RESULT PREVIEW Q4FY15

A perfect storm

India Equity Research | Strategy

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Q4FY15 is expected to be another sluggish quarter with PAT and top line of our coverage universe (ex OMCs) expected to contract 5% and 4% YoY, respectively. The last quarter of FY15 has been a perfect storm resulting in broad-based slowdown. The second consecutive quarter of INR appreciation relative to EUR and other emerging markets (EM) is expected to dent earnings of export-oriented sectors, viz., IT and pharma. Extremely weak rural demand, high corporate real rates and contraction in government spending are expected to weigh on domestic consumption and investment-oriented sectors. The only solace for corporate India is lower input price prices, which would provide some cushion to the bottomline.On the Sensex earnings front, 2-3% EPS downgrades are likely.

Earnings to extend sluggish trend in Q4FY15

Earnings momentum is expected to further moderate in Q4FY15 with both top line and bottom line of our coverage universe (ex OMCs) expected to contract by ~4% and 5% YoY, respectively. Such dismal expectations are partially exaggerated owing to a perfect storm of a lot of negative forces panning out in one quarter. The harsh winter in the Western world, accompanied by INR appreciation relative to EUR and other EMs seem to have weighed on exports. On the domestic front, the recent unseasonal rains and further deterioration in international food prices made a serious dent on rural consumption and wages (now negative). Further, tightening in monetary conditions owing to higher real rates and scale back of govt. expenditure in order to meet fiscal targets also seem to be hurting corporates and hampering deleveraging. In a nutshell, Q4FY15 witnessed deterioration of all demand levers in the economy and hence poor earnings outlook.

Consumers and private banks relatively brighter spots

Given that all key macro-economic levers slowed down simultaneously during the quarter, the earnings slowdown is expected to be broad based. Within sectors, commodity-oriented ones are expected to witness maximum hit. IT companies are also expected to log sharp slowdown, posting mere 4% YoY earnings growth. Only consumer-oriented companies and private banks are expected to record respectable double-digit PAT growth.

Earnings outlook: Downgrades to FY15 estimates likely

FY15 consensus and Edelweiss Sensex EPS forecast stand at INR1,470 and INR1,430, respectively, implying 6-9% growth. However, given the poor earnings expectations, another 2-3% downgrade in EPS is quite likely. For FY16, consensus and Edelweiss EPS estimates are INR1,730 and INR1,740, respectively. Assuming EPS estimates are downgraded, it implies 24-25% earnings growth, which seems highly optimistic and could witness significant downgrades.

Edelweiss research team

April 06, 2015

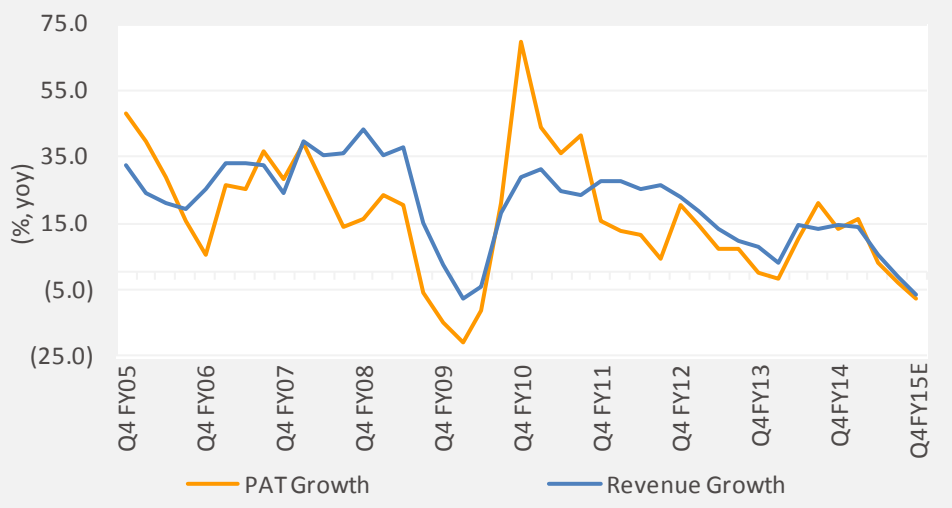
Table 1: Growth expectations for Q4FY15 earnings, revenue and EBITDA margin

Sector	PAT growth		Revenue growth		EBITDA margin	
	Y-o-Y (%)	Q-o-Q (%)	Y-o-Y (%)	Q-o-Q (%)	Y-o-Y (bps)	Q-o-Q (bps)
Agro related	12.4	55.1	11.8	20.2	62	175
Auto	(0.2)	9.0	3.3	(2.3)	34	43
BFSI	9.2	12.4	10.9	5.6	NM	NM
Cement	(44.2)	2.4	(28.0)	(23.4)	(69)	331
Construction	NA	NA	(7.0)	5.9	(251)	49
Consumer goods	13.8	(2.4)	8.7	0.8	142	18
Credit Rating	11.1	27.8	12.4	10.7	(17)	404
Engg & Cap Goods	(17.5)	94.0	1.8	42.7	(199)	260
Energy	(38.5)	100.6	(31.4)	(16.8)	(18)	641
Fertiliser	16.1	(27.8)	(3.8)	(25.9)	102	175
Hospitality	117.6	NA	5.4	(2.7)	3,348	726
IT	3.6	(3.2)	11.3	1.1	(214)	(79)
Media	6.4	(43.8)	4.8	(5.1)	(352)	(326)
Metals & Mining	(54.5)	(44.2)	(12.0)	1.1	(272)	(288)
Miscellaneous	9.3	15.7	8.3	6.9	18	81
Pharmaceuticals	(14.4)	4.0	9.4	0.2	(92)	81
Real Estate	35.9	22.4	13.7	5.8	1,304	256
Retail	4.7	6.3	11.4	2.1	2	(37)
Telecom	51.3	7.4	7.8	2.6	179	55
Textiles	36.7	(3.8)	6.2	(2.7)	328	(1)
Utilities	9.7	8.8	0.7	1.6	(91)	(16)
Coverage	**(13.9)**	**15.9**	**(11.5)**	**(4.1)**	**44**	**278**
ex-OMCs	**(4.9)**	**5.0**	**(3.5)**	**(0.1)**	**43**	**94**
Sensex	(7.6)	6.6	(6.8)	(0.7)	95	143

Source: Edelweiss research

Note: OMCs include BPCL, HPCL and IOCL

Chart 1: Earnings likely to deteriorate



Source: Capitaline, Edelweiss research

Data for Sensex companies

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Since the number of companies coverage is huge it is impossible to include all the price charts in one note. However, is client request for a particular price chart we can provide the same.

Results Preview

Q4FY15 revenue growth is expected to further moderate and contract by ~4% YoY for our coverage universe, excluding OMCs (Q3FY15: 2.8% YoY expansion). Top line of Sensex companies is expected to witness one of the worst quarters since the 2009 recession.

The moderation in top line is broad based, though more stark for commodity-oriented sectors. The sluggish numbers are mainly due to moderation of almost all demand levers in the economy. IT, BFSI, retail and agro related are the only sectors, which are expected to post double-digit top line growth.

Top line of Sensex companies is expected to decline ~7% YoY, predominantly le by Reliance Industries (RIL), Tata Steel and Mahindra and Mahindra. Private banks, viz., HDFC Bank, Axis Bank and ICICI Bank and TCS and Maruti Suzuki are the only ones expected to post double-digit top line growth.

Table 2: Revenue growth to deteriorate

Sector	# of companies	Q4FY15E INR bn	Q4FY14 INR bn	Y-o-Y (%)	Q3FY15 INR bn	Q-o-Q (%)
Agro related	6	68	61	11.8	57	20.2
Auto	9	1,165	1,128	3.3	1,193	(2.3)
BFSI	34	865	780	10.9	819	5.6
Cement	6	164	228	(28.0)	215	(23.4)
Construction	8	99	106	(7.0)	93	5.9
Consumer goods	12	330	304	8.7	328	0.8
Credit Rating	3	5	5	12.4	5	10.7
Engg & Cap Goods	21	608	598	1.8	426	42.7
Energy	11	3,024	4,410	(31.4)	3,636	(16.8)
Fertiliser	4	59	62	(3.8)	80	(25.9)
Hospitality	3	56	53	5.4	57	(2.7)
IT	11	686	616	11.3	678	1.1
Media	6	34	32	4.8	36	(5.1)
Metals & Mining	8	987	1,122	(12.0)	976	1.1
Miscellaneous	17	99	91	8.3	93	6.9
Pharmaceuticals	11	275	252	9.4	275	0.2
Real Estate	7	50	44	13.7	47	5.8
Retail	5	71	64	11.4	70	2.1
Telecom	3	377	349	7.8	367	2.6
Textiles	3	38	36	6.2	39	(2.7)
Utilities	14	722	718	0.7	711	1.6
Coverage	**202**	**9,784**	**11,059**	**(11.5)**	**10,200**	**(4.1)**
ex-OMCs	**199**	**8,031**	**8,321**	**(3.5)**	**8,039**	**(0.1)**
Sensex	**30**	**4,894**	**5,250**	**(6.8)**	**4,926**	**(0.7)**

Source: Edelweiss research

Note: (1) Revenue for BFSI = Net Interest Income + Other Income

(2) OMCs includes BPCL, HPCL and IOCL

Falling commodities to aid EBITDA margins

EBITDA margins, which have been improving over past few quarters, are expected to further improve QoQ as well as YoY given the sharp correction in commodity prices. This aspect is the only solace in an otherwise dull earnings season.

Among the sectors, while margins of domestic-oriented consumption sectors such as consumer goods, autos and telecom are expected to improve, those of commodity-oriented sectors, viz., metals and oil & gas and export-oriented ones such IT are expected to deteriorate.

Margins of Sensex companies are expected to improve both YoY and QoQ. While margins of Cipla, Sun Pharma and ITC are likely to improve, those of Infosys, Wipro, Sesa Sterlite and Tata Steel are expected to decline.

Table 3: EBITDA margin to improve

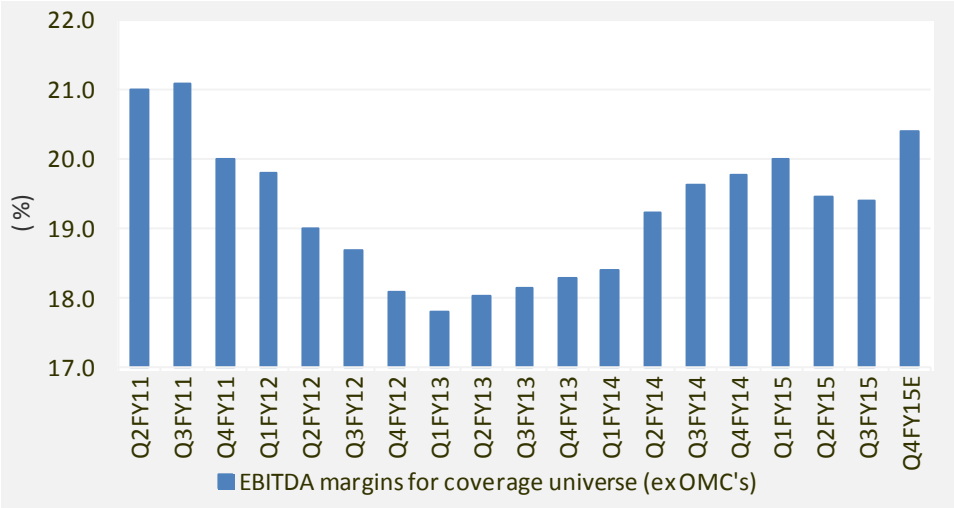
Sector	# of companies	Q4FY15E (%)	Q4FY14 (%)	Y-o-Y (bps)	Q3FY15 (%)	Q-o-Q (bps)
Agro related	6	18.3	17.7	62	16.5	175
Auto	9	14.3	13.9	34	13.8	43
Cement	6	18.4	19.1	(69)	15.1	331
Construction	8	14.1	16.6	(251)	13.6	49
Consumer goods	12	23.6	22.2	142	23.5	18
Credit Rating	3	39.7	39.8	(17)	35.6	404
Engg & Cap Goods	21	12.2	14.2	(199)	9.6	260
Energy	11	12.6	12.8	(18)	6.2	641
Fertiliser	4	8.9	7.9	102	7.2	175
Hospitality	3	22.2	(11.3)	3,348	14.9	726
IT	11	25.3	27.5	(214)	26.1	(79)
Media	6	27.1	30.6	(352)	30.4	(326)
Metals & Mining	8	16.8	19.6	(272)	19.7	(288)
Miscellaneous	17	15.9	15.7	18	15.1	81
Pharmaceuticals	11	24.9	25.8	(92)	24.0	81
Real Estate	7	37.2	24.2	1,304	34.7	256
Retail	5	10.1	10.1	2	10.5	(37)
Telecom	3	34.3	32.5	179	33.7	55
Textiles	3	17.5	14.2	328	17.5	(1)
Utilities	14	27.2	28.2	(91)	27.4	(16)
Coverage	**166**	**17.6**	**17.1**	**44**	**14.8**	**278**
ex-OMCs	**163**	**20.4**	**19.9**	**43**	**19.4**	**94**
Sensex	**25**	**20.1**	**19.2**	**95**	**18.7**	**143**

Source: Edelweiss research

Note: 1) Coverage and Sensex aggregate excludes BFSI as EBITDA margin is not

2) OMCs include BPCL, HPCL and IOCL

Chart 2: EBITDA margin to improve



Source: Bloomberg, Edelweiss research

Note: Data for coverage universe ex-OMCs

PAT growth to further moderate

Q4FY15 PAT growth is expected to further moderate to negative 5% for our coverage universe (excluding OMCs) and to negative 7% for Sensex companies compared to negative 0.8% and negative 3%, respectively, in Q3FY15.

The contraction in earnings will primarily be due to commodity and export-oriented sectors. However, domestic-oriented consumption as well as investment related sectors are also expected to register dismal growth. Consumers and private banks seem to be the only brighter spots in an otherwise gloomy earnings season.

Among Sensex companies, earnings growth is expected to be healthy for Bharti Airtel, HDFC Bank and Cipla. However, earnings of Tata Steel, Hindalco and Sesa Sterlite are expected to nosedive sharply.

Table 4: Earnings to further moderate

Sector	# of companies	Q4FY15E INR bn	Q4FY14 INR bn	Y-o-Y (%)	Q3FY15 INR bn	Q-o-Q (%)
Agro related	6	6.8	6.1	12.4	4.4	55.1
Auto	9	79.7	79.9	(0.2)	73.1	9.0
BFSI	34	245.2	224.6	9.2	218.2	12.4
Cement	6	14.7	26.3	(44.2)	14.3	2.4
Construction	8	(3.5)	3.2	NA	0.3	NA
Consumer goods	12	54.3	47.7	13.8	55.7	(2.4)
Credit Rating	3	1.5	1.3	11.1	1.1	27.8
Engg & Cap Goods	21	49.0	59.4	(17.5)	25.2	94.0
Energy	11	226.7	368.4	(38.5)	113.1	100.6
Fertiliser	4	2.1	1.8	16.1	2.9	(27.8)
Hospitality	3	3.8	(21.8)	117.6	0.7	428.2
IT	11	135.7	130.9	3.6	140.1	(3.2)
Media	6	2.4	2.3	6.4	4.3	(43.8)
Metals & Mining	8	47.7	104.8	(54.5)	85.4	(44.2)
Miscellaneous	17	8.6	7.8	9.3	7.4	15.7
Pharmaceuticals	11	38.5	45.0	(14.4)	37.1	4.0
Real Estate	7	6.1	4.5	35.9	5.0	22.4
Retail	5	2.7	2.6	4.7	2.6	6.3
Telecom	3	25.8	17.1	51.3	24.0	7.4
Textiles	3	2.7	1.9	36.7	2.8	(3.8)
Utilities	14	41.8	38.1	9.7	38.4	8.8
Coverage	**202**	**992**	**1,152**	**(13.9)**	**856**	**15.9**
ex-OMCs	**199**	**929**	**977**	**(4.9)**	**885**	**5.0**
Sensex	**30**	**596**	**645**	**(7.6)**	**559**	**6.6**

Source: Edelweiss research

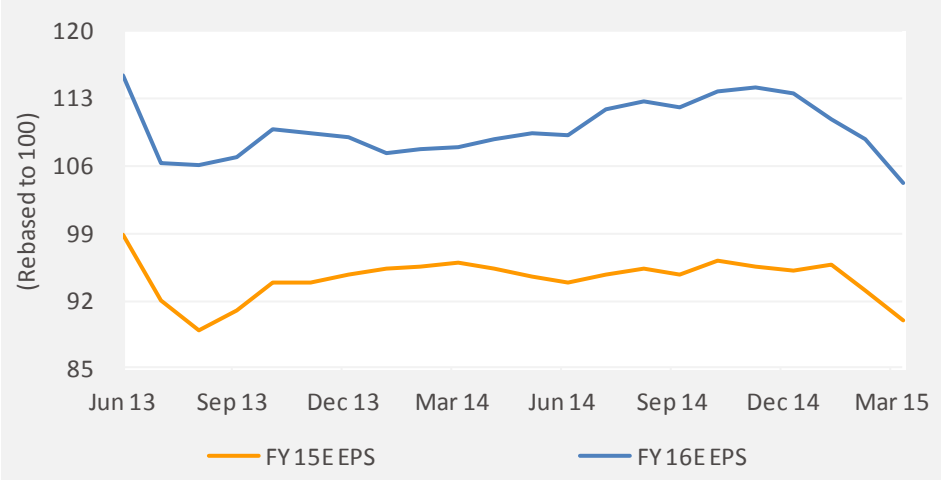
Note: OMCs includes BPCL, HPCL and IOCL

Earnings downgrade cycle: EPS downgrades likely

The current Sensex EPS growth forecast for FY15 is ~6-9%. Given the subdued earnings forecast for Q4FY15, we believe there could be further earnings downgrades post the quarter, of ~3%. Assuming FY15 Sensex earnings are further downgraded, the current consensus and Edelweiss estimates imply 24-25% EPS growth in FY16. This looks optimistic and could see further earnings downgrades.

Consensus and Edelweiss FY15 forecasts are INR1,470 and INR1,430 respectively. FY16 consensus and Edelweiss estimates are INR1,740 and INR1,730, respectively.

Chart 3: Earnings downgrades likely



Source: Bloomberg, Edelweiss research

Note: Index rebased to 100 as of April 1, 2013

RESULT PREVIEW

AUTOMOBILES

Time to be selective

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Q4FY15 volumes remained mixed with CVs/PVs sustaining growth momentum while 2Ws/UVs/tractors reported decline. Ashok Leyland (AL)/Eicher Motor (EIM)/Maruti Suzuki (MSIL)/Tata Motors (TTMT) are likely to report strong YoY growth in revenue, while Mahindra & Mahindra (M&M)/Hero MotoCorp (HMCL)/Bajaj Auto (BJAUT) are likely to report lower revenues. On YoY basis, margins of AL/EIM/HMCL/MSIL are set to improve, led by favourable product mix, currency and operating leverage benefits. Only BJAUT/MM/TTMT are likely to log flat/lower margins. Sequentially, margins of most companies are set to expand (except M&M). On QoQ basis, HMCL/MSIL/AL will also benefit from their plants located in tax-free zones, owing to reversal of the excise duty anomaly. We continue to prefer players with strong product/currency tailwinds. EIM, M&M and TTMT are our preferred picks in the sector.

Key highlights of the sector during the quarter

Volume trajectory improved marginally for PVs and CVs, while it remained subdued for 2Ws and tractors. MSIL sustained healthy growth trajectory (~6% YoY), while industry remained modest (low single digit). M&M continued to report weak volumes with 10%/-29% for automotive/tractor segments. M&HCV delivered a strong show with AL/TTMT/EIM logging 39%/38%/10% growth. 2/3W performance remained subdued with HMCL and BJAUT reporting 1%/15% decline in growth.

Result expectations; stocks under coverage

Margins of most companies are expected improve sequentially, driven by benefits from tax-free plants (reversal of excise duty anomaly), favourable currency and operating leverage benefits. AL (up 350bps) is likely to benefit the most followed by HMCL (220bps) and MSIL (130 bps). Only BJAUT (down 130 bps) and M&M (down 70 bps) are likely to see contraction due to weak product mix and poor volumes. We expect JLR's margin to remain flat QoQ as currency benefits are likely to be offset by weak product/geography mix and lower volumes. On YoY basis, only BJAUT (down 120bps), M&M (-20bps) and TTMT (flat) are likely to post subdued margins.

Outlook over the next 12 months

We remain positive on the auto sector, though there is reasonable probability that the cyclical recovery could get delayed. Hence, we prefer bottom-up plays and stock-specific ideas. We remain positive on companies with strong product/currency tailwinds like TTMT, M&M and EIM.

Top picks

EIM, M&M and TTMT.

Chirag Shah
+91 22 6623 3367
chirag.shah@edelweissfin.com

Siddhartha Bera
+91 22 6620 3099
siddhartha.bera@edelweissfin.com

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Stock		Q4FY15E (INR mn)	Q4FY14 (INR mn)	Y-o-Y (%)	Q3FY15 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Ashok Leyland	Revenues	48,350	30,768	57.1	33,610	43.9	We expect revenues to grow 57% YoY led by strong 41% growth in M&HCV volumes. Margin trajectory should remain healthy (up 350 bps QoQ) led by excise related benefits of Pantnagar, operating leverage benefits and modest discounts. Management outlook on demand, export order book, working capital, discount trend and capex/investments to be the key monitorables.
	EBITDA	5,101	1,839	177.3	2,382	114.2	
	Core PAT	2,803	(127)	2,307.1	321	773.2	
Bajaj Auto	Revenues	45,008	49,323	(8.7)	56,572	(20.4)	We expect revenues to decline 9% YoY led by steep 16% YoY decline in volumes. EBITDA margin to decline 160 bps QoQ (down 120bps YoY) on weak product mix, lower volumes and higher promotions. Management commentary on demand, currency impact in export markets, forex hedges and new launch plan to be key monitorables.
	EBITDA	8,410	9,834	(14.5)	11,478	(26.7)	
	Core PAT	6,082	8,003	(24.0)	8,059	(24.5)	
Eicher Motors	Revenues	25,891	19,242	34.6	22,938	12.9	Expect revenue to increase 35% YoY driven by 47% YoY growth in RE revenue and 28% growth in CV revenue. Consolidated margin to expand 120 bps QoQ to 14.4% (RE at ~25.3% and VECV ~8.3%) led by operating leverage benefits. Management guidance on CV demand, export outlook, RE capacity ramp up and engine outlook to be key monitorables.
	EBITDA	3,752	2,220	69.0	3,031	23.8	
	Core PAT	2,438	1,562	56.1	1,810	34.7	
Hero Motocorp	Revenues	65,688	65,130	0.9	68,393	(4.0)	We expect revenues to remain flat YoY led by 1% YoY decline in volumes. EBITDA margin to expand sharply by 220bps QoQ (up 50bps YoY) on excise benefits from Pantnagar, lower promotion costs and favourable currency. Management commentary on demand enviornment, new launches and export ramp up to be key monitorables.
	EBITDA	9,351	8,942	4.6	8,218	13.8	
	Core PAT	6,963	5,544	25.6	5,830	19.4	
Mahindra & Mahindra (including MVML)	Revenues	86,313	102,144	(15.5)	92,603	(6.8)	While revenues are likely to decline 14% YoY (volumes down 16% YoY), margins would contract 70bps QoQ at 11% (down 20 bps YoY) on weak product mix and poor operating leverage. Progress on new launches/refreshes in UVs, rural demand and tractor outlook to be key monitorables.
	EBITDA	9,468	11,396	(16.9)	10,797	(12.3)	
	Core PAT	5,648	9,941	(43.2)	6,674	(15.4)	
Maruti Suzuki India	Revenues	136,091	122,414	11.2	125,758	8.2	We expect revenue growth of 11% YoY led by 6% growth in overall volumes. EBITDA margin likely to expand 130bps QoQ to 14.5% on better mix, favourable currency and stable discounts. Expect APAT at INR13.3bn. Management commentary on demand outlook (domestic/export), capacity expansion, and hedges are key monitorables.
	EBITDA	19,768	14,573	35.6	16,626	18.9	
	Core PAT	12,849	9,604	33.8	8,549	50.3	
Motherson Sumi Systems	Revenues	91,948	84,067	9.4	91,494	0.5	We expect ~9% YoY growth in revenue driven by ~14% growth in standalone business and ~2% YoY decline in SMR/SMP (due to adverse currency). EBITDA margins to inch up 80bps QoQ to 10.1%. We expect 20%/ 10.6%/7% margins in standalone/SMR/SMP segments. New order book, next 5 year targets, progress on new plant opening up, demand in Europe/US, Stoneridge performance and debt levels to be key monitorables.
	EBITDA	9,315	7,958	17.1	8,509	9.5	
	Core PAT	2,737	2,332	17.4	2,738	(0.0)	
Suprajit Engineering	Revenues	1,620	1,544	4.9	1,628	(0.5)	We expect ~5% YoY growth in revenue driven by 5% volume growth in domestic PV industry and healthy exports . EBITDA margins to inch up 50bps QoQ to 16%. Expect APAT at INR 151mn. Order book in exports, domestic demand outlook, currency impact, progress on capacity expansion to be key monitorables
	EBITDA	259	261	(0.8)	252	2.8	
	Core PAT	151	129	17.1	120	25.8	

Stock		Q4FY15E (INR mn)	Q4FY14 (INR mn)	Y-o-Y (%)	Q3FY15 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Tata Motors (Consol.)	Revenues	664,036	653,171	1.7	699,733	(5.1)	Standalone performance to remain subdued with 16% growth in revenues, EBITDA margin of -3.5% and loss of INR13bn. JLR to report 4% YoY decline in revenues (in GBP) while margins are likely to remain flat QoQ at 18.5%. Outlook on CV demand, JLR capacity ramp up, currency impact, China JV progress and product pipeline to be key monitorables.
	EBITDA	100,694	99,998	0.7	103,636	(2.8)	
	Core PAT	40,002	42,883	(6.7)	38,996	2.6	

Valuation snapshot

		Mkt Cap	Price	P/E (x)		P/B (x)		RoE (%)		Div yld (%)	
	Reco	USD mn	(INR)	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E
Ashok Leyland	Hold	3,372	74	21.4	15.8	4.7	4.1	17.8	21.9	2.1	2.8
Bajaj Auto	Hold	9,352	2,020	15.5	13.4	4.8	4.2	33.3	33.7	3.2	3.7
Eicher Motors	Buy	6,948	16,020	34.7	23.3	12.6	8.9	42.0	44.6	0.0	0.0
Hero MotoCorp	Hold	8,486	2,656	15.4	13.3	6.7	5.7	47.4	46.0	3.4	4.1
Maruti Suzuki India	Buy	17,617	3,645	18.4	15.0	3.8	3.2	22.7	23.3	0.0	0.0
Mahindra & Mahindra	Buy	11,946	1,202	17.1	13.7	3.2	2.8	20.3	21.8	1.4	1.8
Motherson Sumi Systems	Buy	7,168	508	25.0	18.2	9.5	7.1	42.7	44.5	1.4	1.6
Suprajit Engineering	Buy	253	132	19.6	14.8	5.2	4.1	29.3	30.8	1.0	1.5
Tata Motors (Consolidated)	Buy	27,886	565	7.7	7.7	1.7	1.4	24.9	18.8	0.0	0.0

RESULT PREVIEW

BANKING AND FINANCIAL SERVICES

Muted quarter

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Ideas create, values protect

We expect the divergent earnings trend between PSU and private banks to widen in Q4FY15. Industry credit growth, running at multi-year lows, will exert pressure on top-line growth of banks, especially PSU players facing capital and asset quality challenges. On the other hand, private banks will continue to outpace industry growth and gain market shares. With a stable to benign money market, cost of funds is likely to be flat to declining, aiding marginal improvement in NIMs. Credit costs may inch up with slippages likely to be elevated (slippages from restructured book will be key monitorable) and jump in restructuring (given last quarter of RBI dispensation). However, utilisation of counter-cyclical buffer and higher recoveries can spring a positive surprise. Though staff expenses will continue to be high, treasury profits will cushion the impact. NBFCs are likely to report better performance QoQ, largely a derivative of seasonally strong quarter; however, the impact of unseasonal rains will be key.

Stress elevated; restructuring will be key monitorable

On the asset quality front, while private banks are unlikely to spring a negative slippages surprise, higher restructuring (basically advancement) is likely. For PSU banks, incremental stress will be elevated and any meaningful dip in loan impairment will lag economic growth. With end of the moratorium period, NPAs from restructured pool will be a key monitorable. Power finance NBFCs are likely to report stable asset quality; recovery in auto NBFCs could be delayed.

High opex; treasury profit to support earnings

Operating expenses will run at an elevated level following: (a) shortfall on account of wage revision; and (b) adjustment for lower discount rates. However, the impact will be cushioned by higher investment gains. PSU banks' credit growth is likely to be muted as cyclical factors will take time to drive growth. As for private banks, they will continue to trend above industry growth and, in turn, gain market share.

Outlook for next 12 months

Over the past few years, the performance gap between private and PSU banks has widened. Going forward, we expect private banks to perform on expected lines; however, taking cue from RBI and government actions, we believe the time is ripe to increase weight on large PSU banks. We foresee structural changes bolstered by improving macros to fire the rating upgrades cycle, helping large PSU players (SBI, BoB and PNB) and expect the valuation gap with private banks to narrow. On the other hand, given the inherent challenges with smaller PSU banks to undergo consolidation before finding their niche (refer our note, *SOE banks: Structural reforms herald new dawn,* dated March 13, 2015). We expect NBFCs to benefit from rate cycle reversal and prefer niche NBFCs like SHTF.

Trading ideas from Q4FY15 earnings perspective

Long: Yes Bank, LIC Housing Finance. Short: OBC, Magma.

Nilesh Parikh
+91 22 4063 5470
nilesh.parikh@edelweissfin.com

Kunal Shah
+91 22 4040 7579
kunal.shah@edelweissfin.com

Prakhar Agarwal
+91 22 6620 3076
prakhar.agarwal@edelweissfin.com

April 06, 2015

Stock		Q4FY15E (INR mn)	Q4FY14 (INR mn)	Y-o-Y (%)	Q3FY15 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Allahabad Bank	NII + OI	21,696	17,789	22.0	20,528	5.7	Loan growth to be muted given the ongoing consolidation phase being currently undertaken. Stress levels expected to be elevated. Treasury performance to be strong given high duration of AFS portfolio.
	PPOP	11,049	8,352	32.3	10,747	2.8	
	Core PAT	2,519	1,578	59.7	1,641	53.5	
Axis Bank	NII + OI	63,261	53,792	17.6	56,286	12.4	Loan growth to be marginally better than industry given the continued momemtum in retail growth and pick up in corporate. Margins expected to be flat to marginal decline given the impact of interest income reversals Asset quality to be within guidance, however could be higher than 9mFY15. Trading profits to be strong.
	PPOP	38,793	32,477	19.4	33,146	17.0	
	Core PAT	21,636	18,423	17.4	18,998	13.9	
Bajaj Finserv	NII + OI	19,025	16,057	18.5	13,178	44.4	Financing business to continue with strong growt momentum. Margin may see some pressure a funciton of change in business mix. Life Insurance to report healthy profits given transfer from policyholders surplus. General insurance to be better than industry growth rates.
	PPOP	14,331	12,135	18.1	7,586	88.9	
	Core PAT	6,973	7,077	(1.5)	3,474	100.7	
Bank of Baroda	NII + OI	47,202	44,506	6.1	43,765	7.9	Loan growth to be muted in line with industry, however supported by strong growth in the overseas branches. Margins to be relatively stable with marginal downward bias. Asset quality to witness deterioraiton - largely on expected lines
	PPOP	24,270	25,796	(5.9)	23,390	3.8	
	Core PAT	9,203	11,573	(20.5)	3,340	175.5	
DCB	NII + OI	1,754	1,335	31.4	1,699	3.3	Loan growth to be significantly higher than industry. Asset quality trends to be on expected lines. Opex growth to be within control. Tax provision to start inching higher
	PPOP	721	502	43.7	684	5.5	
	Core PAT	466	391	19.2	425	9.6	
Dewan Housing Finan	NII + OI	4,349	3,389	28.3	3,930	10.7	AUM growth to continue at 28%; asset quality following sesonality will see an improvement; NIMs to sustain near 2.8%; cost/income a key monitorable should witness some improvement
	PPOP	2,896	2,517	15.1	2,665	8.6	
	Core PAT	1,720	1,412	21.8	1,596	7.7	
Federal Bank	NII + OI	8,288	8,035	3.2	8,071	2.7	Loan growth to show an above average growth on the back of some pick up in the corporate segment. Margin to be stable to improving. Asset quality to continue to remain benign. However we could witness some pick up in restructuring activity .
	PPOP	4,246	4,200	1.1	3,974	6.8	
	Core PAT	2,630	2,773	(5.2)	2,647	(0.6)	
HDFC	NII + OI	27,565	23,796	15.8	21,822	26.3	Loan book post sell downs expected to grow at 15%; Interest spreads are expected to be stable; NII growth estimated at 16-17%; capital gains anticipated at INR 2.2 bn; dividend expected to be INR 1.4 bn.
	PPOP	25,335	22,255	13.8	19,519	29.8	
	Core PAT	18,964	17,231	10.1	14,255	33.0	
HDFC Bank	NII + OI	84,809	69,541	22.0	82,348	3.0	Loan growth to be higher than industry, albiet slower than its own historical record. Fee income to continue to grow below trend. Cost ratios to start inching up post several quarters of consolidaiton. Asset quality trends to continue to be benign
	PPOP	47,867	37,793	26.7	47,786	0.2	
	Core PAT	27,914	23,265	20.0	27,945	(0.1)	
ICICI Bank	NII + OI	82,723	73,326	12.8	79,033	4.7	Loan growth to track industry growth rates as higher growth in retail to offset slower traction in corporates. NIMs should be largely stable .Other income to get support from dividend from subsidiaries . Asset quality nos to trend higher largely on revised guidelines . Future guidance to be critical
	PPOP	51,376	44,535	15.4	50,370	2.0	
	Core PAT	29,611	26,520	11.7	28,890	2.5	
IDFC	NII + OI	8,853	9,710	(8.8)	9,250	(4.3)	Loan growth to continue to be muted. Margins to be stable to declining given pressure on yields. Capital markets busines to display marginal improvement.
	PPOP	6,753	8,330	(18.9)	7,270	(7.1)	
	Core PAT	4,055	2,570	57.8	4,220	(3.9)	

Stock		Q4FY15E (INR mn)	Q4FY14 (INR mn)	Y-o-Y (%)	Q3FY15 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Indiabulls Housing Finance	NII + OI	9,329	7,010	33.1	8,218	13.5	Earnings consistency expected to continue in line with guided range; AUM growth to gain some momentum towards 25%; Interest spreads to sustain near 3.4%; GNPLs following seasonality to see some improvement
	PPOP	8,048	6,245	28.9	6,998	15.0	
	Core PAT	5,362	4,585	16.9	4,733	13.3	
IndusInd Bank	NII + OI	15,672	13,041	20.2	14,721	6.5	Loan growth to be significantly higher than industry, given the pick up in auto sales. Fee income trends to continue superior performance. Asset quality trends to be benign.
	PPOP	8,469	7,191	17.8	7,738	9.4	
	Core PAT	5,000	3,961	26.2	4,472	11.8	
Karnataka Bank	NII + OI	4,736	3,639	30.1	4,649	1.9	Loan growth to be marginally higher than industry - given focused on the retail business. Asset quality to remain elevated.
	PPOP	1,796	891	101.5	1,833	(2.0)	
	Core PAT	822	812	1.2	1,069	(23.1)	
Multi Commodity Exchange	NII + OI	802	970	(17.3)	771	4.1	Average daily volumes have gone up 3-5% sequentially leading to similar growth in revenues; sales of MCX-SX warrants to the extent of INR 65 mn; Operating margin to improve marginally QoQ with cost containing in other expenses
	PPOP	478	748	(36.1)	447	6.9	
	Core PAT	277	438	(36.7)	230	20.6	
Kotak Mahindra Bank	NII + OI	30,927	24,962	23.9	30,276	2.1	Banking business is likely to report more than 20% advance growth, broadly stable NIMs and asset quality. Key focus will be the PAT contribution from the capital market subsidiaries given robust pick up in the capital market activity.
	PPOP	11,427	9,315	22.7	10,922	4.6	
	Core PAT	7,416	6,285	18.0	6,915	7.2	
LIC Housing Finance	NII + OI	7,417	6,037	22.9	6,166	20.3	Individual disbursements to continue momentum of >20% growth YoY f; corporate loans to cross INR 10 bn mark for full year FY15; NIMs should surprise on positive given lower funding cost & largely fixed rate nature of lending book; individual NPLs following historical trend expected to decline both YoY as well as QoQ; corporate resolution anticipated only post Q4FY15
	PPOP	6,249	4,993	25.1	5,283	18.3	
	Core PAT	3,934	3,700	6.3	3,443	14.2	
Magma fincorp.	NII + OI	2,649	2,267	16.9	2,590	2.3	Sharp moderation expected in disbursements compared to Q3FY15 mainly led by tractors, cars, CV/CE portfolio; AUM to be flat or decline sequentially; collection efficiency has seen some improvement; securitization income to be better as it is to be booked on collection basis
	PPOP	1,137	872	30.3	1,121	1.4	
	Core PAT	387	308	25.7	338	14.4	
Manappuram General Finance	NII + OI	3,011	2,331	29.2	2,902	3.7	Marginal accretion to AUM to an extent of INR 2.5-3.0 bn to conitnue in Q4FY15. The pressure on earnings because of auction under recoveries is likely to be lower than the previous few quarters. Benefit to flow from lower funding cost, though yields will also continue to decline
	PPOP	3,504	2,691	30.2	3,433	2.1	
	Core PAT	849	324	162.4	806	5.4	
M&M Financial Services	NII + OI	8,140	7,732	5.3	7,477	8.9	As is witnessed historically, Q4 will see decline in GNPLs though in this quarter improvement could be to the tune of 30-40 bps. Disbursements anticipated to decline YoY in low single digits thereby leading to AUM growth of merely 12-13%; NIMs should see an improvement due to lower funding cost and better recoveries
	PPOP	5,326	5,439	(2.1)	4,771	11.6	
	Core PAT	2,674	3,107	(13.9)	1,364	96.0	
Max India (Standalone)	NII + OI	409	2,121	(80.7)	4,163	(90.2)	Life insurance business to continue to display above industry growth rates. Hospital business to witness improvement in EBITDA levels.
	PPOP	59	95	(38.0)	3,884	(98.5)	
	Core PAT	47	84	(43.7)	3,292	(98.6)	

Stock		Q4FY15E (INR mn)	Q4FY14 (INR mn)	Y-o-Y (%)	Q3FY15 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Multi Commodity Exchange	NII + OI	802	970	(17.3)	771	4.1	Average daily volumes have gone up 3-5% sequentially leading to similar growth in revenues; sales of MCX-SX warrants to the extent of INR 65 mn; Operating margin to improve marginally QoQ with cost containing in other expenses
	PPOP	478	748	(36.1)	447	6.9	
	Core PAT	277	438	(36.7)	230	20.6	
Muthoot Finance	NII + OI	5,640	5,926	(4.8)	5,400	4.4	Marginal accretion to AUM to conitnue in Q4FY15. Benefit to flow from lower funding cost, though yields will also continue to decline. Asset quality to be stable.
	PPOP	2,709	2,893	(6.4)	2,625	3.2	
	Core PAT	1,668	1,809	(7.8)	1,544	8.0	
Oriental Bank	NII + OI	19,436	20,632	(5.8)	18,094	7.4	Loan growth to be below industry growth rates given the ongoing consolidation phase. Asset quality stress to remain elevated. Treasury profits to be strong given high duration and higher share of AFS portfolio. Key monitorable would be the reversal of the ARC sale profits and provision for wage negotiation
	PPOP	10,830	13,837	(21.7)	10,148	6.7	
	Core PAT	383	3,103	(87.7)	195	96.6	
Power Finance Corp	NII + OI	25,490	22,534	13.1	25,490	0.0	Disbursement to see improvement after slow H1; no incremental slippages expected; provisioning on restructured assets to continue as similar level as in Q3FY15; needs to see how restructuring of SEB projects is being considered; NIMs to see some improvement - lower funding cost benefit
	PPOP	24,700	21,666	14.0	24,700	0.0	
	Core PAT	15,369	14,114	8.9	15,430	(0.4)	
Punjab National Bank	NII + OI	58,659	53,987	8.7	55,239	6.2	Domestic loan growth to be muted, however global growth to inch higher driven by strong growth in overseas balance sheet- a function of rupee depreciation. Asset quality a key monitorable with restructuring to pick up on a qoq basis- however recoveries/upgrades to spring positive surprise. Treasury would be an offseting factor .
	PPOP	30,065	31,734	(5.3)	27,507	9.3	
	Core PAT	10,161	8,064	26.0	7,746	31.2	
REC	NII + OI	22,806	18,667	22.2	21,995	3.7	Asset growth to continue at 15% plus; no incremental slippages expected; provisioning on restructured assets to continue as similar level as in Q3FY15; needs to see how restructuring of private projects is being considered; NIMs to see some improvement - lower funding cost benefit
	PPOP	22,316	17,952	24.3	21,482	3.9	
	Core PAT	15,215	11,920	27.6	13,798	10.3	
Repco home finance	NII + OI	694	589	17.9	637	9.0	GNPLs, historically see sharp correction in Q4 due to seasonality which is expected even in this fiscal. This will aid earnings QoQ though it will increase provisioning coverage as well; healthy run on AUM growth is likely to continue with NIMs likely to see a marginal pickup.
	PPOP	550	470	17.2	502	9.6	
	Core PAT	360	315	14.2	307	17.1	
Reliance Capital	NII + OI	15,930	12,200	30.6	14,390	10.7	Core businesses particularly commercial finance, asset management and general insurance to see improved traction; stake sale in asset management to be accrued in Q4FY15; securities and distribution business should report better earnings (unlike past many quarters).
	PPOP	3,555	3,390	4.9	2,970	19.7	
	Core PAT	2,554	2,670	(4.3)	2,120	20.5	
SBI	NII + OI	195,685	194,885	0.4	190,144	2.9	Margins to get some partial benefits from QIP proceeds. Loan growth to be higher than industry. Marginal increase in delinquencies
	PPOP	97,879	106,278	(7.9)	92,945	5.3	
	Core PAT	31,905	30,407	4.9	29,100	9.6	
Shriram City Union Finance	NII + OI	6,071	5,026	20.8	5,741	5.7	Q4FY15 should be a healthy quarter for SCUF in terms of AUM growth. NIMs and asset quality are likely to come in steady with business loans contributing well to the AUM growth.
	PPOP	3,744	3,206	16.8	3,471	7.9	
	Core PAT	1,575	1,474	6.8	1,429	10.2	

Stock		Q4FY15E (INR mn)	Q4FY14 (INR mn)	Y-o-Y (%)	Q3FY15 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Shriram transport finance	NII + OI	11,330	9,367	21.0	10,675	6.1	Disbursements will see sequential uptick, AUM growth expected to be in low single digit; NPLs will broadly remain stable; lower funding cost and pricing power in area of its niche will help sustain NIMs.
	PPOP	8,439	6,900	22.3	7,973	5.8	
	Core PAT	3,282	2,950	11.3	3,125	5.0	
South Indian Bank	NII + OI	4,743	4,613	2.8	4,803	(1.2)	Marginal pick up in loan growth. Margins to relatively stable to improving. Asset quality to be sequentialy better.
	PPOP	1,973	2,049	(3.7)	2,194	(10.1)	
	Core PAT	751	1,246	(39.7)	879	(14.6)	
Union Bank	NII + OI	30,706	28,265	8.6	29,985	2.4	Headline loan growth to be closer to industry growth rates, however key focus segments - retail, agriculture and msme to grow above industry average. Margins to continue to be flattish - lower than guidance . Slippages to be lower on a qoq basis - however restructuring to be higher than guidance . Employee expenses to be a key montirable.
	PPOP	14,222	13,198	7.8	14,653	(2.9)	
	Core PAT	4,040	5,790	(30.2)	3,024	33.6	
Yes Bank	NII + OI	14,751	11,652	26.6	14,458	2.0	Loan growth to be significantly higher than industry. Asset quality trends to be benign- however qoq pick up in restructuring expected. Lower cost of funds should lead to margins support however offset to an extent led by impact of investment yields. Fee income trends to be in line with loan growth largely driven by retail banking.
	PPOP	8,634	6,805	26.9	8,627	0.1	
	Core PAT	5,484	4,303	27.5	5,400	1.6	

Valuation snapshot

		Mkt Cap	Price	P/E (x)		P/B (x)		RoE (%)		Div yld (%)	
	Reco	USD mn	(INR)	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E
Allahabad Bank	Buy	884	101	3.9	3.1	0.4	0.4	11.7	13.7	5.9	5.9
Axis Bank	Buy	21,600	570	14.7	12.3	2.6	2.2	18.8	19.1	0.9	0.9
Bajaj Finserv	Buy	3,635	1,428	273.1	NA	8.9	NM	NA	NA	0.1	0.0
Bank of Baroda	Buy	5,802	169	5.9	4.8	0.8	0.7	14.9	16.2	13.6	13.6
Development Credit Bank	Buy	516	114	15.0	11.4	1.8	1.6	13.0	14.9	0.0	0.0
Dewan Housing Finance	Buy	1,091	468	7.7	6.3	1.4	1.2	17.9	19.0	2.6	3.2
Federal Bank	Buy	1,824	133	9.1	7.0	1.3	1.1	15.2	17.3	1.8	1.8
HDFC Bank	Buy	41,439	1,033	20.6	17.2	3.6	3.1	18.7	19.3	0.9	1.0
HDFC	Hold	33,688	1,337	30.6	26.8	6.6	6.0	22.8	23.5	1.3	1.5
ICICI Bank	Buy	29,974	323	14.4	12.2	2.1	1.8	15.0	15.9	8.7	8.7
Indiabulls Housing Finance	Buy	3,263	573	9.1	7.8	2.7	2.4	31.7	32.3	5.0	5.8
IndusInd Bank	Buy	7,838	925	21.4	16.9	4.0	3.3	19.7	21.0	0.6	0.8
IDFC	Buy	4,401	173	12.2	NA	1.5	NM	12.6	NA	1.5	0.0
Karnataka Bank	Buy	385	128	4.9	3.9	0.6	0.6	14.1	15.6	4.7	4.7
Kotak mahindra Bank	Hold	16,818	1,361	31.7	26.3	4.5	3.9	15.3	15.9	0.4	0.4
LIC housing finance	Buy	3,605	446	13.6	11.5	2.5	2.2	19.5	19.7	1.3	1.6
Magma Fincorp	Buy	298	98	8.5	6.8	1.2	1.0	14.9	16.4	0.0	0.0
Manappuram General Finance	Buy	436	32	8.5	6.9	1.0	0.9	11.4	12.9	2.9	3.6
Mahindra & Mahindra Financial	Hold	2,392	263	11.9	10.6	2.4	2.1	20.4	19.8	1.9	2.1
Max India	Buy	1,918	450	71.6	NA	3.4	NM	NA	NA	0.0	0.0
Multi Commodity Exchange	Buy	960	1,177	48.6	NA	4.5	NM	NA	NA	0.8	0.0
Muthoot Finance	Buy	1,302	204	9.9	7.9	1.5	1.3	15.4	17.2	0.0	0.0
Oriental Bank Of Commerce	Buy	1,009	210	3.7	3.3	0.4	0.4	12.1	12.3	5.4	6.0
Power Finance Corp	Buy	5,970	283	5.3	4.6	1.1	0.9	20.1	19.7	4.2	4.8
Punjab National Bank	Buy	4,401	152	4.8	4.0	0.6	0.6	14.4	15.2	15.1	15.1
Reliance Capital	Buy	1,748	433	11.1	9.6	0.7	0.7	NA	NA	1.7	1.7
Repco Home Finance	Buy	636	638	24.1	19.0	4.3	3.4	18.7	19.9	0.4	0.5
Rural Electrification Corporation	Buy	5,334	338	5.2	4.7	1.1	0.9	22.9	21.4	3.6	3.6
Shriram City Union Finance	Buy	2,105	1,996	17.9	14.6	2.8	2.5	16.4	17.3	0.6	0.6
Shriram Transport Finance	Buy	4,170	1,149	15.5	12.5	2.4	2.1	16.7	17.8	0.0	0.0
South Indian Bank	Buy	554	26	4.9	4.0	0.8	0.7	18.0	18.9	3.1	3.1
State Bank of India	Buy	32,665	273	10.5	8.4	1.2	1.0	14.0	15.6	1.3	1.3
Union Bank Of India	Buy	1,649	162	3.9	3.4	0.5	0.4	13.3	14.0	4.9	4.9
Yes Bank	Buy	5,666	848	14.0	11.4	2.6	2.1	19.8	20.4	0.9	0.9

RESULT PREVIEW

CEMENT

Prices sway - Volumes dismay

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Ideas create, values protect

Cement demand remained weak in Q4FY15 with industry growing a mere ~1%/~3% YoY in January/February 2015 (FY15 YTD growth of ~7% YoY) impacted by unseasonal rains and poor infrastructure segment demand. Ergo, volumes of our coverage universe are expected to decline in the 3-11% range YoY (except for Shree Cement where we expect marginal growth of ~4% YoY). While cement prices stood firm in the southern market (up 12% QoQ), they were highly volatile in the North and the nearby regions in West and Central India. Ergo, all-India average prices increased ~4% QoQ as against a ~2% QoQ drop in Q3FY15. With variable cost expected to dip marginally by ~1-2% QoQ (factoring in low input prices of pet coke, diesel), we estimate EBITDA of our coverage universe to be muted (marginally down by ~1% YoY) in Q4FY15. PAT, however, is likely to plummet by ~29% YoY due to (capex completion led) high depreciation, interest cost and (adjustment led) low tax base. Going ahead, we expect demand and prices to improve tracking GDP growth and the government's thrust on infrastructure development. On expectations of controlled costs and improving utilisations in FY17, we maintain our positive view on the sector.

Key highlights of the sector during the quarter

Cement demand remained tepid during Q4FY15 with industry registering meagre volume growth of ~1%/~3% YoY in January/February 2015. While average cement prices in the North were up by ~3% in Q4FY15 versus Q3FY15, prices jumped by ~12% QoQ in the South.

Result expectations for the sector and stocks under coverage

On account of capex completion, we expect Shree Cement to record volume growth of ~4% YoY, while UltraTech, Ambuja, ACC and India Cements are expected to disappoint with volume decline in the range of ~3-11% on account of sluggish demand. Realisation of most players are estimated to improve marginally QoQ in the ~3-5% range. Grasim may post drop in realisation of ~3% QoQ for VSF, as global VSF prices as well as prices of competitive fibres (PSF) softened during the quarter. EBITDA of our coverage universe is estimated to remain muted (marginally down by ~1% YoY). PAT is likely to plummet ~29% YoY due to (capex completion led) high depreciation, interest cost and (adjustment led) low tax base.

Outlook over the next 12 months

While high exit prices (led by price recovery in the North towards end of Q4FY15) are a welcome positive for earnings outlook in ensuing quarters, we expect demand and prices to improve tracking GDP growth and the government's thrust on infrastructure development.

Top Picks

UltraTech Cement, Grasim.

Navin Sahadeo
+91-22-6623 3473
navin.sahadeo@edelweissfin.com

Rahul Veera
+91-22- 6623 3321
rahul.veera@edelweissfin.com

April 06, 2015

Stock		Q4FY15E (INR mn)	Q4FY14 (INR mn)	Y-o-Y (%)	Q3FY15 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
ACC	Revenues	30,641	30,265	1.2	28,377	8.0	Expect volumes to decline by 6% YoY, while realizations are expected to increase ~4% QoQ. On account of resumption of mining operations at Chaibasa and other cost rationalizations, we expect EBITDA/t to increase by ~13% YoY to INR638.
	EBITDA	4,486	4,247	5.6	2,535	77.0	
	Core PAT	2,282	3,987	(42.8)	3,235	(29.5)	
Ambuja Cements	Revenues	26,282	26,512	(0.9)	24,049	9.3	Expect volumes to decline~4% YoY, while realizations are expected to increase by ~2% QoQ. We expect an EBITDA/t of INR991 (up by 4.4% YoY)
	EBITDA	5,877	5,890	(0.2)	3,582	64.0	
	Core PAT	3,886	5,200	(25.3)	3,286	18.2	
Grasim Industries	Revenues	17,110	84,187	(79.7)	80,365	(78.7)	Expect VSF volumes to increase by ~15% QoQ due to newly commisioned 44KT VSF lines during the quarter. Realisations are estimated to decline by ~4% QoQ due to subdued VSF prices globally, lower realizations on newly commisioned plants. We estimate margins to decline by 168bps QoQ
	EBITDA	1,699	15,270	(88.9)	12,025	(85.9)	
	Core PAT	1,110	6,793	(83.7)	3,336	(66.7)	
India Cements	Revenues	12,002	11,247	6.7	10,402	15.4	Expect domestic cement volumes to drop ~11% YoY while realisations are estimated to improve ~5% QoQ. Ergo, cement EBITDA/t is expected to jump ~4x YoY to INR964 (up ~24% QoQ).
	EBITDA	2,325	1,188	95.7	1,631	42.5	
	Core PAT	404	(306)	232.4	(116)	448.4	
Shree Cement	Revenues	17,012	16,649	2.2	15,445	10.1	Expect cement volumes to grow by ~4% YoY, while realisations are estimated to increase ~3% QoQ. We estimate EBITDA/t of INR724 a decrease ~33% YoY (up 0.2% QoQ) due to higher costs.
	EBITDA	3,339	4,311	(22.5)	3,061	9.1	
	Core PAT	799	2,225	(64.1)	936	(14.6)	
Ultratech	Revenues	61,436	59,599	3.1	56,014	9.7	Expect cement volumes to remain muted (down ~3% YoY), while grey cement realisations are estimated to improve by ~4% QoQ. We expect the blended EBITDA/t of INR1,047 up by ~2% YoY and ~22% QoQ.
	EBITDA	12,544	12,710	(1.3)	9,573	31.0	
	Core PAT	6,182	8,380	(26.2)	3,644	69.7	

Valuation snapshot

		Mkt Cap	Price	P/E (x)		P/B (x)		RoE (%)		Div yld (%)	
	Reco	USD mn	(INR)	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E
ACC	Buy	4,765	1,586	21.1	16.0	3.3	2.9	16.2	19.3	0.0	0.0
Ambuja Cement	Hold	6,483	261	23.9	17.4	3.5	3.1	15.5	19.0	1.3	1.3
Grasim	Buy	5,429	3,694	11.2	8.2	1.3	1.1	12.1	14.6	0.0	0.0
India Cements	Hold	438	89	17.2	10.1	0.7	0.7	4.1	6.8	0.0	0.0
JK Cement	Buy	770	689	18.0	10.5	2.4	2.0	14.0	20.6	0.0	0.0
Shree Cements	Buy	6,048	10,850	28.2	19.0	5.8	4.5	22.9	26.8	0.0	0.0
UltraTech Cement	Buy	12,661	2,884	21.4	15.1	3.5	2.9	17.6	20.9	0.0	0.0

RESULT PREVIEW

CONSTRUCTION

Fund availability the key

India Equity Research | Strategy

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Ideas create, values protect

Working capital issues are likely to continue to impede the construction sector's revenue growth in Q4FY15. We expect our coverage's top line (excluding Ashoka Buildcon) to dip 5% YoY. Operating de-leverage means that EBITDA margins will decline 10bps QoQ and 119bps YoY. High interest costs due to elongated working capital cycles are likely to impact the sector's earnings. In the medium term, we believe early cycle plays like EPC companies are much better placed than pure play asset developers where regulatory issues are much complex and cash flow recovery will come with a lag. As a result, we believe J Kumar, Sadbhav Engineering and NCC, equipped with sound balance sheets, will be best placed to benefit from the upcoming opportunities.

Key highlights of sector during the quarter

Road project award picked up traction during the quarter with bids for more than 1,000km projects getting opened. With most developers facing financial crunch, majority projects awarded were on EPC mode. However, order inflows from other sectors failed to enthuse. While revenue visibility still remains robust, working capital crunch has resulted in soft performance on the top line front over the past couple of quarters. Improvement in execution and working capital cycle remain key for the sector.

Result expectations for the sector and stocks under coverage

We expect our coverage universe's (excluding Ashoka) top line to decline 5% YoY and 1% QoQ primary due to working capital issues faced by a few companies. Our coverage universe's EBITDA margins are likely to dip 10bps QoQ to 10.6%. Anticipated losses in HCC are hurting earnings of our coverage universe. We expect Sadbhav and J Kumar Infra to perform relatively better than their peers.

Outlook over the next 12 months

We continue to maintain our positive stance owing to the government's efforts to provide the necessary impetus to the sector. With the government making efforts to revive stalled infra projects, we expect revenue booking to pick up pace soon. Likely decline in interest rates is also expected to boost the sector. Earnings growth is likely to improve in H1FY16 due to low base of H1FY15.

Top Picks

Sadbhav Engineering, NCC, J Kumar Infra.

Parvez Akhtar Qazi
+91-22- 4063 5405
parvez.qazi@edelweissfin.com

April 06, 2015

Stock		Q4FY15E (INR mn)	Q4FY14 (INR mn)	Y-o-Y (%)	Q3FY15 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Ashoka Buildcon	Revenues	6,092	6,083	0.1	4,556	33.7	Pick up EPC revenues need to be watched. Also, improvement in traffic growth will be a key monitorable.
	EBITDA	1,276	1,278	(0.2)	1,054	21.1	
	Core PAT	89	136	(34.6)	13	584.6	
HCC	Revenues	9,910	11,578	(14.4)	10,947	(9.5)	HCC's top line has suffered due to various project specific/other regulatory issues; improvement in the same needs to be watched. Also, improvement in the working capital cycle needs to be monitored.
	EBITDA	1,051	1,739	(39.5)	2,069	(49.2)	
	Core PAT	(474)	216	(320.1)	234	(302.4)	
GVK Power and Infra	Revenues	5,675	4,823	17.7	5,565	2.0	Impact on profitability due to lower gas supply for gas based power plants as well as traffic growth in airports and road assets are the key monitorable
	EBITDA	2,365	1,592	48.6	2,273	4.0	
	Core PAT	(2,137)	(2,355)	9.3	(2,091)	(2.2)	
J Kumar Infraprojects ltd.	Revenues	4,888	4,547	7.5	3,034	61.1	Ability of the company to convert its robust order book into execution is going to be a key monitorable. Also, its capacity to maintain its high operating margins needs to be watched.
	EBITDA	781	729	7.1	596	30.9	
	Core PAT	329	313	5.1	239	37.9	
Jaiprakash Associates	Revenues	30,368	34,659	(12.4)	25,834	17.6	JPA is likely to report continued losses, on high depreciation and interest cost not getting fully absorbed by EBITDA. Debt movement remains a key monitorable for JPA.
	EBITDA	6,034	9,351	(35.5)	4,211	43.3	
	Core PAT	(4,102)	927	(542.7)	(1,161)	(253.3)	
Nagarjuna Const.	Revenues	19,219	19,132	0.5	23,515	(18.3)	NCC's top line has been strong for the last couple of quarters; Performance on the revenue growth front therefore needs to be watched. Also, improvement in operating margins and working capital cycle needs to be monitored.
	EBITDA	1,497	1,048	42.9	1,740	(14.0)	
	Core PAT	153	321	(52.3)	420	(63.6)	
Sadbhav Engineering	Revenues	9,188	7,987	15.0	7,222	27.2	Traction in revenue growth and operating margins need to be watched. Also, the toll collection on BOT road projects need to be monitored.
	EBITDA	987	882	11.8	734	34.5	
	Core PAT	343	744	(53.8)	377	(8.9)	
Simplex Infra	Revenues	14,926	14,411	3.6	14,357	4.0	Simplex's order intake has picked up; however, performance on the revenue front still continues to remain weak. Also, ability to maintain strong operating profitability in the wake of sluggish revenue growth will be a key monitorable.
	EBITDA	1,629	1,561	4.4	1,665	(2.2)	
	Core PAT	139	250	(44.3)	148	(5.8)	
Supreme Infrastructure	Revenues	4,401	7,994	(44.9)	4,009	9.8	Pick up in revenue growth remains a key monitorable for the company. Also, performance on the working capital front needs to be watched.
	EBITDA	660	1,040	(36.6)	609	8.3	
	Core PAT	30	270	(88.7)	35	(13.0)	

Valuation snapshot

	Reco	Mkt Cap USD mn	Price (INR)	P/E (x)		P/B (x)		RoE (%)		Div yld (%)	
				FY16E	FY17E	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E
Ashoka Buildcon	Buy	466	184	33.6	21.6	2.1	2.0	6.5	9.6	0.8	0.8
Hindustan Construction Company	Buy	342	33	NM	62.5	1.9	1.8	(5.8)	3.0	0.0	0.0
J Kumar Infraprojects	Buy	366	709	17.3	12.2	2.5	2.1	15.3	18.7	0.5	0.5
Nagarjuna Construction Co	Buy	983	111	41.5	25.1	1.9	1.7	4.6	7.1	0.2	0.3
Sadbhav Engineering	Buy	957	349	40.1	30.6	3.9	3.5	10.2	12.0	0.2	0.2
Simplex Infrastructures	Buy	364	460	22.7	12.3	1.5	1.3	6.7	11.4	0.2	0.4
Supreme Infrastructure	Buy	86	209	10.3	5.2	0.6	0.6	6.4	11.8	0.6	0.6

RESULT PREVIEW

CONSUMER GOODS

To maintain status quo

India Equity Research | Strategy

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Ideas create, values protect

Q4FY15 demand growth trends are likely to be similar to Q3FY15, but gross margins of most companies are expected to expand. We expect our consumer goods universe to register YoY revenue, EBITDA and PAT (excluding United Spirits) growth of 8.6%, 16.6% and 13.8% (7.7%, 10.5%, 11.3% growth in Q3FY15), respectively. EBITDA growth will outpace revenue growth, as benefits of benign raw material will flow in Q4FY15 compared to Q3FY15. Rural growth is likely to come under pressure impacted by unseasonal rains. Competitive intensity reduced in Q4FY15, especially in oral care and detergents, which result in lower A&P spends.

Key highlights of the sector during the quarter

Margin expansion in Q4FY15 will be better than Q3FY15, driven by benign commodity prices and price hikes. ITC effected prices hikes in most of its brands in the 15-21% range. Asian Paints took a weighted average cut of ~2%, with effect from March 1, 2015. Promotions increased in soaps as companies passed on benefits to consumers. Nestle also took a price hike of ~20% in its key brand, *Maggi Masala Noodles* and raised prices by ~4-5% in its coffee portfolio. Competitive intensity was muted during the quarter (P&G slowed down its aggression), especially in oral care and detergents. New launches included: instant noodles from HUL under *Knorr* brand, Bajaj Corp launched *'Bajaj Amla with Almond and Rosemary oil'*, while Marico launched *Parachute Advansed Aromatherapy* oil. Reckitt Benckiser launched *Mortein Activ Card*.

Result expectations for stocks under coverage

We expect ITC's cigarette volumes to decline by ~10% YoY, owing to price rise resulting from another hike in excise duty. We expect Asian Paints and Pidilite Industries to clock volume growth of 8-9% YoY and ~5% YoY, respectively, as demand scenario remains subdued. Hindustan Unilever (HUL) is expected to post ~6% YoY growth in volumes, though pricing growth will taper QoQ. Emami, aided by favourable base, is expected to clock 9% YoY volume growth (fell 10% YoY in Q4FY14). We estimate Dabur to post 7% YoY growth in volumes. Godrej Consumer is expected to surpass category and post double-digit growth in all its three categories.

Outlook over the next 12 months

Even though demand slowdown has been arrested to some extent, any significant recovery will happen only gradually. The recent unseasonal rainfall destroyed crops, which might exert some pressure on rural incomes. Demand in urban areas is likely to improve in H1FY16. Also, growth will be more volume led as companies will pass on some benefits of benign raw material prices, while logging some margin expansion too. Going ahead, GST implementation will be a positive for consumer companies.

Top Picks

GCPL, United Spirits, Asian Paints and Pidilite Industries. We also like Colgate and HUL.

Abneesh Roy
+91 22 6620 3141
abneesh.roy@edelweissfin.com

Pooja Lath
+91 22 6620 3075
pooja.lath@edelweissfin.com

Tanmay Sharma
+91 22 4040 7586
tanmay.sharma@edelweissfin.com

April 06, 2015

Stock		Q4FY15E (INR mn)	Q4FY14 (INR mn)	Y-o-Y (%)	Q3FY15 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Asian Paints	Revenues	35,886	33,071	8.5	36,526	(1.8)	We expect volume growth to be ~6% on a base of ~14% (in Q3FY15 vol growth was ~3% on a base of ~8%). Price hike will be ~2% as the comapny has taken a weighted average price cut of 1.9% in March. Cut in the interest rate will lead to higher staff costs because of increase in pension expenses. The company will see benefits from dip in crude oil and TiO2 prices, which will expand gross margins.
	EBITDA	5,634	4,851	16.1	5,835	(3.4)	
	Core PAT	3,480	2,974	17.0	3,682	(5.5)	
Bajaj Corp	Revenues	2,351	1,845	27.4	2,058	14.2	We expect Bajaj Corp's hair oil business to post volume growth of ~15% YoY (on a base of decline in volumes by ~6% YoY). Q3FY15 saw volume growth of 19% on a base of 0.9% YoY. Light hair oil category logged volume growth of ~1.2% in Q4FY15 compared to the 1.2% YoY decline in Q3FY15. Subdued raw material (soft LLP prices) and crude oil prices will lead to gross margin expansion. Normarks is expected to clock INR600mn top line in FY15 (~INR160mn in FY14).
	EBITDA	689	528	30.5	591	16.5	
	Core PAT	509	383	32.7	418	21.6	
Colgate	Revenues	10,104	9,273	9.0	9,960	1.4	We expect overall volume growth of 5% YoY on base of ~8% YoY (Q3FY15 volume grew 4% on base of 10%). Competitive intensity has cooled off as a result A&P spends will not be at elevated levels as witnessed in the earlier quarters. Q4FY14 saw muted staff growth due to divestment of Global Shared Services Division.
	EBITDA	2,273	2,019	12.6	1,946	16.8	
	Core PAT	1,551	1,385	12.0	1,309	18.5	
Dabur	Revenues	19,480	17,744	9.8	20,790	(6.3)	We expect domestic volume growth at ~7% YoY on base of 8.3% YoY (Q3FY15 saw 7.4% YoY volume growth on base of 9.2%). Benefits of correction in raw material prices like LLP will help gross margins. We expect international business to record ~6% YoY growth as the business remains impacted due to transition in the Namaste business, however it has seen improvement compared to Q3FY15.
	EBITDA	3,409	2,954	15.4	3,519	(3.1)	
	Core PAT	2,701	2,353	14.8	2,828	(4.5)	
Emami	Revenues	5,201	4,457	16.7	6,923	(24.9)	We expect Emami to post ~9% growth in domestic volumes albeit on a base of 10% YoY decline . Emami reported volume growth of 11% YoY on base of 1.5% YoY. Base quarter saw significant decline in volumes as it was impacted by delayed summer and ~5% and 2% YoY fall in Zandu & Menthoplus balm portfolio and Fair & Handsome, respectively. Rainfall in northern India might impact the company's summer portfolio. International business growth is expted to be ~20% YoY. PAT growth will be soft as the company wrote back tax provisions amounting to INR173.6mn in the base quarter.
	EBITDA	1,363	1,180	15.5	2,115	(35.6)	
	Core PAT	1,157	1,209	(4.3)	1,862	(37.9)	
Godrej Consumer	Revenues	21,000	19,315	8.7	22,357	(6.1)	We expect personal wash to register 14% YoY grow with mid single-digit volume growth (personal wash grew 11% YoY in Q3FY15); hair is expected to post ~12% YoY (Crème has come in base) growth; performance might get impacted by heightened competition in the space. Household insecticides are expected to good growth of ~12% growth YoY. Base quarter Q4FY14 growth: HI: 17%, hair: 16% and soaps: 1%. Domestic gross margins are likely to improve YoY benefitting from benign palm oil prices and crude prices. We expect international business to record ~12% (growth to be organic) growth.
	EBITDA	3,822	3,417	11.9	3,984	(4.1)	
	Core PAT	2,567	2,331	10.1	2,637	(2.6)	

Stock		Q4FY15E (INR mn)	Q4FY14 (INR mn)	Y-o-Y (%)	Q3FY15 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
GSK Consumer	Revenues	13,025	11,198	16.3	10,125	28.6	We expect ~7% YoY volume growth in domestic base business (on a base of 7% YoY). Price growth of ~9-10% YoY expected as the company has taken price hikes. Auxiliary sales growth is expected to remain subdued impacted by pricing control in Crocin.
	EBITDA	2,696	2,300	17.2	1,059	154.6	
	Core PAT	2,019	1,717	17.6	964	109.4	
Hindustan Unilever	Revenues	77,054	70,941	8.6	77,743	(0.9)	We expect 6% volume growth on alow base of 3% YoY volume growth. Pricing growth will be limited in Q4FY15. Gross margins will expand led by lower PFAD prices and also because of lower crude oil prices. PAT growth lower due to higher tax rate and depreciation costs and lower other income YoY.
	EBITDA	12,787	10,776	18.7	13,315	(4.0)	
	Core PAT	9,175	8,320	10.3	9,553	(4.0)	
ITC	Revenues	96,329	92,385	4.3	89,426	7.7	Demand scenario remains subdued across segments. Cigarette volume is expected to decline by ~10% YoY (2% YoY dip in volumes in base), while price hike is expected at ~16-17% YoY. FMCG business should be profitable, but sales are likely to remain moderate - we expect YoY sales growth of 12% on a base of 13.6%. Hotel business is expected to remain soft (base of 1.6% YoY) and grow by 6% YoY. Agri business might see some recovery helped by favourable base (8.1% YoY in Q4FY14) and is expected to log 15% YoY growth.
	EBITDA	36,412	32,034	13.7	34,642	5.1	
	Core PAT	25,808	22,780	13.3	26,350	(2.1)	
Marico	Revenues	12,555	10,721	17.1	14,524	(13.6)	We expect Saffola to post volume growth of ~6% YoY on a high base of 11% YoY (Q3FY15 saw 3% YoY volume growth). Parachute is expected to post a volume growth of ~6% (on a base of 10% YoY) and value-added hair oils are expected to clock ~10% YoY (base of 11% YoY). Paras business growth will be slightly subdued as the company has changed its strategy of focus in the youth business, which is currently in transition phase. In international business, Vietnam continues to be subdued and recovery is expected on only in Q1FY16. The Middle East, however, remains strong.
	EBITDA	1,783	1,543	15.6	2,369	(24.7)	
	Core PAT	1,063	888	19.7	1,599	(33.5)	
Nestle India	Revenues	26,247	23,215	13.1	25,309	3.7	We expect Nestle's domestic sales to log 13% YoY growth on a base of ~3.4% YoY growth. Exports will be helped by a favourable base, as it declined by 4.4% YoY in Q1CY14. Gross margins will improve gaining from price hikes and stable milk prices. Other expenditure will be high due to increased A&P spends by the company (higher promotions and advertisements to support new launches). EBITDA and PAT saw YoY decline by 8.6% and 7.1%, respectively, in Q1CY14.
	EBITDA	5,786	4,937	17.2	5,601	3.3	
	Core PAT	3,332	2,592	28.6	3,194	4.3	

Stock		Q3FY15E (INR mn)	Q3FY14 (INR mn)	Y-o-Y (%)	Q2FY15 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Pidilite Industries	Revenues	11,144	9,906	12.5	12,022	(7.3)	Demand scenario of Q3FY15 extended into Q4FY15. We expect Pidilite's consumer and bazaar businesses to post 8-9% YoY growth in volumes (the company posted healthy double-digit volume growth in Q4FY14 (overall Consumer & Bazaar grew by 17.6%); volume growth in Q3FY15 was 8% YoY. Gross margins will improve following decline in VAM prices and subdued crude oil prices. Ad expenditure will however, increase on account of higher advertisements during the world cup.
	EBITDA	1,449	1,030	40.7	1,934	(25.1)	
	Core PAT	935	770	21.5	1,256	(25.5)	
United Spirits	Revenues	20,811	19,433	7.1	23,182	(10.2)	We expect volume growth of 2% YoY (on base of 4% YoY). Alignment of inventory at primary and secondary levels might impact volumes temporarily. Heightened investments in brands, McDowell's No.1, Royal
	EBITDA	2,040	1,166	74.9	2,382	(14.4)	
	Core PAT	460	(53,801)	100.9	855	(46.2)	

Valuation snapshot

		Mkt Cap	Price	P/E (x)		P/B (x)		RoE (%)		Div yld (%)	
	Reco	USD mn	(INR)	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E
Asian Paints	Buy	12,611	822	40.0	31.8	13.6	11.1	37.2	38.4	1.1	1.3
Bajaj Corp	Hold	1,102	467	33.5	28.4	10.9	9.8	34.1	36.2	1.8	2.1
Colgate	Hold	4,357	2,003	41.6	34.8	40.8	36.4	103.4	110.5	1.8	2.2
Dabur	Buy	7,491	267	35.8	29.1	11.2	8.9	34.9	34.3	0.9	1.1
Emami	Buy	3,618	996	39.8	32.8	14.6	11.6	41.0	39.3	0.9	1.1
GlaxoSmithKline Consumer	Hold	4,190	6,226	37.1	32.1	10.5	8.9	30.5	30.0	1.1	1.2
Godrej Consumer	Buy	5,877	1,079	32.7	25.9	7.2	6.1	23.7	25.5	0.9	1.2
Hindustan Unilever	Hold	30,584	884	39.2	34.5	38.0	32.0	103.6	99.3	1.8	2.1
ITC	Buy	42,638	332	24.0	20.7	7.9	7.1	33.8	35.1	2.5	2.9
Marico	Buy	3,999	387	36.2	29.5	8.0	6.5	31.8	29.7	0.3	0.3
Nestle	Hold	10,680	6,923	45.6	37.2	17.9	14.4	43.7	42.9	0.9	1.1
Pidilite Industries	Buy	4,942	603	40.9	33.1	11.0	9.0	29.7	30.2	0.7	0.9
United Spirits	Buy	8,449	3,634	82.7	50.8	14.4	11.5	19.0	25.2	0.1	0.2

RESULT PREVIEW

ENGINEERING & CAPITAL GOODS

Unshackling dampeners

Edelweiss
Ideas create, values protect

India Equity Research | Strategy

The sector saw traction in the power generation, transmission and distribution (T&D) and defence segments. Working capital for players remains at elevated levels. While the RBI has cut the repo rate by 50bps, pass on of the same by banks to borrowers has been sluggish. However, we believe banks will shortly cut the lending rates which will debottleneck a lot of strapped projects, in turn spurring pick up in execution rate. In the near term, we expect earnings to remain subdued. We expect infra and industrial sectors to gather traction from H2FY16 with the private sector gathering momentum. We maintain our stock-selective approach and like players with strong products/brands and execution track record, and sustained market share with potential to scale up capitalising on the pent up demand. We prefer Larsen & Toubro (L&T), Bharat Electronics (BEL), Cummins India, TD Power and VA Tech.

Key highlights of the sector over the quarter

While not much action was seen in private sector capex, policy/project clearances witnessed traction in the power generation, T&D and defence segments. During the quarter, ~3GW of BTG orders were awarded. PGCIL T&D ordering also remained robust. Besides, action in defence sector continues to gain momentum. The latest being the defence ministry selecting a consortia of 2 developers to develop Battlefield Management System (BMS) worth INR500bn. We expect uptick in overall investment in power, roads, ports, airports, etc., especially from private sector over the next 5-6 quarters.

Result expectations for the sector; stocks under coverage

We expect our coverage universe to post flat revenue growth owing to limited on-ground pick up across power and infra projects. Order intake is expected to be healthy, led by strong ordering in infra, power generation and T&D sectors. Margins are expected to dip by ~60ps on high base and lower execution growth. PAT growth is likely to decline by ~7% due to higher interest cost.

Outlook over the next 12 months

We anticipate investments to gather pace over the next 3-4 quarters resulting in sharp uptick in order book growth. We prefer companies with strong revenue growth visibility, sustained competitive advantage and currently facing under-utilisation of plants. Companies with focus on diversified infra space like L&T are leading the investment-led rally. We expect decent traction in the power equipment market over the medium term with likely revival over the next 1-2 years. Also, we expect private sector investments to pick up over the next 1-2 years.

Top Picks

L&T, BEL, Cummins India, TD Power and VA Tech.

Amit Mahawar
+91 22 4040 7451
amit.mahawar@edelweissfin.com

Rahul Gajare
+91-22-4063 5561
rahul.gajare@edelweissfin.com

Swarnim Maheshwari
+91-22-4040 7418
swarnim.maheshwari@edelweissfin.com

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Stock		Q4FY15E (INR mn)	Q4FY14 (INR mn)	Y-o-Y (%)	Q3FY15 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
ABB	Revenues	19,783	18,277	8.2	22,384	(11.6)	We expect 9% revenue growth on the back of pull up in the power product business. Margins are expected to improve on the back of localisation drive. Order intake to remain a key monitorable.
	EBITDA	1,480	1,257	17.7	1,800	(17.8)	
	Core PAT	631	517	22.1	842	(25.1)	
AIA Engineering	Revenues	5,950	5,767	3.2	5,143	15.7	We expect mere 3%YoY growth in sales due to mere 5% growth in volumes led by growth in 23% YoY growth in mining but 5% YoY decline in cement. With slower production growth and pick up in civil work for greenfield capacity we expect 6%YoY decline in EBITDA
	EBITDA	1,547	1,652	(6.4)	1,522	1.6	
	Core PAT	1,004	1,196	(16.1)	1,150	(12.7)	
Astra Microwave Products	Revenues	980	1,953	(49.8)	1,480	(33.8)	After a stong growth in H1FY15, revenue growth is expected to slow down considerably given the delivery schedule in Q4FY15. Order intake holds the key for the company and will be closely monitiored.
	EBITDA	141	458	(69.2)	232	(39.2)	
	Core PAT	101	265	(61.8)	127	(20.3)	
Bajaj Electricals	Revenues	14,575	10,339	41.0	10,293	41.6	We expect ~15% revenue growth led by strong growth in the E&P business as the company executes its bulging order book. Consumer durable and Lighting segment is expected to remain moderate given weak consumer sentiments . E&P business bottomline to be closely looked at.
	EBITDA	1,220	580	110.5	(351)	447.6	
	Core PAT	695	203	241.7	(523)	232.8	
Bharat Electronics	Revenues	34,392	31,310	9.8	16,082	113.8	While flash results are already out in which revenue has been below our estimates. Margins and PAT numbers to be closely looked at.
	EBITDA	7,368	7,683	(4.1)	2,781	164.9	
	Core PAT	5,984	6,603	(9.4)	2,718	120.2	
Bharat Forge	Revenues	12,000	9,305	29.0	11,978	0.2	Expect 29% growth in revenue and 51% growth in earnings with 35bps improvement in EBITDA margin. While exports is expected to continue to remain firm both in auto & non-auto, scale up in India business to watch out for.
	EBITDA	3,395	2,303	47.4	3,623	(6.3)	
	Core PAT	1,796	1,190	50.9	1,963	(8.5)	
Crompton Greaves (Consolidated)	Revenues	37,117	37,665	(1.5)	33,332	11.4	CG SA business is expected to post ~10% revenue growth. Consumer durable peformance to be watched out closely. Overseas PS business gross margins will be a key monitorable.Industrial system profitability is expected to improve .
	EBITDA	1,708	1,881	(9.2)	1,518	12.5	
	Core PAT	688	638	7.8	41	1,559.0	
Cummins India	Revenues	10,589	9,716	9.0	10,831	(2.2)	We expect ~9% revenue growth on the back of sustained growth in exports Growth in the Power Generation segment in domestic market to be closely looked at. Margins are expected to remain flat.
	EBITDA	1,865	1,709	9.1	1,894	(1.5)	
	Core PAT	1,466	1,418	3.4	1,811	(19.1)	
Greaves cotton	Revenues	4,674	4,352	7.4	4,311	8.4	Greaves Cotton is expected to report better than 3W industry volume growth of ~5% in Q3FY15. Margins are expected to improve on the back of shut down of loss making costruction business.
	EBITDA	614	463	32.5	515	19.1	
	Core PAT	329	215	53.1	359	(8.3)	
Havells India (Standalone)	Revenues	14,041	13,100	7.2	12,474	12.6	Weak consumer sentiments is likely to lead to moderate revenue growth in Q3FY15. We expect ~10% revenue growth with flattish margins. Consumer durable and Lighting business to be closely looked at.
	EBITDA	1,947	1,772	9.9	1,803	8.0	
	Core PAT	1,251	1,369	(8.6)	1,162	7.6	
KEC International (Consolidated)	Revenues	23,077	22,016	4.8	20,533	12.4	We expect 5-6% revenue growth mainly due to declining order book . Margin improvement and working capital to be closely looked at. SAE performance will also be a key monitorable.
	EBITDA	1,242	1,419	(12.5)	1,046	18.7	
	Core PAT	207	193	7.2	(168)	223.2	
Kalpataru Power	Revenues	12,225	11,521	6.1	11,408	7.2	We expect moderate 6% revenue gowth .Margins are expected to reamain flat due to infra losses. Order inflow and losses in the infra business to be closely looked at.
	EBITDA	1,191	1,091	9.2	1,038	14.7	
	Core PAT	490	470	4.3	427	14.7	

Stock		Q4FY15E (INR mn)	Q4FY14 (INR mn)	Y-o-Y (%)	Q3FY15 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
L&T (Standalone)	Revenues	216,699	200,791	7.9	149,950	44.5	We expect revenue growth to be moderate while expecting a decent improvement in execution in domestic market. Expect margins to be under pressure. Based on the order intake reported by the company so far, it is poised to achieve its lower end (15%)of guidance. Working capital levels to be closely monitored.
	EBITDA	28,125	29,010	(3.0)	15,694	79.2	
	Core PAT	19,412	22,394	(13.3)	10,598	83.2	
Praj Industries	Revenues	3,561	3,494	1.9	2,193	62.4	H2FY15 was expected to be weak revenue growth due to front ended growth during the year. Margins is expected reamain flat Order intake to be closely looked at.
	EBITDA	350	336	4.2	202	73.1	
	Core PAT	221	221	0.1	123	79.9	
Siemens	Revenues	28,160	27,063	4.1	21,860	28.8	We expect flattish revenue growth due to weak traction in large projects in the energy and industrial businesses. Margins will be a key monitorable given managments focus on localisation and cost reductions.
	EBITDA	1,963	1,863	5.4	1,890	3.9	
	Core PAT	959	883	8.6	1,055	(9.1)	
TD power systems	Revenues	2,007	1,831	9.6	1,506	33.2	We expect strong revenue growth of ~10% led by traction in the exports markets in the manufacturing business. Margins are expected to decline by ~100bps in the manufacturing business in line with guidance. Losses in the EPC business to be closely looked at.
	EBITDA	162	162	(0.3)	86	87.8	
	Core PAT	88	142	(38.1)	(2)	4,496.5	
Thermax	Revenues	15,437	13,825	11.7	11,466	34.6	We expect strong revenue growth to sustain led by execution of few large projects. Margins are expected to improve on strong execution as well as low base. Order intake growth from international markets will be a key monitorable.
	EBITDA	1,714	1,339	28.0	1,314	30.5	
	Core PAT	1,132	1,060	6.8	762	48.5	
Triveni Turbines	Revenues	1,713	1,313	30.4	1,505	13.8	We expect strong revenue growth in Q4FY15 revenue booking of defered shipment in Q3FY15. Also , we expcet revenue momentum to continue led by exports maret and after sales business. Margins are expected
	EBITDA	403	273	47.6	318	26.7	
	Core PAT	264	193	36.6	236	11.7	
Va Tech Wabag	Revenues	11,219	8,977	25.0	6,194	81.1	Revenue growth had disappointed in 9MFY15 due to project specific issues. We expect the revenue growth (~25%)to be resurgent in Q4FY15. Margins are expected to improve on account of the same. Order intake to be closely looked at.
	EBITDA	1,464	1,073	36.5	423	246.1	
	Core PAT	902	706	27.7	175	415.2	
Voltas	Revenues	14,801	14,628	1.2	9,511	55.6	While revenues are expected to remaim flat, we expect the margins to improve on the back of improvement in EMPS margins. Order intake to be a key monitorable.
	EBITDA	1,734	1,054	64.5	574	202.1	
	Core PAT	1,009	1,010	(0.1)	262	285.0	

Valuation snapshot

		Mkt Cap	Price	P/E (x)		P/B (x)		RoE (%)		Div yld (%)	
	Reco	USD mn	(INR)	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E
ABB India	Reduce	4,331	1,277	76.1	56.1	8.8	7.8	12.1	14.8	0.3	0.3
AIA Engineering	Buy	1,832	1,214	27.5	21.9	4.8	4.1	18.6	20.1	0.7	0.8
Astra Microwave Products	Buy	196	150	19.0	16.7	3.5	3.0	20.1	19.4	1.0	1.3
Bajaj Electricals	Hold	375	232	18.9	13.6	2.9	2.5	16.5	19.8	1.3	1.5
Bharat Electronics	Buy	4,473	3,494	23.8	20.6	3.2	2.9	14.2	14.7	0.0	0.0
Bharat Forge	Buy	4,926	1,323	32.4	25.9	7.4	5.9	25.4	25.4	0.3	0.4
Bharat Heavy Electricals	Hold	9,035	231	25.7	17.1	1.7	1.6	6.5	9.5	2.2	2.4
Crompton Greaves	Hold	1,666	166	22.2	14.7	2.6	2.3	11.9	16.0	0.9	1.2
Cummins India	Buy	3,947	890	30.7	24.6	7.3	6.0	25.4	26.7	0.0	0.0
Greaves Cotton	Buy	564	144	17.3	13.4	3.3	2.7	20.6	22.3	1.1	1.2
Havell's India	Buy	3,046	305	31.3	24.8	8.2	6.8	28.7	30.0	1.2	1.4
Kalpataru Power Transmission	Buy	559	228	17.0	13.2	1.4	1.3	9.3	11.0	1.5	1.5
KEC International	Hold	345	84	15.1	9.0	1.7	1.4	11.5	17.3	1.7	1.7
Larsen & Toubro	Buy	25,795	1,734	27.9	21.1	3.6	3.1	13.4	15.8	0.8	0.8
Praj Industries	Buy	189	67	15.9	13.2	1.9	1.8	12.4	14.2	3.6	4.0
Siemens	Reduce	8,049	1,413	110.4	72.5	11.0	10.0	10.2	14.4	0.4	0.4
TD Power Systems	Buy	196	369	34.2	17.0	2.3	2.1	6.9	12.7	0.8	0.9
Thermax	Buy	2,088	1,095	32.3	24.6	5.2	4.5	16.6	19.6	0.7	0.7
Triveni Turbine	Buy	712	135	28.8	23.5	19.5	15.2	64.3	65.4	0.5	0.4
VA Tech Wabag	Buy	719	828	12.2	9.3	2.0	1.7	17.6	19.7	1.4	1.5
Voltas	Buy	1,502	284	23.9	18.9	4.3	3.7	19.4	20.9	0.9	1.1

RESULT PREVIEW

ENERGY

Downstream gains, Upstream pains

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Q4FY15 was a mixed bag for the oil & gas sector—while downstream margins improved, upstream was affected by steep fall in crude prices. Oil continued to head South, while the benchmark refining margin improved. We expect subsidy burden during the quarter to reduce dramatically, following diesel deregulation. Oil marketing companies will see huge benefits from higher marketing margins and lower inventory losses as oil prices have remained largely range-bound. Reliance Industries (RIL) will benefit from the sharp rise in refining margin. Upstream will be the biggest victim of fallen oil prices—while Cairn's earnings are likely to dip significantly YoY and QoQ, ONGC will get some respite from subsidy burden. IGL and GSPL should clock a small growth in earnings. GAIL's earnings will be supported by trading benefits on rising spot LNG while petrochemical will remain a dampener. BPCL, IGL and GSPL are our top sector picks.

Key highlights of the sector over the quarter: Crude impact

Brent prices have fallen 29% QoQ and 50% YoY on an average to USD54/bbl in Q4FY15 on rising oversupply in the oil market. Near-term global oil production growth outlook remains robust while capex cuts from marginal players (US shale and Canadian oil sands) will affect supply growth only after FY16. Singapore GRM has improved 37% YoY and 38% QoQ to USD8.5/bbl. The INR has depreciated 1% YoY and remains flat QoQ.

Result expectations for stocks under coverage

Reliance Industries: We expect a healthy quarter with standalone earnings growth of 5% YoY and 16% QoQ to INR59bn, riding strong refining margins offsetting lower throughputs and weak petrochemical margins. We expect RIL's GRM at USD9.8/bbl (up USD2.5/bbl QoQ), slightly higher than the quantum jump in benchmark Singapore GRM. Petrochemical margins have softened in the current quarter.

Cairn India: We expect Cairn's profits to fall 74% YoY and 41% QoQ tracking the crash in oil prices. We expect a flat QoQ production growth for Rajasthan.

ONGC: We expect ONGC's earnings to fall 20% YoY and improve 10% QoQ. While the YoY dip will be primarily due to expected sharp reduction from Cairn India's contribution, the QoQ increase will be a result of ONGC's higher net realisation. Net realisation will improve due to lower subsidy/bbl (down 86% YoY, 74% QoQ) offsetting sharp fall in oil prices.

Outlook over next 12 months

Reforms will drive prospects of downstream segment while upstream will bleed on oil fall. Marketing margins on auto fuels sale will rise and drive OMC's profits.

Top Picks

GSPL in mid-stream and BPCL, IGL in downstream.

Jal Irani
+91-22-6620 3087
jal.irani@edelweissfin.com

Yusufi Kapadia
+91-22- 4063 5407
yusufi.kapadia@edelweissfin.com

April 06, 2015

Stock		Q4FY15E (INR mn)	Q4FY14 (INR mn)	Y-o-Y (%)	Q3FY15 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Bharat petroleum	Revenues	515,845	747,720	(31.0)	579,145	(10.9)	Assumed GRM to improve QoQ to USD3/bbl (on lower inventory losses), marketing margins to jump 8% sequentially and throughtputs to rise 4% QoQ.
	EBITDA	28,939	63,577	(54.5)	11,700	147.3	
	Core PAT	14,762	40,684	(63.7)	5,512	167.8	
Cairn India	Revenues	26,030	50,489	(48.4)	35,041	(25.7)	We expect Cairn's profits to fall 74% YoY and 41% QoQ, tracking crash in oil prices. We expect a flat QoQ production growth for Rajasthan.
	EBITDA	14,466	38,439	(62.4)	21,841	(33.8)	
	Core PAT	8,013	30,354	(73.6)	13,496	(40.6)	
GAIL	Revenues	135,631	144,643	(6.2)	149,338	(9.2)	We expect GAIL earnings to fall 34% YoY but up 19% QoQ. We expect good performance in transmission and trading business (due to increase in spot LNG) while subdued performance in petrochemical and LPG businesses (ex subsidy). We believe, GAIL to bear nil subsidies in Q4 vs. INR5bn in both Q3FY15 and Q4FY14.
	EBITDA	10,652	13,370	(20.3)	9,501	12.1	
	Core PAT	6,426	9,720	(33.9)	5,412	18.7	
Gujarat state petronet	Revenues	2,435	2,314	5.2	2,431	0.2	We expect PAT growth of 4% YoY and 7% QoQ. We expect volumes growth of +10% YoY, flat QoQ and tariffs to fall 5% YoY while almost in-line with last quarter.
	EBITDA	2,093	2,008	4.2	2,033	3.0	
	Core PAT	950	915	3.8	888	7.0	
Hindustan petroleum	Revenues	331,188	641,923	(48.4)	511,062	(35.2)	Assumed GRM of USD3/bbl (on lower inventory losses) vs. - ve GRM last quarter, marketing margins to jump 5% sequentially and throughtputs to rise 9% QoQ.
	EBITDA	18,104	59,385	(69.5)	(406)	4,556.9	
	Core PAT	9,524	46,092	(79.3)	(3,254)	392.7	
Indian Oil corporation	Revenues	906,277	1,348,674	(32.8)	1,070,736	(15.4)	Assumed GRM of USD2.2/bbl (on lower inventory losses) vs. signficant - ve GRM last quarter, marketing margins to jump 2% sequentially and throughtputs to fall 1% QoQ.
	EBITDA	62,281	136,465	(54.4)	(24,770)	351.4	
	Core PAT	38,759	88,538	(56.2)	(30,692)	226.3	
Indraprastha gas	Revenues	9,306	9,681	(3.9)	9,444	(1.5)	We expect IGL to post PAT growth of 20% YoY and 1% QoQ. While we believe CNG volume growth will remain strong (+8% YoY, +1% QoQ), PNG volumes (-13% YoY, -3% QoQ) will suffer from weak activity in industrial/commercial segment. Margins would improve from lower usage of higher cost LNG.
	EBITDA	1,972	1,922	2.6	1,920	2.7	
	Core PAT	1,089	905	20.4	1,082	0.7	
ONGC	Revenues	188,851	208,809	(9.6)	187,147	0.9	We expect ONGC earnings to fall 20% YoY and improve 10% QoQ. YoY fall is mainly due to expected sharp reduction from Cairn India's contribution while QoQ increase is the result of higher ONGC's net realization. Net realization will improve due to benefits of lower subsidy/bbl (-86% YoY, -74% QoQ) offseting sharp fall in oil prices.
	EBITDA	98,289	111,475	(11.8)	93,953	4.6	
	Core PAT	39,185	48,888	(19.8)	35,712	9.7	
Petronet LNG	Revenues	102,866	104,277	(1.4)	111,985	(8.1)	We expect PLNG PAT to fall 2% YoY while increase 17% QoQ. We expect LNG volumes to rise 5% YoY but down 13% QoQ.
	EBITDA	3,708	3,867	(4.1)	3,408	8.8	
	Core PAT	1,663	1,693	(1.7)	1,419	17.2	
RIL	Revenues	597,335	951,930	(37.3)	801,960	(25.5)	We expect RIL to report a strong quarter, with earnings growth of 5% YoY and 16% QoQ. We expect RIL GRM at USD9.8/bbl (+USD2.5/bbl QoQ), a slightly higher jump compared to benchmark Signapore GRMs. Crack spreads for RIL's key product, naphtha improved USD6.1/bbl QoQ while diesel spreads rose only marginally by USD0.4/bbl. Petrochemical margins have softened in the current quarter.
	EBITDA	84,566	83,310	1.5	72,080	17.3	
	Core PAT	59,063	56,310	4.9	50,850	16.2	

Valuation snapshot

	Reco	Mkt Cap USD mn	Price (INR)	P/E (x) FY16E	P/E (x) FY17E	P/B (x) FY16E	P/B (x) FY17E	RoE (%) FY16E	RoE (%) FY17E	Div yld (%) FY16E	Div yld (%) FY17E
Bharat Petroleum Corporation	Buy	9,304	804	12.0	11.0	2.8	2.7	23.9	25.4	2.7	2.9
Cairn India	Buy	6,400	213	10.3	10.3	0.6	0.6	6.1	5.8	1.9	1.9
GAIL	Reduce	7,810	385	15.8	11.8	1.3	1.2	8.4	10.5	1.6	2.3
Gujarat State Petronet	Buy	1,134	126	18.0	15.6	1.8	1.7	10.7	11.3	1.1	1.3
HPCL	Buy	3,540	653	14.3	7.9	1.5	1.4	10.7	18.1	3.6	5.6
Indian Oil Corporation	Buy	14,397	371	11.6	8.3	1.1	1.0	10.0	12.9	3.8	4.7
Indraprastha Gas	Buy	924	412	11.6	10.6	2.3	2.0	21.6	20.2	1.9	2.1
ONGC	Hold	41,951	306	15.9	10.7	1.3	1.2	8.4	11.6	1.8	2.6
Petronet LNG	Reduce	2,111	176	17.8	12.6	2.3	2.0	13.3	16.8	1.4	1.7
Reliance Industries	Buy	43,285	836	9.3	6.9	1.0	0.9	11.2	13.5	1.3	1.4

RESULT PREVIEW

FERTILISERS

Better times ahead

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Post the sharp drop in FY13/14 non-urea fertiliser dispatches (companies to dealers), volumes spiked 10.2% YoY during 9mFY15. This was primarily on account of normalised channel inventories and low base. Manufactured and traded non-urea fertiliser volumes grew 10.2% and 20.5% YoY, respectively during 9MFY15. Industry players, during our interaction with them, stated manufacturing DAP has become unviable following the jump in raw material prices (ammonia/phosphoric acid prices have spurted 17%/7% QoQ, respectively) during Oct-Dec 2015. However, ammonia corrected 10-12% during Q4FY15. Urea volumes remained sluggish and fell 3.3% YoY during 9mFY15. We anticipate reversal of the downturn cycle in the non-urea fertiliser industry and players' profitability to rise over the next 12-18 months owing to liquidation of excess channel inventories. For the quarter, we expect revenues to grow led by higher trading volumes. EBITDA margins are likely to improve on better product mix and operating leverage. However, interest cost will remain high YoY and QoQ.

Key highlights of the sector during the quarter

Post the sharp drop in FY13/14 non-urea fertiliser dispatches (companies to dealers), volumes spiked 10.2% YoY during 9mFY15. This was primarily on account of normalised channel inventories and low base. Manufactured and traded non-urea fertiliser volumes grew 10.2% and 20.5% YoY, respectively. Urea volumes remained sluggish and fell 3.3% YoY during 9mFY15.

Result expectations for the sector and stocks under coverage

For the quarter, we expect revenues to grow led by higher trading volumes. EBITDA margins are likely to improve on better product mix and operating leverage. However, interest cost will remain high YoY and QoQ.

Outlook over the next 12 months

While ebbing of the multiple headwinds had spurred the non-urea fertiliser sector through FY13/14, we anticipate complete reversal of the downturn cycle and players to clock sharp recovery in profitability over the next 12-18 months, primarily led by liquidation of excessive channel inventory. Also, as against the high raw material prices that prevailed during 9mFY15, softening raw material prices hereon could be a near-term positive. As for urea, uncertainty regards the proposed farm gate price hike and pricing policy persists with the government dragging feet on finalising the same. Coromandel International ('**BUY**') and Zuari Agrochemicals ('**BUY**') are our top picks in the fertiliser space.

Top picks

Coromandel International and Zuari Agrochemicals.

Manish Mahawar
+91 22 6623 3481
manish.mahawar@edelweissfin.com

Manoj Bahety, CFA
+91-22-6623 3362
manoj.bahety@edelweissfin.com

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Stock		Q4FY15E (INR mn)	Q4FY14 (INR mn)	Y-o-Y (%)	Q3FY15 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Chambal Fertiliser	Revenues	13,479	14,421	(6.5)	28,246	(52.3)	We have assumed urea sales volume decline of ~20% YoY primarily on account of production cut owing to lower urea prices globally. EBITDA margin was supressed during corresponding quarter of previous year led by lower urea profitability and higher other expenses. Hence, we expect, EBITDA margin to improve on YoY basis. Subsidy outstanding and capex plan are key monitorables.
	EBITDA	1,850	577	220.7	2,288	(19.2)	
	Core PAT	792	56	1,306.6	1,447	(45.3)	
Coromandel International	Revenues	22,659	21,840	3.8	29,621	(23.5)	We have considered manufactured and traded fertiliser sales volume of 0.53m MT (up 5.5% YoY) and 0.17m MT (down 6% YoY), respectively. Consolidated EBITDA is likely to be higher 50bps YoY owing to lower contribution of trading and superior contribution of non subsidy business. Non subsidy business, Sabero and Liberty Phosphate are expected to perform well.
	EBITDA	2,094	1,792	16.8	2,252	(7.0)	
	Core PAT	993	808	22.9	1,233	(19.5)	
Deepak Fertiliser	Revenues	8,584	10,696	(19.7)	8,185	4.9	We expect decline in sales on YoY basis owing to lower volume impacted by gas supply disruption. However, better chemical realisation is expected to partially compensate the impact.
	EBITDA	521	1,655	(68.5)	498	4.7	
	Core PAT	5	917	(99.5)	13	(61.8)	
Zuari Agrochemicals	Revenues	14,751	14,890	(0.9)	14,163	4.1	Non urea fertiliser sales volume is likely to be flat on YoY basis. Interest cost is expected to come down YoY led by lower fertiliser subsidy and debt.
	EBITDA	854	876	(2.5)	730	17.1	
	Core PAT	278	(0)	278,477.5	171	62.5	

Valuation snapshot

		Mkt Cap	Price	P/E (x)		P/B (x)		RoE (%)		Div yld (%)	
	Reco	USD mn	(INR)	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E
Chambal Fertilisers and	Hold	484	73	7.5	7.2	1.1	1.0	16.1	14.7	2.6	2.6
Coromandel International	Buy	1,251	268	12.3	9.8	2.5	2.2	21.9	23.7	2.6	2.6
Deepak Fertilisers and	Buy	198	140	5.4	5.0	0.8	0.7	15.3	15.0	5.4	5.7
Zuari Agro Chemicals	Buy	170	252	6.5	5.1	0.9	0.8	14.4	16.1	1.2	1.2

RESULT PREVIEW

IT

Cross currency the spoilsport, yet again

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Owing to USD appreciation against GBP, EUR and AUD we factor in 200-280bps negative cross currency impact on the USD revenue growth of Top-4 IT players in Q4FY15. We expect the top 4 to post a moderate 2.0-3.6% constant currency (CC) growth for Q4FY15 with HCL Technologies (HCLT) leading the pack with ~3.6% surge. While Tata Consultancy Services (TCS) is likely to post 2.6% CC growth, Infosys and Wipro are likely to report 2.4% and 2.0% growth, respectively. The top 4 players' EBITDA margins are likely to dip 40-100bps largely owing to cross currency impact. We expect Infosys to guide for 7-9% USD revenue growth for FY16 (implying 9-11% in CC). For the sector, we expect demand outlook, deal pipeline and budget commentaries for next year to be positive than FY15 given better visibility in the US, demand uptick in key verticals, higher offshoring in Europe and increasing traction in digital technologies.

Cross currency to mar revenue growth

In Q4FY15, the USD appreciated 4.3%, 9.7% and 7.9% against GBP, EUR and AUD, respectively, resulting in 200-280bps negative impact on USD revenues of Top-4 IT players. We forecast a moderate revenue growth of 2.0-3.6% on CC basis. **Infosys** is expected to grow 2.4% QoQ (CC) with 60bps EBITDA margin dip to 28.1%. **HCLT** is expected to post 3.6% QoQ (CC) revenue growth, while its EBITDA margin is likely to dip 100bps to 24.0% owing to cross currency, ramp up of new deals and wage hikes, partially offset by operational efficiencies. **TCS** is likely to clock revenue growth of 2.6% (CC) and 50bps margin dip. **Wipro** is likely to post revenue growth of 2.0% (CC) with 40bps dip in margin of 22.1%. **Tech Mahindra** (TECHM) is estimated to post 10.6% QoQ (CC) revenue growth (1.2% organic and balance from integration of Lightbridge Corporation and Sofgen), while its EBITDA margin is likely to dip ~240bps largely owing to wage hikes (200bps), integration of low margin acquired businesses (100bps) and cross currency (40bps) partially offset by operational efficiencies.

Infosys likely to guide 7-9% USD YoY revenue growth (9-11% in CC)

We expect Infosys to guide for 7-9% USD revenue growth, which implies 9-11% growth on CC basis. We believe investors will take this guidance positively. Further, investors will keenly monitor commentary on IT budgets, capital allocation plan, extent of investments in new initiatives and plan to tackle attrition.

Outlook: Sustainable demand

While Q4FY15 is expected to be a soft quarter due to cross currency impact, we remain confident that growth momentum will continue in FY16 due to healthier demand pipeline in major markets (US and Europe), key verticals (BFSI, manufacturing, retail and healthcare) and increased adoption of SMAC technologies. We continue to prefer **Infosys, HCLT, TECHM and TCS** in the large-cap space.

Sandip Agarwal
+91 22 6623 3474
sandip.agarwal@edelweissfin.com

Omkar Hadkar
+91 22 6620 3147
omkar.hadkar@edelweissfin.com

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Stock		Q4FY15E (INR mn)	Q4FY14 (INR mn)	Y-o-Y (%)	Q3FY15 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Cyient	Revenues	7,205	5,948	21.1	7,118	1.2	Organic USD revenue to be down by 6% due to 3.5% revenues preponed in Q3FY15 and balance due to cross currency impact. Integration od Rangsons Electronics (USD8mn) to lead to 1% QoQ growth in reported terms. EBITDA margin to dip 320bps QoQ cross currency (100bps), lower volumes (100bps) and absence of preponed revenues which were of higher margin. Cyient's demand outlook, commentary on deal pipeline, sustainability of the growth, demand oulook in semiconductor and DNO space to be keenly monitored.
	EBITDA	944	1,075	(12.2)	1,158	(18.5)	
	Core PAT	755	698	8.2	1,008	(25.1)	
e-Clerx	Revenues	2,490	2,169	14.8	2,416	3.1	Revenue growth to be 2.9% QoQ in USD terms driven by cable segment. EBITDA margin to inch up ~70bps on QoQ basis due to lower G&A. Demand outlook, particularly in BFSI space, cable business, commentary on budgets for next year, pricing and margin outlook for FY16 and integration of CLX Europe to be watched.
	EBITDA	855	929	(8.0)	811	5.4	
	Core PAT	635	645	(1.5)	608	4.4	
HCL Tech	Revenues	93,574	83,490	12.1	92,830	0.8	Expect HCL Tech to post revenue growth of 0.8% QoQ (3.6% in CC) largely driven by IMS and BPO. EBITDA margin is expected to dip by 100bps due to cross currency, wage hikes and ramp up of new deals and partially offset by operational efficiencies. Management commentary on demand environment in core software, deal wins, margin outlook for year and commentary on re-bid market need to be watched.
	EBITDA	22,430	22,320	0.5	23,190	(3.3)	
	Core PAT	17,834	16,240	9.8	19,160	(6.9)	
Hexaware	Revenues	7,200	5,889	22.3	7,118	1.2	USD revenue to grow of 1% QoQ and ~2.5% on CC basis. EBITDA margin to fall by 110bps cross currency and increase in SG&A expenses. Hexaware's outlook on the top 10 clients and deal wins and dividend policy are the key monitorable.
	EBITDA	1,351	1,133	19.2	1,418	(4.8)	
	Core PAT	996	703	41.7	939	6.1	
InfoEdge	Revenues	1,629	1,380	18.0	1,457	11.7	Revenue to grow 11.7% QoQ (seasonally strong quarter) and EBITDA margin to improve 90bps due lower spend on staff cost. Uptick in recruitment segment expected to continue. Real estate segment to continue to moderate. InfoEdge's commentary on matrimonial portal, traction in real estate segment, investee companies' performance and avenues for allocation of funds raised recently key monitorables.
	EBITDA	438	433	1.3	363	20.5	
	Core PAT	373	336	10.9	386	(3.6)	
Infosys	Revenues	138,800	128,750	7.8	137,960	0.6	Revenue growth of 0.4% QoQ in USD terms (2.4% in CC). EBITDA margins to be down 60bps QoQ largely due to cross currency impact. We expect Infosys to guide for 7-9% USD revenue growth guidance for FY16 (impying 9-11% in CC). Commentary on IT budgets, capital allocation plan, extent of investments in new initiatives and plan to tackle attrition.
	EBITDA	39,016	36,410	7.2	39,540	(1.3)	
	Core PAT	31,865	29,920	6.5	32,500	(2.0)	
Just Dial	Revenues	1,708	1,242	37.5	1,544	10.6	Revenue growth to be 7.3% QoQ driven by increase in campaigns. EBITDA margin to inch up ~50bps on QoQ basis due to lower G&A. Commentary on measures to increasue paid listings, pricing and traction in Search Plus will be keenly watched.
	EBITDA	478	374	28.0	501	(4.5)	
	Core PAT	388	342	13.8	321	20.9	
Persistent Systems	Revenues	5,050	4,467	13.0	4,946	2.1	USD revenue of 2.0% QoQ driven by IP-led business. Margin to expand by 20bps due to invetsments in R&D. Commentary on client budgets, deal pipeline, discretionary spend, contribution from IP-led revenue are key and any client specific issue remain the key monitorables.
	EBITDA	1,003	1,207	(16.9)	995	0.8	
	Core PAT	678	672	0.9	745	(8.9)	

Stock		Q3FY15E (INR mn)	Q3FY14 (INR mn)	Y-o-Y (%)	Q2FY15 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
TCS	Revenues	246,109	215,511	14.2	245,011	0.4	USD revenue growth of ~0.6% QoQ, impacted by 200bps cross currency movment, EBITDA margin to dip 50bps owing to cross currency impact and investments. Commentary on demand environment, IT budgets for next year, deal flows, margin levers available to offset cross currency fluctuations are key monitorables.
	EBITDA	69,716	66,534	4.8	70,531	(1.2)	
	Core PAT	54,096	52,967	2.1	54,441	(0.6)	
TechMahindra	Revenues	62,714	50,581	24.0	57,517	9.0	Organic revenues to decline 1.5% in USD terms (1.2% growth in CC). Integration of LCC (USD85mn) and Sofgen (USD2mn) to lead consolidated growth of 7.9%. EBITDA margin to dip 240bps QoQ due to wage hikes, cross currency impact, and integration of acquired businesses. Commentary on telecom vertical, large deal wins, IT spends for next year and margin levers at disposal will be keenly monitored.
	EBITDA	11,163	10,718	4.2	11,601	(3.8)	
	Core PAT	7,089	6,142	15.4	8,054	(12.0)	
Wipro	Revenues	119,074	116,535	2.2	119,929	(0.7)	Wipro to post USD revenue decline of 0.5% and 2.5% growth in CC. EBITDA margin estimated to dip by 40bps due to cross currency impact. Update on large deal wins, budgets for next year and demand outlook in energy and utilties vertical to be keenly tracked.
	EBITDA	26,368	28,180	(6.4)	27,029	(2.4)	
	Core PAT	20,942	22,265	(5.9)	21,928	(4.5)	

Valuation snapshot

		Mkt Cap	Price	P/E (x)		P/B (x)		RoE (%)		Div yld (%)	
	Reco	USD mn	(INR)	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E
eClerx Services	Hold	777	1,601	16.0	14.7	6.0	5.2	40.9	37.8	3.2	3.5
HCL Tech	Buy	21,162	941	7.9	6.9	2.1	2.0	29.8	29.7	3.0	3.4
Hexaware Technologies	Hold	1,505	312	19.2	17.3	7.1	6.2	39.5	38.6	3.2	3.2
Info Edge	Buy	1,613	839	42.8	33.6	5.7	4.9	14.3	15.8	0.2	0.2
Infosys Technologies	Buy	39,949	2,174	16.7	14.8	3.9	3.3	25.3	24.2	1.8	1.9
Just Dial	Buy	1,499	1,329	59.5	36.7	12.2	9.6	22.4	29.2	-	-
Cyient	Buy	924	514	11.3	9.3	2.5	2.1	24.7	24.6	1.9	1.9
Persistent Systems	Hold	960	750	15.8	14.2	3.7	3.2	24.9	24.1	2.4	2.5
Tata Consultancy Services	Buy	79,689	2,543	18.4	17.0	6.7	5.3	41.4	34.7	1.5	1.5
Tech Mahindra	Buy	9,725	633	4.0	3.5	1.1	0.9	30.2	27.5	0.0	0.0
Wipro	Buy	25,015	633	15.9	14.4	3.2	2.8	22.1	20.8	1.3	1.6

Note: #: Merged entity

**: Estimates exclude Non-IT business*

RESULT PREVIEW

MEDIA

Tepid quarter

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For Q4FY15, we expect our media universe to clock 4.8% YoY (4.1% YoY in Q3FY15) growth in revenue, while EBITDA is expected to decline 7.3% YoY (up 2.9% YoY in Q3FY15). Overall ad growth continues to remain soft in spite of expansion in gross margins of sectors like FMCG. Cable subscription revenue is expected to pick up marginally due to implementation of channel packaging on a small scale. Q4FY15 will clock the worst Q4 performance in multiplex business impacted by World Cup 2015. We expect our coverage companies to register flattish EBITDA margin. EBITDA margin of Zee TV is estimated to take a hit due to new GEC *(&TV)* launch. High content costs due to STAR's RIO deal will impact margin of MSOs. Hence, we expect our media universe to post 352bps YoY dip in margins in Q4FY15 (35bps YoY dip in Q3FY15).

Sales growth continues to be soft…

Though launch of new channel *&TV* will aid ad revenues for ZEE (for 1 month of Q4FY15), the World Cup 2015 impact will restrict the rise to 11% YoY (on higher base of 21.5%). Dish TV's subscription revenue will jump 21% YoY driven by strong subscriber growth (almost doubling net subscriber addition) and ARPU increase. Due to abysmal performance of movies and World Cup 2015 in Q4FY15, we expect decline in LTL footfalls for PVR cushioned by 5-6% LTL ATP growth. Good traction in prepaid model and channel packaging will boost Hathway's subscription revenue.

… and margin pressure to continue in Q4FY15

We expect margin decline for ZEE, PVR and DEN Networks. With only 1 tournament in Q4FY15, sport loss for ZEE is expected to be INR170-200mn. We expect *&TV* to post a loss of INR1,000-1,100mn, in turn hurting ZEE's margin. Newsprint prices continue to decline and will boost margins of print companies. Dish TV's continuous focus on digitisation in Phase III and IV areas will step up EBITDA margin. Apart from lower proportion of good content in Q4FY15, lower footfall due to World Cup 2015 will impact PVR's margin.

Outlook for the next 12 months

FY16 will be a muted year in terms of subscription revenue growth for broadcasters due to delay in digitisation. High content cost for MSOs will give some breathing space to DTH players to increase their ARPUs. MSOs will look to expand their broadband operations. Inorganic acquisitions are expected in multiplex industry, leading to further consolidation. With implementation of BARC, collection of viewership data from South India will increase, which is a potential positive for Sun TV and slightly negative for ZEE. Rebranding of *ETV Marathi* to *Color Marathi* is the key event to watch out for.

Top Picks

Dish TV, PVR and ZEE.

Abneesh Roy
+91-22-6620 3141
abneesh.roy@edelweissfin.com

Alankar Garude
+91-22-6623 3301
alankar.garude@edelweissfin.com

April 06, 2015

Stock		Q4FY15E (INR mn)	Q4FY14 (INR mn)	Y-o-Y (%)	Q3FY15 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
DEN Networks	Revenues	2,600	3,019	(13.9)	2,688	(3.3)	DEN's net realization has gone upto INR70 in December/January in Phase 2. We expect 0.17mn additional digital subscribers in Q4FY15 resulting in INR128mn activation revenue. Also, low subscription revenue growth, high content costs due to STAR's RIO deal, expansion in Phase III, broadband roll-out costs and TV commerce expense will hurt margins in Q4FY15.
	EBITDA	45	732	(93.9)	3	1,507.1	
	Core PAT	(600)	101	(697.0)	(626)	4.2	
Dish TV	Revenues	7,310	6,369	14.8	7,139	2.4	We expect 21% YoY growth on subscription revenue on a lower base of 10% YoY. Dish TV has taken price hike by 4-8% in February 2015. However due to lower number of days in February, we expect flattish ARPU QoQ. With Dish TV continuous focus on digitization in Phase 3 & Phase 4 markets and ZIng expansion into regional market bodes well for the company. Aided by high incremental market share, we expect EBITDA margin to expand in Q4FY15.
	EBITDA	1,883	1,289	46.0	1,912	(1.5)	
	Core PAT	(47)	(1,491)	96.8	(29)	(63.9)	
Hathway Cable & Datacom	Revenues	2,789	2,927	(4.7)	2,391	16.6	Hathway has introduced packages in Phase I and Phase II cities which has resulted in increase of ARPU to INR95 in Phase I market and INR68 in phase II market in Q3FY15 (Phase I market ARPU was INR90 and Phase II market ARPU was INR55 in Q2FY15). We expect 0.087mn subscribers addition in Q4FY15 (0.085mn in Q3FY15) and INR300mn one time revenue. With net realization further improving and good traction in broadband (Broadband ARPU was INR490 in Q3FY15 and INR440 in Q2FY15) is going to benefit Hathway.
	EBITDA	324	407	(20.4)	246	31.8	
	Core PAT	(511)	(493)	(3.7)	(580)	12.0	
PVR	Revenues	2,960	3,142	(5.8)	4,203	(29.6)	Movies like Baby, Roy and Badlapur did not perform as per expectations in Q4FY15. Contribution from PK was only for few days in Q4FY15 and was not significant. Traditionally, Q4 has been subdued due to school exams. With World Cup 2015, we expect occupancy rate to be ~21%. Therefore, we expect decline in LTL footfall in Q4FY15. LTL ATP growth will be ~5-6% YoY.
	EBITDA	122	331	(63.1)	831	(85.3)	
	Core PAT	(388)	7	(5,341.2)	316	(222.9)	
Sun TV	Revenues	5,585	5,202	7.4	5,524	1.1	We expect SUN TV to report 4-5% YoY ad growth on a higher base of 4.7 YoY growth in base quarter. DTH revenues would grow by 16.5% YoY in Q4FY15 (17.7% in Q3FY15; 20.0% in Q2FY15; 19.9% in Q1FY15). With Star India acquisition of Telugu network Maa Television, Sun needs to be careful of not losing its market share. However in near team, Sun needs to focus on increasing its ad revenues which is lagging for sometime.
	EBITDA	4,275	4,000	6.9	4,281	(0.1)	
	Core PAT	2,058	1,976	4.2	2,141	(3.9)	
Zee Entertainment	Revenues	12,536	11,588	8.2	13,637	(8.1)	Ad revenue is expected to grow at 11% YoY on a higher base of 21.5% in the base quarter. Domestic subscription revenue growth is likely to be in mid to high single digits. In Q4FY15, South Africa - West Indies cricket series and WWE special will mainly add to sports revenues. We expect sport losses of INR170-200mn. Content and marketing cost is expected to be higher due to launch of &TV (Hindi GEC) hurting EBITDA margins in Q4FY15.
	EBITDA	2,506	3,116	(19.6)	3,533	(29.1)	
	Core PAT	1,910	2,176	(12.2)	3,086	(38.1)	

Valuation snapshot

		Mkt Cap	Price	P/E (x)		P/B (x)		RoE (%)		Div yld (%)	
	Reco	USD mn	(INR)	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E
DEN Networks	Buy	347	122	38.5	14.8	1.2	1.1	3.1	7.6	0.0	0.0
Dish TV India	Buy	1,435	84	165.8	59.1	(29.3)	(58.0)	NA	NA	0.0	0.0
Hathway Cable & Datacom	Buy	660	50	NM	NM	4.2	4.2	(11.7)	(0.7)	0.0	0.0
PVR	Buy	444	669	22.6	19.7	4.9	4.0	24.1	22.4	0.3	0.4
Sun TV Network	Buy	2,875	456	19.3	15.8	4.8	4.2	25.8	28.2	2.6	3.2
Zee Entertainment Enterprise	Buy	5,238	341	36.3	24.7	8.2	6.7	28.5	33.2	0.6	1.1

RESULT PREVIEW

METALS AND MINING

Prices, premiums under pressure

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In Q4FY15, the Indian steel sector continued to be plagued by poor domestic demand (up ~1% YoY), rising imports (Apr-Feb FY15 up 67% YoY), subdued international steel prices (China HRC down ~33% YoY) and iron ore (down 48% YoY). Ergo, domestic steel prices too have been under pressure, with flat steel falling 10% YoY (~7% QoQ) longs declining 9% YoY (~5% QoQ). Accordingly, we expect our steel coverage universe to report ~7% YoY dip in volumes and a sharp 31% YoY decline in EBITDA. While prices of aluminium (AL) and zinc (Zn) are up by a marginal 5% and 3% YoY respectively, falling premiums will offset volume growth of Hindalco and Hindustan Zinc (HZL). In mining, while NMDC's EBITDA is estimated be bogged down by poor volumes and low iron ore prices, we expect Coal India to benefit from year-end incentives even as sales volumes may exhibit marginal ~4% YoY growth.

Key highlights of the sector during the quarter

Indian steel sector remained meek in Q4FY15 due to subdued domestic demand, sharp increase in imports and low international and domestic steel prices. The only respite for the steel players was the 12-15% QoQ correction in domestic iron ore prices (in line with correction in international prices). In the non-ferrous space, while prices of aluminium (down 8% QoQ, up 5% YoY) and zinc (down 7% QoQ, up 3% YoY) remained soft, falling aluminium/zinc premiums (down 9%/5% QoQ) will impact margins.

Result expectations for the sector and stocks under coverage

In the ferrous space, EBITDA of our coverage companies is expected to fall in the 12-26% range owing to low domestic steel prices, though partially negated by low iron ore prices. In non-ferrous, we expect ~7% YoY EBITDA growth for Hindalco following ramp up at aluminium smelters in Mahan and Aditya. HZL is expected to report ~13% QoQ dip in EBITDA impacted by soft zinc prices and falling premiums over LME. Sesa Sterlite is expected to report ~27% YoY drop in EBITDA as Cairn's performance is expected to be hit by lower crude prices. Low iron ore prices is expected to impact NMDC's profitability, while Coal India is expected to report ~12% YoY EBITDA growth on account of higher volumes and benefit of operational leverage.

Outlook over the next 12 months

Global macro indicators remain sluggish. While China steel prices are close to multi-year lows, we expect limited downside from current levels. In India, we anticipate steel demand to recover in FY16, but improvement in outlook hinges on global recovery in steel and iron ore prices. Riding deficits, we estimate zinc and aluminium prices to rise to USD2,300/t and USD2,000/t in FY16E, from current levels of USD2,072/t and USD1,781/t, respectively.

Top Picks

Hindalco, Sesa Sterlite and Coal India.

Navin Sahadeo
+91-22-6623 3473
navin.sahadeo@edelweissfin.com

Salvin Shah
+91 22 6623 3392
salvin.shah@edelweissfin.com

April 06, 2015

Stock		Q4FY15E (INR mn)	Q4FY14 (INR mn)	Y-o-Y (%)	Q3FY15 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Coal India	Revenues	208,599	199,980	4.3	177,629	17.4	Sales volume grew ~4%YoY to 135mt. Blended realisation is expected to be be flat on sequential basis. However, we expect incentive of INR8bn for FY15 to be reported in this quarter. EBITDA/t at INR423/t is expected to rise more than 50%QoQ on account of year end incentives though, cost/t is expected to remain flat.
	EBITDA	56,971	51,076	11.5	34,800	63.7	
	Core PAT	47,290	44,342	6.6	32,625	45.0	
Hindalco (Standalone)	Revenues	85,487	84,351	1.3	86,030	(0.6)	Expect ~40% YoY growth in Aluminium volumes as both the smelters, Mahan and Aditya ramp up. However, margins are expected to contract sequentially on account of low LME and premiums. Copper business is expected to report marginal QoQ drop on account of lower production though partially offset by strong Tc/Rc. As a result, we expect 7% YoY growth in EBITDA.
	EBITDA	9,039	8,441	7.1	9,233	(2.1)	
	Core PAT	2,995	6,441	(53.5)	3,594	(16.7)	
Hindustan Zinc	Revenues	38,006	36,427	4.3	38,531	(1.4)	Mined metal production is expected to jump ~32%YoY and 9% QoQ. Accordingly, integrated zinc and lead production is expected to grow 9% and 17%QoQ, respectively. Margins will be negatively impacted owing to correction in zinc (~7% QoQ) and lead(~10%QoQ) prices and singapore zinc premium.
	EBITDA	18,113	17,552	3.2	20,892	(13.3)	
	Core PAT	18,955	18,812	0.8	23,794	(20.3)	
JSPL (Consol)	Revenues	48,680	51,026	(4.6)	50,447	(3.5)	Expecting saleable steel volumes to be flat QoQ. Realisations are expected to drop ~4% QoQ in line with the steel prices. Standalone EBITDA is expected to fall ~26%QoQ. JPL generation and sale is expected to be stable.
	EBITDA	12,885	13,137	(1.9)	15,561	(17.2)	
	Core PAT	(21)	3,784	(100.6)	3,113	(100.7)	
JSW Steel (Consol)	Revenues	126,106	143,424	(12.1)	132,230	(4.6)	JSW steel's volumes are expected to be flat YoY and QoQ. However, realisations are expected to drop ~6%QoQ in line with steel prices. Some respite can be expected in iron ore cost as both, international and domestic iron ore prices have fallen significantly. Consequently, we expect ~17%QoQ decline in EBITDA/t
	EBITDA	19,571	25,286	(22.6)	22,957	(14.8)	
	PAT	830	4,828	(82.8)	3,289	(74.8)	
NMDC	Revenues	27,236	38,845	(29.9)	29,461	(7.6)	Sales volumes are expected to dip ~22% YoY. Domestic realisations are expected to fall ~12% sequentially owing to various price cuts taken by the company in Q4FY15. As a result, EBITDA/t is expected fall ~24% QoQ.
	EBITDA	15,572	24,697	(36.9)	19,482	(20.1)	
	PAT	13,615	19,621	(30.6)	15,930	(14.5)	
SAIL	Revenues	128,965	135,092	(4.5)	111,073	16.1	Volumes at 3.5mt are expected to remain flat YoY. Realisation are expected to drop ~6% QoQ in line with the fall in steel prices. With no significant respite on costs, EBITDA/t is expected to drop ~22% QoQ.
	EBITDA	11,666	12,598	(7.4)	12,081	(3.4)	
	Core PAT	4,743	4,526	4.8	5,791	(18.1)	
Sesa sterlite	Revenues	186,117	208,944	(10.9)	192,189	(3.2)	Lower crude price is expected to significantly affect Cairn's and thereby Sesa Sterlite's profitability. However, we expect benefit from ramp up in 325ktpa aluminium smelter at Balco. Copper business is expected to benefit from rising Tc/Rc charges. PLF at SEL is expected to improve marginally with no material improvement in tariffs.
	EBITDA	49,212	67,642	(27.2)	61,466	(19.9)	
	Core PAT	6,020	36,401	(83.5)	28,338	(78.8)	
Tata Steel (Consol)	Revenues	346,781	424,281	(18.3)	336,332	3.1	Domestic volumes are expected to dip ~6% YoY. Realisations are expected to drop sequentially in line with the steel price while iron ore cost should normalise to an extent as captive mines have started production leading to EBITDA/t of INR9.0/t, down ~3% QOQ. International business is expected to see YoY dip in volumes in both, TSE and SEA. While, we expect marginal improvement in TSE's margins, SEA's margins continue to suffer from low cost chinese imports.
	EBITDA	30,120	50,111	(39.9)	30,774	(2.1)	
	Core PAT	550	10,359	(94.7)	1,571	(65.0)	

Valuation snapshot

		Mkt Cap	Price	P/E (x)		P/B (x)		RoE (%)		Div yld (%)	
	Reco	USD mn	(INR)	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E
Coal India	Buy	36,687	363	13.6	11.5	4.6	4.0	36.5	37.1	4.4	4.7
Hindalco Industries	Buy	4,368	132	11.3	9.6	0.6	0.6	5.6	6.3	1.1	1.1
Hindustan Zinc	Buy	11,064	164	8.2	7.5	1.4	1.2	18.0	17.4	2.5	2.6
Jindal Steel & Power	Hold	2,277	156	5.9	4.9	0.6	0.5	10.7	11.7	1.0	1.0
JSW Steel	Hold	3,518	910	10.7	9.5	0.9	0.8	8.6	9.1	1.2	1.2
NMDC	Buy	8,161	129	8.8	8.4	1.4	1.3	17.0	16.5	5.6	5.6
Sesa Sterlite	Buy	9,020	190	15.5	11.1	0.7	0.7	4.8	6.4	2.1	2.4
Steel Authority of India	Reduce	4,639	70	13.9	7.9	0.7	0.6	4.7	8.0	2.8	2.8
Tata Steel	Hold	5,030	324	10.0	8.5	0.7	0.7	7.3	8.1	2.5	2.5

RESULT PREVIEW

PHARMACEUTICALS

Previous quarter dampeners still in play

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Q4FY15 earnings are likely to be remain impacted by: (i) emerging markets' (EM) currency headwinds —Europe/ Russia/ Ukraine/ Brazil/ South Africa/ Japan/ UK average Q3 currency depreciation versus INR (17% 44%/ 55%/ 17%/ 7%/ 13%/ 8%, respectively); and (ii) lack of meaningful ANDA approvals (except Lupin). US will remain the key growth driver, though slower (~6% versus 22% in 9mFY15) due to slowdown in ANDA approvals and impact of customer consolidation. India will remain strong on a low base (~18% growth). We estimate core revenue/EBITDA growth of 12%/12% for our coverage universe.

Emerging markets' headwinds may become more apparent

EM currency depreciation and geo-political issues will weigh on Q4FY15 results and could trigger further earnings downgrades similar to the downward revisions seen in the previous quarter (read "***The going gets tough***", dated February 27, 2015). EUR and EM currencies, particularly of Russia, Ukraine, Romania, Brazil and South Africa, have seen severe depreciation and companies like Dr. Reddy's, Glenmark, Ranbaxy Laboratories, Torrent Pharma and Ipca are likely to reel under higher pressure.

ANDA approvals key monitorable

As highlighted by us recently (***Waning ANDA approvals pace***, dated December 18, 2014), all companies are facing significant slowdown in ANDA approvals. If the approval rates doesn't pick up, US growth could get hurt in the near as well as long term. In the past ~5-6 months, approval rates for all companies (except Lupin) have been dismal.

Cipla, Cadila likely to report strong earnings growth

We expect Cipla and Cadila Healthcare (Cadila) to report strong earnings, while Ipca Laboratories' (reeling under Import alert and halt of institutional business) earnings could be soft. For **Sun Pharma**, Ranbaxy's steady improvement in base margin will continue and Taro will report strong numbers. For **Cadila,** steady rise in base margin will be led by US, as operating leverage plays out. Transformation of **Cipla** is underway and margins could rise. **Aurobindo Pharma's** business integration may hurt margins. **Torrent Pharma** will record strong inorganic growth, but US/Brazil may remain sluggish. As for **Dr Reddy's/Glenmark,** rouble/real depreciation could hurt business.

Outlook: Downgrades to continue

Q3FY15 earnings witnessed downgrades across the sector after a long time. While we expect strong growth in India to continue for our coverage companies, EM currency impact will start showing FY16 onwards. But, we expect Indian pharma companies to navigate these risks, while company-specific risks become more apparent.

Top Picks

Cipla and Sun Pharmaceutical. We prefer large caps over mid caps owing to earnings concentration risks and low valuation gap.

Anshuman Gupta
+91 22 6623 3399
anshumanm.gupta@edelweissfin.com

Rahul Solanki
+91 22 6623 3317
rahul.solanki@edelweissfin.com

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Stock		46701.78 (INR mn)	44505.8 (INR mn)	4.934133 (%)	43765 (INR mn)	6.710329 (%)	Key highlights and things to watch out for
Apollo Hospitals	Revenues	11,866	10,501	13.0	12,665	(6.3)	EBITDA margin to remain under pressure YoY basis due to commisioning of new projects; expecting steady growth across hospital clusters and continued improvement in margin for the pharmacy business.
	EBITDA	1,811	1,607	12.7	1,912	(5.3)	
	Core PAT	823	718	14.7	875	(5.9)	
Aurobindo	Revenues	30,962	23,298	32.9	31,662	(2.2)	Debt level and EBITDA margin will be a key monitorable as Europe business turnaround is in progress. Margins could see a major swing owing to acquired European business.
	EBITDA	6,168	7,323	(15.8)	5,763	7.0	
	Core PAT	4,271	4,741	(9.9)	4,012	6.5	
Cipla	Revenues	26,595	24,293	9.5	26,247	1.3	Expect growth momentum in exports & India to continue; Margins expected to continue rising on the back of niche launches (Advair tenders in Germany).
	EBITDA	5,921	4,093	44.7	5,538	6.9	
	Core PAT	3,128	2,607	20.0	3,279	(4.6)	
Cadila Healthcare	Revenues	23,149	19,163	20.8	21,595	7.2	Expect pick up in margin driven by operating leverage - strong growth in US led by authorised generic products & steady India - expect Consumer, Brazil, EU & JV sales to remain muted.
	EBITDA	4,913	3,610	36.1	4,338	13.3	
	Core PAT	3,210	2,621	22.5	2,780	15.5	
Divi's Laboratories	Revenues	8,148	7,406	10.0	7,911	3.0	Steady growth, as new units ramp up. Margins may show a positive surprise.
	EBITDA	2,895	2,704	7.0	2,783	4.0	
	Core PAT	2,272	1,931	17.7	2,206	3.0	
Dr Reddy's	Revenues	38,135	34,809	9.6	38,431	(0.8)	We expect US to be marginally up QoQ in constant currency. India expected to grow at above industry growth rates. Expect some revival in PSAI on both revenues and margins. We expect last currency hedges to salvage Russia/ CIS during Q4FY15.
	EBITDA	8,430	7,360	14.5	8,586	(1.8)	
	Core PAT	5,354	4,644	15.3	5,323	0.6	
Glenmark Pharma	Revenues	17,324	16,788	3.2	16,921	2.4	US generics growth expected to remain soft. We expect India/ LatAm to grow well, but Russia/ CIS to be weak despite Inhaler launch. Margin could be weak as Russian market suffers.
	EBITDA	2,872	3,816	(24.7)	2,657	8.1	
	Core PAT	1,286	2,048	(37.2)	1,148	12.0	
IPCA Laboratories	Revenues	6,327	7,496	(15.6)	7,407	(14.6)	Likely to be a disappointing quarter as Institutional business has been halted until Athal and Ratlam get clearance. India likely to be the only beacon of hope as EBITDA margin suffers.
	EBITDA	735	1,823	(59.7)	1,211	(39.3)	
	Core PAT	240	1,227	(80.4)	483	(50.2)	
Lupin	Revenues	31,480	30,886	1.9	31,449	0.1	India, Japan, etc. to remain steady. US branded business may have an upside to the US number. Margin may be down slightly QoQ as currency headwinds kick in.
	EBITDA	9,082	9,347	(2.8)	9,102	(0.2)	
	Core PAT	5,886	5,976	(1.5)	5,846	0.7	
Sun Pharma	Revenues	69,996	64,947	7.8	68,829	1.7	First quarter with Ranbaxy consolidated to earnings, hence inherited Forex derivatives from Ranbaxy could swing Earnings (we estimate EBITDA of INR20.3bn and INR 2.8bn from Sun and Ranbaxy entity respectively). Taro price increases to drive strong results, and revival of . Base EBITDA margin assumption of 11% for Ranbaxy.
	EBITDA	23,118	19,516	18.5	21,739	6.3	
	Core PAT	10,890	15,955	(31.7)	9,863	10.4	
Torrent Pharmaceuticals	Revenues	11,380	12,070	(5.7)	11,560	(1.6)	US to be down QoQ (~USD25mn). We expect Brazil to grow 7% YoY. We estimate India to post ~16% base business growth - sharp jump in reported growth due to consolidation of acquired Elder's brands. EBITDA margin to improve on the back of price hikes taken in Elder brands.
	EBITDA	2,483	3,650	(32.0)	2,400	3.5	
	Core PAT	1,165	2,557	(54.5)	1,248	(6.7)	

Valuation snapshot

	Reco	Mkt Cap USD mn	Price (INR)	P/E (x) FY16E	P/E (x) FY17E	P/B (x) FY16E	P/B (x) FY17E	RoE (%) FY16E	RoE (%) FY17E	Div yld (%) FY16E	Div yld (%) FY17E
Apollo Hospitals Enterprise	Buy	3,094	1,390	35.8	29.1	5.9	5.0	17.7	18.5	0.3	0.3
Aurobindo	Hold	5,828	1,247	18.2	15.7	5.0	3.8	31.6	27.5	0.1	0.1
Cadila Healthcare	Buy	5,865	1,790	22.4	18.3	6.0	4.6	31.7	29.5	0.4	0.4
Cipla	Buy	9,117	710	28.9	20.4	4.4	3.7	16.3	19.8	0.4	0.6
Divi's Laboratories	Reduce	3,828	1,802	23.8	19.9	6.3	5.4	28.3	29.3	1.4	1.4
Dr Reddy Labs	Buy	9,629	3,534	22.5	18.5	4.6	3.9	22.4	22.9	1.0	1.3
Glenmark Pharmaceuticals	Buy	3,422	788	20.5	16.3	4.5	3.6	24.5	24.7	0.4	0.5
IPCA Laboratories	Reduce	1,299	643	18.8	15.0	3.2	2.7	18.3	19.7	1.0	1.2
Lupin	Buy	14,654	2,038	29.6	24.9	7.8	6.1	29.9	27.5	0.3	0.4
Sun Pharma	Buy	35,828	1,081	29.5	25.4	7.4	6.0	28.1	26.2	0.7	0.7
Torrent Pharmaceuticals	Hold	3,237	1,196	22.2	16.5	6.4	5.0	32.6	34.1	1.0	1.3

RESULT PREVIEW

REAL ESTATE

Residential markets in pain; office markets gain

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Barring good response to select project launches of leading developers and improvement in secondary markets in Mumbai, Q4FY15 largely continued the weak trend evident in Q3FY15. Bengaluru, a bright spot earlier, weakened further. Pricing, likewise, remained under pressure in most markets. On the brighter side, office markets are evincing improved demand and pricing. Listed space earnings are, however, likely to grow driven by select residential projects hitting revenue recognition threshold for key players, except Sobha Developers (Sobha) and Oberoi Realty (Oberoi). Developers' ability to adjust product/prices, garner volumes and manage balance sheets will be key monitorables in coming quarters. Sobha is our top pick in the real estate space.

Few causes to cheer amidst pervasive gloom

Bengaluru, which had shown initial signs of weakening in Q3FY15, is likely to continue to deteriorate, adding to the gloom of weak Mumbai and NCR markets. While secondary markets in Mumbai have improved, operational performance of players is likely to be sporadic / launch based instead of a general broad-based activity—while DLF is expected to report strong pre-sales in *DLF Phase V*, Oberoi may report robust volumes riding launch of its Mulund project. Mumbai continues to remain a largely selective market characterised by preference for quality names / completed projects with overall volumes remaining subdued, while demand in NCR remains anemic.

Project specific factors to drive revenue

Godrej Properties, Kolte Patil Developers and Mahindra Lifespaces are expected to report QoQ / YoY increase in revenues led by new projects hitting the threshold, while DLF is likely to report revenue surge on *Camellias'* sales recognition. While Oberoi is expected to report a largely stable quarter, Sobha's revenue may decline QoQ as fewer projects hit the revenue recognition threshold.

Outlook over the next 12 months

Consumer demand remains weak, worsened by overhang of investor sales in secondary markets. Demand recovery in primary markets hinges on investor inventory getting liquidated, which we believe is 2-3 quarters away. Developers' ability to flexibly price products, garner volumes and prudently manage balance sheets remain key monitorables. Though Bengaluru has weakened, it remains a preferred market.

Top Picks

Sobha Developers.

Aashiesh Agarwaal, CFA
+91-22- 4063 5491
aashiesh.agarwaal@edelweissfin.com

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Stock		Q4FY15E (INR mn)	Q4FY14 (INR mn)	Y-o-Y (%)	Q3FY15 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
DLF	Revenues	22,756	19,695	15.5	19,567	16.3	While NCR markets are extremely sluggish, DLF is expected to report good financial performance based on management commentary of strong presales achieved in luxury housing projects - Crest / Camellias. Debt reduction remains a key monitorable for the company
	EBITDA	10,038	3,630	176.5	7,951	26.3	
	Core PAT	2,245	1,907	17.7	1,217	84.5	
Godrej Properties	Revenues	5,456	4,292	27.1	5,193	5.1	Godrej Properties is expected to follow up a strong Q3FY15 with an equally strong Q4, as revenues are booked from high pre-sales in Godrej BKC achieved in Q3FY15 (but could not be recognised), and from Godrej Central expected to hit the revenue recognition threshold. Debt movement remains the key monitorable.
	EBITDA	869	759	14.6	640	35.8	
	Core PAT	661	565	16.9	641	3.2	
Jaypee Infratech	Revenues	7,984	7,651	4.4	8,632	(7.5)	JPIN is expected to report a largely stable quarterly performance as profitability drivers - volumes in NCR and execution on Noida parcel remain muted. Key monitorables are debt reduction and volumes for the company.
	EBITDA	3,286	2,561	28.3	3,566	(7.9)	
	Core PAT	867	132	557.3	969	(10.5)	
Kolte-Patil Developers	Revenues	2,510	1,711	46.7	2,205	13.8	Revenues are expected to rise sequentially as Kolte-Patil's Kondhwa project - Three Jewels - hits revenue recognition threshold. Volumes during the quarter are expected to surge on the back of Nest Fest. However, the same will translate into financial performance only in the coming quarters. Cash collection is a key monitorable in the quarter.
	EBITDA	669	397	68.7	661	1.3	
	Core PAT	272	151	80.4	330	(17.5)	
Mahindra Lifespaces	Revenues	2,588	1,894	36.7	2,388	8.4	Revenues are expected to rise sequentially on affordable housing project in Boisar hitting revenue recognition threshold and phases of Ashvita and Bloomdale get completed. New project acquisitions remain the key monitorable in MLIFE.
	EBITDA	776	259	199.1	670	15.8	
	Core PAT	577	311	85.2	418	38.0	
Oberoi Realty	Revenues	2,292	2,206	3.9	2,171	5.6	Q4FY15 is expected to be a largely stable quarter for Oberoi Realty on a sequential basis, with no major projects hitting revenue recognition threshold, and volumes expected to be softer compared to Q3FY15. Volumes remain a key monitorable, while Prisma hitting revenue recognition presents upside risk to our estimates.
	EBITDA	1,335	1,254	6.4	1,266	5.5	
	Core PAT	919	770	19.3	792	16.0	
Sobha Developers	Revenues	6,133	6,267	(2.1)	6,844	(10.4)	Revenues are expected to decline sequentially as fewer projects are expected to hit the revenue recognition threshold. Performance of Sobha's Aspirational Homes project and the management's volume guidance are key monitorables for the company.
	EBITDA	1,536	1,712	(10.3)	1,541	(0.3)	
	Core PAT	604	686	(12.0)	654	(7.7)	

Valuation snapshot

		Mkt Cap	Price	P/E (x)		P/B (x)		RoE (%)		Div yld (%)	
	Reco	USD mn	(INR)	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E
DLF	Hold	4,553	160	30.3	21.0	1.0	1.0	3.4	4.9	1.8	1.8
Godrej Properties	Hold	825	259	13.9	8.1	2.3	1.9	17.5	25.4	1.4	2.5
Jaiprakash Associates	Hold	975	25	20.0	9.7	0.5	0.5	2.3	4.6	0.3	0.3
Jaypee Infratech	Buy	382	17	12.9	18.5	0.4	0.4	3.0	2.1	5.8	5.8
Kolte-Patil Developers	Buy	283	233	10.1	5.6	1.6	1.3	17.3	25.4	2.5	4.5
Mahindra Lifespace Developers	Hold	315	480	7.5	5.1	1.2	1.0	16.8	21.5	3.1	4.6
Oberoi Realty	Buy	1,491	284	7.5	4.6	1.6	1.2	23.5	29.5	1.1	1.8
Sobha Developers	Buy	627	400	8.6	5.7	1.4	1.1	17.0	21.9	2.0	3.1

RESULT PREVIEW

RETAIL

Sales trajectory to be muted

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Q4FY15 was characterised by slack demand. Due to absence of gold deposit schemes (present in base quarter) growth in gold jewellery appears optically lower. Expectations of duty cut on gold led to weak jewellery sales in February. We expect Titan Company (Titan) to clock revenue growth of ~9% YoY. Shoppers Stop's (SSL) same store sales growth (SSG) is likely to remain subdued owing to overall slowdown and onslaught of online retail. We are yet to see any material improvement in demand in the QSR space. Future Retail's (FRL) *Big Bazaar* is likely to clock double digit SSG and sustain ~11% margin led by higher fashion mix. We anticipate discretionary spending to recover in FY16.

Key highlights of the sector during the quarter

Jewellery sales remained soft during the quarter, especially due to expectations of cut in gold imports. Gold prices are up ~3-5% YoY. The government introduced gold monetisation scheme to replace existing gold metal loans and gold deposit schemes, details of which are likely to be announced in Q1FY16. End of season sales evinced good response in January, though sales were soft in February and March. Consumer spending in the QSR space continued to be soft and promotions were high.

Result expectations for stocks under coverage

We expect Titan's studded jewellery share at ~38% as gold jewellery sales will be impacted by inclusion of GHS in the base quarter. Watches growth is likely to be flattish YoY (on a high base of 19.5% YoY; -1.9% YoY in Q3FY15) owing to continued pressure from online retail. Margins are likely to improve QoQ as benefits of international hedging and higher studded share come into play. In SSL's departmental format, we expect ~5% SSG driven by sale season (on base of 8.4%) and expect high single digit LTL growth in *HyperCity* (low base of -1% YoY). Aided by low base (-3.4%), we expect SSG for Jubilant Foodworks to be 2% YoY (1.9% in Q3FY15 on base of -2.6%); gross margins likely to remain at ~75% led by benign cheese prices. Higher fashion mix will aid FRL's EBITDA margin improvement (expect 70bps YoY expansion). Interest expense is likely to be lower QoQ as rights issue money (INR16bn) was used to pay some debt (only 1 month benefit).

Outlook over the next 12 months

We expect jewellery demand to improve in FY16 when impact of revised GHS comes into play further aided by robust marriage season. We expect SSG in value, lifestyle and QSR also to look up as discretionary spending revives. We will closely monitor the strategy of online players and adoption of omni-channel strategy by physical retailers going ahead.

Top Picks

Titan Company, Shoppers Stop.

Abneesh Roy
+91 22 6620 3141
abneesh.roy@edelweissfin.com

Pooja Lath
+91 22 6620 3075
pooja.lath@edelweissfin.com

Tanmay Sharma
+91 22 4040 7586
tanmay.sharma@edelweissfin.com

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Stock		Q4FY15E (INR mn)	Q4FY14 (INR mn)	Y-o-Y (%)	Q3FY15 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Jubilant Foodworks	Revenues	5,283	4,337	21.8	5,545	(4.7)	Consumer spends in the QSR space continues to be soft and promotions remain high. Aided by low base (-3.4%), we expect SSG for JFL to be 2% YoY (1.9% in Q3FY15 on a base of -2.6%). Gross margins likely to remain at ~75% led by benign cheese prices.
	EBITDA	666	557	19.5	728	(8.6)	
	Core PAT	283	250	13.3	351	(19.5)	
Future Retail	Revenues	26,500	23,451	13.0	26,547	(0.2)	Value retail SSG likely to be ~11% YoY (Dec quarter saw 10.1% YoY). Higher fashion mix will aid margin improvement; we expect 70bps YoY EBITDA amrgin expansion. Interest expenses will be lower QoQ as rights issue money (INR16bn) was used to pay some debt in February (one month benefit).
	EBITDA	2,915	2,408	21.1	3,087	(5.6)	
	Core PAT	68	18	277.8	53	28.3	
Shoppers Stop (Standalone)	Revenues	8,681	7,905	9.8	8,140	6.6	In departmental format, we expect ~5% SSG driven by the sale season (on base of 8.4%; in Q3FY15 SSG was 0.8% on base of 5.5%). End of season sales saw good response though February and March witnessed soft sales. We expect high single digit LTL growth in HyperCity (low base of -1% YoY; 6.5% in Q3FY15 on a base of 7%).
	EBITDA	451	379	18.9	536	(15.8)	
	Core PAT	98	81	20.9	138	(28.9)	
Titan	Revenues	30,529	28,034	8.9	29,225	4.5	Jewellery sales expected to grow 9% YoY (11.2% in Q3FY15 on a base of 16% decline; 3.1% YoY in Q4FY14) with studded jewellery share at ~38% (26% in Q3FY15, 37% in Q4FY14) as gold jewellery sales will be impacted due to inclusion of GHS in the base quarter, weak sales in February due to expected cut in gold import duty and flattish gold prices YoY. Watches growth to be flattish YoY (on a high base of 19.5% YoY; declined 1.9% YoY in Q3FY15 on a base of 6.6% YoY growth) owing to continued pressure from online retail. Margins to improve QoQ as benefits of international hedging and higher studded share come into play.
	EBITDA	3,022	2,966	1.9	2,758	9.6	
	Core PAT	2,202	2,195	0.3	1,907	15.5	
Wonderla Holidays	Revenues	385	339	13.6	474	(18.8)	We expect Wonderla Holidays to witness decline in footfall by close to 1% affected by the impact on the footfalls from the school picnics (Q3FY15 saw footfall decline of 1.2%). April however is expected to see better footfalls driven by long weekends. PAT growth is higher due to increased other income because of the cash form IPO.
	EBITDA	151	142	6.3	209	(27.8)	
	Core PAT	89	72	23.6	128	(30.5)	

Valuation snapshot

		Mkt Cap	Price	P/E (x)		P/B (x)		RoE (%)		Div yld (%)	
	Reco	USD mn	(INR)	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E
Jubilant Foodworks	Buy	1,549	1,477	51.8	35.5	11.3	8.6	24.5	27.5	0.0	0.0
Wonderla Holidays	Buy	239	265	25.4	21.3	3.7	3.3	15.4	16.2	0.8	0.8
Future Retail	Hold	654	102	55.7	NA	0.7	NM	1.2	NA	0.0	0.0
Shoppers' Stop	Buy	548	411	100.2	81.3	6.5	6.2	6.6	7.8	0.3	0.4
Titan Company	Buy	5,546	390	33.9	27.8	9.3	7.7	30.2	30.2	0.9	1.1

RESULT PREVIEW

TELECOM

Expect volume-led growth

India Equity Research | Strategy

Edelweiss
Ideas create, values protect

Bharti Airtel's (Bharti's) India business and Idea Cellular (Idea) are estimated to report 4.3% and 5.9% revenue growth riding volume surge. However, Bharti's Africa business will be battling currency headwinds and is likely to report 4.9% decline in USD terms. EBITDA margins for Bharti and Idea are expected to improve 60bps and 50bps, respectively, due to fall in diesel prices and operating leverage. Management commentaries on capex outlook for FY16, plans for monetisation of spectrum acquired in the auction, competitive intensity and outlook on voice realisation and data growth will be key things to watch.

Strong subscriber growth to aid volumes

Bharti and Idea have added 5.9mn and 4.9mn subscribers, respectively, in Jan-Feb 2015. Aided by the strong subscriber addition, we anticipate volumes to surge during the quarter. We have built in volume growth of 3.3% and 5.0% for Bharti and Idea, respectively. Voice RPMs are expected to increase 0.5% and 0.2% QoQ for Bharti and Idea, respectively.

Currency headwinds for Bharti's Africa Business

We expect **Bharti** to clock voice RPM of INR0.367 (INR0.365 in Q3FY15) and average MOU of 423 (423 in Q3FY15). The company's India business is likely to post revenue of INR170.9bn, implying 4.3% QoQ growth, and EBIDTA margin of 38.6% (INR66bn) versus 38.3% in Q3FY15. Bharti's Africa revenue will be impacted by appreciation of USD against most of the local currencies, especially 12.5% appreciation against Nigeria. We estimate the Africa business to clock overall revenue of USD1.04bn (down 4.9% QoQ) and EBIDTA margin of 22.3% (up 46bps QoQ). **Idea** is likely to post consolidated revenue of INR84.9bn (up 5.9% QoQ), voice RPM of INR0.355 (up 0.2% QoQ) and average MOU of 396 (387 in Q3FY15); we expect its EBITDA margin to inch up 51bps QoQ to 34.8% during the quarter.

Outlook: FY16 capex outlook to be key monitorable

With conclusion of spectrum auction, telcos have much better visibility on their spectrum footprint. With data growth picking up and many operators readying for 4G, we believe there could be an increase in capex intensity. Hence, FY16 capex outlook will be the key monitorable. With incumbents garnering maximum spectrum in 900MHz band, we expect industry consolidation to accelerate. Going forward, we expect improvement in voice realization and data growth to be key drivers of revenue and earnings growth.

Top Picks

Bharti Airtel, Idea Cellular.

Sandip Agarwal
+91 22 6623 3474
sandip.agarwal@edelweissfin.com

Pranav Kshatriya
+91 22 4040 7495
pranav.kshatriya@edelweissfin.com

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Stock		Q4FY15E (INR mn)	Q4FY14 (INR mn)	Y-o-Y (%)	Q3FY15 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
BHARTI	Revenues	235,902	222,193	6.2	232,171	1.6	We expect Bharti to report 1.6% revenue growth driven by 4.3% growth in India business (INR 171bn) while Africa revenue is likely to be muted. We expect Africa revenue to decline by 4.9% in USD terms (USD 1.04bn) as Nigerian currency has depreciated by 12.5% QoQ against USD, while other currencies have also taken a hit. EBITDA margin is expected to improve by 63 bps to 34.1% as lower diesel prices will lead to lower network cost. Commentary on pricing enviornment, demand for data growth and capex plans for FY16 would be the key things to watch.
	EBITDA	80,485	72,654	10.8	77,747	3.5	
	Core PAT	14,994	9,616	55.9	14,365	4.4	
Idea	Revenues	84,909	70,438	20.5	80,175	5.9	Idea is likely to report 5.9% QoQ revenue growth to INR 84.9bn driven by 5% volume growth and strong data grwoth. We expect EBITDA margin to improve by 51bps QoQ to 34.8% during the quarter on lower diesel prices. Commentary on pricing enviornment, demand for data growth and capex plans for FY16 would be the key things to watch.
	EBITDA	29,588	22,302	32.7	27,526	7.5	
	Core PAT	8,584	5,897	45.5	7,670	11.9	
RCOM	Revenues	55,825	56,708	(1.6)	54,690	2.1	We expect RCOM to report 2.1% revenue growth to INR 55.8bn driven by 1.1% volume growth. Management's commentary on plan for debt reduction, plans for circles where it has lost spectrum and capex for FY16 will be key things to look for.
	EBITDA	19,005	18,516	2.6	18,505	2.7	
	Core PAT	2,245	1,555	44.4	2,011	11.6	

Valuation snapshot

		Mkt Cap	Price	P/E (x)		P/B (x)		RoE (%)		Div yld (%)	
	Reco	USD mn	(INR)	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E
Bharti Airtel	Buy	25,731	402	20.0	20.1	2.2	2.0	11.7	10.4	0.2	0.4
Idea Cellular	Buy	10,918	190	NA	NA	2.6	2.3	12.3	10.8	0.2	0.2
Reliance Communications	Hold	2,417	61	12.6	9.2	0.4	0.4	3.5	4.6	0.4	0.4

RESULT PREVIEW

UTILITIES

Awaiting coal auction manna

India Equity Research | Strategy

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Successful coal block auctions, albeit with aggressive bids, sharpened focus on Coal India's (CIL) output and the government's move to address gas supplies for power sector should improve fuel scenario. However, for the quarter under review earnings growth in power will be sedate, while it is expected to be good in the ports & airports segment. The government is putting in efforts to revive the investment cycle, especially in the infrastructure sector. Companies in the process of deleveraging should be able to regain shape and focus. We continue to prefer NTPC and JSW Energy from IPPs stable with Adani Enterprises (AEL) as a mining play.

Key highlights of sector during the quarter

The aggression in the coal auctions process was extremely high wherein developers have offered to pay a premium (after foregoing mining costs in tariff) to secure long-term coal supplies. Developers will now look to make up for the under-recovery in fuel costs partly by quoting higher fixed charges in ensuing PPAs and by way of 15% capacity on merchant sales. The Cabinet also approved a scheme to bailout the stranded gas based capacity in the country, although finer details on the same are awaited. Further, consolidation among developers continues as companies, under pressure from banks, sharpen focus on pruning debt. CIL has registered healthy increase in output and remains upbeat on the targets going into FY16 which should improve supplies for plants.

Result expectations for the sector and stocks under coverage

Among generation companies, we expect some earnings uptick in NTPC in a seasonally strong quarter on improved availability and PLF. PowerGrid's earnings will trend higher with robust commissioning. Adani Power, despite accounting for the compensatory tariff (CT) partly cushioning earnings, will continue to report losses. Tata Power (does not account for CT) will continue to face earnings pressure due to continued Mundra losses and subdued coal prices. But the same is expected to aid JSW Energy's earnings due to lower fuel costs for its imported coal-based plants, while it continues to benefit from elevated merchant prices in the South in a peak season. For the quarter, gas supply to power plants remains a problem, leaving few assets of Lanco, GVK and GMR stranded. PTC India's could post flat earnings on tepid volume growth. CESC should report healthy profits on receiving tariff approval from the regulator. Good traffic growth at ports and airports should augur well for their respective earnings.

Outlook over the next 12 months

With the Coal Ministry taking adequate steps to step-up coal supplies for power sector and successful coal block allocations, faster resolution of CT, distribution sector reforms post the restructuring plan to aid revival in demand and subsequent bids for PPA signing are some eagerly awaited developments, which should revive interest.

Top Picks

NTPC, JSW Energy and Adani Enterprises; **Avoid:** Gujarat Pipavav Port.

Shankar K
+91-22- 4040 7412
shankar.k@edelweissfin.com

Santosh Hiredesai
+91 22 6620 3027
santosh.hiredesai@edelweissfin.com

April 06, 2015

Stock		Q4FY15E (INR mn)	Q4FY14 (INR mn)	Y-o-Y (%)	Q3FY15 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Adani Power	Revenues	48,715	59,965	(18.8)	55,041	(11.5)	Expect losses to continue despite the compensatory tariff booking across each of the PPAs. However, improvement in operational performance could see some reduction in losses.
	EBITDA	17,095	27,510	(37.9)	17,590	(2.8)	
	Core PAT	(4,627)	(7,986)	42.1	(4,287)	(7.9)	
Adani Enterprises	Revenues	165,376	161,710	2.3	178,498	(7.4)	Steady coal trading volumes and margins will drive earnings. Contribution from ports subsidiary to largely offset the losses to be reported by the power subsidiary having mininm impact on earnings. Extent on further monetary support to Adani Power is a key monitorable
	EBITDA	31,522	41,003	(23.1)	34,905	(9.7)	
	Core PAT	2,103	3,288	(36.1)	4,438	(52.6)	
Adani Ports & SEZ	Revenues	15,493	11,159	38.8	15,463	0.2	Volume uptick across each of the port businesses should drive earnings for the quarter. With improvement in utilisation levels expect margins also to start looking up at consolidated level.
	EBITDA	9,986	6,611	51.1	9,602	4.0	
	Core PAT	4,986	4,140	20.4	4,433	12.5	
CESC	Revenues	11,555	12,460	(7.3)	12,490	(7.5)	Tariff approval for the year received during the quarter should help the company recoup past under-recovery to report regulated earnings. Clarity on tariff / merchant sales from the coal block won under auction route will hold key for future earnings. Dhariwal PPA and Spencer losses are key monitorables
	EBITDA	3,881	4,540	(14.5)	2,990	29.8	
	Core PAT	1,985	2,430	(18.3)	1,110	78.8	
GMR Infrastructure	Revenues	22,261	24,530	(9.2)	22,254	0.0	Impact on profitability due to lower gas supply for gas based power plants as well as traffic growth in airports and road assets are the key monitorable
	EBITDA	7,029	6,913	1.7	7,011	0.3	
	Core PAT	(5,716)	(5,783)	1.2	(6,083)	6.0	
Gujarat Pipavav Port	Revenues	1,731	1,562	10.8	1,845	(6.2)	Expect flat QoQ container volume growth for the quarter. Bulk and liquid volumes to be key drivers for earnings. Margins could see an uptick on the back of higher liquid volumes and mix of cargo handled.
	EBITDA	938	916	2.4	1,005	(6.7)	
	Core PAT	864	566	52.5	893	(3.3)	
JSW Energy	Revenues	22,665	20,583	10.1	23,808	(4.8)	Expect robust peformance in a seasonally strong quarter on high demand for merchant power and thereby higher price. Subdued coal prices to keep the generation costs under check. Further, the regulated business to report steady earnings.
	EBITDA	10,026	7,215	39.0	9,742	2.9	
	Core PAT	3,986	1,746	128.3	3,802	4.8	
Lanco Infratech	Revenues	23,257	27,623	(15.8)	21,815	6.6	Profitability of operational projects in light of resolution of infra/fuel availability/other related issues needs to be watched. Also, recovery of receivables in operational projects and progress on under construction projects needs to be monitored
	EBITDA	5,574	2,372	135.0	5,097	9.4	
	Core PAT	(3,968)	(4,373)	9.3	(4,369)	9.2	
NTPC	Revenues	212,366	209,381	1.4	187,390	13.3	While project commercialisation was subdued for the quarter improvement in PLF and PAF should help in recovery of past under-recovery and also improve incentives/efficiency gains that could benefit earnings.
	EBITDA	47,296	45,426	4.1	46,597	1.5	
	Core PAT	24,979	29,887	(16.4)	23,122	8.0	
Power Grid	Revenues	46,747	39,863	17.3	43,536	7.4	Expect commissioning to remain strong for the quarter that could drive earnings. Future outlook on pipeline capex and commissioning activity remains key going forward.
	EBITDA	40,161	34,032	18.0	37,696	6.5	
	Core PAT	13,760	11,533	19.3	12,989	5.9	

Stock		Q4FY15E (INR mn)	Q4FY14 (INR mn)	Y-o-Y (%)	Q3FY15 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
PTC	Revenues	27,472	28,486	(3.6)	28,232	(2.7)	Stability in short term volumes will be key for earnings. Margins should continue to improve on increasing share of long term and cross border trades. Upticky if any in tolling volumes could aid earnings.
	EBITDA	357	954	(62.5)	502	(28.8)	
	Core PAT	304	332	(8.6)	285	6.6	
Reliance Infra.	Revenues	27,588	27,099	1.8	27,308	1.0	Declining order book, which has impacted revenue visibility, is a concern. Margin of the EPC division also needs to be tracked
	EBITDA	5,024	4,790	4.9	4,822	4.2	
	Core PAT	3,495	4,097	(14.7)	4,059	(13.9)	
Tata Power	Revenues	91,465	88,445	3.4	88,066	3.9	Mundra losses will continue to hurt consol earnings. Subdued coal prices will continue to limit contribution from the international coal business. Other regulated businesses should report steady earnings.
	EBITDA	15,562	18,215	(14.6)	15,120	2.9	
	Core PAT	1,765	547	222.9	112	1,470.6	

Valuation snapshot

		Mkt Cap	Price	P/E (x)		P/B (x)		RoE (%)		Div yld (%)	
	Reco	USD mn	(INR)	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E
Adani Enterprises	Buy	10,777	612	17.8	14.8	2.4	2.1	14.4	15.5	0.6	0.7
Adani Power	Hold	2,194	48	NM	NM	3.7	3.9	(11.9)	(5.4)	0.0	0.0
CESC	Buy	1,293	610	9.1	7.1	1.1	1.0	12.8	14.3	1.3	1.4
GMR Infrastructure	Buy	1,428	17	NM	NM	1.1	1.1	(3.8)	(3.7)	0.0	0.0
Gujarat Pipavav Port	Reduce	1,977	256	26.8	21.3	5.4	4.3	22.6	22.6	0.0	0.0
GVK Power and Infra	Buy	243	10	NM	NA	0.8	NM	(6.2)	NA	0.0	0.0
JSW Energy	Buy	3,131	119	9.9	9.2	2.1	1.8	23.4	21.2	2.0	2.2
Lanco Infratech	Buy	221	6	NM	NM	(0.7)	(0.3)	177.4	72.3	0.0	0.0
Adani Ports and Special Economic	Hold	10,299	311	21.7	17.8	4.8	3.9	24.9	24.4	0.3	0.6
NTPC	Buy	19,493	148	13.7	12.9	1.5	1.4	10.2	11.1	3.3	3.5
Power Grid Corp of India	Buy	12,259	146	12.6	10.7	1.8	1.7	15.4	16.2	2.4	2.8
PTC India	Buy	376	79	15.3	14.9	0.9	0.8	5.8	5.8	2.4	2.4
Reliance Infrastructure	Hold	1,862	442	9.4	10.2	0.5	0.5	5.4	4.8	1.7	1.6
Tata Power Co	Buy	3,354	78	12.4	11.4	1.2	1.2	10.2	10.4	2.9	3.1

Agro Related

Stock		Q4FY15E (INR mn)	Q4FY14 (INR mn)	Y-o-Y (%)	Q3FY15 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Bayer Crop Science	Revenues	6,154	5,527	11.4	7,120	(13.6)	We have considered 11% YoY growth in sales primarily led by exports. We believe that Industry as well as Bayer is expected to get impacted on account of adverse weather condition in domestic market. However, Industry as well Bayer has effected price hike in final products by 5%-10% during H1FY15 which will support the growth. We have considered higher other income and lower depreciation that led to moderate PAT growth.
	EBITDA	684	683	0.1	727	(6.0)	
	Core PAT	496	456	9.0	550	(9.7)	
Dhanuka agritech	Revenues	1,603	1,528	4.9	1,791	(10.5)	We have considered 5% YoY during Q4FY15. We believe that Industry as well as Dhanuka is expected to get impacted on account of adverse weather condition. However, industry as well the company has effected price hike in final products by 5%-10% during H1FY15 which we support the sales growth. we have assumed higher tax rate during Q4FY15 considering management annual guidance. It led to decline in PAT on YoY basis.
	EBITDA	278	278	0.0	259	7.4	
	Core PAT	188	225	(16.5)	220	(14.7)	
Jain Irrigation	Revenues	14,125	13,815	2.2	8,558	65.1	We expect 10%/10%/12%/3% YoY growth in MIS/piping/sheet/agro processing business that led to overall sales growth of 2% YoY during Q4FY15. Update on receivables, debt repayment and stake sale in agro processing business are the key monitorables.
	EBITDA	2,293	2,200	4.2	1,219	88.1	
	Core PAT	775	716	8.2	84	819.9	
PI Industries	Revenues	4,957	3,627	36.7	5,049	(1.8)	We expect 18% YoY growth in the agri input business. Further, we have assumed 47% YoY revenue growth in custom synthesis (CSM) led by healthy order book and postponement of H1FY15 sales. We have considered 370bps YoY improvement in EBITDA margin on account 1) higher revenue contribution of CSM which is superior margin business 2) better realisation in domestic business 3) operating leverage 4) one off expenses of INR100-110mn in corresponding quarter of previous year.
	EBITDA	893	519	72.1	941	(5.1)	
	Core PAT	698	460	51.6	591	18.2	
Rallis Industries	Revenues	3,534	3,315	6.6	3,895	(9.3)	We have considered 8% and 25% YoY growth in agrochemical and seed sales, respectively. We believe that Industry as well as Rallis is expected to get impacted on account of adverse weather condition. However, industry as well Rallis has effected price hike in final products by 5%-10% during Q1FY15 which we support the sales growth. We expect that export business to support the growth.
	EBITDA	461	417	10.5	522	(11.6)	
	Core PAT	243	193	25.9	272	(10.7)	
United Phosphorus	Revenues	38,023	33,388	13.9	30,472	24.8	Strong revenue growth is expected across geographies and we expect 70bps YoY in EBITDA margin led by better operating leverage. We have assumed higher tax rate during Q4FY15 (17.7% versus 9.5% in Q4FY14) considering management's annual tax guidance.
	EBITDA	7,908	6,723	17.6	5,746	37.6	
	Core PAT	4,415	4,015	10.0	2,677	64.9	

Valuation snapshot

		Mkt Cap	Price	P/E (x)		P/B (x)		RoE (%)		Div yld (%)	
	Reco	USD mn	(INR)	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E
Bayer Cropscience	Buy	1,935	3,303	24.5	19.9	4.7	3.9	21.2	21.4	0.3	0.3
Dhanuka Agritech	Buy	528	660	24.7	19.8	6.6	5.3	29.5	29.7	1.0	1.1
Jain Irrigation Systems	Buy	456	63	13.0	7.9	1.2	1.1	10.1	15.0	1.0	1.1
PI Industries	Buy	1,334	610	27.0	20.2	7.2	5.5	30.1	31.1	0.5	0.7
Rallis India	Hold	718	231	21.1	17.0	4.6	3.9	23.8	24.9	0.0	0.0
United Phosphorus	Buy	3,022	441	13.1	10.6	2.6	2.2	21.5	22.3	1.4	1.6

Credit Rating

Stock		Q4FY15E (INR mn)	Q4FY14 (INR mn)	Y-o-Y (%)	Q3FY15 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
CARE	Revenues	865	757	14.3	624	38.6	We expect revenue growth of 14% slightly lower than Q3 due to higher suvellance income booked in previous quarters. With higher debt issuances we expect 16% EBITDA growth. With higher other income and lower tax rate in base quarter, we expect a flattish PAT
	EBITDA	593	513	15.6	384	54.1	
	Core PAT	414	413	0.3	262	57.9	
Crisil	Revenues	3,435	3,092	11.1	3,269	5.1	We expect sales growth of 11%YoY led by pick up in ratings growth at 11% led by corporate debt issuances. But in research pace is expected to slow to 11%YoY due to slowdown in european geographies. We expect 18% YoY growth in PAT led by higher other income
	EBITDA	1,128	1,028	9.8	1,027	9.9	
	Core PAT	811	687	18.1	708	14.6	
ICRA	Revenues	928	803	15.5	830	11.8	We expect 16% sales growth based on continued pick up in debt issuances and outsourcing growth. However led by better growth in lower margin outsourcing we expect 13% EBITDA growth.
	EBITDA	352	312	12.9	271	30.1	
	Core PAT	242	220	9.8	178	36.0	

Valuation snapshot

		Mkt Cap	Price	P/E (x)		P/B (x)		RoE (%)		Div yld (%)	
	Reco	USD mn	(INR)	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E
Credit Research and Analysis	Buy	733	1,579	26.1	20.8	10.4	8.6	42.0	45.4	2.5	2.5
Crisil	Reduce	2,323	2,035	45.3	35.7	15.1	13.2	35.5	39.5	1.2	1.6
ICRA	Hold	662	4,138	42.0	33.0	8.6	7.4	22.0	24.3	0.9	0.9

Leisure and Travel

Stock		Q4FY15E (INR mn)	Q4FY14 (INR mn)	Y-o-Y (%)	Q3FY15 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Cox and Kings	Revenues	4,319	4,949	(12.7)	4,660	(7.3)	C&K's India leisure & Meininger business revenues are expected to grow 15%/16% yoy as C&K goins from tourism growth in India and off-season use of Meininger facilities respectively. C&K has used the cash raised from QIP and sale of camping business for repayment of debt of ~INR 15bn which will reduce finance cost.
	EBITDA	1,363	523	160.3	871	56.4	
	Core PAT	534	(462)	215.4	(139)	482.6	
Jet Airways	Revenues	48,761	45,662	6.8	50,510	(3.5)	Passenger growth is expected to grow 10%yoy as tourism interest improves in the country. Jet is expected to return to operation profitability in Q4 on back of lower fuel prices. Since prices of ATF move with a lag to that of crude prices Q4 FY15 for Jet will see steepest fall in fuel costs. High MRO costs for Jet however, remain a cause of concern even as it operates with a young fleet of aircrafts.
	EBITDA	10,482	(6,913)	251.6	7,202	45.5	
	Core PAT	3,076	(21,536)	114.3	631	387.4	
Mahindra Holidays	Revenues	2,582	2,186	18.1	2,065	25.0	MHRL during quarter announced plans to add 500 rooms over next 18 months even as it completes its target of 500 room addition by FY15. We expect MHRL to maintain high member addition growth rate, however it will continue to report subdued growth in net member addition as it writes-off bad account receivables from its balance sheet. Comapny is expected to mainatain its memebrship fees in this quarter which could increase from Q1 FY16 onwards.
	EBITDA	505	427	18.2	470	7.4	
	Core PAT	227	244	(7.1)	235	(3.5)	

Valuation snapshot

		Mkt Cap	Price	P/E (x)		P/B (x)		RoE (%)		Div yld (%)	
	Reco	USD mn	(INR)	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E
Mahindra Holidays & Resorts	Buy	384	270	19.7	14.6	2.8	2.4	14.6	17.7	2.0	1.7
Cox And Kings	Buy	861	318	13.7	10.9	1.7	1.5	9.4	10.7	0.3	0.3
Jet Airways	Buy	890	490	10.2	9.4	(1.5)	(1.8)	NA	NA	0.0	0.0

Miscellaneous

Stock		Q4FY15E (INR mn)	Q4FY14 (INR mn)	Y-o-Y (%)	Q3FY15 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Fag Bearings	Revenues	4,488	4,007	12.0	4,295	4.5	We expect 12% YoY sales growth led by pick up in 4W within automobiles and led by growth in industrial after market. Led by appreciating currency we expect improved traded margin. As a result we expect 25% YoY growth in EBITDA and 32%YoY growth in PAT
	EBITDA	696	557	24.9	624	11.5	
	Core PAT	456	347	31.5	399	14.3	
Gateway Distriparks	Revenues	2,641	2,669	(1.1)	2,737	(3.5)	Volumes in the CFS segment will be affected as the Chandra CFS will be closed in Q4FY15 as operations have been suspended there. Expect volumes to be flat at the JNPT CFS. Overall, we expect throughout to increase by 7% YoY in the CFS segment. CFS Realizations are expected to remain constant as the company had already completed the price hikes in the last quarter. For the rail segment we expect a 5% QoQ reduction in volumes as per guidance given by management. We have increased Rail segment realizations to reflect full effect of pass through whereas EBITDA is expected to fall QoQ.
	EBITDA	763	656	16.3	864	(11.6)	
	Core PAT	457	403	13.6	543	(15.9)	
Grindwell Norton	Revenues	2,944	2,566	14.7	2,798	5.2	We expect 15%YoY sales growth led by cyclical uptick in automotive and industrial sales. Led by better gross margin due to appreciating currency and operating leverage, we expect 26%YoY growth in EBITDA
	EBITDA	480	381	26.1	443	8.4	
	Core PAT	278	240	16.1	254	9.4	
Orient refractories	Revenues	1,091	1,052	3.8	1,169	(6.7)	We expect a mere 4% YoY sales growth led by slowdown in domestic steel production growth largely within the smaller mills. Led by no price increases and slower production growth we expect 8%YoY decline in EBITDA
	EBITDA	185	202	(8.2)	203	(8.6)	
	Core PAT	117	132	(10.9)	132	(11.0)	
SKF India	Revenues	6,200	5,795	7.0	6,154	0.8	We expect 7% YoY sales growth led by growth in auto after markrt and 4W within OEMs and led by growth in select pockets in industrial OEMs and after market. Led by appreciating currency we expect improved traded margin. However led by slower production growth, we expect 6% YoY degrowth in EBITDA
	EBITDA	682	722	(5.6)	526	29.7	
	Core PAT	518	491	5.5	409	26.6	
Solar Industries	Revenues	4,107	3,400	20.8	3,198	28.4	We expect sales growth of 20% YoY led by low base, demand recovery in domestic market and better contribution from overseas subsidiaries.
	EBITDA	776	659	17.9	600	29.5	
	Core PAT	516	495	4.3	379	36.2	
Supreme Industries	Revenues	11,057	10,052	10.0	10,198	8.4	Post witnessing sales growth moderation in FY14 on account of unprecented surge in raw material price and slowdown in industrial/consumer segment, we expect top line to grow 10% YoY primarily driven by volumes. We have assumed 110bps improvement in EBITDA margin on YoY basis on account of steep correction in raw material prices since Dec quarter.
	EBITDA	1,537	1,286	19.5	1,013	51.8	
	Core PAT	691	554	24.7	530	30.4	
Vesuvius	Revenues	1,628	1,551	5.0	1,718	(5.2)	We expect a mere 5% YoY sales growth led by slowdown in steel production growth. Led by no price increases and slower production growth we expect 19% decline in EBITDA
	EBITDA	220	272	(19.0)	237	(7.3)	
	Core PAT	126	159	(20.6)	145	(12.7)	
VIP	Revenues	2,503	2,275	10.0	2,530	(1.1)	We expect 10%YoY growth in sales led by growth in hyper market channel and end of season sales. Among brands, we expect growth to be led by Carlton and Caprese. As a result we expect 10%YoY growth in EBIDTA
	EBITDA	150	137	9.6	93	61.5	
	Core PAT	77	51	50.2	45	70.7	

Valuation snapshot

		Mkt Cap	Price	P/E (x)		P/B (x)		RoE (%)		Div yld (%)	
	Reco	USD mn	(INR)	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E
Aarti Industries	Buy	485	342	12.3	9.9	2.6	2.1	22.6	23.6	1.8	2.0
Agro Tech Foods	Buy	245	629	32.7	22.0	4.4	3.7	14.3	18.3	0.4	0.4
Amara Raja Batteries	Hold	2,306	844	26.8	19.9	6.7	5.0	27.8	28.8	0.6	0.0
Balkrishna Industries	Buy	1,013	655	NA	NA	2.2	1.8	20.8	20.5	0.4	0.4
Carborundum Universal	Buy	572	190	21.6	15.3	2.8	2.5	13.8	17.5	1.2	1.8
CCL Products India	Buy	392	184	NA	NA	4.6	3.6	31.1	34.8	1.5	2.2
Essel Propack	Buy	309	123	11.0	8.7	2.0	1.7	20.2	21.2	1.7	2.0
Exide Industries	Buy	2,423	178	20.3	16.6	3.2	2.8	16.9	18.1	1.2	1.2
Fag Bearings	Buy	1,155	4,345	27.3	NA	4.6	NM	18.3	NA	0.3	0.0
Grindwell Norton	Buy	629	710	29.0	20.5	5.7	5.0	20.7	25.9	1.4	2.0
Orient Refractories	Buy	165	86	15.8	12.5	4.8	3.8	33.9	33.7	2.1	2.1
SKF India	Buy	1,211	1,435	28.4	21.4	4.7	4.1	17.7	20.5	0.9	1.1
Solar Industries	Buy	979	3,380	28.5	21.3	6.3	5.0	24.4	26.3	0.5	0.6
Supreme Industries	Buy	1,464	720	23.3	NA	6.2	NM	29.2	NA	1.4	0.0
Gateway Distriparks	Buy	731	420	25.1	19.4	5.3	4.6	20.3	25.3	1.7	1.7
Vesuvius India	Buy	234	721	14.4	NA	2.5	NM	18.3	NA	1.0	0.0
VIP Industries	Hold	215	95	19.7	15.6	4.4	4.0	22.8	27.1	3.7	3.7

Textiles

Stock		Q4FY15E (INR mn)	Q4FY14 (INR mn)	Y-o-Y (%)	Q3FY15 (INR mn)	Q-o-Q (%)	Key highlights and things to watch out for
Arvind	Revenues	19,839	18,791	5.6	20,737	(4.3)	As guided, Textile segment revenues should remain flat whereas Brands & Retail segment should continue its previous growth. We expect growth of 2%/25% YoY respectively. Margins should improve driven by lower cotton prices and improvement in performance of Megamart stores. This quarter will see exceptional losses of INR450mn related to litigation payout to Ralph Lauren and worker retrenchment compensation.
	EBITDA	2,831	2,442	16.0	2,881	(1.7)	
	Core PAT	1,073	981	9.4	1,108	(3.2)	
Himatsingka Seide	Revenues	4,817	4,982	(3.3)	4,655	3.5	We expect the subdued performance in standalone business (Manufacturing) and distribution business in both, North America and Europe to continue in this quarter also. However, margins are expected to improve YoY as there has been a reduction in material costs for the company.
	EBITDA	487	406	20.0	509	(4.3)	
	Core PAT	179	141	26.7	211	(15.6)	
Welspun India	Revenues	13,161	11,850	11.1	13,459	(2.2)	Expect volumes to be in line with the previous quarter. Revenues are expected to fall as contracts will be repriced to reflect the lower cotton prices. Margins are expected to remain at 25% as the new spinning capacity starts operating at optimal capacity form this quarter.
	EBITDA	3,286	2,204	49.1	3,400	(3.4)	
	Core PAT	1,400	818	71.2	1,436	(2.5)	

Valuation snapshot

		Mkt Cap	Price	P/E (x)		P/B (x)		RoE (%)		Div yld (%)	
	Reco	USD mn	(INR)	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E
Arvind	Hold	1,104	267	14.7	12.2	2.1	1.8	15.2	16.0	0.0	0.0
Himatsingka Seide	Buy	129	82	7.3	5.6	0.9	0.8	13.5	15.4	0.0	0.0
Welspun India	Buy	609	379	6.1	5.8	1.8	1.4	34.5	27.9	0.0	0.0

Edelweiss Securities Limited, Edelweiss House, off C.S.T. Road, Kalina, Mumbai – 400 098.
Board: (91-22) 4009 4400**,** Email*: research@edelweissfin.com*

Nischal Maheshwari

Head Research

nischal.maheshwari@edelweissfin.com

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	155	45	8	208

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	151	54	3

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

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