

August 21, 2020

- Q1FY21 (April-June) Corporate India results were expected to be a washout courtesy nationwide lockdown due to Covid-19 in April, gradual easing of restrictions starting May-June. At the index level, however, excluding banks & NBFCs and a couple of commodity players that are yet to announce quarterly results; topline fall was limited to 33% YoY. This represents resilience of India Inc. in challenging times with key sectors like IT actually growing YoY and arresting the topline decline. With bulk of people working from home and increased reliance on connectivity i.e. both data, voice, telecom sector actually outperformed with sales growing ~14% YoY thereby enabling smooth corporate functioning and validating the proverb "Data is the new Oil". On the profitability front, at the index level, operating profit decline for Q1FY21 was limited to 29% YoY led by ~100 bps expansion in EBITDA margins to 16.5%. It was largely driven by lower RM costs at key oil refiners amid ~38% QoQ decline in average crude prices and elevated retail fuel prices. RM costs as a percentage to sales for Q1FY21 was at ~40% vs. its usual trend of ~50%. Benefits of RM costs savings were negated by negative operating leverage given fixed nature of employee as well as large part of other expenses. In Q1FY21, PAT fell 43% YoY, aggravated by higher interest & depreciation charge and partially supported by lower effective tax rate
- On sectoral front, in the banking space, key highlight for the quarter was reduction in proportion of moratorium from ~30-70% earlier to 10-18% for large lenders & 20-35% for mid-sized lenders. Healthy double digit decline in absolute figures of GNPA, NNPA to less than pre-Covid level was also encouraging. In FMCG pack, topline decline was limited to single digit with some categories like biscuits, noodles, ketchup, staples (Atta) seeing strong 20%+ growth aided by higher 'at-home' consumption. In telecom space, Airtel reported better than expected ARPU's (₹ 157 in Q1FY21, up 1.8% QoQ) owing to calibrated price hikes
- Going forward, with large macroeconomic data prints signalling path to normalcy, we expect Nifty EPS to grow at a CAGR of 19.4% over FY20-22E. We value Nifty at 12,000 i.e. 19x P/E (~1x PEG) on FY22E EPS of ₹ 630. Corresponding Sensex target is at 40,500 levels

Nifty earnings summary (ex-financials)

Nifty Earnings Summary (ex-financials)					
₹ crore	Jun-20	Jun-19	YoY (%)	Mar-20	QoQ (%)
Sales	5,90,047	8,86,107	-33.4%	8,60,072	-31.4%
EBITDA	97,379	1,37,713	-29.3%	1,25,919	-22.7%
Net Profit	33,366	58,790	-43.2%	61,438	-45.7%

Positive surprises & Buys

- Bharti Airtel
- Dabur
- Ipcalabs
- VST Tiller & Tractors
- Zydus Wellness

Nifty EPS estimates & Nifty target

Revised Sensex & Nifty Target				
Revised Earnings Estimates	FY19	FY20	FY21E	FY22E
Nifty EPS (₹/share)	471	442	455	630
Growth (%)	3.4%	-6.2%	3.0%	38.5%
Earnings CAGR over FY20-22E	19.4%			
Target Multiple (~1x PEG)	19.0x			
Nifty Target (using FY22E EPS)	12,000			
Corresponding Sensex Target	40,500			
Potential Upside (@Nifty 11,385)	5%			

Research Analyst

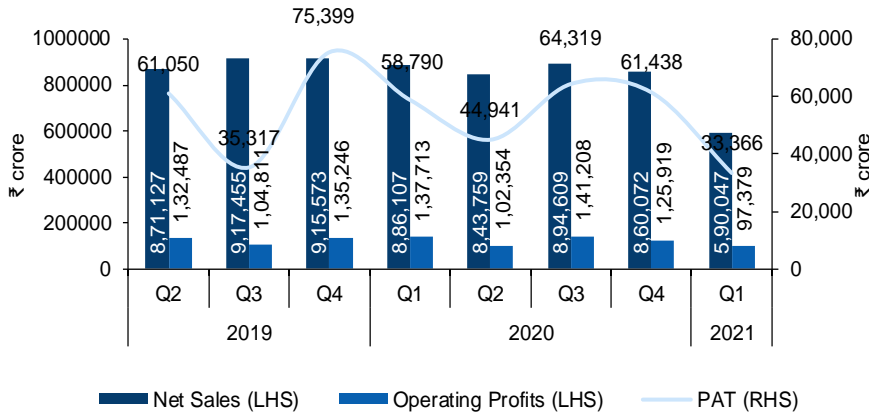
Pankaj Pandey
 Head Research
 pankaj.pandey@icicisecurities.com

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

Nifty P&L (ex-banking & NBFC space)					
	Jun-20	Jun-19	Mar-20	YoY (%) change	QoQ (%) change
Sales	5,90,047	8,86,107	8,60,072	-33.4	-31.4
Total Expenses	4,92,668	7,48,394	7,34,153	-34.2	-32.9
Raw material	2,29,300	4,64,744	4,20,580	-50.7	-45.5
Employee	1,01,065	98,212	1,03,458	2.9	-2.3
Other expenses	1,62,303	1,85,437	2,10,114	-12.5	-22.8
Expenses (% of sales)					
Total Expenses	83.5	84.5	85.4	-96 bps	-186 bps
Raw material	38.9	52.4	48.9	-1359 bps	-1004 bps
Employee	17.1	11.1	12.0	604 bps	510 bps
Other expenses	27.5	20.9	24.4	658 bps	308 bps
Operating Profit	97,379	1,37,713	1,25,919	-29.3	-22.7
OPM%	16.5	15.5	14.6	96 bps	186 bps
Other Income	26,022	19,227	23,645	35.3	10.1
Interest	31,466	28,664	32,493	9.8	-3.2
Depreciation	46,131	41,652	46,547	10.8	-0.9
PBT	45,805	86,625	70,524	-47.1	-35.1
Tax	12,439	27,835	9,086	-55.3	36.9
Tax Rate	27.2	32.1	12.9	-498 bps	1427 bps
PAT	33,366	58,790	61,438	-43.2	-45.7

Source: Capitaline, ICICI Direct Research; *Data for 38 index companies' excl Banks & NBFC's, Coal India and ONGC

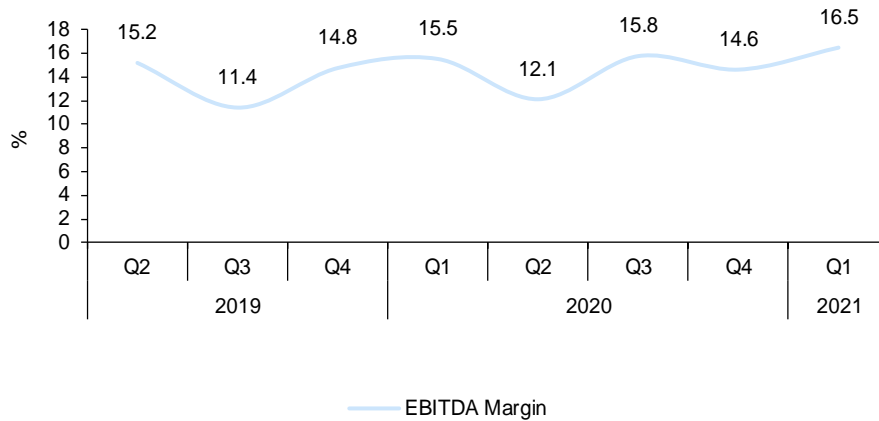
Exhibit 2: Nifty aggregate quarterly revenue, operating profit & net profit trend)



Ex-financials, at the Nifty index level, the topline was down 33% YoY to ₹ 5.9 lakh crore. EBITDA also witnessed a dip and was down 29% YoY to ~₹ 1 lakh crore with corresponding EBITDA margins at 16.5%, up 100 bps YoY. Ensuing PAT in Q1FY21 was down 43% YoY to ₹ 0.33 lakh crore, on the back of a sharp decline in sales, EBITDA amidst increase in depreciation and interest charge

Source: Capitaline, ICICI Direct Research; *Data for 38 index companies' excl Banks & NBFC's, Coal India and ONGC

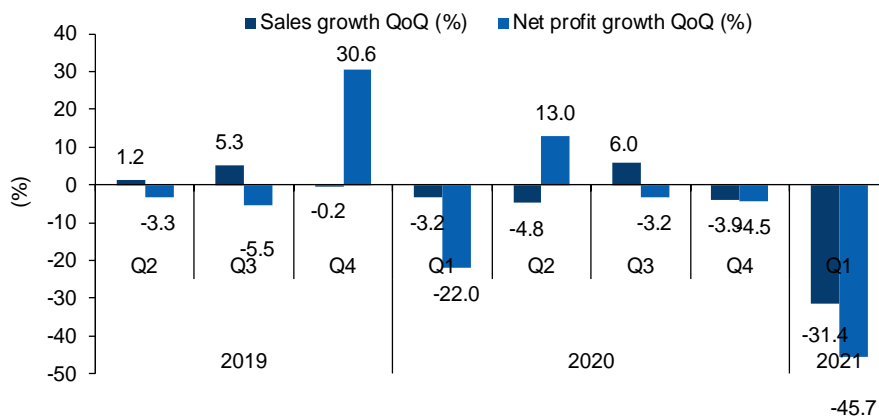
Exhibit 3: Nifty aggregate quarterly EBITDA margin trend



In Q1FY21, EBITDA margins at the index level (ex-financials) expanded 100 bps YoY to 16.5%. It was largely driven by lower raw material costs with RM costs as a percentage to sales for Q1FY21 at ~40% vs. its usual trend of ~50%. Benefits of raw material costs savings were negated by negative operating leverage given fixed nature of employee as well as large part of other expenses

Source: Capitaline, ICICI Direct Research; *Data for 38 index companies' excl Banks & NBFC's, Coal India and ONGC

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



On a QoQ basis, the index topline was down 31%. On the EBITDA front, decline was limited to 23% QoQ tracking ~190 bps improvement in EBITDA margins. However, PAT came in much lower and was down 46% QoQ tracking exceptionally low tax rate in base quarter i.e. Q4FY20 due to corporate India adjusting their DTL/DTA on account of change in corporate tax rate during FY20

Source: Capitaline, ICICI Direct Research; *Data for 38 index companies' excl Banks & NBFC's, Coal India and ONGC

Industry wise revenue & profit movement

- In Q1FY21, manufacturing space led by autos, oil & gas were the hardest hit with topline decline of ~50% YoY while industrials like metals and capital goods fared well with topline decline limited to ~30% YoY. Essentials like power and FMCG were a saving grace with topline decline limited to <4%. In the automobile space, the subdued topline performance was tracking a sharp decline in volumes (19.3 lakh units, down 73.5% YoY), while ASPs surprised positively due to transition to BS-VI regime and greater proportion of margin accretive spare parts and services revenues

	Jun-20	Jun-19	Mar-20	YoY change (%)	QoQ change (%)
Oil & Gas	1,98,955	3,84,071	3,41,420	-48.2	-41.7
Auto	59,281	1,25,564	1,16,240	-52.8	-49.0
Metals	61,354	85,731	80,975	-28.4	-24.2
Capital goods	21,260	29,636	44,245	-28.3	-51.9
Power	35,652	36,066	40,349	-1.1	-11.6
FMCG	27,681	28,723	27,965	-3.6	-1.0
IT	1,03,858	99,841	1,07,041	4.0	-3.0
Pharma	16,358	16,222	17,010	0.8	-3.8
Others	65,648	80,253	84,827	-18.2	-22.6
Aggregate	5,90,047	8,86,107	8,60,072	-33.4	-31.4

Source: Capitaline, ICICI Direct Research; *Data for 38 index companies' excl Banks & NBFC's, Coal India and ONGC

- In IT space, Tier-1, Tier-2 companies saw a revenue dip in the range of 2-7% but one key positive in the quarter was healthy deal wins, deal pipeline and margin resilience. In pharma space, Indian formulations de-grew 1% YoY due to a decline in acute segment and lower prescription generation while US business de-grew 3.5% YoY and Europe grew 2% YoY. Importantly, US base business price erosion seems to have stabilised for almost all companies. Overall API segment grew a robust 40.5% YoY on the back of significant hydroxychloroquine supply windfall in addition to opportunities stemming from China disturbance
- On the bottomline front, in Q1FY21, negative operating leverage was a big spoilsport for overall profitability of the quarter. The key outlier was positive PAT growth in the oil & gas space courtesy lower RM costs and consequent strong marketing margins at key OMCs while flat PAT in the IT pack is primarily tracking resilient topline amid various cost control initiatives as well as benefits accrued due to depreciating rupee

	Jun-20	Jun-19	Mar-20	YoY change (%)	QoQ change (%)
Capital goods	303	1,473	3,197	-79.4	-90.5
Metals	-5,128	2,808	2,577	-282.6	-299.0
Auto	-6,403	1,308	574	-589.7	-1216.4
Oil & Gas	18,150	16,967	13,923	7.0	30.4
FMCG	5,441	5,836	6,272	-6.8	-13.2
Power	4,939	5,590	6,751	-11.6	-26.8
IT	17,535	17,506	18,672	0.2	-6.1
Pharma	2,319	2,542	1,688	-8.8	37.3
Others	-3,790	4,761	7,784	-179.6	-148.7
Aggregate	33,366	58,790	61,438	-43.2	-45.7

Source: Capitaline, ICICI Direct Research; *Data for 38 index companies' excl Banks & NBFC's, Coal India and ONGC

- In the telecom space, Bharti Airtel's overall subscriber (sub) base saw a decline owing to lockdown effect wherein physical recharge was not available at many places. In terms of 4G subs additions, Airtel witnessed modest 4G Net adds of ~2 million during the quarter, with 4G data sub base at 138.3 mn (overall data customers base of 149.1)
- In capital goods space, execution was affected by supply side issues with an exception of power T&D companies, which saw limited topline decline, while order inflow remained a tad muted. In the cement space, expansion in operating margins was the key highlight given sequential rise in realisation across all regions amid muted volume offtake

Sector	Jun-20	Jun-19	Mar-20
Auto	10.0	14.2	13.5
Capital goods	3.6	3.3	5.1
FMCG	4.7	3.2	3.3
IT	17.6	11.3	12.4
Oil & Gas	33.7	43.3	39.7
Metals	10.4	9.7	9.4
Pharma	2.8	1.8	2.0
Power	6.0	4.1	4.7
Others	11.1	9.1	9.9
Total	100.0	100.0	100.0

Source: Capitaline, ICICI Direct Research

Sector	Jun-20	Jun-19	Mar-20
Auto	-19.2	2.2	0.9
Capital goods	0.9	2.5	5.2
FMCG	16.3	9.9	10.2
IT	52.6	29.8	30.4
Oil & Gas	54.4	28.9	22.7
Metals	-15.4	4.8	4.2
Pharma	6.9	4.3	2.7
Power	14.8	9.5	11.0
Others	-11.4	8.1	12.7
Total	100.0	100.0	100.0

Source: Capitaline, ICICI Direct Research

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 (Q1FY21)

Company	Q1FY21 Result	Quarterly Performance & Outlook	CMP (₹)	Target Price (₹)	Last Rating	Potential Upside (%)
Bharti Airtel	Positive	Key highlight of Bharti Airtel's Q1FY21 performance was ARPU growth of ~1.8% at ₹ 157 (vs. expectation of ~2% QoQ decline), in a challenging quarter coupled with continued expansion in India and wireless margins. The overall margin expansion was led by Indian margin, up 160 bps QoQ at 44.3% (vs. flattish margins expectation) with Indian wireless margins at 40.6%, up 140 bps QoQ, largely a function of tariff hike pass through and cost control. With robust performance amid challenging times, Airtel is one of the better placed telecom players. We see the favourable industry structure of three players (two being strong), a good enough kicker for eventual hike in tariff as well as superior digital play in the long term. Current valuations underestimate the massive possibility of growth in a consolidated market and the resilience shown by Airtel so far. We have a BUY rating on the stock with a DCF based target price of ₹ 700/share	525	700	Buy	33
Dabur India (DIL)	Positive	In Q1FY21, Dabur reported a revenue decline of 12.9% with domestic business showing resilience with mere 8.4% decline in sales despite manufacturing & supply chain disruptions for most of April. The strong growth of 29.2% in healthcare was aided by Chawayanprash, Honey with 700%, 69% growth, respectively, (on low base considering its off season). Further OTC, ethical portfolio saw growth of 34.4%, 10.7%, respectively, driven by new launches. We believe the opportunity in immunity boosting products is more structural & leadership position in Chawayanprash & Honey works as advantage for DIL. Though growth rates in hygiene category may taper down in few quarters, the category is here to stay given consumer habit change for hygiene would continue to grow the category at a certain pace. We see more than 50% of sales generating categories on high growth path either with strong consumer demand or high opportunity size. We expect 16% revenue growth in FY22 after flat growth in FY21. Moreover, we estimate stable margins & earning CAGR of 11.9% in FY20-22E. We maintain BUY with revised target price of ₹ 565	495	565	Buy	14
Ipca Labs	Positive	Ipca Labs' Q1 revenues grew 42.3% YoY to ₹ 1534.4 crore due to one-time opportunity of ~₹ 259 crore for HCQS/chloroquine supplies in both API & formulation segments. Export formulations grew 89.4% YoY to ₹ 463.6 crore and API segment grew 72.0% YoY to ₹ 513.3 crore. Domestic revenues grew 8.1% YoY to ₹ 489.4 crore. EBITDA margins improved to 38.3% vs. 18.3% in Q1FY20 due to lower operational expenditure. EBITDA grew 198.4% YoY to ₹ 588.3 crore. PAT grew 244% YoY to ₹ 445.9 crore amid a strong operational performance and lower tax rate. Besides strong domestic formulations franchise, Ipca continues to thrive on exports front, both in formulations, APIs. Going ahead, with firm growth tempo in domestic formulations, good prospects both for API exports, formulation exports, we expect further improvement in financial parameters. Ipca will continue to remain a compelling bet on the back of well-rounded future growth prospects. We assign BUY and value Ipca at ₹ 2400 (26x FY22E EPS of ₹ 92.3)	2032	2400	Buy	18
VST Tiller & Tractors (VST)	Positive	VST reported a healthy Q1FY21 performance with double digit EBITDA margin profile at 11.2% vs. <5% in FY20. Farm sentiments are bullish domestically with VST seeing healthy demand for its product profile. VST has guided for healthy double digit volume growth in both tractor, power tiller segments for FY21E. Given power tiller being a subsidy driven product, more and more farmers are buying power tiller on cash basis (~58-59% in July 2020) and not withholding purchase for want of state subsidies, a big positive surprise. VST is currently in a sweet spot of robust demand prospects of its product segments, import restrictions in power tiller segment and steady improvement in margin profile. It also possesses a healthy balance sheet (cash rich) with history of consistent positive CFO generation. With volume uptick (13% CAGR over FY20P-22E) and recovery of margin profile, earnings & RoCE are expected to witness smart recovery at VST. Hence, we have a BUY rating and value it at ₹ 1,980 i.e. 22x FY22E EPS of ₹ 90	1612	1980	Buy	23
Zydus Wellness (ZWL)	Positive	ZWL posted 13.4% revenue fall given manufacturing, supply chain operations were disrupted in April. However, with manufacturing, supply chain stabilising, June saw double digit growth. ZWL has been trying to fill gaps in its malt beverage portfolio by introducing toddler health drink 'Complan Nutrigro', 75 gm Complan sachet. Further, it has launched Glucon-D Immuno volts that would be marketed as an immunity boosting brand. ZWL is looking to grow sales in the second summer (September-October), which would help reduce the seasonality in Glucon D. By launching 'Nutralite Choco Spread', it is trying to expand Nutralite brand through 'at-home' consumption. We believe higher number of new launches increases the chances of getting more brands on the growth path. We expect revenue CAGR of 7.5% to ₹ 2041.4 crore in FY20-22E. With SMP prices declining sharply, we expect gross margins to improve 50 bps in FY21E. The company spends ~13% of sales as A&P. ZWL would rationalise media spends by increasing its share of voice through digital media platforms. We expect operating margins to expand 380 bps to 22.0% in FY20-22E. We estimate adjusted earning CAGR of 30.6% in FY20-22E. ZWL is quoting at 29.2x FY22E earnings. We value the stock at 35x FY22E EPS and maintain BUY with target price of ₹ 1925	1618	1925	Buy	19

Source: ICICI Direct Research

The above companies posted a strong set of earnings in Q1FY21, which we believe are more fundamental and sustainable in nature.

Sector specific takeaways from quarter

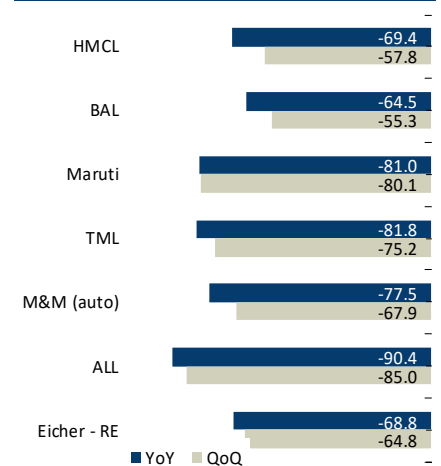
Auto & auto ancillary

- Q1FY21 was a subdued quarter for the auto space, given production, distribution activity was limited to latter half of the period amid nationwide lockdown in the first six weeks of the quarter. Key positive surprise for the quarter, however, was a sequential increase in ASPs due to successful transition to the BS-VI regime and greater proportion of margin accretive spare parts and services revenues. The management commentary was positive on the pace of demand recovery with most companies back to ~70% capacity utilisation levels by the end of quarter. Encouragingly replacement market, workshop driven revenues have already reached near normal levels in most of June, July 2020
- On the volume front, for Q1FY21, total industry sales were at 19.3 lakh units (down 73.5% YoY), with domestic dispatches down 75.5% YoY to 14.9 lakh units and exports down 63.5% YoY to 4.4 lakh units. Domestic PV volumes were down 78.4% YoY to 1.5 lakh units, with UV segments de-growth lower at 69.7% YoY. The 2-Ws fell 74.2% YoY domestically to 12.9 lakh units (with motorcycles down 73%, scooters down 77.6%)
- In the OEM space, 2-W market leader Hero MotoCorp's total volumes fell 69.4% YoY to 5.6 lakh units. Significant spike in realisations, however, limited topline decline to 63% YoY. The same led to healthy beat in margins (3.6% vs. expectations of 0.5%) as well as profitability (profit of ₹ 61 crore vs. loss estimate of ₹ 7.6 crore). Positive ASP surprise was also witnessed in Bajaj Auto (volumes down 64.5% YoY to 4.4 lakh units; net sales down 60.3% YoY and realisations up 6.9% YoY). Benefit of rupee depreciation and cost savings fed into better-than-expected margins (down 511 bps QoQ to 13.3%) and PAT
- For Eicher Motors, revenues were down 65.7% YoY, tracking a 69% decline in Royal Enfield volumes to 57,269 units. The company just about managed EBITDA breakeven and posted ₹ 55 crore loss after tax, with share of loss from VECV far higher than expected at ₹ 65.4 crore
- Maruti's net sales were down 79.2% YoY tracking 80% volume fall to 76,599 although ASPs surprised positively. Substantial negative operating leverage led to loss at EBITDA (₹ 863 crore), PAT level (₹ 249 crore). M&M reported 56.6% YoY standalone revenue fall with automotive ASPs surprising positively (auto volumes down 77.5%, tractor volumes down 24%). Saving in other expenses led to margin beat (down 261 bps QoQ to 9.8%), with a fall in other income constraining profitability. Escorts' performance was healthy, broadly along expected lines. Net sales were down 25.4% YoY amid 13.8% tractor volume drop. Margins fell 282 bps QoQ to 11.3% and PAT grew 3.7% YoY
- Tata Motors' results were muted. Consolidated sales (down 48% YoY) tracked 81.5% fall in standalone volume, 45% fall in JLR volumes. Consolidated margins fell 330 bps QoQ to 2.6%, with JLR margins down by 125 bps to 3.5%. Consolidated loss after tax stood at ₹ 8,444 crore
- Higher than expected strength in aftermarket led to substantial beat in the performance of Exide Industries and Apollo Tyres on all counts. For Exide, revenues de-grew 44.3% YoY while margins dipped 355 bps QoQ to 9.6% and the company posted positive PAT vs. expectation of loss. Apollo Tyres' revenues fell 33.7% YoY while margins declined 491 bps QoQ to 8.3%. Bharat Forge's revenues came off by 68.3% YoY (dragged by domestic operations) amid 70.7% decline in total tonnage, with negative operating leverage causing loss at both EBITDA and PAT level
- Going forward, Q2FY21E is expected to witness continued sequential improvement across segments. Retail volumes are at ~65-70% of pre Covid levels (ex CV and 3-W) while tractor volumes are displaying robust growth. Rural facing companies are seen performing better on the back of healthy farm sentiment and strong farm cash flows. Also, ancillaries with higher exposure to aftermarket channel are also expected to do well

Our coverage universe (ex-Tata Motors) posted a beat on sales and PAT estimates (down 65.1% YoY to ₹ 23,139 crore & loss of ₹ 48 crore) while EBITDA was in line with expectations (margins at 1.6%)

Domestic CV segment was down 84.8% YoY to 31,636 units (M&HCV declined 94.1%, with LCV down 79.7%). Domestic 3-W space volumes declined by 91.5% YoY to 12,760 units.

Key players volume growth – Q1FY21 (%)



Source: Company, SIAM, ICICI Direct Research

Ashok Leyland's sales de-grew 88.5% YoY amid 90% volume decline to 3,814 units while EBITDA and PAT prints were both in the red

Banking sector

- Key highlights for quarter stayed continuance of Covid related provisioning ranging from 0.2-0.7% of advances, reduction in proportion of moratorium from ~30-70% earlier to 10-18% for large lenders and 20-35% for mid-sized lenders. Elevated provision including contingent provision related to Covid kept earnings momentum moderate
- Banks continued to park additional provision against uncertainty related to revival in payment post moratorium in August 2020. However, lower slippages amid standstill asset classification and reduction in moratorium led to lower provisioning QoQ, YoY. Thus, earnings witnessed a revival with PAT at ₹ 20,711 crore in Q1FY21 vs. ₹ 980 crore in Q4FY20. Being more vulnerable in Q4FY20, PSB witnessed relatively strong revival in earnings at ₹ 6,035 crore in Q1FY21 vs. loss of ₹ 7,995 crore in Q4FY20
- Asset quality witnessed an improvement with reduction in GNPA amid standstill classification under moratorium. GNPA reduced 15.7% YoY, ~10% QoQ to ₹ 5,59,209 crore. Elevated provisions led to improvement in PCR, thereby further reducing NNPA by ~14% QoQ to ₹ 1,70,934 crore. Asset quality remains key to be watch ahead, though restructuring is seen masking any recognition of bad assets in the near term. Ageing of existing stressed asset and slippages related to lockdown is seen keeping credit cost elevated in coming quarters
- Recent banker's commentary suggests proportion of customers with unpaid instalment since April 2020 in single digit (close to 5-10%)

On the balance sheet front, pace of overall banking credit offtake continued to remain moderate at ~6.9% YoY to ₹ 91.3 lakh crore in Q1FY21, amid gradual revival in economic activity. Marginal disbursement has been seen in MSME segment under credit guarantee scheme by Govt. Deposit flow continued to remain healthy at 11% YoY to ₹ 140 lakh crore

Fee based income witnessed significant moderation led by regulatory forbearance and absence of cross sell opportunity, impacting other income. Decline in G-sec yields led to healthy treasury gains partially offsetting impact of lower recoveries amid lockdown. Steady margins and lower operating expense led to steady operational performance, especially in PSBs

With moratorium to end in August 2020, volatility in slippages and thereby asset quality cannot be ruled out. However, restructuring is seen delaying recognition of actual stress in the system. Recent capital raising by lenders provide a cushion to tide over any substantial pain in asset quality

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

(₹ crore)	Q1FY21	Q4FY20	Q3FY20	Q2FY20	Q1FY20	YoY (%)	QoQ (%)
NII	1,07,184	98,859	92,816	86,756	86,158	24.4	8.4
Growth YoY	24.4	22.9	19.6	20.9	18.8		
Other income	38,675	50,114	41,798	41,216	35,223	9.8	-22.8
Growth YoY	9.8	28.0	28.8	45.6	27.3		
Total operating exp.	63,383	71,292	62,550	60,415	59,722	6.1	-11.1
Staff cost	36,430	36,343	30,041	29,621	28,919	26.0	0.2
Operating profit	82,475	77,681	72,064	67,558	61,659	33.8	6.2
Growth YoY	33.8	26.3	32.8	33.0	22.7		
Provision	53,133	74,565	41,717	44,613	46,148	15.1	-28.7
PBT	29,343	287	30,514	22,872	15,577	88.4	10138.5
PAT	20,711	980	13,274	10,158	9,799	111.4	2013.1
Growth YoY	111	NM	NM	NM	NM		
GNPA	5,59,209	6,23,119	5,96,449	6,02,050	6,63,250	-15.7	-10.3
Growth YoY	(15.7)	6.0	(4.1)	(7.6)	1.0		
NNPA	1,70,934	1,98,754	2,13,249	2,11,283	2,47,530	-30.9	-14.0
Growth YoY	(14.0)	(9.4)	(16.8)	(27.9)	(19.8)		
Advances (Lakh crore)	82	83	74	72	75	9.3	-2.1
Deposits (Lakh crore)	110	108	98	96	98	12.2	1.6

Source: Capitaline, ICICI Direct Research; Excludes Union Bank, PNB, IOB, J&K Bank and Yes Bank

Exhibit 9: Financial summary of banking industry (Public)

(₹ Crore)	Q1FY21	Q4FY20	Q3FY20	Q2FY20	Q1FY20	YoY (%)	QoQ (%)
NII	57,420	53,986	50,869	46,853	47,570	20.7	6.4
Growth YoY (%)	20.7	24.8	21.4	20.5	15.1		
Other income	20,430	29,043	20,946	22,161	17,791	14.8	-29.7
Growth YoY (%)	14.8	31.9	37.6	54.1	37.8		
Total operating exp.	38,434	45,330	35,073	34,728	35,453	8.4	-15.2
Staff cost	24,327	24,102	20,600	20,394	19,982	21.7	0.9
Operating profit	39,415	37,699	36,742	34,286	29,909	31.8	4.6
Growth YoY (%)	31.8	18.5	48.9	36.3	21.6		
Provision	30,061	47,894	27,109	32,211	32,678	-8.0	-37.2
PBT	9,354	-11,908	9,633	2,074	-2,624	-456.5	NM
PAT	6,035	-7,995	-1,829	167	-2,245	NM	NM
Growth YoY	NM	NM	NM	NM	NM		
GNPA	4,66,548	5,03,394	4,74,609	4,81,615	5,45,189	-14.4	-7.3
Growth YoY	-14.4	7.0	-5.6	-9.5	1.5		
NNPA	1,40,654	1,60,108	1,69,189	1,68,742	2,05,208	-31.5	-12.2
Growth YoY	-31.5	-8.9	-19.7	-30.5	-19.2		
Advances (Lakh crore)	50	50	43	43	46	7.9	-0.6
Deposits (Lakh crore)	73	72	64	63	66	10.3	2.2

Source: Capitaline, ICICI Direct Research; Excludes Union Bank, PNB and IOB



- Post fall in earnings in Q4FY20, private banks saw a revival in earnings at 22% YoY, ~63% QoQ to ₹ 14,676 crore, led by better NII and lower credit cost. In the near term, focus continues to remain on b/s & capital conversation vs. growth. As unlock is progressing, repayment trend and business growth is improving though we still maintain cautious stance

Exhibit 10: Financial summary of banking industry (Private)

(₹ Crore)	Q1FY21	Q4FY20	Q3FY20	Q2FY20	Q1FY20	YoY (%)	QoQ (%)
NII	49,764	44,873	41,947	39,903	38,588	29.0	10.9
Growth YoY	29	21	18	21	24		
Other income	18,245	21,071	20,853	19,055	17,432	4.7	-13.4
Growth YoY	4.7	23.1	21.0	36.8	18.1		
Total operating exp.	24,949	25,962	27,477	25,686	24,270	2.8	-3.9
Staff cost	12,103	12,241	9,440	9,227	8,936	35.4	-1.1
Operating profit	43,060	39,982	35,322	33,272	31,750		
Growth YoY	35.6	34.6	19.3	29.9	23.7		
Provision	23,071	26,671	14,608	12,401	13,471	71.3	-13.5
PBT	19,988	12,195	20,881	20,797	18,201	9.8	63.9
PAT	14,676	8,975	15,104	9,991	12,044	21.9	63.5
Growth YoY	21.9	-16.6	45.4	8.0	47.4		
GNPA	92,661	1,19,725	1,21,840	1,20,436	1,18,061	-21.5	-22.6
Growth YoY	-21.5	2.2	2.1	0.8	-1.2		
NNPA	30,280	38,647	44,059	42,541	42,322	-28.5	-21.6
Growth YoY	-28.5	-11.3	-3.1	-15.4	-22.6		
Advances (Lakh crore)	32	33	31	30	28	11.8	-4.3
Deposits (Lakh crore)	37	37	34	33	32	16.3	0.5

Source: Capitaline, ICICI Direct Research; Excludes J&K Bank and Yes Bank

Capital Goods

- Overall, our capital goods coverage companies delivered a subdued performance. It was impacted by lockdowns that affected executions, disrupted supply chains. This led to revenue decline of 44.5% while EBITDA fell 59.6% impacted by unabsorbed costs and negative operating leverage and PAT declined 68.1%, YoY impacted by relatively higher depreciation and interest cost. However, operations gradually started picking up since June 2020 post unlock measures by the government
- L&T reported reasonable order inflows while executions slowed owing to Covid-19 disruptions. Adjusted standalone revenue de-grew 50.6% to ₹ 8150 crore due to labour shortage that slowed execution across segments. Standalone EBITDA margin fell marginally by 20 bps to 7.1% mainly due to stages of execution, job mix. However, L&T's consolidated revenue fell 31.4% YoY cushioned by performance of subsidiaries
- Power T&D companies like KEC delivered a good performance amid a challenging environment on the back of decent execution though revenue, EBITDA, PAT fell 8.5%, 22.5%, and 20.1%, respectively
- On the order inflow front, L&T registered reasonable order inflows worth ₹ 23,574 crore, down 39% YoY, characterised by low interest in fresh investment and order deferrals. Bharat Electronics order inflows came in at ~₹ 3,420 crore. In the T&D space, KEC International received orders worth ₹ 1,931 crore for Q1FY21, mostly in international T&D. Thermax' consolidated order inflow came in at ₹ 608 crore (down 50% YoY) owing to muted private capex and order deferrals in several sectors
- In the bearing space, SKF India, NRB, Timken's performance was impacted by shutdown in manufacturing activities. Negative operating leverage kicked in impacting operating performance. Overall, our bearings coverage universe posted cumulative YoY decline of ~63.2% in topline. NRB, SKF reported EBITDA losses while Timken scraped through with positive EBITDA reading for quarter of ₹ 14.1 crore
- As operational activity has resumed to ~70-90% of pre-Covid levels in past two months across capital goods companies, we expect Q2FY21 to see marginal fall to flat revenues. Order tendering momentum is likely revive in key sectors like power T&D, green energy corridor, railways, MRTS, renewables, water, infrastructure, etc, but private capex would continue to stay sluggish amid industrial, manufacturing slowdown

In the shipping space, Cochin Shipyard (CSL), registered a better-than-expected performance (revenue, EBITDA & PAT de-grew 54.8%, 88.0% & 64.6% YoY, respectively) due to negative operating leverage and production running at reduced time scale for the quarter

Product companies (AIA, Greaves, Thermax, Elgi, NRB, SKF and Timken) posted a dismal performance on account of industrial and automobile slowdown amid Covid impact, which affected product mix, subdued volumes, higher unabsorbed input cost and negative operating leverage during the quarter. The revenue, EBITDA, PAT of these product companies declined 51%, 84.2%, 82.6%, respectively

On the defence front, Bharat Electronics witnessed a revenue decline of 20.5%, YoY owing to slower execution due to supply chain disruptions while EBITDA/ PAT de-grew 57.9%, 73.6%, respectively

Thermax reported a muted Q1 performance on the back of slower execution & disruption in dispatches owing to Covid-19 with consolidated revenue down 52.2% while EBITDA loss came in at ₹ 11.4 crore. Muted order inflows and sluggish order book continue to remain a key concern for future growth

Other product companies like Elgi also continued to report a subdued performance (consolidated revenue, EBITDA fell 38.7%, 78.9%, respectively) owing to a slowdown in the domestic market while international business showed some green shoots of revival. AIA Engineering also reported a revenue decline of 21% YoY while EBITDA also de-grew 26.8%, supported by reasonable mining volume growth during Q1FY21. Greaves Cotton reported a revenue decline of 69.2%, impacted by sluggishness in 3-W engine volumes amid Covid-19 and BS-VI transition. Consequently, EBITDA loss came in at ₹ 21.7 crore for Q1FY21

Cement: Firm realisations drive higher margins, partially offset the pain of lower volumes

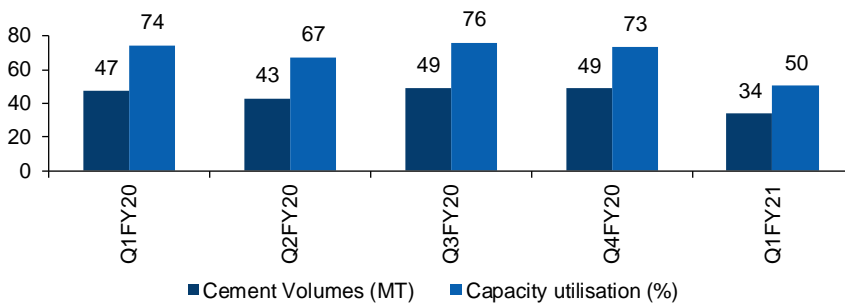
- Sales volume picked-up post lifting of lockdown from May onwards and saw further recovery in June leading to sales volumes of 37.1 MT (down 29.9% YoY) for the quarter. Bulk of cement demand came from individual housing segment (IHB) of rural, semi-urban areas while demand from urban areas stayed weak due to labour unavailability, localised lockdowns. In cement price terms, prices saw a sharp 5.8% rise QoQ across all regions. Further stringent cost control initiated by all companies to preserve cash led to a sharp rise in EBITDA margin. Thus, the Q1FY21 performance was a mix of lower production but higher operating margins. Region wise, north reported better sales volumes than south and rest of India while margins of southern players remained above industry average led by a sharp increase in cement prices
- While volumes remained weak in south, realisations were strong in that region vs. northern, central and eastern regions. I-direct cement universe reported 6.1% QoQ growth in realisations though it remained flat YoY. The sharpest growth was reported by Sagar Cements (14% YoY) followed by India Cements (8.2% YoY) and Ramco Cement (5.2% YoY). In contrast, UltraTech Cement, JK Lakshmi, Mangalam Cement reported lower realisations (down 2.0%, 3.1%, 2.3% YoY, respectively)
- I-direct cement universe reported an EBITDA margin expansion of 136 bps YoY to 25% despite lower volumes; EBITDA/t increased 5.2% YoY to ₹ 1,306/t. Supported by healthy realisations, all south-based companies (India Cement, Ramco Cement, Sagar Cement) reported average growth of 28% YoY. North based companies like JK Lakshmi, Shree and Mangalam Cement reported average de-growth of 1% YoY. This quarter, surprisingly, Sagar Cement reported industry leading margins of 32.9% and EBITDA/t of ₹ 1,573/t (up 64% YoY) outpacing Shree Cements' EBITDA margin of 30.1% and EBITDA/t of ₹ 1421/t
- At present, cement volumes are seeing further traction with July reporting broadly similar levels of volume reported last year, though cement prices corrected 3-4% QoQ after seeing a sharp rally in Q1FY21 on arrival of monsoons. Going forward, rural economy would continue to drive cement demand as good rainfall during the year, hike in MSP and likely better Rabi and Kharif crops have improved farm prospects

On the volumes front, the sharpest decline was posted by south based companies like India Cement (53% YoY) followed by Sagar Cements (32% YoY). On the other hand, north based companies like JK Lakshmi Cement (18.2% YoY) and Shree Cement (18.6% YoY) reported the lowest volume decline during the quarter. All-India players like UltraTech, ACC, Ambuja, on an average, reported volume decline of 31% YoY for the quarter. Capacity utilisation for the coverage universe dropped 2400 bps YoY to 50.2% in Q1FY21

Revenues saw 30.2% drop YoY for I-direct coverage universe. ACC (36%), UltraTech (33%) were large companies that reported revenue decline of over average 30% YoY; other midcap companies like south based India Cement and NER player Star Cements reported the highest drop (49%, 36% YoY, respectively) in revenues. Shree Cement was the only player to report revenue de-growth of below 20% during the quarter

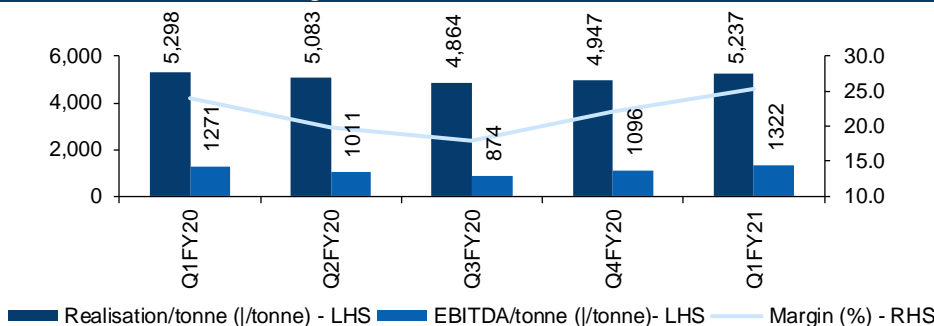
On the other hand, demand in urban areas would remain a function of how the localised lockdowns in various parts of the country panning out from time to time and resurgence in infrastructure activities with migrant workers returning to construction sites

Exhibit 11: Cement volumes and capacity trend



Source: Company, ICICI Direct Research

Exhibit 12: Realisation & margin trend



Source: Company, ICICI Direct Research

Consumer Durables

- The I-direct consumer discretionary (CD) universe performance during Q1FY21 was muted on account of loss of sales for almost 40 days due to lockdown. However, strong recovery in demand, post ease of lockdown restriction led coverage companies plant utilisation to reach ~70% by the end of June 2020. While the metro regions were under the grip of lockdowns, suburban and rural regions witnessed a faster demand recovery due to fewer of pandemic related infections
- For paint companies, after a washout sales in April, demand reached almost pre-Covid levels in May 2020. Leading paint companies reported YoY growth in the decorative segment for June 2020
- Gross margin of coverage universe remains intact YoY despite a change in product mix and adverse currency movement. However, EBITDA margin of CD universe declined ~500 bps YoY mainly due to low operating leverage. Though companies have initiated cost optimisation measures during lockdown, the major impact will be visible in the coming quarters. Further, on the margin front, despite being a challenging scenario of lower sales, Voltas, Bajaj Electricals surprised us by reporting strong EBIT margin in their consumer business in Q1FY21

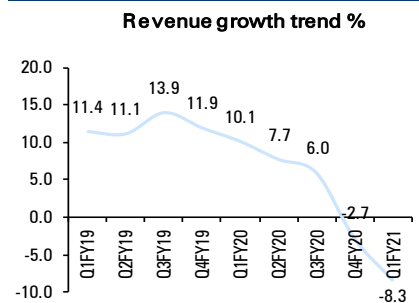
FMCG

- Despite, Q1FY21 being disrupted by Covid-19 induced lockdown, most companies reported better than expected results with a strong recovery in June 2020. We believe the impact of lockdown was largely limited to supply disruption specifically in April 2020 and as manufacturing facilities & distributors started their operations, supply improved considerably. Moreover, many companies were able to refill the trade inventory by end of June 2020, which was significantly depleted in April
- On the demand front, packaged foods, hygiene products & immunity boosting products saw splendid growth whereas discretionary categories like skin care, ice creams, carbonated drinks, juices, hair oil saw significant decline during the quarter. Cigarette sales were also impacted by complete shutdown of manufacturing facilities until mid-May. Our coverage universe (ex-ITC) saw a YoY sales decline of mere 4.2% impacted by steep decline in demand for discretionary categories
- The decline in volume for most companies was at 8-15% due to a halt in manufacturing operations in April. The companies saw a gradual opening up manufacturing operations with essentials such as packaged food, milk, soaps, sanitisers starting operations as early as the first week of April and most other categories manufacturing starting by mid-April. The average 20 day halt in manufacturing resulted in trade pipeline depleting to ~3 days from average ~15 days for most companies
- Complete food companies like Nestlé India, Tata Consumer & ITC FMCG business saw strong positive growth despite halt in manufacturing operations. Some categories like biscuits, noodles, ketchup, staples (atta) saw strong 20%+ growth aided by increased 'at-home' consumption. Immunity boosting products like Chawayanprash, honey and home & personal hygiene products like soaps, sanitisers and disinfectants saw exponential growth. One of the important factor remained launch of several new products in growing categories across companies. Dabur, ITC, HUL remain far aggressive compared to peers in new launches
- Our FMCG coverage universe (ex-ITC) saw a 102 bps improvement in gross margins with significant decline crude based packaging cost & stable agri commodity prices. We believe entire benefit of low raw material prices would be reflected in Q2FY21. All companies reduced their A&P spends significantly, which resulted in offsetting negative operating leverage impact in Q1FY21. Operating margins for coverage universe (ex-ITC) was up 70 bps. With the benefit of corporate tax rates, our coverage universe (ex-ITC) witnessed 5.3% growth in net profit

On the piping front, Supreme Industries and Astral Poly also reported strong demand recovery in the agri piping business, while slow recovery in the construction activities (due to absence of labour) kept demand from urban regions under check during the period. Besides, we were positively surprised by the strong performance of packaging major Essel Propack (revenue, earnings up 18%, 14% YoY) during Q1FY21, led by strong performance of its overseas subsidiaries

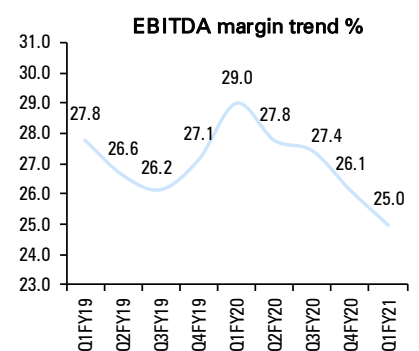
On the electrical goods segments, despite attaining lower sales in the peak season, Havells India and Voltas have gained market share in the consumer product categories through their strong supply chain management and pan India dealer network

Trend in revenue growth (YoY %)



Source: Company, ICICI Direct Research

Trend in EBITDA margins (%)



We believe packaged foods would continue to see strong growth in next few quarters due to limited out of home (multiplex, hotels, restaurants) activity. Moreover, we see possibility of structural growth in personal hygiene products (soaps, sanitisers & disinfectants) with increasing per capita spends in these categories due to heightened hygiene caution. However, sporadic localised lockdown would still impact some categories negatively. We believe FMCG companies would get the full benefit of low raw material prices in Q2 & Q3FY21. This coupled with low A&P spends (due to low advertising rates) should result in expansion in operating margins for rest of the FY21

Hotels: Severely hit by outbreak of pandemic!

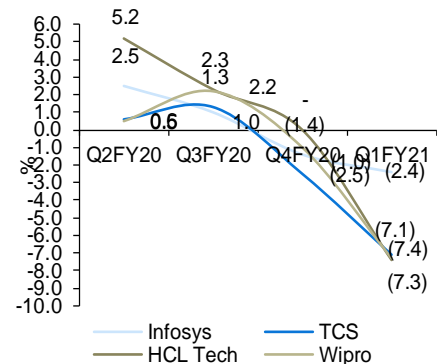
- The ongoing Coronavirus outbreak has had a severe impact on hotel bookings in India during Q1FY21 with massive forward booking cancellations across cities. A complete travel ban from foreign countries and corporates adopting a Work from Home policy has hit the hotel business very hard with occupancy levels coming down drastically to multi-year lows. Due to this environment, hoteliers have resorted to alternative revenue from verticals like quarantine business of repatriation guests, institutional quarantine of domestic returnees, stay for medical professional or even tie-ups with hospitals. However, this being a very small proportion of revenue, the average revenue of I-direct universe declined 85.3% YoY to ₹ 212.7 crore for the quarter led by occupancy levels falling to low single digits along with 30% YoY drop in ARRs
- The hotel industry has majority of its costs fixed (i.e. ~70% of total costs), with power/lighting and employee costs taking the major share. With a drop in room rates owing to abysmally low levels of occupancy and a sharp fall in non-room (most profitable) revenues, our I-direct coverage universe reported EBITDA and PAT loss of ₹ 387 crore and ₹ 458 crore, respectively

Information Technology

- This quarter as expected was impacted by the Covid 19 crisis. However, one key positive in the quarter was healthy deal wins, deal pipeline and margin resilience. This gives confidence of robust revenue growth in coming quarters. We believe sustained deal wins by companies will be key thing to watch in coming quarters. In addition, one of the comforting factors in the quarter was revenue guidance by Infosys (0-2% YoY in CC terms FY21E) and HCL Tech (0.8-3.3% YoY in CC terms in FY21E) implying improving revenue trend in coming quarters
- In Q1FY21, Tier-1, Tier-2 companies saw a revenue dip in the range of 2-7%. The only aberration in this trend was Persistent System, which reported positive revenue growth of 3.1% QoQ. In terms of digital revenues, most of Tier 1 has stopped reporting digital revenues but we believe digital growth may have decelerated to 22-24% YoY from 39% YoY in Q1FY20 based on Infosys & HCL Tech's digital revenues. Tier 2 companies also witnessed deceleration in digital revenues from average 30% YoY to 18-19% YoY in Q1FY21. However, cost rationalisation and lower discretionary spend enabled IT companies to report flat to improving operating margins in Q1FY21. The only aberration in this trend was TCS (reported a 150 bps QoQ decline) and NIIT Tech (230 bps QoQ decline led by higher cost & restricted stock unit impact)
- In the current quarter, communication & media, manufacturing, retail and travel & transport saw maximum impact, while relatively less impact was seen in BFSI & Healthcare. The only segment to post growth was Hi Tech segment. NIIT Tech and Mindtree saw major deceleration in transport vertical due to impact on airlines. Going forward, IT companies are expecting an improvement in BFSI, essential retail, healthcare & Hi Tech. However, travel, hospitality, manufacturing and communication & media are expected to be under pressure in the near term
- Q1 witnessed receding supply side pressure (especially on BPO side) and healthy deal wins (except Tech Mahindra) & deal pipeline. This gives visibility of revenues in coming quarters. Further, vendor consolidation opportunities, acquisition of captives and offshoring & automation (that will help in price negotiations) will be key drivers of deal wins in coming quarters. In addition, one of the structural changes witnessed in the current quarter was higher focus on digital technologies like cloud, core modernisation and cyber security. This could be a key driver of revenue growth over the longer term for the entire IT space

On a broad basis, the sector outlook remains weak in the medium term as recovery would be slow and back ended. FY21 would most probably be a washout year for the sector. Curbs on visa, progress 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, which bodes well for the strong established players in the long run. Further, hotel players are now resorting to various cost control initiatives that are sustainable in nature. This coupled with reduced room supplies would make strong players even stronger in the long run

Dollar revenue growth trend



Source: Company, ICICI Direct Research

Further, IT companies are taking various measures to rationalise cost in the near term by reducing travel cost, no wage hike, hiring freeze, pyramid rationalisation and lower discretionary spend. In addition, growth in digital technologies (that are high margin), higher offshoring and reduced attrition will also drive margins

Infrastructure and real estate

Roads & Construction

- **Revenues and EBITDA impacted by lockdown:** EPC companies reported weak execution in Q1FY21, impacted by lockdown and labour unavailability. Overall topline of our roads & construction universe de-grew 40.1% YoY to ₹ 2,115 crore. Coverage universe adjusted EBITDA at ₹ 277.6 crore, was down 40.4% YoY. Overall EBITDA margins was flattish YoY at 13.1%. Key outlier was KNR that reported 3.2%, 4.8% growth in topline, EBITDA respectively, aided by superior execution, benign base
- **Order inflow – mixed trend:** Order inflow trend was mixed for our coverage universe. While for KNR implied order inflow was modest at ₹ 2,309 crore in the irrigation segment, NCC received orders worth ₹ 2,592 crore in Q1FY21 largely from water segment. Ashoka Buildcon won orders worth ~₹ 810 crore
- **Post resumption shows some improvement but full capacity likely post monsoon (Q3 onwards):** Labour issues are easing at construction sites. Companies are currently operating at 70-80% of required workforce with efficiency levels of ~75-85%. Also, given the monsoon effect, full capacity resumption could be only by Q3FY21, as per management. On the positive side, tolling has reached ~90%+ of pre-Covid-19 level post resumption. **Most importantly, Covid-19-led disruption continues to put monetisation plans of BOT/HAM assets on hold. None of the companies have given guidance on revenues. We expect 5-10% revenue decline across our universe for FY21, with KNR likely to outperform with flattish revenues**

Real Estate

- **Sales volume:** In the current scenario where the overall residential sector is going through turmoil owing to Covid-19, Brigade Enterprises reported sales volume of 0.42 million square feet (msf), down 63% YoY. Presales were down 58% YoY at ₹ 249.9 crore, as realisations were up 14% YoY. Phoenix Mills reported no sales volume for the residential segment. Oberoi Realty's Q1 sales volumes plunged 94.9% YoY to merely 12,308 sq ft with nearly no activity owing to lockdown. The company clocked sales value of ₹ 31.7 crore, down 92.1% YoY
- On the financial front, revenues of our real estate universe de-grew 76% YoY to ₹ 456 crore while EBITDA declined by ~75% YoY
- **Commercial segment stable; malls, hospitality suffer:** Brigade's annuity portfolio (offices, malls) reported rental income of ₹ 82 crore (down ~21% YoY – largely due to rental waivers of 50% given in the malls). Hospitality (hotels) was the worst affected segment. During the quarter, Brigade's hotels operated at 11% occupancy and reported 86% decline in revenues at ₹ 10.5 crore and losses of ₹ 43.6 crore. **For Oberoi Realty**, hotel revenues plunged 91% YoY while malls revenues were not reported as it is still under negotiation. The commercial segment, however, stayed stable with flattish sequential growth. **For Phoenix Mills**, commercial remained resilient with revenue growth of ~5% YoY at ₹ 38.2 crore. It reported retail rental income decline of 69.8% YoY to ₹ 88.5 crore mainly due to Covid-19 led lockdown and rental waiver, thereof. Hospitality business revenues fell 90% YoY to ₹ 8 crore in Q1FY21

Logistics: Road, rail, port seeing faster operation normalisation

- MoM improvement in ports container traffic, rail container and E-way bill data, indicate the operational performance has reached 85-90% of levels seen in July last year. The trend was also confirmed in our interaction with various listed players post Q1FY21 results, with an expectation that in a month or two, volume growth seems to be on the horizon
- Q1FY21 earnings season saw strong gross margins (compared to I-direct estimates) for most of the surface, port and rail players. Similarly, on the EBITDA front, most logistics players reported operating profits (we expected losses for most of them). Notable exception include Concor that disappointed us on the EBITDA front, mainly due to the larger than expected land license fee (₹ 450 crore in FY21 vs. ₹ 120 crore in FY20)
- Higher diesel prices and lower return cargo loads are leading to higher surface freight charges to customers. Also, asset heavy players faced relatively fewer issues of driver and truck availability compared to asset light players in Q1. Gujarat based ports (Adani, Gujarat Pipavav) continue to guide for a better than industry performance (due to better cargo mix, located in green zones, better port evacuation, comfort on B/S front)

Liquor: Mixed performance

- The liquor sector has fared much better than the beer sector (de-growth of 45-50% for USL, Radico vs. 77% decline for UB). This was on account of limited shelf life, requirement of refrigeration (by the distributor, retailer during lockdown), on-premise sales continue to see closure (although comprising 20% for beer but actual impact much higher as beer consumption happens on off premise locations, which is also disrupted due to social distancing norms)
- Within the liquor segment, premium players saw a bigger impact as compared to companies dealing in popular brands. Liquor delivery via e-commerce channel would help drive liquor penetration among the vast potential customer base in the medium to long term

Media

- Media was one of the worst hit sectors by the spread of Covid-19. Earnings of all segments took a big hit during lockdown. Broadcasters saw the sharpest decline in recent times on ad revenue front whereas subscription revenue continued growth momentum. Multiplexes were the biggest casualty as theatres remained shut throughout the quarter leading to nil revenues. Radio companies, already weakened by macroeconomic slowdown, saw a steep fall in revenues owing to low corporate ad spend
- Broadcasters:** Sun TV's ad revenue fell 65.8% YoY while subscription growth remained robust at 17.6% YoY. Absence of IPL also affected revenues. EBITDA was at ₹ 416.5 crore with margin of 68.7%. Higher other income due to MTM gains on investments and tax refund led to PAT at ₹ 282.8 crore, down 25.9% YoY. Currently, ad revenue has recovered partially and is at 75% of normal level. It is likely to pick up further with pent up demand and start of festivities. On digital front, SunNXT continued to generate traffic with subscriber count at 17.5 million. Fresh content is being telecast with viewership gains seen across GECs. Subscription growth is expected to maintain growth momentum
- Zee Entertainment reported ad decline ~65% YoY for the quarter due to Covid-19 led lockdown. However, subscription growth continued to grow at 5% YoY. EBITDA margins came in 720 bps lower YoY at 16.8% hit by lower topline and high operational costs. Subsequently, Zee's PAT dipped 94.3% YoY to ₹ 30.4 crore. Going ahead, the company is targeting ad growth from Q3FY21E onwards factoring in festive season boost, broadcast of fresh content across all GECs and IPL

- TV Today's performance was below our expectations. News channels viewership spiked during lockdown. However, the broadcasting segment de-grew 33.7% YoY due to low ad rates/volume and higher base effect. Radio continued to report poor numbers and de-grew 70% YoY. Digital segment also declined 4.6% YoY. EBITDA declined 59.7% YoY to ₹ 30 crore with margins of 17.9% due to lower topline
- Multiplexes:** Inox Leisure reported a washout Q1FY21 as nationwide lockdown meant complete suspension of business activities. It registered zero footfalls leading to almost nil revenues. Other operating income of just ₹ 30 lakh was reported. EBITDA (ex-Ind-AS 116) loss was at ₹ 35.9 crore. Invocation of Force Majeure and cost reduction on power & fuel, R&M & other overheads fronts led to lower-than-expected losses. Inox has received board approval for enabling resolution to raise ₹ 250 crore. The management is hopeful of receiving permission to open cinemas in Unlock 4 phase (September onwards)
- Radio:** ENIL revenues de-grew 71% YoY as core radio witnessed a fall of ~84% YoY in revenues. Solutions business fell 40% YoY. Strong gross margin for solutions was a key positive. Steep fall in revenues led to EBITDA loss of ₹ 25.9 crore. Ad volumes trend from June onwards was better as June and July were up 82% & 50% MoM, respectively, while full recovery is expected from Q4FY21E. MBL revenues were weaker at ₹ 14.4 crore, down 79.4% YoY. Reduction in operating cost by ₹ 17.8 crore was a key positive. However, EBITDA loss was at ₹ 15.3 crore as it was impacted by the lower topline. Ad volumes improved from April lows and were at 50-53% in July

Metals & Mining

- The metal sector reported muted Q1FY21 performance on account of Covid-19 related shutdowns. Aggregate topline of the coverage universe (excluding Coal India & NMDC as they are yet to announce results) reported a decline of 28% YoY to ₹ 67,551 crore. The aggregate sector EBITDA declined 53% YoY to ₹ 7,601 crore while the corresponding aggregate EBITDA margin was down 610 bps YoY to 11.3%
- Going ahead, with easing of lockdown, major steel companies (like Tata Steel, JSW Steel) have returned to optimum capacity utilisation levels (with respect to their domestic operations). In Q1FY21, while exports had a major share in overall volumes, with a gradual opening up of the economy, the share of exports is expected to decline in Q2FY21
- Tata Steel (TSL) reported a subdued set of results for Q1FY21 wherein the EBITDA/tonne of both Indian, European operations came in lower than our estimate. Standalone Indian operations reported EBITDA/tonne of ₹ 5929/tonne (down 55% YoY, 53% QoQ) while European operations reported negative EBITDA/tonne of ~US\$42/tonne. Going forward, TSL standalone operations' for Q2FY21 performance is expected to improve (from Q1FY21 levels), on the back of higher realisations QoQ, lower coking coal costs and sequentially higher sales volume
- Hindalco's India business reported a healthy performance for Q1FY21, primarily driven by ~6% QoQ reduction in aluminium cost of production. The topline for Hindalco's India business was at ₹ 7,464 crore (down 25.8% YoY). The ensuing EBITDA was at ₹ 894 crore (down 21.7% YoY, higher than our estimate). The ensuing PAT from the India business was at ₹ 84 crore. Novelis also reported a steady performance in the current challenging scenario. For Q1FY21, Novelis reported shipments of 774 KT (down 7% YoY), which were impacted by weak market conditions, partially offset by the addition of the acquired Aleris business. Adjusted EBITDA/tonne was at US\$327/tonne

During Q1FY21, base metals remained muted both YoY and QoQ. During the quarter, average zinc prices on the LME were at US\$1970/tonne, down 28.6% YoY, 7.3% QoQ while average lead prices were at US\$1679/tonne, down 10.8% YoY, 8.9% QoQ. Similarly, average aluminium prices on the LME were at US\$1501/tonne, down 16.3% YoY, 11.2% QoQ while average copper prices on the LME were at US\$5366/tonne, down 12.2% YoY, 4.7% QoQ.

Ratnamani Metals and Tubes reported a steady performance in Q1FY21. For the quarter, net income from operations was at ₹ 578 crore (down 2% YoY, 8% QoQ), higher than our estimate. EBITDA came in at ₹ 74 crore (down 29% YoY), marginally lower than our estimate. PAT came in at ₹ 50 crore (down 21% YoY), broadly in line with our estimate. While in Q1FY21, company's order book fell sequentially on account of Covid-19 related shutdowns, the same is likely to gain traction on account of gradual opening up of economy

Oil & Gas

- The oil & gas sector reported weak numbers on an overall basis as sales volumes were significantly impacted by Covid-19 lockdown. A sharp fall in sales volume led to lower profit YoY, QoQ for CGD companies. Profitability of OMCs was mixed as better marketing segment performance was negated by weak core refining margins
- Sales volume of city gas distribution (CGD) companies took a big hit (mainly CNG, industrial PNG segments) during lockdown. Volume decline YoY was in the range of 54-63%. However, gas utilities have started seeing an improvement in volumes from June onwards. Realisation of CGD companies was lower YoY with one player reporting better-than-expected realisations. On the profitability front, gross margins of all companies improved due to a fall in gas costs while EBITDA/scm was impacted by negative operating leverage
- Oil marketing companies'(OMCs) reported better-than-expected revenue numbers due to elevated fuel retail prices. Product sales declined sharply by 26-32% YoY due to lockdown. Maintaining fuel retail prices in April in spite of lower oil prices and increase in retail prices by ₹ 9-12/litre in June led to strong marketing margins. Also, marketing segment performance was supported by inventory gains. However, on the refining front, operational performance was below expectations as core GRMs remained low during the quarter. Crude throughput fell 25-31% YoY (with one player being an exception) due to reduced demand

Key parameters in Q1FY21

	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Singapore GRMs (\$/bbl)	3.5	6.5	1.7	1.2	-1.0
Crude Oil (\$/bbl)	68.5	61.9	62.6	50.6	31.4
APM Gas (NCV) (US\$/mmbtu)	4.1	4.1	3.6	3.6	2.6

Source: Bloomberg, ICICI Direct Research

Pharma

- I-Direct pharma universe (nine coverage stocks) revenues grew ~2.5% YoY to ₹ 32,096 crore. Q1 numbers were significantly skewed. On the one hand most generic formulation exporters (other than injectable exporters) enjoyed significant windfall mainly due to inventory piling by government agencies and distributors especially for drugs that were used as primary or secondary treatment for Covid-19. Standalone API/CRAMs players also saw a significant windfall cashing in on disturbances from China. However, on the other hand, branded generics sales, both in India and EMs, especially from acute therapies were negatively impacted due to lower promotional activities, almost negligible MR movement, etc. Players with higher contribution from chronic therapies did relatively better
- Indian formulations de-grew 1% YoY to ₹ 6,543 crore due to a decline in acute segment and lower prescription generation amid drop in patient footfalls in healthcare facilities. US business (select pack) de-grew 3.5% YoY to ₹ 10,184 crore mainly due to seasonality impact, lower prescriptions amid the pandemic, Metformin recall (Lupin) 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 grew a robust 40.5% to ₹ 4,136 crore on the back of significant hydroxychloroquine supply windfall in addition to opportunities stemming from China disturbance. While Europe grew 2% YoY to ₹ 2123 crore, most other geographies reported a decline in sales due to currency headwinds and Covid-related challenges. EBITDA margin improvement was witnessed across the board on account of lower marketing and travelling activities
- Out of nine selected covered companies, two reported above 40% YoY revenue growth. Company specific growth, Divi's Lab – 48.8% (strong growth across segments) and Ipca – 42.3% (₹ 259 crore of additional business from HCQ and chloroquine). On the flip side, Lupin reported negative growth of 20.2% mainly due to recall of Metformin, seasonality impact on Oseltamivir and divestment of Japanese business
- EBITDA margins for the universe expanded 240 bps YoY to 24.6% (22.2% in Q1FY20) mainly on account of lower on-field costs. Subsequently, EBITDA grew 13.6% YoY to ₹ 7,888 crore. Adjusted PAT increased 8.4% YoY to ₹ 4,490 crore in line with operational performance

Sales from India, US and Europe

India					
(₹ cr)	Q1FY21	Q1FY20	%	Q4FY20	%
Cadila	829	934	-11.2	892	-7.1
Ipca	489	453	8.1	431	13.6
Lupin	1,285	1,308	-1.7	1,192	7.8
Dr Reddy's	626	696	-10.1	684	-8.5
Sun Pharma	2,388	2,314	3.2	2,365	1.0
Torrent	925	907	2.0	840	10.1
Total	6,543	6,611	-1.0	6,404	2.2
US					
(₹ cr)	Q1FY21	Q1FY20	%	Q4FY20	%
Aurobindo	3,107	2,688	15.6	2,990	3.9
Cadila	1,623	1,367	18.7	1,761	-7.8
Lupin	1,216	1,541	-21.1	1,579	-23.0
Dr Reddy's	1,728	1,632	5.9	1,807	-4.4
Sun Pharma	2,136	2,947	-27.5	2,713	-21.2
Torrent	373	376	-0.8	385	-3.1
Total	10,184	10,552	-3.5	11,235	-9.4
Europe					
(₹ cr)	Q1FY21	Q1FY20	%	Q4FY20	%
Aurobindo	1,322	1,392	-5.0	1,653	-20.0
Cadila	49	47	3.2	58	-16.0
Dr Reddy's	355	240	47.7	345	3.0
Lupin	150	140	7.2	188	-19.9
Torrent	246	262	-6.1	216	13.9
Total	2,123	2,082	2.0	2,459	-13.7

Source: Company, ICICI Direct Research

Retail

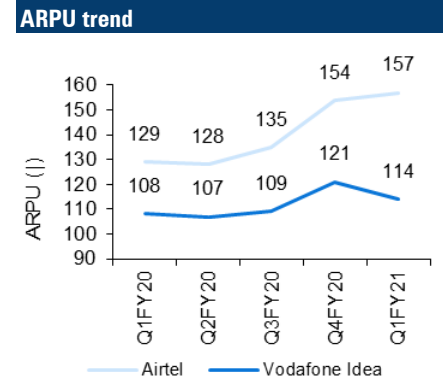
- As anticipated, Q1FY21 was nearly a washout quarter for the retail sector marred by closure of stores for a major period during the quarter. The key takeaways are: a) minimised cash burns through higher than anticipated rationalisation of overheads, b) post lockdown relaxations, stores re-opened gradually but operational hours were restricted in many places, c) enhanced digital presence as e-commerce gained prominence, d) around 90% of stores have resumed operations across our coverage universe and e) with commencement of EOSS, footfalls are witnessing gradual improvement on a weekly basis

Key trends (company specific):

- Titan Company:** Overall recovery rate for jewellery division rose to 77% in June and 101% in July (due to preponing of studded activation, low base effect). The management expects to exit Q2FY21E with recovery rate of 80% and gradual improvement in ensuing quarters. The management indicated that sentiments for plain gold jewellery and gold coins have improved on the back of significant surge in gold prices and expectations of further spike. For watches division, recovery rate in June and July was 23% and 40%, respectively. Currently, ~97% of stores are operational and management has reiterated its stance of achieving normalcy levels by Q4FY21E
- Trent:** High store concentration in worst hit Covid-19 states (~ 17%, 16% of Westside, Zudio stores in Maharashtra) and higher presence in malls (~50% for Westside, 25% for Zudio) hampered store operations due to stringent measures by local authorities. Overall 90% of Westside, Zudio stores have now reopened and EOSS, which began from August 1, witnessed healthy offtake. Recovery rate improved to 55% of pre-Covid levels vs. 32% in June. The company has reiterated its stance of aggressively opening stores in FY21 with capex outlay of ₹ 150-200 crore
- TTK Prestige:** Post relaxations in lockdown, green shoots were visible with renewed customer interest in kitchen appliances and cleaning segment as majority of households were without domestic help and preferred home cooked food. Despite less than two-third of channels being operational, June sales rebounded strongly with sales reaching 90% of pre-Covid sales. As anticipated, revenues from e-commerce channel grew at a faster rate with overall share now rising to 25% (from earlier ~12%). The management is hopeful of H2FY21 being significantly better than H1FY21 on the back of higher traction in revenues during the festive season and further opening up of distribution channels such as large format stores (LFS)
- ABFRL:** To minimise cash burns, the company significantly rationalised operating overheads by ₹ 450 crore (QoQ) in Q1FY21 mainly through reduction in rental expenses by ₹ 237 crore. ABFRL fortified its digital presence as sales in June from e-commerce channel grew 166% YoY (share of e-commerce rose to 21% in Q1FY21 vs. 6%). Around 90% of stores have resumed operations by August. The management is aiming to achieve normalcy by Q4FY21E. The company expects share of e-commerce space to double to 12% in FY21 (vs. 6% in FY20)
- Bata:** Owing to absence of school shoes sale (that forms significant part of Q1 revenues), revenue declined materially. In a bid to strengthen its wholesale distribution channel (~12% of revenues) Bata has significantly ramped up its touch-points with Bata now servicing ~30,000 multi-branded outlets. Also, Bata has reiterated its vision of opening 500 franchisee stores by 2023 mainly in tier III/IV cities. Though ~85% of stores are currently operational, we expect reinstatement to pre-Covid sales levels to take a couple of quarters

Telecom

- Subscriber decline amid lockdown led physical recharge unavailability:** Bharti Airtel's overall subscriber (sub) base saw decline of 3.9 mn QoQ at 279.9 mn owing to lockdown effect wherein physical recharge was not available at many places. Vodafone Idea (VIL) subscriber base declined by 11.3 million to 279.8 mn. In terms of 4G subs additions, Airtel witnessed modest 4G Net adds of ~2 mn during the quarter, with 4G data sub base at 138.3 mn (overall data customers base of 149.1). VIL's 4G sub base saw a modest decline of ~1 mn QoQ to 104.6 million, clearly reflecting the pressure on its high paying customers.
- Diametrically opposite ARPU performance:** Telecom operators witnessed a mixed performance as Airtel reported ARPU growth while VIL faced pressure in ARPU with post-paid sub base witnessing decline. For Airtel, Indian wireless revenues at ₹ 12,877 crore, were muted with 0.6% QoQ decline largely driven by ARPU growth of 1.8% QoQ at ₹ 157 amid sub base decline. Vodafone Idea's revenues at ₹10,659 crore declined 9.3% QoQ, with ARPU at ₹ 114 (down ~5.8% QoQ, largely owing to weak underlying sub base, Covid-19 led validity extension), coupled with net loss of 11.1 mn customers
- EBITDA margins performance also divergent:** For Airtel, consolidated EBITDA margins were at 43.5% (up 60 bps QoQ). The margin expansion was led by Indian margin, up 160 bps QoQ at 44.3% with Indian wireless margins at 40.6%, up 140 bps QoQ, largely a function of tariff hike pass through and cost control. For VIL, EBITDA (excluding Ind-AS 116 impact) and adjusted for one-offs came in at ₹ 1540 crore, a decline of ~10% QoQ and adjusted margin of 14.4%, down 20 bps QoQ
- Others:** In the tower space, Infratel reported reported a net decline of 365 co-locations on a consolidated basis. Revenues (on a proportionate consolidation basis) came in at ₹ 3,505 crore, up 3.3% QoQ with energy revenues, down 8.1% QoQ at ₹ 1,262 crore. Core rental revenues came in at ₹ 2243 crore, down 0.4% QoQ. EBITDA came in at ₹ 1767 crore, up 4% QoQ, with EBITDA margins at 50.4% (up 355 bps QoQ). Sterlite Tech's performance for Q4FY20 was weak on the operating front on account of demand slowdown/Covid-19 impact with revenues and EBITDA decline of 39% and 62%, respectively. **Tata Communications'** results were strong with revenues up 5.6% YoY, 0.1% QoQ, led by superior data revenues (forming ~82% of revenues) that grew 9.9% YoY. EBITDA came in at ₹ 1042 crore, up 26.2% YoY, with margins at 23.7% (up 385 bps YoY) driven by strong data margins of 27.1% (up 450 bps YoY)



Source: Company, ICICI Direct Research



Pankaj Pandey

Head – Research
pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

Disclaimer

ANALYST CERTIFICATION

I/We, Pankaj Pandey, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a Sebi registered Research Analyst with SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.