

Q3FY16 Review

Quite a bleak quarter

INDIA | Strategy

17 February 2016

Out of the 14 sectors that we cover, three saw positive earnings surprises, one was in line, and six surprised negatively. Here are some highlights:

- ☒ Q3FY16 was a disappointing quarter with huge misses
- ☒ PC universe's sales grew 1% yoy vs. estimated growth of 3% (was up 2% in Q2)
- ☒ PAT fell 21% yoy vs. estimated decline of 6% (fell 7% in Q2)
- ☒ PAT (ex-financials) fell 16% yoy vs. estimated decline of 11%
- ☑ Infra (ex-GVK and GMR), pharma, power, oil & gas, and IT saw strong earnings growth
- ☑ Infra (+10%), pharma (+3%) and autos (+1%) beat our expectations
- ☒ Cap goods (-78%), financials (-45%), and metals (-43%) disappointed significantly
- ☑ **Stocks that beat our expectations** — Sun Pharma, Tata Motors, Ashok Leyland, IRB, Adani ports, HCL, Infosys, KPIT technologies, Pennar, Praj, Finolex Cables, GSK Consumer, Hindustan Zinc, and Hindalco.

A dismal quarter on the whole

Key laggards:

- Financials (-45% vs. estimates) declined the most because of higher provisioning and slippages. The whole PSU-basket felt the pain
- Metals (-18% vs. our estimates) primarily led by Tata Steel, Sail, and JSW Steel
- Cement (-19% vs. our estimates) led by volume slowdown and pricing pressure

Few bright spots:

- Infrastructure benefited from a surge in road orders and displayed notable earnings strength.
- Pharma (+3% vs. our estimates) surprised mainly due to a strong positive surprise from Sun Pharma (+12%)
- IT (+2% vs. our estimates) was driven by surprises in Infosys and HCL Tech.

Core-sector parameters were under pressure

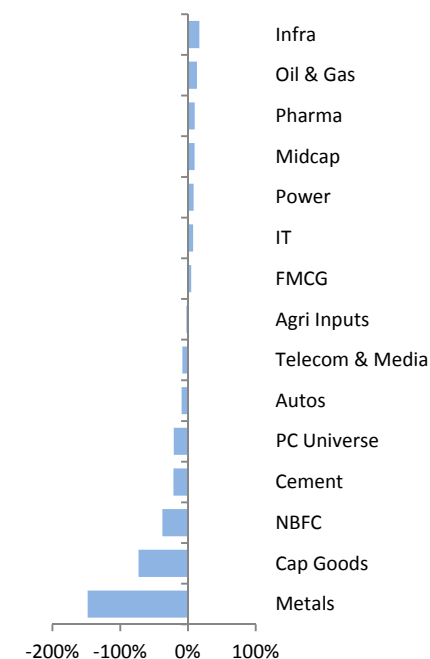
- Banks: sluggish credit growth continued; PSU asset-quality pressures increased.
- Capital goods: Execution remained weak, orders declined.
- Metals: Realisations continued to fall on sliding global commodity prices.
- Cement: Lower volume and weak pricing continued.
- IT: Benefited from over-estimation of weakness because of Chennai floods.
- FMCG: Gross margins expanded even as volume pressure continued.

Further cuts in our aggregate estimates:

Following Q3 results, we have cut the earnings estimates of our PC universe further by 12%/11% for FY16/17 (we had cut estimates in Q1 and Q2 too). We have raised them for pharma and oil & gas marginally. Sharpest cuts continued to be in metals, capital goods, and cement. Consequently, our Nifty EPS for FY17E gets cut by 5% to Rs 475.

- **Cuts:** While we have cut earnings estimates for 53% of the companies we cover, for 28%, the cuts were more than 10%. Stocks that saw major cuts include BOB, PNB, SBI, SAIL, Hindalco, Ambuja, Bhel, L&T, and Idea.
- **Upgrades:** For only 9% of our companies did we upgrade earnings by more than 5%. Stocks where FY17 earnings upgrades were notable include Siemens, Marico, GSK Consumer, Sun Pharma, Lupin, Dr Reddy's, and Mindtree.

PAT growth distribution: Q3FY16

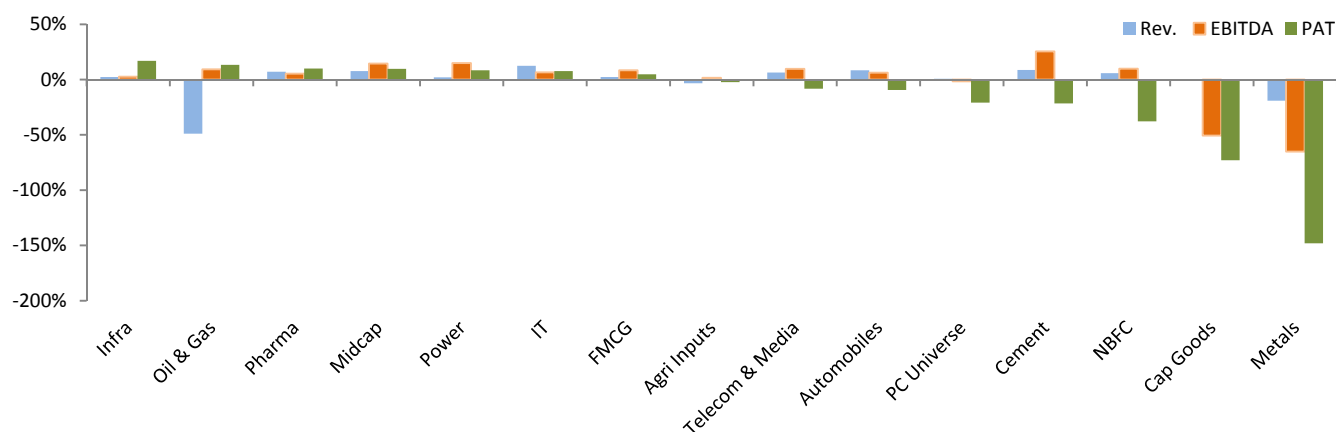


Source: Company, PhillipCapital India Estimates

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PC Universe: Performance in Q3FY16 yoy



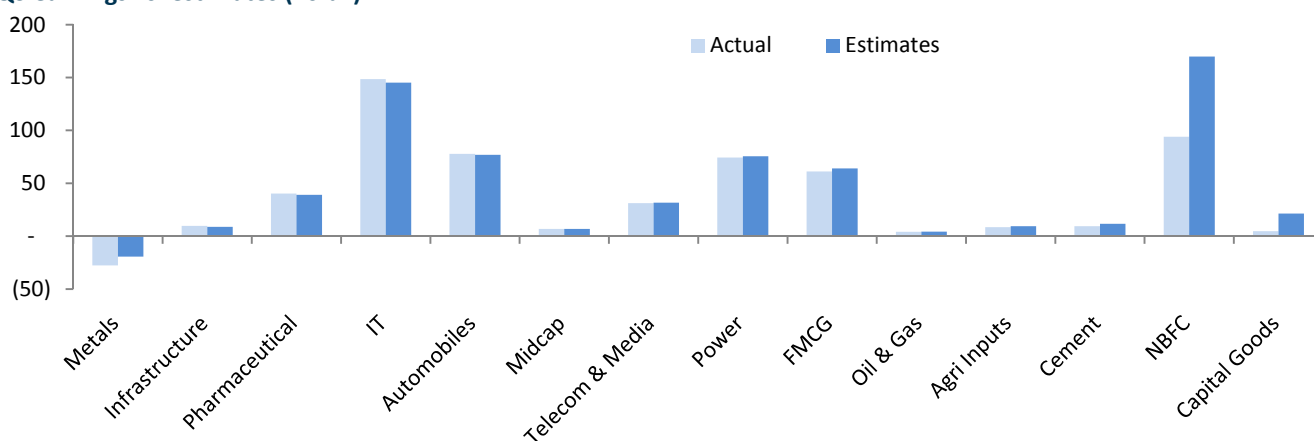
Source: Company, PhillipCapital India Research Estimates

Reported earnings

Sector (Rs mn)	Revenue				EBITDA				PAT			
	Q3FY16	Q2FY16	QoQ (%)	Q3FY15 YoY (%)	Q3FY16	Q2FY16	QoQ (%)	Q3FY15 YoY (%)	Q3FY16	Q2FY16	QoQ (%)	Q3FY15 YoY (%)
Auto	1,201,843	1,047,908	15%	1,108,883 8.4%	175,471	143,600	22%	165,279 6.2%	77,778	34,531	125%	85,877 -9.4%
Agri Inputs	155,203	164,848	-6%	160,522 -3.3%	19,010	18,693	2%	18,718 1.6%	8,573	7,977	7%	8,780 -2.4%
Capital Goods	454,341	461,126	-1%	457,483 -0.7%	22,024	35,671	-38%	44,585 -50.6%	4,748	13,166	-64%	17,565 -73.0%
Cement	183,131	176,440	4%	168,490 8.7%	29,078	27,551	6%	23,174 25.5%	9,415	8,979	5%	11,994 -21.5%
FMCG	382,746	362,435	6%	374,245 2.3%	84,708	79,261	7%	78,104 8.5%	61,210	56,414	9%	58,381 4.8%
Infrastructure	74,754	78,797	-5%	73,026 2.4%	20,737	25,050	-17%	20,223 2.5%	9,657	10,425	-7%	8,258 16.9%
IT	762,383	752,297	1%	677,971 12.5%	188,819	184,661	2%	177,345 6.5%	148,518	145,746	2%	138,000 7.6%
Tele. & Media	457,559	446,967	2%	430,239 6.4%	149,159	143,877	4%	136,004 9.7%	31,265	34,950	-11%	34,071 -8.2%
Metals	734,720	802,423	-8%	908,605 -19.1%	56,780	96,173	-41%	162,666 -65.1%	(27,659)	41,783	-166%	57,449 -148.1%
Midcap	80,485	78,342	3%	74,773 7.6%	11,684	10,936	7%	10,203 14.5%	6,843	6,363	8%	6,237 9.7%
Pharma	249,490	243,570	2%	233,001 7.1%	62,853	62,465	1%	59,672 5.3%	40,325	37,599	7%	36,681 9.9%
Power	445,867	431,060	3%	436,775 2.1%	135,568	113,318	20%	117,907 15.0%	74,383	63,091	18%	68,601 8.4%
Oil & Gas	63,233	87,669	-28%	123,860 -48.9%	8,046	8,824	-9%	7,362 9.3%	4,070	4,590	-11%	3,594 13.2%
NBFC	490,300	494,213	-1%	463,205 5.8%	395,981	387,362	2%	360,609 9.8%	93,940	171,093	-45%	151,030 -37.8%
PC Universe	5,736,055	5,628,096	2%	5,691,077 0.8%	1,359,920	1,337,441	2%	1,381,851 -1.6%	543,067	636,704	-15%	686,518 -20.9%

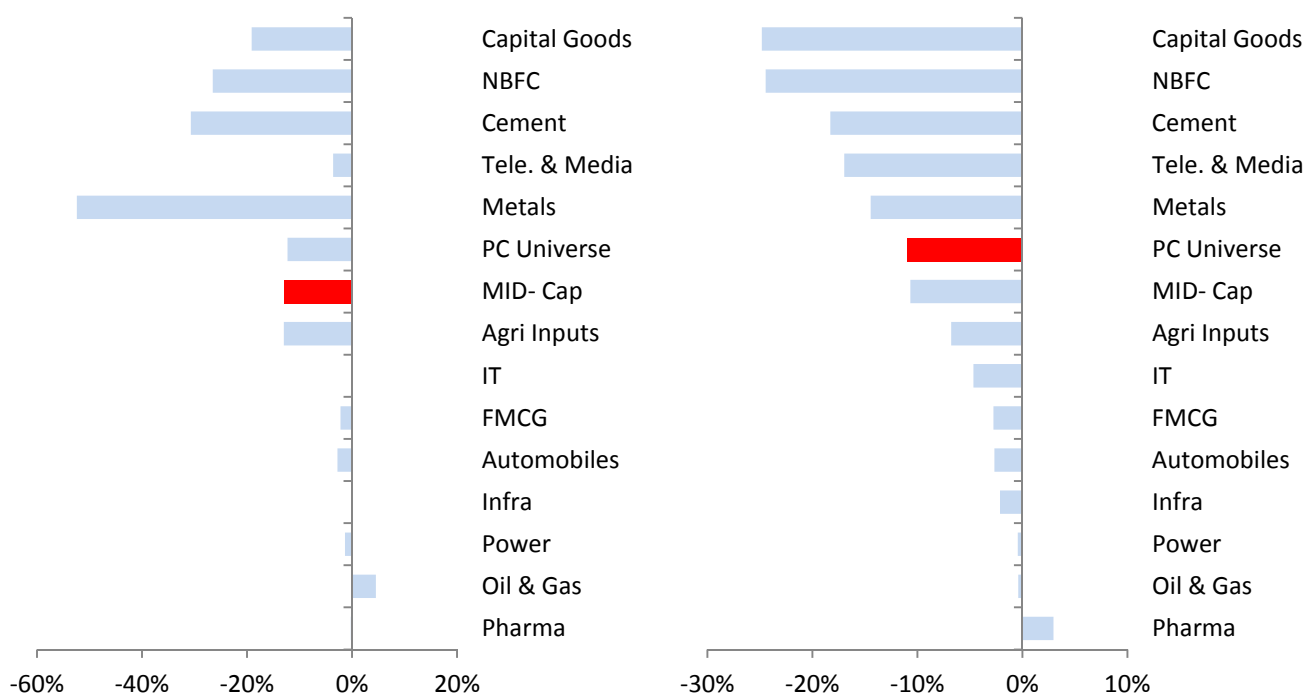
Source: Company, PhillipCapital India Research Estimates

Q3 earnings vs. estimates (Rs bn)



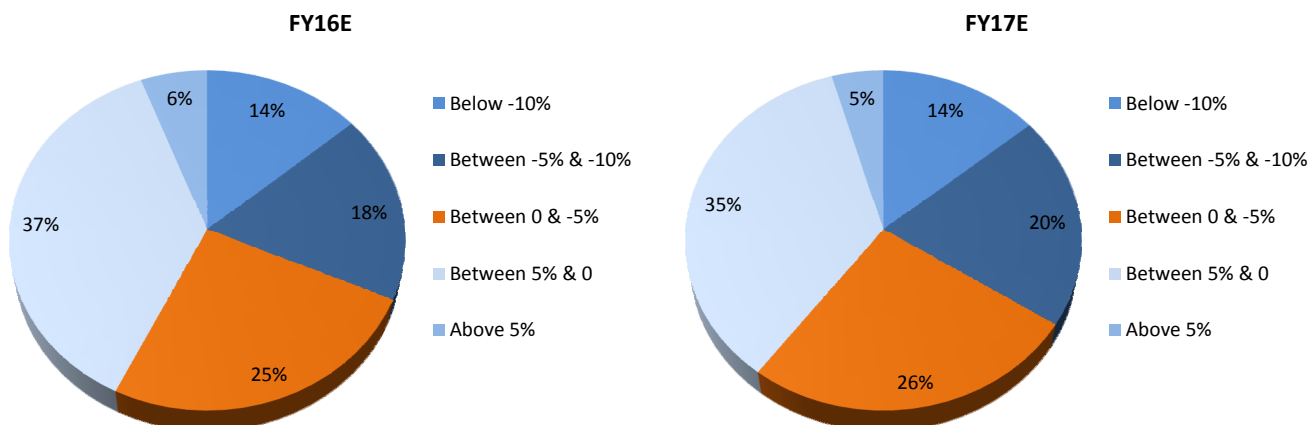
Source: Company, PhillipCapital India Research Estimates

PC Universe: Change in FY16 (left) and FY17 (right) earnings estimates by sectors



Source: Company, PhillipCapital India Research Estimates

PC Universe: Breadth of FY16 (left) and FY17 (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	$\geq +15\%$	Target price is equal to or more than 15% of current market price
NEUTRAL	$-15\% > \text{to} < +15\%$	Target price is less than +15% but more than -15%
SELL	$\leq -15\%$	Target price is less than or equal to -15%.

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