Earnings outperform, post Covid recovery picks up steam

ICICI direct Research

Q2FY21

November 20, 2020

- Corporate earnings in Q2FY21 came in better-than-expected wherein companies benefitted from low raw material cost and realised operating leverage benefits with management commentary positive on pace of demand recovery and retaining some part of operating leverage gains in the post Covid world. At the index level, excluding the BFSI space; net sales fell ~10% YoY, primarily driven by double digit topline decline in the oil & gas space. On the profitability front, EBITDA margins at the index level came in at a multi-quarter high at 18.9%, up 410 bps YoY. Savings were realised in raw material costs, which, for the quarter, came in at 44.4% of sales, down ~650 bps YoY. At the PAT level, growth was limited to just ~2% YoY due to exceptional low tax rate in the base quarter (~11% in Q2FY20) amid change in corporate tax rate regime last year. On the PBT front, which is more realistic to look at in Q2FY21, profitability growth came in pretty strong at ~31% YoY. Growth in profitability at the PBT level was also supported by higher other income, primarily factoring in gain on sale of one business segment at an engineering conglomerate
- On the sectoral front, in the banking space, business activity saw improvement. However, loan growth for the industry remained modest at ~5.8% YoY in Q2FY21. Asset quality improved as GNPA reduced 13.4% YoY, 2.4% QoQ with improvement in PCR, reducing NNPA by ~37.4% YoY, 15.1% QoQ. In the auto space, demand outstripped supply for most major players. Dispatches picked up sharply in September in the run up to the festive period. In the FMCG space, volume growth came in healthy tracking robust demand in the packaged good as well as immunity booster segments. In the cement space, volume growth came in positive YoY. This, coupled with firm realisations and cost control, led to robust EBITDA margins
- Post Q2FY21, we marginally revise our FY21E-22E estimates and introduce FY23E numbers. Going forward, we expect Nifty earnings to grow at 17.5% CAGR in FY20-23E. From the low base of FY21E, Nifty earnings CAGR is at 22.7% in FY21E-23E. We now value the Nifty at 13,350 i.e. 20x P/E on FY22E-23E average EPS of ₹ 668 with corresponding Sensex target at 45,500

Exhibit 1: Nifty aggregate P&L (ex-financials) (₹ crore)

Nifty P&L (ex-BFSI space)	Sep-20	Sep-19	Jun-20	YoY (%) change	QoQ (%) change
Sales	**8,52,404**	**9,46,191**	**6,56,192**	**-9.9**	**29.9**
Total Expenses	6,91,646	8,06,572	5,39,058	-14.2	28.3
Raw material	3,78,603	4,81,277	2,58,458	-21.3	46.5
Employee	1,13,436	1,09,425	1,10,815	3.7	2.4
Other expenses	1,99,607	2,15,870	1,69,785	-7.5	17.6
Expenses (% of sales)					
Total Expenses	81.1	85.2	82.1	-410 bps	-101 bps
Raw material	44.4	50.9	39.4	-645 bps	503 bps
Employee	13.3	11.6	16.9	174 bps	-358 bps
Other expenses	23.4	22.8	25.9	60 bps	-246 bps
Operating Profit	**1,60,758**	**1,39,619**	**1,17,134**	**15.1**	**37.2**
OPM%	18.9	14.8	17.9	410 bps	101 bps
Other Income	29,111	22,170	27,223	31.3	6.9
Interest	28,290	29,495	31,573	-4.1	-10.4
Depreciation	52,634	49,219	51,531	6.9	2.1
PBT	**1,08,945**	**83,075**	**61,252**	**31.1**	**77.9**
Tax	33,546	9,048	20,037	270.8	67.4
Tax Rate	**30.8**	**10.9**	**32.7**	**1990 bps**	**-192 bps**
PAT	**75,399**	**74,027**	**41,215**	**1.9**	**82.9**

*Source: Capitaline, ICICI Direct Research; *Data for 38 index companies' excl Banks & NBFC's, Grasim*

Nifty earnings summary (ex-financials)

Nifty Earnings Summary (ex-financials)					
₹ crore	Sep-20	Sep-19	YoY (%)	Jun-20	QoQ (%)
Sales	8,52,404	9,46,191	-9.9%	6,56,192	29.9%
EBITDA	1,60,758	1,39,619	15.1%	1,17,134	37.2%
Net Profit	75,399	74,027	1.9%	41,215	82.9%

Positive surprises & buys

- Divi's Laboratories
- Elgi Equipments
- Firstsource Solutions
- Minda Industries
- Tata Steel

Nifty EPS estimates & Nifty target

Revised Sensex & Nifty Target				
Revised Earnings Estimates	FY20	FY21E	FY22E	FY23E
Nifty EPS (₹/share)	442	478	615	720
Growth (%)	-6.2%	8.2%	28.6%	17.2%
Earnings CAGR over FY20-23E				17.5%
Earnings CAGR over FY21E-23E				22.7%
Target Multiple (~1.1x PEG)				20.0x
Nifty Target (using FY22E-23E average EPS; ₹ 668/share)				13,350
Corresponding Sensex Target				45,500
Potential Upside (@Nifty 12,800)				4%

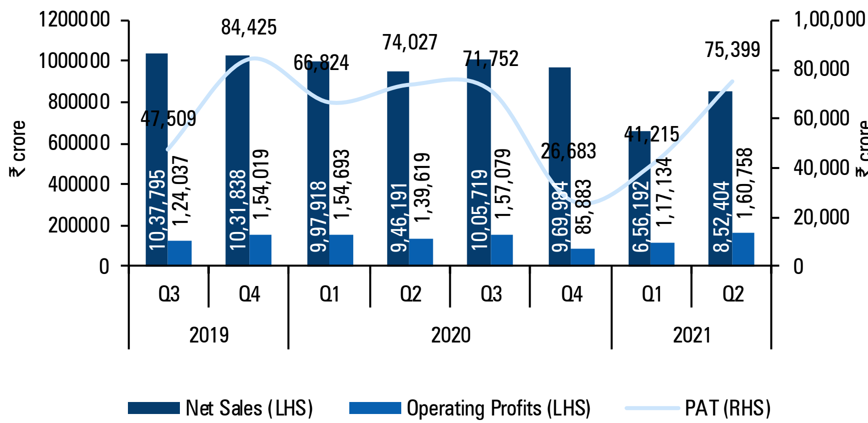
Research Analyst

Pankaj Pandey
Head Research
pankaj.pandey@icicisecurities.com

Earnings Wrap

ICICI Securities – Retail Equity Research

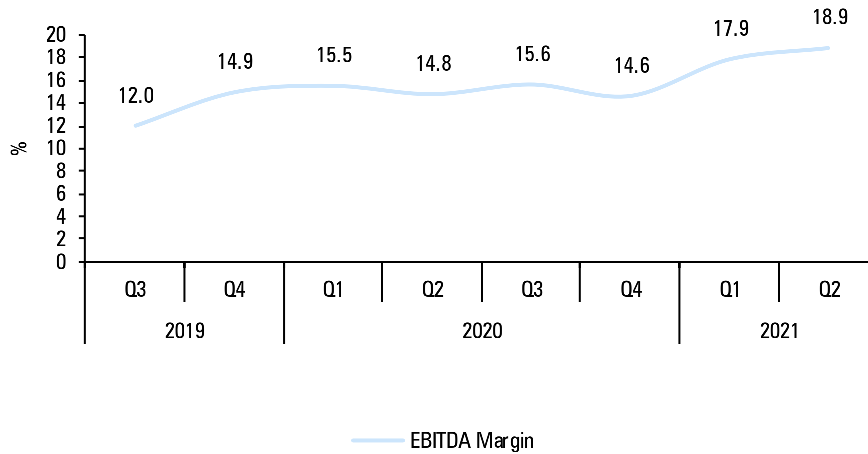
Exhibit 2: Nifty aggregate quarterly revenue, operating profit & net profit trend)



Source: Capitaline, ICICI Direct Research

Ex-financials, at the Nifty index level, the topline was down 10% YoY to ₹ 8.5 lakh crore. EBITDA, however, was up 15% YoY to | 1.6 lakh crore, tracking expansion in EBITDA margins to 18.9% for Q2FY21. Ensuing PAT in Q2FY21 was up 2% YoY to ₹ 0.75 lakh crore, tracking low effective tax rate in base quarter. Excluding this, at the PBT level, earnings growth came in healthy at ~31% YoY

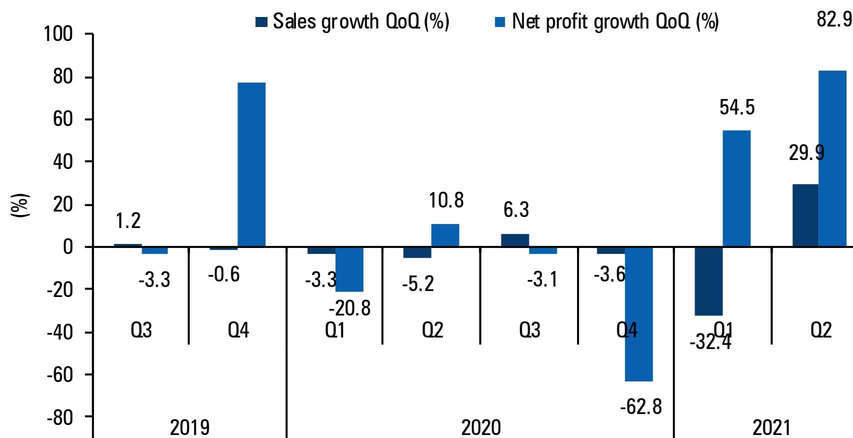
Exhibit 3: Nifty aggregate quarterly EBITDA margin trend



Source: Capitaline, ICICI Direct Research

In Q2FY21, EBITDA margins at the index level (ex-financials) expanded ~400 bps YoY to 18.9%. It was largely driven by lower raw material costs with RM costs as percentage of sales for Q2FY21 was at ~44% vs. its usual trend of ~50%. Benefits of raw material costs savings were partially negated by higher percentage to sales of employee and other expenses

Exhibit 4: Nifty aggregate quarterly revenue & profitability growth trend (%)



Source: Capitaline, ICICI Direct Research

QoQ comparison does not hold good for Q2FY21 given the low base of Covid impacted quarter i.e. Q1FY21 wherein economic activity came to a standstill due to restrictions over movement of goods and people. The QoQ jump, however, exemplifies the pace of normalcy and resilience of the domestic economy

Industry wise revenue & profit movement

- In Q2FY21, lower fuel consumption and decline in crude prices led to ~24% decline in revenues in the oil & gas space. This led to a dent in topline growth at the broader index level. Higher single digit topline growth was witnessed in the FMCG space, pharma, power as well as metals sector. Lower execution led to a decline in sales in the capital goods domain while resilient sectors like IT witnessed ~4% topline growth for the quarter. Auto space decline was tracking muted sales performance at Tata Motors (primarily JLR due to lower wholesales)

Exhibit 5: industry wise aggregate revenue (Nifty companies) (₹ crore)

	Sep-20	Sep-19	Jun-20	YoY change (%)	QoQ change (%)
Auto	1,14,615	1,23,926	59,281	-7.5	93.3
Capital goods	31,035	35,328	21,260	-12.2	46.0
FMCG	31,792	29,237	27,681	8.7	14.9
IT	1,07,768	1,03,334	1,03,858	4.3	3.8
Metals	1,08,808	1,02,191	79,840	6.5	36.3
Oil & Gas	3,39,764	4,44,531	2,61,451	-23.6	30.0
Pharma	20,252	18,778	18,088	7.9	12.0
Power	37,237	34,760	35,652	7.1	4.4
Others	61,134	54,106	49,080	13.0	24.6
Aggregate	**8,52,404**	**9,46,191**	**6,56,192**	**-9.9**	**29.9**

Source: Capitaline, ICICI Direct Research

Key sectoral share in index topline (%)

Sector	Sep-20	Sep-19	Jun-20
Auto	13.4	13.1	9.0
Capital goods	3.6	3.7	3.2
FMCG	3.7	3.1	4.2
IT	12.6	10.9	15.8
Metals	12.8	10.8	12.2
Oil & Gas	39.9	47.0	39.8
Pharma	2.4	2.0	2.8
Power	4.4	3.7	5.4
Others	7.2	5.7	7.5
Total	100.0	100.0	100.0

Source: Capitaline, ICICI Direct Research

- In the IT space, all IT companies in this quarter reported healthy growth in dollar revenues (average Tier-1 & Tier-2 IT companies witnessed 6% growth QoQ). This was mainly led by healthy traction in digital revenues. Tier-1 & Tier-2 companies also witnessed robust margin expansion (in the range of 50-410 bps QoQ) led by higher utilisation, offshoring, lower travel cost, lower discretionary spend and lower sub-contracting cost
- Inventory gains lifted the bottomline of the oil & gas space, which supported the overall bottomline growth at the index level. The pharma space also witnessed healthy double digit growth tracking outperformance at Sun Pharma. Restricted sale of tobacco products dented PAT at ITC and the overall FMCG universe at the index level

Exhibit 6: Industry wise aggregate net profit (Nifty companies) (₹ crore)

	Sep-20	Sep-19	Jun-20	YoY change (%)	QoQ change (%)
Auto	4,599	4,498	-6,403	2.3	LP
Capital goods	1,410	2,527	303	-44.2	365.1
FMCG	6,427	6,933	5,441	-7.3	18.1
IT	18,993	18,449	17,535	3.0	8.3
Metals	6,494	10,462	-3,607	-37.9	LP
Oil & Gas	23,303	19,749	18,269	18.0	27.6
Pharma	3,770	2,999	2,811	25.7	34.1
Power	6,530	6,286	4,939	3.9	32.2
Others	3,873	2,125	1,928	82.2	100.9
Aggregate	**75,399**	**74,027**	**41,215**	**1.9**	**82.9**

Source: Capitaline, ICICI Direct Research

Key sectoral share in index PAT (%)

Sector	Sep-20	Sep-19	Jun-20
Auto	6.1	6.1	-15.5
Capital goods	1.9	3.4	0.7
FMCG	8.5	9.4	13.2
IT	25.2	24.9	42.5
Metals	8.6	14.1	-8.8
Oil & Gas	30.9	26.7	44.3
Pharma	5.0	4.1	6.8
Power	8.7	8.5	12.0
Others	5.1	2.9	4.7
Total	100.0	100.0	100.0

Source: Capitaline, ICICI Direct Research

- In metals space, the Q2FY21 performance was robust primarily due to higher capacity utilisation and healthy realisations sequentially. In the pharma space, Indian formulations grew 4.7% YoY due to a gradual recovery in the acute segment, higher prescription generation as patient footfalls in healthcare facilities pick up with the pandemic situation easing out. US business (select pack) grew 11.7% YoY due to favourable forex and better prescription generation along with new launches
- In the telecom space, Bharti Airtel's overall subscriber (sub) base saw addition of staggering 13.9 million (mn) QoQ at 293.7 mn, not only covering last quarter's decline of 3.9 mn (on lockdown effect) but also a reflection of strong subscriber market capture (~2x of new operator). In terms of 4G subs additions, Airtel witnessed strong 4G net adds of ~14.4 mn during the quarter, with 4G data sub base at 152.7 mn. ARPU for Bharti Airtel's Indian telecom business came in at ₹ 162, up 3.4% QoQ

Key notable surprises and stock calls

This section of Earnings Wrap includes key surprises witnessed in the earnings of coverage companies and our take post analysis of results.

Exhibit 7: Key surprises and stock calls (Q2FY21)

Company	Q2FY21 Result	Quarterly Performance & Outlook	CMP (₹)	Target Price (₹)	Last Rating	Potential Upside (%)
Divi's Laboratories	Positive	Divis's Q2 revenues grew 21.0% YoY to ₹ 1749 crore. In Q2, generic segment grew 25.9% YoY, custom synthesis grew 18.1% YoY while carotenoids grew 9.9% YoY. EBITDA margins rose 843 bps YoY to 42.4% due to significantly better gross margin performance, lower other expenditure. Hence, EBITDA grew 51.1% YoY while PAT grew 45.6% YoY in Q2FY21. More than a strong performance, important narrative for Divi's is unprecedented capex to further augment capacity besides preparing for growing opportunities arising from China plus one factor. It has earmarked an aggressive capex of ~₹ 2800 crore, over and above ~₹ 2000 crore spent in last five years. Impact of this massive investment is already visible and is expected to reflect in FY21-22. Divi's stays a quintessential play on the Indian API/CRAMs segment with its product offerings and execution prowess. We maintain BUY with TP of ₹ 4205 based on 38x FY23E EPS of ₹ 110.6	3450	4205	Buy	22
Elgi Equipments	Positive	Elgi Equipments reported a strong Q2FY21 with consolidated revenue up 8% YoY to ₹ 480.3 crore. Standalone revenue (domestic & direct exports compressor) de-grew 3% YoY to ₹ 263.2 crore (~55% of consolidated topline) while international compressor business posted robust growth of 43.8% YoY (contributing ~38% of consolidated topline), the automotive segment revenue declined 23.8% YoY (~7% of firm's topline). EBITDA margins improved significantly by 630 bps YoY to 13.8% in Q2FY21 primarily due to better revenue booking and significant reduction in operating expenses. Going ahead, further traction in international market, new products like oil free compressors (AB series) would aid growth while green shoots of revival visible in India business would further aid topline. Also, its strategy on cost reduction, focus on cash business would help deal with working capital, debt reduction and liquidity situation. Going forward, we expect revenue, EBITDA growth of 7.9%, 37%, CAGR, respectively, in FY20-22E. We value the company at ₹ 140 (32x FY22 EPS of ₹ 4.4) with a BUY rating on the stock	125	140	Buy	12
FirstSource Solutions	Positive	Firstsource Solution (FSL) reported healthy Q2FY21 results. Dollar revenues increased 13.6% QoQ led by healthy growth in top client, 15% QoQ growth in BFS, 31.8% QoQ growth in communication, media and technology (CMT). In rupee terms, revenues increased 20.6% YoY, 11.8% QoQ. EBITDA margins increased 10 bps QoQ to 15.8%. Short-term debt fell from ₹ 834. 1 crore to ₹ 588.5 crore. The robust growth in current quarter and improving growth in subsequent quarters prompted FSL to up its revenue guidance to 9-12% YoY growth from earlier guidance of 6-10% in FY21E revenues in constant currency terms . From a long term perspective, we believe increased contribution from top client, healthy deal pipeline & outlook in mortgage business and traction in payer business will drive revenues. Also, the strategy of increased penetration in technology segment, cross-selling of platforms business, hiring of leaders to boost its digital business would further drive long term revenues. This, coupled with upward revision in EPS estimate and expected debt reduction, prompt us to remain positive on the stock	74	84	Buy	14
Minda Industries	Positive	Minda Industries' (MIL) Q2FY21 results were healthy, with the company continuing its path of significant outperformance vis-a-vis base user industries. Consolidated revenues rose 7.8% YoY to ₹ 1,465 crore vs. ~5% OEM sales decline. Accompanying margins rose to multi-year high of 14.7% tracking operating leverage benefits along with ~62% rise in PAT to ₹ 80 crore. Going forward, we expect continued sequential improvement in production levels at 2-W & PV OEMs in H2FY21E, which augurs well for MIL (2-W, PV form ~50% each of revenues; OEMs form ~86% of overall channel mix). The company continues to offer a viable play on vehicular premiumisation, with product portfolio and client base set to be augmented further once merger with Harita Seating Systems goes through. We build 11% sales CAGR, 39% PAT CAGR over FY20-23E along with increase in margins to 13.5% by that time riding on better product mix and cost actions. We assign BUY rating to MIL, valuing it at ₹ 410 i.e. 32x P/E on FY22E & FY23E average EPS of ₹ 12.8	365	410	Buy	12
Tata Steel	Positive	Tata Steel reported a healthy Q2FY21 performance wherein performance of both Indian, European operation was better than our estimates. Standalone operations reported EBITDA/tonne of ₹12861/tonne (up 15% YoY, 117% QoQ), while European operations reported negative EBITDA/tonne of US$27/tonne. Going forward, for Indian operation, on the back of a series of price hikes, coupled with improvement in product mix, blended realisation for Q3FY21 is likely to be higher by ₹4000-5000/tonne QoQ (compared to Q2FY21). Also, coking coal prices for Indian operations are expected to be lower by US$5-10/tonne QoQ. For European operations also EBITDA/tonne is likely to improve in Q3FY21 (from Q2FY21 levels) on the back of increase in gross spreads. Tata Steel has also entered into negotiation with SSAB, a Swedish company, to sell its Netherland business including Ijmuiden steelworks (six to nine months needed to be completed, if the potential transaction happens). Tata Steel is committed to deploying proceeds of any strategic rmate and expected debt reduction, prompt us to remain positive on the stockgic restructuring towards additional deleveraging of the balances sheet. We value the stock on	530	625	Buy	18

Source: ICICI Direct Research

The above companies posted a strong set of earnings in Q2FY21, which, we believe, are more fundamental and sustainable in nature.

Sector specific takeaways from quarter

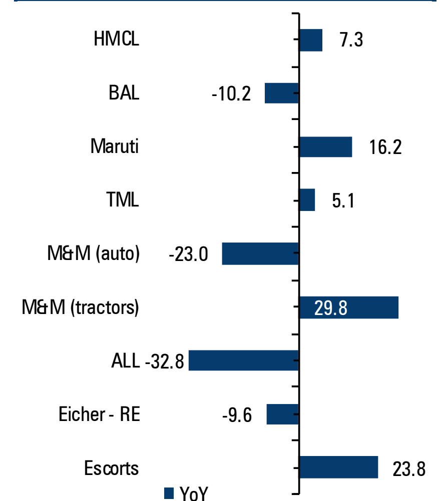
Auto & auto ancillary

- Q2FY21 was marked by a sharp rebound for auto sector from the washout Q1FY21 performance. Demand outstripped supply for most major players as production, distribution levels climbed to successively higher levels throughout. Dispatches picked up sharply in September in the run up to the festive period. Most coverage companies posted healthy results, with coverage universe (ex-Tata Motors) beating sales, margin estimates (up 5% YoY to ₹ 62,972 crore; up 120 bps YoY to 13.8%). PAT was lower than forecast due to large exceptional charge at M&M
- For Q2FY21, total industry sales were at 65.9 lakh units (down 4.6% YoY), with domestic dispatches down 1% YoY to ~56 lakh units and exports down 20.8% YoY to 9.9 lakh units. Domestic PV volumes were up 17% YoY to 7.26 lakh units (UV up 21.2% YoY); 2-W volumes were flat YoY at 46.9 lakh units (motorcycles up 7.9%, scooters down 16%)

Domestic CV segment was down 20% YoY to 1.33 lakh units (M&HCV down 49%, LCV down 8.5%). Domestic 3-W volumes declined 74.6% YoY to 45,902 units

- Among OEMs, 2-W market leader Hero MotoCorp's total volumes rose ~7.7% YoY to 18.2 lakh units. Combined with strong ASP increase of ~15% YoY (due to BS-VI transition), net sales grew 23.7% YoY. Margins were at 13.7% (down 80 bps YoY), with PAT (up 4.1% YoY) being aided by lower depreciation. Blended ASPs at Bajaj Auto were down QoQ amid lower share of 3-W in overall mix, with revenues down 7.2% YoY. Margins, however, surprised positively (up 111 bps YoY to 17.7%) tracking savings in other expenses. Eicher Motors delivered above expectation performance on all counts. Revenue decline was restricted to 2.7% YoY despite ~9.6% Royal Enfield volume decline to 1.5 lakh units amid healthy ASPs (up ~5% QoQ). Margins were down 262 bps YoY to 22.1%. PV bellwether Maruti Suzuki's net sales were up 10.4% YoY tracking 16.2% volume increase to 3.9 lakh units – with ASPs surprising negatively (down 5.6% YoY) due to adverse product mix

Key players volume growth – Q2FY21 (%)



Source: Company, SIAM, ICICI Direct Research

- M&M's standalone sales rose 5.7% YoY supported by strong tractor volumes & broad-based increase in ASPs. Record tractor profitability (24.4% EBIT margins) led to strong blended 16.1% EBITDA margins. PAT was impacted by exceptional charge of ₹ 1,150 crore related to investment impairments. Record tractor margins of 20% also aided Escorts to deliver the best performance in the auto sector in Q2FY21. Revenues jumped ~24% YoY (tractor volumes up 23.8%), with blended margins at multi-year high of 18.3% amid savings in all cost heads. PAT was up 119% YoY. Ashok Leyland's realisations grew 7% YoY, with net sales down ~28% YoY. Margins, however, were at 2.8% amid all-round cost savings. Return to double-digit margins at JLR (11.1%; riding on lower raw material costs & other expenses) aided Tata Motors' robust margin beat (12.5% vs. our estimate of 8.4%). Consolidated sales were down ~18% (India down 3.3%, JLR down 29%) amid 32% JLR volume drop. Consolidated loss after tax was at ₹ 307 crore
- Healthy aftermarket demand continued to benefit Apollo Tyres and Exide Industries. For Exide, revenues grew 5.5% YoY with margins up slightly to 14.2%. India operations drove 538 bps YoY rise in Apollo Tyres' consolidated margins to 16.2%. PAT was up 1.4x YoY. Minda Industries reported 7.8% YoY revenue increase along with multi-year high margins of 14.7% tracking operating leverage benefits

Bharat Forge disappointed, with tonnage dropping ~24% and revenues down 30%. Negative operating leverage dragged margins (down 766 bps YoY to 17.8%). PAT was down 71.3% YoY

- Going forward, we expect sequential improvement across segments to continue apace – with recovery seen being more rounded vs. rural focused earlier. The just concluded festive season witnessed a decent response (especially in PV, 2-W), while industry tailwinds for tractor segment (record crop production, strong monsoons, sustained government support) remain in place. Increase in prices of key inputs (steel, rubber, etc.) could pressurise Q3FY21E margins, however

Banking sector

- The current quarter witnessed a sequential improvement in business activities though the performance is yet to catch up to reach pre-Covid level. Continuance of standstill asset classification (due to Supreme Court's dispensation), end of moratorium and, thus, collection efficiency reached 80-97%. Thus, lenders have lowered quantum of contingent provisioning in Q2FY21 leading to better earnings momentum
- Net interest margin was flattish with benefit of declining funding cost and lower slippages offset by lack of better yielding loans. Other income, supported by treasury gains in the last two quarters, was aided by a sequential uptick in fee income led by increased loan originations but still below last year's levels
- Lenders continued to park additional provision (lower than Q1) amid continued uncertain times. However, lower slippages amid standstill asset classification and improving collection led to lower provisioning QoQ, YoY. Thus, earnings witnessed a revival with PAT at ₹ 26,619 crore in Q2FY21 vs. ₹ 6,645 crore in Q2FY20. PSB also witnessed strong revival in earnings at ₹ 8,164 crore in Q2FY21 vs. loss of ₹ 1695 crore in Q2FY20
- Asset quality improved as GNPA reduced 13.4% YoY & 2.4% QoQ to ₹ 7,98,675 crore. Elevated provisions led to improvement in PCR, thereby reducing NNPA by ~37.4% YoY & 15.1% QoQ to ₹ 214,195 crore

Relatively lower provisions QoQ improved profitability

Supreme Court order helped overall asset quality improvement in Q2FY21

Business activity witnessed improvement but loan growth for the industry remained modest at ~5.8% YoY to ₹ 91.8 lakh crore in Q2FY21. PSU banks' credit growth has been near industry average while most private banks outpaced industry by more than 500 bps growing 10-15% with HDFC Bank at extreme 24%. On a segmental basis, retail loans saw healthy traction driven by personal loans, credit cards and home loans, while loan to industry remained flat YoY as many lenders opted for a cautious approach in this segment. Deposit growth remained healthy at 10.5% YoY to ₹ 142.6 lakh crore

Exhibit 8: Financial summary of banking industry (private + public)

(₹ crore)	Q2FY21	Q1FY21	Q4FY20	Q3FY20	Q2FY20	YoY (%)	QoQ (%)
NII	123044	124591	109705	103524	104062	18.2	-1.2
Growth YoY	**18.2**	**28.1**	**19.0**	**15.9**	**26.0**		
Other income	46865	45678	56653	46914	50054	-6.4	2.6
Growth YoY	-6.4	13.0	28.3	24.9	49.1		
Total operating exp.	79400	75768	82713	71753	72766	9.1	4.8
Staff cost	41633	43854	41278	34655	37913	9.8	-5.1
Operating profit	90508	94501	83645	78685	81349	11.3	-4.2
Growth YoY	11.3	34.6	20.9	24.9	36.9		
Provision	53649	64138	89707	79395	60501	-11.3	-16.4
PBT	36859	30363	-8891	92	20775	77.4	21.4
PAT	26619	21140	-3958	-11230	6645	300.6	25.9
Growth YoY	**300.6**	**95.1**	**NM**	**NM**	**NM**		
GNPA	798675	818535	806145	771762	921911	-13.4	-2.4
Growth YoY	**-13.4**	**-2.6**	**5.8**	**-3.2**	**11.2**		
NNPA	214195	252154	260747	284932	341896	-37.4	-15.1
Growth YoY	**-37.4**	**-21.9**	**-10.6**	**-16.2**	**-9.9**		
Advances (Lakh crore)	96	96	94	86	92	4.7	0.3
Deposits (Lakh crore)	137	133	124	115	125	9.7	3.2

Source: Capitaline, ICICI Direct Research

Collection efficiency saw improvement from previous quarter and is in average range of 90-92% for September 2020

Recent management commentary suggests collection efficiency at ~90%+ comes as a positive surprise. Increased mobility of on-field staff and improving business activity is expected to lead to further improvement in collection as well as business growth ahead. However, quantum of loans that would come up for restructuring (indicative range 2-5% of loans) is key factor to be watched

Exhibit 9: Financial summary of banking industry (Public)

(₹ Crore)	Q2FY21	Q1FY21	Q4FY20	Q3FY20	Q2FY20	YoY (%)	QoQ (%)
NII	57,344	57,420	53,986	50,869	49,868	15.0	-0.1
Growth YoY (%)	**15.0**	**20.7**	**24.8**	**21.4**	**28.2**		
Other income	20,879	20,430	29,043	20,946	23,418	-10.8	2.2
Growth YoY (%)	**-10.8**	**14.8**	**31.9**	**37.6**	**62.8**		
Total operating exp.	40,412	38,434	45,330	35,073	37,411	8.0	5.1
Staff cost	24,626	24,327	24,102	20,600	22,173	11.1	1.2
Operating profit	37,811	39,415	37,699	36,742	35,875	5.4	-4.1
Growth YoY (%)	**5.4**	**31.8**	**18.5**	**48.9**	**42.6**		
Provision	25,523	30,061	47,894	27,109	35,591	-28.3	-15.1
PBT	12,288	9,354	-11,908	9,633	284	4221.3	31.4
PAT	8,164	6,035	-7,995	-1,829	-1,695	-581.6	35.3
Growth YoY	**NM**	**NM**	**NM**	**NM**	**NM**		
GNPA	4,40,624	4,66,548	5,03,394	4,74,609	5,38,464	-18.2	-5.6
Growth YoY	**-18.2**	**-14.4**	**7.0**	**-5.6**	**1.2**		
NNPA	1,18,229	1,40,654	1,60,108	1,69,189	1,89,725	-37.7	-15.9
Growth YoY	**-37.7**	**-31.5**	**-8.9**	**-19.7**	**-21.9**		
Advances (Lakh crore)	48	50	50	43	46	5.5	-2.9
Deposits (Lakh crore)	75	73	72	64	67	10.8	2.1

Source: Capitaline, ICICI Direct Research

- Private banks witnessed a revival in earnings, up 70% YoY, 16% QoQ to ₹ 16,996 crore, led by better NII, controlled opex, declining provisions. As unlock is progressing, repayment trend, collection efficiency (>95% for large private banks) and business growth is improving. With sufficient capital and liquidity, they are well placed to cash upon increased business opportunities as economic activity normalises

Exhibit 10: Financial summary of banking industry (Private)

(₹ Crore)	Q2FY21	Q1FY21	Q4FY20	Q3FY20	Q2FY20	YoY (%)	QoQ (%)
NII	46,535	49,764	44,873	41,947	39,903	16.6	-6.5
Growth YoY	**17**	**29**	**21**	**18**	**21**		
Other income	19,261	18,245	21,071	20,853	19,055	1.1	5.6
Growth YoY	**1.1**	**4.7**	**23.1**	**21.0**	**36.8**		
Total operating exp.	26,618	24,949	25,962	27,477	25,686	3.6	6.7
Staff cost	9,770	12,103	12,241	9,440	9,227	5.9	-19.3
Operating profit	39,178	43,060	39,982	35,322	33,272		
Growth YoY	**17.8**	**35.6**	**34.6**	**19.3**	**29.9**		
Provision	16,581	23,071	26,671	14,608	12,401	33.7	-28.1
PBT	22,597	19,988	12,195	20,881	20,797	8.7	13.0
PAT	16,996	14,676	8,975	15,104	9,991	70.1	15.8
Growth YoY	**70.1**	**21.9**	**-16.6**	**45.4**	**8.0**		
GNPA	1,09,619	92,661	1,19,725	1,21,840	1,20,436	-9.0	18.3
Growth YoY	**-9.0**	**-21.5**	**2.2**	**2.1**	**0.8**		
NNPA	25,970	30,280	38,647	44,059	42,541	-39.0	-14.2
Growth YoY	**-39.0**	**-28.5**	**-11.3**	**-3.1**	**-15.4**		
Advances (Lakh crore)	32	32	33	31	30	7.7	0.1
Deposits (Lakh crore)	38	37	37	34	33	14.1	3.6

Source: Capitaline, ICICI Direct Research

Capital Goods

- Overall, our capital goods coverage companies delivered a moderate performance aided by operating activities reaching 85-95% of pre-Covid levels, resumption of on-site labours leading to execution pick-up amid productivity challenges, early recovery in industrial, auto sectors amid unlock measure & pent-up demand and international markets faring well. Revenue of our coverage universe fell 10.1% while EBITDA declined 10.9% impacted by product mix, volumes, stages of execution while operating costs and PAT declined 27.6% YoY partly impacted by other income and tax adjustments in the base quarter. However, operations are gradually returning to normal post unlock measures by the government though at below normal productivity

In the shipping space, Cochin Shipyard posted dismal numbers led by lower execution during the quarter. Revenue declined 32% YoY whereas EBIDTA declined 39% led by negative operating leverage. However, on a positive note, the company launched five vessels at one go whereas keel laying was carried out for two more vessels

- Larsen & Toubro (L&T) reported reasonable order inflows while execution is gradually reviving as the economy sees green shoots of recovery amid unlock measures. Adjusted standalone revenue de-grew 15.8% to ₹ 15,792 crore owing to resumption of labourers at sites amid productivity challenges. Standalone EBITDA margin declined marginally by 50 bps to 7.8% mainly due to stages of execution and job mix. However, L&T's consolidated revenue fell 12.2% YoY aided by better performance of subsidiaries
- Power T&D companies like KEC delivered a strong performance amid a challenging environment on the back of better execution leading to revenue, EBITDA, PAT growth of 16%, -0.4%, and 2.2%, respectively. Product companies (AIA, Greaves, Thermax, Elgi, NRB, SKF and Timken) posted a decent recovery sequentially led by green shoots of revivals in industrial and automotive sectors coupled with pent-up demand. Also, product mix, volumes led to positive operating leverage during the quarter. Revenue, EBITDA, PAT of these product companies fell 13.8%, 3.8%, 5.1%, respectively
- On the defence front, Bharat Electronics witnessed revenue, EBITDA, PAT growth of 16.3%, 14.4%, 16.9% YoY, respectively, on the back of normalising supply chain, ventilator order and business operations leading to execution pickup

- Thermax reported a muted Q2 performance on the back of slower execution and subdued order book position. Consolidated revenue, EBITDA declined 28.9%, 39.1%, respectively, while PAT grew 89.4% YoY due to tax adjustments in the base quarter
- In the bearing space, numbers posted by companies were broadly in line with our estimates. The performance was led by strong demand recovery from OEMS amid pre-stocking for festive season. The key beat came in from NRB wherein PAT grew 62% led by positive operating leverage coupled with cost rationalisation in the previous quarter. Overall, our bearings coverage universe posted cumulative YoY decline of ~ 3.3% in topline. NRB reported EBIDTA growth of 60.3% YoY while SKF, Timken reported EBITDA decline of 3.4%, 7.8% YoY, respectively
- Other product companies like Elgi reported a strong performance (consolidated revenue, EBITDA grew 8.0%, 98.5%, respectively) led by growth in international markets while domestic business exhibited green shoots of revival. AIA Engineering also reported decent revenue, EBITDA growth of 6.6%, 23.5% YoY, supported by healthy mining volume growth during Q2FY21. Greaves Cotton continues to report muted performance due to sluggishness in 3-W engine volumes amid pandemic & BS VI transition. Consequently, revenue, EBITDA declined 41.2%, 70.5% YoY, respectively
- On the order inflow in front, L&T registered reasonable order inflows worth ₹ 28039 crore, down 42% YoY, on account of deferrals in award decisions largely caused by pandemic. Bharat Electronics' order inflows came in at ~₹ 1561 crore. In T&D space, KEC International received orders worth ₹ 2435 crore for Q2FY21, mostly in international T&D. Thermax' consolidated order inflow came in at ₹ 1114 crore (down 35% YoY) owing to muted private capex and order deferrals in several sectors
- As operational activities have returned to 85-95% of pre-Covid levels during the quarter across capital goods companies amid productivity challenges, we expect Q3FY21 to see moderate growth in terms of revenues aided by almost normalised operations and improvements on the productivity front. Order tendering momentum is expected to pick-up in H2FY21 as bunched up orders in key sectors like power T&D, green energy corridor, railways, MRTS, renewables, water, infrastructure, etc, are likely to be awarded. Private capex is expected to continue to remain sluggish amid industrial & manufacturing slowdown leading to cash conservations by companies. On the working capital front, though capital goods companies have fairly managed their working capital situation amid gradual economic revival, they may still be focused on normalising working capital amid a tight liquidity situation

Cement: Utilisation to reach pre-Covid levels; firm realisations drive higher margins, profitability

- Sales volume recovered sharply in Q2FY21 leading to sales volumes of 50.5 MT (up 5.6% YoY, 35.7% QoQ) for the quarter. Bulk of cement demand came from individual housing segment (IHB) of rural and semi-urban areas. Infrastructure activities and demand from urban areas also picked up. This led to a sharp sequential jump in sales volume. In terms of regions, the north region saw average double digit growth while sales volume in the south region remained weak due to extended monsoon and localised lockdowns. Cement prices at all India level, improved 0.5% YoY. However, it remained down 0.9% QoQ mainly due to weak prices in the north despite a sharp volume recovery. Stringent cost control by all companies to preserve cash, led to a sharp increase in EBITDA margins. Thus, the Q2FY21 performance broadly reflected sharp recovery in demand and healthy margin expansion led by lower production costs

For Q2FY21, capacity utilisation for the coverage universe improved to above pre-Covid levels. It was up by 125 bps YoY to 68.4% (up 1800 bps QoQ). Sharpest growth was posted by north based companies like JK Cement (25.6% YoY) followed by JK Lakshmi Cement (16%% YoY) and Shree Cement (up 14.2% YoY)

On the other hand, south based companies like India Cements (-20.0% YoY) and Ramco Cement (-18.8% YoY) reported volume decline during the quarter due to extended monsoons and localised lockdowns. All-India players like UltraTech, ACC and Ambuja, on an average, reported volume growth of ~6.0% YoY for the quarter

- I-direct cement universe reported 0.5% YoY growth in realisations though it remained marginally lower QoQ. While volumes remained weak in south, realisations were strong in that region compared to northern, central and eastern regions. The sharpest growth was reported by Sagar Cement (20% YoY) followed by Ramco Cement (17.7% YoY) and India Cement (7.6% YoY). Whereas Shree Cement, JK Lakshmi and JK Cement reported lower realisations (down 5.5%, 3.7% and 1.6% YoY, respectively)

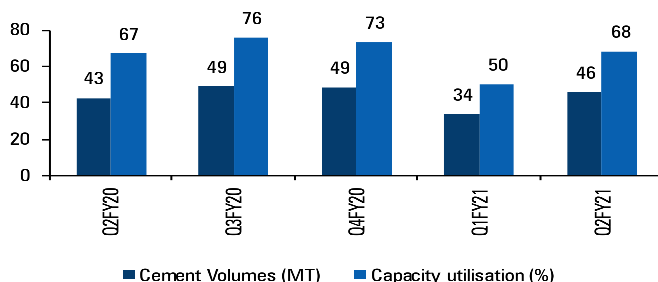
Revenues saw 6% YoY growth (up 34.5% QoQ) for the I-direct coverage universe. Ambuja Cement (up 8.6% YoY), UltraTech (up 8.1% YoY) and Shree Cements (up 7.9% YoY) are the large companies reporting average revenue growth of 8% YoY; Other midcap companies like JK Cements, Sagar Cement reported the highest growth (23.6% and 22.8% YoY, respectively) in revenues led by capacity expansion and healthy pricing

- The I-direct cement universe reported an EBITDA margin expansion of 576 bps YoY to 25.3% led by improved sales volumes and controlled costs; EBITDA/t increased 30.1% YoY to ₹ 1,296/t (flat QoQ). Average EBITDA/tonne of all south based companies (like India Cement, Ramco Cement and Sagar Cement) doubled to ₹ 1504/t led by a sharp increase in cement prices. North based companies like JK Lakshmi, Shree and Mangalam Cement reported average growth of 7% YoY

This quarter, surprisingly, Ramco and Sagar Cement reported industry leading margins of 35.3% and 32.1%, respectively. Ramco Cements reported highest ever EBITDA/t of ₹2,021/t (up 84% YoY) outpacing Shree Cements EBITDA EBITDA/t of ₹1,513/t. Overall, on absolute basis, I-direct universe reported a 37.4% YoY growth in EBITDA to ~₹ 6,553 crore

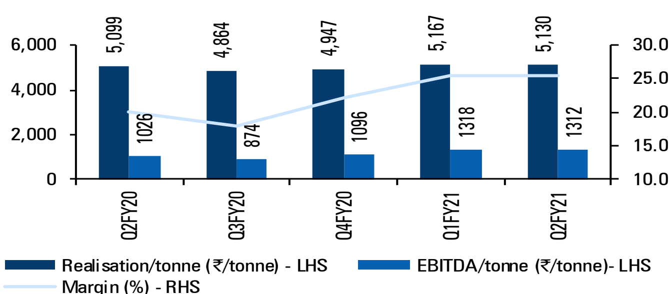
- Currently, cement volumes are witnessing further traction with the end of monsoons. The same is likely to pick up pace further with improvement in infrastructure development once labour returns to site post festive season. Cement prices after correcting during monsoon have now also improved 1-2% QoQ from October 2020 onwards. The same is likely to provide the cushion against rising cost of production (CoP) due to higher petcoke prices. Most companies are comfortably placed on the b/s front

Exhibit 11: Cement volumes and capacity trend



Source: Company, ICICI Direct Research

Exhibit 12: Realisation & margin trend



Source: Company, ICICI Direct Research

Consumer Durables

- I-direct consumer discretionary (CD) universe reported a strong recovery post ease in lockdown restriction and benefit of lower raw material prices during Q2FY21. I-direct universe sales growth came in at ~7% YoY ahead our estimate of 3.5% YoY, led by strong festive demand from tier II & tier III cities. In addition to this, the unorganised and regional players have had a severe hit from sporadic lockdowns resulting in market share gains for organised players due to their strong supply chain networks
- On the electrical goods front, Bajaj Electricals, Havells and Voltas' numbers surprised us with strong sales growth despite this being a lean period for cooling products. Bajaj Electricals reported strong consumer product segment sales growth of ~13% YoY mainly due to strong demand for kitchen appliances segments
- On the margin front, companies under our coverage reported expansion in EBITDA margin by ~200 bps YoY led by sharp expansion in gross margin and various cost optimisation measures amid lockdowns. We believe paint and adhesive companies were one of the biggest beneficiaries of lower raw material prices resulting in EBITDA margin expansion in the range of 300-700 bps YoY

Paint companies were major beneficiaries of market share gains as all three companies under our coverage (Asian Paints, Berger Paints, Kansai Nerolac) universe reported strong double digit volume growth in the decorative segment. The industrial paint segment also witnessed an accelerated demand recovery from auto OEMs after a strong pick-up in sales

Besides, under the plastic piping segments both Astral and Supreme Industries reported a strong demand recovery led by PVC pipes mainly due to strong agri demand. The managements of our coverage universe have said the demand recovery would continue amid festive season and filling up of channel inventory in metros

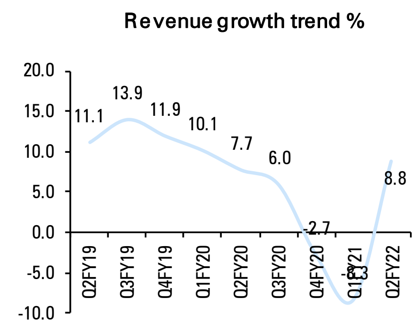
Electrical goods companies also reported a strong margin expansion led by Havells India (up 660 bps YoY) mainly due to better operating leverage (due to better sales growth in the Lloyd division) and better gross margins

However, with stabilisation of raw material prices the management guidance suggests EBITDA margin would normalise, going forward, with restoration of operating costs such as advertisement and travel expenses

FMCG

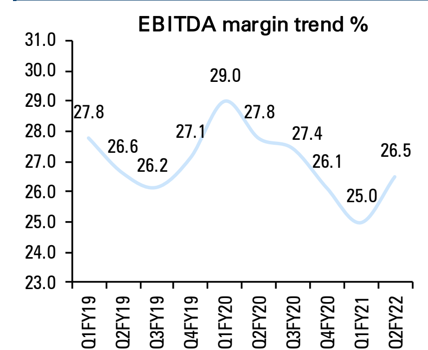
- After two consecutive quarters of revenue decline, our coverage universe witnessed strong 8.8% growth given a large part of supply disruption was behind us. On the demand front, packaged food, immunity boosting products continue to grow at a faster pace. The consumption shift from unbranded/semi branded to branded/trusted brands has seen accelerated pace in the post Covid-19 world. The growth in sanitisers & disinfectants categories tapered off with plethora of brands introduced in last six months. However, we believe brands like Savlon & Dettol have particularly benefited from an increase in penetration levels mainly due to their proposition as antiseptic. Penetration level of sanitiser has increased from ~1% in H1FY20 to 45% in FY21E. Similarly, some immunity products like Chawayanprash & Honey also saw a surge in penetration levels with new consumer growing the category. Some discretionary categories like skin care, cosmetics, juices, hair oil witnessed sequential recovery with sales reaching 75-90% of pre-Covid levels. However, 'on-the-go' or 'out-of-home' consumption categories (like ice-creams, cigarettes, juices) growth continue to remain slack and is expected to recover only in FY22
- Volumes of FMCG companies showed a mixed trend with Dabur witnessing strong growth of 17% on immunity products tailwinds supported by new products launched in last six months, Marico saw stronger 11% volume growth driven by healthy growth in foods, edible oil & also supported by low base quarter. ITC (FMCG) saw 15% volume growth (we assume entire growth is driven by volumes) propelled by strong growth in packaged foods & hygiene (Savlon) product portfolio
- HUL saw 1% volume growth given considerable (20% product portfolio) comprises discretionary & 'out-of-home' products (skin care, cosmetics, deodorants, ice-cream, water purifier), which still saw de-growth of 25%. Nestlé's growth was largely supported by Maggi & new products in packaged foods category. Tata Consumer's volume growth was ~6% with larger part of the growth contributed by price hikes in tea brands in India. We believe secondary sales growth for FMCG companies has been equally strong given distributor level inventory has been either similar or lower for most companies. The companies have effectively used the strategy of new product launches through e-commerce channel in categories with a sudden upsurge in demand. The e-commerce channel sales grew more than 100% for the industry

Trend in revenue growth (YoY %)



Source: Company, ICICI Direct Research

Trend in EBITDA margins (%)



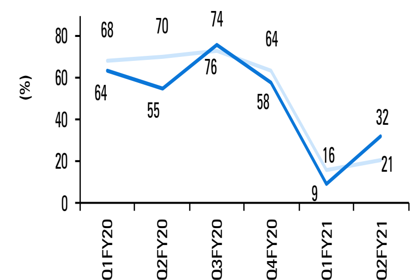
Source: Company, ICICI Direct Research

- Our FMCG universe (ex-ITC) saw ~95 bps contraction in gross margins given palm oil prices have surged compared to lower level of March 2020 and sharp increase (70-80%) in tea procurement prices negatively impacting margins of HUL & TCPL. However, with lower advertisement spends (mainly due to lower ad-rates) & various cost cutting measures, companies were able expand their operating margins during the quarter. Our coverage universe (ex-ITC) operating profit grew 17.7% and saw ~100 bps improvement in operating margins. With the lower taxation in base quarter, coverage universe (ex-ITC) net profit grew 8.8% in Q2
- We believe some packaged foods (pulses, atta, tea, biscuits) categories would continue to witness consumption shift from unbranded to branded products. Moreover, we believe some businesses like Dabur (ayurveda, naturals, immunity), ITC (FMCG), Tata Consumer Products (India), Marico (foods) would be outliers and would witness structural growth in immunity boosting and packaged foods category

Hotels: Mild recovery witnessed in Q2FY21

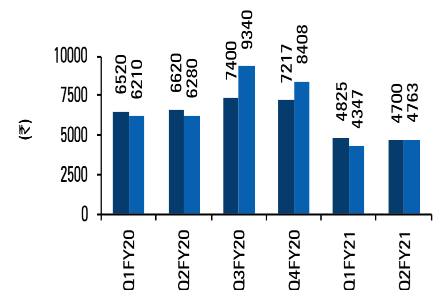
- In Q2FY21, premium hotels witnessed a strain on occupancy. Though lifting of lockdown curbs and gradual relaxation of travel restrictions in the domestic market provided some breather QoQ, overall demand has remained muted. The change in consumer behaviour and social distancing norms has impacted travel plans in Q2 and also got elongated further due to monsoon. As a result, hoteliers continued to rely on alternative revenue verticals like online food business, quarantine business or even tie-ups with hospitals. This demand, albeit temporarily coming with highly discounted room rates, provided a breather to hotel players during Q2FY21
- In terms of individual performances, premium segment hotel players reported average revenue de-growth of 77% YoY while mid-scale players like Lemon Tree reported revenue decline of ~69% YoY. A complete travel ban from foreign countries and corporates adopting a work from home policy has hit the hotel business very hard in terms of occupancy levels of business and leisure destinations. Due to this environment, hoteliers have resorted to alternative revenue from verticals like online food business, stay for medical professional or even tie-ups with hospitals. However, this being a very small proportion of revenue, the average revenue of I-direct universe declined 75% YoY to ₹ 364.7 crore for the quarter led by occupancy levels falling to 26% along with 27% YoY drop in ARRs
- Majority of the hotel industry's cost is fixed (~70% of total costs), with power/lighting and employee costs having a major share. With a drop in room rates and fall in non-room (most profitable) revenues, our I-direct coverage universe reported EBITDA and PAT loss of ₹ 237 crore and ₹ 399 crore, respectively
- While H1FY21 remained a washout phase for the sector, we expect a gradual pick-up in the business with settling down of Coronavirus cases and beginning of peak season. In H2FY21E, we expect a better demand recovery mainly in the tourist destinations rather than in business destinations. Corporate travel will take a couple of quarters to recover as major companies are continuing with their work from home policy at least till December 2020 while curbs on visa and progression of Covid-19 in India will impact influx of foreign travellers in H2FY21. However, this will mostly be offset by influx of revenge travel in the domestic segment in H2FY21 along with the demand emanating from wedding season. From a longer term perspective, opening of new supply would also be delayed or cancelled. This bodes well for strong established players

Occupancy trend



Source: Crisil, ICICI Direct Research; Business Destinations; Leisure Destinations

ARR trend

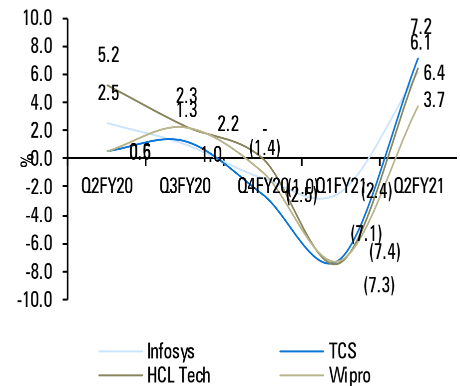


Source: Crisil, ICICI Direct Research; Business Destinations; Leisure Destinations

Information Technology

- All IT companies in this quarter reported healthy growth in dollar revenues (average Tier-1 & Tier-2 IT companies witnessed 6% growth on a QoQ basis). This was mainly led by healthy traction in digital revenues led by traction in cloud migration, automation, consumer experience, employee experience & data, and core modernisation. Most IT companies have stopped reporting digital revenues. However, we believe digital, on an average, now accounts for at least 40% of IT companies' overall revenues
- In the current quarter, Tier-1 and Tier-2 IT companies have seen healthy order book and deal pipeline mainly led by acceleration in digital technologies like cloud, cyber security, data, experience and automation. Most deal wins in the quarter are of small to medium size while large deals are taking time to be close
- In addition, some deal wins were due to cost take outs by companies to rationalise their IT spends. Improving deal wins have led to many companies being optimistic on their revenue growth in coming quarters. In addition, Infosys has revised its revenue guidance upwards from 0-2% YoY to 2-3% YoY in FY21E implying improving revenue trend in coming quarters
- In this quarter, apart from improving IT revenues, many companies have witnessed improving BPO revenues as the previous quarter had supply side issue. Apart from easing of supply side issues, focus of companies on automation, customer experience and improvement in mortgage business in the US have led to improving BPO revenues. This has led Firstsource Solution to revise its revenue growth guidance upwards from 6-10% YoY to 9-12% YoY in FY21E
- In terms of verticals, growth was mainly led by BFSI, retail and life science while energy & utility and travel & airlines stayed weak. Going forward, BFSI & retail are expected to report healthy growth due to cloud migration and focus on customer experience. Energy & utility and travel & hospitality (especially airlines) are expected to stay weak in near term
- Apart from posting healthy revenue growth, Tier-1 & Tier-2 companies have witnessed robust margin expansion (in the range of 50-410 bps QoQ) led by higher utilisation, offshoring, lower travel cost, lower discretionary spend and lower sub-contracting cost. Most Tier-1 & Tier-2 IT companies are planning to hike wages in the next two quarters. However, considering multiple levers available to IT companies, we expect margins to remain resilient in coming quarters
- One of the structural changes that has been seen in the current quarter is higher focus on digital technologies like cloud, core modernisation, customer & employee experience, data, cyber security. We believe we are in the first phase of a multi-year technology transformation phase. In the current phase, enterprises are building a cloud-based foundation that will serve as a resilient, secure, scalable digital core
- In subsequent phases, enterprises will see new age technologies developed around cloud to lead to new business models and differentiated customer experiences. We believe this could lead to double digit revenue growth for IT companies in the longer term. Further, vendor consolidation opportunities, acquisition of captives and offshoring & automation (for cost take out deals) are other key revenue drivers. In addition, one of the key trends that we witnessed was growing acceptance of offshoring among IT clients. We believe this bodes well for margin growth in coming years and could also help in countering visa related issues. We believe with this, coupled with multiple levers available to IT companies, margins will remain resilient in coming quarters

Dollar revenue growth trend



Source: Company, ICICI Direct Research

Infrastructure and real estate

Roads & Construction

- **Performance improves amid Covid-19 challenges:** Execution of major EPC companies has picked up in Q2FY21 with better labour availability and smoothening of raw material supply chain. Overall revenue of our roads & construction universe improved 29.9% QoQ to ₹ 4,073 crore (down 4.9% YoY). Also, overall Operating profit margin got normalised to ~14.9% (down 236 bps; up 178 bps QOQ). Key outlier was a) **KNR Constructions** that reported 10.1% growth in topline (on adjusted basis, revenues growth was a robust 14.8% YoY) and elevated operating margin of 20.6% - aided by superior execution and better project mix, and b) **Ashoka Buildcon** that delivered 6.7% YoY revenue growth; normalised 14.9% operating margin and 79.6% PAT growth – backed by execution pick-up
- **Order inflows decent in Q2; healthy guidance ahead:** Order book position of major companies under coverage has remained strong. In addition, companies have guided for decent order inflows during H2FY21 backed by strong order pipeline from NHAI (for road segment) and various state government (for water projects). **KNR Constructions** received one road EPC project in Tamil Nadu worth ~₹ 1033 crore in Q2 (~₹ 3190 crore order inflows in H1). The management has guided for order inflows of ₹ 2000-2,500 crore in H2 mainly from road segment
- **Execution to ramp up in H2:** Most companies have indicated towards near-normalisation to a pre-Covid situation and expect a further pick-up in execution with strong executable order book position and desired level of labour/raw materials in-place. Additionally, toll collections have improved to 90%+ in most projects, indicating towards better traffic levels post resumptions of economic activities. Going forward, we expect overall revenue of our coverage universe to register marginal decline of 3.2% YoY (in FY21E) and growth of 16.9% YoY (in FY22E). Additionally, margins are likely to normalise with better project mix and execution pick-up

PNC Infratech received orders for AP water project of ₹ 1001 crore and rural water supply project of ₹ 290 crore, totalling ₹ 1291 crore (₹ 4250 crore in H1). It expects inflows worth ~₹ 7,000 crore during H2FY21 from roads and water projects. **Ashoka Buildcon** has received two EPC projects Bihar having aggregate value of ₹ 1,390 crore (~₹ 2200 crore in H1). The management has guided for incremental order inflows of ~₹ 6,000 crore in H2 from EPC segment of roads, railways, water and building divisions. **NCC** received orders worth ₹ 2,962 crore during Q2FY21 (~₹ 5550 crore in H1). Going forward, the management expects total order inflows to surpass ₹ 10,000 crore in FY21 (implied inflows of ~₹ 4500 crore +) with continued momentum being witnessed in the buildings, roads and water segments

Real Estate

- **Sales volume**: Q2 marked a strong recovery in residential sales volume as companies under coverage got closer to pre-Covid levels after a dismal Q1 driven by factors like pent up demand, benign interest rates and measures such as cut in stamp duty in Maharashtra. Brigade Enterprises sales volume was ~1 mn sq feet (msf), a decline of merely ~1% YoY. The presales (sales value) were up 8.9% YoY at ₹ 576 crore, as realisations were up 9.9% YoY at ₹ 5833/sq feet (largely a function of project mix). Oberoi Realty's sales volume of 1.30 lakh sq feet, down just ~6.6% YoY, clearly signified a robust recovery. The sales value was up 1.4% YoY at ₹ 327.3 crore, given the mix towards higher realisation projects. Phoenix Mills reported sales value of ~₹ 106.6 crore in Q2 (of which ₹ 61.9 crore of sales were not yet registered)
- On the financial front, revenues of our real estate universe de-grew 48.7% YoY to ₹ 842 crore while EBITDA declined ~40% YoY
- **Commercial segment stable; malls report good recovery in festive season in October-November: Brigade's** annuity portfolio (offices, malls) reported rental income of ₹ 83.3 crore, down 8% YoY, largely impacted by malls. On the retail side, mall business recovered during end-Q2FY21 with tenant occupancy at ~65-70% and footfall at 30-35% of Q2FY20 levels. Hospitality revenues at ₹ 17.8 crore were down 78% YoY. Occupancy remained muted at 15% (vis-à-vis 11% registered in Q1FY21). For **Oberoi Realty**, despite recognition of revenue for Q1FY21 and Q2FY21 in the current quarter, Oberoi Mall's performance was tepid with 12.8% YoY drop in revenue to ₹ 35 crore. Hospitality revenues declined ~80% YoY at ₹ 6.3 crore

For **Phoenix Mills**, commercial remained relatively resilient with revenue at ₹ 24.8 crore, down 6.1% YoY. It reported retail segment revenues decline of 55% YoY to ₹ 136 crore mainly due to residual impact of Covid-19 led mall closure and rental waiver, thereafter. While Q2FY21 consumption at malls was at 40-55% of Q2FY20, October 2020 consumption was up 44% MoM. Furthermore, for the first seven days of November, consumption was ~85% of last year (~75% on adjusted basis). Hospitality revenues declined ~87.8% YoY at ₹ 9.3 crore

Logistics: Encouraging rebound in operational performance

- While revenues saw a MoM improvement (most players saw normalisation in Septemberember), the Q2FY21 earnings season saw a strong expansion in EBITDA margins (compared to I-direct estimates) for most surface, port and rail players. The performance was largely supported by significant cost control measures taken by various players and also due better operating leverage. Notable results include Concor that saw expansion in EBITDA margins, in spite of continued negative impact due to the higher land license fee (₹ 450 crore in FY21 expected vs. ₹ 120 crore in FY20)
- As per ports container traffic, rail container and E-way bill data, the operational performance normalised in September (although smaller ports such as Gujarat Pipavav, saw a disruptive September, due to skipped calls due to shift in import-export trade balance in the country and sharp hike by ocean freight shippers but the situation has now stabilised)
- Q3 is expected to remain strong mainly due to festive season related higher channel filling and better availability of empty containers along the ports and hinterlands (in the medium term, this is expected to lead to softness in the hiked charges by the ocean freight shippers)

Media

- The media sector was in a gradual recovery mode during the quarter as all segments reported better revenue QoQ. However, multiplex, radio remained dismally below pre-Covid level. Broadcasters, which saw lower revenue fall compared to other segments, struggled on ad revenue front. Multiplexes remained shut for a second consecutive quarter leading to nil/very marginal revenues while radio companies' revenues fell 52-57%
- **Broadcasters:** Sun TV's ad revenue fell 27.3% YoY while subscription growth was 13.7% YoY. Ex-IPL revenue declined 8.1% YoY while EBITDA was at ₹ 502 crore, up 7.1% YoY due to lower cost of content. Flagship channels saw a dip in viewership post lockdown while IPL revenues were affected due to additional expenses, nil ticket sales, etc. The company indicated at additional investment in SunNXT from FY22E and guided for strong growth rate for SunNXT. The company also said ad spends in the festive season were similar YoY with October at 80%+ of pre-Covid level. TV Today's broadcasting and digital segment registered growth of ~1% and ~13% YoY. Radio reported poor numbers again with ~66% de-growth. EBITDA was ₹ 41.2 crore, up 21.2% YoY owing to reduced admin and employee costs. Aaj Tak, the flagship channel, lost its leadership from mid-August onwards in the Hindi news segment while India Today market share is on the decline in the English segment. Overall viewership has also tapered off post lockdown

Zee TV's ad revenues were down ~26% YoY with like to like subscription revenue growth of ~3%. EBITDA was down 54.7% YoY to ₹ 313.7 crore. One-offs like provision for receivables (₹ 82.1 crore) and DSRA liability (₹ 97.1 crore) impacted earnings. EBITDA loss for Zee5 was ₹ 189.4 crore in Q2. The company has lost market leadership in Marathi and Bangla market with ad pricing below pre-Covid level. The company guided for flattish ad revenue in Q3 and moderate subscription growth (driven by Zee5) in the near term

- **Multiplexes:** Cinemas remained shut in Q2FY21 leading to a washout quarter for PVR. Marginal box office revenues from Sri Lanka property and ₹ 27 crore income from PVR Pictures along with F&B revenue led to ₹ 40.5 crore total revenues. EBITDA loss (without impact of Ind-AS 116) was at ₹ 81 crore post invocation of Force Majeure leading to no rental expenses. With the government permitting cinemas to reopen, PVR has opened multiplexes in Q3 with initial occupancy at 4-5% and reduced ATP. Limit of 50% occupancy is likely to stay in effect for Q3 with big-budget movies expected to release from December onwards
- **Radio:** ENIL's core radio revenues de-grew 57% while solutions business de-grew 62.5%. Solution business continued to report strong gross margins while ad yield on radio was down 30% owing to bonus spot offerings to clients. A sharp fall in revenues led to EBITDA loss of ₹ 6.3 crore. Revenues are expected to improve with the festive season while a full ad recovery is likely from Q4FY21E onwards

MBL's revenues dipped 51.9% YoY to ₹ 30.1 crore on account of lower ad volumes as well as yield. While the company reduced opex, EBITDA loss was ₹ 3 crore due to low topline. The management said small cities saw a faster recovery compared to metros. Key highlight was announcement of bonus issue of non-cumulative redeemable preference shares (NCRPS) to non-promoter shareholders

Metals & Mining

- The metal sector reported a positive Q2FY21 performance primarily on account of higher capacity utilisation and healthy realisations sequentially. During the quarter, the aggregate topline of the coverage universe increased 4.4% YoY while the aggregate sector EBITDA increased 42.5% YoY
- Tata Steel reported a stellar Q2FY21 performance. For Q2FY21, sales volume for Indian operations was at 5.05 MT (up 22% YoY) while sales volume from European operations was at 2.27 MT (down 1% YoY). Also, standalone operations reported EBITDA/tonne of ₹ 12861/tonne while European operations reported negative EBITDA/tonne of US$27/tonne. PAT from continuing operations was at ₹ 1635 crore
- Hindalco's India business posted a healthy set of operational numbers in Q2FY21. The topline of Hindalco's India business was at ₹ 9565 crore (up 28% QoQ, down 4% YoY). EBITDA of Hindalco's India business came in at ₹ 1275 crore (up 14% YoY, 43% QoQ). EBITDA margin came in at 13.3% (up 210 bps YoY, 130 bps QoQ). Ensuing PAT for the India business was at ₹ 327 crore (up 86% YoY, 289% QoQ)
- Ratnamani Metals & Tubes' (RMTL) Q2FY21 performance came in marginally below our estimates. Carbon steel (CS) sales volume came in at 55989 tonnes (down 4% QoQ, up 10% YoY) while stainless steel (SS) sales volume was at 5256 tonnes (down 10% YoY, up 31% QoQ). Subsequently, for Q2FY21, net income from operations was at ₹ 577 crore (down 5% YoY, flattish QoQ) while EBITDA margin was at 14.2%. Ensuing PAT came in at ₹ 57 crore (down 26% YoY, up by 14% QoQ)

During Q2FY21, there was a sequential improvement in base metal prices. During the quarter, average zinc prices on the LME were at US$2339/tonne, up 18.7% QoQ but down 0.6% YoY while average lead prices were at US$1873/tonne, up 11.5% QoQ, albeit down 7.7% YoY. Similarly, average aluminium prices on the LME were at US$1706/tonne, up 13.7% QoQ but down 3.3% YoY. Average copper prices on the LME were at US$6524/tonne, up 21.6% QoQ and 12.3% YoY

Furthermore, Hindalco's wholly-owned subsidiary Novelis also reported a healthy operational performance for Q2FY21 wherein shipments came in at 923 KT (higher than our estimate of 875 KT) while EBITDA/tonne came in at US$493/tonne (higher than our estimate US$375/tonne)

Oil & Gas

- The oil & gas sector reported better-than-expected Q2FY21 numbers on the profitability front. Profit of OMCs was higher than anticipated mainly on account of inventory gains whereas market sales were in line with estimates. CGD companies' results also beat our estimates on account of higher-than-expected sales volume and better margins
- On the oil marketing companies (OMCs) front while refining throughput was in line with estimates (down 11-20% YoY), core GRMs were subdued due to weakness in global product cracks. Reported GRMs were lifted by inventory gains. Market sales dipped 10-12% YoY as localised lockdown affected demand (mainly diesel). Marketing margins remained stable providing support to core operational performance. To sum up, OMC's profitability was higher due to inventory as well as forex gains and stable marketing segment operating performance
- City gas distribution (CGD) companies reported better-than-expected results on all fronts as anticipated impact of localised lockdown was lower than expected. Sales volume of CGD companies was down 16-30% YoY for companies with higher CNG contribution to sales. CGD company with more PNG contribution to sales reported faster recovery with 6% volume growth YoY. On a QoQ basis, all companies reported volume growth in the range of 86-137%. Higher/in line realisation coupled with low gas costs led to strong gross margins across segments. CGD companies' profits improved sharply QoQ but remained lower YoY due to negative tax outgo in Q2FY20
- Domestic oil & gas output was in line with expectations and declined YoY. On a QoQ basis, oil output was flattish while gas output increased due to better offtake post relaxations in lockdown. Realisation of upstream companies increased sharply by 44% QoQ leading to higher revenues QoQ. However, it remains lower YoY. Profits of upstream companies increased QoQ but remains below pre-Covid level

Key parameters in Q1FY21

	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Singapore GRMs ($/bbl)	6.5	1.7	1.2	-1.0	0.1
Crude Oil ($/bbl)	61.9	62.6	50.6	31.4	42.8
APM Gas (NCV) (US$/mmbtu)	4.1	3.6	3.6	2.6	2.6

Source: Bloomberg, ICICI Direct Research

Pharma

- The I-Direct Healthcare universe (10 coverage stocks) revenues grew 5.2% YoY to ₹ 37,235 crore. Healthcare results are reflecting significant sequential improvement (up 8.7% QoQ) on the back of 1) continued traction in exports markets (formulations, APIs, CRAMs) and 2) substantial improvement in domestic branded formulations driven by near-normal level of MR activity (75-80% of pre-Covid levels) and growing patient footfall in healthcare facilities. The standalone API, CRAMs players also witnessed significant windfall cashing in on the disturbances from China
- Indian formulations grew 4.7% YoY to ₹ 7,361 crore due to a gradual recovery in acute segment, higher prescription generation as patient footfalls in healthcare facilities picks up as the pandemic situation eases off. US business (select pack) grew 11.7% YoY to ₹ 10,949 crore due to favourable forex and as higher patient footfall resulted in better prescription generation along with new launches. Additionally, US base business price erosion seems to have stabilised for almost all companies
- On the other hand, API segment continued its strong growth trend (albeit lower than Q1FY21) growing 16.9% YoY to ₹ 3987 crore on the back of strong demand, Covid-related drug supply windfall, stabilisation of API prices and amid opportunities stemming from China disturbance. Europe also posted a strong growth of 12% YoY to ₹ 2,398 crore on the back of new launches and favourable forex movement
- Out of 10 selected covered companies, two reported above 15% YoY revenue growth. In terms of company specific growth: Divi's Lab – 21% (strong growth across segments) and Aurobindo – 15.8% (strong growth in US, RoW and ARV segments). On the flip side, Lupin reported negative growth of 12% mainly due to divestment of Japanese business and subdued domestic segment
- On the margins front, EBITDA margins expanded 215 bps YoY to 23.2% for I-direct universe (select pack) due to continued lower expenses amid cost rationalisation/efficiency efforts and higher gross margins. Hence, EBITDA grew 15.9% YoY to ₹ 8654 crore. Margins were also supported by relatively lower other expenditure as travel & promotional expenditure is yet to normalise to pre-Covid levels. Going ahead, these costs are likely to return to pre-Covid levels as the pandemic situation continues to ease out and MR activity normalises. Adjusted PAT increased 18.2% YoY to ₹ 5474 crore in line with operational performance

Branded generics sales, both in India and EMs, especially from acute therapies, remained impacted due to lower promotional and marketing activities, lower than normal MR movement, etc. Players with higher contribution from chronic therapies continue to perform relatively better

Sales from India, US and Europe

India					
(₹ cr)	Q2FY21	Q2FY20	%	Q1FY21	%
Cadila	1,087	978	11.2	829	31.1
Ipca	535	543	-1.4	489	9.4
Lupin	1,332	1,342	-0.7	1,285	3.6
Dr Reddy's	912	751	21.5	626	45.7
Sun Pharma	2,531	2,515	0.7	2,388	6.0
Torrent	963	899	7.1	925	4.1
Total	**7361**	**7028**	**4.7**	**6543**	**12.5**

US					
(₹ cr)	Q2FY21	Q2FY20	%	Q1FY21	%
Aurobindo	3,190	2,836	12.5	3,107	2.7
Cadila	1,709	1,448	18.0	1,623	5.3
Lupin	1,398	1,324	5.6	1,216	15.0
Dr Reddy's	1,833	1,427	28.5	1,728	6.1
Sun Pharma	2,492	2,390	4.3	2,136	16.6
Torrent	327	380	-13.9	373	-12.3
Total	**10949**	**9805**	**11.7**	**10184**	**7.5**

Europe					
(₹ cr)	Q2FY21	Q2FY20	%	Q1FY21	%
Aurobindo	1,515	1,401	8.1	1,322	14.6
Cadila	55	41	34.2	49	11.7
Dr Reddy's	375	276	35.8	355	5.7
Lupin	192	172	11.6	150	27.7
Torrent	261	250	4.4	246	6.1
Total	**2398**	**2141**	**12.0**	**2123**	**13.0**

Source: Company, ICICI Direct Research

Retail

- With a gradual relaxation in lockdowns, Q2FY21 saw 90%+ stores being operational. Though companies witnessed a sharp sequential recovery, sales for fashion retailers continued to be below pre-Covid levels in Q2FY21 (45-55% recovery rate). For apparel players, revenue trajectory has been on an upward trend on a MoM basis, with recovery rate reaching ~70% in October vs. ~25% in June
- Among discretionary categories, innerwear, athleisure and open footwear (sandals & flip-flops) witnessed fastest recovery with sales reaching pre-Covid levels in Q2 itself. Also, recovery for kitchen and home appliances has been robust, wherein companies were unable to cope up with the demand owing to supply chain constraints. Companies have minimised cash burns in Q2, through sustained rationalisation of fixed overheads and progressive sales recovery. On the balance sheet front, better inventory management resulted in working capital release, which supported funding losses in H1FY21. Going into the festive season, overall management commentary remains cautiously optimistic with normalcy expected from Q4FY21E

Key trends (company specific)

- **Titan Company:** Overall recovery rate for the jewellery division rose to 98% in Q2FY21 mainly driven by a surge in demand for plain gold jewellery, gold coins. Demand for studded jewellery has increased QoQ to 26% (vs. 18% in Q12FY21) but still remains lower YoY (Q2FY20: 38%). The management expects a strong recovery in studded ratio in Q3FY21E that would aid margins, going forward
- **Trent:** Among apparel players in our coverage universe, Trent outperformed other players with sales reaching 55% of pre-Covid levels (vs. peers: 40-45%). The management remains optimistic on the outlook for accelerating recovery and return to profitability in the second half Trent continues to be net debt free having robust liquidity position (cash & investments worth ₹ 630.7 core)
- **Avenue Supermarts:** D-Mart's core 'Food & FMCG' segment (currently ~77% of sales) has reverted to the growth path with positive trajectory seen across all stores in September. Discretionary categories (GM & apparels) are currently laggards owing to subdued demand but are gradually picking up pace. The management commentary had a positive bias with the scenario moving towards normalcy
- **Page Industries:** The company registered a revenue recovery of ~95% in Q2FY21. The recovery rate is encouraging given the fact that Page has a material presence in metro cites (~60%). Athleisure segment continues to outperform as reflected in higher blended ASPs (up ~11% YoY). September witnessed double digit topline growth with momentum is expected to sustain in Q3FY21E.

Relaxo Footwear: As most people are working from home, sales of sandals, flip flops (80% of product portfolio) have seen a significant surge in demand. Relaxo being a dominant player in the aforesaid categories, through its strong portfolio of brands ('Flite', 'Bahamas', 'Hawaii') has witnessed a swift recovery in volumes (2% YoY growth in Q2FY21) and captured market share from unorganised players in H1FY21. Strong momentum is expected to sustain for the rest of the year

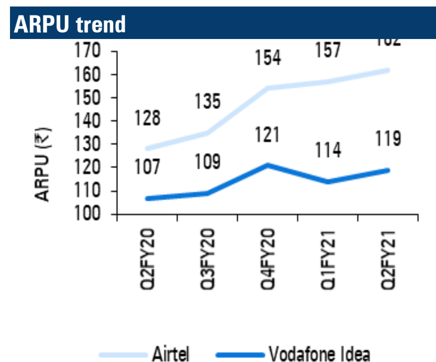
Bata India: Recovery rate for Bata continues to remain sluggish (~50% in Q2FY21) owing to muted demand scenario for formal and fashion footwear market (where Bata has a strong presence). Aligning with the current demand scenario, Bata has tweaked its product portfolio from formals & fashion categories to casuals & essential categories, which would lead to a faster recovery in volumes

ABFRL: Overall revenue recovery rate reached ~ 45% in Q2FY21, with 95% of stores operational by end of September. It has reiterated its stance of reaching revenue recovery rate of 70-80% by Q3FYFY21E and achieving normalcy levels by Q4FY21E. The focus on correcting the cost structure will be pursued during the remainder of the year

Telecom

- **Airtel leads subscriber addition:** Bharti Airtel's overall subscriber (sub) base saw addition of staggering 13.9 mn QoQ at 293.7 mn, not only covering the last quarter decline of 3.9 million (on lockdown effect) but also a reflection of strong subscriber market capture (~2x of new operator). Vodafone Idea's (VIL) overall subscriber base declined by ~8 million to 271.8, with churn rate increasing to 2.6% (vs. 2.0% in Q1FY21). In terms of 4G subs additions, Airtel witnessed strong 4G net adds of ~14.4 mn during the quarter, with 4G data sub base at 152.7 mn. VIL's 4G sub base saw a modest addition of ~1.5 mn QoQ to 106.1 million
- **QoQ revenue, ARPU improvement seen:** Telecom operators saw an improved EBITDA performance. For Airtel, consolidated topline was at ₹ 25785 crore, up 7.7% QoQ, driven by Indian wireless revenues that were up 7.4% QoQ at ₹ 13832 crore, led by healthy net sub addition and ARPU growth of 3.4% QoQ at ₹ 162. Vodafone Idea's revenues were up 1.2% QoQ to ₹ 10791 crore, aided by ARPU growth ~4.4% QoQ to ₹ 119, with subscriber decline partially offsetting the major benefit of ARPU growth
- **EBITDA margins expand sequentially:** For Airtel, consolidated EBITDA came in at ₹ 11,642 crore, up 11.9% QoQ with margin of 45.2% (up 167 bps QoQ). Overall India margin was up 156 bps QoQ at 45.8% with Indian wireless margins at 42.6%, up 200 bps QoQ. Africa EBITDA margins were up 350 bps at 45.8%. For VIL, EBITDA margins were up 10 bps QoQ to 38.5% on account of one-off credit worth ~₹ 300 crore along with partial realisation of cost savings programme
- **Others:** In the tower space, Infratel reported a net tenancy addition of 2116 (highest in last 13 quarters). Revenues (on a proportionate consolidation basis) were at ₹ 3695 crore, up 5.4% QoQ driven by energy revenues, up 9% QoQ, at ₹ 1375 crore. Core rental revenues were at ₹ 2320 crore, up 3.4% QoQ. EBITDA was at ₹ 1817 crore, with margins of 49.2%, down 126 bps QoQ. EBITDA was impacted by energy margins wherein it recorded negative margins of 3.3%, as tenants have moved to pass through & some disputes thereafter

ARPU trend



Source: Company, ICICI Direct Research

Sterlite Tech's performance was weak on operating front on account of demand slowdown/Covid-19 impact with revenues and EBITDA decline of ~15% and 63%, respectively

Tata Communications' results were strong with revenues up 3% YoY & flattish QoQ, led by data revenues (forming ~83% of revenues) growing at 7.2% YoY, EBITDA came in at ₹ 1158 crore, up 26.3% YoY, with margins at 26.3% (up 680 bps YoY) driven by strong data margins of 30.4% (up 830 bps YoY), aided by structural costs savings and continued Covid-19 led benefits such savings in travel costs, lower SG&A costs etc

Pankaj Pandey

Head – Research
pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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