2QFY18 | November 2017

VOICES

VOICES

India Inc on Call

VOICES, a quarterly product from Motilal Oswal Research, provides a ready reference for all the post results earningscalls attended by our research analysts during the quarter. Besides making available to readers our key takeaways from these interactions, it also provides links to relevant research updates, transcripts and audio links of the respective conference calls.

This quarterly report contains

- Concall Audio Links for 179 companies
- Key takeaways from the post results management commentary for 145 companies, with links to the full earnings call transcripts
- Links to our Results Updates on each of the companies included

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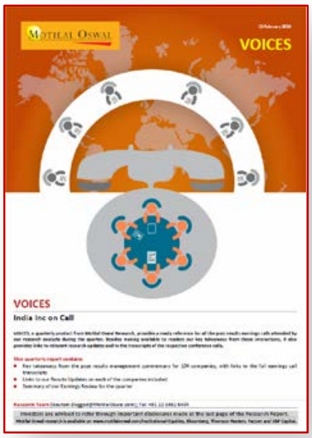
Contents

Index (Alphabetical)

Note: All stock prices and indices are as on 20th November 2017, unless otherwise stated.

BSE Sensex: 33,478 **S&P CNX: 10,327**



Consumption reviving; GST settling down

Commentary turns more optimistic; however, private capex revival still sometime away

- 2QFY18 earnings performance and management commentaries indicate tell-tale signs of demand revival, especially in rural consumption. The first quarter post GST implementation came with attendant anomalies, especially in accounting. However, corporate commentaries suggest gradual return of normalcy in trade channels. As GST settles down further, India Inc expects demand trends to strengthen in 2HFY18. 2QFY18 has come as breath of fresh air after many quarters of misses, disappointments and downgrades. Earnings quality has also improved substantially, as discussed in greater detail in our recently released India Strategy.
- B2C sectors like Consumer, Retail, Autos, Durables, and Cement benefitted from re-stocking post GST implementation. Early festive season helped too, as inventory filling happened in September in CY17 versus October in CY16 (and hence, captured in 3QFY17 results). Jewelry and Modern Retail were the key beneficiaries of an early festive season.
- In BFSI, slippages declined in 2QFY18, though provisioning costs remain high. The sharp divergence in loan growth between Private and PSU Banks continues. Managements across the board have guided significant reduction in slippages, going forward. Given the recent hardening of bond yields, incremental benefits from lower cost of funds seem largely behind. NBFCs delivered another quarter of consistent and broad-based growth, with continued recovery in MFI post demonetization. Competitive intensity continues to inch up in Housing Finance.
- For Consumer, 2QFY18 was one of the best quarters of broad-based delivery in recent times, with double-digit profit growth. Management commentaries point towards ensuing demand revival in 2HFY18, especially in Rural India, as GST-related glitches recede and trade supply chains revert to normalcy in wholesale and rural markets. Recent changes in GST rates should lead to pricing actions, in-turn boosting demand. Most companies also spoke about cost-cutting projects underway, reflected in widespread savings in other expenses. In Autos, most OEMs expect volume growth to sustain/improve in 2HFY18. Companies, however, pointed out commodity cost inflation and need for pricing action.
- In Oil & Gas, companies guided strong benchmark refining margins in light of heavy unplanned shutdowns across the globe. Indian refiners are expected to benefit. Private players continue to be marginalized in marketing of petroleum products.
- Pharmaceutical companies continued to highlight persistent pricing pressure in US markets even as domestic business benefitted from re-stocking in 2QFY18. In Metals, management commentary on demand was optimistic. Government spending is expected to be the key trigger for growth. There is some renewed optimism in the sector. Companies with strong balance sheets are evaluating expansion opportunities, including inorganic expansion.

- **Capital Goods companies shared a cautious stance on order inflow, given near-term disruption caused by GST implementation. On the execution front, there was a slowdown, with GST transition impacting projects under execution. Execution is expected to pick up in 2HFY18.**

Autos

- Most OEMs expect an improvement in FY18 volumes, with double-digit growth in PVs and tractors. The 2W industry should see higher single-digit growth, led by return of volumes from rural markets, expectations of good monsoon, and better economic growth. GST impact for most OEMs is neutral on volumes; however, there is some impact on financial accounting. Higher GST on hybrid vehicles is resulting in a shift from hybrid to non-hybrid vehicles. Commodity price inflation could put further pressure in 2HFY18, as the prices of key commodities are on an uptrend.

Capital Goods

- Most Capital Goods companies shared a cautious stance on order inflow, given near-term disruption caused by GST implementation. Companies expect ordering activity to pick up gradually. Segments like transmission, renewables, defense, roads, and railways continue to show traction. On the execution front, there is a slowdown – GST transition has impacted projects under execution. Execution is likely to pick up in 2HFY18. Competitive intensity remains high.
- In Consumer Durables, restocking has started to pick up gradually. However, secondary demand remains muted, with advance purchases by customers in June 2017 on de-stocking discounts given by dealers.

Cement

- Companies expect demand revival to begin from 2HFY18, led by pick-up in rural demand on the back of good monsoon. With no capacity additions coming up for the next 18-24 months in the North, utilizations are expected to improve, leading to better prices, and hence, better realizations. The recent increase in petcoke prices is likely to impact the cost curve of cement companies in 2HFY18. Additionally, higher diesel prices and busy season surcharge in rail transport would increase freight cost.

Consumer

- Post GST, the trade channels are getting back to normal and consumer off-take has improved. Rural outlook appears buoyant, with companies like HUL, Marico and Dabur reporting either similar or faster growth in rural sales compared to urban sales after a long time. Worries on both the wholesale channel and rural sales are receding faster than expected. Importantly, rural sales have started gaining momentum even before the benefits of good monsoon and government initiatives like DBT, MSP increases and farm loan waivers have started to come in. The much-vaunted earnings revival in the sector appears poised to come through, and rural-dependent plays are likely to be at the vanguard.

Financials

- The government has announced a PSU Bank recapitalization plan amounting to INR2.1t, which comprises of(i) front-ended capital infusion of INR1.35t to be funded via recapitalization bonds, and (ii) INR760b of capital infusion from budgetary support and proposed capital raising by the PSU Banks, of which INR180b will be infused in FY18 as part of the 'Indradhanush' plan. Operational performance improved in 2QFY18, with fresh NPL accretion declining for most PSU and Private Banks (barring divergence-related impact for AXSB and YES).SMA-2 advances have also moderated. Margins for PSU Banks showed early signs of stabilization, with most PSU banks reporting modest margin expansion on the back of lower interest reversals, as slippages have slowed down. CASA growth continues uninterrupted despite several large banks lowering their SA rate, which will drive further reduction in funding cost. However, we are now watchful of the impact of rising bond yields witnessed over the past one month. The size of watch list/stressed asset pool has declined and most banks have suggested a decline in slippages over the medium term. However, near-term credit cost is likely to stay elevated on (1) NPL ageing-related provisions, and(2) loan loss towards NPL resolution via NCLT. We expect earnings growth to show a healthy bounce from 2HFY19, as core income growth revives, margin pressure eases, and the investment cycle begins to show some recovery.

Healthcare

- Post GST, domestic business of Pharma companies has improved on the back of channel re-filling at stockiest level to near pre-GST level. In 1QFY18, companies lost ~30 days of sales, as inventory days came down to 17 days from a peak of 43 days. In 2Q, companies recovered almost 15 days of sales and expect further 5-10 days of recovery in 3QFY18. For FY18, although 6-8 days of sales may be lost, companies expect domestic business to grow in low teens.
- As price erosion and channel consolidation continues, companies expect US business to improve, as intensity of price erosion comes down. Price erosion is expected to come down from high double-digits to low double-digits, while some companies expect price erosion to bottom out during the quarter.
- US business is expected to improve from 2HFY18,as large companies (including Sun Pharma, Lupin, Dr Reddy's) expect approval of key products and resolution at key facilities.

Media

- Marred by demonetization and GST in the previous quarters, our Media universe witnessed some solace, with the onset of the festive season in 2QFY18. However, November-December 2017 would be the decisive period – performance post the festive season would help ascertain whether the ad growth is sustainable.
- Broadcasters within our coverage universe expect to match TV industry ad revenue growth of 12-14%.
- Regulatory uncertainty around the implementation of the new tariff order continues to be contested in courts. In terms of content, companies are expected to opt for diverging strategies to protect their viewership shares (for example, Zee plans to target Kerala and Punjab through green-field organic expansion and is expected to step up its investment in movies, while Sun TV is focused on improving its share in Telugu). Within the distribution pack, the outlook on both ARPU and subscriber addition remains somber. The Print pack is expected to see a recovery in ad volumes in FY18, as the demonetization and GST impact is largely behind.

Metals

- Management commentary on demand was optimistic. Government spending is expected to be the key growth trigger. There is renewed optimism in the sector. Companies with strong balance sheets are evaluating expansion opportunities, including inorganic expansion. Hindalco and Vedanta are positive on aluminum prices, given stricter environment measures adopted by China. Vedanta is also positive on zinc prices, given the closure of large mines and steady demand growth. In steel, long-product prices are expected to remain weak in the near term, but improve as domestic demand picks up. GST disruption is largely behind and volume benefit in 2Q was partly aided by re-stocking following GST disruption in 1Q.

Oil & Gas

- Gas consumption has begun increasing, led by higher availability of domestic gas and higher LNG imports. This is expected to continue in the next few quarters. However, increase in consumption of gas due to absence of sufficient domestic coal with power producers may wane.
- Benchmark refining margins should stay strong, in light of heavy unplanned shutdowns across the globe. Indian refiners would benefit. Private players continue to be marginalized in marketing of petroleum products.

Retail

- Titan stated that festive season sales were good. Sales from 21st September to 31st October were up 16-17% YoY. If not for PMLA, growth would have been even better, despite high base of 50% sales growth in the festive season last year. Management maintained that market share gains were happening across large, medium and small towns. There was a definite change in the tone of management commentary – the management is now saying that it would give up 'margin expansion' for growth instead of saying that it might give up 'margins' in the quest for growth. Jubilant Foodworks expects store openings to resume in 3Q and 4Q. It intends to open 30-40 stores this year compared to earlier guidance of 40-50 stores. There has been healthy growth after product refreshment in August. The management did not comment on its sustainability after a couple of months after launch.

Technology

- Growth commentary for FY18 looks moderate for most companies on a constant currency, organic basis. A full-thrust recovery still seems elusive, as the BFSI and Retail verticals have been soft, though the description of worries around Retail appears to be better for some players. The profitability surprise in the quarter was led by favorable currency movement and increased operational efficiencies. This resulted in optimism going forward too, mainly hinged on to further headroom on operational parameters.

Telecom

- While data volume growth has been buoyant, lower ARPU packs have pulled down pricing and revenues. The next 2-3 quarters may see high competitive intensity, but expect ARPU accretion, as RJio has taken four price actions since turning paid, signaling ARPU accretion, which has been hostage to competition. Bharti's capex intensity is likely to remain high in FY18 to continue 4G network rollout, even though capacity has far outstripped demand. Idea's capex intensity has reduced.

Utilities

- Overall, electricity demand is expected to improve, driven by measures like UDAY and focus on 'Make in India' and 'Power for All'. Electricity demand growth was relatively strong in 2Q. Spot power prices were higher in 2Q due to domestic coal shortage, but are likely to normalize soon, as coal supply improves. There is no visibility on long-term PPAs; however, companies are evaluating opportunities in short-term and medium-term contracts. Power Grid is positive on future growth opportunities from solar, wind and opening up of the intra-state transmission network. NTPC expects a pick-up in project execution.

VOICES: INDIA INC ON CALL

Concall Audio Links for 179 companies

Key takeaways from the post results management commentary for 145 companies under coverage

Links to the full earnings call transcripts

Links to our Results Updates on each company

CONCALL AUDIO LINK

NEW

Automobiles	
Ashok Leyland	Audio Link
Amara Raja Batt.	Audio Link
Bajaj Auto	Audio Link
Bharat Forge	Audio Link
Bosch	Audio Link
CEAT	Audio Link
Eicher Motors	Audio Link
Escorts	Audio Link
Endurance Tech.	Audio Link
Hero Motocorp	Audio Link
Kirloskar Oil	Audio Link
Mahindra & Mahindra	Audio Link
Mahindra CIE	Audio Link
Maruti Suzuki	Audio Link
Motherson Sumi	Audio Link
TVS Motor Co.	Audio Link
Banks & Financials	
AU Small Finance	Audio Link
Axis Bank	Audio Link
Bajaj Fin.	Audio Link
Bharat Financial	Audio Link
Can Fin Homes	Audio Link
Canara Bank	Audio Link
Cholaman. Inv.& Fn	Audio Link
DCB Bank	Audio Link
Dewan Hsg. Fin.	Audio Link
Equitas Holdings	Audio Link
Federal Bank	Audio Link
HDFC Bank	Audio Link
ICICI Bank	Audio Link
ICICI Lombard General Insurance	Audio Link
ICICI Pru Life	Audio Link
IDFC Bank	Audio Link
I D F C	Audio Link
IIFL Holdings	Audio Link
Indiabulls Hous.	Audio Link
Indian Bank	Audio Link
IndusInd Bank	Audio Link
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LIC Housing Fin.	Audio Link
L&T Fin.Holdings	Audio Link
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Motil. Oswal .Fin.	Audio Link
PNB Housing	Audio Link
RBL Bank	Audio Link
Repco Home Fin.	Audio Link
Shri. City Union.	Audio Link
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South Ind. Bank	Audio Link
Union Bank (I)	Audio Link
Yes Bank	Audio Link
Capital Goods	
A B B	Audio Link
Blue Star	Audio Link
CG Power & Inds	Audio Link
Crompton Gr. Con	Audio Link
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GE T&D India	Audio Link
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Cipla	Audio Link
Dr Lal Pathlabs	Audio Link
Dr Reddy's Labs	Audio Link
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Granules India	Audio Link
Jubilant Life	Audio Link
Laurus labs	Audio Link
Lupin	Audio Link
Strides Shasun	Audio Link
Sun Pharma. Inds.	Audio Link
Infrastructure	
Ashoka Buildcon	Audio Link
IRB Infra. Devl.	Audio Link
Sadbhav Engg.	Audio Link
KNR Construct.	Audio Link
Media	
D B Corp	Audio Link
Den Networks	Audio Link
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JSW Steel	Audio Link
S A I L	Audio Link
Vedanta	Audio Link
Oil & Gas	
Castrol India	Audio Link
GAIL (India)	Audio Link
H P C L	Audio Link
I O C L	Audio Link
Mahanagar Gas	Audio Link
O N G C	Audio Link
Petronet LNG	Audio Link
Retail	
Jubilant Foods	Audio Link
Titan Company	Audio Link
Real Estate	
Oberoi Realty	Audio Link
Godrej Propert.	Audio Link
Mahindra Life.	Audio Link
Technology	
BSE	Audio Link
Cyient	Audio Link
HCL Technologies	Audio Link
Hexaware Tech.	Audio Link
Info Edg.(India)	Audio Link
Infosys	Audio Link
KPIT Tech.	Audio Link
L & T Infotech	Audio Link
Mindtree	Audio Link
MphasiS	Audio Link
NIIT Tech.	Audio Link
Persistent Sys	Audio Link
Quess Corp	Audio Link
TCS	Audio Link
Tech Mahindra	Audio Link
Wipro	Audio Link
Zensar Tech.	Audio Link
Telecom	
Bharti Airtel	Audio Link
Bharti Infra.	Audio Link
Idea Cellular	Audio Link
Tata Comm.	Audio Link
Utilities	
JSW Energy	Audio Link
Tata Power Co.	Audio Link
Others	
Allcargo Logist.	Audio Link
Balkrishna Inds	Audio Link
Container Corpn.	Audio Link
Coromandel Inter	Audio Link
Delta Corp	Audio Link
Eveready Inds.	Audio Link
Greaves Cotton	Audio Link
G S F C	Audio Link
Heritage Foods	Audio Link
Interglobe Aviation	Audio Link
Just Dial	Audio Link
Kaveri Seed Co.	Audio Link
Multi Comm. Exc.	Audio Link
P I Inds.	Audio Link
S H Kelkar & Co.	Audio Link
Sterlite Tech.	Audio Link
Transport Corp.	Audio Link
Trident	Audio Link
Vardhman Textile	Audio Link
V-Guard Inds.	Audio Link

Key takeaways from management commentary

AUTOMOBILES

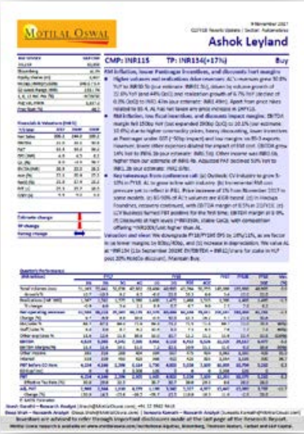
Most OEMs expect an improvement in FY18 volumes, with double-digit growth in PVs and tractors. The 2W industry should see higher single-digit growth, led by return of volumes from rural markets, expectations of good monsoon, and better economic growth. GST impact for most OEMs is neutral on volumes; however, there is some impact on financial accounting. Higher GST on hybrid vehicles is resulting in a shift from hybrid to non-hybrid vehicles. Commodity price inflation could put further pressure in 2HFY18, as the prices of key commodities are on an uptrend.

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY18	Regulatory Impact-Volumes	Impact of GST
Ashok Leyland	▪ CV industry to grow 5- 10% in FY18. ▪ AL to grow in line with industry.	▪ Incremental RM cost pressure yet to reflect in P&L. ▪ Price increase of 1% from November 2017 in some models.	▪ GST: Savings in transit time to have positive impact on CV demand.
Bajaj Auto	▪ Guided growth of ~3% in dom. motorcycle volumes, growth of ~20% in 2HFY18. ▪ Guided for total 3Wvolume of 570k for FY18 (growth of ~28%). ▪ Guided 15% CAGR in export volumes over the next three years.	▪ Further pressure on RM cost in 2HFY18. Price hike of INR500/vehicle taken in early Nov. ▪ New brand launch in the 125cc segment, Avenger upgrade in 4QFY18. In process of launching a modified V. ▪ Estimates market share of 24% in dom. motorcycle by Mar-18.	NA
Eicher Motors	▪ RE: Producible capacity at ~825k/~900k for FY18/FY19; can further expand at third plant. ▪ It will continue to add 2-3 dealers/week. ▪ New 650cc Interceptor & Continental GT would be launched in Apr-18, starting with Europe & UK.	▪ Waiting period at 1.5-2 months for Classic 350. ▪ SSG (bookings) is in early teens in top 25 cities. ▪ VECV price hike of 1% for M&HCV in Sep-17. Discounting levels in M&HCVs are very high.	▪ GST related benefits including input tax credit passed on to customers through price cut.
Hero MotoCorp	▪ Healthy volume growth in urban and rural markets, with similar growth in 2Q. ▪ Commodity price inflation in 2HFY18, would take appropriate price increase (0.6% taken in last week of Sep-17) ▪ New product launches in the premium motorcycle, scooter segment.	▪ Impact of loss of excise exemption at Haridwar (~100bp, partly in FY18 if State doesn't compensate) would be diluted by ramp-up at Halol plant and Andhra plant. ▪ Festive demandwas strong with HMCL witnessing double-digit retail growth across its portfolio.	▪ Awaits clarification from State to claim the balance 42% CGST, which is not compensated by the Centre.
M&M	▪ Tractor industry to grow 12-14% (v/s expectation of 10-12%) in FY18. ▪ PV industry is expected to grow by 10%+ ▪ M&HCV industry to remain flat	▪ Rural market growth for Auto segment in 2QFY18 remains at 24% while festive season demand grew 8% for UV and 14% for tractors. No impact on volume due to GST was seen. ▪ RM cost pressure to remain in 2HFY18 which can be pass through by price hikes. Have taken price hike of 1% in UV and 1.5% in tractors.	▪ NA
Maruti	▪ Capacities - 2nd line at Gujarat plant will commission by early CY19. ▪ Guides for producible capacity for FY18 at 1.7m units. Impact of RM price inflation would reflect in 2HFY18. On YoY basis, commodity prices are higher by 200bp (% of sales) in 2QFY18.	▪ With higher GST on hybrid, there is shift towards non-hybrid variants. ▪ Festival season sales grew double digit. Inventory levels would be ~2 weeks by end Oct-17 (normal inventory of 3-4 weeks). ▪ Rural volumes have grown 21.5% in 1HFY18.	▪ A shift from hybrid to non-hybrid vehicles due to higher GST
Tata Motors	▪ Maintains 10% retail growth guidance for FY18 (implied residual growth of 17%) for JLR. ▪ India business PAT breakeven in FY18.	▪ JLR's Fx hedge losses would reduce substantially from 4QFY18 onwards. ▪ Discounting in M&HCV remains high, with 15-20% increase on YoY basis and marginal increase on QoQ basis.	NA

ASHOK LEYLAND

Click below for Results Update



Ashok Leyland — Buy

Current Price INR 115 | **Target Price INR 134 | 17% Upside**

- **Positive outlook maintained:** Domestic CV industry to grow 5-10% in FY18, led by improving macro situation. AL to grow in line with industry. 3QFY18 to be a good quarter, but 4QFY18 to have adverse base due to pre-buying in 4QFY17.
- **iEGR technology** has settled well with customers after initial hiccups. This has helped AL gain market share in the domestic CV space. 85-90% of AL's volumes are iEGR-based.
- **Price hike:** AL has not taken any price hike during 1HFY18, except BS-IV related price increase of 8-10%. However, AL took a price hike of ~1% in November to pass on RM cost increase. Discounts remain high at INR350k on trucks (similar to1Q). Competitors are offeringINR100k higher discounts. AL stayed away fromfew deals due to very high discounts.
- **HFL:** Hinduja Foundries (HFL) turned EBITDA positive, with EBITDA margin of8.5% in 2QFY18.
- **LCVs:** LCV business (including three subsidiaries) at EBITDA margin of 8-9%. Hasturned **PBTpositive for the first time**. Plans to launch 6-7 new products in next12 months.
- **Overloading ban in Rajasthan & Uttar Pradesh (UP)** boosting demand. Otherstates arelooking at stricter implementation of overloading ban.
- **BS-III inventory:** AL has converted ~85% of total ~12k inventory. ~2k units havebeenexported and another ~1,500 units would be exported in due course.
- **Exports** witnessing good profits from Africa and Middle East markets.Neighboring marketssuch as Sri Lanka and Bangladesh less profitable.
- **GST:** Savings in transit time will only have positive impact on CV demand.
- **Capex:** INR5b-6b per annum for balancing/debottlenecking capex. Not lookingat anygreen-field capacity expansion in the near term.
- **Net debt of INR21.3b (**0.3x equity). Increase in debt over March 2017 levels islargely due tohigher working capital requirement, which is expected tonormalize in due course.

BAJAJ

Click below for Detailed Concall Transcript & Results Update

Bajaj Auto — Buy

Current Price INR3,243 | **Target Price INR 3,753 | 16% Upside**

- Management guided for domestic motorcycle industry growth of ~8-8.5% in FY18, with BJAUT growing at ~3%. It expects BJAUT to outperform the industry in 2HFY18, with growth of ~20% in 2HFY18. Consequently, management estimates a market share of 24% in Mar-18 (v/s 19.5% in Sep 17).
- **Expects domestic 3W industry growth to clock in ~310k volumes in FY18**(implying growth of ~22% YoY), led by discontinuation of permits in Maharashtra, new permits released in Delhi and replacement of 2-stroke vehicles to 4-stroke vehicles in Bengaluru. Incremental domestic demand of 100k vehicles would be coming from the above-mentioned factors in the next 6-7 months. The company is deferring 3W export orders in Oct and Nov, and diverting capacity to the domestic market to meet incremental domestic demand.
- Management has guided for total three wheeler volume of 570k for FY18 (implying growth of ~28% v/s our estimate ~25%).

- **Guided for 15% CAGR in export volumes over next three years** on the back of stability returning in Nigeria, increasing contribution from new/nascent markets, and substantial growth in Bangladesh and Philippines. Expects exports to clock **1.7m units** in FY18 (v/s our estimate of 1.62m units).
- Guided for EBITDA margin to remain in the **20% range** going forward. EBITDA margin in 2HFY18 to be ~22% (as per company reporting).
- Management indicated further pressure on raw material cost in 2HFY18 due to the continuing uptrend in steel and aluminum prices. Price hike would be taken as and when management deems appropriate.
- **On new launches:** A new brand in the 125cc mid-commuter segment would be launched in 4QFY18. The company would also come out with an Avenger upgrade and a modified V in 4QFY18.
- The company witnessed festive-to-festive retail growth of 25% YoY.
- The new /nascent markets currently constitute ~16% of the total export volumes v/s 10% in FY17. This can go up to 20-22%. These markets are medium to small geographies with high growth potential. Sales in these markets are tilted toward higher-end motorcycles.
- ***On the profitability front, management indicated that EBITDA margins in 3W are ~25%. While Pulsar family margins remain at ~20%, CT100 is EBITDA negative and Platina has low-single-digit margins. Spares business generates 30% EBITDA margin.***
- The new Pulsar NS series is doing well and has clocked 42k units in sales in 2QFY18. It has enabled BJAUT to regain 45% market share in the premium (ex RE) segment.
- Management estimates a run-rate of 60k from Pulsar post festive season. It expects Dominar to sell 7-7.5k units aggregately in the domestic and export market by Mar 18. They expect the V series and Avenger to register 30k units/month and 15k units/month respectively, after the new launch in 4QFY18.
- Management expects spare parts revenue to grow at 12-15% CAGR over the next three years.
- Tax rate is likely to be 29-30% in H2FY18.
- Sales in Nigeria were 23k units in Sep-17 v/s 8k in Apr-17 v/s peak of over 30k. Sales in Nigeria could average 25k/month in 2HFY18.
- BJAUT does not compete with Honda in export market, main competitor is TVS.
- Hedging rate would be around INR67/USD for the next one year.
- Took price hikes of INR500-1,000/unit in 2W and INR1,500-2,000/unit in 3W in domestic markets towards the end of May. Export price hike taken on 1st July and 1st October.
- Capex of INR2.5-3b, most of which would be maintenance capex, is outlined for FY18. No plans of capacity expansion for three wheelers in the near term.

KALYANI
BHARAT FORGE

Click below for
Results Update

Bharat Forge — Buy

Current Price INR698 — **Target Price INR 844 | 21% Upside**

- The board has appointed Mr. Krishnakumar Srinivasan (ex-President-APAC at Eaton – vehicle group) to drive new business initiatives.
- Outlook remains robust in both automotive and non-automotive segments in the domestic and exports markets. Growth from foreign subsidiaries remains


Bharat Forge

CMP: INR728 TP: INR844 (+16%) Buy

encouraging, given that BHFC's new aluminum forging capacity is running at optimum level and that it is witnessing healthy growth from US facility as well.

- Outlook for Class 8 trucks: The US class 8 truck build is expected to grow 10-12% (v/s current run-rate of 270-275k).
- The US Oil and Gas exports were flat QoQ; visibility of strong growth based on several new orders.
- The outlook for Aerospace remains positive, as BHFC has secured order for new platform of aircraft from Boeing.
- Its recently acquired US-based subsidiary Walker Forge Tenessee (US), now hitting a revenue run-rate of ~USD35m (v/s ~USD27m at the time of acquisition).
- Capacity utilization: Capacity utilization at an aggregate level at forging plant remains at ~70%, while utilization level of machining capacity remains at ~80%. Management indicated enough scope to sweat existing assets before committing fresh capex in existing capacities.
- Capital expenditure guidance of ~INR3-3.5b for FY18 and FY19 over and above capex at new AP facility.
- BHFC has under taken price increase of INR1,500 per ton in 2Q, and has indicated price hike in 3Q as well to pass on RM inflation. In exports markets too, BHFC is negotiating with customers and asking for a price hike of ~EUR100/ton in some cases.
- Gaining market share in domestic auto market, led by new products in CV segment.
- Have secured new orders of USD40m across segments over and above orders secured earlier, the same is currently under ramp-up phase.

BOSCH Invented for life

Click below for Results Update


Bosch

CMP: INR20,458 TP: INR19,965(-3%) Neutral

Bosch — Neutral

Current Price INR 19,388 — **Target Price INR 19,965 | 3% Upside**

- The management has maintained cautiously optimistic outlook for 2HFY18.
- Car multimedia business stopped in 2QFY18 impacting revenues.
- Aftermarket marginal negative growth due to GST.
- Material cost to remain at this level till localization improves.
- Decline in other income was led by lower MTM gains.
- EV business would be placed within listed entity, with initial focus on 2W & 3W segment and later explore other segments.

EICHER

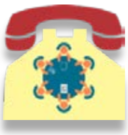
Click below for Detailed Concall Transcript & Results Update

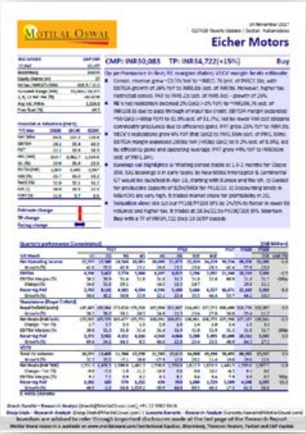
Eicher Motors — Buy

Current Price INR 30,650 — **Target Price INR 34,722 | 13% Upside**

Royal Enfield

- Waiting period for best seller Classic 350 model continues remains stable at 1.5-2 months.
- Same-store booking growth is in early teens in top 25 cities.





- Capacity expansion update: 3rd plant started operations in Aug-17, and expects to hit full capacity of ~25k/month by Mar-18. They continue to guide for producible capacity of ~825k in FY18 and ~900k for FY19 (but has scope to increase). It can execute line-2 at 3rd plant in 12 months. To ramp-up capacity at 3rd plant, it will have to phase-out capacity at first plant for increasing chrome plating capacity.

New products Twins 650 (Interceptor and Continental GT)

- Would be launched in Apr-18, initially only in Europe and UK market, which would be gradually ramped up to all other markets internationally as well as in India (in second half of CY18).
- It is hopeful that 650cc twins will boost international business for RE, similar to what Classic 350 did to India volumes.
- Management believes that these products are compelling, differentiated products and would be the #1 selling products among its offerings in developed countries. Apart from developed nations, it also targets South East Asia, ASEAN countries.
- Rolling chassis and engine is identical in the twins, difference lies in ergonomics and styling.
- Capacity for new products is fungible, except for engine capacity.
- Network expansion: It will continue to add 2-3 dealers/week. Currently it has ~750 dealers in India. Most of it new dealer addition is in small towns, resulting in lower volumes per dealer and skewed mix towards 350cc.
- International network expansion: It opened 1st store in Bali, Indonesia, with this it has 3 stores in Indonesia (2 in Jakarta). In Oct-17, it opened first store in Vietnam (4th largest motorcycle market) in Ho Chi Minh City. Also, it opened 1 store each in Austria and France. It now has 30 exclusive stores globally.

VECV

- Management indicated marginal loss in market share in the current quarter as a result of trading off market share for profitability. They expect to regain market share in coming quarters.
- VECV took price increase of ~1% for M&HCV in Sep-17.
- MDEP engine volumes at ~9k units – a growth of ~49% YoY (+24% QoQ).

ENDURANCE
Complete Solutions

Endurance Technologies — Buy

Current Price INR 1,203 — **Target Price INR 1,334 | 11% Upside**

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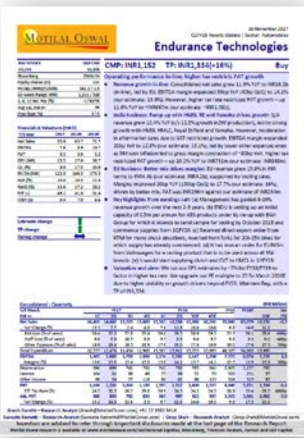

- **Steady growth riding on premiumization, increasing content per vehicle:** Management has guided 8-10% growth in revenues over the next 2-3 years. It expects growth to flow in, as it targets to increase content per vehicle and increase share of premium products in its product offerings.
- **Tie-up with BWI to tap ABS opportunity on track:** ENDU tied up with BWI for joint development of ABS products for application in two/three wheelers for which supply should commence by 1QFY20. ENDU is setting up an initial capacity of 0.5m per annum for which capex of INR600m is outlined. Under the schedule, prototypes will be sent out to BWI by October 2018, assembly will start in 3QFY19, and supply will commence from 1QFY20.
- Received **direct export order from KTM** for mono shock absorbers, inverted front forks for 20k-25k bikes for which supply has already commenced.
- **CVT – next big opportunity:** It would start supplying CVT to HMCL in 1HFY19.

- **EV – evolving opportunity for aluminum die-casting products:** Die-casting business to benefit from EV, as product platform has 20-year lifecycle v/s 7-8 years for IC engines.
- **Halol plant for HMCL to start by March 2018:** Its Halol plant for supplying front forks and shock absorbers to HMCL's Halol plant (100% share) would start operations by March 2018. Currently, it is supplying from Waluj, as HMCL's operations are yet to ramp up. It is manufacturing ~1,200 units a day and expects to reach ~4,000 units by early 2018.
- **EU business – new projects improve growth visibility:** EU subsidiaries are working on five new projects for VW, Daimler and Porsche, which would start between CY17 and CY20. These projects lend visibility, as booked business is till 2025 for engine components and 2028 for transmission components. ENDU has recently won an order for EUR45m from Volkswagen for a casting product that is to be used across all VW brands.
- **Aftermarket sales:** Aftermarket sales grew by 2.6% YoY in 1HFY18. Management has indicated aftermarket sales growth of +15% for FY18.
- Management has guided for **higher tax rate of ~34.5%** going ahead due to phasing out of investment allowance.
- VSS costs to come in 3QFY18.
- **Diversification on track:** ENDU's focus to reduce dependence on Bajaj Auto is progressing well. Share of Bajaj reduced to 35% of consolidated sales in 1HFY18 v/s 37% in 1HFY17.
- **Capex guidance:** FY18 capex guidance of INR2.75b for India and EUR15m for EU.

Escorts — Sell

Current Price INR 693 | **Target Price INR 688 | -1% Downside**

ESCORTS

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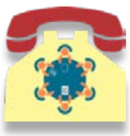
Results Update



- The quarter witnessed INR6.9cr of exceptional item on account of VRS given to 37 employees. Going forward, there is no near term plan to introduce VRS scheme, hence no exceptional items expected.
- The market share in 50HP category has increased from 6% to 8.3% YoY.
- The company continues to hold strong order book of INR175cr in railways segment which is expected to get executed in approximately next 8 months.
- The new products launched in tractor segment continue to witness traction with 20% of the total volume for the quarter being contributed by new products which are ~15% higher margin contributing.
- 1HFY18 witnessed 21% growth in industry on account of preponement of festive season. The growth is expected to be ~14% for the full year, hence resulting in a subdued 2HFY18.
- 1HFY18 has already witnessed ~2% impact on commodity prices, and going forward another 1.5-2% increase in commodity prices is expected in 2HFY18.
- The company plans to achieve an export volume of ~8000 over the next 4-5 years contributing ~10% of the total revenue.
- The margin expansion witnessed was on account of operating leverage playing out because of preponement of festive season and conscious cost reduction efforts taken by the company. Additionally, under GST the company avails input credit against taxes on overheads resulting in reduced other expenses.

Click below for
Results Update

Hero Motocorp — Neutral

Current Price INR 3,659 | **Target Price INR 3,819 | 4% Upside**

- **HMCL indicated healthy volume growth in urban and rural markets. While urban grew faster than rural in 1QFY18, both markets grew at the same pace in 2QFY18.**
- **Festive demand** was strong, with HMCL witnessing double-digit retail growth across its portfolio. Management highlighted that it performed better than the industry, effectively gaining market share in the festive season.
- HMCL is targeting market share gain in scooters led by product actions.
- **Commodity costs:** RM inflation impacted EBITDA margins in 2QFY18. Although it has not taken any price increase in 2QFY18, it would take appropriate price hikes to compensate for RM inflation.
- Company has accounted for 58% of the GST incentive in Haridwar plant (INR706.4m) pertaining to Central Government share of CGST. It awaits state notification on the balance 42% (INR511.5m), which is yet to be accrued.
- **Impact of loss of excise exemption at Haridwar (~100bp) would be diluted by ramp-up at Halol plant and Andhra plant (having sales tax incentive).**
- **HMCL's dealer inventory** stood at normal level of 4-6 weeks post festive season.
- Volume decline of Glamour was led by supply-related issues at the company's end, which now stands fully resolved. It expects volume recovery for the brand in the subsequent quarters.
- **New product launches:** Management believes HMCL is grossly underrepresented in the premium segment; it has guided for new product launches to strengthen its foothold in the category.
- **Capex:** HMCL has guided for capex of INR25b over FY18/19 toward capacity addition, upgradation, product development and digitization.
- Hero Fincorp financed ~9% of HMCL volume v/s ~10% in 1QFY18.
- **Exports:** HMCL indicated that headwinds in certain exports markets are gradually going away, and volumes will continue to recover sequentially.
- **Spare parts revenue grew moderately YoY, but increased by 18% YoY led by restocking**.
- Guided effective tax rate of ~29% in FY18E.
- HMCL has further invested INR200.5m in Ather Energy Pvt Ltd in the current quarter.

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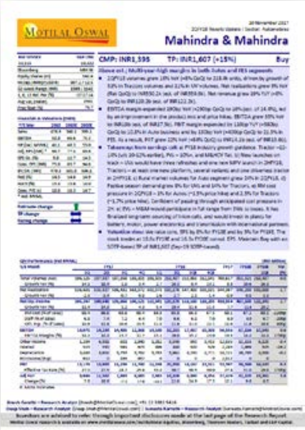
Results Update

Mahindra & Mahindra — Buy

Current Price INR 1,408 | **Target Price INR 1,607 | 14% Upside**

- For Tractors, **expects Industry to grow 12-14% in FY18 (v/s guidance of 10-12% earlier).** For YTD Oct-17 domestic tractor industry grew 15.5%. The positive rural sentiments and well spread of monsoon to benefit tractor industry in FY19 as well.
- **Expect long term demand growth at 8-9% CAGR for tractors.** As shared by the management, Tractor industry can saturate at 1.2-1.3m units, post which it would be driven by replacement demand.
- **In farm segment, the product launch pipeline remains strong** with MM targeting launch of new platform in 2HFY18.
- **Indicated PV industry to grow at 10% in FY18** (v/s guidance of 7-8% earlier). MM expects its growth momentum to continue in UV segment led by three refreshes launches in next two quarter and S201 (MPV) in this year and Tivoli based vehicle in FY19.


Motilal Oswal
Mahindra & Mahindra

- **UV festive season growth for M&M is 8%, LCV 18%, Trucks 96%, Autos overall 9%.**
- MM has **partially pass through increase in RM by taking ~1% price hike** in UV segment and ~1.5% price hike in tractors.
- **Exports in 2QFY18 impacted due to financing issues in Nepal while Sri Lanka market impacted due to regulation challenges.**
- **Timeline for petrol engine for all SUVs remain intact.** New product S201 will be launched with petrol. All BS6 models will have petrol variants too. Indicates three petrol engines (Ex <1ltr). 1) 1.2 ltr (KUV) including Turbocharged and GDI, 2) 1.5ltr including Turbocharged and GDI (joint development with SYMC) and 3) 2ltr including turbo and GDI.
- **Electric vehicles:** Earmarks capex of INR6b through Mahindra Electrics [EVs] – for component development, technology and product development.
- Indicated investment in battery plant, plant for motor and power electronics and transmission [with international JV partner].
- **Participating in full range from 3Ws to buses.** 3Ws currently finalizing Li-ion options for e-Rickshaw and e-3Ws.
- **Finalized long term sourcing of Li-ion cell, which will help to reduce cost. Current cost of Li-ion cell cost $200-230/Kwhr, expects it to go down to $120-125/Kwhr in three years.**
- **Ssangyong:** Volume decline of 2.2% 3QCY17 and 4.5% for 9M. PBT loss at INR1.03b. Though EBITDA is similar (excluding licensing fees last year).
- **Setting up green-field capacity in US for off-road vehicle applications**. 2 wheeler segment: Sales INR0.37b, PBT loss at INR0.21b and PAT loss at INR0.12b. Consol. PBIT losses for 2W business reduced to ~INR590m v/s ~INR1.24b in 2QFY17.
- **Losses in the CV business reduced substantially over previous years.**
- **Auto exports were impacted due to lower sales in Sri Lanka and Nepal, likely to recover in 2HFY18.**

Maruti Suzuki — Buy

Current Price INR 8,424 — **Target Price INR 9,466 | 12% Upside**

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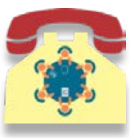

- Management indicated **double-digit retail demand growth during the festive**seasonof Navratri and Diwali. **Growth from the rural markets remains healthy at 21.5% in 1HFY18.**
- Demand for new models like Baleno, Brezza and new Dzire continues to be healthy.MSIL witnessed **~25% growth in petrol models.**
- **Commodity inflation:** Impact of commodity price inflation would reflect in 2HFY18.On a YoY basis, commodity prices are higher by 200bp (% of sales) in2QFY18.
- **Increase in GST rates for Hybrid vehicles has resulted in customers shifting toward non-hybrid variants.** Ciaz hybrid share has declined from 70% to 32%,whereas Ertigahas declined from 70% to 50% now.
- **Customer mix:** First-time buyers improved to 50% (v/s. 42% before two-threeyears).Fleet formed low-single-digit of its sales, while the share of governmentemployeesremained at 20%.
- **Average discounts declined to INR15,200 per unit (v/s INR16,600 in 1QFY18 and INR16,100 in 2QFY17).**

- **Gujarat plant update:** Contributed ~7% of volumes at 34k units in 2QFY18. To fullyramp-up by 4QFY18 and phase 2 to begin by 1QFY19. Gujarat plant iscurrentlyproducing 10,500 units per month, which is expected to eventuallyramped up to20,000 units per month by 4QFY18.
- **Royalty** in 2QFY18 was INR11.44b v/s INR8.8b in 1QFY18.
- **Tax rate** was higher due to lower investment allowance on plant and machinery, decline in R&D benefits and tax shields. Management guided for tax rate of 29%forFY18.
- **Capex:** For FY18, it is targeting to invest ~INR4b in capex (v/s ~INR32b in FY17). MSILhas spent INR14.58b in capex for 1HFY18.
- **Inventory** level after festive season at ~80-82k units (~14-15 days).

TATA MOTORS

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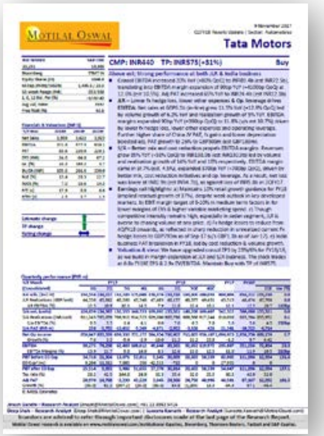

Tata Motors — Buy

Current Price INR 422 | **Target Price INR 575 | 36% Upside**

- **Maintains 10% retail growth guidance for FY18:** While outlook for autos in developed market has deteriorated in last few months, JLR maintained its 10% retail growth target for FY18 (implying 17% residual growth) driven by new product launches. Recent launches like Velar and New Discovery enjoys good customer response. Also, they don't expect substantial drop in volumes of RR/RR Sport in 3QFY18 despite phase-out for MY18.
- Production ramp-up for new models at Solihull would gradual ease, especially after shift of Discovery to Slovakia plant by 3QFY19.
- **Competitive intensity remains high**, especially in luxury sedan segment. JLR is not participating in heavy discounting and would not chase volumes at any price.
- **Forex hedge losses would reduce substantially from 4QFY18** onwards.Unrealized current Forex hedge losses have further reduced to GBP793m as of Sep-17 (v/s GBP1.1b as of Jun-17 v/s GBP1.6b as of Mar-17). Further, non-current hedge loss (>1yr) now stands at only GBP299m (v/s GBP564m as of Jun-17 v/s GBP1.1b as of Mar-17).
- **Targeting 8-10% EBIT margins over medium term:** Guides for EBITDA margins in FY18 to remain stable over FY17 of ~12%. EBIT margin target of 8-10% in medium term factors in for lower margins of EVs and higher variable marketing spend.
- **JLR is focused on cost efficiencies** (low-cost manufacturing base, significant material cost reduction etc) to off-set cost of electrification and potential normalization of China margins.
- **On the EV side**, JLR to launch plug-in hybrid Range Rover and Range Rover Sport in 2018 in addition to planned launch of I-Pace battery EV in mid-2018.
- **JLR Capex:** Guidance maintained at GBP4-4.35b FY18.

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TVS Motors — Neutral

Current Price INR709 — **Target Price INR 764 | 8% Upside**

- **Margin guidance intact:** Management reiterated its aspiration of double-digit EBITDA margin from 4QFY18, driven by operating leverage benefits and a favorable product mix.
- **Price hike to mitigate RM costs:** TVS has taken a price increase of INR250 per unit in Sep-17 to offset the rise in commodity prices. Management indicated that it would take necessary price hikes to pass on cost pressures, if necessary.
- **New launches:** It plans to launch new products in motorcycle and scooter segments in 2HFY18. New launches include the 310cc motorcycle based on the BMW platform, 125cc scooter and an electric scooter.
- **BMW alliance** - supply of BMW G310R in exports markets: Supplies to BMW of G310R and GX models are at ~2k units per month in YTD FY18. Management has guided for this to be in the range of 2-2.5k units per month in FY18.
- **Distribution network:** TVSL has added 150 dealers and sub-dealers from Sep-16 to date. Their distribution network now includes 1.1k main dealers and 3.1k sub dealers.
- **Investments in subsidiaries:** TVSL has acquired 100% stake in TVS Motor Services (holding company for NBFC arm) for ~INR46.2m, in turn TVS Credit Services (indirect stake of ~85%) has now become subsidiary of TVSL. It has also invested INR330m in Sundaram Auto Components Ltd, INR321m in PT. TVS Motor Company, Indonesia, and INR312cr in Emerald Haven Realty Ltd.
- **Sales from Indonesian subsidiary** are now at ~3k/month. 1HFY18 loss was lower vis-à-vis 1HFY17. Management expects it to EBITDA break-even in the near term.
- **Exports:** Management has guided that it will continue its growth momentum in exports. They see huge opportunities to grow in LatAM and Middle East. TVSL is gaining market share in LatAm and Asian markets.
- **Festive season sales -** Navratras to Diwali season growth has been good and TVSL has grown faster than the industry. Inventory at normal level of 30-32 days as at end of October-17.
- The Government grant (~INR97m in 1Q) was on account of CST from the state government, which was a one-time grant given to compensate on loss. TVSL will have to adjust its selling price in future to recover the loss.
- **Capex:** It expects to invest ~INR6b as capex in FY18, along with further investments in subsidiaries.

CAPITAL GOODS

Most Capital Goods companies shared a cautious stance on order inflow, given near-term disruption caused by GST implementation. Companies expect ordering activity to pick up gradually. Segments like transmission, renewables, defense, roads, and railways continue to show traction. On the execution front, there is a slowdown – GST transition has impacted projects under execution. Execution is likely to pick up in 2HFY18. Competitive intensity remains high.

In Consumer Durables, restocking has started to pick up gradually. However, secondary demand remains muted, with advance purchases by customers in June 2017 on de-stocking discounts given by dealers.

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY18	GST Causing Near Term Pain	Domestic Capex Cycle
Cummins	▪ Has maintained domestic revenue guidance to grow 5-10% in FY18 ▪ export revenue guidance cut to -5 to-10% as against earlier guidance of 0% to -5% growth in FY18	▪ GST has impacted revenue in 2QFY18 as customers face teething issues on GST transition	▪ Infrastructure demand remains robust
Larsen and Toubro	▪ Order intake guidance: cut to zero to marginal positive from 12-14% growth ▪ Revenue guidance: 12% growth ▪ Margin improvement of 25bp YoY from current 10.1%	▪ GST has impacted execution in the E&C business	▪ Domestic ordering has been slowed down in the near term given GST implementation
Havells	NA	▪ Restocking has not been to the required levels - trade has become more efficient and will stock less	NA
Voltas	NA	▪ Restocking has helped Voltas to register 15% growth in the room AC segment and has helped them to improve market share to 23% in 2QFY18 ▪ Secondary sales continues to remain weak given preponement of purchase that happened during June 2017 on account of destocking of inventory from dealers	NA

ABB

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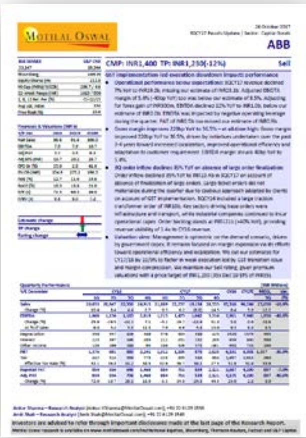

ABB India — Sell

Current Price INR 1,384 | **Target Price INR 1,230 | -11% Downside**

ABB India: Orders and sales impacted by the GST transition – bounce backover coming quarters l Key focus areas are Utilities, Industry, Infrastructure, Exports, Digitalization and Services l Exports at 20% of sales

Orders and sales impacted by GST transition - bounce back over coming quarters

- 3Q was impacted by GST transition – took a couple of weeks to stabilize internal processes, and customer also deferred sales as existing contracts were renegotiated. Impact on orders and sales during Q317 - uncertainty in market, customers looking for credit so impact on orders.
- Sales were deferred in Q317 and will start recovering from Q4; could see normalization from 1HCY18.
- Large orders for rail traction transformer in 3QFY16 (INR10b from Alstom) absent this quarter; adjusted for the large rail order, orders were flat YoY.

- More spending on operational efficiencies and strengthening existing infrastructure leading to brown-field investment - some traction in O&G, chemicals, cement, metals.
- INR300m of forex gain during the quarter was booked.

Key focus areas are Utilities, Industry, Infrastructure, Exports, Digitalization and Services

Utilities – state and central transmission utilities

- State-level utilities are increasing capex - lot of investments planned in this segment (61% of INR2.6t in 13th plan to be done by state utilities). State discoms need to invest in transmission for renewables and also strengthen grids - substations at the 400kv; GIS being used as ROW is a big issue. States will do 400kv and below voltage transmission network.
- PGCIL orders are slowing down - capex moving to states; PGCIL working with states to set up their transmission networks.
- ABB continues seeing growth in solar orders (+15% YoY, 13% of Q317 orders); Solar inverters share at 50% and completed 5GW of deliveries in July.
- Slowdown in wind segment on movement to auction v/s FIT earlier - from next CY expect wind installation to pick up; ABB supplies wind generators to the biggest manufacturers, 5GW wind generators in Q317.

Industry

- Primarily brown-field investments - O&G (+85%), Chemicals, Cement, F&B, Auto.
- Due to high NPAs with some of the largest groups in the country, there is very little new investments - primarily brown-field investments.

Infrastructure

- Govt. investment driving rail investments - this doubled during the quarter in terms of base orders.
- Participating in EV chargers tenders - high potential segment for ABB.
- Rail – RM, PG and EP division supply to this segment; ABB supplies to the bogeys which are getting modernized.

Exports and services

- Exports now at 20% of sales, while services at 15% of sales.
- Have a large installed base and this can be tapped to increase services sales.

BHEL — Sell

Current Price INR 87 | **Target Price INR 78 | -11% Downside**

Click below for Results Update

22% of order book slow-moving; executable order book at INR769b of the total INR971b

- Executable order book at INR769b, including Yedadari project (INR204b), of the totalorder book of INR971b.
- Focus is on starting stranded projects; Yedadri has started in Q218. Projectscopeincreased from INR180b to INR204b, as it includes SOX/NOX eqt., GST.Civil workscomponents were taken out.
- Sales weak in 1H18 as a) expected Yedadari clearance got delayed by six monthsdueto environment clearance issue; execution to now start in Q318; b) ExpectL1 ordersof Bhusawal and Panki to be finalized in 2H18.
- GST has not had any major impact on execution - impact more on debtors onamendments to purchase orders.

Debtors higher on renegotiation of purchase orders under GST

- Marginal increase of INR11b in debtors - this is on PO pending approval bycustomeron GST-related amendment.
- Of total debtors of INR330b, INR190b (same level as in Q1FY18) is the retentionmoney; purchase order amendment on GST led to delays in payment and willimprove in coming quarters.

Margins impacted by pay revision and higher contractual obligationprovision

- Other expenses higher on a) pay revision of INR2.5b in Q218 and INR5b in 1H18,b)Net creation of INR2.95b for contractual obligation, while Q217 had CO ofINR-830m.
- Other income of INR4.9b on forex gains of INR1.9b.
- Do not expect any improvement in pricing; focused on cost optimization andreducing material costs.

Orders at INR18.8b (+4% YoY) and order book at INR971b

- Orders at INR18.8b in Q218; orders primarily from industrial segment, with averyfew orders in Power segment.
- L1 in 6GW of orders, including the Singareni order – expect most of these orderstobe finalized in FY18. Another ~6GW of tenders already in the market.

Blue Star — Neutral

Current Price INR 702 | **Target Price INR 685 | -2% Downside**

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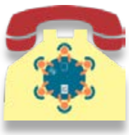


Motilal Oswal
Blue Star
CMP: INR763 TP: INR685(-10%) Neutral

Unitary Cooling Products – margins seen at 7-7.5% in FY18 on 120-150bpimpactfrom water purifiers

- Room aircon industry growth subdued in 2QFY18 on GST - secondary restocking had started in September; overall industry grew by 5% in value and Blue Star too grew at the same pace. Festive season has also been subdued.
- FY18 room aircon industry growth was expected at 15%. This will be challenging as Q1/Q2 were weak and Q3 too is likely to be subdued; normalcy only from Q4FY18E. Industry seen growing at 10-12% and B Star in line with market for FY18.
- 11% share in room aircon; expects to retain share over the next few quarters.
- No price hikes were taken post GST - RM prices higher by 8-10%, but still not revised prices and likely to do in Q4 with the new energy rating norms. Waiting for some more price stability in the market before taking any price hikes; have been absorbing the impact in 1H18
- Q418 onwards - 5 star and inverters will grow disproportionately; Inverters sales are rising and will continue over next few years; 40% of sales from inverters/5 star; 25-30% of sales for industry are inverters, and grow to 50% in next 2 years.
- Pre-buy could be muted based on weak restocking by the channel till date; can expect some pre-buy in December, but will wait for this.
- Margins: 9-10% excl. water purifiers, and taking into account 120-150bp, the margin for FY18 is seen at 7-7.5%

Water purifiers

- Products have been well received - industry growing but pricing is under pressure for the industry.
- 110 town, 450 dealers have B-Star water purifiers.
- Results impacted by 120-150bp from investments in water purifiers – this will continue into FY18 as well.

Electro mechanical projects – driven by government projects; private capexabsent

- Market demand slowed down on uncertainty of GST and sluggish private capex.
- Segments doing well are metro, government funded projects – Blue Star is already executing projects in Delhi, Bangalore and also a few more in the pipeline.
- Private sector capex still not started - B Star growing as it a) is a complete EMP player v/s only HVAC, and b) has shown consistent execution capability

Crompton

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Results Update


Motilal Oswal
Crompton Gr. Con
CMP: INR219 TP: INR260(+19%) Buy

Crompton Greaves Consumer Elec Buy

Current Price INR 245 **Target Price INR 260 | 6% Upside**

Revenue: Growth led by market share gains

- Revenue growth (adjusted for excise on manufactured and sourced products) standsat 15.9%. ECD segment registered 11% growth, whereas lighting segmentregistered25% growth.
- Revenue growth led by product innovation, focused distribution networkexpansionand provision of quality products at a right price.
- Primary sales growth during the quarter is similar to secondary sales growth, implying low level of restocking in the channel.
- Growth driven by the company's implementation of go-to-market strategy.

GST: Still work in progress

- Crompton has witnessed gradual improvement in sales every month post GST implementation.
- GST transition still in progress and expect the transition to complete by March2018.
- Focus on retail distribution; assurance to dealers on protecting them from losses arising on account of input tax credit denial led to less volatility in sales forCrompton.
- Trade now operating at lower inventory levels and is expected to operate atsimilarlevels given system efficiency.
- Shift from unorganized to organized segment category has not been witnessed during the quarter.

Fans Segment: Market share gain led growth despite decline in overall market size

- Fans market has been declining over the last 8-9 months impacted by GST, demonetization and a decline in new housing projects.
- During the quarter, Fans market has registered decline of 4%; however Cromptongained 4% market share.
- In ceiling fans segment, Crompton's market share stands at 27%.
- Premium fans share in the overall fans segment sales has reached 18%, as comparedto 7% earlier. Focus continues to remain on increasingpremiumization categorysales. Anti-dust fans has seen huge success.

Lighting: B2C segment showing strong traction

- Strong growth in the B2C segment sales (+30% YoY).
- EESL sales during the quarter stood at INR530m, as against INR380m in 2QFY17.
- LED now forms 71% of the Lighting category sales. 60% of LED sales comes from fixtures and balance 40% from LED lights.
- Do not expect much change in revenue mix and expect the margins to remain stablegoing ahead.

Pumps: Weak quarter impacted by seasonality

- Agri pump business has witnessed slowdown given seasonality factors.

- Crompton is a market leader in residential segment, and demand in segmentcontinues to remain strong.
- In the solar pump segment, Crompton does not provide solar panels and accessories.

Margins: Margins improvement led by premiumization and lower ad spend

- Margins improvement led by a focus on premiumization and a reduction on adspend activity during the quarter.
- There was close to zero ad spend during the quarter (given GST implementation) asagainst average quarterly spend of INR100m.
- In 3QFY18, ad spend has come back to normal levels.

New product category plans

- New product introduction highly urgent, but expansion will be done on data analytics basis so as to have assurance on growth potential of the new markettheyenter into.
- Have sent EOI for the Kenstar acquisition.

CG Power Industrial Solutions — Neutral

Current Price INR 84 | **Target Price INR 90 | 7% Upside**

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- Margins in Industrial systems have improved significantly.
- Indonesia sales have recovered quite well.
- Across the board growth seen in transformer, switchgear, rail, drives andmotors.

Power systems

- 6-7% growth in Q218, INR6.3b in Q217.
- EBITDA margin of 8.7%.
- Industry is still quite subdued: transformer is more subdued and price fall remainssignificant. CG focusing more on margins than sales.
- Switchgear - got approvals from customer and will see good growth in coming quarter.

Industrials

- INR4.5b in Q217, +18% YoY growth.
- 9.6% EBITDA margin v/s historical margin of 12%; have taken care of commodity hikes, GST.
- IE1 to IE2 cut on 1st Sep - first to certify by BEE. Deadline shifted to 1st January,2018. Dealers got a breather to sell of old inventory and stock-up on newinventory.
- Drives - at INR1b of sales.
- Motors - markets growing in single-digits, but CG growing faster on its reach(+17-18% YoY). Unorganized is losing out to organized sector.
- Margin - improvement on price hikes taken.
- Expect growth to continue in mid-teens with margins back to historical levels.
- Still not taken complete price hikes in this segment and will do so in comingquarters.
- Not seeing any major revival in steel, cement - irrigation, road building etc, concreteequipment seeing good demand.
- Cement - latent demand there, but Power and steel is very subdued
- LT motors - CG significantly ahead of competition here.

Non India continuing business

- Indonesian business and Sweden (Emotron).
- Complete recovery from sales lost in Q118 and 15% margin.
- US will be in wind-down mode and sales will continue to come down.
- INR9.2b in Indonesia of order book and INR0.5b in Sweden of order book; have a strong order book in Indonesia. Indonesia sales are EUR107m in CY16 and 15%margin.
- UK systems have also been wound down; one order got spilt into Q218 and has been completed.

Divestiture

- Target of November 2017 to divest the Hungary business.
- Loss of INR4.3b in Q218, of which INR2.7b from GW loss on sale of Hungary; INR0.3bfrom distribution Jalgaon.
- INR1.3b of operating loss in US and Hungary together - in line with Q118.
- US - operating loses up to 31st July had to be booked till sold to WEG, and adjustment made further in Q218 (Rs33cr) and Rs16cr in Q118.
- Hungary/Ireland - operating loss in Hungary of INR1b as plant is not working wellsince getting sold and also legacy issues being sorted off, so INR1b of loss. Ifsold byNov, will have to book INR1b in Q218 as well and an INR8cr in Ireland.
- Ireland will not happen in Q318, so INR8cr will go away - balance INR92cr will continue.
- Systems of US/UK will continue in losses.
- Belgium - Strong performance during the quarter; high-teen growth this quarter; reported +ve EBITDA.
- Increase in debt is to prepare for divestment; funding of losses for Hungary.
- Net debt of INR13.5b and INR10b as of Mar'17.
- Avantha Power undergoing a restructuring - holding of <20% earlier but with restructuring the share has gone up; therefore booked losses in Q218; postrestructuring will take a write-back on these losses.
- L&A - INR1880cr of loans to subsidiaries after adj. for exchange is INR2.7b,which isthe increase in debt and amount infused into subsidiaries.

Cummins — Buy

Current Price INR 853 | **Target Price INR 1,150 | 35% Upside**

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For FY18, domestic growth guidance of +5-10% YoY maintained, while exports guidance cut to -5-10% (from flat to -5% earlier); GST impacted 2QFY18 sales, but expect a bounce back in the coming quarters.

- Keeping the full-year guidance for domestic sales growth at 5-10% for FY18, Exportsgrowth guidance at -5-10% v/s flat to decline of 5% earlier.
- Impact of GST was severe in Q2FY18 (teething issues as customers transition to GST); already seeing an improvement in Q3FY18; also had supply chain issues asvendors gear up for CV upsurge (+58% QoQ) as India moved to BS-IV from Apr17(which affected supplies). 2500 vendors in India - these make radiators,crankshaftsfor engines across CV (300,000 units for M&H CV market), and witha surge in DGdemand, this led to lower supplies for DG engines.
- Underlying domestic demand very strong; expect a bounce back in the following quarters – lost INR800m in spares segment and INR200m in power generation.Another, INR100m of sales lost on price cuts post GST.

Cummins India

Gross margins in Q218 will be maintained – cost cuts and better mix helpingimprove margins

- Material margin (excl. other income) has improved significantly: +1.5% QoQ, +1.2%YoY. Mix was also better during the quarter, which helped margins; costcut effortstoo offered support. Should be able to maintain material margins forthe rest of theyear.
- Improvement is due to cost-saving efforts and also better mix.
- Value Engineering Programme with vendors (ACE) helped them reduce costs.Mixhas been adverse for them for a long term. Has been favorable in Q218.

15-20% sales CAGR seen in industrial segment – road and rail driving growth

- Road activity is very strong - positive impact on construction and portablecompressors.
- Rail very strong for them: +44% in 1H18.
- Marine: Government is building out the navy, coast guard and patrol ships.Yardsare full with orders and struggling with supply chain issues; movement isslow.Demand is again very robust.
- Defense - small piece for them; potential is there, but slow down due toprocurement issues.

Exports – HHP engines demand improving, while LHP has bottomed out

- Sluggish low kva DG exports: Don't expect any significant improvement; stay atthese levels in the near term. Key end-market of Africa is still struggling atcurrent oilprices, and local governance and cash flows issues are still there.However, worst isover and medium-term will see improvement. Still believe cango to INR20b inmedium term from current INR7b.
- HHP engines exports are improving, driven by better global demand in powergeneration markets.
- Cut FY18 export growth guidance to -5-10% v/s flat to -5% decline earlier.

Domestic Power Generation - focus on retaining share

- Not sure will be able to pass all price hikes, as competitive intensity remainsveryhigh.
- Would like to hold share - cut prices, but save margins via cost cutting.
- Underlying demand in power generation is growing 5-10%; not worried from theQ218 results as this was impacted by GST.

GE T&D — Neutral

Current Price INR 405 | **Target Price INR 440 | 9% Upside**

ALSTOM

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Overall business environment and GST impact

- CK1 (Pole 2) was commissioned in Q218, transmit 3GW of power via HVDC;StartingCK2 with 3GW and post commissioning a total of 6GW (INR8.5b).
- All orders from the private sector and none from PGCIL/states.
- Q218 sales have been flat YoY - GST impacted sales.
- Orders coming in from state transmission companies and less from PGCIL in the next 1-2 years;nottoo many generation companies looking at ordering out.
- Solar business is also picking up; will look at BoP orders from here.
- Bangladesh HVDC line is being planned.
- No substantial nos. from railways at this point.


GE T&D India
CMP: INR405 TP: INR440 (9%) Neutral

- Looking at rail, renewables, Intra state transmission schemes; INR200b/annum oforders could come through with states capex funded by REC, PFC, WorldBank.
- Q217 had large orders and Q218 has seen fewer orders from PGCIL as not much ordered from here; had more of private orders; would like to grow in doubledigitsin FY18 and 1H18.
- Are already seeing an uptick from the states in order mix; focus more on power generation companies and state discom orders. Most states are still ordering on normal tendersand very few on reverse auction.
- Competitive intensity is higher in states than in PGCIL, as the ratings are also lowerin this case.
- PGCIL - orders were separately done earlier; now on a single package, which issamein states; 765kv also coming from power generation companies /TBCB/states.

Execution

- Will be able to recover the sales lost during Q218.
- GST-led deferment was evident in Q218 - tried to pick up in September, butcouldnot make up completely. This will be made up in coming quarters.
- CK2 (Pole 3/4) - complete in FY19E.

Margins

- Had closure of a large project, which gave them a good margin.
- 1H18 margins will be sustained - pricing pressures in the market remain, tryingtooffset these by operational efficiencies.
- 7-8% EBIT margins are achievable - will try to do it despite pricing pressure andalsoincrease this margin.
- Gross margin could sustain on 33-34% level.

Competition

- Need to have a factory in India for transformers and GIS.
- GIS - domestic manufacturing has been there for 2 years and is helping them.
- State com/SVC - not many tenders floated by PGCIL, but with growing share ofrenewables, expect this to pick up further; studies being conducted and tenderstobe issued only post this.
- Alstom prequalified for 400/765kv GIS to supply to PGCIL - even states movingto AISfrom GIS in semi-urban areas.

Working capital and debt reduction

- Will sustain at these levels - have been able to bring down loan levels and willremain at these levels.
- Debtors have been bought down - have some sticky orders.

Exports

- 10-12% of sales are from exports.
- Target is to sustain this level.
- Would continue to look at exporting products from the Indian entity.

Solar opportunity

- Solar is a challenge - falling tariffs; pressurizing equipment suppliers.
- 15% of overall orders are coming from the solar market.

Rail opportunity

- Transformers, circuit breakers, relay panels.
- 5% of sales is services, while 20% is grid automation.

MOTILAL OSWAL

HAVELLS

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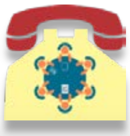

Havells India — Neutral

Current Price INR 511 — **Target Price INR 570 | 12% Upside**

Restocking slower than expected in 2QFY18 – festive season sales subdued

- GST disruption continues and more so in electrical products, where GST rate has gone to 28% from 18% (Excise + VAT in most states) - trade is delaying restocking; if rates not reduced, could see unorganized take share.
- Restocking has not been to the required levels - trade has become more efficient and will stock less, more so given the current market conditions. 2HFY18 to be better, but restocking will not go back to normal level.
- Construction and industrial end-markets are seeing weak demand, as reflected in weak sales growth for Havells despite restocking which started in 2QFY18.
- Difficult to say when switchgear and cables will resume growth as they are highly dependent on housing sales; lighting growing on LED switch from CFL; ECD driven more by replacement than new demand.

Targeting double-digit growth for FY18

- Dependent on improvement in the industry conditions. During 2QFY18, 4% growth in core Havells (ex Lloyd) and 7% including sales from earlier exempted zones.Lloyd saw 11% sales growth.
- Festive uptick has not been as expected - consumers and channel are stillcautious.

Margin improvement driven by price hikes in cables/wires and withdrawal ofdealer schemes

- During Q218, have been able to pass on all higher RM costs and GST-related taxchanges to end-consumer; price hikes only in wires/cables on higher copperprices.
- Old copper inventory in cables, decline in ad costs, and gain on sale of tax-freebonds helped improve margins for the company during 2QFY18.
- Margins were hit since demonetization on dealer schemes and then by highercommodity levels - are coming back to normal levels which are ~13.5-14% inthenear quarters.
- Wires price hiked by 12-13% and cable price by 5-6%; other segment marginimprovement is primarily on roll back of dealer incentive/schemes.
- Ad spends will revert back to 3-3.5% of sales from 3QFY18.

Lloyd Electricals – 11% growth in 2Q18; yet to take any price hikes

- Lloyd grew 11% in 2QFY18 and margins were at 7% - controlled costs helped toincrease margins in 2QFY18.
- No price increases taken - implemented singular price across dealers.
- 70% of total sales to be aircon and balance primarily for TV and then WM.

Cables and wires – price hikes offset volume decline; margins surge on old copper inventory and higher share of wires

- Higher margins in this segment on a) sale of old inventory of copper and b)positive product mix of domestic cables, which have higher margins - 54% in2QFY18 v/s 50% in 2QFY17.
- Input costs higher, so have taken a few price increases in 3QFY18 as well - commodity markets are still very volatile.
- 5% YoY volume decline in wires and 12-14% YoY in cables, while wire price hikedby 12-13% and cables by 5-6%.

KEC INTERNATIONAL LIMITED

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Results Update

KEC International — Neutral

Current Price INR 296 — **Target Price INR 350 | 18% Upside**

Overall GST and business environment

- 5% growth excluding GST impact on sales
- International grew strongly, while domestic saw a slowdown on deferral by customers.
- GST led to a) tender delays, deferred, and b) solar seeing slowdown, so lookingatexport markets.
- Share of non-PGCIL orders has gone up - SAE has won 2 large EPC projects .
- BOT to be commissioned soon.
- Orders for FY18 targeted at INR130-140b.
- PGCIL - most orders are on TBCB and not nomination; PGCIL likely to win theseandgive out orders.
- SEBs - earlier primarily from South; PGCIL tying up with Bihar, UP, Orissa, North East,and also Gujarat seeing tenders coming out; FY19 will see better capex bySEBs.
- Civil - doing very well with INR4b order book, PBT breakeven; not seeing any big jobs. Expects to clock INR10b of sales in civil.
- M. East - tendering is improving in Jordon, Egypt. Saudi still doing very low tendering, but a long tender list. Saudi has cleared all outstanding, and expects arevival in a few months; should bounce back with oil prices.
- Africa - significant growth seen in Q4/Q119 with large projects being planned.
- SAARC - Bangladesh, Indonesia too seeing good traction.

Margins

- 10.1% margins (+130bp YoY).
- Don't expect any significant impact on margins from commodity prices – already inthe margins as of Q2.
- PGCIL margins at 10% at the time of bidding.
- Margins will likely be at 10% in FY18, up from 9-9.5%; 9.7% in 1H18. Higher on account of a) taking only higher-margin orders, b) operational efficiencies, c)projects completed on schedule, and d) steel is 15-16% of project, so notaffectedand domestic is pass through
- SAE is at 10% margin and improve with the large EPC orders; cables is 5-6%; T&Disat +10% margin.
- Focused on profitable margins and expect margins to expand over the next few years.
- 30% of orders have a price variation clause.

Working capital

- Receivables higher on delay in making invoices and collection.
- Brazil saw delays in one project - this has been restarted.
- Higher state orders could lead to higher WC; will take higher margin to compensate.
- Saudi receivables - all approved bills have been paid and no current O/S, asmoreprojects get completed; retention will be released.
- Interest rate is 7-7.5% and has come down with a rating upgrade and lower interestrate; will maintain at 2.7% of sales.

Ordering environment

- Domestic at 65% of total, despite PGCIL not contributing; got a large private sectororder during Q218, and SEBs are also starting to spend. INR40b of L1 andsignificantportion from SEB.
- Rail is doing well and upcoming L1 from T&D.
- SEBs are 32% of order book and balance 20% from PGCIL and private sector;52% isIndia order book.

Execution

- 5% growth if GST impact not there on sales in Q218.
- Sales will be in 10-15% in Q218; orders got postponed and so were execution;5%impact on the Indian business. Delay on account of GST will be compensatedmorein Q4 and less in Q318.

Working capital

- Seeing some stress on cables - went to 28% v/s 18% earlier; is impacting the WC.Otherwise, no material impact on GST.
- Net debt impacted by GST as WC debt taken in Q218; so should come down toINR20b.
- Tax rate at 34-35%.
- 50% of debt is overseas.

SAE Towers

- Was doing INR10b annually and will do a similar no. this year as well; got intoEPCwith 2 more orders in Q218; sales from these orders will start only from2H18.
- PGCIL also participating in Brazil - Sterlite has already won an order.

Rail

- Target is to do INR7-8b in FY18 vs. INR4-5b in FY17; Sales can touch INR20b in 3years.
- INR1.4b of orders in railways in Q218; FY18 target is INR20b.
- Rail stopped tendering in Q218 on GST; INR70b of bids put in the railways andexpect good orders in Nov-December.
- Rail electrification target at 8,000kms in 3 years; wants to reduce timelines;4000kms target and KEC is doing 1000kms (25%).
- INR1.3b is capex and KEC can potentially do 50% of this opportunity.
- DFCC - KEC quoted and will get into this as well.

Larsen & Toubro — Buy

Current Price INR 1,228 | **Target Price INR 1,450 | 18% Upside**

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Execution and sales growth

- Earlier 12% growth guidance and can meet this guidance in FY18
- Sales growth driven by water, transport infra, Heavy Eng (defense jobs) andservicesbusiness
- GST transition and execution constraints in a few project(13-14 projects) hamperingrevenue growth in infrastructure; domestic is doing ok but stillseeing someconstraints but tapering off in Q318
- Other segment subdued on low growth in Realty and Valves segment
- Industrial off-take is still very soft
- Overseas infra is going on as per schedule - no issues in Qatar. Some payment delaysin Saud Arabia

- Qatar is INR1400b of the INR700b; disruption in supplies as earlier coming fromSaudi but this has taken the sea route, Execution continues well
- Realty - sales from Powai may not come through this year so realty sales may dipthis year

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Thermax Neutral

Current Price INR 1,020 **Target Price INR 930 | -9% Downside**

GST implementation hurts execution in 2QFY18

- GST implementation had an adverse impact on sales – input tax credit for oldinventory is given to all sectors, except cap goods. Therefore, sales wereimpacted inJuly. Started billing from second half of July, but still glitches arethere on matchinginput credit and slowed execution. Have already bookedINR1b in 2QFY18, whichhad been deferred from 1QFY18.
- Sales missed out in 1QFY18 have been booked in 2QFY18 - within July, 75% of thenormal sales lost, while Aug-Sep also below normalcy.

Cement, refining, fertilizers, F&B seeing pick-up in capex

- **Cement:** Some +ve movement being seen, and Thermax has won a few WHRG orders during the quarter; WHRG-based power plants for cement will continue.Also, expect new fresh capacity to be ordered in 3-4 quarters.
- **Steel** – is looking up on enquiries, but pricing is subdued. Enquiries coming from sponge iron from eastern India.
- **Fertilizers** – three plants coming up for modernization and in PQ stage from 3QFY18.
- **BS VI** – partially ordered out and Thermax won a few orders. Stage 1 is INR3-4b,ofwhich Thermax won a sizeable; market size is INR6-8b for stage 2, which willbeordered out by 1QFY19.
- **Refinery** – Thermax will bid for boilers, heaters, water treatment, waste water treatment, air pollution; scope of work of a green-field refinery is INR5b+ forThermax. If there is a CPP as well, then it is INR10b, since the CPP will be INR5b.
- **Textiles** – 7% of overall orders in SA and also seeing traction.

INR10b+ of sales from new factories in five years

- **Resins plant, Dahej** - Five years can add INR2.5-3b in resins.
- **Standard products plant, Indonesian** - currently doing Ph1; Ph2 complete; fullcapacity can do USD100m of product sales.
- **Chillers, AP** – 850 nos. overall, with full capacity but 450 nos. initially; within 7years,can do 850 chillers and can add INR3.5-5b.

Chemicals – one-time order in 2QFY18 leads to better margins

- Special order leads to better margin; average margin is still above environmentmargin. Got an order from N America well operators, who are looking todevelopingcountries for sourcing cheaper ion exchange resin.
- Initially a resin maker, but now 55% of chemicals is resin and 45% isspecialty/performance resins of chemicals.
- Resins – with new factory, 12,000 ton capacity v/s earlier 10,000 inMaharashtra;add another 8,000M3 to 20,000M3; can take to INR8b fromINR1b. Resins isprimarily exports - goes into water treatment; US is USD12-15m,expect better saleshere.
- Specialty chemicals – focus on high performance chemicals, so as to get 10-12%margins.

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Results Update

Va Tech Wabag — Buy

Current Price INR 549 | **Target Price INR 745 | 36% Upside**

Working capital impacted by GST-related contract amendments

- Debtors have seen an increase on GST as: a) Municipal contracts were earlier exempt on water portion, but now GST is applicable. Earlier at 18% and thenboughtdown 12%; had to amend contracts - could not bill till contracts werefinalized. b)Exports - local procurement for exports was earlier tax exempt, butwith GST, thishas to be paid and refunded. Now has been withdrawn; had animpact of INR200-250m.
- Seeing an improvement in debtors as billing picks up; by 4QFY18, expect normalcy.
- AP Genco - INR5b of receivables; some execution still to be done till Dec'17 and expect it to be lower by INR1.5b and another INR1.5b in FY19.
- NWC - currently at 100 days in Q218; could be brought down to 70-75 days; payables down as large contracts going on through construction work and havetopay the contractors readily.

L1 in INR19b of projects; pipeline is strong in SE Asia, M. East and Africa

- INR19b in L1 or preferred bidder for project - by January can convert most of theseorders into firm orders - all EPC/DBO projects.
- Nemelli Phase 2 (150MLD) - political uncertainty in T Nadu has delayed theproject;5 bidders submitted technical bids; Q4 should see price bids beingopened. OnlyIndian company to submit the bid.
- Mumbai STP - change in standards of waste water with relaxation being given; Expect most of the tenders to be out for bidding and technical bids to besubmittedin 1-2 quarters.
- Namami Gange - N Gadkari has been bought in to resolve issues and bring tractionin ordering. Few projects coming up for tendering; First 12 projects onEPC and thenHAM model.

Projects execution continues to be robust

- Petronas - Engineering is in completion phase; bulk of the eqt has reached site; Construction in full swing and 60% of work done; Hydro testing has started.Mechanical and electrical started.
- AP Genco- post synchronization Q1 and COD by Dec 17; residual and finishingworkto be complete by Q119; INR1.5b should come by Q417; INR1.5-2b inFY19; 10% ofcontract to be paid 1 year post-handover.
- Polghawela, Sri Lanka - design phase with basic engineering approved. Ordersplaced for long date items and procurement on schedule; 80% land handedover;civil construction to start in Jan18 and complete by Mar20.
- AMAS Bahrain – Engr. complete, civil work in late stage - 90% complete; Electromechanical to be completed by Dec17; Pre-commissioning by Mar18.
- All international projects are going on time - expect execution to remain strong andmargins should sustain as in 1H18.

VOLTAS

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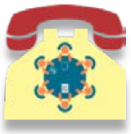
Detailed Concall Transcript &
Results Update



Voltas — Neutral

Current Price INR 629 — **Target Price INR 550 | -13% Downside**

Projects

International projects

- The situation in GCC countries indicates a slow pickup in economic activity, mainlytied to the upcoming mega events in the geography.
- In the UAE, witnessing award of contracts to the main contractors for Expo 2020 related work at Dubai.
- As far as Qatar is concerned, the company remains conscious of the political impasse and has adopted a cautious approach toward suitably risk-mitigatedorderbooking.
- Have been very prudent in picking up profitable projects - also focusing on closingprojects and receiving cash on these projects.
- INR6b of projects in Qatar - looking at alternative sources for products.

Domestic

- GST-related issues have impacted turnover of this business, as contracts getting renegotiated; this took some time to settle down and hurt execution for themandwill continue into Q318 as well.
- Margin improvement on focus on better-margin orders.
- Govt. on infrastructure and electrification projects will drive orders in the
- coming quarters
- Rural electrification - been able to pick up sizeable jobs, which are suitably risk mitigated – very selective in states where they are working.
- Metros - focus more on underground metros; contracts are there for MEP post thecivil contracts being awarded.
- GST impact to continue in domestic projects in Q3 as well.

UCP

- Q2 witnessed restocking of inventory; however, secondary demand was affecteddue to pre-buying in June and prolonged monsoon.
- Voltas brand maintained its No. 1 position in the Room Air-Conditioner marketandimproved its market share to over 23%.
- The early to market festive campaign, combined with customer friendly promotionaloffers/dealer support measures, met with an encouraging responsefrom the Trade.
- Ramped up our products, with the right mix in the energy efficiency segment,whichare being well received in the market.
- Industry: 20% of inverters and 15% is for Voltas - have launched a no. of SKUs inQ218 and made available across counters.
- Inverters - will grow but not exponentially.
- RM prices have been rising - bought the components much in advance and hasbeensold out of the inventory; so not much impacted by the rising RM prices.
- Festive season - has been muted this year. Q218 is more of restocking impact,butsecondary sales have been flat for them in Q3.

Market share gain in Q218 - gains driven by overall strategy,

- Energy rating norms - too early to comment on pricing of EER models; Voltas isprepared to launch new models.
- Room aircon market was flat YoY.

- Q4 is very critical - Q3 is a weak quarter and therefore Q4 will determine overallA/Cgrowth; 1H18 growth is 12% in volume terms.
- Top 30 cities contribute to the bulk of A/C sales.
- 14,000+ touch points for room aircon.
- Room aircon industry grew by 12% in 1H18; 2H18 would be dependent onsummerseason.

Engineering products and services

- In the Textile Machinery business, the lingering effects of demonetization apart,challenges in the GST implementation for the sector have slowed downinvestmentsin new projects.
- Pressure on margins due to the declining yarn prices and residual ambiguity onimplementation of state-specific policies.
- In Mining and Construction Equipment, Mozambique operations contribute asignificant share to the Division's performance.

Arcelik JV - launch delayed to 2H19

- Locations for manufacturing are being finalized.
- Brand logo, imagery have been finalized.
- Personnel from both sides appointed across finance, manufacturing.
- Working on Go to Market strategy for the durables product.
- Will launch with a bouquet of microwave, fridges, washing machines whichstandout in product quality and do a proper testing before launching theseproducts.
- Likely to launch the products to 2HFY19 - competition will be intense. So willlaunchvery carefully.

Companies expect demand revival to begin from 2HFY18, led by pick-up in rural demand on the back of good monsoon. With no capacity additions coming up for the next 18-24 months in the North, utilizations are expected to improve, leading to better prices, and hence, better realizations. The recent increase in petcoke prices is likely to impact the cost curve of cement companies in 2HFY18. Additionally, higher diesel prices and busy season surcharge in rail transport would increase freight cost.

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook FY18-19	Volume Growth
Ultratech	▪ The outlook for the sector remains positive due to demand generated by affordable housing, better monsoon and rural demand. ▪ Management expects healthy demand from the west due to projects likeTrans harbor link. ▪ Also, the bullet train project will provide significant boost to the cementsector. ▪ Utilization levels for Ultratech stands at 65% north; 50% central; 70% East;50% south and 70% west ▪ Rebranding exercise for acquired assets was completed with pricing at parwith UTCEM. ▪ Capacity utilization for JPA assets will reach 60% by June 2018	▪ Volumes increased on account of ramp up of acquired JPA assets ▪ Demand in most of the markets was hit by sand mining ban. However, the ban has now been uplifted in certain states, and demand should gain momentum going forward.
JK Cement	▪ FY18 should witness grey cement volume growth of 7%. ▪ North is operating at 76% utilization while south is operating at 56% ▪ Company plans to incur capex of INR2-2.5b, of which INR250m will be utilized for putty expansion; INR300-400m for acquiring mining land; remaining INR1,050m for maintenance and environmental capex in existing plants. ▪ Katni expansion will be completed by June 2018, post which capacity of putty will be 0.9mt	▪ White cement (incl. wall putty) volume rose 8.5% YoY to 0.30mt due to GST-led restocking and Katni unit ramp-up. ▪ Grey cement volume rose 17% YoY to 1.93mt due to higher clinker exports to Nepal and strong growth in north due to market share gains (led by ramp-down of Binani Cement)

ACC

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ACC Ltd — Neutral

Current Price INR 1,706 — **Target Price INR 1,797 | 5% Upside**

- Raw material cost/t increased 14% YoY due to an increase in slag price and sourcing of fly-ash from long lead distances.
- Raw material cost increase was limited to some extent via gypsum and raw mix optimization.
- Power and fuel cost/t increased 7% YoY due to a rise in petcoke prices and higher cost of domestic coal due to unavailability.
- The company could improve energy efficiency to some extent via higher usage of alternative fuels.
- Rail freight cost reduced to lower lead distance.
- Road freight was maintained at the same level as of previous year.
- Freight cost/t excluding the impact of commercial terms declined 2% YoY due to lower lead distance of rail.

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Birla Corporation
CMP: INR1216 TP: INR1435(+18%) Buy

Birla Corp — Buy

Current Price INR 1,128 — **Target Price INR 1,435 | 27% Upside**

- The subsidiary, Reliance Cement has operated at 67% utilization for 2QFY18. The utilization for other units was impacted due to weak demand in core markets of U.P.
- Eastern operations witnessed good demand coupled with higher share of premium products.
- Satna unit of Reliance cement witnessed decline in utilization to 67% in 2QFY18 due to weak demand in focus markets.
- Higher input cost in form of petcoke prices impacted margins in the segment.

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Dalmia Bharat
CMP: INR2,975 TP:INR3,517 (+18%) Buy

Dalmia Bharat — Buy

Current Price INR 3,028 — **Target Price INR 3,517 | 16% Upside**

- East has grown by 9% YoY in 2QFY18 and 19%YoY in 1HFY18, and should continue to report robust growth led by favorable demand from affordable housing.
- AP/Telangana should grow at 15-18% for the year having witnessed growth of 18% YoY in 2QFY18. Irrigation projects and upcoming projects in Amravati will drive growth in this region.
- Karnataka should grow at 5-6%YoY for FY18, while North-East is expected to grow at 4-6% YoY.
- Increase in slag and petcoke prices has impacted unitary cost. Slag prices have increased from INR700/t to INR1,100/t in the last 3-6 months. Consumption rate for Dalmia is USD 85/t, as against industry average of USD 105/t, while petcoke is 76% of the fuel mix.
- The company has increased its inventory of slag and petcoke, which has led to an increase in working capital by INR2.5b.
- Freight cost increased only 3% YoY, despite a 7% YoY increase in diesel prices, as lead distance reduced to 270km from 290km earlier.
- Net debt has reduced QoQ by INR3.2b. Net debt/EBITDA stands at 2.2x.
- The company is likely to complete the commissioning of a 9MW WHRS in Orissa by March 2018 toward which it will incur capex of INR1b.
- OCL merger should be complete by FY18-end.

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Grasim Industries — Neutral

Current Price INR 1,182 — **Target Price INR 1,302 | 10% Upside**

Viscose Industry

- Demand for VSF is growing at a double rate than for competing fibers.
- VSF prices remained firm during the quarter, led by plants closures/downturn in China due to environmental factors.
- VSF demand in India is growing at ~8% (+200bp higher than global demand).
- Grasim will continue to focus on expanding usage and application of VSF in the domestic textile market by leveraging on the brand LIVA.

Chemical Business

- Supply constraints due to environmental considerations in China and weather disruption in the US led to a sharp increase in international caustic prices.
- Demand is expected to stay robust for caustic soda.
- The quarter witnessed a recovery in chlorine prices; however, oversupply situation continues.
- New capacity additions will lead to higher caustic supply.
- Brownfield expansion at Vilayat from 220K TPA to 365K TPA expected to be commissioned by 4QFY18.

Financial Services

- With the listing of Aditya Birla Capital Ltd, the NBFC achieved a highest-ever lending book, and the long-term issuer rating was upgraded to 'AAA'.
- AMC business is the 4th largest in India, with highest-ever AUM market share at 10.7%, while domestic equity market share is 9.9% as of 1HFY18.

Cement Business

- Acquired assets are expected to cash break even by June 2018.
- Higher petcoke prices are affecting energy costs.

THE INDIA CEMENTS LTD

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India Cement — Neutral

Current Price INR 171 | **Target Price INR 188 | 10% Upside**

- **Demand:** Demand in south was affected, with Tamil Nadu declining 12% YoY in 1HFY18 due to political instability and sand mining issues. AP/Telanganaregisteredgrowth of 4% YoY for the same period. This has resulted in southrunning atutilization of sub-60%.
- **Gross debt:** ICEM's gross debt has increased by ~2.5bn in 1HFY18, led by a riseofINR2.8b in receivables due to credit extension to trade as it has entered newmarkets.
- **Capex:** ICEM intends to incur INR1.5b toward maintenance capex in FY18, andhasincurred capex of INR700m in for 1HFY18.
- **Costs:** Fuel mix consists of 81% petcoke, which was priced at USD92 for 2QFY18.Petcoke price increased from USD45 in 1HFY17 to USD90 in 1HFY18 due to anincrease in power & fuel cost.
- **Other Expenses:** Other expenses were lower in the quarter due to the absenceofadvertising and maintenance cost. Maintenance cost was higher in 1QFY18due toshutdown of two kilns.
- **Other details:** The trade/non trade mix is 63%/37%. PPC/OPC mix is 64%/36%.Southconstitutes 64% of sales mix, while west, north and central cumulativelycontribute36%.

JK Cement LTD.

Click below for Results Update

JK Cement — Buy

Current Price INR 1,031 | **Target Price INR 1,324 | 28% Upside**

- 2QFY18 saw clinker sale of 80,000 tonnes, which led to higher grey cement volumes. FY18 should witness grey cement volume growth of 7%.
- North is operating at 76% utilization and south at 56%.
- Katni expansion will be completed by June 2018, post which capacity of putty will be 0.9mt.
- Net debt for the company stands at INR17.34b; net debt reduction by INR1.8b in 1HFY18.

- Company plans to incur capex of INR2-2.5b, of which INR250m will be utilized for putty expansion; INR300-400m for acquiring mining land; remaining INR1,050m for maintenance and environmental capex in existing plants.
- Prices have lowered by INR8-10/bag v/s 2QFY18 average prices.
- UAE operations are not seeing improvement in profitability due to demand weakness.
- Spot petcoke prices have increased by INR600-700/t from average of 2QFY18 levels.

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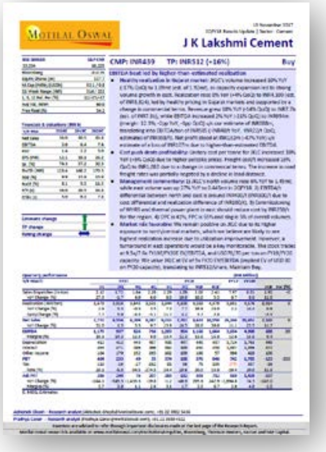

JK Lakshmi Cement — Buy

Current Price INR 408 — **Target Price INR 512 | 25% Upside**

- Volumes: North registered growth of 6% YoY, while east volumes grew 27% YoY. East contributes to ~24% of the sales mix. Overall capacity utilization for the company stands at 65%.
- Realization: Realizations in east were affected by a price cap in Chhattisgarh.
- Profitability: EBITDA/t differential between north and east operations is around INR400/t (INR300/t due to cost differential and realization difference of INR100/t).
- Cost-saving initiatives: The company has started a trial run of 7MW Waste Heat Recovery Plant at Durg, which will be operational in 3QFY18. The plant is likely to fetch an improvement of INR 40-50/t in power & fuel cost for eastern units. The 20MW thermal power plant will be completed by 3QFY19.
- Debt: Gross debt for standalone operations stood at INR22b, while net debt stood at INR17b. The company plans to repay INR2b of debt in FY18.
- Fuel mix: North consume 85% petcoke, while east consumes 60% petcoke.
- Cost: Freight cost/t increased due to a change in commercial terms from Ex to FOR.
- Product mix: Overall mix for the company is 41% OPC; 55% PPC and 5% slag.
- Capex: The company plans to incur INR 1.4b of capex for FY18, of which INR1b has already been deployed in 1HFY18. Capex is expected to be the same in FY19.

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Ultratech Cement — Buy

Current Price INR 4,193 — **Target Price INR 4,906 | 17% Upside**

New assets EBITDA-accretive

- Infused working capital for ramping up of the acquired assets of JPA.
- Improved and stabilized quality of plants, and new products have started gaining market share.
- Added new dealers and retailers to its network, and engaged sales and technical professional in new market.

Demand trend

- Demand in most of the markets was hit by sand mining ban. However, the ban has now been uplifted in certain states, and demand should gain momentum going forward.
- Management expects healthy demand from the west due to projects like trans-harbor link.
- Also, the bullet train project will provide significant boost to the cement sector.


Ultratech Cement

CMP: INR4,091 TP: INR4,906 (+20%) Buy

Power & fuel cost and logistics cost on a rise

- Increase in petcoke prices has led to higher power & fuel cost.
- Average petcoke consumption price for the quarter was USD90 v/s spot prices of USD105/t.
- Raw material cost was up 3% YoY due to an increase in slag prices.
- 7% YoY increase in diesel cost led to a 4% YoY increase in freight cost.
- Freight cost declined 2% QoQ due to rail freight exemption of busy season surcharge for 2QFY18.

Post GST, the trade channels are getting back to normal and consumer off-take has improved. Rural outlook appears buoyant, with companies like HUL, Marico and Dabur reporting either similar or faster growth in rural sales compared to urban sales after a long time. Worries on both the wholesale channel and rural sales are receding faster than expected. Importantly, rural sales have started gaining momentum even before the benefits of good monsoon and government initiatives like DBT, MSP increases and farm loan waivers have started to come in. The much-vaunted earnings revival in the sector appears poised to come through, and rural-dependent plays are likely to be at the vanguard.

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Impact of GST	Management comment on Rural	Outlook
Asian Paints	■ No significant change in cost items where input tax credit was not available earlier or vice versa. ■ Recovery post GST destocking in paints was witnessed only from September. ■ Dealer level inventory only partially back to pre-GST levels.		■ Capex will be INR12b in FY18, including Greenfield expansion at Mysuru and Vizag (INR10b combined), both of which will be commissioned in FY19.
Britannia	■ Disruptions now behind them and outlook appear to be improving.	■ Rural growth looks better than urban.	■ Cost efficiency programs will generate savings of INR 2.5b in FY18 (was INR1.5b in FY17). 40% of the yearly target achieved in 1HFY18.
Dabur	■ 5% impact of GST accounting and currency issues.	■ Rural growth at 11% higher than urban growth of 10%. ■ Management believes ongoing and subsequent government schemes will bebigger driver compared to monsoon which has been patchy.	■ MENA region performance would be better from 3QFY18 and particularly from4QFY18. ■ Gross and EBITDA margins are likely to be flattish over the near term as thecompany wants to rebuild the top line.
Hindustan Unilever	■ Company cut prices even in body lotion to boost growth, despite effective GST rate for the category at 28%..	■ Expect gradual improvement in rural demand.	■ Management expects inflation to continue.
Marico	■ GST was neutral to positive for Marico. ■ Reduced prices by 5% in VAHO and 3.5% in Saffola to pass on benefits.	▪ Rural sales grew by 14% and urban sales grew by 10% in 2QFY18.	■ For the domestic business, the management has maintained its guidance of 8-10% volume growth with EBITDA margins of around 20%. ■ CSD likely to be normal by 4QFY18. This had an effect on Saffola sales in 1HFY18. ■ Management believes it has a very strong costs program embedded in the organization culture to drive up margins in the long term.

MOTILAL OSWAL

asianpaints

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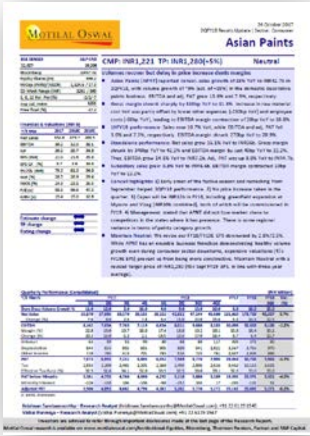

Asian Paints — Neutral

Current Price INR 1,168 | **Target Price INR 1,280 | 10% Upside**

Demand scenario

- Early onset of the festive season led to demand revival (high-single-digit volume growth). Management did not mention whether or not the early onset of the festive season was the main reason for apparent revival.
- International business affected by material availability and forex issues.
- Recovery post GST destocking in paints was witnessed only from September.
- Company stated that it did not lose market share to competitors in the states where it has presence. There is some regional variance in terms of paints category growth.
- Both Essess and Sleek saw sharp a recovery in sales in 2QFY18, compared to 1QFY18, when GST effect on these was far more severe than the paints business. Essess saw double-digit like-to-like sales growth YoY in 2QFY18.
- Very early days to comment on the adhesives business performance.
- Part of demand in case of exterior paints had been affected by delayed monsoon stretching up to October, instead of ending in September.
- Dealer addition was weak in 1HFY18. Not sure if they will be able to add 4,000-5,000 dealers targeted in FY18.

GST

- No significant change in cost items, where input tax credit was not available earlier or vice versa.
- Dealer level inventory only partially back to pre-GST levels.

Strategy

- Do not plan to have an FMCG-like distribution structure.
- If affordable housing is mainly going to be in whitewash and cement base paints, then APNT will not be a beneficiary, but there may be opportunity for repainting on purchase of the flats.
- Both volume market share and value market share are important for APNT. Price increases and margins
- Raw material prices continue to be high (stable sequentially), and the company intends to monitor the same to protect margins.
- In May, there had been a 2.7% price increase following a 3% rise in March. No price increase was taken in 2QFY18.
- Direct dependence on crude is only related to solvent-based products, which form 15% of production. The other petroleum-based products are more dependent on demand and supply rather than crude link.
- There was no one-off in other expenses or other income.

Balance sheet and capex

- Capex will be INR12b in FY18, including Greenfield expansion at Mysuru and Vizag (INR10b put together), both of which will be commissioned in FY19.
- No tax implication on the profit on sale of Caribbean assets.
- Other non-current assets increase was because of capital advances paid on plants. The increase in the other current assets is more due to GST and will sustain going forward as well.

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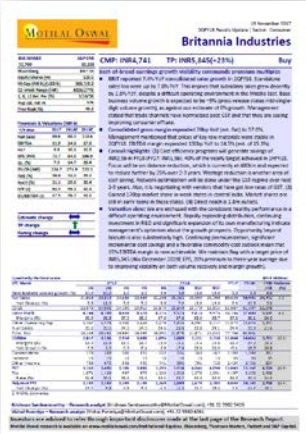
Motilal Oswal
Britannia Industries
CMP: INR4,741 TP: INR5,845(+23%) Buy

Britannia Inds — Buy

Current Price INR4,758 — **Target Price INR 5,845 | 23% Upside**

Performance, industry and outlook

- Disruptions now behind; outlook appears to be improving.
- July sales were flat. Thus, healthy growth was witnessed in the remaining two months.
- Britannia was able to do well in the past two years, despite disruptions in the form of slowdown in industry, commodity cost inflation and demonetization/GST-related disruptions, etc.
- Kerala distributor disagreement impact: Partial impact during quarter. 95% stabilized now. 3QFY18 will be normal. Did not end up giving higher margins unlike other consumer peers.
- Domestic volume growth was just under 6% in 2QFY18.
- Bread business growth and margins have improved substantially. Price increases and cost-efficiency measures have helped profitability. 'Modern bread' is looking at profitability under the new PE ownership.

Segmental details

- Cakes and rusks growth was higher than domestic average growth.
- Dairy would have declined YoY on account of product rationalization. Cheese sales grew in double-digits.

New/recent initiatives

- Launched two products – Good Day Wonderfuls and Treat (Kool Vanilla and Funky Chocos variants) – in 2QFY18.
- Will enter one new geography every year; this year Nepal. New category is croissants. Both initiatives are being helmed by talent from Britannia.
- Attracting outside talent as well. Bread cakes rusk now helmed by Jayant Kapre,(ex McVities India head) who is in place for four months now.
- Individual responsibilities make sure that both growth and profits of each business are well take care off.
- Working on innovative products in cakes, rusks and cheese.

Distribution expansion, regional growth and share

- Direct reach: 1.8m outlets now.
- Gained 170bp market share in weak states in central India. Shares are still in early teens in these states, so a long way to go.
- Rajasthan was up 27% YoY, MP by 15.5% YoY, UP by 15.1% YoY (big improvement) and Gujarat by 14.3% YoY in 2QFY18.

Material and operating costs

- Except sugar and milk, raw material costs have been stable. Flour and refined palm oils are actually down. Milk costs are also trending down. Pricing increase may not be required. Both value and premium segment have started growing at a similar pace.
- Cost-efficiency programs will generate savings of INR 2.5b in FY18 (was INR 1.5b in FY17). 40% of the yearly target achieved in 1HFY18. Focus will be on distance reduction, which is currently at 400km and expected to reduce further by 25% in 2-3 years' time. Wastage reduction is another area of cost saving. Network optimization will be done under the GST regime over the next 2-3 years; also negotiating with vendors which have got low rates of GST.

Capital investment and expansion

- Guwahati factory will be operational in six months.
- Investing in capacities for the international business as well. Setting up a factory in Mundra SEZ and another factory in Nepal.
- Mix between own and outsourced manufacturing will remain at 65:35 going forward.

Dairy strategy

- Will have an end-to-end supply chain first.
- But still in experimental stage on broad procurement strategy. Will finalize in 3-4months.

Other details

- Croissant will be under one of their own brands.
- There was a one-off INR170m on employee costs on pension.

Dabur — Buy

Current Price INR 337 | **Target Price INR 395 | 17% Upside**

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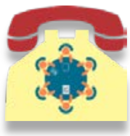

Results

- 5% impact of GST accounting and currency issues.
- Saw very little restocking during the quarter.
- 1.5% increase was due to price and another 0.5% was due to mix. Raw material inflation benign. There may only be 2%-3% realization growth for the remainder of the year.
- Other expenses declined due to GST accounting and cost savings. Entire beverage business is now manufactured by them instead of 30% of portfolio being outsourced earlier.
- Urban wholesale not showing signs of revival. Rural wholesales and super stockiest doing well. Modern trade doing very well. Direct sales increased by 9% YoY. Modern trade grew by 21%.
- CSD declined significantly by 25% YoY. Lower level of CSD sales will be good for margins (as CSD sales happen at a discounted price) but bad for topline.

Outlook and guidance

- International business advertising will go up going forward as recovery is likely.
- Honey should post good growth going forward. Chyawanprash too early to call out as early winter has been warm.
- MENA region performance would be better from 3QFY18 and particularly from 4QFY18.
- Gross and EBITDA margins are likely to be flattish over the near term as the company wants to rebuild the top line.

Rural and Urban Growth

- Rural growth at 11% higher than urban growth of 10%. We note that after HUL and Marico, this is the third company in 2QFY18 which has called out either equivalent or higher growth for rural. It is after a long time that such momentum is being seen in rural. With benefits of near-normal monsoon and weak base going forward, rural growth prospects appear to be buoyant.
- Expect stimulus ahead of elections, which will drive rural growth. 2013, the year before the last elections, was a very good year for Dabur.
- Management believes ongoing and subsequent government schemes will be bigger driver compared to monsoon which has been patchy.

Herbal/Natural space has expanded categories

- Herbal/ natural is at least 20% of the oral care category. Combination of market share gain and new customers coming in toothpaste.
- Honey is gaining share from other sweetening products.

Key segmental highlights

- Odomos grew double digits, ahead of recent trend.
- Honey reported 8% growth, healthy growth after a long time.
- Market share in juices grew ~200bp YoY (55% share now). On a sequential basis, both Tropicana and B Natural have lost share.
- Toothpaste market share up 90bp in value; Hair oil little lower YoY in value terms but higher in volumes.
- Down-trading and low unit packs are becoming endemic in the hair oil category due to low commodity costs, plastics costs coming down and GST rates coming down.
- Almond Oil doing very well. Close to market leader in Modern Trade and equivalent to market leader in South India, a weak area for the incumbent. As of now reaches 250,000 outlets.
- Coconut Oil- - becoming aggressive as rising Copra prices gives room for organized players.
- Lower-end juices entry under Real Coolers is because of excess capacity in Sri Lanka and Pantnagar facility. Launch has been in South India, which is a very underpenetrated market.
- Dairy-based beverages bigger competition to beverage portfolio.

Emami | Buy

Current Price INR1,291 | **Target Price INR 1,435 | 11% Upside**

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Outlook and guidance

- Management sees early signs of recovery in the demand environment. For HMN, wholesale recovery has been better in North India so far compared to South India, which is surprising. Some parts of North India are still weak.
- Winter has started on a good note; hence, good numbers from Boro Plus already.
- Management had stated at the end of 1QFY18 that remaining 9M sales will be up 16-17% YoY on like-to-like basis. It maintains the same guidance at the end of 2QFY18. New products will contribute 1-1.5% of incremental growth. This new product contribution is lower than usual levels or earlier levels of 3-4% because of postponement of some launches in the slowdown period.
- Navratna, Boro Plus and Fair & Handsome are seeing good retail off-take, and rural sentiment is recovering. This and weak base gives HMN confidence on strong growth in 2HFY18.
- Focus is primarily on double-digit volume growth. If high margin products like Boro Plus continue to do well and Kesh King recovers, then HMN can achieve strong volume growth with no impact on margins.
- HMN has already taken price hikes on the winter portfolio. While mentha prices are increasing, the growth in other commodity prices is moderate.
- HMN maintains that it is likely to be net cash by March 2018.
- Capex will be INR 1.5b in FY18, and subsequently, ~INR1b each year.

Reducing wholesale channel dependence

- Added 60,000 outlets in 1HFY18 to reach 780,000 outlets; targeting 830,000 by March 2018. Surprisingly, despite the problems on wholesale, the management has not revised upwards the target mentioned at the end of the previous year.
- Wholesale sales proportion is 42%, down from 50% earlier; targeting 35% by March 2019.
- Modern trade proportion has increased from 4% in the beginning of the year to 5-5.5% at the end of 2QFY18. Modern trade sales grew 40% YoY in 2QFY18.

Kesh King update

- There has been a new campaign on Kesh King to drive growth. But wholesale channel needs to recover for growth in this product, which has 75% wholesale dependence. Management expects that by the end of FY18, wholesale channel should be close to complete normalcy.
- The company believes it has actually gained market share on Kesh King despite the sales decline during the quarter.

New launches/ update on recent launches

- HMN targets new offerings in Healthcare with high decibel advertising to drive growth. These launches will be in OTC, and not prescription-based. It is piloting some products in 3QFY18 and will subsequently launch nationally.
- He is around 10% of the male grooming range in terms of sales with the remaining coming from Fair & Handsome.
- HMN believes that its recent nationally launched women's hair color product (Diamond Shine) is better than peers and pricing is also competitive.

Elaboration / Clarifications on results

- 2QFY18 saw 14% like-to-like sales growth.
- Domestic business grew 14% and international business grew 22% in 2QFY18 on a like-to-like basis.
- Like-to-like A&P is 10% higher, unlike reported flat growth, because of service tax component in the base.
- Fair and Handsome saw 4% volume growth and 10% value growth.
- Boro Plus saw 33% volume growth.
- Navratna saw 16% volume growth in 2QFY18.
- Pancharisht reported 13% volume decline in 2QFY18.
- Has factored only the central government component as refund in case of excise free zones.
- Sachets contribute 24-25% of sales for the company.

Godrej | CONSUMER PRODUCTS

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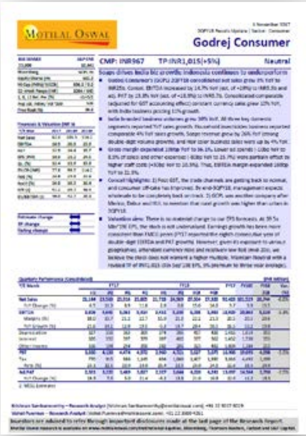
Godrej Consumer — Neutral

Current Price INR 958 — **Target Price INR 1,015 | 6% Upside**

Domestic business details

- Believe that out of 10% domestic volume growth, 1% was due to restocking.
- GCPL was another company after Marico, Dabur and HUL to mention that rural growth was percentage point higher than urban in 2QFY18.
- Post GST, the trade channels are getting back to normal. and consumer off-take has improved.
- Wholesale channel back to 80-85% of normal levels. By end of 3QFY18, management expects wholesale to be completely back on track.
- Will continue to grow direct distribution by around 10% every year.



Segmental details

- 4% YoY sales growth in Household Insecticides (HI) was on a very strong base of 18% in 2QFY18. Coil business witnessed de-growth as it is more dependent on the wholesale channel. Encouraging initial response to personal repellents.
- Hair Color: Wholesale business dependence and east dependence of powder hair color resulted in slower growth. Planning a couple of tactical innovations in powder over the next two quarters. Have gained shared in Crème sales. Medium-term focus will be on the value-added and premium segments.
- Entire growth in HI and Hair Color was volume led.
- Soaps: Gaining share in both Godrej No.1 and Cinthol. 26% growth was on a weak base of 10% decline in 2QFY17. Gaining share from local and unorganized players.
- In categories like Aer Pockets, penetration is in single-digits, and so new launches by competitors expand the category.

Overseas business

- Indonesia sales performance has improved sequentially. Early signs of recovery seen. Macro environment in Indonesia still weak. Management changes successfully made. Regained some lost share in HI in Indonesia.
- Kenya and South Africa had macro weaknesses, so pleased with double-digit sales growth. Investing in wet hair care business and hence EBITDA margin declined. Out of 13% sales growth, half was volume growth. Expect even better performance in 2HFY18 in HI in Africa, with launch of wet hair products gaining traction.
- LatAm business was very weak in 1QFY18, so management suggested that performance should be looked at on a 1HFY18 basis.

Margins

- Reason for healthy gross margin growth: Good cover on Palm oil, lower consumer offers YoY, cost-saving project Pi meant key ingredients in HI were substituted with cheaper materials. Mix improvement in HI with lower share of coils also helped.
- Have 3-4 months production worth of inventory in palm oil.
- Ad spends in India business up by 40-50bp on comparable basis. Might go up by 100bp in 2HFY18.

Targets

- HI sales can grow at 11-14% CAGR. Only 50% penetration of the category.

GSK Consumer — Neutral

Current Price INR 6,038 — **Target Price INR 5,400 | -11% Downside**

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Business environment

- Like-to-like sales adjusted for GST grew 4.8% YoY. Like-to-like domestic sales were up 6% YoY while exports declined 26% YoY. Domestic volume growth was 2.5% in 2QFY18 (on the base of 3% decline in 2QFY17) and price increase was around 4%. Price increase was taken in 1QFY18; no price increase since then.
- Market share decline has been arrested sequentially, but YoY share decline and decline over March 2017 continues.
- Category growth was around 5% compared to 4.8% growth in HFD for SKB.
- Exports were flattish in 1HFY18.


GSK Consumer

- Sachet volumes are growing in double digits. Anecdotally, 20% of users upgrade to larger packs. Sachets constitute 8% of sales and have lower gross margins compared to large packs.
- On CSD, SKB achieved 70% of pre-GST run rate in 2QFY18.
- Changed ad agency from JWT to FCB to improve communication.
- 230m people consume HFD already. Trying to increase amount of purchases per household as well. Demand goes up during exams and during monsoon; so, not all 230m customers consume HFD products throughout the year. 20% of customers consume 60% of volumes, SKB believes.

Material costs and price increases

- For 2QFY18, SMP costs were up YoY. SKB sees some softening on SMP prices, going forward.
- Maintains that price increase will be in line with CPI inflation, something that SKB has been stating for a few quarters now.
- Price increases are now 1x CPI; were 1.5x CPI in earlier years.

New opportunities including Growth Plus

- In September 2016, SKB had launched Growth Plus (competing with Pedia Sure), which has been rolled out in five states with advertising support as well now. Growth Plus is getting increasing share of recommendations from doctors. Will decide on when to take it national; Abbot took 10 years to scale up Pedia Sure.
- Growth Plus still in formative years. Takes time from doctor recommendation to share gain. Shift happens very slowly, as mothers go through the whole course of consumption. In states where SKB has launched Growth Plus, it has 25-30% share in this sub-segment but single-digit share in the segment. Management believes Growth Plus is a superior product to Pedia Sure and works without adding weight. Price parity with competition instead of 10% premium.
- HFD extensions? Is SKB looking at RTD and flavored milk? Will participate when it has the products and packaging in place in these categories.
- New categories? Focus will be on HFD. Has Biscuits, foodles and oats already as newer categories. To look at right-to-win and science-based strength in new areas.

Business auxiliary commission

- Business auxiliary income was flat. Pharma channel has taken time to recover from GST implementation glitches. Focus was more on getting supply of essential drugs in order rather than OTC, and hence, business auxiliary commission growth was affected. This channel has recovered in October.
- Sensodyne has seen a small increase in share in sensitivity oral care. See a challenge for further growth in this segment in the near term. More focus will be on even better communication of benefits rather than a herbal move.

Financials and guidance

- Other expenses decline was due to lower royalty YoY, CSR phasing, one-off in other expenses line (INR100m in 2QFY18).
- Earlier indirect tax incidence was slightly lower than current 28% GST rate.
- Management is working towards attaining double-digit revenue growth.

Hindustan Unilever Limited

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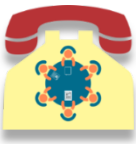
Detailed Concall Transcript &
Results Update




Hindustan Unilever

Hindustan Unilever — Buy

Current Price INR 1,274 | **Target Price INR 1,440 | 13% Upside**

Outlook

- Expect gradual improvement in rural demand.
- Rural growth in line with urban growth. Management believes it needs to grow faster, but as of now, it has recovered from lower levels.
- Input costs starting to inflate. Management expects inflation to continue.
- Company believes that improvement in oral care sales is a few quarters away. In our view, the company seems to have given up after yet another re-launch of Pepsodent; now banking on Lever Ayush oral care products.
- MSP increase in wheat is another significant positive.
- Premium portfolio is only 25% of total. Thus, there is huge room to grow in the longer term. Premiumization trend continues even in recent quarters, where volumes, including in rural, have recovered.
- No update of remaining 42% of fiscal benefit that was available earlier as credit.

More highlights from results

- Company cut prices even in body lotion to boost growth, despite effective GST rate for the category at 28%.
- 8% comparable sales growth in 1HFY17.
- Input taxes to be added back to sales in order to arrive at adjusted sales include octroi, cenvat and CST – many of which were part of costs earlier.
- Gross profit also increased strongly, partly because of a weak base.
- The quarter saw 15 days of no buying from CSD. Now, CSD back to 85-90% of normal levels.
- Tax reduction on turnover was set-off by price reduction. Hence, 6% YoY realization growth in 1QFY18 was retained in 2QFY18 as well.
- Market shares up in many categories – the only challenge is oral care.
- Bulk of growth is coming from the core categories.
- Difference between segmental EBIT growth of 11% and overall EBIT growth is on account of an increase in un-allocable expenses.

New launches

- Indulekha has attained clinical results to actually be able to re-grow hair.
- Indulekha growing ahead of initial targets.
- Pleased with initial response to national rollout of Lever Ayush. It is focused onurban consumer and across channels.

Guidance

- Tax rate will be ~30% in FY18.

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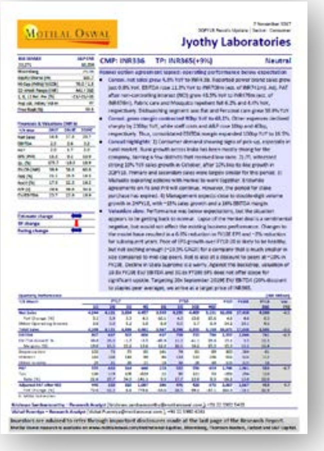
Jyothy Labs — Neutral

Current Price INR 333 | **Target Price INR 365 | 10% Upside**

Demand scenario

- Consumer demand showing signs of pick-up, especially in rural market. RuralacrossIndia has been mostly strong for the company, barring a few districts thatreceivedlow rains.
- CSD expected to be normal sometime in 2HFY18.
- 3.5% price increase YoY. Volumes were also up 3.5% YoY. Price increase includesUjala and Margo, and also has the effect of removal of promotions ondetergents.



- The company witnessed strong 19% YoY growth in October, after 10% like-tolikesales growth in 2QFY18. Primary and secondary sales were largely similar forthisperiod.
- All distributors are GST-compliant. As yet there has not been any bigconsolidationof wholesalers, barring a few markets where some wholesalersthat were adopting await-and-watch approach lost out to those that werequicker on compliance.

Details on categories and brands

Ujala

- Ujala Supreme saw a decline of 12%. Wholesale plays big role and Keraladistributorissue also affected them. Company is over-indexed in Kerala relativeto peers.Situation is now normalizing.
- For older brands with wide rural presence like Ujala, wholesale proportion ishigher.
- Ujala is available in 3m outlets. The company is planning a new campaign onUjalaSupreme.
- Ujala variants have done very well.

Maxo

- Sale of machines saw huge growth of 145%. Proportion of machine sales to totalliquid sales grew from 7% to 16% in 1 year.
- Earlier strategy was to fit it into any machine.
- Innovation is more on the machine, as active content of most players is almostsamein liquid. Now since there is genuine innovation and differentiation inmachine, theyare focused a lot on increasing machine sales. In their machines,switching from highmode to low mode is automatic once mosquito threat islower.
- Propensity to use the same brand liquid is high if a customer has a specific brandofmachine.
- Liquid sales are 35% of JLL's Household Insecticides (HI) sales.
- HI category sales have been muted. Maxo is more of a share game for thecompany.

Other categories

- Doing work on the neem toothpaste category, given strong growth in the herbaltoothpaste category.

Working with Henkel

- Mutually exploring options with Henkel to work together. Erstwhile agreementsonFa and Pril will continue. The period for stake purchase has however expired.
- Pril and Fa are at 2% royalty up to perpetuity as per initial agreement.
- Now both are free to work with other partners.

Guidance

- Management expects close to double-digit volume growth in 2HFY18, with ~15%sales growth and 16% EBITDA margin.
- Tax rate guidance for FY18 is 15%. 2QFY18 tax rate was higher than expected asscale up in Guwahati tax free zone was slower than expected, an issue that hasbeenaddressed now. From FY19, tax rates will be ~21%.

Manpasand Beverages — Buy

Current Price INR 404 — **Target Price INR 492 | 22% Upside**

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- 2QFY18 witnessed a steep increase of 480bp in other expenses, which stood at 16.5% of net sales, on account of higher advertisement expenses at INR90m v/s INR30m in 2QFY17.
- Revenue from Mango Sip increased by 18% YoY to INR970m and from Fruits up by 21% to INR290m, with growth largely driven by volumes. The contribution remained flat at ~77% and ~23% from Mango Sip and Fruits up, respectively.
- Depreciation has declined from INR240m in 2QFY17 to INR170m in 2QFY18, as in lean quarters (Q2,Q3), single shift depreciation is charged v/s double shift depreciation in Q1 and Q4.
- The quarter witnessed commencement of product supply through Parle distribution network in West Bengal. The supply is witnessing good traction, and the company expects to expand it to entire eastern zone in FY18.
- Capacity expansion plans of the company are on track, with the Vadodara plant expected to get commissioned by Dec'17 and other plants in a gap of 3-6 months from then.
- The company has reduced its focus on Coco Sip as the product requiring specialized approach and preservation was being manufactured from an outsourcing agency, and thus, it was getting difficult to manage quality and supply quantity. Going forward, the company has planned its own line in Sri City plant and will ramp-up Coco Sip once the plant is commissioned.
- The company has developed a new product under the brand name 'Siznal', which is a mix of fruit and vegetables, and contains honey as a sweetener (doesn't contain any sugar). The new product is a health-based year-round drink and is currently in the test market phase. The commercial launch is expected soon.

Marico — Neutral

Current Price INR 304 — **Target Price INR 340 | 12% Upside**

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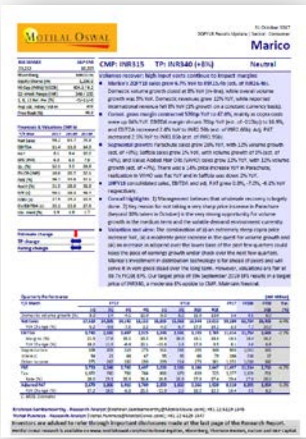

Broad outlook/clarifications

- There has been a significant recovery in the Indian business, although there are some pockets of concern on CSD and wholesale.
- Management believes wholesale recovery is largely done. In east, the resistance for compliance is highest and so some channel partners have even moved out of business.
- Over the medium to long term, however, wholesaler's contribution will gradually come down. This is good for market leaders and more for organized players.
- Direct distribution, modern retail and wholesale B2B will take share away from wholesalers.
- CSD likely to be normal by 4QFY18. This had an effect on Saffola sales in 1HFY18.
- Management believes it has a very strong costs program embedded in the organization culture to drive up margins in the long term.
- Key reason for not taking a very sharp price increase in Parachute beyond 10% hike taken in October is the very strong opportunity for volume growth in the medium term and the volatile demand environment currently. Rural market share is 41% for Parachute v/s around 59% in the national Coconut Oil market, which provides opportunity for growth.

GST

- GST was neutral to positive for Marico.
- Reduced prices by 5% in VAHO and 3.5% in Saffola to pass on benefits.

Segmental details/segmental guidance

- Vietnam business had execution issues during the quarter. Looking to improve on that front. Price increases did not work in that region.
- Parachute reported 1.1% market share gain.
- Saffola growth in 2HFY18 will definitely be better as CSD channel recovers.
- At least 15% YoY growth is likely in Male Grooming in 2HFY18.
- Virgin coconut oil a big fad in Western world. May not be very large in India in terms of category size over the long term, but presents a good opportunity in E-Commerce as a portfolio addition. Have launched Parachute Naturalz Virgin Coconut Oil exclusively on e-commerce.
- Management believes that new meal replacement product Saffola Active Slimming Nutri Shake has high growth potential. This is available in 4 flavors, Swiss Chocolates, French Vanilla, Royal Kesar Pista and Pista Badam in 400g and 50g packs. Saffola food product sales have recovered well.

Parag Milk Foods — Neutral

Current Price INR 235 | **Target Price INR 275 | 17% Upside**

PARAG
Ideas for a new day

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Motilal Oswal
Parag Milk Foods

- Institutional cheese and butter dragged milk products business in 2QFY18. Liquid milk business hurt by discounting by competitors, as PARAG chooses not to discount.
- Mega project incentive: This quarter's revenue included INR86m of megaproject incentive for two months. Mega project incentive is available for a period of eight starting 1st Aug'17, and total admissible amount is INR2.79b (maximum of INR349m per year).
- Gross margin YoY contraction for 2QFY18 led by purchase of butter (to make ghee) for festive season at higher price, lower realizations on SMP (as SMP prices declining), and revaluation of inventory at lower prices.
- Milk prices declining in 3QFY18; in 2QFY18, only September saw milk price decline. Expect INR26-27 milk cost for FY18. In Q1, it was INR28. Prices to stagnate at INR27/liter till Mar'17 due to inventory of SMP in the country and availability of raw milk.
- Sharp reduction in other expenses was due to INR30m saving on octroi, lower transportation costs, and A&P savings.
- Reach: 2.5lac retail outlets reach pan-India.
- Exports for the company are 3% of sales.
- INR1.5b whey protein market growing at 25-30%.
- In cheese, B2B forms 50%.
- Higher creditors: Butter purchases during the quarter contributed to higher creditors.

Guidance and Outlook

- A&P spends to be 2.5-3% for FY18.
- Growth guidance of 14% CAGR over next 3 years maintained.
- Ghee and Cheese will grow at 15%; other VADP at higher rates; SMP and institutional business to decline.
- PARAG expects INR250m revenues from sports nutrition product by March'17.

JOCKEY

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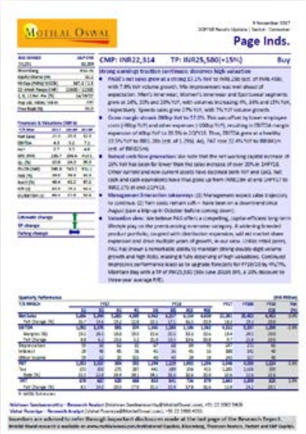

Page Inds — Buy

Current Price INR23,082 — **Target Price INR 25,580 | 11% Upside**

Sales and volumes

- Volume growth was around 8% YoY, but there has been a strong mix improvement across categories, which led to 17% sales growth.
- Men's innerwear volumes were up by around 3.6%, but volume growth in other categories was in high-single-digits or double-digits.
- Management expect sales trajectory to continue going forward.

Material costs, other operating costs and pricing

- Yarn costs remain soft. They had been on a downward trend since August (saw a blip-up in October before declining again).
- Management will review pricing in December before rolling out the increase sometime in February.
- There is no update on minimum wage increase for textile workers in Karnataka. While minimum wages were increased in Karnataka earlier this year, textile workers were kept out of the ambit of the increase and they had appealed against the same.

Operating cash flow generation has been strong

- We note that the net working capital increase of 16% YoY has been far lower than the sales increase of over 20% in 1HFY18.
- Other current and non-current investments have declined both YoY and QoQ.
- Net cash and cash equivalents have thus gone up from INR813m at end-2QFY17 and INR54m at end-FY17, to INR2.27b at end-2QFY18.
- Capex for FY18 and FY19 will be around INR600-700m each.

Pidilite

Click below for Results Update

Pidilite Industries — Buy

Current Price INR 849 — **Target Price INR 975 | 15% Upside**

Macro factors driving growth and company initiatives

- Most of relevant contractors that take orders from customers (and give work carpenters) are covered by Pidilite. They have had a strong outreach program expansion in the last five years. Management did not share the number of such contractors.
- Geographically, no significant deviation in demand during 2QFY18.
- Smaller places are seeing stronger growth for distributors, as wholesale channel that was serving them has been struggling. Pidilite has been expanding reach in towns where population is below 200,000.
- Management continues to believe on large longer-term growth potential in the Consumer Bazaar segment

Performance highlights

- 1QFY18 sales had been affected by delayed purchases; this quarter had restocking and some segment growth. Too early to call out consumer demand revival.
- Volume and mix growth in Consumer and Bazaar segment was in double-digits in 2QFY18.
- Early Diwali could have helped sales, but Diwali sales are not as important for adhesives as it is for other categories like paints.
- Early days on shift to organized players, but dealers are increasingly purchasing from companies that are fully compliant. It also appears that companies that comply and have a large distribution network are gaining at the cost of others.

- Distributor inventory back to near normal. Smaller retailer inventory also near normal. Wholesale inventory not yet normal.
- No significant impact on share of newer competition.
- There has been some impact on working capital in the near term on GST implementation. Management does not expect a sustained increase in working capital because of GST implementation.

Costs and margins

- EBITDA margin expansion was largely due to lower-than-normal A&P in 2QFY18. A&P was 1.7% of sales in 2QFY18, and will normalize over the next two quarters. A&P will be 3.5-4% of net sales for FY18. Spent INR650-700m on A&P in 1HFY18.
- VAM costs have seen increase to USD1000 now. Was, however, flat at USD920 between June and September.
- Better product mix was the reason for sequential gross margin improvement.
- No significant price increase was taken in 2QFY18.

Subsidiary performance

- Nina and Percept (waterproofing subsidiaries) sales growth was 1% and 16% like-to-like, respectively. Larger players in Construction industry still under stress, but smaller players outside of large cities are still doing well. Because of monsoon, 2Q is not an important quarter anyway. Nina had witnessed good performance in 1QFY18.
- ICA Wood Finish – sales grew 17% like-to-like in 2QFY18.

Guidance

- Tax rates going forward will remain at 1HFY18 levels.

United Breweries — Buy

Current Price INR 1,078 | **Target Price INR 1,320 | 22% Upside**

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State- and region-wise performance

- South saw 20% volume growth for UBBL, with Industry reporting 10% strong volume growth.
- UBBL gained market share in Telangana and AP, which combined was the largest state for beer earlier.
- Last year, they had mid-20% market share in TN and had not supplied in August and September. Have 30% share now in 2QFY18, and full supplies have resumed.
- In two other key markets (Maharashtra and Karnataka), they have gained share as well.
- East witnessed light dip in market share for UBBL.
- West saw 7% volume drop for UBBL, but the company gained market share.
- Overall industry volume growth was very healthy at 5% in 2QFY18, despite the highway ban.

Costs and margins

- 17% EBITDA margins for the first time after FY07.
- There were no one-offs. There was a neutral effect of one-offs on income and expenses.
- Exports impact was very small on sales and volume; less than 1% of full-year sales and volume.

State price increases/ distributor model change/ policy changes

- 11% volume growth and 23% sales growth mean that realization growth was strong. This comprised of a good mix between price increase and mix improvement.
- No price increases in 2QFY18, but West Bengal, Karnataka and Maharashtra had granted price increases and therefore prices were up compared to 2QFY17 last year.
- There has been a mid-single-digit price increase granted in Kerala this month.
- West Bengal moving to corporation-led distribution model. There has been some supply disruption. There may be some temporary impact on near-term market share in the region. Unlike to impact profitability.
- Maharashtra excise increases recently will lead to a drop in volumes, which were dipping in the state anyway.
- There has been an increase in receivables as corporations like AP are paying later than usual. There has also been a change in structure in Telangana.

Strategy

- Unlikely to sub franchise as tail-end brand sales are low and all segments make money.

Competition and new launches

- Not too concerned about **BIRA.** They have responded with a bevy of new brands in the current year.
- Initial response on bevy of international brands from Heineken stable has been good.

UNITED SPIRITS

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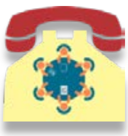
Results Update



United Spirits — Neutral

Current Price INR3,240 | **Target Price INR 2,970 | -8% Downside**

Comments on Topline and outlook

- Management is very pleased with performance in the quarter.
- Renovation and premiumization led to strong growth in Prestige & Above.
- Believe that they are growing ahead of competition.
- Medium-term objective: Double-digit sales growth and mid-to-high-teens margins. This quarter gives them confidence that this can be achieved.
- The erstwhile worries on highway ban and GST are now behind. Management has demonstrated its ability to deal with these events with agility. This gives it confidence about managing any adverse events that may crop up.
- 1% volume growth in upper part of Prestige & Above (P&A) is far higher than the lower part of P&A. Therefore, even here it is focusing more on value growth first and then on volume growth.
- Across consumer categories (including alcohol), Diwali demand was muted.
- Out of 15,000 outlets that closed after the highway ban, 5,000 were opened. Out of the remaining 10,000 outlets, 5,000 are in Maharashtra. Believe that even if 5,000 odd outlets remain closed over the long term, then by March 2018, customers would move to other outlets.

Key highlights on brands

- McDowell No 1, Royal Challenge and Signature all reported double-digit sales growth. Antiquity has also been re-launched, and management expects healthy growth in this key Prestige & Above brand.
- Pleased with initial response to Captain Morgan rum brand of Diageo. 3Q is crucial as it is the first winter quarter. This is the first attempt to premiumize

therumcategory, which has only popular brands with sales of 40-45m cases.Believe CaptainMorgan can become as big as Smirnoff in India.

- Launched Black & White 12-year-old recently.

Comments on Margins

- Likely moderate effect of GST on margins in FY18.
- Staff costs: One-off restructuring costs were INR130m in 2QFY18 v/s INR280m in2QFY17.
- Out of the reported YoY EBITDA margin improvement of 688bp, franchisingcontributed 75bp and there was one-off of 145bp in the base quarter 2QFY17.Therewere some one-off restructuring costs as well. Thus, there was underlyingEBITDAmargin growth of 19bp YoY.
- Commodity inflation has been less than anticipated so far and may stay thatway.
- Worst is over on state pricing drought. Andhra has given a price increase inSeptember. No rhythm yet to state price increase, but their journey to convincestate government of regular increase is well on its way.
- INR860m was the gain on net sales due to price increases granted.

Balance sheet

- Full-year INR1.5-2b capex.
- Sale of non-core assets: They will look at sale of residential apartments first.
- Benefits of franchising have led to working capital improvement.
- Uttar Pradesh was franchised in July and will lead to more margin andworkingcapital benefits going forward.

FINANCIALS/BANKS

The government has announced a PSU Bank recapitalization plan amounting to INR2.1t, which comprises of(i) front-ended capital infusion of INR1.35t to be funded via recapitalization bonds, and (ii) INR760b of capital infusion from budgetary support and proposed capital raising by the PSU Banks, of which INR180b will be infused in FY18 as part of the 'Indradhanush' plan. Operational performance improved in 2QFY18, with fresh NPL accretion declining for most PSU and Private Banks (barring divergence-related impact for AXSB and YES).SMA-2 advances have also moderated. Margins for PSU Banks showed early signs of stabilization, with most PSU banks reporting modest margin expansion on the back of lower interest reversals, as slippages have slowed down. CASA growth continues uninterrupted despite several large banks lowering their SA rate, which will drive further reduction in funding cost. However, we are now watchful of the impact of rising bond yields witnessed over the past one month. The size of watch list/stressed asset pool has declined and most banks have suggested a decline in slippages over the medium term. However, near-term credit cost is likely to stay elevated on (1) NPL ageing-related provisions, and(2) loan loss towards NPL resolution via NCLT. We expect earnings growth to show a healthy bounce from 2HFY19, as core income growth revives, margin pressure eases, and the investment cycle begins to show some recovery.

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY19	Provisioning Pressure	Asset Quality Stress
Axis Bank	▪ FY19 loans growth to be 5%higher than industry and retail will be the key driver	▪ Expect continued pressure on asset quality in the near term, as AXSB further purges its books. ▪ AXSB hasINR158.1b of BB & below-rated assets, of which ~64% are lying under the watch-list plus other dispensations. We estimate slippages to remain high over the near term – as AXSB aggressively cleanses its books – and then moderate sharply from 2HFY19E, driving a sharp decline in the net NPL ratio	▪ Expect warrant conversion to take place inFY19, and thus, estimate AXSB's FY18E/19E book value to increase by 9%-10%.This will also help improve bank's Tier-I ratio by 170bp to 13.8% by FY18E,providing it with the necessary growth capital to pursue business opportunities.
Bank of Baroda	▪ FY19 guidance: Domestic loan growth – 15% . ▪ Management's focus is on cleaning up the balance sheet and laying the foundation for sustainable growth and expect stress addition and credit costs to moderate from FY19.	▪ Slippages moderated significantly to INR34.5b (67bp) v/s INR40.8b (1.1%) in 1Q, with INR2.5b of slippages from the restructured book. ▪ Recoveries and upgrades at INR15.5b and write-offs at INR17.7b led to sequentially flat absolute GNPA (11.16%, -24bp QoQ). ▪ Overall NSL (NNPA, standard restructured, SDR and S4A) stood at ~10.1% of total advances.	▪ Strong traction in CASA (+26.7% YoY) helped reduce cost of deposits by 20bp QoQ, helping NIM expansion, c) Core fee income registered 21% YoY growth
HDFC Bank	▪ Management guided to revenue growth outpacing expenses growth over thenext 2-3 years, leading to a steady decline in the CI ratio	▪ Incremental growth in the quarterwas driven by retail loans (+29% YoY/7% QoQ), resulting in an increase in itsloan mix share to 55%. Business banking, personal loans and credit cardcontinue to report strong growth within the retail segment. ▪ Crop loan repayments are timed with crop cycles. The bank has seenimprovement in waivers, but not meaningful. ▪ Movement in NPA: Slippages – INR24.73b, recoveries and upgrades – INR12.5b,write-offs – INR7.61b	▪ Asset quality remained largely stable; however, the bank made contingentprovisions of INR4b toward an account that underwent restructuring in Feb-16 and remains standard in the books
ICICI Bank	▪ NIM should remain above 3% in FY18 ▪ Domestic loan growth to	▪ Of the total slippages of INR46.74b the total corporate slippages accounted for~INR40b while the slippages from retail portfolio came in	▪ Domestic margins declined 5bp QoQ to ~3.57% led by drop in

	be 15%-16%, SME expected to grow 18% - 20%, retail will grow 18% - 20%, overseas to be flat	quite controlled atINR6.6b. ■ Slippages from the watch list stood at INR2.59b which coupled with repayments and adjusted for fresh downgrades resulted in slight decline in watch list size to INR195.9b (4.1% of loans).	yields whileoverseas NIMs recovered to 95bp after falling sharply to 73bp in 1QFY18.
State Bank of India	■ Management iterated that while credit costs will be elevated in FY18, FY19 will start seeing significant moderation. ■ The bank is hopeful of better asset quality trend in ensuing years.	■ While corporate slippages may remain volatile, the relatively low watch-list (1.2% of loans) and restructured assets (1.9% of loans) provide comfort on future slippage trajectory. ■ The current quarter has addressed the concerns about management transition, and look forward to speedy recovery in SBI's asset quality, particularly as the resolution of NCLT cases makes further progress, while recapitalization of PSU bank via recap bonds enable the bank to further cleanse its books.	■ The bank appears positive on the recovery prospects in steel sector while expect limited losses on the troubled assets in power sector. EPC sector is where bank expects relatively higher losses.

AXIS BANK

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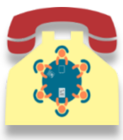

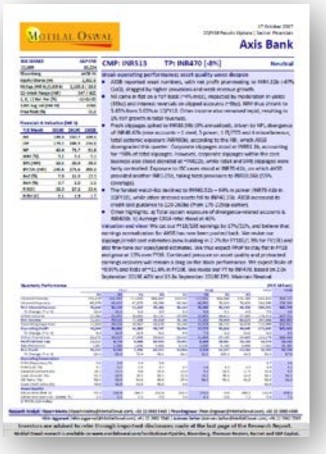

Axis Bank — Buy

Current Price INR 545 | **Target Price INR 680 | 25% Upside**

Asset quality related

- They are the lead bankers in power account (5th largest among divergence accounts), system exposure to the set of accounts is INR400b
- Recovery plan has been built in some of the divergence related accounts, should reflect over next few quarters
- INR600m of contingency provisions have been utilized
- Outstanding SR book is INR30b
- They have attained 55% PCR on IBC accounts
- Expect large recoveries from the IT/ITES divergence account
- BB and below exposure sectoral breakup: Power 1/3, infrastructure 11%, iron and steel 11%, road 8%, mining 5%
- Telecom at 1% of overall exposures (fund based INR25b, non-fund based INR80b)
- Non fund based BB and below – INR40b

Guidance for FY18

- Divergence related credit cost to be ~40bp for FY18.
- Total FY18 credit cost guidance for fiscal 2018 is expected to be 220-260 basis points.
- PCR is expected to be maintained in the 60 to 65% range.

Bank of India
Relationship beyond banking

Click below for
Results Update

Bank of India — Neutral

Current Price INR 205 | **Target Price INR 201 | -2% Downside**

Guidance for FY18

- Expect to achieve 7-8% loan growth in FY18.

Asset quality

- NCLT accounts exposure details: INR90b exposure from 11 accounts on 1st listwith~55% PCR; INR33b exposure to 16 accounts with > 50% PCR.
- The bank is expecting resolution in 2-3 major accounts as bidding interest hasbeennoticed. Also, many promoters have come forward with OTS proposals.

- SMA 2 book stands at INR170b, standard SDR book at INR50b, standard S4Abook atINR25b. SDR/S4A books have INR30b overlap with standardrestructured book. SRbook stands at INR28b.
- NPA breakup by sector: INR20b in power, INR60b in iron and steel, INR20b intextiles, and INR50b in other infra.

Others

- 60% of the loan book is priced at MCLR.
- Balance sheet recalibration and impact of de-monetization led to muted loangrowth of 0% YoY/QoQ. Retail loans, however, increased 17% YoY with homeloans,mortgage loans and auto loans growing 16%, 21% and 32% YoYrespectively. Thebank targets to improve the share of retail to 48% in comingyears.
- Net slippages declined QoQ due to controlled slippages. High write-offs led tosequentially lower GNPA/NNPAs. GNPA % declined 43bp QoQ to 12.6%, whileNNPA% declined 20bp QoQ to 6.5%.
- Opex declined 6% YoY and 35% QoQ on account of 38% QoQ decline inemployeeexpense.
- Fee based income picked up this quarter to 6% QoQ
- CASA deposits grew 21% YoY led by strong growth in SA deposits of 23% YoY. CAdeposits grew 8% YoY. Overall CASA ratio improved ~ 322bp YoY but declined100bpQoQ, and stood at 39.0%.

Canara Bank — Neutral

Current Price INR 393 — **Target Price INR 386| -2% Downside**

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Asset quality

- The bank has INR49b exposure to 16 accounts on the second list given by the RBI, 37% PCR on both lists combined. Total provision requirement on the two lists together is INR85b, of which INR60b has already been provided. The bank will provide another INR20b towards these accounts over the next two quarters.
- The bank has not yet received the final RBI audit report.
- Restructured: INR200b (INR75b std.), SDR: INR65b (moratorium ends mostly in FY18 but some will continue to 1QFY19), S4A: INR25b, 5:25: (65b), SMA2 – INR95.9b.
- Total infra exposure at INR500b (6.4% NPA), of which power is INR290b (4.48%). Power sector exposure of INR291b comprises INR13b of SEBs, distribution (INR100b), and generation (INR150b). Most generation companies are running at low PLF.
- Steel sector total exposure INR150b (INR10b NPA and INR5b rated A and above).
- Textile exposure at INR130b (11% NPA).
- Majority of their SDR accounts would expire by 4QFY18, a minor portion may slip over to 1QFY19.
- Written-off account recovery was INR3.8b; the bank aims to increase this to INR5b/quarter; expecting recoveries and upgrades of INR7.5-8b a quarter.
- The bank expects a maximum of INR25b slippages in each of 3QFY18 and 4QFY18, effectively guiding to INR138b of slippages in FY18.
- INR33.67b of slippages (MSME – INR8b, agri - INR5b, other priority sector loans – INR1.5b, medium enterprises – INR3b, non-priority – INR3b, overseas – INR2.95b. INR8b of slippages in the quarter came from power).

Other updates

- Propose to open 4 more Candy (Canara digital branches) by Mar '18.
- The bank is in the process of discussions to raise capital of INR63b (INR35b equity, INR18b Tier I and INR10b Tier II).

DCB BANK

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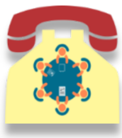

DCB Bank — Neutral

Current Price INR 181 | **Target Price INR 197| 9% Upside**

P&L related

- Expect some cost of branch addition to be back-end loaded through the next few quarters, which should be offset by improving productivity from older branches.
- Contingent liability of tax stands at INR190m, down from INR1b 2-3 years back.
- Expect margins to stabilize at ~3.75% due to pressure on yields.
- The bank targets 14% RoE for 4QFY19.

B/S related

- LAP growth has been impacted by redefined credit risk parameters, and also by balance transfer by HFCs and reduction in ticket size.
- The bank is targeting 22%-25% balance sheet growth, continuing focus on SME (INR4-5m).
- More than 80% of their CV loans portfolio qualifies as PSL.

Asset quality

- Recoveries and upgrades are from mortgages, gold, agri and SME; no contribution from corporate
- The bank has seen some impact on asset quality from GST, RERA, Demon, floods and farm loan waivers.

Others

- Will open 10-12 branches per year over the next 2 years. Will end FY18 at ~316 branches due to requirement of 25% branches in rural unbanked areas.
- The bank is grabbing corporate loan share from PSU banks, but restricting itself to corporates rated A and above.
- Competition has intensified from HFCs, NBFCs, PSU banks for retail loans over the past 3 years, but DCB's pricing is competitive.
- 20-30 new customers added every year in corp. banking (INR200m-250m ticket size).
- The bank has experienced high dropouts in larger ticket loans (INR10m+).
- The bank has introduced a new salary product "NEO" to help HR deliver tax benefits to employee through card.
- The bank has met 14K MSME customers over last 2 months to educate them about GST. They have a product "GST package" offered for free or at nominal fee when the customer opens a bank account.
- Except for some deposit-only branches in rural areas, all branches are full-fledgedbank branches.

FEDERAL BANK

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Federal Bank — Buy

Current Price INR113 | **Target Price INR 146 | 29% Upside**

Balance sheet related

- The bank registered 45% growth in new business (290K accounts per quarter compared to 200K per quarter earlier).
- Average CA growth at 14%.


Motilal Oswal
Federal Bank
CMP: INR125 TP: INR146 (+17%) Buy

- Fed-Fina is contributing INR1.5b of loans per month. Details on Fedfina – INR13b book, FY17 PAT INR250m, 1HFY18 PAT INR150m.
- The bank does not intend to be aggressive in retail unsecured products.
- The bank will consume 200bp of capital in next 2 years, post that the bank may raise bonds.
- Average ticket size is INR400-600m in corporate book with yield at ~9.25%.
- 77% of loan book is priced at MCLR.

Asset quality

- The bank recorded INR60m provision for SRs in the quarter.
- Retail asset quality challenges are behind them as dispensation-related pains were over by 1st of half of 2QFY18.
- The bank is well provided for its education loan exposure where some negative impact might result from a government waiver, and is expected to play out through Oct-Nov.
- Breakup of GNPA movement: Upgrades – INR1.63b, write offs INR502m.
- One IBC exposure remaining: Amtek Auto – INR150m of investment (50% provided), INR220m loan (100% provided).

P&L related

- Distribution fees and FX etc. and should start showing better growth toward 2HFY18 and FY19 as the bank is putting more efforts in that segment.
- Opex growth is partially due to spend on people and marketing.
- Provisions breakup: NPA – INR1.4b (1Q), INR2.3b (2Q), std. assets – INR200m (2Q), INR30m (1Q).
- The bank guided for 50-51% CI ratio for next six quarters as it intends to invest in brand building.
- 5-6bp benefit to NIM from capital raise; there was some benefit on refinancing of liabilities.
- Renegotiation of employment contracts will happen in November.
- Other expenses had one-time service charge of INR250m for buying a portfolio.

Others

- Have added feet on street, RMs, digital capabilities, ramping up Fed-Fina, even though branch count has not increased.
- More clarity on fresh capital infusion in Fed-Fina should emerge toward the end of the quarter.

HDFC BANK

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HDFC Bank — Buy

Current Price INR1,837 | **Target Price INR 2,150 | 17% Upside**

P&L related

- The bank made INR7b of provisions for the 5:25 account (~INR4b through P&L and they used INR3b from floating provisions).
- Management guided to revenue growth outpacing expenses growth over the next 2-3 years, leading to a steady decline in the CI ratio.
- The bank experienced 10-15bp reduction in yields due to increased competition in retail, which was partly offset by cost of funds reduction.

B/S related

- Risk weights in credit card/PL portfolio are comparable to those for auto loans. Increase in CC/PL is not contributing to increase in RWA/total assets. Market risk (not credit risk) has increased due to investments.

HDFC Bank

- Competition has spread across categories of retail (CC/PL/auto/CV) and SME from just auto earlier.
- Overseas advances stand at INR210b.
- Business banking ticket size is in single-digit crores.
- Both disbursements and run-offs are high in segments where dealer dependence is higher (CV, credit cards etc.)

Asset quality

- They are yet to hear from regulator on final asset classification on the 5:25 account; meanwhile, have made contingent provisions.
- Crop loan repayments are timed with crop cycles. The bank has seen improvement in waivers, but not meaningful.
- Management is comfortable with asset quality in credit card and PL, yields price in excess credit costs.
- The bank used INR3b of floating provisions during the quarter, and has another INR10b of floating provisions.
- Movement in NPA: Slippages – INR24.73b, recoveries and upgrades – INR12.5b, write-offs – INR7.61b.

Others

- Government business is a growth area for them in terms of liabilities.
- More and more SMEs are joining organized financing with GST, which opens up a wider market for banks.

ICICI Bank — Buy

Current Price INR 319 — Target Price INR 355 | 11% Upside

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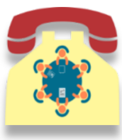

ICICI Bank

P&L Related

- Retail fees grew 13.5% YoY and constituted 70% of the overall fees as of 1QFY18
- As per the management high margin retail loans should grow from here.
- Management guided to elevated credit cost for the year. Credit cost in 2HFY18 might see some impact from RBI's 2nd list (if the cases are referred to NCLT)
- Management guided to NIM at > 3% for the year. Bank expects benefits from SA rate reduction to continue in the next quarter.

Balance Sheet Related

- As of 1QFY18 the bank had 62% of the domestic loans linked to MCLR
- Management expects higher growth in domestic loans. Overseas loan book decline should be controlled (low base due to impact of FCNR redemptions)
- The bank guided to 15% YoY growth in SME book and 20% YoY growth in business banking

Asset Quality

- Restructured accounts have declined 30.9% YoY
- Management guided to lower slippages in FY18 as compared to FY17
- Out of the total slippages, INR22b slippage were from BBB and below category
- RBI's 2nd list: Working on the resolution plans, failing which provisions will have to be taken by Mar '18. If referred to NCLT the bank will have to provide 50% by March'18.
- Exposure to central PSU owned Power company (INR 8.79b) is under demerger. Out of INR26.13b of SDR cases, Cases worth INR10b are from drill-down list and INR17b is to one sugar account (where change in management has been invoked)
- BB & below : maximum exposure to single borrower is less than INR6b per borrower

Others

- 51.9% holding in general insurance
- Cost of deposits below 5%
- Holding in ICICI UK and Canada has reduced

Indian Bank — Buy

Current Price INR 418 | **Target Price INR 438 | 5% Upside**

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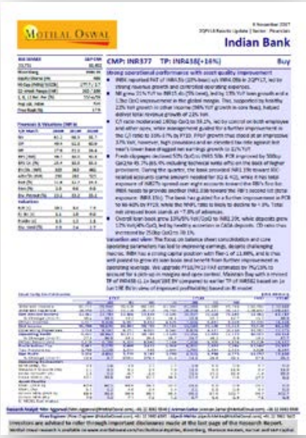

P& L Related

- Bank sold PSLC certificates worth INR220m for the quarter. Bank achieved the PSL target of 46% v/s 40% RBI requirement.

Bal. Sheet Related

- As of 2QFY18, the bank's 47.2% of loans are MCLR linked, 20% are fixed rate and the balance are base rate linked.
- Growth in the Infra sector mainly came in from road sector (supported by NHAI and government) and renewable energy.

Asset Quality

- O/S stressed loans: 5:25: INR7,540m (7 A/Cs), SDR: INR2,850m (5 A/Cs), S4A: INR2,240m (4 A/Cs). The bank has opted for one-time settlement of INR350m in the last six months (gross amount: INR5b).
- As of 2QFY18, SMA2 book stood at INR40b.
- IBC referred cases details: First List (8 A/Cs) – Bank has total exposure of INR27b, on which it has provisions of INR12b. The bank is required to make another INR1.2b of provisions for the next two quarters. 2nd list (10 A/Cs): Bank has provisioned INR3,640m on the same, and is required to make INR1.35b of incremental provisions on the same.

Guidance

- The bank guided for > 15% loan growth and 3% NIM for the full year FY18.
- Bank would like to maintain PCR of 66-68% by the end of FY18.
- The bank guided for a cost-to-income ratio of 35-37% by FY19.

IndusInd Bank — Buy

Current Price INR 1,647 | **Target Price INR 2,000 | 21% Upside**

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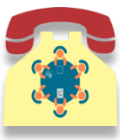
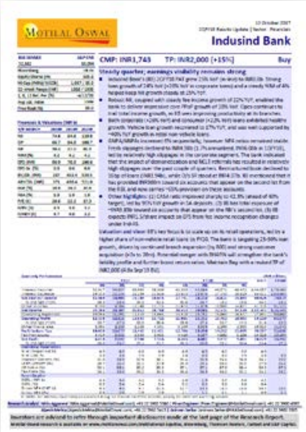


Asset quality related

- NCLT exposures: Out of the second set of 28 accounts, they have exposure to six accounts (total 8 cases, one is being restructured and one is very small account with exposure in single-digit). Exposure to six remaining accounts is INR3.85b on which they have a PCR of 65%). Most were already recognized as NPA and provided for; net additional provision of INR360m made in 2QFY18.
- Corporate slippages have declined because the last few quarters had one-offs (INR180m from microfinance in 1Q and 2Q, NCLT accounts have played out fully, 1-2 older CDR cases have slipped).
- The bank has no exposure to RCom.
- Net SR book is at INR4.07b.

Balance-sheet related

- The bank has availed foreign funding (USD250m) for seven years from OPEC and ECB.
- 15% of SA is government business book (project accounts), last quarter's corresponding figure was 10-12%.



- Corporate book growth is a mix of business transfer from PSUs, as well as new business, with some contribution from GIFT City
- SA rates: 4% up to INR0.5m, 5% between INR0.5m and INR10m; 5.5% between INR10m and INR100m; 6% above INR100m. Most of the growth is coming from 5% and 5.5% buckets.
- SA growth is mostly related to maturing of branches, increase in productivity, and increase in average ticket size.
- Gems and jewellery portfolio is stable, and credit practices are robust; no stressed assets.

P/L related

- Expect INR1.5 impact on EPS from fee income recognition changes under IND-AS (not clear completely as fees on some products will not be amortized; some are mainly spent upfront on related expenses, etc.)
- NII sensitivity to interest rate is low because of better ALM in terms of maturity and fixed/floating (vehicle finance book funded through CASA, corporate book through floating rate deposits).

Other updates

- The bank is seeing credit off-take opportunities post de-stocking.
- Crossed client base of 10m for the first time, and 100K CASA customers every month.
- MFI merger benefits: a) Cost of funds falls substantially for the MFI from day 1. b) Capital is released in the books of the bank immediately. c) Entire portfolio is classified as priority sector which offers PSLC fee potential. d) Huge customer base to sell liability products to (in addition to tractor loans etc.). e) Rural distribution network expands.
- 2W business run-rate at 70K vehicles per month.
- Renewables (treading cautiously, book of INR10b) and power transmission (<1% of book) are sectors in which capacity utilization is building up.

J&K Bank
Serving To Empower

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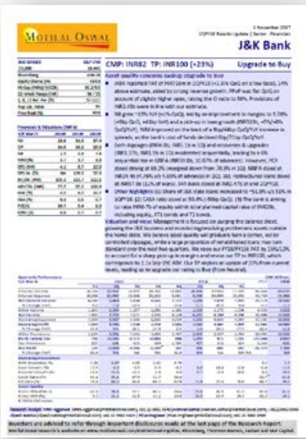

Jammu & Kashmir Bank — Buy

Current Price INR 76 — Target Price INR 100| 32% Upside

Asset quality related

- The bank expects FY19 GNPA to be contained within 9%, and is aiming for a PCR of 90% within the next 2-3 years. Expect significant NPA recoveries in 2HFY18.
- Restructured book is concentrated within 30-40 accounts.
- All sectors other than tourism are doing well; the bank does not expect incremental stress from other sectors.
- Tourism industry contribution to restructured book is INR3.3b, (INR5b – 6b including ancillary industries).
- Slippages during the quarter were majorly from one account in South India (related to export of spices).
- Only one account in restructured book overlaps with SMA2 book.
- 86.4% of GNPAs are outside J&K.
- The bank has small exposure to Tata Teleservices, has no exposure to RCom.
- SR book stands at INR4.74b.
- They expect INR40b to move out of the restructured book to standard book in Dec. when moratorium ends.

Balance sheet related

- Incremental lending is to retail and highly rated corporates. Loan growth should reach 18%-20% in FY18 (15% for loan book outside J&K).
- CASA ratio should remain at 50%. The bank has reduced deposit exposure (majorly high cost) to the rest of India.
- Yield on advances has gone up because of incremental high yield lending in J&K.
- Tourism industry exposure mostly comprises term loans.
- 90% of loan book outside J&K is to corporates.

P/L related

- Guidance for FY19: 1% credit cost for FY19.
- Guidance for next 2-3 years: CI ratio of 51% (decline to be driven by investments in digital infrastructure), NIM 3.5% - 4%, RoA – 1.5%, RoE – 20%.

Other business updates

- Tourist inflow in 1HCY18 was lower than expected.
- Looking to raise capital – a) QIP (INR6b-7b), b) AT1 capital (total Tier 1 of~INR12b- 15b), c) T2 capital (total capital of ~INR20b).
- The bank is waiting for an appropriate time and price for Metlife stake sale.

kotak

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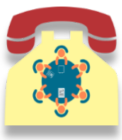

Kotak Mahindra Bank — Buy

Current Price INR1,037 | **Target Price INR 1,179 | 14% Upside**

P&L Related

- Credit costs guidance: Credit costs will trend down from 61bp.
- The bank has made some income reversals during the quarter on the agri portfolio.
- Sustainable margins: 4.25% due to risk adjusted returns. Fixed rate: 30% , MCLR linked: 70%
- Cost to income: 47% in the quarter (cost on 811, and cost of PLCs). Cost to income should trend down from here onwards.
- Yields: Wholesale lending has witnessed competition from bonds and the CP market, leading to pressure on yields.

Balance sheet related

- RBI inspection report received; no divergence for the bank as of March 2017.
- SA growth was supported by some government deposits.
- KMCC did equity offerings for SBI, Infy, GIC, Godrej Agrovet.
- Growth of CASA due to customer acquisition approx. 1.5m for the quarter; it is adding to the granularity of the deposits.
- Core SA growth (without govt. deposits) is above 40%.

Asset quality

- Settlement of the 4 A/Cs in the bank's books: Bank hopes to resolve soon due to Recap announcements.
- Exposure to 2nd List: Exposure is relatively small, and adequate provisions have been made by the bank on all the A/Cs.
- The bank did not sell to ARCs during the quarter.

Other highlights

- ING branches have started to contribute to revenues by cross selling to the existing customers, attracting deposits from the nearby areas.
- Recap of Bonds: 1) Will give potential boost to the economy. 2) Potential outcomes: aggressive write-offs of loans by PSU, ability to take haircut will

improve, resolutions will pick up speed; will throw up opportunity for valuation of distressed assets.

- Insurance will get consolidated from next quarter.
- B2C segments are highly vulnerable to avoid GST, as compared to B2B and also the cash in and cash out at the branches has not fallen (suggesting that cash is still used for transaction).
- Bank will buy PSL certificates as far as they find it attractive as compared to investing in RIDF bonds.
- Net worth to see the positive impact post implementation of IFRS.

State Bank of India — Buy

Current Price INR333 | **Target Price INR 415 | 25% Upside**

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Asset quality related

- Bank has made enhanced provision on standard assets in 2QFY18. SBIN now carries total stressed standard asset provisioning of Rs79.16bn which will enable it to bring consistency to its earnings growth.
- Bank aims to gradually improve upon its RoA led by reduction in credit cost / operating expenses and uptick in revenue growth.

Balance sheet related disclosures

- International loan book has grown at a relatively faster rate while CPs/corporate bonds are registering stronger growth of 41%/45% respectively in the domestic portfolio.
- Retail loan growth remains healthy and bank is looking at modest trends in corporate and SME segments

Asset Quality Related

- Watch list has declined to Rs210bn and this should enable controlled slippages going forward
- Corporate NPLs accounts for Rs1.25tn of total GNPL of Rs1.86tn.
- SBIN has 12 accounts in the 1st list and 27 accounts in the second list from RBI. Total exposure to both the list together is INR720bn and SBIN has provided total of Rs370bn on these loans – which amounts to 52% provisioning coverage.
- The bank appears positive on the recovery prospects in steel sector while expect limited losses on the troubled assets in power sector. EPC sector is where bank expects relatively higher losses.
- Agriculture NPLs to decline as bank further recovers dues from state government towards farm loan waiver. SBIN is due to recover Rs78bn from Maharashtra state government of which Rs20bn is towards NPLs. Likewise it has received Rs70bn from Telangana government of which Rs5.66bn relates to NPLs.
- SBIN sounded positive on trajectory in slippages going forward however suggested that corporate slippages need to be looked at on a long term basis as it can be lumpy.
- Stressed asset overlap is ~30-35%

Other highlights

- Bank has Implemented career development program and is focusing on skill development/training to its employees to improve their productivity
- Bank can dilute further stakes in subsidiaries over next few years
- SBI Cards business continues to deliver healthy returns and performance is likely to improve further as SBIN fully leverage its distribution network
- Recap bonds : SBIN expect healthy capital infusion from the government

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Results Update

South Indian Bank — Buy

Current Price INR31 | **Target Price INR 36 | 14% Upside**

Asset quality

- Steep provisions on SR book are due to INR7.6b (gross value sold to ARC) of accounts under NCLT resolution, leading to higher provisioning requirement.
- SR book stands at INR12.75b. 5:25 book stands at INR3.04b.
- Slippage run-rate – expect INR1b FY19 onward, and recoveries/upgrades should be at least INR500m per quarter.
- IBC exposure details: The bank has exposure to a total of five accounts amounting to INR8.86b (16% steel, 59% infra/EPC, 25% auto and ancillary). One infra/EPC NCLT referred account has significant land bank which the JLF is exploring. PCR on these accounts ranges from 25% to 50%.
- Breakup of NPA reduction: Cash recoveries of INR390m, upgrades of INR860m, write-offs of INR570m.
- Slippages breakup: Three food processing accounts – INR1.02b (cashew); two trade accounts – INR650m; textile – INR160m; remaining were contributed by small accounts amounting to INR690m.

Balance-sheet related

- Risk-weighted assets (RWA) stood at INR451.7b.
- Loan growth is expected to pick up in 3Q/4Q. The bank is targeting ~18% loan growth in Kerala.
- 52% of loan book is priced at MCLR.

P&L related

- Other income included a) PSLC sales of INR590m in 2QFY18, b) INR260m of interest on tax refund.
- Expect provisions run-rate of INR2b in 3Q/4Q of FY18, and INR1b FY19 onward.

Other highlights

- All home, auto and LAP loans are being processed through retail hub.
- Growth outside south India is mostly MSME-driven.

Click below for
Results Update

Union Bank of India — Neutral

Current Price INR 171 | **Target Price INR 175 | 3% Upside**

P&L related

- Employee expenses have gone down because they have adequate provisions
- The bank guided to 3.3% credit cost for FY18 and 2.25% NIM by 4QFY18
- The bank is targeting a cost income ratio of ~40%

B/S related

- The bank guided to strong traction in home loan growth for the next 2 years
- Cost of funds has a disadvantage due to bulk of 2 year TDs at 9%, will decline with re-pricing of the same
- Average ticket size in MSME is INR5m
- The bank has INR200b of exposure to private power

Asset quality related

- 2QFY18 slippages included INR10b from top 5 accounts (of which 2 steel, 1 construction)
- Increase in restructured book was because in many project loans, DCCO went above 2 years

- Stressed asset overlaps: SDR book – INR13.83b (10 accounts) overlap with OSRL, S4A book –INR7.65b (2 accounts) overlap with OSRL, 5:25 book – 10% overlap with OSRL
- SR book stands at INR10b
- 2QFY18 SMA2 book at INR136.15b, compared to INR187.1b in 2QFY17. SMA2 book to continue declining further
- 70% NNPA is below INR500m
- Slippages over next 2 quarters to be at similar level as 2Q. Recoveries and upgrades should be significantly higher in 2H (at least INR20b). GNPA should be < 13%
- The bank is targeting FY18 delinquency of 4.5% for FY18, and PCR above 60% by FY18
- INR47b (18 accounts) of exposure to the 2nd list of accounts given by the RBI
- SDR account during the quarter has total account size of INR30b

Other business updates

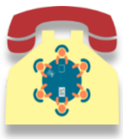
- The bank plans to raise INR20b of equity in 1st tranche (FY18), total approval for INR45b of capital

Yes Bank — Buy

Current Price INR313 — **Target Price INR 382 | 22% Upside**

YES BANK

Click below for Detailed Concall Transcript & Results Update



Asset Quality

- The inspection pertains to period ended March 2017. Divergences up to FY17 have now been accounted for so far
- 19 accounts – Consortium accounts are very few. Majority of these accounts are not systemic accounts. No steel, power, telecom accounts in these. Almost all the accounts are infra or infra-related
- ~INR12b of slippages fully and completely reflected in 30th Sep results.
- Upgrade – Regulator's (RBI) approval wasn't taken on it, but these were upgraded after thorough examination of evidences by Statutory Auditors & the Board.
- Sale to ARC – 3 accounts totaling to INR 4.4b were sold to ARC. Two of them were small real estate accounts and 1 was from paper industry. All these accounts were sold at face value and 15% cash. Face value of all these accounts is covered by land & building as security.
- Historical track record of repayment & upgrade from previous divergences suggest that there is a reasonable chance of recovery from these accounts. We believe a meaningful amount from this will be recovered in coming quarters

Companies referred to NCLT

- 1 a/c from the first list of 12 cases referred to NCLT and 7 a/cs from the 2nd list have turned into NPA.
- YES doesn't have any exposure to JSPL.
- 0.82% of GNPA is the result of divergence by RBI as of Mar'17.

P/L related

- The bank maintained its FY18 credit cost guidance of 50-70bp.

Balance sheet related

- Core retail banking business grew 78% on YoY basis and constitutes 11.1% of advances.
- The bank mentioned that entire thermal energy (3.4% exposure to power sector) exposure is operational.

- 1.2 % of iron and steel exposure is rated A & above.
- Telecom exposure stands at 3.9% (of which 3.7% is rated A & above).
- 75% of the corporate portfolio is rated A & above.

FINANCIALS/NBFC

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY18	Asset quality
Shriram Transport	▪ AUM growth expect at the top end of the 12-18% guidance for FY18 ▪ Margins to remain largely stable	▪ Credit costs to decline 50-70bp from FY19 onwards.
Chola Inv & Fin	▪ Expect overall loan book to grow at 18-20% over the medium term	▪ Asset quality should improve even further in 2HFY18
Mahindra Finance	▪ Expect 14-15% AUM growth for FY18	▪ Target GNPL ratio of 9-10% by end-FY18
Repco Home Finance	▪ Expect INR18b of disbursements in 2H ▪ Spreads to be 3.2-3.3% in FY18	▪ Target 2% GNPL ratio by end-FY18

BAJAJ FINANCE

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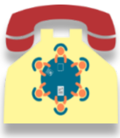

Bajaj Finance — Buy

Current Price INR1,806 — **Target Price INR 2,300 | 27% Upside**

Business updates

- Festive season-related demand for Semi urban and Rural remains good.
- Don’t expect any demand improvement in 2W and 3W business for next 2 to 3quarters.
- Four areas of investment/expense – BFL 2.0, new product lines, distribution expansion (85 new cities/towns in 1HFY18). Want to reach 2000 cities/towns inthenext 2-3 years.
- Impact of GST – Cautious on SME loans. Restocking in the quarter drovegrowth.
- Cautious on LAP portfolio – expects at least 2-3 more quarters before growth pickup.
- By Jan 1, 2018, if customer applied for an EMI card, he will get it on the spot (digitalEMI card). Earlier, it used to take 15-20 days and right now, it takes 4-5days.
- 8-10% of mortgage book should be assigned; In the long term 15-20% should be assigned; Across mortgage business.
- Competition faced in cities which are in top15 to 50 categories is from HDFCBank,HDB Financial Services and SBI
- AUM (ex-commercial loans) top-20 cities cater to 35% of it. 5 years from now top-20cities should contribute to <20% of AUM (ex-commercial loans).
- Rural lending is largely independent of agri-cycle and is targeted at massaffluentcustomer.
- Size of the CD market is INR800b, while that of the digital products market is INR1.5t. The digital products market is a tougher market to crack forcompetition.
- Opex to grow as BFL 2.0 gets implemented. This strategy will include new productrollout and channel expansion.

RBL tie-up update

- RBL tie up – in last five months issued 135K (first 5 months) cards. Targeting to beamongst 4-5 largest cobranded distributors in next 3 years.
- EMI card business customer base is 10m; Average line of INR60k.
- Out of 10m – 4.5m existing card owners (just replacement). Planning to have 1m co-branded credit cards in next 4-6quarters.
- 60% of loans come from existing customers. Management wants to take this to70%in the medium term.

Asset quality remains comfortable

- LAP slippages at 30 to 40bp, largely due to attrition from large-ticket items. The company does not want to focus on this large ticket segment and would like tofurther granularize the loan book. Churn rates of post-2015 book is lower,though.
- Accelerated provision of INR300m due to the impact of GST and demonetization.
- In normal times, credit loss in 2W/3W portfolio is 300bp. This could increase by150bp due to the demon impact.
- Seen some slippages (50bp) in LAP.
- 70% of the credit cost is a write-off (INR1.6-1.7b).
- Standard assets provisions as % of loans stand at 0.45% (INR3.5b). Companymakeshigher standard assets provisions for certain products.
- NPA write offs 70% of the provisions and moving in line with last year; INR2.3b(INR1.6b is write off). Last year write off INR1.3b.
- ~25% bad loans are from existing customers.

Others

- Limited benefit of QIP on the NII this quarter (INR80m in the quarter) – Just 15daysfree fund impact.
- Non-interest income would be INR2.5b in the quarter (out of INR31b). Of this,cross-sell component is INR1.3-1.5b. Balance is from penal charges andinvestmentincome. 90% of non-interest income is recurring/core in nature andshould grow inline with AUM growth
- Investing in brands and advertising leading to opex being higher by INR370-400m aquarter
- Contingent liability (as mentioned in Annual Report) is with respect to a servicetaxdispute (on interest subvention from the manufacturer). However, nowBAF ischarging GST on the interest subvention received from manufacturers.

BHARAT Financial Inclusion Ltd
Prayaas se pragati

Click below for Results Update

Bharat Financials — Under Review

Current Price INR978

Business updates

- Customer acquisition rate to increase going forward.
- INR170m to be provided for in 3QFY18 due to ESOPs.
- Will maintain 10% cash balance during the merger period.
- Management will operate the same way post-merger.
- Ticket size for home improvement loan will be INR0.15m.
- Future book proportion: INR400b o/w INR250b microfinance, INR80b 2W and INR70b home improvement.

- Loan growth: 40-50%.
- Use the same micro finance channel to boost growth further, with some field force addition.
- Yield on portfolio has moved up due to no interest reversals.

Asset quality

- Demonetization-related credit costs fully provided for.
- Recovery from demonetization stressed assets likely to be minimal, and will be spread over the next few quarters.
- INR220m hit due to timing difference, may occur in 2HFY18.
- RD customers have better repayment rates than non-RD customers.
- Recoveries: KA continues to be challenged, as elections are coming up; MP and UPportfolio has stabilized.
- Home improvement segment repayment should be as good as micro finance.

Merger

- Get access to full banking assets and liabilities products.
- Will keep BHAFIN ahead of competition from SFBs.

Market

- Growth and competitive intensity has been slow post-demonetization.

Click below for Results Update

Cholamandalam Inv & Fin — Buy

Current Price INR 1,282 | **Target Price INR 1,500 | 17% Upside**

VEHICLE FINANCE

Business updates

- The vehicle finance (VF) industry has seen a good quarter, both on the supply sideand demand side, largely due to pent-up demand due to BS4 migration.Also, ticketsizes have gone up.
- Ticket size increase (around 10% due to BS4 migration) has aided disbursementvalue. Market share in M&HCV has increased 100bp to 5.5%. Market share inSCV/LCV is steady at 14%/13%
- In select markets, there is impact on cash flows of SRTOs due to GSTimplementation.
- NIM impact of securitization in 1Q would have flowed through in 2Q, becausesecuritization generally happens at the end of the quarter. Also, change inproductmix has aided NIM expansion.

Asset quality

- Asset quality should improve even further in 2HFY18.
- Number of customer visits by a collection officer has gone up from 2 times amonthto 5-6 times per month. Hence, opex is also slightly higher.
- Collection efficiency improved 100bp QoQ to 98%. Collections have improvedacrossall buckets.
- In vehicle finance, CIFC reclassifies repossessed assets from GNPLs to ‘currentassets’. Currently, that number is INR600m.

HOME EQUITY

Business updates

- Traction in HE has picked up, as the impact of demonetization is well past.
- Under GST disclosures made by customers have increased, thereby increasingdemand for Home Equity.

Asset quality

- Improvement in credit costs was due to sale of some repossessed propertiesunderSARFAESI. There, the company has not booked a single loss on any sale.Management is seeing good traction in repossessions under SARFAESI.
- The current GNPL ratio number is the peak according to the management.
- Current stock of repossessed properties is 19. The company does not reclassifyassets post repossession – these remain classified as NPL.

Other business updates

- The management believes it will be able to sustain 18-20% overall book growthoverthe medium term.
- Incremental cost of funds is around 8%.
- In MSME financing and trip loans, CIFC has not been able to ramp up well.Management is introspecting.
- GNPL for the company is INR16.52b, of which INR8.85b is from VF, INR5.8b isfromHE and INR800m from others. NNPL is INR10.7b.

Dewan Housing Finance — Buy

Current Price INR 639 | **Target Price INR 690 | 8% Upside**

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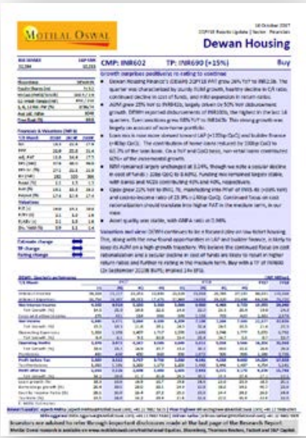

Formalization of old businesses to provide new opportunities in LAP/SME

- Post-GST and post-demonetization, more formalization of SME businesses is seen. This is likely to be a growing segment for the company.
- Smaller builders are facing teething issues with RERA implementation.

Project finance to offer new opportunities; asset quality and margins to remain stable

- In project finance, opportunities are cropping up in the non-affordable segment.
- Expect operating efficiency to increase.
- Asset quality and margins should sustain, going forward.
- LAP and SME to remain 20-21% and HL to remain two-third of portfolio. LAP and SME lending not risky, provided the borrowers have proven business models.

P&L-related

- Average ticket size in LAP is INR4.5m-5m and incremental yields are 11.5-11.7%.
- Yields on portfolio have declined due to some portion of existing loan book getting re-priced.
- Incremental yields on HL are 9.35-9.45%, and HL portfolio yields are 10.15-10.18%.
- Ticket size of project finance is INR800m-900m, mostly originated in the South and the West. With RERA getting implemented, ticket size is likely to go up, going forward.
- Processing fees increased to INR610m in 2QFY18 from INR260m in 1QFY18. This is largely due to chunky fees from non-home loan business.
- Insurance commission increased to INR260m in 2QFY18 from INR80m in 1QFY18.

BS-related

- HL growth rate should remain similar to 2QFY18, going forward.
- Disbursement growth: LAP (+248% YoY), project finance (+9% YoY), retail home loans (+62% YoY), SME (+109% YoY)
- Project finance can be utilized for Project Finance Retail Convention (PFRC), that is, cross-sell to customers. This is, however, yet to gain traction.

- 30% of bank loans will get re-priced in 3QFY18, which is likely to reduce cost of funding by ~20bp QoQ.
- Balance transfer rate has reduced from 18-20% (annualized) to 8-10% (annualized). This reduction is due to effective metrics used by the company.
- 6,000 cases worth INR1b have been forwarded to NHB for subsidy. These are mostly from EWS, LIG, MIG1 and MIG2.
- SME disbursement grew 58% QoQ to INR5.5b; LAP up 45% QoQ to INR25b.

Equitas Holdings — Buy

Current Price INR 147 | **Target Price INR 209 | 43% Upside**

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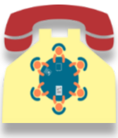

Balance-sheet related:

- Average balance is CA and SA is INR0.1m and INR56K, respectively.
- After a time, microfinance will plateau off, and once it reaches a certain % of the book, MF growth will be at par with overall book growth.
- The bank is looking at INR5-6m growth in CASA/branch.
- CI ratio is expected to stay above 65% over the next six quarters.
- In non-MF, 60% of disbursements happen through Equitas' own bank accounts.
- In UCV, 80% are first-time borrowers, drivers turning into entrepreneurs. M-LAP customers are mostly cross-sell customers, ticket sizes are small, so asset qualitybetter.
- Non-MF yields are 150bp lower than MF.
- SA cost is 6.25-6.5%.

Asset quality-related:

- GNPA level in non-microfinance is expected to decline to FY17 levels by FY18.
- Maharashtra and MP showing signs of improvement in microfinance collections. Ground situation is better, but not equivalent to pre-demon levels.
- In non-MF book, 80-90% are first-time customers.
- 99.5% collection rate for disbursements made January onward.
- Non-MF asset quality challenges attributed to UCV since there was a period of lullpost GST.
- Collection efficiency in key geographies: TN – 68% of AUM, 99.5% collectionefficiency; Maharashtra – 14% of AUM, 72.5% collection efficiency (+100bp in1Q);KA – 72.3 collection efficiency, MP – 82.5% collection efficiency.
- Of 2.2L delinquent customers, 35K clients have paid at least one EMI in the last 1month, 70K clients in 2Q. 50% of INR2.1b PAR book is from Maharashtra.

IndiaBulls Housing Finance — Buy

Current Price INR1,199 | **Target Price INR 1,550 | 29% Upside**

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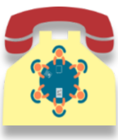

Business updates

- Management has guided for 30% AUM growth for FY18. AUM is likely to reach ~INR2t by FY20.
- Reiterated guidance of 66% share of retail home loans by FY20 (currently 58%).
- Incremental spreads = 2.99% (compared to guided range of 2.75-3%).
- Presently, 70% HLs are sourced from top-20 cities. In next two years, half of the home loan sourcing will come from the non-Top 10 cities.
- Management targets INR75b worth of insurance premiums sold in FY18. Hence, fee income growth to be more than loan book growth.

- Disbursements in 2QFY18 – Total: INR95b; HL: INR58b, LAP: INR18b, Corp: INR19b.
- According to management, IHFL would be raising bonds at 10-50bp higher than AAA rated entities like HDFC and LICHF. About 12 months back, it was 40-110bp higher.
- INR60b worth of liabilities will come up for refinancing in 2HFY18. Incremental cost of funds likely to be around 7.3-7.5% in 2HFY18.
- Fee income in 2QFY18 – INR1.85b.
- HL book breakup – New construction – 70-75%; Self-construction – 10%; Resale –5%; Balance transfer 5%.
- On-book yields: HL – 9.63%, LAP – 11%, CF – 16%, LRD – 11%.

Asset Quality

- Provisions made during the quarter – INR1.87b (INR1.45b YoY).

Others

- LAP constitutes 21% of total AUM.
- Management expects the spread of home loans above G-Sec yields for the industry to be in the range of 150-200bp.
- Growth in mass housing for the industry should be 35-40% going forward, according to management.
- Management plans to raise USD750m in 2HFY18 via masala bonds/ECB route.
- Delhi NCR contributes to 25% of HL book.
- The company has changed its auditor from Deloitte to Ernst and Young.
- Issued INR10b of Tier II Bonds in 2QFY18. Guidance to keep CAR above 20%.
- In Oct 2017, Oak North Bank raised an investment of USD203m at a valuation ofUSD1.27b (280% more than at the time of IHFL's investment in Oak North Bank).

L&T Finance Holdings — Buy

Current Price INR188 | **Target Price INR 240 | 28% Upside**

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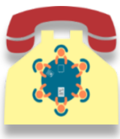


Consolidated Business

- Clear focus on fee income. For every deal, the business team is not focused on NIMbut on 'NIM+fees'.
- Expenses to grow slower than income growth, as productivity increases and processes become technology oriented. C/I ratio to remain steady.
- Management expects 30% CAGR in disbursement and 'early-twenties' CAGR in theloan book for next 2-3 years.

Rural Business

- Digital and analytics focus helping identify customers, geographies andproducts.
- Focus on increasing business from desired OEMs in 2W and tractor finance. For example, the share of preferred OEMs increased from 50% last year to 70%now.
- Expect 200-250bp of credit cost in micro finance on a run-rate basis.
- Expanding into states like Assam and Bihar in micro finance.
- Funded 150,000 2Ws and 16,000 tractors in 2QFY18. LTFH has 7% market share intractors and 11% in tractors.
- 30% MFI debtors are partially paying; collection efficiency is at 93%

Housing Business

- Focus on Cat A and B developers, hence expect decline in yields.
- LRD is a small portion of builder loans. INR15-18b disbursements in builder loans perquarter will continue.
- Accelerated provisions due to early warning signals. The disbursements are 2-3years old
- The retail housing book is 52% home loan and 48% LAP.
- One sanction of INR5b to a JDA of L&T Realty arm with some other developer.
- Due to RERA, cash flow from developers will be back-ended. Developer equity commitments will go up. Will be an opportunity for the company.
- Smaller builders will find it difficult to sustain once RERA is fully implemented.

Infra Business

- Management’s focus is to avoid risk in PPA, land acquisition, etc.
- Infra debt funds are designed to takeover assets from existing financiers.

Asset Quality

- Total balance sheet coverage ratio (provisions/AUM) has increased from 3% in FY17to 4% in 1HFY18. The company will continue to make counter cyclicalprovisionsgoing ahead.
- NPLs in the rural business should come down from next quarter, driven by lower farm NPLs. Will write-off MFI NPLs by year-end.
- INR50b stressed loans in wholesale lending – bulk of this is from EPC and thermalpower sectors.
- In MFI business, number of debtors who are even 1 day overdue has remainedstable.

Others

- Open architecture in wealth management driving growth.
- In the AMC business, 6 equity funds are in Top quartile performance.
- Tractor loans tenure is 5.5-6 years.
- In home loans, the split between home loans and LAP is 52:48.
- 17% of MFI business in 2Q came from branches opened in 1HFY18.
- Provisions against stressed wholesale lending assets should reach INR20b by end-FY18.

LIC Housing Fin. — Neutral

Current Price INR605 | **Target Price INR 680 | 12% Upside**

Click below for Results Update

Growth

- Sanction pipeline growing at 17-18%.
- Core home loan disbursement growth was 13% YoY in the quarter.
- INR30-35b worth of loans have come from balance transfers.
- Disbursements - LAP and LRD: INR19b; Retail Home loans: INR85b; Corporate: INR61b.

Yields, CoF & Margins

- Spreads on 1.5-1.6% on core home loans.
- Downside risk to 2.7% NIM guidance as per management.
- Over the next two quarters, INR60b of borrowings will come up for re-pricing.
- Incremental yields – HL – 8.7-8.8%; LAP – 10.5%; Corp – 13%.
- Incremental CoF in 2Q – 7.2%.

Business updates

- Real estate sales are likely to slow down in FY18 due to the impact of RERA.
- Growth has come from West and South regions (except Chennai).
- 7% of incremental loans have come from PMAY category.
- INR210b of loan book (1.44lac customers) has been re-priced in 1HFY18 (20-30bp).Another INR30b will come for re-pricing in 2HFY18.
- Management has changed its narrative to “We are not averse to increasingshare ofLAP and builder loans”. Could increase share of LAP+Corp book to 20%comparedto 17% currently.
- Management has guided for 15% YoY growth in employee expense in FY18.

Asset quality

- One account that became NPL in 1Q was recovered in 2Q.
- Another account that was NPL for the past two years (INR300m) has been resolvedand started paying back.
- Slippage in corporate loans was INR1.3b and recoveries were INR250m in the quarter.
- GNPL ratio: Corporate - 9.69%; Retail - 0.44%. 7 accounts in NPL. ~60%provisioningagainst these accounts.
- INR0.25-1.3b average ticket size of corporate GNPLs. Biggest NPL (INR1.3b) is fromNorth India, and LICHF is the sole lender.

Others

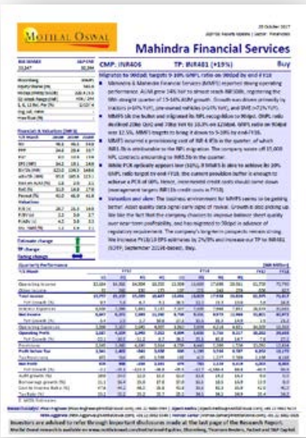
- Interest reversal in 2QFY18 was INR60-70m.
- Incremental ticket size is INR1.9m.
- LAP book – Self-employed – 17-18% of the LAP book; 95% of LAP is against residential property.

Mahindra Finance

M&M Financials — Buy

Current Price INR436 | **Target Price INR 481 | 10% Upside**

Click below for Results Update


Mahindra Financial Services

Business Updates

- OEMs are expecting good growth from rural markets.
- July and August were impacted due to GST (resulting in de-growth over prior year). In September, growth was 15%.
- Market share in Hyundai has improved. Market share in Maruti is stable.
- No impact on yields due to competition.
- Expense ratio will remain in the 3.0-3.2% range.
- MP, UP, Maharashtra and Rajasthan have witnessed good improvement in 2Q. KA and TN are still stressed in terms of recovery and disbursements.
- Now, the business team is compensated not for the quantum of disbursements but for recoveries in the first 12 months.
- Excluding interest reversals, there has been no spread compression in any product.

Asset Quality

- Trend of decline in NPLs is clearly visible.
- Collection efficiency of 93-95% in 2Q; could improve in 2HFY18.
- For the housing finance subsidiary, recovery will come in from November onwards.
- Target to reach 9-10% GNPL ratio (90dpd) by end-FY18.

- In 2Q and 4Q every year, MMFS writes off all contracts that are 100% provided for.Wrote off 15,000 contracts in 2QFY18 v/s 9,000 contracts in 2QFY17.
- INR3.6 write-offs in 2QFY18 v/s INR1.95b in 2QFY17. Write-offs in 1HFY18 areINR3.5b. For the full year FY18, credit costs should be close to INR11b.
- In the quarter, there was INR700m interest reversal and INR1.8b was theincremental provision due to migration in 90dpd.

Others

- In 'SME & Others' – the 'Others' is dealer advance. Yields in dealer advancecouldbe low (as close to zero), if say, the dealer is able to give a particularamount ofretail business in a particular amount of time. (Even L&T Financedoes this).
- 15% of the housing finance book is related to affordable housing.

Muthoot Finance

Click below for Results Update

Muthoot Finance — Neutral

Current Price INR 451 | **Target Price INR 550 | 22% Upside**

Business Updates

- Management expects 10% growth in AUM in next two quarters.
- AUM growth was muted in 2Q, as disbursements equaled repayments. However,AUM growth has picked up in October and November so far.
- Growth is slow because economic activity hasn't picked up sincedemonetization.
- Started business Loans against gold a month back - Loans above INR1m will be at a12% yield. Maximum share of this portfolio will be 10%
- 2 years for a branch to mature.
- Avg. LTV at 68%.
- Interest income was strong in the quarter due to overdue collections (penal interest)from several old accounts.
- Cost of funds can reduce, as some high cost debt retires.

Asset quality

- In the six-month loan scheme, customers have asked for extra time to pay back.
- NPAs are likely to be resolved fully.
- Six-month loan scheme has been discontinued (INR75b). Should get matured by 4QFY18 mostly. Interest rate is similar, charge around 1% penalty.
- INR530m incremental provisioning due to bad loans.
- Overdue portfolio as of 1QFY18 and 2QFY18 was 20%. Normally, it ranges from7-10%.
- Auctions during the quarter were INR7.75b.
- 30% of increased NPLs have normalized so far in 3QFY18.

Subsidiaries

- Home finance AUM to reach INR14b in FY18, INR28b in FY19, INR50b in FY20.
- Microfinance subsidiary may raise capital soon.
- Economy in Sri Lanka is not doing well. It is facing balance of payments problem. That is impacting its NBFC subsidiary in Sri Lanka.
- Home Finance – MH (INR4.03b AUM), Guj. (INR2.2b), Raj (INR1.35b), MP(INR270m),KL – (INR410m). In 3Q, they moved into KA, AP, Tel and Haryana.
- GNPL in home finance is 0.5%.
- Microfinance subsidiary NPL is 0.18%.

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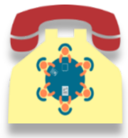


PNB Housing Finance

PNB Housing Finance — Buy

Current Price INR 1,389 — **Target Price INR 1,750 | 26% Upside**

Business Updates

- 48% YoY increase in logins in 1HFY18.
- Management looks to increase the share of affordable housing segment in the homeloan portfolio.
- 21 states have started RERA registration. But registration of projects has been slow.There was some impact of this on disbursements in the quarter. Growthcould pickup if registrations improve (expected in 2-3 quarters).
- Management reiterated spread guidance of 210-225bp.
- PNBHF will open 23 new branches and 4 hubs in FY18.
- Management expects industry-level growth of 16-17% in FY18, with HFCs growing18-19%.
- The company will look to raise capital when leverage hits 12-13x.
- Average ticket size to go down to INR2.6-2.7m in next two years.
- CAR was at 18.38% and Tier 1 ratio was at 13.99%.

Asset Quality

- Four of the five accounts that slipped into NPL in 1QFY18 have rolled back into thestandard bucket as SARFAESI was invoked.

Others

- New subsidiary PHFL Home Loans has been floated to house the off-roll staff.
- 26- 27% of home loan disbursements are related to primary home sales.
- Dividend policy to remain same going forward.

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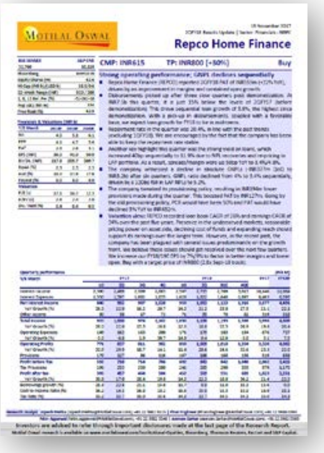
Repco Home Finance

Repco Home Finance — Buy

Current Price INR 627 — **Target Price INR 800 | 28% Upside**

Business Updates

- Focusing on lower ticket size loans
- Improvement in sand availability in South India (this was an issue for them in 1Q)
- Government has waived some 'YSR' charges (Which accounts for 10% of the totalcost), which has helped improve loan growth
- Government has issued guidelines for regularization of unapproved plots, but on-the-ground momentum is slow.
- Incremental ticket size in LAP is INR1.6m
- Claimed PMAY subsidy on 500 accounts
- Some slowdown in Kerala, AP and Karnataka (Bangalore). Maharashtra andGujaratare doing fine.

Guidance

- Intend to open another 7-10 branches in FY18
- FY18 loan book growth guidance – 'high-teens'
- 2HFY18 disbursement guidance of INR18b
- C/I ratio to be below 16% in FY18

Yields & Margins

- Yield on sanctions improved 15bp QoQ driven by 40bp increase in LAP yields. Rest ofthe loan book yield increase was attributable to lower NPLs (INR25mimpact ontopline due to this).

- Incremental yield on home loans is 9.8% (9.3% for salaried home loans). On-bookyield for HL – 11.2% (11.3% in 1Q) and LAP is 14.3% (14.5% in 1Q)
- Spread guidance of 3.2-3.3% for FY18. Asset quality improvement should assist spreads.
- Over the next 12 months, INR5b of high-cost NCDs will mature. Refinance savingswill be 130-140bp.

Asset Quality

- Management intends to bring down the NPL every quarter. FY18 target GNPL ratioof 2%
- Nil floating NPL provisions on the BS
- INR4m write-offs in 2Q
- Targeting 70% PCR by end-FY18
- Collections improved significantly towards end of 2Q

Others

- Sanctions in 2QFY18 – LAP – INR1.46b; HL - INR6.18b. Disbursements – LAP - INR1.41b; HL - INR6.12b. In TN, disbursement was INR4.46b (v/s INR3.27b in1QFY18). Total TN disbursement was INR5.41b (this number includes LAP).
- Only 2% of loan sourcing is from non-direct modes. Commissions for DSAs arecapped at INR50,000 regardless of the size of the loan
- Current sanction pipeline of INR3.8b v/s INR2.5b in 1Q. Of the 1Q pipeline, only INR200m is remaining.

Shriram City Union Finance — Buy

Current Price INR2,028 | **Target Price INR 2,650 | 27% Upside**

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Shriram City Union Finance
CMP: INR2,248 TP: INR2,650 (+18%) Buy

Business

- Impact of GST and demonetization withering, disbursement coming back to normallevels.
- Growth in 2HFY18 expected at 18-20% and at around 20% in FY19.
- Engagement with Mckinsey for MSME lending for non-south market penetrationwillimpact books three years from now.
- 40% of customers are GST-compliant.
- Customers prefer SCUF because of reach and turnaround time.

MSME Financing

- Yields are at 20%.
- 35-40% of MSME customers have banking credit lines.
- 10-12% of this book is unsecured.

2W Financing

- 240,000 vehicles were financed in 2QFY18.
- 150,000 2Ws financed in October v/s 110,000 YoY because Diwali came in Oct thisyear v/s Nov last year.
- 60% of 2W disbursements come from non-south regions.
- 2W business to grow better in 2HFY18.
- 2W financing growth, mismatch between mfrs sales and dealer sales.
- 2W disbursement in north will outstrip south.

P&L related

- Yield increase due to increase in yield in gold loans.
- Yield guidance is at 20 to 20.5%.

BS related

- South India and MH contribute 75% of AUM.
- Urban market 10% in three years.
- Cost of funds should remain static in 2HFY18.
- Unsecured loans in AUM around 10%.
- AUM mix in three years: 60% MSME, 17% 2W, Gold 10%, PL +Auto 13%.

Asset quality

- Provisions elevated due to customers for whom the company had taken dispensation in Jan-17.
- Customers are bound to be in touch due to the segment SCUF caters to.
- GNPA ratio at 150dpd 5.76% in 2QFY18, 5.40% in 2QFY17, 5.80% in 1QFY18.
- PL credit cost write-off 100% because it is an unsecured book. PL is adequatelypriced and is a cross-sell product (60%). Guarantee from co-workers needed fordisbursement of PL.
- Seeing stabilization in collections.
- Impact of migrating to 90dpd will be around 9.3%.
- PCR in 4QFY18 around 60%.
- GNPA ratio in 2QFY17 6.91% 120 dpd.
- Write-offs will remain around 2-2.1% and ultimate credit loss (credit costs) will be2.6-2.7% going forward.
- Bounce rate is similar at 10%.

Housing Subsidiary

- Disbursements: Retail INR850m, LAP INR220m, CF INR40m.
- Product focus on HL below ticket size of INR3m.
- FY19 onward, growth should be around 25%, post-RERA implementation.

Shriram Transport Finance — Buy

Current Price INR 1,280 | **Target Price INR 1,415 | 11% Upside**

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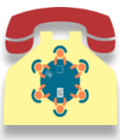

Market

- Kharif output has been 8% below FY17, though sufficient to make rural economyhealthy.
- Real estate demand in semi-urban and rural area should be buoyant.
- Vehicle sales in 2QFY18 were robust; 6% YoY increase in vehicles in 1HFY18.
- Pent-up demand got fulfilled in 2QFY18. So MHCV sales higher in 2QFY18, aspricingwas not known before GST, and BS4 vehicles deliveries were not readybeforeJun/July.
- Better demand for haulage; will remain high due to infra push by govt.
- Residual value of newer vehicles should remain intact, as push for BS4 is strong.Hence, demand for old vehicles will remain strong.
- HCV demand to be high due to construction activity in projects for the next 4-5 years.
- Number of trips and earnings has remained similar post-GST.

Business

- NIM remains sustainable, as high-ticket lending will increase in coming quarters.
- Merger: Shriram Transport to remain independent with or without merger; talks areopen to finding common ground.
- PV and tractor business to grow faster than HCV business.
- Do not see any competition from banks, as they see it as a risky business.

- 150-200 branch addition per annum target.

P&L related

- CIR to remain same for FY18, CIR for FY19 should be around 22%, as new recruits ofprevious years start getting incentives in FY19.
- NIM pressure in new vehicle financing may not affect overall NIM expansion.
- RoA target of min. 2.5% in FY19.
- Dividend of INR120m from subsidiary, taken into other income.

BS related

- Disbursement: Total – INR123.7b, New vehicles – INR12.9b, Old vehicles – INR110.9b.
- Interim dividend of INR5 per share declared.
- 15% of liabilities coming up for re-pricing in 2HFY18. CoF to decline by 10-15bp in2HFY18.
- AUM growth around 15% for FY18E.
- Securitization has gone up; expect similar demand in 2HFY18, as MFs have extracash.
- Others in AUM breakup: working capital, bill discounting.

Asset quality

- Move to 90dpd in FY18; GNPA ratio will be around 9.5%.
- At 180dpd, GNPA ratio will be 3.5% for 2QFY18.
- Observing delayed payments in customers; however, payments havenonethelessbeen made after transitioning to 120dpd.
- Credit costs around 2.8% (on 120dp) in FY18, and around 2.3% in FY19 (will aim for2% though).
- Collection efficiency has improved in Sept-17, as agri incomes have increased.

Post GST, domestic business of Pharma companies has improved on the back of channel re-filling at stockiest level to near pre-GST level. In 1QFY18, companies lost ~30 days of sales, as inventory days came down to 17 days from a peak of 43 days. In 2Q, companies recovered almost 15 days of sales and expect further 5-10 days of recovery in 3QFY18. For FY18, although 6-8 days of sales may be lost, companies expect domestic business to grow in low teens.

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for US business	Domestic Business Shaping
Cadila	■ US business grew by 66% YoY during the quarter due on back of launch of gLialda. Going forward ramp-up in Tamiflu suspension and launch of key products like Asacol HD, Toprol XL, Prevacid ODT are expected to help maintain strong growth.	■ Domestic branded business increased by 9% YoY on back of 25 new product launches and 40% sequentially, mainly due to recovery in sales post GST. Management indicated that ~80% of sales have been recovered and expect to stabilize by December 2017.
Cipla	■ US business declined 3% YoY. Growth in US business is expected to be driven by ramp-up of Sevelamer (launched recently),and key upcoming approvals such as Nano-paclitaxel and Albuterol MDI.	■ Domestic business grew 12% YoY (adjusting for GST growth would have been 19% YoY) and 30% QoQ due to channel re-filling post GST. Channel inventory is still lower by ~10 days v/s GST levels. CIPLA expects tocover 5-6 days in 2H.
Dr Reddy's	■ US business declined 10% YoY and 5% QoQ. Company expects double digit price erosion in the US base business in FY18/19E due to further channel consolidation and competition in key products. Despite this US business is expected to bounce back in 2HFY18 and FY19 on back of niche launches (gRenvela, Vytorin, Doxil, Suboxone, Copaxone)	■ India business increased marginally by ~2% YoY (10% YoY growth, adjusting for GST), although increased significantly QoQ by 36% on back of partial recovery in inventory post GST implementation. Although there has been gradual pick up in inventory, it has still not recovered to pre-GST level.
Lupin	■ US business declined 32% YoY mainly due to new competition in Glumetza and loss of Minastrin exclusivity .The company does notexpect new competition in Fortamet for the next two quarters. LPC expects US sales to bottom in current quarter, as price erosion is likely to in high single digit as against double digit in last 12-18 months.	■ Domestic business increased 16% YoY (adjusting for GST growth would have been 20% YoY). LPC expects domestic business to grow 15% in 2HFY18.

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Alembic Pharmaceuticals

Alembic Pharma — Neutral

Current Price INR 515 | **Target Price INR 540 | 5% Upside**

- R&D expense to remain at ~INR4-4.5b in FY18E.
- EBITDA margins will remain at ~20% in FY18E.
- Orit acquisition to be EPSaccretivein first year.
- Derma facility will be ready by 2HFY18.
- Injectable and Oral facility will be ready in FY19E.
- Debt has gone up by~INR2.9b in 1H, mainly to fund capex.
- Peak borrowing by 1HFY19E willbe ~INR6-7b.
- Derma filings will start from 2HFY18.
- Fire in Algeria plantwill derail growth in that geography by at least two quarters(currentcontribution is not meaningful).
- Oncology oral facility is ready now.
- **India formulations (36% of sales):** India's formulation business increased 6% YoY and 63% QoQ primarily due to recovery in trade channel. Specialty segmentincreased 13% YoY in 2QFY18, while acute segment declined 4% YoY.
- **International Generics (44% of sales):** International business declined significantly by 26% YoY mainly due to sharp decline in the US business by ~29% YoY to INR1.9b, while Non-US business declined ~13% YoY to INR720m. Decline in US business is attributed to higher sales due to "Abilify" in 2QFY17. Company got approval for 4products during the quarter and launched 1 product. Itexpects 20-25 filings in FY18.

ALKEM

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Alkem Labs — Neutral

Current Price INR 1,970 — **Target Price INR 1,950 | -1% Downside**

India business (76% of sales)

- Alkem’s India sales reported INR14.1b sales in 2QFY18, increasing 15% YoY.Sharprecovery in domestic business post GST
- Alkem’s domestic business saw robust growth in 2QFY18 on the back of channel refilling post GST, as inventory levels increased to 30 days from ~17 days in1QFY18.Company has entered the Urology therapy, which is an INR20b market.
- Alkem exhibited robust growth in emerging therapies of Neuro/CNS, Cardiac, Anti-Diabetic and Derma, thereby outperforming market growth. The company’sestablished therapy areas of anti-infectives growth declined 18% (-13.5% marketgrowth), while growth in gastro was muted, although company has maintaineditsleading position. In vitamins, growth was 8% v/s market growth of 0.4%.

US business (16% of sales)

- US sales saw flattish growth of 1% to INR3b, impacted by price erosion and currencymovement. US business is expected to improve going forward led by an increase inthe number of ANDA filings; ~50% of the portfolio yet to be approved andcommercialized. During the quarter, the company filed four ANDAs and receivedthree final approvals. Cumulatively, it has filed 95 ANDAs (including 38 para IV) and received 43 approvals till date, including five tentative approvals and one NDA. Thecompany expects ~12-15 filings in FY18.

Other international business (7% of sales)

- Other international business grew 55% YoY to INR1.3b. Its key markets like Australia,Chile and Kazakhstan recorded health growth. For other international markets,growth was even high in constant currency.

AUROBINDO
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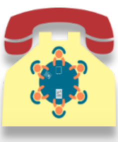

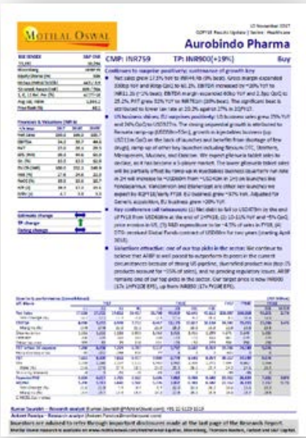

Aurobindo Pharma — Buy

Current Price INR 707 — **Target Price INR 900 |27% Upside**

- Debt increased from USD516m in 1QFY18 to USD616m, primarily due toincrease inworking capital on launch of new product. ARBP has guidedreduction in debt toUSD475m by the end of FY18.
- Gross margin expanded sequentially due to certain provisions.
- The management has guided capex of USD120m-130m for FY18.
- Tax rate for FY18 would be in the range of 25-26%.
- Other expenses increased by ~INR1.8b during the quarter due to highsettlementcharges and launch of new product.
- US (47% of sales): As compared to its peers which saw decline in US businessARBPUS business revenues posted strong result, owing to stable pricingsequentiallyramp-up of gRenvela. During the quarter company filed 21 ANDAsincluding 11 inorals and 10 in injectable. Company launched 8 productsincluding 2 injectable andreceived 2 final approvals and 3 tentative approvals.Cumulatively, Aurobindo hasfiled 463 ANDAs in the US and has receivedapprovals for 3334 products (includes 40tentative approvals).
- Europe & RoW (30% of sales): In 2QFY18, Europe and RoW combined increased37%YoY to INR13.6b on back of improved profitability in Actavis. Europe zusiness grew~37% YoY to INR11.1b while RoW market grew ~38%YoY

toINR2.4b. AurobindoPharma transferred manufacturing of 74 products fromEurope to India. Europemarket increased on back of high growth across allcountries and expects growthmomentum to continue in key Europe marketslike UK, Germany and France goingforward.

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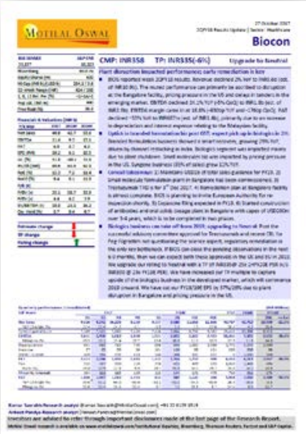

Biocon — Neutral

Current Price INR 423 | **Target Price INR 335 | -21% Downside**

- Maintains USD1b of total sales guidance for FY19.
- Small molecule formulation plant in Bangalore has been commissioned.
- Trastuzumab TAD is for 3rd Dec 2017.
- Remediation plan at Bangalore facilityis almost complete. BIOS is planning toinviteEuropean Authority for re-inspectionshortly.
- Copaxone filing expected in FY19.
- Started constructionof antibodies and oral solids dosage plant in Bangalore withcapex of USD200mover 3-4 years, which is to be completed in two phases.

Regulatory issues and pricing pressure restrict growth

- Small molecules business exhibited weak performance (-13% YoY) and Biologicsrevenue came in flat YoY, which was offset by robust growth in Brandedformulations (+29% YoY) (ex of licensing business). Syngene business postedaccelerated double digit growth of 11% after 4 quarters, post facility closure due tofire incident led by strong performance in the Chemical Development segment andcatch up on delayed projects from 1Q.
- Branded business posted strong growth driven by strong sales in the India businesson back of channel re-stocking post GST, with strong traction in metabolic,oncology and institutional business and robust growth of 42% in UAE business leddiabetic portfolio. Biocon launched Glaricon (Insulin Glargine biosimilar) in the UAEwhich also aided growth. Company expects India business to improve going forwardpost implementation of GST.

Malaysian plant continued to put pressure on profitability

- Commercialization of Malaysian plant continued to put pressure on cost. EBITDAdeclined 24.1% YoY (-5% QoQ) to INR1.8b (est. of INR2.6b). EBITDA margin came inat 18.8% (-630bp YoY and -176bp QoQ), as employee expense rose by ~370bp YoY(as % of sales) and raw material expense by ~360bp YoY.

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Cadila Healthcare — Buy

Current Price INR 446 | **Target Price INR 555 | 24% Upside**

- Base business erosion in US was ~2.6% QoQ; CDHexpects base erosion of ~10% YoYin FY18 and 8-10% YoY in FY19.
- Tax rate guidance of ~22-25%.
- Plans to launch 15 ANDAs and 40 ANDAs in2HFY18E and FY19E, resp.
- Transdermal approvals in 1HCY18E, launches in2HCY18 (incl. Exelon patch).
- Received CRL for Duragesic Patch; launch thus not expected in next 12 months.
- Prevacid ODT (before Dec-17) andToprol XL (before Mar-18) TAD are in FY18E.
- Gross debt at INR52b and netdebt at INR40b (as of end-1HFY18E); debt to comedown further by INR4-5bin 2HFY18; 8) CDH will file 35-40 ANDAs p.a. 9) R&Dguidance of 7-8% p.a.

US Formulations (50% of sales):

- US revenues increased significantly by ~66% YoY and ~70% QoQ to INR16.4b in 2Q,primarily due to launch of gLialda.
- Company filed for 9 ANDAs; received 32 approvals and launched 4 products.
- Post successful resolution of the Moraiya facility, we expect ~80 ANDA approvalsuntil FY19 for CDH. Around ~50% of these are expected to come fromthe Moraiyafacility and the rest from Baddi and SEZ facilities.

India Formulations (29% of sales)

- Domestic branded business increased 9% YoYin 2QFY18 on back of 25 new productlaunches (including line extension in Indiaduring the quarter with 5 first in India)and 40% QoQ. Sequential increase ismainly due to recovery in sales post GST(management indicated that ~80% ofsales have been recovered and expect tostabilizer by December 2018).Guidance for capex is at INR10-12b and tax rate toincrease to 22-25% in FY18and expect it to come down to ~22% in FY19. Interestcost during the quarterwas high due to forex, increase in borrowing for capex andincrease ion LIBORrate.

Europe Formulations (3% of sales)

- Europe business posted muted performanceduring the quarter, declining 2.3%YoY to INR544m.

Latam Formulations (2% of sales)

- LatAm business revenues increased ~3% YoY toINR675m in 2QFY18. Company launched 2 products each in Brazil andMexico.

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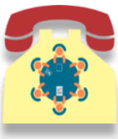

Cipla — Neutral

Current Price INR603 | **Target Price INR 600**

- GST implementation impacted top line by ~INR1b.
- Effective tax rate to be ~25% in FY18E.
- FCF post capex was ~INR3.01b in2Q.
- Net debt/equity stood at 0.18x at end-1HFY18E.
- Filed 5 ANDA in2Q, of which 2 are limited competition. On track to file 20-25 ANDAsinFY18E.
- Evaluating M&A opportunity in areas such as Neurology.
- USbusiness is at breakeven at EBITDA level.
- Clinical studies for inhalation willstart from 2HFY19E; R&D expense in 2H will be~8% due to this.
- Workingcapital increase is due to seasonality; it is expected to get normalized byend-FY18.
- Depreciation includes one-time charge of ~USD11m related toimpairment ofintangibles, which got compensated by higher other incomedue to pre-negotiatedcondition.
- Capex to be ~INR8-8.5b in FY18E.

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Dr Reddy's Labs — Neutral

Current Price INR 2,277 | **Target Price INR 2,575 | 13% Upside**

- 2nd Copaxone DMF filing will happen in two months(apart from Srikakulam facility).Copaxone TAD is 10th November 2017 for20mg and March 2018 for 40mg.
- Duvvada USFDA re-inspection in4QFY18.
- Company guided for 2-3 new launches/quarter in US.
- Taxrate in FY18 to stay at ~23-25%.
- R&D run-rate to stay at INR5b/quarter inFY18.

Business highlights

- **North America (40% of sales).** US sales for DRRD stood at USD220m in 2Qv/s~USD231m in 1QFY18). Decline in US business by 10% YoY and 5% QoQ wasmainlydue to higher price erosion on back of channel consolidation andincreasedcompetition in some of the key products (Valgancyclovir, Azacitidine,Esomeprazole,etc.). During the quarter company launched 4 products viz.Sevelamer Carbonate,Cefixime OS, Bupropion XL and Metaxalone. SevelamerCarbonate, which thecompany recently got approval will see full impact of salesfrom 3QFY18 onwards asthe approval was post the cutoff date for revenuerecognition.
- **India (14% of sales):** Revenue from India came in at INR6.4b marginalincrease of~2%YoY, although increased significantly by 36% QoQ on back ofpartial recovery ininventory post GST implementation. Post GST revenuesreported are lower to theextent of Excise Duty (profit neutral), adjusting forwhich and some other transitionrelated adjustments, growth would have been~10% YoY on like-to-like basis.Although there has been gradual pick up ininventory, it has still not recovered topre-GST level.
- **RoW sales including Russia/CIS (12% of sales):** Revenue in Russia stood atINR3.2bgrowth of 18.5% YoY (Grew 13% YoY in constant currency terms) led byhighervolume uptake in base business and new products.
- **Europe (7% of sales):** Europe business posted significant growth of 36.5% YoY toINR2.4b, largely driven by new launches and volume update in some of the keyproducts.

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Glenmark Pharma — Neutral

Current Price INR 592 | **Target Price INR 650 | 10% Upside**

India (32% of sales)

- Glenmark's India business grew 5.3% YoY and 15% QoQ to INR7.1b. Adjusting for GST, growth was 8% on a like-to-like basis. Industry is still recovering post the implementation of GST. The company has guided for 8% growth in FY18 and 6-7% in constant currency.

US (33% of sales)

- The US business declined ~6% YoY to INR7.3b on back of higher price erosion of 13%(company had expected 10-12% price erosion) and the impact of channelconsolidation (Claris 1, Wal-Mart-McKesson collaboration). US sales of USD112 waslower than the previous quarter (USD161m; 1QFY18 included Zetia sales, adjustingfor which, sales would have been higher by USD5m).

Europe (9% of sales)

- GNP's Europe business posted significant growth of 48.5% YoY to INR2b. Highgrowth was led by 16 launches in the European market. The company expanded itsfootprint to the Nordic region in Europe. GNP expects growth to continue in thecoming quarters.

LatAm (5% of sales)

- LatAm sales were at INR1b (down ~22% YoY), primarily owing to the absence of salesin Venezuela. Adjusting for Venezuela, LatAm business grew more than 20% YoY inconstant currency. The Brazil subsidiary grew by 14%, while the Mexico subsidiarygrew by 70% on a much smaller base. Management guided for growth in LatAmmarkets to pick up from 3QFY18.

Africa, Asia and CIS Region (ROW) (11% of sales)

- RoW sales posted muted growth of 0.7% YoY to INR2.5b. For 2QFY18, secondarysales growth for the Russia business was flat. Asia market posted marginal growth of1% YoY.

LUPIN

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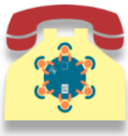

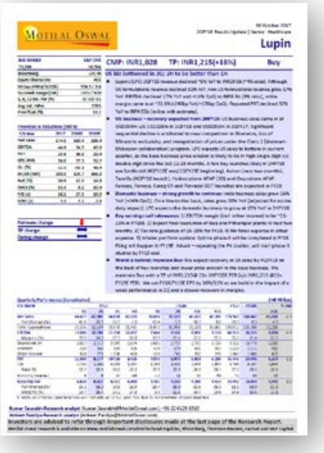

Lupin — Buy

Current Price INR 826 | **Target Price INR 1,000 | 21% Upside**

- With bottoming out of the US business and a few launches expected in the coming months, the company expects 2HFY18 to be better than 1HFY18.
- LPC expects Solosec launch to happen before earlier guidance of mid-2018.
- Company expects Levothyroxine (Synthroid- USD 800m market) launch by 4Q FY18-end/ 1QFY19 beginning.
- LPC expects Etanercept filing for Japan by end-CY17 and in Europe by end-FY18.
- Company has guided for 30 ANDA filings in FY18 (including 4-5 derma and 4-5 injectable filings) and 20-30 launches in FY18. With a high number of approvals and launches going forward, the US business is expected to post strong growth FY19 onward.
- Expect final resolution of Goa and Pithampur plants in the next two months.
- Branded sales attributed to 20% of total US sales.

US generic business - (35% of sales)

- US business declined 32% YoY to INR13.6b, mainly due to new competition in Glumetza, and loss of Minastrin exclusivity renegotiation of prices under theClaris 1(Walmart- Mckesson collaboration) program. The company does notexpect newcompetition in Fortamet for the next two quarters.
- Generic business from Somerset posted double-digit growth, while Methergen's monthly revenue run-rate is at USD5-6m.
- We expect US business sales to decline 28% YoY to ~USD900m in FY18. WeexpectUS business to remain under pressure in the near term due to newcompetition inthe metformin portfolio, deferral of key launches, and pricingpressure in the basebusiness due to further channel consolidation.

India business – (~30% of sales)

- In 2Q, domestic business posted robust growth of 16.4% YoY, and adjusting for GST,growth was ~20%.
- Company expects domestic business to grow 12-15% in 2HFY18.

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Sun Pharma — Buy

Current Price INR 516 | **Target Price INR 610 | 18% Upside**

- MK-3222- EU approval deferred to CY18-end/CY19- beginning; US approval expected in 2018.
- Maintained top-line guidance of high-single-digit decline in FY18 (our estimate: -12% YoY); EBITDA margin guidance also maintained at 20-22% for 2HFY18;
- Rationalized ANDA portfolio in US due to weak industry outlook.
- On track to file Seciera in 3QFY18.
- Glumetza: did not launch the product as the company has not been able to achieve the sigma level.
- SUNP expects US FDA inspection at Halol before CY17-end
- Rice collusion probe: SUNP confirmed that no wrongdoing has been done from the company's side.

Taro's 3QCY17 results improved sequentially

Sun Pharma's US subsidiary Taro reported 3Q numbers on 8th Nov 2017. Key highlights of 3CY17 results:

- Revenues came in at USD170m, down 26% YoY, due to intensifying competition, higher ANDA approvals rate by US FDA and channel consolidation. Company expects this to continue in the foreseeable future. Volume growth was 1% during the quarter and 4% for 1HFY18.
- Gross margin shrunk 390bp YoY to 73.6%; expanded 140bp QoQ. EBITDA of USD93m was down ~36% YoY. EBITDA margin came in at 54.5% (-890bp YoY and +420bp QoQ).
- Forex loss is balance sheet-driven and has no cash impact.
- Management mentioned that although there has been an improvement in sales sequentially, it does not indicate a trend going forward, as intensity of price erosion may vary but will continue for some time.

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Strides Shasun — Buy

Current Price INR 818 | **Target Price INR 1,214 | 48% Upside**

- In regulated market, sales have picked up, led by new product launches in US and enhanced product offering and increased reach in Australia. Management guided for exit run-rate (Q4FY18) of US sales to be US$45-50, led by niche launches and increased market share in existing products.
- In addition, sales from new acquisition (Amneal's Australia business) would also kick in coming quarters.
- In US, Strides filed 6 ANDAs in 1HFY18 and intend to file 15-20 in FY18.
- In emerging market, Branded generics business In India and Africa had good traction. Institutional business would be driven in coming quarters once tender gets awarded from Global fund.
- API business delivered 12% YoY growth. Higher business is expected in API segment in coming quarters as its partner has received approval for Sevalamer Carbonate.
- Bangalore facility, which had 3 observation in Form 483 issued in May 2017, received EIR in Q2FY18.
- Debt reduction largely through API spun –off. Net debt to remain at similar level in FY18 (Ex-Solara).

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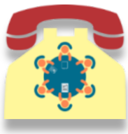

Torrent Pharma — Neutral

Current Price INR 1,246 | **Target Price INR 1,400 | 12% Upside**

- Torrent Pharma's 2QFY18 sales increased marginally by ~2% YoY to INR14.3b (-13.2% v/s est.) primarily due to decline in US business by ~21% YoY to INR2.6b and Latin America by ~24% YoY to INR1.2b. Company's domestic business posted strong growth ~22% YoY to INR6.1b (~28% growth adjusting for GST). EBITDA was flat at INR3.3b (-18% v/s est.), while margin stood at 23% (-50bp YoY and +100bp QoQ). PAT declined by 30% YoY to INR2b. R&D expense for the quarter was 7.5% of sales.
- Decline in US business is primarily due to continued price erosion and channel consolidation and higher revenues in 2QFY17 which included sales of Abilify which had limited competition. Ex-Abilify US business growth was ~15%.
- TRP Brazil business declined ~24% YoY mainly due to one-time expense related to payment to distributors for near expiry inventory and additional discounts.
- Company expects Unichem acquisition to be cash accretive by 1st year an EPS accretive by 3rd year.
- The acquisition will be funded by 75% debt (debt cost – 8.25-8.75%) and 25% internal accruals.
- Company has entered into a two year manufacturing agreement with Unichem for the acquired products
- In the anti-hypertensive segment (which contributes ~58% to the overall CVS market), Torrent's share will increase to 62% from current 49% post the deal
- The combined portfolio will have 11-12% exposure to NLEM.
- The deal will add 2100 stockiest which will further help TRP widen its reach
- TRP mentioned it may increase prices of Unichem's products if there is scope
- During the quarter company's volume have gone up to 80-82cr tablets from 60cr tablets earlier.
- Company plans to launch products with market size of USD50-100m
- Currently US business run rate is USD35-40m quarterly, which the company would like to stabilize at USD250m in medium term
- Company plans 3-4 submissions in 1QFY19 from external partners in dosage where the company was not previously present. Company also plans 3-4 submission in derma by FY18 end.

MEDIA

Marred by demonetization and GST in the previous quarters, our Media universe witnessed some solace, with the onset of the festive season in 2QFY18. However, November-December 2017 would be the decisive period – performance post the festive season would help ascertain whether the ad growth is sustainable.

Broadcasters within our coverage universe expect to match TV industry ad revenue growth of 12-14%. Regulatory uncertainty around the implementation of the new tariff order continues to be contested in courts. In terms of content, companies are expected to opt for diverging strategies to protect their viewership shares (for example, Zee plans to target Kerala and Punjab through green-field organic expansion and is expected to step up its investment in movies, while Sun TV is focused on improving its share in Telugu). Within the distribution pack, the outlook on both ARPU and subscriber addition remains somber. The Print pack is expected to see a recovery in ad volumes in FY18, as the demonetization and GST impact is largely behind.

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY19	Margins	GST Impact & Commentary
Zee	▪ Expects mid-teens growth on ad and subscription front ▪ Intends to increase the original content on Zee to 32hrs/week (v/s 28hrs currently) ▪ &TV channel is expected to breakeven by 4QFY18.	▪ Margin Outlook: Intends to maintain long-term margin in excess of 30% in FY18 and FY19E.	▪ Enough Pricing power to pass on the 3% increase in tax incidence led by GST (@18%) to the consumer ▪ Inventory is high primarily due to acquisition of both satellite and digitalmovie rights for Hindi, as well as regional content. This might remain high fornext 18-24 months
Sun TV	▪ Expects subscription revenue to grow in mid-teens, while advertising revenue togrow in early teens ▪ Headroom for growth includes: 1)GST and demon impact behind, 2) Traction inmost channels with ratings strengthening, 3) Digitization and 4) IPL. ▪ Further,may plan to move to some other regional market. Exploring inroads in Marathiand Bengali markets.	▪ No Margin outlook provided. But given that it expects ad growth to revive, margins are expected to be better than FY17.	▪ Enough Pricing power to pass on the 3% increase in tax incidence led by GST (@18%) to the consumer ▪ Management indicateddoubling of subscription revenue growth by FY20, helped by improving paceof digitization and ARPU growth by DTH/cable operators
DB Corp	▪ Print ad revenue outlook for 2HFY18 could be better than 6% in 2QFY18 onlower base due to demonetization 2HFY17. ▪ Circulation copies should reach about 6m by FY18 from 5.4m currently	▪ No Margin outlook provided. But given that it expects ad growth to revive, margins are expected to be better than FY17.	▪ Print ad is now subject to a 5% tax levy (earlier tax-free), ▪ Automobiles, Lifestyle, and FMCG sectors are doing well, but other sectors likeEducation, Real Estate and Retail remain sluggish; this could put pressure ongrowth outlook
Jagran Prakashan	▪ In the present environment, it seems difficult to achieve earlier guidance of 10-15% EBITDA growth.	▪ Managementdoesn't expect EBITDA margin to go back to 33-34%, but it should improve fromthe current levels of 22%.	▪ Print ad is now subject to a 5% tax levy (earlier tax-free), ▪ Management indicated that the outlook for Government and Retail(combined contribution of 50%+ of revenues) ad revenue remains weak dueto continued GST-related hiccups

Dainik Bhaskar

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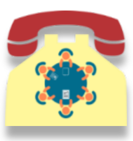

D B Corp — Buy

Current Price INR 365 | **Target Price INR 430 |18% Upside**

Key takeaways – circulation drive to continue; ad growth outlook better for2HFY18

- Print ad revenue outlook for 2HFY18 could be better than 6% in 2QFY18 onlowerbase due to demonetization 2HFY17. However, November-December2017 would bethe decisive period – performance post the festive seasonwould help ascertainwhether the ad growth is sustainable.

- Automobiles, Lifestyle, and FMCG are doing well, but other sectors like Education,Real Estate and Retail remain sluggish. This could put pressure onthe growthoutlook for 2HFY18.
- Circulation copies should reach about 6m by FY18 from 5.4m currently. Out of the387k copies added in 2QFY18, 50% are through market share gain whilethe rest50% are from fresh expansion.
- This is the first time that the increase in circulation copies has not come at thecostof price decline.

Performance for the quarter

Circulation revenue

- Circulation revenue grew 8% during the quarter.
- Gained circulation leadership in multiple regions.
- Focusing on circulation increase strategy has led to 5.4m copies, an increase of387kcopies, coupled with price increase.
- Circulation copies have increased across markets. Maharashtra, Madhya Pradesh,Rajasthan and Haryana are the key markets where circulation copieshave grown.
- This is the first time that the increase in circulation copies has not come at thecostof price decline.
- Higher circulation has led ad market share improvement despite weak ad marketconditions.
- 50% of the incremental circulation copies are from market share gain while the restof the 50% incremental copies are from fresh expansion.
- The increase in pagination is due to festive Navratri period during the quarter.
- Quality of editorial content is enabling higher prices. Players have understood thatslower but sticky growth is better than higher growth at lower copy prices.
- The circulation drive is not due to IRS data, which may be released in December/January.

Ad revenue

- Ad revenue grew 6%.
- Ad volume growth was 3.1% and price increase was 3%.
- 35% of ad revenue in Bihar is from the government sector.
- Government advertisement generally does not rely on IRS data but on an internalresearch process.
- Radio business is showing steady growth. The company's MyFM brand remains number-1 in multiple cities.
- Radio growth of 17% is outperforming the market. Growth could have been better,but for the impact of RERA on the real estate sector.

Margins/cost structure

- RM cost increased 6% due to higher pagination and 2% impact of increased circulation.
- Newsprint and employee cost optimization has insulated print price increase.
- Input cost credit of GST is INR70m-80m.
- 37% of the newsprint was imported.

Growth/industry outlook

- Impact of demonetization and GST is not yet complete. FMCG and Lifestyle categories are doing better. However, ad revenue from Real Estate is down

30%andlocal Retail is also severely impacted. The Government category has grownin singledigits.

- The circulation drive will continue in the coming quarters.
- In Phase-I, circulation copy penetration of urban market coverage is completed.InPhase-II, the focus is to increase copies in deeper areas.
- Circulation copies should reach about 6m by FY18.
- Ad revenue outlook for 2HFY18 could be better than 6% in 2QFY18 due to lower base (demonetization impact). However, November-December 2017 would bethedecisive period – performance post the festive season would help ascertainwhetherthe ad growth is sustainable.
- Automobiles, Lifestyle, and FMCG sectors are doing well, but other sectors like Education, Real Estate and Retail remain sluggish; this could put pressure on growth outlook.

Entertainment Network — Neutral

Current Price INR783 | **Target Price INR 910 | 16% Upside**

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Key takeaways

- Management expects new stations to breakeven by Q3/Q4FY18 (earlier than prior guidance of six months).
- Industry is still facing GST- and RERA-led pressure. However, expect FMCG, M&E, Auto and BFSI to recover in 2HFY18.

2QFY18 performance

- Revenue de-grew 3% YoY, while EBITDA increased 22.8%. PAT was down 24.6% YoY due to one-time charge of INR280m on treasury investment. On normalized basis, PAT grew 10.6% YoY.
- During July and Aug, ENIL maintained its 14min cap; however, during Sept-17, the cap was increased to 22min (not giving up on price). Average inventory for Sept stood at 20min.
- Last year saw launch-related spending and umbrella brand ad campaign, which led to higher marketing cost. This year, the marketing budget has been reduced.
- Volumes declined 16% YoY. This was a mix of 1) muted July and Aug month and 2) price increase strategy.
- ENIL witnessed 8.5% yield improvement at legacy stations.
- Other expenses have declined significantly because Q2FY17 included spending for 1) new station marketing, 2) increasing the business of revenue-oriented marketing products (activation and concerts business) and 3) “Core brand” strategy marketing, including INR65m on TV campaign.
- Contribution from FCT business is 73%, while non-FCT business constitutes 27%.
- On QoQ basis, revenue-oriented marketing products (activation and concerts business) have done better.
- For Activation, TV properties and concerts business, though revenue was flat YoY, gross margins jumped from 21% to 29%. Activation business recorded mid double- digit margin.
- Before Demon, ENIL had grown at 17%. However, post demon, the Q3 witnessed 5% increase and Q4 witnessed 12.6% increase.

Station-wise performance and outlook

- Revenues for legacy stations was down 10.3% YoY at INR1,113m, while for new stations, it stood at INR141m.

- Average utilization for top 8 stations stood at 101% and for top 24 stations at 79.
- Average utilization for new stations stood at ~21%. For 2nd frequencies at Bangalore, Ahmedabad and Guhawati, utilization was in the range of 30-40%. For Pune, it was ~15%.
- EBITDA for new stations was less negative from INR100m last year to INR18m in Q2FY18.
- Management expects to breakeven new stations by Q3/Q4FY18, prior to theearlierguidance of 6 months.
- On volume front, legacy station stations declined 1%, while new stationswitnessed6% growth.
- In value terms, legacy stations were down 3-5%, while new stations were up 2-3%.
- Average realization for the quarter stood at INR11,400.

Industry landscape

- High ad volumes are causing serious listenership issues, as indicated by aconsumersurvey. Since last two quarters, it has cut inventory to 14mins fornormal and 18minfor peak level. On a few days, it kept around 22minsinventory.
- Market is sluggish, with real estate down 45% in volume and FMCG down 2%.AlsoGovt. spend was up by miniscule 1%. However, auto has increased 12%,while BFSI isup 46%. On an overall level, volumes have increased 7%.
- On value front, the industry has grown by mere 1%.
- Peers have taken market share due to ENIL's high pricing.
- 75-80% of the cars are tuned to radio. And due to increase in no of car, roadinfraexpansion, consumers spend more time on the road, expandinglistenership base.
- 3rd batch of Phase III auctions to happen no sooner than 6 months.
- Radio industry of Delhi has market size of ~INR3000m, Mumbai has a size of~INR2500m, Bangalore and Calcutta have ~INR1500m/1200m market size.
- MRUC, a marketing research council, is expected to be set up in sometime tomeasure the listenership across industry.

Business Outlook

- At present, ENIL is operating in the range of 18-22min, and expects to be in thesame bucket cap with no compromise on pricing.
- The new stations are positioned at a respectable pricing. Ahmedabad, Pune,Bangalore (Hindi) and Hyderabad (Hindi) are priced at no 1 or 2, having a strict10min cap.
- New station utilization stands at 21%. At current pricing, the new stations candoINR2.8b of revenue from new stations.
- Q3 and Q4 both look strong in terms of advertising, with upcoming Gujaratelectionin Q3 and Karnataka in Q4. Also, the central government's radio spendhas remainedhealthy.
- Management has witnessed weak festive season this year, but expectsadvertisersto come back in Q4.
- Management expects Q3 to be a mixed as the industry is still facing GST andRERA-led pressure.
- For concerts business, margins were under pressure last year and incurred loss.However, management expects to turn profitable this year.

- Expect advertisers in real estate, health and pharma to remain sluggish; FMCGtowitness a turnaround. M&E, Auto and BFSI have recovered and should dowell.
- ENIL has no specific acquisition target, but will look for some strategic ones ifthevalue looks attractive.
- Management has no specific price increase target, but is looking for at least theonebefore Lehman crisis.

Balance sheet

- Activation, concerts and TV properties business are less capital-intensive.

हिन्दुस्तान
Hindustan Media Ventures Ltd.

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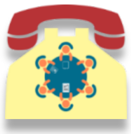

Hindustan Media Ventures — Buy

Current Price INR 242 — **Target Price INR 302 |25% Upside**

Ad business performance

- Print segment witnessed sluggish advertisement market across segments.
- Advertisement spends were muted due to GST implementation, lingering effects of demonetization and a high base of last quarter government revenues; impact of RERA continues.
- Yields saw improvement of 5%, while volume declined 12%.
- Yield improvement: The impact on ad revenues has heightened due to the weak market conditions. Management has completed the yield increase in the last two quarters. Yields of national advertisers have increased.
- Both, Bihar and Jharkhand have grown in terms of ad revenues in 2Q. In UP, ad revenues witnessed double-digit de-growth due to higher base of government revenue in the last quarter, as well as GST and RERA implementation.
- Government segment is among the top 2 advertisers, which have seen double digit decline due to the high base of election advertisements last year.
- Medical, health and fitness and FMCG category were impacted due to yield increase, as these were low-yield advertisements. Auto, BFSI, luxury and ecommerce have seen normal growth.
- 5% yield increase in 2QFY18 and slightly higher in 1QFY18 largely come from national advertisers. Management plans to wait for next 2-3 quarters to explore any yield increase.

Circulation revenue performance

- Circulation revenue was impacted due to lower copy prices.
- RM cost reduced due to lower print prices and tight cost control.
- Increase in circulation copies is done in certain districts of UP to increase penetration.
- Reduction in copy price in Bihar was due to competitive pressures.
- Other expenses have seen a fall of INR30m due to GST input credits.

Ad market outlook

- Management believes improvement in market sentiment should boost ad revenues at lower raw material cost. Thus, profitability should improve at a higher rate.
- The festive season has started well and outlook on ad revenue is positive.
- In Bihar, cover prices have seen drop in pricing, due to competition from Dainik Bhaskar. But management expects limited impact as HMVL has seen increase in copies in the last three years of DB’s presence. The impact should be more on the 4th and 5th player.

- Management has adopted a yield growth strategy in the last two quarters.Volumesgrowth has improved, but management wants to see if it is sustainablepost theongoing festive season.
- Given the high base of pricing, revenue growth should come from pricing insubsequent quarters even without high volume growth.

Balance sheet/acquisition/sale

- The current strategy to shift the digital business in subsidiary is to create adigital-focused company. HMVL will source the content from this entity.
- Yield on cash is over 11% in FY17 and 9% in 1HFY18. 2QFY18 yield was lowerthan1QFY18.
- HT Digital Ventures Limited (HTDVL) will operate the website - livehindustan.comheld by HT Media. HMVL received INR767m sale value. Thecompany will go throughthe auto listing route. HMVL will remain a pure printmedia company. Will incubateall its digital products in HT digital company.
- Content cost could go up due to the sale of HT Digital Streams Ltd (HTDSL), fromwhich the company will source content.
- Cash & bank balance and investments as on Sept-17 stood at INR8.68b.
- The higher education business is transferred into HMVL at INR80m, Educationremains a big opportunity. The product 'study mate' is operates on a digitalmodeland will not require heavy capex.
- Company doesn't want to haste in cash deployment.

HT Media — Neutral

Current Price INR 99 — **Target Price INR 113 | 14% Upside**

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2QFY18 performance

Revenue

- Efforts toward yield improvement in the print business have supported growth and profitability.
- Operating revenue declined 7% to INR5.6b due to the challenging market; yet the company managed to improve profitability.
- Key sectors that performed well: Auto, Banking, Finance, Entertainment, Luxury and Ecommerce.
- Witnessed muted ad spends in government, education, FMCG and travel segments.
- English ad market remains challenging. Circulation revenue was impacted by soft pricing in Delhi and Mumbai, and curtailing of copies
- Strengthened west offering through the launch of Pune edition.
- Yield improvement helped profitability.
- Circulation revenue impacted by rationalization of unproductive copies, and shift of copies from line to subscription.
- Targets higher yields for Mint publication.
- Ad volumes impacted across market on account of RERA and GST.
- Improvement in yields and strong performance in auto are key positives in the Hindi print segment.

Radio business

- Radio business continues to deliver robust growth with steady margins.
- Radio is seeing a healthy increase in revenue from INR360m to INR430m. EBIT margin is in positive territory, from negative to INR30m.

- New stations continue adding to the top line in a profitable manner.
- Top 4 radio stations witnessed 7% like-to-like growth. The second station in Mumbai is profitable.

Cost structure, profitability

- High cost optimization initiative and favorable forex rates have led to lower cost.
- Due to lower ad volumes, there is lower news print cost.
- Operating EBITDA doubled due to multiple reasons.
- PAT grew 114%, with 11% margin.
- Commodity and exchange rate remained favorable, while RM cost reduced due to optimized pagination.
- Enhanced cost program reduced cost.
- Cost synergies in English business, lower paper cost, and restructuring of employee cost improved margins.
- Part of cost reduction in 2QFY18 is sustainable, while the part of reduction toward discretionary cost clamp down may not be sustainable.
- Employee cost doesn’t have discretionary cut down.
- The exceptional item is due to the gain of INR52.3m due to the conversion of IESPL from JV to subsidiary, offset by INR21.1m impairment of goodwill.
- News print cost is flat; expecting cost to get hardened. The reduction in news print cost is due to lower consumption.
- Lower cost is due to cost rationalization, clamp down of discretionary cost, and slowdown in revenue.

Digital business, Balance sheet items

- Digital losses are coming down.
- The new entity HTDVL will be have HTDSL (loss making business) and non-shine digital business. HTDVL will be a loss-making company. However, it will receive revenue from HT Media and HMVL for the content it will provide.
- HTDBL is a standalone company, which will have independent operations.
- Currently, 90% of HTDSL’s revenue will be derived from the group.
- The content generation work will be done by HTDVL, but the critical work toward content packaging will be done in-house.
- Shine revenues to remain soft.
- Shine is not a profitable venture currently.
- Cash balance is INR1.2b.
- Entire cash on balance sheet is preferred to be used for business growth opportunity through an organic or inorganic route.

Outlook

- 2HFY18 will be much better than 1HFY18.
- Expects to see 200bp increase in costs, as improvement in market shouldincreaseboth ATL and BTL ad spends.

Jagran Prakashan — Buy

Current Price INR 163 | **Target Price INR 225 |38% Upside**

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- Revenue from national advertisers has grown 10%, despite the impact of GST. However, revenue from government and retail sectors (together contribute over 50% of the company’ revenues) has declined.

Jagran Prakashan

CMP: INR173 TP: INR225(+30%) Buy

- GST-related concernshave not yet settled. Ground realities remain uncertain. Local advertisement is continuing to see impact. Further, with municipal elections coming up, UP government spending will reduce.
- Management doesn't expect EBITDA margin to go back to 33-34% soon, but it should improve from the current levels. Even if revenue grows by 6-7%, profitability has the potential to grow at 14-15%.

Quarter Performance

- Rollout of GST and lingering effect of demonetization adversely impacted revenues.
- Dainik Jagran continues to have highest circulation among peers.
- Core UP market saw revenue growth, as against steep de-growth witnessed by peers.
- Segment-wise, digital revenue grew 34%. Radio grew at double-digit and gained market share. OOH business grew over 30%.
- Last fiscal festive season was in 3Q, while this year it was between 2Q and 3Q; this led to a partial shift of festive-related revenue.
- There is no expansion by HT in past couple of years. Amar Ujala has also not done much, so the market remains stable. However, circulation is been pushed by all players, as IRS survey is likely to happen soon.
- IRS survey is delayed by couple of months; the survey will be completed in Dec'18. Compared to last year when all players had objected to IRS survey, most of the issues are resolved this time.
- Change in digital business strategy has helped improve revenue growth instead of merely offering e-paper. Product has changed and ad sales will also be product-oriented. The Digital business has direct sales of 60%, while 40% is through the network. Big segments spending on digital are BFSI and education.
- Circulation growth stood at 4.5%, largely coming from Bihar and UP.
- In MP, Naidunia business did well with circulation revenue growth of 16%; 8% attributed to volume growth and 8% to pricing in 1HFY18.
- Naidunia growth stood at 2% in 2QFY18, even in current difficult times.
- Lower ad spends by UP government have impacted, as the new government has been slow toward ad spends.
- In UP, Education sector did very well, but got impacted by retail sector due to GST rollout.
- In 1HFY18, Jagran circulation has grown over 5-6%, while Naidunia circulation grew by 8%. This is better than peers.
- Real estate has grown by 2-3%, despite GST rollout, as it had a low share in the Jagran's overall ad pie.
- The only category which had growth challenge was Retail and Government. Besides these two categories, all other categories have grown during the quarter.
- Government contributes 25% of overall revenue, which dropped by 1-2%; Retail (contributes more than government segment) witnessed 10% de-growth.
- In 1H, ad realization improved by 3-4%. This is over and above the GST impact of 8-9%, which was also passed on to advertisers.

Outlook

- GST-related concerns are not yet settled. Ground realities remain uncertain.Localadvertisement is continuing to see impact. Sept month saw healthygrowth on theback of festive season, though.
- In the present environment, it seems difficult to achieve earlier guidance of 10-15% EBITDA growth.
- With municipal elections coming up, UP government spending will reduce.However, Bihar government spending has been very healthy.
- Revenue from national advertisers has grown 10% despite the impact of GST.
- Jagran will continue to grow circulations. However, this has not impacted yieldswhich are seeing improving trends.
- 2QFY18 has seen the lowest ever margin reported by Jagran. Managementdoesn’texpect EBITDA margin to go back to 33-34%, but it should improve fromthecurrent levels.
- Even if revenue grows by 6-7%, profitability has the potential to grow at 14-15%.Most advertisers are willing to spend but remain unsure of the timing.
- OOH, Midday and Radio growth should offset weak revenue growth in the printbusiness.
- Jagran can grow digital revenues at 20-25% CAGR over the next 5 years.
- Circulation revenues can grow at 2-3%.

Music Broadcast — Buy

Current Price INR 369 — **Target Price INR 469 |27% Upside**

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Music Broadcast

Key takeaways

- Although auto, finance and durables categories have revived their spending, government, real estate, retail and education have witnessed de-growth in spending.
- Utilization on overall basis stands at ~65-75%. Newer stations: utilization stands at 45-50% for few, and is expected to reach 50% for the balance stations by FY19.
- Management expects H2FY18 to be better than H1. Growth picked up from mid-Sept-17; it will be key to look for Nov and Dec to see if growth is sustainable.
- Outlook for breakeven of newer station remains FY19 (18-24 months from launch).

2QFY18 Performance

Industry

- For the entire media industry, 2QFY18 was a difficult quarter as July and August was marred, as both big and small advertisers had backed off on account of GST implementation and lingering effects of demon.
- Growth picked up from mid Sept-17, though.

MBL

- Revenue grew 10% and EBITDA margin stood at 32%.
- Volumes grew 15% in top 2 markets.
- 10% revenue increase has come from both price and volume growth. For legacy stations, yield has improved, while for newer station, volumes have increased.
- Albeit auto, finance and durables categories have revived their spending, government, real estate, retail and education categories have witnessed de-growth in spending.

- Increase in industry mkt. share was 2%, while MBL witnessed an increase of 6% in mkt. share.
- On volumes, MBL witnessed a 6% increase, while peer 1 was down 9% and peer 2 was down 6%.
- Roughly 50% of operating profit is translated to bottom line due to low depreciation compared to peers, wherein only ~20% is translated.
- 2QFY17 had a favorable impact of INR37m due to reversal of provision.
- GST expense credit impact is very miniscule, as there is no major change in cost structure.
- Other expenses were high due to 1) there was no phase 3 station expenses, 2) in Q2FY18, there have been some marquee properties like Super Singer Junior, and 3) one-off provision in last year.
- Marketing expenses – INR140m for the quarter.

Station-wise performance and outlook

- Revenue for the legacy stations for Q2FY18 was ~INR720m, and balance is from newer stations.
- Of 10% revenue growth, ~50% came from legacy stations, while balance was from newer stations.
- For legacy stations, growth was led by rate increase. For newer stations, it was led by increase in volumes.
- EBITDA margin for legacy stations stands at ~36%.
- Utilization on overall basis stands at ~65-75% levels. For newer stations, utilization stands at 45-50% for a few, and for balance stations, it is expected to reach 50% by FY19.
- Outlook for newer stations remains the same; expecting breakeven by FY19 (18-24 months from launch).
- 5 out of 11 new stations (including Nashik, Nagpur, Kolhapur and Madhurai) are operating at ~35% utilization levels.
- Radio mantra station contributes 15-18% of revenues. Utilization for these stations increased from ~50% last year to ~60% levels. For Gorakhpur, utilization stands at 60%.
- There has been no price increase in Radio mantra station except Gorakhpur. Growth is largely volume driven.

Industry landscape

- Government contribution for industry declined from 16% last year to 14%. For MBL, the contribution is largely the same. Of the total govt. contribution, 2/3rd is central govt. contribution
- Govt. spending, which had marginally grown in Q1FY18, witnessed de-growth in Q2FY18. Though central govt. didn't reduced its spending, state govt. has withdrawn (this includes UP govt. – which had spent more last year because of elections).
- Real estate volume contribution was ~9% for industry last year, which now stand at 7%. Same is the contribution for MBL
- For last 2-3 years, half of growth for industry came from price increase, while prior to that, only 1/3rd used to come from price increase.

Business Outlook

- Management expects H2FY18 to be better than H1.

- Though there was a recovery from Sept because of festive season, it will be key thing to look at Nov and Dec to see how much of this is actually sustainable.
- Management plans to have fragmented contribution across business categories, not concentrated to a few categories.
- Management has guided for ~2-3% growth in addition to the media industry growth of 15-16%.
- Marketing expenses as % of revenues will decline – from 10% to 6-7%.
- Other expenses in Q3 and Q4FY18 should remain at same levels because of phase 3 stations and marquee properties.

Balance sheet

- Rise in receivables is because of the cyclical nature. Generally, in Sept, it rises as govt. makes large chunk of payouts in Q3 and Q4.
- The rise in investments to INR1205m is because there has been transfer of investments from current to long-term worth INR260m, internal accruals worth INR150m and the remaining is bank balance.
- Borrowings are ~INR1,500m, of which INR500m is classified under non-current liabilities and INR1,000m is NCDs classified under other finance liabilities.

PVR — Buy

Current Price INR 1,379 | **Target Price INR 1,640 |19% Upside**

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- The company completed the sale of Bluo during the quarter, hence the revenue witnessed the booking of only part of its revenues.
- PVR launched loyalty program “PVR Privilege” focused to encourage consumers to spend on F&B in a reward point system which is expected to increase customer stickiness. The enrolments are expected in full traction over next 6-9 months.
- 3QFY18 is expected to be strong on the back of strong content pipeline. “Golmal Again” has witnessed significant footfalls and with movies like “Padmavati” and “Tiger Zinda Hai”, footfall is expected to remain steady.
- The company received input credit on rentals and CAM, as a result of which there was a significant reduction in expenses and has neutralized the impact of GST.
- The company has witnessed steady growth of 20% in sponsorship revenues and expects the growth to continue at similar pace for the next 2-3 years.

Siti Network — Neutral

Current Price INR 25 | **Target Price INR 27 |9% Upside**

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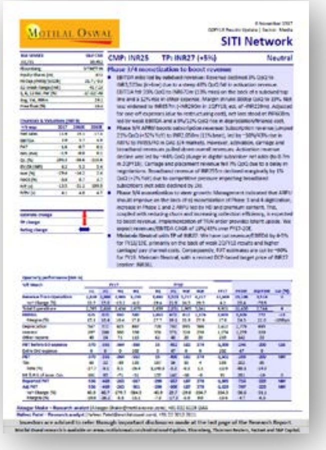
2QFY18 performance

- Revenue, ex activation at INR3,120m; up 9% QoQ/26% YoY.
- Subscription revenue at INR2050m; up 21% QoQ/52% YoY, led by a 10% rise in Phase 3 ARPU to INR55, and a 43% rise in Phase 4 ARPU to INR40.
- Broadband revenue at INR250m; up 2% YoY.
- EBITDA at INR710m; up 43% YoY.
- EBITDA, ex activation at INR270m; up 21% QoQ/136% YoY.
- Active video subscribers stood at 11.1m.



- 0.7m digital subscribers added in 2QFY18.
- Broadband subscriber base stood at 2.38 Lakh.
- Collection efficiency for the quarter stood at 93% (v/s 88% earlier).
- ARPU for Phase 1 and 2 markets were stable at ~INR105/85.
- SITINET has recently launched broadband network in Nagpur with 72k home passes.
- Management has started adopting prepaid model (post-paid model earlier) with ~22% subscribers already shifted, and thus, plans to bring down the possibility of churn.
- Pay channel cost for 2QFY18 stood at INR1,510m v/s INR1,420m (~7% increase).
- ARPU for Phase 1/2/3/4 for 2QFY18 was ~INR105/85/55/40 v/s ~INR105/85/50/28 (for 1QFY18).
- Other expenses included INR250m hedging loss and INR150m forex loss.

Business outlook

- Management has kept its guidance of seeding ~3m boxes in FY18 unchanged.
- Management expects growth to be majorly from Phase 3 and 4 monetization. ARPU for Phase 3 and 4 markets are expected to increase by ~20%.
- Expect revenues from Phase 1 and 2 markets to increase from the rise in ARPU in HD subscribers, and reducing the significant gap between ARPU of SITINET and DTH operators.
- Adopted three-thong strategy for broadband revenue growth: 1) reducing the churn, 2) low conversion rate and 3) reducing the ground fault rate. It has guided for conversion rate of high-teens for FY18.
- Management is very bullish on the upside from TRAI tariff order implementation.
- Plans to grow organically (rather than inorganically).
- Has kept the guidance for carriage and pay-channel cost unchanged.

Balance sheet

- Capex for 2QFY18 stood at INR1750m for cable business and INR50m for broadband business.
- Increase in gross debt to INR13,950m is led by INR140m incremental drawdown for working capital and an increase in buyer's credit worth INR300m.

Sun TV Networks — Buy

Current Price INR 836 — **Target Price INR 1,005 | 20% Upside**

2QFY18 performance

- This quarter has seen a sharp rebound in the numbers. Initially, GST had impact on local advertisers; however, they have bounced back and are witnessing normal growth.
- Revenue break up: Overall ad revenue including broadcasting was INR3530m (v/s INR339m in the corresponding quarter). International subscription revenue stood at INR400m, Digital cable revenue at INR940m, DTH revenue at INR1840m and other revenues at INR50m.
- Despite the challenges in 2Q due to launch of Big Boss, ad revenue grew reported 7% YoY.
- GST impacted ad revenues in 2Q with flattish revenue in July. However, Aug and Sept month witnessed double-digit growth.
- Broadcasting revenue dropped on YoY basis.

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- DTH subscribers as at Sept-17 stood at 14.30m.
- Radio revenue growth was at 19% YoY and EBIT was up 68% YoY.
- During the quarter, amortization amounted to INR850m and rest is depreciation.
- ARPU pack stands at INR125 v/s INR75 earlier. The incremental INR50 should also improve Sun TV's subscription revenues.

Channel viewership and operations

- Witnessed 3-4% increase in viewership in fiction and non-fiction in Tamil Nadu.
- Viewership share in Karnataka improved, reaching ~350 GRPs during the quarter (up 80%).
- Witnessed consistent improvement in ratings, especially Malayalam, which nearly doubled.
- Prime time healthy ratings highlight the acceptance for programming mix.
- Have taken steps by improving content mix from news to fiction to strengthen viewership share in Tamil Nadu
- Overall viewership in Telugu has fallen from 70% to 65% for fiction show, notdueto weak content strategy but aggressive competition. During last quarter,Big Bossbeing an expensive property had impacted viewership. But remainconfident thatin next 2-3 weeks, SUN will be no 1.
- Confident that it should be able to maintain and improve the healthy ratingsfurther. Typically, it takes 8-10 weeks lag in translating higher ratings to revenuegrowth. So expect healthy ad growth contribution from the improvedratings.
- At present, 2 slots are on commission basis. Progressively, more slots will be oncommission basis.
- PP model is not operating in any other market other than Tamil Nadu (TN).However in TN, PP v/s commission model will be 50:50 of prime-time over time.Also, unlike most channels, Sun plays original content across the day instead ofany repeat telecast.
- ARASU deployed 0.5m boxes. Out of 15m subscribers in Tamil Nadu, ~7m areARASU (based on ARASUs order of 7m boxes).

Business outlook and balance sheet

- Management is optimistic of delivering over 15% ad revenue growth in 2HFY18.
- Expects subscription revenue to grow in mid-teens, while advertising revenue togrow in early teens (assuming management is able to maintain the currentyields).
- Management expects movie amortization cost for FY18 to be in the range ofINR3,250-3,500m.
- Headroom for growth includes: 1)GST and demon impact behind, 2) Traction inmost channels with ratings strengthening, 3) Digitization and 4) IPL. Further,mayplan to move to some other regional market. Exploring inroads in MarathiandBengali markets.
- FY20E subscription revenue can be INR2000cr; can double. This should be led byINR500m monthly runrate from DTH and INR300-400m additional from digitalcable. If all the DTH players plan to grow the business exponentially, then itshouldalso contribute to Sun TV. Further, TN digitization should also benefitsignificantly.

- Nandini has moved from telecast model to commissioning model, which hasimpacted production quarters, but on sequential basis, the production quarterhasremained stable, excluding IPL. Production cost should remain stable, unlesscompetition is extensive.
- IPL cost may increase, but not in sync with the increase in income.
- Earlier dividendpolicy was 60-70% v/s 48% as per interim dividend.Managementguided for 50-60% dividend payout on an annualized basis
- Sun Next is just 3 months old, but the response is very encouraging with highdownloads. Endeavor is to convert it into pay usage. Given that high dataconsumption is driving more usage, management expects Sun Next to seehealthygrowth. Acquisition of digital movie rights and original programmingshould alsodrive the digital platform.
- Cash balance stood at INR16,000m.
- Complete turnaround of digitization in TN will only happen once I&B Ministryrequests for switch off of analog signals. Expect 12-15% subscription revenuegrowth in next year's. Ad revenue growth is expected to grow at low teens.

Zee Entertainment — Buy

Current Price INR 533 | **Target Price INR 630 | 18% Upside**

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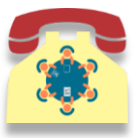

Key Takeaways

- Ad spending has recovered to normal level. Ad growth is broad-based, and all sectors are growing well. Expect mid-teens growth, excluding gains of lowbase.
- For subscription, outlook remains the same at mid-teens growth. Remain confidentbased on discussion on content contract renewals in 2HFY18.
- FY18 EBITDA margin guidance stands at 30%+. This includes digital launch, increasein original content on Zee to 32hrs/week from 28hrs/week currently,rebrandingflagship Zee and 25 years celebrations.
- Inventory is high primarily due to acquisition of both satellite and digital movierights for Hindi, as well as regional content. This might remain high fornext 18-24months.
- On regional side, Zee plans to enter Kerala and Punjab through green-field organicexpansion.
- &TV channel is expected to breakeven by 4QFY18.

Current quarter performance

- Advertisement revenue growth, though impacted by GST post 1Q, has recoveredstrongly.
- Domestic subscription revenue growth was 7.2% (on a like to like basis).
- 15-18% content is in-house, which may have gone up.
- Content cost was low, mainly on account of sale of sports business and loweramortization on movies. TV content cost has increased in line with revenues.
- Effective tax rate was 36%. However, it is higher on consolidated level due to fairvalue gain on IWPL and goodwill.
- Overall strong improvement in channel standing was witnessed.
- Pay Hindi GEC: Zee has maintained its leadership, while &TV witnessed improvement in viewership.

- Zee Marathi and Big Ganga were leaders in their genre. Zee stands at second position for Bangla, Telugu and Kannada, while in Tamil – it stands third. Sarthakis aleader in Odiya market.
- Launched 2 new HD channels: &prive HD and Zee Tamil HD in 2QFY18.
- Music label witnessed 2.6b views.
- Ozee has average of 115m views per month.

Digital

- 300-500hrs will be exclusive digital content yearly, while rest of the contentcouldbe leveraged on TV platform, so that will also support margin.
- Digital subscription rev contribution is small currently. In 2HFY18, it may see bumpup as the deal with telecom operators gets concluded.
- Management plans to have an unmatched digital content on its platform. This willinclude the linear channels, VOD side, film rights, which all will be exclusive.However, films licensed from international studios may not be exclusive.
- Ozee and Ditto TV would be acting as a sound launch-pad for its new digitalproductZ5.
- Ozee and Ditto customers will get an automatic upgrade with the Z5 launch.
- Content streaming deal with Jio is only for mobile handset (not on TV as of now).

Outlook

Advertisement growth

- For advertisement, management expects to beat industry growth in 2HFY18,mid-teens visible. Ad growth is broad-based and all sectors are growing well.
- Ad spending has recovered to normal level, including, FMCG, e-comm.
- Management targets to beat industry growth. So if the industry grows at ahigherpace, Zee too will grow at a higher pace.
- Renewed deal with HUL in September.

Subscription growth

- For subscription, outlook remains same at mid-teen growth. Subscription mid-teenguidance is based on content contract renewal happening in 2nd half,which has been the case before and based on the discussion, managementremains confident.
- Until tariff order implementation, the deals will be renewed on fixed fee basis.
- Since the digital content consumption is driven by TV content, managementbelievesthere would be no erosion on subscription.
- International subscription revenue, especially South Asian biz, could de-grow innearfuture. This will be shifted to digital revenues. But may see a lag in time.

Profitability

- FY18 EBITDA margin guidance stands at 30%+, despite investments in regional(especially Tamil) and digital ventures.
- Management is focused on increasing the market share, but at reasonableprofitability.
- &TV channel is expected to breakeven by 4QFY18. It has 24hrs programmingcurrently and will remain the same in 3QFY18. Based on the performance in3QFY18,it will decide future programming.
- Advertisement cost will rise due to rebranding, launch of Z5 - digital platformand 25year celebration (one time)

- Cost to increase because of new channel launch, 8 shows launched on Zee and&TV(against 2-3 usually), and 25-year branding related cost
- Currently, programming hrs for Zee stand at ~27.5 hrs, which managementplans totake to 30hrs by 3QFY18, and 32hrs by 4QFY18 (FY16 it was 30+ hrs;however, inFY17 it fell below 30 hrs)
- FY18 tax guidance stands at 35-36%. For 1QFY18, it was higher due to incomefromforeign subsidiary.

Growth

- Despite HD channels of peers, Zee is offering bouquet of channels. However,management believes it may not necessarily lose on subscription due to non-HDchannels.
- Management believes the tariff order when implemented will help removeleakages, which will be positive for Zee.

Balance sheet/acquisitions

- Inventory is high primarily due to acquisition of both Satellite and Digital movierights for Hindi, as well as regional content. Additionally, music rights and movieproduction (FY18 guidance 1.5 b) have also contributed to the increase.
- Investment strategy has changed from largely Hindi GEC products, now toregionalgenre as well digital. This might remain lopsided for next 18-24 months
- INR600-700cr inventory has gone up to INR20b in the last 1-2 years.
- Recent movies acquired include Raees, Dangal, Half Girlfriend, Barreli Ki BarfiandToilet Ek Prem Katha, apart from multiple regional movie rights.
- 9XM acquisition is based on the stated policy of regional and niche categoriesandwill benefit immensely from Zee's network.
- Timeline of 9X Media consolidation is uncertain due to treaties and regulatoryapprovals pending. Will take 2 more months to consol (not in 3QFY18).
- Management didn't give any guideline on preference shares redemption. It isstillworking on taxation and regulatory matters.
- Cash balance stood at INR30.6b.
- On regional side, Zee plans to enter Kerala and Punjab through green-fieldorganicexpansion. Digital will also be far better to launch then to acquire. Noacquisitionopportunity in the space requiring expansion.

Management commentary on demand was optimistic. Government spending is expected to be the key growth trigger. There is renewed optimism in the sector. Companies with strong balance sheets are evaluating expansion opportunities, including inorganic expansion. Hindalco and Vedanta are positive on aluminum prices, given stricter environment measures adopted by China. Vedanta is also positive on zinc prices, given the closure of large mines and steady demand growth. In steel, long-product prices are expected to remain weak in the near term, but improve as domestic demand picks up. GST disruption is largely behind and volume benefit in 2Q was partly aided by re-stocking following GST disruption in 1Q.

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY18	Global Commodity Prices
Hindalco	▪ Novelis EBITDA guidance of USD1.15-1.2b. FCF generation of USD400-450m. Volume outlook has improved on better demand in S. America and Asia ▪ India smelting coal cost to decline further as supplies under coal linkage start ▪ Cost of production to remain competitive due to higher grade ores and favorable coal supply contracts ▪ Domestic aluminum demand to continue to improve	▪ Remain positive on aluminum amid Chinese supply measures
JSW Steel	▪ Domestic demand to improve on government spending, housing for all and investment in RE ▪ Long-product pricing to remain weak in near-term. Expect price pick-up from January onwards as government spending starts to benefit ▪ Full year volume guidance of ~15mt remains unchanged	▪ Supply side measures in China will determine direction of steel prices.
Vedanta	▪ Aluminum smelter ramp-up progressing well despite the recent smelter ramp-up issues ▪ Aluminum CoP to increase in near-term due to coal availability issues and higher alumina prices ▪ Zinc India mine output to increase to ~1.2mt by FY20. Zinc international projects are on track ▪ Talwandi Saboo has stabilized and expect normative availability for remaining year	▪ Aluminum and zinc outlook is positive on supply side measures.

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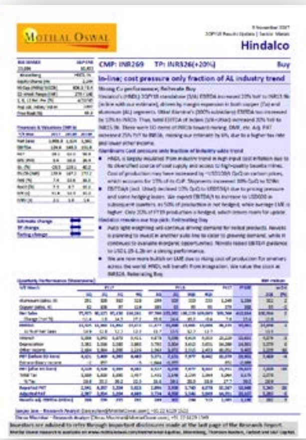

HindalcoInds — Buy

Current Price INR 261 — **Target Price INR 326 |25% Upside**

- Beverage can shipments rose by 5% YoY on strong growth in North America. The outlook for beverage can demand growth in South America has improved, aseconomic activity is expected to have bottomed out. Asian beverage can marketoutlook is also more positive. While customer consolidation had led to pricecorrections, Novelis has secured longer-term volume commitments, and isoffsettingthe price impact though efficiency gains.
- Auto shipments rose 12% YoY. North America and European auto lines arerunningat full capacity. Chinese auto line is currently less utilized, but is fullybooked andexpected to ramp-up by end of the year.
- The outlook for the auto market is extremely positive, particularly for North America. The market is expected to enter a deficit in the next few years, drivingdemand for new capacities. Novelis is evaluating alternatives, includinglikelihood ofa Greenfield capacity. An announcement is likely by the nextquarter. A Greenfieldcapacity would take ~24 months to be up and get qualifiedby customers.
- FCF guidance was maintained at USD400-450m, despite the sharp increase in LMEdriving higher working capital. This was driven by higher EBITDA andcertain workingcapital initiatives.

- The sale of 50% stake in Ulsan facility in South Korea was completed during the quarter. The sale proceed was USD314m, while the after-tax P&L gain wasUSD241m. The joint venture would lead to more efficient utilization of rollingassetsand improve the product mix.

Regional performance

- North America: Shipments grew 9% YoY to 274kt, as both autos and beverages canshipments were strong. EBITDA margin is up 23% YoY to USD453/t, close tothebest-ever in the region. Higher volumes and margins thus drive a 33% YoYincreasein EBITDA to USD124m. Can volumes are improving, but long-termoutlook remainsflattish. Automotive will continue to drive demand. The marketis also benefitingfrom favorable scrap spreads.
- Europe: Shipments were flat YoY at 237kt. Margins were marginally higher YoYtoUSD215/t. EBITDA was up 4% YoY to USD51m. The volume and marketconditionsare favorable. Appreciating EUR is benefiting operations.
- Asia: Shipments were up 2% YoY to 180kt, driven by beverage can volumes, despitethe maintenance shutdown. Margins were down 21% YoY to USD206/tdue to theshutdown, but are expected to improve. EBITDA was thus down 20%YoY toUSD37m. Beverage can pricing was impacted due to contract renegotiations,butvolumes have gained. Automotive demand outlook is strong.
- South America: Shipments grew by 8% YoY to 131kt. EBITDA margin was broadly flatYoY at USD687/t, partly due to currency drag. EBITDA was up 10%YoY to USD90m.The economic activity is likely to have bottomed out in Brazil,leading to beveragecan supply chain restocking.

Hindustan Zinc Limited

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Hindustan Zinc — Neutral

Current Price INR 315 | **Target Price INR 322 |2% Upside**

- 40% of coal requirement was secured in recent coal linkage auctions. Global thermalcoal prices are rising, with differential to domestic linkage coal now atUSD30-35/t.However, due to shortage of coal in recent months, supplies fromCoal India arelow. Supplies are expected to improve as Coal India ramps-upproduction.
- Guidance for CoP was raised to USD900-950/t (~USD100/t YoY increase) due to increase in thermal and met coal cost. CoP in 2H is expected to be lower than 1Honhigher domestic coal mix, volumes and operating efficiencies.
- Outlook for zinc prices is strong as supply continues to lag demand. Demand in developed regions like Europe, Japan and the US is improving.

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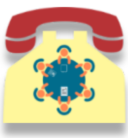
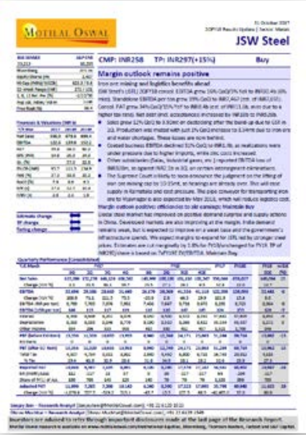


JSW Steel — Buy

Current Price INR 266 | **Target Price INR 297 |12% Upside**

Standalone

- Sales grew 12% QoQ to 3.92mt, despite 2Q being a seasonally weak quarter. JSTLde-stocked after the build-up in inventory due to GST in 1Q.
- Production growth was muted at 1% QoQ to 3.92mt due to the issue inavailabilityof iron ore in Karnataka (for application of GST) and water shortagein Tamil Nadu.Both the issues are now resolved.



- Spreads (realization less raw material cost) improved ~INR400/t QoQ. Operatingleverage drove ~INR810/t QoQ decline in other costs. Resultantly, standaloneEBITDA increased ~INR1,210/t QoQ to INR7,467.
- Standalone EBITDA increased 33% QoQ to INR29.3b, driven by higher marginsandvolumes.
- The Supreme Court is likely to soon announce judgment on the lifting of the ironoremining cap by 10-15mt, as hearings are already over. This will ease supply inKarnataka and cost pressure. The pipe conveyor for transporting iron ore toVijaynagar is also expected by May 2018, which will reduce logistics cost.
- The domestic long products market remains over-supplied, while demand is alsoweak. The commercial real estate activity has seen some pick-up, but residentialremains weak. The benefit of unorganized to organized shift due to GST isexpectedto come over the medium term. Government infrastructure spendshould driveimprovement in the market from 4Q.
- Steel imports in India remain high at an annual run-rate of ~12mt in 2QFY18.Volumes have increased mainly in the value-add product segment, which putpressure on realization.

TATA STEEL

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Tata Steel — Neutral

Current Price INR 701 | **Target Price INR 672 | -4% Downside**

Standalone: Lower underlying realization drives EBITDA miss

- Reported realization was down 2% QoQ (to INR46,172/t) due to lower ferro chromeprices, change in accounting of sales to subsidiary Tinplate (fromconversionarrangement to direct sales), weak long product realization andtiming of certainprice revision contracts.
- Underlying steel realization is expected to increase by ~INR1,000/t QoQ in 3Q, driven by an increase in prices of flat products. Long product realizations areexpected to remain muted. Ferro chrome prices are also higher QoQ.
- Sales volume grew 17% YoY/12% QoQ to 3.08mt. Export volumes were 11% higherQoQ at 308kt.
- Imported coking coal FoB cost declined from USD175/t in 1Q to USD155/t in 2Q, andis expected to fall by ~USD10/t QoQ in 3Q. Other raw material cost like zincandbyproducts, however, increased.
- The headline other operating expenses per ton (of sales) declined ~INR3,960 QoQ(to INR13,901) due to (a) excise duty on inventory on transition to GST(w.e.f) wasreported as part of change in stock, (b) change in method ofaccounting of sales tosubsidiary Tin plate, (c) subsuming of certain taxes withGST and (d) operatingefficiencies.
- EBITDA per ton was marginally higher by INR172 QoQ to INR10,959 (est.INR11,985).
- Capex guidance was maintained at INR70b for FY18 (~INR37b in 1H). Steel sales volumes guidance was also unchanged at ~12.3mt.
- Decision on KPO expansion is in final stages. The expansion is likely to be hot metalcapacity of 5mt.

Gas consumption has begun increasing, led by higher availability of domestic gas and higher LNG imports. This is expected to continue in the next few quarters. However, increase in consumption of gas due to absence of sufficient domestic coal with power producers may wane.

Benchmark refining margins should stay strong, in light of heavy unplanned shutdowns across the globe. Indian refiners would benefit. Private players continue to be marginalized in marketing of petroleum products.

Oil & Gas	Outlook for FY19	GRMs
Reliance Industries	▪ RIL should continue its good GRM performance in coming years. We expect USD11.5/bbl GRM for FY19/20. ▪ RJio has surprised with positive EBIT in the first quarter itself – this would remain key to stock performance.	▪ RIL continue to improve its refining performance this quarter as well. RIL improved its GRM to USD12/bbl on account of better yield/crude optimization and risk management.
OMCs (IOC/BPCL/HPCL)	▪ We expect strong GRM trend to continue in near to medium term supporting good GRM performance for OMCs. ▪ Rising crude price trend should result in inventory gains in refining segment for OMCs ▪ As long as oil prices remain below USD65/bbl, we do not expect the companies to bear any under-recovery on LPG &Kerosene, although there is no written communication on the same. ▪ We also expect strong auto-fuel consumption trend to continue in India	▪ IOCL reported a core GRM of USD6.9/bbl, HPCL reported a core GRM of USD5.6/bbl and BPCL reported a core GRM of USD6.5/bbl. ▪ We expect refining performance to improve in coming quarters.
ONGC and OINL	▪ Rising crude oil prices would benefit upstream companies like ONGC and Oil India. Also it would help GAIL's petrochem and LPG/Liquid HC segment. ▪ ONGC is also likely to increase gas production by 10-15% annually next 2-3 years ▪ Expect no subsidy burden as long as oil prices are below USD65/bbl, although there is no written communication	▪ Expect Brent of USD60/bbl in FY19/20
GAIL	▪ Much awaited key pipeline tariff hike would improve transmission earnings ▪ Expect petrochemicals to post profits, driven by lower gas costs ▪ However, concern on 5.8mmtpa US contracts would cloud stock price movement	
Petronet LNG	▪ Expect strong volume growth of 10-15% to continue for next 3-4 years ▪ Expect no major competition from other existing or upcoming LNG terminals	

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GAIL India — Sell

Current Price INR 458 — **Target Price INR 378 |-18% Downside**

- Transmission volumes pick-up was mainly on account of higher off-take from power plantsdue to shortage of coal supply in India.
- Implied tariff was higher led by higher volume from zone 4 consumer due to coal shortage.
- Higher availability of rich gas resulted in increased production volume of LPG and other HCs.
- Both Pata-1 and Pata-2 are currently operating at 100% utilization; petchemutilization was~75% in 2QFY18.
- Petchem realization has been adversely impacted by new domestic competition.
- The company has achieved success in placing US LNG volumes for 2018 through time/destination swaps and domestic consumers. US LNG off-take wouldcommence fromFebruary 2018 from Cove Point.

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Results Update

Hindustan Petroleum — Buy

Current Price INR 415 — **Target Price INR 579 |39% Upside**

- Auto fuel sales growth in the quarter was higher than the industry; MS: +7.1%, HSD: +4.4%, LPG: +10.4% and Lube: +23% on YoY basis.
- The company has added 216 ROs during the quarter; total ROs stand at 14,628.
- Basic design and engineering have been completed for the Vizag and Mumbai refineries.
- Core GRM was impacted by higher production of FO at the Mumbai refinery.
- Core GRM stood at USD5.6/bbl, significantly lower than our estimate of USD9/bbl. Sub-optimal GRM can be attributed to monsoon-related lower off-take of bitumen, which led to higher production of fuel oil. We expect GRM improvement in the coming quarters.
- Marketing sales volume grew 9% YoY (-6% QoQ) to 8.7mmt in 2QFY18. Throughput grew 15% YoY (+3% QoQ) to 4.6mmt.The company guided for a GST impact of INR900m on P/L and 350m on B/S.

IndianOil

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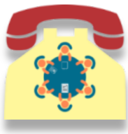

Indian Oil Corp — Buy

Current Price INR 393 — **Target Price INR 554 |41% Upside**

- Refinery utilization was down due to shutdowns atPanipat/Mathura/Gujarat/Baraunirefineries.
- PX/PTA as well as naphtha cracker at Panipat was also shutdown (1st shutdown since start-up in 2010).
- CP GRM stood at USD9.14/bbl in 2QFY18 v/s 6.44/bbl in 1QFY18. However, thetimedifference in the calculation of RTP and inventory gain resulted in reportedGRM ofUSD7.98/bbl.
- Inventory was calculated using USD52/bbl instead of closing USD55/bbl. In a rising crudeenvironment, the lower of the cost and price is taken till actualrealization. If crude keepsincreasing, this difference of USD3/bbl would berealized in the next quarter.Paradip-Raipur-Ranchi pipeline is fully functional since Jul'17.
- Against PSU growth of 8.9%/3.2% in MS/HSD, IOC recorded growth of 9.4% and3.4%.
- GST impact stands at INR3b, could be INR20b annualized.
- Other expenditure includes one-off of INR3.2b on account of increased rental at Kandla PortTrust related to earlier years. Other expenditure is also high due tohigher repairs &maintenance & freight/demurrage.
- Ennore LNG terminal has achieved 80% physical completion and non-binding agreements arein place. Expects full sales within 100km of the terminal.
- Polypropylene plant at Paradip is expected to be completed by Dec'18.

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ONGC — Buy

Current Price INR 180 — **Target Price INR 231 |28% Upside**

- Has guided total domestic + JV oil production at 25.93mmt in FY18, rising to 26.19mmt inFY19.
- Has guided total domestic + JV gas production at 25.34bcm in FY18, rising to 29.53bcm inFY19.
- OVL production guidance of 13.659mmtoe for FY18 and 13.925mmtoe for FY19.

- Vashistha to commence production of 4.5mmscmd from 4QFY18 – will command HPHTpricing.
- OPaL currently 60% utilized; will ramp up to 80% in FY19.
- Standalone capex including outgo of INR75.6b on GSPC's DD block at INR19b in 1HFY18.
- B127 development is on schedule.
- Tenders for Ratna/R-series have been invited; will be awarded soon.
- KG-DWN-98/2 – no issues in DOC; tenders would be awarded by April 2018. Expect minordelay – gas from November 2019, oil from April 2020
- Expect GST hit of INR10b-15b inclusive of balance sheet items, annually.
- HPCL and ONGC both carrying out due diligence; expect to close by March 2018.

Reliance Industries — Buy

Current Price INR 919 | **Target Price INR 1,005 |17% Upside**

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Refining & marketing: GRM of USD12/bbl

- GRM has not moved in line with Singapore complex GRM due to lower light heavy and Brent-Dubai differentials.
- The company expects refining margins to stay strong, as incremental supply doesnot appear to catch up with 1.2-1.4mnbopd of incremental demand everyyear.Additionally, refineries in Mexico and Venezuela continue to operate atlowutilization levels.
- In bulk diesel, the market share has increased from 4.3% to 7.2% YoY, with a 65%YoY rise in volumes.
- Seven new ROs were opened during the quarter. Market share in retail dieselstandsat 4.2%. 40% of the ROs are COCO, which helps generate better marginseven in thecurrent low marketing margin environment.

Petrochem: ROGC commissioned

- PE delta declined 5% QoQ, while PVC delta increased 14% QoQ. PX deltadecreased4% QoQ, while PTA-PX delta increased 13% QoQ. PFY and PSF deltasimproved by20% and 41% QoQ, respectively, while PET delta declined 11%QoQ.
- Ethane is being cracked at Dahej and Hazira. Nagothane is being readied forcrackingof ethane.
- ROGC has been commissioned fully and the downstream units are beingcommissioned. Expect full ramp-up in the next 60-90 days.
- Petcoke gasifiers are expected to be commissioned by early 2018.
- The company expects delays in the upcoming ethylene crackers in the US, whichcould support petrochemical deltas.

E&P: R-series by 2020

- Gas production at KG D6 has declined to 5.4mmscmd.
- Award of long lead items for development of R-series is being carried out.Production of 12mmscmd is expected to commence in mid-2020.
- FDPs of MJ and satellite fields are expected to be filed in 2HFY18.
- Shale realization has declined 13% QoQ. Production is down 3% QoQ.RelianceRetail: 14.2m sq. ft. of area
- With a total of 3,679 retail outlets, revenues stood at INR146bn (+81% YoY,+26.6%QoQ) and EBITDA stood at INR4.4bn (+68% YoY, +11.6% QoQ) in thequarter.
- A total of 45 stores were added in the quarter.

RETAIL

Titan stated that festive season sales were good. Sales from 21st September to 31st October were up 16-17% YoY. If not for PMLA, growth would have been even better, despite high base of 50% sales growth in the festive season last year. Management maintained that market share gains were happening across large, medium and small towns. There was a definite change in the tone of management commentary – the management is now saying that it would give up 'margin expansion' for growth instead of saying that it might give up 'margins' in the quest for growth. Jubilant Foodworks expects store openings to resume in 3Q and 4Q. It intends to open 30-40 stores this year compared to earlier guidance of 40-50 stores. There has been healthy growth after product refreshment in August. The management did not comment on its sustainability after a couple of months after launch.

	Impact of GST	Management comment on festive	Outlook
Titan	■ No GST impact on costs. ■ Government actions taken to formalize the economy have started to benefitJewelry significantly and marginally for Watches.	■ Festive season (21st September to 31st October) saleswere up by 16-17% YoY. If not for PMLA, growth would have been even better,despite a high base of 50% sales growth in the festive season last year.	■ 25% jewellery growth guidance maintained for FY18.

Jubilant Foodworks — Sell

Current Price INR 1,746 | **Target Price INR 1,270 |-27% Downside**

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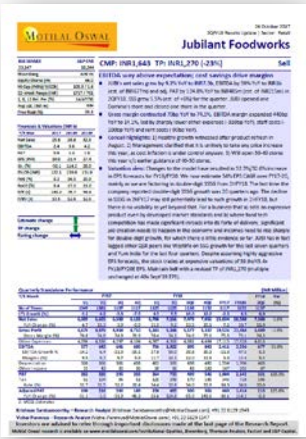

Factors affecting top line and strategy going forward

- Stronger pace of store openings will resume in 3Q and 4Q. Will open 30-40 storesthis year compared to earlier guidance of 40-50 stores. Reason for delaywas thatthey were making the store opening plans more scientific, a processthat is nowover. Capex will be INR1.1-1.15b in FY18 v/s earlier guidance ofINR1.3b.
- Store network expansion is a key focus area. This will be a combination of going tonew towns as well as expanding in existing towns.
- There has been healthy growth after product refresh in August. Managementdidnot share how sustainable this is after a couple of months of launch.
- Effective indirect tax incidence reduction from 20% to 18% under GST was passed onto customers.
- There has been a further increase in delivery proportion, which is of higher billvalue. Management did not share delivery proportion now.
- Added 51 stations in terms of access to Domino's ordering in the quarter, taking total to 135 stations.
- There is a pilot project going on with third-party delivery options. But even ifadopted, bulk of delivery will be through its own network, as customersatisfactionis far higher.
- Management clarified that it is unlikely that it will take any price increase this year,as cost inflation is under control anyway.

Comment on Oregano contamination incident reported in the media

- Conducted deep-dive on oregano packaging and found no other incident apartfromthe one reported in the media.
- The incident did not materially have an impact on sales during the quarter.
- Subsequently improved packaging, reduced recommended shelf life from 6 monthsto 3 months, and used refrigerated transport on seasoning as well.

- Oregano procurement is outsourced and is not through their commissary.Clarifications on GST/ongoing government discussions
- No GST factor on accounting sales unlike FMCG companies.
- There are two proposals that are being discussed by the government.
- Reduction in service tax from 18% to 12%, which will be a positive.
- Possible absence of input credit being discussed will be a negative.

Factors driving cost savings

- Reduction in discounts YoY, availing of input tax credit and restricted gross margindecline YoY to 70 bp, despite material cost inflation and more toppingsand cheeseper pizza.
- Saved rent on closed restaurants and due to some rent renegotiations.
- Other expenses savings on account of the following reasons:
  - Optimization of advertising costs through lower media buying rate.
  - Full quarter impact of product refresh is not yet reflected in 2QFY18, as itbegan inAugust.
  - Savings on travel cost line and G&A costs.
- Management did not comment on sustainability of the extent of cost savings goingforward.
- 2QFY18 witnessed lower depreciation due to some reversal of accelerateddepreciation from 1QFY18 amounting to INR63m.

Dunkin Donuts

- Focus on Donuts is working well, leading to growth.
- Donut Coffee Combo is driving coffee consumption.
- 135bp negative impact on EBITDA margins as a result of Dunkin Donuts at the end of2QFY18 (240bp last year).
- In line to achieve break even by end of FY19, as guided earlier.
- The company has Dunkin' Donuts' parent support for the current store culling before expanding later.

Titan — Buy

Current Price INR784 | **Target Price INR 850 |8% Upside**

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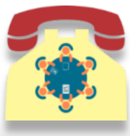

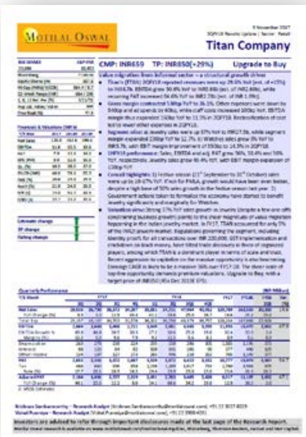
MOTILAL OSWAL
Titan Company
CMP: INR659 TP: INR850(+29%) Upgrade to Buy

Performance

- Reclassification of cost led to lower other expenses in 2QFY18. Other expenses declined by 31% on account of GST-related disclosure changes (excise duty on stock and octroi/local body taxes) and a large favorable swing in hedging ineffectiveness between PY and CY. No GST impact on costs.
- High debt due to inventory build-up, but it has come down sharply in October.
- No impact on jewellery business from GST. Have not passed on GST increases on watches. Awaiting further clarification on rates of watches.

Jewellery

- Retail growth stood at 22%, while SSSG was at 18%. Gold tonnage increased 49% in 2QFY18.
- Advancement of sales in previous quarter was compensated with early festive season.
- Jewellery sales for the quarter had some impact from application of Prevention of Money Laundering Act (PMLA) in end of Aug'17, which then got suspended in early Oct'17 till regulations are framed specifically for the jewellery segment.

Company expects substantial increase in limit for KYC norms and reporting requirements among other changes in the revised regulations.

- Festive season sales were good. 21st of September to 31st October sales were up by 16-17% YoY. If not for PMLA, then growth would have been even better, despite a high base of 50% sales growth in the festive season last year.
- The quarter also saw studded activations. The response to the activation was below expectations of the company. Studded share for the quarter stood at 36% v/s 42% in base quarter.
- Government actions taken to formalize the economy have started to benefit Jewelry significantly and marginally for Watches.
- Market share gains in Jewelry. It is happening across large, medium and small towns. Dhanteras sales were good for them, while unorganized players suffered – e.g. their stores were closing earlier, did not have enough crowd etc.
- Good management of prices, product mix and cost control led to margin improvement. As the wedding segment increases, the margins will dilute, while studded share margins will increase.
- Wedding segment growth rate higher than non-wedding and value added in the quarter.
- 17 store opening target in next two quarters with ~40k sq. ft. area.
- Procurement through Gold on Lease was higher this year.
- GHS balance as of today is INR8b.

Other businesses

- Watches: Good growth led to good margins. Mix favorable for the quarter in terms of channel of sales. Online sale period also contributed to sales growth.

Guidance/Outlook

- 25% jewellery growth guidance maintained for FY18.

TECHNOLOGY

Growth commentary for FY18 looks moderate for most companies on a constant currency, organic basis. A full-thrust recovery still seems elusive, as the BFSI and Retail verticals have been soft, though the description of worries around Retail appears to be better for some players. The profitability surprise in the quarter was led by favorable currency movement and increased operational efficiencies. This resulted in optimism going forward too, mainly hinged on to further headroom on operational parameters.

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Revenue outlook for FY18	Digital / New services	Margins
HCL Technologies	▪ HCLT maintained its guided revenue growth range of 10.5-12.5%, but now expects growth at the lower end of the band. ▪ The guidance implies, in our view, organic growth of 5.5-7.5%, a marked slowdown compared to what was delivered in FY17.	▪ HCLT has been encouraged with theintegration and progress seen on recent acquisitions and IP partnerships. ▪ This approach will hence continue to remain of focus, and primary to the company's Mode-3 strategy. ▪ HCLT also converted its JV with DXC to an IP partnership, and is looking to restructure multiple other deals going forward.	▪ The depreciation schedule suggestsan increase in depreciation going forward. ▪ However, the company is expected tooperate within its guided 19.5-20.5% EBIT margin range.
	▪ INFO cut its FY18 revenue growth outlook to 5.5-6.5% from 6.5-8.5% (implies 1% CQGR at the midpoint for 2H). ▪ We read this as a function of: [1] lower 2Q growth than that seen historically, even in subdued years and [2] conservatism that has characterized the founders' approach in the past.	▪ INFO's strategy has been progressing well with9.4% contribution from new services compared to 8.3% in the previous quarter. ▪ Revenue from new software stood at 1.6% of total.	▪ INFO maintained its revisedmargin band of 23-25%. ▪ During the quarter, despite wage hikes for ~80% of theemployee base in India, profitability improved, primarily led by improvedutilization, higher off-shoring and better realization. ▪ Pricing has been seeing animprovement, led by stability in pricing and increasing composition of newofferings.
TCS	▪ For TCS, overall growth has been bogged down by relative weakness in the verticals of BFSI and Retail. ▪ In BFS, it is difficult to say when the situation will start to look upward. ▪ TCS will assess visibility in the next quarter by when spending is likely to revive.	▪ Digital: Digital, now 19.7% of total revenue, continuede-exhibiting strength, having grown by 5.9% QoQ CC and 31% YoY. ▪ Engagementshave been increasing in size, and multiple customers have been in discussionswith TCS, as they look to digitize their mid- and back-ends. ▪ A larger share ofspend is expected to move from small vendors to larger players like TCS in this process.	▪ EBIT margin for TCS expanded by 170bp QoQ in 2QFY18. ▪ While 50bp of this was on account favorable INRmovement against the GBP and EUR, 120bp was led by an improvement inoperational efficiencies and cost rationalization.
Tech Mahindra	▪ Growth has been picking up in Telecom (ex. LCC), the second half is expected to be better than the first. ▪ Enterprise has been growing faster than industry. ▪ LCC has stabilized at current levels in terms of revenue.	▪ Acquisitions like Target and BIO have been toward augmenting Digital presence. ▪ Digital is north of 20% of revenue, based on Gartner's definition.	▪ TECHM expects continued margin recoverygoing forward led by, [1] Improvement in LCC margins, [2] Improved utilization,[3] Pyramid rationalization and [4] Increased thrust on Automation
Wipro	▪ WPRO guided for revenue of USD2,014-2,054m, implying CC growth of 0-2%. On YoY CC basis, this implies growth of 2.3-4.4% for 3Q, which at its midpoint is not materially higher than +2.9% YoY CC in 2Q.	▪ Digital now constitutes to 24.1% of overall revenue, and grew by 10%QoQ. ▪ It has further advanced its capabilities in the area of design, with theacquisition of Cooper, a leading design consultancy firm based out of the US. ▪ TheCloud business, which is a subset of Digital has now reached USD1b in terms ofannual run-rate.	▪ 2Q margins were stable despitetwo months of wage hike as the company managed to pull its operationalefficiency levers. ▪ For FY18E, WPRO's endeavor would be to maintain margins ina narrow band compared to FY17, on a constant currency basis. ▪ As revenuegrowth expectations get better, margin trajectory is also expected to go upward

CYIENT

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Cyient — Buy

Current Price INR 553 — **Target Price INR 600 | 9% Upside**

- **US slower in terms of growth:** Growth in the US was lower in 2Q, as UTC saw somerebalancing, Industrials remained soft and a large project in Utilities &Geospatialgot pushed out to the next quarter.
- **Efficiency-led margins:** Margin expansion has been a result of better operational efficiencies. Wage hikes impacted margins in both 1Q and 2Q, with it totaling to~150bp. Utilization, pyramid rationalization, better onsite margins and SGArationalization resulted in strong EBITDA margin expansion, despite wage hikeheadwinds and a flat INR.
- **Multiple developments during the quarter:** The quarter saw several developmentsincluding, [1] Acquisition of B&F Design, which has an annual runrateof USD8.5m,[2] Divestment of 49% stake in IASI to Pratt & Whitney, [3]Licensing agreement with Elpis to resell their platform to clients, [4] Divestmentby UTC of its equity stake inCYL.
- **Vertical-wise commentary:<u>Aerospace & Defense:</u>** See growth continuing in 3Qdespite the seasonal weakness; **<u>Communications:</u>** Momentum should continueinFY18 and beyond; see traction in both Australia and the US; **<u>Utilities</u>** and**<u>Geospatial:</u>**Had anticipated a strong 2H and a relatively slower 1H – this haspanned out asexpected; pipeline and order book provide visibility.**<u>Transportation:</u>** Growth likely tocontinue through the year; clients makinglarge-scale investments, which are likelyto result in growth for CYL; **<u>ENR:</u>**Weakness seen in the vertical; CYL has hadchallenges so far, but seeing somegreen shoots; incremental demand stemmingfrom newer areas;**<u>Semiconductor:</u>** Industry going through a strong year, which istranslating forCYL; 2Q lower on a strong base, confident of revival through the restof the year;**<u>Medical:</u>** Healthy growth on a small base; continues to be a focus area.
- **Not too worried about soft order book:** In the Services business, the order booksawa decline QoQ and YoY. However, this isn't a worrisome data point sincedeals aredominated by 2H, where large contracts from several top customersget recorded.

HCL

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HCL Technologies — Neutral

Current Price INR843 — **Target Price INR 970 | 15% Upside**

- **India-led revenue pressure:** During the quarter, there was a decline seen in the India business to the tune of USD20m, resulting out of the completion of several large SI programs. Excluding this, revenue growth in constant currency terms was 2.0% QoQ. The ramp-down primarily impacted the areas of IMS and Application Services, excluding which growth in the service lines would have been 1.8% QoQ and 1.0% QoQ, respectively.
- **More IP deals struck during the quarter:** HCLT has been encouraged with the integration and progress seen on recent acquisitions and IP partnerships. This approach will hence continue to remain of focus, and primary to the company's Mode-3 strategy. HCLT also converted its JV with DXC to an IP partnership, and is looking to restructure multiple other deals going forward.
- **Strength seen in Financial Services:** Performance during the quarter was robust in both Financial Services and Manufacturing. HCLT continues to see momentum in the Financial Services vertical, which has grown by 14.2% YoY CC. In Europe, a

majority of the 4.4% QoQ growth was driven by this vertical. Manufacturing grew by 2.4% QoQ, also aided by the addition of revenue from recent IP deals.

- **To achieve the lower end of the revenue guidance:** The guidance of 10.5-12.5% YoY CC for FY18 was maintained. The expected decline in revenue from India, and the gap resulting out of the conversion of the JV with DXC have been considered in these estimates. The guidance also includes revenue from IP deals and other acquisitions.
- **Well within the guided profitability range:** The depreciation schedule suggests an increase in depreciation going forward. However, the company is expected to operate within its guided 19.5-20.5% EBIT margin range. The range factors in an INR/USD rate of 65.5 and other currencies at an average of FY17.

HEXAWARE

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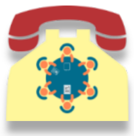

Hexaware Technologies — Neutral

Current Price INR331 — **Target Price INR 270 | -18% Downside**

- **Client ramp-downs:** While the underlying business momentum continues to be strong, the quarter was impacted by a ramp-down in two of HEXW's top customers. Outside of this, business dynamics are extremely robust. This is further validated by new deal wins and strength of the pipeline.
- **Deal wins continue to exhibit strength:** The TCV of deal wins during the quarter was at USD43m, which is similar to that seen in the previous quarter. For CY17, deal wins from new customers are expected to match those achieved in CY16. Like in the previous year, a jump can be expected in wins in the last quarter of the year. The scope for 90% of the deal wins has been fixed, which means this would translate into revenue over an average period of the next four years.
- **Segmental performance:** IMS and BPO have been exhibiting strong traction for the company. In terms of geographies, while the company is seeing sustained high growth from APAC, Europe has turned the corner and is likely to see higher momentum going forward. North America was down for the first time in the last 13 quarters as a result of the two problem customers. These ramp-downs even impacted the verticals of Travel & Transportation, and Manufacturing,Consumer and Others.
- **Outlook for beyond 4QCY17:** While 4Q will see a residual impact of one of the client ramp-downs, outlook beyond that continues to be driven by strong underlying trends. Profitability for CY18 would be based on full year CY17 margins; just like the company had earlier guided for CY17 margins to be similar to those in the previous year.

Infosys

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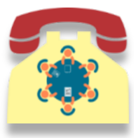

Infosys — Buy

Current Price INR 961 — **Target Price INR 1,100 | 14% Upside**

- **Guidance cut explained:** INFO's guidance cut is a combination of slower-than usual 2Q, and a typically soft 2H. Barring Retail, performance has been good across the board. However, seasonal softness and a few account-specific factors would lead to a loss of momentum going forward. The mood however remains optimistic.
- **Strength seen in FSI:** Performance in BFSI was strong, especially in Insurance. 13 new customers were added in this space, with one account being a large deal (>USD50m). The strength seen in Banking, Capital Markets and Insurance isn't restricted to a particular region, but is geographically well-spread.

- **Strategy refresh:** Over the past eight weeks, the leadership has taken stock of the strategy and has outlined a sharpened strategic direction. All programmers have been reviewed and execution has been accelerated. Strategic direction for INFO will continue to be driven by a combination of services and software.
- **Good progress on new areas:** INFO's strategy has been progressing well with 9.4% contribution from new services (Cloud Ecosystem, Big Data and Analytics, API and Micro Services, Data and Mainframe Modernization, Cyber Security, IoT Engineering Services), compared to 8.3% in the previous quarter and 1.6% from new software (Edge, Skava, Panaya, NIA).
- **Operational efficiencies drive stable profitability:** INFO maintained its revised margin band of 23-25%. During the quarter, despite wage hikes for ~80% of the employee base in India, profitability improved, primarily led by improved utilization, higher off-shoring and better realization. Pricing has been seeing an improvement, led by stability in pricing and increasing composition of new offerings.

Click below for Results Update

KPIT Technologies — Neutral

Current Price INR 168 | **Target Price INR 160 | -4% Downside**

- **Revenue growth likely to be greater than 12%:** KPIT delivered strong growth in the quarter driven by Engineering Services and Digital. Growth has been >4% over the last three quarters. For the full year, 12% growth can be expected given current momentum, and expectations of flat revenue in 3Q.
- **Profitability aided by operational efficiencies:** Profitability improved despite wage hikes this quarter. It was primarily driven by strong revenue growth, higher utilization, pyramid rationalization and cost optimization. With revenue growth absent in 3Q, margins too would remain flat. However, marginal expansion can be expected again in 4Q.
- **Several levers available for expansion:** In the near-term, the company will continue investing in the business, especially in ramping up local hiring. Beyond that, there are several levers available to work on improving profitability led by – Higher utilization (2-3pp), Higher onsite pricing, Increased off-shoring and Better pricing in newer services.
- **Employee reduction in yet another quarter:** Headcount during the quarter declined by 350. This has been on corrective course post FY17, which saw 10% headcount addition for flat revenue. While some more employee addition can be expected through the rest of the year, revenue growth is expected to far exceed it.
- **Products should revive in FY18:** Product revenue declined during the quarter, but has seen good growth on a YoY basis. A couple of Products in ITS are undergoing some changes, and should witness revival in FY18. Moreover, some more products are being launched, which should also contribute to growth next year.

Click below for Results Update

L&T Infotech — Buy

Current Price INR963 | **Target Price INR 950**

- **Deals-led visibility intact:** Progress on the large deals front remained intact,with LTIsucceeding in two more large deals. The first one is ~USD50m over fiveyears, with anew CPG logo based out of Europe. It involves Managed Servicesaround SAP over17 locations and in 8 languages. The other is a large

ApplicationDevelopment andSupport deal with a leading African bank, where LTI displacedan incumbent, andwas not working in that part of the client's business.

- **Strong traction returned to most verticals, as guided:** As cited by LTI,Manufacturingstabilized during the quarter and Insurance gained momentum – in both Life and P&C. While Manufacturing may not grow at a fast pace, outlook in other segments is sanguine.
- **Digital prowess:** LTI's all-in Digital strategy has five dimensions: [1] Digital embedded in every area, without bifurcation between traditional and digital, [2] New ways of working through agile, design thinking and collaborating internally, [3] Ecosystem integrator role by bringing together collective innovation, [4] Measuring business outcomes and [5] Building new capabilities and constantly enhancing IPs. It sold its first license of MOSAIC platform to a US-based global insurer this quarter – which will amount to USD4m worth of annual savings for the client.
- **Will likely shun weak 2H seasonality:** Considering the schedule of deal ramp-ups, LTI had shared expectation of a better 2H v/s 1H. Despite 11.7% YoY CC growth in 1H, LTI reiterated that expectation, implying that seasonality will have little impact on the business.
- **Reiterates net margin band:** This quarter's net margin was at the higher end of the 14-15% outlook. The company expects to continue operating in this band in the foreseeable future. Pricing in select areas is seen improving from time to time in Digital.

Mindtree Consulting — Neutral

Current Price INR 507 | **Target Price INR 480 | -5% Downside**

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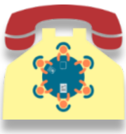

- **Confident given pipeline:** Overall deal pipeline for MTCL increased by 20% over the previous quarter, which drives confidence of gradual recovery in revenue growth, and consequently, margin expansion. One of the large deals won last year is already a top-10 client for MTCL, a fact that compounds possibilities from current pipeline.
- **Margins on recovery path:** Excluding one-time restructuring fees, EBITDA margins in 2Q expanded by ~150bp despite some hit from partial wage hike and campus additions. Margins should continue to inch up on the base of reported EBITDA level of 11.6% in 2Q, backed by revenue growth, operational efficiencies and opportunities to expand subsidiary margins.
- **US hit by Magnet 360:** Magnet360 declined in 2QFY18 as well, with revenue at USD4.5m. The segment continues to report an EBITDA loss. Bluefin had a strong show, up 22% QoQ to USD8.9m and also turned positive on the EBITDA line. Bluefin however may remain volatile for the time being.
- **Segmental color:** BFSI was affected in FY17 by one of the top-5 customers, which is finally coming under control. But ramp-up in recent deal wins is giving visibility on growth in the segment. Travel and Retail are the beneficiaries of MTCL's early investments in Digital, with opportunity sizes huge. The outlook on Tech | Media | Telecom is relatively more tepid.
- **Digital:** Median sizes of deals in Digital are much higher than a few quarters ago, and many are multi-year programs spanning the Enterprise. Deals pipeline in Digital grew by more than 30% over the previous quarter.

Mphasis Unleash the Next

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Mphasis — Neutral

Current Price INR 705 | **Target Price INR 670 | -5% Downside**

- **Additional vectors for growth in HP:** The relationship with HP has expanded, from being one-dimensional to four: HPE, HP Inc, DXC and Micro Focus. All of these avenues are contributing to growth seen in the segment, and it isn't only stemming out of the partnership signed last year. Although 80% of the portfolio is constituted by DXC, there is opportunity that can be tapped in the rest of the businesses.
- **Direct Core to grow above industry:** MPHL's Direct Core business has outperformed the industry consistently. The endeavor is to continue this trend. Deals from new customers and from tapping the Blackstone portfolio have been additionally fuelling this prospect.
- **Stability seen in Digital Risk:** Performance of Digital Risk has been directly linked to interest rate movements in the US. However, the company is currently finding adjacencies to avoid high correlation. Additionally, efforts to gain wallet share in existing customers and add new relationships are likely to further improve the situation.
- **Deal wins dominated by focus areas:** Deal wins during the quarter were at USD123m, leading to two consecutive quarters of USD100m+ wins. Put together, deal wins in 1HFY18 were higher than in the previous year by 71%. 81% of the deal wins were in MPHL's focus areas.
- **Target margin band maintained:** Margin expansion during the quarter was led by strong revenue growth and improvement in operational efficiencies. Going forward, in the second half, despite the negative impact of wage hikes and seasonality, margins are expected to remain in the targeted band.

NIIT technologies

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Results Update

NIIT Technologies — Neutral

Current Price INR 642 | **Target Price INR 600 | -7% Downside**

- **See strong deal wins ahead…:** NITEC cited expectations of closing at least two large deals in 3QFY18 on the back of 1 deal win each in the last two quarters. One of the deals is already in the contracting stage, lending greater visibility. The deals should have 50-100% net-new business. NITEC's greater aggression in sales and portfolio of offerings that span Digital SI (Incessant) and Automation (Tron framework) is showing in a strong pipeline.
- **…but softness in a couple of segments:** GIS business from a Government program will remain soft for a couple of quarters amid delay in procurement orders, but will be made up for in part by SI orders from other providers. Morris publications' acquisition by Gatehouse will impact the revenues from the JV by at least USD1m in 3Q, and the impact in future quarters remains uncertain for now. QoQ performance in NITL was steady, but growth in revenues and margins was a function of stronger GBP in our view. Incessant scaled up to INR730m from INR543m in 1Q, on the back of Rule-Tek integration and continued organic growth.
- **Weakness in Transportation should bottom out:** The ramp-down in Transportation client in EMEA should bottom out in 3QFY18, meaning some respite for the segment. BFSI continues to see push from Insurance. "Others" segment saw significant growth due to the role of acquisition, which also explained strong performance in North America this quarter.

- **Outlook of profitability expansion retained:** NITEC expanded margins by 50bp sequentially in this quarter and expects the trend to continue in the near future as well. Higher growth in Digital is accretive to its margins, which should compound the focus on lean organization structure and Automation across segments.

Persistent Systems — Buy

Current Price INR 649 | **Target Price INR 780 | 20% Upside**

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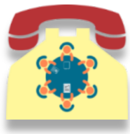

- **Digital to be a key growth driver:** During the quarter, growth was largely driven by the Enterprise segment as traction continued in Digital. As PSYS builds further on its products in association with USAA and Partners HealthCare, more action can be expected from the Digital segment. Moreover, the addition of Parx and the accounts associated with the acquisition open up opportunities for growth in Europe.
- **Margins managed by operational efficiency:** Growth in the quarter was largely driven onsite, even excluding the integration of Parx. Despite the headwind, margins expanded as utilization improved and costs were rationalized. In Digital, despite some deals getting pushed over to the next quarter, and the addition of people in the sales team, margins were maintained.
- **Growth to take care of wage hikes going forward:** Wage hikes would negatively impact profitability in 2H as PSYS announced a raise for junior employees in 3Q and seniors in 4Q. This would result in a sequential decline of 150-200bp in 3Q. However, strong growth in IBM-related revenue and the seasonal strength associated with it would be able to offset this pressure.
- **Strong outlook going forward:** Going forward, PSYS will continue its focus on Digital. The IBM business has the potential to grow in double-digits, led by its partnership on the Watson platform and the company is tracking well on this objective so far. Moreover, continued traction in Digital and scaling up of some recent partnerships would further boost growth.

Tata Consultancy Services — Neutral

Current Price INR2,705 | **Target Price INR 2,450 | -9% Downside**

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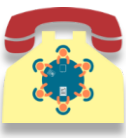

- **Robust growth in Digital:** Digital, now 19.7% of total revenue, continuedexhibiting strength, having grown by 5.9% QoQ CC and 31% YoY. Engagementshave been increasing in size, and multiple customers have been in discussionswith TCS, as they look to digitize their mid- and back-ends. A larger share ofspend is expected to move from small vendors to larger players like TCS in thisprocess. TCS is the preferred partner for several customers on their digitaljourneys.
- **Lack of visibility on BFS revival:** Overall growth has been bogged down byrelative weakness in the verticals of BFSI and Retail. In BFS, it is difficult to saywhen the situation will start to look upward. TCS will assess visibility in the nextquarter by when spending is likely to revive.
- **Bottomed out on Retail:** Retail has been a troubled area in recent quarters, andalso saw a decline in 2QFY18. However, TCS believes it has now bottomed outand should see improvement going forward. Confidence around revival comesfrom visibility on spending and investments by customers.
- **Margins managed well during the quarter:** EBIT margin for TCS expanded by170bp QoQ in 2QFY18. While 50bp of this was on account favorable

INRmovement against the GBP and EUR, 120bp was led by an improvement inoperational efficiencies and cost rationalization.

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Tech Mahindra — Buy

Current Price INR478 | **Target Price INR 560 | 17% Upside**

- **Pick-up expected in 2H:** 2H is strong for TECHM because of seasonality in the Communication business. This is expected to drive better performance going forward after posting flat revenue in 2Q. The Network business is now stable on the revenue front and shouldn't lead to any headwinds to hamper this trajectory.
- **Employee reduction as planned:** This was the second quarter of employee reduction for TECHM. As mentioned earlier, fresher's hired earlier got seeped into projects, and pyramid rationalization aided the absolute headcount reduction. This was also reflected in the sudden uptick in utilization during the quarter.
- **Struck an IP partnership…:** TECH got into an IP arrangement during the quarter in the area of virtualization and cloud management software. This would enable the company to tap new markets and growth levers for next-gen infrastructure workloads. Of the total consideration of USD140m, it has made a cash payment of USD35m in 2Q, and the remainder would be paid in 12 equal quarterly installments starting 3QFY18. This would then be amortized over a period of 10 years.
- **…Few details disclosed at the moment:** Revenue and profits from the deal would start getting consolidated 3QFY18 onwards. However, the company refrained from talking about the partner and other details around the deal. The approach around the deal can't be taken as a set strategy, and the company will individually assess deals as they come.
- **Several margin levers in hand:** Margins during the quarter were higher led by operational efficiency improvement. TECHM expects continued margin recovery going forward led by, [1] Improvement in LCC margins, [2] Improved utilization, [3] Pyramid rationalization because of the integration of fresher's in the system and [4] Increased thrust on Automation.

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Wipro — Neutral

Current Price INR295 | **Target Price INR 280 | -5% Downside**

- **Recovery seen in problem areas:** Over the past few quarters, WPRO has seen gradual improvement across its problem areas – first it was Energy & Utilities, and then the India & Middle East business. While Communications and Healthcare have been an issue in the recent past, it expects a bottoming out of both these verticals; and revival starting in 3Q and 4Q respectively.
- **Digital-led strength in BFSI:** Unlike peers, WPRO has been seeing strong traction in BFSI. Historically, this vertical has formed a lower proportion of overall revenue. Customers in the BFSI vertical have been adopting Digital at a faster pace, and at scale. That has been the primary growth driver for Wipro in BFSI across geographies.
- **3Q to be impacted by seasonality:** Although the company has been seeing strength in BFSI, stability in Consumer and E&U, and revival in Communications and Healthcare; it isn't being reflected in guidance as 3Q is likely to be negatively impacted by furloughs and a lower number of working days. Adjusted for seasonality, the company has been seeing a revival in operational performance.

- **Endeavor is to maintain margins (more or less):** 2Q margins were stable despite two months of wage hike as the company managed to pull its operational efficiency levers. For FY18E, WPRO's endeavor would be to maintain margins in a narrow band compared to FY17, on a constant currency basis. As revenue growth expectations get better, margin trajectory is also expected to go upward.

Zensar Tech — Buy

Current Price INR882 — **Target Price INR 1,020 | 16% Upside**

ZenSar TECHNOLOGIES

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Zensar Technologies

CMP: INR835 TP: INR1,020 (+22%) Buy

- The acquisitions of Keystone and Foolproof have been well integrated into the ZENT portfolio. It is now introducing these services across the client portfolio and has gained significant cross-sell opportunities.
- The Digital Commerce business has picked up again after several quarters of sluggish revenue in Oracle ATG. This business saw growth of 3.8% QoQ CC, led by new deal wins and a pick-up in offerings around custom built platforms. The ATG headwind is no longer existent for the company.
- Digital has been the main pivot for ZENT. Over the past couple of quarters, it has become a 100% digitally run company. New offerings around Return on Digital, Vinci, Digital Workplace and Zen Analytica have been gaining traction. Most of the recent deal wins too have been in Digital.
- The Infrastructure business was soft during the quarter because of Products and MVS. Cleaning up of the MVS business is expected to continue for a couple of more quarters. Significant investments have been made in Cloud, Vinci and the command center. The core services business grew by 12.8% QoQ CC, reflecting the success of these new offerings.
- Profitability during the quarter inched up, despite a negative impact of ~150bp from wage hikes. The headwinds were offset by an increase in operational efficiency and cost control.

While data volume growth has been buoyant, lower ARPU packs have pulled down pricing and revenues. The next 2-3 quarters may see high competitive intensity, but expect ARPU accretion, as RJio has taken four price actions since turning paid, signaling ARPU accretion, which has been hostage to competition. Bharti's capex intensity is likely to remain high in FY18 to continue 4G network rollout, even though capacity has far outstripped demand. Idea's capex intensity has reduced.

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY19	Margins	GST Impact & Commentary
Bharti Airtel	■ Post IUC and Jiophone launch impact in 2HFY18, webelieve ARPUs should improve from FY19. ■ Bharti's strong spectrum/datanetwork portfolio and data volume of meager 260m GB (i.e. less than 1/5th of RJio) indicate a huge scope to improve ARPUs through value-accretive offerings.	■ Consolidated EBITDA margin should decline 110/+88bp in FY18/19E to 35.9/36.8%, with India wireless margin decline of 640/+60bp to 33.8/34.3% over same period.	■ The 3% increase in GST rate from earlier 15% should be partly offset due to input credits. ■ In Africa, improving market condition is expected to support ARPU growth. ■ Capex guidance for FY18 has increased from INR200b to INR250b to boost 4gdata network coverage and capacity.
Idea Cellular	■ IDEA's change in strategy with data-heavybundled offerings (bridging pricing gap v/s peers) should allow it to protectmarket share and benefit from ongoing market consolidation ■ IUC impact should be INR3b on revenue over the next 2 quarters	■ Company is not proactive in dropping voice/data rates, but will follow the aggression by the no 1 player with the requisite discount and unlimited plans. ■ Management is trying to optimize cost to support margin and safeguard from the loss of revenue.	■ There was minimal impact of GST in current quarter. However in the coming quarters, 18% GST rate v/s earlier 15% should be partly offset due to input credits. Rest of the increase may have to be largely absorbed given that most of the consumers are prepaid subscribers and highly price sensitive.
Tata Communication	■ TCOM may facenear-term headwinds from ❖ a) TTSL sale to Airtel, which could risk a portion ofINR50-55m revenue exposure, ❖ b) likely TTSL's enterprise business acquisitionand its unknown contours, ❖ c) recovery of traditional segment revenue loss	■ Core EBITDA margin should decline 150/+230bpto 13.6/15.9% by FY18/19E.	■ Growth segment margin will improve steadily on the back of higher revenues and will reach single-digit margin in FY19, low teens inFY20. ■ Data segment margin should be 30% on stable-state basis, from current 16-17%. Maintain 5-7% data EBITDA growth guidance in FY18.

airtel

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BhartiAirtel — Buy

Current Price INR 493 | **Target Price INR 680 | 38% Upside**

Key takeaways: Focus on market share; capex guidance up

- Focus is to grab and maintain the higher share of high-ARPU subscribers. Keenlymonitoring market share of total 4g shipments, which is growingconsistently.
- In Africa, improving market condition is expected to support ARPU growth.EBITDAmargins are sustainable at current elevated levels.
- Capex guidance for FY18 has increased from INR200b to INR250b to boost 4g datanetwork coverage and capacity; however, this will be modular and taperover time.Spectrum acquisition is largely done.
- In two years, 75% of the customers will move to bundled plans in India. This maydrive consumption at higher ARPUs.
- Cut in IUC rate should impact 4% of consolidated EBITDA.
- 2QFY18 performance

Bharti Airtel

- Down-trading of subscribers to lower price plans has impacted ARPU.
- War on waste is high priority, resulting in rationalizing cost base.

Industry landscape

- Indian telecom sector saw dramatic price erosion in the last 12 months.
- Bundling offers and higher data demand is driving the market.
- In order to justify high investments, operators will have to improve ARPUs.
- Airtel has led consolidation of the sector. Acquisition of Tata Tele and Tikona will bolster spectrum and improve revenue market share.
- TRAI reduced IUC by 57%, which will impact the industry.
- Current value offering given to consumers is unsustainable. In the short term, competitive intensity continues unabated, but in the long term, will have toreduceofferings, which should improve ARPUs.
- Value players will continue to lose market share.
- FTTH is a sticky business. Unlike mobile wireless, where consumption shift is easythrough 2nd simcard, FTTH switch may be difficult unless there is a majorvalueproposition. Airtel is improving quality of service through V Fiber-basedimprovedspeeds and more offerings.
- In two years, 75% of the customers will move to bundled plans in India.

Company Outlook

- Focus is to grab and maintain high-ARPU subscribers.
- Management keenly monitors Airtel's market share of total 4g shipments, which isgrowing consistently.
- Providing more services to consumers through a.) offering payment bank, reaching20m accounts in just 9 months, b.) Airtel TV app reached in top 10apps, with 20mdownloads, c.) Among the top apps offering video/audioconsumption.
- Launched VOLTE services in Mumbai and Gujarat. Will be expanding it across the country. This will increase capacity and spectral efficiency.
- HD subscriber penetration in the DTH business is increasing.
- The IUC impact is at 4% of consolidated EBITDA.
- Bharti has sub ghz spectrum across major circles.
- VoLTE network will not have any opex savings, but offer better customer experienceas it would use both voice and data on same 4g network and alsoimprove spectralefficiency.
- Karbonn handset launch has seen very good response, but is out of stock. Workingon increasing inventory with the handset maker.
- Bharti spectrum portfolio is adequate. It is yet to fully lay down the spectrumacrossthe country. So, in the short term, need for spectrum will be lower.
- Market share in India is important from the point that leader makes disproportionate margin, but Bharti will need to balance it with profitability.

Africa Operations

- Underlying margin improvement has created sustainable cash flows.
- Supplementing the focus to only remain in countries with no 1or 2 ranking, the company merger with Ghana has received regulatory approval.
- In Africa, costs saving are due to restructuring of processes and cost base.
- Africa capex reduction is due to re-farming in 900mhz, 1800mhz. Africa capex will see a step-up in coming quarters.
- Africa improvement is on the back of better bundled, higher ARPUs offerings.

- Expect improving market condition to support industry growth. Margins are sustainable at current levels.

Balance Sheet/acquisition/Capex/Investments

- In the face of huge data upsurge from bundled and unlimited plans, capex guidancefor FY18 is increased from INR200b to 250b to expedite the 4g datanetworkcoverage and capacity.
- The increase in capex guidance is to support massive growth in data throughput. Investment is done in upgrading network, fiber backhaul and data capacityexpansion.
- Since the spectrum acquisition is largely done, bulk of the investment is overandnow investment requirement is modular that can be stepped up asrequired.
- Deploying massive MIMO technology, which will increase capacity 5-10x times andmove toward 5g technology.
- CCI approvals received for Telenor merger. The loss of revenues from Telenoracquisition will be lower due to the near-term closure of the deal. Tata Tele canseehigher dilution as it will take some time. Both the deals should be marginaccretive.
- Net debt to EBITDA of 2.9x is comfortable.
- The spectrum acquired from the recent acquisitions will support requirement forthe next two years.
- 3g network capex is negligible; may shut down 3g network in 3-4 years, much before2g shut down. Most of the new 3g BTS is fungible, but the older 3g BTS isnotcompatible to upgrade and will therefore require replacement of BTS.

Bharti Infratel — Neutral

Current Price INR 384 — **Target Price INR 440 | 15% Upside**

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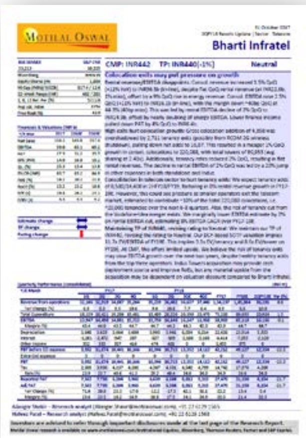

Key Takeaways

- Co-location was higher at gross level during the quarter, but large exit reporting by one operator impacted net adds.
- Average rental price will continue to be flat-to-slightly declining.
- Expect last five years' tower and tenancy growth of 2-3% and 5-6%, respectively, to continue for the next few years. Incremental growth could also come from small cell and in-building sites.
- No specific agreement with Indus toward increasing stake or any specific timelines. Will ensure leverage at comfortable level. Indus stake above 51% will save dividend distribution tax on dividend receipts from Indus.

Current Quarter performance

- Co-location was higher at gross level during the quarter, but large exit reporting by one operator impacted net adds. Conservatively, Bharti Infratel has accounted all these sites including that of one operator which were shutdown as exits, even though it has not received any official intimation on exits of all the sites.
- Currently witnessing RJio ramping coverage and incumbents expanding data coverage through loading on existing sites.
- The capex includes a) tower capex, b) tenancy increase-related capex and c) other maintenance capex.
- Increase in receivables is in line with March'17 numbers and not worrisome.

Industry scenario

- RJio's entry has accelerated consolidation. In the last 1-2 years, we have seen the following announcements: Vodafone-Idea merger, Videocon, Telenor, Tata Tele exit, MTS merger with RCOM, RCOM 2G operations shutdown, and RCOM-Aircel merger being called off.
- This only leaves three privately owned large telecom operators, government operator and Aircel.
- Operators finalizing rollout plans in multiple bands, and monsoon has slowed gross additions. Data traffic will continue to accelerate due to high offerings from telecom companies and high video/live TV streaming, banking, health and othercontent.
- Operators are announcing much higher capex and data network rollouts willcontinue at a fast pace, enhancing opportunity.
- Consolidation in tower companies is happening. This opens avenues to explorenewinvestment opportunities for bigger tower companies.
- Smart cities – Earlier expected a lot more and faster development on smart city,buthave seen slow growth. The smart city model is getting settled, and it isdifficult topredict the potential revenue, as it depends on the size/portion ofthe projectallocated toward smart cities.
- The company is constantly working with operators to reduce opex throughlowerfuel cost, lower DG sets usage, and others operating costs.
- Small cells and in-building site trials are done. However, currently, widespreadgapsin macro site coverage are the key target of operators.

Company growth outlook

- On smart cities, Indus has won bids for smart cities in Vadodara and New Delhi.Bharti Infratel is working on Bhopal Smart cities.
- Energy margin to remain in the range of 4-6%. Quarterly fluctuation is due totheseasonality factor.
- Average rental price will continue to be flat-to-slightly declining.
- In the coming years, tower growth should be high, but expect all operators tocomeas tenants on them to match competitor's network coverage, so tenancyratesshould remain high.
- Tower build out was lower in last 2-3 years, as incumbents were using loading,which is low-hanging opportunity to ramp-up coverage. Incrementally highertoweradds will not significantly increase capex, as co-location capex will beshifted towardtower capex.
- Current year capex will be similar to last year.
- Expect last five years' tower and tenancy growth of 2-3% and 5-6%, respectively,tocontinue for the next few years. Incremental growth could also come fromsmall celland in-building sites.

Balance sheet/capex/acquisition

- No specific agreement with Indus towards stake increase or any specifictimelines.Management will ensure to keep leverage at comfortable level. Theresolution doesnot include Idea and Vodafone tower acquisition.
- Increase in Indus stake above 51% will save dividend distribution tax on theIndusDividend receipts to Bharti Infratel. However, Indus acquisition may notbring costsynergies as both operate in mutually exclusive areas.

Idea Cellular — Buy

Current Price INR 101 | **Target Price INR 110 | 9% Upside**

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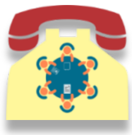


Idea Cellular

Key takeaways from the concall

- Idea's loss of 7m subscribers in the last six months can be attributed to theimpactof the gap in Idea's high ARPU offers compared to peers.
- From Oct-end, Idea changed its strategy from earlier restricting unlimitedbundledofferings to only 4G subscribers, to now also offering mass marketunlimited plans. This should be ARPU-accretive.
- Idea has sufficient capacity to manage large voice and data consumption. It isprepared to accommodate 40% of broadband subscribers compared to less than20% currently.
- IUC impact should be INR3b on revenue over the next 2 quarters.
- Capex guidance is maintained at INR60-65b; engaged with Vodafone for activeinfrasharing and ICR to manage data capacity.

Performance for the quarter

- Idea's loss of 7m subscribers in the last six months is due to the impact of itspricearbitrage compared to peers.
- In 1HFY18, Idea's bundled voice and data offerings were at higher pricingcomparedto the market.
- In the last few quarters, the impact on revenue is due to downtrading.
- Revenue decline in 2QFY18 above market leader is due to Idea being lessaggressivein the market in 2QFY18 compared to previous quarters, as the focuswas high onchannel cost reduction.
- Revenue was also impacted by other operators offering a higher proportion ofbundled pricing plans.
- In 1QFY18 network cost was high due to one-offs and energy-related networkcostoptimization. Additionally, there are some write-backs that may continue.
- Currently witnessing porting from subscribers of RCom and Tata Tele, while portoutto RJio is insignificant.

Tower Sale

- Sold 100% stake sale in the tower business to ATC at INR78.5b in all-cashtransaction. This is after adjusting 6,300 tenancy due to merger. This will lead tosignificant saving of INR50,000 operating cost/tower.
- Idea will receive INR40b and Vodafone will receive INR38.5b if the dealconcludesbefore the merger. This deal will not change the contours of themerger.
- The deal is valued at 13.5x EV/EBITDA after adjusting for the tenancy cuts.
- Idea towers have 1.8 tenancy ratio, with revenue of INR5,565m (includingenergy)and EBITDA of INR1939m.
- There should be no tax outgo due to the sale of tower business.

Industry Landscape

- Expect India's telecom share of GDP to reach 3% v/s 1-1.5% of GDP currently.
- India remains a big market for data growth with key indicators like a.) More than200m Facebook and Whatsapp users, b.) World's 2nd largest smartphone marketand c.) 7x growth in online shoppers to 80-90m users.
- Even though currently the market is severely impacted by rising competitive intensity, the future appears promising.
- Both voice and data consumption v/s subscriber has grown exponentially.

- India has become the highest data consumption market.
- India being a prepaid market has no cost of switching subscription due to which thesubscribers churn is high. As Idea's network improves, it should be able torecoverthe lost subscriber market share.
- Data volume growth in the telecom market will offset the price declines which should be ARPU-accretive overall.
- 17 out of 19 circles should hold 900mhz spectrum post the merger withVodafone.
- Market is now moving to subscriber retention through unlimited plans, as subscribers have to invest in handset and other factors. This can reduce churnandhave significant savings in channel and SG&A cost.

Business outlook

- Idea has 30m mobile broadband users, with just 16% users compared to 100m smartphone subscribers.
- Reduction in gap between Idea's data pricing v/s peers should accelerate data subscriber penetration.
- From Oct-end, Idea has changed its strategy from earlier restricting unlimitedbundled offerings to only 4D subscribers, to now also offering mass market
- unlimited plans.
- Idea is bridging the gap between its pricing and more aggressive operators like RJioand Bharti.
- Low category smartphones contribute 10% of overall smartphones due to itsweakdata experience, albeit healthy voice experience.
- Since Oct have witnessed early signs of improvement.
- Benefits of consolidation are contributing to growth, including RCOM and TataTeleexit.
- RJio's price actions are also benefiting growth, and consumers are also shifting tohigher price bundled plans.
- From Oct, management has started correcting the gap in pricing, which has reducedsignificantly. This should improve data consumption and increase Idea'sbroadbandsubscriber penetration, from currently below 20% to over 40%. Thisshould beARPU-accretive.
- Idea has launched INR179 plan with mass marketing. Idea has sufficient capacity tomanage large voice and data consumption. It is prepared to accommodate40% ofsubscribers for data consumption. The reduction of IUC will also supportloweroffnet voice cost on unlimited plans.
- Expect INR179 price plans should be ARPU-accretive. There should be someportionof downtrading, but subscriber up-trading should outpace it.
- IUC fall will impact ARPUs in next two quarters, but market repair process has started and now subscribers have started buying higher-ARPU price plans.Reversalof ARPUs should start from 4QFY18.
- Idea is very hopeful that it will be able to recover the loss of subscribers seen in thelast 2 quarters and then should see beginning of growth in 4QFY18.
- The synergy post the merger with Vodafone will be a key driver to profitability.
- 55% of subscribers are using smartphone but only 16% are using broadband. Management is focusing to increase this share of data consumption.
- IUC impact should be INR3b over the next 2 quarters.
- Dep of tower business is INR760m.

- Currently focusing on enterprise broadband with healthy growth in MPLS andothers. Management has decided on consumer broadband business.

Capex/Debt/Network

- Idea has been significantly expanding broadband cell sites. The planneddeploymentof Idea/Vodafone spectrum in 2300/2500mhz (which should drivecapacity in keymarkets) is also on track.
- Undergoing premerger capex synergies of active infra sharing.
- Net debt stands at INR540.5b.
- The capex guidance is maintained at INR60-65b.
- Additionally engaged with Vodafone for active infra sharing to manage datacapacity. 5000 sites identified each by Vodafone and Idea to get into ICRarrangements to improve capacity.
- The capex/site of peers is significantly higher, which could be due toinvestmentsbeyond mobility.
- Idea's 4g footprint is 47% of national average; it continues to expand coverage.
- Idea has three options to increase capacity beyond capex spends: (i) Active infrasharing and (ii) ICR with Vodafone – these are adopted by management; the 3rdoption – spectrum sharing – is time-consuming/costly, and therefore notadopted.
- Idea has completed work of ICR and active infra sharing; also preparing forpostmergernetwork synergies to quickly get the benefits of complementary networkand spectrum usage.
- Post-merger, it will focus on 900mhz/1800mhz carrier reframing to improveindoorcoverage and data capacity expansion.
- Currently management remains of the opinion that it will keep at least onecarrieron 3G to utilize it for voice.
- Majority of the capex will be on 4G, including cell sites and fiber. However, willnotbe spending on 2G equipment.
- Going forward, broadband site addition should not see major increase in opex.Majority of the 4g cost for telecoms is below EBITDA coming from spectrum, fiber,backend network.

TATA COMMUNICATIONS

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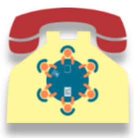

Tata Communications — Buy

Current Price INR 705 | **Target Price INR 780 | 11% Upside**

Key Takeaways

- TCOM has expanded beyond traditional enterprise services unlike peers, whichallows it to stay ahead of competition.
- Growth segment margin will improve steadily on the back of higher revenues (16%QoQ in 2QFY18). It will reach single-digit margin in FY19, low teens inFY20 v/s -10%in 2QFY18.
- Data segment margin should be 30% on stable-state basis, from current 16-17%.Maintain 5-7% data EBITDA growth guidance in FY18.
- Total sales exposure from Tata Teleservices is USD50-55m. In the comingquarter,additional impact could be there, depending on change of dealstructured withAirtel.

Current quarter performance

- Recent wins in transformation segment at higher margin should compensate theloss of Tata Tele revenues loss.


Tata Communications

CMP: INR678 TP: INR780 (+15%) Buy

- Improvement of 150bp in Voice business EBITDA margin is due to recovery of outstanding from customers.
- Earnings were impacted due to high one-off churn in traditional segment and higheroperating costs related to business transformation cost. However, thistemporary innature and should correct in due course.
- Added 96 new customers during the last quarter. Product/customer has improvedfrom 3.7 to 4.7 as on date.
- Growth services EBITDA loss is coming down on high revenue growth.
- ATM segment is operating with transactions at 90% of pre-demonetization level, while cash handling is at 45%.
- Depreciation is higher by INR390m due to one-time accelerated depreciation international assets.
- Operating cost is flat on QoQ basis, which indicates management’s focus on optimizing the cost structure.
- Few portfolios of growth segment are close to EBITDA neutral in 2QFY18.

Tata Teleservices impact

- Recognized loss of INR5.16b in other comprehensive income toward TataTeleservices with an investment value of zero in the balance sheet.
- Impact of Tata Teleservices’ loss of business is USD1m on EBITDA in 2QFY18.
- It will take 2-3 quarters to recoup the loss of business toward Tata Teleservices. Overtime, EBITDA accretion will be higher.
- Total sales exposure of Tata Teleservices is USD50-55m. In the coming quarter, additional impact could be based on the any change on how the deal isstructuredwith Airtel.

Industry, competitive position

- TCOM has expanded beyond traditional enterprise services unlike peers whichallows it to stay ahead of competition.
- In India’s telecom consolidation, management focus is to gain size and create avenues for growth.

Outlook

- Traditional segments like signaling are slowing down; however, growth inEthernet –13%, ILL - 10%, VPN - 9% and NPL - 6% is higher than market growthandmanagement growth expectation of 5-7%, which should drive traditionalsegmentgrowth.
- Growth services portfolio has complementary products, and provides strongcross-selling opportunity. High gross revenues growth will also flow to netrevenues withimprovement in mix of services and scale.
- Land transfer issue is in final leg, and management will file the scheme of mergersoon with NCLT.
- Traditional segment should reach normalized 29-30% EBITDA margin over time.
- Expect the new products in the growth segment to turn EBITDA positive in a few quarters.
- Normalized voice EBITDA margin should be at 6-6.2% v/s 7.2% in 3QFY18.
- Growth services portfolio will show improvement in EBITDA margin on the backofhigher revenue scale.
- The quarterly run-rate of business transformation cost is USD5m, which will continue in the ensuing quarters.
- Will see margin expansion due to cost optimization and higher scale of growthservices.

- Maintain 5-7% data EBITDA growth guidance in FY18.
- Directionally Data segment margin of 30% is maintained.
- Growth segment margin will improve steadily and will reach single-digit margin nextyear – FY19 and will reach low-teens margin in the following year – FY20.
- Net debt to EBITDA of 3.5-3.7x is comfortable if there is any acquisition, else will keep net debt to EBITDA of less than 3x on long-term basis.
- Not looking at IOT services for retail, but only business applications. Focus is onIndustrial applications like smart metering, smart lighting, industrial safety,smartcities.
- There will be impact toward debtors in the voice segment due to the winding up oftelecom operators. But voice outbound voice traffic is limited and thereforemay notsee a big revenue impact.

UTILITIES

Overall, electricity demand is expected to improve, driven by measures like UDAY and focus on 'Make in India' and 'Power for All'. Electricity demand growth was relatively strong in 2Q. Spot power prices were higher in 2Q due to domestic coal shortage, but are likely to normalize soon, as coal supply improves. There is no visibility on long-term PPAs; however, companies are evaluating opportunities in short-term and medium-term contracts. Power Grid is positive on future growth opportunities from solar, wind and opening up of the intra-state transmission network. NTPC expects a pick-up in project execution.

JSW Energy Limited

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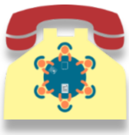

JSW Energy — Sell

Current Price INR 81 | **Target Price INR 51 | -37% Downside**

- LTPPA proportion at ~65% in 2QFY18 – secured group captive contract of 4MW at Ratnagiri.
- Net debt reduced by INR1,705cr in H1FY18; after adjusting for JPVL liability, cost of debt dips by 84bp from Q4FY17.
- Proactive working capital management: Reduction in consolidated debtors by ~INR570cr over 4QFY17.
- Reduction in cost of debt to 9.33%.
- Operational efficiency measures drive savings in O&M costs.
- In HBPCL: Long-term PPAs for both Haryana (176MW) and Punjab (200MW) recommended to respective state regulators for approval; regulatory approval under process.

Update on EV Business

- MoU signed with Gujarat State Govt. to set up manufacturing facilities for electric car and battery.
- Planning to set up project SPV for the business.

Other Updates

- New thermal generation capacity of 36MW to be set up with long-term PPA tie-up (2 Units in Nandyal and Salboni).
- Building capability in the renewable energy space.
- Secured INR600cr line of credit at attractive interest rate from SBI in partnership with World Bank for funding rooftop solar power projects.

Allcargo Logistics — Buy

Current Price INR169 | **Target Price INR 215 | 27% Upside**

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- CFS volumes declined 6% YoY, led by a decline in volumes in JNPT and Chennai.
- MTO business grew 12% YoY due to a pick-up in global trade. Growth would havebeen higher had there been no impact of hurricane in the US, which is amajorcontributor for MTO global volume.
- Margin in CFS was impacted due to lower dwell time.
- Necessary approvals for Kolkata CFS are in place, and should get operational in next3-4 weeks.
- Approvals for rail connectivity at Jhajjar are expected in next one month.
- Profitability for CFS business should improve in 2HFY18 with the commencement ofKolkata CFS and lease arrangement expiring for CWCMundra.
- Crane segment has seen a decline in asset utilization due to lower capex in windsector, which is one of the clients for the crane hiring segment.
- Order book is healthy for project business at INR1.6b, led by a pick-up in capex cycle.
- Revenue for contract logistic stood at INR1.98b for 1HFY18 v/s INR3b for FY17,ledby contributions from sectors like chemical, pharma and retail segment.
- Tax rate was lower in 2QFY18 on account of MAT credit.

BSE — Neutral

Current Price INR 962 | **Target Price INR 1,100 | 14% Upside**

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- **Signed partnership with Ebix for insurance distribution:** BSE and world's largest insurance exchange Ebix signed a MoU to set up a JV to develop an insurance distribution network in India with the goal of revolutionizing end-to-end sales and processing of Insurance in the country. Growth would be driven by leveraging of Ebix technology and distribution network of both entities to create a niche market covering the entire insurance life cycle.
- **Deployment of BEST trading platform:** Volume pick-up encouraging: BSE and Thomson Reuters signed a MoU to deploy BEST (BSE Electronic Smart Trader), a robust, state-of-the-art hosted trading solution built on Thomson Reuters Omnesys NEST platform, for BSE members and customers. It will supplement the existing order routing platform to provide a single trading platform for all stock and commodity exchanges. Deployment of the platform is expected to commence in November 2017.
- **Revising prices where feasible:** BSE has undertaken initiatives to revise annual listing fees and transaction charges in currency derivatives over the past couple of years. The process is likely to continue to bring fees in line with market and explore possibilities of differential incremental pricing from time to time.

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Castrol — Buy

Current Price INR 393 | **Target Price INR 467 | 19% Upside**

- CSTRL's 3QCY17 total volumes were up 7.5% YoY, led by double-digit volumegrowthin PCMO segment (~45% volume share) and recovery in CVO segment(~40% volumeshare). Industrial segment faced some headwinds.
- Management has passed on the full benefit of GST to customers and alsosupporteddistributors and channel partners to transition smoothly to the GSTregime.
- The company took a 2-3% price hike in May 2017, which has resulted in betterrealization for the quarter.
- Management has recommended issue of bonus shares by capitalization of freereserves in the ratio of 1:1.

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CEAT — Buy

Current Price INR 1,777 | **Target Price INR 2,116 | 19% Upside**

- Growth in exports was muted on account of currency appreciation, foreign currencyunavailability in Egypt, and political unrest in Kenya and Indonesia.
- The company launched fuel smart and Milaze X3 tires for the passenger car segment, providing the unique proposition of improved mileage.
- The company witnessed a decline in other expenses on account of continued controlon discretionary expenses.
- The company has started testing of products at the Ambernath plant. The plantisexpected to have initial capacity of 40 tonne per day, with an eventual aim toreacha capacity of 100 tonne per day.
- The company holds ~10% market share in the passenger car segment. It faceddifficulty to increase engagement with OEMs on account of limited capacity;however, now with the ramp-up at the Halol plant, the engagement haswitnessedtraction, which is expected to boost the market share further.
- The company is setting up passenger car tire facility in Chennai, with capacity of150tonne per day, at an investment of INR12b, which is expected to getcommissionedby 1QFY20.

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Container Corp — Neutral

Current Price INR 1,363 | **Target Price INR 1,496 | 10% Upside**

On 2QFY18 results

- CCRI witnessed 13% YoY growth in domestic volumes and 11% YoY growth in EXIMvolumes.
- **Market share gains:** CCRI has gained market share on overall basis from ~72% in 1QFY18 to 73.32% in 2QFY18. It continues to enjoy leadership position at JNPT.Ithas a market share of 83% in JNPT, 50.5% (marginally lower QoQ) in Mundra,and54.5% in Pipavav.
- **Double-stacking volumes increased ~1.4x YoY:** The double-stack running trains increased to 1,089 in 1HFY18 from 447 in 1HFY18. Double stack accounts for10% ofthe volumes handled by CCRI.
- **Kathuwas terminal:** The originating volumes at Kathuwas terminal are 2,000-2,500TEU per month.

- **QoQ margins flat, adjusted for one-off income:** There was a one-time income of INR400m in 1QFY18, adjusted for which margins in EXIM segment are 20%.
- **Reduction in empty running charges:** Empty running charges in EXIM segmentdeclined 20% QoQ to INR313m v/s INR395m in 1QFY18 despite higher tradeimbalance. This was due to increase in double stacking.
- **Lower tax rate in 2QFY18:** Tax rate in 2QFY18 was lower at 20.5% versus 27.4% in2QFY17 due to accounting policy changes in section 43 and 80IA benefits.
- **Capex:** Management has guided capex of INR10b for FY18, and expects annual capexof INR10b. Primary capex would be toward MMLPs, and CCRI has decidedto startwork on 12 more MMLPs. It is likely to commence 7 MMLPs in FY18.

Delta Corp — Buy

Current Price INR262 — **Target Price INR 257**

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- The company witnessed 1.5-2% impact because of the GST, with the tax standing at 28% post GST.
- The quarter witnessed outflow of INR20m, which was paid under protest as differential fee for license.
- The company is witnessing a healthy run-rate of INR100-110m in online gaming. Going at this pace, revenue of INR1,000m+ is expected in FY18 in online gaming, with the potential in online gaming being much higher than offline, as witnessed in poker.
- The company is ready with the software and platform of fantasy league. The beta testing is expected to commence from January, with a view to keep it user ready before the launch of IPL.
- The company expects significant synergy by being the only company offering all three online games – poker, rummy and fantasy league – under same platform.
- The company has identified land parcels in Goa for shifting onshore casinos to land, and due diligence phase is expected to commence once the policy framework is released.
- 1HFY18 witnessed subdued performance from Sikkim casino because of Doklam issue and Gorkha land issue. However, with Doklam issue getting resolved and new airport expected to commence in November, Sikkim casinos are expected to witness increased traction.
- The company has tied up with Marriott hotel coming up in Kathmandu to lease-out space for setting up casino. The company expects to commence its operations in FY19 in Nepal with investment of INR50m.
- No foreigner allowed to set up online gaming in India. Indians can't use their bank account and cards to gamble on any foreign website, it is banned.
- The shifting of casinos on land in Goa is expected to significantly benefit thecompany. The overall area of casinos in Goa is expected to increase from 45,000 sqftto 3.5lac sqft and the total number of tables is expected to increase from 180-200 to~800.

MOTILAL OSWAL

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Gateway Distriparks

Gateway Distriparks — Buy

Current Price INR 260 | **Target Price INR 282 | 8% Upside**

Rail Division

- Volumes increased 11% YoY, led by market share gains of 180bp in NCR region, ledby ramp-up of the Faridabad terminal. However, there was market shareloss inLudhiana market due to heightened competitive intensity.
- EBITDA/TEU increased 24% QoQ to INR6,119, led by better volumes and haulage charges savings due to the commencement of the Viramgam terminal, resultinginhigher leads for double-stacking for container movement to JNPT.
- Management expects haulage savings of ~2% due to the ramp-up of the Viramgamterminal.
- GRFL has taken price hikes to the extent of INR700-1,000/TEU on import side effective 21st October, which should result in better margins in 2HFY18.
- Imbalance in trade continues to remain elevated, with some relief in the month ofOctober.

CFS business takeaways

- CFS volumes increased 6% QoQ with growth coming from new CFS at the Krishnapatnam port.
- Krishnapatnam CFS has broken even at the EBITDA level for 2QFY18, with lossesatPAT level.
- Margins on volumes handled under direct port delivery at the CFS are about 10%lower than non-DPD volumes handled at CFS.

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Indo Count Industries

Indo Count Inds — Neutral

Current Price INR 128 | **Target Price INR 128**

- Various policy changes by GoI impacted the sector performance. Duty drawback ratehas been revised from 7.5% to 2%, and ROSL has been revised to 1.55% from 3.9%,which is expected to result in margin erosion of 2-2.5%.
- India’s market share in exports to the US has increased from 49% to 51% in bed linen,and Indo Count continues to gain market share in overall bed line via new productofferings and adding new customers.
- The company recorded volume of 14m meters in 2QFY18 v/s 12m mtrs in 1QFY18. Theguidance for FY18 volume remains flat.
- Cotton prices have started correcting, with cotton now at INR38,000/candy compared to INR42,000/candy in the previous procurement cycle. The benefit ofreduced cotton prices is expected to be reflected from 4QFY18.
- Institutional and fashion bedding has been on the rising trend, with its contributionto overall revenues increasing to 13% in 1HFY18 from ~10% in 1HFY17. The companyexpects to clock revenue contribution from this vertical of over 20% by FY20.
- The company expects to invest ~INR3b in weaving in specialized looms to bolstergrowth in fashion bedding.

MOTILAL OSWAL

INFO EDGE

Info Edge — Buy

Current Price INR1,199 | **Target Price INR 1,300 | 8% Upside**

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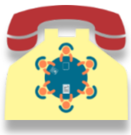


Info Edge India

99acres.com

- The real estate market continues to remain weak, led by poor sales of new homes,slow pace of construction and lower new projects.
- In addition to this weakness uncertainty around RERA had been resulting in rationalization of spend so far. This was a function of confusion around RERA,notknowing if old projects can be advertised, and waiting of new projects forapprovals.
- However, with most states acting fast on RERA, clarity is emerging in themarket,and the state of key markets is expected to improve over next twoquarters.
- That said, the underlying market situation has been unchanged. The changing mix ofdemand, however, can throw out opportunities going forward. Whileluxury homesales have been at an all-time low, demand on affordable housinghas beenencouraging.
- Competitive intensity in the real estate space has moderated and that has resultedin a consistent decline in advertising and marketing spends. Despite thedecline inspend, INFOE was able to maintain its traffic share.

Naukri.com

- Growth in Naukri.com was lower during the quarter because of higher sale of long-term subscriptions and growth being skewed towards the end of thequarter. Whilethese indicate a positive turn to market conditions, this will getascertained in3QFY18.
- Earlier through the year, INFO saw pressures in the Recruitment businessbecause ofa slowdown in hiring in IT services.In the IT space (40% of total recruitmentrevenue), Naukri caters to captives,domestic IT companies, export-orientedproviders and internet companies.While the export-driven companies have sloweddown, growth is being seen incaptives and in internet companies.
- Market share in Naukri.com is currently trending in the mid-70s. However,includingIndeed.com, this metric would be at 60%. There has been a shift in themarket infavor of Indeed as they have been advertising aggressively.
- The management indicated intent to increase marketing spends in Naukri.com.Ithas been working on a TV campaign that is expected to show-up in the comingmonths. Although ad spend will be ramped up, the margin impact will be afunctionof the resultant revenue growth.

Others

- Zomato is currently at the juncture of a choice between breaking even and raisingmore capital. A decision will have to be made around how fast it intendsto investand grow in the online ordering space.
- Policybazaar has been seeing a change in outlook for the better. Recentregulatorychanges have benefited the business. At the same time, competitionhas faded awayand the company enjoys a dominant share.

IndiGo

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InterGlobe Aviation

Interglobe Aviation — Neutral

Current Price INR1,172 | **Target Price INR 1,291 | 10% Upside**

2QFY18 performance

- INDIGO's RASK for the quarter stood at INR3.50 (+12% YoY), driven by anincrease inload factors and yields. PLFs were up 179bp to 84%, and ticket yieldswere up by 9%to INR3.57.
- Management highlighted that profitability was favorably impacted by better revenue management and credits received from manufacturers related toaircraftgrounding and delivery delays.
- Management has booked part of the credits received from manufacturers on revenue side and part on cost side.
- Fuel cost per ASK was lower at INR1.11 (-4% YoY, -7% QoQ), despite an increaseinATF prices during the same period.
- CASK excluding fuel stood at INR1.89 (+3% YoY) and total CASK stood at INR3 (flatYoY) led by lower fuel cost per ASK.

Launch of turboprop operations by the end of December 2017

- INDIGO will begin its ATR operations starting 21st December 2017. ATRs willoperateon its existing network of Hyderabad, Chennai, Bengaluru, Mangalore,Madurai andNagpur, and three new cities of Tirupati, Rajahmundry andVijaywada.
- Management had placed an order of 50 ATR 72-600 aircraft with the flexibilitytoreduce the number of aircraft deliveries. It plans to purchase aircraft withinternalaccruals and fund raised recently through FPO.
- The company also expects to induct up to 7 ATR aircraft by March 2018 and 21 ATRaircraft by December 2018.

14% ASK guidance for 3QFY18

- Management expects ASK addition to increase by 14% YoY in 3QFY18 and 19% inFY18.
- It had added six aircraft during the quarter, and had fleet of 141 aircraft,including24 A320Neos as of 30 September 2017.

Other highlights

- Management has stopped reporting cash incentives received on account lease rentals.
- For the quarter, the company had a Technical Dispatch Reliability of 99.84%, on-timeperformance of 87% at four key metros, and average flight cancellationsrate of0.37%.
- It had total cash balance of INR129.3b, comprising INR76b of free cash and INR53bof restricted cash; total debt stood at INR25.4b as of 30 September2017. The entiredebt for IndiGo is aircraft-related. It does not have any workingcapital debt.

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Kaveri Seed — Buy

Current Price INR 542 — **Target Price INR 738 | 36% Upside**

- Commodity prices are witnessing lower levels as compared to last year. Yetcottonremains the most profitable crop for farmers.
- The quarter has been challenging for maize, soybean and other short duration cropson account of dry spell in the month of August.
- The late withdrawal of monsoon has led to soil moisture build-up, which will aidmaize acreage in Rabi season.
- The company launched two new cotton hybrids and two more are under demonstration. Three new hybrids for maize launched in Kharif, two more to belaunched in Rabi and another two are under demonstration.
- One new hybrid launched in hybrid rice and four new products launched in selectionrice, with KPH468 witnessing 13x growth. One new hybrid in hybridrice and twonew products in selection rice under demonstration.
- The company is in the process to evaluate acquisition of land for R&D purpose.Going forward, the company plans to increase its focus on R&D by investing ~4%ofnet sales (up from 2% in FY17) to have a better pipeline of products.

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MCX — Buy

Current Price INR 972 — **Target Price INR 1,300 | 34% Upside**

- **Faster pace of reforms:** The quarter has seen multiple developments on theregulatory front, which augers well for MCX. The SEBI cleared the launch ofOptions,MCX developed several commodity-related indices, AIFs were allowedto takeexposure in commodities, and there was an appeal made to allow bankstodistribute commodity products and allow clearing services.
- **Volumes pick-up encouraging:** Volumes have been subdued postdemonetizationand GST. However, 2Q saw a sequential increase in volumes,which was anencouraging sign. While Bullion is still not at the levels seen pre-demonetization,anuptick in base metals has been providing support.
- **Not charging on Options:** MCX will launch Options on 1kg Gold futures on 17October 2017. It expects approvals for the rest of the Options to come in by theendof the financial year. The focus for MCX will be on increasing participationandlaunching a suite of products. It hence won't be charging anything onOptions in thebeginning.
- **Positive on the contribution of Options:** While only one contract would beallowedon Options in the beginning, roughly nine contracts would be tradednext year. MCXexpects 20-25% of total volume to be added by the full-fledgedlaunch of Options ina span of 2-3 years.
- **Keen on currencies:** Once exchanges are allowed to trade other asset classes,MCXwould be keen on making an entry into currencies. It may also look atothersegments, but will take call only once an announcement comes fromthe SEBI.

Click below for
Detailed Concall Transcript &
Results Update

PI Industries — Buy

Current Price INR 825 | **Target Price INR 890 | 8% Upside**

- The company launched three new-generation fungicides in 1HFY18, and two more are expected in 2H. The new launches are in segments where the company has limited presence. Thus, significant traction is expected.
- Growth in FY18 is expected to be back-ended, with majority of growth coming in 2HFY18, riding on the back of a global agri chemical recovery.
- The company is also commercializing three major projects in 2HFY18 for exports, the revenue uptake for which will happen by FY19.
- CSM order book continues to remain strong at USD1b. With global inventory levels falling across products, the visibility of off-take has enhanced.
- The company is witnessing increased generic pressure on nominee gold. 24 generic products have entered the market; however, the company has so far maintained its market share while taking marginal price erosion. Going forward, the company expects steady growth from domestic market, inspite of pressure on nominee gold.
- The global agri chemical cycle is expected to revive by end-CY18, with the company already witnessing indications in terms of ordering, offtake and enquiries.

Click below for
Results Update

Quess Corp — Buy

Current Price INR 866 | **Target Price INR 1,040 | 20% Upside**

- **Strong growth in the General Staffing business:** During the quarter, growth in People & Services bumped up to 17% YoY, from 9% YoY in the previous quarter. The strength was driven by a pick-up in the general staffing business. While the past few quarters were driven by the verticals of Telecom and Retail; the company is now seeing increased traction in BFSI and Manufacturing. Moreover, GST continues to act as a tailwind.
- **Single digit growth in GTS (ex. Comtel):** Excluding Comtel, growth in GTS has been in high single digits. Lower-than-company growth has been a function of higher proportion of international business, profitability focus in Brainhunter and MFX, and pressure in the IT staffing business catering to Indian technology service providers.
- **Acquisitions to boost IFM growth:** The acquisitions of Manipal Integrated Services and Terrier Security are expected to get integrated next quarter onwards, when necessary approvals come into place. This would increase the composition of IFM in overall revenue.
- **Acquired Vedang Cellular Services:** Quess Corp announced the acquisition of Vedang Cellular Services, which is amongst the top 5 players in the Telecom Network Optimization space. The acquisition complements Quess' existing capabilities of Telecom Network O&M. The company is one of the largest vendors in its space and serves key OEMs and Telcos.

MOTILAL OSWAL

TeamLease™ Putting India to work

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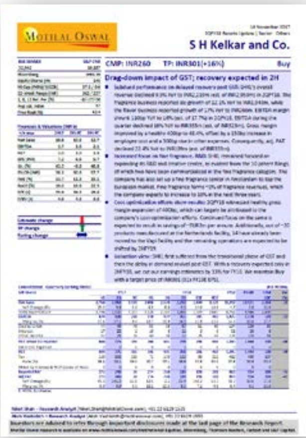
TeamLease Services — Buy

Current Price INR 1,854 | **Target Price INR 2,300 | 24% Upside**

- **GST still more inward looking:** The positive impact of GST on formalization hasn't started playing out yet as customers move their focus on sorting out their operations and systems. This is resulting in a temporary weakness in hiring, which reflected in 2Q performance; and is expected to show itself in 3Q as well.
- **Focusing on verticalization:** TEAM's focus on verticalization has been playing out in the focus of acquisitions. While the three acquisitions in the last year added capabilities in IT staffing, this quarter's acquisition of Evolve added presence in the Telecom vertical. The promoter of Evolve is expected to stay for a year to make sure the transition is smooth and seamless.
- **Invested in Schoolguru:** Schoolguru is a technology platform that enables universities to deliver content to students. This would complement TEAM's training business, which is spread across NETAP, the Skills University and its other training business.
- **Profitability improvement levers in place:** Profitability for the company continues to be driven by [1] Higher productivity led by a higher associate/core employee ratio, [2] Higher pricing on new contracts through the provision of value added services, and [3] Pruning of customers with a low-yield.
- **Temporary issue in Other HR Services:** Other HR Services saw a loss in the quarter; however, this is an aberration, led by delayed collections. There have been no additional costs or investments in the business, and it should bounce back to profitability 3Q onwards.

Keva

Click below for Detailed Concall Transcript & Results Update

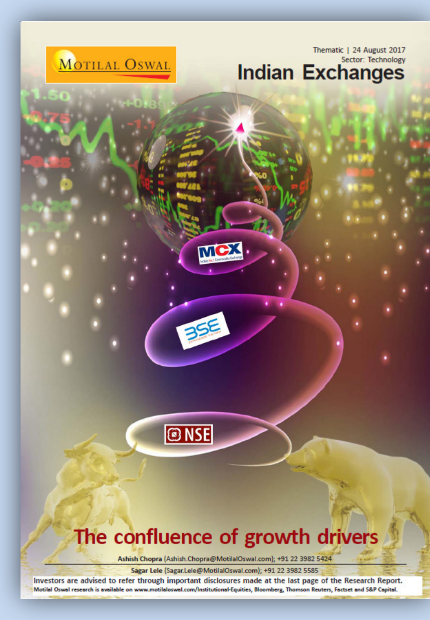


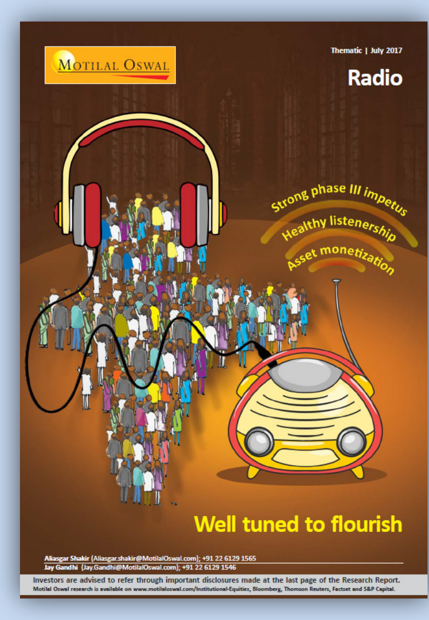
SH Kelkar — Buy

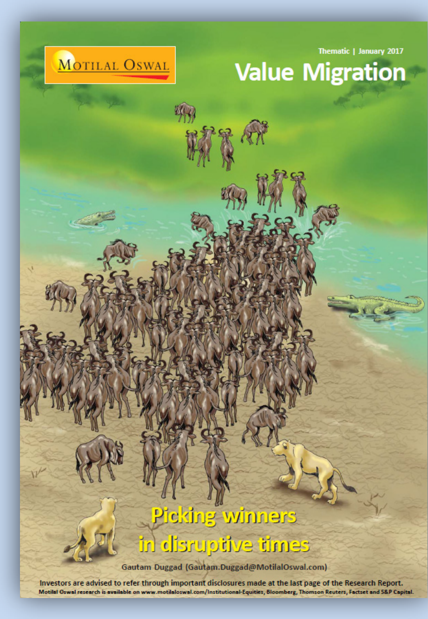
Current Price INR 252 | **Target Price INR 301 | 20% Upside**

- Domestic sales were impacted in the month of July and August, as restocking was slower in trade channels than anticipated.
- The company managed to retain all customers inspite of drag down impact of GST and maintained its market share across product categories and geographies.
- The fragrance business witnessed a decline of 13% in domestic market and 3% in exports market. The exports business was weaker due to subdued demand in Middle East and other export markets.
- The flavor business witnessed growth of 11% in domestic market; however, the overseas market de-grew by 12% due to disruption in supply and prices of orange oil due to hurricane in Florida.
- The company established a fine fragrance center in Amsterdam to tap into the fine fragrance market in Europe.
- The company filed for 10 additional patents, two of which have been commercially exploited in fine fragrance category.
- The company has been aggressively moving manufacturing operations from Netherlands to India. Out of ~20 products being manufactured in Netherlands, 14 have been moved to Vapi, and by 2HFY19, entire operations are expected to be moved out.
- As of now the fine fragrance business is less than 2% of the fragrance revenues, which the company expects to increase up to 10% in the next 2-3 years.
- Cost-saving measures being undertaken by the company are expected to result in savings of ~EUR2m per annum.

THEMATIC/STRATEGY RESEARCH GALLERY







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