Rebound Continues…

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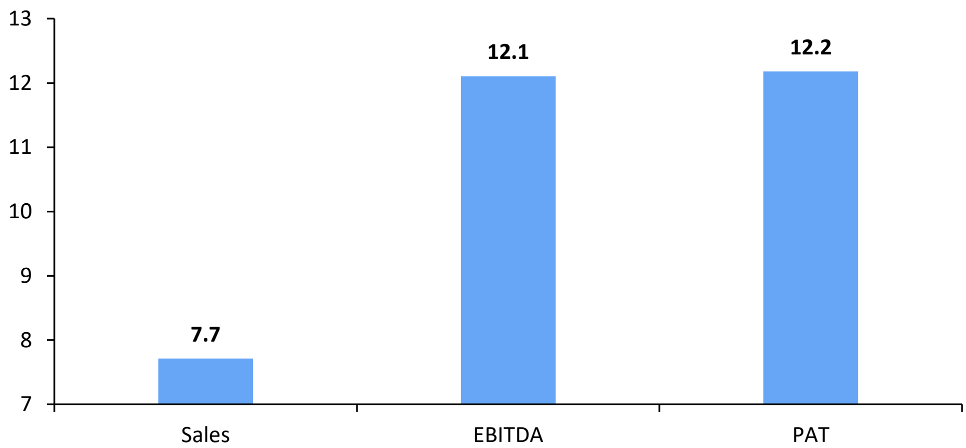
Index

Earnings Aggregates

- **Aggregate revenue growth of 149 companies covered, ex-telecom (Mcap 1,080 USD bn) is projected at 7.7% for topline, 12.1% for operating level and 12.2% for net earnings. Telecom sector has been excluded to adjust the negative base of last year on account of exceptional items.**
- **Our large cap universe (Ex-Telecom) aggregate revenue growth is projected at 6.1% YoY for topline, 8.4% YoY for operating profit and 7.3% for net profit. Our mid/small cap universe projects a increase in topline by 8.0% YoY, increase in operating profit by 12.1% YoY and increase in net profit by 11.3%.**
- **For Banks, NII growth is projected at 15.1% YoY despite 6% YoY loan growth driven by sharp decline in CoF. PPoP is likely to grow at 11.2% YoY, while PAT growth at 13.9% benefits from decline in tax rates. For Insurance, the Annual Premium Equivalent (APE) is expected to increased by 2.3% and Value of New Business (VNB) is expected to increased by 12.7%.**

Exhibit 1: Q3FY21E Aggregates of our coverage universe, YoY growth (%)



Source: DART

Sector Outlook

- **Automobile (aggregate revenues +17.1%, PAT +20.5%)**
  The sector continue to build on the sharp recovery across segments that started in second quarter. We have seen early signs of price hikes for a few models to broaden for the portfolio as higher RM costs show up in Q3 partly and Q4 substantially.

- **Banks (NII +15.1%, PAT +13.9%)**
  Credit demand remains moderate even as economy activity is inching back to pre COVID levels. Clarity on extent of restructuring and slippages in 3QFY21 will give a good sense of COVID related stress across banks, removing a major asset quality related overhang. Margins to remain under pressure with high interest reversals and bottoming of CoF, more so for large banks.

- **IT Services (aggregate revenues +5.3%, PAT +2.4%)**
  Continues to be the biggest beneficiary of tech spends in the post COVID era. We expect Q3 to continue the momentum of the last two quarters even they it is a seasonally lean quarter. Our estimates are suggesting 5.3% revenue growth & EBIT growth of 8%

- **Consumer (aggregate revenues +7.9%, PAT +3.2%)**
  Expect the various categories to benefit from declining COVID cases and return of discretionary. On demand, our channel checks suggest significant boost to jewelry and decorative paint segments.

- **Pharma (aggregate revenues +13.2%, PAT +33.0%)**
  Relatively a better quarter for our coverage universe as the company ramp up their specific products in the US / Domestic markets.

- **Chemicals (aggregate topline +2.1%, PAT -13.7%)**
  Manufacturing activity has picked up gradually but is still far from reaching the pre-COVID levels. Demand in the domestic market has almost reached pre-COVID levels. However, growth in exports remains subdued owing to shortages of empty containers, lockdowns in North America and Europe. Policy push, improvement in supply chain, strong capex cycle and benign raw materials costs are expected to augur well for margins.

- **Cement (aggregate revenues +9.9%, PAT +69.8%)**
  Expect a strong quarter as volumes make a comeback sequentially. However the pricing for the December month may play a bit of dampener as lower vs November.

- **Telecom**
  With uncertainty surrounding AGR case behind us, the ARPU for telcos is expected to have a modest uptick. Post a gruelling time and sharp downturn in profits; with superior execution and price increases good time seems ahead for the telcos.

Quarterly Earnings – Macro Views

Sector (Ex BFSI)	Topline Growth YoY (%)	Sector (Ex BFSI)	EBIDTA Growth YoY (%)	Sector (Ex BFSI)	PAT Growth YoY (%)
Telecom	22.0	Sugar	117.2	Telecom	213.0
Sugar	20.5	Cement	34.9	Sugar	153.5
Auto & Auto Anc.	17.1	Telecom	29.6	Cement	69.8
Retail	13.8	Pharma	26.6	Pharma	33.0
Pharma	13.2	Auto & Auto Anc.	24.5	Auto & Auto Anc.	20.5
Cement	9.9	Chemicals	9.5	Pipes	18.2
Agri Inputs	8.8	IT Services $	8.0	Infra & Construction	9.3
Consumer Durables	8.5	Consumer Durables	7.1	Power Utilities	8.3
Infra & Construction	7.9	Retail	5.2	Consumer Durables	7.8
Consumer Staples #	7.9	Power Utilities	5.0	Retail	7.4
Power Utilities	5.9	Consumer Staples #	4.4	Consumer Staples #	3.2
IT Services $	5.3	Infra & Construction	3.7	IT Services $	2.4
Media	3.6	Pipes	2.3	Capital Goods & Engg*	1.0
Chemicals	2.1	Capital Goods & Engg*	(2.6)	Energy	(3.1)
Capital Goods & Engg*	(1.3)	Media	(6.4)	Media	(5.6)
Pipes	(3.7)	Agri Inputs	(6.9)	Agri Inputs	(11.5)
AlcoBev	(10.4)	Energy	(6.9)	Chemicals	(13.7)
Energy	(11.8)	AlcoBev	(23.6)	AlcoBev	(33.3)
Hotels	(65.1)	Hotels	(113.0)	Hotels	(208.4)

** Including KEI Ind. & CONCOR, # Excluding Burger King, $ IT Services is EBIT fig and not EBITDA*

Sector	NII Growth YoY (%)	PPOP Growth YoY (%)	PAT Growth YoY (%)
Banks	15.1	Banks	11.2

Sector	APE Growth YoY (%)	VNB Growth YoY (%)
Insurance	2.3	12.7

Quarterly Earnings – Sector Aggregates

(Rs mn)	Sales			EBITDA			PAT			Companies
Sector (Ex BFSI)	Q3FY21E	Q3FY20	YoY (%)	Q3FY21E	Q3FY20	YoY (%)	Q3FY21E	Q3FY20	YoY (%)	
Agri Inputs	1,18,936	1,09,296	8.8	22,509	24,180	(6.9)	8,442	9,541	(11.5)	**5**
AlcoBev	41,982	46,837	(10.4)	5,712	7,473	(23.6)	2,847	4,267	(33.3)	**3**
Auto & Auto Anc.	9,34,147	7,97,394	17.1	1,29,354	1,03,925	24.5	80,997	67,220	20.5	**28**
Capital Goods & Engg*	4,35,818	4,41,366	(1.3)	50,219	51,552	(2.6)	28,931	28,633	1.0	**5**
Cement	3,16,247	2,87,669	9.9	73,054	54,144	34.9	34,683	20,429	69.8	**10**
Chemicals	51,397	50,329	2.1	12,098	11,051	9.5	6,896	7,993	(13.7)	**6**
Consumer Durables	1,19,157	1,09,857	8.5	11,386	10,629	7.1	7,884	7,316	7.8	**8**
Consumer Staples #	6,11,904	5,67,357	7.9	1,46,457	1,40,234	4.4	1,09,451	1,06,063	3.2	**19**
Energy	2,96,907	3,36,518	(11.8)	46,530	49,999	(6.9)	30,438	31,417	(3.1)	**8**
Hotels	5,483	15,723	(65.1)	(660)	5,069	(113.0)	(2,453)	2,262	(208.4)	**2**
Infra & Construction	92,342	85,612	7.9	13,159	12,695	3.7	5,019	4,591	9.3	**8**
IT Services $	12,48,369	11,85,614	5.3	2,65,663	2,45,885	8.0	2,14,128	2,09,188	2.4	**18**
Media	29,660	28,636	3.6	11,074	11,838	(6.4)	7,556	8,002	(5.6)	**2**
Pharma	3,76,374	3,32,547	13.2	90,943	71,811	26.6	54,407	40,915	33.0	**15**
Pipes	26,362	27,368	(3.7)	4,885	4,775	2.3	3,363	2,845	18.2	**3**
Power Utilities	3,44,180	3,24,884	5.9	1,55,991	1,48,526	5.0	60,958	56,272	8.3	**2**
Retail	83,271	73,141	13.8	7,470	7,099	5.2	4,859	4,525	7.4	**2**
Sugar	27,301	22,650	20.5	4,302	1,981	117.2	2,921	1,152	153.5	**2**
Telecom	4,83,054	3,95,884	22.0	2,16,809	1,67,271	29.6	40,395	12,904	213.0	**3**
Total	**56,42,893**	**52,38,683**	**7.7**	**12,66,954**	**11,30,137**	**12.1**	**7,01,721**	**6,25,535**	**12.2**	**149**

** Including KEI Ind. & CONCOR, # Excluding Burger King, $ IT Services is EBIT fig and not EBITDA*

Quarterly Earnings – Sector Aggregates

Rs mn	Net Interest Income			Pre Provision Profit			PAT			Companies
Sector	Q3FY21E	Q3FY20	YoY (%)	Q3FY21E	Q3FY20	YoY (%)	Q3FY21E	Q3FY20	YoY (%)	
Banks	8,96,697	7,78,782	15.1	6,67,456	6,00,470	11.2	2,47,287	2,17,014	13.9	**12**

Rs mn	Annual Premium Equivalent (APE)			Value of New Business (VNB)			Companies
Sector	Q3FY21E	Q3FY20	YoY (%)	Q3FY21E	Q3FY20	YoY (%)	
Insurance	84,468	82,540	2.3	19,248	17,080	12.7	**4**

Quarterly Earnings- Mcap wise

Rs mn	Sales			EBITDA			PAT		
	Q3FY21E	Q3FY20	YoY (%)	Q3FY21E	Q3FY20	YoY (%)	Q3FY21E	Q3FY20	YoY (%)
Large Cap Ex-BFSI	44,56,270	41,39,534	7.7	10,67,054	9,51,863	12.1	5,92,216	5,27,152	12.3
Large Cap Ex-BFSI and Ex-Telecom	39,73,215	37,43,650	6.1	8,50,246	7,84,592	8.4	5,51,821	5,14,248	7.3

Rs mn	Net Interest Income			Pre Provision Profit			PAT		
	Q3FY21E	Q3FY20	YoY (%)	Q3FY21E	Q3FY20	YoY (%)	Q3FY21E	Q3FY20	YoY (%)
Large Cap Bank	693,402	634,537	9.3	525,521	495,931	6.0	222,586	218,013	2.1

Rs mn	Annual Premium Equivalent (APE)			Value of New Business (VNB)		
	Q3FY21E	Q3FY20	YoY (%)	Q3FY21E	Q3FY20	YoY (%)
Large Cap Insurance	72,838	72,440	0.5	16,328	14,960	9.1

Rs mn	Sales			EBITDA			PAT		
	Q3FY21E	Q3FY20	YoY (%)	Q3FY21E	Q3FY20	YoY (%)	Q3FY21E	Q3FY20	YoY (%)
Mid/Small Cap Ex-BFSI	11,86,623	10,99,150	8.0	1,99,899	1,78,273	12.1	1,09,505	98,383	11.3

Rs mn	Net Interest Income			Pre Provision Profit			PAT		
	Q3FY21E	Q3FY20	YoY (%)	Q3FY21E	Q3FY20	YoY (%)	Q3FY21E	Q3FY20	YoY (%)
Mid/Small Cap Bank*	2,03,296	1,44,245	40.9	1,41,936	1,04,539	35.8	24,701	(999)	NA

** YoY numbers not comparable due to impact of merger for Canara and Indian Bank*

Rs mn	Annual Premium Equivalent (APE)			Value of New Business (VNB)		
	Q3FY21E	Q3FY20	YoY (%)	Q3FY21E	Q3FY20	YoY (%)
Mid/Small Cap Insurance	11,631	10,100	15.2	2,919	2,120	37.7

Sector Overview

Essential commodities, inevitable demand, indifferent to COVID

- Prices of Agriculture commodities and demand for agricultural inputs – seeds, fertilizers and crop protection chemicals are at the helm of the demand curve in the prevailing COVID-19 turmoil. Farm incomes across the globe have been firm by the virtue of strong commodity prices.
    - **North America:** As per USDA, production of grains and oilseeds in North America is estimated to be robust (total grains production in 2020/21P – 439.6 mn MT up 5% YoY, Oilseeds production in 2020/21P – 123.7 mn MT up 15% YoY).
    - **Europe:** Total EU cereal production is estimated at 274.3 mn MT, 6.8% below last year, with soft wheat production down to 115.5 mn MT, and maize production at 63.1 mn MT, mostly due to adverse weather conditions that weighed on yields. EU oilseed production is estimated to increase slightly compared to the last campaign but to remain below the 5-year average. EU 2020/21 barley production should remain stable at 55.0 mn MT (+4.3%/5-year average) with major differences between winter (-12.5% year-on-year) and spring barley (+13.9% year-on-year). The EU 2020/21 total maize production is estimated at 63.1 mn MT (-9.8% compared to last year's record volume, -3.7% compared to the 5-year average). Trade over the 2020/21 marketing year is expected to decline, in particular due to wheat exports falling to 24 mn MT, a 35% decrease year-on-year. Maize imports would increase, driving overall cereals imports up slightly (+2% year-on-year).
    - **Brazil:** Total grains production in Brazil is estimated to be at 127.2 mn MT (up by 7.4% YoY), total oilseeds production is estimated to be 137.7 mn MT (up by 4.8% YoY).
    - **India:** Area sown till 1st Jan 2021 in the Rabi season is up by 3.4% YoY, led by higher acerage in oilseeds (up 6.5% YoY) and Pulses (up 5.9% YoY). As per the first advanced estimates, total foodgrains production in India during Kharif season was at 144.52 mn MT, up by 2.1% YoY.
- Domestic formulators of crop-protection chemicals should continue benefitting from better water availability from reservoirs, encouraging rabi sowing and steady commodity prices. We expect volume growth for 2HFY21 for Dhanuka Agritech, PI Industries, Rallis and UPL to be in the range of 8-12%. PI Industries should continue its growth trajectory on the back of higher exports (upwards of 20%) and synergistic acquisition of ISAGRO Asia. UPL Ltd should benefit from an encouraging crop outlook in North America and Brazil. UPL Ltd has also completed early retirement of its debt, the company had cash on hand of ~Rs 79 bn and early redemption of the said bonds comes as a breather on UPL Ltds consolidated gross debt of Rs 345 bn. The gross debt will now stand at Rs 315bn. We like PI Industries and UPL Ltd in our coverage universe and have a sell rating on Rallis India.

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Quarterly Estimates

(Rs mn)	Sales		EBIDTA		EBITDA Margin (%)		PAT		EPS (Rs)	Key Assumptions
Companies	Q3FY21E	YoY (%)	Q3FY21E	YoY (%)	Q3FY21E	YoY (bps)	Q3FY21E	YoY (%)	Q3FY21E	
Dhanuka Agritech	2,986	10.0	399	16.2	13.4	71	307	10.9	6.3	▪ Launched 2 new 9(3) fungicides for grapes Kirari and Nisodium, we expect growth from new product launches coming in.
PI Industries	10,726	26.2	2,477	32.8	23.1	115	1,725	42.4	12.5	▪ CSM business expected to grow by 20% YoY to Rs 7.7bn, we believe ISAGRO's acquisition is synergistic and PI Industries is expected to report a strong sales growth in both the domestic business and ISAGRO (domestic business).
Rallis India	5,500	3.1	550	(1.3)	10.0	(45)	348	(8.8)	1.8	▪ Anticipate pressure to continue on international business, but we expect domestic business to do well (volume growth of 10% YoY). Lower RM prices from China (~55% dependency on China from RM), is expected to elevate gross margins to 40%, up 190bps YoY.
Sharda Cropchem	4,099	7.1	727	84.3	17.7	743	306	422.3	3.4	▪ Anticipate recovery in Europe in both volumes and margins given the favourable base, North America could post a modest growth given the trade war issues.
UPL	95,625	7.5	18,356	(12.7)	19.2	(444)	5,756	(24.4)	7.5	▪ UPL has pared down debt in the light of strong cash-flows in 1HFY21 and efficient working capital management. The gross debt will now stand at Rs 315bn. In 3QFY21, we believe North America, India and Latam will drive growth.

Sector Overview

- AlcoBev being a discretionary spend with weak on-trade demand despite opening-up, lack of big-fat Indian weddings, business meetings and conferences, night curfews etc the demand is expected to be subdued. AP state had been part of base for both UNSP and UBL with gradual decline in sales and it would thus be a further dampener.
- Beer as a category is expected to be more severely impacted then IMFL due to winters, bulk commodity nature and higher share of on-trade. Though QoQ recovery is expected but we are still away from pre covid levels especially in beer category.
- ENA prices are down ~4-6% whereas glass bottle prices are steady.
- We expect UNSP/RDCK/UBL to register a -5.2%/+2.1%/-25% volume growth YoY.

Key things to watch-out for

Outlook on (1) demand recovery (2) Price increases from the state governments and (3) the risk of further excise hikes by state governments are the key things to watch-out.

Our View

As a discretionary spend, AlcoBev is showing recovery though is muted vs. Q2, especially for UNSP. Q2 benefitted from low-base, pent-up demand and channel filling too. Both UNSP and UBL have significantly under-performed the broader market. But in backdrop of weak business momentum, we expect the AlcoBev stocks to go through a time and/or price correction in the short-term. Radico remains a preferred pick in the space.

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Quarterly Estimates

(Rs mn)	Sales		EBIDTA		EBITDA Margin (%)		PAT		EPS (Rs)	Key Assumptions
Companies	Q3FY21E	YoY (%)	Q3FY21E	YoY (%)	Q3FY21E	YoY (bps)	Q3FY21E	YoY (%)	Q3FY21E	
United Spirits	23,878	(7.5)	3,451	(18.6)	14.5	(196)	1,822	(29.6)	2.5	▪ Expect Q3 to be subdued led by volume decline of ~5.2% YoY viz. 8% in P&A and 2% in Popular. With benign ENA prices and flat glass bottle prices we estimate the GM to be flat YoY and improve QoQ. EBITDA margin to decline YoY on account of operating de-leverage.
Radico Khaitan	6,823	5.3	1,211	18.1	17.7	193	748	21.6	5.6	▪ Expect IMFL volume to be up by 2.1% (P&A 3.5%, Popular 1.5%) and revenue to grow by 5.3% contributed by better state mix. Led by supportive RM prices and opex rationalization, we estimate EBITDA/APAT to grow by 18/22% YoY.
United Breweries	11,281	(22.4)	1,050	(52.4)	9.3	(588)	278	(73.9)	1.1	▪ Volume to decline by ~25% YoY on account of Covid related reduction in demand. Beer remains to be one of the most impacted category. Despite costs rationalization, on account of operating de-leverage, EBITDA/APAT to decline by 52/74% YoY.

Sector Overview

Accelerating pace of the recovery

- Auto industry is on the road to recovery led by increasing traction of personal mobility and strong rural demand. Revenue/EBITDA/ PAT for our coverage universe (9 OEMs and 19 Ancillaries) expected to grow by 17/25/21% YoY for 3QFY21 aided by recovery in volume across segment, benefit of operating leverage, low discounts and low base.
- Top performers with strong PAT growth: Companies such as Ashok Leyland (+181% YoY), CEAT (+84% YoY), Escorts (+81%), Sterling Tools (+71% YoY) and Sandhar Tech (+60% YoY) expected to report impressive numbers in 3Q.
- Weak performers with weak PAT growth: Varroc Eng (-41% YoY), Minda Corp (-33% YoY), Bharat Forge (-33% YoY), Lumax Ind (-32% YoY)
- 2W retail demand (especially for economy bikes and scooters) is losing its strength as job losses have disproportionately hit lower-income group.
- While car sales remain resilient as impact of pandemic has less impact on the higher income group. Moreover, an increase in savings led by reduction on expenditure like travel and dining out aided the faster than expected recovery in PVs.
- We expect low interest rate environment and impressive growth in used car in past months continue to be key drivers for car demand in coming months.
- CV numbers are improving on MoM basis, LCV/ICV segment is gaining momentum driven by demand for last-mile connectivity and rural demand. However, low fleet utilization and poor financial condition of fleet operators continues to be a concern for M&HCVs.
- The average price of key commodities increased: CR Steel sheet (+30% QoQ), Aluminum (+12% QoQ), Lead (+5% QoQ) and Rubber (+15% QoQ). Increasing commodity prices can be a red flag for Auto demand (especially for 2Ws, tractor and CV)

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Quarterly Estimates

(Rs mn)	Sales		EBIDTA		EBITDA Margin (%)		PAT		EPS (Rs)	Key Assumptions
Companies	Q3FY21E	YoY (%)	Q3FY21E	YoY (%)	Q3FY21E	YoY (bps)	Q3FY21E	YoY (%)	Q3FY21E	
Ashok Leyland	49,614	23.6	3,374.0	49.86	6.80	119	779.0	180.7	0.3	▪ Volume to rise 7% and ASP 15% due to BS6 price hike and higher RM cost. OPM growth led by operating leverage and cost optimisation measures.
Bajaj Auto	89,516	17.2	15,844	15.90	17.70	-20	14,897	18.1	51.5	▪ Volume to rise 9% and ASP 8%. Margin decline due to high RM and container costs partially offset by better 2W mix.
Eicher Motors	28,602	20.6	6,807	14.94	23.80	(118)	5,186	4.0	19.0	▪ Volume to rise 9% and ASP 11%. OPM to contract on higher RM
Escorts	21,176	29.6	3,685	73.59	17.40	441	2,772	81.1	27.4	▪ Led by 26% increase in tractor volume. Margin expansion due to better operating leverage and improved product mix.
Hero Motocorp	95,940	37.1	13,336	28.36	13.90	(95)	10,021	13.8	50.2	▪ Volume to rise 20% and ASP 14.5%. OPM to contract on higher RM
Maruti Suzuki	237,745	14.8	26,154	24.41	11.00	85	18,587	18.8	61.0	▪ Volume to rise 13% and ASP 2%. OPM to expand on operating leverage
M&M	135,358	11.7	22,875	27.89	16.90	214	13,154	34.1	10.6	▪ Tractor and Automobile volume to grow by 24%/11% . OPM to expand on better product mix
SML ISUZU	1,969	11.5	(39)	(78.71)	-2.00	847	(199)	11.4	(9.8)	▪ Led by 1% increase in volume. Operating loss due to negative operating leverage and weaker mix.
TVS Motor Co.	54,164	31.3	5,200	43.14	9.60	79	2,571	30.4	5.4	▪ Volume to rise 20% and ASP 9%. OPM to expand due to operating leverage and cost control measures

(Rs mn) Companies	Sales		EBIDTA		EBITDA Margin (%)		PAT		EPS (Rs)	Key Assumptions
	Q3FY21E	YoY (%)	Q3FY21E	YoY (%)	Q3FY21E	YoY (bps)	Q3FY21E	YoY (%)	Q3FY21E	
Amara Raja Batt.	19,955	14.2	3,212	13.23	16.10	(14)	1,913	16.5	11.2	▪ Performance by strong replacement demand. Operating margin contraction owing to rise in lead prices.
Apollo Tyres	46,643	6.0	6,903	29.38	14.80	267	1,952	12.3	3.4	▪ Expect price hikes taken and 12% growth in standalone partially offset by 4% decline in subsidiary business. Margin to improve due to low cost inventory and better mix
Asahi India Glass	7,761	13.4	1,476	28.03	19.02	217	523	33.5	2.15	▪ Automotive and Architecture division to grow by 12%/20%. OPM to expand on better product mix
Balkrishna Industries	14,421	24.3	4,471	30.92	31.00	157	2,843	28.8	14.7	▪ Strong demand from Europe and America. Cost control measures and backward integration of Carbon Black to help boost margin.
Bharat Forge	9,540	(11.4)	1,717	(27.10)	18.00	(388)	860	(32.7)	1.60	▪ Expect 21% de-growth in int. business and 3% growth in Indian business. Margin to contract on negative operating leverage
CEAT	20,031	13.7	2,564	39.94	12.80	240	969	83.6	23.9	▪ Price hikes taken with 14% growth in standalone entity and 20% growth in subsidiary business (CSTL). Expect margin improvement on account of cost control measures and better mix.
Exide Inds.	28,359	17.6	4,055	26.80	14.30	104	2,409	23.0	2.8	▪ Inc in demand and price hikes, with operating margin expansion owing to cost control measures and better product mix.

(Rs mn) Companies	Sales		EBIDTA		EBITDA Margin (%)		PAT		EPS (Rs)	Key Assumptions
	Q3FY21E	YoY (%)	Q3FY21E	YoY (%)	Q3FY21E	YoY (bps)	Q3FY21E	YoY (%)	Q3FY21E	
Jamna Auto Inds.	2,530	10.7	253	18.73	10.00	68	127	26.5	0.32	▪ Revival in CV volumes and replacement market demand. Margin expansion due to cost control measures.
JBM Auto	5,544	19	599	5.5	10.8	(135)	210	26.8	4.4	▪ Expect Component, sheet metal and bus division to grow by 7%/20%/70% respectively. OPM to contract on higher RM
Lumax Auto Tech.	3,051	6.3	275	15.05	9.00	68	130	12.2	1.9	▪ Revenue to grow on back of decent growth of its key clients. OPM to expand on operating leverage
Lumax Inds.	4,176	9.0	384	(11.01)	9.20	(207)	129	(31.8)	13.80	▪ Revenue to grow on back of decent growth of its key clients. OPM to contract on higher RM and base effect
Minda Corp	6,467	(3.7)	687	(9.58)	10.63	(69)	277	(33.2)	1.20	▪ Revenue to be weak due to wind up of MINDA KTSN business. OPM to onctract on higher RM
NRB Bearings	2,038	15.0	322	97.65	15.80	661	132	55.4	1.4	▪ Revival in domestic CV volume and export revenue. Margin expansion led by cost control measures and favourable product mix.
Ramkrishna Forg.	2,875	14.7	518	8.98	18.00	(94)	79	369.9	2.4	▪ Volume growth of 8.5% in domestic and 8% in exports. OPM to contract on account of input cost pressure.
Sandhar Tech	5,310	10.6	573	15.19	10.80	43	219	59.5	3.6	▪ Revival in volume of its key clients like Hero and TVS. Margin expansion due to cost control measures.

(Rs mn)	Sales		EBIDTA		EBITDA Margin (%)		PAT		EPS (Rs)	Key Assumptions
Companies	Q3FY21E	YoY (%)	Q3FY21E	YoY (%)	Q3FY21E	YoY (bps)	Q3FY21E	YoY (%)	Q3FY21E	
Sterling Tools	960	13.1	180	29.20	18.76	233	84	70.8	2.3	▪ Revival in CV volumes. We expect company to report margin expansion led by cost control measures
Subros	5,215	12.0	558	15.67	10.70	34	197	45.9	3.02	▪ Revenue to grow due to sharp revival in PV volume. OPM to expand on operating leverage
Suprajit Engineering	4,576	11.0	709	41.60	15.50	335	418	34.1	3.00	▪ Revenue to grow led by strong recovery in core automotive cable business. OPM to expand on better mix and operating efficiency
Varroc Eng.	30,612	9.2	2,663	1.83	8.70	(63)	173	(40.7)	1.3	▪ India and VLS division to grow by 10%, OPM to contract on higher RM

Sector Overview - Banks

COVID stress overhang to recede as clarity emerges on slippages and restructuring pipeline

- Slippages during 3QFY21 are expected to be significantly higher (assuming SC lifts the order on NPA standstill) as NPA additions over Mar-Dec get bunched up in this quarter. Quantum of interest reversals will also be impacted by banks capitalizing some these delayed loans.
- Post the inconsistencies over reported moratorium and collection numbers over the last three quarters, clarity on extent of restructuring and slippages in 3QFY21 will give a good sense of COVID related stress across banks, removing a major asset quality related overhang.
- While reporting of slippages is still contingent on the Supreme court ruling, banks will continue to share pro-forma slippages/NPAs and also make provisions against the same. Restructurings could be lower than even rebased expectations of 2-3% as support from ECLGS funding and staying away from 'restructuring tag' limited borrower requests for restructuring.

Credit trends remain muted; CASA levels shine on abundant liquidity

- Despite improving outlook on asset quality, better recovery trends along with low interest rates, pick-up in loan growth is limited so far led by both muted demand and risk aversion by banks. Credit data from RBI shows that loan growth in the first two months of the quarter has been ~1%, growing at 6% YoY despite a low base of last year (7% YoY). Loan growth is likely to come from safer segments like home, auto, gold and higher rated corporate loans.
- While retail growth picked up over the last few months, drying up of ECLGS driven disbursements post Sep has ensured overall growth rate at 6%. Within retail, there has been a healthy growth in vehicle, CC, and other personal loans at over 3% since Sep. Growth in housing loans, despite the recent pickup, stands at 8.5% YoY (2% since Sep) against 17% YoY levels pre-COVID owing to high base.
- High system liquidity and sharp decline in TD rates has resulted in healthy CASA accretion across banks that have reported provisional data. CASA accretion will likely be higher for large private banks and SBI vs others.

NIM to remain under pressure; PPoP to decline QoQ as treasury gains fade and opex normalize

- High interest reversals and excess liquidity should pressurize NIM during 3QFY21, more so for larger banks where scope for further decline in CoF is limited.
- Operating profits are likely to be lower QoQ across several banks as treasury gains moderate sequentially and operating expenses normalize at higher levels due to improved activity levels.
- Banks, mainly private, should also start drawing down on their COVID reserves created over the last three quarters, limiting credit costs, though the extent of drawdown may differ across banks. For PSBs, better recoveries and recent rise in PCR are likely to limit credit costs to some extent.

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Sector Overview - Insurance

APE growth to be flat YoY

- After a 15% YoY growth for the sector in Oct, APE de-grew by 45% for the industry and 15% for private players in Nov. We expect December premiums to address the decline resulting in a low single digit growth in Q3FY21 for the sector.
- We expect the savings line of business to grow during the quarter while protection growth could range from peers, with HDFCLIFE and MAXF expected to outperform the rest.

Last leg of ULIP de-growth

- We expect Q3FY21 to be the last quarter for ULIP de-growth as bouyant equity markets and economic outlook can support growth in this segment. Q4FY21 is also the quarter for rebasing for some incumbents which could support growth going forward.

Margins to trend downward sequentially

- As APE is expected to be flat with little change in product mix, we expect VNB margins to trend slightly downwards by 1-3% for incumbents.

Non-par products to continue to do well

- Given the current term structure of interest rates, we expect non-par segment to lead the growth across players. We expect cautious approach from companies to increase the share of this product line owing to limited hedging tools.

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Quarterly Estimates - Banks

(Rs mn)	NII		PPoP		PAT		EPS (Rs)	Key Assumptions
Companies	Q3FY21E	YoY (%)	Q3FY21E	YoY (%)	Q3FY21E	YoY (%)	Q3FY21E	
Axis Bank	75,173	16.5	65,219	13.6	26,667	51.8	9.0	▪ Loan growth to moderate to 8% owing to a high base. NIM likely to be stable QoQ as improvement in CoF outweigh interest reversals. ▪ Provisions to decline as the bank draws down from its COVID provision buffers. ▪ Downgrades to 'BB and below' book could continue to remain high.
Bank of Baroda	73,162	2.6	51,367	3.6	13,729	(197.6)	3.0	▪ Loan growth expected at 4% YoY and sub 2% QoQ. ▪ We factor in slippages of 5% (annualized) for the quarter. Restructuring pipeline remains a key monitorable. ▪ High PCR and recoveries may limit incremental credit costs despite likely rise in slippages.
Canara Bank*	64,244	87.0	45,566	95.2	1,634	(50.4)	1.0	▪ High interest reversals and limited loan growth owing to integration to keep margins under pressure ▪ Ongoing integration to keep operating expenses high. ▪ Healthy recovery trends (as seen in Q2) could lower pressure on credit costs, which should otherwise remain high given limited provision buffers. ▪ YoY numbers not comparable due to impact of merger with Syndicate bank.

** YoY numbers not comparable due to impact of merger*

(Rs mn) Companies	NII		PPoP		PAT		EPS (Rs)	Key Assumptions
	Q3FY21E	YoY (%)	Q3FY21E	YoY (%)	Q3FY21E	YoY (%)	Q3FY21E	
DCB bank	3,345	3.5	2,023	6.5	644	(33.6)	2.1	▪ Loan growth to remain flattish YoY and higher by ~2.5% QoQ. ▪ While higher slippages and excess liquidity will pressurize NIM, incremental growth in higher yielding segments like gold, tractors should limit NIM decline. ▪ Restructuring of loans should be largely be limited to MSME scheme where the bank has already restructured ~2% of loans against overall restructuring guidance of 3-5%.
Federal bank	13,957	20.8	9,439	26.9	3,616	(18.0)	1.8	▪ NII should continue to grow at 21% YoY led by a low base and good traction in higher yielding gold loans. ▪ NIM should remain stable despite high interest reversals, benefitting from decline in CoF and incremental growth from higher yielding gold loans. ▪ Loan growth reported at 6% YoY and 3% QoQ as per provisional data.
HDFC Bank	162,652	14.8	141,956	9.7	86,169	16.2	15.7	▪ The bank reported a healthy loan growth of ~16% YoY despite a high base. Expect some improvement in retail growth (5% YoY in 2Q) after weak trends over the last two quarters. ▪ NIM likely to remain at the lower end of management guidance at ~4.1% as better retail traction is compensated by high interest reversals. ▪ Rise in slippages could be limited vs industry as the bank recognized accelerated NPAs in Q1, apart from exposure to superior assets. Healthy COVID provisioning buffers to limit credit cost.

(Rs mn) Companies	NII Q3FY21E	NII YoY (%)	PPoP Q3FY21E	PPoP YoY (%)	PAT Q3FY21E	PAT YoY (%)	EPS (Rs) Q3FY21E	Key Assumptions
ICICI Bank	93,848	9.8	84,275	11.6	46,241	11.5	6.9	▪ Loan growth should remain at 6% YoY. NIM will continue to remain under pressure due to excess liquidity and high interest reversal. ▪ Retail slippages could remain higher than peers as the banks moves towards daily recognition of NPAs in this fiscal. Restructured portfolio likely to be less than 1% of advances. Downgrades to 'BB and below' pool remains a monitorable. ▪ Treasury gains to include ~Rs3bn gain from stake sale in ICICI Securities
Indian Bank**	43,747	123.7	29,858	55.6	3,800	53.7	3.4	▪ Loanbook to grow at 4% YoY for the amalgamated entity, with sequential growth at 1%. ▪ We factor in slippages of 5% (annualized) for the quarter. Restructuring pipeline remains a key monitorable. High PCR and recoveries may limit incremental credit costs despite likely rise in slippages. ▪ YoY numbers not comparable due to impact of merger with Allahabad bank.
IndusInd Bank	32,486	5.7	25,345	(7.7)	3,246	(75.0)	4.6	▪ Reported credit growth picked up QoQ at 3%. Margins to remain under pressure amidst high impairments and surplus liquidity. ▪ YoY decline in fee income should remain sharper than peers ▪ Slippages to remain high, credit costs may benefit from high PCR and COVID buffers.

*** YoY numbers not comparable due to impact of merger*

(Rs mn) Companies	NII		PPoP		PAT		EPS (Rs)	Key Assumptions
	Q3FY21E	YoY (%)	Q3FY21E	YoY (%)	Q3FY21E	YoY (%)	Q3FY21E	
Kotak Mah Bank	39,406	14.9	32,014	34.1	17,912	12.2	9.1	▪ Loan growth from secured products like home loan, LAP, and construction equipment to gather pace. With sharp reduction in CoF, KMB is currently offering lowest HL rates in industry. ▪ NII growth to remain resilient at ~15% YoY despite YoY de-growth in advances, benefitting from continued improvement in CoF. ▪ PPoP could also benefit from higher treasury gains, with limited realized gains thus far.
State Bank of India	289,838	4.3	176,711	(3.0)	42,351	(24.2)	4.7	▪ Margins to moderate with normalization of slippages and impact of MCLR cuts. Loan growth should be stable at 6% YoY. ▪ Overall stress (RSA+ slippages) could be lower than earlier guided number of 2.7%. ▪ Credit costs to rise as the bank has limited COVID buffers which can be drawn upon (0.3% of advances).

Quarterly Estimates - Insurance

(Rs mn)	APE		NBP		VNB		VNB Margin (%)		Key Assumptions
Companies	Q3FY21E	YoY (%)	Q3FY21E	YoY (%)	Q3FY21E	YoY (%)	Q3FY21E	YoY (%)	
ICICI Prudential	17,386	(14.7)	30,480	0.3	4,424	3.8	25.4	4.5	▪ We expect IPRU to continue to lag behind peers in APE growth as ULIP challenges continue and pick-up in protection is slower than anticipated. We expect NBP growth to be flat YoY. ▪ Protection run-rate to be similar to Q3FY20 and protection mix to be ~15-16%. ▪ We expect non-linked savings segment to do well with a ~30% growth owing to lower base. ▪ As a result we expect VNB margins to drop ~2% sequentially to ~25%.
HDFC Life	20,860	14.2	47,516	12.2	5,372	19.4	25.8	1.1	▪ Expect NBP to grow by 12% YoY driven largely by retail segment. We expect APE momentum to sustain on the back of strong December numbers. As a result, we expect protection mix to be ~15-16% resulting in a 10% YoY growth in the segment. ▪ We expect retail savings to increase 13-16% YoY driven by the non-linked savings business. ▪ VNB margin to remain flat sequentially at ~26%

(Rs mn)	APE		NBP		VNB		VNB Margin (%)		Key Assumptions
Companies	**Q3FY21E**	**YoY (%)**	**Q3FY21E**	**YoY (%)**	**Q3FY21E**	**YoY (%)**	**Q3FY21E**	**YoY (%)**	
SBI Life	34,592	2.3	54,162	9.0	6,533	5.4	18.9	0.5	▪ SBILIFE has delivered ~Rs 31,000mn NBP for Oct-Nov. December is traditionally a strong month for the company and therefore we expect NBP to grow 7% YoY. ▪ We expect growth to be driven largely by savings business and protection growth by the lower margin RoP variant. We expect protection mix to decline ~500bps sequentially to 12%. ▪ VNB margin to be broadly similar to 1HFY21 at ~19%.
Max Financial	11,631	15.2	15,625	11.4	2,919	37.7	25.1	4.1	▪ We expect MAXF to continue to outperform peers on the back of growth in both savings and protection business, translating into an NBP growth of ~12% YoY. ▪ We expect product mix to be 86% savings and 14% protection resulting in a VNB margin of 25%.

Capital Goods & Power Utilities

Sector Overview

- This was a good quarter for capex after a long time as pent up order inflows started coming from existing projects. Government is also keen to provide the thrust to infrastructure which can help job creation
- In infrastructure, this quarter saw L&T bagging its largest ever order size with the bullet train. It has got two projects with a large Rs250bn order for the stretch between Maharashtra border to Vadodara and another Rs72bn order from Vadodara to Ahmedabad
- Industry capex also saw positivity with big capex announcements coming from corporates. Some examples are, Ultra Tech which announced a Rs54bn capex plan, capex by Hindalco for Rs7.3bn to set up a 34,000-tonne aluminium extrusion plant and capex of Rs10bn by TVS Srichakra to ramp up manufacturing. All these augur well not just for players like L&T, but also for automation players like ABB and Siemens
- Major concern in H1 on labour availability, is almost fully resolved with corporates we interacted saying sites at 90-100% levels. However, execution has slightly slowed down due to new safety norms being followed at project sites.
- Container rail freight has picked up well in Q3 as activities increased. Data from Rail ministry shows that QTD(Oct-Nov) volume growth in containers is 10.6%yoy, which is positive for Concor
- The plant load factor YTD (till Nov 20) is at 51%, much lower than the 56% in the same period in FY20, though more efficient producers like NTPC still had better PLFs at 62% for the same period
- The Power sector is seeing structural reforms with the draft Electricity Amendment Bill where some of the key things it talks of are a) removing cross subsidy among users, b) widening scope for private participation through distribution sub-licensees, c) States to provide subsidy through DBT to discoms.

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Quarterly Estimates

(Rs mn)	Sales		EBIDTA		EBITDA Margin (%)		PAT		EPS (Rs)	Key Assumptions
Companies	Q3FY21E	YoY (%)	Q3FY21E	YoY (%)	Q3FY21E	YoY (bps)	Q3FY21E	YoY (%)	Q3FY21E	
Kalpataru Power *	19,394	(2.0)	1,998	(3.9)	10.3	(21)	2,190	59.9	14.3	▪ Expect FY21 guidance of 5-10% growth in revenues to be maintained Site operations have normalised.
KEC International	32,268	5.0	2,904	(8.8)	9.0	(136)	1,454	0.3	5.6	▪ We are building in a flat to marginal growth in Q3 for KEC with flat QoQ margins in higher single digits.
Larsen & Toubro **	354,889	(2.1)	40,226	(2.3)	11.3	(3)	23,207	(1.3)	11.6	▪ Order newsflow has been good in Q3 with L&T winning its largest order for the bullet train of Rs320bn. There is a possibility of L&T restoring guidance in Q3.
KEI Industries	11,828	(10.0)	1,254	(10.0)	10.6	0	719	(0.6)	8.0	▪ While B2C segment has revived in the cable and wire segment, B2B business is still sluggish in catching up to last year levels.
CONCOR #	17,439	14.2	3,837	3.2	22.0	(233)	2,334	33.0	3.8	▪ Rail container volumes in the quarter have seen 13% growth and we assume Concor volumes to be in line with that.

**KPTL Q3FY21 PAT includes gain on sale of transmission asset of Rs1.3bn*

*** *L&T RPAT is Rs14,992mn due to tax on E&A sale*

*# *CCRI incudes LLF Provision*

Quarterly Estimates – Power Utilities

(Rs mn)	Sales		EBITDA		EBITDA Margin (%)		PAT		EPS (Rs)	Key Assumptions
Companies	Q3FY21E	YoY (%)	Q3FY21E	YoY (%)	Q3FY21E	YoY (bps)	Q3FY21E	YoY (%)	Q3FY21E	
NTPC *	249,061	6.0	72,477	3.9	29.1	(59)	29,857	(0.3)	3.0	▪ NTPC has commissioned one 800MW unit at Lara during the quarter. We expect no major change to its FY21 capex guidance
Power Grid	95,119	5.8	83,514	6.0	87.8	21	31,101	16.3	5.9	▪ PGCIL's capex and capitalisation guidance will be keenly watched. We do not expect any change in FY21 guidance on either parameter.

** Extra-ordinary tax provided NTPC in Q3FY20 and Q4FY20*

Cement

Sector Overview

- Cement volumes for Q3FY21E are expected to grow QoQ due to low base, impacted by COVID-19 and monsoon season. Cement production increased 30.6% QoQ during Q2FY21, which is much better than historic 38.3% YoY decline in Q1FY21. Strong trend continued in Oct'20 with growth of 11.6% MoM but slowed down to -6.4% MoM de-growth in Nov'20. With receding impact of lockdown, end of monsoon and festival season and March quarter being the strongest quarter for the cement industry, we expect cement demand to further pickup in Q4FY21E unless the economy again takes a hit due to lockdown.
- Average cement prices after increasing 9.1% QoQ (Q1FY21), declined 4.8% QoQ (Q2FY21) and further declined 1.0% QoQ (Q3FY21) led by South (-4.8%), East (-1.7%), West (-0.9%), North (+2.2%) and Central (+0.2%). On the cost front, average diesel prices decreased 2.4% QoQ but increased 10.2% YoY during Q3FY21. Pet coke prices also increased 19.5% QoQ/ 52.8% YoY. Inspite of assuming higher freight and power & fuel costs YoY, we factor increase in EBITDA YoY led by higher volumes and realizations.
- The DART universe is expected to report 9.9% YoY increase in revenue led by 5.5% YoY volume growth coupled with 4.2% YoY realization growth (-0.8% QoQ). Entire DART universe to report positive volume growth and JK Cement to witness highest grey cement volume growth (+25.0% YoY). On the realization front as well, entire DART universe to report positive growth and Ramco cement to witness highest growth in realization of 16.7% YoY (-5.0% QoQ). The utilization for DART universe to improve from 71% in Q2FY21 to 78% Q3FY21.
- The DART universe will potentially report an EBITDA growth of 34.9% YoY. Entire DART universe to report positive EBITDA growth and Ramco Cement likely to have the highest 96.3% YoY growth in EBITDA and JK Lakshmi Cement with lowest growth of 9.3% YoY. Average EBITDA/tn for DART universe to grow 27.9% YoY but to decline 11.4% QoQ to 1,156.
- The DART universe is likely to report PAT growth of 69.8% YoY.

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Quarterly Estimates

(Rs mn)	Sales		EBIDTA		EBITDA Margin (%)		PAT		EPS (Rs)	Key Assumptions
Companies	Q3FY21E	YoY (%)	Q3FY21E	YoY (%)	Q3FY21E	YoY (bps)	Q3FY21E	YoY (%)	Q3FY21E	
ACC*	42,890	5.6	7,419	37.3	17.3	399	4,309	59.9	22.9	▪ Expect grey cement volume to be flat YoY (+19.6% QoQ) and realization to decline by 1.0% QoQ (+7.7% YoY). EBITDA/tn to grow 37.3% YoY (-7.5% QoQ) to Rs956
Ambuja Cement*	33,391	6.5	7,272	32.8	21.8	432	4,279	42.6	2.2	▪ Expect grey cement volume to increase 2.0% YoY (+18.0% QoQ) and realization to de-grow -0.5% QoQ (+4.4% YoY). EBITDA/tn to grow 30.2% YoY (-9.1% QoQ) to Rs1090.
Birla Corporation	17,974	4.8	3,401	15.4	18.9	174	1,201	47.3	15.6	▪ Expect grey cement volume to increase 2.0% YoY (+7.3% QoQ) and realization to grow 0.5% QoQ (+3.4% YoY). EBITDA/tn to grow 13.9% YoY (-17.2% QoQ) to Rs956.
Dalmia Bharat Cement	26,303	8.8	5,947	30.1	22.6	371	1,359	466.4	7.0	▪ Expect grey cement volume to increase 7.0% YoY (+13.7% QoQ) and realization to de-grow 4.0% QoQ (+1.7% YoY). EBITDA/tn to grow +21.6% YoY (-25.5% QoQ) to Rs1,090.
Heidelberg Cement	5,727	4.4	1,350	12.5	23.6	169	665	3.0	2.9	▪ Expect grey cement volume to increase 1.0% YoY (+11.5% QoQ) and realization to remain flat QoQ (+3.4% YoY). EBITDA/tn to grow 11.4% YoY (-3.9% QoQ) to Rs1,093.

** Dec end*

(Rs mn) Companies	Sales		EBIDTA		EBITDA Margin (%)		PAT		EPS (Rs)	Key Assumptions
	Q3FY21E	YoY (%)	Q3FY21E	YoY (%)	Q3FY21E	YoY (bps)	Q3FY21E	YoY (%)	Q3FY21E	
JK Cement	17,552	25.0	4,055	46.0	23.1	332	1,992	44.8	25.8	▪ Revenue to grow 25.0% YoY led by +24.3% YoY blended volume and +0.6% YoY blended realization. Grey/ White cement volume to grow 25.0%/ 20.0% YoY. Expect realization for grey cement to de-grow by -0.5% QoQ (+3.1% YoY) and for white cement (incl. putty) to increase by 1.0% QoQ (-2.9% YoY). EBITDA/tn to grow by 17.4% YoY (-12.7% QoQ) to Rs1,275.
JK Lakshmi Cement	10,654	6.0	1,660	9.3	15.6	47	624	26.9	5.3	▪ Expect cement volume to increase +4.0% YoY (+1.5% QoQ) and realization to grow by 0.5% QoQ (+1.9% YoY). EBITDA/tn to grow 5.1% YoY (-12.4% QoQ) to Rs686.
Shree Cement	31,506	10.6	9,954	17.2	31.6	178	5,121	65.2	141.9	▪ Expect cement volume to increase +9.0% YoY (+4.2% QoQ) and realization to remain flat QoQ (+1.5% YoY). EBITDA/tn to grow 7.5% YoY (-3.4% QoQ) to Rs1,462.
The Ramco Cement	14,900	16.6	3,982	96.3	26.7	1,085	2,012	112.2	8.5	▪ Expect cement volume to be flat YoY (+28.5% QoQ) and realization to de-grow -5.0% QoQ (+16.7% YoY). EBITDA/tn to grow 96.3% YoY (-29.9% QoQ) to Rs1,400.
Ultratech Cement	115,350	11.4	28,014	42.0	24.3	523	13,120	84.3	45.5	▪ Expect cement volume to increase +7.7% YoY (+12.2% QoQ) and realization to de-grow by -0.7% QoQ (+3.5% YoY). EBITDA/tn to grow 34.9% YoY (-5.2% QoQ) to Rs1,273.

Sector Overview

Domestic recovery, export pangs

- The global shop-floor of Chemical manufacturing – China, continues to penalise companies divergent from environmental norms. Ironically though, China's PMI index rose from 51.4 in October to 52.1 in November (the highest in 3 years). An endeavor of the Chinese government for Chemical parks to tread from the east to the north & west of the country (more polluting to less polluting) has also been playing out, which has led to the resumption of capacities (creating a supply-demand equilibrium). The resultant of which can be seen in moderating commodity chemical prices.
- **Timeline of actions taken by Chinese Government towards Environment**
- **Aug-2020:** Weifang, a city in Shandong, recently announced the shutdown of 474 chemical companies.
- **Nov-2020:** Hubei province will invest 141 billion RMB in 257 chemical projects between 2020 and 2020. The main objective is to get chemical firms along the Yangtze river to shut down, upgrade or transform.
- Guangxi province has approved a first batch of 11 chemical parks (which means that some parks may not get a green signal).
- **Dec-2020:** In Jiangsu, 1116 illegal chemical companies have been shut down, reducing the number of hazardous enterprises by about 28%.
- Demand for chemical intermediates/specialty chemicals/commodity chemicals used in discretionary applications (auto, construction, aerospace, coatings, and white goods) remains ruptured. Demand for agro-chemicals, pharmaceuticals and FMCG proxies keeps unabated. Globally speaking, the resurgence of the COVID-19 in the form of a second wave in Europe followed by a startling discovery of an even more infections strain of the same virus in the UK has kept economic activities in doldrums. There seems to be no respite on COVID-19 cases in Latam and North America too. Companies thus exposed to the said geographies are likely to witness a weak 2HFY21 when it comes to exports.
- Shortage of empty containers at key ports in India could aggregate this precarious situation, elevating freight costs (which have trebled as per media articles).
- Domestic demand scenario, however, has been buoyant. Companies have been operating at over 90% pre-covid levels (in some cases – demand has been fully restored). The Indian government's impetus given towards indigenous manufacturing and the implementation of the PLI schemes for consequential sectors like Pharmaceuticals, Auto-ancs, textile, white-goods, batteries etc would most likely keep the capex momentum strong and open more avenues for growth.
- The Directorate of General of trade remedies has proposed to impose anti-dumping duty on 1) Polyethelene Terephthalate (PET) originating from China for 5 years 2) Phenol originating from South Africa for 5 years 3) TDI from China, EU, Saudi Arabia and UAE till June-21 4) Anti-oxidant PX-13 in Rubber Chemicals for 5 years from China, Korea and USA.

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Quarterly Estimates

(Rs mn)	Sales		EBIDTA		EBITDA Margin (%)		PAT		EPS (Rs)	Key Assumptions
Companies	Q3FY21E	YoY (%)	Q3FY21E	YoY (%)	Q3FY21E	YoY (bps)	Q3FY21E	YoY (%)	Q3FY21E	
Aarti Industries	11,800	(3.2)	2,514	(1.1)	21.3	44	1,382	(3.2)	8.0	▪ While sales from Pharmaceuticals segment is strong there is weakness seen in sales of intermediates used in discretionary application in Specialty chemicals. We expect margin pressure coming from the said intermediates.
Atul	8,200	(21.3)	1,676	(32.8)	20.4	(350)	1,229	(27.2)	41.5	▪ We anticipate challenges in sales in the exports market, especially in Performance chemicals segment. We believe that domestic demand for Polymer, Aromatics, Bulk chemicals and Pharmaceuticals is back to pre-covid levels. The falling prices of key Intermediates like 2,4-D and Para Cresol and Polymers there could be a sequential drop in EBITDA margins. We expect contraction of 562bps in margins on a sequential basis.
Navin Fluorine	2,920	12.1	751	14.7	25.7	58	531	16.9	10.7	▪ New age business like CRAMS and Specialty Chemicals are expected to grow by 20% and 49% YoY owing to strong order enquiry. We believe the growth levers are intact.

(Rs mn)	Sales		EBIDTA		EBITDA Margin (%)		PAT		EPS (Rs)	Key Assumptions
Companies	Q3FY21E	YoY (%)	Q3FY21E	YoY (%)	Q3FY21E	YoY (bps)	Q3FY21E	YoY (%)	Q3FY21E	
SRF	21,865	18.2	5,665	45.2	25.9	482	2,907	(15.8)	49.7	▪ Sales momentum in Specialty Chemicals continues to be robust. Refrigerant gases are expected to disappoint given weakness in export market. Packaging films business expected to grow on the back of newly added capacity. We expect a healthy EBITDA margin of 26.4% owing to Specialty Chemicals and Packaging films.
Sudarshan Chemicals	4,292	1.4	641	1.8	14.9	7	278	(7.2)	4.0	▪ The newly added capacity in FY20, sales in export market is expected to perform better than sales in domestic market. We expect margins to be steady on account of benign raw material prices.
Vinati Organics	2,320	(2.7)	851	2.5	36.7	188	569	(14.9)	5.5	▪ Disappointment in sales of ATBS is likely to continue for the third consecutive quarter. We are also building in approximately Rs 200mn from sales of Butyl Phenol (this could be margin diluting). Sales from IBB continue to be strong owing to the underlying demand of Ibuprofen.

Consumer Durables

Sector Overview

- The pent up demand seen in Q2 continued in Q3 with the festive season, while in our channel checks across multiple dealers in various regions, the dealer outlook on H2 remains cautious with neutral to positive sentiment
- The larger brands benefited in the Diwali period as they were able to handle inventory better and most category leaders like Voltas, CG Consumer etc. were able to maintain their leadership in the respective products as per our channel checks
- There has been product specific price rise taken by most players with more rise expected in Q4, on the back of rising input prices especially for copper, aluminium, PVC etc.
- Given that majority of the customers are not stepping out, has also hastened them to adopt a hybrid offline-online model for selling their products. All dealers across regions have lost business to on-line channels
- AC industry is expected to see flat volumes as compared to last year, with growth most likely to happen only by Q4 as industry comes back to normal and also due to the ban on imports in ACs
- Based on our interaction and media statements of some corporates, demand is good in products like fans, washing machines. and B2C lighting as compared to the earlier Covid days. However, B2B lighting is still muted with government orders yet to pick up
- Kitchen appliances like dishwashers, mixers. Grinders, electric cookers and cooktops are doing well in a WFH environment.

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Quarterly Estimates

(Rs mn)	Sales		EBITDA		EBITDA Margin (%)		PAT		EPS (Rs)	Key Assumptions
Companies	Q3FY21E	YoY (%)	Q3FY21E	YoY (%)	Q3FY21E	YoY (bps)	Q3FY21E	YoY (%)	Q3FY21E	
Amber Enterprises	7,884	0.0	528	(2.8)	6.7	(19)	235	(5.2)	7.0	▪ Operations have returned to pre covid levels and with AC inventory back to normal, we expect a flat quarter in Q3FY21.
Bluestar	12,427	0.6	634	11.2	5.1	49	241	23.6	2.5	▪ Bluestar is expected to see a flat AC business, in line with industry. The project business is to reach 100% operation levels in this quarter.
Crompton Greaves*	11,249	5.0	1,620	18.5	14.4	164	1,196	10.3	1.9	▪ We expect ECD segment (fans and pumps) and lighting business revenues to see marginal growth. Operations are back to 100% operations in Q3FY21.
Dixon Technologies	17,009	71.2	833	61.4	4.9	(29)	492	87.1	42.5	▪ We expect a strong festive demand for appliances and ECD business; mobile phones would receive a boost through new customer acquisitions and PLI scheme.
Havells	23,828	5.0	2,907	8.8	12.2	42	2,177	8.6	3.5	▪ The Electrical (wires , cables and switchgear) business is expected to decline marginally in line with industry in the range of 5- 10%, while the ECD business is expected to be flat with spillover of Q2 demand in Q3. Lloyd is expected to see a positive festive demand push in Q3FY21.

**CG PAT adjusted for negative tax in Q3FY20*

(Rs mn)	Sales		EBITDA		EBITDA Margin (%)		PAT		EPS (Rs)	Key Assumptions
Companies	Q3FY21E	YoY (%)	Q3FY21E	YoY (%)	Q3FY21E	YoY (bps)	Q3FY21E	YoY (%)	Q3FY21E	
Polycab	25,278	0.8	3,160	(6.8)	12.5	(102)	2,110	(4.7)	14.9	▪ Polycab should see a relatively flat cables and wires business as B2B is still to recover as per our industry discussions. FMEG is expected to grow marginally by 5% due to a smaller base.
V-Guard	6,266	0.0	639	7.6	10.2	72	457	6.5	1.1	▪ We are assuming flat avenues for the electronics segment (Stabilisers) in line with AC industry. Electrical business is expected to marginally lag industry.
Voltas	15,216	1.9	1,065	9.2	7.0	47	976	11.0	3.0	▪ Based on discussions, we assume the AC business to be flat, in line with the industry. The project business is expected to be back to normal levels in this quarter.

Consumer Staples

Sector Overview

- We believe that the essential categories would continue to witness strong demand. Non-essential categories would show significant traction with the opening of markets. Positive for – Britannia, Nestle, HUL, ITC, Dabur.
- Supply constraints would hamper select categories like footwear, particularly in regions where there was restriction on employee workforce count. Negative for Bata.
- Re-opening of stores and markets would help retail players. We expect significant sales improvement in QSR, Jewelry, Innerwear and footwear sales. Positive – Titan, Page, Jubilant Foodwork3.s, Relaxo.
- Delayed festive season (November this year vs October last year) would help regain some volumes in discretionary categories. Positive for APL, Berger, Kansai, Pidilite and Titan.
- We expect some inflationary pressure on the consumer companies as prices of key commodities like crude, palm oil, copra have increased sequentially. Price hike guidance in conference would be key to watch.
- Rural is likely to perform better than urban aided by government's relief packages, better crop production and consumption shift due to reverse labor migration.
- Continued closure of schools would result in lower demand for related categories like white adhesives, chocolates, shoes, etc. – negative for Nestle, Pidilite, Bata.
- Strong growth is expected to continue in e-commerce channels due to pandemic fears. We expect sequential improvement in Modern trade channel during Q3.
- The management commentary on input cost trends, A&SP expenses and operational efficiencies would be key for this quarter.
- We expect 7.9% YoY sales growth in Q3FY21E in the DART consumer universe vs 4.7% growth witnessed in Q2FY21. Consumer staples would register 7.6% revenue growth vs 7.4% growth posted in Q2FY21. Furthermore, the discretionary portfolio would report 8.3% YoY growth vs 1% decline posted in Q2FY21 due to lockdown relaxations. Higher commodity prices is likely to result in margin erosion of 80bps (+30bps in Q2FY21). Dabur, Nestle, HUL, Marico, Relaxo, Titan and paint companies are likely to post better growth than peers.

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Quarterly Estimates

(Rs mn) Companies	Sales Q3FY21E	Sales YoY (%)	EBIDTA Q3FY21E	EBIDTA YoY (%)	EBITDA Margin (%) Q3FY21E	EBITDA Margin YoY (bps)	PAT Q3FY21E	PAT YoY (%)	EPS (Rs) Q3FY21E	Key Assumptions
Asian Paints	58,389	7.7	13,279	11.6	22.7	80	8,585	12.3	8.9	▪ Festival season, declining Covid-19 graph and revival in consumer sentiment is expected to boost decorative and industrial volume growth
Bajaj Consumer Care	2,248	6.3	595	9.6	26.5	80	545	8.8	3.7	▪ Lifting of travel restriction is likely to boost premium hair oil sales. Higher ASP spends are likely to restrict margin expansion.
Bata	5,828	(29.8)	1,291	(50.8)	22.2	(950)	444	NM	3.5	▪ Expect sequential improvement due to festive demand and lifting of travel restriction. Operating margins are expected to remain low due to low operating leverage.
Berger	18,010	6.2	3,344	12.9	18.6	110	2,181	19.9	2.2	▪ Festival season, declining Covid-19 graph and revival in consumer sentiment is expected to boost decorative and industrial volume growth
Britannia	31,815	6.7	5,881	17.1	18.5	165	4,468	19.9	18.5	▪ Expect modest volume growth due to higher out of home consumption with easing of restrictions. EBITDA margins would expand due to better better cost efficiencies; RM inflation to restrict expansion.
Burger King India	1,227	NA	(177)	NA	(14.4)	NA	(547)	NA	NM	▪ Lifting of lockdown and IPL season would drive sales.

(Rs mn)	Sales		EBIDTA		EBITDA Margin (%)		PAT		EPS (Rs)	Key Assumptions
Companies	Q3FY21E	YoY (%)	Q3FY21E	YoY (%)	Q3FY21E	YoY (bps)	Q3FY21E	YoY (%)	Q3FY21E	
Colgate	12,160	6.0	3,569	12.9	29.4	180	2,355	18.3	8.7	▪ Expect volume to improve with improved distribution reach. Market share gain is the key to watch.
Dabur	26,972	14.6	5,826	18.2	21.6	65	4,881	16.9	2.8	▪ Existing Health portfolio, new product launches and higher rural demand are likely to support sales growth. Operational efficiencies and margin accretive portfolio is likely to aid margins.
Emami	8,777	8.0	3,009	14.0	34.3	180	1,557	7.8	3.4	▪ Strong traction in winter portfolio, new product launches and recovery in discretionary categories are likely to drive revenue growth.
GCPL	30,711	10.5	6,990	10.8	22.8	6	4,960	10.5	4.9	▪ Revenue growth likely to be in low double digit driven by volume growth. Expect double digit growth in Soaps and Hair color category. HI category to exhibit single digit growth.
HUL	113,751	16.0	27,902	14.1	24.5	(40)	20,666	20.5	8.8	▪ Expect double digit volume growth majorly led by Foods & Refreshment division. Expect strong revival in Beauty & Personal care segment.
ITC	115,364	(2.3)	42,652	(7.5)	37.0	(210)	37,485	(12.3)	3.1	▪ Expect Cigarette consumption to improve sequentially, although price increase will weigh on cigarette performance YoY basis. FMCG- Staples business is likely to post strong growth due to higher demand for packaged food and hygiene.

(Rs mn)	Sales		EBIDTA		EBITDA Margin (%)		PAT		EPS (Rs)	Key Assumptions
Companies	**Q3FY21E**	**YoY (%)**	**Q3FY21E**	**YoY (%)**	**Q3FY21E**	**YoY (bps)**	**Q3FY21E**	**YoY (%)**	**Q3FY21E**	
Jubilant Foods	10,280	(3.0)	2,517	(0.7)	24.5	56	1,049	1.2	7.9	▪ Lifting of lockdown and IPL season would accelerate dine in/ delivery sales. Delivery charges, lower discounts, and pricing actions would support margins.
Kansai Nerolac	14,583	9.5	2,558	29.4	17.5	270	1,630	40.8	3.0	▪ Strong revival in industrial segment and automotive sales coupled with festive demand is likely to drive volumes.
Marico	20,298	11.3	3,883	4.1	19.1	(132)	3,002	8.8	2.3	▪ Expect low double digit revenue growth led by strong volume performance across categories. Inflation in input cost will be partially offset by cost saving initiatives, judicious A&SP spends and price increases.
Nestle	34,604	9.9	8,492	22.3	24.5	250	5,643	19.4	58.5	▪ Expect high single digit volume growth led by higher demand for packaged food business. Out of home consumption is likely to remain muted.
Page Ind	8,335	5.0	1,791	29.0	21.5	400	1,213	39.7	108.7	▪ Strong winter demand, festival sales and opening up of markets are likely to drive sales. Performance of women and kids segment is a key to watch.
Pidilite Ind	20,807	8.0	5,294	14.3	25.4	140	3,767	10.2	7.4	▪ Lifting of lockdown is likely to boost revenue growth in both Consumer bazar and Industrial segment; white adhesives would partially remain under pressure due to closure of schools.

(Rs mn)	Sales		EBIDTA		EBITDA Margin (%)		PAT		EPS (Rs)	Key Assumptions
Companies	Q3FY21E	YoY (%)	Q3FY21E	YoY (%)	Q3FY21E	YoY (bps)	Q3FY21E	YoY (%)	Q3FY21E	
Relaxo	6,238	4.0	1,331	30.9	21.3	439	804	48.4	3.2	▪ Revival in consumer sentiment and demand for economy product will drive revenue growth.
Titan	72,734	17.2	6,253	(15.0)	8.6	(326)	4,215	(10.3)	4.7	▪ Expect Jewellery/ Watches/ Eyewear to register growth of ~+ 21%/-12%/ -8% YoY respectively. Management commentary on Jewellery division in Q4 in key to watch.

Sector Overview

Energy – CGD companies to report a growth in volumes sequentially with volumes reaching Pre-Covid levels as movement of people have started, however we expect a de-growth in volumes on a YoY basis as some segments have still not fully recovered, due to which there is a permanent loss of volumes. Lubricant volumes have seen growth in demand with movement of vehicles and pent up demand and we expect volumes to improve as it is a deferred demand. Volumes will be flat sequentially with recovery seen from Q4FY21 onwards as agriculture season will kick in.

- The outbreak of COVID-19 and the disruption caused by it has impacted H1FY21E earnings for gas sector players however, strong recovery is seen from H2FY21E onwards.
- However, sales have recovered to 90% Pre Covid levels with industrial volumes recovering 100%, domestic PNG at 120%, CNG volumes at 90% and commercial volumes at 60% of Pre Covid levels.
- Commercial segment which was impacted severely due to shutdown of hotels and restaurants have seen gradual improvement from Q3FY21 onwards.
- Q3FY21E average sales is expected to surpass last year's sales for the CGD companies.
- The outlook for MGL and IGL is also improving with rebounding CNG demand in metro towns post-pandemic led disruption. Gujarat Gas also remains well placed for growth, being the key beneficiary of rising industrial demand. Industrial sales contribution to overall sales are larger for Gujarat Gas compared to IGL and MGL.
- The focus on pollution control is driving prospects for CGD companies further. The Air Quality Commission had recently mandated the use of PNG for all industries operating in New Delhi by 31 Jan, 2021. This will aid gas demand in Delhi-NCR and benefit IGL that caters to gas distribution in the region.
- According to the NGT's list of critically/severely polluted industrial clusters, Gujarat has five clusters where volume boost (like Morbi) could come up.
- From Oct'20, CGD companies have passed on the further decline in input cost by taking price cuts. Decline in gas prices will make cost economies gas vs alternate fuels better.
- Gujarat Gas have hiked price on industrial PNG in Morbi cluster from Jan'21. The recent hike by has brought the prices of natural gas at par with pre-Covid-19 level as it had reduced prices twice between June and September this year, which will further help in expansion of margins.
- We expect good outlook for CGD companies from H2FY21E as unlock activity has taken place and people prefer to use private vehicles to travel which will give a boost to CNG sales and also thrust from the government on green fuel is expected to continue and CGD will be the no. 1 priority for gas allocation.
- Demand for PNG from the industrial sector is on the rise, while CNG demand has been a key growth driver for CGDs. Geographical expansions, being undertaken by CGDs, have improved further volume and earnings outlook.
- With regulator introducing Open access policy soon will bring in more infrastructure, bring down the gas pricing and increase the gas penetration in the country. Consumers get to pick the operators of their choice. The incumbents will have to provide at least 20% of their capacity to the new players.
- However, the final draft is in favor of existing CGD companies which is a positive for them.
- Gas transmission volumes are expected to further improve on a sequential basis as activities are picking up. Tariffs are expected to improve on a sequential basis.

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Quarterly Estimates

(Rs mn)	Sales		EBITDA		EBITDA Margin (%)		PAT		EPS (Rs)	Key Assumptions
Companies	Q3FY21E	YoY (%)	Q3FY21E	YoY (%)	Q3FY21E	YoY (bps)	Q3FY21E	YoY (%)	Q3FY21E	
Castrol India	8,928	(11.8)	2,898	(15.1)	32.5	(126)	2,117	(22.0)	2.1	▪ Volume assumption of 48 TKL (down 11% YoY) with realisation of Rs 186 per litre.
GAIL	27,907	11.4	4,757	28.4	17.0	226	2,729	38.9	4.0	▪ Transmission volumes to improve to 110 mmscmd (up 4% on a sequential basis). Tariffs to remain same sequentially until unified tariff structure is applied. Gas marketing segment to report better margins on a sequential basis. Petrochemical business will continue to show signs of recovery.
Gujarat Gas	27,907	11.4	4,757	28.4	17.0	226	2,729	38.9	4.0	▪ Volumes at 946 MMSCM with EBIDTA spread at Rs 5.1 per SCM.
Gujarat State Petronet	5,760	(7.9)	3,830	0.8	66.5	576	2,380	7.2	4.2	▪ Transporation tariff at Rs 1.6 per SCM with volumes of 39.1 MMSCMD.
Gulf Oil Lubricants	3,920	(7.1)	720	(7.1)	18.4	(0)	535	(4.3)	10.7	▪ Volume assumption of 28 TKL (flat 13% YoY) with realisation of Rs 140 per litre. We are not assuming any institutional orders.
Indraprastha Gas	15,412	(7.4)	4,235	8.1	27.5	394	3,250	14.5	4.6	▪ 6.5 MMSCMD volumes with EBITDA spread of Rs 6.9 per SCM.
Petronet LNG	80,210	(10.0)	10,460	(5.6)	13.0	61	6,480	(4.0)	4.3	▪ Volume to be around 225 TBTU. Improvement in marketing margins on a sequential basis.
Mahanagar Gas	6,240	(16.2)	2,600	0.4	41.7	689	1,850	(0.6)	18.7	▪ 2.6 MMSCMD volumes which is a de-growth of 15% YoY. EBIDTA spread of Rs 10.8 per SCM.

Sector Overview

- Hospitality business saw some recovery in occupancies primarily driven by the leisure segment. Industry wide occupancies is estimated at 35-40% vs. 25-30% in previous quarter. Pent up demand, festive season, extended weekends, revenge travel and staycations have been the driving factor offsetting the Covid related business in Q2FY21. However, international travel and corporate business continues to be lack luster on account of covid related restrictions and virtual conferences.
- The growth in occupancies QoQ however is at the costs of ARR which is likely to witness a limited uptick QoQ and expected to be down 35-40% YoY.
- Despite weak revenues, various cost rationalization initiatives on the employee costs, HLP (Heat, light and power), AMCs, F&B etc are likely to cushion the drop in EBITDA. But this would be insufficient to mitigate the impact of pandemic led revenue decline.

Key things to watch-out:

- (1) Management commentary on pace of recovery in occupancies and ARR (2) Funding plans to pare down the debt (3) Potential industry consolidation, if any

Our View

- The worst phase for the hotel industry is likely behind. But, revival may be gradual over 18-24 months to hit the historic occupancies and ARR in our view. That said, we expect the operating performance to improve from hereon led by recovery in occupancies, ARR and few of the cost rationalization benefits to sustain in future. The optimism has been fairly captured in the recent run-up of the broader market and hotel stocks too in hopes of vaccine. In this backdrop, we expect Hotel stocks to go through a both time and price correction in the near-term.

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Quarterly Estimates

(Rs mn)	Sales		EBITDA		EBITDA Margin (%)		PAT		EPS (Rs)	Key Assumptions
Companies	Q3FY21E	YoY (%)	Q3FY21E	YoY (%)	Q3FY21E	YoY (bps)	Q3FY21E	YoY (%)	Q3FY21E	
Indian Hotels	4,805	(65.0)	(840)	(119.7)	(17.5)	(4,849)	(2,124)	(199.2)	(1.8)	▪ We estimate revenue to decline by 65% YoY led by steep drop in occupancies and ARR. Owing to high operating leverage, EBITDA and APAT to remain under pressure. Industry and IHCL's efforts on costs rationalization are appreciable. However, it is not sufficient to mitigate the revenue decline from the impact of pandemic.
Lemon Tree	679	(66.0)	180	(77.9)	26.5	(1,422)	(329)	(369.8)	(0.4)	▪ Numbers are not comparable YoY/QoQ on account of consolidation of Keys Hotels from Nov'19. We estimate revenue drop of 66% YoY led by 2850bps decline in occupancies to 43% and 40% drop in ARR. EBITDA to decline by 78% to Rs 180mn.

Infra & Construction

Sector Overview

- With lockdown restrictions receding and gradual improvement in economy, execution is improving and will continue to improve in H2FY21E. This can be seen from the fact that revenue of DART universe in Q2FY21 witnessed minor de-growth of 5.3% YoY but increased 25.0% QoQ.
- Labour availability which was a major concern in H1FY21, is also seeing improvement. All the companies in DART universe have more than 80-90% labour available as on Nov'20 and is likely to reach 100% by Q4FY21E.
- Considering the situation, order awarding surprisingly has been better than expected with NHAI awarded 40 projects (Rs473 bn) of 1,330 kms between Apr-Sept'20 vs. 828 kms during Apr-Sept'19 and have set a target of awarding 4,500 kms during FY21E.
- Healthy orderbook visibility ranging from 2.3x-5.8x, improving labour availability and increasing order inflows provides us confidence of revenue picking up from H2FY21E. Also, receiving timely AD for HAM projects for road construction companies will be key to watch out for.
- The DART universe is likely to report a revenue growth of 7.9%. The companies, such as KNR (+33.8%), HG Infra (+21.9%), PNC (+13.5%), DBL (+7.8%), NCC (+6.2%) and Ahluwalia (+1.0%) are expected to report revenue growth whereas JKIL (-12.5%) and PSP (-6.6%) are expected to report revenue de-growth.
- The EBITDA margin for DART universe will contract (-58 bps) for Q3FY21E. Majority of the companies are expected to report contraction in EBITDA margins with KNR (-335 bps) being the highest followed by DBL (-164 bps), JKIL (-142 bps), PSP (-21 bps), PNC (-13 bps). Ahluwalia (+41 bps), NCC (+41 bps) and HG Infra (+1 bps) are expected to report expansion in margins.
- The DART universe is likely to report APAT growth of 9.3%. Majority of the companies are expected to report PAT growth with NCC (+58.8%) being the highest followed by KNR (+52.1%), HG Infra (+32.0%), PNC (+24.3%), Ahluwalia (+9.4%). JKIL (-50.1%), DBL (-13.6%) and PSP (-13.1%) are expected to report APAT de-growth.

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Quarterly Estimates

(Rs mn)	Sales		EBITDA		EBITDA Margin (%)		Adj. PAT		EPS (Rs)	Key Assumptions
Companies	Q3FY21E	YoY (%)	Q3FY21E	YoY (%)	Q3FY21E	YoY (bps)	Q3FY21E	YoY (%)	Q3FY21E	
Ahluwalia Contracts	5,030	1.0	461	5.7	9.2	41	231	9.4	3.5	▪ With comfortable OB/revenue of 5.0x, 100% (80% as on Nov'20) labour availability leading to pick up in execution will be key to watch out for.
Dilip Buildcon	25,657	7.8	4,106	(2.3)	16.0	(164)	1,062	(13.6)	7.8	▪ With 100% labour availability as on Nov'20 and healthy order inflows for YTDFY21 alongwith receding impact of lockdown, focus will be on execution. Monetization of 7 HAM and AD for balance 5 HAM projects will be key to watch out for.
HG Infra	6,983	21.9	1,075	21.9	15.4	1	548	32.0	8.4	▪ Though HG is working at pre covid levels as on Nov'20, it won only 1 order worth Rs7.85 bn YTDFY21. Thus, getting order inflows (guided Rs35-40 bn for FY21) coupled with timely AD (received AD for 2 Delhi-Vadodara projects in Q3FY21) of balance projects and receivables recovery from Rajasthan govt will be key to watch out for.
J Kumar Infra	6,940	(12.5)	934	(20.9)	13.5	(142)	278	(50.1)	3.7	▪ JKIL's efficiency is at 80-90% as on Nov'20 and expects 100% by Q3-Q4FY21. As guided, JKIL has already received Rs36.5 bn (91.3%) inflows in YTDFY21. OB/revenue stands at 5.6x hence 100% efficiency will be key to watch out for.

(Rs mn)	Sales		EBITDA		EBITDA Margin (%)		Adj. PAT		EPS (Rs)	Key Assumptions
Companies	Q3FY21E	YoY (%)	Q3FY21E	YoY (%)	Q3FY21E	YoY (bps)	Q3FY21E	YoY (%)	Q3FY21E	
KNR Constructions	7,464	33.8	1,414	13.7	18.9	(335)	666	52.1	4.7	▪ Revenue growth to be led by higher contribution from its HAM projects. Labour strength during Nov'20 stood at 80%. With OB/revenue of 3.4x, 100% labour availability, AD for TN EPC road project, start of execution on 2 irrigation projects (Rs23 bn) and additional inflows will be key to watch out for.
NCC	22,494	6.2	2,748	9.9	12.2	41	955	58.8	1.6	▪ Labour availability during Nov'20 stood at 80%. With order inflow of Rs89.8 bn in Dec'20, YTDFY21 order inflow stands at Rs192.1 bn. This order inflow is much higher than our and street estimates which will lead to upgrade in revenue and PAT estimates. OB/revenue stands at 5.8x. Now, only 100% labour availability is key to watch out for.
PNC Infratech	13,826	13.5	1,925	12.4	13.9	(13)	959	24.3	3.7	▪ Labour strength during Nov'20 stood at 90%. 100% labour availability alongwith timely AD of 4 HAM & 2 EPC and 2 Irrigation projects and additional inflows will be key to watch out for.
PSP Projects	3,950	(6.6)	497	(8.1)	12.6	(21)	319	(13.1)	8.9	▪ With OB/revenue of 2.3x, receiving order inflows (Rs2.2 bn YTDFY21 vs. guidance of Rs15-16bn for FY21) is utmost crucial for the company. Labour strength is no more concern as it was at 95% in Nov'20.

Sector Overview

- **Growth remains robust; Wage Hikes to restrict OPM gains in H2:** As indicated in the Q2 earnings commentary; Indian IT Services vendors are likely to witness revenue growth of ~2.6%-4.9% QoQ in Q3FY21. Growth will be led by ramp up of several large deal wins and consolidation of acquisitions for many players. Based on current growth forecast and guidance we believe names in our coverage universe should end the year with low single digit growth on CC basis. Growth commentary is likely to stay strong as evident from strong order bookings of the past and several deal wins announcement made. Profitability for the quarter is likely to stay on upward curve, ex of wage hike impact as there are no other headwinds as such; as Cost Savings in most items will continue and incremental growth will be largely offshore led. Tier I names are likely to see CC organic growth of 2%-4% QoQ despite furloughs and are expected to see OPM decline on wage hikes/incentives announcement (except TechM – will see OPM gains). Mid-size and smaller companies would see even larger revenue growth in 3%-7% QoQ range, with profitability in narrow band on sequential basis.

- **First Shot at Visibility for FY22, Potential for More captive deals:** Despite Robust Performance in Q2FY21, Indian IT Vendors have share only a qualitative commentary on “multi-year digital transfortmation” prospects and some of them have also not increased guidance (may happen in Q3 for INFY/HCLT) meaningfully despite strong performance in Q2FY21. Current Quarter may potentially provide more visibility over CY21/FY22 with better commentary and confident stance, as many of them has announced several deals (rebadging & acquisitions) during the quarter. In Q3FY21, ~4-5 Captive Deals have been closed, we expect that there is a potential for more captive deals in FY22 moves forward as was also highlighted just after lockdown in Q1 commentaries by companies.

- **INR appreciation impact gets largely negated by cross currency gains:** During Q3FY21, INR has appreciated by ~0.7% against USD but depreciated more in the range of 0.8%-1.5% against other major invoicing currencies – EUR/GBP/AUD/JPY. Factoring these, most companies would see favorable uptick in $ revenues reported for the quarter by about 30-60bps versus the constant currency growth numbers. INR appreciation against USD would have adverse impact of about 10-15bps on profitability and would also lead to Fx gains on hedge portfolio in other income.

- **DART View:** CNX IT index has rallied 21% in OND quarter and is now 54% above from start of the year (2020). IT sector positive growth delivery in the worst year of the decade, superlative financial v/s other sectors, fillip to profitability-potential in WFA environment and attractive valuations (cheapest sector on PEG basis) has resulted in sustained rally. Given the sharp rise stocks have now crossed valuations beyond 2SD to their 3year Median (3SD in some cases) and thus are now overpriced and offers no room for upgrades. We would thus continue to remain selective as we see limited upside from current valuations. We prefer HCLT (Improving FCF) among Tier I names and OFSS (acceleration in demand in Post-COVID environment) and Mphasis (DXC pains bottoming out) in mid-tier segment. Within Small Cap, we prefer FirstSource (Mortgage/refinancing boom led growth).

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Quarterly Estimates

(Rs mn)	Sales (Rs)		EBIT		EBIT Margin (%)		PAT		EPS (Rs)	Key Assumptions
Companies	Q3FY21E	QoQ (%)	Q3FY21E	QoQ (%)	Q3FY21E	QoQ (bps)	Q3FY21E	QoQ (%)	Q3FY21E	
TCS	415,425	4.2	96,064	(3.7)	23.1	(190)	76,418	(5.9)	20.4	▪ CC Revenue growth of 3.2% QoQ in view of broad-based traction across verticals and conversion of robust deal-wins (TTM TCV/rev at 1.41x). OPM to remain flattish on QoQ basis as cost control on discretionary cost continues and absence of EPIC settlement cost would cover up for wage hike impact.
Infosys	254,793	10.3	61,040	20.5	24.0	203	49,316	10.6	11.6	▪ CC Revenue Growth of 3.8% QoQ given integration of 3 acq., ramp-up of Vanguard deal, strong performance led by BFSI vertical and impact of 2 smaller captive deals. Organic growth is 3.2% QoQ. OPM margins decline due to one-time incentive to junior employees, normalization of unsustainable cost levers impact of acq. & ramp-up of Vanguard deal.
Tech Mahindra	95,703	(0.9)	13,851	17.5	14.5	227	11,679	1.9	13.3	▪ CC Growth of 2.0% QoQ led by both Enterprise as well as Telecom segment and expect a 0.5% impact from the 2 acq. OPM to improve by 30bps QoQ on as the cost control on SG&A continues and Sub-Con Costs decline as guided.

(Rs mn)	Sales		EBIT		EBIT Margin (%)		PAT		EPS (Rs)	Key Assumptions
Companies	Q3FY21E	QoQ (%)	Q3FY21E	QoQ (%)	Q3FY21E	QoQ (bps)	Q3FY21E	QoQ (%)	Q3FY21E	
HCL Tech.	190,332	5.0	39,973	8.9	21.0	76	31,243	2.8	11.5	▪ CC growth of 2.4% QoQ near the top end of its guidance led by ERD revival and sustained traction in P&P segment. EBIT Margin to decline by 60bps to 21% within the guided range. The positive operating leverage (led by incremental off-shoring) will be negated by business spends for growth and salary hike for junior employees.
Wipro	156,699	0.8	29,015	6.5	19.1	72	25,483	3.8	4.7	▪ CC revenue growth of 3.1% QoQ with its guided range of 1.5% - 3.5% as broad-based traction across verticals and acq. of Eximius Design (0.3% impact). EBIT margins for IT Services are likely to decline by 10bps QoQ as cost control and incremental off-shore deal ramp-up would get negated by potential acq. impact and wage hikes to Junior employees effective 1st Dec'20.
L&T Infotech	31,494	12.0	6,299	38.0	20.0	376	4,925	30.7	29.0	▪ 1.8% CC growth led by growth driven by BFSI; CPG & Pharma vertical. OPM to improve by 20bps QoQ on operating leverage gains and sustained cost optimization.

(Rs mn)	Sales		EBIT		EBIT Margin (%)		PAT		EPS (Rs)	Key Assumptions
Companies	Q3FY21E	QoQ (%)	Q3FY21E	QoQ (%)	Q3FY21E	QoQ (bps)	Q3FY21E	QoQ (%)	Q3FY21E	
Mphasis	25,057	10.1	4,059	9.9	16.2	(3)	3,222	9.7	17.3	▪ 3.7% in USD terms led by large deal ramp-up, conversion of Revenue from TTM TCV of $1Bn and 70bps impact from Datalyx Acquisition. OPM to remain flat due to on-shore cost and sub-con increase as utilization is near peak negated by cost control efforts.
Mindtree	20,000	1.8	3,427	45.0	17.1	511	2,634	33.7	16.0	▪ 3.3 % CC QoQ led by improved traction across vertical (even travel) and incremental traction in top client. OPM margins to improve by 44bps QoQ due to continued cost control and better pyramid via fresher hiring.
COFORGE	11,858	10.5	1,606	7.7	13.5	(34)	1,230	(0.2)	20.0	▪ 3.6% CC growth in-line with its outlook backed by strong Order wins in H1 and likely large deal conversion in H2. OPM to decline by 20bps QoQ as company invests back to into SG&A to chase growth and hires talent as utilization is near peak (81%).
Persistent Sys.	10,382	12.5	1,190	47.7	11.5	273	1,033	17.5	13.5	▪ 3.4% growth in $ Revenue led by sustained deal-win momentum in TSU business and better seasonality in the Alliance business. OPM is expected to decline by 60bps QoQ due to Salary Hike impact effective Nov'20.

(Rs mn)	Sales		EBIT		EBIT Margin (%)		PAT		EPS (Rs)	Key Assumptions
Companies	Q3FY21E	QoQ (%)	Q3FY21E	QoQ (%)	Q3FY21E	QoQ (bps)	Q3FY21E	QoQ (%)	Q3FY21E	
Firstsource Solutions	12,604	19.6	1,437	21.6	11.4	18	1,140	27.3	1.6	▪ 5.6% QoQ CC growth led by sustained demand in BFSI /Payer segment. Healthcare provider may improve on QoQ basis as well. EBIT margins to remain flat QoQ as gains from operating leverage would be reinvested for growth and inorganic investments towards Patientmatters acq. (Revenue not included).
Affle India	1,441	52.5	320	32.4	22.2	(337)	280	30.4	11.0	▪ 7% QoQ Revenue Growth led by strong growth in Conversions up 7.5% QoQ. We expect 31mn conversions led by strong performance in both India and International Markets. The EBIT Margins to improve due to positive operating leverage and declining inventory rates.
OFSS	12,329	6.3	5,566	11.5	45.1	210	3,936	(13.8)	45.8	▪ Revenue traction will continue with 3% YoY and 4% QoQ Growth. Expect license sales of $16mn v/s $12.2mn in Q3FY20. Expect normalization of cost resulting in OPM decline of about 84bps QoQ at 45.1%.
Intllect Design	3,827	19.5	732	(642.0)	19.1	2,334	621	(645.9)	4.7	▪ Expect 15% on YoY Growth (4% on QoQ basis) in $ Revenue led by improved adoption of digital product offerings. Expect moderation in license signings at $12mn. Margins to improve marginally by 10bps.

(Rs mn)	Sales		EBIT		EBIT Margin (%)		PAT		EPS (Rs)	Key Assumptions
Companies	Q3FY21E	QoQ (%)	Q3FY21E	QoQ (%)	Q3FY21E	QoQ (bps)	Q3FY21E	QoQ (%)	Q3FY21E	
Nucleus Software	1,450	11.3	405	104.8	27.9	1,275	376	61.9	12.9	▪ Expect improved growth performance with 6% growth in INR terms sequentially, backed by 7% growth in Order book as of Q2. OPM to increase by 590bps on QoQ as due to positive operating leverage and no one-time impact of bonus provision from Q2.
Ramco System	1,616	9.9	250	103.7	15.5	713	143	148.2	4.7	▪ Expect modest growth of 2% QoQ led by strong deal signings in the HRP biz. while Order Book still remains strong (2x Revenue). Expect new deal signings of $30mn. OPM to decline by 110bps QoQ as some cost savings would normalize.
NIIT	2,234	(8.4)	232	96.4	10.4	554	296	8.8	2.1	▪ ~2.0% QoQ Revenue Growth in INR Terms led by continued traction in CLS and SNC business. EBIT Profitability to improve by 90bps QoQ as CLG gains further operating leverage & depreciation normalize more.
MPS	1,126	34.6	197	34.1	17.5	(7)	153	18.0	8.5	▪ 2.6% QoQ Revenue Growth led by traction in E-Learning and Platform biz. Profitability to improve to 17.5% led by improvement in E-Learning and Highwire margins.

Media - Broadcasters

Sector Overview

- We expect a modest recovery in ad revenues aided by low-base, festive season and re-opening of economy post-covid. FMCG, Paints, Auto etc we estimate to be the key sectors driving the performance.
- Zee would also benefit from conversion of pay-channels to FTA driving ~5-6% ad revenue growth.
- We estimate a modest growth in subscription revenues primarily driven by digital business. Broadcast business subscription revenues we expect to be flattish to low-single digit growth.

Key things to watch-out:

- Free cash flow generation for Zee would be the key in addition to management's outlook on recovery and sustainability in ad revenues. Commentary from Sun management on buyback/dividend, spend on original content in SunNxt and from Zee on sale of IWPL (at loss) would be the other things to watch-out.

Our View

- Media companies are witnessing a structural disruption from OTT. Though we believe that broadcasters may continue to register growth on both advertising and subscription revenues in the foreseeable future on account of under-penetration of C&S, lower pricing of C&S for end consumers, lower ad rates, increase in data rates and consolidation in telecom impacting OTT proliferation etc. In this backdrop, the valuations for Zee/Sun at ~11-12x FY23E EPS looks attractive.
- That said, Zee is coming out of its promoter's issues and need to establish credibility with healthy and persistent FCF generation. Even Sun's approach to business has been more of tactical leading to its losing market share in broadcast business. It runs the risk of being a laggard on OTT space. We thus remain cautiously optimistic with preference for Zee.

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Quarterly Estimates

(Rs mn)	Sales		EBITDA		EBITDA Margin (%)		PAT		EPS (Rs)	Key Assumptions
Companies	Q3FY21E	YoY (%)	Q3FY21E	YoY (%)	Q3FY21E	YoY (bps)	Q3FY21E	YoY (%)	Q3FY21E	
Zee Entertainment	20,592	0.5	5,277	(12.6)	25.6	(383)	3,543	(17.0)	3.7	▪ Led by low-base (-15% YoY in Q3FY20) and economic recovery, we expect Zee's domestic/overall ad revenue to be +2/-0.5% YoY. Like-to-like subscription revenue to increase by 5% YoY led by digital business. EBITDA though down YoY on account of investments in digital and operating deleverage due to muted revenue growth, it would be up ~271bps QoQ.
Sun TV	9,068	11.3	5,798	(0.1)	63.9	(727)	4,013	7.5	10.2	▪ We estimate Sun's advertising revenue to decline by 8.7% whereas subscription revenue to be +4.5/2% YoY/QoQ. Sun will benefit from IPL during the quarter. We factor IPL revenue/EBITDA of Rs 1.2bn/301mn. Ex-IPL we estimate revenue/EBIT/APAT of -3.6/-5.3/+2. EBIT/PAT growth to be driven by lower amortization charges.

DART

Sector Overview

- Q3 is expected to be a mixed bag post a strong 1H specially on the exports front. We believe Domestic formulations is likely to witness healthy recovery post a dismal 1H. We have penciled in growth of 8-12% for our domestic formulations segment led by low base, inventory movements. Notable outperformers in India are expected to be Cipla, IPCA and Dr Reddy's amongst our coverage universe. Steady pricing and monetization of ley launches such as gProventil (Cipla), gProAir (Lupin) and gDoxil (Cadila) shall aid sustenance in US growth. Further, we expect prescription growth in Sun's specialty portfolio (Ilumya and Cequa) and Lupin (Solosec) to improve significantly.
- On the API front, we expect some normalization in demand post a robust 1H both in terms of volume as well as prices. While the underlying growth remains strong, our estimates peg in sequential decline in Laurus and Divi's. On the CDMO/CRO front, post a muted 2Q, we build in strong growth for Suven in 3Q driven by higher off take in specialty chemicals and commercial CRAMS.
- Though margins are not expected to be as high as Q2/1H (as marketing and promotional activities resume and due to lower export incentives), we believe operational performance of Pharma universe continues to remain strong vs the average run-rate of last 2-3 years. Lupin and Sun Pharma are expected to be key beneficiaries of Q3.

Quarterly Estimates

(Rs mn)	Sales		EBITDA		EBITDA Margin (%)		PAT		EPS (Rs)	Key Assumptions
Companies	Q3FY21E	YoY (%)	Q3FY21E	YoY (%)	Q3FY21E	YoY (bps)	Q3FY21E	YoY (%)	Q3FY21E	
Ajanta Pharma	6,902	7.3	2,079	11.8	30	120	1,459	35.6	16.6	▪ Strong growth in India at 9% and steady US base at US$21mn to offset the volatility of EM (Africa). Expect sequential decline in margins at ~30% vs higher base of 38% in 2QFY21.
Alkem Labs	23,075	7.4	4,891	7.9	21	10	3,512	(9.9)	29.4	▪ Expect recovery in India (acute portfolio) performance, and sustained growth in the US to drive 7% YoY top-line growth. Margins to normalize at 21% as business resumes in full swing. Earnings to decline both QoQ and YoY on a higher base.

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(Rs mn)	Sales		EBITDA		EBITDA Margin (%)		PAT		EPS (Rs)	Key Assumptions
Companies	Q3FY21E	YoY (%)	Q3FY21E	YoY (%)	Q3FY21E	YoY (bps)	Q3FY21E	YoY (%)	Q3FY21E	
Cadila Healthcare	42,874	21.3	8,539	23.2	20	31	5,143	43.5	5.0	▪ Supply opportunities due to covid, improved US generic scenarios in terms of market share (mesalamine) and price realizations to boost earnings YoY, though with cost structure normalizing, expect sequential decline
Cipla	49,217	16.2	9,810	29.4	20	202	4,703	34.0	5.8	▪ Visible ramp up in Albuterol in the US and new launches targeting Covid in domestic/emerging markets supports earnings growth despite of high base of gSensipar. Expect US to report revenue of US$149mn
Divis Lab	17,007	21.8	6,973	41.2	41	563	4,981	44.0	18.8	▪ Improved demand for global APIs and capacity expansion to lead to 22% YoY growth. Despite a strong 1H, backward integration and favourable pricing to result in EBITDA margins at 41%
Dr Reddy's Laboratories	49,936	13.9	13,876	29.2	28	330	7,685	2.4	46.3	▪ Expect US to report US$248mn led by launch of gKuvan and India to report 21% growth (complete integration of Wockhardt portfolio). Change in product mix to improve operating margins at 27-28% despite lower export incentives.
IPCA Laboratories	12,705	6.0	2,637	(3.0)	21	(194)	1,800	(8.2)	14.3	▪ Stable domestic formulations despite Covid and continued momentum in formulation exports to sustain strong earnings growth on a YoY basis. However, expect decline sequentially as cost structure normalizes

(Rs mn)	Sales		EBITDA		EBITDA Margin (%)		PAT		EPS (Rs)	Key Assumptions
Companies	Q3FY21E	YoY (%)	Q3FY21E	YoY (%)	Q3FY21E	YoY (bps)	Q3FY21E	YoY (%)	Q3FY21E	
J B Chemical	5,513	28.6	1,240	38.4	23	160	877	32.1	10.9	▪ Ramp up in acute products along with strong growth in cardiac therapy to drive growth. Margins to normalize at 22.5% but still strong vs the average of 21%
Lupin	41,887	12.7	7,101	65.5	17	541	3,233	67.3	7.1	▪ Expect a bumper 3Q with full benefit of Albuterol launch in the US and Enbrel in EU. Key monitorable will be the improvement in EBITDA margins post a cost restructuring exercise. We expect margins to improve to ~17%
Sun Pharma	87,004	8.2	21,689	23.3	25	304	14,418	73.3	6.0	▪ Expect specialty business to contribute US$130mn driven by recovery in Ilumya and Cequa Rx. Taro to remain steady QoQ while recovery in India to drive margins
Torrent Pharma	19,872	3.3	5,983	10.8	30	204	2,794	6.2	16.5	▪ Muted performance in exports and lower growth in India to restrict growth to 4% YoY and EBITDA margins at 29.6%
Laurus Labs	10,147	39.1	2,841	91.8	28	769	1,699	131.3	3.2	▪ De-bottlenecking of capacities to drive formulations growth along with higher off-take in DTG and Lamivudine on a lower base YoY. Sequentially, we expect the numbers to be subdued. Margins at 28% due to lower export incentives.
Poly Medicure	2,039	13.0	562	23.4	28	233	353	41.2	4.0	▪ Driven by strong exports and traction in new launches, expect sales to grow by 13% YoY with margins sustained at 27%

(Rs mn)	Sales		EBITDA		EBITDA Margin (%)		PAT		EPS (Rs)	Key Assumptions
Companies	Q3FY21E	YoY (%)	Q3FY21E	YoY (%)	Q3FY21E	YoY (bps)	Q3FY21E	YoY (%)	Q3FY21E	
Suven Pharma	2,675	49.7	1,107	39.0	41	(318)	925	59.7	3.6	▪ Strong traction in commercial CRAMS and specialty chemicals to drive Q3 post a softer 2Q led by pre-commercial sales
Syngene International	5,814	12.0	1,628	13.9	28	47	941	15.6	2.4	▪ Expect steady Q3 led by discovery business.

Pipes

Sector Overview

Pipe companies to deliver flattish/de-growth in volumes on a YoY basis. Demand has started picking up from Metro cities in addition to Tier 2 and Tier 3 cities. Margins likely to be stable, however, inventory losses due to raw material volatility can dent profitability.

- PVC prices dropped in March by Rs. 13.5/kg which recovered by Rs. 4/kg in May, Rs. 7/kg in June and further recovered by Rs. 1.5/kg in July and by Rs. 2/kg in August.
- However, full price reduction was not passed on, hence realisations were maintained.
- Anti-dumping duty imposed on CPVC pipes for 6 months in August, 2019 has been further extended for 5 years from February 2020, which will be positive for Astral and Supreme. This covers any other country who exports its CPVC resin/compound through China/Korea and any other country exporting on behalf of Chinese/Korean players.
- Tier 2 and Tier 3 cities are the major contributor to new demand and from Q3FY21E demand from Metro cities have started as labour issue have been resolved.
- Pipes companies majorly suffered in H1FY21E as spending was more on necessity products and real estate sector was facing labour issues. However, volumes have started flowing in from Q3FY21E onwards.
- Usually, this trend has been observed that in Q1 more of PVC is been sold and from Q2 onwards CPVC starts picking up.
- Organised pipe players will benefit as they have maintained their cash cycle. Unorganised segment is 30-35%, whose condition was much worse during the pandemic. So some consolidation is happening which is increasing the share of organised players.
- However, we hold our neutral stance for the overall sector for next 2 quarters as full demand recovery is yet to be seen will mostly recover by upcoming agriculture season from next quarter onwards.

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Quarterly Estimates

(Rs mn)	Sales		EBITDA		EBITDA Margin (%)		PAT		EPS (Rs)	Key Assumptions
Companies	Q3FY21E	YoY (%)	Q3FY21E	YoY (%)	Q3FY21E	YoY (bps)	Q3FY21E	YoY (%)	Q3FY21E	
Astral Poly Technik	6,752	1.7	1,172	(0.8)	17.4	(44)	650	(5.1)	4.3	▪ Pipe segment to grow/remain flat on a YoY basis with higher realizations. Sales have picked up in Metro cities, however pent up demand seen in the last quarter will not be witnessed in this quarter. Adhesive segment to show a growth.
Finolex Industries	6,350	(9.2)	1,403	1.4	22.1	230	1,200	28.6	9.7	▪ Piping segment volume to grow in single digit/remain flat YoY. Usually Q2 and Q3 are slow quarters before gearing up for the agri season from Q4.
Supreme Industries	13,260	(3.4)	2,310	4.6	17.4	134	1,513	23.3	11.9	▪ Piping segment volume to grow in mid single digit on a YoY as demand has increased with unlocking of the economy. Margin to increase on a YoY basis by 140 bps.

Sector Overview

- After a tepid Q1 and Q2FY21 impacted by pandemic and consequent store closures, we expect the retail companies to bounce back healthily. The boost is likely to be led by pent-up demand, buying season coinciding with festivity and the opening up of economy.
- We estimate a SSSG decline of 7/10% for Dmart and Vmart respectively. Overall revenues to increase by 15.6% for Dmart led by store (area) expansion and to decline by 7% for Vmart.
- We estimate 8 new store additions for Dmart during Q3FY21. For Vmart, we estimated 11 store additions (vs 10 as reported by the company).

Key things to watch-out:

- Management commentary on (1) Sustainability of the Q3FY21 demand trends and (2) consequent guidance on store expansion would be the key.

Our View

- The worst phase for the retail industry is likely behind with healthy recovery in demand in Q3FY21. The optimism has been fairly captured in the recent run-up of the broader market and retails stocks too. Run-up has also been partly on account of visibility on the availability of vaccine. In this backdrop, we expect Retail stock to go through at least a time correction (if not price correction) in the near-term. Our bias remains positive on the business trajectory and we would remain Buyer on dips.

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Quarterly Estimates

(Rs mn)	Sales		EBITDA		EBITDA Margin (%)		PAT		EPS (Rs)	Key Assumptions
Companies	Q3FY21E	YoY (%)	Q3FY21E	YoY (%)	Q3FY21E	YoY (bps)	Q3FY21E	YoY (%)	Q3FY21E	
Dmart	78,040	15.6	6,348	7.0	8.1	(65)	4,336	10.0	6.7	▪ We estimate GP growth of 11% YoY. GP growth to trail revenue growth due to lower contribution from high-margin non-FMCG and General Merchandise and apparels category. We estimate Dmart to add 8 stores during the quarter.
Vmart	5,231	(7.0)	1,122	(3.9)	21.4	67	523	(10.2)	28.8	▪ We estimate GP decline of 6.5% YoY. GP we expect to improve marginally due to higher share of winter-wear, lower shrinkage, absence of EOSS and lower contribution of low-margin Kirana sales. Being in discretionary category and led by healthy sales in Diwali, we expect the SSS decline of ~10% YoY.

Sugar

Sector Overview

- ISMA forecasts Sugar production to move north of 30 mn tonnes for 2020-21 Sugar season. The inventory situation thus continues to remain weak, as we have begun the current season with 10.9 mn tonnes of opening inventory, with demand pegged at 26.0 mn tonnes and exports at 6 mn tonnes, we could end up with another mammoth inventory number of 9.9 mn tonnes.
- On 12th December 2020, the cabinet approved a total sugar subsidy of ~Rs 35.0bn for the whole country. The subsidy on a per kg basis, which was at Rs 10.44/kg for FY20 has been cut to Rs 6.0/kg whilst increasing the export sales quota to 6 mn tons. We reckon that average international sugar prices in FY20 stood at 12.4 cents/lb (~Rs 19.5/kg) at an average USD/INR equation of 70.9. However, the rupee has depreciated even further and is averages at ~74 with international sugar prices at 14.2 cents/lb (~Rs 22.9/kg). If one were to add the sugar subsidies proposed in both the years, blended sugar prices come to Rs 29.8/kg in FY20 and Rs 29.0/kg in FY21. We believe that, the differential is quite low for us to convincingly conclude that a cut in sugar subsidy will have any material bearing on the profitability. The other positive coming in is a 1 mn ton incremental export quota allocated for FY21, which will improve sales volumes of the companies which is in-line with reducing sugar inventory in the system.
- In a move that may help the country solve many problems, the Cabinet Committee on Economic Affairs (CCEA) on Wednesday decided to extend additional financial assistance of Rs 45.7bn for setting up distilleries to produce more ethanol in the country. This bodes well for the Sugar-Ethanol ecosystem.

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Quarterly Estimates

(Rs mn)	Sales		EBITDA		EBITDA Margin (%)		PAT		EPS (Rs)	Key Assumptions
Companies	Q3FY21E	YoY (%)	Q3FY21E	YoY (%)	Q3FY21E	YoY (bps)	Q3FY21E	YoY (%)	Q3FY21E	
Balrampur Chini Mills	14,790	23.7	1,765	60.1	11.9	272	1,275	82.0	5.8	▪ Expect sales of 2.9 mn quintals of sugar at a realisation of Rs 3,300/quintal. We are building in 26,000 KL of B-heavy ethanol sales and 17,000 KL of C-heavy ethanol sales. ▪ We expect EBIT margin expansion of 480bps YoY to 11.7% owing to richer mix in distillery unit (higher sales of B heavy ethanol).
Triveni Engineering and Industries	12,511	17.0	2,537	188.8	20.3	1,206	1,646	264.3	6.6	▪ We factor Ethanol sales of 35,000 KL. We expect growth of 5.0% YoY and 25.0% YoY in the gears and water business. We expect EBIT/PAT to be at 2.34/1.6bn, up by 211.0/264.0% YoY.

Sector Overview

- Q3FY21 had been a complete foregone quarter on tariff increase aspect. This is especially in backdrop of high hopes of potential tariff increase post the settlement of AGR case in early Sep'20. That said, Bharti with its superior execution had been witnessing healthy subscriber additions ahead of Jio.
- In our view, Jio on account of potential spectrum crunch and impacted by farmer agitation in HPH circles may witness further moderation in subscriber adds. Jio's lacklustre performance on subscriber additions (market share gains!) post the fund raise may either brew an another tariff war (seem unlikely as Jio itself will be the major loser as a leader) or lead to a potential price increases to drive performance. We remain believer of the second scenario.
- VIL with its struggle for optimising cash flows and capex continues to lose customers.

Key things to watch-out:

- (1) Funding plans by VIL (2) Potential tariff increase, if any (3) Bharti's potential weight increase in MSCI (4) Launch of low cost smartphones by Jio (5) Commentary on upcoming spectrum auctions are few of the key things to watch-out.

Our View

- With industry consolidation and struggle of VIL, telecom remains a long-term compounding story. The sector is likely to turn out into either 'two-private player market or Rs 250 ARPU' scenario with near 100% probability of these events on a combined basis. Potential fund raise by VIL with lack of material price increases is a key risk. Bharti with its superior execution and Balance sheet strength is best-positioned as a pure-player telecom operator. Indus Tower is a proxy-play on telecom tariff increases but runs the risk of VIL shutdown.

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Quarterly Estimates

(Rs mn)	Sales		EBITDA		EBITDA Margin (%)		PAT		EPS (Rs)	Key Assumptions
Companies	Q3FY21E	YoY (%)	Q3FY21E	YoY (%)	Q3FY21E	YoY (bps)	Q3FY21E	YoY (%)	Q3FY21E	
Bharti Airtel	2,65,298	20.9	1,20,245	29.8	45.3	310	2,472	NA	0.5	▪ Bharti's consolidated revenue/EBITDA to grow by 2.9/3.3% QoQ primarily led by India wireless business. We estimate Bharti to add 7.5mn subscribers and 1.5% QoQ ARPU growth. Bharti would be de-consolidating Indus Tower (erstwhile Bharti Infratel) post-merger from mid-Nov'20. These would negatively impact the Net Debt/EBITDA and Net Debt/Equity ratio.
Reliance Jio	180,147	29.0	77,365	38.6	42.9	298	29,866	95.6	0.7	▪ RJio's revenue/EBITDA/APAT to grow by 3.1/3.1/5% QoQ. We estimate a net subscriber addition of 5mn and QoQ ARPU growth of 1.5% to Rs 147. Rjio has faced severe criticism in HPH circle (18.3mn active subs as of Oct out of 310mn) and may witness a higher churn in this market.
Indus Tower	37,609	2.4	19,198	2.3	51.0	(6)	8,057	0.9	4.4	▪ We estimate core rental/energy/overall revenues to grow by 1/3.2/1.8% QoQ. Core/Overall EBITDA to grow by 1.7/5.7% QoQ. Energy margin had been negative in previous two quarters which we expect to reverse. Indus Tower consolidation would happen wef 19th Nov, 2020. Co may also declare an extra-ordinary dividend of ~ Rs18/sh.

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	**> 20%**
Accumulate	**10 to 20%**
Reduce	**0 to 10%**
Sell	**< 0%**

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