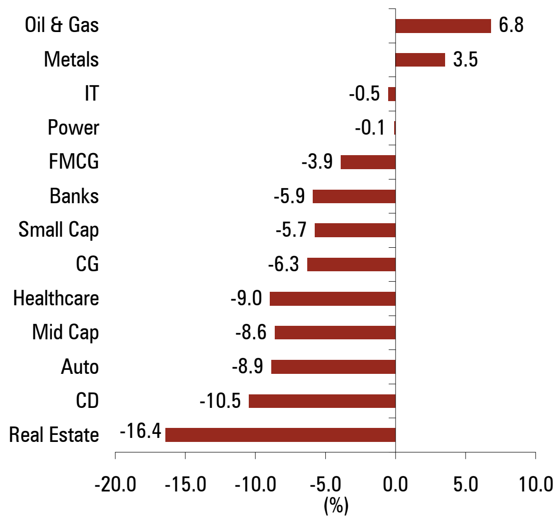
February 22, 2017

BSE Sensex (ex-banks, NBFC, Commodity space)

₹ crore	Dec-16	Dec-15	Sep-16
Sales	286180	278470	287395
EBITDA	60847	59950	64278
Net Profit	31469	32618	35132

Indices performance (% return) in Q3FY17



CG: Capital Goods
CD: Consumer durables
Small Cap: BSE Small Cap

BSE Sensex – Heat Map (% Return) in Q3FY17

GAIL 17.2%	ONGC 11.8%	NTPC 11.3%	Adani Ports 4.6%	Tata Steel 4.5%
Power Grid 3.9%	ICICI Bank 1.2%	ITC 0.1%	Lupin 0.0%	RIL -0.1%
SBI -0.4%	Wipro -0.9%	Dr. Reddy -1.5%	Cipla -1.9%	Infosys -2.5%
Airtel -2.7%	TCS -2.7%	Maruti -2.9%	HUL -4.8%	HDFC Bank -5.2%
L&T -5.9%	Bajaj Auto -6.9%	Coal India -6.9%	HDFC -9.4%	Hero Moto -10.8%
Tata Motors -11.8%	Sun Pharma -15.2%	M&M -15.7%	Axis Bank -16.9%	Asian Paints -23.2%

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Positive surprises overrule demonetisation blues…

- Sensex companies (ex-banks & commodity space) reported a steady performance amid fears of a drop in revenues & profitability on account of demonetisation. Across the coverage, impact of demonetisation was not as severe as anticipated with the management commentary highlighting the situation normalising with each passing day. Sales for Sensex companies rose 2.8% YoY to ₹ 286180 crore. EBITDA in Q3FY17, grew 1.5% YoY to ₹ 60847 crore. Corresponding EBITDA margins came in at 21.3%, down 27 bps YoY. The decline in EBITDA margins was largely on account of negative operating leverage with increase in fixed overheads (up 221 bps) outpacing the decline in raw material costs (down 194 bps). Consequent PAT for Q3FY17 declined 3.5% to ₹ 31469 crore. Lower PAT was on account of double digit rise in depreciation (up 12% YoY) & interest expense (up 14% YoY), which was partly compensated by higher other income (up 40% YoY)
- On the sectoral front, in Q3FY17, the auto sector posted volume de-growth of 3.4% YoY in Q3FY17. The highest impact was seen in the 2-W (down 4.4% YoY) & 3-W (down 19.5% YoY) space. In the banking space, NII growth remained muted at 4.3% but the key highlight was robust other income, which increased 44% YoY largely tracking treasury gains as yields dropped ~60 bps to 6.5% in Q3FY17. GPA of the system increased to ₹ 690003 crore with GNPA ratio at 9.4% of loans as of Q3FY17. In the capital goods domain, order inflows remained healthy. However, execution was weak. **Going forward, we believe the worst is behind us with some spillover effects of demonetisation being witnessed in Q4FY17E thereby leading to flat earnings (Sensex) trajectory in FY17E (up 2.2% YoY). Given the low base, stable commodity prices and revival of consumption led demand, we expect higher double digit (25%) earnings recovery in FY18E**

Exhibit 1: Sensex aggregate # (₹ crore)

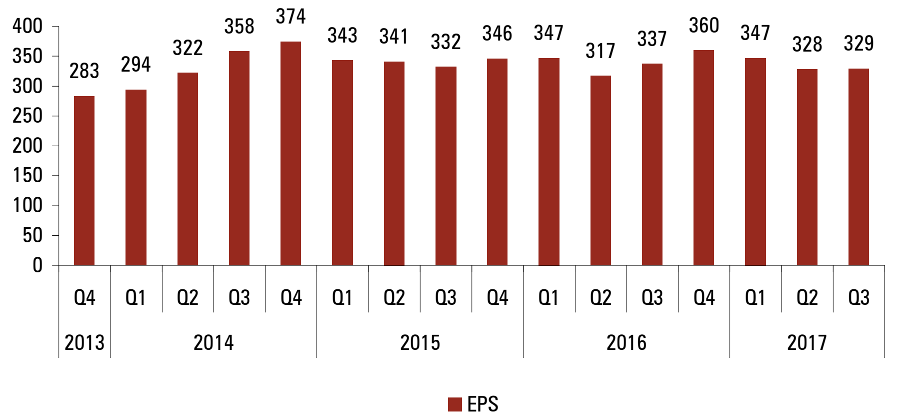
	Dec-16	Dec-15	Sep-16	YoY (%) change	QoQ (%) change	9MFY17	9MFY16	YoY (%) change
Sales	286180	278470	287395	2.8	-0.4	**854244**	**794188**	**7.6**
Total Expenses	225333	218520	223118	3.1	1.0	**666508**	**622372**	**7.1**
Raw material	86117	89207	88844	-3.5	-3.1	**258108**	**248431**	**3.9**
Employee	50722	48094	50611	5.5	0.2	**152610**	**140593**	**8.5**
Other expenses	88494	81219	83662	9.0	5.8	**255789**	**233348**	**9.6**
Expenses (% of sales)								
Total Expenses	78.7	78.5	77.6	27 bps	110 bps	**78.0**	**78.4**	**-34 bps**
Raw material	30.1	32.0	30.9	-194 bps	-82 bps	**30.2**	**31.3**	**-107 bps**
Employee	17.7	17.3	17.6	45 bps	11 bps	**17.9**	**17.7**	**16 bps**
Other expenses	30.9	29.2	29.1	176 bps	181 bps	**29.9**	**29.4**	**56 bps**
Operating Profit	60847	59950	64278	1.5	-5.3	**187736**	**171816**	**9.3**
OPM%	21.3	21.5	22.4	-27 bps	-110 bps	**22.0**	**21.6**	**34 bps**
Other Income	7285	5199	7116	40.1	2.4	**20399**	**18958**	**7.6**
Interest	6565	5774	6466	13.7	1.5	**19600**	**18423**	**6.4**
Depreciation	17692	15839	17482	11.7	1.2	**52570**	**45743**	**14.9**
PAT	31469	32618	35132	-3.5	-10.4	**99832**	**93970**	**6.2**
PAT margin %	11.0	11.7	12.2	-72 bps	-123 bps	**11.7**	**11.8**	**-15 bps**

Source: Capitaline, ICICIdirect.com Research

#Data based on 20 companies (excluding banks NBFCs, metals & mining, oil & gas)

EPS for the quarter i.e. Q3FY17 came in at ₹ 329/share, down 2.4% YoY while they were flat on a QoQ basis

Exhibit 2: Sensex EPS @ ₹ 329/share in Q3FY17

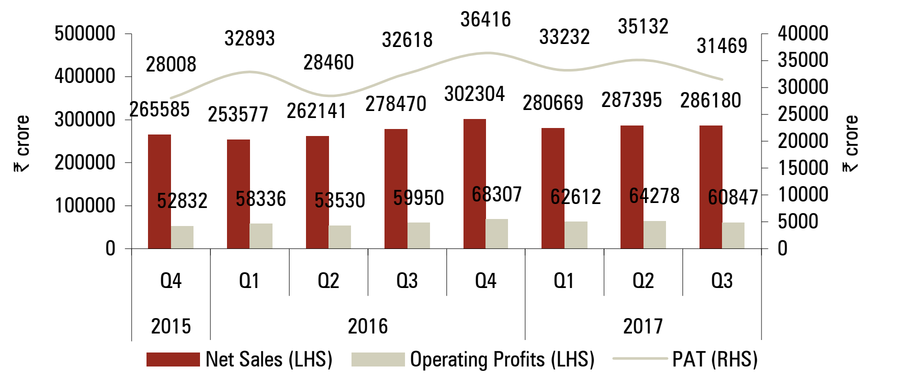


Source: Bloomberg, Reuters, ICICIdirect.com Research

@ for calculation of EPS we have considered standalone profit for Bajaj Auto, Cipla, Gail, HDFC, HDFC Bank, Hero MotoCorp, Hindustan Unilever, ITC, L&T, Mahindra & Mahindra, Maruti Suzuki, NTPC, ONGC and Reliance Industries while for the rest of the companies, consolidated profit has been considered

On a YoY basis, in Q3FY17, ex banks and commodity space, the Sensex topline increased 2.8% YoY. EBITDA growth for the quarter, however, was muted at 1.5% YoY due to 27 bps deterioration in EBITDA margins (21.3% in Q3FY17 vs. 21.5% in Q3FY16). Margins came in lower due to negative operating leverage wherein increase in fixed overheads outpaced the benefits derived out of lower raw material costs. Consequently, PAT in Q3FY17 was down 3.5% YoY on account of an increase in depreciation and interest expense, which was partly compensated by an increase in other income

Exhibit 3: Sensex aggregate quarterly revenue, operating profit & net profit trend

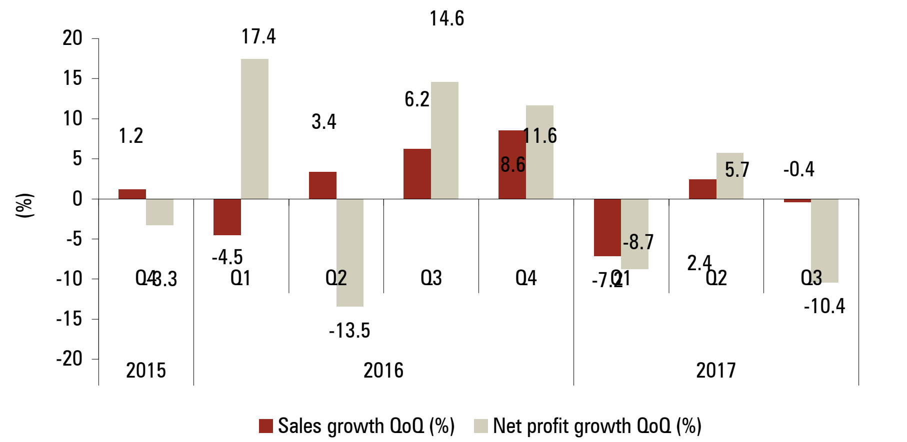


Source: Capitaline, ICICIdirect.com Research

#Data is based on 20 companies (excluding banks, NBFCs, Metals & mining, Oil & Gas)

During Q3FY17, the Sensex topline declined 0.4% QoQ while the bottomline declined 10.4% QoQ. The disproportionate decline in bottomline vs. topline was largely on account of lower EBITDA margins to the tune of 110 bps on a QoQ basis. EBITDA margins in Q3FY17 were at 21.3% while the same in Q3FY16 was at 22.4%

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

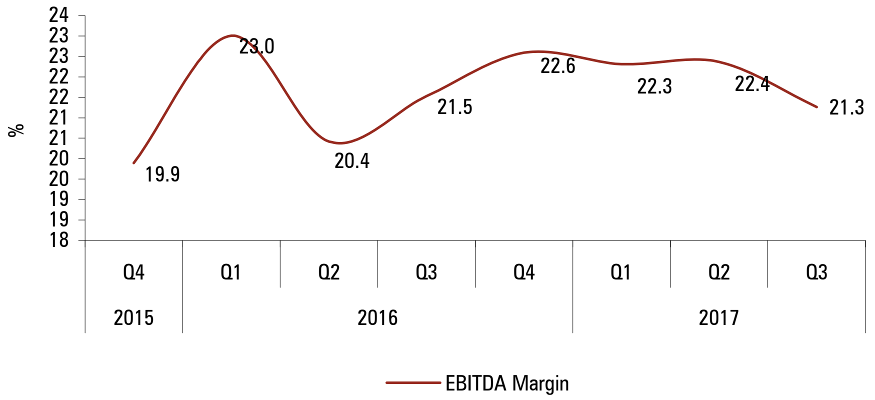


Source: Capitaline, ICICIdirect.com Research

#Data is based on 20 companies (excluding banks, NBFCs, Metals & mining, Oil & Gas)

The EBITDA margin in Q3FY17 came in at 21.3%, down ~30 bps YoY. Raw material as a percentage of sales declined ~200 bps YoY to 30.1%. Employee costs were up ~50 bps to 17.7% while other expenses were up ~180 bps to 30.9%

Exhibit 5: Sensex aggregate quarterly EBITDA margin



Source: Capitaline, ICICIdirect.com Research

#Data is based on 20 companies (excluding banks, NBFCs, Metals & mining, Oil & Gas)

Industry wise revenue & profit movement

Industry wise revenue contribution (%)

	Dec-16	Dec-15	Sep-16
Auto	37.3	39.3	37.6
Capital goods	9.2	9.3	8.7
FMCG	5.9	6.0	6.1
IT	21.2	20.2	21.0
Pharma	6.9	6.4	6.9
Power	9.1	8.2	8.9
Others	10.3	10.6	10.7

Source: Capitaline, ICICIdirect.com Research

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

	Dec-16	Dec-15	Sep-16	YoY change (%)	QoQ change (%)
Auto	106838	109381	108203	-2.3	-1.3
Capital goods	26287	25928	25022	1.4	5.1
FMCG	16954	16631	17503	1.9	-3.1
IT	60773	56218	60488	8.1	0.5
Pharma	19766	17801	19908	11.0	-0.7
Power	26026	22855	25653	13.9	1.5
Others	29537	29657	30618	-0.4	-3.5
Aggregate	286180	278470	287395	2.8	-0.4

Source: Capitaline, ICICIdirect.com Research;

#Data is based on 20 companies (excluding banks, NBFCs, Metals & mining, Oil & Gas)

- On the revenue front, the power sector reported a robust performance largely tracking asset capitalisation at Power Grid as power generation companies like NTPC reported muted (1% YoY) generation growth. In the pharma space, robust topline growth was primarily due to exclusivities, low base and new product launches. In the IT space, Tier-I IT companies reported a dollar revenue growth of 6.3% YoY in Q3FY17 vs. 6.8% YoY growth in Q2FY17. Constant currency (CC) revenues grew in a seasonally weak quarter by an average of 1.3% QoQ vs. 2.2% in Q2FY17
- On the bottomline front, exceptional profitability (up 39% YoY) was reported by the capital goods domain led by L&T largely tracking lower base. In the auto space, the wild swing (down 31% YoY) was largely on account of a muted performance at large global auto player. In the consumer space i.e. FMCG growth of 6.0% YoY at the PAT level was healthy against our and Street expectation of de-growth in Q3FY17. In the telecom space, muted profitability is tracking the subdued performance amid demonetisation and increasing competitive intensity with consequent drop in ARPUs

Industry wise net profit contribution (%)

	Dec-16	Dec-15	Sep-16
Auto	15.0	20.8	18.8
Capital goods	3.1	2.1	4.1
FMCG	11.7	10.7	10.2
IT	40.1	36.3	34.9
Pharma	10.2	10.1	10.8
Power	14.0	13.1	12.4
Others	5.9	6.9	8.7

Source: Capitaline, ICICIdirect.com Research

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

	Dec-16	Dec-15	Sep-16	YoY change (%)	QoQ change (%)
Auto	4717	6795	6614	-30.6	-28.7
Capital goods	972	700	1435	38.9	-32.2
FMCG	3685	3475	3596	6.0	2.5
IT	12631	11827	12276	6.8	2.9
Pharma	3222	3311	3797	-2.7	-15.1
Power	4399	4275	4368	2.9	0.7
Others	1843	2235	3046	-17.6	-39.5
Aggregate	31469	32618	35132	-3.5	-10.4

Source: Capitaline, ICICIdirect.com Research,

#Data is based on 20 companies (excluding banks, NBFCs, Metals & mining, Oil & Gas)

Sector specific takeaways from quarter

Auto & auto ancillary

- Demonetisation impacted the overall auto sector, which posted volume de-growth of 3.4% YoY in Q3FY17. The highest impact was seen in the 2-W & 3-W space, which reported volume de-growth of 4.4% YoY & 19.5% YoY, respectively. This is mainly attributable to the rural centric nature of these segments & lower finance penetration in them. CV volumes remained flat, up 0.6% YoY, as M&HCV volumes grew 2.1% YoY while LCV volumes declined 0.4% YoY. PV volumes grew 5.5% YoY, mainly driven by the healthy growth of 20.9% YoY in the UV space. Thus, the overall revenue & PAT of the I-direct auto universe [ex-global auto major & Mahindra CIE] grew ~5% YoY & ~17% YoY, respectively

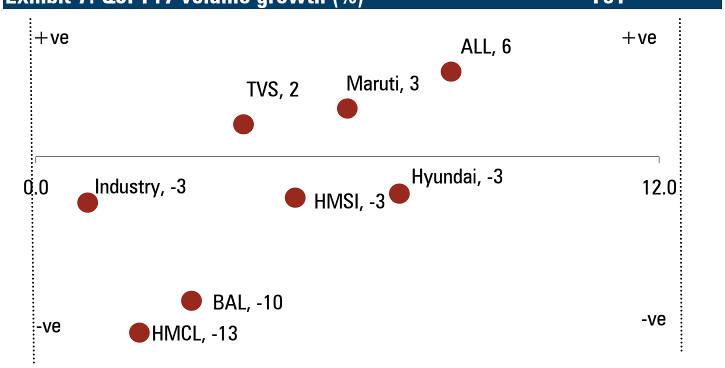
Tractor segment positively surprised us, registering volume growth of 17.7% YoY, mainly attributable to a good harvest season & higher MSP

- Operating margins of our universe (ex-global auto major & CIE) fell marginally by 9 bps YoY to ~14.4%. This was mainly after average prices of key input moved upwards viz. - steel, plastics & natural rubber (NR) increased 22.1% YoY, 17.7% YoY & 14.2% YoY, respectively, with the only exception being aluminium (price down 1% YoY). On the flip side, higher realisations, lower employee & other expense partly helped companies. Despite higher input cost, Hero MotoCorp's (HMCL) gross margin expanded positively. EBITDA margins of Escorts expanded 378 bps YoY to 8.4%, driven by its tractors segment
- The I-direct OEM universe (ex-global auto major) revenue & PAT grew 3% YoY & 21% YoY, respectively. Higher other income supported profit for Bajaj Auto & MSIL. Escorts reported a good operational performance but it had divested its auto ancillary segment & posted one-time adjustment loss (₹ 30.9 crore)

The key highlight for Motherson Sumi was its margin expansion on a YoY & QoQ basis. Among the MNC pack, Wabco recalibrated its tax rate post the completion of tax benefit at its Pantnagar unit, which impacted its profit. The December quarter is traditionally a weak one for Bosch & was reflected in its results, which were below our estimates

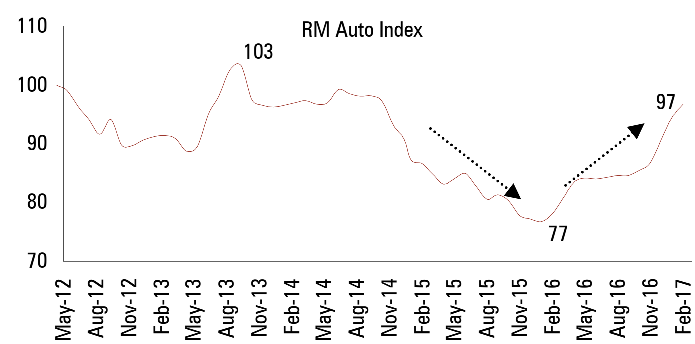
- The revenue & PAT of our coverage ancillary universe (ex-CIE) grew ~8% each YoY. Tyre companies reported healthy revenue growth, largely volume driven. However, the surge in NR prices impacted the margins of most tyre players. Both battery player's (Exide & Amara Raja) topline was impacted by demonetisation, while their margin contracted YoY & QoQ due to higher input cost (lead prices were up 30.5% YoY & 15.6% QoQ to ₹ 145/kg)
- We believe the negative impact of demonetisation is expected to get phased out in the next couple of months. With liquidity returning into the system, we expect demand to revive as consumers largely deferred their purchases. We also expect pre-buying in the CV space in Q4FY17 ahead of the implementation of BS-IV norms from April 2017

Exhibit 7: Q3FY17 volume growth (%)



Source: Company, ICICIdirect.com Research

Exhibit 8: Auto RM Index



Source: Company, ICICIdirect.com Research

Banking

- In Q3FY17, despite a moderation in bad asset accretion, NII growth remained muted at 4.3% YoY to ₹ 72534 crore. This can be attributed to slower credit growth led by demonetisation
- The other key highlight was the strong upside in other income (up 43.9% YoY) largely on the back of treasury gains booked during Q3FY16 as yields dropped ~60 bps to 6.5% in Q3FY17
- GNPA increased by ₹ 27066 crore to ₹ 690003 crore (GNPA ratio ~9.4% of loans). This was the lowest addition in last several quarters
- Private banks continued to see higher stress with 16% QoQ rise in GNPA vs. 2.6% QoQ seen in PSU banks. This was mainly due to higher slippages from the watchlist portfolio of large corporate focused private banks. Though higher at 58.5% YoY, continued moderation was witnessed in incremental GNPA at ₹ 27066 crore in Q3FY17 compared to ₹ 39564 crore in Q2FY17 and ₹ 48060 crore in Q1FY17. GNPA along with RA remained >12% level
- Though lower at ₹ 636 crore, profitability of PSU banks remained in the green with treasury gains in the quarter utilised for incremental provision. Overall, PAT came in at ₹ 10432 crore compared to ₹ 215 crore in Q3FY16, owing to AQR related provision

Pace of GNPA accretion among PSU banks continued to slow down. Within private banks, corporate focused banks like Axis Bank reported weak asset quality trends owing to slippages from the watchlist exposures. HDFC Bank, Yes Bank & IndusInd Bank reported a better performance, which was on expected lines

Though lower at ₹ 636 crore, profitability of PSU banks remained in the green with treasury gains in the quarter utilised for incremental provision

Exhibit 9: Financial summary of PSU banks

(₹ Crore)	Q3FY17	Q2FY17	Q1FY17	Q4FY16	Q3FY16	Q2FY16	Q1FY16	YoY (%)	QoQ (%)
NII	45430	49667	46563	46506	45679	47177	47394	-0.5	-8.5
Growth YoY (%)	**-0.5**	**5.3**	**-1.8**	**-2.2**	**-1.8**	**2.2**	**4.1**		
Other income	29412	27369	22570	26440	18109	18546	16176	62.4	7.5
Growth YoY (%)	**62.4**	**47.6**	**39.5**	**6.0**	**4.7**	**19.2**	**10.5**		
Total operating exp.	38107	39587	35189	37375	34322	32039	31427	11.0	-3.7
Staff cost	23082	22328	21054	21998	20824	20043	19216	10.8	3.4
Operating profit	36735	37449	33944	35571	29465	33684	32143	24.7	-1.9
Growth YoY (%)	**24.7**	**11.2**	**5.6**	**-7.3**	**-7.1**	**10.5**	**2.3**		
Provision	35213	32275	34525	69727	43158	22204	18270	-18.4	9.1
PBT	1522	5174	-581	-34155	-13693	11459	13857	NM	-70.6
PAT	636	3012	-473	-22843	-11003	6889	9209	NM	-78.9
Growth YoY	**-105.8**	**-56.3**	**-105.1**	**-369.9**	**-258.1**	**-21.2**	**-21.5**		
GNPA	606702	591143	565042	523398	390443	301109	282989	55.4	2.6
Growth YoY	**55.4**	**96.3**	**99.7**	**96.2**	**51.1**	**26.9**	**27.6**		
NNPA	352224	347207	335862	306510	229111	171295	162368	53.7	1.4
Growth YoY	**53.7**	**102.7**	**106.9**	**100.1**	**46.9**	**22.0**	**25.5**		

Source: Capitaline, ICICIdirect.com Research

Exhibit 10: Financial summary of private banks

(₹ Crore)	Q3FY17	Q2FY17	Q1FY17	Q4FY16	Q3FY16	Q2FY16	Q1FY16	YoY (%)	QoQ (%)
NII	27104	23737	25315	25005	23868	18339	22185	13.6	14.2
Growth YoY	**13.6**	**29.4**	**14.1**	**20.2**	**18.1**	**-7.1**	**18.9**		
Other income	14938	18725	12725	14200	12714	10599	10586	17.5	-20.2
Growth YoY	**17.5**	**76.7**	**20.2**	**18.7**	**20.6**	**13.6**	**18.0**		
Total operating exp.	18490	15109	16636	20066	14999	10142	14414	23.3	22.4
Staff cost	7317	7303	6531	6345	5870	5850	6048	24.7	0.2
Operating profit	23552	27353	21403	19139	21583	18796	18358	9.1	-13.9
Growth YoY	**9.1**	**45.5**	**16.6**	**1.4**	**22.8**	**15.4**	**18.7**		
Provision	9287	13134	7046	6905	5540	3324	4169	67.6	-29.3
PBT	14266	14219	14358	12141	16043	15472	14188	-11.1	0.3
PAT	9796	10169	9952	10541	11218	10440	9702	-12.7	-3.7
Growth YoY	**-12.7**	**-2.6**	**2.6**	**4.6**	**11.6**	**15.1**	**9.9**		
GNPA	83301	71794	58331	51915	44813	36716	34805	85.9	16.0
Growth YoY	**85.9**	**95.5**	**67.6**	**60.3**	**44.0**	**30.7**	**29.3**		
NNPA	39774	35762	29950	24830	20081	15236	14360	98.1	11.2
Growth YoY	**98.1**	**134.7**	**108.6**	**89.0**	**64.5**	**41.7**	**41.1**		

Source: Capitaline, ICICIdirect.com Research

Capital goods

VA Tech was on a strong footing as it reported order flows to the tune of ₹ 1200 crore and also pegged strong order inflow guidance in the range of ₹ 4000-4500 crore in FY17E

For a second consecutive quarter, Thermax managed to maintain order win run rate of ~ ₹ 1000 crore, albeit on a low base of Q3FY16

KEC and Thermax, on the other hand, reported revenue decline to the tune of 7% and 22% YoY, respectively. VA Tech Wabag reported strong revenue growth of 14% YoY on the back of higher execution of large overseas orders

AIA Engineering reported stellar volume growth led by the mining segment. EBITDA margins for the quarter were a tad lower on account of lower gross margins mostly due to increase in commodity prices YoY. Thus, product companies delivered an overall healthy performance, allying fears of demonetization for the quarter.

- On the order inflow front, L&T surprised positively as order wins in Q3FY17 to the tune of ₹ 34900 crore were above estimates. However, owing to lower pace of order finalisation and awards, L&T scaled down its growth guidance to 10% vs. 15% earlier. The company is comfortably placed in orders to the tune of ₹ 70000-80000 crore. In the midcap EPC space, KEC continues to see strong traction in domestic order wins in 9MFY17, as it managed order wins of ₹ 8634 crore
- On an overall basis, execution of EPC based companies was impacted by demonetisation. For instance, revenues of L&T and KEC were impacted to the tune of ₹ 500-600 crore and ₹ 50-60 crore, respectively. Hence, in terms of revenue growth, L&T reported an 8% YoY revenue growth as domestic execution was impacted by demonetisation and client side delays. On the margins front, L&T (low base of Q3FY16), KEC (high transmission margins) and VA Tech Wabag reported an improvement in margins in Q3FY17
- Product companies like NRB and Grindwell Norton reported healthy topline growth of 5% and 12%, respectively, for the quarter. On the other hand, Timken reported a 10% decline in Q3FY17 due to capex related realignment of its assets at its Jamshedpur facility and consequent miss in exports of ₹ 50 crore

Cement: Demonetisation hits volume growth

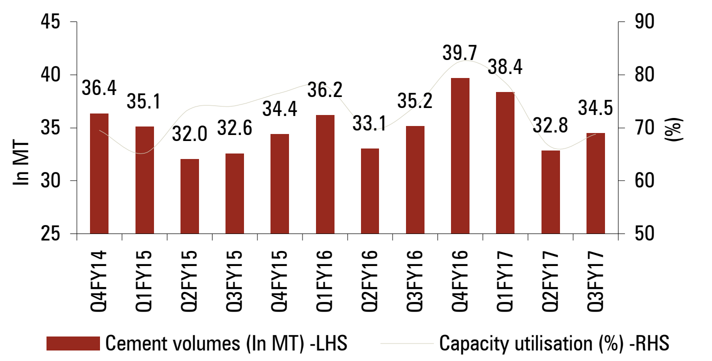
Consequently, total revenue of the sector was flat YoY to ₹ 15,920 crore. Further, lower pet coke prices on a YoY basis and healthy realisation led to improvement in EBITDA margins (up from 14.9% in Q3FY16 to 15.6%) in Q3FY17.

On the volume front, UltraTech, ACC and Ambuja reported volume decline of 2.2% YoY, 9.2% YoY and 8.8% YoY while Shree Cement and Mangalam Cement reported volume growth of 4.5% YoY and 9.3% YoY mainly led by capacity expansion.

However, Heidelberg reported 29.5% YoY decline in EBITDA/t due to higher fixed cost. Further, JK Cement also reported healthy increase in EBITDA/t to ₹ 768/t mainly led by improvement in white cement margins (up from 28.6% to 32.2%) coupled with improvement in grey cement margins (up from 7.3% to 8.9%).

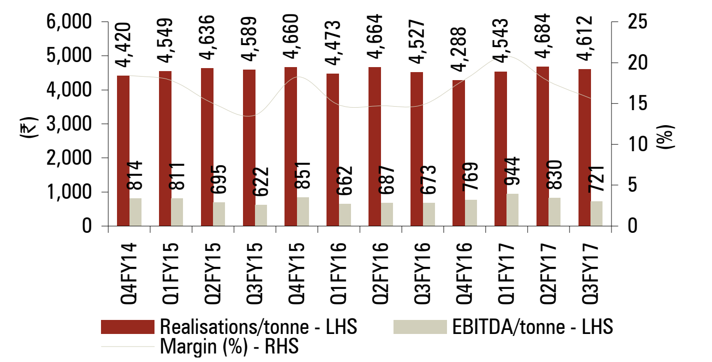
- Volume growth in Q3FY17 dipped 1.9% YoY mainly due to slowdown in housing segment (led by liquidity crunch). Region-wise, cement demand in the north and west remained subdued. However, the same remained healthy in east & south due to increased government spending in the infrastructure space. Further, a better pricing scenario in the northern region kept realisation healthy
- Cement realisation in our coverage universe increased 1.9% YoY during the quarter. While the north witnessed an improvement in pricing, west witnessed pricing pressure due to sluggish demand. As a result, northern players like Shree and Ambuja cement witnessed price improvement of 6.9% YoY and 2.2% YoY, respectively. India Cements reported robust volume growth of 21.8% YoY mainly led by increased in infra spending by the AP and Telangana government and low base.
- EBITDA/t in our coverage universe increased by 7.2% YoY mainly due to fall in power cost/t. Among the coverage universe, Mangalam Cement and JK Lakshmi Cement reported 100.0% YoY and 17.4% YoY increase in EBITDA/t mainly due to low base
- Overall, the profitability of the cement sector was boosted by lower power cost while outperformance was witnessed in India Cements due to higher infra spending and a low base

Exhibit 11: Cement volumes & capacity utilisation trends



Source: Company, ICICIdirect.com Research

Exhibit 12: Realisations & margins trend



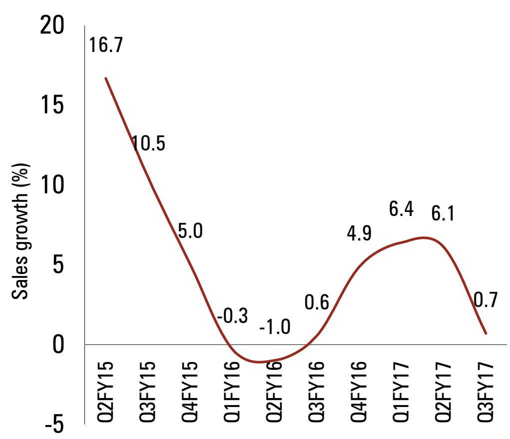
Source: Company, ICICIdirect.com Research

Consumer discretionary

- Despite the cash crunch in the system, consumer electrical/staple companies (I-direct coverage) recorded revenue growth of 4% YoY (~5% QoQ) better than our estimate of Q3FY17. We believe sales were largely through the push strategy wherein the company launched various trade schemes (like cash discounts, higher credit days) to lure dealers during demonetisation
- The paint industry posted ~5% volume growth led by Kansai Nerolac (volume up 7.5% YoY) wherein industrial segment outperformed due to better auto sales growth in Q3FY17. Barring a few pockets like Kansai Nerolac and Supreme Industries, other companies like Asian Paints, Havells, Bajaj Electricals, Essel Propack and Voltas recorded a margin contraction in the range of 70-272 bps YoY. The decline in margin can largely be attributed to cash discounts and lower operating leverage in the period of demonetisation
- Though consumer stocks have corrected significantly in the past few trading session, we believe the impact of demonetisation on consumer companies would be limited to Q3. We maintain our positive stance on cooling products and paint & adhesive companies

FMCG

Quarterly sales growth (%)



Source: Company, ICICIdirect.com Research

As expected, growth for Nestlé slowed down vis-à-vis the earlier quarter. The company posted 16.2% YoY growth in revenue. Jyothy Labs (JLL) also clocked growth in revenue by 4.3% YoY through immediate actions like shifting to lower SKUs and volume push to canteen stores and modern

GSK Consumer, Dabur & Marico also reported a decline in the reported profit by 8.3%, 7.3% and 6.8%, respectively. However, TGBL reported a sharp jump in profit on account of exceptional income. JLL and HUL's profit also grew 12.7% and 6.8%, respectively

- In the wake of demonetisation, liquidity crunch and disruption in the wholesale channel were major concerns. Though companies extended their credit period to encourage offtake that was not enough to keep up with the disruption caused due to the cash crunch. North and East India were impacted the most due to the excessive dependence on the wholesale channel. Amid all this, the modern trade witnessed significant growth while companies were able to offset some of the pain through pushing volumes in this channel. Hence, the coverage universe reported 0.7% YoY growth in revenue against our expectation of 3.0% YoY decline
- GSK Consumer, Colgate, Marico and Dabur were impacted the most and reported revenue de-growth of 12.4%, 8.6%, 7.5% and 6.1% YoY mainly due to volume decline of 17%, 10%, 4% and 5% YoY, respectively. HUL also reported a marginal decline in revenue by 1.2% YoY on account of 4.0% YoY decline in volumes. However, led by a marginal improvement in cigarette & FMCG segments and strong growth in the hotels and agri segments, ITC reported 4.1% YoY growth in revenue. VST reported healthy sales growth of 8.1% YoY on account of a favourable mix
- Amid the tough environment of volume decline, companies faced the heat of increase in raw material cost e.g. cost of barley, palm oil, wheat, sugar were up ~23%, 37%, 18% and 31%, respectively. This further put pressure on companies. However, to offset the same and expected lower stimulus through advertisements, companies went ahead and cut advertisement expense by ~ 7% YoY. Thus, operating margins contracted marginally by 41 bps for our FMCG universe. Tata Global was, however, an exception, which increased advertisement expense by 21.7% YoY to support the recently launched products & reported expansion in EBITDA margin. All other players reported a contraction in EBITDA margin on a YoY basis
- Reported PAT for the quarter posted growth of 4.0% YoY for our FMCG universe against our estimate of 6.2% YoY decline. Colgate reported a steep decline of 22.6% YoY on account of lower operating margin & higher tax outgo. Nestlé also reported 8.7% decline in profit on account of contingency provision. Led by EBITDA growth, ITC & VST reported 5.7% and 10.0% YoY growth

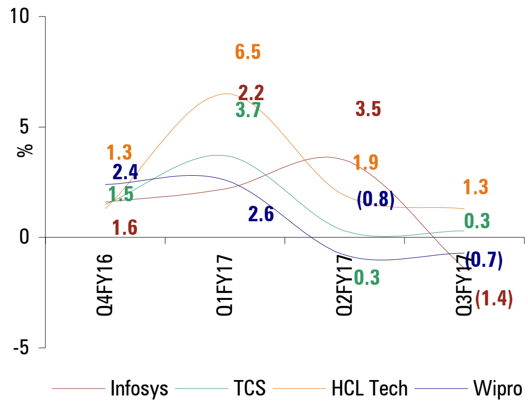
Hotel: Steadily improving performance

Indian Hotels' Q3FY17 improved structurally led by a healthy recovery in margins and profitability despite a lower topline (due to sale of Taj Boston) and fall in other income. Consolidated revenue declined 2.8% YoY due to sale of its property Taj Boston in US [revenue loss: ₹ 104 crore (net)]. However, on a like-to-like basis, consolidated revenue for the quarter grew ~4% YoY. Further EBITDA margins improved 203 bps during the quarter

- The hotel sector reported a good set of numbers. There was a margin expansion in all companies under our coverage suggesting a structural improvement in the hotel industry
- EIH reported a revenue decline of 6.4% YoY mainly due to closure of the New Delhi property. However, adjusting for The Oberoi, New Delhi, revenues we believe revenues increased ~9% YoY. In addition, EIH reported a healthy improvement in EBITDA margin (up 315.8 bps YoY)
- TajGVK's margins increased 142 bps YoY to 26.5%, mainly due to operating leverage benefit

Information Technology

Dollar revenue growth trend



Source: Company, ICICIdirect.com Research,

- Tier-I IT companies reported dollar revenue growth of 6.3% YoY in Q3FY17 vs. 6.8% YoY growth in Q2FY17. Constant currency (CC) revenues grew in a seasonally weak quarter by an average of 1.3% QoQ vs. 2.2% in Q2FY17. Expects Q4FY17E to be better than Q3FY17
- In terms of demand environment, most Indian IT companies sounded optimistic on the BFSI and retail spend. Recent developments related to visa regulations in the US, if passed, could impact margins in a staggered manner as guided. In term of guidance, Tier 1 IT companies reiterated their revenue growth guidance except Infosys, which revised its guidance to 8.4-8.8% from 8-9% in Q2. HCL Tech maintained its revenue growth guidance of 10-12% in CC terms, which could lead the industry growth rate. Wipro issued muted revenue growth guidance (1-2% in cc terms) for Q4FY17E owing to ongoing restructuring in Middle East and India business. Nasscom deferred giving revenue growth guidance for FY18E by a quarter in the wake of uncertainty due to regulatory changes in the US and the macroeconomic outlook
- On the operating margin front, there was an increase of ~50 bps QoQ increase in Wipro and 30 bps increase in HCL Tech resulting in expansion of overall Tier-I EBIT margins by 30 bps QoQ to 22.5% mainly on account of operational efficiencies despite seasonal weakness. Going forward, Tier-I IT companies maintained their EBIT margins guidance for FY17E with most companies optimistic about Q4FY17E. On the bottomline front, Tier-I IT companies reported an average sequential growth of 2.7% QoQ

Building material, infrastructure and real estate

Building materials

The plywood division suffered badly with Greenply reporting lower-than-expected results with volume decline across its products segment.

- Our building material coverage universe companies reported a mixed set of results with the tiles segment performing better than expectations while the plywood universe was impacted adversely due to demonetisation. The building materials sector was expected to report a significant sales volumes decline to the tune of ~15-20% across product segments. However, it posted a 1.1% YoY volume growth as it partly offset the impact of demonetisation by providing certain discounts and offers to dealers to boost sales
- In Q3FY17, our tiles universe posted flat volume growth of 1.1% YoY to 20.9 MSM. The growth was arrested due to poor demand scenario post demonetisation. Consequently, revenues grew 1.2% YoY to ₹ 1022.0 crore. However, on the operational front, strong performance was witnessed with EBITDA margins expanding 70 bps YoY to 14.4%

Consequently, the topline of our plywood universe de-grew 2.6% YoY to ₹ 781.7 crore. Further, on the operational front, EBITDA margins contracted 160 bps YoY to 15.1% due to lower capacity utilisation at various plants & discounts provided to dealers. Consequently, our plywood universe posted a bottomline de-growth of 19.9% YoY to ₹ 61.3 crore

- The plywood segment reported a mixed set of Q3FY17 results. While Century Plyboards' plywood volumes grew 7.2% (our expectation: 10% decline), Greenply reported a volume decline of 6.8% (our expectation: 3% decline) in plywood division and 22.9% YoY decline in MDF division volumes (our expectation: 22.7% decline)

Overall, with strong order inflows and anticipated improvement in working capital cycle and debt reduction, the execution is expected to pick up in Q4FY17

Infrastructure

- Our construction universe reported a weak performance on account of muted execution during the quarter. Consequently, the topline de-grew 2.7% YoY to ₹ 4689.6 crore. On the operational front, there was a 49 bps YoY expansion in EBITDA margins to 8.7% on account of 105 bps YoY expansion in EBITDA margin of NBCC as it clocked high margins in its PMC division. Furthermore, the bottomline of our universe de-grew 1.8% YoY to ₹ 140.4 crore. However, order inflows in 9MFY17 have remained strong in line with management guidance for our construction universe
- In the road space, toll collections of our universe was impacted post demonetisation as toll collections were suspended on all national and state highways for 23 days. Consequently, the companies have made claims against the respective authorities. On a positive note, the traffic has improved comparatively in January, 2017. On the road EPC front, order inflows remained strong with topline growing moderately 6.5% YoY to ₹ 3421.0 crore on account of better execution during the quarter. On the bottomline front, our universe reported growth of 34.7% to ₹ 328.7 crore. It was partly boosted by lower tax expenses as some companies are availing tax benefits under section 80IA
- Though the Roads Ministry is expected to miss its ambitious awarding/construction target of 25000 km for FY17E, it has maintained the same target for FY18E. Even if the ministry comes close to the target, it would result in robust order inflows for our construction coverage universe. Further, the government has provided a budgetary allocation of ₹ 64900 crore (up 11.9% YoY vs. ₹ 57976 crore in FY16) for national highways. The ministry is of the view that funding its ambitious plan would not be an issue keeping in mind the various avenues it can access for raising funds

Real estate

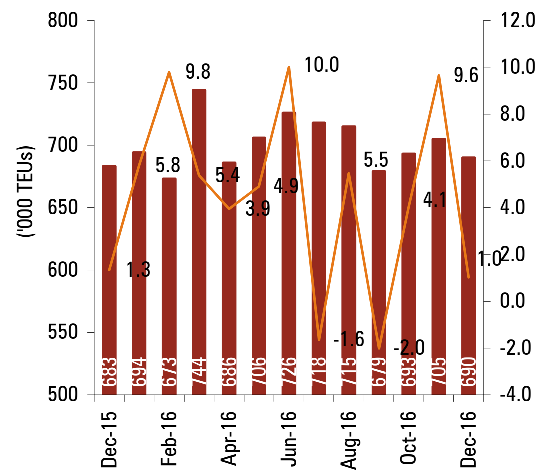
- The real estate sector, which was already facing high inventory and a muted demand scenario, was further hit by demonetisation. It has resulted in a weak demand scenario as customers look to defer their buying decision in anticipation of price cuts
- On the volume front, our real estate universe posted a volume de-growth of 60.7% YoY to 7.2 lakh square feet (lsf). Though there was a high base impact for Oberoi, Sobha's sales volumes also slumped 23.9% YoY to 6.1 lsf. On the financial front, revenues of our real estate universe de-grew 35.0% YoY to ₹ 794.7 crore mainly due to 67.7% YoY de-growth in Oberoi's topline (high base as Esquire project had reached revenue recognition in Q3FY16). Consequently, the bottomline of the universe also de-grew 49.7% YoY to ₹ 123.7 crore due to 59.7% YoY decline in Oberoi's bottomline
- The government's affordable housing push by proposing infrastructure status would give respective developers access to low cost funds and also help the government meet its Housing for All target. This could revive the demand in the sector, going forward. Furthermore, Real Estate Regulation Authority (RERA) and demonetisation are likely to bring consumer and investor confidence back into the sector by institutionalising transparency and accountability. Consequently, organised players like Sobha and Oberoi in our coverage universe are likely to benefit over the long term

Logistics

Performance on track for container train operators

- Volumes (Exim + domestic) for the quarter of container train operator (CTOs) continued to recover for a second consecutive quarter, amid uncertainties over demonetisation. However, on account of capped weekly withdrawal limits, transportation through roadways, were to an extent disrupted. Port per se, YTD volumes at JNPT continue to see de-growth of 4% to 46 million tonnes. Total volumes at major ports on a YTD basis (April–December) grew 7.6% to 481 MT compared to 447 MT over April–December 2015. Total coal volumes (thermal & coking) continued to maintain their de-growth of 7% on a YTD basis. Coal now contributes ~22% to overall volumes (vs. earlier 25%) with 106 million tonnes. Volume growth for petroleum, oil and lubricant (POL) continued to remain elevated with YTD growth of 10%, contributing 33% (vs. 32% earlier) to overall port volumes
- Container volumes at major ports for the quarter ended December 2016 grew 5% YoY to 2.09 mn TEUs compared to 1.99 mn TEUs in Q3FY16. Subsequently, overall container volumes for Concor grew 9% YoY to 776000 TEUs (partly indicating the modal shift from road to rail) compared to 710000 TEUs in Q3FY16. The delta was provided by Exim volumes, which grew at double digits (up 10% YoY), post seven quarters of sluggishness. The volume growth, which resulted in lower empties translated into a 300 bps sequential improvement in margins to 19.6%. However, due to a decline in lead distances on account of a shift of traffic to Mundra from JNPT resulted in lower realisations for Concor. Volumes for GPPL, post the Hanjin event and loss of a liner continue to remain subdued, with de-growth of 6% YoY during the quarter. Ramp up in liquid volumes coupled with higher Ro-Ro volumes resulted in improved margins

Major Ports – Volume recovery on an upward trend



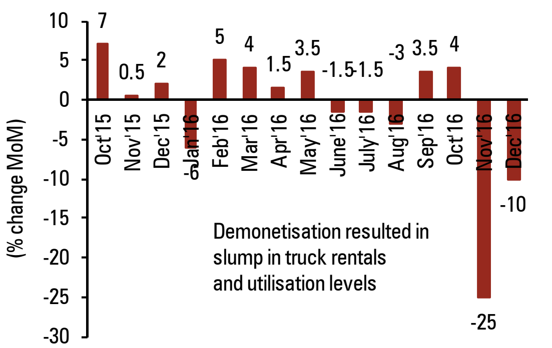
Source: Bloomberg, ICICIdirect.com Research,

The container tonnage on a YTD basis grew 1% to 92 million tonnes. However, volumes recorded growth of 3.8% on a YTD basis to 6.3 million TEUs (vs. 6.1 million TEUs)

Express players

- The recovery in truck rentals for two consecutive months (September and October) were completely offset by a decline of ~25-30% in November on account of demonetisation. According to transport apex body, Indian Foundation of Transport Research and Training (IFTRT), the retail cargo bookings were down 30% and full truck load (FTL) movement was down 40% out of the total national fleet of 85,00,000 trucks in the country. The unorganised transport sector, which is highly dependent on cash transactions as a medium for daily expenses to drivers, was rattled by the sudden currency ban. The organised sector is expected to leverage this opportunity and benefit from contractual revenues coupled with a mild impact from the cash crisis
- Subsequently, revenue for I-direct surface logistics universe grew 9% YoY to ₹ 1591.6 crore compared to ₹ 1459.5 crore in Q3FY16. The online nature of e-commerce business insulated its revenues during the quarter, which was a higher proportion for BlueDart (up 10% YoY) and Gati (up 13% YoY). Total revenues for BDE and Gati grew 10% and 2%, respectively. EBITDA margins for surface players remained subdued during the quarter. Payment of consultation and advisory fees impacted the Q3FY17 operating margins of BlueDart, which was at a two-year low of 8%. Margins for Gati's EBITDA de-grew 120 bps YoY but TCI weathered the downfall with flat margins. Absolute EBITDA for I-direct surface logistics universe de-grew 20% YoY to ₹ 124.6 crore. A subdued operational performance resulted in a sluggish PAT performance, which de-grew 31% YoY to ₹ 50 crore

Truck Rentals Trend



Source: Indian Foundation of Transport Research and Training, ICICIdirect.com Research

Revenues for de-merged entity, TCI (excluding express) grew 15% YoY with majority of the contribution from its supply chain division

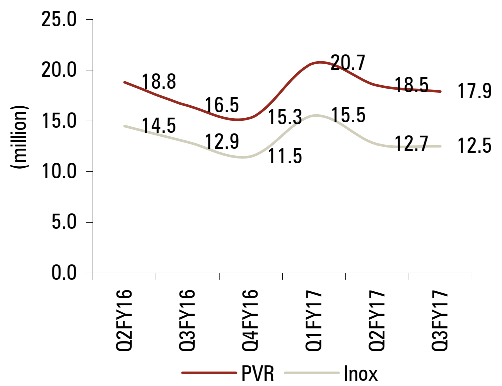
Media

- Demonetisation had an adverse impact on ad revenues across the print media, broadcaster & radio space with advertisers cutting down on ad spends to combat the after effects of demonetisation
- Our broadcasting universe posted weak ad revenue growth but subscription revenue growth remained intact across players. Zee Entertainment's ad revenue growth came in at subdued levels of 3.4% YoY at ₹ 955.5 crore. Revenues, however, were aided by 15.0% YoY growth in domestic subscription on the back of a catch-up in revenue of previous quarters and conclusion of content deals with few large distributors
- Print media companies in our coverage posted an advertisement revenue de-growth of 3.8% YoY to ₹ 867.1crore. The growth was largely dragged down by HT Media as it posted 8.6% YoY decline in its ad revenues. HT Media posted a decline in both Hindi & English ad revenues at 6.8% & 9.5% YoY to ₹ 168.8 crore & ₹ 297.7 crore, respectively. Despite the quarter being a festive one, volumes were deeply hit owing to demonetisation while the lower Hindi ad revenue growth was also an outcome of the high base effect of Bihar elections (last year). DB Corp's print advertisement revenues came in at ₹ 400.6 crore, up 2.4% YoY, lower than our expectations
- Footfalls, in an otherwise festive quarter, were severely hit by the perils of demonetisation and, hence, came in at 17.9 & 12.5 million, up 8.5% (lower 5.0% on a comparable basis) & down 3.1% YoY for PVR & Inox respectively. Footfalls would have been lower but for the cushion provided by superhit movie *Dangal*. Average ticket prices (ATPs) remained subdued owing to some attractive offers given by the players to attract footfalls. PVR and Inox reported ATPs of ₹ 199 & ₹ 182, down 0.5% and up 1.7% YoY, respectively

Sun TV had a more pronounced impact of demonetisation and posted de-growth of 6.8% YoY to ₹ 278.0 crore in its advertisement revenues owing to higher dependency from the regional advertising. TV Today also posted an implied ad revenue de-growth of ~6.4% YoY vs. our estimate of 0.5% YoY growth.

Subscription revenue continued to grow at a healthy pace for DB Corp, which grew 8.9% YoY but was subdued for HT Media at 2.2% YoY. The radio segment for print players did well posting 10%+ growth versus a 5% YoY for a pure play radio player- ENIL

Footfalls – PVR & Inox



Source: Company, ICICIdirect.com Research

Metals

- Topline for the metals & mining sector during Q3FY17 benefited from strong volumes and healthy up-tick in prices of both ferrous (up ~₹ 3000/tonne) and non-ferrous metals. Top line during the quarter came in at ₹ 110464.5 crore, up 13.1% QoQ and 18.6% YoY. The aggregate EBITDA for the sector improved significantly registering a growth of 36.1% QoQ and 102.3% YoY to ₹ 21158.6 crore. The subsequent EBITDA margins for the sector were at 19.2%, up 324 bps QoQ and 793 bps YoY (Q2FY17: 15.9% and Q3FY16: 11.2%)
- Tata Steel reported a robust Q3FY17 performance. Indian operations reported a strong performance wherein volumes came in at 3.0 million tonne (MT) while the EBITDA/tonne came in ₹ 11285/tonne. European operations reported sales of 2.4 MT and EBITDA/tonne of US$38/tonne
- Coal India's Q3FY17 performance was driven by healthy e-auction volumes and realisations. CIL reported sales volumes of 142.7 million tonne (MT) (up 3.5% YoY, 23.1% QoQ). The e-auction segment supported EBITDA, which was at ₹ 3854.9 crore implying an EBITDA margin of 18.9% (subsequent EBITDA/tonne at ₹ 270/tonne)
- Zinc prices continued to outshine in Q3FY17, wherein average prices were at US$2513/tonne (up ~56% YoY), highest in the last nine quarters. On the back of strength witnessed in zinc prices and strong volumes, Hindustan Zinc reported a robust Q3FY17 performance. The company reported a net operating income of ₹ 4979.9 crore (up 45.2% YoY). The ensuing EBITDA came in at ₹ 2783.4 crore, implying robust EBITDA margin of 58.5% for the quarter

JSW Steel reported a healthy performance. Volumes came in at 3.6 MT while the EBITDA/tonne was at ₹ 7717/tonne

Oil & gas

- The oil & gas sector a good set of Q3FY17 numbers, with 9.4% increase in average crude oil prices QoQ. Oil upstream companies reported robust results YoY, which were largely in line with estimates. Continued freedom from subsidy burden, also led to stronger performance. On the operational front, upstream sector EBITDA increased ~22% YoY and ~7% QoQ supported by higher realisations and lower operational costs. Oil marketing companies' (OMCs) results were above our estimates mainly due to crude oil as well as product inventory gains. While product sales were marginally higher than our estimates, operational GRMs were below our estimates. On the profitability front, OMC's profitability was up ~67% QoQ mainly on account of inventory gains. OMCs faced nil subsidy burden in Q3FY17. Gas utilities numbers improved YoY due to the increase in volumes & higher margins due to lower gas prices

Movement of important sector variables

	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17
Singapore GRMs ($/bbl)	8.0	7.7	5.0	5.1	6.7
Crude oil ($/bbl)	43.6	34.3	46.0	45.8	50.1
APM gas (NCV) ($/mmbtu)	4.2	4.2	3.4	3.4	2.7

Source: Reuters, Bloomberg, PPAC

Exhibit 13: Sharing of gross under-recoveries

Sharing of gross under-recoveries (₹ crore)

	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17
Upstream	0	-729	0	0	0
Downstream	298	-285	0	0	0
Government	5854	6500	4095	3731	4297
Total	6151	5486	4095	3731	4297

Sharing of gross under-recoveries (%)

	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17
Upstream	0.0	-13.3	0.0	0.0	0.0
Downstream	4.8	-5.2	0.0	0.0	0.0
Government	95.2	118.5	100.0	100.0	100.0
Total	100.0	100.0	100.0	100.0	100.0

Source: Company, ICICIdirect.com Research

Exhibit 14: Sharing of gross under-recoveries between companies

	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17
ONGC	0	-632	0	0	0
GAIL	0	0	0	0	0
IOC	206	-201	0	0	0
BPCL	46	-46	0	0	0
HPCL	45	-37	0	0	0
Government	5854	6500	4095	3731	4297
Total	39725	39237	28691	22419	15981

Source: Company, ICICIdirect.com Research

Pharmaceuticals

- Q3 revenues were largely on expected lines despite higher-than-expected price erosion in the US and demonetisation impact in the domestic market. In the US, almost all players reported pricing pressure in the base business. However, due to exclusivities, low base and new product launches some players were able to register strong growth. I-direct pharma universe registered YoY revenue growth of 12% to ₹ 38900 crore, driven by 11% growth to ₹ 11427 crore in the US (select pack) and 10% growth in the domestic formulations. EBITDA for the universe grew ~9% YoY to ₹ 9672 crore. Lower-than-expected R&D spend and a better product mix largely offset pricing pressure in the US. However, net profit stayed flat YoY to ₹ 5707 crore mainly due to front loading of investments and increase in tax rate
- On the revenues front, Natco (136% YoY growth) once again comprehensively outpaced industry growth mainly due to gTamiflu exclusivity and robust growth in Hepatitis C segment. Glenmark also grew more than 40% YoY mainly due to exclusivity sales in the US. On the other hand, Cadila, Dr Reddy's, Torrent and Alembic reported negative growth due to high base and price erosion in the US.
- In the backdrop of price erosion in the US base business, growth in the US was largely driven by limited competition opportunities/exclusivities viz. Lupin (gGlumetza), Glenmark (gZetia) and Natco (gTamiflu). On the other hand Torrent, Cadila and Dr Reddy's faced a sharp decline in US sales on account of base effect, slowdown in product approvals and regulatory issues
- Domestic growth was impacted by demonetisation and inventory adjustment. However, Ajanta, Biocon, Cipla and Torrent registered strong growth mainly due to base effect

Sales from US & India (₹ crore)

India

(₹ crore)	Q3FY17	Q3FY16	Var. (%)	Q2FY17	Var. (%)
Ajanta	149.0	131.0	13.7	154.0	-3.2
Alembic	294.0	288.3	2.0	338.0	-13.0
Biocon	123.0	104.0	18.3	137.0	-10.2
Cadila	796.8	719.8	10.7	820.9	-2.9
Glenmark	516.9	488.0	5.9	674.9	-23.4
Indoco	144.2	135.7	6.2	168.8	-14.6
Ipca	335.2	308.4	8.7	404.4	-17.1
Lupin	991.2	886.0	11.9	995.8	-0.5
Cipla	1458.0	1194.0	22.1	1467.0	-0.6
Dr Reddy's	594.7	580.5	2.4	625.1	-4.9
Sun Pharma	1969.4	1874.6	5.1	2009.1	-2.0
Torrent	503.0	446.0	12.8	496.0	1.4
Unichem	203.6	188.9	7.8	227.0	-10.3
Total	8079.0	7345.2	10.0	8517.9	-5.2

US

(₹ crore)	Q3FY17	Q3FY16	Var. (%)	Q2FY17	Var. (%)
Aurobindo	1745.1	1558.1	12.0	1735.1	0.6
Cadila	886.9	1071.7	-17.2	988.8	-10.3
Glenmark	1230.8	608.9	102.1	771.2	59.6
Lupin	2175.5	1380.5	57.6	1997.8	8.9
Dr Reddy's	1659.5	1941.7	-14.5	1613.4	2.9
Sun Pharma	3419.3	3200.3	6.8	3714.4	-7.9
Torrent	310.0	558.0	-44.4	322.0	-3.7
Total	11427.1	10319.1	10.7	11142.7	2.6

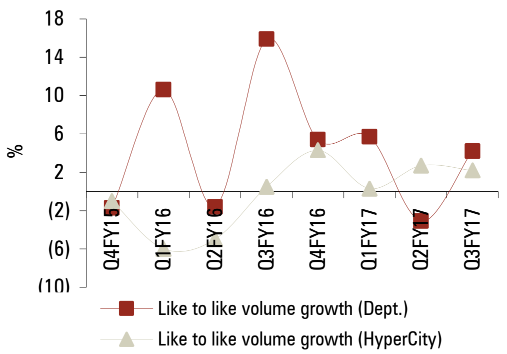
Source: Company, ICICIdirect.com Research

Power Grid is on track to achieve a strong year of asset capitalisation as 9MFY17 saw asset addition of ~₹ 16000 crore and is on track to achieve capitalisation to the tune of ₹ 30000 crore for FY17E

Power

- During Q3FY17, revenues grew 11.8% YoY. The key reason for the same was strong revenues for Power Grid on back of asset capitalisation. However, generation companies reported a muted performance given NTPC's generation grew 1% YoY and NHPC witnessed a 17% decline in generation. In 9MFY17, the company added 80 MW of capacity while Q4FY17E will see addition of one unit of 200 MW. NTPC has also stuck with its guidance of adding 4500-5000 MW for FY17E and Fy18E each while it expects to commission 750 MW of solar projects by FY17E
- On an overall basis, the profitability of the coverage grew 3.4% YoY. In terms of individual performances. Power Grid reported higher-than-expected PAT growth of ~20% YoY. Going ahead, also, we expect the strong performance to continue. PTC India reported lower-than-expected volume numbers

LTL Volume growth (Departmental & Hyper city stores)



Source: Company, ICICIdirect.com Research

Retail

- Q3FY17 began on a very strong note as companies witnessed one of the best festive seasons in recent years. However, the momentum was abruptly halted owing to the demonetisation move. Post demonetisation, consumer discretionary demand was hit badly. However, various companies undertook several initiatives to revive revenues. Several companies indicated that normalcy was witnessed from January. However, it is expected to take one or two more quarters to completely eliminate the demonetisation effect
- Shoppers Stop's performance in both departmental format and HyperCity were impressive. HyperCity registered a like to like sales growth of 9.5%, highest LTL growth in last eight quarters (like to like volume growth of 2.2%) whereas departmental stores recorded LTL sales growth of 6.4% YoY (like to like volume growth of 4.2%). To make up for the business losses in November, SSL undertook various activities such as tie-ups with various mobile wallet & credit card companies and preponing of end of season sales
- Among specialty retailers, Titan's Q3FY17 revenues surprised positively as it registered strong revenue growth of 13.6% YoY to ₹ 3892 crore mainly driven by healthy growth in the jewellery segment, which rose 15.4% YoY to ₹ 3255 crore. Grammage grew 4% YoY whereas average gold rate was up 14%. Tanishq clocked revenue growth of 40% in October. However, post demonetisation, it witnessed a slowdown in its revenue growth. Titan increased its market share since various unorganised players lost their market share significantly due to demonetisation.

Textiles

- Demonetisation impacted the consumer discretionary spending, which led to a slowdown in demand for apparels. Overall apparel coverage universe registered a single digit revenue growth of 8% YoY to ₹ 4703 crore. Vardhman Textiles reported flattish revenue growth due to acrylic business getting impacted the most (down 40% YoY). Page reported a revenue growth of 19.2% led by growth in volumes and realisations by 11.1% and 6.8%, respectively
- Kewal Kiran Clothing reported a marginal topline growth of 2.4% on account of flattish volumes and realisation growth. Arvind's revenues grew 15% YoY owing to the strong performance of the branded apparel business, which grew 24% YoY and steady revenue growth of 7.9% YoY in the traditional textile business

- On the operational front, Vardhman Textiles and Rupa and Company's margins expanded 330 and 270 bps YoY, respectively, while Arvind and Kewal Kiran's margins declined 260 bps and 670 bps, respectively. The significant improvement in Vardhman's EBITDA margins is owing to benefits of low cost cotton inventory. EBITDA margins for Page remained flattish this quarter

Telecom

The net subscriber addition for the industry during Q3FY17 was stable with Airtel & Idea posting a 2.3% & 3.6% QoQ growth to 265.9 and 185.2 million subscribers, respectively

- While demonetisation added to the woes of competitive pressures in Q3FY17, the telecom sector continues to be exposed to the pricing war to protect their subscriber base as Jio has extended their free period till March and could possibly extend it further also.

The underperformance of the data metrics led to a data revenue decline of 13.9% QoQ to ₹ 4801.5 crore for our coverage universe

- The quarter for the first time saw steep decline in the data subscribers for both Airtel and Idea, as subscriber preferred using free internet from Reliance Jio on a second sim basis. Airtel and Idea posted a 12.3% & 10.1% YoY decline in the data subscribers to 54.9 & 48.6 million subscribers respectively. The data tariffs posted a steep decline of 10.5% and 15.9% YoY to 17.8 and 15.9 paisa respectively for Airtel and Idea. The data per user, remained muted at 1.3% QoQ growth to 703 MB per user for Idea and declined by 2.8% QoQ to 972 MB per user for Airtel vs. robust double digit growth posted in earlier quarters

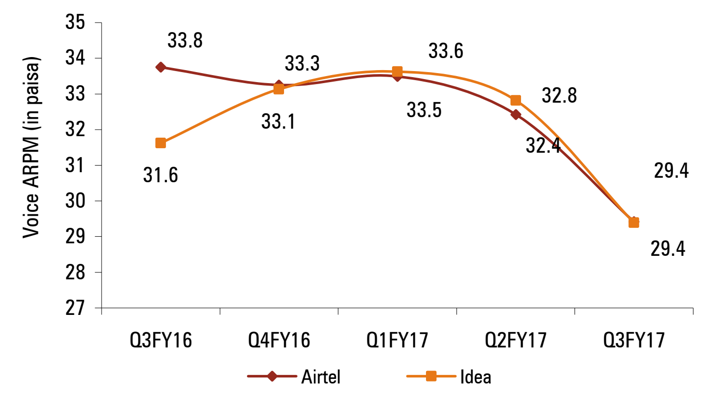
Hence, voice revenues declined 4.4% and 3.9% QoQ to ₹ 9714.5 crore and ₹ 6177.7 crore for Airtel and Idea, respectively

- The total voice minutes across the telcos posted a strong growth owing to the huge influx of incoming calls from the free Jio network. Airtel & Idea witnessed a growth of 5.4% & 7.3% QoQ to 330.2 & 209.8 billion minutes respectively. All the players had to reduce voice tariffs in order to reduce subscriber churn towards Jio, leading to Airtel & Idea witnessing a sharp decline in the voice ARPM by 9.3% & 10.6% to 29.4 & 29.6 paisa respectively.

Bharti Infratel reported highest tenancy additions in Q3FY17 to the tune of 6139 benefiting from incremental cell sites addition from Jio. Higher tenancy addition along with higher energy revenues led to a beat at the topline level. Margins came in line with estimates at 44.0%

- The EBITDA margin came in line our expectations for Airtel at 36.4%, down 190 bps QoQ, with India margin of 40.3% (down 150 bps QoQ) and African margins of 24.2%. Idea Cellular, however, incurred higher-than-expected network & marketing costs, which led to margins of 25.0% vs. estimates of 27.0%

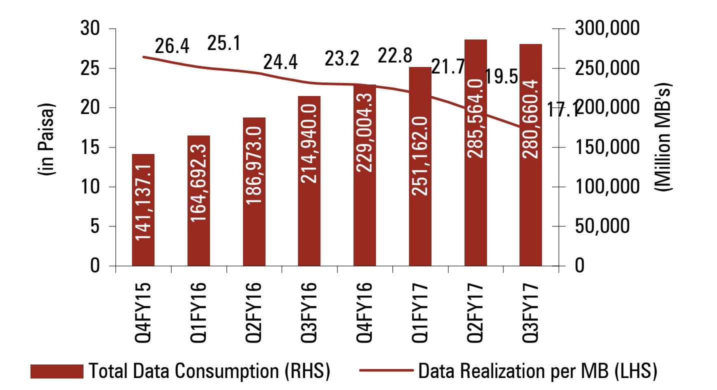
Exhibit 15: ARPM trend



Source: Company, ICICIdirect.com Research

** Voice ARPM contains certain estimations.*

Exhibit 16: Total data consumption & data realisation trend



Source: Company, ICICIdirect.com Research

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