India Equity Analytics

Results Preview Q3FY19

Narnolia™

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#For valuation, CMP of 31st December 2018 has been considered.

Amara Raja Batteries Ltd

AMRJ IN

Automobiles

CMP	**743**
Target	**847**
Upside	**14%**
Rating	**ACCUMULATE**

	FY17	FY18	FY19E	FY20E
Roe%	18.5%	16.0%	14.8%	16.8%
Roce%	24.7%	21.8%	20.2%	23.2%
P/E	31.7	28.9	26.1	20.2
P/B	5.9	4.6	3.9	3.4
EV/Ebdita	17.8	15.4	13.4	10.6

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Capacity (mn units)							
4W	10.5	12.8	17.4	21.0	10.5	12.8	12.8
2W	11.0	15.0	16.0	18.0	11.0	15.0	15.0
Lead Prices-USD/MT	2002	2375	2153	2153	2,490	2,094	1,962
Segment Revenue							
Automotive Sales	3,204	3,878	4,638	5,368	994	1,139	1,121
Industrial Sales	2,136	2,181	2,388	2,765	559	614	604
Financials							
Sales	5,317	6,059	7,026	8,133	1,553	1,753	1,724
Sales Gr	*15%*	*14%*	*16%*	*16%*	*17%*	*23%*	*11%*
Ebdita	850	883	949	1,197	242	237	244
Ebdita Gr	*3%*	*4%*	*7%*	*26%*	*18%*	*-1%*	*1%*
Net Profits	478	471	487	629	134	120	125
Profit Gr%	*-3%*	*-1%*	*3%*	*29%*	*20%*	*-5%*	*-7%*
Ebdita Margin%	16.0%	14.6%	13.5%	14.7%	15.6%	13.5%	14.1%
Net Profit Margin%	9.0%	7.8%	6.9%	7.7%	8.7%	6.9%	7.3%

Std/Fig in Rs Cr

❑ Revenue growth of 11%YoY is expected in 3QFY19 driven by strong demand for entry segment 2 wheelers, commercial vehicles and improvement in industrial batteries segment led by telecom and railways.

❑ Decline in Lead prices in last 3 quarters will keep the margins in the guided range of 14-16% given by management.

❑ Telecom batteries segment have seen sharp recovery and the company has re-gained 50% market share in 2QFY19.

❑ Guided for capex of Rs 550 crores in FY19 for deployment of advanced stamped grid technology, second punching line for 2-wheeler battery plant in a phased manner and debottlenecking in MVRLA plant.

❑ The company is in process of developing a 100MW per hour lithium-ion assembly plant for EVs (E-rickshaw and buses) in Andhra Pradesh and it is expected to commence operations by March 2019.

Key Trackable this Quarter

❑ Update on Europe region: over 40% of total revenue

❑ Management commentary on margins and higher debt status

We value the stock 23x FY20e EPS. ACCUMULATE

Ashok Leyland Limited

AL IN

Automobiles

CMP	**103**
Target	**133**
Upside	**30%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	20.0%	21.8%	21.5%	23.6%
Roce%	23.2%	28.8%	28.4%	30.9%
P/E	19.4	30.2	17.3	13.6
P/B	3.9	6.6	3.7	3.2
EV/Ebdita	14.3	20.5	13.6	8.4

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Volume Growth							
MHCV	113,298	131,390	142,379	157,414	35,701	38,386	29,810
Growth YoY	*3%*	*16%*	*8%*	*11%*	*41%*	*22%*	*-17%*
LCV	31,770	43,441	55,032	63,287	10926	13,572	13,953
Growth YoY	*4%*	*37%*	*27%*	*15%*	*45%*	*42%*	*28%*
ASP(Rs'000/vehicle)	1,380	1,501	1,478	1,526	1,526	1,464	1,472
Growth YoY	*2%*	*9%*	*-2%*	*3%*	*13%*	*-1%*	*-4%*
Financials							
Sales	20,019	26,248	29,168	33,675	7,113	7,608	6,442
Sales Gr	*6%*	*31%*	*11%*	*15%*	*61%*	*26%*	*-9%*
Ebdita	2,203	2,739	2,964	3,603	788	806	614
Ebdita Gr	*-2%*	*24%*	*8%*	*21%*	*74%*	*32%*	*-22%*
Net Profits	1,223	1,563	1,745	2,236	450	460	358
Profit Gr%	*214%*	*28%*	*12%*	*27%*	*142%*	*37%*	*-20%*
Ebdita Margin%	11.0%	10.4%	10.2%	10.7%	11.1%	10.6%	9.5%
Net Profit Margin%	6.1%	6.0%	6.0%	6.6%	6.3%	6.0%	5.6%

Std/Fig in Rs Cr

- ❑ Revenue growth is expected to decline by 9%YoY in 2QFY19 led by 6% and 3%YoY decline both in volume and realization growth resp. The volume growth expectation for FY19 is 13%YoY which is lower than the management guidance of 15-20%.
- ❑ The steel prices continue to be on the higher side which coupled with higher discounting levels and weaker operating leverage may drag the EBITDA margin by 140bps QoQ.
- ❑ Shift in demand towards lower tonnage vehicles due to new Axle load norms and product mix in favor of LCVs will leave a limited scope of improvement in realization for next few quarters.
- ❑ In order to diversify its product portfolio from MHCVs the management is focusing towards LCVs, defense and export segments.
- ❑ There will be an investment of Rs.400 crores over the next 3 years towards development of new LCV platform.
- ❑ Export is 12% of total revenue and the management is planning it to make approx.33% in next 3-5 years time frame.
- ❑ Defence business to become Rs.5000 crores in next 5 years from Rs.750 crores currently.

Key Trackable this Quarter

- ❑ Liquidity issue update: MHCV sales declined by over 20%
- ❑ Industry Discount trends: heavy discounts from competitors leading to market share loss

We value the std business at 16x FY20e EPS and Rs.11 per share for HLFL. BUY

Bajaj Auto Limited

BJAUT IN

CMP	**2719**
Target	**3113**
Upside	**15%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	22.8%	20.7%	19.4%	19.6%
Roce%	22.9%	21.7%	21.0%	21.7%
P/E	19.9	18.9	17.8	15.7
P/B	4.5	3.9	3.5	3.1
EV/Ebdita	18.3	16.5	15.4	13.4

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Volume Growth							
2 wheelers ('000)	3,220	3,369	4,202	4,572	818	1,127	1,078
Growth YoY	*-4%*	*5%*	*25%*	*9%*	*9%*	*23%*	*32%*
3 wheelers ('000)	446	637	778	836	183	213	181
Growth YoY	*-16%*	*43%*	*22%*	*7%*	*78%*	*39%*	*-1%*
ASP (Rs/vehicle)	59,375	62,806	61,163	63,740	62,372	58,470	59,564
Growth YoY	*2%*	*6%*	*-3%*	*4%*	*7%*	*-3%*	*-5%*
Financials							
Sales	21,767	25,165	30,460	34,471	6,369	7,987	7,653
Sales Gr	*-4%*	*16%*	*21%*	*13%*	*26%*	*21%*	*20%*
Ebdita	4,419	4,782	5,092	5,850	1,232	1,342	1,244
Ebdita Gr	*-7%*	*8%*	*6%*	*15%*	*18%*	*3%*	*1%*
Net Profits	4,079	4,219	4,408	5,005	1,014	1,257	1,061
Profit Gr%	*1%*	*3%*	*4%*	*14%*	*4%*	*5%*	*5%*
Ebdita Margin%	20.3%	19.0%	16.7%	17.0%	19.3%	16.8%	16.3%
Net Profit Margin%	18.7%	16.8%	14.5%	14.5%	15.9%	15.7%	13.9%

Conso/Fig in Rs Cr

- Revenue growth of 20%YoY to be largely driven by 26%YoY volume growth in 3QFY19. Higher sales of domestic motorcycles and aggressive discounting will drag the realization.
- 40% of volume has exposure in exports and recent depreciation in INR will lead to improvement in export revenues in 2HFY19.
- Margins are expected to remain under pressure in 3QFY19 also led by higher discounting (6-7%) in the entry segment motorcycles and higher advertisement & promotional expenses during festive season.
- The company has gained 400bps QoQ to 37.7% market share on account of aggressive pricing strategy. The management targets to achieve 40- 45% market share in next 12-18 months.
- 3 wheelers growth will be driven by entry into non-permit driven markets and discontinuation of permits on clean fuel vehicles where Bajaj-Auto has 86% market share.
- The Qute quadricycle has been registered in 18 states of the country and the management expects demand to build up from next year as it is a new product category in the industry.

Key Trackable this Quarter

- Management commentary on margins
- Update on Qute demand
- Growth in spares revenue (~10% of sales but has margin of over 20%)

We value the stock at 18x FY20e EPS. BUY

Balkrishna Industries Limited

Automobiles

BIL IN

CMP	**924**
Target	**963**
Upside	**4%**
Rating	**NEUTRAL**

	FY17	FY18	FY19E	FY20E
Roe%	20.2%	18.0%	18.6%	18.5%
Roce%	22.0%	19.3%	22.5%	22.1%
P/E	19.2	28.8	20.0	17.3
P/B	3.9	5.2	3.7	3.2
EV/Ebdita	12.3	19.2	12.7	10.9

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Rubber (RSS-3)	197	181	153	153	105	104	101
Crude	48	56	71	71	59	73	70
Volume Growth							
Volumes (MT)	172,419	199,213	218,366	241,253	49,553	52,339	52,031
Growth YoY	*16%*	*16%*	*10%*	*10%*	*23%*	*6%*	*5%*
Price Growth YoY	*-1%*	*2%*	*12%*	*4%*	*2%*	*12%*	*14%*
Financials							
Sales	3,784	4,461	5,469	6,265	1,106	1,325	1,324
Sales Gr	*15%*	*18%*	*23%*	*15%*	*25%*	*19%*	*20%*
Ebdita	1,131	1,102	1,413	1,660	290	333	331
Ebdita Gr	*38%*	*-3%*	*28%*	*17%*	*4%*	*9%*	*14%*
Net Profits	717	736	892	1,034	190	222	196
Profit Gr%	*61%*	*3%*	*21%*	*16%*	*2%*	*10%*	*4%*
Ebdita Margin%	29.9%	24.7%	25.8%	26.5%	26.2%	25.1%	25.0%
Net Profit Margin%	18.9%	16.5%	16.3%	16.5%	17.1%	16.8%	14.8%

Conso/Fig in Rs Cr

❑ Revenue is expected to grow at 20%YoY led by 5%YoY volume growth and 14%YoY realization growth. Slow down in the volume growth could be seen due to bad climatic conditions in Europe (Drought in Europe) which can affect agri business segment for next few months.

❑The benefit from decline in international rubber prices by 8%QoQ in 2QFY19 will get offset by higher marketing expenses and hence we expect EBITDA margin to be flat QoQ in 3QFY19.

❑ The company will be spending on marketing activities and sponsorship in various sports events in overseas market and it will come in for next 3-4 years. These expenses will be Rs. 64 crores every year affecting EBITDA margin by 1.5%.

❑ Carbon Black plant (Bhuj) will be completed by FY21 with a total cost of Rs.425 crores and it may improve the EBITDA margins by 100-125bps on full ramp up.

❑ An additional capex outlay of Rs. 1,700 crores on various overseas and in-house projects to be completed over the next 30 months and will be financed through blend of debt and internal accruals.

Key Trackable this Quarter

❑ Demand scenario of agri tyres in Europe

❑ Realisation for the quarter

❑ Management commentary on EBITDA margin

We value the stock at 18x FY20e EPS. NEUTRAL

CEAT Limited

CEAT IN

Automobiles

CMP	**1306**
Target	**1437**
Upside	**10%**
Rating	**ACCUMULATE**

	FY17	FY18	FY19E	FY20E
Roe%	15.0%	9.0%	10.4%	10.3%
Roce%	15.7%	14.6%	12.0%	11.5%
P/E	14.8	23.0	17.8	16.4
P/B	2.2	2.1	1.9	1.7
EV/Ebdita	9.4	9.3	9.4	8.5

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Rubber (RSS-4)	136	130	126	126	129	131	124
Crude	48	56	70	70	59	72	70
Volume Growth							
Volumes (MT)	295,924	304,802	341,271	384,017	75,340	84,496	82,121
Growth YoY	*10%*	*3%*	*12%*	*13%*	*4%*	*12%*	*9%*
Price Growth YoY	*-5%*	*5%*	*1%*	*3%*	*8%*	*3%*	*3%*
Financials							
Sales	5,767	6,231	7,055	8,150	1,550	1,755	1,736
Sales Gr	*5%*	*8%*	*13%*	*16%*	*11%*	*15%*	*12%*
Ebdita	657	615	692	846	192	159	158
Ebdita Gr	*-15%*	*-6%*	*13%*	*22%*	*25%*	*-9%*	*-18%*
Net Profits	361	233	297	323	91	63	68
Profit Gr%	*-17%*	*-35%*	*27%*	*9%*	*9%*	*-14%*	*-26%*
Ebdita Margin%	11.4%	9.9%	9.8%	10%	12.4%	9.1%	9.1%
Net Profit Margin%	6.3%	3.7%	4.2%	4.0%	5.9%	3.6%	3.9%

Conso/Fig in Rs Cr

❑ Revenue growth of 12%YoY in 3QFY19 to be driven by 9%YoY volume growth and 3%YoY realization growth. Further we expect 13%YoY revenue growth in FY19 on the back of strong 15%YoY volume growth in 1HFY19.

❑ Last quarter, in Q2FY19 domestic rubber prices increased by 7%QoQ and crude prices increased by 3%QoQ which could impact margins negatively this quarter but on account of price hikes and operating leverage benefit in the CV segment, margin is expected to remain flat QoQ in 3QFY19.

❑ The management has planned a capex of Rs.2500 crores for the next 2 years and out of that it will spend Rs.1300-1500 crores in FY19.

❑ The TBR plant is expected to come on track from 4QFY19 with annual installed capacity of 80000 units. The plant is expected to reach at full utilization in 1.5 years.

❑ With the new PCR plant coming in 2QFY20, the management expects to increase its market share in the PCR from 8-10% to 16-22% in next 3 years.

❑ Based on huge expansion plan debt level is expected to remain at elevated in FY19 and FY20.

Key Trackable this Quarter

❑ TBR plant status.

❑ Management commentary on margin.

❑ Pricing strategy in lieu of Raw material price inflation and INR depreciation

We value the stock at 18x FY20e EPS. ACCUMULATE

Eicher Motors Limited

EICHER IN

CMP	**23169**
Target	**25553**
Upside	**10%**
Rating	**ACCUMULATE**

	FY17	FY18	FY19E	FY20E
Roe%	31.2%	27.9%	25.8%	25.1%
Roce%	37.8%	36.8%	31.5%	30.4%
P/E	40.7	39.4	27.7	22.7
P/B	12.7	11.0	7.1	5.7
EV/Ebdita	31.2	27.5	20.5	16.9

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Volume Growth							
Royal Enfield ('000)	666	820	857	953	207	210	194
Growth YoY	*11%*	*23%*	*4%*	*11%*	*19%*	*4%*	*-6%*
ASP (Rs/vehicle)	105,534	109,263	115,691	124,673	109,834	114,619	115,765
Growth YoY	*2%*	*4%*	*6%*	*8%*	*4%*	*7%*	*5%*
VECV ('000)	59	67	76	88	16	19	17
Growth YoY	*13%*	*14%*	*14%*	*16%*	*38%*	*18%*	*4%*
Financials							
Sales	7,033	8,965	9,914	11,884	2,269	2,408	2,251
Sales Gr	*14%*	*27%*	*11%*	*20%*	*24%*	*11%*	*-1%*
Ebdita	2,174	2,808	3,077	3,733	707	729	688
Ebdita Gr	*29%*	*29%*	*10%*	*21%*	*23%*	*7%*	*-3%*
Net Profits	1,667	1,960	2,280	2,786	521	566	516
Profit Gr%	*25%*	*18%*	*16%*	*22%*	*24%*	*9%*	*-1%*
Ebdita Margin%	30.9%	31.3%	31.0%	31.4%	31.2%	30.3%	30.6%
Net Profit Margin%	23.7%	21.9%	23.0%	23.4%	22.9%	23.5%	22.9%

Conso/Fig in Rs Cr

❑ Volume growth declined by 6%YoY due to weak demand scenario and strike in Oragadam plant. The growth expectation for FY19 has been reduced to 4%YoY from earlier 8-9% due to increased cost of ownership leading to weaker consumer sentiments.

❑ Despite the increase in commodity prices, margin is expected to increase by 30bps QoQ largely on account of better product mix and price hikes taken during the quarter.

❑ Capex of Rs.800 crores towards capacity addition will lead to total capacity of 9.5 lakh units for RE by March 2019. The second phase of Vallam Vadagal will come on stream from 4QFY20.

❑ The management is strongly focused on increasing its presence in emerging markets like; Latin America and South East Asia.

❑ VECV volumes are expected to grow at 15% CAGR over FY18-20. A new facility is coming up in Bhopal with an annual production capacity of 40000 units at an investment of Rs.400 crores. The production is expected to commence by 4QFY21.

Key Trackable this Quarter

❑ Management commentary on margins

❑ 650 twins demand status

We value the stock at 25x FY20e EPS. ACCUMULATE

Escorts Limited

ESC IN

Automobiles

CMP	**706**
Target	**775**
Upside	**10%**
Rating	**ACCUMULATE**

	FY17	FY18	FY19E	FY20E
Roe%	8.1%	15.6%	18.0%	17.7%
Roce%	14.6%	21.5%	24.0%	23.4%
P/E	42.3	31.1	18.3	15.5
P/B	3.4	4.9	3.3	2.7
EV/Ebdita	18.4	19.5	12.1	10.5

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Agri Machinery Vol.	63,786	80,417	96,022	104,689	18,930	21,039	25,743
Growth YoY	*24%*	*26%*	*19%*	*9%*	*12%*	*3%*	*36%*
ECE Volume	3,315	4,486	5,852	6,730	1087	1,331	1,250
Growth YoY	*30%*	*35%*	*30%*	*15%*	*33%*	*37%*	*15%*
Segment Revenue							
Agri Machinery	3,346	3,958	4,762	5,389	948	1,043	1,289
ECE	607	780	1,090	1,293	185	249	234
Railway Equip.	242	287	364	419	72	106	83
Financials							
Sales	4,145	5,059	6,312	7,211	1,205	1,398	1,606
Sales Gr	*21%*	*22%*	*25%*	*14%*	*12%*	*15%*	*33%*
Ebdita	309	554	717	837	145	157	183
Ebdita Gr	*92%*	*79%*	*30%*	*17%*	*59%*	*12%*	*22%*
Net Profits	131	347	477	559	92	103	113
Profit Gr%	*86%*	*166%*	*38%*	*18%*	*305%*	*32%*	*18%*
Ebdita Margin%	7.5%	10.9%	11.4%	11.6%	12.0%	11.3%	11.4%
Net Profit Margin%	3.1%	6.9%	7.6%	7.8%	7.6%	7.3%	7.0%

*Yearly Consolidated and Quarterly Standalone — Fig in Rs Cr

❑ Tractor volumes grew by 36% YoY led by festive season in Q3. Domestic tractor industry is expected to grow at 12-15% while Escorts volumes to grow at 20%YoY in FY19. Exports target of 3000 units in FY19. The company also expects to earn Rs.1100 crs under construction equipment in FY19.

❑ EBITDA margin is expected to increase by 10 bps QoQ to 11.4% due to operating leverage benefit, price hikes taken during the quarter to mitigate the increasing raw material cost.

❑ The company has done a JV with Tadano under construction equipment side for higher range of cranes with the initial capital outlay of Rs. 60-70 crores. The commercial production is expected to start from the end of December 2019.

❑ Recently, entered in 60:40 JV with Kubota Corporation with its main focus on 30-50 HP tractor segment. A common manufacturing facility with the initial capacity of 50000 units with an investment of Rs 300 crores and it is expected to get ready by June 2020. Revenue potential from this is expected to be Rs 1500-1700 crs.

Key Trackable this Quarter

❑ Commentary on strategy for market share gains

❑ Management guidance on margins (earlier guidance: Tractors/CE/railways business margins to be~14%/~5%/~18%.)

We value the stock at 17x FY20E EPS. ACCUMULATE

Gabriel India Limited

GABR IN

Automobiles

CMP	**142**
Target	**134**
Upside	**-6%**
Rating	**NEUTRAL**

	FY17	FY18	FY19E	FY20E
Roe%	18.1%	18.0%	18.1%	17.6%
Roce%	23.7%	25.0%	26.0%	24.7%
P/E	21.4	22.3	18.8	16.9
P/B	3.9	4.0	3.4	3.0
EV/Ebdita	11.8	12.2	10.3	9.1

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Segment Revenue							
2W/3W	841	1,026	1,201	1,334	254	335	277
PV	489	568	582	637	138	136	138
CV	199	238	287	326	53	71	55
Financials							
Sales	1,529	1,833	2,070	2,297	445	542	471
Sales Gr	*6%*	*20%*	*13%*	*11%*	*19%*	*15%*	*6%*
Ebdita	144	171	198	225	40	51	42
Ebdita Gr	*12%*	*19%*	*15%*	*14%*	*12%*	*13%*	*7%*
Net Profits	82	94	108	120	22	30	22
Profit Gr%	*8%*	*15%*	*15%*	*11%*	*14%*	*9%*	*-1%*
Ebdita Margin%	9.4%	9.3%	9.5%	9.8%	8.9%	9.5%	9.0%
Net Profit Margin%	5.3%	5.1%	5.2%	5.2%	5.0%	5.5%	4.7%

Std/Fig in Rs Cr

❑ Revenue growth is expected to be 6%YoY in 3QFY19 largely driven by 2/3 wheelers and commercial vehicles demand. We expect 13% YoY growth which is in-line with the management's double digit growth guidance for FY19.

❑ Gross margin is expected to improve by 40bps QoQ on account of decline in commodity prices (aluminium and crude) but weaker operating leverage and product mix may lead to 50bps QoQ reduction in EBITDA margin. However management expects margins to be in the range of 9-10% in FY19.

❑ Recently won a business order from Maruti Suzuki India for its new Alto model, which will be launched in 2HFY20 and GABRIEL will be the sole supplier to it.

❑ The management expects CV segment revenue to grow by 15-20% in FY20 based on strong order book lined up and pre-buying in 2HFY20 on account of BS-VI implementation.

❑ The government's focus towards railway modernization would lead to development of LHB coaches in India, which will provide ample growth opportunity to GABRIEL in the long run. The management expects 15-20%YoY growth in FY19.

Key Trackable this Quarter

❑ Management Commentary on Margins.

❑ Commentary on Railway business growth.

We value the stock at 16x FY20e EPS. NEUTRAL

Hero MotoCorp Limited

Automobiles

HMCL IN

CMP	**3106**
Target	**3129**
Upside	**1%**
Rating	**NEUTRAL**

	FY17	FY18	FY19E	FY20E
Roe%	34.4%	31.1%	26.7%	26.9%
Roce%	38.7%	39.2%	34.5%	34.9%
P/E	18.6	19.4	17.1	14.9
P/B	6.4	6.0	4.6	4.0
EV/Ebdita	14.4	13.6	11.6	10.1

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Volume Growth							
2 Wheelers ('000)	6,664	7,583	8,200	8,870	1,709	2,134	1,799
Growth YoY	*0%*	*14%*	*8%*	*8%*	*16%*	*5%*	*5%*
ASP (Rs/vehicle)	42,895	42,805	42,567	43,945	42,745	42,600	42,813
Growth YoY	*0%*	*0%*	*-1%*	*3%*	*-1%*	*3%*	*0%*
Financials							
Sales	*28,585*	*32,458*	*34,903*	*38,980*	7,305	9,091	*7,702*
Sales Gr	*0%*	*14%*	*8%*	*12%*	*15%*	*9%*	*5%*
Ebdita	4,576	5,325	5,337	6,120	1,158	1,379	1,140
Ebdita Gr	*4%*	*16%*	*0%*	*15%*	*7%*	*-5%*	*-2%*
Net Profits	3,546	3,722	3,632	4,165	805	976	749
Profit Gr%	*14%*	*5%*	*-2%*	*15%*	*4%*	*-3%*	*-7%*
Ebdita Margin%	16.0%	16.4%	15.3%	15.7%	15.9%	15.2%	14.8%
Net Profit Margin%	12.4%	11.5%	10.4%	10.7%	11.0%	10.7%	9.7%

*Yearly Consolidated and Quarterly Standalone — Fig in Rs Cr

❑ Revenue growth of 5% YoY in 3QFY19 to be driven by 5% YoY volume growth. The volume growth is expected to be 8%YoY in FY19 which will be driven by newly launched 125cc scooters and strong rural demand.

❑ EBITDA margin is expected to decline by 40bps QoQ due to new product launches, heavy discounting and higher advertising cost in 3QFY19 despite price hike of Rs.700 in October. However the management has guided to maintain EBITDA margins in the range of 14%-16%.

❑ The inventory days with the dealers has increased to 40 days due to lower sales in festive season.

❑ The upcoming safety norm which includes CBS & ABS will increase the cost per vehicle by Rs.500 and Rs. 4000 respectively from 1st April 2019. Apart from that implementation of BS-VI norms will also increase the cost further by Rs.5000 from April 2020.

❑ The Andhra plant is expected to commence production from 3QFY20. The plant will have a total annual installed capacity of 1.8 mn units at an investment of Rs.1600 crores.

Key Trackable this Quarter

❑ Management commentary on margins

❑ Outlook on Scooter segment and strategy for premium motorcycles

We value the stock at 15x FY20e EPS. NEUTRAL

Lumax Industries Limited

LUMX IN

CMP	**1693**
Target	**1999**
Upside	**18%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	18.7%	21.6%	22.1%	25.0%
Roce%	24.2%	29.1%	30.2%	34.9%
P/E	28.2	32.2	20.6	14.3
P/B	5.3	7.0	4.6	3.7
EV/Ebdita	12.8	15.2	9.4	7.1

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Segment Revenue							
PV	923	1,127	1,352	1,533	252	342	281
CV	65	99	123	157	22	31	26
2-Wheelers	312	431	*580*	*632*	96	145	*119*
Financials							
Sales	1,300	1,650	2,055	2,322	371	518	426
Sales Gr	*4%*	*27%*	*25%*	*13%*	*23%*	*36%*	*15%*
Ebdita	100	134	163	203	33	41	32
Ebdita Gr	*13%*	*35%*	*21%*	*25%*	*30%*	*34%*	*-2%*
Net Profits	45	63	76	104	17	21	12
Profit Gr%	*21%*	*40%*	*20%*	*36%*	*33%*	*15%*	*-31%*
Ebdita Margin%	7.7%	8.1%	7.9%	8.7%	8.9%	7.8%	7.6%
Net Profit Margin%	3.5%	3.8%	3.7%	4.5%	4.7%	4.0%	2.8%

Std/Fig in Rs Cr

❑ Revenue growth of 15% and 25%YoY is expected in 3QFY19 and FY19 led by increase in premium car sales and gradual increase in adoption of LED lamps.

❑ Recent appreciation in USD will lead to contraction in margins as raw material import stands at 35-36%. However the management targets double digit margin through increasing localization of LED component and operating leverage benefit by FY20.

❑ The management expects LED lamps contribution to reach 40% by 2020 from 25%. The average shift from conventional to LED may increase the prices from 3x to 10x based on the technology.

❑ The company has also added a new customer Morris Garages Motors India or MG Motors and received the order for supply of headlamps and tail lamps for its SUV, the SOP of which is expected in April 2019.

Key Trackable this Quarter

❑ Utilization level of Gujarat Plant.

❑ Localization of LEDs and raw material import ratio.

We value the stock at 18x FY20e EPS. BUY

Mahindra & Mahindra Ltd

Automobiles

MM IN

CMP	**804**
Target	**971**
Upside	**21%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	15.4%	14.4%	14.0%	13.5%
Roce%	14.2%	13.4%	13.2%	12.8%
P/E	10.0	14.9	12.8	11.9
P/B	1.5	2.1	1.8	1.6
EV/Ebdita	8.6	10.5	8.8	7.5

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Segment volumes							
Passenger Vehicles	236,204	249,015	253,336	277,453	54,986	60,950	55,345
Commercial vehicles	180,876	216,798	254,587	287,465	52,375	62,527	60,932
3W	52,306	54,625	66,563	75,474	14,475	17,769	17,327
Export	37,241	28,227	37,473	39,346	7,083	9,299	9,668
Farm Equipment	506,627	548,665	611,959	679,739	81,604	78,093	90,729
Financials							
Sales	43,785	48,686	54,921	61,714	11,578	12,989	13,362
Sales Gr	*7%*	*11%*	*13%*	*12%*	*5%*	*7%*	*15%*
Ebdita	4,769	6,224	6,838	7,950	1,495	1,605	1,625
Ebdita Gr	*3%*	*31%*	*10%*	*16%*	*15%*	*-7%*	*9%*
Net Profits	3,956	4,356	4,647	5,008	1,216	1,649	849
Profit Gr%	*23%*	*10%*	*7%*	*8%*	*9%*	*24%*	*-30%*
Ebdita Margin%	10.9%	12.8%	12.5%	12.9%	12.9%	12.4%	12.2%
Net Profit Margin%	9.0%	8.9%	8.5%	8.1%	10.5%	12.7%	6.4%
D/E	0.11	0.09	0.08	0.07			
Sales incl. MVML	41,895	47,792	54,144	60,823	11,491	12,790	13,179
Ebdita incl MVML	5,643	7,064	8,159	9,521	1,693	1,849	1,977
Net Profits incl MVML	3,891	4,638	5,444	5,768	1,306	1,779	1,111

Std/Fig in Rs Cr

- Revenue growth of 15% YoY will be driven by 11%YoY volume growth and 1%YoY decline in realisation. Farm Equipment Segment (FES) volume growth expected to be 11%YoY as against guidance of 12%.
- Higher launch cost and higher commodity prices may set off the benefit from better product mix which may lead to 20bps QoQ decline in EBITDA margin. The management expects margins may remain under pressure for next couple of quarters.
- The company plans to spend around Rs.15000 crores towards capacity addition, new products and electric vehicles development till FY21.
- FES revenue contribution is around 32% and management targets it to be 50% in next 3 years. Cost reduction of ~500bps in FES through cost control measures like “Horizon 500” and “Kuber Returns” over the next 2-3 years.

Key Trackable this Quarter

- Commentary on volumes for Alturas G4 and Marazzo
- Management strategy on increasing market share in states where they have less than 43% share in tractors

We value M&M+MVML at 14x FY20e EPS & Rs.292 per share for listed subsidiaries.

Maruti Suzuki India Limited

MSIL IN

CMP	**7462**
Target	**7776**
Upside	**4%**
Rating	**NEUTRAL**

	FY17	FY18	FY19E	FY20E
Roe%	20.3%	18.5%	17.4%	17.3%
Roce%	20.9%	21.9%	21.3%	21.1%
P/E	24.2	34.0	27.0	24.0
P/B	4.9	6.3	4.7	4.2
EV/Ebdita	17.6	22.2	17.2	15.4

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Capacity('000)	1600	1900	1963	2213	1900	1900	1900
Volume Growth							
Domestic ('000)	1,444	1,654	1,795	1,965	401	455	406
Growth YoY	*11%*	*14%*	*9%*	*9%*	*12%*	*0%*	*1%*
Exports ('000)	124	126	116	121	31	29	23
Growth YoY	*0%*	*2%*	*-8%*	*5%*	*-1%*	*-15%*	*-25%*
ASP (Rs/vehicle)	434,062	448,475	457,903	453,424	447,290	462,685	464,999
Growth YoY	*8%*	*3%*	*2%*	*-1%*	*3%*	*5%*	*4%*
Financials							
Sales	68,085	79,809	87,468	94,599	19,283	22,433	20,066
Sales Gr	*18%*	*17%*	*10%*	*8%*	*14%*	*3%*	*4%*
Ebdita	10,358	12,063	13,104	14,598	3,020	3,395	3,050
Ebdita Gr	*17%*	*16%*	*9%*	*11%*	*21%*	*-7%*	*1%*
Net Profits	7,511	7,881	8,355	9,396	1,799	2,240	1,921
Profit Gr%	*37%*	*5%*	*6%*	*12%*	*3%*	*-10%*	*7%*
Ebdita Margin%	15.2%	15.1%	15.0%	15.4%	15.7%	15.1%	15.2%
Net Profit Margin%	11.0%	9.9%	9.6%	9.9%	9.3%	10.0%	9.6%

Conso/Fig in Rs Cr

❑ Volumes de-grew by 1%YoY in Q3FY19 due to slow down in passenger vehicle industry led by sharp increase in ownership cost. Further volume growth for FY19 would be 7% YoY and it is in-line with management's recent growth guidance of 7-8%.

❑ Higher discounting levels will set off some of the benefit from stabilization in commodity prices and increasing sales of premium variants so EBITDA margin is expected to increase by 20bps QoQ.

❑ Recent depreciation in Rupee vs Yen will lead to increase in royalty outgo in 3QFY19. (5.7% of sales). Currently 60% royalty is Yen denominated.

❑ The company will upgrade its models with new BS-VI emission norms three months before the March 2020 deadline.

❑ The management expects localization in Gujarat plant to increase from FY20 and will reach at Manesar plant level.

Key Trackable this Quarter

❑ Discounts: higher discounts can impact the margins negatively

❑ Localization level and second phase addition status at Gujarat plant (4QFY19)

❑ Management commentary on recent plant shifting strategy from Gurugram

We value the stock at 25x FY20e EPS. NEUTRAL

Minda Industries Limited

MNDA IN

Automobiles

CMP	**324**
Target	**381**
Upside	**18%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	24%	24%	20%	22%
Roce%	25%	23%	22%	24%
P/E	30.0	23.1	24.4	18.7
P/B	7.3	5.5	5.0	4.0
EV/Ebdita	14.4	14.5	12.1	9.9

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Segment Revenue							
Switches	1,206	1,533	2,260	2,551	317	606	469
Horns/Acoustics	626	683	813	1,034	169	180	196
Lighting	895	1,151	1,277	1,517	275	330	285
Others	757	1,103	1,446	1,792	296	406	317
Financials							
Sales	3,386	4,471	5,795	6,894	1,056	1,522	1,267
Sales Gr	*34%*	*32%*	*30%*	*19%*	*19%*	*39%*	*20%*
Ebdita	374	534	701	856	126	189	151
Ebdita Gr	*57%*	*43%*	*31%*	*22%*	*18%*	*39%*	*19%*
Net Profits	185	331	348	453	66	89	72
Profit Gr%	*67%*	*79%*	*5%*	*30%*	*25%*	*21%*	*9%*
Ebdita Margin%	11.0%	11.9%	12.1%	12.4%	12.0%	12.4%	11.9%
Net Profit Margin%	5.5%	7.4%	6.0%	6.6%	6.3%	5.8%	5.7%

Conso/Fig in Rs Cr

❑ We expect 20%YoY growth in 3QFY19 led by business consolidation activities, strong sales from key 2 wheeler clients and increasing usage of premium products.

❑ The rising commodity prices, depreciation in rupee and recent slowdown in industry leading to lower utilization level could lead to 50bps deterioration in margins.

❑ Currently, exports are 16% of revenue and management targets to reach 25% in next couple of years.

❑ The company is planning to expand in sensors business, for which the plant is supposed to get commissioned by April 2019. The revenue opportunity from this plant is expected to be Rs.450 crores in next 3-4 years.

❑ Government's focus to improve safety features in vehicles (airbags and rear parking camera) will add incremental revenue to the company from FY20 onwards.

❑ Debt level will be in the range of 0.8-0.9:1 in FY19 & 20 which is currently stands at 0.4:1.

Key Trackable this Quarter

❑ Commissioning of sensor plant

❑ Management commentary on margins (margin expansion is expected to slowdown)

We value the stock 22x FY20e EPS. BUY

Motherson Sumi

MSS IN

Automobiles

CMP	**167**
Target	
Upside	
Rating	**UNDER REVIEW**

	FY17	FY18	FY19E	FY20E
Roe%	26%	23%	22%	24%
Roce%	18%	20%	20%	23%
P/E	16.1	33.3	21.0	16.0
P/B	4.2	7.6	4.6	3.8
EV/Ebdita	9.2	15.6	9.9	7.4

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Copper(USD/MT)	5,159	6,449	6,402	6,402	6,823	6,118	6,208
Crude(USD/Barrel)	48	56	70	70	59	71	*70*
Segment Revenue							
MSSL Standalone	6,229	7,440	8,334	9,595	1,794	1,996	1,974
SMR	11,869	12,106	13,105	14,153	3,026	3,159	3,207
SMP	22,101	26,177	29,840	35,211	6,868	6,967	8,104
PKC	-	7,940	9,760	11,983	2,079	2,270	2,452
Others	3,403	3,956	4,558	5,241	929	1,086	1,069
Financials							
Sales	42,475	56,293	63,989	74,348	14,398	15,105	16,401
Sales Gr	*14%*	*33%*	*14%*	*16%*	*36%*	*12%*	*14%*
Ebdita	4,285	5,123	5,842	7,292	1,259	1,300	1,394
Ebdita Gr	*21%*	*20%*	*14%*	*25%*	*14%*	*4%*	*11%*
Net Profits	1,554	1,597	1,812	2,530	562	495	584
Profit Gr%	*20%*	*3%*	*13%*	*40%*	*3%*	*-17%*	*4%*
Ebdita Margin%	10.1%	9.1%	9.1%	9.8%	8.7%	8.6%	8.5%
Net Profit Margin%	3.7%	2.8%	2.8%	3.4%	3.9%	3.3%	3.6%
D/E	1.2	1.0	0.9	0.7			

Conso/Fig in Rs Cr

❑ Revenue growth expected to be 14%YoY driven by strong growth in SMP business order book and healthy class-8 truck volumes.

❑ Recent run up in crude prices coupled with rupee depreciation will set off the benefit from lower copper prices; hence margin is expected to remain under pressure. Import content for the company is around 50-55% of total raw material cost.

❑ Revenue guidance of USD 18bn by 2020 and currently order book stands at close to USD 22bn.

❑ Management has strong focus towards its 3CX15 strategy where no component, customer or country would contribute over 15% of its revenue.

❑ The company has started another plant in 3QFY19 in Tuscaloosa (USA) and therefore the startup cost and depreciation cost will continue to weigh on profitability of the company going ahead.

Key Trackable this Quarter

❑ Update on Europe region: over 40% of total revenue

❑ Management commentary on margins and higher debt status

The stock is currently UNDER REVIEW.

SKF India Limited

SKF IN

Automobiles

CMP	**1914**
Target	**2184**
Upside	**14%**
Rating	**ACCUMULATE**

	FY17	FY18	FY19E	FY20E
Roe%	13.5%	16.1%	18.6%	18.4%
Roce%	15.9%	21.2%	26.5%	26.0%
P/E	27.3	30.2	30.4	26.3
P/B	3.7	4.9	5.6	4.8
EV/Ebdita	18.1	18.9	18.5	15.9

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Segment Revenue							
Auto	1,033	1,141	1,295	1,438	287	326	316
Export	197	262	228	251	70	55	60
Industrial	1,402	1,348	1,528	1,681	343	385	384
Financials							
Sales	2,631	2,750	3,052	3,370	700	766	760
Sales Gr	*-12%*	*5%*	*11%*	*10%*	*5%*	*13%*	*8%*
Ebdita	336	435	489	562	123	123	123
Ebdita Gr	*-8%*	*29%*	*12%*	*15%*	*38%*	*10%*	*0%*
Net Profits	244	296	312	360	86	84	72
Profit Gr%	*-5%*	*21%*	*5%*	*16%*	*32%*	*14%*	*-17%*
Ebdita Margin%	12.8%	15.8%	16.0%	16.7%	17.6%	16.0%	16.2%
Net Profit Margin%	9.3%	10.8%	10.2%	10.7%	12.3%	11.0%	9.5%

Std/Fig in Rs Cr

❑ Revenue growth is expected to be 8%YoY driven by increasing share of ABS built vehicles, increase in branded bearings demand in the aftermarket and railways segment. Further, the growth of industrial segment will continue based on increasing infrastructure and mining sector demand.

❑ We expect shift towards manufacturing and higher demand for branded bearings in the aftermarket segment will gradually increase the margins going ahead.

❑ Implementation of ABS in 2Ws from 1st April 2019 will improve the realization of bearings by 3x and also the 3rd generation bearings used in passenger vehicles though these are in initial stage but they are high realization products (2-2.5x) than the 1st generation bearings.

❑ The bearing market has Rs.800 crores of opportunity in the railway space; 60% is freight and 40% is passenger coaches and locomotives. Introduction of DFC and new metro projects will increase the contribution from Railways segment which is currently 8-9% of total sales.

Key Trackable this Quarter

❑ Management commentary margins

❑ Traded and Manufacturing mix

We value the stock at 30x FY20e EPS. ACCUMULATE

Subros Limited

SUBR IN

Automobiles

CMP	**276**
Target	**289**
Upside	**5%**
Rating	**NEUTRAL**

	FY17	FY18	FY19E	FY20E
Roe%	4%	15%	12%	15%
Roce%	16%	21%	18%	21%
P/E	91.1	28.7	21.4	15.3
P/B	3.6	4.3	2.6	2.3
EV/Ebdita	8.5	8.9	7.6	6.0

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Segment Revenue							
PV AC	1,437	1,761	1,999	2,210	418	521	457
Growth YoY		*23%*	*14%*	*11%*	*20%*	*11%*	*9%*
Non PV AC	105	152	189	296	31	43	44
Growth YoY		*45%*	*25%*	*56%*	*25%*	*51%*	*44%*
Financials							
Sales	1,554	1,913	2,188	2,506	449	564	501
Sales Gr	*19%*	*23%*	*14%*	*15%*	*20%*	*13%*	*12%*
Ebdita	167	210	227	272	48	59	51
Ebdita Gr	*10%*	*26%*	*8%*	*20%*	*14%*	*9%*	*7%*
Net Profits	14	61	84	118	16	24	17
Profit Gr%	*-42%*	*334%*	*39%*	*40%*	*402%*	*58%*	*4%*
Ebdita Margin%	10.8%	11.0%	10.4%	10.9%	10.6%	10.5%	10.2%
Net Profit Margin%	0.9%	3.2%	3.8%	4.7%	3.7%	4.2%	3.4%
D/E	0.9	0.8	0.3	0.2			

Conso/Fig in Rs Cr

❑ Revenue growth of 12%YoY in 3QFY19 will be majorly driven by new models in PV space such as Marazzo, Ertiga, & Nexon and higher supplies to commercial vehicles OEMs.

❑ EBITDA margins expected to decline by 30bps QoQ due to higher commodity prices & currency fluctuations. Import content of raw material is 32% which is expected to go down to 25% by 2021, which may reduce the cost in the long run.

❑ The management expects passenger car and non passenger car revenue mix to stand at 80:20 from 90:10 in the next 2 years timeframe.

❑ Denso Corporation, Japan increased its stake in Subros limited from 13% to 20%. The amount expected to be received is Rs. 210Cr through preferential allotment of shares which is partially used to repay debt & capex for enhancement of capacity.

Key Trackable this Quarter

❑ Import Content

❑ Debt repayment status

❑ Insurance claim due from the insurer

We value the stock at 16x FY20e EPS. NEUTRAL

Swaraj Engines Limited

Automobiles

SWE IN

CMP	**1525**
Target	**1630**
Upside	**7%**
Rating	**HOLD**

	FY17	FY18	FY19E	FY20E
Roe%	24.3%	34.9%	35.1%	34.5%
Roce%	31.2%	45.9%	48.4%	47.4%
P/E	26.6	30.3	20.6	18.7
P/B	6.5	10.6	7.2	6.5
EV/Ebdita	17.5	19.9	13.1	12.1

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Volume Growth							
M&M volume	248,409	301,934	334,399	356,415	76,943	73,902	87,981
Growth YoY	23%	22%	11%	7%	6%	-4%	14%
Engine Volumes	82,297	92,022	103,986	108,459	21,971	28,560	24,635
Growth YoY	*28%*	*12%*	*13%*	*4%*	*15%*	*14%*	*12%*
ASP (Rs/Engine)	80,943	83,802	87,310	88,898	83,410	86,495	87,360
Growth YoY	*-1%*	*4%*	*4%*	*2%*	*3%*	*4%*	*5%*
Financials							
Sales	*666*	*771*	*908*	*964*	*183*	*247*	*215*
Sales Gr	*27%*	*16%*	*18%*	*6%*	*18%*	*18%*	*17%*
Ebdita	105	122	141	153	26	40	32
Ebdita Gr	*42%*	*16%*	*16%*	*9%*	*12%*	*14%*	*26%*
Net Profits	69	80	90	99	17	25	21
Profit Gr%	*34%*	*16%*	*12%*	*10%*	*13%*	*8%*	*20%*
Ebdita Margin%	15.7%	15.8%	15.5%	15.9%	14.0%	16.2%	15.0%
Net Profit Margin%	10.3%	10.3%	9.9%	10.3%	9.4%	10.3%	9.6%

Std/Fig in Rs Cr

❑ Volume growth expectation of 14% YoY in 3QFY19 due to MSP hikes and normal monsoon in Northern and Eastern part of the country. We expect 17%YoY revenue growth driven by 12%YoY volume growth and 5%YoY realization growth (increased demand for higher HP tractors).

❑ Based on increase in demand for higher HP tractors (41-50 HP) realisation will be on the higher side in 3QFY19.

❑ Despite sharp increase commodity prices margins are expected to be maintained at 15% on the back of cost control initiatives, price negotiations and operating leverage benefit.

❑ The capacity is expected to increase from 120000 units to 150000 units by FY21 and it will be financed through internal accruals.

Key Trackable this Quarter

❑ Engine Realization

❑ Management commentary on margin

We value the stock at 20x FY20e EPS. HOLD

TVS Motor Company Limited

TVSL IN

CMP	**571**
Target	**563**
Upside	**-1%**
Rating	**NEUTRAL**

	FY17	FY18	FY19E	FY20E
Roe%	23%	23%	22%	24%
Roce%	20%	25%	29%	31%
P/E	36.6	43.0	33.4	25.4
P/B	8.5	9.9	7.2	6.0
EV/Ebdita	24.4	25.5	16.8	13.2

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Volume Growth							
Domestic ('000)	2,502	2,892	3,278	3,689	686	889	813
Growth YoY	*12%*	*16%*	*13%*	*13%*	*11%*	*11%*	*19%*
Exports ('000)	425	574	743	801	140	199	177
Growth YoY	*-7%*	*35%*	*29%*	*8%*	*42%*	*35%*	*26%*
ASP (Rs/vehicle)	41,457	43,650	46,236	48,395	44,597	45,880	46,953
Growth YoY	*0%*	*5%*	*6%*	*5%*	*7%*	*7%*	*5%*
Financials							
Sales	12,135	15,130	18,591	21,730	3,685	4,993	4,647
Sales Gr	*9%*	*25%*	*23%*	*17%*	*24%*	*23%*	*26%*
Ebdita	857	1,129	1,466	1,837	287	428	367
Ebdita Gr	*6%*	*32%*	*30%*	*25%*	*31%*	*22%*	*28%*
Net Profits	558	663	734	965	154	211	189
Profit Gr%	*14%*	*19%*	*11%*	*31%*	*16%*	*-1%*	*23%*
Ebdita Margin%	7.1%	7.5%	7.9%	8.5%	7.8%	8.6%	7.9%
Net Profit Margin%	4.6%	4.4%	3.9%	4.4%	4.2%	4.2%	4.1%

Std/Fig in Rs Cr

❑ Revenue is expected to grow at 26%YoY led by 20%YoY volume growth and 6%YoY realization growth. Volume growth expectation of 16%YoY driven by strong growth in entry segment motorcycles, 125cc scooter sales and export in FY19.

❑ Margins are expected to remain under pressure in 3QFY19 led by higher discounting, advertisement & promotional expenses during festive season.

❑ The company has expanded its presence in Sri Lanka, Bangladesh, Nepal and Peru market with new product launches. The management is strongly focused on increasing its presence in markets like Philippines for 3W and Argentina and Mexico for 2W.

❑ The company will be investing close to Rs.700 crores in FY19 towards new product development and BS-VI up-gradation before the deadline.

❑ On the basis of strong cash flow generation debt to equity ratio is expected to improve in FY19. Currently, Rs.1162 crores of total debt in books as of 31st September 2018 (standalone) .

Key Trackable this Quarter

❑ Exports realization

❑ Management commentary on price competition

❑ Debt to Equity

We value the stock 25x FY20e std EPS + Rs.55 per share value of TVS credit services.

ACC Limited

ACC IN

Building Materials

CMP	**1488**
Target	**1638**
Upside	**10%**
Rating	**ACCUMULATE**

	CY16	CY17	CY18E	CY19E
Roe%	7%	10%	10%	12%
Roce%	10%	14%	15%	17%
PE	39.4	35.2	26.7	22.6
PB	2.9	3.5	2.8	2.7
EV/EBITDA	16.2	15.6	11.8	10.4

	CY16	CY17	CY18E	CY19E	4CY17	3CY18	4QCY18
Cement Vol.(MT)	23.0	26.2	28.0	28.5	6.92	6.55	7.13
Growth YoY	*-2%*	*14%*	*7%*	*2%*	*27%*	*10%*	*3%*
Cement Real.Rs./Tn)	5,089	5,060	4,854	4,898	4,680	4,862	4,886
Growth YoY	*8%*	*-1%*	*-4%*	*1%*	*-11%*	*1%*	*4%*
RMC Vol.(MCM)	2.60	2.84	3.14	3.20	0.80	0.73	0.80
Financials							
Sales	**10,990**	**13,285**	**14,723**	**15,308**	**3,494**	**3,433**	**3,817**
Sales Gr	*-7%*	*21%*	*11%*	*4%*	*30%*	*10%*	*9%*
Ebdita	**1,478**	**1,912**	**2,066**	**2,315**	**443**	**444**	**506**
Ebdita Gr	*-4%*	*29%*	*8%*	*12%*	*54%*	*7%*	*14%*
Net Profits	**658**	**925**	**1,010**	**1,196**	**203**	**209**	**228**
Profit Gr%	*12%*	*40%*	*9%*	*18%*	*122%*	*15%*	*13%*
EbditaM%	**13.5%**	**14.4%**	**14.0%**	**15.1%**	**12.7%**	**12.9%**	**13.3%**
Net Mgn%	**6.0%**	**7.0%**	**6.9%**	**7.8%**	**5.8%**	**6.1%**	**6.0%**

Std/ Fig in Rs Cr

❑Cement demand to grow by 7% in 2018 but intense competition and not enough consumption will lead to excess capacity. As per mgt. this situation is expected to correct itself in 2019 with the increased outlays on housing, infrastructure development and agri-sector initiatives.

❑Volume of ACC is expected to grow marginally by 3% YoY in Q4 CY18 as the company is already operating at higher capacities and demand for cement in housing sector (which contributes about 66% of total revenue) is expected to remain weak due to ongoing liquidity issues in NBFC's.

❑Cement realization is expected to grow by around 4% YoY basis because cement prices have declined in the December quarter of CY17, and now prices are stabilized.

❑RMC volume is expected to grow marginally on YoY basis on account of slow pace in infrastructural activities.

❑EBITDA margins are expected to improve on both sequential and YoY basis on account of stabilization in the realizations and lower operating expenses like freight cost and fuel cost led by sharp decline in pet coke prices.

❑ACC intends to set up a greenfield unit in Katni (MP), with a clinker capacity of 3MT and a grinding capacity of 1MT. It also plans to set up a 1.6MT split grinding unit in Tikaria (UP), at the existing plant and a 2.2MT unit at another location in UP. Capex is around Rs.3000 Cr and expected to be completed in three years.

Key Trackable this Quarter

❑ Pick-up in Demand for grey cement

❑Change in Raw material mix and fuel mix that has played to improve gross margins

❑Synergies arising out of master supply agreement with Ambuja

We value the stock at 12x FY20e EV/EBITDA. ACCUMULATE

Century Plyboards (India) Limited

Building Materials

CPBI IN

CMP	**178**
Target	**181**
Upside	**2%**
Rating	**NEUTRAL**

	FY17	FY18	FY19E	FY20E
Roe%	30%	20%	20%	21%
Roce%	22%	17%	20%	22%
P/E	31.0	46.3	21.9	16.8
EV/Sales	3.5	3.9	2.0	1.7
EV/Ebdita	21.4	25.3	13.5	10.8

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Segmental Revenue							
Plywood	1,261	1,263	1,321	1,472	320	321	325
Laminates	364	370	410	440	90	109	100
MDF	-	112	279	315	47	61	71
Particle Board	23	73	86	87	17	29	18
CFS	88	99	106	110	28	26	29
Sales	1,782	1,967	2,262	2,477	510	564	557
Sales Gr%	*9%*	*10%*	*15%*	*9%*	*20%*	*19%*	*9%*
COGS	918	1,023	1,168	1,243	261	294	290
Ebdita	292	306	329	399	88	74	77
Ebdita Gr%	*3%*	*5%*	*7%*	*21%*	*30%*	*0%*	*-13%*
Net Profits	186	157	181	235	47	38	42
Profit Gr%	*9%*	*-16%*	*15%*	*30%*	*25%*	*-6%*	*-9%*
Gross Margin%	48.5%	48.0%	48.4%	49.8%	48.9%	47.8%	48.0%
Ebdita Margin%	16.4%	15.6%	14.5%	16.1%	17.2%	13.2%	13.8%
Net Profit Margin%	10.4%	8.0%	8.0%	9.5%	9.2%	6.7%	7.6%

Std/Fig in Rs Cr

❑ The concerns like RM costs, heavy competition, over-supply and consequent lower pricing power continue to impact the industry. The recent fall in crude prices to provide a relief to the company, however, the lag effect will take time for the benefit to be visible. The depreciated rupee will continue to result in higher costs for the internationally traded raw materials.

❑ With the MDF already in the base quarter, the sluggish market with lower price realisations to achieve higher volumes and delayed diwali will drive sales to Rs 557 crores, up 9% YoY.

❑ Going by segments; Ply segment continues to be strong and little unaffected due to company's presence in premium segment, Laminates is suffering from high RM costs and heavy competition, MDF and particle board segment continue to face industry headwinds in terms of realisations impacting margins. All these will keep gross margins under pressure at 48%. Further, operationally weak MDF and laminates segment would lead EBITDA margins lower at 13.8%.

❑ With the depreciation realigned on SLM basis, lower depreciation (Rs 45 crores in FY19e) will help to maintain NPM at 8% for FY19 in an otherwise high costs quarter.

❑ The management has guided for a capex of Rs 152 crores for FY19 and laminates expansion and solar panel project is expected to be completed.

Key Trackable this Quarter

❑ Pick-up in demand, competition pricing and demand-supply equation across segments.

❑ Improvement in market environment of MDF.

❑ Sourcing of Raw materials and their prices.

We value the stock at 11x FY20e EV/Ebdita. NEUTRAL

Cera Sanitaryware Ltd

CRS:IN

Building Materials

CMP	**2373**
Target	**2726**
Upside	**15%**
Rating	**ACCUMULATE**

	FY17	FY18	FY19E	FY20E
Roe%	21%	18%	19%	19%
Roce%	27%	23%	24%	25%
P/E	38.1	45.1	25.2	20.9
EV/Sales	3.8	3.7	2.2	1.8
EV/Ebdita	22.3	25.6	14.3	11.9

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Segmental Revenue							
Sanitary ware	48%	44%	43%	43%	44%	42%	43%
Allied products	12%	12%	11%	11%	12%	11%	11%
Faucets	21%	22%	23%	23%	21%	23%	22%
Tiles	16%	20%	20%	21%	22%	21%	23%
Others	3%	3%	3%	3%	2%	3%	2%
Sales	1,011	1,182	1,364	1,575	291	331	333
Sales Gr%	*10%*	*17%*	*15%*	*15%*	*23%*	*12%*	*15%*
COGS	481	563	647	749	136	159	156
Ebdita	171	171	206	243	41	46	49
Ebdita Gr%	*21%*	*0%*	*21%*	*18%*	*3%*	*-1%*	*22%*
Net Profits	104	100	123	148	23	28	29
Profit Gr%	*25%*	*-4%*	*22%*	*20%*	*1%*	*3%*	*25%*
Gross Margin%	52.4%	52.3%	52.6%	52.4%	53.3%	51.9%	53.1%
Other Expenses %	23.9%	26.0%	25.8%	25.7%	26.8%	26.2%	26.3%
Ebdita Margin%	16.9%	14.4%	15.1%	15.4%	14.0%	13.8%	14.8%
Net Profit Margin%	10.3%	8.5%	9.0%	9.4%	7.9%	8.5%	8.4%

Std/Fig in Rs Cr

❑ The company reported a resiliant growth in Q2 with topline growing 12% YoY. With the constrained market environment, the company is expected to report 15% YoY revenue growth in a delayed Diwali quarter 3.

❑ The sanitaryware (including allied products) is expected to grow by 12% YoY, faucets by 18% YoY and tiles segment with the growing retail network would grow by 20% YoY.

❑ Post the price hikes taken 4% in sanitaryware and 3% in faucets, the gross margins are expected to improve by 120bps QoQ to 53.1% for the quarter. The EBITDA margin is expected to improve by 100bps QoQ to 14.8%.

❑ PAT is expected to be Rs 28 crores, margins at 8.4%.

❑ The total capex guided for FY19 stands at Rs 90 crores of which company has already spent around 26 crores till Q2. In Q2, the company acquired 26% stake in Milo Tile LLP, Morbi to further enhance the capacity available in tiles segment.

Key Trackable this Quarter

❑ Overall market environment in the real estate sector

❑ Share of outsource based sales

❑ Further expansion/acquisition strategy to enhance capacity

We value the stock at 24x FY20e P/E. ACCUMULATE

Greenlam Industries Limited

GRLM IN

Building Materials

CMP	**917**
Target	**915**
Upside	**0%**
Rating	**NEUTRAL**

	FY17	FY18	FY19E	FY20E
Roe%	18%	19%	20%	21%
Roce%	17%	19%	20%	23%
P/E	30.8	44.2	28.9	22.2
EV/Sales	1.7	2.6	1.9	1.7
EV/Ebdita	12.9	19.9	15.0	12.0

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Laminates Volume*	12.8	13.8	13.2	14.1	3.3	3.4	3.1
Laminate Realisation	681	693	813	829	701	778	830
Segment Mix							
Laminates & Allied	*87%*	*86%*	*85%*	*84%*	*84%*	*86%*	*84%*
Veneer & Allied	*13%*	*14%*	*15%*	*16%*	*16%*	*14%*	*16%*
Sales	1,076	1,145	1,265	1,391	280	318	308
Sales Gr%	*4%*	*6%*	*11%*	*10%*	*16%*	*16%*	*10%*
COGS	567	598	673	725	145	172	166
Ebdita	138	149	158	192	39	39	37
Ebdita Gr%	*9%*	*8%*	*6%*	*22%*	*30%*	*3%*	*-6%*
Net Profits	50	65	77	100	17	18	17
Profit Gr%	*32%*	*30%*	*18%*	*30%*	*82%*	*14%*	*0%*
Gross Margin%	47.3%	47.7%	46.8%	47.9%	48.1%	45.9%	46.2%
Ebdita Margin%	12.9%	13.0%	12.5%	13.8%	13.9%	12.3%	11.9%
Net Profit Margin%	4.6%	5.6%	6.0%	7.2%	6.2%	5.7%	5.6%

*(in mn sheets) Conso/Fig in Rs Cr

❑The industry as a whole continues to remain under pressure with higher capacities in the market and slower than expected growth of the market demand . The rising crude/falling rupee added to the trouble for the industry. Though crude has settled lower now, the overall cost remains elevated as compared to corresponding quarter.

❑The current market conditions make it difficult for the company to take price hikes in correlation with the rising costs. The company announced price hike of +3% in lam space & +2% in veneer wef October.

❑ Riding on higher realisations YoY and with the overall growth in the veneer segment as a whole, the company is expected to report sales of Rs 308 crores, up 10% YoY.

❑ The YoY elevated costs of raw materials like phenol, melamine, craft paper and design paper will continue the pressure on the margins. Gross Margins are expected to be at 46.2%.

❑ The continued pressures on gross margins and the slowdown in breakeven of doors and floors segment impacting the veneer and allied segment's margins would result in Q3FY19 margins at 11.9%.

❑ The management will focus on increasing capacity utilisation of current facilities and have guided for only maintenance capex to the tune of Rs 35 crores for FY19.

Key Trackable this Quarter

❑ Pick-up in demand and competitive pricing.

❑ Prices of Raw materials like Phenol, melamine, craft paper and design paper.

❑ Progress of the wooden doors and floors division towards breakeven.

We value the stock at 12times EV/EBDITA. NEUTRAL

HeidelbergCement India Ltd

Building Materials

HEIM IN

CMP	**152**
Target	**188**
Upside	**24%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	8%	13%	18%	18%
Roce%	5%	9%	13%	14%
PE	35.2	24.2	17.0	15.4
PB	2.8	3.1	3.1	2.7
EV/EBITDA	11.6	9.6	8.1	7.6

	FY17	FY18	FY19E	FY20E	3QFY18	2QFY19	3QFY19E
Cement Vol.(MT)	4.4	4.6	4.9	5.0	1.2	1.1	1.3
Growth YoY	-1%	6%	6%	0%	16%	6%	4%
Realization(Rs./Ton)	3,914	4,066	4,308	4,423	4,036	4,319	4,319
Growth YoY	5.5%	3.9%	5.9%	2.7%	6.9%	7.5%	7.0%
Financials							
Sales	**1,717**	**1,889**	**2,129**	**2,193**	**491**	**486**	**547**
Sales Gr	*4%*	*10%*	*13%*	*3%*	*24%*	*14%*	*11%*
Ebdita	**279**	**363**	**471**	**484**	**83**	**117**	**114**
Ebdita Gr	*21%*	*30%*	*30%*	*3%*	*73%*	*25%*	*38%*
Net Profits	**76**	**133**	**210**	**233**	**32**	**50**	**52**
Profit Gr%	*115%*	*75%*	*58%*	*11%*	*LP*	*50%*	*65%*
EbditaM%	**16.2%**	**19.2%**	**22.1%**	**22.1%**	**16.9%**	**24.0%**	**20.9%**
Net Mgn%	**4.4%**	**7.0%**	**9.9%**	**10.6%**	**6.5%**	**10.3%**	**9.6%**

Std/ Fig in Rs Cr

❑Demand of grey cement is expected to improve in Central India post monsoon season in Q3 and hence we expect volume to grow at around 5% in Q3 FY19 and whole year estimate is around 6% in FY19. Central zone contributes about 94% of total volumes.

❑Realization is expected to grow by 6% on YoY basis and likely to remain almost flat on sequential basis as in most of parts of Central India cement prices remains almost same.

❑The company is already operating at higher capacity utilization in the range of 85-90% and this does not leave enough room for volume growth in future and hence realization growth will be key growth driver ahead.

❑EBITDA margins are expected to improve on the back of lower power and fuel cost however Freight and logistics cost is expected to remain flat on sequential basis as discount provided by the railways in monsoon season is un-available in Q3 in which the company has 40% freight exposure and average diesel prices in December quarter has not declined significantly, despite a sharp decline in diesel prices in the last one month.

❑Company is likely to repay debt of Rs. 75 Cr. in 9M of FY19.

❑No major capex is required in FY19, minor capex for maintenance is planned.

Key Trackable this Quarter

❑Scope for Realization growth as volume growth to be muted (Cap utilization above 80%)

❑Management commentary on Debt Repayment

❑Freight, Power and fuel cost.

We value the stock at 9x FY20e EV/EBITDA. BUY

JK Cement Limited

JKCE IN

CMP	**719**
Target	**895**
Upside	**24%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	11%	16%	13%	13%
Roce%	5%	8%	7%	8%
PE	31.0	20.8	17.0	15.3
PB	3.5	3.3	2.2	2.0
EV/EBITDA	12.3	11.5	9.4	8.7

	FY17	FY18	FY19E	FY20E	3QFY18	2QFY19	3QFY19E
Grey Cement Vol(MT)	6.84	8.23	8.27	8.56	2.03	1.87	2.09
Wall putty(MT)	1.1	1.2	1.2	1.3	0.3	0.3	0.4
Total volume	7.9	9.4	9.5	9.8	2.3	2.2	2.4
Growth YoY	1%	19%	1%	4%	20%	-3%	5%
Blend. Real.(Rs./Tn)	4,760	5,023	5,039	5,160	4,854	5,095	5,121
Growth YoY	5%	6%	0%	2%	3%	2%	6%
Financials							
Sales	**3,756**	**4,591**	**4,787**	**5,073**	**1,126**	**1,101**	**1,247**
Sales Gr	*6%*	*22%*	*4%*	*6%*	*24%*	*-1%*	*11%*
Ebdita	**693**	**761**	**748**	**792**	**170**	**170**	**199**
Ebdita Gr	*34%*	*10%*	*-2%*	*6%*	*0%*	*-18%*	*17%*
Net Profits	**211**	**342**	**308**	**342**	**73**	**65**	**85**
Profit Gr%	*107%*	*62%*	*-10%*	*11%*	*11%*	*-31%*	*17%*
EbditaM%	**18.5%**	**16.6%**	**15.6%**	**15.6%**	**15.1%**	**15.4%**	**15.9%**
Net Mgn%	**5.6%**	**7.4%**	**6.4%**	**6.7%**	**6.5%**	**5.9%**	**6.8%**

Std/ Fig in Rs Cr

- Overall volume of cement is expected to grow by 5% on YoY basis in Q3 FY19 on the back of pick-up in demand post monsoon season and growth in sale of wall putty is likely to be reflected in Q3 as this year diwali was celebrated in November and usually one month prior to diwali sale of wall putty increases.

- Blended realization is expected to grow by 6%on YoY basis and likely to remain almost flat on sequential basis as in most of parts of Northern cement prices remains almost same. North zone contributes about 50% in the total revenue.

- Company is continuously making efforts to reduce price gap between Trade and non-Trade segments and also improving proportion of trade sales which has improved to 72% in Q2 FY19. This will lead to improvement in margins of the company.

- Company's overseas subsidiary J.K.Cement Works (Fujairah) has reported EBITDA of AED1.9mn versus a loss of AED0.94mn is Q2 FY18. This subsidiary is now EBITDA positive and expects to perform better in upcoming quarters.

- In October, company has launched premium segment cement called 'JK Super Strong' in south India and is looking at launching the same in other markets as well.

- JK Cement has announced QIP of Rs. 700 Cr and also plans to raise debt of Rs. 1300 Cr, in order to fund ongoing capacity expansion of 4 MT in Rajasthan at capex of Rs. 2000 Cr.

Key Trackable this Quarter

- Ratio of Trade and non-Trade Sales
- Progress of UAE subsidiary in terms of profitability

We value the stock at 10x EV/EBITDA. BUY

Kajaria Ceramics Ltd

KJC:IN

Building Materials

CMP	**493**
Target	**578**
Upside	**17%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	23%	19%	16%	19%
Roce%	30%	24%	22%	25%
P/E	36.9	38.5	33.3	25.6
EV/Sales	3.7	3.3	2.6	2.2
EV/Ebdita	19.0	19.9	16.8	13.3

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Tiles Volume Growth	5%	6%	11%	10%	10%	11%	10%
Segmental Revenue							
Own Mfg (Tiles)	54%	56%	58%	59%	57%	59%	59%
JVs (Tiles)	31%	24%	22%	21%	23%	22%	21%
Outsourcing (Tiles)	10%	14%	14%	13%	14%	13%	14%
Sanitaryware/Faucet	5%	5%	7%	7%	5%	6%	7%
Sales	2,550	2,711	3,006	3,423	661	725	734
Sales Gr%	*6%*	*6%*	*11%*	*14%*	*9%*	*8%*	*11%*
COGS	919	1,060	1,100	1,210	256	268	275
Ebdita	496	456	463	580	110	109	103
Ebdita Gr%	*8%*	*-8%*	*2%*	*25%*	*-2%*	*-11%*	*-7%*
Net Profits	253	235	236	306	54	50	52
Profit Gr%	*9%*	*-7%*	*0%*	*30%*	*-1%*	*-21%*	*-5%*
Gross Margin%	63.9%	60.9%	63.4%	64.6%	61.3%	63.0%	62.5%
Power & Fuel Cost %	17.6%	19.2%	22.4%	21.4%	18.3%	22.3%	22.6%
Other Expenses %	15.6%	13.2%	14.4%	14.9%	14.4%	14.1%	14.9%
Ebdita Margin%	19.5%	16.8%	15.4%	16.9%	16.6%	15.0%	14.0%
Net Profit Margin%	9.9%	8.7%	7.8%	8.9%	8.2%	6.9%	7.0%

Conso/Fig in Rs Cr

❑ The company is expected to report a 10% YoY volume growth in tiles in a delayed Diwali quarter. The management has guided 14-15% YoY volume growth for H2FY19, however, we have taken a 12.7% YoY growth looking at overall demand environment. The sanitarware and faucets business would grow at 40% YoY as guided. With realisations improving ~2% QoQ, the revenue is expected to be at Rs 734 crores, up 11% YoY.

❑ The gas cost is expected to continue at 22.6% of sales as benefit from recent fall in prices flowing in only from february as guided by the management.

❑ Factoring the gas cost headwinds, stabilising gross margins due to higher share of own & JV manufacturing and improving profitability of bathware segment would help maintaining EBITDA margins at 14%.

❑ PAT is expected to be Rs 52 crores, margins at 7%.

❑ The total capex guided for FY19 stands at Rs 150 crores. Company's plant expansion of 5.6 msm per annum at Multana, Rajasthan is expected to be commissioned by FY18-19.

Key Trackable this Quarter

❑ Overall tile pricing environment due to subsidies enjoyed on gas by Gujarat based players

❑ Prices of gas which account for ~20% of sales

❑ Growth and breakeven progress of Sanitaryware and faucets segment

We value the stock at 30x FY20e P/E. BUY

Shree Cement Limited

SCRM IN

Building Materials

CMP	**16973**
Target	**18982**
Upside	**12%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	17%	16%	11%	14%
Roce%	14%	13%	12%	13%
PE	44.3	40.7	52.7	36.6
PB	7.7	6.3	5.9	5.2
EV/EBITDA	24.1	24.1	21.7	18.1

	FY17	FY18	FY19E	FY20E	3QFY18	2QFY19	3QFY19E
Cement Vol(Mn Ton)	20.6	22.5	24.8	26.1	5.3	5.6	5.6
Growth YoY	45%	9%	10%	5%	8%	16%	6%
Realization(Rs./Tn)	4,396	4,314	4,233	4,305	4,136	4,268	4,289
Growth YoY	-12%	-2%	-2%	2%	-3%	2%	4%
Power vol.(Mn Units)	2,066	1,197	1,571	1,621	273	400	375
Financials							
Sales	**8,594**	**9,833**	**11,666**	**13,012**	**2,303**	**2,587**	**2,811**
Sales Gr	*56%*	*14%*	*19%*	*12%*	*23%*	*21%*	*22%*
Ebdita	**2,513**	**2,473**	**2,598**	**3,100**	**570**	**520**	**721**
Ebdita Gr	*79%*	*-2%*	*5%*	*19%*	*16%*	*-7%*	*27%*
Net Profits	**1,339**	**1,384**	**922**	**1,404**	**333**	**49**	**266**
Profit Gr%	*17%*	*3%*	*-33%*	*52%*	*42%*	*-77%*	*-20%*
EbditaM%	**29.2%**	**25.1%**	**22.3%**	**23.8%**	**24.7%**	**20.1%**	**25.7%**
Net Mgn%	**15.6%**	**14.1%**	**7.9%**	**10.8%**	**14.5%**	**1.9%**	**9.5%**

Std/ Fig in Rs Cr

❑Volume in the North is expected to grow in the range of 5-6% on the back of pick-up in demand post monsoon season and volume gaining traction in the east zone. Further management has also guided for 9-10% volume growth in FY19.

❑Realization is likely to grow by 4% on YoY basis on account of lower realization in December quarter of FY18 and sequentially cement prices has remained at almost same level.

❑EBITDA margin is expected to improve by 100 bps YoY in Q3 FY19 on the back of lower power and freight cost. Power cost is expected to come down due to lower pet coke prices and freight cost is expected to come down on the back of lower diesel prices. However it will be partially offset by discontinuance of railway freight rebate.

❑In FY19, the company had exceptional loss of Rs. 178 Cr. due to loss in investment in IL&FS and adjusted profit was Rs.1100 Cr in FY18. Adjusted PAT is expected to decline by 21% in FY19 and expected to grow by 28% in FY20e.

❑Company has planned capex of Rs. 1700 Cr for FY19. The company is adding 3 MTPA new capacities at Cuttack and 2.5MT at Jharkhand which may come on stream by Sept-19 and Jun-19 respectively.

❑SC stays the levy of penalty of Rs. 397.5 Cr imposed by CCI for the alleged cartelization.

Key Trackable this Quarter

❑Demand of grey cement

❑Penalty imposed by the CCI

❑Status of Investment plans in Union Cement Company in UAE

We value the stock at 22x FY20e EV/EBITDA. BUY

UltraTech Cement Limited

UTCEM IN

CMP	**4009**
Target	**4445**
Upside	**11%**
Rating	**ACCUMULATE**

	FY17	FY18	FY19E	FY20E
Roe%	11%	9%	7%	8%
Roce%	13%	10%	8%	9%
PE	41.5	44.1	51.0	40.7
PB	4.6	4.2	3.6	3.4
EV/EBITDA	23.1	21.2	21.9	18.8

	FY17	FY18	FY19E	FY20E	3QFY18	2QFY19	3QFY19E
Total Cement Vol.(MT)	50.2	60.7	67.3	70.1	15.9	15.7	16.6
Growth YoY	4%	21%	11%	4%	35%	19%	5%
Blend. Realiz.(Rs./Tn)	4,760	4,912	4,923	5,012	4,789	4,950	4,975
Growth YoY	-3%	3%	0%	2%	0%	1%	4%
Financials							
Sales	**23,891**	**29,790**	**33,115**	**35,153**	**7,590**	**7,771**	**8,255**
Sales Gr	*1%*	*25%*	*11%*	*6%*	*35%*	*21%*	*9%*
Ebdita	**4,969**	**5,883**	**5,286**	**6,114**	**1,269**	**1,208**	**1,248**
Ebdita Gr	*7%*	*18%*	*-10%*	*16%*	*14%*	*-7%*	*-2%*
Net Profits	**2,628**	**2,231**	**1,949**	**2,439**	**421**	**391**	**431**
Profit Gr%	*11%*	*-15%*	*-13%*	*25%*	*-25%*	*-9%*	*2%*
EbditaM%	**20.8%**	**19.7%**	**16.0%**	**17.4%**	**16.7%**	**15.5%**	**15.1%**
Net Mgn%	**11.0%**	**7.5%**	**5.9%**	**6.9%**	**5.6%**	**5.0%**	**5.2%**

Std/ Fig in Rs Cr

❑Cement demand is likely to improve from Q3 FY19 onwards on the back of major infrastructure projects like Mumbai airport, Mumbai Nagpur expressway, Polavaram dam in Andhra etc are which are likely to boost cement demand in this fiscal and coming fiscal. We expect volume growth of 5-6% in Q3 FY19.

❑Realization is likely to improve by 4% on YoY and remained flat on sequential basis as cement price remains almost flat on sequential basis.

❑EBITDA margin is expected to improve on account of lower power and freight cost. Power cost is expected to come down due to lower pet coke prices and freight cost is expected to come down due to lower diesel prices. However this benefit is partially offset by the discontinuance of railway freight rebate.

❑In Q3 FY19, the company has successfully completed acquisition of Binani Cement for Rs.7900 Cr. Binani Cement has an accumulated debt of Rs. 6,500 Cr. With this acquisition Ultratech cement capacity will reach around 113 MT and will help to increase foothold in the East, West and Central markets.

❑Company is setting up of a 3.5 MTPA cement plant at Dhar, Madhya Pradesh at a total cost of around Rs 2,600 Cr. Commercial production from the plant is expected to commence Q4 FY19.

❑SC stays CCI decision to impose Rs. 1,175 Cr on Ultratech and Rs. 1324 Cr on Jai Prakash associate and Rs. 274 Cr on Century textiles on alleged cartel.

Key Trackable this Quarter

❑Geographical revenues and cost synergies due to recent acquisitions

❑Demand outlook for the industry and the company

We value Ultratech at Rs 4445/- on SOTP basis. ACCUMULATE

Dixon Technologies Ltd

DIXON IN

CMP	**2062**
Target	**2428**
Upside	**18%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	24%	19%	18%	19%
Roce%	39%	30%	28%	30%
D/E	0.2	0.1	0.2	0.3
P/E	0.0	61.0	33.6	28.0
P/B	0.0	11.8	6.2	5.2

	FY17	FY18	FY19E	FY20E	3QFY18	2QFY19	3QFY19E
Revenue							
Consumer Electronics	845	1,073	1,359	1,584	228	360	428
Lighting Products	551	774	927	1,044	199	190	264
Home Appliances	188	250	383	514	70	104	101
Mobile Phones	811	670	272	273	158	64	67
Reverse Logistics	63	73	48	46	22	10	15
Security Systems	-	0	87	123	-	11	34
Financials							
Sales	2,457	2,842	3,077	3,585	680	739	910
Sales Gr	77%	16%	8%	17%	1%	-16%	34%
Ebdita	91	113	136	173	29	33	40
Ebdita Gr	55%	24%	20%	28%	14%	-6%	39%
Net Profits	48	61	70	83	15	16	21
Profit Gr%	*20%*	*28%*	*14%*	*20%*	*23%*	*-21%*	*38%*
EbditaM%	3.7%	4.0%	4.4%	4.8%	4.2%	4.5%	4.4%
Net Mgn%	**1.9%**	**2.1%**	**2.3%**	**2.3%**	**2.2%**	**2.2%**	**2.3%**

Conso/Fig in Rs Cr

- ❑Overall sale is expected to grow at 34% YoY led by festive season. Consumer Electronics, Home Appliances and Lighting business is expected to grow at 88/45/33% respectively.
- ❑EBITDA is expected to up by 39% YoY in line with revenue.
- ❑Margins of Consumer electronics is expected to improve by 150 bps as the company has shifted entire TV manufacturing facilities from Dehradun to Tirupati. The move will resulted into cost saving.
- ❑Margin of Home appliance is expected to be in line with 2QFY19.
- ❑PAT expected to grow by 38% in line with the improvement in Revenue and EBITDA.
- ❑Backward integration at Tirupati plant for SMT & PCBA has been completed.
- ❑Reduction in GST on TV sets up to 32” will improve the demand scenario which will boost the sales of Consumer Electronics as 75% of volumes in this segment are from 32” TV sets.
- ❑Samsung is expected to double its order book in Washing machine from January 2019 and further increase in June 2019. Though, the management in his last couple of interaction has mentioned that the market demand is flat.
- ❑As per half yearly balance sheet debtors has shoot up to 58 days compared to 38 days in FY18 and similarly payables days from 66 days to 92 days in same period.

Key Trackable this Quarter

- ❑EBITDA margin of Consumer Electronics and Home Appliance
- ❑ODM share (higher margin compared to OEM)
- ❑Management commentary on Home Appliance demand
- ❑Working Capital

We value the stock at 33x FY20E EPS. BUY

Engineers India Ltd.

ENGINERS IN

CMP	**125**
Target	**119**
Upside	**-5%**
Rating	**NEUTRAL**

	FY17	FY18	FY19E	FY20E
Roe%	12%	16%	13%	15%
Roce%	10%	17%	13%	15%
EV/EBITDA	37.8	29.1	28.9	24.8
P/E	29.8	26.0	24.9	21.1
P/B	3.5	4.3	3.3	3.1

	FY17	FY18	FY19E	FY20E	3QFY18	2QFY19	3QFY19E
Order Inflow	5,663	2,141	6,322	2,000	114	5,689	100
Order Book							
Consultancy	4,021	4,714	4,832	5,084	4,530	4,894	4,704
Turnkey	3,741	3,699	5,740	4,323	3,771	6,566	6,172
Revenue							
Consultancy	1,165	1,379	1,267	1,549	385	332	290
Turnkey	284	408	1,426	1,617	89	349	394
EBIT M %							
Consultancy	30%	31%	28%	28%	37%	27%	28%
Turnkey	36%	19%	6%	7%	12%	7%	6%
Financials							
Sales	1,449	1,788	2,693	3,166	473	681	684
Sales Gr	*-3%*	*23%*	*48%*	*18%*	*46%*	*59%*	*44%*
Ebdita	302	413	345	408	135	91	79
Ebdita Gr	*89%*	*37%*	*-19%*	*18%*	*67%*	*-34%*	*-41%*
Net Profits	325	378	318	376	108	98	77
Profit Gr%	*26%*	*16%*	*-17%*	*18%*	*28%*	*-18%*	*-29%*
EbditaM%	20.9%	23.1%	12.8%	12.9%	28.5%	13.4%	11.6%
Net Mgn%	22.4%	21.1%	11.8%	11.9%	22.9%	14.3%	11.2%

Std/ Fig in Rs Cr

❑ Revenue growth continues to remain strong in Q3FY19 and we have anticipated 44% YoY growth as the execution ramp up on couple of large turnkey projects.

❑ EBITDA margin is expected to be down to 11.6% on account of higher contribution from Turnkey segment which generally have lower margins.

❑ PAT margin is also expected to be down to 11.2% in line with EBITDA margin.

❑The Company has received big turnkey order from the HPCL Rajasthan Refinery Limited worth Rs 4292 Cr.

❑ Capex in Middel east was subdued due to lower oil prices and uncertainty of oil price may hamper capex cycle.

Key Trackable this Quarter

❑ Execution of Turnkey projects

❑ Recovery in International business

We value the stock at 20x FY20E EPS. NEUTRAL

Kalpataru Power Transmission Ltd.

Capital Goods

KPP IN

CMP	**392**
Target	**457**
Upside	**17%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	6%	10%	9%	11%
Roce%	16%	16%	16%	17%
D/E	1.1	1.1	1.0	1.0
P/E	27.0	26.7	18.2	14.0
P/B	1.6	2.8	1.7	1.5

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
KPTL							
Order Inflow	9,068	9,341	10,365	11,401	2,812	2,054	2,924
Order Book	8,640	9,851	9,620	10,532	10,532	14,226	15,486
JMC							
Order Book	7,000	7,616	9,521	9,899	7,500	10,129	9,816
Financials							
Sales	7,629	8,742	9,984	11,688	1,417	1,574	1,669
Sales Gr	*5%*	*15%*	*14%*	*17%*	*26%*	*29%*	*18%*
Ebdita	867	1,022	1,083	1,266	152	171	178
Ebdita Gr	*10%*	*10%*	*10%*	*10%*	*28%*	*29%*	*17%*
Net Profits	157	278	270	351	75	89	88
Profit Gr%	*107%*	*77%*	*-3%*	*30%*	*32%*	*24%*	*17%*
EbditaM%	*11.4%*	*11.7%*	*10.8%*	*10.8%*	*10.7%*	*10.9%*	*10.7%*
Net Mgn%	*2.1%*	*3.2%*	*2.7%*	*3.0%*	*5.3%*	*5.6%*	*5.3%*

*Yearly Consolidated and Quarterly Standalone Fig in Rs Cr

- ❑ Revenue growth expected to be 18% YoY led by Pipeline & Railway business which is expected to grow at 69% YoY in FY19.
- ❑ JMC expected to report revenue growth of 17% YoY backed by strong order book.
- ❑ EBITDA growth expected to be 17% YoY mainly led by strong revenue growth. EBITDA margin will continue to remain strong in range of 10-11%.
- ❑ PAT growth is expected to up by 17% YoY in Q3FY19 in line with Revenue and EBITDA growth. While margin will be flat on YoY.
- ❑ Management has guided that the debt will be below Rs.1000 Cr on KPTL books and Rs.750 Cr at JMC level.
- ❑ Management's focus is on International market for Power T&D projects.Pending equity requirement in Transmission assets is Rs.154 Cr.
- ❑ Equity of Rs.80 Cr is expected to infuse in Shubham logistic in H2FY19. Management expect better numbers in H2FY19.
- ❑ JMC projects:- 5-6 new projects is expected to start from Q3FY19 onwards which will boost the revenue growth.
- ❑ Management is looking to monetise it's some of the assets and expect to release Rs.1000 Cr.

Key Trackable this Quarter

- ❑ Execution of Power T&D
- ❑ EBITDA margin as 60% orders are fixed price contract
- ❑ Execution at JMC level

We value the std. business at 12.5x FY20 EPS and Rs.64 per share for Subsidiary. BUY

KEC International Ltd.

KECI IN

Capital Goods

CMP	**300**
Target	**375**
Upside	**25%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	19%	23%	21%	23%
Roce%	29%	33%	34%	35%
D/E	1.3	0.8	1.2	0.9
P/E	17.6	21.7	14.4	10.8
P/B	3.4	5.0	3.0	2.4

	FY17	FY18	FY19E	FY20E	3QFY18	2QFY19	3QFY19E
Order Inflow	12,358	15,109	17,450	18,798	5,553	5,184	5,720
Order Book	12,631	17,298	23,670	28,482	17,148	21,259	24,234
Revenue							
Transmission	6,029	6,795	6,900	7,843	1,532	1,335	1,774
Transmission SAE	1,002	1,025	1,125	1,306	319	183	255
Cables	1,054	1,009	1,107	1,327	272	265	211
Railway	447	844	1,719	2,625	208	421	381
Civil/Water	85	268	454	654	87	106	86
Solar	159	288	373	230	34	133	39
Financials							
Net Sales	8,755	10,096	11,572	13,846	2,405	2,408	2,718
Sales Gr	*1%*	*15%*	*15%*	*20%*	*22%*	*13%*	*13%*
Ebdita	818	1,006	1,194	1,430	244	253	282
Ebdita Gr	*18%*	*23%*	*19%*	*20%*	*34%*	*17%*	*16%*
Net Profits	305	460	518	690	112	96	119
Profit Gr%	*77%*	*54%*	*13%*	*34%*	*79%*	*8%*	*6%*
EbditaM%	*9.3%*	*10.0%*	*10.3%*	*10.3%*	*10.2%*	*10.5%*	*10.4%*
Net Mgn%	*3.5%*	*4.6%*	*4.5%*	*5.0%*	*4.6%*	*4.0%*	*4.4%*

Conso/Fig in Rs Cr

❑ Company is expected to have growth of 13% YoY as the execution of back ended T&D projects expected to start and continued strong performance from railway business.

❑ EBITDA margin is expected to be at par with corresponding quarter last year at 10.2%, while the EBIDTA is expected to grow 16.2% YoY in line with revenue growth.

❑ Interest cost is expected to remain higher due to higher working capital requirement.

❑ Higher Interest outgo will restrict PAT growth at 6% YoY, while the PAT margins are expected to on similar levels at 4.4%.

❑In T&D business management focus on Brazil as large opportunities of EPC projects is coming up and lower capex by PGCIL.

❑Management is focusing on International market for solar business as the management does not expect large opportunities in domestic market.

Key Trackable this Quarter

❑ Working Capital

❑ Management commentary on PGCIL ordering

We value the stock at 14x FY20E EPS. BUY

Larsen & Toubro Limited

LT IN

Capital Goods

CMP	**1440**
Target	**1775**
Upside	**23%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	16%	16%	17%	17%
Roce%	7%	9%	9%	9%
D/E	1.7	1.7	1.7	1.8
P/E	19.5	25.1	20.4	18.6
P/B	2.7	3.6	3.1	2.8

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Order Book	261,400	263,205	301,121	346,205	258,600	281,200	297,572
Order Inflow	143,000	152,800	168,578	178,216	48,100	42,143	45,695
Segmental Revenues							
Infrastructure	53,920	62,459	72,772	77,043	13,966	15,408	17,395
Power	6,939	6,208	4,963	4,754	1,270	1,060	1,147
Heavy Engineering	3,447	4,715	5,295	6,868	988	1,506	1,184
Electrical & Auto.	5,367	5,508	5,933	6,582	1,287	1,490	1,376
Hydrocarbon	9,628	11,760	14,227	16,973	3,090	3,558	3,480
IT & Technology Ser.	9,888	11,357	13,975	15,724	2,915	3,606	3,444
Financial Services	8,545	10,064	13,406	16,770	2,634	3,139	3,512
Developmental Proj.	4,368	4,476	5,386	5,188	1,213	1,297	1,297
Others	*10,851*	*5,557*	*4,723*	*4,504*	*2,084*	*1,488*	*758*
Financials							
Sales	110,011	119,862	137,862	150,547	28,747	32,081	32,753
Sales Gr	*8%*	*9%*	*15%*	*9%*	*9%*	*21%*	*14%*
Ebdita	11,130	13,571	15,874	17,370	3144	3771	3374
Ebdita Gr	*6%*	*22%*	*17%*	*9%*	*25%*	*27%*	*7%*
Net Profits	6,881	8,004	9,610	10,511	1789	2593	1881
Profit Gr%	*51%*	*16%*	*20%*	*9%*	*84%*	*22%*	*5%*
EbditaM%	*10.1%*	*11.3%*	*11.5%*	*11.5%*	*10.9%*	*11.8%*	*10.3%*
Net Mgn%	*6.3%*	*6.7%*	*7.0%*	*7.0%*	*6.2%*	*8.1%*	*5.7%*

Conso/Fig in Rs Cr

- ❑ Revenue is expected to up by 14% YoY in Q3FY19 on back of strong performance of Infrastructure and services business. For the full year management has guided 12-15% growth.
- ❑EBITDA will be up by 7% YoY, while EBITDA margin will be 10.3% compared to 10.9% in Q3FY18. However for the full year it will be 11.5% which is in line with management guidance.
- ❑Bottom line is expected to witness growth of 5% YoY in line with EBITDA.
- ❑Power business is expected to remain sluggish due to lower order book & intense competition and we expect 10% revenue de growth.
- ❑ Management has maintained its revenue guidance of 12-15% in FY19 with 25 bps improvement in EBITDA margin.
- ❑Working capital will remain at 20% of sales.

Key Trackable this Quarter

- ❑ Execution of International Infra projects
- ❑ Net working capital
- ❑ Management commentary on Power Business and private capex cycle

We value Std. business at 24x FY20 EPS and Rs.557 for Subsidiary. BUY

Asian Paints Limited

APNT:IN

Consumers

CMP	**1373**
Target	**1360**
Upside	**-1%**
Rating	**HOLD**

	FY17	FY18	FY19E	FY20E
Roe%	28%	25%	24%	25%
Roce%	33%	31%	30%	31%
P/E	53.0	52.7	62.1	52.5
EV/Sales	6.8	6.4	7.0	6.2
EV/Ebdita	34.4	33.7	38.0	31.5

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Capacity (India)*	1,130	1,130	1,730	1,730	1,130	1,430	1,430
Domestic Volume Gr#	9%	7%	10%	9%	6%	11%	13%
Domestic rev Gr#	-1%	8%	12%	13%	11%	9%	14%
Int & Indstrial rev gr#	-3%	10%	9%	10%	8%	7%	10%
Sales	15,062	16,825	18,822	21,156	4,261	4,639	4,850
Sales Gr%	*6%*	*12%*	*12%*	*12%*	*10%*	*9%*	*14%*
Ebdita	2,986	3,198	3,473	4,188	891	784	899
Ebdita Gr%	*8%*	*7%*	*9%*	*21%*	*18%*	*-2%*	*1%*
Net Profits	1,939	2,039	2,120	2,509	569	493	539
Profit Gr%	*11%*	*5%*	*4%*	*18%*	*13%*	*-14%*	*-5%*
Gross Margin%	44.7%	42.4%	41.6%	42.6%	42.2%	39.8%	41.1%
Other Expenses %	18.0%	16.8%	16.5%	16.2%	15.0%	16.3%	16.2%
Ebdita Margin%	19.8%	19.0%	18.5%	19.8%	20.9%	16.9%	18.5%
Net Profit Margin%	12.9%	12.1%	11.3%	11.9%	13.4%	10.6%	11.1%

*in '000 KL #As per our calculations Conso/Fig in Rs Cr

❑ While no clear signs of uptick in demand is seen, the industry continues to hold the demand momentum over the past 1.5 years. A lower growth base and delayed diwali season will help the company to post a double digit volume growth in the decorative business for the quarter.

❑ The Industrial and Automotive coatings business continues to witness good growth in Q2, however, the price increases have not been enough to tackle complete rise in costs and with the slowdown faced in auto space, it gets further difficult and thus, margins will remain under pressure. In international markets, the ongoing challenges like forex unavailability in Ethiopia, high inflation in Egypt and difficult economic conditions will continue to suppress margins even after complete price hikes taken. Home improvements to continue showing growth signs.

❑ Gross margins will come out of cost pressures faced in quarter 2 with easing crude prices and a price hike of 2.35% taken from October. A 15% YoY depreciated rupee will impact internationally priced raw materials and thus, we expect 110 bps YoY fall in gross margins. Further 120 bps higher other expenses due to higher logistics cost and increased overheads with the new facility will lead to an EBITDA margin of 18.5%.

❑ The management has guided for a capex of Rs 1200 crores for FY19. Karnataka facility commenced its operations on 20th Sept, 2018 while Andhra Pradesh facility is expected to in jan.

Key Trackable this Quarter

❑ Signs of demand growth returning in market and higher sales in delayed Diwali quarter.

❑ Forex unavailability & currency depreciation in Egypt & Ethiopia and Indonesia operations status.

❑ Costs of monomers and rupee impact in the current macro environment.

We value the stock at 52x FY20e P/E. HOLD

Agro Tech Foods Limited

ATFL IN

Consumers

CMP	**605**
Target	**707**
Upside	**17%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	9%	9%	9%	12%
Roce%	14%	14%	14%	17%
P/E	44.7	55.8	42.3	30.2
P/B	4.0	5.2	4.0	3.6
EV/Ebdita	20.2	26.6	21.0	16.6

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19
Revenue Breakup(esti.)							
Sundrop Oil	501	487	500	535	128	118	132
Crystal business	125	121	140	156	31	33	37
Food	162	198	239	306	54	62	66
Segmental Volume growth%							
Sundrop Oil	1%	3%	4%	5%	7%	2%	3%
Crystal business	3%	3%	2%	2%	-7%	2%	2%
Act II							
Peanut butter	14%	94%	49%	35%	114%	41%	41%
Financials							
Sales	808	812	877	998	215	211	234
Sales Gr	*3%*	*0%*	*8%*	*14%*	*3%*	*7%*	*9%*
Ebdita	61	66	69	88	18	18	19
Ebdita Gr	*8%*	*8%*	*4%*	*28%*	*5%*	*1%*	*8%*
Net Profits	28	32	35	49	9	9	10
Profit Gr%	*19%*	*14%*	*10%*	*40%*	*16%*	*6%*	*13%*
EbditaM%	7.6%	8.1%	*7.8%*	*8.8%*	8.3%	8.4%	*8.2%*
Net Mgn%	3.4%	3.9%	*4.0%*	*4.9%*	4.2%	4.3%	*4.4%*

Conso/Fig in Rs Cr

❑ ATFL's sales for Q3FY19 is expected to grow by ~9% on the back of better volume growth in Peanut butter and bagged snacks business while better realization in Crystal business to help strong growth in commodity business of the company.

❑ Currently the company has entered into Breakfast Cereals with Sundrop Chaco Popz while preparation for entry into Chocolates segment soon. Recent fire at Unnao plant to impact roll out of Breakfast Cereals.

❑ Gross margin is expected to decline by 62 bps YoY to 33% on the back of higher input prices and impact of passing GST benefits to the consumers while increase in the contribution of food business in the total revenue will put some cushion to the declining margin.

❑ Food business primarily comprising of ActII and peanut butter, contributed ~25% of the total sales this year. Next goal of the company is to inch it up to ~30% and than 50% in next few years.

❑ Present focus of management is to achieve 9% EBITDA margin than extend it to higher margin orbit.

❑ NO major capex in the next 2-3 years. Capex guidance of mere Rs12-15 cr going forward.

Key Trackable this Quarter

❑ A&P expenses: Last few quarters lower margin restricted A&P expenses.

❑ Volume growth in food segment as new products launched in last 6months.

We value the stock at 35x FY20E EPS. BUY.

Bajaj Corp Limited

BJCOR IN

Consumers

CMP	**367**
Target	**473**
Upside	**29%**
Rating	**BUY**

	FY17	FY18	FY19E	FY 20E
Roe%	44%	43%	45%	50%
Roce%	51%	49%	52%	57%
P/E	27	32	24	21
P/B	12	14	11	10
EV/Ebdita	23	27	20	17

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19
Almond Drops Hair Oil(ADHO)							
Volume (Lac cases)	12.3	12.6	13.3	14.4	12.4	13.0	13.1
Volume Growth%	-2%	3%	5%	8%	5%	1%	5%
ADHO Market share							
Value wise	*60.6%*	*61.3%*			*61.1%*	*62.9%*	
Volume wise	*58.0%*	*58.7%*			*58.5%*	*60.5%*	
Distri. Reach(mn)	3.7	3.9			3.9	4.0	
Financials							
Sales	797	828	897	1,012	208	213	221
Sales Gr	*0%*	*4%*	*8%*	*13%*	*11%*	*4%*	*6.1%*
Ebdita	264	254	275	309	68	61	70
Ebdita Gr	*-4%*	*-4%*	*8%*	*12%*	*11%*	*4%*	*2.9%*
Net Profits	218	211	226	258	55	52	58
Profit Gr%	*11%*	*-3%*	*7%*	*14%*	*-5%*	*2%*	*5.6%*
EbditaM%	33.1%	30.6%	*30.7%*	*30.5%*	32.6%	28.5%	*31.6%*
Net Mgn%	27.4%	25.5%	*25.2%*	*25.5%*	26.5%	24.3%	*26.4%*

Conso/Fig in Rs Cr

❑ Recovery in rural demand led by higher MSP & loan waivers and distribution ramp up by the company may impact volume of ADHO (~93% of the sales) positively. We expect volume growth to remain 5%in Q3FY19. However delay in channel refilling and patchy monsoon may play spoilsports.

❑ We expect International business(IB) to start contributing as the company has revamped IB and business team in place for all strategic locations.

❑ Company is focusing towards ADHO's distribution reach expansion in rural. Currently Bajaj Almond Oil is available in 40 lakh outlets(Overall) while company's direct reach went up to 4.9 lakh outlets. Management plans to expand it to 5.4 lakh by end of FY19 which would aid in higher volumes of ADHO going ahead.

❑ BAJAJCORP's gross margin is expected to decline by 25 bps, lower than the inflation in crude and crude related commodity as the company took price hike of ~3.5% in ADHO in the last quarter while EBITDA margin is expected to decline by 90 bps due to higher employee cost by 144 bps YoY.

Key Trackable this Quarter

❑ Gross margin: Recent fall in crude prices may impact positively to company's margin.

❑ Volume growth:Expected rural demand recovery may lead to strong vol. growth while refilling of trade channels may take more time.

❑ Other expenses:New launches and distribution ramp up may increase other expenses.

We value the stock at 27x FY20E EPS. BUY

Berger Paints India Ltd

BRGR:IN

Consumers

CMP	**330**
Target	**367**
Upside	**11%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	26%	24%	24%	26%
Roce%	28%	27%	29%	33%
P/E	49.5	54.0	56.3	45.0
EV/Sales	5.1	4.8	5.2	4.6
EV/Ebdita	32.5	30.8	32.4	26.1

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Domestic Volume Gr#	11%	9%	15%	9%	10%	15%	15%
Domestic rev Gr#	8%	14%	18%	13%	15%	16%	19%
Int & Indstrial rev gr#	11%	13%	24%	12%	4%	22%	15%
Sales	4,552	5,166	6,096	6,862	1,339	1,490	1,582
Sales Gr%	*8%*	*13%*	*18%*	*13%*	*14%*	*16%*	*18%*
Ebdita	719	807	978	1,205	223	207	273
Ebdita Gr%	*11%*	*12%*	*21%*	*23%*	*21%*	*4%*	*23%*
Net Profits	474	461	570	713	130	117	162
Profit Gr%	*28%*	*-3%*	*24%*	*25%*	*18%*	*6%*	*24%*
Gross Margin%	43.1%	41.7%	40.2%	41.9%	42.0%	38.7%	40.5%
Other Expenses %	20.5%	19.2%	17.4%	17.6%	18.9%	17.8%	16.7%
Ebdita Margin%	15.8%	15.6%	16.0%	17.6%	16.6%	13.9%	17.3%
Net Profit Margin%	10.4%	8.9%	9.4%	10.4%	9.7%	7.9%	10.2%

Conso/Fig in Rs Cr

❑ The company reported domestic volume growth of 15%, better than market leader ASIANPAINT 11% growth. The management said that they are experiencing an uptick in demand in October. The company is expected to report a double digit volume growth in quarter 3 on the positive demand and delayed Diwali season.

❑ Quarter 3 is expected to experience better realisations sequentially on improving product mix towards emulsions. The industrial and automotive business is expected to continue its strong growth due to lower sensitivity of company to PV sales. The subsidiaries are expected to continue its strong growth on a lower base.

❑ Revenue for the quarter is expected at Rs 1,582 crores, up 18% YoY.

❑ The falling crude prices and a price hike of 2.2% taken in October alongwith anticipated improved product mix will ease the cost pressures on gross margins. however, a 15% YoY depreciated rupee will impact internationally priced raw materials and thus, we expect 150 bps YoY fall in gross margins. Riding on operational efficiency through better asset turnover a 220bps lower other expenses will lead to an EBITDA margin of 17.3%.

❑ PAT is expected to be Rs 162 crores, margins at 10.2% affected by higher tax rate at 35%.

❑ Capex guidance for FY19 is INR 200cr on standalone books relating to plant in maharashtra, largely for painting machines and capacity expansion in all the existing plant.

Key Trackable this Quarter

❑ Signs of demand growth returning in market and higher sales in delayed Diwali quarter.

❑ Continued strong growth from Bolix Poland and BJN Nepal, improving Saboo Coatings.

❑ Costs of monomers and rupee impact in the current macro environment.

We value the stock at 50x FY20e P/E. BUY

Britannia Industries Limited

BRIT IN

CMP	**3118**
Target	**3204**
Upside	**3%**
Rating	**HOLD**

	FY17	FY18	FY19E	FY 20E
Roe%	33%	29%	29%	30%
Roce%	41%	38%	38%	39%
P/E	25	34	63	51
P/B	8	10	18	15
EV/Ebdita	18	22	42	34

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19
Core Vol. growth	5%	7%	11%	10%	11%	12%	9%
Pricing gr.(%)(esti.)	4%	2%	2%	7%	2%	1%	2%
Distribution Reach (in mn outlets)							
Dire. Distri. Reach	1.55	1.84	2.4	3.0			
Over. Distri. Reach.	4.7	5.0	5.60	6.20			
Financials							
Sales	9,054	9,914	11,146	13,085	2567	2870	2850
Sales Gr	*5%*	*9%*	*12%*	*17%*	*13%*	*13%*	*11%*
Ebdita	1,278	1,502	1,779	2,154	398	454	462
Ebdita Gr	*5%*	*17%*	*18%*	*21%*	*27%*	*20%*	*16%*
Net Profits	885	1,004	1,193	1,466	264	303	313
Profit Gr%	*7%*	*13%*	*19%*	*23%*	*20%*	*16%*	*19%*
EbditaM%	14%	15%	*16%*	*16%*	16%	16%	*16%*
Net Mgn%	10%	10%	*11%*	*11%*	10%	11%	*11%*

Conso/Fig in Rs Cr

❑ BRITANNIA's volume growth is expected to be at ~9% considering the higher base(11%), led by new product launches(~50 products in FY19) and distribution expansion(targets to add 2 lakh outlets every year in its direct reach for coming few years) while we expect pricing growth to be at~2% led by new launches in the premium category .

❑ FY19 is to remain bench mark year for the company as far as innovation and premiumization is concern. Plans to launch 50 products by the end of FY19e.

❑ Hindi belt continues to grow faster than the overall growth of the company at about 1.5 times posting a growth of 23.3%, 24.3%, 17.2%, 19.2% respectively from Rajasthan, MP, UP and Gujarat.

❑ Gross margin is expected to improve by 102bps to 39.7% led by Long position in most of the commodities will last till Q4FY19 while EBITDA margin improved by 70bps due to increase in employee and other expense by 15bps and 149 bps YoY.

❑ Estimated CAPEX for 2HFY19 is Rs 300 Cr.

❑ Inter Corporate deposits to the group companies for FY18: Rs350cr vs Rs450cr (inFY17).

Key Trackable this Quarter

❑ Dividend Payout: On Completion of 100 years of the company, Britannia may announce special dividend, current divpayout~28%.

❑ Other expenses: New product launches may push other expenses at elevated level but Company's cost saving program will expected to negate it.

We value the stock at 52x FY20E EPS. HOLD

Colgate Palmolive (India) Ltd

CLGT IN

CMP	**1342**
Target	**1383**
Upside	**3%**
Rating	**NEUTRAL**

	FY17	FY18	FY19E	FY 20E
Roe%	45%	44%	49%	53%
Roce%	64%	63%	68%	76%
P/E	43.1	43.1	47.6	41.7
P/B	19.5	19.1	23.5	22.2
EV/Ebdita	26.1	25.8	29.5	25.6

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19
Volume growth	-1%	3%	5%	8%	12%	7%	2%
Pricing growth	2%	3%	2%	5%	7%	1%	2%
Marketshare:							
Toothpaste(Vol. Ms)	54%	52%			52%	53%	
Toothbrush(Vol. Ms)	45%	45%			45%	44%	
Financials							
Sales	3,982	4,188	4,472	5,031	1033	1168	1078
Sales Gr	*3%*	*5%*	*7%*	*13%*	*18%*	*8%*	*4%*
Ebdita	944	1,112	1,220	1,400	282	330	286
Ebdita Gr	*1%*	*18%*	*10%*	*15%*	*32%*	*10%*	*1%*
Net Profits	577	673	767	875	171	196	172
Profit Gr%	*-0.6%*	*16.6%*	*14.0%*	*14.0%*	*33%*	*11%*	*1%*
EbditaM%	23.7%	26.6%	27.3%	27.8%	27.3%	28.2%	26.5%
Net Mgn%	14.5%	16.1%	17.2%	17.4%	16.5%	16.8%	16.0%

Conso/Fig in Rs Cr

❑ COLPAL's volume is expected to be at 2% in 3QFY19 on account of higher base(~12% YoY). However, volume recovery will continue led by revival in rural demand (as rural contributes~45% of revenue), enhancement of direct reach (targets to expand direct reach by ~25% in FY19) and addition of value-added new products across all price points.

❑ The company expects better volume growth backed by its Natural Portfolio wherein the company launched swarna vedshakti along with its different LUPs.

❑The company's volume MS has stabilised at 52.5% in 2QFY19 after losing its volume MS since past few years to Patanjali and Dabur.

❑ We expect gross margin to improve by 32 bps YoY led by lower packaging cost on account of declining crude oil prices while EBITDA margin may declined by 84 bps YoY led by higher A&P and other expenses(expansion of direct reach) by 92 and 59 bps respectively.

❑ The company will continue investing in A&P in order to gain market share in tooth paste and tooth brush category and thus is expected to increase by 92bps in 3QFY19.

❑ As major capex is done with, we expect lower capex going forwards. Expected capex for FY19: Rs 150 cr.

Key Trackable this Quarter

❑Tooth brush and Tooth paste volume market share.

❑ Volume growth: considering competitive environment.

❑ A & P expense due to competitive intensity and other expense on account of expansion in direct distribution reach.

We value the stock at 43x FY20E EPS. NEUTRAL

Dabur India Limited

DABUR IN

Consumers

CMP	**431**
Target	**442**
Upside	**3%**
Rating	**HOLD**

	FY17	FY18	FY19E	FY 20E
Roe%	26%	24%	26%	27%
Roce%	24%	22%	25%	27%
P/E	42.6	48.4	50.5	41.0
P/B	11.2	11.5	12.9	11.3
EV/Ebdita	36.2	40.5	41.9	34.8

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19
Domestic Vol. gr.	1%	6%	12%	12%	13%	8%	8%
Pricing gr.(esti.)	-2%	2%	3%	5%	5%	0%	2%
Intern. Bus.CC gr.(esti.)	4%	6%	8%	10%	5%	7%	7%
Financials							
Sales	7,701	7,748	8,570	9,806	1966	2125	2132
Sales Gr	*-2%*	*1%*	*11%*	*14%*	*6%*	*8%*	*8%*
Ebdita	1,509	1,617	1,812	2,177	404	451	439
Ebdita Gr	*-1%*	*7%*	*12%*	*20%*	*21%*	*7%*	*9%*
Net Profits	1,277	1,354	1,505	1,851	333	377	365
Profit Gr%	*2%*	*6%*	*11%*	*23%*	*13%*	*4%*	*9%*
EbditaM%	19.6%	20.9%	*21.1%*	*22.2%*	20.5%	21.2%	*20.6%*
Net Mgn%	16.6%	17.5%	*17.6%*	*18.9%*	16.9%	17.8%	*17.1%*

Conso/Fig in Rs Cr

❑ Dabur's sales expected to grow by ~8% in Q3FY19 on the back of domestic volume growth of 8%(on the back of higher base of 13%). Domestic business grow is expected to be driven by revival in rural economy(~50% of the sales), wide distribution coverage and LUP.

❑ The company took prices hike in the range of 1.5-2% in Q2FY19.

❑ Strong performance in the premium part of Oral care is expected to continue with market share gain in honey and Chyawanprash. Waning competitive intensity from Patanjali is also expected to boost revenue.

❑ International business(IB) is expected to grow by 7% in cc terms led by turnaround in Namaste business and better traction from Egypt,Turkey and SAARC business. Volatility in crude prices may impact Middle East business which accounts for~31% of IB.

❑ Gross margin is expected to decline by 117 bps YoY led by crude related inflation while EBITDA margin is expected to improve by 8 bps YoY led by cost efficiency measures taken by the company, cutting down some promotion and lower other expenses led by post GST channels realignment.

❑ Expected capex: Rs 250 cr for FY19e.

❑ The company is open for acquisitions.

Key Trackable this Quarter

❑ Domestic business Volume growth and commentary regarding rural growth.

❑ Performance of Juice business.

❑ Market share of Honey & Chyawanprash and promotional activities .

❑ International business cc growth.

We value the stock at 42x FY20 EPS. HOLD

Avenue Supermarts Limited

DMART IN

Consumers

CMP	**1608**
Target	**1845**
Upside	**15%**
Rating	**BUY**

	FY17	FY18	FY19E	FY 20E
Roe%	12%	17%	18%	19%
Roce%	18%	24%	26%	27%
P/E	133.7	114.7	97.7	75.4
P/B	16.7	19.8	17.6	14.3
EV/Ebdita	64.5	68.1	57.9	45.2

	FY17	FY18	FY19E	FY20E	3QFY18	2QFY19	3QFY19E
Cumul. no. stores	131	155	182	209	141	160	167
Ret. Bus. Area(cr sq ft)	0.41	0.49	0.58	0.67	0.44	0.51	0.52
Reven. per sqft in Rs.	31120	32719	35009	37460	9304	9554	9956
Ret. Bus. Area/store	0.004	0.003	0.003	0.003	0.003	0.003	0.003
Financials							
Sales	11,898	15,033	20,199	25,141	4094	4873	5548
Sales Gr	*39%*	*26%*	*34%*	*24%*	*23%*	*39%*	*36%*
Ebdita	981	1,353	1,726	2,199	422	390	492
Ebdita Gr	*48%*	*38%*	*28%*	*27%*	*46%*	*23%*	*17%*
Net Profits	479	806	1,026	1,332	252	226	294
Profit Gr%	*50%*	*68%*	*27%*	*30%*	*7%*	*18%*	*17%*
EbditaM%	8.2%	9.0%	*8.5%*	*8.7%*	10.3%	8.0%	*8.9%*
Net Mgn%	4.0%	5.4%	5.1%	5.3%	6.1%	4.6%	5.3%

Conso/Fig in Rs Cr

❑ Dmart's revenue Growth is expected to be 36% in Q3FY19 backed by Festive & wedding seasons and the increasing number of stores.Price reduction will continue to boost number of footfalls.

❑ DMart has continued with its cluster-based strategy. It has 160 stores with Retail Business Area of 5.1 million sq. ft. across the country. Company added 24 stores in FY18 & its expecting to add 25-30 stores each in FY19e & FY20e.

❑ Gross margin is expected to decline by 179 bps YoY on the back of reduction in prices level to maintain its competitive advantage. Risk of competitive pricing by peers may lead to gross margin shrinkage While EBITDA margin is expected to decline by 143 bps YoY led by lower employee and other expenses largely due to benefit of cost saving measures and benefits of operating leverage.

❑Company is expected to witness margin expansion, driven by increasing share of centralized sourcing to 50%-55% of revenues and also increasing share of private labels as % of total sales.

❑In the near term margins may witness slight pressure as a result of conscious effort to maintain or bring down prices for consumers across categories.

Key Trackable this Quarter

❑ Gross and EBITDA Margin.

❑ Number of stores added in this quarter.

We value the stock at 52x FY20E EV/EBITDA. BUY

Emami Limited

HMN IN

Consumers

CMP	**418**
Target	**447**
Upside	**7%**
Rating	**HOLD**

	FY17	FY18	FY19E	FY 20E
Roe%	19%	15%	17%	21%
Roce%	23%	17%	19%	23%
P/E	74.7	77.8	52.1	37.4
P/B	14.5	11.8	8.7	7.9
EV/Ebdita	33.4	33.1	23.6	20.3

	FY17	FY18	FY19E	FY20E	3QFY18	2QFY19	3QFY19
Domestic vol. growth	7%	2%	8%	10%	8%	-4%	6%
Domestic Pric. growth	4%	3%	4%	4%	5%	4%	4%
Financials							
Sales	2,533	2,531	2,771	3,166	757	628	830
Sales Gr	*6%*	*0%*	*10%*	*14%*	*4%*	*0%*	*10%*
Ebdita	759	719	803	933	265	189	291
Ebdita Gr	*10%*	*-5%*	*12%*	*16%*	*2%*	*-6%*	*10%*
Net Profits	340	308	364	507	147	83	168
Profit Gr%	*-6%*	*-10%*	*19%*	*39%*	*10%*	*-16%*	*14%*
EbditaM%	30.0%	28.4%	*29.0%*	*29.5%*	35.0%	30.2%	*35.1%*
Net Mgn%	13.4%	12.1%	*13.1%*	*16.0%*	19.5%	13.1%	*20.2%*

Conso/Fig in Rs Cr

❑EMAMILTD's sales is expected to grow by ~10% YoY in Q3FY19 led by 6% growth in domestic volume and 8% growth in International business(IB) while CSD is expected to grow by 8% on the back of lower base.

❑EMAMILTD's growth will be backed by recovery in rural demand, Increased penetration and recovery in the volume of Keshking and zandu pancharishta. The company has reduced its dependence on wholesale to 38%-40%. Company's overall direct reach went up to 9.1 lakhs stores across India through ~3,150 distributors.

❑Gross margin is expected to improve by 24 bps YoY led by softening of Mentha oil, crude oil and change in the products mix while we expect EBITDA margin improvement to remain 13 bps on the back of higher A&P expense QoQ. The company is expected to invest benefits of gross margin improvement in brand building.

❑Tax Rate: 20-21% for coming few years.

❑Capex: Rs 80-100 cr for FY19.

Key Trackable this Quarter

❑ Domestic Volume growth.

❑ Gross margin: considering declining trend in Mentha oil, crude oil and change in product mix.

We value the stock at 40x FY20E EPS. HOLD

Gillette India Limited

GILL IN

Consumers

	FY17	FY18	FY19E	FY 20E
Roe%	51%	33%	31%	32%
Roce%	69%	49%	44%	44%
P/E	62.4	80.7	78.0	65.0
P/B	31.5	26.6	24.3	20.8
EV/Ebdita	41.1	47.8	48.6	40.8

CMP	**6497**
Target	**7200**
Upside	**11%**
Rating	**ACCUMULATE**

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19
Segmental Revenues							
Grooming	1418	1331	1469	1663	332	343	352
Oral care	341	346	389	424	75	113	88
Financials							
Sales	1,788	1,677	1,858	2,087	408	457	440
Sales Gr	*2%*	*-6%*	*11%*	*12%*	*5%*	*12%*	*8%*
Ebdita	382	382	427	506	98	107	102
Ebdita Gr	*25%*	*0%*	*12%*	*18%*	*32%*	*1%*	*4%*
Net Profits	253	229	272	326	59	65	62
Profit Gr%	*18%*	*-9%*	*19%*	*20%*	*7%*	*2%*	*5%*
EbditaM%	21.3%	22.8%	*23.0%*	*24.3%*	24.0%	23.4%	*23.2%*
Net Mgn%	14.2%	13.7%	*14.6%*	*15.6%*	14.4%	14.3%	*14.0%*

Conso/Fig in Rs Cr

- ❑ GILLETTE's grooming business is expected to grow by 6% YoY in 2QFY19 driven by superior communication, market expansion and go to market initiatives.
- ❑The company's new products launches in male grooming and Simply venus in female grooming indicates that the company is focussing on mid-premium segment .
- ❑ Oral care is expected to grow by 17% YoY in 2QFY19 on account of negative base (~-10%) and go to market strategy while the competitive intensity is expected to continue in this segment but the company is continuously bringing innovations which may be beneficial for the company in long run.
- ❑Gross margin is expected to decline by 184bps to 56.9% YoY in 2QFY19 on account of higher input prices and currency depreciation (as the company imports approx ~67% RM) while EBITDA margin is expected to decline by 81bps to 23.2% YoY led by operating efficiency,cost saving and better product mix.
- ❑ Employee expense is expected to increase by 23 bps while other expense expected to decline by 30 bps on the back of rationalisation of distribution channel .

Key Trackable this Quarter

- ❑ Gross and EBITDA margin: Especially contribution of premium products in total sales , A&P and Other expenses.
- ❑Revenue growth in male grooming business.
- ❑Performance of oral care business.

We value the stock at 72x FY20E eps. ACCUMULATE

Godrej Consumer Products Ltd

Consumers

GCPL IN

CMP	**814**
Target	**792**
Upside	**-3%**
Rating	**NEUTRAL**

	FY17	FY18	FY19E	FY 20E
Roe%	25%	26%	27%	23%
Roce%	20%	22%	22%	25%
P/E	42.7	48.2	49.2	45.2
P/B	10.5	11.5	11.7	10.4
EV/Ebdita	30.7	35.6	37.4	32.0

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19
Domestic Vol. gr.	4%	9%	9%	10%	18%	5%	6%
Intern. Busin. gr.	12%	1%	5%	9%	0%	1%	7%
Segmental Revenues							
Domestic revenue	5014	5163	5833	6736	1394	1480	1540
Indonesia	1527	1354	1528	1712	364	364	408
Africa,USA & Middle Eas	1990	2185	2507	3029	598	630	699
Latin America	569	584	477	563	151	0	177
Europe	410	461	152	0	92	0	0
Others	135	95	265	101	21	191	25
Sales	9,268	9,843	10,800	12,220	2630	2659	2867
Sales Gr	*10%*	*6%*	*10%*	*13%*	*9%*	*6%*	*9%*
Ebdita	1,898	2,067	2,252	2,611	589	487	681
Ebdita Gr	*16%*	*9%*	*9%*	*16%*	*14%*	*-8%*	*16%*
Net Profits	1,308	1,494	1,692	1,840	430	578	478
Profit Gr%	*20%*	*14%*	*13%*	*9%*	*22%*	*60%*	*11%*
EbditaM%	20.5%	21.0%	*20.9%*	*21.4%*	22.4%	18.3%	*23.7%*
Net Mgn%	14.1%	15.2%	*15.7%*	*15.1%*	16.3%	21.7%	*16.7%*

Conso/Fig in Rs Cr

❑ Sales is expected to grow by ~9% in Q3FY19 on the back of 6% volume growth in domestic business and 7% growth from International business(IB). New product launches, ramping up rural distribution reach and revival in rural demand is expected to support the domestic volume.

❑ The company's previous quarter launches i.e. liquid hand wash at a disruptive price point of Rs 35,Cinthol range in male grooming are expected to fetch results in this quarter.

❑ The company is expected to launch many new products in 2HFY19 which will drive the growth going ahead.

❑ International business growth is expected to be supported by stabilization in the African cluster where the company was earlier facing operational challenges while East Africa is at recovery stage and Indonesia business momentum is expected to sustain for 2HFY19.

❑Gross margin may decline by 78 bps led by high priced crude oil Inventory which indirectly impacts 40-50%of cost bar while EBITDA margin is expected to improve by 135 bps YoY led by cost efficiency measure and better international business margin.

Key Trackable this Quarter

❑ Indonesian business:Outlook of business after earthquake and tsunami .

❑ Africa business: Outlook and mgt commentary on the recovery of the business.

❑ Domestic business volume growth considering higher base.

We value the stock at 44x FY20E EPS. NEUTRAL

GlaxoSmithKline Consumer

SKB IN

Consumers

CMP	**7633**
Target	**7852**
Upside	**3%**
Rating	**NEUTRAL**

	FY17	FY18	FY19E	FY 20E
Roe%	21%	20%	23%	22%
Roce%	25%	23%	27%	26%
P/E	36.5	34.3	36.6	33.1
P/B	7.7	6.9	8.3	7.4
EV/Ebdita	25.0	23.1	25.5	23.1

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
HFD volumes	-7%	6%	8%	8%	15%	10%	3%
Pricing growth	1%	4%	3%	6%	7%	2%	2%
Financials							
Sales	3,986	4,377	4,820	5,506	1035	1272	1096
Sales Gr	*-4%*	*10%*	*10%*	*14%*	*20%*	*14%*	*6%*
Ebdita	833	883	1,097	1,192	204	354	220
Ebdita Gr	*-1%*	*6%*	*24%*	*9%*	*22%*	*37%*	*8%*
Net Profits	657	700	877	971	164	275	174
Profit Gr%	*-4%*	*7%*	*25%*	*11%*	*20%*	*43%*	*6%*
EbditaM%	20.9%	20.2%	*22.8%*	*21.6%*	19.7%	27.8%	*20.1%*
Net Mgn%	16.5%	16.0%	*18.2%*	*17.6%*	15.8%	21.7%	*15.9%*

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Conso/Fig in Rs Cr

❑ GSKCONS's sales is expected to grow by 6% YoY led by a domestic HFD volumes growth of 3% YoY which is on account of higher base of corresponding previous quarter (~15%) backed by distribution expansion and LUP's. Protein + and Growth + are witnessing good traction and the company will continue investing behind these brands and these new formats will be the next growth drivers for the company.

❑ Boost on the go (RTD) is showing good traction with total MS of 1.7% with more than 3% MS in Coimbatore.

❑ Women Horlicks continued to grow in strong double digits in Northern and eastern parts and single digit growth in Southern and Eastern parts.

❑ Gross margin is expected to remain flat due to increase in the prices of wheat and other key input prices while we expect 34 bps YoY improvement led by lower other expenses 80 bps YoY. The company's pricing action will remain key monitorable.

❑The company envisages a capex of Rs 2-3bn over the next two years.

❑ Recently, GSKcons has merged with Hindunilvr which is expected to complete by the end of this financial year subject to necessary approval.

Key Trackable this Quarter

❑ Overall volume growth

❑ Pricing action taken by the company.

❑ Growth of company's new format brands i.e. Growth+, Protein +, Boost RTD

❑ Movement on the prices of key inputs i.e. liquid milk,wheat .

We value the stock at 33x FY20E EPS. NEUTRAL

Hindustan Unilever Limited

HUVR IN

Consumers

CMP	**1784**
Target	**2020**
Upside	**13%**
Rating	**ACCUMULATE**

	FY17	FY18	FY19E	FY 20E
Roe%	67%	72%	85%	104%
Roce%	84%	96%	112%	138%
P/E	40.9	63.4	60.0	50.3
P/B	27.2	45.5	51.2	52.3
EV/Ebdita	28.7	43.7	42.9	35.7

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19
Overall Volume gr.	1%	6%	9%	8%	11%	10%	8%
Segmental Revenues							
Home care	11346	11629	12694	14388	2741	3080	2961
Personal care	16305	16464	17745	20000	4090	4316	4455
Foods	1123	1165	7110	8006	300	1704	1738
Refreshment	4848	5225			1248		
Others	818	720	796	992	211	134	262
Financials							
Sales	33,162	35,545	39,700	44,789	8590	9234	9417
Sales Gr	*3%*	*7%*	*12%*	*13%*	*11%*	*11%*	*10%*
Ebdita	6,340	7,499	8,956	10,747	1680	2019	2100
Ebdita Gr	*5%*	*18%*	*19%*	*20%*	*24%*	*20%*	*25%*
Net Profits	4,490	5,225	6,437	7,669	1326	1525	1546
Profit Gr%	*8%*	*16%*	*23%*	*19%*	*28%*	*20%*	*17%*
EbditaM%	19.1%	21.1%	*22.6%*	*24.0%*	19.6%	21.9%	*22.3%*
Net Mgn%	13.5%	14.7%	*16.2%*	*17.1%*	15.4%	16.5%	*16.4%*

Conso/Fig in Rs Cr

❑Hindunilvr's volume growth to remain at 7.5% on the back of higher base(~11%), recovery in rural demand and strong performance of Natural product portfolio in Q3FY19.

❑Naturals portfolio is growing ~2.5X of overall HUL average.

❑ Gross margin is expected to improve by 26 bps YoY led by company's pricing action and change in products mix towards premiumization(25%of portfolio is premium) and declining crude oil. HUL has taken a price hike in few of home-care products at the extent of ~3%.

❑EBITDA margin is expected to improve by 274 bps YoY led by expansion is gross margin and cost efficiency measures.

❑Company continues to save cost in the range of 6-7% of sales.

❑Provision towards restructuring and few contested matters is expected to be Rs 35 cr.

❑ National Anti-profiteering authority(NAA) has charged Hul for not transferring GST benefits to the consumer and fined to at the extent of Rs 223 cr.

❑ Recent Gskcons merger with HUL is expected to be esp and margin accretive. Post merger HUL eps is expected to improve by 5%, 4% and 11% for FY19e, FY20e FY21e respectively.

Key Trackable this Quarter

❑ Overall volume growth and Provision towards restructuring and few contested matters .

❑ Tax rate and provisioning of fine imposed by NAA.

We value the stock at 57x FY20E eps. ACCUMULATE

ITC Limited

ITC IN

Consumers

CMP	**282**
Target	**339**
Upside	**20%**
Rating	**BUY**

	FY17	FY18	FY19E	FY 20E
Roe%	23%	22%	23%	25%
Roce%	31%	29%	31%	34%
P/E	26.3	29.7	26.6	23.2
P/B	5.9	6.5	6.2	5.8
EV/Ebdita	17.6	20.5	18.2	15.9

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19
Cigarette volume	2%	-3%	4%	3%	-3%	6%	4%
Segmental Revenues							
Cigarettes	18940	19125	20534	22382	4629	5026	5000
Others FMCG	10512	11329	12609	14501	2872	3160	3130
Agri Business	8265	8068	9171	10088	1531	2220	1760
Paperb, Pap. & Pcka.	5095	5182	5619	6012	1280	1424	1408
Hotels	1342	1417	1638	1884	404	363	465
Financials							
Sales	42,777	43,449	48,067	53,226	9952	11069	10975
Sales Gr	*9%*	*2%*	*11%*	*11%*	*8%*	*7%*	*10%*
Ebdita	15,436	16,483	18,654	21,394	3905	4206	4346
Ebdita Gr	*7%*	*7%*	*13%*	*15%*	*10%*	*12%*	*11%*
Net Profits	10,477	11,493	12,885	14,780	3090	2955	3123
Profit Gr%	*10%*	*10%*	*12%*	*15%*	*17%*	*12%*	*1%*
EbditaM%	36.1%	37.9%	*38.8%*	*40.2%*	39.2%	38.0%	*39.6%*
Net Mgn%	24.5%	26.5%	*26.8%*	*27.8%*	31.1%	26.7%	*28.5%*

Conso/Fig in Rs Cr

❑ Adj. Sales of ITC is expected to growth by ~10% to Rs 10975 cr in Q3FY19 on the back of gradual recovery in cigarette volume, better performance of other FMCG and Hotel business. Cigarette volume is expected to grow by 4% led by lower base (-3% in Q3FY18) and recovery in volume.

❑ Other FMCG is expected to grow by 9% in Q3FY19 led by stable performance of Aashirvaad atta ,new product launches and venturing out in other categories. The company is aggressively ramping up its other FMCG business and targets Rs 65,000 cr revenue from packaged food division by 2030.

❑ ITC's EBITDA margin is expected to improve by 37 bps YoY on the back of improvement in margins of the other FMCG business on the back of change in product mix, premiumization and benefits of operating leverage. Company's other FMCG business is turning around.

❑ The company plans investments of over Rs 25,000 cr for 65 projects, including 25 factories for packaged foods.

Key Trackable this Quarter

❑ A possible increase in GST rates in subsequent Council meetings remains an overhang. Moreover, any upward revision of ad valorem duty will act as another dampener for the company.

❑Cigarette Volume growth and EBIT growth

❑ Other FMCG EBIT growth in the wake of higher MSP and volatility in key input prices.

We value the stock at 28x FY20E eps. BUY

Jubilant Foodworks Limited

Consumers

JUBI IN

CMP	**1252**
Target	**1448**
Upside	**16%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	8%	22%	27%	28%
Roce%	11%	29%	36%	36%
P/E	109.8	73.7	50.7	38.9
EV/Sales	2.9	5.1	4.5	3.8
EV/Ebdita	29.5	34.1	27.0	21.8

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
SSG (%)	(2.7)	13.9	18.1*	9.0	17.8	20.5	15.0
No. of stores							
Domino's Pizza India	1117	1134	1204	1304	1,127	1,167	1,186
Dunkin' Donuts India	63	37	32	32	44	32	32
Sales	2,546	2,980	3,544	4,104	795	881	926
Sales Gr%	*6%*	*17%*	*19%*	*16%*	*21%*	*21%*	*17%*
Ebdita	247	446	594	720	137	148	158
Ebdita Gr%	*-9%*	*81%*	*33%*	*21%*	*114%*	*44%*	*15%*
Net Profits	67	206	326	425	66	78	90
Profit Gr%	*-37%*	*207%*	*58%*	*30%*	*231%*	*60%*	*37%*
Employee cost%	23.0%	20.3%	18.8%	18.8%	19.9%	19.3%	18.8%
Rent%	11.7%	10.6%	9.7%	9.2%	9.9%	9.4%	9.5%
Other Expenses%	31.4%	28.9%	29.2%	29.0%	27.5%	29.1%	29.2%
Ebdita Margin%	9.7%	15.0%	16.8%	17.5%	17.2%	16.7%	17.1%
Net Profit Margin%	2.6%	6.9%	9.2%	10.4%	8.3%	8.8%	9.7%

*On average basis

Std/Fig in Rs Cr

- The momentum of delivering high SSG growth will continue in quarter 3 on the back of strategic initiatives such as the product upgrade All New Domino's, Every Day Value (EDV) extension to regular pizza and the increasing online sales. The company is expected to deliver an SSG of 15% on a comparatively higher growth base from previous quarters.
- Sales to grow at 16.5% YoY to Rs 926 crores.
- Company's cost rationalisation efforts for employee cost and rent negotiations along with increasing online orders and strong SSG will help to counter the YoY rise in other expenses due to ITC available in half period of corresponding quarter. EBITDA margin is expected to be 17.1%.
- Dunkin' donuts continued to report strong performance and the drag on EBITDA is now reduced to 50 bps in Q2FY19. Management expects it to breakeven by end of FY19.
- Capex guidance is to open 75 stores in FY19. The company opened net 23 stores in Q2 and 33 stores in H1. The expansion drive will continue with 19 new stores in Q3.
- The company recently issued an update upon the allotment of 51% stake in Bangladesh JV Jubilant Golden Harvest Limited.

Key Trackable this Quarter

- SSG on a higher growth base
- Progress of cost rationalisation efforts and Dunkin' Donuts turnaround.
- Progress of anti-profiteering investigation by Director General Anti-Profiteering to NAA.

We value the stock at 45x FY20e EPS. BUY

Jyothy Laboratories Limited

Consumers

JYL IN

	FY17	FY18	FY19E	FY 20E
Roe%	31%	23%	25%	29%
Roce%	28%	22%	24%	27%
P/E	31.7	50.5	43.4	34.2
P/B	9.8	11.9	10.7	9.9
EV/Ebdita	24.4	29.4	26.0	22.6

CMP	**214**
Target	**250**
Upside	**17%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19
Volume growth	7%	2%	9%	9%	12%	4%	6%
Pricing growth(esti.)	-2%	-2%	3%	5%	-2%	3%	4%
Financials							
Sales	1,632	1,700	1,855	2,077	418	428	461
Sales Gr	*6%*	*4%*	*9%*	*12%*	*9%*	*7%*	*10%*
Ebdita	260	277	301	342	71	73	76
Ebdita Gr	*14%*	*7%*	*9%*	*13%*	*40%*	*13%*	*7%*
Net Profits	202	161	180	226	37	45	45
Profit Gr%	*171%*	*-21%*	*12%*	*26%*	*73%*	*7%*	*20%*
EbditaM%	15.9%	16.3%	*16.2%*	*16.5%*	16.9%	17.1%	*16.4%*
Net Mgn%	12.4%	9.4%	*9.7%*	*10.9%*	8.9%	10.6%	*9.7%*

Std/Fig in Rs Cr

❑JYOTHYLAB's sales is expected to grow by 10% led by 6% volume growth(on the back of higher base of ~12%) and 125 bps QoQ improvement in realization. Volume growth is backed by new product launches and revival in rural demand. The company took a weighted average price hike of 7% in the detergent portfolio in Q2FY19.

❑ Riding on Ayurveda wave, JyothyLab envisages doubling turnover to Rs 4000 cr by 2021.The company is also targeting to acquire a south based(Kerala) hair oil company by FY20.

❑ The company is looking for 12 to 14 % top line growth and 16 % EBITDA for this fiscal.

❑ Gross margin is expected to deteriorate by 52 bps led by crude oil inflation (35% of company raw material are link to crude). The company is covered for crude till $80/barrel and INR-dollar rate at 73 for Q3FY19, so softening of crude will not translate in improvement in margin. EBITDA margin is expected to deteriorate by 50 bps YoY on the back shrinkage in gross margin.

❑As per the management, if Dollar breaches 72 level than company will take price hike 2-3% and look for reducing in some consumer promotions to give cushion to the margin.

❑ FY19E: Rs 20-25 cr as maintenance capex.

❑ Tax rate will be at MAT for next 6-7 years.

Key Trackable this Quarter

❑ Gross & EBITDA margin.

❑ Volume growth.

We value the stock at 40x FY20E EPS. BUY

Marico Limited

MRCO IN

Consumers

CMP	**374**
Target	**460**
Upside	**23%**
Rating	**BUY**

	FY17	FY18	FY19E	FY 20E
Roe%	35%	33%	35%	40%
Roce%	46%	41%	44%	50%
P/E	52.2	52.1	50.4	40.7
P/B	18.2	16.9	17.6	16.1
EV/Ebdita	36.5	37.8	36.7	29.8

	FY17	FY18	FY19E	FY20E	Q2FY18	Q2FY19	Q3FY19
Domes. Volume Gr.	4%	2%	8%	9%	9%	6%	7%
Intern. Busin. CC gr.	1%	8%	8%	13%	9%	11%	6%
Segmental Volume Growth							
Parachute Rigid	4%	3%	7%	9%	15%	8%	5%
Saffola	8%	-2%	7%	7%	0%	5%	6%
Value add. Hair Oils	5%	6%	10%	12%	8%	5%	10%
Revenue Break up:							
Domestic	4579	4970	5850	6741	1285	1439	1462
International	*1357*	*1364*	*1549*	*1792*	*340*	*398*	*385*
Financials							
Sales	5,936	6,333	7,398	8,533	1624	1837	1847
Sales Gr	*-1%*	*7%*	*17%*	*15%*	*15%*	*20%*	*13.7%*
Ebdita	1,159	1,138	1,309	1,610	302	294	352
Ebdita Gr	*10%*	*-2%*	*15%*	*23%*	*11%*	*13%*	*16.5%*
Net Profits	811	827	958	1,186	223	218	260
Profit Gr%	*12%*	*2%*	*16%*	*24%*	*17%*	*18%*	*16.2%*
EbditaM%	19.5%	18.0%	17.7%	18.9%	18.6%	16.0%	19.1%
Net Mgn%	13.7%	13.1%	12.9%	13.9%	13.8%	11.9%	14.1%

Conso/Fig in Rs Cr

❑ Marico's sales is expected to grow by ~14% led by better domestic volume(considering 9% growth in previous quarter) and realization. Domestic volume is expected to grow by 7% led by 5% growth in Parachute Rigid,6% in Saffola and 10% in VAHO.

❑ Rural growth and LUP is going to play important role in VAHO volume growth while sorting out issues related modern trade will help Saffola. Due to higher base Parachute's growth to remain lower.

❑ International business(IB) is expected to clock 6% cc growth led by improvement in Bangladesh and Vietnam business .

❑ Marico's gross margin is expected to improve by 38 bps led by softening of copra prices and companies focus on premiumization while EBITDA margin is expected to improve by 45 bps YoY led by lower employee cost by 17 bps. New product launches includes True Roots, Nihar Naturals Extra Care etc will drive premiumization in upcoming quarters.

❑ Recently,Government increases MSP for copra by over Rs 2,000 however management is not concerned about it as MSP are much below than prevailing prices in the market.

Key Trackable this Quarter

❑ Gross margin and Pricing and promotion activities in Parachute rigid portfolio .

❑Commentary regarding Mena business.

We value the stock at 50x FY20E EPS. BUY

Nestle India Limited

NEST IN

Consumers

CMP	**11107**
Target	**12465**
Upside	**12%**
Rating	**ACCUMULATE**

	CY17	CY18E	CY19E	CY 20E
Roe%	36%	45%	45%	51%
Roce%	51%	64%	64%	72%
P/E	72	63	58	49
P/B	26	29	26	25
EV/Ebdita	42	38	36	31

	CY17	CY18E	CY19E	CY20E	Q4CY17	Q3CY18	Q4CY18E
Segmental Revenues							
Milk products & nutr.	4820	5211	5799	6453			
Beverages	1387	1621	1844	2149			
Pre. dishes & cook. aids	2707	3207	3699	4273			
Chocolate & confection.	1221	1365	1570	1805			
Gross Sales(in cr)	10135	11403	12912	14680			
Financials							
Sales	9,953	11,262	12,752	14,498	2601	2939	2942
Sales Gr	*9%*	*13%*	*13%*	*14%*	*15%*	*17%*	*13%*
Ebdita	2,097	2,764	2,944	3,437	533	725	697
Ebdita Gr	*13%*	*32%*	*7%*	*17%*	*37%*	*24%*	*31%*
Net Profits	1,225	1,698	1,840	2,185	312	446	424
Profit Gr%	*22%*	*39%*	*8%*	*19%*	*60%*	*30%*	*36%*
EbditaM%	20.9%	*24.4%*	*23.0%*	*23.6%*	20.5%	24.7%	*23.7%*
Net Mgn%	12.2%	*15.0%*	*14.3%*	*15.0%*	12.0%	15.2%	*14.4%*

Conso/Fig in Rs Cr

- NESTLEIND is expected to report a sales growth of13% in Q4CY18on the back of better traction from new launches, festival demand, distribution ramp up and changing consumption pattern in urban as well as from semi-rural India.
- Milk Prod. & Nutri (contri. ~48%in CY17) is expected to post a growth of 8% for CY18E led by recovery in volumes on the back of stable realization while Prepared dishes (contri. ~27%) continues to show good traction led by maggi and expected to grow by 18%.
- Cluster approach to boost growth: To promote keen consumer connect and high agility, the company is introducing cluster based strategy in which it has divided whole India into 15 clusters.
- The company in 4QCY18 has launched 'All Day Breakfast' truck in Delhi NCR which will offer products from its newly launched breakfast cereals range, NESPLUS with other products and has also launched Handcrafted, Artisanal, super Premium Chocolates in its chocolates and confectionary category.
- Gross margin is expected to improve by 10 bps in 4QCY18 led by benign milk and SMP prices while EBITDA margin is expected to improve by 319 bps led by cost saving initiatives and lesser provision for contingencies and impairment loss on fixed assets.
- Recently on 3 Jan 2019, Supreme Court Quashes Interim Orders Passed by NCDRC In Maggi Matter. The Supreme court has directed that reports received from CFTRI will be the basis for proceeding before NCDRC.

Key Trackable this Quarter

- Volume growth.
- Weak domestic currency and higher fuel prices may bring in cost inflation.

We value the stock at 55x CY20E EPS. ACCUMULATE

Parag Milk Foods Limited

PARAG IN

Consumers

CMP	**248**
Target	**313**
Upside	**26%**
Rating	**BUY**

	FY17	FY18	FY19E	FY 20E
Roe%	1%	12%	15%	15%
Roce%	5%	15%	17%	19%
P/E	499.8	26.6	16.5	14.2
P/B	3.8	3.2	2.5	2.2
EV/Ebdita	27.2	12.1	8.6	7.4

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19
Milk Products Gr.	1%	17%	22%	18%	16%	14%	23%
Fresh Milk Gr.	16%	5%	8%	11%	1%	5%	10%
Segmental Revenues							
Skimmed Milk Powder	224	254	307	353	73	67	84
Fresh Milk	371	391	422	468	93	106	102
Milk Products	1108	1290	1563	1845	341	393	418
Other Revenues	28	20	38	56	13	8	15
Financials							
Sales	1,731	1,955	2,330	2,723	519	573	618
Sales Gr	*5%*	*13%*	*19%*	*17%*	*16%*	*14%*	*19%*
Ebdita	88	193	241	277	59	58	61
Ebdita Gr	*-41%*	*120%*	*25%*	*15%*	*421%*	*16%*	*3%*
Net Profits	5	87	126	146	25	30	31
Profit Gr%	*-90%*	*1748%*	*44%*	*16%*	*162%*	*22%*	*21%*
EbditaM%	5.1%	9.9%	*10.3%*	*10.2%*	11.3%	10.1%	*9.8%*
Net Mgn%	0.3%	4.5%	*5.4%*	*5.4%*	4.9%	5.3%	*5.0%*

Conso/Fig in Rs Cr

❑ Parag's sales is expected to grow by 19%YoY in Q3FY19 on the back of strong traction from value added products, aggressive new product launches, ramping up production in Sonipat plant and distribution reach.The company targets to achieve Revenues in the range of Rs. 2,700 to Rs. 3,000 Cr by 2020.

❑ Company bought Danone manufacturing facility in North India (Sonipat) which will give company much needed foot hold in north India in terms of procurement of milk.

❑ Gross margin is expected to remain flat due to change in product mix towards fresh milk while milk procure prices to remain stable. EBITDA margin is expected to decline by 148 bps on the back of investment in distribution reach and product promotions.We expect other expenses to increase by 185 bps YoY.

❑ The company is planning to increase its value added products contribution to revenue from 64% to 65% till 2021. Health &Nutrition business has to expand from 2% to 7%.

❑Capex: Rs 30cr in FY19e. Tax rate: 26-28.5%.

Key Trackable this Quarter

❑ Gross Margin.

❑ Other Expenses:The company is in the process of launching new products and expansion of its distribution reach.

We value the stock at 18x FY20E EPS. BUY

P&G Hygiene

PG IN

Consumers

CMP	**9868**
Target	**10802**
Upside	**9%**
Rating	**ACCUMULATE**

	FY17	FY18	FY19E	FY 20E
Roe%	82%	47%	40%	43%
Roce%	115%	70%	59%	62%
P/E	50.1	82.4	74.7	54.8
P/B	41.2	38.3	29.8	23.4
EV/Ebdita	32.5	49.5	45.6	34.7

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19
Segmental Revenues(gross)							
Oint. and Creams	412	441	520	608			
Cough Drops	265	286	301	325			
Tablets	51	38	57	60			
Personal Products, Toile	1691	1792	1969	2363			
Financials							
Sales	2,320	2,455	2,847	3,356	704	792	817
Sales Gr	*2%*	*6%*	*16%*	*18%*	*9%*	*20%*	*16%*
Ebdita	665	615	688	894	210	210	221
Ebdita Gr	*10%*	*-7%*	*12%*	*30%*	*-8%*	*12%*	*5%*
Net Profits	433	375	429	584	131	144	140
Profit Gr%	*2%*	*-13%*	*14%*	*36%*	*-13%*	*25%*	*6%*
EbditaM%	28.6%	25.1%	*24.2%*	*26.6%*	29.9%	26.5%	*27.1%*
Net Mgn%	18.6%	15.3%	*15.1%*	*17.4%*	18.6%	18.2%	*17.1%*

Conso/Fig in Rs Cr

❑ PGHH's revenue is expected to grow by 16%YoY of on the back of better growth in Ointments & Creams and Personal Products, Toilet Preparations segments. This growth will be driven by company's investment in A&P, distribution ramp up and revival in economy.

❑Company launched Vicks BabyRub, specially developed for babies and gentle on their skin, which is expected to grow their share in the Cough & Cold category.

❑Gross margin is expected to expand by 26 bps YoY to 60.4%on the back of lower packaging cost and stablization of currency. Gross margin was impacted by the price cut taken by ~2-3% in July to pass GST rate cut(now zero) to the consumers.

❑EBITDA margin is expected to decline by 278 bps YoY led by company's investment in advertisement, promotion and distribution activities. We expect 212 and 72 bps increase in other expenses and A&P respectively in Q2FY19.

❑ The company had made a strategic foray in emerging comfort segment with new Whisper Ultra Soft product launch.

❑ The company expects growth rate in the categories in which it competes to be around high single digits.

Key Trackable this Quarter

❑ Revenue growth:Past 2 years remained dampener, so we expect better sales in FY19e.

❑ Gross and EBITDA Margin: as past few quarters company is investing on A&P and other ex.

We value the stock at 60x FY20E eps. ACCUMULATE

Prabhat Dairy Limited

PRABHAT IN

Consumers

CMP	**91**
Target	**115**
Upside	**27%**
Rating	**BUY**

	FY17	FY18	FY19E	FY 20E
Roe%	7%	6%	7%	10%
Roce%	12%	12%	13%	17%
P/E	31.2	31.0	16.3	10.4
P/B	2.1	2.0	1.1	1.0
EV/Ebdita	13.1	11.2	5.6	4.4

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19
Segmental Revenues							
Milk	192	315	419	528			
Milk Powder	623	711	733	843			
Butter +ghee	289	215	258	310			
Condensed milk	164	80	39	19			
Cheese ,Paneer & Sri Kh	39	91	151	204			
Others	88	141	106	124			
Financials							
Sales	1,410	1,554	1,705	2,027	404	418	466
Sales Gr	*21%*	*10%*	*10%*	*19%*	*-1%*	*9%*	*15%*
Ebdita	127	138	161	198	37	39	47
Ebdita Gr	*10%*	*9%*	*17%*	*23%*	*0%*	*24%*	*27%*
Net Profits	47	47	54	85	15	12	17
Profit Gr%	*106%*	*1%*	*15%*	*57%*	*-56%*	*36%*	*15%*
EbditaM%	8.99%	8.86%	9.47%	9.76%	9.28%	9.40%	10.20%
Net Mgn%	2.65%	3.31%	3.17%	4.20%	3.66%	2.95%	3.66%

Conso/Fig in Rs Cr

❑ PRABHAT's sales for Q3FY19 is expected to remain 15% backed by company's distribution expansion(plans to double distribution reach in next 2 years), new product launches in B2C segment and company's initiatives of setting up different packing stations (third Party) in Vidarbha and Western Maharashtra.

❑ Gross margin can expand by 39 bps YoY to 23.3%. Gross margin will be supported by higher contribution of value added products in the total revenue and stable milk prices.

❑ EBITDA margin is expected to improve by 92 bps YoY on account of lower COGS, employee and other expenses. We expect benefits of operating leverage to kick in.

❑Delay in payment of subsidy by government may increase working capital in FY19 which in turn put short term debt at elevated level.

Key Trackable this Quarter

❑ Gross Margin: higher contribution of value added product to drive gross margin .

❑ Share of consumer business in total revenue.

❑ Other expenses: the company is investing benefits of lower milk prices in the expansion of distribution reach and promotional activities.

We value the stock at 5.6x FY20E EV/EBITDA. BUY

Trent Limited

TRENT IN

Consumers

	FY17	FY18	FY19E	FY 20E
Roe%	5%	5%	8%	11%
Roce%	5%	9%	11%	15%
P/E	84.9	112.1	86.6	62.1
P/B	4.7	6.1	7.2	6.8
EV/Ebdita	58.7	50.1	49.7	36.8

CMP	**362**
Target	**415**
Upside	**15%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E	3QFY18	2QFY19	3QFY19
Walk-ins (Crs)	3	3.6	3.9	4.3			
Incr. in sales / stores	0%	3%	2%	2%			
Bill size (Rs.)	2029	2197	2373	2563			
Conversion Ratio	32%	26%	27%	28%			
Westside's Contribution	97%	96%	*96%*	*96%*			
Cum. stores(westside)	107	125	150	175			
Financials							
Sales	1,812	2,157	2,558	3,164	521	616	624
Sales Gr	*14%*	*19%*	*19%*	*24%*	*19%*	*18%*	*20%*
Ebdita	126	201	247	334	63	59	75
Ebdita Gr	*35%*	*60%*	*23%*	*35%*	*29%*	*20%*	*20%*
Net Profits	85	87	139	194	38	33	46
Profit Gr%	*54%*	*3%*	*59%*	*40%*	*2%*	*13%*	*22%*
EbditaM%	6.9%	9.3%	*9.7%*	*10.6%*	12.0%	9.6%	*12.0%*
Net Mgn%	4.7%	4.0%	5.4%	6.1%	7.3%	5.3%	7.4%

Conso/Fig in Rs Cr

❑Revenue(Standalone) Growth is expected to be backed by 20% YoY in Q3FY19 backed increasing contribution of private labels & enhanced shopping experience. Moreover festive season & higher SSSG% would also boost company's sales. Walk-ins is expected to increase by 7% in FY19e.

❑Under westside format, Company added 18 stores in FY18 & company is expected to add 25 stores each in FY19e & FY20e.

❑ Gross margin is expected to decline by 127 bps YoY on the back of discounts and elevated cotton prices while EBITDA margin is expected to remain flat on account of lower other expenses by 175 bps largely due to cost saving measures and better performance of Joint Ventures.

❑Estimated Capex for FY19 is Rs.165 crs, as Mgmt commented for Westside Capex of Rs.100 Cr. & Zudio Capex of Rs.60 Cr.

❑Fiora Hypermarket Limited (Star bazar) is a 100% owned subsidiary of Trent Ltd., contributing 10% of total Sales, is expected to garner better footfall going ahead led by company's focused stretegy to expand private levels and providing fresh produce at reasonable prices.

Key Trackable this Quarter

❑ LFL Sales Growth of Westside stores

❑Walk-ins & Bill size

We value the stock at 42x FY20E EV/EBITDA. BUY

Westlife Development Ltd

WLDL IN

Consumers

CMP	**386**
Target	**377**
Upside	**-2%**
Rating	**NEUTRAL**

	FY17	FY18	FY19E	FY20E
Roe%	-2%	2%	10%	10%
Roce%	-2%	1%	8%	11%
P/E	-274.2	387.3	107.7	97.0
EV/Sales	3.6	4.4	4.2	3.6
EV/Ebdita	70.9	64.2	43.8	35.8

	FY17	FY18	FY19E	FY20E	Q3FY19	Q2FY19	Q3FY19E
SSG (%)	4.0	15.8	20.0*	10.0	20.7	25.7	15.0
No. of stores							
McDonalds	258	277	304	339	271	287	295
Mc Café	111	149	190	235	141	170	178
Sales	931	1,135	1,431	1,666	305	350	372
Sales Gr%	*12%*	*22%*	*26%*	*16%*	*26%*	*32%*	*22%*
COGS	366	425	516	584	113	127	134
Royalty	37	48	65	95	13	16	17
Ebdita	47	77	136	166	24	28	40
Ebdita Gr%	*10%*	*65%*	*76%*	*22%*	*73%*	*38%*	*66%*
Net Profits	(12)	13	56	62	8	8	21
Profit Gr%	*-528%*	*LP*	*333%*	*11%*	*553%*	*553%*	*172%*
Gross Margin%	60.6%	62.6%	64.0%	65.0%	63.1%	63.6%	64.1%
Ebdita Margin%	5.0%	6.8%	9.5%	10.0%	7.9%	8.0%	10.8%
Net Profit Margin%	-1.3%	1.1%	3.9%	3.7%	2.5%	2.2%	5.7%

*On average basis for yearly; LP- Loss to Profit

Conso/Fig in Rs Cr

❑ The recent management strategies of improvised menu, McDelivery launch, McBreakfast and McCafe helped the company to post strong SSG in the range of 20-25% over the past four quarters. With a higher growth base of 20.7%, the continued momentum is likely to lead an SSG of 15% for Q3FY19.

❑ Sales to grow at 21.8% YoY to Rs 372 crores.

❑ McCafe expansion and increasing new value added products in the improvised menu have lead to rise in gross margins for the company with Q3FY19 gross margins likely to be 64.1%.

❑ The 2016 announced ROP 2.0 model for new restaurant design and cost rationalisation along with brand extensions will continue to drive EBITDA expansion of 290bps YoY in quarter.

❑ The company guides for a capex of Rs 100-120 crores for FY19 and intends to open 25-30 stores in the whole year along with faster expansion of McCafe branch expansion. We expect 8 new stores and 8 McCafes expansion in the quarter.

❑ With royalty at 4% for FY19, we estimate Q3 PAT to be Rs 21.1 crores.

Key Trackable this Quarter

❑ Store expansion strategy, McCafe store launches and Mc Delivery expansion

❑ Menu Innovations and cost rationalisation efforts driving operational efficiency

❑ Royalty announcement for FY20 (our estimates have factored 5% royalty rate)

We value the stock at 35x FY20e EV/EBITDA. NEUTRAL

ZYDUS WELLNESS

ZYWL IN

CMP	**1363**
Target	**1616**
Upside	**19%**
Rating	**BUY**

	FY17	FY18	FY19E	FY 20E
Roe%	20%	19%	19%	19%
Roce%	16%	16%	16%	16%
P/E	30.2	36.6	35.4	30.4
P/B	5.9	7.1	6.6	5.7
EV/Ebdita	29.1	36.1	34.2	29.1

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19
Key Assumptions:							
Sugar Subst. category	7%	13%	6%	14%	13%	1%	8%
Scrub category	7%	10%	12%	14%	10%	13%	13%
Peel off mask category	5%	17%	18%	18%	18%	18%	18%
Financials							
Sales	463	503	576	640	132	138	141
Sales Gr	*9%*	*9%*	*14%*	*11%*	*28%*	*12%*	*7%*
Ebdita	99	125	141	162	33	39	37
Ebdita Gr	*8%*	*26%*	*13%*	*14%*	*49%*	*10%*	*10%*
Net Profits	109	134	151	175	36	41	39
Profit Gr%	*6%*	*23%*	*12%*	*16%*	*44%*	*14%*	*9%*
EbditaM%	21.4%	24.9%	*24.5%*	*25.3%*	25.1%	27.9%	*25.9%*
Net Mgn%	23.6%	26.6%	*26.2%*	*27.4%*	27.3%	30.0%	*27.8%*

Conso/Fig in Rs Cr

❑ Sales is expected to grow by 7% YoY on account of higher base (28.4% YoY) driven by better traction from new launches, Higher media campaign and expansion of distribution channel.

❑ The Company key brands Everyuth scrub, Everyuth peel off mask and Sugar free continued to maintain its leadership position with a market share of 32.6%, 84.7% and 93.9% as of 2QFY19.

❑ Everyuth tan removal range and Sugar free green veda continued to perform well while sugar free green market share stood at ~3% as of 2QFY19 which earlier was ~2% in FY18.

❑ Gross margin is expected to improve by 127 bps on account of softening of crude prices (contri. 34% of RM)) and palm oil prices (contri. ~29% of RM).While EBITDA margin is expected to improve by 81 bps YoY.

❑ The Company entered into an agreement to acquire 100% Equity Share of Heinz India (Subsidiary of Kraft Heinz) jointly with Cadila Healthcare ltd on 24th Oct,18. The purchase price stood at Rs 4595 Cr wherein 1/3rd of the transaction will be by debt and remaining 2/3rd will be through equity shares.

❑ The Company acquired 4 brands namely Complan, Nycil, Glucon-D and Sampriti Ghee. Post Acquisition the manufacturing and distribution channel of the company will strengthen with 5 manufacturing facilities, 1800 distributors and 2 million touch points.

Key Trackable this Quarter

❑ Sugar substitute cat. Growth.

❑ Market share of Sugar Free Green.

❑Smooth execution of the acquisition of Heinz India ltd.

We value the stock at 36x FY20E EPS. BUY

AU Small Finance Bank Ltd

Financials- Banks

AUBANK IN

CMP	**622**
Target	**675**
Upside	**9%**
Rating	**NEUTRAL**

	FY17	FY18	FY19E	FY20E
Roe%	10.1%	13.7%	13.9%	14.5%
Roa%	10.2%	2.0%	1.5%	1.5%
Div Yield%	-	0.1	0.2	0.2
BVPS	70	80	105	135
P/B	-	7.7	5.9	4.6

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
AUM	11,055	16,038	24,057	33,680	13,416	20,221	22,136
AUM Growth%	*34%*	*45%*	*50%*	*40%*	*38%*	*67%*	*65%*
Borrowings	7,120	15,562	25,059	34,367	11,041	20,699	23,059
Deposits	-	6,743	13,747	23,227	3,617	10,798	12,298
Deposits Gr QoQ			*104%*	*69%*		*446%*	*240%*
GNPA%	1.9%	2.0%	1.9%	1.7%	2.8%	2.0%	2.0%
NNPA%	1.2%	1.3%	1.2%	1.0%	1.9%	1.3%	1.2%
Net Interest Income	784	940	1,296	1,772	250	321	334
NII Gr	*27%*	*20%*	*38%*	*37%*	*27%*	*46%*	*33%*
Opex	353	753	1,084	1,460	204	268	282
Opex Growth%	*37%*	*113%*	*44%*	*35%*	*159%*	*55%*	*38%*
Pre-provision Profit	570	576	720	1,038	153	175	188
PPP Gr	*57%*	*1%*	*25%*	*44%*	*-4%*	*22%*	*23%*
Provisions	97	133	162	268	33	35	42
Net Profits	822	292	370	515	79	91	98
Profit Gr%	*288%*	*-64%*	*27%*	*39%*	*-5%*	*34%*	*24%*
NIM% (Cal.)	7.1%	5.5%	5.1%	4.9%	8.5%	7.7%	7.1%
Cost to Income%	38%	57%	60%	58%	57%	61%	60%

Std/Fig in Rs Cr

❑ AU BANK has grown at a 60% YoY over the last 2 years. Growth is led by increased penetration and gaining market share from informal sources and NBFCs. Loan book is expected to grow at the rate of 65% in 3QFY19 and management has guided for 35-40% loan growth in next 3-4 years. Deposit growth is also expected to remain healthy at 14% QoQ.

❑ NII is expected to grow by 33% on the back of strong AUM growth. Due to the rise in cost of fund, margins are likely to get impacted; however management has recently hiked the lending rates which might support the NIM to some extent.

❑ Due to investment in distribution, infrastructure, people and digital initiative operating expenses will remain elevated and is expected to grow by 38% in 3Q FY19. C/I ratio will remain in the range of 55-60% in medium term.

❑ Overall Asset Quality has remained stable in the 2% range but GNPA in SBL SME increased to 8.4% from 7% QoQ. Recent developments under NBFCs space and SME segment will keep the portfolio under concern.

Key Trackable this Quarter

❑Assets quality in the wholesale segment

❑Growth in the deposit segment

We Value the stock at 5x P/BV FY20e. NEUTRAL

Axis Bank Limited

AXSB IN

Financials- Banks

CMP	**620**
Target	**694**
Upside	**12%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	6.8%	0.5%	9.0%	16.2%
Roa%	0.7%	0.0%	0.8%	1.4%
Div Yield%	1.0%	0.0%	0.6%	1.0%
BVPS	233	247	270	315
P/B	2.1	2.1	2.3	2.0

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Net Advances	373,069	439,650	505,598	596,605	420,923	456,121	475643
Adv Growth%	*10%*	*18%*	*15%*	*18%*	*21%*	*11%*	*13%*
Deposits	414,379	453,623	521,235	615,057	408,967	479,680	485350
Dep Growth%	*16%*	*9%*	*15%*	*18%*	*10%*	*15%*	*19%*
CD Ratio%	90%	97%	97%	97%	103%	95%	98%
GNPA%	5.0%	6.8%	5.0%	3.9%	5.3%	6.0%	5.6%
NNPA%	2.1%	3.4%	2.2%	1.5%	2.6%	2.5%	2.4%
Slippages %	6.5%	9.2%	2.9%	1.4%	1.1%	0.7%	0.7%
Net Interest Income	18,093	18,618	21,670	27,825	4,732	5,232	5,433
NII Gr	*7%*	*3%*	*16%*	*28%*	*9%*	*15%*	*15%*
Other Income	11,691	10,967	12,032	13,436	2,593	2,678	3,092
Other Inc Gr%	*25%*	*-6%*	*10%*	*12%*	*-24%*	*4%*	*19%*
Pre-provision Profit	17,585	15,594	18,158	23,262	3,854	4,094	4,646
PPP Gr	*9%*	*-11%*	*16%*	*28%*	*-17%*	*8%*	*21%*
Provisions	12,117	15,473	9,116	4,613	2,811	2,927	1,747
Net Profits	3,679	276	6,006	12,308	726	790	1,913
Profit Gr%	*-55%*	*-93%*	*2079%*	*105%*	*25%*	*83%*	*163%*
NIM% (Cal.)	3.4%	3.1%	3.2%	3.5%	3.3%	3.3%	3.3%
Cost to Income%	41%	47%	46%	44%	47%	48%	46%

Std/Fig in Rs Cr

❑ Cost of fund is expected to increase, however expected lower slippages and assets re-pricing at higher MCLR is likely to support NIM at current level. Management targets global NIM of 3.75-3.8% in longer run.

❑Stable margin, higher treasury gain and lower credit cost will improve the profitability in 3Q FY19. PAT is expected to grow by more than 150% YoY. NII growth is expected at 15% YoY.

❑BB and below rated portfolio stands at Rs 9000 Cr as on 2Q FY19 down from Rs 20000 Cr from FY17. Overall slippages trend has been improving and 2H FY19 slippages is expected to be lower than 1HFY19. We expect credit cost to normalize from 3Q FY19. Assets quality is expected to improve further.

❑Advances growth is expected to inch up backed by retail growth as well as increase in credit to NBFCs. We expect advances growth of 13% YoY.

Key Trackable this Quarter

❑ NIM Performance

❑ Recovery & Up-gradation

❑ Slippages and trend in BB stress pool.

We value the stock at 2.2x P/BV FY20e. BUY

Bank of Baroda

BOB IN

Financials- Banks

CMP	**119**
Target	
Upside	
Rating	**UNDER REVIEW**

	FY17	FY18	FY19E	FY20E
Roe%	3.4%	-5.8%	7.0%	11.0%
Roa%	0.2%	-0.3%	0.4%	0.6%
Div Yield%	0.7%	0.0%	0.4%	1.7%
BVPS	174	164	175	195
P/B	1.0	0.9	0.7	0.6

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Net Advances	383,259	427,432	491,547	565,279	399,381	433,549	455294
Adv Growth%	*0%*	*12%*	*15%*	*15%*	*14%*	*12%*	*14%*
Deposits	601,675	591,315	692,319	785,109	573,265	606,973	641259
Dep Growth%	*5%*	*-2%*	*17%*	*13%*	*-3%*	*4%*	*12%*
CD Ratio%	64%	72%	71%	72%	70%	71%	71%
GNPA%	10.5%	12.3%	9.7%	6.6%	11.3%	11.8%	11.0%
NNPA%	4.7%	5.5%	3.9%	2.5%	5.0%	4.9%	4.5%
Slippages %	4.7%	7.3%	3.2%	2.0%	1.5%	1.0%	0.6%
Net Interest Income	13,513	15,522	18,702	22,060	4,394	4,493	4,772
NII Gr	*6%*	*15%*	*20%*	*18%*	*40%*	*21%*	*9%*
Other Income	6,758	6,657	5,813	6,544	1,673	1,352	1,594
Other Inc Gr%	*35%*	*-1%*	*-13%*	*13%*	*-6%*	*-22%*	*-5%*
Pre-provision Profit	10,975	12,006	13,449	16,236	3,650	3,081	3,533
PPP Gr	*24%*	*9%*	*12%*	*21%*	*41%*	*1%*	*-3%*
Provisions	8,502	14,796	8,607	8,044	3,427	2,430	2,000
Net Profits	1,383	(2,432)	3,130	5,407	112	425	996
Profit Gr%	*-126%*	*-276%*	*229%*	*73%*	*-56%*	*20%*	*791%*
NIM% (Cal.)	2.1%	2.3%	2.5%	2.6%	2.7%	2.6%	2.7%
Cost to Income%	46%	46%	45%	43%	40%	47%	45%

Std/Fig in Rs Cr

❑ The merger of BOB, Vijaya bank and Dena Bank will create 3rd largest lender of the country with the assets base of over Rs 10 Lakh Crore. Swap Ratio has been announced. We believe that merger will create near term disruption in the growth story on BOB and costs are also likely to spike in near term.

❑ Loan book of BOB is expected to grow at healthier rate of 14% in 3QFY19 led by strong retail assets growth. Liquidity crisis in NBFC is likely to boost retail assets of BOB. Large corporate book is also expected to pick up during the quarter.

❑ NII is expected to grow healthier by 6% QoQ led by strong balance sheet growth and NIM improvement. NIM is likely to improve due to MCLR reset and healthy growth in retail assets. Improvement in international margin will also boost the NIM.

❑ Assets quality has shown impressive improvement. PCR is also at healthy level of 71%. BOB has some exposure to IL&FS and management has not disclosed the amount. It has some project level exposure as well some exposure to default subsidiary.

Key Trackable this Quarter

❑ IL&FS exposure details

❑ Assets Quality trend

The stock is UNDER REVIEW

Bank of India

BOI IN

CMP	**104**
Target	**123**
Upside	**18%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	-4.8%	-17.8%	-2.5%	6.2%
Roa%	-0.3%	-1.0%	-0.2%	0.5%
Div Yield%	0.0%	0.0%	0.0%	0.0%
BVPS	308	204	164	175
P/B	0.5	0.5	0.6	0.6

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Net Advances	366,482	341,380	348,208	372,582	350,949	340,273	340421
Adv Growth%	*2%*	*-7%*	*2%*	*7%*	*-3%*	*-7%*	*-3%*
Deposits	540,032	520,854	519,713	547,915	526,003	512,142	509612
Dep Growth%	*5%*	*-4%*	*0%*	*5%*	*-3%*	*-6%*	*-3%*
CD Ratio%	68%	66%	67%	68%	67%	66%	67%
GNPA%	13.2%	16.6%	15.0%	12.9%	16.9%	16.4%	16.0%
NNPA%	6.9%	8.3%	4.8%	4.2%	10.3%	7.6%	6.0%
Slippages %	6.1%	11.0%	4.8%	3.0%	5.4%	1.3%	0.7%
Net Interest Income	11,826	10,506	12,390	13,188	2,501	2,927	2,917
NII Gr	*1%*	*-11%*	*18%*	*6%*	*-13%*	*1%*	*17%*
Other Income	6,772	5,734	5,126	5,478	1,041	1,030	1,872
Other Inc Gr%	*85%*	*-15%*	*-11%*	*7%*	*-41%*	*-40%*	*80%*
Pre-provision Profit	9,733	7,139	7,691	8,400	1,354	1,647	2,203
PPP Gr	*61%*	*-27%*	*8%*	*9%*	*-45%*	*-26%*	*63%*
Provisions	12,105	15,772	10,009	4,061	4,900	3,343	2,553
Net Profits	(1,558)	(6,044)	(1,013)	2,864	(2,341)	(1,156)	(231)
Profit Gr%	*74%*	*-288%*	*83%*	*383%*	*N/A*	*N/A*	*N/A*
NIM% (Cal.)	2.1%	1.9%	2.2%	2.3%	1.7%	2.1%	2.1%
Cost to Income%	48%	56%	56%	55%	62%	58%	54%

Std/Fig in Rs Cr

❑ BOI is one of the strong contenders to come out of PCA framework soon. Government has announced capital infusion of Rs 10000 Cr to BOI in recent recapitalization of PSU banks.

❑Profitability is expected to improve led by improvement in NIM and treasury gain. Growth in domestic advances will led to significant yield improvement going ahead. We expect BOI to turn profitable from 4Q FY19 onwards.

❑Advances have been on declining trend due to run down in overseas book as per management strategy. However domestic book has shown sign of recovery since last 2 quarters. We expect loan to book remain flat QoQ and the book will start increasing gradually.

❑Slippages are expected to slow down significantly in 2HFY19 and we expect there would be strong recovery and up-gradation in coming few quarters as BOI has extra provisions in some stress cases where hair cut is expected to be low.

Key Trackable this Quarter

❑ Trend in recovery and up-gradation.

❑ NIM Performance

❑ Slippages trend.

We value the stock at 0.7x P/BV FY20e. BUY

Canara Bank

CBK IN

Financials- Banks

CMP	**275**
Target	**335**
Upside	**22%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	3.4%	-12.2%	3.7%	10.4%
Roa%	0.2%	-0.7%	0.2%	0.6%
Div Yield%	0.3%	0.0%	0.0%	1.8%
BVPS	564	486	504	559
P/B	0.5	0.5	0.5	0.5

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Net Advances	342,009	381,703	427,507	470,258	373,123	409,529	421629
Adv Growth%	*5%*	*12%*	*12%*	*10%*	*13%*	*14%*	*13%*
Deposits	495,275	524,772	585,627	653,136	503,888	551,926	569769
Dep Growth%	*3%*	*6%*	*12%*	*12%*	*-1%*	*11%*	*13%*
CD Ratio%	69%	73%	73%	72%	74%	74%	74%
GNPA%	9.6%	11.8%	10.0%	7.8%	10.4%	10.6%	10.3%
NNPA%	6.3%	7.5%	5.8%	4.4%	6.8%	6.5%	6.2%
Slippages %	3.8%	7.7%	4.1%	2.0%	0.8%	1.0%	0.9%
Net Interest Income	9,872	12,163	14,675	16,879	3,679	3,281	3,596
NII Gr	*1%*	*23%*	*21%*	*15%*	*52%*	*18%*	*-2%*
Other Income	7,554	6,943	6,826	6,589	1,566	1,555	1,771
Other Inc Gr%	*55%*	*-8%*	*-2%*	*-3%*	*-13%*	*-20%*	*13%*
Pre-provision Profit	8,914	9,548	10,817	12,061	2,831	2,327	2,710
PPP Gr	*25%*	*7%*	*13%*	*11%*	*43%*	*-6%*	*-4%*
Provisions	7,272	16,109	9,828	5,928	2,674	2,835	2,182
Net Profits	1,122	(4,222)	1,338	4,047	126	300	349
Profit Gr%	*140%*	*N/A*	*132%*	*203%*	*-61%*	*15%*	*177%*
NIM% (Cal.)	1.8%	2.2%	2.4%	2.5%	2.7%	2.3%	2.4%
Cost to Income%	48.8%	50.0%	49.7%	48.6%	46.0%	51.9%	49.5%

Std/Fig in Rs Cr

❑ NII is expected to improve sequentially with growth registering around 10% QoQ on the back of pick up in advances growth and improvement in NIM. Cost of fund is expected to increase but MCLR reset and improvement in assets quality is likely to boost NIM going ahead.

❑ Sharp correction in bond yield will have significant gain in treasury income in 3Q FY19. Operating expenses is expected to grow by 10% which is likely to improve operating profit on sequential basis. Lower credit cost will result in positive PBT in 3Q FY19 against PBT loss in 2Q FY19.

❑ Advances growth is expected to be around 12-14% driven by mainly due to growth in the retail segment. MSME segment has shown some improvement. Large corporate growth is also expected to recover gradually.

❑ Management targets to restrict the slippages to Rs 3000 Cr in 3Q and 4Q of FY19. CANBK has Rs 2500 Cr of exposure towards IL&FS group of which Rs 800 is under stress and likely to slip very soon.

Key Trackable this Quarter

❑ Recovery & up-gradation outlook

❑ NIM performance

We value the stock at 0.6x P/BV FY20e. BUY

City Union Bank Limited

CUBK IN

Financials- Banks

CMP	**195**
Target	**214**
Upside	**10%**
Rating	**ACCUMULATE**

	FY17	FY18	FY19E	FY20E
Roe%	15.2%	15.3%	15.2%	16.3%
Roa%	1.5%	1.6%	1.6%	1.7%
Div Yield%	0.2%	0.2%	0.3%	0.3%
BVPS	49	57	66	77
P/B	2.5	2.7	3.0	2.5

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Net Advances	23,833	27,853	32,588	38,454	25,737	29,425	30112
Adv Growth%	*13%*	*17%*	*17%*	*18%*	*19%*	*17%*	*17%*
Deposits	30,116	32,853	38,339	45,778	31,339	34,534	35014
Dep Growth%	*11%*	*9%*	*17%*	*19%*	*5%*	*12%*	*12%*
CD Ratio%	79%	85%	85%	84%	82%	85%	86%
GNPA%	2.8%	3.0%	2.9%	3.0%	3.3%	2.9%	3.0%
NNPA%	1.7%	1.7%	1.7%	1.6%	1.7%	1.7%	1.7%
Slippages %	2.3%	2.5%	2.1%	2.1%	0.5%	0.5%	0.6%
Net Interest Income	1,199	1,430	1,622	2,008	365	398	416
NII Gr	*22%*	*19%*	*13%*	*24%*	*19%*	*12%*	*14%*
Other Income	484	532	523	555	122	119	139
Other Inc Gr%	*18%*	*10%*	*-2%*	*6%*	*-15%*	*-24%*	*14%*
Pre-provision Profit	994	1,208	1,263	1,558	296	296	330
PPP Gr	*19%*	*22%*	*5%*	*23%*	*8%*	*-8%*	*11%*
Provisions	301	418	329	399	86	68	89
Net Profits	503	592	683	846	155	168	176
Profit Gr%	*13%*	*18%*	*15%*	*24%*	*22%*	*16%*	*14%*
NIM% (Cal.)	3.8%	4.0%	4.0%	4.2%	4.3%	4.2%	4.3%
Cost to Income%	40.9%	38.5%	41.1%	39.2%	39.1%	42.7%	40.5%

Std/Fig in Rs Cr

❑ City Union Bank has one of the best NIM in the industry at 4.3% given its focus on secured high yielding assets (MSME and traders constitutes 51% of the portfolio). Recently the cost of fund has been rising for the industry but NIM of CUB has performed well and now MCLR rates reset will support the NIM going ahead. NII is expected to grow by 14% YoY.

❑ C/I ratio increased to 42.7% in Q2FY19, which is the highest over the last 6 quarters. Overall in long term horizon management expect C/I ratio to be in the range of 42-45%. Fall in bond yield is likely boost treasury income significantly for CUBK.

❑ Advances of the bank have been growing at an average run rate of 17% over the last one year. Going forward, we expect loan growth to be mainly driven by retail and MSME advances.

❑ Slippages are expected to increase if 2 stresses account namely paper mill and educational institute slip into NPA. But management hopes everything to be fine and maintained its earlier slippages guidance of 1.75-2% for FY19.

Key Trackable this Quarter

❑ NIM performance

❑Slippages trend in MSME sector

❑ Pick up in loan growth

We value the stock at 2.8x P/BV FY20e. ACCUMULATE

DCB Bank Limited

Financials- Banks

DCBB IN

CMP	**169**
Target	**170**
Upside	**1%**
Rating	**HOLD**

	FY17	FY18	FY19E	FY20E
Roe%	10.0%	9.8%	10.9%	13.2%
Roa%	0.9%	0.9%	1.0%	1.0%
Div Yield%	0.3%	0.5%	0.6%	0.7%
BVPS	77	91	101	114
P/B	2.2	1.8	1.7	1.5

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Net Advances	15,818	20,337	25,421	31,776	18,595	22,069	23616
Adv Growth%	*22%*	*29%*	*25%*	*25%*	*28%*	*27%*	*27%*
Deposits	19,289	24,007	30,263	37,829	21,296	26,169	27948
Dep Growth%	*29%*	*24%*	*26%*	*25%*	*13%*	*27%*	*31%*
CD Ratio%	82%	85%	84%	84%	87%	84%	85%
GNPA%	1.6%	1.8%	1.8%	1.8%	1.9%	1.8%	1.8%
NNPA%	0.8%	0.7%	0.7%	0.7%	0.9%	0.7%	0.7%
Slippages %	2.0%	2.2%	2.0%	1.7%	0.6%	0.5%	0.4%
Net Interest Income	797	995	1,162	1,434	250	282	294
NII Gr	*29%*	*25%*	*17%*	*23%*	*20%*	*14%*	*17%*
Other Income	249	311	355	439	75	73	99
Other Inc Gr%	*13%*	*25%*	*14%*	*24%*	*17%*	*13%*	*32%*
Pre-provision Profit	418	525	635	837	123	146	167
PPP Gr	*20%*	*26%*	*21%*	*32%*	*12%*	*17%*	*36%*
Provisions	111	139	136	168	34	32	34
Net Profits	200	245	323	434	57	73	86
Profit Gr%	*3%*	*23%*	*32%*	*35%*	*11%*	*25%*	*51%*
NIM% (Cal.)	3.9%	3.9%	3.6%	3.6%	4.2%	3.9%	3.9%
Cost to Income%	60.0%	59.8%	58.1%	55.3%	62.3%	58.9%	57.5%

Std/Fig in Rs Cr

❑ Margins are expected to be under pressure due to continuous increase in the cost of fund. However MCLR reset and decrease in competitive scenario will support the margin in medium term. We expect near term margin pressure to persist. NII growth is expected at 17% YoY.

❑Operating expenses is expected to grow around 11% YoY as management has decided to slow down branch expansion but C/I ratio is still elevated among the peers which is restricting the improvement in return ratios. Sharp correction in bond yield is likely to boost treasury gain.

❑Loan book of the bank has been doubled in the last 3 years driven by high demand for mortgages and rural loans. We expect loan book to grow around 27% in 3Q FY19. Liquidity issue in NBFC is likely to benefit DCB banks to gain market share.

❑The Bank's asset quality is relatively better compared to peers with GNPA/NNPA ratio at 1.84%/0.70%. The provision coverage ratio remains healthy at 77%. We expect assets quality to remain under control going ahead.

Key Trackable this Quarter

❑ Downward trend in C/I ratio will be positive for the company.

❑ NIM performance.

❑ Slippages trend.

We value the stock at 1.5x P/BV FY20e. HOLD

Equitas Holdings Limited

EQUITAS IN

Financials- Banks

CMP	**125**
Target	**151**
Upside	**21%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	8.9%	1.4%	8.8%	13.8%
Roa%	2.0%	0.3%	1.3%	1.8%
Div Yield%	0.0%	0.0%	0.0%	0.0%
Book Value	66	67	73	84
P/B	2.6	2.1	1.7	1.5

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
AUM	7,176	8,239	11,535	16,148	7,722	9,981	10,656
AUM Growth%	*17%*	*15%*	*40%*	*40%*	*8%*	*36%*	*38%*
Borrowings	6,543	10,607	13,108	18,351	8,259	11,212	11,973
Deposit	1,885	4,719	7,209	12,422	3,699	5,698	6,458
Deposit Growth%		*150%*	*53%*	*72%*	*387%*	*84%*	*75%*
GNPA%	3.5%	2.7%	3.0%	3.0%	5.0%	3.4%	3.3%
NNPA%	1.5%	1.4%	1.4%	1.4%	1.6%	2.0%	1.5%
Net Interest Income	855	925	1,148	1,587	235	277	293
NII Gr	*42%*	*8%*	*24%*	*38%*	*3%*	*21%*	*25%*
Opex	615	891	966	1,215	231	234	241
Opex Growth%	*71%*	*45%*	*8%*	*26%*	*39%*	*7%*	*4%*
Pre-provision Profit	354	223	443	739	42	108	120
PPP Gr	*11%*	*-37%*	*99%*	*67%*	*-60%*	*142%*	*186%*
Provisions	103	172	123	172	87	31	33
Net Profits	159	31	209	369	(30)	50	57
Profit Gr%	*-5%*	*-80%*	*567%*	*76%*	*-166%*	*356%*	*LP*
NIM% (Cal.)	11.3%	8.7%	8.2%	8.4%	9.8%	9.0%	8.9%
Cost to Income%	63.4%	80.0%	68.6%	62.2%	84.7%	68.5%	66.8%

Conso/Fig in Rs Cr

❑ After converting into the small bank, EQUITAS has shown sign of improvement in its operation during the 2Q FY19 results. We expect NII to grow around 25% in 3Q FY19 backed by strong AUM growth. Cost of fund is expected to rise and change in portfolio mix is likely to have little margin pressure going ahead.

❑ As management is finished off with its investment in infrastructure and has no further plans for investment, operating expenses growth is expected to remain modest at 4% YoY.

❑ Credit cost is expected to remain under control as the entire hit of demonetization has already been provided. GNPA /NNPA are expected to be at 3.3/1.5% in 3QFY19 with PCR of 55%.

❑ With strong branch network, diversification of assets portfolio and de-risking of AUM, EQUITAS has huge opportunity to grow going ahead. We expect AUM to grow in the range of 35-40% range in 3Q FY19.

Key Trackable this Quarter

❑ Deposits growth

❑Management commentary on listing of SFB

❑NIM performance

We value the stock at 1.8x P/BV FY20e. BUY

The Federal Bank Limited

Financials- Banks

FB IN

CMP	**93**
Target	**112**
Upside	**20%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	9.8%	8.3%	10.2%	12.6%
Roa%	0.8%	0.7%	0.9%	1.0%
Div Yield%	1.0%	1.1%	1.3%	1.6%
BVPS	52	62	67	75
P/B	1.8	1.5	1.4	1.2

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Net Advances	73,336	91,957	113,107	139,122	84,953	100,941	104492
Adv Growth%	*26%*	*25%*	*23%*	*23%*	*22%*	*25%*	*23%*
Deposits	97,665	111,992	131,520	165,621	100,537	118,182	121503
Dep Growth%	*23%*	*15%*	*17%*	*26%*	*9%*	*22%*	*21%*
CD Ratio%	75%	82%	86%	84%	84%	85%	86%
GNPA%	2.3%	3.0%	3.0%	2.6%	2.5%	3.1%	3.2%
NNPA%	1.3%	1.7%	1.6%	1.4%	1.4%	1.8%	1.7%
Slippages %	1.9%	2.8%	1.8%	1.1%	0.5%	0.5%	0.4%
Net Interest Income	3,053	3,583	4,199	5,425	950	1,022	1,060
NII Gr	*22%*	*17%*	*17%*	*29%*	*20%*	*14%*	*12%*
Other Income	1,082	1,159	1,457	1,604	229	323	502
Other Inc Gr%	*38%*	*7%*	*26%*	*10%*	*-17%*	*12%*	*119%*
Pre-provision Profit	1,925	2,291	3,000	3,796	561	698	890
PPP Gr	*35%*	*19%*	*31%*	*27%*	*18%*	*20%*	*59%*
Provisions	618	947	1,015	1,118	162	289	282
Net Profits	831	879	1,302	1,768	260	266	401
Profit Gr%	*75%*	*6%*	*48%*	*36%*	*26%*	*1%*	*54%*
NIM% (Cal.)	3.1%	3.0%	2.9%	3.1%	3.2%	3.1%	3.1%
Cost to Income%	53.4%	51.7%	47.0%	46.0%	52.4%	48.1%	43.0%

Std/Fig in Rs Cr

❑ NIM is likely to improve going further due to the focus towards high yield retail segment and increase in the MCLR rates. Management expects NIM to be maintained at 3.15% going forward and will exit 4Q FY19 with 1% RoA.

❑ The bank has approved sell 26% stake in FedFina to True North of which 17.4% has been transferred for Rs 169 Cr. With this stake sale and decline in bond yield treasury income is expected to remain robust during the quarter.

❑ Management has maintained slippages guidance range of Rs 1450-1500 Cr for FY19 of which Rs 960 Cr has slipped in 1HFY19, hence slippages is expected to remain lower going ahead but indirect exposure to IL&FS will be under key watch. Credit cost will remain at 65-70 bps but we expect one-off provisions from exceptional gain to boost PCR.

❑The bank aims to sustain its growth momentum at 25% in coming quarters due to opportunities in commercial and institutional banking portfolio.

Key Trackable this Quarter

❑ IL&FS exposure development

❑ NIM performance

❑ Improvement in C/I ratio

We value the stock at 1.5x P/BV FY20e. BUY

HDFC Bank Limited

HDFCB IN

Financials- Banks

CMP	**2121**
Target	**2464**
Upside	**16%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	17.9%	17.9%	16.8%	17.2%
Roa%	1.8%	1.8%	1.8%	2.0%
Div Yield%	0.8%	0.7%	0.7%	0.8%
BVPS	349	410	541	616
P/B	4.1	4.6	3.9	3.4

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Net Advances	554568	658333	803166	963800	631215	750838	776394
Adv Growth%	*19%*	*19%*	*22%*	*20%*	*28%*	*24%*	*23%*
Deposits	643640	788771	892407	1107816	699026	833364	853180
Dep Growth%	*18%*	*23%*	*13%*	*24%*	*10%*	*21%*	*22%*
CD Ratio%	86%	83%	90%	87%	90%	90%	91%
GNPA%	1.1%	1.3%	1.4%	1.3%	1.3%	1.3%	1.4%
NNPA%	0.3%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
Slippages %	1.3%	2.0%	1.7%	1.3%	0.8%	0.5%	0.5%
Net Interest Income	33139	40095	47974	59678	10314	11763	12356
NII Gr	*20%*	*21%*	*20%*	*24%*	*24%*	*21%*	*20%*
Other Income	12296	15220	17472	20154	3869	4016	4658
Other Inc Gr%	*14%*	*24%*	*15%*	*15%*	*23%*	*11%*	*20%*
Pre-provision Profit	25732	32625	39324	48622	8451	9480	10294
PPP Gr	*20%*	*27%*	*21%*	*24%*	*28%*	*21%*	*22%*
Provisions	3593	5927	6944	7143	1351	1820	1718
Net Profits	14550	17487	21219	27180	4643	5006	5608
Profit Gr%	*18%*	*20%*	*21%*	*28%*	*20%*	*21%*	*21%*
NIM% (Cal.)	4.4%	4.6%	4.6%	4.7%	4.7%	4.5%	4.5%
Cost to Income%	43.4%	41.0%	39.9%	39.1%	40.4%	39.9%	39.5%

Std/Fig in Rs Cr

❑ NII is expected to grow by 19% YoY driven by stable NIM and strong loan growth. NIM is expected to remain stable on sequential basis despite the rise in cost of fund. Focus on high yielding unsecured assets, strong CASA and recent capital infusion will support the NIM.

❑Fee income is showing strong traction driven largely by credit cards and fee from 3rd party product. We expect fee income momentum to remain strong. Recent correction in bond yield will provide significant gain in treasury income.

❑C/I ratio has been on improving trend since last few quarters mainly due to initiatives taken by the bank for digitization. Operating expenses is expected to grow by 15% YoY.

❑Loan book is expected to grow by 23% led by across the segment growth. Corporate book is expected to pick up given the opportunity arisen from liquidity tightness in NBFC space. Personal loan and credit card business has been performing well whereas vehicle loan book is expected to get slowdown due to moderating auto sales in country.

Key Trackable this Quarter

❑ Vehicle loan book growth

❑ NIM performance

❑ Improvement in C/I ratio

We value the stock at 4x P/BV FY20e. BUY

ICICI Bank Limited

ICICIBC IN

CMP	**360**
Target	**417**
Upside	**16%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	10.3%	6.6%	4.9%	12.6%
Roa%	1.3%	0.8%	0.6%	1.4%
Div Yield%	1.0%	0.5%	0.7%	1.0%
BVPS	156	164	170	190
P/B	1.6	1.7	2.1	1.9

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Net Advances	464,232	512,395	589,255	677,643	505,387	544,487	576141
Adv Growth%	*7%*	*10%*	*15%*	*15%*	*10%*	*13%*	*14%*
Deposits	490,039	560,975	607,479	691,472	517,403	558,669	593960
Dep Growth%	*16%*	*14%*	*8%*	*14%*	*11%*	*12%*	*15%*
CD Ratio%	95%	91%	97%	98%	98%	97%	97%
GNPA%	7.9%	8.8%	7.5%	6.0%	7.8%	8.5%	8.2%
NNPA%	4.9%	4.8%	2.7%	1.9%	4.2%	3.7%	3.2%
Slippages %	7.9%	6.4%	2.5%	1.5%	0.9%	0.6%	0.5%
Net Interest Income	21,737	23,026	26,141	31,537	5,705	6,418	6,684
NII Gr	*2%*	*6%*	*14%*	*21%*	*6%*	*12%*	*17%*
Other Income	19,504	17,420	14,467	16,129	3,167	3,156	3,687
Other Inc Gr%	*27%*	*-11%*	*-17%*	*11%*	*-20%*	*-39%*	*16%*
Pre-provision Profit	26,487	24,742	23,238	28,797	5,058	5,250	5,970
PPP Gr	*11%*	*-7%*	*-6%*	*24%*	*-8%*	*-25%*	*18%*
Provisions	15,208	17,307	16,241	6,738	3,570	3,994	3,362
Net Profits	9,801	6,777	5,218	14,559	1,650	909	1,956
Profit Gr%	*1%*	*-31%*	*-23%*	*179%*	*-32%*	*-56%*	*19%*
NIM% (Cal.)	3.2%	3.0%	3.1%	3.3%	3.2%	3.3%	3.3%
Cost to Income%	35.8%	38.8%	42.8%	39.6%	43.0%	45.2%	44.8%

Std/Fig in Rs Cr

❑ NII growth has started to pick-up due to improvement in NIM and pick up in loan growth. Cost of fund has been rising but due to strong CASA franchise of 51%, increase in MCLR rates and lower slippages is likely to support NIM in near term. NII growth of 17% is expected in 3Q FY19.

❑Earnings of the bank are expected to improve in Q3FY19 due to higher treasury income led by decline in the bond yield. High PCR of 69% and lower slippages expectation is likely to result in lower credit cost in 2Q FY19. PAT is expected to grow by 18-19% YoY.

❑Advances grew at an average run rate of 11% over the last 4 quarters led by retail segment. Domestic corporate loan growth has also improved. We expect advances growth to be in the range of 13-15% led by retail segment. Loan to NBFC would also be a growth driver in 3Q FY19.

❑ Bank has nearly Rs 22000 Cr of exposure in BB and below rated portfolio. Slippages are expected to be significantly lower in FY19 than FY18. Recoveries and up-gradation is expected to lower as there was no big resolution in NCLT cases. Exposure is IL&FS is not very significant.

Key Trackable this Quarter

❑ Slippages trend and movement in BB & below rated portfolio

❑ NIM performance

❑ Management commentary on recoveries & Up-gradation

We value the stock at 2.2x P/BV FY20e. BUY

IndusInd Bank Limited

IIB IN

CMP	**1599**
Target	**1611**
Upside	**1%**
Rating	**NEUTRAL**

	FY17	FY18	FY19E	FY20E
Roe%	15.0%	16.2%	15.6%	18.8%
Roa%	1.8%	1.8%	1.6%	1.8%
Div Yield%	0.4%	0.4%	0.6%	0.7%
BVPS	345	397	454	537
P/B	4.1	4.5	3.5	3.0

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Net Advances	113,081	144,954	182,642	226,476	128,542	163,144	164534
Adv Growth%	*28%*	*28%*	*26%*	*24%*	*25%*	*32%*	*28%*
Deposits	126,572	151,639	190,252	243,523	146,086	168,219	171389
Dep Growth%	*36%*	*20%*	*25%*	*28%*	*23%*	*19%*	*17%*
CD Ratio%	89%	96%	96%	93%	88%	97%	96%
GNPA%	0.9%	1.2%	2.2%	2.1%	1.2%	1.1%	2.3%
NNPA%	0.4%	0.5%	1.0%	0.8%	0.5%	0.5%	1.0%
Slippages %	1.3%	1.6%	2.2%	0.9%	0.9%	0.3%	1.5%
Net Interest Income	6,063	7,497	8,984	11,569	1,895	2,203	2,260
NII Gr	*34%*	*24%*	*20%*	*29%*	*20%*	*21%*	*19%*
Other Income	4,171	4,750	5,511	6,833	1,187	1,317	1,431
Other Inc Gr%	*27%*	*14%*	*16%*	*24%*	*17%*	*11%*	*21%*
Pre-provision Profit	5,451	6,656	8,280	10,493	1,665	1,992	2,119
PPP Gr	*32%*	*22%*	*24%*	*27%*	*22%*	*22%*	*27%*
Provisions	1,091	1,175	2,206	1,996	236	590	614
Net Profits	2,868	3,606	3,978	5,608	936	920	978
Profit Gr%	*25%*	*26%*	*10%*	*41%*	*25%*	*5%*	*4%*
NIM% (Cal.)	4.1%	4.0%	3.8%	3.9%	4.2%	4.2%	4.1%
Cost to Income%	46.7%	45.7%	42.9%	43.0%	46.0%	43.4%	42.6%

Std/Fig in Rs Cr

❑ Contraction of NIM was due to re-pricing in liability side more than the re-pricing made in assets. We expect NIM to be under pressure in short term due to the rising cost, despite rising MCLR rate. NII is expected to grow around 19% YoY.

❑Exposure to IL&FS is Rs 3000 Cr of which Rs 3000 Cr is towards parent company which is likely to slip in NPA. We have factored this as NPA in our estimate and assumed that management will accelerate the provisioning on it in near term. Management has already provided Rs 275 Cr of provisions on it during 2Q FY19.

❑Loan book growth has remained robust for IIB backed by gain in market share in corporate portfolio. Retail growth has also been strong but due to moderating auto sales in the country, we can see some slow down in vehicle financing book. Loan book growth is expected at 28% YoY.

Key Trackable this Quarter

❑ Management commentary on IL&FS provisioning

❑ Management commentary on expectation date of merger with Bharat Financial

❑ Growth in consumer finance book

We value the stock at 3x P/BV FY20e. NEUTRAL

Karur Vysya Bank Limited

KVB IN

CMP	**89**
Target	**96**
Upside	**8%**
Rating	**HOLD**

	FY17	FY18	FY19E	FY20E
Roe%	12.6%	6.1%	5.5%	12.0%
Roa%	1.0%	0.5%	0.5%	1.0%
Div Yield%	2.3%	0.6%	1.1%	2.2%
BVPS	75	78	81	87
P/B	1.4	1.2	1.1	1.0

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Net Advances	40,908	44,800	49,280	55,687	43,789	46,480	47730
Adv Growth%	*5%*	*10%*	*10%*	*13%*	*15%*	*7%*	*9%*
Deposits	53,700	56,890	61,600	70,489	57,119	58,262	59662
Dep Growth%	*7%*	*6%*	*8%*	*14%*	*4%*	*3%*	*4%*
CD Ratio%	76%	79%	80%	79%	77%	80%	80%
GNPA%	3.6%	6.6%	8.0%	7.5%	5.9%	7.7%	8.1%
NNPA%	2.5%	4.2%	4.3%	3.9%	3.9%	4.4%	4.5%
Slippages %	3.4%	5.2%	3.6%	1.7%	1.7%	0.4%	0.8%
Net Interest Income	2,074	2,298	2,361	2,716	561	579	589
NII Gr	*16%*	*11%*	*3%*	*15%*	*8%*	*4%*	*5%*
Other Income	782	900	911	1,059	225	176	234
Other Inc Gr%	*11%*	*15%*	*1%*	*16%*	*32%*	*-24%*	*4%*
Pre-provision Profit	1,571	1,777	1,677	2,001	420	361	420
PPP Gr	*21%*	*13%*	*-6%*	*19%*	*25%*	*-15%*	*0%*
Provisions	688	1,274	1,162	784	325	213	259
Net Profits	605	346	347	803	71	84	106
Profit Gr%	*7%*	*-43%*	*0%*	*131%*	*-39%*	*11%*	*50%*
NIM% (Cal.)	3.7%	3.8%	3.6%	3.8%	3.8%	3.7%	3.7%
Cost to Income%	45.0%	44.4%	48.8%	47.0%	46.5%	52.1%	49.0%

Std/Fig in Rs Cr

❑ Cost of fund is expected to rise as well as lower deposits and CASA growth would also add inflate the cost; however increase in MCLR by 50 bps since 4Q FY18 is likely to provide some support to the NIM. NII growth is expected to remain moderate at 5% YoY.

❑ Sharp correction in bond yield is likely to benefit treasury gain. Opex is expected to grow around 10% YoY led by continued business expansion and investment in digitalization. Hence operating expense will be more than income growth which will keep C/I ratio at 49% against 47% a year ago.

❑ Due to consolidation and clean up of balance sheet, advances growth has been moderate for KVB for several quarters. Management has been reducing the share of corporate book and increae retail share. We expect 9% YoY growth in loan book backed by healthier retail growth.

❑Bank has around Rs 500 Cr of exposure towards IL&FS group, hence in near term slippages is likely to be dominated by this portfolio. Specific PCR has been low at 45% which will keep credit cost at elevated level in medium term.

Key Trackable this Quarter

❑ NIM performance

❑ Slippages trend

❑ C/I ratio

We value the stock at 1.1x P/BV FY20e. HOLD

RBL Bank Limited

RBK IN

CMP	**575**
Target	**579**
Upside	**1%**
Rating	**NEUTRAL**

	FY17	FY18	FY19E	FY20E
Roe%	12.2%	11.5%	12.9%	16.6%
Roa%	1.0%	1.1%	1.3%	1.5%
Div Yield%	0.4%	0.4%	0.4%	0.5%
BVPS	116	159	178	207
P/B	4.3	3.0	3.2	2.8

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Net Advances	29,449	40,268	53,959	70,147	36,890	45,873	49616
Adv Growth%	*39%*	*37%*	*34%*	*30%*	*38%*	*37%*	*35%*
Deposits	34,588	43,902	57,403	77,941	38,623	47,790	51684
Dep Growth%	*42%*	*27%*	*31%*	*36%*	*29%*	*31%*	*34%*
CD Ratio%	85%	92%	94%	90%	96%	96%	96%
GNPA%	1.2%	1.4%	1.3%	1.3%	1.6%	1.4%	1.4%
NNPA%	0.6%	0.8%	0.7%	0.7%	1.0%	0.7%	0.7%
Slippages %	2.5%	1.9%	1.5%	1.3%	0.6%	0.3%	0.3%
Net Interest Income	1,221	1,766	2,452	3,328	467	593	626
NII Gr	*49%*	*45%*	*39%*	*36%*	*45%*	*41%*	*34%*
Other Income	755	1,068	1,451	1,936	258	333	382
Other Inc Gr%	*54%*	*41%*	*36%*	*33%*	*42%*	*38%*	*48%*
Pre-provision Profit	920	1,331	1,904	2,579	333	449	499
PPP Gr	*70%*	*45%*	*43%*	*35%*	*42%*	*48%*	*50%*
Provisions	239	365	515	547	82	140	131
Net Profits	446	635	914	1,341	165	205	243
Profit Gr%	*53%*	*42%*	*44%*	*47%*	*28%*	*36%*	*47%*
NIM% (Cal.)	3.0%	3.4%	3.7%	3.8%	3.9%	4.1%	4.0%
Cost to Income%	53.4%	53.0%	51.2%	51.0%	54.0%	51.5%	50.5%

Std/Fig in Rs Cr

❑ RBL has high dependence on wholesale funding which will set to rise in cost of fund but change in assets mix towards high yielding segment and MCLR reset will support the NIM in near term. NII is expected to grow by 34% YoY in 3Q FY19.

❑ Fee income is expected to grow by 49% YoY in 3Q FY19 on the back of rising credit card business. Further strong gain in treasury is also expected due to sharp decline in bond yield.

❑ With the expansion plan of 40 branches in 2HFY19 and investment towards assets side, we expect operating expenses to increase by 30% YoY. Management has guided C/I ratio between 50-52%.

❑ Loan book is expected to grow by 35% in 3Q FY19 on the back of strong growth in across the portfolio. We expect NBFC liquidity crisis would also provide opportunity for strong growth of wholesale segment.

❑ Assets quality is expected to remain stable with GNPA/NNPA at 1.4%/0.74%.

Key Trackable this Quarter

❑ NIM performance

❑ Stress in non-wholesale segment

❑ Growth in credit card business.

We value the stock at 2.8x P/BV FY20e. NEUTRAL

State Bank of India

SBIN IN

CMP	**296**
Target	**348**
Upside	**18%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	6.3%	-3.0%	3.5%	13.4%
Roa%	0.4%	-0.2%	0.2%	0.8%
Div Yield%	0.9%	0.0%	0.2%	2.0%
BVPS	236	246	254	290
P/B	1.2	1.0	1.2	1.0

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Net Advances	1571078	1934880	2147717	2405443	1826212	1957340	2045357
Adv Growth%	*7%*	*23%*	*11%*	*12%*	*26%*	*9%*	*12%*
Deposits	2044751	2706343	2942078	3295127	2651240	2807420	2840774
Dep Growth%	*18%*	*32%*	*9%*	*12%*	*30%*	*7%*	*7%*
CD Ratio%	77%	71%	73%	73%	69%	70%	72%
GNPA%	6.9%	10.9%	8.3%	7.2%	10.4%	10.0%	9.2%
NNPA%	3.7%	5.7%	3.7%	3.0%	5.6%	4.8%	4.3%
Slippages %	3.1%	5.7%	2.4%	1.6%	1.6%	0.6%	0.5%
Net Interest Income	61860	74854	88915	100922	18688	20906	22108
NII Gr	*9%*	*21%*	*19%*	*14%*	*27%*	*12%*	*18%*
Other Income	35461	44601	39781	43852	8084	9375	10840
Other Inc Gr%	*26%*	*26%*	*-11%*	*10%*	*-16%*	*-41%*	*34%*
Pre-provision Profit	50848	59511	60723	73847	11755	13905	15980
PPP Gr	*18%*	*17%*	*2%*	*22%*	*-6%*	*-30%*	*36%*
Provisions	35992	75039	48236	24366	18876	12092	8005
Net Profits	10485	-6547	7902	32657	-2416	945	5263
Profit Gr%	*5%*	*-162%*	*221%*	*313%*	*-193%*	*-40%*	*318%*
NIM% (Cal.)	2.7%	2.7%	2.7%	2.8%	2.6%	2.7%	2.8%
Cost to Income%	47.8%	50.2%	52.8%	49.0%	56.1%	54.1%	51.5%

Std/Fig in Rs Cr

❑ Despite the rise in cost of fund, NIM is likely to improve. MCLR reset, lower interest reversal and healthy retail book growth will boost the yield whereas high liquidity and strong CASA franchise will provide cushion against rising cost. NIM is likely to improve in 3Q FY19. We expect NII to grow by 18% YoY.

❑ Due to sharp correction in bond yield treasury profit is likely to shoot up as well as SBI is sitting on huge provisions write back on investment portfolio. Opex is expected to grow around 13% YoY.

❑ We expect loan growth of 12% in 3Q FY19 led by retail growth. NBFC liquidity crisis is likely to boost SBI retail book.

❑ Management has maintained its slippages and credit cost of guidance of 2% each in FY19. We expect credit cost to improve significantly in FY20. Watchlist of SBI is at Rs 20000 Cr. IL&FS exposure is around Rs 4500 Cr to operational SPVs and management does not see any concern over this exposure.

Key Trackable this Quarter

❑ Management commentary on NCLT resolution pickup

❑ Slippages trend and movement in watchlist. Outlook on Power sector.

❑ Recovery & up-gradation status.

We value the stock at 1.2x P/BV FY20e. BUY

The South Indian Bank Ltd

SIB IN

Financials- Banks

CMP	**15.55**
Target	**18**
Upside	**16%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	9.0%	6.6%	3.8%	12.4%
Roa%	0.6%	0.4%	0.2%	0.7%
Div Yield%	1.9%	1.8%	3.2%	3.2%
BVPS	27	29	30	33
P/B	0.8	0.8	0.5	0.5

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Net Advances	46,389	54,563	62,202	70,910	51,638	56,572	59384
Adv Growth%	*13%*	*18%*	*14%*	*14%*	*17%*	*16%*	*15%*
Deposits	66,117	72,030	79,746	93,303	68,109	74,911	76133
Dep Growth%	*19%*	*9%*	*11%*	*17%*	*7%*	*12%*	*12%*
CD Ratio%	70%	76%	78%	76%	76%	76%	78%
GNPA%	2.5%	3.6%	4.8%	4.5%	3.4%	4.6%	4.8%
NNPA%	1.5%	2.6%	3.2%	2.6%	2.4%	3.2%	3.2%
Slippages %	4.2%	3.9%	2.8%	1.0%	0.5%	0.4%	0.7%
Net Interest Income	1,675	1,966	2,010	2,468	509	506	498
NII Gr	*11%*	*17%*	*2%*	*23%*	*22%*	*1%*	*-2%*
Other Income	716	837	759	852	159	158	238
Other Inc Gr%	*38%*	*17%*	*-9%*	*12%*	*-39%*	*-44%*	*50%*
Pre-provision Profit	1,215	1,481	1,312	1,719	330	310	368
PPP Gr	*38%*	*22%*	*-11%*	*31%*	*-12%*	*-33%*	*11%*
Provisions	614	981	1,000	655	154	205	275
Net Profits	393	335	204	702	115	70	61
Profit Gr%	*18%*	*-15%*	*-39%*	*244%*	*3%*	*1523%*	*-47%*
NIM% (Cal.)	2.6%	2.7%	2.5%	2.7%	2.8%	2.6%	2.5%
Cost to Income%	49.2%	47.2%	52.6%	48.2%	50.6%	53.4%	50.0%

Std/Fig in Rs Cr

❑ Lower CASA at 25%, rising cost of fund and increase in slippages may result in NIM pressure in 3Q FY19. Management expects NIM to be at 2.8% in FY19. We expect NII growth to remain under pressure with de-growth of 2% YoY.

❑ Other income was impacted over the last 4 quarters due to lower treasury income and lower PSL certificate income. We expect trend of other income to improve going further due to sharp decline in bond yield which will increase treasury gain in 3Q FY19.

❑ In near term Slippages may increase as bank has Rs 420 Cr of exposure to IL&FS group and Rs 104 Cr of stress exposure to one EPC account. Bank has made provisions of Rs 20 Cr and Rs 10 Cr only on both the exposure respectively which will keep credit cost higher in near term.

❑ Loan book is expected to grow around 16%, led by strong retail and SME advances growth. Management don't expect any slowdown in growth due to flood impact and expects loan growth of around 18-20% in next 2 quarters. Deposit growth will moderate due to tight liquidity condition.

Key Trackable this Quarter

❑ NIM performance

❑ Slippages will be under key watch.

❑ Impact of Kerala Flood on assets quality.

We value the stock at 0.55x P/BV FY20e. BUY

Ujjivan Financial Services Ltd

Financials- Banks

UJJIVAN IN

CMP	**277**
Target	**326**
Upside	**18%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	14.1%	0.4%	10.0%	13.6%
Roa%	2.9%	0.1%	1.7%	1.9%
Div Yield%	4.6%	83.0%	5.2%	5.2%
Book Value	147	146	160	183
P/B	2.9	2.4	1.7	1.5

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
AUM	6,380	7,552	9,818	12,763	7,095	8,317	9,082
AUM Growth%	*16%*	*29%*	*30%*	*30%*	*8%*	*25%*	*28%*
Borrowings	6,292	6,019	6,219	7,053	6,871	8,525	9,174
Deposit	206	1,606	4,007	6,381	1,057	3,027	3,562
Deposit Growth %		*680%*	*150%*	*59%*		*312%*	*237%*
GNPA%	0.3%	3.6%	1.7%	1.5%	4.2%	1.9%	1.8%
NNPA%	0.0%	0.7%	0.3%	0.2%	1.0%	0.3%	0.3%
Net Interest Income	807	838	1,083	1,365	217	263	279
NII Gr	*38%*	*4%*	*29%*	*26%*	*9%*	*41%*	*29%*
Opex	458	654	968	1,090	167	233	248
Opex Growth%	*49%*	*43%*	*48%*	*13%*	*43%*	*50%*	*48%*
Pre-provision Profit	397	323	316	548	75	68	76
PPP Gr	*75%*	*311%*	*40%*	*122%*	*-37%*	*-3%*	*1%*
Provisions	75	311	40	122	29	6	7
Net Profits	208	7	186	281	29	44	46
Profit Gr%	*17%*	*-96%*	*2448%*	*52%*	*32%*	*470%*	*57%*
NIM% (Cal.)	12.2%	10.1%	10.6%	10.3%	10.9%	11.8%	11.7%
Cost to Income%	53.6%	67.0%	75.4%	66.5%	69.0%	77.3%	76.5%

Conso/Fig in Rs Cr

❑ Yield is expected to come under pressure with rising share of Non-MFI portfolio but there is some cushioning from the repricing of high cost MFI debt in the near term. NIM is likely to remain stable despite rise in cost of fund. NII is expected to grow by 29% YoY.

❑ Cost to income ratio is expected to remain elevated as management has plans to convert 108 asset centres into bank branches in 2HFY19, we expect C/I ratio to remain at 75% for FY19. With 475 branches being active by FY19, management expect deposits (including CDs) to reach Rs 7000 Cr FY19.

❑ Loan Book growth in 3QFY19 is expected to revive at 28% YoY. Growth will be mainly driven by diversification to Non-MFI segments due to small base. Management targets to grow in the range of 25-30% in FY19.

❑ Asset quality is controlled as PAR > 0 remains at the same 3.3% level in 2QFY19, GNPA is expected to reduce to 1.8% in 3QFY19 with rise in PCR of 85%. We expect credit cost to remain moderate during the quarter.

Key Trackable this Quarter

❑ Assets Quality trend

❑ Deposit growth

❑ Management commentary on listing of SFB.

We value the stock at 1.8x P/BV FY20e. BUY

Union Bank of India

UNBK IN

Financials- Banks

CMP	**86**
Target	**99**
Upside	**15%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	2.4%	-21.6%	5.2%	9.5%
Roa%	0.1%	-1.1%	0.3%	0.5%
Div Yield%	0.0%	0.0%	0.0%	0.0%
BVPS	341	215	225	248
P/B	0.5	0.4	0.4	0.3

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Net Advances	286,467	288,761	306,087	336,695	293,669	293,011	302479
Adv Growth%	*7%*	*1%*	*6%*	*10%*	*12%*	*1%*	*3%*
Deposits	378,391	408,501	419,297	454,994	398,518	399,092	414355
Dep Growth%	*10%*	*8%*	*3%*	*9%*	*5%*	*3%*	*4%*
CD Ratio%	76%	71%	73%	74%	74%	73%	73%
GNPA%	11.2%	15.7%	14.5%	12.3%	13.0%	15.7%	15.1%
NNPA%	6.6%	8.4%	7.1%	5.6%	7.0%	8.4%	7.6%
Slippages %	5.2%	8.0%	4.6%	2.5%	1.5%	1.0%	1.0%
Net Interest Income	8,903	9,305	10,336	11,162	2,548	2,493	2,620
NII Gr	*7%*	*5%*	*11%*	*8%*	*19%*	*7%*	*3%*
Other Income	4,965	4,990	4,358	4,438	873	899	1,210
Other Inc Gr%	*37%*	*1%*	*-13%*	*2%*	*-35%*	*-26%*	*39%*
Pre-provision Profit	7,430	7,540	7,765	7,858	1,655	1,772	2,049
PPP Gr	*30%*	*1%*	*3%*	*1%*	*-11%*	*-9%*	*24%*
Provisions	7,088	14,181	6,175	3,870	3,254	1,656	1,340
Net Profits	555	(5,247)	1,333	2,632	(1,250)	139	468
Profit Gr%	*59%*	*-1045%*	*125%*	*97%*	*-1302%*	*109%*	*137%*
NIM% (Cal.)	2.2%	2.1%	2.3%	2.3%	2.3%	2.2%	2.3%
Cost to Income%	46.4%	47.3%	47.2%	49.6%	51.6%	47.8%	46.5%

Std/Fig in Rs Cr

❑ NII growth is expected around 3% YoY as advances growth is expected to pick up gradually during the quarter. NIM is expected to improve despite rise in cost of fund due to MCLR reset, retail growth and lower interest reversal. Strong treasury income is likely to boost net income during the quarter.

❑We expect advances growth to pick up gradually led by retail and SME growth. Advances is expected to grow by 3% YoY. Share of corporate book is likely to decline further.

❑Bank has a PCR of 58% and with the pickup in NCLT resolution process we expect credit cost to normalize in FY20.

❑Asset quality of the bank is expected to improve going forward due to lower slippages. Management expects Rs 3500-4000 Cr recovery from NCLT in the 2nd half for Union Bank. Uttam Galva is resolved and ESSAR Steel is in advance stage of resolution. Union bank has Rs 1093 Cr of exposure towards IL&FS and out of this Rs 817 Cr is to SPV (Power subsidiary).

Key Trackable this Quarter

❑ Resolution in NCLT cases and pickup in recovery and up-gradation other than NCLT cases will be key trigger.

❑ Improvement in NIM and Slippages trend will be important.

We value the stock at 0.4x P/BV FY20e . BUY

Yes Bank Limited

YES IN

Financials- Banks

CMP	**182**
Target	
Upside	
Rating	**UNDER REVIEW**

	FY17	FY18	FY19E	FY20E
Roe%	18.6%	17.7%	18.0%	20.3%
Roa%	1.8%	1.6%	1.5%	1.6%
Div Yield%	0.8%	0.9%	1.7%	1.9%
BVPS	97	112	130	155
P/B	3.2	2.7	1.6	1.3

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Net Advances	132,263	203,534	242,205	290,646	171,515	239,627	240121
Adv Growth%	*35%*	*54%*	*19%*	*20%*	*46%*	*61%*	*40%*
Deposits	142,874	200,738	224,264	269,117	171,731	222,838	222334
Dep Growth%	*28%*	*41%*	*12%*	*20%*	*30%*	*41%*	*29%*
CD Ratio%	93%	101%	108%	108%	100%	108%	108%
GNPA%	1.5%	1.3%	1.8%	1.9%	1.7%	1.6%	1.7%
NNPA%	0.8%	0.6%	0.8%	0.8%	0.9%	0.8%	0.9%
Slippages %	2.0%	4.0%	1.5%	0.9%	0.3%	0.8%	0.3%
Net Interest Income	5,797	7,737	10,203	12,502	1,889	2,418	2,622
NII Gr	*27%*	*33%*	*32%*	*23%*	*25%*	*28%*	*39%*
Other Income	4,157	5,224	6,375	7,080	1,422	1,473	1,609
Other Inc Gr%	*53%*	*26%*	*22%*	*11%*	*42%*	*18%*	*13%*
Pre-provision Profit	5,838	7,748	10,129	11,945	2,002	2,366	2,560
PPP Gr	*36%*	*33%*	*31%*	*18%*	*38%*	*24%*	*28%*
Provisions	793	1,554	3,009	2,252	421	940	720
Net Profits	3,330	4,225	4,776	6,397	1,077	965	1,215
Profit Gr%	*31%*	*27%*	*13%*	*34%*	*22%*	*-4%*	*13%*
NIM% (Cal.)	3.2%	3.1%	3.3%	3.4%	3.4%	3.2%	3.2%
Cost to Income%	41.4%	40.2%	38.9%	39.0%	39.5%	39.2%	39.5%

Std/Fig in Rs Cr

❑ YES has been undergoing with multiple changes on management front. We believe performance of YES will remain uncertain for few quarters. Strategy of new management will be important going ahead.

❑Loan book of YES which was growing at a healthy pace of is expected to slow down significantly given the low capital base of Tier 1 at 9% and uncertainty over the management level. We expect flat loan book on sequential basis.

❑Profitability of bank is expected to come under immense pressure due to rising cost of fund, slow down in fee income and increase in credit cost going ahead. We expect CASA to reduce going ahead which will credit pressure on NIM.

❑Any huge divergence of NPA reporting will be key negative for the bank. We expect assets quality pain for YES in near term. Bank has Rs 2600 Cr of exposure towards IL&FS at SPV level. After the management change there might be some stress clean up exercise for the bank.

Key Trackable this Quarter

❑ Divergence report on assets quality by RBI

❑ Appointment of new management and ability to raise capital

❑ CASA performance

We remain UNDER REVIEW

Bajaj Finance Limited

BAF IN

Financials-Nbfc

CMP	**2645**
Target	**2707**
Upside	**2%**
Rating	**NEUTRAL**

	FY17	FY18	FY19E	FY20E
Roe%	21.7%	20.3%	21.3%	23.4%
Roa%	3.3%	3.6%	3.8%	3.8%
Div Yield%	0.3%	0.2%	0.2%	0.2%
Book Value	176	287	335	416
P/B	6.7	6.2	7.9	6.4

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
AUM	60,194	84,033	109,404	144,413	76,384	100,217	105,410
AUM Growth%	*36%*	*40%*	*30%*	*32%*	*33%*	*38%*	*38%*
Borrowings	49,250	61,567	89,675	119,350	57,901	73,822	86,402
Borrowings Growth%	*33%*	*25%*	*46%*	*33%*	*30%*	*40%*	*49%*
GNPA%	1.7%	1.5%	1.5%	1.6%	1.7%	1.5%	1.5%
NNPA%	0.4%	0.4%	0.5%	0.5%	0.5%	0.5%	0.5%
Net Income	6,200	8,150	11,350	14,692	2,372	2,729	2,947
Net Inc. Gr%	*39%*	*31%*	*39%*	*29%*	*36%*	*42%*	*24%*
Opex	2,564	3,272	4,098	5,153	949	980	1,059
Opex Growth%	*32%*	*28%*	*25%*	*26%*	*32%*	*25%*	*12%*
Pre-provision Profit	3,636	4,878	7,252	9,539	1,423	1,749	1,889
PPP Gr	*45%*	*34%*	*49%*	*32%*	*38%*	*53%*	*33%*
Provisions	818	1,035	1,351	1,763	247	315	347
Net Profits	1,837	2,496	3,819	5,055	767	923	1,002
Profit Gr%	*44%*	*36%*	*53%*	*32%*	*38%*	*54%*	*31%*
NIM% (Cal.)	10.5%	11.3%	11.6%	11.4%	12.1%	12.2%	12.1%
Cost to Income%	41.4%	40.1%	36.1%	35.1%	40.0%	35.9%	35.9%

*YoY not comparable due to IND AS

Conso/Fig in Rs Cr

❑Tightening of liquidity can result in increase in cost of fund for BAF. However recent increase in lending rates across the portfolio will provide some cushion. Positive ALM and sufficient liquidity is also positive for the company. We expect margin to remain stable on sequential basis.

❑ With the scaling of all the business verticals and strong demand of consumer durable loan, BAJFINANCE is expected to grow at robust rate of 38% in 3QFY19. There may be slight slowdown in the lumpy exposure (SME, LAS and commercial lending) due to liquidity crisis. NII is expected to grow at a 39% YoY.

❑ Operating expenditure is expected to grow at 12% YoY significantly lower than AUM growth mainly benefitting from operating efficiency.

❑ As most segments have more than 98.5% of collection efficiency we expect asset quality to remain stable at 1.50% in 3QFY19 with PCR of 65%. BAF has Rs 225 Cr of exposure to IL&FS group ring fenced by escrow account which is a potential stress going ahead. Credit cost is expected to remain at 1.35% in 3QFY19.

Key Trackable this Quarter

❑ Cost to income ratio.

❑ Asset Quality.

We value the stock at 6.5x P/BV FY20E. NEUTRAL

Can Fin Homes Limited

Financials-Nbfc

CANF IN

CMP	**289**
Target	**331**
Upside	**15%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	24.1%	24.9%	21.5%	21.9%
Roa%	1.9%	2.1%	1.9%	1.9%
Div Yield%	0.1%	0.6%	0.7%	0.7%
Book Value	81	101	123	150
P/B	5.2	4.8	2.4	1.9

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
AUM	13,313	15,743	18,734	22,856	15,058	16,935	17,768
AUM Growth%	*25%*	*18%*	*19%*	*22%*	*19%*	*17%*	*18%*
Borrowings	11,872	13,925	16,653	20,409	13,303	15,000	15,697
Borrowings Growth%	*25%*	*17%*	*20%*	*23%*	*17%*	*17%*	*18%*
Disbursement (Rs Cr)	4,792	5,207	6,075	8,071	1,322	1,443	1,688
GNPA%	0.2%	0.4%	0.5%	0.3%	0.5%	0.6%	0.6%
NNPA%	0.0%	0.2%	0.3%	0.2%	0.3%	0.4%	0.4%
Net Interest Income	422	507	538	676	144	139	144
NII Gr	*40%*	*20%*	*6%*	*26%*	*16%*	*2%*	*6%*
Opex	80	86	76	93	21	18	20
Opex Growth%	*19%*	*8%*	*-12%*	*22%*	*7%*	*-14%*	*-5%*
Pre-provision Profit	389	480	496	624	124	122	124
PPP Gr	*42%*	*23%*	*3%*	*26%*	*24%*	*4%*	*1%*
Provisions	20	22	4	21	9	-	-
Net Profits	235	302	321	398	80	77	82
Profit Gr%	*50%*	*28%*	*6%*	*24%*	*34%*	*8%*	*3%*
NIM% (Cal.)	3.5%	3.5%	3.1%	3.3%	3.6%	3.3%	3.3%
Cost to Income%	17.0%	15.2%	13.3%	12.9%	14.4%	12.7%	13.6%

*YoY not comparable due to IND AS — Std/Fig in Rs Cr

❑ We believe margin has bottomed out as management has recently increased interest rate across the product by 50-60 bps and ease of competition from liquidity tightening will have positive impact on yields. Increase in NHB refinance limit will also aid margin. NIM is expected to remain stable QoQ but will inch up going ahead. NII growth is expected to pick to 6% 3Q FY19 after growth over the last 2 quarters.

❑ CANFINHOME has registered healthy growth in approval & disbursement sequentially signalling recovery in RERA affected KARNATAKA. We expect growth to increase further to 18% YoY in 3QFY19.

❑ Asset quality is expected to slightly improve to 60 bps in 3QFY19. CANFINHOME expects the economic situations to improve in Karnataka and Tamil Nadu which would help further in the declining of GNPA level going forward. CANFINHOME has Rs 35 Cr of provision while it is required to maintain Rs 25 Cr according to the NHB norms so going ahead we expect very minimal or Nil provisioning in near term to improve bottom line the company.

Key Trackable this Quarter

❑ Pick up in disbursement growth will be important

❑ NIM performance will be closely watched

❑ Assets quality trend

We value the stock at 2.2x P/BV FY20e. BUY

Cholamandalam Inv & Fin.

Financials-Nbfc

CIFC IN

CMP	**1260**
Target	**1447**
Upside	**15%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	18.0%	20.6%	21.9%	21.2%
Roa%	2.5%	2.8%	2.6%	2.2%
Div Yield%	0.6%	0.4%	0.7%	0.8%
Book Value	276	329	400	482
P/B	3.5	4.4	3.1	2.6

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
AUM	34,167	42,879	53,599	65,391	39,074	47,722	50,015
AUM Growth%	*15%*	*25%*	*25%*	*22%*	*20%*	*31%*	*28%*
Borrowings	24,207	31,902	48,726	62,876	28,298	46,638	46,962
Borrowings Growth%	*7%*	*32%*	*53%*	*29%*	*14%*	*47%*	*66%*
Disbursement (Rs Cr)	18,591	25,119	31,796	39,885	6,761	6,900	8,503
GNPA%	4.7%	2.9%	2.8%	2.7%	3.7%	3.4%	3.1%
NNPA%	3.2%	1.7%	1.5%	1.5%	2.3%	2.2%	1.9%
Net Interest Income	2,403	3,195	3,419	4,134	793	812	864
NII Gr	*13%*	*33%*	*7%*	*21%*	*31%*	*17%*	*9%*
Opex	1,013	1,363	1,191	1,422	324	290	299
Opex Growth%	*20%*	*34%*	*-13%*	*19%*	*25%*	*7%*	*-8%*
Pre-provision Profit	1,416	1,834	2,228	2,711	469	522	565
PPP Gr	*9%*	*29%*	*22%*	*22%*	*34%*	*23%*	*20%*
Provisions	311	350	330	497	90	62	86
Net Profits	719	974	1,250	1,462	249	305	316
Profit Gr%	*26%*	*35%*	*28%*	*17%*	*53%*	*49%*	*27%*
NIM% (Cal.)	7.5%	8.3%	7.1%	6.9%	8.8%	7.4%	7.4%
Cost to Income%	41.7%	42.6%	34.8%	34.4%	40.8%	35.7%	34.6%

*YoY not comparable due to IND AS — Std/Fig in Rs Cr

- CV and tractors demand is expected to remain robust in the country backed by increased infra activity as well as improving rural economy. However PV industry seems to get slow down in near term. However CHOLAFIN is well diversified NBFC both in assets as well as geographically. Management has the capability to offset slowdown in one segment of auto industry with the growth in other segment.

- AUM growth is expected at 28% YoY & disbursement is expected to be at 26% in 3QFY19. Growth is expected to driven by used vehicles, three wheeler & tractors etc. It has enough liquidity to finance incremental disbursement so we don't expect any slowdown in the AUM growth.

- NIM is expected to slightly remain under pressure because of the rise in cost of fund. Management has highlighted to offset the rising cost of fund by increasing in share of higher yield asset. NII is expected to 9% YoY in 3QFY19. PAT growth is expected at 27% in 3QFY19.

- GNPL is expected to decline to 3.1% in 3QFY19; Management has guided GNPL numbers to lower down as management expects higher recovery under SARFAESI going ahead.

Key Trackable this Quarter

- Trend in home equity assets quality.
- Management Commentary on AUM growth outlook.
- NIM performance.

We value the stock at 3x P/BV FY20e. BUY

Dewan Hsg Fin Corp Ltd.

DEWH IN

CMP	**249**
Target	**302**
Upside	**21%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	44.5%	14.0%	15.1%	12.4%
Roa%	3.6%	1.2%	1.3%	1.0%
Div Yield%	1.2%	0.5%	1.2%	1.6%
Book Value	255	280	341	377
P/B	1.4	1.8	0.7	0.7

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
AUM	83,560	111,090	133,308	149,305	101,286	130,182	131,672
AUM Growth%	*20%*	*33%*	*20%*	*12%*	*29%*	*38%*	*30%*
Borrowings	81,340	92,715	110,172	125,466	86,530	108,900	109,727
Borrowings Growth%	*33%*	*14%*	*19%*	*14%*	*13%*	*26%*	*27%*
Disbursement (Rs Cr)	28,585	44,806	40,702	40,991	10,846	13,870	6,584
GNPA%	0.9%	1.0%	1.0%	1.1%	1.0%	1.0%	1.0%
NNPA%	0.6%	0.0%	0.7%	0.7%	0.0%	0.0%	0.0%
Net Interest Income	2,000	2,445	3,137	3,376	623	831	777
NII Gr	*20%*	*22%*	*28%*	*8%*	*21%*	*44%*	*25%*
Opex	583	723	944	938	177	262	230
Opex Growth%	*6%*	*24%*	*31%*	*-1%*	*22%*	*48%*	*30%*
Pre-provision Profit	1,620	2,177	2,665	2,776	562	766	609
PPP Gr	*27%*	*34%*	*22%*	*4%*	*35%*	*52%*	*8%*
Provisions	218	420	535	694	100	133	150
Net Profits	2,896	1,172	1,466	1,390	306	439	317
Profit Gr%	*297%*	*-60%*	*25%*	*-5%*	*25%*	*53%*	*3%*
NIM% (Cal.)	2.6%	2.5%	2.6%	2.4%	2.6%	2.9%	2.5%
Cost to Income%	26.5%	24.9%	26.2%	25.2%	24.0%	25.5%	27.4%

*YoY not comparable due to IND AS　　Std/Fig in Rs Cr

❑ DHFL has been the worst hit in the liquidity tightness environment. Till date management has been successfully paid its obligations, however huge funding pressure still continues for DHFL which is expected to slow down its AUM growth significantly going ahead. Management has also announced consolidation in its portfolio by reducing developer segment.

❑ Margin is expected to remain under pressure with the rise in cost of fund & change in portfolio mix. As management has highlighted that it will bring down its high yielding project finance portfolio to 10% by MAR 19.

❑ Net Income and profitability is expected to decline sequentially in near term. We expect PAT to decline by 25-30% range QoQ.

❑ DHFL has accorded to disinvest to PGLH of Delaware, 50% stake (directly & indirectly) of DHFL Advisory & Investments Private Limited & 50% stake of n DHFL Pramerica Trustees Private Limited.

Key Trackable this Quarter

❑ Management commentary on borrowing repayment and capability of management to raise fund going ahead.

❑ Asset quality check on non- core home loan segment.

We value the stock at 0.8x P/BV FY20e. BUY

HDFC Limited

HDFC IN

Financials-Nbfc

CMP	**1968**
Target	**2197**
Upside	**12%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	20.2%	24.1%	13.4%	13.9%
Roa%	2.4%	3.3%	2.1%	2.2%
Div Yield%	1.3%	1.1%	1.0%	1.1%
Book Value	249	366	448	488
P/B	6.0	5.0	4.4	4.0

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
AUM	338,478	399,511	467,428	546,891	384,200	430,200	451,435
AUM Growth%	*16%*	*18%*	*17%*	*17%*	*18%*	*17%*	*18%*
Borrowings	280,534	320,656	373,942	437,512	307,978	343,172	361,148
Borrowings Growth%	*18%*	*14%*	*17%*	*17%*	*17%*	*14%*	*20%*
GNPA%	0.8%	1.1%	1.4%	1.4%	1.2%	1.3%	1.3%
NNPA%	0.5%	0.7%	0.8%	0.8%	0.7%	0.7%	0.8%
Total Net Income	9,954	11,313	10,946	13,577	2,919	2,594	2,701
Total Net Income Gr%	*14%*	*14%*	*-3%*	*24%*	*13%*	*16%*	*-7%*
Opex	1,339	1,628	1,975	2,047	410	436	423
Opex Growth%	*13%*	*22%*	*21%*	*4%*	*30%*	*-31%*	*3%*
Pre-provision Profit	11,427	12,037	13,569	16,111	2,906	3,890	2,989
PPP Gr	*6%*	*5%*	*13%*	*19%*	*10%*	*47%*	*3%*
Provisions	700	455	646	507	95	401	110
Net Profits	7,443	12,164	9,176	11,079	5,667	2,467	2,044
Profit Gr%	*5%*	*63%*	*-25%*	*21%*	*233%*	*25%*	*-64%*
Spread%	3.2%	3.1%	2.5%	2.7%	3.2%	2.5%	2.5%
Cost to Income%	10.5%	11.9%	12.7%	11.3%	12.4%	10.1%	12.4%

*YoY not comparable due to IND AS

Std/Fig in Rs Cr

❑ Cost of fund is likely to increase due to liquidity issue; however HDFC has increased its PLR across the portfolio this financial year by 70 bps in this financial year which is likely to support the NIM going forward. We expect NII growth of 4% QoQ.

❑On the concern of liquidity, growth of HFCs is likely to slow down in near term. Developer segment is expected to get most impact from this crisis; however HDFC being strong brand, we believe current situation will provide growth opportunity by gaining market share. We expect AUM growth in the range of 17-18% in 3Q FY19.

❑On Asset quality we expect GNPA to remain in the same range at 1.3% in 3QFY19. We are taking a cautious stand in developer segment due to liquidity challenges. This segment needs to be watched carefully going ahead.

Key Trackable this Quarter

❑ Margin performance

❑Asset Quality trend in non-individual segment

We value the stock at 4.5x P/BV FY20e. BUY

Indiabulls Housing Finance Ltd

Financials-Nbfc

IHFL IN

CMP	**854**
Target	**920**
Upside	**8%**
Rating	**NEUTRAL**

	FY17	FY18	FY19E	FY20E
Roe%	25.5%	30.1%	27.9%	27.8%
Roa%	3.2%	3.3%	2.9%	2.9%
Div Yield%	2.7%	4.2%	5.3%	6.4%
Book Value	286	315	406	460
P/B	3.5	3.9	2.1	1.9

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
AUM	91,300	122,600	149,572	186,965	107,328	128,900	133,087
AUM Growth%	*33%*	*34%*	*22%*	*25%*	*32%*	*29%*	*24%*
Borrowings	85,300	110,260	134,750	171,528	101,980	120,310	123,228
Borrowings Growth%	*40%*	*29%*	*22%*	*27%*	*23%*	*24%*	*21%*
Disbursement (Rs Cr)	35,482	48,060	53,831	70,084	12,257	11,034	13,309
GNPA%	0.9%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%
NNPA%	0.4%	0.3%	0.6%	0.6%	0.3%	0.6%	0.6%
Net Interest Income	5,291	6,987	7,025	8,578	2,153	1,699	1,754
NII Gr	*24%*	*32%*	*1%*	*22%*	*57%*	*10%*	*-19%*
Opex	737	880	1,098	1,196	266	272	274
Opex Growth%	*19%*	*19%*	*25%*	*9%*	*42%*	*17%*	*3%*
Pre-provision Profit	4,554	6,107	5,927	7,383	1,887	1,427	1,480
PPP Gr	*25%*	*34%*	*-3%*	*25%*	*59%*	*9%*	*-22%*
Provisions	783	1,131	241	493	327	40	65
Net Profits	2,906	3,847	4,284	5,127	1,168	1,044	1,067
Profit Gr%	*24%*	*32%*	*11%*	*20%*	*55%*	*21%*	*-9%*
NIM% (Cal.)	4.4%	4.5%	4.0%	3.9%	5.7%	4.7%	4.7%
Cost to Income%	13.9%	12.6%	15.6%	13.9%	12.3%	16.0%	15.6%

*YoY not comparable due to IND AS

Conso/Fig in Rs Cr

❑ IHFL has Rs 600 Cr of exposure towards Supertech which has been recently defaulted on its obligation. However management of IHFL has clarified that its exposure towards 2 projects in Supertech has been standard with ring fenced by Escrow accounts. But we remain cautious on the exposure.

❑ Due to liquidity tightness and rise in cost of fund, spread is expected to come under pressure for IHFL. Further change in assets mix by reducing high yield assets will also impact NIM going ahead. We expect gradual downfall in margin going ahead.

❑ Net interest income is expected to grow at 8% YoY whereas PAT is expected to decline by 9% due to higher base effect.

❑ AUM growth is expected to slow down to 24% in 3Q FY19 due to lower growth in project loan segment. Management has guided for 20% AUM growth in FY19. Securitization has increase significantly due to relief in the norm by RBI.

Key Trackable this Quarter

❑ Incremental spread and NIM performance

❑ Management commentary on status on Supertech Exposure

❑ Management commentary on borrowing and AUM growth outlook

We value the stock at 2x P/BV FY20e. NEUTRAL

L&T Finance Holdings Limited

Financials-Nbfc

LTFH IN

CMP	**152**
Target	**175**
Upside	**15%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	14.1%	14.4%	17.5%	18.0%
Roa%	1.5%	1.8%	2.3%	2.2%
Div Yield%	0.6%	0.5%	0.7%	0.7%
Book Value	44	63	67	80
P/B	2.8	2.5	2.3	1.9

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
AUM	66,650	83,654	102,894	122,444	75,964	91,201	94,195
AUM Growth%	*14%*	*26%*	*23%*	*19%*	*23%*	*24%*	*24%*
Borrowings	54,994	71,577	93,540	111,313	68,466	86,789	86,418
Borrowings Growth%	*26%*	*30%*	*31%*	*19%*	*21%*	*32%*	*26%*
Disbursement	18,313	22,664	23,344	24,044	22,887	16,736	23,574
GNPA%	7.1%	4.8%	7.0%	6.0%	5.5%	7.1%	7.0%
NNPA%	5.0%	2.3%	2.8%	2.7%	2.9%	2.8%	2.7%
Net Interest Income	3,034	3,408	4,336	5,358	898	1,098	1,066
NII Gr	*13%*	*12%*	*27%*	*24%*	*31%*	*60%*	*19%*
Opex	1,276	1,537	2,144	2,597	401	527	541
Opex Growth%	*-3%*	*20%*	*39%*	*21%*	*27%*	*86%*	*35%*
Pre-provision Profit	2,669	3,637	4,688	5,835	941	1,149	1,159
PPP Gr	*31%*	*36%*	*29%*	*24%*	*37%*	*13%*	*23%*
Provisions	1,590	1,897	1,564	2,264	493	352	382
Net Profits	1,042	1,459	2,281	2,643	384	559	575
Profit Gr%	*22%*	*40%*	*56%*	*16%*	*39%*	*61%*	*50%*
NIM% (Cal.)	4.9%	4.5%	4.6%	4.8%	5.4%	5.4%	5.0%
Cost to Income%	32.4%	29.7%	31.4%	30.8%	29.9%	31.4%	31.8%

*YoY not comparable due to IND AS

Conso/Fig in Rs Cr

❑ L&TFH has Rs 1800 Cr exposure to IL&FS and Rs 800 Cr exposure in Supertech Ltd. IL&FS exposure is guaranteed by Government while Supertech Ltd.'s 75% of Flats are sold. Management expects NIL default in both cases.

❑ Margin is expected to remain stable in the rising cost scenario as L&TFH is focusing on the high yielding rural portfolio. Further it has also increased the rate in wholesale segment. NII is expected to grow by 19% YoY in 3QFY19.

❑ Management has guided to lower its wholesale book to 30-40% in the future so, higher share of incremental disbursement is expected to come from rural & housing. We expect a loan book growth of 24% in 3QFY19. AUM of investment & wealth management is expected to increase by 15% YoY.

❑ Asset Quality is expected to remain stable at 7% in 3QFY19.However, with risk of defaults in the real estate increasing in the current environment, credit quality of the construction finance segment needs to be monitored closely. Credit cost is expected to remain in the 1.65 bps range in 3QFY19.

Key Trackable this Quarter

❑ Borrowing Growth

❑ NIM performance due to rising bond yield and changing share of portfolio mix.

❑ Asset Quality on the wholesale segment

We value the stock at 2.2x P/BV FY20e. BUY

LIC Housing Finance Ltd

LICHF IN

Financials-Nbfc

CMP	**489**
Target	**567**
Upside	**16%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	19.1%	16.7%	16.3%	17.2%
Roa%	1.4%	1.2%	1.3%	1.4%
Div Yield%	1.2%	1.3%	1.5%	1.6%
Book Value	219	251	326	378
P/B	2.8	2.1	1.5	1.3

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
AUM	144,534	166,363	192,981	219,998	156,176	175,953	182,726
AUM Growth%	*15%*	*15%*	*16%*	*14%*	*15%*	*16%*	*17%*
Borrowings	126,335	145,339	169,282	194,689	137,629	154,451	158,892
Borrowings Growth%	*14%*	*15%*	*16%*	*15%*	*15%*	*16%*	*15%*
Disbursement (Rs Cr)	41,541	49,385	58,768	66,669	12,301	14,272	14,618
GNPA%	0.4%	0.8%	1.3%	1.3%	0.9%	1.2%	1.3%
NNPA%	0.1%	0.4%	1.0%	0.8%	0.5%	0.0%	1.1%
Net Interest Income	3,645	3,701	4,153	5,206	953	1,064	1,103
NII Gr	*24%*	*2%*	*12%*	*25%*	*-2%*	*5%*	*17%*
Opex	612	648	397	518	148	101	105
Opex Growth%	*31%*	*6%*	*-39%*	*30%*	*5%*	*-11%*	*-29%*
Pre-provision Profit	3,237	3,301	3,944	4,948	805	963	998
PPP Gr	*19%*	*2%*	*19%*	*25%*	*-1%*	*11%*	*24%*
Provisions	281	239	700	709	48	218	157
Net Profits	1,931	1,990	2,373	3,052	491	573	605
Profit Gr%	*16%*	*3%*	*19%*	*29%*	*-2%*	*12%*	*23%*
NIM% (Cal.)	2.7%	2.4%	2.3%	2.5%	2.4%	2.4%	2.4%
Cost to Income%	15.9%	16.4%	9.2%	9.5%	15.5%	9.5%	9.5%

*YoY not comparable due to IND AS

Std/Fig in Rs Cr

❑ With strong parentage & high credit rating, we expect LICHSGFIN will have easier access to funding than other HFCs. Hence this liquidity issues will be opportunity for LICHSGFIN in terms of AUM growth. Lower competition and ease of balance transfer can boost loan growth to 17% in 3Q FY19.

❑Despite rise in cost of fund, NIM is expected to remain stable in near term due to 60 bps increase in PLR rate. 80% of the book is now linked to floating rate which will help in reprising of the assets faster. NII is expected to grow at 17% with PAT growth of 23% in 3QFY19.

❑We maintain a cautious stance on asset quality due to risk in developer and project segment in current environment; we have factored GS3 of 1.25% in 3Q FY19.

Key Trackable this Quarter

❑ NIM performance

❑ Pick up individual home segment loan growth

❑ Assets quality trend

We value the stock at 1.5x P/BV FY20e. BUY

M&M Financial Services Ltd

Financials-Nbfc

MMFS IN

CMP	**473**
Target	**469**
Upside	**-1%**
Rating	**HOLD**

	FY17	FY18	FY19E	FY20E
Roe%	6.4%	11.3%	14.0%	14.6%
Roa%	0.9%	1.8%	2.3%	2.3%
Div Yield%	0.8%	0.8%	1.0%	1.1%
Book Value	114	151	168	187
P/B	2.8	3.1	2.8	2.5

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
AUM	46,776	55,101	65,019	76,723	51,782	59,473	61,620
AUM Growth%	*14%*	*18%*	*18%*	*18%*	*13%*	*26%*	*19%*
Borrowings	34,670	39,556	50,403	59,940	36,347	46,707	48,141
Borrowings Growth%	*18%*	*14%*	*27%*	*19%*	*7%*	*25%*	*32%*
Disbursement (Rs Cr)	31,659	37,773	45,872	52,001	10,706	10,855	12,324
GNPA%	9.0%	8.5%	9.0%	8.5%	11.6%	9.0%	8.7%
NNPA%	3.6%	3.8%	5.6%	4.9%	5.6%	6.0%	5.8%
Net Interest Income	3,316	4,147	4,638	5,567	1,071	1,167	1,174
NII Gr	*3%*	*25%*	*12%*	*20%*	*44%*	*49%*	*10%*
Opex	1,451	1,671	1,663	1,977	428	425	419
Opex Growth%	*23%*	*15%*	*0%*	*19%*	*17%*	*28%*	*-2%*
Pre-provision Profit	1,929	2,534	3,081	3,701	655	787	779
PPP Gr	*-8%*	*31%*	*22%*	*20%*	*66%*	*66%*	*19%*
Provisions	1,309	1,227	990	1,238	199	231	212
Net Profits	400	827	1,381	1,601	342	381	369
Profit Gr%	*-40%*	*107%*	*67%*	*16%*	*2287%*	*133%*	*8%*
NIM% (Cal.)	7.6%	8.1%	7.7%	7.9%	8.7%	8.3%	8.0%
Cost to Income%	42.9%	39.7%	35.1%	34.8%	39.5%	35.1%	35.0%

*YoY not comparable due to IND AS — Std/Fig in Rs Cr

❑ Liquidity issue, sluggish auto sales during festive seasons and hike in passenger vehicle sales will impact AUM growth of vehicle financier. However SME growth would remain strong for M&MFIN. AUM growth is expected in the range of 18-20% in 3Q FY19.

❑Margin is expected to remain under pressure due to rise cost of fund. We expect NIM to decline by 20-30 bps QoQ as management is not able to pass on the entire rate hike to customer, OEM and dealers. NII is expected to grow at 10% YoY.

❑On the asset quality front as H2 is seasonally strong quarter asset quality is expected to improve going ahead. We expected GNPA of 8.90% in 3QFY19. Collection efficiency of most of the states falls in the range of 93-96%.

Key Trackable this Quarter

❑ Improvement in assets quality trend will be crucial.

❑NIM performance due to rising bond yield.

❑Management commentary on AUM growth outlook.

We value the stock at 2.5x P/BV FY20e. HOLD

Magma Fincorp Ltd

MGMA IN

Financials-Nbfc

CMP	**110**
Target	**131**
Upside	**19%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	0.9%	10.2%	13.3%	14.8%
Roa%	0.1%	1.5%	2.1%	2.3%
Div Yield%	0.8%	0.5%	0.9%	1.1%
Book Value	92	98	104	119
P/B	1.2	1.6	1.1	0.9

	FY17	FY18	FY19E	FY 20E	Q3FY18	Q2FY19	Q3FY19E
AUM	16,101	15,555	17,577	20,038	15,252	16,623	17,082
AUM Growth%	*-11%*	*-3%*	*13%*	*14%*	*-12%*	*6%*	*12%*
Borrowings	10,096	9,829	13,020	14,843	9,506	12,165	12,378
Borrowings Growth%	*-15%*	*-3%*	*32%*	*14%*	*-12%*	*1%*	*30%*
Disbursement (Rs Cr)	1,478	2,233	2,461	3,406	1,939	2,200	1,879
GNPA%	6.7%	7.0%	8.5%	6.6%	7.1%	9.5%	9.0%
NNPA%	5.6%	5.2%	3.9%	3.0%	5.3%	4.4%	4.2%
Net Interest Income	1,105	1,162	1,199	1,377	359	350	364
NII Gr	*-3%*	*5%*	*3%*	*15%*	*17%*	*12%*	*1%*
Opex	620	701	696	750	176	171	177
Opex Growth%	*-2%*	*13%*	*-1%*	*8%*	*9%*	*19%*	*1%*
Pre-provision Profit	654	691	777	932	194	194	202
PPP Gr	*-4%*	*6%*	*12%*	*20%*	*21%*	*6%*	*4%*
Provisions	607	374	292	283	102	87	59
Net Profits	13	230	340	442	65	77	100
Profit Gr%	*-94%*	*1712%*	*48%*	*30%*	*78%*	*5%*	*54%*
NIM% (Cal.)	6.4%	7.3%	7.2%	7.3%	9.3%	8.8%	8.6%
Cost to Income%	48.7%	50.3%	47.2%	44.6%	47.5%	46.8%	46.7%

*YoY not comparable due to IND AS

Conso/Fig in Rs Cr

❑ Management has only been able to pass on the rate hike by only 50-80 bps while the hike in cost of fund was in the range of 70-120 bps. The rate hike was only for incremental disbursement, the entire portfolio is of fixed nature. We expect NIM to marginally decline in 2H FY19 till the rate hikes add to the margins.

❑Due to tight liquidity and declining auto sales in 3Q FY19, disbursement growth for MAGMA is expected to slow down in 3Q FY19, however with low base impact, AUM growth of 10-12% in 3Q FY19. AUM growth would be driven by higher yielding segment like used, LCV & tractor finance to protect margins. We expect borrowing growth to also get impacted during 3Q FY19 for MAGMA.

❑Collection efficiency has risen across product portfolio. Management optimistically has given guidance of 1.6% credit cost going ahead YoY. Assets Quality has been improving and we expect the trend to continue in FY19. PCR has improved to 56% which is also a key positive for lower credit cost going ahead.

Key Trackable this Quarter

❑ Borrowing growth and AUM growth outlook

❑Rise in cost of fund and Yield outlook.

❑Assets quality trend

We value the stock at 1.1x P/BV FY20e. BUY

Manappuram Finance Limited

Financials-Nbfc

MGFL IN

CMP	**93**
Target	**103**
Upside	**11%**
Rating	**ACCUMULATE**

	FY17	FY18	FY19E	FY20E
Roe%	24.7%	18.6%	21.6%	20.2%
Roa%	5.4%	4.1%	4.7%	4.4%
Div Yield%	2.6%	0.5%	2.7%	2.7%
Book Value	40	46	53	68
P/B	2.5	2.4	1.7	1.4

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
AUM	13,657	15,765	19,233	23,080	14,650	17,191	17,287
AUM Growth%	*19%*	*15%*	*22%*	*20%*	*1%*	*25%*	*18%*
Borrowings	9,163	10,240	12,737	15,386	9,429	11,354	11,373
Borrowings Growth%	*-5%*	*12%*	*24%*	*21%*	*-23%*	*30%*	*21%*
GNPA%	2.0%	0.7%	0.9%	1.0%	0.7%	0.7%	0.7%
NNPA%	1.7%	0.3%	0.4%	0.5%	0.4%	0.2%	0.2%
Net Interest Income	2,219	2,396	2,824	3,384	611	697	723
NII Gr	*58%*	*8%*	*18%*	*20%*	*5%*	*19%*	*18%*
Opex	965	1,222	1,423	1,754	341	344	360
Opex Growth%	*16%*	*27%*	*16%*	*23%*	*43%*	*11%*	*5%*
Pre-provision Profit	1,275	1,227	1,455	1,699	282	366	377
PPP Gr	*116%*	*-4%*	*19%*	*17%*	*-19%*	*28%*	*34%*
Provisions	109	210	74	115	17	16	19
Net Profits	756	671	898	1,033	173	224	233
Profit Gr%	*114%*	*-11%*	*34%*	*15%*	*-14%*	*41%*	*34%*
NIM% (Cal.)	17.7%	16.3%	16.1%	16.0%	17.6%	17.4%	17.3%
Cost to Income%	43.1%	49.9%	49.4%	50.8%	54.7%	48.4%	48.8%

*YoY not comparable due to IND AS — Conso/Fig in Rs Cr

❑ Cost of fund has been rising and hence management has stopped several discounting schemes on online gold loan and increased interest rate to support margins. NIM is likely to have marginal pressure and going ahead due to change in portfolio mix; yield is likely to fall gradually over a period of time. NII is expected to grow at 18% YoY and PAT growth is likely to improve to 34% YoY due to lower base effect.

❑ MGFL had around 26% of borrowings from CP market as on 2Q FY19 and tightening of liquidity would result in flattish AUM growth in 3Q FY19. But it is likely to grow by 18% on YoY basis due to lower base impact. Growth is likely to be driven by non-gold loan segment (CV, Housing & 2W).

❑ Improved collection efficiency reflects strong asset quality. GNPA & PCR has been improving quarter on quarters. Going ahead we expect management to continue conducting auctions and keeping the GNPA at 70 bps in 3QFY19.

Key Trackable this Quarter

❑ Disbursement growth will be important.

❑ Borrowing growth and change in borrowing mix

❑ NIM performance due to rising bond yield and changing share of portfolio mix

We value the stock at 1.5x P/BV FY20e. ACCUMULATE

Muthoot Finance Limited

Financials-Nbfc

MUTH

CMP	**516**
Target	**566**
Upside	**10%**
Rating	**ACCUMULATE**

	FY17	FY18	FY19E	FY20E
Roe%	19.4%	24.1%	23.1%	22.6%
Roa%	4.1%	5.5%	5.8%	5.9%
Div Yield%	2.0%	1.8%	1.6%	1.6%
Book Value	163	194	234	283
P/B	2.3	2.1	2.2	1.8

	FY17	FY18	FY19E	FY 20E	Q3FY18	Q2FY19	Q3FY19E
AUM	27,279	29,138	33,801	38,871	28,265	32,319	32,222
AUM Growth%	*12%*	*7%*	*16%*	*15%*	*5%*	*17%*	*14%*
Borrowings	21,096	21,268	25,414	29,447	21,096	24,334	24,046
Borrowings Growth%	*13%*	*1%*	*19%*	*16%*	*1%*	*9%*	*14%*
GNPA%	2.1%	7.0%	2.5%	2.0%	5.6%	1.9%	1.9%
NNPA%	1.7%	6.2%	0.9%	0.7%	4.9%	0.1%	0.2%
Net Interest Income	3,346	4,222	4,559	5,181	1,085	1,109	1,140
NII Gr%	*32%*	*26%*	*8%*	*14%*	*50%*	*-5%*	*5%*
Opex	1,267	1,307	1,514	1,512	321	367	379
Opex Growth%	*32%*	*25%*	*7%*	*14%*	*7%*	*18%*	*18%*
Pre-provision Profit	2,186	2,997	3,072	3,699	777	748	768
PPP Gr%	*48%*	*37%*	*3%*	*20%*	*73%*	*-13%*	*-1%*
Provisions	265	240	38	110	56	3	8
Net Profits	1,180	1,720	1,972	2,333	464	484	494
Profit Gr%	*46%*	*46%*	*15%*	*18%*	*59%*	*9%*	*6%*
NIM% (Cal.)	13.0%	15.0%	14.5%	14.3%	15.6%	14.7%	14.6%
Cost to Income%	36.7%	30.4%	33.0%	29.0%	29.3%	32.9%	33.0%

*YoY not comparable due to IND AS

Std/Fig in Rs Cr

❑ Cost of fund has been rising recently impacting the NIM performance but management has been able to pass on the entire increase in cost to customer which will have positive impact on NIM during 4Q FY19. Hence NIM might get marginal pressure in 3Q FY19 but will get positive impact in 4Q FY19.

❑Net income growth is expected to remain muted at 4.4% & PAT is expected to grow at 7% in 3QFY19. Operating expenditure is expected to 18% with rapid expansion to different areas.

❑Loan book is expected to remain flat on sequential basis but will grow at 14% on YoY basis. Recently Muthoot has shown positive sign of improvement in AUM growth after severely impacted during demonetization period. Adding new branches and increase in gold prices has helped this revival. Management expects to grow the book by 15% plus in FY19.

❑Collection has been strong over the past few quarters. GNPA & PCR has been improving. We expect GNPA to further improve going ahead. Muthoot is sitting on extra provisions of around Rs 200 Cr in balance sheet which will ensure lower credit cost for next few quarters.

Key Trackable this Quarter

❑ NIM performance will be watched closely

❑ Opening of new branches

❑ Pick up in AUM growth will be important

We value the stock at 2x P/BV FY20e. ACCUMULATE

Power Finance Corporation Ltd

Financials-Nbfc

POWF IN

CMP	**107**
Target	
Upside	
Rating	**UNDER REVIEW**

	FY17	FY18	FY19E	FY20E
Roe%	5.9%	15.3%	14.3%	16.2%
Roa%	0.8%	2.1%	1.9%	2.0%
Div Yield%	3.8%	9.1%	7.0%	7.9%
Book Value	138	151	150	166
P/B	0.5	0.6	0.7	0.6

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
AUM	245,524	278,914	312,384	349,870	262,110	292,647	296,184
AUM Growth%	*3%*	*14%*	*12%*	*12%*	*10%*	*13%*	*13%*
Borrowings	202,589	229,539	260,320	296,500	213,707	243,485	244,780
Borrowings Growth%	*1%*	*13%*	*13%*	*14%*	*10%*	*17%*	*15%*
Disbursement (Rs Cr)	28,384	26,852	28,115	31,488	10,893	17,506	11,847
GNPA%	3.2%	9.6%	9.5%	5.0%	5.7%	9.7%	9.6%
NNPA%	2.4%	7.4%	4.6%	2.4%	4.2%	4.7%	4.6%
Net Interest Income	9,837	8,616	9,070	10,878	6,127	6,908	7,233
NII Gr	*-7%*	*-12%*	*5%*	*20%*	*-38%*	*-9%*	*31%*
Opex	381	391	410	501	68	111	110
Opex Growth%	*17%*	*2%*	*5%*	*22%*	*10%*	*-56%*	*61%*
Pre-provision Profit	10,205	9,142	8,747	10,909	1,893	1,982	2,269
PPP Gr	*-5%*	*-10%*	*-4%*	*25%*	*-37%*	*-12%*	*20%*
Provisions	5,094	815	229	819	(219)	(74)	110
Net Profits	2,126	5,855	5,689	6,760	1,604	1,355	1,446
Profit Gr%	*-65%*	*175%*	*-3%*	*19%*	*-21%*	*10%*	*-10%*
NIM% (Cal.)	4.1%	3.3%	3.1%	3.3%	2.8%	3.2%	3.2%
Cost to Income%	3.6%	4.1%	4.5%	4.4%	3.5%	5.3%	4.6%

*YoY not comparable due to IND AS

Std/Fig in Rs Cr

❑ Cabinet has approved PFC to acquire 52.6% stake of Government in REC. The pricing details of the deal is yet to be finalized. PFC will have to raise the debt or can raise the capital for the completion of the deal. However due to uncertainty over the funding, we have not factored the acquisition in our estimates. Debt funding will likely to have major impact on Capital ratios.

❑ PFC is the leading financier of power generating asset. It has grown its book despite underlying stress in the power sector, by an average rate of 12% for last one year. With rising power demand and upcoming Greenfield renewable projects, we expect PFC to grow around 13% in 3Q FY19.

❑ With the PCR of 52% on NPA as well as around Rs 2000 Cr of contingent provisions provides cushion on against any large haircut on power stress assets going ahead. We expect lower credit cost to boost profitability going ahead.

❑We are little cautious on PFC's exposure towards IL&FS in 5 SPVs amounting to Rs 2500 Cr. These are commissioned wind projects with good PPAs. ORIX Corporation of Japan is likely to take over majority ownership.

Key Trackable this Quarter

❑ NIM Performance

❑ Improvement is asset quality

❑ Management commentary on the impact of acquisition deal on financials

The stock is UNDER REVIEW.

Rural Electrification Corp Ltd

RECL IN

Financials-Nbfc

CMP	**122**
Target	**161**
Upside	**32%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	20.2%	13.5%	18.5%	18.6%
Roa%	3.0%	2.0%	2.5%	2.3%
Div Yield%	5.3%	7.3%	8.0%	8.8%
Book Value	169	180	178	202
P/B	0.5	0.7	0.7	0.6

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
AUM	201,929	239,449	277,761	322,203	224,014	256,968	264,337
AUM Growth%	*0%*	*19%*	*16%*	*16%*	*11%*	*19%*	*18%*
Borrowings	167,517	198,791	233,412	275,387	182,342	215,603	222,132
Borrowings Growth%	*-1%*	*19%*	*17%*	*18%*	*9%*	*23%*	*22%*
Disbursement (Rs Cr)	20,572	22,285	11,110	12,888	12,892	24,226	10,573
GNPA%	2.4%	7.2%	6.5%	3.5%	3.0%	7.9%	7.8%
NNPA%	1.6%	5.7%	3.4%	1.8%	2.0%	4.3%	4.1%
Net Interest Income	9,485	7,919	9,221	11,226	2,081	2,283	2,351
NII Gr	*3%*	*-17%*	*16%*	*22%*	*-5%*	*3%*	*13%*
Opex	352	344	583	727	88	148	153
Opex Growth%	*4%*	*-2%*	*70%*	*25%*	*-7%*	*122%*	*73%*
Pre-provision Profit	9,969	8,267	10,021	11,465	2,080	2,590	2,594
PPP Gr	*9%*	*-17%*	*21%*	*14%*	*-16%*	*15%*	*25%*
Provisions	1,109	1,416	429	1,037	205	64	98
Net Profits	6,246	4,647	6,553	6,987	1,296	1,764	1,673
Profit Gr%	*11%*	*-26%*	*41%*	*7%*	*-26%*	*25%*	*29%*
NIM% (Cal.)	4.7%	3.6%	3.6%	3.7%	3.9%	3.8%	3.8%
Cost to Income%	3.4%	4.0%	5.5%	6.0%	4.1%	5.4%	5.6%

*YoY not comparable due to IND AS

Std/Fig in Rs Cr

❑ Cabinet has approved PFC to acquire 52.6% stake of Govt in REC. Proposed this deal REC will become subsidiary of PFC. Going forward merger between REC and PFC cannot be ruled out.

❑Loan book is expected to grow by 18% YoY in 3QFY19. Loan book is expected to be driven by T&D and renewable segment. Management stated that demand in power has been improving. Further management has been focusing on better rated and operation client to drive the growth.

❑ Due to focus on operational projects and better rated client, NIM is likely to remain under 4% as against historical NIM of above 4%. However we expect assets quality to improve and credit cost will reduce in long term boost the profitability. Net income is expected to grow around 27% YoY and PAT is expected to grow by 29% YoY in 3Q FY19.

❑We don't expect any major hit on asset quality going forward as the pain in private sector companies has been majorly recognized. 87% of the book has state exposure for which management is confident of being never default. With few projects i.e. Lanco Anpara, SR Transmission, Gati, Dans energy are in the advance stage of resolution, we expect GNPA to trend downwards in couple of quarters.

Key Trackable this Quarter

❑ Assets quality trend.

❑ NIM performace

We value the stock at 0.8x P/BV FY20e. BUY

Shriram Transport Finance

SHTF IN

Financials-Nbfc

CMP	**1240**
Target	**1470**
Upside	**19%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	11.7%	13.1%	17.7%	18.4%
Roa%	1.8%	1.9%	2.5%	2.5%
Div Yield%	0.8%	0.9%	0.9%	0.9%
Book Value	498	554	691	817
P/B	2.2	2.6	1.8	1.5

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19E	Q3FY19E
AUM	78,761	95,306	112,461	131,580	90,019	104,380	106,222
AUM Growth%	*8%*	*21%*	*18%*	*17%*	*18%*	*21%*	*18%*
Borrowings	53,110	63,320	96,121	114,417	59,120	88,202	89,262
Borrowings Growth%	*7%*	*19%*	*52%*	*19%*	*16%*	*21%*	*51%*
Disbursement (Rs Cr)	39,100	50,730	60,031	72,404	13,378	13,803	15,933
GNPA%	8.2%	9.2%	8.5%	7.5%	8.0%	8.6%	8.6%
NNPA%	2.7%	2.8%	5.6%	5.3%	2.5%	6.0%	5.7%
Net Interest Income	5,521	6,735	8,062	9,501	1,709	2,055	2,039
NII Gr	*8%*	*22%*	*20%*	*18%*	*21%*	*25%*	*19%*
Opex	1,229	1,489	1,871	2,204	383	457	479
Opex Growth%	*-6%*	*21%*	*26%*	*18%*	*32%*	*29%*	*25%*
Pre-provision Profit	4,368	5,494	6,256	7,355	1,349	1,623	1,576
PPP Gr	*12%*	*26%*	*14%*	*18%*	*18%*	*23%*	*17%*
Provisions	2,444	3,122	2,397	2,505	585	684	579
Net Profits	1,257	1,568	2,506	3,152	496	610	648
Profit Gr%	*7%*	*25%*	*60%*	*26%*	*43%*	*23%*	*31%*
NIM% (Cal.)	7.3%	7.7%	7.8%	7.8%	8.1%	8.4%	8.0%
Cost to Income%	22.0%	21.3%	23.0%	23.1%	22.1%	22.0%	23.3%

*YoY not comparable due to IND AS

Std/Fig in Rs Cr

❑ Strong construction demand & strong replacement demand is expected to drive CV sales. Pre-buying demand before emission norm changes will keep demand elevated for couple of quarter. However with weak demand during festive season, we expected AUM growth in the range of 18-20% YoY.

❑MARGIN is expected to remain under pressure due to the continuous rise in cost of fund. NII is expected to 20% in 3QFY19.

❑Management focus on investment in branches, employees & field staff will cause the cost to income ratio remain elevated in the medium term, operating expense growth is expected to grow at 26% YoY.

❑ Strong collection efficiency will result in improved asset quality. GNPA is expected to improve to 8.60% in 3QFY19. Lower credit cost to drive PAT growth going ahead. PAT growth is expected at 31% in 3QFY19

Key Trackable this Quarter

❑ NIM performance

❑ Management commentary on growth outlook

We value the stock at 1.8x P/BV FY20e. BUY

Ahluwalia Contracts India Ltd.

AHLU IN

CMP	**319**
Target	**351**
Upside	**10%**
Rating	**ACCUMULATE**

	FY17	FY18	FY19E	FY20E
Roe%	17%	19%	19%	20%
Roce%	29%	31%	30%	29%
EV/EBITDA	11.5	11.1	8.2	6.7
P/E	24.1	21.8	13.0	9.7
P/B	4.1	4.0	2.4	2.0

	FY17	FY18	FY19E	FY20E	3QFY18	2QFY19	3QFY19E
Order Inflow	1,450	1,505	4,036	2,500	705	411	1,400
Order Book	3,550	3,074	5,259	5,522	3,575	4,325	5,206
Financial							
Sales	1,427	1,647	1,911	2,247	361	439	520
Sales Gr	*14%*	*15%*	*16%*	*18%*	*1%*	*31%*	*44%*
Ebdita	173	219	249	292	62	57	68
Ebdita Gr	*8%*	*27%*	*13%*	*17%*	*32%*	*15%*	*8%*
Net Profits	86	115	137	168	37	31	38
Profit Gr%	*2%*	*34%*	*19%*	*22%*	*52%*	*21%*	*2%*
EbditaM%	12.1%	13.3%	13.0%	13.0%	17.3%	13.1%	13.0%
Net Mgn%	6.0%	7.0%	7.2%	7.5%	10.3%	7.1%	7.3%

*Yearly Consolidated and Quarterly Standalone — Fig in Rs Cr

❑ The quarter is expected to witness a revenue growth of 44% on the back of healthy order book and sustained execution rate.

❑ EBITDA margin is expected to be 13% which is in line with the full year range. While EBITDA growth will be 8% YoY.

❑ Adj. PAT is expected to remain flat YoY (2%) to Rs. 38 Cr.

❑ Order inflow is expected to be sluggish in first half of the next year due to general election. So, considering that company is looking to cash in current opportunities. Work on all the projects have started except Delhi redevelopment a project which was facing tree cutting permission issue. Company has submitted design after proposed change for Kolkata project and project has started again.

❑Management is focused on Hospital orders as the government spending is high and company has expertise in it with lower competitive intensity.

❑Current debt on book is Rs.53 Cr and by the year end Company will be debt free.

❑Current occupancy level of Kota projects is 62% which is expected to go up and management has guided 75-80 lakh rent per month from FY20.

Key Trackable this Quarter

❑ Update on Delhi Redevelopment project

❑ EBITDA Margin as 35% of the order book is fixed price contract

We value the stock at 14x FY20E EPS. ACCUMULATE

Ashoka Buildcon Ltd.

ASBL IN

Infrastructure

CMP	**124**
Target	**157**
Upside	**27%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	10%	12%	12%	13%
Roce%	10%	12%	15%	16%
D/E	0.1	0.1	0.1	0.2
P/E	17.1	16.7	13.2	11.3
P/B	1.7	2.1	1.6	1.5

	FY17	FY18	FY19E	FY20E	3QFY18	2QFY19	3QFY19E
Order Book							
Roads BOT	2629	2237	4824	2763	2306	5372	5126
Roads EPC	2485	2019	762	189	1921	2623	950
Power T&D	1891	1593	757	302	1716	1769	1246
Financials							
Sales	2006	2463	3547	4410	659	764	1054
Sales Gr	*4%*	*22%*	*45%*	*24%*	*26%*	*102%*	*60%*
Ebdita	243	293	422	532	80	104	119
Ebdita Gr	*-2%*	*21%*	*44%*	*26%*	*28%*	*105%*	*49%*
Net Profits	176	237	268	312	52	62	71
Profit Gr%	*19%*	*35%*	*13%*	*16%*	*22%*	*90%*	*37%*
EbditaM%	12.1%	12.0%	11.9%	12.1%	12.1%	13.6%	11.3%
Net Mgn%	8.7%	9.7%	7.5%	7.1%	7.9%	8.1%	6.7%

Std/Fig in Rs Cr

❑ Revenue growth expected to be 60% YoY led by execution ramp up of ongoing road projects and Power T&D. State government pushing hard for early completion of T&D projects . For the full year FY19 management has guided revenue growth of 35-40%.

❑ We have estimated 8% YoY growth in toll collection on account of improved toll collection of key projects Dhankuni Kahargapur and Belgaum Dharwad.

❑ EBITDA growth expected to be 49% YoY mainly led by strong revenue growth. EBITDA margin expected to be around 11%.

❑ PAT growth is expected to in line with revenue growth and we have estimated 37% YoY growth.

❑ Company has won order worth Rs 749 Cr from Rail Vikas Nigam Ltd and has received LOA on same.

❑ Company is expecting to receive completion certification for Ratnagiri CGD project in short period.

❑ Equity requirement for new 5 HAM projects is Rs.440 Cr and Rs.350 Cr for two new City gas distribution (CGD) projects. For CGD Projects Company has tied up with Morgan Stanley India Infrastructure fund for equity investment of Rs.150 cr.

❑ Ashoka has given loan of Rs.82 Cr to GVR Infra and currently it is under NCLT. Company is holding securities against the loan and expect to recover claim.

Key Trackable this Quarter

❑ Financial closure of the HAM projects and appointment dates for the same

❑ Execution of Power T&D projects

❑ Receivables from GVR

We value Std. business at 10x FY20 EPS and Rs.46 per share *for BoT/HAM business.*

Capacit'e Infraprojects Ltd.

CAPACITE IN

CMP	**247**
Target	**300**
Upside	**21%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	23%	11%	12%	14%
Roce%	38%	17%	18%	23%
EV/EBITDA	0.3	10.2	6.1	5.0
P/E	0.0	25.8	16.7	12.3
P/B	0.0	2.7	2.0	1.8

	FY17	FY18	FY19E	FY20E	3QFY18	2QFY19	3QFY19E
Order Inflow	2,496	2,722	2,979	3,242	825	675	578
Order Book	4,289	5,682	6,759	7,844	5,240	6,507	6,629
Financials							
Sales	1,155	1,341	1,760	2,157	366	443	455
Sales Gr	*35%*	*16%*	*31%*	*23%*	*16%*	*38%*	*24%*
Ebdita	204	204	266	330	50	65	71
Ebdita Gr	*78%*	*0%*	*31%*	*24%*	*9%*	*35%*	*42%*
Net Profits	70	80	100	136	23	23	25
Profit Gr%	*43%*	*14%*	*26%*	*36%*	*40%*	*31%*	*9%*
EbditaM%	*17.7%*	*15.2%*	*15.1%*	*15.3%*	*13.6%*	*14.6%*	*15.5%*
Net Mgn%	*6.0%*	*5.9%*	*5.7%*	*6.3%*	*6.2%*	*5.2%*	*5.4%*

Std/Fig in Rs Cr

- The Revenue for Q3FY19 is expected to grow at 24% YoY on account of healthy execution rate of the projects under construction.
- EBITDA for the quarter is also expected to be up by 42% mainly on account of revenue growth. EBITDA margin will be up by 190 bps and for the full year it will be 15.5-16%.
- Higher depreciation will restrict the PAT growth at 9% YoY.
- Depreciation will be higher due to increased amortization of on site establishment. Earlier it was amortized at lower rate.
- Order inflow in Q3FY19 is expected to be Rs.580 Cr.
- Current order book is quite robust so management will be selective in terms geography and higher margin new orders.
- 65% orders received during the H2FY19 are repeat orders, which is evident of strong relationship with its clientele.

Key Trackable this Quarter

- Execution Run rate
- Uncertified bills (At the end of Q2FY19 Other financial assets has increased from Rs.128 Cr to Rs.344 Cr)

We value the stock at 15x FY20E EPS. BUY

Dilip Buildcon Ltd.

DBL IN

CMP	**416**
Target	**613**
Upside	**47%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	19%	25%	24%	21%
Roce%	31%	32%	33%	32%
D/E	1.2	1.1	1.0	0.9
P/E	13.2	22.2	7.4	6.6
P/B	2.6	5.6	1.8	1.4

	FY17	FY18	FY19E	FY20E	3QFY18	2QFY19	3QFY19E
Order Book	17,568	23,931	22,388	23,551	12,357	23,935	21,530
Revenue							
Roads & Bridges	4,570	6,578	8,612	9,891	1,692	1,414	2,161
Irrigation	303	161	38	-	28	3	-
Urban Development	70	32	78	29	2	8	29
Mining	140	841	815	917	218	183	215
Financials							
Sales	5,098	7,746	9,640	11,051	1942	1624	2445
Sales Gr	*25%*	*52%*	*24%*	*15%*	*40%*	*3%*	*26%*
Ebdita	992	1,403	1,765	2,110	345	282	461
Ebdita Gr	*24%*	*41%*	*26%*	*20%*	*24%*	*-1%*	*34%*
Net Profits	361	620	774	861	165	83	176
Profit Gr%	*63%*	*72%*	*25%*	*11%*	*51%*	*-28%*	*7%*
EbditaM%	*19.5%*	*18.1%*	*18.3%*	*19.1%*	*17.7%*	*17.3%*	*18.8%*
Net Mgn%	*7.1%*	*8.0%*	*8.0%*	*7.8%*	*8.5%*	*5.1%*	*7.2%*

Standalone data — Std/Fig in Rs Cr

❑ Revenue for 3QFY19 is expected to be up by 26% YoY on as the existing projects being in full swing and some new HAM projects expected to start contribute from the 3QFY19.

❑ EBIDTA is also expected to be up by 34% YoY on account of strong revenue growth, while the margin is expected to improve by 110 bps.

❑ PAT growth is expected to be up 7% YoY while margin is expected to be down by 120 bps on the back of the higher tax rate.

❑ The company has received appointment date for the Rewa sidhi project, while has submitted the sanction letter for Sangli to Borgaon, Borgaon to Watambare, Mangalwedha to Solapur.

❑DBL's equity requirement is Rs.1300 Cr out of this Rs.610 Cr will be received from Shrem Group as part of assets sales transaction.

❑Rs.1500 Cr of Mobilisation advances are expected to receive in H2FY19 based on the appointment date of new HAM projects.

Key Trackable this Quarter

❑ Appointment date of New HAM projects

❑ Management commentary on order Inflow

We value Std. business at 9x FY20 EPS and Rs.47 per share *for BoT/HAM business. BUY*

IRB Infrastructure Developers

IRB IN

CMP	**164**
Target	**193**
Upside	**18%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	14%	16%	14%	10%
Roce%	12%	11%	11%	10%
D/E	2.5	2.3	2.5	2.8
P/E	10.8	10.3	6.4	8.9
EV/EBITDA	6.4	7.9	6.5	8.0

	FY17	FY18	FY19E	FY20E	3QFY18	2QFY19	3QFY19E
Order Book	9,959	15,080	13,674	16,274	7,402	13,219	12,172
Revenue							
EPC	3,565	3,964	4,406	5,400	832	965	1,047
BOT	2,371	1,847	2,237	1,821	460	521	586
Financials							
Sales	5,846	5,694	6,544	7,221	1,296	1,432	1,633
Sales Gr	*14%*	*-3%*	*15%*	*10%*	*-8%*	*28%*	*26%*
Ebdita	3,048	2,679	3,104	2,952	630	670	813
Ebdita Gr	*15%*	*-12%*	*16%*	*-5%*	*-15%*	*17%*	*29%*
Net Profits	715	920	902	649	207	173	218
Profit Gr%	*12%*	*29%*	*-2%*	*-28%*	*13%*	*-26%*	*5%*
EbditaM%	52.1%	47.1%	47.4%	40.9%	48.6%	46.8%	49.7%
Net Mgn%	12.2%	16.2%	13.8%	9.0%	16.0%	12.1%	13.4%

Conso/Fig in Rs Cr

❑ Revenue is expected to increase by 26.4% YoY as all EPC projects being in full swing and HAM projects expected to start contributing from H2FY19.

❑EPC revenue expected to grow at 26% YoY on back of execution ramp up of ongoing projects and construction commencement on 3 HAM projects.

❑EBITDA is expected to have a growth of 29% YoY in line with revenue growth.

❑ PAT margin is expected to be down by 240 bps on account of higher depreciation and increase interest cost as the couple of BoT projects operationalise during the quarter.

❑ The Land status on 3 HAM projects is 80-90% and execution is expected to start in Q3FY19.

❑ Company has achieved financial closure of Vadodara Kim expressway, Poondiyankuppam to Sattanathapuram and Puducherry to Poondiyankuppam.

❑From mid of September Mumbra bypass is open for traffic and hence Mumbai Pune expected to report growth in traffic on QoQ basis.

Key Trackable this Quarter

❑ Appointment date of HAM projects

❑ Order inflow: - Order Inflow was NIL till date in FY19 as against Management guidance of Rs.7000 Cr.

❑Toll collection on Ahemdabad Vadodara (last quarter SPV has witness strong traffic growth after issue with parallel state highway)

We value the stock at 8.4x EV/EBITDA. BUY

KNR Constructions Ltd.

KNRC IN

CMP	**213**
Target	**250**
Upside	**17%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	18%	24%	15%	13%
Roce%	16%	18%	13%	14%
D/E	0.1	0.2	0.2	0.2
P/E	15.9	12.9	14.9	13.9
P/B	2.8	3.0	1.9	1.7

	FY17	FY18	FY19E	FY20E	3QFY18	2QFY19	3QFY19E
Order Book	3,766	6,302	6,886	7,077	7,308	5,807	6,368
Financials							
Sales	1,541	1,932	1,915	2,309	433	416	424
Sales Gr	*71%*	*25%*	*-1%*	*21%*	*13%*	*6%*	*-2%*
Ebdita	230	386	363	355	98	83	77
Ebdita Gr	*50%*	*68%*	*-6%*	*-2%*	*71%*	*1%*	*-22%*
Net Profits	157	272	196	209	66	45	32
Profit Gr%	*-2%*	*73%*	*-28%*	*7%*	*114%*	*-24%*	*-52%*
EbditaM%	*14.9%*	*20.0%*	*19.0%*	*15.4%*	*22.7%*	*20.0%*	*18.2%*
Net Mgn%	*10.2%*	*14.1%*	*10.2%*	*9.0%*	*15.2%*	*10.8%*	*7.4%*

Std/Fig in Rs Cr

❑Revenue expected to have a flat growth as compared to corresponding quarter last year on account of lower executable order book.

❑EBITDA margin is expected to be 18%, this is above normal level of 13-14% on account of high margin Irrigation projects.

❑ Higher depreciation and tax rate will result into 52% YoY de growth in bottom line. PAT margin will be 7.4% v/s 15.2%.

❑The Appointment date for Trichy to Kallingam and Chittor to Mallavaram expected in December, for Meensurutti to Chidambaram and Ramsanpalle to Mangloor expected in January 2019.

❑ The Land availability in Trichy to Kallagam project and Chittoor to Mallavaram is 60-65%, 60% on Meensurutti to Chidambaram and Magadi to Somwarpeth. Ramsanpalle to Mangloor has 40-45% and facing some delay from forest department.

❑Equity requirement is Rs.440 Cr and management is having dialog with investors for equity investment into new 5 HAM projects.

❑ Management is exploring various opportunities in urban infrastructure development, Railway and Mining to de-risk its order book. Management expects to receive Rs.2500 Cr of new projects in H2FY19.

❑ Capex requirement in FY19 and FY20 will be Rs.130 Cr each.

Key Trackable this Quarter

❑Land acquisition status of HAM projects

❑Appointment Date of HAM projects

❑Equity investment deal

We value Std. business at 13x FY20E EPS and Rs.57 per share for BoT/HAM business.

NBCC

NBCC IN

Infrastructure

CMP	**58**
Target	**53**
Upside	**-9%**
Rating	**NEUTRAL**

	FY17	FY18	FY19E	FY20E
Roe%	19%	19%	17%	19%
Roce%	24%	21%	16%	22%
EV/EBITDA	35.6	38.6	26.0	17.5
P/E	48.1	47.9	29.5	24.3
P/B	9.2	9.1	4.9	4.6

	FY17	FY18	FY19E	FY20E	3QFY18	2QFY19	3QFY19E
Revenue							
PMC	6,485	6,085	7,296	9,485	1,302	1,307	1,628
Real Estate	185	25	364	400	2	34	100
EPC	684	780	775	969	196	24	245
Financials							
Sales	7,424	6,942	8,520	10,938	1,512	1,406	1,984
Sales Gr	*27%*	*-7%*	*23%*	*28%*	*-11%*	*6%*	*31%*
Ebdita	405	422	344	498	75	45	82
Ebdita Gr	*28%*	*4%*	*-19%*	*45%*	*-1%*	*-47%*	*10%*
Net Profits	326	372	353	429	74	73	80
Profit Gr%	*13%*	*14%*	*-5%*	*22%*	*29%*	*-11%*	*9%*
EbditaM%	5.4%	6.1%	4.0%	4.5%	5.0%	3.2%	4.2%
Net Mgn%	4.4%	5.4%	4.1%	3.9%	4.9%	5.2%	4.0%

Conso/Fig in Rs Cr

❑ Revenue is expected to increase 31% YoY on account of increased revenue from PMC business. Couple of AIIMS projects progressing well and redevelopment of railway station has started contributing in revenue. We have expected 25% YoY revenue growth in PMC.

❑ EBITDA margin is expected to be down by 80 bps YoY on account of lower margin in PMC segment. Earlier company was booking design fees upfront but after implication of the IND AS 115 it will be recognized over period of project life.

❑ PAT margin is expected to decline by 90 bps YoY in line with EBITDA margin.

❑ Delhi high court has given nod to 2 redevelopment projects out of 3 and work is expected to start from January 2019. Approval for reaming one project is expected by December 2018.

❑NBCC was not able to consolidate HSCL account due to HR related issue but now issue has been resolved and account are expected to consolidate in Q3FY19. Currently, we have not accounted the change in our estimate.

❑ NBCC is working on stalled Amrapali project as consultant but financing of the project is key concern area. Supreme Court is exploring various options for financing the project.

❑ Company is eyeing on 3000 acres of land of JPINFRA and has submitted its bid to acquired company. JPINFRA has debt of Rs.10000 Cr.

Key Trackable this Quarter

❑ Delhi High Court judgment on redevelopment colony projects

❑ Outcome of JPINFRA bidding process

❑ Financing Option of Amrapali project

We value the stock at 22x FY20E EPS. NEUTRAL

PNC Infratech Ltd.

Infrastructure

PNCL IN

CMP	**147**
Target	**175**
Upside	**19%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	13%	14%	12%	12%
Roce%	10%	12%	14%	16%
D/E	0.1	0.1	0.3	0.3
P/E	11.4	15.9	15.2	14.1
P/B	1.5	2.2	1.9	1.7

	FY17	FY18	FY19E	FY20E	3QFY18	2QFY19	3QFY19E
Order Book	5,379	10,217	14,846	15,570	9795	14572	13972
Financials							
Sales	1,689	1,857	2,895	4,277	472	559	600
Sales Gr	*-16%*	*10%*	*56%*	*48%*	*2%*	*108%*	*27%*
Ebdita	221	319	414	560	66	75	79
Ebdita Gr	*-17%*	*44%*	*30%*	*35%*	*10%*	*88%*	*19%*
Net Profits	210	251	247	267	93	35	38
Profit Gr%	*-11%*	*20%*	*-1%*	*8%*	*21%*	*113%*	*-59%*
EbditaM%	*13.1%*	*17.2%*	*14.3%*	*13.1%*	*14.0%*	*13.4%*	*13.1%*
Net Mgn%	*12.4%*	*13.5%*	*8.5%*	*6.2%*	*19.7%*	*6.3%*	*6.3%*

Std/Fig in Rs Cr

❑ Revenue for the quarter is expected to be up by 27% YoY on account of strong execution of existing projects and Nagpur Mumbai & Lucknow Ghazipur EPC projects are expected to start contributing from Q3FY19. For the full year FY19 management expect 50% revenue growth.

❑Adj. EBITDA will be up by 24% YoY in line with Revenue growth. EBITDA margin is expected to remain stable at 13.1%.

❑Tax rate for the quarter will be higher on account of completion of 80 IA benefited projects. .

❑Adj. PAT is expected to be down by 57% YoY.

❑PNCINFRA has completed financial closure of all the HAM projects and waiting for Appointment date.

❑Land availability status of New HAM projects:- Chakeri to Allahabad 89%, Aligarh-Kanpur 90%, Challakere to Hariyur 80%.

❑ Management is focused on EPC projects and conservative on HAM projects going ahead.

❑ Management expect to close BoT assets sales deal by the quarter end.

❑ Capex requirement in H2FY19 is Rs.150 Cr and Rs.50 Cr for full year FY20 based on the current order book.

Key Trackable this Quarter

❑ Appointment Date of HAM projects

❑Execution of EPC projects (Koliwar Bhojpur and Bhojpur buxar)

❑Update on BoT assets sales

We value Std. business at 13x FY20E EPS and Rs.40 per share for BoT/HAM business.

Sadbhav Engineering Ltd.

Infrastructure

SADE IN

CMP	**211**
Target	**304**
Upside	**44%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	11%	12%	13%	12%
Roce%	8%	10%	10%	14%
D/E	0.9	0.7	0.7	0.7
P/E	28.1	30.1	13.2	12.4
P/B	3.2	3.6	1.7	1.5

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Order book	7,683	13,249	15,277	17,915	9,644	13,743	12,652
Revenue							
BOT & HAM	333	1,275	2,234	3,159	254	459	548
EPC	2,199	1,834	1,093	1,706	541	189	288
Irrigation	458	285	334	70	55	16	141
Minning	317	276	301	419	84	24	113
Financials							
Sales	3,320	3,505	3,972	5,363	935	691	1,092
Sales Gr	*4%*	*6%*	*13%*	*35%*	*8%*	*0%*	*17%*
Ebdita	356	415	460	656	106	83	123
Ebdita Gr	*6%*	*17%*	*11%*	*43%*	*13%*	*6%*	*17%*
Net Profits	188	221	274	292	62	38	75
Profit Gr%	*42%*	*17%*	*24%*	*7%*	*18%*	*14%*	*22%*
EbditaM%	*10.7%*	*11.8%*	*11.6%*	*12.2%*	*11.3%*	*12.1%*	*11.3%*
Net Mgn%	*5.7%*	*6.3%*	*6.9%*	*5.4%*	*6.6%*	*5.5%*	*6.9%*

Std/Fig in Rs Cr

❑ Revenue growth expected to be 17% YoY led by execution of ongoing projects and start of execution of Mumbai Nagpur Express way, Jodhpur Ring Road and Bhimasar to Bhuj Airport projects.

❑ EBITDA growth expected to be 17% YoY mainly led by strong revenue growth. EBITDA margin expected to remain in range of 11.5-12%.

❑ PAT growth is expected to in line with revenue growth and we have estimated 21.5% YoY growth.

❑ All the HAM projects will be closed financially by December and execution on the same will start from Q4 and Q1FY20.

❑ O/S loan portion given to SIPL is expected to come down to Rs.310 Cr at end of FY19.

❑ Capex requirement of Rs.50 Cr in FY19. Debt in H1FY19 is Rs.1413 Cr and it will remain at this level going ahead.

❑ For the full year FY19 management had guided order inflow of Rs.7500-8000 Cr and till date company has manage to secured orders worth Rs.3827 Cr.

Key Trackable this Quarter

❑ Financial closure and appointment date of HAM projects

❑ Debt level

❑ Status of Arbitration award on four projects namely: - Rohtak Panipat, Mumbai Nasik, Dhule Palesner and Nagpur Seoni

We value Std. business at 12x FY20 EPS and Rs.99 per share for BoT/HAM business.

VA Tech Wabag Limited

VATW

Infrastructure

CMP	**259**
Target	**375**
Upside	**45%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	10%	13%	13%	14%
Roce%	21%	17%	16%	17%
D/E	0.3	0.4	0.4	0.4
P/E	36.3	18.2	8.7	6.9
P/B	3.7	2.4	1.1	1.0

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Order Inflow	3,620	3,193	5,018	4,450	319	2990	500
Order Book							
India	4,003	3,388	3,727	3,411	3,287	4,188	3,936
Overseas	2,010	1,924	2,592	2,790	1,841	2,826	2,665
O&M (India + Overseas)	1,316	1,497	1,626	2,042	1,393	1,541	1,533
Revenue							
India	1,635	1,639	1,969	2,096	405	461	503
Overseas	1,065	1,379	1,182	1,581	348	191	311
O&M (India + Overseas)	507	410	373	474	109	81	108
Financials							
Net Sales	3,208	3,457	3,550	4,151	865	752	921
Sales Gr	*28%*	*8%*	*3%*	*17%*	*20%*	*-15%*	*7%*
Ebdita	297	292	303	363	78	63	87
Ebdita Gr	*27%*	*-2%*	*4%*	*20%*	*-2%*	*-19%*	*12%*
Net Profits	102	147	163	205	30	28	52
Profit Gr%	*15%*	*44%*	*11%*	*26%*	*1274%*	*-15%*	*71%*
EbditaM%	*9.2%*	*8.4%*	*8.5%*	*8.7%*	*9.0%*	*8.4%*	*9.5%*
Net Mgn%	*3.2%*	*4.3%*	*4.6%*	*4.9%*	*3.5%*	*3.8%*	*5.6%*

Conso/Fig in Rs Cr

❑ The Revenue during the quarter is expected to be up by 7% on account of the better performance in the Indian space of EPC segment.

❑ EBITDA is expected to be up by 12% YoY led by 50 bps expansion in EBITDA margin on account of higher contribution from India business.

❑ The PAT is expected to grow by 71% on the back of the improved Revenue and EBITDA.

❑ Tax rate will be 32% v/s 41.4% in Q3FY18.

❑ Outstanding receivable from APGENCO is Rs 570 Cr and management expects to collect about 60-70% this year. But it will be delayed as the Telangana had election in December 2018.

❑ Management had guided order inflow of Rs.5300-5700 Cr in FY19 and till date order inflow is Rs.3224 Cr.

❑ Management expects Namami Ganage and Mumbai STP projects will be finalize in FY19.

Key Trackable this Quarter

❑ Working Capital

❑ Order Inflow

❑ Work progress on Rayalseema project (Part of APGENCO project)

We value the stock at 10x FY20E EPS. BUY

Cyient Limited

Technology

CYL IN

CMP	**619**
Target	**781**
Upside	**26%**
Rating	**BUY**

	FY17	FY18	FY19	FY20
Roe%	16.9	18.1	19.0	19.2
Roce%	18.4	18.8	21.0	21.7
PE	15.5	19.2	14.6	12.7
PB	2.5	3.3	2.6	2.3
EV/EBITDA	9.6	13.1	9.0	7.3

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Revenues (USD m)	**538**	**607**	**669**	**746**	**152**	**169**	**167**
Segment revenue (in crore)							
Mfg and industrial	*1,942*	*2,060*	*2,463*	*2,821*	532	613	*630*
Utilities,geo and comm	1,300	1,460	1,663	1,930	373	413	428
DLM	*365*	*398*	*568*	*621*	79	161	*139*
Total	**3,607**	**3,918**	***4,693***	***5,372***	**983**	**1,187**	***1,197***
Financials							
Sales	**3,586**	**3,914**	**4,693**	**5,372**	**983**	**1,187**	**1,197**
Sales Gr	*16%*	*9%*	*20%*	*14%*	*7%*	*23%*	*22%*
Ebdita	**477**	**535**	**656**	**764**	**141**	**161**	**174**
Ebdita Gr	*13%*	*12%*	*23%*	*16%*	*16%*	*15%*	*23%*
Net Profits	**340**	**403**	**473**	**550**	*87*	**127**	**125**
Profit Gr%	*4%*	*18%*	*18%*	*15%*	*-7%*	*-26%*	*43%*
EbditaM%	**13.3%**	**13.7%**	**14.0%**	**14.2%**	**14.3%**	**13.6%**	**14.5%**
Net Mgn%	**9.5%**	**10.3%**	**10.2%**	**10.2%**	**8.9%**	**10.7%**	**10.4%**

Conso/ Fig in Rs Cr

❑The management has maintained its outlook for FY19 with double-digit revenue growth in services, 20% organic growth in DLM (35% including B&F) and 50 bps improvement in margins

❑3QFY19 normally sees seasonality due to furloughs and higher leave. Sales are expected to largely remain flat due to cyclicality in Aerospace and defense segment and softness in Utilities and Geospatial. However communication and transport segment to see growth in 3QFY19 due to strong pipeline.

❑ Other income for 3QFY19 will include incentives that the company is expected to get from getting merchandise and engineering service in 2HFY19 (21 crore approx).

❑Margin is expected to improve by 80 to 90 BPS led by operational efficiency (stable indirect cost) and currency benefit of 50 bps however investment in NBA is likely to offset the some portion.

❑The Company hedged 70% of forward contract for the next 12-month, they would get benefit of INR depreciation in operating side (50-70bps) but it may be offset by lower other income(due to forex loss of $2.6mn for next 12 months)..

❑For FY19 tax is likely to be in range of 26%. However tax for 3QFY19 is expected to be 25% including the one off .

Key Trackable this Quarter

❑ Aerospace & defense to see growth of 10% in FY19.

❑ Margin expected to improve 50 bps for FY19.

❑ Improved in organic business.

We value the stock at 16x FY20E. BUY

HCL Technologies Limited

Technology

HCLT IN

CMP	**963**
Target	**1252**
Upside	**30%**
Rating	**BUY**

	FY17	FY18	FY19	FY20
Roe%	31.5	31.8	33.7	32.5
Roce%	31.0	28.1	30.5	29.1
PE	14.5	15.5	12.8	11.6
PB	3.8	3.7	3.2	2.5
EV/EBITDA	11.2	11.7	9.1	7.7

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Software Ser Rev $mn	4,051	4,589	4,980	5,504	1,185	1,230	1,252
IMS Rev. $mn	2,767	2,959	3,070	3,366	730	755	770
Software Service	27139	29611	35170.266	39904.601	7631	8711	9017.4762
IMS	18,543	19,095	21,680	24,400	4,703	5,343	5,542
BPO Service	1,886	1,863	3,287	3,789	475	806	861
Total	**47,568**	**50,569**	**60,137**	**68,094**	**12,809**	**14,860**	**15,420**
Financials							
Sales	**47,568**	**50,569**	**60,137**	**71,289**	**12809**	**14,860**	**15,420**
Sales Gr	*53%*	*6%*	*19%*	*19%*	*8%*	*20%*	*20%*
Ebdita	**10,385**	**11,246**	**13,999**	**17,383**	**2789**	**3,463**	**3,624**
Ebdita Gr	*56%*	*8%*	*25%*	*24%*	*7%*	*19%*	*20%*
Net Profits	**8,606**	**8,722**	**10,153**	**11,323**	**2,075**	**2,534**	**2,622**
Profit Gr%	*54%*	*1%*	*16%*	*12%*	*1%*	*26%*	*30%*
EbditaM%	21.8%	22.2%	23.3%	24.4%	22%	23.3%	23.5%
Net Mgn%	18.1%	17.2%	16.9%	15.9%	16%	17%	17.0%

Conso/ Fig in Rs Cr

❑3QFY19 sales are expected to improve 2% QoQ in usd term and 2.5% in cc term led by robust deal wins, contribution from new acquisitions and continued growth momentum in the ER&D .

❑Mode 3 which mainly constitutes of intellectual property-related businesses will see strong growth in 3QFY19 due to seasonality (OCT to DEC tends to be the best).

❑IMS which is HCLT's key growth driver prior to FY18 (which was 25-30% YOY CC growth 6-7 quarters ago)is expected to improve in 3QFY19, however it is expected to be in 10% range for FY19 and expected to reach same level(25%YoY)in FY20 as the deal size increases.

❑Benefit from INR depreciation , strong growth in product business and other operational efficiencies to play out in 3QFY19.However the management intent to re invest money back into the business (both on the Mode-3 and Mode-2 side on an organic basis) will offset the major portion of the margin expansion. Thus we expect overall margin for 3QFY19 to improve by 20bps.

❑The recent acquisition (IBM product) by HCLT's worth of $1.8Bn is expected to start reflecting in revenue numbers from 2QFY20 (after the deal closure).It is expected to aid $625mn in FY20E and $650 mn in FY21E.

Key Trackable this Quarter

❑ Organic growth outlook and commentary on ER&D business .

❑ Continued deal wins and update on products acquisition from IBM

❑ CC revenue growth of 9.5-11.5% for FY19.

We value the stock at 15x FY20E EPS. BUY

Infosys Limited

INFO IN

Technology

CMP	**660**
Target	**836**
Upside	**27%**
Rating	**BUY**

	FY17	FY18	FY19	FY20
Roe%	20.8	24.7	23.7	24.5
Roce%	25.7	25.4	28.8	30.9
PE	16.3	15.5	17.6	15.8
PB	3.4	3.8	4.2	3.9
EV/EBITDA	13.8	14.1	14.6	12.9

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Revenue USD mn	10,206	10,936	11,686	12,671	2,755	2,921	2,949
Revenue by industry							
Financial services		23,214	26,558	29,889	5,890	6,636	6,887
Manufacturing		6,682	7,982	8,734	1,690	1,978	2,074
Energy, Utilities, Resources & Servic		8,289	10,219	11,359	2,135	2,535	2,631
Retail		11,333	13,966	16,216	2,883	3,462	3,629
Life Sciences		4,689	5,251	5,485	1,157	1,319	1,342
Hi Tech		5,112	6,185	6,892	1,263	1,546	1,596
Communication		8,851	10,172	11,248	2,207	2,535	2,592
Other		2,323	2,411	2,678	569	598	626
Financials							
Sales	**68,485**	**70,522**	**82,756**	**92,501**	**17,794**	**20,609**	**21,377**
Sales Gr	*10%*	*3%*	*17%*	*12%*	*3%*	*17%*	*20%*
Ebdita	**18,605**	**19,011**	**21,450**	**24,455**	**4,817**	**5,357**	**5,606**
Ebdita Gr	*9%*	*2%*	*13%*	*14%*	*1%*	*14%*	*16%*
Net Profits	**14,353**	**16,029**	**16,410**	**18,264**	**5,129**	**4,110**	**4,268**
Profit Gr%	*5%*	*12%*	*2%*	*11%*	*38%*	*10%*	*-17%*
EbditaM%	**27.2%**	**27.0%**	**25.9%**	**26.4%**	**27.1%**	**26.0%**	**26.2%**
Net Mgn%	**21.0%**	**22.7%**	**19.8%**	**19.7%**	**28.8%**	**19.9%**	**20.0%**

Conso/ Fig in Rs Cr

❑3QFY19 is seasonally soft quarter for the industry due to furlough and lower working days, thus the sales are expected to improve by 1% QoQ in USD term led by continued growth in verticals both in Americas as well as in Europe.

❑Financial service which is major contributor to revenue (~33%) is expected to be improving in HFY19 and FY20 after declining for 2 to 3 quarters as spending by US banks is expected to continue for the next few quarters. However 3QFY19 is expected to be soft because of seasonality.

❑Margin are expected to improve in 3QFY19 by 30 bps led by currency benefit (50bps)and operational efficiency however as stated by management as certain additional investments in compensation and localization will offset some portion.

❑As per the plan, Management will to do higher investment in 2HFY19 than 1HFY19.

❑Attrition will be major concern (21%) however management is taking specific measures and is expect to come down gradually.

❑Net profit includes benefit of APA agreement in 3QFY18.

Key Trackable this Quarter

❑ Financial services to be better in FY19.

❑Outlook on multi- year deal wins and increased TCV wins for FY19.

We value the stock at 20x FY20E. BUY

Larsen & Toubro Infotech Ltd

Technology

LTI IN

CMP	**1725**
Target	**1970**
Upside	**14%**
Rating	**ACCUMULATE**

	FY17	FY18	FY19	FY20
Roe%	36.8	31.8	34.7	30.3
Roce%	39.6	29.5	38.5	34.9
PE	12.5	20.7	19.4	17.5
PB	3.9	6.0	6.0	4.8
EV/EBITDA	9.6	19.1	15.9	13.7

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Revenues ($ m)	**972**	**1,132**	**1,327**	**1,535**	**293**	**328**	**336**
BFSI	3,073	3,451	4,493	5,248	881	1,112	1,157
Manufacturing	1,189	1,227	1,436	1,573	325	357	368
CPG,Retail,Pharma,Oth	*824*	*990*	*1,387*	*1,798*	256	351	365
Energy& Utilities	*722*	*856*	*998*	*1,223*	222	249	261
Hi tech, Media	694	782	1,052	1,278	201	262	270
Total	**6,503**	**7,306**	**9,366**	**11,018**	**1,884**	**2,331**	**2,420**
Financials							
Sales	**6,501**	**7,307**	**9,381**	**11,129**	**1,884**	**2,331**	**2,420**
Sales Gr	*11%*	*12%*	*28%*	*19%*	*13%*	*33%*	*28%*
Ebdita	**1,230**	**1,188**	**1,847**	**2,115**	**322**	**479**	**479**
Ebdita Gr	*20%*	*-3%*	*56%*	*14%*	*7%*	*63%*	*49%*
Net Profits	**971**	**1,113**	**1,531**	**1,694**	**283**	**400**	**402**
Profit Gr%	*16%*	*15%*	*38%*	*11%*	*14%*	*47%*	*42%*
EbditaM%	**18.9%**	**16.3%**	**19.7%**	**19.0%**	**17.1%**	**20.5%**	**19.8%**
Net Mgn%	**14.9%**	**15.2%**	**16.3%**	**15.2%**	**15.0%**	**17.2%**	**16.6%**

Conso/ Fig in Rs Cr

❑Sales are expected to improve 2.3%QoQ in USD term in 3QFY19 as large deals are expected to accelerate BFSI and continued growth expected in Retail, CPG & Pharma segment.

❑BFS segment (contributes 31% of revenue) saw dip QoQ in 2QFY19 after posting strong growth in last 4 quarters. We expect the growth momentum in BFSI to ramp up again in 3QFY19 as tech spending continue in this sector and continued growth in deal pipeline.

❑Margins are expected to decline by 75 bps in 3QFY19 due to impact of lesser working days. However, on a full year basis the EBIT margin is expected to improve by 260bps mainly led by Improvement in realized rate, strong cross-currency tailwind and pass-through revenues.

❑For FY19 we expect LTI to deliver top quartile growth led by the large deal momentum(net-new TCV of USD 55mn), increase in digital penetration (now contributing 37% QoQ) and continued increase in revenue concentration from top 11 to 20 accounts

❑ We expect verticals like retail and BFS to grow above company average for FY19.

Key Trackable this Quarter

❑Management guidance of top quartile growth in FY19.
❑Continued strength in BFS & Energy and continued deal wins to foster future growth.
❑ Outlook on margin going forward.

We value the stock at 20x FY20E. ACCUMULATE

Mastek Limited

MAST IN

Technology

CMP	**454**
Target	**571**
Upside	**26%**
Rating	**BUY**

	FY17	FY18	FY19	FY20
Roe%	7.4	10.8	12.5	25.4
Roce%	10.1	15.2	17.9	18.7
PE	11.5	16.5	10.6	8.7
PB	0.9	2.1	1.4	1.3
EV/EBITDA	8.3	11.3	7.6	5.9

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Revenue by industry							
UK	465	563	758	929	143	186.29	194
US	62	237	270	309	62	66.61	69
Others	35	17	17	16	4	4.17	4
TOTAL	***562***	***817***	**1,045**	**1,254**	**210**	**257**	**266**
UK Growth		21.2%	34.4%	22.7%	25.1%	36.6%	35.5%
US Growth		283.1%	13.9%	14.5%	0.0%	14.4%	10.0%
Financials							
Sales	**562**	**817**	**1,045**	**1,254**	**210**	**257**	**267**
Sales Gr	*7%*	*45%*	*28%*	*20%*	*66%*	30%	4%
Ebdita	**53**	**100**	**131**	**161**	**26**	**31**	**33**
Ebdita Gr	*191%*	*89%*	*31%*	*23%*	*79%*	*32%*	*30%*
Net Profits	**37**	**70**	**100**	**121**	**18**	**25**	**26**
Profit Gr%	*169%*	*90%*	*43%*	*21%*	*53%*	*44%*	*40%*
EbditaM%	**9.4%**	**12.2%**	**12.5%**	**12.8%**	**12.3%**	**12.2%**	**12.5%**
Net Mgn%	**6.6%**	**8.6%**	**9.6%**	**9.7%**	**8.8%**	**9.8%**	**9.7%**

Conso/ Fig in Rs Cr

❑Mastek 3QFY19 sales are expected to improve 3.6% QoQ mainly led by robust order book, continued growth in the mature market and strong traction from public sector.

❑The company has strongly positioned in the UK market for long time, continued growth in UK quarter on quarter(grew 7%QoQ in 2QFY19) and strong pipeline gives us confidence strong performance in 3QFY19 and for rest of the year too

❑On macro aspect, the management expects Brexit will result in higher deal flow as they can get more opportunities in government sector of UK where the company has been working from long time.

❑Order backlog increased 20% QoQ from Rs 501 crore to Rs599 in 2QFY19.We are confident of seeing the momentum to continue in 2HFY19 on the back of continued client addition and increase in wallet share with existing customer.

❑Margin is expected to see 30bps improvement led by benefit from currency fluctuation and improvement in operational efficiency. However volatility will be seen in the quarter as the management continues to invest to grow the business.

Key Trackable this Quarter

❑ Management expects 10% year-over-year growth for US market.

❑Growth in UK business to remain in momentum.

❑Management aspires EBDITA Margin of 14% To 15% in next 3 years.

We value the stock at 11times FY20 EPS. BUY

MindTree Limited

MTCL IN

Technology

CMP	**863**
Target	**981**
Upside	**14%**
Rating	**ACCUMULATE**

	FY17	FY18	FY19	FY20
Roe%	16.2	20.8	23.8	22.6
Roce%	19.2	18.7	25.4	24.9
PE	18.2	21.9	18.2	15.8
PB	2.9	4.6	4.3	3.6
EV/EBITDA	10.6	16.8	13.3	11.2

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Revenue USD mn	780	847	1,000	1,164	214	247	251
Revenue by industry							
Retail, CPG & Manuf.	1,248	1,269	1,563	1,830	321	382	394
BFSI	1,288	1,326	1,547	1,755	341	392	393
Tech, Media & Serv	1,924	2,047	2,776	3,368	505	689	711
Travel & Hospitality	777	822	1,189	1,483	211	292	313
TOTAL	***5,236***	***5,463***	**7,075**	**8,435**	**1,378**	**1,755**	**1,810**
Financials							
Sales	**5,236**	**5,463**	**7,077**	**8,441**	**1,378**	**1,755**	**1,810**
Sales Gr	*12%*	*4%*	*30%*	*19%*	*6%*	*32%*	*31%*
Ebdita	**705**	**741**	**1,085**	**1,276**	**207**	**270**	**284**
Ebdita Gr	*-14%*	*5%*	*46%*	*18%*	*19%*	*75%*	*37%*
Net Profits	**419**	**570**	**795**	**916**	**142**	**206**	**208**
Profit Gr%	*-24%*	*36%*	*40%*	*15%*	*37%*	*65%*	*47%*
EbditaM%	**13.5%**	**13.6%**	**15.3%**	**15.1%**	**15.1%**	**15.4%**	**15.7%**
Net Mgn%	**8.0%**	**10.4%**	**11.2%**	**10.9%**	**10.3%**	**11.7%**	**11.5%**

Conso/ Fig in Rs Cr

❑Sales are expected to 2% QoQ in usd terms led by growth in digital business, continued TCV wins and robust performance in travel and retail.

❑Mindtree management is seeing challenges in adoption of digital within BFSI clients. Thus it is expected to see soft in 3QFY19.

❑Travel & Hospitality which contributes ~17% of overall revenue posted a strong growth in 2QFY19 (8%QoQ) mainly driven by robust deal pipeline in airlines as well as the hospitality sector. We consider this segment is a sweet spot for the company and momentum continues in 3QFY19 also.

❑Manufacturing vertical which declined by 3.9% in 2QFY19 mainly due to a ramp down of few projects in Europe and delayed decision for a few other deals. However, considering the pipeline and deal closure, we expect Retail, CPG, Manufacturing vertical return to growth in the 3QFY19 itself.

❑Digital which has become approx half of the total revenue (~ 48.1% of revenue) is expected to continue to grow led by robust deal pipeline and larger deal wins expected in 2HFY19 ($162mn deal came from digital in 2QFY19).

❑Margin are expected to improve 30 bps in 3QFY19 led by operational efficiency and currency benefit (75 to 100bps).However addition in workforce will offset some portion of margins in 2HFY19.

Key Trackable this Quarter.

❑Steady increase in revenue contribution from Digital.

❑Challenge in top 2 to 10 client.

❑Commentary related to margin improvement in FY19

We value the stock at 18x FY20E. ACCUMULATE

MphasiS Limited

MPHL IN

Technology

CMP	**1014**
Target	**1325**
Upside	**31%**
Rating	**BUY**

	FY17	FY18	FY19	FY20
Roe%	12.9	15.3	21.0	20.9
Roce%	14.5	18.1	24.7	25.4
PE	15.4	19.5	17.6	15.3
PB	2.0	3.0	3.7	3.2
EV/EBITDA	12.2	15.3	14.1	11.5

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Revenues (USD m)	**894**	**989**	**1,115**	**1,232**	**252**	**276**	**283**
Segment revenue ($mn)							
Direct International	*643*	*691*	*761*	*837*	177	187	*192*
DXC / HP Business	214	260	315	357	65	78	80
Others	*36*	*38*	*39*	*38*	9	10	*10*
Financials							
Sales	**6,076**	**6,546**	**7,841**	**8,932**	**1,661**	**1,915**	**2,036**
Sales Gr	*0%*	*8%*	*20%*	*14%*	*8%*	*19%*	*23%*
Ebdita	**969**	**1,062**	**1,337**	**1,581**	**274**	**333**	**342**
Ebdita Gr	*8%*	*10%*	*26%*	*18%*	*14%*	*34%*	*25%*
Net Profits	**792**	**837**	**1,073**	**1,232**	**215**	**271**	**267**
Profit Gr%	*18%*	*6%*	*28%*	*15%*	*5%*	*37%*	*24%*
EbditaM%	**15.9%**	**16.2%**	**17.0%**	**17.7%**	**16.5%**	**17.4%**	**16.8%**
Net Mgn%	**13.0%**	**12.8%**	**13.7%**	**13.8%**	**12.9%**	**14.2%**	**13.1%**

Conso/ Fig in Rs Cr

❑Sales for 3QFY19 are expected to improve 2.5%QoQ in usd term led by continued traction from core services (HP and direct channel) and new client wins in Blackstone Portfolio. However digital risk and others channel continued to be flat in 3QFY19.

❑HP is expected to grow double digit on the back of revamped relations with four HP entities. Deal wins are encouraging ($210mn new wins) and gives us strong revenue growth visibility going ahead.

❑Other business is a legacy business which primarily focuses on the local domestic market. We expect others to be soft in 3QFY19 as investment is not happening since it's not the focus area for the management.

❑Digital Risk business is key to Mphasis strength in BFSI domain but we expect it to below its desired range of USD28-30m in 3QFY19 as management continues to face challenges due to fall in origination volumes and issue in mortgage industry.

❑Margin for the quarter is expected to decline by 60bps as wage hike will impact in 3QFY19. However some portion will mitigated by operational efficiency. For FY19, margin is guided in the range of 15% to 17% on the back of FX tailwind, shift in business model & better margin in digital .

Key Trackable this Quarter

❑Commentary on macro challenges like Brexit, Mortgage industry and interest scenario.
❑Traction in Blackstone portfolio companies .
❑Expanded relationship with HP to aid strong revenue growth **.**

We value the stock at 20x FY20EPS. BUY

NIIT Technologies Limited

Technology

NITEC IN

CMP	**1150**
Target	**1321**
Upside	**15%**
Rating	**BUY**

	FY17	FY18	FY19	FY20
Roe%	17.6	15.7	14.4	18.8
Roce%	17.8	18.3	23.2	24.3
PE	9.8	19.0	16.2	13.9
PB	1.6	3.0	3.3	2.8
EV/EBITDA	4.9	9.8	10.3	8.4

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Revenues growth(%)	25%	11%	15%	14%	15%	16%	15%
Vertical Mix(mn $)							
BFSI	175	197	240	274	51	59	61
Travel & Trans.	*134*	*126*	*143*	*163*	32	35	37
Mfg, Med & Oth	*109*	*138*	*146*	*164*	35	37	37
Financials							
Sales	**2,802**	**2,991**	**3,698**	**4,333**	**757**	**907**	**967**
Sales Gr	*4%*	*7%*	*24%*	*17%*	*9%*	*23%*	*28%*
Ebdita	**480**	**501**	**653**	**782**	**125**	**164**	**177**
Ebdita Gr	*1%*	*4%*	*30%*	*20%*	*8%*	*35%*	*41%*
Net Profits	**272**	**280**	**436**	**507**	**76**	**112**	**119**
Profit Gr%	*-5%*	*3%*	*56%*	*16%*	*21%*	*67%*	*57%*
EbditaM%	**17.1%**	**16.7%**	**17.7%**	**18.0%**	**16.6%**	**18.1%**	**18.3%**
Net Mgn%	**9.7%**	**9.4%**	**11.8%**	**11.7%**	**10.0%**	**12.4%**	**12.3%**

Conso/ Fig in Rs Cr

❑ 3QFY19 are expected to improve 3.2% in USD term led by sustained flow of fresh order ($160 mn in 2QFY19) and continued growth in verticals like Travel and transport and BFS.

❑We expect travel and transport to post strong growth in 3QFY19 as well in FY19 as demand in airlines (40% of Travel) is showing robust growth. According to IATA demand (measured in revenue passenger kilometers, or RPKs) rose 6.3% compared to the same month last year. This has marked a rebound from 5.5% growth recorded in September, which was an eight-month low. Capacity also grew 6.3% and load factor was flat at 81.1%, matching last year's record for the month. Thus showing demand is all intact for FY19.

❑As BFS industry spending is increasing significantly, with increase in spending across regulatory and innovation domains, BFS is expected to show a strong growth in 3QFY19.

❑Margin are expected to slightly improve 30 bps in 3QFY19 (as wage hike has already happened in 2QFY19) supported by SG&A cost and benefit from currency expenses.

❑The management expects at least double digit growth in revenue in FY19 on an organic basis in CC terms owing to a healthy order book in FY19 , continued deal win momentum and strong leadership team.

Key Trackable this Quarter

❑ NITTECH expects to continue signing at least two large deals every quarter.
❑Double digit growth in revenue on an organic basis in CC terms in FY19.
❑Commentary on Sustained uptick in fresh order intake

We value the stock at 16x FY20E. BUY

Persistent Systems Limited

Technology

PSYS IN

CMP	**613**
Target	**734**
Upside	**20%**
Rating	**BUY**

	FY17	FY18	FY19	FY20
Roe%	17.0	16.0	16.6	16.5
Roce%	17.9	15.4	19.5	19.4
PE	15.8	18.0	13.1	11.7
PB	2.5	2.7	2.0	1.8
EV/EBITDA	9.9	12.1	7.8	6.8

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Revenues growth(%)	**22%**	**10%**	**5%**	**11%**	**11%**	**0%**	**1%**
Revenue by industry							
Services	195	206	206	220	51	51	52
Digital	70	100	107	122	27	26	27
Alliance	126	130	152	177	36	35	38
Accelerite	38	34	26	27	8	7	7
TOTAL	**429**	**471**	**491**	**546**	**123**	**118**	**124**
Financials							
Sales	**2,878**	**3,034**	**3,466**	**3,961**	**792**	**836**	**890**
Sales Gr	*24%*	*5%*	*14%*	*14%*	*6%*	*10%*	*12%*
Ebdita	**465**	**469**	**604**	**678**	**138**	**144**	**157**
Ebdita Gr	*12%*	*1%*	*29%*	*12%*	*16%*	*24%*	*15%*
Net Profits	**302**	**323**	**374**	**419**	**92**	**88**	**98**
Profit Gr%	*1%*	*7%*	*16%*	*12%*	*12%*	*7%*	*6%*
EbditaM%	**16.2%**	**15.5%**	**17.4%**	**17.1%**	**17.4%**	**17.2%**	**17.7%**
Net Mgn%	**10.5%**	**10.6%**	**10.8%**	**10.6%**	**11.6%**	**10.6%**	**11.0%**

Conso/ Fig in Rs Cr

❑ Digital unit saw lower than expected performance in 2QFY19 due to short closure of one of the projects and shift in business mix. However in 3QFY19, the management expects digital business to bounce back with customers ramping up their digital spend.

❑Alliance is expected to post a growth in 3QFY19 due to growth in IBM Iot business (going to be the last quarter for the calendar year for the largest partner) as well as the ramp up of new IP deals. We expect strong deal momentum to continue for rest of the year.

❑Reseller business which showed strong growth in 1QFY19 to show similar growth in 3QFY19 as lot of opportunity is seen there.

❑With strong pipeline and great traction from the focus areas, the management expects technology service business is well poised to drive the growth in future.

❑EBIT margin are expected to improve 50 bps led by currency benefit(60bps) and operational efficiency as wage hike impact is behind.

Key Trackable this Quarter

❑ Digital is expected to recover in 3QFY19 on back of robust pipeline and deal wins.

❑Appointment of new team member in the management.

❑Outlook on margin .

We value the stock at 14x FY20E. BUY

Sonata Software Limited

SSOF IN

Technology

CMP	**295**
Target	**379**
Upside	**28%**
Rating	**BUY**

	FY17	FY18	FY19	FY20
Roe%	29.1	31.0	33.5	32.2
Roce%	28.7	27.7	29.7	33.8
PE	21.4	17.6	13.1	11.7
PB	5.6	5.2	4.1	3.5
EV/EBITDA	16.0	13.3	8.8	7.8

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
IIT Services growth	**17%**	**19%**	**21%**	**19%**	**20%**	**17%**	**20%**
Domestic growth	**36%**	**-12%**	**5%**	**-6%**	**27%**	**63%**	**-23%**
Revenue (Ex intersegmental)							
Intl Services- OPD	234	267	311	356	67	77	80
Intl Services-TTL	214	255	326	435	67	80	86
Intl Services-Retail Dist.	195	237	293	368	65	72	77
Intl Services-Others	134	170	191	181	41	47	47
Domestic	1,764	1,547	1,618	1,523	530	326	407
TOTAL	***2,541***	***2,475***	**2,740**	**2,862**	***771***	***601***	**697**
Financials							
Sales	**2,521**	**2,454**	**2,709**	**2,829**	**767**	**593**	**689**
Sales Gr	*30%*	*-3%*	*10%*	*4%*	*25%*	*39%*	*-10%*
Ebdita	**192**	**231**	**304**	**325**	**65**	**74**	**80**
Ebdita Gr	*0%*	*20%*	*32%*	*7%*	*21%*	*35%*	*23%*
Net Profits	**154**	**192**	**237**	**266**	**49**	**62**	**60**
Profit Gr%	*-3%*	*25%*	*23%*	*12%*	*28%*	*38%*	*22%*
EbditaM%	**7.6%**	**9.4%**	**11.2%**	**11.5%**	**8.5%**	**12.5%**	**11.6%**
Net Mgn%	**6.1%**	**7.8%**	**8.7%**	**9.4%**	**6.4%**	**10.5%**	**8.7%**

Conso/ Fig in Rs Cr

- ❑ Sonata 3QFY19 IIT'S services are expected to improve 3% QoQ in usd term led by strong growth in verticals like Retail Distribution and travel and transport and continued revenue from IP offering.
- ❑Travel vertical is expected to continue to post strong growth led by robust pipeline by large client and growth from new acquired client in Europe .
- ❑Domestic business which is volatile in nature and depends on the large deal signing in a particular quarter is expected to report 3% margin in 3QFY19..
- ❑Margin in IT services are likely to be within the range of 22% to 24% in 3QFY19 as the company is seeing growth through its IP-strategy (higher margin business), digital spending in retail and support from currency.
- ❑The management expects 2HFY19 to see some softness as it has hedged in 69 to 70 ranges so resulting in some loss however currency translation will give some benefit. More benefit of currency is expected to plug in 1HFY20.
- ❑The management has highlighted that if the ~30 clients who are identified as strategic customers, If these accounts scale up from current US$1mn revenues to US$3-5mn, it would significantly boost its service revenues in three years.

Key Trackable this Quarter

❑ IITS business to report better margins than FY18

❑Continued growth in IP revenue.

We value the stock at 15x FY20E. BUY

Tata Elxsi Limited

Technology

TELX IN

CMP	**1021**
Target	**1317**
Upside	**29%**
Rating	**BUY**

	FY17	FY18	FY19	FY20
Roe%	36.7	37.0	34.8	30.6
Roce%	56.4	49.4	46.5	42.0
PE	26.3	25.6	21.3	18.6
PB	8.2	8.3	6.5	5.1
EV/EBITDA	14.9	17.5	14.3	11.7

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Software Development	1166	1329	1599	1876	336	391	404
Systems Integration	67	57	48	46	9	11	9
Segments(in cr)							
Software Development							
Embedded Prod Design	996	1,160	1,425	1,696	296	349	362
Indl Design & Visualis.	*171*	*169*	*173*	*180*	40	42	42
Systems Integration	67	57	48	46	9	12	9
Financials							
Sales	**1,233**	**1,386**	**1,646**	**1,922**	**346**	**403**	**413**
Sales Gr	*15%*	*12%*	*19%*	*17%*	*12%*	*18%*	*20%*
Ebdita	**293**	**346**	***426***	***500***	**93**	**107**	**103**
Ebdita Gr	*19%*	*18%*	*23%*	*17%*	*27%*	*27%*	*10%*
Net Profits	**173**	**240**	***298***	***342***	**63**	**82**	**71**
Profit Gr%	*12%*	*39%*	*24%*	*15%*	*43%*	*44%*	*13%*
EbditaM%	**23.8%**	**25.0%**	**25.8%**	**26.0%**	**27.1%**	**26.5%**	**24.9%**
Net Mgn%	**14.1%**	**17.3%**	**18.1%**	**17.8%**	**18.2%**	**20.4%**	**17.1%**

Std/ Fig in Rs Cr

❑ Sales are expected to report revenue growth of 20% YoY in 3QFY19 led by continued momentum in automotive segment and new opportunities in android & OTT space (Broadcast). However, JLR will continue to offset some portion of automotive.

❑Automotive segment which is major contributor in EPD(Embedded Product Design) is expected to continue to improve as all the key market like Europe, Japan, and the US are posting growth .

❑Industrial design (contributes aprrox 11% of the overall revenue) is expected to improve in 3QFY19 onwards after a stagnant performance in last few quarters as new engagement are ramping up in 3QFY19

❑JLR which is key customer and contributes nearly 21 - 22%, of the revenue is expected to continue to face challenges in the next few quarter due to issue in JLR business. Thus expected to impact some portion of automotive business in 3QFY19.

❑Margin is expected to decline in 3QFY19 by 170 bps as the management is investing in adding new workforce and re-skilling the employees.

Key Trackable this Quarter

❑ Management commentary on macro challenges like Brexit and JLR revenue .

❑Commentary for FY19 regarding revenue growth of 20%YoY.

❑FY19 Margin to surpass 24% to 25% guided band .

We value the stock at 24x FY20E. BUY

Tata Consultancy Services Ltd

Technology

TCS IN

CMP	**1896**
Target	**2018**
Upside	**6%**
Rating	**HOLD**

	FY17	FY18	FY19	FY20
Roe%	33.5	30.2	37.0	34.8
Roce%	37.3	34.4	43.1	40.4
PE	18.2	21.1	21.8	19.7
PB	5.6	6.4	7.8	6.1
EV/EBITDA	14.7	16.6	17.1	15.4

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Revenues growth(%)		**9%**	**10%**	**10%**	**9%**	**10%**	**11%**
Revenue by industry							
BFSI	5,861	6,096	6,600	7,437	1,513	1627.08	1,676
Manufacturing	1,289	1,417	1,512	1,586	359	375.48	381
Retail & Cons Buss.	2,845	3,113	3,479	3,749	799	865.69	883
Communication, media	2,600	2,863	3,039	3,243	718	756	764
Others	*4,942*	*5,600*	*6,377*	*7,119*	1,398	1,591	1,613
TOTAL	***17,537***	***19,089***	***21,007***	***23,134***	**4,787**	**5,215**	**5,317**
Financials							
Sales	**117,966**	**123,104**	**148,453**	**167,723**	**30,904**	**36,854**	**38,282**
Sales Gr	*9%*	*4%*	*21%*	*13%*	*4%*	*21%*	*24%*
Ebdita	**32,311**	**32,516**	**41,409**	**45,247**	**8,287**	**10,280**	**10,796**
Ebdita Gr	*6%*	*1%*	*27%*	*9%*	*1%*	*26%*	*30%*
Net Profits	**26,357**	**25,880**	**32,585**	**36,076**	**6,545**	**7,929**	**8,416**
Profit Gr%	*9%*	*-2%*	*26%*	*11%*	*-4%*	*23%*	*29%*
EbditaM%	**27.4%**	**26.4%**	**27.9%**	**27.0%**	**26.8%**	**27.9%**	**28.2%**
Net Mgn%	**22.3%**	**21.0%**	**21.9%**	**21.5%**	**21.2%**	**21.5%**	**22.0%**

Conso/ Fig in Rs Cr

❑3QFY19 Sales are expected to improve 2%QoQ in USD term led by robust deal pipeline (4.9bn TCV win in 2QFY19), continued growth in segment like BFSI, Retail and regional market and strong growth in digital business.

❑ BFSI is expected to post steady growth in 3QFY19 as North America BFSI has finally started to recover. Even Large US banks which had been a problem area for the entire industry has shown revival as pressure on costs and regulation has eased out .Thus we have seen growth in last two quarter and expect to continue see growth in 3QFY19 also.

❑Regional market which post platform revenues is expected to deliver strong growth in 3QFY19 on the back of execution of past deal wins. Even the management has stated of at least a few more quarters of steady growth led by existing deal wins.

❑However UK as geography may faces challenges due to the complex market structure as uncertainty in demand trajectory and deal wins.

❑Margin is expected to improve by 30 bps in 3QFY19 led by operational efficiency and currency tailwind.

❑Management expects to post double-digit constant currency revenue growth for FY19. Margins are expected to reach the aspired band of 26-28% led by currency tailwind, higher revenue growth and improved operational metrics

Key Trackable this Quarter

❑ Increase in TCV wins.

❑Commentary by management on UK demand environment.

❑Outlook on BFS and Retail revenue growth for FY19.

We value the stock at 21x FY20E. HOLD

Tech Mahindra Limited

TECHM IN

Technology

CMP	**721**
Target	**841**
Upside	**17%**
Rating	**BUY**

	FY17	FY18	FY19	FY20
Roe%	18.4	21.5	21.2	20.6
Roce%	16.8	16.5	21.0	20.4
PE	15.7	16.5	16.4	14.6
PB	2.7	3.3	3.2	2.8
EV/EBITDA	10.5	13.2	11.0	9.7

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Revenues growth(%)	**8%**	**10%**	**4%**	**11%**	**9%**	**4%**	**3%**
Revenue by industry							
Communication	2,077	2,066	2,053	2,337	517	506	521
Enterprise	2,269	2,706	2,929	3,204	693	714	727
TOTAL	**4,346**	**4,772**	**4,982**	**5,541**	**1,210**	**1,220**	**1,248**
Financials							
Sales	**29,141**	**30,773**	**35,181**	**40,148**	**7,776**	**8,630**	**8,985**
Sales Gr	*10%*	*6%*	*14%*	*14%*	*3%*	*13%*	*16%*
Ebdita	**4,184**	**4,710**	**6,419**	**7,128**	**1,265**	**1,619**	**1,725**
Ebdita Gr	*-2%*	*13%*	*36%*	*11%*	*7%*	*46%*	*36%*
Net Profits	**2,851**	**3,786**	**4,304**	**4,849**	**924**	**1,056**	**1,145**
Profit Gr%	*-6%*	*33%*	*14%*	*13%*	*9%*	*26%*	*24%*
EbditaM%	**14.4%**	**15.3%**	**18.2%**	**17.8%**	**16.3%**	**18.8%**	**19.2%**
Net Mgn%	**9.8%**	**12.3%**	**12.2%**	**12.1%**	**11.9%**	**12.2%**	**12.7%**

Conso/ Fig in Rs Cr

❑Tech Mahindra 3QFY19 sales are expected to improve 2.3% QoQ in usd term led by healthy order book, strong growth in communication segment and revival in enterprise segment.

❑Telecom has revived in last two quarters. We expect 3QFY19 to see continued growth in this segment led by continued deal win in digital transformation work and increase in capex spending. Also 2HFY19 is historically considered strong for Communication segment. Growth in Communications does not factor in any tailwinds from the 5G opportunity.

❑Enterprise segment which also contribute the rest half of the revenue (50 to 55%) is expected to improve in 3QFY19 on the back of large deal wins and growth in retail and manufacturing segment.

❑HCI which has declined nearly half its revenue(40mn) in 2QFY19 due to ramp down of few projects is expected to start recover in couple of quarter as news deal wins ramp up.

❑Margins are expected to improve 40 bps on the back of improvement in communication business, increase in share of digital part and improvement in operational parameters like utilization. Currency continues to benefit 50 to 100 bps however the management will continue its investment process.

❑Management has also stated that the pace of margin improvement has been quite fast but they expect gradual margin improvements over the next two quarters.

Key Trackable this Quarter

❑ Revival in HCI business

❑Continued deal wins in telecom segment.

❑Management comment on guidance of 8% to 10% cc growth in enterprise segment.

We value the stock at 17x FY20E. BUY

Wipro Limited

WRPO IN

Technology

CMP	**330**
Target	**368**
Upside	**12%**
Rating	**ACCUMULATE**

	FY17	FY18	FY19	FY20
Roe%	17.4	16.1	15.9	15.4
Roce%	17.8	15.6	15.5	15.4
PE	14.7	15.9	18.2	16.1
PB	2.4	2.7	2.7	2.3
EV/EBITDA	11.8	13.0	14.7	12.6

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Revenues (USD m)	**7,723**	**8,060**	**8,220**	**8,654**	**2,013**	**2,041**	**2,067**
Segment revenue (in crore)							
IT Services	*52,844*	*52,841*	*57,976*	*62,742*	13,235	14,377	*14,882*
IT Products	2,592	1,800	1,482	1,521	450	288	431
Total	**55,436**	**54,641**	**59,458**	**64,262**	**13,684**	14,665	15,313
Financials							
Sales	**55,448**	**54,487**	**59,538**	**64,262**	**13,669**	**14,568**	**15,313**
Sales Gr	*8%*	*-2%*	*9%*	*8%*	*-1%*	*8.2%*	*12%*
Ebdita	**11,321**	**10,387**	**10,582**	**12,017**	**2,487**	**2,377**	**2,710**
Ebdita Gr	*5%*	*-8%*	*2%*	*14%*	*-13%*	*-15%*	*9%*
Net Profits	**8,518**	**8,003**	**8,216**	**9,256**	*1,929*	**1,886**	**2,078**
Profit Gr%	*-5%*	*-6%*	*3%*	*13%*	*-9%*	*-14%*	*8%*
EbditaM%	**20.4%**	**19.1%**	**17.8%**	**18.7%**	**18.2%**	**16.3%**	**17.7%**
Net Mgn%	**15.4%**	**14.7%**	**13.8%**	**14.4%**	**14.1%**	**12.9%**	**13.6%**

Conso/ Fig in Rs Cr

❑Sales in IT service are expected to improve 1.3%QoQ in usd term in 3QFY19 mainly on account of greater traction in BFSI, revival in energy and utilities and revenue from the Alight deal. However Healthcare business will continue to be under pressure. (*sales number includes PSU business of $34mn).

❑For 3QFY19, Management has guided a sequential growth outlook of 1.0% to 3.0% for IT Services.

❑IT Products revenue is expected to improve in 3QFY19 as management focus is now to run tight and profitable business.

❑Alight Solutions which is largest ever deal win for Wipro is expected to now aid two month revenue in 3QFY19.This deal will result in revenues of USD $1.5 to $1.6 billion for Wipro for 2HFY19.

❑Post wage hike, margin in 3QFY19 are expected to improve 140 bps (comparable with one time loss incurred in 2QFY19) led by operational efficiency and currency benefit. However continued investment will offset some portion margin expansion.

Key Trackable this Quarter

❑ Continued strength in BFS and Energy.

❑Outlook on spending on key clients .

❑Further announcement on any business curving out.

❑Continued uncertainties in HPS is expected to impact USD revenue growth in 3QFY19.

We value the stock at 18x FY20E. ACCUMULATE

Zensar Technologies Limited

Technology

ZENT IN

CMP	**234**
Target	**273**
Upside	**17%**
Rating	**BUY**

	FY17	FY18	FY19	FY20
Roe%	17.4	15.7	18.6	18.3
Roce%	19.3	14.4	16.3	17.8
PE	17.4	16.4	15.7	13.7
PB	2.8	2.4	2.7	2.3
EV/EBITDA	10.4	10.5	10.7	9.0

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Revenues growth(%)	**1%**	**5%**	**16%**	**13%**	**5%**	**16%**	**15%**
Revenue (in usd mn)							
Application	359	402	475	535	102	117	120
IMS	99	80	86	102	21	20	21
TOTAL	**458**	**482**	**561**	**636**	**123**	**137**	**141**
Financials							
Sales	**3,056**	**3,108**	**3,869**	**4,479**	**794**	**969**	**995**
Sales Gr	*2%*	*2%*	*25%*	*15%*	*1%*	*27%*	*25%*
Ebdita	**382**	**365**	**506**	**598**	**105**	**123**	**133**
Ebdita Gr	*-21%*	*-4%*	*39%*	*18%*	*-4%*	*38%*	*26%*
Net Profits	**238**	**246**	**336**	**384**	**60**	**95**	**79**
Profit Gr%	*-18%*	*3%*	*36%*	*14%*	*-25%*	*51%*	*31%*
EbditaM%	**12.5%**	**11.7%**	**13.1%**	**13.4%**	**13.3%**	**12.7%**	**13.4%**
Net Mgn%	**7.8%**	**7.9%**	**8.7%**	**8.6%**	**7.6%**	**9.8%**	**7.9%**

Conso/ Fig in Rs Cr

❑ 3QFY19 sales are expected to improve 2.3% in USD term led by robust deal pipeline, bounce back of retail vertical and strong momentum in Digital business.

❑Digital business (which now contributes 44.2% of overall revenue) continued to grow in 2QFY19 (5.2%sequentially) mainly driven by CX/UX, front end development capabilities and cloud in Infrastructure and mobility business. We are confident of momentum to continue in 3QFY19 and for rest of the year led by robust deal pipeline (nearly 50% wins have been in Digital).

❑ZENSAR technologies TCV stands for USD800+mn in 2QFY19 which is expected translate in revenues in 3QFY19 and the full impact to be seen in 4QFY19.

❑Margin for 3QFY19 is expected to improve by 70 to 80 bps led by improvement in operational parameter like subcontracting cost (even management expects Subcontractor will go down), increased digital contribution, however MVS and Row (non core business) which are low margin businesses continue to offset some portions of margin.

Key Trackable this Quarter

❑ Revenue from acquired entity Indigo slate.

❑Continued increase in share of Digital revenue.

❑Increase in TCV wins.

We value the stock at 16x FY20E. BUY

Allcargo Logistics Ltd.

AGLL IN

CMP	**109**
Target	**130**
Upside	**19%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	13%	9%	11%	12%
Roce%	14%	10%	12%	13%
EV/EBITDA	9.3	9.7	6.1	5.5
P/E	17.4	20.8	11.3	9.8
P/B	2.3	1.8	1.2	1.1

	FY17	FY18	FY19E	FY20E	3QFY18	2QFY19	3QFY19E
MTO Volume Gr %	11%	15%	20%	10%	7%	20%	20%
Realization/ TEU	93,254	91,717	87,251	90,207	91,749	88,438	88,438
CFS Volume Gr %(Adj)	7%	3%	11%	3%	-5%	22%	9%
Realization/ TEU	14,789	13,667	13,464	13,484	13,163	13,484	13,484
Revenue							
MTO	4,756	5,375	6,158	7,004	1,327	1,541	1,535
CFS	431	409	447	463	94	119	105
PE	457	314	368	469	71	94	99
EBIT M %							
MTO	3%	4%	4%	4%	4%	4%	4%
CFS	24%	29%	30%	29%	29%	33%	29%
PE	7%	-16%	0%	7%	-15%	-1%	2%
Financials							
Sales	5,583	6,047	6,954	7,956	1,480	1,737	1,744
Sales Gr	-1%	8%	15%	14%	5%	12%	18%
Ebdita	465	375	468	526	93	125	117
Ebdita Gr	-8%	-19%	25%	12%	-6%	19%	25%
Net Profits	238	174	237	273	32	63	57
Profit Gr%	*-4%*	*-27%*	*36%*	*15%*	*-35%*	*-4%*	*77%*
EbditaM%	8.3%	6.2%	6.7%	6.6%	6.3%	7.2%	6.7%
Net Mgn%	4.3%	2.9%	3.4%	3.4%	2.2%	3.6%	3.3%

Conso/Fig in Rs Cr

- ❑ Strong growth in MTO business, higher share in DPD cargo will lead to revenue growth in Q3FY19. We have anticipated 18% YoY revenue growth.
- ❑ MTO expected to report strong cargo volume growth of 20% on back of increased focus on FCL cargo.
- ❑ Higher share in DPD cargo and Kolkata CFS expected to boost CFS volume by 9%.
- ❑ EBITDA /EBIT margin will improve by 40/80 bps as the losses from PE segment will narrow down on account of improvement in revenue and no further requirement of bad debt provision.
- ❑ Similarly, PAT is also expected to improve by 100 bps to 3.3% on account of better revenues and improved EBIT margin.
- ❑ Capex requirement for H2FY19 is Rs.100-150 Cr. Projected capital outlay of Rs.1000 Cr over next 3-5 years to develop multi model logistic parks and warehouse facilities.

Key Trackable this Quarter

- ❑ Revenue and EBIT of PE business
- ❑ Volume growth of CFS segment

We value the stock at 6.5x FY20E EV/EBITDA. BUY

Container Corporation Of India Ltd

Logistics

CCRI IN

CMP	**688**
Target	**843**
Upside	**23%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	10%	11%	13%	15%
Roce%	10%	11%	15%	17%
P/E	28.1	28.1	24.9	20.2
P/B	2.7	3.2	3.3	3.0
EV/Ebdita	17.2	18.1	15.2	12.2

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Standalone Volume (in 000's TEUs)							
EXIM	2,642	3,002	3,321	3,819	739	849	786
Domestic	461	530	594	672	128	140	140
Standalone Segment Revenue							
EXIM	4,518	4,851	5,842	6,901	1,319	1,467	1,559
Domestic	1,088	1,319	1,469	1,668	320	355	363
Sales	5,980	6,622	7,829	9,145	1,640	1,822	1,922
Sales Gr	*-5%*	*11%*	*18%*	*17%*	*25%*	*27%*	*17%*
Ebdita	1,246	1,499	1,995	2,428	446	504	524
Ebdita Gr	*8%*	*20%*	*33%*	*22%*	*71%*	*79%*	*18%*
Net Profits	857	1,073	1,347	1,656	289	336	344
Profit Gr%	*10%*	*25%*	*26%*	*23%*	*55%*	*51%*	*19%*
Ebdita Margin%	20.8%	22.6%	25.5%	26.6%	27.2%	27.7%	27.3%
Net Profit Margin%	14.3%	16.2%	17.2%	18.1%	17.6%	18.4%	17.9%

*Yearly Consolidated and Quarterly Standalone — Fig in Rs Cr

❑ Revenue growth in Q3FY19 is expected to be 17.2% on the back of 18.2% growth in EXIM & 13.3% growth in Domestic.

❑ We have factored in a volume growth of 6.3% & 9.6% YoY for EXIM & Domestic respectively. Also, realizations are expected to be higher by 11.2% YoY for EXIM primarily due to recent price hikes taken by CONCOR, whereas domestic realizations are expected to improve by 3.4% YoY.

❑ EBITDA margins are expected to improve by 100bps YoY to 27.3% in Q3FY19 as CONCOR continues to witness efficiency gains due to higher double stacking (10% of the total volumes are double stacked), improvement in rail freight margin & higher realizations. In FY19, management has guided for a 50% growth in double stacking (1638 trains in H1FY19 as against 1012 trains in H1FY18).

❑ PAT is expected to grow by 19% in Q3FY19 on the back of EBITDA margin improvement.

❑ Capex is expected to be around INR 800-1000cr in FY19. Management has guided for an increase in terminal network from 79 in FY18 to 90 in FY19 (82 in Q2FY19) & 100 in FY20.

❑ As on H1FY19, total receivable from Government on account of SEIS stands at INR 875cr.

❑ Management is targeting a revenue of INR 12,000cr & 7,000 (000's) TEUs by FY21 on the back of foray into 3PL logistics, coastal shipping venture. Also, proposed DFC (Mundra & Pipavav will open up by March 2019) is expected to increase the speed of transportation leading to efficiency & market share gains.

Key Trackable this Quarter

❑ Growth in double stacking & additions to the terminal network

❑ Volumes & realizations for segments - EXIM & Domestic

We value the stock 15x FY20e EV/EBITDA. BUY

Future Supply Chain Solutions Ltd

FSCSL IN

Logistics

CMP	**656**
Target	**714**
Upside	**9%**
Rating	**ACCUMULATE**

	FY17*	FY18	FY19E	FY20E
Roe%	16%	14%	15%	20%
Roce%	15%	19%	16%	23%
P/E	56.8	45.7	36.3	20.7
P/B	8.9	6.3	5.3	4.2
EV/Ebdita	33.5	23.1	17.2	11.0

* Based on Issue Price

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
W. Space (Mn sq ft)		4.6	7.6	9.6	4.4	6.4	7.0
Segment Revenue							
Contract		584	902	1,275	148	220	246
Express		172	358	409	35	46	48
Temp. Controlled		32	34	38	8	8	9
Others		5	18	12	5	2	3
Sales	560	793	1,312	1,734	195	276	305
Sales Gr	*8%*	*41%*	*65%*	*32%*	*36%*	*34%*	*56%*
Ebdita	74	113	154	236	33	39	45
Ebdita Gr	*6%*	*52%*	*36%*	*54%*	*61%*	*21%*	*36%*
Net Profits	46	58	72	127	16	21	23
Profit Gr%	*55%*	*27%*	*24%*	*75%*	*37%*	*5%*	*40%*
Ebdita Margin%	13.3%	14.2%	11.7%	13.6%	17.0%	14.0%	14.7%
Net Profit Margin%	8.2%	7.4%	5.5%	7.3%	8.3%	7.7%	7.4%

*Yearly Consolidated and Quarterly Standalone

Fig in Rs Cr

❑Revenue growth in Q3FY19 is expected to be around 56% on the back of marquee client wins like Voltbek Home Appliances, JK Helene Curtis (part of Raymond Group), Tilda and many more. Management has indicated a strong 12 month sales funnel of INR 400-500cr.

❑FSC is moving from direct-to-store delivery to a distribution centre-based model, which will lead to the Future Group entities completely giving up the back office storing functions. This will pave the way for robust growth from Anchor group as well.

❑ Gross margins are expected to dip from 33.8% in FY18 to 28.7% in FY19 due to lag effect in achieving optimal utilisation of new warehousing space & changing mix towards foods business (low margin, but high churn). In FY20, gross margins are expected to recoup to 31.1%.

❑ In Q3FY19, EBITDA margins are expected to dip YoY to 14.7% as FSC continues to aggressively add warehousing space. EBITDA margins are expected to dip significantly in FY19 as Vulcan express (100% subsidiary acquired in February 2018) is expected to turn EBITDA positive only from Q4FY19 onwards. In FY20, EBITDA margins are expected to rebound sharply with Vulcan express turning into black.

❑ FSC is expected to add another 1.2 mn sq ft & 2mn sq ft of warehousing space in H2FY19 & in FY20 respectively (H1FY19 addition of 1.8mn sq ft).

❑ FSC has raised INR 199cr via NCD issue to fund the proposed expansion, thus taking the total debt on the books from INR 25cr in FY18 to INR 218cr in H1FY19 post the said issue.

Key Trackable this Quarter

❑ Addition of Marquee Clients & increase in Warehousing Space

❑ Share of Future Group Entities to the Total Revenue & revenue growth of Non-Anchor customers

We value the stock 12x FY20e EV/EBITDA. ACCUMULATE

Mahindra Logistics Ltd

MAHLOG IN

CMP	**517**
Target	**567**
Upside	**10%**
Rating	**ACCUMULATE**

	FY17*	FY18	FY19E	FY20E
Roe%	13%	15%	19%	21%
Roce%	17%	23%	28%	32%
P/E	65.3	53.7	39.5	29.1
P/B	8.6	8.2	7.4	6.1
EV/Ebdita	38.1	28.0	22.3	16.6

*Based on Issue Price

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Segment Revenue							
SCM	2,372	3,076	3,539	4,386	754	829	916
PTS	295	340	378	423	81	98	94
Sales	2,667	3,416	3,918	4,809	835	927	1,009
Sales Gr	*29%*	*28%*	*15%*	*23%*	*17%*	*11%*	*21%*
Ebdita	76	120	162	215	29	34	45
Ebdita Gr	*46%*	*57%*	*35%*	*33%*	46%	31%	*52%*
Net Profits	46	64	93	126	15	19	26
Profit Gr%	*25%*	*40%*	*46%*	*36%*	*29%*	*37%*	*73%*
Ebdita Margin%	2.9%	3.5%	4.1%	4.5%	3.5%	3.7%	4.4%
Net Profit Margin%	1.7%	1.9%	2.4%	2.6%	1.8%	2.0%	2.5%

Conso/Fig in Rs Cr

❑ Revenue growth in Q3FY19 is expected to be around 21% on the back of several client wins in Q2FY19 with a higher share of warehousing.

❑ EBITDA margins are expected to around 4.4% in Q3FY19 on the back of cost rationalization efforts for operating expenses and employee cost along with higher warehousing revenue growth to continue driving EBITDA margin expansion by 90 bps YoY and 80 bps QoQ in Q3FY19.

❑ PAT is expected to grow by 73% in Q3FY19 on the back of EBITDA margins improvement.

❑ Management has guided for a capex of INR 20-25cr each in the next 2 years with 0.4mn addition in warehousing space in H2FY19 post the addition of 0.6mn of warehousing space in H1FY19.

❑ MAHLOG is looking to increase the size of large warehouses from 3 lac sq ft to 3 mn sq ft in the next 3 years, and thus has indentified Delhi, Bangalore and Chennai as three of the potential destinations along with another warehouse at Chakan.

❑ MAHLOG, engaged into a backward integration, by acquiring Transtech Logistics Private Limited ("TLPL") for an investment of upto INR 7cr. TLPL provides transport management solution to 3PL players (including MAHLOG) on SaaS model under the brand name "ShipX".

❑ Management has guided for INR 6,000cr revenue by FY21 (CAGR of 25% over FY18-21) with 0.5% EBITDA margin expansion annually on the back of higher share of warehousing to the total revenue.

Key Trackable this Quarter

❑ Addition of Marquee Clients and Increase in Warehousing Space

❑ Share of warehousing revenue in the SCM segment

❑ EBITDA margins trend

We value the stock 32x FY20e EPS. ACCUMULATE

TCI Express Ltd
TCIEXP IN

Logistics

CMP	**627**
Target	**607**
Upside	**-3%**
Rating	**NEUTRAL**

	FY17	FY18	FY19E	FY20E
Roe%	26%	32%	31%	31%
Roce%	32%	39%	41%	43%
P/E	40.4	31.2	32.5	24.9
P/B	9.4	8.8	9.0	6.9
EV/Ebdita	24.8	20.3	20.1	15.5

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Volume Growth %		14.0%	15.7%	14.8%	17.6%	17.0%	14.3%
Sales	750	885	1,057	1,257	229	247	271
Sales Gr	*13%*	*18%*	*19%*	*19%*	*22%*	*21%*	*18%*
Ebdita	62	91	121	155	24	27	32
Ebdita Gr	*13%*	*46%*	*33%*	*28%*	*64%*	*38%*	*32%*
Net Profits	37	58	74	96	15	16	20
Profit Gr%	*29%*	*56%*	*27%*	*30%*	*78%*	*25%*	*27%*
Ebdita Margin%	8.3%	10.2%	11.4%	12.3%	10.5%	11.0%	11.7%
Net Profit Margin%	5.0%	6.6%	7.0%	7.7%	6.7%	6.6%	7.3%

Std/Fig in Rs Cr

❑ Management has guided for a revenue growth of 22-25% in FY19 with 18-20% volume growth with an equal contribution from both SME & Top 500 companies.

❑ Our estimates factor in a revenue growth of 19.5% & 18.9% with a volume growth of 15.7% & 14.8% in FY19 and FY20 respectively.

❑ Revenue is expected to be INR 271cr with a growth of around 18% in Q3FY19.

❑EBITDA margins are expected to improve to 11.4% & 12.3% in FY19 and FY20. TCIEXP's cost rationalisation efforts for operating expenses & employee cost along with higher capacity utilization (85% in Q2FY19 as against 80% in FY16) to continue driving EBITDA margin expansion by 120 bps YoY and 70 bps QoQ in Q3FY19.

❑ PAT is expected to grow by 27% in Q3FY19 on the back of EBITDA margin improvement. In FY19 & FY20, PAT growth is expected to be around 27% and 30% despite higher tax rates (34.5% for FY19 & FY20 as against 30.3% in FY18) & depreciation due to operational improvement.

❑ Management has guided for a capex of INR 400cr in 5 years starting FY18. Capex in FY18 & H1FY19 was at INR 71cr & INR 16cr respectively. TCIEXP has opened 30 new branches in H1FY19 by expanding its presence in Tier 2 & 3 cities. Management intends to increase the branch network to 1000 by FY20 from 650 in FY18.

❑ Capex is expected to be around INR 60cr & 50cr in FY19 and FY20 respectively.

❑ Management is targeting to double the revenues in the next 5 years for which it is increasing size of 8 of its 28 sorting centres over the next 5 years. Also, company will convert these 8 leased sorting centres into owned ones.

Key Trackable this Quarter

❑ Addition of Marquee Clients

❑ Progress of cost rationalisation efforts and its effect on EBITDA margins

❑ Increase in capacity of sorting centres

We value the stock 15x FY20e EV/EBITDA. NEUTRAL

APL Apollo Tubes Limited

APAT IN

CMP	**1108**
Target	**1120**
Upside	**1%**
Rating	**NEUTRAL**

	FY17	FY18	FY19E	FY20E
Roe%	20%	19%	15%	18%
Roce%	33%	35%	27%	33%
P/E	18.9	29.4	16.9	11.9
P/B	3.8	5.6	2.5	2.1
EV/Ebdita	8.8	12.9	6.9	5.2

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Sales (KT)	932	1130	1285	1543	281	304	324
Segmental Volume							
Hollow Section(KT)	475	614	722	866	157	177	184
Black Pipe (KT)	151	164	190	229	39	44	45
GI Pipe (KT)	117	111	104	124	27	20	29
GP Pipe (KT)	189	241	270	324	59	62	66
Financials							
Sales	4,545	5,335	6,798	7,221	1314	1690	1686
Sales Gr	*8%*	*17%*	*27%*	*6%*	*15%*	*26%*	*28%*
Ebdita	324	371	420	531	88	86	94
Ebdita Gr	*15%*	*14%*	*13%*	*26%*	*14%*	*-15%*	*6%*
Net Profits	146	160	158	228	36	27	30
Profit Gr%	*45%*	*10%*	*-1%*	*44%*	*22%*	*-34%*	*-17%*
EbditaM%	7.1%	7.0%	6.2%	7.3%	6.7%	5.1%	5.6%
Net Mgn%	3.2%	3.0%	2.3%	3.2%	2.7%	1.6%	1.8%
D/E	0.79	0.80	0.89	0.65			

Conso/Fig in Rs Cr

❑Sales volume growth in 3QFY19 is expected to be around 15% YoY as 2QFY19 disruptions (due to monsoon, flood in Kerala and truckers strike) gets behind and areas affected by floods would generate additional replacement demand and pick up in construction activities after monsoon would also generate demand.

❑Realization is also expected to be 12% higher YoY due to higher steel prices however we expect realization to fall QoQ due to fall in steel prices QoQ.Net sale is expected to grow by 28% YoY led by 15% YoY growth in sales volume and close to 11% YoY growth in realization.

❑ Gross margin is expected to be lower YoY due to higher steel prices; however QoQ improvement is expected due to steel prices easing off in later part of 3QFY19. In line with QoQ improvement in gross margin, EBITDA margin is also expected to improve by 1% to 6% QoQ.

❑ Company is in process of acquiring controlling stake in Apollo Tricoat. Apollo Tricoat manufacture electrical conduit pipes which are used as a substitute for PVC electrical conduit pipes. It has recently set up a 50000 TPA facility in Bengaluru. Apl Apollo would be spending close to Rs.247 crore to acquire 66.4% share. Rs.172cr is to be infused by promoters through preferential and warrant issue for acquisition of Apollo Tricoat.

Key Trackable this Quarter

❑ Movement in realization and gross margins as steel prices has seen moderation in 3QFY19.

❑ Pick up in volume growth in 3QFY19 after lower volume growth in 2QFY19 due to certain disruptions.

We value the stock at 12x FY20e EPS. NEUTRAL

Astral Poly Technik Limited

ASTRA IN

CMP	**1132**
Target	**1350**
Upside	**19%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	17%	18%	17%	19%
Roce%	22%	23%	24%	26%
P/E	45.5	56.1	64.2	47.0
P/B	7.7	9.9	11.1	9.0
EV/Ebdita	25.3	32.0	34.0	26.9

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Capacity(MT)	137708	152100	175708	250000	137708	174801	175708
Sales(MT)	89449	103991	118550	139889	26764	27250	31582
Segmental Revenues							
Pipes	1474	1607	1960	2312	405	481	537
Adhesives	455	499	605	714	103	158	122
Adjst.	40	(0.11)	18	-	-20	10	-
Total	1889	2106	2546	3027	529	629	659
Financials							
Sales	1,889	2,106	2546	3027	529	629	659
Sales Gr	*13%*	*10%*	*21%*	*19%*	*17%*	*21%*	*25%*
Ebdita	264	317	401	508	74	94	103
Ebdita Gr	*27%*	*17%*	*27%*	*27%*	*16%*	*24%*	*39%*
Net Profits	145	176	211	288	46	46	56
Profit Gr%	*42%*	*18%*	*20%*	*37%*	*43%*	*17%*	*20%*
EbditaM%	14.0%	15.0%	15.7%	16.8%	13.9%	15.0%	15.6%
Net Mgn%	7.7%	8.3%	8.3%	9.5%	8.8%	7.3%	8.4%
D/E	0.19	0.12	0.12	0.10			

Conso/Fig in Rs Cr

❑Astral's 3QFY19 revenue is expected to grow by 25% YoY to Rs.659cr. led by 18% YoY growth in pipe volume to 175708MT and 18% YoY growth in Adhesive business (with upside risk considering last 3 quarters growth rate of 21-25%) and Rex revenue is expected to be around Rs.45cr.

❑ Realization in pipe segment is expected to fall be at Rs.155770/t (up 3% YoY, down 3% QoQ). In line with QoQ fall in PVC prices we expect realization to correct QoQ.

❑ EBITDA margin is expected to be at 15.6% (up 2% YoY, 0.6% QoQ), YoY improvement is due to lower other expenses as 3QFY19 other expenses were higher due to increase in branding and promotional activities.

❑ Rex is expected to report lower margins in next quarter too; however it would be fully integrated with Astral by FY19 and its margins would see improvement from thereon.

❑ Management has maintained the guidance of 15% minimum growth in volume and revenue and EBITDA margins minimum of 15% on yearly basis in pipe business and 20% plus growth in revenue and EBITDA margins in range of 15-17% in Adhesive business.

Key Trackable this Quarter

❑Expenditure in sales and promotional activities particularly in Adhesive business as it can impact EBITDA margins.

❑ Growth in overall revenue of Adhesive operation (Resinova + SEAL IT).

We value the stock at 32x FY20e EV/EBITDA. BUY

Coal India Limited

COAL IN

Metals and Minerals

CMP	**241**
Target	**309**
Upside	**28%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	37%	35%	73%	71%
Roce%	37%	31%	72%	68%
P/E	19.6	25.1	9.8	9.5
P/B	7.3	8.7	7.1	6.8
EV/Ebdita	14.9	18.5	6.2	5.3

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Production (mt)	554.14	567.37	604.8	635.0	152.1	119.6	162.1
Offtake (mt)	543.32	580.29	609.9	640.4	151.7	137.5	158.8
Operating Matrix							
FSA Vol. (mt)	429.8	460.0	533.3	551.4	121.9	116.8	144.7
FSA Realiz.	1301	1257	1326	1326	1182	1308	1300
E-Auc Vol. (mt)	94.2	106.2	64.3	76.8	26.4	17.7	11.1
E-Auc Realiz.	1536	1839	2545	2487	1998	2592	2618
Washed Coal Vol. (mt)	14.0	11.5	9.9	9.8	2.8	2.4	2.4
Washed Coal Realiz.	3049	3022	2525	2543	2975	2602	2515
Othr. Prodt. Vol. (mt)	3.4	2.9	2.5	2.4	0.7	0.6	0.6
Othr. Prodt. Realiz.	2915	3249	3271	3344	3179	3550	3247
Financials							
Sales	78,221	85,862	95,470	99,459	21,643	22,198	23,456
Sales Gr	*0%*	*10%*	*11%*	*4%*	*6%*	*22%*	*8%*
Employee Cost	33,514	42,634	36,660	37,393	8,753	8,953	8,798
Ebdita	12,240	9,565	19,073	19,864	4,618	3,914	4,618
Ebdita Gr	*-35%*	*-22%*	*99%*	*4%*	*20%*	*378%*	*0%*
Net Profits	9,266	7,019	15,261	15,692	3,005	3,085	3,782
Profit Gr%	*-35%*	*-24%*	*117%*	*3%*	*4%*	*733%*	*26%*
EbditaM%	15.6%	11.1%	20.0%	20.0%	21.3%	17.6%	19.7%
Net Mgn%	11.8%	8.2%	16.0%	15.8%	13.9%	13.9%	16.1%

Conso/Fig in Rs Cr

❑Volume in 3QFY19 is expected to be around 158.8mt (up 5% YoY, 15% QoQ), volume is expected to pick up after monsoon in 2HFY19, however volume growth in large subsidiaries like SECL and MCL has witnessed significant slowdown in the month of Nov and Dec'18.

❑ Revenue growth is expected to grow by 8.4% YoY to Rs.22529cr. primarily driven by growth in FSA revenue share of 31%, whereas E-Auction revenue is expected to decline by 45% YoY due to higher allocation towards power sector through FSA.

❑ On realization front we expect FSA realization to grow by 10% YoY to Rs.1300/t due to the effect of price hike taken in 4QFY18 and is expected to be flat QoQ. E-Auction realization is expected to be around Rs.2618/t (up 31% YoY and 1% QoQ), E-Auction realization is expected to sustain at high level due to coal shortage in domestic market and decreased share of E-Auction volume.

❑ EBITDA is expected to decline by 1% YoY to 20% due to change in FSA and E-Auction mix and is expected to improve QoQ primarily on account of higher volume, as realizations are expected to remain same and FSA and E-Auction mix trend is also expected to be same.

Key Trackable this Quarter

❑ E-Auction allocation, as higher E-Auction volume can improve margins.

❑ E-auction realization trend as international non-coking coal prices have moderated QoQ.

We value the stock at 7.2x FY20e EV/adj. EBITDA. BUY

Finolex Industries Limited

FNXP IN

CMP	**548**
Target	**540**
Upside	**-1%**
Rating	**NEUTRAL**

	FY17	FY18	FY19E	FY20E
Roe%	15%	11%	12%	12%
Roce%	22%	15%	18%	16%
P/E	20.2	27.6	19.3	17.9
P/B	3.1	3.0	2.3	2.1
EV/Ebdita	12.7	17.0	11.3	11.2

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Pipes and Fittings	209339	252036	279760	310534	61514	45273	68281
PVC Resin	235104	258767	258769	287863	71107	43461	64125
Power (MWH)	202890	208747	217694	246888	56559	41750	54275
Segmental Revenues							
PVC	1754	1778	1868	1972	460	327	447
PVC Pipes & Fittings	2211	2329	2725	2947	532	471	659
Power	145	142	154	176	38	30	39
Less:Int Seg. Rev.	1131	1418	1549	1596	307	284	357
Total	2979	2831	3198	3499	723	543	788
Financials							
Sales	2,988	2,738	3199	3499	723	543	788
Sales Gr	*5%*	*-8%*	*17%*	*9%*	*25%*	*14%*	*9%*
Ebdita	563	484	598	599	113	125	136
Ebdita Gr	*39%*	*-14%*	*24%*	*0%*	*-13%*	*152%*	*20%*
Net Profits	355	299	381	379	70	76	84
Profit Gr%	*38%*	*-16%*	*28%*	*0%*	*-3%*	*170%*	*21%*
EbditaM%	18.8%	17.7%	18.7%	17.1%	15.7%	23.0%	17.3%
Net Mgn%	11.9%	10.9%	11.9%	10.8%	9.6%	14.1%	10.7%
D/E	0.04	0.04	0.05	0.05			

Std/Fig in Rs Cr

❑Pipes & Fittings volume in 3QFY19 is expected to grow by 11% YoY and 51% QoQ to 68281 MT, volume growth in 2HFY19 is expected to significantly higher as monsoon effect of 2Q gets behind. However, higher pipes & fittings sales would lead to lower external PVC resin sales as more would be consumed for captive purpose, PVC resin sales is expected to be 10% lower YoY at 64125 MT in 3QFY19 and 3% YoY higher in 2HFY19 at 146866 MT.

❑ Realization in pipes and fitting segment is expected to be at Rs.96508/t (up 12% YoY, down 7%QoQ) and in PVC resin realization is expected to be around Rs.69780/t (up 8% YoY, down 7% QoQ). We expect quarterly fall in realization on account of 7% fall in PVC prices.

❑ Margins are expected to improve YoY but QoQ contraction is expected due to decline in PVC price (down 7% QoQ) and increase in EDC (raw material) prices (up 10% QoQ).Furthermore, 2QFY19 also had inventory gain which had improved margins, however the same is not expected in 3QFY19.

❑ Management maintained its guidance of double digit volume growth annually.

Key Trackable this Quarter

❑ PVC-EDC spread as PVC prices have declined and EDC prices have increased which will impact margins.

❑ Pick up in volume after monsoon season.

We value the stock at 11x FY20e EV/EBITDA. NEUTRAL

Hindalco Industries Limited

Metals and Minerals

HNDL IN

CMP	**226**
Target	**290**
Upside	**28%**
Rating	**BUY**

	FY17	FY18	FY19E	FY 20E
Roe%	4%	11%	10%	9%
Roce%	2%	6%	5%	5%
P/E	23.3	11.2	8.7	8.2
P/B	1.0	0.9	0.8	0.8
EV/Ebdita	7.0	6.3	6.1	6.1

Ratios on consolidated basis

Volume (kt)	**FY17**	**FY18**	**FY19E**	**FY20E**	**Q3FY18**	**Q2FY19**	**Q3FY19E**
Alumina	2887	2880	2937	3000	734	701	749
Aluminium	1265	1290	1290	1305	325	326	329
Copper	376	411	390	411	102	79	109
Novelis Shipments	3067	3189	3253	3334	796	807	818
Segmental Revenues							
Aluminium	19,986	21,062	22,958	21,853	5323	6135	5760
Copper	19,408	22,371	23,285	24,406	5701	4710	6572
Financials (Standalone)							
Sales	36,937	42,798	46,226	46,258	11023	10833	12332
Sales Gr	*8%*	*16%*	*8%*	*0%*	*11%*	*5%*	*12%*
Ebdita	4,814	5,124	5,064	5,693	1312	1091	1344
Ebdita Gr	*44%*	*6%*	*-1%*	*12%*	*11%*	*-22%*	*2%*
Net Profits	1,557	1,438	1,674	2,185	376	309	490
Profit Gr%	*182%*	*-8%*	*16%*	*31%*	*18%*	*-21%*	*30%*
Novelis Ebitda(USDmn)	1001	1181	1272	1261	294	335	294
Utkal EBITDA	673	1084	2143	1939	247	620	518
EbditaM%	13.0%	12.0%	11.0%	12.3%	11.9%	10.1%	10.9%
Net Mgn%	4.2%	3.4%	3.6%	4.7%	3.4%	2.8%	4.0%

Std/Fig in Rs Cr

❑Hindalco standalone revenue is expected to grow by 12% YoY led by 8% growth in Aluminium business and 15% growth in Copper business. Growth in Aluminium business is primarily on account of rupee depreciation and growth in Copper business is led by higher volume and rupee depreciation as well.

❑ Hindalco standalone EBITDA is expected to be lower by 1% YoY to 11% due to higher alumina and power cost YoY. However, margins are expected to improve QoQ from 10% to 11% led by QoQ decline in alumina prices but power cost would still remain on higher side due to high non coking coal prices. Utkal EBITDA is expected to be around Rs.518cr over 2x 3QFY18 due to higher YoY Alumina prices, however QoQ it is expected to decline by 16% due to softening in Alumina prices on QoQ basis.

❑ Novelis revenue is expected to grow by 4% led by 3% volume growth and 1% growth in realization. EBITDA margin is expected to remain flat YoY at 10%.

Key Trackable this Quarter

❑ Volume ramp up in copper business as facilities operate at full capacity after maintenance shutdown in 1QFY19 and for some days in 3QFY19.

❑ Movement in power and fuel cost due to high non coking coal prices.

We value the stock at 7x FY20e EV/EBITDA. BUY

Hindustan Zinc Limited

HZ IN

CMP	**278**
Target	**286**
Upside	**3%**
Rating	**NEUTRAL**

	FY17	FY18	FY19E	FY20E
Roe%	27%	26%	23%	25%
Roce%	26%	30%	27%	29%
P/E	14.6	13.8	14.9	12.4
P/B	4.0	3.5	3.5	3.1
EV/Ebdita	9.2	8.6	9.0	7.3

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Zinc & Lead(KT)	907	947	966	1149	240	232	256
Refined Metal							
Zinc (KT)	672	792	759	922	200	162	201
Lead (KT)	144	169	202	218	46	49	52
Total	816	961	960	1140	246	211	254
Sliver (MT)	480	557	658	775	132	172	165
Realization							
Silver LBMA ($/oz.)	16	17	15	15	17	14	14
Zinc LME ($/MT)	3038	3271	2887	2745	3424	2760	2787
Lead LME ($/MT)	2379	2655	2293	2303	2646	2314	2198
Financials							
Sales	17273	22084	21608	25188	5922	4777	5457
Sales Gr	*22%*	*28%*	*-2%*	*17%*	*19%*	*-10%*	*-8%*
Ebdita	9739	12272	10941	13042	3244	2334	2790
Ebdita Gr	*46%*	*26%*	*-11%*	*19%*	*17%*	*-23%*	*-14%*
Net Profits	8316	9276	7856	9493	2230	1815	1944
Profit Gr%	*2%*	*12%*	*-15%*	*21%*	*-4%*	*-29%*	*-13%*
EbditaM%	56.4%	55.6%	50.6%	51.8%	54.8%	48.9%	51.1%
Net Mgn%	48.1%	42.0%	36.4%	37.7%	37.7%	38.0%	35.6%

Std/Fig in Rs Cr

❑Company’s revenue is expected to decline by 8% YoY to Rs.5457cr. primarily on account of 19% YoY fall in realization. Volume is expected to be flat YoY at 201kt but is expected to increase significantly QoQ .

❑ QoQ volume growth is expected to be strong led by commissioning of mid shaft loading system at Rampura Agucha mine at the end of 2QFY19 which is now hoisting waste through the shaft and will facilitate higher volume, expected commissioning of 1.5mtpa mill at SK mine (trial run of which had already started in Oct’18) and Sep’18 exit run rate of 245kt of quarterly production.

❑ EBITDA margin is still expected to decline YoY due to lower zinc realization (lower by 19% YoY) on the back of fall in LME Zinc and flat volume. However, margin is expected to improve QoQ on the back of significantly higher refined zinc volume. Lead volume is expected to grow 14% YoY and 7% QoQ but realization is expected to fall 17% YoY and 5% QoQ on the back of fall in LME Lead.

❑ Silver volume is expected to register robust growth of 25% YoY on the back of increased production from SK mine (Silver rich).

Key Trackable this Quarter

❑ Volume growth in Zinc refined metal.

❑ Contribution of other income.

We value the stock at 7x FY20e EV/EBITDA. NEUTRAL

Jindal Steel & Power Limited

JSP IN

CMP	**165**
Target	**210**
Upside	**27%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	-8%	-5%	2%	2%
Roce%	1%	4%	8%	8%
P/E	-4.4	-13.1	33.4	20.5
P/B	0.4	0.7	0.5	0.5
EV/Ebdita	9.3	8.3	5.1	4.5

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Ttl. Steel Capcty (mt)	7.1	10.6	10.6	10.6			
Power Capacity (MW)	3400	3400	3400	3400			
Stdln. Steel Sales (mt)	3.35	3.76	5.64	6.20	0.94	1.28	1.51
Oman Steel Sales (mt)	1.31	1.67	1.74	1.81	0.42	0.47	0.42
Power (mill unit)	9176	10905	11123	12792	2982	2427	2892
Financials (Consol.)							
Sales	21,051	27,383	41,257	40,456	6,993	9,982	10,695
Sales Gr	*15%*	*30%*	*51%*	*-2%*	*29%*	*63%*	*53%*
Ebdita	4,658	6,469	9,134	9,548	1,607	2,207	2,317
Ebdita Gr	*36%*	*39%*	*41%*	*5%*	*26%*	*61%*	*44%*
Finance Cost	3,390	3,866	4,116	3,878	967	1086	1029
PBT	(2,671)	(1,277)	692	1,163	(323)	91	160
PBT Gr	-	-	-	*68%*	-	-	-
Net Profits	(2,538)	(1,616)	222	779	(273)	279	42
Profit Gr%	-	-	-	*252%*	-	-	-
EbditaM%	22.1%	23.6%	22.1%	23.6%	23.0%	22.1%	21.7%
Net Mgn%	-12.1%	-5.9%	0.5%	1.9%	-3.9%	2.8%	0.4%
D/E	1.33	1.29	1.27	1.15	-	-	-
Intrst. Covrge. Ratio	0.21	0.67	1.17	1.30	0.67	1.08	1.15

Conso/Fig in Rs Cr

❑Revenue is expected to grow by 57% YoY led by robust volume growth of 61% in Indian business due to ramp up of Angul plant and volume at Oman business is expected to be flat. On realization front we expect YoY realization to be up by 35% in domestic business and flat in Oman business. However, QoQ we expect realization to fall in both the business due to QoQ fall in domestic and international steel prices.

❑ In Power business we expect power generation at 2892 mn unit (down 3%, up 19% QoQ). Due to improvement in coal availability as compare to 1HFY19, we expect significant QoQ improvement in power generation. Realization is expected to be flat YoY but 5% QoQ improvement is expected on account of close to 11% QoQ improvement in spot power prices.

❑ Margins are expected to be lower YoY primarily on account of higher iron ore prices, highly volatile coking coal prices and significantly higher non coking coal prices; gross margin is expected to fall by 9% to 57%, however at EBITDA level the fall is contained to only 1% leading to EBITDA of 22% due to robust volume growth.

Key Trackable this Quarter

❑ Volume ramp up at Angul plant.

❑ Deviation in gross margin due to high iron ore, coking coal and non-coking coal prices.

❑ Cautious about exceptional items (no provision for couple of contingent liabilities).

We value the stock at 5x FY20e EV/EBITDA. BUY

Jindal Stainless Limited

JDSL IN

Metals and Minerals

CMP	**34**
Target	**45**
Upside	**31%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	4%	14%	11%	16%
Roce%	16%	17%	19%	21%
P/E	34.8	10.9	5.5	3.2
P/B	1.6	1.5	0.6	0.5
EV/Ebdita	5.3	5.4	3.3	2.7

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Capacity (ton)	800000	800000	800000	1100000			
Sales volume (ton)	641333	778933	895773	1021181	213334	206644	232901
SS Price (USD/t)	1906	2097	2202	2200	2102	2177	1987
Nickel Price (Rs/t)	670983	727700	927550	810000	758900	923733	900000
Ferrochrome (Rs/t)	79750	78229	78000	80000	75667	76667	82000
Financials (Consol.)							
Sales	9,279	11,638	13,955	14,996	2,989	3,081	3,334
Sales Gr	*30%*	*25%*	*20%*	*7%*	*43%*	*18%*	*12%*
Ebdita	1,166	1,340	1,441	1,648	386	231	404
Ebdita Gr	*15%*	*15%*	*8%*	*14%*	*13%*	*-10%*	*5%*
Finance Cost	788	566	623	585	154	157	*151*
PBT	78	499	518	747	166	1	188
PBT Gr	-	*539%*	*34%*	*31%*	*177%*	*-96%*	*13%*
Net Profits	82	346	298	519	135	(36)	120
Profit Gr%	-	*324%*	*30%*	*36%*	*2.33*	-	*-11%*
EbditaM%	12.6%	11.5%	10.3%	11.0%	12.9%	7.5%	12.1%
Net Mgn%	0.9%	3.0%	2.1%	3.5%	4.5%	-1.2%	3.6%
D/E	2.96	1.86	1.50	1.19			

*Yearly Consolidated and Quarterly Standalone — Fig in Rs Cr

❑Revenue is expected to grow at 20% YoY in 2QFY19 led by volume growth of 11%YoY (management expects 15% Volume growth in FY19) and 8% YoY growth in realization.

❑ EBITDA is expected to fall by 13% QoQ led by increase in COGS due to rupee depreciation (company imports 50-60% of raw material) and also on account of increase in power and fuel cost as prices of non coking coal have increased both in domestic as well as international markets.

❑ Though EBITDA margin is expected to be flat YoY and down 2% QoQ on PAT level we expect margin to be at 3%. We expect finance cost to be lower YoY and QoQ led by company's initiatives to reduce debt on books and management also has a guidance of Rs.550-570 crores for finance cost in FY19.

❑ There can be a downside risk to cost of material consumed due to INR depreciation and also to finance cost as company has exposure to FC loans.

❑ Management expects better 2HFY19 due to higher volume. Management has maintained guidance of 15% volume growth in FY19. Debt repayment of Rs.430 crore expected in FY19 out of which company has paid Rs.135 crore in 1HFY19 and for FY20 Rs.500 crore of debt repayment is expected.

Key Trackable this Quarter

❑USD/INR-Raw material Import (50-60%) and FC loan of Rs.750 crore (LT debt of Rs.3508 crore).

❑ Volume growth rate in 3QFY19 considering low growth of 2% in 2QFY19.

We value the stock at 3x FY20e EV/EBITDA. BUY

JSW Steel Limited

JSTL IN

Metals and Minerals

CMP	**306**
Target	**336**
Upside	**10%**
Rating	**HOLD**

	FY17	FY18	FY19E	FY20E
Roe%	15%	22%	23%	14%
Roce%	16%	19%	23%	16%
P/E	13.1	11.4	8.9	13.2
P/B	2.0	2.5	2.1	1.9
EV/Ebdita	6.3	6.8	5.4	7.0

	FY17	**FY18**	**FY19E**	**FY20E**	**Q3FY18**	**Q2FY19**	**Q3FY19E**
Capacity (mt)	18.00	18.00	18.00	18.00	-	-	-
Steel Sales stdln.(mt)	14.77	15.62	16.06	16.57	3.97	3.96	4.01
Avg.HRC (Rs./t)	39075	40340	44667	42000	39833	45833	45000
Financials (Consol.)							
Sales	55,605	70,225	84,945	80,135	17,861	21,552	21,355
Sales Gr	*34%*	*26%*	*21%*	*-6%*	*27%*	*28%*	*20%*
Ebdita	12,174	14,794	19,388	15,635	3,851	4,906	4,438
Ebdita Gr	*90%*	*22%*	*31%*	*-19%*	*34%*	*62%*	*15%*
Finance Cost	3,768	3,701	3,885	4,069	923	963	1,018
PBT	5,128	7,873	12,042	8,164	2,118	3,025	2,573
PBT Gr	-	*54%*	*53%*	*-32%*	*99%*	*137%*	*21%*
Net Profits	3,467	6,113	8,309	5,614	1,774	2,087	1,769
Profit Gr%	-	*76%*	*36%*	*-32%*	*143%*	*150%*	*0%*
EbditaM%	21.9%	21.1%	22.8%	19.5%	21.6%	22.8%	20.8%
Net Mgn%	6.2%	8.7%	9.8%	7.0%	9.9%	9.7%	8.3%
D/E	1.65	1.21	1.02	1.03	-	-	-

Conso/Fig in Rs Cr

❑Revenue is expected to grow by 20% YoY to Rs.20700cr primarily on account of 17% YoY increase in realization as volume growth is expected to be flat (up 1% YoY) in standalone operations and revenue is expected to be flat QoQ led by 1% growth in volume and 2% fall in realization in standalone operations.

❑ Coated business revenue is expected to be flat YoY at Rs.3042cr. primarily led by 15% growth in realization which offsets 13% fall in volume (volume growth has been impacted by higher imports in coated business). QoQ revenue is expected to fall by 3% due to 2% decline in realization and 1% fall in volume. US plate and pipe mill's revenue is expected to grow over 2x YoY led by increased capacity utilization at plate mill (34% in 3QFY19 vs.24% in 3QFY18) and 26% growth in realization.

❑ EBITDA margin is expected to be around 21%, down 1% YoY and 2% QoQ, QoQ fall in the margins are primarily in account of higher cost of coking coal iron ore and elevated power and fuel cost due to high non coking coal prices. Further, falling realization is also weighing in on margins.

❑ Company also has lined up capex of Rs.44450 crores for 4 years (including FY18) to increase capacity by 6.7mt from current 18mt to over 24mt by the end of FY21.

Key Trackable this Quarter

❑ Impact of Coking coal and Iron ore input cost on the margins.

❑ Impact of increase in imports on Coated business volume growth.

We value the stock at 7.5x FY20e EV/EBITDA. HOLD

National Aluminium Company Ltd

NACL IN

CMP	**66**
Target	**74**
Upside	**12%**
Rating	**ACCUMULATE**

	FY17	FY18	FY19E	FY20E
Roe%	7%	13%	16%	12%
Roce%	6%	9%	23%	17%
P/E	22.1	9.6	6.7	8.3
P/B	1.4	1.2	1.1	1.0
EV/Ebdita	11.6	7.3	3.1	4.0

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Segmental Revenues							
Alumina	4046	5162	7583	6908	1223	1899	1752
Aluminium	5537	6409	6869	6825	1689	1745	1687
Others	109	127	207	163	16	77	41
Total	9692	11698	14660	13896	2928	3722	3480
Less: Intr. Segmt. Rvn.	1642	2079	3039	2812	539	681	729
Net Sales	8050	9618	11621	11084	2389	3041	2751
Financials							
Sales	8,050	9,618	11,622	11,084	2389	3041	2751
Sales Gr	*11%*	*28%*	*21%*	*-5%*	*29%*	*24%*	*15%*
Ebdita	1,080	1,397	3,063	2,479	344	851	571
Ebdita Gr	*13%*	*29%*	*119%*	*-19%*	*20%*	*154%*	*66%*
Net Profits	668	1,342	1,915	1,479	722	510	341
Adjt. PAT	709	874	1,824	1,479	276	510	341
Profit Gr%	*-3%*	*23%*	*109%*	*-19%*	*53%*	*134%*	*23%*
EbditaM%	13.4%	14.5%	26.4%	22.4%	14.4%	28.0%	20.8%
Net Mgn%	8.8%	9.1%	15.7%	13.3%	11.6%	16.8%	12.4%

Std/Fig in Rs Cr

- Nalco's revenue for the quarter is expected to grow by 15% YoY primarily on account of 22% sales growth in total Alumina volume YoY and 16% growth in Alumina realization which is partly offset by flattish volume growth in Aluminium business and 7% fall in Aluminium realization.

- EBITDA margin in 3QFY19 is expected to be at 21% (vs.14.4% in 3QFY18 and 28% in 2QFY19), 3QFY18 margin were lower because of higher employee cost (pay revision and enhancement of gratuity ceiling), QoQ fall in margin is because of higher cost of raw material and power and fuel expense due to increase in non-coking coal prices.

- Management expects 2HFY19 EBITDA margin to be around 22% and FY19 margin at 26%, expected decline in margins in 2HFY19 is primarily on account of fall in both Alumina and Aluminium prices.

Key Trackable this Quarter

- Impact of INR depreciation.

- Impact of power and fuel cost on EBITDA margins.

We value the stock at 1.2x FY20e Book Value. ACCUMULATE

NMDC Limited

NMDC IN

CMP	**97**
Target	**88**
Upside	**-9%**
Rating	**NEUTRAL**

	FY17	FY18	FY19E	FY20E
Roe%	11%	16%	14%	11%
Roce%	15%	23%	21%	16%
P/E	16.3	9.9	8.3	10.0
P/B	1.9	1.5	1.2	1.1
EV/Ebdita	10.2	5.5	4.6	6.2

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Chhatisgarh(mn tonne)	23.01	23.17	23.17	25.00	5.07	3.78	5.84
Karnataka	12.62	12.91	7.50	7.00	2.99	2.93	2.10
Total	35.62	36.08	30.67	32.00	8.06	6.71	7.94
Realization/Cost(Rs/t)							
Realization	2478	3220	3503	2933	3014	3576	3934
Cost	1467	1609	1653	1501	1563	1757	1484
EBITDA/tonne	1011	1610	1850	1432	1501	1878	2138
Iron ore price (Rs/t)	2344	2953	3830	3400	2810	4077	4358
Financials							
Sales	8,828	11,615	10,743	9,384	2469	2438	3164
Sales Gr	*37%*	*32%*	*-8%*	*-13%*	*-1%*	*1%*	*28%*
Ebdita	3,602	5,809	5,674	4,581	1210	1259	1698
Ebdita Gr	*31%*	*61%*	*-2%*	*-19%*	*18%*	*5%*	*40%*
Net Profits	2,589	3,806	3,677	3,073	887	636	1164
Profit Gr%	*-5%*	*47%*	*-3%*	*-16%*	*49%*	*-25%*	*31%*
EbditaM%	40.8%	50.0%	52.8%	48.8%	49.0%	51.7%	53.7%
Net Mgn%	29.3%	32.8%	34.2%	32.7%	35.9%	26.1%	36.8%

Std/Fig in Rs Cr

❑ NMDC's 3QFY19 revenue is expected to increase by 28% YoY primarily led by 31% YoY increase in realization as volume is expected to report flattish growth due to decline in contribution from Karnataka because of Donimalai mine not being in operation from 3rd of Nov'18.

❑ Volume from Chhattisgarh is expected to grow by 15% YoY and 55% QoQ (lower volume in 2QFY19 due to monsoon). However, volume from Karnataka is expected to decline by 30% and 28% YoY and QoQ respectively due to halting of operation at Donimalai mine on account of NMDC and Government of Karnataka not agreeing on terms of premium being charged on sale of ore for extension of mining lease.

❑ EBITDA margin is expected to improve 54% (up 5% YoY and 2% QoQ), primarily on account of higher realization and most of the cost being fixed in nature.

❑ NMDC in month of Dec'18 have reduced prices significantly in range of 14-16% from Rs.3850 and Rs.3310 for lump and fines respectively at the end of Oct'18 to Rs.3250/t and Rs.2860/t in Dec'18.

Key Trackable this Quarter

❑ Volume growth rate at Chhattisgarh.

❑ Growth in realization as it has sustained at higher levels for last four quarters.

We value the stock at 5.5x FY20e EV/EBITDA. NEUTRAL

Ratnamani Metals & Tubes Ltd

RMT IN

CMP	**945**
Target	**1225**
Upside	**30%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	12%	12%	15%	15%
Roce%	17%	16%	19%	19%
P/E	24.9	26.3	18.9	17.3
P/B	3.0	3.1	2.9	2.6
EV/Ebdita	13.8	15.0	11.7	10.0

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
SS Volume (MT)	18228	21054	21564	24798	5427	5651	5916
Realization (Rs/t)	311554	299791	363867	332106	290035	364442	364442
CS Volume (MT)	179655	201027	255425	301402	70034	76653	50150
Realization(Rs/t)	44302	51299	67243	61587	50435	68430	68430
Segmental Revenues							
SS Sales	568	631	785	824	157	206	216
CS Sales	796	1031	1718	1856	353	525	343
Other	48	107	9	0	27	0	0
Total	1412	1769	2511	2680	538	730	559
Financials							
Sales	1,412	1,767	2511	2680	536	730	559
Sales Gr	*-18%*	*25%*	42%	7%	*48%*	*130%*	*4%*
Ebdita	257	266	393	447	84	116	90
Ebdita Gr	*-10%*	*3%*	48%	14%	*10%*	*127%*	*7%*
Net Profits	144	152	234	256	46	69	51
Profit Gr%	*-13%*	*7%*	54%	9%	*2%*	*162%*	*12%*
EbditaM%	18.2%	15.1%	15.7%	16.7%	15.7%	15.9%	16.1%
Net Mgn%	10.2%	8.6%	9.3%	9.5%	8.5%	9.5%	9.2%
D/E	0.00	0.06	0.17	0.12			

Std/Fig in Rs Cr

❑Ratnamani's 3QFY19 volume in Stainless Steel (SS) division is expected to be around 5916 MT, up 9% YoY after falling by 6% in 1HFY19, yearly volume growth in SS is expected to be in low single digit due to low activity in pet-chem., refineries and power sector. Carbon Steel (CS) volume is expected to be around 50150 MT (down 28% YoY and 35% QoQ), even after assuming 30% of annual growth in CS volume ,considering robust volume in 1HFY19 (up 163% YoY), volume in 2HFY19 would only register de-growth.

❑ Realization in both SS and CS division are expected to be significantly higher YoY at Rs.364442/t (up 26% YoY) and Rs.68430/t (up 36% YoY) due to deliveries of orders booked at higher steel prices. Management expects 2QFY19 realization to sustain in 3QFY19 as well.

❑ EBITDA margin are expected to be around 16% (vs.15.7% in 3QFY18). Due to higher share of water pipeline orders (CS division) in total order book, margins have remained in the range of mid teens and are expected to remain in that range for near future. However, with pickup in pet-chem., refinery and power sector which will lead to increase in SS orders, margins would start improving.

❑ Management expects 2HFY19 revenue to be in range of Rs.1100-1200 crore and EBITDA margins to be in range of 16-18% over long term.

Key Trackable this Quarter

❑ Sustainability of 2QFY19 realization in both CS and SS into 3QFY19.

❑ Volume in CS division, considering substantially better volumes in 1HFY19.

We value the stock at 13x FY20e EV/EBITDA. BUY

Tata Metaliks Limited

TML IN

Metals and Minerals

CMP	**621**
Target	**673**
Upside	**8%**
Rating	**NEUTRAL**

	FY17	FY18	FY19E	FY20E
Roe%	56%	44%	33%	26%
Roce%	52%	41%	42%	35%
P/E	12.8	11.7	9.1	8.7
P/B	7.2	5.2	3.0	2.3
EV/Ebdita	7.3	7.4	5.3	5.1

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Pig Iron (MT)	379434	500600	510621	510621	135226	134718	122549
Realization(Rs/t)	25357	27817	32495	31205	27772	33169	33169
DI Pipes (MT)	183947	209600	213627	218837	50180	50734	51270
Realization(Rs/t)	46218	47695	47984	47252	48294	49296	49296
Segmental Revenues							
Pig Iron	962	1393	1659	1593	376	447	406
Ductile Pipe	850	1000	1025	1034	242	250	253
Inter Segment/Others	-494	-519	-583	-585	-128	-150	-141
Total Sales	1318	1873	2101	2043	490	547	518
Financials							
Sales	1,318	1,873	2,101	2,043	490	547	518
Sales Gr	*0%*	*42%*	*12%*	*-3%*	*63%*	*22%*	*6%*
Ebdita	225	277	315	327	73	86	69
Ebdita Gr	*4%*	*23%*	*14%*	*4%*	*69%*	*28%*	*-5%*
Net Profits	116	159	173	181	40	48	37
Profit Gr%	*3%*	*37%*	*8%*	*5%*	*107%*	*42%*	*-7%*
EbditaM%	17.1%	14.8%	15.0%	16.0%	14.8%	15.7%	13.3%
Net Mgn%	8.8%	8.5%	8.2%	8.9%	8.2%	8.7%	7.2%
D/E	1.60	1.16					

Std/Fig in Rs Cr

❑Total pig iron (PI) volume is expected to be around 122549 tonnes, declining 9% YoY and QoQ too. The declining trend is primarily on account of higher production in 2QFY19 as management was expecting slow down in 3QFY19 due to festivals in West Bengal (company's operates in West Bengal). DI pipe volume is expected to be around 51270 tonnes (up 2% YoY, 1% QoQ).

❑ Realization in PI is expected to be around Rs.33169/t, up 19% YoY and flat QoQ in line with foundry grade PI prices, realization in DI is expected to be at Rs.49296 (up 2% YoY, flat QoQ). However, management is focusing on increasing realization in DI to pass on the increased cost. Revenue for 3QFY19 is expected to grow by 6% YoY to Rs.518cr. primarily on account of higher pig iron realization and revenue is expected to fall by 5% QoQ due to lower volume.

❑ EBITDA margin is expected to be at 13% (vs.15% in 3QFY18, 16% in 2QFY19). Margin is expected to fall YoY due to higher raw material prices (iron ore and coking coal price) and QoQ fall is also because of increase in raw material prices and flat QoQ realization growth.

❑ Company is expected to face cost pressure due to increasing coking coal prices and INR depreciation adding on to it. Furthermore, reduction in iron ore sourcing from Tata Steel from 90% to 70-75% due to acquisition made by Tata Steel, rest is now sourced from open market.

Key Trackable this Quarter

❑ Volume growth in 3QFY19.

❑ Impact of higher iron and coking coal prices and rupee depreciation on margins.

We value the stock at 5.5x FY20e EV/EBITDA. NEUTRAL

Tata Sponge Iron Limited

TTSP IN

CMP	**856**
Target	**945**
Upside	**10%**
Rating	**HOLD**

	FY17	FY18	FY19E	FY20E
Roe%	7%	14%	13%	13%
Roce%	6%	17%	15%	15%
P/E	18.3	12.5	8.9	8.3
P/B	1.2	1.8	1.2	1.1
EV/Ebdita	12.5	7.3	4.9	4.4

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Sales/Realization							
Sponge Iron (MT)	392000	413500	420000	450000	115000	93000	111300
Realization (Rs/t)	14389	18409	21986	21411	17330	22047	22488
Power (MKWH)	132	144	143	154	53	46	55
Realization (Rs/unit)	4.89	5.03	4.86	4.79	5.21	4.58	4.88
Financials							
Sales	557	800	970	1006	214	216	261
Sales Gr	*-3%*	*44%*	*21%*	*4%*	*49%*	*29%*	*22%*
COGS	373	496	661	674	*137*	*150*	*181*
COGS % of Sales	*67%*	*62%*	*68%*	*67%*	*64%*	*70%*	*69%*
Ebdita	62	183	183	199	48	30	50
Ebdita Gr	*157%*	*196%*	*0%*	*9%*	*347%*	*-13%*	*3%*
Net Profits	59	141	148	159	36	28	40
Profit Gr%	*84%*	*140%*	*5%*	*8%*	*228%*	*0%*	*10%*
EbditaM%	11.1%	22.8%	18.8%	19.8%	22.4%	13.8%	19.1%
Net Mgn%	10.5%	17.6%	15.3%	15.8%	16.8%	12.8%	15.2%

Conso/Fig in Rs Cr

❑Tata Sponge's volume in 3QFY19 is expected to be around 111300MT (-3% YoY and up 20% QoQ), QoQ growth is led by all the three kilns coming into operation after maintenance shutdown in 2QFY19.No maintenance shutdown is planned in 3QFY19 but there will be some in 4QFY19.

❑ Realization for 3QFY19 is expected to be close to Rs.22500/t (up 30% YoY, 3%QoQ). Significant YoY rise in realization is due to higher YoY sponge iron prices, however we expect realization to soften going ahead in line with decline seen in commodity prices. Revenue for the quarter is expected to grow by 22% YoY primarily driven by higher YoY sponge iron realization.

❑ Gross margin is expected to remain flat QoQ as some amount of higher priced iron ore inventory would still come in 3QFY19 and coal prices had also increased towards end of 2QFY19 and 1H of 3QFY19. However, EBITDA and PAT margins are expected to improve QoQ, as we factor in lower other expenses than 2QFY19 (which included Rs.10cr of maintenance cost).

❑ MoEFCC has considered company's application and subject to certain condition, decided to accord environmental clearance to expand capacity to 465000TPA from current 425000TPA.

❑ Company will acquire Usha Martin for Rs.4300-4700cr. It has 1mtpa capacity to manufacture long products in Jamshedpur. Funding will be done by Rights issue (up to Rs.1800cr), external borrowings (Rs.2500cr) and Non-Convertible redeemable preference share (up to Rs.1000cr).

Key Trackable this Quarter

❑ As iron ore supply from Tata Steel has been resumed, the impact of it on gross margin is to be seen.

❑ Volume pick up in 3QFY19 after maintenance shutdown in 2QFY19.

We value the stock at 5x FY20e EV/EBITDA. HOLD

Vedanta Limited

VEDL IN

Metals and Minerals

CMP	**202**
Target	**202**
Upside	**0%**
Rating	**NEUTRAL**

	FY17	FY18	FY19E	FY20E
Roe%	12%	13%	10%	15%
Roce%	14%	18%	15%	19%
P/E	11.2	13.0	12.1	7.8
P/B	1.3	1.6	1.2	1.2
EV/Ebdita	4.6	5.0	4.3	3.5

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Zinc (kt)	672	791	759	922	200	162	201
Zinc Intl. (kt)	140	171	176	310	47	29	56
Lead (kt)	138	169	202	218	46	49	52
Refined Silver (tons)	453	558	658	775	132	172	165
Aluminium (mt)	1209	1672	1975	2000	441	489	504
Oil & Gas (kboepd)	189926	185587	200000	235000	184133	185926	198433
Financials (Consol.)							
Sales	72,225	91,866	89,519	94,863	24,361	22,705	21,909
Sales Gr	*12%*	*27%*	*-3%*	*6%*	*25%*	*5.16%*	*-10%*
Ebdita	21,332	25,164	24,403	31,244	6,763	5,208	6,348
Ebdita Gr	*41%*	*18%*	*-3%*	*28%*	*15%*	*-8%*	*-6%*
PBT	13,766	16,672	13,657	19,827	4,481	2,298	3,892
Net Profits	9,873	13,692	8,860	13,265	2,959	1,900	2,604
Adj PAT*	7,271	7,983	6,220	9,643	2,211	1,023	1,760
PAT Gr	*29%*	*10%*	*-22%*	*55%*	*18%*	*-46%*	*-20%*
EbditaM%	30%	27%	27%	33%	28%	23%	29%
Net Mgn%	14%	15%	10%	14%	12%	8%	12%
D/E	1.03	0.77	0.79	0.79			

**Excluding non controlling interest and before exceptional item* Conso/Fig in Rs Cr

❑Overall revenue is expected to fall by 10% YoY, primarily on account of no contribution from copper segment and close to 6% fall in Hind Zinc revenue due to low relaization. However, Zinc International, Oil & Gas and Aluminium segment are expected to register a healthy YoY revenue growth of 13%, 58% and 20% respectively.

❑ Overall revenue is expected to fall by 10% YoY, primarily on account of no contribution from copper segment and close to 8% fall in Hind Zinc revenue due to low relaization. However, Zinc International, Oil & Gas and Aluminium segment are expected to register a healthy YoY revenue growth of 13%, 58% and 20% respectively.

❑ Hind Zinc EBITDA is expected to decline by 14%; Zinc International EBITDA is expected to decline YoY by 57% to Rs.193 due to higher CoP, Aluminium EBITDA is expected to fall by 13% YoY to Rs.530cr due to higher power and Alumina cost. Power EBITDA is expected to decline by 38% to Rs.369cr due to higher coal cost. However, Oil & Gas EBITDA is expected to grow by 68% to Rs.2214cr.

❑ NGT allowed company to resume operations of copper smelter at Tuticorin. However, Tamil Nadu government would challenge the NGT order in the Supreme Court.

Key Trackable this Quarter

❑ CoP in Zinc International and Alumininum business.

❑ Production and volume growth in Oil & Gas and Aluminium business.

We value the stock at 3.5x FY20e EV/EBITDA. NEUTRAL

Aegis Logistics Limited

AEGIS IN

Oil & Gas

CMP	**204**
Target	**250**
Upside	**23%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
ROE%	14%	16%	18%	19%
ROCE%	20%	18%	22%	24%
PE	27.2	42.9	27.3	21.9
PB	3.9	7.0	4.8	4.1
EV/EBITDA	17.1	32.6	18.6	15.2

	FY17	FY18	FY19E	FY20E	3QFY18	2QFY19	3QFY19E
Volume							
LPG sourcing	1,043	1,177	1,069	1,250	306	270	283
LPG Logistics	1,365	1,744	2,416	2,778	521	663	625
Segment Sales(Cr)							
Liquid	154	168	189	242	40	44	47
Gas	3,778	4,623	5,369	6,485	1,402	1,381	1,468
Financials							
Sales	**3,930**	**4,791**	**5,559**	**6,728**	**1,442**	**1,426**	**1,515**
Sales Gr	*78%*	*22%*	*16%*	*21%*	*16%*	*15%*	*5%*
Ebdita	**204**	**266**	**378**	**460**	**72**	**89**	**96**
Ebdita Gr	*10%*	*31%*	*42%*	*22%*	*19%*	*31%*	*34%*
Net Profits	**119**	**198**	**251**	**313**	**54**	**58**	**63**
Profit Gr%	*5%*	*66%*	*27%*	*25%*	*43%*	*10%*	*18%*
EbditaM%	**5.2%**	**5.6%**	**6.8%**	**6.8%**	**5.0%**	**6.2%**	**6.4%**
Net Mgn%	**3.0%**	**4.1%**	**4.5%**	**4.7%**	**3.7%**	**4.0%**	**4.2%**

Conso/ Fig in Rs Cr

- ❑In LPG logistics business, as major capacities came on stream and existing clients are taking additional volumes. Volume growth of 15-20% YoY is expected in Q3 FY19.
- ❑LPG sourcing volumes are expected to decline by 9% in FY19 and 7% in Q3 FY19 as BPCL has not came up with new tender in 2018 resulting in lower off take in Q2 FY19. Company is the process of negotiation with its existing clients for additional volume off take.
- ❑In liquid division, volumes growth expected as Kandla 100,000 KL and Haldia liquid terminal has commissioned. The total liquid capacity reached to 689,310 KL (including Mangalore terminal) and volume from this division is expected to grow by 8-10% YoY in Q3 FY19.
- ❑Construction work at HPCL's Uran- Chakkan LPG pipeline may get be delayed by few months. Earlier it was expected to be completed by Dec, 2018.
- ❑EBITDA margins are likely to improve on sequential basis as new capacities have commissioned in the last quarter and full lease cost reflected in the books but full revenue has not reflected.
- ❑Management has guided for lower interest cost in coming quarters.
- ❑Planned capex for FY19 around Rs. 150 Cr is required.

Key Trackable this Quarter

- ❑ Incremental volumes at Haldia and Manglore terminal
- ❑Update on completion of Uran pipeline

We value the stock at 18x FY20e EV/EBITDA. BUY

Bharat Petroleum Corporation Ltd

Oil & Gas

BPCL IN

CMP	**351**
Target	**407**
Upside	**16%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
ROE%	27%	23%	16%	17%
ROCE%	21%	18%	14%	15%
PE	11.7	11.7	12.1	10.4
PB	3.2	2.7	2.0	1.7
EV/EBITDA	10.6	9.9	9.2	7.9

	FY17	FY18	FY19E	FY 20E	3QFY18	2QFY19	3QFY19E
Volume(MMT)							
Crude throughput	25.4	28.5	30.9	31.8	7.3	7.9	7.7
Market sales	37.7	41.2	43.1	44.4	10.7	10.7	11.0
Export sales	2.5	2.0	1.8	1.8	0.6	0.3	0.3
Financials							
Sales	*202,211*	*236,313*	*323,477*	*337,370*	*70,195*	*82,885*	*77,912*
Sales Gr	*7%*	*17%*	*37%*	*4%*	*31%*	*29%*	*11%*
Ebdita	**10,829**	**11,669**	**10,676**	**12,228**	**3,188**	**2,419**	**2,119**
Ebdita Gr	*-2%*	*8%*	*-9%*	*15%*	*-4%*	*-31%*	*-34%*
Net Profits	**8,039**	**7,919**	**6,271**	**7,332**	**2,144**	**1,219**	**1,332**
Profit Gr%	*21%*	*-3%*	*-21%*	*17%*	*-6%*	*-48%*	*-38%*
EbditaM%	**5.4%**	**4.9%**	**3.3%**	**3.6%**	**4.5%**	**2.9%**	**2.7%**
Net Mgn%	**4.0%**	**3.4%**	**1.9%**	**2.2%**	**3.1%**	**1.5%**	**1.7%**

Std/ Fig in Rs Cr

- In Q3 FY19, crude price has declined by around 19% on sequential basis which could result in higher inventory loss in December quarter. Marketing margins of the company is expected to come under pressure on the back of sharp decline in crude oil prices and oil marketing companies continues to absorb Re.1 /Lts. price on gasoline and diesel under pricing mechanism announced by the government
- Kochi refinery is now processing high sulfur crude and management expects this refinery to improve its margins.
- Mozambique LNG supply agreements are expected to be signed by first half of 2019. The project will consist of two trains of 6MT each with the buyers could be from China, India and Korea.
- Planned capex for FY19 is Rs.7800 Cr and the company is on track to upgrade all refineries to BS-6 norms. Further BPCL management has approved Rs 11,130 Cr Kochi petrochemical project.
- Bina refinery expansion from 6 MMT to 7.8 MMT at the cost of Rs.3000 Cr is expected to be completed in 2019.
- With the current capex plans BPCL does not require any significant debt .

Key Trackable this Quarter

- Operating efficiency in terms of margins of Kochi refinery
- Status of Bina refinery expansion
- Status of LNG production from Mozambique fields

We value the stock at 2x FY20e P/B. BUY

Deep Industries Limited

Oil & Gas

DEEPI IN

CMP	**125**
Target	**124**
Upside	**-1%**
Rating	**NEUTRAL**

	FY17	FY18	FY19E	FY20E
ROE%	18%	17%	12%	12%
ROCE%	25%	25%	25%	26%
PE	15.0	6.0	6.5	6.0
PB	2.7	1.0	0.8	0.7
EV/EBITDA	7.8	3.6	3.5	3.2

	FY17	FY18	FY19E	FY 20E	3QFY18	2QFY19	3QFY19E
Order book(Cr)	780	610	500	550	604	486	500
Financials							
Sales	**277**	**313**	**247**	**255**	**75**	**55**	**59**
Sales Gr	*64%*	*13%*	*-21%*	*3%*	*6%*	*-26%*	*-21%*
Ebdita	**156**	**162**	**136**	**142**	**38**	**30**	**33**
Ebdita Gr	*62%*	*4%*	*-16%*	*4%*	*-9%*	*-23%*	*-13%*
Net Profits	**70**	**77**	**62**	**66**	**18**	**13**	**15**
Profit Gr%	*72%*	*10%*	*-20%*	*7%*	*4%*	*-28%*	*-18%*
EbditaM%	**56.2%**	**51.8%**	**55.0%**	**55.8%**	**50.4%**	**55.2%**	**55.1%**
Net Mgn%	**25.4%**	**24.8%**	**25.0%**	**26.1%**	**24.6%**	**23.8%**	**25.5%**

Conso/ Fig in Rs Cr

❑Current order book stands at Rs. 636 Cr.(including terminated order from ONGC of about Rs. 150 Cr). The company has stopped working on terminated contract in June 2018, and has not received any payment from ONGC. Outstanding is about Rs. 38-39 Cr. which is reflected in receivables in Q2 FY19.

❑In Q2 FY19, company has submitted 12 new bids in Gas compression and Riggs business. These bids are under evaluation and expected to be announced within couple of months.

❑In November, company has received a new contract from ONGC for Work over Rigs for a period of 1 year for Cambay Asset. The order size of the contract is Rs 3.12 Cr. This is the first time company has received any contract from ONGC after dispute.

❑Revenue is expected to decline in Q3 FY19 on the back of stoppage of work on terminated contracts.

❑The company is expanding its business in overseas through its subsidiary Deep International DMCC. This subsidy is currently executing one order which is expected to be completed in Q4 FY19 worth USD 7Mn. DMCC is expecting two new orders soon each could be of USD 4-5mn

❑The company is diversifying its business in CBM blocks and total 5 wells are already drilled and further 36 wells to be drilled in FY19.

❑Company is considering demerging E&P and integrated business as a separate listed entity.

❑We remain watchful on the contract awarded in the core business of the company (Gas dehydration, gas compression and drilling) from ONGC and other PSU. If absence of any new contract, revenue from core is expected to come under pressure. Hence we do not expect any significant revenue growth for the company in upcoming fiscal and remain cautious on this stock.

Key Trackable this Quarter

❑ Gas production from CBM blocks

❑Revenue guidance from overseas business.

❑Status of 12 new bids placed by company with different PSU's

We value the stock at 6x FY20e EPS. NEUTRAL

GAIL (India) Limited

GAIL IN

Oil & Gas

CMP	**362**
Target	**433**
Upside	**20%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
ROE%	9%	11%	15%	14%
ROCE%	9%	11%	15%	13%
PE	18.2	16.0	12.5	13.1
PB	1.7	1.8	1.9	1.8
EV/EBITDA	10.2	9.5	7.8	8.0

	FY17	FY18	FY19E	FY20E	3QFY18	2QFY19	3QFY19E
Volume(mmscmd)							
Nat. gas Trans	402	422	437	453	109	107	112
LPG Trans.	3,363	3,726	3,877	4,070	932	1,019	951
Nat. gas market	313	327	367	388	88	82	93
Petrochemicals	*595*	*675*	*737*	*768*	177	182	187
Financials							
Sales	*48,055*	*53,662*	*75,345*	*79,380*	*14,414*	*19,275*	*19,827*
Sales Gr	*-7%*	*11%*	*40%*	*5%*	*19%*	*55%*	*38%*
Ebdita	**6,409**	**7,634**	**10,405**	**10,051**	**1,970**	**2,927**	**2,677**
Ebdita Gr	*13%*	*14%*	*14%*	*13%*	*14%*	*41%*	*36%*
Net Profits	**3,503**	**4,618**	**6,512**	**6,213**	**1,262**	**1,963**	**1,685**
Profit Gr%	*57%*	*32%*	*41%*	*-5%*	*28%*	*50%*	*33%*
EbditaM%	**13.3%**	**14.2%**	**13.8%**	**12.7%**	**13.7%**	**15.2%**	**13.5%**
Net Mgn%	**7.3%**	**8.6%**	**8.6%**	**7.8%**	**8.8%**	**10.2%**	**8.5%**

Std/ Fig in Rs Cr

❑Volume in natural gas marketing segment(Contributes ~80% of revenue) is expected to grow to the tune of 6-8% in Q3 FY19 on the back of increasing demand by gas distribution companies, and rising import of US LNG. Further management has guided for total 90 cargoes of US LNG to be imported in FY19.

❑Earlier company was importing 4-5 Gorgon cargoes every month, but now these cargoes are getting replaced with the US LNG due to favorable US LNG economics.

❑Of the total sales volumes 80% are crude link for which the company takes hedging contracts time to time which are typically of 12 Months in tenure. With this margins of the company are expected to remain almost stable in Q3 FY19 despite wide fluctuations in crude prices.

❑Volume of petrochemical segment is expected to grow in the range of 6-7% in Q3 FY19 as PATA plant is already operating at higher capacities utilization level which leaves less room for further volume growth. Management has guided for petchem volume of 7 lakh MT in FY19.

❑Kochi-Mangalore pipeline is expected to be completed by Feb-Mar'2019, delay on account of monsoon and some local issues.

❑Capex guidance for FY19 is Rs.6500 Cr. Capex of Rs. 3900 Cr in 1HFY19 has already done..

❑GAIL has won 3 bids for City Gas Distribution authorization for Giridihi & Dhanbad Districts in Jharkhand, Sundargarh & Jharsuguda Districts and Ganjam, Nayagarh & Puri Districts in Odisha.

Key Trackable this Quarter

❑Off take of Natural gas by City Gas Distribution companies.

❑Number of UN LNG cargoes imported

❑Status of Kochi-Mangalore pipeline project

We value the stock at 13x FY20e EPS and subsidiaries at Rs. 75. BUY

Gujarat State Petronet Ltd

GSPL IN

CMP	**170**
Target	**219**
Upside	**29%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
ROE%	11%	13%	17%	16%
ROCE%	21%	20%	26%	27%
PE	22.0	16.8	9.8	9.1
PB	2.4	2.2	1.6	1.4
EV/EBITDA	12.0	11.0	6.3	5.9

	FY17	FY18	FY19E	FY20E	3QFY18	2QFY19	3QFY19E
Gas volume (MSCM)	9,071.1	11,536.2	13,185.7	14,240.5	3,082.0	3,185.0	3,328.6
Growth YoY	*1%*	*27%*	*14%*	*8%*	*28%*	*10%*	*8%*
Tarrif (Cr .INR/SCM)	111%	113%	147%	147%	112%	114%	147%
Financials							
Sales	**1,028**	**1,332**	**2,033**	**2,239**	**352**	**598**	**497**
Sales Gr	*4%*	*30%*	*53%*	*10%*	*24%*	*72%*	*41%*
Ebdita	**888**	**1,148**	**1,733**	**1,911**	**299**	**516**	**422**
Ebdita Gr	*3%*	*29%*	*51%*	*10%*	*22%*	*73%*	*41%*
Net Profits	**497**	**668**	**976**	**1,054**	**182**	**323**	**244**
Profit Gr%	*12%*	*35%*	*46%*	*8%*	*53%*	*83%*	*35%*
EbditaM%	**86.4%**	**86.2%**	**85.2%**	**85.4%**	**84.9%**	**86.3%**	**84.9%**
Net Mgn%	**48.3%**	**50.2%**	**48.0%**	**47.1%**	**51.6%**	**54.0%**	**49.2%**

Std/ Fig in Rs Cr

❑PNGRB has revised transmission tariff for both low pressure and high pressure gas pipeline to the tune of 28% in the month of October, 2018. This hike in tariff is applicable from 1 April 2018, as a result of which company is likely to report revenue growth of 41% YoY and PAT growth of 34% YoY in Q3 FY19.

❑Company has taken substantial debt in order to fund the acquisition of Gujarat gas which results in higher interest cost in the last two quarters.

❑Volume growth of 8-10% p.a. is expected on the back of strong demand from city gas distribution (CGD), power and fertilizer companies. With the expansion of city gas distribution network by Gujarat gas and Adani gas, GSPL is likely to be benefitted in up-coming quarters.

❑Demand of gas is expected to grow over next three-five years as GSPL has exclusive access to three of the six terminals in Gujarat and is major off-taker for both Mundra and Dahej terminal.

❑Badmer- Palanpur pipeline is expected to commission in March 2019, with this GSPL will be able to reach new markets outside Gujarat.

❑With the commissioning of Reliance pet coke gasifier volume off-take by GSPL is expected to drop but this is likely to be fully offset by the strong demand coming from city gas distribution companies.

Key Trackable this Quarter

❑Status of Badmer- Palanpur pipeline

❑Timeline of commissioning of PLNG Dahej terminal and Reliance pet coke gasifier

We value the stock at 8x FY20e Std EPS and Rs 70 for Subsidiaries to arrive at SOTP Value of Rs. 219. BUY

Hindustan Petroleum Corp. Ltd

Oil & Gas

HPL IN

CMP	**253**
Target	**244**
Upside	**-4%**
Rating	**NEUTRAL**

	FY17	FY18	FY19E	FY20E
ROE%	21%	31%	27%	15%
ROCE%	19%	30%	24%	12%
PE	8.6	8.2	9.6	9.7
PB	2.6	2.2	1.4	1.2
EV/EBITDA	6.7	6.6	7.1	7.1

	FY17	FY18	FY19E	FY 20E	3QFY18	2QFY19	3QFY19E
Volume							
Refinery Thr.	17.8	18.3	18.7	19.3	4.5	4.8	4.7
Marketing							
>Domestic	35.2	36.2	37.6	38.8	9.2	8.8	9.5
>Exports	0.2	0.7	0.7	0.7	0.2	0.3	0.2
Pipeline throughput	17.9	20.1	21.5	22.1	5.2	5.3	5.3
Financials							
Sales	**187,023**	**219,330**	**276,767**	**279,200**	**63,076**	**73,376**	**64,571**
Sales Gr	*5%*	*17%*	*26%*	*1%*	*14%*	*35%*	*2%*
Ebdita	**10,577**	**10,672**	**7,546**	**7,261**	**3,159**	**2,122**	**1,432**
Ebdita Gr	*33%*	*1%*	*-29%*	*-4%*	*13%*	*-27%*	*-55%*
Net Profits	**6,208**	**6,357**	**4,035**	**3,965**	**1,950**	**1,092**	**829**
Profit Gr%	*67%*	*2%*	*-37%*	*-2%*	*23%*	*-37%*	*-57%*
EbditaM%	**5.7%**	**4.9%**	**2.7%**	**2.6%**	**5.0%**	**2.9%**	**2.2%**
Net Mgn%	**3.3%**	**2.9%**	**1.5%**	**1.4%**	**3.1%**	**1.5%**	**1.3%**

Std/ Fig in Rs Cr

❑Marketing margins of the company is expected to come under pressure on the back of sharp decline in crude oil prices and oil marketing companies continues to absorb Re.1 /Lts. price on gasoline and diesel under pricing mechanism announced by the government

❑Refining margins of the company is expected to improve from Q4 FY19 (Provided crude price remains at current level) as full impact of the inventory loss is likely to reflect in books in Q3 FY19.

❑Interest cost of the company has increased in the last two quarters due to increase in working capital requirement and debt.

❑Company's expansion plans at Viasakh, Vijayawada and Sikandrabad pipeline project with the cost of Rs. 26277 Cr. with the terminal at Dharampuri is running on track and is expected to complete by 2020. Process line up and designing work has been completed and major contracts have been awarded.

❑Recently government allows OMCs to open over 56,000 new fuel pumps to existing network of 55,000 oil pumps.

Key Trackable this Quarter

❑Status of 9MT Barmer refining project

❑Refining margins of the company

❑Inventory loss

We value the stock at 1.2x FY20e P/B. NEUTRAL

Indraprastha Gas Limited

IGL IN

Oil & Gas

CMP	**271**
Target	**345**
Upside	**27%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
ROE%	20%	19%	17%	17%
ROCE%	27%	27%	23%	22%
PE	25.2	30.6	30.1	26.0
PB	4.9	5.8	5.1	4.4
EV/EBITDA	14.8	18.2	18.2	16.3

	FY17	FY18	FY19E	FY20E	3QFY18	2QFY19	3QFY19E
Volume(MSCM)							
CNG volume	1,131	1,413	1,549	1,689	358	407	387
Growth YoY	8%	25%	10%	9%	26%	13%	8%
PNG volume	406	479	542	589	126	136	137
Growth YoY	19%	18%	13%	9%	21%	13%	9%
Network							
CNG stations(Nos)	*421*	*446*	*457*	*468*	425	450	455
PNG Dom. Conn.('000)	742	892	1,049	1,199	838	974	1,012
PNG Comm. Conn(Nos)	2,870	3,429	4,049	4,297	3,234	3,930	3,989
Financials							
Sales	**4,223**	**5,072**	**6,196**	**7,165**	**1,308**	**1,569**	**1,594**
Sales Gr	*4%*	*20%*	*22%*	*16%*	*25%*	*26%*	*22%*
Ebdita	**964**	**1,113**	**1,118**	**1,249**	**263**	**308**	**264**
Ebdita Gr	*24%*	*16%*	*0%*	*12%*	*7%*	*9%*	*0%*
Net Profits	**571**	**671**	**696**	**804**	**166**	**187**	**170**
Profit Gr%	*36%*	*17%*	*4%*	*16%*	*15%*	*11%*	*3%*
EbditaM%	**22.8%**	**22.0%**	**18.0%**	**17.4%**	**20.1%**	**19.6%**	**16.6%**
Net Mgn%	**13.5%**	**13.2%**	**11.2%**	**11.2%**	**12.7%**	**11.9%**	**10.7%**

Std/ Fig in Rs Cr

❑Volume growth of both CNG and PNG are likely to remain robust in Q3 on the back of economic feasibility of gas over liquid fuels, expansion in new geographies and rising concern about the environment. Further the management has guided for 8-10% volume growth for the next two-three years.

❑Nearly 3,000-4,000 private cars and 1,000 taxis are getting converted into CNG per month which gives us confidence of steady volume growth of 7-8% p.a. (Ex- Gurugram) for next 2-3 years.

❑During the quarter, Company takes over supply of natural gas in Gurugram district over Haryana Gas. Revenue is likely to reflect from Q4 FY19.

❑EBITDA margins of the company is likely to remain under pressure because domestic gas price has increased by 10% to 3.36 USD/MMBTU where as the company has taken price hike of 5% and 8% in CNG and PNG segment respectively on sequential basis during Q3 FY19 in Delhi. Generally company pass on the hike in gas cost on its customers with a time lag of one quarter.

❑IGL to takeover supply of natural gas in Gurugram district over Haryana Gas in mid 2019.

❑Capex guidance for FY19 is Rs.250 Cr (Excluding capex in Rewari district).

Key Trackable this Quarter

❑Industrial/Commercial PNG volume

❑Expansion plans in Karnal district

We value the stock at 30x FY20e EPS. BUY

Indian Oil Corporation Ltd

IOCL IN

CMP	**137**
Target	**151**
Upside	**10%**
Rating	**ACCUMULATE**

	FY17	FY18	FY19E	FY20E
ROE%	19%	19%	14%	12%
ROCE%	16%	17%	12%	10%
PE	9.8	8.0	8.1	8.9
PB	1.9	1.6	1.1	1.0
EV/EBITDA	7.5	5.7	6.1	6.5

	FY17	FY18	FY19E	FY 20E	3QFY18	2QFY19	3QFY19E
Volume(MMT)							
Refinery Thru.	65.1	69.0	71.9	74.1	18.2	17.8	18.8
Pipeline Thru.	82.5	85.7	90.5	93.3	22.4	21.4	23.1
Marketing Vol.	79.9	88.8	91.2	93.9	22.8	21.6	23.5
Financials							
Sales	*359,873*	*424,039*	*490,630*	*519,006*	*110,667*	*132,035*	*116,191*
Sales Gr	*4%*	*18%*	*16%*	*6%*	*19%*	*46%*	*5%*
Ebdita	**31,781**	**39,673**	**30,544**	**28,851**	**13,269**	**6,762**	**5,759**
Ebdita Gr	*51%*	*25%*	*-23%*	*-6%*	*67%*	*-8%*	*-57%*
Net Profits	**19,106**	**21,346**	**15,814**	**14,437**	**7,883**	**3,247**	**2,974**
Profit Gr%	*75%*	*12%*	*-26%*	*-9%*	*97%*	*-12%*	*-62%*
EbditaM%	**8.8%**	**9.4%**	**6.2%**	**5.6%**	**12.0%**	**5.1%**	**5.0%**
Net Mgn%	**5.3%**	**5.0%**	**3.2%**	**2.8%**	**7.1%**	**2.5%**	**2.6%**

Std/ Fig in Rs Cr

- Both refining and marketing margins of the company may come under pressure on the back of sharp decline in crude oil price and oil marketing company continues to absorb Re.1 /Lts. price on gasoline and diesel under pricing mechanism announced by the government in month of October.
- IOC continues to import Iran oil and hopes to meet 9 MT of import target for the financial year 2019 and payment for Iran oil will be rupees via the UCO Bank.
- IOC is likely to commission Ennore LNG terminal in Jan 2018. This is the first LNG import terminal IOC has built on its own at a cost of Rs. 5151 Cr.
- Management expects Paradip refinery and Haldia Coker to have +ve impact on GRM in coming quarter.
- Planned capex for FY19e is Rs. 22800 Cr. and company is likely to invest another Rs 20,000 Cr. in city gas projects in upcoming 5-8 years.
- Recently government allowed OMCs to open over 56,000 new fuel pumps to existing network of 55,000 oil pumps and IOC plans to expand its number of fuel retail outlets to 52000 in three years.

Key Trackable this Quarter

- Status of commissioning of polypropylene facility at Paradip
- Update on commissioning of Haldia coker
- Timeline of developing CGD network in 18 GA’s
- Status of ongoing ramp up at Paradip refinery

We value the stock at 1.2x FY20e P/B. ACCUMULATE

Mahanagar Gas Limited

MGL IN

Oil & Gas

CMP	**912**
Target	**1073**
Upside	**18%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
ROE%	21%	23%	23%	23%
ROCE%	30%	32%	33%	33%
PE	22.4	16.5	17.0	15.3
PB	4.8	3.8	3.9	3.6
EV/EBITDA	13.5	9.9	10.0	8.8

	FY17	FY18	FY19E	FY 20E	3QFY18	2QFY19	3QFY19E
Volume(MSCM)							
CNG	693	724	787	842	185	200	196
Growth YoY	5%	4%	9%	7%	7%	9%	6%
PNG	244	262	286	312	68	72	73
Growth YoY	6%	7%	9%	9%	8%	10%	9%
Network							
CNG stations	203	220	224	227	212	221	222
PNG conn.('000)	545	600	686	758	590	650	668
Financials							
Sales	**2,239**	**2,453**	**3,063**	**3,519**	**638**	**763**	**801**
Sales Gr	*-2%*	*10%*	*24%*	*15%*	*15%*	*30%*	*26%*
Ebdita	**644**	**780**	**877**	**969**	**201**	**221**	**220**
Ebdita Gr	*26%*	*21%*	*12%*	*10%*	*20%*	*11%*	*10%*
Net Profits	**393**	**478**	**530**	**589**	**124**	**136**	**131**
Profit Gr%	*27%*	*21%*	*11%*	*11%*	*25%*	*9%*	*6%*
EbditaM%	**28.8%**	**31.8%**	**28.7%**	**27.5%**	**31.5%**	**29.0%**	**27.5%**
Net Mgn%	**17.6%**	**19.5%**	**17.3%**	**16.7%**	**19.4%**	**17.9%**	**16.4%**

Std/ Fig in Rs Cr

❑.Volume growth of 6-8% is expected on back of economic feasibility, ease in regulatory framework, government emphasis on natural gas and increasing number of customers in both CNG and PNG segment. Further management has maintained its volume growth guidance of 6% plus for FY19e.

❑On supply side, company plans to upgrade 20 existing CNG stations in Mumbai and 3-4 new CNG stations in Raigad district in FY19.

❑On Demand side, in CNG, Vehicle conversion rate in CNG is 6000 per month to existing 6 lakh CNG run vehicles in authorized areas of MGL. In PNG segment company plans to add 1.5lakh PNG connections every year and in Raigad, company plans to add 7000-8000 PNG connections which gives us confidence of volume growth of 7-8% in FY19.

❑EBITDA margin of the company is likely to remain under pressure because domestic gas price has increased by 10% to 3.36 USD/MMBTU where as the company has taken price hike of 7% and 8% in CNG and PNG segment respectively on sequential basis during Q3 FY19 in Mumbai. Generally company pass on the hike in gas cost on its customers with a time lag of one quarter.

❑Capex guidance for FY19 is Rs. 300 Cr. out of which Rs. 150 Cr capex is already done.

Key Trackable this Quarter

❑ Progress on new geographical areas bid in 9th round

❑ Mgt commentary on price hike of CNG and PNG

We value the stock at 18x EPS. BUY

Oil India Limited

OIL IN

Oil & Gas

CMP	**175**
Target	**195**
Upside	**11%**
Rating	**ACCUMULATE**

	FY17	FY18	FY19E	FY20E
ROE%	5%	10%	11%	12%
ROCE%	4%	8%	10%	11%
PE	17.3	9.5	6.1	5.2
PB	0.9	0.9	0.7	0.7
EV/EBITDA	9.4	7.5	3.9	3.7

	FY17	FY18	FY19E	FY 20E	3QFY18	2QFY19	3QFY19E
Volume							
Crude (MMT)	3.3	3.4	3.4	3.5	0.9	0.8	0.9
Gas (BCM)	2.6	2.5	2.6	2.7	0.7	0.6	0.8
LPG(MT)	37.1	35.7	39.4	40.9	10.3	9.7	10.5
Financials							
Sales	*9,510*	*10,656*	*14,070*	*14,188*	*2,853*	*3,744*	*3,581*
Sales Gr	*-3%*	*12%*	*32%*	*1%*	*17%*	*51%*	*26%*
Ebdita	**3,105**	**3,911**	**5,423**	**5,760**	**1,224**	**1,475**	**1,323**
Ebdita Gr	*-13%*	*26%*	*39%*	*6%*	*84%*	*46%*	*8%*
Net Profits	**1,549**	**2,668**	**3,272**	**3,786**	**705**	**862**	**929**
Profit Gr%	*-33%*	*72%*	*23%*	*16%*	*55%*	*33%*	*32%*
EbditaM%	**32.6%**	**36.7%**	**38.5%**	**40.6%**	**42.9%**	**39.4%**	**36.9%**
Net Mgn%	**16.3%**	**25.0%**	**23.3%**	**26.7%**	**24.7%**	**23.0%**	**25.9%**

Std/ Fig in Rs Cr

❑Crude volume is expected to grow marginally by 3 % YoY to 0.88 MMT in Q3 FY19, as major oil fields (like Ningru field, Baghjan field) are under development phase and expected to be completed by 2020.Company has planned crude production of 3.36MMT and natural gas production of 3020 MMSCM in FY19.

❑PAT is likely to grow by 31% YoY in Q3 FY19 led by the higher other income due to dividend of Rs.328 Cr received from IOC.

❑Tax rate is likely to be higher in the range of around 32-35% in coming quarters as company was availing MAT credit in FY18.

❑Oil India is developing Ningru PML gas field and production form this field is expected to increase to about 800 BOPD of crude oil and 0.2 MMSCMD of gas. Further company has planned for Baghjan field to produce oil & gas from the reservoirs below Dibru - Saikhowa National Park (DSNP). These fields are expected to produce gas by 2022.

❑Company has reduced debt substantially by Rs. 2800 Cr in H1 FY19, and is expected to repay further.

❑Planned capex for FY19 is Rs.4300 Cr (Rs.1249 Cr in overseas investment)

Key Trackable this Quarter

❑Progress on Ningru oil fields after deal signed with Arunachal State government.

❑Update on Baghjan field where company plans to drill seven ERD wells to extract oil by 2020

We value the stock at 8x Adj FY20e EPS , FV of Investments at Rs 80 and valuation of Mozambique at (-)Rs 50 to arrive at SOTP value of Rs 195. ACCUMULATE

Oil & Natural Gas Corpn Ltd

ONGC IN

Oil & Gas

CMP	**147**
Target	**181**
Upside	**23%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
ROE%	10%	10%	12%	11%
ROCE%	10%	10%	12%	11%
PE	13.3	10.7	7.2	7.7
PB	1.3	1.1	0.9	0.8
EV/EBITDA	7.3	5.8	3.6	3.7

	FY17	FY18	FY19E	FY 20E	3QFY18	2QFY19	3QFY19E
Volume							
Crude Volume(MMT)	20.9	20.8	20.2	21.1	5.2	4.9	5.2
Gas Volume(BCM)	17.9	19.5	19.9	20.2	5.0	5.1	5.1
LPG Volume(MMT)	1,352	1,221	1,129	1,152	302	277	279
Crude realiz.(Rs./BBL)	*3,267*	*3,527*	*4,406*	*3,993*	3,694	4,920	3,993
Financials							
Sales	*77,908*	*85,004*	*107,847*	*107,099*	*22,996*	*27,989*	*26,710*
Sales Gr	*0%*	*9%*	*27%*	*-1%*	*15%*	*48%*	*16%*
Ebdita	**31,079**	**36,988**	**52,000**	**50,972**	**10,919**	**14,471**	**13,174**
Ebdita Gr	*-4%*	*19%*	*41%*	*-2%*	*21%*	*58%*	*21%*
Net Profits	**17,900**	**19,945**	**26,225**	**24,554**	**5,015**	**8,265**	**6,679**
Profit Gr%	*11%*	*11%*	*31%*	*-6%*	*15%*	*61%*	*33%*
EbditaM%	**39.9%**	**43.5%**	**48.2%**	**47.6%**	**47.5%**	**51.7%**	**49.3%**
Net Mgn%	**23.0%**	**23.5%**	**24.3%**	**22.9%**	**21.8%**	**29.5%**	**25.0%**

Std/ Fig in Rs Cr

❑ Volume growth in crude and natural gas is expected to grow marginally where as the volume in LPG is likely to fall marginally on YoY basis due to slow demand of LPG in the month of November, 2018. Further the management has guided for Standalone production of oil 22.75MMT, gas 24.41BCM and JVs - oil 3.18MMT, gas 1.1BCM in FY19e.

❑EBITDA Margin is expected to improve by 180bps YoY to 49.3% in Q3 FY19 on the back of better realization, operational efficiencies and decline in cost of work-over rigs by around 30%. These cost efficiencies are expected to sustain in future.

❑ONGC has kick-started its USD 5.07 billion KG oil and gas project by beginning the drilling of first of the 34 wells, targeting first gas by end of 2019. KDG-A is one of the 34 wells planned under this mega project. These wells are expected to produce around 5,000 barrels of oil per day (BOPD) when commercialized.

❑Ramp-up in oil production from the redevelopment projects in the Mumbai offshore area (North & South), oil fields in Daman and Vasai (East) is expected to improve oil volume of ONGC in Jan 2019.

❑Debt (Std.) level has reduced from Rs.25000 Cr to Rs.13985 Cr in H1 FY19.

❑Planned capex for FY19 is Rs. 32000 Cr. (standalone).

Key Trackable this Quarter

❑Status of gas production from its first well at KG-D6 site

❑Update on ramp-up of Mumbai offshore, Daman and Vasai oil fields

❑Oil production of OVL

We value the stock at 8x FY20e EPS(Std.) & Subsidiary at Rs 28 per Share. BUY

Petronet LNG Limited

PLNG IN

Oil & Gas

CMP	**229**
Target	**282**
Upside	**23%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
ROE%	21%	21%	22%	22%
ROCE%	23%	28%	29%	29%
PE	17.7	17.5	15.5	14.4
PB	3.7	3.7	3.4	3.1
EV/EBITDA	12.1	11.0	9.6	8.9

	FY17	FY18	FY19E	FY 20E	3QFY18	2QFY19	3QFY19E
Volume(TBUT)							
Dahej terminal	714	816	876	938	215	211	230
Cap. Utiliz.(%)	*112%*	*106%*	*106%*	*105%*	*112%*	*110%*	*103%*
kochi terminal	15	32	35	64	4.21	4.13	4.50
Cap. Utiliz.(%)	*6%*	*12%*	*14%*	*25%*	13%	9%	10%
Financials							
Sales	*24,616*	*30,599*	*40,848*	*42,971*	*7,757*	*10,745*	*10,919*
Sales Gr	*-9%*	*24%*	*33%*	*5%*	*23%*	*38%*	*41%*
Ebdita	**2,592**	**3,312**	**3,588**	**3,788**	**847**	**884**	**925**
Ebdita Gr	*63%*	*28%*	*8%*	*6%*	*40%*	*-2%*	*9%*
Net Profits	**1,706**	**2,078**	**2,211**	**2,379**	**529**	**563**	**547**
Profit Gr%	*87%*	*22%*	*6%*	*8%*	*33%*	*-4%*	*3%*
EbditaM%	**10.5%**	**10.8%**	**8.8%**	**8.8%**	**10.9%**	**8.2%**	**8.5%**
Net Mgn%	**6.9%**	**6.8%**	**5.4%**	**5.5%**	**6.8%**	**5.2%**	**5.0%**

Std/ Fig in Rs Cr

- In Q3 FY19, spot LNG prices has increased by around 10% on YoY basis despite declining 8% on sequential basis. Decline in spot LNG prices is likely to impact marketing margins of the company on sequential basis. The company is likely to report muted PAT growth of 2% on YoY basis in Q3 FY19.

- Kochi-Mangalore pipeline is expected to be completed by Jan-February 2019 following which ramp up of Kochi terminal is expected. Management expects that any additional supply will be fully off taken by BPCL going ahead once this pipeline will commissioned.

- Dahej 15 MTPA capacity is already operating at high utilization levels and expansion of this terminal to 17.5 MT is underway. This terminal is expected to come on stream by June 2019.

- Petronet LNG is expanding its operations in Bangladesh and Sri Lanka. In Bangladesh, company is in the process of finalizing implementation and terminal service agreements where as in Sri Lanka pre-FEED studies are underway.

- Management guides Capex of Rs. 230 for FY19.

- Guidance for Tax rate is 30-34%. Now the company is out of MAT.

- Competitive intensity is expected to rise on the back of two new upcoming LNG terminals (Mundra and Ennore) in first half of 2019.

Key Trackable this Quarter

- Status of Kochi-Mangalore pipeline
- Update on Dahej expansion to 17.5 MT which is likely to be completed by June 2019.
- Status on overseas expansion in Bangladesh and Sri Lanka

We value the stock at 11x FY20e EV/EBITDA. BUY

Reliance Industries Limited

RIL IN

Oil & Gas

CMP	**1121**
Target	**1293**
Upside	**15%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
ROE%	11%	12%	12%	12%
ROCE%	8%	11%	12%	12%
PE	13.2	16.8	18.2	16.2
PB	1.5	2.1	2.2	2.0
EV/EBITDA	11.8	11.6	10.8	9.3

	FY17	FY18	FY19E	FY 20E	3QFY18	2QFY19	3QFY19E
Volume(MMT)							
Crude refined vol	70.2	70.0	71.0	71.0	17.7	17.7	17.8
Crude oil vol	7.2	6.1	4.3	4.0	1.5	1.1	1.0
Natural Gas vol	164	130	92	85	31	22	21
Org. stores(Nos)	*3,616*	*3,837*	*4,361*	*4,641*	3,751	4,141	4,291
Petchem vol	24.9	30.8	38.3	44.1	8.0	9.4	9.6
Financials							
Sales	*305,382*	*391,677*	*531,917*	*621,125*	*99,810*	*143,323*	*124,573*
Sales Gr	*11%*	*28%*	*36%*	*17%*	*26%*	*57%*	*25%*
Ebdita	**46,194**	**64,176**	**81,824**	**95,659**	**17,588**	**21,108**	**18,935**
Ebdita Gr	*11%*	*39%*	*27%*	*17%*	*52%*	*36%*	*8%*
Net Profits	**29,833**	**36,080**	**39,002**	**43,812**	**9,445**	**9,516**	**8,908**
Profit Gr%	*0%*	*21%*	*8%*	*12%*	*26%*	*18%*	*-6%*
EbditaM%	**15.1%**	**16.4%**	**15.4%**	**15.4%**	**17.6%**	**14.7%**	**15.2%**
Net Mgn%	**9.8%**	**9.2%**	**7.3%**	**7.1%**	**9.5%**	**6.6%**	**7.2%**

Conso/ Fig in Rs Cr

❑Revenue is expected to increase by 25% on YoY basis on the back of robust performance by petrochemical and retail segment. However PAT is expected is expected to fall by 6% YoY in Q3 FY19e due to lower refining margins and inventory losses in reefing segment due to sharp decline in crude oil prices.

❑Refining margins are expected to come under pressure and company likely is expected to report GRM of 8 USD/bbl in the last quarter. However refining margins of the company are expected to improve from Q4 FY19 led by lower crude oil prices.

❑Petrochemicals segment is expected perform better in terms of volume growth, on the back of ramp up of pet coke gasification projects in Jamnagar, however realization and margins is expected to come slightly under pressure due to fall in crude oil prices.

❑Reliance retail is aggressively expanding its footprint by adding around 400 new stores every year. We believe that this segment will continue to outperform in coming quarters and expects revenue in this to grow by around 67% YoY to Rs.115,849 Cr in FY19e.

❑Till September, 2018 Jio has reached subscriber base of 250 mn and this growth momentum is expected to continue for next couple of quarters but stiff competition restricts ARPU of Jio to around Rs 132. Jio is now rolling out JioGiga Fiber in 1,100 cities in India and is targeting 5 Cr JioGiga Homes in the first phase.

Key Trackable this Quarter

❑Status of commissioning of R-cluster projects

❑Interest cost and depreciation

We value the stock at 11x FY20e EV/EBITDA. BUY

Auropharma

ARBQY US

CMP	**731**
Target	**799**
Upside	**9%**
Rating	**HOLD**

	FY17	FY18	FY19E	FY20E
Roe%	25%	21%	18%	17%
Roce%	31%	26%	22%	21%
P/E	17.1	13.4	17.1	15.5
P/B	4.2	2.8	3.1	2.6
EV/Ebdita	11	8	11	10

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Segment Revenue							
North America	6,827	7,442	8,746	9,643	1,910	2,227	2,282
Europe	3,277	4,354	4,943	5,413	1,172	1,157	1,294
Growth Markets	756	897	1,128	1,334	250	308	282
ARV	1,185	840	749	1,063	239	244	175
API	3,042	2,962	3,130	3,130	766	817	766
Sales	15,090	16,500	18,698	20,583	4,336	4,751	4,798
Sales Gr	*8%*	*9%*	*13%*	*10%*	*11%*	*7%*	*11%*
Ebdita	3,434	3,772	3,899	4,289	1,026	1,026	1,036
Ebdita Gr	*8%*	*10%*	*3%*	*10%*	*15%*	*-8%*	*1%*
Net Profits	2,296	2,420	2,494	2,743	595	611	636
Profit Gr%	*14%*	*5%*	*3%*	*10%*	*3%*	*-22%*	*7%*
Ebdita Margin%	22.8%	22.9%	20.9%	20.8%	23.7%	21.6%	21.6%
Net Profit Margin%	15.3%	14.7%	13.4%	13.3%	13.7%	12.9%	13.2%

Conso/ Fig in Rs Cr

❑ We expect US sales in Q3FY19 to increase by 11% on a YoY basis as we assume injectable business (Auromedics) to grow by 25% on the back of new launches and ramp up of Ertapenem, also OTC business (Natrol) would contribute towards such increase.

❑The acquisition of Apotex business would trigger revenue growth in Europe as this acqusition would give the company entry into two additional market of Eastern Europe.

❑We expect the performance of ARV business in H2FY19 to be subdued in comparison to H1FY19 as there were some defects found in DTG for pregnant women.

❑We expect the EBITDA margin to decline by 200 bps to 22% in Q3FY19 on a YoY basis largely due to increased staff cost as Unit 16 was commissioned and Generis Farmaceutica S.A was consolidated. Also, the negative impact on account of Chinese sourcing would contribute towards such decline.

❑ Key products like Ertapenem, Bivalirudin Injection and Vancomycin will be the key contributors towards revenue in the US market in FY19.

Key Trackable this Quarter

❑ impact of raw material sourcing from China.

❑ R&D expenditure.

❑ANDA filings and approvals.

We value the stock at 17x FY20e EPS. HOLD

Cipla Limited

CIPLA IN

Pharmaceuticals

CMP	**520**
Target	**517**
Upside	**-1%**
Rating	**NEUTRAL**

	FY17	FY18	FY19E	FY20E
Roe%	8%	10%	11%	12%
Roce%	7%	8%	11%	11%
P/E	23.7	55.0	31.3	21.0
P/B	3.8	3.1	2.7	2.4
EV/Ebdita	20	16	14	13

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Segment Revenue							
India	5,520	5,870	6,633	6,633	1,601	1,644	1,723
North America	2,629	2,589	3,231	3,872	650	758	874
SAGA	2,920	3,339	2,995	2,820	870	754	705
Emerging Markets	1,997	1,682	1,836	1,791	371	472	448
Europe	585	623	557	564	171	141	141
Global API	529	626	713	684	148	171	171
Others	451	491	307	288	103	72	72
Sales	14,630	15,219	16,512	17,053	3,914	4,012	4,253
Sales Gr	6%	4%	8%	3%	*7%*	*-2%*	*9%*
Ebdita	2,476	2,826	3,001	3,091	819	702	776
Ebdita Gr	*0%*	*14%*	*6%*	*3%*	*21%*	*-13%*	*-5%*
Net Profits	1,042	1,419	1,569	1,842	403	366	371
Profit Gr%	*-25%*	*37%*	*11%*	*17%*	*8%*	*-16%*	*-8%*
Ebdita Margin%	16.9%	18.6%	18.2%	18.1%	20.9%	17.5%	18.3%
Net Profit Margin%	7.1%	9.3%	9.5%	10.8%	10.3%	9.1%	8.7%

Conso/ Fig in Rs Cr

❑The limited competition products like Diclofenac gel, Albendazole and Atazanavir to drive revenue growth in US in FY19.

❑We expect revenue to grow by 9% in Q3FY19 on YoY basis based on the growth in US, driven by the launch of limited competition products like Albendazole and Atazanavir, also India business would contribute towards revenue growth though would be impacted by delay in flu season and weak Q4.

❑Tender business will continue to face challenges due to the weak funding environment. Therefore, SAGA region, emerging market and Europe revenue will continue to see pressure.

❑R&D expenditure to be around 8% of sales in FY19 as the company is moving towards more limited competition products and inhalers and also due to clinial trial charges related to Advair.

❑We expect EBITDA margin to decline by 270 bps to 18.3% on YoY basis majorly due to escalation in China source supplies and also because of increase in other expenses.

Key Trackable this Quarter

❑ USFDA Form 483 on Goa facility

❑ R&D investment

❑ Limited competition launch each quarter.

We value the stock at 20x FY20e EPS. NEUTRAL

Dr. Reddy's Laboratories Limited

Pharmaceuticals

DRRD IN

CMP	**2617**
Target	**3092**
Upside	**18%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	8%	8%	13%	14%
Roce%	9%	8%	13%	13%
P/E	41.9	36.5	24.3	20.3
P/B	3.6	2.7	3.1	2.8
EV/Ebdita	19.7	15.6	14.0	12.5

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Segment Revenue							
North America	6,360	5,982	6,331	7,058	1,607	1,427	1,596
Europe	761	822	814	873	201	192	210
India	2,313	2,332	2,682	2,950	613	686	694
Emerging Markets	2,107	2,265	2,903	2,963	590	749	745
PSAI	2,128	2,199	2,350	2,412	544	603	603
Proprietary products	412	602	502	514	252	141	121
Sales	14,081	14,203	15,581	16,770	3,806	3,798	3,969
Sales Gr	*-9%*	*1%*	*10%*	*8%*	*3%*	*7%*	*4%*
Ebdita	2,221	2,351	3,190	3,454	793	759	818
Ebdita Gr	*-38%*	*6%*	*36%*	*8%*	*-8%*	*13%*	*3%*
Net Profits	1,041	947	1,788	2,137	303	518	394
Profit Gr%	*-51%*	*-9%*	*89%*	*20%*	*-39%*	*70%*	*30%*
Ebdita Margin%	15.6%	16.5%	20.4%	20.5%	20.7%	19.9%	20.5%
Net Profit Margin%	7.3%	6.6%	11.4%	12.7%	7.9%	13.6%	9.9%

Conso/ Fig in Rs Cr

❑We expect revenue from US business to increase by 8% QoQ to US$ 224 million in Q3FY19 on account of Welchol and Gleevec launch. But on a YoY basis, we assume revenue from US business to decline by 9% as there was a onetime contribution from Renvela in Q3FY18.

❑We expect revenue from India business to increase by 13% YoY to 694 crores in Q3FY19 majorly on account of Repatha and Hervycta launch in the first half.

❑We assume Europe revenue to improve in Q3FY19 on account of stabilization in the supply issue also revenue from Emerging market will be see a traction as we expect Russia to report healthy performance based on new launches.

❑The management in an effort to improve the asset utilization and to manage the cost structure better has concluded the sale of antibiotic manufacturing facility in Bristol, USA, and also have entered into a definitive agreement towards divestment of its API manufacturing facility at Jeedimetla, Hyderabad.

Key Trackable this Quarter

❑ gSuboxone launch

❑ R&D Expenditure

❑USFDA Form 483 on Duvvada facility

We value the stock at 24x FY20e EPS. BUY

Lupin Limited

LUPNY US

Pharmaceuticals

CMP	**846**
Target	**838**
Upside	**-1%**
Rating	**NEUTRAL**

	FY17	FY18	FY19E	FY20E
Roe%	19%	2%	9%	10%
Roce%	19%	10%	8%	10%
P/E	25.5	128.8	28.7	25.2
P/B	4.8	2.5	2.6	2.4
EV/Ebdita	16	12	15	12

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Segment Revenue							
North America	8,263	5,894	5,506	6,219	1,432	1,249	1,454
India	3,797	4,125	4,724	5,433	1,069	1,203	1,224
APAC	2,266	2,573	2,603	2,469	674	620	688
EMEA	1,012	1,125	1,206	1,316	272	295	318
LATAM	452	579	636	708	148	146	182
API	1,129	1,093	1,379	1,724	268	335	335
Sales	17,494	15,804	16,443	18,347	3,976	3,951	4,279
Sales Gr	*23%*	*-10%*	*4%*	*12%*	*-11%*	*0%*	*8%*
Ebdita	4,493	3,148	2,752	3,486	688	550	813
Ebdita Gr	*22%*	*-30%*	*-13%*	*27%*	*-43%*	*-36%*	*18%*
Net Profits	2,557	258	1,332	1,516	221	266	406
Profit Gr%	*13%*	*-90%*	*416%*	*14%*	*-65%*	*-42%*	*83%*
Ebdita Margin%	25.7%	19.9%	16.7%	19.0%	17.3%	13.9%	19.0%
Net Profit Margin%	14.6%	1.6%	8.1%	8.3%	5.6%	6.7%	9.5%

Conso/ Fig in Rs Cr

❑We expect US sales to have a muted growth in Q3FY19 on a YoY basis though Q4FY19 will see a decent growth on account of gRanexa and Levothyroxine launch, ramp up of branded product Solosec and with flu season coming in, Tamiflu will be a good contributor.

❑We assume India business to grow by 15% in Q3FY19 on a YoY basis based on the growing therapy areas.

❑Japan will be a challenging market as the country is getting ready for another biennial price cut.

❑We expect EBITDA margin to decline by 167 bps to 19% in Q3FY19 on a YoY basis majorly due to higher procurement prices in china and increased spend in the promotion of Solosec.

❑R&D expenditure to be around 1500-1600 cr in FY19.

Key Trackable this Quarter

❑Biennial price cut in Japan.

❑14-15% growth in India formulation in FY19.

❑EBITDA margin of 18-19% in FY19

We value the stock at 25x FY20e EPS. NEUTRAL

Sun Pharmaceutical Industries Ltd

SUNP IN

Pharmaceuticals

CMP	**431**
Target	**512**
Upside	**19%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	19%	6%	8%	11%
Roce%	23%	10%	12%	12%
P/E	23.7	55.0	31.3	21.0
P/B	4.5	3.1	2.5	2.3
EV/Ebdita	16	20	14	13

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Segment Revenue							
US formulation	13,759	8,747	10,067	10,193	2,124	2,398	2,504
India Formulation	7,749	8,029	8,672	9,365	2,085	1,860	2,330
Emerging market	4,530	4,839	5,439	5,540	1,221	1,372	1,343
ROW	2,583	2,974	3,156	3,212	777	762	854
API	1,598	1,399	1,628	1,872	370	426	425
Others	45	77	94	94	21	29	21
Sales	31,578	26,489	29,525	30,720	6,653	6,938	7,554
Sales Gr	*11%*	*-16%*	*11%*	*4%*	*-16%*	*4%*	*14%*
Ebdita	10,089	5,608	6,712	7,147	1,453	1,531	1,757
Ebdita Gr	*24%*	*-44%*	*20%*	*6%*	*-41%*	*11%*	*21%*
Net Profits	6,964	2,162	3,300	4,909	365	(219)	1,119
Profit Gr%	*53%*	*-69%*	*53%*	*49%*	*-75%*	*-124%*	*206%*
Ebdita Margin%	31.9%	21.2%	22.7%	23.3%	21.8%	22.1%	23.3%
Net Profit Margin%	22.1%	8.2%	11.2%	16.0%	5.5%	-3.2%	14.8%

Conso/ Fig in Rs Cr

❑We expect US revenue to increase by 7% to US$ 352 million in Q3FY19 on a YoY basis majorly on account of Illumya launch in the first half.

❑In Q2FY19, India business had a one-time inventory reduction in the supply chain as a result of which revenue was impacted. This quarter we are expecting an increase of 25% on a QoQ basis

❑We expect the marketing related cost and staff cost to be higher in Q3FY19 due to the launch of Illumya in the first half. Going forward, we assume these expenses to further increase as the company move closer to the launch of Cequa and Xelpros.

❑ There was an exceptional item of Rs. 1214 crores in Q2FY19 on account of provision for the estimated settlement amount payable to all the remaining plaintiffs related to the Modafinil antitrust litigation in the US, as a result of which we have expected the adjusted profit margin for FY19 to be 11%.

❑We expect R&D expenditure to be 8-9% of total sales considering the focuss on growing the specialty business.

Key Trackable this Quarter

❑ ANDA filings and approval

❑ R&D investment

❑ Specialty product pipeline.

We value the stock at 25x FY20e EPS. BUY

InterGlobe Aviation Limited

INDIGO IN

Others

CMP	**1165**
Target	**1109**
Upside	**-5%**
Rating	**NEUTRAL**

	FY17	FY18	FY19E	FY20E
Roe%	51%	41%	-19%	22%
Roce%	28%	32%	-28%	10%
P/E	24.4	22.1	-37.2	32.9
EV/Sales	2.9	2.8	2.6	2.2
EV/Ebditar	10.2	9.8	24.5	10.3

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
ASK (cr)	1,410	1,710	2,223	2,556	1,630	1,950	2,201
Yield (Rs)	3.5	3.6	3.5	3.8	3.7	3.2	3.6
RASK (Rs)	3.4	3.6	3.4	3.7	3.8	3.2	3.5
CASK (Rs)	3.0	3.1	3.7	3.5	3.2	3.7	3.9
CASK ex-fuel (Rs)	1.9	1.9	2.2	2.2	1.9	2.2	2.2
LoadFactor %	84.7%	87.4%	85.8%	87.3%	88.5%	84.5%	*84.5%*
Sales	18,581	23,021	27,832	35,776	6,178	6,185	7,598
Sales Gr%	*15%*	*24%*	*21%*	*29%*	*24%*	*17%*	*23%*
Ebditar	5,269	6,567	2,938	7,655	1,936	111	405
Ebditar Gr%	*-6%*	*25%*	*-55%*	*161%*	*34%*	*-93%*	*-79%*
Net Profits	1,659	2,242	(1,205)	1,363	762	(652)	(613)
Profit Gr%	*-17%*	*35%*	*PL*	*LP*	*56%*	*PL*	*PL*
Fuel Cost%	34.1%	33.7%	43.4%	36.8%	32.6%	49.1%	48.1%
Ebditar Margin%	28.4%	28.5%	10.6%	21.4%	31.3%	1.8%	5.3%
Net Profit Margin%	8.9%	9.7%	-4.3%	3.8%	12.3%	-10.5%	-8.1%

PL - Profit to Loss; LP - Loss to Profit

Std/Fig in Rs Cr

❑ The domestic Airlines have grown by 15% YoY in terms of capacity YTD. INDIGO outperforms the industry peers growing ~24% YTD in terms of ASK. With the ramp-up in delivery of neos, the company has guided for a 35% YoY increase for Q3 to 2201 crores ASK. With this, INDIGO has been strengthening its market share to 42.9%.

❑ The fallback in passenger load factor faced by the industry owing to rising fares would be held at 84.5% with aid of festive cheer in a seasonally strongest quarter 3 for the airlines. Even after an overall industry led effort to increase fares, heavy competition would still result in lower yields as compared to corresponding period at Rs 3.56.

❑ The revenue is expected to grow 23% YoY to Rs 7598 crores.

❑ Increased maintenance costs especially for 2nd visit and a depreciated rupee by ~11% would continue to elevate CASK ex-fuel at Rs 2.19. Higher crude prices in Q3 would impact fuel costs by 34.1% YoY resulting in CASK to be at Rs 3.9.

❑ The company is expected to report another quarterly PAT loss of Rs 613 crores.

Key Trackable this Quarter

❑ Sustainability of higher fare pricing in the price-sensitive Indian market.

❑ Deliveries of airplanes and capacity guidance going ahead.

❑ Crude and ATF price movement.

We value the stock at 10x FY20e EV/EBITDAR. NEUTRAL

SPICEJET LTD

SJET IN

Others

CMP	**89**
Target	**81**
Upside	**-9%**
Rating	**NEUTRAL**

	FY17	FY18	FY19E	FY20E
Roe%	-52%	-174%	175%	-91%
Roce%	114%	74%	-65%	56%
P/E	14.2	13.2	-9.1	13.5
EV/Sales	2.2	2.0	1.7	1.5
EV/Ebditar	9.1	8.6	16.1	7.7

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
ASK (cr)	445	516	614	706	495	512	579
RASK (Rs)	3.8	4.1	4.0	4.3	4.3	3.7	4.0
CASK (Rs)	3.6	3.8	4.3	4.2	3.8	4.5	4.4
CASK ex-fuel (Rs)	2.3	2.4	2.5	2.6	2.3	2.7	2.5
Fuel CASK (Rs)	1.1	1.2	1.5	1.4	1.3	1.7	1.7
LoadFactor%	91.6%	93.6%	92.1%	92.8%	94.0%	92.6%	*91.6%*
Sales	6,191	7,795	8,794	11,223	2,082	1,881	2,302
Sales Gr%	*22%*	*26%*	*13%*	*28%*	*27%*	*4%*	*11%*
Ebditar	1,504	1,790	955	2,160	569	(44)	194
Ebditar Gr%	*24%*	*23%*	*11%*	*19%*	*36%*	*PL*	*-66%*
Net Profits	431	567	(527)	395	240	(389)	(199)
Profit Gr%	*-4%*	*32%*	*PL*	*LP*	*32%*	*PL*	*PL*
Fuel Cost%	30.0%	31.2%	38.7%	34.0%	30.3%	44.9%	43.0%
Ebditar Margin%	24.3%	23.0%	10.9%	19.2%	27.3%	-2.3%	8.4%
Net Profit Margin%	7.0%	7.3%	-6.0%	3.5%	11.5%	-20.7%	-8.7%

PL - Profit to Loss; LP - Loss to Profit

Std/Fig in Rs Cr

❑ The domestic Airlines have grown by 15% YoY in terms of capacity YTD. SPICEJET has been an underperformer growing by just 6% in Q2. This has led to fall in market share to 12.2% in Q2. For Q3, company is expected to ramp-up capacity additions and report ASK of 579 crores, up 17% YoY.

❑ The fallback in passenger load factor faced by the industry owing to rising fares would be held at 91.6% with aid of festive cheer in a seasonally strongest quarter 3 for the airlines. Even after an overall industry led effort to increase fares, heavy competition would still result in lower RASK as compared YoY at Rs 4.

❑ The company is expected to report sales of Rs 2,302 crores for Q3, up 11% YoY.

❑ The high crude prices would impact the fuel costs by 34.1% YoY which will lead to fuel CASK at Rs 1.7. A ~11% YoY depreciated rupee would further impact CASK ex-fuel to rise to Rs 2.5 and thus CASK would stand at Rs 4.4.

❑ We expect company to report quarterly PAT loss of Rs 199 crores.

Key Trackable this Quarter

❑ Fare pricing scenario in the industry. Crude and ATF price movement impacting profits.

❑ Capacity guidance and airplane buying strategy.

❑ Resolution over the possibility of issuance of CRPS in the SC case.

We value the stock at 7.5x FY20e EV/EBITDAR. NEUTRAL

Zee Entertainment Enterprises Ltd

Others

Z IN

CMP	476
Target	519
Upside	9%
Rating	ACCUMULATE

	FY17	FY18	FY19E	FY20E
Roe%	33%	20%	17%	18%
Roce%	21%	22%	24%	26%
P/E	22.9	37.2	31.9	25.7
P/B	7.6	7.3	5.3	4.6
EV/Ebdita	25.3	25.5	17.1	14.2

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Segment Revenue							
Advertising	3,674	4,205	4,938	5,822	1,202	1,211	1,363
Subscription	2,263	2,029	2,286	2,515	502	608	552
Other Services	498	452	580	649	134	157	161
Sales	6,434	6,686	7,803	8,986	1,838	1,976	2,076
Sales Gr	*10%*	*4%*	*17%*	*15%*	*12%*	*25%*	*13%*
Ebdita	1,927	2,076	2,553	3,015	594	676	679
Ebdita Gr	*28%*	*8%*	*23%*	*18%*	15%	38%	*14%*
Net Profits	2,221	1,479	1,437	1,781	322	387	399
Profit Gr%	*116%*	*-33%*	*-3%*	*24%*	*28%*	*-35%*	*24%*
Ebdita Margin%	29.9%	31.1%	32.7%	33.6%	32.3%	34.2%	32.7%
Net Profit Margin%	34.5%	22.1%	18.4%	19.8%	17.5%	19.6%	19.2%

Conso/Fig in Rs Cr

❑ Advertising revenue is expected to grow by 13.4% due to improvement in viewership share (from 18% in FY18 to 19.9% in H1FY19) & its consequent monetization through higher earning rates.

❑ Growth in subscription revenue is expected to be around 10.1% in Q3FY19. Management has revised its FY19 guidance from low teens to high teens on the back of content partnership deals signed with Airtel as well as Jio which will provide a ready customer base & early monetization for ZEE5. However, MRP based tariff can lead to some uncertainty in the near term.

❑ Revenue from movies & other businesses is expected to grow by 20% in Q3FY19 as ZEEL continues to maintain its run rate of movie releases.10-12 movies are expected to be released in FY19 (5 movies released in H1FY19). Q4FY19 is likely to have 3-4 releases for distribution business as well. This would lead to an overall revenue growth of 13% YoY in Q3FY19.

❑ Despite the heavy investments intended to be made on the digital side, EBITDA margins at 30%+ levels is expected to be maintained over FY19 & FY20, in line with management guidance.

❑ Q3FY19 reported profit is expected to grow by 24% YoY to INR 399cr. FY17 & FY18 had an exceptional gain of INR 1223cr & INR135cr due to gain on sale of sports broadcasting business.

❑ Management is working on early redemption of preference shares besides the original plan to redeem 20% every year from FY18 onwards.

❑ The uncertainty around the strategic partner for proposed strategic sale of upto 50% by Essel Group to transform ZEEL into a Tech-media company with a global presence will continue to weigh on the company.

Key Trackable this Quarter

❑ EBITDA Margins at 30%+ levels. All India Viewership Market Share.

❑ Updates on ZEE5 - Number of ZEE5 original releases, further investments & its performance

We value the stock 28x FY20e EPS. ACCUMULATE

Zee Media Corporation Ltd

ZEEN IN

Others

CMP	**24**
Target	**30**
Upside	**25%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	-3%	4%	12%	13%
Roce%	13%	9%	14%	20%
P/E	N/A	64.5	12.6	9.7
P/B	3.0	2.7	1.5	1.3
EV/Ebdita	11.0	13.6	4.1	2.5

N/A - Loss in FY17

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Segment Revenue							
Advertising	373	511	635	820	144	149	171
Subscription	47	47	50	55	12	13	13
Others	31	20	25	27	4	6	6
Sales	450	578	710	902	159	169	190
Sales Gr	*-17%*	*28%*	*23%*	*27%*	*17%*	*35%*	*19%*
Ebdita	100	104	168	244	37	41	46
Ebdita Gr	*27%*	*4%*	*61%*	*45%*	493%	92%	*23%*
Net Profits	(16)	28	90	117	12	17	19
Profit Gr%	*-254%*	*LP*	*224%*	*29%*	*312%*	*355%*	*54%*
Ebdita Margin%	22.2%	18.0%	23.6%	27.0%	23.5%	24.2%	24.2%
Net Profit Margin%	-3.6%	4.8%	12.7%	12.9%	7.7%	10.2%	9.9%

LP - Loss to Profit

Conso/Fig in Rs Cr

❑ ZEEMEDIA now operates in only 1 segment i.e. TV Broadcasting business after demerging its print business (Diligent Media) from FY18 and exiting E-commerce business (Ez Mall) in Q1FY19.

❑ Revenue growth in Q3FY19 is expected to be around 19% on the back of improvement in channel ratings, strong viewership, state elections & increase in earning rates across national as well as regional channels

❑EBITDA margins to improve by 560bps YoY to 23.6% in FY19 & another 340bps YoY to 27% in FY20 due to E-commerce exit, breakeven of 3 channels launched in FY18 & higher earning rates.

❑ PAT is expected to be around INR 19cr as against INR 12cr in Q3FY18 as loss making E-commerce business is exited and savings due to purchase of balance stake in profitable Zee Akaash. In FY19, PAT includes exceptional gain of INR 21cr on the sale of E-commerce business accrued in Q1FY19.

❑ Management has guided for a 25-30% revenue growth over FY18-21e (primarily ad revenues) with 22-25% EBITDA margins in FY19. After which, margins are expected to expand beyond 25%.

❑ ZEEMEDIA has received 4 new licenses for setting up channels in regional markets. However, management is not planning to add any channels in the medium term.

❑ With a handful of state elections & mega yielding general election to come over the next 6-12 months, ZEEMEDIA's viewership numbers & earning rates are expected to remain strong.

❑ Also, with INR 1500cr radio business deal with Reliance Broadcast being called off, the overhang of significant leverage on ZEEMEDIA's balance sheet has also gone away.

Key Trackable this Quarter

❑ Growth in earning rates, ad inventory utilization levels.

❑ Viewership & market share of channels.

We value the stock 12x FY20e EPS. BUY

SIS (India) Ltd

SECIS IN

Others

CMP	**770**
Target	**1009**
Upside	**31%**
Rating	**BUY**

	FY17*	FY18	FY19E	FY20E
Roe%	17%	16%	17%	21%
Roce%	14%	16%	16%	21%
P/E	61.8	50.6	28.2	19.1
P/B	10.3	8.0	4.8	4.0
EV/Ebdita	26.4	26.0	15.7	11.7

*Based on Issue Price

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Segment Revenue							
Security-India	1,595	2,144	2,731	3,534	562	630	754
Security-Australia	2,396	3,019	3,491	3,805	805	844	879
Facilities Mngt.	577	671	907	1,221	171	221	226
Segment EBITDA Margin %							
Security-India	6.4%	6.9%	5.3%	5.8%	6.8%	5.2%	5.5%
Security-Australia	4.3%	4.3%	4.3%	4.4%	4.6%	3.7%	4.7%
Facilities Mngt.	3.8%	5.1%	7.3%	8.5%	5.6%	7.1%	7.5%
Sales	4,567	5,833	7,128	8,560	1,538	1,690	1,858
Sales Gr	*19%*	*28%*	*22%*	*20%*	*35%*	*16%*	*21%*
Ebdita	221	312	359	475	84	78	100
Ebdita Gr	*70%*	*41%*	*15%*	*32%*	41%	6%	*18%*
Net Profits	91	162	200	296	47	44	55
Profit Gr%	*109%*	*79%*	*23%*	*48%*	*110%*	*-26%*	*16%*
Ebdita Margin%	4.8%	5.3%	5.0%	5.5%	5.5%	4.6%	5.4%
Net Profit Margin%	2.0%	2.8%	2.8%	3.5%	3.1%	2.6%	3.0%

Conso/Fig in Rs Cr

❑Revenue growth in Q3FY19 is expected to be 21% on the back of quarterly order wins of INR 66cr from Security Services Business - India & consolidation of SLV Security Services acquisition (FY18 revenue of INR 240cr). SIS also won a key contract of INR 300cr from Cognizant for 3 years. In Facility Management, company won railway cleaning contracts at 8 new stations.

❑ EBITDA margins are expected to improve by 75bps QoQ to 5.4% in Q3FY19 as contribution of higher margins facility management segment to total revenue increases, rationalization of training expenses & significant upfront costs for Cognizant contract incurred in Q2FY19.

❑ PAT is expected to be higher by 16% as SIS continues to enjoy lower tax rates due to Section 80JJAA benefit. Tax rate is expected to be around 13% and 14% in FY19 and FY20 respectively.

❑ Cash Logistics segment (accounted using the Equity Method) will continue to report losses of INR 18cr in FY19 & 17cr in FY20 till the industry consolidates (EBITDA breakeven by FY20).

❑ SIS made its 3rd acquisition in FY19 by acquiring 51% stake in Uniq Detective and Security Services by paying an upfront INR 51cr. Annual Revenues of INR 156cr in FY18. Uniq is expected to be integrated from Q4FY19 onwards.

❑ The total debt on the books has gone up from INR 536cr in FY18 to INR 665cr in H1FY19 post the NCD issue of INR 150cr.

Key Trackable this Quarter

❑ Order Wins in Security Services - India & Australia, Facilities Management Services.

❑ Expansion of customer base and branch network.

We value the stock 25x FY20e EPS. BUY

Teamlease Services Ltd

TEAM IN

Others

CMP	**2864**
Target	**2684**
Upside	**-6%**
Rating	**NEUTRAL**

	FY17	FY18	FY19E	FY20E
Roe%	16%	17%	18%	19%
Roce%	8%	13%	16%	17%
P/E	28.9	51.7	49.1	38.4
P/B	4.5	8.6	9.0	7.3
EV/Ebdita	40.3	52.4	48.6	37.8

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Segment Revenue							
General Staffing	2,945	3,375	3,943	4,602	840	977	1,012
Specialised Staffing	51	183	306	330	59	76	78
Other HR Services	45	66	149	188	19	38	40
Sales	3,041	3,624	4,397	5,120	918	1,091	1,129
Sales Gr	*21%*	*19%*	*21%*	*16%*	*13%*	*25%*	*23%*
Ebdita	37	69	97	124	18	24	26
Ebdita Gr	*44%*	*86%*	*41%*	*27%*	44%	59%	*46%*
Net Profits	58	73	100	127	18	25	26
Profit Gr%	*132%*	*28%*	*36%*	*28%*	*100%*	*43%*	*42%*
Ebdita Margin%	1.2%	1.9%	2.2%	2.4%	1.9%	2.2%	2.3%
Net Profit Margin%	1.9%	2.0%	2.3%	2.5%	2.0%	2.3%	2.3%

Conso/Fig in Rs Cr

❑ Revenue growth in Q3FY19 is expected to be 23% on the back of 20.4% growth in General Staffing segment. The total headcount of general staffing associates & NETAP trainees is expected to grow by 15% YoY to around 1,97,000.

❑ Specialized Staffing segment is expected to grow by 32% YoY to INR 78cr primarily on account of lower base as Telecom Staffing vertical was acquired & consolidated from November 2017 onwards.

❑ Other HR Services segment is expected to post revenue of INR 40cr largely due to new contract wins in H1FY19 (Revenues of INR 68cr in H1FY19 as against INR 26cr in H1FY18).

❑ EBITDA margins are expected to improve by 10bps QoQ to 2.3% in Q3FY19 as the core employee strength is likely to remain the same & hence, staffing core employee productivity is expected to improve even further. Also, contribution from the higher margin segments - Specialized Staffing & Other HR Services is expected to increase from 6.9% in FY18 to 10.1% in FY20.

❑ PAT is expected to be higher by 42% in Q3FY19 as TEAMLEASE continues to enjoy nil tax rates due to Section 80JJAA benefit. Tax rate is expected to remain 0% as long as the Section 80JJAA benefit continues on the back of strong growth in headcount.

❑ Management is targeting revenues of INR 14,000cr & PAT margins of 3-4% by FY23 on the back of transition from a technology driven staffing solutions company to a technology company on a SaaS model. Management is targeting to enter Hospitality, Healthcare & Engineering services verticals within the Specialized Staffing segment.

Key Trackable this Quarter

❑ Growth in Headcount & Core Employee Productivity

❑ Management commentary on avenues to achieve INR 14,000 revenue target, potential verticals in specialized staffing segment - Hospitality, Healthcare & Engineering Services and their source of funding

We value the stock 35x FY20e EPS. NEUTRAL

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