The FY19 earnings season is also expected to be a mixed bag.

Sectors like IT, Banks & NBFCs, Cements, Consumption and Capital Goods Sector will perform better.

Most IT companies reported healthy digital revenue growth and on account of a lower base.

Utilisation rate of most of the companies have also improved and we expect this trend to continue in Q4 as well.

The recapitalization of PSU banks lead to better performance of the PSU banks.

Private banks will enjoy healthy profitability sooner than PSUs on account of lower credit provisions.

Earnings for FY 2019

Earnings in 3QFY19 was a mixed bag where we witnessed good earnings from the banking, IT, FMCG and infrastructure companies. The FY19 earnings season is also expected to be a mixed bag whereby few sectors like IT, Banks & NBFCs, Cements, Consumption and Capital Goods Sector will perform better while other sectors shall grapple with flat set of numbers.

Sectors which are expected to report good earnings!

1. **IT Sector : -**
   IT sector is expected to report healthy set of earnings especially from the revenue front on account of good deal wins. Most IT companies reported healthy digital revenue growth and on account of a lower base, we feel this segment is likely to grow exponentially. Top-line growth will be offset by contractions in margins as higher employee cost will lead to margins under pressure. The same was also reflected in Infosys guidance where margins were slashed to 22-23% from 23-25%. TCS, too is expected to miss on its higher range margin in the industry of 26-28%. Utilisation rate of most of the companies have also improved and we expect this trend to continue in Q4 as well followed by lower attrition rate. As there is no clarity on the Brexit and US economy is also showing signs of slowdown hence FY20 guidance will be the key thing to watch.

2. **Banks & NBFC Sector :-**
   Banks including Private and PSU banks reported good set of numbers in 3QFY19. The recapitalization of PSU banks lead to better performance of the PSU banks and we expect fresh NPAs to reduce on account of aggressive recovery drive and write-offs by the banks. Chiefly on account of recapitalization we may expect few PSUs to cut down on its losses steeply in FY19 and may expect it to turn black after 4 quarters in FY20. We believe, Private banks will enjoy healthy profitability sooner than PSUs on account of lower credit provisions. Hence we believe both PSUs as well as private banks will report healthy profitability numbers on a yearly basis.
   NBFCS are expected to report strong set of numbers on a sequential basis on all counts. During 3QFY19, as most of the NBFCs were facing liquidity crisis hence disbursements did not pick up during that quarter. Currently, with liquidity scenario improving due to various measures taken by the RBI, we believe disbursements; loan book growth will be better than the previous quarter but flattish on a yearly basis.

Cement production grew 9.5% on a yearly basis in Jan-Feb'19.

Cement companies PAN India had also witness a hike in cement prices of Rs. 25-30 per bag which will also lead to rise in realisations.

Measures like reducing interest rates on farm loan and the biggest holy festival 'Prayagraj' which was one of its kinds would have led to exponential rise in the demand.

The SSG (Same Store Sales growth) numbers of QSR companies are likely to keep rising on account of openings of new stores and revival in their products.

L&T has quoted highest order inflow of around Rs. 50,000 Crs during the quarter which is the highest ever order inflow in the company's history.

3. **Cement Sector :-**

Q4 is a seasonally strong quarter for the cement sector. During the Q4 Cement demand continued to remain strong primarily driven by government infrastructure projects and low-cost housing. As per the latest Core Industries data, cement production grew 9.5% on a yearly basis in Jan-Feb'19. Cement companies PAN India had also witness a hike in cement prices of Rs. 25-30 per bag which will also lead to rise in realisations. We believe South based cement companies to report better set of earnings as compared to other region based cement companies. Many cement companies power cost is also declining which will lead to rise in operating profits.

4. **FMCG Sector :-**

Most of the FMCG companies in Q3 reported good set of numbers especially on the volume growth front despite on a higher base. Though the sustainability of the volume growth is questionable, we feel demand will continue to rise on account of the rising disposable income on the rural front. With the steps taken like rising MSP (Minimum Selling Price) for all 22 crops , the disposable income in the hands of the farmers have increased. Also measures like reducing interest rates on farm loan and the biggest holy festival 'Prayagraj' which was one of its kinds would have led to exponential rise in the demand. Marico's management had guided for strong Q4 numbers with margins expansion and better volume growth. Apart from consumer durables, we expect QSR companies like jubilant foodworks, West-life development to report strong numbers on account of good demand in the sector. Jubilant Foodworks's dunkin donuts will turn black in the current financial year which will also lead to increase in profitability on a yearly basis. The SSG (Same Store Sales growth) numbers of QSR companies are likely to keep rising on account of openings of new stores and revival in their products. On a whole from the vast FMCG space with likes of consumer goods, QSR, footwares, paints industry; we expect healthy volume growth and better profitability on a yearly basis to sustain.

5. **Capital Goods Sector :-**

Most companies in the capital goods sector also reported strong set of numbers both on the top-line and on the bottom-line. We expect the trend to continue in Q4 as H2 is better than H1 on account of better execution in H2. L&T has quoted highest order inflow of around Rs. 50,000 Crs during the quarter which is the highest ever order inflow in the company's history. This will lead to margins expansion and would result in healthy bottom-line. BHEL has also surprised the street with good set of numbers in the last quarter and we expect the momentum to continue in Q4 on account of good order books.

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FORAM PRASHANT PAREKH

Digitally signed by FORAM PRASHANT PAREKH
DN: c=IN, o=Personal, postalCode=400103, st=MAHARASHTRA, serialNumber=8397572091cd664aa174bb8ad70ed168efe8cd025ebadace07d8643e76b71c2d, cn=FORAM PRASHANT PAREKH
Date: 2019.04.09 11:46:30 +05'30'

Research Analyst:

- Foram Parekh, Fundamental Analyst - Equity **Email:** foram.parekh@indiabulls.com

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Indiabulls Ventures Limited : www.indiabulls.com
Corporate Office: Indiabulls Ventures Limited, Indiabulls Finance Center, Tower 1, 8th floor, Senapati Bapat Marg, Elphinstone Road (W), Mumbai – 400013.