Quarter end lockdown takes toll, one-offs rule Q4FY20

ICICI direct Research

Q4FY20

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- March quarter (Q4FY20) results were muted given nationwide restriction on movement of goods amid the outbreak of Covid-19 and given its concurrence with the crucial last week of the quarter as well as financial year. At the index level, on the topline front, ex-financials, the Nifty witnessed a topline decline of 6.4% YoY while operating margins came off by 200 bps QoQ to 14% in Q4FY20. Operating margin decline amid gross margin expansion was largely tracking perils of negative operating leverage. Raw material costs for Q4FY20 declined ~250 bps QoQ to 49% while other expenses increased ~400 bps QoQ to 25.5%. Consequent operating profit decline was to the tune of 15.4% YoY. This coupled with increase in interest and depreciation charge amid lower effective tax rate led to >20% YoY decline at the adjusted PAT level for Q4FY20. However, PAT for Q4FY20 was subject to a lot of adjustment (impairments, tax reversals, forex losses). Blended tax rate in Q4FY20 was at 18.2% vs. 23.7% in Q4FY19, tracking reinstatement of DTL/DTA due to change in corporate tax regime during the fiscal year
- On the sectoral front, key highlights include healthy ARPUs reported by all operators in the telecom space given calibrated price hikes and increasing reliance on digital economy amid Covid outbreak. Banking sector results for Q4FY20 were highlighted by Covid provisions ranging from 0.2-1% of advances and moratorium on loans being ~20-30% for large lenders & ~35-70% for mid-sized lenders. In the cement space, outperformance was witnessed tracking expansion in operating margins amidst higher realisations. In the auto pack, given the 20%+ decline in volumes, most companies reported a muted operating result
- Extended lockdown and muted economic activity due to Covid-19 in Q1FY21 led to a downward revision in our Nifty earnings, going forward. Given cautiously optimistic management commentary, the demand recovery is expected to be gradual or U shaped in nature. We now expect Nifty earnings to grow at a CAGR of 16.0% over FY20-22E, albeit on a low base and value the Nifty at 10,300 i.e. 1.2x PEG on FY22E EPS of ₹ 543 with corresponding Sensex target placed at 34,800

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

Nifty P&L (ex-banking & NBFC space)	Mar-20	Mar-19	Dec-19	YoY (%) change	QoQ (%) change
Sales	**1,009,682**	**1,078,145**	**1,046,555**	**-6.4**	**-3.5**
Total Expenses	868,415	911,084	878,735	-4.7	-1.2
Raw material	494,539	537,005	538,214	-7.9	-8.1
Employee	116,013	109,587	113,870	5.9	1.9
Other expenses	257,864	264,492	226,652	-2.5	13.8
Expenses (% of sales)					
Total Expenses	86.0	84.5	84.0	150 bps	204 bps
Raw material	49.0	49.8	51.4	-83 bps	-245 bps
Employee	11.5	10.2	10.9	133 bps	61 bps
Other expenses	25.5	24.5	21.7	101 bps	388 bps
Operating Profit	**141,267**	**167,061**	**167,819**	**-15.4**	**-15.8**
OPM%	14.0	15.5	16.0	-150 bps	-204 bps
Other Income	29,676	28,444	23,675	4.3	25.3
Interest	35,005	28,790	32,039	21.6	9.3
Depreciation	56,523	48,615	54,684	16.3	3.4
PBT	**79,415**	**118,100**	**104,770**	**-32.8**	**-24.2**
Tax	14,463	27,943	29,551	-48.2	-51.1
Tax Rate	**18.2**	**23.7**	**28.2**	**-545 bps**	**-999 bps**
Adj PAT	**64,952**	**90,157**	**75,219**	**-28.0**	**-13.7**

Source: Capitaline, ICICI Direct Research

Nifty earnings summary (ex-financials)

Nifty Earnings Summary (ex-financials) ₹ crore	Mar-20	Mar-19	YoY (%)	Dec-19	QoQ (%)
Sales	1,009,682	1,078,145	-6.4%	1,046,555	-3.5%
EBITDA	141,267	167,061	-15.4%	167,819	-15.8%
Adj PAT	64,952	90,157	-28.0%	75,219	-13.7%

Positive surprises & Buys

- Aurobindo Pharma
- Balrampur Chini Mills
- Bharti Airtel
- Mahindra & Mahindra
- Star Cement

Nifty EPS estimates & Nifty target

Revised Sensex & Nifty Target Revised Earnings Estimates	FY19	FY20E	FY21E	FY22E
Nifty EPS (₹/share)	471	403	397	543
Growth (%)	3.4%	-14.3%	-1.5%	36.7%
Earnings CAGR over FY20-22E				16.0%
Target Multiple (~1.2x PEG)				19.0x
Nifty Target (using FY22E EPS)				10,300
Corresponding Sensex Target				34,800
Potential Upside (@Nifty 10,600)				-3%

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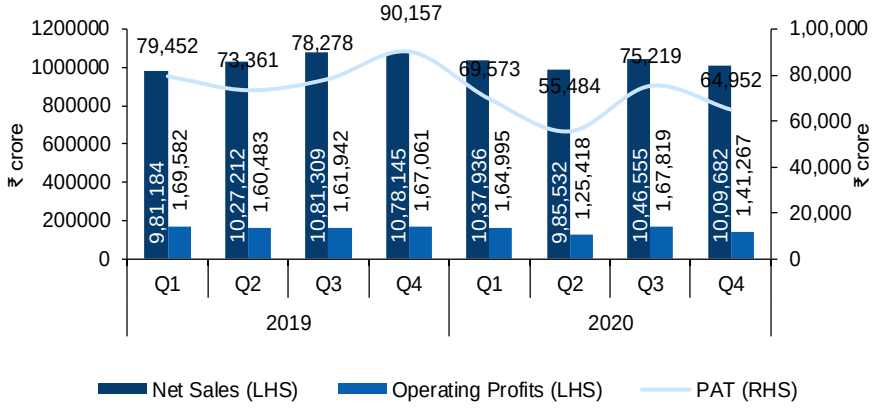
Earnings Wrap

ICICI Securities – Retail Equity Research

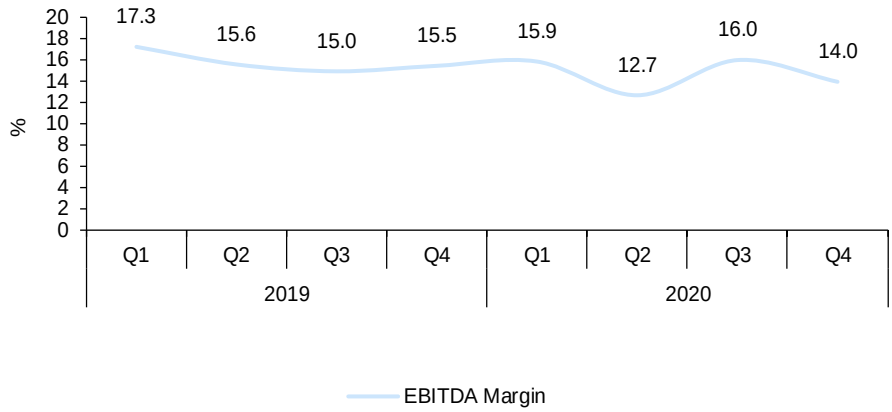
Exhibit 2: Nifty aggregate quarterly revenue, operating profit & net profit trend)



Source: Capitaline, ICICI Direct Research

Ex-financials, at the Nifty index level, the topline was down 6.4% YoY to ₹ 10.1 lakh crore. EBITDA, also witnessed a dip and was down 15.4%% YoY to ₹ 1.4 lakh crore with corresponding EBITDA margins at 14.0%, down 150 bps YoY. Ensuing Adj PAT in Q4FY20 was down 28% YoY to ₹ 0.65 lakh crore, on the back of muted margin trajectory coupled with high double digit increase in depreciation and interest charge that was partly compensated by a decline in effective corporate tax rate (18.2%)

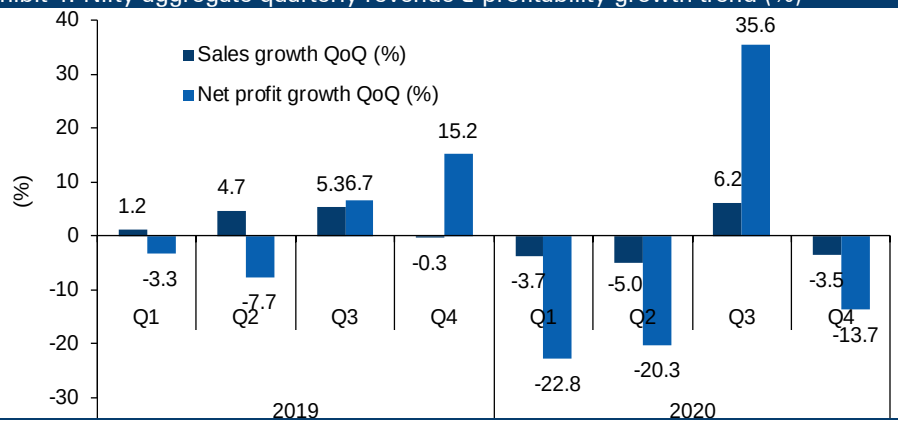
Exhibit 3: Nifty aggregate quarterly EBITDA margin trend



Source: Capitaline, ICICI Direct Research

In Q4FY20, EBITDA margins at the index level (ex-financials) witnessed a decline to the tune of 150 bps YoY and 200 bps QoQ tracking perils of negative operating leverage amid expansion in gross margins. Raw material costs for Q4FY20 declined ~250 bps QoQ to 49% while other expenses increased ~400 bps QoQ to 25.5%

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



Source: Capitaline, ICICI Direct Research

On a QoQ basis, the index topline was down 3.5%. On the bottomline front, tracking a 200 bps decline in EBITDA margins sequentially, Adj PAT was down 13.7%. PAT for the quarter, supported by lower effective tax rate at 18.2% amid Corporate India adjusting their DTL/DTA due to a change in corporate tax rate during the fiscal year i.e. FY20

Industry wise revenue & profit movement

- A key outlier on the topline front with double digit growth was the power space led by healthy power generation in Q4FY20. Steady state high single digit growth was witnessed in the pharma and IT domain. Weakness was persistent across the auto space tracking weak consumer sentiment amid >20% decline in volumes as well as commodity pack i.e. oil & gas and metals amid softer commodity prices. Also, in oil & gas space, OMCs reported inventory losses amid sharp decline in crude price

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

	Mar-20	Mar-19	Dec-19	YoY change (%)	QoQ change (%)
Oil & Gas	4,45,657	4,71,527	4,79,394	-5.5	-7.0
Auto	1,16,240	1,52,928	1,34,503	-24.0	-13.6
Metals	1,28,298	1,50,590	1,27,323	-14.8	0.8
Capital goods	44,245	43,303	36,243	2.2	22.1
Power	40,349	33,335	35,926	21.0	12.3
FMCG	27,965	29,215	29,543	-4.3	-5.3
IT	1,07,041	99,592	1,06,206	7.5	0.8
Pharma	17,010	15,598	16,923	9.1	0.5
Others	82,876	82,056	80,495	1.0	3.0
Aggregate	**10,09,682**	**10,78,145**	**10,46,555**	**-6.4**	**-3.5**

Source: Capitaline, ICICI Direct Research

- The FMCG sector witnessed a topline decline despite general trend of stocking essentials amid the Covid outbreak primarily tracking restriction on movement of goods. However, management commentary in the FMCG space was encouraging, suggesting robust demand prospects and double digit volume growth post restoration of supply chain in the categories like processed food (biscuits, flour), hygiene products (soaps, sanitisers) as well as immunity boosters for April-May 2020

- On the bottomline front, in Q4FY20, outperformance was witnessed in the cement space tracking expansion in operating margins (~300 bps YoY) courtesy higher realisations for the quarter amid double digit decline in volumes (~13% YoY). Relative outperformance was also witnessed by the FMCG space amid softer input prices

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

	Mar-20	Mar-19	Dec-19	YoY change (%)	QoQ change (%)
Capital goods	3,197	3,418	2,352	-6.5	35.9
Metals	5,301	13,724	6,459	-61.4	-17.9
Auto	574	8,024	6,248	-92.9	-90.8
Oil & Gas	14,505	25,552	23,103	-43.2	-37.2
FMCG	6,272	5,866	6,448	6.9	-2.7
Power	6,751	8,149	6,004	-17.2	12.4
IT	18,672	18,366	19,121	1.7	-2.3
Pharma	1,427	1,458	726	-2.2	96.5
Others	8,254	5,599	4,757	47.4	73.5
Aggregate	**64,952**	**90,157**	**75,219**	**-28.0**	**-13.7**

Source: Capitaline, ICICI Direct Research

- In the IT space, results were muted for the quarter. However, one structural change that may happen in a post Covid world will be increased spending in digital technologies like cloud, automation and cyber security, thereby driving the revenue growth for the sector in the long term. In the metal space, volumes for the quarter were down by double digits QoQ. However, most players resorted to exports as a counter measure. In the pharmaceutical space, domestic formulations grew 8% adjusted while the US reported 2% YoY rupee growth

- In the capital goods domain, power T&D companies delivered a reasonable performance amid a challenging environment on the back of decent execution. Product companies posted a dismal performance on account of industrial and automobile slowdown. The media sector witnessed one of the weakest quarters. Revenues were hit across all segments due to the economic slowdown and spread of Covid-19

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 (Q3FY20)

Company	Q4FY20 Result	Quarterly Performance & Outlook	CMP (₹)	Target Price (₹)	Last Rating	Potential Upside (%)
Aurobindo Pharma	Positive	Aurobindo Pharma's Q4FY20 revenues grew 16.4% YoY to ₹ 6158.4 crore mainly due to 20.5% YoY growth in the US to ₹ 2990.3 crore. EU business also posted robust growth of 26.0% YoY to ₹ 1652.5 crore. EBITDA margins expanded 140 bps YoY to 21.4% mainly due to higher gross margins. EBITDA grew 24.5% to ₹ 1316.2 crore. Adjusted net profit grew 34.8% YoY to ₹ 837.6 crore. Aurobindo possesses one of the best enduring generics ecosystems among peers (vertically integrated model, lower product concentration) to withstand the volatility in the US generics space. Things are looking much more promising at the beginning of FY21 with respite for unit IV, strong set of Q4 numbers and stable outlook. The company has also significantly improved its debt position utilising additional cash freed up from foregoing the Sandoz deal. We maintain BUY rating and arrive at a target price of ₹ 920 at 15x FY22E EPS of ₹ 61.4	770	920	Buy	19
Balrampur Chini Mills	Positive	Balrampur Chini reported strong Q4FY20 results with 31.1% growth in revenues led by 40% growth in sugar sales & 53.2% growth in distillery sales. The higher growth in sugar sales was led by 19.4% jump in sugar volumes aided by ~1.7 lakh tonnes (lt) of sugar exports during the quarter. The growth in distillery sales was led by 34.9% higher volumes led by commissioning of new 160 KLD distillery in January 2020 & better distillery realisation aided by higher proportion of B heavy ethanol. Balrampur Chini is the most efficient company in sugar industry with optimum distillery & power capacities, low working capital debt requirement & strong cash flows. Given the sustainable earnings & cash flow generation, we believe working capital debt would further come down by ~₹ 560 crore in the next two years. The company has been continuously paying out 35-40% through dividend & buybacks. With no further capex requirement, the payout can also increase in future. We remain positive on the stock	135	176	Buy	30
Bharti Airtel	Positive	Bharti Airtel's Q4FY20 performance was strong on the operating front. Key highlight was robust 12.5 million (mn) 4G subscribers net adds in the quarter coupled with tariff hike pass through that led to strong 14.3% QoQ growth in ARPU at ₹ 154. Consolidated revenue was at ₹ 23,723 crore, up 8.1% QoQ driven by 16% QoQ growth in Indian wireless revenues at ₹ 12,953 crore. Consolidated EBITDA margins were at 42.9% (up 70 bps QoQ). The margin expansion was led by Indian margin, up 150 bps QoQ at 42.7%, with Indian wireless margins at 39.2%, up 330 bps QoQ, largely a function of tariff hike. We highlight that Bharti Airtel continues to report a gain in revenue market share with stable KPI across and also enjoys a comfortable leverage vis-à-vis peers. We note that while the AGR issue is sub-judice, fund raising has ensured it would be able to serve the same. With a resilient performance amid challenging times, Airtel is one the better placed telecom players	585	700	Buy	20
Mahindra & Mahindra (M&M)	Positive	M&M reported a healthy operational performance in Q4FY20. Standalone net sales at ₹ 9,144 crore were down 35% YoY, lower than volume drop during the quarter (automotive down 47% YoY, tractor down 3% YoY) amid significant surprise on ASP front (automotive segment ASPs at ₹ 6.1 lakh/unit and tractors segment ASP at ₹ 5.3 lakh/unit). Standalone EBITDA margins dipped 100 bps QoQ to 12.4% with 290 bps gross margin expansion being overshadowed by negative operating leverage. M&M's market leadership (42% market share domestically) in the tractor space leaves it well placed to benefit from sectoral tailwinds related to relatively stable demand (remunerative crop prices, government's supportive policies, healthy monsoon progress thus far) while its intensified focus on exiting businesses with unclear path to profitability solidifies capital allocation roadmap. We assign BUY rating to M&M, valuing it at ₹ 600/share on SOTP basis (6.5x FY22E EV/EBITDA for base business; 30% holdco discount to its investments)	545	600	Buy	10
Star Cement	Positive	Star Cement being the leader in North East with over ~24% share remains a preferred play to ride the growth story of the NER region. Also being a brand leader, the company generates EBITDA/tonne of over ~₹ 1400/t, which remains one of the highest among all major players in the industry. The recent performance in Q4FY20, FY20 also validates its strength, whereby the company reported volume growth of 4%, 3.1% YoY, respectively, vs. all-India volume de-growth of -13% and -2.5% YoY during the same period. On the margin front, the company ended FY20 with EBITDA margins of 23% and EBITDA/t of ₹1438/t (best in the Industry). Limited capacity in NER resulting in firm pricing environment, benefit of subsidies from governemnt are also some factors, which drove healthy margins for the company. The company is virtually debt free and is now expanding its capacity from 4.3 MT to 6.3 MT over the next two years. With firm retail demand and its capacity expansion, we expect the company to clock EBITDA CAGR of 15.1% during FY20-22E. Hence, we remain positive on the company from a long term perspective	90	105	Buy	17

Source: ICICI Direct Research

The above companies posted a strong set of earnings in Q4FY20, which we believe are more fundamental and sustainable in nature.

Sector specific takeaways from quarter

Auto & auto ancillary

- Q4FY20 was one of the weakest quarters for the auto and ancillary pack in several years. OEMs focused on retail sales and inventory destocking ahead of the planned switchover to BS-VI norms from FY21. Existing demand softness for discretionary items (PV, 2-W) and economy-linked CV segment, however, continued throughout the period. The last fortnight of March was a write off on account of nationwide lockdown resulting in closure of production and distribution activities. Volume decline was broad based across segments but most companies under coverage realised benefits of benign raw material prices

Our coverage universe (ex-Tata Motors) posted a beat on our sales and EBITDA estimates (revenues falling 24.8% YoY to ₹ 54,371 crore and margins falling 150 bps QoQ to 11.5%). PAT, meanwhile, was down 80.6% YoY amid impairment write downs in several companies (M&M, Ashok Leyland, Bharat Forge)

- For Q4FY20, total industry sales were at 55.4 lakh units (down 21.6% YoY), with domestic dispatches down 25.6% YoY and exports flat YoY at 11 lakh units. Domestic PV volumes were down 22% YoY to 6.6 lakh units, with UV segments de-growth lower at 15% YoY. The 2-Ws fell 24.7% YoY domestically to 35 lakh units (with motorcycles down 26.1%)

Domestic CV segment was down 48.2% YoY to 1.5 lakh units (M&HCV declined 56.8%, with LCV down 42.7%). Domestic 3-W space volumes declined 28% YoY to 1.3 lakh units

- Among OEMs, PV bellwether Maruti's net sales were down 15.2% YoY tracking 16% volume decline to 3.85 lakh units and lower than anticipated ASPs. Negative operating leverage caused EBITDA margins to come in at a new low of 8.5% (down 165 bps QoQ) with PAT decline at 28.1% YoY. For 2-W market leader Hero MotoCorp, total volumes fell 25.1% YoY to 13.3 lakh units. ASP improvement, however, limited topline decline to 21%. Margins, however, touched a multi-year low of 10.6% (down 420 bps QoQ) amid a rise in all cost elements and one offs, with lower tax outgo lifting PAT above estimates

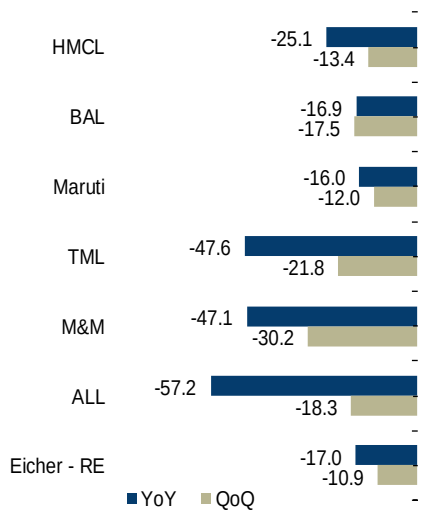
Bajaj Auto outperformed the OEM pack. Its volumes were down 16.9% YoY to 9.9 lakh units, with net sales down just 7.8% YoY courtesy robust 10.9% YoY rise in blended ASPs. Margins rose 48 bps sequentially to 18.4% due to gross margin expansion, with PAT flattish YoY

- M&M reported 35% YoY standalone revenue decline with automotive as well as tractor ASPs surprising positively (auto volumes down 47.1%, tractor volumes down 2.6%). Margins came in far ahead of estimates tracking gross margin expansion, with QoQ dip at 95 bps to 12.4%. Exceptional charge of ₹ 2,800 crore for impairment of investments led to loss at the PAT level. Escorts' performance was ahead of estimates. Net sales were down 15.4% YoY amid 20% volume drop but supported by ASP beat. Margins rose 109 bps to 14.1% while PAT grew 15.7% YoY. Ashok Leyland's performance was better-than-expected. Sales de-grew 57% YoY tracking equivalent volume decline to 25,490 units while margins at 4.8% were aided by healthy gross margin expansion

For Eicher Motors, revenues were down 12% YoY tracking 17% decline in Royal Enfield volumes to 1.6 lakh units. Margins disappointed heavily, falling 540 bps QoQ to a fresh low of 19.6% amid sharp rise in other expenses. PAT fell 44.1% YoY

- Tata Motors' results were dismal, with sharp margin disappointment at JLR a lowlight. Consolidated sales (down 27.7% YoY) were impacted by 47% fall in standalone volume and 21% decline in JLR volumes. Consolidated margins fell 559 bps QoQ to 5.7%, with JLR margins coming off by 598 bps to 4.8%. Poor margin performance and one-offs worth ₹ 4,500 crore (including impairment of domestic PV business) led to consolidated loss of ₹ 9,864 crore

Key players volume growth – Q4FY20 (%)



Source: Company, Siam, ICICI Direct Research

- Exide Industries' performance was subdued. Revenues de-grew 20.9% YoY while margins dipped 11 bps QoQ to 13.1% despite healthy raw material cost benefit. Apollo Tyres' revenues fell 15.5% YoY (dragged by 20.5% drop in India), with margins surprising positively (up 104 bps QoQ to 13.2%), aided by 360 bps gross margin expansion. Bharat Forge's revenues came off by 47.2% YoY tracking a 36% decline in total tonnage, with negative operating leverage causing 937 bps QoQ margin decline to a low of 12.5%. Loss after tax stood at ₹ 73 crore

- Going forward, Q1FY21E is expected to be another washout quarter. Nearly zero sales in April were followed by a marginal improvement in May although June witnessed a strong sequential pick-up in wholesale volumes (retail sales at ~55% of pre Covid levels for the month). The unprecedented nature of the past few months renders YoY comparison meaningless, with continuance of green shoots observed in June a key monitorable

We expect the tractor space to outperform the rest of the automotive industry during the quarter courtesy relatively stable demand

Banking sector

- Key highlights for quarter remained emergence of Covid and resultant Covid provisions ranging from 0.2-1% of advances and moratorium on loans being 20-30% for large lenders and 35-70% for mid-sized lenders

Elevated provision including contingent provision related to Covid impacted earnings significantly

- On B/S, pace of overall banking credit offtake continued to witness deceleration to ~6.7% YoY to ₹ 92 lakh crore in Q4FY20, amid gradual slowdown in economic activity. This slowdown has been further aggravated by lockdown led by Covid-19, though the impact of the same will be seen in Q1FY21E

Deposit flow continued to remain healthy at 12.8% YoY to ₹ 118 lakh crore

- In a bid to protect against uncertainty on revival in repayment and, thus, asset quality, at the end of moratorium period, banks have undertaken additional provisioning during the quarter. Such a surge in provisioning impacted earnings, which fell 39.4% QoQ to ₹ 4,441 crore. PSBs being more vulnerable witnessed a loss of ₹ 4,197 crore

Decline in G-sec yields led to healthy treasury gains offsetting lower recoveries amid lockdown. Thus, other income growth was healthy at 24% YoY to ₹ 54,316 crore. Steady margins and moderate credit offtake led to steady operational performance, especially in PSBs

- Asset quality remained stable with a muted recovery offset by standstill asset classification under moratorium. This led to a 4.4% QoQ dip in GNPA to ₹ 7,21,569 crore. Elevated provisions led to an improvement in PCR, thereby reducing NNPA by 14.4% QoQ to ₹ 2,35,568 crore

While asset quality is expected to be stable amid moratorium, credit cost is seen elevated as banks build cushion against uncertainty on repayment

- Recent banker's commentary suggests a decline in moratorium by 5-10%, in unlocking phase. However, given muted economic activity and increased risk aversion, asset quality pains cannot be ruled out. Bottom 5-10% of moratorium customers remain most vulnerable. Therefore, banks are shoring up capital to counter any spike in NPA

Large private banks reported 20-30% book under moratorium while mid-sized banks reported ~35-70% based on composition of book

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

(₹ crore)	Q4FY20	Q3FY20	Q2FY20	Q1FY20	Q4FY19	YoY (%)	QoQ (%)
NII	105,624	102,459	95,644	91,685	89,666	17.8	3.1
Growth YoY	**18**	**18**	**19**	**12**	**22**		
Other income	54,316	46,288	45,402	38,182	43,621	24.5	17.3
Growth YoY	25	26	41	19	3		
Total operating exp.	77,413	69,421	66,884	63,272	65,438	18.3	11.5
Staff cost	39,837	34,015	33,223	31,750	30,431	30.9	17.1
Operating profit	82,527	79,327	74,163	66,595	67,850	21.6	4.0
Growth YoY	22	30	30	15	22		
Provision	80,002	54,629	52,350	48,164	82,305	-2.8	46.4
PBT	1,408	24,864	21,739	18,353	(14,456)	NM	-94.3
PAT	4,441	7,331	8,658	11,575	(8,701)	NM	-39.4
Growth YoY	**NM**	**NM**	**NM**	**NM**	**NM**		
GNPA	721,569	754,627	765,025	774,515	754,426	-4.4	-4.4
Growth YoY	**(4)**	**(5)**	**(7)**	**(7)**	**(12)**		
NNPA	235,568	275,175	280,643	295,764	287,293	-18.0	-14.4
Growth YoY	**(18)**	**(18)**	**(26)**	**(26)**	**(33)**		
Advances (Lakh crore)	89	83	81	80	80	10.5	6.4
Deposits (Lakh crore)	118	113	110	107	103	14.3	4.8

Source: Capitaline, ICICI Direct Research; Excludes PSU banks to be merged and Yes Bank

Exhibit 9: Financial summary of banking industry (Public)

(₹ Crore)	Q4FY20	Q3FY20	Q2FY20	Q1FY20	Q4FY19	YoY (%)	QoQ (%)
NII	59,769	59,638	54,839	52,195	51,543	16.0	0.2
Growth YoY (%)	**16.0**	**19.1**	**17.8**	**4.7**	**20.6**		
Other income	33,124	25,307	26,164	20,566	26,104	26.9	30.9
Growth YoY (%)	**26.9**	**31.2**	**44.9**	**19.9**	**2.7**		
Total operating exp.	50,731	41,276	40,522	38,327	40,097	26.5	22.9
Staff cost	27,106	24,106	23,532	22,350	21,628	25.3	12.4
Operating profit	42,162	43,669	40,480	34,434	37,549	12.3	-3.5
Growth YoY (%)	**12.3**	**40.9**	**30.3**	**7.5**	**29.9**		
Provision	52,710	39,738	39,656	34,400	67,658	-22.1	32.6
PBT	-10,548	3,931	824	34	-30,108	NM	-368.3
PAT	-4,197	-7,823	-1,355	-491	-19,681	NM	-46.4
Growth YoY	**NM**	**NM**	**NM**	**NM**	**NM**		
GNPA	594,172	625,075	638,558	650,423	631,024	-5.8	-4.9
Growth YoY	**-5.8**	**-6.1**	**-8.9**	**-8.3**	**-13.2**		
NNPA	194,678	228,305	235,139	250,479	240,484	-19.0	-14.7
Growth YoY	**-19.0**	**-20.9**	**-27.6**	**-27.0**	**-34.1**		
Advances (Lakh crore)	55	52	51	51	51	6.4	5.4
Deposits (Lakh crore)	80	77	76	75	72	11.9	4.0

Source: Capitaline, ICICI Direct Research; Excludes PSU banks to be merged

- For private banks, PAT declined 43% QoQ to ₹ 8,638 crore, led by elevated credit cost amid Covid. The focus has shifted from growth to recovery & capital conservation. As unlock is progressing, moratorium is moderating and banks are shoring up capital to remain amply cushioned

Exhibit 10: Financial summary of banking industry (Private)

(₹ Crore)	Q4FY20	Q3FY20	Q2FY20	Q1FY20	Q4FY19	YoY (%)	QoQ (%)
NII	45,855	42,821	40,806	39,490	38,123	20.3	7.1
Growth YoY	**20**	**17**	**21**	**23**	**23**		
Other income	21,192	20,982	19,239	17,616	17,518	21.0	1.0
Growth YoY	**21.0**	**20.6**	**37.0**	**18.3**	**3.6**		
Total operating exp.	26,682	28,145	26,362	24,945	25,340	5.3	-5.2
Staff cost	12,731	9,909	9,691	9,400	8,804	44.6	28.5
Operating profit	40,364	35,657	33,683	32,161	30,300		
Growth YoY	**33.2**	**18.7**	**29.8**	**23.6**	**12.9**		
Provision	27,292	14,891	12,695	13,764	14,648	86.3	83.3
PBT	11,956	20,933	20,915	18,319	15,653	-23.6	-42.9
PAT	8,638	15,153	10,013	12,066	10,979	-21.3	-43.0
Growth YoY	**-21.3**	**44.5**	**7.1**	**46.7**	**87.6**		
GNPA	127,397	129,552	126,467	124,092	123,401	3.2	-1.7
Growth YoY	**3.2**	**2.6**	**1.5**	**-1.3**	**-1.6**		
NNPA	40,890	46,870	45,503	45,285	46,809	-12.6	-12.8
Growth YoY	**-12.6**	**-3.4**	**-13.8**	**-21.2**	**-24.5**		
Advances (Lakh crore)	34	31	30	29	29	17.8	8.1
Deposits (Lakh crore)	37	35	34	32	31	19.9	6.5

Source: Capitaline, ICICI Direct Research; Excludes Yes Bank

Capital Goods

- Overall, our capital goods coverage companies delivered a muted performance impacted by slower executions and supply chain disruptions amid lockdowns with revenue decline of 3.6% while EBITDA declined 5.3% and PAT grew 2.1% aided by tax rate cut benefits
- L&T continued its momentum with reasonable consolidated Q4FY20 performance with amid challenging economic environment. Adjusted standalone revenue de-grew 7.5% to ₹ 27,253 crore owing to execution slowdown across segments. Standalone EBITDA margin declined 130 bps to 9.6% mainly due to stages of execution and job mix
- However, power T&D companies like KEC delivered a reasonable performance amid challenging environment on the back of decent execution though revenue, EBITDA, PAT declined 4.4%, 7.1%, and 2.9%, respectively. Product companies (AIA, Greaves, Thermax, Elgi, NRB, SKF, Timken) posted a dismal performance on account of industrial and automobile slowdown amid Covid impact, which impacted execution mix, subdued volumes, higher input cost and negative operating leverage during Q4FY20. The revenue, EBITDA, PAT of these product companies declined 19.9%, 35.5%, 34.5%, respectively
- On the order inflow in front, L&T registered strong order inflow of ₹ 57,785 crore, up 5% YoY, predominantly led by infrastructure segment. Cumulative order inflows for FY20 were at ₹ 1,86,356 crore, up 9% YoY. Bharat Electronics order inflow came in at ~₹ 2,867 crore
- In the bearing space, SKF India & NRB continued to post dismal numbers tracking the domestic auto and industrial slowdown. However, the performance of Timken was resilient, to an extent, in terms of margins while the company was successful in holding fort on the topline front. Overall, our bearings coverage universe posted cumulative YoY decline of ~ 14.6%, 28.2% & 6.4% at revenue, EBIDTA & PAT levels, respectively
- Other product companies like Elgi also continued to report a subdued performance owing to a slowdown in the domestic market and upfront setup cost in Europe. AIA Engineering also reported a revenue decline of 3.4% while EBITDA also de-grew 3.4%, supported by reasonable mining volume growth during Q4FY20. Greaves Cotton reported a revenue decline of 31.9%, impacted by a sluggishness in 3-W engine volumes amid Covid-19 and BS-VI transition

In the shipping space, Cochin Shipyard (CSL) registered a better-than-expected performance (Revenue, EBIDTA & PAT grew 3.7%, 48.2% & 42.4% YoY, respectively) on account of lower input costs giving way for improved margins and aiding bottomline

On the defence front, Bharat Electronics witnessed decent numbers with robust growth of 49.5% in topline owing to decent execution and spillover of few projects from Q3FY20 to Q4FY20

Thermax reported a muted Q4 performance on the back of slower execution owing to Covid-19 with consolidated revenue, EBITDA decline of 36.2%, 62.8%, respectively, with a decline in margins while muted order inflows continues to remain a key concern for future growth

T&D companies received orders worth ₹ 2,116 crore, in which KEC International received orders worth ₹ 1,511 crore for Q4FY20, mainly from T&D, railways, Rail Rapid Transport System (RRTS), oil & gas and cable segment. Thermax's consolidated order inflow came in at ₹ 952 crore (down18% YoY) owing to muted capex and order deferrals in several sectors

Going forward, we expect Q1FY21 to be a washout quarter in terms of revenues, order inflows as most of the quarter saw lockdowns. It would continue to be impacted by muted private capex and deferred order awarding across sectors like power, T&D. There could be some tendering activities in the green energy corridor, FGD, railways, MRTS in coming quarters. On the working capital front, capital goods companies may continue to support vendors amid tight liquidity situations

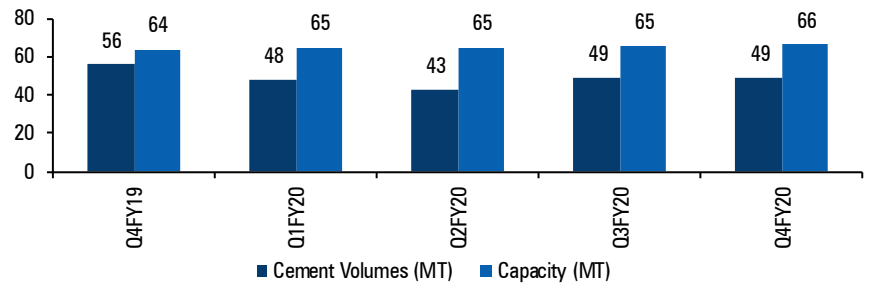
Cement: Muted volume print; firm realisations drive profitability

- The cement sector started Q4FY20 on a positive note (5% growth In January, 8% in February on the production front) but dropped sharply in March (25% down YoY), owing to a gradual state-wise followed by national lockdown. Profitability took support from realisations and benign costs (total costs per tonne remain flat YoY). Thus, Q4FY20 was a mix of lower productions but higher operating profits. Region wise, north based players reported a better operating performance compared to south
- Industry reported a 5% decline in cement production in Q4FY20 and ended FY20 on a flat note (334 9MT vs. 337MT). For Q4FY20, I-direct coverage universe saw a 12.9% decline in volumes YoY to 53.9MT. Sharpest decline was posted by India Cement (20.7%) followed by UltraTech Cement (16.4% YoY) and JK Lakshmi Cement (16.3% YoY). Shree Cement reported the lowest volume decline (5.3% YoY) while north east based Star Cement reported 4% YoY growth in volumes for Q4FY20. Capacity utilisation for the coverage universe dropped 1490 bps to 73.3% in Q4FY20
- Realisations remained strong in the northern & central region while weakness was seen in the south and east. I-direct cement universe reported 4.1% YoY growth in realisations, with the sharpest growth reported by Mangalam (12.2%) and Shree Cement (10.2% YoY). In contrast, India Cements and Sagar Cements reported lower realisations (down 5.0% and 6.4% YoY, respectively)
- I-direct cement universe reported an EBITDA margin expansion of 303 bps to 21%; EBITDA/t increased 21.5% YoY to ₹ 1,061/t. While all south based companies (India Cement, Ramco Cement and Sagar Cement) reported average de-growth of 19% YoY. North based companies like JK Cement, JK Lakshmi, Shree and Mangalam Cement reported average growth of 58% YoY. Shree Cement reported industry leading margins of 33.5% and EBITDA/t of ₹ 1,561/t (up 41% YoY)
- Business activities have resumed partially while current demand is driven by the rural region (IHB segment, with migrant labour returning to hometown), followed by Tier-2 & Tier-3 towns. This should lead to better utilisation levels, going forward, once the situation becomes stable

Revenues saw a 9.3% drop YoY for I-direct coverage universe. ACC (10.8%) and UltraTech (13.5%) are the large firms reporting double digit revenue decline; South based companies India Cement, Sagar Cements reported the highest drop (25%, 17% YoY, respectively). Shree Cement and Star Cement were the only players to report revenue growth in Q4FY20 (4% and 3% YoY, respectively)

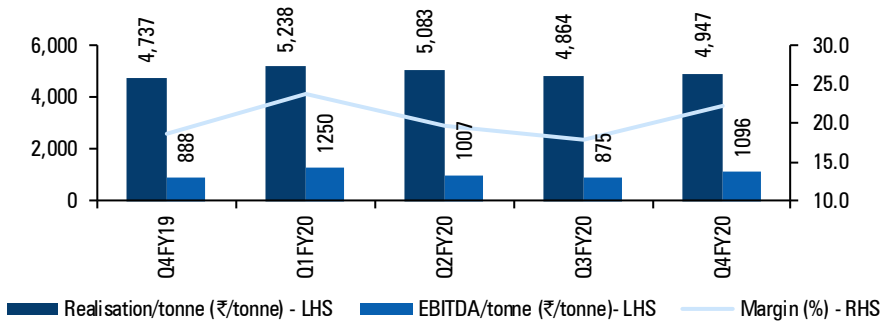
The I-direct universe reported 6% growth in EBITDA to ~₹ 5,585 crore driven by improved profitability. Strongest growth was reported by JK Lakshmi and Shree Cement while UltraTech Cement, Ramco Cements, Sagar Cement and India Cements reported a YoY decline

Exhibit 11: Cement volumes and capacity trend



Source: Company, ICICI Direct Research

Exhibit 12: Realisation & margin trend



Source: Company, ICICI Direct Research

Consumer Durables

- Despite a strong revenue traction in January-February 2020, the consumer discretionary universe reported ~12% YoY dip in revenue in Q4FY20 mainly due to lockdown in the last 10 days of March 2020. However, as expected, pre-buying of cooling products in anticipation of supply concerns from China helped drive revenue for Voltas, Symphony up by 20%, 6%, respectively. Further, strong performance of Asian Paints (with decorative volume growth of ~2%), Bajaj Electricals (~1% revenue growth in consumer durables categories) amid lockdown surprised the Street. Besides pipe segments, volume growth was marred by low demand from construction activities followed by lockdown

On the packaging front, Essel Propack was less impacted by the lockdown as the company managed to categorise itself under the essential category and most of its plant were operational with prescribed government norms. Further, post relaxation from lockdown the operating level has reached ~80% of pre-Covid level

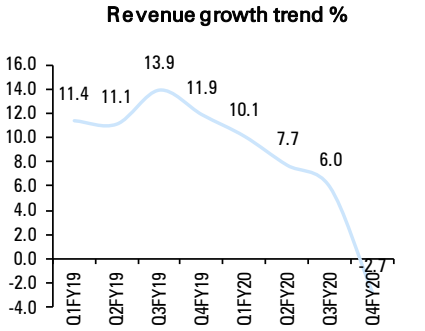
- On the margins front in Q4FY20, paints, adhesive and pipe companies witnessed sharp gains in gross margin (300-400 bps YoY) amid lower crude prices that helped offset lower operating leverage. However, the EBITDA margin of Havells India and V-Guard declined ~50 bps and 215 bps YoY, respectively, owing to lower operating leverage

We believe companies under our coverage would continue to benefit from lower raw material prices. The gradual improvement in utilisation would drive EBITDA margins, going forward

FMCG

- Q4FY20 has been disrupted by Covid-19 induced lockdown at the end of March 2020. Manufacturing operations and supply chain network of FMCG companies came to a halt in the last 10 days of March 2020. This severely impacted sales of FMCG companies in Q4FY20. Our coverage universe sales declined 2.6% as three companies (Varun Beverages, Tata Consumer & Zydus Wellness) saw higher growth led by respective acquisitions. However, most companies witnessed a sales decline of 7-12%. Dabur, Jyothy Lab saw a steeper decline due to lack of channel filling before the season (juices, soaps, HI). However, Nestlé witnessed 10.7% growth given it was able to re-start manufacturing soon given ~40% of its portfolio consists of essentials like milk & milk based products. Volumes of cigarette companies were severely impacted not only in March quarter but also in April & May (no sale for ~40 days)

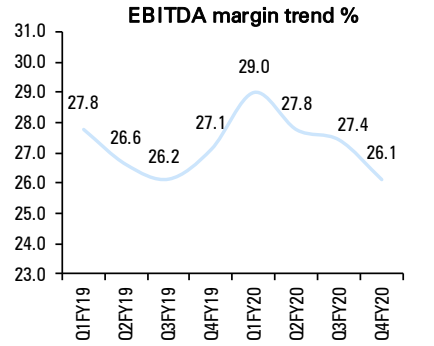
Trend in revenue growth (YoY %)



Source: Company, ICICI Direct Research

- The most important factor for FMCG companies remains resuming operations starting in the middle of April 2020. April & May saw a sudden change in demand environment with essentials like packaged food (atta, biscuits, edible oil, snacks, noodles) witnessing a huge surge in demand due to complete halt of out of home (hotels, restaurants & cafes) consumption. Most FMCG companies launched personal & home sanitising products (hand sanitisers, disinfectants, veggie cleaners) in record time with a sharp uptick in demand. Some of the immunity boosting products like Chayawanprash, Honey also witnessed a sudden rush in demand. Companies have been increasing the capacity of packaged foods, sanitisers & immunity boosting products to cater to this sudden demand

Trend in EBITDA margins (%)



Source: Company, ICICI Direct Research

- Our FMCG coverage universe reported a 100 bps contraction in operating margins despite a 100 bps improvement in gross margins due to negative operating leverage. Though most companies benefited from lower crude based packaging cost, some commodities like milk, sugar saw inflation during the quarter impacting Nestlé's margins. However, by the end of March, all commodities (milk, sugar, copra, palm oil) were down due to a significant decline in manufacturing operations. Net profit of our coverage universe witnessed mere 1.8% growth despite a cut in the corporate tax rate

- We believe the FMCG industry would witness a limited impact of lockdown (Q1FY21 only) with most FMCG companies have recouped their manufacturing & sales at 90-100% of pre-Covid levels. In contrast, some health & hygiene trends would emerge in the coming quarters. We believe a shift from loose to packaged foods would be faster, going forward. Also, structural growth in the soaps category is imminent with increase in per capita consumption/spends

Hotels: Severely hit by pandemic

- The sector began Q4FY20 on a healthy note witnessing improved occupancy and ARRs across all segments in January and February. However, growing concerns on the spread of Covid-19 followed by the nationwide lockdown announced by the government impacted the operating environment of hotels significantly. On a broad basis, large hotel players have seen a sharp fall in revenues at ~15-19% YoY in Q4FY20, mainly led by a sharp decline in occupancy led by the complete travel ban imposed across the globe from March onwards
- In our coverage perspective, all companies reported a weak operational performance with 12% YoY drop in revenues. EIH, Lemon Tree Hotels saw 18%, 19% drop in their RevPAR, respectively. IHCL's domestic hotels' RevPAR declined 15% on a same hotels basis. At the industry level, ARRs across business and leisure destinations declined 4% and 5%, respectively, on a YoY basis whereas occupancy levels witnessed a vertical downfall of over 1600 bps YoY to 61% during the quarter
- In terms of profitability, the companies reported a 380 bps YoY fall in the EBITDA margins. While EIH's EBITDA margins contracted 481 bps YoY to 19.5%, they were better than our estimates. IHCL and Lemon Tree Hotels saw their EBITDA margins contract 329 bps and 381 bps YoY, respectively. On an absolute basis, the EBITDA of our coverage universe declined 21% YoY to ₹ 403 crore

As a result, on the revenue front, EIH and IHCL reported 15% and 19% YoY drop in their revenues, respectively. Lemon Tree reported growth of 17% in revenues mainly due to a sharp increase of over 45% YoY in their operational inventory

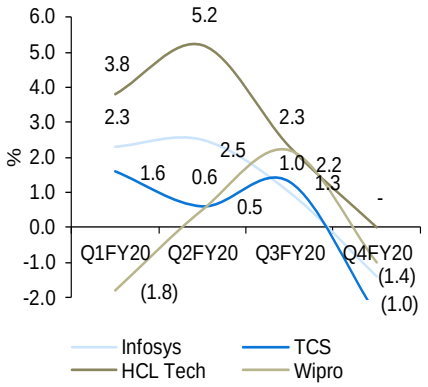
- On a broad basis, the sector outlook remains grim as a recovery would be slow and back ended. FY21 would most probably be a washout year for the sector. This prolonged recovery could pose a significant challenge to the sector. Curbs on visa and progression of Covid-19 in India will have a severe impact on influx of foreign travellers in FY21

On the positive side, opening of new supply would also be delayed or cancelled. This bodes well for the strong established players in the long run

Information Technology

- Q4FY20 was marred by the impact of Covid 19. This impacted Tier 1 IT players more than Tier 2 IT players. Tier 1 IT players reported an average growth of 0.2% in constant currency and 1.6% dip in reported terms. However, Tier 2 companies relatively outperformed Tier 1 companies and reported average growth of 0.8% in dollar terms (reported terms). In terms of digital revenues, although TCS has stopped reporting digital revenues, rest of the Tier 1 companies witnessed healthy growth of average 24% YoY. A similar trend was also witnessed in Tier 2 companies, which registered average growth of 27% YoY. L&T Infotech, NIIT Tech continued to post healthy growth in Q4FY20 despite Covid 19 headwind. On the margin front, Tier 1 IT companies reported 40 bps decline tracking dip in Infosys & Wipro margins. Tier 2 companies reported a margin dip of 30 bps tracking a significant dip in Tech Mahindra margins

Dollar revenue growth trend



Source: Company, ICICI Direct Research

- Among vertical commentary, the management is cautious on retail, travel and hospitality. However, IT companies are seeing relatively less impact of Covid 19 in BFSI, life science, hi tech and telecom & media
- From an operating margin perspective, Tier-1 IT companies witnessed margin compression due to lower utilisation and higher cost, tracking a shift of work from home. However, a few Tier 2 IT companies witnessed margin expansion mainly aided by rupee depreciation
- Q4 witnessed supply side and demand side pressure due to lockdown, delay in deal closure and deal deferrals. In the near term, we expect IT companies to witness a drop in revenue similar to the 2008 global financial crisis (that we believe could be anywhere between 7% and 8% YoY drop) mainly due to Covid-19 related pandemic, pricing pressure, project cancellation and ramp downs. However, a revival is expected in H2FY21E on the back of a ramp up of existing deal wins, improvement in deal wins and vendor consolidation opportunities

In addition, one of the structural changes that may happen in a post Covid world will be increased spending in digital technologies like cloud, automation and cyber security. This could be a key driver of revenue growth in the long term. Further, IT companies are taking various measures to rationalise cost in the near term by reducing travel cost, no wage hike, hiring freeze and lower discretionary spend. In addition, growth in digital technologies (which are high margins), higher offshoring and reduced attrition will also drive margins

Infrastructure and real estate

Infrastructure

- **Revenue, EBITDA impacted by lockdown**: EPC companies reported weak execution in Q4FY20, impacted by a lockdown in second half of March, 2020. Overall topline of our roads & construction universe de-grew 18.7% YoY to ₹ 5270.3 crore in Q4FY20. Coverage universe adjusted EBITDA at ₹ 712.6 crore, was down 18.5% YoY. Overall EBITDA margins were flattish YoY at 13.5%
- **NHAI ordering delayed amid Covid-19, H2 likely witness some traction**: During FY20, NHAI awarded projects worth 3211 km (vs. target of 4500 km but better than 2222 km awarded in FY19). In terms of construction, 3929 km of road was constructed vs. 3320 km in FY19. For FY21, NHAI is targeting awarding/ construction of 4000 km,/4500 km, respectively. Over the past two months, ~20 tenders that were supposed to be awarded continue to be delayed
- **Order inflow – mixed trend:** The order inflow trend was mixed for our coverage universe. While KNR witnessed no meaningful order inflows, PNC Infratech has won three HAM projects: (Unnao-Lalganj (₹ 1602 crore), Jagdishpur - Faizabad (₹ 1530 crore), Aligarh- Kanpur (₹ 2052 crore) in Q4FY20. NCC received orders worth ₹ 3801 crore in Q4FY20. Ashoka Buildcon won orders worth ~₹ 1500 crore
- **Covid-19 impact**: Availability of labour and raw material were the key area of issues at construction sites. Companies are currently operating at 50-70% of required workforce with efficiency levels of 60-75%. Also, given the monsoon from July onwards, full capacity resumption could be only by Q3FY20, in our view. On the positive side, tolling has reached 80-85% of pre-Covid-19 level post resumption. **Most importantly, Covid-19-led disruption has put monetisation plans of BOT/HAM assets on hold. None of the companies have given guidance on revenues. We expect a 5-10% revenues decline across our universe for FY21**

Real Estate

- **Sales volume**: In the current scenario where the overall residential sector is going through upheaval, Brigade Enterprises reported sales volume of 1.05 mn sq feet vs. 0.96 mn sq feet in Q4FY19, reporting healthy growth of 10% YoY. The presales value was up 25.3% YoY at ₹ 651.2 crore, as realisations were up 13.8% YoY at ₹ 6176/sq feet. Brigade's strong sales performance was supported by ongoing projects and recent launches
- On the financial front, revenues of our real estate universe de-grew 30% YoY to ₹ 1035 crore while EBITDA margins fell 720 bps YoY to 32.8%
- **Covid-19 impact**: For Brigade, post the lockdown, mall operations have resumed. The footfall at mall is at 15-20% of pre-Covid level, as per the company. It has given 50% concession on rent during the lockdown period and lower minimum guarantee till September, 2020. The company has opted for a loan moratorium for hospitality (loan of ~₹ 1200 crore) in which the impact of Covid-19 is steep and pronounced. It indicated that operational breakeven of hospitality assets is at 35-40% occupancy. Similarly, for Phoenix Mills, it has agreed to 50% rental waiver in the lockdown period for 75-80% retailers. For a further period of up to six months in FY21, rentals are expected to be restructured with a reduction in minimum guarantee by ~25-30% but with higher revenue share. Malls at Lucknow, Bengaluru, Bareilly have reopened post the end of lockdown. Post resumption, average daily consumption has reached 38% vs. average daily consumption in June 2019 in Bengaluru. In the hospitality segment, the impact is maximum and average room occupancy at St. Regis was ~17% in April-June 2020 vs. 80%+ pre-Covid

Logistics: below par in Q4 but continues to improve MoM

- The Q4 earnings season was largely below our estimates with few exceptions such as Concor (strong margins) and Gujarat Pipavav (good product mix – higher Exim containers)
- Surface logistics players (TCI, TCI Express, BlueDart) experienced revenue de-growth but posted strong margins (as the management focused on taking profitable orders). Road freight movement has reached 70% of pre-Covid levels in June. It is further expected to ramp up in July. Higher diesel prices and lower return cargo loads are leading to higher freight charges to customers. The probability of reduced competitive intensity can be positive from a profitability perspective for surface logistics players
- Concor posted strong margins for the quarter, in spite of weak volumes and realisation. However, the management of Concor expects significant volume de-growth for the entire year, despite gain in market share during the lean period. Rail Exim saw a decline of mere 17% till May (amid 35% fall in container port traffic, signalling market share gains from road)

Gujarat based ports (Adani and Gujarat Pipavav) have guided for a better than industry performance (due to better cargo mix, located in green zones, better port evacuation, comfort on B/S front)

Liquor: Impacted both on supply and demand side

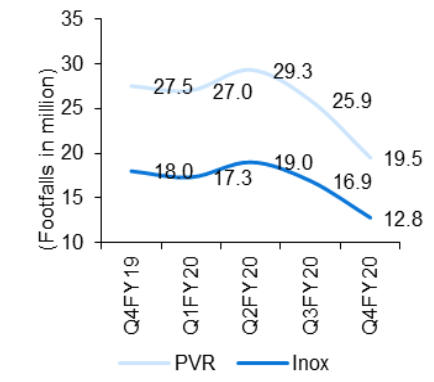
- The Q4 earnings season was largely below our estimates except for Radico (strong volume growth) and Globus Spirits (strong profitability)
- The liquor sector was at the receiving end during the entire lockdown period. Also, post the lockdown period, the imposition of higher excise and sales tax in several states led to a dip in volumes
- The beer sector was the most impacted due to the Covid-19 pandemic as March and Q1 is the peak season and comprises ~ 50% of industry volumes while hard liquor (whisky, brandy, rum and vodka) are expected to have a lower negative impact on volumes
- Due to Covid-19 and social distancing norms several states have allowed sale of liquor through ecommerce channel and home delivery. Liquor delivery via e-commerce channel would help drive liquor penetration among the vast potential customer base in the medium to long term

Media

- The media sector witnessed one of the weakest quarters. Revenues were hit across all segments due to economic slowdown and spread of Covid-19. Broadcasters' ad revenue was affected while subscription revenue growth was a key solace. The news segment, on the other hand, reported broadcasting revenue growth due to news-heavy events in the quarters. The traction in the digital segment for broadcasters continued to remain strong. Cinema halls were shut in the second fortnight of March, which reflected in the footfall decline at multiplexes
- **Multiplex:** Inox Leisure's footfalls declined 29% YoY as theatres remained shut since mid-March leading to net box office revenue at ₹ 218 crore, down 23.2% YoY. ATP growth of 7% YoY to ₹ 202 was a positive. EBITDA (ex-Ind-AS116) came in at ₹ 34.9 crore, with margins of 9.4%, down 1077 bps YoY, impacted by negative operating leverage. The company reported a net loss at ₹ 2.5 crore (ex-Ind AS 116) also affected by tax write-off while shifting to new tax rate. PVR also reported a downtrend of 23% YoY in revenues to ₹ 915.7 crore while footfall declined 29.1% YoY. F&B revenues fell 24.6% YoY to ₹ 174.6 crore Advertisement revenues declined 22% YoY to ₹ 68.5 crore. EBITDA (ex-AS 116) came in at ₹ 42.8 crore, down 73% YoY with margins of 6.6%, down 1260 bps YoY

Radio sector revenues witnessed the steepest decline amid a weak macroeconomic environment as both government and corporates cut ad spend. Similarly, for print segment, ad revenues fell and circulation revenues were also affected by disturbance in the supply chain

Footfall trends at PVR & Inox



Source: Company, ICICI Direct

- **Broadcasters:** Sun TV's advertisement revenues fell 14.5% YoY amid overall economic slowdown and Covid-19 impact in March. However it continued to extend viewership share in key markets, which reflected in robust subscription revenues growth at 24.7% YoY. On the digital front, SunNXT continued to generate traffic while subscriber count was 15 million+. Low operating expenses led to EBITDA of ₹ 503.5 crore with margins at 68.5%. High amortisation expenses led to 11.7% YoY decline in PAT to ₹ 250 crore

TV Today exceeded our estimates with broadcasting revenue growth of 19.5% YoY, driven by events like Delhi election, Covid-19 spread, etc. Radio revenue continued to decline and de-grew 21.5% YoY while digital revenue reported solid growth of 51.8% YoY. EBITDA increased sharply 43.8% YoY due to higher topline

- **Radio:** ENIL's Q4FY20 revenue de-grew 13.6% YoY (lower compared to peers) as core radio and solutions business declined 16% YoY and 12% YoY, respectively. On the EBITDA margin front, it came in at 15.1%, given the weakness in the high margin core radio business. Improvement in gross margins of Solutions business was a key relief. MBL revenues were weaker at ₹45.9 crore, down 44% YoY as advertisers pulled down planned ad campaigns in March and government ad spend remained low. EBITDA was -₹ 5.3 crore owing to a steep decline in revenues and onetime expense of debt provision, legal fees at ₹ 9.5 crore

- **Print:** Jagran Prakashan's print ad revenue declined 24.3% and overall revenues fell 24.8% YoY to ₹ 446 crore. Circulation was disturbed in last 10 days of March and declined 9.6% YoY. EBITDA was at ₹ 54 crore, down 60.7% YoY. Softened newsprint prices restricted EBITDA decline. DB Corp's performance was relatively better. Print & digital ad revenue declined 20.2% YoY to ₹ 299 crore. Circulation revenue also de-grew 5.7% YoY mainly due to disruption caused by lockdown. EBITDA was down 36.7% YoY with low RM costs providing some relief. Digital segment generating 3x traffic was a key takeaway

Metals & Mining

- Typically, in terms of volumes, Q4 is generally the best quarter for the metal sector. However, in Q4FY20, metal companies' sales volumes were adversely impacted by Covid-19 related concerns. For Q4FY20, Tata Steel's Indian operations registered a 17% QoQ decline in sales volume, while JSW Steel's standalone operations reported a 14% QoQ drop in sales volume. The topline of the coverage universe reported a decline of 16.9% YoY. The aggregate sector EBITDA declined 32.0% YoY while the corresponding EBITDA margins were down 438 bps YoY to 19.8%

- Initially, during the start of CY20, the epicentre outbreak of the Coronavirus pandemic was China, which is also the world's largest consumer of metals. Hence, since the start of the current calendar year, metal prices witnessed a downward slide

During Q4FY20, average zinc prices on the LME were at US$2124 per tonne, down 21.5% YoY and 11.0% QoQ while average lead prices were at US$1843/tonne, down 9.4% YoY, 9.8% QoQ. Similarly, average aluminium prices on the LME were at US$1691 per tonne, down 9.2% YoY and 3.7% QoQ while average copper prices on the LME were at US$5632 per tonne, down 9.5% YoY and 4.4% QoQ

- Tata Steel reported healthy operational numbers wherein EBITDA came in higher than our estimate while European operations surprised positively by reporting positive EBITDA/tonne. However, the bottomline was impacted by exceptional expenses that led to a net loss for the quarter. Standalone operations reported sales volume of ~3.0 million tonnes (MT) while European operations reported steel sales of 2.4 MT. The consolidated topline came in at ₹ 33,770.0 crore (down 20.4% YoY). Consolidated EBITDA came in at ₹ 4,646.9 crore (down 38.2% YoY). Standalone Indian operations reported EBITDA/tonne of ₹ 12531/tonne while European operations reported EBITDA/tonne of ~US$ 4/tonne

Ratnamani (RMTL) reported a steady set of Q4FY20 numbers wherein topline, EBITDA came in line with our estimates while PAT came in higher than our estimate. For Q4FY20, net income from operations was at ₹ 629.1 crore (down 8% YoY, 17% QoQ). Stainless steel (SS) sales volume was at 6,643 tonnes (up 23% YoY). Carbon steel (CS) sales volume was at 60,663 tonnes (down ~20% YoY). EBITDA margin was at 15.3% with reported EBITDA came in at ₹ 96.0 crore (down 3% YoY, 11% QoQ). PAT was at ₹ 67.3 crore (up 7% YoY, down 33% QoQ)

- Hindalco's India business reported a healthy Q4FY20 performance. The better-than-expected performance was primarily driven by higher-than-expected sales volumes. The topline for Hindalco's India business was at ₹ 10,014 crore. EBITDA for Hindalco's India business came in at ₹ 1,455 crore (up 4% YoY, 12% QoQ). EBITDA margin was at 14.5%. Ensuing PAT from the India business was at ₹ 379 crore (up 45% QoQ). For Q4FY20, Novelis reported FRP volume of 811 KT & EBITDA/tonne of US$436/tonne

Oil & Gas

- The oil & gas sector reported weak numbers on an overall basis as companies were impacted by Covid-19 lockdown. Profitability of OMCs & upstream companies (one player being the exception) were affected due to inventory/impairment losses while CGD sector reported better profits
- Oil marketing companies' performance was strong on the core operational front but inventory losses affected reported GRMs, leading to lower than expected numbers. On the marketing front, product sales were better-than-expected but lower YoY and QoQ by 2-5% following the lockdown. Marketing margins were stable during the quarter
- Sales volume of city gas distribution (CGD) companies declined with one player being the exception. Sales decline was mainly on account of CNG segment due to travel restriction in last week of March. Among key positives, realisations of all companies were better than expectations and gross margins increased 8-10% QoQ due to low gas costs. Profits of CGD companies were up YoY due to lower tax rate
- Domestic oil & gas output was marginally below estimates and lower both YoY & QoQ. Sharp fall in oil prices towards the end of Q4FY20 led to lower net realisations for upstream companies. Low realisations coupled with impairment loss led to losses for upstream companies

Key parameters in Q4FY20

Key parameters in Q4FY20	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Singapore GRMs ($/bbl)	3.2	3.5	6.5	1.7	1.2
Crude oil ($/bbl)	63.1	68.5	61.9	62.6	50.6
APM Gas (NCV) ($/mmbtu)	3.7	4.1	4.1	3.6	3.6

Source: Bloomberg, ICICI Direct Research

Pharma

- I-Direct Pharma universe revenues grew ~7.4% YoY growth (adjusted growth ~4% ex-Sun Pharma's one-time distribution change impact of ₹ 1,085 crore in Q4FY19) to ₹ 32,381 crore. Strong growth in domestic formulations was moderated by low single-digit overall growth in the US
- Indian formulations grew 31.8% YoY (Sun's base adjusted growth of 8.1%) to ₹ 6,521 crore despite logistical disturbances in the last few days of March, driven by Covid-induced panic buying/stocking in the chronic segment. US business (select pack) grew just slightly above 2% YoY to ₹ 11,235 crore. Slow growth in the US was mainly due to stoppage of key products like Sartans and Ranitidine owing to impurity, base effect and lack of meaningful launches. However, US base business price erosion seems to have stabilised for almost all companies. On the other hand, overall API segment remained flat YoY with a decline in Aurobindo's API sales mostly offsetting growth in other players. Most other geographies reported strong growth on the back of volume gains and new launches, especially, Europe that grew 25.2% YoY to ₹ 2,459 crore. The margin performance of the pharma universe was almost in line, thanks to effective cost management and product rationalisation
- Adjusted domestic formulations grew 8.1% to ₹ 6521 crore, in-line with I-direct estimates of 8.9%. US business grew 2.1% to ₹ 11235 crore (vs. I-direct estimate: ₹ 10862 crore), mostly in line with I-direct estimates
- Higher base at Lupin, Cadila and Sun impacted US growth. API business remained flat at ₹ 2,679 crore, slightly below our estimates of 2.8% growth mainly due to lower-than-expected API sales from Aurobindo
- Out of nine selected covered companies, two reported above 15% revenue growth. Company specific YoY growth, Ipca – 22.1% (robust domestic growth) and Aurobindo (strong overall growth ex-API and acquisition impact). On the flip side, Lupin reported negative growth mainly due to divestment of Japanese business. Additionally, Cadila Healthcare posted flattish revenue growth, mainly on account of high base of Androgel AG and higher-than-expected Covid-related disruption
- EBITDA margins for the universe remained flattish YoY at 19.8% vs. 20.0% in Q4FY19. Subsequently, EBITDA grew 6.8% YoY to ₹ 6426 crore. Adjusted net profit increased 21.4% YoY to ₹ 3948 crore mainly due to lower tax rate

Sales from India, US and Europe

India					
(₹ cr)	Q4FY20	Q4FY19	%	Q3FY20	%
Biocon	117	133	-12.0	157	-25.5
Cadila	892	902	-1.1	910	-2.0
Ipca	431	356	21.2	486	-11.3
Lupin	1,192	1,053	13.3	1,297	-8.1
Dr Reddy's	684	651	5.1	764	-10.4
Sun Pharma	2,365	1101*	114.8	2,517	-6.0
Torrent	840	754	11.4	871	-3.6
Total	**6,521**	**4949***	**31.8**	**7,001**	**-6.9**

*One-time distribution change impact of ₹1085 crore in Sun Pharma's Q4FY19, Adjusted YoY growth for Sun: 8.2%, Adjusted domestic growth: 8.1%

US					
(₹ cr)	Q4FY20	Q4FY19	%	Q3FY20	%
Aurobindo	2,990	2,481	20.5	2,969	0.7
Cadila	1,761	1,795	-1.9	1,675	5.1
Lupin	1,579	1,741	-9.3	1,377	14.7
Dr Reddy's	1,807	1,496	20.8	1,600	13.0
Sun Pharma	2,713	3,123	-13.1	2,492	8.8
Torrent	385	372	3.5	381	1.0
Total	**11,235**	**11,008**	**2.1**	**10,495**	**7.1**

Europe					
(₹ cr)	Q4FY20	Q4FY19	%	Q3FY20	%
Aurobindo	1,653	1,312	26.0	1,476	11.9
Cadila	58	54	8.8	49	17.8
Dr Reddy's	345	191	80.2	309	11.4
Lupin	188	169	11.3	144	30.6
Torrent	216	239	-9.6	219	-1.4
Total	**2,459**	**1,964**	**25.2**	**2,198**	**11.9**

Source: Company, ICICI Direct Research

Retail

- The Covid-19 pandemic had an unprecedented impact on the retail industry, forcing a temporary closure of physical stores from mid-March onwards in India. The same materially impacted the performance of the retail coverage universe from mid-March onwards. Trent, Avenue Supermarts were the only two companies that reported positive topline growth in Q4FY20. Overall retail coverage universe (excluding Avenue Supermarts) fell 6% YoY. Given the fixed cost nature of the business and fairly short period to correct, profitability was severely dented. EBITDA margins (adjusted for Ind-AS 116) contracted sharply by 220 bps YoY, with few companies making losses at the EBITDA level in Q4FY20
- Resumption of retail outlets post relaxation of lockdown has been calibrated. Currently, most retailers have been able to open around 60-70% of retail outlets. The stores that have reopened for most retailers are generating average daily sales between 50% and 75% of pre-Covid levels whereas average online daily sales have reached pre-Covid levels. We believe initial demand may be owing to pent up demand. Hence, sustainability would be a critical factor to watch

Key trends (company specific):

- **Titan Company:** Titan's jewellery division reported revenue de-growth of 5% YoY (16.5% growth in January-February). However, higher profitability owing to controlled opex and better gross margins was a positive surprise in Q4FY20. The company re-opened ~75% of total 1800 stores and was expected to operate at ~90% by June end. The initial response has been encouraging with average daily sales of certain stores reaching as high as 80% of pre-Covid levels. However, the management remains cautious in the near term and is targeting normalcy by Q4FY21
- **Bata:** Revenues de-grew 8.8% YoY. The management highlighted that for January-February, revenue grew a steady 8.0% YoY (implying revenue de-growth ~42% YoY in March). The company has rolled out a full suite of Omni-channel solutions, allowing home delivery across 900+ stores (vs. 400 stores in FY19) in 1300 cites. Currently e-commerce contributes ~4-5% of overall sales. The management expects the share to reach double digit gradually. Early trends indicate pent up demand towards low ticket size products such as open sandals (comfort products) and healthy demand for sports shoes (Power brand)
- **Trent:** In the apparel space, Trent has been a consistent outperformer with healthy SSSG growth over the years (7%+). For YTD-February 2020 revenue grew at a healthy pace of 33% YoY. However, the trajectory got de-railed significantly in Q4FY20. The company reported topline growth of 8.1% (only company in apparel space to report positive growth). Trent has a healthy liquidity position with cash & current investments of ~₹ 840 crore (D/E: 0.1x) as on FY20
- **Page Industries:** The company reported a weak Q4FY20 with revenue de-growth of 11% YoY to ₹ 541.3 crore (unable to execute confirmed orders worth ₹ 90 crore). Post lockdown relaxation, green shoots were visible with the company seeing strong demand and average daily sales of certain stores reaching pre-Covid levels. Overall 89% of EBOs (677) and 64% of large format stores touch points are operational

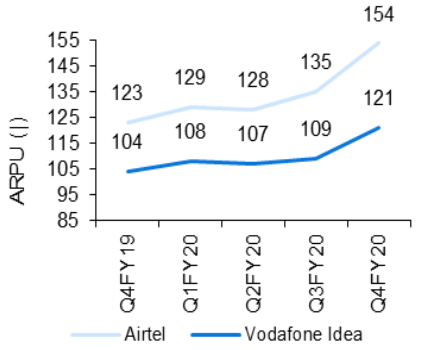
The management of Page Industries expects to recover to pre-Covid levels by six to nine months if the demand trend continues. Early trends indicate a surge in demand for athleisure segment wherein its share increased 7% (~30% of sales)

- **TTK Prestige:** Revenue for Q4FY20 de-grew 13.8% YoY to ₹ 383.5 crore. The company lost sales worth ₹ 70.0 crore due to inability to dispatch orders. Post relaxation in lockdown, green shoots were visible with renewed customer interest in kitchen appliances, cookers segment as most people preferred home cooked food. Certain exclusive stores witnessed more than pre-Covid level average daily sales (110% in June) due to pent up demand. We expect share of e-commerce channels to surge materially in FY21E (vs.12-14% in FY20). Revenue from e-commerce space grew 2x in June YoY

Telecom

- **Airtel continues to witness robust 4G sub base addition**: Bharti Airtel's end of period (EoP) subscriber base was at 283.7 mn with reported net subscriber addition of 0.6 mn subscribers QoQ. Vodafone Idea (VIL) continued to lose subscribers (net loss of 12.3 mn in Q4FY20), leaving overall subscriber base at 291.1 mn. We note that this is seventh consecutive quarter of subscriber base decline for VIL. In terms of 4G subs additions, Airtel added a robust 12.5 mn during the quarter, with 4G data sub base at 136.3 mn & VIL's 4G net adds was a modest ~1.4 mn during the quarter, with 4G data sub base at 105.6 mn
- **Improved sequential revenues with tariff hike benefits kicking in:** Telecom operators witnessed an improved sequential performance as some benefits of tariff hike taken in December 2019 flowed through. For Airtel, Indian wireless revenues were up 16% QoQ at ₹ 12,953 crore, driven by strong ARPU growth of 14.3% at ₹ 154. Africa revenues were up 3.5% QoQ at ₹ 6488.8 crore. Vodafone Idea's revenues were up 6% QoQ to ₹ 11754 crore, with ARPU growth of 11% QoQ to ₹ 121
- **EBITDA margin expansion on improved ARPU:** For Airtel, consolidated EBITDA margins were at 42.9% (up 70 bps QoQ). The margin expansion was led by Indian margin, up 150 bps QoQ at 42.7%, with Indian wireless margins at 39.2%, up 330 bps QoQ, largely a function of tariff hike. For VIL, EBITDA margins were up 650 bps QoQ to 37.3% aided by one-off credits of ₹ 400 crore during Q4FY20 related to manpower and network costs. Adjusted for the same, margins expanded 300 bps to 33.9%
- **Others:** In the tower space, Infratel reported a net increase of 431 co-locations on a consolidated basis. Reported EBITDA came in at ₹ 1,699 crore, down 9.5% QoQ, with EBITDA margins at 46.9% (down 423 bps QoQ), on account of higher-than-expected other expenses (provision for debtors of ~₹ 193 crore). Sterlite Tech's performance for Q4FY20 was weak on the operating front on account of demand slowdown with revenues and EBITDA decline of 35% and 31%, respectively. Tata Communications' results were strong with revenues up 3.6% YoY, 4% QoQ, led by superior data revenues (forming ~82% of revenues) that grew 7.5% YoY. EBITDA came in at ₹ 868.8 crore, up 26.8% YoY, with margins at 19.8% (up 360 bps YoY) driven by superior data margins of 22.9% (up 530 bps YoY)

ARPU trend



Source: Company, ICICI Direct Research

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