Corporate Earnings Q3FY21: Encouraging quarter, broad based recovery under way!

ICICI direct Research

Q3FY21

February 19, 2021

- Corporate earnings further gained momentum as economic activity rebounded in the post Covid unlocking era with optimism fuelled by the festive season. Q3FY21 earnings staged an impressive show and were broadly ahead of estimates as corporates continue to benefit from lower raw material costs and realised leaner cost structures. Management commentary was enthused by the recent growth oriented Union Budget by the central government with conducive macroeconomics supporting healthy growth prospects, going forward. At the index level, excluding the BFSI space, in Q3FY21, net sales declined ~2.5% YoY, primarily driven by double digit topline decline in the oil & gas domain amid muted crude prices. Ex-oil & gas and banking space, Nifty topline posted growth of ~10% YoY. On the profitability front, EBITDA margins at the index level came in healthy at 18.9%, up 310 bps YoY. Savings were realised in raw material costs, which, for the quarter, came in at 45.9% of sales, down ~600 bps YoY. At the PAT level, in Q3FY21, growth was stupendous at ~28% YoY. PAT growth was driven by expansion in operating margins amid tight control on interest as well as depreciation charge
- On the sectoral front, in banking space, broadly on a proforma basis GNPA levels rose ~30-50 bps with some exceptions on either side. Stress accretion (proforma GNPA + restructuring) was at ~2.5-3%, lower compared to earlier estimate and within guidance provided in September 2020. Auto sector results were robust nearly all across the board particularly in relation to margins, amid 10.5% YoY growth in total sales volume at 72.8 lakh units. In the capital goods domain, execution picked up pace sequentially with key highlight for the quarter being robust order inflows. In the FMCG space, strong growth momentum continued in Q3FY21 led by robust growth in rural regions supported by significant increase in government spends post pandemic
- Going forward, we expect Nifty earnings to grow at 24.2% CAGR over FY21E-23E. Using a bottom up approach and giving discount to target weighted average PE, we now value the Nifty at 16,300 i.e. 22x P/E on FY23E EPS of ₹ 740 with corresponding Sensex target at 54,600

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

Nifty P&L (ex-BFSI space)	Dec-20	Dec-19	Sep-20	YoY (%) change	QoQ (%) change
Sales	**9,93,184**	**10,18,466**	**8,64,970**	**-2.5**	**14.8**
Total Expenses	8,05,858	8,57,916	7,04,508	-6.1	14.4
Raw material	4,56,109	5,29,291	3,78,440	-13.8	20.5
Employee	1,19,536	1,12,418	1,14,041	6.3	4.8
Other expenses	2,30,213	2,16,207	2,12,028	6.5	8.6
Expenses (% of sales)					
Total Expenses	81.1	84.2	81.4	-310 bps	-31 bps
Raw material	45.9	52.0	43.8	-605 bps	217 bps
Employee	12.0	11.0	13.2	100 bps	-115 bps
Other expenses	23.2	21.2	24.5	195 bps	-133 bps
Operating Profit	**1,87,325**	**1,60,550**	**1,60,462**	**16.7**	**16.7**
OPM%	18.9	15.8	18.6	310 bps	31 bps
Other Income	23,729	22,343	26,056	6.2	-8.9
Interest	32,675	30,762	29,735	6.2	9.9
Depreciation	52,087	51,707	53,314	0.7	-2.3
PBT	**1,26,292**	**1,00,423**	**1,03,469**	**25.8**	**22.1**
Tax	33,466	28,060	27,048	19.3	23.7
Tax Rate	**26.5**	**27.9**	**26.1**	**-144 bps**	**36 bps**
PAT	**92,827**	**72,364**	**76,421**	**28.3**	**21.5**

*Source: Capitaline, ICICI Direct Research; *Data for 39 index companies' excl Banks & NBFC's*

Nifty earnings summary (ex-financials)

Nifty Earnings Summary (ex-financials) ₹ crore	Dec-20	Dec-19	YoY (%)	Sep-20	QoQ (%)
Sales	9,93,184	10,18,466	-2.5%	8,64,970	14.8%
EBITDA	1,87,325	1,60,550	16.7%	1,60,462	16.7%
Net Profit	92,827	72,364	28.3%	76,421	21.5%

Positive surprises & Buys

- Apollo Tyres
- FirstSource Solutions
- JK Cement
- KNR Construction
- KPR Mill
- SKF India

Nifty EPS estimates & Nifty target

Revised Sensex & Nifty Target				
Earnings Estimates	FY20	FY21E	FY22E	FY23E
Nifty EPS (₹/share)	440	480	625	740
Growth (%)	-6.2%	9.2%	30.0%	18.5%
Earnings CAGR over FY20-23E				18.7%
Earnings CAGR over FY21E-23E				24.2%
Target Multiple				22.0x
Nifty Target (at 22x FY23E EPS)				16,300
Corresponding Sensex Target				54,600
Potential Upside (@Nifty 15,200)				7%

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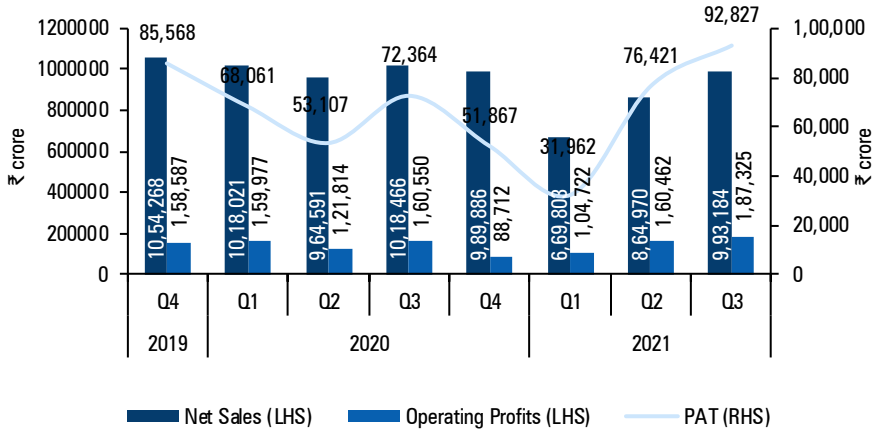
Earnings Wrap

ICICI Securities – Retail Equity Research

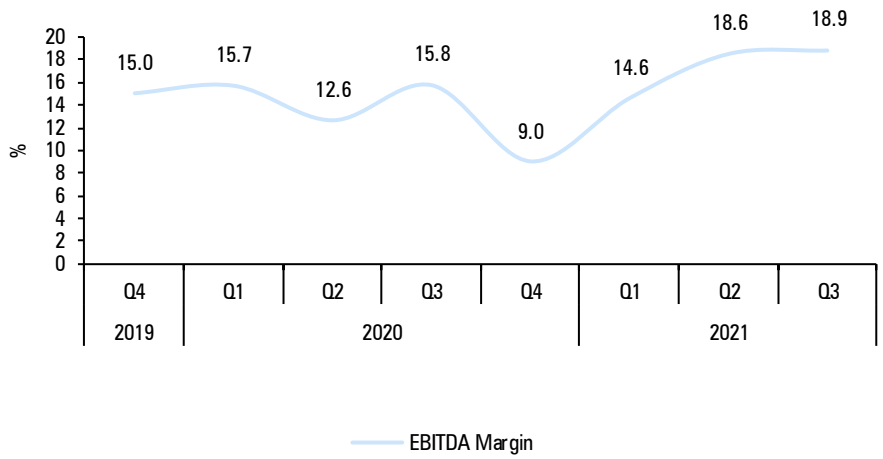
Exhibit 2: Nifty aggregate quarterly revenue, operating profit & net profit trend)



Source: Capitaline, ICICI Direct Research

Ex-financials, at the Nifty index level, the topline was down 2.5% YoY to ₹ 9.93 lakh crore. EBITDA, however was up 16.7% YoY to | 1.87 lakh crore, tracking expansion in EBITDA margins to 18.9% for Q3FY21. Ensuing PAT in Q3FY21 was up 28% YoY to ₹ 0.93 lakh crore, tracking expansion in EBITDA margins amid tight control over interest and depreciation charge. Tax rate for the quarter came in on usual run rate of ~26%

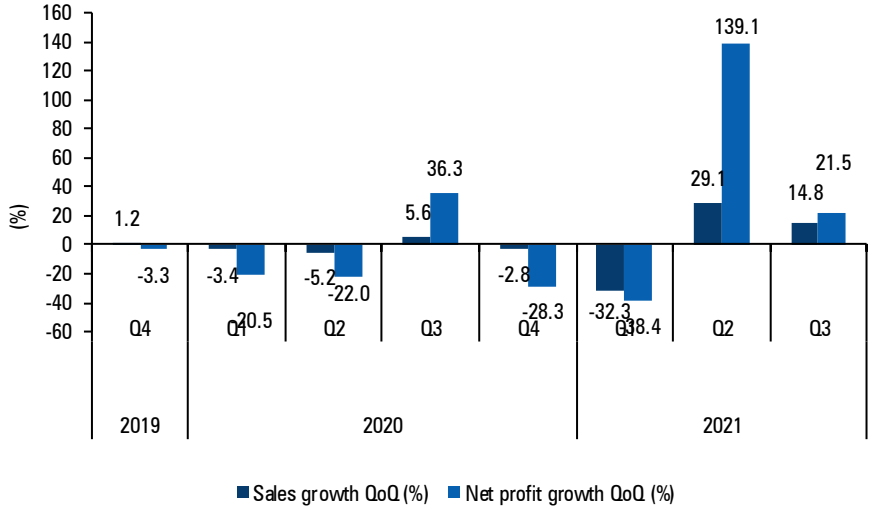
Exhibit 3: Nifty aggregate quarterly EBITDA margin trend



Source: Capitaline, ICICI Direct Research

In Q3FY21, EBITDA margins at the index level (ex-financials) expanded ~310 bps YoY to 18.9%. It was up ~30 bps on a sequential basis. It was largely driven by lower raw material costs with RM costs as a percentage to sales for Q3FY21 at ~45.9% 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

For Q3FY21, QoQ growth numbers also look encouraging as the Indian economy staged a near V-shaped recovery post Covid induced disruption. Topline on a QoQ basis was up ~15% while bottomline in the aforesaid period was up healthy ~22% tracking 30 bps expansion in operating margins QoQ. Q2FY21 sequential growth looks absurd due to complete economic standstill in Q1FY21

Industry wise revenue & profit movement

- In Q3FY21, the metals space led topline growth amid firm realisations, particularly on the base metal front (steel). Resilient sectors like pharma also reported double digit topline growth amid a pick-up Indian formulations segment while volume rebound in personal mobility space (2-W, PV) lifted the overall topline in the auto space. Higher single digit topline growth was witnessed in the FMCG, IT and power sectors. Lower YoY execution led to marginal decline in sales in capital goods domain

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

	Dec-20	Dec-19	Sep-20	YoY change (%)	QoQ change (%)
Auto	1,42,316	1,28,913	1,10,275	10.4	29.1
Capital goods	35,596	36,243	31,035	-1.8	14.7
FMCG	31,859	29,138	30,721	9.3	3.7
IT	1,12,561	1,06,206	1,07,768	6.0	4.4
Metals	1,20,097	1,05,963	1,08,808	13.3	10.4
Oil & Gas	4,01,857	4,79,517	3,39,764	-16.2	18.3
Pharma	20,649	18,319	20,252	12.7	2.0
Power	37,669	35,843	37,237	5.1	1.2
Others	90,580	78,325	79,111	15.6	14.5
Aggregate	**9,93,184**	**10,18,466**	**8,64,970**	**-2.5**	**14.8**

Source: Capitaline, ICICI Direct Research

Key Sectoral share in Index topline (%)

Sector	Dec-20	Dec-19	Sep-20
Auto	14.3	12.7	12.7
Capital goods	3.6	3.6	3.6
FMCG	3.2	2.9	3.6
IT	11.3	10.4	12.5
Metals	12.1	10.4	12.6
Oil & Gas	40.5	47.1	39.3
Pharma	2.1	1.8	2.3
Power	3.8	3.5	4.3
Others	9.1	7.7	9.1
Total	100.0	100.0	100.0

Source: Capitaline, ICICI Direct Research

- In the IT space, despite a seasonally weak quarter, IT companies saw strong growth in dollar revenues (average Tier-1 & Tier-2 IT companies witnessed 5% growth on QoQ basis). This was mainly led by ramp up of deal won (in previous quarters), acceleration in digital technologies (especially cloud migration) and cross currency tailwind. The acceleration in order book and deal pipeline (for tier 1 & tier 2 companies) continues to be strong led by traction in large deals, lift & shift deals and increase in spending by enterprises on cloud migration, automation, etc
- On the bottomline front, growth at the index level was led by the pharma space amid a rebound in net profitability at Sun Pharma. Metals again were an outlier primarily driven by record profitability at metal counters amid firm metal demand domestically. Operating leverage was at play in the auto space, with Tata Motors leading the gain primarily driven by the outperformance at JLR. Volume decline of tobacco products dented PAT at ITC and overall FMCG space at the index level

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

	Dec-20	Dec-19	Sep-20	YoY change (%)	QoQ change (%)
Auto	8,876	6,248	4,599	42.1	LP
Capital goods	2,467	2,352	1,410	4.9	74.9
FMCG	6,403	6,448	6,427	-0.7	-0.4
IT	22,153	19,121	18,993	15.9	16.6
Metals	11,341	4,112	6,494	175.8	LP
Oil & Gas	23,552	23,103	23,303	1.9	1.1
Pharma	3,099	1,085	3,770	185.6	-17.8
Power	7,134	5,936	6,530	20.2	9.3
Others	7,803	3,958	4,895	97.1	59.4
Aggregate	**92,827**	**72,364**	**76,421**	**28.3**	**21.5**

Source: Capitaline, ICICI Direct Research

Key Sectoral share in Index PAT (%)

Sector	Dec-20	Dec-19	Sep-20
Auto	9.6	8.6	6.0
Capital goods	2.7	3.3	1.8
FMCG	6.9	8.9	8.4
IT	23.9	26.4	24.9
Metals	12.2	5.7	8.5
Oil & Gas	25.4	31.9	30.5
Pharma	3.3	1.5	4.9
Power	7.7	8.2	8.5
Others	8.4	5.5	6.4
Total	100.0	100.0	100.0

Source: Capitaline, ICICI Direct Research

- In the cement space, after witnessing price led revenue growth during H1FY21, Q3FY21 witnessed a volume led recovery with sales volumes rising 8.3% YoY to 58.9MT (up 16.5% QoQ). Sustained demand from individual housing (IHB) in semi urban and rural region along with healthy pick-up in infra activities from September 2020 onwards aided a sharp recovery in volumes
- In the pharma space, results were healthy and primarily driven by 1) continued traction in exports markets (US business up 5% YoY, Europe up 18.5% YoY) and 2) substantial improvement in the domestic branded formulations (Indian formulations up 14.4%) driven by near-normal level of MR activity, Covid product opportunities and growing patient footfall at the clinics/ hospitals

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 (Q3FY21)

Company	Q3FY21 Result	Quarterly Performance & Outlook	CMP (₹)	Target Price (₹)	Last Rating	Potential Upside (%)
Apollo Tyre	Positive	Apollo Tyres (ATL) reported a robust operational performance in Q3FY21. EBITDA margins were at a decade high of 19.2% (up 707 bps YoY, up 297 bps QoQ) tracking 120 bps sequential gross margin expansion amid India replacement price hikes across segments (2-3%) and Europe product mix improvement. With domestic CV cycle on the cusp of cyclical recovery and margin accretive restructuring underway at its European operations we have a positive view on the company. We are also enthused by ATL's revived focus on sweating of existing assets, de-leveraging of b/s and attaining healthy capital efficiency. We expect sales, EBITDA CAGR at 13.8%, 18.5%, respectively in FY21E-23E. We assign BUY rating to the stock, valuing ATL at ₹ 300, 6x FY23E EV/EBITDA	236	300	Buy	27
FirstSource Solutions	Positive	FirstSource Solution (FSL) reported a healthy set of Q3FY21 numbers. Dollar revenues increased 15.6% QoQ (up 24.9% YoY) to US$184.8 million and EBIT margins increased 20 bps QoQ to 11.6%. Total debt declined from ₹ 843.3 crore in FY20 to ₹ 505.4 crore in 9MFY21. FSL has guided 16-17% YoY growth (up from earlier guidance of 9-12%) in FY21E revenues in constant currency terms and operating margins in the range of 11.25-11.5%. This coupled with healthy growth in mortgage business, improvement in provider segment, traction in top client, healthy deal pipeline, new client wins, cross-selling of platforms business and hiring of leaders to boost its digital business are expected to drive long term revenues. In addition, improving margins prompt us maintain positive view on the stock with a target price of ₹ 120/share	95	120	Buy	26
JK Cement	Positive	JK Cement's performance was ahead of our estimates for Q3FY21 with revenue growth of 25.3% YoY. Blended sales volume grew 23.8% YoY to 3.17 MT while realisations improved 1.3% YoY to ₹ 5,554/t. EBITDA margins improved 572 bps YoY to 25.5% with EBITDA/t at ₹ 1,416/t. The entire 4.2 MT has been commissioned this fiscal. Post incurring major capex of over ₹ 1,648 crore towards phase-I expansion, the next two years would lead to healthy OCF generation. However, the same is going to be mainly utilised towards the next phase of expansion at Panna (MP) for proposed ~4 MT greenfield capacity (8000 tpd clinker with 2 MT GU in MP & UP along with 22 MW WHRS) as it would entail a capex of ~₹ 2,970 crore ($102/t). This will keep the growth momentum strong, going forward, supported by favourable macro factors. We maintain our BUY rating with a revised target price of ₹ 2950 (valuing at 13.5x FY23E EV/EBITDA)	2620	2950	Buy	13
KNR Constructions	Positive	KNR Constructions reported industry leading Q3FY21 execution wherein standalone revenue was up a staggering 23% YoY to ₹ 686.3 crore, reflecting the sharp pick-up in execution aided by healthy order book position and normalisation of labour availability/raw material supply chain post Covid-19 related disruptions. At the PAT level, robust operating performance coupled with lower depreciation expense translated to 93% YoY growth to ₹ 77.6 crore. KNR is a proxy play on increased focus on roads and overall infrastructure push. Considering a) strong execution, b) elevated level of margins, c) best in class working capital cycle, d) monetisation of BOT/HAM assets, e) healthy balance sheet, and f) strong return ratios, KNR is among our top picks in the sector. We assign BUY rating to the stock on SOTP basis with a target price of ₹ 270	217	270	Buy	24
KPR Mill	Positive	KPR Mill reported yet another robust quarter driven by strong demand for textile products. Revenue in Q3FY21 grew 21% YoY to ₹ 929.6 crore, with textile division (87% of sales) posting 19% YoY growth and sales from sugar division inching up 67% YoY. Gross margins expanded significantly by 707 bps YoY to ~50% on account of favourable spreads and advantage of being vertically integrated. Furthermore, owing to positive operating leverage, EBITDA margins came in at an all-time high of 27%. KPR has two major capex projects in the pipeline worth ₹ 750 crore towards garmenting facility (₹ 250 crore) and ethanol facility (₹ 500 crore). Capital deployment towards value accretive projects (targeted RoCE: garmenting: 30%, ethanol: 22%) augurs well for KPR. We anticipate RoCE will gradually get enhanced to 24% by FY23E. We maintain BUY rating to the stock with a target price of ₹ 1200 (13x FY23E EPS)	940	1200	Buy	28
SKF India	Positive	SKF registered a handsome beat for Q3FY21 across all parameters. The company posted highest ever profitability led by improvement in topline and highest ever gross margins. Revenue for the quarter came in at ₹ 818.7 crore, up 15.7% YoY. Gross margins came in at 46.7%, an expansion of ~ 1230 bps. Consequent to the huge expansion in margins, SKF reported highest every bottom-line ending the quarter with a PAT of ₹ 128.1 crore, up 150.3% YoY. Tax rate for the quarter was 26.2%. Taking cognisance from the recent auto numbers, we pencil in 17%, 24.5% & 25.9% revenue, EBIDTA & PAT CAGR for FY21E-23E, respectively. With improved outlook and enhance visibility, we assign BUY rating to the stock valuing it at ₹ 2890/share, 33x P/E on FY23E EPS	2362	2890	Buy	22

Source: ICICI Direct Research

The above companies posted a strong set of earnings in Q3FY21, which we believe are more fundamental and sustainable in nature.

Sector specific takeaways from quarter

Auto & auto ancillary

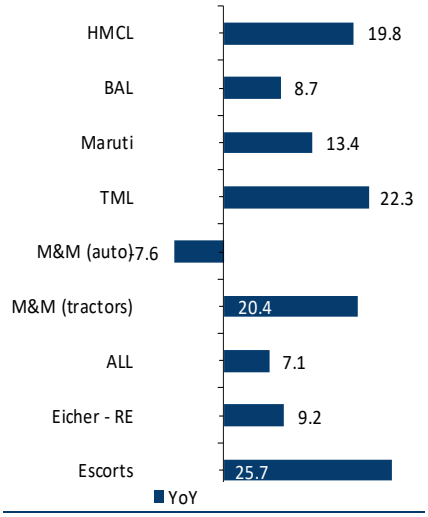
- The domestic auto industry continued on its recovery path in Q3FY21 post Covid-19. Demand remained ahead of supply throughout the period – including the festive season October-November. Coverage universe results were strong nearly all across the board - particularly in relation to margins, where expected gross margin contraction did not come through during the quarter and would be back ended i.e. in Q4FY21E

Ex-Tata Motors, on aggregate basis, sector revenues grew 18.4% YoY (vs. estimated 15.9%) while operating margins were at 13.7% (vs. estimated 11.8%). Aggregate PAT growth came in at 29.6% YoY (vs. estimated 17.8%)

- For Q3FY21, total industry sales were at 72.8 lakh units (up 10.5% YoY), with domestic dispatches up 10.6% YoY to 59.5 lakh units and exports up 10% YoY to 13.4 lakh units. Total PV volumes were up 7.7% YoY to 10.33 lakh units (UV up 14.9% YoY), 2-W volumes rose 14.4% YoY to 58.5 lakh units (motorcycles up 17.7%, scooters up 4.8%). CV segment was flattish YoY at 2.1 lakh units (M&HCV down 4.2%, LCV up marginally). Total 3-W volumes declined 38.6% YoY to 1.9 lakh units

- Among OEMs, 2-W market leader Hero MotoCorp's sales rose 39.7% YoY amid 19.7% volume growth and 3% QoQ ASP increase. Margins were up 80 bps QoQ to 14.5% with PAT up 23.2% YoY. Savings in employee & other expenses helped Bajaj Auto post 172 bps sequential margin increase (19.4%) in addition to 16.6% YoY, 23.4% YoY sales, PAT increase respectively. PAT growth (6.8% YoY) was more subdued than other 2-W players at Eicher Motors (revenues in line; margins up 168 bps QoQ to 23.8%) despite profit share from VECV increasing strongly to ₹ 31.4 crore. PV bellwether Maruti Suzuki's net sales were up 13.4% YoY (entirely volume led; total volumes at 4.96 lakh units). Margins were lower QoQ on higher material costs (9.5%), with PAT beat (up 24% YoY) on account of higher other income

Key players volume growth – Q3FY21 (%)



Source: Company, SIAM, ICICI Direct Research

- M&M's standalone sales rose 15.2% YoY amid muted ASPs with automotive volumes down 7.6% & tractor volumes up 20.4%. Record margin performance was sustained QoQ (16%) on higher-than-expected gross margins. PAT was yet again hampered by exceptional charge for investment impairments (₹ 1,692 crore). Escorts also expanded upon Q2FY21's record tractor margins by 11 bps QoQ to 20.1%, with overall print at 18% higher than estimated by 200 bps. Tractor volumes, total sales and PAT rose 25.7%, 23.5%, 83.3%, respectively, YoY. Ashok Leyland disappointed across all fronts. ASPs dipped 1.2% QoQ despite higher share of M&HCV in total volumes while margin upswing was lower than anticipated due to gross margin pressure. One-time VRS charge of ₹ 85 crore led to loss at the PAT level

Tata Motors was the standout OEM pack performer with sales up 5.5% YoY (JLR down 6.5%, India up 35%) and margins at six-year high of 16.9% (JLR 15.8%, India 7.4%) on 500 bps QoQ savings in other expenses. Consolidated PAT was at ₹ 2,941 crore vs. our loss estimate of ₹ 64 crore

- Tyre makers Apollo Tyres, Balkrishna Industries posted robust performances. Apollo Tyres reported India led 17.1% sales increase and decade high margins of 19.2% on better mix, price hikes and better gross margins. Balkrishna Industries' sales rose 30% YoY on 26% volume increase, with operating leverage benefits leading to margin beat (31.7%). Gross margin expansion led to resilient overall Exide Industries margins (up 14 bps QoQ to 14.4%) with sales, PAT up 16.2% YoY, 23.2% YoY respectively. Motherson Sumi's all-round performance was highlighted by 230 bps QoQ margin increase to 9.5% at key subsidiary SMP. Minda Industries continued to outperform user segments with 35.8% revenue jump and sustenance of record margins QoQ at 14.7%

Bharat Forge's sales declined 3.8% despite 8.4% tonnage growth while operational efficiencies played out in margins (up 297 bps QoQ to 20.7%)

- Looking ahead, given that (i) channel inventory levels are relatively controlled in PV & 2-W, (ii) macros are turning positive for the CV space and (iii) tractor supportive tailwinds continue in terms of positive rural cash flows, etc, we expect a solid end to the year for the auto space. Supply disruptions and impending impact of commodity cost surge, however, are causes for concern with the latter partly mitigated by calibrated price hikes taken by OEMs in January 2021 and beyond

Banking sector

- Steady profitability, lower slippages (excluding asset classification standstill) compared to earlier estimates and continued creation of provision buffer enabled resurgence of confidence in the banking sector, though pick up in advances is yet to pan out. However, unlocking of economic activities has led to a sequential improvement in momentum in disbursement, though still below pre Covid level
- Headline asset quality continued to benefit from standstill norms. However, on proforma basis, most lenders saw rise in GNPA, barring few like SBI, HDFC Bank. Broadly on proforma basis there was ~30-50 bps rise in GNPA levels with some exceptions on either side. Stress accretion (proforma GNPA + restructuring) was at ~2.5-3%, lower compared to earlier estimate & within guidance provided in September 2020

In lieu of stress accretion, banks hold adequate provision buffer at 1.5-2% of advances. Collection efficiency has increased to ~97-98% levels and will now see gradual rise ahead

- NIM showcased flat to improving trend owing to lower cost of funds, improvement in CASA and reduction of liquidity buffer. Fee based income witnessed sequential improvement, though still below pre-Covid level. However, healthy recoveries pedalled 17% QoQ growth in other income. Increase in opex was seen owing to increased business activity

With recovery in economy, green shoots are visible with revival in business momentum in some segments, though overall advance growth continued to remain tepid at 6.7% YoY to ₹ 107 lakh crore (as of January 1, 2021). Risk aversion and subdued capex kept corporate growth focused on well rated borrowers. However, agri loans witnessed a revival in credit offtake at 9.4% YoY, backed by uptick in rural economy. Growth started pedalling in retail segment at 9.5% YoY, led by pick-up in demand amid festive season. Secured loans including consumer durable, housing and vehicle loans remained in focus. Disbursement under ECLGS scheme led to growth in MSME segment. Deposit growth remained healthy at 11.5% YoY at ₹ 147.2 lakh crore, with continued growth in CASA

- Provisions for the quarter saw QoQ rise as lenders prudently have opted for balance sheet strengthening and utilised increase in operating profits to create provisioning buffers against proforma NPAs and other stress. As a result, overall PAT remained flat sequentially at ₹ 26189 crore, with private players posting healthy 7% QoQ rise in PAT at ₹ 18377 crore

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

(₹ crore)	Q3FY21	Q2FY21	Q1FY21	Q4FY20	Q3FY20
NII	125952	123044	124591	109705	112025
Growth YoY	**12.4**	**18.2**	**28.1**	**19.0**	**25.4**
Other income	54746	46865	45678	56653	52564
Growth YoY	4.2	-6.4	13.0	28.3	39.9
Total operating exp.	84547	79400	75768	82713	78396
Staff cost	43978	41633	43854	41278	38473
Operating profit	96152	90508	94501	83645	86193
Growth YoY	11.6	11.3	34.6	20.9	36.8
Provision	60456	53649	64138	89707	86668
PBT	35695	36859	30363	-8891	-773
PAT	26189	26619	21140	-3958	-11882
Growth YoY	**-320.4**	**300.6**	**95.1**	**-61.2**	**-764.5**
GNPA	745198	798675	818535	806145	912841
Growth YoY	**-18.4**	**-13.4**	**-2.6**	**5.8**	**14.5**
NNPA	174229	214195	252154	260747	336655
Growth YoY	**-48.2**	**-37.4**	**-21.9**	**-10.6**	**-1.0**
Advances (Lakh crore)	99.8	96.0	95.7	94.3	94.8
Deposits (Lakh crore)	140	137	133	124	127

Source: Capitaline, ICICI Direct Research

On an overall basis, banking sector saw some green shoots in this quarter with improving loan traction as well as collections. With better than anticipated scenario on restructuring front and improved balance sheet strength a gradual recovery in business momentum is on the horizon. Government's intent to push for growth was visible in recent Budget and is also positive for banking sector, going ahead

Exhibit 9: Financial summary of banking industry (Public)

(₹ Crore)	Q3FY21	Q2FY21	Q1FY21	Q4FY20	Q3FY20
NII	74,494	73,591	71,936	62,577	68,139
Growth YoY (%)	**9.3**	**20.5**	**29.6**	**21.4**	**36.1**
Other income	31,209	26,748	26,675	34,864	30,957
Growth YoY (%)	**0.8**	**-10.4**	**23.9**	**33.6**	**60.5**
Total operating exp.	52,821	50,772	48,685	54,266	47,919
Staff cost	32,512	30,750	30,595	27,907	27,924
Operating profit	52,881	49,567	49,927	43,174	51,178
Growth YoY (%)	**3.3**	**7.3**	**38.3**	**15.0**	**65.2**
Provision	41,382	35,556	39,363	57,543	47,011
PBT	11,500	14,011	10,563	-16,082	3,066
PAT	7,812	9,449	6,767	-8,928	-8,475
Growth YoY	**NM**	**NM**	**NM**	**NM**	**NM**
GNPA	6,14,698	6,50,394	6,85,500	6,45,870	7,66,154
Growth YoY	**-19.8**	**-16.4**	**-2.7**	**2.4**	**15.1**
NNPA	1,47,025	1,78,334	2,11,473	2,11,233	2,80,028
Growth YoY	**-47.5**	**-37.8**	**-21.9**	**-12.2**	**-2.9**
Advances (Lakh crore)	64	62	63	59	61
Deposits (Lakh crore)	98	97	95	86	90

Source: Capitaline, ICICI Direct Research

- Private banks witnessed a revival in earnings ~7% QoQ to ₹ 18,377 crore, led by better NII, controlled opex and declining provisions. As unlock is progressing, repayment trend, collection efficiency (>97% 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 activities are gathering steady pace

Exhibit 10: Financial summary of banking industry (private)

(₹ Crore)	Q3FY21	Q2FY21	Q1FY21	Q4FY20	Q3FY20
NII	51,458	49,452	52,655	47,128	43,886
Growth YoY	**17**	**15**	**26**	**16**	**12**
Other income	23,537	20,117	19,002	21,790	21,607
Growth YoY	**8.9**	**-0.3**	**0.6**	**20.7**	**18.2**
Total operating exp.	31,726	28,628	27,083	28,447	30,478
Staff cost	11,467	10,883	13,259	13,371	10,549
Operating profit	43,270	40,941	44,574	40,471	35,015
Growth YoY	**23.6**	**16.5**	**30.6**	**28.0**	**9.4**
Provision	19,075	18,094	24,775	32,164	39,657
PBT	24,196	22,848	19,799	7,191	-3,839
PAT	18,377	17,170	14,373	4,970	-3,407
Growth YoY	**NM**	**82.4**	**18.0**	**-47.5**	**-129.7**
GNPA	1,30,499	1,48,280	1,33,036	1,60,275	1,46,686
Growth YoY	**-11.0**	**3.3**	**-2.3**	**22.1**	**11.6**
NNPA	27,204	35,861	40,681	49,514	56,627
Growth YoY	**-52.0**	**-35.1**	**-22.0**	**-3.5**	**10.2**
Advances (Lakh crore)	35	34	32	36	34
Deposits (Lakh crore)	42	40	38	39	37

Source: Capitaline, ICICI Direct Research

Capital Goods

- Overall, our capital goods coverage companies delivered a steady performance aided by operating activities regaining normalcy, higher mobilisation of on-site labours leading to execution pick-up with sequential improvement in productivity, recovery in industrials, continued improvement in auto sector and key international markets faring well. Revenue for coverage our universe came in almost flat with 0.2% YoY growth while EBITDA grew 23.6% YoY led by favourable product mix, decent volumes, stages of execution and operating cost control measures. Adjusted PAT grew 38.6% YoY partly aided by positive operating leverage, other income and base effect. While operations almost returned to normalcy with improved employee productivity, companies with exports business saw some impact of travel restrictions and supply chain disruptions

- L&T reported strong order inflows led by few mega orders while executions gradually regaining ground. Adjusted standalone revenue de-grew 1.3% to ₹ 19619.8 crore due to job mix and site productivity though execution improved sequentially due to higher work force mobilisation and supply chain normalisation. Standalone EBITDA margin improved 210 bps to 9.5% mainly due to control on operating expenses. However, L&T's consolidated revenue declined 1.8% YoY aided by better performance of subsidiaries

- In the shipping space, Cochin Shipyard posted muted topline growth (down 16% YoY). Nonetheless, margins expanded (42.2% vs 22.1% YoY) on account of lower input costs. Consequently, PAT was up 30.8% YoY

- Power T&D companies like KEC, Kalpataru Power (KPTL) delivered steady performance amid ramp-up in operational activities, execution and interest cost reduction leading to revenue, EBITDA, PAT growth of 4.6%, -4.0%, and 6.8%, respectively. While product companies (AIA, Greaves, Thermax, Elgi, NRB, SKF and Timken) posted further recovery sequentially led by continued rebound in industrial and automotive sectors coupled with positive operating leverage and cost restructuring initiatives significantly improving profitability. The consolidated revenue, EBITDA, PAT of these product companies grew 5.0%, 26.9%, 14.9%, respectively

- On the order inflow front, L&T registered strong order inflows worth ₹ 73233 crore, up 76% YoY, led by mega EPC orders won in infrastructure segment (~62% of inflows) including high speed rail (HSR), special bridge project, rural water supply scheme (MP), international order in power T&D etc. Bharat Electronics' order inflows were at ~₹ 4900 crore. In T&D space, KEC international, KPTL received orders worth ₹ 2461 crore, ₹ 2869 crore for Q3FY21, respectively. Thermax' consolidated order inflow came in at ₹ 1565 crore (marginally down 2.6% YoY) owing to a revival in several key sectors
- On the defence front, Bharat Electronics witnessed revenue, EBITDA, PAT growth of 16.3%, 24.1%, 21.7% YoY, respectively, on the back of normalising supply chain, reduced material cost and decent execution
- Thermax reported a steady Q3 performance on the back of decent execution, margin improvement. Consolidated revenue, EBITDA, PAT were up 0.1%, 30.4%, and 22.2%, respectively. Muted order inflows and sluggish order book continues to remain a key concern for medium term revenue visibility
- In the bearing space, companies posted robust topline growth coupled with margin expansion. The performance was led by a strong recovery in festive months and some pent up demand. Key beat for the quarter came in from SKF, which reported ~1230 bps expansion in gross margins. However, Timken's performance remained muted given its higher exposure to CV and railways. Overall revenue, EBIDTA & PAT for our bearings coverage increased 15%, 65% & 65%, respectively
- Other product companies like Elgi reported a strong performance (consolidated revenue, EBITDA grew 18.1%, 90.4%, respectively) led by growth in international markets and recovery in domestic business. AIA Engineering too reported a steady performance with revenue, EBITDA growth of 0.7%, -0.3% YoY, respectively, supported by a rebound in non-mining volumes during Q3FY21. Greaves Cotton's performance was aided by non-auto business as auto segment continues to face challenges amid sluggishness in 3-W engine volumes & BS VI transition. Consequently, revenue, EBITDA fell 11.7%, 30.3% YoY, respectively
- As operational activities almost achieved normalcy over the quarter across capital goods companies with a sequential improvement in productivity and higher work force mobilisation, we expect Q4FY21 to be lumpy in terms of revenues aided by further improvement in execution and productivity. Order tendering momentum is expected to be strong in Q4FY21 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 would 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 and customer collections to improve cash flow situation. Overall, companies with a strong balance sheet, asset light business model, tight control on working capital and strong cash balance are likely to gain as the economy is gradually inching towards normalcy

Cement: Volume growth takes front seat but margins cool off with rise in cost of production

- After witnessing price led revenue growth during H1FY21, Q3FY21 witnessed volume led recovery with sales volumes rising by 8.3% YoY to 58.9 MT (up 16.5% QoQ). Sustained demand from individual housing (IHB) in semi urban and rural region along with healthy pick-up in infra activities from September 2020 onwards aided a sharp recovery in the volumes. In terms of regions, eastern region saw capacity utilisation of over 90%. Rest all other regions except south region also witnessed healthy capacity utilisation over 80%. While utilisation levels in south remained lower at ~58% due to extended monsoon, it saw a good recovery on a QoQ basis led by a pick-up in infra activities
- Cement prices cooled off by 1.2% QoQ to ₹ 5060/t at all-India level after witnessing a sharp rise during lockdown due to lower cement production. However, it was up 4.4% YoY. In terms of costs, sharp increase in the petcoke prices (up 35% YoY, 26% QoQ) led the company to switch to coal for their fuel requirement during the quarter. This along with use of low cost petcoke inventories helped cement companies to improve their margins by 565 bps YoY to 23.4%. However, it cooled off by 192 bps QoQ due to a sequential rise in costs coupled with a dip in cement prices
- Weak volumes in the south were offset by strong realisations compared to northern, central and eastern regions. The sharpest growth was reported by Sagar Cements (23.2% YoY) followed by Ramco Cements (14.2% YoY) and India Cement (5.8% YoY) due to low base of last year. In contrast, Shree Cement, JK Lakshmi and JK Cements reported average realisation growth of 2.1% only vs. industry growth of 4.4% YoY. Average realisations at all-India level were down 1.2% QoQ
- At present, cement volumes are witnessing healthy traction with the beginning of construction season and sharp pick-up in infra activities. The housing segment is also showing a visible pick-up. The improved business environment led by lower interest rates and easy liquidity has also led to re-instatement of capex plans by major companies that were halted earlier. While margins are likely to moderate, going forward with the rise in cost of production, healthy volume led profitability growth would lead to further improvement in the sector RoCE. Most companies are comfortably placed on the balance sheet front

I-direct universe reported sales volume growth of 8.3% YoY to 58.9MT with reported capacity utilisation of 79% (up 300 bps YoY, 1063 bps QoQ). Sharpest volume growth was posted by north base companies like JK Cement (23.8% YoY) followed by JK Lakshmi Cement (15.7%% YoY) and Shree Cement (up 14.6% YoY). On the other hand, south based companies like India Cements (-10.8% YoY) and Ramco Cement (-8.2% YoY) reported volume decline during the quarter due to extended monsoon in their regions. All India players like UltraTech reported healthy double digit volume growth of 14.1% while ACC's volume broadly remain flat YoY due to capacity constraint

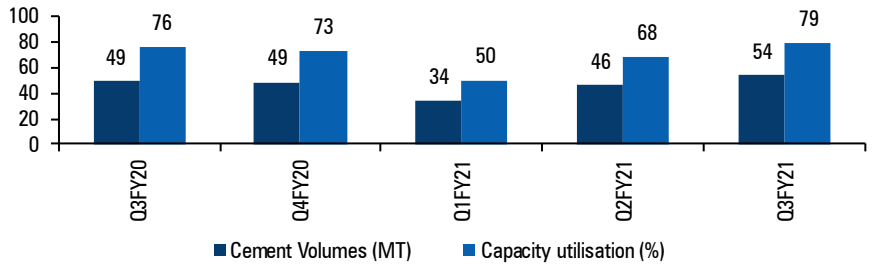
Revenues for I-direct coverage universe grew 13% YoY to ₹ 29,790 crore with highest revenue growth reported by Sagar Cement (38.8%), JK Cement (25.3%) and JK Lakshmi Cement (18.7%)

UltraTech (18.5%) and Shree Cements (17.5) among large firms reported average revenue growth of 18% YoY; revenue of south based players except Sagar Cement broadly remained flat YoY

EBITDA margins also expanded 565 bps YoY to 23.4% led by improved sales volumes and controlled costs; EBITDA/t increased 37.6% YoY to ₹ 1,183/t (down 8.7% QoQ). Average EBITDA/tonne of all south based companies (like India Cement, Ramco Cement and Sagar Cement) doubled to ₹ 1,385/t led by sharp increase in the cement prices whereas north based companies like JK Lakshmi, Shree and Mangalam Cement reported average growth of 27% YoY

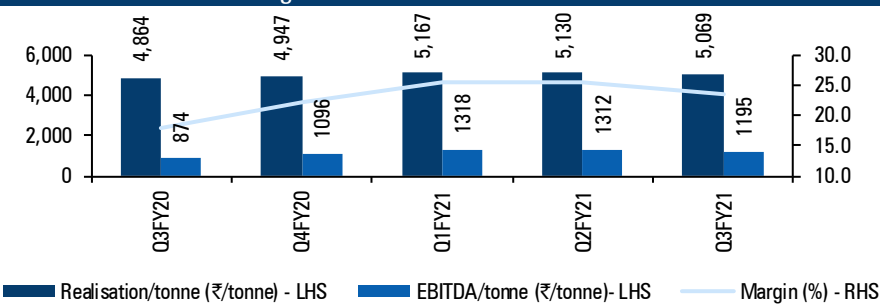
This quarter, Ramco Cements reported highest EBITDA/t of ₹ 1,525/t followed by Shree Cements EBITDA/t of ₹ 1,510/t and JK Cements EBITDA/t of ₹ 1,416/t. Overall, on absolute basis, I-direct universe reported a 49% YoY growth in EBITDA to ~₹ 6,966 crore (up 6.3% QoQ)

Exhibit 11: Cement volumes and capacity trend



Source: Company, ICICI Direct Research

Exhibit 12: Realisation & margin trend



Source: Company, ICICI Direct Research

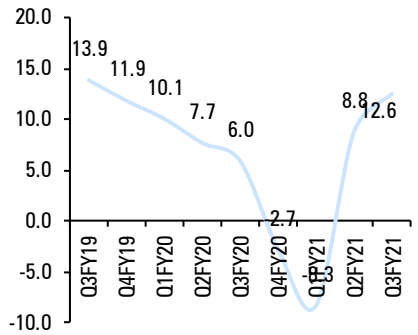
Consumer Durables

- Consumer discretionary companies continued their journey towards normalcy and reported one of the best quarterly performances in Q3FY21. Topline, PAT growth at 27%, 53% YoY was much ahead of our expectation of 12%, 20% respectively. The topline growth was on the back of robust festive demand, opening up of metros regions and market share gains from the unorganised/regional players
- Paint and adhesive companies reported strong volume growth in the range of ~22-30% YoY while on the piping front, Supreme Industries reported an exceptional revenue growth in the piping business by 43% YoY supported in revival in the demand of real estate/housing sectors. The same growth momentum was also witnessed in FMEG industries wherein companies such as Havells, Bajaj Electricals, Crompton Greaves Consumer and Voltas also reported strong revenue growth of 54% and 26% YoY in their consumer facing businesses, respectively
- On the margins front, companies reported EBITDA margin expansion in the range of 200-450 bps YoY led by sharp expansion in gross margin and various cost optimisation measures amid lockdowns. The management has reiterated that while some cost rationalisation measures would continue in the coming future also, the recovery in raw material prices from its lows would lead to a normalised margins ahead

FMCG

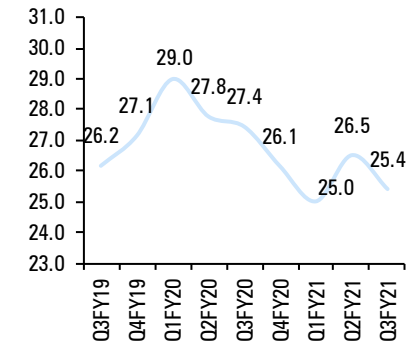
- FMCG companies continued the strong growth momentum in Q3FY21 led by robust growth in rural regions supported by significant increase in government spends post pandemic. Our coverage universe witnessed 12.6% revenue growth (8.8% growth in Q2FY21) led by strong double digit growth for Dabur, Marico, Zydus wellness & Jyothy Lab. The consolidation of acquired businesses for HUL & Tata Consumer Products also resulted in double digit growth for these companies
- FMCG industry has been experiencing acceleration of consumption shift from unbranded to branded products specifically in foods category. This was visible from strong growth in edible oil, oats, staples, pulses, tea, salt and noodles categories in Q3 as well. Immunity boosting & health wellness products also continued the growth momentum specifically in peak winter season. The growth in sanitisers segment has tapered down considerably compared to Q1FY21 with the availability of a plethora of brands. Similarly, biscuit segment growth also slowed down with opening up of local bakeries & increased consumption of 'on-the-go' street food. Discretionary categories like carbonated beverages, cosmetics, deos & skin care products which were adversely impacted in H1FY21, saw significant recovery with increase in out-of-home activity
- Some of the FMCG companies like Marico, Dabur witnessed double digit volume growth (15-18%) during the quarter. Similarly, within the saturated category like oral care, Colgate saw healthy ~8% revenue growth led entirely by volumes (our assumption) whereas volume growth for HUL was dismal at 4% given significant part of its product portfolio consist of detergent, which remained impacted by closures of schools & work from home trend
- ITC saw 11% growth in its FMCG portfolio led by staples (Atta), noodles & various disinfectant products under Savlon. Cigarettes volumes continue to remain muted with 7% & 13% decline for ITC & VST Industries, respectively. The cigarette category was also impacted by work from home culture & only partially operational restaurants, pubs
- Zydus Wellness also saw strong 15% growth led by Sugar-Free, Complan & Glucon-D. E-commerce channels continued to grow more than 100% during the quarter replicating previous quarter's trend

Trend in revenue growth (YoY %)



Source: Company, ICICI Direct Research

Trend in EBITDA margins (%)



Source: Company, ICICI Direct Research

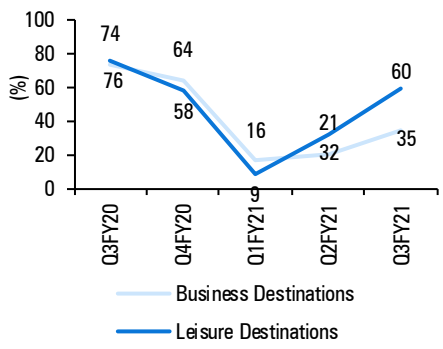
- During the quarter some commodities prices like copra, palm oil & tea increased sharply impacting the gross margins for HUL, Tata Consumer Products & Marico. However, despite such a sharp increase in commodity prices, our coverage universe (ex-ITC) gross margins was up by ~110 bps largely led by Colgate, Nestlé, Varun Beverages & Zydus Wellness. These companies benefited from lower milk prices coupled with significant decline in crude based packaging costs
- Our coverage universe (ex-ITC) witnessed a 46 bps improvement in operating margins given savings from gross margin expansion and cut down in overhead spends was utilised for increase in marketing campaigns & trade promotions
- We believe the growth momentum for FMCG companies would continue for the next few quarters given low base of last year, complete sales recovery in discretionary & 'On-the-go' products & continuance of consumption shift from unbranded to branded products specifically in some of the packaged foods categories

FMCG companies have adopted a strategy of driving growth from new products from last one year. Most of the companies have increased their marketing spends to the pre-Covid levels to support new products sales.

Hotels: Leisure destinations witness healthy recovery

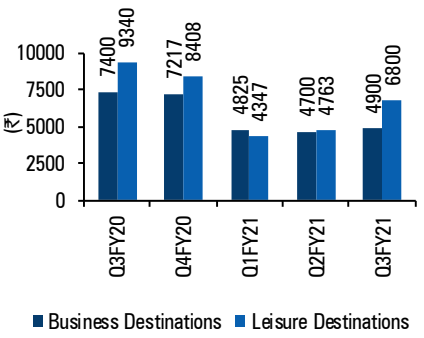
- With the improvement in macro indicators in terms of business as well as Covid recovery rate, the hospitality sector has also witnessed a revival in demand compared to Q2FY21 though at a slower pace. Occupancy levels have grown month on month since September 2020 to cross 45% in Q3FY21, which is far better than occupancy levels of 28% recorded in Q2FY21. The revival of the sector has primarily been driven by domestic leisure 'revenge travel' during weekends, festive season, weddings and food & beverage demand. Average occupancy levels of leisure segment improved to 60% vs. 21% reported in the Q2. In terms of individual performances, premium segment hotel players reported average revenue de-growth of 60.4% vs. -77% YoY during Q2FY21 while mid-scale players like Lemon Tree reported revenue decline of ~65.7% YoY. A complete travel ban from foreign countries and corporates adopting a Work from Home policy has hit the business destinations' hotel business very hard with occupancy levels of business destinations remaining at sub 35%. Overall, average revenue of the I-direct universe declined 60.7% YoY to ₹ 784.1 crore for the quarter while it improved 115% QoQ led by recovery in the leisure segment
- A majority of the hotel industry's cost is fixed (~70% of total costs), with power/lighting and employee costs taking the major share. With a sequential rebound in revenues, our I-direct coverage universe's EBITDA and PAT loss narrowed down to ₹ 24 crore and ₹ 206 crore, respectively, in Q3FY21 vs. EBITDA and PAT loss of ₹ 237 crore and ₹ 399 crore, respectively, during Q2FY21
- While H1FY21 remained a washout phase for the sector, the sector saw a gradual pick-up in the business with settling down of Covid-19 cases and beginning of the peak season. Going forward, we expect better demand recovery mainly in tourist destinations rather than business destinations. Corporate travel will take a couple of quarters to recover as major companies are continuing their work from home policy at least till Q4FY21 while curbs on visa and progression of Covid-19 in India will impact influx of foreign travellers in H2FY21. However, this will majorly be offset by influx of revenge travel in the domestic segment along with the demand emanating from wedding season. From a longer term perspective, opening of new supply would also be delayed or cancelled, which bodes well for the strong established players. Further, hotel players are now resorting to various cost control initiatives that are sustainable in nature. This, coupled with reduced room supplies, would make strong players even stronger in the long run

Occupancy trend



Source: Crisil, ICICI Direct Research

ARR trend

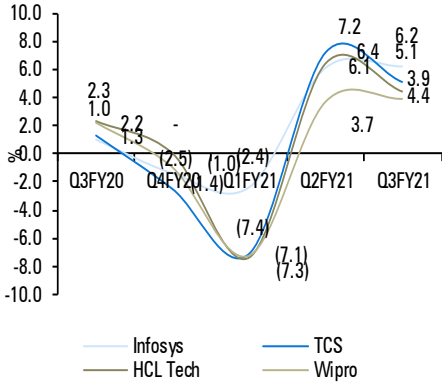


Source: Crisil, ICICI Direct Research

Information Technology

- Despite a seasonally weak quarter, IT companies saw strong growth in dollar revenues (average Tier-1 & Tier-2 IT companies witnessed 5% growth on QoQ basis). This was mainly led by ramp up of deal won (in previous quarters), acceleration in digital technologies (especially cloud migration) and cross currency tailwind. Most IT companies have stopped reporting digital revenues. However, we believe that digital, on an average, now accounts for >40% of IT companies' overall revenues
- On YoY basis, majority of the IT companies have surpassed their pre-Covid revenue levels, which is a key positive. The acceleration in order book and deal pipeline (for tier 1, 2 companies) continues to be strong led by traction in large deals, lift & shift deals and increase in spending by enterprises on cloud migration, automation, consumer experience, employee experience & data, and core modernisation. In addition, Infosys has revised its revenue guidance upwards from 2-3% YoY to 4.5-5% YoY in FY21E implying improving revenue trend in coming quarters
- Apart from healthy guidance, the Tier-1 and Tier-2 IT companies have witnessed 1.87x QoQ increase in headcount to 36,288 indicating robust growth in coming quarters
- In this quarter, apart from improving IT revenues, Firstsource (a BPO company) saw improving BPO revenues. Automation, customer experience, improvement in mortgage business in US led to improving BPO revenues. This has led Firstsource Solution to revise its revenue growth guidance upwards from 9-12% YoY to 16-17% YoY in FY21E
- In the current quarter, growth took place across verticals. Even verticals that were laggards like manufacturing, travel and energy & utilities saw QoQ growth. Going forward, we expect BFSI, manufacturing to witness improved traction due to cloud migration and customer experience. We expect digital to be a key theme across verticals and believe travel & hospitality vertical would continue to witness improved traction
- Apart from posting healthy revenue growth, Tier-1 & Tier-2 companies witnessed robust margin expansion (in the range of 40 bps to 330 bps QoQ) led by higher utilisation, offshoring, lower travel cost, lower discretionary spend and lower sub-contracting cost. A few companies like TCS and HCL Tech gave full & partial wage hike but saw no impact on margins in the quarter. IT companies are planning to give hike wages in the next quarter. However, considering multiple levers available to IT companies we expect limited impact on margins in the next quarter
- Quarter after quarter IT companies are witnessing improved traction in digital technologies (a key driver of revenue growth). We believe we are in the first phase of a multi-year technology transformation phase driven by digital technologies. In the current phase, enterprises are building a cloud-based foundation that will serve as a resilient, secure and 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. Hence, we believe IT companies are poised to witness multi-year revenue growth in coming years. Apart from traction in digital technologies, European region has seen improved traction in the current quarter. Going forward, we expect IT companies to witness improved revenues from this region due to increase in outsourcing trends (visible in large lift and shift deals like Daimler Infosys, Metro AG Wipro and Postbank TCS). This coupled with vendor consolidation opportunities and offshoring & automation (for cost take out deals) are other key revenue drivers for IT companies. 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

Dollar revenue growth trend



Source: Company, ICICI Direct Research

Infrastructure and real estate

Roads & Construction

- **Considerable recoveries witnessed across major infra companies:** Post disruptions caused by Covid-19 pandemic mainly in H1FY21, significant execution pick-up was witnessed across major EPC companies during Q3FY21 mainly backed by healthy order book positions, better labour availabilities and smoothening of raw material supply chain. Overall revenue for our roads & construction universe improved 20.5% QoQ 0.6% YoY to ₹ 4,908 crore. Additionally, overall operating profit margin got normalised to 13.4% (down 148 bps QOQ; down 32 bps YoY). Key outlier was a) **KNR Constructions** - reported 23% growth in topline and elevated operating margin of 19.7% - aided by superior execution and better project mix, and b) **PNC Infratech** – delivered 8.6% YoY revenue growth and operating margin of 13.5%
- **Healthy order books positions at Q3-end; expect decent inflows:** With robust awarding witnessed across infrastructure segments over past couple of quarters, order book (OB) position of major companies under coverage have remained robust. Additionally, developers have guided for decent order inflows in rest-FY21, FY22E with strong order pipeline from NHAI (for road segment) and various state government (for water projects). Among key companies, a) **KNR Constructions:** Inflows during YTD FY21 were at ~₹ 4,000 crore, which aided current OB to remain healthy at ~₹ 8,200 (OB/TTM revenues: 3.4x). Going forward, it aims to bag ~₹ 3,000-4,000 crore of orders in the remainder of FY21, b) **PNC Infratech:** OB healthy at ~ ₹ 18,000 crore (OB/TTM revenues: 4.1x). In addition, the company has submitted bid for projects worth ₹ 15,000 crore and expects orders worth ₹ 2000 in Q4FY21 and ₹ 10,000 crore in FY22E. c) **NCC:** OB was robust at ₹ 39,182 crore (OB/TTM bill: 5.7x) mainly backed by healthy order inflows of ~₹ 20,000 crore secured in 9MFY21 and expects ~₹ 2,000 crore of more inflows
- **Strong Q4 likely with normalised construction activities:** Most developers have indicated towards stabilised construction activities with desired level of labour/raw materials in-place. Additionally, the companies expect surged momentum in execution to continue mainly backed by healthy executable OB positions, improved raw material/labour availabilities, and better liquidity positions. Additionally, toll collections have improved towards normalised levels indicating towards better traffic levels post resumptions of economic activities

Real Estate

- **Sales Volume:** Q3 marked the strong growth in residential sales volume driven by factors such as pent up demand, benign interest rates and measures such as cut in stamp duty in Maharashtra. Brigade Enterprises reported life-time high sales volume of ~1.5 million square feet (msf) worth ₹ 923 crore, up 42% and 55% YoY, respectively, driven by strong traction of newly launched project in Hyderabad along with ongoing projects. Oberoi Realty's sales volume at 5.1 lakh sq feet was up a staggering ~2.3x YoY, driven by strong volumes across its projects
- On the financial front, revenues of our real estate universe grew 13.8% YoY to ₹ 1811 crore while EBITDA was up 7% YoY
- **Commercial segment stable; malls report good recovery during festive season: Brigade's** overall lease rental at ₹ 84.5 crore, was down 10.6% YoY, largely impacted by malls (collected 45% of rentals given waivers). Tenant occupancy at malls is ~81-82% and consumption at 70% of pre-Covid levels. The company expects mall tenancy to get full by H1FY22 end. Footfalls are likely to gain further momentum with end of season sales and multiplexes/entertainment zone reopening. For **Oberoi Realty**, Oberoi Mall's performance during Q3FY21 improved 22.1% YoY (to ₹ 50 crore). Hospitality revenues declined by ~70% YoY at ₹ 11.3 crore

For Phoenix Mills, mall rental income in Q3FY21 at ₹ 176.1 crore (~67% of Q3FY20) was higher than H1FY21 rental (at ~₹ 170.5 crore at ~33% of H1FY20). Additionally, retail collections saw a sharp improvement to ₹ 260 crore, ₹ 390 crore in Q3FY21, 9MFY21, respectively. This was largely driven by overall consumption improvement. Going forward, the management expects consumption to reach 85-90% by FY21-end and fully normalised levels (along with contractual escalations) in FY22E

Logistics & liquor

- **Logistics sector**, in general, saw a resurgence in demand (higher tonnage growth) during the quarter, led by festive season, pent up demand and changed buying habits of customers (more online orders, which require client companies to make certain changes in distribution)
- Concor saw 6% volume growth and 8-9% jump in realisation (higher lead distance, more cargo movement and lower empties charges). Exim and domestic both saw healthy rebound in volumes (5%, 12%, respectively)
- Express logistics, supply chain firms like BlueDart, Mahindra Logistics and TCI saw acceleration of growth, led by increased digital footprints of firms resulting in greater reliance on third party logistics firms. Higher operating leverage and better product mix also resulted in record margins for the supply chain firms (though MLL was impacted by higher diesel prices)

TCI Express saw record margins at 17.3% (mainly due to cost control measures employed by the company), which lifted the subdued revenue growth (B2C contributes only 5% to revenues, which saw strong traction during the quarter)

- **Liquor space** was resilient during Q3FY21, despite the comparable YoY base inclusive of higher share of on-trade and marriage, festive related sales. Continued slowdown in travel, led to a boom in volumes of lower end of scotch segment owing to shift of purchases from duty-free shops to duty-paid. Further opening of on-trade channels (restaurant, pubs) would lead to some gain in market share for beer sector

Media

- Media sector saw a continued trend of sequential recovery as revenues were boosted during the festive quarter. Broadcasters' earnings were also lifted by content syndication deal, IPL revenues, etc. Multiplexes saw marginal occupancy post reopening due to lack of new releases. Radio segment witnessed volume growth YoY. However, lower ad realisations affected overall growth.
- **Broadcasters:** Zee's domestic ad revenue increased 7.5% YoY to ₹ 1244.3 crore (overall ad growth: 5.8%) while subscription revenues (like to like) grew 9.3% YoY to ₹ 771.8 crore (overall subscription growth: 18%). Revenue of ₹ 551.2 crore from content syndication deal led the sharp topline growth of 33.2% YoY. EBITDA was at ₹ 715.7 crore with EBITDA margin at 26.2%, down 140 bps YoY. Zee5 reported EBITDA loss of ₹ 175.7 crore. Sun TV's revenue (ex-IPL) fell 6.3% YoY with ad revenue declining 9.4% YoY. Subscription grew 3% YoY with growth rate tapering off a bit. EBITDA margin at 61.8% was down 944 bps YoY. Margins (Ex-IPL) were 67.2%, down 400 bps YoY. Sun reported lower amortisation expenses owing to fewer movie premieres on TV. SunNXT's subscriber base largely remained the same QoQ at ~18 mn

TV Today's topline was flattish YoY at ₹ 223.6 crore with TV broadcasting revenue growth of 3.4% YoY. Digital segment's strong growth of 20% YoY was a positive. EBITDA was at ₹ 77.5 crore, up 27.5% YoY with margins at 34.7% owing to lower marketing/distribution costs

- **Multiplexes:** Multiplexes' business was affected by lack of fresh content and limit of 50% to occupancy in Q3FY21. PVR's revenue was down 95% YoY to ₹ 45.4 crore as it saw meagre occupancy and footfalls were at 1 mn. ATP in Q3FY21 was at ₹ 164, down 22% YoY while SPH was at ₹ 95, down 5% YoY. EBITDA loss (ex-Ind-AS 116) was at ₹ 126.8 crore. Inox' revenue were down 97.1% YoY to ₹ 14.9 crore as it registered 0.5 mn footfalls. ATP during Q3FY21 was ₹ 153, down 25% YoY while SPH was ₹ 73, down ~10% YoY. EBITDA loss (ex-Ind AS116) came in at~₹ 86 crore. New releases will be key monitorable, going ahead

Both companies' (PVR & Inox) losses were restricted as they recognised rent concessions/ reduction of rental expenses amount (₹ 267 crore for PVR & ₹ 56 crore for Inox) following invocation of Force Majeure

- **Radio:** ENIL and Music Broadcast both saw revenue decline of ~42% YoY. ENIL's core revenue decline was 36% YoY while solution business revenue fell 55% YoY. ENIL's ad volume growth of 11.5% YoY along with gross margins growth in solution business was a major positive. However, ad yield was down 28% YoY. EBITDA at ₹ 20.9 crore was down 49.5% YoY with EBITDA margins at 24.4%. Exceptional gain of ₹ 29.3 crore owing to reassessment of royalty provisions (₹ 26.1 crore) and fee received post termination of time brokerage deal with a US broadcaster (₹ 2.6 crore) lifted the earnings

MBL reported 9% ad volume growth while ad realisations were down. EBITDA was at ₹ 4.2 crore, down 80.7% YoY as operating performance was impacted by lower topline. ENIL will witness annual saving of ₹ 11 crore post IPAB order regarding royalty payout while MBL will see marginally higher payout

Metals & Mining

- The metal sector reported a positive Q3FY21 performance primarily on account of healthy realisations. During the quarter, the aggregate topline of our coverage universe increased 13% YoY and 11% QoQ, while the aggregate EBITDA of the coverage universe increased 60% YoY and 33% QoQ. Aggregate EBITDA margin of coverage universe were at 25.7% compared to 18.2% in Q3FY20 and 21.4% in Q2FY21

During Q3FY21, there was a sequential improvement in base metal prices. During the quarter, average zinc prices on the LME were at US$2628/tonne, up 12% QoQ & 10% YoY while average lead prices were at US$1902/tonne, up 2% QoQ, albeit down 7% YoY. Similarly, average aluminium prices on LME were at US$1917/tonne, up 12% QoQ, 9% YoY while average copper prices on the LME were at US$7178/tonne, up 10% QoQ and 22% YoY.

- Tata Steel reported a healthy consolidated performance for Q3FY21, aided by robust performance from standalone operations. For Q3FY21, standalone operations reported a healthy EBITDA/tonne of ₹ 20070/tonne (up 98% YoY, 56% QoQ). For Q3FY21, Tata Steel's consolidated topline came in at ₹ 39594 crore (up 7% QoQ, 11% YoY), while consolidated EBITDA was at ₹ 9464 crore (up 55% QoQ, 161% YoY). Ensuing consolidated PAT was at ₹ 4011 crore

- JSW Steel reported a healthy performance for Q3FY21. On a standalone basis, the company reported sales volume of 3.9 million tonnes (MT) (down 3% YoY, 5% YoY), while standalone EBITDA/tonne came in at ₹ 14444/tonne (₹ 10136/tonne in Q2FY21, ₹ 5598/tonne in Q3FY20). Consolidated EBITDA margin came in at 27.2% vs. 13.6% in Q3FY20 and 22.9% in Q2FY21. Ensuing consolidated PAT was at ₹ 2669 crore (consolidated PAT of ₹ 1595 crore in Q2FY21 and ₹ 187 crore in Q3FY20)

- Hindalco reported a healthy Q3FY21 performance. Topline of the India business came in at ₹ 11425 crore (up 11% YoY, 19% QoQ). EBITDA of the India business came in at ₹ 1528 crore (up 17% YoY and 20% QoQ). Ensuing PAT of Hindalco's India business was up 90% YoY & 51% QoQ

For the quarter, Hindalco's wholly owned subsidiary Novelis also reported a robust performance. Total flat rolled product shipments of Novelis were at 933 KT, while it achieved a record EBITDA per tonne of US$537/tonne.

Oil & Gas

- Oil & gas sector companies reported better-than-expected numbers on the profitability front during Q3FY21. Oil Marketing Companies (OMC) maintained good profitability trend in marketing segment while core refining segment was weak. City gas distribution (CGD) companies' results were better than estimates due to better than expected margins

- On the OMCs front, while the refining throughput of one of the OMCs was in line with estimates (up 2% YoY), others reported decline in the range of 4-14% YoY. Core GRMs were weak due to subdued global product cracks. However, reported GRMs were lifted by inventory gains. Market sales reached normal level with product sales in range of -2% to 3% YoY with diesel and ATF demand being relatively weaker. Marketing margins remained stable providing support to core operational performance. Overall, OMCs' profitability was aided by inventory gains and stable marketing segment operating performance

- Sales volume of two CGD companies was largely in line with estimates while one CGD company reported stronger than expected growth on the back of industrial volumes growth. Sales volume was down ~7-9% YoY for companies with higher CNG contribution to sales. CGD company with more PNG contribution to sales reported robust volume growth of ~23% YoY. On QoQ basis, volumes were up ~14-34% for all companies. Domestic and industrial PNG demand led the sales volume growth. Marginally higher/ in line as expected realisations along with lower than expected gas costs led to resilient gross margins across the segment. All CGD companies reported strong profit growth of ~17-100% YoY due to better operating performance

- Domestic oil & gas output declined YoY & QoQ (marginal). Realisation of upstream companies increased ~4% QoQ leading to higher revenues QoQ. However, it remains down ~28% YoY. Gas realisation was down QoQ post revision in APM gas prices. Profits of upstream companies were down YoY and QoQ due to lower realisation, higher DD&A costs along with lower other income

Key parameters in Q3FY21

	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Singapore GRMs ($/bbl)	1.7	1.2	-1.0	0.1	1.2
Crude Oil ($/bbl)	62.6	50.6	31.4	42.8	44.6
APM Gas (NCV) (US$/mmbtu)	3.6	3.6	2.6	2.6	2.0

Source: Bloomberg, ICICI Direct Research

Pharma

- I-Direct Healthcare universe (12 coverage stocks) revenues grew 8.6% YoY to ₹ 44157 crore. Overall, the results were driven by 1) continued traction in exports markets (formulations/ CRAMs) and 2) substantial improvement in the domestic branded formulations driven by near-normal level of MR activity, Covid product opportunities and growing patient footfall at the clinics/ hospitals. The windfall witnessed by API/CRAMs players amid disturbances from China were moderated (for select companies) due to excessive stocking in the last couple of quarters by global clients
- Indian formulations grew 14.4% YoY to ₹ 10284 crore on the back of 1) traction from chronic therapies, 2) Covid-product sales and 3) gradual recovery in acute segment due to waning pandemic related reluctance to visit the clinics. US business (select pack) grew 5.0% YoY to ₹ 12559 crore due to 1) favourable forex, 2) ramp-up in specialty/injectable products and 3) new launches. As per the common thread from various management comments, US base business price erosion seems to have stabilised
- On the other hand, API segment witnessed moderation in growth with overall sales growth (select pack) stood at just 3.6% YoY to ₹ 3953 crore (down 10.8% QoQ) as opportunities stemming from Chinese vacuum seems to be normalising besides the impact of excessive stocking in the previous two quarters. Europe posted a strong growth of 18.5% YoY to ₹ 2838 crore on the back of new launches and favourable forex movement
- Out of 12 selected covered companies, three reported above 15% YoY revenue growth. Company specific growth, Divi's Lab – 22% (strong growth across segments), Cipla – 18% (strong growth in Domestic, RoW and Europe markets) and Ipca Labs' – 16% (strong growth in export tender and API segment)
- On the margins front, adjusting for one-time impairment costs at Dr Reddys', EBITDA margins expanded 306 bps YoY to 23.9% for I-direct universe (select pack) due to continued lower other expenses amid cost rationalisation/efficiency efforts and lower on-ground activity. Subsequently, adjusted EBITDA grew 24.5% YoY to ₹ 10548 crore
- Going ahead, costs related to promotional/marketing activities are likely to come back to pre-Covid levels as the pandemic situation continues to ease out and MR activity normalises. Adjusted PAT increased 50.9% YoY to ₹ 6726 crore in line with a strong operational performance and lower interest cost

Retail

- For the retail space, better than anticipated operating margins was the key positive surprise for most companies. On the revenue front, driven by healthy festive demand and wedding season, recovery trajectory for fashion retailers improved significantly to 75-85% in Q3FY21 vs. 45-55% in Q2FY21. Healthy revenue recovery coupled with sustained rationalising of fixed overheads resulted in companies significantly minimising cash burns and, in fact, turning profitable in Q3FY21
- Out of our 14 companies in retail coverage universe, 11 reported net profit vs. seven in Q2FY21. Among discretionary categories, innerwear, athleisure and open footwear (sandals & flip-flops) continued to witnessed strong momentum with companies reporting double digit sales growth in Q3FY21. Also, growth for kitchen and home appliances has been robust with momentum sustaining in January as well. Companies continued to redeploy existing inventory resulting in inventory reduction and working capital release

Sales from India, US and Europe

India					
(₹ cr)	Q3FY21	Q3FY20	%	Q2FY21	%
Alembic	418	368	13.6	415	0.7
Cadila	1,104	910	21.2	1,087	1.5
Ipca	523	486	7.7	535	-2.3
Lupin	1,367	1,297	5.4	1,332	2.6
Cipla	2,231	1,777	25.5	2,090	6.7
Dr Reddy's	959	764	25.6	912	5.1
Sun Pharma	2,753	2,517	9.4	2,531	8.8
Torrent	930	871	6.8	963	-3.4
Total	**10284**	**8989**	**14.4**	**9866**	**4.2**

US					
(₹ cr)	Q3FY21	Q3FY20	%	Q2FY21	%
Alembic	512	515	-0.6	582	-12.0
Aurobindo	3,172	2,969	6.8	3,190	-0.6
Cadila	1,603	1,675	-4.3	1,709	-6.2
Cipla	1,037	946	9.6	1,049	-1.1
Lupin	1,442	1,377	4.8	1,398	3.1
Dr Reddy's	1,739	1,600	8.7	1,833	-5.1
Sun Pharma	2,761	2,492	10.8	2,492	10.8
Torrent	292	381	-23.4	327	-10.7
Total	**12559**	**11956**	**5.0**	**12580**	**-0.2**

Europe					
(₹ cr)	Q3FY21	Q3FY20	%	Q2FY21	%
Aurobindo	1,671	1,476	13.2	1,515	10.3
Cadila	61	49	24.3	55	12.5
Cipla	252	190	32.6	247	2.0
Dr Reddy's	414	309	33.9	375	10.4
Lupin	174	151	14.9	192	-9.4
Torrent	265	219	21.0	261	1.5
Total	**2838**	**2395**	**18.5**	**2645**	**7.3**

API					
(₹ cr)	Q3FY21	Q3FY20	%	Q2FY21	%
Aurobindo	683	790	-13.6	829	-17.7
Alembic	214	177	20.9	263	-18.6
Cadila	132	163	-18.8	160	-17.3
Divi's Lab	876	724	21.0	875	0.1
Ipca Labs	352	285	23.4	381	-7.6
Lupin	344	317	8.4	374	-8.1
Cipla	201	165	21.8	189	6.3
Dr Reddy's	701	691	1.5	851	-17.6
Sun Pharma	450	503	-10.5	510	-11.7
Total	**3953**	**3815**	**3.6**	**4431**	**-10.8**

Source: Company, ICICI Direct Research

Key trends (company specific):

- **Titan Company:** Titan's jewellery division posted healthy sales growth of 16% YoY with fall in grammage arrested to 14% vs. 31% decline in Q2FY21. Revenue trajectory accelerated further in January with jewellery division seeing 28% YoY growth driven by 16% growth in studded ratio. Robust performance in challenging times reaffirms our thesis of long term market share gains for Titan
- **Trent:** Among apparel players in our coverage universe, Trent outperformed other players with sales reaching 83% of pre-Covid levels. Gross margins came in at a four-year high, which was a positive surprise and were significantly higher than our estimates. The management indicated that January 2021 witnessed nearly 100% revenue recovery rate in both price and volume terms.
- **Avenue Supermarts:** The company was back in the positive growth trajectory in Q3FY21 with revenue growth of 10.8% YoY driven by recovery in sales of general merchandise. It has expanded its e-commerce operations with soft launch of D-Mart Ready in selected pin codes of Ahmedabad, Bangalore and Hyderabad
- **Page Industries:** Driven by strong demand for WFH athleisure wear & womenswear, Page reported healthy sales growth of 17% YoY (volume growth: 10%). EBITDA margins were near all-time highs of 24.4% (up 690 bps YoY) on account of gross margin expansion (228 bps) and tight leash on operating overheads. Liquidity position remained strong with cash & cash equivalents increasing 23% QoQ to ₹ 494 crore

Relaxo Footwear: Relaxo Footwears continues to successfully march towards normalcy with strong execution and healthy margins. Revenue for Q3FY21 grew 12% YoY with EBITDA margins expanding significantly by 520 bps YoY to 22.1%. It witnessed robust demand for low ticket sized products like slippers/open sandals (~80% of product portfolio)

Bata India: Bata India witnessed a healthy QoQ recovery with revenue recovery rate reaching 74% in Q3FY21 vs. 51% in Q2FY21. Gross margins continued to contract sharply by ~910 bps YoY to 51.5% mainly owing to unfavourable product mix

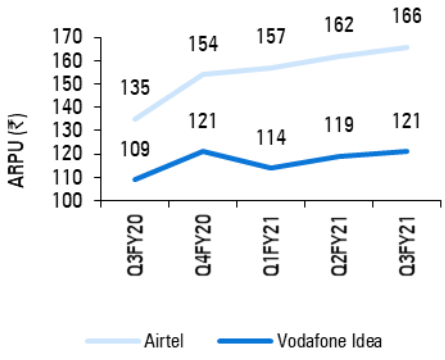
ABFRL: Overall revenue recovery reached 80% in Q3FY21 vs. 45% in Q2FY21. Sharp rationalisation of fixed costs led to profitability nearly reaching pre-Covid levels. Key highlight for ABFRL was robust generation of operating cash flow (₹ 588 crore) and significant reduction in debt from ₹ 3181 crore in Q2FY21 to ₹ 580 crore

TTK Prestige: With supply side issues mostly resolved and opening up of all distribution channels, company reported strong topline growth of 24.4% YoY. On account of positive operating leverage, TTK reported one of its all-time high EBTDA margins of 17.4% (up 220 bps YoY). Revenue growth outlook looks strong with 20%+ growth clocked by the company in January 2021

Telecom

- **Airtel leads subscriber addition again:** Bharti Airtel's overall subscriber (sub) base saw addition of staggering 14.2 mn QoQ to reach 307.9 mn, which is a reflection of strong subscriber market capture as the new operator had added 5.2 million. Vodafone Idea (VIL) overall subscriber base declined by ~2 million to to 269.8 mn (much lower than last four quarter's run rate of ~9.8 mn decline). In terms of 4G subs additions, Airtel witnessed strong 4G net adds of ~12.9 mn during the quarter, with 4G data sub base at 165.8 mn. VIL's 4G sub base saw a modest addition of ~3 mn QoQ to 109.7 million
- **QoQ revenues and ARPU improvement seen:** Telecom operators witnessed improved revenue performance. For Airtel, consolidated topline came in at ₹ 26,518 crore, up 5.8% QoQ on a like to like basis, driven by Indian wireless revenues, which were up 6.8% QoQ (32.4% YoY) at ₹ 14,779 crore, with ARPU growth of 2.4% QoQ at ₹ 166. Vodafone Idea's revenues were up 1% QoQ to ₹ 10,894 crore, with ARPU growth of ~1.7% QoQ to ₹ 121
- **EBITDA margins expand sequentially:** For Airtel, consolidated EBITDA came in at ₹ 12,053 crore, up 8.9% QoQ on a comparable basis with margin of 45.5% (up 128 bps QoQ). Overall Indian margin was up 78 bps QoQ at 45.2% with Indian wireless margins at 42.6%, up 110 bps QoQ, largely a function of operating leverage. For VIL, EBITDA margins were up 86 bps QoQ to 39.3%, on account of change in accounting of subscriber acquisition costs that aided reported EBITDA by ~₹ 330 crore and some cost rationalisation
- **Others:** In the tower space, Indus Towers (erstwhile Bharti Infratel) reported numbers for the merged entity for the first time in Q3FY21. Therefore, numbers were not comparable to earlier reported numbers of Infratel. Like to like revenues (on a proforma basis for merged entity) came in at ₹ 6736 crore, up 5.9% QoQ led by core rental revenues that came in at ₹ 4314 crore, up 7.4% QoQ. Proforma like to like EBITDA came in at ₹ 3552 crore, up 15.6% QoQ, with EBITDA margins at 52.7% (up 440 bps QoQ) aided by exit penalty and one-time benefit of ₹ 80 crore due to merger

ARPU trend



Source: Company, ICICI Direct Research

Sterlite Tech's performance was a mixed bag as topline beat (with growth returning after four quarters of decline) was offset by lower than expected margins. Revenues were at ₹ 1314 crore, up 9.3% YoY. Reported EBITDA margins came in at 17.5%, down 257 bps YoY, owing to revenue mix

Tata Communication Q3FY21 revenues were weak sequentially largely due to seasonality and Covid related weakness in deal conversion impacting data revenues growth. Topline came in at ₹ 4223 crore, flattish YoY & down 4% QoQ with data revenues (forming ~84% of the revenues) up 3.8% YoY (down 2.6% QoQ). Consolidated EBITDA came in at ₹ 1046 crore, up 37.5% YoY with margin at 24.8% (up 678 bps YoY) but down 153 bps QoQ, due to one-offs

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