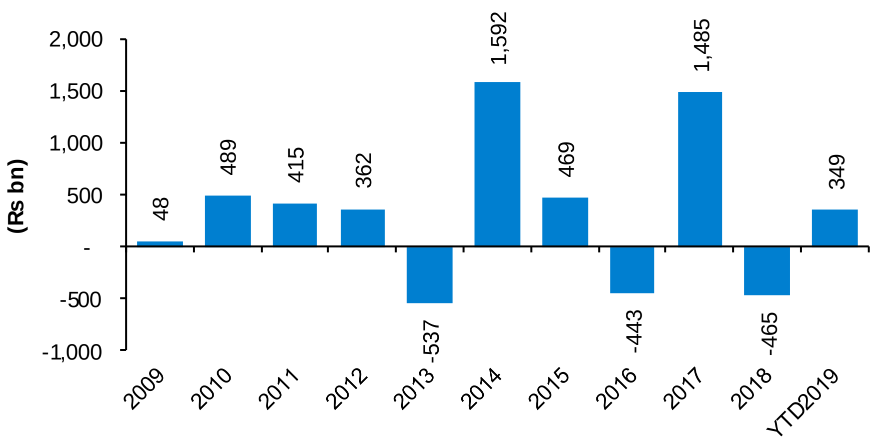
- DII inflows at Rs464bn YTD have declined by 13bn in past 7 weeks showing profit booking at higher levels, current year inflows are only 42% of inflows in CY2018.
- Equity FII inflows have seen a sharp pickup with an inflow of Rs254bn since beginning of October. YTD inflows are at highest level since 2014, thus resulting in pickup in NIFTY returns in past month
- Debt outflows stemmed, although inflows are insignificant
- Markets have strong correlation with FII inflows, however looking at 4.1% returns in CY18 with Rs342bn outflow and 1.3% returns so far with Rs581bn inflow seem skewed given run up before elections.

DII inflows negative, YTD FII inflows already at 5 year high



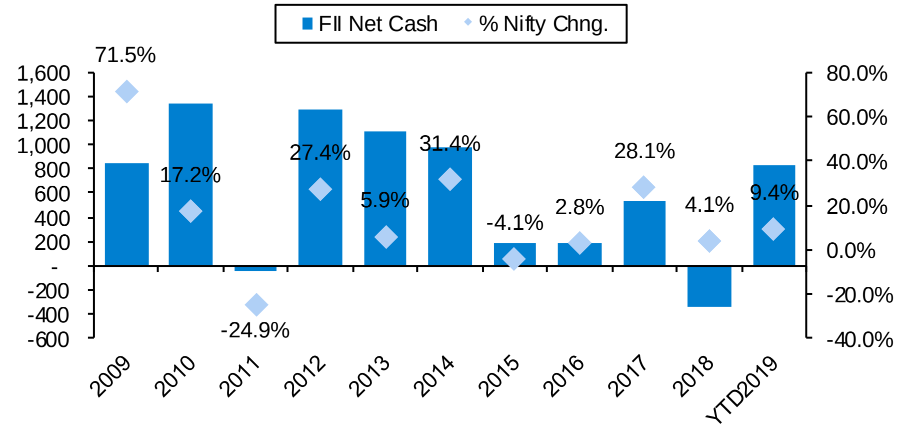
Source: Bloomberg, PL

YTD FII Debt inflows up 26% since October Beginning



Source: Bloomberg, PL

FII inflows (Rs823bn) with 9.9% NIFTY returns show strong co-relation



Source: Bloomberg, PL

2QFY20 – Performance Snapshots – downgrades outweigh upgrades

- Aggregate sales were lower than estimates by 1.7%, EBIDTA was higher by 14.4% (led by IND AS 116), PBT (comparable) was lower than estimates by 7.7%.
- Metals, Oil and Gas, Agri and Aviation were worst suffers with PBT lower than estimates by 24.1%, 15.6%, 6.2% while Aviation reported loss.
- Education, Metals and Media had maximum sales beat, while Oil and Gas and Financial services had maximum disappointment. Consumption pack also disappointed across auto, Consumer and Durables, all below estimates.
- Thyrocare, Dr Reddy, Motherson, IGL and Petronet were among major EPS upgrades. Major downgrades were Interglobe Aviation, Radio (Music Broadcast and ENIL), Capital Goods (BHEL, GE T&D, Apar, Thermax) and Oil marketing companies (HPCl and BPCl). L&T Finance, UPL and Havells also saw major cut in FY20 estimates.
- We have upgraded Infosys, JSPL, S Chand and Lupin while there is long list of downgrades. 5 stocks in consumer universe (Avenue Supermarts, Nestle, Pidilite, Titan and Marico) have seen one notch downgrade in ratings due to sky high valuations and growth issues. ACC, TCS, Dr lal and Interglobe are other notable downgrades.

	Revenue (Rs m)			EBITDA (Rs m)			PBT (Rs m)		
	Estimate	Actual	% Chng.	Estimate	Actual	% Chng.	Estimate	Actual	% Chng.
Agri Chemicals	1,21,644	1,19,965	-1.4%	23,093	22,616	-2.1%	13,006	12,206	-6.2%
Automobiles	14,46,303	14,07,272	-2.7%	1,30,288	1,58,856	21.9%	48,924	86,238	76.3%
Aviation	1,11,817	1,09,505	-2.1%	17,625	367	-97.9%	-2	-16,766	NM
Banks	8,08,191	8,27,228	2.4%	3,09,908	6,48,151	109.1%			
Capital Goods	7,15,171	6,97,658	-2.4%	1,45,321	1,39,871	-3.8%	90,786	83,298	-8.2%
Cement	1,99,064	2,06,885	3.9%	42,503	39,259	-7.6%	29,603	25,187	-14.9%
Consumer Durables	48,606	47,281	-2.7%	4,909	4,950	0.8%	4,993	4,973	-0.4%
Consumer Staples	6,03,187	5,98,840	-0.7%	1,33,737	1,35,953	1.7%	1,25,885	1,28,100	1.8%
Education	2,270	2,734	20.4%	-254	-319	NM	-491	-526	NM
Financial Services	1,42,794	1,33,739	-6.3%	1,10,676	1,33,005	20.2%			
Information Tech.	13,11,077	13,13,555	0.2%	2,71,118	2,65,228	-2.2%	2,64,736	2,56,445	-3.1%
Media	15,079	16,696	10.7%	4,721	5,319	12.7%	807	1,408	74.4%
Metals	9,19,799	11,15,543	21.3%	1,63,872	1,59,178	-2.9%	83,380	63,245	-24.1%
Oil & Gas	42,07,795	38,67,336	-8.1%	4,81,067	4,01,549	-16.5%	3,51,570	2,96,888	-15.6%
Pharmaceuticals	3,68,112	3,67,752	-0.1%	70,773	69,992	-1.1%	57,397	54,799	-4.5%
PL Universe	**1,10,20,910**	**1,08,31,988**	**-1.7%**	**19,09,358**	**21,83,973**	**14.4%**	**10,70,595**	**9,95,494**	**-7.7%**

2Q disappoints both on sales and PBT front

- 2Q sales excluding banks and NBFC declined by 5.2% while PBT declined by 17.4%.
- Agro chemicals, Aviation and media reported 52%, 35.9% and 30.8% increase in sales YoY. Auto, Metals Oil and Gas and Specialty chemicals reported a decline of 14.4%, 13.6%, 11.4% and 21.1% in sales.
- Media (led by multiplexes) and cement were best performers in terms of PBT with 29.2% and 55.3% growth in PBT. Metals, Auto, Oil and Gas and Specialty chemicals reported a sharp decline of 65.5%, 23%, 22% and 24.7% in PBT
- Among defensives consumers reported PBT growth of 9.6%, while Pharma and IT grew by 3.9% and 0.1% respectively.

Sector	Revenue			PBT					
	Sep-19	Sep-18	*YoY gr. (%)*	Sep-19	Sep-18	*YoY gr. (%)*	2019	2016	*3 Yr CAGR*
Agro Chemicals	119,965	78,894	*52.1*	12,206	11,125	*9.7*	37,841	28,446	*10.0*
Automobiles	1,192,411	1,393,283	*-14.4*	74,199	95,267	*-22.1*	328,242	416,119	*-7.6*
Auto Ancillary	214,861	212,591	*1.1*	12,039	14,340	*-16.0*	62,286	46,327	*10.4*
Aviation	109,505	80,601	*35.9*	-16,766	-13,774	*21.7*	-4,000	32,096	*-49.9*
Capital Goods	697,658	647,602	*7.7*	83,298	80,963	*2.9*	366,258	202,307	*21.9*
Consumer Durables	47,281	46,502	*1.7*	4,973	5,118	*-2.8*	24,578	14,058	*20.5*
Cement	206,885	196,548	*5.3*	25,187	16,216	*55.3*	106,754	72,853	*13.6*
Consumer Staples	598,840	555,168	*7.9*	128,100	116,884	*9.6*	476,640	252,521	*23.6*
Education	2,734	2,741	*-0.3*	-526	-419	*25.6*	1,692	2,617	*-13.5*
Information Technology	1,313,205	1,206,696	*8.8*	256,239	255,936	*0.1*	1,013,930	815,870	*7.5*
Logistics & Ports	17,387	18,223	*-4.6*	3,532	4,686	*-24.6*	16,889	13,080	*8.9*
Media	16,696	12,765	*30.8*	1,408	1,089	*29.2*	6,843	4,623	*14.0*
Metals	1,115,543	1,290,814	*-13.6*	63,245	183,470	*-65.5*	835,536	225,835	*54.7*
Midcaps	4,123	4,018	*2.6*	408	492	*-17.1*	2,149	951	*31.2*
Oil & Gas	3,852,383	4,345,780	*-11.4*	294,702	382,558	*-23.0*	1,617,658	1,061,925	*15.1*
Pharma	367,752	328,562	*11.9*	54,799	52,762	*3.9*	208,348	224,122	*-2.4*
Specialty Chemicals	14,954	18,957	*-21.1*	2,186	2,901	*-24.7*	10,502	5,261	*25.9*
Total (Excl. Banks & NBFC)	**9,892,179**	**10,437,744**	***-5.2***	**999,228**	**1,209,613**	***-17.4***			

Key EPS & Rating Changes

EPS

Upgrade

FY20E	Current	Previous	% Chng.
Thyrocare Technologies	25.3	18.6	36.0
South Indian Bank	1.8	1.5	20.5
Dr. Reddy's Labs.	168.8	141.9	19.0
Motherson Sumi Systems	5.3	4.5	16.5
Indraprasth Gas	15.2	13.2	15.6
Tata Motors	4.2	3.6	15.4
Exide Industries	10.9	9.6	14.3
Petronet LNG	22.3	19.5	14.2
Hero Motocorp	157.5	141.0	11.7
Maruti Suzuki	214.3	194.1	10.4

Downgrade

FY20E	Current	Previous	% Chng.
InterGlobe Aviation	33.3	55.8	-40.4
Music Broadcast	1.5	2.4	-37.4
GE T&D India	3.5	5.5	-36.5
Indoco Remedies	5.1	7.7	-33.7
Entertainment Network India	10.1	15.2	-33.5
Thermax	26.9	37.7	-28.7
UPL	29.1	38.6	-24.5
L&T Finance Holdings	8.8	11.3	-22.2
BHEL	3.4	4.4	-22.1
HPCL	28.7	36.7	-21.7
BPCL	38.2	47.4	-19.4
Apar Industries	44.1	54.5	-19.0
Sharda Cropchem	18.4	22.5	-18.3
Havells India	12.4	14.9	-16.5

Rating

Upgrade

	Current Rating	Previous Rating
Infosys	BUY	Accumulate
Jindal Steel & Power	BUY	Accumulate
S Chand & Co.	Accumulate	HOLD
Indoco Remedies	HOLD	Reduce
Lupin	HOLD	Reduce

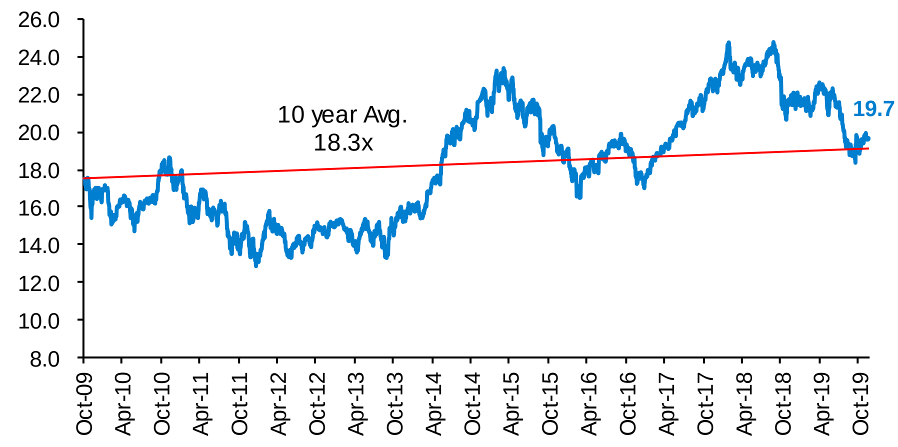
Downgrade

	Current Rating	Previous Rating
PI Industries	HOLD	BUY
InterGlobe Aviation	HOLD	BUY
ACC	Accumulate	BUY
Titan Company	HOLD	BUY
TCS	HOLD	BUY
Aurobindo Pharma	HOLD	BUY
Bharat Electronics	HOLD	Accumulate
Pidilite Industries	HOLD	Accumulate
Cadila Healthcare	HOLD	Accumulate
Dr. Lal PathLabs	HOLD	Accumulate
GE T&D India	Reduce	HOLD
Avenue Supermarts	Reduce	HOLD
Marico	Reduce	HOLD
Nestle India	Reduce	HOLD
CEAT	Sell	Reduce

NIFTY: 12 month target of 12993, watch for growth revival, PSU divestment

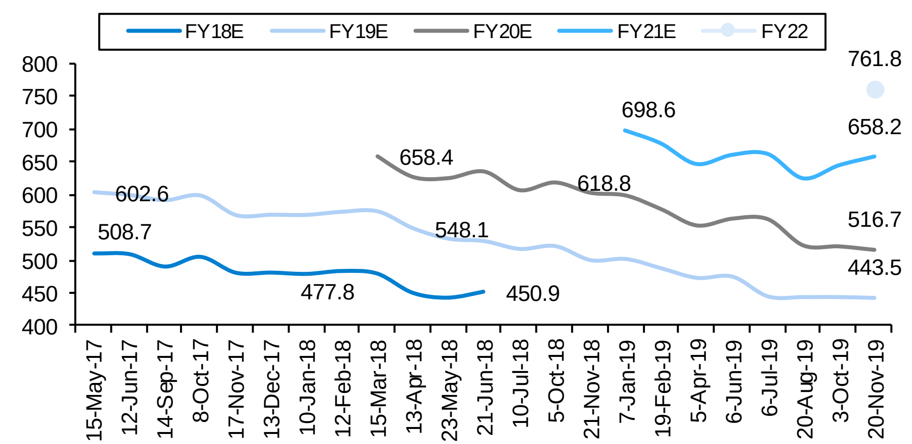
- NIFTY EPS has seen a cut of 1% for FY20 while FY21 has seen 2% upgrade. we now estimate NIFTY EPS growth of 16.1% in FY20 and 27.3% in FY21 (led by Banks and Auto). We also introduce FY22 EPS at Rs761.8 and estimate 19.6% EPS CAGR over FY19-22. Our estimates are 4.6%, 3.4% and 3.5% lower then consensus for FY20,21 and 22.
- NIFTY is currently trading at 19.7x 1-year forward EPS (19.4 earlier) which shows 7.6% premium (12.3% in July4) to LPA of 18.3.
- ***NIFTY gains would be a function of economic revival and FII inflow. We assign multiple of 18.3xSept21 EPS and arrive at 12 month NIFTY target of 12993 (12488 earlier at 19xFY21 EPS). we would watch out for recovery in domestic demand, PSU divestment and global trade wars as key monitorable in the coming months.***

Nifty 1-yr forward PE



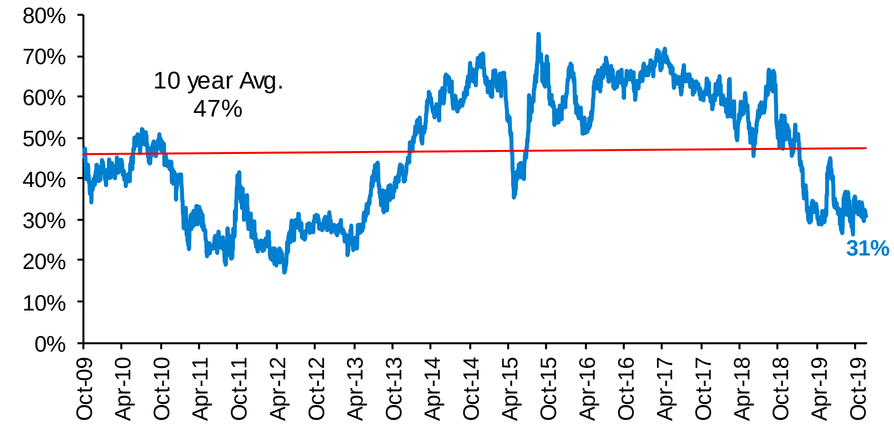
Source: Bloomberg, PL

NIFTY has history of EPS Downgrades



Source: Bloomberg, PL

MSCI India Premium to MSCI Asia (Ex-Japan)



Source: Bloomberg, PL

NIFTY EPS cut by 1% for FY20, FY21 Estimates up 2%

	Weight-age (%)	FY19	FY20E	FY21E	FY22E
Banking & Fin.	**40.9%**				
PER (x)		48.4	31.4	20.1	16.2
PAT Growth (%)		20.2	53.8	56.7	23.6
Technology	**12.9%**				
PER (x)		21.0	20.1	18.0	16.6
PAT Growth (%)		14.4	4.4	11.8	8.1
Oil & Gas	**13.0%**				
PER (x)		14.2	13.9	12.7	11.0
PAT Growth (%)		5.7	2.0	9.5	15.3
Consumer	**11.8%**				
PER (x)		48.8	39.4	36.1	32.0
PAT Growth (%)		14.1	23.7	9.2	12.9
Auto	**5.8%**				
PER (x)		25.5	24.3	17.4	15.4
PAT Growth (%)		(29.9)	5.1	39.7	12.6
Eng. & Power	**5.4%**				
PER (x)		13.1	12.3	10.8	9.5
PAT Growth (%)		19.8	6.7	14.0	13.9
Metals	**3.0%**				
PER (x)		6.8	8.6	8.0	7.1
PAT Growth (%)		52.5	(20.8)	7.3	12.9
Pharma	**2.1%**				
PER (x)		28.7	20.8	21.7	19.9
PAT Growth (%)		39.9	37.9	(4.3)	9.4
Telecom	**2.0%**				
PER (x)		93.6	(61.6)	87.7	41.6
PAT Growth (%)		(19.2)	(251.9)	(170.2)	111.2

	Weight-age (%)	FY19	FY20E	FY21E	FY22E
Cement	**0.9%**				
PER (x)		48.6	24.4	24.1	23.0
PAT Growth (%)		9.5	98.9	1.3	4.8
Others	**0.6%**				
PER (x)		15.5	5.7	5.2	4.6
PAT Growth (%)		(33.8)	170.4	11.1	12.6
Media	**0.4%**				
PER (x)		17.5	14.3	12.9	11.5
PAT Growth (%)		5.9	22.4	10.8	12.2
Ports & Logistics	**0.6%**				
PER (x)		6.9	6.1	5.2	4.7
PAT Growth (%)		8.6	12.6	17.0	10.1
Agro Chemicals	**0.6%**				
PER (x)		14.5	12.3	8.0	6.9
PAT Growth (%)		(3.1)	17.2	54.7	16.0
Nifty as on Nov 19	**11,940**				
EPS (Rs) - Free Float		**443.5**	**516.7**	**658.2**	**761.8**
Growth (%)		**4.1**	**15.4**	**27.4**	**15.7**
PER (x)		**26.7**	**23.1**	**18.1**	**15.7**
EPS (Rs) - Free Float - Nifty Cons.		**443.5**	**541.8**	**681.6**	**789.2**
Var. (PLe v/s Cons.) (%)		**-**	**(4.6)**	**(3.4)**	**(3.5)**
Sensex as on Nov 19	**40,470**				
EPS (Rs) - Free Float		**1,330.7**	**1,781.3**	**2,286.0**	**2,669.8**
Growth (%)		**6.4**	**15.3**	**28.3**	**16.8**
PER (x)		**30.4**	**22.7**	**17.7**	**15.2**
EPS (Rs) - Free Float - Sensex Cons.		**1,330.7**	**1,721.4**	**2,207.9**	**2,592.3**
Var. (PLe v/s Cons.) (%)		**-**	**3.5**	**3.5**	**3.0**

2Q Sectoral Snapshot

Agri-Inputs – Prolonged Monsoons Impact 2Q

- Plentiful and continuous rainfall in August and September impacted agrochemical sales. Continuous rains during the peak pest infestation period led to lower pest multiplication which impacted the insecticides and fungicide sales. ~30-day delay in season has shifted season from September to October. Torrential rains in many areas also limited the sale of agrochemicals. Ex-UPL, on an aggregate basis, the revenue growth in the coverage universe was 12.5% driven by PI Industries and Rallis India. Gross margin and PBT margin had contracted by 220 bps and 77 bps to 37.3% and 16.5% respectively for the Ex-UPL coverage universe.
- For the industry, 1H'20 export volumes and value are up 1.7% and 13.3% YoY respectively. Import volume is down 7.6% while value is up 3.9% respectively over the same period.
- With very good monsoons, full water reservoir levels and increased soil moisture we are poised for a good Rabi season from agrochemical consumption perspective.

Q2FY20 Result Snapshot

(Rs mn)	Sales			EBITDA			PBT		
	Q2FY20	*YoY gr.*	*QoQ gr.*	Q2FY20	*YoY gr.*	*QoQ gr.*	Q2FY20	*YoY gr.*	*QoQ gr.*
BYRCS IN	12,941	*17.2%*	*95.0%*	2,468	*12.9%*	*99.2%*	2,437	*12.6%*	*107.6%*
DAGRI IN	4,020	*4.9%*	*83.6%*	734	*-3.0%*	*267.5%*	719	*-3.7%*	*244.8%*
INST IN	5,031	*9.8%*	*40.4%*	720	*4.1%*	*14.1%*	621	*-0.1%*	*20.5%*
PI IN	9,074	*25.5%*	*20.3%*	1,919	*42.6%*	*26.8%*	1,688	*37.5%*	*28.2%*
RALI IN	7,487	*14.5%*	*20.1%*	1,187	*-3.8%*	*25.2%*	1,049	*-12.2%*	*20.7%*
SHCR IN	3,242	*4.7%*	*-23.4%*	198	*-42.9%*	*-66.5%*	-47	*-116.3%*	*-113.9%*
UPLL IN	78,170	*83.6%*	*-1.1%*	15,390	*83.4%*	*23.5%*	5,740	*17.6%*	*92.6%*

Source: Company Data, PL Research

Sharp gross and PBT margin contraction across many companies

(Rs mn)	Gross margin			EBITDA margin			PBT margin		
	Q2FY20	*YoY (bps)*	*QoQ (bps*	Q2FY20	*YoY (bps)*	*QoQ (bps*	Q2FY20	*YoY (bps)*	*QoQ (bps*
BYRCS IN	42.1%	*30*	*-767*	22.7%	*320*	*150*	21.9%	*234*	*45*
DAGRI IN	35.0%	*-513*	*94*	18.3%	*-147*	*913*	17.9%	*-159*	*835*
INST IN	25.8%	*-417*	*-425*	14.3%	*-78*	*-329*	12.3%	*-121*	*-203*
PI IN	42.4%	*-51*	*-234*	21.1%	*253*	*107*	18.6%	*162*	*114*
RALI IN	36.1%	*-584*	*-204*	15.8%	*-302*	*65*	14.0%	*-425*	*7*
SHCR IN	27.0%	*-403*	*-84*	6.1%	*-509*	*-787*	-1.5%	*-1,086*	*-956*
UPLL IN	50.6%	*-537*	*463*	19.7%	*-2*	*393*	7.3%	*-412*	*357*

Source: Company Data, PL Research

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Management Commentary

- **Bayer:** Business recovered in Q2 with good Kharif planting aided by strong performance in key crops including corn and vegetables. The management expects a favorable Rabi season with improvement in water availability across India.
- **Dhanuka Agritech:** Gross margin contracted (despite declining raw material price) due to old high cost inventory lying in the system. New launches have received good response and are expected to drive growth. Conventional products are flat or are on a declining trend. Outlook for Rabi season is good as initial indications are positive.
- **Insecticides India:** EBITDA margin contracted due to decline in technical price. Regulatory hassles impacting product pipeline. Exports growth slowed due to restrictions from Iran, Pakistan, Sudan, etc. For Bispyribac Sodium, brand sales have gone up while B2B sales have declined.
- **PI Industries:** Guidance maintained. Pyroxasulfone is in early stages of launch. Domestic production of Bispyribac sodium has started. Severe weather impacted domestic business in key product segments. Pipeline of new registrations happening in domestic market and also the scale-up plans of the products which are already launched. Clear visibility of order inflow and products getting commercialised in the CSM segment.
- **Rallis India:** Lower pest infestation and short duration crops impacted agchem sales. Revised credit terms seeing good traction. Pendimethalin and Metribuzin prices have seen significant drop in India. Looking at Metribuzin backward integration, impact of which will come in 1QFY21. Good line of sight for investments that are underway.
- **Sharda Cropchem:** Adverse weather conditions continue to impact agchem sales in NAFTA region. Facing big resistance for any price pass on to the customers. Difficult to give guidance given the uncertainties around weather and political situation.
- **UPL:** Gross margin contraction due to higher sales to LatAM and competition in tepid markets of North America & Europe. Maintain FY20 guidance. Debt is expected to peak in Q3 and see a sharp decline in 4Q. UPL has gained market share in Europe and Brazil. Cash outflow, if any, to Agrofresh in patent infringement case will be after 18-20 months.

Automobiles – 2HFY20 - Demand outlook uncertain; RM a tailwind

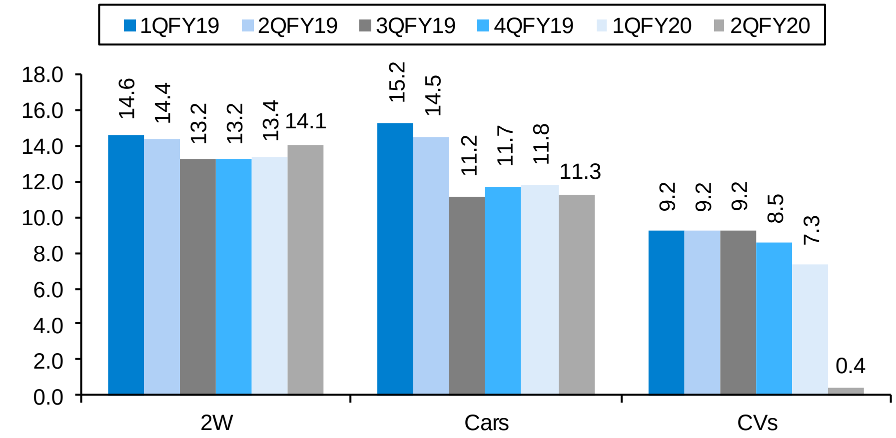
- **2HFY20 dispatches to be influenced by BS6 inventory management:** Auto retails during festive increased by mid single digit YoY led by aggressive financing schemes/discounts/incentives and positive rural sentiments due to healthy monsoon (though retails in July-Aug were weak). However in 2HFY20 wholesales to be influenced by a) inventory management due to BS6 transition, b) moderation in post festive discounts and 3) subdued demand sentiments.
- **EBITDA margins for our OEM universe (ex-JLR) contracted for the fifth straight quarter** by 310bps YoY (-130bps QoQ) to 10.2% led by negative operating leverage, partially offset by decline in RM.
- **Aggregate PAT (ex-JLR) declined for the third quarter** YoY by 38% (-20% QoQ), led by significant decline in MSIL (-35%), TTMT S/A (loss of INR13.4bn v/s profit of INR1.89bn), AL (-67% YoY).
- ***Rating change: We have downgraded CEAT to Sell (from Reduce). Our preferred picks are MSIL, EXIDE and MSS.***

Q2FY20 Result Snapshot

(Rs mn)	Sales			EBITDA			PBT		
	Q2FY20	*YoY gr.*	*QoQ gr.*	Q2FY20	*YoY gr.*	*QoQ gr.*	Q2FY20	*YoY gr.*	*QoQ gr.*
AL IN	39,295	*-48.4%*	*-30.9%*	2,286	*-72.4%*	*-57.4%*	839	*-87.8%*	*-78.0%*
BHFC IN	12,595	*-25.0%*	*-6.5%*	3,201	*-32.7%*	*-9.0%*	2,315	*-32.8%*	*-11.7%*
BJAUT IN	77,073	*-3.8%*	*-0.6%*	12,781	*-6.6%*	*6.7%*	16,089	*-2.6%*	*1.9%*
CEAT IN	16,916	*-3.6%*	*-3.5%*	1,704	*7.0%*	*1.9%*	702	*-27.1%*	*-12.0%*
EIM IN	21,925	*-9.0%*	*-8.0%*	5,414	*-25.8%*	*-11.9%*	5,922	*-21.0%*	*-7.8%*
EXID IN	26,109	*-4.0%*	*-6.1%*	3,672	*10.4%*	*-9.9%*	2,812	*5.6%*	*-16.3%*
HMCL IN	75,707	*-16.7%*	*-5.7%*	11,011	*-20.1%*	*-4.9%*	10,979	*-24.2%*	*-3.4%*
MM IN	1,10,761	*-14.7%*	*-14.3%*	14,110	*-12.1%*	*-13.0%*	16,486	*-16.0%*	*20.4%*
MSIL IN	1,69,853	*-23.6%*	*-13.9%*	16,063	*-50.3%*	*-21.6%*	15,720	*-47.8%*	*-17.7%*
MSS IN	1,59,242	*5.4%*	*-5.2%*	13,190	*1.5%*	*5.1%*	6,211	*-14.6%*	*20.1%*
TTMT IN	6,54,320	*-9.1%*	*6.5%*	71,605	*8.1%*	*139.0%*	5,821	*-298.6%*	*-118.6%*
TVSL IN	43,478	*-12.9%*	*-2.7%*	3,820	*-10.8%*	*7.4%*	2,343	*-23.5%*	*12.4%*

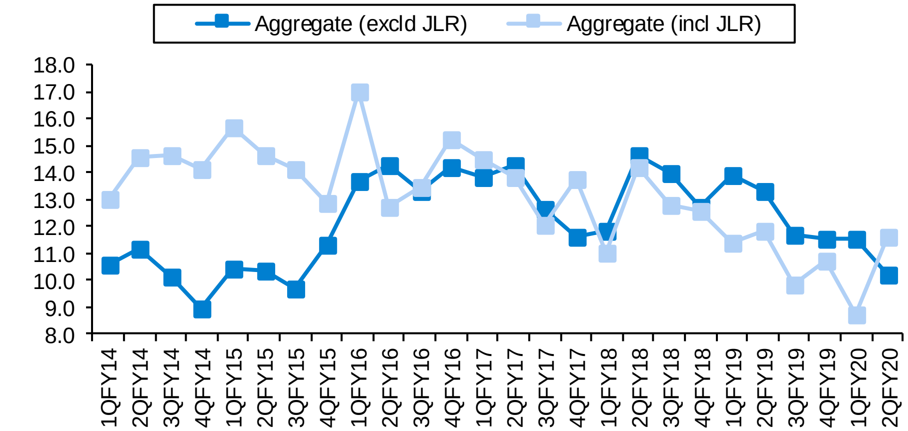
Source: Company Data, PL Research

OPM for OEMs (ex-2w) remained under stressed in Q2FY20



Source: Company Data, PL Research

Aggregate sector margins on a downward trajectory; Q2FY20 OPM at 11.6%



Source: Company Data, PL Research

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November 20, 2019

Management Commentary

- **Ashok Leyland:** Management is skeptical over the industry outlook due to uncertainty related to BS-6 transition and prevailing slowdown. Exports to remain weak in H2FY20 led by slowdown in key traditional markets. Average discounts over Q2FY20 at record level of Rs5.2L/truck (v/s Rs3.5-4L/truck in Q1FY20). Dealer inventory level as of Oct'19 at ~3,500 units (v/s 8,500 at June-19).

- **Bajaj Auto:** Cautious demand outlook with sustenance of retails post festive is the key. Finance penetration has increased to 70% in 2QFY20 from 60% sequentially with Bajaj finance contributing more than 50%. Production of Husqvarna is expected by the end of 2019.

- **Eicher Motors:** Stock out in key regions like Delhi and Mumbai with inventory level at less than ~3 weeks. 500 studio concept stores opened by now which are currently doing business of 8-10 units/month with breakeven of ~8 bikes per dealership. Capex guidance for S/A of Rs700cr for FY20.

- **Hero Motocorp:** Management sounded positive for Motorcycle industry growth with better monsoon this year while scooter segment outlook stable. 125cc scooter segment continues to grow in scooter category while 110cc segment de-grew by ~23%. Finance penetration increased to 46% in 2QFY20 (v/s 37% in 1QFY20 and 44% in 2QFY19).

- **Mahindra & Mahindra:** The management has slashed tractor industry guidance to ~ -7-8% (v/s +0-5% earlier). Expect~~100% EV penetration in 3W in 2-3 years. Expect 3 product launches in Q4FY20 and couple of EV launches in FY21.). JAWA has received 2x of the targeted bookings and the production has been ramped up to 5k units/month.

- **Maruti Suzuki:** Retails down ~22% YoY in Q2FY20 where rural sales declined at lower rate than urban. Current dealer inventory at ~30-32 days and expected to remain stable. BS4 stock is ~15 days (including diesel). Average discounts at Rs25,761/unit (5% of ASP). Petrol share further increased to 77.5% (v/s 67% for the industry and 74% in Q2FY19). Capex guidance maintained at Rs4bn. Expect RM cost to go down in 3Q and 4Q.

- **Tata Motors:** EBIT margin guidance for FY20/21 maintained at 3-4% for JLR. China dealer inventory at ~1.5 months. Investment spending for FY20 spend is expected to be ~GBP3.8bn. Project Charge has led to cost savings of ~GBP500mn for JLR operations in Q2FY20. Domestic CV inventory level lowest over past 6 quarters (~30-35days). Capex guidance slashed at Rs4bn (v.sRs5.5bn) for FY20.

- **TVS Motors:** Management expects H2FY20 also to de-grow. Don't expect 2W industry turning positive in next 3-4 quarters. TVS has taken an average price hike of ~0.1% in Q1FY20 and another ~0.3% in Q2FY20. Expect BS6 production to begin from Nov-19 and EV launch in H2FY20.

- **Bharat Forge:** Management guided weaker overall performance for H2FY20 than H1FY20 led by slowdown in Indian, European and North American CV segment. Expect US Class-8 trucks build at 345k units for CY19 (+3.4% YoY) and decline of 20-25% in CY20. Aluminum business will be transferred to new subsidiary which will have ETR of 15%.

- **Motherson:** Haven't seen any change or cancellation in orders from any customers globally in relation to weak global sales. BS6 content – expect double digit content improvement in in BS6 (v/s BS4). Order book healthy at record Eur18.4bn (with new orders of ~Eur3bn in 1HFY20, despite weak global automotive sales).

Aviation - Higher costs in a seasonally weak quarter impact profitability

- LCCs under our coverage, i.e, IndiGo and SpiceJet cumulatively reported revenue growth of 35.9% for Q2FY20. Impacted by low yield environment, high costs and depreciating INR, IndiGo reported EBITDAR of Rs911mn whereas SpiceJet reported EBITDAR loss of Rs545mn. Cumulatively, IndiGo and SpiceJet reported a adjusted loss of Rs17bn vs loss of Rs10bn YoY.
- **High costs in a seasonally weak quarter impact profitability:** With 2Q being a seasonally weak quarter and the prevailing low domestic yield environment, both IndiGo and SpiceJet were impacted by high costs leading to losses. On top of ~Rs4.3bn MTM forex loss, IndiGo saw an increase of Rs3.2bn in maintenance costs due to re-assessment of older contracts. Whereas in addition to Rs1.9bn MTM forex loss, SpiceJet continued to be impacted by unabsorbed costs from Boeing 737 Max and induction of ageing dual class ex-Jet fleet.

Management Commentary

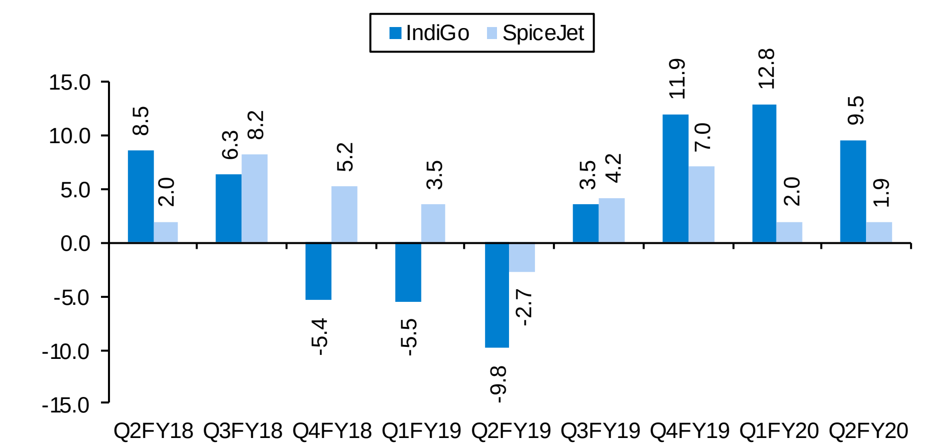
- **IndiGo:** With aircraft OEMs struggling to meet demand, IndiGo has cut its FY20 capacity guidance from 30% to 25%. Management expects unit revenues to remain flattish due to low yield environment. Re-measurement of maintenance contracts on the A320ceo led to a Rs3.2bn increase in maintenance costs. These costs to stay elevated for the next two quarters and start tapering off beginning FY21. Employee cost looks bloated as 600 pilots are currently undergoing training & in sourcing of ground handling services. As per IND AS 116 lease liability as on September 30th 2019 stands at Rs175bn.
- **SpiceJet:** Unabsorbed costs due to continued grounding of Boeing 737 Max adversely impacted SpiceJet. This coupled with ageing dual class ex-Jet fleet led to inefficient operations led to increase in fuel CASK. SpiceJet recognized Rs1.76bn (Boeing 737 Max rentals & other costs) as other income as it remains confident of being compensated by Boeing. Domestic yield environment continues to remain soft. Boeing 737 Max unlikely to return to service before end of FY20.

Q2FY20 Result Snapshot

(Rs mn)	Sales			EBITDAR			PBT		
	Q2FY20	YoY gr.	QoQ gr.	Q2FY20	YoY gr.	QoQ gr.	Q2FY20	YoY gr.	QoQ gr.
INDIGO IN	81,052	31.0%	-14.0%	911	NM	-96.6%	-10,374	NM	NM
SJET IN	28,453	51.8%	-5.2%	-545	NM	NM	-6,393	NM	NM

Source: Company Data, PL Research

With domestic yield under pressure international ops aid yield growth



Source: Company Data, PL Research

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Banks – Getting better operationally but slowing macro is hurting

Bank operating performance were better off with decent NII growth of 18% YoY, partial benefit from treasury and better control on opex. Earnings came in negative for Banks that took a significant DTA hit which otherwise has been a decent quarter supported by reduced provisioning requirements. Banks continue to do write-offs helping maintain asset quality, while higher provisions has led to steady PCR. Banks continued to focus on term deposits especially retail term deposits as traction in CASA has been challenging but slower asset growth helped to improve C-D ratio.

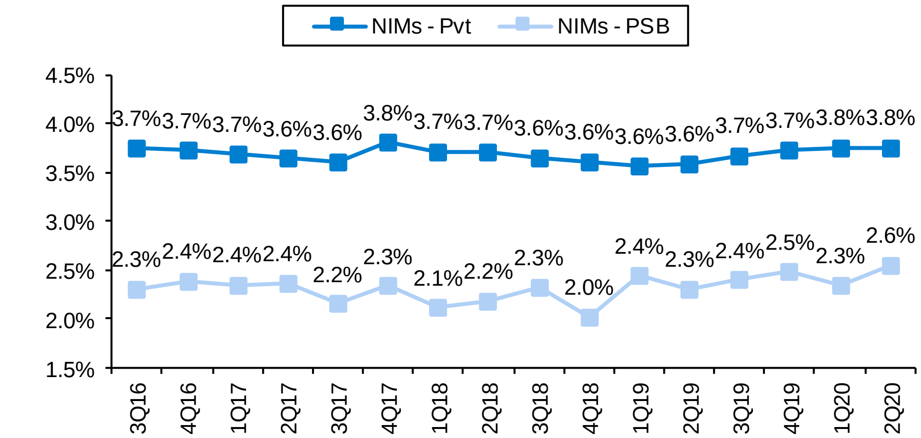
- Coverage banks loan growth came in at 10% YoY but certain private banks like HDFCB/KMB/Axis witnessed improvement with support from retail in this slowing economy. PSBs continue to grow slower at 6% YoY as corporate/SME segments were slower/de-growing QoQ, however retail continued to grow strong.
- On an overall basis, headline asset quality has improved while slippages from both corporate (albeit lower) and non corporate segments. Agri slippages remain elevated in Q1/Q3 of FY which is likely to be in Q3FY20 as well, while SME slippages are also not retreating lower. Hence, will have to cautiously watch for.
- On liabilities & funding cost, CASA growth was slower for industry and hence to stabilize funding source, banks continued to raise retail term deposits leading to average increase in cost of funds by ~30bps. With easing liquidity scenario and rate cuts, banks should get benefit on cost of funding but will continue higher growth in TDs than CASA in the near term.
- Overall NII growth was decent at 18% YoY while privates see a cooldown in growth to 19%-20%. With MCLR rates being reduced consistently across all buckets, loan book mix improving towards retail and falling yields have improved NIMs by ~20bps to 3% for industry.
- New development for the quarter has been option to opt for a lower effective tax rate of ~25% though with a **DTA** markdown. While all of the PSBs have deferred the decision to FY20 citing MAT considerations, some of the Pvt. Banks that shifted to the new tax regime posted nominal losses.

Q2FY20 Result Snapshot

(Rs mn)	NII			Operating Profit			PAT		
	Q2FY20	*YoY gr.*	*QoQ gr.*	Q2FY20	*YoY gr.*	*QoQ gr.*	Q2FY20	*YoY gr.*	*QoQ gr.*
AXSB IN	61,018	*16.6%*	*4.4%*	59,516	*45.4%*	*1.0%*	-1,121	*-114.2%*	*-108.2%*
BOB IN	70,279	*10.1%*	*8.2%*	53,359	*23.2%*	*24.7%*	7,367	*394.4%*	*3.4%*
BOI IN	38,605	*31.9%*	*10.8%*	24,598	*49.4%*	*8.3%*	2,664	*-123.0%*	*9.8%*
FB IN	11,238	*9.9%*	*-2.6%*	7,188	*3.0%*	*-8.2%*	4,167	*56.6%*	*8.5%*
HDFCB IN	135,150	*14.9%*	*1.7%*	116,981	*23.4%*	*4.9%*	63,450	*26.8%*	*14.0%*
ICICIBC IN	80,574	*25.6%*	*4.1%*	68,741	*30.9%*	*9.3%*	6,550	*-27.9%*	*-65.7%*
IDFCFB IN	13,631	*202.1%*	*16.1%*	4,175	*NM*	*NM*	-6,795	*NM*	*NM*
IIB IN	29,095	*32.1%*	*2.3%*	25,999	*30.5%*	*0.3%*	13,834	*50.3%*	*-3.4%*
JKBK IN	8,739	*10.4%*	*-3.1%*	3,796	*10.8%*	*-7.6%*	315	*-66.4%*	*43.9%*
KMB IN	33,496	*24.6%*	*6.0%*	25,086	*19.7%*	*4.6%*	17,245	*51.1%*	*26.8%*
PNB IN	42,638	*7.3%*	*3.0%*	35,620	*25.4%*	*2.3%*	5,071	*-111.2%*	*-50.2%*
SBIN IN	246,003	*17.7%*	*7.2%*	181,988	*30.9%*	*37.4%*	30,117	*218.7%*	*30.3%*
SIB IN	5,843	*15.4%*	*9.1%*	4,115	*32.8%*	*29.5%*	845	*20.5%*	*15.3%*
UNBK IN	29,059	*16.6%*	*15.4%*	22,406	*26.5%*	*18.8%*	-11,936	*-958.5%*	*-631.8%*
YES IN	21,859	*-9.6%*	*-4.2%*	14,584	*-38.4%*	*-25.6%*	-6,001	*-162.2%*	*-627.5%*

Source: Company Data, PL Research

Steady NIMs for Private; PSBs gradually inching up



Source: Company Data, PL Research

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Management Commentary

Overall commentary for loan growth with retail continuing to be driver and corporate book de-growing/slowing for most banks. Headline asset quality has improved for most banks with 1-2 outliers with a strong PCR, but slippage is elevated as yet but is expected to be lower from FY21 onwards.

- **HDFCB's** DTA assisted in creating higher provisions. Retail book has been grown cautiously, while corporate book grew strong but also got exposed to NBFCs, Telecom etc. Asset quality remained steady and absence of large agri slippages remains a positive. Management strategy continues to target higher TD deposits.

- **KMB's** CASA got more better reaching industry high of 53% also supporting improvement in NIMs. Economic slowdown from excessive monsoon trails has impacted loan growth lowering guidance to mid teens+ for FY20 while higher exposure in real estate being a contra call. Asset Quality deteriorated marginally with delinquencies from CV/Agri/Unsecured Retail and a small corporate a/c thus causing the credit cost guidance to be lifted to 60bps for FY20.

- **Axis'** bottomline was hit by DTA provisioning while headline asset quality slightly improved, partly on higher w.offs. Although slippages and credit costs remained at elevated levels with pain points being Small biz./SME segments while there were no major additions to the BB & below book in the form of downgrades. Domestic loan growth is expected to be 5 to 7% higher than industry despite seeing some issue in auto sales and margins are expected to improve to medium term range of 3.5-3.8% for FY20.

- **ICICIBC** saw lower slippages helping improve the asset quality and enhanced PCR to best in industry levels at 76% (excl. technical w.off). Bank retains guidance of targeting consolidated RoE of 15% by June 2020 with steady growth driven from Retail & granular loans.

- **IIB's** management aspires to reach NIM levels of +4.25% with improvement in IIB NIMs and 30-40bps contribution from BHAFIN's book while overall Loan Book growth was slow at 21% YoY (14% YoY including BHAFIN in base) mainly from de-growth in corporate owing to repayments and sell downs. Also, with a view to strengthen balance sheet, accelerated provisioning of Rs3.55bn was undertaken to improve PCR. Slippages were higher than trends especially in consumer segment (MFI, CV, LAP & Cards), while in those corporate were outside the stressed book.

- **Yes Bank** continued to see higher slippages of which 40% came from outside the already recognized BB & Below book and slower than expected recoveries/resolutions hit the asset quality. In an attempt to conserve capital, the balance sheet has been de-grown while margins were also impacted by the below par asset quality. Bank raised guidance of credit cost to 225-250bps from 125bps in FY20 owing to the unfavourable environment and impact of certain accounts. Bank has various sources to raise capital in the form of binding offers, PEs/Entrepreneurs, Family Offices and Strategic counterparts which should conclude in Q3FY20.

- **Among PSBs, SBI** stood out with lower than expected slippages reducing to almost half sequentially and a sharp improvement in PCR to 63% from 61% sequentially. It also saw a strong 22bps QoQ jump in domestic NIMs to 3.22% despite loan growth being sluggish. Bank expects loan growth to pick-up as utilisation of limits by Corporates should commence, while retail continues to improve. Amongst all PSBs headline asset quality continued to improve while provisions have continued compelled by ageing of NPAs & PCR enhancements, also most PSBs have not taken markdown on DTA owing to high MAT balance, although they will take a stand by FY end.

Capital Goods – Weakness continues, Focus on cash realization.

- **Key takeaways: Capital goods sector witnessed mixed trend on execution with overall performance lower than our expectations. Revenue/EBITDA/PBT grew 8%/4.3%/-9% (PLe 11%/7%/-3%). Overall EBITDA margin witnessed a dip of 90bps YoY to 10.5% due to weak execution. Order inflow de-grew by 5% YoY (Ple -4%) increasing focus on short cycle orders going ahead. Our coverage universe saw 8%/7% cut in earnings for FY20/21E. The sector is currently trading at reasonable valuations of 22x/17x FY20/21E.**

- **Mix trend on execution:** Overall revenue grew by 8% YoY, 3% lower than our expectations. Companies which disappointed on the revenue growth were Apar Industries, Bharat Electronics, BHEL, Cummins and GE T&D. This was mainly due to weak demand and ongoing liquidity crunch situation in the economy. Companies which positively surprised in the execution were ABB, BHEL, Kalpataru Power Transmission, L&T, Thermax and Voltamp Transformers.

- **Stretched in working capital:** With liquidity crunch like situation and unfavorable payment terms, majority of the companies witnessed stretch in working cycle, leading to cash burning, rise in debt levels and higher interest cost. The execution has also been suffered due to rising levels of working capital cycle as companies has been focusing more on cash realization.

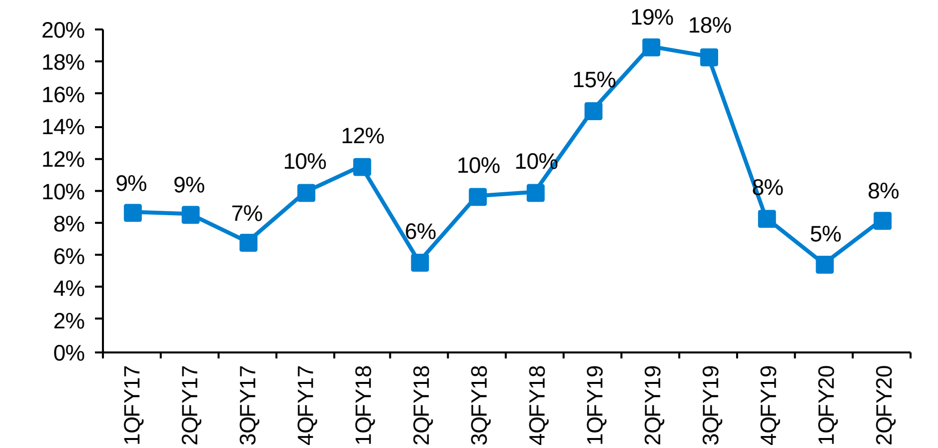
- ***Way forward: Overall commentary was cautious from near to medium perspective. The key focus areas of the majority of the companies was pickup on execution, cash realization and increasing product business. Key focus sectors: Infrastructure, Water, Railways & metro, Data Centre, Commercial realty and FGD etc.***

Q2FY20 Result Snapshot

(Rs mn)	Sales			EBITDA			PBT		
	Q2FY20	*YoY gr.*	*QoQ gr.*	Q2FY20	*YoY gr.*	*QoQ gr.*	Q2FY20	*YoY gr.*	*QoQ gr.*
ABB IN	17,456	*17.0%*	*1.2%*	1,234	*88.7%*	*-0.4%*	1,127	*105.2%*	*0.0%*
APR IN	18,291	*-3.0%*	*-7.7%*	1,095	*0.5%*	*-20.1%*	222	*-48.7%*	*-65.6%*
BHE IN	27,427	*-18.9%*	*30.5%*	5,447	*-36.2%*	*56.5%*	4,729	*-40.5%*	*62.8%*
BHEL IN	62,257	*-8.2%*	*37.4%*	2,669	*10.8%*	*-200.1%*	1,645	*-39.4%*	*-147.8%*
ENGR IN	7,237	*6.2%*	*-1.5%*	1,069	*16.9%*	*-23.3%*	1,663	*13.3%*	*-13.2%*
GETD IN	8,211	*-17.3%*	*11.9%*	39	*-95.8%*	*-90.9%*	-237	*-129.5%*	*-491.9%*
KECI IN	28,088	*16.6%*	*16.4%*	2,938	*16.1%*	*16.9%*	1,805	*22.2%*	*30.9%*
KKC IN	13,084	*-12.0%*	*-2.6%*	1,525	*-39.2%*	*0.7%*	2,102	*-29.5%*	*8.3%*
KPP IN	19,670	*25.0%*	*18.9%*	2,070	*21.1%*	*7.8%*	1,610	*14.9%*	*13.4%*
LT IN	3,53,285	*15.2%*	*19.2%*	40,219	*13.6%*	*31.1%*	33,028	*7.4%*	*24.4%*
PWGR IN	86,850	*4.9%*	*-1.4%*	75,569	*8.4%*	*-4.3%*	29,308	*16.2%*	*-11.3%*
SIEM IN	35,322	*7.6%*	*9.8%*	3,956	*22.6%*	*11.3%*	4,283	*27.2%*	*10.4%*
TMX IN	16,059	*12.5%*	*15.3%*	1,303	*18.4%*	*31.5%*	1,204	*1.8%*	*33.7%*
TRIV IN	2,473	*13.9%*	*15.8%*	529	*17.4%*	*21.0%*	521	*14.3%*	*27.6%*
VAMP IN	1,949	*3.1%*	*4.0%*	210	*9.9%*	*1.7%*	287	*22.8%*	*13.0%*

Source: Company Data, PL Research

Execution momentum maintained



Source: Company Data, PL Research

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Management Commentary

- **ABB:** Order Inflow up 5% YoY mainly base orders, Services orders up 16% YoY. Order backlog stands at Rs44 bn. Growth mainly driven by Electrification and Motion division. Cash position stands at Rs13.5 bn amidst liquidity headwinds.
- **Bharat Electronics:** Order inflow during quarter down 34% YoY resulting in order backlog of Rs562bn. The Coastal Surveillance System order (Rs20bn) and Smart City order (Rs15 bn) expected to be awarded in 2HFY20. For FY21E, guided for order inflow of Rs120 bn.
- **BHEL:** Order inflow grew 44% YoY at Rs74 bn growth mainly led by 61% YoY growth in Power segment , L1 Rs210 bn. Debtors continue to be elevated due to increase in contract assets. Strong focus on cash collection and execution going ahead.
- **Cummins:** Domestic sales down 6% YoY and Exports sales down 25% YoY due to weak demand and volatile forex markets. Guided lowered to 3-5% growth in the domestic market and de-growth of 20% in exports..
- **KEC:** Order Inflows were down 27% YoY at Rs38 bn, due to weakness in T&D and Solar segment. Maintained guidance for revenue growth of 15-20% and margin of 10%-10.5% for FY20 and similar for FY21 as well.
- **GE T&D:** FY20 to be a challenging year due to lower order backlog. Raised short-term debt of Rs4 bn due to stretched working capital, repayment would be gradual.GEC orders worth Rs60-70 bn may come in 2HFY20, Bangladesh HVDC has been put on hold.
- **Engineers India:** Maintained revenue growth guidance of 15-20% for FY20 with blended margins of ~15%.YTD order inflow stands at Rs14 bn, on track to achieve Rs18-20 bn for FY20. OB stands at Rs108 bn. Strong Cash balance as on 2QFY20 is Rs25-26 bn.
- **Kalpataru Transmission:** Revised sales growth guidance from 15-20% to 20% for FY20. Net debt to be Rs8-10 bn by end of FY20 and target to be debt free by March 2021. YTD OI stands at Rs49.4 bn (FY20 guidance of Rs100 bn). L1 of Rs20 bn, mainly T&D business.
- **Larsen & Toubro:** OI up 20% YoY led by international market which was up 116% YoY and domestic de-grew by 4% YoY. Management indicated opportunity pipeline of Rs5.2 trn and maintained OI/revenue growth/EBITDA margin guidance at 10-12%/12-15%/10-10.5% for FY20.
- **Power Grid:** For FY20, maintains the capex guidance of Rs150 bn.Planned for asset monetization by setting up an Infrastructure InvIT by FY20 end to unlock value in some of its transmission assets (both RTM and TBCB).
- **Thermax:** OI was a major disappointment with -27% YoY fall which was due to postponement of orders and weak investment sentiments in both domestic and international markets. Management expects tendering to pick-up from 2Q/3Q FY20 onwards, mainly short cycle orders.
- **Voltamp Transformers:** OI was up 7% YoY which led to healthy order backlog of Rs4.9 bn (up 15% YoY), executable over next 3 quarters. Expects OI in FY20E from different verticals like O&G, Cement, Chemical and Fertilizer, Solar Power (from select states), and other SMEs.
- **Triveni Turbine:** Enquiry pipeline looks strong from sectors like molasses based distilleries, pulp paper, steel & cement. Management is confident of higher year end number on the back of healthy enquiry pipeline.
- **Apar Industries:** Weakness in domestic demand and liquidity impacted the performance. Exports provided some respite. 2HFY20 looks to be hopeful mainly due to pickup in demand from railways.

Cement – Below expectations, Hopeful for demand revival in H2FY20

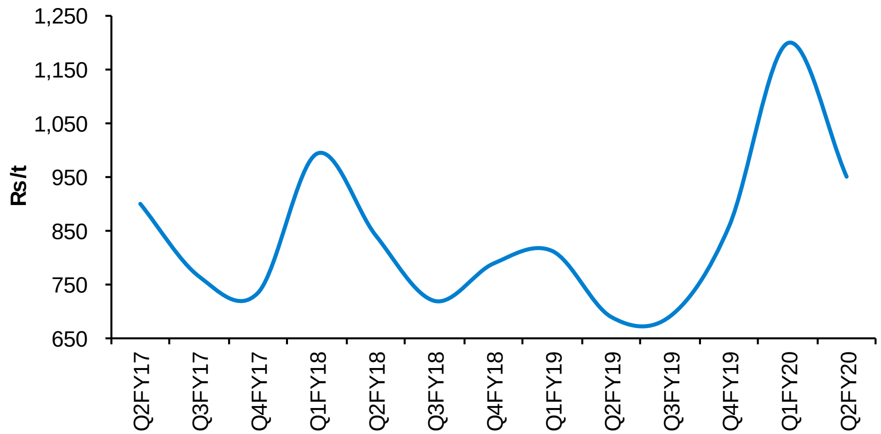
- Sector reported Q2FY20 earnings below our expectation due to lower than expected realisations and higher energy costs offsets higher volumes. Sales/EBITDA/PAT of our coverage universe rose 5.5%/37%/45% YoY to Rs205bn/Rs39bn/Rs17bn (Ple:Rs200bn/Rs42.7bn/Rs20.6bn) respectively. Sales volume for our coverage universe rose marginally by 0.2% YoY in line with our estimate at 41mnt.
- Cement realisations of our coverage universe are marginally below estimates at Rs5,000 (PLe:Rs5,055)/t, up 7.8% YoY/Rs360 (↓1.7% QoQ/Rs90). Impacted by higher than expected other costs partially offset by lower freight and energy cost, total cost/t came in at Rs4,047 (PLe:Rs3,972), rose 2.5%YoY/Rs100. Hence, EBITDA/t came in below our estimate at Rs952 (PLe:Rs1,090), up 38%/Rs260 YoY/↓21%/Rs250 QoQ.
- Owing to weak demand on the back of prolonged monsoon, companies have taken price cut across regions during Jul-Sep resulted in contraction in margins. Demand revival is expected in H2FY20E but at a slower pace on the back of recent measures announced by government to boost liquidity, increase infrastructure spend. All-India demand growth would restrict to 2-3% for FY20E. Slow growth would keep pressure on prices during the peak season in H2Y20E as competitive intensity for volumes would be intense in the industry.
- We maintain our stable outlook on the sector. However, Led by well-diversified regional presence, dominant size (with capacity of 117mnt and market share of 22%) and highly efficient operations, **UTCEM** remains the best candidate in cement sector to play Indian infrastructure and housing theme.

Q2FY20 Result Snapshot

(Rs mn)	Sales			EBITDA			PBT		
	Q2FY20	*YoY gr.*	*QoQ gr.*	Q2FY20	*YoY gr.*	*QoQ gr.*	Q2FY20	*YoY gr.*	*QoQ gr.*
ACC IN	34,644	*3.0%*	*-14.7%*	4,932	*30.5%*	*-28.8%*	4,404	*42.4%*	*-34.2%*
ACEM IN	25,560	*1.3%*	*-12.2%*	3,697	*38.9%*	*-41.5%*	3,481	*38.6%*	*-42.4%*
HEIM IN	5,195	*8.3%*	*-10.8%*	1,202	*9.1%*	*-20.3%*	900	*16.4%*	*-26.1%*
JKLC IN	9,355	*9.9%*	*-10.2%*	1,487	*62.2%*	*-24.5%*	728	*501.7%*	*-38.1%*
SRCM IN	28,017	*8.3%*	*-7.7%*	8,442	*39.8%*	*-6.4%*	4,018	*52.3%*	*-16.7%*
TRCL IN	12,824	*12.4%*	*-4.9%*	2,622	*26.1%*	*-23.6%*	2,144	*26.0%*	*-27.8%*
UTCEM IN	91,290	*4.8%*	*-15.9%*	16,878	*35.7%*	*-35.6%*	9,511	*76.9%*	*-49.7%*

Source: Company Data, PL Research

Strong pricing drive margins



Source: Company Data, PL Research

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Management Commentary

- **Ultratech: 1)** All India cement demand de-grew by 2-2.5% YoY in Q2 due to prolonged monsoon, floods in major parts of India and lack of govt payments to infra contractors; Expects demand revival in H2FY20e **2)** Announced new capex of Rs9.4bn to setup 2.2mnt greenfield grinding unit (GU) at Odisha and 0.6mnt/0.6mnt brownfield GU at existing units in Bihar/WB expected to be commissioned by Q4FY22e **3)** Completed acquisition of Century Cement (CC) and will start selling products under UTCEM brand from Dec19 **4)** Will pay additional royalty of Rs70/t from Q3FY20E post acquisition of CC **5)** Net debt rose 11%/Rs20.5bn QoQ to Rs206.27bn due to Rs30bn debt increase on account of Century acquisition **6)** Industry will add 15-16mnt capacity in FY20e and expects annual addition of 10-15mnt or 2.5-3.5% YoY

- **ACC: 1)** Industry witnessed muted demand during the quarter due to extended monsoon **2)** Funding challenges, regulatory and land acquisition issues increased project cost and slowing pace of execution of road projects **3)** Demand expected to generate from Govt stimulus to infrastructure and affordable housing sector **4)** RMC continue to deliver double digit growth; rose 11% YoY in Q3CY19 **5)** Premium products volume up by 8%.

- **Heidelberg Cement: 1)** Cement demand remained soft in Oct19 due to extended monsoon and festive season **2)** Demand in UP impacted partially by shortage of sand due to floods; company expects sand availability to normalise by Mid of Nov'19 **3)** Net debt rose 49% QoQ/↓64% YoY to Rs1.2bn due to payment of dividend **4)** Fuel cost would reduce by Rs40-50/t QoQ on account of change in mix **5)** Power rates in MP/UP rose by 7.5%/5% in Aug'19/Sep'19 **6)** Lead distance increased by 30km QoQ/60-70km YoY to 430km on the back of weak demand in home markets; would normalize to earlier levels by Dec'19

- **JK Lakshmi Cement: 1)** Demand fell by 4-5% YoY in North and East in H1FY20 **2)** Cement prices are holding up but marginal fall witnessed in Oct'19; Prices are expected to sustain at current levels in H2FY20 **3)** Standalone/Consolidated Net Debt rose 9%/12% QoQ to Rs12.3bn/Rs17.5bn; guided to prepay Rs1.25-1.5bn in H2FY20e **4)** Capex guidance for H2FY20e at Rs250-300mn (Spent Rs500mn in H1FY20) **5)** Ramp-up of recently commissioned 0.8mtpa grinding unit at Odisha will be at slower pace due to excess capacity addition in the region **6)** Pet-coke prices fell by Rs300/t QoQ/Rs1200/t YoY to Rs7,500/t **7**) Would announce brownfield expansion in next 6-9 months

- **Ambuja Cement: 1)** General slowdown and subdued construction activities **2)** Sharp cut in tax rate, aggressive divestment plan coupled with RBI's interest rate cut ought to augur well for the economy **3)** Healthy monsoon bodes well for rural housing demand which is a key segment for cement. **4)** Volumes declined 4% YoY on account of heavy rains and floods in States of UP, Bihar, Maharashtra and Gujarat **5)** Trade sales >80% of total volume 5) Premium products mix rose 17% YoY.

Consumer – Demand recovery key given sky high valuations

- **Q2FY20 Adj. PBT up by 9.6%**: 2Q witnessed a sales growth of 7.9% and PBT growth of 9.6%. EBITDA and PAT growth are not comparable due to implementation of IndAS 116 and reduction in corporate tax rate. Excluding ITC, sales grew by 8% and PBT by 9.3%.
- APNT, ITC, HUL and Jubilant FoodWorks, delivered better than expected volume growth of 16%, 3%, 5% & 4.9% SSG (vs expected 15%, 2%, 4.5% & 3% SSG). Nestle and Dmart also delivered good revenue growth in a weak demand environment. However, Colgate, Dabur, Emami, Marico, Kansai, GSK and Titan reported lower than expected volume growth.
- **Sustaining demand post festive season remains key:** Rural demand continue to witness slowdown and is growing 0.5x the Urban demand. Although volume growth seems to have bottomed out for some segments and festival season is showing improved trends. However, sustaining the growth post festive season will be the key factor to watch out for. Increasing food inflation and monsoons are positive for rural demand, slowdown in real estate and crop damage due to unseasonal rains is negative.
- **Headwinds in Input costs continue to put cap on margins:** Wheat and Barley prices are up by 8.3% and 9.1% YoY respectively. SMP prices are firm and are up 34% YoY. Palm oil prices have bounced back and are up 14.8% YoY (11.9% QoQ). Mentha prices are cooling down and are down 24.3% YoY (1.2% QoQ). Gold prices are up 22.4% YoY and 4.8% QoQ.
- Most consumer names are trading at/near life time high multiples. We have downgraded 5 consumer stocks (Nestle, Avenue Supermart, Marico, Pidilite and Titan) by one notch. We structurally like HUVR, Titan and Paint companies. However we recommend **accumulating Britannia, ITC and Jubilant Foodworks** at current levels.

Q2FY20 Result Snapshot

(Rs mn)	Sales			EBITDA			PBT		
	Q2FY20	*YoY gr.*	*QoQ gr.*	Q2FY20	*YoY gr.*	*QoQ gr.*	Q2FY20	*YoY gr.*	*QoQ gr.*
APNT IN	50,507	*8.9%*	*-1.6%*	9,548	*21.8%*	*-17.4%*	8,369	*13.0%*	*-17.2%*
BRIT IN	28,961	*7.1%*	*12.3%*	4,704	*10.8%*	*21.2%*	5,499	*27.2%*	*34.7%*
CLGT IN	12,218	*4.6%*	*12.6%*	3,230	*-2.0%*	*7.7%*	2,788	*-6.6%*	*6.1%*
DABUR IN	22,120	*4.1%*	*-2.7%*	4,895	*8.6%*	*7.0%*	5,016	*6.0%*	*8.4%*
DMART IN	59,490	*22.1%*	*2.9%*	5,154	*32.3%*	*-13.5%*	4,234	*21.3%*	*-18.0%*
FRETAIL IN	53,939	*9.4%*	*4.7%*	6,748	*172.5%*	*6.6%*	1,712	*-2.2%*	*5.4%*
HMN IN	6,601	*5.1%*	*1.8%*	1,929	*1.9%*	*43.9%*	1,183	*10.8%*	*104.9%*
HUVR IN	98,520	*6.7%*	*-2.6%*	24,430	*21.0%*	*-7.7%*	23,550	*7.7%*	*-7.9%*
ITC IN	1,18,715	*7.3%*	*3.2%*	45,624	*8.5%*	*-0.1%*	48,077	*10.0%*	*-0.1%*
JUBI IN	9,882	*12.1%*	*5.1%*	2,350	*59.3%*	*7.3%*	1,281	*6.8%*	*12.3%*
KNPL IN	13,922	*7.6%*	*-4.9%*	3,616	*85.5%*	*45.2%*	3,357	*80.6%*	*48.2%*
MRCO IN	18,290	*-0.4%*	*-15.6%*	3,530	*20.0%*	*-23.4%*	3,400	*15.2%*	*-23.1%*
NEST IN	32,158	*9.4%*	*7.2%*	7,595	*2.4%*	*7.4%*	7,080	*2.8%*	*5.8%*
PIDI IN	15,717	*3.5%*	*-11.7%*	3,510	*1.3%*	*-16.0%*	3,743	*2.6%*	*-12.2%*
SKB IN	13,451	*5.7%*	*12.6%*	3,958	*11.9%*	*41.2%*	4,518	*5.7%*	*17.2%*
TTAN IN	44,350	*0.6%*	*-10.2%*	5,132	*3.4%*	*-9.2%*	4,294	*-9.6%*	*-17.9%*

Source: Company Data, PL Research

Volume growth for 1QFY20 slowed down for most of the players

Consumer (Vol.Gr.%)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Asian Paints	9.0	7.5	10.5	12.0	11.0	24.0	10.0	20.0	16.0
Britannia	6.0	13.0	13.0	13.0	12.0	7.0	7.0	3.0	3.0
Colgate	-0.9	12.0	4.0	4.0	7.0	7.0	5.0	6.0	4.0
Dabur	7.2	13.0	7.7	21.0	8.1	12.4	4.3	9.6	4.8
GSK Consumer	2.5	17.0	8.0	12.8	13.7	9.6	6.5	5.4	3.6
ITC (Cigarettes)	-7.0	-5.0	-2.5	1.5	6.0	7.5	7.5	2.5	3.0
HUVR	4.0	11.0	11.0	12.0	10.0	10.0	7.0	5.0	5.0
Kansai Nerolac	18.0	14.5	14.5	15.0	9.0	15.0	4.0	10.0	1.0
MRCO: Parachute	12.0	15.0	-5.0	9.0	8.0	9.0	6.0	9.0	-1.0
Saffola	3.0	0.0	-1.0	10.0	5.0	2.0	18.0	3.0	1.0
Value added Oil	12.0	8.0	11.0	15.0	5.0	7.0	1.0	7.0	0.0
Pidilite	12.0	23.0	14.0	18.0	9.6	10.8	2.5	6.3	0.6
Titan: Tanishq	49.0	6.0	6.0	-3.0	24.0	34.0	15.0	6.0	-14.0
Jubilant (Dominos)	5.5	17.8	26.5	26.5	20.5	14.6	6.0	4.1	4.9
FRL	10.2	10.4	6.0	3.6	5.9	5.9	11.2	8.3	4.6
Big Bazaar	13.8	13.1	11.0	10.1	9.4	10.1	13.6	8.1	NA

Source: Company Data, PL Research

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Management Commentary

- **Asian Paints & Kansai Nerolac Paints:** Decorative paints grew in high Double digits while automotive and industrial paints continue to witness slowdown. APNT has again taken a price cut of 0.4% in solvent based products. Distemper, Putti and other entry level paints continue to perform better on the back of Unorganised to organised shift.
- **Britannia Industries:** Stronger recovery only after 9 months from now. Market share gains in Hindi belt continues, despite slowdown. Some new launches have been postponed on the back of slowdown.
- **Colgate:** Equated volume growth was at 4%, domestic sales up 5% despite 250 bps increase in ad spends. Launched Colgate Charcoal clean, Colgate Kids Toothpaste with natural flavors and Palmolive Luminous Oil shower gel.
- **Dabur India:** Dabur has indicated a slowdown in demand and toned down FY20 volume growth guidance to mid high single digit, however no green shoots of demand were visible as yet. IBD growth to remain muted on continued challenges in middle east, Namaste and Hobi. Direct reach expansion continues with current reach of 55000 villages. Liquidity crunch still remains in the market with Dabur selectively extending credit.
- **Emami:** Near term demand scenario remains unexciting. However margins are expected to improve on benign input cost. Small credit extended to few dealers to address liquidity challenge,.
- **Future Retail:** FRL SSG at 4.6%. FRL plans to finish decoupling by Mar' 2020, 6-months ahead of the schedule. 50% to be funded through equity:, balance through an appropriate mix of debt & internal accruals. New Business strategy focuses on higher profitability and cash flows. Small Stores: 12-15% target SSG and breakeven in next 3-6 months. Large format stores: 10-12% SSG, 150bps Gross margin expansion.
- **ITC:** Cigarette volumes up ~3% despite high base (7% volume growth). Kings segment has benefitted by launch of American Club. FMCG sustained with 6.5% comparable growth. In paper & packaging business near term margin outlook is positive given benefits from in-house raw material. Agri business margins were affected because of subdued demand for leaf tobacco.
- **Hindustan Unilever:** Rural demand is growing 0.5x the Urban demand growth (earlier 1.6x). Trade channels continue to see pressure on liquidity despite various measures. Normal/ above normal rainfall in 30/35 divisions and higher farm realization should boost rural purchasing power with a lag. Approvals for merger with GSK is expected to be completed by 4QFY20.
- **Jubilant FoodWorks:** Dominos SSG at 4.9% on high base and cannibalization by new stores. Increased store guidance of 60 new Dominos stores in 2HFY20. Inflation in dairy and manpower has been significant in 2Q which was partly off set by price increase taken in 1Q, expects dairy prices to stabilize from 3Q.
- **Marico:** Marico has not changed its medium term guidance of 8-10% volume growth. Pricing actions will be taken in Nov'19 in larger packs of Parachute. Competition from unorganized players in parachute given soft copra prices has increased.
- **Pidilite Industries:** PIDI remains cautiously optimistic with volume recovery in 1QFY21. Waterproofing has seen increased competition from paints as well as cement companies. PIDI remains cautious about growth in CIPY & NINA.
- **Titan Industries:** Tanishq 2H sales growth guidance cut to 11-13% from 20%; store openings to accelerate (60 for FY20, 21 in 1HFY20). The 33 day comparable growth to previous year festive season growth was at 10%. Watch sales and volumes to grow in double digits with higher margins. Eyewear targeting seen strong traction with target of EBIDTA breakeven.

Consumer Durables – Lower consumer spends impact revenue growth

- **Deteriorating discretionary spends impact growth rates:** With demand scenario not having improved meaningfully over 1Q20 (liquidity crunch, floods, lower government spends) except for cooling products growth rates slowed down for entire consumer durables/electrical basket. Stock levels in the trade also remain lower than normal levels. However, October has started on a positive note owing to festivals and the industry remains upbeat upon a recovery in demand in 2HFY19.
- **Cooling products continue to shine on the back of pent up demand:** Cooling products continued to reap the benefits of strong momentum post a favourable summer season on the back of pent up demand. RAC industry reported secondary sales growth of 33% in H1FY20. Inventory in the channel now at a normalized level of 2-3 weeks.

Management Commentary

- **Crompton Consumer:** Fans recorded double digit volume growth. Have taken 2% price hike. Fans market share improved by 80bps. Geysers/Coolers grew by 30%+. Ex-EESL LED segment de-grew by 3%. Battens & Panels grew by 35% in volume whereas B2B lighting grew by 9% benefitting from increased investments. Lighting margins impacted by higher ad spends, increased investment in B2B capability building & continued price erosion. Crompton is now focusing on developing SDA segment starting with mixer grinders.
- **Havells: Switchgears:** Slowdown in real estate activity led to negative growth in the industry since November 2018. Pain likely to continue going ahead. **Lighting:** Slow government offtake was partially by strong B2B sales. B2C continues to grow despite price erosion. **ECD:** Fans growth in mid-teens. Consolidated leadership position in water heaters. New categories in ECD showing early promise. Due to higher base it shall be difficult to maintain past growth rates of ECD segment. **Lloyd:** RAC saw marginal decline, LED TV led to Lloyd segment underperformance. LED TV remains a structural challenge for the industry with the influx of Chinese players. Lloyd likely to launch refrigerators in 1Q21. Lloyd's distribution realignment process now in final stages. Impacted by sluggish demand environment, stock levels in trade are at lower than normal levels

Q2FY20 Result Snapshot

(Rs mn)	Sales			EBITDA			PBT		
	Q2FY20	*YoY gr.*	*QoQ gr.*	Q2FY20	*YoY gr.*	*QoQ gr.*	Q2FY20	*YoY gr.*	*QoQ gr.*
AMBER IN	6,232	*89.0%*	*-49.6%*	367	*169.3%*	*-68.5%*	46	*NM*	*-94.9%*
BJE IN	10,918	*-31.7%*	*-15.9%*	238	*-70.1%*	*-68.2%*	-259	*NM*	*NM*
BLSTR IN	12,495	*21.0%*	*-20.7%*	736	*26.7%*	*-35.9%*	540	*70.5%*	*-49.9%*
CROMPTON IN	10,758	*3.7%*	*-20.1%*	1,295	*4.5%*	*-32.6%*	1,267	*9.7%*	*-32.9%*
DIXON IN	14,020	*89.8%*	*22.2%*	631	*92.6%*	*19.9%*	484	*96.1%*	*35.5%*
FNXC IN	7,158	*0.3%*	*-11.4%*	844	*-1.7%*	*-20.4%*	1,391	*4.6%*	*18.0%*
HAVL IN	22,303	*1.8%*	*-17.8%*	2,341	*-10.8%*	*-15.1%*	2,051	*-19.3%*	*-22.2%*
IFBI IN	7,132	*3.7%*	*2.2%*	507	*16.9%*	*71.4%*	358	*-25.1%*	*169.9%*
JCHAC IN	3,766	*8.6%*	*-60.4%*	20	*-62.2%*	*-98.2%*	-79	*NM*	*NM*
KEII IN	12,302	*23.4%*	*13.8%*	1,222	*21.2%*	*7.3%*	773	*22.4%*	*8.8%*
ORIENTEL IN	4,347	*16.5%*	*-23.5%*	219	*27.8%*	*-50.5%*	78	*-14.2%*	*-72.8%*
POLYCAB IN	22,419	*23.7%*	*16.0%*	2,717	*25.5%*	*32.4%*	2,319	*63.8%*	*12.4%*
SYML IN	2,720	*22.0%*	*-6.8%*	630	*46.5%*	*65.8%*	650	*47.7%*	*58.5%*
VGRD IN	6,193	*3.6%*	*-11.4%*	776	*55.6%*	*9.1%*	767	*59.7%*	*10.0%*
VOLT IN	14,219	*0.0%*	*-46.4%*	1,059	*-2.5%*	*-63.6%*	1,655	*16.3%*	*-48.7%*
WHIRL IN	13,935	*17.9%*	*-29.4%*	1,417	*31.5%*	*-53.1%*	1,424	*18.3%*	*-51.7%*

Source: Company Data, PL Research

Management Commentary

- **Voltas:** RAC industry grew by 33% in H1FY20. Inventory in the channel back at normalized levels of 2-3 weeks. . Industry mix in terms of Split vs Windows at 72-28%. Inverter AC's account for 50% of total split sales. Prices of inverter Acs have come down since April. Voltas to take price hikes strategically in certain geographies and SKUs. 10-12% of sales are booked through e-commerce platforms. 25% of products sold through zero cost financing schemes.. Voltas market share at 24.4%. EMPS order book up 32% to 66bn since April 2019. EMPS will focus on government infrastructure & electrification projects. Product gaps in Voltbek to remain until Direct Cool refrigerator facility in Sanand becomes operational by end of CY19. Voltas/Voltbek products now being sold through 150 exclusive brand outlets.
- ***Crompton Consumer remains our top pick in the Consumer Durable space. We have hold rating on Voltas and reduce on Havells.***

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Information Technology – Inline Quarter

- IT Services companies posted largely in-line results with expected slowdown in financial services, retail & in US & Europe.
- Tier-1 IT services pack reported sequential revenue growth of 1.1%-6.0% QoQ CC in Q2FY20. Baring TCS, almost all others largely met the expectations. Positive surprise in revenue growth was seen in Tech M supported by enterprise revenue growth. Slower growth in retail & manufacturing segment affected TCS & Infy both & could be a potential headwinds for 2HFY20.
- Tier-2 IT companies reported decent quarter with strong beat from NIIT Tech & LTI. LTI surprised the street with revenue growth of 2.4% QoQ is modest on absolute basis but impressive in the light of known headwinds to growth. Almost all the mid-cap IT companies mentioned weakness to continue in BFSI verticals.
- EBIT margins were marginally inline on QoQ basis, but they declined ~60-400bps on a YoY basis. Increased onsite cost, transition costs of large deal wins & increase in subcontracting cost were the headwinds for the margins.
- On guidance front, positive surprise was seen in HCLT in tier-1 (15-17% CC in FY20 now) & Negative surprise was seen in Hexaware(17-18% YoY CC in CY20) & LTTS (10% USD for FY20).
- We expect the global slow down to have an impact on the IT spends by the clients, especially in BFSI vertical, while the tailwinds to growth would be led by digital transformational deals across verticals, especially Retail, Logistics, Hi Tech and Manufacturing. We Expect IT companies to continue investing in S&M, onsite localization and digital technologies in order to maintain the revenue growth momentum.
- Infosys has came became attractive after recent correction, TCS looks expensive on valuations. HCLT looks a preferred Buy in the tier-1 services pack & Tech M has rallied 25% post Q1FY20 results & the stocks demands some correction has margin headwinds will not led PE re-rating.

Q2FY20 Result Snapshot

(Rs mn)	Sales			EBITDA			PBT		
	Q2FY20	YoY gr.	QoQ gr.	Q2FY20	YoY gr.	QoQ gr.	Q2FY20	YoY gr.	QoQ gr.
CYL IN	11,589	-2.4%	6.4%	1,539	-5.4%	6.5%	1,195	-33.9%	3.8%
HCLT IN	1,75,280	17.9%	6.7%	41,030	17.3%	20.6%	34,940	8.6%	19.0%
HEXW IN	14,813	22.5%	13.2%	2,377	17.5%	12.3%	2,223	4.4%	10.5%
INFO IN	2,26,290	9.8%	3.8%	56,390	5.2%	9.5%	54,960	-2.4%	6.4%
LTI IN	25,707	10.3%	3.5%	4,658	-2.8%	1.7%	4,733	-11.8%	-1.0%
LTTS IN	14,021	10.7%	4.1%	2,832	23.8%	3.9%	2,766	7.9%	-0.3%
MPHL IN	21,581	12.7%	4.6%	4,052	21.7%	8.3%	3,604	0.5%	2.0%
MTCL IN	19,143	9.1%	4.4%	2,482	-8.0%	34.8%	1,834	-34.9%	45.3%
NITEC IN	10,385	14.4%	7.9%	1,898	16.2%	36.6%	1,527	-0.2%	31.6%
PSYS IN	8,846	5.9%	6.3%	1,216	-15.4%	1.2%	1,155	-9.0%	5.3%
REDI IN	1,23,393	11.1%	5.7%	2,477	32.2%	6.3%	1,523	3.4%	3.7%
SSOF IN	7,031	18.5%	-19.6%	905	22.3%	1.0%	986	13.6%	5.3%
TCS IN	3,89,770	5.8%	2.1%	1,02,260	-0.5%	1.9%	1,05,290	1.6%	-1.0%
TEAM IN	12,678	16.2%	1.3%	245	1.9%	5.7%	204	-14.3%	14.7%
TECHM IN	90,699	5.1%	4.8%	15,009	-7.3%	14.2%	13,374	-8.4%	3.8%
WPRO IN	1,51,256	3.8%	2.8%	24,381	-0.9%	18.1%	24,768	2.4%	13.0%
ZENT IN	10,723	13.0%	0.6%	1,500	17.7%	-1.0%	1,157	-14.1%	3.7%

Source: Company Data, PL Research

Q2FY20 performance of IT Companies

Q2FY20	Rev CC growth QoQ			EBIT Margin		
	Actual	Est	Remarks	Actual	Est	Remarks
TCS	1.5%	2.6%	MISS	24.0%	25.3%	MISS
Infosys	3.3%	3.5%	IN LINE	21.7%	21.5%	IN LINE
HCLT	6.0%	6.4%	IN LINE	20.0%	18.5%	BEAT
Tech M	4.1%	2.3%	BEAT	12.8%	12.3%	BEAT
Wipro	1.1%	1.3%	IN LINE	18.1%	17.7%	BEAT
LTI	2.4%	1.50%	BEAT	15.5%	15.3%	IN LINE
Mindtree	3.2%	2.10%	BEAT	9.3%	9.4%	IN LINE
Hexaware	12.3%	13.2%	MISS	13.9%	14.5%	MISS
NITEC	4.1%	3.0%	BEAT	17.1%	13.4%	BEAT
LTTS	2.5%	3.0%	MISS	17.0%	16.3%	BEAT
Cyient	5.7%	4.50%	BEAT	9.6%	9.9%	IN LINE

Source: Company Data, PL Research

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Management Commentary

- **TCS:** Quarter was softer than expected on revenue growth. Medium term outlook is positive and remain confident with deal wins. TCS missed estimates due to weak performance of the retail segment in addition to expected slowdown in financial services and pockets of manufacturing. The management indicated that the retail weakness is broad-based across most markets with delay in decision-making on many spending programs. Spending in the manufacturing vertical in Europe is also weak. Guided weakness in US & Europe BFSI. Management indicated that visibility is not very strong for 2HFY20.

- **Infosys:** Increased its revenue guidance from 7.5%-9.5%CC to 8.5%-10.0% CC in FY20E. Completed all investments to focus on operational efficiency and cost disciplined structure for improving margins and growth of the company. In BFSI, there is some weakness in capital markets on both buy side as well as sell side, seeing slowdown in NA and Europe geography. Also cited some slowness in Life & Insurance business.

- **Wipro:** BFSI growth has decelerated to 5.9%, down from 11.2% yoy in 1QFY20. Deceleration in growth is a simple outcome of slowdown in BFS technology spends, especially in capital markets and European banks.The overall demand environment is stable in the global markets, but in pockets like banking and financial services remain weak during the quarter. The decision making has been slower due to the overall macro environment. Capital markets in particular and banking in Europe is seem softness. Believes that some of this delaying deferral is temporary and will improve going forward.

- **Tech M:** Remained confident of delivering higher growth for the company in FY20E on the back of strong deal pipeline (especially in communication vertical & recovery in enterprise vertical).Demand environment is stable for the company. 5G opportunity: Opportunities are at multiple layers including networks, applications and infrastructure readiness.Moderation in growth in the earlier quarters in enterprise was due to ramp-down of projects and cancellation of a few engagements, especially in manufacturing.

- **HCLT:** Reported strong sequential growth in financial services, however guided challenges & weakness in macro outlook of financial services in US & Europe.HCLT guided strong growth prospects in IMS vertical. Transformation & growth in hybrid cloud will spurt growth in IMS vertical.

- **LTTS:** LTTS downgraded their guidance for the second consecutive quarter from 12-14% USD revenue growth YoY to 10% USD revenue growth in FY20E implying flat growth in 2HFY20. Quarterly volatility is always expected in ER&D space as there is short cycle of engagements. Delay in revenue conversion of Telecom & Hi-tech vertical, client specific challenges in semiconductor vertical led to slower revenue growth in Q2FY20 & guidance downgrade.

- **LTI:** BFS weakness mainly due to client ramp down in key African bank & revenues from the top account (American Bank) have bottomed out after declining spree from last 3 quarters. We continue to believe that building blocks of LTI are very strong mainly excellent client base, strength in core transformation & efficient sales team. LTI's sales and marketing practices are sharp and have been instrumental in large deal wins for six quarters in a row. We believe top account weakness has bottomed out now (similar as Virtusa commentary), BFS weakness is known & is similar to larger peers.

Life Insurance – VNB driven by Non-Par and Protection segments

Life insurance companies business grew for most in vicinity of 18-21% YoY on but with slowing trends. Growth has been continued to be driven by Non-Par segments both savings (guaranteed/annuity) and protection which has also led to hold VNB margins for all companies. Persistency levels also have improved for most cohorts barring for IPru Life which saw slight deterioration in the early buckets. Going ahead, few companies will benefit from lower base of growth but in recent months industry has been slowing and hence we need to watch closely. Although, mix towards high margin products will continue keeping margin levels steady and hence VNB growth should continue to be strong.

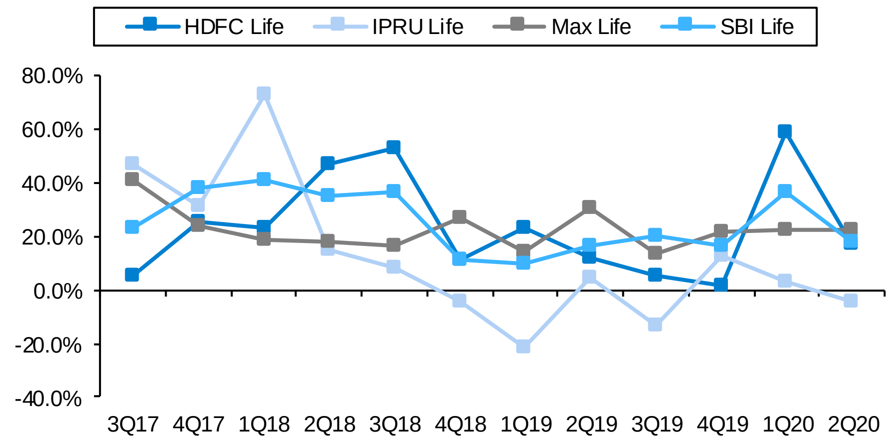
- **APE growth has held up but slower in recent months:** Decent growth of 18%-21% YoY was seen across players with major support coming from increasing share of non-par business and protection segments.
- **VNB & VNB Margins:** Controlled costs and change in product mix to high margin bearing products like Protection and Non-Par supported a good growth in margins on a YoY basis though they have come off from their sequential highs.
- **Product Mix:** Growth in Non-Par has dominated all across the industry with support from strong growth in Protection segment and Annuity segments while ULIP share is consistently reducing given the volatile market conditions and unfavourable macros.
- **Distribution Profile:** Banca channel weakens as ULIP business weakens while Agency/Broker/distributor channel drive growth owing to strong in Protection business.
- **Persistency:** Overall persistency levels have improved with marginal growth in 13m and 61m persistency other than for near term persistency in IPRU Life.

Q2FY20 Result Snapshot

	SBI Life	HDFC Life	IPRU Life	Max Life
APE	28.1	17.6	19.0	10.5
VNB	5.2	4.5	4.0	2.3
VNB Margin	18.5%	25.4%	21.1%	22.0%
13m Persistency	83.1%	89.3%	82.0%	85.0%
61m Persistency	59.6%	54.6%	59.0%	53.0%
YoY Growth				
APE	17.6%	21.9%	-4.3%	21.4%
VNB	24.7%	24.1%	15.6%	21.7%
VNB Margin	106bps	0bps	4bps	6bps
13m Persistency	310bps	510bps	-1bps	100bps
61m Persistency	410bps	550bps	0bps	-100bps
QoQ Growth				
APE	51.1%	3.1%	29.2%	53.0%
VNB	57.6%	-12.0%	29.4%	71.6%
VNB Margin	61bps	-4bps	4bps	238bps
13m Persistency	-133bps	50bps	-240bps	0bps
61m Persistency	328bps	-90bps	170bps	0bps

Source: Company Data, PL Research

APE growth decent but has been slowing



Source: IRDA, Company Data, PL Research

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Management Commentary

Most life insurance companies reported robust growth in APE at 18-21% YoY. Uncertain macros and volatile capital markets led to a slowdown in ULIPs. VNB growth was strong for all companies led by expansion in margins which was in turn driven by an increasing share of high margin non-par savings and protection business. Persistency ratios reported were mixed though most reported marginal improvement YoY. Investment in digital and proprietary channels remained high though high attrition in individual agents drove a stable increase in overall agent base.

- **HDFC Life** continues to be focused on highly profitable products and should continue to see gradual uptick in margins. Non-Par business continues to grow well from Annuity/Guaranteed in Savings and in Protection as well while APE growth came in decent at 18% YoY with drag mainly from Group segment. VNB Margins came off highs sequentially due to reversion in product mix from high share of non-par in 1Q20 though performed well on a YoY basis.

- **SBI Life** continued to focus on the high margin products like Annuities, Guaranteed and Protection especially in individual new business which led to a 100-105 bps improvement in margins. Persistency also improved across buckets and the company aspires to improve persistency across buckets with aspirations of 90% persistency on 13th month & 70% persistency on 61st month in next three years. The profitability was slightly impacted on higher future fund appropriations and investment provisions on stressed assets.

- **ICICI Prudential Life** saw de-growth in ULIP given the unfavorable macro environment and volatile markets and led to a de-growth in overall APE as well which although was support from continued robust growth in Protection business. Company expects APE to pick up mainly led by savings, continued traction on protection and favourable base from last year H2. While margins have remained steady at 21%, higher focus remains on VNB growth as core of strategy. Key negative has been 200bps drop in persistency for early cohorts.

- **Max Life** has put up to withdraw the application for share swap & purchase transaction for MSI’s stake in Max Life for MAXF. MSI will remain as JV partner of Max Life continuing existing arrangements. Management also showcased confidence on being strongly associated with Axis but are still to reach any arrangement for future course of action. Company continues to focus on increasing its share of non-participating savings business resulting in a good growth in overall APE.

Media/Education/Luggage – Blockbuster quarter for multiplexes; but radio continues with the slump

Radio

- Given the challenging ad environment amid slowdown in discretionary spends, both the radio companies under our coverage reported weak set of numbers. Government, the largest category, is witnessing unprecedented cut/delay in ad spends with no signs of revival at least in the near term. In the top 15 markets, all categories except for auto and finance have reported a de-growth in ad volumes during 1HFY20. In this environment, Entertainment Network India Ltd's (ENIL's) top-line declined 7.0% YoY but the performance was better than Music Broadcast Ltd (decline of 22.0% YoY) considering exposure to non-FCT business (contributed ~30% to the top-line & reported a growth of 33.9%). Also, margin pressure was evident in both the companies due to loss of operating leverage, as growth was stifled.

Education

- Both the education companies under our coverage reported strong set of numbers in a seasonally lean quarter. While Navneet's top-line declined 6% YoY, adjusting for the spill-over of Rs600mn that occurred in the base quarter, top-line increased 21% YoY. In case of S Chand, there was a remarkable improvement in the working capital cycle with OCF improving by Rs500mn in 1HFY20. In fact, there are visible signs that program 3.0 is actually delivering results. With paper prices remaining soft we expect 2HFY20 to be relatively better than 1HFY20.

Luggage

- Both VIP (BUY rating) and Safari Industries (not rated) reported divergent set of numbers. Safari's top-line growth at 31% YoY was higher than VIP (3% YoY) as it is a mass player (having low price point with a possibility to down-trade). However, VIP's margin performance was better than Safari due to superior product mix and better negotiation with Chinese vendors (VIP has scale advantage due to size). Overall, while growth concerns have aggravated due to slowdown in discretionary spends, reduction in PC prices by 30-40% and stable crude & rupee led to a 250bps expansion in GM. We expect the RM environment to remain benign and thus margins are expected to remain healthy in 2HFY20.

Q2FY20 Result Snapshot - Media

(Rs mn)	Sales			EBITDA			PBT		
	Q2FY20	YoY gr.	QoQ gr.	Q2FY20	YoY gr.	QoQ gr.	Q2FY20	YoY gr.	QoQ gr.
ENIL IN	1,139	-7.0%	-13.4%	275	0.6%	-16.8%	15	-88.4%	-79.9%
INOL IN	5,199	42.3%	5.5%	1,678	274.5%	11.8%	534	190.7%	28.6%
PVRL IN	9,732	37.3%	10.5%	3,181	156.5%	14.2%	736	32.7%	162.5%
RADIOCIT IN	625	-22.0%	-10.4%	185	-30.3%	-17.3%	122	-44.8%	-16.0%

Source: Company Data, PL Research

Q2FY20 Result Snapshot - Education

(Rs mn)	Sales			EBITDA			PBT		
	Q2FY20	YoY gr.	QoQ gr.	Q2FY20	YoY gr.	QoQ gr.	Q2FY20	YoY gr.	QoQ gr.
NELI IN	2,468	-6.3%	-69.0%	318	-31.4%	-86.3%	279	-38.3%	-87.7%
SCHAND IN	266	150.6%	-56.6%	-637	-17.9%	112.9%	-805	-7.5%	79.9%

Source: Company Data, PL Research

Q2FY20 Result Snapshot – Others / Luggage

(Rs mn)	Sales			EBITDA			PBT		
	Q2FY20	YoY gr.	QoQ gr.	Q2FY20	YoY gr.	QoQ gr.	Q2FY20	YoY gr.	QoQ gr.
VIP IN	4,123	2.6%	-26.9%	662	29.7%	-47.0%	408	-17.1%	-60.5%

Source: Company Data, PL Research

Entertainment

- Both the multiplex players had a blockbuster quarter as strong content drove footfalls. PVR/Inox's footfall growth was 25% YoY/39% YoY buoyed by strong content (4/5 movies crossed Rs1bn in collections during the quarter). Ind-AS EBITDA margin performance was equally strong with PVR/Inox reporting an expansion of 250bps/750bps respectively. The screen opening outlookand the content pipeline for 2HFY20 is healthy and thus we expect the current momentum to continue.

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Management Commentary

- **ENIL:** Over the next 5 years, non-FCT business is expected to contribute ~45-50% to the revenues and on a steady state basis the business has a potential to generate 35% GM and 25% EBITDA margin. The traditional radio business is under severe pressure due to falling volumes & yields. Given the current environment the guidance of 12-15% EBITDA growth for FY20 is likely to be missed.
- **Music Broadcast Ltd:** National advertisers continue to remain apprehensive due to weak macro-economic environment. Government spends are also witnessing an unprecedented cut (revenue declined 58% YoY) with no signs of revival in the near term. Given the current slowdown, MBL has undertaken some cost rationalization measures (optimized salary, station level cost and royalty payments) which resulted in savings of Rs120mn in 1HFY20.
- **Navneet Education Ltd:** Publishing business is expected to grow by 15% YoY while stationery business is expected to grow by 16-17% YoY in FY20E. The current quarter performance was distorted by base impact. Adjusting for the spill-over of Rs600mn in 2QFY19, revenues increased 21.3% YoY.
- **S Chand Ltd:** Top-line growth is expected to be in the region of 10% on a normalized base of FY19 (excluding the provisioning impact of Rs740mn) while EBITDA margin is expected to be in the range of 20-22% for FY20E. The cost rationalization program is on track (Rs260mn of cost reduction achieved in 1HFY20 against full year guidance of Rs500-550mn).
- **VIP Industries:** Revenue growth in FY20E is expected to be in high single digit as demand sentiment is weak as all channels except for e-com have struggled. Improved negotiation with Chinese vendors, reduction in PC prices by 30-40% and stable rupee has aided in margin expansion. However, increase in employee expenses due to manpower addition in Bangladesh coupled with rise in minimum wages meant that complete advantage of cost optimization was not fully reflected.
- **PVR Ltd:** Footfalls increased 25% YoY to 29.3mn driven by strong content (except for South). The content pipeline is healthy for 2HFY20 as well. However, the ad-revenue was impacted by weak consumer sentiment. Current off-screen ad share is ~10% and can be a key contributor for growth. ATP growth is expected to be in the region of 5-6%. Lastly, management stated that the lease liability & asset capitalization figures had fallen by Rs4.8bn/5.1bn from June 2019 as reassessment was done by the auditors.
- **Inox Leisure:** The company plans to add 71 screens and end FY20 with a total of 642 screens. Ad-revenue is expected to grow by double digit in FY20 but the performance was muted in 2QFY20 due to slowdown in auto, real estate and BFSI. Capex for is expected to be Rs2.5bn for the full year (Rs1bn has already been incurred till date). Inox is also considering to implement some loyalty program to get repeat footfalls.

Metals: Earnings below estimates, Pricing pressure to continue

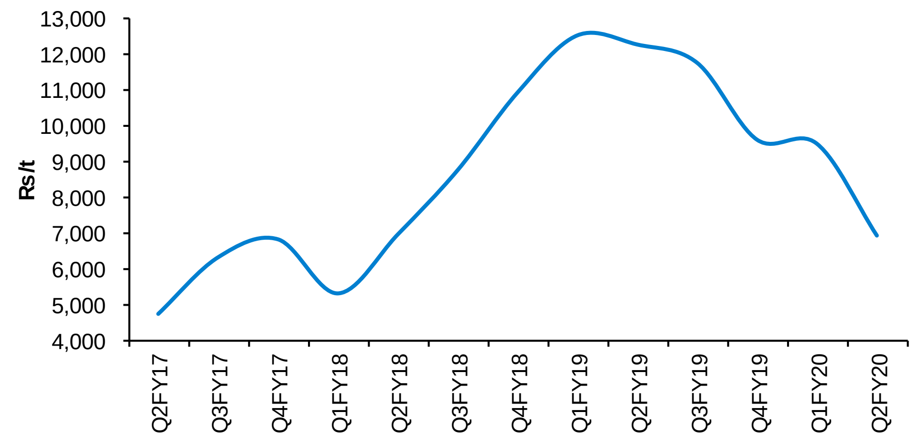
- Metal sector reported earnings below our expectation. Revenue/EBITDA/PAT fell 10%/35%/47% QoQ. In the pack, Coal India (COAL) was outperformer.
- **Tata steel (TATA)** posted earnings below our estimates due to weak operating performance in European ops and losses in domestic subsidiaries. While, standalone earnings are in line with estimates with EBITDA/t at Rs11,700 (PLe:Rs11,500).
- **JSW Steel (JSTL)** earnings below our estimates due to steeper than expected fall in domestic realisations and losses of overseas subsidiaries. Domestic unitary EBITDA came below our estimates at Rs6,470 (PLe:Rs8,350), down 35% QoQ (down 47% YoY).
- **JSP** reported results earnings in line with our estimates. Higher focus on B/S deleveraging with Net Debt fell 3% QoQ/Rs11bn to Rs365bn. Company maintained steel margins above Rs9,000/t, down 16% QoQ/17% YoY. JPL posted EBITDA above our estimate at Rs3.0bn (PLe:Rs2.1bn), down 17% QoQ/11% YoY.
- Impacted by higher costs, **SAIL's** earning came in below our estimates. Disappointment continues on volumes ramp-up and cost front in spite of increased capacity availability. Impacted by lower scale, EBITDA/t fell 61% QoQ (↓72% YoY) to Rs1,940 (PLe:Rs2,310)
- In non-ferrous space, **Hindalco (HNDL)** reported earnings below our estimates due to lower than expected realisations in Aluminium (AL) ops partly offset by lower costs in Copper (Cu) business. Overall EBITDA of standalone operations (including Utkal Alumina) fell short of our estimates at Rs11bn (PLe:Rs11.4bn), down 4% QoQ (137% YoY). However, its subsidiary Novelis delivered another strong quarter with EBITDA margins at US$448/t, rose 2% QoQ/Flat YoY on the back of 3.5% YoY increase in volumes. Acquisition of Aleris on track for Jan-2020 timeline
- **Hindustan Zinc's (HZ)** earnings were below our estimates due to lower than expected Lead/Silver volumes. EBITDA came in below our estimates at Rs21.1bn (PLe:Rs21.6bn), down 15% QoQ/↓9% YoY.

Q2FY20 Result Snapshot

(Rs mn)	Sales			EBITDA			PBT		
	Q2FY20	YoY gr.	QoQ gr.	Q2FY20	YoY gr.	QoQ gr.	Q2FY20	YoY gr.	QoQ gr.
COAL IN	2,03,826	-6.9%	-18.3%	36,112	-16.5%	-45.4%	42,785	-16.4%	-39.0%
HNDL IN	99,650	-8.0%	-0.9%	7,920	-27.4%	10.4%	1,350	-71.1%	139.1%
HZ IN	45,110	-5.6%	-9.5%	21,170	-9.1%	-14.5%	20,870	-8.2%	-10.9%
JSP IN	89,395	-10.4%	-10.1%	16,415	-25.6%	-24.5%	-4,266	NM	NM
JSTL IN	1,71,060	-20.6%	-13.7%	22,650	-53.8%	-39.0%	2,370	-92.2%	-86.8%
NMDC IN	22,418	-8.0%	-31.3%	10,602	-15.8%	-43.2%	10,805	-17.7%	-43.5%
SAIL IN	1,38,292	-17.3%	-6.7%	6,114	-74.2%	-61.4%	-10,714	NM	NM
TATA IN	3,45,792	-15.4%	-3.8%	38,196	-56.6%	-29.0%	46	-99.9%	-99.7%

Source: Company Data, PL Research

Margins yet to bottom out



Source: Company Data, PL Research

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Management Commentary

- **TATA Steel: 1)** Current domestic steel prices are down by ~Rs2,000-3,000/t from Q2 average; Took hike of Rs750/t in November **2)** Net debt rose by 3.7% QoQ/Rs38.6bn to Rs1.07trn due to weak earnings and higher working capital **3)** Q3 coking coal cost for Indian/European ops will be lower by US$15/t / €15/t QoQ **4)** Cash deficit in Europe stood at £220mn pound in H1 **5)** Targeting steel exports in H2 at 1.45mnt against 0.95mnt in H1 **6)** Maintained guidance of US$1bn for debt reduction in FY20E **7)** Expects to reduce working capital by Rs10bn in Q3 through liquidation of finished goods Inventory

- **JSW Steel: 1)** Spreads to improve QoQ on the back of lower input prices and bottomed-out steel prices **2)** Coking coal prices to fall by US$25-30/t in Q3 **3)** Reduced production/sales guidance for FY20e by 3%; H2 volume to remain flat YoY **4)** Demand is expected to grow 5% YoY in FY20e and should pick-up in H2 on account of measures announced by Govt **5)** Reduced capex guidance for FY20e by 30% to Rs110bn **6)** Captive iron ore mines would contribute 2.5mnt in H2FY20e against 2mnt in H1FY20, meeting 8-9% of requirement **7)** Contesting in NCLAT for immunity against claims arising from alleged money laundering frauds at BPSL.

- **Jindal Steel & Power: 1)** Realisations fell by Rs2400/t QoQ in Q2 against reduction in cost by Rs500/t **2)** Margins to improve in Q3 on the back of lower coking and iron ore prices, more than offsetting the fall in realisations **3)** Working capital reduced by Rs9bn QoQ due to reduction in receivables from TANGENCO by Rs2.3bn and fall in inventories in steel operations **4)** Win of Gare Palma IV/1 coal block would help in reducing coal cost by Rs1,500/t **5)** Would spend Rs1.0-1.2bn on coal block including Rs0.5bn for upfront payment to Govt **6)** Net Debt fell 3% QoQ/Rs11bn to Rs365bn; Will reduce debt by Rs25bn in H2 **7)** Shadeed's CoP would come down by USD60/t QoQ in Q3 due to fall in pellet/gas/electrode prices

- **Steel Authority of India: 1)** Net Plant Realisations (NPR) fell to Rs35,000 in Oct'19 from Q2 average of Rs37,382 (fell 8.4%/Rs3,450/t QoQ in Q2) **2)** Price hike of Rs500-600/t in Nov19 **3)** Due to increase in inventory, borrowings rose 6.5% or Rs31.3bn QoQ/15% to Rs516bn **3)** Maintained volume guidance for FY20e at 16mnt (+13.5% YoY) however cautiously watching demand in Q3 **4)** Govt order is to sell 25% of iron ore produced in the last year; will sell ~7mnt (25% of 28mnt produced in FY19) **6)** Awaiting clearances to sell ~70mnt subgrade fines including dumps and slimes lying at mine area

- **Hindalco Industries: 1)** India's AL demand growth fell 6%YoY to 967kt in Q2FY20 due to slowdown in automotive, construction and electric sectors **2)** Actively pursuing divestment of Aleris's Automotive sheet facility in Duffel, Belgium to secure Regulator's approval for acquisition of Europe assets **3)** Confident to obtain approval for acquisition in North America on its argument of supplies including steel **4)** AL CoP expected to remain flat or marginally down QoQ in Q3 **5)** Restart of Muri Alumina refinery (having capacity of 450ktpa) delayed due to want of statutory clearances **6)** 500kt Utkal alumina expansion is on track for commissioning by Q3FY21 **7)** Recognized loss of Rs5bn in OCI related to investments in Vodafone Idea

- **Hindustan Zinc: 1)** Global Zinc production is expected to remain in deficit for couple of year due to delays in new capacities and high cost **2)** Due to fall in ore grades and geo-technical issues at SK mine, management lowered guidance for Mined metal/Silver production by 5%/13-19% to 950kt/650t **3)** Increased Zinc CoP guidance for FY20e by 3% to US$1,030/t due to lower grade and increase in electricity duty by Rs0.20/unit effective from July 2019 **4)** Share of linkage coal rose 600bps QoQ to 31% **5)** Reduced capex guidance for FY20e to US$300mn from earlier US$400mn **6)** Will achieve mined metal capacity of 1.2mt in H1FY20e

NBFC – Credit costs and growth disappoint

Challenges refuse to abate for NBFC space as funding ruptures liability side and industry slowdown hampers asset side of the balance sheets. Therefore, Q2FY20 witnessed curtailing of growth targets and increase in provisioning buffers impacting earnings profile of most. Said that, the one-time gains under revised tax structure came to rescue. Market headwinds persist as festive season stood muted and hopes on monsoon recovery building-up. While Management cite confidence over H2FY20 revival, we maintain cautious stance as credit flow to the sector remains muted and NBFCs being high levered models.

- **Core operating profit slows:** Q2FY20 saw meager 6% uptick QoQ in core operating profit for NBFC universe. As growth slackened denting NII and margins, core operating performance took a beating for the coverage universe. Additionally, incremental funding costs are yet to show respite and they continue to remain elevated despite fall in g-sec yields.

- **Margins sluggish:** NII for the coverage universe grew only 2% QOQ as growth and funding (CoF stay north of 9%) challenges persist. Data suggests spreads on five-year AAA NBFC paper continue to stand 80bps higher YoY. Repayment concerns over few groups (DHFL, ESSEL, ADAG) have pushed funding costs high for NBFCs. Moreover, need to maintain high liquidity buffer on balance sheet has dented the NIM performance for most of the NBFCs. H1FY20 observed NBFCs tapping overseas and securitization markets to overcome cost challenges.

- **Provisions spike:** Q2FY20 saw sharp spike in provisions across coverage universe with credit costs climbing to 1.2%-1.3% levels as aginst 75bps a year ago. FY20 should see higher provisioning as quarterly run-rate has risen across coverage Universe. SHTF, LTFH and BAF have reported high order credit costs (1.8-1.9%) for the quarter gone by.

Q2FY20 Result Snapshot

(Rs mn)	NII			Operating Profit			PAT		
	Q2FY20	*YoY gr.*	*QoQ gr.*	Q2FY20	*YoY gr.*	*QoQ gr.*	Q2FY20	*YoY gr.*	*QoQ gr.*
BAF IN	31,386	*40.8%*	*5.0%*	26,167	*49.6%*	*8.9%*	15,063	*63.1%*	*26.0%*
CIFC IN	10,200	*24.6%*	*8.2%*	6,185	*17.0%*	*4.4%*	3,070	*0.8%*	*-2.3%*
HDFC IN	29,502	*12.1%*	*-3.0%*	52,845	*35.8%*	*8.4%*	39,615	*60.6%*	*23.7%*
LICHF IN	12,711	*19.5%*	*5.5%*	11,375	*36.3%*	*4.0%*	7,722	*34.7%*	*26.4%*
LTFH IN	17,134	*9.1%*	*2.5%*	12,369	*33.7%*	*-2.9%*	1,602	*-71.4%*	*-70.8%*
MMFS IN	12,842	*8.9%*	*1.5%*	8,190	*4.1%*	*13.1%*	2,518	*-34.0%*	*267.9%*
SHTF IN	19,965	*-3.2%*	*2.7%*	15,875	*-2.2%*	*2.9%*	7,651	*25.5%*	*20.6%*

Source: Company Data, PL Research

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Management Commentary & Outlook

Key Management commentary across coverage Universe

- **BAF:** While festive season stood muted, Mngt believes good monsoon should aid rural demand recovery. Existing customer base forms 70% of incremental customer acquisition should only continue to better the customer franchise. As credit costs decline, the new customer acquisition is expected to rise.
- **CIFC:Co.** has stepped-up collection efforts and increased manpower (in select businesses where there's scope to catch up market share). CIFC remains upbeat on two-wheeler financing, but expects no near term respite in HCV business wherein the Co. has been maintaining cautious stance since two years now.
- **HDFC:** Given the prolonged uncertainty and risk averseness in the corporate lending business, the Co. has curtailed some of its lending to the non-individual segment. Said that, the outlook on affordable housing space stands positive with monthly approvals of 9300 in volume terms and Rs15bn in value terms.
- **SHTF**: Mngt has cited confidence of a better H2 on the back of good monsoon translating into better farm-related cash flows, possible pick-up in infrastructure activity and government initiatives boosting used CV demand. However, sustainable economic growth and stable funding is the key. Funding environment has been turning benign with Co. headed for a better H2FY20.
- **MMFS:** In light of market headwinds, MMFS has been building higher provisions as part of ECL accounting. The Co. has been incrementally focusing on pre-owned financing that is expected to climb to 15% levels ahead from current 9%.
- **LICHF:** Inter-bucket shifts have led to higher developer loan NPAs for the quarter gone by. Said that, the Co. focuses on project loans that have observed >60% of construction complete. Mngt. Is of the opinion that rating environment in housing has stood competitive despite transitioning to new benchmark regime by banks.
- **LTFH:** Co. continues to maintain upbeat stance on NIM+fees at 6.5-7.0% through resilience and pricing power. While overall slowdown impacted rural sector, Co. has been capturing market share in certain pockets with top-up, refinancing and used vehicle products. The farm equipment portfolio saw slip-ups, LTFH cites cyclicality and floods as the reason and expects the NPAs to decline in H2.

Outlook:

- Most players have been banking upon H2 recovery both in terms of industry slowdown and funding challenges. While the growth targets have been curtailed and provisions upped, we closely monitor the core operating performance ahead for players in the NBFC space.
- We should be shortly reviewing our ratings for LICHF and LTFH, however, our concerns on business and asset quality for both these names stay.
- We reiterate our positive stance for BAF and CIFC; both being resilient across tough business cycles. While we like HDFC in the housing space for the pricing power and subsidiary support it maintains, we closely monitor the developer business. We see early signs of balance sheet strengthening for SHTF and reckon it to be a value play. MMFS performance continues to stay prone to rural/ business cycles and can be positioned as a tactical buy, maintain Accumulate.

Oil & Gas – Muted performance

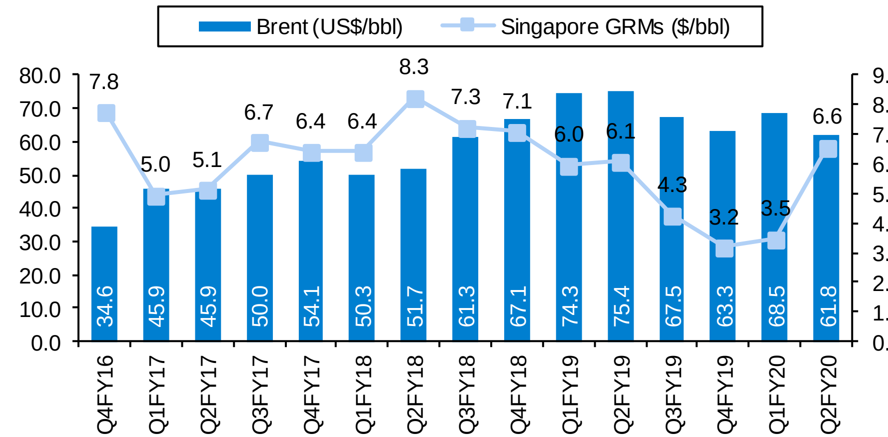
- Q2FY20 oil sector earnings were at Rs227bn (-14%YoY) was hit by weak OMCs and upstream earnings and GAIL despite upbeat results from the CGD and PLNG.
- Upstream companies like ONGC and OIL India were hit by lower net realisation of ~US$61/bbl, in-line with international crude price trends.
- Gas companies reported strong fundamental core earnings led by IGL and MGL.
    - IGL reported strong results led by strong volume and healthy spreads.
    - MGL reported lower than expected volume growth but however higher spreads drove earnings.
    - PLNG also reported strong results led by record volumes and healthy spreads.
- OMCs reported healthy earnings of Rs32bn for Q2FY20 (-42%YoY) due to inventory loss of Rs11.5bn vs gains of Rs71.2bn last year. Core refining and marketing internals were weak.
- RIL reported lower than expected operational numbers on weak refining profits.
- GAIL reported weak results- Weak LPG and gas trading profitability drags earnings.
- Positive surprise: IGL.
- Negative surprise: OMCs
- **Preferred Picks:** IGL & Petronet LNG

Q2FY20 Result Snapshot

(Rs mn)	Sales			EBITDA			PBT		
	Q2FY20	*YoY gr.*	*QoQ gr.*	Q2FY20	*YoY gr.*	*QoQ gr.*	Q2FY20	*YoY gr.*	*QoQ gr.*
ARTO IN	10,190	*-21.6%*	*-6.2%*	2,385	*-1.5%*	*0.7%*	1,712	*12.5%*	*0.2%*
BPCL IN	6,43,408	*-11.0%*	*-15.7%*	23,749	*-1.8%*	*8.9%*	16,551	*-11.6%*	*22.4%*
GAIL IN	1,80,411	*-6.4%*	*-1.5%*	15,627	*-46.6%*	*-30.8%*	15,355	*-47.0%*	*-22.5%*
HPCL IN	6,08,633	*-9.9%*	*-14.3%*	23,189	*9.3%*	*41.1%*	16,170	*1.3%*	*30.5%*
IGL IN	16,925	*19.1%*	*7.4%*	3,926	*27.5%*	*9.5%*	3,677	*26.6%*	*10.8%*
IGPL IN	2,666	*-17.8%*	*7.6%*	143	*-79.9%*	*-41.0%*	51	*-91.7%*	*-63.9%*
IOCL IN	11,16,897	*-15.4%*	*-15.1%*	35,722	*-47.2%*	*-57.2%*	8,145	*-83.1%*	*-84.9%*
MAHGL IN	7,836	*12.5%*	*3.4%*	2,734	*23.4%*	*-1.2%*	2,558	*22.5%*	*-1.1%*
NOCIL IN	2,097	*-22.9%*	*-8.7%*	479	*-39.3%*	*-14.7%*	423	*-44.6%*	*-16.4%*
OINL IN	32,136	*-14.2%*	*-7.5%*	12,429	*-15.7%*	*-14.5%*	9,746	*-23.3%*	*-7.5%*
ONGC IN	2,44,926	*-12.5%*	*-7.8%*	1,32,900	*-15.8%*	*-12.1%*	90,383	*-28.9%*	*-0.2%*
PLNG IN	93,612	*-12.9%*	*8.7%*	11,605	*31.3%*	*13.3%*	9,568	*10.4%*	*14.2%*
RIL IN	9,07,600	*-8.2%*	*-2.0%*	1,36,660	*-8.2%*	*0.2%*	1,22,550	*4.4%*	*1.2%*

Source: Company Data, PL Research

Singpore GRMs & Crude Prices



Source: Bloomberg, PL Research

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Management Commentary

- **GAIL:** For Q2 polymer and LPG realisation was down 8% and 25% YOY. Capex for FY20/21E stands at Rs70bn each. No clarity on revival of stranded gas plants. Gas trading profits hit by lower spot LNG price, delay in offtake due to delay in commission of fertilizer plants which hit ~4mmscmd volume. Kochi-Mangalore pipeline will be fully commissioned in December 2019.

- **Mahanagar Gas**: For Q2, company added 32k domestic, 47 industrial and commercial customers. In Raigad, MGL added 4,300 domestic customers and currently there are 13 CNG stations. For Q2, industrial/commercial customers were impacted as 3 customers terminated their contracts and 15 customers consumed lower than normal rate. BEST plans to add 500 for H2FY20 and another tranch of 500 buses are likely to be added in FY21. MGL plans to add 25 CNG stations in FY20 and expects similar numbers going forward.

- **Petronet LNG:** Company has guided for capex of Rs6/13bn for FY20/21E. This will include 2 storage tanks and a jetty. Company is exploring all options of investing in overseas project. Management expects limited threat from new LNG terminals given long term contracts already tied-in.

- **Reliance Industries:** Higher Coker facilities being established to capitalise on IMO2020 diesel opportunities. Company is confident of healthy diesel spreads post implementation of IMO 2020 implementation given potential replacement of 3.5mbpd marine fuel. Global net refinery capacity addition at 1.6/1mbpd in CY19/20 against global demand of 0.8-1mbpd for CY19. Lot of capacity addition in petrochemicals to keep spreads in check.

- **Indraprastha Gas:** Double digit volume growth momentum is likely to continue led by vehicle conversion into CNG. The company expects to pass on impact of cost inflation in coming quarters and expects spreads to be maintained.

- **Hindustan Petroleum:** GRMs impacted by lower gasoline spreads.

- **Oil India**: OINL volumes likely to impacted given the vintage fields.

- **ONGC**: Company doesn't expect any subsidy burden till crude stays at in the current range. Gas volumes to ramp up as new fields come on stream. KG-DWN-98/2 on track to be commissioned by December 2019 and peak production up by FY22.

- **IOCL:** GRMs adjusted for inventory and time lag at USD4/bbl for Q2 vs USD2.3/bbl in Q1. Regular shutdown of different refiners for Euro 6 also affected projects and the trend is likely to continue for H2FY20. FY20 capex at Rs250bn; H1 capex at Rs98bn. Company to evaluate movement to new tax regime by FY20 end. Don’t expect much increase in competition despite change in fuel retailing policy to net worth of Rs2.5bn.

- **Nocil:** H1FY20 volumes degrew 8% while the realization was down 15%; FY20 volume guidance de-growth of 0-5% for FY20. For H1, exports volumes were up 10% and mgt expects volumes to pick up as clients approve new capacity addition at Dahej. Anti dumping duty (ADD) protection not applicable post July 2019. FY20 tax rate will be ~15% and expect tax rates at 25.2% going forward.

Pharmaceuticals – Acute therapy drove India growth; Exports lack triggers

With prolonged monsoon and in-license products, India formulation sales grew more than expected in comparison to the series of insipid growth of IPM in H1FY20. Companies with major presence of acute therapy drugs such as IPCA, CIPLA, CDH, GNP, DRRD and INDOCO in our coverage universe strongly benefitted in growth and headline margins.

The growth in US generics remain company specific while common factors that benefitted Indian generic majors are a) annual single-digit price erosion in older generics and b) growth derived mainly from launches in H1FY20. Exports growth in ROW formulations remain sporadic and continues to follow similar trend with a lack of focus and dedicated sales force. API growth was moderate with return of Chinese majors in international market. Overall, Sales and margin were in line while net profits are impacted by one-offs in Q2FY20.

Key highlights observed in Q2FY20

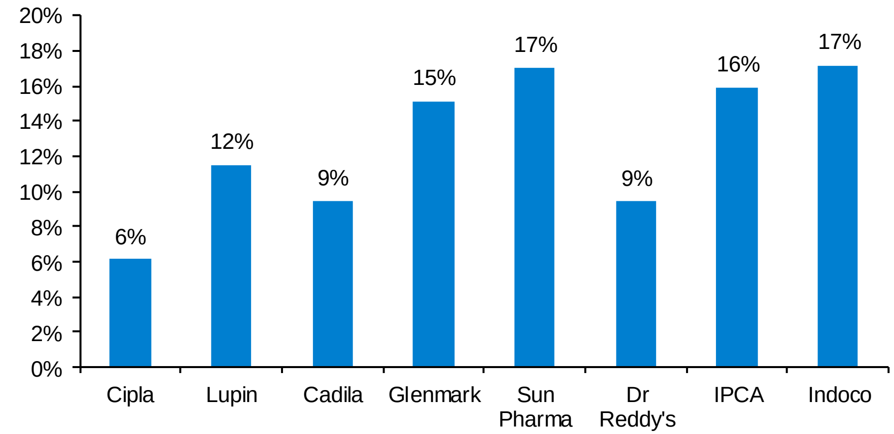
- India led sales growth while WC cycle grew with competitive intensity. The growth to be lower in H2 due to high base and backing of lesser seasonality.
- The regulatory drag continues to impact revenues and valuation for ARBP, CDH, IPCA DRRD, LPC, JUBL and GNP.
- Majority of the companies prefer to opt existing tax regime and plans to adopt new tax regime once accumulated tax benefits cease to exists. PAT however impacted in SUNP, LPC, GNP and CDH due to one-offs.
- Lesser control on overheads for majority of Indian generics majors (SUNP, GNP and LPC) due to R&D for developing pipeline launching with promotion and sales team.
- Realization from China generics are 18-24 months away for Indian majors.

Q2FY20 Result Snapshot

(Rs mn)	Sales			EBITDA			PBT		
	Q2FY20	*YoY gr.*	*QoQ gr.*	Q2FY20	*YoY gr.*	*QoQ gr.*	Q2FY20	*YoY gr.*	*QoQ gr.*
ARBP IN	55,183	*18.2%*	*3.0%*	10,853	*15.2%*	*2.5%*	8,766	*7.8%*	*0.6%*
CDH IN	33,666	*13.7%*	*-3.7%*	6,256	*-9.0%*	*-10.9%*	3,905	*-27.0%*	*-15.8%*
CIPLA IN	42,642	*8.0%*	*9.5%*	7,780	*21.9%*	*-4.0%*	6,810	*33.9%*	*2.7%*
DLPL IN	3,656	*15.1%*	*9.1%*	1,089	*25.5%*	*14.5%*	1,023	*16.1%*	*14.4%*
DRRD IN	40,899	*7.1%*	*6.0%*	8,136	*7.1%*	*9.7%*	5,242	*-10.9%*	*-38.5%*
ERIS IN	2,805	*7.6%*	*3.2%*	1,055	*8.7%*	*3.3%*	1,028	*11.3%*	*8.3%*
GNP IN	27,637	*8.8%*	*21.0%*	3,991	*0.1%*	*21.8%*	3,473	*-15.8%*	*87.9%*
INDR IN	2,856	*21.1%*	*15.5%*	258	*113.3%*	*49.3%*	93	*-188.4%*	*3225.0%*
IPCA IN	12,126	*21.5%*	*19.9%*	2,616	*51.4%*	*34.1%*	2,267	*60.8%*	*35.0%*
JUBILANT IN	22,659	*-0.2%*	*3.9%*	4,685	*4.1%*	*7.8%*	2,922	*-3.2%*	*8.6%*
LPC IN	42,969	*10.4%*	*-1.4%*	6,683	*36.5%*	*-16.2%*	4,564	*3.5%*	*-13.8%*
SUNP IN	79,492	*16.1%*	*-3.8%*	16,071	*11.6%*	*-11.4%*	14,249	*7.4%*	*-9.8%*
THYROCAR IN	1,162	*11.9%*	*5.9%*	522	*21.2%*	*14.4%*	458	*18.4%*	*14.0%*

Source: Company Data, PL Research

Q2FY20 - Domestic Formulations Normalised growth (%)



Source: Company Data, PL Research

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Management Commentary

- **Sun Pharma (SUNP):** US sales declined 20% QoQ, while India business grew with adjusted growth of 17%YoY. Earnings for H2FY20E and FY21E might lack growth because of the high base for India business and higher SGA cost, as it plans to launch more specialty drug.
- **Dr. Reddy's Laboratories (DRRD):** Cost control measures and divestment on non-core investments have played well. Renewed focus on India formulaitons, resolution of USFDA issues, and launch of gNuvaring and gCopaxone to be key triggers in FY21E.
- **Cipla:** Normalised growth in India formulations restored after issues with distributors in Q1FY20. US sales were impacted by price erosion of gSensipar and lack of major launches. Tender business in Africa continued to remain weak. US launches and seasonality benefits in India inhaler portfolio holds key for H2FY20E.
- **IPCA Laboratories (IPCA):** Beat estimates due to growth in India formulations, and exports of sartans. Revises its API guidance upward to 20% for H2FY20E and also plans to expand its capacity to reduce its dependence on imports of Chinese bulk drugs.
- **Lupin (LPC):** Missed estimates on disappointing US sales, while domestic sales grew 12% YoY and EMEA grew 23% QoQ. Adj EBITDA margin stood at 13%. Divestment of Japanese arm would provide relief on margin and can lead to better capital utilization.
- **Zydus Cadila (CDH):** US generics witnessed steady performance on account of market share gain on core products, launches, and benefits of Losartan. Competition in its US specialty as Rs2.7bn impairment provisioned for Levorphanol. Margin impacted due to adverse seasonality of Heinz portfolio.
- **Aurobindo Pharma (ARBP):** Muted growth across geography led flat results QoQ. Rising regulatory concerns on its key plants hold the key for H2FY20E and FY21E.
- **Glenmark (GNP):** Sales grew 21% QoQ led by seasonality benefits in India and US and launches of in-licensed drugs of Novartis in Brazil. Net debt guided to reduce by Rs7-8bn in FY20E while regulatory overhang on Baddi plant delayed the launch of Ryaltris.
- **Jubilant Lifesciences (JUBL):** Missed estimates due to low growth in Pharma and LSI segment. Its Roorkee and Nanjangud remained under the scanner of USFDA with no new approvals. Management has proposed demerger of Pharma and LSI business to unlock value.
- **Eris Lifesciences (ERIS):** Strides portfolio showed better traction. Licensing of products, entry in derma and cardio-metabolic segment, and shifting production to in-house facility would remain area of focus for ERIS.
- **Indoco Remedies (INDR):** India sales increased by 17% YoY, in line with guidance for FY20E. While UK sales gradually ramping up post-re-instating GMP compliance by UK MHRA.
- **Dr. Lal Pathlabs (DLPL):** Higher volumes, increased test per patient led growth in revenues and PAT by 15% and 41% YoY respectively. Revenue contribution from bundle tests declined sequentially in Q2FY20. DLPL focus remains to expand in the non-core region.
- **Thyrocare Technologies (THYROCAR):** Revenue growth was in line with management guidance. Thyrocare was able to increase its revenue share from Southern, Eastern and other parts of India. It continues to have cheapest valuation in diagnostic segment.

PL Coverage Financial & Valuation Summary

Sector / Company Name	Rating	Price (Rs)	TP (Rs)	Upside (%)	Mcap (Rs bn)	Revenues (Rs bn) '19E	'20E	'21E	PAT (Rs bn) '19E	'20E	'21E	EBITDA (Rs bn) '19E	'20E	'21E	EPS (Rs) '19E	'20E	'21E	BVPS (Rs) '19E	'20E	'21E	RoE (%) '19E	'20E	'21E	RoCE (%) '19E	'20E	'21E	PER (x) '19E	'20E	'21E	P/BV (x) '19E	'20E	'21E	EV/EBITDA (x) '19E	'20E	'21E
Agri Chemicals																																			
Bayer Cropscience	Hold	3,761	3,699	(1.6)	129.1	26.9	28.7	32.2	2.4	2.7	3.4	3.7	4.0	5.1	69.2	78.8	100.3	548.6	591.6	650.8	13.0	13.8	16.1	18.5	18.7	21.9	54.3	47.7	37.5	6.9	6.4	5.8	33.7	31.0	24.6
Dhanuka Agritech	BUY	316	423	33.6	15.0	10.1	10.7	11.6	1.1	1.2	1.4	1.5	1.6	1.9	23.7	25.1	30.3	135.0	153.4	175.9	17.6	17.4	18.4	20.5	20.9	22.2	13.4	12.6	10.4	2.3	2.1	1.8	10.2	8.6	6.8
Insecticides India	BUY	532	948	78.2	11.0	11.9	13.2	14.5	1.2	1.2	1.5	1.9	2.1	2.4	59.2	60.1	74.3	320.0	343.1	383.3	20.3	18.1	20.5	20.6	19.7	23.8	9.0	8.9	7.2	1.7	1.6	1.4	7.5	6.1	4.8
P.I. Industries	Hold	1,449	1,355	(6.5)	199.8	28.4	33.8	43.7	4.1	5.0	5.9	5.7	7.4	9.0	29.6	36.2	43.0	164.9	173.5	203.9	19.5	21.4	22.8	22.2	23.8	25.3	49.0	40.0	33.7	8.8	8.4	7.1	34.6	27.6	22.4
Rallis India	Acc	177	174	(2.0)	34.5	19.8	22.7	25.3	1.6	1.5	1.8	2.4	2.6	3.1	8.0	7.9	9.4	66.1	70.7	76.5	12.5	11.5	12.7	15.2	13.7	15.2	22.2	22.4	18.9	2.7	2.5	2.3	14.0	12.6	10.6
Sharda Cropchem	Acc	240	306	27.7	21.6	20.0	20.3	22.4	1.8	1.7	1.9	3.3	3.4	4.0	19.5	18.4	21.5	142.3	154.0	170.8	14.6	12.4	13.2	17.8	14.8	15.8	12.3	13.0	11.1	1.7	1.6	1.4	5.6	5.3	4.3
UPL	BUY	553	740	33.9	282.0	218.4	357.4	393.7	19.0	22.2	34.4	38.1	67.2	89.0	37.2	29.1	45.1	287.2	213.9	243.8	15.9	14.4	19.7	9.5	10.1	15.3	14.9	19.0	12.3	1.9	2.6	2.3	14.3	7.6	5.4
Automobiles																																			
Ashok Leyland	Hold	83	76	(8.0)	243.6	290.5	256.4	263.3	20.3	11.3	11.1	31.4	22.1	22.0	6.9	3.8	3.8	28.4	28.1	27.8	26.0	13.6	13.5	14.1	7.9	8.2	12.0	21.6	22.0	2.9	3.0	3.0	7.5	11.0	11.1
Bajaj Auto	Reduce	3,162	2,922	(7.6)	915.1	302.5	309.1	338.9	46.8	50.3	54.4	49.8	50.5	54.2	161.8	173.8	187.8	752.7	836.4	927.7	22.9	21.9	21.3	22.9	20.6	19.9	19.5	18.2	16.8	4.2	3.8	3.4	18.2	18.0	16.6
Eicher Motors	Reduce	21,490	19,152	(10.9)	586.2	98.0	94.2	112.5	22.1	18.3	21.6	29.0	23.1	27.2	811.6	669.8	790.5	3,269.3	3,760.7	4,252.7	27.8	19.1	19.7	32.0	20.0	20.4	26.5	32.1	27.2	6.6	5.7	5.1	19.1	23.5	19.5
Hero Motocorp	Acc	2,471	2,856	15.6	493.5	336.5	315.3	363.7	33.8	31.5	36.9	49.3	42.9	50.2	169.5	157.5	184.4	643.7	691.3	761.2	27.5	23.6	25.4	25.2	19.0	21.1	14.6	15.7	13.4	3.8	3.6	3.2	8.8	9.8	8.1
Mahindra & Mahindra	Hold	560	593	5.8	667.8	536.1	502.9	509.4	48.2	41.4	40.4	66.4	60.2	60.0	40.4	34.8	33.9	287.1	303.7	327.6	14.9	11.8	10.7	13.7	9.9	8.6	13.9	16.1	16.5	2.0	1.8	1.7	9.4	10.7	10.7
Maruti Suzuki	BUY	7,153	7,809	9.2	2,160.7	860.2	790.2	964.6	73.6	64.7	85.8	108.0	83.1	114.4	243.6	214.3	283.9	1,527.5	1,591.5	1,707.1	16.7	13.7	17.2	17.7	10.9	15.0	29.4	33.4	25.2	4.7	4.5	4.2	19.9	25.7	18.4
Tata Motors	Hold	167	138	(17.8)	568.5	3,019.4	3,065.0	3,223.4	-14.8	14.2	69.0	297.9	280.8	320.1	-4.4	4.2	20.3	177.2	180.9	200.9	-1.9	2.3	10.6	1.2	3.3	7.1	(38.4)	40.0	8.2	0.9	0.9	0.8	3.5	4.6	4.1
TVS Motors	Hold	448	439	(2.0)	212.9	182.1	183.0	215.7	6.7	7.7	9.6	14.3	15.8	18.8	14.1	16.2	20.3	70.5	83.8	99.2	21.5	21.0	22.2	22.2	21.2	24.1	31.8	27.7	22.1	6.4	5.3	4.5	16.1	14.2	11.8
Auto Ancillary																																			
Bharat Forge	Hold	458	453	(1.1)	213.4	101.5	103.9	112.7	10.3	9.9	11.0	20.6	20.0	22.6	22.2	21.3	23.6	114.8	128.6	144.7	20.6	17.5	17.3	18.0	14.6	15.9	20.7	21.5	19.4	4.0	3.6	3.2	12.0	12.1	10.5
CEAT	Sell	968	827	(14.6)	39.2	69.8	73.7	80.2	3.0	2.1	2.2	6.4	6.5	7.2	73.4	52.0	53.7	683.8	721.9	775.6	11.1	7.4	7.2	11.6	8.4	7.8	13.2	18.6	18.0	1.4	1.3	1.2	8.3	8.4	8.0
Exide Industries	Acc	189	218	15.3	160.4	105.9	111.4	121.6	7.4	9.3	9.3	14.1	15.8	16.7	8.7	10.9	10.9	70.4	78.3	86.2	12.9	14.7	13.3	19.3	19.2	17.1	21.8	17.3	17.2	2.7	2.4	2.2	11.1	9.5	8.6
Motherson Sumi System	Acc	132	142	7.5	417.8	635.2	686.1	770.7	16.1	16.6	20.7	53.5	56.3	68.9	5.1	5.3	6.5	34.7	38.3	42.8	15.9	14.4	16.1	16.1	15.2	19.2	25.9	25.1	20.2	3.8	3.5	3.1	9.2	8.6	6.7
Wabco India	Acc	6,205	7,111	14.6	117.7	29.8	34.1	37.0	3.3	3.9	4.2	4.6	5.5	5.9	175.4	203.2	221.8	966.7	1,155.4	1,377.2	19.8	19.1	17.5	23.3	23.1	20.8	35.4	30.5	28.0	6.4	5.4	4.5	23.2	19.1	16.9
Airlines																																			
InterGlobe Aviation	Hold	1,427	1,553	8.9	548.4	285.0	372.3	471.0	1.6	12.8	33.4	36.6	63.8	100.3	4.1	33.3	86.9	180.7	207.9	276.8	2.2	17.1	35.9	-10.4	9.5	14.6	348.8	42.8	16.4	7.9	6.9	5.2	11.5	9.5	6.1
SpiceJet	BUY	111	163	47.0	66.7	91.1	130.0	157.3	-2.5	-3.1	4.8	12.9	20.6	32.7	-4.2	-5.2	8.0	-5.8	-11.0	-3.1	128.3	61.5	NA	-33.5	0.9	7.7	(26.4)	(21.4)	14.0	(19.0)	(10.1)	NA	5.9	8.4	5.7
Banks																																			
Axis Bank	Acc	749	800	6.8	1,925.5	217.1	250.8	297.0	23.8	58.3	138.5	190.1	237.7	283.9	9.3	21.6	49.1	259.3	315.2	356.5	3.7	7.5	14.6	0.3	0.7	1.4	80.9	34.6	15.2	2.9	2.4	2.1	-	-	-
Bank of Baroda	BUY	99	115	16.3	2,755.5	186.8	333.8	366.5	-9.5	-91.1	113.0	134.9	24.1	266.3	0.3	-3.2	3.9	16.7	12.8	12.1	-2.0	-19.8	28.2	-0.1	-1.0	1.0	348.0	(30.6)	25.0	5.9	7.8	8.2	-	-	-
Bank of India	Reduce	74	58	(21.0)	203.1	136.6	145.2	148.5	-55.5	0.6	22.5	80.9	74.9	72.2	-24.6	0.2	8.1	148.1	140.8	147.1	-13.6	0.1	5.0	-0.9	0.0	0.3	(3.0)	364.0	9.0	0.5	0.5	0.5	-	-	-
Federal Bank	BUY	89	102	15.1	176.0	41.8	47.2	55.0	12.4	15.8	19.5	27.6	30.7	36.7	6.3	8.0	9.8	66.8	73.1	80.8	9.8	11.4	12.7	0.8	0.9	1.0	14.1	11.1	9.0	1.3	1.2	1.1	-	-	-
HDFC Bank	BUY	1,273	1,406	10.4	6,935.4	482.4	573.3	682.5	210.8	266.3	333.5	397.5	484.0	573.7	39.6	48.9	61.2	273.9	311.5	361.3	16.5	16.7	18.2	1.8	2.0	2.1	32.1	26.0	20.8	4.6	4.1	3.5	-	-	-
ICICI Bank	BUY	495	541	9.3	3,191.4	270.1	320.2	380.3	29.5	86.8	169.5	234.4	268.5	319.2	4.6	13.5	26.3	163.4	174.4	197.6	2.8	7.8	13.8	0.3	0.8	1.4	108.0	36.8	18.8	3.0	2.8	2.5	-	-	-
IDFC First Bank	BUY	43	44	2.0	206.3	32.0	55.2	62.8	-36.4	-10.8	3.7	-17.5	16.1	18.0	-4.8	-2.3	0.8	38.0	35.1	35.9	-21.8	-6.2	2.2	-2.5	-0.6	0.2	(9.1)	(19.2)	55.5	1.1	1.2	1.2	-	-	-
IndusInd Bank	BUY	1,469	1,640	11.6	1,017.0	104.0	123.0	144.5	40.5	60.5	75.3	93.1	108.9	126.7	62.7	87.4	108.7	441.9	526.4	648.1	14.8	17.9	18.4	1.6	1.9	2.0	23.4	16.8	13.5	3.3	2.8	2.3	-	-	-
Jammu & Kashmir Bank	UR	34		NA	18.8	33.8	39.0	44.9	4.6	6.0	8.1	17.2	18.4	22.0	8.3	10.7	14.5	107.8	117.6	131.2	7.3	8.6	10.7	0.5	0.5	0.7	4.0	3.2	2.3	0.3	0.3	0.3	-	-	-
Kotak Mahindra Bank	Hold	1,599	1,586	(0.8)	3,053.0	129.8	157.5	183.7	65.2	87.0	104.1	108.7	133.3	156.7	34.0	45.5	54.4	290.2	335.8	390.3	12.4	14.4	14.9	1.9	2.3	2.4	47.0	35.2	29.4	5.5	4.8	4.1	-	-	-
Punjab National Bank	Reduce	64	57	(10.8)	294.2	171.6	183.6	200.8	-99.8	28.8	0.9	130.0	149.9	161.6	-27.1	4.9	0.1	89.5	84.6	84.5	-23.2	5.3	0.1	-1.3	0.4	0.0	(2.4)	13.0	484.3	0.7	0.8	0.8	-	-	-
State Bank of India	BUY	329	413	25.6	2,934.4	883.5	989.0	1,119.3	8.6	86.1	239.7	554.4	625.3	712.9	1.0	9.6	26.9	219.9	228.3	251.6	0.4	3.8	10.0	0.0	0.2	0.6	340.3	34.1	12.2	1.5	1.4	1.3	-	-	-
South Indian Bank	BUY	11	18	62.2	20.1	20.2	22.9	25.8	2.5	3.3	4.0	12.4	14.7	16.4	1.4	1.8	2.2	28.2	30.3	32.1	4.7	6.0	6.8	0.3	0.3	0.4	8.1	6.1	5.0	0.4	0.4	0.3	-	-	-
Union Bank of India	Reduce	58	44	(24.6)	102.9	102.1	118.1	133.5	-31.3	-7.0	37.5	73.4	86.9	99.5	-21.3	-2.4	9.4	137.0	86.9	93.3	-12.1	-2.2	9.8	-0.6	-0.1	0.7	(2.7)	(24.1)	6.2	0.4	0.7	0.6	-	-	-
YES Bank	Hold	66	59	(10.4)	152.4	98.1	88.5	97.9	17.2	-8.5	15.7	81.3	61.7	64.1	7.5	-3.5	6.2	116.2	109.3	114.9	6.5	-3.1	5.5	0.5	-0.2	0.4	8.8	(18.7)	10.7	0.6	0.6	0.6	-	-	-
Financial Services																																			
Cholamandalam Investm	BUY	320	354	10.6	250.2	34.0	40.4	46.7	11.9	13.3	16.4	21.3	25.4	29.6	15.2	17.0	21.0	79.0	94.2	113.3	21.0	19.7	20.2	2.3	2.1	2.2	21.1	18.8	15.2	4.1	3.4	2.8	-	-	-
Cholamandalam Investm	BUY	4,139	4,668	12.8	2,383.8	118.6	158.8	199.4	39.9	58.0	78.1	76.8	103.2	132.6	69.4	98.8	130.7	342.0	538.0	659.3	22.5	22.6	22.0	3.8	3.8	3.7	59.7	41.9	31.7	12.1	7.7	6.3	-	-	-
HDFC	Acc	2,201	2,361	7.3	5,683.2	114.0	126.7	149.2	95.0	116.5	137.6	140.5	179.8	200.5	36.8	45.1	53.3	299.6	408.1	444.4	13.3	12.7	12.5	2.2	2.4	2.4	59.8	48.8	41.3	7.3	5.4	5.0	-	-	-
LIC Housing Finance	Acc	418	409	(2.2)	316.5	43.6	49.1	53.6	24.6	27.1	29.5	37.6	44.9	49.2	48.8	53.6	58.5	322.0	333.5	381.1	16.0	16.4	16.4	1.3	1.2	1.1	8.6	7.8	7.1	1.3	1.3	1.1	-	-	-
L&T Finance Holdings	Hold	99	88	(11.2)	197.8	50.5	58.0	64.7	22.3	17.6	22.8	37.5	43.6	49.9	11.2	8.8	11.4	61.8	79.5	88.4	20.1	12.7	13.8	2.3	1.5	1.7	8.9	11.2	8.7	1.6	1.2	1.1	-	-	-
Mahindra & Mahindra Fin	Acc	329	362	10.1	202.4	47.8	56.3	65.3	15.6	12.0	15.3	30.2	37.3	44.2	25.3	19.5	24.9	177.5	197.8	212.7	15.2	10.4	12.1	2.6	1.6	1.8	13.0	16.9	13.2	1.9	1.7	1.5	-	-	-
Shriram Transport Finan	BUY	1,127	1,441	27.9	255.6	80.1	84.9	94.7	25.6	26.7	29.7	61.6	65.3	73.7	113.0	117.8	130.7	697.9	815.7	946.4	17.4	15.6	14.8	2.5	2.4	2.3	10.0	9.6	8.6	1.6	1.4	1.2	-	-	-

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Sector / Company Name	Rating	Price (Rs)	TP (Rs)	Upside (%)	Mcap (Rs bn)	Revenues (Rs bn)			PAT (Rs bn)			EBITDA (Rs bn)			EPS (Rs)			BVPS (Rs)			RoE (%)			RoCE (%)			PER (x)			P/BV (x)			EV/EBITDA (x)		
						'19E	'20E	'21E	'19E	'20E	'21E	'19E	'20E	'21E	'19E	'20E	'21E	'19E	'20E	'21E	'19E	'20E	'21E	'19E	'20E	'21E	'19E	'20E	'21E	'19E	'20E	'21E	'19E	'20E	'21E
Capital Goods																																			
ABB	Reduce	1,450	1,514	4.4	307.2	66.9	76.6	85.8	5.1	6.0	7.7	4.6	6.0	6.6	24.1	28.2	36.5	189.1	198.2	210.4	13.4	14.6	17.9	9.6	12.2	13.0	60.1	51.4	39.7	7.7	7.3	6.9	63.9	48.2	43.3
Apar Industries	Acc	446	646	44.9	17.1	79.6	84.9	89.6	1.4	1.7	2.1	4.7	5.1	5.6	35.6	44.1	53.9	314.2	344.5	382.0	11.8	13.4	14.8	28.0	29.4	30.0	12.5	10.1	8.3	1.4	1.3	1.2	3.2	3.5	3.1
Bharat Electronics	Hold	111	118	6.7	270.0	120.8	127.4	143.5	19.3	16.9	19.2	28.6	25.2	28.6	7.9	6.9	7.9	37.0	39.9	43.1	23.0	18.0	19.0	30.3	23.3	24.6	14.0	16.0	14.1	3.0	2.8	2.6	9.1	10.3	9.1
BHEL	Hold	56	60	6.9	194.3	303.5	321.9	337.6	12.2	11.9	16.0	21.4	18.7	23.1	3.5	3.4	4.6	90.2	91.4	93.2	3.8	3.8	5.0	5.0	4.1	5.3	16.0	16.3	12.2	0.6	0.6	0.6	6.8	6.9	5.5
Cummins India	Hold	570	543	(4.7)	158.0	56.6	54.5	57.2	7.2	6.4	6.8	8.6	6.5	6.9	26.1	23.1	24.7	148.9	154.4	157.4	17.8	15.2	15.8	17.3	11.6	11.9	21.9	24.6	23.1	3.8	3.7	3.6	17.5	23.6	22.3
Engineers India	BUY	104	156	49.2	66.0	24.8	28.2	32.4	3.7	4.7	5.5	3.8	4.1	5.0	5.9	7.4	8.7	36.0	37.5	39.3	16.3	20.3	22.5	15.6	16.7	19.4	17.8	14.0	12.1	2.9	2.8	2.7	10.4	9.1	7.3
GE T&D India	Reduce	173	150	(13.2)	44.4	42.2	35.7	39.3	2.1	0.9	1.1	4.3	2.5	2.9	8.3	3.5	4.4	55.8	58.3	61.6	16.2	6.1	7.4	24.5	9.5	10.2	20.9	49.9	39.1	3.1	3.0	2.8	10.5	19.5	15.9
KEC International	BUY	279	375	34.4	71.8	110.0	126.5	142.0	4.9	6.4	7.4	11.5	13.2	14.9	18.9	25.0	28.9	94.7	115.2	138.9	21.9	23.8	22.7	26.6	25.6	24.0	14.8	11.2	9.7	2.9	2.4	2.0	7.5	6.7	6.0
Kalpataru Power Transn	BUY	450	662	47.2	69.0	71.2	83.1	95.1	4.0	5.4	6.3	7.8	9.1	10.6	26.2	34.9	40.8	205.4	235.6	270.9	13.6	15.8	16.1	19.3	20.0	20.4	17.2	12.9	11.0	2.2	1.9	1.7	9.5	8.3	7.0
Larsen & Toubro	BUY	1,381	1,800	30.3	1,935.0	1,410.1	1,588.3	1,812.5	86.1	108.4	126.6	163.2	183.8	210.1	61.4	77.3	90.3	445.1	495.4	554.1	14.7	16.4	17.2	9.1	9.0	9.3	22.5	17.9	15.3	3.1	2.8	2.5	16.6	16.3	14.4
Power Grid Corporation	BUY	196	224	14.2	1,025.9	341.2	354.0	389.2	99.4	101.5	113.8	292.8	308.6	339.4	19.0	19.4	21.8	112.6	121.7	131.7	17.5	16.6	17.2	10.3	9.6	10.0	10.3	10.1	9.0	1.7	1.6	1.5	8.0	7.6	6.9
Siemens	BUY	1,543	1,722	11.6	549.4	128.0	136.5	149.5	9.0	10.6	13.9	13.3	15.2	17.1	25.3	29.8	39.0	233.1	253.0	279.0	11.3	12.3	14.7	14.1	15.3	15.9	61.0	51.7	39.6	6.6	6.1	5.5	38.6	33.2	29.2
Thermax	Acc	1,027	1,143	11.4	115.6	59.7	62.8	69.1	3.3	3.0	4.3	4.6	4.9	5.6	28.9	26.9	38.1	267.7	286.7	313.6	11.4	9.7	12.7	11.9	11.9	12.7	35.5	38.2	26.9	3.8	3.6	3.3	23.2	21.3	18.6
Triveni Turbine	Acc	98	142	45.0	31.6	8.4	9.5	10.5	1.0	1.4	1.6	1.5	1.8	2.1	3.1	4.2	5.1	13.4	16.0	19.1	22.6	28.8	28.8	29.6	33.5	32.9	31.5	23.0	19.3	7.3	6.1	5.1	20.7	17.3	14.5
Voltamp Transformers	BUY	1,097	1,610	46.7	11.1	8.3	9.4	10.5	0.8	1.1	1.2	0.9	1.1	1.2	83.4	104.8	115.0	678.8	753.0	834.5	12.9	14.6	14.5	13.2	14.1	14.0	13.2	10.5	9.5	1.6	1.5	1.3	11.5	9.7	8.8
Consumer Durables																																			
Crompton Greaves Cons	BUY	257	303	17.7	161.2	44.8	48.9	55.0	3.7	4.7	5.8	5.9	6.6	7.8	6.0	7.6	9.2	17.5	22.7	28.6	39.6	37.6	36.0	43.0	44.9	47.6	43.1	34.0	27.9	14.7	11.3	9.0	27.0	23.9	19.6
Havells India	Reduce	672	580	(13.7)	420.1	100.6	105.3	119.7	7.9	7.8	9.5	11.9	11.5	13.7	12.7	12.4	15.3	67.8	74.9	84.4	19.8	17.4	19.2	28.9	23.9	26.0	53.1	54.0	44.0	9.9	9.0	8.0	34.2	35.5	29.2
Voltas	Hold	708	662	(6.6)	234.3	71.2	79.3	88.9	5.2	5.7	7.2	6.1	7.3	8.9	15.7	17.3	21.7	124.3	135.2	151.9	13.0	13.3	15.1	18.3	19.8	21.3	45.1	41.0	32.6	5.7	5.2	4.7	36.3	30.1	24.5
Cement																																			
ACC	Acc	1,484	1,650	11.2	278.9	144.8	154.3	155.7	9.5	14.1	16.1	17.9	22.3	23.4	50.8	75.2	85.7	560.2	618.6	685.3	9.6	12.8	13.1	12.0	14.7	13.9	29.2	19.7	17.3	2.6	2.4	2.2	13.8	10.5	9.7
Ambuja Cement	Hold	202	207	2.8	400.3	260.4	273.9	276.8	22.8	19.2	19.9	40.1	48.3	48.4	11.5	9.7	10.0	112.7	120.5	127.6	10.6	8.3	8.1	13.3	15.8	14.6	17.6	20.9	20.1	1.8	1.7	1.6	8.4	7.0	6.7
Heidelberg Cement India	Acc	188	215	14.0	42.7	21.1	22.8	23.1	2.2	2.8	2.8	4.6	5.5	5.2	9.7	12.4	12.2	51.7	59.3	67.2	19.9	22.3	19.2	21.3	26.0	23.7	19.4	15.2	15.5	3.6	3.2	2.8	9.7	7.6	7.4
JK Lakshmi Cement	Acc	283	380	34.4	33.3	38.8	43.3	43.5	0.8	3.6	2.8	4.2	7.4	6.4	6.8	30.4	24.1	129.4	153.0	175.9	5.3	21.6	14.7	7.5	18.5	14.3	41.8	9.3	11.7	2.2	1.8	1.6	10.3	5.7	6.1
Shree Cement	Reduce	20,336	18,486	(9.1)	708.5	125.5	143.5	151.3	11.6	23.1	22.8	27.9	41.9	40.7	333.4	662.8	655.5	2,775.8	3,360.3	3,925.5	12.5	21.6	18.0	10.6	19.5	17.2	61.0	30.7	31.0	7.3	6.1	5.2	26.2	17.2	17.2
The Ramco Cements	Hold	803	780	(2.9)	189.3	50.6	57.6	63.2	5.4	7.6	7.6	9.7	13.4	14.0	22.8	32.1	32.2	189.3	217.2	245.7	12.6	15.8	13.9	12.0	15.4	14.0	35.2	25.0	25.0	4.2	3.7	3.3	21.0	15.6	14.9
Ultratech Cement	BUY	4,114	4,850	17.9	1,129.9	367.7	453.3	473.1	24.3	48.4	49.0	61.8	99.0	100.6	88.6	167.7	170.0	1,033.7	1,333.0	1,489.1	8.9	14.5	12.0	8.3	12.9	11.7	46.4	24.5	24.2	4.0	3.1	2.8	21.6	13.3	12.5
Consumer Staples																																			
Asian Paints	Acc	1,724	1,855	7.6	1,653.2	193.4	214.8	245.7	21.5	29.9	34.0	35.2	43.8	51.0	22.4	31.2	35.5	99.2	117.9	135.9	24.0	28.7	27.9	32.4	32.7	33.8	76.9	55.3	48.6	17.4	14.6	12.7	46.6	37.4	31.9
Avenue Supermarts	Reduce	1,826	1,647	(9.8)	1,139.7	200.0	251.9	323.1	9.0	13.2	18.1	16.3	21.8	28.4	14.5	20.4	27.8	89.5	152.6	179.0	17.6	17.1	16.8	24.9	22.4	21.7	126.3	89.6	65.6	20.4	12.0	10.2	70.1	51.3	39.6
Britannia Industries	Acc	3,116	3,433	10.2	748.9	104.8	113.4	128.1	11.2	14.1	15.9	16.6	17.9	21.0	46.7	58.8	66.1	168.1	178.9	223.6	30.9	33.9	32.8	41.8	35.8	34.3	66.7	53.0	47.1	18.5	17.4	13.9	44.0	40.9	34.5
Colgate Palmolive	Reduce	1,542	1,267	(17.8)	419.5	44.6	47.1	51.4	7.5	8.7	9.5	12.4	13.2	14.3	27.4	32.0	34.8	53.2	54.2	65.5	50.1	59.6	58.1	70.5	71.9	70.3	56.3	48.2	44.4	29.0	28.5	23.6	33.7	31.5	28.9
Dabur India	Hold	469	484	3.3	825.8	86.8	93.6	104.8	15.7	17.1	20.3	17.7	19.3	22.3	8.9	9.7	11.5	33.8	40.8	49.0	26.9	26.0	25.6	23.7	23.2	23.1	52.5	48.2	40.7	13.9	11.5	9.6	46.3	42.0	35.9
Emami	Acc	320	373	16.4	145.3	26.9	28.6	31.7	5.0	5.9	6.5	7.3	7.9	8.6	11.1	13.0	14.2	45.7	49.4	53.8	24.6	27.3	27.6	17.7	19.9	20.9	28.9	24.7	22.5	7.0	6.5	6.0	19.9	17.9	15.9
Future Retail	UR	328	NA	NA	164.9	201.6	230.0	261.5	7.3	8.2	9.5	10.4	27.7	31.3	14.6	16.3	17.5	76.6	92.9	138.7	21.1	19.2	15.6	17.6	27.3	25.3	22.5	20.2	18.8	4.3	3.5	2.4	18.2	6.3	5.5
GlaxoSmithKline Consum	Hold	8,694	9,144	5.2	365.6	47.8	51.4	57.1	9.8	11.9	13.0	11.4	12.8	13.7	233.7	282.0	308.2	973.6	1,129.0	1,304.6	25.9	26.8	25.3	28.5	27.1	25.1	37.2	30.8	28.2	8.9	7.7	6.7	28.5	24.6	22.4
Hindustan Unilever	Acc	2,027	2,083	2.8	4,377.2	382.2	413.8	458.6	62.6	71.8	79.7	86.4	102.9	111.8	29.0	33.2	36.7	35.5	39.9	43.7	85.0	88.1	88.0	110.1	114.7	112.4	69.9	61.0	55.2	57.2	50.7	46.4	49.9	41.8	38.3
ITC	BUY	251	344	37.1	3,073.2	450.0	487.5	531.0	124.6	158.9	166.7	173.1	188.7	208.9	10.2	12.9	13.5	47.3	53.3	59.0	22.8	25.7	24.0	29.2	28.0	27.8	24.7	19.4	18.6	5.3	4.7	4.2	16.8	15.3	13.7
Jubilant FoodWorks	BUY	1,591	1,753	10.2	209.9	35.3	40.0	46.7	3.3	4.0	5.2	6.1	9.8	11.3	25.1	30.1	39.5	100.3	127.4	162.0	27.9	26.4	27.3	38.5	43.1	39.0	63.5	52.8	40.3	15.9	12.5	9.8	33.4	20.4	17.4
Kansai Nerolac Paints	Acc	541	548	1.5	291.3	51.7	54.4	61.8	5.1	6.3	6.8	7.8	9.2	10.3	9.4	11.8	12.6	63.5	72.2	80.8	15.5	17.3	16.5	21.0	21.6	21.4	57.6	46.0	42.9	8.5	7.5	6.7	37.0	30.7	27.3
Marico	Reduce	355	339	(4.5)	458.4	73.3	77.5	86.4	9.3	10.4	11.0	12.8	14.7	15.7	7.2	8.0	8.5	23.2	25.1	27.1	33.6	33.2	32.7	38.2	38.6	38.8	49.3	44.3	41.6	15.3	14.2	13.1	35.3	30.5	28.6
Nestle India	Reduce	14,202	12,093	(14.8)	1,369.3	112.9	124.4	138.6	17.2	20.2	22.9	27.3	29.5	33.4	178.6	210.0	237.3	381.0	242.4	246.7	48.5	67.4	97.0	66.9	86.4	124.7	79.5	67.6	59.9	37.3	58.6	57.6	48.8	45.5	40.3
Pidilite Industries	Hold	1,328	1,365	2.8	674.6	60.9	65.5	74.4	9.8	12.2	13.8	12.9	15.6	17.9	19.3	24.0	27.1	82.4	98.6	115.8	25.3	26.5	25.3	30.8	31.3	30.4	68.9	55.3	49.0	16.1	13.5	11.5	51.2	42.1	36.5
Titan Company	Hold	1,163	1,189	2.2	1,032.4	190.7	210.8	249.7	14.4	16.4	20.7	20.0	24.0	29.5	16.3	18.4	23.4	69.6	81.8	97.6	25.4	24.3	26.0	32.8	31.4	33.2	71.5	63.1	49.8	16.7	14.2	11.9	51.0	42.3	34.0
Education																																			
Navneet Education	BUY	99	142	43.0	22.7	14.5	16.8	19.2	1.5	2.3	2.7	2.7	3.3	3.8	6.7	10.2	11.8	34.6	40.1	46.5	19.8	27.3	27.3	24.0	26.7	26.8	14.9	9.7	8.4	2.9	2.5	2.1	9.6	7.8	6.8
S Chand and Company	Acc	90	92	2.0	3.2	5.2	6.2	7.3	-0.6	0.6	0.8	-0.3	1.4	1.6	-18.4	17.3	23.0	266.0	281.8	303.3	-6.7	6.3	7.8	-3.7	7.1	8.5	(4.9)	5.2	3.9	0.3	0.3	0.3	NA	3.2	2.5

Contd…

Sector / Company Name	Rating	Price (Rs)	TP (Rs)	Upside (%)	Mcap (Rs bn)	Revenues (Rs bn)			PAT (Rs bn)			EBITDA (Rs bn)			EPS (Rs)			BVPS (Rs)			RoE (%)			RoCE (%)			PER (x)			P/BV (x)			EV/EBITDA (x)		
						'19E	'20E	'21E	'19E	'20E	'21E	'19E	'20E	'21E	'19E	'20E	'21E	'19E	'20E	'21E	'19E	'20E	'21E	'19E	'20E	'21E	'19E	'20E	'21E	'19E	'20E	'21E	'19E	'20E	'21E
Information Technology																																			
Cyient	Hold	399	507	27.2	44.0	46.2	47.1	52.1	4.9	4.4	4.8	6.4	6.4	7.2	44.3	39.5	43.9	232.3	255.1	280.5	19.9	16.2	16.4	19.5	16.4	18.3	9.0	10.1	9.1	1.7	1.6	1.4	5.8	5.4	4.4
HCL Technologies	BUY	1,133	1,258	11.1	1,557.9	604.3	717.1	793.9	101.2	105.0	117.6	139.7	163.8	181.6	73.6	77.5	86.7	303.7	373.8	448.7	25.8	22.7	21.1	28.5	27.1	24.6	15.4	14.6	13.1	3.7	3.0	2.5	10.6	9.5	8.3
Hexaware Technologies	Hold	340	321	(5.6)	101.1	46.5	55.9	65.2	5.8	6.8	7.5	7.7	9.1	10.0	19.6	22.9	25.1	80.4	93.3	107.8	26.5	26.3	24.9	32.1	31.9	31.1	17.3	14.9	13.6	4.2	3.6	3.2	12.0	9.7	8.5
Infosys	BUY	713	819	14.9	3,099.2	826.8	905.3	994.2	154.1	158.8	184.0	208.9	219.7	246.3	35.4	37.3	43.3	149.6	137.8	139.6	23.7	25.7	31.2	29.1	31.2	37.8	20.1	19.1	16.5	4.8	5.2	5.1	13.6	13.2	11.7
Larsen & Toubro Infotec	Acc	1,728	1,825	5.6	300.7	94.4	103.9	117.1	15.1	14.5	17.3	18.8	19.1	21.7	86.8	83.5	99.5	281.3	332.6	393.7	34.5	27.2	27.4	39.6	31.9	31.5	19.9	20.7	17.4	6.1	5.2	4.4	14.9	14.4	12.4
L&T Technology Service	Hold	1,442	1,444	0.1	150.0	50.8	56.0	62.2	7.7	8.2	8.5	9.2	10.9	11.8	73.7	78.9	81.8	238.4	286.0	335.3	34.7	30.1	26.3	35.6	33.7	31.7	19.6	18.3	17.6	6.0	5.0	4.3	15.6	13.0	11.6
Mindtree	Reduce	716	716	(0.0)	117.6	70.2	77.1	84.9	7.5	6.5	7.7	10.6	10.2	11.4	45.9	39.3	46.9	201.4	202.6	243.6	24.9	19.5	21.0	28.4	24.4	24.5	15.6	18.2	15.3	3.6	3.5	2.9	10.2	10.1	8.5
Mphasis	Acc	909	1,038	14.2	175.8	77.3	87.5	99.3	10.7	11.4	13.3	13.2	15.9	17.8	55.4	61.3	71.3	271.5	285.9	335.0	20.0	21.6	23.0	23.3	26.7	28.6	16.4	14.8	12.7	3.3	3.2	2.7	12.0	10.1	8.5
NIIT Technologies	Acc	1,509	1,551	2.8	93.2	36.8	42.1	48.1	4.1	4.5	5.7	6.5	7.3	8.7	67.1	73.6	91.5	335.3	379.6	434.6	21.5	20.6	22.5	26.9	25.4	27.6	22.5	20.5	16.5	4.5	4.0	3.5	13.0	11.3	9.1
Persistent Systems	Hold	665	537	(19.3)	52.6	33.7	35.4	39.1	3.5	3.4	3.9	5.8	5.2	6.0	44.5	43.3	49.4	296.3	326.6	361.2	15.7	13.9	14.4	18.9	14.5	15.9	15.0	15.4	13.5	2.2	2.0	1.8	7.3	7.8	6.3
Redington (India)	BUY	115	114	(0.7)	44.7	465.4	502.3	543.1	5.6	5.5	5.8	9.0	10.5	11.0	14.3	14.1	14.9	100.4	110.7	121.7	14.9	13.4	12.8	16.4	16.1	15.7	8.0	8.1	7.7	1.1	1.0	0.9	5.4	4.5	4.1
Sonata Software	Acc	301	400	32.7	31.3	29.6	30.9	31.8	2.5	2.8	3.0	3.4	3.7	4.1	24.0	27.0	28.9	72.5	83.3	94.9	35.4	34.6	32.4	44.7	41.8	42.1	12.6	11.2	10.4	4.2	3.6	3.2	7.7	6.6	5.7
Tata Consultancy Servic	Hold	2,109	1,985	(5.9)	7,990.9	1,464.6	1,575.3	1,729.8	314.7	330.1	369.7	395.1	415.1	470.2	83.0	87.1	97.5	236.0	234.1	277.7	36.1	37.1	38.1	42.8	43.3	45.7	25.4	24.2	21.6	8.9	9.0	7.6	19.2	18.3	15.9
TeamLease Services	Hold	2,467	3,203	29.8	42.2	44.5	53.3	62.4	1.0	1.1	1.5	0.9	1.2	1.5	57.6	62.1	89.2	315.3	377.5	466.7	20.1	17.9	21.1	8.5	8.6	11.1	42.9	39.7	27.6	7.8	6.5	5.3	43.3	34.1	25.7
Tech Mahindra	Reduce	771	656	(15.0)	683.9	347.4	364.3	391.9	43.6	41.4	47.1	63.4	59.3	66.1	49.2	47.4	53.9	228.8	267.9	310.1	22.3	18.9	18.7	24.6	20.3	20.6	15.7	16.3	14.3	3.4	2.9	2.5	9.6	10.3	8.8
Wipro	Reduce	249	245	(1.6)	1,494.9	585.8	600.7	627.5	85.7	94.4	97.8	111.8	118.2	124.4	14.3	15.7	16.5	94.6	99.5	110.3	16.3	16.2	15.6	14.3	14.4	14.4	17.4	15.8	15.1	2.6	2.5	2.3	10.9	9.8	8.9
Zensar Technologies	Acc	188	249	32.3	42.4	39.0	43.4	48.2	3.1	3.5	4.4	4.9	6.1	6.5	13.7	15.8	19.6	86.3	98.4	113.5	17.1	17.1	18.5	20.8	20.3	19.5	13.8	11.9	9.6	2.2	1.9	1.7	8.4	7.0	6.2
Logistics & Ports																																			
Entertainment Network (I	BUY	578	652	12.8	352.3	68.8	71.4	79.6	12.2	12.0	13.9	17.8	17.4	19.8	19.9	19.7	22.8	170.2	180.3	192.1	12.3	11.2	12.2	13.3	11.8	13.0	29.0	29.4	25.4	3.4	3.2	3.0	20.1	19.1	16.8
Media																																			
Entertainment Network (I	Hold	238	317	33.4	11.3	6.2	5.6	6.8	0.5	0.5	0.8	1.4	1.7	2.2	11.3	10.1	16.8	195.6	204.6	219.9	5.8	4.9	7.6	7.8	7.4	11.0	21.0	23.6	14.2	1.2	1.2	1.1	7.0	5.0	3.4
Inox Leisure	BUY	360	416	15.4	37.0	16.9	20.7	23.9	1.4	1.2	1.6	3.1	6.4	7.4	13.6	11.9	16.1	93.9	51.8	67.9	13.9	22.9	23.7	20.6	12.7	14.0	26.5	30.4	22.4	3.8	7.0	5.3	12.2	9.4	7.9
PVR	Acc	1,769	2,131	20.4	82.7	30.9	37.1	42.4	1.8	1.7	2.5	5.9	12.4	14.6	39.3	36.7	54.2	265.2	139.9	192.0	13.8	24.9	28.2	16.9	13.5	16.1	45.0	48.2	32.6	6.7	12.6	9.2	15.9	10.3	8.6
Music Broadcast	Hold	28	39	42.4	7.7	3.2	2.6	3.0	0.6	0.4	0.6	1.1	0.9	1.0	2.2	1.5	2.0	21.8	23.3	25.4	10.2	6.4	8.0	13.9	7.8	9.4	12.4	18.4	13.6	1.3	1.2	1.1	4.7	5.6	4.2
Metals																																			
Coal India	Acc	203	235	15.7	1,251.3	995.5	969.0	1,017.1	171.4	159.8	173.8	300.5	269.0	282.2	27.8	25.9	28.2	42.9	51.9	61.9	73.5	54.7	49.6	85.5	58.0	51.0	7.3	7.8	7.2	4.7	3.9	3.3	3.1	3.3	2.9
Hindalco Industries	Acc	191	215	12.9	424.2	1,305.4	1,281.1	1,320.0	55.0	54.5	52.9	155.0	151.0	151.1	24.7	24.5	23.8	258.6	281.6	303.8	9.8	9.1	8.1	9.9	9.1	8.5	7.7	7.8	8.0	0.7	0.7	0.6	5.2	5.2	4.9
Hindustan Zinc	Hold	214	235	10.1	902.5	211.2	209.3	233.4	79.6	76.5	79.5	106.7	101.7	113.0	18.8	18.1	18.8	79.5	84.6	89.8	22.9	22.1	21.6	24.4	21.8	23.5	11.3	11.8	11.3	2.7	2.5	2.4	6.9	7.0	6.1
Jindal Steel & Power	BUY	140	170	21.3	142.4	395.2	383.2	399.1	-0.9	-9.0	-0.8	84.1	75.2	81.7	-0.9	-8.9	-0.8	319.2	315.3	314.5	-0.3	-2.8	-0.3	5.8	4.7	5.8	NA	(15.7)	NA	0.4	0.4	0.4	6.3	6.8	5.9
JSW Steel	Reduce	249	185	(25.6)	601.2	847.8	823.7	923.3	76.4	61.7	45.3	189.7	142.1	170.0	31.6	25.5	18.7	143.9	166.4	180.3	24.3	16.4	10.8	20.0	11.6	11.9	7.9	9.7	13.3	1.7	1.5	1.4	5.3	7.4	6.5
NMDC	Reduce	102	93	(8.3)	311.7	121.5	122.0	122.1	46.4	49.8	47.7	69.3	65.4	62.4	15.2	16.3	15.6	84.8	94.4	104.0	18.5	18.2	15.7	26.0	22.4	19.2	6.7	6.3	6.5	1.2	1.1	1.0	3.9	4.0	4.1
Steel Authority of India	Reduce	38	32	(14.5)	156.5	669.7	626.3	661.6	24.4	-8.1	16.0	97.3	53.2	95.1	5.9	-2.0	3.9	92.4	88.9	92.2	6.6	-2.2	4.3	7.7	2.2	6.9	6.4	(19.3)	9.8	0.4	0.4	0.4	6.2	11.7	6.4
Tata Steel	Reduce	399	350	(12.2)	456.5	1,576.7	1,619.9	1,636.2	104.0	45.1	61.3	293.8	227.7	244.5	90.9	39.4	53.6	602.0	662.7	704.3	16.0	6.2	7.8	14.6	9.1	9.1	4.4	10.1	7.4	0.7	0.6	0.6	4.1	6.1	5.6
Oil & Gas																																			
Aarti Industries	BUY	848	988	16.5	146.9	48.6	42.0	56.8	4.7	5.2	7.4	9.1	9.6	13.0	27.1	30.3	42.4	154.9	180.6	216.7	22.3	18.0	21.3	18.4	15.0	18.2	31.3	28.0	20.0	5.5	4.7	3.9	17.5	16.8	12.6
Bharat Petroleum Corpor	BUY	545	537	(1.4)	1,071.2	2,982.3	3,436.7	3,771.2	85.3	75.1	91.8	151.1	140.8	159.0	43.4	38.2	46.7	197.1	244.0	269.1	22.6	17.3	18.2	15.1	12.2	13.8	12.6	14.3	11.7	2.8	2.2	2.0	9.5	8.8	7.8
GAIL (India)	BUY	125	188	51.0	561.5	751.3	611.8	684.6	63.5	62.1	74.7	95.6	85.9	99.2	14.1	13.8	16.6	97.8	106.6	117.1	15.0	13.5	14.8	18.6	14.6	15.4	8.8	9.0	7.5	1.3	1.2	1.1	5.8	6.0	5.1
Hindustan Petroleum Cor	BUY	296	354	19.6	451.0	2,752.0	2,773.0	2,882.5	60.3	43.8	63.0	114.4	84.0	105.1	39.6	28.7	41.3	184.8	201.8	226.2	23.1	14.9	19.3	17.4	8.8	9.9	7.5	10.3	7.2	1.6	1.5	1.3	5.7	8.6	7.9
I.G. Petrochemicals	BUY	141	175	24.1	4.3	13.0	12.1	16.1	1.3	0.4	0.5	2.3	0.9	1.2	40.9	12.1	17.2	204.1	216.3	233.5	21.8	5.8	7.7	30.0	7.5	9.2	3.4	11.6	8.2	0.7	0.7	0.6	2.4	6.2	4.3
Indian Oil Corporation	BUY	131	209	59.7	1,201.8	5,281.5	5,635.8	5,874.0	145.1	151.7	203.3	352.2	299.9	372.3	15.8	16.5	22.1	122.5	130.7	145.1	12.8	13.1	16.1	14.0	10.5	12.7	8.3	7.9	5.9	1.1	1.0	0.9	5.8	6.9	5.6
Indraprastha Gas	BUY	422	468	10.9	295.3	57.6	65.6	75.0	7.9	10.7	11.2	12.6	14.6	16.4	11.2	15.2	16.1	59.0	70.7	83.0	20.6	23.5	20.9	27.6	26.9	25.3	37.5	27.7	26.3	7.2	6.0	5.1	22.0	18.6	16.2
Mahanagar Gas	BUY	1,035	1,339	29.3	102.3	27.9	31.2	33.8	5.5	7.7	8.4	8.9	10.8	11.7	55.3	77.8	84.6	247.4	297.9	352.8	24.1	28.5	26.0	33.5	34.6	31.0	18.7	13.3	12.2	4.2	3.5	2.9	10.9	8.7	7.7
NOCIL	BUY	103	174	68.5	17.0	10.4	9.4	10.6	1.8	1.7	1.9	2.9	2.2	2.6	11.2	10.1	11.6	71.3	78.7	87.2	16.7	13.5	13.9	25.1	15.9	18.6	9.2	10.2	8.9	1.4	1.3	1.2	5.4	7.1	5.3
Oil & Natural Gas Corpor	BUY	134	230	72.0	1,682.0	4,534.6	4,638.4	4,990.1	354.8	336.4	340.4	838.6	809.5	834.3	28.2	26.7	27.1	173.4	236.1	255.0	16.8	13.1	11.0	16.2	12.2	10.4	4.7	5.0	4.9	0.8	0.6	0.5	3.1	3.2	3.1
Oil India	Acc	158	231	45.8	171.8	137.3	140.0	148.1	-3.9	27.8	27.2	14.8	54.2	56.0	-3.6	25.7	25.1	255.9	266.5	276.9	-1.4	9.8	9.2	-0.0	10.2	9.5	(44.3)	6.2	6.3	0.6	0.6	0.6	12.2	3.2	3.1
Petronet LNG	BUY	275	352	27.8	413.0	384.0	451.4	487.5	21.6	33.4	34.9	32.9	40.0	43.9	14.4	22.3	23.3	62.1	77.7	94.0	22.6	31.9	27.1	29.2	33.9	30.3	19.2	12.4	11.8	4.4	3.5	2.9	11.6	9.1	7.6
Reliance Industries	Acc	1,548	1,395	(9.9)	9,810.6	3,710.2	3,885.8	4,079.5	351.6	394.8	406.5	582.6	607.9	658.8	55.5	62.3	64.1	639.4	681.2	723.6	9.8	9.4	9.1	9.8	8.9	8.7	27.9	24.8	24.1	2.4	2.3	2.1	18.5	17.4	15.8

Contd…

Sector / Company Name	Rating	Price (Rs)	TP (Rs)	Upside (%)	Mcap (Rs bn)	Revenues (Rs bn)			PAT (Rs bn)			EBITDA (Rs bn)			EPS (Rs)			BVPS (Rs)			RoE (%)			RoCE (%)			PER (x)			P/BV (x)			EV/EBITDA (x)		
						'19E	'20E	'21E	'19E	'20E	'21E	'19E	'20E	'21E	'19E	'20E	'21E	'19E	'20E	'21E	'19E	'20E	'21E	'19E	'20E	'21E	'19E	'20E	'21E	'19E	'20E	'21E	'19E	'20E	'21E
Pharma																																			
Aurobindo Pharma	Hold	445	511	14.8	260.6	192.3	243.3	258.0	24.3	29.5	31.7	36.1	46.2	51.0	41.4	50.3	54.2	237.1	281.7	330.6	19.0	19.4	17.7	16.0	16.6	16.3	10.7	8.8	8.2	1.9	1.6	1.3	8.5	6.8	6.0
Cadila Healthcare	Hold	249	220	(11.7)	255.4	127.5	137.5	145.2	18.5	19.6	21.0	25.6	29.6	31.6	18.1	19.1	20.5	101.4	108.6	126.7	19.3	18.2	17.4	12.5	12.2	12.5	13.8	13.0	12.2	2.5	2.3	2.0	12.4	10.7	9.8
Cipla	Reduce	483	439	(9.0)	388.8	159.7	166.9	177.3	15.4	15.8	17.2	27.1	27.9	30.1	19.2	19.6	21.4	186.3	203.6	222.7	10.6	10.1	10.0	11.9	11.9	12.5	25.2	24.6	22.6	2.6	2.4	2.2	15.0	14.1	12.7
Dr. Reddy's Laboratories	Acc	2,839	2,910	2.5	471.2	154.5	170.1	176.7	19.5	28.0	20.7	31.8	40.0	36.1	117.5	168.8	124.5	844.8	1,002.6	1,117.1	14.7	18.3	11.8	11.7	15.0	11.5	24.2	16.8	22.8	3.4	2.8	2.5	15.1	11.5	12.5
Dr. Lal PathLabs	Hold	1,595	1,437	(9.9)	132.9	12.0	14.7	16.9	2.0	2.7	3.1	2.9	3.5	4.1	23.9	32.4	37.5	113.5	132.5	160.9	-	-	25.6	29.4	31.0	30.5	66.7	49.2	42.5	14.1	12.0	9.9	43.0	35.1	29.7
Eris Lifesciences	Acc	415	459	10.5	57.1	10.2	12.0	13.7	3.4	4.0	4.6	3.6	4.3	5.0	25.1	28.7	33.2	83.7	111.2	143.2	34.3	29.5	26.1	28.7	29.7	26.1	16.5	14.4	12.5	5.0	3.7	2.9	14.8	12.0	10.0
Glenmark Pharmaceutica	Reduce	359	335	(6.9)	101.4	97.1	107.2	115.5	9.2	7.5	9.8	14.3	15.1	19.0	32.8	26.5	34.6	198.6	222.8	255.0	17.2	12.6	14.5	11.5	12.2	15.5	11.0	13.6	10.4	1.8	1.6	1.4	9.2	8.7	6.6
Indoco Remedies	Hold	153	157	2.6	14.1	9.4	11.4	13.0	0.0	0.5	0.7	0.5	1.2	1.5	-0.2	5.1	7.5	71.7	75.8	82.1	-0.3	6.9	9.5	-2.3	5.1	7.7	NA	30.1	20.5	2.1	2.0	1.9	32.1	13.5	10.8
Ipca Laboratories	Acc	1,152	1,238	7.5	145.5	37.7	44.3	50.4	4.4	5.2	6.1	6.9	8.1	9.3	34.8	41.5	48.6	247.1	288.6	337.2	15.1	15.5	15.5	15.0	16.7	17.4	33.1	27.8	23.7	4.7	4.0	3.4	21.0	17.8	15.3
Jubilant Life Sciences	Reduce	504	433	(14.0)	80.2	90.0	96.9	103.7	5.7	9.2	10.3	16.3	17.9	19.3	36.1	57.7	64.9	301.9	356.0	417.3	12.9	17.5	16.8	14.7	15.0	15.8	14.0	8.7	7.8	1.7	1.4	1.2	7.0	6.0	5.3
Lupin	Hold	778	760	(2.2)	352.0	163.7	181.1	199.3	9.4	13.3	17.6	25.3	34.4	39.8	20.8	29.4	39.0	303.7	315.9	345.9	6.9	9.5	11.8	6.8	10.4	12.7	37.3	26.4	19.9	2.6	2.5	2.2	15.9	11.5	9.7
Sun Pharmaceutical Indu	Reduce	450	396	(11.9)	1,079.7	281.1	304.7	321.8	29.8	45.5	47.6	60.4	67.0	70.6	12.4	18.9	19.8	172.6	161.5	178.7	7.5	11.3	11.7	8.8	9.2	9.6	36.2	23.7	22.7	2.6	2.8	2.5	17.6	16.0	14.7
Thyrocare Technologies	BUY	560	686	22.4	29.6	4.0	4.6	5.2	0.9	1.3	1.4	1.5	1.9	2.1	16.1	25.3	27.4	82.4	95.6	111.0	19.4	28.4	26.6	29.1	34.6	32.5	34.8	22.1	20.4	6.8	5.9	5.0	18.7	14.9	13.0
Mid Caps																																			
V.I.P. Industries	BUY	445	530	19.1	62.9	17.8	19.4	22.0	1.5	1.7	2.1	2.2	3.2	3.7	10.3	12.1	14.9	41.1	45.4	55.8	25.0	19.2	26.8	31.2	32.9	33.8	43.3	36.7	29.8	10.8	9.8	8.0	28.3	19.5	16.7

Disclaimer

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PL's Recommendation Nomenclature (Absolute Performance)		
Buy	**:**	**> 15%**
Accumulate	**:**	**5% to 15%**
Hold	**:**	**+5% to -5%**
Reduce	**:**	**-5% to -15%**
Sell	**:**	**< -15%**
Not Rated (NR)	**:**	**No specific call on the stock**
Under Review (UR)	**:**	**Rating likely to change shortly**