Market snapshot

Equities - India	Close	Chg .%	CYTD.%
Sensex	58,178	-0.2	21.8
Nifty-50	17,355	-0.1	24.1
Nifty-M 100	29,473	0.5	41.4
Equities-Global	**Close**	**Chg .%**	**CYTD.%**
S&P 500	4,469	0.2	19.0
Nasdaq	15,106	-0.1	17.2
FTSE 100	7,068	0.6	9.4
DAX	15,701	0.6	14.5
Hang Seng	9,239	-1.6	-14.0
Nikkei 225	30,447	0.2	10.9
Commodities	**Close**	**Chg .%**	**CYTD.%**
Brent (US$/Bbl)	73	3.1	43.6
Gold ($/OZ)	1,794	0.0	-5.5
Cu (US$/MT)	9,551	1.9	23.2
Almn (US$/MT)	2,884	1.9	46.1
Currency	**Close**	**Chg .%**	**CYTD.%**
USD/INR	73.7	0.2	0.8
USD/EUR	1.2	-0.1	-3.3
USD/JPY	110.0	0.2	6.5
YIELD (%)	**Close**	**1MChg**	**CYTD chg**
10 Yrs G-Sec	6.2	0.01	0.3
10 Yrs AAA Corp	6.9	0.02	0.3
Flows (USD b)	**13-Sep**	**MTD**	**CY21**
FIIs	0.19	0.57	7.77
DIIs	-0.08	0.04	3.07
Volumes (INRb)	**13-Sep**	**MTD***	**YTD***
Cash	565	632	756
F&O	34,063	62,563	47,182

Note: *Average

Today's top research idea

Technology: Business travel costs likely to remain benign in FY23

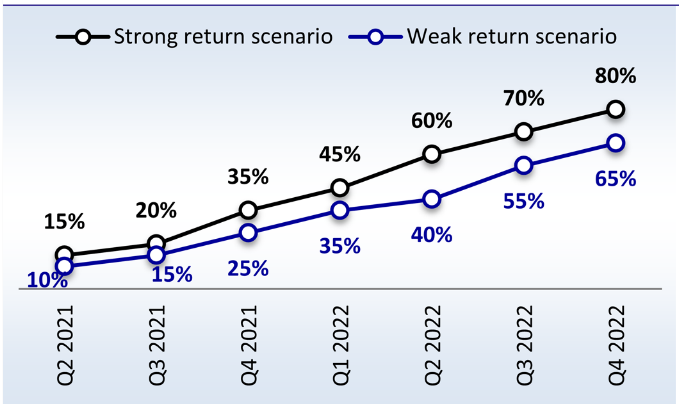
- With improving vaccination rate and reopening of economies, there is a growing expectation of IT services travel costs returning in FY23.
- However, recent surveys and industry commentary suggest that pickup in business travel would be a prolonged affair – as enterprises continue to keep a tight check on non-urgent travel.
- Commentaries from the travel heads of Cognizant and Capgemini further suggest that strong controls would continue to ensure business travel is only approved for the most essential purposes.
- Hence, we expect travel costs to continue to stay low and support the margins of IT services companies.
- Moreover, a tepid outlook for business travel could pose a risk to growth in the Travel vertical of IT services companies in FY23.

Research covered

Cos/Sector	Key Highlights
Technology	Business travel costs likely to remain benign in FY23
AGIC: Day 1	'MANAGEMENT SAYS'
Tata Consumer Products	Gross margin pressure to ease in coming quarters
EcoScope	CPI inflation cools off more than expected in Aug'21

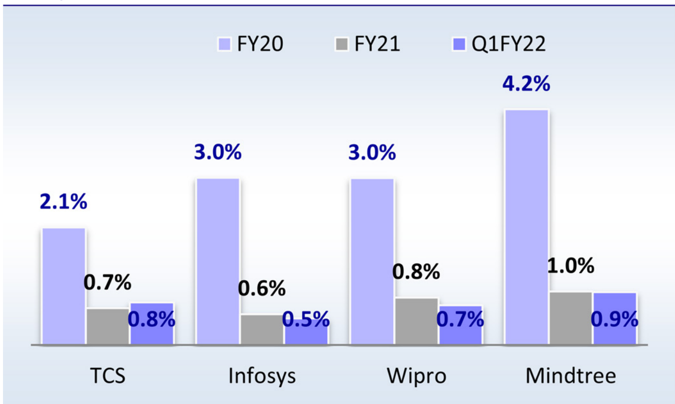
Chart of the Day: Technology (Business travel costs likely to remain benign in FY23)

US corporate travel spend as % of 2019 spending – expected to continue to trend below pre-pandemic levels in 2022



Source: Deloitte corporate travel survey

Travel cost as % of revenue – IT companies have seen 150–300bps tailwinds from lower travel costs



Source: Company, MOFSL

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In the news today

Kindly click on textbox for the detailed news link

1

Retail inflation eases further to 5.3% in August

India's retail inflation eased to 5.3 per cent from 5.59 per cent in July. This will be the second-consecutive month that the inflation will be between 4 and 6 per cent, which is the RBI's tolerance band. Food prices fell by 3.11 per cent this month, causing the drop in inflation.

2

NBFCs asset under management shrinks in Q1 FY22: Icra Ratings

The asset under management of the non-banking financial company segment declined in the first quarter of 2021-22 due to lower disbursements and portfolio rundown, according to a report. After witnessing an uptick in Q3 and Q4 FY2021, disbursements for NBFCs and housing finance companies (HFCs) declined again in Q1 FY22, and was down by about 55 per cent on a sequential basis, Icra Ratings said in the report. "Given this subdued disbursements and portfolio rundown in the absence of any moratorium like in Q1 FY2021, the (AUM) for NBFC-segment shrunk in Q1 FY2022, while the HFC AUM remained flat," the agency said.

3

Greaves Cotton launches multi-brand EV retail store AutoEVmart in Bengaluru

Greaves Cotton on Monday launched its first multi-brand EV retail store 'AutoEVmart' in Bengaluru, and said it will set up similar outlets in other cities in a phase-wise manner.

4

ZEE investor seeks Board recast; demands removal of MD Punit Goenka

Invesco, the largest shareholder in Zee Entertainment Enterprises (ZEE), called for the removal of managing director Punit Goenka amid a deepening divide between the fund and the company's founders.

5

Telecom package: Discussions between DoT and FinMin at an advanced stage

The Cabinet note for a government support to Vodafone Idea is not yet ready. However, discussions between the Department of Telecom¬munications (DoT) and the finance ministry are at an advanced stage. Last week there were expectations that the package would be announced during the Cabinet meet. That did not happen as the departments, despite the need to step in, wish to proceed cautiously.

6

Chip shortage causes demand spillover in used car market

The production of new cars has been affected by a semiconductor shortage because of which the used car market is now having demand spillover.

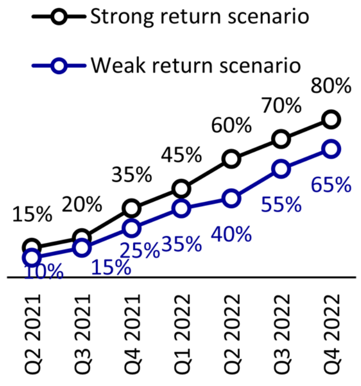
7

Freshworks to raise $912 million via IPO at $9 billion valuation

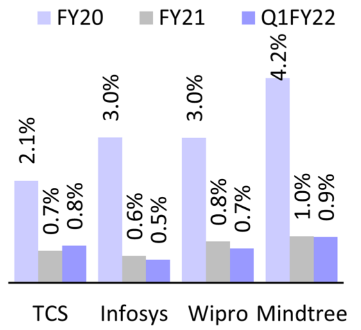
Software product startup Freshworks plans to raise as much as $912 million through an initial public offering in the United States, at a valuation of around $9 billion.

Technology

US corporate travel spend as % of 2019 spending – expected to continue to trend below pre-pandemic levels in 2022



Travel cost as % of revenue – IT companies have seen 150–300bps tailwinds from lower travel costs



Business travel costs likely to remain benign in FY23

Slow pace of travel pickup to aid margins

- **With the vaccination rate improving and the reopening of economies, there is a growing expectation of travel costs (150–300bps of revenues; Exhibit 5) returning for IT services companies in FY23. This has been further reinforced by airlines' commentaries on corporate travel. However, recent third-party surveys and industry commentaries suggest the pickup in business travel would be a prolonged affair – as enterprises continue to keep a tight check on non-urgent travel.**
- Recent surveys from Deloitte and Bloomberg suggest that most companies plan to keep travel budgets meaningfully below pre-pandemic levels. Moreover, US corporate travel is expected to trend below CY19 levels throughout CY22.
- More importantly, commentaries from the travel heads of IT services peers, such as Cognizant and Capgemini, further reflect that strong controls would continue to ensure business travel is only approved for the most essential purposes. Hence, while offices are gradually being reopened, we expect travel costs to continue to trend low and support the margins of IT services companies.
- Moreover, business travel is a key profit engine for most travel and hospitality companies. Thus, a tepid outlook for business travel could pose a risk to growth in the Travel vertical of IT services companies next year. Our base case assumes strong revenue growth for the Travel vertical over FY21–23. We remain reasonably confident on FY22E on 1) increased technology intensity, 2) strong deal wins, and 3) the low base. Nonetheless, prolonged recovery adds risk to FY23E.

Commentaries from global IT peers concurs with our outlook

- Cognizant and Capgemini have outlined programs that would make employee travel extremely difficult to justify.
- **Cognizant – Travel pre-authorization linked to budgets:** From CY22, Cognizant would introduce a pre-authorization requirement for all travel, which would be tied to budgets.
- **Capgemini – Travel cap and strong justification for travel:** Capgemini is considering capping travel. The company would also question the need for and return on investment on every single trip. In this case, employees may need to bundle various reasons for their travel in the future, rather than attempting to book a flight just for a single meeting.

Lower travel cost bolsters ESG commentary of IT firms

- Economic and social shocks from COVID have brought back the focus on ESG.
- Business travel contributes to Scope 3 GHG emissions and accounts for 40–60% of the Scope 3 GHG emissions of IT service companies. Thus, limited travel not only results in cost savings but also bolsters the ESG commentary of IT services companies. In FY21, the Scope 3 emissions of IT companies came down by 60–90%.

- We have seen Indian IT companies become increasingly ESG focused over the past 1.5 years, with many revisiting or charting out entirely new specific ESG strategies. We expect continued lower travel costs to be an integral part of the ESG strategies of Indian IT companies.

Lower travel cost supports margins

- The margins of IT services companies have benefitted from lower costs during the pandemic, particularly travel costs (150–300bps tailwinds). With the rate of vaccinations increasing, fewer government restrictions, and the re-opening of client offices, there is a narrative that travel costs would return to pre-COVID levels. However, we believe travel costs would remain low over FY22 and increase marginally in FY23, but still be below pre-pandemic levels.

Travel costs now a margin lever and discretionary expense

- Enterprises around the world have reaped the benefits of lower travel, and consequently lower costs and higher productivity. IT services companies have once again seen resilient sales and project deliveries during the pandemic. Moreover, there is now an acceptance for virtual business meetings among enterprises globally.
- As the vaccination levels in various countries continue to improve, there is talk of a return to pre-pandemic times. However, we believe the return to offices would be elongated, and business travel would become a discretionary expense (v/s semi-discretionary earlier). It would add to the numerous margin levers of IT companies.
- We do expect some increase in travel costs for the IT Services industry in late FY22 and FY23; however, we continue to believe that a sustainable level of travel expenses as a percentage of revenue would be ~50% of pre-pandemic levels.

Indian IT companies hint at rebound in travel costs

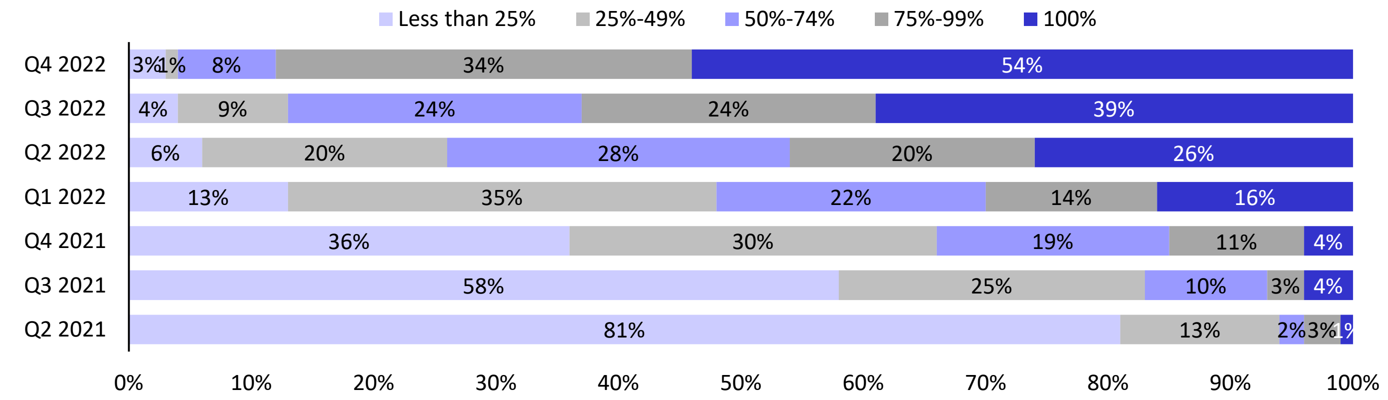
- **TCS:** It is seeing an uptick in many discretionary expenses; travel has also seen a marginal uptick this quarter. It expects some of the discretionary expenses to return to pre-pandemic levels by the end of the year.
- **Infosys:** Some of the discretionary costs, including travel and facilities, are expected to start to normalize in the coming quarters.
- **Tech Mahindra:** Travel cost is returning. Some of the regions are getting vaccination drives and people have started moving around.
- We note that Indian IT management seldom provides positive commentary on margins. We continue to expect lower travel costs for Indian IT companies in line with peers.

Will this impact the performance of the Travel vertical?

- The Travel vertical has seen strong recovery over the past three quarters, and we believe it would continue to perform strongly in FY22, given the lower base. Growth is expected to be led by the reversal of discounts and the resumption of deal win momentum. Nevertheless, the strong performance is already baked into valuations.

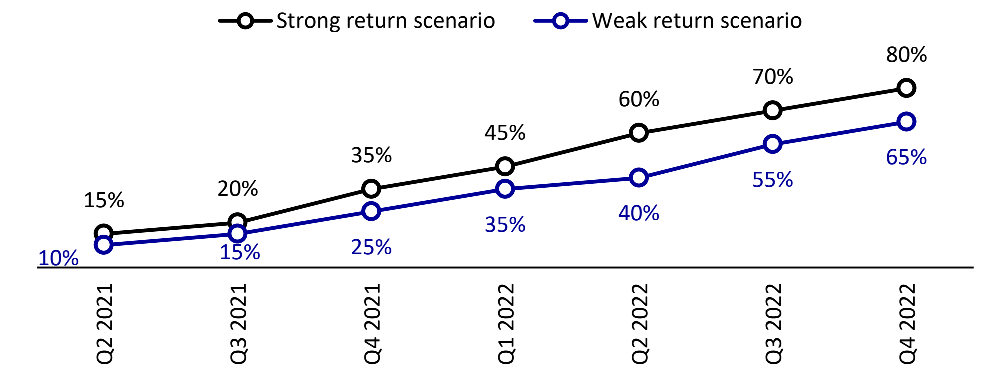
- The performance of the Travel vertical is already trending above industry performance. The International Air Transport Association reported that the total demand for air travel in June'2021 was still trending ~60% below pre-COVID travel levels. However, revenues for IT services companies in 1QFY22 were just 8–10% below pre-pandemic levels.
- Our base case assumes strong revenue growth for the Travel vertical over FY21–23; we remain reasonably confident on FY22E, given 1) increased technology intensity, 2) strong deal wins, and 3) the low base. However, prolonged recovery in the Travel vertical may pose a risk to FY23E. Over the long term, IT spending growth would start to reflect enterprises' revenue growth – as increased technology spending as a percentage of revenue would be a part of the base.

US companies' expectation of rate of return to 2019 spending levels – more than 70% of companies to keep travel costs below 50% of pre-pandemic levels for CY21



Source: Deloitte corporate travel survey

US corporate travel spend as % of 2019 spending – expected to continue to trend below pre-pandemic levels in 2022



Source: Deloitte corporate travel survey

Company	Takeaway
AUTOMOBILES	
Apollo Tyres	**A. Demand:** Healthy demand momentum has been seen across the Replacement market (except T&B OEM) since Jun'21. However, PV OEMs have significantly cut their forecasts due to the ongoing semiconductor shortage issue. **B. RM cost inflation and price action:** 1QFY22 RM cost inflation stood at 11% QoQ and ~5% in 2QFY22. It took a price increase of 3–4% in 1QFY22, 3–4% in Jul'21, and 1–2% in Aug'21. It would need another round of price hikes to fully cover the cost inflation of 2QFY22. **C. EU operations reorganization:** EU margins improved to ~16% in 1QFY22, benefitting from restructuring at the Netherlands plant. **D. Vredestein launch in India** – The premium tyre range may be launched soon in the Indian market. It would give a strong push to the brand.
Balkrishna Industries	**A. Demand** is very good, and it expects double-digit growth over the next couple of quarters. Over the medium term, it is targeting sustainable growth of 12–15%. **B. The OTR segment** should see a ramp-up over the year as all the initiatives – (trails with mines, construction company, etc.) of the last few years, including ultra-large tyres – have been commercialized. **C. Margins**: There are cost pressures, but it will take a couple of quarters to completely pass on the cost. It has taken a price hike in July (avg of 3–4%). **E. The RODTEP scheme** is not applicable for MIL as it benefits from advanced license scheme (for imports). **F. Logistic challenges**: Acquiring containers is a challenge, but the team has managed it thus far – no impact is seen on supplies thus far. While 50% of sea freight is on an FOB basis, the impact of CIF exports is 2–3%. **G. Capex**: A large portion of the capex would be operational by Sep'22. It would announce the next phase of capex in 3QFY22. From its existing infrastructure, it could further add 200tpd capacity via the brownfield route at Bhuj and Waluj.
Bharat Forge	**A. Demand** is very strong, but supply-side issues are a concern, as the ramp-up has an impact at the customer end. PV is seeing a bigger impact v/s CV, with the full impact visible only in 3Q. It is an evolving situation, with no clarity as of now. The next few months would be challenging. **B. PV business**: The India PV business is largely focused on powertrain components, which could be at risk over the medium term due to EV. Aluminum forging in the US/EU is largely focused on chassis components; it has orders across different powertrains. (incl BEV). However, the ICE PV business would grow due to higher outsourcing and the Transmission business. **C. Aluminum forging** is already doing mid-double-digit margins. Going ahead, this would further improve with scale. Demand for aluminum forging is very strong. With the entire capacity already booked, it would have to look at the next phase of additions. **D.** For **EVs**, its focus is on enhancing content where it is zero (2Ws, 3W, LCVs); this would outdo the negatives pertaining to EVs in other segments. Overall, it sees 10–12% of revenues (powertrain components for CVs and PVs) to be at risk due to electrification. **E. Sanghavi Forging**: From the current capacity, it could do revenues of INR2b and

Company	Takeaway
	can go up to INR3.5-4b with minimal capex. BHFC is focused on how to create a USD100m opportunity from this asset in the Industrial segment.
	F. The RODTEP scheme would bring 1% of export revenue as an incentive, would flow to the margin from 1QFY22 levels (but this incentive is 50–60% lower than the MEIS scheme).
CEAT Tyres	**A. Demand:** Replacement demand remains strong across segments, except T&B and Farm. OEM demand has somewhat slackened, especially on the PV side. For e.g., MSIL has cut its forecast by 60% and MM by 25% for September due to the on-going semiconductor shortage.
	B. Exports continue to grow faster than domestic sales, resulting in higher contribution in 1QFY22 (20% of revenue from exports v/s 10–12% earlier). However, exports are facing headwinds from logistics as freight rates have gone up by 2.5–4x and container availability issues pose a concern.
	C. 2W tyres – competitive outlook: Currently, the market has stabilized in terms of players and pricing. However, Maxxis tyres could pose some near-term competition to players with lower quality products.
	D. OTR plant ramp-up: It had an initial capacity of 40tpd, with an operating capacity of 32tpd. Currently, it has a capacity of 45tpd and it would increase this to 57tpd by 4QFY22. The target is to achieve 80tpd by 1QFY23.
Eicher Motors	**A. The New Classic 350** has had a very strong start, but it is very early to predict the outlook. Meteor has helped improve the run-rate of Thunderbird (old model) to 2x. As seen with Meteor, the new Classic should help trigger the replacement cycle (replacement demand stands at just 5–7% of sales).
	B. Demand seems to be on track and would be further boosted by new launches. It plans to launch at least a couple of more launches over the next six months, with at least one new brand.
	C. Supply-side issues would be completely addressed by end-FY22; however, it should see MoM improvement from 3QFY22. Malaysia has been a big concern, impacting Sep'21 more than originally expected. It is working with an alternative supplier that should be able to supply from next month.
	D. With exciting new products on the market and supply-side issues addressed, it can go back to a monthly run-rate of 75–80k units in FY23.
	E. VECV is benefitting from a) proven capabilities in producing and maintaining BS6 engines, b) CNG focus, and c) connected trucks (uptime center enables preventive maintenance).
Endurance Technologies	**A. Outlook:** Domestic 2W should clocking 1.9m units/month (v/s Aug'21 – 1.7m units/month) once the chip shortage eases. This year, pent-up demand was missing, unlike last year. It is planning to start supplying ABS from this month and plans to ramp up to 20k units/month by 4QFY22. The company targets a higher valet share with its existing and new customers, with the launch of products such as ABS / inverted front forks / machined castings.
	B. EV: Currently, 7% of the India business revenue comes from the Transmission business, which is likely to be affected by e-2W. However, the majority of this revenue comes from the clutches supplied to motorcycles, which may be disrupted at a later stage, v/s ICE scooters, where it has a little exposure. It has started casting supplies for Bajaj Chetak and is in active discussions with other e-scooter OEMs for orders. For the Europe business, it has an order book of EUR120m (EUR30m from BEVs and EUR90m from Hybrids).

Company	Takeaway
	C. New business segments: It is actively looking at entering new product segments, but this would be a natural progression from its existing segments (e.g., Supply of ABS to the OEMs will be the next step in line after supply of its existing hydraulic brake systems). It would choose these segments on parameters such as market size, technology involved, fuel agnostic, and other financial parameters (such as profitability and RoCE).
	D. Margins: It has refrained from giving any margin guidance due to the high current commodity prices. It normally passes on the price increase with a lag of a quarter to the OEMs, except in 3Q of FY21, where it had to give a spot increase to one of its suppliers, which went uncompensated.
Escorts	**A. Demand and supply:** The management expects good demand from the festive season on the back of strong rural sentiment and good levels of inquiries. Inventory is higher by a week (v/s normal levels of 3–4 weeks).
	B. Capacity: It has capacity of 120k units per annum, with plants operating at near-peak capacity. With debottlenecking, capacity would increase to 150k units p.a. by next month. The Kubota JV plant is currently utilized only for the production of Kubota tractors.
	C. Railway: Its current order book stands at INR3b; however, the execution of the existing order book is faster v/s new order inflows as the Railways are still not fully operational. It expects lower double-digit revenue growth (13–14%). It targets a margin of 17–18% over the long term.
	D. Construction equipment: It is seeing good demand and expecting upward revision in the volume forecast from the earlier forecast of mid-teen growth.
	E. Tractor market share: This may get delayed due to the COVID-led situation, but the company maintains the target of market share of 15% for Tractor.
	F. RM cost inflation – A 1-2% increase was seen in input costs in 2QFY22; however, the company would decide on a price hike towards the festive season as the market is currently not conducive for a price increase.
Motherson Sumi	**A. Semi-conductor challenges**: There is no clarity on the semi-conductor issue as the situation is very dynamic. However, chips are allotted to premium cars, which benefits MSS. It expects the situation to normalize over the next 6–15 months. COVID-led lockdowns in many markets (ASEAN) are driving new inquiries from these markets/customers – as OEMs look to de-risk supplies.
	B. Non-auto: Hyperactivity is seen in the non-auto businesses, but it may share further updates in Oct'22 (mid-term review). In the last five-year plan, it had seeded these non-auto verticals, and product launches and further developments are happening.
	C. SMP greenfield plant: All cost structure related issues are behind, with the only factor now being supply-side issues.
	D. M&A opportunities: There are enormous opportunities available in the market. As the COVID disruption stabilizes, and capital from the government starts drying up, there will be corrections in valuations and more assets will be available in the market.
Sona Comstar	**A.** The BEV segment would be the largest growth driver for the company. In addition to differential assemblies, most of the supplies also include reduction gears. This increases the content per vehicle in BEVs (v/s ICEs).

Company	Takeaway
	B. CV differential assemblies: It expects to grow faster v/s the CV industry as most of the new CVs are multi-axle (v/s single-axle earlier). **C.** **BSG motor**: It has the right product, along with the top 3–4 players, such as Valeo, SEG, and Continental. However, the product does not offer any material differentiation to competition. **D.** **Traction motor**: Competition is far fiercer from all sides (convention) and lower end players. There is not much differentiation in the product; however, along with the controller, this becomes a strength for the company – as electronics and embedded software capabilities are not accessed by everyone. **E.** The EU market provides great opportunity as Sona's market share is still very low in the EU. Although the PV industry is not expected to growth fast, Sona expects to grow with an increase in market share.

Company	Takeaway
CEMENT	
Shree Cement	**A.** **Demand and pricing:** Demand started picking up in July and remained stable in August, driven by the Infra Projects and Individual Housing segments. The company has taken a price hike of INR10–15 per bag in September. **B.** **Emphasis on improving realization:** It has increased focus on (i) premium products and (ii) branding and advertising to improve realization and bridge the pricing differential of INR25/bag with category A brands (UltraTech, ACC, and Ambuja). **C.** **Blending ratio to improve**: The blending ratio, which currently stands at 1.50, is expected to improve further post the commissioning of upcoming capacities in East. PPC/OPC/PSC account for 75%/20%/5% of sales volumes. **D.** **Capex guidance:** For ongoing capacity expansion plans, it has guided for capex of INR16.0b in FY22 and INR20–25.0b in FY23. Total capex over the next five years is guided to be INR280–300b on account of 40.0mt capacity additions. **E.** **Capacity additions:** It would announce its capacity addition plans in Sep'21 and has reiterated its plans to increase capacity to 80m by FY27 (current capacity – 44mt) – with the bulk of capacities to be added in North and East in the initial phase and then in South in the following phase. Raipur Line 3.0 is expected to be commissioned in Sep'22.

Company	Takeaway
CONSUMER	
Dabur	**A.** **Rural demand** is well-placed owing to good monsoon expectations. Dabur's efforts to expand the distribution network in rural markets are also aiding its performance in this space. **B.** **Commodity inflation and margins:** Overall inflation stood at 8–9%, with sustained inflation in some commodities. Dabur has taken price hikes of 3–4% to date, along with cost-saving initiatives, but these have not fully absorbed the inflation impact. It plans to take a second round of price hikes going ahead to protect margins. **C.** **Distribution network expansion:** Dabur has been increasing its direct reach from 1.3m as of Mar'21 and aims to reach 1.4m outlets in FY22. It has also expanded rural reach to 69k villages from 59k in FY21. **D.** **Increase in A&P spends:** Current spends of 7–8% of sales are lower v/s peers; the management aims to increase these to 9–10% over the next 2–3 years. These investments would support brand building.

Company	Takeaway
	E. The Healthcare segment has a very high base due to COVID and would see some moderation in the near term. Dabur is focusing on innovations in flavors and formats to drive growth in this segment.
	F. Hair Care and Oral Care continue to see good traction despite the high competitive intensity. In Hair Care, Dabur is gaining market share. In Oral Care, Dabur Red Toothpaste is seeing broad-based growth owing to its herbal positioning – as the Herbal business is growing at double the pace of the category growth.
Marico	**A. Rural demand:** Rural demand remains healthy despite some reverse migration to cities. Rural contributes 33–34% to MRCO's total sales. The management aims to drive rural growth by increasing the number of rural stockists by 25–30% in the next couple of years. On an overall basis, the management expects 8–9% volume growth for the remainder of FY22.
	B. Material costs and outlook: While copra prices have stabilized, edible oil prices remain elevated. Very high commodity inflation and a high base make the management cautious about growing at 20% levels in FY22. In-home consumption was also higher in the base quarters.
	C. Saffola: 60% of Saffola's growth came from new households, suggesting higher penetration levels. Typical households that use Saffola are more health-conscious and have a lower per capita consumption of oil for cooking; thus, penetration-led growth is encouraging.
	D. VAHO: MRCO is under-indexed in the premium VAHO segment. It re-launched Hair and Care. Parachute Ayurvedic has good share in southern India. The company has higher volume share, hence premiumization would remain a key focus.
	E. Working capital: NWC days had come down significantly in FY21; a portion of this is sustainable in the future. Post normalcy, inventory levels would be back to normal. As CSD sales return, debtor days are expected to increase as well.

Company	Takeaway
FINANCIALS	
AU Small Finance Bank	**A. The bank has identified five segments for growth – Wheels, Secured Business Loan (SBL), Housing, Agri, and Business Banking**. Growing 20–30% in these segments would not prove challenging given AUBANK's size and market positioning. Wheels, SBL-SME, and Home Loans would comprise 75% of loans, Business Banking and NBFC would be 10–15%, while the balance would be the unsecured business (the credit card book is gaining traction).
	B. Demand is picking up, with the Wheels and Housing segments seeing strong improvement, while SBL remains impacted.
	C. Wheels – The focus is on income-generating assets. Less than 30% of used vehicles get financed (v/s 70% of new vehicles), thus providing ample growth opportunities. Tractor would be another key segment (7–8% of loans), while it is also focusing on 2W – although, the book is relatively small at ~INR1b. **Yields:** New Vehicles stand at 10–11%, Used Vehicles at 14–16%, and Cash-on-Wheels is relatively higher.
	D. Housing – The focus segment remains Self-Employed; however, with cost of funds coming down, the bank is incrementally looking at the Salaried segment as well. Average yield on the book is ~11%. The bank is looking to scale monthly disbursements to INR2b. A strong understanding and in-house expertise would

Company	Takeaway
	enable this book to grow at a healthy pace.
	E. The trajectory in cost of funds would depend on the interest rate environment. Overall, the bank aspires to narrow the gap in its cost of funds with large peers, which currently stands at ~150bp.
	F. The bank does not expect much change in the restructuring book, which currently stands at ~3.6% of loans. The CE in this book is slightly trailing to overall standard loans, but the bank expects this to improve and reach closer to overall portfolio levels.
	G. Jun–Aug has seen a healthy increase in collections. Legal tools are now available, thus LGDs should be lower. The bank remains hopeful that the asset quality should surprise by Sep'21.
	H. The focus remains on building digital capabilities. The bank would continue to invest in branches, people, and tech infra. Thus, the cost-income ratio would remain elevated. The bank plans to open 50–75 branches in urban centers in FY22.
Bajaj Finserv	**BAGIC** **A.** Overall, the claims ratios for the industry are expected to inch up, which makes cost rationalization and efficiencies key to generating underwriting profits. BAGIC has kept some investments on hold due to persisting uncertainty surrounding a potential third COVID wave. It plans to evaluate the same post 3QFY22. **B.** BAGIC is looking to diversify its geographic presence by increasing its reach in the rural areas where it sees significant growth opportunities through investments in distribution. **C.** Group Health Insurance has seen ~20% growth in the current year – on the back of price hikes for existing customers, an increase in coverage, and an incremental focus on wellness. However, the Group Health business is highly price-competitive as certain large players and PSU general insurers have priced their products 20–25% cheaper v/s other players, which is not sustainable. **D.** In the Motor business, claims were lower in FY21 due to stringent lockdowns. However, in the current fiscal, claims have started normalizing given that the lockdowns have been relatively lenient. **E.** Despite having sizeable market share in the Health segment, BAGIC was relatively insulated from higher health claims on the back of a lower share of the Health business in overall premium collections. **F.** There is further scope for consolidation in the GI industry as smaller players have capital-related constraints. BAGIC is also evaluating options for inorganic growth to utilize the surplus capital. **BALIC** **G.** BALIC had launched a new annuity product in March 2021, which contributes 10–12% to the business mix. Also, it has revamped its exposure in the Non-PAR segment. **H.** There is a higher focus on direct and online channels. The company is making investments to generate natural traffic on these social platforms. However, the company expects traditional distribution channels to continue to dominate the Life Insurance sector. **I.** The second COVID wave, vis-à-vis the first wave, has had an adverse impact on mortality claims. However, the same has started to normalize over the past 2–3 months. The third wave impact is expected to be much lower on the back of

Company	Takeaway
	faster vaccinations across the country.
ICICI Bank	**A.** The Credit Card business is seeing strong growth, with spends higher than Mar'21 levels, while Personal Loans demand is also at 80–85% of pre-COVID levels. The bank remains positive on the Credit Card business going into the festive season and would not change its strategy given the largest bank is back in business. **B.** Corporate growth remains tepid, and demand is at fine rates from PSU, which is not very lucrative. The focus remains on pursuing growth, which aligns with the objective of steady core operating profit growth. SME / Business Banking is not witnessing any material credit quality issues, and the segment is relatively smaller for the bank. The growth outlook though remains healthy. **C.** Customer acquisitions via branches in the SME segment have been fairly strong, resulting in healthy growth. Also, the turnaround time has reduced considerably, thereby providing a better experience to customers. **D.** The pace of accretion of retail deposits has started to moderate on account of better return alternatives. Furthermore, surplus liquidity in the system is deterring banks from chasing the deposits aggressively. Deposit rates have largely bottomed out, but current rates may continue given the surplus liquidity. **E.** Decline in cost of deposits has compensated for the decline in lending rates. However, in the past quarter, home loan rates have declined further, while deposit costs have been stable. **F.** As trading activity has picked up, transaction banking volumes have increased, which is aiding fee income. Corporate India's balance sheet has strengthened, while demand remains muted. Also, corporates are consolidating with banks, and given ICICI's strong technological capability and low funding cost, the bank is able to gain market share among corporates. **G.** Overall asset quality remains on track, and the bank is expected to utilize the COVID provisions gradually. The NPL coverage ratio remains healthy, and asset quality seems to be in good control. Slippage also remains controlled, while recoveries are likely to remain steady (similar to 1QFY22). **H.** **3rd party distribution income** – MF saw sustained growth in SIP, while within Insurance, Term Life has grown at a healthy pace.
ICICI Prudential Life Insurance	**A.** Current business trends are led by strong recovery in ULIP and robust demand for Guaranteed/Annuity and Group Protection. On the other hand, Retail Protection trends remain subdued due to pandemic-related challenges. Annuity is a long-term opportunity and the vesting of NPS in 5–7 years would continue to aid growth in the segment. **B.** It does not focus on any particular product mix; however, current business trends suggest that the product mix will likely be Protection: 20–25%, ULIP: 45–50%, and the rest would be traditional. **C.** Distribution strategy: It is continuing to focus on improving the distribution channel by entering into new banca partnerships and focusing on strengthening the agency channel. The agency channel is likely to scale up further in terms of overall distribution share and is looking at 30–33% share over the medium term. **D.** It expects COVID claims to remain elevated over 2QFY22, primarily due to delay in intimation on cases. However, there are no alarming trends. **E.** It is on track to double VNB – 28–30% VNB growth is expected over the next two years. VNB margins would improve further once growth is revived in Retail

Company	Takeaway
	Protection.
	F. Competition from fintech insurers: New-age fintechs are successful in the General Insurance space, while the brand of the manufacturer is very important in selling life insurance policies.
IIFL Wealth	**A. Transition to ARR:** When the transition to ARR was made, the target to achieve pre-transition revenues was set for 36 months. However, the same has been achieved in 1QFY22, i.e., within 27 months. The share of ARR has reached 67%, and the aim is to reach 70–75% by the end of the current fiscal. **B. Retention rates:** Overall retention for the company stands at 55bps. IIFL One retentions are likely to increase going ahead as the share of newer assets increases owing to better yields. Retention on DPMS is expected to increase from current levels of 50bps to about 60bps. On the other hand, NDPMS retention is expected to improve from 30bps to 40bps. Overall, IIFL One retention stands at 40–42bps, which is expected to increase to 50bps in a few years. This would be achieved when AUM increases to INR500b from current levels of INR300b. **C. Competitive environment:** Competition is increasing with Kotak, Julius Baer, Avendus, Ask (post the stake purchase by Blackstone), and Edelweiss shoring up products, processes, and people. However, with the industry size growing at a fast pace, there is opportunity for all to grow. **D. Digital initiatives:** With regard to digital investments, HNI and UHNI clients are not large users of online platforms. Hence, investments in digital (3–3.5% of revenues) would primarily be focused on enhancing the productivity of RMs. Currently, each RM team (3–5 members) manages 100–110 clients, which has doubled over the past few years. **E. Employee churn:** IIFL Wealth has not seen any significant churn in the past year, with hardly any exits at senior-level RMs. Currently, there are 60–65 team leaders, and they have seen less than 3% attrition among them, on average. This was possible owing to 1) ESOPs, 2) the company taking a bigger hit at the time of the ARR transition, and 3) the company ensuring pay growth in line with company growth. **F. Cost improvement:** The cost-to-income ratio for 1QFY22 stood at 50.4%. Over the near term, the company does not expect major declines, but over the medium to longer term, it aims to reach 45%. Operating leverage benefits are relatively higher for the AMC business v/s the Wealth Management business. **G. NBFC book:** The NBFC book size is not expected to grow materially from current levels of INR35b. IPO and ESOP funding could drive marginal growth. **H. Dividends:** Dividend payouts would be maintained at 75% levels; the company does not expect any further special dividends.
IndusInd Bank	**A. Vehicle segment**: This segment is showing healthy recovery, with robust demand in the Tractor (owing to a better monsoon season), 2W, and Passenger Car portfolios. Also, there is a slight pickup in Commercial Vehicle, but this is still below normalized trends. On the other hand, the Luxury Bus segment continues to witness tepid loan demand. Overall, the Vehicle portfolio is expected to reflect 15–17% growth. Collection efficiency has reached ~95% levels. **B. MFI segment:** It has a well-diversified MFI exposure across states, with maximum loan exposure to any particular state at 10–13%. The collection efficiency in this portfolio has recovered to >90% in most states, barring Kerala, Karnataka, and

Company	Takeaway
	some parts of West Bengal. The MFI segment is likely to grow at 16–18% annually. Growth would be driven by new customers and not by way of loan size.
	C. **Restructuring:** In the Vehicle segment, it expects additional restructuring of ~INR10b, while slippage would remain controlled in this portfolio. Also, it expects restructuring of INR6b in the MFI portfolio, dominated by specific states.
	D. **New launches**: It plans to launch a digital loan portal for the Vehicle Finance business, which could prove to be a game-changer; it would announce this by Dec'21/Jan'21. Also, it launched an SME application via tie-ups with several fintechs.
	E. **Corporate segment:** Corporate growth is also seeing some revival, largely led by PSU entities. Overall, it expects corporate loan growth of 8–10%. Overall, loan growth for the bank would be 14–16% for FY22E.
	F. **Large corporate stressed exposure**: Total funded exposure stands at INR9.95b, while non-funded exposure at INR24b. The account remains standard. However, the bank would build provision coverage of 40–50% on this stressed exposure over the next few quarters. Overall, the bank would maintain >70% provision coverage and build an additional provision buffer to strengthen its balance sheet.
	G. **Deposit strategy:** IIB would continue to focus on improving the retailization of deposits. It has a strong rural network and higher focus for deposit mobilization from tier 4 and below cities. Also, it is focused on NRI deposits.
MAS Financial	A. **Expects to return to a stronger growth path:** Given the economic recovery after the second COVID wave, MAS is well poised for 20-25% CAGR over the next few years. The management's endeavor is to grow to a standalone AUM of INR100b over the next 3-3.5 years. Though on a small base, the management guided at a medium-term CAGR of 30-35% in its Housing Finance subsidiary.
	B. **Ramping up its technology infrastructure to strengthen distribution:** With over 3,500 centers, MAS already has a robust distribution model. It is now ramping up investment in technology to make it an enabler for distribution.
	C. **Partnership with fintechs:** MAS has tied-up with CredAvenue for their co-lending platform. It intends to utilize the full stack discovery, credit, operations, and risk management modules available on CredAvenue. One-to-one partnership models are restrictive from a scale perspective. For lenders (like MAS) looking to explore a sizeable number of partners with a quick go live TAT, the platform-based approach offered by CredAvenue is an excellent solution. These partnerships with fintechs will help MAS increase its distribution strength without compromising on its underwriting practices. It will also result in customer delight since it will lead to a reduction in the turnaround time.
	D. **Collection efficiency (CE) and guidance on restructuring**: CE has been in the 95-96% range. MAS will only restructure loans of those borrowers who will be in a position to repay after the restructuring process is complete. It will not be used as a tool to delay recognition of stress. It guided at a total restructured pool of less than 1% of AUM.
	E. **Liabilities and direct assignments:** It is seeing a lot of strength on the liability side. Incremental costs of borrowings will continue to decline. Its MSME and SME portfolio is eligible for benefits under PSL. Direct assignments will continue to remain robust as there is a lot of appetite from Banks for buying out MAS' quality portfolio.
	F. **Unique distribution model with a network of partner NBFCs**: MAS' biggest moat is its ability to understand its partner NBFCs better than others. It shares a lot of its expertise with its partner NBFCs. From just one relationship back in 2010, it

Company	Takeaway
	has grown to a network of over 100 partner NBFCs in the last decade.
Piramal Enterprises	**A. Phase I of the transformation in Financial Services (FS):** The management has taken steps to insulate the Balance Sheet. Adequate provisions (5.8% of AUM), healthy capital adequacy (CAR of 39%), comfortable ALM position (due to increase in the duration of borrowings) have aided the completion of Phase I of its transformation in the FS business. **B. Phase II and III of transformation in FS:** Phase II refers to the transformation from a Wholesale-led business to a diversified business, with a commensurate increase in Retail AUM with the inorganic acquisition of DHFL. PEL is currently in Phase II of this transformation and expects to complete this phase in the next one year. Phase III will involve operations as a Retail business, led by tech, to ensure sustainable growth and profitability. Over the medium term, it expects Retail to form two-third of its total loan book, while the balance will be wholesale (with a fair mix between Real Estate and non-Real Estate). **C. DHFL acquisition:** It is expected to announce the completion of the DHFL acquisition in the next few days. In addition to some operational aspects like issuance of 10-year NCDs for the DHFL acquisition, PIEL is awaiting one last RBI approval for completion of the acquisition. It will sweat the branch network of DHFL to sell multiple products to its customers by leveraging the tech platform. Immediately after the announcement of the completion of the acquisition, it will go live in ~150 branches with one-product (mortgages) and in ~50 branches with multiple products. **D. Details on the DHFL transaction**: PEL acquired the Retail/Wholesale book of DHFL at 65/eight cents per dollar for a total consideration of INR343b. It expects an accretion of INR300-340b to its loan book from the DHFL acquisition. It will also benefit from reduced CoF on account of low-cost NCD borrowings (10-year at 6.75%) and will be allowed to carry forward the consolidated losses on DHFL's Balance Sheet. **E. Opportunities in the FS segment:** The management will continue to look at inorganic growth opportunities in Microfinance and Gold loans as these product segments are difficult to build organically and from the ground-up. Later, it could even look at opportunities in the non-lending Financial Services space like Wealth Management and General Insurance. In the Retail space, it is looking to grow organically in Small Business loans, unsecured lending (also BNPL products), and Used Car financing where it has tied up with CARS24 and CarDekho. It is also exploring new partnerships in the Used Car Financing segment and expects it to fructify over the next few months. It will gradually look to enter into Education loans and 2W financing in partnerships with Fintech/Edtech/Consumer tech platforms. While it did not provide an explicit growth guidance, it suggested that mid-to-higher teen growth is indeed achievable in the near future. **F. Higher risk-adjusted returns**: As the mix of Retail loans (especially unsecured loans) increase, yields will rise and granularity of the book will improve, thereby providing scope to earn higher risk-adjusted RoAs. **G. Demerger and separate listing of the Pharma and FS business:** The management said there will be an eventual demerger of the Pharma and FS businesses (vertical demerger) and that both will be listed separately. Both businesses are adequately capitalized and do not require any further equity allocation. Unallocated equity will instead be utilized for strategic opportunities, which it is still in the process of identifying. Unallocated equity will remain with

Company	Takeaway
	the holding company and it may even contemplate returning it to the owners.
Spandana Sphoorty Financial	A. **Collection efficiency (CE)** has exhibited a MoM improvement with CE at 72%/80%/93%/94.5% in May'21/Jun'21/Jul'21/Aug'21. For the vintage borrowers (fourth/fifth cycle), CE is far better than first cycle borrowers. B. **Geographical color:** Kerala (~3% of Spandana's AUM) has been the worst affected because of the extended lockdowns. The company is not making fresh disbursements in Kerala. The management does not plan to expand to newer states at present, but would instead look to penetrate deeper into existing states like Gujarat, Bihar, Rajasthan, and Telangana where it sees a lot of promise and potential. C. **Role of subsidiary Criss Financial (CRF)**: This 100% subsidiary is into non-MFI product lending. The management's endeavor is to have 40% of overall consolidated AUM towards secured loans (non-MFI) by CY25. CRF is scaling up its LAP, Gold loans, and Business loans as well. D. **Liabilities and incremental cost of borrowings:** From only one, Spandana now has ratings from three credit rating agencies. This combined with higher liquidity has enabled the company to negotiate better with lenders. It recently raised NCDs at 10.25% and term loans from the likes of Standard Chartered and HSBC at 9-9.25%. E. **Normalcy by Dec'21**: The management guided that it will take another 2-3 months for clarity to emerge on likely credit costs and to achieve steady-state collection efficiencies. The recovery from the second COVID wave was much faster than the first. It expects normalcy by Dec'21 provided there is no third COVID wave in India. F. **Credit costs attributable to the second COVID wave:** The management expects credit losses of 3-4% due to the second COVID wave. G. **View on RBI draft regulations for the MFI sector:** It views the development as a positive for the entire sector and was relieved on the removal of spread caps for NBFCs-MFIs, as it kept pricing rules at par for all players. However it was concerned with MFIs disproportionately increasing the lending rates, if these regulations are implemented.

Company	Takeaway
Infrastructure	
GR Infraprojects	A. **Diversification opportunities:** The management expects ample opportunity in the infrastructure sector over the next 10 years. While it would look to diversify in newer segments, the decision is taken on long term basis as it requires higher initial investment, both monetary as well as from management bandwidth perspective. The management is aiming at a diversification into professional segments (where designing work is involved) rather than doing plain construction work. HSR, Metro (tunneling), and transmission projects are segments identified for diversification. B. **Order inflow and order book:** Of the closing order book of INR150b (excluding INR28b in L1 orders), the appointed date is pending in ~INR90b worth of projects and should come in the next 3-6 months. Land acquisition is a challenge in some projects. GRIL will be bidding in South India and will avoid geographies like Uttarakhand where landslides are prevalent. It will also avoid bidding in states which are facing financial constraints. C. **Margin:** The management expected some margin pressure in FY22 due to

Company	Takeaway
	inflation as well as due to higher performance bonus in FY21. Projects that will reach margin threshold in FY23 have been taken at a healthy margin, which could cushion any adverse impact.
	D. Divestment: GRIL's equity investment is 10% of the project value across assets. It is looking at asset divestment from which further business opportunities can be created.
PNC Infratech	**A. Bid pipeline and order flow:** No new orders have been bagged till date in FY22. However, the bid pipeline is robust, with the management targeting INR80b worth of orders in FY22, primarily from the Road segment. PNC has bid for INR100b worth of projects, and the bids are yet to be opened. The management expects tenders of INR300b to be floated by authorities over the next few months. It would avoid bidding for Water projects till execution of existing projects in its order book starts to pick up.
	B. Execution trend: The execution pace has normalized in recent months. PNC is not facing major issues related to labor availability. No major COVID-related impact is expected in the near term. However, execution would be impacted by the monsoon. Execution of Water projects (~INR30b in order value) is expected to start in the next few months.
	C. Asset monetization: The Aligarh-Ghaziabad toll project is in the final stages of monetization and is pending NHAI approval (lender's approval already in place). PNC expects closures in the next few weeks. It is in discussion with a few investors and expects monetization of four more projects by FY22-end. These would include three HAM projects and one BOT-Annuity project.
	D. Competitive intensity is higher in EPC/HAM (~15/~10 bidders). For big ticket HAM projects (over INR10b), the competitive intensity is relatively lower.
	E. Toll collections have been picking up in recent months with the easing of restrictions and a pick-up in economic activity. The management expects the momentum to continue.
	F. Working capital and payment situation: Its receivables position has improved post 1QFY22, and its working capital is well within its comfort zone. There are no unusual payment delays from NHAI or other agencies.
	G. Outlook: The management has maintained its 20% YoY revenue growth guidance for FY22. The recent receipt of appointed dates in EPC and HAM projects would support execution in FY22. EBITDA margin is expected to remain stable at 13.5-14% levels. The pass through clause in well incorporated in contracts and it doesn't expect inflationary pressure on margin.

Company	Takeaway
HEALTHCARE	
Ajanta Pharma	**A. India business on steady growth path:** As the number of cases reduces, the outlook for core therapies (Cardio/Pain/Derma) continues to improve for the company. Ajanta Pharma (AJP) expects 200–300bps outperformance to the industry in the Domestic Formulations segment over the medium term. AJP would launch 18–20 products in DF, with almost one-third being new to market. Cardio-Diabetic growth is normal as it did not witness any de-growth, unlike other therapies. A reduction in MRs by ~200 to bring the number down to ~2,800 would further aid improvement in profitability for AJP. With new launches and enhanced marketing efforts, MR productivity is expected to improve going forward.

Company	Takeaway
	B. Branded Generics in Africa to outperform industry: As Africa was the least affected by the pandemic, AJP remains on track to outperform the industry by about 300bps. The Asia market may see challenges as the markets keep on seeing lockdowns on and off. The Philippines and Iraq remain the largest markets for the company from a long-term perspective. The Asia and Africa markets together have 800 MRs. The company would keep the number of MRs largely constant with additions of 25–30 at the maximum.
	C. US business growth to be led by new launches: While the price erosion is almost in the mid-teens at the industry level, AJP has seen high-single-digit price erosion in its portfolio due to a better product mix. AJP has 14–15 products contributing 65% to US revenues. The focus going ahead in the US remains on oral solids and oral suspensions. AJP aims to file 10–12 products and launch 6–8 products every year over the next 2–3 years in the US Generics market. The average revenue per product is expected to be USD2–3m per product on an annual basis from new launches. Interesting products in the US markets over the next 12–24M are g-Chantix, g-Vimovo, and g-Bystolic, subject to timely approvals.
	D. Cost pressure: AJP expects operational costs to rise by INR50–100m, compared with INR1.98b spent in 1QFY22, with a reduced number of COVID cases and increased MR–doctor physical connect. The superior product mix has led to elevated gross margins in 1QFY22 despite the minimal backward integration in manufacturing. 75% of the GM is sustainable from a medium-term perspective.
	E. Capex: AJP does not have major capex plans over the next 2–3 years (INR1.3b per annum) as it continues to focus on improving capacity utilization at its new facilities. Three new facilities are currently operating at 50–60% utilization and are sufficient to cater to growth for the next 2–3 years. Peak asset turn would be 2–2.5x for the Oral Solids business.
Alkem Labs	**A. US business – niche launches to more than offset price erosion in base business:** ALKEM being a generic player in the market has healthy traction in the at-risk g-Duexis launch. The innovator has appealed in a higher court against the outcome in the district court. However, there has been no injunction to Alkem. ALKEM remains confident to win in the higher court, which would further reduce the number of legal hurdles. ALKEM is seeing 8–12% price erosion in the US base portfolio. However, as the situation normalizes post COVID, the erosion would be 5–6%. ALKEM intends to undertake 15–18 fillings in the US and post a 10–12% sales CAGR in the US for the next three years.
	B. India business on steady growth path across therapies: Alkem expects the Acute therapy industry growth to be 5–7%. It intends to outperform the industry, led by brand recall, increased reach, and better doctor-MR connect. Similarly, considering industry growth of 13–14% in the Chronic category, ALKEM expects to fare better than the industry, with new launches and market share gains in existing products. Despite the decline in COVID cases, trade generics continue to show healthy momentum for ALKEM.
	C. Biotech – WIP to build new growth lever: ALKEM has launched Denosumab, Terpartride, and Romiplastim in the Indian market. It has completed the outlicensing in various parts of the world (Europe, South Korea, Australia, and Brazil), wherein ALKEM would be developing/manufacturing, while its partner would be marketing biosimilar products. The total investments in the Biosimilar segment have been INR7b, with INR1.5b in the building gross block. The asset turn is expected to be 1–1.5x.

Company	Takeaway
	D. NLEM: Clarity is yet to emerge on the impact from the new list of products brought under price control through the National List of Essential Medicines (NLEM). Based on the name of the products, 3% of revenues may get affected by the addition of products to the NLEM list.
Apollo Hospitals	**F. Building an ecosystem:** Apollo is in a strong position to enhance its omni-channel healthcare platform – by leveraging its physical network as well as digital services ecosystem, providing the complete array of services to patients. The building of the ecosystem with cost efficiencies / competitive prices through centralized purchasing and the availability of trained medical resources makes it unique and best positioned to become the largest digital health platform. Teleconsult, with patient history records, enables better treatment. Furthermore, Apollo has started a concierge service to integrate tests / hospital visits with the app to provide a) comprehensive service to patients and b) required inputs to doctors for better treatment. Given the availability of physical infrastructure as well as the digital platform, ~35m patients could be added without additional cost. **G. Apollo 24/7 – on strong footing:** Apollo has almost 10k orders per day from the online channel and ~20K orders per day from the offline channel currently. It caters to ~17K pin codes and services almost 400K patients on a daily basis. Apollo also has ~5,500 doctors on board in across 60 specialties, with ~1,500 full-time doctors for teleconsultations. Interestingly, it has reported 15m downloads of the Apollo 24/7 app, with 5m active users. Apollo has been able to fulfill almost 85% of the prescriptions, much ahead of peers. **H. Hospitals segment – scope to expand without significant investments:** Apollo has a bed capacity of 10k, with 7400 operational beds. 700–800 beds can be added with a marginal investment. Apollo intends to improve the sales/profitability of the Hospital segment by improving the case mix and reducing the average length of stay. Of the six large metros, Apollo has established its presence in Chennai, Bengaluru, and Hyderabad. It continues to have better traction in Kolkata/Delhi/Mumbai. Blended EBITDA margins for hospitals would be ~22% over the next 20 months. Apollo is looking at increasing occupancies, cost savings, and clinical improvements. **I. Other highlights:** Apollo would have ~USD200m capital available from internal accruals and potential stake sales in Apollo Healthco. Apollo has brought down the promoter pledge to 22% and would reduce it further by 50% by Dec'21. The monetization of real estate assets would eliminate the pledge altogether.
Ipca Labs	**A. Guidance:** IPCA expects 8-10% YoY growth in sales in FY22. Its previous guidance for the Domestic Formulations (DF) segment was 16-18% YoY growth, but sales are expected to surpass the guidance as its performance has been better than expected till now. The management expects an EBITDA margin of 25% for FY22. **B. Continuing with its well thought out strategy**: It reiterated its strategy of launching select products. It remains focused on enhancing its brand value compared to certain peers who are focusing on aggressive launches and lesser traction from each product. Pain products are not being used in the treatment of COVID-19, and all growth is secular in that therapy. Growth in Zerodol is expected to be better than that in FY21. Dermatology, Ophthalmology, and Neuro are few other therapies that are also doing well for IPCA **C. Competition from online Pharmacies:** Ipca does not expect much impact from online Pharmacies as purchase of Acute drugs cannot be deferred. In Chronic

Company	Takeaway
	drugs, although most of the molecules are interchangeable by nature, their release/absorption patterns are different and are not interchangeable in a true sense. Hence, patients do not switch drugs easily.
	D. Sartans: Ipca is strong in Losartan, with 30-40% market share. Globally, offtake of Losartan is 1,300-1,400 TPA. The management remains confident of gaining market share in the API segment on account of its low cost and consistent supply to global markets.
	E. Cost pressures: The cost of freight, packaging material, solvent, etc. have gone up off late impacting margin. It has taken a price hike of ~6%/2% in the Non-NLEM/NLEM portfolio in the DF segment to offset the impact of rising raw material cost.
Lupin	**A. Domestic Formulations (DF) to outperform**: LPC expects 12-14% YoY growth in DF in the long run. It is not looking to add more MRs in the DF segment. Growth in the DF segment would enable an increase in operating leverage and drive better profitability. Around 16% of sales accrue from the in-licensing portfolio. In addition to increased sales, the in-licensed portfolio adds a talking point for MRs with doctors.
	B. US sales to remain under pressure in the near-term: Till compliance issues are resolved and the flu season returns back to normal, US sales are expected to trend below USD200m/quarter. Price erosion, decline in flu product sales, and shift to long-term contracts for Albuterol impacted margin in the near term.
	C. Complex products to improve outlook in the US: It is working on low-competition complex products which should bode well for US sales and margin over the next 2-3 years. It has a few partnered as well as its own products under development in this category. LPC also has two products under development in the Biosimilar space – Peg-GCSF and Ranibizumab. Biosimilar competition in the US is molecule specific, and selecting the right molecule is key to success in this category.
	D. Cost optimization measures: LPC is looking at alternate strategies for Solosec/Women's health as the division is currently incurring losses of ~USD35m on an annualized basis. Its dedicated injectables plant is running at low utilization and is expected to continue for some time till there are a decent number of product approvals. LPC may look at CDMO opportunities in the meanwhile to absorb opex. It is also looking at a spin-off of its NCE division, with discussions in this regard at an initial stage. Most of its candidates are in pre-clinical stages.
Strides	**A. Moving in the right direction:** Business is back on track in most markets, and the management is hoping to deliver a better 2QFY22 earnings. It expects 10-15% growth in the US in FY22, with ~6 months of ENDO's contribution. Other regulated markets will also grow in line. Strides expects 15-20% revenue growth in FY22. Its endeavor is to achieve USD400m in US revenue over the next 2-3 years.
	B. ENDO fortifies growth: With the acquisition of ENDO's plant and product portfolio, Strides is acquiring a plant, ~100 ANDAs, 200 personnel, and will start contributing from day one. All government contracts will also accrue to Strides.
	C. Sputnik to drive Stelis' performance in the near-term: Over the next 12-18 months, the biggest revenue generator for Stelis will accrue from Sputnik V. Strides is on track to start supplying the vaccines from Oct'21. Sputnik Light is just the first dose and there isn't any difference between the two. The contract

Company	Takeaway
	for Sputnik Light is part of the initial contract for a Sputnik V vaccine. The margin on this vaccine will be higher than OSDs, but in line with industry standards. Revenue from Biosimilar products are still some time away.
	D. Other markets hold potential: Its order book for Australia is full for the next nine months. Strides' performance is ahead of the USD20m EBITDA target from that business. EMs have a low base, and a new product addition will be key to growth. There is potential to add 15-20% YoY growth, with good margin, from this segment.

Company	Takeaway
MEDIA	
Tata Communications	**A. Deal pipeline progress and traction:** The company expects positive traction in the deal pipeline, with the reversal of trends in SIP traffic and the negative trend in deals witnessed in 1QFY22. Larger deals, despite having longer conversion times, have also started seeing traction. The company believes that the worst is behind. It expects to see gradual sequential recovery. The normalization of operations across various markets and geographies would further aid conversions.
	B. Capital allocation strategy: The company is in a comfortable leverage position and expects capex to remain at USD250m levels. The company is willing to increase capex if there is a higher opportunity. The current net debt/EBITDA levels at 1.5–2x are seen as comfortable. The company plans to deleverage if there is no opportunity to invest.
	C. Monetization of land bank: The company has identified some properties that could be monetized through outright sale over a period of 1–2 years. Currently, it is working on documental efficiencies.
	D. Growth in Digital Platform segment: Digital Platform, which contributes around 25% to total revenues, has started to generate positive EBITDA. The company expects the EBITDA mix within this segment to grow meaningfully. While the Core Connectivity segment would grow in the single digits, growth in Digital is expected to continue at an accelerated pace. The digital platform and incubation margin would expand with increasing scale.
	E. Working capital: The company has put in place a mechanism to ensure the working capital requirement is addressed. Creditor days would be maintained at 60 days. The working capital requirement may increase due to an increase in the Data business, but the cash flow is expected to suffice the additional requirements.
Sun TV Network	**A. Movie production line-up:** Five big-ticket movies, with strong star casts, are expected to be completed by Oct'21. One big-ticket movie starring Rajinikanth is lined up for release this Diwali.
	B. Sun NXT OTT: The platform currently has close to 25m subscribers, largely from B2B telcos, while only a small portion of subscribers (~10% of the subscriber base) are from pure organic channels. While other players are aggressive in investing in OTT content, the company has kept investments in original content creation for OTT on hold currently, citing the impact of COVID and focus on completing the movies in the pipeline. SUN plans to intensify investments in original content once its existing movie production line-up is complete.
	C. Subscription revenue: Subscription revenues are moderately lumpy after peaking in 1QFY22, largely due to revenues accruing from subscription deals

Company	Takeaway
	and distress in one international OTT player. Going ahead, the company expects to see double-digit growth in subscription revenues, with renewals coming in at a higher price. **D. Content cost:** As a result of increased demand for quality content, the company expects content costs to go up from current levels. **E. Change in amortization policy:** To align its accounting with the industry best practices followed on a global level, the company has changed its amortization policy for movie satellite rights from 100% write-offs in the first year to a ratio of 30:30:20:20 spread over four years, significantly reducing depreciation.

Company	Takeaway
Oil and Gas	
HPCL	**A.** MS **demand** has crossed pre-pandemic levels (grown 5–6% from these levels) and HSD demand has reached 92–93% of pre-pandemic levels. By end-FY22, the company expects to reach FY19–20 levels in HSD. **B. GRMs** are rising, and with continued consolidation, GRMs would come in at a stable >USD5/bbl. **Marketing margins** should be looked at on a longer term basis vis-à-vis the short-term ups and downs. **C. The Mumbai refinery** expansion to 9.5mmtpa is mechanically complete. Although, the shutdown was extended due to the second COVID wave, leading to an impact on refinery volumes. The management expects to start getting the capacities on stream by end of this month, and stabilization would happen over the next couple of months. **D. Activity at the Vizag refinery** is in full swing. a. Slurry hydrocarbon would be ready by Dec'22 and the rest by Mar'22. b. It could see a USD4–6/bbl rise in GRMs. **E. Capex guidance:** Total capex for FY22 stands at INR140–150b, and as of Aug'21, the company has already spent INR60b. Refining capex would have a larger share (>50%) of the total capex. **F.** The company plans to spend INR750b over the next five years, and could have internal accruals of INR70b/year; it plans to fund capex with a mix of debt and internal accruals. **G. Rajasthan refinery:** Capex of INR430b is planned, with the D/E ratio at 2:1. HPCL has infused INR30b equity thus far.
ONGC	**A. The company expects APM gas prices to increase to USD2.9/mmBtu from Oct'21 and further to USD4.2/mmBtu from Apr'22.** **B.** Gas price breakeven for the company has been around USD3.5–3.7/mmBtu; it expects positive growth from Apr'22. **C. Volume guidance** for FY22 stands at 22.8mmt for oil and 24+bcm for gas. For FY23 and FY24, these nos. should see a ramp-up (2mmt ramp-up for oil and 2–3bcm ramp-up in gas). **D. Progress on KG Basin gas** – All of the projects have been awarded, but there has been some delay due to COVID. ONGC has commenced production after starting the second well last month. **E. OPAL** revenues have stabilized, along with operations, and current capacity utilization stands at ~88%.

Company	Takeaway
Real Estate	
DLF	**A. Residential demand** is showing signs of a transformation after a long time and

Company	Takeaway
	that too across segments (Luxury and Mid-Income or Affordable) and geographies.
	B. **Consolidation:** Reports suggest that 50% developers have exited the market, but realistically only the top 4-5 players are doing good business. DLF has till now been late to the party because of its Ultra-Luxury offerings which consumed a large part of the management's focus. However, with a multi-product offering, the company is expected to benefit from this trend.
	C. **Cost inflation**: There has been a sharp 10-15% rise in input costs, but no notable increase in land prices given the limited transactions.
	D. **Price rise:** On a broader market basis, there has been a marginal price rise on the back of increased input costs. For DLF, the price hikes have been notable, with the recently launched independent floors reporting a 30-40% rise in prices from its first launch till the last transaction. In Camellias, the 5% discount has been rolled back and there has been further price increases in 2QFY22.
	E. **Focused land development approach**: With an identified pipeline of 35msf, the management is focused on continued evaluation of its land bank, while making sure that there are at least 5-7 projects ongoing at a given point. On that basis, the pipeline is expected to get stronger over the next 2-3 years.
	F. **Pre-sales target:** There is some level of uncertainty in the market with regards to the third COVID wave and with approval cycles being pushed back. The management maintains its INR10b quarterly run-rate target, but internally it expects to do more than that. Over the medium term, it believes sales can scale up to CY10 highs.
	G. **Recovery in leasing:** Across the board recovery in hiring lends confidence on a recovery in leasing, which should pick up from 4QFY22. Progress on the vaccination front will drive physical occupancy.
	H. **Ongoing projects:** The management hasn't scaled down its investments in ongoing projects, but the focus is solely on pre-leasing for now. Downtown Gurugram will be completed by 4QFY22, with rent commencing from FY23. Downtown Chennai will be completed in the next 18-24 months. Capex for DCCDL will sustain at INR7.5-8b annually.
	I. **REIT structure and issue:** The company is on course to make its portfolio REIT ready by FY22-end. Listing timelines will be decided by its two shareholders i.e. DLF and GIC. GIC is not in a hurry to monetize its stake, but is solely looking to create a platform. The REIT will be a fresh issue to reduce leverage.
	J. **Future commercial development:** DCCDL has a limited development potential with a concentration at only three locations. DLF has few more locations to develop. The management is evaluating land parcels in Pune and Goa. The platform provides a way to transfer Commercial developments from DLF to the REIT.
Embassy Office Parks REIT	A. **Physical occupancy** stands at 10% on an average for the portfolio, but varies across tenants (5-40%). This number is expected to rise materially post Diwali in Nov-Dec'21. Wipro has announced the resumption of offices for its employees. Even TCS will start calling its employees back to office beginning CY22. Global business leaders are in unison about wanting their employees to work from offices.
	B. **Hiring** has doubled v/s the last five-year's average. As per NASSCOM, IT/ITeS and allied sectors hired 0.5m employees in FY21. Tenants across sectors are seeing clear growth, and are supporting this growth with strong hiring plans. While companies may offer some flexibility in the near term, it believes these

Company	Takeaway
	new employees will require office space to work over the mid-to-long term.
	C. Supply: There has been a notable decline (25%) in supply expected over the next two years. Institutionalized Grade-A developers continue their expansion plans, while Tier II office suppliers are fading away. Half of that decline may come back, but it's immaterial and won't create pressure in the near term.
	D. Rentals remained absolutely stagnant across cities, except in Mumbai where the company has an exposure of sub-10%. Rents are the last thing that is discussed during negotiations as it continues to remain materially lower than global cities. With a strong leasing recovery expected from 1H and limited supply, rentals are estimated to increase in CY22.
	E. De-densification: Though not broad based, there were certain tenants who adopted very low density and are now looking to rationalize it. Low density was because business growth was much faster than the pickup in office space. For instance, a US-based Retail tenant, who had space per employee of 110sq. ft., is looking to de-densify to 125sq. ft. and gradually to 150sq. ft.
	F. Refinancing: The company will refinance the zero coupon on its call date in Nov'21 with full coupon debt. The bond will be split at the REIT level and LRD from Banks at the SPV level with varying tenures. This will broaden participation across the investor spectrum be it MFs, Insurers, and Banks who are not allowed to invest in REITs directly. While cost on an accrual basis is expected to decline by ~250bp, the cash impact will be ~INR1.5 per unit on DPU for FY22, with the full-year impact flowing through in FY23.
	G. Dividend guidance and growth: For FY22, dividends are expected to remain flat on a per unit basis at INR21.5. Over the mid-to-long term, the management sees multiple growth drivers with: 1) ~5% contractual escalation, 2) ~30% of the portfolio up for expiry over the next four years having an MTM potential of ~40%, 3) leasing of vacant space, 4) ~10msf of on campus development, and 5) inorganic acquisition.
	H. Tax efficiency: The company has progressed well in terms of improving tax efficiency, with tax free dividend reaching 80% of the total v/s an average of 45-50%. It will further improve to ~85% with the elimination of the double layer structure in ETV in 2-3 months.
	I. Improving liquidity: Reduction in the size of the trading lot has increased the holder base. SEBI has considered inclusion of REIT in the index, which will further improve liquidity. If included in Nifty Realty, it will be the third largest entity by market capitalization.

Company	Takeaway
TECHNOLOGY	
HCL Technologies	**A. Revenue guidance:** 2Q is shaping up well and will have some catch-up v/s 1QFY22, which was soft. The management's revenue guidance implies a CQGR of 2.8% over 2Q-4QFY22. It expects 2QFY22 to be a good quarter.
	B. Its **EBIT margin** guidance for FY22 remains unchanged at 19-21%. Wage hike (with effect from 1st Jul'20) will have a 75-100bp impact. There will also be additional headwinds from retention cost and skill allowance in 2QFY22. This implies some margin drag v/s 1QFY22, despite adjusting for 90bp one-off cost due to the COVID-19 outbreak. Costs headwinds are higher given the talent crunch in India for Mode-2 digital skills.
	C. Deal wins: The management expects TCV to rise YoY in 2QFY22. The last two

Company	Takeaway
	quarters have seen good growth. Given that the company had seen a recovery in deal wins starting from 2QFY21, the YoY growth in TCV in 2QFY22 suggests a good deal momentum.
	D. Employee addition: Headcount increased by a net 20k in the last two quarters – 17k of its own employees and 3k on lease from a third party. The management sees a healthy growth in net headcount in 2QFY22 as well.
Infosys	**A. Demand momentum:** There has been a significant elevation in the role of technology. Areas such as Cloud migration, customer experience, and cyber security have become strategic priorities for clients. Strong demand for these technologies will continue until they reach an advanced stage, which will take at least a few years.
	B. Pricing: While there have not been broad based price increases, the company is looking out for value-based price hikes within select pockets of the business.
	C. BFSI: Traction within BFSI continues to remain strong, with the outlook staying positive, led by traction across sub-verticals. Large and regional Banks have not reduced their tech spending. Sub-segments such as mortgage, cards and payments, and capital markets have performed very well.
	D. Europe: The company has seen win rates improve across geographies, including Europe. Manufacturing and Financial Services have seen a significant number of wins in Europe.
	E. Supply-side challenges have intensified over the past six months given the continuous increase in demand. The company has increased its fresher hiring target to 35k (from 25k earlier). The management believes that its strong and far reaching recruitment capabilities, strong brand, and one of the strongest growth outlook places it better to attract talent. Sub-contracting and attrition has gone up and are expected to remain elevated in the near term.
Mphasis	**A. Demand momentum:** Technology is becoming fundamental across businesses, and the level of change is significant. The company is witnessing broad based demand across verticals and clients. The management sees the demand momentum sustaining for the next three years at least.
	B. DXC continues to remain a business where the company is not investing and will constitute a smaller proportion of revenue going forward. The MRC with DXC is due to expire in Sep'21. The company has contractual rights which compensates it for any revenue shortfall because of the MRC.
	C. Supply-side environment: The current supply-side challenges are due to the sudden jump in demand and are transient in nature. Over the medium term, all companies will not be able keep up with the current growth momentum. Mphasis continues to hire and train freshers, and has expanded its location presence across India and internationally.
Persistent Systems	**A. Strong growth in FY22:** Growth is the management's primary focus, given the strong demand momentum. Strong deal wins and growth in FY22 will provide the company headroom for tail account rationalization. It aspires for USD1b in revenue by FY24.
	B. Mining customers deeper: Recently, the company undertook an exercise with an external consultant to enhance its go-to-market capabilities. It is focused on mining its top 80 customers better. Over the past few years, it has seen increasing deal sizes from its existing clients.

Company	Takeaway
	C. Supply-side challenges are evident, but the current intensity of challenges is more transient in nature. Even clients are aware of this issue and are open to assign relatively new personnel to the project. IT companies will have better control over their margins in FY23.
Tanla Platforms	**A. Karix:** Acquisition of Karix has enhanced Tanla's capabilities by adding premium enterprise customers led by the CPaaS business. Karix has ~30% revenue market share within the enterprise CPaaS market. Its share is greater than the combined market share of its next three competitors. With this acquisition, the company has created an end-to-end presence within the CPaaS ecosystem – i.e. a presence within both Telecom companies and enterprise customers. **B. Trubloq:** Tanla swiftly capitalized on the change in TRAI regulations and created a complementing DLT platform named Trubloq, making it the world's first blockchain enabled commercial communication stack. Being an early mover provided Trubloq the advantage of capturing market share. It enjoys ~62% DLT volume market share in India. **C. International expansion:** Tanla has combined its organic and inorganic capabilities and has developed a one platform strategy. It has developed a platform – Wisely – for fructifying its international ambitions. Wisely is the world's first unified CPaaS platform, providing end-to-end capabilities and a marketplace for all stakeholders in the ecosystem, which includes enterprise clients, Telecom operators, and other CPaaS players.
Zensar Technologies	**A. New leadership and large deal team:** Recent hires to its leadership team include vertical heads for Consumer and BFSI. The head of Advance Engineering Services is also a recent hire. The sales team has also seen good hiring. The company has set up large deal teams, which is working with the sales team to manage integrated deals. **B. Recent large deal with the City of San Diego** was not a single sourced deal, but a competitive one against an existing incumbent. Zensar won in the bidding process and was helped by its existing relationship. The deal will initially offer a lower margin, but will improve thereafter. **C. Vertical takeaways: 1) BFS** – Banking is growing much faster than Insurance. It expects faster growth rates; integration of M3bi will help. **2) Insurance** declined in 1QFY22 and will take some time to rebound due to client-specific issues. The company was Guidewire focused earlier, but is now looking at other areas as well. **3) Hi-Tech** – Top account witnessed some pick-up. **4) Manufacturing** – The company has added a large account and plans to intensify its hunting engine going forward. **D. Margin:** The management is focused on driving growth and hence would increase corresponding investments, which would have a near term margin impact. While the long term EBITDA margin outlook is in the high teens, the same in the near term will be closer to mid-teens.
Info Edge	**A. Recruitment business:** Traffic on Naukri gained momentum from both job seekers and recruiters. The IT sector is driving this growth. There is a revival in hiring from both the Travel and Tourism sectors. **B. Matchmaking business:** Business is still in the investment phase, and the management will continue to invest for the foreseeable future. While there

Company	Takeaway
	was an earlier commentary and an expectation that the market can consolidate into a two player market, it is now expected to remain a three player market. Jeevansaathi is consolidating its presence in the northern part of the country.
	C. Strategic investments to build depth in the core business: The company will continue to focus on its existing strategic verticals in the core business and develop adjacencies and depth within those verticals. AIF will not invest in adjacencies around operating verticals.
Nazara Technologies	**A. Real money gaming (RMG):** With the recent acquisition of OpenPlay, Nazara's focus on the RMG space has returned. The company remains optimistic on the overall opportunity and will continue to devote capital to this vertical. It aspires to be one of the top 3-4 players in the RMG space in India. This will be achieved via acquisition of smaller players operating in the RMG space and integrating it within Nazara's common platform.
	B. eSports is at a nascent stage in India, but markets like China and US have seen good success. Subsidiary Nordwin is a market leader within India. The management's focus is on working with the top 200 players for a particular game. Competition at the grassroots is beneficial to Nazara's eSports business as it enhances the overall ecosystem of the game and increases viewership of the top 200 players. The management is focused on creating IPs within this space.
	C. Gamified learning: It expects strong demand for gamified learning, and will focus on acquiring companies within this ecosystem.

Company	Takeaway
MIDCAPS	
Aarti Industries	**A. Capex:** The management has planned a consolidated capex of INR45-50b spread over FY22-24. Of this, INR15b capex would be towards existing products and the balance would be towards new products, where the company is targeting an EBITDA margin of 25-30%, which is higher than the existing business. This capex would lead to PAT growth (over FY21 levels) of 1.7-2x/ 3-4x by FY24/FY27.
	B. Pharma demerger: The management expects the Pharma business to be demerged and get listed within the next 9-12 months. It is planning for a greenfield capex of INR4-5b (towards API and intermediates) for which it has acquired land in Dahej. It expects an asset turn of 1.5-2x. Over 20% revenue growth can be expected from the Pharma division over the next couple of years.
	C. The management intends to maintain its debt-to-equity ratio at 0.9-1x despite the huge capex being lined up.
	D. The second and third long-term contracts would start generating revenue from 4QFY22 onwards.
Astral	**A. RM prices:** Polymer prices continue to rise and are expected to go up by 15% in 2QFY22. The demand scenario remains strong as distributors are aiming to stock inventory to record inventory gains. 2QFY22 is also a seasonally strong quarter, and the management expects strong volume

Company	Takeaway
	growth. Volumes in South India were affected in 1QFY22 due to increased COVID-19 cases, but demand has now rebounded.
	B. Consolidation in the industry: About 40% of India's resin requirement is met indigenously and the rest is imported. Around 60% is imported by traders and large manufacturers. When global resin prices are trading at elevated levels, imports fall as it is not economical for traders, which further leads to a RM shortfall for smaller players. Hence, small manufacturers have to purchase RM at a premium, leading to higher cash outflow. Due to this, the management expects further consolidation in the industry, thereby helping large players.
	C. Margins Due to higher RM prices at present, margin is expected to be higher than 15-16%. After the correction in resin prices, margin is believed to return to previous levels. However, CPVC prices have not increased in tandem with PVC prices. Astral plans to raise CPVC prices in 2Q and 4QFY22. Growing CPVC prices are expected to support margin expansion.
	D. Shift in market share: Post introduction of BIS standards, market share is expected to shift to organized from unorganized players as maintaining quality is going to be challenging for smaller unorganized players.
	E. Astral's revenue contribution from Agri and Infrastructure sectors is less than 15%. Majority of revenue is contributed by Plumbing and Adhesives segments. Going forward, the company plans to have a higher focus on Real Estate, Infrastructure, and Agri.
BlueDart Express	**A. Volume and price trend:** Volumes have started to pick up post the second COVID wave impact in 1QFY22. August volumes have been strong and at nearly 4QFY21 levels. With the festive season coming up, the volume uptick is expected to sustain the momentum. With regard to pricing, the company took a 5% General Price Increase (GPI) in 4QFY21 to offset inflationary and other incremental costs. The company has a pricing mechanism in place for the fuel price increase; the increase in costs is passed on to the customer.
	B. Competition has always existed and is not a new phenomenon. Recently, tech-based operators have been trying to increase prices to cut losses. This may result in market share gains for players such as BlueDart Express.
	C. Technology in logistics is not a differentiator but a necessity, with most players having adopted technology. BlueDart has incorporated the latest available technologies in its supply chain system.
	D. Network utilization for the Air Express business was at 90% levels during its peak (currently at 88%). The Ground Express business saw 86–87% utilization during the peak (currently at 84–85%). Over Apr to mid-May, utilization fell to 67–68% across Air and Ground and returned to normal levels by June-end.
	E. Trials on delivery via drones have been carried out for the first time in India. The company is conducting testing and undertaking research to determine which services drones are usable for. It is too early to comment on the business opportunity in this space.
	F. The current revenue mix is led by the Air Express segment (70% contribution to revenues). Of this, the Documents business accounts for 20–25% and Parcels for the remainder. The increasing share of parcels means higher volumes for the company.

Company	Takeaway
	G. Outlook: The management has refrained from providing guidance, but expects margins to improve as volumes pick up. With the festive season coming up, the volume growth seen in the last few months is expected to sustain. E-Commerce is an area where very strong growth may be expected over the next few years.
IHCL	**A. Recovery:** Business recovery was impacted due to the second COVID wave. However, the rebound in demand was equally sharp and robust. With an increase in vaccine distribution, demand from business travel, wedding, and other avenues is sharply returning to pre-COVID levels. The impact of the third COVID wave is expected to be minimal due to significant vaccine distribution. A gradual resumption in flight services is expected to support the recovery. **B. Industry capex trend:** As per the management, some supply impact will be felt due to lack of capital/liquidity. Renovation capex has been delayed by hoteliers due to lack of capital and stretched cash flows. The future trend of industry capex largely depends on a demand recovery. Supply shortfall, renovation slowdown, and consolidation of the industry is expected to pick-up in the near-term and certain assets are expected to be on the block for acquisition. Average addition of new Hotels each year is expected to be lower for the next 2-3 years, which is due to lower funding from Banks and other liquidity issues. **C. Staff per-room:** IHCL has managed to reduce its staff-to-room ratio to 1.09x in 1QFY22 (v/s 1.53x in 1QFY21). Going forward, the management plans to maintain a similar run-rate, except for IHCL Safari and Taj Palace, where it plans to maintain the previous staff-to-room ratio.
PI Industries	**A. CSM:** The outlook for the global Agrochemical market is positive with Asia, US, and other key markets doing well. Hence, the growth momentum in CSM will continue. The company commercialized six products in FY21. Diversification will ensure over 20% growth in CSM. Products commercialized in the last 4-5 years contributed 17-18% of CSM revenue. Non-Agri is less than 5% of the CSM business. Around 24-25 products are at the commercial stage and 44-45 products at the R&D level. These products are at various stages from the pilot to the commercial stage. **B.** Logistics issues and rising raw material prices are key concerns in the current scenario. Productive planning and efficient management helped de-risk from the volatility in RM prices. The company is increasing its connect with shipping providers to lower its logistics risks. It maintained a higher raw material inventory, which helped the export business. The company was able to pass on the increase in raw material cost due to better understanding with the customer. It has also initiated dispatches from alternate ports, which hedged the risk of congestion. **C. Pharma strategy:** The management has been working on diversification over the last few years. It has worked on creating infrastructure and R&D. It has decided to scale up the business through inorganic opportunities. Initial drivers will be through existing molecules from the acquired company. The next leg of growth will come through from contract manufacturing. It sees USD80-100b in opportunities from APIs and intermediates. EBITDA margin

Company	Takeaway
	will be in the 20-23% range. The management expects the focus on technology and upgrading the product portfolio to drive margins further.
	D. Domestic business: There are more than 10 products at various stages in the domestic market. The company expects launches to pick up in 2HFY22.
SRF	**A. Product prices:** Closure of certain capacities in the Chinese market has led to an increase in global prices (particularly Nylon 6). Price renegotiation with customers and increase in import prices have led to a substantial growth in the Technical Textile segment, coupled with margin improvement. A similar growth trajectory and margin profile is expected to continue going forward as well. **B. Packaging:** BOPET films in the Packaging segment saw a supply-demand mismatch, which is expected to lead to a slight margin moderation in the BOPET segment in the near term. The BOPP segment is expected to perform relatively better. The margin downgrade will not be in tandem with the margin in BOPET films due to new capacity additions in this segment. Increase in share of value added products and capacity addition in Hungary and Thailand is expected to support growth. **C. Ref-gas margin** was higher due to greater utilization levels, leading to kicking-in of operating leverage and increase in realizations (especially HFCs) as compared to FY21. **D. Chip shortages:** Drop in domestic and international Auto sales due to chip shortages won't significantly affect Ref-gas' performance. Ref-gas also sees strong demand from the secondary market (50-60% of volume), which is expected to offset the impact of chip shortages.
TTK Prestige	**A. Demand outlook:** Demand in Kerala during the Onam festival was robust, despite the ensuing COVID-related lockdown. Jun'21, Jul'21, Aug'21, and Sep'21 (till date) saw a MoM improvement. The management said demand levels have scaled back to CY20 levels. **B. Diversification:** Even in existing categories, the scope for replacement demand is strong (around five years). The management is looking at inorganic and organic opportunities to expand its revenue base. In the Cleaning Solution business, which the company entered three years back, it aims to scale its revenue to INR3b over the next three years (~INR0.5b now). **C. Exports:** The management is targeting Europe, UK, and the US to supply non-stick cookware and other appliances. Given the difficulties in doing business in China, clients are looking at India to meet their outsourcing requirements. TTK expects to double exports to ~INR1b in FY22 and scale it up to ~INR4b over the next 4-5 years. **D. In-house manufacturing:** As of now, imported products in terms of finished goods are ~2% of sales (from Turkey, Southeast Asia, etc.). Around 98% of turnover is via in-house and domestic sourcing, and ~50% is manufactured in-house. TTK decides to in-house or outsource as per volume requirements, design criticality, and what is best for the company. For each outsourced product, there are three vendors, so dependence on one is low.
	A. Recovery trends: All stores are fully operational, with some minor irritants. Customer response is also improving. The bunching up of purchases is still

Company	Takeaway
	seen with low footfall, higher conversions, and individual shopping instead of family shopping. However, as the COVID risk subsides, the situation is expected to improve. The focus is currently on the eastern region, with preparations for the Pujo festival seeing good traction.
V-Mart	B. **Growth:** 20–25% of store footprint is targeted annually over 3–5 years. It has regained the pace of additions, with 20 stores opened in the last six months.
	C. **Margin:** It has taken a 5–7% price hike to pass on the RM cost increase, which has insulated the margin. It should be able to maintain a 12–13% post-Ind-AS 116 EBITDA margin, with an 8–9% pre-Ind-AS 116 EBITDA margin.
	D. **SSSG:** It has maintained 5–6% SSSG historically before the COVID period. It had dropped for a couple of years due to internal factors and competition SSSG. The margin could be maintained with 3–4% SSSG, and the company expects to maintain over 5–6% SSSG post the normalization of market conditions.

13 September 2021

Company Update | Sector: Consumer

Tata Consumer Products

BSE SENSEX	S&P CNX
58,178	17,355

TATA CONSUMER PRODUCTS

Bloomberg	TATACONS IN
Equity Shares (m)	922
M.Cap.(INRb)/(USDb)	812.5 / 11
52-Week Range (INR)	889 / 459
1, 6, 12 Rel. Per (%)	4/29/11
12M Avg Val (INR M)	2417
Free float (%)	65.3

Financials Snapshot (INR b)

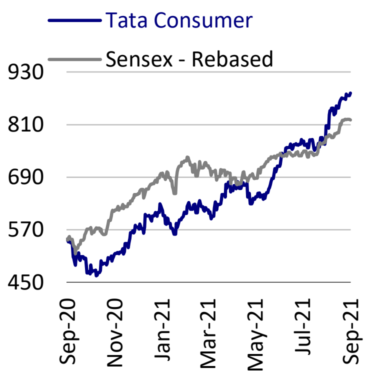
Y/E MARCH	2022	2023	2024
Sales	124.8	140.6	155.2
EBITDA	17.9	22.5	25.4
Adj. PAT	10.2	13.9	16.2
EBITDA Margin (%)	14.4	16.0	16.4
Cons. Adj. EPS (INR)	11.1	15.0	17.6
EPS Gr. (%)	17.0	35.9	16.8
BV/Sh. (INR)	164	174	186
Ratios			
Net D:E	(0.2)	(0.3)	(0.3)
RoE (%)	6.9	8.9	9.7
RoCE (%)	9.5	11.9	13.0
Payout (%)	40.8	33.2	31.3
Valuations			
P/E (x)	79.7	58.6	50.2
EV/EBITDA (x)	43.5	34.2	29.9
Div. Yield (%)	0.5	0.6	0.6
FCF Yield (%)	1.3	1.6	1.9

Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	34.7	34.7	34.7
DII	14.0	12.6	19.8
FII	25.1	25.3	19.5
Others	26.3	27.5	26.0

FII Includes depository receipts

Stock performance (one-year)



CMP: INR882 TP: INR1,000 (+13%) Buy

Gross margin pressure to ease in coming quarters

- **Tea price inflation has impacted TCP's performance since the last four quarters. However, we expect gross margin to improve from 2QFY22 onwards as tea prices have declined (down 32% from their peak in Aug'20 to INR175/kg in Aug'21). In this note, we have analyzed the impact of the fall in tea prices on TCP in the near term. Here are the key insights:**

Tea production in Jun-Jul'21 has grown v/s CY19…

- All India tea production (from Mar-Aug'20) declined by 19% YoY due to: a) first flush of the crop being lost as plucking activity came to a standstill due to the COVID-induced lockdown, and b) unfavorable weather conditions in Assam and West Bengal.
- Indian Assam tea is usually harvested in three flushes:
  - *The first flush is from mid-March to late-June (forms 32% of the whole tea cycle volumes and is of the best quality),*
  - *The second flush is from July to September (forms 38% of volumes and is the second best in terms of quality), and*
  - *The third flush is from October to December (forms 28% of volumes and are of inferior quality v/s the first and second flush) (as per 2019 production data).*
- **In CY20, tea production in India declined by 10% (to 1,258m kg), which created a supply crunch, leading to an increase in prices.**
- **Production volumes have started to normalize, but has increased when compared to CY20 and CY19 levels. Volumes have increased by 22%/11% YoY in Jun'21/Jul'21. They have increased by 12%/2% when compared to Jun'19/July'19 levels.** All of which led to a decline in tea prices from its peak in Aug'20.

…but prices are above pre-COVID levels…

- According to the Tea Board of India, supply-side shortages led to an increase in India tea prices by 182% YoY to INR258/kg over Mar-Aug'20.
- With the normalization and increase in tea production, prices fell 32% from its peak in Aug'20 to INR175/kg in Aug'21. However, prices were still higher by 17% when compared to Aug'19 levels.
- As per our channel checks, TCP has not yet reduced tea prices as it usually follows a 2-3 months lag while passing on any increase or decrease. This would have a positive impact on profitability in coming quarters.

…which bodes well for gross margin in coming quarters

- Standalone gross margin fell 610bp YoY to 34.7% in 1QFY22 due to tea price inflation, which led to a 640bp contraction in EBITDA margin to 13.9%.
- Standalone gross margin has been contracting on a YoY basis since the last four quarters beginning 2QFY21 and is likely to reverse from 2QFY22.
- Standalone gross margin has been improving since 3QFY21.

- We expect gross margin pressure to ease out further from 2QFY22, which would aid operating performance. We expect standalone gross margin to expand by 700bp in 2HFY22 to 37.5%.

Valuation and view

- In FY21, TCP's consolidated revenue grew 20% YoY, driven by volume growth of 12%/11% in India Beverages/Foods and tea price inflation. Operating leverage and lower ad spends aided EBITDA growth of 19% YoY in FY21. This despite gross margin contracting by 330bp to 40.5%. The underlying numbers were better given the double-digit volume growth in the base business, despite COVID-related disruptions. Overall performance was impacted by tea price inflation. The same is likely to taper down in the near term and bodes well for TCP.
- The unlocking of sales and distribution synergies from the merger of group companies has started to yield results. This is evident from the market share increase in tea (+190bp YoY) and salt (+160bp) in FY21 (and 1QFY22) on the back of an increase in numeric distribution. Direct coverage rose 30% in FY21, and the management aims to reach 1m by Sep'21. The company is establishing a strong S&D channel, which would act as a key growth driver.
- TCP is targeting lower double-digit growth in the India business – Tata Tea and Tata Salt – driven by: a) cross-selling between the Foods business and TCP's tea distribution channel, and b) expansion into newer geographies.
- TCP is building Tata Sampann, which deals in pulses and spices. This should grow in high double-digits. The market size for pulses/spices in India currently stands at INR1,500b/INR600b, with unorganized players constituting 99%/70% of the market. Growth is expected through the capture of market share from unorganized players via an increasing distribution reach and new product launches.
- We expect a sales/EBITDA/PAT CAGR of 10%/18%/23% over FY21-24E.
- We arrive at an FY24E SoTP-based TP of INR1,000/share. We maintain our **Buy** rating.

SoTP valuation

EV/EBITDA	FY24E EBITDA	Multiple (x)	EV
India Tea (TCP standalone)	8,777	42	3,71,559
Coffee India (excluding Starbucks) at 57%	574	10	6,001
Coffee overseas	2,995	12	35,943
Consumer (salt and others)	9,235	42	3,89,733
Overseas tea (Tetley UK)	2,594	13	33,717
DCF			
Starbucks JV			30,312
Enterprise value			**8,67,265**
Less: Net debt			**-54,335**
Market value (INR m)			**9,21,600**
No. of shares (m)			**922**
Target price (INR)			**1,000**

Source: MOFSL

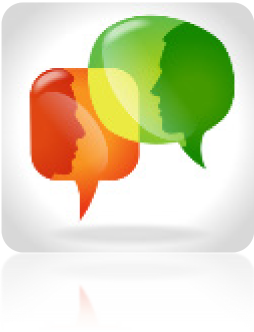
CPI inflation cools off more than expected in Aug'21

Policy interest rates to remain unchanged in FY22

- **The headline Consumer Price Index (CPI) eased to four-month lows of 5.3% YoY in Aug'21, far below the Bloomberg consensus and our expectation of 5.6% (similar to that in Jul'21). In the first five months of FY22, headline inflation averaged 5.5% – v/s 6.6% in the corresponding period last year and an average of 4% in the corresponding period in the previous five years.**
- **Almost the entire deceleration in headline inflation was on account of 'vegetables', which witnessed deflation of 11.7% YoY last month. Consequently, food inflation also came in at four-month lows of 3.1% YoY, compared with 3.9% in Jul'21 and our expectation of 3.8%. Some other components in the food basket, such as 'pulses & products', 'eggs', 'meat & fish', and 'fruits' saw lower prices MoM, while prices of 'cereals & products', 'oil & fats', 'milk & products', and 'spice' increased on a monthly basis in Aug'21.**
- **Excluding food & beverages (F&B); pan, tobacco & intoxicants (PT&I); and fuel & light (F&L), core inflation further eased moderately to 5.9% YoY last month (from 6% YoY in Jul'21). Within the core components, inflation in 'personal care & effects' eased to six-year lows of 1% YoY in Aug'21.**
- **Overall, we continue to believe headline inflation would ease further towards 4.2–4.3% over Oct–Nov'21, before rising to 5.5% once again in 4QFY22. We would not be surprised if the long-pending reduction in retail fuel taxes is announced around Diwali in early Nov'21. If so, this may further help keep headline inflation marginally lower than otherwise.**
- **Today's inflation print is unlikely to influence monetary policy decisions, although it confirms that higher inflation during lockdowns is probably related more to methodology protocols than economic fundamentals. Over the remaining three monetary policy meetings in FY22 (Oct'21, Dec'21, and Feb'22), while a hike in reverse repo is possible, we do not expect any changes in policy interest rates.**

I. Retail inflation eases off more than expected in Aug'21

- **CPI inflation was at four-month lows of 5.3% YoY last month…:** Headline retail inflation cooled off to 5.3% YoY in Aug'21, far below the Bloomberg consensus and our expectation of 5.6% (similar to that in Jul'21). In the first five months of FY22, headline inflation averaged 5.5% – v/s 6.6% in the corresponding period last year and an average of 4% in the corresponding period in the previous five years *(Exhibit 1)*.
- **…entirely led by lower inflation in 'vegetables':** Almost the entire deceleration in headline CPI was on account of lower inflation in 'vegetables', which holds 6% weightage in CPI *(Exhibit 2)*. Vegetable prices witnessed deflation of 11.7% YoY last month. Consequently, food inflation also came in at four-month lows of 3.1% YoY vis-à-vis 3.9% in Jul'21 and our expectation of 3.8%. Some other components in the food basket, such as 'pulses & products', 'eggs', 'meat & fish', and 'fruits' saw lower prices MoM, while prices of 'cereals & products', 'oil & fats', 'milk & products', and 'spice' increased on a monthly basis in Aug'21.
- **Core inflation was marginally lower last month:** Excluding food & beverages (F&B); pan, tobacco & intoxicants (PT&I); and fuel & light (F&L), core inflation also eased moderately to 5.9% YoY last month (from 6% YoY in Jul'21). Within the core components, inflation in 'personal care & effects' eased to six-year lows of 1% YoY in Aug'21 *(Exhibit 3)*.



Mahindra Holidays: Resorts are running full; expects surge in travel to be sustainable; Kavinder Singh, MD & CEO

- Resorts are running full; expect this surge in travel to be sustainable
- People have now started liking short holidays
- July-August occupancies at 73%; higher than usual
- Seasonality is no more a pattern in industry; every season is a holiday season
- There is significant improvement in operating costs

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Lemon Tree: Seeing a week-on-week improvement in business; Patanjali Keswani, CMD

- Occupancies have crossed 50%; seen an increase in pricing by 40%
- Seeing a week-on-week improvement in business
- Q2 performance will be double of Q1 and will be same as all of H1 last year
- Q3 and Q4 will see performance near normalcy
- Company's break-even point is at Rs 1.5 -1.7 cr/ day in revenue
- Have saved 100 bps of interest costs
- Have seen a permanent cost reduction of Rs 80-90 crore

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Muthoot Finance: Sees slow pickup in affordable housing; expects MFI book to touch 4k cr in 12-15 months ; George Alexander Muthoot, MD

- Things are looking better in Q2
- Expecting growth in Q2 but not as much as we saw in Q1FY22
- Expect 15% growth in AUM in FY22
- Affordable housing segment hasn't been doing well for the last 2 years
- Have a cautious approach in affordable housing segment
- Expect slower pick up in affordable housing Q3 and Q4 onwards

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Arvind Smartspace: Sees demand revival; targets Rs 1,000 crore topline by FY25; Kamal Singal, MD & CEO

- Fund raising of Rs 85 crore is the 3rd round of capital raise in last 2 years
- HDFC cap affordable realty fund to put in Rs 50 crore, rest by the promoters
- Executing 10 projects which are in the pipeline
- Market demand has been very encouraging post COVID
- Have strong cash flow and internal accruals
- Debt to equity is around 0.2 times

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