

Q3FY17 Review

Solid performance in times of demonetisation

INDIA | Strategy

28 February 2017

Q3FY17 was an eventful quarter with more sectors beating our expectations and the BFSI sector reporting better-than-expected growth. While demonetisation impact on consumer-facing companies was significant, contrary to expectations, the effect on consumer discretionary was lower than expected. Out of the 13 sectors that we cover, six saw positive earnings surprises, three were in line, and four surprised negatively. The PC coverage universe of 148 companies reported robust revenue, EBIDTA, and earnings growth (yoy) of 9%, 15%, and 21% respectively. The growth was buoyed by low base in metals, capital goods, and financials sectors. Here are some highlights:

- ✓ Better-than-expected buoyed by low base effect in metals and cap goods
- ✓ PC universe's sales were +9% yoy vs. estimated -4.5%; +1.5% qoq
- ✓ PAT was up 21% yoy largely in line with our expectations of 18%; -2.4% qoq
- ✓ PAT (ex-financials) was up 13% yoy vs. our expectations of 9%
- ✓ Solid yoy earnings growth seen across metals, cap goods, and financials
- ✓ Telecom (+30%), infra (+17%), and cement (+11%) beat our expectations
- ☒ Specialty chemicals (-12%), cap goods (-7%), and pharma (-3%) came in below our expectations
- ✓ **Stocks that beat our expectations** — Indusind Bank, Bharat Financial, Glenmark, Biocon, Castrol India, JSW Steel, Tata Steel, Tech Mahindra, NCC, Ashoka Buildcon, Crompton Greaves, VA Tech Wabag, and Apollo Tyres.

Turnaround in corporate earnings growth more likely: Corporate earnings have been disappointing for the last few years because of stress in the financial system emanating from sluggishness in core sectors. Q3FY17 results are a reflection of the stress in the system bottoming out. The earnings growth trajectory is more likely to revert to its long-term mean. Even after considering the impact of demonetisation on the consumer sector, and sluggishness in classic growth sectors (IT, pharmaceuticals), FY18 earnings growth trajectory seems largely intact (in healthy high-teens) as core sectors are seeing a bottoming out.

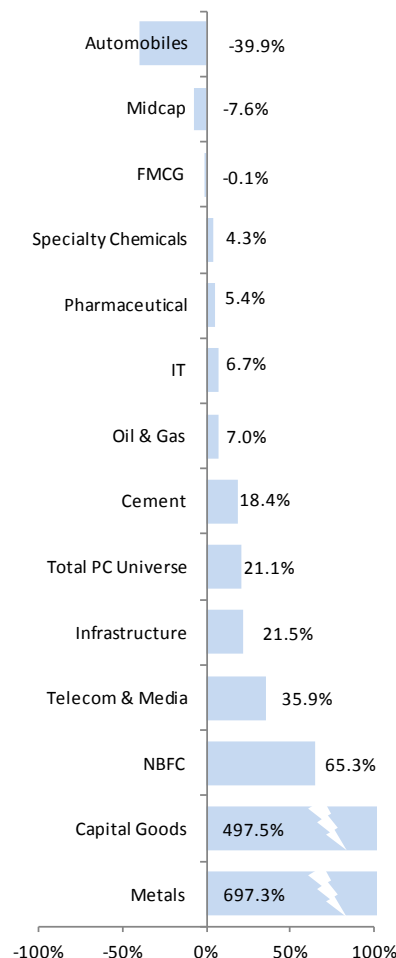
Key sector parameters on improving trajectory albeit weakness in some pockets

- Banks: Sluggish credit growth continued, but asset quality woes are reducing
- Capital goods: Execution was up 4% yoy, but order inflow declined by 5%
- Metals: Realisations improved significantly
- Cement: Volumes were better than expected and margins improved
- IT: Numbers were largely in line with beaten down expectations
- FMCG: Saw gross margin pressure even as volume growth continued to remain sluggish

Aggregate estimates stabilising:

Following Q3 results, we revised marginally lowered our FY18 earnings estimates for sectors impacted by demonetisation. We have raised estimates for metals and capital goods sectors. Our Nifty EPS estimates for FY18 is Rs 525, largely in line with consensus expectations of Rs 528. Nifty is trading at 17x on one-year forward earnings.

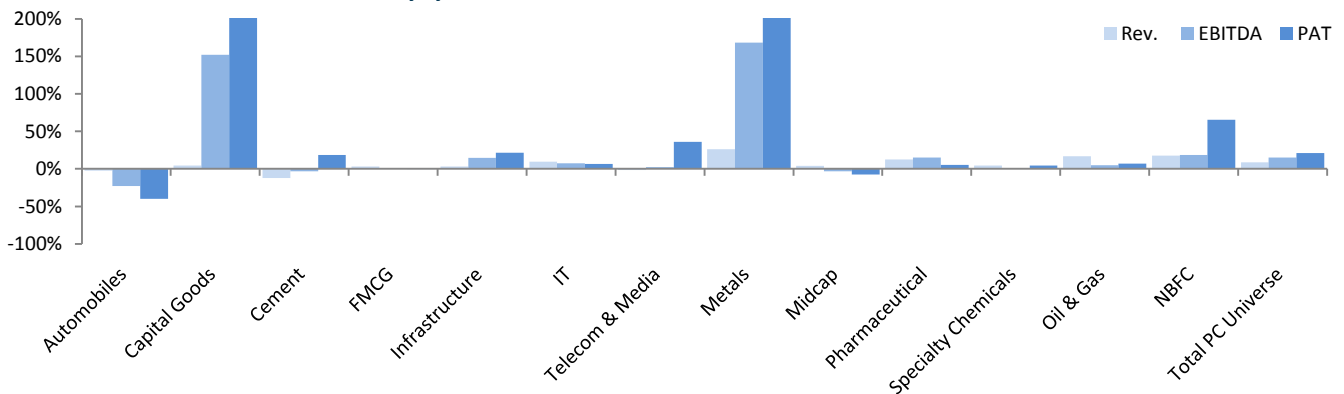
PAT growth distribution: Q3FY17



Source: Company, PhillipCapital India Estimates

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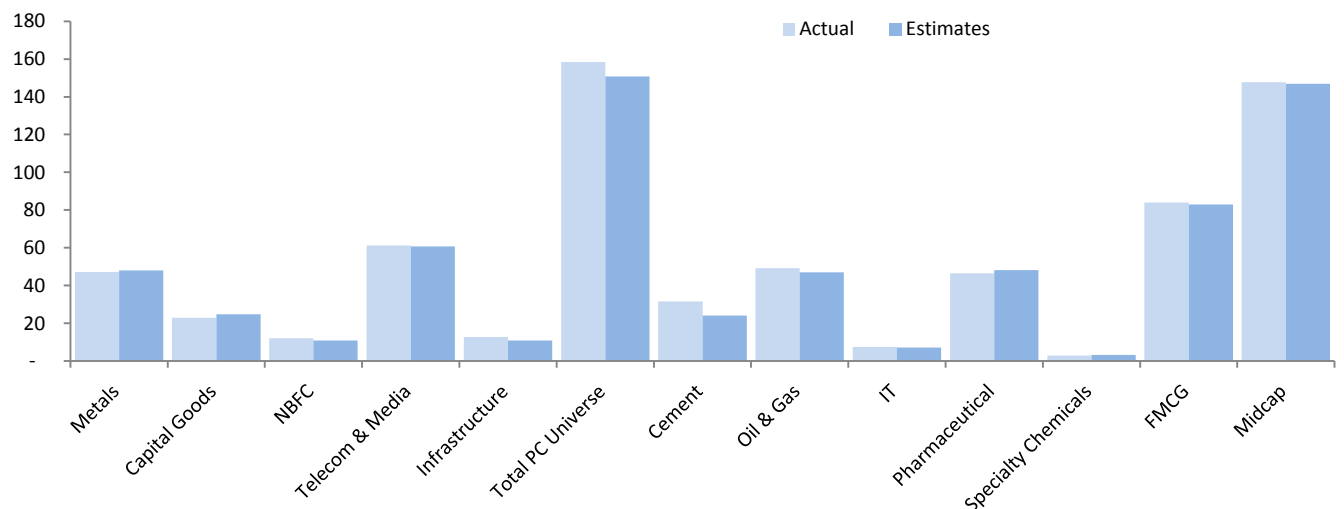
PC Universe: Performance in Q3FY17 yoy


Source: Company, PhillipCapital India Research Estimates

Reported earnings

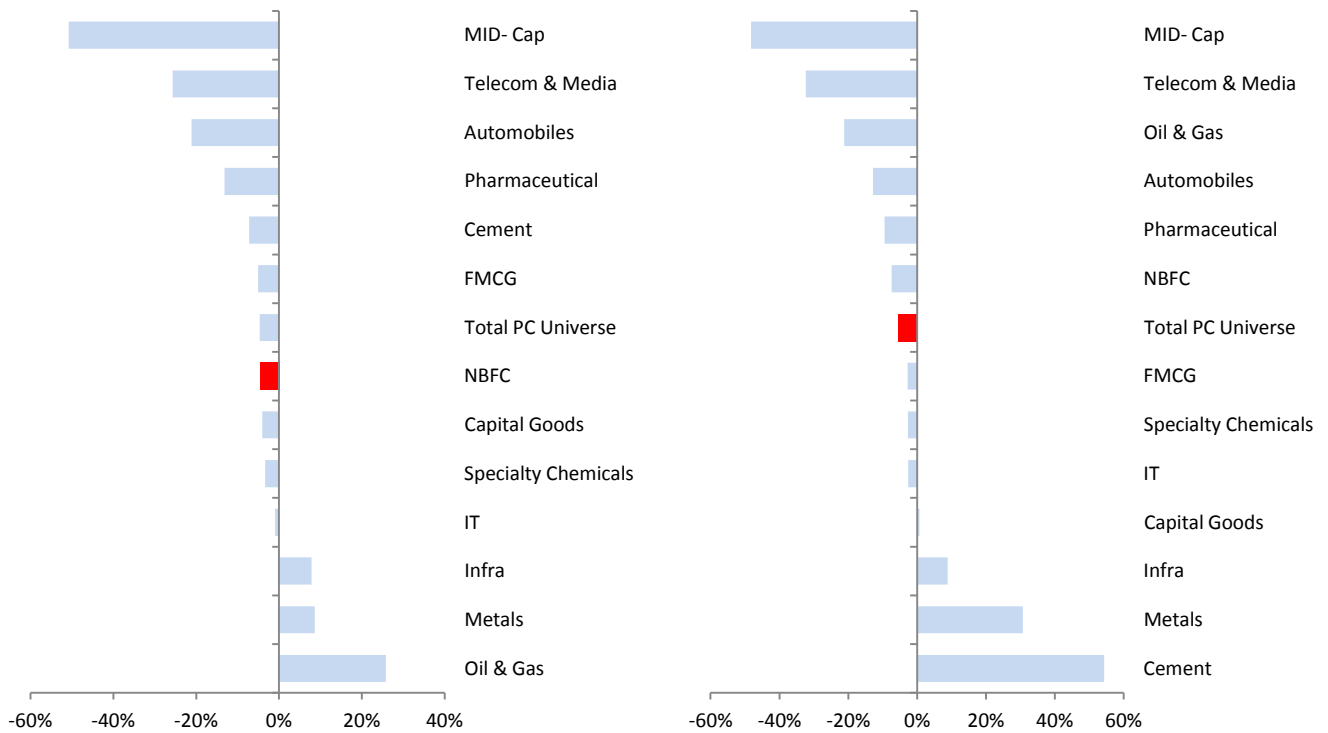
Sector (Rs MN)	Revenue					EBITDA					PAT				
	Q3FY17	Q2FY17	QoQ	Q3FY16	YoY	Q3FY17	Q2FY17	QoQ	Q3FY16	YoY	Q3FY17	Q2FY17	QoQ	Q3FY16	YoY
Automobiles	11,92,674	11,99,366	-1%	12,22,797	-2.5%	1,36,453	1,55,240	-12%	1,77,358	-23.1%	47,129	68,549	-31%	78,397	-39.9%
Capital Goods	4,73,464	4,61,757	3%	4,53,864	4.3%	43,392	37,556	16%	17,202	152.3%	22,986	20,798	11%	3,847	497.5%
Cement	1,56,934	1,70,295	-8%	1,78,963	-12.3%	27,994	30,928	-9%	28,896	-3.1%	11,988	13,887	-14%	10,121	18.4%
FMCG	3,91,496	3,89,661	0%	3,79,876	3.1%	86,992	88,458	-2%	86,884	0.1%	61,165	61,976	-1%	61,213	-0.1%
Infrastructure	89,523	82,818	8%	86,867	3.1%	28,022	27,931	0%	24,416	14.8%	12,820	14,397	-11%	10,555	21.5%
IT	8,36,326	8,25,694	1%	7,64,637	9.4%	2,01,684	1,96,859	2%	1,87,614	7.5%	1,58,393	1,51,783	4%	1,48,419	6.7%
Telecom & Media	3,55,820	3,68,627	-3%	3,61,560	-1.6%	1,22,478	1,31,204	-7%	1,19,819	2.2%	31,513	28,377	11%	23,191	35.9%
Metals	8,84,728	8,05,439	10%	7,00,729	26.3%	1,66,137	1,41,086	18%	61,898	168.4%	49,121	36,610	34%	6,161	697.3%
Midcap	1,07,233	1,06,751	0%	1,02,972	4.1%	13,627	14,072	-3%	14,068	-3.1%	7,457	7,801	-4%	8,072	-7.6%
Pharmaceutical	3,12,997	3,08,113	2%	2,77,911	12.6%	80,139	78,478	2%	69,647	15.1%	46,499	52,039	-11%	44,122	5.4%
Specialty Chemicals	33,117	33,372	-1%	31,689	4.5%	6,063	6,699	-9%	5,990	1.2%	2,841	3,271	-13%	2,724	4.3%
Oil & Gas	8,92,075	8,62,729	3%	7,63,670	16.8%	1,30,739	1,28,598	2%	1,24,539	5.0%	83,925	81,814	3%	78,448	7.0%
NBFC	8,92,264	9,09,188	-2%	7,57,585	17.8%	4,94,443	5,17,362	-4%	4,17,553	18.4%	1,47,666	1,59,312	-7%	89,309	65.3%
Total PC Universe	66,18,652	65,23,811	1%	60,83,121	9%	15,38,163	15,54,470	-1%	13,35,883	15%	6,83,504	7,00,613	-2%	5,64,579	21%

Source: Company, PhillipCapital India Research Estimates

Q3 earnings vs. estimates (Rs bn)


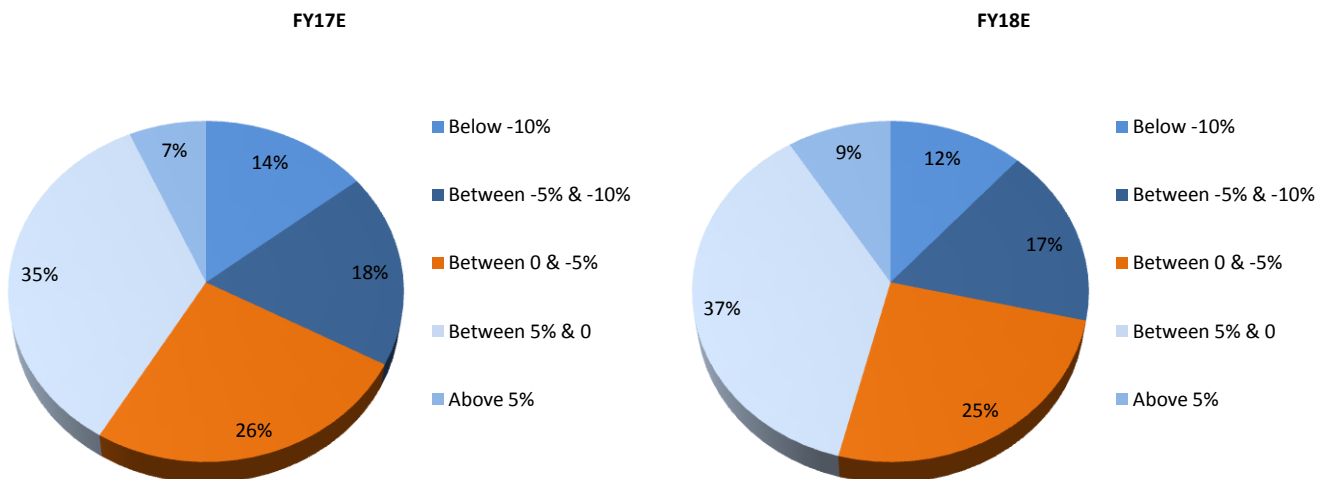
Source: Company, PhillipCapital India Research Estimates

PC Universe: Change in FY17 (left) and FY18 (right) earnings estimates by sectors



Source: Company, PhillipCapital India Research Estimates

PC Universe: Breadth of FY17 (left) and FY18 (right) earnings estimates



Source: Company, PhillipCapital India Research Estimates

Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year.

Rating	Criteria	Definition
BUY	>= +15%	Target price is equal to or more than 15% of current market price
NEUTRAL	-15% > to < +15%	Target price is less than +15% but more than -15%
SELL	<= -15%	Target price is less than or equal to -15%.

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